

Danske Daily

Market movers today

- In the **US**, CPI inflation for August will attract more attention than usual given that they will give the Fed its last impression of underlying price pressure before the FOMC meeting on 19-20 September. Out of the past five months, CPI headline has fallen in three and the weak numbers seem to be very broad based. In August, we estimate energy contributed around 0.1pp to the headline figure on top of our expectation of an increase in core CPI of 0.1% m/m. Thus, we estimate CPI headline to come in at 0.2% m/m (1.7% y/y, unchanged from July) and CPI core at 0.1% m/m (1.5% y/y vs 1.7% in July). Note that the fall in CPI core y/y is driven by an increase of 0.3% m/m in August last year, which falls out of the yearly increase in August this year.
- In the **UK**, the Bank of England (BoE) meeting will be in focus. We expect BoE to keep the Bank Rate unchanged at 0.25% with an unchanged vote count of 7-2. It is one of the small meetings without an updated Inflation Report and a press conference, so we have to look for any changes to the policy stance in the minutes. It is not our expectation that the BoE will change its tone significantly, as the economy has developed more or less in line with the expectations set out in the latest Inflation Report of 3 August (see *Bank of England Review: More dovish but still too optimistic on growth*, 3 August 2017), but the BoE may address the weaker GBP. We still expect the bank to remain on hold throughout the Brexit negotiations, which is also what markets have priced in.

Selected market news

Asian stocks held steady this morning, despite weaker-than-expected Chinese industrial output (6.0% y/y in August) and investment (7.8% YTD) data released this morning. Wall Street edged up to a record high yesterday, while US Treasury yields climbed to 2-1/2-week highs on an ongoing improvement in broader investor risk sentiment.

In his annual State of the **European Union** speech, Commission chief Juncker sketched out a vision of a post-2019 EU where ideally all member countries should adopt the euro at some point, with a eurozone finance minister to co-ordinate economic policy across the bloc. However, he also rejected French proposals of a special eurozone budget, as there are other measures available to help counter economic shocks. The French president Macron will present his ideas for reforming the eurozone on 26 September, two days after the German election. German politicians, including Angela Merkel, has recently voiced support for such reforms, but much will depend on the actual German government composition, which will probably only be known in end-October/mid-November (see also *German Election Monitor No. 1: Next euro area election unlikely to rock the boat*, 29 August).

In the **US**, we got news that Republican leaders expected to release more details on tax reform on 25 September. The hope is to complete a budget by mid-October carrying tax language, which then needs to pass Congress, see *POLITICO*. The difficulty remains that Republicans must not only agree on taxes, but also need to agree on a budget to make changes to tax legislation without being filibustered in Senate. Although Trump has begun talking more with Democrats lately, it seems unlikely the Republican leaders want to do a tax reform with the Democrats, in our view.

Selected readings from Danske Bank

- *Finland Research: Stronger growth pushing debt ratio down*
- *Research Japan: Running on all engines*
- *Election update Norway: Victory but reduced majority for the centre-right parties*
- *Norway Regional Network Survey: Weaker than expected, Norges Bank to signal 'low for longer'*

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Scandi markets

There are no important releases in the Scandi markets today.

Fixed income markets

All eyes on today's US CPI figures for August as this is the last inflation figure we will get ahead of next week's FOMC meeting. Subdued inflation remains the main explanation behind the dovish Fed pricing.

The ECB's Peter Praet has been speaking overnight and he echoed a slightly more optimistic tone in line with Benoit Coeuré's speech from earlier this week. Regarding inflation he said, 'as slack in the economy continues to be absorbed, reflationary forces will gradually build up and the traditional Phillips curve connection between inflation and the business cycle should eventually re-assert itself'. Praet gave no indication on the next move but stated that 'our mission is not yet accomplished and we must remain patient and persistent'.

This week's busy supply calendar ends today with Ireland tapping EUR1bn in the 26s and the 37s. We have seen a small cheapening relative to France ahead of the auction. The two bonds being tapped have also cheapened a bit in ASW terms versus surrounding bonds, (see charts versus France ([here](#)) and ASW levels ([here](#))). Ireland will after today's tap have issued more than EUR11bn out of this year's EUR9-13bn target range. Hence, it is likely that Ireland will only conduct one more tap in Q4. Finally, note that the QE purchases in Ireland have increased marginally recently, potentially driven by the ongoing repayment of the former promissory notes which enables higher QE holdings. As primary dealers we are happy to take orders ahead of the auction.

