

Vacation Wrap-Up

Market themes over the past three weeks

Main macro themes

- **Global economy still paints a mixed picture.** While US data, including labour market and consumption data, have surprised markets on the upside in recent weeks, the cyclical position of Europe continues to be weak, especially in industry. Similarly, GDP growth in China slowed to just 6.2% y/y in Q2, the weakest since the early 1990s, though some data points to looser monetary conditions starting to help the economy.
- **Trade war.** As widely expected, the Xi Jinping-Donald Trump meeting at the G20 meeting in Japan in early July ended with a ceasefire in the US-China trade war. The two sides agreed to restart trade negotiations, the US promised not to apply new tariffs but no deadline was set for the completion of the talks. Trump also lifted the export ban on Huawei, at least partially. The two sides have been talking over the phone but big obstacles remain to reach a deal that satisfies both sides.
- **European Game of Thrones concluded.** Following intense negotiations, EU leaders struck an agreement on the succession race for the EU Commission and ECB presidency. The new head of the commission is Ursula von der Leyen – a seasoned centrist politician from Angela Merkel's CDU party. However, the most important appointment from a market perspective was Christine Lagarde as ECB President. We do not know much about Lagarde's thinking on monetary policy but we expect broad policy continuity as she has been open to unconventional monetary policy.
- **Dovish central banks.** Due to the weakening momentum in the global economy and the sharp fall in market-based inflation expectations both the Fed and the ECB have turned more dovish. For the ECB, we expect a package deal in September consisting of a 20bp cut, QE restart of EUR45-60bn, tiering and extended forward guidance (see more in *ECB Research – New ECB call – rate cut and restart of QE*, 18 June). From the Fed, we expect a total of 75bp cuts in H2 19, with a first cut arriving in July.

Fixed income developments

- **The newfound dovishness by global central banks has supported fixed income markets at the beginning of the summer.** The prospects of ECB easing sent German yields further into negative territory. Periphery debt has also witnessed a significant rally, fuelled by the Commission's decision not to launch an excessive deficit procedure against Italy at the current stage. However, the rally in fixed income markets came to a temporary halt following strong US non-farm payrolls and core inflation readings.

FX developments

- Early-to-mid June continues to look like a turning point in the outlook for global macro and trends in financial markets. EUR/SEK and EUR/NOK are trading lower, driven by a broad USD weakness and hawkish communication from the Riksbank and Norges Bank. EUR has joined Scandies and is benefiting from a falling USD and dovish Fed, with EUR/USD now trading at 1.12. EUR/GBP has shifted to 0.90 on the back of very weak UK data. USD/CNY has been stable at slightly below 6.9 since mid-May, as US-China relations have not been a key driver of CNY or cross-market moves in recent weeks.

Key themes

- Big obstacles remain to reach a US-China trade deal despite the G20 ceasefire.
- European Game of Thrones concluded with two women taking over at the ECB and EU Commission.
- The Fed and the ECB are preparing the next easing steps, while Chinese easing is starting to be felt in the economy.
- The newfound dovishness by global central banks has supported fixed income markets.
- Scandi FX has seen support from more dovish global and relatively hawkish local central banks.

Chief Analyst

Jakob Christensen
+45 45 12 76 07
milh@danskebank.dk

Senior Analyst

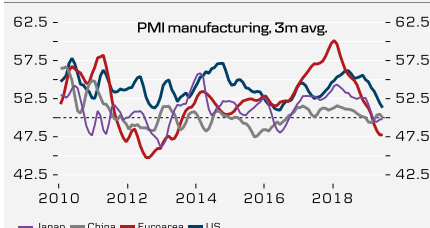
Aila Mihr
+45 45 12 85 35
amih@danskebank.dk

