

Danske Daily

Market movers today

- In the euro area, focus will be on the PMI figures and whether they can continue upwards, in contrast to the weakness in manufacturing PMIs observed in the US and China in recent months. We expect a minor slowdown in the euro area PMIs, but note that the figures should remain at a high level and still show continued expansion.
- The German Ifo business confidence will also attract attention today. Ifo estimates fell slightly in April to 105.2 from 105.7 in March. We may see a further small decline in German business expectations to 104.9 due to a softening of the business cycle indicators in the US and China, although there could be tailwind from the outcome of the French election.
- In the UK, focus will be on the nature and impact of the terrorist attack in Manchester. The UK government has announced that election campaigning is suspended today.
- In the US, the Markit PMI (composite) is expected to show a modest increase as the current level only reflects around 1% GDP growth, which is below our expectation of a current underlying growth rate of around 2%. This would justify a modest rise in Markit PMI. US new home sales are estimated to show a small decline in April after some strong months in early 2017.
- The Trump administration is expected to release its full budget today, which is expected to contain big cuts to safety net, tax cuts and USD100bn in infrastructure projects over the next decade. One major assumption is that real GDP growth will increase to 3% due to supply side effects from the tax cuts, which in our view is doubtful. We see difficulties in passing the budget given a divided Republican party in Congress.
- In the Scandies, it is time for unemployment in Sweden, where we look for a small increase in unemployment.

Selected market news

The Asian equity markets are seeing small gains this morning following a terrorist attack in Manchester that is said to have killed 19 and wound 50 people. Prime Minister Theresa May and her government have decided to suspend election campaigning today. The cautious risk sentiment follows a rather strong session in US equity markets as some of the concerns about the political upheaval in the US have faded. Furthermore, oil prices continued their recovery as markets are expecting an extension of the OPEC deal on Thursday.

On Brexit, EU ministers endorsed the EU's negotiation stance towards the UK yesterday. The EU maintained the maximum demands on the UK in terms of the financial liabilities and legacy obligations for EU citizens in the 'divorce' phase of the negotiations. The EU's lead Brexit negotiator Michel Barnier announced yesterday that the preferred strategy is to start the Brexit negotiations during the week of 19 June. Germany warned that the reality of Brexit had yet to 'break through' in London.

On Greece, euro area finance ministers failed to break an impasse on debt relief for Greece yesterday in Brussels. Talks will continue over the next few weeks with the objective of reaching an agreement in June. Meanwhile, the EU Commission announced yesterday that it recommends closing the Excessive Deficit Procedure for Portugal six years after its bailout, raising the prospect of a rating upgrade when Fitch reviews the country's rating on 16 June.

Customer satisfaction

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Selected readings from Danske Bank

- *IMM Positioning Update: largest weekly bullish oil build since 2008*

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Scandi markets

In Sweden, we received the first set of data as the April labour force survey is published at 09.30 CEST). As usual, we concentrate on employment and hours worked, rather than the unemployment rate, as this measure is distorted by the high influx of immigrants. To keep it simple, we estimate a continued improvement in employment numbers.

Fixed income markets

Today, the FI market will take its cue from the European PMI data and the German ifo. We will also keep an eye on the surge in EUR/USD, which makes it even more difficult for the ECB to reach its inflation target. The latter should mitigate any upward pressure on Bund yields if today's indicators point to further expansion in the euro zone.

The German Finanzagentur also sets the agenda this week with the new June '19 Schatz (EUR5bn) today and a EUR3bn tap in the on-the-run Bund tomorrow. Given the ongoing demand for Germany, we expect both the inaugural Schatz auction today and the Bund tap tomorrow to go smoothly.

The Belgium Debt Agency said yesterday that it intends to issue a new syndicated benchmark bond maturing 22 June, 2037 (OLO 84) in the near future (read today). The announcement was no major surprise after the Debt Agency cancelled the planned tap this week and not least after the strong demand seen for French and EFSF syndications last week. We expect to see healthy demand today.

