

# Vacation Wrap-Up

## Europe has started 'dancing' with COVID-19

### Main macro themes

- **While the US finally seems to have peaked, we continue to see countries struggling with local/regional outbreaks.** In many European countries, such as Germany, France, Belgium, The Netherlands, the UK and Denmark, the number of new cases is moving slightly higher, although it is too early to call these second waves. **In other words, we have begun the 'dancing' part of the 'hammer and dance' strategy, which we believe will probably continue until a vaccine is ready.** However, we know if the situation is not handled correctly, it can quickly spin out of control, as we have seen in Australia (state of Victoria), Japan (Tokyo), Hong Kong and Israel.
- **More evidence emerged that Europe's economy is on course for a swifter recovery from the coronavirus crisis than the US.** Euro area PMIs rebounded strongly in July, confirming the picture of recovery. However, US indicators have lost pace following the flare-up in infections (see page 3). Chinese GDP for Q2 showed a stronger-than-expected rebound to 3.2% y/y, from -6.8% y/y in Q1.
- **White smoke at last emerged from Brussels on a Recovery Fund** after a marathon EU summit yielded a compromise on the 'Next Generation EU' package (see *Flash Comment – EU Recovery Fund: White smoke at last*, 21 July). Following tough negotiations, EU leaders agreed on a EUR750bn recovery fund and a EUR1,074.3bn EU budget (over 2021-27). The package received a frosty welcome in the European Parliament though, keeping some uncertainty in place.
- **Stimulus in the euro area and the US has not changed over the summer.** At the July ECB meeting, there was no real news. In the US, the Fed maintained its current signals that it is nowhere near tightening monetary policy again and that it will continue to use all its tools to support the economy. We continue to believe the Fed will strengthen its forward guidance at the September meeting by saying that it will not hike the Fed Funds rate until inflation has been above the 2% target for some time, after several years of undershooting. **Unfortunately, the negotiations on a new stimulus bill in the US are not moving forward.** We expect the eventual deal to include a reduction in benefits, which would work as a drag on growth in H2 (see *Research US – Not extending higher unemployment benefits would lead to a significant negative income shock*, 22 July).
- **US-China tensions are increasing again.** Most recently, President Donald Trump issued two executive orders prohibiting TikTok and WeChat from operating in the US. It looks increasingly likely to us that the two powers are heading for a new cold war (see *Research China – At the foothills of a new cold war – and what it implies*).

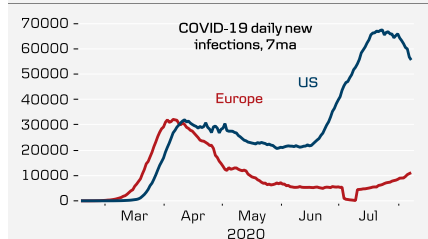
### Fixed income and FX developments

- **Risk-on sentiment dominated markets in July, leading to higher equity prices and tighter credit spreads.** Growth signals in Europe and China and encouraging news on the COVID-19 vaccine front are underpinning markets. Ongoing strong policy support from central banks also keeps spirits high. EUR/USD has moved significantly higher over the past few weeks and US and German bond yields have drifted lower (see charts on page 2).

### Key themes

- New COVID-19 cases seem to have peaked in the US, while they are increasing in Europe.
- EU finally agrees on a Recovery Fund.
- High frequency data show stronger demand rebound in Europe, while US recovery has slowed.
- Risk of new US headwinds, as extension of higher unemployment benefits is delayed.
- Risk markets supported by recovery signals and vaccine hopes.

