

02 May 2016

# Danske Daily

## Market Movers

- **The main data release today is the US ISM manufacturing.** We have had some mixed signals about the direction in April following the sharp rebound over the past couple of months. While the ISM order-inventory balance in March suggested an increase, Markit PMI declined to the lowest level since 2009 in April. Regional indices point in different directions but on average suggest an unchanged print. We think ISM manufacturing will stay around the current level of 51.8, suggesting that while the manufacturing cycle seems to have turned, we should not expect a sharp rebound in manufacturing production.
- In the euro area, April manufacturing PMI figures for Spain and Italy are due for release. We expect to see a moderate decline as indicated by the flash PMI data last week, where the euro area manufacturing PMI declined marginally but the German manufacturing PMI improved, pointing to a decrease in the remaining countries on aggregate.
- There are also a number of ECB speeches today including Draghi, Weidmann and Lautenschlaeger. We expect all of them to confirm the ECB's current implementation mode but will watch out for any comment about last week's mixed data releases, see *Mixed euro area data – still pressure on the ECB due to low inflation*, 29 April.
- During the rest of the week, focus will be on the US job report, where we expect another solid increase of 210,000. The Bank of England meeting seems likely to be a non-event on paper but any comments on Brexit and uncertainties could potentially move markets.
- In both Norway and Sweden, PMI manufacturing figures are also due for release, see *Scandi Markets*.

## Selected Market News

The Japanese markets continue to take centre stage these days. The Japanese stock market fell 3% although the JPY stabilised in today's trading after strengthening almost 5% over the past two trading sessions. The Chinese markets were also down despite the official manufacturing index suggesting that the Chinese economy is stabilising. The US treasury sent out a report on currency manipulation on Friday relating to countries' external accounts and currency policies. In the report the treasury named Japan on a 'Monitoring List' alongside Germany, China, Taiwan and South Korea. The inclusion of Germany is due to its large current account surplus amounting to almost 8.5% of GDP. The report is interesting amid ongoing discussion of a currency war by many major central banks struggling with weak growth and subdued inflation pressures. Most commodities traded somewhat lower as traders seem to be trading profits after the surge in prices over the past months. The oil price came under pressure on reports on near-record Iraq output increasing fears over excessive oil supply globally.

## Market overview

		07:30		1 day +/- %
S&P500 <small>(close)</small>		2065.3	↓	-0.51
S&P500 fut <small>(chng from close)</small>		2058.7	↓	-0.02
Nikkei		16126.0	↓	-3.24
Hang Seng		21067.1	↓	-1.50
	17:00	07:30		+/- bp
US 2y gov	0.79	0.77	↓	-1.6
US 10y gov	1.84	1.82	↓	-2.8
iTraxx Europe (IG)	73	74	↑	0.7
iTraxx Xover (Non IG)	310	313	↑	2.9
				+/- %
EUR/USD	1.145	1.147	↑	0.17
USD/JPY	107.030	106.500	↓	-0.50
EUR/CHF	1.10	1.10	↑	0.14
EUR/GBP	0.782	0.785	↑	0.38
EUR/SEK	9.183	9.203	↑	0.22
EUR/NOK	9.21	9.22	↑	0.17
				USD
Oil Brent, USD	48.1	46.8	↓	-2.85
Gold, USD	1289.8	1293.4	↑	0.28

Note:

\* The iTraxx Europe Index shows the spread development for the most liquid investment grade CDS contracts in the euro credit market.

\*\*The iTraxx Europe Crossover show the spread development of the most liquid non-investment grade CDS contracts in the euro credit market.

\*\*\*The Markit CDX North America Investment Grade Index shows the spread development for the most liquid investment grade CDS contracts in the US credit market.

Source: Bloomberg

## Selected readings from Danske Bank

- *Brexit monitor No 2: Brexit fears have eased but uncertainties hit the economy*, 29 April
- *Weekly Focus*, 29 April

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## Scandi Markets

In both Norway and Sweden, PMI manufacturing figures are due for release.

## Fixed Income Markets

Focus on US data this week as the Fed did not fully 'close the door' for a June hike at last week's meeting. ISM manufacturing up for release. The figure is still below the historical 'no hike' lower boundary, although it has edged upwards since the beginning of the year. Non-farm payrolls on Friday is this week's main release.

