

# Danske Daily

## Market movers today

- We have some quite important data releases in Scandinavia. In **Norway**, Norges Bank will publish the Q2 Regional survey (its preferred gauge of economic activity), which should paint a benign picture of the economy. In **Sweden**, we expect CPI inflation fell to 1.7% in May from 2.0% in April. For more see also Scandi section on next page.
- In **Finland**, focus is on the ongoing government crisis, see more below.
- In the **UK**, CPI inflation data for May is released and analysts are looking for an unchanged print at 2.7% y/y. Higher inflation is the main reason why real wage growth has turned negative, which has slowed the economy. However, focus these days is mainly on the political uncertainty, see also *Research UK: May stays (for now) due to Brexit uncertainties* published this morning.
- In **Germany**, we expect ZEW expectations rose slightly to 21.1 from 20.6.
- In the **US**, NFIB small business optimism for May is due out, and consensus expects it to remain basically unchanged but we think it may decline, as Trump is having a hard time delivering on his economic promises (tax reform and deregulation).

## Selected market news

**Government crisis in Finland.** Yesterday, Finland's government collapsed after one of the three coalition parties, the Finns Party, elected a new leader Jussi Halla-aho over the weekend. Halla-aho is known for his strong anti-immigration attitude and on Monday, the two governing coalition partners of the Finns Party, the Centre Party and the NCP, together announced that there is no common ground for cooperation effectively leading to a government collapse. At the time of writing, it is too early to say whether the government collapse will lead to a snap election or if a new government will be formed. Please see *Finland Research: Government crisis – don't panic yet, but risks are rising* for further details.

**US Treasury takes steps to ease regulation on banks.** The Trump administration released its first proposal yesterday to roll back the Obama-era Dodd-Frank Wall Street Reform Act, including a reduction in the scope of the federal bank stability exams, reduced oversight of the large financial institutions, regulatory relief for smaller banks and a loosening of new mortgage restrictions. The Treasury's report can be accessed [here](#).

**US tech share slump continues, despite slight recovery.** Tech shares were down 4% on Friday and continued to be the weakest performing S&P sector yesterday, declining 0.8%. There were also some signs of the sell-off spreading to other sectors, with the overall S&P index ending the day 0.1% lower. However, some recovery were seen towards the end of the day, with the shares of several chip makers turning higher.

## Selected readings from Danske Bank

- *Finland Research: Government crisis – don't panic yet but risks are rising*
- *FOMC preview: Expectations are high but data do not justify a hike yet*
- *French Election Monitor No. 5: Macron on track to win majority*
- *Research UK: Minority government is weak from the beginning*

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## Scandi markets

**Sweden:** Swedish May inflation data are released today at 09:30. Our call; -0.1 % m/m and 1.5% y/y for CPI and -0.1% m/m and 1.7% y/y for CPIF is in line with “market consensus”. A lot of the volatility seen in inflation data in recent months is due to swings in energy prices and airline-tickets; something that creates more noise than any useful information on where price pressures are heading. Looking ahead, we expect CPIF-inflation to stay around 1.7% over the next few months.

**Norway:** Today, Norges Bank will publish the Q2 Regional survey, which is its preferred gauge of economic activity. The GDP figures for Q1 and revised data for Q4 16 revealed that growth has been somewhat stronger than Norges Bank anticipated in the March monetary policy report. The economy seems to have picked up even further, with clear increases in both manufacturing and construction orders. The weak krone should also have boosted expectations in the export industry, domestically-oriented manufacturing and parts of the service sector (tourism). Labour market developments also indicate that growth is somewhat stronger than anticipated even in Q2. We therefore expect the aggregated output index for the next six months to climb from 1.02 in the previous survey to 1.2, equivalent to mainland GDP growth of around 0.6% q/q for the next two quarters. If so, Norges Bank would need to revise up its growth forecast for 2017 from 1.6% in the March report to 2.0% in the next report (June 22), reducing the probability of further rate cuts from the bank's new interest rate projections.

