

Danske Daily

China, US data lift optimism

Market movers today

- Beyond Chinese data out overnight (see below), the global calendar is light today. In the US, we get industrial production data for December, which will be interesting given the weakness in the ISM manufacturing, while regional indices and Markit PMIs paint a less gloomy picture.
- We also get preliminary US consumer confidence in January from the University of Michigan, which we expect to remain at elevated levels. Indeed, the weekly consumer confidence index from Bloomberg released yesterday rose to the highest level since 2000, supporting our view that the US expansion will continue and that private consumption remains the main growth driver. From a Fed perspective, the most interesting part is long-term inflation expectations, which in December dropped to a new record-low of 2.2% y/y - this remains an issue for the Fed.
- In the euro area, we get final HICP inflation data for December.
- In the UK, focus is on December retail sales, which is usually not a number we pay too much attention too, but given the focus on whether the Bank of England will cut or not, it should be watched today. Markets have priced in a 60% probability of a rate cut at the 30 January meeting, which seems fair, in our view.

Selected market news

China releases overnight generally confirmed the picture of an economy that has bottomed and yesterday's US releases fuelled optimism regarding both the US consumer and corporates. Equities posted decent gains in the US session with S&P up around 0.8% while the picture in Asia was more mixed. US Treasury yields were lifted with the 10Y rising some 4bp and broad USD strengthened albeit notably USD/CNH continued to grind lower.

In China, GDP growth came in at 6.00% y/y in Q4, unchanged from the previous quarter. Both industrial output and retail sales surprised on the upside at 6.9% y/y and 8.0% y/y, respectively; also fixed-assets investments came in on the strong side. In the US, both retail sales and the Philly Fed manufacturing index surprised positively. However, revisions to previous releases of the latter and the inherent volatility muddy the picture somewhat and still leave us a bit in the dark on US private consumption growth. Also on manufacturing it remains difficult to conclude on the stance of activity: while the Philly Fed was strong, the ISM manufacturing index has plunged, while the Markit counterpart remains in-between.

ECB December minutes did not move markets much, yet a few notes to take. Fading downside risks were stressed by Governing Council members; in our view, this may in coming months lead the ECB to drop its 'downside' risks to growth assessment. Also, some were attentive to possible side effects of policy and that these should be monitored closely; confidence was nevertheless expressed that policy rates had not yet reached reversal-rate levels. In light of this, note that the Swiss central bank, SNB, has in recent days seen markets starting to up hopes of rate cuts below the record low -0.75% level amid CHF strength, suggesting a test of central banks' willingness to go lower still may be forming.

Selected readings from Danske Bank

- *Reading the Markets Sweden*
- *Yield Outlook: Slightly higher 10Y yields in 2020, but primarily in H2*
- *FX Forecast Update: USD strength still reigns*

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Fixed income markets

It has been another busy week in the primary market with some old 'records' being broken such as the Spanish 10Y deal with an order book above EUR50bn. This despite the fragile political outlook with the new coalition government, which is dependent on the Catalan separatists and that is looking to increase the budget deficit with 0.5% of GDP in order to cushion the Spanish economy from a downturn. Among the new government proposals are a pension reform as well as raising the minimum wage. Italy also came to the market with a new 30Y bond, where it sold EUR7bn and had orders for EUR44bn. Hence, there is a strong support for the long end.

We have a few rating events this evening. Germany is up for review. Here we expect no changes to either the rating or the outlook for Germany. The other one is Portugal, which is up for review by Moody's. Portugal is on positive outlook by Moody's. Furthermore, the Portuguese government is continuing the reform process as well as reducing debt and is now expected to post a surplus on the primary balances in 2020. Hence, we expect that Portugal will be upgraded; see also *our rating outlook for 2020*, published 23 December 2019.

FX markets

USD saw support from the batch of strong US releases and notably USD/CHF appears to have tentatively stabilised around the 0.9650 level. EUR/Scandies saw supported through yesterday and USD/JPY edged above 110 again; we are likely to see the cross hover around this level in coming weeks and notably so as long as the overall picture for the US manufacturing sector remains ambiguous as to the timing of further improvements. Today's calendar brings more US data to watch for clues on whether broad USD strength will continue to reign. Even if markets are still pricing in a 60% probability of a Bank of England rate cut at the meeting on 30 January and have fully priced in a cut by May, EUR/GBP took a move lower towards 0.851 yesterday, without any obvious trigger. We still look for more weakness in GBP with 0.87 our 3M target. Watch UK retail sales today.

In the EM sphere, South Africa cut rates by 25bp yesterday and ZAR weakened a tad. Indeed, the economy has been stagnating and yields need to come lower, which should continue to build an upward drift in USD/ZAR. In Poland, core CPI inflation for December came in broadly as expected but the figures were on the high side: 3.1% y/y and 0.6% m/m. PLN supported as the release confirms that core inflation will be a challenge to the central bank's unchanged rate narrative. March will be a key NBP meeting if inflation - as we expect - stays relatively high. Markets will likely test NBP to hike and we look for EUR/PLN to spike to 4.27 within 3M.

Key figures and events

Friday, January 17, 2020				Period	Danske Bank	Consensus	Previous
3:00	CNY	Industrial production	y/y	Dec		5.9%	6.2%
3:00	CNY	Retail sales	y/y	Dec		7.9%	8.0%
3:00	CNY	Real GDP	q/q y/y	4th quarter		1.4% 6.0%	1.5% 6.0%
3:00	CNY	Fixed assets investments	y/y	Dec		5.2%	5.2%
10:00	EUR	Current account	EUR bn	Nov			32.4
10:30	GBP	Retail sales ex fuels	m/m y/y	Dec		0.7% 2.9%	-0.6% 0.8%
11:00	ITL	HICP, final	m/m y/y	Dec		... 0.5%	... 0.5%
11:00	EUR	HICP inflation, final	m/m y/y	Dec	0.3% 1.3%	0.3% 1.3%	0.3% 1.0%
11:00	EUR	HICP - core inflation, final	y/y	Dec	1.3%	1.3%	1.3%
14:30	USD	Building permits	1000 (m/m)	Dec		1469	1482.0 (1.4%)
14:30	USD	Housing starts	1000 (m/m)	Dec		1380	1365.0 (3.2%)
15:00	USD	Fed's Harker (non-voter, neutral) speaks					
15:15	USD	Capacity utilization	%	Dec		77.3%	77.3%
15:15	USD	Industrial production	m/m	Dec		0.0%	1.1%
15:15	USD	Manufacturing production	m/m	Dec		0.2%	1.1%
16:00	USD	University of Michigan Confidence, preliminary	Index	Jan		99.2	99.3

Source: Bloomberg, Danske Bank

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