The Spanish PMI is the most interesting to follow in Europe today after several houses have recently warned about a slowdown in economic activity and with a new general election in June. Continuing with the Iberian peninsula, DBRS kept both rating and outlook unchanged on Portugal, which should support PGBs today. It appears that the circumstances would have to change materially before DBRS would change the rating, judging from the statement. Hence, Portugal can remain one of the biggest beneficiaries of the ECB's QE.

Supply this week remains biased towards longer maturities with France in 25s, 26s and 31s (Wednesday) and Spain 26s, 30s and 40s (Thursday). The net cash flow is positive due to 25bn in coupon and redemptions out of Spain today. However, the net cash flow in the remainder of May will turn negative due to very limited coupons and redemptions this month, see *Government Bonds Weekly*, 1 May, for details.

## FX Markets

The broad USD weakened further following the FOMC decision mid-last week. We believe the trend is likely to continue near term versus EM and JPY. Following the clean break of the previous low at 107.63 we see limited support for USD/JPY near term and see the risks to the downside. The IMM positioning suggests that the market is substantially short USD/JPY but if one splits the data by investor type, the picture changes. Leverage funds are very long JPY but asset managers are short. Moreover, Japanese investors have been significant buyers of foreign bonds in recent weeks. All in all, this suggests that positioning may not be much of a constraint for further near-term JPY strength. Late NY Friday session, the US Department of the Treasury released a new report to the Congress where it named Japan on a 'Monitoring List' over its external surpluses and currency policies, alongside four other countries. This supports further JPY appreciation although we think it is possible that the Japanese authorities could intervene in the FX markets if USD/JPY breaks 100.

Regarding EUR/USD we see Friday's euro-zone data as supporting the case we built early this year that the cyclical difference between the US and the euro zone had narrowed. Still, the low inflation in the euro zone will worry the ECB and that should cap the upside risks in EUR/USD, near term, in our view. Tuesday morning, we will have the Reserve Bank of Australia's (RBA) rate decision where the market is now looking for a 50% probability of a 25bp rate cut following the shockingly low Q1 underlying inflation data. We have maintained our call that the RBA will stay put, which should trigger a short-term rebound in AUD/USD.

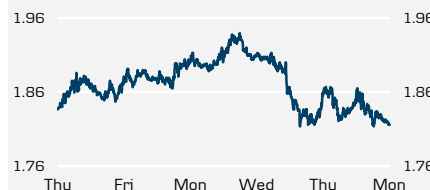
In the Scandies, we note the stickiness in EUR/SEK over the last week. In our view, this may reflect the recent softness we have seen in Swedish data, which may continue with April PMI manufacturing today and March industrial production tomorrow. We see EUR/SEK in a 9.10-9.30 range with risks equally skewed.

### US S&P500 future



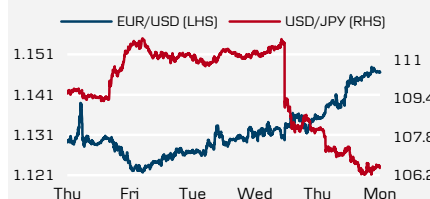
Source: Danske Bank Markets

### US 10y gov yield



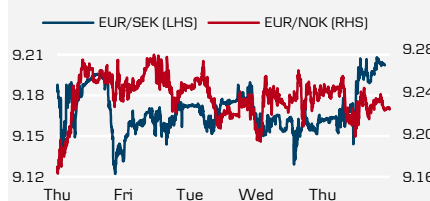
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

