

Danske Daily

Market movers today

- **It is a very quiet day in terms of major economic data releases.**
- **In the US today, PCE inflation data for March is due out.** However, these numbers will probably not attract very much attention, as we received PCE inflation figures for Q1 on Friday, from which we can implicitly calculate the monthly numbers for March.
- **More interestingly in the US, ISM manufacturing figures for April and final PMI manufacturing figures for April are due out.** Over the past few months, we have seen a divergence between ISM, PMI and regional manufacturing indices. The preliminary PMI figures for April fell back slightly but the regional indices continued climbing higher. We estimate ISM fell further in April. Our models continue to point towards a deceleration of economic growth and, therefore, we put less weight on the regional manufacturing indices.
- **Later this week (on Wednesday), the FOMC is set to meet.** This meeting is one of the small meetings (no updated projections and no press conference) and we do not expect any changes in monetary policy or any major changes in the statement.
- **There are no market movers in Scandi today.**

Selected market news

On Friday, euro area HICP inflation rose more than expected to 1.9% y/y in April from 1.5% y/y in March. The euro area core inflation also came out stronger than expected at 1.2% from 0.7%. The higher core inflation was driven by service price inflation, which was 1.8% from 1.0%, whereas inflation in non-energy industrial goods was unchanged at 0.3%. This was clearly good news for the ECB. However, as there is a lot of uncertainty with inflation around the timing of Easter, we stick to our view that the ECB will continue its QE purchases at EUR60bn per month going into 2018.

On Friday, in Sweden, retail sales figures decreased by 0.4% m/m in March. Retail sales came out at 1.9% y/y in March, which was much lower than the market expected (3.1% y/y). Retail sales in consumables (such as goods sold in department stores and specialised grocery stores) increased by 0.2% y/y, while durables (such as clothing stores, furniture stores, second-hand goods stores and mail order houses) increased by 2.4% y/y. Notably, one important explanation for the weak y/y outcome of the month is that the comparison is made with the Easter month of March 2016.

On Sunday, the US congress negotiators reached a tentative deal on an USD1.1trn bill to avert a shutdown of government this week, according to Republican and Democratic aides (see *Bloomberg*). The news triggered a subdued relief as Asian equities rose slightly and the USD/JPY soared. In fixed income markets, the 10-year US government bond yield has climbed by 1bp since Friday night. On the data front this morning, the Nikkei Japan Manufacturing PMI for April came out at 52.7 from 52.4 in March.

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Selected readings from Danske Bank

- *ECB Review, 27 April 2017*
- *Research Italy: Renzi's planned political comeback at PD leadership contest, 28 April 2017*
- *Riksbank Comment - Split executive board adds stimulus, 27 April 2017*

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Scandi markets

There are no key events in Scandi today.

Fixed income markets

We are in for a very quiet start of the week with most of Europe (including the UK) out today due to the May Day holiday. The main releases today will be US core PCE and manufacturing ISM.

The focal points this week will be the FOMC on Wednesday and the second and final round of the French general election. Market fear regarding Frexit has vanished after Emmanuel Macron's first round victory but general market sentiment will obviously remain very sensitive to any changes in polls or last minute 'hick ups' hitting Macron ahead of Sunday's vote.

In the EUR derivatives market, it is worth keeping an eye on the results of the Euribor pre-live verification which is set to be published on Thursday.

The EGB supply this week amounts to around EUR15bn with the bulk coming from France and Spain on Thursday. Note that we have around EUR40bn in redemptions from Spain and Italy this week. Redemption figures could start to attract more attention as they will trigger increased QE purchases in the country in scope. In Scandinavia, Sweden and Denmark will be tapping the market this week. For more on supply including the announcement of a new 2Y DGB last week, see *Government Bonds Weekly*, 28 April 2017.

FX markets

For USD, Friday's stronger-than-expected US employment cost index was more important than the sluggish Q1 GDP growth. That said, the market will be reminded that US economic expansion has stopped accelerating when April's ISM manufacturing index is published today, which could weigh a bit on USD and keep EUR/USD in the high end of the 1.06-1.10 range on a day that looks to be uneventful to FX markets as many markets are closed. Furthermore, note that positioning data showed that CHF positioning moved to stretched short territory after the first round of French presidential election. Hence, if Macron maintains the solid lead in opinion polls ahead of the second round of the election this weekend, we do not expect to see much further near-term movement in safe-haven currencies CHF and DKK. Finally, note that positioning in the oil market remains stretched long despite recent nagging doubts over whether OPEC, non-OPEC output cuts will be extended. Hence, we find it difficult to see NOK gaining much support in the near term from a higher oil price as it is likely to stay range bound near the USD52/bbl.

Surprisingly, the Russian central bank (CBR) cut its key rate by 50bp to 9.25% on 28 April, while consensus expected a 25bp cut as did we. Yet, in our preview prior to the decision, we did not exclude a 50bp cut to restrain the RUB's excessive strengthening. While inflation is getting closer to the target (4% y/y by end-2017) and inflation expectations are decreasing, in its newest statement the CBR pointed out that 'at the same time, inflation risks remain in place'. We see that the current aggressive cut was fuelled by concerns of economic authorities that the RUB has become overvalued given the crude price levels. Given the CBR's dovish tone and the fact that its 'assessment of the overall potential of the key rate reduction before the end of 2017 is unchanged', we reduce our key rate projection for end-2017 to 8.00% from 8.50% previously. More aggressive monetary easing on the rising crude price and RUB's excessive appreciation would encourage fixed investment expansion and private consumers supporting economic growth. After the decision, the RUB weakened temporarily, restarting an even stronger rally on increasing demand in RUB bonds – OFZs.

Key figures and events

Monday, May 1, 2017

				Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Apr			52.8
14:30	USD	PCE core	m/m y/y	Mar		-0.1% 1.6%	0.2% 1.8%
14:30	USD	Personal spending	m/m	Mar		0.2%	0.1%
14:30	USD	PCE headline	m/m y/y	Mar		-0.2% 1.9%	0.1% 2.1%
15:30	CAD	RBC manufacturing PMI	Index	Apr			55.5
15:45	USD	Markit PMI manufacturing, final	Index	Apr			52.8
16:00	USD	Construction spending	m/m	Mar		0.4%	0.8%
16:00	USD	ISM manufacturing	Index	Apr		56.5	57.2

Source: Bloomberg, Danske Bank Markets

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