

# Danske Daily

## Important day with OPEC+, NFP taking centre stage

### Market movers today

- Today, we have a numbers of important data releases on both sides of the Atlantic, starting with the US job reports for November, where we estimate **non-farm payrolls** rose around the current trend of 190,000. More importantly, we expect that average **hourly earnings** rose +0.3% m/m due to a continued tighter labour market.
- On the euro side, the **euro area Q3 wage growth numbers** are due. The numbers are of special interest, as positive numbers are likely to boost the ECB's confidence in its inflation outlook at next week's important general council meeting.
- The so-called **OPEC+** is scheduled to meet today. The meeting proves even more important now as the original OPEC meeting yesterday failed to deliver any final deal on production cuts (see below). A press conference is tentatively scheduled for 13:00 CET, but history shows this could well be postponed if negotiations prove difficult.
- In **German politics**, the CDU is starting its party congress to find a replacement for Angela Merkel as party leader today. A vote come in the late afternoon (after 15:00 CET) but the agenda is not yet finalised. See *German Politics Monitor: After the 'era Merkel' - what's next for Germany and Europe?*, 5 December 2018.
- In Scandi markets, industrial production data is due to be released in Norway.

### Selected market news

**Risk sentiment** rebounded strongly in late US trading, with Nasdaq managing to end the day in the green while S&P500 limited losses to only 0.15% in a remarkable late trading comeback, see *chart* (source: Bloomberg). Also, the 10Y Treasury erased most of its gains with the 10Y yield rebounding from as low as 2.83% to a current 2.89%. This morning, most major Asian equity indices posted modest gains.

An important explanation for the rebound was stronger-than-expected US data and dovish comments from various **FOMC** members, which triggered a softer repricing of Fed monetary policy. Markets are only pricing in roughly a 70% probability of a hike in December and only one additional 25bp hike for the whole of 2019.

**Trade deal developments** between the US and China have been important market drivers this week, with the most noteworthy being Saturday's truce and yesterday's arrest of Huawei's CFO. The White House has said that Trump was not aware of the arrest, which took place on Saturday, ahead of the dinner with Jinping. Today, CFO Meng Wanzhou will face a bail hearing. Meanwhile, Chinese authorities demanded her release (see *FT story*).

**Brent crude** traded in a volatile fashion in the USD58-62/bbl range yesterday as the market remained nervous during the OPEC meeting. We still expect a comprehensive deal (>1MB) including Russian cuts, due to be announced today at the OPEC+ gathering.

The US **Congress** has passed a so-called stop-gap bill to postpone a government shutdown until 21 December. Key to the postponement are Donald Trump's demands for the new funding bill for the fiscal year ending 30 September 2019 to include USD5bn for building a wall at the Mexican border to keep out illegal immigrants and drugs.

### Selected reading from Danske Bank

- *ECB Preview*
- *Euro area Macro Monitor*
- *The Big Picture - No Recession Yet*
- *FX Top Trades 2019 - our guide on how to position for the coming year*
- *Danske Bank 2019 Fixed Income Top Trades*

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- *Nordic Outlook*
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- *Weekly Focus*

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## Scandi markets

**In Norway**, SSB will release manufacturing production data for October. While weaker global manufacturing is a negative, the oil-heavy Norwegian manufacturing sector has still benefited from the rise in petroleum-related activities stemming from a high oil price measured in NOK. Leading indicators such as manufacturing PMIs and SSB's business cycle indicator suggest a continued strong growth outlook and in that light, we pencil in a rebound in the magnitude 0.5-1.0% m/m.

## Fixed income markets

Initially during the US session we saw a new four-month low in yields. However, as risk appetite improved during the day, yields edged higher. The turnaround in yields and risk appetite coincided with some soft comments from the Fed's Robert Kaplan and Raphael Bostic, arguing that lower inflation could allow for greater patience in respect of future rate hikes. See this Wall Street Journal article, *Fed Weighs Wait-and-See Approach on Future Rate Increases*, 7 December 2018. That said, the December hike is still a 'done deal'. Fed Chair Jerome Powell said overnight that the labour market remains 'very strong' on many measures.

