

Weekly Focus

Central banks are back on stage

Risk sentiment generally stayed on a strong footing this week as investors heaved a sigh of relief after the **US-China phase one trade deal was finally signed**. While the bulk of the deal was already known, we learned that US exports to China are set to rise by around USD200bn over 2020 and 2021 with some 20% coming from agricultural goods, 40% from manufacturing and the remainder from energy and services. USD/CNY declined to the lowest level since July and the equity market rally shows no signs of abating yet, also benefitting from an **encouraging start to the Q4 reporting season in the US**. While movements in the G10 FX space were limited (see *FX Forecast Update*, 16 January), European core yields experienced some mild downward pressure despite another big supply wave coming to the market last week. We still see room for slightly higher yields in 2020 (see *Yield Outlook*, 15 January).

Central banks will (re)take centre stage this week. The PBoC is leading the pack with the announcement of its new policy rate (Loan Prime Rate) on Monday, which is widely expected to remain unchanged. China is increasingly scaling down on further easing, preferring instead to make use of other discretionary measures to improve the financing of the private sector. The **Bank of Japan** is next in line on Tuesday. We expect no changes in rates or the magnitude of the QQE with yield curve control, but we are likely to see an upward revision of the growth forecast in the wake of the government's big spending package. Last but not least, at the **ECB meeting** on Thursday all eyes will be on the official launch of the monetary strategy review (which we think will be one of the *10 key topics driving markets this year*, 13 January). While the clouds on the euro area growth horizon have cleared somewhat and core inflation has shown some robustness as of late, we still think it will be too early for ECB to strike a more upbeat tone on its growth risk assessment at the meeting (see *ECB Preview - Time to reveal the scope*, 17 January).

January PMIs released on Friday will round off the week and give us some important clues how the global economy (and especially the manufacturing sector) has started 2020. Following a VAT hike in October, Japanese PMIs have nosedived and it might be too early for a rebound in light of still weak foreign demand. In the euro area we have seen rays of light in leading indicators lately and we are looking for a further small uptick in the manufacturing PMI this month to 47.1, adding to evidence that the worst of the industrial slump is behind us and export order books are recovering. In the US, a *strong Philly Fed index* in January gives hope for a similar uptick in PMI.

The **January PMI signal will be closely watched particularly in the UK**, where another weak reading of the monthly GDP print last week (indicating annual growth of a mere 0.5% - the *lowest* since the European debt crisis) fuelled market expectations of a Bank of England rate cut in the coming months. **Markets are currently pricing a 75% probability of a cut at the 30 January meeting.** Another lacklustre PMI print (we are looking for 50.7 for services and 48.5 for manufacturing) signalling growth close to zero, might be enough to tip the scale in favour of a January cut and trigger more GBP weakness ahead (see *FX Strategy*, 6 January).

Key market movers

- **Monday:** China Policy rate, IMF WEO update
- **Tuesday:** Bank of Japan meeting, UK labour market report
- **Thursday:** ECB, Norges Bank meeting
- **Friday:** PMIs in Japan, euro area, UK and US

Selected reading from Danske Bank

- *10 key questions about the global economy in 2020*
- *Nordic Outlook*
- *Yield Outlook - Slightly higher 10Y yields in 2020, but primarily in H2*

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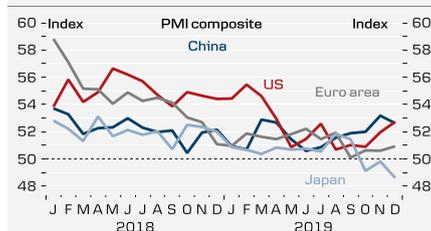
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Video

Danske Bank research playlist

PMIs to give clues whether nascent global recovery continued into 2020



Source: Markit, Macrobond Financial, Danske Bank

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Scandi market movers

- **Denmark** is heading into a relatively quiet week in terms of economic data. Tuesday should bring wage earner employment numbers for November. So far, employment numbers in 2019 have generally indicated a slowdown in the labour market, with average jobs growth at a 5-year low. That being said, the recent autumn figures were a little better, so the November data should provide an interesting indication of the pace of growth in the labour market.

