

# Danske Daily

## Trump wants USD2tn infrastructure package

### Market movers today

- The market is watching out for a further slowdown in the spreading of COVID-19 in Europe and possibly the US. In the US, Trump has launched the idea of a big infrastructure package in the range of 10% of GDP, to 'rebuild the once great infrastructure'. We will look for the political reaction in Congress to this idea.
- US ISM manufacturing is released, which is likely to have declined to the low 40s, though the Markit PMI manufacturing declined less than feared last week.
- We get a host of final PMI manufacturing numbers for March in Europe, including Sweden, which is likely to drop in line with its euro area counterpart (next page). In Sweden the National Institute of Economic Research (NIER) also publishes an updated macro forecast for Sweden (9:15 CET).
- As the price for Brent is dropping to close to USD20/ barrel the oil market is scrutinised, as the level may prompt action from the OPEC+ members.

### Selected market news

Risk sentiment was mixed yesterday, with most data and events appearing to go as one would expect. China gradually opening, European coronavirus cases seem to have peaked, while the US cases are still to peak (US President Trump warned of up to 240,000 US coronavirus-related deaths). Major global equities indices were mixed between -1.8% and +2% yesterday on the last trading day of the quarter. The quarterly performance has been the worst since the global financial crisis. The picture was mirrored in the Asian session.

US consumer confidence saw a sharp fall but remains at high levels. However, we need to treat it with caution as the data was collected from 1 to 18 March, i.e. ahead of the US lockdown. The big drop in expectations is likely reflecting the fall in stock prices (as it usually mirrors that), which then explains why the present situation has not really fallen yet. We do not know the full impact on consumer confidence until next month's release.

The Chinese Caixin manufacturing jumped back to expansionary territory, but only at the margin of 50.1. While the jump mirrored the official number yesterday, the level essentially signals a status quo compared to the February figure. In Japan, the Business Tankan survey where big manufacturers' sentiment hit minus 8 versus zero in December was the worst reading in seven years. They expect a further deterioration to minus 11 over the next three months. This morning, PM Abe said that the government would take 'necessary and sufficient' economic policies to ensure the country does not return to deflation. A large-scale fiscal package is expected to be presented within days.

The euro area HICP data was slightly weaker than expected at 0.7%, drawn down by the sharp slowdown in energy prices. Core inflation dropped back to 1% after 1.2% driven by lower service price inflation. With the exception of energy prices, any deflationary pressures from the coronavirus crisis seem relatively contained so far. However, most of the data was likely collected up to the middle of the month before lockdowns took effect and hence only partly reflects the coronavirus repercussions on the inflation front.

### Selected reading from Danske Bank

- *Nordic Research: Update no 2: Policy measures in the Nordic countries*, 24 March
- *New 30Y Danish government bond*
- *FI Strategy Norway: Higher NGB issuance target and flexibility*
- *FX Strategy: Fading financial stress supportive of EUR/USD*

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- *Weekly Focus*

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## Scandi markets

In Sweden the March manufacturing PMIs is released today, while the services number is reported on Friday. The February prints were pretty upbeat (56.7 for services and 53.2 for manufacturing) but they are obsolete by now. Looking at PMIs in the euro area and the recent business confidence survey by NIER it is clear that primarily the services industry has been severely hit by the coronavirus. This is also clearly the message in the recent all-time-high March reading for lay-off notices where sectors like traveling, hotels, restaurants and retail sales dominate. In the euro area services PMI dived by 24.2 index points in March (manufacturing 'just' 4.4 points). The Swedish services PMI is set to drop sharply too, but maybe not just as much as in the euro area, since in Sweden things have not been literally locked down as in many places in Europe. However, a drop of say around 10 index points would not be a surprise. Today's manufacturing PMI will very likely drop as well but probably not to the same extent.

