

Danske Daily

Market movers today

- Today, we will get the UK labour market report for February. We expect the annual growth rate of average hourly earnings excluding bonuses (3M average) to increase to 2.8% y/y from 2.6% y/y, as the weight of the monthly fall in December 2016 becomes less important. We believe the unemployment rate (3M average) will remain at 4.3%.
- In the euro area, German ZEW expectations for April are being released where consensus is for another fall to -1.0 from 5.1. The survey will give some early insights on how much recent geopolitical uncertainty and US-China trade war tensions have weighed on investor economic sentiment.
- In the US, industrial production data for March is due out. Industrial production is quite volatile but both PMI and ISM manufacturing are signalling that expansion will continue.
- Another set of Fed speakers is on the agenda today, including Williams (voter, neutral).
- The IMF will publish its semi-annual World Economic Outlook today, containing its new global and country level economic projections.

Selected market news

Stock index futures trended up after S&P 500 closed 0.8% higher, as investors shift their focus to corporate results from geopolitical tension. However, President Trump has rediscovered the currency topic, tweeting yesterday that both Russia and China are playing an unfair devaluation game against the Americans. USD sold off on this and extended losses against most peers in Asian trading this morning, with EUR/USD trading at 1.238 at the time of writing. We do not think that China is keeping its currency artificially weak to gain a competitive advantage and neither does the US Treasury department in its latest currency report, where none of the US's primary trading partners were labelled a currency manipulator (see *tweet*). Instead, we think the rhetoric is clearly linked to the ongoing trade dispute with China, where the next round of escalation could start this week (see also *Flash Comment: Is Trump preparing for a round of trade escalation - again?*).

Last night it was made official that Trump is nominating Richard Clarida for Fed Vice Chair, succeeding Stanley Fisher, who stepped down in October. In our view, it is a good choice given Clarida's very strong background as he has done much research on monetary policy, served as Vice Treasury Secretary and has worked at a financial institution (PIMCO, one of the largest fixed income investment firms). Clarida still needs Senate approval before taking up the position. Based on Clarida's recent comments, he is likely to be a centrist supporting the current policy of gradual hikes (three to four hikes this year). While we think the Fed is on autopilot at the moment, it is good in the long run with a very skilled Vice Chair, as the Fed has lost a lot of human capital with Janet Yellen, Stanley Fischer and soon William Dudley leaving the FOMC. Besides Clarida, Trump has nominated Michelle Bowman for Fed Governor (also requiring Senate approval).

Selected readings from Danske Bank

- *Strategy Sweden - More supportive factors for SEK rates ahead*
- *Government bonds weekly: Buy new 15Y benchmarks from Ireland and Portugal. Buy DGBs ahead of QE*
- *Danske Bank FX Trading Portfolio: Take profit on long NOK/SEK*
- *Flash Comment: Is Trump preparing for a round of trade escalation - again?*

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- *FX Forecast Update*
- *Weekly Focus*

Analyst

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

Scandi markets

No releases in the Scandi countries today.

Fixed income markets

US 10-year yields started the session higher as equity markets rallied; however, the recent risk correlation with bonds was broken later in the day as yields edged lower once again and the 10Y US treasury ended the session more or less unchanged at 2.83%. Noteworthy, the 2s10s curve flattened further to a multi-year low at 45bp as 2-year yields continued higher. Despite healthy retail sales the US bond market took its lead from the US Empire Manufacturing index that dropped to 15.8 in April from 22.5 in March (general business conditions fell from 44.1 to 18.3). It could be the first sign that the weaker business cycle we have seen in Europe and China is now spreading to the US and that the trade war fears are impacting business confidence.

One of the topics being discussed in the 'press' is that China could stop buying US treasuries in the ongoing trade dispute with China. We are not buying into the story as the result would be appreciation pressure on the Chinese Renminbi and yesterday night numbers from the US Treasury department actually confirmed that in February, China's holdings of US Treasuries rose the most in six months. China remains the biggest holder after Japan of US treasuries.

It looks like a quiet day in the European session. The supply calendar is empty and we only have the ZEW indicator to watch. The forward looking 'expectations part' is expected to drop below zero for the first time since July 2017. Note that periphery markets performed yesterday despite the upward pressure on Bund yields.

FX markets

Focus in majors and EM FX shifting back to the trade issue yet again with US president Trump devaluation comment. But Trump aside, as noted in Monday's FX Essentials we increasingly see the risk of a possible slide within EUR/USD's recent range near term. Notably, our equity strategists are looking for the US to outperform the euro zone near term as the US is off to a good start in terms of the earnings season. This could foster inflows into the US and out of the euro zone short term – not least given that the US so far had fared notably better amid the global loss of growth momentum than Europe. Further, the continuous rise in USD hedging costs could imply that such flows are unhedged to a larger extent. Coupled with our call for relative rates to edge in favour of a lower EUR/USD still (though admittedly this has not been a key driver over the past year), very stretched positioning long EUR/USD (see *IMM Positioning Update: Long EUR/USD positioning only surpassed by two weeks since financial crisis*) also makes the cross look increasingly vulnerable on the downside. Meanwhile, political uncertainty has failed to move the cross significantly over the past two months. We are long EUR/USD via options (see *FX Top Trades 2018 - How to position for the year ahead*) but suggest positioning for possible downside short term.

In Monday's *FX Essentials - Near-term downside risks to NOK/SEK*, we stressed that NOK/SEK has come a long way and we took profit on our long NOK/SEK recommendation from our top trades, see *Danske Bank FX Trading Portfolio: Take profit on long NOK/SEK*. EUR/NOK is now at low end of its recent trading range and indeed we still see the cross as a 9.47-9.75 range play near term; we would look to re-sell the cross at the top of the range on strategic attractiveness. Furthermore, EUR/SEK looks prone for at least a temporary correction albeit it is in our view still too early to turn strategically positive on the SEK. That said, our fundamental predisposition is to re-buy NOK/SEK on dips.

Key figures and events

| Tuesday, April 17, 2018 | | | | | Period | Danske Bank | Consensus | Previous |
|-------------------------|-----|--|------------|-----|-------------|-------------|-----------|----------------|
| 10:00 | ITL | HICP, final | m/m y/y | Mar | | | | ... 1.1% |
| 10:30 | GBP | Average weekly earnings ex bonuses (3M) | y/y | Feb | 2.8% | 2.8% | | 2.6% |
| 10:30 | GBP | Unemployment rate (3M) | % | Feb | 4.3% | 4.3% | | 4.3% |
| 11:00 | DEM | ZEW current situation | Index | Apr | | 86.0 | | 90.7 |
| 11:00 | DEM | ZEW expectations | Index | Apr | | -1.5 | | 5.1 |
| 14:30 | USD | Building permits | 1000 (m/m) | Mar | | 1330 | | 1321.0 (-4.1%) |
| 14:30 | USD | Housing starts | 1000 (m/m) | Mar | | 1269 | | 1236.0 (-7.0%) |
| 15:15 | USD | Fed's Williams (voter, neutral) speaks | | | | | | |
| 15:15 | USD | Capacity utilization | % | Mar | | 77.9% | | 77.7% |
| 15:15 | USD | Industrial production | m/m | Mar | | 0.3% | | 0.9% |
| 15:15 | USD | Manufacturing production | m/m | Mar | | 0.1% | | 1.2% |
| 17:00 | USD | Fed's Harker (non-voter, hawkish) speaks | | | | | | |
| 19:10 | USD | Fed's Evans (non-voter, dovish) speaks | | | | | | |

Source: Bloomberg, Danske Bank

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Expected updates

Each working day.

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