

Weekly Focus

Global risk sentiment boosted as coronavirus fears abate

Concerns about coronavirus abated this week as the spread of the virus levelled off.

While the number of infected increased to 31472, the daily pace of new cases levelled off somewhat, while the death toll reached 638. Contagion outside Hubei province also seems limited, with only one death related to the virus outside China.

Signs of containment of the virus boosted global risk sentiment. Global equity markets rebounded, reaching all-time highs in many countries. With the impact of the virus on global demand likely to be smaller than feared, commodity prices also went up, although the oil price fell back after OPEC+ failed to agree on cuts on Thursday.

Investors are now gauging what the economic impact of the virus will be. In a *note* this week, we project a v-shaped scenario for global growth, expecting a large hit to Chinese growth in Q1 and a nosedive for PMI in February, followed by a sharp rebound of PMI in Q2. The rest of the world will also feel the impact somewhat due to lower Chinese demand and supply-chain disruptions, with the most exposed being the Asian countries due to the negative impact on tourism. The spreading of the virus will continue to be a key focus next week and if the number of cases outside of Hubei continues to slow and the death rate remains low, we think the markets will increasingly focus on other things.

This week, the Chinese central bank cut interest rates and injected liquidity into the economy amid heightened risk from the virus. Furthermore, the Chinese authorities pledged further monetary and fiscal measures, if needed; new measures could be announced already next week. In the US, many FOMC members will be speaking next week, where we will look for any change in the Fed's view on the economic outlook. So far, it has highlighted the coronavirus as a downside risk but not more than that despite the market pricing in more cuts from the Fed. Most importantly, Fed Chair Powell is set to testify Tuesday and Wednesday.

Leaving the coronavirus aside, momentum in the global manufacturing sector appears to be strengthening. In the US, ISM manufacturing surged to 50.9 in January from 47.2 in December, while the euro area PMI also increased slightly. Next week, the US retail sales on Friday will be one of the week's most important releases. Private consumption growth has slowed (the Fed says "moderate" consumption growth, from previously "strong" growth) and the question is whether this is just due to noise in the data, while the preliminary consumer satisfaction for February will be the first real post-virus break-out data, although we don't expect the virus to influence US consumers much.

On the US political side, the first Democratic primary election in Iowa got off to a chaotic start on Tuesday. With most of the votes counted, surprisingly Pete Buttigieg tied with Bernie Sanders for first place while Elizabeth Warren and Joe Biden placed third and fourth, respectively. The strong showing for Buttigieg and Sanders gives them strong momentum going into the upcoming primaries, with the New Hampshire on Tuesday being next. **In Germany, shock-waves went through the ruling coalition** after the CDU voted with the AfD to install a liberal FDP candidate as state premier in Thuringia. A coalition crisis meeting in Berlin has been scheduled for Saturday.

Key market movers

- **Tues:** UK monthly GDP (Dec), US Small business optimism (Jan), Democratic Party Presidential Primary in New Hampshire, Powell testify in the US congress
- **Wed:** Euro industrial production (Dec), Powell testify in the US congress, Riksbank meeting
- **Fri:** German Q4 GDP, US retail sales (Jan) and manufacturing production (Jan)

Selected reading from Danske Bank

- *Brexit Monitor - Withdrawal done, now moving to the real Brexit talks*
- *Research: V-shape scenario for global growth on back of coronavirus*
- *Euro Area Macro Monitor: New Year, new me?*

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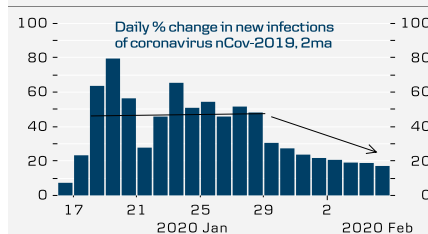


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Video
Danske Bank research playlist

Falling rise in infection rates



Source: Macrobond Financia, Danske Bank

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Scandi market movers

- In **Denmark**, we are scheduled to receive December's export figures and January's consumer prices on Monday. Industry has driven much of the growth in exports this year, so the major slump in industrial production of 5.9% in December could very well also spill over onto the final export figures for 2019.

