

Danske Daily

Market movers today

- **Today's main event is the ECB meeting.** Following the latest ECB meeting in early March, market participants have speculated about the sequencing of the ECB's exit strategy and some weeks ago, the market priced in a 10bp deposit rate hike from the ECB at the end of this year. Since then, the communication from prominent ECB members has signalled a more dovish stance and in the most recent speech from Mario Draghi he concluded 'a reassessment of the current monetary policy stance is not warranted at this stage'. We expect the ECB to send the same dovish message at the coming meeting, while we believe it will stick broadly to its current introductory statement without removing some of the soft wording – see our *ECB Preview*, 24 April 2017.
- **Ahead of Draghi's press conference at 14.30 CET, the German inflation figures are released.**
- **In the US, core capital goods orders are released.** Although the oil price has not increased in 2017, manufacturing confidence is very high, indicating tail winds to core capital goods orders.

Selected market news

Asian equity markets are more or less unchanged this morning following the US administration announcement on its tax plans and the Bank of Japan meeting this morning. Regarding the US tax plans, there was no major news, as the Trump administration repeated that it wants to both cut and simplify taxes for individuals (7 to 3 tax brackets) and corporates (15% corporate tax, one-off tax on dollars held overseas "homeland investment act 2", territorial tax (did not use the words border adjustment tax) financed by removing most tax deductions and higher GDP growth ("3% or higher"). We still believe Trumponomics will come later and be smaller than previously pledged and that a deal is unlikely to be reached until after Congress's August recess. US equity markets finished flat while the USD weakened slightly overnight against the EUR. Focus in US politics is now on avoiding a U.S. government shutdown, which requires a spending bill to be passed by both houses of the US Congress and signed by President Donald Trump by tomorrow at midnight.

This morning, the Bank of Japan (BoJ) kept its monetary policy measures unchanged as widely expected. No noteworthy reaction in USD/JPY afterwards suggesting that unchanged policy from the BoJ was widely expected. We still expect that the BoJ is likely to keep its policy unchanged for the rest of Koruda's current term as governor, which ends in April 2018.

On trade related issues, the Trump administration agreed not to terminate NAFTA at this time and the leaders from Mexico, Canada and the US agreed to proceed swiftly, according to their required internal procedures, to enable the renegotiation of the NAFTA deal to the benefit of all three countries according to a Bloomberg story ([NSN OP1TGZ6S972H <GO>](#)). The Mexican Peso, which has already strengthened the most (9.25%) among emerging market currencies against the USD this year, gained another 1.4% this morning. Also the CAD strengthened by 0.55%.

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Selected readings from Danske Bank

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Scandi markets

Denmark: Business sentiment data are released today. Manufacturing confidence has been improving recently, buoyed by stronger global growth.

Sweden: Focus is on the Riksbank decision at 9:30 CET. We expect the Riksbank to announce that it will NOT extend the current QE programme, which expires at the end of June, to avoid jeopardising the functionality of the Swedish government bond market. Policy rates are widely expected to be kept unchanged. To balance this risk, we expect the Riksbank to flatten the repo path, postponing the first rate hike by another quarter or two to H2 2018. See more in *Scandi Markets Ahead: Riksbank meeting in focus*, 23 April 2017.

Norway: We get the LFS-unemployment rate number today. This measure of the unemployment rate has fallen sharply since summer 2016 but seemingly due to a sharp contraction in the labour supply, as the LFS has employment in decline. However, we believe there are abnormal levels of noise in the LFS data at present. Leading labour market indicators such as Norges Bank's regional network, the PMI and the Manpower Index paint a very different picture of employment from the LFS. Add in that growth indicators are clearly pointing to acceleration and the LFS increasingly seems to have gone off the rails. At some point, then, we should see a strong positive correction in the labour supply and employment in the LFS but not necessarily this time around. We expect LFS unemployment to climb moderately to 4.3%, in line with consensus.

Fixed income markets

While the ECB meeting is the key event of the day, the Riksbank's decision (9:30 CET) could prove much more interesting

Market expectations to any new signals are very low with most expecting that Draghi will wait until June with the removal of some of the dovish bias in the forward guidance, see *ECB Preview*. Key points for the FI market will be any indication as to 'easing' the repo facility further and/or hints during Q&A towards changing the forward guidance. If the ECB should remove the "... or lower" already today we would most likely see a repricing of the first 10bp hike to end-2017 from currently August 2018. It is noteworthy that ECB is priced more 'hawkish' going into this meeting compared to the March meeting.

The peripheral supply continues today with Italy doing its usual month-end tap in the 5Y and 10Y (plus a new 24 floater). Both Spain and Italy widened yesterday vs Germany following the EUR 5bn introduction of the 10Y Spanish linker. The move was probably partly driven by hedging flow (selling) in the nominals vs the linker. {EU} Month-end extension flow will come into focus the coming two sessions with an overall duration increase amounting to 0.08 in April. {NE} The Netherlands is set to get the largest country specific increase in duration amounting to 0.33, see details here *FI Research: April index extensions – country specific boost to the Netherlands*, 21 April 2017.

In Sweden, we expect the Riksbank to announce that it will NOT extend the current QE programme, which expires at the end of June, to avoid jeopardising the functionality of the Swedish government bond market. Policy rates are widely expected to be kept unchanged. To balance this risk, we expect the Riksbank to flatten the repo path, postponing the first rate hike by another quarter or two to H2 2018. See more in *Scandi Markets Ahead: Riksbank meeting in focus*, 23 April 2017.

