

Danske Daily

Theresa May's days as prime minister look numbered

Market movers today

- In the UK, key focus is on the Conservative Party's response to the results of the European parliamentary elections today. The Conservative Party is likely to suffer a heavy defeat and Nigel Farage's new Brexit Party may be the biggest party of all. It is highly likely that the defeat would cause Prime Minister Theresa May to resign (see our [Brexit Monitor - End of May](#)).
- In the euro area, we will get both the flash PMIs and German ifo for May, as well as the ECB minutes from the April meeting. We see scope for a very limited rebound in the manufacturing PMI to 48.3 on the back of the improving order situation in the April survey. However, the latest negative developments in the trade negotiations between the US and China will weigh on the PMIs going forward and a dent in business expectations might already be visible in today's German ifo print.
- The ECB minutes from the April meeting may prove uneventful for the market. While we are interested in the discussions on inflation and the growth outlook, we doubt there will be any new colour on this, or on the potential 'tiering system' and the upcoming TLTRO3 modalities.
- In the US, we also get the Markit preliminary PMIs for May, which should give us a clue to how growth has performed in Q2. Recently, manufacturing PMIs have added to the signs that the economy is set to slow and that the manufacturing sector is not immune to what happens in the rest of the world.
- In the Scandi countries, labour market data is in focus in Sweden, Norway and Denmark (see next page).

Selected market news

Yesterday, pressure mounted on Theresa May to step down on the back of her renewed bid to find a majority for her Withdrawal Agreement. A senior Cabinet member, Andrea Leadsom, resigned, saying she no longer believed the government's approach will honour the result of the 2016 referendum. Later in the day, the powerful, so-called 1922 Committee of rank-and-file Conservatives, which oversees leadership elections, decided not to change the rules, but Committee chairman Graham Brady said after the meeting that he will meet with Theresa May tomorrow after the European elections. If Theresa May decides to step down, it opens the opportunity for a more pro-Brexit conservative leader, although such a process may only be completed in autumn. Hence an extension of the 31 October deadline with the EU may be needed, although uncertainty remains high about the potential different scenarios at the moment (see our [Brexit Monitor - End of May](#)).

The Asian markets declined on hardening rhetoric from the Chinese side, with the state media sharply criticising the US's decision to curb Chinese companies. Meanwhile, Fed Minutes released yesterday showed little support for the market view that the Fed will cut rates later in the year.

Selected reading from Danske Bank

- [Brexit Monitor - End of May](#)
- [China Weekly Letter - China strikes defiant tone, recovery postponed](#)
- [US-China Trade: Back in the tit-for-tat spiral](#)
- [Euro Area Research - Inflation under the microscope: simmering, not boiling](#)

Follow us on [Twitter](#):



@Danske_Research



Video
Danske Bank research playlist

Read more in Danske Bank's recent forecasts and publications

- [Nordic Outlook](#)
- [Yield Outlook](#)
- [FX Forecast Update](#)
- [Weekly Focus](#)

Chief Analyst
Jakob Christensen
+45 4512 8530
jakc@danskebank.dk

Scandi markets

For **Sweden**, today's focus is on the Swedish labour market, where unemployment figures for the month of April are due for release. The last reading (March) yielded a surprisingly large uptick in unemployment (6.7%, s.a.), which is expected to be reversed to some extent. We expect a decline to 6.2% (consensus: 6.5%). Nevertheless, the trend in vacancies indicates that we might have seen unemployment bottoming out for this cycle.

In **Norway**, recent months have again seen divergence between the jobless figures in the LFS and NAV's figures for registered unemployment. We expect the LFS and NAV jobless measures to converge gradually as LFS unemployment starts to fall again. In March, however, we expect the LFS to show an unchanged jobless rate of 3.8% but with the risk to the downside.

Statistics **Denmark** is set to publish wage earner employment data for March today. Given that the February figures were static, it will be interesting to see whether that was a warning the labour market is slowing or just a natural consequence of unusually strong January numbers.

Fixed income markets

Global fixed income markets rallied yesterday, led by Gilts, as Brexit concerns continued to grow after Cabinet minister Andrea Leadsom resigned and as the likelihood of May resigning and being replaced by a hardline Brexit supporter continues to rise. Today, the UK holds its EU Parliamentary elections, with Nigel Farage and his new party taking the spotlight.

