

Danske Daily

Market movers today

- The main focus today will be the ECB- and Riksbank meetings and overnight tonight these meetings will be followed by Bank of Japan.
- **In the case of ECB, we do not expect any announcements with regards to policy changes** from the governing council at this meeting. However, as presented earlier today in our ECB preview, we have changed our call on the ECB's hiking path. We expect ECB to come with its first rate hike in December 2019, but with a 20bp size on the deposit rate hike instead of a 10bp hike in Q2 19. Recent data on inflation has disappointed compared to ECB projections, and the declining activity indicators should further lead the ECB to revise its GDP forecast downwards at the June meeting. Taken together, we believe the ECB is likely to postpone the first hike, as its current projections seem overly optimistic given recent developments. See more in our [ECB preview](#).
- **In Sweden it is time for the Riksbank's policy announcement.** In our minds, now is the time for the Riksbank to make another shift to the rate path by pushing hikes further out in the future, presumably to the first quarter of 2019. See more in [Reading the Markets Sweden](#).
- **Early Friday morning, the Bank of Japan (BOJ) will announce its policy decisions.** We expect the BoJ to keep its 'QQE with yield curve control' policy unchanged, which is the first under the new leadership. With the arrival of two new deputy governors, we expect the board to have turned slightly more dovish. Considering how the economy has lost some momentum recently and inflation has still not really picked up, we see the probability of further easing as at least as likely as any tightening measures. See more in [BoJ preview](#).

Selected market news

After the break of the pivotal 3% mark yesterday, the 10 year US government bond yield have taken a firm hold above 3% trading at 3.03% this morning. While we continue to hold the view that it is too early to call for a major fixed income sell-off given the business cycle outlook and still dovish central banks, the break of the 3% in the 10 year US yield has created room for higher US yields supporting the case for further widening of the 10 year government bond yield spread between the US and Germany, which is currently at the widest level since the inception of the European Monetary Union just below 240bp.

US equities ended the day slightly higher yesterday and the S&P500 index gained 0.18% after swinging between gains and losses during the US session as investors continue to consider global equity markets' ability to cope with higher interest rates. Asian markets trade mixed this morning with Japanese equity indices in the green while Chinese markets trade lower.

Yesterday's NOK session was dominated by news that the opposition had voted against the March change of the Norges Bank's inflation mandate from 2.5% to 2.0%. However, shortly after the news hit the wire, the Christian Democratic Party's spokesperson stated that in the end it is the government that decides. In other words, we should not expect a re-change of the inflation mandate back to 2.5%. The noise did however contribute to weakening the NOK in yesterday's session.

Selected readings from Danske Bank

- [Flash Comment - Trump holding fire as negotiations with China begin](#)
- [Italian Election Monitor - Edging closer to a Five Star-PD deal?](#)
- [ECB Preview - Not on Draghi's watch](#)
- [Bank of Japan Preview: Steady as she goes](#)

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Scandi markets

In Denmark, business confidence will be released today.

Fixed income markets

Today's ECB meeting is expected to be a non-event for the market as we do not expect any major changes to the message from ECB. Hence, the range-trading will continue with Bunds staying in range between 40-80bp for the coming months and the Bund ASW-spread in a tight range between 40bp to 50bp. The 'steady hand' from ECB is also going to be supportive for the spread between the core-EU and the periphery even though we are at very tight levels. See more in our [ECB preview](#).

The Riksbank meeting has the potential of being much more exiting as we see a significant possibility for the Riksbank to postpone the first rate hike to Q1 2019 since the inflation has not been as high as the Riksbank had expected. This has been reflected in a weak SEK versus the EUR, but front end rates have not rallied as much as we had hoped for. Hence, we still see value in receiving SEK 1y1y against EUR. See [Strategy: Receive SEK 1Y1Y, hedge by short position in EURSEK](#) (25 April).

FX markets

An exciting day for EUR/SEK with the Riksbank and the ECB entering the stage. As for the former we expect them to postpone the first hike from Q3 2018 to Q1 2019. This is not fully priced and should thus pull rates lower and push EUR/SEK higher with our 3M 10.50 target being within reach (see [here](#) for more). If they make a smaller adjustment, from Q3 to Q4, the market impact should be limited since this is basically priced in (see [here](#)). If on the other hand they leave the rate path intact, it would be hawkish and that could prompt a substantial move lower in EUR/SEK (see [here](#) for a hedge recommendation). While the Riksbank is the big thing for EUR/SEK tomorrow, there is also a Draghi press conference and a considerable batch of important Swedish macro data in the morning (NIER in particular). Hence, it is set up for an interesting and potentially choppy session. Notably, implied volatility in EUR/SEK is not particularly elevated (expensive) which could be taken advantage of in the option market if one expects a big move (see [here](#)).

EUR/USD edged lower yesterday as US 10Y yield stayed above the 3% mark providing some long-awaited rate support to USD more broadly. Today's ECB meeting is clearly key for the majors and while we look for Draghi to strike a dovish tone, the market is likely already positioned for this given the continued downside data surprises in the euro zone lately. With positioning likely still stretched on EUR/USD longs, risks remain on the downside for the cross heading into today's meeting, but, at the same time, there is a non-negligible risk that markets could be disappointed that Draghi comes across less soft than hoped for. A key resistance level to watch is the 1-March low of 1.2155, and we would not rule out a break of this during the press conference; that said, it will require a more significant change in tone than we look for to move through the 2017 high of 1.2092.

Price actions in **NOK** was dominated by news that the opposition had voted against the March change of inflation mandate from 2.5% to 2.0%. EUR/NOK is now at the high end of the 9.47-9.75 range that we have mentioned over the last weeks. Given the near-term data calendar (RB, ECB and BoJ) and global risk appetite, however, we prefer to stay sidelined for now in the NOK.

EUR/DKK rose above 7.45 yesterday. With EUR/DKK FX forwards trading at relatively high levels supported by a relatively low net position we expect the pair to fall back towards 7.4450 in the short-term.

Key figures and events

Thursday, April 26, 2018				Period	Danske Bank	Consensus	Previous
8:00	NOK	Unemployment (LFS)	%	Feb	3.9%	4.0%	4.0%
8:00	DEM	GfK consumer confidence	Net. Bal.	May		10.9	10.9
9:00	SEK	Consumer confidence	Index	Apr	100.0	101.5	101.5
9:00	SEK	Economic Tendency Survey	Index	Apr	107.5		108.4
9:00	SEK	Manufacturing confidence	Index	Apr	114.0	113.4	114.5
9:30	SEK	Riksbank, rate decision	%		-0.5%	-0.5%	-0.5%
9:30	SEK	Trade balance	SEK bn	Mar	-2.5		-3.4
9:30	SEK	PPI	m/m y/y	Mar			-0.5% 2.8%
13:45	EUR	ECB announces refi rate	%		0.00%	0.00%	0.00%
13:45	EUR	ECB announces deposit rate	%		-0.40%	-0.40%	-0.40%
14:30	USD	Initial jobless claims	1000				
14:30	USD	Core capital goods orders, preliminary	%	Mar			1.4%
14:30	USD	Advance goods trade balance	USD bn	Mar		-74.8	-75.9
14:30	EUR	ECB's Draghi speaks at press conference					

Source: Bloomberg, Danske Bank

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