BTPs also came under severe pressure and the IT-DE 10Y spread widened 18bp during the session. Investors turned to Bunds and the bund spread widened 2bp to 59bp – the highest level since May this year. However, given the improved risk sentiment late in the US session, BTPs should recover some of the losses today and the Bund spread should tighten somewhat.

Today, we have a numbers of important data releases on both sides of the Atlantic – starting with the US job reports for November, where we expect that non-farm payrolls rose around the current trend of 190,000. More importantly, we expect that average hourly earnings rose +0.3% m/m due to a continued tighter labour market. A strong number would be welcomed by markets and calm growth fears. On the other hand, strong wage growth would make it more difficult to go on hold given weak financial markets.

## FX markets

**USD** came under pressure yesterday from the continued decline in Treasury yields and as the December Fed hike is increasingly being questioned as being a done deal by markets (now priced in with just over a two-thirds probability). Today's US job report could be instrumental in deciding whether the dollar will remain under pressure heading into the coming weeks' central bank meetings.

Looking to the ECB next Thursday, we believe that the FX markets will take their cue from the ECB's stance on the cyclical position of the eurozone given little news on rate guidance is likely. See *ECB Preview: A new chapter of dovish tightening*, 7 December 2018. Despite recent loss of growth momentum, if Mario Draghi strikes an upbeat tone due to recent constructive wage developments, it could make room for some temporary EUR support.

In the Scandies, **EUR/SEK** has rebounded above the 10.20 mark while **EUR/NOK** keeps following the OPEC/OPEC+ announcements closely. We do not expect a major NOK move upon this morning's manufacturing production figures.

## Key figures and events

Friday, December 7, 2018			Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Estonia's debt rating				
-	GBP	Moody's may publish UK's debt rating				
-	CNY	Foreign exchange reserves	USD bn	Nov		3053.1
1:00	JPY	Labour cash earnings	y/y	Oct	1.0%	0.8%
6:00	JPY	Leading economic index, preliminary	Index	Oct		104.3
8:00	DEM	Industrial production	m/m y/y	Oct	0.0% ...	0.2% 0.8%
8:00	DEM	Labour costs	q/q y/y	3rd quarter		0.2% 2.0%
8:00	DKK	Industrial production	m/m	Oct		-0.4%
8:00	NOK	Manufacturing production	m/m y/y	Oct		-0.3% 1.5%
8:00	NOK	Industrial production	m/m y/y	Oct		-1.5% 0.7%
8:45	FRF	Industrial production	m/m y/y	Oct		-1.8% -1.1%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Nov		753.3
9:30	SEK	Budget balance	SEK bn	Nov		3.1
11:00	EUR	GDP, final	q/q y/y	3rd quarter	0.2% 1.7%	0.2% 1.7%
11:00	EUR	Gross fixed investments	q/q	3rd quarter		1.4%
11:00	EUR	Government consumption	q/q	3rd quarter		0.4%
11:00	EUR	Private consumption	q/q	3rd quarter		0.2%
14:30	USD	Unemployment	%	Nov	3.7%	3.7%
14:30	USD	Average hourly earnings, non-farm	m/m y/y	Nov	0.3% 3.2%	0.3% 3.0%
14:30	USD	Non farm payrolls	1000	Nov	190	205
14:30	CAD	Net change in full time employment	1000	Nov		33.9
16:00	USD	University of Michigan Confidence, preliminary	Index	Dec	97.0	97.5
18:00	USD	Fed's Brainard (voter, dovish) speaks				
21:00	USD	Consumer credit	USD bn	Oct	14.3	10.9

Source: Bloomberg, Danske Bank

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