

Danske Daily

Oil price is stabilising

Market movers today

- There are not many important economic releases today; hence, market focus will continue to be on the virus developments, restrictions to contain the virus and policy responses to cope with the economic fallout.
- In Europe, leaders are discussing ways to support the worst hit European countries, like Italy and Spain, ahead of the Eurogroup meeting. Proposals range from common debt issuances like Corona bonds to setting up an EU coronavirus support fund. Watch out for signals from European leaders, notably the German and French side.
- In the US, weekly jobless claims are released. According to consensus among economists, the sad record from last week is about to be beaten, as economists expect another spike of 3.5m applications for unemployment benefit last week. In fact, given the timeliness of this report, it is now more interesting than the jobs report to be released tomorrow, see *Research US: Why the March jobs report is already outdated*, 1 April. We are likely to continue to see layoffs in coming weeks, while the US economy remains locked down and hence the jobs report for April will be extremely negative. If claims have risen by another 3.5m, the April jobs report will show a decline in employment of at least 7m but, unfortunately, probably more.
- Overnight, the Chinese Caixin PMI service number for March is released. The official print earlier this week showed a rebound in the index to 52.3 from the dire print of 29.6 last month. However, market consensus is more wary predicting only a rebound to 39 for the Caixin number tomorrow morning.
- In the oil market, the US administration is stepping up pressure on the Russians and Saudis to end the oil price war and signals from the two producers are important for oil markets near term.

Selected market news

The US equity market continues to be under pressure on the back of the negative effects from the coronavirus. There are more and more signs that the negative impact will be substantial. If that is the case, the issuance of US treasuries is set to increase significantly.

The Federal Reserve is easing some of the banking regulations in order to support the lending to households and corporates.

However, despite the losses seen in the US equity markets yesterday, there have only been modest losses in the Asian equity markets and US equity futures are up some 1.3-1.5% in Tokyo trading hours this morning.

The oil price is stabilising as expectations of a truce between Russia and Saudi Arabia are increasing.

Selected reading from Danske Bank

- *Nordic Research: Update no 2: Policy measures in the Nordic countries, 24 March*
- *FI Strategy Norway: Higher NGB issuance target and flexibility, 30 March*
- *FX Strategy: Fading financial stress supportive of EUR/USD, 30 March*

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Scandi markets

Denmark is releasing currency reserves for March. See more in the FX section.

Fixed income markets

The discussion about funding for the negative impact of the coronavirus continues. Yesterday, Dutch PM Rutte said that it will support a multi-billion fund (media suggested in the order of EUR10-20bn) to be seen as direct transfers without conditionality. This is a positive sign of solidarity, but it falls well short of being a game changer for countries such as Italy (EUR20bn is roughly 0.2% of euro area GDP). It is still too early to expect the EU countries to make some form of joint issuance, but some progress is made, which will be very important when the EU has to stimulate demand when the economies reopen again.

Today, France and Spain come to the market with two big tap auctions. France will sell up to EUR9.5bn in the 10Y and 20Y segment, while Spain will sell up to EUR6bn across the curve. We expect to see solid demand for the French government bonds given the elevated spreads. Spain should also attract decent demand.

The 7Y syndicated deal from Portugal was significantly oversubscribed. The Portuguese debt office sold EUR7bn and had orders for more than EUR30bn. In Denmark there was also a decent bid for the new 30Y government bond, even though there had been speculation regarding the demand given the rise in the duration of the callable mortgages as well as the expected supply of DGBs. However, with a bid-to-cover of 1.7, there was demand albeit at an elevated spread. Hence, the demand was better than feared and this supports the Danish government bonds after the spread widening to European peers that we have seen during the past couple of weeks.

FX markets

The market has been speculating about a potential QE programme in Denmark. Yesterday, central bank governor Lars Rohde dismissed the idea with reference to the currency peg, which does not easily allow for such policy. We have been sceptical about the prospects of a QE programme in Denmark for this exact reason. Nevertheless, the official dismissal removes a key upside tail risk for **EUR/DKK** spot. The FX reserve data for March due today, will likely show FX intervention in the area of DKK60bn, and should not be a market mover since the central bank already revealed FX intervention had taken place when it hiked policy rates earlier this month.

In the Scandies, the NOK rallied strongly during the European session reflecting short-end oil moving higher and a big fixing interest. In thin US markets the NOK later erased most gains with EUR/NOK only modestly lower for the session. The weekly flow data from Norges Bank strongly indicated that Norges Bank did not intervene last week which makes sense given the recent NOK rebound. Norges Bank likely has no interest in returning EUR/NOK to the 10 figure amid the economic recession and instead wants to prevent another spiralling selloff above 12.00. We remain cautiously bullish the NOK. Hear more details about the NOK in *"The NOK FX crash and where we are heading"*, 1 April.

Key figures and events

Thursday, April 2, 2020			Period	Danske Bank	Consensus	Previous
8:30	CHF	CPI	m/m y/y	Mar	0.1% -0.5%	0.1% -0.1%
11:00	EUR	PPI	m/m y/y	Feb	-0.1% ..	-0.5% 0.4%
14:30	USD	Initial jobless claims	1000			3283
14:30	USD	Trade balance	USD bn	Feb	-43.6	-45.3
16:00	USD	Core capital goods orders	%	Feb		-0.8%
17:00	DKK	Currency reserves	DKK bn	Mar		429
20:00	USD	Fed's George (non-voter, hawkish) speaks				

Source: Bloomberg, Danske Bank

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