

Danske Daily

Chinese negotiators still ‘cautiously optimistic’ on deal

Market movers today

- With few economic releases of notice, the market focus will probably remain on the prospects of China and the US reaching a phase one trade deal anytime soon or whether it risks slipping into next year as some news stories alluded to yesterday.
- In the euro area, the minutes from the October ECB meeting are due for release today. The meeting was rather uneventful and we expect the minutes to contain few new insights. However, we will scrutinise the minutes for the Governing Council’s thinking on the QE ISIN limits and any views on whether these self-imposed rules could be bent. Furthermore, the minutes will also reveal whether the frictions in the Government Council we saw after the September meeting still linger.
- In Denmark, wage earner employment figures for September are due on Thursday. Employment rose by just 200 in August and job growth has generally stalled over the summer. Hence, the September figures will provide an even better insight into the extent of the slowdown in the labour market.

Selected market news

Despite recent days’ diplomatic tensions between the US and China, following the US senate passing a bill on Tuesday that requires certification of Hong Kong autonomy, the top China trade deal negotiator, Vice Premier Liu He, last night said that he is still ‘cautiously optimistic’ about reaching a phase one deal with the US, according to sources attending a dinner in Beijing. He was also said to put forward plans targeting a liberalisation of capital markets and enforcing intellectual property rights. Elements that are all part of the current negotiations.

Liu He’s comments were not enough, however, to pare losses in equity markets as both the Hang Seng (-1.6%) and Nikkei (-0.8%) took further losses overnight. His comments came after Reuters earlier reported that a phase one deal could be pushed into the new year, citing sources close to the White House. Later in the day the House of Representatives voted 417-1 in favour of the legislation supporting Hong Kong protestors and the legislation could be signed by President Trump already today.

The FOMC minutes released yesterday did not contain much news. According to the minutes, ‘most’ FOMC members think monetary policy is now ‘well calibrated’ after the third cut, which sounds very similar to ‘the current monetary policy stance is appropriate’, as several FOMC members have stated publicly since the meeting. That said, the Fed still sees risks for the economy as tilted to the downside, as the global manufacturing slowdown and global trade tensions may eventually trigger a more broad-based economic slowdown with slower consumer spending growth and/or cutbacks in hiring. The Fed also noticed slower job growth but this was revised away in the October job report released after the meeting.

Selected readings from Danske Bank

- *Reading the Markets Denmark - Buy 3Y DGBs vs. Germany and 1Y DKK non-callable bullets vs. DGBs*
- *Reading the Markets Norway - High demand for Norwegian government bonds*
- *FI Strategy Denmark - Some of the previous supportive factors for DGBs are dying out*

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Scandi markets

In **Norway**, we expect the Q4 oil investments survey to confirm that oil investments will grow by more than 15% in 2019, boosting growth in mainland GDP by close to 0.8pp. The big question is what the survey will signal for next year. We expect the survey to show oil investment of more than NOK180bn this year and around NOK178-179bn next year, effectively pointing to growth in 2020 of around 2-3% (comparing the 2019 oil investment estimate made a year ago with the new 2020 estimate).

Fixed income markets

In Euroland rates declined and Italy outperformed both the core-EU and peripheral government bond markets. ECB's new chief economist Phillip Lane said that the ECB is planning a review of its monetary policy strategy. It will have a clear focus according to Lane; the exact timing for the review is uncertain but it is expected to take place early next year. It is 16 years since the ECB last did a review of its monetary policy strategy and with the financial crisis as well as the European debt crisis several policy makers within ECB have argued for the review.

Today, we expect more of the same – hence, a modest decline in bond yields and interest rates even though there are major economic data. We have the release of the minutes from the latest ECB meeting. There will be support from ECB's PSPP programme, having already bought some EUR12bn from 1 November through 15 November. However, part of it is reinvestments from the redemptions and thus we expect the ECB to buy at least EUR10bn in the PSPP for the rest of November.

FX markets

Across the board, Scandies, CEE and global cyclicals are all consolidating. The outliers are EUR/CHF and USD/JPY, which have stayed remarkably stable and CHF has even weakened. Both are a bit odd-man-out, as falling commodities and declining yields very often support JPY and selling risk supports CHF. All in all, this suggests we are looking at profit taking, without outright defensive buying. Note, this may very well prove to be a buy-the-dip opportunity with PMIs Friday and our optimistic expectation of a phase 1 trade deal in December, including some tariff rollback.

The market has started to price Fed cuts in 2020 again this week. It sees little odds of a move at the upcoming meetings, but is now again looking for more than one 25bp cut during 2020. The FOMC minutes did provide much impetus to this pricing. It did reaffirm Fed's commitment to provide sufficient liquidity to the money market over year-end.

EUR/DKK traded above 7.4730 yesterday. FX forwards are still trading far to the left, albeit they have come back a bit the past week or so, which is keeping potential sellers at a distance. We look for EUR/DKK to trade above 7.4700 on 12M and for Danmarks Nationalbank to cap the topside not far from current levels using FX intervention selling of EUR/DKK.

EUR/SEK swung wildly as well, first testing resistance at 10.75 amid global equity selloff, then dropping almost 10 figures on no other tangible news than a modest rebound in risk sentiment. Today, the SEK calendar is empty but tomorrow will be interesting with two Riksbank speeches (hawk Ohlsson and dove Jansson). We repeat our 1M target 10.70.

Key figures and events

Thursday, November 21, 2019			Period	Danske Bank	Consensus	Previous
8:00	DKK	Consumer confidence	Net. bal.	Nov		1.7
8:00	DKK	Employment		Sep		
8:45	FRF	Business confidence	Index	Nov	105.0	105.0
13:30	EUR	ECB minutes from October meeting				
14:30	USD	Philly Fed index	Index	Nov	6.5	5.6
14:30	USD	Fed's Mester (non-voter, neutral) speaks				
14:30	USD	Initial jobless claims	1000			225
16:00	EUR	Consumer confidence, preliminary	Net bal.	Nov	-7.3	-7.6
16:00	USD	Existing home sales	m (m/m)	Oct	5.49	5.38 -0.022
16:10	USD	Fed's Kashkari (non-voter, dovish) speaks				

Source: Bloomberg, Danske Bank

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