

Weekly Focus

Britain leaves the EU, coronavirus fears spread

The spreading of the novel **coronavirus remained the key market theme this week**. While the pace of new cases discovered worldwide (9,692 at the time of writing) has levelled off somewhat, the death toll has now reached 213. The WHO officially labelled the outbreak a Public Health Emergency of International Concern and measures to contain it were stepped up globally. **More Chinese cities and provinces have extended the holiday period until at least 10 February**, fuelling fears in the market about the global economic repercussions of the virus. Compared to the SARS outbreak in 2002-03, the Chinese economy is a much bigger driver of global growth today and we estimate the outbreak could reduce Chinese GDP by up to one percentage point in H1. Hence, there is a clear risk that the expected recovery in growth and PMIs could be somewhat delayed or at least be muted (see *Research China*, 27 January).

Oil and metal prices remained under pressure and global equities started the week deep in red, but recovered some ground after a decent Q4 earnings season calmed nerves somewhat. Global bond yields took another leg lower on the back of the virus fear, dovish Fed communication and the continued hunt for yield evident from strong demand in EGB auctions in Europe. Especially Italian bonds rallied as **the risk of snap elections in Italy receded** after an important regional election in Emilia Romagna did not propel the right-wing League party to power.

Britain finally leaves the EU more than three years after the Brexit vote, after the Withdrawal Agreement was ratified by both the British and EU parliaments. Focus now turns to the negotiations about a trade agreement with the EU, but time is sparse with the transition period ending by the end of the year.

The Bank of England and the Fed joined the camp of global central banks choosing to leave their powder dry. While policymakers at both institutions signalled that the current monetary policy stance was appropriate, both also struck a dovish tone that left hopes of further rate cuts down the line alive in the market. **We still look for another cut from both the Fed and the Bank of England in 2020**, as economic momentum is running out of steam (see *FOMC Review* and *Bank of England review*, both published 30 January).

Markets will continue to focus on the developments around the coronavirus and **Chinese (Caixin) PMI figures out on Monday will be watched closely** for any negative impact. However, just as the official (NBS) PMI figures last week, the survey was likely conducted too early to see any economic impact of the virus yet. The **Democratic Party primaries officially kick off in the US** on Monday. On the data front things are looking a bit calmer, but we are getting some interesting US releases that could help revive risk sentiment somewhat. The effect of the virus on countries and value chains outside China will likely take some time to materialise and in light of strong regional PMIs, we look for an **increase in the (surprisingly low) ISM manufacturing** to 48.2 from 47.2 on Monday. **Friday's US jobs report for January** should also still paint an upbeat picture of the US labour market situation and we look for growth in non-farm payrolls of 175,000 and wage growth of 3.0% y/y.

Key market movers

- **Mon:** China PMI (Caixin), US ISM Manufacturing, Democratic Party Presidential Primary in Iowa
- **Wed:** US ISM Non-manufacturing
- **Fri:** US jobs report, Germany industrial production

Selected reading from Danske Bank

- *Research China: Uncertainty on the rise on the back of corona virus*
- *Bank of England review: Dovish hold but we still expect a cut later this year*
- *Euro Area Research: From US-China trade ceasefire to US-EU trade war?*

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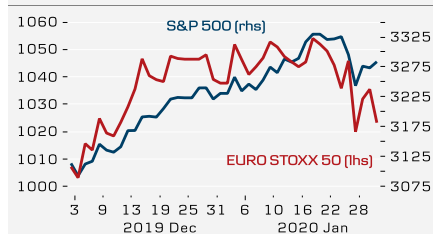


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Video
Danske Bank research playlist

Coronavirus fears weigh on equity markets



Source: Macrobond Financial, Danske Bank

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Scandi market movers

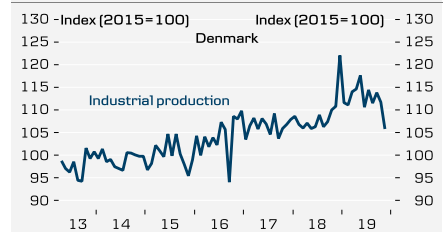
- In **Denmark**, Tuesday brings foreign exchange reserves data for January. The Nationalbank snapped up almost DKK6bn in Q4 to stop the krone from falling any further against the euro. With the krone having spent most of January close to the level that triggered that intervention, the market will be looking to see whether the central bank has continued to intervene. December industrial production rounds off the week. Output fell 5.9% from October to November, due primarily to a whopping 21% slide in pharmaceutical production. Denmark’s pharmaceutical industry is dominated by a handful of large companies and also makes up a fifth of the overall industrial production index. The steep falls in November must therefore be taken with a pinch of salt, because the data can be quite volatile, and a rebound in December would seem likely. The size of this rebound will be interesting, however, as industrial production – and pharmaceutical production in particular – was a key driver of growth in Denmark in 2019.