### Rise in new US infections slowing down, Europe seeing slight increase

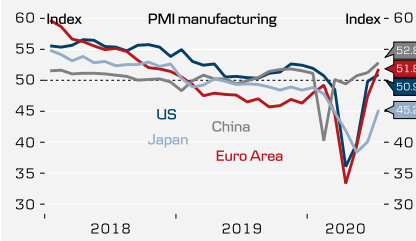


Source: European Centre for Disease Prevention & Control, Macrobond Financial

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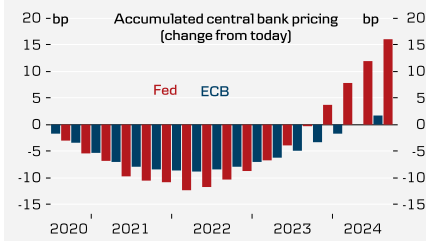
## Market themes in pictures

### Euro PMI rebounded strongly in July



Source: Markit, Macrobond Financial

### Markets price in lower policy rates



Source: Danske Bank

## Recent publications

*COVID-19 Update - Europe is postponing further reopening, 6 August*

*High Frequency Activity Tracker - Activity has plateaued amid new virus concerns, 5 August*

*Research China - At the foothills of a new cold war - and what it implies, 31 July*

*FX Strategy - Fed 'as long as it takes' pledge puts EUR/USD at 1.20 risk, 30 July*

*Spending Monitor - July spending close to normal, but no more than that, 28 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*

*COVID-19 Research - Face masks are a cheap way to contain COVID-19 and keep the economy running until a vaccine is ready, 22 July*

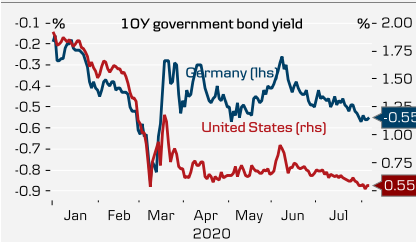
*Flash Comment - EU recovery fund: White smoke at last, 21 July*

*US Macro Monitor - Gradual recovery seems to be taking a breather based on high-frequency indicators, 17 July*

*Flash ECB Research - When no news is good news, 17 July*

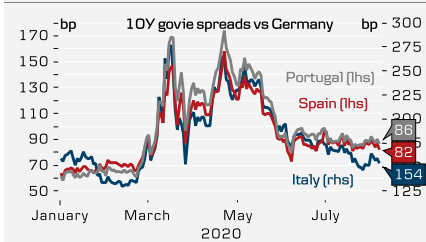
*Global Macro Update - Tailwind from global monetary policy to the world economy, 14 July*

### Bond yields grind lower



Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

### Tighter spreads on rising risk sentiment and EU recovery fund deal



Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

### EUR/USD pushes higher on the back of broad-based USD weakness



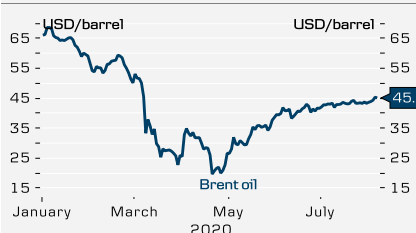
Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial

### Scandi currencies have appreciated after the initial COVID-19 shock



Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial

### Oil price rises on improving demand, risk sentiment and USD decline



Note: Past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, Danske Bank

### S&P 500 continues to move higher, driven in particular by IT stocks



Note: Past performance is not a reliable indicator of current or future results  
Source: Bloomberg, Macrobond Financial, Danske Bank

