

Danske Daily

Q1 19 reporting kicks off today

Market movers today

- After a busy week we finish off on a quiet note. The main release today will be **preliminary US consumer confidence for April** from the University of Michigan. The consensus is for a small decline from 98.4 to 98.0.
- Otherwise, focus continues to be on **comments from UK politicians regarding Brexit and any news on US-China trade talks**. This week, US Treasury Secretary Steven Mnuchin said the US and China has found agreement on an enforcement mechanism, which has been one of the key challenges.

Selected market news

Asian stocks traded mixed following the US markets, which were steady ahead of corporate earnings and leaning on solid economics. The Treasuries market also calmed. Chinese equities and the Japanese Topix index slid slightly and, while US stock futures were flat, Q1 19 reporting starts today with several US banks.

Market concerns over a sharp slowdown in US growth were alleviated as data showed the number of people filing applications for unemployment benefits dropped to a 50-year low. Also, comments from Fed Vice Chairman Richard Clarida that the US economy is in a “good place” calmed the markets. Clarida also re-emphasised the Fed’s patience on rate hikes.

The IMF’s Christine Lagarde stated yesterday that the six-month delay in Brexit avoids the “terrible outcome” of a “no-deal” solution, but does nothing to lift uncertainty over the final outcome. The IMF’s Deputy Managing Director, Mitsuhiro Furusawa, warned that a sharper-than-expected slowdown in China’s economy is still a key risk to global growth.

In Washington, Bank of Italy Governor and ECB council member Ignazio Visco said new TLTRO details would be defined at the 6 June meeting, when new economic projections would be released. The ECB will also discuss the side effects of negative rates before the meeting. A *Reuters* report stated that the ECB was considering offering negative rates on TLTRO loans as the idea of a tiered deposit rate was “met with widespread scepticism”.

US President Donald Trump declared yesterday that he would not revoke sanctions on North Korea at a meeting in Washington with South Korean President Moon Jae-in discussing how to get US-North Korea nuclear talks back on track after an unsuccessful summit in Hanoi.

PM Theresa May told Parliament she will try to get a Brexit deal approved to avoid getting trapped in a long extension. May also hinted at a compromise on what trade ties with the EU should look like after Brexit. She said there was not much difference between Labour and her government in terms of their trade proposals, hinting that a customs union is a possible topic for compromise. May also restated that she opposes a second referendum on Brexit.

Selected reading from Danske Bank

- *Brexit Monitor: “See you in October”, 11 April 2019*
- *Flash ECB Review - Little news but tiering system still part of a discussion, 10 April 2019.*
- *Global Research - What a US-China trade deal will bring to the markets, 8 April 2019*

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Scandi markets

Martin Flodén is set to speak about ‘the economic situation and current monetary policy’ at lunchtime today. Given the current downtrend in Swedish inflation, further emphasized by yesterday’s outcome, we will listen closely to his take on the matter.

Fixed income markets

Very solid rally in the periphery relative to the core-EU and semi-core EU markets after a solid auction in Spain and normal auction in Italy. 10Y Spain broke through 1% yesterday and Italy continues to defy “gravity” as spreads tighten despite the downward revision of growth and upward revision of the deficit. Furthermore, Greece continues to tighten given the hunt for yield. We keep our long position in 5Y Spain versus France despite decent performance in recent days. We have also seen front end Ireland perform versus both Belgium and France, but keep the trades on for a bit longer now that Brexit has again been postponed in order to reach a deal.

Swedish inflation numbers came in below the Riksbank forecast and even though the gap between the inflation and the Riksbank forecast tightened a bit it is still making it hard for the Riksbank to ignore the soft inflation data and hike rates. Hence, the 10Y spread to Germany tightened modestly.

Germany is up for review by S&P. We do not expect a change to the rating or the outlook.

FX markets

EUR crosses generally bid yesterday as the lack of trust in ECB’s willingness to put action to its words on its easing options provided support. EUR/USD back around the 1.1250 mark, and EUR/GBP failed to move much lower even as the longer Brexit extension arguably reduces the risk of no deal – instead it drags out uncertainty. More broadly the patient stance adopted by most major central banks lately continues to limit volatility in the FX sphere and G10 vol continues to drop. A range of global FX vol indices are now back at 2014 levels, hinting that the market is increasingly complacent about risks in either direction. What can drive the next move out of current ranges in the G10 sphere? A trade deal – which looks increasingly likely given that an enforcement mechanism has reportedly now been agreed upon, and an – at least moderate – Chinese recovery could do the trick as this would be a key catalyst for central banks to regain trust in the ‘normalisation’ process. For more on our expectations to and implications of a US-China trade deal, see *Global research: What a US-China trade deal will bring to the markets*, 8 April 2019.

Meanwhile, waiting for the Riksbank’s April meeting after the Easter break, yesterday’s inflation data came out on the strong side of consensus expectations but still below the Riksbank forecast – yet it failed to send EUR/SEK lower for very long. Indeed, the inflation outcome will still be adding to the headwinds for the Riksbank’s hiking ambitions. Today, our eyes and ears are on Flodén (hawk), who is set to speak about ‘the economic situation and current monetary policy’, which is especially interesting given recent developments.

Key figures and events

Friday, April 12, 2019			Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Mar	8.1	4.1
9:00	ESP	HICP, final	m/m y/y	Mar	... 1.3%	1.4% 1.3%
11:00	EUR	Industrial production	m/m y/y	Feb	-0.6% -1.0%	1.4% -1.1%
14:30	USD	Import prices	m/m y/y	Mar	0.4% -0.4%	0.6% -1.3%
16:00	USD	University of Michigan Confidence, preliminary	Index	Apr	98.0	98.4

Source: Bloomberg, Danske Bank

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