

Danske Daily

Awaiting news from Beijing

Market movers today

- Key focus remains on **trade negotiations** between the US and China as two days of high level talks have started in Beijing today. Focus at these meetings are on how to enforce a trade deal with the aim of finalising a framework. According to Chinese media US representatives Mnuchin and Lighthizer will meet China president Xi tomorrow.
- Today's highlight in the **euro area** is the **German GDP** figure for Q4 2018. We expect the German economy avoided slipping into technical recession, however the quarterly growth pace is likely to have remained subdued at 0.1% q/q. In Q3, the German economy experienced its first contraction since 2015 with GDP growth rates at -0.1% q/q. External factors such as the trade war, Brexit, as well as domestic problems in the car sector and low water levels in the Rhine River continued to hamper activity in Q4. (see *Research Germany- The epicentre of the euro area slowdown*, 27 January).
- In the **UK**, the House of Commons will vote on Brexit. While the next 'meaningful vote' on a full Brexit deal has been postponed as PM Theresa May and the EU27 have agreed to continue negotiations in late February, this is an indicative vote. May will deliver a statement to the Commons, which the MPs will vote on and which is amendable. Based on what we know so far, we may be in for another "kicking the can down the road", as PM Theresa May has promised another vote also late-February. *Bloomberg* has a good overview here. The vote begins 18:00 CET.
- In the **Scandies** focus turns to Swedish labour market data and Norges Bank's Olsen's annual address to the Norwegian people. For more information see *Scandi* page 2.

Selected market news

US equities ended yesterday in green on the back of not least Trump further opening the door for an extension of the trade truce with China if the parties were close to a "real deal". Meanwhile, comments from Senator Marco Rubio that he intends to submit a bill to tax corporate buybacks limited the equity rally. This morning most Asian equity indices are trading flat in a fairly eventless session as markets await news from Beijing on trade talks. Chinese trade data showed a surprising rise in exports but the shutdown for Lunar New Year – which this year comes 10 days earlier - likely boosted the figures.

Yesterday the Spanish minority government lost a vote on the 2019 budget bill in parliament, putting snap elections in Q2 19 back on the cards. Markets shrugged off the risk of renewed political uncertainty in Spain, as the economy remains solid and as the risk of a euro-sceptic government is small, as the three leading parties all have pro-EU views.

The Riksbank meeting yesterday played out more or less as we expected: the rate was left unchanged, as were both the rate path and the inflation forecast, while the projected growth for 2019 and 2020 was revised marginally down. The board did comment on the increased downside risks to global economic outlook, but did also point out that they still see fairly good economic activity over the next few years, with "low unemployment and rising wage growth in many countries". The only real news was that the FX intervention mandate was not renewed which contributed to a stronger SEK, see *FX Section page 2*. We still do not expect any 2019 Riksbank rate hikes following the announcement.

Selected reading from Danske Bank

- [FX Forecast Update - Mind the Scandi-differences](#)
- [Yield Outlook - Higher yields depend on a host of factors](#)
- [Harr's View - The strong returns of 2019 and why this may change, 10 February](#)
- [China Weekly Letter - Trump backtracks on Xi meeting, growth bottoming in Q1, 8 February](#)
- [Riksbank Comment - On a steady course](#)
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Scandi markets

In **Sweden**, unemployment data is released. We expect the seasonal adjusted figure at 6.4% (unchanged from last time). The labour market is the Swedish economy's last defence and for this reason needs to be monitored closely. Indeed, our take-away from yesterday's Riksbank policy announcement is that a strong labour market is a key factor why the Riksbank remains optimistic enough on growth and inflation to stick to the plan to hike the repo rate again in autumn, see our *Riksbank Comment - On a steady course*.

In **Norway**, Norges Bank's Olsen will give his annual address to the Norwegian people tonight at 18.00 CET. We do not expect any new policy signals in the speech. Indeed over the last many years the governor has refrained from sending any signals to markets and instead addressed more structural issues in the Norwegian economy.

