Danske Bank

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Danske Daily

Market movers today

- Today is set to be another quiet day in terms of data releases.
- The Reserve Bank of **New Zealand** (RBNZ) will announce its Official Cash Rate (OCR) decision today. We expect the rate to remain at 1.75%, in accordance with consensus.
- In the **US**, preliminary unit labour cost figures and crude oil inventories data are released.
- **Danish** foreign trade data is out today. Imports and exports rose strongly in May and there was some reversal in June but the underlying outlook is good, as growth continues to be strong in Europe and it is hoped that business investments are rising in Denmark.

Selected market news

The Washington-Pyongyang confrontation continued yesterday with US president Trump threating the North Korean regime with 'fire and fury' amid reports the latter is continuing its missile programme unabatedly amid the recently agreed UN sanctions with North Korea's Kim Jung Un asking his military to examine how to do a strike on the US Guam base. **The continued rise in tensions drove gains in safe haven assets** with USD/JPY breaking below 110 and EUR/CHF below 1.1350. As a result of souring risk sentiment and yen strength, equities were generally lower in the Asian session with the Nikkei down more than 1.5%. **Slightly weaker-than-expected Chinese price indices** showing growth in producer prices at 5.5% y/y in July (vs 5.6 expected) and consumer prices at 1.4% y/y (vs 1.5% expected) were less of a driver amid growing geopolitical concerns.

Yesterday afternoon EUR/USD saw a notable drop below the 1.18 level following the strong JOLTS job figures out of the US which added another second-tier data contribution to reversing the US economic surprise index. The US CPI data out on Friday will be instrumental for whether there is a repricing of the Fed in a more hawkish direction ahead of the September meeting: we look for core CPI to be unchanged at 1.7% which should keep the Fed on a 'cautious path'.

In South Africa, president Zuma survived the no-confidence vote which was cast in the national assembly last night. The rand fell by about 1.6% against the USD in the immediate aftermath of the results, but has since regained some ground. In our view, ZAR may stay under a bit of pressure in the coming months, but the currency has shown itself to be relatively resilient to adverse political developments before as investors eye possible leadership change at the ANC conference in December, a modest economic recovery and the sharp improvement in the external balance over the past year.

Selected readings from Danske Bank

- *Brexit Monitor No. 29: What to watch in coming months*
- *FX Research: EUR/CHF: Patient SNB to let 'reverse gravity' gain traction*

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Fixed income markets

In a very calm week, a few more thoughts on ECB QE: While maturing PSPP holdings played a limited role in H1 2017, recent weeks have seen larger redemptions (likely related to holdings of Dutch, French and Italy/Spain bonds). Reinvestment flows from redemptions are set to become an increasingly important factor - especially in H1 2018, when German bonds, with likely large PSPP holdings, mature. In the short term, we do not expect any QE reinvestments until September (RFGB SEP-17). The German Finanzagentur will provide the sole EUR supply of the day with a EUR4bn tap in the benchmark 5Y (OCT-22). In Scandinavia, the Danish DMO will be in the market with taps in the 10Y (0.5% NOV-27) and the new 2Y benchmark (NOV-20). While we opt for a neutral stance overall on the spread to Germany, given the DGB performance over the summer, we continue to prefer the 10Y segment, where there is still a slight pickup to Germany and support from the DMO's DGB '25 purchases. See more in auction previews - English version: {http://bit.ly/DGBauction_uk} Danish version: {http://bit.ly/DGBauction}

FX markets

The recent EUR/USD uptick is losing momentum as second-tier US data such as yesterday’s JOLTS jobs data spurs significant moves in the USD. That said, it will require a strong US CPI print this week for EUR/USD to drop much further. Remember the 'Sintra accord': central banks appear to have 'agreed' to allow for broader USD weakness as they more or less jointly embark on the path to 'normalisation'. Near term, should the tensions around North Korea continue, safe-haven moves will be the focal point in FX markets, benefitting CHF, possibly JPY but not necessarily USD.

In the Scandies, we are close to being past the holiday period. In Sweden this summer has brought a major political scandal related to information leakage at “Transportstyrelsen” which forced two members of the government to step down. The Minister of Defence is still under threat of being forced to leave his post when parliament opens in September. Moreover, the opposition parties have said that they are considering a vote of no confidence in one or more ministers if the government goes ahead with its tax increase proposals. One should be prepared for at least some political turmoil in Sweden this autumn, a year ahead of the general election. Our base case is that it will not roil the markets though. However, some negative impact on the SEK cannot be ruled out. Meanwhile, EUR/SEK is stuck in a 9.51-9.63 range awaiting production data on Thursday but more importantly the inflation numbers next week, where our forecast is substantially above the Riksbank’s. On Friday, when consensus is formed we will be wiser as to the potential market impact.

The sudden NOK rally initiated late in the US session on Monday – seemingly on no fundamental drivers apart from a modest rebound in the oil price - led to a break of the support trend line from the July bottom. In isolation that’s a bearish signal for EUR/NOK, challenging our patience in awaiting a break above 9.40 before re-selling the cross. Our fundamental predisposition is to sell EUR/NOK but from current levels we do not like the near-term risk/reward. We expect the cross to continue to range trade going into the Norwegian July inflation release on Thursday, which is inherently linked to uncertainty. Bloomberg consensus estimates for the core measure range all the way from 0.9% y/y to 1.6% y/y. Our own forecast for Thursday’s print is 1.2% y/y which would be above Norges Bank’s expectation. Meanwhile, with the latest appreciation, the NOK is now 2% stronger than NB’s last I44 projection which historically would be enough to cancel the positive effect on the rate path from higher inflation. The next NB meeting is not until 21 September.

Following the developments in South Africa we maintain our projection for USD/ZAR at 13.30 at end-September, despite the failure to remove president Zuma. More long-term the focus will be on the flagging support for the ANC party in the polls in the run-up to the election in 2019 especially in light of subdued economic performance and allegations of abuse of power.

Key figures and events

Wednesday, August 9, 2017				Period	Danske Bank	*Consensus*	Previous
3:30	CNY	CPI	y/y	Jul	**1.5%**	*1.5%*	1.5%
3:30	CNY	PPI	y/y	Jul	**5.3%**	*5.6%*	5.5%
9:00	DKK	Current account (nsa|sa)	DKK bn	Jun			...|16.2
9:00	DKK	Trade balance ex ships	DKK bn	Jun			-48
9:00	DKK	Exports	m/m	Jun			
14:30	USD	Unit labour cost, preliminary	q/q	2nd quarter		*1.0%*	2.2%
16:30	USD	DOE U.S. crude oil inventories	K				
23:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%		**1.75%**	*1.75%*	1.75%

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 Christin Kyrme Tuxen, Chief Analyst.

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