Portugal has been our periphery bond favourite this year. Yesterday, the EU commission recommended that Portugal should exit the Excessive Deficit Procedure. It is very positive news for Portugal and the 10Y PGB-Bund spread tightened by another 8bp. From a rating perspective, this is together with the upbeat newly published EU Winter forecasts supportive for our view, which is that Portugal could soon start to see rating upgrades. It is up for review by Fitch on 16 June. See the EU Commission recommendation [here](#).

In Denmark, Nykredit will be selling DKK3.1bn in 1Y IT DKK bonds and DKK2.5bn in 3Y DKK bonds at the May 2017 refinancing auctions. For more details on supply at the auctions, see *Reading the Markets Denmark: Going long 5Y5Y DKK-EUR swap spread - floater and non-callable bullet auctions in focus*, 18 May 2017. Note in respect of Denmark, that EUR/DKK is now trading at the highest level for eight months. It might weigh on the short end of the money market curve today.

FX markets

In the majors, the release of the German ifo and Markit PMIs for euro area and US today could prove interesting for FX markets. To the extent the recent EUR rally has been driven by cyclical outperformance in the euro area, the market will need further confirmation in today's data releases to justify holding on to the recent gains. In contrast to consensus, we are looking for a slight drop in the ifo and a larger drop in euro area PMIs. If we are right, we could see a reality kick for EUR bulls and see some stabilisation of the major EUR crosses. In particular, we note that our short-term financial models are signalling that EUR/USD is in overbought territory.

In the Scandies, the most interesting move yesterday was probably EUR/DKK, which rose to around 7.4440. The pair benefited from the general EUR support mentioned above, while we note that shorter-dated FX forwards trading close to par along with strong fundamentals should limit further upside. We forecast EUR/DKK at 7.4400 on 3-12M.

EUR/NOK weathered the EUR rally yesterday as oil prices remain bid ahead of the OPEC meeting on Thursday. The latest comments from OPEC officials suggests that a nine-month extension of supply cuts is about a done deal, which means there is a greater risk of OPEC falling short of expectations at this point. Hence, there should be little support left to NOK from the market pricing an extension of OPEC supply cuts. Furthermore, if we are right in our view on

the data releases for euro area and US today and the market starts become more bearish on the global business cycle, we could see some near-term downside for NOK/SEK.

In emerging markets, the BRL has recovered some of the ground after the plunge last week following corruption allegations against President Michel Temer. The Supreme Court is expected to rule on Temer's request to suspend the investigations tomorrow. Yesterday, two of the government's coalition members said that they were continuing to support the government for now. If the pressure continues to mount on Temer to resign, we think that there is clear upside to our USD/BRL forecast of 3.30 by end-June.

Key figures and events

Tuesday, May 23, 2017			Period	Danske Bank	Consensus	Previous
3:10	USD	Fed's Evans (voter, dovish) speaks				
8:00	DEM	GDP, second release	q/q y/y	1st quarter	0.6% ...	0.6% 1.7%
8:00	DEM	Private consumption	q/q	1st quarter		0.3%
8:00	DEM	Government consumption	q/q	1st quarter		0.8%
8:00	DEM	Gross fixed investments	q/q	1st quarter		0.8%
8:45	FRF	Business confidence	Index	May		104.0
9:30	SEK	Unemployment (n.s.a. s.a.)	%	Apr	7.0% 6.5%	6.8% 6.4%
10:00	DEM	Ifo - business climate	Index	May	112.5	112.9
10:00	DEM	Ifo - current assessment	Index	May	120.6	121.1
10:00	DEM	Ifo - expectations	Index	May	104.9	105.2
14:00	HUF	Central Bank of Hungary rate decision	%		0.90%	0.90%
15:00	USD	Fed's Kashkari (voter, dovish) speaks				
16:00	USD	New home sales	1000 (m/m)	Apr	620	621.0 (5.8%)
21:15	USD	Fed's Kashkari (voter, dovish) speaks				
23:00	USD	Fed's Harker (voter, hawkish) speaks				

Source: Bloomberg, Danske Bank Markets

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Expected updates

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