

Danske Daily

Market movers today

- There are not many data releases in the calendar today. Focus will most likely be on the developments in the oil markets where prices have fallen back significantly over the past month. The sharp falls are weighing on global risk sentiment and therefore have been setting off significant movements in financial markets in the past days.
- In the **UK**, focus remains on the political situation with the Queen's Speech (which outlines the government's legislative agenda for the coming parliamentary session) taking place today (despite Theresa May not having agreed on a deal with the Democratic Unionist Party (DUP) yet).
- In the Scandi region, focus will be on Norwegian unemployment figures and Swedish economic survey numbers this morning.

Selected market news

U.S. stocks retreated last night from all-time highs as crude oil slid into a bear market on concern the global supply glut will persist. This morning Asian equity markets are also in the red with notably energy dependent Australian equity markets being pushed lower by 1.5%. The only exception being mainland Chinese shares after they were added to MSCI's emerging-markets index.

After heavy falls over the past days, oil prices are fairly stable this morning in Asian trading. The Brent oil price is trading just short of USD 46 per barrel which is the lowest level since early November, when US president Trump was just elected. Headlines focus on higher supply from Libya, but in our view the important story in the oil market now is one of weakening demand. Interestingly, API data showed rising gasoline stocks and falling crude stocks. The political turmoil in the Middle East will also be in focus, especially after this morning's news of a reshuffle of the Crown Prince in Saudi Arabia. The weak oil price is also weighing on currency markets, with oil-dependent oil currencies such as the NOK, AUD and RUB feeling the pinch (for more on NOK ahead of the Norges Bank meeting tomorrow, please see the FX section), while the JPY is seeing support on the back of weak global risk sentiment. Meanwhile, the USD is seeing strength overnight as Fed officials yesterday continued to reiterate a moderately hawkish stance on monetary policy.

Focus will also be on the UK today where the Queen's Speech is held in the UK parliament.

The speech is given at a time when Theresa May is struggling to strike a deal with the DUP on a new government programme. It will therefore be interesting to see what priorities are highlighted in the speech. Meanwhile, the GBP had a difficult overnight session after BoE Governor Carney said now is not the time to hike, effectively slapping down the three hawkish dissenters who voted for a hike last week and S&P Ratings said they are most likely to cut the UK's rating, and that it will not have to wait to see the terms of the final Brexit deal before doing so. We note that all three ratings agencies have the UK on outlook negative. Moody's still assigns a triple-A rating, while S&P and Fitch are two notches below that.

Selected readings from Danske Bank

- *China: Stress easing, but past tightening to be felt next six to nine months*
- *French Election Monitor No. 5: Macron on track to win majority*
- *Research UK: Minority government is weak from the beginning*

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Scandi markets

Sweden: As in many places Swedish confidence indicators jumped after the US presidential elections, including business and consumer confidence numbers by the NIER. In fact, manufacturing confidence reached an all-time high a few months ago, something that has not really been confirmed by the hard data. However, business confidence has eased a little more recently, though remain upbeat. Basically, the Swedish economy is sound and we do not see a change of that anytime soon, but recent confidence data have – we suspect – been somewhat exaggerated. Fresh NIER confidence data (June) are published at 09:00 CET today

Statistics Denmark publishes figures for employment in April and housing prices in Q1 today.

In Norway, June unemployment figures are out at 8:00 CET where consensus is for an unchanged rate at 4.5% compared with May.

Fixed income markets

The interesting dynamics in the German bond curve continued yesterday with the 2Y yield trading around November highs while the 10Y yield is edging closer to the lower part of the 2017 range. This has driven the German 2Y vs. 10Y curve to the flattest level (91bp) since November last year coming off the steepest level (131bp) observed in March. This is in spite of the continued strong QE-presence in the very short end of the German curve with average maturity of German purchases in May at all-time low of four years.

The sole EUR supply of the day is provided by the Finanzagentur which is scheduled to tap EUR1bn in the 30Y.

In Scandi, The Danish DMO is coming to the market today with taps in the 0.25% DGB 20's and 0.50% DGB 27's. See [auction preview](#). In Norway, the LFS-unemployment rate is released today where we are looking for a moderate drop to 4.4 % in April. In Sweden, the NIER is publishing their business and confidence survey for June and releasing their updated economic forecast.

FX markets

Yesterday's session saw the GBP erase the gains following last week's surprisingly hawkish Bank of England (BoE) meeting. Yesterday's drop was primarily driven by BoE's governor Mark Carney stating that "Now it not the time to raise interest rates" whilst referring to subdued domestic inflationary pressures and indications of economic activity levelling off. Also a story of a possible UK downgrade weighed on the sterling. Going forward, it remains our view that the UK election outcome was the worst possible for GBP and we stress that sterling will likely stay in undervalued territory during the Brexit talks, but be highly sensitive to progress in discussions. We see EUR/GBP in the 0.84-0.90 range near term. While clarity on Brexit terms should brighten the skies for the pound, appreciation potential should be limited by notably a terms-of-trade deterioration. We look for EUR/GBP to trade around 0.87 throughout on a 1-12M horizon, i.e. any appreciation pressure has been postponed.

In the Scandies, the NOK session was dominated by the Brent Crude oil price breaking below USD 46/bbl, which has weighed on the traditional oil currencies, incl. the NOK. Also 2Y NOK swap rates were a little lower. As highlighted in our recent [FX forecast update](#), the global demand and oil outlook are the primary reasons why we still emphasize a cautious tactical NOK-stance even if our call on the domestic economy, Norges Bank and possibly even the Gjedrem report on Friday would suggest some near-term NOK upside potential (for more info see [Reading the Markets Norway](#) and the [key chart ahead of the Norges Bank meeting](#). *Strategically, we still like selling EUR/NOK on rallies and prefer options to express this view.*

Also the SEK weakened significantly in yesterday's late trading. Historically, we know the SEK is vulnerable at this time of the year (seasonality) and with no obvious SEK-specific news to trigger the sell-off yesterday we think the move should be seen as a Scandi 'sympathy' move

driven by foreign interests. As with the NOK we like to sell EUR/SEK for strategic reasons, but maintain a near-term cautious stance.

Key figures and events

Wednesday, June 21, 2017			Period	Danske Bank	Consensus	Previous
-	GBP	Queen's Speech				
8:00	NOK	Unemployment (LFS)	%	Apr		4.5%
9:00	DKK	House prices	m/m y/y	1st quarter		
9:00	DKK	Employment (monthly)	1.000 m/m	Apr		2.683 0.1
9:00	SEK	Consumer confidence	Index	Jun		105.9
9:00	SEK	Economic Tendency Survey	Index	Jun		111.0
9:00	SEK	Manufacturing confidence	Index	Jun		117.0
9:15	SEK	NIER economic forecasts				
16:00	USD	Existing home sales	m (m/m)	May	5.55	5.57 -0.023
16:30	USD	DOE U.S. crude oil inventories	K			-1661
23:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%	1.75%	1.75%	1.75%

Source: Bloomberg, Danske Bank

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