16 April 2018

Danske Daily

Market movers today

- In a week with few important data releases and scheduled events, we expect markets to remain focused on global politics – there have been encouraging signs on trade policy lately but increasing worries over Syria and the US-Russia relationship.
- In the US, retail sales in March are due out. Retail sales have been weak in recent months but the slowdown comes after a period with strong growth. Retail sales are very noisy but, given the high degree of optimism among US consumers, we believe private consumption will remain a growth driver.
- We also have a range of Fed speakers later today.
- In Sweden, March HOX residential property prices are in the limelight, where we expect another fall in prices (see next page).

Selected market news

Despite heightened geopolitical tensions over Syria after America, France and Britain launched military strikes over the weekend, US and UK stock index futures are in the green this morning along with most Asian equities as the risk of a military showdown between the US and Russia faded. However, volatility will likely remain elevated, also because the US Treasury Department is set to announce fresh sanctions on Russia today related to its involvement in Syria's use of chemical weapons.

At the time of writing, EUR/USD was steady around the 1.233 level, while 10-year US Treasury yields ticked up to 2.84%. FX markets have been experiencing some trade war fatigue recently and, more importantly for both majors and EM, is the escalating Russia/Syria versus US/allies conflict in our view (see also FX section). The semi-annual FX report from the US administration notably did not label China a currency manipulator (though adding India to the watch list) and hence refrained from adding fuel to the trade war issue for now.

However, the pendulum keeps swinging in the US-China trade conflict. Recently, tensions eased following Xi Jinping's speech at the Boao Forum last week, but we could see a further escalation again this week. The White House is preparing to announce details on which goods categories of the USD100bn announced previously will be subject to a 25% tariff and in this case we expect China to be quick to announce a 1-1 retaliation. While we still believe in a deal between the US and China, ultimately we may be in for another escalation soon. We are likely to see ebbs and flows in the conflict before a deal is finally reached down the line (see also *Flash Comment: Is Trump preparing for a round of trade escalation - again?*).

EU and UK officials will start talks about the post-Brexit relationship this week, according to an *EU official*. There remain marked differences between the two sides: The EU has rejected the UK's proposals as cherry picking, while the UK says the EU is being too inflexible. The sessions will also cover the still unresolved issue of the Irish border and other parts of the divorce agreement that remain to be settled.

Selected readings from Danske Bank

- *Flash Comment: Is Trump preparing for a round of trade escalation - again?*
- *Reading the Markets Denmark - Danish central bank would welcome prepayments and buybacks in fixed-rate social housing loans*
- *Reading the Markets Sweden - 13 April 2018*

Follow us on *Twitter*:

@Danske_Research

Video
Danske Bank research playlist

Read more in Danske Bank's recent forecasts and publications

- *Nordic Outlook*
- *Yield Outlook*
- *FX Forecast Update*
- *Weekly Focus*

Analyst
Aila Mihr
+45 45 12 85 35
amih@danskebank.dk

Scandi markets

In **Sweden**, March HOX residential property prices are released today. Our Swedish Boprisindicator (tracking Stockholm flats prices) showed prices fell again in March (1.2% m/m nsa, 1.6% seasonally adjusted). This said, most intriguing was the 50% collapse in transactions, probably a result of the new amortisation requirement introduced on 1 March. We stick to our view that prices are likely to continue falling as the supply of newly produced flats is rising sharply in 2018.

Fixed income markets

In *Government Bonds Weekly*, we recommend to buy the new 15Y benchmark bonds that Ireland and Portugal issued last week. Despite both bonds have already performed somewhat we still see value in them versus swaps. The ECB is still in the market and will most likely be very active in the new bonds as it is close to the ISIN restrictions in the old bonds. Furthermore, we still see a market hunting 'carry' and the periphery rating cycle is still intact. In that respect Portugal is up for review by Moody's on Friday. Moody's still has Portugal below investment grade, but we expect an upgrade, which will make Portugal IG from all the major rating agencies.

Spain got a one-notch rating upgrade on Friday from Moody's (stable outlook). Moody's said that the improvements in Spain's credit profile that have emerged recently and enhanced economic resiliency due to an increasingly balanced growth profile and improved banking sector fundamentals now outweigh the drag from political/institutional factors. We should expect a positive opening for Spain this morning, though we have come a long way in terms of the convergence.