## Key figures and events

Monday, May 2, 2016			Period	Danske Bank	Consensus	Previous
0:01	EUR	European Commission Economic Forecasts				
1:15	USD	Fed's Dudley (voter, dovish) speaks				
3:30	AUD	NAB Business Conditions	Index			12.0
4:00	JPY	Nikkei Manufacturing PMI, final	Index			48.0
8:30	SEK	PMI manufacturing	Index			53.3
9:00	NOK	PMI manufacturing	Index			46.8
9:15	ESP	PMI manufacturing	Index	52.6		53.4
9:15	CHF	Retail sales	y/y			-0.2%
9:30	CHF	PMI manufacturing	Index		53.5	53.2
9:45	ITL	PMI manufacturing	Index	52.7		53.5
9:50	FRF	PMI manufacturing, final	Index	48.3		48.3
9:55	DEM	PMI manufacturing, final	Index	51.9	51.9	51.9
10:00	EUR	PMI manufacturing, final	Index	51.5	51.5	51.5
11:30	EUR	ECB's Weidmann speaks in Leipzig				
14:50	USD	Fed's Lockhart (non-voter, neutral) speaks				
15:45	USD	Markit manufacturing PMI, final	Index		51.0	50.8
16:00	USD	Construction spending	m/m		0.5%	-0.5%
16:00	USD	ISM manufacturing	Index	51.8	51.5	51.8
16:00	EUR	ECB's Draghi speaks in Frankfurt				
16:00	USD	ISM prices paid	Index		51.5	51.5
19:00	EUR	ECB's Lautenschlaeger speaks in Lucerne				
23:30	USD	Fed's Williams (non-voter, neutral) speaks				

Source: Bloomberg, Danske Bank Markets

# Today's market data: 02 May 2016

## STOCKS



	Close	+/-
DJSTOXX50	2856	-2.6%
OMXC20	957	-0.8%
OMXS30	1361	-2.1%
OSE BX	606	-0.8%
DOW JONES	17774	-0.3%
NASDAQ	4775	-0.6%
S&P500	2065	-0.5%
NIKKEI (07:30)	16126	-2.6%

## FX & COMMODITIES

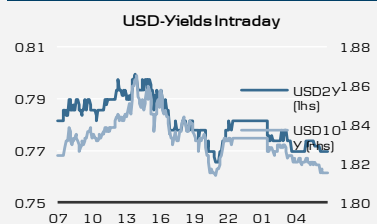


EUR	17:00	07:30	+/-
USD	114.46	114.66	0.20
JPY	122.52	122.13	-0.39
GBP	78.17	78.47	0.30
NOK	920.85	922.40	1.55
SEK	918.29	920.27	1.98
DKK	744.34	744.26	-0.08
PLN	437.07	437.18	0.11
USD	17:00	07:30	+/-
JPY	107.03	106.50	-0.53
GBP	146.42	146.12	-0.30
CHF	95.93	95.90	-0.03

	Gold, \$	Oil, Brent, \$
07:30	1293.40	46.76
1day	0.40	-0.61
1month	70.90	8.09
Year-t-date	231.98	9.48
	CRB 1M future	CRB, Raw Industrials
07:30	184.61	456.43
1day	1.45	2.15
1month	16.58	16.13
Year-t-date	8.47	51.72

\* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

## YIELDS & INTEREST RATES

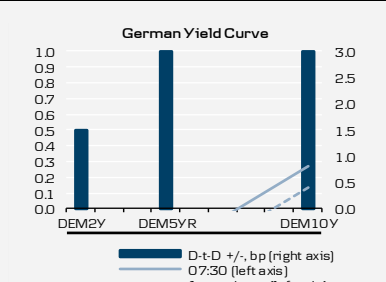
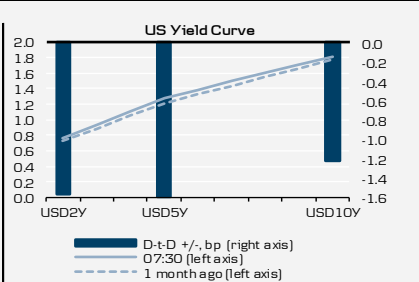
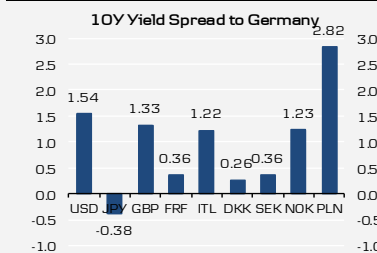


	Policy Rate	3M	Spread, bp
USD	0.50	0.64	14
EUR	0.00	-0.25	-25
GBP	0.50	0.59	9
DKK	0.05	-0.08	-13
SEK	-0.50	-0.45	5
NOK	0.50	0.99	49
PLN	1.50	1.57	7

