

Danske Daily

Market movers today

- Today is another quiet day in terms of data releases. In the afternoon, the euro area consumer confidence indicator for May is due out, which we expect to show a rise to -3.1 from -3.6 in April. Although political events seem to have limited effect on consumer confidence, the election of Emmanuel Macron could potentially give further tailwind to consumer confidence
- A few central bank speeches are scheduled but we do not consider them market movers.
- In Denmark, the consumer confidence indicator for May is due out this morning, which we expect to be largely unchanged from April at 7.4.

Selected market news

Asian stocks are mixed this morning after US equities recovered some ground yesterday as focus shifted from political risks in the US back to economic data. The Philly Fed Index showed a stronger-than-expected rise in factory activity in the mid-Atlantic region, abating the risk-off mood somewhat after the biggest sell-off in US stock markets in eight months on Wednesday. However, investors remain cautious due to uncertainties surrounding US President Trump and his capacity to push through with promised tax cuts and infrastructure spending, bringing 10Y US Treasury yields down to 2.23%, their lowest level since April. Former FBI Director James Comey's testimony to the Senate next week will be watched closely by the market for any new clues on Trump's involvement in the federal investigation, after he denied any wrongdoing yesterday.

In the ECB minutes from the April meeting released yesterday, policymakers indicated a cautious approach to changes in policy communication to prevent undue market upheaval. This confirms our view that the ECB will take only very small and gradual steps in moving in a more hawkish direction and we still believe it is less likely the ECB will change its forward guidance at the June meeting (see more here [ECB research: Hawkish wording but changed forward guidance less likely](#), 10 May). However, this should not exclude that the ECB will argue that the options for providing additional accommodation have become less likely.

Presenting the Conservatives' manifesto yesterday ahead of the election on 8 June, Theresa May pledged voters to press on with her approach to Brexit, cut immigration and introduce corporate reform. Our main scenario remains that the Conservatives will consolidate their majority after the election, reducing the risk of a 'no deal Brexit' (see also [FX Strategy - UK snap election not a catalyst for a higher EUR/GBP](#), 9 May).

Reports alleging that the Brazilian President Michel Temer gave his blessing to an attempt to pay to silence a potential witness in the country's biggest-ever graft probe brought back investor concerns about a possible government collapse and added to market jitters across the Americas, causing Brazilian stocks and the real to fall sharply.

Customer satisfaction

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Selected readings from Danske Bank

- [FX Strategy: OPEC oil cut extension unlikely to add much NOK support](#)
- [Reading the Markets Sweden](#)
- [Reading the Markets Denmark](#)

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Scandi markets

In **Denmark**, consumer confidence for May is due to be released. The indicator has been upward bound so far this year and we expect it to be largely unchanged at 7.4 in May.

Fixed income markets

The political uncertainty in the US continues and is weighing on the markets, where we see safe-haven demand for Bunds and Treasuries as well as modest widening of the spread between the periphery (Spain, Italy and Portugal) and core EU. The 'AAA' and 'AA+' rated countries such as Denmark, the Netherlands and Finland have tracked the performance seen in Bunds.

We have no major key economic data releases today, but a number of speeches from ECB members as well as speeches from Federal Reserve members. These speeches will be monitored will monitored for further information regarding "tapering" from ECB and tightening/reduction of the Federal Reserves' balance sheet. The Netherlands is up for review by S&P, but we do not expect a change to either the outlook or the rating.

Yesterday, we published our weekly on Sweden, where we look for a flatter Swedish government bond curve on the back of reinvestment flows and index extension amid Riksbank QE. See *Reading the Markets Sweden*, 18 May 2017.

As well as our bi-weekly on Denmark, we go for a tighter spread between DKK 5Y5Y forwards versus EUR 5Y5Y forwards and an update on the upcoming auction on the floaters and non-callable covered bonds. We also take a look on the current environment for EUR/DKK. See more in *Reading the Markets Denmark*, 18 May 2017.

