

Danske Daily

We expect another decent US employment report today

Market movers today

- Today brings some very important data releases. The main event is the **US jobs report** for November. Employment in October was quite strong, both when looking at the upward revisions of the previous months and the fact that the strike at General Motors pulled the headline down by nearly 50,000 workers. Soft indicators are showing a weakening in employment growth, but the headline is likely to be strong, as the striking workers have returned to work. We estimate non-farm payrolls rose 200,000 in November, suggesting underlying growth of around 150,000.
- October **German industrial production** figures will give us a clue about how the manufacturing sector started Q4. Recent signs of a forming trough in leading indicators such as IFO and PMI give hope that the worst of the German industrial recession is behind us. On the other hand, yesterday's factory orders surprised on the downside, suggesting that weak industrial activity persisted at the start of Q4. Industrial production figures are also due for both Norway and Denmark. In Norway we expect a 0.2% print.
- Markets will also keep an eye on headlines from the **SPD party convention** that kicks off today. With the surprise win of Norbert Walter-Borjans and Saskia Esken as party leaders last week, hopes in the market about fiscal easing have rekindled. In *Research Germany - Four reasons why a fiscal boost is not around the corner*, 5 December, we take a closer look at this issue.

Selected market news

The markets are in wait-and-see mode ahead of the US payroll report today and the informal deadline of a US-China phase one trade deal only nine days away. Most equity markets are trading with a *slight positive tone*, though, based on cautious optimism that the US and China will find common ground and strike a deal ahead of 15 December when the US is set to put a 15% on another USD160bn goods coming from China. Yesterday Trump stated that the talks were 'moving right along'.

While the two rivals seem to be getting closer to a phase one deal, the confrontation continues in all other areas. Yesterday, yet **another front of tension opened up, as the White House administration is objecting to a USD1bn World Bank loan to China**, see *FT*. The rift has another angle to it as the World Bank is now headed by *David Malpass*, who is American and was appointed by Washington earlier this year.

US tensions with North Korea have resurfaced and in the past days turned into an *exchange of insults*. Yesterday North Korea named Trump a 'dotard' in response to Trump calling Kim Jong-Un 'rocket man' again three days ago. North Korea has threatened to end the diplomatic route by the end of December unless Washington makes concessions.

Japan released data on labour earnings overnight showing an unchanged annual rate of 0.5% y/y. Despite an unemployment rate at 2.4%, close to the lowest in 30 years, Japan is still struggling to create higher wage growth and inflation.

Selected readings from Danske Bank

- *Danske Bank EUR and Scandi Fixed Income Top Trades 2020*
- *FX Top Trades 2020 - Our guide on how to position for the coming year*
- *The Big Picture - Rays of light for the world economy*

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Chief Analyst
Allan von Mehren
+45 4512 8055
alvo@danskebank.dk

Scandi markets

Sweden. Today's PVI data will further show us how the industry is doing. Manufacturing PMI continued down earlier in the week and orders were one of the components that contributed to the decline. There is thus a risk that production data will take a step down today.

In **Norway**, there has been a clear slowdown in industrial production over the past three months following three years of strong growth. This suggests the downturn in the global industrial cycle is now affecting Norwegian manufacturers too and we are seeing some signs of oil-related industries growing slightly more slowly. We believe we will continue to see more moderate growth in industrial production (Friday) and predict an increase of 0.2% m/m in September.

Fixed income markets

The Italian government bond market has been under pressure recently on the back of a clash between the Italian and European politicians regarding the future structure for the ESM. This has renewed the fear of a collapse in the new Italian government and paved the way for Salvini to come back into power in Italian politics. Hence, we would get a more anti-EU government in Italy. However, we also believe, as we get near to year-end, the move in the bond yield spread between Italy and Germany is affected by low liquidity as investors are not willing to enter new trades so close to New Year.

The spread widening in Italy versus core-EU up to year-end follows a pattern we have seen in the periphery since 2015. As the new syndicated deals come in January 2020, the spreads begin to tighten. Hence, we see this widening as an opportunity to buy the periphery in January and have it as one of our fixed income top trades for 2020.

Yesterday, we published **top trades for 2020** for both FX and Fixed income in separate publications. In the fixed income top trades we are long various carry trades as we do not believe in either a big rise in rates or significant decline from current levels. See more in our *fixed income top trades for 2020*.

Today, there are string of key economic data releases as we have both German industrial production and US labour market data. If the German industrial production disappoints then it will put downward pressure on rates ahead of the non-farm payrolls.

FX markets

While moves in the Scandies were relatively muted yesterday, USD weakness mounted and notably EUR/USD rose above 1.11 as speculation of a weak job report out the US today seemingly weighed. We expect non-farm payrolls to come out on the strong side, which could help halt the uptick.

For SEK today's data (see Scandi section), although interesting in its own right, will probably not do much for either the Riksbank or the markets. Instead, next week's inflation data remains the last key input before the upcoming rate decision: if inflation undershoots the Riksbank forecast, whilst inflationary expectations tick down another notch, it is not far-fetched that at least Riksbank's Flodén will start to quiver. With Jansson expected to vote for an unchanged rate and two wildcards in Breman and Skingsley, the odds even out substantially. However, it would take clearly disappointing prints for the hike to be cancelled.

NOK has had its eyes on OPEC, which - in principle - agreed to cut production by some 0.5m barrels per day (mb/d). The decision will have to be confirmed when the cartel

concludes its meeting today but so far it has had limited effect in terms of support to oil prices as a curb of 1.2 mb/d was already in place. We still look for oil to trade around the USD60/bbl mark as the outlook for a still strong USD limits upside.

Finally, the GBP strengthened further yesterday with EUR/GBP now firmly in the lower end of 0.84. Our base case and market consensus have been heavily converging on a conservative majority in the election next week. From current pricing we estimate the embedded Brexit risk premium as essentially zero but momentum and euphoria can probably take GBP even higher, even if only for a limited period of time. We would assume a drop to the tune of 0.5-1.0% in EUR/GBP under the base case, thus settling in the high end of 0.83-0.84 in the days after the election, whereas a hung parliament would be highly negative for GBP.

Key figures and events

Friday, December 6, 2019			Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Estonia's debt rating				
0:30	JPY	Labour cash earnings	y/y		0.2%	0.5%
8:00	DKK	Industrial production	m/m			1.5%
8:00	DEM	Industrial production	m/m y/y		0.2% -3.6%	-0.6% -4.3%
8:00	NOK	Manufacturing production	m/m y/y			0.8% 2.9%
8:00	NOK	Industrial production	m/m y/y	0.2% ...		-0.5% -8.1%
9:00	CHF	SNB balance sheet, intervention	CHF bn			779.1
9:30	SEK	Budget balance	SEK bn			31.9
9:30	SEK	Industrial orders	m/m y/y			-0.2% -1.5%
9:30	SEK	Production Value Index				
14:30	USD	Unemployment	%	3.6%	3.6%	3.6%
14:30	USD	Average hourly earnings, non-farm	m/m y/y	0.3% 3.0%	0.3% 3.0%	0.2% 3.0%
14:30	USD	Non farm payrolls	1000	200	190	128
14:30	CAD	Net change in full time employment	1000			-16.1
16:00	USD	University of Michigan Confidence, preliminary	Index		97.0	96.8
21:00	USD	Consumer credit	USD bn		15.8	9.5

Source: Bloomberg, Danske Bank

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