

Danske Daily

Market movers today

- Please note that today at 09:00 CET we publish the **Nordic Outlook**, which is our quarterly publication that presents our view on the economic outlook for the Nordic countries. The publication does not contain new financial forecasts.
- In the **UK**, focus is on Bank of England meeting at 13:00 CET. It is one of the small meetings with an Inflation Report and a press conference, so focus will be solely on the tone in the summary and minutes, as no one expects any policy changes. Our base case is that BoE maintains the hawkish twist to its neutral stance but given Q1 GDP growth was revised down (and not up as BoE expected) and nominal wage growth has declined, risk is tilted towards a more dovish tone. Market pricing seems fair at the moment as the first full hike is not priced in before late 2019.
- Also in the **UK**, we get retail sales for May at 10.30 CET.
- In the **US**, focus is on the Empire and Philly Fed manufacturing indices (both due at 14:30 CET), which may give us some indication about what to expect of ISM manufacturing in May. We also get actual industrial production data for May at 15:15 CET.

Selected market news

Fed hikes despite weaker data, provides details on quantitative tightening. As was generally expected, the Fed delivered its second 25bp rate hike so far this year (only Kashkari dissented). Thereby, the Fed defied the recent trend lower in inflation, as both CPI and PCE are below 2%, and the general softening in US economic data witnessed as of late. At the press conference, Fed Chair Yellen was relatively hawkish, referring to the decline in inflation as ‘noise’, while repeatedly referring to the low unemployment rate. The ‘dots’ were unchanged in projecting one more hike this year, three hikes next year and a neutral Fed funds rate at 3%. Interestingly, however, the Fed issued an addendum to its ‘Policy Normalization Principles and Plans’, providing details on how it expects to shrink its balance sheet in a process that should start later this year. For more information, please *see FOMC Review - Hawkish Yellen ignores inflation and weaker data*, 15 June 2017.

Market sends USD stronger, US fixed income holds on to gains. EUR/USD dipped back towards the 1.12 level, after rising earlier in the day on the weak US May inflation print (core CPI lower to 1.7% y/y vs. expectations of 1.9% and 1.9% in April). US Treasuries sold off slightly on Fed, but still trade richer over the day. The S&P500 index closed the day 0.1% lower, with losses driven by the energy sector.

Selected readings from Danske Bank

- *FOMC review: Hawkish Yellen ignores inflation and weaker data*

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Fixed income markets

Interesting session overnight with US market rallying strongly going into the FOMC meeting on lower CPI and Oil price decreases. The delivered Fed hike was widely expected and although the 'tone' was hawkish including priming 'Quantitative Tightening', the 10Y Treasuries held on to most of the gain from prior to the Fed statement releases and settling 6bp lower.

The next 25bp hike is priced in September 18 contrasting sharply to the FOMC 'guiding' around three hikes in that time span. On 'Quantitative Tightening' the Fed 'expects to begin implementing a balance sheet normalization program this year'. The balance sheet reduction will be initiated at a monthly pace of up to USD 10bn (6bn in Treasuries & 4bn in MBS) and increasing in steps of USD 10bn (6bn in Treasuries and 4bn in MBS) every three months until a total reduction of reinvestments of USD 50bn is reached.

In the EUR market France is tapping EUR7-8bn in 20s, 2'22s and 23s plus EUR1-1.5bn in longer dated linkers. Spain is tapping EUR4-5bn in the 5Y and 10Y benchmark plus the 32s and 37s. Ireland is printing in a new bill today.

In the UK, focus is on the BOE meeting. This will be one of the small meetings without an inflation report and a press conference.

Regarding the Nordics, please note that we are publishing our Nordic Outlook at 9.00 CET with our quarterly economic outlook for the Nordic countries.

FX markets

In the majors, it was a volatile session for EUR/USD yesterday. First, the pair found support up to the 1.13 level on weak US data before a hawkish Fed erased those gains. Real US rates rose on the news from Fed despite the decision to raise rates being about fully priced before the meeting. It indicates that USD should be able to find support short-term in the prospects of Fed looking to add another rate hike later this year and potentially pushing the button on quantitative tightening 'soon'. Regarding the latter, the USD money market will get a taste of tighter USD liquidity today where US corporations pay taxes. That should lead to a roughly USD50bn tightening of USD liquidity rest of the month and ahead of the H2 turn, where the market likely will scramble for USD. We remain tactically short EUR/USD for a dip below 1.10 over the summer. In the Scandies, the strong actual inflation data and data on inflation expectations this week have pushed EUR/SEK to the low end of the recent trading range. Focus will now turn to macro data, which, if it comes out strong, may add further support to SEK near-term. EIA data on US crude stocks yesterday painted a negative picture of oil demand as the market focused on rising gasoline stocks sending oil prices down more than 3%. A hawkish Fed will limit near-term recovery potential for oil prices and keep EUR/NOK at elevated levels despite strong news on the domestic economy out earlier this week.

See key figures and events on page 3.

Key figures and events

Thursday, June 15, 2017			Period	Danske Bank	Consensus	Previous
-	EUR	Eurogroup meeting in Luxembourg				
0:45	NZD	GDP	q/q y/y	1st quarter	0.7% 2.7%	0.4% 2.7%
3:30	AUD	Employment change	1000	May	10	37.4
8:45	FRF	HICP, final	m/m y/y	May		0.0% 0.9%
9:00	DKK	Danske Bank publishes Nordic Outlook				
9:30	CHF	SNB 3-month Libor target rate	%			-0.75%
10:00	ITL	HICP, final	m/m y/y	May		.. 1.5%
10:30	GBP	Retail sales ex fuels	m/m y/y	May	-0.8% 2.1%	2.0% 4.5%
11:00	EUR	Trade balance	EUR bn	Apr		23.1
13:00	GBP	BoE Bank rate	%		0.25%	0.25%
13:00	GBP	BoE government bond purchases (APF)	GBP bn	Jun	435	435
13:00	GBP	BoE corporate bond purchases (CBPP)	GBP bn	Jun	10	10
13:00	GBP	BoE minutes				
13:00	TRY	Central Bank of Turkey rate decision	%		8.0%	8.0%
14:30	USD	Empire Manufacturing PMI	Index	Jun	5.0	-1.0
14:30	USD	Philly Fed index	Index	Jun	25.0	38.8
14:30	USD	Initial jobless claims	1000			245
14:30	USD	Import prices	m/m y/y	May	-0.1% 2.5%	0.5% 4.1%
15:15	USD	Capacity utilization	%	May	76.8%	76.7%
15:15	USD	Industrial production	m/m	May	0.1%	1.0%
15:15	USD	Manufacturing production	m/m	May	0.2%	1.0%
16:00	USD	NAHB Housing Market Index	Index	Jun	70.0	70.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Apr		-0.7

Source: Bloomberg, Danske Bank

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