

Danske Daily

Preliminary PMI releases in focus

Market movers today

- This week, focus turns to the real economy, where the highlights are today's **PMI figures**. Last month, the manufacturing PMIs ticked up in both the euro area and Germany. However, both remain two-speed economies, with the service sectors shielding growth from the weak manufacturing sectors. With new orders improving slightly in August, we expect the manufacturing PMI to remain broadly stable at 47.0 in September. However, we see downside potential for the service print after the drop in business expectations last month and expect it to decline to 53.0. If there is no increase in PMIs in the US, this will indicate that Q3 showed the weakest growth since 2009.
- Today at 15:00 CEST **Draghi will make his usual appearance at the European Parliament**. We will look for any signs of the monetary policy stance and how he will address the diverging views within the governing council.
- **Market specialists will also continue to carefully monitor the repo and overnight activities in the US**.
- **The UN General Assembly takes place this week**, although it is likely to have little to no impact on markets.

Selected market news

Asian stocks slid this morning as the China-US trade war developments remain fragile and things on the news front continue to be volatile. After last Friday's sour sentiment in trade war developments, the Chinese media wrote that a cancelled visit to US farm states by China's delegations was not linked to trade discussions. The yen fell, US stock futures and crude advanced, while Japanese markets are closed for a holiday today.

Last Friday, the US Fed declared measures for easing concerns about financing Treasury purchases and to make more confident bidding at this week's auctions. The Fed will provide overnight repo operations from Monday until Friday, 10 October. The first will be hold for up to USD75bn, and later for at least that amount.

The geopolitical environment in the Middle East remained shaky over the weekend. The US Secretary of State Mike Pompeo said in an interview that the US is trying to avoid war with Iran, while the additional troops sent to the Gulf region are for "deterrence and defence." Pompeo added that that US President Donald Trump would take the necessary action if Iran failed to change its behaviour. Iran's Foreign Minister Mohammad Javad Zarif declined to rule out a war after the US announced it sent more troops to Saudi Arabia.

In the UK, focus will be on Brexit developments as the economic data calendar is very light. A particular focus is the UK government's negotiations with the EU over a solution to the Irish backstop, which seems to be the main sticking point in striking a deal with the EU. EU Commission president Juncker expressed earlier some optimism that a deal could be reached before 31 October, while the Irish government sounded more cautious.

Selected reading from Danske Bank

- *Norges Bank Review - Rate hike and tightening bias*
- *ECB Research TLTRO - low take up, but ECB should not be concerned*
- *FOMC Review - Fed cut with no quick fix to tight liquidity conditions*
- *Macro Strategy Views Podcast: Fiscal policy is now the only game in town*


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Scandi markets

Recent price action in the Scandies is clearly testament to how difficult it is for notably the NOK to decouple from a still fragile global growth story. This week brings only second-tier data in the Scandi sphere.

Fixed income markets

Last Friday, S&P lifted the rating on Spain from A- to A and the outlook was changed from positive to stable. S&P cited the nation's balanced economic growth, improving budgetary position and prospects for continued fiscal consolidation. The upgrade was a surprise given the political stalemate in Spain and the upcoming 10 November election and the general slowdown in the European economy. DBRS also took action on Friday, changing the outlook to positive from stable on its A rating. We are long 10Y Spain vs France and expect some 5bp SPGB performance today in the 10Y segment.

Last Friday, we also got the long-awaited climate change package from Merkel and importantly she underlined that the 'black zero' policy will not be abandoned. The news comes after the Netherlands also put forward a balanced budget earlier in the week. The German curve 2-10y flattened on Friday as the risk of higher core supply in 2020 is now very small. We stick to the view that the combination of no extra supply next year, weak business cycle and QE will keep the downward and flattening pressure on bund yields intact. We do not expect a 'usual' post QE announcement FI sell-off. For more, see *Government Bonds Weekly: Forget about the 2020 bond supply fears*, 20 September.

This week we have an estimated EUR21.5bn coming to the market from Belgium, Italy and Germany and a negative net cash flow of EUR9bn. Belgium kicks off today with a triple-tap in the Jun-26, Jun-29 and Jun-38 bonds and the auction range has been set at EUR2.3 - 2.8bn. Belgium will see EUR12.8bn in coupons and redemption on 28 September. The German Finanzagentur is set to tap both the Sep-21 Schatz and Aug-29 Bund during the week. We also have the Italian Tesoro in the market on Wednesday (linkers and CTZs - announcement late Friday) and Friday (BTPS and CCTeu - announcement Wednesday).

FX markets

After back-to-back central bank meetings in recent weeks, focus in FX markets will turn to a reality check in the form of flash PMIs as to whether recent rate cuts - but limited hope for more to come across the board - will be enough to keep global growth afloat. As hinted by our quantitative macro models, there is clearly a risk of a further slowdown in activity near term.

More broadly, since August, markets have been pricing in an optimistic scenario for trade and Brexit and we have seen JPY weakness together with GBP and CNH strength. Over the past week, this optimism has been tested somewhat as trade talks got a smaller bump. On the back of Friday's less flattering headline for trade talks, we saw CNH reverse back to 7.10 and USD/JPY also crawled lower towards 107.50 - not least supported by a less-than-expected dovish Bank of Japan. Trade talk set to be in focus again near term.

On GBP, we think a great deal of optimism has been priced in terms of a positive outcome of the negotiations between the EU and the UK in October. However, from here, it may not take much of a change in politics to get a negative repricing of GBP, see *FX Strategy - EUR/GBP-don't forget: optimism can be fleeting*, 23 September.

Focus will also stay on USD liquidity: last Friday, the New York Fed announced that it will continue temporary repo operations until 10 October. From Tuesday, it will be for at least USD75bn and it will also start offering at least USD30bn in 2W repo. The news should

help calm USD funding markets further after last week's liquidity scare and in particular calm the growing anxiety with respect to liquidity over the coming quarter turn next Monday. Front-end EUR/USD FX forward pips have normalised and 3M USD FRA-OIS narrowed on the news last Friday.

Key figures and events

Monday, September 23, 2019			Period	Danske Bank	Consensus	Previous
-	JPY	Autumnal Equinox Day				
8:00	DKK	Employment, s.a.	M Jul			2.81
9:15	FRF	PMI manufacturing, preliminary	Index Sep		51.2	51.1
9:15	FRF	PMI services, preliminary	Index Sep		53.2	53.4
9:30	DEM	PMI manufacturing, preliminary	Index Sep		44.3	43.5
9:30	DEM	PMI services, preliminary	Index Sep		54.3	54.8
10:00	EUR	PMI manufacturing, preliminary	Index Sep	47.0	47.3	47.0
10:00	EUR	PMI composite, preliminary	Index Sep		52.0	51.9
10:00	EUR	PMI services, preliminary	Index Sep	53.0	53.2	53.5
15:00	EUR	ECB's Draghi speaks in Frankfurt				
15:45	USD	Markit PMI manufacturing, preliminary	Index Sep		50.3	50.3
15:45	USD	Markit PMI service, preliminary	Index Sep		51.5	50.7
15:50	USD	Fed's Williams (voter, neutral) speaks				
17:30	USD	Fed's Daly (non-voter, neutral) speaks				
19:00	USD	Fed's Bullard (non-voter, dovish) speaks				

Source: Bloomberg, Danske Bank

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