

# Weekly Focus

## Coronavirus still spooking markets

### What a week it has been in financial markets and unfortunately not in a good way.

Stocks are significantly down and we have officially entered a bear market (stocks more than 20% down from the last peak), government bond yields reached new lows, credit bond yields rose further, the oil price collapsed on the back of lower demand and a possible oil price war between Saudi Arabia and Russia and there were big currency swings.

**Also this week, data releases were irrelevant for investors and all eyes were on policymakers.** The ECB decided to keep its policy rates unchanged, in line with our expectation but against market pricing. Instead, the ECB focused on ‘targeted measures’ and went hard on liquidity. The ECB will conduct LTRO on a weekly basis and ease the TLTRO III conditions. The package underwhelmed the market, with spread widening between peripheral and core bonds. For more details see *Flash ECB Research: Targeted response but no general easing*, 12 March. Despite risk sentiment deteriorating further this week, the Federal Reserve has so far refrained from making another emergency cut although it decided to inject a lot more liquidity into the markets on Thursday. Bank of England made a 50bp emergency cut this week.

**Politicians in Europe are also doing something to slow the spreading of the virus,** including closing schools, recommending people to work from home and making emergency packages for companies, in particular small and medium enterprises, to avoid a liquidity crisis. Economic research shows that economic policy is more effectual when it is fast and forceful and we think policymakers should take a ‘rather safe than sorry’ approach and do more. Unfortunately, risk is they will continue to move only slowly.

**Just like this week, we can ignore most of the data releases next week, as they are from before the spreading of the coronavirus in Europe and the US.** The data releases are outdated, as the economy is another place now than in January and February. That said, there are a few that might turn out to be interesting. In the US, we get a couple of regional PMIs and Bloomberg’s weekly consumer confidence indicator on Thursday. The German ZEW expectations on Tuesday are also of interest.

**We are still much more interested in what the policymakers will do next week, not least the central banks.** The Fed is set to announce its decision on Wednesday and it is more likely that it disappoints than surprises positively. Investors are already pricing in the Fed will cut the target range by 100bp all the way down to 0.00-0.25% and expectations of an outright QE programme are rising. Risk is that the Fed delivers less, which will cause a negative market reaction, just like the ECB. On Thursday, Bank of Japan meets. It has already scaled up asset buying. We could see an increase in the signalled annual pace of ETF-pick-ups and further activation of already existing loan-programmes. A rate cut will likely do more harm than good. In Scandi, Riksbanken’s Jansson speaks. For more details please see the next page. We are also very interested in any fiscal and emergency measures politicians can agree on, not least in the US, where politicians are having trouble reaching a bipartisan agreement.

### Key market movers

- **Key focus continues to be on the spreading of the coronavirus and policy responses a**

### Selected reading from Danske Bank

- *Flash ECB Research: Targeted response but no general easing*
- *Corporate Research: Probability of negative 3M USD Libor is small but ...*
- *Denmark: Strong anti-coronavirus measures, recession likely*
- *Italy's coronavirus crisis: Implications for the Italian economy, BTPs and Europe*

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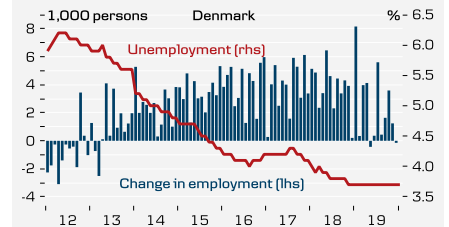
## Scandi market movers

- In **Denmark**, the focus in the coming week will likely still be on the spread of the coronavirus. The government has already announced multiple easing packages, and there will be a great deal of attention on any further announcements.

Finance Denmark's housing market statistic are due on Tuesday and will tell us how house prices fared in Q4 19. Based on Statistics Denmark's house price figures for the same period, the trend has generally been up for both apartments and houses, and the new figures will presumably paint a similar picture of a housing market that is continuing to grow. The week closes with figures for wage-earner employment in January. The labour market has generally slowed a little in recent months and seemingly pointed to stagnating unemployment. However, the recent coronavirus shock to the economy may well mean higher unemployment is on its way – though we will be able to see anything in the statistics for at least a couple of months.

