

Danske Daily

Market movers today

- It is a fairly thin data release calendar today, which means that market focus will be on the situation surrounding North Korea after the country's leader claimed yesterday that the US had declared war on the country.
- In the US, the only major data release today is the Conference Board consumer confidence indicator for September. We estimate that the indicator should fall in tandem with the preliminary Michigan consumer confidence number to a level of around 121.5. Note that despite the fall, both indicators will still be at very high levels, indicating continued support for consumer spending.
- Several Fed speakers are due to speak, including Neel Kashkari (voter, dovish), Loretta Mester (non-voter, hawkish) and Fed chair Janet Yellen (voter, neutral).
- In Sweden, the August PPI data set is released for August. From a market perspective, there is usually limited focus on these numbers. PPI data is for natural reasons strongly influenced by exchange rate gyrations but the feed through to consumer prices is normally quite small. Looking at for instance consumer goods (PPI for domestic supply), the latest y/y rate runs at 4.2% while CPI for goods rise at 0.8% y/y. The krona has appreciated against the EUR and USD recently, so PPI inflation will probably come down again relatively soon.

Selected market news

Focus has returned to the tensions surrounding North Korea after Pyongyang said yesterday that it sees recent US communication and actions as a 'declaration of war' and that, as a result, it deserves its right to take counter measures. Equities are lower in both Asian and US sessions as a result.

Separately, oil has risen to levels not seen since July 2015, with Brent crude trading just off the USD60/bbl mark this morning after the production out of Iraqi Kurdistan looks increasingly under threat after Turkey sharpened its rhetoric against the region following Monday's independence vote.

EUR/USD continues to hover around the 1.1850 level after the cross fell yesterday following a muddier-than-expected outcome of the German general election. Otherwise, focus today is likely to continue to be on central bankers with the Fed's Janet Yellen due to speak. The ECB's Mario Draghi lifted the pair only temporarily by acknowledging that the stronger currency reflects a stronger eurozone outlook. We still see any further dip in the cross as likely to be shallow and short-lived.

Selected readings from Danske Bank

- [German Election Monitor No. 3: Difficult government formation ahead](#)

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Scandi markets

The August PPI data set is due to be released tomorrow. From a market perspective, there is usually limited focus on these numbers. PPI data is for natural reasons strongly influenced by exchange rate gyrations but the feed through to consumer prices is normally quite small. Looking at for instance consumer goods (PPI for domestic supply) the latest y/y rate runs at 4.2% while CPI for goods rise at 0.8% y/y. The krona has appreciated against the EUR and USD recently so PPI inflation will probably come down again relatively soon.

Fixed income markets

The heavy schedule of central bank communication continues today with ECB's Erkki Liikanen and Peter Praet speaking as well as the Fed's Lael Brainard, Raphael Bostic and Janet Yellen. So far, the ample airtime for central bankers has not resulted in any major news but has mostly echoed previous policy messages.

The German Finanzagentur will be coming to the market today with a EUR4bn tap in the Schatz (CTD in DUZ7 contract) and so will the Italian Tesoro with taps in the 22s and 32s Linkers ahead of the usual month-end tap Thursday (announced last night to be conducted in the Aug-22s, Aug-27's and the CCTeu Oct-24s). The day will also include Supra supply with the EFSF tapping up to EUR1bn in the Nov-22s. The NTMA has announced the cancellation of EUR500m of the Irish Floating Rate Treasury Bond due to mature on 18 June 2045. Ireland is a special case where QE purchases are deviating from the capital key due to the issuer limit (and not the ISIN restriction, which is the case in many other countries, e.g. Germany). Hence, the cancellation of the promissory notes (of which the euro system owns 100%) enables QE to buy more Irish bonds going forward. Index extension flows will begin to come into effect as we approach month end. We estimate an overall index extension of 0.067 in September driven mainly by Austria and France. Austria will also see the highest country-specific duration increase, amounting to 0.58 on the back of the new 100Y bond. See *FI Research - September index extensions - large boost to Austria*, 25 September 2017.

FX markets

EUR/USD. The difficult coalition talks ahead in Germany following the election have entered as another factor, driving EUR/USD putting a temporary lid on bullish EUR momentum. We stress that this should only be temporary and focus could return to relative monetary policy already today with the Fed's Janet Yellen and Loretta Mester and the ECB's Peter Praet set to speak. On balance, relative monetary policy has been negative for EUR/USD over the past week and as noted yesterday, we do not look for a reversal of this today.

USD/JPY. Japan's Prime Minister Shinzo Abe announced yesterday that he will dissolve the Lower House on 28 September and call for a snap election (most likely to be held on 22 October). USD/JPY spot and vols did not move on Abe's announcement as this was already highly anticipated. In our view, the fate of the Abe administration is likely to be linked to the current accommodative policy regime (Abenomics), and a change in leadership could increase uncertainty about whether Haruhiko Kuroda will be re-appointed. Hence, PM Abe's survival is important for JPY in the medium term. The most recent polls show that the government's approval rating has continued to recover and currently, it seems most likely that PM Abe will maintain his majority after the election. However, we see risks skewed to the downside for USD/JPY and expect the short end of the vol curve to increase ahead of Election Day. We see value in buying a one-two month USD/JPY put spread.

EUR/GBP. We still see the cross in the 0.8750-0.8900 range near term with risks skewed to the upside amid Brexit uncertainty. The joint press conference between Brexit Secretary David Davis and the EU's chief negotiator Michael Barnier on Thursday will be important, but GBP is likely to continue on a weak note going into the Conservative Party Congress on 1-4 October.

EUR/NOK. We will not receive any important news about the Norwegian economy before Friday's labour market and retail sales data. Until then, NOK is likely to be in the hands of oil prices. Although the rally in oil prices has taken a step too far, in our view, we recognise that sentiment in the oil market is bullish now. In particular, we note that oil prices have been relatively immune to the recent move higher in USD. A pickup in US crude stocks in API stock data due tonight or the EIA inventory data tomorrow or news that softens the outlook for a potential repeal of Iran nuclear deal may change that and lead to a rebound in EUR/NOK.

EUR/DKK: The move lower in EUR/USD mitigates the positive impact of current lower DKK short-term interest rates and EUR/DKK FX forwards. We look for EUR/DKK to trade close to 7.4400 in the near term.

Key figures and events

Tuesday, September 26, 2017

				Period	Danske Bank	Consensus	Previous
0:30	USD	Fed's Kashkari (voter, dovish) speaks					
8:45	FRF	Business confidence	Index	Sep		109.0	109.0
9:30	SEK	PPI	m/m y/y	Aug			0.6% 5.7%
14:00	EUR	ECB's Praet speaks in Frankfurt					
15:30	USD	Fed's Mester (non-voter, hawkish) speaks					
16:00	USD	New home sales	1000 (m/m)	Aug		590	571.0 (-9.4%)
16:00	USD	Conference Board consumer confidence	Index	Sep	121.5	119.5	122.9
18:00	USD	Fed Chair Yellen (neutral) speaks					

Source: Bloomberg, Danske Bank

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