

Danske Daily

Reality check of Fed expectations

Market movers today

- In the US, it will be interesting to see whether core capex orders for May show the same signs of weakness as PMIs as of late.
- We also get a first glimpse of how German consumer sentiment has started into Q3 on an otherwise quiet day on the European data front ahead of tomorrow's and Friday's inflation figures.
- A range of Bank of England MPC members, including Governor Carney, will testify before the UK Parliament Treasury Committee.
- The EIA will publish its weekly oil inventories report today. The market will likely be on the lookout for at large drop in crude stocks after API yesterday reported a 7.6mb drop in crude stocks last week.
- In Scandinavia, Norwegian unemployment data and Danish retail sales will be in focus.

Selected market news

The range of Fed speeches yesterday resulted in slightly higher short-term USD rates and a stronger USD. In particular, the market took note of comments from St. Louis Fed's Bullard, who argued for an insurance cut, but that 50bp would be overdone. Fed Chair Powell reiterated his message from the previous FOMC meeting, while adding that it is important not to overreact in the short term.

According to a Senior US administration official, US President Trump and Chinese President Xi Jinping could agree to restart trade talks when they likely meet this weekend at the G20 meeting in Japan.

In Denmark, the Social Democrats have reached an agreement with their three coalition parties to form a one-party government.

The Reserve Bank of New Zealand kept rates unchanged yesterday, but signalled that a further reduction in interest rates may be needed due to both slowing global and domestic growth.

Oil prices rose late yesterday, with Brent crude jumping above USD66/bbl. The market reacted to the news that API reported a 7.6mb drop in crude stocks last week. Oil inventories also dropped in May, when the market took it as a signal of weaker demand. However, the market reaction to these numbers suggests the market may now be more concerned about tighter supply.

Selected reading from Danske Bank

- *Harr's View: The central bank game changer - winners and losers*

Follow us on *Twitter* :



@Danske_Research



Video

Danske Bank research playlist

Read more in Danske Bank's recent forecasts and publications

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

Senior Analyst
Jens Nærvig Pedersen
+45 4512 8061
jenpe@danskebank.dk

Scandi markets

In Scandinavia, we have Norwegian unemployment data and Danish retail sale.

A majority in parliament has agreed to support a Social Democratic minority government after the election three weeks ago. There are no major changes to economic policy in the agreement.

Fixed income markets

FOMC Chairman Powell reiterated the need for rate cuts yesterday and confirmed the statements from last week's FOMC meeting. Other members of the Federal Reserve were more precise in their views, as one was calling for a 50bp cut this year and another thought a safety cut of 25bp was enough. The comments were made in interviews yesterday. However, the comments had limited impact on US equities and US Treasuries. 10Y Treasuries closed below 2% in yesterday's trade.

Today, we have only some less important key figures released in the Eurozone, with the main focus on German consumer sentiment. Hence, the market is likely to remain range-bound with 10Y Bunds range-trading around -030bp to -35bp. The risk is skewed to the downside.

In Scandinavia, we have Norwegian unemployment data as the main data release, but the impact on the Norwegian market is likely to be limited. The Norwegian krone has lost momentum after the hike from Norges Bank last week, but the 10Y NGB-Bund spread is close to 180bp, which has been the peak this year.

FX markets

EUR/USD faced a reality check of Fed pricing yesterday when the Fed's Bullard argued that a 50bp rate cut would be overdone and Powell failed to commit to easing. Comments from the two sent EUR/USD temporarily lower as USD rates shot higher. There is still some time to go before the 31 July FOMC meeting and more data and speeches to come, which means the market will likely continue to be in a limbo over whether to price a 50bp cut or not at the July meeting. In turn, EUR/USD should stay range-bound close to 1.14 near term before eventually rising to 1.15 in 3M as the Fed starts easing. Notably, there is still room for further reversal of short EUR/USD positions. Technically, the market will keep an eye on the 1.1448 top from 20 March.

In the Scandies, the external environment weighed on the NOK yesterday. Further, significant NOK/SEK selling weighed on the cross in a move difficult to explain from fundamentals or the news flow. In *FX Trading Portfolio – Update on NOK FX trades* we argue that the strategic outlook still favours more NOK strength but that the near-term outlook is more tricky via notably the loss in momentum and next week's improvement in structural liquidity. This suggests a more cautious EUR/NOK stance near term.

EUR/SEK broke below 10.60 yesterday on the back of the hawkish move by Norges Bank. We would be cautious in jumping on the bandwagon for that particular reason though: for the Riksbank, next week a hawkish Norges Bank is of less importance than the dovish shifts from the Fed and ECB. Meanwhile, the SEK may also be supported by transitory month-end rebalancing needs. On a more global front, USD/SEK is heavy too amid broad-based USD weakness (this is arguably carry-related) and the upcoming G20 meeting should be pivotal.

Key figures and events

Wednesday, June 26, 2019			Period	Danske Bank	Consensus	Previous
0:30	USD	Fed's Bullard (non-voter, dovish) speaks				
4:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%	1.50%	1.50%	1.50%
8:00	NOK	Unemployment (LFS)	%	3.5%		3.5%
8:00	DEM	GfK consumer confidence	Net. Bal.		10.0	10.1
8:00	DKK	Retail sales	m/m y/y			-0.3% 3.2%
8:45	FRF	Consumer confidence	Index		100.0	99.0
14:30	USD	Core capital goods orders, preliminary	%		0.0%	-1.0%
14:30	USD	Advance goods trade balance	USD bn		-71.7	-72.1
16:30	USD	DOE U.S. crude oil inventories	K			-3106

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 26 June 2019, 06:35 CEST

Report first disseminated: 26 June 2019, 07:10 CEST