

# Danske Daily

## Market movers today

- **In the UK, CPI inflation data for June is due out at 10:30 CEST. It is the last major data release before the Bank of England meets on 2 August, and inflation needs to surprise significantly for the BoE to change its plans to raise the Bank Rate at the next meeting.**
- **Today, we get the final euro area HICP figures for June. From the country figures released in advance, there is a risk that core inflation will be revised lower to 0.9% from 1.0%, indicating that the underlying inflation pressures still remain fairly weak.**
- **Fed Chair Powell continues his semi-annual testimony this afternoon before the House Financial Services Committee. Powell did not change the current policy signal yesterday and the second day is usually less interesting than the first.**

## Selected market news

**GBP** was sold off yesterday on reports that UK PM Theresa May could lose the vote in the House of Commons on a pro-European EU custom union amendment. May survived the vote last night, but GBP remained weak, with **EUR/GBP** trading around 0.8880 overnight. Yesterday's sell-off in GBP came despite the release of a decent UK job report, which came in as expected and thus still supports the case for a rate hike from the Bank of England in August. However, the market is already pricing in more than an 80% probability that the BoE will raise the Bank Rate on 2 August, and thus relative interest rates should provide only little support to GBP ahead of the BoE meeting. Hence, risks remain skewed to the upside for EUR/GBP near term amid political uncertainty related to Brexit.

The relatively upbeat rhetoric from Fed Chair Jerome Powell last night pushed short-term yields higher and the market is now pricing in a September hike by close to a 90% probability. The curve 2Y10Y flatten further to just 24bps. Powell was asked about the curve flattening, but he gave no firm answer if this is a major concern for the Fed. Noteworthy, the 10Y yield hardly moved underlining that the level seems to be locked in here slightly below 3%. With continued low inflation pressure and the Fed on course for two more rate hikes this year, we should expect the flattening to continue unabated over the summer.

Italy once again took the limelight in the EGB market and 10Y yields dropped below 2.5% for the first time since May, as investors bought into the 'BTP carry' ahead of the summer lull. The DBRS announcement on Friday underlined that the risk of a rating downgrade at least ahead of the October budget release is overblown. Italy is up for review on 31 August and on 7 September by Fitch and Moody's, respectively.

The Danish Debt Office will be in the market with taps in the 2Y and 10Y benchmark bonds. We remain positive on Danish fixed income and in respect of government bonds, we see strong support from debt office buy-backs in the market. Read more in our auction preview *Fixed Income Strategy - 2Y and 10Y DGB auction on Wednesday, buybacks remain supportive of DGBs*, 16 July.

## Holiday edition

### Selected readings from Danske Bank

- *FX Forecast Update*
- *FX Strategy - FX ripple effects*
- *Reading the Markets Norway*
- *Vacation Wrap-Up: Market themes during the past three weeks*

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Key figures and events

Wednesday, July 18, 2018			Period	Danske Bank	Consensus	Previous
10:30	GBP	PPI - input	m/m y/y	Jun		2.8% 9.2%
10:30	GBP	CPI	m/m y/y	Jun	<b>0.4%</b>   <b>2.5%</b>	0.4% 2.4%
10:30	GBP	CPI core	y/y	Jun	<b>2.0%</b>	2.1%
11:00	EUR	HICP inflation, final	m/m y/y	Jun	<b>0.5%</b>   <b>1.9%</b>	0.5% 1.9%
11:00	EUR	HICP - core inflation, final	y/y	Jun	<b>1.0%</b>	1.0%
14:30	USD	Building permits	1000 (m/m)	Jun		1323
14:30	USD	Housing starts	1000 (m/m)	Jun		1325
16:30	USD	DOE U.S. crude oil inventories	K			1301.0 (-4.6%)
						1350.0 (5.0%)
						-12633

Source: Bloomberg, Danske Bank

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