	17:00	07:30	+/-, bp
USD 10Y	1.84	1.82	-3
USD 30Y	2.70	2.67	-3
JPY 10Y	-0.08	-0.11	-4
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.24	0.28	4
DKK 10Y	0.51	0.55	4
SEK 10Y	0.64	0.64	0
NOK 10Y	1.50	1.50	0
PLN 10Y	3.05	3.09	4

\* The chart plots 07:30 - 23:00 Fri and 23:00 Sun to 07:30 Mon

\* As of closing previous trading day



## Credit spread, iTraxx s. 11\*

	07:30	1day	1month
Europe (IG)	74	0	0
HiVol	72	0	-9
Xover (N-IG)	313	1	8
Finan. Sr.	91	0	-1
Finan. Sub.	204	0	0
Non-finan.			

\* Ask price

## Credit spreads



## Swap Spread, bp\*\*

	17:00	07:30	+/-
USD 10Y	-12	-11	1
JPY 10Y	-12	-11	1
	07:30(-1)*	17:00	+/-
EUR 10Y	0	38	0
DKK 10Y	51	49	-2
SEK 10Y	60	63	2
NOK 10Y			

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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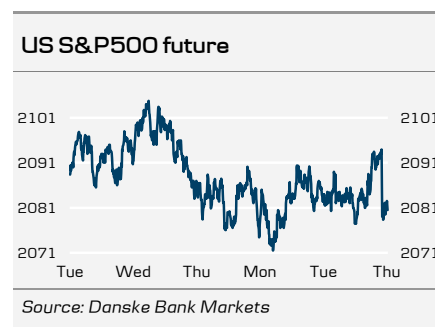
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## Scandi Markets

**Norway.** March retail sales will give us an idea of how lower real wage growth and higher unemployment are affecting consumer spending and the retail trade. As ever, there is particular uncertainty in the period around Easter but we expect retail sales to climb 0.3% m/m after falling in February. Slightly higher growth in overall consumption of goods along with stronger growth in consumption of services would then mean that private consumption climbs 0.4% q/q in Q1, which is enough to ensure positive GDP growth for the period. Meanwhile the Q1 manufacturing survey should provide a more reliable indication of whether the decline in manufacturing activity is now slowing, as both the PMI and manufacturing production data seem to be suggesting. Based on the PMI, we expect the main indicator to climb from -8.2 in Q4 to -5 in Q1. LFS unemployment rose surprisingly strongly in January (December-February) given that the NAV measure fell over the same period. Being a 3M rolling average we nevertheless expect LFS unemployment to hold at 4.8% in February. It is also worth keeping an eye on the employment data in the LFS, because the rise in unemployment here



seems to stem mainly from an increased labour supply rather than a decrease in employment. As usual, we will attach most importance to the NAV unemployment data (due Friday).

**Sweden.** We get March retail sales out of Sweden today and expect headline figures at 0.5% m/m and 3.5% y/y, close to market consensus. We would not pay too much attention to the number though, since Easter was in March and SCB does not always manage to adjust for calendar effects properly, so in fact the number could come in pretty much 'anywhere'. Judging by the NIER business confidence survey released yesterday, retailers are doing fine, profitability is good, and the business outlook is seen as positive.

## Fixed Income Markets

The US bond market reacted positively to the FOMC meeting, as the Federal Reserve assured the markets that the tightening of monetary policy will be done at a 'gradual' pace. Hence, the Federal Reserve is not in a hurry to hike rates and that is a positive for fixed income markets as well as the equity market. The yield on JGBs rallied a few bp this morning as the lack of action from BoJ is viewed as buying the central bank time and having a wait-and-see stance on the impact of negative rates.

Today, Belgium and Italy are coming to the market with more risk as Belgium is doing its first ever 50Y syndicated deal as well as a new 7Y bond. Hence, the Belgian debt office is continuing with long-dated issuance after issuing a 30Y bond in March and a small deal in a 100Y. The trend for ultra-long bond issuance among EU DMOs is very visible with France issuing a 50Y bond and Ireland doing a 100Y bond. In our view, this is targeted to institutional investors that need duration to match their liabilities as well as receiving a fixed rate higher than the ultra-long swaps - see more on this in [our recent paper on the ultra-long end of the EUR swap curve](#).

