

Danske Daily

Brexit reshuffle

Market movers today

- Today's calendar is rather thin. Although we have a range of Fed speakers today (Evans, Harker and Daly), they will likely fade into the background for markets for now, as the Fed has clearly signalled it is on hold for the rest of the year.
- In Scandinavia, Danish retail sales are due for release (see next page).
- Overnight to Wednesday, the central bank of New Zealand will meet (no rate change is expected). We also get Chinese industrial profits.
- Next focal point for markets are the indicative votes in the UK parliament and some notable ECB speakers at the Watcher's conference tomorrow.

Selected market news

Yesterday, PM Theresa May was forced to abandon plans to hold a third 'meaningful vote', after members of parliament voted in favour of taking control over the Brexit process by demanding a series of indicative votes on a way forward taking place on Wednesday. While this is another sign that May is Prime Minister in name only, it may actually help getting her deal over the finish line, as some of the Brexiters, who have made life very difficult for her, seem afraid of losing control of Brexit, as it increases the likelihood of a softer Brexit (customs union or Norway-style single market participation) or a long extension. Still, May will likely need to get more Labour MPs on board to get her deal through parliament. The indicative votes will not be legally binding and hence we do not know how the EU will respond. As the issue in the UK parliament is still that there is no majority for anything, it remains to be seen whether this is the start towards a compromise in a softer Brexit direction. Our base case remains a long extension but the development on Wednesday is crucial near term. We cannot rule out Theresa May resigning or a general election at this point.

The Eurozone gloom that captured markets late last week subsided somewhat yesterday, when Germany's Ifo index for March painted a somewhat less bleak picture of the state of the economy than the PMIs on Friday, see *Flash Comment: Growing manufacturing abyss challenges Eurozone outlook*. Both companies' assessment of the current situation as well as business expectations registered a first small rebound since August 2018. That said, with abundant challenges still on the horizon - not least with regard to Brexit - the German economy is far from being out of the woods just yet.

Despite a better than feared Ifo reading, the global FI rally got another boost yesterday as the 10Y US treasury yield dropped below 2.40% and 10Y German Bund yields dropped to -3bp. Still, as pessimism over the global growth outlook eased a little, FX markets calmed down a bit after a nervous end to last week, while Asian equities rebounded overnight and S&P 500 futures also point to a higher opening today. Along with global markets Brent oil rebounded above USD67/bbl on news of a surge in Russian crude exports.

Selected reading from Danske Bank

- *Harr's view: Why Scandinavia is not the Eurozone*
- *China Weekly Letter: High-level talks resume, enforcement the key hurdle*
- *Flash Comment: Growing manufacturing abyss challenges Eurozone outlook*
- *FOMC review: Fed done hiking rates*

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Scandi markets

In Denmark, we get retail sales figures for February today. Retail sales, a useful indicator for private consumption, have disappointed in recent months. This may in part be due to lacklustre January sales, when clothing prices were not quite as low as they usually are.

Riksbank's business survey is released 09.30 CET. Last time in November, the message was "*strong growth with indication of moderation*", probably something less upbeat now. Riksbank Governor Skingsley speaks on digitalisation at 12.00 CET.

Fixed income markets

In the US the 2Y-5Y segment is outperforming on the curve as the market continues to price in rate cuts, whereas the curve continues to flatten 5s10s in Bunds. We continue to favour positioning for flatter EGB curves (5s10s) and target -10bp for 10Y Bund yields.

We are approaching month-end and yesterday we published *our month-end index extension update*. France is set to experience the greatest weight increase of 0.39pp, as well as a modest increase in duration of 0.12 on the back of the addition of FRTR 0.50% 2029 in March. France contributes 45.9% to the total duration change of 0.135.

Today, the German Finanzagentur will sell EUR4bn in the Mar-21 Schatz. Despite a yield of -57bp, there should be good demand given the uncertain risk picture.

Norges Bank yesterday announced that it will somewhat surprisingly tap the old 10Y benchmark NGB 4/28 by NOK3bn tomorrow.

Given the weakness in European data, the market is increasingly discussing the next ECB step. ECB's Hansson, who normally belongs to the hawkish part of the ECB, yesterday said that the new TLTROs might be less favourable. Importantly, he also said that QE could be restarted in the event of a major shock and that further use of forward guidance is an option as well. Note also that Coeure yesterday underlined that the ECB is not at the limit of what it can do yet.

FX markets

EUR/USD is back around 1.13 - our 3M target - and near term the cross is in the hands of central banks as both the ECB and the Fed are clearly revisiting their previous pre-set paths at the moment. Watch out for Fed speakers today; ECB ones tomorrow. With the indicative votes taking place tomorrow Brexit uncertainty remains elevated, but in any case, as we are in our view heading for a long extension, we see EUR/GBP in a range around 0.85 for an extended period of time.

EUR/SEK continues to head lower but this week the Swedish dividend season kicks off for real with a couple of big payouts from Wednesday through *Friday* (see FX Strategy Dividends, seasonality and the SEK). We argue that the SEK-negative flow stories that tend to pop up are not very convincing: first because if dividends are reinvested (which we think is common) there are no flows and, second, the seasonality that we have seen over the past few years seems to stem from dovish news from the Riksbank rather than dividends, whereas in earlier years the SEK always appreciated during the dividend season. Still, we think it may be important to keep track of certain dates, not least because of these flow speculations. Today, we focus on the Riksbank's business survey, which could be a SEK mover. Elsewhere in the Scandies, EUR/DKK FX forwards continue to trade at low levels, i.e. the 3M tenor has traded around minus 21bp for some weeks now. The Q1 turn has notoriously been tricky for this market due to tight liquidity owing to seasonality in Danish

tax payments, which tends to trigger a rise in EUR/DKK FX forwards. This year should be different though, since the liquidity is likely to exceed DKK200bn on Friday (around DKK80bn more than last year). In turn, it should dampen any upward pressure on EUR/DKK FX forwards around the Q1 turn.

Key figures and events

Tuesday, March 26, 2019			Period	Danske Bank	Consensus	Previous
8:00	DEM	GfK consumer confidence	Net. Bal.	Apr	10.8	10.8
8:00	DKK	Retail sales	m/m y/y	Feb		-0.3% 0.1%
8:45	FRF	Business confidence	Index	Mar	103.0	103.0
8:45	FRF	GDP, final	q/q y/y	4th quarter	0.3% 0.9%	0.3% 0.9%
9:30	SEK	PPI	m/m y/y	Feb		0.8% 5.6%
11:30	USD	Fed's Evans (voter, hawkish) speaks				
13:00	USD	Fed's Harker (non-voter, dovish) speaks				
13:30	USD	Building permits	1000 (m/m)	Feb	1320	1317.0 (-0.7%)
13:30	USD	Housing starts	1000 (m/m)	Feb	1210	1230.0 (18.6%)
14:00	USD	FHFA house price index	m/m	Jan	0.4%	0.3%
14:00	HUF	Central Bank of Hungary rate decision	%		0.90%	0.90%
15:00	USD	Conference Board consumer confidence	Index	Mar	132.0	131.4
20:00	USD	Fed's Daly (non-voter, dovish)				

Source: Bloomberg, Danske Bank

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Date of first publication

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Report completed: 26 March 2019, 05:47 CET

Report first disseminated: 26 March 2019, 07:15 CET