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Danske Daily

Market movers today

- **The key market focus today is on the US military strike in Syria and the US non-farm payroll report from March due to be released in the US.**
- The **US** labour market has been in good shape over the past two months and we expect this trend to continue. We estimate a total of 160,000 new jobs were created in March but highlight that risks are skewed to the upside as the ADP labour report from Wednesday suggested weather conditions had less of a negative effect on job growth than we have pencilled in. We estimate the average hourly earnings increased 0.2% m/m, which would mean an increase of 2.7% y/y. We furthermore estimate the unemployment rate remained at 4.7% after last month's decrease.
- In the **UK**, the NIESR GDP estimate for March is due – the indicator is usually a good predictor of actual GDP growth.
- **German** industrial production is due to be released on Friday. Following the weak factory orders in January, we estimate industrial production for February will show a drop of 2.5%.
- In the **Scandis**, focus will be on industrial production in Norway and Denmark.

Selected market news

The **US has launched a military strike in Syria** after accusing Assad's regime of the gas attack earlier this week that killed many civilians. Donald Trump confirmed the attacks from his Florida Club – currently the location of the Chinese President Jinping's visit – stating that it is in the '*vital national security interest of the United States to prevent and deter the spread and use of deadly chemical weapons*'. The attack targeted the air base from which the gas attack presumably originated. Prior to the attack, Russian officials stated that attacks would have 'negative consequences'.

Safe havens such as US Treasuries, JPY and CHF have rallied on the first military action of the young Trump presidency. Also, gold and oil are moving higher this morning on the back of the rise in geopolitical risk, as the attacks suggest a different approach from the Trump administration than that under Obama.

Yesterday, the **Czech National Bank** (CNB) abandoned the EUR/CZK floor in an extraordinary monetary policy meeting, as the conditions for a sustainable fulfilment of the inflation target were met and there is no need to keep monetary conditions as relaxed as before anymore, according to the CNB (see our *Flash Comment Czech Republic: EUR/CZK to head lower over medium-term after CNB removes floor*, 6 April). The exchange rate is now free to move according to supply and demand in the market ('managed float'). The CNB also confirmed it stands ready to mitigate any excessive exchange rate fluctuations, without mentioning any specific levels. Governor Jiří Rusnok indicated at the later press conference that the CNB's tolerance for volatility will be quite large.

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Selected readings from Danske Bank

- *Flash Comment Czech Republic: EUR/CZK to head lower over medium-term after CNB removes floor*
- *Research Germany: Status-quo after the 2017 parliamentary election?*
- *Fed's 'Quantitative Tightening':Fixed Income Implications*
- *French Election Monitor #1*
- *US Labour Market Monitor: weather conditions to impact jobs report for March*
- *Research: Global reflation set to lose steam*

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Scandi markets

In **Norway**, Statistics Norway is due to publish February manufacturing production figures this morning. We have seen signs of activity in oil-related industries picking up, and the combination of stronger global growth and an unexpectedly weak krone is paving the way for stronger growth in exports industries. The PMI also climbed to 53.0 in February (and further to 54.7 in March), so we estimate manufacturing production gained 0.3% m/m, which would confirm that the negative trend in manufacturing since 2014 is at an end. If proven correct, it would also mean that manufacturing production made a solid contribution to GDP in Q1 and that growth is approaching the trend rate.

In **Denmark**, industrial production is also due to be released. The release has been highly volatile recently, yet through volatility has been trending up since the spring last year.

Fixed income markets

The main event for the fixed income markets today is the labour market report from the **US**. The consensus forecast for the non-farm payrolls is around 180,000. A strong labour market report will naturally increase focus on the Federal Reserve as well as the reduction in the balance sheet after the minutes from the FOMC meeting, released on Wednesday, showed that the FOMC members 'generally preferred to phase out or cease reinvestments of both Treasury securities and Agency MBS' and that 'a change to the Committee's reinvestment policy would likely be appropriate later this year', provided that the economy continued to perform about as expected. In our note published yesterday, *Fed's 'Quantitative Tightening': Fixed Income Implications*, we assess some of the potential fixed income implications from a reduction of Fed's balance sheet.

In the European markets, **France** is up for review by S&P and Spain by DBRS. We do not expect a change in the rating or the outlook on either. We have seen a solid decline in yields as the ECB is still dovish, which was underlined by the comments from Mario Draghi yesterday. Hence, the combination of lower inflation and recent comments from the ECB has sent bond yields lower. In addition, there will be redemptions from Germany (some EUR18bn), which are due today, so there is plenty of cash in the system. However, from next week, redemptions from Germany will not come back before June/July, and with political risk in France dampening, the Schatz and the Bobl spread are likely to be in for a correction.

