

Danske Daily

USD weakens and yields decline on the back of weak data and risk of a second wave of COVID-19

Market movers today

- GDP data for France, Spain, Italy as well as Canada are expected to show a significant slowdown similar to what we saw in Germany and US yesterday.
- The preliminary EU inflation data for July are also expected to decline, whereas the US PCE data for July are expected to rebound modestly.
- Moody's may update its view on the German sovereign rating. However, we do not expect a change to either the outlook or the rating.
- The risk of a second wave of COVID-19 is likely to put downward pressure on rates, but risky assets are supported by fiscal and monetary stimulus. The USD is likely to remain under pressure given the weak data as well as the political uncertainty such as yesterday's comments from President Trump regarding postponing the US presidential election.

Selected market news

Global bond yields declined on the back of weak German GDP data for Q1 as well as US GDP data. The GDP data are significantly affected by the coronavirus and we will get more GDP data today from Canada, Spain, France and Italy.

However, US tech stocks rallied led by Apple, Facebook and Amazon. This gave some support to the S&P500, but it still closed lower yesterday due to the weak GDP data and the tweet from President Trump regarding postponing the US presidential election on 3 November until the pandemic eases. The dollar continued to underperform most of its peers and broke through the 1.18 level versus the euro and is heading towards a test of 1.20 today.

This morning we are seeing a mixed picture in the Asian equity markets, but the global markets are preparing for a second wave of COVID-19. In Japan the equity market tumbled on the back of a new rise in COVID-19 cases and there was record high number of new cases yesterday. The Chinese PMI data released this morning were a bit better than expected as the manufacturing PMI rose in July to 51.1 from 50.9, but the service PMI fell.

Given the risk of a second wave of the coronavirus crisis, the unprecedented monetary support from global central banks as well as the fiscal support are here to stay until we get a vaccine or medicine that is a durable cure for COVID-19.

Holiday edition

Selected reading from Danske Bank

- *COVID-19 Update - The 'dancing' is likely to continue until a vaccine is ready, 30 July*
- *High Frequency Activity Tracker - Electricity demand questions German industry recovery, 29 July*
- *China Macro Monitor - Recovery on track, 23 July*
- *Research US - Not extending higher unemployment benefits would lead to a significant negative income shock, 22 July*

Follow us on Twitter :

 @Danske_Research

 Video
Danske Bank research playlist

Chief Analyst

Jens Peter Sørensen
+45 4512 8517
jenssr@danskebank.dk

Key figures and events

Friday, July 31, 2020			Period	Danske Bank	Consensus	Previous
-	USD	Temporarily higher unemployment benefits expire				
-	EUR	Moody's may publish Germany's debt rating				
1:01	GBP	GfK consumer confidence, final	Index Jul			-27.0
1:30	JPY	Unemployment rate	% Jun		3.0%	2.9%
1:30	JPY	Job-to-applicant ratio	Jun		1.15	1.2
1:50	JPY	Industrial production, preliminary	m/m/y/y Jun		0.9% -19.1%	-8.9% -26.3%
3:00	CNY	PMI manufacturing	Index Jul		50.8	50.9
3:00	CNY	PMI non-manufacturing	Index Jul		54.5	54.4
7:30	FRF	GDP, preliminary	q/qly/y 2nd quarter		-15.4% -20.0%	-5.3% -5.0%
8:45	FRF	Household consumption	m/m/y/y Jun		6.0% -2.7%	36.6% -8.3%
8:45	FRF	HICP, preliminary	m/m/y/y Jul		-0.1% 0.3%	0.1% 0.2%
9:00	ESP	GDP, preliminary	q/qly/y 2nd quarter		-16.6% -19.8%	-5.2% -4.1%
10:00	NOK	Norges Bank's daily FX purchases	m Aug			-2500
10:00	NOK	Unemployment	% Jul			4.8%
10:00	ITL	GDP, preliminary	q/qly/y 2nd quarter		-13.5% -17.6%	-5.3% -5.4%
11:00	ITL	HICP, preliminary	m/m/y/y Jul		-1.4% 0.0%	0.0% -0.4%
11:00	EUR	HICP inflation, preliminary	m/m/y/y Jul		-0.5% ...	0.3% ...
11:00	EUR	HICP - core inflation, preliminary	y/y Jul	0.5%	0.8%	0.8%
11:00	EUR	HICP inflation, preliminary	y/y Jul	0.0%	0.2%	0.3%
11:00	EUR	GDP, preliminary	q/qly/y 2nd quarter	-8.7% ...	-11.6% -14.3%	-3.6% -3.1%
14:30	USD	Personal spending	m/m Jun		5.5%	8.2%
14:30	CAD	GDP	m/m/y/y May			-11.6% -17.1%
14:30	USD	PCE core	m/m/y/y Jun		0.2% 1.0%	0.1% 1.0%
14:30	USD	Employment cost index	m/m 2nd quarter		0.6%	0.8%
14:30	USD	PCE headline	m/m/y/y Jun		0.5% 0.9%	0.1% 0.5%
15:45	USD	Chicago PMI	Index Jul		43.9	36.6
16:00	USD	University of Michigan Confidence, final	Index Jul		72.7	73.2

Source: Bloomberg, Danske Bank

Disclosures

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 has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. 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').]

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, 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 and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S 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 in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

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 A/S'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/S, 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 A/S 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 A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority 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.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 31 July 2020, 06:59 CEST

Report first disseminated: 31 July 2020, 07:20 CEST