- The outlook for the **Swedish** export sector remains dim. To be sure, Swedish PMI is strongly correlated to German PMI. The latter, which appears largely to be driven by a stabilisation in export orders, suggests the Swedish PMI may show some further improvement to. We note, however, that NIER’s January survey revealed a further decline in the export order inflow.

Moving on to the December production value index, we keep the focus on manufacturing, bearing in mind that this usually is an important determinant for the much bigger private services sector’s performance. Manufacturing PVI tends to lag PMI by a few months. Hence, we would still keep an eye on the risk of a further weakening in data until there are more robust signs of a recovery, not least in the global manufacturing business cycle. That said, control over the Chinese coronavirus is necessary for manufacturing to avoid major supply disruptions.

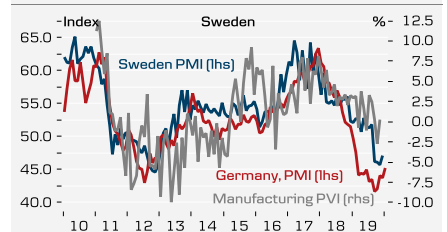
- In **Norway**, it will be interesting to see how GDP fares in Q4. Mainland GDP increased by just 0.3% in the three-month period from September to November, which was the lowest rate for more than three years and confirmed that the Norwegian economy entered a clear slowdown phase towards the end of last year. However, a closer look at the underlying data did more to confuse than to explain. They showed 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 why GDP came out so weak was an abnormally steep fall in stocks due to production growth lagging well behind demand growth. We expect mainland GDP to grow 0.3% q/q in Q4, but will actually be most interested to see where the downturn in demand has come from. The week also brings wage growth for Q4. Wages have accelerated slowly but surely over the past three years as the labour market has tightened, hitting 3.5% y/y in Q3. It seems that the labour market may have weakened slightly towards the end of the year, but this is unlikely to have been enough to pull down wage growth to any significant extent.

Rebound ahead?



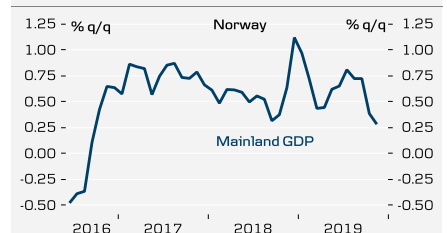
Source: Statistics Denmark, Macrobond Financial

PMI might improve, but Manufacturing PVI might lag a bit



Source: Markit, Swedbank, SCB

Slower growth in Q4



Source: Macrobond Financial, Danske Bank

Scandi update

Denmark – retail sales point to decline in private consumption in Q4

Monday’s retail sales data showed a decrease of 0.5% in December. This needs to be seen in the light of the increase in November, due largely to Black Friday trading bringing some December spending forward a month, which is not yet fully captured in the seasonal adjustment. Even so, the figures were on the weak side, with retail sales growing only 0.7% in 2019 as a whole, and point to a further fall in private consumption in Q4.

Gross unemployment was unchanged at 3.7% in December, meaning the jobless rate for 2019 as a whole also came out at 3.7%. This is marginally lower than the 2018 figure of 3.8% but there are no immediate signs that unemployment will continue the downward trend seen since 2013. We expect the jobless rate to increase slightly in the coming year, due mainly to dwindling job creation and a growing labour force.

Last, but not least, the week brought confidence data showing continued pessimism in manufacturing and construction, with both indicators falling. Manufacturing confidence has not been lower since 2015; on the other hand, historically it has stuck closely to the ifo business climate index in Germany, which has shown signs of improvement recently. So, despite the slightly weaker signals in January, there are also signs that confidence is bottoming out.

Sweden – strong rebound in manufacturing confidence driven by expectations, order inflows continue to fall

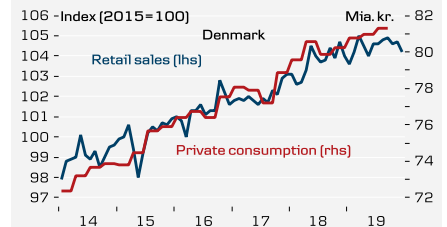
This week offered a mixed bag of data, with trade balance, retail sales and NIER. Starting with the latter, January NIER showed a strong rebound in manufacturing confidence, which increased from 94.5 to 101.8 – now indicating growth again. However, we believe it is too early to talk about a turnaround in the industry sector yet, as expectations are driving the upswing, so it may not be solid. If we look at order inflows, they continued to decline and are now almost in line with the picture during the euro crisis in 2012. Export orders are the main driver of the fall in orders, indicating that the global slowdown is probably affecting Swedish foreign trade still. We also saw a large decline in retailers’ price plans, which will not be supportive of higher inflation in coming months.

