

# Weekly Focus

## Finally, the phase one deal will be signed. Next up, phase two

- **Geopolitical risks came to the forefront in markets in the beginning of the week after US-Iran tensions intensified.** Despite calming down, the geopolitical tensions are set to remind us of a new world order. Financial markets were affected by the attacks but the initial market reaction was reversed in most areas. Equity markets are currently up 0.5% on the week. We believe markets will monitor the geopolitical situation in the next weeks but it is unlikely to become a significant market driver. Oil rose initially but is now below the pre-US-Iran tension level (USD65/bbl).
- **This week we received some decent figures globally confirming our view of a gradual recovery in the global growth outlook,** although the German industrial production and export figures for November were still on the weak side (not boding well for euro area industry avoiding a third consecutive quarter of negative growth in Q4 19). See *Euro Area Macro Monitor: Ending the year on mixed signals*, 9 January.
- **In the euro area next week's highlight is the ECB minutes (Thursday) and the final inflation details (Friday).** The flash inflation figures already pointed to a strong reading of 1.3% on core inflation, but the finer details will indicate the robustness of the recent pickup in core inflation (1.3% both in November and December last year). The inflation details are important for the ECB's assessment and the combination of a pickup in core inflation and reduced downside risks may lead the ECB to revisit the growth risk assessment, though probably not until March. The focus in the ECB minutes on Thursday will be on the framework of the strategic review.
- **In the US, inflation (Tuesday), retail sales (Thursday) and consumer confidence (Friday) are due for release. The latter two are the most important from an economic market perspective to gauge if the consumer spending spree continues.** Retail sales are notoriously volatile and more difficult to gauge. The inflation figure, which has been hovering slightly below the 2% mark that the Fed targets, may not be a market driver as the Fed has signalled it is on hold for now.
- **Similarly, the UK monthly GDP figure (Monday) will shed light whether the Bank of England will ease or not in the near term,** which is gaining increased attention as we are heading towards the 31 January Brexit date. Yesterday, BoE governor Carney said UK growth has slowed below potential and the MPC is debating the merits of near-term stimulus.
- **In China all eyes are on the signing of the phase one deal on 15 January in the White House and potential signals on phase two talks.** Trump tweeted recently he will go to Beijing in the future and talk about phase two with Xi Jinping. In terms of Chinese data, Q4 GDP is released, which we expect to be unchanged from the previous quarter at 6.0%. It should lead to 6.15% growth for all of 2019 in line with our estimate (6.2%). Data on industrial production and retail sales will also give some info on the state of the economy. Both have improved a bit in recent months.

### Key market movers

- Mon: UK GDP
- Tue: US CPI
- Wed: US-China phase 1 deal signed
- Thu: ECB minutes, US retail sales
- Fri: EA final inflation, US consumer confidence, China GDP

### Selected reading from Danske Bank

- *Monthly Executive Briefing: From escalation to de-escalation in US-China relationship*
- *Nordic Outlook*
- *FX Strategy: EUR/USD - upside constrained by EU auto woes*

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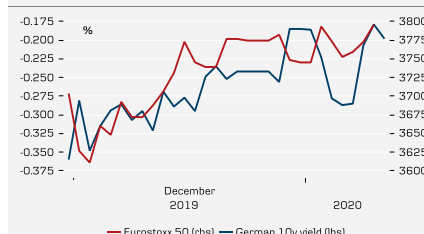


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### Financial markets have held up well despite US-Iran tensions



Source: Macrobond Financial, Danske Bank

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# Scandi market movers

## Scandi

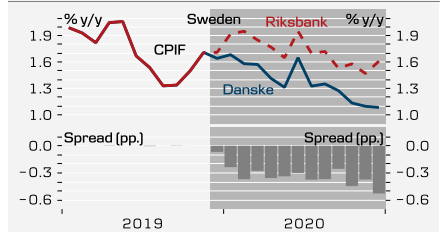
- There are no **Danish** market movers next week.
- December inflation is the major market mover in **Sweden** this week. We expect CPIF and CPIF excluding energy to print 1.6% y/y and 1.7% y/y respectively. This would be close to one-tenth of a percentage point below the Riksbank's forecasts. This said, we do not expect significant differences from the Riksbank's forecasts to emerge until late winter/early spring.

Many forces were in play in December. Usually food prices, airline tickets and holiday travel package prices rise sharply in December. The latter may have risen more than we assume in December 2019, as November showed a significant decline and this Christmas was unusually beneficial as one needed to use few leave days to get a long vacation. Energy prices showed counteracting price declines, as both fuel and electricity prices fell.

