30 March 2017

Danske Daily

Market movers today

- **In the euro area, the first inflation figures for March will be released today with the Spanish and German HICP inflation figures.** We look for a decline in inflation in both countries reflecting lower core, energy and food price inflation. The decline in the volatile energy price inflation should follow as there is less support from the base effect and as the oil price has declined during March. Lower food commodity prices should eventually also result in lower consumer food price inflation after being lifted temporarily by cold weather in the winter months. Finally, the lower core inflation reflects the early timing of Easter last year, causing low inflation in the volatile package holidays prices in March this year.
- **In the US, a number of Fed members including Kaplan (voter, dovish), Dudley (voter, dovish), Williams (non-voter, neutral) and Mester (non-voter, hawkish) are scheduled to speak.** Recently, the speeches from Fed members have not provided much new information as the communication has been that the Fed is on track to deliver the expected three rate hikes this year. We expect a continuation of this stance. Hence, the speeches should not moves markets considerably today.
- **In Scandi markets, focus will be on Norwegian retail sales,** which should point to moderate growth in private consumption in Q1. See more on page 2.

Selected market news

UK PM Theresa May finally triggered Article 50 yesterday, see *letter*. Following the triggering, the European Council President Donal Tusk issued a response letter arguing *'the Union will act as one and preserve its interests'* in the negotiations. All of this was in line with expectations and during the day, the sterling appreciated gradually after having weakened in the early trading hours ahead of the triggering of Article 50. EUR/GBP is trading at 0.86 at the time of writing and we see potential for further GBP weakness in the near team as the negotiations begin. Over the coming 6-12 months, we expect EUR/GBP to remain caught within the range of 0.84-0.88. For more about the coming negotiation process, see: *Brexit Monitor no. 27: Brexit negotiations set to start today – what now?*, 29 March.

ECB sources said yesterday that the ECB has been over interpreted by market participants at the latest meeting in March, see *article* from UK Money News, 29 March. Six sources in and close to the Governing Council indicated that the ECB is keen to reassure investors that the easy monetary policy is far from ending. '*We wanted to communicate reduced tail risk but the market took it as a step to the exit'* one source said. The sources also said that banks that have been the biggest losers from negative policy rates have recently benefited from the steepening of the yield curve, so there is no urgency to give them a hand. These unconfirmed reports are in line with our view that the market pricing of rate hikes from the ECB is very premature. We expect the ECB to extend its QE purchases going into next year. See *Research: Euro area reflation story ending*, 29 March.

In the US, it seems that the Republicans in the House of Representatives will give the 'repealing and replacing' of Obamacare another try next week, see *Bloomberg*, 29 March. This means it will take longer before the President's focus can turn to the tax reform. However, if an agreement can be reach on this, the Republicans may also be able to reach a deal on changes to economic policy.

Customer satisfaction

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Selected readings from Danske Bank

- *Research: Euro area reflation story ending*, 29 March 2017
- *Brexit Monitor no. 27: Brexit negotiations set to start today – what now?* 29 March 2017

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Scandi markets

Norway: The retail sales figure for February is due for release and we estimate it increased by 0.4% m/m. This would point to more or less unchanged consumption of goods in Q1 and so moderate growth in private consumption as a whole. We saw a clear slowdown in private consumption towards the end of 2016, which we see mainly as a result of high inflation eroding real wage growth. This was offset partially by a lower savings rate but consumption growth was still weak. We expect inflation to slow substantially this year; together with slightly higher wage growth and higher jobs growth, this means that household real disposable income will grow at around 2% this year. Therefore, we expect retail sales to pick up in time but February may have been too soon.

Fixed income markets

Yesterday, we saw a strong rally in European Fixed Income after the Reuters story that the market, according to no less than 'six ECB sources', had misinterpreted the March ECB meeting. According to the sources, the ECB 'wanted to communicate reduced tail risk, but the market took it as a step to the exit'. The unconfirmed sources also claimed that the ECB would never try to convince the market that they would 'only hike to zero'. However, the money market is still priced for a rate hike during Q1/Q2 next year, which in our view continues to look excessively hawkish. Not so much because the ECB is apparently trying to smooth the rhetoric, but especially as we see inflation staying 'low for longer'. In that respect, yesterday we published *Research: Euro area reflation story ending*.

