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Danske Daily

Denmark and Austria present their Covid-19 'exit strategy'

Market movers today

- The biggest event of the day is the Eurogroup video conference. The finance ministers are expected to discuss three proposals: (1) a common economic response to the COVID-19 hit countries, including using ESM facilities or creating a common debt instrument, (2) a pan-European guarantee fund to increase EIB's capacity to EUR200bn and (3) a EUR100bn backstop for employment protection schemes. We believe the end game will be some kind of debt mutualisation or rescue fund with transfers to the most heavily affected countries, but it will be a bumpy road, see more details here: *FI Research: The case for 'corona bonds' and other policy options*, 3 April. A press conference is planned at 20:00 CEST tonight.
- PM Abe is set to announce a one month state of emergency today for seven Japanese prefectures including capital Tokyo due to a worrying increase in infections. The government is also finalising a significant fiscal package worth JPY108tn equal to 20% of GDP. Abe is set to approve the package at a cabinet meeting later today and hold a news conference at 12:00 CEST on the state of the emergency plans.
- There are no major economic releases today.

Selected market news

Risk sentiment continued to be supported by further evidence that the virus has peaked in most countries in Europe. In Asia, most equity markets are rising following the significant increase in the US yesterday, where the S&P 500 rose 7%. On virus developments, the US has seen improvements in recent days in the growth of infections and deaths. The UK is behind the rest of Europe and yesterday Prime Minister Boris Johnson was taken into intensive care due to complications from his coronavirus infection. Risk sentiment in Asia was also boosted by better-than-expected reporting by Samsung, the Korean chip maker, as COVID-19 increased chip orders from datacentres helping to connect millions of people stuck at home globally.

As the coronavirus is increasingly getting under control in Europe, countries are starting to present their 'exit strategy' from the strict lockdown measures. Yesterday the Danish Prime Minister announced that she expects to open day care and schools up to 5th grade from 15 April, but that all restrictions on businesses and travel will remain in place until at least 10 May. More employees will be allowed back at the workplace, but not all. This opening will help businesses suffering from lack of labour, but those still shut down represent around 10% of total employment, so the opening will far from restore the economy. If most of the remainder is opened from 11 May, we could still reach our optimistic forecast of -2.5% GDP growth in 2020.

In Austria, Chancellor Sebastian Kurz also introduced the country's 'exit strategy' yesterday. From 14 April, small shops will be allowed to reopen as well as state parks but with tight entry controls. From 1 May, all shops, shopping centres and hairdressers will be allowed to open. Schools are also expected to reopen by the start of May. Restaurants, hotels and bars are set to remain closed until further notice.

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*
- *Reading the Markets 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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Chief Analyst
Jakob Ekholdt Christensen
+45 45 12 8530
jakc@danskebank.dk

Scandi markets

In Norway, focus will be on the February GDP-figures. We expect the shutdowns in China to have had a slight moderating effect, but the month also saw a substantial rise in retail sales. On balance, we expect mainland GDP to climb 0.3% m/m in February.

In Sweden, today brings the central government's budget balance for the month of March. Although somewhat interesting in its own right, perhaps even more interesting right now is speculating in future borrowing needs in light of the recently announced, COVID-19 related, fiscal spending. However, we will have to wait until 19 May for the SNDO's next official forecast on the matter.

We will also receive private sector production data, including the industrial sector. However, as this data relates to February and given everything that has happened since then, we rarely deal with data as outdated as this promises to be.

Fixed income markets

Today, the Irish Debt Office (NTMA) is expected to launch its new 7Y benchmark bond. A fair value would indicate a spread to mid-swaps around 23-24bp or 7-8bp above IRISH 05/26. However, there is likely to be a new issue premium of some 8-10bp as seen in the syndicated deals last week. See more in our research note *IRISH NTMA - Issuer profile*, 6 April. The NTMA released a new investor presentation yesterday. So far it has not updated the borrowing requirement of EUR10-14bn, but has acknowledged that it will exceed the EUR14bn. Given the deal today, the NTMA will have funded some EUR8-9bn. However, given the combination of the PSPP and PEPP programme, the ECB will have to buy between EUR12bn to almost EUR17bn for the rest of 2020 according to the NTMA. Hence, the ECB will buy more than twice as much as the issuance Irish government bonds for the rest of 2020. ECB increased the buying of Italy, France, Spain and Belgium during March and has stepped up the pace given the increase in the amount being bought in the PSPP as well as the amount bought in the PEPP. Hence, this will provide support for the countries under stress. See more in *APP and PEPP details - Supercharged OMT active but limited colour*, 6 April.

In the Danish mortgage market we have published two reports on the callables. In the first one we provide an estimate for the total prepayments for the January term see more in *Danish Mortgage Bonds - No more cancellations and low rate of increase – expect prepayments of 12% in 30Y 2% series*, 6 April. In the second paper we look at the prepayment risk in the 2% 2050 bonds, and find the 2% 2050 bonds 'unattractive', see more in *Danish Mortgage Bonds - Borrowers buyback prone and now remortgaging prone – 2'50/2'50io should trade at DKK0.70-1.00 discount to '47 series*, 6 April.

FX markets

Bettering risk sentiment as equities kept up the good mood and oil prices were steady weighed on JPY and CHF, while both NOK and SEK recovered; EUR/USD steady around 1.08. More broadly, we stress that USD and oil have become an increasingly uneven relationship with US oil production now a key liability for USD. In this respect, we further emphasise that one should not get one's hopes up for OPEC+ to strike a deal this week. We think risks are tilted towards a disappointment and expect Brent oil to stay sub-USD40/bbl. This could fuel USD/JPY moving towards 106 again near term; more in *FX Essentials - OPEC+ as a key liability for USD/JPY*, 6 April. By extension, we generally also find it too early for commodity currencies to see a forceful recovery, even if NOK remains an exception due to notably its fiscal support. In terms of SEK, we have learned in recent weeks that a large share of the Swedish dividends has been cancelled in the wake of the crisis. Some may say this is good news for the SEK, since a large chunk of potential repatriations flows goes away. We beg to differ. The dividend season, concentrated around April, is often claimed to be the reason why EUR/SEK tends to rise in this period (repatriation flows), but we believe that most of the payouts are in fact reinvested and the reason why EUR/SEK tends to rise in April is rather due to dovish news related to the Riksbank.

Key figures and events

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
8:00	NOK	GDP (mainland)	m/m	Feb	**0.3%**		0.2%
8:00	NOK	Manufacturing production	m/m|y/y	Feb			0.4%|1.2%
8:00	NOK	Industrial production	m/m|y/y	Feb			-2.3%|0.3%
8:00	DEM	Industrial production	m/m|y/y	Feb		*-0.8%|-3.2%*	3.0%|-1.3%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Mar			769.1
9:30	SEK	Industrial orders	m/m|y/y	Feb			3.5%|2.2%
9:30	SEK	Private Sector Production	m/m|y/y	Feb			1.7%|3.8%
9:30	SEK	Budget balance	SEK bn	Mar			58.9
21:00	USD	Consumer credit	USD bn	Feb		*13.5*	12

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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