The rally continued in the US session despite Fed Minutes showing little support to the market view that the Fed will cut rates later in the year. The Fed is still in wait-and-see mode and said that the recent softening in inflation is transitory and that growth would pick up further. However, the Minutes are from before Trump escalated the trade conflict by raising Chinese import tariffs. Hence, we should not over-interpret the Minutes.

Today, the market will keep its eyes on European PMI releases and any Brexit news. We expect that yesterday's move lower in yields will extend today with Asian equity markets under pressure.

FX markets

Yesterday, EUR/GBP traded as elevated as 0.884 but the GBP reversed most of the day's losses in late hours. We view this spot level as warranted if one sees a high probability of either (1) a new election and/or (2) a no-deal Brexit realisation in the next one to two months. There are many potential quirks before this could happen and we hence view the pricing as stretched for now. Put another way, we do not view the political situation (yet) with the same severity as late last year, when the GBP was only slightly weaker than seen today. On this side of summer, we do not expect a convergence towards one of the (pound-negative) Brexit outcomes and hence expect very limited further weakness in the GBP. Rather, from the current level, small changes in the perception of the possibility of a softer Brexit could cause a non-linear reaction in favour of GBP strength. A more pro-Brexit Conservative leader would probably increase the chances of a no deal scenario but the small majority in the House of Commons will likely continue to do as much as it can to avoid this, limiting a strong sell-off beyond knee-jerk reactions. Our base case is that a further Brexit extension beyond 31 October is likely. See more in our *Brexit Monitor - End of May*.

There are grounds for a short-lived bounce in EUR/USD today if we are right that Eurozone flash manufacturing PMI will surprise consensus. We stress that a rally in EUR/USD would be temporary, as one better data point is not enough to justify a higher EUR/USD. Rather, we need to see policy action on the trade war and/or monetary policy trigger an upward trend in EUR/USD - see *FX Strategy Policy inaction keeping a lid on EUR/USD*, 21 May.

In the Scandies, focus turns to labour market data in both Norway and Sweden – neither of which we expect to trigger large market moves. That said, given that Riksbank Governor Ingves recently stated that unemployment has likely bottomed out for this cycle, it is still worth following. For Norway, we still prefer the NAV release to the LFS print – and so does Norges Bank.

Key figures and events

Thursday, May 23, 2019			Period	Danske Bank	Consensus	Previous
-	EUR	EU Parliament elections				
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	May		50.2
8:00	DKK	Employment, s.a.	M	Mar		
8:00	NOK	Unemployment (LFS)	%	Mar	3.8%	3.8%
8:00	DEM	GDP, final	q/qly/y	1st quarter		0.4% 0.7%
8:00	DEM	Private consumption	q/q	1st quarter		0.2%
8:00	DEM	Government consumption	q/q	1st quarter		1.6%
8:00	DEM	Gross fixed investments	q/q	1st quarter		0.9%
8:45	FRF	Business confidence	Index	May		105.0
9:15	FRF	PMI manufacturing, preliminary	Index	May		50.0
9:15	FRF	PMI services, preliminary	Index	May		50.5
9:30	DEM	PMI manufacturing, preliminary	Index	May		44.4
9:30	DEM	PMI services, preliminary	Index	May		55.7
9:30	SEK	Unemployment (n.s.a./s.a.)	%	Apr		7.1% 6.7%
10:00	DEM	IFO - business climate	Index	May		99.2
10:00	DEM	IFO - current assessment	Index	May		103.3
10:00	DEM	IFO - expectations	Index	May		95.2
10:00	EUR	PMI manufacturing, preliminary	Index	May	48.3	47.9
10:00	EUR	PMI composite, preliminary	Index	May		51.5
10:00	EUR	PMI services, preliminary	Index	May		52.8
13:30	EUR	ECB Minutes April meeting				
14:30	USD	Initial jobless claims	1000			
15:45	USD	Markit PMI manufacturing, preliminary	Index	May		52.6
15:45	USD	Markit PMI service, preliminary	Index	May		53.0
16:00	USD	New home sales	1000 (m/m)	Apr	673	692.0 (4.5%)
19:00	USD	Fed's Kaplan (non-voter, neutral) speaks				

Source: Bloomberg, Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of the research report is detailed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from and do not report to other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

Expected updates

Each working day.

Date of first publication

See the front page of this research report for the date of first publication.

General disclaimer

This research report has been prepared by Danske Bank (a division of Danske Bank A/S). It is provided for informational purposes only. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Report completed: 23 May 2019, 06:54 CEST

Report first disseminated: 23 May 2019, 07:30 CEST