- Next week is data empty in **Sweden**, which probably makes no difference since all data is quite outdated because of the coronavirus outbreak. Instead we will keep following the outbreak and keep monitoring what other central banks do. For now, we keep our Riksbank call with a repo rate cut in April but depending of what the Fed does it could be the case that the Riksbank needs to act before April.
- In **Norway**, the ordinary policy meeting next week is cancelled as Norges Bank held an extraordinary meeting today, where it decided to cut the policy rate by 50bp.

### Wage earner employment keeping unemployment stable – for now



Source: Statistics Denmark, Macrobond Financial

## Scandi update

### Denmark – series of easing measures to offset virus impact in place

The Danish government has announced a series of measures designed to contain outbreaks and also to help companies with acute financial problems. On Tuesday, the deadline for companies to pay taxes and labour market contributions on salaries was extended by four months and the deadline for VAT payments by one month for those that currently have the shortest payment periods. In principle, these extensions are an interest-free loan to help companies with liquidity problems. Most other companies will presumably pay on time, as the alternative is to have the money deposited at a negative interest rate.

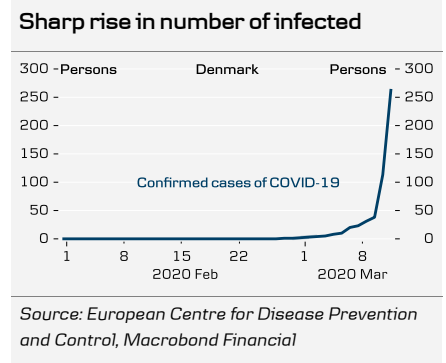
The government announced a further series of measures on Thursday. 1) The countercyclical capital buffer will be released. It is currently 1% and was due to rise to 1.5% at the end of June and to 2% at the end of December. This leaves banks with opportunities to expand balance sheets and lending. In line with what other central banks have done. 2) The government will launch a guarantee initiative for businesses that have lost 50% of business due to Covid-19. They can get a government guarantee for 70% of new borrowing. 3) The government will suspend the rule that employers have to pay sick pay for the first 30 days before the public purse takes over. 4) Self-employed can get sick pay from the first day instead of after two weeks. 5) It becomes easier to use an already existing option to reduce work time and let employees receive supplementary unemployment benefit. All in all a fiscal easing of DKK3bn, about 0.1% of GDP, so no game changer in that respect, but of course useful for businesses.

Then later the same day, Danmarks Nationalbank announced a new one-week lending facility. It will allow banks to borrow for one week at an interest rate of -0.50%. The interest rate on the permanent repo facility is +0.05%.

The Danish Council on Climate Change released a report on Monday containing proposals for how Denmark can achieve its goal of reducing greenhouse gas emissions by 70% by 2030, which means a reduction of 19m tons of CO<sub>2</sub> a year relative to the present. The report estimates that this reduction will cost around DKK16bn a year by 2030.

Data-wise, we received numbers for foreign trade in January and consumer prices in February during the week. Exports rose by a handsome 5.3%, with medicine and machinery exports leading the way. Clearly, the trade in goods figures for the coming months are unlikely to be quite as buoyant due to the impact of the coronavirus on most of Denmark's export markets.

Consumer price inflation rose to 0.8% in February from 0.7% in January. Food, clothes, charter holidays and books were the main reasons behind the rise. Book prices are now 41% higher than a year ago, which seems extreme and probably not a lasting phenomenon. Charter holidays pulling inflation higher in February will likely be corrected heavily in the coming months, as uncertainty on the coronavirus will probably have caused many to postpone or completely drop their holiday plans.



## Sweden – inflation remains far below Riksbank

Although all focus is on coronavirus developments these days, even the Riksbank's it seems, there is reason to comment on the February inflation print. It was very close to our call, meaning CPIF turned out 0.5pp below Riksbank at 1.0% y/y. Of that deviation we attribute 0.3pp to CPIF ex. Energy. Hence, the conclusion is that the overall deviation is to a larger degree driven by core inflation and not energy as is Riksbank's thesis. Looking ahead, we expect this deviation to get wider in March, primarily due to energy. Needless to say, however, there is most likely a potentially significant downside risk to core inflation stemming from signals about plunging sales of airline tickets, charter packages, hotel bookings, restaurants and visits to social events such as movies, theatres, concerts, sports and training facilities which constitute about 15% of the CPI basket. Should this risk be realised, we can easily envisage CPIF getting close to zero this summer.

