

Danske Daily

FOMC minutes tonight: looking for YCC discussions

Market movers today

- Today's key event is the release of the FOMC minutes from the June meeting. Of particular interest are the Fed members' discussions on yield curve control, as mentioned by Fed Chair Powell in his prepared remarks at the press conference after the policy announcement. For more see *Fed Monitor: A primer on Fed's discussions on changing its forward guidance*, 17 June.
- June unemployment data out of Germany are due at 09:55 CEST.
- In the US, the ADP jobs report for June is due for release at 14:15 CEST. This may provide some insight in the official jobs report on Thursday (although it is not usually considered a reliable indicator). Also the ISM manufacturing index for June due out at 16:00 CEST is interesting, although we have already got the similar PMI index.
- In Norway and Sweden, PMI manufacturing indices for June are due at 08:30 CEST and 10:00 CEST, respectively.
- Riksbank rate announcement at 09:30 CEST. No policy change expected but this time around it seems likely that the Riksbank will present actual forecasts for growth inflation and the policy rate rather than just different scenarios as was the case in the previous policy report. We do not foresee any particular market movements on today's announcement.
- Today, Germany takes over the EU presidency, in what can shape the EU permanently as the Next Generation EU and the recovery fund is expected to be finalised.

Selected market news

Risk sentiment was choppy yesterday, with global equities ending mixed, mainly split between positive performance in the US and negative performance in Europe. US equities ended their best quarter in more than 20 years. The congressional hearing of Powell and Mnuchin did not contain new elements and we look forward to the minutes tonight (see above). The positive sentiment has spilled over to the Asian session.

Euro area inflation ticked up to 0.26% in June from 0.09% in May, with the main driver being energy prices (-9.35% from -11.95%), which are starting to recover as the trough in the oil price is behind us. Core inflation dipped back to 0.82% from 0.90% in May, driven by lower service price inflation and NEIG inflation. From next month onwards, core inflation is set to take a marked dive though, with the effects of the temporary German VAT cut, see *Euro Area Research*, 11 June.

Yesterday, ECB board member Isabel Schnabel joined her colleagues at the Governing council in repeating that the ECB may not need to use the full EUR1350bn PEPP envelope and that it seems unlikely that PEPP needs expanding. Looking beyond ECB, this stance of central banks not adding additional stimuli now mirrors comments in Fed and BoE.

Selected reading from Danske Bank

- *COVID-19 Update - New cases continue to accelerate in the US, 29 June*
- *FX Essentials - COVID-19 FX legacy vol 4: reflation trade to stick in H2, 29 June*
- *FI Strategy - EU as an issuer - the recovery fund, 29 June*
- *FI Strategy Germany - German bond issuance at EUR146bn in Q3 20, 29 June*

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TEXT OVERFLOW

Similar to the official PMI numbers yesterday, the private Caixin index rose and beat expectations at 51.2 versus 50.7 in May.

Scandi markets

Norway. With signs of stabilisation in the global economy, higher oil prices and changes to taxation of the oil companies, we reckon the outlook for Norwegian manufacturers is improving, and we expect the PMI climbed from 45.9 in May to 48.5 in June. While this would normally suggest a further fall in industrial activity in June, we have seen in other countries that respondents are tending to compare the current situation with the time before the coronavirus crisis.

Fixed income markets

A solid auction result in 10y BTPs yesterday with highest bid to cover ratio since 2011 of 2.1 shows the carry friendly / spread tightening environment that we are in. We believe a combination of ECB's bond purchases, TLTROs and summer approaching reflects this. Looking ahead, we see three specific risk factors that could dent the current sentiment temporarily: (1) a watering down of the recovery fund, (2) lockdowns on the back of COVID-19 spreading and (3) ECB unintentionally tightening too hastily. Regarding the latter, we observe Schnabel's comment yesterday (see above).

Today's supply comes from the Nordics. Sweden will issue SEK1bn of the SGB May-25 and SEK4bn of the SGB May-31. In Denmark, the DMO is set to auction its 2Y DGB 0.25% 11/22 and 30Y DGB 0.25% 11/52. We expect the DMO to sell around DKK5bn, which means the DMO would be more than halfway to meeting its 2020 issuance target of DKK125bn, see *FI Strategy Denmark - 30Y DGB still in demand*, 29 June.

