20 April 2018

Danske Daily

Market movers today

- In the euro area, consumer confidence for April is due to be released. Consumer confidence has stagnated at 0.1 for the past two months, after rising steadily throughout 2017 and consensus is for fall to -0.1 in April. Even so, consumer sentiment will remain above its long-run average and point to robust private consumption growth ahead. The Fed's Mester (voter, hawkish) and Evans (non-voter, dovish) are due to speak on the economy and monetary policy.
- In Scandinavia, manufacturing confidence for Q1 is being released in Norway and Danish consumer confidence for April is due out (see next page).

Selected market news

Global yields have seen upward pressure over the past 24 hours. The sell-off in global FI markets were most pronounced in the UK Gilt market where the yield on the 10-year Gilt rose 10bp. But also German and periphery yields saw pronounced upward pressure with the 10-year Bund yield 7bp higher. There were no obvious drivers for the sell-off but a combination of renewed focus on commodity prices and supply from France and Spain probably drew yields higher in the European market. The negative sentiment was carried over to the US where 10Y US treasury yields rose 5bp to 2.92%. We note the curves for 2s10s and 5s30s steepened after flattening significantly over the past couple of weeks. We also saw that 10Y US breakeven inflation expectations rose once again, underlining the impact of higher commodity prices.

However, we doubt we are in for a significant new jump in yields as in January and February where 10Y Germany rose 35bp over six weeks. Yesterday, we published a research paper where we looked at the global business cycle (see link to the right). We argue that there are clear signs that the global business cycle peaked in early 2018. Furthermore, our MacroScope models point to a further deceleration over the coming quarters. The recent uncertainty over a potential trade war is likely to reinforce this picture. While the cycle is softening, we still expect growth levels to stay above potential growth, as US fiscal easing will temper any deceleration in 2019. Nevertheless, declining PMI levels across regions tends to cause some anxiety about the strength of the recovery and put a cap on bond yields.

Hence, if global yields are to see a further strong upward pressure the driver needs to be a new spike in commodity prices or change in rhetoric from central banks. We doubt the latter will be the case if the global business cycle is weakening, see also our new *ECB update*. The sanctions against Russia could still push some metal prices higher and the oil market, which has rebalanced this year (lower stocks), could be affected if the Trump administration decides to take a tougher stance on Iran. In respect of central bank rhetoric, note that GBP weakened last night after BoE Governor Mark Carney struck a dovish tone in an interview, stating that a few rate hikes may be warranted over the next few years, thus essentially questioning whether a May hike is a done deal after all. Carney came after the close of the Gilt market.

The higher yields weighed on US stocks, but the market recovered some of the losses after Deputy Attorney General Rosenstein said Trump is not the target of the Mueller investigation.

Selected readings from Danske Bank

- *Research: Global business cycle is moving lower*
- *ECB Preview - Not on Draghi's watch*

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Scandi markets

In Norway, SSB will publish the manufacturing confidence for Q1 today. Relatively high oil prices are currently fuelling demand in the oil supply sector, while the combination of strong global growth and a relatively weak krone is giving exporters a helping hand. This has been very much in evidence in the monthly manufacturing indicators. This said, we have seen a slight softening in the PMI over the past two months. Historically, the manufacturing confidence indicator has been more stable than the PMI, including at a quarterly level, so we are counting on an answer as to whether there is actually a slowdown under way or whether it is just noise in the PMI. We expect a moderate rise in the overall index from 6.4 in Q4 to 7.0 in Q1, confirming a continued upswing in manufacturing.

Fixed income markets

There are no significant key events today and as we do not see the sell-off yesterday as another sell-off as in Jan-Feb, we do expect to see a rebound in yields today.

Portugal is up for review by Moody's. Moody's is the last of the three big rating agencies (Moody's, S&P and Fitch) to have Portugal on Junk rating (Ba1). However, Portugal is on positive outlook and we expect an upgrade to 'BBB-' given the significant economic improvement and the many reforms that have been implemented by the Portuguese government. This will bring Portugal back to four IG ratings. Much has already been priced into Portuguese government bond yields, but we still look for a positive reaction on Monday as an upgrade would confirm the positive rating cycle for the periphery.

In Italy, the negotiations continue to form a government as the centre-right coalition lead by Lega Nord is trying to strike a deal with the Five Star Movement. Hence, there is still political uncertainty, but the impact is not seen in the market; on the contrary, Italian government bonds are expected to continue the rally next week.

Finally, there will be a lot of focus on the ECB balance sheet numbers next week given the redemptions that end this week. We expect the balance sheet to show a big reinvestment need and this is likely to be positive for EU government bonds.

