

# Vacation Wrap-Up

## Fed moves closer to tapering decision

### Main macro themes

- **Number of new Covid-19 cases has increased in many countries amid the delta variant spreading.** Importantly, the vaccines appear to be effective, as for example in the US, authorities have reported that virtually all new hospitalizations and deaths are among the unvaccinated people. With most of the elderly and risk groups fully vaccinated already, new strict lockdowns in western economies appear unlikely. Vaccine inequality remains high, though, with coverage being much weaker in most emerging economies. Read more in our latest *Covid-19 Update*, 29 July.
- **ECB introduced a new strategy framework, with a symmetric 2% inflation target.** ECB will aim for inflation to fluctuate around the 2% target, but the implementation will be more flexible compared to Fed's Average Inflation Targeting (AIT), which requires inflation to overshoot the target after a period of below 2% inflation. **ECB's first meeting since the new strategy took effect was mostly about aligning the language to the review outcome.** The main new element worth highlighting is a more dovish forward guidance stating that inflation has to reach 'two per cent well ahead of the end of the projection horizon and durably for the rest of the projection horizon' which compares 'to the end of the forecast horizon' previously. We see it as more of a change in wording rather than substance, since the change is more related to the duration of support rather than the size of monetary stimulus (see *ECB Research: Stepping up on inflation ambitions, but not on tools*, 22 July).
- **The Fed continued to move closer to making monetary policy less accommodative,** see *Fed Research: Review – Another step towards less accommodative monetary policy*, 28 July. The Fed now says that "the economy has made progress towards" the goals and that the Fed "will continue to assess progress in coming meetings". The Fed repeats, though, that high inflation is "largely reflecting transitory factors" and highlights that labour market developments continue to be key for the timing of the tapering of asset purchases. We continue to expect that the Fed will turn more and more hawkish in coming months so that actual tapering will start in Q4 and the Fed will signal this at the September meeting when we have had two more employment reports.

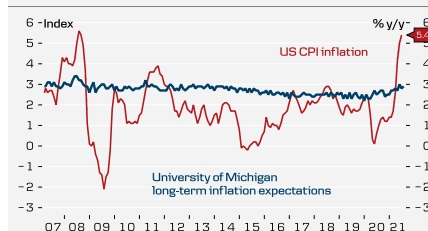
### Market developments

- **Risk sentiment has been volatile in July.** Equity markets rebounded after a big sell-off last week, helped by strong Q2 earnings reports and a patient Fed. Chinese stocks plunged after the government stepped-up its crackdown on big tech and the private education sector, but sentiment stabilized after China took steps to calm investor fears. US bond yields were little changed after the Fed meeting with 10Y Treasury yields still below 1.30%, while 10Y Bund yields eased further to -0.46%.
- **USD continued to weaken on a broad basis** with EUR/USD climbing above 1.18 and USD/JPY falling below 110. Scandies gained ground vis-a-vis EUR, with EUR/SEK falling to 10.18 and EUR/NOK to 10.40. Recently, we published our new FX Forecasts, where we still expect renewed USD strength and weaker scandies, read more in *FX FFI COMB ComdtyForecast Update – holiday edition: More Scandi-weakness in store for H2*, 15 July.

### Key themes

- New Covid-19 cases have risen in many countries due to delta variant, new lockdowns unlikely in developed economies as vaccines protect the risk groups
- ECB is stepping up on inflation ambitions, but not on tools
- Fed moves closer to tapering decision
- Further signs of peak in manufacturing
- Global bond yields decline, dollar weakness returns

### Fed not overly concerned about high inflation due to well-anchored expectations

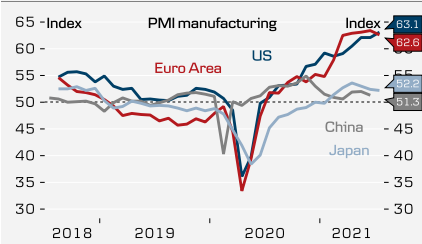


Source: BEA, University of Michigan, Macrobond Financial, Danske Bank

Senior Analyst  
Aila Mihr  
+45 45 12 35 85  
amih@danskebank.dk

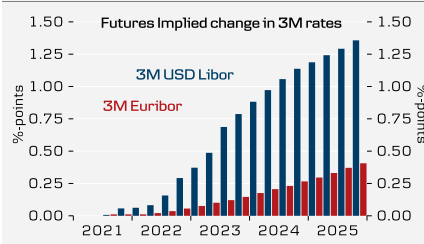
## Market themes in pictures

### PMIs losing momentum



Source: Markit, Macrobond Financial

### Markets price first Fed hike for late 22



Source: Macrobond Financial

## Recent publications

*Global Inflation Watch - Lift from commodity prices starting to fade, 29 July*

*COVID-19 Update - Booster shots discussions have begun but too early to make firm conclusions, 29 July*

