19 April 2018

Danske Daily

Market movers today

- Today, we have a very light data calendar. In the UK we get retail sales numbers for March, where consensus is for a slight pickup, but the series is very volatile.
- In the US, we get the Philly Fed index for April and it will be interesting to see whether it points to a similar decrease in the ISM as the Empire Manufacturing Index released earlier this week. Market consensus is for a decline from 22.3 to 21.0.
- German Chancellor Angela Merkel and French President Emmanuel Macron will hold talks in Berlin today on EU reforms and trade conflicts with the US, a week before each travels to Washington for talks with US President Trump.
- The bank lending survey in Norway is due out.

Selected market news

The US Beige Book showed that the outlook for the US economy remained solid and that all 12 regions continued to report job growth. However, the report also said that 'outlooks remained positive, but contacts in various sectors including manufacturing, agriculture and transportation expressed concern about the newly imposed and/or proposed tariffs'. The Fed mentioned specifically that steel prices and building materials could rise on the tariffs.

The tariff concerns were repeated by New York Fed President Dudley later in the evening when he said that the US cannot win a trade-way and that it would be a 'terrible outcome'.

Commodity markets took the agenda as the market focused on oil stock data and the impact of sanctions on Russia. The CRB index rose to the highest level since October 2015 and oil reached the highest level since December 2014 as Brent oil rose to USD74 a barrel. The oil market took its lead from a bullish stock and demand report from the US Energy Information Agency. Especially, the demand figures were strong, pointing to a very strong 'driving season' this year in the US.

Nickel was particularly in focus as prices rose more than 10% The market is worried that fresh sanctions on Russia will hit Norilsk Nickel, the second largest producer in the world. The metal market is already concerned about the sanctions against Russian aluminium producer Rusal, the largest aluminium producer outside China. Aluminium prices have jumped more than 25% over the past 10 trading sessions. The higher metal prices underline that sanctions and tariffs do have an impact on prices and inflation. The inflation market was also reacting to the higher commodity prices and 10-year US breakevens are now at the highest level since August 2014.

The US equity market reacted negatively to the Beige Book and the market closed with Dow Jones down marginally whereas S&P500 and Nasdaq closed the day with small gains. Commodity producers were the big winners. The risk sentiment has improved overnight and Asian markets are all positive this morning.

Selected readings from Danske Bank

- *Flash comment Denmark: Cut in electricity taxes could weigh on inflation for years*

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Scandi markets

In Norway, Norges Bank will publish the quarterly survey of bank lending. We will focus on any changes in lending practices towards the household sector to see if the latest signs of stabilising house prices are visible. Governor Olsen and Deputy Governor Nicolaisen will both give speeches today. We doubt it will contain any news.

Fixed income markets

The spread between the periphery and the core EU continued to tighten yesterday with spreads between Italy and Germany tightening some 6bp in the 10Y segment. The 10Y Italy-German spread is rapidly approaching 100bp. The political outlook in Italy is still uncertain as the five-star movement will not be part of the government where Berlusconi participates. However, even though there is no government in Italy, it is not having much impact on the Italy-Germany spread.

Today, France and Spain are coming to the market. France is tapping in both nominals and linkers, while Spain is tapping in the between EUR4bn and EUR5bn in the 5Y, 10Y and 15Y segments. We expect both auctions to go smoothly.

The syndicated deals continue coming to the market. Today, Norway is expected to launch its new 10Y benchmark with a spread of -25bp to swaps. This gives a new issue premium of approx. 5-6bp. This seems fair when we compare with the new issue premium in other syndicated deals in the EU government bond market such as the recent deals from Finland, Belgium and Austria. Read more *here*.

Next week, the EFSF/ESM will again come to the market depending on market conditions. The EFSF launched an 8Y bond last week, where it sold some EUR3bn with an order book above EUR5bn. We expect that the upcoming transaction will also be met with decent demand even though the ECB is not as active in the PSPP supra purchases in 2018 as in 2017. However, there is still a significant reinvestment need at the ECB and it can buy up to 50% in the supras relative to 33% in the EU countries. Currently, the ESM/EFSF estimate that ECB holds some 44% of the eligible ESM/EFSF bonds, so we are close to the 50% limit in the existing series.

FX markets

USD crosses were little changed on the Fed’s Beige Book yesterday, which continued to paint a picture of a decently growing US economy and thus not rocking the Fed’s outlook.

The Bank of Canada kept rates unchanged at 1.25% as widely expected; the tone was overall a bit soft with notably protectionist policies (NAFTA etc.) noted as a key risk to the outlook for Canada. USD/CAD spiked above 1.2650 and we see the cross move higher still, projecting 1.28 in 1M.

Meanwhile, EUR/CHF continues to creep higher still, now just inches away from the old SNB floor of 1.20. While this is a story of policy normalisation in Europe as inflation is slowly returning, it is also seemingly in recent weeks a story about Russian outflows of CHF due to US sanctions. While the latest move should make the SNB more comfortable, note that SNB President Jordan said last week in an interview that he is keen on not ‘provoking’ any premature CHF appreciation with policy moves. We thus still think the first SNB hike is beyond our 12M forecast horizon and see EUR/CHF moving firmly above 1.20 this year.

On Wednesday, EUR/GBP bounced above 0.87 on the back of the weaker-than-expected UK CPI prints. The lower-than-expected inflation does not change our call for a BoE rate hike in May, which is still priced with an 80% probability. However, the combination of the weak activity and inflation data seen in Q1 could fuel speculation of a more dovish hike from the BoE in May, which, combined with a stretched long GBP positioning, increases the risk that GBP might lose some of its shine near term. Longer term, we remain bearish EUR/GBP and, tactically, we would consider selling EUR/GBP if the cross bounces further towards 0.88.

In the Scandi sphere, EUR/SEK was remarkably steady around 10.40 yesterday following a few volatile days over the past week.

For the NOK, we are now approaching the start of the Norwegian dividend season, which means a period of net NOK selling. In isolation, that supports the idea of a NOK vulnerable to near-term profit taking from accounts that have been net long the Norwegian currency. Indeed, we have seen foreign accounts sell the NOK recently. However, we do not want to overdo the impact of the dividend season as (1) Norwegian ownership is high, (2) payout amounts are relatively small, (3) some dividends actually imply NOK buying and finally (4) amounts can easily have been hedged at other times than on the ex or payout date. We still see EUR/NOK as a near-term 9.47-9.75 range play.

Key figures and events

Thursday, April 19, 2018				Period	Danske Bank	Consensus	Previous
0:45	NZD	CPI	q/q|y/y	1st quarter		*0.5%|1.1%*	0.1%|1.6%
3:30	AUD	Employment change	1000	Mar		*20.0*	17.5
10:00	EUR	Current account	EUR bn	Feb			37.6
10:30	GBP	Retail sales ex fuels	m/m|y/y	Mar		*-0.2%|1.4%*	0.6%|1.1%
14:30	USD	Philly Fed index	Index	Apr		*21.0*	22.3
14:30	USD	Initial jobless claims	1000				

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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Report completed: 19 April 2018, 06:22 CEST

Report first disseminated: 19 April 2018, 07:20 CEST