13 August 2018

Danske Daily

Market movers today

- The **development in Turkey** will continue to drive financial markets today, see more below and *Flash Comment – Turkey: Erdogan chooses the confrontation path – TRY collapses*, 10 August 2018.
- It will be **quiet on the data front today** with no big releases. Key global releases this week are US retail sales and Chinese data for industrial production, investments and retail sales. Later this week, **Brexit** will also be in focus again, as talks between the EU and the UK resume in Brussels. For more on upcoming releases see the market movers section in *Weekly Focus*.
- In **Sweden, housing price data** is due today (see next page). The key event in the Scandies this week is the Norges Bank meeting on Thursday (see *preview)*.

Selected market news

Stock markets and bond yields have continued to trend lower as the Turkish lira saw a savage opening in the Asian session last night. The USD/TRY crossed the 7.23 level before the TRY rebounded back to below 7.00 against the USD in a thin market. On Sunday, President Erdoğan urged Turkish businesses to stay away from FX purchases and to support the TRY. The massive sell-off in the TRY started last Friday, when in his speech Erdoğan spooked investors by choosing to continue his path of confrontation with the US and calling for Turks to hand in their US dollar, EUR and gold holdings. Shortly after, TRY's turmoil deepened on President Trump's tweet, which mentioned a doubling of tariffs on metals, citing bad relations with Turkey.

EUR/USD moved lower as well in Asian trading, hovering just below the 1.14 level this morning. Markets are concerned over the potential impact of Turkey on what is already a fragile environment in the euro area. **The stronger USD has also pushed USD/CNY up to the highest level since May 2017**. Chinese money market rates continue to decline in a sign that China is keeping the foot on the accelerator to counteract negative effects of the trade war. Chinese three-month money market rates are now back at previous lows of 2.79%, last seen in 2016 when China was hit by outflows and financial turmoil.

For those of you returning from holiday, here is a quick wrap-up of the main themes over the past three weeks: Vacation Wrap-Up: Market themes over the past three weeks, 12 August 2018.

Selected readings from Danske Bank

- *Vacation Wrap-Up: Market themes over the past three weeks*
- *Flash Comment: Turkey: Erdogan chooses the confrontation path - TRY collapses*

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Scandi markets

In **Sweden,** the Swedish Mäklarstatistik this morning pointed to flat house prices in July. However, we await the more important Valueguard house price statistics on Friday where our indicator based on transaction data points to a decline for prices on flats of 1.4% m/m in July.

Fixed income markets

The rout of the Turkish lira continued overnight and we should expect renewed support to core markets at opening. The Italian bond market still looks vulnerable even after the sell-off on Friday, which pushed 2Y yields above 1% and 10Y yields briefly above 3%. We remain side lined on the BTPs given the uncertain situation in Turkey and the lack of information on the fiscal budget for 2019 though 2Y yields above 1% look tempting.

On Friday, Greece was upgraded two notches by Fitch from 'B' to 'BB-' and now have a stable outlook. The main argument mentioned by Fitch was debt sustainability. Currently, the situation in Turkey is weighing on GGBs, but the upgrade should help Greece when markets normalise.

On Friday, we published *Government Bonds Weekly*. We look at the long ends of the German and Dutch curves, which have performed dramatically over the past three months and are now looking very expensive. We recommend buying Finland 2031 versus Nether 2033 or France 2048 versus Germany 2048.

We expect Finland to open the issuance season with a new 10Y benchmark in late August as has been the case for the past six years. The Finnish curve has already cheapened in the 10Y segment versus, e.g. Austria and we recommend that investors either participate in the syndicated deal or buy Finland 2028 versus Austria 2028. Issuance next week is very modest as only Germany Buxl-46 and Denmark (2y and 10Y) are coming to the market. There is no rating news.

FX markets

The strengthening USD and TRY's free fall over the past five days pushed major EM FX down along with the EUR. The major losers have been HUF, MXN, ZAR and the RUB, which was hit separately even deeper by the news on new US sanctions and a severe anti-Russian bill by the US.

The **TRY** crisis continues to dominate FX markets with a flight to the safety of **JPY**, **CHF** and **USD** as a result. As the central bank has – so far – failed to effectively respond to stop capital outflows, market worries over notably southern European banks' exposure to Turkey has added a Turkey risk premium to **EUR**, i.e. there is a non-negligible risk that the ECB may have to delay tightening even further to prop these up. Even in the event of a bold move from the central bank such as capital controls or a significant rate rise, we still doubt that the pressure on EUR/USD will evaporate near term: more fundamental TRY vulnerabilities (and in turn for EUR) have now been exposed, Italy fiscal risks linger for EUR, and the trade war issue remains a USD positive near term. Furthermore, all this takes place in an environment of the Fed tightening policy both balance sheet and rate wise, which should keep USD bid for some time still. Key technical levels have been broken on the downside in EUR/USD and a key level to watch as low as 1.1119 (20 Jun-17 low).

EUR/Scandies have so far – and should in our view continue to – be relatively unscathed by the lira crisis given the countries' limited direct exposure to Turkey. Notably, **NOK** found renewed support on Friday as core inflation beat estimates and as details confirmed that underlying inflation pressure is building in Norway. This is a key reason why we expect Norges Bank to reiterate its September hike signal later this week irrespective of global political developments. See *Norges Bank Preview: No new signals; September hike still in store*. We thus remain bullish on the NOK and expect EUR/NOK to take the next move lower over the coming 1-3 months.

In terms of the **SEK**, we remain bearish after last week's July inflation numbers, which above all showed that core inflation at 1.3% undershot the Riksbank's forecast. Again. We are comfortable with our call of no hikes this year and still see EUR/SEK as a buy on dips. The SEK is not only about monetary policy and macro though, but also about poor global risk sentiment and a messy Swedish general election. In our view, a cocktail for heightened FX volatility and a headwind for the SEK.

Meanwhile, EUR/**GBP** has dropped back close to 0.89 mark after last week's break above 0.90 on EUR weakness rather than improved GBP sentiment, and thus EUR/GBP could still revisit 0.90 if/when concerns about European banks' exposure to Turkey eases. Technically, the key support level in GBP/USD is seen around 1.1727, and a break below this level could reaccelerate a stop loss-driven sell-off in GBP.

Key figures and events

Monday, August 13, 2018				Period	Danske Bank	*Consensus*	Previous
6:00	SEK	Maklarstatistik Swedish housing price data					
9:30	SEK	Household consumption	m/m|y/y	Jun			0.0%|3.7%
10:00	ITL	HICP, final	m/m|y/y	Jul		*...|1.9%*	...|1.9%

Source: Bloomberg, Danske Bank

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Each working day.

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