It is likely the November consumption indicator showed a growth moderation to 2.1% y/y in November from 3.2% y/y in October, as both car registrations and retail trade eased compared with previous months. Consumption data is very volatile due to new, much higher, charges in the car bonus-malus tax system, leading to front-running and then plunges in data as buyers try to avoid the higher taxation. However, in the background, weak real wage developments and declining total working hours suggest a slower pre-tax momentum in household income.

- There are no **Norway** market movers next week.

### We estimate December CPIF slightly below Riksbank's forecast



Source: SCB, Riksbank, Danske Bank

# Scandi update

## Denmark – soft landing already here?

We have received various Danish economic data in the past week, kicking off with unemployment figures. Unemployment remained largely unchanged at 3.7% of the labour force over the past year and this was also the case in November. We are banking on a soft landing for the economy this year but, based on the unemployment figures, this has already happened.

We also got foreign trade figures for November. Goods exports grew by 1%, driven higher, in particular, by sales of goods produced abroad. In contrast, imports continued to decline. This seemingly bodes well for Q4 GDP growth, though it also indicates that companies are being cautious on investments due to the growth slowdown in the most important Danish export markets.

Then, on Friday, Danish CPI inflation came in at 0.8% for December, as we had estimated. Book prices continued to increase in December and thus contributed 0.12pp to headline inflation. We expect to see a correction here soon, though. As expected, fuel prices also contributed positively due to the base effects of the large December 2018 decline falling out of the year-on-year computation. Weighing in the other direction was a decline in package holidays and food prices.

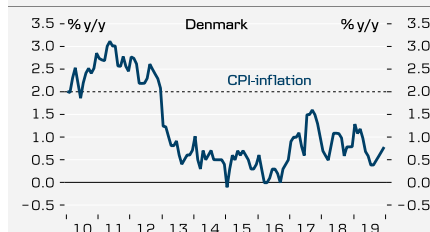
## Sweden – zero repo rate is not a floor

Last week, December PMI manufacturing rose. This week, PMI services followed this path and rose slightly from 47.9 to 48.7. The hike was driven by almost all major components, including new orders, employment and business volume, with the largest rise in employment. However, orders were weak (46.6) and delivery time continued down, indicating demand for services is still weak. Hence, it is probably still too early to talk about a turnaround.

November retail sales are normally not the best; however, this print was weaker than we (and consensus) expected, down 0.4% m/m and up 1.3% y/y. The decline was broad based in both durables and non-durables, with non-durables accounting for the largest decline, meaning Black Friday was a disappointment this year.

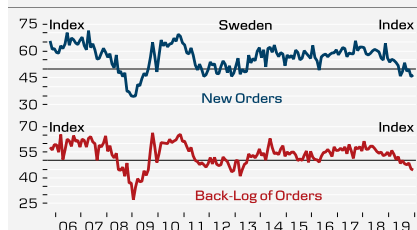
Finally, we note some conclusions from the Riksbank minutes: even though the Swedish repo rate is relatively close to the effective lower bound, zero is not a floor. There was no discussion of reversal rates as such but the Riksbank wants to avoid negative rates becoming seen as a permanent phenomenon. The Riksbank has for years forecast gradual rate hikes but not this time around, so making a cost-benefit analysis, the majority sees it as better to stay on hold for years at zero than at -25bp. However, nothing suggests that the Riksbank could not move back to -25bp if warranted, maybe even to -50bp. However, beyond this (at least according to Stefan Ingves), other policy tools such as a significant expansion of the balance sheet would be a better option.

### Books and fuel boosted inflation



Source: Statistics Denmark, Macrobond Financial

### Orders still weak – too early to talk about a turnaround



Source: Macrobond Financial, Sif

## Norway – GDP growth disappoints but details confuse

Mainland GDP increased by 0.3% in the three-month period from September to November. This is the lowest rate for more than three years and confirms that the Norwegian economy entered a clear slowdown phase towards the end of 2019. However, a closer look at the underlying data does more to confuse than to explain. The data show strong growth in government demand, oil investment, business investment and net exports. While private consumption was flat and housing investment fell, aggregate demand was very strong. The reason GDP came out so weak was an abnormally steep fall in stocks due to production growth lagging well behind demand growth. If this is the real picture, it could mean that growth surprises on the upside in early 2020, with stocks normalising as production growth outstrips demand growth for a period. Another possibility, however, is that the quality of the monthly data (especially for investment demand) is so poor that the reported figures are overestimating actual demand. If so, there is the prospect of a substantial downward revision of demand in coming months, bringing it more in line with the weak production numbers. The outlook for the Norwegian economy depends greatly on the final outcome.

