

Danske Daily

Strong earnings underpin equities – but only in the US

Market movers today

- Today, the April German Ifo data will give us the first indications of where German Q2 GDP growth is headed – indeed the Ifo is typically a more reliable leading indicator of GDP than the PMIs. In contrast to the weak data points from manufacturing PMIs, the German Ifo showed its first rebound in March since August 2018. Will that be confirmed this month?
- Bank of Canada is widely expected to leave policy rates unchanged at today's monetary policy meeting. Consequently focus will be on the central bank's new monetary policy report, rhetoric and not least any signals on the possibility of rate cuts amid markets now pricing roughly a 2/3 probability of a rate cut over the coming 12M. We don't think BoC will deliver much to the doves today. Given the rise in oil prices, the positive inflation surprises and recent strong labour market reports we think BoC will re-iterate its 'on hold' and data dependency stance, and even maintain its modest tightening bias.
- Tomorrow morning the BoJ is due to wrap up its two-day policy meeting. We expect the BoJ to keep its 'QQE with yield curve control' policy unchanged and we expect it to move steadily forward with the current policy for the near future. Regarding the updated inflation and growth forecasts, we expect the BoJ to keep its projections largely unchanged. A related question is whether the BoJ expects that it can meet its target within the next two to three years.
- No major Scandi events scheduled for today.

Selected market news

Following healthy gains in US equities, risk sentiment was dented in the Asian session which lacked the earnings support the US enjoyed. Yesterday a stream of strong corporate earnings reports came out with notably Twitter beating revenue estimates, leaving its stock up more than 15% on the day; Hasbro and Coca-Cola also published strong earnings and helped underpin sentiment. Around 80% of companies included in S&P500 have so far reported better than expected results in this reporting round, supporting sentiment despite continuous weak US data. The S&P500 closed at a record high, i.e. above the 2933 mark. Separately, weak Australian inflation overnight weighed on AUD. Oil prices continue to linger at year-highs with Brent steadily around the USD74/bbl mark. The USD index strengthened even as Fed pricing shifted in a more dovish direction. US 10 treasury yields under pressure eyeing the 2.55% level again.

Meanwhile, trade talks are due to resume next Tuesday when according to the White House US negotiators Lighthizer and Mnuchin go to Beijing next week. Reportedly the aim is to reach a draft deal by May. Further, China's vice premier Liu is set to go to Washington for talks early May. Hence, the US and China are seemingly targeting to land a trade deal by the end of May. A key outstanding issue seems to be the enforcement mechanism of the deal contents. For our expectations for a trade deal and possible market impact, see *Global Research - What a US-China trade deal will bring to the markets*.

Selected reading from Danske Bank

- *FX Forecast Update - Scandi spring support in sight*
- *Spanish Election Monitor - Business as usual*
- *IMM Positioning Update - Sharp reduction in net long gold positions*

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Fixed income markets

Yesterday, the periphery underperformed core-EU markets. The underperformance was driven by Italy, where the spread between Italy and Germany widened across the curve. There was also a modest bear steepening of the German curve driven by some negative comments from ECB's Coeure regarding the tiering system for EU banks. The comments were made in an interview with the German newspaper Frankfurter Allgemeine Zeitung (FAZ). Focus now turns to the release of the Ifo indicator and whether the rebound we saw in March will continue in April. This would be in contrast to the other soft indicators such as the PMIs. However, a renewed decline would again signal challenges for the German economy going forward. Bank of Japan is starting a two-day policy meeting today with an announcement on monetary policy tomorrow as well as the publication of a monetary policy report. Given the significant focus from Japanese regional banks on European government bonds the comments from the BoJ meeting will be important for the demand from Japan for EU government bonds.

FX markets

Practically out of the blue, EUR/USD temporarily dropped below 1.12 yesterday further triggering a small rebound in implied volatility. The move was not related to any particular headline or data release and coincided with a rally in US stocks on stronger earnings. At the same time, US rates dropped as the market priced a higher probability of Fed cuts over the coming years. From a technical point of view, it means the market will keep an eye on whether we could see a test near-term of the 1.1177 low from 7 March. There is not much on the calendar to drive EUR/USD before next week. In thin liquidity, EUR/SEK broke through the 10.50-level for the first time since the beginning of March. For a more permanent break of the 10.40-50 range we look to Thursday's Riksbank decision – and if history is any guide, we would expect a rather sizable movement in either direction (see *Reading the Markets Sweden* – 12 April 2019). The big event in G10 FX space today is the Bank of Canada meeting (see front page). Given our expectations and heavily short speculative CAD positioning, see *IMM*, we see the balance of risk skewed towards a stronger CAD intraday. For an unchanged oil price we pencil in a USD/CAD move back to the mid 1.33s.

In yesterday's *FX Forecast Update - Scandi spring support in sight* we re-assessed our forecast profiles on GBP, NOK and SEK. With a Brexit extension now in place and a likely further extension beyond October, we expect EUR/GBP to remain at 0.85-0.87 also in 3-12M. We thus target the cross in the middle of this range across horizons, i.e. 0.86 in 1M and in 3M (previously 0.83), 0.86 in 6M (0.82), and 0.86 in 12M (0.83). If the Riksbank comes across as hawkish at the April meeting, which we think it will, the SEK should be supported and a break below 10.40 and possibly a test of 10.20 could be on the cards. We lower our 1-3M targets to 10.35 and 10.20 (previously 10.40) but raise our 6-12M forecasts to 10.40 (10.30) and 10.50 (10.30), respectively. Finally, we 'rolled' our NOK forecasts profile and now see EUR/NOK at 9.50 in 1M and 9.50 in 3M where the latter is left unchanged reflecting the summer period, during which improved structural liquidity and lower FX market activity have been NOK headwinds historically.

Key figures and events

Wednesday, April 24, 2019			Period	Danske Bank	Consensus	Previous
3:30	AUD	CPI	q/q y/y	1st quarter		0.5% 1.8%
7:00	JPY	Leading economic index	Index	Feb		97.4
8:45	FRF	Business confidence	Index	Apr		105.0
10:00	EUR	ECB Publishes Economic Bulletin				
10:00	DEM	IFO - business climate	Index	Apr		99.6
10:00	DEM	IFO - current assessment	Index	Apr		103.8
10:00	DEM	IFO - expectations	Index	Apr		95.6
16:00	CAD	Bank of Canada rate decision	%		1.8%	1.8%
16:30	USD	DOE U.S. crude oil inventories	K			

Source: Bloomberg, Danske Bank

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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.

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