

# Danske Daily

## Market movers today

- **The key focus in the financial markets will be on the next steps in the Italian political drama after yesterday's sell-off, which is increasingly impacting global financial markets. The former IMF employee Carlo Cottarelli is due to go to the president's office, most likely to acknowledge that he cannot form a government. This opens the possibility for new elections or renegotiations for a Five Star/League coalition government.**
- **Focus will also be on possible Chinese reaction to the US announcement that the US will impose limits on Chinese tech investment and go ahead with 25% tariffs on Chinese imports.**
- **In terms of economic releases, the US PCEcore in April is due out. Based on CPI, PCE core rose +0.1% m/m in April, which would lower the inflation rate to 1.8% y/y from 1.9%. We still believe there are upside risks to US inflation, as the total policy mix has become easier.**
- **German inflation is due for release, in advance of the euro area figure tomorrow.**

## Selected market news

Italy remains the focal point in financial markets with large intraday movements in European fixed income markets observed yesterday and also in major EUR crosses, e.g. EUR/USD and EUR/CHF. The German government also spoke on the matter, with the German Finance Minister Scholz quoted as saying "I know that the Italian people are very pro-European", in a Bloomberg Television interview in Berlin on Tuesday. "So I think we could be optimistic, though there is a political debate about building a new government. But this is something that will not change the more pro-European approach of the Italians."

The US market has also undergone a vast repricing over the past couple of days with the 10Y US yield falling close to 2.80% yesterday – about 30bp from the peak. In addition, US equity markets tracked the decline in European equity markets yesterday, falling around 1-1.5%.

Saudi Arabia, Kuwait and the UAE are said to be planning to meet on Saturday to discuss a new strategy for the oil market ahead of the 22 June regular OPEC meeting. The news follows comments from Saudi Arabia and Russia last Friday that they will propose OPEC begin raising crude output from H2.

In the US, a timeline for imposing USD50bn in import tariffs on China was laid out yesterday. A final list of covered imports is planned to be released by 15 June and imposed afterwards. Proposed restrictions on investments and export controls will be announced on 30 June and implemented afterwards.

## Selected readings from Danske Bank

- *FX Strategy: EUR/USD stuck in the mud (below 1.20) for longer*

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## Scandi markets

Norway. We expect a solid upswing in retail sales after Easter and the weather resulted in a smaller recovery in the March figures than expected. In fact, we are expecting growth here of 1.0 % m/m, with growth in goods consumption potentially even higher on the back of increased car sales. If this above-consensus estimate (+0.2 % m/m) proves correct, some of the current uncertainty regarding private consumption should vanish. We don't expect the outcome of the central wage negotiations to be visible before Q3, so the publication of the Q1 wage statistics this morning will probably indicate a moderate increase in overall wages, to around 2.5 % y/y.

## Fixed income markets

10Y BTPs tested 10 big figures before 'settling' for 122, equivalent to a move of more than 50bp higher. This left the market 'shell-shocked' at times with Bund ASW displaying double-digit widening. The move has driven few headlines other than Di Maio & Salvini's rants regarding Matterella and the rating agencies. Moody's actually dismissed this, saying: "The political developments of the last few days have no bearing on our recent decision to place Italy's ratings under review for downgrade" and stated "Italy's sovereign rating would likely be downgraded if we were to conclude that whoever emerges as the next government will pursue fiscal policies that will be insufficient to place the public debt ratio on a sustainable, downward trajectory in the coming years." See more from *Moody's*. BTPs will stand another test today as the Italian Tesoro will conduct its usual month-end tap of up to EUR6bn in the 5 & 10 year BTP and the Sep-25 CCTeu.

If you are concerned about the BTP credit quality, two true triple A names are tapping the markets today. Norway will tap the new 10Y NGB for the second time after the syndication in April. This time, the amount will be just NOK2bn (previously NOK3bn) and given the hunt for safe assets we expect good demand. In Norway, retail sales are also due, where we expect a solid upswing after Easter.

In Sweden, the SNDO will introduce a new 10Y bond (SGB1061) today with an auction (SEK1.5bn). The loan has a 0.75% coupon and matures on 12 November 2029 (ISIN SE0011281922). In the following days, the SNDO will offer risk-neutral exchange auctions against SGB1060 (current 10Y benchmark bond, two times SEK5.7bn) and SGB1057 (November 2023, SEK4.8bn). Thus, if the auctions are fully subscribed, SGB1061 would total SEK14bn. There are strong reasons why the new bond should trade cheap initially. Existing bonds trade dear in the repo market. SGB1060 trades some 20-30bp dear in the repo market, and could become even more expensive after the exchange auctions. SGB1061 is likely to trade only slightly expensive initially in the repo market compared to the Riksbank repo rate. See *Reading the Markets Sweden*.

