

Danske Daily

Trump in 'no rush' to act

Market movers today

- The **situation in the Middle East** continues to remain tense after the attack on Saudi oil fields over the weekend. Yesterday, Saudi Arabia said preliminary findings showed that Iranian weapons were used in the attacks but stopped short of directly blaming the Iranian Islamic Republic. We expect the situation to continue to remain tense, which in combination with the production cuts in Saudi Arabia will keep the oil price at an elevated level. While *Trump yesterday stated* he would not go to war with Iran (see below), we have looked at what the consequences could be. The oil price would surge to as high as USD150 per barrel, which would throw the world economy into a recession (for more discussion see *Research: US-Iran war would trigger a global recession* published this morning).
- Today the **UK Supreme Court hearing** on whether Prime Minister Boris Johnson's prorogation of Parliament was unlawful begins (it is not clear whether the ruling will also be on Tuesday). In our view, the ruling will not be a game changer for Brexit. Today we published a piece looking at our expectations in case of a no-deal Brexit, see *FX Strategy: What if: No-deal Brexit Scenario for EUR/GBP*.
- On the data front we get the **German ZEW indicator**. It has fallen steeply in recent months to a seven-year low following the escalation of the US-China trade war, see *chart*. **US industrial production** will be out in the afternoon. US manufacturing has been in recession for some months and we expect the data to continue to point to a mild manufacturing recession.
- In Scandi it is time for **Riksbank minutes**, which we expect will reflect the wide divergence of views within the Riksbank, see page 2.

Selected market news

Following the strike on Saudi oil facilities, the oil price has hovered around USD66-68 per barrel. After Trump Sunday tweeted the US was 'locked and loaded', he yesterday struck a more moderate tone saying the US was in 'no rush' to act. 'We have a lot of options but I'm not looking at options right now. We want to find definitively who did this,' he said, adding that 'this was an attack on Saudi Arabia' and not the US. Among other considerations, going into the election year Trump seems to put a very high priority on sustaining a robust US economy. A US-Iran military conflict would be a clear threat to this.

Asian stocks are trading in red territory this morning, while the S&P future is broadly flat from yesterday. EUR/USD dropped back to the 1.10 level yesterday.

UK Prime Minister Boris Johnson yesterday met with European Commission President Jean-Claude Juncker in a meeting that did not seem to make any progress. Johnson said afterwards that a Brexit deal was beginning to emerge. However, this contrasted with Juncker's comments that London had still not proposed an alternative to the Irish backstop that has stymied a deal on Britain's exit from the EU. Johnson again underlined that the UK would leave the EU by 31 October whether it would be with or without a deal.

Selected reading from Danske Bank

- *Research: US-Iran war could trigger a global recession*, 17 September 2019
- *FX Strategy: What if: No-deal Brexit scenario for EUR/GBP*, 17 September 2019
- *Flash Comment International: Saudi oil production under attack*, 15 September 2019
- *Harr's View: Fiscal policy is now the only game in town*, 15 September 2019
- *FOMC Preview: Another Fed cut without pre-committing to further easing*, 13 September 2019

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Scandi markets

Riksbank minutes today are likely to show that there has been significant disagreement within the Executive Board about the shape of the repo rate forecast and that the surprising flattening of the path was the result of a compromise. Arguably, Per Jansson, as the most dovish member, has seen weakening global and domestic data, easing signals from both the Fed and the ECB and global bonds yields plunging into the negative this summer as signs that the next step for the Riksbank is to postpone rate hikes or even prepare to cut rates again. At the opposite end we have Henry Ohlsson and Martin Flodén who have both been at the forefront of raising rates. Ohlsson has probably continued to argue that the economy and labour market are strong and inflation and inflation expectations close to target. Flodén may have been more concerned about the SEK weakness. We believe a middle way between an unchanged repo path and a postponed one was the flatter one.

