

# Monthly Executive Briefing

## Global recovery between light and shadow

Market sentiment remains caught between bouts of optimism on signs of a strengthening global recovery and setbacks stoked by fears of second waves on the virus front. PMIs in Europe, the US and UK rebounded sharply in June (though not quite to pre-crisis levels) and underpinned the positive signal from high frequency data of a quickening of the recovery pace at the end of Q2 as firms resumed production and consumers returned to spending. The US labour market surprised positively in May, with employment growth of 2.5m, while job losses in Europe stayed contained due to short-time working schemes.

However, while the recovery pace has surprised some market participants on the upside, a marked rise in coronavirus infections in the US and some emerging markets is a reminder that risks still linger. Over 30 US states now report accelerating numbers of COVID-19 cases, with the number of new daily cases in the US closing in on the highs of late April. In our view, the rising pressure on hospitals makes new lockdown measures increasingly likely. Europe and China have also been hit by smaller outbreaks, leading to local lockdown measures, but the overall development remains positive here. In contrast, the development in emerging markets continues to be problematic for their recoveries and, not least, tourism. It is hard to see things getting much better until we get a vaccine, which we believe is still six to nine months away.

Policymakers around the world continue to respond to the crisis. Faced with a marked deterioration in the euro area inflation outlook and tightening financial conditions, ECB policymakers scaled up the Pandemic Emergency Purchase Programme (PEPP) by another EUR600bn, with purchases running until June 2021. The ECB's liquidity measures are also playing an increasing role in facilitating the flow of credit to the private sector, with euro area banks taking EUR1,308bn in TLTRO3.4 liquidity in June – the highest amount on record. In the US, the Fed reemphasised that policy rates will stay low for a significant period of time but to strengthen its forward guidance, policymakers are increasingly mulling the case of yield curve control. Overall, we expect the Fed to implement a mix of yield curve control and an average inflation target at its September meeting.

In Europe, actions are also still being taken on the fiscal side. Germany keeps opening the spending taps and unveiled another EUR130bn (3.8% of GDP) recovery stimulus package including a temporary VAT cut, cash handouts to families and stepped up investments in the green transition and digitalisation. The strong fiscal policy response is one reason we expect the German economy to weather the COVID-19 storm better than other European countries. For southern European states with less fiscal space, hope rests still on the EU's recovery fund. However, initial discussions between EU leaders stayed fraught with disagreement on the overall size and allocation of funds. Another EU summit on 17-18 July should we hope bring a more fruitful discussion on this important topic.

Progress on the Brexit front stayed similarly lacklustre. As expected, the UK formally ruled out extending the transition period running until 31 December 2020 but the two sides agreed to hold more negotiation rounds in July and August, with the ambition to reach an agreement in August ahead of the EU summit in October. Our base case (65%) remains a simple free trade agreement on goods (not services) in the autumn. We do not expect any breakthrough this summer. We still assign a 35% probability of a no-deal Brexit by year-end.

### Key points

- Signs of strengthening global recovery...
- ...but rising numbers of US virus cases leave risk of renewed local lockdowns and market volatility.
- Monetary easing efforts continue.
- No breakthrough on Brexit and EU recovery fund negotiations.

### Other readings

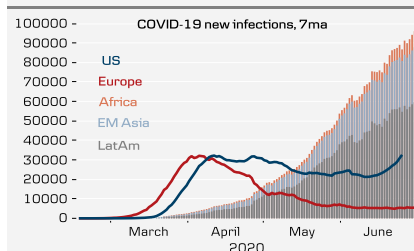
*Fed Monitor – A primer on the Fed's discussions on changing its forward guidance*, 17 June

*ECB Research – Record-high TLTRO3.4 take-up*, 18 June

*ECB Research – ECB gave markets a PEPP talk*, 4 June

*Brexit Monitor – New 'soft' deadline in August but the 'hard' deadline is still 31 December 2020*, 17 June

### Rising infections in the US and emerging markets raise the risk of renewed lockdowns

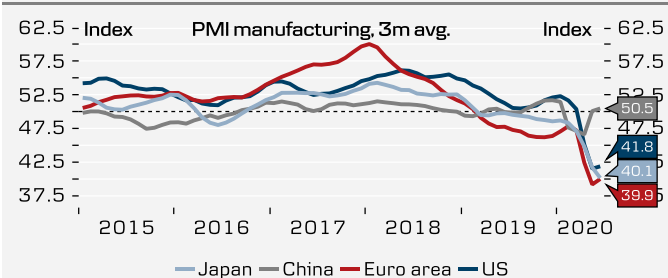


Source: ECDC, Worldometer, John Hopkins University, Danske Bank

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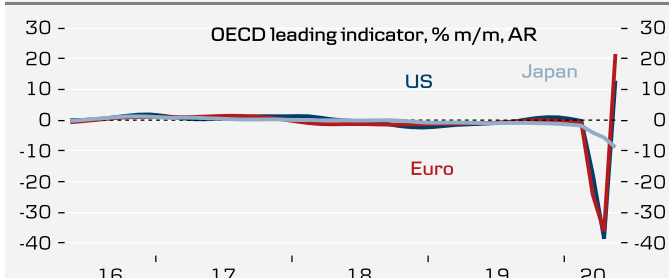
## Macro charts overview

