

Danske Daily

Market movers today

- It is a relatively quiet start on the data front to a week that brings us important inflation releases in the US on Tuesday and in the eurozone on Wednesday.
- Today in the eurozone we get figures for the M3 money supply and loan growth. M3 growth continues to hover around the 5% level with 5.3% growth in March. We expect a similar figure for April. More interestingly, loan growth was very strong in March. Both households and NFCs saw increases of respectively EUR16bn and EUR18bn in loans, leading to yearly growth rates of 2.4% and 2.3%. The figures should have been good news for the ECB as they show how well the monetary accommodation is transmitting to the economy.
- In Sweden, we are set to receive both the Riksbank April financial market statistics, including household credit growth, and Statistics Sweden's April trade balance data.

Selected market news

The Asian equity markets have had a mixed session amid modest trading volume this morning as the US, the UK and Chinese mainland markets are closed today. Japan and South Korea saw modest gains, while others posted small losses.

The oil price fell modestly this morning as WTI dropped below USD50. In the fixed income markets 10Y US Treasuries are trading at the 2.25% level, while 10Y JGBs continue to be kept in a tight range around 0%.

San Francisco Federal Reserve president John Williams stated in a speech in Singapore this morning that the US economy is strong enough to withstand three to four hikes from the Federal Reserve. There will be more speeches from Federal Reserve members this week ahead of the Fed meeting in June.

Customer satisfaction

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Selected readings from Danske Bank

- *FOMC minutes. Federal Reserve outlines QT principles and expects to hike 'soon'.*
- *OPEC meeting disappoints investors*

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Scandi markets

There are very few key economic data releases today in Scandinavia and no tier-1 data.

Fixed income markets

We have a very busy calendar this week, although activity is set to be subdued today with both the US and the UK closed. Key event today will be Draghi speaking at the European parliament (15:00 CET); Praet speaks as well (10:00 CET). The main releases today will be eurozone money supply and loan growth figures, although it has been a while since M3 was a market mover. More interesting will be tomorrow's German inflation figures and the eurozone inflation data on Wednesday. These are all key inputs ahead of next week's ECB decision and Draghi and Praet will have a chance today to fine-tune the guidance. Interestingly, Draghi and his inner circle have recently indicated that the sequence will remain (1) tapering and (2) rate hikes, further emphasising that the withdrawal of monetary stimuli should be very gradual suggesting that ECB is trying to avoid a 'EUR taper tantrum'.

Looking at the rest of the week, there is an array of key US figures with PCE Core (Tuesday), Fed Beige Book (Wednesday) ISM manufacturing (Thursday) and finally non-farm payrolls (Friday). Looking at this week's EUR govie supply we estimate EUR22bn will be issued with supply from Italy (Tuesday), France (Thursday) and Spain (Thursday), see *Government Bonds Weekly* for further details. We still see value in 5Y Italy and Spain due to the steep curve in the periphery. We also look for further performance in France.

The main event this week in the Danish covered bonds markets will be the May refinancing auctions of floater bonds. Nykredit will hold its floater auction today, while RD, Nordea Kredit and BRFkredit will hold their floater auctions tomorrow. The total auction amount for floaters this week is about DKK62bn.

FX markets

With the OPEC extension out of the way, NOK focus now turns to domestic developments and the global business cycle outlook, see *FX Strategy: After OPEC, NOK's eyes on global business cycle*. On the domestic side, the latest releases continue to paint an upbeat picture of the Norwegian economy, but with low domestic wage/inflation pressure Norges Bank is unlikely to hike rates before end-2018. At this stage we think Norges Bank is likely to lift the rate path but to maintain a positive rate cut probability. As interest rate markets do not seem to buy into the rate cut probability, we do not think this call is a strong NOK-supportive factor near term. We expect a period of fading global growth momentum, which limits near-term upside potential for commodity prices. As a result, we keep a cautious tactical view on the NOK even if we - from a 6-12M perspective - see strategic value in gradually building up long NOK exposure.

The upside momentum in EUR/USD has faded somewhat with the cross falling below the 1.12 level again on Friday helped by Wednesday's FOMC minutes confirming the Fed's willingness to move on with normalisation, both in terms of rate and balance-sheet size. Last week we published a range of pieces with reflections and updated recommendations in light of the recent surge in the cross. We note that sentiment towards EUR/USD has changed driven by political risks reversing and by eurozone growth and equity outperformance. We stress that while valuation still suggests upside potential medium term, the cross looks increasingly vulnerable to a likely roll-over in the European business cycle. We emphasise, however, that both an ECB not ready to change signal on rates and a Fed determined to both hike and initiate Quantitative Tightening should keep the cross in the 1.08-1.14 range within 3M, see *FX Strategy: EUR/USD: gravitational pull kicks in - but pause ahead*. We still see EUR/USD at 1.16 in 12M and 1.09 in 3M but stress that risks to these forecasts are predominantly on the upside. A gradual slide lower could materialise over the summer if eurozone growth outperformance wears off. Practically, we would look for opportunities to sell the pair for a near-term correction lower on ECB versus Fed policies, see *FX Quant Strategy: Buy 6M EUR/USD put spread* for details on how to play this.

Strategically, we recommend EUR- (and Scandi-) based clients to add to USD hedges on a possible dip over the summer, see *FX Strategy: EUR/USD and USD/SEK implied volatility still cheap despite recent uptick* for details.

Key figures and events

Monday, May 29, 2017

				Period	Danske Bank	Consensus	Previous
0:15	USD	Fed's Williams (non-voter, neutral) speaks					
8:00	NOK	Wage index manufacturing	q/q	1st quarter			0.1%
9:00	DKK	Confidence indicator, industry, s.a.	Net balance	May			1
9:30	SEK	Trade balance	SEK bn	Apr			-0.8
10:00	EUR	Money supply (M3)	y/y	Apr	5.0%		5.3%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Apr			
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Apr			

Source: Bloomberg, Danske Bank Markets

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Date of first publication

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