

Danske Daily

Market movers today

- With the Fed meeting behind us, focus turns to the ECB meeting. We do not expect any changes in policy or forward guidance, but some hawkish comments could be envisaged. Instead, we expect the forward guidance to change in July. The ECB will also publish new growth and inflation projections, where we expect a lower growth forecast for 2018 and an increase in inflation projections, especially for 2018. Furthermore, focus will also be on how President Draghi will address the recent weeks of political turmoil in Italy. For more details, see our *ECB Preview – End of QE approaching but no formal announcement just yet*, 8 June 2018.
- In Sweden, we expect CPIF and CPIF ex energy to both overshoot Riksbank's forecast (0.2pp and 0.04pp, respectively). This would bolster the Riksbank's current plans for a rate hike in Q4 this year to which we assign about a 20% probability. For more details, see page 2.
- In the US and the UK, retail sales in May are due out.
- The Bank of Japan meets today and is expected to announce its monetary policy early Friday morning European time. We expect both the policy balance rate and the 10Y yield target to be left unchanged, at 0.10% and 0.00%, respectively.

Selected market news

As expected, the Fed raised the target range by 25bp to 1.75%-2.00% last night. The median dot for this year was lifted from a total of three hikes to four, as one member became more upbeat, which was enough to move the median. More importantly, the Fed removed a lot of soft forward guidance in the statement, as Chairman Jerome Powell wants more flexibility now the Fed funds rate is close to neutral. This is slightly more hawkish than we had expected and we now think it is more likely than not that the Fed is going to hike in both September and December (previously only in December) although it is still a close call between three and four hikes, which is also what the dot plot signals. For more details see *FOMC review: Four hikes more likely after removal of soft wordings*, 13 June.

US yields initially gained across the government bond curve with the 10Y yield briefly rising above 3% on the FOMC announcement. However, increases quickly faded and the 2Y10Y US yield curve flattened to 40bp – the flattest since 2007. The initial losses in EUR/USD were also quickly erased as Powell stressed that an inflation overshoot will be allowed (USD negative).

US equity markets ended the day lower and the negative close in the US is mirrored in Asia this morning, where weaker-than-expected Chinese retail sales and industrial production data also weigh on risk sentiment.

The Bank of Japan (BoJ) reduced its buying of bonds for the second time this month, by cutting purchases in the 3-5Y segment by JPY30bn to JPY300bn at its regular operation. The reduction in the 3-5Y segment follows the BoJ's unexpected cut in buying in the 5-10Y segment by JPY20bn on 1 June, and should would encourage flattening along the yield curve.

Selected readings from Danske Bank

- *The Big Picture - From boom to cruising speed*
- *FOMC review: Four hikes more likely after removal of soft wordings*
- *ECB Preview - End of QE approaching but no formal announcement just yet*

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Scandi markets

In **Sweden**, we estimate higher food, recreation and hotel/restaurant prices to have been the prime drivers for CPI inflation in May. Yet, another drop in electricity prices will not fully offset soaring petrol prices; hence, energy is probably quite close to neutral. The main uncertainty lies with food prices, which we assume have been affected by the previous rise in EURSEK (as some big food chains started to talk about the need for price increases). If the forecast is correct, it means CPIF and CPIF excl. Energy will both overshoot Riksbank's forecast (the first by 0.2 and the latter by 0.04). This would bolster the Riksbank's current plans for a rate hike in Q4 this year. Remember, we assign about a 20% probability to this scenario.

Fixed income markets

The Fed raised as expected the target range by 25bp to 1.75-2.00% (the interest rate on excess reserves was only lifted by 20bp to 1.95% in order to keep the effective Fed funds rate closer to the mid of the range). We note that the median 'dot' for this year was lifted from signalling a total of three hikes to four hikes although only one member lifted his or her dot. Powell said during the press conference that the latter was because the target range is now close to neutral. Initially, 10Y Treasury yields spiked above 3%, but the move was faded quickly as equities dropped to close at 2.97%. The curve flattened the 2Y10Y to a new 10-year low at 39bp.

In respect of Italy, the tightening versus Bunds continued after the heavy BTP supply was well received by the market with a decent b-t-c. The two Portuguese taps were also easily absorbed and both countries performed some 3bp against Bunds.

In Scandinavia, the key event is the Swedish inflation data. When we take the latest Danish and Norwegian May inflation figures into account, they suggest downside to our CPIF and CPIF ex. energy forecasts, both being +0.3 % m/m. It means our forecasts are slightly higher than the Riksbank's forecasts. While our CPIF ex. energy forecast is only marginally higher, the difference is just over 0.2 percentage points for CPIF. For more see [Reading the Markets Sweden](#). We published [Reading the Markets Norway](#) yesterday, in which we take a preview at the Norges Bank meeting next week. We expect Norges Bank to confirm its plans to hike 'after the summer' and repeat our strategies to position for a steeper FRA curve and to pay in the front of the NOK swap curve.

FX markets

USD is stronger after the Fed delivered the expected but still slightly hawkish hike and the US 10Y yield again rose above 3%. As expected, EUR/USD fell on impact but partially erased the initial move as Powell stressed that an inflation overshoot will be allowed (USD negative) and as a WSJ story separately reported on the more concrete plans for US tariffs on Chinese goods. Today, while it is a close call, we are looking for the ECB to refrain from putting an end date on QE and thus expect EUR/USD to drop on the announcement and edge a bit higher on some nonetheless hawkish comments as Mario Draghi starts speaking. Bottomline: the Fed and ECB in combination halting the recent EUR/USD rebound.

With the outlook of the next move higher in NOK we yesterday took (a small) profit on our short NOK/SEK position. Initially, we wanted to await the Swedish inflation print today before closing the position as our Swedish economists had an above-consensus call for the release. Meanwhile, looking at the details of the Norwegian and Danish inflation prints, there is now downside risk to their estimates and therefore we prefer to take profit now. We book a small profit of 0.1%. More fundamentally on the SEK, we cannot rule out more near-term EUR/SEK downside but emphasise that we still think markets underestimate the negative growth implications of lower housing investments as well, as we think the Riksbank's inflation projections are too optimistic, especially for next year. We therefore look to fade any EUR/SEK move lower on a 3-6M horizon.

Key figures and events

Thursday, June 14, 2018

				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	May			-0.1
8:00	SEK	Service production	y/y	May			3.6%
8:00	DEM	HICP, final	m/m y/y	May		0.6% 2.2%	0.6% 2.2%
8:45	FRF	HICP, final	m/m y/y	May		0.4% 2.3%	0.4% 2.3%
9:30	SEK	CPI	m/m y/y	May	0.3% 2.0%	0.2% 1.9%	0.4% 1.7%
9:30	SEK	Underlying inflation CPIF	m/m y/y	May	0.3% 2.1%	0.2% 2.1%	0.4% 1.9%
10:30	GBP	Retail sales ex fuels	m/m y/y	May		0.3% 2.6%	1.3% 1.5%
13:45	EUR	ECB announces refi rate	%				0.00%
13:45	EUR	ECB announces deposit rate	%				-0.40%
14:30	EUR	ECB's Draghi speaks at press conference					
14:30	USD	Retail sales control group	m/m	May		0.3%	0.5%
14:30	USD	Initial jobless claims	1000				
14:30	USD	Import prices	m/m y/y	May		0.5% ...	0.3% 3.3%

Source: Bloomberg, Danske Bank

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