# FI and FX Daily Brief


### Summary

Yields rose yesterday as energy prices pushed higher, with EUR swaps rising around 8bp higher in the 2Y to 10Y segment of the curve. The US announcement of the size of the buyback announcement was slightly less than market anticipated, and we saw the EUR/USD edge slightly higher in tandem with longer Treasury yields. Today, focus turns to the ECB meeting, where a hike is widely expected. We don't expect Lagarde to rock the boat materially, but keeping all options open, which should limit the market reaction in our view. We expect Danmarks Nationalbank to follow the ECB with a 25bp hike. In Norway, this morning's inflation print will be hugely important for Norges Bank's decision later this month. While EUR/NOK made new YTD lows yesterday, the SEK has been a relative underperformer this week.


### Majors FI

Yields moved higher during yesterday's session as headlines related to the war in the Middle East pushed energy prices higher. The Brent oil futures contract broke above USD 101 per bbl, and European gas prices continued higher as well, with the front-month futures contract at its highest level since 2022. The EUR swap curve rose by 8bp across the 2Y to 10Y segment of the curve. 10Y France and Italy widened against Germany, by around 3bp.

Today, focus turns to the ECB meeting. A 25bp hike is widely anticipated so attention will turn to Lagarde and her comments during the press conference. We expect Lagarde to retain full optionality over the future rate path and provide no firm guidance, limiting the market reaction. See more in our ECB Preview - Hiking, not guiding, 4 September. Given the increase in energy prices and inflation pricing, it is worth highlighting that the cut-off date for ECB forecasts was 18 August. Since then, Brent oil is around 10% higher and the TTF gas price is around 20% higher.

US yields also rose yesterday, but to a lesser extent with the swaps 4-5bp higher. The US Treasury announced yesterday that the buyback sizes will be increased to USD 6bn, with the first operation using the new size is scheduled for today. US 10Y rose around 3bp when the size was announced, suggesting that markets had anticipated a larger amount. Tonight, the US will auction USD 22bn of 30-year bonds, which will be a further test of the long end. At 5.30%, the 30Y UST yield is at its highest levels since 2007.

Italy will supply the market with 3Y and 7Y bonds for up to EUR3.5bn each, and, at the very long end with up to EUR 750m in the 2.15% 2072 bond.

### Majors FX

EUR/USD ultimately edged only cautiously higher after some back-and-forth trading through yesterday's session. The US Treasury announced that the size of the first increased long-end buyback operation conducted today will be USD6bn. This was on the lower end of expectations, as it just barely fulfils the guidance for "more than doubling" the earlier amount of USD2bn. Furthermore, the Treasury did not provide guidance for later long-end operations that are conducted roughly every 1-2 weeks. Long-end UST yields ticked modestly higher, US swap spreads tightened and EUR/USD declined, but the moves were relatively contained compared to the August announcement. Brent oil price rose back above USD100/barrel, and other energy prices remain on the rise as well. European TTF natural gas price temporarily broke through EUR80/MWh for the first time since late 2022, and electricity futures prices in Northern Europe have also risen notably in September. Overall, euro area's commodity terms-of-trade have reached their weakest level since early 2023, and over the medium-term, we see further rise in energy prices as a relatively larger downside risk to EA growth outlook (vs. the US), and a negative driver for EUR/USD. Today, we don't expect Lagarde to rock the boat materially, but looking further ahead, our EUR strategists continue to see downside risks to current ECB pricing. Our forecasts for upcoming US inflation releases are also in line with consensus, but we will keep a close eye on the PPI data released already today, unusually ahead of the CPI tomorrow.

**Scandies**

SEK has been a relative underperformer this week, with EUR/SEK rising to 11.15 and USD/SEK to 9.58. The move reflects weaker risk sentiment, as oil prices have climbed above 100 USD/bbl, alongside neutralized expectations of a Riksbank hike in September, after the soft CPI print. The ECB is widely expected to deliver a 25bp hike today, which would widen the policy rate gap to 75bp versus the Riksbank. Looking at our rate models, there is still upside in both EUR/SEK and USD/SEK, in line with our forecasts, driven by rate differentials and the broader risk sentiment. NOK/SEK continues to trend higher as elevated oil prices support the Norwegian krone. With the Riksbank remaining dovish and volatility in NOK/SEK staying relatively low, the carry trade is becoming increasingly attractive, weighing on SEK. The policy rate gap already stands at 250bp and could widen further if Bank of Norway delivers another rate hike.

EUR/NOK made new YTD lows in yesterday's session, with the NOK continuing to benefit from rising oil prices, which topped USD 100/bbl for the first time since late July. The catalyst is the escalating tensions in the Middle East, where any near-term de-escalation increasingly looks elusive. The Iran-Oman deal that was described as "imminent" last week has effectively collapsed in the face of renewed military escalation. While the NOK is currently more or less solely in the hands of the global environment - and not least energy prices - this morning's Norway August CPI print will be hugely important for Norges Bank's decision later this month. We expect core inflation to rise from 2.7% to 3.1% y/y, partly reflecting base effects from last year's sharp cut in kindergarten prices. Even so, this would remain below Norges Bank's June forecast of 3.3%. We maintain our call for a 25bp hike to

4.50% on 24 September. That said, a downside inflation surprise this morning and/or a weaker Regional Network Survey - due on 17 September - could see Norges Bank remain on hold. We remain constructive on the NOK in the near term, although we also highlight that the move higher increasingly looks exhausted unless oil consolidates above USD 100/bbl.

Given the recent rise in the global government bond yields including Denmark, then we are very close to opening the 10Y interest only version of 5% 30Y callable (5% 2059IO). The price spread to 4'59IO is expected to be around 4.5-5pts and with a cash price of 94-94.25 for 4'59IO, then the mortgage banks should open a 5% 2059IO.

The initial reaction to opening a 5% 30Y callable is a bit risky in this environment. However, with 5% 2056IO closed for issuance, then the mortgage banks have to open a new series such as the 5% 2059IO. We expect that the opening of 5% 2059 will put some pressure on 5'56IO and 5'53O

**Tactical views**

**FX**

EUR/USD - On a structurally declining trend, target 1.12 in 12M

EUR/NOK - Tactically neutral to slightly bearish. Strategically bullish.

EUR/SEK - Dovish Riksbank skews risks to the topside in EUR/SEK

EUR/GBP - Tactically neutral and strategically bullish

USD/JPY - Looking for strategic selling opportunities

EUR/DKK - DN to cap EUR/DKK around the 7.4758 peak from June

USD/CNY - Tactically sell on rallies, strategically bearish

**Fixed Income**

Europe - Bund ASW-spreads to tighten

US - 10Y US Treasury yields to hit 5% over the coming year

Sweden - Look for SEK underperformance vs EUR

Norway - Look to enter steepeners in the coming month

Denmark - Long high-coupon callables versus DGBs and swaps

**Commodities**

Oil - remains in the hands of developments in the Middle East

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