

Danske Daily

Market movers today

- Financial markets will continue to focus on developments in **Turkey**, which over the past week have had significant ramifications for other emerging market and G10 currencies.
- A first estimate of **German Q2 GDP** data is out today, which we and consensus expect to show only a modest growth rebound to 0.4% q/q. Although the preliminary print will not bring any component breakdown, we will still get some insights into the growth drivers in Q2 and will look out for evidence of headwinds from the external side. The second estimate for **euro area Q2 GDP** figures is also due to be released, with a risk towards a slight upward revision to 0.4% q/q.
- It will be interesting to see whether **German ZEW** expectations show some signs of stabilisation in August, in line with other sentiment indicators such as Ifo and PMI lately.
- The final July **HICP** figures for **Germany, France and Spain** are also on the agenda and will give insights into any possible revisions to Friday's final euro area print.
- The **UK labour market report** for June is also due out. We estimate the unemployment rate (3M average) fell from 4.2% to 4.1%, while average weekly earnings have risen in quite a stable manner at 0.2% m/m in recent months and we believe the trend continued in June. This would leave the annual growth rate (3M average) unchanged at 2.7% y/y.
- In Scandinavia, **Danish Q2 GDP** data is also due (see next page).

Selected market news

It was another day of the **Turkish lira** saga as contagion spread to some developed and emerging markets. Markets stayed in wait-and-see mode yesterday expecting encouraging measures from the Turkish authorities to support the TRY. While the Turkish central bank provided some relief in liquidity, giving local banks an additional USD6bn of FX, it did not arrange the repo auction or announce other supportive measures. Markets closed disappointed, pushing the TRY 8% lower against the USD. Some calm spread throughout FX markets this morning, as USD/TRY settled around the 6.90 level, but we expect market volatility to continue in coming days, also because the US has warned there will be no negotiations until the detained American pastor is released (see *Danske Bank conference call - Turkey's crisis and its global ramifications*). Some emerging market central banks also intervened to support their currencies yesterday.

US equity futures are expected to be slightly in the green this morning, as Asian shares rebounded despite **Chinese data** for industrial production, retail sales and fixed asset investments coming in slightly weaker than expected this morning. Fixed asset investments especially declined notably in H1 18 and grew at the slowest pace since 1999. This is a result of the gradual financial tightening of the authorities and supports our view of a moderate slowdown in China ahead.

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

- Norges Bank Preview: No new signals; September hike still in store*
- Danske Bank conference call - Turkey's crisis and its global ramifications*
- Macro Strategy Views Podcast - How to trade the Riksbank's challenges*
- Vacation Wrap-Up: Market themes over the past three weeks*

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Scandi markets

Statistics **Denmark's** GDP indicator will give us a first estimate of output in Q2 today. We estimate healthy growth of 0.5%, driven mainly by stronger private consumption. Pulling the other way will be exports of goods, which disappointed overall in Q2 despite growing well in May and June. Exports of services could prove the joker in the pack, however, as Denmark's large shipping sector may have been affected by the market turmoil in the wake of the trade war between the US and China. Imports were higher in Q2 but much of the increase was in the form of ships, which also count as investment, so there will be no great impact on GDP growth. Output will also be boosted by the healthy increase in industrial production in Q2.

Fixed income markets

The pressure on Italy continues with the spread to core EU widening. This is driven by the Italian banks' exposure to Turkey as well as the uncertainty regarding the fiscal outlook for Italy. Hence, the 2Y Italian government bond yield is rapidly approaching 1.5% and the 10Y yield is trading above 3%. The Italian banks' exposure to Turkey is fairly limited, and even if there is a full write down on the Turkish exposure, this will have only a modest impact on the capital of the Italian banks. The problems in Turkey are having a spill-over effect on both Spain and Portugal as banks in Spain are also exposed to Turkey.

FX markets

FX markets calmed somewhat on Monday in the absence of new significant TRY developments. That said, we still stress that the combination of Turkey's confrontational tone and lack of bold measures to calm markets mean we would not call off the flight-to-safety move nor the downward pressure on the euro just yet. See *FX Essentials - Turkey adds key item to list of EUR/USD negatives short term*. Besides Turkey developments, which will stay in focus for G10 FX markets, GBP will also look to the UK labour market report, which should confirm the impression of a healthy job market.

Also a relatively quiet day in the Scandies yesterday, but notably we launched our new weekly *Scandi FX Volatility Monitor*, which suggests that both USD/SEK and USD/NOK volatility is trading increasingly 'expensive', having rebounded from previously 'low' levels driven by general risk-off moves in the market. Higher SEK volatility notably reflects high uncertainty attached to the Riksbank meeting on 6 September and the general election in Sweden on 9 September. In contrast, this week's Norges Bank meeting is not regarded by the market as a major event (we agree).

Key figures and events

Tuesday, August 14, 2018				Period	Danske Bank	Consensus	Previous
7:30	FRF	ILO unemployment	%	2nd quarter		9.1%	9.2%
8:00	DKK	GDP indicator	q/q	2nd quarter	0.5%		0.3%
8:00	DEM	HICP, final	m/m y/y	Jul		0.4% 2.1%	0.4% 2.1%
8:00	DEM	GDP, preliminary	q/q y/y	2nd quarter		0.4% 2.1%	0.3% 2.3%
8:45	FRF	HICP, final	m/m y/y	Jul		-0.1% 2.6%	-0.1% 2.6%
9:00	ESP	HICP, final	m/m y/y	Jul		-1.2% 2.3%	-1.2% 2.3%
10:30	EUR	Portugal, GDP, preliminary	q/q y/y	2nd quarter			0.4% 2.1%
10:30	GBP	Unemployment rate (3M)	%	Jun	4.1%	4.2%	4.2%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jun	2.7%	2.7%	2.7%
11:00	EUR	Industrial production	m/m y/y	Jun		-0.4% 2.6%	1.3% 2.4%
11:00	EUR	GDP, 2nd estimate	q/q y/y	2nd quarter	0.3% ...	0.3% 2.1%	0.3% 2.1%
11:00	DEM	ZEW current situation	Index	Aug		71.1	72.4
11:00	DEM	ZEW expectations	Index	Aug		-20	-24.7
12:00	USD	NFIB small business optimism	Index	Jul		106.8	107.2
14:30	USD	Import prices	m/m y/y	Jul		0.1% ...	-0.4% 4.3%

Source: Bloomberg, Danske Bank

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Expected updates

Each working day.

Date of first publication

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Report completed: 14 August 2018, 05:42 CEST

Report first disseminated: 14 August 2018, 07:15 CEST