

Danske Daily

Market movers today

- Inflation releases are a key focus today in the Scandies as well as the US, while geopolitical issues also will continue to be a key market issue.
- While July headline inflation in Denmark is set to decline due to base effects, it will increase modestly in Sweden to 2.3% (from 2.2% in June), while the increase will be more pronounced in Norway rising from 2.6% in June to 2.9% in July (see next page).
- US CPI core index likely rose +0.2% m/m in line with the recent trend, leaving the inflation rate unchanged at 2.3% y/y
- The first estimate of UK GDP growth in Q2 is due out today, which we expect to show that growth rebounded to 0.4% q/q from 0.2% q/q in Q1.
- In the emerging market space, look out for developments in the relationship between Russia and Turkey on the one side and the US on the other, in relation to the recent US sanctions against the two countries, which has caused a slump in their assets.

Selected market news

The Turkish lira continues to be under pressure and lost more than 5% against the dollar yesterday, given the political tensions between Turkey and the US and the lack of progress in diplomatic talks between Turkish officials and US officials. Hence, the market is looking for central bank action in Turkey in order to stem the lira's slide. Furthermore, the CDS on Turkish government debt has risen more than 200bp and is now very close to the levels for the CDS on Greece. Hence, the price for hedging Turkish debt has become very expensive in recent months.

US government bond yields declined even though the 30Y US Treasury auction was a bit 'soft'. However, given the soft PPI data and solid demand for Treasuries, 10Y yields have declined some 3bp. The bond market also 'ignored' comments from one of the Federal Reserve bank 'doves', Chicago Fed President Evans, who stated yesterday that the Federal Reserve may need to raise interest rates to 'somewhat restrictive' levels to combat the recent stimulus.

Most of the Asian stock markets slipped this morning on the back of the ongoing trade conflict between the US and China as well as sanctions on Russia. The geopolitical tensions continue to set the tone for the markets.

Selected readings from Danske Bank

- *Government Bonds Weekly. Look out for the 1% threshold in 30Y JGBs.*

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Chief Analyst

Jens Peter Sørensen, Ph.D
+45 45 128 517
Jenssr@Danskebank.dk

Scandi markets

Swedish headline (CPIF) inflation has been pushed higher, reaching 2.2% in June, by higher energy prices. In the meantime, the Riksbank's preferred core measure – CPIF excluding energy – has declined and came in at 1.4% in June, two-tenths of a percentage points lower than according to the Riksbank's estimate. July data released this morning will show more of the same. Both gasoline and electricity prices rose in July so we expect that headline CPIF to pick up to 2.3% y/y while non-energy inflation is expected to stay unchanged at 1.4%.

We expect a big decline in the y/y inflation rate in **Denmark** driven by the base effect, as July 2017 saw a very large increase. Mostly, the base effect comes from sharp increases in food, package holidays and energy prices in July last year, which are not set to repeat. We do think that there was a significant increase in wholesale electricity prices, but that is countered by the cut in the PSO tariffs, and we calculate those two effects to more or less offset each other. Consumer prices for gasoline and diesel seem to be roughly unchanged from June.

Norway. Core inflation was as expected in June. Also, as we have repeatedly noted, underlying inflation, as measured by our core-core index, is still rising. July is usually a difficult month to estimate, as both prices on clothes, food and airfares tend to be rather volatile. The warm weather could have had a negative effect on airfares and clothing prices, whereas food prices probably rose more than usual, and some service prices could have benefited from strong demand. Overall, we estimate core inflation moved modestly higher to 1.2% y/y, in line with consensus and Norges Bank. Anyway, we think that the bar is extremely high for preventing a rate hike in September. Due to higher electricity prices, we estimate overall inflation rose from 2.6% y/y in June to 2.9% in July.

Fixed income markets

Greece is up for review by Fitch. Greece is rated 'B' and is on positive outlook with all four rating agencies. Greece was set on positive outlook after the deal with the EU back in June. If Greece receives an upgrade we are getting closer to an IG rating, where the ECB can include their bonds as part of the QE programme.

The 30Y US Treasury auction was a bit soft but with weak PPI data and solid buying in the futures market, then yields fell and the curve flattened.

Yesterday, we published our weekly on the Danish fixed income market. Here we take a closer look at the impact on the Danish market from the tweaks to the Bank of Japan monetary policy as Japanese investors are active buyers of Danish callable mortgage bonds. We keep our recommendation to buy the 5Y linker versus the nominal bond despite the decline in inflation. Finally, we are recommending buying 20Y callables with a high coupon. See more [here](#).