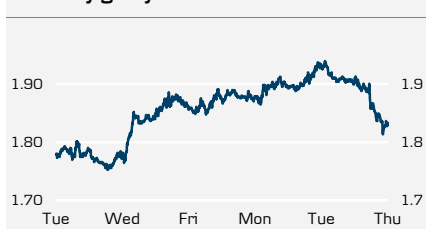
Italy is tapping in the 5Y and 10Y BTPS as well as a new 7Y floater; it will sell up to EUR7.75bn in the three bonds. We expect to see bid-to-cover a bit in the lower range for the BTPS given the ongoing uncertainty regarding Italian banks and the debate about bank treasuries holding large amounts of their own sovereign bonds, So even though Italy has underperformed Spain and supply is one of the factors, demand is not expected to be substantial.

## FX Markets

USD/JPY briefly dropped below 109 on the announcement that BoJ stayed pat on policy and following the BoJ inaction, we see little support to the cross in the coming months. Without the central bank actively curbing the JPY appreciation pressure stemming from strong underlying fundamental flows, the 'down' trend is likely to remain intact in the coming months – although speculatively long JPY positioning looks increasingly stretched from a historical perspective. Moreover, as the FOMC continues to signal a reluctant stance, we would not rule out a renewed test of this month's low at 107.63. We are currently reviewing our JPY and BoJ forecasts.

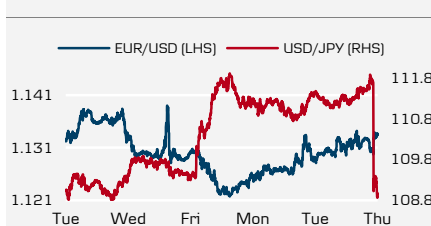
The FOMC statement was not able to rock USD crosses much last night with its 'we are still patient' stance despite the fact that it did in our view keep open the option of a June hike. EUR/USD thus remains firmly above the 1.13 level for now but [FX Strategy: EUR/USD to dip near term on revival of relative rates - use to position for a continued rebound in H2](#) published this morning we stress that the cross could dip near term on a revival of relative rates, while we maintain the case for a continued rebound in H2 on fundamentals. A key argument for

### US 10y gov yield



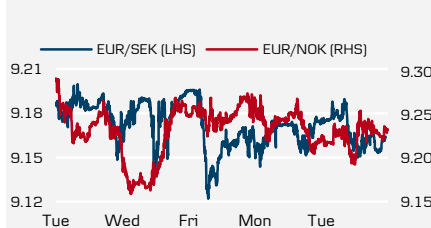
Source: Danske Bank Markets

### Global FX



Source: Danske Bank Markets

### Scandi FX



Source: Danske Bank Markets

downside in 1-3M is the potential for the Fed to be priced more hawkishly and that this will feed through to the FX market as non-commercial positioning is now much closer to neutral than was the case a few months ago. Also, a cyclical situation set to evolve in favour of the US in coming months and the risk of a 'Brexit' suggest to us that the cross could be vulnerable on a 3M horizon. We still project EUR/USD at 1.18 in 12M but firmly stress the risk of a dip towards and possibly below 1.12 in 1-3M.