Regarding the trade balance and retail sales, both were stronger than we expected. November retail sales were weaker than normal, which probably spilled over into December numbers. Growth was driven mainly by a large increase in durables. However, this implies that household consumption continues to be fairly strong.

Norway – weak retail sales

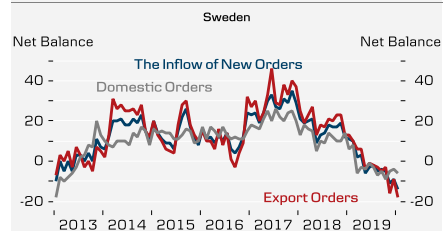
Retail sales fell 2% m/m in December, which is much worse than expected. We presume part of the fall can be put down to a correction following the strong November numbers due to Statistics Norway’s seasonal adjustment struggling to account for the growth in Black Friday trading. That said, there is no doubt that the underlying trend was weak in the last three months of the year. As we have noted several times before, we do not believe this is a result of weaker consumer purchasing power, as real disposable incomes grew solidly throughout the year. Instead, we believe retailers are facing significant structural problems, with sales being lost to both online and cross-border shopping and a growing focus on sustainability among Norwegian consumers. Consumption of services is also growing much faster than consumption of goods, propping up overall growth in consumer spending.

Signs of weak private consumption in Q4



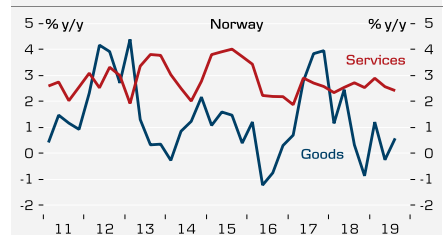
Source: Statistics Denmark, Macrobond Financial

Large decline in export orders



Source: NIER, Macrobond Financial

Stronger growth in consumption of services



Source: Macrobond Financial, Danske Bank

Calendar

Key Data and Events in Week 6

During the week

				Period	Danske Bank	Consensus	Previous
Mon 03	USD	Total vehicle sales	m	Jan		16.8	16.7

Monday, February 3, 2020

				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Jan		16.8	16.7
1:30	JPY	Nikkei Manufacturing PMI, final	Index	Jan			49.3
2:30	CNY	Industrial profits	y/y	Dec			5.4%
2:45	CNY	Caixin PMI manufacturing	Index	Jan		51.0	51.5
8:30	SEK	PMI manufacturing	Index	Jan			47.1
9:00	NOK	PMI manufacturing	Index	Jan			55.5
9:15	ESP	PMI manufacturing	Index	Jan		48.2	47.4
9:45	ITL	PMI manufacturing	Index	Jan		46.8	46.2
9:50	FRF	PMI manufacturing, final	Index	Jan		51.0	51.0
9:55	DEM	PMI manufacturing, final	Index	Jan		45.2	45.2
10:00	EUR	PMI manufacturing, final	Index	Jan		47.8	47.8
10:30	GBP	PMI manufacturing, final	Index	Jan	49.8	49.8	49.8
15:30	CAD	RBC manufacturing PMI	Index	Jan			50.4
15:45	USD	Markit PMI manufacturing, final	Index	Jan		51.7	51.7
16:00	USD	Construction spending	m/m	Dec		0.5%	0.6%
16:00	USD	ISM manufacturing	Index	Jan	48.2	48.4	47.2

Tuesday, February 4, 2020

				Period	Danske Bank	Consensus	Previous
4:30	AUD	Reserve Bank of Australia rate decision	%		0.75%	0.75%	0.75%
10:30	GBP	PMI construction	Index	Jan		46.5	44.4
11:00	ITL	HICP, preliminary	m/m y/y	Jan		-1.7% 0.6%	0.2% 0.5%
11:00	EUR	PPI	m/m y/y	Dec			-1.4% 0.2%
16:00	USD	Core capital goods orders, final	%	Dec			-0.9%
17:00	DKK	Currency reserves	DKK bn	Jan			435.4

Wednesday, February 5, 2020

				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		1.50%	1.50%	1.50%
1:30	JPY	Markit PMI services, final	Index	Jan			52.1
2:45	CNY	Caixin PMI service	Index	Jan		52.0	52.5
8:30	SEK	PMI services	Index	Jan			48.7
9:15	ESP	PMI services	Index	Jan		54.0	54.9
9:30	SEK	Industrial orders	m/m y/y	Dec			0.8% -1.2%
9:45	ITL	PMI services	Index	Jan		50.8	51.1
9:50	FRF	PMI services, final	Index	Jan		51.7	51.7
9:55	DEM	PMI services, final	Index	Jan		54.2	54.2
10:00	EUR	PMI composite, final	Index	Jan		50.9	50.9
10:00	EUR	PMI services, final	Index	Jan		52.2	52.2
10:30	GBP	PMI services, final	Index	Jan	52.9	52.9	52.9
11:00	EUR	Retail sales	m/m y/y	Dec		-0.4% 2.8%	1.0% 2.2%
14:15	USD	ADP employment	1000	Jan		150	202
14:30	USD	Trade balance	USD bn	Dec		-47.4	-43.1
15:45	USD	Markit PMI service, final	Index	Jan		53.2	53.2
16:00	USD	ISM non-manufacturing	Index	Jan	55.5	55.1	55.0
16:30	USD	DOE U.S. crude oil inventories	K				3548
22:10	USD	Fed's Brainard (voter, dovish) speaks					

