

Danske Daily

US in recession and S&P500 in positive ytd return

Market movers today

- Today, Norges Bank publishes the results of its Q2 regional network survey. As usual, interest will centre on the aggregated output index for the next six months (see next page).
- Markets will start to zoom in on the Fed meeting tomorrow. Yesterday the Fed already announced an expansion of its Main Street lending programme allowing more firms to benefit from it. US NFIB small business optimism for May will also draw our attention.

Selected market news

The major US equity indices rose 1.2-1.7% yesterday, with notably the S&P500 rising 1.2% resulting in it now being higher than at the start of the year. Yesterday's performance was broad based with industrials and the energy sector leading the rally. The positive risk sentiment carried over to the overnight session where major Asian equities are also up.

At the same time, European indices were trading on a weaker footing, which illustrates that, while we have seen positive risk sentiment in markets in recent weeks, economic fundamentals are still to follow suit.

The *NBER's Business Cycle Committee announced yesterday* that it now officially thinks the US expansion ended in February 2020 and that the US economy fell into recession in March. While the recession is extremely deep, the committee recognises that it is a very unusual recession, as it is driven by the virus fear and the strict lockdown imposed. For that reason the committee states that the recession may turn out to be a very short one. In our view, there are multiple signs that the US economy has already bottomed out and the recovery has begun despite the mixed COVID-19 signals, with the number of infections still rising in states like Florida, Texas and California (although more testing obscures the picture somewhat). The jobs report for May released on Friday showing an increase in employment of 2.5 million is of course an important signal in that regard. This morning, we published our *US Macro Monitor: Jobs report for May supports our view that the healing has begun*, 9 June, which includes some of the most important charts on high-frequency economic indicators and politics.

In ECB president Lagarde's quarterly testimony to the European Parliament, she repeated many of the similar messages from Thursday's meeting. That said, we took note of in particular the comment on the ECB supporting the process of the German constitutional court ruling but at the same she emphasised that this decision was not addressed to the ECB, leaving this a domestic German issue. Unless solved, the Bundesbank should not be able to participate in the PSPP programme from 5 August.

We revised our EUR/USD profile to 1.15 in 1M and 3M and see 1.11 in 6M and 12M. The key to further short-term optimism is a continuation of the rally in value assets - which we think is likely. The key to 12M upside risk remains a Fed-driven reflation trend in H2. More in *FX Strategy - EURphoria to continue: watch the canaries*, 8 June.

Selected reading from Danske Bank

- *FX Strategy: EURphoria to continue: watch the canaries*, 8 June
- *US Macro Monitor: Jobs report for May supports our view that the healing has begun*, 9 June
- *COVID-19 Update - Europe still looks good despite reopening, US more mixed but no sign of resurgence, no respite for EM/developing countries*, 8 June

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Scandi markets

In Norway, Norges Bank publishes the results of its Q2 regional survey. As usual, interest will centre on the aggregated output index for the next six months. Given that activity bottomed out around mid-April but has since picked up only fairly moderately, growth expectations for the rest of the year ought to be very strong. On the other hand, firms may instead base their assessment on some measure of 'normal', e.g. last year. Growth expectations could then be very weak. We have a suspicion that it is the latter picture that will emerge, with the index perhaps dropping to around -2.0.

Also, look out for the weekly unemployment figures.

Fixed income markets

Yesterday, we saw a broad based rally led by core EGBs, despite a number of mandates for syndication being announced. Bunds rallied 5bp. The current fixed income sentiment is driven by overall positive risk sentiment as well as significant amount of supply. Spain announced a 20Y, Ireland a 10Y and Greece a 10Y deal.

It was a bit of a surprise that Ireland came to market already now, but there has been a solid performance in e.g. the new 7Y benchmark versus swaps that was launched in April and thus it makes sense to launch now rather than later given the strong risk-on sentiment. Furthermore, we are still a long way from the pre-coronavirus levels, so there is a decent pick-up in 10Y Ireland relative to peers (France). Ireland decided to go with a 10Y deal despite the Brexit uncertainty, although it is uncertain whether it is going to be a big as the 7Y deal, where it issued EUR 6bn. However, if it does EUR4bn, it would have fulfilled the additional increase in the budget announced in late April, when it increased the funding from EUR10-14bn to EUR20-24bn. Bonds outperformed swaps by a whisker.

Japanese investor flows for April 2020 showed significant buying of Italian and Spanish government bonds as well as Danish mortgage bonds. French government bonds sold modestly, see *Japanese Investor Flows for April 2020*, 8 June 2020.

Today supply will come from the Netherlands and Germany. We will have Nether Jul-2030 for EUR1-2bn and DBR Nov-2027 for EUR3bn.

FX markets

As S&P reached New Year highs, USD stayed on a weak footing yesterday - even versus JPY, which was supported by lower oil prices and US Treasury yields. More broadly, a key question for the short term is in our view whether EU optimism has run its course and/or whether now is the time to get bullish on the US outlook. If you are positive on both - and notably the latter as we lean towards - the latest JPY strength should prove transient, see *FX Essentials: Some key IF-THEN-ELSE statements in FX space*, 8 June.

In the Scandies, SEK still trades in tandem with risk sentiment and EUR/SEK and USD/SEK have printed year lows after a turbulent spring. So far, the Riksbank does not seem overly concerned though, but that could change if the SEK appreciation trend continues. In *Reading the Markets Sweden*, 5 June, we discuss parallels with 2015 and how the Riksbank may reason with respect to the SEK. We do think that the risk-imputed SEK rally is getting somewhat stretched, which is also what our short-term models indicate. Three important macro events to keep an eye on this week: Prospera's inflation expectations survey, Ingves speaking on Wednesday and the May inflation numbers on Thursday.

Key figures and events

Tuesday, June 9, 2020			Period	Danske Bank	Consensus	Previous
1:30	JPY	Labour cash earnings	y/y	Apr		0.1%
6:00	SEK	Maklarstatistik Swedish housing price data				
7:45	CHF	Unemployment	%	May		3.3%
8:00	DKK	Trade balance ex ships	DKK bn	Apr		9.4
8:00	DKK	Exports	m/m	Apr		
8:00	DKK	Current account (nsalsa)	DKK bn	Apr		-16.3
8:00	DEM	Trade balance	EUR bn	Apr		17.4
8:00	DEM	Labour costs	q/q y/y	1st quarter		0.0% 3.0%
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index	May	-2.0	0.8
11:00	EUR	GDP, final	q/q y/y	1st quarter		-3.8% -3.2%
11:00	EUR	Gross fixed investments	q/q	1st quarter		4.4%
11:00	EUR	Government consumption	q/q	1st quarter		0.4%
11:00	EUR	Private consumption	q/q	1st quarter		0.1%
11:00	EUR	Employment, final	q/q y/y	1st quarter		-0.2% 0.3%
12:00	USD	NFIB small business optimism	Index	May		90.9
Wednesday, June 10, 2020			Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	May	11.3%	11.1%
3:30	CNY	PPI	y/y	May	-3.2%	-3.1%
3:30	CNY	CPI	y/y	May	2.6%	3.3%

Source: Bloomberg, Danske Bank

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