### High Frequency Activity Tracker

Euro area	Last obs	Value	Last 4 months	1W chg.	1M chg.	Low
Bundesbank weekly activity index*	Week 31	-0.06		0.91	3.78	-6.9
Germany, turnover textiles retail trade, weekly, % y/y	Week 31	-14.0%		-12 p.p.	-3 p.p.	-44%
German truck toll mileage (1w m.a.), % y/y	28-Jul	0.3%		0.5 p.p.	4.5 p.p.	-16.2%
OpenTable restaurant bookings, Germany (1w m.a.)**	03-Aug	16.9%		-2.2 p.p.	20 p.p.	-100%
<b>USA</b>						
NY Fed weekly economic index*	Week 31	-7.06		-0.99	0.13	-11.5
Transaction card spending, (1w m.a.), % y/y	29-Jul	-11.9%		7.4 p.p.	6.7 p.p.	-40.6%
OpenTable restaurant bookings (1w m.a.)**	03-Aug	-58.1%		2.9 p.p.	3.6 p.p.	-100%
<b>Google mobility trends retail &amp; recreation (1w m.a.)**</b>						
Germany	31-Jul	-3.4%		-0.3 p.p.	6.7 p.p.	-62.1%
France		-7.3%		-0.6 p.p.	6.7 p.p.	-88.0%
Italy		-6.3%		1.6 p.p.	7.1 p.p.	-88.9%
Spain		-18.9%		0 p.p.	1.1 p.p.	-91.7%
UK		-29.3%		2 p.p.	21 p.p.	-77.6%
Japan		-13.4%		-7.1 p.p.	-2.7 p.p.	-37.9%
United States		-14.9%		0.4 p.p.	-1.1 p.p.	-46.1%
<b>Electricity demand (1w m.a.)***</b>						
Germany	04-Aug	-8.5%		0.2 p.p.	0.3 p.p.	-16.2%
France		-1.3%		1.8 p.p.	5.6 p.p.	-23.1%
Italy		0.6%		5.9 p.p.	7.3 p.p.	-28.2%
Spain		-0.8%		-0.3 p.p.	2.7 p.p.	-24.2%
UK		-11.9%		3.7 p.p.	8.1 p.p.	-22.1%
Japan		-9.1%		-1.5 p.p.	-3.5 p.p.	-18.3%
United States		-0.3%		-0.3 p.p.	-0.3 p.p.	-10.5%

Source: Google mobility data, ENTSO-E, EIA, Open Table, Statistisches Bundesamt, TextilWirtschaft, Bundesbank, NY Fed, Macrobond Financial, Danske Bank

## Calendar – key data and events in week 33

## Key Data and Events in Week 33

## During the week

				Period	Danske Bank	Consensus	Previous
Mon 10	CNY	Money supply M2	y/y	Jul		11.1%	11.1%

## Monday, August 10, 2020

				Period	Danske Bank	Consensus	Previous
3:30	CNY	PPI	y/y	Jul		-2.5%	-3.0%
3:30	CNY	CPI	y/y	Jul		2.6%	2.5%
7:45	CHF	Unemployment	%	Jul		3.4%	3.3%
8:00	DKK	Trade balance ex ships	DKK bn	Jun			9.2
8:00	DKK	Exports	m/m	Jun			920.0%
8:00	NOK	CPI	m/m y/y	Jul			0.2% 1.4%
8:00	NOK	PPI	m/m y/y	Jul			-1.3% -14.4%
8:00	DKK	Current account (nsa sa)	DKK bn	Jun			... 13.3
8:00	DKK	CPI	m/m y/y	Jul	-.0.0%		0.1% 0.3%
8:00	NOK	Core inflation (CPI-ATE)	m/m y/y	Jul			0.4% 3.1%
9:30	SEK	Household consumption	m/m y/y	Jun			1.2% -9.7%
10:30	EUR	Sentix Investor Confidence	Index	Aug		-16.8	-18.2

## Tuesday, August 11, 2020

				Period	Danske Bank	Consensus	Previous
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	GBP	Unemployment rate (3M)	%	Jun		4.1%	3.9%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jun		-0.1%	0.7%
11:00	DEM	ZEW current situation	Index	Aug		-69.5	-80.9
11:00	DEM	ZEW expectations	Index	Aug		52.0	59.3
12:00	USD	NFIB small business optimism	Index	Jul		98.5	100.6
14:30	USD	PPI	m/m y/y	Jul		0.3% -0.7%	-0.2% -0.8%
14:30	USD	PPI core	m/m y/y	Jul		0.1% 0.1%	-0.3% 0.1%
18:00	USD	Fed's Daly (non-voter, neutral) speaks					

