

Danske Daily

Phase one deal marks switch to de-escalation

Market movers today

- Markets will continue to watch US-China trade talks closely and any signals on the phase-one deal, see *US-China trade – A cautious note on the phase-one deal – and what's next*, 16 December.
- Otherwise the euro area Flash PMIs for December will take centre stage today. The manufacturing PMI rose for the second month in a row in November and we look for a further increase in December as more signs of a global recovery are emerging.
- The US will also release preliminary PMI manufacturing and in contrast to ISM manufacturing, PMI has seen a lift in recent months. The regional Empire index will add a further piece to the business cycle puzzle.
- Following the landslide Conservative win, PM Boris Johnson is finalising his cabinet reshuffle and will appoint top ministers today, before outlining his government programme in the Queen's Speech on Thursday. After the GBP rally last week, further Sterling appreciation from here will likely require an improvement in the UK macro outlook as well. UK flash PMIs for December released today will give some clues whether the economy can shrug off its recent lethargy.
- Rest of the week focus turns to Riksbanken, which is expected to hike rates by 25bp and the Norges Bank meeting, where we look for a message of an extended period of unchanged rates. Both meetings take place on Thursday. Apart from PMIs today there are no big data releases on the global front this week.

Selected market news

After some conflicting reports, both China and the US officially confirmed the landing of a phase one deal and more details of the agreement came to light. China has committed to buy at least USD40bn of US agricultural goods annually, to tighten protection for US intellectual property, to ban forced technology transfers from US companies and to refrain from competitive devaluations. In return the US cancelled the planned tariff hike this Sunday and agreed to cut tariffs on USD120bn of Chinese imports that were introduced in September to 7.5% from 15% (tariffs of 25% on some USD250bn of Chinese imports remain in place). It is expected that the agreement will be signed in January before talks about the more thorny issues will start in a phase two deal. Although a bumpy road still lies ahead, we think the worst of the trade war probably lies behind us, see *US-China trade – A cautious note on the phase-one deal – and what's next*.

Markets cheered the switch from escalation to de-escalation on the trade front and the removal of two prominent downside risks to the global economy led to a clear performance across cyclical currencies in DM and EM space. This morning, the People's Bank of China set its daily reference rate for the yuan at the strongest level since early August. That said, some mild scepticism remains about the signing of the deal and Asian equities point to a more mixed start to the week, while US Treasury yields edged up to 1.84% after falling 7bp on Friday.

Selected reading from Danske Bank

- *US-China trade – A cautious note on the phase-one deal – and what's next*
- *UK election review - Big Conservative victory means the end of the beginning of Brexit*
- *Reading the Markets Norway*

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Scandi markets

In Denmark, the government will publish its economic statement and we get Finance Denmark's housing prices for Q3. Statistics Denmark's monthly figures showed that the trend from earlier in the year of decent increases in house prices and more modest growth in apartment prices has remained intact in recent months and, while the calculation methods are different, this points to more or less the same trend in the new figures from Finance Denmark.

Fixed income markets

Yesterday evening the Danish Ministry of Finance published an updated funding need for 2020. The funding need for 2020 was revised up by DKK6bn, where the bulk is due to an increase in the repayments in long-term debt as well as a modest upward adjustment of the net purchase of social housing bonds. However, the surplus on the net financing requirement was also revised upwards. The upward revision of the repayments of long-term debt is actually an increase buyback in 2020. Currently, the outstanding amount of the DGB 0.25% 11/20 is DKK53bn, but the repayment is set at DKK60bn. Given that the short-term redemptions are set at 30bn, we expect the issuance of T-bills to be set at 30bn. This leaves DKK57bn that needs to be funded by DGBs. Currently, the Danish Debt Office is tapping in the 2Y and 10Y and the additional funding can be obtained by e.g. a new 30Y. We will know more on this when the Danish Debt Office publishes its debt strategy on Tuesday.

