

Danske Daily

Market movers today

- Today's most important event is the **FOMC meeting**, which is one of the big meetings with updated projections and a press conference. Very much against consensus, we expect the Fed to stay on hold, as a data-dependent Fed should wait at least one meeting to confirm the recent weakness is only temporary but we admit that the Fed may have painted itself into the corner given the very high expectations of a hike. Instead, we expect a big announcement on how it will proceed with reducing its balance sheet ('quantitative tightening') and signalling a strong likelihood of a July hike. See more details here, *FOMC preview: Expectations are high but data do not justify a hike yet*, 12 June 2017.
- In the **US**, the CPI inflation print for May is due out, which we estimate fell to 2.0% y/y from 2.2% y/y (core inflation was likely unchanged at 1.9%), so no help from the Fed here.
- In the **UK**, look out for the labour market report due at 10:30 CET.
- In **Sweden**, Prospera inflation expectations are due out.
- In **Norway**, the very strong Regional Network Survey clearly indicates growth is higher than expected, see more *Regional Network Survey: Norges Bank to remove rate cut probability*, 13 June 2017.

Selected market news

Democratic law makers sue Trump. More than 190 Democrats in Congress sued US President Trump on Wednesday for profiting from business deals involving foreign governments without congressional consent, which would be in violation of US constitution. The suit involves the largest number of lawmakers ever to sue a US President, and is the latest in a series of legal efforts to get Trump to separate himself from his business interests. Other suits have been filed by private businesses and the attorneys general of Maryland and the District of Columbia.

Rising tensions in UK's Brexit department. The Department for Exiting the EU has seen two of its four ministers depart this week, just days before the Brexit negotiations with the EU are due to start, reportedly reflecting rising tensions with Prime Minister May (see *Financial Times*). Separately, French President Macron told May during her visit in Paris that the door remains open for the UK to remain in the EU, but that it will become increasingly difficult to go backwards as negotiations go on. According to May, the timetable for negotiations 'remains on course'.

Tech stock rebound lifts overall indices. The S&P tech sector rebounded 0.9% yesterday after taking large losses on Friday and also trading in negative territory on Monday. This helped propel the overall S&P 500 index to a gain of 0.5%.

Chinese industrial output and retail sales steady in May. Chinese economic data released overnight showed an increase in industrial production of 6.5% y/y in May, in line with the increase seen in April and slightly higher than the 6.4% expected. Retail sales were in line with expectations and April's number at 10.7% y/y.

Selected readings from Danske Bank

- *Research UK: May stays (for now) due to Brexit uncertainties*
- *Regional Network Survey: Norges Bank to remove rate cut probability*
- *FOMC preview: Expectations are high but data do not justify a hike yet*

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Senior Analyst
Sverre Holbek
+45 4514 8882
holb@danskebank.dk

Fixed income markets

The busy supply calendar continues today with Germany tapping only EUR3bn in the 10Y Bund. Portugal is coming to the market in the 5Y and 10Y. Historically, the Portuguese market used to be sensitive to supply but this time around PGBs have continued to outperform going into the auction with the 10Y spread trading at YtD lows versus Germany (266bp). The spread has tightened an impressive 150bp versus Germany since February.

Italy was the top performer again yesterday with the political risk premium fading. 10Y Italy has tightened more than 30bp versus Germany over the past week and the spread is trading around YtD lows.

In Finland, the government crisis did not last long. PM Sipilä announced yesterday that the Finnish government will not resign but continue with the current composition. All the ministers that represented 'the Finns Party' before are now part of the 'new alternative' group. The government still has a majority in parliament and politics should return to 'normal'. The next parliamentary election is in 2019. Finnish government bonds widened a few basis points versus Germany on the political risk on Monday with the RFGBs probably recovering in coming sessions.

The main event in the US session will be news from the Fed. With a hike fully priced in ahead of the meeting, focus turns to the dots and the forward guidance including news on the next step on quantitative tightening. After today, the next hike is priced in for Q3 18; hence, the market continues to doubt the Fed's guidance in the dots and whether inflation really will pick up.

In Scandinavia, Norway will be tapping NOK3bn in the 24s. This is the first tap in this bond since October 2014. Demand in the long end, especially from foreign accounts, has been rather strong this spring. A tighter spread versus Germany may also partly be explained by lower-than-expected inflation. The spread has increased slightly in recent weeks, see *Fixed Income Research: Norges Bank to sell NOK3bn in NGB NST 476, 3.0%, '24*, 13 June 2017. On Norway, note that on the back of the strong regional network report released yesterday, we now expect Norges Bank to remove the probability of a rate cut in the rate path at next week's Norges Bank meeting, see *Regional Network Survey: Norges Bank to remove rate cut probability*, 13 June 2017. Sweden will also be in the market tapping the 25s and the 26s while Denmark will be issuing in bills today.

FX markets

In the Scandies, the sharp correction lower in EUR/SEK yesterday following the upward surprise on inflation makes sense as inflation is the most important driver for Riksbank policy now although part of the rise is likely to have been only temporary. Focus for SEK will be on inflation again today when the Prospera inflation expectations are released. They are likely to confirm that inflation expectations have been re-anchored and should thus help SEK hold on to gains from yesterday. EUR/DKK inched marginally higher yesterday following the lows on Monday. As we wrote yesterday, the dip is likely to be only temporary and the market should be tempted to use the dip to go long EUR/DKK with EUR/DKK forward points trading at low levels. We forecast EUR/DKK at 7.4400 on 1-12M. In the majors, it has been calm before the storm for EUR/USD this week with the pair trading in a close range around the 1.12 level. We look for a more hawkish Fed today determined to push ahead with both rate hikes and balance sheet reduction to renew near-term downwards pressure on EUR/USD and look for the pair to fall towards the bottom of the 1.08-1.13 range on 3M. We remain tactically short the pair in the Danske FX Trading Portfolio and target EUR/USD at 1.09 in 3M. That said, we still see levels below 1.10 as attractive for positioning for a renewed uptick towards the end of the year.

Key figures and events

Wednesday, June 14, 2017					Period	Danske Bank	Consensus	Previous
4:00	CNY	Industrial production	y/y	May		6.4%	6.5%	
4:00	CNY	Retail sales	y/y	May		10.7%	10.7%	
4:00	CNY	Fixed assets investments	y/y	May		8.8%	8.9%	
6:30	JPY	Industrial production, final	m/m y/y	Apr			4.0% 5.7%	
8:00	SEK	Prospera inflation expectations						
8:00	DEM	HICP, final	m/m y/y	May			-0.2% 1.4%	
10:30	GBP	Unemployment rate (3M)	%	Apr		4.6%	4.6%	
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Apr		2.0%	2.1%	
11:00	EUR	Industrial production	m/m y/y	Apr	0.2% ...	0.5% 1.4%	-0.1% 1.9%	
11:00	EUR	Employment	q/q y/y	1st quarter	0.3% ...		0.3% 1.1%	
14:30	USD	Retail sales control group	m/m	May	0.2%	0.3%	0.2%	
14:30	USD	CPI headline	m/m y/y	May	0.0% 2.0%	0.0% 2.0%	0.2% 2.2%	
14:30	USD	CPI core	m/m y/y	May	0.2% 1.9%	0.2% 1.9%	0.1% 1.9%	
16:30	USD	DOE U.S. crude oil inventories	K				3295	
20:00	USD	FOMC meeting	%		1.0%	1.25%	1.0%	
20:00	USD	FOMC economic projections	%					
20:30	USD	Fed Chair Yellen press conference						

Source: Bloomberg, Danske Bank

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