

# Danske Daily

## Brexit drama: BoJo will call for snap election again today

### Market movers today

- The next four days we will be waiting for Draghi like the audience waited for Godot in the Beckett play 'Waiting for Godot' from 1953. Remember Godot never showed up. However, it might be time for a rewrite and we believe that Draghi will actually show up and deliver this week. For more see our [ECB Preview](#).
- Today all eyes remain on Brexit and whether a snap election will be called as UK lawmakers are casting a second vote today – see [Brexit Monitor](#). We will also watch out for the monthly UK GDP estimate for July, giving us a first hint where the economy is moving at the start of Q3. Based on PMIs, we cannot rule out the UK has fallen into a 'technical recession' (i.e. two quarters of GDP contraction).
- In the euro area Sentix investor confidence for September is due for release. In August sentiment plunged to the lowest level in five years amid fears about an escalating trade war and we would be surprised to see an increase today amid the growing uncertainty on the global geopolitical stage.
- In Scandinavia, it is time for Danish export figures for July.

### Selected market news

Another eventful weekend in the UK. The division between the moderate Conservatives from the 'One Nation' group and the Brexiteers represented by the Johnson government and the European Research Group became even deeper with Amber Rudd stepping down from the Cabinet and leaving the Conservative parliamentary group. Rudd said she does not think leaving with a deal is the government's main objective and that she not seen a lot of energy going 'into our talks with the EU'. There is much speculation how PM Johnson may be able to get around the spirit of the Brexit delay bill, for more details read our Brexit see [Brexit Monitor](#) published this morning. The French foreign minister said yesterday that France would say 'no' to another Brexit delay right now. While the EU leaders have to grant another extension unanimously, we doubt France would not eventually cave in despite EU's Brexit fatigue (see also this excellent [Twitter thread](#)).

On Friday we saw a reversal of some of the moves earlier in the week, which pushed European core yields higher and 10Y Germany dropped back to -0.64%. German industrial production numbers disappointed and the US non-farm report came out on the weak side. Employment growth came in at a disappointing 130k, somewhat below the median expectations at 160k. Fed Chairman Powell noted later in the day that the labour market is 'in a good place. Note that the FOMC silence period ahead of next week's meeting has now commenced.

Yesterday, we had Chinese trade data for August. They showed that exports dropped 1.0% y/y compared to an expected growth of 2.2% y/y. Sales to the US dropped a stunning 16% y/y, even as one should have expected some front-running of exports before tariffs kicked on 1 September. The data have fuelled speculations about further Chinese easing.

### Selected reading from Danske Bank

- [ECB preview](#)
- [Riksbank comment: Unexpected twist in repo path](#)
- [Research Germany: loosening the brake](#)

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## Scandi markets

No market moving events today.

## Fixed income markets

On Thursday, we expect a dovish surprise from the ECB (20bp cut, a 12M EUR45-60bn per month QE, extended forward guidance and tiering). We look for lower yields and flatter curves after the ECB meeting. That said, the pricing in the front-end of the curve seems stretched to us and the risk of a 'buy the rumour, sell the fact' market reaction like before the start of the first ECB QE programme in 2015 should also not be neglected in the long end. For more see the [ECB preview](#).

We published *Government Bonds Weekly* on Friday with two new trade recommendations. First, we recommend to buy NETHER 2037 versus DBR 2037. We argue that the fear of a prefunded investment fund up to EUR50bn is far-fetched and that the recent widening versus Germany will reverse. The Netherlands will be in the market on Tuesday, with a EUR2bn auction in the 10Y benchmark bond. The 10Y Nether could be an alternative to the NETHER 2037. Secondly, we believe that the recent recovery in sterling reflects a lower hard Brexit probability that has not been reflected in the other Brexit proxy the Irish bond market. Hence, we now recommend to buy 10Y Ireland vs 10Y France. Ireland will also be in the market this week (Thursday). We expect a tap in the 10Y benchmark bond (announcement later today).

Portugal will also be in the market for the first time since July with a tap in the 10Y and 15Y benchmark bonds. Ten-year spreads versus Germany have stabilised just above 80bp. The pickup should be able to attract investors to the auctions, which offer an opportunity to buy Portugal in size.

## FX markets

After the jobs report and Fed Chair Powell speech on Friday the blackout period has now commenced ahead of next week's FOMC meeting. The market is about priced for a 25bp cut next week, while there is room to price faster pace of rate cuts at the upcoming meetings in our view. We see potential for a lower USD/JPY as the market gradually pencils in more Fed cuts short term. Regarding EUR/USD, focus this week will be on the ECB meeting. We look for the ECB to do its best in terms of attempting to ease monetary policy and present a comprehensive package. It may weigh temporarily on EUR/USD, but in the end we see a good chance it will be futile and that EUR/USD has bottomed – see [ECB Research Enough talking, now is the time for action](#). We forecast EUR/USD at 1.10 in 3M.

SEK buyers had the upper hand on Friday when EUR/SEK dropped sharply from 10.69. While we are not able to explain every move with fundamentals, we do think that the substantial repricing of the Riksbank, from 17bp of rate cuts before the decision to 5bp on Friday, was part of the equation, see [Reading the Markets Sweden](#), 6 September. This week SEK focus is on (1) August inflation (Tuesday) where our 1.4% CPIF estimate is one tenth below the Riksbank and consensus, (2) the quarterly Prospera inflation expectations survey (Tuesday), where the monthly survey indicates a small decline, (3) the ECB bazooka (Thursday), which may be perceived as more dovish than the Riksbank but also a precursor for more Riksbank easing and (4) the Q2 GDP revision (Friday). We stick to our 1M and 3M targets at 10.70 and 10.80.

Last week proved a very good one for the NOK FX with (a) another set of strong domestic releases, (b) improved global risk environment and (c) Riksbank surprising in a hawkish direction. For NOK markets more generally this week will be very important; specifically

Tuesday's session containing both CPI and the Regional Network Survey will be key. While we often see bigger spot moves on the former we cannot emphasise enough that it is the details of the latter that are far more important at this stage for Norges Bank (assuming we do not get a sigma 2 event on inflation). Our base case is a strong report that will underpin the case for a Norges Bank rate hike on the 19 September, which markets are NOT priced for and on which even Scandi analysts now disagree. In sum, if we see a continuation of (b) we think domestics will underpin the case for more NOK FX performance this week.

#### Key figures and events

Monday, September 9, 2019				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Aug		8.2%	8.1%
1:50	JPY	GDP deflator, final	y/y	2nd quarter		0.4%	0.4%
1:50	JPY	GDP, final	q/q ann.	2nd quarter		0.3% 1.3%	0.4% 1.8%
7:45	CHF	Unemployment	%	Aug		2.3%	2.3%
8:00	DKK	Current account (nsa sa)	DKK bn	Jul			... 15.2
8:00	DEM	Trade balance	EUR bn	Jul		15.7	16.6
8:00	DKK	Trade balance ex ships	DKK bn	Jul			7.4
8:00	DKK	Exports	m/m	Jul			740.0%
10:30	GBP	Monthly GDP estimate	m/m q/q	Jul		0.001 -0.001	0 -0.002
10:30	GBP	Index of services	m/m 3m/3m	Jul		0.001 0.001	0 0.001
10:30	GBP	Trade balance	GBP mio.	Jul		-1250	1779
10:30	EUR	Sentix Investor Confidence	Index	Sep		-13.0	-13.7
21:00	USD	Consumer credit	USD bn	Jul		16.0	14.6

Source: Bloomberg, Danske Bank

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