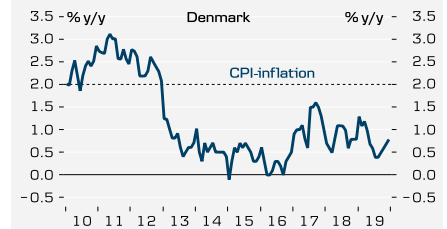
We expect CPI inflation to decline to 0.4% from 0.8% in December. We expect energy prices to weigh down as we have seen large declines in both electricity and gas prices during December and January on the back of an unusually warm winter so far. On top of this comes the reduction in the PSO tariff in Q1, which in itself reduces electricity prices by 1.7% compared to December. Finally last year's big increase in the price of district heating in the wake of the lapse of a government subsidy slides out of the inflation measure, which also deducts 0.10 percentage points from headline CPI. We expect book prices to decline again from a historical high. They are currently up by 33% y/y. Adding to the decline in inflation is also the base effect from food and furniture, the price of which increased significantly in January 2019. We still expect a significant rebound in inflation during the spring, primarily because of the hike in tobacco prices from April. The PSO tariff should also increase in Q2 if forward prices on electricity remain low.

Friday should bring Statistics Denmark's first take on growth in Q4 19 in the form of the GDP indicator, which means we will also get the first glimpse of overall growth in 2019. So far, both production and demand tend to indicate that Q4 was a relatively weak quarter. The autumn's preliminary figures for exports and industrial production have not been as stellar as in H1 19, when they were the primary growth engines, while retail sales have pointed towards weak private consumption. For this reason, we expect growth of 0.2% in Q4 19. Hence, most of 2019 GDP growth occurred in H1 19, while growth in H2 19 was more reminiscent of what we have seen in the rest of the world.

- Under normal circumstances in **Sweden**, Riksbank policy announcements are important events. We suspect that this time around (and probably the next several announcements) it might turn out pretty much dull. After having moved into holding position (almost) throughout, it is hard to see the Riksbank changing stance anytime soon. In the macroeconomic section the Riksbank can of course point to some improvements in data like manufacturing confidence (NIER) and composite PMI of late (however, before the virus) along with early signs of stabilisation in China and the EZ. At the same time the coronavirus is a new uncertainty, at least for now. In other words, in terms of policy signals, we do not expect the announcement to be a market mover but it is still worth mentioning.

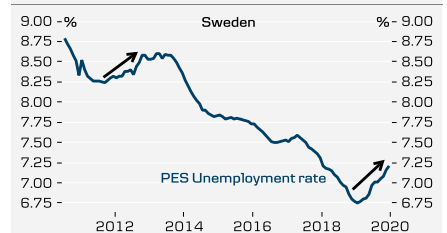
Since the uncertainty about LFS was announced, the more important is the PES unemployment rate. Last print came out at 7.2% and we expect the next number to increase slightly, i.e. our overall assessment is that the labour market continues to deteriorate.

Energy and book prices likely to pull inflation lower



Source: Statistics Denmark, Macrobond Financial

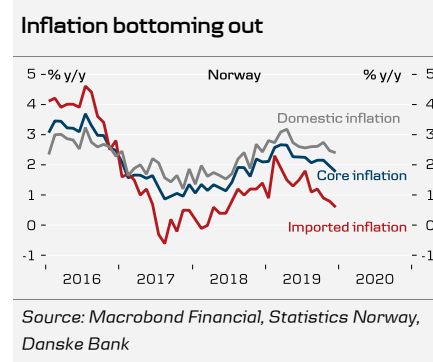
The unemployment rate will continue to rise



Source: PES, Macrobond Financial

- In **Norway**, core inflation trended downwards in H2 last year, mainly as a result of prices for imported consumer goods rising more slowly. However, the sharp drop in the krone towards the end of the year means that the downside risk to imported inflation is fairly limited. Wage growth also accelerated from 2.9% in 2018 to 3.7% in 2019, which could mean that domestic inflation pushes up during the course of 2020. Pulling the other way are weak demand and excess capacity in parts of the retail sector, which will make it difficult to raise prices. Owing to base effects, we expect core inflation to climb from 1.8% y/y in December to 2.0% y/y in January. There are, however, some signs that food prices may have risen more than normal and that there has been something of an increase in transport costs, which could pose a slight upside risk to our forecast.

