

Danske Daily

US and China's trade truce lifts markets

Market movers today

- We have a number of important events ahead of us this week, but first, markets will heave a sigh of relief after the 90-day ceasefire was agreed between Trump and Xi (for more coverage, see our flash comment: *US-China trade - Ceasefire paves the way for the real deal in 2019*, 2 December 2018).
- Today, US ISM manufacturing data is being released. We think Markit PMI is a better indicator for manufacturing as ISM manufacturing has been too high compared to reality over the past couple of years. We continue to believe ISM should move lower but it has been stubbornly high for longer than expected.
- Later this week, the labour market report on Friday will be even more closely monitored than normal after the latest soft indications from the Fed.
- In Scandi, we are due to get PMI from both Sweden and Norway today, see page two for details on the Swedish PMI.

Selected market news

Markets in Asia were buoyed by the trade agreement between the US and China at this weekend's G20 meeting. Stocks in Asia saw healthy gains, notably Chinese equities, and both the Chinese yuan and Australian dollar strengthened.

The agreement between the US and China provided a 90-day truce allowing for negotiations on a permanent trade deal. The truce prevented a further increase in tariffs or new tariffs imposed from the US side. However, the US threatened that if no agreement is reached after this period, the 10% tariff rate on USD200bn worth of Chinese goods will be raised to 25%.

In order to reach this agreement, China agreed to buy a not yet specified but very significant amount of US goods within agriculture, energy and industry products plus the two sides will begin to immediately negotiate 'structural changes with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusion and cyber theft, services and agriculture'. According to a tweet from President Trump over the weekend, the Chinese side had also agreed to 'reduce and remove' tariffs on American cars from 40% currently. In our view, the deal is good news for financial markets and the global economy. It paves the way for a real deal in 2019 that removes all tariffs imposed and leads to more opening of the Chinese market (for more details, see our flash comment: *US-China trade - Ceasefire paves the way for the real deal in 2019*, 2 December 2018).

The G20 meeting also provided relief for the oil price, as Russia and Saudi Arabia agreed to extend into 2019 their deal to manage the oil market, known as OPEC+, although Moscow and Riyadh have yet to confirm any fresh output cuts. The announcement opens the door for a deal at the OPEC meeting on Thursday, 6 December. The oil price is up 6% this morning on the news with Brent trading slightly above USD62 per barrel.

Selected reading from Danske Bank

- *US-China trade - Ceasefire paves the way for the real deal in 2019*
- *Harr's View: The great reversal - why 2019 will be different*

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Scandi markets

We are due to get manufacturing PMI today in Sweden, where the trend has been down for more than a year and where October printed 55.0. The flash estimates in Germany and EZ suggest that Swedish PMI dropped in November. PMI in turn indicates that hard data (industrial production) will get softer going forward.

Fixed income markets

The risk of a trade war between US and China was put on hold at the G20 meeting at the weekend as China and the US agreed on a 90-day truce. This should be beneficial for risky assets and provide some relief for the equity markets on Monday. Furthermore, we expect to see a modest rise in the core-EU rates and another gain in Italy (and the periphery) even though the 10Y US Treasury yield closed below 3% on Friday. The US market is closed today as this will be a day of national mourning to honour former President George Bush.

It is going to be an interesting week for the European government bond markets as the EU may open the EDP against Italy at the ECOFIN meeting on 4 December. However, the decision may be postponed to 19 December or even into January 2019 as the EU commission may need more time to prepare the EDP. If nothing happens on Tuesday, this is likely to be positive as it is again seen as Europe continuing to 'kick the can down the road'.

In terms of government bond auctions this week, only Spain and France are in the market. We do not expect that the spread between France and Germany to be affected by the recent turmoil in France. In Scandinavia, all Denmark and Norway are coming to the market, while Sweden will be doing a switch auction. Denmark will tap in the 5Y and 10Y segments. This will be the last auction in Denmark for 2018. Sweden will do an exchange auction in the 10Y segment on Monday, where it will sell the 10Y benchmark SGB 0.75% '26 and buy SGB 1% '26 for SEK4bn.

FX markets

The US-China ceasefire on tariffs is a key signal to the **USD**: the burden of correcting the US current account deficit is now back on the currency which should, all else being equal, act as a drag on the dollar. The knee-jerk reaction last night was to send, e.g. EUR/USD slightly higher. However, the still bumpy road to an outright trade deal means that FX markets will still price in some non-negligible risk of the trade war blossoming up again down the road. Besides digesting the trade talks, the USD will also keep an eye on US ISM, which is set to stay strong. We maintain that current Fed pricing is too soft given the strength of the US economy and look for the dollar to fight back near term: Powell speaking on Wednesday and Friday's job report key in this respect. The OPEC meeting on Thursday could prove an important first step in stabilising oil prices if markets sense a genuine willingness among OPEC+ members to rein in production. Also, later in the week, the Reserve Bank of Australia and Bank of Canada are both widely expected to keep rates on hold and their currencies should mainly take their cue from USD moves.

For **GBP**, this week will be all about the Brexit debate in the UK parliament and GBP will be very sensitive to news indicating the mood of the Commons. At this point, it looks more likely than not that the Brexit deal will not be accepted when the House of Commons votes on 11 December, suggesting that Brexit could remain unresolved after the vote and at least keep GBP volatile for longer. However, any indications that this might change would be supportive for GBP.

Today, there is focus on PMIs due out in both Norway and Sweden. For **NOK**, the key event of the week is tomorrow's Regional Network Survey, which will be key for Norges Bank's rate signals at the 13 December monetary policy meeting. We expect the survey to confirm that growth will remain above trend also for H1 19, which will underpin the outlook of further labour market tightening. Our fundamental predisposition remains to buy the NOK versus the EUR and the **SEK**. Given a likely improvement in risk sentiment following the China-US deal and the strategic domestic case for a stronger NOK, we think the timing for entering long NOK trades has moved closer.

Overall, it is an interesting week ahead for the **SEK**. We expect the PPM money to be paid out Monday 10 December and then invested in the various funds. We expect the Pension Authority to announce the exact date and the details soon, perhaps even today. As we pointed out earlier, there has been a PPM effect on the krona, where EUR/SEK starts to move higher in the days before the PPM date, peaks in the PPM week and then falls back again.

Key figures and events

Monday, December 3, 2018				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Nov		17.1	17.5
1:30	JPY	Nikkei Manufacturing PMI, final	Index	Nov			51.8
2:45	CNY	Caixin PMI manufacturing	Index	Nov		50.1	50.1
8:30	SEK	PMI manufacturing	Index	Nov			55.0
9:00	NOK	PMI manufacturing	Index	Nov			56.0
9:15	ESP	PMI manufacturing	Index	Nov			51.8
9:45	ITL	PMI manufacturing	Index	Nov			49.2
9:50	FRF	PMI manufacturing, final	Index	Nov			50.7
9:55	DEM	PMI manufacturing, final	Index	Nov		51.6	51.6
10:00	EUR	PMI manufacturing, final	Index	Nov			51.5
10:30	GBP	PMI manufacturing	Index	Nov		52.0	51.1
15:30	CAD	RBC manufacturing PMI	Index	Nov			53.9
15:45	USD	Markit PMI manufacturing, final	Index	Nov			55.4
16:00	USD	Construction spending	m/m	Oct		0.4%	0.0%
16:00	USD	ISM manufacturing	Index	Nov		58.0	57.7
19:00	USD	Fed's Kaplan (non-voter, neutral) speaks					

Source: Bloomberg, Danske Bank

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