15 May 2017

Danske Daily

Market movers today

- Today is a rather quiet day in terms of data releases (so is the rest of the week actually). In the US, regional PMIs begin to tick in now and we estimate them to have declined from their extremely high levels, as they have overshot ISM/Markit PMI. The Empire manufacturing index data is due out today.
- In Denmark, the GDP indicator for Q1 is due to be published today at 09:00 CET. We estimate GDP grew by 0.4% q/q in Q1, as private consumption seems to have made a decent start to 2017 and the statistics for business revenue are also pointing up.
- In Norway, trade data for April is due out today but more important is the GDP data for Q1, which is due out tomorrow.

Selected market news

The German state election in North Rhine-Westphalia proved to be another victory for CDU/CSU and Angela Merkel. Given that Merkel continues to solidify her position of strength, the 'Schulz-effect' fading and the fact that North Rhine-Westphalia is the most populous of the German states, the outcome bodes well for Merkel's chances of being re-elected as Chancellor at the general federal election in September.

While Chinese industrial production and retails sales released this morning were largely in line with expectations, we continue to see risks in China as tilted to the downside. PMI decreased sharply in April, commodity prices for oil and metals have lost momentum, there has been a sharp rise in yields and the Chinese stock market has fallen over the past month to the lowest level in four months See *Strategy: Downside risks to China – and what it means for the market*, 11 May 2017.

US retail sales and CPI data released on Friday confirmed that the US economy is slowing down. While retails sales remained strong (although weaker than expected), the CPI data showcased an economy that is slowing down. Headline inflation decreased to 2.2% y/y (2.4% in March), but even more interesting was that core inflation was unable to offset the surprising drop seen in March – even with the timing of Easter having an upward effect on April's print. On the inflation front, the market now shifts to April's PCE prints (due to be released 30 May), which the Fed tends to prefer as its benchmark when reviewing economic conditions.

Trading during Asian hours has been fairly uneventful, with Japanese government bond yields slightly lower, Nikkei slighter down and Hang Seng adding 0.5%. However, oil advanced after Saudi Arabia and Russia said they favoured extending production curbs.

Customer satisfaction

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Selected readings from Danske Bank

- *Strategy: Downside risks to China – and what it means for markets*, 11 May
- *Bank of England Review: Maintains hawkish twist to neutral stance*, 11 May
- *ECB research: Hawkish wording but changed forward guidance less likely*, 10 May
- *Research France: Clouds lift over Europe after Macron wins presidency*, 8 May

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Fixed income markets

The EUR FI market remains in search of the next ‘theme’. The next general election is coming up in Germany, and therefore Sunday’s state election in North Rhine-Westphalia (+1/5 of German voters) was an important indication on whether SPD will be able to threaten Merkel’s CDU at the general election in September. Based on Sunday’s result, that does not seem to be the case, with CDU beating SPD in a state where SPD has fared well historically. In short, Merkel has added to her strong lead recently and for now it appears that the German general election will have limited market impact.

The ECB will undoubtedly remain the centre of attention with the June and September meetings being the focal points. Towards the end of this week, we will have Mario Draghi, Peter Praet and Vitor Constancio speaking. The market will be scrutinising upcoming speeches, to see if Friday’s Der Spiegel article was really ‘a signal’ of the board converging towards tapering starting in January 2018.

EUR supply this week is kicked off today with Slovakia issuing (10Y and 15Y), Germany will be tapping in Buxl on Wednesday while France and Spain will be issuing on Thursday. The window is also wide open for syndicated deals with a new 30Y Italy being a potential candidate.

In the Scandi sphere, Denmark is due to release Q1 GDP figures today (we forecast 0.4% q/q) and more interestingly, Norway will follow tomorrow (we estimate 0.6% q/q). On Tuesday, the Riksbank will present its proposal for a new target variable. We believe it will propose a change to the CPIF target but not a new tolerance (or for that matter a target) interval, as it could threaten the credibility of the inflation target. On Wednesday, the Danish DMO is due to launch a new long 2Y (DGB 0.25% Nov'20). The new bond will replace the former 2Y benchmark DGB Nov'18 on the primary list of on-the-run bonds immediately.

FX markets

USD dropped versus all G10 currencies on Friday amid weaker-than-expected US retail sales data. USD/JPY fell from 113.90 to 113.12 while EUR/USD bounced back above the 1.09 figure, trading at 1.0930 this morning. According to the latest IMM positioning data, non-commercial investors reduced EUR shorts further last week, and speculative accounts are now net long EUR for the first time since 2014 suggesting that risks – from a positioning point of view – are more balanced. While the level shift in EUR/USD, which took the cross into higher ranges after the first round of the French election, is likely to prevail, we think that the Fed’s upcoming announcement on its QT scheme could lend some support to the USD in the near term. However, we still think that the significant move to watch out for on a 12M horizon is a higher EUR/USD, which is likely to be fuelled by an ECB shift away from further easing while fundamentals such as valuation and current-account balances remain supportive for the cross as well.

EUR/SEK has recovered somewhat following the strong decline on Thursday, where the cross fell on the back of the high Swedish inflation print. While the cross still trades above the fair value implied by short-term interest rates, which is around 9.50, we still see EUR/SEK trading in the range of 9.45-9.70 over the next few months. The SEK is indeed weaker than the Riksbank’s forecast, but at the same time, the money market curve is still steeper than the Riksbank path – a contradiction that is likely to be an obstacle for any meaningful rebound in the SEK near term.

EUR/NOK continues to hover around 9.35 as last week’s increase in the oil price has aided the NOK. While the domestic picture in Norway still looks solid and the GDP figures for Q1 due this week are likely to show that the mainland GDP expanded 0.6% q/q, above the trend rate and Norges Bank's projection, we still emphasise the importance of following global development in order to capture NOK movements, with the oil price remaining a key driver.

Key figures and events

Monday, May 15, 2017				Period	Danske Bank	*Consensus*	Previous
4:00	CNY	Industrial production	y/y	Apr		*7.0%*	7.6%
4:00	CNY	Retail sales	y/y	Apr		*10.9%*	10.9%
4:00	CNY	Fixed assets investments	y/y	Apr		*9.1%*	9.2%
8:00	NOK	Trade balance	NOK bn	Apr			22.7
9:00	DKK	GDP indicator	q/q	1st quarter	**0.4%**		0.4%
9:30	SEK	Capacity utilization, industry	%	1st quarter			89.6%
10:00	ITL	HICP, final	m/m|y/y	Apr			...|2.0%
10:30	EUR	Portugal, GDP, preliminary	q/q|y/y	1st quarter			0.6%|2.0%
14:30	USD	Empire Manufacturing PMI	Index	May		*6.0*	5.2
16:00	USD	NAHB Housing Market Index	Index	May		*68.0*	68.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Mar			19.3

Source: Bloomberg, Danske Bank Markets

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Expected updates

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Date of first publication

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