Thursday brings Norges Bank Governor Øystein Olsen's annual address. We do not anticipate any new monetary policy signals, since the bank seems very comfortable with the current balance of risks. Nor has Olsen previously used the occasion as a platform to announce any major change of tack as his predecessors sometimes did. Instead, we think much of the speech will be devoted to a discussion of how Norway should handle the transition to a low-carbon economy. We do not, however, expect him to call for any major changes to economic policy, including when it comes to oil.



Scandi update

Denmark – Further intervention points to a rate hike in H1 20

Danmarks Nationalbank intervened to the tune of DKK12.1bn in January to support the Danish krone (DKK). This was the fourth month in a row that the central bank has been forced to intervene, with the latest intervention being the biggest since the krone crisis in 2015/16. The DKK is still trading at its weakest levels against the euro (EUR) since its introduction in 1999 and we expect this pressure will prompt the central bank to raise interest rates by 10 basis points before the end of H1 20. This is likely to happen on a Thursday at 17 CET, so watch out for news from the Danish central bank on upcoming Thursdays.

Industrial production rose by 6.4% in December, but as it followed on the heels of a 6.2% decline the previous month, the figure is not so impressive. The pharmaceutical industry is the main culprit behind the oscillating month-to-month figures, as production here fluctuates considerably. Looking at Q4 19 as a whole, production was down 1.4%. The industrial production figures thus suggest something of a slowdown in Q4 19, and this will presumably also be apparent in the GDP numbers. However, this is no reason to panic, as it can mostly be attributed to a simple correction following the strikingly strong figures in early 2019.

Sweden – Mixed data

Swedish January composite PMI took a big leap up to print 52.2, i.e. back to expansionary territory. Actually, both manufacturing and services PMI rose above the 50-level. It appears to be a pretty solid improvement in both sectors as key components such as new orders, production/business volume and employment all signalled expansion except for employment in manufacturing, which stopped short of the threshold level.

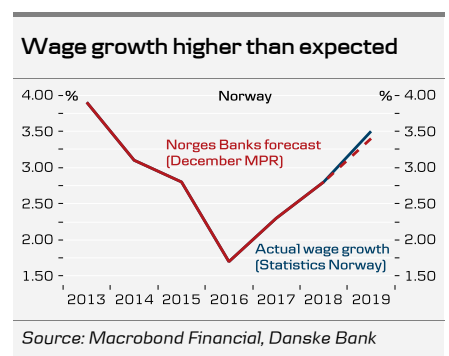
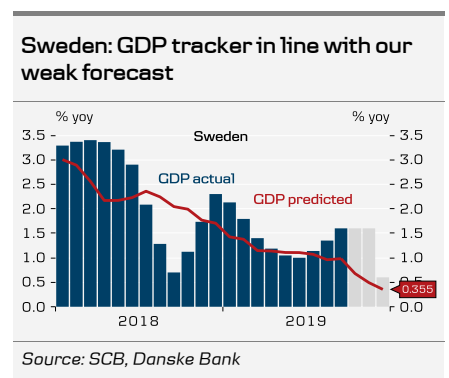
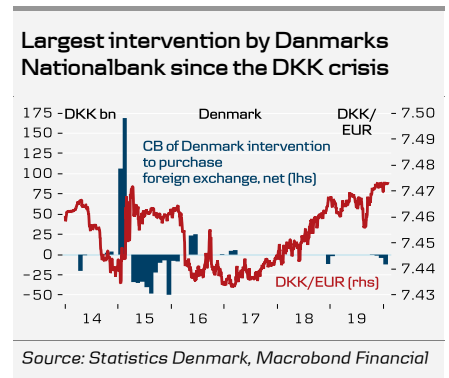
PMIs are early signals suggesting the business cycle may be turning up. Of course, the coronavirus is likely to cause short-term supply and production disruptions, mainly for manufacturing drawing down inventories. After that there should be a strong rebound in production to fill up unprocessed orders and restocking.

