

# Danske Daily

## Market movers today

- **We have a very busy week ahead, but today not much is on the agenda.** In the Scandi space, we will get **Norwegian and Danish** CPI inflation data for May this morning.
- **Tomorrow, US President Trump is due to meet North Korea's Kim Jong-un in Singapore** (1:00 CEST). Also, the UK House of Commons is set to vote on 15 House of Lords' amendments to the EU withdrawal bill, which is likely to create some political tension.
- On Wednesday, we have the **FOMC meeting**, where the Fed is expected to hike again, see *FOMC Preview: A step closer to neutral*, 8 June. On Thursday, we do not expect the **ECB** to change its forward guidance, but we may see some hawkish parts, see *ECB preview: End of QE approaching but no formal announcement just yet*, 8 June as well as our *audio briefing* ahead of the ECB meeting.
- On Friday, the US administration is releasing its full list of products imported from China, which are hit by Trump's 25% tariff.

## Selected market news

The highlight of the weekend was the G7 meeting. At first, all G7 leader seemed to endorse a *common communique*. After comments from Canada's Prime Minister Justin Trudeau at a press conference, where he said that Canada would impose tariffs on US imported goods on 1 July, **US President Trump withdrew his support from the common statement**. Further, Trump lashed out against the EU for unfair trade partnership. Later, White House economic advisor Larry Kudlow referred to Trudeau's comments as 'stabbing us in the back' and 'a betrayal'. Trump also suggested on Twitter that the **US will look at tariffs on the automobile industry**. This will be met with concerns in e.g. Germany, which has a big car exporting industry.

On Friday, the media reported that the **Italian government may introduce a flat tax system** over a three-year period. The first phase would be for the corporate sector in 2019, low income families in 2020 and wealthier families in 2021. Over the weekend, **Italian finance minister Giovanni Tria gave his first interview after taking office**. He said that an exit from the euro was not under discussion, that Italy's debt/GDP ratio must continue to decline and that Italy must prioritise structural reforms over deficit spending. **The statements were welcomed by Brussels and positive for markets**. Tria also said that the 2019 budget will be prepared following a continual dialogue with the EU. The tested Italian bond market should find support today.

The Swiss referendum on **Vollgeld was turned down by 75.7%** of voters, according to the polls. Vollgeld was a proposal that the SNB should not be the only authority over money supply.

On Brexit, Michel Barnier said on Friday that **a solution to the Irish border is needed by the autumn**, somewhat later than the original deadline EU set at June. That may indicate that the EU summit by the end of this month is only about the backstop and not border/customs/trade for Brexit topics. **The most important decisions are all to be made at the October summit**.

## Selected readings from Danske Bank

- *The Big Picture - From boom to cruising speed*
- *FX Strategy - EUR/USD lower for longer - but not forever*
- *US-China Trade Talks: Why things are getting tricky*
- *World Cup 2018 Special: Forecasting the Russian economy and 2018 World Cup*

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- *Nordic Outlook*
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## Scandi markets

**In Norway.** Core inflation has been lower than expected so far this year. However, as we have repeatedly noted, underlying inflation, as measured by our core-core index, is clearly rising. We also believe that much of the disappointment so far this year is due to the increase in the sugar tax not yet fully feeding through to prices. When Statistics Norway calculates core inflation, it assumes the full impact of a change happening immediately. The sugar tax effect should have pulled inflation 0.3 percentage points higher from January, which is exactly the deviation from expectations for the first four months of the year. We still expect a small rebound in flight ticket prices in May, **pushing core inflation modestly higher to 1.4% y/y.**

Inflation rose m/m in April after having fallen for several months in **Denmark. Inflation in May will have been pulled lower by a tax cut on electricity used for heating purposes**, while rising petrol and diesel prices will have pulled in the opposite direction. Given these opposing forces, **we expect inflation in May to come in at 0% m/m and 0.9% y/y.**

## Fixed income markets

We expect to see some stabilisation in the BTPS-Bund spread on the back of the new Italian finance minister comments (see front page). This is the one of the first references to not letting the fiscal plan getting out of hand, and that the government will not let BTPS-Bund spread get to the same wide level as back in 2011-12.

There are plenty of important events during the week with monetary policy meetings in Europe and US. See our FOMC preview [here](#) and ECB preview [here](#).

The direction for bond yields is not straightforward: if the Italian Minister of Finance is able to change market sentiment, then we expect to see higher core rates. However, we expect neither the ECB nor the Federal Reserve want more uncertainty, given the uncertainty regarding the ongoing trade policy issues as well as the vote in the UK parliament on 15 amendments to the Brexit, which should 'soften' Brexit. We are tilting towards higher rates, but central banks will try to do reduce volatility.

