

Danske Daily

End of the trade war may be near

Market movers today

- **Watch out for any headlines on US-China trade talks** after *The Wall Street Journal's* story that the US administration is considering reduce tariffs on Chinese imports (for more on this story see *Selected market news* below.)
- **UK retail sales** for December are set to provide an insight into whether consumer spending in the UK stayed robust at the end of 2018 despite the Brexit turmoil.
- Despite the sharp fall in ISM manufacturing, **US industrial production** probably registered another increase in December, according to consensus. In light of the ongoing US government shutdown, it will also be interesting to see whether **consumer confidence from the University of Michigan** for January shows the first signs of any negative repercussions. The weekly consumer confidence index from Bloomberg has moved lower recently.
- **New York Fed President John Williams is also scheduled to speak** in the afternoon and we will again look out in particular for any hints on the future strategy around the balance sheet.
- **There are no Scandi market movers today** but in Sweden Social Democratic leader Stefan Löfven will probably be approved as Prime Minister today – four months after the election took place.

Selected market news

Market sentiment was initially lifted by headlines that the US administration is considering rolling back some of the tariffs on Chinese imports but the rally was short-lived as the US Treasury denied the story soon after. In addition, the story was probably not as interesting as the headlines suggested, as the story states that the proposal comes from Treasury Secretary Steven Mnuchin (a China dove), while the US Trade Representative Robert Lighthizer (China hawk) opposes the idea. Nonetheless, we still interpret the story as another sign that a US-China trade deal is moving closer and markets probably do as well. S&P 500 ended 0.8% higher and Asian markets are also up this morning. Oil and yields are too.

In the UK, it was announced yesterday that the **voting on Prime Minister Theresa May's motion on her Brexit plan B and amendments to the motion will take place on 29 January (the motion will still be presented on Monday)**. A poll from YouGov has shown that support for the UK remaining in the EU is increasing. According to the poll, 56% now want to remain in the EU (versus 44% leave), which is the highest gap since the EU referendum. Polls like these increase the pressure on pro-EU politicians to call for a second EU referendum.

In **Sweden**, HOX-index (Valueguard home prices) came in at -0.8% in December with single family home prices leading the decrease. Sweden's residential market remains shaky and right now it is a buyer's market.

Selected reading from Danske Bank

Brexit Monitor: The waiting game - Brexit edition, 15 January

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Scandi markets

There are no Scandi market movers today but in Sweden Social Democratic leader Stefan Löfven will probably be approved as Prime Minister today – four months after the election took place.

Fixed income markets

Core-EU and semi-core yields rose modestly yesterday, while the periphery gained modestly. Hence, the spread between the periphery and core-EU yields continues to tighten. This was driven partly by solid demand at yesterday's Spanish tap auction, which was well received by the market. If there is progress in the trade talks between China and the US, it would be positive for the equity markets as well as risky assets and thus core yields would be likely to rise.

Greece (S&P), France (Fitch) and Austria (Fitch) are up for review. We expect France and Austria to be on hold but there is a chance that Greece could be upgraded, as S&P has Greece on positive outlook. This would bring the rating back to the 'BB' level and increase the possibility of a syndicated deal in Greek government bonds.

If we look at the Bund spread, it is finally tightening, although it is a modest tightening. Looking at the Bund-Schatz and Bund-Bobl boxes, they continue to be at an elevated level, where the Bund-spread is too expensive relative to the Schatz and Bobl spreads. We recommend a tighter box spread in both Bund-Schatz and Bund-Bobl spread boxes. **Yesterday, we published *New 10Y DGB – DGB 0.5% 11/29* ahead of the new 10Y Danish government bond auction taking place next week.** We expect it to be priced some 11-12bp above DBR 02/29. We expect the Debt Office to sell up to DKK5bn at the auction on 23 January.

FX markets

Headlines that the US is mulling over lifting tariffs on China roiled FX markets late yesterday. The USD, AUD, NZD, NOK, SEK and CAD among others jumped, while JPY weakened on the news, with the news seeing USD/JPY rise above 1.09.

The rebound in oil prices looks to be taking a breather with the price on Brent crude stabilising in the USD59-61/bbl range this week. We note that yesterday's bullish comments from Russia that it will accelerate output cuts did not catch the markets' attention. As a result, **we took profit on our short NZD/CAD top trade yesterday.** This yielded a 1.8% return and was mainly a way to position for a higher oil price. See *Danske Bank FX Top Trades 2019 We take profit on short NZD/CAD*, 17 January. We still look for a higher oil price over the course of 2019.

Key figures and events

Friday, January 18, 2019			Period	Danske Bank	Consensus	Previous
0:30	JPY	CPI - national	y/y	Dec	0.3%	0.8%
0:30	JPY	CPI - national ex. fresh food	y/y	Dec	0.8%	0.9%
5:30	JPY	Industrial production, final	m/m y/y	Nov		-1.1% 1.4%
10:00	EUR	Current account	EUR bn	Nov		23
10:30	GBP	Retail sales ex fuels	m/m y/y	Dec	-0.8% 3.6%	1.2% 3.8%
14:30	CAD	CPI	m/m y/y	Dec	... 1.7%	... 1.7%
15:05	USD	Fed's Williams (voter, neutral) speaks				
16:00	USD	University of Michigan Confidence, preliminary	Index	Jan	96.4	98.3
17:00	USD	Fed's Harker (non-voter) speaks				

Source: Bloomberg, Danske Bank

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