

Danske Daily

President Trump to respond to new Chinese law against Hong Kong

Market movers today

- Today, we have a lot of interesting things on the agenda. A key focus point in the market is the tense situation between the US and China over Hong Kong. Today, US President Trump will hold a press conference about US measures in the form of sanctions against Chinese officials who are dealing with Hong Kong. More forceful measures, such as applying the same trade rules to Hong Kong as mainland China, may be considered down the road.
- In the Nordics, we get Q1 GDP details from Denmark and Sweden and unemployment data for Denmark and Norway (April and May, respectively). Norway is set to unveil new fiscal stimulus measures. For more details see Scandi section overleaf.
- In the euro area, the ECB's monetary statistics for April and preliminary HICP inflation in May are due out at 11:00 CEST.
- We will also keep an eye on the April monthly private consumption data from France.
- In the US, monthly real private consumption for April is due out at 14:30 CEST, which is likely to show another significant decline. However, to some extent it is old news and more high-frequency data based on transaction card spending has shown a gradual improvement in May, see *US Macro Monitor: Early signs the bleeding is stopping but the wound has not healed*, 26 May.

Selected market news

After a strong rally over the past weeks, ignoring the tensions building between China and the US over Hong Kong, market anxiety started creeping in in the US session and overnight in Asia ahead of President Trump's press conference later today. He is set to outline the administration's response to the decision by China to tighten the grip on Hong Kong. Yesterday, China's National People's Congress passed the anti-secession law, which will allow China to extend many of its security practices to Hong Kong. On Wednesday, this law prompted Secretary of State Mike Pompeo to declare that Hong Kong was no longer to be seen as autonomous from China. This opens up for actions from Trump and the US administration, which could mean imposing sanctions against foreigners who undermine "fundamental freedoms" and autonomy in Hong Kong or go as far as revoking Hong Kong's favoured status. The question is how far Trump will go at today's press conference, as removing Hong Kong's favoured status would probably spark negative market developments, hitting global risk sentiment, which could backfire on the US economy as it would further deteriorate the relationship with China. With US-China tensions running high, we continue to see risk to the upside for USD/CNY and USD/CNH.

In Europe, the EU Commission economic sentiment index yesterday rose only marginally to 67.5 from 64.9 in April, while services confidence continued to fall to -43.6 from -38.6. That said, the details were less bleak, as both demand and employment expectations recovered some ground in the services and retail sectors and production expectations also rose in industry/construction. However, order book levels eased further in a sign that a swift industry turnaround is not yet in sight, especially for car manufacturers. On the consumer side, households' expectations of their financial situation improved slightly.

Selected reading from Danske Bank

- *CB Research - PEPP'in it up*, 28 May
- *US Macro Monitor - Early signs the bleeding is stopping but the wound has not healed*, 26 May
- *Spending Monitor: Overall spending at more normal levels, and early signs of activity returning to restaurants*, 20 May
- *Yield Outlook: QE capping long-term yields through 2020, despite large supply*, 17 May
- *Euro Area Research - Strong Franco-German recovery fund proposal*, 19 May
- *Euro Area Research: The road to recovery*, 14 May

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Scandi markets

In Norway, the government is set to announce a fiscal stimulus package today, consisting of general measures to support the economy in the post-corona period. Naturally, the size is difficult to anticipate, but we expect around 2-3% of GDP and probably including both 2020 and 2021. Keep in mind that the government has already published corona-related measures amounting to 5.1% of GDP. The weekly numbers indicate that unemployment bottomed out around mid-April and the jobless rate fell from March to April. This trend has continued, so we expect NAV unemployment to have dropped from 9.6% in April to 6.4% in May.

In Denmark, we get the full national accounts figures for Q1. It will be interesting to see how the individual segments of the economy performed during lockdown in the latter part of the quarter. Statistics Denmark's property prices for March are also due today, as are the unemployment figures for April. Figures from property website 'Boligsiden' indicate house prices have fallen despite still relatively high sales activity. The question is whether a similar picture will emerge from Statistics Denmark's figures. April unemployment is likely to have risen somewhat following the relatively modest increase in March, which did not really match the 50,000 new jobless the Ministry of Employment's daily unemployment figures had shown.

In Sweden, we also get GDP numbers for Q1. The GDP data will be interesting but since it is for the first quarter it does not capture the effects of COVID-19 that much. Different indicators suggest that GDP dipped slightly in Q1, and we estimate a decline of 1.0 % y/y, but of course the big drop will come in Q2.

Fixed income markets

The periphery continues to perform relative to core-EU markets and the 10Y BTP-Bund spread is now well below 200bp. This is driven by risk-on sentiment as global central banks are ready to do more and because of expectations regarding the EU recovery fund. Hence, we expect the ECB will increase the PEPP at the meeting next week. See more in our ECB preview, *CB Research - PEPP in it up*, published on 28 May.

Today, Italy will sell up to EUR7.5bn in 5Y and 10Y BTPs and a 3Y FRN. Given the positive sentiment surrounding the periphery, we expect the Italian auction will go smoothly. The "avalanche" of EGB supply will continue next week, when France and Spain come to the market together with Austria and Germany. With no redemptions, net cash flow will again be negative.

Belgium is up for review by Moody's. Belgium is on a stable outlook and while there is risk of a change in the outlook, we expect the rating to remain unchanged. Ireland is up for review by S&P. The outlook is stable and also here there is risk of a change in the outlook, but we expect the rating will remain unchanged.

