28 April 2017

Danske Daily

Market movers today

- **Today brings US GDP figures for Q1. The Fed Atlanta GDP nowcast shows growth in Q1 of 0.5% q/q AR, soft data indicates growth in the region of 1.5-2.0%. We expect to land somewhere in between and forecast GDP growth of 1.0% q/q AR in Q1.**
- **We will also get PCE core inflation for Q1. If the current trend in monthly PCE core increases continues (implying increases of around 0.1% m/m), PCE core inflation would come in at 2.2% q/q AR. However, note that although this may give the impression that inflation has reached its target, the Fed is more concerned about PCE core inflation y/y, which will be significantly below 2% almost no matter what the March print comes in at.**
- Today, the euro area flash inflation figure is due for release. Following the decline in headline inflation to 1.5% y/y in March, we look for an increase to 1.8% y/y in April (revised from 1.7% after higher German and Spanish data yesterday). In line with the fall in March, this is due mainly to the early timing of Easter in 2016, which is causing volatility in prices of package holidays. This is also reflected in core inflation, which we estimate will increase to 1.0% y/y in April from 0.7% y/y in March. Looking beyond the Easter volatility, we expect headline inflation to decrease below 1.5% y/y, as the support from the oil price fades, while core inflation should also be back around 0.8-0.9% y/y.
- ECB's Survey of Professional Forecasters is also due for release. The longer term (five-year) inflation expectations in the survey have been stable at 1.8% over the past year.
- In Scandinavia it is time for labour data in Norway and retail sales in Norway and Sweden.

Selected market news

The ECB kept policy rates, the QE programme and its forward guidance unchanged at yesterday's meeting: Importantly, the ECB still expects policy rates 'to remain at present or lower levels for an extended period of time. That said, the ECB did sound slightly more optimistic on the euro area growth outlook, but still underlined that the underlying inflation pressure remains subdued.

The market took its direction from the inflation comments and European bond markets rallied. Also the comment from Draghi that it was not up to the ECB, but the national central banks to ease the tensions in the repo-market supported especially the short-end of the German curve. The EUR suffered slightly on the 'dovish' interpretation.

The Swedish Riksbank was also seen as 'dovish' yesterday as the QE programme was extended for yet another six months and as the rate path was flattened. Note though that the decision to extend the QE programme was a tie and was only carried out as Governor was in favour. We have been positive on Swedish bonds for quite a while and the extension of the QE purchases supported this view. The Swedish krona on the other hand suffered on the QE extension.

The US equity market ended marginally higher as the market tried to digest a whole bunch of policy news ranging from the Trump tax plan, to the mixed signals regarding the future for the Nafta trade agreement and the looming government shut-down. But in fact little news came during the day to guide the markets.

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Selected readings from Danske Bank

- *ECB Review*
- *Research Italy: Renzi's planned political comeback at PD leadership contest*
- *Riksbank Comment*
- *Research: The rising risk from North Korea - and what it means for markets*

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Scandi markets

In **Sweden** today, Statistics Sweden releases March retail sales figures. Most forecasters, including ourselves, expect a strong rebound after a string of disappointing numbers over months past. Note, however, the apparent difficulties that Statistics Sweden is having with their seasonal and working day adjustments as Easter moved from Q1 to Q2 this year. Large deviations may very well be a result of this. Despite not being top of mind neither for financial markets nor the Riksbank, retail sales data are an important part of the GDP puzzle, and if we find something noteworthy, we will be sure to let you know.

Norway: We are in no doubt that the NAV numbers currently paint the best picture of the labour market given all the uncertainty about the LFS at the moment. We predict that NAV unemployment will be unchanged at 2.9% (consensus: 2.8 %) in April, which is a slight deterioration in seasonally adjusted terms but is due to data being collected early ahead of Easter.

This effect also means that we expect gross unemployment to increase by 300-400 people m/m without this being a real break in the downward trend.

