

# Danske Daily

## A bout of uncertainty returns

### Market movers today

- Today's highlights are the German and Denmark Q4 GDP figures and US retail sales for January. The latter will be important, as US private consumption growth has slowed recently (the Fed now says "moderate" consumption growth in its statement, from "strong" growth previously) and the question is whether this is just due to noisy data or more persistent factors. The US manufacturing production data for January also due is not that interesting, as it will not yet capture the impact of the coronavirus.
- Helped by recovering exports and buoyant consumers, we expect German quarterly GDP growth in Q4 to have remained in positive territory, but a marked slump in industry activity in December leaves some notable downside risks for the figure.
- In Denmark, we get the first take on growth in Q4 19, which means we also get the first glimpse of overall growth in 2019 (see next page).

### Selected market news

With the sudden jump in registered coronavirus cases in China, a whiff of uncertainty over prolonged disruptions returned to the market on Thursday. The coming days will tell whether the number of 'real' new cases is still slowing, as reports before the methodology changes suggested. Global equity markets halted the last few days' rally and Wall Street in particular had a turbulent day after the NY Fed said it will shrink repo operations further. Safe-havens were back in demand, with global bond yields declining, while the Swiss franc extended its rally to a four-and-a-half year high as euro sentiment continued to sour.

The European Commission's (EC) gloomy outlook for the European economy certainly did nothing to help lift the euro sentiment. Although the EC still sees the euro area on a 'path of steady and moderate growth' with GDP expanding by 1.2% in 2020, the report stressed that risks to the growth outlook remain tilted to the downside, not least with the coronavirus outbreak as a key new downside risk emerging. We share the EC's concerns when it comes to the near-term hit to Europe's manufacturing sector from the virus impact and we have recently lowered our euro area GDP growth forecast to 0.8% for 2020 (see *Research: V-shape scenario for global growth on back of coronavirus*).

With the euro area remaining caught in the 'low-for-longer' growth curse, accompanied by weak inflation dynamics, our baseline is now for a continued relative underperformance of European financial assets relative to USD denominated assets. Hence, we have revised our EUR/USD profile materially, to 1.07 on 12M, down from 1.15 previously (see *FX Forecast Update - EUR/USD headed for new lows in the coming year*).

In a surprise move, UK Chancellor Sajid Javid resigned over Boris Johnson's scheduled cabinet reshuffle. EUR/GBP fell back to 0.83 on the headlines, as markets started speculating over looser fiscal policy under Javid's successor, Rishi Sunak, a rising star in the Conservative Party. We remain sceptical about any large-scale fiscal easing in the UK and still see scope for renewed Sterling weakness ahead, once "No-Deal Brexit" headlines come back into focus amid sluggish progress in EU-UK trade negotiations.

### Selected reading from Danske Bank

- *Research US: Democratic Party primaries and caucuses - an overview*
- *Fed Monitor: Monitoring, not reacting to, the coronavirus*
- *Research: V-shape scenario for global growth on back of coronavirus*
- *Flash Comment - Signs that the spread of the coronavirus is slowing down*

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- *Nordic Outlook*
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- *FX Forecast Update*
- *Weekly Focus*

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## Scandi markets

In Denmark, we get the first take on growth in Q4 19, which means we also get the first glimpse of overall growth in 2019. So far, both production and demand tend to indicate that Q4 was a relatively weak quarter. Autumn's preliminary figures for exports and industrial production have not been as stellar as in H1 19, when they were the primary growth engines, while retail sales have pointed towards weak private consumption. For this reason, we expect growth of 0.2% in Q4 19. Hence, most of 2019 GDP growth occurred in H1 19, while growth in H2 19 was more reminiscent of what we have seen in the rest of the world.

