

# Danske Daily

## Deadline for Italy to revise its budget

### Market movers today

- Politics continue to be in the spotlight as **Italy** faces a deadline today for a revised budget to the EU Commission. There are no signs though that Italy will budge and change it and the way is thus paved for a collision with the EU. The Commission will most likely proceed by initiating an excessive deficit procedure against the country.

**Brexit** negotiations continue today and tomorrow, as tomorrow is the deadline if there is to be an agreement this month. We think it looks increasingly difficult, see our latest *Brexit Monitor*, 12 November 2018. Supporting this view is a story from *The Guardian* claiming the UK Cabinet will not sign off a final deal at its meeting today.

- On the data front, **German ZEW** is expected to stabilise while **UK** unemployment is set to stay flat at 4.0% (3M).
- In **Norway**, we look for mainland GDP to have risen 0.3% q/q in Q3. In **Sweden**, Riksbank hawk Deputy Governor Ohlsson is due to give a speech on the economic situation and monetary policy at 15:00. For more on Scandi, see page 2.

### Selected market news

According to *Wall Street Journal sources* (paywall), the Trump administration may take another step in the ongoing trade war by using 'export controls, indictments and other tools to counter the theft of intellectual property'. This might be the first sign that Trump will turn more hawkish on China after elections. While there were more encouraging signs before the elections, this is bad news, in particular ahead of the anticipated Xi-Trump meeting after G20 later this month. **Another story reported that the administration is still considering imposing tariffs on auto imports due to national security**, something that could jeopardise the US-EU trade talks. On a positive note, China's Vice Premier Liu is said to be visiting the US ahead of the Xi-Trump meeting. An escalation of the trade war is an important risk factor to growth and market sentiment.

We discuss the political and economic outlook after the midterms in our podcast *Macro Strategy Views: After the midterm elections – what now Trump?* (*SoundCloud link*), 12 November 2018.

**EUR/USD finally broke below the technically important 1.13 mark yesterday** and while we maintain that the cross is set for a decent recovery back to the mid-1.20s in 2019, we still see a range of factors keeping the cross under pressure towards year-end, notably the relative cyclical and yield outlook. See *FX Strategy - EUR/USD breaks below 1.13 - too early to call rebound*, 12 November 2018, for details.

**A tech-led fall in US stocks** (S&P500 fell 2%) due to concerns over iPhone sales has led to declines in both Japan and South Korea. S&P500 futures point to further losses. Oil trades below USD70 a barrel after a Trump tweet criticising Saudi Arabia's decision to cut oil production, as 'oil prices should be much lower'. The relationship between the US and Saudi Arabia is gradually deteriorating.

### Selected reading from Danske Bank

- Macro Strategy Views: After the midterm elections – what now Trump?* (*SoundCloud link*)
- FX Strategy: EUR/USD breaks below 1.13 – too early to call rebound*
- Brexit Monitor: No UK compromise on backstop proposal just yet*
- China Weekly Letter: Next stop is Xi-Trump meeting*

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## Scandi markets

In **Sweden**, Riksbank Deputy Governor Ohlsson is due to give a speech on the economic situation and monetary policy at 15:00. Ohlsson stands out as the hawk, having voted for a rate hike at the past three policy meetings.

As expected, the parliament speaker announced that the Rigsdag will vote on a Moderate and Christian Democratic government tomorrow. The proposal will most likely not pass though, given the signals from other parties. New rounds and new votes will then take place. The risk of a snap election has clearly risen over the past few weeks. If Kristersson is rejected, the interim government will present a budget on Thursday and there will be a parliament debate but no budget vote. Read more in *RtM Sweden*, 8 November, from page 8.

In **Norway**, we will probably see this morning's GDP figures show slightly slower mainland growth in Q3. Consumption of goods (including electricity) was weaker than normal. Therefore, we estimate GDP growth of 0.3-0.4% q/q, well below the 0.7% we originally forecast and Norges Bank's projection in September. However, this is, in part, a result of temporary factors, rather than a reflection of a wider slowdown. At first glance, the fall in private consumption is more worrying but we put this down to reduced purchasing power on the back of high power prices in the summer. This is supported by retail sales in current prices continuing to grow at almost 3% y/y despite volume growth slowing to 1%. Nevertheless, it is possible that the market's expectation of two rate hikes a year ahead will take a bit of a knock from the apparent decline in growth. However, we stress that no leading indicators are showing signs of a slowdown. Gross unemployment also fell in the quarter, despite changes to NAV reporting procedures, and this suggests that growth is above trend.

## Fixed income markets

Today, Italy selling up to EUR5.5bn in 3Y, 7Y and 20Y benchmarks as well as sending a revised budget to the EU commission after the first budget was rejected by the EU. The Italian debt office is doing a small auction of only EUR5.5bn today and thus should have no difficulties in selling the bonds in the market despite the uncertainty regarding the budget.

Otherwise the European government bond market continues to be range bound with 10Y German government bond yields trading in a narrow range of 0.35-0.50% for most of 2018. The end of QE has not had much impact so far, and with soft economic data and the uncertainty from Brexit and Italy, investors are likely to hold onto positions in the core EU and keep the Bund in the tight trading range until the ECB meeting in mid-December.

In Denmark, one of the governors from Nationalbanken has commented on the recent movements in the EUR/DKK. He is not particularly worried for DKK and sees the recent weakening of DKK versus EUR as being very modest, nothing the Danish Central Bank should be reacting to, and that the speculation of a possible rate hike is exaggerated.

## FX markets

**EUR/USD** finally broke below the technically important 1.13 mark yesterday, and while we maintain that the cross is set for a decent recovery back to the mid-1.20s in 2019, we still see a range of factors keeping the cross under pressure towards year-end, notably the relatively cyclical and yield outlook. See *FX Strategy - EUR/USD breaks below 1.13 - too early to call rebound*, 12 November 2018, for details. The cross is in uncharted territory which opens up for a test of the Jun-17 lows around 1.1110-20. Thus, in our view, it is too early to go long EUR/USD, but we are increasingly biased towards buying the cross on dips and clients with income/assets should look to gradually increase USD hedge ratios on dips below 1.12.

In Norway, we expect a GDP growth disappointment relative to market consensus, but as markets realise the disappointment is driven by temporary factors, the market impact should prove more limited. Hence, we expect the **EUR/NOK** upside to hold.

#### Key figures and events

Tuesday, November 13, 2018			Period	Danske Bank	Consensus	Previous
8:00	DEM	HICP, final	m/m y/y	Oct	0.1% 2.4%	0.1% 2.4%
8:00	NOK	GDP (total)	q/q	3rd quarter	0.6%	0.4%
8:00	NOK	GDP (mainland)	q/q	3rd quarter	<b>0.3%</b>	0.5%
10:30	GBP	Unemployment rate (3M)	%	Sep	<b>4.0%</b>	4.0%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Sep	<b>3.1%</b>	3.1%
11:00	DEM	ZEW current situation	Index	Nov	65.0	70.1
11:00	DEM	ZEW expectations	Index	Nov	-25.0	-24.7
12:00	USD	NFIB small business optimism	Index	Oct	108.0	107.9
15:00	SEK	Riksbank's Ohlsson speaks				
16:00	USD	Fed's Kashkari (non-voter, dovish) speaks				
20:00	USD	Budget statement	USD bn	Oct	-116.5	119.1

Source: Bloomberg, Danske Bank

## Disclosure

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