

# Danske Daily

## Thin data day ahead: time to digest big central bank week

### Market movers today

- Following a busy central bank week, **today is very thin on scheduled events** and economic data. **Focus is on the developments in the Iran-Saudi crisis.** US Secretary of Defence Mike Pompeo has been in Saudi Arabia to discuss a response to the attack on Saudi Arabia's oil facilities.
- Any signals coming out of **the lower-level trade talks between the US and China in Washington** should also be on the watch list today.
- Yesterday was the final day of the Supreme Court hearings on UK Prime Minister Boris Johnson's suspension of the Parliament. However, no time has been given for a ruling.
- This afternoon **consumer confidence for the euro area is released.** It should give more clues to the extent of any spill-over from the weak manufacturing sector to consumers.
- Today **the German government is expected to decide on the concrete measures in its climate package, with some media putting the total cost as high as EUR37bn.** Any indication of more expansionary fiscal policies could cheer the market, but German fiscal space remains restricted by the 'debt brake', see also *Research Germany - Loosening the brake*, 5 September.

### Selected market news

Asian stock markets rallied for the first time in five days, while US equity-index futures were in green and American stocks almost unchanged on sprouts of positivism in trade war developments. US treasuries, oil, gold and the JPY climbed further. Crude followed speculations whether Saudi Arabia referred to Iraq to pile up Saudi oil refineries.

Yesterday China's and US deputy trade negotiators restarted face-to-face talks for the first time in almost two months in order to prepare top-level trade negotiations in October. Reuters reported that according to its source, the talks discuss mostly agricultural issues such as including US demands that China substantially increase purchases of American soybeans and other farm commodities.

Yesterday Norges Bank raised the policy rate by 25bp from 1.25% to 1.50%, as we expected, while it was a surprise for economists in Bloomberg consensus. The rate path was adjusted downward, as global headwinds have lowered global forward rates, even though the weaker currency partly counteracted the effect in the short term. Signs of higher growth in labour supply are considered to increase potential growth, hence pushing the rate path downward. The rate path now suggests a 40% probability of a rate hike in H1 20, with a high probability of this happening already in Q1 20. Importantly, this indicates that rates are more likely to rise than fall in 2020. Further out the rate path signals unchanged rates and then a roughly 30% probability of a rate cut in 2022. See more in our note *Norges Bank Review - Rate hike and tightening bias*, 19 September.

### Selected reading from Danske Bank

- *Norges Bank Review: Rate hike and tightening bias*
- *ECB Research: TLTRO - low take up, but ECB should not be concerned*
- *FOMC Review: Fed cut with no quick fix to tight liquidity conditions*
- *Macro Strategy Views Podcast: Fiscal policy is now the only game in town*

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 Economist/Trading Desk Strategist

Vladimir Miklashevsky

+358 10 546 75 22

vlmi@danskebank.com

@vmiklsuomi

## Scandi markets

Yesterday's speech by Riksbank deputy governor Flodén, which did not add all that much flavour compared to what he said in the recent minutes, is followed up by a speech by RB Jansson (a dove) at 08:30 CEST. Title: The economic situation and current monetary policy. Given that Jansson is tilted to the dovish side, one might suspect that he will sound a bit more worried about recent data, in particular surging unemployment.

## Fixed income markets

The European countries are gradually turning towards more fiscal easing in 2020. So far both the Dutch and Finnish governments plan to increase spending in 2020. However, the increase in the Finnish deficit is small, as the budget deficit for 2020 is expected to be EUR2.3bn, which is only EUR0.5bn higher than in 2019. The redemptions from the Finnish government bond market amount to EUR 12.5bn. Hence, we expect a potential issuance in 2020 of EUR10-11bn of Finnish government bonds, if it continues to fund 70% of the funding requirement through RFGBs as it has done in the past.

Today, focus turns to Germany, as the German government is expected to present a plan for green investments in coming years as a supplement to the budget. This seems to be similar to the Dutch government's plan for an investment fund, which is expected to be EUR50bn. The estimates for the green package run as high as EUR37bn. However, we do not have a timeline or a maturity profile on the loans or how it will be funded. There are few key economic data releases in Euroland, but we have PMI-data from the US in the afternoon.

The Norwegian government bond (NGB) yield curve flattened from the long end on the back of the rate hike from Norges Bank. Given the statements from Norges Bank, it is likely to be on hold for the rest of 2019, but there is still a risk of a rate hike in 2020. Hence, the flattening pressure on the NGB curve should continue.

## FX markets

EUR/NOK continued to edge higher following the knee-jerk drop on yesterday's Norges Bank decision. The lack of follow-through in terms of downside in the cross and the fact that EUR/NOK actually ended the day higher, despite what we regard as a hawkish surprise, is testament to how difficult it is for the FX market to buy into the 'Norway is different' case that we still believe in - both economy and rates-wise - due to the fragile global backdrop. While Norges Bank should eventually provide support for another leg lower in EUR/NOK, it is unlikely to happen in the very short term where the risk sentiment will likely stay challenged globally - not least given the Fed's reluctance to commit to cuts. Thus, 9.80 - our previous short-term target - looks rather far away for now.

Yesterday started rather uneventful for GBP (see below, Bank of England) but ended on a high note. Late in the day, EU's Juncker was quoted for saying that a deal could maybe be reached before the October deadline and GBP rallied accordingly. EUR/GBP has moved to the lowest level in months and is now inches from 0.88 but will it last? We hope so, but it is likely also worth keeping in mind that the current GBP strength is motivated by the 'possibility of progress' and nothing tangible has been publicly announced as of yet. All in all, we view the pricing as fair but the situation may change on a day-to-day basis as we get closer to October's deadline. Our base case continues to be a need for an extension of Brexit. In other news, the Bank of England did not change any policy parameters. Rather, the statement was quite dovish with a focus on a weak domestic situation and saying that inflation has come down. Further, BoE clearly acknowledges external conditions as challenging. Looking ahead, we think it will be key to track the labour market (as

elsewhere) and the statement does not need to be changed that much before a cut is in line with the communication - even if Brexit gets postponed repeatedly but data weakens. As of today, the BoE statement was simply GBP neutral (it is politics that matter for the GBP) and we do not have a base case that involves cutting rates - but the BoE continues to appear ready to act if things become fluid.

SNB kept its policy rates unchanged at -0.75%, kept intervention as an option and left its saying that CHF is 'highly valued' unchanged. Notably, however, the SNB raised the exemption thresholds on sight deposits and said it would review these on a monthly basis. This has two implications: first, the pass-through of negative rates will initially be smaller than previously as banks can place more at zero (rather than the -0.75%), but it also means that the exemption thresholds have now become a policy instrument that the SNB can use to guide short-term rates. EUR/CHF fell and will likely stay under pressure near term and linger somewhat below 1.10 for some time.

### Key figures and events

Friday, September 20, 2019			Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Spain's debt rating				
-	EUR	Moody's may publish Cyprus's debt rating				
1:30	JPY	CPI - national	y/y	Aug	0.3%	0.5%
1:30	JPY	CPI - national ex. fresh food	y/y	Aug	0.5%	0.6%
8:00	DKK	Consumer confidence	Net. bal.	Sep	5	6.3
14:30	CAD	Retail sales	m/m	Jul	0.4%	0.0%
16:00	EUR	Consumer confidence, preliminary	Net bal.	Sep	-7.0	-7.1
17:20	USD	Fed's Rosengren (voter, neutral) speaks				

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. 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.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

## 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:** 20 September 2019, 06:39 CEST

**Report first disseminated:** 20 September 2019, 07:20 CEST