

24 May 2016

Danske Daily

Market Movers

- Focus today will turn to the **Eurogroup meeting where Greece** is in focus as the economic data calendar is relatively thin. Sunday evening the Greek parliament approved the 'first review bill' including both the contingent mechanism and privatisation fund. According to media reports the Eurogroup is likely to approve the first review today, which would also allow Greece to negotiate the terms of its obligations.
- A couple of prominent **ECB members are scheduled to speak** during the week and today markets will look for comments from chief economist Peter Praet. Praet is usually very dovish but at the end of April he said 'deploying negative rates again in the future would require a distinct worsening of the inflation outlook' and we expect Praet to stick to the ECB's current patient view where it waits to see the impact of the measures announced in March.
- We expect the **German ZEW investor expectations** to weaken slightly in May as financial sentiment is less optimistic than in April. Looking beyond the UK referendum (our base case is that the UK votes to stay in the EU) we expect uncertainty will fade considerably. This – together with very low costs of borrowing, stronger foreign demand and considerable pent-up demand within investments – should result in a re-acceleration in investment growth.
- The central banks in **Turkey** and **Hungary** will announce rate decisions. Markets generally expect unchanged Turkish rates and a Hungarian cut.

Selected Market News

In a light data calendar markets look for **Fed communication** and guidance on when to expect the next Fed hike. Last week's minutes from the April meeting were clearly more hawkish-than-expected but also revealed a much divided FOMC committee (see [here](#)). In this respect recent hawkish comments from Dudley and Rosengren – who are usually considered to be among the more dovish voting members – have clearly underscored the market re-pricing of Fed monetary policy. Yesterday, Bullard (voter, hawkish) partly countered some of the comments by expressing concerns about US growth but also said that he does not expect the UK/EU referendum to influence the June decision. Markets are now pricing a roughly 50% probability of a June or July hike.

Yesterday, the **US PMI manufacturing** disappointed market expectations by dropping slightly. Together with the regional surveys, it suggests that we should see a falling ISM manufacturing next week, highlighting that the US manufacturing sectors is still not out of the woods. We expect the US manufacturing sector to gain steam in Q4.

Overnight, **Reserve Bank of Australia** governor Stevens defended the 'Aussie' inflation target but reiterated worries of low inflation. AUD/USD broke lower on his comments.

In **Austria**, the Green Party backed politician Van der Bellen has won the presidential election in a historically close race against Hofer from the far-right Freedom Party.

Selected readings from Danske Bank

Weekly Focus – Waiting for a signal

IMM Positioning Update – largest weekly bullish oil build since 2008

Brexit Monitor #4

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Scandi Markets

In **Sweden** the labour market report for April is released at 09:30 CEST. After having declined steadily since early 2013, unemployment has got stuck close to 7% in more recent months. We expect unemployment (s.a) to hold steady at 7.2% in April too. Other labour market data, however, continue to perform well. Employment has continued to increase at a pace of around 1.5% y/y and we expect this to remain to be the case near term.

Fixed Income Markets

Focus today will turn to the **Eurogroup meeting where Greece** is in focus as there is little data of interest in the calendar. Over the weekend the Greek parliament approved the 'first review bill' including both the contingent mechanism and privatisation fund. According to media reports the Eurogroup is likely to approve the first review today but as always the devil will be in the details. It could be that disbursement (9-11bn) will come in tranches and let us see if there are obstacles that will prevent QE inclusion. It is very unlikely that a solution to the OSI will be reached at this stage – but some guidance on what to expect could be released. Could it really be that we for once do not have to focus on Greece this summer? Greek assets have rallied strongly with the 10Y performing 150bp since the beginning of the month.

We had a calm start to the week with yesterday's 3bn EFSF deal being the most interesting. **Core markets** weakened slightly yesterday, possibly on the back of supply. Top performer was **Portugal** where 'no supply' week supported the market yesterday.

FX Markets

In a data calendar with few major releases, FX markets remain driven by (1) UK/EU referendum related news flow and (2) Fed communication driving the USD and indirectly commodity markets and commodity currencies.

We still look for some more short-term **EUR/USD** downside on cleaner positioning and the cyclical picture favouring the US. While our 1M forecast for EUR/USD is 1.12, risks remain skewed towards a somewhat larger drop going into the final month ahead of the UK/EU referendum. Importantly, we still expect the cross to head higher towards 1.18 on a 12M horizon on flows and valuation.

In the **Scandies**, we do not expect today's labour market report out of Sweden to be a major market mover for the SEK and we still look for a lower EUR/SEK over the coming months on a SEK favourable macro backdrop. In terms of EUR/NOK, the cross will remain driven by the oil price ahead of Thursday's important oil investment survey out of Norway. Overall we still think short-term risks remain skewed to the upside for EUR/NOK. Finally, we expect the DKK to remain well supported with EUR/DKK trading just below our 1-12M forecasts of 7.4375.

Key figures and events

Tuesday, May 24, 2016			Period	Danske Bank	Consensus	Previous
0:30	USD	Fed's Harker (non-voter, hawkish) speaks				
8:00	CHF	Trade balance	CHF bn	Apr		2.16
8:00	DEM	GDP, final	q/q y/y	1st quarter	0.7% 1.6%	0.7% 1.6%
8:00	DEM	Private consumption	q/q	1st quarter	0.5%	0.3%
8:00	DEM	Government consumption	q/q	1st quarter	0.8%	1.0%
8:00	DEM	Gross fixed investments	q/q	1st quarter	1.8%	1.5%
8:45	FRF	Business confidence	Index	May	102.0	101.0
9:00	EUR	ECB's Praet speaks in Paris				
9:30	SEK	Unemployment (n.s.a. s.a. trend)	%	Apr	7.8% 7.2% 7.1%	7.6% 7.1% ...
11:00	DEM	ZEW current situation	Index	May	47.5	49.3
11:00	DEM	ZEW expectations	Index	May	10.0	12.0
11:05	SEK	Riksbank's Ingves: Riksbank's view of the current economic situation and monetary policy challenge				
13:00	TRY	Central Bank of Turkey rate decision	%		7.50%	7.50%
14:00	HUF	Central Bank of Hungary rate decision	%		1.05%	1.05%
15:00	EUR	Eurogroup meeting in Brussels				
16:00	USD	New home sales	1000 (m/m)	Apr	520	511.0 (-1.5%)

Source: Bloomberg, Danske Bank Markets

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First date of publication

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