18 December 2018

Danske Daily

Market mayhem

Market movers today

- Today, it is time for the German Ifo business confidence. We expect to see a small decline again on the back of a continued difficult external environment, with China slowing further into year-end. See also *Germany – Not out of steam, but past the peak*, 11 December 2018 for more on our expectations on the German economy.
- US housing starts will give more flavour on the state of how much US housing is slowing down. A range of housing indicators (permits, house prices, home sales, NAHB survey) have all weakened over the past six months.
- In China, President Xi Jinping is scheduled to give a speech in Beijing to mark the 40-year anniversary of the reform and opening policy, started by Deng Xiaoping in December 1978.
- Otherwise, markets will be looking ahead to the Fed meeting tomorrow for signals of monetary policy in 2019.

Selected market news

It is beginning to look like investors have been naughty this year as Santa Claus continues to be ever delayed. **Risk tumbled** in the US after European bourses closed. The S&P 500 fell over 2% to its lowest level year to date. Asian exchanges followed suit. US 10-year treasuries held steady around 2.86%. The dollar held against other currencies. This morning, S&P 500 stock futures are trading unchanged.

Yesterday, **Trump warned** the Fed about raising rates. He said that it is 'incredible that with a very strong dollar and virtually no inflation', the Fed is even considering raising rates given that at the same time 'the outside world is blowing up' and 'Paris is burning'. Markets continue to expect the Fed to raise interest rates as it convenes tomorrow despite Trump's guidance over the 'madness' of raising rates amidst global carnage. We concur.

Never a dull day in **Brexit land**. Yesterday, PM Theresa May indicated that the vote on her Brexit deal will take place in the week beginning 14 January. May also said that negotiations with the EU continue despite the EU having said that no further negotiations are planned and that the EU27 will not reopen the Withdrawal Agreement. It seems as if EU leaders will not change position until at least the UK politicians find out what they want. This makes good sense as it is not a given that the deal would survive in the House of Commons even with further concessions given the big divisions in British politics.

Also yesterday, UK Labour leader **Jeremy Corbyn** said he wanted to proceed with a 'no confidence' vote in May. The vote would not be on her government, which could lead to snap elections. Instead, a vote solely on May would have limited legal implications besides the potential embarrassment for Theresa May.

Selected reading from Danske Bank

- *FX Forecast Update - An early Christmas present? To SEK, from the Riksbank*
- *FOMC Preview - Fed set to hike again but removing more forward guidance*
- *China Weekly letter*
- *FX Strategy*

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Scandi markets

Sweden. Todays' business and consumer confidence surveys by the NIER are among the last macro data from before year end. The overall economic tendency indicator (ETI) stood at 106.3 in November, a relatively elevated level suggesting stronger-than-normal growth conditions. There are, however, quite substantial differences across industries. What is holding up the ETI is manufacturing, when the confidence indicator at 115 remains not very far from highs. Manufacturers reported very favourable order backlogs and strong performance for production volumes. Other industries are now lagging behind. Construction has experienced a downturn and business conditions for services producers appear to have moderated as well.

Fixed income markets

The combination of political uncertainty, an upcoming supply 'wave' at the start of 2019 as well as the lack of a QE bid from the ECB is weighing on the semi core such as France and Ireland and to a lesser extent Finland and Austria. However, markets such as Spain and Portugal continue to perform.

We have now had a string of the smaller European debt offices publishing their funding outlook for 2019 – Austria, the Netherlands, Belgium and Ireland. Apart from Ireland, which has an unchanged funding need at EUR14-18bn relative to 2018, the other three countries have reduced their funding supply for 2019. However, with the 10Y Ireland at 30bp over 10Y France, which is trading almost 50bp over 10Y Germany, the semi core is looking cheap.

However, short term, there is a risk of more widening for both Ireland and France given the budget problems in France and the uncertainty surrounding Brexit. We expect the French budget office to publish its funding outlook this week. If the net sale of French government bonds remain at EUR195bn and the additional funding need is done through T-bills, this should be supportive for the 10Y spread to Germany in 2019.

In Denmark, Realkredit Danmark has published preliminary amounts for the April Refinancing auction. The auction will take place in early February and RD is expected to sell almost DKK60bn in mainly the 1Y, 3Y and 5Y non-callables. However, almost DKK 80bn is due to mature on 1 April. Hence, the refinancing degree is around 75%. The Danish Debt Office will also launch a new 10Y in late January. Hence, there is plenty of DKK risk coming to the market in January and February with no redemptions or coupons until 1 April. Given the current weakness of DKK versus the EUR and possible speculation of a unilateral rate hike by the Danish Central Bank as seen in January 2016, we see upward pressure on the DGB-Bund spread going forward.

FX markets

Friday marked the final day in 2018 where Norges Bank (NB) bought NOK as part of the fiscal purchases (350M/day). With EUR/NOK moving above important technical levels yesterday – without any significant news flow – the natural question is whether halted NB NOK purchases are the answer behind it. This chart shows how NOK has performed in the sessions following the final day of NOK purchases (index 100). Over the past years the NOK has tended to weaken in the first couple of trading sessions but then erase losses fairly quickly. Indeed, over the past couple of years, the best time to buy NOK from a 'year ahead' perspective has been around the end of the week just ahead of Christmas. We think the strategic case remains intact for positioning for a rebound in NOK and Friday's liquidity projection from NB underpins that structural liquidity is set to tighten also in Q1 19. Over the past years, this has coincided with a stronger NOK in Q1.

EUR/DKK was trading around 7.4660 yesterday. Historically, Danmarks Nationalbank has bought DKK in FX intervention more than 40% of the days EUR/DKK has traded above 7.4650.

EUR/GBP remains relatively steady just below the 0.90 level and especially 0-1M EUR/GBP and GBP/USD vols have plummeted as Brexit uncertainty is expected to drag on. We expect EUR/GBP to remain trapped in the 0.88-09050 range in the short term, which could push volatility on short-dated tenors down further. Meanwhile, pressure on Theresa May continues to increase as Jeremy Corbyn of the UK labour party has now threatened to call for vote of 'no confidence' in her following her statement that MPs would not vote on her Brexit deal until the week of 14 January. If triggered, EUR/GBP could be in for a test of 0.91 near term. We still recommend hedging GBP income/assets via bought vanilla options. See *Market Guide: UK and EU agree Brexit deal but it is not over yet*, 27 November, for details.

Key figures and events

Tuesday, December 18, 2018				Period	Danske Bank	*Consensus*	Previous
-	GBP	GfK consumer confidence	Index	Dec	**-13.0**	*-14.0*	-13.0
1:30	AUD	RBA December Meeting Minutes					
10:00	DEM	IFO - business climate	Index	Dec		*101.8*	102.0
10:00	DEM	IFO - current assessment	Index	Dec		*105.2*	105.4
10:00	DEM	IFO - expectations	Index	Dec		*98.3*	98.7
14:00	HUF	Central Bank of Hungary rate decision	%		**0.90%**	*0.90%*	0.90%
14:30	USD	Building permits	1000 (m/m)	Nov		*1270*	1265.0 (-0.4%)
14:30	USD	Housing starts	1000 (m/m)	Nov		*1233*	1228.0 (1.5%)

Source: Bloomberg, Danske Bank

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