

Danske Daily

Market movers today

- **Market focus will be on the escalating tension between the US and North Korea over North Korea's missile programme.**
- **In the UK, industrial production and construction data for June are out today.** This is of interest given the negative growth contributions from manufacturing and construction. The NIESR GDP estimate for July (usually a good predictor of actual GDP growth) and trade balance figures will be announced too.
- **In the US, FOMC member Dudley's speech is likely to be the main event.** PPI data and the Monthly Budget Statement are also due for release.
- **In Scandi markets, Danish and Norwegian inflation data as well as Swedish industrial- and services production data are released today.** Please see the Scandi section on page 2 for further details.

Selected market news

North Korea sabre-rattling continues as US seeks to ease tensions. Overnight, state media reported that North Korea is examining plans to fire four intermediate-range ballistic missiles at Guam. The missiles would be fired by mid-August, pass over Japan and land near the island which holds strategically important US military bases. The statement came in response to US President Trump's "fire and fury" warning on Tuesday. Earlier, US secretary of state Tillerson had sought to downplay tensions, saying that North Korea posed no "imminent threat".

UK real estate slump spreads. The RICS survey released overnight showed prices stagnating in July, as the price decline of prime properties in the centre of London spread to neighbouring areas. Meanwhile, prices in Northern Ireland, the West Midlands and the southwest increased.

RBNZ remains on the sidelines. In New Zealand, the central bank left the official cash rate unchanged at 1.75% overnight, in line with expectations. Reflecting recent subdued economic data, the RBNZ said that monetary policy would be kept accommodative for a considerable period.

Geopolitical concerns triggered by North Korea tensions set the course for a modest risk-off reaction on markets yesterday. In Europe, the Euro Stoxx 50 index closed down 1.3% and 10yr Bund yields declined 4bp. In the US, the S&P500 index pared earlier losses to close the day flat. US 10yr Treasury yields held steady around 2.25%. This morning, Asian stocks have reversed earlier gains, while emerging markets sold off more broadly.

Selected readings from Danske Bank

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Scandi markets

Sweden: There isn't a lot of interest happening in Sweden this week but today we at least get June industrial and services production data. Then again, considering that the second quarter flash GDP data has already been released (it was strong) markets may not pay much attention to today's figures. In any case, industrial production has been on a strong trend since last summer and we see no particular reason for that to change. At the same time, production data is notoriously volatile so a single print doesn't really provide much information.

For Norway, we forecast core inflation today at 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).

Denmark: We estimate July's inflation figures will show a rebound to 0.8% y/y after the surprisingly low June reading, despite a modest decline in fuel prices. We would expect a rebound to be driven partly by the end of the base effect of a significant fall in phone service prices in July 2016 but there is a lot of uncertainty surrounding this. The fall in 2016 was caused by a decline in the cost of roaming in other countries but this year roaming costs within the EU have been completely abolished. As far as we can tell, the total impact on prices this year is much smaller but we cannot be sure.

Fixed income markets

There was more volatility in the market with North Korea/Trump triggering the broad-based risk-off movement. Core EUR FI rallied 4-5bp yesterday, while Italy was the clear underperformer. The underperformance follows a long period of tightening relative to peers. The BTP-Bund spread hit a YtD low on Monday and yesterday's 6bp widening in 10Y may have been exacerbated by profit taking. Note that Portugal released unemployment figures yesterday showing a decrease to 8.8% in Q2 down from 17.5% in 2013 – which is part of the reason Portugal has been the top performer this year.

In the Scandi sphere, focus is on Norwegian CPI data where we expect core inflation to have increased 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. Also, Norges Bank pencilled in a quarterly drop in the core measure to 1.08% y/y.

Of interest for Scandi markets is also the Japanese investor flow data. The June figures showed that Japanese investors remain net buyers of Danish mortgage bonds, and have returned to OATs as political risk has vanished (at least for now) while continuing to reduce their holdings of BTPs (see *Fixed Income Strategy – Japanese investor flows into foreign sovereign debt for June 2017*, 9 August 2017).

In *Reading the Markets Denmark (in Danish)*, released 9 August 2017, we see value in buying 2'47 relative to 2.5'47 given the performance in 2.5'47s seen in July. Furthermore, we continue to see room for further tightening of 5Y5Y DKK swap vs EUR.

In the Danish covered bond space, BRFkredit has announced its refinancing need for the non-callable bullet bonds auctions in August (taking place 21st to 25th). Supply in the 1Y, 3Y and 5Y segment amounts to DKK7.6bn, DKK1.0bn and DKK2.1bn, respectively. This concludes the announcement refinancing details for the non-callable bullet bonds. The total auction amount from Nykredit, Nordea Kredit, BRFkredit and DLR Kredit is around DKK63bn. Of this, DKK35bn, DKK14bn and DKK11bn will be sold in the 1Y, 3Y and 5Y segments, respectively, which is lower than expected and should support the current low spreads.