### Global PMI manufacturing



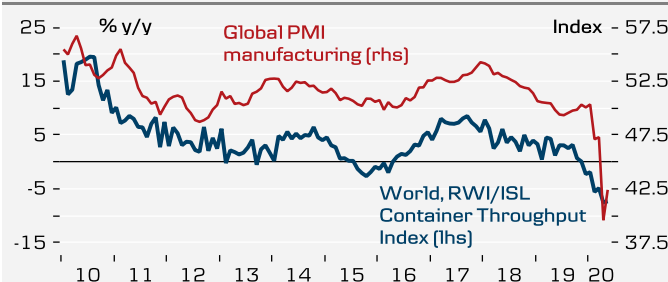
Source: Markit, Macrobond Financial

### OECD leading indicator



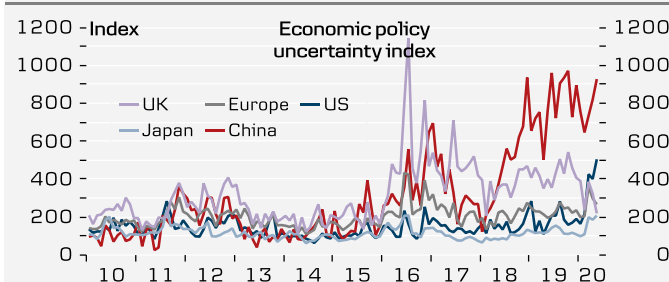
Source: OECD, Macrobond Financial

### Global trade growth vs global PMI manufacturing



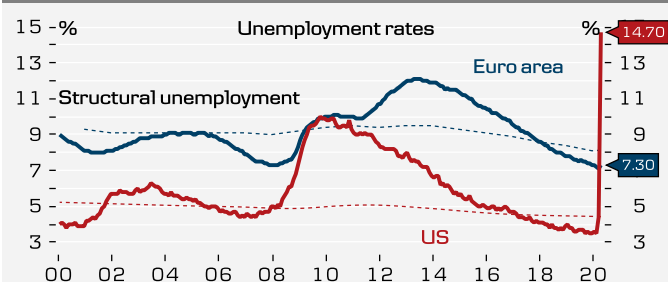
Source: Markit, RWI/ISL, Macrobond Financial

### Economic policy uncertainty index



Source: Economic Policy Uncertainty index, Macrobond Financial

### Unemployment rates



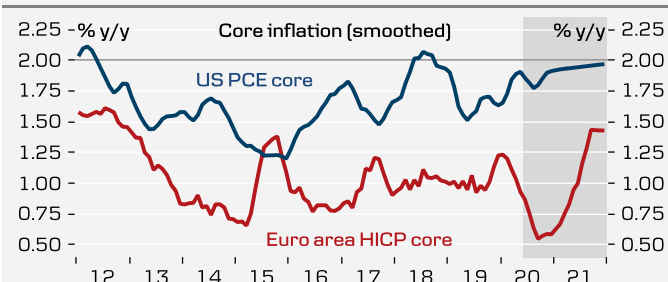
Source: BLS, Eurostat, Macrobond Financial

### Wage growth



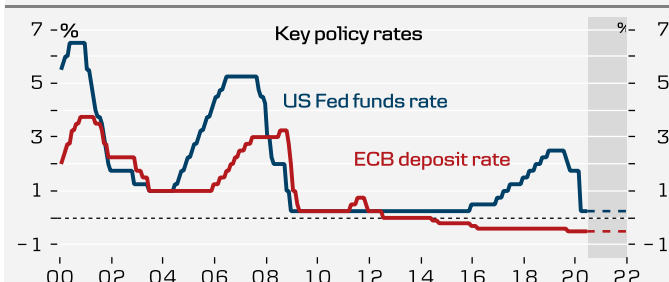
Source: BLS, ECB, Macrobond Financial

### Inflation rates



Source: IHS Markit, Macrobond Financial, Danske Bank estimates

### Policy rates



Source: ECB, Federal Reserve, Danske Bank estimates

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