FX markets

At an extraordinary meeting, the CNB yesterday decided to abandon the **EUR/CZK** floor at 27 and operate a 'managed float' going forward, implying that both the level of interest rates and intervention could be used as policy instruments to fulfil the inflation target, for details see *Flash Comment Czech Republic: EUR/CZK to head lower over medium-term after CNB removes floor*, 6 April. EUR/CZK came lower following the announcement to trade around 26.6 this morning. In anticipation of an exit this year, investors had accumulated significant long CZK positions recently and volatility is likely to be high in the coming days/weeks as a result of the likely covering of short positions. Hence, we could even see spikes higher in EUR/CZK above 27 but we expect that the market will calm down eventually and expect to see a gradual CZK appreciation trend. We still look for EUR/CZK to head lower and we still project the cross to settle in a 25.5-26.0 range on a 3-12M horizon.

As the market was to some extent prepared for the CNB floor exit, notwithstanding uncertain timing, ripples in the FX market were muted. **EUR/DKK** was little changed and we stress that the situation now is different from that of January 2015, when anticipation of the ECB launching QE led to speculation over which other pegs could be challenged by the ECB's liquidity flood. Danmarks Nationalbank has in the meantime demonstrated its commitment to the Danish peg and we continue to look for EUR/DKK to trade around the 'new normal' level of 7.44 in 12M as the central bank will be reluctant to cut rates from here. EUR/CHF, which the SNB still keeps a firm eye on, was little changed on the CNB move; if we are right, the ECB is far from looking for the exit on negative rates the down pressure on EUR/CHF seen over the past year could pick up again.

In the Scandi universe, **EUR/SEK** saw little reaction to the FSA report yesterday; dividend payouts (i.e. generating possible SEK outflows) continue to be in focus ahead of the CPI next week. **EUR/NOK** looks overbought according to our short-term financial models and albeit positioning is now close to 'neutral' in NOK, investors appear cautious despite the pickup in oil and a still dovish ECB, which we ascribe to cautiousness following the swift move higher in the cross in the month of March.

Key figures and events

Friday, April 7, 2017				Period	Danske Bank	*Consensus*	Previous
-	EUR	S&P may publish France's debt rating					
-	CNY	Foreign exchange reserves	USD bn	Mar		*3007.5*	3005.1
2:00	JPY	Labor cash earnings	y/y	Feb		*0.5%*	0.3%
7:00	JPY	Leading economic index, preliminary	Index	Feb		*104.6*	104.9
7:45	CHF	Unemployment	%	Mar		*3.3%*	3.3%
8:00	DEM	Industrial production	m/m|y/y	Feb	**2.5%|...**	*-0.3%|0.6%*	2.8%|0.0%
8:00	DEM	Trade balance	EUR bn	Feb		*17.4*	14.9
8:00	NOK	Manufacturing production	m/m|y/y	Feb	**0.3%|...**		0.2%|-0.9%
8:00	NOK	Industrial production	m/m|y/y	Feb			3.4%|1.3%
8:45	FRF	Industrial production	m/m|y/y	Feb		*0.6%|1.3%*	-0.3%|-0.4%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Mar			668.2
9:00	DKK	Industrial production	m/m	Feb			-5.3%
9:30	SEK	Budget balance	SEK bn	Mar			42.9
10:30	GBP	Construction output	m/m|y/y	Feb		*0.1%|2.0%*	-0.4%|2.0%
10:30	GBP	Industrial production	m/m|y/y	Feb		*0.2%|3.7%*	-0.4%|3.2%
10:30	GBP	Manufacturing production	m/m|y/y	Feb		*0.4%|3.9%*	-0.9%|2.7%
10:30	GBP	Trade balance	GBP mio.	Feb		*-2200*	-1966
14:00	GBP	NIESR GDP estimate	q/q	Mar		*0.6%*	0.6%
14:30	USD	Unemployment	%	Mar	**4.7%**	*4.7%*	4.7%
14:30	USD	Average hourly earnings, non-farm	m/m|y/y	Mar	**0.2%|2.7%**	*0.3%|2.8%*	0.2%|2.8%
14:30	USD	Non farm payrolls	1000	Mar	**160**	*174*	235
14:30	CAD	Net change in full time employment	1000	Mar			105.1
21:00	USD	Consumer credit	USD bn	Feb		*11.0*	8.8

Source: Bloomberg, Danske Bank Markets

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