

Scandi markets ahead

Heavy issuance and weak Swedish GDP in the pipeline

In this note we take a closer look at the main events in the three Nordic countries over the coming week. For our global macro movers and financial forecasts see *Weekly Focus*, 24 May.

Next week we will see heavy government bond issuance in the Nordic area. We look for strong investor interest after the recent underperformance of both SGBs and NGBs.

Swedish GDP numbers for Q1 are expected to be much weaker than expected by the Riksbank and push Swedish money market rates lower and EUR/SEK higher.

We continue to see upside for NOK/SEK, not least as we remain short-term bearish on SEK. We continue to hold a medium- to long-term positive view on both SEK and NOK.

Heavy Scandinavian issuance this week

In the coming week there is a dense issuance calendar in the Nordic region. Recently both 10Y Sweden and Norway have underperformed Germany, leading to poor performance in our two pain trades (long 10Y Norway and Sweden versus Bunds). The recent underperformance should induce increased investor interest (both foreign and domestic).

The Swedish auction on Wednesday will come just after the release of the important Q1 GDP data. Norway will be issuing in the 10Y segment and the Danish DMO will tap the DGB 4% Nov-19 and DGB 1.5% Nov-23. The tap in DGB 4% Nov'19 is 'remarkable' as the bond has been closed for issuance for several years and has been 'bought back' by the Danish Central Bank for the portfolio of the Social Pension fund (DSP). The re-opening marks a new strategy in Denmark as the DMO traditionally always opens a new bond in the 2Y, 5Y, 10Y and 30Y segments. For more on Scandi issuance see *Government Bond Weekly*, 24 May. We will also publish in-depth previews early next week ahead of the Norwegian and Danish auctions.

Look out for Swedish GDP numbers

The main macro event for the coming week will be the Swedish GDP numbers on Wednesday. This week we lowered our forecast to 0.7% y/y wda. If we are correct, it will be considerably lower than the Riksbank's forecast (1.4% y/y wda). Our low forecast is based on primary statistics from Q1 but also to a certain degree on revised Q4 12 data pushing the y/y rate down. This would mean that resource utilisation is even lower, which should increase pressure on the Riksbank to lower rates in July. The Swedish market currently prices in some 15bp for a rate cut at the 3 July Riksbank meeting. A weak GDP reading should push market pricing even further towards a July rate cut. For more on the Swedish GDP numbers take a look at *Reading the Markets Sweden*, 23 May. On 22 May we recommended *entering a 2s10s bull flattening trade* either in Swedish covered bonds or in SGBs. On the back of the upcoming GDP numbers we now recommend to hedge this by selling the *RIBA SEP13* future.

Key points

- Heavy government bond issuance in the Nordic area.
- Risk of weak Swedish GDP numbers that should push SEK money market rates lower and weigh on SEK.
- We see some further short-term potential for NOK/SEK.

Scandi market overview

FX	Spot	5 day +/-, %
EUR/DKK	7.45	0.0
EUR/SEK	8.59	0.1
EUR/NOK	7.53	0.2
USD/DKK	5.76	-0.8
USD/SEK	6.64	-0.7
USD/NOK	5.82	-0.6
Equities		
OMXC20	546	-1.1
OMXS30	1223	-1.7
OBX	450	-0.1
3M interest rates		
Spot	5 day +/-, bp	
CIBOR	0.24	0
STIBOR	1.19	-1
NIBOR	1.76	1
2Y swap yields		
DKK	0.56	7
SEK	1.23	3
NOK	1.95	4
10Y swap yields		
DKK	1.81	9
SEK	2.24	8
NOK	3.12	9

Source: Bloomberg, Danske Bank Markets

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During the week we warned in *FX Hot Picks*, 23 May, that the market could turn short-term bearish on SEK. We still hold that view and we expect to see a test of the strong resistance level at 8.6635 (14 May high) and if this level is broken the next target will be 8.7190.

All in all we see no reason for the time being to go against market expectations of a July cut. The unemployment rate continues on a high note, investments and inventory data point to continued low growth ahead and, to top it off, the newly appointed *governors* seem to be – if anything – a tad on the dovish side. Martin Floden (academic) said during the week that the central bank 'could have done more with monetary policy' given the weak economy and Cecilia Skingsley (banker) said when commenting on the Riksbank's decision in April to keep rates unchanged that she was puzzled why the board had been reluctant to cut and that she did not see why household debt issues should be an obstacle. Thus there is a chance that the two new members could drag the Riksbank in the direction of a July rate cut.

