

Danske Daily

Market movers today

- **Markets are set for the big PMI day today**, with releases out in the US, euro area and Scandi region alike and should give some hints as to whether our call that the business cycle is near a peak is starting to play out.
- **In the US, the flash Markit PMI manufacturing for April is due.** In March, PMI manufacturing declined, although it is still at a level that suggests increased activity. We expect manufacturing PMI to be unchanged at 53.3.
- **Similarly, in the euro area, PMIs are set for release across regions.** We believe these will remain strong in April but with a small downward correction with regard to services. Business and economic sentiment still seem optimistic; however, the final services PMIs were corrected significantly downwards in the March figures, which indicates some weakness towards the end of the month. This weakness could transition into lower service PMIs for April. Additionally, the recent months, with upside surprises in PMIs, make a coming moderation increasingly likely.
- **Manufacturing survey due in Norway.** For more on the Scandi region, see page 2.

Selected market news

Although equities have had a decent run overnight, global risk sentiment is set to remain fragile ahead of the first round of the French presidential elections this weekend, with the shooting in Paris yesterday evening adding further to uncertainty. Polls continue to project the possibility of a wide range of outcomes, and for markets the most high-risk scenario would be a run-off in the second round between the two euro-sceptics, Marine Le Pen and Jean-Luc Mélenchon (see *French Election Monitor No. 2: Mélenchon could enter second election round in May*, 18 April, for details).

The Bank of Japan's (BoJ) Haruhiko Kuroda stressed in an interview last night that the bank is far from heading for the exit and that the central bank is determined to keep stimulus in place (in the form of quantitative easing with yield-curve control) to drive inflation up. However Kuroda's ability to keep policy accommodative could be questioned given the constraints the BoJ could see in operating its asset-purchase programme given that the central bank now owns some 40% of JGBs outstanding and has a balance sheet amounting to around 80% of GDP. In our base case of US rates moving gradually higher as the Fed hikes, USD/JPY should follow and provide some support to Japanese inflation but with wage growth in Japan still very subdued and operational constraints set to rise as the BoJ balance grows, markets may become increasingly reluctant to buy into the BoJ willingness to stay in the inflation game.

Next week will see policy meetings at the BoJ, the ECB and the Riksbank, all of which are struggling to beef up underlying inflationary pressure. In our view, all three central banks will be keen to avoid sending any hawkish messages but in the current environment markets could request that they dig deeper yet into their toolboxes to refrain from pricing an end to easing and send their respective currencies higher to add insult to injury on inflation.

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Selected readings from Danske Bank

- *Yield Outlook: More or less stable yields in 2017 – higher yields a 2018 story*
- *Reading the Markets Denmark: Buy DGB'18 against Schatz – pros and cons of 30Y 3% mortgage bonds*

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Scandi markets

Today will also see Statistics Norway's manufacturing confidence survey and we estimate the main indicator climbed from -0.4 in Q4 16 to 2.5 in Q1 17. This would confirm the picture painted by the PMI, Norges Bank's regional network and employer organisation NHO, that manufacturing activity is picking up. The downturn in the oil sector seems to be over and exporters are being buoyed by a weak krone and stronger global growth.

Fixed income markets

The focus in the market is now all about the first round of the French election on Sunday. The uncertainty about who will move into the second round is still high but it looks to be run-off between Emmanuel Macron and Le Pen. The OAT-Bund spread remains elevated given the uncertainty of the first round of the election. If Macron wins the first round with a solid margin, then we would expect to see a relief rally but we do not expect to see a significant rise in German government-bond yields. Portugal is up for review by DBRS and normally there would be focus on this review as it is the only investment grade that Portugal has left among the four rating agencies used by the ECB. However, given the solid improvement in Portuguese macro data, the politically stable situation, the ongoing restructuring of the banking sector and the decline in yields and tightening of the spread between PGBs and EU peers, we expect DBRS to be on hold regarding both outlook and rating.

The comments from the BoJ's Kuroda underline that the BoJ will continue to keep 10Y JGBs range bound in a tight range around 0bp. Hence, tapering is not on the BoJ agenda and this is important given the spill-over effect to other markets, as Japanese investors are likely to keep buying foreign assets such as US Treasuries when the FX hedge is to their advantage. Furthermore, the UST treasury secretary reiterated that the tax reform is likely to be done by the end of year, and 'that it will pay for itself'. There has been speculation regarding the financing of the tax reform and whether it would be underfunded and thus we would see an increase in the issuance of US Treasuries. This should also pave the way for the Federal Reserve to begin reducing its balance sheet in 2018 without the possibility of a flood of issuance of UST treasuries.

FX markets

In a generally thin data calendar, many FX crosses are susceptible to movements in global factors. This is the case for the NOK, which has weakened against the EUR over the past two sessions, partly as the oil price has also been hit by the current risk environment in our view. Furthermore, the EUR/USD has rebounded partially as the markets have priced in a slightly lower risk of a Le-Pen or Mélenchon win. With neutral speculative NOK positioning (according to our estimation), it highlights an important point: namely that EUR/NOK could be caught in a rough business cycle/election cocktail in the coming week if the EUR rises more than expected on a convincing Macron win and oil falls on weaker global demand. Thus, we think that external factors will remain in the driver's seat near term amid a thin Norwegian data calendar. This said, and as highlighted over the past few days, we have seen a gap forming as the NOK has not moved higher amid the reversal in relative rates and the oil price. Keeping in mind the much-improved domestic story, our preference is therefore still to sell EUR/NOK on rallies from a tactical and not least strategic perspective. Key resistance levels are 9.2470-9.2550 (Trump Nov- and March sell-off tops).

Another currency that is hit by the fragile global risk sentiment is the Polish zloty. Yesterday saw a series of very strong data releases (retail sales, industrial production and construction output), which, together with faster-than-expected wage growth, point to an economy growing above potential. Although the PLN initially strengthened on the back of the strong numbers, the currency quickly lost momentum again. The currency may trade on a soft patch today ahead of Sunday's election in France but should the EUR/PLN move to 4.30, we see this as an attractive level to go short.

Key figures and events

Friday, April 21, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Italy's debt rating					
-	EUR	Fitch may publish Cyprus's debt rating					
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Apr			52.4
8:00	NOK	Trade balance	NOK bn	Mar			23.5
8:00	NOK	Industrial confidence (SSB)	Net. bal.	1st quarter	2.5		-0.4
9:00	FRF	PMI manufacturing, preliminary	Index	Apr	53.2		53.3
9:00	FRF	PMI services, preliminary	Index	Apr	57.7		57.5
9:30	DEM	PMI manufacturing, preliminary	Index	Apr	58.4		58.3
9:30	DEM	PMI services, preliminary	Index	Apr	55.7		55.6
10:00	EUR	PMI manufacturing, preliminary	Index	Apr	56.0		56.2
10:00	EUR	PMI composite, preliminary	Index	Apr	56.3		56.4
10:00	EUR	PMI services, preliminary	Index	Apr	59.9		56.0
10:00	EUR	Current account	EUR bn	Feb			24.1
10:30	GBP	Retail sales ex fuels	m/m y/y	Mar			1.3% 4.1%
14:30	CAD	CPI	m/m y/y	Mar			... 2.0%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Apr	53.3		53.3
15:45	USD	Markit PMI service, preliminary	Index	Apr			52.8
16:00	USD	Existing home sales	m (m/m)	Mar		5.55	5.48 -3.7%

Source: Bloomberg, Danske Bank Markets

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Expected updates

Each working day.

Date of first publication

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