14 December 2018

# Danske Daily

## Softening European PMIs in focus

### Market movers today

- Today, we get **flash December PMIs for the US and euro area**. In particular, we will monitor the European ones, as euro area growth has disappointed this year and in November, the euro area PMI composite fell to a four-year low. We look for another small decline in the PMI manufacturing to 51.3 in line with the still negative order-inventory balance but we still see scope for a stabilisation in PMI services at 53.5.
- In the **US**, retail sales in November are due out at 14:30 CET. We expect private consumption to remain the most important growth driver going forward.
- **EU27 new car registrations** for November are due out at 08:00 CET. Usually this is not a market mover, but production bottlenecks in the car sector due to new emission test standards have led to a sharp contraction in German GDP growth in Q3. After a significant drop in September, registrations have recovered some ground, but it will be interesting to see whether this continued in November. A weak print could well point to lingering growth headwinds from the car sector in Q4.
- We expect the **Russian central bank** to hike the policy rate 25bp to 7.75% today at 12.30 CET. Economists are divided on a hike with some 60% expecting an unchanged policy rate. While we expect a hike, it is a close call and we do not have any clear signals.

### Selected market news

**Equity markets** in Asia fell and **US** equity futures were in the red due to sour sentiment arising in global markets as **China**'s weak retail sales and industrial production data signalled a continuing slowdown in the Chinese economy. Both the **CNY** and the **AUD** slid, while the **JPY** and US Treasuries climbed higher. While the Bank of **Japan**'s (BoJ) Tankan Large Manufacturing Index for Q4 18 stayed unchanged at 19, it fell to 15 for the next period. The BoJ trimmed the purchasing of bonds maturing in 5-10 years, which was the first cut in the range since June 2018.

Yesterday, the **ECB formally announced an end to the asset purchase programme** by the end of the year. The decision was widely expected, but we find great interest in the fact that the ECB now ties the reinvestment period up to the first rate hike, and that the notion of the next step is a hike from the ECB, which would be a hawkish signal. Draghi said that markets had understood the forward guidance on rates. That comment was somewhat surprising to us as markets currently only point to a 20bp hike in June 2020. Markets generally traded within a narrow band, and yesterday's meeting does not alter our expectation of the ECB hiking rates in December 2019.

Yesterday, there was a big fall in the **US** initial jobless claims from 233,000 to 206,000. The previous rise in initial jobless claims was a concern to some, so the recent print should calm down some of the near-term slowdown risks. Markets are also still trading on recession risks further out.

**Selected reading from Danske Bank**

- *ECB Review*
- *Norges Bank Review*
- *Danske FX Thermometer*

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## Scandi markets

In **Sweden**, Valueguard home price data released this morning showed that prices on tenant owned flats were down by 1.3% mom in November and single family home prices dropped by 0.7% mom.

As expected, **Norges Bank yesterday kept rates unchanged** while lowering the rate path. Meanwhile, for markets, the important part was that the central bank still signals forthcoming hikes in March and September 2019. In our view, the very near-term potential is limited given the global risk environment and investor focus on year-end seasonality (see more in our *Norges Bank Review*, 13 December). That said, we think yesterday's decision underpins the **NOK** attractiveness from a 2019 perspective and supports our case for gradually building NOK longs in the coming weeks. We remain short **EUR/NOK** (3M seagull) and long **NOK/SEK** spot outright.

## Fixed income markets

The **ECB**'s Draghi struck a dour tone at yesterday's meeting on the back of weaker economic data for the eurozone. There was a downward revision of growth and inflation for next year as QE has ended. The market was quite jittery as he also signalled that the reinvestments would gradually 'converge' to the capital key and continue beyond the first hike, which would mean that there would be more purchasing of **German government bonds** relative to **Italy** due to the new capital key weights (see more in our *ECB Review*, 13 December).

We keep our long position in 5Y **Spain** relative to **France** as this is more related to the solid roll-down on the Spanish curve and the wider budget deficit in France. The Bund ASW spread ended up a bit tighter, while the Schatz spread widened and the Box trade became less stretched. We still believe that the Bund ASW spread should tighten into year-end as we enter the 'new issuance season' in January 2019. On the outright move for yields, softer PMIs today will send yields lower.