To be noted, Prospera's broad-based quarterly survey showed a further decline in CPIF inflation expectations, 1y printing 1.4% and 5y printing 1.8% y/y. Ahead of the wage round Social Partners' 1y wage expectations dropped to 2.4%. On the back of an increasing risk that Sweden enters a recession as well as a strong disinflationary period, we expect inflation expectations to fall further in coming months.

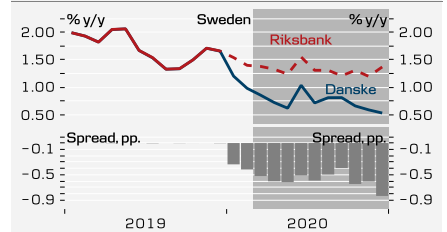
## Norway – Norges Bank surprises with a 50bp rate cut

In a surprise decision, Norges Bank on Friday morning decided to cut policy rates by 50bp as an emergency move. Also the Finance Ministry followed the central bank's advice of lowering the countercyclical buffer to 1.0% from 2.5%. The board not surprisingly introduced a very explicit easing bias and concluded:

'The Committee decided unanimously to reduce the policy rate by 0.50 percentage point to 1.00%. The Committee is monitoring developments closely and is prepared to make further rate cuts.'

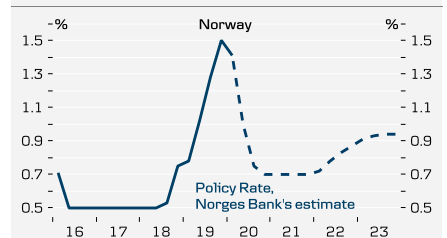
Specifically the new rate path embeds a 100% probability of another 25bp cut in Q2 with another 5bp worth of rate cuts included for Q3. This signals that Norges Bank acknowledges the risk of having to cut more. Meanwhile, it is noteworthy that NB's rate path bottoms at 0.70. As a result of the combined effect from spread of the coronavirus, including the drop in the oil prices, Norges Bank has made significant adjustments to the economic forecasts since the December MPR. The result is a 1.1pp downward adjustment of growth in mainland-GDP in 2020 from 1.5% to 0.4%. Based on the economic forecasts and the corresponding rate path in the new MPR, we now expect Norges Bank to deliver another 25bp rate cut in Q2, most probably in June, taking the policy rate to 0.75%. As we expect the downside risks from the spread of the coronavirus to be more muted over the summer, we expect NB to stay on hold for the rest of 2020 despite the 20% probability of another rate cut.

