

Danske Daily

Market movers today

- There is a relatively quiet week ahead in terms of data releases, including today.
- In the **euro area**, we get numbers for the Sentix investor confidence today, which we expect to decline slightly to 27.6 in August from 28.3 in July. While business activity and economic confidence remain high, euro area PMIs did decline last week. Together with recent months without gains in the major stock indices, it poses the question of whether we have reached the top. A robust argument is the stronger EUR, which we expect to drag on the euro area growth outlook and become a headwind to inflation in the coming years (see *Euro Area Research: Stronger EUR keeping inflation far from the ECB's target, 27 July*).
- **German** industrial production for June is also due for release today. The previous five months showed consecutive monthly growth in industrial production, with the figure for May showing 1.2%. We expect the June figure to be 0.5%. We expect industrial production to continue showing strong figures for Q3, as in Q1 and Q2. German business confidence is high and we continue to see strong activity levels for companies, which supports growth in industrial production.
- In **Denmark** and **Norway**, we get industrial production data today. For more see the Scandi section on page 2.

Selected market news

On Friday, the US jobs report came out better than expected with a fall in the unemployment rate and unchanged wage growth (against expectations of a drop). In our view, the jobs report supports our view that the Fed will announce “quantitative tightening” in September and hike again in December, given that the Fed tends to put most weight on the unemployment rate. However, we think risk is skewed towards the Fed pausing its hiking cycle, as wage growth and inflation are low. See also *Flash Comment US: Fed likely to continue tightening on strong jobs report, 7 August*.

On Saturday, the UN Security Council passed a resolution imposing new economic sanctions on **North Korea**, which aims at reducing North Korean exports by USD1bn (a third of its total exports) by targeting North Korea's primary exports, including coal, iron, iron ore, lead, lead ore and seafood. See also *CNN*.

In the **UK**, *The Telegraph* reported that the UK is ready to pay a divorce bill of EUR40bn (against the EU's estimates in the range of EUR60-100bn) but only if the EU starts negotiations about the future relationship. A Downing Street source later denied the story, see *The Guardian*. In our view, the divorce bill remains the biggest obstacle to the Brexit negotiations, not least given the weak minority government in the UK. Previously, the EU's chief negotiator Michel Barnier had said the negotiations were proceeding too slowly, meaning that negotiations in phase 1 (divorce bill, citizens' rights and Irish border) may not be concluded in October as hoped for.

Selected readings from Danske Bank

- *Strategy: Capex set to add to global recovery*
- *Flash Comment US: Fed likely to continue tightening on strong jobs report*

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Senior Analyst
Mikael Olai Milhøj
+45 45 12 76 07
milh@danskebank.dk

Scandi markets

In **Denmark**, the industrial production figures are due today. The series has been very volatile lately and after a 2% m/m increase in May, the June figure could well show some decline.

In **Norway**, production data from the manufacturing sector for June is released today.

Fixed income markets

There is a very light global calendar this week until Friday when **US** core CPI is released. Recent readings have been on the low side, which has probably contributed to a continued dovish pricing of the Fed with only one hike priced in 12M vs Fed guidance of around three hikes. Friday's non-farm number was solid but triggered only a minor sell-off in Treasuries, see also our take [here](#). The release had limited spillover to **EUR** FI, where the recent strengthening of the EUR is increasingly seen as a potential obstacle to the ECB moving 'fast towards the exit'.

The primary market is still in summer mode, but **Austria** will be in the market on Tuesday (23s and 47s) and {GE} **Germany** will be tapping the Oct-22 Bobl on Wednesday, see [Government Bond Weekly](#). In our weekly, we keep our bullish 'summer recommendations/views' unchanged and stick to our long 5Y **Spain** and long 5Y **Italy** vs swaps. We also hold on to our long Bund-spread recommendation. Finally, we take note of the recent **Finnish** underperformance especially in the 10Y segment (new 10Y RFGB expected end-August) and consider moving our exposure from the 5Y point to the 10Y point.

In **Scandinavia**, focus this week is on Swedish industrial production and Norwegian inflation. We expect figures for Swedish industry to show solid growth, while inflation in Norway is likely to have fallen slightly in July, following a significant rise in June.

Denmark is tapping the 20s and 27s this week. In Denmark, all the mortgage institutes except for BRFKredit have now announced their auction amounts for non-callable and floating rate bonds. The total auction so far amounts to DKK65bn compared to a maturing amount of DKK89bn of non-callable bonds. The lower auction amount is due to a large drop in the refinancing need of the 3Y bonds of DKK11bn. Hence, the upcoming supply of risk to the market is lower than expected and should support already very low spreads.

FX markets

EUR/USD fell around one figure on the stronger than expected non-farm payroll (NFP) figure. We have been looking for a near-term push in EUR/USD towards 1.20. However, the price action on Friday following the NFP suggests that the recent strong rally in EUR/USD may be ending. In any case, the EUR rally is likely to ease ahead of the Jackson Hole symposium on 24-26 August and the ECB meeting on 8 September where the pressure is building on the ECB to raise concerns about the strength of the EUR. The effective EUR is now back to September 2014 levels before the ECB's QE announcement in January 2015. Fundamentally, we expect EUR/USD to rise further over the coming 12 months on relative growth and valuations. We forecast EUR/USD at 1.17 in 1M and 3M before rising to 1.22 in 12M.

In Scandies, **EUR/NOK** fell on Friday in sympathy with higher oil prices and a weaker euro. This week's key event is July inflation data due on Thursday where we expect core CPI to come out at 0.6% m/m, 1.5% y/y. Fundamentals in Norway are strong and we expect gradual NOK appreciation over the medium- to long-term. **EUR/SEK** also fell on Friday a few figures ahead of the important resistance at 9.65. We expect July CPIF due on 15 August to come out substantially above the Riksbank's expectations. This should cap any EUR/SEK rally. As such, we expect EUR/SEK to trade within a relatively narrow 9.50-9.65 range near-term.

Key figures and events

Monday, August 7, 2017

				Period	Danske Bank	Consensus	Previous
-	CNY	Foreign exchange reserves	USD bn	Jul		3074.9	3056.8
7:00	JPY	Leading economic index, preliminary	Index	Jun		106.2	104.6
8:00	NOK	Manufacturing production	m/m y/y	Jun			-0.3% 0.0%
8:00	NOK	Industrial production	m/m y/y	Jun			-0.7% 0.5%
8:00	DEM	Industrial production	m/m y/y	Jun	0.5% ...	0.1% 3.7%	1.2% 5.0%
9:00	DKK	Industrial production	m/m	Jun			2.0%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Jul			693.5
9:15	CHF	CPI	m/m y/y	Jul			-0.1% 0.2%
9:30	SEK	Budget balance	SEK bn	Jul			-13
10:30	EUR	Sentix Investor Confidence	Index	Aug	27.6	27.6	28.3
16:00	USD	Fed's LMCI	m/m	Jul			1.5
17:45	USD	Fed's Bullard (non-voter, dove) speaks					
19:25	USD	Fed's Kashkari (voter, dovish) speaks					
21:00	USD	Consumer credit	USD bn	Jun		16.0	18.4

Source: Bloomberg, Danske Bank

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Expected updates

Each working day.

Date of first publication

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Report completed: 7 August 2017 at 6:30 CET

Report first disseminated: 7 August 2017 at 7:30 CET