

# Danske Daily

## Market movers today

- In the **US**, we are due to get preliminary **University of Michigan consumer confidence** data (one of the soft economic indicators) for March today.
- The **Donald Trump and Angela Merkel meeting**, initially scheduled for this Monday but postponed due to the blizzard in the north eastern part of the US, is set to take place at the White House today. This will be the first meeting between the German Chancellor and the new American President. Likely topics on the agenda are the future of the transatlantic alliance but also funding for NATO and relations with Russia.
- In the **euro area**, S&P is scheduled to update its rating and outlook on Portugal, Finland, Austria and Cypress, while Moody's will be reviewing Estonia.
- In **Denmark**, the Association of Danish Mortgage Banks is due to release its **housing market statistics** for Q4 16.

## Selected market news

**Different camps of the Governing Council within the ECB seem to be forming**, both when it comes to how the 'normalisation' of monetary policy should start and regarding when it is time to embark on a clearer adjustment to the forward guidance. Overnight Ewald Nowotny (Hawk) was quoted in a *Handelsblaad interview* as saying that the 'deposit rate could rise before [the] main rate', while Peter Praet said during a *speech in Brussels* that 'inflation dynamics haven't yet become self-sustained'. It will be interesting to see how this 'gorge' continues to develop.

**Donald Trump's first budget** outline was presented yesterday. As expected, it had heavy emphasis on infrastructure spending without further detail and an increased defence budget, which he plans to fund with deep cuts to diplomatic and foreign aid programmes. Also, the Environmental Protection Agency is set to see its budget cut by 31%. The full 2018 budget is due to be released later this spring and it will include 'our specific mandatory and tax proposals, as well as a full fiscal path'. See more from the *White House*.

Yesterday's **Norges Bank meeting** did not bring any surprises, as the sight deposit rate was left unchanged at 0.50% and the Board maintained the 'neutral bias' introduced in September. The rate path was revised 'postponing' the expectation of when the first rate hike will occur and stating '*the key policy rate will most likely remain at today's level in the period ahead*'. See more in *Norges Bank Review: Unchanged rates and neutral bias maintained*, 16 March.

The **Bank of England meeting** did not surprise much either, as it made no policy changes and reiterated its neutral stance by repeating it could move '*in either direction*'. However, the meeting was not completely uneventful, as Kristin Forbes (a known hawk) voted for a March hike and the statement disclosed that '*some members noted that it would take relatively little further upside news...for them to consider that a more immediate reduction in policy support might be warranted*'. See more in *Bank of England Review: Maintains neutral stance with hawkish twist*, 16 March.

The overnight session was very quiet, with the Asian equity indices seeing marginal gains and losses, no big FX moves and slightly higher yields of Japanese government bonds.

## Customer satisfaction

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## Selected readings from Danske Bank

- *Research US: Fed's regulatory hurdle for starting quantitative tightening*, 13 March.
  - *ECB's core inflation forecast is still too optimistic*, 14 March.
  - *Bank of England Review: Review: Maintains neutral stance with hawkish twist*, 16 March.
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- *Nordic Outlook*.
- *Yield Forecast Update*.
- *FX Forecast Update*.
- *Weekly Focus*.

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## Fixed income markets

We got some interesting insights from ECB speakers overnight. Nowotny (Hawk) was quoted in a *Handelsblaat* interview saying that the ‘deposit rate could rise before main rate’ (<http://bit.ly/2mU9uPV>), while Peter Praet said that ‘inflation dynamics haven’t yet become self-sustained’ (<http://bit.ly/2mzcFu2>). Different camps are starting to form within the council, both when it comes to how the ‘exit’ should start and regarding when it is time to embark on a clearer adjustment to the forward guidance. As we have flagged in recent days, intended or not, the increased risk of a depo hike speaks in favour of a high TLTRO II allotment next week. More Central Bank communication could come over the weekend as Finance Ministers and Central Bank Governors are meeting at the G20 gathering in Germany.

It is an interesting end to the week in the EUR FI market in both outright and ASWs. Despite the post-FOMC rally in US, the EUR FI sold-off yesterday, while Bobl ASW tightened on receiving interest in the 4Y segment. The ASW move could be related to pre-hedging of the TLTRO II allotment (for more on the TLTRO II see *Expect a large take at the final TLTRO II auction*, 13 March).

