Danske Bank



19 June 2017

# Danske Daily

## Market movers today

- The data calendar is fairly thin this week, with the PMI releases in the euro area and the US as the most noteworthy global data releases. The main focus will instead be on political developments in the UK and France in the aftermath of the parliamentary elections in the two countries on 8 June and yesterday, respectively.
- Furthermore, in the **UK**, Brexit negotiations are bound to begin. We have written intensively about the UK political situation since the election, for more *see Research UK: May stats (for now) due to Brexit uncertainties*, *Research UK: Minority government is weak from the beginning* and *Research UK: Hung parliament adds government risk premium to GBP*.
- In the US, we will look out for any comments in speeches by FOMC members about what drove the decision on the June rate hike, which in our view was not justified by the data.

## Selected market news

Global risk sentiment is solid this morning following a clear win for Emmanuel Macron and his party En Marche in the final round of the parliamentary elections in France yesterday. Asian equity markets are mostly up and the typically safe-haven Japanese yen is weaker against the EUR and USD. According to preliminary estimates, Macron's party La République en Marche and its centrist ally Modem secured 355 of the 577 seats in the National Assembly. Hence, President Macron will enjoy a sizable majority in the French parliament, which will help him in push through an ambitious reform agenda aimed at reinvigorating the French economy. Le Pen and her Party the National Front secured eight seats in parliament. However, it was also noteworthy that voter turnout was at an historical low at 44%, suggesting widespread apathy with the current political environment in France.

The Brexit negotiations are due to begin between the UK and EU representatives at 11:00 today in Brussels. The launch of the negotiations comes at a time when Theresa May is struggling to hang on to her job. According to the UK newspaper The Times, the PM has 10 days to save her position, as she is facing the threat of rival leadership bids in the Conservative party. Some MPs are ready to demand a no-confidence vote, the paper said. Chancellor Philip Hammond told the BBC that Britain will leave the single market, but should aim for a gentle departure. In addition, there is still no power sharing deal with the DUP. Furthermore, the UK may have been hit by yet another terrorist attack this morning, as a car drove into pedestrians outside a London Mosque, killing one person and injuring 10.

### Selected readings from Danske Bank

- *Bank of England Review: Hawkish wing but neutral core*
- *French Election Monitor No. 5: Macron on track to win majority*
- *Research UK: Minority government is weak from the beginning*

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- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

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## Scandi markets

There are no major data releases in the Scandi markets today.

## Fixed income markets

There were interesting dynamics in the FI market last week triggered by a 'hawkish' bias from both the Fed and the Bank of England. It was noteworthy that the market reaction was just as big (if not bigger) in EUR FI. Looking ahead, the 'summer lull' in activity is set to kick in over the coming weeks; however, lower liquidity has often caused higher volatility in the past.

An important cushion for the EUR FI market will be high coupons and redemptions. Throughout July and early August, there are redemptions amounting to EUR130bn and coupons to the order of EUR33bn. Issuance is expected to be around EUR80-90bn. The summer slowdown in QE will mirror the pattern from 2015 and 2016. This week's supply is kicked off with Belgium tapping 24s, 27s and 47s. Supply is set be on the low side this week with only Germany scheduled to do EUR1bn in the 30Y. Spain could be a potential candidate for a final syndicated deal in a launch of a new 10Y ahead of the summer break. For more on supply and current trade views see *Government Bonds Weekly: New political environment in Europe - stay long the periphery*, 16 June 2017.

Portugal got one step closer to regaining its investment grade status on Friday when Fitch lifted the outlook from 'stable' to 'positive'. The current rating is 'BB+' – so just one notch below investment grade. Fitch cited a reduced fiscal deficit and that it 'expects the government to continue to deliver tighter fiscal policy'. Portugal has been the top performer in the EGB market this year.

In Scandinavia, the main event is the Norges Bank rate decision on Thursday. We expect Norges Bank to keep rates unchanged and remove its 'easing bias' from the interest rate path. Denmark is tapping the market Wednesday (most likely 2Y and 10Y). More interestingly, we expect the Danish DMO to release an updated borrowing requirement either this week or next. We expect the DGB's issuance target to be lowered by DKK5bn to DKK60bn.

## FX markets

Following the very eventful data calendar last week, on Friday we sent out the June edition of our *FX Forecast Update - Persistent cyclical risks set to drive FX markets*. Generally, we have made few changes to the G10 currency projections. One of our main calls remains that of EUR weakness over the coming months, even if we still see compelling reasons for why the weakness should prove temporary and hence open up for attractive long-term buying opportunities.

Key to our near-term EUR-weakness call is that the ECB is set to be sidelined in coming months by a sustained deterioration in the inflation outlook, which together with cyclical momentum loss in the euro area could leave the EUR vulnerable given the significant change in positioning in recent months See *IMM Positioning Update: broad based reduction in USD longs ahead of Fed*, 19 June. In EUR/USD terms, also a Fed determined to move on with policy normalisation should lend some tactical EUR/USD downside potential. Longer term, we stress that the significant move higher to watch out for on a 12M horizon will be fuelled by an ECB shift away from further easing. Thus, longer term, we continue to emphasise that fundamentals remain supportive. We still maintain that risks are to the downside near term and that we have merely rolled our longer-term forecasts to target the pair at 1.11 in 1M (previously 1.07), 1.09 in 3M (unchanged), 1.12 in 6M (1.11) and 1.18 in 12M (1.16).

In the Scandies, we maintain a very cautious near-term view on the NOK as the global cyclical environment does not bode well for commodity currencies even if Norwegian growth has been picking up. This week, Norges Bank is likely to deliver a 'cautiously hawkish' message, which in isolation should weigh a little on EUR/NOK. Together with our EUR call, that is the primary reason why we still pencil in a lower EUR/NOK in 1M at 9.40 (previously 9.30). Our 3M, 6M and 12M forecasts are kept unchanged at 9.30, 9.10 and 9.00, respectively.

### Key figures and events

| Monday, June 19, 2017 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| 1:50 | JPY | Exports | y/y (%) | May | | *0.2* | 0.1 |
| 1:50 | JPY | Import | y/y (%) | May | | *0.1* | 0.2 |
| 1:50 | JPY | Trade balance, s.a. | JPY bn | May | | *345.5* | 97.6 |
| 3:30 | CNY | Property prices | y/y | | | | |
| 11:00 | GBP | Brexit negotiations start | | | | | |
| 14:00 | USD | Fed's Dudley (voter, dovish) speaks | | | | | |
| 18:00 | GBP | Press conference on Brexit negotiations with Barnier and Davis | | | | | |

*Source: Bloomberg, Danske Bank*

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