

Danske Daily

Attention: central banks ahead

Market movers today

- Central banks will take centre stage this week with the meetings at Norges Bank and the ECB (both Thursday) and Bank of Japan (Tuesday); see previews of the former two in box.
- We will also get more news on the pace of the global recovery with the release of flash PMIs for the euro area, the US, Japan and the UK (all Friday).
- Equity markets will continue to focus on the earnings season, which is off to an encouraging start.
- Today looks set to be a quiet start to the week calendar-wise with only Norwegian industrial confidence for Q4 due for release.

Selected market news

Equities and the oil price generally moved higher overnight as political unrest flared up in a range of regions. In Libya, the ongoing civil war led to ports and pipelines being blocked and forced the national oil company to declare 'force', which is set to take some 400,000 barrels per day off the market. In Iraq, the repercussions from the recent Iran-US confrontation remain pertinent, but over the weekend worker discontent led to the closure of one of Iraq's large oilfields, Al Ahdab, while another, Badra, was at risk of closure. Brent crude rose close to USD66 per barrel.

Equities posted decent gains in the Asian session with Nikkei up around 0.25% on the day but renewed unrest in Hong Kong caused the Hang Seng index to suffer, down more than 0.4%. The US is closed for Martin Luther King Day today and thus US Treasuries will not trade; the 10Y yield closed at 1.82% level on Friday. EUR/USD below 1.11 again while USD/CNH made another dip, now below 6.85. The People's Bank of China – as expected – overnight left its benchmark lending rates unchanged, with notably the 1Y prime loan prime rate kept at 4.15%, while the corresponding rate for 5Y and longer loans was maintained at 4.80%.

While it looks set to be a quiet start to the week in terms of data releases, tomorrow will mark both the start of the annual World Economic Forum gathering in Davos as well as the Senate opening the impeachment trial against the US president. The former is - as always - set to focus on high-level issues, but central bankers will come along and might use the opportunity to reflect on their upcoming strategic reviews. The latter is set to deliver a good deal of political noise to markets, but we stress that it remains highly unlikely that president Trump will be ousted as this requires the backing of a range of Republican senators.

Selected readings from Danske Bank

- *ECB Preview: Time to reveal the scope*
- *Norges Bank Preview: Unchanged rates and 'on hold' stance to be repeated*

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Fixed income markets

In the European markets, the main focus will be on the ECB on Thursday. However, as described in our ECB preview, we do not expect any major changes from the ECB and thus the market reaction should be fairly modest. Hence, we will still be looking at the supply (new issuance). The cash flow is very negative in the sovereign market where we have new 3Y benchmarks from Spain and France. Austria could come to the market with a new 10Y. We will also be looking at the weekly PSPP data and whether the ECB increased the buying for the PSPP portfolio given that there have been big redemptions already and more to come in coming weeks. In our view the ECB is well 'behind the curve' where they should on the combination of buying both for the PSPP as well as the reinvestments see more [here](#).

In the Danish market, we are awaiting another round of prepayment data for the April-2020 term as we are getting closer to the notification date (end of January). So far the prepayments have been very modest and with the low supply callable, this has been very supportive for the high-coupon bonds as well as callable mortgage bonds in general and relative to Danish government bonds as well as EU government and covered bonds. Given that rates are more or less unchanged from last week and the price of the 1% 2050 has been trading in a tight range, the risk is that the acceleration of the prepayments is lower than expected.

In Norway, there is an interim policy meeting this week. There is no monetary policy report or press conference and Norges Bank has provided very little news at the interim meetings in recent years. Hence, we expect no market reaction upon the announcement from Norges Bank; more [here](#).

FX markets

Broad dollar strength appears to be re-gaining traction versus the regions with the weakest fundamentals. In Europe, EUR/USD has come off its highs at 1.12 and is now hovering below 1.11. In the weaker parts of EM we have also seen a sell-off in recent week(s): the rally in ZAR seems over and the economy in South Africa continues to appear as stagnating. In Hungary, high inflation and low yields are again adding upward pressure on EUR/HUF and in Brazil, activity indicators have yet to live up to lofty consensus expectations, weighing on BRL. In the coming weeks we will be getting a new reading on PMIs and should these fail to impress, it is more than likely we will see continued pullback in these and similar crosses. Given the high dollar-beta in Scandies, some EM pullback could also add further upward pressure on EUR/SEK.

Following significant CHF strength in recent days and weeks, watch out for SNB sight-deposit figures today to gauge whether and to what extent the SNB sold francs last week. If the SNB has stepped aside for now it could lead the market to test new lows in notably EUR/CHF; if not, USD/CHF has good options of stabilising from here.

In the Scandies, the NOK has been range-trading over the last week. One likely reason for that is that domestic data has fallen short of expectations, which has triggered profit taking and leaving some accounts reluctant to add new longs. In that regard, this morning's SSB industrial confidence release is important. If we are right in our call it should on balance contribute to a stronger NOK. On the other hand, we expect Thursday's Norges Bank meeting to be a non-event, see our preview [here](#).

Key figures and events

| Monday, January 20, 2020 | | | Period | Danske Bank | Consensus | Previous |
|--------------------------|-----|------------------------------|-----------|-------------|-----------|-------------|
| 5:30 | JPY | Industrial production, final | m/m y/y | Nov | | -0.9% -8.1% |
| 8:00 | NOK | Industrial confidence (SSB) | Net. bal. | 4th quarter | | 2.5 |

Source: Bloomberg, Danske Bank

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