Consumer confidence for January is due on Thursday, and we are expecting a print of 3.5. Our reasoning is that Danish household economies are continuing to prosper and the recession fears that affected the autumn and winter 2019 figures are easing a little.

- In **Sweden**, next week is quite data empty. However, inflation expectations on Tuesday will be the most interesting. The week starts with data from Valueguards HOX home-price index (we have already received statistics from other home sites), indicating monthly unchanged prices of flats in Stockholm. The December month is usually not the highest activity month. During 2019 however, prices of flats have on average increased 5%.

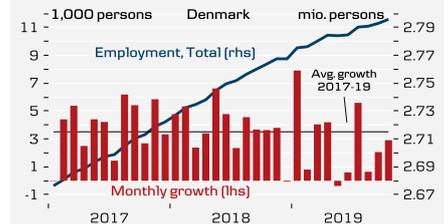
The quarterly “big” Prospera survey shows a broad based decrease in inflation expectations on all horizons. This week however, we only receive the monthly i.e. money market inflation expectations. The monthly survey showed a negative trend during 2019 on all horizons and due to the Riksbank’s latest rate hike from -0.25% to 0% (which will not be supportive for higher inflation - rather the opposite) we believe that this will continue for 2020.

As we have mentioned before, the unemployment rate statistics from Statistics Sweden are very uncertain, due to the small sample and the high volatility. This week we received labour statistics from PES which reported an increase in the unemployment rate for both native a non-native persons. Over time, we believe that the labour market will continue to deteriorate, but the specific outcome from Statistics Sweden we will wait to forecast until the series has stabilized.

- In **Norway**, we expect Norges Bank to leave its policy rate at 1.5% and reiterate that it will remain unchanged “in the coming period” at its rate-setting meeting on Thursday. This is one of the bank’s “interim” meetings, with no new monetary policy report or press conference, and historically the threshold for any new signals at such meetings has been relatively high. So although GDP growth has been marginally weaker, inflation slightly lower and the krone somewhat stronger than expected, we do not think this is enough for the bank to conclude that the interest rate outlook has changed materially since its December meeting. It could be argued that developments since have lowered the chances of a rate hike in 2020 from around 40% in December, but hardly to the extent that Norges Bank will signal it now.

Monday brings manufacturing confidence data for Q4. We saw a clear slowdown in manufacturing in 2019, presumably driven by the global manufacturing recession and slightly lower growth in oil-related industries. The monthly PMI figures suggest stronger growth in Q4, however, probably due to slightly better global growth. We therefore anticipate a moderate rise in manufacturing confidence from 2.5 in Q3 to 4.0 in Q4.

Is the labour market still buoyant?



Source: Statistics Denmark, Macrobond Financial

Broad based negative trend on inflation expectations



Source: Prospera, Macrobond

December: Unchanged policy rate in the coming period



Source: Macrobond, Norges Bank, Danske Bank

Scandi update

Denmark – dead silent week in Denmark

There was no major economic data from Denmark in the past week.

Sweden – weakish December CPIF, worsening outlook

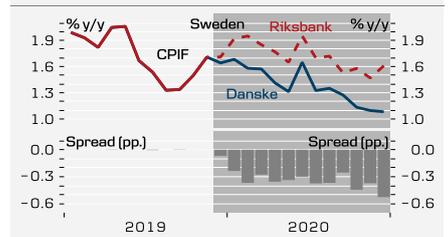
Swedish December inflation turned out just a little below the Riksbank’s forecasts, suggesting inflation is on track with its forecasts. The devil is in the detail, however, with some components that were stronger than anticipated likely to reverse in January. Primarily, we are thinking about airline tickets and charter travel which rose very sharply on the back of a ‘beneficial’ Christmas holiday bidding up prices. January is also the month with abundant sales: clothing, furniture and electronics prices all drop sharply. In general, we expect a decline in CPIF excl. Energy that is just slightly smaller than last year. The reason is that Stockholm will raise traffic congestion fees, but the effect should be limited to a maximum 0.005 percentage points. There is also a risk for higher social and child care charges given the pressures on municipal economies. Note that we have not made any assumption about the annual re-weighting which normally detracts 0.1pp from inflation.