SSB will publish March retail sales figures at 08.00 CET. The seasonally adjusted numbers are normally affected by the timing of Easter and we tentatively predict no change from February (consensus: -0.1 % m/m), which would suggest solid growth in private consumption in Q1. The consensus range from -1.1 % m/m to + 0.5 % m/m underpins the uncertainty. There was a clear slowdown in private consumption towards the end of 2016, which we see mainly because of high inflation eroding real wage growth, an effect that will reverse gradually as inflation eases.

Also, keep an eye on the Phone survey for the Regional network (Norges Bank), published at 10.00 CET. We expect no significant changes to the outlook described in the February report. If anything, there could be a minor improvement.

Fixed income markets

Yesterday, the European fixed income market took its direction from the ECB 'dovish' inflation comments and the European bond markets rallied.

Core markets saw extra support after the Draghi comment regarding the securities lending program. It reduced expectation of any near term change to the facility. Draghi stated that these facilities were mainly a task for national central banks, and although these are following central guidelines the market is for now set to downplay expectations of any short-term changes to the repo facility. Hence, Draghi backtracked somewhat compared to the signals from the March meeting, where Draghi said that they were monitoring the repo situation closely and would come "back to this next time".

Today, the markets will take their cue from the Euro zone CPI flash estimate. We revised our forecast higher to 1.8% y/y from previously 1.7% y/y after the higher than expected Spanish and German numbers yesterday. The market is prepared for a higher number as well and we should probably see a move back to 2.0% y/y before the market becomes concerned. Related to this, the introductory ECB statement yesterday also included 'the ongoing volatility in headline inflation underlines the need to look through transient developments in HICP inflation'.

The Riksbank meeting yesterday also deserves a few words. This message also had a dovish twist as the QE programme was extended and as the first rate hike was postponed further in the rate path. SGB's rallied strongly but we still more value in Swedish fixed income. The money market curve is still too steep in our opinion and the net cash flow if we include covered bonds is supportive over the summer. We prefer the 2-3y segment of the SGB or covered bond curve in Sweden. But also the 10Y SGB segment asset swapped that barely moved yesterday is starting to look attractive – see our *Riksbank comment*, 27 April 2017.

The rating review of Germany (S&P) and the Netherlands (Fitch) should not attract much attention. After a busy week the supply calendar is empty today.

FX markets

Despite a minor hawkish twist in the introductory statement following the ECB meeting yesterday, EUR/USD settled more or less unchanged after a brief period of volatile price actions where the cross initially moved up one step up (on 'downside risks diminishing') and then one step down again (on rate hikes off the table for now). EUR/USD still looks like a 1.06-1.10 range near term, as the Fed will be there to keep some downside potential intact. However, there is clearly a risk that we could see at the June meeting the ECB change its forward guidance in a more hawkish direction provided the cyclical situation still looks good and provided that the inflation outlook has not deteriorated markedly (beyond base effects falling out) – and EUR/USD would be more sensitive to a signal on rates than to a possible extension of QE.

The biggest surprise yesterday came from Sweden where the Riksbank delivered a slightly more dovish package than priced in markets as most had expected an announced end to QE (see *Riksbank Comment - Split executive board adds stimulus for details*, 27 April 2017). The announcement sent EUR/SEK to the upper end of what we consider to be the 9.45-9.65 trading range, and while the policy mix suggests a slightly stronger EUR/SEK in the short term, we see value in selling the cross from a tactical and strategic perspective on rallies towards the high end of the range. Long term, we stick to the view that EUR/SEK should depreciate from a fundamental point of view. Moreover, we note that, the Riksbank is 1) tapering after all, 2) three of six board members voted against the QE extension and 3) they have lowered the probability of a 10bp cut from 60% to 30%.

