

Danske Daily

Market movers today

- Following the upward surprise in US CPI inflation yesterday, focus on the macro front today turns to US retail sales for August, which we estimate increased by 0.3%. Preliminary consumer confidence for September from the University of Michigan is also released. Like business confidence, consumer confidence is still very high, but Hurricane Harvey and an unstable political environment within the US may have weighed on it and we estimate a slight fall to 95.0. Also, keep an eye on the five- to 10-year inflation expectations in the survey. They trended lower during 2015 and 2016 but have moved sideways at around 2.5% for a year now.
- The US Empire index (business confidence) is likely to retreat a bit in September after hitting the highest level in three years in August. The indicator is quite volatile and the August level was likely to be 'too strong' relative to the underlying development. US industrial production for August is also due and estimated to increase 0.1% m/m.
- On the **central bank** front, we have speeches today by ECB members Nouy (8:00 CEST), Visco (09:00 CEST) and Lautenschläger (10:15 CEST).
- With the **German parliamentary election** less than 10 days away, we have published another [German election monitor No. 2](#), 14 September, looking at some of the most pressing issues that politicians will have to deal with in the future.

Selected market news

US stock futures and Asian shares dipped after **North Korea** fired another Intercontinental Ballistic Missile over Japan into the Pacific Ocean this morning, demonstrating its defiance to new UN sanctions agreed on 3 September. Safe haven assets were consequently in demand this morning, with gold firmer and USD/JPY dipping back below 110. The launch is likely to weigh on risk sentiment today, but the market impact should be short-lived unless the conflict escalates, given that we have already seen similar launches from North Korea in past weeks and months.

As we expected, the Bank of England (BoE) left its policy unchanged at the meeting yesterday, but it surprised with a warning of a possible forthcoming rate hike 'over coming months' if underlying inflation moves higher and the unemployment rate moves lower. The comment fuelled a GBP rally (see FX section). We think a hike in November is a close call but given that one condition is 'a gradual rise in underlying inflationary pressure', which we interpret as higher wage growth, we still think the BoE will stay on hold this year. Our base case is now a hike in Q1 18, as the BoE is less worried about political uncertainty and more focused on economic data (see also *Bank of England review: November hike is now a close call*, 14 September).

Japanese manufacturers' confidence worsened for the first time in four months in September from the previous month's decade high. Manufacturing PMIs have shown similar signs of a slowdown, but we still expect the recent growth momentum to continue in 2017, supported by a very strong labour market, the global economic recovery and extremely accommodative economic policies (see also *Research Japan: Running on all engines*, 12 September).

Selected readings from Danske Bank

- *Bank of England review: November hike is now a close call*
- *German Election Monitor No. 2: What important issues should politicians debate?*
- *Flash Comment - China: don't trust the weaker data too much*

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Analyst

Aila Mihr
+45 45 12 85 35
amih@danskebank.dk
 @aila_mihr

Scandi markets

In the Scandi markets, we will get Finance Denmark's housing market statistics for Q2 today. We already have Statistics Denmark's figures for how prices have moved on a nationwide basis, but it will be interesting to see what has been happening at a local level.

Fixed income markets

We have seen a decent rebound in US and European bond yields this week on the back of higher US inflation data, hawkish comments from the Bank of England, expectations for the ECB tapering, less geopolitical tensions as the situation in North Korea seemed to have stabilised as well as US President Trump making deals with the Democrats. However, we do not see this as the start of a continued sell-off in the bond market but more as a short-term rebound given that the global central banks are still very cautious in taking back the stimulus in order not to damage the economic recovery. Furthermore, North Korea has launched another missile showing how fragile the situation is in North Korea. Hence, we expect yields to remain range bound at these levels.

We have several EU countries up for review, with Portugal up for review by S&P (BB+/stable). We expect a new upgrade to a 'positive outlook' given the ongoing improvement in the Portuguese economy, which has meant that Portugal has left the EU's excessive deficit procedure in the summer.

