

Danske Daily

Packed day with many important Scandi releases

Market movers today

- It is time for the first **euro area** inflation print for November. After the German HICP we expect headline inflation to increase to 1.0% y/y and core inflation to increase to 1.2% y/y.
- Also look out for the **Swiss KOF** indicator and any comments on **US-China trade negotiations**.
- Over the weekend we will get **Chinese** PMIs for November. We look for a big drop in the Caixin PMI manufacturing as it has leaped to very high levels. On the other hand, we expect the NBS manufacturing PMI to rebound as it fell back to a very low level last month. The two PMIs thus point in opposite directions and we believe the truth is somewhere in the middle, as signalled by other activity indicators such as rail freight, electricity production and exports from economies close to China, which have all shown a moderate rebound lately.
- In Scandi it is time for Swedish and Danish (second release) GDP for Q3 as well as retail sales in Norway (see page 2 for more on Scandi). The Riksbank committee presents its proposal at 11.30 CET today. Much of it was released on 11 October. None of the proposed changes is likely to affect the monetary policy stance.

Selected market news

This morning we published a publication taking a deep dive into euro area inflation dynamics, looking at the latest developments in inflation drivers, market dynamics and the core inflation outlook from a bottom-up approach, see *Euro Area Research: Measuring the euro area inflation pulse*, 29 November.

US President Trump has signed two bi-partisan bills supporting the pro-democracy protesters in Hong Kong. The first bill says the US executive branch must re-examine Hong Kong's status annually and imposes sanctions on people violating human rights. The second bill blocks new export licences selling police products (tear gas, rubber bullets etc.) to Hong Kong police. China has promised to come with countermeasures, but nothing has been announced yet. This is also important in the light of the ongoing trade negotiations between the US and China where a phase 1 deal is still not finalised, although the two sides so far have kept trade and other political issues separate. This is also in both countries' economic interest.

UK Prime Minister Boris Johnson has said the UK will not strike a free trade deal with the US after Brexit if the US also wants full access to health services.

In Japan, industrial production fell 4.2% in October (-7.4% y/y), which is quite a big fall despite the volatility of production data. Normally this would be a cause of concern, especially in the current environment where the world economy remains fragile despite signs of stabilisation, but we are not too concerned as it is probably driven by a combination of the typhoon and the VAT hike. Bank of Japan governor Kuroda has said the Bank of Japan has sufficient room to lower rates at present but that rates cannot be lowered endlessly.

Selected readings from Danske Bank

- *UK Election Monitor - YouGov's MRP model predicts a majority win for the Conservative Party - it is our new base case*
- *Euro Area Research - Inflation's race against the digital machine*
- *China Weekly Letter - Phase one deal hinges on tariff cuts by the 'tariff man'*

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Scandi markets

In **Norway**, retail sales are currently battling relatively strong structural headwinds and growing much more slowly than consumption of services. We nevertheless expect moderate growth of 0.4% m/m in October due to solid consumer fundamentals. Real wage growth is strong enough to compensate for higher interest rates and employment is still growing well. Nor are we too worried by the slightly weaker consumer confidence numbers, as they have a poor track record in explaining variations in the saving rate.

Unemployment has begun to flatten out but the number of vacancies is still increasing and hours worked are growing faster than employment, which indicates that demand for labour is holding up and that the flat unemployment is due to bottlenecks. We expect registered unemployment to be unchanged at 2.2% in November.

Swedish Q3 GDP will be an important input at the Riksbank December meeting. Private consumption indicators suggest a positive contribution to GDP growth, which is likely to be partly balanced by declining investments, a fall in trade surplus and unchanged working hours. In total we see a small increase q/q, which would put y/y growth at 1.8%. In contrast, our GDP tracker still suggests growth remained low at just 1.2% y/y. Note that the revision of the LFS survey may cause revisions to GDP (e.g. hours worked has been revised lower).

Fixed income markets

Modest upward movement in **European government bond yields** yesterday despite the increased uncertainty regarding the possible trade deal between the US and China. Trump's support of the protesters in Hong Kong adds to the uncertainty.

