

# Danske Daily

## Market movers today

- Today's most important release is the US CPI release at 14:30 CET. We estimate the core index rose 0.2% m/m in March, implying an increase in the CPI core inflation rate to 2.1% from 1.8% due to base effects (the CPI core index dropped 0.1% m/m in March 2017 due to, among other things, wireless telephone services).
- Also, we get the FOMC minutes tonight at 20:00 CET. We will look for comments on a possible regime shift to price level targeting and comments on the increasing Libor/OIS spread.
- In the UK, the NIESR GDP estimate for Q1 18 is due out at 13:00. Based on the PMIs, GDP growth likely fell to 0.3% q/q in Q1 18 from 0.4% q/q in Q4 17.
- In Sweden, the Prospera's monthly money market inflation survey is released this morning, see page 2.

## Selected market news

Yesterday, we saw a quite volatile trading session in the afternoon. While there were no data releases driving the market, **comments from Austrian central bank governor Ewald Nowotny sent rates higher and EUR stronger**. Nowotny commented in a *Reuters* interview that in his view the **ECB could hike the deposit rate before moving the main interest rate**. He also commented on a **first rate hike being 20bp**. Unprecedented, an ECB spokesperson stressed that the comments were Nowotny's own view. ECB spokespeople never comment on views shared by the individual governing council members, so that in itself was striking. Regarding the size and timing of the first hike, we have previously discussed what we expect goes into the ECB's decision making process, see *ECB Research: 10bp, 20bp or ...? ECB in uncharted waters*, 20 March 2018.

Following the escalation of the **US-China trade** dispute on Friday, we have seen multiple signs that support the picture that it is part of negotiations to reach a deal rather than Trump taking China into a trade war. We thus still expect the endgame to be a deal between the US and China and that the situation **will be resolved without a trade war**. Last night Trump tweeted: 'Very thankful for President Xi of China's kind words on tariffs and automobile barriers...also, his enlightenment on intellectual property and technology transfers. We will make great progress together!', which is a sign of consolidation, see *Flash Comment: Encouraging signs in the US-China trade conflict*, 10 April 2018.

The oil price reached a new year high yesterday on broad based support from the weaker USD, better risk sentiment in markets and bullish comments from Saudi Arabia targeting a higher oil price in the future.

## Selected readings from Danske Bank

- *Flash Comment: Encouraging signs in the US-China trade conflict*
- *FOMC review: Only slightly steeper rate path due to Trumponomics*
- *ECB Research: 10bp, 20bp or ...? ECB in uncharted waters*

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## Scandi markets

Prospera's monthly money market inflation survey is released at 08:00. CPI expectations have remained pretty stable (1Y, 2Y and 5Y horizon) since late 2017 and will probably stay there. However, this version of the survey, which only covers the money market's expectations, is less relevant than the broader quarterly survey (next update 13 June).

## Fixed income markets

Following a long period of little market-moving communication from ECB, Nowotny stole the limelight yesterday as discussed on page one and the 'hike-genie' is out of the bottle once again. While the dismissal from the ECB caused some rebound, the repricing of the ECB was especially noticeable at the April and June meetings next year and flattened the EUR curve further with 30Y swaps trading at YTD lows.

More new bonds are coming to the market as Portugal followed NTMA and EFSF and announced the introduction of a long 15 via syndication. The deal is expected to be launched in the near future, subject to market conditions. The additional supply is provided by Finanzagentur who is tapping EUR1.5bn in the Buxl (DBR Aug-46s). The high issuance activity is not isolated to EUR Govies, as credit markets seem to have calmed for now and lots of new EUR coveredds are hitting the screens this week. In our view, this is leading the widening of 3/6 basis beyond 5Y.

## FX markets

Focus in the majors will be on the FOMC minutes from the March meeting where the Fed hiked and steepened the 'rate path' slightly; risks are tilted towards a third hike, but just as interesting for USD forwards is whether the FOMC discussed the FRA-OIS widening, as this could be a first sign that the Fed is taking notice of the USD liquidity situation; that said, last week Powell dismissed balance-sheet reduction being an issue.

EUR/GBP once again failed breaking below the 0.87 level yesterday and the cross continues to hover just above this important support level. A clean break below 0.87 could open up for a test of the low end of the broad range at 0.8650. We generally see risk skewed to the downside on today's series of UK data releases, but do not expect this to alter the market's expectations of a rate hike from the BoE in May. Tactically, we remain biased towards selling EUR/GBP on rallies.

EUR/NOK rose after the Norwegian inflation miss yesterday and edged higher throughout the day; NOK/SEK also dropped markedly. The CPI release provides another reason to be cautious on entering longs; for more see this week's *Reading the Markets Norway*. We still prefer long NOK/SEK with some insulation against risk appetite as a means to play Scandi divergence; notably the Norwegian CPI disappointment yesterday moderates the case for a pick-up in Swedish (annual) inflation rates tomorrow.

## Key figures and events

Wednesday, April 11, 2018

				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		<b>1.5%</b>	1.5%	1.5%
3:30	CNY	CPI	y/y	Mar	<b>2.5%</b>	2.6%	2.9%
3:30	CNY	PPI	y/y	Mar	<b>3.6%</b>	3.3%	3.7%
8:00	SEK	Prospera inflation expectations					
10:30	GBP	Construction output	m/m y/y	Feb		0.9% 2.5%	-3.4% -3.9%
10:30	GBP	Industrial production	m/m y/y	Feb		0.4% 2.9%	1.3% 1.6%
10:30	GBP	Manufacturing production	m/m y/y	Feb		0.2% 3.3%	0.1% 2.7%
10:30	GBP	Trade balance	GBP mio.	Feb		-2600	-3074
13:00	GBP	NIESR GDP estimate	q/q	Mar	<b>0.4%</b>	0.3%	0.3%
14:30	USD	CPI headline	m/m y/y	Mar		0.0% 2.3%	0.2% 2.2%
14:30	USD	CPI core	m/m y/y	Mar	<b>0.2% 2.1%</b>	0.2% 2.1%	0.2% 1.8%
16:30	USD	DOE U.S. crude oil inventories	K				-4617
20:00	USD	Budget statement	USD bn	Mar			-215.2
20:00	USD	FOMC minutes					

Source: Bloomberg, Danske Bank

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