## Wednesday, August 12, 2020

				Period	Danske Bank	Consensus	Previous
4:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%			0.3%	0.3%
8:00	GBP	GDP, preliminary	q/q y/y	2nd quarter		-21.2% -22.5%	-2.2% -1.7%
8:00	GBP	Monthly GDP estimate	m/m q/q	Jun		0.08 ...	0.018 ...
8:00	GBP	Index of services	m/m 3m/3m	Jun		7.7 -20.1	0.9 -18.9
8:00	GBP	Trade balance	GBP mio.	Jun		2700	4296
9:30	SEK	Underlying inflation CPIF	m/m y/y	Jul		-0.1% 0.2%	0.6% 0.7%
9:30	SEK	Current account	SEK bn	2nd quarter			80.6
9:30	SEK	CPI	m/m y/y	Jul	-0.3% 0.0%	-0.1% 0.3%	0.6% 0.7%
10:00	ITL	HICP, final	m/m y/y	Jul		... 0.9%	... 0.9%
11:00	EUR	Industrial production	m/m y/y	Jun		10.5% -10.7%	12.4% -20.9%
14:30	USD	CPI headline	m/m y/y	Jul		0.3% 0.7%	0.6% 0.6%
14:30	USD	CPI core	m/m y/y	Jul		0.2% 1.1%	0.2% 1.2%
16:00	USD	Fed's Rosengren (non-voter, hawk) speaks					
16:30	USD	DOE U.S. crude oil inventories	K				-7373
17:00	USD	Fed's Kaplan (voter, neutral) speaks					
20:00	USD	Budget statement	USD bn	Jul			-864.1
21:00	USD	Fed's Daly (non-voter, neutral) speaks					

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Source: Various sources, Danske Bank

## Calendar – key data and events in week 33 (continued)

Thursday, August 13, 2020				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Jul		-0.1	-0.2
3:30	AUD	Employment change	1000	Jul		30	210.8
7:30	FRF	ILO unemployment	%	2nd quarter			7.8%
8:00	SEK	Prospera inflation expectations					
8:00	DEM	HICP, final	m/m/y/y	Jul		-0.5% 0.0%	-0.5% 0.0%
8:30	NOK	Consumer confidence	Net. bal.	3rd quarter			-7.6
9:00	ESP	HICP, final	m/m/y/y	Jul			-1.6% -0.7%
9:15	SEK	NIER economic forecasts					
14:30	USD	Initial jobless claims	1000				1186
14:30	USD	Import prices	m/m/y/y	Jul		0.5% ...	1.4% -3.8%
Friday, August 14, 2020				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Ireland's debt rating					
4:00	CNY	Industrial production	y/y	Jul		5.1%	4.8%
4:00	CNY	Retail sales	y/y	Jul		0.1%	-1.8%
4:00	CNY	Fixed assets investments	y/y	Jul		-1.6%	-3.1%
8:00	DKK	GDP indicator	q/q	2nd quarter	-4.0%		-1.9%
8:45	FRF	HICP, final	m/m/y/y	Jul			0.4% 0.9%
10:30	EUR	Portugal, GDP, preliminary	q/q/y/y	2nd quarter			-14.1% -16.5%
11:00	EUR	Trade balance	EUR bn	Jun			8
11:00	EUR	GDP, preliminary	q/q/y/y	2nd quarter		-12.1% -15.0%	-12.1% -15.0%
11:00	EUR	Employment, preliminary	q/q/y/y	2nd quarter			-0.2% 0.4%
14:30	USD	Unit labour cost, preliminary	q/q	2nd quarter		5.5%	5.1%
14:30	USD	Retail sales control group	m/m	Jul		0.8%	5.6%
15:15	USD	Capacity utilization	%	Jul		70.3%	68.6%
15:15	USD	Industrial production	m/m	Jul		2.7%	5.4%
15:15	USD	Manufacturing production	m/m	Jul		3.0%	7.2%
16:00	USD	University of Michigan Confidence, preliminary	Index	Aug		71.0	72.5

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*Source: Various sources, Danske Bank*

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**Report completed** 7 August 2020, 15:37 CEST

**Report first disseminated:** 10 August 2020, 06:45 CEST