

Danske Daily

Market movers today

- **A relatively quiet day ahead in terms of data releases with the final reading of eurozone March HICP inflation due;** the first release revealed a marked drop in headline CPI to 1.5% y/y (from 2.0% in February) and core inflation dropped to 0.7% (from 0.9%), a trend we think will be cemented in the months ahead, due partly to base effects of past energy price rises fading and due partly to subdued core inflation.
- **The ECB's Coeure and Praet are both due to speak in New York** and markets will stay alert to comments regarding how tolerant the ECB will be in seeing lower inflation prints ahead and to comments on whether or not 'exit easing' discussions are ongoing at the Governing Council.
- **In the US, the Fed's Rosengren is speaking and the Beige Book is released,** which will be scrutinised for hints of whether the Fed sees a slowing US economy, as we have highlighted as a key risk following the fading Trump growth euphoria.
- No Scandi events scheduled for today. **For more on Scandi markets, see page 2.**

Selected market news

Political risks continue to be in charge of markets after Prime Minister Theresa May yesterday called for an early UK general election, and as the first round of the French presidential election is coming up, this Sunday looks increasingly open.

While the UK Prime Minister still needs backing from the House of Commons to send voters to the polls on 8 June, she is likely to get this in today's session. See *Brexit Monitor No. 28: Snap election increases number of uncertainty factors*, 18 April 2017. Based on the most recent opinion polls, the Conservatives maintain a *clear* lead over Labour and due to the UK's 'first past the post' system, this means that the Tories are likely to increase their majority lead in the Commons. This could leave the May government with a stronger mandate to negotiate Brexit.

Crucially, the election call opens up the sample space for Brexit outcomes with markets notably eyeing a chance that Brexit may be softened, and, as a result, sterling cheered yesterday. EUR/GBP is trading around the 0.8350 mark this morning.

The upcoming French election is also adding to political risks in Europe near term with left-wing Mélenchon having seen a marked rise in the polls, suggesting he could win against Fillon or Le Pen should he manage to make it to the second round (still not the most likely outcome though). A potential run-off between the two EU-sceptics Mélenchon and Le Pen seems to be the biggest risk-scenario in the market at the moment. See *French Election Monitor No. 2: Mélenchon could enter second election round in May* for details.

Uncertainty has indeed grabbed hold of markets in recent days. Equity markets posted losses predominantly in the US and Asian sessions, dragged down by disappointing earnings and the souring risk sentiment more broadly. Oil prices have come under pressure in recent days on rising global growth concerns, while gold is moving higher still on geopolitical tensions. The safety of government bonds is back in demand with notably the Japanese 10Y benchmark yield falling below zero overnight.

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Selected readings from Danske Bank

- *FX Forecast Update: Political risks in charge*
- *Brexit Monitor No. 28: Snap election increases number of uncertainty factors*
- *French Election Monitor No. 2: Mélenchon could enter second election round in May*

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Fixed income markets

It has been an interesting start to the week with the FI market trading with no clear direction apart from US where the rally continued. 10Y US dropped to below 2.18% overnight – the lowest level since mid-November.

In Europe, the 2/30 swap curve flattened 2bp with 30Y Germany decreasing 3bp – it is now trading below 90bp. Interestingly, the semi-core was trading weak on what appeared to be ‘Frexit fear’ related while the periphery rallied, led by 5Y Italy, which tightened 3bp to Germany. Spain underperformed a bit, which could potentially be related to the duration-heavy supply on Thursday. The Bobl ASW tightened 1bp, recovering a bit after the recent sharp widening.

We have a busy day in the Scandi primary market with Denmark tapping the 27s and the 39s today. The spread versus Germany has widened slightly recently. The 27s are looking attractive vs the 25s in ASW term, see [preview](#) for details. Sweden will be issuing in the 23s and the 28s. Finally, note also that Germany is tapping EUR1bn in the 44s today.

FX markets

We published new FX forecasts yesterday, see [FX Forecast Update: Political risks in charge](#), in which we stress that political events are likely to be the focus for markets near term. Political risks came to the forefront already yesterday in the UK, where PM Theresa May called for an early general election in June. As a result, GBP eyed some relief from Brexit woes as the sample space for UK-EU relations have suddenly widened again with a chance now that Brexit may be softened (or cancelled altogether should the May government be ousted). Given May’s lead in the polls, the most likely outcome is that she will receive the more broad-based backing she is seeking heading into the negotiations on Brexit, due to start for real post the German election in the autumn. Our base case remains that May will stay in power and negotiate a ‘decent Brexit’ (neither too hard nor too soft), but the probability of other outcomes has clearly risen with yesterday’s election call. Hence, in our main scenario that May resumes negotiations, EUR/GBP should be in for a level shift higher post a June election, but still trading in the 0.84-0.88 interval over the coming year, and we do not expect the pound to fight back to any great extent on a 12M horizon. Thus, we have adopted a flat forecast profile with EUR/GBP trading around 0.86 level on a 1-12M horizon. But near-term risks are to the downside as GBP shorts are being covered on the heightened uncertainty. Needless to say, volatility is likely to stay elevated.

On EUR/USD, we continue to look for the cross to be range-bound near term, trading in the lower end of the 1.04-1.10 interval on a 1-3M horizon as political risks and support from pricing of a USD-positive policy mix dominate. Longer term, as the cross remains substantially undervalued, we maintain our 12M target of 1.14.

For the NOK, after a period of important releases out of Norway, we now face the remainder of April with few domestic market movers on the agenda. This leaves the cross with two opposing forces. On the one hand, global cyclical momentum loss and heightened geopolitical risk is a challenging cocktail for an oil/risk-sensitive NOK. Meanwhile, on the other, EUR/NOK has still not followed the price action reversal fully from March in terms of the oil price and relative rates. As pointed out ahead of Easter, this suggested some EUR/NOK downside correction potential as long as global risk did not tumble. While the correction potential now seems smaller, a purely statistical approach would still suggest an 8-10 figure downside. Hence, our tactical preference remains selling the cross on rallies towards 9.15 (several intraday lows from April), but keep an eye out for global developments.

Given that there are few Swedish market movers in the calendar this week, global political events (notably the French presidential election on Sunday) could get more attention together with the upcoming Riksbank meeting next week. For the EUR/SEK, we have opted to lift our 1M target

to 9.60 (previously 9.50) ahead of the Riksbank's April meeting, where we think it will try to avoid sending a hawkish message: a signal to end QE after June (i.e. a hawkish tilt) is likely to come with a postponement of the first rate hike by at least one quarter (i.e. dovish tilt). The dividend season could remain a SEK headwind for the next few weeks, but this should wane in May. All in all, we expect EUR/SEK to move slowly and lower gradually over the forecast horizon, as valuation and relatively strong fundamentals kick in. We keep our 3M, 6M and 12M forecasts intact at 9.40, 9.30 and 9.20, respectively.

Key figures and events

Wednesday, April 19, 2017

				Period	Danske Bank	Consensus	Previous
11:00	EUR	HICP inflation, final	m/m y/y	Mar	0.8% 1.5%		0.4% 1.5%
11:00	EUR	HICP - core inflation, final	y/y	Mar	0.7%		0.7%
11:00	EUR	Trade balance	EUR bn	Feb			15.7
16:30	EUR	ECB's Praet speaking in New York					
16:30	USD	DOE U.S. crude oil inventories	K				
18:00	USD	Fed's Rosengren (non-voter, hawk) speaks					
20:00	USD	Fed's Beige Book released					

Source: Bloomberg, Danske Bank Markets

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Each working day.

Date of first publication

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