

Danske Daily

US non-farm payrolls to support rebound in risk appetite

Market movers today

- **Today's highlight is the US labour market report.** We will look towards a 175K headline print. Also we expect unchanged yearly wage growth of 3.1% with risks skewed towards a slight drop to 3.0%. While this overall is slightly stronger than consensus expectations we would expect but a modest positive market impact if this proves right. The key thing for markets is that the report shows a continued tightening of the labour market, i.e. that job growth stays above roughly 100,000. A very weak print, which in our view is not in the cards, would on the other hand trigger a risk off move.
- In **Canada** we also get the [monthly labour market report](#), which is very important given last month's disappointing reading, which fuelled rate cut speculations. Rates markets currently price in slightly less than a full rate cut from Bank of Canada in 2020 but this pricing is likely to be very sensitive to today's report as we approach the 22 January rate decision.
- In the **Scandies**, focus turns to [Norwegian inflation data](#) and [Swedish production data](#).

Selected market news

A combination of a de-escalating Iran-US conflict, decent US data, trade war optimism and a Fed indicating no hikes are forthcoming has contributed to the **rebound in global risk appetite over the last sessions**, not least driven by the US. It has been quiet overnight in Asia and the direction in today's session will much depend on the US non-farm payrolls.

Several prominent **FOMC members** were on the wire yesterday, including Vice chairman Clarida. Generally the message was that the US economy remains in a 'good place' and that markets should not expect a reversal of last year's insurance rate cuts as inflation pressures remain low. On the other hand, the Fed is prepared to cut rates should the outlook deteriorate. This asymmetry is supportive for markets as it removed some tail risks.

Sentiment was also improved by the **weekly US initial jobless claims** figure falling to 214,000. Not only is this a five-week low but it confirms that the spike at the end of 2019 likely was noise, see [chart](#). The release supports the encouraging signals from PMI employment sub-indices and ADP data. Also given that jobless claims is one of the indicators where labour market weakness is likely to show up early, it has bolstered market expectations that the US economy will remain supported by private consumption.

China has confirmed that top negotiator Vice Premier Liu He will lead a delegation going to Washington next week to sign the phase 1 deal of the US-China trade deal. This confirmation removes one source of uncertainty with respect to this long-awaited signing.

Yesterday **Canada Prime Minister Trudeau** stated in a press conference that intelligence 'from multiple sources' indicates that the UIA Boeing that crashed Wednesday morning in Iran was shot down by an Iranian surface-to-air missiles. Meanwhile, the missile attack 'may well have been unintentional' according to Trudeau. This message was later backed by UK and US officials. Iran has so far denied the claims and refused to deliver the black boxes to Boeing in the US amid the broader conflict and ongoing domestic crash probe.

Selected reading from Danske Bank

- [Euro Area Macro Monitor: Ending the year on mixed signals](#)
- [FX Strategy: EUR/USD - upside constrained by EU auto woes](#)
- [China Weekly Letter - Growth on track for 6% in 2020](#)
- [Nordic Outlook](#)
- [FX Forecast Update - Mind the 5Cs: cyclical conditions carry-currency constructive](#)

Follow us on *Twitter*:



@Danske_Research



Video
Danske Bank research playlist

Read more in Danske Bank's recent forecasts and publications

- [Nordic Outlook](#)
- [Yield Outlook](#)
- [FX Forecast Update](#)
- [Weekly Focus](#)

Senior Analyst

Kristoffer Kjær Lomholt
+45 45 12 85 29
klom@danskebank.dk

[@Lomholt10](#)

Scandi markets

In **Norway**, core inflation has come down in recent months as expected and fell to 2.0% y/y in November. This was due partly to base effects but also to slightly lower import prices and slightly lower increases in the volatile components (airfares and food prices). Therefore, a normalisation of these prices would push core inflation back up in coming months. In addition, the depreciation of the NOK is likely to push up import prices at some point, although there is fierce competition in parts of the retail trade. On balance, we expect unchanged core inflation of 2.0% y/y in December, in line with consensus.

November industrial data out of **Sweden** will provide a better sense of how the economy fared from the production side in the final quarter of 2019. From the demand side, private consumption seems to be a drag with the weak retail sales numbers. Neither PMI nor NIER data indicate an imminent rebound in the negative trend in industrial or services production. That said, monthly readings are volatile and therefore we find it meaningless to make any forecast (no consensus estimates on Bloomberg either). A weak outcome today, and we may not escape negative GDP growth quarter on quarter.