## Fixed income markets

Politics are in focus and very much the driving force. The recent performance in Italy continued as we entered the week with 10Y BTPs having tightened more than 25bp relative to Bunds since Wednesday last week. Also strong performance on the back of the Macron win with 10 OATs now at the tightest level relative to bunds since Nov-16. Considering a funding spread at -13bp (German GC vs. French GC) the move is starting to look exaggerated with the 5Y spread trading sub 20bp now. Today's supply is a tap EUR2-3bn in the NETHER Jul-27 and BTPS 20s and 24s.

Next focal point is FED on Wednesday. The FOMC is highly expected to deliver a rate hike at tomorrow's meeting. However, the market seems less confident in policy changes beyond that point. Next additional rate hike is priced in 2nd half of 2018. Hence, market has little confidence in the 'dots' of the FOMC (these will also be update at tomorrow's meeting).

Main release in the Scandi market will be Swedish inflation figures. We expect the price level to fall by 0.1 percentage points in May, regardless of whether we look at CPI, CPIF or CPIF ex. energy. Beyond today's print, we expect CPIF-inflation to stay around 1.7%. See more in *Reading the Markets Sweden*. Norges Bank will publish the Q2 Regional survey. Recent data has revealed that growth has been somewhat stronger than Norges Bank anticipated in March. We expect the aggregated output index for the next six months to climb to 1.2 (1.02 previously). If so, Norges Bank would need to revise up its 2017 growth forecast to 2.0% (from 1.6%) in the next report (June 22), reducing the probability of further rate cuts.

## FX markets

There was limited reaction in EUR to the strong backing to Emmanuel Macron's party in the French parliamentary election yesterday. It illustrates to us that the boost to EUR from the decline in political uncertainty in euro area has faded. In particular it is noteworthy that EUR/DKK is trading with a heavy tone and yesterday reached the lowest level in over a month of around 7.4350-60 not far from Danmarks Nationalbank's recent intervention level around 7.4330-40. We doubt that we are headed for a new period of downwards pressure on EUR/DKK and should see the pair recover to around 7.4400. The recent weak stock market performance could be a near-term supportive factor if it leads domestic investors to rebalance their FX hedge ratios. NOK is on hold ahead of today's Regional Network Survey. In our view, the market is

priced for a strong report and Norges Bank to subsequently remove the probability of a rate cut when it meets next week. Hence, we need a weak report for NOK to react on the number. Based on the recent incoming data we see a low probability of that. The oil market and thus NOK will also take notice of the release of the OPEC monthly oil market report today and updated information on the compliance to OPEC-non-OPEC production cuts.

### Key figures and events

Tuesday, June 13, 2017				Period	Danske Bank	Consensus	Previous
9:00	ESP	HICP, final	m/m y/y	May			0.0% 2.0%
9:30	SEK	CPI	m/m y/y	May	-0.1% 1.5%		0.6% 1.9%
9:30	SEK	Underlying inflation CPIF	m/m y/y	May	-0.1% 1.7%		0.6% 2.0%
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index	May	1.2		1.0
10:30	GBP	PPI - input	m/m y/y	May		-0.5% 13.7%	0.1% 16.6%
10:30	GBP	CPI	m/m y/y	May		0.2% 2.7%	0.5% 2.7%
10:30	GBP	CPI core	y/y	May		2.3%	2.4%
11:00	DEM	ZEW current situation	Index	Jun	84.8	85.4	83.9
11:00	DEM	ZEW expectations	Index	Jun	21.1	21.5	20.6
12:00	USD	NFIB small business optimism	Index	May		105.0	104.5
14:30	USD	PPI	m/m y/y	May		0.0% 2.3%	0.5% 2.5%
14:30	USD	PPI core	m/m y/y	May		0.2% 2.2%	0.4% 1.9%

Source: Bloomberg, Danske Bank

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