

# Danske Daily

## Bundesbank to continue in the PSPP

### Market movers today

- Today we have lot of interesting things on the agenda besides monitoring the global COVID-19 development, which, sadly, continues to move in the wrong direction in the US and emerging markets/developing countries.
- Fed Chair Jerome Powell and Treasury Secretary Mnuchin both speak during a virtual hearing before the Senate Banking Committee. While we do not expect Powell to send any new signals (in that regard we think the FOMC minutes tomorrow are more interesting due to the yield curve control discussions), we will listen carefully to Mnuchin if he says something about fiscal policy. The temporarily higher unemployment benefits expire by the end of July and negotiations on whether to extend this (possibly at a lower level) are expected to begin after the 4 July holiday.
- In terms of data points today, euro area flash HICP inflation for June is due out at 11:00 CEST. Monthly French private consumption for June is also interesting with respect to monitoring the economic rebound in the euro area. In the US, consumer confidence from Conference Board is expected to increase slightly as signalled by the weekly consumer index from Bloomberg. The Brexit negotiations, which restarted yesterday, continue today.
- In Scandinavia, NIER extra business survey for Sweden is due at 09:00 CEST. In Denmark, gross unemployment data for May is due at 08:00 CEST.

### Selected market news

**Global equity indices traded with positive risk sentiment yesterday, despite continuing COVID-19 concerns.** Gilead's COVID-19 drug treatment Remdesivir was rumoured yesterday to cost USD2340 for a five-day treatment. That is viewed as a (positive) sign that the product is in an advanced stage for treatment. We do not think it would be a big deal for developed countries to fund the treatment, as it is significantly cheaper than treating an ICU patient each day. Earlier, it has been said that Gilead would sell the Remdesivir drug at cost price.

According to two sources, the German Bundestag agreed on a draft motion to approve the Bundesbank's participation in the PSPP bond purchase programme, thereby ending the legal dispute in which the German constitutional court requested a new decision validating the proportionality of the bond purchase programme.

Chinese manufacturing PMI released overnight came in at 50.9, slightly higher than consensus, as a sign of still weak growth in the Chinese economy. The composite PMI rose to 54.2. Chinese lawmakers are said to have approved the legislation that 'punishes acts of secession, subversion, terrorism and collusion with foreign forces'.

Sunday's vote in Poland ended with 44% for current President Duda, followed by Warsaw Mayor Rafal Trzaskowski at 30%. They will face each other in a run-off on 12 July. The PLN was largely unaffected by the vote. However, the future of Poland and its relations with the EU can be shaped by this election.

### Selected reading from Danske Bank

- *COVID-19 Update - New cases continue to accelerate in the US, 29 June*
- *FX Essentials - COVID-19 FX legacy vol 4: reflation trade to stick in H2, 29 June*
- *FI Strategy - EU as an issuer - the recovery fund, 29 June*
- *FI Strategy Germany - German bond issuance at EUR146bn in Q3 20, 29 June*

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- *Nordic Outlook*
- *Yield Outlook*
- *FX Forecast Update*
- *Weekly Focus*

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## Fixed income markets

Yesterday's moderate risk-on sent EGB spreads marginally tighter, all within 1bp. The new funding plan for Q3 from the German Debt Agency was in line with expectations. The DFA will issue EUR74bn in bonds in Q3 as well as an inaugural green bond syndication in September, see *FI Strategy Germany - German bond issuance at EUR146bn in Q3 20, 29 June*. Markets did not react to the in-line-with-expectations issuance. Bunds spreads were slightly under pressure on the moderate risk-on mode.

Last week, ECB stepped up its PEPP purchases to the fastest pace since late May, by increasing to EUR6bn/day. Even despite significant supply, even this week, it is difficult to see arguments for a sustained sell-off.

Today's supply comes via Germany (0% Nov-27) for EUR3bn and Italy (1.85% Jul-25, 1.65% Dec-30 and 0.95% Aug-30), for up to EUR8bn combined.

