

20 April 2016

# Danske Daily

## Market Movers

- No major economic data releases in Scandinavia nor the euro area today.
- In the US, existing homes sales for March are due. We look for the recovery of the US housing market to continue.
- The labour market report is due for release in the UK. We expect that both the unemployment rate (3M average) and the annual growth in average weekly earnings excluding bonuses (3M average) were unchanged in February at 5.1% and 2.2% y/y, respectively.

## Selected Market News

Yesterday was mainly driven by risk-on sentiment in the global financial markets. Both the US and the European equity markets closed higher, the price of Brent oil rose to USD44/bl and, in the fixed income market, the German 10Y yield increased by 18bp to the highest level in April. As was the case on Monday, EUR/USD moved higher, despite the risk-on sentiments in the financial markets.

This morning, on the other hand, we have seen some modest risk-off in the markets with the price of Brent oil back at USD43/bl and the Asian stock markets partly in red. That said, it seems as if the markets are waiting for the central bank response tomorrow from both the ECB and the Swedish Riksbank.

### Selected readings from Danske Bank

*Flash Comment: Oil price recovery to overlook divided OPEC*

*ECB Preview: Re-opening the door to rate cuts*

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## Scandi Markets

No key data releases in Scandinavia today.

## Fixed Income Markets

The recent rally in equities seems to be driving price action in core fixed income markets this week with the yield on 10Y Germany increasing to 18bp yesterday – a new April high. FI markets remain cash driven as also reflected by the Bund spread falling below 40bp again with Bund weakness. The oil price decrease was short-lived and the price is now back above the level where we ended last week. The persistent long-end supply is also weighing on the market with the ‘old’ Italian 20Y (34s) widening 10bp to core pushed by the launch of the new 20Y yesterday.

While we await tomorrow’s central bank meetings we have decent primary market activity today. Germany is printing EUR4bn in the 10Y benchmark and in the bill market Portugal is set to issue 3M and 12M paper.

In Scandinavia all three sovereigns are in the market today. Denmark is tapping the 18s and the 25s and we expect the DMO to sell around DKK3-4bn. DGBs have begun to perform versus EU peers as EUR/DKK has moved towards 7.44. The focus on Brexit as well as ‘spread tightening’ of policy rates between the Danish central bank and ECB is supportive for DKK, see [preview](#). Norway is tapping NOK3bn in the May-19. The spread versus Germany is around 98bp and attractive relative to recent historical levels. Demand at the upcoming auction should be fair given the low duration and relative pricing versus international peers. Finally, Sweden is issuing 3M and 6M bills today.

## FX Markets

Once again, both USD/JPY and EUR/USD rose yesterday along with an increase in equities and the oil price. While it is too early to conclude anything, we continue to monitor EUR/USD price actions for indications that the correlation between the EUR and risk assets is fading. This could indicate that the common currency might have lost its appeal as safe haven due to the ECB’s move away from the currency war and due to the risk of a Brexit. Indeed, the past two days’ price actions could also be driven by investors positioning ahead of the ECB meeting tomorrow.

Yesterday, Bank of Japan’s (BoJ) Kuroda said that he would not hesitate to take further easing measures if needed. In relation to the currency, Kuroda, according to Bloomberg, said that additional easing is not a promise of a weak currency. Overall, we share this view. However, we still think that stretched short-term FX drivers such as positioning and short-term valuations (USD/JPY is oversold according to our short-term models) imply that BoJ easing might be able to counter the strong downward pressure on USD/JPY stemming from fundamentals. We expect the BoJ to cut its policy rate by 20bp to -0.3% in connection with its monetary policy meeting ending 28 April and we look for a stabilisation of USD/JPY above 110 targeting the cross at 112 in 1-3M.

In the Scandies, EUR/NOK declined further yesterday on a higher oil price and a general positive risk environment. EUR/NOK touched 9.2140 – the lowest level since early December 2015. According to our short-term financial models, the move lower seems fair given the movements in oil and relative rates as Norwegian interest rates inched 1-2bp higher. Despite the risk-on mode in yesterday’s session, EUR/SEK was rather trendless as investors probably remained a bit cautious ahead of the Riksbank meeting tomorrow. We expect the Riksbank to stay put, as inflation has surprised on the upside recently. In relation to the SEK it will of course be interesting to see how much SEK appreciation the Riksbank will tolerate and how it will counter such a move. We still think that more

easing is likely later on, as the Riksbank remains too optimistic on inflation in the medium term in our view.

Key figures and events

Wednesday, April 20, 2016					Period	Danske Bank	Consensus	Previous
1:50	JPY	Exports	y/y (%)	Mar		-7.1	-4.0	
1:50	JPY	Import	y/y (%)	Mar		-16.5	-14.2	
1:50	JPY	Trade balance, s.a.	JPY bn	Mar		450.0	166.1	
10:30	GBP	Unemployment rate (3M)	%	Feb	5.1%	5.1%	5.1%	
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Feb	2.2%	2.1%	2.2%	
10:30	GBP	Average weekly earnings (3M)	y/y	Feb		2.3%	2.1%	
13:00	USD	MBA Mortgage Applications	%				10.0%	
13:00	TRY	Central Bank of Turkey rate decision	%		7.50%	7.50%	7.50%	
16:00	USD	Existing home sales	m (m/m)	Mar		5.27	5.08 -0.071	
16:30	USD	DOE U.S. crude oil inventories	K				6634	

Source: Bloomberg, Danske Bank Markets

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