

# Danske Daily

## Will Powell's speech provide new information to the market

### Market movers today

- Today, markets will continue to focus on the Jackson Hole conference in the US and especially Powell's speech at 16:00. The FOMC minutes from Wednesday showed a highly divided Fed on the question of rate cuts.
- Remember this was before the even weaker global macro data, inversion of the yield curve (albeit only briefly) and even lower inflation expectations. Hence, we look for any statements on the latest developments and/or discrepancies among the FOMC board. ECB GC members Lane and Coeuré are also participating in the conference.

### Selected market news

We have seen some modest gains in the Asian equity markets while the global financial markets are awaiting the speech by Fed Chairman Powell this afternoon. Comments from various Fed officials are pointing in different directions, as some members do not need see the need for another rate cut, while others see scope for a rate cut in September.

In Italy, the president is giving the parties until Tuesday to find a new government. Not surprisingly, League leader and interior minister Salvini is looking for a snap election, while the 5SM party is exploring the possibility of a coalition with the PD's Renzi. So far, the market is looking for a positive outcome as spreads are tightening.

The Japanese inflation data released this morning did not give much support for the Bank of Japan as CPI for July came in at 0.5% y/y versus 0.6% in June, while CPI excluding fresh food was 0.6% y/y, unchanged from June. Hence, inflation remains low and this will support expectations that the BoJ will ramp up monetary policy stimulus in September.

Last night, we published an update on the global economy (*Global Economic Update: Stuck in the mud but no hard landing yet*). The global macroeconomic backdrop has weakened significantly since we published our last Big Picture in June, following the escalation of the trade war between China and the US, where we now don't expect a resolution on this side of the US presidential elections. We see further downside for the global economy in the coming months, followed by a stabilisation and modest rebound on the back of monetary and fiscal stimulus and we have downgraded our growth trajectory for both advanced and several emerging markets with the risk of a more pronounced slowdown having increased, but there is also positive risk, including a sudden resolution of the trade war.

### Selected reading from Danske Bank

- *Global Economic Update: Stuck in the mud but no hard landing yet*
- *US research - Five more cuts from Federal Reserve - chart pack*
- *DK research. Reading the market Denmark. Room for high prepayments in 2% callables*

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- *Nordic Outlook*
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## Scandi markets

No events in the Scandi markets.

## Fixed income markets

It was a pretty volatile day in the both the US and European fixed income markets on the back of some better-than-expected headline PMI data for Europe, but a weaker-than-expected PMI in the US. Furthermore, the ECB minutes did not provide any new information regarding the expected easing, and finally we had comments from Fed officials (George and Hawker) that questioned the need for a further easing of monetary policy, while a third Fed official (Kaplan) said he could see another rate cut in September. This shows the split in the FOMC regarding monetary policy, as was also visible in the FOMC minutes released on Wednesday. Hence, there will be significant focus on the message from Fed Chairman Powell today, and whether he can bring some clarity.

In Italy, the president is giving the parties more time to find a new government. The next deadline is Tuesday next week to form a coalition government. The 5SM movement is looking to former PM Renzi and his party PD, while League leader Salvini is calling for a snap election.

Yesterday, the Bundesbank joined the discussion about fiscal easing in Germany. Not surprisingly, the Bundesbank stated there was no need to ease fiscal policy despite the weak economic data.

However, in the Netherlands, the Dutch government is also exploring the possibility of increased spending through a fund set up to support economic growth by focusing on infrastructure spending, etc, as yields are so low. This has put some pressure on the spread between Dutch government bonds and their EU peers. The 10Y spread between Netherlands and Germany has widened by a few bp.

## FX markets

The combination of two Fed hawks (George and Hawker) talking down the need for further rate cuts and surprisingly weak US flash PMIs failed to move the USD in either direction. As such, EUR/USD and USD/JPY remain steady before Fed chair Jerome Powell takes centre stage at Jackson Hole today. The market seems settled on the Fed 'only' delivering a 25bp cut at the September meeting and if Powell aims at finding a middle ground in a divided Fed, his speech today should not be a market mover. In the bigger picture, it will be interesting to see if yesterday's US PMIs marked the beginning of a renewed string of weaker US data. That could open up for a renewed drop in USD rates and USD FX spot.

In this respect, we still see downward potential in USD/JPY towards 105 in the short term. The next important data points to monitor here will likely be ISM and nonfarm payrolls due in two weeks' time. In the Scandies, NOK/SEK bounced yesterday on the combination of a sound Norwegian oil investment survey and a rise in Swedish unemployment. It highlights that on a relative basis, Norwegian fundamentals remain stronger.

## Key figures and events

Friday, August 23, 2019			Period	Danske Bank	Consensus	Previous
-	USD	Jackson Hole conference				
-	EUR	Moody's may publish Greece's debt rating				
1:30	JPY	CPI - national	y/y Jul		0.5%	0.7%
1:30	JPY	CPI - national ex. fresh food	y/y Jul		0.6%	0.6%
14:30	CAD	Retail sales	m/m Jun		-0.3%	-0.1%
16:00	USD	Fed's Powell (voter, neutral) speaks				
16:00	USD	New home sales	1000 (m/m) Jul		645	646.0 (7.0%)

Source: Bloomberg, Danske Bank

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