In this morning's edition of Reading the Markets Norway we argue that the recent belly and long-end underperformance in the NOK swap curve seems overdone. Consequently, we pencil in a tactical downside potential in NOK5Y5Y versus EUR. We do not expect Norges Bank to extend the period of unlimited F-loans beyond August and given the NOIS-NOK OIS break down of the NOK FRA JUN'21 we see value in paying this contract from a strategic perspective. Finally, we still favour wider NGB ASW spreads in the long end; a view supported yesterday as Norway reduced its issuance target. See *Reading the Markets Norway: Receive NOK 5Y5Y vs EUR (tactical), pay FRA JUN'21 (strategic), 30 June*.

## FX markets

Mixed sentiment left currencies with little clear direction yesterday, although USD strength broadly remained in place. EUR/GBP continues to drift higher with the cross briefly above 0.917 yesterday. Indeed, the most senior government official (considered a soft Brexiteer) is now being replaced by more hawkish David Frost, the UK's chief Brexit negotiator. Further, the German-UK government bond spread continues to tighten and with a fragile global risk backdrop GBP is set to remain in the crosshairs. More broadly, taking stock of H1 and the coronavirus FX legacy, we stress that the COVID-19 shock has caused both a nominal (via monetary – and notably Fed - policy ) and a real (EU fiscal shift) shock that is set to last well into H2; see *FX Essentials - COVID-19 FX legacy vol 4: reflation trade to stick in H2, 29 June* . However, it is essential to separate the structural and tactical impact of these: while challenged at present, reflation trading will in our view return as key H2 theme – if possibly merely tactical in nature – and not least EUR/CHF has potential to jump towards 1.10 on this.

Among the Scandies, SEK is finding some support from quarterly rebalancing flows, but when these are over and done with, global risk sentiment should be back in the driver's seat with the caveat that the Riksbank on Wednesday is a joker. In our base case of an uneventful Riksbank meeting, we see EUR/SEK gyrating around 10.50 for the week to come. Meanwhile, NOK has remained under pressure from the risk sell-off, deflated value rotation and lower commodity prices. We still hold a bullish NOK view on a 3-6M horizon but near term we acknowledge the headwinds from the external environment and worsening liquidity as we enter the holiday period.

## Key figures and events

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/m y/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
8:00	DKK	GDP, final	q/q y/y	1st quarter			-2.1% ...
8:00	NOK	Credit indicator (C2)	y/y	May			4.6%
8:00	DKK	Gross unemployment s.a.	K (%)	May			152.9 (5.4%)
8:00	GBP	GDP, final	q/q y/y	1st quarter		-2.0% -1.6%	-2.0% -1.6%
8:00	DKK	House prices (Statistics Denmark)		May			
8:45	FRF	Household consumption	m/m y/y	May		34.0% -11.9%	-20.2% -34.1%
8:45	FRF	HICP, preliminary	m/m y/y	Jun		0.4% 0.5%	0.2% 0.4%
9:00	SEK	NIER economic forecasts					
9:00	CHF	KOF leading indicator	Index	Jun		75.0	53.2
9:00	ESP	GDP, final	q/q y/y	1st quarter		-5.2% ...	-5.2% -4.1%
9:30	SEK	Wages (blue collars/white collars)	y/y	Apr			2.9%
10:00	NOK	Norges Bank's daily FX purchases	m	Jul			-2300
11:00	ITL	HICP, preliminary	m/m y/y	Jun		... 0.1%	-0.3% -0.3%
11:00	EUR	HICP inflation, preliminary	m/m y/y	Jun		0.2% ...	-0.1% ...
11:00	EUR	HICP - core inflation, preliminary	y/y	Jun	0.9%	0.8%	0.9%
11:00	EUR	HICP inflation, preliminary	y/y	Jun	0.3%	0.1%	0.1%
14:30	CAD	GDP	m/m y/y	Apr		-10.5% -16.0%	-7.2% -5.8%
15:45	USD	Chicago PMI	Index	Jun		42.0	32.3
16:00	USD	Conference Board consumer confidence	Index	Jun		90.0	86.6
17:00	USD	Fed's Williams (voter, neutral) speaks					
18:30	USD	Fed chair Powell (voter, neutral) speaks					
Wednesday, July 1, 2020				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Jun		13	12.21
1:50	JPY	Tankan large manufacturers index (outlook)	Index	2nd quarter		-30.0	-8.0 -11.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	2nd quarter		-20.0	8.0 -1.0
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Jun			37.8
3:45	CNY	Caixin PMI manufacturing	Index	Jun		50.7	50.7

Source: Bloomberg, Danske Bank

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