Fixed income markets

The European bond market rallied yesterday on the back of the uncertainty in the Middle East. The events in the Middle East are currently ‘overshadowing’ the trade war between US and China, and are adding to the number of geopolitical risks affecting the global bond markets, see more [here](#). Given the risk of an escalation of the situation in the Middle East as well as the upcoming FOMC meeting on Wednesday, where there is consensus for a rate cut, this is adding to the downward pressure on US Treasuries after a short period during the past two weeks when rates moved upwards.

In Denmark we are close to breaking through 0bp in the 10Y spread between Denmark and Germany despite the recent weakening of the DKK versus the EUR. See more on our discussion regarding EUR/DKK [here](#). However, the decline in yields makes the demand for duration stronger. Hence, we expect a solid demand at the DGB auction on Wednesday, where Nationalbanken will tap in the 2Y and 10Y benchmarks.

Today, we have minutes from the latest Riksbank meeting as the main event in the Scandi markets. We expect the Riksbank minutes to show that there has been significant disagreement within the Executive Board.

FX markets

The key theme yesterday was pricing of oil and broader correlations to the market. In practice, the repricing was not that large in FX but we did see notable moves in currencies of oil producing countries, NOK and CAD, going higher (as expected?), EUR/USD falling and EUR/JPY reversing some of the past month’s gain. In the broader scheme of things, the key event to watch this week will be how the Fed intends to communicate around a rising oil price from geopolitics, decent inflation prints and positive economic surprises. In turn, it is not clear if the recent positive market mood can be extended into Q4.

It is a busy day ahead with both unemployment data and the Riksbank minutes due for release at 09.30. Starting with unemployment, we anticipate a downward recoil following the last couple of months’ higher than expected prints. However, in absence of another higher than expected print, the implications for FX should be rather limited. We believe that EUR/SEK is more likely to take direction from the Riksbank’s minutes, which we expect to show a clear divide between doves and hawks. However, should the possibility of a cut be discussed by anyone else than perma-dove Per Jansson, this could be seen as a first step towards the policy turn we expect to happen over the coming months. If so, the cross should move higher towards our 1M target of 10.70.

In the event of a no-deal Brexit, the exact outcome of tariffs, economic performance, political uncertainty and policy response (fiscal and monetary) will be the key to the exact pricing of EUR/GBP. In this scenario, we target EUR/GBP close to but below 1.0 (GBP/DKK above 7.50), staying there for 6-12M, followed by a slow shift towards 0.85 (GBP/DKK around 8.76) in the following 1-2 years. See more in *FX strategy: What if: no-deal Brexit scenario for EUR/GBP*, 17 September 2019.

EUR/DKK is now back in the 'FX intervention zone' from the beginning of the year. We think DN is largely fine with this situation. We are likely heading for an extended period in which EUR/DKK will trade at the weak end of the historical trading range. We will evaluate our forecasts in the next FX Forecast Update due for publication next week. There is a good chance it will force DN to intervene further in the FX market over the coming months to cap EUR/DKK top side, but not to the extent that it will trigger a unilateral rate hike. Hence, we forecast that DN will keep its key policy rate unchanged at minus 0.75% on 12M. See more in DN rate cut triggers sharp bounce in *EUR/DKK*.

Key figures and events

Tuesday, September 17, 2019				Period	Danske Bank	Consensus	Previous
9:30	SEK	Unemployment (n.s.a./s.a.)	%	Aug	6.3% 6.8%	6.3%	6.9% 7.1%
9:30	SEK	Riksbank publishes minutes					
11:00	DEM	ZEW current situation	Index	Sep		-13.5	-13.5
11:00	DEM	ZEW expectations	Index	Sep		-38.0	-44.1
11:30	GBP	Supreme Court begins three-day hearing on prorogation of Parliament					
15:15	USD	Capacity utilization	%	Aug		77.6%	77.5%
15:15	USD	Industrial production	m/m	Aug		0.2%	-0.2%
15:15	USD	Manufacturing production	m/m	Aug		0.2%	-0.4%
16:00	USD	NAHB Housing Market Index	Index	Sep		66.0	66.0
19:10	EUR	ECB's Coeure speaks in Luxembourg					
22:00	USD	TICS international capital flow, Net inflow	USD bn	Jul			1.7

Source: Bloomberg, Danske Bank

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