

Danske Daily

Risk sentiment up on possible ‘reasonable’ trade deal

Market movers today

- It is a relatively quiet day on the data release front and hence market attention will be on political signals, notably from the trade talks between the US and China and the Brexit debate starting up in the UK.
- In Japan, we will get November cash earnings overnight. After the summer’s large bonus payments, cash earnings have lost momentum again and y/y real earnings have been hovering around zero. Cash earnings are key for the inflation outlook to brighten and Bank of Japan governor Haruhiko Kuroda has highlighted that they will follow wage developments closely in order to spot future tendencies in inflation. Falling oil prices should be supportive and push real wages back into a positive trend.
- Danish December CPI inflation is due today. We expect inflation to decrease slightly from 0.8% to 0.7% in November. See more on page 2.
- In Norway, November manufacturing production is due to be released today.

Selected market news

Trade talks between the US and China top officials continue today in Beijing. US and Asian equity indices are up 0.5-1.0% this morning after the Trump Administration indicated that a ‘reasonable’ deal could be reached. This followed an unexpected appearance by China’s most senior economic official Liu He, President Xi Jinping’s top economic advisor, among the Chinese delegation. The gains appeared despite another disappointing print of US economic indicators, with the ISM Non-Manufacturing Index down to 57.6 (expected 58.5). Risk sentiment is up somewhat in equity markets after the People’s Bank of China’s decision to lower reserve requirements and Fed Chair Powell’s comments on Friday.

The short end of US yield curves is becoming less inverted with 5Y US treasury yields up another 2bp, thus erasing the large drop in yields seen at the beginning of the year. The longer trades are roughly unchanged.

British Prime Minister Theresa May’s cabinet is due to meet this morning to discuss a proposal that could potentially limit the British Treasury’s tax raising powers should the divorce with the EU end without a deal. It is as yet uncertain whether the proposal, which is an amendment to the Prime Minister’s own budget legislation, will be selected for a parliamentary vote, but the fact that the cabinet is considering this proposal highlights the weakness of Theresa May’s position within the government. Should the proposal turn into law, it would lower the risk of a no-deal Brexit, the latter being the preferred alternative for the Prime Minister herself should her Brexit deal not pass.

Selected reading from Danske Bank

- *Monthly Executive Briefing - slowdown fears take hold*
- *Corporate Hedger - NOK weakening creates attractive opportunities*

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Scandi markets

Norway. November manufacturing production is likely to decline modestly relative to the very strong October release. That said, through volatility, the oil heavy manufacturing sector has kept up well and recent soft indicators still suggest a strong resilience to a weaker global industrial cycle. For markets, tomorrow's GDP release and not least Thursday's inflation print will be more important.

Denmark. We estimate inflation decreased slightly from 0.8% to 0.7% in November. On the one hand, decreasing energy prices keep weighing downwards and we expect to see a decrease in the currently large contribution from the volatile components, airplane fares, package holidays and books. On the other hand, a large food price decrease back in December 2017 slides out of inflation pushing upwards.

Fixed income markets

Yesterday, the Danish Central Bank published ownership statistics on the Danish mortgage and government bond market for November 2018. The numbers showed a very modest increase in the foreign holdings of callables during November. However, relative to the issuance there was a small decline, see *Ownership Overview for Danish Mortgage and Government Bonds*, 7 January 2019.

Today, Belgium and KfW will come to the market, both in the 10Y segment. We expect Belgium to sell between EUR4-5bn and KfW around EUR3bn. The price impact on Belgium has been modest as the 10Y spread to Bunds widened just 1bp yesterday. The heavy issuance of SSAs, corporates, covered and financials led to a modest tightening of the Bund ASW spread. However, as more issuers will follow, we expect that the Bund Spread will move towards 50bp in the coming week. On top of the new issuance, Austria is tapping in the 10Y and 30Y segments today. This supply should be easily absorbed by the market.

FX markets

Yesterday, trade talk optimism meant safe havens, including USD, came under pressure in the FX sphere. While the Fed may have provided a necessary condition for risk sentiment to stabilise, it is not a sufficient one, in our view: we need the global cyclical stance to show signs of a turn and this is unlikely to happen in the very near term. This is a key reason why we continue to see support for JPY, CHF and, to some extent, USD, see *FX Essentials*, 7 January 2018.

Indeed, for EUR/USD, Fed-induced USD strength may be fading for now but risk sentiment and the ECB mean it is still too early for a firm move away from 1.13. As the UK parliament re-ignites the Brexit deal talks, EUR/GBP is likely to remain 'boxed' in the 0.8800-0.9060 range until further clarification with a prominent risk that the process drags out.

With EUR/DKK still trading on the high side, we have considered what it would take for Danmarks Nationalbank to hike unilaterally. We look for DKK to be strengthened vis-à-vis EUR once equity markets start to recover, a trade deal between the US and China is agreed and global growth prospects start to improve.

Yesterday, EUR/NOK broke lower through the important support level of 9.80. The mid-9.70s offers a range of support levels but our expectation remains that we will see a move towards the 9.60s over the coming weeks. We remain short EUR/NOK and long NOK/SEK. For more details, see *Reading the Markets Norway*, 7 January 2018.

Key figures and events

Tuesday, January 8, 2019			Period	Danske Bank	Consensus	Previous
6:00	JPY	Consumer confidence	Index		42.8	42.9
8:00	DEM	Industrial production	m/m y/y		0.3% -0.8%	-0.5% 1.6%
8:00	NOK	Manufacturing production	m/m y/y			1.5% 3.0%
8:00	NOK	Industrial production	m/m y/y			2.3% 4.5%
11:00	EUR	Business climate indicator	Net bal.		1.0	1.1
11:00	EUR	Industrial confidence	Net bal.		3.0	3.4
11:00	EUR	Economic confidence	Index		108.5	109.5
11:00	EUR	Consumer confidence, final	Net bal.		-6.2	-6.2
11:00	EUR	Service confidence	Net bal.		12.4	13.3
12:00	USD	NFIB small business optimism	Index		103.5	104.8
14:30	USD	Trade balance	USD bn		-54.0	-55.5
21:00	USD	Consumer credit	USD bn		14.3	25.4

Source: Bloomberg, Danske Bank

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