In Norway, we have the last NGB auction before the summer holiday. Norway revised on Monday its issuance target lower to NOK70-75bn and will after today's NOK 2bn auction in 1.75% Sep-29 have issued NOK59bn. Hence, Norway is well ahead with funding and we only have six auctions left in H2. If we take the expected buy-backs in NGB 3.75% May-21 into account net issuance will be negative in H2. We still like to be positioned for wider ASW-spreads in Norway and think the auction today will go well, see *FI Strategy Norway*, 29 June.

FX markets

While the currency beta to COVID-19 news remains subdued, we are not seeing the value rotation needed to bring EUR substantially higher either and the latest rally is mostly consistent with continued sideways EUR/USD. Although the past two days' moves suggest we are not too far from our 3M forecast of 1.15 we are not quite there yet: a breakthrough from Brexit or resuming the global rally in what most perceived as undervalued assets could be the catalyst, though.

Scandies rebounded yesterday with notably NOK moving sharply – moves likely exacerbated by quarter-end and poor liquidity. Meanwhile, Norges Bank yesterday announced a step up in the NOK purchase amount for July to NOK2.5bn per day (up from 2.3bn): either the higher purchase amount reflects a wish to increase the funding pace of the Norwegian government or it reflects the change in the oil tax regime. We tend to think the latter, which means the extra NOK bought merely reflects a lower NOK buying need from oil and gas companies. However, the existing COVID-19 bill still entails a significant amount of NOK left to buy for Norges Bank this year, which is a key pillar in our strategic bullish NOK view, but tactically we still emphasise challenging conditions near term (more in *Reading the Markets Norway*, 30 June).

For SEK today's Riksbank announcement looks like a dull affair: no new policy actions, and, as for the SEK, we believe the Riksbank will deem it sufficient to simply outcome-

adjust the KIX-profile, perhaps with a less steep appreciation trajectory. The MPR is rarely used for deeper discussion regarding the SEK and instead we await next week's minutes to hopefully shed some light on whether the board would deem last month's SEK appreciation as compatible with the inflation target. Spoiler alert: we don't, certainly not in the long run.

Key figures and events

Wednesday, July 1, 2020					Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Jun		13	12.21	
1.50	JPY	Tankan large manufacturers index (outlook)	Index	2nd quarter		-30.0	-8.0 -11.0	
1.50	JPY	Tankan large non-manufacturers index (outlook)	Index	2nd quarter		-20.0	8.0 -1.0	
2.30	JPY	Nikkei Manufacturing PMI, final	Index	Jun			37.8	
3.45	CNY	Caixin PMI manufacturing	Index	Jun		50.7	50.7	
7.00	JPY	Consumer confidence	Index	Jun		28.5	24.0	
8.00	DEM	Retail sales	m/m y	May		3.8% -3.5%	-6.5% -6.4%	
8.30	SEK	PMI manufacturing	Index	Jun			39.2	
9.15	ESP	PMI manufacturing	Index	Jun		45.0	38.3	
9.30	SEK	Riksbank, rate decision	%		0.0%	0.00%	0.00%	
9.45	ITL	PMI manufacturing	Index	Jun		47.8	45.4	
9.50	FRF	PMI manufacturing, final	Index	Jun		52.1	52.1	
9.55	DEM	Unemployment	%	Jun		6.6%	6.3%	
9.55	DEM	PMI manufacturing, final	Index	Jun		44.6	44.6	
10.00	NOK	PMI manufacturing	Index	Jun	48.5		45.9	
10.00	EUR	PMI manufacturing, final	Index	Jun		46.9	46.9	
10.30	GBP	PMI manufacturing, final	Index	Jun		50.2	50.1	
11.00	NOK	House prices, real estate norway	m/m	May	0.5%			
14:15	USD	ADP employment	1000	Jun		3000	-2760	
15:45	USD	Markit PMI manufacturing, final	Index	Jun			49.6	
16.00	USD	Fed's Evans (non-voter, neutral) speaks						
16.00	USD	Construction spending	m/m	May		1.0%	-2.9%	
16.00	USD	ISM manufacturing	Index	Jun		49.0	43.1	
16.30	USD	DOE U.S. crude oil inventories	K				1442	
20.00	USD	FOMC minutes from june meeting						

Source: Bloomberg, Danske Bank

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