The coming week is a 'regular' supply week with Germany, France and Spain coming to the market. Germany is tapping in the 10Y benchmark, while France is tapping in nominals (5Y area) and linkers, and while Spain is tapping in the 4Y, 10Y and 15Y segments. In Denmark, the debt office will tap in the 5Y and 10Y segments, while in Sweden the Debt Office will tap in the 10Y segment. We expect to see good demand for both the Danish and Swedish government bonds. Otherwise the global FI market will take its cue from global risk appetite with focus on the China-US trade dispute and the political consequences of the US-led attack in Syria over the weekend.

FX markets

In a week which calendar-wise brings little in terms of G4 data releases (UK and Japanese CPI aside), focus will likely be on the Russia/Syrian issue. It still appears from our short-term models that **EUR/USD** on net benefits from a rise in uncertainty as measured by VIX vol; note also that oil prices could rise further if the Russia-Syrian issue escalates further. That said, we note that positioning is now very stretched on EUR/USD longs (back at 2013 highs), making the cross vulnerable if USD starts to exhibit safe-haven properties again. At the same time, both JPY and CHF continue to trade at rather weak levels (vs USD and EUR, respectively) given the heightened geopolitical uncertainty. And while both USD/JPY and EUR/CHF are headed higher over the medium term, both crosses could prove vulnerable if the Middle East see further unrest.

For Scandi markets the big event of the day is the HOX/Valueguard house price release. Last week saw EUR/**SEK** reach new highs and we suspect at least part of Friday's move had to do with markets pricing in another large monthly house price drop this morning. If we are right in our call, we therefore think the upside EUR/SEK potential upon release is becoming limited and looking at technicals, EUR/SEK seems prone to a temporary correction lower in a week of few data releases as long as risk appetite does not suffer. That said, any correction lower is likely to be short-lived as the growth and inflation outlook will continue to challenge the case of fundamental triggers sending EUR/SEK sustainably lower. In other words, we still think it's too early to turn strategically bullish on the SEK.

In terms of the **NOK**, we see EUR/NOK as a 9.47-9.75 range play. The spike in oil prices following the weekend attack in Syria is in isolation positive for the NOK, but we emphasise that geopolitically-driven volatility in oil prices tends to have a smaller short-term impact on the NOK than when oil prices are driven by global demand shocks. Also, we think much of the move lower in EUR/NOK last week on higher oil prices was related to markets pricing in a high probability of military response in Syria from the allies. With EUR/NOK in the lower end of the range and with the EUR/SEK rally likely to take a breather following today's release, we are contemplating taking profit on our long NOK/SEK trade recommendation.

Russia's **RUB** has got good prospects for a recovery rally today on the limited nature of strikes to Syria by the UK, the UK France and avoided military clash with Russia. However, new looming anti-Russia sanctions by the US and the UK for Syria are likely to halt RUB's recovery, keeping its volatility surged.

Momentum in GBP rally has eased since GBP/USD broke above 1.4245 on Friday. As such, the rally seen last week seems to be mainly technical driven and in the short term, it will require a break of 1.4345 in GBP/USD to maintain momentum in GBP. This week's data prints out of the UK are likely to support the case for a BoE hike in May as we look for higher wage growth and higher core inflation. However, the market is already pricing in an 80% probability of a bank rate hike in May, and we still think it's a bit too early to increase expectations.

Key figures and events

Monday, April 16, 2018				Period	Danske Bank	*Consensus*	Previous
6:00	SEK	Valueguard HOX Stockholm flats prices	m/m		**1.2%**		-0.6%
8:00	NOK	Trade balance	NOK bn	Mar			21.3
14:30	USD	Retail sales control group	m/m	Mar		*0.3%*	0.1%
14:30	USD	Empire Manufacturing PMI	Index	Apr		*19.6*	22.5
16:00	USD	NAHB Housing Market Index	Index	Apr		*70.0*	70.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Feb			119.7

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 16 April 2018, 05:22 CEST

Report first disseminated: 16 April 2018, 07:10 CEST