

# Danske Daily

## Market movers today

- Today is a quiet day in terms of economic data releases. In the UK, the labour market report for March is due. We estimate the unemployment rate (3M average) was unchanged, as there is still no evidence that Brexit uncertainties and slower growth have hit the labour market. We estimate the annual growth rate in average weekly earnings ex bonuses (3M average) fell from 2.2% to 2.1%, meaning that nominal wage growth continues to be subdued despite higher inflation.
- The euro area final HICP figures for April are due out. The details should be especially interesting for April, as they should reveal to what extent Easter drove the inflation figure up (see *Core inflation surprised on the upside but not the first sign of higher underlying price pressure*, 2 May).
- The Polish central bank is expected to keep the policy rate unchanged at 1.50%.
- There are no market movers in Scandi today.

## Selected market news

**US President Donald Trump faced a new headwind** on Tuesday after a source said Trump had asked former FBI Director James Comey to end the agency's investigation into ties between former White House national security adviser Michael Flynn and Russia (see *Reuters*, 17 May 2017). The growing concerns over US politics weighed on equity markets overnight with the S&P futures down around 0.5% overnight. The USD has also weakened and **EUR/USD moved above 1.11 for the first time since November 2016** prior to the election. Following market concerns over European politics for some time, the worry seems to be moving in the direction of US politics. The decline in risk appetite has pushed US bond yields a bit lower in Asian trading hours.

**Oil prices retreated yesterday**, breaking the rising trend over the past week. Brent crude oil fell USD1 per barrel on weaker risk sentiment and US data showing an increase in US crude stockpiles.

**Data for US manufacturing production for April surprised on the upside yesterday**, rising 1.0% m/m versus consensus of 0.4% m/m. Hence, hard data is catching a bit up with the stronger soft data seen in Q1. However, regional business surveys and ISM continue to show some weakening of the US cycle in the months ahead.

**In Sweden, the Riksbank has proposed changes to the inflation framework** to target the previous policy variable CPIF (still 2% target) and introduce a 'variation band' of +/-1%. The change should have no implications for monetary policy though (see *Riksbank Comment: Much ado about nothing*, 16 May 2017).

### Customer satisfaction

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### Selected readings from Danske Bank

- *Riksbank Comment: Much ado about nothing*, 16 May

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## Scandi markets

There are no key movers in Scandi today.

## Fixed income markets

The Danish Debt Management Office is launching a new 2Y benchmark DGB 0.25% 11/20. We expect it to sell up to DKK5bn at the auction.

The spread to Germany in the front end of DGB curve is almost entirely dependent on the movement in the Schatz, and we do not expect it to be much different with the new 2Y benchmark. We expect a spread of around 16bp to the German yield curve. See *FI Strategy: New 2Y DGB benchmark bond*, 11 May 2017.

It is a busy week in terms of new issuance – yesterday, France launched a new 30Y benchmark, which was largely oversubscribed. Total demand was more than EUR30bn and they sold EUR7bn at 1.99%. The EFSF is launching a new 16Y benchmark, while Belgium is also planning a new syndicated deal. The European government bond yield curves are quite steep – especially the peripheral curves. Hence, the debt offices are taking advantage of low yields as well as a steep yield curve. Germany is doing a small tap in a 30Y benchmark. There is no major key economic data from Euroland during the day. Sweden is also tapping in two bonds today but this auction should be well received.

## FX markets

EUR crosses rose sharply across the board yesterday with EUR/USD breaking above 1.11. The strong momentum in the EUR is seemingly not related to any specific news but focus has turned to the outperforming eurozone economy and the inevitable end to ECB monetary easing. Based on light positioning (according to the IMM), EUR crosses may have room to go higher over coming days. While our strategic bias is long EUR/USD, we see at least two reasons why we think we may see better entry levels near term: (1) while relative economic surprise indices are at extremes in terms of US negative-EU positives, we still expect a turn in global cyclical with the risk of a more widespread global slowdown from which the eurozone – and the ECB – are unlikely to be immune; (2) in terms of relative monetary policy, we still expect USD to gain support from the Fed's communication about its QT scheme and a rate hike in July, while the ECB is likely to stay dovish, especially with EUR rising at its current speed.

The Norwegian GDP release yesterday confirmed our upbeat view on the domestic economy. With decent details, positive revisions and Q1 mainland growth very close to 0.7%, spare capacity is clearly an argument for a higher rate path. While this indeed could be one of the triggers for a NOK turnaround via Norges Bank (NB) removing its rate cut probability entirely at the upcoming meeting in June, we think NB would prefer more clarity on the inflation/wage outlook before modifying its dovish 'on hold' stance. Hence, global factors – including not least the oil price – will in our view continue to dominate domestics as the most important near-term NOK driver. We forecast EUR/NOK at 9.30 in 1M, 9.30 in 3M, 9.10 in 6M and 9.00 in 12M.

The very muted reaction in EUR/SEK and Swedish short rates following the Riksbank's proposal yesterday to change from CPI to CPIF as a target variable and also the introduction of a tolerance interval +/- 1pp around 2%, suggests that the Riksbank is credible when it says the changes have no impact on current monetary policy. See *Riksbank Comment: Much ado about nothing*, 16 May, for details. In terms of price actions, we note that while our short-term models suggest that EUR/SEK is some 1.9% overbought, EUR/SEK is likely to remain supported near term driven by strong momentum in EUR. Moreover, we still hold the view that EUR/SEK is likely to remain elevated as long as the Riksbank and the ECB stay soft. We forecast 3M at 9.50, 6M and 12M at 9.30 and 12M to 9.50 (previously 9.40), 9.50 (9.30) and 9.30 (9.20).

Key figures and events

Wednesday, May 17, 2017

				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		1.50%	1.50%	1.50%
6:30	JPY	Industrial production, final	m/m y/y	Mar			-2.1% 3.3%
10:30	GBP	Unemployment rate (3M)	%	Mar	4.7%	4.7%	4.7%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Mar	2.1%	2.1%	2.2%
11:00	EUR	HICP inflation, final	m/m y/y	Apr	0.8% 1.5%	0.8% 1.5%	0.8% 1.5%
11:00	EUR	HICP - core inflation, final	y/y	Apr	1.2%	1.2%	1.2%
16:30	USD	DOE U.S. crude oil inventories	K				

Source: Bloomberg, Danske Bank Markets

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