*Research US - No re-suspension of the debt limit near-term but expect a deal eventually, 28 July*

*ECB Research: Stepping up on inflation ambitions, but not on tools, 22 July*

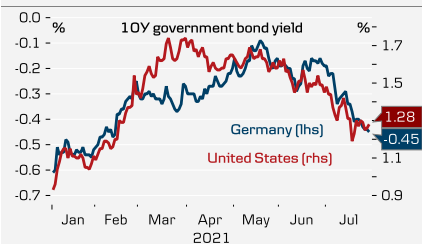
*Top 10 global cycle indicators - clear signs of a peak, 20 July*

*China Macro Monitor - Clear signs of domestic slowdown, credit growth to rise in H2, 19 July*

*FX Forecast Update - holiday edition: More Scandi-weakness in store for H2, 15 July*

*Strategy - Peak performance in assets and the end of deflation, 2 July*

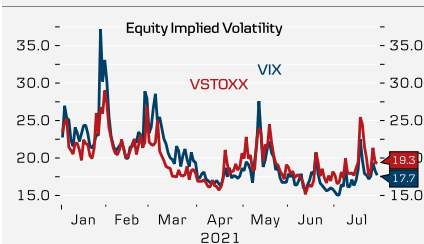
### Bond yields have declined in July



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

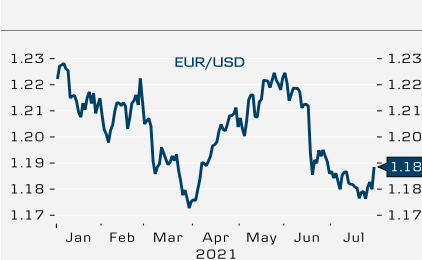
### Volatility is declining again



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

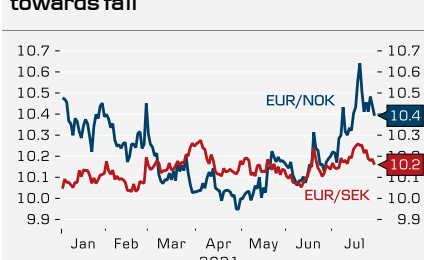
### EUR/USD back above 1.18



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial

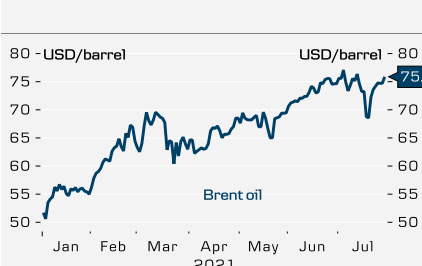
### We expect further scandi-weakness towards fall