There was limited reaction in **Norwegian bonds and swaps** on the back of the **Norges bank** meeting yesterday. We hold onto our flattening strategy in the Norwegian government space.

Tonight, we have **Ireland** up for review by Fitch. We do not expect any change to the outlook or the rating.

## FX markets

**EUR** ended the ECB day little changed despite some intraday volatility. Crucial for the EUR is the fact that forward guidance on rates remained time-dependent, which means that rate hikes are not imminent; this, on the one hand, puts a lid on EUR strength near term. However, the fact that reinvestments were linked to the first rate hike is a key hint that the next move from the ECB is higher policy rates. On the other hand, this puts a floor under EUR. We still see **EUR/USD** in a range around 1.13 on 0-3M horizon. There will be focus today on flash PMIs out of both euroland and the US as the relative cyclical stance is set to remain a key driver of EUR/USD near term.

The **TRY** rallied as **Turkey**'s central bank left one-week repo rate at 24% as we expected together with Bloomberg consensus. Markets saluted the central bank's prudence, as fears of President Erdogan's pressure on the central bank have eased and real rates entered green territory.

### Key figures and events

| Friday, December 14, 2018 | | | | Period | Danske Bank | *Consensus* | Previous |
|---|---|---|---|---|---|---|---|
| - | EUR | Fitch may publish Ireland's debt rating | | | | | |
| 0:50 | JPY | Tankan large manufacturers index (outlook) | Index | 4th quarter | | *18.0* | 19.0\|19.0 |
| 0:50 | JPY | Tankan large non-manufacturers index (outlook) | Index | 4th quarter | | *21.0* | 22.0\|22.0 |
| 1:30 | JPY | Nikkei Manufacturing PMI, preliminary | Index | Dec | | | 52.2 |
| 3:00 | CNY | Fixed assets investments | y/y | Nov | | *5.9%* | 5.7% |
| 3:00 | CNY | Industrial production | y/y | Nov | | *5.9%* | 5.9% |
| 3:00 | CNY | Retail sales | y/y | Nov | | *8.8%* | 8.6% |
| 5:30 | JPY | Industrial production, final | m/m\|y/y | Oct | | | 2.9%\|4.2% |
| 6:00 | SEK | HOW residential property prices | | | | | |
| 9:00 | ESP | HICP, final | m/m\|y/y | Nov | | | -0.2%\|1.7% |
| 9:15 | FRF | PMI manufacturing, preliminary | Index | Dec | | *51.0* | 50.8 |
| 9:15 | FRF | PMI services, preliminary | Index | Dec | | *54.5* | 55.1 |
| 9:30 | EUR | PMI manufacturing, preliminary | Index | Dec | **51.3** | *52.0* | 50.8 |
| 9:30 | EUR | PMI composite, preliminary | Index | Dec | | *52.8* | 52.7 |
| 9:30 | EUR | PMI services, preliminary | Index | Dec | **53.5** | *53.4* | 53.4 |
| 9:30 | DEM | PMI manufacturing, preliminary | Index | Dec | | *51.8* | 51.8 |
| 9:30 | DEM | PMI services, preliminary | Index | Dec | | *53.5* | 53.3 |
| 10:30 | EUR | ECB's Lautenschlaeger speaks in Frankfurt | | | | | |
| 11:00 | ITL | HICP, final | m/m\|y/y | Nov | | *-0.2%\|1.7%* | -0.2%\|1.7% |
| 11:00 | EUR | Labour costs | y/y | 3rd quarter | | | 2.2% |
| 11:30 | RUB | Central Bank of Russia rate decision | % | | **7.75%** | *7.5%* | 7.5% |
| 14:30 | USD | Retail sales control group | m/m | Nov | | *0.6%* | 0.3% |
| 15:15 | USD | Capacity utilization | % | Nov | | *78.6%* | 78.4% |
| 15:15 | USD | Industrial production | m/m | Nov | | *0.3%* | 0.1% |
| 15:15 | USD | Manufacturing production | m/m | Nov | | | 0.3% |
| 15:45 | USD | Markit PMI manufacturing, preliminary | Index | Dec | **55.4** | | 55.3 |
| 15:45 | USD | Markit PMI service, preliminary | Index | Dec | | | |

*Source: Bloomberg, Danske Bank*

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