

Danske Daily

Market movers today

- The key event today will be the **vote in the US House of Representatives on the American Health Care Act** (Trumpcare), which is to replace Obamacare. It is a close call and the uncertainty was the trigger for the Tuesday stock market sell-off. A rejection of the bill will delay Trump's plan for tax cuts and infrastructure spending and put into question his ability to govern even with a Republican majority in both houses of Congress. See *The Washington Post*, 23 March 2017.
- **The results of the fourth and final ECB TLTRO** are due to be announced today. We expect a take-up of about EUR250bn, which is a significantly higher figure compared to the first three auctions. We expect higher demand at the final auction because (1) banks have increased information on the interest, (2) it is the final opportunity to acquire liquidity with an interest rate no higher than 0%, (3) markets are pricing in an increasing probability of an ECB hike, making the TLTRO II more attractive and (4) French banks could demand extra liquidity ahead of the election. See *Expect a large take at the final TLTRO II auction*, 13 March.
- **Fed Chairman Janet Yellen** (dove) is due to speak today at a Community Development Conference. It is not clear if she will talk about the overall economy but if she does, we do not expect her to change much compared to the Fed press conference last week.
- **UK retail sales** for February will get some attention as the two past months of weakness broke a strong trend in 2016. A small increase of 0.4% m/m is estimated by consensus.
- Other data released today on the global front will be initial jobless claims, US new home sales and euro consumer confidence. We do not expect these to have any big market impact.
- There are no market movers in Scandi today.

Selected market news

Markets have consolidated a bit yesterday and overnight after the risk-off day on Tuesday. Stocks and bond yields have seen a slight increase while EUR/USD is a bit lower in Asia trading. Oil prices are up close to USD1 per barrel from the low yesterday to USD51 per barrel (Brent).

We continue to see a risk of a further correction in markets in the short term as momentum has been very strong for a long time, which normally leads to profit taking and a market correction at some point. We also believe we are close to a peak in the global manufacturing cycle, which has been a key ingredient behind the strong rally.

Yesterday, **London's worst terror attack in more than a decade** left five people dead and at least 40 injured. See *BBC*, 23 March 2017.

Chinese short-dated repo rates came down overnight following a spike yesterday on the back of tighter liquidity. However, the three-month and 12-month money market rates continue to climb higher, increasing the cost of longer-term funding for banks – not least institutions within shadow banking. The three-month money market rate is now at 4.44%, up from 2.8% in October.

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Scandi markets

There are no key events in Scandi today.

Fixed income markets

There is significant focus on the T-LTRO II and how much banks will take. This is the last T-LTRO and with the low funding cost as well the discussion of ECB 'tapering' then there is an expectation of significant demand from banks. However, given that a significant increase will increase the balance sheet and that many banks need to issue TLACs/MREs/debt buffer rather than funding from the ECB combined with regulatory issues, this is likely to dampen demand. Finally, pledging part of the loan book is not a simple task as it requires that this part is eligible with the ECB – for example, it has to have a rating higher than 'BBB-', and furthermore even if the loan book is eligible, then the haircut is substantial. The estimate for the allotment range is from EUR75bn and up to EUR400bn. A large allotment will give more relief to the periphery as we have seen in the past. Read more here in *T-LTRO II – the 'carry trade' and the 'ex post' performance*, 22 March 2017.

FX markets

In the majors, souring risk appetite and falling yields have aided the JPY vs not least the USD as USD/JPY yesterday broke below 111 for the first time since November. The USD/JPY correlation to US yields has soared over the past two years and must not be underestimated in the near term. For an illustration of this development see this *Tweet* from Danske Bank, 22 March 2017.

In the Scandies, yesterday's flow data from Norges Bank showed that foreign banks (proxy for speculative flows) last week reduced their long NOK bets for the third consecutive week, albeit the reduction was marginal relative to the previous week's long covering. On an aggregate scale, we estimate that speculative NOK positioning is neutral (illustrated in this *Tweet* from Danske Bank, 22 March). More balanced positioning amid improved domestics might be a reason for why the NOK has not sold off more in the 'red' risk environment, yet history shows externals usually dominate when risk appetite sours. We are strategic bullish on the NOK via options (see *FX Top Trades 2017: Portfolio update: long NOK, SEK, short GBP, JPY, CNH and AUD*, 28 February) but from a tactical perspective, we keep our cautious stance.

In terms of the SEK, the Swedish dividend season has now kicked off but looking at history it is hard to find a systematic impact on the krona. On some days, however, there are likely to be transitory effects of foreign owners selling SEK. In the absence of a real trigger, we still see EUR/SEK hovering close to this level, which is fairly priced, according to our interest rates models.

EUR/DKK is continuing to move higher. General support to EUR and the 'dividend effect' are likely to be the main explanations. The dividend effect may have a bit further to go but we emphasise that French election risks could well return as a market theme. Near-term EUR/DKK is likely to hold on to the recent gains, but on 1M we look for the pair to fall back to around 7.4350. On 3-12M we forecast EUR/DKK at 7.4400.

Key figures and events

Thursday, March 23, 2017

				Period	Danske Bank	Consensus	Previous
8:00	DEM	GfK consumer confidence	Net. Bal.	Apr		10	10
8:45	FRF	Business confidence	Index	Mar			104.0
9:00	DKK	Consumer confidence	Net. bal.	Mar	4.5		4.8
10:00	EUR	ECB Publishes Economic Bulletin					
10:30	GBP	Retail sales ex fuels	m/m y/y	Feb		0.5% 3.3%	-0.2% 2.6%
11:30	EUR	ECB's 4th TLTRO-II auction result	EUR bn.		250		
13:00	USD	Fed Chair Yellen (dovish) speaks					
13:30	USD	Initial jobless claims	1000				
15:00	USD	New home sales	1000 (m/m)	Feb		560	555.0 (3.7%)
15:45	EUR	ECB's Lautenschlaeger speaks in Vienna					
16:00	EUR	Consumer confidence, preliminary	Net bal.	Mar	-5.1	-5.8	-6.2
17:30	USD	Fed's Kashkari (voter, dovish) speaks					

Source: Bloomberg, Danske Bank Markets

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