It is Friday and that means rating reviews. Portugal (BB+/stable), Austria (AA+/stable), Finland (AA+/stable) and Denmark (AAA/stable) are all up for review by S&P. Despite the better economic data out of Portugal, any hopes of a positive outlook from S&P are probably premature given the high debt-to-GDP level in Portugal and reduced QE purchases in PGBs.

Regarding Scandi, take a look at *Reading the Markets Sweden*, 16 March. CPIF Inflation finally reached the 2% target, so why do we (Danske Bank) stubbornly keep talking about inflation headwinds?

## FX markets

Following the Norges Bank decision yesterday, which was a bit more dovish than our expectations (see *Norges Bank Review: Unchanged rates and neutral bias maintained*, 16 March), the EUR/NOK rose 6-7 figures, reflecting the slightly more dovish message than expected. However, we do not see it as a game changer for the NOK outlook. External factors and stretched positioning have been the key headwinds for the NOK recently, while the domestics have improved. Indeed, accelerating growth with a narrowing output gap is the ideal cocktail for an undervalued currency such as the NOK. As the global risk environment is more positive post-Fed, we expect the spike in EUR/NOK in yesterday’s session to be minor and probably short-lived when NOK rates have adjusted and FX markets’ focus returns to near-term reduced external headwinds. Hence, we still recommend gradually building up strategic NOK exposure on dips.

The EUR/GBP fell slightly and Gilt yields ticked 4bp higher driven by the more hawkish tone in the statement released after the BOE meeting yesterday (see *Bank of England Review: Maintains neutral stance with hawkish twist*, 16 March.). The market is now pricing in an accumulated 8bp rate hike from the Bank of England (BoE) in 2017 and 26bp by the end of 2018. However, we still expect the BoE to remain on hold for the next 12 months as (1) we think it is unlikely the BoE will tighten monetary policy in a time of elevated political uncertainty and (2) we think the BoE will continue to prioritise growth over high inflation. We still think the market’s pricing is too hawkish, suggesting little support to GBP driven by higher UK interest rates ahead. Hence, we see risks stemming from relative rates as relatively balanced for EUR/GBP, as the market has turned too hawkish on the ECB pricing as well with a 10bp rate hike priced by March 2018.

After yesterday's price action, the EUR/GBP has fallen back below our 1-3M target of 0.87. As such, we still see risks skewed on the upside for EUR/GBP as we expect GBP to underperform vis-à-vis USD and EUR in the weeks ahead and after the triggering of Article 50. However, Brexit risk premium priced on GBP has increased over the past two to three weeks and, given that investors are very short GBP, according to IMM, further GBP short covering could pave the way for a short-term correction lower in EUR/GBP. Tactically, we prefer to buy EUR/GBP on dips, for move up to 0.88.

The SEK traded on a strong note yesterday with the selling of the NOKSEK after a 'dovish on hold' signal from Norges Bank and USDSEK selling on the back of a 'dovish hike' from the Fed, which helped to push EURSEK lower. The cross effectively broke an ascending trend line that started in early February, while the strong labour market data had no impact on the SEK. There are no events in Sweden today that will drive SEK, which will most likely then be subject to the global risk environment.

**Key figures and events**

Friday, March 17, 2017			Period	Danske Bank	Consensus	Previous
-	USD	G20 finance minister meeting (Saturday included)				
-	EUR	S&P may publish Portugal's debt rating				
-	EUR	S&P may publish Finland's debt rating				
-	EUR	S&P may publish Austria's debt rating				
-	EUR	S&P may publish Cyprus's debt rating				
-	EUR	Moody's may publish Estonia's debt rating				
9:00	DKK	House prices (Association of Danish Mortgage Banks)	q/q y/y	3rd quarter		
11:00	EUR	Trade balance	EUR bn	Jan		24.5
14:15	USD	Capacity utilization	%	Feb	75.5%	75.3%
14:15	USD	Industrial production	m/m	Feb	0.2%	-0.3%
14:15	USD	Manufacturing production	m/m	Feb	0.3%	0.2%
15:00	USD	University of Michigan Confidence, preliminary	Index	Mar	97.0	96.3

Source: Bloomberg, Danske Bank Markets

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