

Danske Daily

Market movers today

- There are no global key figures of interest today. Focus will continue to be on the political situation in **Italy** (where bond yield spreads are now wider than before the election) and on news coming out from the trade negotiations between **China** and **US** in Washington.
- The development in **US 10-year yields** and **oil** prices also continues to be in focus.

Selected market news

EU leaders are in Bulgaria to extend their links with partners during the EU-Western Balkans summit. The EU leaders also discussed the **Iran** nuclear deal, agreeing unanimously that the EU will stay in the agreement as long as Iran remains fully committed to it.

The trade with the **US** was also discussed. Today, the European Commission is expected to introduce a blocking statute to protect European companies doing business with **Iran** from the possible US sanctions. Previously, the US Treasury Department announced that companies doing business in Iran will have 90 to 180 days to cease their active contracts before facing US penalties.

The EU also promised to suspend trade negotiations with the US until the EU members receive total exemption from steel and aluminium tariffs by the US.

US stocks slid and the **USD** strengthened as **US** President Donald Trump said yesterday that he doubts the US and **China** could agree over their foreign trade. The world's two biggest economies have restarted negotiations over trade tariffs in Washington. Trump called China and the **EU** 'very spoiled'. The negotiations are continuing today.

While the Brent **oil** price rose to USD80/bbl for the first time almost in four years, commodity exporters in the **EM** universe weakened together with several other EM peers on the strengthened **USD** and US 10-year Treasury yields hitting 3.1% for the first time in seven years.

Scandi markets

In **Sweden**, Q2 18 EMI (export manager index) rose 3.4 units to 66.2, which is the highest level since mid-2010. It was primarily current assessment that rose 6.2 units to 67.5 that pulled it up while expectation rose a more modest 0.6 to 65.0. There is still strong demand from abroad, possibly boosted by the weak **SEK**. The EMI profitability index rose significantly by 20.6 units to 72.9, the highest level ever, which points out that there are businesses broadly gaining from the weak SEK.

In **Sweden**, New Housing Starts data for Q1 18 showed a decline of 13% y/y in started flats. Started multi-family flats dropped 14% y/y. The figures seem to confirm our view that residential construction and investments are now heading south.

Selected readings from Danske Bank

- [FX Forecast Update: SEK revival set to be temporary](#)

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Statistic Sweden's data, seasonally adjusted and smoothed, reveals that multi-dwelling residential construction appears to have peaked in mid-2017. It seems that starts dropped by 1.5% q/q in Q3 17, 5% q/q in Q4 17 and 3% in Q1 18. Hence, it puts the peak of the market earlier than what we previously thought. Although very uncertain, it would not exclude a slight downward revision to the residential investment component that goes into GDP. This data suggests we are 'on track' with our GDP forecast, suggesting weaker growth.

Fixed income markets

After the BTP sell-off earlier this week, the market stabilised yesterday - though with BTP yields at a seven-month high – as the new Italian government dropped the debt write-off proposal in the new government programme. The new coalition still have to agree on a new prime minister.

We had **ECB** on the wires yesterday. Ewald Nowotny said in the evening that the ECB 'should not wait too long to normalise policy' and outgoing Deputy President Vitor Constâncio said the ECB is 'naturally' watching the moves in Italian yields. The slightly hawkish Nowotny comments may weigh further on the European FI market when it opens this morning, albeit it seems that Nowotny has less ECB influence today than was the case earlier.

Yesterday, we published *Reading the Markets Denmark*. We recommend buying the 5Y Danish linkers versus nominal bonds and we discuss the mortgage bond floater auctions set to kick off next week. Finally, we look at the significant buybacks in DGB's.

FX markets

Yesterday, we published our monthly *FX Forecast Update*: The **SEK** revival is set to be temporary. Among the most noteworthy forecast changes, we lowered our 1M and 3M **EUR/SEK** forecasts to 10.20 (previously 10.40) and 10.30 (10.50), respectively. In our view, the effect of a weak **SEK** on higher inflation and higher interest rates curbs the upside in **EUR/SEK**. Longer term, we stick to our bearish **SEK** view as we think the inflation outlook makes it hard for the Riksbank to raise rates this year and due to a sharp slowdown in growth due to the housing market. We keep our 6M and 12M targets unchanged at 10.50 and 10.20, respectively.

USD/JPY remains highly correlated with the 10Y US treasury yield and the combination of a neutral speculative **JPY** positioning and higher US 10Y yields could be a supporting factor for **USD/JPY** near term. However, the cross looks increasingly overbought technically, and we reckon that any further rally in **USD/JPY** requires that the sell-off momentum in the **US** fixed income market is sustained (not our call). We have lifted our 1M and 3M forecasts to 109 (107 previously) and 110 (108 previously), respectively.

We still see a case for **EUR/USD** downside in the short term and we keep our **EUR/USD** forecast profile unchanged at 1.18 in 1M, 1.19 in 3M, 1.23 in 6M, and 1.28 in 12M.

Key figures and events

Friday, May 18, 2018				Period	Danske Bank	Consensus	Previous
1:30	JPY	CPI - national	y/y	Apr			1.1%
1:30	JPY	CPI - national ex. fresh food	y/y	Apr			0.9%
10:00	EUR	Current account	EUR bn	Mar			35.1

Source: Bloomberg, Danske Bank

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