

# Danske Daily

## Market movers today

- In the **euro** area, we have the final HICP figures for July released. The initial estimates showed headline and core inflation at 2.1% and 1.1%, respectively. Judging from the country figures, we do not expect any revisions but we will look for evidence of the ECB's claim that underlying inflation pressures are boarding and are becoming more resilient.
- In the **US**, University of Michigan consumer confidence for August is on the agenda. Consensus is for a further small increase to 98.0 but it will be particularly interesting to see whether inflation expectations, which the Fed is monitoring closely, will recover from their fall in July. However, even in the case of a miss, we do not think it would necessarily lead the Fed to postpone the expected September hike.
- **Brexit** talks continue in Brussels and EU chief negotiator Michel Barnier may hold a news conference.
- Tomorrow, **German** Chancellor Angela Merkel and **Russian** president Vladimir Putin will meet in Berlin to discuss Syria, Ukraine and the Nord Stream 2 pipeline.

## Selected market news

**The global equity market continues to see gains with the Asian markets in positive territory and the US stock market increased yesterday.** The positive sentiment is spurred by news over the past few days that trade talks are about to resume between China and the US in late August. Yesterday, US President Donald Trump welcomed the relaunch of trade talks with China but cautioned on difficult talks ahead, saying 'They just are not able to give us an agreement that is acceptable, so we're not going to do any deal until we get one that's fair to our country'. We share this cautious view given that the upcoming talks are really to see whether there is scope to launch broader trade talks and given President Trump is buoyed by the strong US economy and stock markets. As a sign of a precarious relationship between the two countries, the Pentagon yesterday warned that the Chinese military is 'likely training for strikes' on US targets according to a Reuters story.

**The Turkish crisis has been abating this week, after the Turkish authorities took steps to mitigate the pressure on the lira.** However, yesterday, the US treasury stepped up the pressure on Turkey, warning that more sanctions will be put on Turkey if the imprisoned US pastor is not released soon. The lira pared some of its recent gains after the comments from the US Treasury

**Yesterday, Norges Bank as expected left the policy rate unchanged at 0.50%.** This was an 'intermediate' meeting, i.e. there was no monetary policy report or press conference, just a press release. Also as expected, Norges Bank continues to signal a September hike despite global turmoil: 'The Executive Board's assessment is that the upturn in the Norwegian economy appears to be continuing broadly in line with the picture presented in June'. Underlying inflation is below the inflation target but the driving forces indicate that it will rise further out. Overall, the outlook and the balance of risks do not appear to have changed. We still expect Norges Bank to hike rates on 20 September.

## Selected readings from Danske Bank

- *Yield Outlook - Turkey and Italy keep German/Scandi yields low for now*, 14 August
- *FX Edge - Good reasons for higher EUR/DKK spot rate*, 16 August
- *Norges Bank - No news, signals rate hike in September*, 16 August
- *Research Euro area - How vulnerable is Europe to the Turkish havoc?*, 17 August

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- *Nordic Outlook*
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## Scandi markets

In Sweden, Valueguard housing price data is due out.

## Fixed income markets

Global risk appetite got a boost yesterday as US-China trade talks seem to be underway and the Turkish lira rallied. Peripheral spreads tightened, with Italy taking the lead. However, interestingly the move higher in Bund and Treasury yields was modest and the Bund spread barely moved, being stuck in the recent 57-58bp range.

We had little news from Norges Bank yesterday and anything but a September rate hike would be a major surprise.

In the Danish market, the upcoming August 2018 refinancing auctions are due to kick off today, with Nykredit in the market selling DKK7.3bn in 4Y RO(G) 3M CIBOR floater and EUR835m in 1Y-3Y SDO(H) 3M EURIBOR floaters. On Monday, Nykredit and BRFKredit plan to sell DKK12.1bn in 1Y-10Y government guaranteed covered bonds and from Tuesday to Friday, Nykredit, Nordea Kredit, BRFKredit and DLR Kredit intend to sell around DKK50bn in 1Y-5Y non-callable SD(R)O bonds (excluding government guaranteed bonds). We recommend buying 4Y and 5Y non-callables versus DGBs. For more details on the refinancing auctions, see *Danish Mortgage Bonds – August Auctions: Issuance drought in longer noncallable bullets has started*, 16 August, and *Auction Overview – August 2018, 16 August*.

## FX markets

In line with option market pricing, Norges Bank did little to shake up **NOK** FX, with EUR/NOK roughly unchanged on the announcement on Thursday morning (see *Norges Bank – No news, signals rate hike in September*, 16 August). We still like to be short EUR/NOK via our 3M ratioed seagull (see *FX Strategy – Sell 3M EUR/NOK seagull on lower spot and volatility*, 11 June) but look to replace this trade with a spot position as we approach September. At this time, we believe volatility has declined further, which, alongside positioning, technicals, structural liquidity and an increased market focus on an underpriced Norges Bank rate hike outlook, should support a full delta position for a EUR/NOK move down towards 9.20 in 3M.

Separately, EUR/DKK has continued its upwards trend this week reaching 7.4575. In *FX Edge – Good reasons for higher EUR/DKK spot rate*, 16 August, we argue that there are good reasons for the level shift higher to be found in fundamentals and carry. Thus, we expect the move above 7.4500 to be sustained on 6M. Furthermore, we look for Danmarks Nationalbank to cap a potential move above 7.4600 around the level of 7.4610-30.

The **USD** strengthened a little last night after comments from both US President Trump and his economic council director Larry Kudlow that the current 'strong dollar' is a sign of a confidence in the US and its economy and notably that a 'steady' dollar is preferable. This is a bit of a shift in rhetoric from the US administration over the summer and reduces the risk of US FX intervention, which has surfaced recently. However, it is also a hint that the US administration will tolerate a strong dollar only as long as the US economy is booming; the loss of momentum that we see for the US in coming quarters could thus easily go hand in hand with fading USD support. Finally, while the Turkey issue flared up a bit again yesterday, we stress that the ties to the eurozone do not hold potential for major repercussions in the region (see *Research Euro area: How vulnerable is Europe to the Turkish havoc?*, 17 August). This should limit its downside effect on the EUR form here.

Yesterday, the Turkish lira saw a brisk dawn as the USD/TRY fell under 6.00, saluting more US friendly comments by the Turkish Foreign Minister and the news on Qatar's pledge to invest USD15bn in Turkey's economy. However, in the evening, the risk-on sentiment was spoilt by the US Treasury Secretary who warned that more sanctions will be put on Turkey if the imprisoned US pastor is not released any soon.

## Key figures and events

## Friday, August 17, 2018

				Period	Danske Bank	Consensus	Previous
9:00	SEK	House prices (Valueguard HOX)		m/m			
10:00	EUR	Current account		EUR bn			22.4
11:00	EUR	HICP inflation, final		m/m y/y	..  <b>2.1%</b>	-0.3% 2.1%	0.1% 2.0%
11:00	EUR	HICP - core inflation, final		y/y	<b>1.1%</b>	1.1%	1.1%
14:30	CAD	CPI		m/m y/y			.. 2.5%
16:00	USD	University of Michigan Confidence, preliminary		Index		97.9	97.9

Source: Bloomberg, Danske Bank

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**Report completed:** 17 August 2018, 07:00 CEST

**Report first disseminated:** 17 August 2018, 07:45 CEST