

Danske Daily

Waiting for the Eurogroup tomorrow and OPEC+...

Market movers today

- Focus this week continues to be on the virus developments, especially in the US, where the number of infections and deaths is rising significantly. Meanwhile, the growth rate in new infections and deaths is coming down in Europe, signalling that the lockdown measures implemented are beginning to have the desired effect and contamination has peaked. The epicentre has moved to Spain from Italy.
- Today's data print that may attract some attention is the Sentix investor confidence, but otherwise focus is on the Eurogroup meeting tomorrow where corona bonds and other policy options are expected to be discussed, see *The case for 'corona bonds' and other policy options*, 3 April. Later this week, Fed and ECB minutes are due for release, but the recent measures and incoming data will make them less relevant compared to usual. US initial jobless claims will be closely monitored on Thursday.
- Focus this week will also be on the ongoing oil war. OPEC+ is tentatively scheduled to meet on Thursday, but we will also look for headlines before then.

Selected market news

Risk sentiment was sour on Friday amid a much worse-than-expected non-farm payrolls jobs report of -701k. It is still outdated as it does not reflect the big increase after the reference week. The April report is going to be a sad one. In the Asian session risk sentiment was mostly positive, as cases in virus hotspots in Asia appear to be levelling off. The Japanese government is said to lay out a two-step plan as well as declare national emergency as the virus takes its toll. No overall package size was disclosed, but unemployment schemes and support for companies were mentioned. A JPY10,000 handout to households with kids affected by the virus was also mentioned. Lower-income families are said to be able to get up to JPY300,000.

The global epicentre of the coronavirus has moved to the US, which is by far the most affected country. US President Trump said that if under 100,000 people died on the back of the virus, it would be considered a good job.

The oil price rallied sharply on Friday on unconfirmed media reports that OPEC+ was contemplating an emergency meeting on Monday to discuss a large output cut. Over the weekend, the meeting has been pushed back and is now tentatively scheduled for Thursday. Major oil producers are trying to work out a deal to cut global oil output 10%. The sticking point for Saudi Arabia and Russia seems to be whether producers outside OPEC+ will join the deal, most notably the US. Saudi Arabia is holding back its plan for deliveries and prices in May until Thursday as it looks for a resolve of the current supply-demand imbalance. Meanwhile, the US oil rig count plunged on Friday – a signal that US production will take a hit from the large drop in the oil price. After an initial drop of more than 10%, Brent oil is now only 1% lower than Friday's close.

UK PM Johnson was hospitalised for tests as he continues to have a high fever, 10 days on.

Selected reading from Danske Bank

- *FI Research: The case for 'corona bonds' and other policy options*, 3 April
- *Emerging Markets Monthly: Undershooting in PLN, CZK, RUB followed by H2 rebound*, 2 April
- *RtM Denmark. Funding of government emergency packages*, 2 April
- *Reading the Markets Norway - Short EUR/NOK and wider long-end NGB ASW spreads*, 3 April
- *Reading the Markets Sweden - 3 April*

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Scandi markets

This week kicks off with statistics on bankruptcies and forced property sales in March. We will be watching to see how many companies have already been forced to close down permanently. Service sector companies appear to be particularly vulnerable at the moment and a marked increase in bankruptcies is on the cards this month despite the government's assistance packages. The number of forced sales will presumably not be affected to the same extent, but this could change in the coming months if the situation deteriorates further.

In Sweden, all eyes are on the PES' weekly layoff notices released at 12.00 CEST. Most likely there will be a print well above 10,000 as this was implicitly the case for last week. We expect a bad start to April for obvious reasons.