FX markets

Focus today in FX markets will primarily be on GBP and on the USD as the data calendar brings the Bank of England meeting and US CPI.

EUR/GBP continues to trade just below 0.90 ahead of the Bank of England meeting today as the higher-than-expected CPI and CPI core figures released on Tuesday combined with the relatively solid labour market report released yesterday have fuelled the debate about whether the BoE needs to tighten monetary policy in November. The market is currently pricing in around 11.5bp for a BoE hike in November, which is close to the 50/50 pricing just ahead of the August meeting and in our view, we need to see a substantial hawkish shift in the MCP in order to justify higher UK money market rates from here. We expect the MPC to vote 7-2 in favour of keeping the Bank Rate unchanged at 0.25%, which would be a dovish signal given the current market pricing. If more members join the rate hike camp today, it could fuel further speculation that the BoE will hike in November. We still do not expect the BoE to hike this year given the relatively subdued economic outlook and the high political uncertainty surrounding the ongoing Brexit negotiations, and we would consider to sell EUR/GBP if the cross declines towards 0.89. In terms of political risks, we could see an increase in volatility and some GBP selling pressure ahead of Theresa May's important Brexit speech (we do not know the exact date but possible by the end of next week). All in all, we still see EUR/GBP mainly trading within the 0.90-0.92 range in the coming months, and we recommend that corporate clients utilise GBP appreciation hedging GBP receivables for the coming three to six months via FX forwards (at longer-dated receivables, we recommend options) and institutionals should increase the hedge ratio on GBP assets with EUR/GBP at current levels.

USD/JPY increased further yesterday supported by general USD appreciation and positive risk sentiment as hopes about US tax reforms were revived. As such, the combination of strong global PMIs and the postponement of the US debt limit risk is good for risk appetite and has improved the prospect of a higher USD/JPY in the near term. However, geopolitical uncertainty

related to North Korea represents a substantial downside risk and will continue to weigh on the cross. We still expect USD/JPY to trade within the 108-111 range near term.

In terms of the USD, we have seen EUR/USD drop for the third consecutive session, not least aided by revived focus on a possible US tax reform. Given the deep ideological differences within the Republican party, we remain sceptical on the outlook for a significant tax reform and with US CPI set to disappoint market expectations today, we think EUR/USD will end the session higher. Irrespective, the latest drop does highlight an important point, namely that speculative EUR/USD positioning last week reached the highest level since 2013, making the cross increasingly sensitive to news/jitters, as we have seen in the latest sessions.

In the Scandies, weekly data from Norges Bank showed that foreign banks (proxy for speculative flows) for the second consecutive week has net sold NOK worth a decent NOK4.9bn. The past two weeks' net NOK selling follows a period of strong NOK buying. Indeed, we have emphasised positioning as an increasing headwind for the NOK. We still think the cumulative NOK buying is at high levels but the latest selling does ease the pressure on the NOK slightly. For now, we reiterate that EUR/NOK is a range play with increased sensitivity to oil price drops.

Key figures and events

Thursday, September 14, 2017					Period	Danske Bank	Consensus	Previous
8:45	FRF	HICP, final	m/m y/y	Aug	.. 1.0%	0.6% 1.0%	0.6% 1.0%	
9:30	CHF	SNB 3-month Libor target rate	%			-0.8%	-0.8%	
9:30	SEK	Unemployment (n.s.a. s.a.)	%	Aug			6.6% 7.1%	
10:00	ITL	HICP, final	m/m y/y	Aug	.. 1.4%	.. 1.4%	.. 1.4%	
13:00	GBP	BoE Bank rate	%		0.25%	0.25%	0.25%	
13:00	GBP	BoE minutes						
13:00	GBP	BoE government bond purchases (APF)	GBP bn	Sep	435	435	435	
13:00	GBP	BoE corporate bond purchases (CBPP)	GBP bn	Sep	10	10	10	
13:00	TRY	Central Bank of Turkey rate decision	%		8.0%	8.0%	8.0%	
14:30	USD	Initial jobless claims	1000					
14:30	USD	CPI headline	m/m y/y	Aug	0.2% 1.7%	0.3% 1.8%	0.1% 1.7%	
14:30	USD	CPI core	m/m y/y	Aug	0.1% 1.5%	0.2% 1.6%	0.1% 1.7%	
17:30	EUR	ECB's Weidmann speaks in Frankfurt						

Source: Bloomberg, Danske Bank

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