## FX markets

EUR/USD halted its recent rally on Friday, hovering around 1.1750 and in *FX Strategy: EUR/USD lower for longer - but not forever*, 8 June, we stressed that the cross is not headed back into the 1.20s just yet as a hesitant ECB and USD carry will keep the 1.15-1.21 range in place for now. Over the weekend, Italy's economy minister reassured markets that a euro exit is not planned and thus may help to sustain the reduction seen in the 'Italian debt risk premium' somewhat – even if we think such a discount will stick around the euro for some time still. Further, the risk of an escalating trade war remains after the G7 meeting failed to result in any clear concessions on the topic from the US president. We stress that while a pervasive all-vs-all trade war could weigh on EUR/USD due to the large openness of the euro-zone economy, recent ECB simulations suggest the US is hurt more than the euro zone is the trade war remains a US-vs-others dispute (see Couere 6 April *speech*). Thus, FX markets are likely to stay focused on what the US announces regards China this Friday. Geopolitics is also on the agenda this week when Trump is due to meet with Kim Jong-un in Singapore; if Trump manages to walk away credited with facilitating a reconciliation between North Korea and the west, it should lower the (somewhat intangible) 'America first discount' that the US president has otherwise introduced on the greenback and hence support USD. That said, we stress that Thursday's ECB meeting will be key as to whether EUR/USD settles in range or moves back above 1.20: we call for the former as we think it is too early for Draghi and co to put an end date to QE just yet.

Also over the weekend, the Swiss rejected the Vollgeld (i.e. sovereign money) proposal in a referendum with only a quarter of the population voting for the initiative that could have ended fractional reserve banking in Switzerland; CHF little changed on the news.

An interesting and likely volatile week awaits GBP with risks skewed on the upside for EUR/GBP ahead of the House of Commons vote on the House of Lords' amendments to the EU withdrawal bill on Tuesday. It is also a very busy week in terms of UK data releases with the NIESR GBP estimate, retail sales, CPI and labour market reports in store. Overall, we expect data releases to keep expectations of an August BoE rate hike alive, supporting the case for lower EUR/GBP in July post the European Council meeting on 28-29 June. We target EUR/GBP at 0.88 in 1M and 0.8650 in 3M.

In terms of the NOK, we are heading into two key sessions that will determine whether Norges Bank (NB) will stick to its signal of hiking rates in September next week. While tomorrow's Regional Network Survey in isolation is a more important release, the uncertainty regarding this morning's inflation print is yet again much larger, with analyst core inflation estimates ranging from 1.2-1.5% y/y (NB has 1.6%). If we get a consensus print or higher, i.e. 1.4% and above, the balance of risk is skewed towards EUR/NOK testing 9.40, as the Regional Network Survey is likely to be strong.

### Key figures and events

#### Monday, June 11, 2018

				Period	Danske Bank	Consensus	Previous
8:00	NOK	CPI	m/m/y/y	May		0.3% 2.5%	0.4% 2.4%
8:00	NOK	Core inflation (CPI-ATE)	m/m/y/y	May	.. 1.4%	0.3% 1.4%	0.5% 1.3%
8:00	NOK	PPI	m/m/y/y	May			3.3% 12.2%
8:00	DKK	Current account (nsa sa)	DKK bn	Apr			.. 13.9
8:00	DKK	CPI	m/m/y/y	May	0.0% 0.9%	0.2% 1.1%	0.5% 0.8%
8:00	DKK	Trade balance ex ships	DKK bn	Apr			5.1
8:00	DKK	Exports	m/m	Apr			
10:30	GBP	Construction output	m/m/y/y	Apr		2.4% -1.2%	-2.3% -4.9%
10:30	GBP	Industrial production	m/m/y/y	Apr		0.1% 2.7%	0.1% 2.9%
10:30	GBP	Manufacturing production	m/m/y/y	Apr		0.3% 3.1%	-0.1% 2.9%
10:30	GBP	Trade balance	GBP mio.	Apr		-2600	-3091
13:00	GBP	NIESR GDP estimate	q/q	May		0.3%	0.1%

#### Tuesday, June 12, 2018

				Period	Danske Bank	Consensus	Previous
-	GBP	House of Commons to vote on 15 Lords amendments to EU withdrawal bill					
1:00	USD	Donald Trump & Kim Jung-Un meeting in Singapore					

Source: Bloomberg, Danske Bank

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