In respect of curves where hikes can be priced out, we would recommend to taking a look at Sweden. Here, the money market curve is also very steep and selling FRAs or receiving 1Y1Y offers good value. See *Reading the Markets Sweden* from last week, 23 March 2017.

Today, the markets will scrutinise the German Ländern CPI data and the Spanish CPI data, which should both give strong indications of the outcome of the eurozone HCIP data due out tomorrow. Here we look for a drop from 2.0% in February to 1.6% in March – well below the consensus forecast at 1.8%.

In respect of bond supply, focus turns to Italy, which will tap in the 3Y, 10Y and 50Y BTPs. 10Y BTP has rallied more than 10bp against Bunds during March and with the ECB trying to kill the hike/tapering discussion more spread tightening could potentially be in store and we expect some smooth taps today. The 3Y tap might see extraordinary strong demand from the T-LTRO II money from last week. Italy will also tap the 2024 floater.

Denmark will be selling T-bills and Sweden linkers.

See also *Reading the Markets Denmark,* which we published yesterday. Despite the recent rally in non-callable mortgage bonds, we still see very good value in this part of the Danish fixed income market.

FX markets

In the majors, EUR/USD moved further down yesterday on the Reuters story with unconfirmed ECB sources apparently downplaying the ECB's desire to start tightening. While the idea of 'hiking the deposit rate before ending QE' is a key wildcard for possible upside in EUR/USD, we stress that the cross is vulnerable short term due to light positioning and our call for relative rates to move in favour of USD. We are 'not too worried' about the possible impact of the French election and Brexit discussions given the resilience the cross has shown over the past year, which we would ascribe to the fundamental undervaluation in the cross. We see potential for the pair to head back towards 1.05 in coming months.

In the Scandies, before the abovementioned unconfirmed reports took EUR crosses lower, a reversal of the last days' NOK/SEK selling was the primary factor for sending EUR/NOK lower in the early session despite the coinciding drop in NOK rates. In afternoon trading, the oil inventory data has triggered further NOK buying, meaning NOK losses for the week have now almost been erased. Going forward, we still think the external environment for selling EUR/NOK is not right given the current level whereas the outlook for inflation disappointing in Sweden also limits the EUR/SEK downside potential. On balance, this favours tactically buying NOK/SEK, which also technically looks to have formed a bottom. Based on the latest flow data from Norges Bank, our proxy for overall speculative NOK positioning would suggest that investor accounts are now square. This fits well with our overall investor impression and our own preference ahead of the month end.

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Key figures and events

Thursday, March 30, 2017				Period	Danske Bank	*Consensus*	Previous
8:00	NOK	Retail sales, s.a.	m/m	Feb	**0.4%**	*0.2%*	1.4%
8:00	EUR	ECB's Mersch speaks in Frankfurt					
9:00	ESP	HICP, preliminary	m/m|y/y	Mar	**...|2.5%**		-0.3%|3.0%
9:00	DKK	Confidence indicator, industry, s.a.	Net balance	Mar			-4
9:00	CHF	KOF leading indicator	Index	Mar		*106.0*	107.2
11:00	EUR	Business climate indicator	Net bal.	Mar		*0.9*	0.8
11:00	EUR	Industrial confidence	Net bal.	Mar		*1.3*	1.3
11:00	EUR	Economic confidence	Index	Mar		*108.1*	108.0
11:00	EUR	Consumer confidence, final	Net bal.	Mar		*-5.0*	-5.0
11:00	EUR	Service confidence	Net bal.	Mar		*13.8*	13.8
12:00	EUR	ECB's Praet speaks in Berlin					
14:00	DEM	HICP, preliminary	m/m|y/y	Mar	**...|1.6%**	*0.5%|1.9%*	0.7%|2.2%
14:30	USD	Initial jobless claims	1000				258
14:30	USD	GDP, third release	q/q AR	4th quarter		*0.02*	0.019
15:45	USD	Fed's Mester (non-voter, hawkish) speaks					
17:00	USD	Fed's Kaplan (voter, dovish) speaks					
17:15	USD	Fed's Williams (non-voter, neutral) speaks					
22:30	USD	Fed's Dudley (voter, dovish) speaks					

Source: Bloomberg, Danske Bank Markets

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