

Danske Daily

UK cabinet to discuss PM Theresa May's Brexit deal

Market movers today

- Focus today remains on **Brexit**, as Theresa May is scheduled to meet with her cabinet at 15:00 CET to discuss the draft Brexit agreement reached with the EU. If the cabinet nods yes, the real test will be whether the deal can survive the House of Commons, as we expect it to be accepted by EU leaders without major problems. Leading hard Brexiteers, the DUP from Northern Ireland and the Labour leadership have already given it a thumbs down, but Theresa May thinks the fear of a no-deal Brexit will make sure moderate Conservatives and Labour MPs will vote in favour of it. A possible EU summit on Brexit on 25 November and the vote in House of Commons may be as early as 10 December. Markets need more certainty before we could see EUR/GBP move even lower. For more details, see our take released this morning, *Brexit Monitor: The real test is the vote in the House of Commons*.
- We look for **US** inflation to show an unchanged core rate at 2.2% y/y. Inflation has edged lower in recent months despite higher wage growth. **Fed Chair Jerome Powell** is due to speak overnight, where focus will be on whether the Fed will continue its hiking cycle despite recent market turmoil.
- In Europe, **UK** inflation is due as well as preliminary **German GDP for Q3**, which we expect to increase 0.3% q/q, but with clear downside risks.
- In Scandi, **Sweden** is expected to show a rise in underlying inflation from 2.5% y/y to 2.6% y/y by both us and consensus. The Swedish Riksdag is also voting on government formation.

Selected market news

While S&P 500 initially moved higher yesterday on the back of **positive signs in the US-China trade wars**, where it seems the two countries are trying to restart more real and constructive negotiations, the index ended 0.4% lower, as **sentiment soured during the day**. This also led to a **collapse in oil prices**. A higher USD and weak equity market has certainly played a role in the sell-off this week, but more importantly, oil supply fundamentals have flipped from concerns over the effect of Iran sanctions to talk about supply surplus next year. OPEC+ talk about curbing output next year has done little to support prices.

The **Italian** government maintained the 2.4% budget deficit and 1.5% growth target in the revised budget it sent to the EU yesterday. This makes it more likely that the EU will start the Excessive Deficit Procedure soon. Remember, the EU forecast the budget deficit to be 2.9% next year and to breach the 3% limit next year in the latest projection. For more details, see *Bloomberg (Italy Populists stand firm)*, 13 November 2018.

In **China**, October data released overnight showed that industrial production and fixed investments were stronger than expected but that retail sales remain under pressure. The rebound in production and investments may be the first sign that the Chinese stimulus is working through the economy. New homes sales grew at the slowest pace in six months.

Selected reading from Danske Bank

- Brexit Monitor: The real test is the vote in the House of Commons*
- Macro Strategy Views: After the midterm elections - what now Trump? (SoundCloud link)*
- FX Strategy: EUR/USD breaks below 1.13 - too early to call rebound*

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Scandi markets

In **Sweden**, inflation numbers for October are due. Our forecast for CPIF is close to identical to that of the Riksbank and as October tends to be quite an undramatic month in terms of inflation, we would be fairly surprised if the numbers deviate from our forecast.

Today is also when the Riksdag will vote on Ulf Kristersson's proposed government. We expect his proposition to fail and thus another round in the process to form a government is likely to ensue. Most likely, Stefan Löfven will get the next shot. Nevertheless, the risk of a snap election is set to increase following the prolonged and difficult process.

Fixed income markets

The market has a lot of news to trade on today. A Brexit deal now seems to be in place, which pushed UK government bond yields higher yesterday afternoon. Going forward, the market will scrutinise how May's cabinet as well as comments from the DUP and parliament receive the deal. The ministers are due to meet today at 15:00 CET. The deal should support the modest spread tightening in IRISH government bonds versus, for example, France and Belgium seen in recent days.

However, the positive news from Brexit deal might very well be overshadowed by the defiant response of the Italian government to the EU. Last night, the Italian government kept the budget and growth numbers for 2019 unchanged, which could reignite fears of an even tougher stand-off between Italy and the EU commission. Finally, we have seen a new drop in oil prices as Brent touches USD65 and WTI USD55 a barrel.

Today, Portugal will tap the 4.95% 2023 and 2.125% 2028 bonds for EUR1-1.25bn in total. Portugal has fulfilled its EUR15bn funding target for 2018 and intends to use the proceeds to reimburse part of the country's IMF loan early. This could very well be the last PGB tap for 2018. The German Finanzagentur will tap EUR1.5bn in its 30Y bund.

