

Danske Daily

Patient Fed

Market movers today

- The US-China high-level trade talks continue today. Look out for any statements from the two sides tonight when the negotiations conclude. We believe we will see some progress in areas like intellectual property rights and technology transfer, where China has already laid out new legislation that it aims to pass at the annual People's National Congress in March. Enforcement will be one of the tricky issues in the talks.
- In the euro area, Q4 GDP is expected to show an unchanged meagre growth rate of 0.2% q/q. If so, it will be the weakest performance over two quarters since 2013. Although temporary effects from German car sector bottlenecks explain some of the growth drag, the overall economic environment, with a Chinese slowdown, Brexit and fragile risk sentiment in financial markets, also weigh on growth prospects. In light of the latest months' disappointing industrial production data and falling sentiment indicators, we do not believe the euro area economy picked up speed in the past quarter.
- In the US, we will get initial jobless claims, which fell to a new cycle low last week. The US Employment Cost Index for Q4 is likely to add to the picture of rising wage costs. Chicago PMI is set to correct lower as it is still at a much higher level than other regional surveys and ISM manufacturing.

Selected market news

As widely expected, the Fed did not raise its target range, which remains at 2.25-2.50%. The FOMC now states that it can afford to be 'patient' in raising rates, waiting to see better global data, a robust improvement in risk sentiment and higher inflation. Based on our positive macro outlook for the US and the global economy (and hence markets), we still expect the Fed to hike this year, but it is no longer a given that the first one would come as early as June, which is our current base case. We still think the Fed will end its hiking cycle this year. The Fed also seems ready to end the balance sheet run-off sooner rather than later (see *FOMC review - All we need is just a little patience*, 30 January 2019).

US Bond yields declined and the US government yield curve bull steepened as the Federal Reserve sounded a dovish tone to the market, while the USD weakened against G7 counterparts and US equity futures advanced. Asian stocks are in the green this morning, after official Chinese NBS PMI manufacturing numbers for January showed signs of stabilisation in Chinese activity, despite remaining in contraction territory at 49.5.

Ireland's Central Bank Governor Philip Lane has become the only nominee to replace Peter Praet as ECB Chief Economist in June. Lane is considered a centrist who would be likely to continue the gradualist course of President Draghi. The next steps in the appointment procedure involve an EU Parliament hearing and a final confirmation by EU leaders.

Yesterday PM Theresa May's plan to convince the EU to renegotiate the withdrawal agreement already got a first damper, when Jean-Claude Juncker warned that the chances of a disorderly Brexit have increased, telling European leaders they should 'prepare for the worst' (see *Brexit Monitor: May has two and half weeks to renegotiate the backstop*, 29 January 2019).

Selected reading from Danske Bank

- *FOMC review - All we need is just a little patience*
- *Brexit Monitor: May has two and half weeks to renegotiate the backstop.*
- *China Weekly Letter: Trade talks enter crucial stage*
- *Research Germany: The epicentre of the euro area slowdown*

Follow us on Twitter:



@Danske_Research



Video
Danske Bank research playlist

Read more in Danske Bank's recent forecasts and publications

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

Analyst

Aila Mihr
+45 45 12 85 35
amih@danskebank.dk

Scandi markets

Today, we get Danish December unemployment numbers. The number of people out of work has fallen as employment has risen but only slowly in the final months of 2018, suggesting there are still more people entering the labour market. The same picture can be seen with the jobless rate (number of unemployed as a percentage of the labour force), which has been stable at 3.9% since June.

Fixed income markets

The FOMC followed the same path as the ECB as seeing the risks on the downside. What does this imply for the European markets? We expect the Bund future to move higher, but the EU curves will bull flatten as there is limited room for a decline in the front end; but also that the periphery will perform as the major central banks are 'proactive' despite Italian PM Conte yesterday warning about a contraction of the Italian economy in Q4.

Yesterday, we published our view on the auctions of non-callable mortgage bonds by the Danish mortgage banks, which will take place next week. The supply at the auction is modest as the refinancing degree is as low as 65%, and thus plenty of excess liquidity to snap up some cheap 3Y and 5Y non-callables. See *February Auctions*, 30 January.

FX markets

The dovish Fed last night, which notably removed its reference to 'further gradual rate increases', put USD under renewed pressure and EUR/USD jumped a big figure above the 1.15 mark. In our view, yesterday's message cements the sense of a 'Fed on hold', which is key to the FX market as this means that USD carry momentum is fading, notwithstanding a few more hikes down the road. USD is vulnerable to such a shift as positioning is likely to remain stretched on USD longs. However, in order to see a sustained move higher from the recent range around 1.15, we believe the eurozone cyclical outlook has to improve and this is not likely until late H1.

While EUR/NOK yesterday initially broke through the important set of support levels within 9.69-9.70 on SEK weakness – and hence NOK/SEK buying – the dovish Fed aided the move further. We have previously emphasised the close positive connection between global inflation expectations and NOK/SEK and with the Fed's dovish message it adds to the domestic arguments for being long NOK/SEK. Today's Norwegian data releases are unlikely to move the NOK spot much and we therefore expect the global environment and technical follow-through to set the tone and direction in today's session. We remain short EUR/NOK and long NOK/SEK.

Key figures and events

Thursday, January 31, 2019			Period	Danske Bank	Consensus	Previous
-	USD	US-China trade talks continue in Washington D.C. (30-31 January)				
8:00	NOK	Credit indicator (C2)	y/y	Dec		5.5%
8:00	DKK	Gross unemployment s.a.	K (%)	Dec		105.5 (3.9)
8:45	FRF	HICP, preliminary	m/m y/y	Jan		0.1% 1.9%
9:00	EUR	ECB's Coeure speaks in Cape Town				
9:00	ESP	HICP, preliminary	m/m y/y	Jan	-1.6% 1.1%	-0.5% 1.2%
9:00	ESP	GDP, preliminary	q/q y/y	4th quarter	0.6% 2.4%	0.6% 2.4%
9:55	DEM	Unemployment	%	Jan	5.0%	5.0%
10:00	NOK	Norges Bank's daily FX purchases	m	Feb		-350
11:00	ITL	GDP, preliminary	q/q y/y	4th quarter	-0.1% 0.3%	-0.1% 0.7%
11:00	EUR	Unemployment	%	Dec	7.9%	7.9%
11:00	EUR	GDP, preliminary	q/q y/y	4th quarter	0.2% 1.2%	0.2% 1.2%
11:15	EUR	ECB's Mersch speaks in Luxembourg				
14:30	USD	Initial jobless claims	1000			199
14:30	CAD	GDP	m/m y/y	Nov		0.3% 2.2%
14:30	USD	Employment cost index	m/m	4th quarter	0.8%	0.8%
15:45	USD	Chicago PMI	Index	Jan	60.0	65.4

Source: Bloomberg, Danske Bank

Disclosure

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 31 January 2019, 06:18 CET

Report first disseminated: 31 January 2019, 07:30 CET