

Danske Daily

Market movers today

- After the release of PMIs in both Europe and the US yesterday, focus will remain on economic activity indicators today.
- In Germany, Ifo expectations are due for release. Similar to the PMIs, the Ifo expectations have been declining in recent months, reflecting the lower optimism on the future. The latest print showed 100.1 in March, compared to its peak at 103.9 in November 2017. In April, we expect Ifo expectations to decline further. Note though that index changes will take effect in April.
- In the US, capital goods orders figures for March are due to be released, which will give us an impression of whether investments will gain momentum after a few weak months. We still expect that investments will drive US growth to a greater degree this year compared to the past couple of years.
- In Hungary, the central bank rate decision on Tuesday 24 April is not expected to bring any change into the key rate or monetary policy rhetoric, as inflation has remained far below the target despite economic expansion.

Selected market news

The US bond market remained under pressure yesterday night as the 10Y US treasury is trading very close to the pivotal 3.0% mark driven by a combination of rising oil prices and the record high supply of US Treasury bonds over the next couple of years. Before close, the yield level edged slightly lower and now stands at 2.96.

Despite the rising yields – which was one of the reasons behind the market jitters in February – the equity market was trendless, with S&P closing marginally higher and Nasdaq slightly lower. Hence, the rising yields have so far been unable to derail investor optimism. The market is positive in Asia, among other things boosted by a positive after-hour earnings report from Google. The market might also have taken its lead from a better US Market PMI report than expected. Along with better-than-expected preliminary PMIs in Europe, it removed some of the fears that we are seeing a global cyclical slowdown in the business cycle.

Neither JGB nor Bund yields have followed US Treasury yields higher to the same degree and the spread towards US Treasury yields both in the short end and the long end has widened and added support to the US dollar. This morning, EUR/USD is trading at 1.2209 and USD/JPY at 108.79.

The aluminium market has seen significant volatility over the past couple of weeks as US sanctions against Russia have forced the biggest supplier of aluminium out of the world market. However, it seems that the US administration is ready to soften the sanctions against Russia and yesterday aluminium prices dropped 7.1% in London.

Selected readings from Danske Bank

- *Yield Outlook - The risk of a severe spike in yields in 2018 is small*
- *Research: Global business cycle is moving lower*
- *ECB Preview - Not on Draghi's watch*

Follow us on *Twitter*:

 @Danske_Research

 *Video*
Danske Bank research playlist

Read more in Danske Bank's recent forecasts and publications

- *Nordic Outlook*
- *Yield Outlook*
- *FX Forecast Update*
- *Weekly Focus*

Chief Analyst, Head of Fixed Income Research
Arne Lohmann Rasmussen
+45 4512 8532
arr@danskebank.dk

Scandi markets

In Denmark, retail sales for March are due to be released.

Fixed income markets

The US government bond yield continues to flatten and the spread between 10Y and 30Y is now only some 16bp, which is back to levels seen before the financial crisis. We doubt that the curve will become inverse, but we are back to levels for the curve where policy rates are usually much higher. This week the US Treasury department will sell USD81bn in 2Y, 5Y and 7Y bonds. There has been some spill-over effect to the EUR curve between the 10Y and 30Y, however the 10-30Y slope of the German government curve is currently 60bp, and there is room for more flattening going forward.

If we look at the sovereign spreads in Euroland, the 10Y spread between Italy and Germany is close to the very low level seen in 2015. Here, the 10Y country spread was very close to 100bp and Bunds were trading at 0%, but widened significantly on the back of the Bund sell-off in spring 2015. However, the European economy is on a much firmer footing than in 2015, there is a positive rating cycle and the ECB has stabilised spreads through QE. However, it is remarkable how much the spread has tightened as we still do not have a government in Italy.

In terms of issuance, we have both a syndicated tap from the EFSF/ESM in the 30Y segment as well as Italy selling 2Y zero-coupon bonds and linkers. Germany is doing a tap in the 2Y segment and Finland is doing a tap in the 9Y segment. See more on the Finnish tap auction [here](#).

