

# Danske Daily

## Last dance for TikTok in the US in 45 days

### Market movers today

- This morning, June industrial production data for Germany, Norway, Denmark and France are due.
- In Sweden, government budget data for July are due.
- Today's highlight is the US jobs report for July. While consensus is for a (given the circumstances) 'small increase' in employment of 1.5 million, the ADP jobs report on Wednesday (although a bad indicator) said employment was more or less unchanged from June.

### Selected market news

The US-China tech tensions escalated further overnight after Trump signed two executive orders that prohibit US residents from doing any business with TikTok, WeChat or the owners. The order will begin in 45 days from now. Trump says the apps are a risk to the national economy and security. This is the first time that Trump has targeted WeChat (Tencent). The *FT* quotes an US official saying that the 45-day window will give Microsoft and other potential buyers time to reach a deal to buy the US arm of TikTok. The Trump administration also issued recommendations that Chinese firms listed in the US must be delisted if US authorities are not provided access to audited accounts.

This is clearly a step-up from Trump in his China tech campaign and it weighed on tech stocks in Hong Kong and mainland China overnight. Tencent, the owner of WeChat, is down 6.7% this morning in Hong Kong and Hang Seng is currently down 2.3%. That said, remember that Chinese tech stocks rallied strongly in July and August. Bytedance, the owner of TikTok, is not listed. US and European equity futures are also in red.

Financial markets continue to focus on the possibility of a new US stimulus package but the negotiations between the White House and the Democrats ended last night without a deal and the risk of a collapse in the talks is growing. White House Chief of Staff Meadows said that there are still significant disagreements about the size of the package including transfers to state and local governments. For now it remains unclear whether the negotiations will resume later today. Democrat Schumer said he is ready to continue the talks.

The negative risk sentiment this morning has supported the US dollar and EUR/USD has dropped to 1.1838 after briefly trading above 1.19 yesterday. Global FI markets also remain supported and it seems that it is only a matter of time before 10Y US treasury yields fall below the psychological important 0.50% level.

### Selected reading from Danske Bank

- *COVID-19 update: Europe is postponing further reopening, 6 August*
- *Vacation Wrap-Up - Uneven global recovery amid COVID-19 flare-ups, 3 August*
- *High Frequency Activity Tracker - Electricity demand questions German industry recovery, 29 July*
- *China Macro Monitor - Recovery on track, 23 July*
- *Research US - Not extending higher unemployment benefits would lead to a significant negative income shock, 22 July*

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## Scandi markets

In Sweden the debt office releases July borrowing numbers. In May-June borrowing turned out to be SEK21bn lower than projected and there is an ongoing discussion whether the debt office might have overestimated the borrowing requirement. The debt office's forecast for July is a borrowing requirement of SEK58.7bn.

We published *Reading the Markets Norway* this morning. We see room for higher rates in the 5Y segment and we remain positive on the outlook for the NOK.

## Fixed income markets

10Y German government bond yields continue to be caught in a tight trading range around -50bp, but are slowly drifting downwards from the -30bp seen in early June. Hence, it is following the US Treasury market, where the 10Y yield is also slowly drifting downwards from 0.8% to 0.5%. We still see risk on the downside in the short term given the risk of a second wave of COVID-19, the tensions between the US and China as well as the uncertainty regarding the size of the fiscal stimulus in the US. In Europe the spread compression continues albeit at a moderate pace on the back of the ECB and EU support for the European fixed income markets. Especially the PEPP programme is supporting the spread compression, as it more or less absorbs the supply of EGBs as discussed in our *note on the PEPP and PSPP purchases from 4 August*.

This morning we released our bi-weekly on the Norwegian FX and fixed income markets. Here we recommend paying 5Y NOK swap on the back of the macroeconomic outlook, pricing of the front end of the NOK swap curve and paying interest from domestics. See more in *Reading the Markets Norway*.

## FX markets

After a few eventful days yesterday did not deliver much news for FX markets to trade on – that is excluding TRY, which remains under heavy pressure. Otherwise in G10 space AUD and NZD were the session's winners, while CHF and SEK saw modest losses. As expected Bank of England did not increase its asset purchases and seems to have concluded that negative rates are not the solution to the UK COVID-19 woes either. This drove an initially strengthening of GBP but later in the session most of these gains surrendered.

Another central bank clearly doubting the appropriateness of negative rates is Norges Bank; yet markets still price a slight probability of cuts next year. This week has both brought a very strong housing report and Norges Bank's lending survey, which confirmed that banks have experienced a much larger demand for mortgage loans than expected 3M ago. Essentially this means the housing market increasingly is becoming a topside risk for short-end rates and in isolation a positive factor for NOK. That said – and as highlighted in this morning's edition of *Reading the Markets Norway* – the global environment in terms of not least the reflation theme remains the dominating driver of where NOK is heading. For now we maintain our modestly bullish view.

Key figures and events

Friday, August 7, 2020				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Jul		42.5	46.4
-	CNY	Foreign exchange reserves	USD bn	Jul		3126.4	3112.3
1:30	JPY	Labour cash earnings	y/y	Jun		-3.0%	-2.3%
3:30	AUD	RBA Statement of Monetary Policy					
7:00	JPY	Leading economic index, preliminary	Index	Jun		84.8	78.4
8:00	NOK	Credit indicator (C2)	y/y	Jun			4.6%
8:00	NOK	Manufacturing production	m/m y/y	Jun			-3.0% -8.2%
8:00	NOK	Industrial production	m/m y/y	Jun			-1.0% 3.0%
8:00	DEM	Industrial production	m/m y/y	Jun		6.0% -10.8%	7.8% -19.3%
8:00	DEM	Trade balance	EUR bn	Jun		10.8	7
8:00	DKK	Industrial production	m/m	Jun			-3.0%
8:45	FRF	Industrial production	m/m y/y	Jun		10.9% -12.5%	19.6% -23.4%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Jul			850.1
9:30	SEK	Budget balance	SEK bn	Jul			-56.5
14:30	USD	Unemployment	%	Jul		10.5%	11.1%
14:30	USD	Average hourly earnings, non-farm	m/m y/y	Jul		-0.5% 4.2%	-1.2% 5.0%
14:30	USD	Non farm payrolls	1000	Jul	1200	1635	4800
14:30	CAD	Net change in full time employment	1000	Jul			488.1
21:00	USD	Consumer credit	USD bn	Jun		10.0	-18.3

Source: Bloomberg, Danske Bank

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