Fixed income markets

Risk sentiment was positive in markets yesterday where core European yields ended 2-3bp higher. Intra-euro area spreads tightened across the board led by Italy as a further indication of increased risk appetite (BTP tightened 6bp to Bunds yesterday). Market participants also viewed the upcoming Italian supply after the announcement of an auction, which takes place on Tuesday next week with long-dated supply (up to EUR6.75bn in its 2023, 2027 and 2040 respectively). See our Q1 supply outlook piece [here](#).

The Spanish and French supply yesterday were received relatively mixed and solid, respectively. Particularly the 2050 French supply was positively received with a bid to cover of 2.38, which also held up quite well in the secondary market.

The Bund ASW-spread was broadly unchanged yesterday after moving almost 2bp tighter this week on the back of the large supply. There may be slightly more downside, but we stick to our top trade on being long the Bund spread given the very favourable cash flow for German government bonds in 2020.

Today's highlight is the US labour market report. With the ongoing labour market tightening being no surprise, we need to see a sizeable deviation from the 160,000 consensus to see a market impact (sub 100,000 or similar). In other words, we expect the number to confirm the US economy is doing just fine.

There are no major euro area countries up for rating review tonight.

FX markets

In *Reading the Markets Sweden*, published today, we conclude that what Ingves is saying in the Minutes is that with an equally big positive or negative inflation surprise, a cut is more likely than a hike: the Riksbank is clearly signalling an easing bias. Which is very different from the previous widely held, SEK-supportive, perception of a floor at zero. In all, the Minutes lend support to our **bearish view on the SEK**, not least given our view on inflation. Today's industrial data are inherently volatile and should be taken with a grain of salt.

EUR/GBP moved back above 0.85 yesterday supported by dovish comments from Bank of England Governor Mark Carney suggesting a rate cut may come sooner than investors expect. We expect further weakness is in the cards. Near term, it should be driven by a

repricing of the BoE and further out by the lack of progress on Brexit and repricing of no-deal Brexit fears. We target 0.87 in 3M and 0.89 in Q3. For more details see *FX Strategy: GBP to weaken further on BoE cut and Brexit fears*, 6 January.

After a long period without speeches from the Fed we finally heard from several officials yesterday. In our view, they simply confirmed their 'on-hold'-view. Since the December FOMC meeting, we have seen a decent rally in risk assets, supporting not least **EM FX**. Given the fundamental bias for FX weakness in most EM (especially non-Asian) countries, this rally has mostly run on a combination of improving Chinese data, Fed liquidity and improving trade talks. Near term, re-affirming being on hold may not be enough to further extend the rally, while US data are also coming in slightly better. We thus see some near-term upside risks among the most fragile, such as EUR/HUF, USD/ZAR and USD/TRY.

EUR/DKK has a habit of rising during the second week of January. This has been the case six out of nine times during the past 10 years (we have disregarded 2015) reflecting normal net portfolio outflow to stocks and bonds during January. Hence, if history repeats itself EUR/DKK will continue to trade close to the FX intervention level from Q4 last year just above 7.4730 the coming week and keep the DKK market speculating about if and when Danmarks Nationalbank could deliver an independent rate hike (we looked further into the case for a Danish rate hike earlier this week, see *FI Strategy Denmark*).

Key figures and events

Friday, January 10, 2020				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Dec			8.2%
6:00	JPY	Leading economic index, preliminary	Index	Nov			
7:45	CHF	Unemployment	%	Dec		2.3%	2.3%
8:00	NOK	Core inflation (CPI-ATE)	m/m y/y	Dec	... 2.0%		0.1% 2.0%
8:00	NOK	CPI	m/m y/y	Dec	... 1.5%	... 1.5%	0.3% 1.6%
8:00	NOK	PPI	m/m y/y	Dec			1.7% -9.5%
8:00	DKK	CPI	m/m y/y	Dec	... 0.8%		-0.2% 0.7%
8:00	DKK	Industrial production	m/m	Nov			-0.6%
8:45	FRF	Industrial production	m/m y/y	Nov		0.1% 0.4%	0.4% -0.2%
9:30	SEK	Budget balance	SEK bn	Dec			25.2
9:30	SEK	Industrial orders	m/m y/y	Nov			-1.9% -5.4%
10:30	GBP	Trade balance	GBP mio.	Nov			-5188
14:30	USD	Unemployment	%	Dec			3.5%
14:30	USD	Average hourly earnings, non-farm	m/m y/y	Dec			0.2% 3.1%
14:30	USD	Non farm payrolls	1000	Dec	175		266
14:30	CAD	Net change in full time employment	1000	Dec			-38.4

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only and should not be considered investment advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 10 January 2020, 06:18 CET

Report first disseminated: 10 January 2020, 07:15 CET