

Danske Daily

Market movers today

- The key event on the calendar will be the **Norges Bank** meeting (see *Preview*). We think Norges Bank is unlikely to react to distorted summer data and global risks. Hence, we do not expect any new signals today and still pencil in a September rate hike (see next page).
- **Brexit** negotiations between the UK and EU resume in Brussels. Brexit day draws closer, but while the EU is signalling that it wants September to be a decisive month in the divorce negotiations, the UK's Theresa May prefers a late-autumn deadline.
- We will also get **UK** retail sales for July, which markets tend to keep an eye on, despite it being quite volatile and a poor predictor of private consumption as measured in GDP.
- **US** housing starts and building permits for June are due out and we will look out for a rebound in July from the drop in June, given the volatile nature of the numbers and elevated business sentiment.

Selected market news

The MSCI **Emerging Markets** Index tumbled, falling into bear territory due to a combination of currency turmoil, commodity price declines and disappointing results from one of China's technology giants Tencent. **US** equity markets fared little better despite a strong July retail sales print and solid manufacturing production data. The S&P 500 fell for the fifth time in a row and US Treasury yields extended declines. Oil prices continued to slip, approaching USD70/bbl, after the EIA reported a surprise US stockpile build.

USD/TRY continued its decline after local retail accounts took advantage of the respite and sold USD, while thin liquidity has also been adding momentum to the **Turkish** lira. However, the geopolitical stand-off with the US remains unresolved and the picture became even murkier after Turkey increased tariffs on several US imports, including passenger cars, rice and coal. Qatar is reported to have pledged some USD15bn worth of direct investment to the country to help avert a financial crisis.

China's Vice Commerce Minister will lead a delegation to the US in late August, in a sign that trade talks might continue. However, we still do not see much scope for a deal between the two countries this side of the mid-term elections in November (see *US-China Trade – No deal in sight*).

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*
- *Yield Outlook - Turkey and Italy keep German/Scandi yields low for now*
- *Danske Bank conference call - Turkey's crisis and its global ramifications*
- *Macro Strategy Views Podcast - How to trade the Riksbank's challenges*

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Scandi markets

We expect **Norges Bank** to stay on hold today. This will be a so-called ‘interim’ meeting without a monetary policy report or press conference. The threshold for changing rates or even giving new signals is, therefore, much higher than at the ‘full’ meetings. The economy is still looking to grow above trend, unemployment is falling and underlying inflation is moving higher. At the same time, housing prices rose again in July after being flat in June. All this suggests that NB will repeat the signals that the normalisation of monetary policy will start with an interest rate hike in September. Finally, global risks are currently dominated by political events, but we find it unlikely that the current levels of risk will push Norges Bank into a more dovish stance. However, global developments will be mentioned as a negative risk factor.

Fixed income markets

Weak global risk sentiment dominated yesterday as commodities, tech and EM markets remained under severe pressure. An exception was the Turkish lira, which staged a minor rally.

In the bond markets, Italy was again the weak link and, after a positive opening, BTPs came under strong pressure in the afternoon, as several politicians in wake of the tragic Genoa bridge collapse said that the EU should not constrain infrastructure spending. The poor risk sentiment also pushed Spanish and Portuguese yields higher. 10Y Bund yields traded briefly below 0.30%, which seems to be a strong support level. Treasuries also saw support and the 2s10s curve flattened at one point to a new post-financial-crisis low of 24bp.

The main Scandi event will be the Norges Bank meeting (10:00 CEST). Norges Bank is unlikely to react to distorted summer data and global risks and hence we expect no new signals today, and still pencil in a September rate hike. We continue to recommend paying the short end of the NOK money market curve. If Norges Bank – contrary to our expectations – questions the September hike, we should, considering the market pricing, see a strong rally. See *Norges Bank Preview: No new signals; September hike still in store*, 10 August 2018.

In the Danish market, the upcoming August 2018 refinancing auctions will kick off tomorrow when Nykredit is in the market. See our August 2018 refinancing auction overview [here](#). The overview shows bond information, auctions amounts, bid closing times, expected LCR classification etc.

FX markets

In line with FX option pricing (see *Scandi FX Vol Monitor*, 13 August) we do not expect today’s Norges Bank meeting to yield any significant moves in EUR/NOK today (see Scandi section). That said, we still think the cross will initiate a move lower in coming weeks as Norges Bank hiking rates in September will mark an important fundamental trigger for the undervalued NOK.

In today’s *FX Forecast Update* we keep our EUR/NOK profile unchanged and thus still target the cross at 9.40 in 1M, 9.20 in 3M, 9.20 in 6M and 9.10 in 12M. Separately, we remain bearish on the SEK, still comfortable with our call for no Riksbank hike this year and see EUR/SEK as a buy on dips. The SEK is not only about monetary policy and macro, however, but also about poor global risk sentiment and a messy Swedish general election. In our view, this is a cocktail for heightened FX volatility and a headwind for the SEK. We see EUR/SEK at 10.50 (previously 10.40) in 1M, 10.60 (10.40) in 3M, 10.50 (unchanged) in 6M and 10.20 (unchanged) in 12M. Finally, we have adapted our short-term EUR/USD profile due to the significance of the break of 1.15 and now see EUR/USD at 1.12 in 1M, 1.13 (previously 1.17) in 3M, 1.18 (1.20) in 6M, and 1.25 (unchanged) in 12M. Short term, we think the relative rate support to USD and EUR political risks will dominate, leaving EUR/USD in a sub-1.15 range, but we see the cross staying above 1.10. However, the Turkish risk premium should eventually fade and alleviate some of the downward pressure from USD carry near term – which, in addition to a moderation of the H1 US growth relative outperformance, should help to support an otherwise strained pair.

Key figures and events

Thursday, August 16, 2018

				Period	Danske Bank	Consensus	Previous
10:00	NOK	Norges Banks monetary policy meeting	%		0.5%	0.5%	0.5%
10:30	GBP	Retail sales ex fuels	m/m y/y	Jul		-0.1% 2.6%	-0.6% 3.0%
11:00	EUR	Trade balance	EUR bn	Jun			16.9
14:30	USD	Initial jobless claims	1000				
14:30	USD	Building permits	1000 (m/m)	Jul		1308	1292.0 (-0.7%)
14:30	USD	Housing starts	1000 (m/m)	Jul		1273	1173.0 (-12.3%)
14:30	USD	Philly Fed index	Index	Aug		22.0	25.7

Source: Bloomberg, Danske Bank

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