

Danske Daily

Market movers today

- Today, the Riksbank will present a proposal on target variables and possible intervals (09:30 CET). Overall, it seems likely that the Riskbank will change to target the CPIF but it seems more questionable whether it will introduce a tolerance interval. Our assessment is that neither a change of target variable nor a new tolerance range will change the monetary policy pursued. For more, see *Reading the Markets: Sweden*, 11 May.
- In Norway, GDP figures for Q1 are due out today. We estimate that mainland GDP climbed 0.5% q/q, which is above Norges Bank's projection in the March monetary policy report (0.43%).
- We estimate UK CPI inflation rose to 2.8% y/y in April from 2.3% y/y, which is higher than consensus. The fact that many UK gas and electricity companies have lifted their prices from April and the timing of Easter (April 2017, March 2016) make it more difficult to estimate inflation in April.
- In Europe, relief over the French presidential election pro-EU outcome is likely to drive ZEW expectations upward further (supported by rising Sentix expectations in May).
- In the US, industrial production figures for April are due.

Selected market news

Further controversy was added to Donald Trump's short tenure at the White House with **the President reportedly revealing intelligence secrets at the meeting with Russian Foreign Minister Sergey Lavrov last week**. A White House official has dismissed the story as untrue, but the episode has added to the general uneasy atmosphere around the presidency among both Democrats and Republicans.

Yesterday the ECB released the first data regarding the utilisation of their altered securities lending facility. Since the ECB started accepting 'cash for bonds' (implemented mid-December 2016) the market has been looking for clues to the effectiveness and extent of the facility. The figures disclosed a 'cash for collateral' utilisation of EUR18.1bn, which is well below the limit of EUR50bn. With this release the ECB has shown that the current securities lending facility is fully operational and has plenty spare capacity, reducing the urgency of the ECB to alter the facility a further.

Saudi Arabia and Russia's willingness to extend the supply-cut deal into March 2018 helped a **further rebound in the oil price with Brent Crude** trading briefly above USD52.5 per barrel but settling near the USD52 per barrel mark. However, large producers Iran and Iraq have been talking about expanding their production capacity in coming years, which does not bode well for a long-term extension of the supply cuts and could add downward pressure on the oil price.

Customer satisfaction

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Selected readings from Danske Bank

- *Scandi markets ahead - GDP for Q1 looks promising in Scandi countries*, 14 May
- *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

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Scandi markets

Norway: Q1 GDP figures will be published this morning. Short-term indicators suggest that growth is picking up generally. Growth in private consumption is moderate but there is strong growth in housing investment and government demand. There is much to suggest that business investment is rising and we may well see an upward correction in mainland exports after the sharp fall in Q4. Manufacturing production has also increased for the first time since 2014, which may reflect an easing of the headwinds from oil-related industries. The accelerating fall in unemployment also indicates that growth picked up in Q1 and this is confirmed by Norges Bank's Regional survey. We estimate mainland GDP climbed 0.5% q/q, which is above Norges Bank's projection in the March monetary policy report (0.43%). There is some upside risk to our estimate.

Fixed income markets

France is set to launch a new 30Y today through syndication today. The announcement yesterday triggered a bearish sentiment with 30Y Germany selling off 5bp. 30Y Germany at 123bp is just 1bp from the YTD high in yields. Buxl ASW has tightened more than 10bp over the past month.

In addition, Belgium cancelled the auction scheduled for 22 May and the DMO stated that it is 'monitoring the market' and 'will provide details later' suggesting another potential syndicated deal this week. Oil climbed higher again yesterday which could also have added to the bearish EUR FI sentiment. Interestingly, there was a limited spill over to the long-end periphery causing substantial tightening versus Germany.

In December 2016, the ECB (and NCBs) introduced the 'bond for cash' lending facility in an attempt to ease the very squeezed repo market. However, up until yesterday there was no information on to what extent this facility was being used. Yesterday's release showed that the 'cash for bond' in the PSPP securities lending amounted to EUR18.1bn in April (March: EUR18bn, February: EUR12bn, January: EUR11.3bn and December: EUR6.8). The Eurosystem did not provide any breakdown by country, but it is fair to assume that the bulk of the lending versus cash is concentrated in Germany. With the announcement, the Eurosystem can show that the facility is indeed fully operational and still has plenty of spare capacity (maximum is EUR50bn). Interestingly, the release probably lowers the likelihood of the ECB altering the repo facility at the upcoming meetings.

In Scandinavia, focus will be on the Riksbank today, which is due to publish a study (referral) on a possible change of the target variable from CPI to presumably CPIF. If so, it will be undramatic as CPIF (excludes mortgage rates) has been the operational policy variable for several years.

