

Danske Daily

Weakening US service sector

Market movers today

- In the US ISM non-manufacturing is due out. In the past couple of months the US service sector has begun to show weakness, pointing to weaker private consumption growth. We would not be surprised if ISM non-manufacturing has fallen further to 52, down from 52.6.
- In the UK, focus remains on politics as the election campaign has started. We will also get the PMI service index for October today. Based on other soft indicators, we expect the index was broadly unchanged at 49.5.
- In the Scandi markets, today's key event will be the Riksbank minutes from the October meeting amid its continued signal for a December hike. In Norway, October housing prices will be in focus.

Selected market news

Danish FX reserve data for October showed that Danmarks Nationalbank (DN) sold DKK0.4bn of FX reserves – the first FX intervention since January. EUR/DKK traded above 7.4700 and thus close to record-high levels during a large part of October, which prompted the action from DN. DKK0.4bn in FX intervention is a small amount, which shows that the upward pressure on EUR/DKK in October was limited. In comparison, DN sold off DKK14bn of FX reserves last December and January in FX intervention.

The Caixin Chinese service PMI index was 51.1 in October in line with the consensus expectation and slightly down from 51.3 last month. The composite PMI inched up to 52.0 in October from 51.9 in September. Hence, according to these data service activity in China is still deteriorating, while overall economic activity has started to pick up supported by a recovery in manufacturing activity. When we factor in a broader set of leading indicators for the Chinese economy we think there is scope for a moderate recovery in economic activity over the coming months. In the bigger picture, JP Morgan global manufacturing PMI rose to 49.8 from 49.7 in October – a small rise, but still the second consecutive month of gains.

The Reserve Bank of Australia (RBA) kept its key policy rate unchanged at 0.75% as it sees little change to the outlook for the economy since its last meeting. Hence, RBA still expects inflation to pick up gradually over the coming years. In related central bank news, People's Bank of China provided a small dose of monetary easing as it cut the interest rate on 1Y loans by 5bp to 3.25%.

Selected readings from Danske Bank

- *Flash Comment Denmark: DN reacts to DKK weakening*
- *Macro Strategy Views - Is the uptick in yields sustainable - and what is going on with the NOK?*
- *FOMC Review - Fed is playing the waiting game*
- *Brexit Monitor: Election is an EU referendum in disguise - difficult to predict the outcome from polls*

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Fixed income markets

Bond yields rose yesterday due to optimism about a trade deal between the US and China as well as comments from US commerce secretary Ross that there was little need to introduce tariffs on the European auto industry. Uncertainty about another hung parliament at the Spanish general elections next week is weighing on Spanish government bonds, which underperformed the other EU peripheral markets.

Yesterday, the Danish mortgage banks published the 'almost' final prepayments for the January term. There was a solid rise in the prepayments in the final week and the total prepayments were DKK181bn relative to DKK185bn for the October term. The main segments were the 2% and 2.5% 30Y ones, where the bulk of the prepayments is coming from. Hence, despite the recent rise in yields/rates, Danish mortgage borrowers have been very active in moving into a lower coupon.

Today, the Austrian Debt Office will do a tap auction in the 5Y and 10Y segment. We expect that the auction will be met with the usual overbidding from market makers, even though there is one more auction left for 2019. On Wednesday, the Finnish State Treasury will do an auction of the 15Y as well as the old 30Y benchmark. We prefer Finland to Austria given the better carry, the bigger impact from QE and ECB reinvestments that could lead to a squeeze in the Finnish government bonds. See more [here](#).

FX markets

Yesterday's monthly FX reserve data showed that Danmarks Nationalbank (DN) intervened for DKK0.4bn during October. This marks the first time since January that DN has intervened: EUR/DKK traded above 7.4700 and thus close to record-high levels during a large part of October. That said, the somewhat small amount shows that the upwards pressure on EUR/DKK in October was limited, after all. We expect EUR/DKK to continue to trade at elevated levels aided by a large discount in FX forwards and next year by the flow of vacation money. Hence, DN may very well need to continue to be active in the FX market to cap EUR/DKK topside. See more [here](#).

Today, EUR/SEK is all about the Riksbank minutes. If interpreted as hawkish, EUR/SEK could re-test 10.65, but if dovish 10.80 might be in the cards. Apart from the discussion on pros/cons of and thoughts about revisiting negative rates after the presumed December hike, we will likely hear if there are any concerns with respect to the relentless depreciation of the SEK. While the depreciation provides some help to inflation via import prices, there might be adverse effects too.

EUR/NOK was in consolidation mode around the 10.10-10.20 level yesterday after last week's level shift higher. In this week's *Macro Strategy Views podcast* we take a look at what has driven and is set to drive Scandi FX ahead of year-end.

In majors, the lack of monetary-policy considerations in Lagarde's first speech as ECB president left EUR crosses little changed. Meanwhile, in this week's *FX Essentials - FX lessons from an 'FI beauty contest'* we discuss how an FX flow shift may be brewing, as Japanese investors could be operating with more US assets unhedged, which may add to USD resilience near term.

Key figures and events

Tuesday, November 5, 2019				Period	Danske Bank	Consensus	Previous
2:45	CNY	Caixin PMI service	Index	Oct		51.5	51.3
4:30	AUD	Reserve Bank of Australia rate decision	%		0.75%	0.75%	0.75%
8:00	DKK	Bankruptcies (s.a.)		Sep			
8:00	SEK	Production Value Index					
8:30	SEK	PMI services	Index	Oct			49.8
9:30	SEK	Riksbank publishes minutes					
9:30	SEK	Industrial orders	m/mly/y	Sep			-1.8% -1.1%
10:30	GBP	PMI services	Index	Oct	49.5	49.7	49.5
11:00	EUR	PPI	m/mly/y	Sep		-1.2% 0.1%	-0.8% -0.5%
14:00	USD	Fed's Barkin (non-voter, neutral) speaks					
14:30	USD	Trade balance	USD bn	Sep		-53.0	-54.9
15:45	USD	Markit PMI service, final	Index	Oct			51.0
16:00	USD	ISM non-manufacturing	Index	Oct	52.0	53.4	52.6
18:40	USD	Fed's Kaplan (non-voter, neutral) speaks					

Source: Bloomberg, Danske Bank

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Each working day.

Date of first publication

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Report completed: 5 November 2019, 06:16 CET

Report first disseminated: 5 November 2019, 07:20 CET