We need to see a significant downward surprise in the Swedish GDP data for markets to price out a December hike. The **10Y SGB-Bund spread** has widened more than 10bp since mid-October given the expectations for a rate hike in December. Today's data is not expected to change this recent widening.

Tonight, **Ireland** is up for review by Standard & Poor's. Ireland is rated A+ with a stable outlook. As long as there is no firm Brexit deal, the Irish rating is stuck at single-A level but we see a small chance of a change in the outlook to positive as the Irish economy is doing well.

FX markets

Progress in trade talks and signs of a modest cyclical recovery in global economic growth are not enough to provide sustained optimism in **commodity markets**. Rather the strong USD is hindering rising commodity prices. That said, the leg higher in commodity prices this week has weighed on the JPY and benefitted commodity currencies; CAD and NZD more than AUD and NOK, though.

The large T-bill auction in Denmark yesterday provided some upward pressure to **EUR/DKK** FX forwards. That arose from: (1) the temporary negative effect on DKK excess liquidity and (2) right hand side flow since foreigners likely were among the main buyers. There is one auction left this year, which will be in two weeks. It could also result in another large issuance and a further extension of today's move. As for EUR/DKK spot, it is trading slightly lower from the recent peak, as DKK has seen support from the combination of higher US stock markets and lower German bond yields this week.

EUR/SEK is eyeing 10.50 ahead of the GDP numbers. Growth around our 1.8% estimate (RB 2.0%) is SEK neutral, but a substantial surprise would either pull spot below 10.50 or send it toward 10.60. Given that a December hike is all but priced in and the cross is technically oversold, we deem risks as being skewed to the upside. We will also scrutinise the parliamentary review of the Riksbank, which is scheduled for publication today.

Key figures and events

Friday, November 29, 2019			Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Ireland's debt rating				
0:30	JPY	Unemployment rate	%		2.4%	2.4%
0:30	JPY	Job-to-applicant ratio			1.56	1.57
0:50	JPY	Industrial production, preliminary	m/m y/y		-2.0% -5.3%	1.7% 1.3%
1:01	GBP	GfK consumer confidence	Index		-14.0	-14.0
6:00	JPY	Consumer confidence	Index		37.0	36.2
8:00	DKK	House and apartment prices	m/m y/y			
8:00	NOK	Retail sales, s.a.	m/m	0.4%	-0.2%	-0.1%
8:00	DKK	Gross unemployment s.a.	K(%)			0.037
8:00	DEM	Retail sales	m/m y/y		0.2% 2.8%	0.0% 3.4%
8:00	DKK	GDP, preliminary	q/q y/y	3rd quarter		0.9% ...
8:45	FRF	Household consumption	m/m y/y		0.2% ...	-0.4% 0.3%
8:45	FRF	HICP, preliminary	m/m y/y		-0.1% 1.1%	-0.1% 0.9%
8:45	FRF	GDP, final	q/q y/y	3rd quarter	0.3% 1.3%	0.3% 1.3%
9:00	CHF	KOF leading indicator	Index		95.0	94.7
9:30	SEK	GDP	q/q y/y	3rd quarter	...% 1.8%	0.2% 1.7%
9:30	SEK	Wages (blue collars/white collars)	y/y			2.6%
9:55	DEM	Unemployment	%		5.0%	5.0%
10:00	NOK	Norges Bank's daily FX purchases	m			-700
10:00	NOK	Unemployment	%	2.2%	2.2%	2.1%
11:00	EUR	Unemployment	%		7.5%	7.5%
11:00	EUR	HICP - core inflation, preliminary	y/y	1.1%	1.2%	1.1%
11:00	EUR	HICP inflation, preliminary	y/y	0.7%	0.9%	0.7%
11:00	ITL	HICP, preliminary	m/m y/y		0.2% 0.2%	0.2% 0.2%
12:00	ITL	GDP, final	q/q y/y	3rd quarter	0.1% 0.3%	0.1% 0.3%
12:00	EUR	Portugal, GDP, final	q/q y/y	3rd quarter		0.3% 1.9%
14:30	CAD	GDP	m/m y/y	Sep		0.1% 1.3%

Source: Bloomberg, Danske Bank

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