Today we will publish our 2020 outlook for the EUR covered bond market. In short, we expect another lively year with issuance likely to reach EUR150bn, resulting in broadly unchanged net supply versus 2019. We expect CBPP3 to provide reliable support to issuance and on that basis look for spreads to tighten in 2020. Nonetheless, the January supply wave could take spreads wider in the near term and we also see stretched RV versus core SSAs as currently limiting scope for tighter spreads in the low-beta segments.

FX markets

For the SEK, this week is all about the Riksbank, although we also get some interesting data (e.g. NIER's ETS due Wednesday and retail sales on Friday). A hike to zero is widely expected and also completely priced in and thus forward guidance should perhaps take precedence. Given how Swedish macro has continued to deteriorate since the last meeting (October), we might see a rather dovish hike, perhaps with a clarification that zero is no new lower bound and that negative rates can be revisited should Swedish macro deteriorate further (which we believe is the case). If so, given that pricing into 2020 is positively skewed, there might be some upside risk in EUR/SEK.

Also for the NOK the big domestic event this week is the Norges Bank meeting (30 minutes after the Riksbank announcement on Thursday). In short, we expect Norges Bank to reiterate its 'on hold' stance from September and reduce the likelihood of a 2020 hike from 40% to 10-15%. Importantly, we (1) primarily see a case for a lower rate path in the short-end, while the 2021 and 2022 estimates should be little changed and (2) we expect NB to keep its slight tightening bias. If we are right in our call we should expect a fairly modest price reaction in both rates and FX space; if anything it could drive marginally higher short-end rates and a modestly stronger NOK as some accounts speculate in a forward guidance shift towards easing. For more information see [Reading the Markets Norway](#).

Today US corporations make quarterly tax payments. Last time, in September, it triggered significant turmoil in the USD repo market and the front end of EUR/USD FX forward market due to unwarranted tightening of liquidity. The market remains relatively calm this

time around owing to the deluge of liquidity provided by Fed via repos and T-Bill purchases. In addition, the 3M EURUSD XCCY basis tightened further on Friday as funding pressures over year-end continued to ease.

Key figures and events

Monday, December 16, 2019				Period	Danske Bank	Consensus	Previous
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Dec			48.9
1:30	JPY	Markit PMI services, preliminary	Index	Dec			50.3
3:00	CNY	Fixed assets investments	y/y	Nov		5.2%	5.2%
3:00	CNY	Industrial production	y/y	Nov		5.0%	4.7%
3:00	CNY	Retail sales	y/y	Nov		7.6%	7.2%
7:00	DKK	House prices (Finance Denmark)	q/q/y/y	3rd quarter			
8:00	NOK	Trade balance	NOK bn	Nov			5.9
9:15	FRF	PMI manufacturing, preliminary	Index	Dec		51.5	51.7
9:15	FRF	PMI services, preliminary	Index	Dec		52.0	52.2
9:30	DEM	PMI manufacturing, preliminary	Index	Dec		45.0	44.1
9:30	DEM	PMI services, preliminary	Index	Dec		52.0	51.7
10:00	ITL	HICP, final	m/m/y/y	Nov		... 0.4%	... 0.4%
10:00	EUR	PMI manufacturing, preliminary	Index	Dec	47.0	47.4	46.9
10:00	EUR	PMI composite, preliminary	Index	Dec		50.6	50.6
10:00	EUR	PMI services, preliminary	Index	Dec		52.0	51.9
10:30	GBP	PMI manufacturing, preliminary	Index	Dec		49.2	48.9
10:30	GBP	PMI services, preliminary	Index	Dec		49.6	49.3
10:30	DKK	The government publishes its economic statement					
11:00	EUR	Labour costs	y/y	3rd quarter			2.7%
14:30	USD	Empire Manufacturing PMI	Index	Dec		5.0	2.9
15:45	USD	Markit PMI manufacturing, preliminary	Index	Dec		52.6	52.6
15:45	USD	Markit PMI service, preliminary	Index	Dec		52.0	51.6
16:00	USD	NAHB Housing Market Index	Index	Dec		71.0	70.0
17:00	GBP	BoE Financial Stability Report					
22:00	USD	TICS international capital flow, Net inflow	USD bn	Oct			-37.6

Source: Bloomberg, Danske Bank

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