

# Danske Daily

## Cliff-edge Brexit postponed

### Market movers today

- After the EU27's decision to grant a very short unconditional extension of Brexit (see more below), we will follow closely the response from leading UK politicians today and over the weekend ahead of next week's decisions in the House of Commons.
- In the US, we get Markit PMIs (preliminary) for March, which will be particularly interesting on the back of this week's Fed meeting, where the central bank signalled concern about the momentum in the US economy. We still think Markit manufacturing PMI will stabilise, so we expect the manufacturing index to come in at 54, up from 53.
- We also get euro area March flash PMIs, where we expect some stabilisation in the manufacturing index, which we see arriving at 49.1, while we see services PMI continuing to rebound to 53.1 due to solid domestic demand. Today also brings German PMI; improving activity in Germany's industry will be an important ingredient for the euro area growth rebound we still expect to take shape in Q2.

### Selected market news

The EU Council decided to offer the UK a very short unconditional extension of the Brexit deadline of two weeks to 12 April, with a possible extension to 22 May if the House of Commons passes the Withdrawal Agreement before that. If the House of Commons rejects the deal again, the UK will either leave without a deal on 12 April or alternatively indicate a way forward for the EU Council to consider (i.e., among other things, accept participating in the European Elections in May). PM Theresa May accepted the terms. Basically, the EU leaders' agreement means that the UK has one more time to pass the deal but keeping the option of a long extension on the table. At the moment, a long extension seems more likely than the deal passing, as during the many votes in the House of Commons we saw a majority wanting to take a no deal Brexit off the table while May has still not found a majority for her deal as of now. That said, we have to watch the response from UK politicians in the coming days to see whether there will be a change of positions in British politics.

After the announcement, the GBP reversed earlier losses in Asian trading. US equity index futures, Treasuries and the USD were mostly steady, while 10Y Japanese bond yields fell to their lowest levels since November 2016 after disappointing inflation numbers.

While the Bank of England remained on hold amid mixed UK figures and growing Brexit uncertainties, yesterday Norges Bank (NB) hiked policy rates by 25bp as widely expected, but still delivered a hawkish surprise to the market by adjusting the rate path upwards. As Norges Bank supports our view on the relative performance of the Norwegian economy, we now expect NB to hike rates again in June, and deliver another rate hike in December (previous call was one 2019 hike in September). EUR/NOK continues to test the 9.60 support level and we think the carry-momentum argument has been significantly strengthened, with June becoming a live meeting, see [Norges Bank Review](#).

### Selected reading from Danske Bank

- [FOMC review: Fed done hiking rates](#)
- [Norges Bank Review: Hawkish hike - we now expect additional Jun and Dec hikes](#)
- [Brexit Monitor - 60% probability of a long Brexit extension](#)

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## Scandi markets

No releases in the Scandi markets today.

## Fixed income markets

Bunds rallied yesterday in the aftermath of the dovish Fed on Wednesday night and heightened Brexit concerns that pushed 10Y Gilt yields down by close to 10bp. The rally widened the Bund spread, which is back above 51bp. However, the global bond rally came to a halt in the US session as US equities rallied and Philly Fed and Claims data came out on the strong side. Brexit concerns continue to put an effective lid on any upward moves in yields this morning.

Both Italy and Spain outperformed core markets yesterday as investors once again rushed into carry trades after the FOMC and as auctions in Spain and France attracted good demand. In Italy, we note that the 10Y segment led the rally further instead of the usual 5Y point.