### Substantial stock draws pull down Norwegian growth



Source: Macrobond Financial, Danske Bank

# Calendar

## Key Data and Events in Week 3

### During the week

#### Monday, January 13, 2020

				Period	Danske Bank	Consensus	Previous
				Period	Danske Bank	Consensus	Previous
10:30	GBP	Monthly GDP estimate	m/m q/q	Nov		0 -0.001	0 0
10:30	GBP	Index of services	m/m 3m/3m	Nov		0.1% 0.2%	0.2% 0.2%
10:30	GBP	Trade balance	GBP mio.	Nov		-2500	-5188
16:00	USD	Fed's Rosengren (voter, neutral) speaks					
18:40	USD	Fed's Bostic (non-voter, neutral) speaks					
20:00	USD	Budget statement	USD bn	Dec		5.0	-208.8

#### Tuesday, January 14, 2020

				Period	Danske Bank	Consensus	Previous
				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Dec		45.7	38.7
6:00	SEK	Maklarstatistik Swedish housing price data					
9:30	SEK	Household consumption	m/m y/y	Nov			0.2% 3.3%
9:30	EUR	ECB's Mersch speaks in Frankfurt					
12:00	USD	NFIB small business optimism	Index	Dec		104.8	104.7
14:30	USD	CPI headline	m/m y/y	Dec		0.2% 2.3%	0.3% 2.1%
14:30	USD	CPI core	m/m y/y	Dec		0.2% 2.3%	0.2% 2.3%
15:00	USD	Fed's Williams (voter, neutral) speaks					
19:00	USD	Fed's George (voter, neutral) speaks					

#### Wednesday, January 15, 2020

				Period	Danske Bank	Consensus	Previous
				Period	Danske Bank	Consensus	Previous
8:00	NOK	Trade balance	NOK bn	Dec			18.8
8:45	FRF	HICP, final	m/m y/y	Dec		0.5% 1.6%	0.5% 1.6%
9:00	ESP	HICP, final	m/m y/y	Dec		-0.1% 0.8%	-0.1% 0.8%
9:30	SEK	CPI	m/m y/y	Dec		0.4% 1.8%	0.1% 1.8%
9:30	SEK	Underlying inflation CPIF	m/m y/y	Dec		0.4% 1.7%	0.1% 1.7%
9:30	SEK	Underlying inflation CPIFxEnergy	m/m y/y	Dec		0.5% 1.7%	0.0% 1.8%
10:00	DEM	Budget real GDP (Maastricht)	%				1.7%
10:00	DEM	GDP	%			0.6%	1.5%
10:30	GBP	PPI - input	m/m y/y	Dec		0.2% -0.8%	-0.3% -2.7%
10:30	GBP	CPI	m/m y/y	Dec		0.2% 1.5%	0.2% 1.5%
10:30	GBP	CPI core	y/y	Dec		1.7%	1.7%
11:00	EUR	Industrial production	m/m y/y	Nov		0.5% -1.1%	-0.5% -2.2%
11:00	EUR	Trade balance	EUR bn	Nov			24.5
14:30	USD	Empire Manufacturing PMI	Index	Jan		4.0	3.5
14:30	USD	PPI	m/m y/y	Dec		0.2% 1.3%	0.0% 1.1%
14:30	USD	PPI core	m/m y/y	Dec		0.2% 1.3%	-0.2% 1.3%
16:30	USD	DOE U.S. crude oil inventories	K				1164
17:00	USD	Fed's Harker (non-voter, neutral) speaks					
18:00	USD	Fed's Kaplan (non-voter, neutral) speaks					