FX markets

Also in FX markets, focus has been on North Korea with the traditional safe havens of CHF and JPY benefitting. EUR/USD momentum has continued to fade which can be partly explained by rising North Korean risk. However, the latest fall in EUR/USD should primarily be explained by long covering amid improving US data and expectations that Draghi will be dovish at Jackson Hole this month and the ECB meeting in September. Note that our 1M and 3M EUR/USD forecasts are 1.17 before the next push higher further out.

USD/HKD short-term volatility spiked yesterday as the HKD saw a swing: first sliding to a 10-year low and then climbing on liquidity woes afterwards. Concerned by a weakening HKD, the Hong Kong monetary authority announced it would start selling exchange fund bills, which would hit HKD liquidity. Up to HKD40bn would be sold to the banks. While the earlier drop in the HKD could be associated with the North Korea/US standoff and threats, the major reason is financial: the HKD's abundant supply created a large interest rate gap with the USD. Back in 2005, the city authorities pegged the currency within a 7.75-7.85 corridor against the USD. While the pair has been spiking on financial and political woes, it has always been brought down within the peg. Thus, given the current intentions to drain liquidity, a similar downside move in the USD/HKD is also widely expected.

In the Scandies, the weekly flow data released yesterday by Norges Bank showed that foreign banks (proxy for speculative flows) last week net bought NOK for the fourth consecutive week. Meanwhile the release also confirmed our expectation of NOK purchases losing momentum as last week's buying amounted to a mere NOK565M (chart: <http://bit.ly/2uoUor2>). In terms of NOK price action, the cross remains range bound ahead of today's July inflation print which is inherently linked to a large degree of uncertainty. Our expectation for the core measure is 1.2% y/y, which is slightly above consensus and Norges Bank's own projection. Meanwhile, it is important to stress that the details will be key. For instance when markets realised that last month's positive surprise was driven by a substantial air fare rise, the NOK gains were fairly limited despite a 0.3pp gap to Norges Bank's implied monthly expectation. We still look to sell EUR/NOK but from current levels we do not like the near-term risk/reward.

Key figures and events

Thursday, August 10, 2017				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Jul		9.4%	9.4%
-	CNY	Aggregate financing	CNY bn	Jul		1000	1776.2
1:01	GBP	RICS house price balance	Index	Jul		0.1	0.1
8:00	NOK	CPI	m/m y/y	Jul			0.4% 1.9%
8:00	NOK	PPI	m/m y/y	Jul			-2.6% 3.2%
8:00	NOK	Core inflation (CPI-ATE)	m/m y/y	Jul	0.6% 1.5%		0.5% 1.6%
8:45	FRF	Industrial production	m/m y/y	Jun		-0.6% 3.9%	1.9% 3.2%
9:00	DKK	CPI	m/m y/y	Jul	... 0.8%		-0.1% 0.6%
9:30	SEK	Average house prices	SEK m	Jul			2.948
9:30	SEK	Industrial production s.a.	m/m y/y	Jun			2.1% 8.0%
9:30	SEK	Service production	m/m y/y	Jun			0.7% 4.5%
9:30	SEK	Industrial orders	m/m y/y	Jun			1.3% 7.6%
10:30	GBP	Trade balance	GBP mio.	Jun		-2400	-3073
10:30	GBP	Construction output	m/m y/y	Jun		1.1% 1.7%	-1.2% -0.3%
10:30	GBP	Industrial production	m/m y/y	Jun		0.1% -0.2%	-0.1% -0.2%
10:30	GBP	Manufacturing production	m/m y/y	Jun		-0.1% 0.6%	-0.2% 0.4%
14:00	GBP	NIESR GDP estimate	q/q	Jul			0.3%
14:30	USD	Initial jobless claims	1000				240
14:30	USD	PPI	m/m y/y	Jul		0.1% 2.3%	0.1% 2.0%
14:30	USD	PPI core	m/m y/y	Jul		0.2% 2.1%	0.1% 1.9%
16:00	USD	Fed's Dudley (voter, dovish) speaks					
20:00	USD	Budget statement	USD bn	Jul			-90.2

Source: Bloomberg, Danske Bank

Disclosure

This research report has been prepared by Danske Bank A/S. The author of the research report is Sverre Holbek.

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Each working day.

Date of first publication

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Report completed: 10 August 2017 at 05:58 GMT

Report first disseminated: 10 August 2017 at 06:30 GMT