

# Danske Daily

## Macron-Merkel heading to Meseberg, again

### Market movers today

- Markets will continue to monitor the global COVID-19 development, as global cases now top 10,000,000 and global deaths unfortunately are set to climb above 500,000 today. In particular, the US situation continues to worsen and the reopening in e.g. Texas is now on halt. We are concerned about the development in the US, as increasing COVID-19 fears may lead to a setback in the US consumption rebound.
- Today, the Macron-Merkel meeting in Meseberg is taking place ahead of the 17-18 July summit. The two leaders will discuss what strategy to employ to get the 'frugals' on board with the recovery fund.
- Also today, the EU-UK free trade negotiations are set to restart with talks taking place in Brussels every workday of the week. We continue to believe there will be no major breakthrough over the summer, as we are still too far away from the 'real' deadline on 31 December 2020.
- In terms of economic data releases, the European economic confidence indicators for June from DG ECFIN are due out at 11:00 CEST.

### Selected market news

**Market sentiment was sour on Friday.** After equities touching year-to-date highs earlier this month, we are now somewhat in the red territory again – and that has continued overnight in the Asian session where major indices are down around 1%. Lingering uncertainties about the spreading of COVID-19 and the potential of a second wave has made investors uneasy heading into the summer. **US COVID-19 cases continue to set new daily highs and several states are now haunted by second virus waves.** We are yet to see states introducing lockdown measures, but the risk is notably higher, most recently after the opening strategy was put on hold in a few states, see *COVID-19 update: US situation keeps getting worse, local lockdowns in Europe, stocks move lower (25 June)*. The risk sentiment this week is expected to be driven by a mix of COVID-19 numbers, continued central bank support and incoming information about the opening of the economies.

In support to the Chinese lending dynamics, PBOC announced that it will increase the proportion of smaller loans and credits and lower the rates, in its most recent initiatives.

Comments in the ongoing German constitutional court (GCC) case against the ECB are intensifying. During the weekend, ECB board member Schnabel gave another speech targeting the German audience, while GCC judge Hüber said that they are no longer involved but leaving it to the responsibility of the Bundesbank.

With 80% of the votes counted at the time of writing in the Polish general election yesterday sitting President Duda has received 46% of the votes. As widely expected, they fall short of the 50% threshold required to win the election and hence a 12 July run-off against Trzaskowski (28%) should decide the result of the next presidency.

### Selected reading from Danske Bank

- *COVID-19 update: US situation keeps getting worse, local lockdowns in Europe, stocks move lower, 25 June*
- *FI Strategy: EU as an issuer - the recovery fund, 26 June*
- *Spending Monitor: Some weakness, but largely from differences in timing of paydays, 23 June*
- *IMM Positioning Update: Investors significantly trim S&P500 mini shorts, 28 June*

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## Scandi markets

Today brings the Swedish trade balance for the month of May and PES' weekly notice data. Albeit interesting, especially the PES data, we do not expect any of these to move markets significantly.

## Fixed income markets

Friday's vote in Fine Gael, Fianna Fail and the Greens resulted in a new formed coalition, with Fianna Fail's Michael Martin replacing Leo Vadakhar as new Irish PM. With a tail event of a coalition government breakdown pushed aside, the continued spread tightening may continue. That said, with the 10Y Irish spread close to pre-coronavirus levels, we closed our Irish positions on Friday heading into the vote, see more in *Government Bond Weekly*, 26 June 2020.

Today, the Deutsche Finanzagentur will issue its funding calendar for H2 20. We look for an increase in issuance and composition, after the increase in the German budget earlier this month of EUR130bn.

We have a quite busy week ahead of us with supply (EUR30bn expected) from Germany, Italy, Spain and France, but with an almost equal amount of coupons and redemptions, we will see a broadly zero net cash flow – excluding ECB purchases. ECB purchases are expected to be around EUR20bn in EGBs this week.

Today, DN is tapping in the four T-bills at 10:15. The DN has sold plenty of CPs (foreign currency) and DKK T-bills the last months (more than DKK100bn) and currently the target is DKK140bn end of this year. Hence, we expect the T-bills to be sold at the same (-0.50% to -0.48%) or marginally lower yield levels today.

On Friday, we published a piece on the EU recovery fund, where we compare the EU as an issuer with ESM, EFSF, EIB. We look at the potential supply, ECB QE relative to supply, pricing and potential risks, see more *FI Strategy: EU as an issuer - the recovery fund*, 26 June 2020.

## FX markets

The US virus situation and political and economic reactions are set to stay centre of attention for FX markets. Increasingly tense markets due to virus woes and as liquidity becomes scarcer into summer combined with stretched USD short positioning make the greenback prone to see support in the current environment. EUR/USD risks a dip while USD/JPY may hold decently. The political backdrop may further call for risk assets to take a breather with EU-UK trade negotiations due to re-start and prone to deliver confrontational headlines. Also, Biden's lead in the polls as the US presidential election campaign moves closer to the radar of investors may dampen risk sentiment more broadly as his tax plan gets more attention. Besides virus-related news, key this week will be Fed minutes – where we will look for FOMC thinking around yield-curve control and hints of a possible commitment to inflation overshooting (USD negative if forceful) – and the Riksbank meeting – where we will look for what scenarios the Riksbank bases its repo-rate path upon and for any comments on SEK moves (krona negative if seen required for inflation to get back on track).

Key figures and events

Monday, June 29, 2020				Period	Danske Bank	Consensus	Previous
1:50	JPY	Retail trade	m/mly/y	May		3.0% -11.6%	-9.9% -13.9%
8:00	DKK	Business confidence		Jun			
9:00	ESP	HICP, preliminary	m/mly/y	Jun		- 0.4%	0.1% -0.9%
9:30	SEK	Trade balance	SEK bn	May			7.6
11:00	EUR	Industrial confidence	Net bal.	Jun		-17.0	-27.5
11:00	EUR	Economic confidence	Index	Jun		81.7	67.5
11:00	EUR	Consumer confidence, final	Net bal.	Jun			-14.7
11:00	EUR	Service confidence	Net bal.	Jun		-23.0	-43.6
14:00	DEM	HICP, preliminary	m/mly/y	Jun		0.4% 0.6%	0.0% 0.5%
16:00	USD	Pending home sales	m/mly/y	May		18.9% _	-21.8% -34.6%
17:00	USD	Fed's Daly (non-voter, neutral) speaks					
21:00	USD	Fed's Williams (voter, neutral) speaks					
Tuesday, June 30, 2020				Period	Danske Bank	Consensus	Previous
1:01	GBP	GfK consumer confidence, final	Index	Jun		-29.0	-30.0
1:30	JPY	Unemployment rate	%	May		2.8%	2.6%
1:30	JPY	Job-to-applicant ratio		May		1.22	1.32
1:50	JPY	Industrial production, preliminary	m/mly/y	May		-5.7% -23.2%	-9.8% -15.0%
3:00	CNY	PMI manufacturing	Index	Jun		50.5	50.6
3:00	CNY	PMI non-manufacturing	Index	Jun		53.7	53.6

Source: Bloomberg, Danske Bank

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