FX markets

In Scandi FX, a big question over the past sessions has been just how much NOK buying the new 10Y NGB entails. As of now, it has been announced that NOK12bn will be issued and with a bid-to-cover at roughly 2, it is pretty close to recent auctions. The tricky part in terms of FX is who is buying and to what extent the NGB purchases are funded. At this stage, we do not know the details and await more information from Norges Bank. Foreign accounts make up roughly 60% of NGB market but most FX bets are placed in the 3-5Y segment. Hence, our take is we should not overdo this impact even if it could explain a few figures move lower in EUR/NOK. In terms of the SEK, it is all about next week's Riksbank meeting. We have seen EUR/SEK come a little lower as expected, but we sense a large share of the market participants do not want to put on new positions ahead of next Thursday. Our bias towards EUR/SEK remains that of a 'buy-on-dips'.

Among the majors, focus yesterday was on whether EUR/CHF would break the old SNB floor of 1.20 – from the downside this time round – and it did. Over the past few weeks, US sanctions have seemingly led some Russians to repatriate funds placed in Switzerland, which has likely fuelled a CHF outflow. Positioning is largely neutral CHF and long EUR/CHF, which in itself poses some limit as to how far on the upside we can go near term even if we see a clearer break of 1.20 in coming days. Our Medium-term Valuation (MEVA) estimate for EUR/CHF is 1.28 and thus points to some upside still as ECB policy 'normalisation' drags on. We target 1.23 in 12M and our 3M forecast of 1.19 has been reached, but there is now a clear risk that we could settle above 1.20 on this horizon. Also, GBP weakened last night after BoE Governor Carney struck a dovish tone in an interview, stating that a few rate hikes may be warranted over the next few years, thus essentially questioning whether a May hike is a done deal after all. In our *ECB preview*, we stress that as we now do not see the ECB hiking before late 2019, the EUR support from ECB this year could be reduced somewhat. Near term, a hesitant Mario Draghi could help to let EUR/USD slide within its recent trade, and we remain short the cross in the *Danske FX Trading Portfolio*.

Key figures and events

Friday, April 27, 2018				Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/m|y/y	Mar			-0.5%|1.3%
-	EUR	S&P may publish Germany's debt rating					
-	EUR	S&P may publish Italy's debt rating					
-	EUR	Fitch may publish Netherlands's debt rating					
-	EUR	Moody's may publish Belgium's debt rating					
-	EUR	Moody's may publish Finland's debt rating					
-	DKK	General Prayer Day					
-	JPY	BoJ policy rate	%				-0.1%
1:01	GBP	GfK consumer confidence	Index	Apr			-7.0
1:30	JPY	Unemployment rate	%	Mar		*2.5%*	2.5%
1:30	JPY	Job-to-applicant ratio		Mar		*1.59*	1.58
1:50	JPY	Retail trade, preliminary	m/m|y/y	Mar		*0.0%|1.6%*	0.5%|1.7%
1:50	JPY	Industrial production, preliminary	m/m|y/y	Mar		*0.4%|...*	0.0%|1.6%
3:30	CNY	Industrial profits	y/y	Mar			10.8%
7:30	FRF	GDP, preliminary	q/q|y/y	1st quarter		*0.5%|2.3%*	0.7%|2.5%
8:45	FRF	Household consumption	m/m|y/y	Mar			2.4%|1.9%
8:45	FRF	HICP, preliminary	m/m|y/y	Apr			1.1%|1.7%
9:00	ESP	HICP, preliminary	m/m|y/y	Apr			1.2%|1.3%
9:00	ESP	GDP, preliminary	q/q|y/y	1st quarter		*0.7%|2.9%*	0.7%|3.1%
9:30	SEK	Retail sales s.a.	m/m|y/y	Mar			-0.1%|0.8%
9:30	SEK	Wages (blue collars/white collars)	y/y	Feb			2.5%
9:30	SEK	Household lending	y/y	Mar			7.0%
9:55	DEM	Unemployment	%	Apr			5.3%
10:00	NOK	Unemployment	%	Apr			2.5%
10:00	EUR	ECB's survey of professional forecasters					
10:30	GBP	GDP, preliminary	q/q|y/y	1st quarter			0.4%|1.4%
10:30	GBP	Index of services	m/m|3m/3m	Feb			0.2%|0.6%
11:00	EUR	Business climate indicator	Net bal.	Apr			1.3
11:00	EUR	Industrial confidence	Net bal.	Apr			6.4
11:00	EUR	Economic confidence	Index	Apr			112.6
11:00	EUR	Consumer confidence, final	Net bal.	Apr			
11:00	EUR	Service confidence	Net bal.	Apr			16.3
12:30	RUB	Central Bank of Russia rate decision	%			*7.25%*	7.25%
14:30	USD	Employment cost index	m/m	1st quarter		*0.7%*	0.6%
14:30	USD	PCE core, preliminary	q/q AR	1st quarter			0.019
14:30	USD	GDP, 1st release, preliminary	q/q AR	1st quarter		*0.022*	0.029
16:00	USD	University of Michigan Confidence, final	Index	Apr		*98.0*	97.8

Source: Bloomberg, Danske Bank

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