

Danske Daily

Market movers today

- Speeches by ECB President Mario Draghi and ECB Chief Economist Peter Praet will be interesting following the strong euro PMI data yesterday. Mario Draghi tends to put a lot of focus on PMI and the strength in the data is likely to add to the sense that downside risks have diminished.
- In the US, the FOMC minutes from the May meeting on Wednesday are due out, which may give us more insight into what the FOMC members think about the timing of the next Fed hike and not least quantitative tightening (however, notice that the meeting took place before the weak CPI inflation print for April). The US is also due to release existing home sales.
- In Scandi, focus turns to Swedish confidence figures and Norwegian unemployment and the oil investment survey.

Selected market news

This morning, emerging Asian currencies and stocks are trading on cautious note following the Moody's downgrade of China's credit rating, which hurt the outlook for the region's trade-dependent economies. Moody's cut China's rating to A1 from Aa3, citing a worsening outlook for the nation's financial strength. We have in recent months pointed to the increasing stress symptoms in the Chinese financial markets (see for example [China Market Overview – financial stress on the rise again](#), 4 May 2017) and an imminent slowdown in the economy as the Chinese authorities seek to rein in the debt problems in the economy. See [Research: China leading indicators - the slowdown is a reality](#), 2 May 2017.

Yesterday, the Trump administration released its long-awaited budget for the fiscal year 2018 and the administration's priorities for the next 10 years. The Trump administration expects to eliminate the government deficit by 2027 due to a combination of higher GDP growth (3% per year) and large welfare spending cuts. The budget does not contain significant new details on tax reforms than the already known overall principles. We think it is going to be very difficult for the Trump administration to get the budget through the US Congress given the divisions in the Republican party and more generally we maintain our longheld view that Trumponomics will come later and be smaller than pledged. See [Research US: Trump's budget seems dead on arrival in Congress – do not expect too much of Trumponomics](#), 24 May 2017.

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Selected readings from Danske Bank

- [Research US: Trump's budget seems dead on arrival in Congress - do not expect too much of Trumponomics](#)

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Scandi markets

Norway. The main event is the Q2 oil investment survey. There have been a number of signs recently that the downturn in the oil sector is coming to an end, most recently with last week's GDP data showing an increase in oil investment in Q1. The investment survey for Q2 will be particularly interesting because it includes a first estimate for 2018. We expect oil investment to grow in volume terms in 2018, but continued cost-cutting makes it uncertain whether the nominal level measured by the survey will reflect this, so watch out for a negative surprise. Nevertheless, we expect the survey to paint a moderately brighter picture of 2017 and show growth in 2018 for the first time in four years. In addition, LFS unemployment figures will be published. As we have mentioned many times before, there seems to be abnormal uncertainty about the LFS data, which has been showing a decline in both employment and the labour force since the autumn. We expect the LFS jobless rate to be unchanged at 4.3% in March, and it will be interesting to see whether the gap between its job data and those in the national accounts continues to close.

Sweden. The Swedish money market closes at 12:00 ahead of tomorrow, which is closed due to Ascension Day. Still, we manage to squeeze in NIER confidence data (at 09:00 CET), which we expect to show a slight decline overall, producer prices (09:30), which could tell us something about more important consumer prices and the Riksbank's Financial Stability Report (09:30).

Fixed income markets

The introduction of the new 2Y German benchmark saw the 2Y yield climb to the highest level seen since November last year. This occurred even as the terrorist attack in Manchester provided headwind for higher yield. However, another very strong set of PMIs out of the euro area and hawkish comments from Jens Weidmann outweighed that effect.

The strong PMIs could be in focus again today as both Peter Praet and Mario Draghi are scheduled to speak. Both speakers are in the dovish camp of ECB's governing council but especially Draghi tends to focus a lot on PMIs, and given the recent strength in data the speeches will be interesting to watch.

For the second consecutive day, the German Finanzagentur will be in the market. Today, it will be with EUR3bn of the 10Y benchmark.

In the US, the minutes from the May FOMC meeting are due to be released. It should provide more insight into the timing of the next hike and quantitative tightening. Note that the meeting took place prior to the weaker-than-expected April CPI inflation prints.

In Denmark, the last auctions of 1Y and 3Y non-callable bonds took place yesterday while Nykredit will only be selling 5Y non-callable bonds (DKK700m) today. We expect good demand at today's auction – both because of the low auction amount but also due to better relative value and higher yields. However, the 'soft' 3Y bond auction could make investors bid less aggressively with next week's floater auctions in mind. Spreads widened 2-3bp at Monday's auction over 3Y non-callable bonds and at yesterday's auction, the spread was unchanged – Despite widening, we still see better value in 4Y to 5Y non-callable bonds.

FX markets

In the majors, the recent EUR rally found justification in the strong European PMIs out yesterday, which essentially means that we have yet to see firm signs of the European business cycle peaking. Thus, for now, the strong EUR momentum looks set to stick around. We still stress that the eurozone is unlikely to weather the global slowdown altogether and that PMIs may be peaking at present. This suggests that EUR bulls could eventually see a sanity check but this may take another few months. Today, the market is unlikely to put too much weight on a possible hawkish tone in the FOMC minutes due for release today since the latest drop in inflation came after the latest FOMC meeting and seems to have spurred a more dovish tone in

recent speeches from FOMC members. The next focal point for the EUR may therefore not come before next week's euro area HICP inflation release.

In the Scandies, EUR/SEK edged lower yesterday today amid another set of strong labour market data out of Sweden. Today's NIER data also has market-moving potential. Last month, we saw a surprisingly good outcome lending support to the SEK. This time we look for a setback especially in NIER manufacturing, albeit from high levels. While this seems to be the consensus, the risk for EUR/SEK is tilted to the upside. The focus for NOK is on the coming days' releases with today's oil investment survey and Thursday's OPEC meeting. The investment survey will not least be interesting because it includes a first estimate for 2018. Nevertheless, we expect the survey to paint a moderately brighter picture of 2017 and show growth in 2018 for the first time in four years. This is probably in line with the market's expectation; hence, we do not expect the release to affect NOK.

Key figures and events

Wednesday, May 24, 2017

				Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	May			52.7
8:00	NOK	Oil investment survey		2nd quarter			
8:00	DEM	GfK consumer confidence	Net. Bal.	Jun			10.2
8:00	NOK	Unemployment (LFS)	%	Mar	4.3%		4.3%
9:00	SEK	Consumer confidence	Index	May			103.4
9:00	SEK	Economic Tendency Survey	Index	May			112.8
9:00	SEK	Manufacturing confidence	Index	May			123.2
9:30	SEK	PPI	m/m y/y	Apr			-0.1% 6.5%
10:30	EUR	ECB's Praet speaks in Sofia					
14:45	EUR	ECB's Draghi speaks in Madrid					
15:00	USD	FHFA house price index	m/m	Mar			0.8%
16:00	USD	Existing home sales	m (m/m)	Apr		5.67	5.71 4.4%
16:00	CAD	Bank of Canada rate decision	%		0.50%	0.50%	0.50%
16:30	USD	DOE U.S. crude oil inventories	K				-1753
20:00	USD	FOMC minutes					

Source: Bloomberg, Danske Bank Markets

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