FX markets

In the Scandi FX sphere, the CPI prints from Norway and Sweden will take centre stage today. The inflation print in Norway could spark an initial knee-jerk reaction in NOK FX as the notoriously volatile subcomponents in even the core measure could spark a surprise. That said, we see little evidence of the trend higher in the 'core-core' measure coming to a halt, so any negative inflation surprise should likely be faded (again). A positive surprise could spark NOK buying interest and therefore trigger a more sustained NOK move. Our base case is a core print of 1.2% in line with both Norges Bank and consensus expectations (see Scandi section above).

In Sweden, our CPIF estimate at 2.26% y/y is two-tenths above the Riksbank while our forecast for CPIF ex energy at 1.36% is one-tenth below the Riksbank. For EUR/SEK, we think that the core measure will dominate both the Riksbank's rate plans – the three-headed majority indicated in the minutes that they are prepared to look through the energy noise – and market price action. That said, EUR/SEK has moved sharply higher already in advance, which may suggest that

upside potential is more limited if we are right. Any upside surprise in CPI ex energy (>1.4%), would probably fuel rate hike expectations and send EUR/SEK sharply lower.

Safe-haven demand dominated FX markets yesterday as pressure on emerging markets mounted with notably TRY and RUB under pressure from continued tensions with the US. Notably EUR/CHF plunged to the 1.1450 level and EUR/USD is back flirting with new summer lows. While yesterday's US PPI figures did not point to any significant pipeline inflationary pressure, today's US CPI figures should not be able to derail USD support from political issues at present and a Fed that remains priced on the soft side, in our view. However, keep an eye on the – small but non-negligible – risk of US intervention to weaken USD.

GBP stabilised somewhat yesterday and EUR/GBP fell back to just below the 0.90 level. The move lower in EUR/GBP was mainly driven by the downward pressure on EUR/USD though, and we still think it is too early to call for a stabilisation in GBP risk premium. Given the fragile state of GBP sentiment, today's series of data releases from the UK – not least the Q2 GDP estimate – might prompt larger reactions in GBP crosses than normal if the data prints are used as an excuse to buy or sell GBP. Market pricing of future BoE rate hikes is still a bit on the hawkish side, in our view, suggesting that it would be difficult to justify a strong rally in GBP driven by strong data and higher interest rates in the UK in the short term.

Key figures and events

Friday, August 10, 2018

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Greece's debt rating					
-	NOK	Consumer confidence	Net. bal.	3rd quarter			19.6
-	CNY	Money supply M2	y/y	Jul		8.2%	8.0%
-	CNY	Total social finance credit	CNY bn	Jul		1100	1180
1:50	JPY	GDP deflator, preliminary	y/y	2nd quarter		-0.2%	0.5%
1:50	JPY	GDP, preliminary	q/q ann.	2nd quarter		0.3% 1.4%	-0.2% -0.6%
3:30	AUD	RBA Statement of Monetary Policy					
8:00	NOK	Core inflation (CPI-ATE)	m/m y/y	Jul		0.3% 1.2%	0.4% 1.1%
8:00	NOK	CPI	m/m y/y	Jul		0.3% 2.6%	0.6% 2.6%
8:00	NOK	PPI	m/m y/y	Jul			2.2% 20.0%
8:00	DKK	CPI	m/m y/y	Jul	0.5% 0.8%	0.5% 0.8%	-0.1% 1.1%
8:45	FRF	Industrial production	m/m y/y	Jun		0.5% 1.6%	-0.2% -0.9%
9:30	SEK	CPI	m/m y/y	Jul		0.5% 2.0%	0.2% 2.1%
9:30	SEK	Underlying inflation CPIF	m/m y/y	Jul		0.5% 2.2%	0.3% 2.2%
9:30	SEK	Household consumption	m/m y/y	Jun			0.0% 3.7%
10:30	GBP	Construction output	m/m y/y	Jun		-0.5% 0.4%	2.9% 1.6%
10:30	GBP	GDP, preliminary	q/q y/y	2nd quarter	0.4% 1.3%	0.4% 1.3%	0.2% 1.2%
10:30	GBP	Monthly GDP estimate	m/m q/q	Jun		0.2% ..	0.3% ..
10:30	GBP	Industrial production	m/m y/y	Jun		0.3% 0.7%	-0.4% 0.8%
10:30	GBP	Index of services	m/m 3m/3m	Jun		0.2% 0.6%	0.3% 0.4%
10:30	GBP	Manufacturing production	m/m y/y	Jun		0.3% 1.0%	0.4% 1.1%
10:30	GBP	Trade balance	GBP mio.	Jun		-2500	-2790
14:30	USD	CPI headline	m/m y/y	Jul		0.2% 3.0%	0.1% 2.9%
14:30	USD	CPI core	m/m y/y	Jul	0.2% 2.3%	0.2% 2.3%	0.2% 2.3%
14:30	CAD	Net change in full time employment	1000	Jul			9.1
20:00	USD	Budget statement	USD bn	Jul			-74.9

Source: Bloomberg, Danske Bank

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