

Danske Daily

Market movers today

- **It is time for flash euro area PMI for June.** It will be interesting to see if there is any effect of the recent deterioration on the trade front. The data is typically collected from the 12-21 in the month. Manufacturing PMI has fallen for five consecutive months and after peaking at 60.6 in December 2017, it fell to 55.5 in May 2018. We expect a further fall to 54.8 in June. Service PMI has seen a similar development, declining from 58.0 in January to 53.8 in May. We expect service PMI to fall to 53.7 in June from 53.8 in May.
- **Markit PMI for the US is also due to be released.** The manufacturing index has moved up since mid-2017. However, we look for some moderation as hard data on exports, investment orders and consumption has been soft. We expect a decline from 56.4 in May to 56.0 in June.

Selected market news

Focus returned to Italy yesterday as the new government appointed two very eurosceptic lawmakers to influential parliamentary committees that deal with economic policy. Alberto Bagnai, who in two books has advocated for a dismantling of the monetary union, was appointed to head the financial committee and Claudio Borghi was appointed to head the budget committee in the lower house. The latter has been arguing strongly for so-called mini-BOTs, which could be seen as a parallel currency. 2Y and 10Y BTP yields widened 30bp and 22bp, respectively, to Germany.

The pressure on Italy might very well continue today after the IMF's Christine Lagarde said last night that financial markets could react violently to any fiscal easing or reversal of reforms. An IMF team is due to visit Italy in two weeks to deliver the scheduled assessment of the Italian economy.

While things are heating up in Italy once again, a deal between Greece and its euro area creditors was reached overnight. Maturities on the EUR96.6bn Greece received in its second bailout will be pushed out for 10 years and Greece will receive a grace period also of 10 years in respect of coupons and interest rates. The deal should clear the way for Greece to exit its bail-out programme in August.

Equity markets have been under pressure both in Europe and in the US. The combination of the Italian political crisis flaring up and a profit warning from Daimler weighed on sentiment in Europe. Especially the latter fuelled fears that the global trade war is now having a real impact on growth and profits. The negative sentiment was carried over to the US and the major indices all ended the day lower. Nikkei is also in the red this morning.

OPEC is set to meet today to review current production cuts that are due to expire by the end of the year. Tonight, a preliminary deal to hike oil production by 1mb/d was reached though the actual production rise will probably be somewhat lower around 600,000 barrels a day. But it might be difficult to reach a formal agreement today, as Iran that walked out of the meeting overnight. Iran does not want a hike in production. Without Iran and possibly Venezuela, a formal communique might not be sent out. Note that non-OPEC member Russia is part of the current deal. The disagreement among OPEC members has pushed oil up by a dollar overnight.

Selected readings from Danske Bank

- *FX Strategy: Update on DKK liquidity*
- *Norges Bank review: Norges Bank to hike rates in September*
- *Bank of England Review: BoE leaves door open for an August hike*

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Scandi markets

The midsummer celebration is taking place in Sweden.

Fixed income markets

Italy took the limelight in the EGB market. Despite healthy demand, good b-t-c and overbidding, Spain was not immune to the weak sentiment and 10Y SPGB widened 13bp to Bunds. Also, Portugal came under pressure.

Today, the market will continue to follow developments in Italy and with global risk appetite under pressure further support to Bunds should be expected. Greek bonds should see a positive opening on the back of the new debt deal.

Norges Bank yesterday confirmed that the plan to hike at the September meeting is intact despite higher global uncertainty and lower global rate expectations. The Norwegian front end moved up slightly on the message. However, the market is still significantly below NB's projection for 2019-2021. We continue recommending to be positioned for a steeper FRA curve for 2019. The Swedish FRA curve for 2019 is slightly steeper than the Norwegian curve and we suggest buying NOK FRA 3M MAR20 and selling SEK FRA 3M MAR20. For more, see our *Norges Bank review*.

FX markets

While yesterday started on a note of EUR weakness following the appointment of two euro-sceptics for key positions in the Italian parliament, the move was reversed later in the day as the US had reportedly approached China in informal discussions to dampen the trade tensions, which has recently started to shift in a more wide-ranging and thus EUR-negative direction.

NOK found some support yesterday from Norges Bank (NB) pencilling in a September rate hike. EUR/NOK briefly tested our 3M forecast of 9.40 after the meeting. Today, focus turns to the OPEC meeting and whether the cartel can agree to the production hikes proposed by Saudi Arabia. Scandies compared, it is interesting to note the strong confidence of NB that inflation will pick up as wage growth is picking up, compared with the Riksbank being increasingly nervous that inflation will drop. This dispersion supports our macro cases for higher NOK/SEK and a lower EUR/NOK.

EUR/GBP dropped below 0.8750 on the hawkish signals from the Bank of England (BoE) yesterday. We stick to our call for one hike in H2 18 and one in 2019 with the next hike likely in August. Near term, a break below 0.8650 would, in our view, require a more pronounced repricing of the BoE's future rate path, which we do not expect. Hence, we expect EUR/GBP to continue to trade within a range of 0.8650-0.8850 in the coming months.

SNB also kept rates unchanged at its quarterly meeting yesterday and maintained that CHF is 'highly valued' and kept open the intervention option. Overall, it was a rather dovish message, underlining that the SNB prefers to be side-lined (just like ECB) and still worried about risks from CHF strength.

In the EM sphere, HUF has been under double pressure lately from a weaker EUR/USD and trade war concerns rising: if US tariffs hit German producers, it would have a large impact on the Hungarian manufacturing sector. Last week we closed our EUR/HUF trade from *FX Top Trades 2018 - How to position for the year ahead*, 6 December 2018 at the predefined stop-loss (hard) of 322.00 with a 2.5 % loss. While the cyclical outlook remains favourable for HUF, its vulnerability has increased on external factors even if monetary tightening may lie ahead.

Key figures and events

Friday, June 22, 2018

				Period	Danske Bank	Consensus	Previous
-	SEK	Midsummer Eve					
1:30	JPY	CPI - national	y/y	May		0.6%	0.6%
1:30	JPY	CPI - national ex. fresh food	y/y	May		0.7%	0.7%
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jun			52.8
8:45	FRF	GDP, final	q/qly/y	1st quarter		0.2% 2.2%	0.2% 2.2%
9:00	FRF	PMI manufacturing, preliminary	Index	Jun		53.8	54.4
9:00	FRF	PMI services, preliminary	Index	Jun		54.3	54.3
9:30	DEM	PMI manufacturing, preliminary	Index	Jun		56.0	56.9
9:30	DEM	PMI services, preliminary	Index	Jun		52.4	52.1
10:00	EUR	PMI manufacturing, preliminary	Index	Jun	54.8	55.0	55.5
10:00	EUR	PMI services, preliminary	Index	Jun	53.7	53.7	53.8
10:00	EUR	PMI composite, preliminary	Index	Jun		53.8	54.1
14:30	CAD	CPI	m/mly/y	May			... 2.2%
14:30	CAD	Retail sales	m/m	Apr			0.6%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jun	56.0	56.3	56.4
15:45	USD	Markit PMI service, preliminary	Index	Jun	56.8	56.8	56.8

Source: Bloomberg, Danske Bank

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