FX markets

The EUR rally lost momentum yesterday and EUR/USD fell back to 1.11 level. There was no news or data releases triggering the move, but stretched short-term technicals most likely prompted profit taking following the past days' strong rally. We closed two of our FX Top Trades for 2017 yesterday – long EUR/JPY and long EUR/USD – with a profit of 2.34% and 3.48%, respectively. We think the eurozone is unlikely to be immune to a likely turn in the global cycle, which our cyclical lead models point to, and the recent uptick in the effective euro should ensure that the ECB stays in easing mode. We remain bullish EUR/USD and EUR/JPY on a medium- to long-term horizon as fundamentals such as valuation and current-account balances remain supportive. We would look to re-enter a bullish position in both pairs if a setback in EUR crosses materialises in coming months. See *FX Top Trades 2017: Take profit on long EUR/JPY and long EUR/USD*, 18 May.

In respect of the JPY, we stress that heightened US political uncertainty, weaker risk appetite and not least a possible turn in global business cycle as warranted by our cyclical models is a bad cocktail for EUR/JPY and USD/JPY, and we see risks tilted to the downside near term.

GBP was the big winner yesterday and GBP/USD broke above 1.30 for the first time since September 2016 on the back of the stronger-than-expected retail sales data. While price actions yesterday were driven by strong UK data, the recent trend higher in GBP/USD and EUR/GBP, is more of a EUR and USD story, in our view, and definitively not related to the UK election. As argued *FX Strategy: UK snap election not a catalyst for a higher EUR/GBP*, 10 May, we do not expect election risk premium to lead to a GBP sell-off this time given that a Brexit risk premium already is priced in. Indeed, a repricing of Brexit risks might be GBP positive. We also maintain the view that a solid victory for Theresa May and the Conservative is positive for GBP in the longer run and in isolation justifies a moderate level shift lower in EUR/GBP. We target EUR/GBP at 0.84 in 3M. In the near term, however, further EUR/GBP upside cannot be ruled out if momentum in the EUR resumes and due to heightened political risks in the US where additional USD sell-off could potentially be a catalyst for GBP short covering via a rally in GBP/USD.

Both NOK and SEK underperformed yesterday among the G10s as tumbling risk sentiment weighed on equities/commodities/oil. We emphasise that we still prefer a very cautious tactical stance on NOK and SEK at the moment given the uncertain global outlook, which remains a key driver for the Scandies. With little in the data calendar, the next potential market driver for the NOK will be next week's OPEC meeting. See *FX Strategy: OPEC oil cut extension unlikely to add much NOK support*, 18 May.

Next week in Sweden contains two key macro figures with a potential SEK impact: on Tuesday, labour market data and on Wednesday, NIER confidence data. Last month, both were on the strong side of expectations pushing EUR/SEK significantly lower, which illustrates that the SEK is not immune to real macro numbers, even strong ones – at least temporarily. We have no reason to believe that the very strong trend in the labour market including employment growth will suddenly turn around. The NIER data is a more open story, but we have no strong 'a priori' take other than perhaps that NIER manufacturing will correct lower but then still be at very strong levels. Finally, it is worth repeating that growth-related factors, including the Swedish surprise index, indicate that there is potential in the krona. We also note that this month we see divergence between European and US assets, where European equities have been outperforming. Adding to this, the EUR/USD rise suggests a rebalancing need among Swedish investors that could generate USD/SEK buying and EUR/SEK selling. See *FX Strategy: EUR/SEK higher amid repricing of political risk*, 18 May, for details.

Key figures and events

Friday, May 19, 2017			Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Netherlands's debt rating				
9:00	DKK	Consumer confidence	Net. bal.	May	7.4	7.4
10:00	EUR	Current account	EUR bn	Mar		37.9
11:00	EUR	ECB's Praet speaks in Brussels				
14:00	EUR	ECB's Constancio speaks in Brussels				
14:30	CAD	CPI	m/m y/y	Apr		...1.6%
14:30	CAD	Retail sales	m/m	Mar		-0.6%
15:15	USD	Fed's Bullard (non-voter, dove) speaks				
16:00	EUR	Consumer confidence, preliminary	Net bal.	May	-3.1	-3.6

Source: Bloomberg, Danske Bank Markets

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Expected updates

Each working day.

Date of first publication

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