

# Danske Daily

## Market movers today

- Today's main event is the **FOMC meeting** tonight, but it is likely to be uneventful. We expect the Fed to maintain the target range at 1.75-2.00% and given it is one of the small meetings, there will not be any updated projections or press conference. The only piece of information we will get is the statement, but it does not change much from meeting to meeting. For more, see *FOMC preview: Fed on holiday*, 30 July.
- **US ISM manufacturing** is due out at 16:00 CEST, where consensus expects a larger decline than we do. Regional PMIs have in general been strong.
- **Final PMI manufacturing data in the eurozone also due.** This is not expected to show significant differences from the flash. The **UK PMI manufacturing index** is not expected to change much from last month. We expect a marginal decline while consensus expects a marginal increase.
- We expect the **German lawmakers' vote on the last Greek bailout instalment** to be a formality.
- We also have **a couple of Scandi market movers**, see page 2.

## Selected market news

**A lot of news on the trade conflict between US and China. First, there was a story in Bloomberg saying the US and China are trying to restart trade talks**, as Treasury Secretary Steven Mnuchin and Chinese Vice Premier Liu He are having private conversations on the subject. If this is true, it is the first time the two countries are trying to get back to the negotiation table, after Trump left it in May. **Later, there was another story in Bloomberg saying the Trump administration is considering increasing the tariffs from 10% to 25% in the next round (USD200bn) in an attempt to put more pressure on China.** If so, this should be announced ahead of the public hearing taking place late August.

**It is difficult to say what this all means, but overall it seems like an escalation**, although the stories are not confirmed yet. Mnuchin is a 'dove' on trade policy and it seems like the trade hawks are more powerful, probably due to the fact that Trump is still under pressure domestically to stick to a tough course with China ahead of the mid-term elections in November. The attempt to try to force China back to the negotiation table is probably also going to backfire, as China has little more to offer than it has done already. **In our view, a deal is still far away, and we would consider an increase to the proposed tariff rates from 10% to 25% an escalation.** This is much in line with what we wrote in *US-China trade: No deal in sight*, 27 July.

Yesterday, the flash Q2 GDP growth estimate for the euro area disappointed, as it showed growth slowed to 0.3% q/q from 0.4% in Q1, against expectations of an unchanged print. Economic data has weakened in the euro area and growth is significantly slower this year than last year, where growth was 0.7% q/q on average. HICP core inflation rose, at least on paper, from 0.9% to 1.1%, but looking at the second decimal place, the increase was from a high 0.9% (0.94%) to a low 1.1% (1.07%). The data does not change anything for the ECB, which is on hold 'at least through the summer of 2019'.

## Selected readings from Danske Bank

- *Bank of Japan Review: BoJ tweaks policy and introduces forward guidance*
- *FOMC preview: Fed on holiday*

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## Scandi markets

In **Sweden**, household consumption accounted for almost half of the 1.0% q/q GDP growth in Q2, according to preliminary figures released earlier this week. The main drivers of consumption growth were transport and vehicles. That is not surprising given that consumers were reportedly front running the new car tax ('bonus malus'), which took effect on 1 July. According to Bil Sweden, June was the strongest sales month ever (+73% for cars and 193% for light trucks). We should see a correction in the July numbers, which are due for release today. Such a correction will of course feed into Q3 GDP eventually. PMI manufacturing in Sweden has trended lower for almost a year but is still, at 54.2, above a 10Y average. We could very well see a correction in July, just as in the corresponding NIER data and PMI Germany.

In **Norway**, the monthly manufacturing PMI is due. We expect the main index to show only a marginal drop as the negative impact of lower global manufacturing activity is cushioned by a higher oil price and a weak NOK. If correct, it would still confirm that the Norwegian manufacturing sector continues to recover, supporting the case for a September Norges Bank rate hike.

## Fixed income markets

The **peripheral markets** rallied yesterday, with Italy being the main beneficiary on the back of EUR29bn in redemptions and coupons from the Italian government bond market, which are due today. Furthermore, there are no Italian government bond auctions until the end of August as the Italian Debt Office has as usual cancelled the BTPS auction in mid-August and the inflation-linked auction at the end of August.

Today's main event in the global bond markets is the **FOMC meeting** tonight, but it is not expected to produce any surprises as the Federal Reserve is expected to hike policy rates at the next meeting in September. Hence, the market impact is expected to be very limited.

**Germany** is coming to the market today as the German Debt Agency is tapping EUR3bn in the 10Y benchmark. We have moved away from the lower end of the trading range in Bunds, which has been 0.3-0.75% since January 2017. Thus, we could see decent demand at the auction. However, the Bund ASW spread is in the high end of the trading range, so the Bund looks expensive versus swaps, and with limited reinvestments from the ECB during August, there is limited support for the Bunds from the ECB. We prefer to be short the Bund spread during August and into the new issuance season, which will begin in September.

## FX markets

**On paper, yesterday's Bank of Japan meeting marked the highlight of the week, as neither tonight's FOMC meeting nor Friday's non-farm payrolls are likely to shake up EUR/USD, which remains a near-term range play, in our view.**

Also, the Bank of England has done little to shed doubt about the aggressive rate pricing for a rate hike tomorrow, which means a rate hike is unlikely to trigger any **GBP** appreciation trend amid political uncertainty.

For the Scandies, this morning's manufacturing PMI releases would require significant negative surprises to weigh on the **SEK** and **NOK**. Our fundamental predisposition is to add further NOK exposure in the coming weeks while we think EUR/SEK is a buy on dips, as markets are too optimistic on the inflation and growth outlook.

## Key figures and events

Wednesday, August 1, 2018					Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Jul				17.38
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Jul				51.6
3:45	CNY	Caixin PMI manufacturing	Index	Jul			50.9	51.0
8:30	SEK	PMI manufacturing	Index	Jul				54.2
9:00	NOK	PMI manufacturing	Index	Jul				
9:15	ESP	PMI manufacturing	Index	Jul			53.1	53.4
9:45	ITL	PMI manufacturing	Index	Jul			53.0	53.3
9:50	FRF	PMI manufacturing, final	Index	Jul			53.1	53.1
9:55	DEM	PMI manufacturing, final	Index	Jul			57.3	57.3
10:00	EUR	PMI manufacturing, final	Index	Jul			55.1	55.1
10:30	GBP	PMI manufacturing	Index	Jul	54.8		54.2	54.4
14:15	USD	ADP employment	1000	Jul			180	177
15:30	CAD	RBC manufacturing PMI	Index	Jul				57.1
15:45	USD	Markit PMI manufacturing, final	Index	Jul				55.5
16:00	USD	Construction spending	m/m	Jun			0.3%	0.4%
16:00	USD	ISM manufacturing	Index	Jul	60.0		59.2	60.2
16:30	USD	DOE U.S. crude oil inventories	K					-6147
20:00	USD	FOMC meeting	%		2.0%		2.0%	2.0%

Source: Bloomberg, Danske Bank

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