

# Danske Daily

## Market Movers

- This afternoon, the minutes from the 15-16 March FOMC meeting are due for release. As Fed communication after the meeting has been extensive, we do not expect any significant news, especially not since Fed chair Yellen has already set the stage with her recent speech where she repeated the concerned message from the FOMC meeting. Yellen definitely put more weight on the downside than on the upside risks to the US economy.
- In Germany, we expect industrial production data for February to show that production declined 2.0% m/m in February following the extraordinarily large increase of 3.3% m/m in January.
- The Polish central bank is expected to keep the key policy rate unchanged at 1.5%.
- In Sweden, both Riksbank Governor Ingves and Deputy Governor Skingsley are scheduled to speak. Several data releases are due in Denmark. For more see *Scandi Markets*.

## Selected Market News

Chinese Caixin services PMI increased to 52.2 in March from 51.2 in February indicating that also the services sector in China is in better shape. The composite index increased to 51.3 from 49.4 and is now again in expansionary territory as both services and manufacturing PMIs increased in March. Both PMIs suggest that the Chinese economy has stabilised. The employment sub-index for services was weak as it fell below 50 for the first time since August 2013, indicating lower employment. Hong Kong's Nikkei PMI was quite weak as it declined to 45.5 in March from 46.5 in February, the lowest level in seven months. Output, new orders and employment sub-components all fell.

In the US, ISM non-manufacturing increased to 54.5 in March from 53.4 in February putting an end to four consecutive months of decline. It seems as if the non-manufacturing index has lagged the development in the manufacturing index and if so we could see further improvement in the coming months. The rebound in both ISM manufacturing and non-manufacturing indices supports our view that while the US slowed by the end of 2015 and in the beginning of 2016, we should see the economy accelerate in Q2 and Q3.

Yesterday, US stocks fell for the second day in a row despite a jump at the end of the trading session. Asian stock markets in general are in green but not by much. The oil price has recovered slightly and Brent oil is again trading in its previous price range of USD38-42 per barrel. In the FX markets, downward pressure remained on EUR/DKK yesterday and the JPY continued to strengthen against the dollar. (for more on FX, see the FX section on the next page).

Yesterday, Iceland's Prime Minister Sigmundur David Gunnlaugsson was forced to step aside because of his involvement in the Panama Papers scandal.

Today, the Netherlands is holding a (non-binding) referendum on the EU-Ukraine trade deal adding fuel to the increasing political uncertainty in the EU.

### Selected readings from Danske Bank

- *A turn in Chinese construction set to be a game changer*

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## Scandi Markets

In **Sweden**, Stefan Ingves' speech on the theme 'Time to rethink - inside the head of a central bank governor' will be scrutinised. The title seems to suggest that something completely new is coming. We doubt it. He could well discuss future reforms in line with King and Goodfriend's proposals though, but we would be surprised if he announces a major policy shift here and now. The speech is published at 12:00. Later in the evening, starting 18:30, Mrs Skingsley holds a speech.

In **Denmark**, Statistics Denmark releases both house and apartment prices in January and the number of bankruptcies and forced home sales in March at 09:00 CET.

## Fixed Income Markets

Today Denmark, Norway and Germany are selling bonds. Denmark is tapping in the 2Y and 10Y benchmarks and with the recent strengthening of the DKK versus the EUR, the demand for especially the 2Y benchmark is likely to be high given the prospect of a possible rate cut and that alternatives such as Germany, the Netherlands and Finland all trade with a lower yield. Demand for the 10Y segment is likely to be more modest. Spreads have tightened but there is still value in curve flatteners as well as spread positions.

Norway is tapping in the new 10Y benchmark (see *Norges Bank set to sell NOK3bn in NGB NST 478, 1.50%, Feb 19, 2026, 5 April*) and given the direction for Norges Bank as well as the spread to swaps and EU peers, we expect decent demand at the auction. Finally, Germany is tapping the 2Y segment - the auction should be uneventful even if it is uncovered.

Yesterday, the Portuguese debt office announced that it will do a syndicated deal in the 7Y and 30Y benchmarks - this leads to a solid underperformance in the PGBs relative to e.g. Spain and Italy that both suffered in a general risk-off sentiment that dominated the markets yesterday. On top of this, the situation surrounding Novo Banco is still very uncertain as a number of very large fund managers have sued the Portuguese central bank on the back of the Novo Banco case. We expect that a deal will be struck with creditors and that Portugal will resume tightening again as soon as the auction has taken place. The increase in QE from the ECB as well as the Central Bank of Portugal is moving further out the curve and should be very helpful for long positions in DB.

## FX Markets

Despite relative strong US non-manufacturing and somewhat weak European PMI numbers, as seen over the past weeks, the **EUR/USD** cross did not move much, supporting our view that the cross trades range-bound without clear directions for the time being. On the other hand, the **JPY** continued to strengthen against the USD on weakening global risk appetite and is now hovering close to its strongest level in 2.5 years in trade-weighted terms. The **JPY** is basically getting support from fundamental factors, flows and stretched valuations.

Among the Scandies, downward pressure remained on **EUR/DKK** yesterday as it tested the 7.4400 mark. DKK continues to be supported by a low net position, i.e. tight liquidity in the DKK money market and consequently high short-term DKK money market rates. Shorter-dated EUR/DKK FX forwards moved to the left yesterday, likely reflecting the market starting to price some probability of Denmark's Nationalbank (DN) selling DKK in FX intervention and potentially cutting the key policy rate. In the second half of 2014 and the first months of 2015 DN sold DKK in FX intervention around the current level for EUR/DKK.

For the **SEK**, there are important speeches by Ingves (today) and Skingsley (Thursday), which may give indication as to the Riksbank's tolerance for appreciation of the SEK. Meanwhile, the muted wage growth result of the ongoing wage negotiations makes it more difficult for the Swedish central bank to reach the inflation target and we now think that it is very likely that a new round of QE will be announced on 21 April, which could weaken the SEK.

**Key figures and events**

Wednesday, April 6, 2016				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		1.5%	1.5%	1.5%
3:45	CNY	Service PMI	Index	Mar			51.2
7:00	JPY	Leading economic index, preliminary	Index	Feb		99.8	101.8
8:00	DEM	Industrial production	m/m y/y	Feb	-2.0% ..	-2.0% 0.3%	3.3% 2.2%
9:00	DKK	House and apartment prices		Jan			
9:00	DKK	Forced sales (s.a.)	Number	Mar			
9:00	DKK	Bankruptcies (s.a.)	Number	Mar			
12:00	SEK	Riksbank Governor Ingves speaks					
13:00	USD	MBA Mortgage Applications	%				-1.0%
16:30	USD	DOE U.S. crude oil inventories	K				2299
18:20	USD	Fed's Mester (voter, hawkish) speaks					
18:30	SEK	Riksbank Deputy Governor Skingsley speaks					
20:00	USD	Minutes from the March 15-16. FOMC meeting					

Source: Bloomberg, Danske Bank Markets

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