

# Danske Daily

## Brexit showdown 2.0

### Market movers today

- Tonight at 20.00 CET, the House of Commons will vote on Prime Minister Theresa May's Brexit Plan B (and amendments). See *Brexit Monitor: Pressure is mounting*, 28 January. The vote is not legally binding but it is set to shed light on what the House of Commons wants. While there are many suggested amendments (see the BBC's overview *here*), it is up to the speaker to decide which ones the Commons will get a vote on. At the moment, the two most important are the Cooper and Brady amendments.
- In the US, consumer confidence from the Conference Board is due out in the afternoon. Although still at a high level, it has dropped over the past two months – possibly due to the government shutdown.
- Otherwise, markets will be looking ahead to the start of the high level trade talks in Washington tomorrow between the US and China.

### Selected market news

Overnight, the US filed criminal charges against Huawei and its CFO Meng Wanzhou, accusing the Chinese telecom company of stealing American technology and breaking US sanctions against Iran. The allegations weighed on Asian markets this morning, with technology stocks taking a hit, and it might complicate a pivotal round of trade talks scheduled to take place between the US and China from tomorrow.

The Congressional Budget Office (CBO) released its 10-year budget outlook for the US yesterday in which it projects US deficits to remain between 4-5% of GDP and public debt in 2029 to reach 93% of GDP (from 78% currently). The CBO also stated that the government shutdown delayed approximately USD18bn in discretionary spending and has lowered (annualised) Q1 GDP growth by 0.4pp (i.e. 0.1pp in 'European terms').

Brexit comes into the limelight again today and yesterday proved to be another hectic day in the UK ahead of today's important vote. First, PM May did a U-turn and now supports the so-called Brady amendment, which says that the UK can accept the Withdrawal Agreement if the backstop is replaced by 'alternative agreements' (without specifying what that may be). It is still unknown whether hard Brexiteers will support it (if not, the amendment will fail) but they will meet an hour before the vote scheduled for 20:00 CET. We do not know the DUP's position yet. Even if it passes, both the EU and Ireland have refused to reopen the Withdrawal Agreement several times, although it may be easier if they know it has backing from a majority in the UK House of Commons. The Cooper amendment, which we thought would pass with a small majority, is also under pressure, as Conservative MPs are being whipped against voting in favour of it and Labour has not officially said it supports it. There is a risk is that none of the amendments nor May's statement will pass later tonight, meaning we would remain in uncharted territory (see *Brexit Monitor: Pressure is mounting*, 28 January). After last week's rally, EUR/GBP retreated somewhat on the latest headlines, trading at 0.869 at the time of writing.

### Selected reading from Danske Bank

- *Brexit Monitor: Pressure is mounting*
- *China Weekly Letter: Trade talks enter crucial stage*
- *Macro Strategy Views Podcast: Brexit, trade war and policy responses*
- *Research Germany: The epicentre of the euro area slowdown*

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## Scandi markets

No Scandi market movers are due to be released today.

## Fixed income markets

A very busy day in the European sovereign bond market as there are several syndicated deals on the agenda. Greece will introduce a new 5Y benchmark. Greece is rated well below IG, but investors are being compensated as the 5Y bond is likely to be priced with a yield around 3.5% – some 175bp above Italy. Given the healthy yield and the current ECB-induced ‘hunt for yield’ environment, we look for good demand. Note that many real money accounts are unable to buy the bond, so keep an eye on the hedge fund participation. If we are correct about demand, we could see a positive spill-over to other periphery markets.

In semi-core markets, we have Austria in the market with a new 10Y benchmark deal and Belgium is introducing a new 30Y bond. Kfw will sell a new 5Y bond. After today, we are almost through the syndication season. We still have not heard anything from Finland, which we expect in the market next week in the 10Y segment.

European fixed income came under broad pressure yesterday ahead of today’s issuance. However, losses were limited as Draghi said that ‘if things go wrong, we can still resume other instruments in our toolbox’. US yields also edged lower as demand for especially 5Y US treasuries surprised on the upside and as equities and commodities remained under pressure. All in all, we should expect Bunds to open higher this morning.

## FX markets

It was a relatively quiet day in the major FX space yesterday, except for GBP which suffered from rising political uncertainty and likely also profit taking (from stretched levels) ahead of today’s vote on the UK House of Commons. Previously, we thought that the so-called Cooper amendment was likely to pass in parliament, but following yesterday’s political development, it now seems much more uncertain. We expect EUR/GBP to remain in the 0.86-0.89 range short term and stress that a break below 0.86 might require further reduction in the ‘no deal’ Brexit risk than what the Cooper amendment provides.

Last week’s weak retail sales data were followed yesterday by a slightly larger-than-expected trade deficit for December. As a result, EUR/SEK has continued to drift higher, and is now trading at levels last seen before the Riksbank December hike (10.35). We believe this to be an overreaction to disappointing Swedish data, and we argue that the cross is somewhat overbought. Interest rate differentials coupled with a proxy for risk indicate that the cross would trade closer to 10.20, our 1M target.

EUR/NOK price action yesterday mirrored EUR/SEK with hence very little change in NOK/SEK. Also today NOK will be left in the hands of the global environment and not least oil, which has tested the USD60/bbl level.

## Key figures and events

Tuesday, January 29, 2019			Period	Danske Bank	Consensus	Previous
-	GBP	House of Commons votes on Brexit plan B (including amendments)				
8:00	DKK	CB's securities statistics	Dec			
8:00	DKK	Foreign portfolio investments	Dec			
8:45	FRF	Consumer confidence	Index			87.0
14:00	HUF	Central Bank of Hungary rate decision	%	<b>0.90%</b>		0.90%
16:00	USD	Conference Board consumer confidence	Index		125.0	128.1

Source: Bloomberg, Danske Bank

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