

Danske Daily

US politicians agree on USD2,000bn emergency package

Market movers today

- **Focus continues to be on the virus numbers, where we may see a peak in new cases in Italy and hence a slowdown in contagion.** Markets may be eyeing a peak in the bad news soon if we see confirmation of improvement in Italy and gradually in the rest of Europe. This would be expected in the US as well with a lag of maybe a week. We will publish a research paper on this issue later today.
- **On the data front we will get US durable goods orders for February.** It is the month when COVID-19 spread a lot in China and caused more uncertainty, so we might see an impact. However, the markets will probably disregard it as it is from before the significant spread outside China took hold.
- **We also get the final German IFO business survey for March.** We got a preliminary reading last week, which showed a big decline. The revised number could very well show a further drop.

Selected market news

Yesterday, US stocks had a very good day. The S&P 500 index rose the most since October 2008 and the Dow Jones index rose more than 11%, the biggest one-day increase since 1933. The improved risk sentiment is likely driven by a combination of early signs of improvement in Italy when looking at the number of new cases and expectations that the US would soon approve a third and big emergency spending package. Speaking of which, **the White House, the Senate Democrats and Republicans agreed to an emergency package of USD2,000bn overnight.** Details have not been released yet but it is set to include aid to employees, companies and state and local governments. The Senate may vote on this already later today. House Speaker Nancy Pelosi has been part of the negotiations and the House is expected to sign off as well. **That soon, it is too soon to say that this is really the bottom in risk. US futures are trading slightly down this morning.**

PMIs for Japan, Europe and the US declined significantly in March indicating a sharp GDP contraction, even worse than during the financial crisis. This is not a surprise given the measures implemented by the governments. We are in the middle of a deep recession, the question is just whether we are going to see a rebound in the second half of the year or not. This is still our expectation but uncertainty is high given the current circumstances. You can read about our euro area macro and US macro outlook in the two following pages: *Flash Comment Euro Area: Europe's economy in free fall* and *Macro US: Sharp GDP contraction but we still expect a rebound in H2*, 23 March.

We have updated our overview of the fiscal, monetary, liquidity, regulatory and credit measures that have been taken in the Nordic countries to fight the COVID-19 crisis. This time we take a closer look at regulatory changes. For more details see *Nordic Research: Update no 2: Policy measures in the Nordic countries*, 23 March. Yesterday, we also published an overview of recent Fed actions, see *Fed Monitor: Overview of policy actions*, 23 March.

Selected reading from Danske Bank

- *Nordic Research: Update no 2: Policy measures in the Nordic countries*
- *Macro US: Sharp GDP contraction but we still expect a rebound in H2*
- *Flash Comment Euro Area: Europe's economy in free fall*
- *Fed Monitor: Overview of policy actions*

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Scandi markets

The Riksbank conducts its first round of covered bonds today. It will buy bonds maturing 2024 from all issuers of mortgage bonds with a total amount of SEK10bn.

We have updated our overview of the fiscal, monetary, liquidity, regulatory and credit measures that have been taken in the Nordic countries to fight the COVID-19 crisis. This time we take a closer look at regulatory changes. For more details see *Nordic Research: Update no 2: Policy measures in the Nordic countries*, 23 March.

Fixed income markets

The positive risk sentiment in markets led to higher rates across the board, led by the long end. 10s30s eur swap steepened by 4bp and has remained in positive territory since late last week. The liquidity is still scarce with wide bid/ask spreads in what looks like investors preferring to stay side-lined after the violent moves last week.

After the Eurogroup meeting last night where they discussed using an ECCL via ESM as a backstop (up to 2% of GDP), the discussions for potential OMT activation are set to increase. However, we are concerned about the stigma attached to activating OMT, should it be needed. Furthermore, in our view the PEPP is significantly more powerful (and relevant to the current environment) than a 2% of GDP ECCL.

The ECB's weekly financial statement on Friday showed that the ECB had not activated the PEPP yet, but the PSPP had frontloaded much of the 120bn additional envelope as it saw purchases of 14.1bn, which was only exceeded at the time when the ECB bought EUR80bn/month. We have not received final confirmation when the PEPP programme starts, but Villeroy said yesterday that he expected the CP programme to start this week and a Bloomberg story suggested already today. This may not necessarily mean that the EGB part of the PEPP programme starts today, but as the CP and the Greek bonds are the only assets included in the PEPP, which is not in the PSPP, today may be the official launch.

While liquidity is still being pumped into the system (79bn yesterday at LTRO funds at -50bp), the FRA OIS is still elevated, which points to some stress in the market.

Today's supply comes from Norway and Sweden. Norway will sell NOK 2bn in NGB 3.0% 03/24. We recommend cautiously to buy the NST 476 either asset swapped or versus Germany at the auction, see *FI Strategy*, 24 March. In Sweden the supply comes in the form of SGB May 2031 (SEK5bn).

FX markets

EUR/USD appears generally supported by risk sentiment as optimism is spreading with regard to coronavirus and the effectiveness of both monetary and fiscal measures being taken. However, we note other currencies may very well be more exposed to such optimism than spot EUR/USD. Notably yesterday, when volatility came down, spreads narrowed and the most beaten of all equity markets outperformed and/or did quite well, EUR was still unable to hold on to its gains. This suggests that upside in EUR/USD is still quite some time away, even if markets improve, and we continue to target 1.05 on 1M and 1.07 on 12M horizon.

Yesterday should have been a stellar day for the **SEK** given the significant stock market rally and risk on. It was not. After much hesitation EUR/SEK did dip below the 11.00 mark, but then bounced back, seemingly not yet ready to establish a new lower range. That could well happen though, if the good risk momentum does not evaporate. That is a big IF though. Implied SEK vols have come down, while liquidity is still far from normal. Investors may

be putting poor data (in Sweden reports of layoffs and bankruptcies) aside for now, but they are not bolstering the SEK outlook. Tomorrow offers a batch of SE confidence data - will probably look quite bad.

Key figures and events

Wednesday, March 25, 2020			Period	Danske Bank	Consensus	Previous
8:00	NOK	Unemployment (LFS)	%	Jan		3.9%
9:30	SEK	PPI	m/m y/y	Feb		-1.0% -0.4%
10:00	DEM	IFO - business climate, final	Index	Mar		87.7
10:00	DEM	IFO - current assessment, final	Index	Mar		93.8
10:00	DEM	IFO - expectations, final	Index	Mar		82.0
10:30	GBP	PPI - input	m/m y/y	Feb	-1.9% -0.8%	0.9% 2.1%
10:30	GBP	CPI	m/m y/y	Feb	0.3% 1.6%	-0.3% 1.8%
10:30	GBP	CPI core	y/y	Feb	1.5%	1.6%
13:30	USD	Core capital goods orders, preliminary	%	Feb	-0.4%	1.1%
14:00	USD	FHFA house price index	m/m	Jan		0.6%
15:30	USD	DOE U.S. crude oil inventories	K			1954

Source: Bloomberg, Danske Bank

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