

# Danske Daily

## PEPP'in it up

### Market movers today

- Today's highlight will be the ECB meeting. We expect the ECB to expand the Pandemic Emergency Purchase Programme (PEPP) envelope by EUR500bn into June 2021 to avoid undue tightening of financial conditions. Focus will also be on comments regarding the German constitutional court ruling on the PSPP programme and the updated staff forecasts, which we expect to paint a dire economic outlook (see more details in *ECB Research - PEPP'in it up, 28 May*).
- In Sweden, the April production data are likely to look dismal (see details overleaf). Same goes for euro area retail sales for April.
- In Norway, there will be a lot of interest in the Q2 oil investment survey due to the lower oil price and heightened uncertainty (see details overleaf).
- Of more recent data, we get US initial jobless claims at 14:30 CEST and Bloomberg's weekly US consumer confidence indicator at 15:45 CEST. With respect to the former, it will be interesting whether we will see continued claims continuing to move lower or not. With respect to the latter, it will be interesting to see signs of a rebound (however, the current protests may suppress it further).

### Selected market news

The global equity rally maintained its momentum on Wednesday as investors clung to optimism about a quick economic recovery from the pandemic despite continued violent protests in US cities. However, the risk-on sentiment was not limited to equity markets. EUR/USD rose above 1.12 for the first time since mid-March after data showed job losses in Europe remaining contained in April/May and economic activity slowly getting back on its feet. The US labour market also seems to be stabilising, with private payrolls falling by less than expected in May (-2.76m). This bodes well for tomorrow's US job report, although it is not always the most reliable indicator for non-farm payrolls. Oil prices defied the positive sentiment though, and gave up earlier gains, after this week's OPEC meeting was cast in doubt over cheating by some nations on their output cuts.

Germany keeps the spending taps running. Yesterday, the government approved another significant recovery stimulus package of EUR130bn (3.8% of GDP) for 2020 and 2021. The package is a combination of support for struggling municipalities, car sales incentives, a VAT reduction until the end of 2020 as well as direct payments to families with children. The fiscal boost comes on top of the EUR750bn coronavirus emergency package already deployed in March and the strong fiscal policy response is one reason why we expect the German economy to weather the COVID-19 storm better than other European countries (see *The Big Picture - Reopening, recovery and risks, 2 June*). That said, the package will come as somewhat of a disappointment for the battered car industry, as buying incentives exclude conventional petrol and diesel cars. As the bulk part of the spending (EUR120bn) will be funded by the federal government, we expect the supply of German government bonds to increase (see fixed income section).

### Selected reading from Danske Bank

- *ECB Research: PEPP'in it up, 28 May*
- *The Big Picture: Reopening, recovery and risks, 2 June*
- *Harr's view: The market may underestimate inflation risk, 1 June*
- *Nordic Research: Updated overview of government bond supply in the Nordic countries, 2 June*

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## Scandi markets

In Norway, there will be a lot of interest in the Q2 oil investment survey. Lower oil prices and heightened uncertainty have prompted the oil companies to announce big cuts in their investment plans for the next couple of years. We expect the survey to show a decrease in investment on the Norwegian Continental Shelf of around 10% in 2020 and 15-20% in 2021. However, look out for any conclusion on the new tax regime for oil companies later today, which could imply a significant improvement in profitability on planned projects and hence limit the downside risks from oil investments in 2020 and 2021.

Reports from the Norwegian housing market suggest that it continued to normalise in May, with higher turnover and stable prices. Based on the OBOS-figures, we expect seasonally adjusted prices rose 0.5-1.0 % m/m in May.

In Sweden we get production data for April (09:30 CEST), which will give an early hint how GDP Q2 started. Probably very weak, as indicated by the sharp drop in industrial orders for March and everything else we know. FSA publishes its twice-yearly Financial Stability report (08:00 CEST).

## Fixed income markets

The main event today will be the ECB meeting and the expectations of more stimulus through an increase in the PEPP. The consensus expectations are for an increase of EUR500bn and this is needed given the need for cash as EU countries announce more fiscal stimulus. Yesterday, Germany approved a significant fiscal stimulus package of EUR130bn. The package will cover 2020 and 2021 and thus not all of the EUR130bn will be funded this year but pushed into next year as well. Bulk part of the spending (EUR120bn) will be funded by the federal government. Hence, the supply of German government bonds is set to increase and we have seen a further tightening of the German ASW-spreads as well as bearish steepening of the EGB yield curves.

