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Danske Daily

Trump wants to meet Xi 'very soon'

Market movers today

- Today is relatively quiet in terms of market moving events, with the main one being **US Fed Chair Jerome Powell's speech** tonight. While the Fed is very explicitly patient in raising rates, we will monitor any insights it might give on how it plans the balance sheet reduction.
- In Scandi, the next focal point is the Riksbank meeting tomorrow.

Selected market news

Stocks and bond yields rose overnight on news that **US lawmakers had reached an agreement 'in principle' to avert another government shutdown** (see *Washington Post*). However, the deal came under fire from some conservatives and still needs to be passed in Congress and signed by Donald Trump.

White House Adviser Kellyanne Conway told Fox News yesterday that it 'absolutely' looked like a deal to end the trade war was close and that **Trump 'wants to meet with Xi Jinping very soon'.** In another sign that Trump is eager to close a deal, she said that 'this president wants a deal'. Chinese stocks rose further overnight and are now trading at the highest level since October.

More US-China trade talks were initiated yesterday in Beijing at a lower level before high level talks resume on Thursday and Friday. With regard to the question on whether the 1 March ceasefire deadline would be extended, US trade negotiator David Malpass answered 'no'. However, our view is still that if more time is needed to finalise a detailed trade document, the deadline will be extended.

UK Prime Minister Theresa May seeks more time to negotiate the Brexit deal with the EU. On Tuesday, she is set to address lawmakers in parliament to update on the progress of talks with the EU before a debate on the deal on Thursday, see *Bloomberg*.

The **US small business optimism index** was released overnight. It has been at elevated levels for a long time but in January it dropped sharply from 104.4 in December to 101.2. It is the lowest level since November 2016, when Donald Trump was elected US President, and is further testament that US businesses have faced headwinds from the trade war and probably also the US government shutdown, which is hurting sub-contractors to the government.

Selected reading from Danske Bank

- *Harr's View - The strong returns of 2019 and why this may change*, 10 February
- *China Weekly Letter - Trump backtracks on Xi meeting, growth bottoming in Q1*, 8 February

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Scandi markets

There are no key movers in the Scandies today.

Fixed income markets

Italian bonds recovered some of the losses from last week yesterday and the 10Y IT-DE tightened almost 10bp. The tightening came on the back of the of rally in risky assets and numbers showing a drop in impaired loans in Italian banks of 34% compared to a year ago. The Italian debt office will be in the market selling 1Y T-bills at 17:00 CET.

Spain came under temporary pressure as news agencies reported that Prime Minister Pedro Sanchez is considering calling an early election. However, the underlying Spanish economy remains strong and spreads ended the day slightly tighter as risk appetite dominated the political headlines.

FX markets

GBP weakened versus both USD and EUR yesterday as the weaker-than-expected UK GDP figures weighed on appetite for the currency. A falling CPI number (due tomorrow) could provide further support to EUR/GBP, but the key event this week is the Brexit vote in the House of Commons on Thursday, where the MPs have the opportunity to force PM Theresa May to ask the EU27 for an extension of Article 50. If triggered, it will be supportive for GBP and could send EUR/GBP towards the lower end of the 0.86-0.89 range. However, given that the 'meaningful' vote has been postponed, we do not expect the debate on Thursday to change the Brexit outlook and we thus expect the 0.86-0.89 range to hold near term.

In the Scandies, **NOK** sold off yesterday on the back of core inflation (2.11% y/y) falling short of both markets (2.3%) and Norges Bank's (2.16%) projections. Importantly, however, the disappointment was all down to more historical large sales in clothing and footwear. In our view, this is of a temporary nature and, like last year, we expect a recoil in the coming months, which would resend inflation above Norges Bank's projection. Also, the inflation details continued to show rising domestic cost pressures building. Hence, despite the recent setback, we still see value in positioning for a stronger NOK on, among other things, Norges Bank out-hiking peers.

Note yesterday we published our monthly *FX Forecast Update – Mind the Scandi differences*, where we generally made very few changes to our FX projections.

Key figures and events

Tuesday, February 12, 2019			Period	Danske Bank	*Consensus*	Previous
18:45	USD	Fed's Powell (voter, neutral) speaks				

Source: Bloomberg, Danske Bank

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