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial

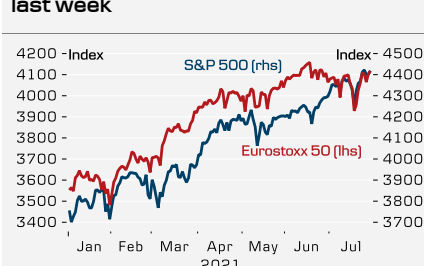
### Oil price rally stabilized



Note: Past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, Danske Bank

### Equities have rebounded after sell-off last week



Note: Past performance is not a reliable indicator of current or future results

Source: Bloomberg, Macrobond Financial, Danske Bank

### High Frequency Activity Tracker

Euro area	Last obs	Value	Latest 4 months	1W chg.	1M chg.	Low
Bundesbank weekly activity index*	Week 30	1,09		0,01	-0,26	-6,0
Germany, turnover textiles retail trade, weekly, % y/y	Week 30	-2,0%		-7 p.p.	-16 p.p.	-80%
German truck toll mileage (1w m.a.), % y/y	21-jul	3,9%		-0,3 p.p.	-3,4 p.p.	-16,2%
OpenTable restaurant bookings, Germany (1w m.a.)**	28-jul	0,5%		0 p.p.	0,3 p.p.	-1%
<b>USA</b>						
NY Fed weekly economic index*	Week 30	8,37		-0,57	-1,46	-11,3
Transaction card spending, (1w m.a.), % y/y	19-jul	27,3%		-1,3 p.p.	-4 p.p.	-40,6%
OpenTable restaurant bookings (1w m.a.)**	28-jul	-0,1%		0 p.p.	0 p.p.	-1%
<b>Google mobility trends retail &amp; recreation (1w m.a.)**</b>						
Germany	26-jul	1,3%		1,3 p.p.	9,3 p.p.	-67,3%
France		-1,1%		-1,3 p.p.	5,9 p.p.	-88,0%
Italy		2,4%		0,4 p.p.	7,4 p.p.	-88,9%
Spain		-10,3%		-0,3 p.p.	3 p.p.	-91,7%
UK		-11,0%		2,3 p.p.	3,7 p.p.	-77,6%
Japan		-6,1%		5 p.p.	5,6 p.p.	-37,9%
United States		-3,4%		-0,7 p.p.	0,7 p.p.	-46,1%
<b>Electricity demand (1w m.a.)***</b>						
Germany	29-jul	-1,3%		-1,7 p.p.	-1 p.p.	-16,7%
France		-2,6%		0,6 p.p.	1,6 p.p.	-22,0%
Italy		2,3%		4,2 p.p.	-3,8 p.p.	-20,0%
Spain	14-jun	-2,6%		-1,1 p.p.	5,1 p.p.	-23,6%
UK		0,0%		0 p.p.	0 p.p.	-22,2%
Japan		1,1%		-0,9 p.p.	2 p.p.	-7,3%
United States	28-jul	0,4%		3,7 p.p.	1 p.p.	-12,5%

\*NOWcast, Actual index value, \*\*Relative to same day/week in 2019, \*\*\* Relative to same day/week in 15-19 avg.

Source: Google mobility data, ENTSO-E, EIA, Open Table, Statistisches Bundesamt, TextilWirtschaft, Bundesbank, NY Fed, Macrobond Financial, Danske Bank

Calendar – key data and events in week 30

Key Data and Events in Week 30

During the week

Monday, July 26, 2021

				Period	Danske Bank	Consensus	Previous
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2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jul			52.4
2:30	JPY	Markit PMI services, preliminary	Index	Jul			48.0
10:00	DEM	IFO - business climate	Index	Jul		102.0	101.8
10:00	DEM	IFO - current assessment	Index	Jul		101.8	99.6
10:00	DEM	IFO - expectations	Index	Jul		103.6	104.0
16:00	USD	New home sales	1000 (m/m)	Jun		800	769.0 (-5.9%)

Tuesday, July 27, 2021

				Period	Danske Bank	Consensus	Previous
3:30	CNY	Industrial profits	y/y	Jun			36.4%
8:00	DKK	Retail sales	m/m y/y	Jun			0.9% 6.4%
9:30	SEK	Household lending	y/y	Jun			6.0%
9:30	SEK	Trade balance	SEK bn	Jun			5.1
10:00	EUR	Money supply (M3)	y/y	Jun		8.2%	8.4%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Jun		8.2%	8.4%
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Jun		8.2%	8.4%
14:00	HUF	Central Bank of Hungary rate decision	%			1.1%	0.9%
14:30	USD	Core capital goods orders, preliminary	%	Jun		0.5%	0.1%
15:00	USD	FHFA house price index	m/m	May			1.8%
16:00	USD	Conference Board consumer confidence	Index	Jul		124.0	127.3

Wednesday, July 28, 2021

				Period	Danske Bank	Consensus	Previous
3:30	AUD	CPI	q/q y/y	2nd quarter		0.7% 3.7%	0.6% 1.1%
7:00	JPY	Leading economic index, final	Index	May			102.6
8:00	NOK	Retail sales, s.a.	m/m	Jun			5.8%
8:00	DEM	GfK consumer confidence	Net. Bal.	Aug		1	-0.3
8:45	FRF	Consumer confidence	Index	Jul		102.0	102.0
9:30	SEK	Retail sales s.a.	m/m y/y	Jun			2.3% 10.3%
14:30	CAD	CPI	m/m y/y	Jun			... 3.6%
14:30	USD	Advance goods trade balance	USD bn	Jun		-88.0	-88.1
16:30	USD	DOE U.S. crude oil inventories	K				2107
20:00	USD	FOMC meeting	%			0.3%	0.3%
20:30	USD	Fed chair Powell (voter, neutral) speaks					

