

Danske Daily

Market movers today

- Another quiet day today in terms of data releases but markets will continue to follow the political development in the US after a very bad week for President Trump and his administration.
- In the US, initial jobless claims data as well as the Philly Fed index for May are due out today. We expect the Philly Fed index to have fallen, as it has overshoot ISM/Markit PMIs, supporting our view that the US manufacturing cycle has peaked.
- In the UK, retail sales for April are due out, which will attract attention after plunging in Q1.
- The ECB's Mario Draghi is due to speak in Tel Aviv, but we do not expect him to express anything new on the policy outlook.
- There are no market movers in Scandi today.

Selected market news

Asian stocks are in the red this morning mirroring earlier losses on Wall Street with S&P 500 and Dow Jones both falling by around 1.8% overnight, as uncertainty mounted over US President Donald Trump's future following reports that he tried to interfere with a federal investigation. The US dollar weakened broadly against its peers and the VIX index reached its highest level since April on the back of the turmoil in the White House. Former FBI director and prosecutor Robert Mueller has been appointed to lead the investigation into collusion between Trump's campaign team and Russia.

Japanese GDP data released this morning showed annualised growth of 2.2% (0.5% q/q) in Q1, offering some relief to the Bank of Japan, which hopes that the economy will gather momentum to drive up wage growth and inflation, which remain low on soft household spending.

The new French President Emmanuel Macron yesterday presented his cabinet, comprising both veterans from the Republicans and Socialists and newcomers to politics. Having already made the Republican Edouard Philippe Prime Minister on Monday, Macron picked conservative Bruno Le Maire as his Economy Minister. Gerard Collomb and Jean-Yves Le Drian from the Socialist party will be Interior and Foreign Ministers, respectively. Should his party fail to obtain a majority at the parliamentary election in June, Macron would have to rely on the support from other parties to govern. The diverse party composition of his cabinet is in line with his aim to bridge the right-left divide in French politics and makes the emergence of such a cross-party coalition even more likely, in our view.

The final euro area HICP figures for April released yesterday confirmed that the higher core inflation at 1.2% y/y was driven by service price inflation related to package holidays and accommodation over the Easter. We expect lower core and service price inflation in May as the Easter volatility should fade and the underlying price pressure is not strong enough to lift core price. The May inflation figure will also be crucial for whether the ECB will change its communication in a more hawkish direction at the June meeting (see also *ECB research: Hawkish wording but changed forward guidance less likely*, 10 May).

Customer satisfaction

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Selected readings from Danske Bank

- *Yield Outlook: Range trading for the rest of 2017 but higher yields in 2018*
- *Riksbank Comment: Much ado about nothing*
- *Bank of England Review: Maintains hawkish twist to neutral stance*

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Scandi markets

There are no market movers in Scandi today.

Fixed income markets

We expect another strong EURFI opening today with continued spill over from the US session. US Treasuries continued the rally overnight with the 10Y yield decreasing 11bp overnight. The yield on 10Y Treasuries have decreased 20bp over the past week. Focus remains on Trump and the FBI saga with political risk premia again being priced across markets. See for instance VIX jumping +3 point overnight from an all-time low.

Interestingly, the euro periphery tightened versus the core yesterday amid the risk-off move and despite German ASWs widening 2bp. This year's top performer Portugal tightened 3bp together with 10Y Italy versus Germany despite Bunds moving 5bp lower.

The heavy supply calendar continues today but for once the battered long-end gets a pause. Spain will be tapping EUR4-5bn in the Jul-20, Jan-24, Jul-26 and the Apr-27. France is again in the market with a EUR6.5-7.5bn tap in the Feb-20 and the May-22 nominals plus EUR1.5-2bn in longer-dated linkers.

FX markets

EUR/USD continued higher yesterday driven partly by continued EUR demand as focus is turning to the cyclical outperformance and European political risks declining. Meanwhile, the USD is losing its shine due to the recent developments in US politics. Hence, while EUR/USD looks increasingly overbought from a technical point of view, we think the cross might have further legs in coming days, as it appears that speculators could still jump on the bandwagon of long EURs and short USDs. However, as the eurozone will not be immune to a likely turn in global cyclical and as the ECB is likely to stay dovish with EUR rising at its current speed, rising headwinds to the EUR may occur a little further out.

The yen gained yesterday versus EUR and USD with USD/JPY falling 2 figures over the past 24 hours from 113 to 111. Clearly, heightened US political uncertainty and/or a continued sell-off in risk assets is a very bad cocktail for USD/JPY and we see risks skewed to the downside near term. Implied FX volatility has also bounced higher in recent days, although from very low levels. As such, implied volatility still looks relatively cheap both historically and according to our FX volatility valuation model. Usually, FX option volatility becomes more volatile with a tendency to spike when the global business cycle turns. Hence, both the underlying macro economic backdrop as well as rising political risks in the US suggest that implied volatility could rise further.

It was a relatively quiet day in the Scandi FX markets yesterday, despite high volatility on global markets. EUR/SEK more or less remained unchanged on the day, while EUR/NOK edged lower amid a rebound in the oil price. The weekly Norges Bank flow data released yesterday showed that foreign banks (proxy for speculative flows) net sold NOK 9.6bn last week. From a historical perspective, this is a sizable amount and foreign banks have now net sold NOK in nine of the past 10 weeks. This has only happened once since the financial crisis; namely in 2014 when the (1) the oil price collapsed, (2) Norges Bank turned significantly more dovish and (3) December liquidity weighed on the NOK. Even if the NOK sell-off is substantial from a historical perspective, aggregate positioning is, however, much less NOK negative than in 2014/15, since we came from stretched long levels at the beginning of 2017. We stress that while the domestic outlook in Norway looks solid, global factors – and not least the oil price – will in our view continue to dominate near-term NOK development.

Key figures and events

Thursday, May 18, 2017

				Period	Danske Bank	Consensus	Previous
10:30	GBP	Retail sales ex fuels	m/m y/y	Apr			-1.5% 2.6%
14:30	USD	Philly Fed index	Index	May		19.4	22.0
14:30	USD	Initial jobless claims	1000				
14:45	EUR	ECB's Lautenschlaeger speaks in Berlin					
19:00	EUR	ECB's Draghi speaks in Tel Aviv					
19:15	USD	Fed's Mester (non-voter, hawkish) speaks					

Source: Bloomberg, Danske Bank Markets

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Expected updates

Each working day.

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