

Danske Daily

Fed speaks

Market movers today

- In the US, markets will keep a close eye on a range of FOMC speeches, including from Chairman Powell. Focus will centre in particular on any indications of whether the size of the first cut will be 50bp or 'just' 25bp.
- On an otherwise quiet day in terms of data releases, market sentiment will continue to be driven by any headlines related to the Trump-Xi meeting at the G20 summit in Japan at the end of the week (see more [here](#)).

Selected market news

US Trade Representative Lighthizer and Treasury Secretary Mnuchin spoke on Monday with China's Vice Premier Minister Liu He on the phone as the two countries are preparing for the G20 meeting, where US President Trump and China's President Xi Jinping are set to meet – likely on 29 June – in hopes that trade talks will be resumed.

The US has put sanctions on Iran's supreme leader Khamenei and eight other senior officials as tensions between the US and Iran continue to grow. In return, Iran reported that the diplomatic path with Washington is closed forever. Meanwhile, oil prices are trading lower, with Brent crude falling below USD65/bbl. In our view, the latest escalation of the conflict and the new round of sanctions are less important to the oil market since Iran's oil production is already very low.

The Fed's Kaplan warned in a written comment yesterday that monetary stimulus would contribute to building up excess imbalances that would be difficult to manage. His view stands in contrast to that of other Fed officials, e.g. the Fed's Kashkari who on Friday said he advocated for a 50bp cut at last week's FOMC meeting, and to market pricing looking for a 25-50bp cut at the upcoming July FOMC meeting.

The monthly manufacturing activity index from the Dallas Fed dropped to minus 12.1 from minus 5.3, while consensus was expecting an increase. Along with weak German Ifo business confidence figures, this confirmed the relatively weak reading of the world economy as seen in Friday's PMIs.

Selected reading from Danske Bank

- *Harr's View: The central bank game changer - winners and losers*
- *China Weekly Letter: Rising chance of ceasefire at G20 meeting*

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Fixed income markets

10Y US treasury yields dropped 4bp last night to 2.02% as Dallas Fed manufacturing came in at a three-year low and as equities ended the day with small losses after a positive opening. In Europe, we saw further support to Spain and Portugal and 10Y PGB dropped to 0.52% after the mild sell-off the day before. In our view it is only a matter of time before 10Y drops below 50bp.

10Y BTP ended the day marginally higher ahead of a busy Italian supply week that kicks off today with taps in the 2y CTZ and the 10Y (2028) and 20Y (2041) linkers. On Thursday, the Tesoro is set to tap up to EUR6bn in the 6Y Floater and in the 5y and 10y BTPs. That said, BTPs started out on the strong side after the *FT* reported that the Commission would not trigger a formal Excessive-Deficit Procedure at today's meeting.

Today, there are several FOMC speeches scheduled including Powell's at 19.00 CEST. The market will be looking for clues ahead of the July FOMC, where the discussion is whether the cut will be 25bp or 50bp. More than 104bp of cumulative cuts are priced in the market over the next 12 months. We will also keep an eye on 5y5y EUR inflation, which edged 3bp lower yesterday to 1.27% after the Draghi rally last week from 1.12%.

FX markets

In the Scandies, the NOK rally from last week has faded somewhat, which we, amongst other things, ascribe to lower oil prices. In the coming sessions, we will evaluate momentum and technicals as structural liquidity is set to improve at the beginning of July. Historically, this has been a headwind for the NOK. We do believe, however, in another leg higher from a potential trade truce following this week's G20 meeting, as this would counter such negatives - especially if USD weakness continues.

In the majors, USD weakness has grabbed hold. Weak German Ifo business sentiment and hawkish comments from the Fed's Kaplan did not stop EUR/USD from breaking the 1.14 level yesterday. Today, the market will scrutinise Fed Chairman Powell's speech. The market is assigning a two-thirds chance of a 25bp cut and a one-third chance of a 50bp cut when the Fed meets in July. That is a bit on the dovish side in our view, which opens up for a temporary setback in EUR/USD on the way towards our 3M forecast of 1.15. Further, USD/CHF continues to decline, highlighting the relative starting point of the Fed vs the SNB in terms of scope for policy easing (clearly greater for the former). Relatedly, we stress that a further drop in EUR/CHF towards 1.10 is where the SNB might try to step in but whether it will be effective in stemming further franc strength near term is questionable in our view.

Key figures and events

Tuesday, June 25, 2019			Period	Danske Bank	Consensus	Previous
8:45	FRF	Business confidence	Index		106.0	106.0
9:30	SEK	PPI	m/m y/y			-0.7% 4.9%
14:00	HUF	Central Bank of Hungary rate decision	%	0.90%	0.90%	0.90%
14:45	USD	Fed's Williams (voter, neutral) speaks				
15:00	USD	FHFA house price index	m/m			0.1%
16:00	USD	New home sales	1000 (m/m)		685	673.0 (-6.9%)
16:00	USD	Conference Board consumer confidence	Index		132.0	134.1
19:00	USD	Fed's Powell (voter, neutral) speaks				

Source: Bloomberg, Danske Bank

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