

Danske Daily

Market movers today

- There are no significant economic data releases on the calendar, so financial markets will continue to focus on the rise in global yields and its implications for risk assets, including emerging markets.
- In **Turkey**, central bank rate decision is announced today. While the recent TRY weakness has brought more intrigue into the decision, last week's TRY's rally on Erdogan's early election plan is bringing some relief, keeping the central bank away from a hike, we believe. We expect the benchmark repo rate to stay at 8.00%, although the late-liquidity window rate may be raised, which is the most relevant monetary policy rate at the moment.
- In **Sweden**, residential developer Bonava presents its Q1 earnings report which might attract some attention as construction activity is important from a growth perspective.

Selected market news

The US bond market remains under pressure and overnight, the yield on 10 year US treasuries finally broke above the pivotal 3.0% mark and reached a new four year high. The break above 3% was only very temporary though, yields edged lower again and stand at 2.9977 this morning

US equity markets were weighed down by rising yields and as the Richmond manufacturing index was much weaker than expected in April, falling 18 points to -3. All three regional PMIs released so far this month (Empire, Richmond and Philly) have declined on an ISM-weighted basis, suggesting a softening in manufacturing activity in April or at least that ISM has peaked. Our base case is still that the ISM manufacturing will fall over the next six months.

The S&P500 index closed 1.34% lower yesterday and Chinese and Japanese markets also trade lower this morning amid concerns about rising US yields. In February, rising bond yields was one of the reasons behind the equities correction that followed, and while volatility in the US interest rate market remains relatively low and equity price fluctuations are still well off the highs seen in February and March this year, yesterday's sell-off in US equities indicate that rising bond yields once again could derail investor optimism. Hence, while the break of the 3% level in the 10 year US yield likely has created room for higher yields near term, we continue to hold the view that it is too early to call for a major fixed income sell-off – especially in Europe – given the business cycle outlook and still dovish central banks. See also our new *Yield Outlook – The risk of a severe spike in yields in 2018 is small*, 23 April 2018 for more details.

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*

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Senior Analyst
Morten Helt
+45 4512 85 18
mohel@danskebank.dk

Scandi markets

No public data out of Sweden but residential developer Bonava presents its Q1 earnings report. Focus will be on sales of apartments under construction. The housing market has been a little out of attention of late, probably as a result of signs of stabilising prices. But from a growth perspective, construction activity is important too. Earlier another developer (Veidekke) reported sales down by almost 75% y/y in Q1. Reports from other developers will follow later this week.

Fixed income markets

This morning we published a research piece where we look at possible scenarios for excess liquidity in Denmark. We argue if the Debt Office acts decisively to keep liquidity abundant Danish 10Y government bonds could trade through Germany. For more see [Strategy Denmark: Government finances and excess liquidity at a crossroads](#), 25 April 2018.

Yesterday, ECB's weekly financial statement confirmed redemptions of PSPP holdings of EUR 13.1bn in the week ending April 20th. The holdings are split between German Linker, NETHER BTP floater and EFSF. The reinvestment will take place in the month they fall due or in the following 2 months. In addition, it can be mentioned that SMP holdings in the BTP floater was EUR 0.5bn. There is no important events or bond auctions today and the market will be in wait-and-see mode ahead of the ECB meeting tomorrow.

FX markets

Yesterday we took an early 1.6% profit on our short EUR/USD recommendation as we see a clear risk of ECB not coming across as soft as markets are positioned for tomorrow, [see Danske Bank FX Trading Portfolio - Take profit on short EUR/USD position](#). Indeed, yesterday's price action hint that it will require a more substantial shift in tone from the ECB than we are looking for to break lower from the 1.22 area; the 1-March low of 1.2155 is a key resistance point to watch. We still consider the cross a tactical sell on rallies in order to cash a decent carry and benefit from a new slide in range. Strategically we stay long the cross via options (Dec-18 expiry).

USD/JPY remains supported by rising 10Y US yields and the combination of a neutral speculative JPY positioning and higher US 10Y yields could be a supporting factor for USD/JPY near term (as long as US interest rates volatility does not increase). However, our fixed income strategists do not expect a strong sell-off in fixed income markets given the business cycle outlook and still dovish central banks (see [Yield Outlook – The risk of a severe spike in yields in 2018 is small](#) for more details), and short-term technical indicators, such as RSI, indicate that USD/JPY is overbought, suggesting that the rally in USD/JPY might lose momentum. The break of 108 on 23 April most likely has widened the trading range to 105-110: However, it would in our view, require a substantial dovish shift in the BoJ's rhetoric on Friday (not our call) for USD/JPY to settle above 110. See [Bank of Japan Preview](#) for more details.

NOK came under pressure yesterday with no evident drivers. We know large 1.0750, 1.0775 strikes are running off in NOK/SEK today which was one reason for taking profit on our long NOK/SEK trade last week; especially given stretched long NOK positioning. Otherwise, we are in the middle of the NOK dividend season, which on balance involves NOK selling. However, like with the NOK NGB issuance story, we don't want to overdo this impact. Our fundamental predisposition remains to re-sell EUR/NOK on spikes towards the high end of the 9.47-9.75 range.

Key figures and events

Wednesday, April 25, 2018

				Period	Danske Bank	Consensus	Previous
8:45	FRF	Consumer confidence	Index	Apr			100.0
13:00	TRY	Central Bank of Turkey rate decision	%			8.0%	8.0%
16:30	USD	DOE U.S. crude oil inventories	K				-1071

Source: Bloomberg, Danske Bank

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Expected updates

Each working day.

Date of first publication

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