In Denmark, Realkredit Danmark (RD) and DLR kredit will finish the May refinancing auction today. RD will sell DKK4bn in a 4-year Level 2A 6M CIBOR floater, and DLR Kredit will sell DKK5.5bn in a 5-year 6M CITA floater and DKK9.15 bn in a 5-year 6M CIBOR floater. We expect floater bonds to trade with a float premium of 8bp relative to flex loan bonds.

## FX markets

In Scandies, risk aversion took a firm grip on EUR/SEK yesterday as the Italian crisis escalated, and price action suggests Sweden's AAA status is not yet a strong attraction. While the Riksbank expects a stronger SEK, a euro crisis would see SEK appreciation for the wrong reasons. Our short-term models have fair value in the 9.20-30 region for what it's worth (which is perhaps not so much right now). The NOK also remains heavily driven by global developments, yet this morning's Norwegian retail sales figures could provide another source of domestic volatility (in either direction). As opposed to SEK and NOK, DKK gained vis-à-vis EUR yesterday. As we have highlighted previously, DKK has tended to flourish when DKK liquidity has been tight, i.e. low net position and there has been political uncertainty in Europe – at the moment we have

both. Today's Treasury bill auction could serve as an indicator of foreign demand for DKK assets. Finally, we stress that we are still some distance from FX intervention levels – in February and March 2017, Danmarks Nationalbank sold DKK in FX intervention around the level of 7.4330-40.

In the majors, EUR/USD will likely continue to be influenced by the developments in Italy. However, today and the rest of the week, the market will also get some hard data to trade on with inflation due in both the US and Euro Area before the jobs report on Friday. In particular, the US data will be important as the market has started to doubt whether the Federal Reserve will deliver another two hikes this year. Note further that EUR/USD FX forwards have also been affected by the Italian woes as the EURUSD CCS basis widened yesterday to as much as -22bp.

### Key figures and events

Wednesday, May 30, 2018

				Period	Danske Bank	Consensus	Previous
1:50	JPY	Retail trade, preliminary	m/m y/y	Apr		1.0% 1.2%	-0.6% 1.0%
2:00	JPY	BoJ Kuroda speaks					
7:00	JPY	Consumer confidence	Index	May			43.6
8:00	NOK	Wage index manufacturing	q/q	1st quarter			0.1%
8:00	NOK	Retail sales, s.a.	m/m	Apr	1.5%		1.1%
8:00	DKK	Business Confidence	Net balance	May			
8:45	FRF	Household consumption	m/m y/y	Apr			0.1% 2.3%
8:45	FRF	GDP, preliminary	q/q y/y	1st quarter			0.3% 2.1%
9:00	CHF	KOF leading indicator	Index	May			105.3
9:00	ESP	HICP, preliminary	m/m y/y	May			0.8% 1.1%
9:30	SEK	GDP	q/q y/y	1st quarter	0.2% 3.2%		0.9% 3.3%
9:30	SEK	Wages (blue collars/white collars)	y/y	Mar			2.4%
9:55	DEM	Unemployment	%	May			5.3%
11:00	EUR	Business climate indicator	Net bal.	May			1.4
11:00	EUR	Industrial confidence	Net bal.	May			7.1
11:00	EUR	Economic confidence	Index	May			112.7
11:00	EUR	Consumer confidence, final	Net bal.	May			0.2
11:00	EUR	Service confidence	Net bal.	May			14.9
12:00	EUR	Portugal, GDP, final	q/q y/y	1st quarter			0.4% 2.1%
14:00	DEM	HICP, preliminary	m/m y/y	May			-0.1% 1.4%
14:15	USD	ADP employment	1000	May		195	204
14:30	USD	Advance goods trade balance	USD bn	Apr		-71.0	-68.3
14:30	USD	GDP, 2nd release	q/q AR	1st quarter		0.023	0.023
14:30	USD	PCE core	q/q AR	1st quarter			0.025
16:00	CAD	Bank of Canada rate decision	%		1.25%	1.25%	1.25%

Source: Bloomberg, Danske Bank

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