FX markets

The EUR generally remains supported and EUR/USD continues to trade just below the 1.10 figure. As argued in our new *FX forecast update* (15 May), released yesterday, we still think the big move to watch out for in EUR/USD is a move higher possibly fuelled by an ECB shift away from further easing, and we lifted our 3-12M forecast to 1.09 in 3M (1.06 previously), 1.11 in 6M (prev. 1.09) and 1.16 in 12M (1.14). Near term, however, we still expect USD to recover slightly on the back of the Fed announcing a QT scheme and an US interest rate hike in July. We target EUR/USD at 1.07 in 1M.

EUR/GBP broke above 0.85 yesterday, supported by the positive momentum in the EUR. As such, we still expect the cross to trade within the 0.84-0.85 range mostly ahead of the UK election on 8 June, as we see little reason for GBP selling pressure driven by election risk premium this time. See *FX Strategy: UK snap election not a catalyst for a higher EUR/GBP* (10 May) for details. We have an above-consensus estimate for today's inflation print in the UK estimating a rise in CPI inflation in April to 2.8% y/y. This could lend a little support to GBP driven by an increase in Bank of England rate hike expectations. However, high inflation, on the

other hand, will only worsen the pay squeeze, supporting our view that growth will continue to be the weak side in coming quarters/years in the UK (as the scope for private consumption growth is limited). We still see the Bank of England on hold for a long time.

EUR/NOK bounced back up to the 9.39 level yesterday afternoon following the solid oil-driven NOK recovery seen since 5 May. As such, the Norwegian normalisation story, valuation and real rates remain clear NOK positives and today's Q1 GDP figure is expected to confirm this. However, it is difficult to identify any imminent triggers for a NOK turnaround as global business cycle weakness will remain a NOK challenge, while Norges Bank is unlikely to turn hawkish in June. Also, we think the latest oil price rise reflects that markets have once again close to fully priced in an extension of an OPEC output freeze agreement. We have thus lifted our EUR/NOK forecasts to 9.30 in 1M (from 9.00), 9.30 in 3M (8.90), 9.10 in 6M (8.70) and 9.00 in 12M (8.70).

EUR/SEK has trended higher in recent days supported by a general EUR recovery and likely also NOK/SEK flows amid a rebound in oil. EUR/SEK is now back trading above the levels seen just before the 'plunge' on 11 May, when the higher-than-expected inflation numbers gave support to the SEK. While our short-term models suggest EUR/SEK is some 1.5% overbought, and strong real macro data remains a SEK positive, any substantial rebound in the SEK requires a shift in Riksbank's stance, in our view. That is not likely to happen any time soon though, and as long as the Riksbank and the ECB stay soft, EUR/SEK is likely to remain elevated. We have lifted our 3-12M EUR/SEK forecast, maintaining a modest decline in the EUR/SEK forecast. We keep 1M at 9.60 and raise 3M, 6M and 12M to 9.50 (previously 9.40), 9.50 (9.30) and 9.30 (9.20).

Key figures and events

Tuesday, May 16, 2017

				Period	Danske Bank	Consensus	Previous
3:30	AUD	RBA May Meeting Minutes					
6:30	NOK	Consumer confidence	Net. bal.	2nd quarter			5.2
8:00	NOK	GDP (mainland)	q/q y/y	1st quarter	0.6% 1.5%		0.3% ...
8:00	NOK	GDP (total)	q/q	1st quarter			1.1%
8:45	FRF	HICP, final	m/m y/y	Apr	0.1% 1.4%		0.1% 1.4%
10:00	ITL	GDP, preliminary	q/q y/y	1st quarter			0.2% 1.0%
10:30	GBP	PPI -input	m/m y/y	Apr			0.4% 17.9%
10:30	GBP	CPI	m/m y/y	Apr	0.5% 2.8%	0.4% 2.6%	0.4% 2.3%
10:30	GBP	CPI core	y/y	Apr	2.3%	2.2%	1.8%
11:00	DEM	ZEW current situation	Index	May	80.5		80.1
11:00	DEM	ZEW expectations	Index	May	21.3		19.5
11:00	EUR	Trade balance	EUR bn	Mar			19.2
11:00	EUR	GDP, second release	q/q y/y	1st quarter	0.5% 1.7%		0.5% 1.7%
14:30	USD	Housing starts	1000 (m/m)	Apr		1250	1215.0 (-6.8%)
14:30	USD	Building permits	1000 (m/m)	Apr		1270	1267.0 (4.2%)
15:15	USD	Capacity utilization	%	Apr		76.3%	76.1%
15:15	USD	Industrial production	m/m	Apr		0.4%	0.5%
15:15	USD	Manufacturing production	m/m	Apr			-0.4%

Source: Bloomberg, Danske Bank Markets

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Expected updates

Each working day.

Date of first publication

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