

Danske Daily

Market movers today

- It is a very quiet start to the week with no important data today. Two Fed speakers are due to speak. Harker (voter, hawkish) and Kashkari (voter, dovish) may give more insight into the scope for a rate rise in June.
- In the rest of the week, German ifo (Tuesday), Euro Flash PMI (Wednesday) and the OPEC meeting (Thursday) will be in focus.
- In the Scandi countries, employment data and retail sales figures in Denmark are due out.

Selected market news

Asian stocks are edging higher this morning, following cautious gains on Wall Street on Friday, though the US dollar remains under pressure as Washington's political turmoil undermines confidence in the outlook for Trump's economic policy. Market focus this week is likely to remain centred on what is happening around Trump. In his inaugural trip overseas, US President Donald Trump called on Arab leaders to do their fair share to drive out terrorism from their countries in a speech in Saudi Arabia on Sunday. More 'headlines' will hit the market as the trip progresses, with the NATO meeting and the G7 summit at the weekend being the most important events.

Meanwhile, **North Korea** fired another ballistic missile into waters off its east coast yesterday, its second missile test in a week. This also complicates plans by South Korea's new President Moon Jae-in to seek ways to reduce the conflict with his neighbour. Tensions are rising fast between the US and North Korea and a further escalation of the conflict is likely if North Korea continues with plans to carry out another nuclear test (see also *Research: The rising risk from North Korea - and what it means for markets*, 27 April 2017).

With political risks in Europe somewhat abating, after Emmanuel Macron's win in the French presidential election, focus today shifts back to **Greece's** debt problems, as eurozone finance ministers meet in Brussels to discuss the issue of debt relief. The Greek parliament narrowly approved another reform package last week, containing spending cuts and reductions in pensions and tax allowances, triggering renewed street protests. The open issue, however, remains a possible debt relief for the country, which the IMF demands as a prerequisite to participate in further funding, but EU leaders, especially Germany, are still opposing. A deal is needed for Greece to draw its next instalment of bailout aid and make a EUR7.5bn debt repayment in July; however, it is questionable whether an agreement between the parties can be reached today. Should a deal on debt relief be found, Greece might issue its first sovereign bond in three years as early as July, to test market appetite before its bailout programme expires in mid-2018, according to *Greek officials*.

OPEC and other oil producers seemed on course to an agreement to extend supply cuts at the meeting on Thursday, with Saudi Arabia saying most participants are on board with the plan to rein in a global supply glut. An extension of the supply cuts seems also largely priced into the oil market now, with Brent crude trading at USD54.1bl this morning.

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Selected readings from Danske Bank

- *Flash Comment: Brazil rocked by renewed political crisis*
- *Strategy: Volatile volatility is here to stay*

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Scandi markets

In **Denmark**, employment data for March and retail sales for April are due out this morning. Job growth was sluggish in the first two months of the year, so it will be interesting to see whether this marks a new trend or whether employment picks up again in March. Consumer finances are currently being buoyed by rising employment, low interest rates, rising house prices and not least rising real wages, so there should be scope for Danish households to continue to loosen the purse strings.

Fixed income markets

We have a relatively light issuance calendar ahead of us this week with the market set to remain centred on what is happening around Trump. Over the weekend, Trump said in Saudi Arabia (first stop on inaugural trip overseas) that war on terror is a 'battle between good and evil' – not between faiths. More 'headlines' will hit the market as the trip progresses with the NATO meeting and the G7 at the weekend being the most important events. Aside from Trump, the Fed minutes are due out on Wednesday. In Europe, the main release will be flash PMIs tomorrow.

In the EUR primary market, the 'deal window' remains wide open. Belgium has cancelled the tap scheduled for today, implying that Belgium is the prime candidate for the next deal. Also, Italy is a good candidate for a 30Y deal before the summer slowdown is upon us. Turning to the scheduled supply, we estimate that EUR12.5bn will be issued this week. Germany will launch a new Jun-19 Schatz tomorrow (EUR5bn) and furthermore tap EUR3bn in the Bund on Wednesday. Italy will be in the market on Friday, which should involve the usual 5Y and 10Y in the month-end tap (announcement on Tuesday). See more in *Government Bonds Weekly: Still more value in periphery bond markets*, 19 May 2017.

In Denmark, Nykredit kicks off the May 2017 mortgage bonds refinancing auctions today. Nykredit will be auctioning DKK12.3bn in 1Y to 5Y non-callable bullets in the period 22-24 May. Next week (29 and 30 May), RD, Nykredit, Nordea Kredit and BRFKredit will conduct refinancing auctions in floater bonds. See more in *Reading the Markets Denmark: Going long 5Y5Y DKK-EUR swap spread - floater and non-callable bullet auctions in focus*, 18 May 2017.

FX markets

CHF was the beneficiary last week, i.e. the only G10 currency that has strengthened against the euro. In our view, this suggests that the political turmoil in the US last week has been key in explaining the rise in **EUR/USD**. If this was a story about a eurozone economic rebound and ECB exit from unconventional policies getting close, we would not expect to see CHF perform like this (EUR/CHF should be on the rise on any firm signs the ECB will look to lift rates and thus ease the pressure on SNB to keep EUR/CHF up). Going forward, this suggests that while EUR/USD will be sensitive to relative monetary policy stances, US politics is currently a key driver as well; should Trump manage to rein in the current pressure on his presidency, this would be key in stabilising the pair. Regarding the former, the market will keep an eye on Fed speeches today in terms of pricing in of the possibility of a June rate hike.

In the **Scandies**, NOK/SEK has drifted higher over the past week, often positively correlated with the global business cycle. Yet, we still see greater downside risks to the global business cycle near term and thus downside risks for the pair – in particular, as NOK is unlikely to get much support from an extension of OPEC supply cuts at Thursday's OPEC meeting, as this looks about priced into the oil market and thus in NOK.

Key figures and events

Monday, May 22, 2017

				Period	Danske Bank	Consensus	Previous
-	EUR	Eurogroup meeting in Brussels					
9:00	DKK	Employment (monthly)	1.000	m/m	Mar		2671 6000
9:00	DKK	Retail sales		m/m y/y	Apr		0.3% 2.6%
16:00	USD	Fed's Harker (voter, hawkish) speaks					
16:30	USD	Fed's Kashkari (voter, dovish) speaks					

Source: Bloomberg, Danske Bank Markets

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Date of first publication

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