

# Danske Daily

## EU reaches deal on budget and recovery package

### Market movers today

- **With a final deal struck on the EU budget and the recovery package, investors are likely to scrutinise the package to look for the finer details such as the resulting distribution and the share of loans versus grants among member states. Although an agreement has been reached, we do not expect any major moves as the price action yesterday suggested that a lot has already been priced in.**
- **Developments in the number of new COVID-19 cases remains a mixed picture with the US still seeing a high number of new infections, although, for example, things are brightening up in Arizona. Equity markets, however, do not seem to care much. An explanation for the latter may be that investors no longer expect a sharp rise in new cases to be followed by nationwide lockdowns and that a few companies have put forward positive initial vaccine test results increasing the probability that a final product can be ready in the beginning of next year.**

### Selected market news

Last night, after four days of negotiations in Brussels, the 27 heads of state/government constituting the EU Council struck a deal on the Multiannual Financial Framework (EU's budget) for the years 2021-2027 totalling EUR1,000bn as well as a temporary expansion of the budget for the years 2021-2024 ('Next Generation EU'), where grants will make up EUR390bn of the entire package totalling EUR750bn (corresponding to EUR200bn through the Recovery and Resilience Facility). Yesterday morning it was reported that the 'frugal countries' would accept a final compromise if the amount of grants made up no more than EUR390bn and yesterday evening EU Council President Charles Michel came forward with a new proposal entailing exactly such a split of grants versus loans. The proposal included efforts to bridge the gap between demands from especially Dutch Premier Mark Rutte, namely that the funds must be intended for long-term structural improvements of the affected economies, and the Southern European countries having voiced concern that such demands could risk introducing a slow-moving bureaucratic process, implying a delay of the funds reaching the real economy. The incentives of the 'frugal countries' to agree to a deal was further increased by the proposal containing rebates for said countries plus Germany totalling EUR52.8bn under the new seven-year budget. With a deal now in place the final distribution among member states becomes key for markets. Italy is, according to Bloomberg, likely to receive grants worth EUR82bn, which is actually in line with our expectations under the initial proposal back in May before the watering down of the share of grants had started (see *Next Generation EU: A landmark for European history?*, 27 May), and should be seen as positive. The EU parliament is expected to ratify the deal later this week.

Updated ECB PEPP holdings showed that the ECB last week increased its (gross) holdings by EUR20.5bn corresponding to EUR4.1bn of daily average purchases. This is in line with a purchase rate implying end-June 2021 holdings worth EUR1,350bn, which corresponds to the size of the current PEPP envelope.

### Holiday edition

#### Selected reading from Danske Bank

- *Vacation Wrap-Up: Market themes over the past three weeks: Risk-on, VIX off, 20 July*
- *FX Strategy: USD weakness beneficial to the SEK, 20 July*
- *FX Forecast Update - holiday edition: Scandies to benefit as USD headwinds persist, 20 July*
- *IMM Positioning Update: Aggregate USD positioning back in stretched short territory, 20 July*

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## Key figures and events

Tuesday, July 21, 2020			Period	Danske Bank	Consensus	Previous
1:30	JPY	CPI - national	y/y	Jun	0.1%	0.1%
1:30	JPY	CPI - national ex. fresh food	y/y	Jun	-0.1%	-0.2%
8:00	DKK	Wage-earner employment		May		
14:00	HUF	Central Bank of Hungary rate decision	%		0.60%	0.75%
14:30	CAD	Retail sales	m/m	May		-26.4%

Source: Bloomberg, Danske Bank

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