Feb CPIF remains well below Riksbank's forecast – to drop again



Source: SCB, Riksbank, Danske Bank

Norges Bank signals another cut



Source: Macrobond Financial, Danske Bank

# Calendar

## Key Data and Events in Week 12

Monday, March 16, 2020				Period	Danske Bank	Consensus	Previous
3:00	CNY	Fixed assets investments	y/y	Feb		-2.0%	
8:00	NOK	Trade balance	NOK bn	Feb			21.2
10:00	ITL	HICP	m/m y/y	Feb		... 0.3%	... 0.3%
13:30	USD	Empire Manufacturing PMI	Index	Mar		5.1	12.9
21:00	USD	TICS international capital flow, Net inflow	USD bn	Jan			78.2
Tuesday, March 17, 2020				Period	Danske Bank	Consensus	Previous
5:30	JPY	Industrial production, final	m/m y/y	Jan			0.8% -2.5%
7:00	DKK	House prices (Finance Denmark)	q/q y/y	4th quarter			
10:30	GBP	Unemployment rate (3M)	%	Jan		3.8%	3.8%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jan		3.2%	3.2%
11:00	DEM	ZEW current situation	Index	Mar		-25.0	-15.7
11:00	DEM	ZEW expectations	Index	Mar		-25.0	8.7
11:00	EUR	Labour costs	y/y	4th quarter			2.6%
13:30	USD	Retail sales control group	m/m	Feb		0.5%	0.0%
14:15	USD	Capacity utilization	%	Feb		77.1%	76.8%
14:15	USD	Industrial production	m/m	Feb		0.4%	-0.3%
14:15	USD	Manufacturing production	m/m	Feb		0.2%	-0.1%
15:00	USD	NAHB Housing Market Index	Index	Mar		74.0	74.0
Wednesday, March 18, 2020				Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y [%]	Feb		0.0	0.0
0:50	JPY	Import	y/y [%]	Feb		-0.1	0.0
0:50	JPY	Trade balance, s.a.	JPY bn	Feb		543.5	-224.1
11:00	EUR	HICP inflation	m/m y/y	Feb		0.2% 1.2%	0.2% 1.2%
11:00	EUR	HICP - core inflation	y/y	Feb		1.2%	1.2%
11:00	EUR	Trade balance	EUR bn	Jan			22.2
13:30	USD	Building permits	1000 (m/m)	Feb		1500	1550.0 (9.2%)
13:30	USD	Housing starts	1000 (m/m)	Feb		1500	1567.0 (-3.6%)
19:00	USD	FOMC meeting	%			0.8%	1.3%
19:30	USD	Fed chair Powell (voter, neutral) speaks					
Thursday, March 19, 2020				Period	Danske Bank	Consensus	Previous
-	JPY	BoJ policy rate	%		-0.1%	-0.1%	-0.1%
0:30	JPY	CPI - national ex. fresh food	y/y	Feb		0.6%	0.8%
0:30	JPY	CPI - national	y/y	Feb		0.5%	0.7%
10:00	NOK	Norges Banks meeting CANCELLED	%				1.0%
13:30	USD	Current account	USD bn	4th quarter		-108.3	-124.1
13:30	USD	Philly Fed index	Index	Mar		10.0	36.7
13:30	USD	Initial jobless claims	1000				211
Friday, March 20, 2020				Period	Danske Bank	Consensus	Previous
10:00	EUR	Current account	EUR bn	Jan			32.6
15:00	USD	Existing home sales	m (m/m)	Feb		5.52	5.46 -0.013

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For further information, call (+45) 45 12 85 22.

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	2019	2.2	1.9	0.6	2.9	1.9	0.2	0.8	2.2	3.7	2.6	33.5	8.6
	2020	1.2	1.8	1.3	0.5	0.9	0.2	1.2	2.0	3.8	0.2	33.5	8.4
	2021	1.4	2.0	0.8	1.3	2.0	2.2	1.2	2.1	3.8	-0.1	32.9	8.3
Sweden	2019	1.1	0.9	0.5	-1.3	4.7	2.2	1.8	2.6	6.8	0.1	35.0	1.0
	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
	2021	1.5	1.7	1.2	0.9	2.8	2.5	1.2	2.4	8.0	-0.6	33.0	5.2
Norway	2019	2.3	1.7	1.7	6.2	1.5	5.2	2.2	3.5	2.3	-	-	-
	2020	1.8	1.9	1.8	2.9	4.5	2.2	2.2	3.5	2.3	-	-	-
	2021	2.1	2.2	2.0	1.3	3.4	2.5	2.0	3.3	2.2	-	-	-

### 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	2019	1.2	1.3	1.6	5.5	2.5	3.8	1.2	2.1	7.6	-0.8	86.4	3.3
	2020	0.5	1.0	1.8	0.3	1.4	2.3	1.4	2.3	7.5	-0.9	85.1	3.2
	2021	1.3	1.3	1.4	1.6	2.5	2.8	1.3	2.1	7.4	-1.0	84.1	3.1
Germany	2019	0.6	1.6	2.6	2.7	0.9	1.9	1.4	3.1	3.2	1.5	59.2	6.0
	2020	0.4	0.5	2.5	0.7	0.9	2.5	1.4	2.8	3.0	0.8	56.8	5.9
	2021	1.3	1.2	2.4	1.9	2.6	3.3	1.4	2.8	3.0	0.7	55.0	5.8
Finland	2019	1.0	1.0	-0.3	-1.1	7.1	2.5	1.0	1.0	6.7	-1.2	59.2	-0.1
	2020	0.3	1.3	1.0	-1.0	-1.5	-0.5	1.1	1.2	6.8	-1.4	59.8	-0.4
	2021	1.3	1.1	1.0	2.5	3.0	2.6	1.3	1.5	6.6	-1.3	60.0	-0.2