Senior Analyst

Lars Sparresø Merklin
+45 45 12 85 18
lsmer@danskebank.dk

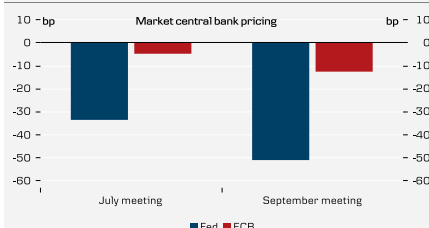
Market themes in pictures

PMI manufacturing shows signs of stabilising in June



Source: Markit PMI, Macrobond Financial, Danske Bank

Fed and ECB expected to cut rates at upcoming meetings



Source: Macrobond Financial, Danske Bank

Recent publications

FX Forecast Update - Fed reflation and weaker USD taking hold, 15 July

FX Edge - H2 reflation set to drive high-beta currencies, support risk, 15 July

FX Edge - The EUR and ECB - rate cuts are all that matter, 12 July

Monthly Executive Briefing - Send in the central bank cavalry (again), 3 July

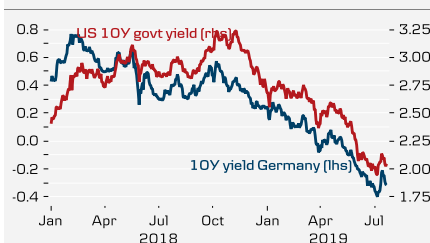
Euro Area Macro Monitor - ECB's credibility on the line, 3 July

ECB Research - Lagarde to take 'one of the most difficult' jobs, 3 July

China Leading Indicators - Short-term weakness, but no hard landing, 2 July

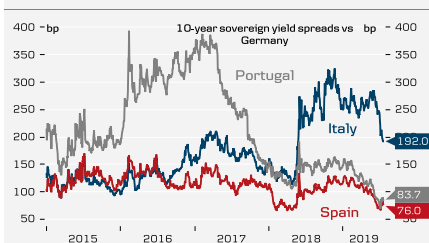
US-China Trade - Ceasefire a reality but no quick fixes to reach a deal, 30 June

Yields have bounced from their lows on stronger macro and inflation prints



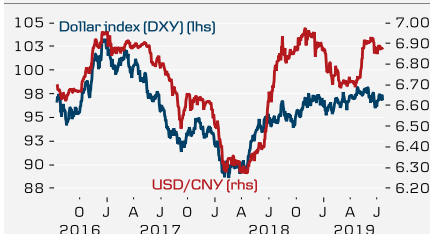
Sources: Macrobond Financial, Danske Bank

Signals of possible new round of ECB QE have been supportive for periphery yields



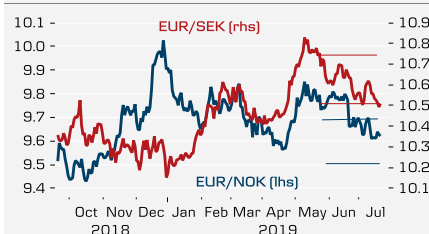
Sources: Macrobond Financial, Danske Bank

CNY weakening is the most significant FX move



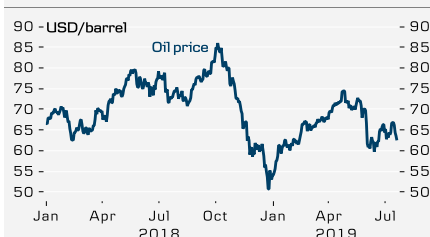
Sources: Macrobond Financial, Danske Bank

Scandi FX has seen support from more dovish global and relatively hawkish local central banks



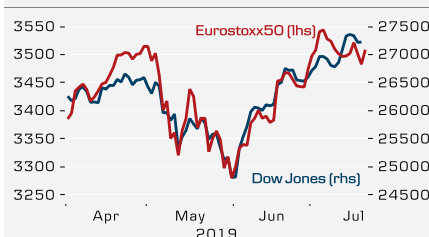
Sources: Macrobond Financial, Danske Bank

