18 February 2020

Danske Daily

Global tech supply chain stutters

Market movers today

- Markets will continue to keep an eye on whether the current slowdown of the spread of the coronavirus continues. German ZEW expectations for February released today will be one of the first indicators showing the potential hit to the European economy from the virus repercussions. For a similar reason the US Empire manufacturing index for February will be monitored closely when it is due later this afternoon.
- The UK labour market seems to have shaken off patches of weakness seen in Q3. The December jobs report released today will confirm whether that picture still held at end-2019.
- Growth in Chinese money supply for January is also due. We see some downside risk here due to the prolonged holidays.
- In Sweden, we get unemployment data for January and a new borrowing forecast for 2020 and 2021 from the Debt Office (see next page).

Selected market news

Markets took heart yesterday from People's Bank of China's and government efforts to cushion the coronavirus hit on the Chinese economy, but the upbeat mood evaporated this morning after bad news on the Q1 revenue guidance trickled in from Apple (see *story*). As production in China is ramped up more slowly than previously anticipated and the effects on the global tech supply chain become evident, equity investors might have to brace themselves for more negative news. Industrial metals and oil are down this morning, together with Asian stocks and US equity futures also point to a weaker opening as trading resumes post the Presidents' Day holiday.

In German politics, Angela Merkel succession race remains in full swing. Following the surprising resignation of Annegret Kramp-Karrenbauer's (AKK) as CDU leader last week, three candidates have so far emerged: pro-European centrist and Merkel ally Armin Laschet, conservative health minister Jens Spahn and pro-business candidate Friedrich Merz, one of Angela Merkel's old rivals. AKK is expected to hold exploratory talks with all three candidates this week, starting with Friedrich Merz today. Meanwhile, voices in the CDU have grown louder to decide the chancellor question already before the summer break and not at the scheduled party convention in December. This would certainly also be preferred from a European perspective, as Germany takes on the rotating EU Council Presidency in H2 20 and an internal power struggle in Berlin would not exactly help driving the EU integration agenda. While the discussions continue, we expect the economic and market impact to remain fairly limited at the current stage. Still, it will be important for markets to keep an eye on the succession race and especially the emerging frontrunner's view on fiscal policy. The probability for fiscal easing would be greatest under an Armin Laschet–led CDU in our view, but according to polls fiscal conservative Merz currently seems to have the better chances.

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*
- *FX Essentials: No tools, new dynamics, three propositions*
-

Follow us on *Twitter* :

@Danske_Research

Video
Danske Bank research playlist

Read more in Danske Bank's recent forecasts and publications

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

Senior Analyst
Aila Mihr
+45 45 12 85 35
amih@danskebank.dk

Scandi markets

Sweden's National Debt Office publishes an updated borrowing forecast for 2020-2021. In the previous report (October) the Debt Office raised the projection for gross issuance of nominal bonds to SEK51bn in 2020 and SEK60bn in 2021 (previously SEK30bn each year) to fund a growing budget deficit. We see a certain risk that the Debt Office might increase supply projections even a bit further in today's report. In the meantime, SCB releases January unemployment data. SCB job-market data still suffer from significant statistical problems causing extreme volatility even for seasonally adjusted data. The recent three prints were 6.6%, 7.3% and 6.6% (s.a.) so our guess is that unemployment moves higher again (to 7.2%). However, in practice one can more or less disregard these data for the time being in our view.

Fixed income markets

With scarce new information and the US out for Presidents' Day, yesterday's trading action was limited. Today will likely not be much different with no key data points nor central bank speeches on the calendar. For markets to start trading out of the current range / low volatility, we need to get central bankers to say either stimuli is coming or is off the table, and as such that will only happen once more data will be released. Friday's PMI data is the next key focal point for the euro area.

Yesterday, the Bundesbank stepped up its call for fiscal easing, recommending the government to make use of its room for manoeuvre within the budget rules to support growth and employment. This marks a change of tone, with the Bundesbank as recently as November still saying that 'a special package of measures to stimulate the economy does not seem necessary at present'. This phrase was notably absent in this month's report. Overall, we still remain sceptical about any large scale fiscal easing in Germany, at least before the next scheduled federal elections in 2021, both due to political and constitutional constraints, see *Research Germany: Four reasons why a fiscal boost is not around the corner*, 6 December 2019.

Yesterday's APP holdings (net changes) showed yet again that the ECB is favouring the private sector programmes (CSPP and CBPP3) compared to the PSPP. PSPP was 60%, in line with previous weeks' data (which compares to the historical 80-85% range before the ECB APP was restarted in November last year). With the lower purchase rate, ECB capital key limits will only be met at a later stage than previously envisaged (up to six months later).

Today's supply comes from Germany (Schatz for EUR5bn). The Belgian debt agency announced a new long 20y bond via syndication 'in the near future' (maturity 22 June 2040). We expect a volume of EUR3-4bn in size. Recently we have favoured long end Finland / Ireland versus Belgium.

FX markets

Even though the SCB labour market data is extremely volatile and unreliable, a big surprise could lead to a knee-jerk reaction in EUR/SEK today. Our recommendation, however, is to take this data with a huge grain of salt and thus fade any impact on the markets. We are curious to hear what Riksbank's Stefan Ingves has to say in his speech tonight (18:30 CET). Any hints regarding what he sees left in the toolbox would be welcome and also potentially important for the SEK.

EUR/GBP was fairly stable yesterday and remains above 0.83. Today's labour market report for December is probably not a big market mover, as it partly covers the period before PM Boris Johnson's landslide victory and what is important for Bank of England is whether the post-election rebound in business confidence is robust and long-lasting. Hence, the flash PMIs for February due out on Friday will be much more important for GBP. Until then we expect EUR/GBP to remain fairly stable absent any news on Brexit.

Key figures and events

Tuesday, February 18, 2020				Period	Danske Bank	*Consensus*	Previous
9:30	SEK	Unemployment (n.s.a.|s.a.)	%	Jan	**7.5%|7.2%**		6.0%|6.6%
10:30	GBP	Unemployment rate (3M)	%	Dec	**3.8%**	*3.8%*	3.8%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Dec	**3.2%**	*3.3%*	3.4%
11:00	DEM	ZEW current situation	Index	Feb		*-10.5*	-9.5
11:00	DEM	ZEW expectations	Index	Feb		*20.0*	26.7
14:30	USD	Empire Manufacturing PMI	Index	Feb		*5.0*	4.8
16:00	USD	NAHB Housing Market Index	Index	Feb		*75.0*	75.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Dec			73.1

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only and should not be considered investment advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 18 February 2020, 05:40 CET

Report first disseminated: 18 February 2020, 07:15 CET