

Danske Daily

Big central bank week takes off

Market movers today

- A busy week is coming up where the main focus will be on **the Fed meeting on Wednesday**, where we look for the Fed to prepare markets for a July cut and a total of 75bp cuts in H2.
- Before that **the ECB will take centre stage at the ECB Forum in Sintra**, which starts today with opening remarks by ECB President Mario Draghi. Pressure is increasing on the ECB following a steep decline in market inflation expectations, weak growth data and soft inflation numbers. Later this week important decisions loom at the EU Summit.
Today we will get the first indication from the US of **the Empire index for June**. It surprised to the upside in May but the consensus expectation is a drop back in the June reading to 11.0 from 17.8. The **US NAHB housing index** is also up for release today.
- **In the UK, the Conservative Leadership contest continues** with Boris Johnson being the favourite to become new Conservative leader and prime minister.

Selected market news

Asian stocks traded mixed at the beginning of a big central bank week. On Wednesday, we have the FOMC, where we expect Powell to open the door wide open for a July rate cut. We also look for September and December cuts. Please, see more in our *FOMC preview - Cutting like it is the 90s*, 11 June.

On Thursday, the Bank of Japan (BoJ) wraps up a two-day policy meeting. It is one of the small meetings, with no new forecasts on GDP and inflation. We expect the BoJ to keep its 'QQE with yield curve control' policy unchanged.

In Norway, we expect Norges Bank to raise its policy rate by 25bp to 1.25% at Thursday's rate-setting meeting, as indicated clearly both in its March monetary policy report and even more so at its May meeting.

On Thursday, the Bank of England meeting is probably not important. In our view, the bank is firmly on hold.

Sentiment regarding positive news on a China-US trade deal remains sour. US Commerce Secretary Wilbur Ross repeated that a trade deal is unlikely to emerge after a possible meeting between US President Donald Trump and Chinese President Xi Jinping at the G20 summit in Osaka later this month. As the US is collecting billions in tariffs, Trump said he is in no rush to reach a deal with China and "it doesn't matter" if Xi agrees to meet him at the G20 summit. Meanwhile, trade war escalation continued on other fronts as India imposed higher tariffs on 28 US goods in response to Washington's withdrawal of key trade privileges for New Delhi. The US goods affected by the newest Indian tariffs are iron and steel products, tube and pipe fittings, etc. The increase also hit food.

Crude saw support as Saudi Arabia's energy minister stated he was confident that OPEC and its partners are likely to approve further output cuts into H2 19 during a meeting scheduled for the first week of July.

Selected reading from Danske Bank

- *FOMC preview - Cutting like it is the 90s*
- *The Big Picture: Renewed Trade Dispute Casts Shadow Over Global Economy*
- *China Weekly Letter - Xi-Trump meeting to be crucial for next stage in trade war*

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Scandi markets

In Scandinavia, all attention turns to the Norges Bank meeting on Thursday. Despite the strong drop in global money market rates we still firmly expect a 25bp rate hike.

Fixed income markets

A very busy central bank week kicks off today with the ECB Sintra conference. We will closely be watching Mario Draghi's welcome address today at 19.00 CET and introductory remarks tomorrow morning. Especially, any comments on the severe drop in market inflation expectations (5y5y at 1.13%) will be scrutinized.

Over the weekend, ECB Vice President De Guindos underlined that inflation expectations have not been derailed, but that the ECB is ready to act if inflation gets de-anchored. If Draghi repeats the message that the ECB is not concerned about inflation expectations we could see further flattening of the curve and a risk-off move. It is also noteworthy that Novotny over the weekend discussed a more flexible ECB inflation mandate.

We published *Government Bonds Weekly*, 14 June. We look at preferred trades in case of rate cuts/extension of forward guidance and reopening QE/yield curve control through the EUR swap curve.

FX markets

In the majors, **EUR/USD** rose when ECB failed to satisfy a dovish priced market two weeks ago. ECB needs a weaker **EUR** and Draghi could try to right the market, when he opens the annual Sintra conference today, or more likely tomorrow morning in his introductory remarks. At this stage we do not think words will be able to move EUR/USD – the market is looking for actions. On this regard, the FOMC meeting Wednesday will be the more important monetary policy event for EUR/USD this week as we look for Fed to prepare the market for a July cut. In turn this should pave the way for EUR/USD to move to 1.15 in 3M and outperform FX forwards.

In the Scandies we enter a key week for the **NOK**. On Thursday, we expect Norges Bank to not only hike rates by 25bp but also signal a continued hiking bias by lowering the rate path only moderately. That said, the global environment of trade uncertainty, disappointing growth and falling inflation expectations have been strong headwinds for the NOK recently creating a historically large rate decoupling to NOK FX. In that light, Wednesday's FOMC meeting could be as important for the NOK as the Norges Bank meeting itself. From a risk reward perspective we still favour more AUD/NOK and USD/NOK downside.

After the inflation surprise on Friday, **EUR/SEK** dropped some six figures over the day, which is by and large as one would expect given the magnitude of the deviation. A re-test of the 10.60 support cannot be ruled out, of course, but the **SEK** may face some headwinds in the weeks to come, especially if the Riksbank strikes a dovish tone at the July meeting. The next things to watch out for domestically (all on Wednesday) are labour market and NIER data and a speech by Per Jansson where he might hint at what we should expect from the Riksbank.

Key figures and events

Monday, June 17, 2019					Period	Danske Bank	Consensus	Previous
7:00	DKK	House prices (Finance Denmark)	q/q y/y	1st quarter				
8:00	NOK	Trade balance	NOK bn	May				17.6
11:00	EUR	Labour costs	y/y	1st quarter				2.3%
14:30	USD	Empire Manufacturing PMI	Index	Jun		12.0		17.8
16:00	USD	NAHB Housing Market Index	Index	Jun		67.0		66.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Apr				-8.1

Source: Bloomberg, Danske Bank

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