

Danske Daily

Market movers today

- **A relatively quiet day once again on the data front, with the main release in the euro area being consumer confidence.** The latest euro-area unemployment figures showed a decline in February to 9.5%, and such decent employment growth continues to support increasing consumer confidence, which we expect to see increased to -4.1 in April. Like financial and business sentiment, consumer confidence has also proved fairly resistant to political uncertainty, so we expect it to continue on an upward trend despite the uncertain political climate.
- No major Scandi events are scheduled for today.

Selected market news

Markets calmed somewhat overnight following the upheaval in political risks over the past 10 days. The Fed's beige Book last night painted a still relatively upbeat picture of the US economy, which was echoed by the Fed's Fischer, suggesting that the global economy is now more robust to tighter monetary policy. Moreover, strong Japanese export data out this morning is adding to global-growth sentiment. We stress, however, that our cyclical lead models paint an increasingly negative picture of the growth prospects across the US, Europe and Japan, and we would not be surprised to see a cyclical peak in especially the US in the near future. Oil prices dropped significantly on US data showing surging oil production and inventories. Equity markets have been mixed but energy stocks in particular are suffering as oil prices dropped on surging US production and inventories with Brent oil just above the USD53/bbl mark. Finally, a strong CPI print out of New Zealand, which saw inflation reach the 2% target for the first time in five years, has sent NZD/USD higher.

UK PM Theresa May received House of Commons' backing for her 8 June election call yesterday, and GBP/USD is trading just off the 1.28 mark, levels not seen since October last year, with UK stocks suffering as a result. The election campaign is now on with the Tories maintaining a decent lead.

Yesterday in an interview with the FT, US Treasury Secretary Steven Mnuchin commented on a range of the initiatives proposed by the Trump administration. Notably, Mnuchin said that while the tax plan remains a key priority for this year, August seems an unrealistic deadline. Plans to boost growth via infrastructure investment also remain on the table for 2017 but seem unlikely to provide a growth boost before next year, in our view. The Treasury also appears keen on incentivising repatriation of foreign profit (i.e. with a so-called Homeland Investment Act 2) but Mnuchin was more reluctant to provide outright support for border-tax adjustments, stressing that there are both pros and cons to this instrument. The latter essentially works as an import tariff/export subsidy and could thus, depending on the actual implementation, spur USD appreciation, which would not be welcomed by the Trump administration.

Customer satisfaction

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Selected readings from Danske Bank

- *FX Strategy: A lasting GBP rebound still far away*

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Fixed income markets

The bounce in yields during yesterday was again led by ‘cash’, with the 2Y and 5Y Germany increasing 6bp. The move was triggered by the release of the *ECB’s ‘Survey on credit terms and conditions in euro-denominated securities’*. The survey showed that ‘the liquidity and functioning of markets for the underlying collateral...deteriorated, on balance, for nearly all types of euro-denominated collateral, although the deterioration was most pronounced for government bonds’. This has fuelled speculation that the ECB could address the repo issues on the upcoming meetings, for instance by lending out more of the collateral held by the Eurosystem and/or ease the conditions.

Interestingly shorter-dated swaps moved very little, causing a 5/4bp tightening in Schatz/Bobl ASWs. The move had a spillover effect further out on the curve with both the 10Y and 30Y Germany increasing 4bp – a move that was largely mirrored in swaps in this segment. Interestingly, the move had limited impact on the soft core and periphery with France and Spain tightening 6bp and 4bp, respectively, in the 10Y. Both showed strong performance despite the upcoming supply today. Spain will conduct a duration heavy tap today in the 20s, 27s, 29s (off-the-run) and the 46s while France is tapping the 20s and 22s plus the 21 & 25 linkers.

FX markets

In our view, the move lower in EUR/GBP after UK PM May called for an early election is likely to prove temporary and we expect to see the cross edge higher as the election approaches, as our base case is that the May government will simply get a somewhat stronger backing for her ‘hard’ Brexit approach. We thus expect to see EUR/GBP re-enter the 0.84-0.88 range as Election Day draws closer as prospects of a very soft or no Brexit fade again; we still target the cross around 0.86 in 3-12M. Thus in *FX Strategy: A lasting GBP rebound still far away*, 19 April 2017, we stress that we recommend clients with sterling income/assets to lock in current levels using forwards, as we expect a resumption of the May leadership to induce a move higher in EUR/GBP again. Clients with GBP expenses should consider hedges with the optionality of benefiting from another GBP setback after the election.

EUR/NOK has moved higher over the past few days amid a weakening global risk environment and fall in oil prices. The weak risk sentiment goes well with our cyclical lead model, which is pointing to a weakening global business cycle. This is traditionally bearish for risk sensitive assets like the NOK. Although we see strong reasons for the EUR/NOK moving lower as the cross looks to be in overbought territory and a strengthening Norwegian growth picture we are cautious near term due to the fragile risk environment. The weekly flowdata from Norges Bank showed yesterday that foreign banks (proxy for speculative flows) were moderate net NOK sellers last week. According to our estimation, this still leaves the NOK positioning roughly balanced at the moment.

Key figures and events

Thursday, April 20, 2017

				Period	Danske Bank	Consensus	Previous
-	NOK	Credit indicator (C2)	y/y	Mar			5.1%
0:45	NZD	CPI	q/q y/y	1st quarter			0.4% 1.3%
1:50	JPY	Exports	y/y (%)	Mar			0.1
1:50	JPY	Import	y/y (%)	Mar			0.0
1:50	JPY	Trade balance, s.a.	JPY bn	Mar			680.3
9:00	DKK	Consumer confidence	Net. bal.	Apr			6.2
14:30	USD	Initial jobless claims	1000				
14:30	USD	Philly Fed index	Index	Apr		25.0	32.8
16:00	EUR	Consumer confidence	Net bal.	Apr	-4.1		-5.0

Source: Bloomberg, Danske Bank Markets

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