

Danske Daily

Market movers today

- **Focus this week continues to be on political risks.** The situation regarding North Korea (see below) as well as the first round of the French presidential elections on Sunday will be key drivers. It looks to be a close race among the leading candidates in the first round, while the probability of the National Front's Marine Le Pen winning a second round is still put at only around 25% by betting companies, see *Reuters*.
- **There are no big movers on the agenda today** but US housing starts and US manufacturing production are due out. The main releases for the rest of the week will be Euro Flash PMI on Friday and the US Philadelphia Fed index on Thursday.

Selected market news

Geopolitical risks have moved to the fore recently with especially tensions around North Korea heating up. The US has stepped up its pressure on the regime in Pyongyang and sent a clear signal it wants the missile tests by North Korea to stop. The US has urged China to act to put more pressure on the North Korean leader Kim Jong-un in order to end the missile programme, while being clear that the US will act alone if China refrains from this. The US military strike in Syria has been highlighted by leading members of the US administration as a sign that US President Trump does not stand back from taking difficult decisions. China's response so far has been mainly that only diplomacy can solve North Korea tensions – a message that was repeated by China's foreign minister Wang Yi last night. At the same time, it is not clear how much influence China has on North Korea. According to Chinese sources, North Korea did not respond to a request from China to meet earlier this month, see *Bloomberg*.

It is not uncommon for risk factors to move to the top of the financial market's agenda when the reflation theme loses some tailwind. See *Strategy: Risk factors move to the fore as business cycle peaks*, 7 April 2017. As we have argued recently, the global reflation theme is set to lose steam as we see signs of the business cycle slowing and global inflation peaking in Q1. **More evidence of a cyclical peak in the US was seen in the Empire business confidence index yesterday**, which fell for the second month in a row to the lowest level since November.

Stock markets have been a bit on retreat over the past week but saw a decent rebound yesterday. We expect the bull market in stocks to take a pause in coming months. Bond yields have continued to move lower on a flight-to-safety bid and loss of steam in the reflation theme.

China data released yesterday surprised on the upside: Q1 GDP rose 6.9% y/y and industrial production increased to 7.6% y/y in March from 6.0% y/y in February. However, leading indicators as well as global metal prices point to a slowdown in momentum, see also *China leading indicators – more signs of a peak in Q1*, 4 April 2017. Iron ore prices have continued to decline recently, now touching the lowest level since November 2016.

Customer satisfaction

Thank you to all our customers for voting us No. 1 for Customer Satisfaction across the Nordics. We are honoured to receive this recognition.

Selected readings from Danske Bank

- [\[INSERT LINK\]](#)

Follow us on *Twitter*:



@Danske_Research

Read more in Danske Bank's recent forecasts and publications

- [Nordic Outlook](#)
- [Yield Forecast Update](#)
- [FX Forecast Update](#)
- [Weekly Focus](#)

Chief Analyst
Allan von Mehren
+45 4512 8055
alvo@danskebank.dk

Scandi markets

There are no key events in Scandi today.

Fixed income markets

Speculation and polls on the outcome of the first round of the French will without a doubt be the dominating market theme this week. In the week ahead of the Easter break, the spread between France and Germany widened to just a few bps from the YTD highs. The most likely scenario remains Emmanuel Macron and Marine Le Pen 'advancing' to the second round. However, a potential face-off between two EU sceptics in the form of Le Pen and Jean-Luc Melenchon is the market fear.

The 'Frexit' fear and pricing of the first ECB hike being priced less aggressively both supported a rally in the core ahead of the Easter break. 10Y Germany decreased to 18bp – a new YTD low. 2Y Germany was approaching -90bp again. The move was again driven by cash with ASW spreads widening considerably.

The main release will be the euro area flash PMIs on Thursday. Growth figures have had little market impact in the euro area in recent years, but with speculation of a depo hike in 2017, this could change.

This week's EUR supply is kicked off with Slovakia today in 26s and 31s. Tomorrow, Germany will tap EUR1bn in 44s and on Thursday Spain (20s, 27s, 29s & 46s) and France (20s & 22s plus 21 & 25 linkers) will be in the market. In the Scandis, Denmark will tap the 27s and the 39s on Wednesday, where also Sweden will be issuing in the 23s and the 28s.

FX markets

Geopolitical tensions have come to the fore over the Easter week with both the North Korean and Syrian concerns mounting alongside the Turkish referendum. JPY and CHF have gained in usual safe-haven moves, and GBP has resumed its general rebound with notably GBP/USD rising close to 1.26 yesterday. EUR/USD has not been moved much by geopolitics this time round, which we ascribe to markets currently balancing the fact that the euro is still seen as a key funding currency versus the dollar's long-standing status as the ultimate safe haven. A serious geopolitical escalation is likely to be USD positive.

Meanwhile, the pre-Easter comments from US President Trump regarding the dollar, reiterating that the greenback is 'too strong', weighed briefly on USD crosses. However, it is the fact that the Treasury refrained from denouncing China as a currency manipulator and kept its currency monitoring list unchanged (which besides China includes Japan, South Korea, Taiwan, Germany and Switzerland), which really matters for the FX market as this implies that we are, after all, unlikely to have a US Treasury-fuelled currency war near term. Looking ahead, with Trump withdrawing some of his previous criticism of Fed chair Janet Yellen, central bank support to USD is likely to remain in place near term, as this should keep the Fed on track to out hike current market expectations.

This week the first round of the French presidential election on Sunday will take centre stage and focus has clearly turned to the rise of Melenchon in the polls. However, should he fail to make it to the second round, a relief uptick could be seen in EUR crosses as the 'Le Pen' risk premium is likely to be taken out with Macron then most likely to become the next leader.

Yesterday, the Turkish lira opened with a significant rally, reacting positively with other Turkish assets to President Erdoğan's referendum victory on Sunday, with investors seeing an end to internal political uncertainty, which has been keeping markets very cautious and been lira bearish over the past six months. Yet, in our view, the TRY rally does not look sustainable over the medium and long term as Turkey's external woes (military operations in Syria, shaky relationship with the EU, Russia and the US) remain. We expect that TRY buyers will become more sceptical longer term as, for example, Turkey's widening current account deficit will keep the currency under pressure.

Key figures and events

Tuesday, April 18, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	ECB's survey of professional forecasters					
3:30	AUD	RBA April Meeting Minutes					
3:30	CNY	Property prices	y/y				
14:30	USD	Building permits	1000 (m/m)	Mar	1260	1216.0 [-6.0%]	
14:30	USD	Housing starts	1000 (m/m)	Mar	1280	1288.0 [3.0%]	
15:00	USD	Fed's George (non-voter, hawkish) speaks					
15:15	USD	Capacity utilization	%	Mar	75.9%	75.9%	
15:15	USD	Industrial production	m/m	Mar	0.5%	0.1%	
15:15	USD	Manufacturing production	m/m	Mar		0.5%	

Source: Bloomberg, Danske Bank Markets

Disclosures

This research report has been prepared by Danske Bank Markets, a division of Danske Bank A/S ('Danske Bank'). The author of this report is listed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

The research reports of Danske Bank are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including a sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank Markets (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change, and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.