Ireland is also up for review by Moody's (A3/positive). Ireland has been on positive outlook since May 2016 and Moody's has been trailing both Fitch and S&P. Ireland is seeking to repay EUR5.5bn in debt to the IMF, Denmark and Sweden given a very large cash buffer. Finally, we have Finland (AA+) up for review by S&P, we see a 50% chance of a positive outlook from S&P.

FX markets

With the prospect of a BoE rate hiking cycle materialising earlier than we forecast previously, GBP has been brought alive yet again. In an environment where the EUR uptick is losing steam a bit and the market remains stretched on GBP shorts, we have to admit that risks in EUR/GBP are now more balanced than we have laid out (previously, we saw risks tilted to the upside for the cross near term). That said, our position remains that EUR/GBP will have a hard time breaking significantly lower from here as Brexit uncertainty is set to be a subjugate for sterling for an extended period of time. Near term, the cross should be capped around the 0.88 level (which prevailed before the summer uptick) but, further out, if the BoE initiates a hiking cycle, the adjustment towards fundamentals – our Brexit-corrected Medium-Term Valuation (MEVA) estimate for the cross is around 0.83 – could take place faster than our current forecasts (0.88 in 12m) project.

In the Scandies, EUR/NOK has crept higher even despite the higher oil price. In our view, it does underline the risk scenario highlighted since Monday's disappointing inflation print, namely that the reduced near-term NOK potential makes the currency vulnerable to long covering. Our fundamental predisposition remains to sell EUR/NOK, but for now we prefer to stay sidelined. We do not expect next week's Norges Bank meeting to trigger a NOK revival as the central bank is unlikely to send any new signals, in our view.

Yesterday, Turkey's central bank kept all rates unchanged, as expected by us and Bloomberg consensus. It was a fully justified decision as headline inflation accelerated in August. TRY remains the most attractive carry in FX and unchanged rates push TRY higher. While we expect that the key rate stays unchanged in 2017, monetary easing will start in H1 18, leaving TRY wounded in the medium and long term as the current account balance remains deeply negative and the surging oil price is not bringing relief to that.

Today at 12:30 CEST, Russia's central bank, the CBR, is due to announce its monetary policy decision. Along with Bloomberg consensus we expect a solid 50bp cut to 8.50%. Markets have been pricing in the 50bp cut for a while already. A large cut and CBR's soft tone would still be RUB positive: falling inflation is driving demand for Russia's local debt, OFZs and improving economic prospects support local stocks. Despite less carry appeal, we still see good opportunities for carry traders as we expect the real rate to hover around 3.0% in 2017 and the RUB to continue to strengthen on the rising oil price and improving macro fundamentals. See *Flash Comment Russia: CBR rate decision preview: time for a big cut*, 14 September 2017.

Key figures and events

Friday, September 15, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Ireland's debt rating					
-	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					
8:00	NOK	Trade balance	NOK bn	Aug			14.3
9:00	DKK	House prices (Finance Denmark)	q/qly/y	2nd quarter			
11:00	EUR	Trade balance	EUR bn	Jul			22.3
11:00	EUR	Labour costs	y/y	2nd quarter			1.5%
12:30	RUB	Central Bank of Russia rate decision	%		8.5%	8.5%	9.0%
14:30	USD	Retail sales control group	m/m	Aug	0.3%	0.3%	0.6%
14:30	USD	Empire Manufacturing PMI	Index	Sep		19.0	25.2
15:15	USD	Capacity utilization	%	Aug		76.8%	76.7%
15:15	USD	Industrial production	m/m	Aug	0.3%	0.1%	0.2%
15:15	USD	Manufacturing production	m/m	Aug		0.5%	-0.1%
16:00	USD	University of Michigan Confidence, preliminary	Index	Sep	95.0	96.5	96.8

Source: Bloomberg, Danske Bank

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