In Norway, EUR/NOK has edged lower aided by short-covering in NOK/SEK post the Riksbank's message. On the domestic front, the LFS labour market report released yesterday had some positive aspects. While the unemployment rate (as expected) rose to 4.3%, the rise was driven by a higher labour force as employment rose. Moreover, the Norges Bank lending survey showed a significant tightening of credit standards, which is a key factor for why we expect house price growth to ease in the coming months. Today, we have a very tight data calendar in Norway with retails sales, Norges Bank FX sales, NAV unemployment and a phone update to the Regional Network Suvery (very short version of regular update). We see some upside risk to NOK on the releases.

Key figures and events

Friday, April 28, 2017				Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Germany's debt rating					
-	EUR	Fitch may publish Netherlands's debt rating					
1:01	GBP	GfK consumer confidence	Index	Apr		-7.0	-6.0
1:30	JPY	CPI - national ex. fresh food	y/y	Mar		0.2%	0.2%
1:30	JPY	Unemployment rate	%	Mar		2.9%	2.8%
1:30	JPY	Job-to-applicant ratio		Mar		1.43	1.43
1:30	JPY	CPI - national	y/y	Mar		0.3%	0.3%
1:50	JPY	Retail trade	m/m|y/y	Mar		-0.3|1.5%	0.3%|0.2%
1:50	JPY	Industrial production, preliminary	m/m|y/y	Mar		-1.8%|4.0%	3.2%|4.7%
7:30	FRF	GDP, preliminary	q/q|y/y	1st quarter		0.4%|0.9%	0.4%|1.1%
8:00	NOK	Retail sales, s.a.	m/m	Mar	0.0%	0.1%	1.0%
8:45	FRF	Household consumption	m/m|y/y	Mar		0.6%|0.6%	-0.8%|0.5%
8:45	FRF	HICP, preliminary	m/m|y/y	Apr	...|1.4%	0.2%|1.4%	0.7%|1.4%
9:00	DKK	Gross unemployment s.a.	K (%)	Mar		4.3%	4.3%
9:00	ESP	GDP, preliminary	q/q|y/y	1st quarter		0.7%|2.9%	0.7%|3.0%
9:00	CHF	KOF leading indicator	Index	Apr		107.7	107.6
9:30	SEK	Retail sales s.a.	m/m|y/y	Mar	0.5%|3.7%	0.4%|3.1%	0.2%|2.8%
9:30	SEK	Wages (blue collars/white collars)	y/y	Feb			2.3%
10:00	NOK	Norges Bank's daily FX purchases	m	May		-850	-850
10:00	NOK	Unemployment	%	Apr	2.9%	2.9%	2.9%
10:00	EUR	Money supply (M3)	y/y	Mar	4.7%	4.7%	4.7%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Mar			
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Mar			
10:00	EUR	ECB's survey of professional forecasters					
10:30	GBP	GDP, preliminary	q/q|y/y	1st quarter	0.4%|2.2%	0.4%|2.2%	0.7%|1.9%
10:30	GBP	Index of services	m/m|3m/3m	Feb		0.3%|0.5%	-0.1%|0.6%
11:00	EUR	HICP inflation, preliminary	y/y	Apr	1.7%	1.8%	1.5%
11:00	EUR	HICP - core inflation	y/y	Apr	1.0%	1.0%	0.7%
11:00	ITL	HICP, preliminary	m/m|y/y	Apr	...|1.7%	0.5%|1.6%	1.9%|1.4%
12:30	RUB	Central Bank of Russia rate decision	%		9.50%	9.50%	9.75%
14:30	USD	Employment cost index	m/m	1st quarter		0.6%	0.5%
14:30	CAD	GDP	m/m|y/y	Feb			0.6%|2.3%
14:30	USD	PCE core, preliminary	q/q AR	1st quarter			1.3%
14:30	USD	GDP, first release, preliminary	q/q AR	1st quarter	1.0%	1.2%	2.1%
15:45	USD	Chicago PMI	Index	Apr		56.9	57.7
16:00	USD	University of Michigan Confidence, final	Index	Apr		98.4	98.0
20:30	USD	Fed's Harker (voter, hawkish) speaks					

Source: Bloomberg, Danske Bank Markets

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