

Danske Daily

New Brexit concessions likely enough to get the deal over the finish line

Market movers today

- Today's key event will be **the vote in the House of Commons on Theresa May's Brexit deal** at 20:00 CET. As of now, we still expect May to suffer another defeat despite the new Brexit deal but it depends on how well it is received, especially by the supporting DUP party (see more under selected market news). **We still assign a 15% probability of the deal passing today.** If it is voted down, the next step will be for the UK parliament to vote on whether it can support a no deal Brexit tomorrow (see also *Brexit Monitor: Brexit goes to overtime*, 11 March).
- In the **UK**, we also get monthly GDP for January today. PMIs indicate growth remains subdued around 0.0-0.1% q/q in Q1.
- On the other side of the Atlantic, the day brings **February US CPI core numbers**, which we expect rose 0.2% m/m, implying a core inflation rate unchanged at 2.2% y/y. Moreover, we will also keep an eye on the NFIB Small Business Optimism Index given the recession fears in financial markets.
- In the Scandi countries, **Swedish inflation numbers for February** will be in focus. The **Norwegian regional network survey** is also due out this morning (see next page).

Selected market news

Late last night, UK PM Theresa May reached an agreement with the EU27 on a new Brexit deal. EUR/GBP fell after the announcement and is currently trading at 0.852, the lowest level since spring 2017. The new Brexit deal gives the UK further assurances that the EU27 cannot keep the UK in the backstop forever by e.g. not engaging in negotiations on the future relationship. Also, the EU27 and UK agreed to speed up the negotiations on the future relationship, which, hopefully, should make the backstop redundant. Juncker said the EU will not negotiate any more.

The big question is whether the new concessions are enough for the hard Brexiteers and the DUP to support her in today's vote. As we have said several times, especially if the DUP backs the deal, it is a potential game changer, as many Brexiteers will likely follow suit. **As of now, we have not changed our call that the probability of the deal passing today is just 15%.** The problem for Theresa May is her very slim majority. Even if the DUP jumps on board and some hard Brexiteers follow suit, it may not be enough, as some die hard Conservative Brexiteers and Remainers probably will vote against the deal anyway and it is questionable whether she can get sufficient backing from Labour Brexiteers. **If the deal is well received, we may change our minds during the day.** Our base case remains that May's deal will pass eventually, but given most expect a delay of Brexit, the pressure is still not significant enough.

Otherwise, it is risk-on this morning. Asian stocks are up, as are US equity-index futures. Oil and metal prices are also higher. US 10yr Treasury yields are 1.6bp higher.

Selected reading from Danske Bank

- *Brexit Monitor: Brexit goes to overtime,*
- *Harr's view: Brexit uncertainty to rise in coming months*
- *China Weekly Letter: Trade deal to face hurdles close to the finish line*

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Scandi markets

In **Norway**, Norges Bank publishes the results of its latest regional network today. The focus will be on the aggregated output index for the next six months, which has climbed steadily as the economy has left the oil crisis behind. In November, the index pointed to mainland GDP growth of around 3% in H1 this year. Since then, we have had very clear signals that the oil-driven upswing is continuing. Therefore, we expect the aggregated output index for the next six months to be in the range 1.3-1.5, corresponding to annualised GDP growth of around 2.6-3%, which is well above trend.

In **Sweden**, February inflation is set to bounce back on a monthly basis. We expect a slightly higher rebound than normal. Still, both CPIF and core CPIF will remain significantly below Riksbank's forecasts.

Fixed income markets

Yesterday, the sell-off continued in Italy with 10Y yields rising some 5bp while Bunds were more or less unchanged from Friday's levels. The increased Brexit optimism after May's deal is expected to send bond yields higher.

The data on Japanese investor flows published on Friday last week showed a healthy demand for European bonds as the total purchase rose by some USD13bn, and most of it was invested in French government bonds. There was also a healthy purchase in Danish mortgages of some USD0.75bn. Hence, this confirms what we saw in the ownership statistics from the Danish Central Bank, where foreigners also bought Danish callable mortgage bonds

FX markets

It is a key day in Scandi FX markets with the single most important data release in Norway in the Regional Network Survey and inflation out of Sweden.

On the former, yesterday saw a sharp move lower in **EUR/NOK** back to the mid-9.70s on the back of inflation heavily beating both the market's and Norges Bank's expectations, see [chart](#). The details also revealed a broad-based rise in inflation even if imported inflation was the primary driver for the surprise. The March rate hike was a done deal already but the high inflation print is raising questions of whether NB is falling behind the curve. Especially so as growth, wages and employment have also surprised to the upside at a time where the output gap has closed and external growth impulses are even weaker than projected. We still need the final missing piece in today's Regional Network Survey but we expect a strong report that could send EUR/NOK back into the 9.60s.

If today's inflation in Sweden comes out in line with our and consensus expectations, it could still be slightly **SEK**-negative given the huge gap vs the Riksbank. A scenario where we get a number closer to the Riksbank, EUR/SEK should edge lower, and a retest of 10.50 cannot be ruled out. A weaker-than-expected outcome would bolster the positive EUR/SEK sentiment and then we might see a new high for the year (above 10.65). Yesterday, we learned that the Riksbank's Henry Ohlsson (hawk) still argues for a hike after summer despite the recent inflation weakness and that he is not worried about the SEK levels.

EUR/GBP moved lower late last night driven by the new Brexit deal. If, again our expectation, the deal passes today, we expect EUR/GBP to go down to 0.83. In case a no deal Brexit passes tomorrow, we expect the cross to move back to the old 0.87-0.90 range. We only see limited potential for another move lower if the House of Commons ends up supporting an extension of Article 50 on Thursday.

Key figures and events

Tuesday, March 12, 2019			Period	Danske Bank	Consensus	Previous	
-	GBP	House of Commons votes on Brexit deal					
9:30	SEK	CPI ex energi	m/m y/y	Jan	1.4% ...	1.4% ...	
9:30	SEK	CPIF	m/m y/y	Feb	... 1.5%	0.7% 2.1%	-1.0% 2.0%
9:30	SEK	CPI	m/m y/y	Feb	... 2.0%	0.8% 2.0%	-1.0% 1.9%
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index	Jan		1.5	
10:30	GBP	Monthly GDP estimate	m/m q/q	Jan	0.002 ...	0.002 0.002	-0.004 ...
10:30	GBP	Index of services	m/m 3m/3m	Jan		-0.2% 0.5%	-0.2% 0.4%
10:30	GBP	Trade balance	GBP mio.	Jan		-3371	-3229
11:00	USD	NFIB small business optimism	Index	Feb		102.5	101.2
13:30	USD	CPI headline	m/m y/y	Feb		0.2% 1.6%	0.0% 1.6%
13:30	USD	CPI core	m/m y/y	Feb	0.2% 2.2%	0.2% 2.2%	0.2% 2.2%

Source: Bloomberg, Danske Bank

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