Thursday, July 29, 2021

				Period	Danske Bank	Consensus	Previous
9:00	ESP	HICP, preliminary	m/m y/y	Jul		-1.2% 2.9%	0.5% 2.5%
9:00	SEK	Consumer confidence	Index	Jul			109.4
9:00	SEK	Economic Tendency Survey	Index	Jul			119.8
9:00	SEK	Manufacturing confidence	Index	Jul			125.2
9:55	DEM	Unemployment	%	Jul		5.8%	5.9%
11:00	EUR	Industrial confidence	Net bal.	Jul		13.0	12.7
11:00	EUR	Economic confidence	Index	Jul		118.7	117.9
11:00	EUR	Consumer confidence, final	Net bal.	Jul			-4.4
11:00	EUR	Service confidence	Net bal.	Jul		19.0	17.9
14:00	DEM	HICP, preliminary	m/m y/y	Jul		0.4% 2.9%	0.4% 2.1%
14:30	USD	GDP, ___release, preliminary	q/q AR	2nd quarter		0.083	0.064
14:30	USD	Initial jobless claims	1000				419
14:30	USD	PCE core, preliminary	q/q AR	2nd quarter		0.06	0.025
16:00	USD	Pending home sales	m/m y/y	Jun		1.0% ...	8.0% 13.9%

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Source: Various sources, Danske Bank

## Calendar – key data and events in week 30

Friday, July 30, 2021			Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Germany's debt rating				
-	EUR	Fitch may publish Ireland's debt rating				
1:30	JPY	Unemployment rate	%	Jun	3.0%	3.0%
1:30	JPY	Job-to-applicant ratio		Jun	1.1	1.09
1:50	JPY	Retail trade	m/m y/y	Jun	2.9% 0.2%	-0.3% 8.3%
1:50	JPY	Industrial production, preliminary	m/m y/y	Jun	5.0% 20.9%	-6.5% 21.1%
7:30	FRF	Household consumption	m/m y/y	Jun	0.1% -3.1%	10.4% 7.4%
7:30	FRF	GDP, preliminary	q/q y/y	2nd quarter	0.8% 17.4%	-0.1% 1.2%
8:00	DKK	Gross unemployment s.a.	K (%)	Jun		0.04
8:45	FRF	HICP, preliminary	m/m y/y	Jul	-0.1% 1.4%	0.2% 1.9%
9:00	ESP	GDP, preliminary	q/q y/y	2nd quarter	2.3% 19.0%	-0.4% -4.2%
9:00	CHF	KOF leading indicator	Index	Jul	129.0	133.4
9:30	SEK	Wages (blue collars/white collars)	y/y	May		2.9%
10:00	NOK	Norges Bank's daily FX purchases	m	Aug		-1700
10:00	NOK	Unemployment	%	Jul		2.9%
10:00	DEM	GDP, preliminary	q/q y/y	2nd quarter	2.1% 9.6%	-1.8% -3.1%
10:00	ITL	GDP, preliminary	q/q y/y	2nd quarter	1.4% 15.6%	0.1% -0.8%
10:30	EUR	Portugal, GDP, preliminary	q/q y/y	2nd quarter	3.8% ...	-3.3% -5.4%
11:00	ITL	HICP, preliminary	m/m y/y	Jul	-1.1% 1.0%	0.2% 1.3%
11:00	EUR	Unemployment	%	Jun	7.9%	7.9%
11:00	EUR	HICP inflation, preliminary	m/m y/y	Jul	-0.3% ...	0.3% ...
11:00	EUR	HICP - core inflation, preliminary	y/y	Jul	0.7%	0.9%
11:00	EUR	HICP inflation, preliminary	y/y	Jul	2.0%	1.9%
11:00	EUR	GDP, preliminary	q/q y/y	2nd quarter	1.5% 13.2%	-0.3% -1.3%
14:30	USD	Personal spending	m/m	Jun	0.6%	0.0%
14:30	USD	PCE headline	m/m y/y	Jun	0.7% 4.1%	0.4% 3.9%
14:30	CAD	GDP	m/m y/y	May		-0.3% 20.0%
14:30	USD	PCE core	m/m y/y	Jun	0.7% 3.7%	0.5% 3.4%
14:30	USD	Employment cost index	m/m	2nd quarter	0.9%	0.9%
15:45	USD	Chicago PMI	Index	Jul	63.7	66.1
16:00	USD	University of Michigan Confidence, final	Index	Jul	80.8	80.8

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Source: Various sources, Danske Bank

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