## Fixed income markets

EGB bonds were yet again under a bit of pressure after some stabilisation in previous days. While the ECB's additional purchase programme has been important in capping yields, another key element has been to reduce the volatility after some very intense trading sessions in past weeks. It is still too soon to expect low volatility to prevail given the uncertainty about the incoming coronavirus data but also given that debt offices gradually announce their funding schedule.

The coronavirus-driven supply from the sovereign issues continues to come to the market. Yesterday, Belgium did a 7Y syndicated deal, where it sold EUR8bn with an order book above EUR55bn. However, it was also issued with a solid new issue premium of 8-9bp. Furthermore, if we look at the outright yield it was sold with a yield of -1bp. The BGB 0.8% 06/27 was trading at -20bp on Monday before the announcement. Today, Portugal will come to the market and it is also going to be a 7Y benchmark. We also expect a significant new issue premium here. 10Y Portugal widened some 10bp to Germany yesterday, so we expect another substantially oversubscribed order book.

Today's supply comes from Germany and Denmark. Germany will supply its April 2025 bond for EUR4bn. Denmark is opening a new 30Y benchmark, which we expect to be priced 29-31bp above Bund 0% 08/50. It is higher than our estimate made in our preview, but DGBs have continued to underperform EU peers this week. We expect that the Danish debt office will sell DKK5bn. See *Danish Government Bond Auction Preview: New 30Y DGB on April 1 - expected spread to Bunds 20-22bp*, 27 March 2020.

## FX markets

EUR/SEK 1M implied vol has crept below 10% for the first time since 12 March and EUR/SEK spot is testing the 11.00 mark again. However, still in relatively illiquid markets, which suggests one should not over-interpret +/- 10 figure moves in the cross. Today's Swedish PMI manufacturing will probably paint a dreary picture for the economy and should only be a mild breeze compared to what coronavirus-inflicted services PMI numbers will show on Friday. Two pieces of bad data for the economy and thus for the SEK, although downbeat data will perhaps only confirm expectations and thus may not be major market movers. Instead, global stock markets, higher or lower, will set the tone for the SEK, not least via the rebalancing flows that we highlighted in *Reading the Markets Sweden*, 27 March 2020.

## Key figures and events

Wednesday, April 1, 2020			Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Mar	15.2	16.83
1:50	JPY	Tankan large manufacturers index (outlook)	Index	1st quarter	-10.0	0.0 0.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	1st quarter	3.0	20.0 18.0
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Mar		44.8
3:45	CNY	Caixin PMI manufacturing	Index	Mar	45.0	40.3
8:00	DEM	Retail sales	m/m y/y	Feb	0.2% 1.5%	1.0% 2.1%
8:30	SEK	PMI manufacturing	Index	Mar		53.2
9:15	ESP	PMI manufacturing	Index	Mar	44.0	50.4
9:45	ITL	PMI manufacturing	Index	Mar	41.0	48.7
9:50	FRF	PMI manufacturing, final	Index	Mar	42.9	42.9
9:55	DEM	PMI manufacturing, final	Index	Mar	45.5	45.7
10:00	EUR	PMI manufacturing, final	Index	Mar	44.7	44.8
10:00	NOK	PMI manufacturing	Index	Mar		52.2
10:30	GBP	PMI manufacturing, final	Index	Mar	47.0	48.0
11:00	EUR	Unemployment	%	Feb	7.4%	7.4%
14:15	USD	ADP employment	1000	Mar	-100	183
15:30	CAD	RBC manufacturing PMI	Index	Mar		51.8
15:45	USD	Markit PMI manufacturing, final	Index	Mar		49.2
16:00	USD	Construction spending	m/m	Feb	0.6%	1.8%
16:00	USD	ISM manufacturing	Index	Mar	46.0	50.1
16:30	USD	DOE U.S. crude oil inventories	K			1623
17:15	USD	Fed's George (non-voter, hawkish) speaks				

Source: Bloomberg, Danske Bank

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