Source: Danske Bank

# Calendar

Thursday, January 16, 2020				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Dec		-0.1	-0.1
8:00	DEM	HICP, final	m/m y/y	Dec		0.6% 1.5%	0.6% 1.5%
12:00	TRY	Central Bank of Turkey rate decision	%			11.6%	12.0%
13:30	EUR	ECB publishes minutes from December meeting					
14:30	USD	Initial jobless claims	1000				214
14:30	USD	Import prices	m/m y/y	Dec		0.4% ...	0.2% -1.3%
14:30	USD	Philly Fed index	Index	Jan		3.4	2.4
14:30	USD	Retail sales control group	m/m	Dec		0.3%	0.1%
16:00	USD	NAHB Housing Market Index	Index	Jan		74.0	76.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Nov			-48.3
Friday, January 17, 2020				Period	Danske Bank	Consensus	Previous
3:00	CNY	Industrial production	y/y	Dec		5.9%	6.2%
3:00	CNY	Retail sales	y/y	Dec		7.9%	8.0%
3:00	CNY	Real GDP	q/q y/y	4th quarter		1.4% 6.0%	1.5% 6.0%
3:00	CNY	Fixed assets investments	y/y	Dec		5.2%	5.2%
10:00	EUR	Current account	EUR bn	Nov			32.4
10:30	GBP	Retail sales ex fuels	m/m y/y	Dec		0.7% 2.9%	-0.6% 0.8%
11:00	ITL	HICP, final	m/m y/y	Dec		... 0.5%	... 0.5%
11:00	EUR	HICP inflation, final	m/m y/y	Dec	0.3% 1.3%	0.3% 1.3%	0.3% 1.0%
11:00	EUR	HICP - core inflation, final	y/y	Dec	1.3%	1.3%	1.3%
14:30	USD	Building permits	1000 (m/m)	Dec		1469	1482.0 (1.4%)
14:30	USD	Housing starts	1000 (m/m)	Dec		1380	1365.0 (3.2%)
15:00	USD	Fed's Harker (non-voter, neutral) speaks					
15:15	USD	Capacity utilization	%	Dec		77.3%	77.3%
15:15	USD	Industrial production	m/m	Dec		0.0%	1.1%
15:15	USD	Manufacturing production	m/m	Dec		0.2%	1.1%
16:00	USD	University of Michigan Confidence, preliminary	Index	Jan		99.2	99.3

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Source: Danske Bank

# Macroeconomic forecast

## Macro forecast. Scandinavia

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
Denmark	2018	2.4	2.8	0.4	5.4	2.4	3.6	0.8	2.2	3.8	0.8	34.2	7.0
	2019	2.1	1.5	0.0	-1.0	3.7	0.4	0.8	2.0	3.7	2.6	33.5	8.6
	2020	1.4	1.9	1.3	-0.2	2.5	2.5	1.2	2.1	3.8	0.2	33.4	8.4
Sweden	2018	0.0	0.0	0.0	0.0	0.0	0.0	2.0	2.6	6.3	0.8	38.5	0.5
	2019	1.1	0.9	0.5	-1.3	4.7	2.2	1.8	2.6	6.9	0.1	35.0	4.8
	2020	0.7	1.8	1.2	-1.5	3.1	2.2	1.5	2.4	7.8	-0.5	34.0	5.2
Norway	2018	2.2	1.9	1.4	2.8	-0.2	1.9	2.7	2.8	2.5	-	-	-
	2019	2.5	1.7	2.2	5.0	1.8	5.0	2.2	3.4	2.3	-	-	-
	2020	2.0	2.0	1.7	3.0	6.0	2.5	2.2	3.6	2.3	-	-	-

## Macro forecast. Euroland

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
Euro area	2018	1.9	1.4	1.1	2.4	3.3	2.7	1.8	2.2	8.2	-0.5	85.9	3.8
	2019	1.2	1.3	1.6	6.9	2.4	4.6	1.2	2.1	7.6	-0.8	86.4	3.3
	2020	0.9	1.5	1.8	2.6	1.5	3.2	1.2	2.3	7.5	-0.9	85.1	3.2
Germany	2018	1.5	1.2	1.4	3.5	2.3	3.7	1.9	2.9	3.4	1.9	61.9	7.3
	2019	0.5	1.6	2.1	2.8	1.1	2.4	1.3	3.1	3.1	1.0	59.2	6.0
	2020	0.6	1.2	2.5	1.2	1.2	2.4	1.5	2.8	3.0	0.8	56.8	5.9
Finland	2018	1.7	1.8	1.5	3.3	2.2	5.0	1.1	1.7	7.4	-0.8	59.1	-1.4
	2019	1.5	1.2	1.5	0.6	4.5	3.2	1.0	2.5	6.7	-1.2	58.9	-0.6
	2020	1.0	1.5	1.5	0.6	1.7	2.2	1.2	2.7	6.7	-1.3	58.9	-0.6