Hard data production data, however, such as the production value index (PVI) did not confirm that rosy picture. Instead, December data showed private sector PVI printing the weakest outcome since December 2013, -0.4 % y/y. This data is part of our GDP tracker which, after incorporating the PVI, puts Q4 GDP at a mere 0.4 % y/y, in line with our official assumption of 0.5 % y/y growth in *Nordic Outlook - 3 January 2020*, however.

Norway – Fastest wage growth in six years

Wage growth accelerated to 3.7% in 2019, some way above Norges Bank’s estimate of 3.4% in the December monetary policy report. In other words, the labour market was tighter last year than the central bank thought and domestic inflationary pressures could now pick up slightly. In isolation, that would mean an upward revision of the bank’s interest rate projections in the next monetary policy report in March, but there are, of course, also many factors pulling the other way. These figures nevertheless mean that the threshold for lowering the policy rate is relatively high.

On top of this, housing prices climbed 0.9% in seasonally adjusted terms from December to January, which is the largest monthly increase since May 2018 and goes to show that it is still too early to dismiss the housing market when assessing the interest rate outlook. The annual rise in housing prices in January was also much higher at 3.2% than the 2.5% Norges Bank assumed in the December monetary policy report, providing further confirmation that a rate cut is some way off.



Calendar

Key Data and Events in Week 7

During the week

				Period	Danske Bank	Consensus	Previous
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Monday, February 10, 2020

				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Jan		8.6%	8.7%
2:30	CNY	PPI	y/y	Jan		0.0%	-0.5%
2:30	CNY	CPI	y/y	Jan		4.9%	4.5%
7:45	CHF	Unemployment	%	Jan		2.3%	2.3%
8:00	DKK	Trade balance ex ships	DKK bn	Dec			10.2
8:00	DKK	Exports	m/m	Dec			
8:00	NOK	CPI	m/m y/y	Jan		-0.7% 1.2%	-0.3% 1.4%
8:00	NOK	PPI	m/m y/y	Jan			4.1% -2.2%
8:00	DKK	Current account (nsa sa)	DKK bn	Dec			19.4
8:00	DKK	CPI	m/m y/y	Jan	... 0.4%		-0.2% 0.8%
8:00	NOK	Core inflation (CPI-ATE)	m/m y/y	Jan	... 2.0%	-0.6% 2.0%	-0.2% 1.8%
8:30	CHF	CPI	m/m y/y	Jan		-0.2% 0.2%	0.0% 0.2%
10:30	EUR	Sentix Investor Confidence	Index	Feb		5.0	7.6
21:15	USD	Fed's Harker (non-voter, hawkish) speaks					

Tuesday, February 11, 2020

				Period	Danske Bank	Consensus	Previous
6:30	NOK	Consumer confidence	Net. bal.	1st quarter			13.4
10:30	GBP	GDP, preliminary	q/q y/y	4th quarter	0.0% ...	0.0% 0.9%	0.4% 1.1%
10:30	GBP	Monthly GDP estimate	m/m q/q	Dec	0.2% ...	0.2% ...	-0.3 ...
10:30	GBP	Index of services	m/m 3m/3m	Dec		0.2% 0.1%	-0.3% 0.1%
10:30	GBP	Trade balance	GBP mio.	Dec		0	4031
12:00	USD	NFIB small business optimism	Index	Jan			102.7
16:00	USD	Fed's Powell (voter, neutral) speaks					
19:30	USD	Fed's Bullard (non-voter, dovish) speaks					
20:15	USD	Fed's Kashkari (non-voter, dovish) speaks					

Wednesday, February 12, 2020

				Period	Danske Bank	Consensus	Previous
2:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%		1.00%	1.00%	1.00%
9:30	SEK	Riksbank, rate decision	%		0.00%	0.00%	0.00%
11:00	EUR	Industrial production	m/m y/y	Dec		-0.6% -1.0%	0.2% -1.5%
14:30	USD	Fed's Harker (non-voter, hawkish) speaks					
16:00	USD	Fed's Powell (voter, neutral) speaks					
16:30	USD	DOE U.S. crude oil inventories	K				3355
20:00	USD	Budget statement	USD bn	Jan			-13.3