FX markets

EUR/USD continued to grind lower yesterday as notably the US 10Y yield closed in on the psychologically important 3% mark and as tensions over trade eased further. We still see a case for EUR/USD to edge lower short term as the relative cyclical – and notably unhedged equity flows into the US with it – could weigh alongside stretched positioning, see *FX Essentials - Short EUR/USD for continued slide in range (+ cash the carry)*. That said, we would consider taking profit on our short EUR/USD recommendation from last week, see *Danske Bank FX Trading Portfolio - Sell EUR/USD spot*, ahead of Thursday's ECB meeting, as the risk of the ECB disappointing markets with a less-soft-than-hoped-for attitude is clearly present given that the latest stream of negative data surprises in the eurozone have seemingly led many investors to put their hope into a prolonged ECB exit.

USD/JPY broke above 108 yesterday for the first time since 13 February and after the break of 108.46 (6 February low), a test of 109 looks within reach short term. The strong rally was driven mainly by general USD appreciation and higher 10Y US yields, and while the flattening of the US yield curve remains a challenge for Japanese investors, as the rising FX hedge cost erodes the return in US FI assets, higher US 10Y yields could be a supporting factor for USD/JPY near term, as long as US interest rate volatility does not increase. Speculative accounts are still neutral JPY, according to the latest IMM data, suggesting that positioning is a supporting factor for USD/JPY.

EUR/GBP has stabilised after last week's rally, which was ignited by Mark Carney's comments on the market pricing of a rate hike in May. GBP may have lost momentum after a period of strong performance since the beginning of March, but we do not think that GBP has lost its shine. We still expect the BoE to hike in May, which is now only priced with a 50/50 probability, and given the relatively subdued pricing of future BoE rate hikes (first full 25bp hike priced in October), we see room for GBP appreciation both in the short term and longer term. Investors are still stretched long GBP according to the IMM, which is a warning light for long GBP. Note however that the IMM data was collected on Tuesday and some GBP longs clearly have been flushed out after since Carney's comments Thursday night. Hence, from a risk reward, we would consider selling EUR/GBP if the cross bounces above 0.88.

In the Scandies, the main focus this week remains on the Riksbank meeting on Thursday where we expect the Riksbank to postpone the first hike to Q1 19 (from Q3 18). In the meantime, we expect EUR/SEK to stay close to current levels. It seems that more observers are now leaning towards a slower hike path, which is also reflected in the recent re-pricing of both short rates and the krona. Hence, the market impact may not be dramatic if it does make a small adjustment, say from Q3 to Q4. A more substantial revision of the rate path, which we look for, suggests there is still some room for lower short rates and a weaker krona, while magnitudes will depend on overall communication. Our 1M target is 10.40 and 3M is 10.50.

Key figures and events

Tuesday, April 24, 2018					Period	Danske Bank	Consensus	Previous
3:30	AUD	CPI	q/q y/y	1st quarter			0.5% 2.0%	0.6% 1.9%
7:00	JPY	Leading economic index	Index	Feb				105.8
8:00	DKK	Retail sales	m/m y/y	Mar				0.3% 3.0%
8:45	FRF	Business confidence	Index	Apr				109.0
9:30	SEK	Unemployment (n.s.a. s.a.)	%	Mar	6.7% 6.3%			6.3% 5.9%
10:00	DEM	IFO - business climate	Index	Apr			104.7	103.2
10:00	DEM	IFO - current assessment	Index	Apr			117.0	106.5
10:00	DEM	IFO - expectations	Index	Apr			100.7	100.1
14:00	HUF	Central Bank of Hungary rate decision	%				0.9%	0.9%
15:00	USD	FHFA house price index	m/m	Feb			0.5%	0.8%
16:00	USD	Conference Board consumer confidence	Index	Apr			126.0	127.7
16:00	USD	New home sales	1000 (m/m)	Mar			625	618.0 (-0.6%)

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 24 April 2018, 07:07 CEST

Report first disseminated: 24 April 2018, 08:00 CEST