

Danske Daily

US and China relations continue to sour

Market movers today

- Today is a quiet day in terms of economic data releases. The most important one is the Danish FX reserve data, as EUR/DKK continues to trade to the low side.
- Otherwise, focus is on the ongoing negotiations on the next US stimulus bill, which do not seem to move forward. Many Americans are currently experiencing a significant negative income shock, as the temporarily higher unemployment benefits have expired. Risk is that it results in a setback in the recovery. The problem is not only disagreements between the Republicans and the Democrats but also that the Republicans have a different take on how big the next package should be and what should be included. Apparently, the White House is looking into whether President Donald Trump can extend the benefits without passing legislation in Congress.

Selected market news

The political problems between the US and China continue. Yesterday, President Trump announced that TikTok has to find a buyer within a month or it will have to close its US operations.

The US technology stocks continue to dominate the positive sentiment on the US equity market and are driving Asian stocks higher this morning.

A number of Federal Reserve officials has warned about the negative economic impact if the US Congress does not reach a deal on the continued fiscal expansion. The negotiations continue between the Republicans and the Democrats, but the two parties are still far from reaching a deal even though there is some progress. President Trump is considering an executive order to prolong the unemployment benefits.

Infections are slowing down in the US, but are still at a high level. Some of the world's largest asset managers such as PIMCO and Axa are increasing their exposure to Italy by increasing their purchases of Italian government bonds according to a Bloomberg article. This is driven by the ECB and the purchase programmes as well as the agreement reached on the EU recovery fund. The spread between 10Y Italy and Germany is close to pre-coronavirus levels, but given the negative yield for most core- and semi-core EU countries, there is still yield pick-up to be found in Italy and Spain.

Selected reading from Danske Bank

- *Vacation Wrap-Up - Uneven global recovery amid COVID-19 flare-ups, 3 August*
- *COVID-19 Update - The 'dancing' is likely to continue until a vaccine is ready, 30 July*
- *High Frequency Activity Tracker - Electricity demand questions German industry recovery, 29 July*
- *China Macro Monitor - Recovery on track, 23 July*
- *Research US - Not extending higher unemployment benefits would lead to a significant negative income shock, 22 July*

Follow us on *Twitter* :



@Danske_Research



Video

Danske Bank research analyst

Chief Analyst

Jens Peter Sørensen
+45 4512 8517
jenssr@danskebank.dk

Scandi markets

No news out of Scandinavia today apart from the Danish FX reserves. See more below.

Fixed income markets

In Denmark, the central bank will publish July's FX reserve data today. Focus will be on updated numbers for foreign CP issuance and whether the DMO has allowed some of the DKK96bn in issuance since March to run off. The DMO sold DKK80bn in foreign CPs in April and to the extent some of this was in 3M CPs it may have opted to allow them to run off in July since it has been able to ramp up T-bill issuance at lower yields and the short-term funding need has turned out to be lower than initially expected.

Today, Austria will be selling up to EUR1.15bn in the 4Y and 10Y segment. This should be fairly uneventful and met with decent demand.

The PSPP and PEPP data did not show any big surprises as the ECB continues to stack up on Italian government bonds although yesterday we saw a bit of underperformance in Spain and Italy on the back of the news that Spain would apply for some EUR20bn through the SURE programme in order to support the Spanish labour market due to the negative impact from the coronavirus.

FX markets

Despite a strong start to the week on overall risk sentiment FX moves in majors have been fairly limited. SEK remains among the bigger winners from the global environment and yesterday also found a little support from better-than-expected domestic data. In neighbouring Norway, the manufacturing PMI was a dismal reading but it seemed markets were aware that July PMIs have to be taken with a grain of salt due to the low response rate. Consequently, NOK was broadly flat on the day with a late drop in oil countering the value induced performance from European equities. CAD synchronized the USD move higher, while a strong session for European assets left EUR/USD roughly unchanged for the day. EUR/USD did temporarily dip towards 1.17, while USD/JPY continued its recovery above 106 as USD weakness faded somewhat on recovering Treasury yields and tech outperforming value in equity space.

Worries over virus developments outside the US have started to surface, so is now the time to get EUR negative again? We doubt that we will witness the large-scale closures seen during the spring and yesterday's price action suggests that one probably needs to look for US rate rises and/or tech outperformance to get very negative on EUR/USD short term. In our base case that Fed delivers on its inflation hints with enhanced forward guidance in September, a reflation narrative is set to keep USD under pressure in Q3 and make a test of new year-highs in EUR/USD the dominating risk into the autumn. If that base case plays out, it would also spell good news for commodity currencies and in particular the NOK enjoying a large beta to both commodities and European equities. A key downside risk to EUR/USD and commodity currencies is if Trump scraps the trade deal amid the current China software lash and/or election stress.

Key figures and events

Tuesday, August 4, 2020			Period	Danske Bank	Consensus	Previous
6:30	AUD	Reserve Bank of Australia rate decision	%	0.25%	0.25%	0.25%
9:00	SEK	NIER economic forecasts				
11:00	EUR	PPI	m/m y/y			-5.0 -0.6%
15:30	CAD	RBC manufacturing PMI	Index			47.8
16:00	USD	Core capital goods orders, final	%			3.3%
17:00	DKK	Currency reserves	DKK bn			455.8

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) [('Relevant Financial Instruments').]

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 04 August 2020, 07:08 CEST

Report first disseminated: 04 August 2020, 07:30 CEST