Thursday, February 13, 2020

				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Jan		0.0	0.0
7:30	FRF	ILO unemployment	%	4th quarter		8.5%	8.6%
8:00	DEM	HICP, final	m/m y/y	Jan		-0.8% 1.6%	-0.8% 1.6%
14:30	USD	Initial jobless claims	1000				202
14:30	USD	CPI headline	m/m y/y	Jan		0.2% 2.5%	0.2% 2.3%
14:30	USD	CPI core	m/m y/y	Jan		0.2% 2.2%	0.1% 2.3%
18:00	NOK	Norges Banks chairman Øystein Olsen gives annual speech					

Friday, February 14, 2020

				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Ireland's debt rating					
8:00	DEM	GDP, preliminary	q/q y/y	4th quarter		0.1% 0.4%	0.1% 0.5%
8:00	DKK	GDP, preliminary	q/q y/y	4th quarter	0.2% ...		0.4% ...
9:00	ESP	HICP, final	m/m y/y	Jan		-1.4% 1.1%	-1.4% 1.1%
10:30	EUR	Portugal, GDP, preliminary	q/q y/y	4th quarter			0.3% 1.9%
11:00	EUR	Trade balance	EUR bn	Dec			19.2
11:00	EUR	GDP, preliminary	q/q y/y	4th quarter		0.1% 1.0%	0.1% 1.0%
11:00	EUR	Employment, preliminary	q/q y/y	4th quarter			0.1% 0.9%
14:30	USD	Import prices	m/m y/y	Jan		-0.2% ...	0.3% 0.5%
14:30	USD	Retail sales control group	m/m	Jan			0.5%
15:15	USD	Capacity utilization	%	Jan		76.8%	77.0%
15:15	USD	Industrial production	m/m	Jan		-0.3%	-0.3%
15:15	USD	Manufacturing production	m/m	Jan		-0.3%	0.2%
16:00	USD	University of Michigan Confidence, preliminary	Index	Feb		98.9	99.8
17:45	USD	Fed's Mester (voter, hawkish) speaks					

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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	6.8	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	2.3	1.7	1.7	6.2	1.5	5.2	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	0.8	1.5	1.8	0.3	1.4	2.3	1.0	2.3	7.5	-0.9	85.1	3.2
	2021	1.3	1.4	1.4	1.6	2.5	2.8	0.0	0.0	7.4	-1.0	84.1	3.1
Germany	2019	0.5	1.6	2.1	2.8	1.1	2.4	0.0	0.0	3.2	1.5	59.2	6.0
	2020	0.6	1.2	2.5	1.2	1.2	2.4	0.0	0.0	3.0	0.8	56.8	5.9
	2021	1.3	1.2	2.4	1.9	2.6	3.3	0.0	0.0	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	1.3	0.8	-0.1	-0.3	2.1	3.1	3.5	-4.5	106.0	-2.6
	2021	1.9	2.0	0.4	2.8	1.9	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	5.8	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	07-Feb	1.75	1.74	1.48	1.56	109.6	-	682.1	927.1	964.0
	+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	07-Feb	-0.50	-0.40	-0.36	-0.01	-	109.6	747.3	1015.6	1056.1
	+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	07-Feb	-0.10	-0.06	-0.03	0.04	120.5	109.8	6.20	8.43	8.76
	+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	07-Feb	0.75	0.77	0.69	0.78	84.7	129.3	881.9	1198.5	1246.3
	+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	07-Feb	-0.75	-0.69	-0.67	-0.35	106.9	97.6	698.8	949.8	987.7
	+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	07-Feb	-0.75	-0.40	-0.23	0.11	747.3	682.1	-	135.9	141.3
	+3m	-0.75	-0.42	-0.18	0.37	747.3	673.2	-	129.8	141.9
	+6m	-0.65	-0.32	-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	07-Feb	0.00	0.18	0.20	0.51	1056.1	964.0	70.8	96.2	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	07-Feb	1.50	1.73	1.79	1.77	1015.6	927.1	73.6	100.0	104.0
	+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												
	07-Feb	2019				2020				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	
ICE Brent	55	64	68	62	65	60	60	60	60	65	60	

Source: Danske Bank

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