13 June 2018

Danske Daily

Market movers today

- We have another interesting day ahead of us with the **FOMC rate announcement** at 20:00 CEST as the most important event (press conference at 20:30). We expect the Fed to hike the target range to 1.75-2.00%, without making big changes to the dot plot. The statement may change to 'monetary policy is *modestly* accommodative' (modestly being a new word), which is not a change in policy strategy; it just reflects that the hiking cycle has come a long way. See *FOMC preview: A step closer to neutral*, 8 June.
- In the **UK**, we expect CPI core inflation to be unchanged at 2.1% y/y. CPI core inflation is still on a downward trend in the short term, as the impact of the GBP depreciation is fading. Also, the discussions on the EU withdrawal bill continues in the House of Commons today.
- In **Sweden**, inflation expectations from Prospera are due out today, for details see page 2.

Selected market news

The Trump-Un summit is now behind us, with the news value higher than the market impact, as **the markets generally did not react to it, despite the historic intentions of a complete denuclearisation of the Korean peninsula**. With the summit behind us, all eyes turn to central bank meetings this week. Tonight, the FOMC will meet (see above) and tomorrow the ECB.

Yesterday, the German **Zew was yet another data point in a string of disappointing data**. The expectations part of the Zew was the lowest reading since September 2012. The strong **decrease was registered in expectations in the metal/steel/car industries likely due to the US decision to impose recent tariffs and growing concerns about a trade conflict escalation**. Combined with the already weak German factory orders and industrial production surprising on the downside in April, both hard and soft data so far point to downside risks to our expectation of a rebound in German GDP growth in Q2 to 0.5% q/q from 0.3%. Therefore, **on the economic data front, clearly no support for the ECB to speed up QE exit nor to announce a QE end-date already at Thursday's meeting.**

US core CPI was +0.2% m/m in May as expected (2.2% y/y from 2.1% y/y which was in line with expectations). Core goods continue to be weak (-0.1% m/m). Recall that the PCE core usually runs below the CPI core, but that the **Fed is not going to tighten monetary policy more aggressively even if PCE core inflation also moves above 2% at some point** as it can tolerate this after many years misses.

In The UK, PM Theresa May avoided a humiliating defeat, as **she and her government accepted giving the House of Commons more power over the Brexit negotiations**. Hence, the Lords' amendment to have a 'meaningful vote' on Brexit, which basically would have made it impossible for the government to leave the negotiation table, was voted down by 324 votes to 298. Still, it seems like the soft Brexit camp won a victory today, leading to a rally in GBP.

Selected readings from Danske Bank

- *The Big Picture - From boom to cruising speed*
- *FOMC preview: A step closer to neutral*
- *ECB Preview - End of QE approaching but no formal announcement just yet*

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Scandi markets

Sweden. We will get an update on inflation expectations today from Prospera. This time around it is the quarterly version which covers social partners, purchase managers and money market players and therefore is **much more relevant than the monthly surveys that cover only the money market.** In short, inflation expectations have for some time now been aligned with the Riksbank's 2% inflation target, irrespective of whether one looks at expectations of CPI or the new official target CPIF or if one looks at one- two- or five years ahead. In our view though, the most interesting part of the survey is employers' and employees' expectations of future annual wage growth, especially in the two-year horizon. A few observations: employers' wage expectations have increased somewhat (latest number is 2.5%), employees expectations have remained quite stable over the past quarters (latest 2.8%) and both remain below the Riksbank's forecast for wage increases two years from now.

Fixed income markets

The 10Y US Treasury yield has been caught in a tight trading range ahead of the FOMC meeting today. Hence, the continued rise in US inflation as we saw yesterday did not change the direction/outlook for the US Treasury yields. Given that the rate hike is a done deal, **we need to see a significant change in the communication from the Federal Reserve in order to get 10-year yields rising**. This is not on the cards and thus we expect that 10Y US treasury yields will continue to trade around 3%.

In Europe, the Italian bond market is preparing for today's auction of 3Y, 7Y and two 30Y bonds. We saw Italian bond yields rise modestly**, but we expect that Italian bonds will perform as soon as the auction is done and ahead of the ECB meeting**. Furthermore, Portugal is also in the market with a dual tap and finally, Germany is tapping in the 10Y segment. We expect that the peripheral auctions will be met with decent demand.

Finally, both Sweden and Norway are doing small taps. We expect these to be a non-event.

FX markets

With a Fed June hike widely expected, it should not give rise to a significant market reaction. USD risks are more in the dots and we maintain that the market is pricing the Fed too softly beyond 2018 and to the extent that the recent recoupling between the USD and US rates continues, this suggests that USD will stay supported by its rising carry appeal for some time still. **Adding a likely foot-dragging ECB, the recent rebound in EUR/USD should be halted and we look for the 1.15-1.21 range to be broadly sustained on a 6M horizon.**

GBP recovered yesterday and EUR/GBP dropped back below 0.88 just after touching the 200-day moving average line at 0.8830. GBP gained after PM May won a key vote in parliament as she and her government accepted giving the House of Commons more power over the Brexit negotiations. The EU withdrawal bill now goes back for debate and will be voted on in the House of Lords on Monday. **Uncertainty remains intact and we still see risks skewed to the upside for EUR/GBP ahead of the European Council meeting on 28-29 June.**

Yesterday proved a **very strong session for the Scandies with both NOK and SEK ending as clear winners in G10 space**. While a strong data release could explain the NOK performance (see *Regional Network Survey – Strong enough for Norges Bank to signal September hike next week*, 12 June) the SEK move and even outperformance of NOK was more puzzling. There were no data releases of any importance nor any Riksbank comments or particular risk-on mood. SEK interests seemed driven by foreign accounts, which might reflect speculations of an inflation surprise tomorrow. **We are contemplating closing our tactical short NOK/SEK position ahead of next week's Norges Bank meeting and recommend shorting EUR/NOK strategically via options**. See *FX Strategy – Sell 3M EUR/NOK seagull on lower spot and volatility*, 11 June.

Key figures and events

Wednesday, June 13, 2018				Period	Danske Bank	Consensus	Previous
8:00	SEK	Prospera inflation expectations					
9:00	ESP	HICP, final	m/m|y/y	May		*0.9%|2.1%*	0.9%|2.1%
10:30	GBP	PPI - input	m/m|y/y	May		*2.0%|7.6%*	0.4%|5.3%
10:30	GBP	CPI	m/m|y/y	May	**0.4%|2.4%**	*0.4%|2.5%*	0.4%|2.4%
10:30	GBP	CPI core	y/y	May	**2.1%**	*2.1%*	2.1%
11:00	EUR	Industrial production	m/m|y/y	Apr		*-0.5%|3.0%*	0.5%|3.0%
11:00	EUR	Employment	q/q|y/y	1st quarter			0.3%|1.6%
14:30	USD	PPI	m/m|y/y	May		*0.3%|...*	0.1%|2.6%
14:30	USD	PPI core	m/m|y/y	May		*0.2%|...*	0.2%|2.3%
16:30	USD	DOE U.S. crude oil inventories	K				2072
20:00	USD	FOMC meeting	%		**2.00%**	*2.00%*	1.75%
20:30	USD	FOMC press conference					

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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Report completed: 13 June 2018, 06:17 CEST
Report first disseminated: 13 June 2018, 07:00 CEST