FI and FX Daily Brief

FI and FX Daily Brief. Focus on US labour market data

Summary

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

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 Danske Research. We expect a 25bp hike, which is the consensus view and priced by the market. Markets will be looking at comments for future hikes.

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 16th of 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 RtM 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 up 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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