

Danske Daily

New tariffs fuel US-Chinese trade tensions

Market movers today

- The development in US-Chinese trade tension remains in focus after US President Trump announced another USD200bn worth of tariffs last night.
- In Scandi, Swedish August LFS is due to be released. So far, Swedish labour market developments have been very impressive, albeit it is a lagging indicator (see more on page two).
- The Bank of Japan meets today and is scheduled to announce its monetary policy on Wednesday morning European time. We expect the BoJ to keep its policy unchanged and for Governor Haruhiko Kuroda to reiterate a relatively dovish stance, signalling that the BoJ intends to keep interest rates at current levels for a longer period of time. We expect the BoJ to keep its current policy intact until the end of 2019 at least.

Selected market news

Last night, the Trump administration announced a new 10% tariff on USD200bn worth of Chinese products. A 10% tariff is less than previously feared, but at the same time, President Trump threatened to increase the tariff to 25% in 2019 unless a deal is reached to ease trade tensions. The total value of imported goods from China covered by Trump's tariffs is now USD250bn or roughly 50% of total US imports from China. China has promised to retaliate to any US measures against China one-to-one and with the new tariffs from the US side, it is difficult not to see the trade war escalate further – also in light of the US mid-term elections. In our view, a deal seems unlikely before well into 2019. The risk is that it drags on. At least, China seems to be preparing itself for a long-lasting trade war by (among other things) easing economic policy. See [US-China Trade Update - China unlikely to give in to Trump's demands despite new tariffs](#), 17 September.

Global equity markets trade mixed this morning: Hong Kong and Chinese markets trade lower while Japanese indices are up more than 1.5% as Japanese investors return from holiday. The strong rally in Japanese markets probably reflects that a 10% tariff is less than initially feared.

The Riksbank Minutes released yesterday basically confirmed the signal to hike in either December or February. We read them as slightly hawkish, where the doves are now taking a more neutral stance. The question is how the Riksbank will assess the lower-than-expected inflation and GDP data. We stick to our base case with a hike in December though. See [Riksbank doves more neutral](#), 17 September.

Minutes from the 4 September monetary policy meeting at the Reserve Bank of Australia confirmed that the next move in interest rates is likely to be a hike. However, while the RBA expects GDP growth likely to remain 'above potential', it also warned that 'significant tensions' around trade policy are a 'material risk' to the global outlook. We expect the RBA to hike the cash rate by 25bp within the next 12 months.

Selected reading from Danske Bank

- [Riksbank doves more neutral](#)
- [US-China Trade Update - China unlikely to give in to Trump's demands despite new tariffs](#)

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Scandi markets

Swedish housing data from Valueguard is due today. We expect that flat prices in Stockholm rose in August (+0.6% mom), but acknowledge that market attention to this data has moderated somewhat. See our preview [here](#). We will also get labour market numbers, where unemployment should drop further.

Fixed income markets

Italy rallied yesterday after the comments from FM Tria that the budget deficit will be 1.6% in 2019 and comments from the League that private investors could get tax relief if buying government bonds. Especially, the belly of the curve rallied with 5Y yields down 17bp. Yields on 10Y PGB fell slightly after the 'positive outlook' upgrade by S&P Friday night.

The busy supply week continues today as the German Finanzagentur will sell EUR4bn in the Sep-2020 Schatz. The negative net cash flow in EGBs is above EUR21bn this week and given the positive BTP news Bunds are expected to continue trading heavy and the Bund spread could trade below 50bp for the first time since mid-June. See more in [Government Bonds Weekly](#), 14 September 2018.

In Norway, all eyes are at the Norges Bank meeting on Thursday. Yesterday, we published [Reading the Markets Norway](#). We look for a steeper rate path from Norges Bank and continue to see value in positioning for higher rates in especially the front end of the curve.

FX markets

The Riksbank Minutes prompted a sharp SEK rally, while EUR/SEK more than erased gains following the weak inflation data. We read the Minutes as slightly hawkish as they bolstered our call for a December hike, the key reason for our bearish view on EUR/SEK. We target EUR/SEK at 10.30 in 3M. There is a catch though and that is the complicated parliamentary situation, which could weigh on the SEK in the meantime.

Yesterday, the NOK found support from SEK strength and market participants positioning themselves for a hawkish Norges Bank message on Thursday. We remain short EUR/NOK.

EUR/DKK moved above the central rate of 7.46038 again yesterday. In [FX Strategy - EUR/DKK above the central rate, but only for a brief period](#), 17 September, we argue that it will only be for a brief period and we look for the pair to fall back to 7.4525 in 3M.

Even with US 10Y yields above the 3% mark and the risk of trade war escalation, USD strength failed to materialise yesterday as EUR core yields also rose and Italy-led EUR risks continue to abate. In yesterday's [FX Forecast Update - Northern lights are on](#), we upped our near-term EUR/USD profile a little as we see less potential for Italy to weigh in H2 and now see EUR/USD at 1.15 in 1M, 1.15 (previously 1.13) in 3M, 1.18 (unchanged) in 6M, and 1.25 (unchanged) in 12M.

Key figures and events

Tuesday, September 18, 2018					Period	Danske Bank	Consensus	Previous
9:30	SEK	Unemployment (n.s.a./s.a.)	%	Aug		5.6% 6.2%	5.8% ...	6.0% 6.4%
14:00	HUF	Central Bank of Hungary rate decision	%			0.90%	0.90%	0.90%
16:00	USD	NAHB Housing Market Index	Index	Sep			66.0	67.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Jul				114.5

Source: Bloomberg, Danske Bank

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