

Danske Daily

Market movers today

- Today, the June manufacturing PMI figures for Norway, Sweden, the euro area (including Spain and Italy), the UK and the US are due out.
- The unemployment rate for the euro area in May is also due out today and we estimate it stayed at 9.3%. It is still our view that the unemployment rate will continue to fall this year as the economic recovery continues.
- In the US, we estimate ISM manufacturing fell to 54.0 in June but regional PMIs and Markit PMI have pointed in different directions (an increase and a fall, respectively).
- Tomorrow in Sweden, we expect the Riksbank to stay on hold but remove its small cut probability in the updated rate path.

Selected market news

Caixin China manufacturing PMI rose to 50.4 in June from 49.6 in May. Hence, the index is now signalling a slight expansion rather than a slight contraction in Chinese manufacturing. It was somewhat better than expected by consensus. The copper price rose on the news.

In Japan, the quarterly manufacturing business confidence survey released this morning showed that Japan's manufacturers are their most positive since 2014. This improvement was in line with consensus. Consequently, the market reaction to the data release was muted.

The recent rally in EUR/USD found additional justification on Friday from stronger euro area core inflation and weaker US PCE core inflation. In the euro area, core inflation rose to 1.1% y/y, while in the US it dropped to 1.4% y/y. EUR/USD has stabilised above the 1.14 level.

Oil prices Friday found support in the news that the number of oil rigs in the US dropped by two. This is the first sign so far of US crude oil producers reacting negatively to the recent slide in oil prices.

Dry weather in the US and Europe has been a cause for concern recently in the world wheat market. On Friday, a report from USDA added to those concerns, providing additional fuel to the recent rally in world grain prices. Overall, world food prices are up about 10% since the beginning of May – something that could also potentially come to the attention of major global central banks if it starts to pass through to inflation.

Selected readings from Danske Bank

- *Strategy: Central banks consider leaving the party*
- *FX Strategy: EUR/SEK zooming in on the Riksbank next week*

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Senior Analyst

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

Scandi markets

In **Sweden**, the week ahead will be dominated by political circumstances as the [Almedalen week](#) plays out. Given that we are sort of approaching the next parliamentary elections (September 2018) and the recent combative rhetoric from both the opposition parties and the (minority) government, there is scope for increased political angst. That said, the main event is nonetheless the [Riksbank monetary policy decision](#) (due to be published on Tuesday, 09:30 CEST) where all market pundits agree on a 'no change' decision. There is admittedly some market discussion on what the Riksbank will do with its small downside bias in its near-term interest rate path. We can also see some advantage in removing the 2-3bps, but it does little or nothing to change our view on the Riksbank from a longer-term perspective.

Fixed income markets

Last week added to the speculation on global monetary tightening on the back of the comments from the ECB's Mario Draghi. Furthermore, the comments from the Bank of England's (BoE's) Carney confirmed the hawkish stance of the BoE. We did see some backtracking from the ECB, but not enough to send bond yields back down as core inflation in the euro area ticked upwards. Hence, market sentiment is dominated by the focus on monetary tightening and with a string of economic data releases during the week as well as FOMC minutes and ECB 'minutes', the focus will remain on both the ECB tapering discussion as well as the hawkish stance of the Federal Reserve.

Today, there will be focus on the PMIs, but we do not expect any significant surprises. The week ends with the US non-farm payrolls, and thus there is plenty to keep an eye on. Despite the recent sell-off in the European fixed income markets, we still expect the markets to settle down, and for 10Y Bunds to remain range-bound during the summer.

This week, we have auctions in Denmark, where the debt office is tapping in the 2Y and 10Y benchmarks. Looking at the recent investor data for Denmark, the public sector was almost the sole buyer of DGBs during May, but the performance of DGBs during the sell-off has been strong and even though DGBs look expensive to Bunds, we still prefer DGBs relative to the semi-core.

In the European government bond space, Austria is tapping in the 10Y and 30Y benchmarks. Germany has a small tap in the 15Y linker and selling EUR4bn in Bobls, while Spain is tapping in 2022, 2040 and 2046-maturities and the 15Y-linker. Finally, France is tapping 10Y and 30Y benchmarks.

FX markets

In the majors, the recent rally in EUR/USD found additional justification on Friday from stronger Euro Area core inflation and weaker US PCE core inflation. EUR/USD has stabilised above the 1.14 level, while we expect it to stay range bound near 1.13 on 1-3M. Note, speculative investors have cut back on USD long positions – see [IMM Positioning Update: aggregate USD exposures at lowest level since May 2016](#). In the Scandies, NOK has found support in the recent recovery in oil prices (see more above). For EUR/NOK that has been enough to mitigate the recent support from improved EUR sentiment and the pair traded down to 9.53 on Friday.

Key figures and events

Monday, July 3, 2017			Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Jun	16.55	16.58
1:50	JPY	Tankan large manufacturers index (outlook)	Index	2nd quarter	15.0	12.0 11.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	2nd quarter	23.0	20.0 16.0
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Jun		52.0
3:45	CNY	Caixin PMI manufacturing	Index	Jun	49.8	49.6
7:00	JPY	Consumer confidence	Index	Jun	43.9	43.6
8:30	SEK	PMI manufacturing	Index	Jun	59.0	58.8
9:00	NOK	PMI manufacturing	Index	Jun	54.5	54.3
9:15	ESP	PMI manufacturing	Index	Jun	55.6	55.4
9:45	ITL	PMI manufacturing	Index	Jun	55.2	55.1
9:50	FRF	PMI manufacturing, final	Index	Jun	55.0	55.0
9:55	DEM	PMI manufacturing, final	Index	Jun	59.3	59.3
10:00	EUR	PMI manufacturing, final	Index	Jun	57.3	57.3
10:30	USD	Fed's Bullard (non-voter, dove) speaks				
10:30	GBP	PMI manufacturing	Index	Jun	56.3	56.7
11:00	EUR	Unemployment	%	May	9.3%	9.3%
15:45	USD	Markit PMI manufacturing, final	Index	Jun		52.1
16:00	USD	Construction spending	m/m	May	0.3%	-1.4%
16:00	USD	ISM manufacturing	Index	Jun	54.0	55.0

Source: Bloomberg, Danske Bank

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Expected updates

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