# FI and FX Daily Brief



## FI and FX Daily Brief - global bond yield continue to rise

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**Summary**


Global government bond yields continue to rise on the back of the recent statements from Fed and ECB officials as well as a renewed rise in the oil price and the solid supply in the primary market during August and the start of September. The move was driven from the long end as the 10Y US Treasury bond yield is close to 4.75%, and 10Y Bunds rose above 3.3%. The rise in bond yields has continued in Asian trading this morning, where 10Y JGBs is trading around the 3% level, which is the first time since 1996, where we have reached such a level for 10Y JGBs. In the primary market we have both covered bond and SSA deals as well as a regular tap auction from Germany in the 5Y segment.

In the currency market there was a modest rebound in the EURUSD, which is back above 1.16, while USDJPY moved below 160 after the strengthening of the dollar on the back Fed Chairman Warsh speech on Friday at the conference at Jackson Hole.

## Majors FX

EUR/USD reversed part of last Friday's decline yesterday, and rose modestly back above 1.16. While overall moves in G10 FX were limited yesterday, it was still noteworthy that EUR was among the strongest performers during a day when both oil & natural gas prices moved higher, and German flash inflation data came out below expectations. While rising energy prices are constantly weighing on Euro Area's terms-of-trade due to costlier imports, markets also expect the ECB to react by hiking rates relatively more aggressively vis-à-vis the Fed. But even so, we think that further rise in energy prices would weigh on European growth outlook towards winter, and eventually be a negative driver for EUR/USD. We continue to keep a close eye on the refined oil product prices, as the spread between European EBOB gasoline and Brent crude oil rose above USD50/barrel yesterday - now exceeding the previous peak seen after Russia's attack to Ukraine in 2022. Today, we forecast EA flash August core HICP slightly below consensus at 2.4% y/y (cons. 2.5%). We expect US ISM Manufacturing index to follow the strong regional indices higher, and look out for July JOLTs data for clues about the direction of US labour demand.

## Majors FI

US-Iran strikes pushed yields higher over yesterday's session in a bearish steepener. The 10Y Bund ended the day up 4bp and slightly above 3.30%, with spreads to peers remaining unchanged. Front end EUR ZC inflation climbed 5-8bp and Brent crude hovered around USD 90/bbl. German HICP inflation in August increased to 2.9% y/y (cons: 3.1% y/y) from 2.8% y/y, driven by energy and core goods, while services and food pulled in the other direction. Core CPI inflation was unchanged at 2.4% y/y with momentum remaining rather contained at 2.5% (3m/3m SAAR) and energy prices still not transmitting broadly to underlying inflation. We stick to our call for a 25bp rate hike by ECB at the September meeting, which is about fully priced in by markets and expect ECB will keep the deposit rate at 2.50% throughout 2027. The US JOLTS report will be the main data release on today's agenda.

Our RtM USD, 1 September published this morning, looks back at Friday's Jackson Hole Symposion and Fed Chair Warsh's first keynote speech. We interpret Warsh's view of the economy as the following: inflation is above target, financial conditions are not clearly restrictive, the labour market is steady and growth is generally solid, but uneven across sectors. Markets now look to the upcoming FOMC meetings to see if Warsh will follow through on his inflation concerns. We maintain our call for Fed rate hikes at the December and March meetings, but the risk is tilted towards earlier hikes.

On supply, Germany is coming to the market selling EUR 5.5bn in OBL 2.9% 2031. There will be plenty of SSA and covered bond issuance, such as: covereds from Austria and Italy, 5Y Land Hessen and 5Y ASFINAG where Danske Bank is part of the lead group.

## Scandies

EUR/NOK has been remarkably stable to start the week, essentially unchanged from Friday's close. Yesterday's FX transactions announcement from Norges Bank showed that it will be a net buyer of foreign currency in September, implying net NOK selling of NOK 176m per day. Higher oil and gas prices have increased the amount of foreign currency received from the petroleum sector, leaving Norges Bank to sell more FX to fund government-related flows. Overall, these flows are marginally NOK-negative, but at just NOK 176m per day, they are too small relative to daily EUR/NOK turnover to be a meaningful market mover. Looking ahead, next week's August CPI print will be the next key domestic catalyst for NOK and will be crucial for Norges Bank's September decision, which markets currently price at around a 60% probability of a hike, broadly in line with our call. Beyond that, NOK is likely to remain primarily driven by developments in the oil market, where prices are unlikely to fall significantly in the near term given the first US-Iran strikes in around a month. We remain constructive on NOK and expect EUR/NOK to move lower over the coming month.

Swedish rates followed European dittos higher yesterday, in a slight bear flattening fashion. With only PMI's on the domestic agenda this week, we will likely have to wait until next week's (7$^{th}$ September) flash estimate of the August inflation before we see any domestically driven move in either rates or FX space. And until then, Swedish rates and the Krona are mainly in the hands of global sentiment. The SEK had a rough end to last week, weighted down by the stronger USD in the wake of Warsh's speech at Jackson Hole. But although EUR/SEK has broken above the firm resistance area found above 11.10, we have yet to see any sustained follow-through higher. Next level to look out for to the topside is around 11.20, which also rhymes well with what is implied by relative rates, and our 3m target for the cross. For the time being, however, the Krona remain mainly in the hands of global sentiment and the USD, which are likely to act as guides for EUR/SEK in the near-term.