## Fixed income markets

Ireland is up for review by Moody's. Ireland is on a stable outlook and we do not expect an upgrade even though the fundamentals should be supportive for a higher rating. However, we could see Ireland be placed on a positive outlook even though there is some uncertainty regarding a new government after the election last Saturday. The two centre-right wing parties Fine Gael (FG) and Fianna Fail (FF) have ruled out a coalition with the left-wing party Sinn Fein, but even if FF and FG go into a coalition government, they would need support from one of the smaller parties in order to get a majority in the Irish parliament.

In the Danish market, we have published our weekly on the Danish Fixed Income market, where we take a closer look at the 5Y non-callables relative to both Swedish covered bonds and Pfandbriefe (read more [here](#)).

## FX markets

In our newly updated *FX forecast update* we see EUR/USD as headed for new lows in the coming year. Notably, we have revised our 12M target from 1.15 to 1.07 (USD/DKK 6.97). We continue to see EUR/SEK moving higher, towards 10.80, and notably upside risk thus exists in USD/SEK. EUR/NOK has had a rollercoaster ride but we think the uptick is overdone and target 9.70 in 6M. We expect USD/JPY will likely move sideways at 108-110 in the short term, absent a correction in US equity markets, which is the key downside risk. Further, EUR/JPY is starting to struggle, especially with our turnaround in expectations to EUR/USD. Among EM, RUB strength is likely to hold notably versus the EUR and we have EUR/RUB 12M at 64. We see more strength in CZK, a stable PLN and a weaker HUF vs. EUR. ZAR, AUD, NZD are all likely to continue struggling vs. USD.

In HUF, liquidity conditions have tightened substantially and interest rates, not least XCCY basis, have all moved substantially. This comes on the back of continued high inflation and the central bank withdrawing large amounts of excess liquidity, both of which have been taken as a signal of possibly higher interest rates, but liquidity conditions have also affected basis in long tenors of EUR/HUF FX forwards. However, unlike in TRY, for example, we have not seen a spike in T/N rates. We think the central bank will continue seeing downside risks to Germany and look through the CPI spike while the global picture deteriorates. After a bit of stabilisation in the currency, these hawkish tones will thus probably ease. In the bigger picture, Hungary, Turkey and, as of yesterday, Brazil, are intervening in the FX market to avoid excessive depreciation and rising import prices. In a broad sense, this continues to reflect too tight USD liquidity conditions for Emerging Market economies but spill-over to EUR/Scandies has nonetheless been quite weak, at least for now. Thus as of today, the EM canary-in-the-coalmine is flagging a risk but we believe we are still quite some way from this being an issue for DM economies.

## Key figures and events

Friday, February 14, 2020			Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Ireland's debt rating				
8:00	DEM	GDP, preliminary	q/q y/y	4th quarter	0.1% 0.4%	0.1% 0.5%
8:00	DKK	GDP, preliminary	q/q y/y	4th quarter	0.2% ...	0.4% ...
9:00	ESP	HICP, final	m/m y/y	Jan	-1.4% 1.1%	-1.4% 1.1%
10:30	EUR	Portugal, GDP, preliminary	q/q y/y	4th quarter		0.3% 1.9%
11:00	EUR	Trade balance	EUR bn	Dec		19.2
11:00	EUR	GDP, preliminary	q/q y/y	4th quarter	0.1% 1.0%	0.1% 1.0%
11:00	EUR	Employment, preliminary	q/q y/y	4th quarter		0.1% 0.9%
14:30	USD	Import prices	m/m y/y	Jan	-0.2% ...	0.3% 0.5%
14:30	USD	Retail sales control group	m/m	Jan		0.5%
15:15	USD	Capacity utilization	%	Jan	76.8%	77.0%
15:15	USD	Industrial production	m/m	Jan	-0.3%	-0.3%
15:15	USD	Manufacturing production	m/m	Jan	-0.3%	0.2%
16:00	USD	University of Michigan Confidence, preliminary	Index	Feb	98.9	99.8
17:45	USD	Fed's Mester (voter, hawkish) speaks				

Source: Bloomberg, Danske Bank

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### Expected updates

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