

Danske Daily

Inflation surprise

Market movers today

- It's a quiet day in Europe, with weekly US initial jobless claims as the data highlight of the day. Jobless claims will likely extend their downtrend, as the expiration of the extra weekly USD600 benefits could discourage some Americans from filing. Meanwhile a deal on a new US stimulus bill remains yet elusive, despite Trump's executive orders, leaving income uncertainty for many Americans high. This is also reflected in the latest US high frequency indicators, which remain at very depressed levels compared to Europe (see *High Frequency Activity Tracker - Europe nearing normality*).
- In Scandinavia, quarterly consumer confidence is due in Norway, while in Sweden, Prospera publishes monthly survey for inflation expectations among money market players (see page 2 for more details).

Selected market news

The global equity market rally continued yesterday in the US and overnight in Asia with the S&P 500 up almost 1.5% and the Nikkei index up almost 2% in Japan. Along with the sustained equity rally, global yields have started to climb higher and yesterday was generally not an exception (see fixed income section on page 2 for further discussion).

The global reflation scenario got further impetus from a surprise jump in inflation in the US and Sweden yesterday. US CPI inflation was a bit higher than expected in July, arriving at 1.0% y/y (vs. 0.7% consensus). The acceleration was primarily driven by core items, notably vehicle prices, transportation services and airfares. We think that the Fed will keep an eye on emerging price pressures, but that these pressures are unlikely to detain it from strengthening its forward guidance at the September meeting. Not least if the adoption of average inflation targeting (which we expect) will lead to a more relaxed attitude towards inflation overshooting the target after many years of undershooting.

Also in Sweden, inflation came out much higher than expected. The CPIF 0.5% yoy vs consensus of 0.2% while the Riksbank forecast was 0.0%. The CPIF ex energy was 1.5% yoy vs consensus of 1.2%. The unexpected inflation jump was explained by smaller than expected clothing sales and unseasonal rise in hotel and restaurant prices.

Our latest weekly overview of high-frequency indicators point to further normalisation of economic activity in Europe. For the first time since March, the Bundesbank weekly activity index was positive, indicating economic improvement in Germany. Google mobility numbers have also improved and are back to near-normal levels in large parts of Europe. Spain and the UK lag behind in this regard, largely because of the stringency of their efforts to control the virus and the US economy is also facing headwinds from the virus.

The headwinds for the U.K. economy were evident from the release of Q2 GDP numbers yesterday. The release showed that the UK economy shrank 20.4% in the second quarter from the previous quarter, double the contraction seen in Germany and the US and the most since the record began in 1955. The weakness of the UK economy adds pressure on the government to continue to support workers and companies.

Selected reading from Danske Bank

- *High Frequency Activity Tracker - Europe nearing normality*, 12 August
- *COVID-19 Update - Europe's new cases still trending higher*, 10 August
- *Flash Comment Denmark - The housing market has recovered for now*, 11 August,
- *Harr's view: Why markets are not disconnected from fundamentals*, 9 August

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Scandi markets

The quarterly consumer confidence is due in Norway. Given how more frequent indicators have rebounded, we expect a sharp rebound as Norwegian households have turned more upbeat on the future amid the ongoing recovery.

In Sweden, Prospera publishes monthly survey for inflation expectations among money market players. Considering that inflation has surprised on the upside lately it is reasonable that inflation expectations move somewhat higher, especially over the one- and two year horizons. The Riksbank buys covered bonds today, maximum 5bn SEK with maturities 2022-2023.

Fixed income markets

We have seen a decent rise in global bond yields during August. 10Y US Treasuries have risen some 15bp since the start of August similar to the move in the 30Y segment. The US curve has steepened modestly between 2Y and 10Y. The European market has followed the move from the US as 10Y German government bond yield has risen 10bp after having range-traded during most of July. We do not expect the rise in yields to be more persistent, as the rise is more related to flow dynamics given the solid increase in the issuance of US Treasuries during Q3 as well as a more modest pace of ECB buying in early August.

Today, the Italian Debt Office will tap a total of almost EUR 7bn in the 3Y, 7Y and 30Y segments. We expect that the auction will go well despite the spread tightening between Italy and EU peers. The 10Y spread between Italy and Germany are back to pre-corona levels. This is driven by the solid demand from ECB that we have seen in recent months, which to some extent makes relative value trades obsolete.

FX markets

In Scandies, EUR/NOK continues to drift lower and also NOK/SEK has started to move on the upside. Yesterday, equity performance and an uptick in crude prices helped sustain the krone. Indeed, it seems the reflation theme has gained traction in recent days and specifically in the Scandi space, the upside surprise to Swedish CPI yesterday helped sustain that narrative. That said, we would still look to global developments for Scandi cues in the current environment with US politics (fiscal and China) and Fed communication cases in point. If risk/reflation sentiment sticks a move towards 10.45 for EUR/NOK could be on the cards again.

The weakness in EM FX continues, led by high beta TRY, RUB, ZAR, BRL and IDR. The reasons for this are likely not related to any one particular event but it may be related to continued decent domestic CPI numbers vs US, added to low policy rates and a slight pickup in risk aversion among the weakest of global investment options. With fed policy being well communicated, the pickup in global demand simply being as expected and commodities remaining relatively stable, there is arguably little scope for EM-positive surprises right now.

Key figures and events

Thursday, August 13, 2020			Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Jul	-0.1	-0.2
3:30	AUD	Employment change	1000	Jul	30	210.8
7:30	FRF	ILO unemployment	%	2nd quarter		7.8%
8:00	SEK	Prospera inflation expectations				
8:00	DEM	HICP, final	m/m/y/y	Jul	-0.5% 0.0%	-0.5% 0.0%
8:30	NOK	Consumer confidence	Net. bal.	3rd quarter		-7.6
9:00	ESP	HICP, final	m/m/y/y	Jul		-1.6% -0.7%
9:15	SEK	NIER economic forecasts				
14:30	USD	Initial jobless claims	1000			1186
14:30	USD	Import prices	m/m/y/y	Jul	0.5% ...	1.4% -3.8%

Source: Bloomberg, Danske Bank

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