

Danske Daily

Market movers today

- In the US, retail sales numbers for February are due for release. Retail sales fell unexpectedly in January, pointing to a slowdown in consumer spending. Yet, we think this was a fluke, as consumer confidence remains extremely high.
- In Germany, Angela Merkel will be sworn in as chancellor of the new grand coalition government today.
- In the Scandi countries, we get Swedish inflation figures and HOX house price data for February and the Danish central bank is due to publish its outlook for the Danish Economy (see overleaf).

Selected market news

Another one bites the dust. Donald Trump fired his Secretary of State Rex Tillerson and appointed CIA director Mike Pompeo in his stead. Rex Tillerson and Gary Cohn were some of the more mainstream officials. Tillerson stood for relatively traditional foreign policy and Cohn for orthodox economic policy.

Birds of a feather flock together. Trump is surrounding himself with likeminded people, which translates into a preference for unorthodox hawks. Peter Navarro and Wilbur Ross are China and trade hawks and Pompeo is a foreign policy hawk. Our FX valuation models provide the means to run scenario analysis for tariffs and trade restrictions as they are based on terms of trade and the price ratio of tradables versus non-tradables. We document the effects, which are significant, in our piece published this morning (see *FX Strategy - Trump in MEVA space: US isolation puts USD at risk*, 14 March).

Reflation scare recedes further. US core consumer price inflation came in as expected, moderate and unchanged at 1.8% y/y. To an extent, it corroborated the weakish wage figure from the jobs report. Unchanged CPI and lacklustre wage growth took some of the shine off the US reflation story. Further discussion on fixed income reactions follows below. We discuss US inflation on in our recent thematic piece *Part 1: Global Inflation – US stimulus and closing output gaps pose upside risk*, 26 February.

Selected readings from Danske Bank

- *Part 1: Global Inflation – US stimulus and closing output gaps pose upside risk*, 26 February
- *Government Bonds Weekly – New 10Y DSL and positive rating outlook for Austria and Finland expected*, 9 March
- *ECB Review – ‘Hawkish’ action – softish language*, 8 March
- *Research US – Symbolic protectionism with limited impact on growth and inflation but risks remain*, 7 March

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Scandi markets

In Denmark, the central bank holds a press conference to present its six-monthly *Outlook for the Danish Economy*.

In Sweden, it is an exciting morning, with both housing and inflation data for February due for release. First to come is Valueguard at 09:00, with our indicator suggesting a 1.5% m/m bounce in Stockholm flat prices. We think this partly reflects buyers and sellers trying to front-run the new amortisation rules (the same as in January). The bounce is probably temporary though and we think prices will come under pressure in coming months due to oversupply. Half an hour later, at 09:30, SCB publishes inflation data. We expect the large majority of price components to rebound after January sales, with CPIF and CPIF excluding energy both rising around 0.75% m/m. This implies year-on-year rates of 1.7% and 1.5%, respectively, which is again one- to two-tenths below the Riksbank's recently lowered inflation path. This may fuel expectations that the Riksbank will lower its repo rate path as early in April.

Fixed income markets

Portugal is set to tap in the PGB-28 and PGB-45 today. Although we closed our strategy of being long the 10Y PGB (see *Government Bonds Weekly –New 10YDSL and positive rating outlook for Austria and Finland expected*, 9 March), we are still positive towards Portugal. Germany will tap EUR1.5bn in the DBR-48, adding to today's supply in the EGB market. In addition, EFSF will sell up to EUR1bn in the EFSF-21.

Yesterday, EUR rates continued to decrease slightly across the curve, in particular following the moderate US CPI core print at 1.8% y/y. Although the US core inflation print was in line with our expectations and consensus, it seems as though the market 'feared' a higher print based on the market reaction of yields edging lower. We still find the current ECB pricing misaligned with euro inflation pricing at the front-end and expect EUR real rates to edge lower in this segment.

Continued focus on the 3M USD Libor-OIS spread, which has increased from below 10bp in November 2017 to above 40bp currently, i.e. by more than one (25bp) Fed hike. A non-exhaustive list of potential explanatory factors is likely to include increased issuance of US T-bills, a reduction in the Fed's balance sheet (although at a gradually increasing pace) and a larger US Treasury cash balance at the Fed than previously expected. Last week, the cash balance increased by more than USD50bn. Besides, it is likely US repatriation of overseas earnings has also had an impact global USD funding markets (for more see, for example, *FX Strategy – US tax reform set to leave a hole in global USD funding*, 6 February).

FX markets

In the Scandi sphere, ahead of the Norges Bank meeting tomorrow, we have – as noted above – an interesting morning in Sweden with Valueguard housing prices and February inflation data. If we are right in seeing upside to Valueguard prices, we may see EUR/SEK coming under pressure ahead of the inflation data. Then, if we are right in seeing inflation below Riksbank forecasts (albeit in line with consensus), EUR/SEK is likely to test higher again. Our 1M target is 10.10 and 3M 10.20.

Yesterday, the USD was on a back foot yet again due to a combination of US inflation figures coming out soft, thus questioning the Fed's hiking pace, and Trump fuelling US isolation fears further by ousting Tillerson as foreign secretary. In the current environment, it seems there will be little relief for the USD, as this suggests the Fed cannot hurry on hikes and that (most) Trump actions are seen as a 'liability' for the USD. Today, focus is on EUR/USD on a wealth of ECB speakers: if the governing council members feel the QE move last week was taken wrongly by the market, there are plenty of opportunities to correct the market perception. However, given the apparent 'success' in an FX context for the ECB in delivering hawkish action wrapped dovishly, the need to do so should not be significant.

Key figures and events

Wednesday, March 14, 2018

				Period	Danske Bank	Consensus	Previous
3:00	CNY	Industrial production	y/y	Dec			
3:00	CNY	Retail sales	y/y	Dec			
3:00	CNY	Fixed assets investments	y/y	Feb		7.0%	7.2%
8:00	DEM	HICP	m/m y/y	Feb		0.5% 1.2%	0.5% 1.2%
9:00	SEK	Valueguard Swedish housing price data			1.50%		
9:00	EUR	ECB's Draghi speaks in Frankfurt					
9:30	SEK	CPI	m/m y/y	Feb	0.73% 1.60%	0.7% 1.6%	-0.8% 1.6%
9:30	SEK	Underlying inflation CPIF	m/m y/y	Feb	0.75% 1.74%	0.7% 1.7%	-0.9% 1.7%
9:45	EUR	ECB's Praet speaks in Frankfurt					
10:30	DKK	Danish Central Bank publishes Outlook for the Danish economy					
11:00	EUR	Industrial production	m/m y/y	Jan		-0.2% 4.7%	0.4% 5.2%
11:00	EUR	Employment	q/q y/y	4th quarter			0.4% 1.7%
11:45	EUR	ECB's Constancio speaks in Frankfurt					
13:30	USD	PPI	m/m y/y	Feb		0.1% 2.8%	0.4% 2.7%
13:30	USD	PPI core	m/m y/y	Feb		0.2% 2.6%	0.4% 2.2%
13:30	USD	Retail sales control group	m/m	Feb		0.4%	0.0%
15:30	USD	DOE U.S. crude oil inventories	K				2408
17:15	EUR	ECB's Coeure speaks in Berlin					
22:45	NZD	GDP	q/q y/y	4th quarter		0.8% 3.1%	0.6% 2.7%

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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Report completed: 14 March 2018, 06:59 GMT

Report first disseminated: 14 March 2018, 7:25 GMT