

Danske Daily

Market movers today

- Today is set to be another quiet day in terms of data releases. **In the US, the NFIB Index of Small Business Optimism for July will be released.** Since the index soared at the end of 2016, it has drifted downwards and we expect this trend to continue. Hence, we expect the index to come in at 103.
- **German trade balance figures for June are released today** and are likely to attract attention given increasing emphasis on the competitive German export industry and potential protectionist retaliation. The increasingly strong EUR may however eventually lessen the German trade surplus (see *Euro Area Research: Growth tailwinds dominate headwind from EUR near term, 4 August*).
- **In China, we will get numbers for CPI and PPI for July tomorrow morning.** When it comes to CPI inflation, we look for it to be broadly flat at 1.5% - still far below the 3.0% target. We estimate PPI inflation fell slightly from 5.5% to 5.3%, as we believe base effects pulled it down a bit.
- **For Norway, we have modified our forecast for core inflation due on Thursday to 0.3% m/m.** If proven right, this would lower the yearly core inflation rate by 0.4pp to 1.2% in a drop not least driven by significant base effects from July 2016's significant rise in food prices and air fares. As such, a drop in the yearly rate is widely expected by markets. Also Norges Bank (NB) pencilled in a quarterly drop in the core measure to 1.08% y/y. As NB no longer provides monthly inflation forecasts, it is difficult to deduce NB's expectations for Thursday's print (first monthly print in Q3).

Selected market news

Downbeat sentiment in the Asian session driven by Chinese trade data and rising North Korean tensions so the positive tone from the US session was thus partly reversed in Asian trading. EUR/USD edged higher after Fed officials pointed to the weak US inflation picture and US yields eased a little.

Chinese July trade figures overnight came in on the weak side with export growth (in CNY terms) weakening to 11.2 (from 17.3 last) and import growth down to 14.7 (from 23.1). That said, yesterday's Chinese foreign reserve data showed that capital inflows continue and thus that the outflows over 2014-16 appear to have been effectively halted. As a result, USD/CNY (onshore) fell below the 6.70 mark, the strongest level in 10 months.

Tensions around North Korea rose further overnight following the UN-imposed sanctions over the weekend as the Pyongyang regime said it would not negotiate and indeed never intends to give up its nuclear programme. Both the US and China have underscored the heightened seriousness of the situation with the US noting that North Korea has now been 'put on notice', and China, which backed the UN sanctions vote, noting that we are close to a 'crisis point'. For details of possible market implications in the event of a military conflict surrounding North Korea, see *Research: The rising risk from North Korea - and what it means for markets, 27 April*.

Selected readings from Danske Bank

- *QE Details: French PSPP decreased in July, while purchases in Ireland picked up*
- *Flash Comment: Brazil: political relief prompts BRL rally*

Follow us on *Twitter*:



@Danske_Research

Read more in Danske Bank's recent forecasts and publications

- *Nordic Outlook*
- *Yield Forecast Update*
- *FX Forecast Update*
- *Weekly Focus*

Chief Analyst
Christin Tuxen
+45 45 13 78 67
tux@danskebank.dk

Scandi markets

The credit indicator (C2) is released in **Norway** today, where we may start to see the effect of the slowdown in the housing market, but the release is unlikely to move markets even if Norges Bank closely follows the release.

Fixed income markets

It was a calm start to the week in the EUR FI market with the monthly QE figures being the most interesting so far. The overall PSPP was unchanged (EUR51.9bn in July versus EUR51.6bn in June). However, zooming in on country specifics, the French PSPP purchases decreased by EUR700m relative to June, while the figure in Italy increased by EUR300m. The French purchases are not running below the capital key despite the decrease, while in the case of Italy it means further capital key deviation. This raises the question of whether the capital key deviation is becoming increasingly discretionary rather than the mechanical approach that has been used up until 2017. Purchases by Ireland increased by EUR80m - likely related to the ongoing cancellation of the former promissory notes and the run rate could be even higher with further cancellations of Eurosystem holdings as we approach year end. Note also that the July purchases were characterised by decent extension in the average maturity of the overall purchases (see details [here](#)). There are no real market movers in the global calendar today, but in the primary market Austria is tapping EUR1.1bn in the 23s and the 47s.

FX markets

In the majors we have seen EUR/GBP continue to edge higher on the back of last week's Bank of England meeting (see our review [here](#)). Over the coming 1-3 months, we expect EUR/GBP to move higher still on the back of a strong EUR, political uncertainty and BoE repricing. We expect the cross to trade within the 0.90-0.92 trading range and forecast it at 0.91 in 1M and 3M.

In the Scandies, EUR/NOK saw support in yesterday's European session on the back of general EUR strength, weaker-than-expected manufacturing production and the oil price moving lower. This seems to have triggered selling interests in the US session amid a higher oil price and thin liquidity erasing the cross's gains. Our fundamental predisposition remains to sell EUR/NOK but as noted in [NOK flash comment – take profit on EUR/NOK risk reversal, look to re-sell at 9.40](#), 26 July, we think better entry levels will emerge. Last week the pace of speculative NOK buying eased and we suspect this could ease further in the coming weeks irrespective of yesterday's late price action. Technically, the cross has found support at the recent bullish trendline and we await a sustained break below as verification of a bearish flag formation. Also we note that EUR/NOK remains oversold according to our short-term financial models (fair value of 9.42) which reflects the fact that the July drop was larger than a historical relationship to relative rates, risk sentiment and the oil price would suggest.

EUR/SEK also headed higher yesterday despite no significant news. The last few weeks have been characterised by sharp intraday drops on the back of strong Swedish macro data (inflation, GDP) and then it has slowly edged higher, all within a range of 9.51-9.63. It seems like the real trigger for a sustained rebound in the SEK is still lacking. This week offers Swedish production data on Thursday which is a potential market mover. But more important are the inflation numbers next week, where our CPIF forecast is three tenths above the Riksbank and thus could pull the pair lower. We target the cross at 9.60 in 1M and 9.50 in 3M.

In South Africa, there will be a secret ballot on a motion of no-confidence in president Zuma in the national assembly today (the discussion will start at 2pm). The vote was announced by the National Assembly speaker yesterday after calls from the opposition over a series of corruption claims against president Zuma. The no-confidence motion requires the backing of a majority of the 400 lawmakers to pass. The fact that the ballot is secret increases the chance that ordinary ANC members will vote against president. The rand strengthened by almost 1% against the USD to 13.25 yesterday on the news. If the motion passes in parliament, we may see a break below

13 for USD/ZAR as president Zuma is increasingly seen as undermining the economic and political prospects of South Africa. If the vote does not pass, the upward reaction in the cross may be more muted as the market thinks that president Zuma's days are numbered given that, now aged 75, he is due to step down as leader of the ANC party in December and as president in 2019. Our end-September forecast for the USD/ZAR rests on him staying in power and hence if the no-confidence vote should pass, this creates significant downside to our projection.

Key figures and events

Tuesday, August 8, 2017

				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Jul		45.2	42.8
7:45	CHF	Unemployment	%	Jul			3.2%
8:00	NOK	Credit indicator (C2)	y/y	Jun			5.4%
8:00	DEM	Trade balance	EUR bn	Jun		24	22
12:00	USD	NFIB small business optimism	Index	Jul	103.0	103.8	103.6

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The author of this research report is listed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 8 August 2017 at 7:12 CET

Report first disseminated: 8 August 2017 at 7:40 CET