

Danske Daily

Market movers today

- Today is a very quiet day in terms of economic data releases. We get Danish CPI for May, which we expect fall to 0.9% y/y from 1.1% in April due to a reversion of package holiday prices after the surge in April (Easter effect), lower fuel prices and base effects from food prices.
- Focus on the outcome of the UK and French elections. See below and our update on the UK election: *Research UK: Hung parliament adds government risk premium to GBP*, 9 June 2017.
- The main event this week is the Fed meeting on Wednesday where in contrast to the consensus expectation and market pricing we think the Fed will stay on hold and instead make an announcement on balance sheet reduction.

Selected market news

Emmanuel Macron and his party La Republique en Marche won a sweeping victory in the first round of the French parliamentary election yesterday, see *Reuters*. According to polls Macron's party is on the way to win a clear majority in the French parliament with 70% of the seats when the second round of the election is held on Sunday. The Socialist party of Francois Hollande faced a humiliating defeat getting only 10 to 14% of the votes, which is likely to give them only 15-25 seats down from 284 seats currently. The National Front led by Marine Le Pen also suffered a poor election with only 13.5% of the vote, which would only add a couple of seats compared to today.

The result will give Macron a strong mandate for reforms in France and will put France in a role to strengthen the EU in alliance with Germany's Angela Merkel, who is again leading polls for the German election on 22 September. The latest German polls show a 14-15 point lead for CDU/CSU over SPD. Macron's first test will be his proposed labour market reforms, which will encourage flexible company-based agreements between businesses and employees instead of industry-based deals. The reforms are likely to face strong resistance from the unions, which will be weakened by such a move.

In the UK some of Theresa May's key ministers are working for a softer Brexit. With May clearly weakened after the UK election her vision of a 'clean break' is no longer on the table, see *Bloomberg*.

Stock markets finished on a strong note on Friday apart from US tech stocks (Nasdaq down close to 2%). Asian stock markets have traded mostly lower overnight, though.

The bearish tone in bond markets on Friday continued overnight in Asia ahead of the Fed meeting this week. While the market is pricing a high probability of a Fed hike this week (around 90%) the rate path priced after that has become very subdued with the next hike not fully priced until mid-2018. We look for the Fed to skip hiking this week (and instead announce a plan for balance sheet reduction) but to hike in both July and December, see also *Weekly Focus*.

Selected readings from Danske Bank

- *Strategy: Diverging market expectations will not last*
- *Research UK: Hung parliament adds government risk premium to GBP*

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Scandi markets

Danish CPI for May is due today and we expect 0.0% m/m and 0.9% y/y against 0.2% m/m and 1.1% y/y in April. For HICP, we expect 0.0% m/m and 0.8% y/y against 0.3% m/m and 1.0% y/y in April. Several components surprised on the upside in April, including passenger transport by air and package holidays. On top of this, fuel prices pushed inflation higher. In May, we expect to see lower fuel prices following the dip in oil prices last month. Along with base effects from food prices, this should pull y/y CPI down again after April brought the highest print in over four years.

Fixed income markets

There has been an array of political developments over the weekend that will set the tone for the FI market today. Most attention will be on the strong result of the parliamentary election for Macron in France and on the very difficult situation confronting May in UK (Osbourne calls her 'dead woman walking'), see summary article from *FT*. **Italy's** Renzi stated over the weekend that the general election will be in 2018. Market speculation on this already supported a rebound in BTPS last week.

Meanwhile, there has also been important developments in Finland over the weekend where a government crisis could be on the rise. The Finns Party has elected a new leader, Jussi Halla-Aho, known for his anti-immigration politics which has prompted the coalition partner (National Coalition) to "seriously consider whether the party will stay in a government with a Finns Party led by anti-immigration and Eurosceptic Halla-aho." The coalition parties (Centre Party, National Coalition and Finns Party) will meet this morning to discuss the future of a three-party coalition. If the parties cannot agree on a way forward together, we could end up with an early election, see *FT*.

We have a busy week in the primary market with Italy kicking off tomorrow, followed by Portugal, Germany, Netherlands (Wednesday) and France and Spain (Thursday). See more in *Government Bonds Weekly* where we also recommend to go long 9Y Ireland versus France/Belgium.

In Scandinavia focus turns to inflation figures in Sweden and Denmark this week. In Sweden we expect the price level to fall by 0.1% in May, regardless of whether you look at CPI, CPIF or CPIF ex. energy, see more in *Reading the Markets Sweden*.

FX markets

In the Scandies, NOK/SEK has stabilised following the more positive sentiment regarding Chinese economy seen towards the end of last week that triggered a surge in Chinese stocks and the copper price. However, in our view the stabilisation will likely prove short-lived as the global business cycle is turning lower and the oil prices is weighed down by bearish fundamentals. Today, NOK and SEK will likely trade in line with overall risk sentiment as argued above, as the market awaits the release of the Norwegian Regional Network Survey, Swedish CPI and OPEC oil market report tomorrow. Note that speculative positioning in oil and copper remains net long and neutral respectively – see *MM Positioning Update: Investors added GBP shorts ahead of election*, 12 June 2017. Hence, from a positioning point of view there is downside risks to industrial commodity prices near-term and thus risk of negative spill-over to NOK/SEK.

In the majors, focus in the beginning of the week will be on GBP and the ramifications of the UK election result and the path towards Brexit talks. Until we get more clarity on the formation of the new government and its stance on Brexit, GBP is likely to trade with a 'government uncertainty premium' on top of the already imbedded 'Brexit uncertainty premium'. Note though that speculative investors added net short positions in GBP ahead of the UK election last week.

Key figures and events

Monday, June 12, 2017

				Period	Danske Bank	Consensus	Previous
9:00	DKK	CPI	m/m y/y	May	0.0% 0.9%		0.2% 1.1%
20:00	USD	Budget statement	USD bn	May		-91.5	-52.2

Source: Bloomberg, Danske Bank

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