Fixed income markets

In Spain, the 2019 budget bill was rejected in the parliament and it now seems likely that socialist leader Sanchez will call a snap election tomorrow at the weekly council meeting. However, the political uncertainty does not seem to worry the market too much, and 10Y Spain underperformed only marginally yesterday. We agree with the market and keep our long 5Y Spain recommendation open despite political uncertainty, as the underlying economic strength of the Spanish economy is intact and as the leading parties in the polls are all pro EU. Italy continues to perform after another strong auction yesterday.

The rally in global equities continues and together with the upside surprise in US core CPI print the market is now starting to price a small probability of a 2019 rate hike from the Fed and the curve 2s10s bear flattened as a consequence.

FX markets

In the Scandies an overall less dovish Riksbank board than expected (see front page) sent EUR/SEK down towards 10.40, which incidentally is our 1-3M target. Somewhat surprisingly, the board also decided to not extend the mandate for rapid interventions on FX markets, which were adopted in January 2016 and has been extended several times since. The mandate (given to Ingves Af Jochnick) facilitated rapid intervention in the case of an "overly strong" SEK, and by not extending it the Riksbank signals that they are less concerned with the krona at the moment. Even though they never utilized their mandate, this signal should not be ignored. It remains to be seen, however, if this was the trigger we needed for a more prolonged recoil in the SEK following the last month's trendwise decline.

NOK found support from the move lower in EUR/SEK alongside a further move higher in oil prices as OPEC production cuts seem to get hold and the risk rally continues. We do not expect Norges Bank's Olsen's speech today to trigger any spot move. We still expect NOK to strengthen over the coming month and note recent domestic data releases on growth, employment and wages have all surprised positively relative to Norges Bank's projections. Also, Monday's inflation miss (which was still only 0.05 away from Norges Bank's forecast) seemed temporary in nature with details that suggest inflation likely also in March will be an argument for a higher rate path. We still like to be short EUR/NOK and long NOK/SEK and finally note structural liquidity is set to tighten over the coming week, which historically has coincided with NOK strength.

For GBP, focus today will be on the Brexit vote in the House of Commons. The MPs have the opportunity to force PM Theresa May to ask the EU27 for an extension of Article 50. If triggered, it will be supportive for GBP and could send EUR/GBP towards the lower end

of the 0.86-0.89 range. However, given that the 'meaningful' vote has been postponed, we do not expect the vote to change the Brexit outlook, and we thus expect the 0.86-0.89 range to hold near term.

Key figures and events

Thursday, February 14, 2019			Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Jan	32.0	57.1
-	GBP	Indicative Brexit vote in the House of Commons				
0:50	JPY	GDP deflator, preliminary	y/y	4th quarter	-0.4%	-0.3%
0:50	JPY	GDP, preliminary	q/q ann.	4th quarter	0.4% 1.4%	-0.6% -2.5%
1:01	GBP	RICS house price balance	Index	Jan	-0.2	-0.2
7:30	FRF	ILO unemployment	%	4th quarter	9.1%	9.1%
8:00	DKK	GDP indicator	q/q	4th quarter	0.7%	0.7%
8:00	DEM	GDP, preliminary	q/q y/y	4th quarter	0.1% 1.2%	0.1% 0.8%
9:30	SEK	Unemployment (n.s.a. s.a.)	%	Jan	6.9% 6.4%	6.8%
10:30	EUR	Portugal, GDP, preliminary	q/q y/y	4th quarter		0.3% 2.1%
11:00	EUR	GDP, preliminary	q/q y/y	4th quarter	0.2% 1.2%	0.2% 1.2%
11:00	EUR	Employment, preliminary	q/q y/y	4th quarter		0.2% 1.3%
14:30	USD	Retail sales control group	m/m	Dec	0.4%	0.9%
14:30	USD	PPI	m/m y/y	Jan	0.1% 2.3%	-0.2% 2.5%
14:30	USD	PPI core	m/m y/y	Jan	0.2% 2.5%	-0.1% 2.7%
14:30	USD	Initial jobless claims	1000			

Source: Bloomberg, Danske Bank

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