### 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	2019	2.3	2.6	2.3	1.3	0.0	1.0	1.8	3.2	3.7	-4.5	105.0	-2.5
	2020	1.4	2.0	1.2	0.5	-0.4	-0.9	2.1	3.1	3.5	-4.5	106.0	-2.6
	2021	2.0	2.1	0.4	2.8	1.8	1.7	2.1	3.3	3.4	-4.5	107.0	-2.5
China	2019	6.2	8.0	-	3.8	-	-	2.7	8.0	-	-6.1	-	0.5
	2020	5.4	7.2	-	5.0	-	-	2.7	7.5	-	-6.3	-	0.4
	2021	6.1	6.6	-	5.8	-	-	2.2	7.5	-	-6.2	-	0.2
UK	2019	1.4	1.4	3.6	0.4	3.7	3.6	1.8	3.5	3.8	-1.4	83.8	-3.5
	2020	1.3	0.9	2.8	-1.2	5.0	-1.2	1.5	2.8	3.8	-1.1	82.9	-3.7
	2021	1.5	1.1	1.2	1.6	2.0	2.0	1.6	3.1	3.7	-1.1	82.2	-3.7
Japan	2019	0.8	0.1	1.9	1.5	-1.8	-0.7	0.7	-	2.4	-	-	-
	2020	-0.6	-1.9	2.4	-0.9	-0.1	-0.9	0.7	-	2.5	-	-	-

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 - Rate forecasts updated March 4th										
		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	13-Mar	1.25	0.77	0.50	0.82	112.1	-	666.9	1004.7	973.0
	+3m	0.75	0.81	0.65	0.90	Under revision				
	+6m	0.75	0.85	0.75	1.20					
	+12m	0.75	0.85	0.85	1.40					
EUR	13-Mar	-0.50	-0.49	-0.43	-0.18	-	112.1	747.3	1125.8	1090.2
	+3m	-0.50	-0.41	-0.30	-0.15	Under revision				
	+6m	-0.50	-0.41	-0.25	0.00					
	+12m	-0.50	-0.41	-0.15	0.25					
JPY	13-Mar	-0.10	-0.11	-0.18	-0.17	120.5	105.8	6.20	9.34	9.05
	+3m	-0.10	-	-	-	Under revision				
	+6m	-0.10	-	-	-					
	+12m	-0.10	-	-	-					
GBP	13-Mar	0.25	0.38	0.54	0.63	88.9	126.1	840.6	1266.4	1226.4
	+3m	0.25	0.29	0.50	0.50	Under revision				
	+6m	0.25	0.29	0.50	0.60					
	+12m	0.25	0.29	0.60	0.75					
CHF	13-Mar	-0.75	-0.85	-0.80	-0.43	105.7	94.4	706.7	1064.6	1031.0
	+3m	-0.75	-	-	-	Under revision				
	+6m	-0.75	-	-	-					
	+12m	-0.75	-	-	-					
DKK	13-Mar	-0.75	-0.52	-0.32	-0.05	747.3	666.9	-	150.6	145.9
	+3m	-0.75	-0.38	-0.15	0.00	Under revision				
	+6m	-0.65	-0.32	-0.10	0.15					
	+12m	-0.65	-0.32	0.00	0.40					
SEK	13-Mar	0.00	0.22	0.08	0.32	1090.2	973.0	68.5	103.3	100.0
	+3m	-0.25	-0.10	-0.15	0.35	Under revision				
	+6m	-0.25	-0.10	-0.15	0.45					
	+12m	-0.25	-0.10	-0.10	0.65					
NOK	13-Mar	1.00	1.92	0.92	1.17	1125.8	1004.7	66.4	100.0	96.8
	+3m	0.75	1.80	1.50	1.60	Under revision				
	+6m	0.75	1.80	1.50	1.80					
	+12m	0.75	1.80	1.60	2.00					

Commodities												
		2019				2020				Average		
	13-Mar	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021	
ICE Brent	34	64	68	62	65	60	60	60	60	60	65	

Source Danske Bank

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**Report completed:** 13 March 2020, 13:25 CET

**Report first disseminated:** 13 March 2020, 13:40 CET