Source: Danske Bank

Calendar

Thursday, February 6, 2020

				Period	Danske Bank	Consensus	Previous
8:00	DEM	Factory orders	m/m y/y	Dec		0.6% -6.6%	-1.3% -6.5%
8:00	DKK	Bankruptcies (s.a.)		Jan			
8:00	DKK	Enforced sales (s.a.)		Jan			
10:00	EUR	ECB Publishes Economic Bulletin					
14:30	USD	Unit labour cost, preliminary	q/q	4th quarter		0.9%	2.5%
14:30	USD	Initial jobless claims	1000				216
15:15	USD	Fed's Kaplan (non-voter, neutral) speaks					

Friday, February 7, 2020

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Italy's debt rating					
-	CNY	Trade balance	USD bn	Jan		36.8	47.2
-	CNY	Foreign exchange reserves	USD bn	Jan		3095.0	3107.9
0:30	JPY	Labour cash earnings	y/y	Dec		-0.1%	0.1%
1:30	AUD	RBA Statement of Monetary Policy					
6:00	SEK	Maklarstatistik Swedish housing price data					
6:00	JPY	Leading economic index, preliminary	Index	Dec		91.3	90.8
8:00	NOK	Manufacturing production	m/m y/y	Dec			-0.4% 1.0%
8:00	NOK	Industrial production	m/m y/y	Dec			3.7% -0.9%
8:00	NOK	GDP (total)	q/q	4th quarter			0.0%
8:00	DEM	Industrial production	m/m y/y	Dec		-0.2% -3.6%	1.1% -2.6%
8:00	DEM	Trade balance	EUR bn	Dec		14	18.6
8:00	DKK	Industrial production	m/m	Dec			-5.2%
8:00	NOK	GDP (mainland)	q/q	4th quarter	0.3%	0.3%	0.7%
8:45	FRF	Industrial production	m/m y/y	Dec		-0.2% 1.0%	0.3% 1.3%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Jan			770.8
9:30	SEK	Budget balance	SEK bn	Jan			-98.4
9:30	SEK	Household consumption	m/m y/y	Dec			0.0% 2.3%
11:30	RUB	Central Bank of Russia rate decision	%			6.0%	6.3%
14:30	CAD	Net change in full time employment	1000	Jan			33.9
14:30	USD	Unemployment	%	Jan	3.5%	3.5%	3.5%
14:30	USD	Average hourly earnings, non-farm	m/m y/y	Jan	0.2% 3.0%	0.3% 3.0%	0.1% 2.9%
14:30	USD	Non farm payrolls	1000	Jan	175	160	145
21:00	USD	Consumer credit	USD bn	Dec		16.5	12.5

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

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	6.8	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	4.2	2.5	3.5	1.2	2.1	7.6	-0.8	86.4	3.3
	2020	0.9	1.5	1.8	0.3	1.5	2.3	1.3	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	1.4	3.1	3.2	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	2.3	1.3	0.0	1.0	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	6.2	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
	2021	6.0	7.5	-	4.8	-	-	2.2	7.5	-	-5.4	60.1	-0.3
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	31-Jan	1.75	1.78	1.46	1.52	110.3	-	677.8	922.0	966.3
	+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	31-Jan	-0.50	-0.40	-0.36	-0.02	-	110.3	747.3	1016.6	1065.4
	+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	31-Jan	-0.10	-0.05	-0.03	0.03	120.5	109.0	6.20	8.44	8.84
	+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	31-Jan	0.75	0.70	0.70	0.76	83.9	131.4	890.4	1211.3	1269.4
	+3m	0.75	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	31-Jan	-0.75	-0.69	-0.69	-0.37	107.0	97.0	698.6	950.3	995.9
	+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	31-Jan	-0.75	-0.41	-0.25	0.10	747.3	677.8	-	136.0	142.6
	+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	31-Jan	0.00	0.19	0.18	0.46	1065.4	966.3	70.1	95.4	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	31-Jan	1.50	1.79	1.81	1.77	1016.6	922.0	73.5	100.0	104.8
	+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		
	31-Jan	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	
ICE Brent	59	64	68	62	65	60	60	60	60	65	60	

Source: Danske Bank

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