

Danske Daily

Looking for some PMI relief

Market movers today

- Focus today will be on PMIs for the euro area, the UK and the US. In the euro area there are some rays of light, not least with the recent German ZEW figures, and we look for a further uptick to 47.1 in PMI manufacturing for January.
- PMI will be particularly closely watched in the UK where very weak data lately has fuelled expectations of a rate cut from the Bank of England at the end of this month.
- In the US PMI manufacturing has diverged from the US ISM manufacturing index as PMI has moved higher in recent months, whereas the ISM index has dived lower. Given the more positive manufacturing signals in China for some time now, we believe more in the PMI and expect a further rise this month.
- The Corona virus is still going to get attention, as China has now put millions of people on lockdown in two cities at the epicentre of the virus outbreak that has killed 25 people and infected more than 800 so far. Yesterday the WHO declared it an emergency, though not yet an international concern.
- Finally, over the weekend we have an important regional election in Italy in Emilia-Romagna, which looks set to result in a defeat for the PD-Five Star coalition in one of the left's traditional heartlands, which may prompt calls for the coalition to resign.

Selected market news

Yesterday's ECB meeting was uneventful in terms of new policy signals, as Christine Lagarde refrained from giving clues about the future of monetary policy, because data since the December meeting was broadly in line with expectations.

The highlight was the launch of the strategic review although the details were scarce. The ECB highlighted the following. (1) The review will encompass a quantitative formulation of price stability, a monetary policy toolkit, economic and monetary analyses and communication practices. (2) Other considerations, such as financial stability, employment and environmental sustainability, will also be part of the review. (3) The ECB expects to conclude the review by the end of 2020. (4) The review will be based on thorough analysis and open minds, engaging with all stakeholders.

As we expected, the ECB left its growth risk assessment as skewed on the downside, while acknowledging some stabilisation in euro area growth dynamics and less pronounced risks surrounding international trade since December.

Norges Bank (NB) left the sight deposit rate unchanged at 1.50% in a decision widely expected by both markets and analysts. NB clearly expects the policy rate to remain unchanged at least until the next 'main' meeting in March. This is in line with our expectations, but we still pencil in a rate hike in June 2020, even if the probability of this call materialising has fallen considerably in recent weeks and arguably is not much more than 50% at this stage.

Selected readings from Danske Bank

- *Norges Bank Review: As expected, unchanged rates and little news*
- *Flash ECB Review: Nothing to see so far...keep moving*
- *FI Research: February 2020 EGB-index extension – overall duration to increase 0.12*
- *FX Trading Portfolio: Take profit on EUR/NOK, CAD/NOK; stay long NOK/SEK*
- *Reading the Markets Denmark: Positive closing effects look robust – largest in IOs*

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Scandies

There are no significant Scandi market movers today.

Fixed income markets

An uneventful ECB meeting and Lagarde refraining from any policy signals about the future stance ended in a sizeable rally, as investors sought carry positive positions once it was clear that Lagarde was not going to rock the boat. The long end of the curve drove the rally. Volatility also sold off and is trading close to record lows – a pattern that we expect to continue in the near future. Intra euro-area spreads were broadly unchanged as the rally was seen across the jurisdictions, except Italy where spreads tightened almost 5bp after the political turmoil in recent days. We do expect the carry positive environment as well as selling of volatility to continue. The EONIA front repriced 1bp in the 1y1y, to -43.6bp, which is 1.5bp above spot. We do not find attractive risk-reward in that part of the curve.

Tonight, Finland (Fitch and Moody's) and Greece (Moody's) are up for review. Finland is on a positive outlook from Fitch and there is a possibility of an upgrade, as Finland has come a long way in stabilising and reducing government debt such that it is more in line with AAA-rated peers.

Yesterday we published *Reading the Markets Denmark*, where we examine the positive closing effects, which look robust and are largest in IOs.

FX markets

The broad based USD rally continued yesterday. Following up on how we started the week, we continue to see a stronger USD, flattening of the yield curve, higher credit spreads, falling energy, gas and industrial metal prices and cyclical underperformance in equities. While these moves already started last week, the current virus outbreak has acted as an accelerator. What remains now is to consider if this is indeed a broader macroeconomic problem where the global macro momentum is slowing and a monetary response is required, or if this is just a buying opportunity in a few weeks' time. For now, the momentum is for further sell-off in favour of USD and more upticks in EUR/Scandi, see more specifics on EUR/NOK in *FX Trading Portfolio*, 23 January.

EUR/USD FX forwards have dropped on 6-12M tenors on the back of the setback in risk sentiment, which triggered a sharp drop in USD rates. The market is now priced for 30bp cuts in December. The front end of the FX forward curve remains well anchored by Fed's signals to stay on hold and the expectation of a 5bp IOER hike at one of the coming meetings. EURUSD XCCY basis has been unaffected by the move lower in EUR/USD spot and FX forwards.

EUR/GBP has moved close to 0.84 supported partly by stronger-than-expected economic indicators. Today's flash PMI for January is decisive for whether the Bank of England will cut the Bank Rate next week or not. As long as the PMI composite is below 52.0, next week's meeting is definitely live. If PMI composite comes out stronger than expected, EUR/GBP will move below 0.84, as markets will price out the possibility of a rate cut, while a disappoint could see EUR/GBP move up again closer to 0.85.

Key figures and events

Friday, January 24, 2020			Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Finland's debt rating				
-	EUR	Moody's may publish Finland's debt rating				
-	EUR	Fitch may publish Greece's debt rating				
0:30	JPY	CPI - national ex. fresh food	y/y	Dec	0.7%	0.5%
0:30	JPY	CPI - national	y/y	Dec	0.7%	0.5%
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jan		48.4
1:30	JPY	Markit PMI services, preliminary	Index	Jan		49.4
9:15	FRF	PMI manufacturing, preliminary	Index	Jan	50.4	50.4
9:15	FRF	PMI services, preliminary	Index	Jan	52.1	52.4
9:30	DEM	PMI manufacturing, preliminary	Index	Jan	44.5	43.7
9:30	DEM	PMI services, preliminary	Index	Jan	53.0	52.9
10:00	EUR	PMI manufacturing, preliminary	Index	Jan	47.1	46.3
10:00	EUR	PMI composite, preliminary	Index	Jan	51.1	50.9
10:00	EUR	PMI services, preliminary	Index	Jan	53.0	52.8
10:00	EUR	ECB's survey of professional forecasters				
10:30	GBP	PMI manufacturing, preliminary	Index	Jan	48.5	47.5
10:30	GBP	PMI services, preliminary	Index	Jan	50.7	50.0
14:30	CAD	Retail sales	m/m	Nov		-1.2%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jan	52.8	52.4
15:45	USD	Markit PMI service, preliminary	Index	Jan	52.5	52.8

Source: Bloomberg, Danske Bank

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