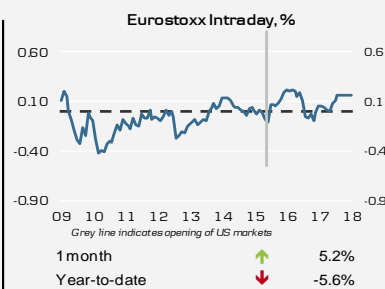
## Key figures and events

Thursday, April 28, 2016			Period	Danske Bank	Consensus	Previous
-	JPY	BoJ annual rise in monetary base				80
-	JPY	BoJ basic balance rate	%			0.1%
-	JPY	BoJ macro add-on balance rate	%			0.0%
-	JPY	BoJ policy rate	%	-0.3%		-0.1%
-	JPY	BoJ monetary policy announcement				
1:30	JPY	Unemployment rate	%		3.3%	3.3%
1:30	JPY	Job-to-applicant ratio			1.28	1.28
1:30	JPY	CPI - national	y/y			0.3%
1:30	JPY	CPI - national ex. fresh food	y/y		-0.2	0.0%
1:30	JPY	CPI - national ex. fresh food and energy	y/y			0.8%
1:30	JPY	CPI- Tokyo	y/y			-0.1%
1:30	JPY	CPI - Tokyo ex fresh food	y/y		-0.3%	-0.3%
1:30	JPY	Household spending	y/y		-3.0%	1.2%
1:50	JPY	Industrial production, preliminary	m/m/y/y		2.0% ...	-5.2% -1.2%
1:50	JPY	Large retailers' sales	y/y			2.2%
1:50	JPY	Retail trade	m/m/y/y		... -1.4%	-2.3% 0.4%
7:00	JPY	Housing starts	y/y			7.8%
9:00	DKK	Gross unemployment s.a.	K [%]	4.3%		115 (4.3%)
9:00	DKK	Confidence indicator, industry, s.a.	Net balance			-5
9:00	ESP	HICP, preliminary	m/m/y/y			2.0% -1.0%
9:00	ESP	Unemployment rate	%			20.9%
9:30	SEK	Retail sales s.a.	m/m/y/y	0.5% 3.5%		-0.2% 3.9%
9:55	DEM	Unemployment	%			6.2%
10:00	NOK	Manufacturing tendency survey	Index	1st quarter	-5.0	-8.2
10:00	NOK	Unemployment (LFS)	%	Feb		4.8%
10:00	NOK	Retail sales, s.a.	m/m	Mar		-0.5%
11:00	EUR	Business climate indicator	Net bal.	Apr		0.1
11:00	EUR	Industrial confidence	Net bal.	Apr		-4.2
11:00	EUR	Economic confidence	Index	Apr		103.0
11:00	EUR	Consumer confidence, final	Net bal.	Apr		
11:00	EUR	Service confidence	Net bal.	Apr		9.6
11:30	GBP	Osborne questioned by Treasury committee on EU Vote				
14:00	DEM	HICP, preliminary	m/m/y/y	Apr		0.8% 0.1%
14:30	USD	GDP, first release	q/q ann.	1st quarter	0.7%	0.7%
14:30	USD	Personal consumption, first release	q/q	1st quarter		1.4%
14:30	USD	GDP price deflator, first release	q/q	1st quarter		2.4%
14:30	USD	PCE core, first release	q/q	1st quarter	0.5%	0.9%
14:30	USD	Initial jobless claims	1000			1.3%

Source: Bloomberg, Danske Bank Markets

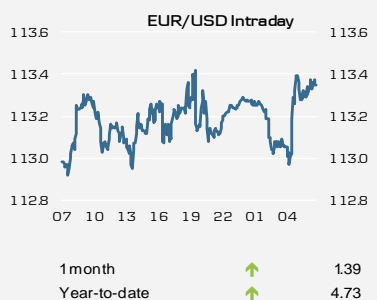
# Today's market data: 02 May 2016

## STOCKS



	Close		+/-
DJSTOXX50	2927	↑	0.2%
OMXC20	959	↓	0.5%
OMXS30	1387	↓	-0.2%
OSE BX	606	↑	1.9%
	Close		+/-
DOW JONES	18042	↑	0.3%
NASDAQ	4863	↓	-0.5%
S&P500	2095	↑	0.2%
NIKKEI (07:30)	16781	↑	0.2%

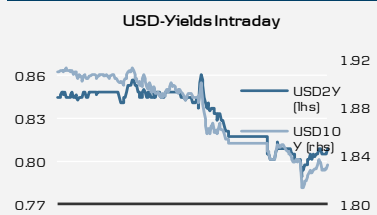
## FX & COMMODITIES



EUR	17:00	07:30	+/-
USD	113.15	113.35	↑ 0.20
JPY	125.91	123.49	↓ -2.42
GBP	77.81	77.92	↑ 0.11
NOK	925.07	923.36	↓ -1.71
SEK	915.53	916.39	↑ 0.86
DKK	744.29	744.34	↑ 0.05
PLN	440.58	439.08	↓ -1.50
USD	17:00	07:30	+/-
JPY	111.26	108.93	↓ -2.33
GBP	145.42	145.48	↑ 0.06
CHF	97.24	96.98	↓ -0.26

