

Danske Daily

Uphill battle for May's Brexit deal

Market movers today

- The day of the long-awaited Brexit vote in the House of Commons has finally arrived (voting starts at 20:00 CET). A defeat of PM Theresa May's Brexit deal is widely expected, so markets will probably not react to the defeat itself but to the size of the defeat. A narrow defeat means that May might be able to get it through at a later stage, but a big defeat means we are in uncharted territory (and we cannot rule out that Theresa May will resign). For more details, see *Brexit Monitor - May is losing control over the Brexit process but no credible alternative has emerged yet*, 11 January.
- In the US Empire PMI manufacturing for January is due. Regional PMIs are usually no major market movers, but this time they will receive some attention for indications where ISM manufacturing is heading after the large fall in December.
- Fed's Kashkari, George and Kaplan are also scheduled to speak later today kicking off a busy week of Fed speakers, while ECB President Draghi is due to speak at the European Parliament in the afternoon.
- In Sweden the November consumption indicator is on the agenda. Furthermore, the market will continue to monitor the progress towards forming a new government in Sweden which could be settled later this week.

Selected market news

Asian equity markets rose along with the oil price overnight, but overall risk sentiment remains fragile amid a slowdown in the global manufacturing sector, which was further confirmed in euro area industrial production figures published yesterday. Furthermore, unfinished political business is keeping markets anxious.

Regarding the unfinished political business, rumours and speculation before the vote on UK Prime Minister May's Brexit deal suggests that she is facing an uphill battle. Market and politicians are already turning attention to the road after an expected loss today, e.g. there is speculation about a potential extension of article 50 to give the UK more time to pass through the Brexit deal.

In Sweden, Stefan Löfven will use a couple of more days to try to convince the Left party to vote for his government. The previous vote in parliament on the government deal scheduled for Wednesday has been postponed until Friday to allow for further debate in parliament.

OPEC's recently agreed production cut deal will already undergo review on 17-18 March at a meeting in Azerbaijan before OPEC ministers will make potential decisions on policy in Vienna on 17-18 April. OPEC is facing headwinds as the deal from last December has been unable to lift oil prices.

Selected reading from Danske Bank

- *Harr's View: Challenges and opportunities in the Scandi markets*

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Scandi markets

The only Swedish data due to be released today worth mentioning is household consumption for November, where we estimate y/y growth of 0,5%. This growth has been in for quite a plunge since the summer, where we saw growth above 3%, so it will be interesting to see how this evolves going forward.

Fixed income markets

The new issue season continues this week with Italy coming to the market with a 15Y syndicated deal and EIB with a 10Y syndicated deal today. The 15Y deal from Italy has been expected given the convergence in the spread between Italy and core-EU since mid-November last year and combined with strong demand seen last week at the syndicated deals from Belgium, Ireland and Portugal. We expect a decent new issue premium for the investors, and the transaction will be significantly oversubscribed.

The record supply of govts, agencies, supras, corporates and covered bonds coming to EUR market during the first two first weeks of January has had no impact on the Bund ASW-spread. Furthermore, the Bund-Schatz and Bund-Bobl ASW-spreads have continued to widen and we are close to peaks seen in November 2018. Short-term there seems little to stop the spreads from moving wider given the political uncertainty from Brexit, US government shut-down etc., but both the outright Bund spread as well as the box-spreads looks stretched.

In Denmark, Realkredit Danmark released revised estimates for the upcoming refinancing auction in February. They continue to revise down the amounts that they expect to sell. Hence, there are fewer 3Y and 5Y noncallables that needs to be sold. In the callable market we saw a big spike in the prepayments of 2.5% 2047io from Jyske Realkredit (formerly BRF Kredit). We attribute this to be mainly commercial mortgage loans that has been prepaid. Given the recent decline in yields we expect to an increase in the prepayment activity up until the end-of January, which is the deadline for notifying a prepayments for the April-term.

FX markets

For GBP it is all about the vote on Theresa May's Brexit deal in the UK House of Commons tonight. Voting will start at 20.00 CET. It is widely expected that Theresa May will lose the Brexit vote and while initial price actions is likely to depend on the size of Mays defeat, focus will mainly be on what will happen next. We expect EUR/GBP to remain boxed in the current 0.88-0.9060 range until further clarification. See *Brexit Monitor - May is losing control over the Brexit process but no credible alternative has emerged yet* (11 January).

EUR/DKK continues to trade around 7.4640 with some slight distance to December's FX intervention level close to 7.4680. With attribute this mainly to the stabilisation in equity markets seen over the past week. Lower interest rates and FX forwards in our view will limit the near-term downside potential for EUR/DKK spot. On this, we note that front-end DKK rates and EUR/DKK FX forwards continue to trade at very levels, i.e. yesterday the CITA fixing was reported at minus 0.69% on Friday and below the rate of interest on certificates of deposit. There is currently an abundance of DKK liquidity in the money market which is keeping front-end rates low (see *here*). Further out the curve the market has started to discount the probability of an independent Danish rate hike after EUR/DKK spot has dropped back.

Key figures and events

Tuesday, January 15, 2019			Period	Danske Bank	Consensus	Previous
-	GBP	House of Commons vote on PM Theresa May's Brexit deal (most likely in the evening)				
8:00	NOK	Trade balance	NOK bn			26.2
8:45	FRF	HICP, final	m/m/y/y		0.1% 1.9%	0.1% 1.9%
9:00	ESP	HICP, final	m/m/y/y		-0.5% 1.2%	-0.5% 1.2%
9:30	SEK	Household consumption	m/m/y/y	Nov	... 0.5%	-0.2% -0.3%
10:00	DEM	Budget real GDP (Maastricht)	%			1.0%
10:00	DEM	GDP	%		1.5%	2.2%
11:00	EUR	Trade balance	EUR bn	Nov		12.5
13:30	DKK	The 2019 OECD Economic Survey of Denmark				
14:30	USD	Empire Manufacturing PMI	Index	Jan	11.5	10.9
16:00	EUR	ECB's Draghi speaks in Strasbourg				
17:30	USD	Fed's Kashkari (non-voter, dovish) speaks				
19:00	USD	Fed's Kaplan (non-voter, neutral) speaks				

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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Report completed: 15 January 2019, 06:21 CET

Report first disseminated: 15 January 2019, 07:15 CET