FX markets

In the Scandi markets, today's Riksbank monetary policy decision on 9.30 CET will take centre stage. In our view, the interest rate market has discounted the end of QE for the end of June, and while we still believe that the Riksbank will avoid to send a hawkish signal, and thus lowering its rate path at the same time as it announces an end to QE, we still see risks skewed to the downside for **EUR/SEK** on the Riksbank, as the FX market might interpret the end of QE

announcement more positively and send EUR/SEK lower. However, we still prefer to wait entering/adding short positions until after the Riksbank meeting as we still think 9.60 is within reach. The FX option market indicates 6 figured movement on the Riksbank today.

EUR/NOK remains supported despite oil moving lower yesterday, and according to our models, the usual short-term fundamental drivers cannot fully explain the move higher. Besides the dividends season in Norway, which might explain part of the NOK depreciation, recent EUR/NOK support could also come down to Fortum (Finland), which according to a stock exchange announcement, has been active in FX markets ahead of yesterday's breaking release that the Municipality of Oslo buys out Fortum from Hafslund. A trade worth NOK 6.68bn, according to the announcement. The weekly flow data from Norges Bank reveals a sizable net NOK selling of NOK 8.8bn from foreign banks (proxy for speculative flows) last week. This adds to an accumulative net selling of NOK 70bn since the EUR/NOK bottom in late February. Our measure of speculative NOK positioning would now suggest a FX market, which is net short NOK.

EUR/USD jumped back above 1.09 overnight as the Trump administration's tax plan announcement yesterday did not bring much news to the table. We expect a somewhat dovish ECB today, which if we are right, should add pressure on EUR/USD and other EUR crosses near term. Moreover, we continue to stress the potential for Fed to induce a stronger USD with 'quantitative tightening' plans and a July hike coming up, thus keeping some EUR/USD downside potential in place. Near term, the range to look for is in our view more like 1.06-1.10 with downside capped as risks from populist Europe are retreating for now. Longer term, more QE from ECB should not deter the single currency from moving higher further out as FX markets should be more focused on the potential for rates to eventually be lifted out of negative territory. This could be the catalyst for the undervaluation and hence upside potential, which fundamentals continue to point to (still target 1.14 in 12M).

In the EM FX space, the **TRY** gained yesterday as Turkey's central bank (TCMB) hiked the late liquidity lending rate by 50bp to 12.25%. We called for a 25bp hike, while consensus median expected an unchanged rate. Tomorrow, Russia's central bank (the CBR) is due to announce its monetary policy decision. We expect the CBR to cut the key rate by 25bp to 9.50%, as does consensus, and we do not expect a strong reaction in **RUB** after the meeting. See *Flash Comment: CBR rate decision preview - cutting further* (25 April) for more details.

The **MXN** and **CAD** is strengthening against the USD this morning after the Trump administration "agreed not to terminate NAFTA at this time and the leaders agreed to proceed swiftly, according to their required internal procedures, to enable the renegotiation of the NAFTA deal to the benefit of all three countries" according to a Bloomberg story ([NSN OP1TGZ6S972H <GO>](#)). The Mexican Peso, which has already strengthened the most (9.25%) among emerging market currencies against the USD this year, gained another 1.4% this morning while the CAD strengthened by 0.55%.

Key figures and events

Thursday, April 27, 2017

				Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/m y/y	Mar	-0.7% ...	0.0% 2.5%	1.8% -2.1%
-	JPY	BoJ policy rate	%			-0.1%	-0.1%
-	JPY	BoJ monetary policy announcement					
3:30	CNY	Industrial profits	y/y	Mar			
8:00	DEM	GfK consumer confidence	Net. Bal.	May		9.9	9.8
8:00	NOK	Unemployment (LFS)	%	Feb	4.3%	4.3%	4.2%
9:00	ESP	HICP, preliminary	m/m y/y	Apr	.. 2.3%	0.7% 2.3%	1.1% 2.1%
9:00	DKK	Confidence indicator, industry, s.a.	Net balance	Apr			-4
9:30	SEK	PPI	m/m y/y	Mar			-0.8% 7.5%
9:30	SEK	Riksbank, rate decision	%		-0.5%	-0.5%	-0.5%
9:30	SEK	Trade balance	SEK bn	Mar	2.0		0
11:00	EUR	Business climate indicator	Net bal.	Apr		0.8	0.8
11:00	EUR	Industrial confidence	Net bal.	Apr		1.2	1.2
11:00	EUR	Economic confidence	Index	Apr		108.0	107.9
11:00	EUR	Consumer confidence, final	Net bal.	Apr			
11:00	EUR	Service confidence	Net bal.	Apr		12.9	12.7
13:45	EUR	ECB announces refi rate	%		0.00%		0.00%
13:45	EUR	ECB announces deposit rate	%		-0.40%		-0.40%
13:45	EUR	ECB's monthly asset purchase target	EUR bn	Apr	60	60	80
14:00	DEM	HICP, preliminary	m/m y/y	Apr	.. 1.9%	-0.2% 1.8%	0.1% 1.5%
14:30	USD	Core capital goods orders, preliminary	%	Mar		0.5%	-0.1%
14:30	USD	Advance goods trade balance	USD bn	Mar		-65.1	-63.9
14:30	USD	Initial jobless claims	1000				244
14:30	EUR	ECB's Draghi speaks at press conference					
16:00	USD	Pending home sales	m/m y/y	Mar		-0.5% ...	5.5% -2.4%

Source: Bloomberg, Danske Bank Markets

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