Fixed income markets

The more risk bearing peripheral countries had a tough day on Friday underperforming core and semi-core. In particular Italy was under pressure, amid the weakest PMI services on record, but as the virus data have stabilised, we may see some positive developments in the BTP-Bund spread soon. Also increased ECB buying will close the spread. The 'collapse' in the Bund ASW-spread continued Friday. It is mainly driven by two factors: plenty of new deals coming to the market, where the hedging is driving the Bund spread lower, and secondly, the repo rate on German government bonds continues to decline. We are approaching levels where going long the Bund spread becomes attractive, as new issuance should slow down ahead of Easter and we have redemptions for some EUR36bn in German government bonds. Today, ECB's weekly monetary policy holdings and monthly APP country details will be released (15:45 CEST) and will give a clear indication of the purchase rate and focus in recent weeks/months.

On Friday, Belgium was placed on negative outlook by Fitch on the back of the coronavirus. The reasoning for the negative outlook is an expectation of a significant worsening of the budget deficit in 2020 and 2021 due to the virus. Fitch expects a budget deficit of 5.5% of GDP in 2020 and 4.5% in 2021. It was again Fitch that made the negative event, the other rating agencies have not moved countries to negative outlook.

Danish mortgages continue to perform especially versus government bonds. Furthermore, supply is low in the callable mortgages and with the reinvestment need we expect spreads to continue to grind tighter.

This week, Ireland may come to the market next with a syndicated deal. We updated our forecast for the EU sovereign bond issuance on the back of statements from debt offices and syndicated deals. This week's supply is from Austria, Germany and Italy, see *Government Bonds Weekly: More syndicated deals and the case for corona bonds*, 3 April.

FX markets

Commodity currencies are struggling yet again as oil gyrations ahead of the OPEC+ talks currently set for this Thursday remain in focus. On Friday, the IEA called upon the G20 to help stabilise the oil market, warning that even OPEC's proposed 10mb/d cut in output would still leave a global stock build of some 15mb/d in Q2. Over the weekend, hopes of an OPEC deal faded somewhat and crude prices plunged at the London open. Besides the usual suspects such as CAD and MXN, we also stress that USD/JPY is a candidate for downside if the oil price stays depressed due to the risk of further strain for US oil producers and a range of JPY-supportive factors in the current environment.

EUR/NOK went back above 11.40 on Friday and if still sensitive to oil, we stress again that other factors – such as notably NOK buying to finance the Norwegian fiscal boost amid COVID-19 – currently supports NOK. EUR/SEK has seemingly found a range between 10.90 and 11.10 in which it has consolidated for the past two weeks and with a shorter week lacking tier-1 data, we think this will persist for now. Should the cross challenge, or even breach, the lower levels of said range, it might be an attractive buy in anticipation of coming important weeks for the SEK. Riba pricing currently indicates a 50/50 probability of a Riksbank rate cut in late April, which we argue is too low. We still see a case for the Riksbank to return to negative rates and with it we see further SEK downside, especially on a 1-3M horizon.

Key figures and events

Monday, April 6, 2020				Period	Danske Bank	Consensus	Previous
1:01	GBP	GfK consumer confidence, final	Index	Mar			-9.0
8:00	DEM	Factory orders	m/m y/y	Feb		-2.0% 0.6%	5.5% -1.4%
8:00	DKK	Bankruptcies (s.a.)		Apr			
8:00	DKK	Enforced sales (s.a.)		Mar			
8:00	DKK	Industrial production	m/m	Feb			-2.6%
10:30	GBP	PMI construction	Index	Mar		44.5	52.6
10:30	EUR	Sentix Investor Confidence	Index	Apr		-30.3	-17.1
23:00	USD	Fed's George (non-voter, hawkish) speaks					
Tuesday, April 7, 2020				Period	Danske Bank	Consensus	Previous
-	EUR	Eurogroup meeting					
-	CNY	Foreign exchange reserves	USD bn	Mar		3096.3	3106.7
1:30	JPY	Labour cash earnings	y/y	Feb		0.2%	1.5%
6:30	AUD	Reserve Bank of Australia rate decision	%		0.25%	0.25%	0.25%
7:00	JPY	Leading economic index, preliminary	Index	Feb		92.0	90.5

Source: Bloomberg, Danske Bank

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