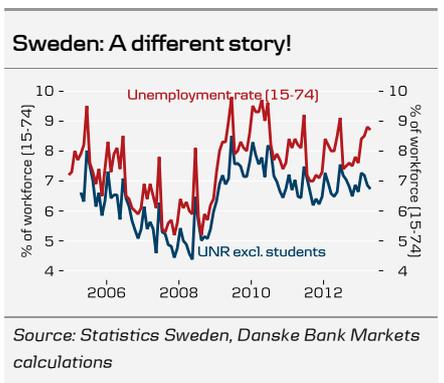
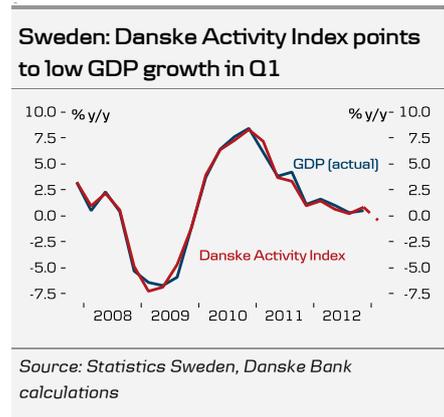
However, we are admittedly ambiguous on one of the arguments above – labour market developments. Sure enough, the unemployment rate is higher than what the Riksbank forecast but there are quite a few other things to consider. First, employment is increasing, something which is not the norm when labour markets are weakening. The explanation for the higher unemployment rate is thus an even higher influx to the labour force. This brings us to the second argument: the influx to the labour force is almost exclusively due to an increase of (full-time) students looking for a job. Fact is that this trend has been ongoing ever since the great recession started (but we doubt that is the main impetus) and has accelerated. To us, this might as well be regarded as a sign of an improving labour market, which is also visible in, i.a., increasing vacancies.

Except the GDP numbers about which Riksbank member Jansson this week said 'Swedish 1Q GDP will be very important', we also receive the first few indicators on activity in Q2, retail sales (Monday, 09:30 CET) and trade balance (Thursday, 09:30 CET), both pertaining to April.

Norway: Look out for vacancies

Data from **Norway** have been rather mixed of late but growth generally seems to be above trend. The coming week brings the latest labour market statistics from both the LFS and the Labour and Welfare Administration (NAV). These sources have diverged somewhat in recent months but in April we saw slight rises in employment in the LFS data and unemployment in the NAV data so the gap seems to have narrowed slightly. As an early indication of the state of the labour market, we like to use the NAV's figures for job vacancies. These climbed sharply in April on the back of March figures affected by Easter. Another month of healthy growth in vacancies would, however, convince us that the Norwegian labour market is picking up. This would also confirm our belief that growth is holding around trend in Q2.

April retail sales data will also be important. After strong growth at the start of the year, there were signs of spending levelling off in March. As usual, though, Easter means that March and April need to be taken together to assess movements in private consumption. We forecast growth of 0.4% m/m, which would support our view that private consumption will make another solid contribution to growth in Q2. The week also brings figures for credit growth in April, where interest centres on whether household credit growth will hold up, or whether the signals of reduced demand from Norges Bank's lending survey will be confirmed. Slower growth in household debt is essential if Norway is to avoid unilateral interest rate increases over the next couple of years.



Over the past week Norges Bank's governor and deputy governor have both contributed to a rise in the krone with upbeat currency comments. However, remember that the bank has stressed repeatedly that it has no wish to send out monetary policy signals between rate-setting meetings, so be careful reading too much into the comments. Nevertheless, the comments are there and considering the weekly flow data from Norges Bank that indicate that speculative investors until recently have been dumping NOK, it seems that there is in fact some room for new long speculative NOK positions. We still prefer to play long NOK through a long NOK/SEK position to have as little as possible exposure to the general risk environment. Relative inflation, growth and the monetary policy outlook still favour the upside for NOK/SEK.

We would, however, advise against any assumption that Norges Bank has changed its view of the krone exchange rate's importance for growth and inflation. The import-weighted krone would not need to strengthen far from its current levels for the bank to start flirting with rate cuts again. Persistently low inflation is giving Norges Bank breathing space and room to act should NOK start to appreciate once again. Hence, keep P/L targets relatively tight.