In Scandinavia, Sweden will tap a modest SEK1.5bn in total in the Nov-26 and the Jun-32 bonds. In respect of Sweden, see *Strategy: Sweden - a safer play on two Riksbank hikes*, 13 November 2018. Norway will tap NOK3bn in the 5Y benchmark bond. See *Fixed Income Research: Norges Bank to sell NOK3bn in NGB NST 475, 2.00%, '23*, 13 November 2018.

FX markets

The apparent breakthrough on Brexit negotiations sent GBP stronger yesterday afternoon, with **EUR/GBP** testing April lows below 0.8660 as also the Bank of England was priced slightly more hawkishly. However, as stressed in *Corporate Hedger: strong November could turn to cold December for GBP*, 13 November, we think there are now significant upside risks in the cross, as deal optimism could fade once again, reminding us that any deal still needs parliament approval. This was likely also the reason why EUR/GBP crawled back above 0.87 late last night. The discussions on the Brexit deal could potentially send EUR/GBP back for a revisit of 0.90. Despite the significant sell-off in oil prices and that Italy kept its budget figures largely intact, **EUR/USD** actually edged slightly higher, confirming that it is leading a life of its own these days, which is at least partly separated from what happens in oil markets (and Italy for that matter).

In **Sweden**, a December hike is as close to a done deal as it can be without any major surprises today. We believe this to be fairly well reflected in the current market pricing, and thus it should not be a major market mover for the SEK.

In Norway, the oil price collapse is putting pressure on the **NOK**. Indeed, it is remarkable that EUR/NOK topside has held for now with disappointing inflation/mainland GDP (even if both were down to temporary factors) and a USD5/bbl collapse in oil. If we do not see a stabilisation in oil prices soon though, we are likely to see the cross break higher. We recommend utilising drops in NOK this side of New Year to add exposure from a 2019 perspective.

Key figures and events

Wednesday, November 14, 2018				Period	Danske Bank	Consensus	Previous
0:50	JPY	GDP deflator, preliminary	y/y	3rd quarter		-0.1%	0.1%
0:50	JPY	GDP, preliminary	q/q ann.	3rd quarter		-0.3% -0.9%	0.7% 3.0%
3:00	CNY	Industrial production	y/y	Oct		5.8%	5.8%
3:00	CNY	Retail sales	y/y	Oct		9.2%	9.2%
3:00	CNY	Fixed assets investments	y/y	Oct		5.5%	5.4%
5:30	JPY	Industrial production, final	m/m y/y	Sep			-1.1% -2.9%
8:00	DEM	GDP, preliminary	q/q y/y	3rd quarter		-0.1% 1.3%	0.5% 2.0%
8:00	DKK	GDP indicator	q/q	3rd quarter	1.0%		0.3%
8:45	FRF	HICP, final	m/m y/y	Oct		0.1% 2.5%	0.1% 2.5%
9:00	ESP	HICP, final	m/m y/y	Oct		0.7% 2.3%	0.7% 2.3%
9:30	SEK	Underlying inflation CPIF	m/m y/y	Oct	0.0% 2.6%	0.0% 2.6%	0.5% 2.5%
9:30	SEK	Capacity utilization, industry	%	3rd quarter			90.9%
9:30	SEK	CPIF excl. Energy	m/m y/y	Oct	0.1% 1.7%		0.5% 1.6%
9:30	SEK	CPI	m/m y/y	Oct	0.0% 2.4%	0.0% 2.4%	0.5% 2.3%
10:30	GBP	PPI - input	m/m y/y	Oct		0.7% 9.8%	1.3% 10.3%
10:30	GBP	CPI	m/m y/y	Oct	0.0% 2.3%	0.2% 2.5%	0.1% 2.4%
10:30	GBP	CPI core	y/y	Oct		2.0%	1.9%
11:00	EUR	Industrial production	m/m y/y	Sep		-0.2% 0.5%	1.0% 0.9%
11:00	EUR	GDP, preliminary	q/q y/y	3rd quarter	0.3% .	0.2% 1.7%	0.2% 1.7%
11:00	EUR	Employment, preliminary	q/q y/y	3rd quarter			0.4% 1.5%
14:30	USD	CPI headline	m/m y/y	Oct		0.3% 2.5%	0.1% 2.3%
14:30	USD	CPI core	m/m y/y	Oct	0.2% 2.2%	0.2% 2.2%	0.1% 2.2%
15:00	GBP	UK Cabinet meets to discuss Brexit deal					

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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Report completed: 14 November 2018, 06:17 CET

Report first disseminated: 14 November 2018, 07:15 CET