

# Danske Daily

## Market movers today

- **Trade tensions between the US and China is still in focus. Yesterday evening we got the response from Trump – see below.**
- **At the Sintra conference on monetary policy Mario Draghi delivers an introductory speech at 10.00 CET and ECB's Peter Praet is chairing a panel at 10.30, see the program [here](#).**
- **In the afternoon US releases data on US housing starts and permits. In Scandinavia unemployment in Sweden is expected to show a small decline from 6.3% to 6.1% (seasonally adjusted).**

## Selected market news

The tensions between the US and China continue as President Trump is threatening to impose another USD 200bn in tariff on Chinese exports to the US. China has responded that they would retaliate with 'strong counter measures'. Hence, the trade dispute continues and seems to be escalating. The equity markets responded negatively to the news as US equity futures and most Asian equity markets declined this morning. Furthermore, there was a modest strengthening of the yen and a decline in the oil price. So far the macro-economic impact of the trade tensions between the US and China has been limited, but it is seen having a big impact on global growth if it is allowed to escalate.

The oil price is under pressure not only from the 'trade war' between China and the US, but also from the expected increase in oil supply from OPEC although it is likely to be modest as OPEC has announced a proposal for a modest increase in the supply.

Hence, there are plenty of factors supporting the bond market at the moment and 10Y US Treasuries fell below 2.90% yesterday. On top of the overall positive sentiment in the bond market we are seeing spreads between the EU peripheral government bonds and core-EU continue to grind tighter as there is limited news on the Italian future fiscal policy. The comments from the new Italian finance minister as well as the ECB meeting last week has been very supportive for Italian government bonds. We think that the markets are a bit complacent as we still need to see more evidence that Italy is committed to follow EU budget lines, but the risk is that we will not get more firm information before the autumn. In the meantime spreads continue to tighten.

## Selected readings from Danske Bank

- [FX forecast update](#)
- [Fewer Danish mortgage bonds as the government announces switch from 5Y noncallables into govt guaranteed mortgages](#)

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- [Yield Outlook](#)
- [FX Forecast Update](#)
- [Weekly Focus](#)

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## Scandi markets

**Norway.** The Norwegian Minister of Finance Siv Jensen will hold a press conference on housing regulations today at 11.30. The FSA proposed in February to discontinue the special Oslo rules, but lower the flexibility ratio to 8 % for the whole country, while the LTI (loan to income) <5 requirement was proposed to be extended. Most consultation bodies have agreed, but want a 10 % flexibility quota. Since then, the housing market has tightened rapidly, which means higher risk that the 8 % flexibility quota is continued and/or that the Oslo rules regarding equity requirement for secondary residence (at the moment 40%) is extended in one form or another. Impact for the markets: the stricter rules (eg. full continuation, also by the Oslo rules), the less effect on monetary policy. However, in our opinion, any tighter rules will primarily reduce the upside risk for interest rates (from the housing market), and not increase the downside risk.

In **Sweden**, NDO publishes new borrowing forecasts which we think will be left more or less unchanged. The labour market is still in very good shape, although the last numbers have shown some moderation in terms employment growth. We expect the unemployment rate will drop from 6.3% to 6.1% (s.a.) in May. Finally, we would not be surprised if the National Board of Housing, Building and Planning (Boverket) once again downgrades the forecast for housing starts when they publish a new report today (10.00).

## Fixed income markets

The European fixed income markets will be looking for comments from the ECB conference at Sintra. Otherwise events are scarce today. Germany is tapping in the 2Y segment, and we will be looking for the ECB PSPP redemptions to see how much is going to be reinvested in Germany and to some extent in Portugal in coming weeks. See more in our *Government Bonds Weekly*, 15 June 2018.

The Danish Transport, Construction and Housing Authority announced on 15 June that about DKK 10.8bn worth of subsidised social housing loans are set to be refinanced in connection with the upcoming refinancing of ARMs maturing on 1 October 2018. The loans will be refinanced as government-guaranteed ARMs and will be issued in the 10Y segment. As a result, a volume to the tune of DKK 10.8bn is likely to see a shift of profile from a refinancing interval of five years to ten years and reduce the expected auction volume in the 5Y segment at the August 2018 refinancing auctions. We currently have a buy recommendation on 5Y non-callable bullets versus DGBs. We are still positive on the recommendation. For more details, see [here](#).

## FX markets

It was a relatively uneventful session in the FX markets yesterday, but focus today should be in EUR crosses on comments at the ECB's Sintra gathering with focus today on the macroeconomics of wage-price dynamics; this could shift towards mounting inflation pressure as seen by the ECB and place a floor under EUR. In the EM sphere, watch out for more hints of the recent US-China dispute evolving into a full-blown trade war.

We have just sent out new FX forecasts and have only made minor changes to key crosses. We keep our EUR/USD forecasts unchanged. We have adjusted our EUR/SEK profile only a little: we are currently near-term neutral on EUR/SEK but we do look for a wider range over the summer and still think the Riksbank will postpone the first hike beyond 2018; this will weigh on the SEK later in H2. In EUR/NOK, we think Norges Bank is due to initiate a hiking cycle in September which marks an important fundamental trigger for sending the cross the next leg lower albeit the short-term headwinds such as weaker global growth, a stronger USD and improved structural NOK liquidity remain present limiting the downside potential near term. See more in our *FX forecast update*, 18 June 2018.

## Key figures and events

Tuesday, June 19, 2018			Period	Danske Bank	Consensus	Previous
3:30	AUD	RBA June Meeting Minutes				
7:00	DKK	House prices (Finance Denmark)	q/qly/y	1st quarter		
9:30	SEK	Unemployment (n.s.a.js.a.)	%	May	6.5% 6.1%	6.7%
10:00	EUR	Current account	EUR bn	Apr		6.8% 6.3%
10:00	EUR	ECB's Draghi speaks in Sintra				32
10:30	EUR	ECB's Praet speaks in Sintra				
14:00	HUF	Central Bank of Hungary rate decision	%		0.90%	0.90%
14:30	USD	Building permits	1000 (m/m)	May		1350
14:30	USD	Housing starts	1000 (m/m)	May		1311
						1287.0 (-3.7%)

Source: Bloomberg, Danske Bank

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