

Danske Daily

Swedish inflation coming up

Market movers today

- In **Sweden**, we are due to get inflation numbers. We expect around 0.1 percentage point higher inflation for August than the Riksbank's new forecasts, both for headline CPIF and core CPIF excluding energy. See more in Scandi section overleaf.
- In **Russia**, the central bank decision will be announced. We currently expect the CBR to keep the key rate unchanged but we are paying close attention to the external environment. Real rates remain extremely high in Russia. A hike by the CBR would weigh on economic growth in 2019.
- In **Denmark**, Finance Denmark's housing market statistics for Q2 are due. We already know from Statistics Denmark how prices have moved nationwide but it will be interesting to see what has been happening at a local level.
- Finally, today it is 10 years since Lehman Brothers filed for bankruptcy, which should imply a lot of media focus on the causes and consequences of the financial crisis.

Selected market news

The Bank of England (BoE), central bank of Turkey (TCMB) and ECB delivered broadly as expected yesterday. First, the BoE announcement was a dull affair, with no new forecasts or policy signals. We still expect the BoE to hike around once a year and our base case is that the next hike will arrive in May 2019, after the UK formally leaves the EU (see also *Bank of England Review*, 13 September). Then more action was seen in Turkey: while Turkey's president Recep Erdoğan was out rattling TRY markets ahead of the TCMB decision, the central bank managed to surprise markets by delivering a significant rate hike of 625bp for its one-week repo rate, sending it to 24.00%. The accompanying statement further stroked a hawkish tone promising more monetary tightening 'if needed'. The decision fuelled a risk-on move across emerging market currencies and sent the TRY up more than 4% up against the USD from yesterday's open levels. Finally, the ECB did not deliver new policy signals in a meeting that on the face of it was rather uneventful. However, Mario Draghi notably highlighted risks 'gaining more prominence' – albeit still seen as balanced for growth – and importantly the ECB's confidence in the inflation outlook prevailed. Rates markets were trading broadly sideways through the press conference but EUR/USD jumped towards 1.17 lifted also by a weak US CPI. While the asset-purchase programme will end by New Year, we still do not see a first rate hike from the ECB until December 2019. See more details in *ECB Review*, 13 September.

Markets have been reasonably calm overnight, despite a tweet from US President Donald Trump in relation to the trade talks that his Treasury Secretary Steven Mnuchin has reportedly been initiating, stressing that the US feels 'no pressure to make a deal' with China. Nevertheless, equities kept the upbeat tone in both the US and Asian session. US Treasury yields fell slightly after US CPI data came out on the weak side yesterday. Hurricane Florence has now reached the US East Coast (North Carolina) and its associated storm surge is projected to create severe damage.

Selected reading from Danske Bank

- *ECB Review - For the feinschmeckers - part II*, 13 September
- *Bank of England Review - Repeats hiking bias amid Brexit uncertainties*, 13 September

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Scandi markets

In **Sweden**, an important release is due: inflation. We estimate around 0.1 percentage point higher inflation in August than the Riksbank's new forecasts, for both headline CPIF and core CPIF excluding energy. The main drivers are seasonally higher price hikes on clothes, which are balanced by sharply falling prices for international airline tickets and charter packages. To these, we have to add additional price increases for energy, both electricity and petrol. Looking at risks, there is great uncertainty about the impact of this summer's drought on food prices. Another, more important uncertainty relates to how much the weaker SEK may have raised prices of import goods. Looking forward, the Riksbank's new core CPIF forecast has come closer to our own but from March 2019, the paths diverge again. Extending the most recent KIX outcome with the Riksbank's new forecast suggests a certain upside risk on imported inflation (30% of the CPIF basket) in the near term, which translates into a bigger downside risk in 2019.

Fixed income markets

The **ECB** and **BoE** both confirmed their gradual approach to tightening monetary policy. The ECB is scaling down on QE but does expect to tighten monetary policy until after summer 2019, while the BoE stated that future rate hikes will be limited and gradual. The reaction in the market was modest and volatility remains subdued in the European markets. Italy sold some EUR7.75bn in the 3Y, 7Y and 30Y segments. The 7Y bond was a new bond from the Italian debt office and the bid-to-cover was 1.28, which is in the low end of the range. The demand at the auction was not seen to be strong and the 10Y spread between Italy and Germany moved very little. We need to see more positive information on the Italian budget before the 10Y Italian government bond can break out of the 3% region. Currently, the market seems to be expecting a budget deficit in the 2.0-2.5% range for 2019.

