

Danske Daily

Global yields continue to drift lower

Market movers today

- Today we get final PMI services including the Swedish, Spanish and Italian ones.
- In Sweden, we get service production for June and the preliminary GDP numbers for Q2 that are widely expected to be historically weak. In Norway we get house price data.
- In the euro area, retail sales for June are due out 11:00 CEST, which are expected to show another solid increase in line with retail sales on a country level.
- In the US, the ADP jobs report will attract attention, as the high-frequency data showed that the US recovery stagnated in July. Just note that the ADP jobs report does not have a good track record forecasting the official jobs report on Friday. ISM non-manufacturing at 16:00 CEST is expected to remain above 50 despite the recovery stalling in July.
- Besides that we keep monitoring the US negotiations on the next stimulus bill and new COVID-19 cases in particular in Europe where infections have been on the rise lately although it is too early to call them second waves in most countries.

Selected market news

European periphery bond markets continued to perform yesterday as record-low US yields, ECB buying, EU fiscal support schemes and hunt for yield pushed investors towards 'high-yielding' Italy and Spain. Yield on 10Y BTP dropped below 1% and 30Y Spain to 1.05%. US 10Y treasury yields dropped to 0.505%, the lowest level ever as market expectations of Fed keeping rates low 'for ever' and rapidly falling rates volatility added to treasury demand. Bloomberg also reported that the recent weakening of the US dollar according to market sources had triggered currency unhedged treasury buying from Asian investors.

In the US, the equity markets ended the day slightly higher as markets were focusing on the possibility of a new round of fiscal stimuli and more easing through stronger Fed forward guidance or yield curve control. Energy producers took the lead as the explosion in Lebanon reignited geopolitical fears in the Middle East region, though it remains unclear what caused the explosion. Brent oil moved approximately one dollar higher to USD44.5 a barrel on the news. Asian stock markets are mixed this morning.

There is still high uncertainty whether a deal on a new US stimulus package can be reached in the US. However, both Treasury secretary Mnuchin and Nancy Pelosi from the Democratic Party said that they expected to reach an agreement this week.

On the virus numbers we note that California reported the fewest new infections since June and both Florida and Arizona saw lower numbers.

The relationship between China and the US continues to worsen. Yesterday, Chinese state-run media said that the demand for a sale of the US operation of TikTok is a theft and called the Trump demand for a payment to the US government an 'open robbery'.

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*

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Scandi markets

Real Estate Norway will publish monthly house prices. OBOS data published yesterday alongside anecdotal evidence suggest we are in for another month with a strong rise in prices. So far the housing market has surprised strongly to the upside post the COVID-19 lockdowns, leaving the housing market a topside risk for rates given Norges Bank's explicit reference at the last monetary policy meeting in June.

Second quarter GDP in Sweden, due out 09:30 CEST, is generally expected to be bad but not as bad as the rest of Europe (and the US). Forecasters including us project a drop around 7-8% q/q.

Fixed income markets

Yesterday, European government bond yields continued to decline led by the periphery and driven from the long end of the curves. We continue to see this as driven by the QE programme by the ECB as well as the fiscal support programmes from the EU such as SURE and the upcoming EU recovery fund. The combined purchase from PEPP and PSPP is a strong support for the EU government bond market as has been seen with the bigger countries such as Italy, but also for the smaller countries such as Ireland and Finland. See more in our *Overview of the PSPP and PEPP asset allocation*, 5 August. On top of the ECB QE, large institutional investors are also buying the periphery and the spread compression can continue.

Today, Germany comes to the market tapping EUR5bn in the 5Y segment. Denmark is tapping in the 2Y and 10Y segments. Here we recommend buying the 2Y segment as discussed in our *Auction preview – buy 2Y DGBs*, 5 August. Given the strength of DKK as well as strong public finances and significant currency reserves as shown in the data yesterday, there is support for the short-end of the Danish curve see also our *comment on the FX reserve data: unchanged CP funding and lower funding need*, 5 August.

FX markets

EUR/USD recovered after drifting lower early Tuesday but new record-lows in US 10Y yield eventually formed a bullish background for the pair. In turn, the cross was again rejected above 1.17, suggesting a new lower end of range may tentatively be forming in the absence of new fundamental impulses. Near term it remains key to watch Fed speakers (will reflation story be revived?) and US politics (will risk sentiment hold up in the face of no new fiscal impulse and/or continued China lash?) to gauge whether broader USD weakness will stick.

Swedish Q2 GDP is expected to be bad and forecasters including us project a drop around 7-8% q/q. A substantially better/worse print than that could move SEK, though we believe that global recovery stories and dollar sentiment are more important for the krona at the moment. The Riksbank already faces several inflation headwinds, of which the SEK is one. If the positive trend continues, the Riksbank may be forced to do something. That said, it would probably be a little more tolerant to a SEK rally if it was generated by a strong inflationary Swedish economy, which unfortunately is not the case, instead of broad-based dollar weakness.

Key figures and events

Wednesday, August 5, 2020				Period	Danske Bank	Consensus	Previous
2:30	JPY	Markit PMI services, final	Index	Jul			45.2
3:45	CNY	Caixin PMI service	Index	Jul		57.9	58.4
8:30	SEK	PMI services	Index	Jul			49.2
9:15	ESP	PMI services, final	Index	Jul		52.0	50.2
9:30	SEK	Industrial orders	m/m/y/y	Jun			4.5% -18.4%
9:30	SEK	Private Sector Production	m/m/y/y	Jun			-0.4% -10.0%
9:45	ITL	PMI services, final	Index	Jul		51.2	46.4
9:50	FRF	PMI services, final	Index	Jul		57.8	57.8
9:55	DEM	PMI services, final	Index	Jul		56.7	56.7
10:00	EUR	PMI composite, final	Index	Jul		54.8	54.8
10:00	EUR	PMI services, final	Index	Jul		55.1	55.1
10:30	GBP	PMI services, final	Index	Jul		56.6	56.6
11:00	EUR	Retail sales	m/m/y/y	Jun		6.8% 0.4%	17.8% -5.1%
14:15	USD	ADP employment	1000	Jul		1200	2369
14:30	USD	Trade balance	USD bn	Jun		-50.3	-54.6
15:45	USD	Markit PMI service, final	Index	Jul			49.6
16:00	USD	ISM non-manufacturing	Index	Jul	55.0	55.0	57.1
16:30	USD	DOE U.S. crude oil inventories	K				-10611
23:00	USD	Fed's Mester (voter, hawkish) speaks					

Source: Bloomberg, Danske Bank

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