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Danske Daily

EU threatens auto retaliation

Market movers today

- It is another quiet day on the economic release front, so financial markets will be looking to politics for action. One hot spot is certainly the Brexit negotiations, especially after seven labour members quit the party yesterday in protest against the party's policies.
- Trade discussions between China and the US continue to drive financial markets, with President Trump apparently considering a 60-day extension to allow completion of the talks without triggering a hike in tariffs at next week's deadline.
- In Sweden, the January CPIF print (see page 2 for more details)is due out and Riksbank Governor Stefan Ingves is due to speak at 12:30 CET on the economic situation.

Selected market news

Equity markets traded without direction and ended largely flat as US markets were closed yesterday due to President's Day. The dollar index ended the day also largely unchanged, Treasury yields rose slightly and oil was up a notch.

Trade is or rather continues to be the talk of the town. **A new round of US China trade talks commences in Washington today.** The negotiations will be followed by high level talks later in the week. Markets have been upbeat concerning the negotiations due to signalling from Beijing and Washington rather than concrete measures. Both sides clearly want to strike a deal and difficulties revolve around establishing a monitoring mechanism to resolve concerns over copyright and other non-tariff issues.

The European Commission threatened retaliation should the US impose tariffs on automobile imports. The White House received a Commerce Department report on the national security implications of auto imports. The potential tariff threat comes after the European auto industry has just begun to recover from being hammered by new European emissions standards.

ECB Chief Economist Peter Praet struck a cautious tone on the economic outlook. Yesterday afternoon, he gave a first indication of what is likely to be expected this week as a number of important ECB speeches take place as well as the ECB minutes on Thursday.

He kept all options on the table – including the TLTRO – should there be a monetary policy case. Should the ECB decide to announce a new liquidity operation contrary to our base line, March seems too early based on Praet's comments. Praet was also focused on the forward guidance, especially in the context of further asset purchases not being needed if they are clear on the forward guidance.

Selected reading from Danske Bank

- Reading the Markets Norway
- FX Forecast Update – Mind the Scandi-differences
- Yield Outlook – Higher yields depend on a host of factors
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Read more in Danske Bank's recent forecasts and publications

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

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Scandi markets

In Sweden, we expect January CPIF inflation to print -0.7% m/m/2.3% y/y and CPIF ex energy -0.9% m/m/1.7% y/y. The latter is in line with the Riksbank and the former one tenth below. Our forecasts are in line with consensus. January numbers are generally harder to predict given the yearly reweighting of components, though we do see the risk as being skewed to the upside (food, clothing). As such, this data should be neutral or slightly positive for the krona. We are also due to get Statistics Sweden housing construction data for Q4.

At 12:30 CET, Stefan Ingves is scheduled for a speech on the current economic situation and monetary policy. Stay tuned.

Fixed income markets

The periphery continued the rally on Monday with spreads to core EU tightening given the comments on Friday from ECB members regarding both the soft economic data as well as discussion within the ECB of extending the TLTROs. Yesterday, the ECB's Chief Economist Peter Praet followed along the same line, striking a very cautious tone given the political uncertainties such as Brexit.

His comments regarding the use of forward guidance should be supportive for the flattening of the EU curves, as he stated that they could change the forward guidance if the economy continues to slow. This put downward pressure on the 2-10Y and 5-10Y parts of the curve, while the outlook for the 10-30Y is a bit different given the issuance in the long end of the curve. Yesterday, the French Debt Office announced that it would launch a new 30Y bond. We expect the sale of the 30Y bond to go well as the DO had announced in its 2019 funding statement that it would only issue in the long end if it was certain on demand. The French curve between 10Y and 30Y is very steep relative to both the EU swap curve and EU peers such as Germany, so there is a bit of 'new issue' premium for investors in the French government curve.

In Scandinavia, the Swedish inflation data for January is the main focus. See more in the Scandi section above. We have published two short comments on Denmark: one is on the front end of the Danish curve, where the 6M Cibor fixing is too high relative to the other Danish short-end rates/yields and that investors should be receiving 5Y Denmark versus Euroland or alternatively 2y2y forward. See *Strategy – Denmark*, 18 February 2019.

The second is on the currency and connection to the equity markets. See more in the FX comment below.

FX markets

EUR/GBP little changed despite rising political turmoil in the UK after seven labour MPs yesterday left the party in protest. In isolation, this is not a game changer, in our view, and even if other MPs from both sides follow and leave the two big parties, the implications for Brexit and thus GBP are unclear. We expect EUR/GBP to stay within the 0.86-0.89 range short term with Brexit negotiations as the key driver for the cross. Unless prospects of a deal improves, appetite for GBP could come under pressure as the next Brexit vote in the UK House of Commons moves closer (expected on 27 February).

EUR/SEK has hovered just below 10.50 for more than a week now – levels that are still in overbought territory technically as well as relative to short-term rates models. Our call on inflation (see Scandi section) suggests more of the same, but if the upside risk that we see materialises, the cross could move lower towards our 1-3M target at 10.40.

EUR/DKK continued to trade close to the 7.46038 central rate yesterday as DKK has found support from the recent bout of positive risk sentiment. In our view, the short-term direction for EUR/DKK hinges on the global equity market performance to a large extent – see today's *FX Strategy: 'Risk on' helping DKK to recover.* We forecast EUR/DKK at 7.4550 in 6-12M.

Oil prices are hovering around the highest level since the end of last year. Prices are currently supported by both fundamentals, i.e. tighter supply following OPEC output cuts, and optimism that the US-China trade dispute is closer to a resolution.

Key figures and events

Tuesday, February 19, 2019				Period	Danske Bank	*Consensus*	Previous
9:30	SEK	Underlying inflation CPIF	m/m|y/y	Jan	**-0.9%|1.7%**		0.4%|2.2%
9:30	SEK	Housing permits		4th quarter			
9:30	SEK	CPI	m/m|y/y	Jan	**-0.7%|2.3%**		0.4%|2.0%
10:00	EUR	Current account	EUR bn	Dec			20.3
10:30	GBP	Unemployment rate (3M)	%	Dec	**4.0%**	*4.0%*	4.0%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Dec	**3.3%**		3.3%
11:00	DEM	ZEW current situation	Index	Feb			27.6
11:00	DEM	ZEW expectations	Index	Feb			-15.0
14:50	USD	Fed's Mester (non-voter, hawkish) speaks					
16:00	USD	NAHB Housing Market Index	Index	Feb		*59.0*	58.0
16:00	EUR	ECB's Praet speaks in Berlin					

Source: Bloomberg, Danske Bank

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Expected updates

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