Danske Daily - Danske Bank Research

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In focus today

- The US Jobs Report, the week's most important data release, is due. We expect nonfarm payrolls at +65k, slightly above consensus, and an unchanged unemployment rate at 4.1%, suggesting a still-tight labour market. We expect average hourly earnings to rise 0.3% m/m. A solid report could put further pressure on the Fed to hike rates.
- In Germany, July factory orders are released. Orders have recovered in recent months after the April slump, rising 3.1% m/m in June, though the increase was partly driven by large orders and the underlying gain was more modest.
- State elections in Germany start this Sunday with Saxony-Anhalt, the first of three votes in eastern Germany this month and a key test of AfD momentum ahead of 2027. The AfD polls around 42% versus CDU at 23%. With FDP and BSW likely below the 5% threshold, wasted votes could give AfD an outright majority despite securing well under half the vote, though all mainstream parties rule out a coalition. We see no direct market impact, only a marginal increase in Germany's political risk premium: it does not directly affect the federal government, and an AfD-led state would hold just 4 of 69 Bundesrat seats.

Economic and market news

What happened yesterday

In commodities, Brent crude increased above USD 97/bbl yesterday, reaching its highest level since mid-July. Prices increased on the back of tighter supply conditions, as the slower release of US strategic reserves compared to over the summer has made the reduced flow of oil through the Strait of Hormuz more apparent. On the demand side, the weaker USD and still solid global growth is adding further upward pressure on the oil prices.

On the wires, Fed's Waller said he is inclined to support keeping the policy rate unchanged at the September meeting if August inflation data shows continued progress. However, he also noted that if inflation comes in hot, he would consider a September rate hike. The comments put further emphasis on the upcoming inflation release as key for the Fed's near-term policy decision. The USD weakened slightly after the remarks, while market pricing for a September hike moved closer to a 50/50 call from around 60/40 in favour of a hike prior to the comments.

In the US, the ISM services index rose to 55.4 in August (cons: 54.2, prior: 54.1), coming in stronger than expected and pointing to solid momentum in the services sector. The details were also firm, with business activity, new orders and prices all increasing notably, while the employment index ticked up only slightly and remained in contractionary territory. The final S&P Global services PMI was revised slightly lower, but still showed remarkable strengthening compared to previous months. Overall, both reports support the notion of strong aggregate demand.

Also in the US, the Challenger layoff report for August showed planned job cuts increased to 53k in August, compared to a two-year low in July of 33k. AI-related cutoffs accounted for merely 7% of announced layoffs, down from around a third in recent months. Layoff levels continue to be low in a historical perspective.

In the euro area, the final services PMI edged down to 51.6 in August (flash: 51.7), while the composite PMI came in at 52.0 (flash: 52.1), confirming steady private sector growth from the flash release. Demand remained solid, while price pressures stayed elevated ahead of next week's ECB meeting, where we and markets expect a 25bp hike.

In the UK, the final services PMI increased to 52.5 in August (flash: 52.8, prior: 52.1), confirming a second consecutive month of expansion and pointing to resilient demand. Price pressures picked up, which remain a focus for the Bank of England.

In Sweden, the flash release showed that services PMI increased to 55.8 in August (prior: 54.2), confirming that the services sector remains on a strong trend. The improvement was broad-based but primarily driven by higher business volume. The price component declined and is starting to approach a more normal level, which we did not see in the manufacturing PMI earlier this week. We have also adjusted our Riksbank call and now expect 25bp of hikes in November and February, respectively.

Equities: Global equities had their strongest day since early August, rising 0.9%. While defensives led on Tuesday and Wednesday, yesterday saw a clear rotation into cyclicals, with all 7 cyclical sectors outperforming defensives. Financials and com services rose about 1.4% each. In the US, S&P500 rose 1.1%, Nasdaq 1.4% and Russell2000 was up 0.5%. Overnight, both Asian equities and US futures are in green.

FI and FX: European bond yields rebounded yesterday with 10Y German government bonds declining some 3bp, while France declined almost 5bp. It was a parallel shift downwards across the yield curves. In the US there was also an initial decline on the back of Fed Wallers comments, but then yields began to rise in the afternoon and 10Y Treasuries ended unchanged.

The yen continued to strengthen versus the dollar and moved towards the 155-level, while the euro moved above the 116-level versus the dollar.

Yesterday, we published our ECB preview, see *ECB Preview - Hiking, not guiding*, 3 September. We expect a 25bp hike, which is the consensus view and priced by the market. Markets will be looking at comments for future hikes.

Fixed income and FX markets

Majors FX

EUR/USD rose back above 1.16 following dovish comments from the Fed's Waller. Quoting John Lennon, Waller encouraged markets to 'give disinflation a chance' ahead of the upcoming rate decision on 16 September. With more data releases still to come before the meeting, he emphasized that "If inflation comes in hot, I would consider a rate hike". But before next week's CPI release, today's data focus will be on the US August Jobs Report. We forecast NFP at +65k, unemployment rate at 4.1% and average hourly earnings at +0.3% m/m SA - all largely in line with consensus.

USD/JPY dropped sharply for the second day in a row. Part of the reason is likely positioning ahead of the upcoming Bank of Japan meeting in two weeks, where the market expects a 25bp hike with some speculation that the central bank could opt for an extraordinary 50bp hike. The USD also came under pressure yesterday and added to drop in USD/JPY.

Majors FI

Dovish remarks by the Fed's Waller sent yields lower, despite Brent crude rising to USD 97/bbl. Waller said he was inclined to support holding the policy rate steady at the FOMC's September meeting, dependent on the August inflation print showing "continued progress" (released Friday next week). USD swap rates and US Treasury yields moved 4-5bp lower in the front and medium tenors. The US services PMI reading was stronger than expected at 55.4 in August (cons: 54.2, prior: 54.1), with business activity, new orders, and price indices increasing, while the employment index remained in contractionary territory. The move in USD yields spilled over into EUR markets, sending the belly of the EUR swap rates curve down by 4bp and Bund yields declined some 2-4bp across the curve. Final euro area services and composite PMIs about confirmed the flash releases. The aggregate euro area growth looks to be around potential in Q3 despite the negative supply shocks. Today's US Jobs Report will be in the spotlight, and we expect nonfarm payrolls at +65k and an unchanged unemployment rate at 4.1%, which would suggest a still-tight labour market.

Scandies

In *Reading the Markets Sweden* released this morning, we close two recommendations and open one new. We close our short SGB1060 (May-28) position vs a matching EUR swap. While we still look for SEK underperformance vs EUR, the specific bond has cheapened on the curve, making it less appealing to be short from here. We also close our relative FRA box flattener in Dec26/Dec27 vs EUR. Instead, we open a new recommendation to Pay SEK Mar27 FRA against EUR Dec27 Euribor. In the FX section, we look closer at the general election held next weekend. Historically, elections have had little direct impact on EUR/SEK, but volatility has tended to increase and should we see a prolonged process to form a government, it may also weigh on the currency.

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