Hence, the supply factor is still outweighing the demand factor when looking at the Bund ASW-spread even though there is significant demand as shown by the substantial bid-to-cover at the 10Y syndicated deal from Italy and the 15Y deal from EU both priced yesterday. Today, there is more supply as France and Spain are coming to the market. France is selling up to EUR11bn, while Spain is selling up to EUR7bn in nominal bonds and an additional EUR1bn in a 5Y linker.

Yesterday, we also got ownership number in the Danish fixed income market. Foreigners continue buying callable mortgage bonds as well as T-bills, see *Ownership overview for Danish mortgage and government bonds - Foreign investors active in T-bills during April*, 3 June. The demand for Danish government bonds was also noticeable at yesterday's auction, with a solid bid-to-cover for the 2Y and 10Y benchmarks. There was also a solid bid-to-cover at the Swedish government bond auction, even though the supply of SGBs is going to rise significantly. A similar picture was seen at the Norwegian government bond auction yesterday. Hence, even though neither Denmark nor Norway have a QE programme and the Swedish QE programme is directed mostly at covered bonds, there is ample demand for the AAA-rated Nordic government bonds.

## FX markets

The recovery/reflation/risk rally continues and besides EUR/USD, also notably USD/JPY is now on the move as reflation trading is increasingly taking its toll. As long as the likes of DAX, TRY, ZAR or BRL continue to rise some 1-2% a day, EUR/USD can most likely keep up momentum. Indeed, at this point in time, we do not see much standing in the way

of going to 1.14 - not least if the ECB increases its PEPP scheme today and if speculation of a Brexit compromise persists - even if the latter is unlikely to be delivered near term in our view. As such, EURphoria is likely to stick for now and notably the upward momentum in EUR/CHF seems strong at present, as SNB is likely eyeing a chance to lift the pair from 'distressed' levels. However, do watch the 'fragile four' in EM space (BRL, RUB, TRY, ZAR) as these could be key to when/if financial markets start to taper the ongoing optimism almost across all non-US assets.

In the Scandies, EUR/NOK keeps testing new lows. While global risk-on, value rally and tentative reflation signs are all important drivers, we still emphasise Norges Bank's buying as the ultimate reason why we stay NOK bullish. Today will be important for evaluating the downside risks to Norwegian growth (oil investments, oil sector tax package) but we believe they will prove inferior as FX drivers if risk-on continues.

### Key figures and events

Thursday, June 4, 2020			Period	Danske Bank	Consensus	Previous
8:00	NOK	Q2 oil investment survey				
8:30	CHF	CPI	m/mly/y	May	0.0% -1.3%	-0.4% -1.1%
9:15	ESP	PMI services	Index	May	24.0	7.1
9:30	SEK	Industrial orders	m/mly/y	Apr		-9.6% -2.0%
9:30	SEK	Private Sector Production	m/mly/y	Apr		-1.8% -2.2%
9:45	ITL	PMI services	Index	May	26.0	10.8
9:50	FRF	PMI services, final	Index	May	29.6	29.4
9:55	DEM	PMI services, final	Index	May	31.4	31.4
10:00	EUR	PMI composite, final	Index	May	30.5	30.5
10:00	EUR	PMI services, final	Index	May	28.7	28.7
10:30	GBP	PMI construction	Index	May	30.0	8.2
11:00	NOK	House prices				
11:00	EUR	Retail sales	m/mly/y	Apr	-16.5% -23.0%	-11.2% -9.2%
13:45	EUR	ECB announces refi rate	%	0.00%	0.00%	0.00%
13:45	EUR	ECB announces deposit rate	%	-0.50%	-0.50%	-0.50%
14:30	USD	Initial jobless claims	1000			2123
14:30	EUR	ECB's Lagarde speaks at press conference				
14:30	USD	Unit labour cost, final	q/q	1st quarter	4.8%	4.8%
14:30	USD	Trade balance	USD bn	Apr	-41.5	-44.4

Source: Bloomberg, Danske Bank

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