

# Danske Daily

## Market movers today

- Today is a very quiet one in terms of data releases.
- In the **US**, we are set to receive core capex goods orders for May. The new orders component has levelled off recently, in line with the general cooling of the manufacturing sector. We estimate a slight increase of 0.2% m/m in goods orders in May.
- In the **euro area**, the German ifo expectation is due for release today. The ifo expectation increased from 105.2 in April to 106.5 in May, which is its highest level since February 2014. We expect this figure to decline to 106.1 in June, as the German ZEW and Sentix have both declined in June, and the weakening business cycle indicators in the US and China could still weigh on the German business expectation.

## Selected market news

On Friday in the **euro area**, PMI figures were due out. The euro area manufacturing PMI continued higher in June to 57.3 from 57.0 in May despite the weakness seen in the US and China. In our view, weaker global growth will continue to weigh on the euro area and we look for weaker headline manufacturing PMI in coming months. The service PMI came out weak at 54.7 in June from 56.3 in May, which is the lowest level since January 2017. The lower service PMI figure could reflect slower real wage growth, which has followed as inflation has picked up without nominal wage growth following suit. Looking ahead, we continue to expect this to be a headwind for consumers.

On Friday, we also got **US** PMI manufacturing and services for June. Manufacturing PMI fell unexpectedly to 52.1 in June (market consensus and our expectation was for a slight increase to 53) from 52.7 in May. Service PMI also came out lower than expected at 53 in June (consensus was at 53.5) from 53.6 in May.

It has been a calm session in global financial markets this morning. Asian stock markets have mainly been moving sideways, though slightly in the green and in fixed income markets, changes in the US 10-year government benchmark bond yield have been subdued since Friday. Brent oil has climbed slightly higher to around USD46/bbl at the time of writing.

### Selected readings from Danske Bank

*Bank of England Review: Hawkish wing but neutral core*

*Nordic Outlook - June 2017*

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

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## Scandi markets

We are in for a rather quiet week in the Scandies, but with a string of data releases –see Fixed Income section.

### Fixed income markets

BTPs are likely to be in focus this morning, as the European Commission approved a EUR17bn bail-out plan of the two ailing Italian banks Popolare di Vicenza and Veneto Banca over the weekend. This enables Italy to resolve this banking crisis on its own terms and will transfer remaining good assets of the banks to Intesa Sanpaolo. For more see [Reuters](#) article, 25 June 2017.

We are approaching the month end, which means that the index extension flows will start to set in. We estimate an overall index extension of 0.074 in June, slightly above the yearly average of 0.07, with Italy and France set to get the biggest boost. See [Strategy: FI Research - June index extensions - most supportive for Italy](#), 22 June 2017.

On the data front, the market will be looking for clues on the next central bank moves with both euro area HICP and US PCE inflation released on Friday. Prior to the release of the euro area aggregate, 'local' prints will be released (Wednesday: Italy, Thursday: Germany and Spain and Friday: France). Despite the downward revision of inflation expectations at the latest ECB meeting, we continue to see its forecast as hopeful, especially when taking the recent development in oil (spot and forward) prices into account.

The EUR supply this week will be dominated by Italy. The Tesoro is tapping Linkers (May-22 and Sep-26) on Tuesday while the usual month-end auction in BTPs will be conducted on Friday (auction details are due to be announced on Tuesday). In addition, the German Finanzagentur will conduct its first tap of EUR4bn in the new benchmark 2Y (Jun-19s) on Tuesday. See more in [Government Bonds Weekly: Our trade for summer season - long 10Y core-EU bonds vs swaps](#), 23 June 2017.

We are in for a rather quiet week in the Scandies, but with a string of data releases. In Sweden, trade balance and PPI data is due to be released on Tuesday while Statistics Sweden is scheduled to publish retail sales and financial market statistics (including household credit growth) on Thursday. In Norway, the week's most important release is NAV unemployment for June on Friday. We estimate an unchanged jobless rate of 2.6% in June, with gross unemployment falling by 400 people m/m. In Denmark, Tuesday brings figures for retail sales in May. Business confidence data will follow on Thursday and we will be interested to see whether sentiment has bounced back in June, after falling in May. Thursday also brings foreign portfolio investments and securities statistics for May. See more, see [Scandi Markets Ahead: After a busy week comes a quiet week](#), 26 June 2017.

### FX markets

The Gjedrem report released on Friday did not include any new regulation regarding Norwegian monetary policy (i.e. inflation target remains 2.5%) but its proposals suggest that the central bank's mandate will remain that of flexible inflation targeting, albeit the target could indeed be lowered (e.g. to 2.0%) as many market participants have been anticipating. In addition, the report suggests that the Government Pension Fund Global (i.e. Norwegian SWF) is organised outside of Norges Bank, and that Norges Bank should have a separate monetary policy board (apart from its administrative board). In essence, this illustrates that Norway is taking more and more steps towards making monetary policy actions independent of oil in preparing the economy for the future. EUR/NOK ended the day slightly lower but driven notably by oil prices ticking a tad higher. Indeed, both CAD and NOK are seeing some relief to recent woes. However, the meagre inflation figures out of Canada on Friday illustrate that while the Bank of Canada looks eager to hike due to a housing boom, it may prove difficult. Norway faces a similar situation: last week Norges Bank had to acknowledge a weak inflation outlook and flattened its repo rate path to let

everyone know it is in no hurry to hike. In our view, this will keep NOK strength at bay. We still prefer to position for EUR/NOK downside via options.

Separately, the likely announcement by the Trump administration of a steel import tariff could deal another blow to any Trump factor left in the US dollar; while the latter is in our view limited, such a tariff would while underscoring the protectionist preferences of the US presidency highlight that the unequivocally USD-positive campaign proposal of a general border tax adjustment is off the table. That way round, a steel tariff may in fact be marginally USD negative.

#### Key figures and events

Monday, June 26, 2017			Period	Danske Bank	Consensus	Previous
-	EUR	ECB forum in Sintra				
6:20	USD	Fed's Williams (non-voter, neutral) speaks				
7:00	JPY	Leading economic index, final	Index			104.5
10:00	DEM	Ifo - business climate	Index	Jun	114.4	114.6
10:00	DEM	Ifo - current assessment	Index	Jun	123.2	123.2
10:00	DEM	Ifo - expectations	Index	Jun	106.1	106.5
14:30	USD	Core capital goods orders, preliminary	%	May	0.2%	0.1%

Source: Bloomberg, Danske Bank

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