## Macro forecast. Global

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
USA	2018	2.9	3.0	1.7	4.6	3.0	4.4	2.4	3.0	3.9	-3.9	105.0	-2.4
	2019	2.3	2.6	2.2	1.3	-0.3	1.6	1.8	3.2	3.7	-4.5	105.0	-2.5
	2020	1.7	2.4	0.8	0.9	0.1	1.7	2.1	3.1	3.5	-4.5	106.0	-2.6
China	2018	6.6	8.2	-	5.0	-	-	2.2	8.5	-	-4.1	50.1	0.7
	2019	6.2	7.5	-	5.0	-	-	2.5	8.0	-	-6.1	53.9	0.0
	2020	6.0	7.8	-	4.6	-	-	2.2	7.5	-	-5.5	57.1	-0.1
UK	2018	1.3	1.6	0.4	-0.2	1.2	2.0	2.5	3.0	4.1	-2.3	85.9	-4.5
	2019	1.3	1.2	3.0	0.6	1.4	3.4	1.8	3.5	3.8	-1.4	83.8	-3.5
	2020	0.7	1.4	0.8	-1.2	2.0	-0.7	1.4	3.4	3.7	-1.1	82.9	-3.7
Japan	2018	0.8	0.3	0.8	1.1	3.4	3.3	0.9	-	2.4	-	-	-
	2019	1.0	0.4	2.2	1.7	-1.8	-0.5	0.7	-	2.4	-	-	-
	2020	0.5	-0.3	1.9	0.4	1.7	0.8	0.7	-	2.4	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

# Financial forecast

## Bond and money markets

		Key interest rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK	Currency vs NOK	Currency vs SEK
USD	10-Jan	1.75	1.83	1.64	1.80	111.1	-	672.8	888.3	949.4
	+3m	1.75	1.73	1.60	1.85	111.0	-	673.0	891.9	955.0
	+6m	1.50	1.65	1.55	1.85	113.0	-	661.3	867.3	955.8
	+12m	1.50	1.65	1.55	2.05	115.0	-	648.7	852.2	939.1
EUR	10-Jan	-0.50	-0.39	-0.31	0.16	-	111.1	747.3	986.6	1054.5
	+3m	-0.50	-0.41	-0.30	0.20	-	111.0	747.0	990.0	1060.0
	+6m	-0.50	-0.41	-0.30	0.30	-	113.0	747.3	980.0	1080.0
	+12m	-0.50	-0.41	-0.20	0.50	-	115.0	746.0	980.0	1080.0
JPY	10-Jan	-0.10	-0.05	0.00	0.12	120.5	109.6	6.20	8.19	8.75
	+3m	-0.10	-	-	-	122.1	110.0	6.12	8.11	8.68
	+6m	-0.10	-	-	-	126.6	112.0	5.90	7.74	8.53
	+12m	-0.10	-	-	-	128.8	112.0	5.79	7.61	8.39
GBP	10-Jan	0.75	0.80	0.78	0.98	85.0	130.6	878.7	1160.1	1239.8
	+3m	0.75	0.58	0.80	0.95	87.0	127.6	858.6	1137.9	1218.4
	+6m	0.50	0.54	0.70	0.95	89.0	127.0	839.6	1101.1	1213.5
	+12m	0.50	0.54	0.80	1.15	84.0	136.9	888.1	1166.7	1285.7
CHF	10-Jan	-0.75	-0.67	-0.62	-0.15	108.1	97.4	691.0	912.3	975.1
	+3m	-0.75	-	-	-	110.0	99.1	679.1	900.0	963.6
	+6m	-0.75	-	-	-	110.0	97.3	679.3	890.9	981.8
	+12m	-0.75	-	-	-	112.0	97.4	666.1	875.0	964.3
DKK	10-Jan	-0.75	-0.41	-0.19	0.27	747.3	672.8	-	132.0	141.1
	+3m	-0.75	-0.42	-0.18	0.32	747.0	673.0	-	132.5	141.9
	+6m	-0.75	-0.42	-0.18	0.42	747.3	661.3	-	131.1	144.5
	+12m	-0.65	-0.32	-0.05	0.65	746.0	648.7	-	131.4	144.8
SEK	10-Jan	0.00	0.21	0.24	0.67	1054.5	949.4	70.9	93.6	100.0
	+3m	0.00	0.15	0.20	0.70	1060.0	955.0	70.5	93.4	-
	+6m	0.00	0.15	0.20	0.80	1080.0	955.8	69.2	90.7	-
	+12m	0.00	0.15	0.20	1.00	1080.0	939.1	69.1	90.7	-
NOK	10-Jan	1.50	1.88	1.94	1.99	986.6	888.3	75.7	100.0	106.9
	+3m	1.50	2.19	2.05	2.05	990.0	891.9	75.5	-	107.1
	+6m	1.75	2.28	2.10	2.15	980.0	867.3	76.3	-	110.2
	+12m	1.75	2.29	2.20	2.45	980.0	852.2	76.1	-	110.2

## Commodities

		2019				2020				Average		
	10-Jan	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	
ICE Brent	65	64	68	62	65	60	60	60	60	72	60	

Soure: Danske Bank



## Disclosures

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