The big risk for CPIF, however, is energy. Even though the US/Iran clash has caused a significant increase in fuel prices, the warm, wet and windy weather so far in January has caused a collapse in electricity prices (down 27%!), which will have a bigger impact than fuel. Hence, at this point, we expect CPIF to print a significant 0.3pp below the Riksbank’s current forecast and if electricity prices stay put for the final two weeks of the month the deviation may be close to 0.4pp. This is surely enough to shake the Riksbank’s confidence and pull down inflation expectations further.

Norway – mounting trade surplus

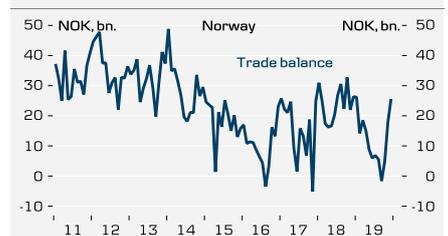
We reckon that part of the decline in the krone in September and October last year was due to a marked deterioration in Norway’s trade balance, which even turned negative in September. The trade balance has bounced back strongly since, with a monthly surplus of NOK25.6bn in December, the highest since the previous January. The decline in the trade balance in 2019 was due mainly to falling prices for key export goods such as oil, gas and fish. The recovery over the past three months, on the other hand, has largely been down to a substantial rise in oil production as the new Johan Sverdrup field gets up to speed. This means that 2020 will probably bring a much larger trade surplus than we saw last year.

A significant deviation appearing in January as electricity collapses



Source: SCB, Riksbank, Danske Bank

Trade balance back in positive territory



Source: Statistics Norway, Macrobond Financial

Calendar

Key Data and Events in Week 4

Monday, January 20, 2020

				Period	Danske Bank	Consensus	Previous
5:30	JPY	Industrial production, final	m/mly/y	Nov			-0.9% -8.1%
8:00	NOK	Industrial confidence (SSB)	Net. bal.	4th quarter			2.5

Tuesday, January 21, 2020

				Period	Danske Bank	Consensus	Previous
-	JPY	BoJ policy rate	%		-0.1%	-0.1%	-0.1%
10:30	GBP	Unemployment rate (3M)	%	Nov	3.8%	3.8%	3.8%
10:30	GBP	Average weekly earnings ex bonuses (3M)	y/y	Nov	3.4%	3.4%	3.5%
11:00	DEM	ZEW current situation	Index	Jan		-13.5	-19.9
11:00	DEM	ZEW expectations	Index	Jan		14.0	10.7

Wednesday, January 22, 2020

				Period	Danske Bank	Consensus	Previous
8:45	FRF	Business confidence	Index	Jan		105.0	106.0
10:30	GBP	CBI Business Optimism		Dec			
12:00	GBP	CBI Trends Total Orders		Jan			-28
12:00	GBP	CBI Trends Selling Prices		Jan			6
14:30	CAD	CPI	m/mly/y	Dec			.. 2.2%
15:00	USD	FHFA house price index	m/m	Nov		0.3%	0.2%
16:00	USD	Existing home sales	m (m/m)	Dec		5.43	5.35 0.017
16:00	CAD	Bank of Canada rate decision	%		1.75%	1.75%	1.75%