Denmark likely avoided recession

Friday's GDP figures in Denmark will likely show that the Danish economy rebounded fairly well in Q1 following the steep downturn of the final quarter of last year and will thus have avoided falling into a new recession. We expect Q1 GDP growth to read 0.2% q/q up from -0.7% q/q in Q4 last year. The rise in growth, however, comes on a relatively cheap background. Growth was likely driven by rising exports and increasing inventories, while domestic demand remained weak. Going forward, we do not see the Danish economy on the verge of recovery, since the outlook for the major Danish export markets in Europe is not too promising at the moment and furthermore policy aimed at stimulating domestic demand has not succeeded too well. The business confidence indicators for May published on Thursday will provide more insight.

On Monday the Danish government will publish an updated economic forecast report. The forecasts will likely not differ drastically from the EU convergence report published on 30 April. Hence, the conclusion will likely be that the government is on the more optimistic side in terms of the short-term outlook for growth, that Danish public finances are under control and that Denmark is set to comply with the requirements in the EU executive deficit procedure.

Thursday brings unemployment figures for April. One might expect the modest growth in the economy to mean unchanged unemployment but we reckon that it will continue to come down for technical reasons – namely a reduction in the period of unemployment benefits. We therefore expect the number of jobless to drop to 154,000, giving an unchanged unemployment rate of 5.8%.

Danish assets remain popular with foreign investors

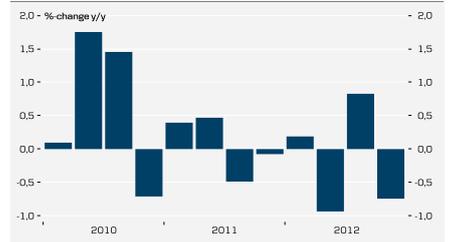
On Friday the monthly securities statistics and foreign portfolio investments will be published. Given that EUR/DKK has been relatively stable below the central rate, the data will likely show that Danish assets kept their popular status with foreign investors in April. Since the onset of the European debt crisis there has been high demand for Danish assets, especially Danish bonds, among foreign investors and Danish assets have obtained safe-haven status in the financial markets. In March foreign investors held around 17% of

The krone and Norges Bank



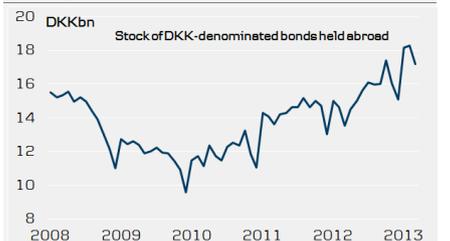
Source: Reuters EcoWin, Norges Bank

Denmark: Small rise in GDP expected in Q1



Source: Macrobond

Danish assets remain popular with foreigners



Source: Danmarks Nationalbank, Danske Bank Markets

all DKK-denominated bonds compared to 14% one year ago and 12% in 2010 before the debt crisis escalated.

Scandi market movers ahead

Scandi events		Event		Period	Danske	Consensus	Previous
Mon	27-May	9:30	SEK Retail sales s.a.	m/m y/y	Apr	0.5% 3.0%	-0.4% 1.8%
		9:30	SEK Sweden's Riksbank releases Financial Stability Report				
		10:00	NOK Unemployment (LFS)	%	Mar	3.4%	3.5%
Tue	28-May	10:30	DKK Government presents new Economic Forecast				
		9:30	SEK PPI	m/m y/y	Apr	-0.2% -4.5%	
Wed	29-May	9:30	SEK Trade balance	SEK bn	Apr	6.0	6.8
		9:30	SEK GDP	q/q y/y	1st quarter	... 0.7%	0.4% 1.5%
Thurs	30-May	9:00	DKK Gross unemployment s.a.	K (%)	Apr	154.0 (5.8%)	154.9 (5.8%)
		9:00	DKK Confidence indicator, industry s.a.	Net. bal.	May		-4
		9:30	SEK Wages (blue collars/white collars)	y/y	Mar		1.7%
Fri	31-May	10:00	NOK Retail sales, s.a.	m/m y/y	Apr	0.4% ...	0.0% -4.2%
		9:00	DKK GDP, preliminary	q/q y/y	1st quarter	0.2% -0.7%	0.1% -0.7%
		9:00	DKK CB's securities statistics		Apr		
		9:30	SEK Current Account	SEK bn	1st quarter		62.0
		10:00	NOK Wage index manufacturing	q/q	1st quarter		1.7%
		10:00	NOK Unemployment	%	May	2.4%	2.6%
During the week	Mon 27 - 31	10:00	NOK Credit indicator (C2)	y/y	Apr	6.1%	6.1%
		10:00	NOK Consumer confidence	Net. bal.	2nd quarter		21.7

Source: Danske Bank Markets

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