

Danske Daily

Market Movers

- In the US, the most important release today is the ISM non-manufacturing index for March. The index has declined for four consecutive months reflecting the slowdown in the economy, which began by the end of 2015. While the index may have been a bit too high previously, we now think the current level is actually too low compared to other economic indicators. Thus we expect the ISM non-manufacturing index to have rebounded in March.
- In the UK, focus is on the PMI services index in March. While consensus is expecting a rebound, we expect it to stay weak suggesting that the economy has slowed ahead of the EU referendum in line with the latest NIESR GDP estimate, which indicated that growth has slowed to 0.3% q/q in Q1.
- We expect euro area retail sales were unchanged in February on the back of the mixed German and French retail sales data. Note that despite some weakness lately in data related to private consumption, it is not to the same extent as for the manufacturing sector and we expect private consumption to be the driving force of the growth in 2016. PMI services figures are released for Spain and Italy as well.
- In Sweden, PMI services in March and production figures for February are due.

Selected Market News

Yesterday, data for the Danish FX reserves showed that **Danmarks Nationalbank (DN) did not need to make FX interventions in March**. Focus is now on whether we will see DN buying EUR/DKK in intervention to cap EUR/DKK downside following the fall over the past week to currently 7.4410, see also *Denmark: No FX intervention in March – reserves may start to rise again soon*, 4 April.

In Sweden, we are half way in the wage negotiations and the agreements so far are lower than what the Riksbank expected, see *Riksbank on full alert: Half time in the centralised wage negotiations*. If anything, there is now a clear risk of further stimuli.

We have seen some risk-off in the markets. US equities fell yesterday and also Asian stocks are flashing red at the moment. The oil price has dropped slightly below its previous range in USD38-42 per barrel as Brent oil is currently trading at USD37.61 per barrel, the lowest in more than a month. The JPY is the strongest in more than 17 months.

As expected, Reserve Bank of Australia kept its policy rate unchanged at 2.0%. RBA said that the AUD appreciation ‘could complicate the adjustment under way’, which was a new paragraph. Other key phrases in the statement were unchanged.

Bank of Japan Governor Kuroda has said that BoJ would not hesitate to add stimulus if needed and that the next move will depend on economic conditions. He said that the stronger JPY has had a negative effect on sentiment and that the BoJ monitors the development in the JPY although it does not target a specific level.

Selected readings from Danske Bank

- *Denmark: No FX intervention in March – reserves may start to rise again soon.*
- *Riksbank on full alert: Half time in the centralised wage negotiations*

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Scandi Markets

In Sweden, PMI services in March and production figures for February are due.

Fixed Income Markets

Today, we have Austria tapping in the 2026 and 2047 bond for a total of 1.1bn. The taps should go well given the global positive fixed income sentiment and step-up in QE purchases in April by the ECB. Austria is well ahead with its funding programme and will after today have issued 44% of gross issuance for 2016. The ECB will by the way purchase around 90% of the Austrian gross issuance in 2016. See slide 4 in *Government Bonds Weekly*, 1 April.

In Denmark focus is now on the EUR/DKK spot. It continued to move lower yesterday and we are now at 7.4410, which we could label 'intervention territory', which is where we should expect the Danish central bank to step in to try and weaken the DKK. We think that the move lower in EUR/DKK underlines that monetary policy in Denmark remains 'too tight' given the Danish currency peg. Remember, Denmark did not follow the ECB lower in February and Denmark has no QE programme. There was no intervention in March but it might soon start, see also *Denmark: No FX intervention in March – reserves may start to rise again soon*, 4 April.

DGBs have recently performed against Bunds but we still think that the Danish fixed income market offers value. We like the 5Y segment of both the swap and the government bond curve. An alternative is Danish mortgage bonds that offer a healthy pick-up to EUR covered bonds as prices are not inflated by QE purchases as in the euro zone. Denmark will tap in the 2Y and 10Y benchmarks tomorrow.

In Sweden the focus continues to be on the ongoing wage round where the result seems to be lower wage growth in 2016 than assumed by the Riksbank making it even more difficult for the Swedish central bank to reach the inflation target. Hence, a new round of QE to be announced on 21 April is now very likely. See more in *Riksbank on full alert: Half time in the centralized wage negotiations*, 4 April.

FX Markets

Today, there are several data releases in both the US (non-ISM manufacturing) and the euro zone (German factory orders and euro-retail sales). However, although the US data may be slightly more positive than market expectations and neutral to slightly neutral, **EUR/USD** will continue to be relatively immune to data releases.

Oil-dependent currencies such as the **CAD**, **NOK**, and **RUB** have come under slight pressure with the recent drop in the oil price but the drop in these currencies has not been as pronounced as during earlier bouts of a falling oil price and hence, even if the oil price drops slightly further today, we do not expect to see a major weakening of these currencies.

EUR/SEK has been range-bound lately as selling of SEK from commercial outflows has outweighed a stronger SEK from improvement in global risk sentiment.

Yesterday, **EUR/DKK** dropped to around 7.4440, which is around the level DN was buying EUR/DKK in intervention in February 2015. Hence, following a year of focus on DN selling EUR/DKK in intervention, the focus is now on whether DN will buy EUR/DKK in intervention to cap EUR/DKK downside. We expect DN to do so not far below current levels. Further, we expect it to take DKK10-20bn in intervention to trigger a unilateral Danish rate cut. However, our main scenario remains for EUR/DKK to trade around current levels on 3-12M and for DN to keep the key policy rate unchanged at minus 0.65% on 12M.

Key figures and events

Tuesday, April 5, 2016			Period	Danske Bank	Consensus	Previous
1:00	USD	Fed's Kashkari (non-voter, unknown) speaks				
2:00	JPY	Labor cash earnings	y/y	Feb	0.2%	0.0%
3:30	AUD	Trade balance	AUD m	Feb	-2500	-2937
4:00	JPY	Markit PMI services	Index	Mar		51.2
6:30	AUD	Reserve Bank of Australia rate decision	%		2.0%	2.0%
7:00	USD	Fed's Evans (non-voter, dovish) speaks				
8:00	DEM	Factory orders	m/mly/y	Feb	-0.6% ...	0.4% 2.2%
8:30	SEK	PMI services	Index	Mar	57.0	55.8
9:15	ESP	PMI services	Index	Mar	54.4	54.1
9:30	SEK	Industrial production s.a.	m/mly/y	Feb		0.6% 4.6%
9:30	SEK	Service production	m/mly/y	Feb		-2.0% 2.0%
9:30	SEK	Industrial orders	m/mly/y	Feb		1.6% 3.8%
9:45	ITL	PMI services	Index	Mar	53.9	54.1
9:50	FRF	PMI services, final	Index	Mar	51.2	51.2
9:55	DEM	PMI services, final	Index	Mar	55.5	55.5
10:00	EUR	PMI composite, final	Index	Mar	53.7	53.7
10:00	EUR	PMI services, final	Index	Mar	54.0	54.0
10:30	GBP	PMI services	Index	Mar	53.0	53.8
10:30	GBP	PMI composite	Index	Mar		52.8
11:00	EUR	Retail sales	m/mly/y	Feb	0.0% ...	0.0% 1.9%
14:30	USD	Trade balance	USD bn	Feb	-46.3	-45.7
15:45	USD	Markit service PMI, final	Index	Mar		51.0
15:45	USD	Markit composite PMI, final	Index	Mar		51.1
16:00	USD	ISM non-manufacturing	Index	Mar	54.1	54.0

Source: Bloomberg, Danske Bank Markets

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First date of publication

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