

# Danske Daily

## Phase one: done. Next: phase two...

### Market movers today

- Repercussions from trade-deal signing yesterday and hints on phase 2 could stay on the agenda today, but otherwise focus will be on the ECB minutes from December. The meeting did not reveal new policy signals, but the potential for governing council members viewing the economic outlook more positively is worth keeping an eye on. For the longer term, we will look for clues about the strategic review.
- Then on to US retail sales for December: there have been indications that US Christmas sales disappointed, which will come on the back of subdued growth in November. Consumer confidence remains high and the housing market is still improving supported by the lower mortgage rates and decent real wage growth.
- Given the focus on US manufacturing, where ISM continued to disappoint despite an increase in the equivalent Markit PMI, look also for Philly Fed this afternoon.
- Note also that the Turkish central bank is expected to cut rates at its meeting today.

### Selected market news

Risk sentiment stayed on a strong footing with equities, as US and China signed and published the phase-one trade deal yesterday (see [deal here](#)). Equities stayed on a strong footing in the US, if more mixed in the Asian sessions. US Treasury yields edged lower with the 10Y yield now around the 1.79% level. Both USD/CNH and USD/JPY – the more reactive to trade news – were little changed, lingering around 6.89 and 110, respectively

The bulk of the deal was known in advance - notably that new tariffs will not come into play - but more details on China's buying of US goods were announced (although some of this had also been leaked in recent days). Also, a pledge not to engage in competitive devaluation was included in the deal alongside stricter rules on intellectual property rights. In terms of China buying US goods, we learned that US annual exports to China are set to rise by around USD200bn over 2020 and 2021. Of this, some 20% are set to come from agricultural goods, 40% from manufacturing, and the remainder from energy and services.

Needless to say, the deal is meant to secure the US president support from a crucial part of his voter base, while China gains from a clear de-escalation in the trade war weighing on activity. For Europe the deal is a mixed outcome: on the one hand, it could be a drag on EU exports to China now that the latter is forced to source more goods from the US. On the other, Europe will benefit from stricter rules on intellectual property. Focus now shifts to phase 2 where key obstacles, e.g. concerning technology and industrial policy, remain.

Meanwhile a few stories on the political side also stole attention yesterday, even if the immediate market consequences are limited. In Russia, Prime Minister Medvedev resigned and President Putin announced wide-ranging constitutional reforms, seemingly to secure power when his term ends in 2024. In the US, the House sent Trump impeachment articles to the Senate for a trial to start next week, but we continue to stress that the likelihood of a legal ousting of the President remains small due to the party composition of the Congress.

### Selected readings from Danske Bank

- Yield Outlook - Slightly higher 10Y yields in 2020, but primarily in H2*
- FX Forecast Update*
- Norges Bank Preview - Unchanged rates and 'on hold' stance to be repeated*
- Reading the Markets Denmark - Short-term rates set to rise - maintain 1Y non-callable bullets vs DGBs and pay 1Y DKK-EUR swaps*

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

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## Fixed income markets

Today's highlight is the December ECB minutes. Over the coming months, we expect a change in growth risk assessment - from 'downside' to 'broadly balanced'. This could have a material impact on rates markets further out. Note that e.g. 1y1y EONIA is trading 3bp above spot, i.e. markets are already leaning into a (small) hike in 2021.

After a few days with rates creeping higher, we saw particularly weak UK GDP supporting bond markets yesterday. Spreads widened marginally despite a technical failed German 30y tap and heavily oversubscribed Italian supply. That said, we expect spread tightening and the general positive risk sentiment in markets to dominate in weeks to come. Further, Bund ASW-spreads widened 1bp yesterday, after an almost continuing tightening trend since late last year.

We published our updated quantitative MacroScope model yesterday, which indicates that after the recently improved data prints FI investors should apply a more tactical trading approach (the so-called blue quadrant) with the model indicating a neutral position to duration, see *MacroScope Monthly*.

## FX markets

Publication and signing of the phase-one trade deal fuelled a mild boost to cyclical currencies but the cross more sensitive to trade issues, USD/JPY, remains below the 110 mark. EUR/USD in muted reaction as deal has both pros and cons for the EU (see front page). The Swedish inflation numbers did not rock the boat for EUR/SEK, which stayed close to 10.55 throughout the session. That said, the inflation outlook come spring will, in our view, spell trouble for the Riksbank and the SEK. Otherwise, the relentless move lower in EUR/CHF to new year lows dominated price action. Special circumstances have fuelled CHF strength in recent days – Swiss denounced currency manipulator and the 5Y anniversary of SNB floor in cross abandoned – but as we have stressed before, the down pressure is more fundamental in nature as SNB has few tools to stem deflation pressure. Also, with the US label it may have to go a bit more lightly near term on intervention and limit its leaning against CHF strength. This drift makes it increasingly challenging to use CHF as a funding currency.

This morning we published new FX forecasts, see *FX Forecast Update*: We expect the broad USD appreciation cycle to remain intact and notably stress that, near term, the prospect of a possible rate cut from the Bank of England dominates in the central-bank sphere – and could drag GBP down further. However, we note also that the clearing skies globally and in Euroland could lead the ECB to drop its easing bias down the road; this should hold a hand under EUR/USD, after all.

## Key figures and events

Thursday, January 16, 2020			Period	Danske Bank	Consensus	Previous
8:00	DEM	HICP, final	m/m/y/y	Dec	0.6% 1.5%	0.6% 1.5%
12:00	TRY	Central Bank of Turkey rate decision	%		11.6%	12.0%
13:30	EUR	ECB publishes minutes from December meeting				
14:30	USD	Initial jobless claims	1000			214
14:30	USD	Import prices	m/m/y/y	Dec	0.4% ...	0.2% -1.3%
14:30	USD	Philly Fed index	Index	Jan	3.4	2.4
14:30	USD	Retail sales control group	m/m	Dec	0.3%	0.1%
16:00	USD	NAHB Housing Market Index	Index	Jan	74.0	76.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Nov		-48.3

Source: Bloomberg, Danske Bank

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