

Danske Daily

Market movers today

- In the US, CPI and CPI core for July are released today. Both inflation measures have been declining rapidly since February and are currently far below the Fed's 2% target and there is no immediate compelling argument for a drastic uptick. Although the Fed continues to believe the tighter labour market will eventually drive inflation up and the US dollar has recently depreciated sharply, these are both effects that take a long time to work their way into the CPI numbers. Thus, we believe inflation will continue to hover around 0.1% m/m (both headline and core), implying both figures increased to 1.7% y/y in July (in June, headline CPI read 1.6% y/y, while CPI core was 1.7%).
- Further, Federal Reserve Bank of Minneapolis President Kashkari (voter, dovish) and Federal Reserve Bank of Dallas President Kaplan (voter, dovish) both speak today.
- Germany, France, Spain and Italy all release their final HICP figures today.
- In Denmark, gross unemployment figures are out and in Finland, Fitch may publish the country's debt rating.

Selected market news

Financial markets are in risk-off mode as the stand-off between the US and North Korea continues to escalate, with North Korea threatening to send missiles towards the US bases at Guam. Last night, President Trump reacted to the new threats saying "They [North Korea] should be very nervous, because things will happen to them like they never thought possible, OK?". Trump also stood by his words from earlier this week to bring down "fire and fury" on North Korea. In fact, he said that the words earlier in the week might not have been "tough enough". Furthermore, Trump declined to rule out a pre-emptive strike.

The market jitters intensified on the obvious escalation of the conflict and US 10Y yields dropped by 5bp to 2.20%, German yields to 0.40% and in the equity market the colour was red across the board with the Nasdaq down more than 2%. The reaction in the equity market might have been aggravated by the fact that US equity indices were trading at or close to an all-time high going into this crisis. The market jitters are also very visible in the VIX index – the fear index – which rose 44% to above 16 yesterday night. But in that respect, note that the level for the VIX is still well below the level seen around the US presidential election for example. Hence, there is still room on the upside here. The market jitters have not necessarily peaked at this stage. In the FX market the safe-haven support for JPY has continued and USD/JPY has moved below 109 overnight.

There is a growing risk that the geopolitical concerns will continue. If that is the case, we would expect the biggest bond market impact to be on the US Treasury market. Investors will move into the highly liquid and not least 'high yielding' US market. In that way they will also be able to benefit from a possible repricing of Fed expectations and a possible appreciation of the US dollar.

Today, the European market will continue to focus on the geopolitical jitters and we should expect lower Bund yields and lower equity markets as the markets open this morning.

Selected readings from Danske Bank

- [Reading the Markets Denmark](#)
- [FX Research: EUR/CHF: Patient SNB to let 'reverse gravity' gain traction](#)

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Fixed income markets

US core CPI is the key release today and we estimate an unchanged reading of 1.7% for the July figure. Inflation remaining low is a key driver for the continued dovish pricing of the Fed. Only one hike is priced in 12M. The FI market pricing reflects the anticipation that the Fed will switch to a more cautious path in its normalisation policy.

Overnight, US FI rallied further with the yield on 10Y US Treasuries decreasing 5bp. Hence, we are probably in for a strong opening in the EUR market. The yield on 10Y Germany briefly decreased below 40bp during yesterday's session - the lowest level since June.

It is Friday and that means potential rating action. Finland (AA+/stable) is up for review by Fitch. Finland's growth has accelerated this year implying that the bias is now towards a raising of the outlook to 'positive'. On the requirements for an upgrade Fitch writes 'Evidence of an improvement in medium-term growth prospects and increased competitiveness. -Sustained downward trend in the government debt-to-GDP ratio'. For more on the Finnish rating and where it is most attractive on the curve to be long Finland see *Government Bonds Weekly, 4 August-11 August 2017 - 'Carry environment' intact and value in Finland after recent underperformance*, published on 4 August 2017.

In Denmark the political uncertainty regarding the proposal to fund subsidised housing with government bonds instead of mortgage loans seems to be more or less gone with the release of a new slightly revised proposal from the Danish government late last night.

The aim is still to remortgage all the existing mortgage loans, but the new proposal states that the new funding should consist of 90% government funding and 10% funded maybe with mortgage loans or pension funds depending on which financial player is interested in doing the credit assessment of all the loans and funding of the most secure 10% of the loans. There should now be less uncertainty on the positive effects on especially 1.5'47 callable bonds (buybacks), lower issuance of 5Y non-callable bonds, but also on the negative effect on prepayment of 3% 2044 callable bonds over the coming years.

See also *Reading the Markets Denmark – Denmark: Buy 2'47 against 2.5'47, and still value in 5y5y DKK swap against EUR* published on 10 August 2017 for our view on the Danish FI market.

FX markets

The Scandies had an interesting session yesterday with not least EUR/SEK moving lower in the early European session even before Swedish industrial production surprised to the upside. For the SEK, next week's CPI release will be key. On the back of Norwegian and Danish inflation releases, we have occasionally seen compelling reasons to modify our call on Swedish CPI. However, that is not the case this month and we stick to our 0.3% m/m call for both CPI and CPIF next Tuesday. This call is above the Riksbank's projection but we think consensus is already looking for a positive surprise vis-à-vis the Riksbank's forecast. The question is to what extent our view differs from other houses, which we will get to know later today as survey results are published.

Yesterday's NOK session was dominated by the July inflation print and oil swings. While there will still be another CPI release (11 September) ahead of the next Norges Bank meeting (21 September), yesterday's release confirmed that inflation will likely be a considerable positive factor for the next rate path (chart: <http://bit.ly/2vRp2tG>). It is still too early to estimate the new rate path – especially as we will get other crucial data releases over the coming month – yet it is important to point out that the stronger NOK, at this stage, will actually cancel out the positive rate path impact from higher inflation. As such, we think this confirms our fundamental predisposition to await better entry levels before re-selling EUR/NOK. The coming week is empty in terms of important domestic data releases. Hence, external developments (e.g. oil price)

should set the tone for the NOK in the coming sessions. The next pivotal domestic releases will be the oil investment survey and Q2 GDP both due on 24 August.

In the majors, North Korean worries should continue to set the tone for not least the safe havens JPY and CHF, which have both seen significant support this week. In terms of today's data calendar, the US CPI release could prove pivotal for whether the latest loss of EUR/USD momentum could trigger further long covering.

Key figures and events

Friday, August 11, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Finland's debt rating					
8:00	DEM	HICP, final	m/m/y/y	Jul	... 1.5%	0.4% 1.5%	0.4% 1.5%
8:45	FRF	HICP, final	m/m/y/y	Jul	... 0.8%	-0.4% 0.8%	-0.4% 0.8%
9:00	DKK	Gross unemployment s.a.	K (%)	Jun			116 (4.3%)
9:00	ESP	HICP, final	m/m/y/y	Jul	... 1.7%	-1.2% 1.7%	-1.2% 1.7%
10:00	ITL	HICP, final	m/m/y/y	Jul	... 1.2%	... 1.2%	... 1.2%
14:30	USD	CPI headline	m/m/y/y	Jul	0.1% 1.7%	0.2% 1.8%	0.0% 1.6%
14:30	USD	CPI core	m/m/y/y	Jul	0.1% 1.7%	0.2% 1.7%	0.1% 1.7%
15:40	USD	Fed's Kaplan (voter, dovish) speaks					
17:30	USD	Fed's Kashkari (voter, dovish) speaks					

Source: Bloomberg, Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is Arne Lohmann Rasmussen.

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