Spain is up for review by S&P (A-/positive outlook) tonight. Spain was put on a positive outlook in March 2018. S&P said that budgetary consolidation and further easing of the Catalan tensions would point to an upgrade within 18 months. Both factors now point towards an upgrade, but it will be a close call considering the significant uncertainty on the euro zone economy (which has not really affected Spain so far) and the upcoming early general elections on 28 April. All in all, we do not expect any change this time, but that S&P will wait until September. Spain should receive a 'positive outlook', or even an upgrade from Moody's (Baa1/stable) on 24 May. DBRS (A/stable) also has Spain up for review today. Spain remains our favourite pick in the periphery in the current carry-friendly environment. Belgium (S&P AA/stable) and Austria (Moody's Aa1/stable) are also up for review; we do not expect any change. For more rating details see [https://research.danskebank.com/abo/GovernmentBondsWeeklyw12150319/\\$file/GovernmentBondsWeekly\\_w12\\_150319.pdf](https://research.danskebank.com/abo/GovernmentBondsWeeklyw12150319/$file/GovernmentBondsWeekly_w12_150319.pdf).

## FX markets

FX markets will continue to digest yesterday's hawkish message from Norges Bank, which sent EUR/NOK to the low 9.60s; see our [review here](#). We now expect two additional 25bp rate hikes in 2019 – namely in June and December – and expect carry momentum to lend further support to NOK over the coming months.

The Swiss National Bank (SNB) kept all policy measures and signals unchanged yesterday as expected. The stance and another downward revision to inflation forecasts reflect a central bank that sees little relief in getting back to target. With the ECB sidelined, the SNB will have to remain patient for longer with little ability to shift into genuine 'normalisation' mode. EUR/CHF saw a delayed drop after the announcement and is a good example of the perceived asymmetry in reaction functions that haunt FX markets: SNB is constrained tool-wise, while the Fed has room to cut. What about the ECB? Near term, we think FX markets will test its willingness to shift into easing mode again. This hints at a higher EUR easing risk premium on a 3M horizon, which leaves downside risks to EUR/USD intact in our view. Today, focus is on PMIs, which could be decisive in fostering this provided the relative cyclical outlook continues to favour the USD.

The annual dividend season in Denmark is about to conclude and with US stocks grinding higher again with the USD, which should pave the way for EUR/DKK to fall back towards the 7.4600 level near term. We forecast EUR/DKK at 7.4570 in 3M.

EUR/GBP moved higher yesterday, as the EU leaders discussed whether to grant the UK an extension or not. Leaks from the discussions among the EU leaders suggested that they are more hawkish on Brexit than Tusk, Juncker and Barnier - as we highlighted in our daily yesterday. There was not really any movement after the meeting concluded, as in reality, the discussions we have had over the past two weeks will just continue for a few more weeks. If a deal passes, we still expect EUR/GBP to move lower towards 0.83, as markets can price out the immediate no deal Brexit risk premium. If we end with a long extension, EUR/GBP should move slightly lower but continue trading in the 0.85-0.87 range. If we end up with a no deal Brexit, EUR/GBP will move towards 1.00.

#### Key figures and events

Friday, March 22, 2019			Period	Danske Bank	Consensus	Previous
-	EUR	EU summit				
9:15	FRF	PMI manufacturing, preliminary	Index		51.2	51.5
9:15	FRF	PMI services, preliminary	Index		50.5	50.2
9:30	DEM	PMI manufacturing, preliminary	Index		48.1	47.6
9:30	DEM	PMI services, preliminary	Index		54.9	55.3
10:00	EUR	PMI manufacturing, preliminary	Index	49	49.5	49.3
10:00	EUR	PMI composite, preliminary	Index		52.0	51.9
10:00	EUR	PMI services, preliminary	Index	53.1	52.5	52.8
10:00	EUR	Current account	EUR bn			16.2
11:30	RUB	Central Bank of Russia rate decision	%	7.8%	7.8%	7.8%
13:30	CAD	CPI	m/m/y/y			.. 1.4%
13:30	CAD	Retail sales	m/m			-0.1%
14:45	USD	Markit PMI manufacturing, preliminary	Index	54.0	54.0	53.0
14:45	USD	Markit PMI service, preliminary	Index		56.5	56.0
15:00	USD	Existing home sales	m (m/m)		5.1	4.94 -1.2%
19:00	USD	Budget statement	USD bn		-230	8.7
20:30	USD	Fed's George (voter, hawkish) speaks				

Source: Bloomberg, Danske Bank

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