

Danske Daily

EU Parliament not ready to swallow EU budget cuts (yet)

Market movers today

- Today's highlight for markets will be the July Flash PMIs released in the euro area, the US and the UK. We expect PMIs to paint a constructive picture in Europe, with the gradual recovery continuing and PMIs likely edging into expansion territory (above 50) again. The US PMIs will be more interesting, though. With high frequency data pointing to a stalling in the US recovery as of late (see *High Frequency Activity Tracker: Germany leading the European recovery, 22 July*), markets will look for signs of a similar message in today's PMIs.
- Greece is up for review by Fitch today and it will be interesting to see how the agency assesses the impact of the EU recovery fund. On Wednesday S&P already hailed the instrument as a 'breakthrough for EU sovereign creditworthiness', mentioning lower funding costs for the lowest rated member states as an important trigger in terms of lowering the risks of potential future downgrades.

Selected market news

The EU recovery fund and MFF agreement struck after a four-day marathon summit earlier this week (see *EU recovery fund: White smoke at last, 21 July*) received a frosty welcome from the European Parliament (EP). MEPs particularly criticised the heavy spending cuts for common investment and research projects and demanded a stronger rule of law mechanism as their price for backing the deal. Although the parliament has no veto over the recovery package, MEPs also demanded a role in the governance of the Recovery and Resilience Facility and pushed for the EU to agree on more union-wide levies beyond the already planned tax on non-recycled plastic waste. The EP has a binding say over the EU budget. Although it has never vetoed an EU budget deal after it has been agreed by heads of state, we think approval is far from a done deal this time and another round of tough negotiations between the EP and member states might lie ahead. However, despite the adverse reception of the MFF in parliament, the mood in European fixed income markets stayed constructive, with 10Y Italian government bond yields falling below 1% for the first time since the lockdown in March. The complacency might be explained by investors' expectations that the EP will not seek to scupper the whole deal and eventually 'swallow the bitter pill' if the alternative is a flare up of fiscal fragilities and economic uncertainty. We have some sympathy with this view.

For the first time since March, weekly US jobless claims rose slightly to 1.4m from 1.3m the week before, marking yet another sign that the US recovery is losing steam. This is especially worrying as negotiations on the extension of temporarily higher unemployment benefits seem unlikely to result in a breakthrough before the programme expires at the end of July. While our base case is an extension during the course of August, there is a risk of no extension, which would lead to a significant negative income shock (see *Research US - Not extending higher unemployment benefits would lead to a significant negative income shock, 22 July*). America's stalling rebound also increasingly weighed on equity markets this morning with Asian shares in the red, while the US dollar extended its decline and 10Y US Treasury yields dipped below 0.6%.

Holiday edition

Selected readings from Danske Bank

- *China Macro Monitor - Recovery on track, 23 July*
- *Research US - Not extending higher unemployment benefits would lead to a significant negative income shock, 22 July*
- *COVID-19 Research - Face masks are a cheap way to contain COVID-19 and keep the economy running until a vaccine is ready, 22 July*
- *Flash comment: EU recovery fund: White smoke at last, 21 July*

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Key figures and events

Friday, July 24, 2020			Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Finland's debt rating				
-	EUR	Fitch may publish Greece's debt rating				
1:01	GBP	GfK consumer confidence, preliminary	Index		-26.0	-27.0
8:00	GBP	Retail sales ex fuels	m/m/y/y		6.6% -5.0%	10.2% -9.8%
9:15	FRF	PMI manufacturing, preliminary	Index		53.2	52.3
9:15	FRF	PMI services, preliminary	Index		52.3	50.7
9:30	SEK	PPI	m/m/y/y			-0.9% -3.8%
9:30	DEM	PMI manufacturing, preliminary	Index		48.0	45.2
9:30	DEM	PMI services, preliminary	Index		50.1	47.3
10:00	EUR	PMI manufacturing, preliminary	Index		49.6	47.4
10:00	EUR	PMI composite, preliminary	Index		50.9	48.5
10:00	EUR	PMI services, preliminary	Index		50.8	48.3
10:30	GBP	PMI manufacturing, preliminary	Index		50.8	50.1
10:30	GBP	PMI services, preliminary	Index		50.8	47.1
12:30	RUB	Central Bank of Russia rate decision	%	4.00%	4.25%	4.50%
15:45	USD	Markit PMI manufacturing, preliminary	Index		52.0	49.8
15:45	USD	Markit PMI service, preliminary	Index		51.0	47.9
16:00	USD	New home sales	1000 (m/m)		700	676.0 (16.6%)

Source: Bloomberg, Danske Bank

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