	Gold, \$	Oil, Brent, \$
07:30	1249.51	46.96
1 day	↑ 3.68	↓ -0.22
1 month	↑ 27.73	↑ 6.69
Year-t-date	↑ 188.09	↑ 9.68
	CRB 1M future	CRB, Raw Industrials
07:30	182.49	455.53
1 day	↑ 1.01	↓ -1.38
1 month	↑ 9.92	↑ 11.44
Year-t-date	↑ 6.35	↑ 50.82

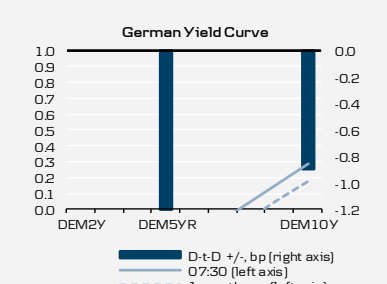
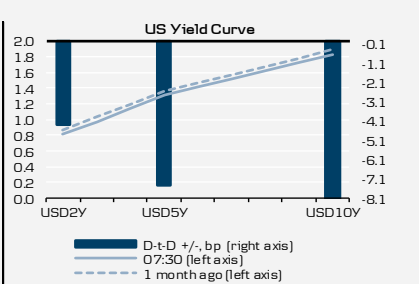
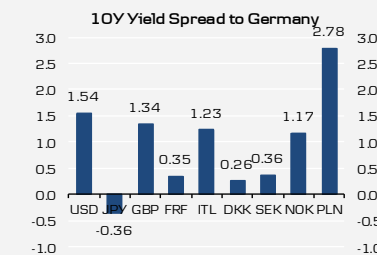
## YIELDS & INTEREST RATES



	Policy Rate	3M	Spread, bp
USD	0.50	0.63	13
EUR	0.00	-0.25	-25
GBP	0.50	0.59	9
DKK	0.05	-0.09	-14
SEK	-0.50	-0.44	6
NOK	0.50	0.94	44
PLN	1.50	1.57	7

	17:00	07:30	+/-, bp
USD 10Y	1.90	1.83	↓ -7
USD 30Y	2.73	2.68	↓ -5
JPY 10Y	-0.05	-0.08	↓ -3
	07:30(-1)*	17:00	+/-, bp
DEM 10Y	0.30	0.29	↓ 0
DKK 10Y	0.54	0.55	↑ 1
SEK 10Y	0.69	0.65	↓ -4
NOK 10Y	1.46	1.46	0
PLN 10Y	3.09	3.07	↓ -2

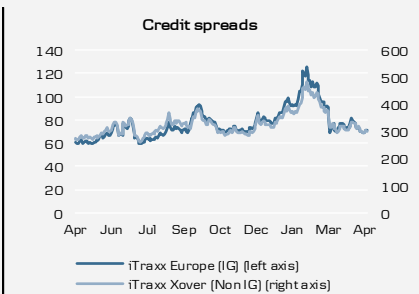
\* As of closing previous trading day



**Credit spread, iTraxx s. 11\***

	07:30	1 day	1 month
Europe (IG)	71	↓ 0	↓ -6
HiVol	73	↑ 0	↓ -17
Xover (N-IG)	303	↓ 0	↓ -18
Finan. Sr.	88	↓ 0	↓ -8
Finan. Sub.	198	↑ 0	↓ -20
Non-finan.			

\* Ask price



**Swap Spread, bp\*\***

	17:00	07:30	+/-
USD 10Y			
JPY 10Y	-13	-12	↑ 1
	07:30(-1)*	17:00	+/-
EUR 10Y	0		
DKK 10Y	40	38	↓ -2
SEK 10Y	48	48	0
NOK 10Y	58	62	↑ 4

\* As of closing previous trading day

\*\* Ask price

Source: Bloomberg, Danske Bank Markets

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