Thursday, January 23, 2020

				Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y (%)	Dec		0.0	-0.1
0:50	JPY	Import	y/y (%)	Dec		0.0	-0.2
0:50	JPY	Trade balance, s.a.	JPY bn	Dec		-236	-60.8
1:30	AUD	Employment change	1000	Dec		11	39.9
6:00	JPY	Leading economic index, final	Index	Nov			90.9
8:00	DKK	Consumer confidence	Net. bal.	Jan			2.5
8:00	SEK	Prospera inflation expectations					
8:00	NOK	Unemployment (LFS)	%	Nov		3.8%	3.8%
9:30	SEK	Unemployment (n.s.a. s.a.)	%	Dec			6.8% 7.3%
10:00	NOK	Norges Banks monetary policy meeting	%		1.50%	1.50%	1.50%
13:45	EUR	ECB announces refi rate	%		0.00%	0.00%	0.00%
13:45	EUR	ECB announces deposit rate	%		-0.50%	-0.50%	-0.50%
14:30	USD	Initial jobless claims	1000				204
14:30	EUR	ECB's Draghi speaks at press conference					
16:00	EUR	Consumer confidence, preliminary	Net. bal.	Jan		-7.8	-8.1
17:00	USD	DOE U.S. crude oil inventories	K				-2549
22:45	NZD	CPI	q/q y/y	4th quarter		0.4% 1.8%	0.7% 1.5%

Friday, January 24, 2020

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Finland's debt rating					
-	EUR	Moody's may publish Finland's debt rating					
-	EUR	Fitch may publish Greece's debt rating					
0:30	JPY	CPI - national ex. fresh food	y/y	Dec		0.7%	0.5%
0:30	JPY	CPI - national	y/y	Dec		0.7%	0.5%
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jan			48.4
1:30	JPY	Markit PMI services, preliminary	Index	Jan			49.4
9:15	FRF	PMI manufacturing, preliminary	Index	Jan		50.4	50.4
9:15	FRF	PMI services, preliminary	Index	Jan		52.1	52.4
9:30	DEM	PMI manufacturing, preliminary	Index	Jan		44.5	43.7
9:30	DEM	PMI services, preliminary	Index	Jan		53.0	52.9
10:00	EUR	PMI manufacturing, preliminary	Index	Jan	47.1	46.8	46.3
10:00	EUR	PMI composite, preliminary	Index	Jan		51.1	50.9
10:00	EUR	PMI services, preliminary	Index	Jan		53.0	52.8
10:00	EUR	ECB's survey of professional forecasters					
10:30	GBP	PMI manufacturing, preliminary	Index	Jan	48.5	48.4	47.5
10:30	GBP	PMI services, preliminary	Index	Jan	50.7	51.0	50.0
14:30	CAD	Retail sales	m/m	Nov			-1.2%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jan		52.8	52.4
15:45	USD	Markit PMI service, preliminary	Index	Jan		52.5	52.8

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Source: Danske Bank

Macroeconomic forecast

Macro forecast. Scandinavia

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Denmark	2019	2.1	1.5	0.0	-1.0	3.7	0.4	0.8	2.2	3.7	2.6	33.5	8.6
	2020	1.4	1.9	1.3	-0.2	2.5	2.5	1.2	2.0	3.8	0.2	33.4	8.4
	2021	1.4	2.0	0.8	1.4	1.9	2.3	1.4	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	6.9	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
	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	2.5	1.7	2.2	5.0	1.8	5.0	2.2	3.5	2.3	-	-	-
	2020	2.0	2.0	1.7	3.0	6.0	2.5	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 ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euro area	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
	2021	1.3	1.4	1.4	1.6	2.5	2.8	1.2	2.1	7.4	-1.0	84.1	3.1
Germany	2019	0.5	1.6	2.1	2.8	1.1	2.4	1.3	3.1	3.1	1.5	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
	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	1.5	1.2	1.5	0.6	4.5	3.2	1.0	1.0	6.7	-1.2	58.9	-0.6
	2020	1.0	1.5	1.5	0.6	1.7	2.2	1.2	1.2	6.7	-1.3	58.9	-0.6
	2021	1.4	1.2	1.0	2.0	3.0	2.5	1.5	1.5	6.5	-1.2	59.0	-0.6

