

# Danske Daily

## Busy week with FOMC and ECB meetings as well as UK election

### Market movers today

- In an otherwise eventful week, today is quite quiet in terms of economic data releases with today's highlight being the Sentix Investor Confidence indicator for the euro area due out at 10:30 CET. Besides that we have the FOMC meeting on Wednesday. After three cuts in a row, we think the Fed will be on hold, as FOMC members have said the current stance of monetary policy is appropriate and the Fed wants to see how things play out, see *FOMC preview*, 8 December.
- The ECB meets on Thursday, which will be Lagarde's debut, and we do not expect any changes. We will look for comments on the ECB's monetary policy strategy review. See our *ECB preview*, 6 December.
- Also on Thursday, the UK is going to the ballot, which will be decisive for what will happen with Brexit. Polling stations close at 23:00 CET when we will also get our exit polls. Our base case is a Conservative majority, which would mean that PM Boris Johnson can get his Brexit deal through Parliament before Christmas such that the UK can leave the EU by 31 January. After that the more complicated negotiations on the future relationship will start. See our *UK Election Preview - Conservative majority is our base case*, 9 December.
- We are also monitoring closely any comments on the US-China trade talks ahead of the 15 December tariff increases. We still expect a phase 1 deal but apparently there are a few obstacles for the two countries to get over before reaching an agreement (most thought it would have been done last month).

### Selected market news

The markets are bracing themselves for a volatile week given the monetary policy meetings in the US and Europe as well as the UK election. On top of this there is the ongoing trade negotiations between the US and China, where the markets are still waiting for a deal.

The Asian equity markets opened up with modest gains on the back of the positive sentiment in the US markets last week. This is driven by the stronger than expected US labour market data released on Friday rather than the uncertainty regarding the trade deal between the US and China. The trade war continues to affect Chinese exports as shown in the data released this morning, where Chinese exports for November declined 1.1% y/y.

The Japanese investor flow data for October showed a modest increase in the holdings of Danish and Swedish bonds. The Danish data is affected by the prepayments in the mortgage market and thus reflects that the Japanese continue to buy Danish mortgage bonds. There was a big sell-off in European bonds, while there was a large purchase of US bonds.

### Selected readings from Danske Bank

- *UK Election Preview - Conservative majority is our base case*
- *Government Bonds Weekly*
- *ECB preview*
- *Reading the Markets - Sweden*
- *FOMC preview*

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## Scandi markets

In Sweden, we will get data on the housing prices from the real estate agents. However, the key events in the Swedish market will be the Prospera inflation survey released on Tuesday, the inflation data released on Wednesday and the unemployment data on Thursday.

## Fixed income markets

It is going to be a busy week in the global fixed income markets with both the FOMC and ECB meetings as well as the UK election. The FOMC is expected to be on hold especially after last week's better than expected labour market data. This is fully priced in and thus the FOMC meeting should have limited impact on the market. The ECB is also expected to be on hold and the bulk part of the meeting should be on the strategic review on monetary policy. It is Lagarde's first meeting and thus it will be interesting to see how she 'performs' at the press meeting compared to Draghi.

We have a new TLRO III allotment on 12 December. Given a repayment of EUR146bn, we expect banks to take at least EUR150bn and possibly more than EUR200bn.

We also expect to get funding plans 2020 from some of the European debt agencies during the week. Last week the Austrian Debt Office published its forecast for 2020. It plans to sell EUR18-21bn, which is slightly higher than our forecast of EUR17bn. Last year it issued approximately EUR20bn. The other debt agencies that are expected to follow this week are Belgium, Ireland and the Netherlands.

The Japanese investor flow data showed a modest increase in the holdings of Danish and Swedish bonds for October. The Danish data is affected by the prepayments in the mortgage market and thus reflects that the Japanese continue to buy Danish mortgage bonds. There was a big sell-off in European bonds, while there was a large purchase of US bonds.

Last week, we published **top trades for 2020** for both FX and fixed income in separate publications. In the fixed income top trades we are long the periphery versus core-EU given the positive rating outlook, ECB QE and reinvestment as well as modest volatility in EU rates, which is supportive for carry trades. We also go long the Bund spread given the favourable demand and supply dynamics in Q1 20. See more in our *Fixed Income Top Trades for 2020*, 5 December.

## FX markets

It is a blockbuster week for FX markets with Fed and ECB meetings due, UK parliamentary election taking place and the last key data releases for the Scandi central banks (ahead of the December meetings) in inflation and the Norwegian Regional Network Survey.

Starting with the Scandies the NOK saw a strong session Friday supported by risk-appetite and Saudi Arabia's (OPEC) last minute surprise production cut. This morning's national account figures are unlikely to shake up NOK, so much will be about positioning ahead of tomorrow's key session (inflation and network survey), which will be very important for our ultimate call on Norges Bank. At this stage we think markets under-price the likelihood of another Norges Bank rate hike in 2020, which alongside terms-of-trade, positioning and eventually lower year-end fears should support the NOK in the months to come.

Neighbouring SEK has also found increased support with the important 10.50 support level tested in EUR/SEK. We think Thursday's inflation print will confirm market pricing of a Riksbank rate hike next week. That said, the indications from the labour market (both PES and LFS due this week) are unlikely to paint a bright outlook for the economy. As such we remain negative on SEK when momentum eases. Finally, an update on PPM. We have

received information from the SPA that the liquidity will be disbursed on 11 December. We do not know the amount, but have earlier estimated it at c.SEK43bn. Our call is as we have communicated earlier: that these flows are not large enough to affect the SEK significantly.

EUR/USD dropped back after the stronger than expected US job report on Friday as short-term USD rates shot higher immediately after the release. The Fed should find comfort in the job numbers and affirm its wait-and-see stance at the FOMC meeting on Wednesday, which could push USD rates up further and send EUR/USD lower. In our view, EUR/USD is poised for a move back down towards the 1.1000 level near term. Speculative investors added further short EUR/USD positions last week (see IMM).

Finally, if you missed it, here is a link to our *FX Top Trades 2020* published at the end of last week.

### Key figures and events

Monday, December 9, 2019			Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Nov	8.4%	8.4%
0:50	JPY	GDP deflator, final	y/y	3rd quarter	0.6%	0.6%
0:50	JPY	GDP, final	q/q ann.	3rd quarter	0.2% 0.6%	0.1% 0.2%
6:00	SEK	Maklarstatistik Swedish housing price data				
7:45	CHF	Unemployment	%	Nov	2.3%	2.3%
8:00	DKK	Current account (nsa sa)	DKK bn	Oct		-15.1
8:00	DEM	Trade balance	EUR bn	Oct	18.7	21.2
8:00	DEM	Labour costs	q/q y/y	3rd quarter		0.8% 3.2%
8:00	DKK	Trade balance ex ships	DKK bn	Oct		9
8:00	DKK	Exports	m/m	Oct		
10:30	EUR	Sentix Investor Confidence	Index	Dec	-5.0	-4.5

Source: Bloomberg, Danske Bank

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