One of the **Swedish covered bond** issuers is launching a new 5Y benchmark on 17 September, with Stadshypotek launching the SHBASS 1.5% 03/24 covered bond. Given the interest from foreign investors in the Swedish covered bond market combined with the domestic need for some yield pickup to SGBs, we expect to see decent demand for the bond. See *Strategy: Sweden – introduction of SHYP1588*, 13 September.

We have a string of **rating reviews today** – S&P has Portugal (BBB/stable) up for review. We do not expect a change to the rating but, given ongoing improvement in the budget and the expectations for a very modest budget deficit in 2019, then we could see a change in the outlook to positive. Finland and Austria are up for review by S&P. Both countries are AA+ and on stable outlook. Even though the fiscal outlook for both countries is improving, we do not expect an upgrade from S&P, although there is a possibility of a change in the outlook to positive.

FX markets

While the ECB's inflation confidence helped lift **EUR** crosses yesterday, we stress that it is still a little too early for the FX market to discount an end to negative rates, which will be key for delivering more broad-based EUR strength. We still see a risk that USD strength will linger in H2 due to the prospect of relative rates moving in favour of the greenback and trade woes and emerging markets worries weighing still. However, we are less worried about Italy-led risks near term, so the potential for a significant dip in EUR/USD near term is smaller than we previously expected and dips below 1.15 should be bought into. The key trigger for EUR/USD to invoke a more sustained uptrend remains a turn in capital flows and it is likely these will not be triggered until the market senses that the ECB is growing ever more confident in initiating a hiking cycle (not likely until H1 19). Hence, in our view, it is still too early for a sustained EUR uptrend driven by the ECB.

Key for the **SEK** is Swedish August inflation numbers slightly higher than the Riksbank for CPIF and CPIF excluding energy alike. If correct, it could help EUR/SEK to re-challenge the 10.40 area, even though a lack of progress in forming a government still weighs on the SEK. Looking further ahead, we are positive on the SEK, as we think inflation gains will help the Riksbank to go through with its first hike in seven years, most likely in December.

Key figures and events

Friday, September 14, 2018			Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Portugal's debt rating				
-	EUR	S&P may publish Finland's debt rating				
-	EUR	S&P may publish Austria's debt rating				
-	EUR	S&P may publish Cyprus's debt rating				
4:00	CNY	Industrial production	y/y	Aug	6.2%	6.0%
4:00	CNY	Retail sales	y/y	Aug	8.8%	8.8%
4:00	CNY	Fixed assets investments	y/y	Aug	5.7%	5.5%
6:30	JPY	Industrial production, final	m/m y/y	Jul		-0.1% 2.3%
9:30	SEK	CPI	m/m y/y	Aug	0.01% 2.2%	0.0% 2.2%
9:30	SEK	Underlying inflation CPIF	m/m y/y	Aug	0.03% 2.4%	0.0% 2.3%
10:00	ITL	HICP, final	m/m y/y	Aug		... 1.7%
11:00	EUR	Trade balance	EUR bn	Jul		16.5
11:00	EUR	Labour costs	y/y	2nd quarter	2.2%	2.0%
12:30	RUB	Central Bank of Russia rate decision	%		7.25%	7.25%
14:30	USD	Retail sales control group	m/m	Aug	0.5%	0.5%
14:30	USD	Import prices	m/m y/y	Aug	0.0% 4.8%	0.0% 4.8%
15:15	USD	Capacity utilization	%	Aug	78.3%	78.1%
15:15	USD	Industrial production	m/m	Aug	0.3%	0.1%
15:15	USD	Manufacturing production	m/m	Aug	0.4%	0.3%
16:00	USD	Fed's Rosengren (non-voter, hawk) speaks				
16:00	USD	University of Michigan Confidence, preliminary	Index	Sep	96.2	96.2

Source: Bloomberg, Danske Bank

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