

Danske Daily

Oil market's pains grow after Venezuela coup attempt

Market movers today

- Today's main event is the FOMC meeting tonight; however, the Fed has stated that it is on hold, so we expect it to keep the target range unchanged at 2.25-2.50%.
- Moreover, we get the ISM manufacturing in the US and UK. We still expect US manufacturing to have peaked and to move slightly lower before stabilising (still above 50). Based on a weighted average of the regional PMIs, we expect numbers to come in at 55.0 (currently 55.3).
- It is a TARGET holiday in Europe today, which means European fixed income markets are closed.

Selected market news

The price of Brent crude rose briefly above USD73/bbl on the news of a military coup attempt in Venezuela led by opposition leader Guaido and backed by the US. Later, API was said to report that US crude stocks rose 6.8mb last week, which helped reverse sentiment in the oil market. The oil market is clearly concerned about the ramifications for Venezuela's oil production and exports of a further deterioration of the situation. Venezuela is currently producing 800-900k/b – down about 50% from a year ago.

South Korea's exports dropped 2% y/y in April, which is less than the 8.2% y/y drop seen in March and also less than the consensus expectation of a 5.9% y/y decline. In the bigger picture, this development gives some rise to the notion that Chinese economic activity is slowly picking up further supporting Chinese external demand.

Euro area Q1 GDP growth rose to 0.4% from 0.2% in Q4. Recent improvement in industrial production data has already signalled a pick-up compared to the gloomy H2 18 growth momentum in contrast to PMIs, although the overall growth pace remains below potential.

German HICP was 2.1% in April. The so-called 'Easter effect' took service price inflation from 1.2% in March to 2.1% in April. The strong German inflation outcome supports our call for a marked pick-up in euro area core and headline inflation on Friday (1.2% and 1.8%, respectively)

The effective Fed funds rate rose to 2.45% on Monday (reported yesterday), which now leaves it only 5bp below the upper bound in the Fed's 2.25%-2.50% target range. We do not expect the Fed to make a 5bp 'adjustment cut' of its interest on excess reserves (IOER) at the meeting tonight, but the Fed will likely discuss what to do at upcoming meetings if the upward pressure on Fed funds does not ease over the coming months.

Selected reading from Danske Bank

- *Monthly Executive Briefing: Moderate recovery in China, 1 May*
- *Flash Comment China: PMI lower but moderate recovery on track, 30 April*
- *FX Strategy: Next round of USD liquidity tightening coming in June, 30 April*

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Fixed income markets

Yesterday, European bond markets came under pressure and 10Y Bund yields rose to 4bp before the US open pushed yields back down. The sell-off was fuelled by German regional inflation data that surprised to the upside and the Euro zone growth data for Q1 that rose to 0.4% q/q from 0.2% q/q in Q4, which is actually above the latest ECB projections (0.2% q/q for Q1). German CPI was confirmed at 2.1% later in the day and points to a jump in both core (1.2%) and headline CPI (1.8%) for the Euro zone when the numbers are published on Friday.

US treasury yields were initially pushed higher by Bunds but edged down again as Chicago PMI surprised on the downside and as US equity markets came under pressure.

In Europe, most fixed income markets are closed today due to labour day. Note that the Danish market is open. Yesterday, we published a [research report](#) looking at prepayment data ahead of the July payment data in the callable market. We argue that the 'high-coupon' callable bonds (3.5%, 3% and 2.5%) are too expensive.

FX markets

In the G10 space, yesterday's higher-than-expected German inflation data contributed to lifting EUR/USD above 1.12. Today, all eyes will be on the FOMC, where we expect little news even if there is a non-negligible risk of a 'technical IOER cut' amid rising pressures on the effective Fed funds rate from tightening USD liquidity, see [here](#). Overall, we still see EUR/USD as a range-play.

In the Scandies, the SEK continues to trade heavy, which alongside oil support from the Venezuelan turmoil and a somewhat weaker USD has contributed to returning NOK/SEK to the 1.10 threshold. We think it's a matter of time before the cross more sustainably breaks through this level.

PLN gained yesterday after Polish CPI inflation surged to 2.2% in April from 1.7% in March, also beating market expectations of a modest pick-up to 1.8%. The strong increase is probably driven by higher energy prices but also underlying inflation pressures, given the still-strong economic growth in the Polish economy. Yesterday's strong inflation number will bring the hawks out in the Polish central bank, which should support the PLN given the current dovish market pricing. We have EUR/PLN at 4.27 on 1M and 4.25 on 3M.

The Hungarian central bank was relatively dovish, stressing a cautious approach despite both headline and core inflation hovering at the upper end of its inflation band. We think it is too complacent given that one of the restraining factors on inflation – a weak global environment – should improve. The HUF weakened on the back of the statement, but we expect the weakness to be relatively short-lived and are targeting a fall in EUR/HUF in the coming months.

Key figures and events

| Wednesday, May 1, 2019 | | | Period | Danske Bank | Consensus | Previous |
|------------------------|-----|--------------------------------------|--------|-------------|-----------|----------|
| - | JPY | Coronation Day | | | | |
| - | USD | Total vehicle sales | m | Apr | 17 | 17.5 |
| - | CNY | Labor Day | | | | |
| 2:30 | JPY | Nikkei Manufacturing PMI, final | Index | Apr | | 49.5 |
| 8:00 | DKK | CB's securities statistics | | Mar | | |
| 8:00 | DKK | Foreign portfolio investments | | Mar | | |
| 10:30 | GBP | PMI manufacturing | Index | Apr | 53.5 | 55.1 |
| 14:15 | USD | ADP employment | 1000 | Apr | 180 | 129 |
| 15:30 | CAD | RBC manufacturing PMI | Index | Apr | | 50.5 |
| 15:45 | USD | Markit PMI manufacturing, final | Index | Apr | | 52.4 |
| 16:00 | USD | Construction spending | m/m | Mar | 0.2% | 1.0% |
| 16:00 | USD | ISM manufacturing | Index | Apr | 55 | 55.3 |
| 16:30 | USD | DOE U.S. crude oil inventories | K | | | 5479 |
| 20:00 | USD | FOMC meeting | % | | 2.50% | 2.50% |
| 20:30 | USD | Fed's Powell (voter, neutral) speaks | | | | |

Source: Bloomberg, Danske Bank

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