Macro forecast. Global

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
USA	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
	2021	1.9	2.0	0.4	2.7	2.0	1.8	2.1	3.3	3.4	-4.5	107.0	-2.5
China	2019	6.6	8.2	-	5.0	-	-	2.2	8.5	-	-4.1	50.1	0.7
	2020	6.2	7.5	-	5.0	-	-	2.5	8.0	-	-6.1	53.9	0.0
	2021	6.0	7.8	-	4.6	-	-	2.2	7.5	-	-5.5	57.1	-0.1
UK	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	3.0	3.7	-1.1	82.9	-3.7
	2021	1.1	1.4	0.6	0.9	2.0	2.0	1.6	3.4	3.6	-1.1	82.2	-3.7
Japan	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	-	-	-
	2021	0.5	0.8	0.4	-0.5	2.1	1.2	0.9	-	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	17-Jan	1.75	1.84	1.63	1.77	111.4	-	671.1	889.0	948.8
	+3m	1.50	1.65	1.55	1.80	111.0	-	673.2	873.9	955.0
	+6m	1.50	1.65	1.55	1.85	113.0	-	661.3	858.4	955.8
	+12m	1.50	1.65	1.55	2.05	115.0	-	648.7	843.5	939.1
EUR	17-Jan	-0.50	-0.39	-0.30	0.15	-	111.4	747.3	989.9	1056.6
	+3m	-0.50	-0.41	-0.30	0.25	-	111.0	747.3	970.0	1060.0
	+6m	-0.50	-0.41	-0.30	0.30	-	113.0	747.3	970.0	1080.0
	+12m	-0.50	-0.41	-0.20	0.50	-	115.0	746.0	970.0	1080.0
JPY	17-Jan	-0.10	-0.06	0.00	0.12	120.5	110.2	6.20	8.21	8.77
	+3m	-0.10	-	-	-	122.1	110.0	6.12	7.94	8.68
	+6m	-0.10	-	-	-	126.6	112.0	5.90	7.66	8.53
	+12m	-0.10	-	-	-	128.8	112.0	5.79	7.53	8.39
GBP	17-Jan	0.75	0.73	0.64	0.85	85.1	130.9	878.6	1163.8	1242.2
	+3m	0.50	0.54	0.70	0.90	87.0	127.6	858.9	1114.9	1218.4
	+6m	0.50	0.54	0.70	0.95	89.0	127.0	839.6	1089.9	1213.5
	+12m	0.50	0.54	0.80	1.15	84.0	136.9	888.1	1154.8	1285.7
CHF	17-Jan	-0.75	-0.68	-0.66	-0.22	107.5	96.5	695.3	921.1	983.2
	+3m	-0.75	-	-	-	109.0	98.2	685.6	889.9	972.5
	+6m	-0.75	-	-	-	109.0	96.5	685.6	889.9	990.8
	+12m	-0.75	-	-	-	109.0	94.8	684.4	889.9	990.8
DKK	17-Jan	-0.75	-0.41	-0.19	0.26	747.3	671.1	-	132.5	141.4
	+3m	-0.75	-0.42	-0.18	0.37	747.3	673.2	-	129.8	141.9
	+6m	-0.75	-0.42	-0.18	0.42	747.3	661.3	-	129.8	144.5
	+12m	-0.65	-0.32	-0.05	0.65	746.0	648.7	-	130.0	144.8
SEK	17-Jan	0.00	0.20	0.23	0.65	1056.6	948.8	70.7	93.7	100.0
	+3m	0.00	0.15	0.30	0.90	1060.0	955.0	70.5	91.5	-
	+6m	0.00	0.15	0.25	0.90	1080.0	955.8	69.2	89.8	-
	+12m	0.00	0.15	0.25	1.05	1080.0	939.1	69.1	89.8	-
NOK	17-Jan	1.50	1.83	1.92	1.94	989.9	889.0	75.5	100.0	106.7
	+3m	1.50	2.18	2.05	2.10	970.0	873.9	77.0	-	109.3
	+6m	1.75	2.24	2.05	2.15	970.0	858.4	77.0	-	111.3
	+12m	1.75	2.24	2.15	2.45	970.0	843.5	76.9	-	111.3

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

Source: Danske Bank

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