We have seen solid demand for Danish fixed income assets - whether it is government bonds, T-bills or mortgage bonds. Yesterday's Danish T-bill auction again showed solid demand for Danish T-bills even though they were sold a bit more expensively than at the previous auction. However, there is still a positive spread to the Danish central bank's deposit rate and thus it still looks cheap. One of the few segments where the spread has not moved that much is the 5Y segment on the Danish curve. The 5Y spread has tightened some 3-4bp since the initial widening, while the 30Y segment has tightened some 112-13bp and the 2Y segment has tightened 7-8bp.

FX markets

In line with our expectations, EUR/USD has seen an upward pull over the past month, now standing just shy of 1.11. The renewed EUR optimism has been driven by increased confidence in the global economy, but also by EU institutions starting to agree that an accommodative stance is indeed needed, especially in terms of fiscal policy. Looking ahead, Brexit and trade talks are likely to limit optimism in the spot from the current levels and we generally still think that the USD will remain strong in the months to come.

Yesterday, EUR/SEK embraced risk sentiment again while at the same time SEK-buying is consistent with month-end rebalancing flows. On today's agenda we have Swedish GDP at 09:30 local time and a late afternoon appearance from Mr Ingves. Barring a significant GDP surprise, we doubt markets will care much. Short term, we are neutral on the SEK, though with a preference to look for buying rather than selling opportunities in EUR/SEK. We agree with pricing on the Riksbank and acknowledge that equities could either continue to grind higher or suffer losses due a 'reality check'. Our 3M target for EURSEK is 10.60 and fair value according to the short-term model is around 10.65. In *Reading the Markets Sweden* published today we look at the SEK in relation to risk, debt and valuation.

The neighbouring NOK continues to perform and today we expect a phase 3 stimulus package to underpin a continued need for Norges Bank to buy NOK. Norges Bank will announce daily June purchases at 10:00 CEST but note it's not given that these will be lifted. Instead, the central bank could opt to just buy for a longer period of time at a pace of NOK 2.1bn. In the end we emphasise that it is the total amount of NOK that needs to be bought that is important. We stay bullish NOK for now.

In Poland, the central bank surprised the markets and ourselves by cutting its policy rate by 40bp to 0.10% as it fears the corona crisis will lead to sharply lower inflation. However, the PLN barely weakened, which indicates that the PLN is much in the hands of global risk sentiment at the moment.

Key figures and events

Friday, May 29, 2020			Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Ireland's debt rating				
1:00	GBP	GfK consumer confidence	Index	May		-33.0
1:30	JPY	Unemployment rate	%	Apr		2.5%
1:30	JPY	Job-to-applicant ratio		Apr		1.39
1:50	JPY	Retail trade	m/m y/y	Apr		-4.5% -4.6%
7:00	JPY	Consumer confidence	Index	May		21.6
8:00	NOK	Credit indicator (C2)	y/y	Apr		4.7%
8:00	DKK	GDP, preliminary	q/q y/y	1st quarter		0.6% ...
8:00	DKK	Gross unemployment s.a.	K (%)	Apr		116 (4.1)%
8:00	DKK	Property prices		Mar		
8:00	FRF	HICP, preliminary	m/m y/y	May		0.0% 0.4%
8:45	FRF	GDP, final	q/q y/y	1st quarter		-5.8% -5.4%
8:45	FRF	Household consumption	m/m y/y	Apr		-17.9% -18.1%
9:00	CHF	KOF leading indicator	Index	May		63.5
9:00	SEK	Trade balance	SEK bn	Apr		4.1
9:30	SEK	GDP	q/q y/y	1st quarter	.. -1.0%	0.2% 0.8%
9:30	SEK	Wages (blue collars/white collars)	y/y	Mar		3.1%
9:30	SEK	Household lending	y/y	Apr		5.2%
10:00	NOK	Unemployment	%	May	6.3%	9.6%
10:00	NOK	Norges Bank's daily FX purchases	m	Jun		-2100
10:00	ITL	GDP, final	q/q y/y	1st quarter		-4.7% -4.8%
10:00	EUR	Money supply (M3)	y/y	Apr		7.5%
10:00	EUR	Loans to households (adj. for sales and sec.)		Apr		
10:00	EUR	Loans to NFCs (adj. for sales and sec.)		Apr		
11:00	EUR	HICP inflation, preliminary	y/y	May	0.1%	0.4%
11:00	EUR	HICP - core inflation	y/y	May	0.8%	
11:00	ITL	HICP, preliminary	m/m y/y	May		0.5% 0.1%
12:00	EUR	Portugal, GDP, final	q/q y/y	1st quarter		-3.9% -2.4%
14:00	USD	Advance goods trade balance	USD bn	Apr	-65.0	-64.4
14:30	USD	Personal spending	m/m	Apr	-9.7%	-7.5%
14:30	USD	PCE headline	m/m y/y	Apr		-0.3% 1.3%
14:30	CAD	GDP	m/m y/y	Mar		0.0% 2.1%
14:30	USD	PCE core	m/m y/y	Apr		-0.1% 1.7%
15:00	USD	Chicago PMI	Index	May		35.4
16:00	USD	University of Michigan Confidence, final	Index	May		
22:00	EUR	Moody's may publish Belgium's debt rating				

Source: Bloomberg, Danske Bank

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