

Danske Daily

Market movers today

- **Today is a quiet day in terms of data releases. We look forward to getting the Philly Fed index in the afternoon, as it may give a further indication of whether ISM manufacturing fell in July, which the corresponding Empire index signalled.**
- **UK retail sales are due out at 10:30 CEST but they are very volatile by nature and do not really say much about actual private consumption as measured in GDP. We still believe the Bank of England will hike at its August meeting but the likelihood has declined after the lower-than-expected inflation print yesterday.**

Selected market news

There were no surprises in Fed Chair Jerome Powell's second day of testimony in front of the House Financial Services Committee, where the overall message was repeated that the FOMC will continue hiking the interest rate gradually. Like Tuesday's session in the Senate, questions yesterday were related mainly to the flattening of the yield curve and the impact on the economy from tariffs.

The 2Y10Y US yield curve steepened slightly yesterday with yields on 10Y US Treasuries rising about 2bp to 2.885%, while the broad-based DXY dollar index was little changed and thus maintained this week's gains.

The Bank of Japan (BoJ) lowered purchases of longer-dated Japanese government bonds at its regular operations this morning. The BoJ cut buying in the 10-25Y segment by JPY10bn and also cut buying in the ultra-long end with maturities beyond 25Y by JPY10bn from JPY70bn to JPY60bn. It is the fourth time since May where the BoJ has cut its overall purchases. The reduction in the purchases was widely expected in the market and comes after substantial flattening pressure on the government bond yield curve and rally in USD/JPY, which broke above 112 last week.

The weekly flow data from Norges Bank showed that foreign banks (proxy for speculative flows) last week were side-lined in NOK FX. Our expectation is that they will remain so until the very end of this month/beginning of August, which at that time will contribute to a lower EUR/NOK. In the meantime, we expect the cross to continue range trading.

In the FX majors, EUR/GBP has reached new highs following yesterday's disappointing inflation release and EUR/GBP bounced above 0.89 while GBP/USD temporarily broke below the key support level at 1.3050. While the lower-than-expected inflation in the UK on the margin reduces the probability of a rate hike August, it remains our base case that the Bank of England will raise the Bank Rate by 25bp on 2 August. Market pricing of an August hike declined 2bp to 19bp yesterday. Given the already high pricing of an August rate hike and the risk of continued political uncertainty in the UK related to Brexit, we prefer staying side-lined in the cross for now.

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

Thursday, July 19, 2018			Period	Danske Bank	Consensus	Previous
10:30	GBP	Retail sales ex fuels	m/m y/y	Jun		1.3% 4.4%
12:00	EUR	Ireland, GDP	q/q y/y	1st quarter		3.2% 8.4%
14:30	USD	Initial jobless claims	1000			
14:30	USD	Philly Fed index	Index	Jul	20.5	19.9

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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Report completed: 19 July 2018, 06:25 CEST

Report first disseminated: 19 July 2018, 07:15 CEST