Oil price has recovered somewhat



Source: Macrobond Financial, Danske Bank

Mixed developments in European and US equity markets



Source: Bloomberg, Macrobond Financial, Danske Bank

Calendar - key data and events in week 30 - 1 of 2

Tuesday, July 23, 2019				Period	Danske Bank	Consensus	Previous
-	GBP	New Conservative party leader announced					
8:00	NOK	Industrial confidence (SSB)	Net. bal.	2nd quarter			6.9
8:00	DKK	Consumer confidence	Net. bal.	Jul			5.8
14:00	HUF	Central Bank of Hungary rate decision	%				0.90%
15:00	USD	FHFA house price index	m/m	May			0.4%
16:00	EUR	Consumer confidence, preliminary	Net bal.	Jul			-7.2
16:00	USD	Existing home sales	m (m/m)	Jun		5.36	5.34 0.025
Wednesday, July 24, 2019				Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jul			49.3
2:30	JPY	Markit PMI services, preliminary	Index	Jul			51.9
7:00	JPY	Leading economic index, final	Index	May			95.2
8:45	FRF	Business confidence	Index	Jul			106.0
9:15	FRF	PMI manufacturing, preliminary	Index	Jul			51.9
9:15	FRF	PMI services, preliminary	Index	Jul			52.9
9:30	DEM	PMI manufacturing, preliminary	Index	Jul		45.2	45.0
9:30	DEM	PMI services, preliminary	Index	Jul		55.2	55.8
10:00	EUR	PMI manufacturing, preliminary	Index	Jul	47.2	47.8	47.6
10:00	EUR	PMI composite, preliminary	Index	Jul			52.2
10:00	EUR	PMI services, preliminary	Index	Jul	53.9	53.5	53.6
10:00	EUR	Money supply (M3)	y/y	Jun			4.8%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Jun			
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Jun			
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jul			50.6
15:45	USD	Markit PMI service, preliminary	Index	Jul			51.5
16:00	USD	New home sales	1000 (m/m)	Jun		670	626.0 (-7.8%)
16:30	USD	DOE U.S. crude oil inventories	K				-3116

Source: Various sources, Danske Bank

Calendar - key data and events in week 30 - 2 of 2

Thursday, July 25, 2019					Period	Danske Bank	Consensus	Previous
8:00	NOK	Unemployment (LFS)	%	May			3.3%	3.2%
9:00	SEK	Consumer confidence	Index	Jul				93.8
9:00	SEK	Economic Tendency Survey	Index	Jul				98.1
9:00	SEK	Manufacturing confidence	Index	Jul				100.2
9:30	SEK	Household lending	y/y	Jun				5.0%
9:30	SEK	Unemployment (n.s.a./s.a.)	%	Jun				6.8% 6.4%
9:30	SEK	PPI	m/m y/y	Jun				0.0% 3.5%
10:00	DEM	IFO - business climate	Index	Jul			97.6	97.4
10:00	DEM	IFO - current assessment	Index	Jul			100.8	100.8
10:00	DEM	IFO - expectations	Index	Jul			94.0	94.2
13:00	TRY	Central Bank of Turkey rate decision	%				21.8%	24.0%
13:45	EUR	ECB announces refi rate	%			0.00%	0.00%	0.00%
13:45	EUR	ECB announces deposit rate	%			-0.40%	-0.40%	-0.40%
14:30	EUR	ECB's Draghi speaks in Frankfurt						
14:30	USD	Initial jobless claims	1000					
14:30	USD	Core capital goods orders, preliminary	%	Jun				0.5%
14:30	USD	Advance goods trade balance	USD bn	Jun			-72.3	-74.5
Friday, July 26, 2019					Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Finland's debt rating						
-	EUR	Moody's may publish Finland's debt rating						
8:00	DKK	Retail sales	m/m y/y	Jun				-0.3% -0.7%
8:45	FRF	Consumer confidence	Index	Jul				101.0
9:30	SEK	Retail sales s.a.	m/m y/y	Jun				-2.0% -0.5%
9:30	SEK	Trade balance	SEK bn	Jun				8.3
10:00	EUR	ECB's survey of professional forecasters						
12:30	RUB	Central Bank of Russia rate decision	%				7.3%	7.50%
14:30	USD	GDP, first release, preliminary	q/q AR	2nd quarter	2.27	1.7		3.1
14:30	USD	PCE core, preliminary	q/q AR	2nd quarter				1.2

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For further information, call +45 45 12 85 22

Source: Danske Bank

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The authors of this research report are Jakob Christensen (Chief Analyst), Aila Mihr (Senior Analyst) and Lars Sparresø Merklin (Senior Analyst).

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Ad hoc.

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Report completed: 21 July 2019, 11:44 CEST

Report first disseminated: 21 July 2019, 12:00 CEST