

Danske Daily

Trade war escalation fears persist

Market movers today

- There are few data releases today and market focus therefore continues to be on a **possible escalation of the trade dispute between the US and China**. A week has passed since the public hearing period ended for another set of tariffs on USD200bn of imports from China, which makes it possible that the new tariffs could be announced today, if the same pattern is followed as in May, when the last tariffs were announced.
- Another key market focus is **the situation in emerging markets**, where pressure continues to mount in a wider set of countries, which are particularly vulnerable to further escalation in the trade dispute between the two biggest economies in the world.
- In Brussels, **the European parliament will vote on launching article 7 procedures against Hungary**, given concerns about repression of freedom of speech and legal rights of organisation.

Selected market news

Global developed bond market yields rose during **Europe's** and in the **US** sessions supported by strong releases from the NFIB and JOLTS data. US small business optimism rose to the highest level on record (since the mid-1970s). High optimism is generally associated with positive business investment growth and supports our view that the US expansion continues. US equities rallied and the oil price increase fuelled rising yields further. Optimism on a neat Brexit continued ahead of the BoE and ECB meetings.

The Italian budget discussions by **Italy's** Finance Minister Giovanni Tria and Deputy Prime Minister Matteo Salvini sounded positive, fortifying latest commentaries about the expectation for a gradual implementation of reforms. Tria stated that the government wants to close the growth gap with the euro area but that deficit spending alone cannot do so.

The oil price continued to surge and Brent hit USD79.65/bbl, its highest since June, as Hurricane Florence advanced and **US** sanctions started weighing on **Iran's** exports. API data revealed shrinking inventories in the US.

US President Donald Trump sounded optimistic on a NAFTA deal, stating that talks were going well. **Canada's** Prime Minister Justin Trudeau said that while a good bargain was to be had, no deal was better than a bad one. Canada signalled it is ready for a small concession, allowing limited access to the Canadian dairy market.

Hungary's Prime Minister Viktor Orban sounded concerned about the **EU's** intentions to implement its strictest sanctions against the country for the erosion of democracy, possibly suspending its voting rights. The assembly needs a two-thirds majority to pass the sanctions.

Selected reading from Danske Bank

- *Norway Regional Network Survey - Strong growth outlook confirmed, Norges Bank to hike rates next week*
- *Macro Strategy Views podcast - Italy: Enjoy it while it lasts*
- *Swedish Election - Weak government is coming*
- *ECB Preview - For the feinschmeckeres*

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Scandi markets

In **Sweden**, Prospera is due to publish the ‘big’ (quarterly) survey including the money market, purchase managers and the labour market. In June, 1y/2y/5y CPI expectations stood at 1.9/2.0/2.1%, on average, and have been ‘well anchored’ since early 2017. We are particularly interested in seeing if the slight increase in wage expectations among employers and employees has continued. While they have increased from the troughs some two years ago, expectations are still well below the historical average and even farther away from levels before the financial crisis.

Denmark’s Nationalbank’s latest economic forecast follows on Wednesday.

Fixed income markets

Yesterday, we saw some upward pressure on bond yields – initially we saw Italy outperforming core EU, but this turned around later in the day. We still expect the Italian auction tomorrow to be met with solid demand. The 15Y linker from Spain sold yesterday was heavily oversubscribed. Spain sold some EUR4bn and demand was above EUR18bn at the syndicated deal. The Bund spread is continuing to tighten, but we are getting closer to levels where we expect that investors will step up and go for a wider spread, especially if the issuance of financials, covered and credit bonds dampens in the coming weeks. 10Y US Treasuries are also approaching 3% as the Fed hike this month is seen to be a done deal.

Today, the German debt agency will tap in 30Y segment and Portugal will do a small tap in the 5Y and 10Y segments. In Denmark, there is focus on the issuance of callable mortgage bonds ahead of 1 October. Issuance is expected to rise, but should easily be absorbed by the liquidity surplus in the Danish market, and we recommend buying callables against government bonds. See more in *Danish Mortgage Bonds*, 11 September.

FX markets

USD strength remains in place after trade woes were re-ignited by **China** asking the WTO for options in imposing sanctions on the **US**. Meanwhile, the political skies have been clearing in the **EU** both in terms of the Italian budget and Brexit lately, but price action in relation to this faded somewhat yesterday.

Despite a strong **UK** labour market report, **GBP** lost some momentum, but was little moved by the news that Bank of **England** (BoE) Governor Mark Carney will extend his stay.

In the Scandi sphere, **EUR/SEK** was remarkably calm for once yesterday, but **EUR/NOK** headed steadily lower through the day in what – to us – looks increasingly like a warm-up to a hiking cycle. Indeed, yesterday’s Regional Network Survey in **Norway** marked the final key release ahead of next week’s Norges Bank meeting. The headlines were better than the details (see *Norway Regional Network Survey - Strong growth outlook confirmed, Norges Bank to hike rates next week*, 11 September), yet overall the report was strong and underpins our bullish view on the **NOK**. We are short the EUR/NOK spot outright (see *FX Trading Portfolio – Sell EUR/NOK spot outright as 3M trade*, 10 September).

Today, it looks like a wait-and-see day ahead of us with FX markets now eyeing Thursday’s central bank meetings at both the ECB, the BoE and **Turkey**.

Key figures and events

Wednesday, September 12, 2018			Period	Danske Bank	Consensus	Previous
8:00	SEK	Prospera inflation expectations				
9:00	ESP	HICP, final	m/mly/y	Aug	0.1% 2.2%	0.1% 2.2%
9:00	EUR	State of the Union Speech				
10:30	DKK	Danish Central Bank publishes Outlook for the Danish economy				
11:00	EUR	Industrial production	m/mly/y	Jul	-0.4% 1.3%	-0.7% 2.5%
11:00	EUR	Employment	q/qly/y	2nd quarter		0.4% 1.4%
14:30	USD	PPI	m/mly/y	Aug	0.2% 3.2%	0.0% 3.3%
14:30	USD	PPI core	m/mly/y	Aug	0.2% 2.7%	0.1% 2.7%
15:30	USD	Fed's Bullard (non-voter, dovish) speaks				
16:30	USD	DOE U.S. crude oil inventories		K		

Source: Bloomberg, Danske Bank

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Expected updates

Each working day.

Date of first publication

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Report completed: 12 September 2018, 06:54 CEST

Report first disseminated: 12 September 2018, 07:15 CEST