

Weekly Focus

Optimism in the markets despite war dragging out

Despite Russian officials calling for less military operations around Kyiv, fighting has continued widely across Ukraine this week. Ukraine has signalled it would be willing to give up its aspirations to join NATO, and block western states from placing military bases or nuclear weapons on its grounds. Despite this, it has also aimed to gain bilateral security guarantees for example from the US or some of the larger European countries, which we consider unlikely. Another key remaining issue is the eastern Donbass area, where Russia appears to increasingly focus on. Media reports with regards to Ukraine's willingness to make any territorial concessions have been mixed, but we do not see how Russia could spin the results from its 'special operation' as a win domestically without gaining control over at least the regions in Eastern Ukraine. Despite the optimism we have seen in the markets recently, we think the war is still unfortunately far from over. Read our latest take in *Research Russia-Ukraine: Talk is cheap - we expect no immediate breakthrough in peace talks but market focus to shift elsewhere*, 31 March.

As the war drags on, central bankers appear increasingly open for front-loading rate hikes to tame the inflationary pressures. This week, we updated our Fed call, and now look for **three consecutive 50bp hikes in May, June and July, and expect Fed Funds Target Range to end the year at 2.50-2.75%**. Despite markets pulling back on the rate hike pricing and yields moving lower this week, we think that further tightening in financial conditions will be needed. Read the in-depth update at *Fed Update - Quickly back to neutral by front-loading rate hikes*, 30 March.

Energy price volatility continues, with oil prices moving lower this week on the back of the US announcement of largest Strategic Petroleum Reserve (SPR) release in history. 1 million barrels of reserves will be released per day, over the upcoming six month period, but as this will not be enough to compensate for the expected drop in Russian supply, we maintain our view of elevated crude oil prices going forward, read more in *Oil comment - Oil prices to remain elevated despite the SPR release*, 31 March. Natural gas prices, in contrast, have moved modestly higher, as Russia has threatened to cut off Europe's gas supply unless the buyers start settling their payments in rubles. EU members have called this a violation of contract terms, with the likely purpose of supporting RUB and making it increasingly difficult to sanction the remaining Russian banks. The deadline for switching the payment currency is today, but at the time of writing, the situation remains uncertain.

In China, the new lockdowns continue to weigh on activity, with PMIs falling to recession territory in March, signalling further weakness for the global economy and increasing supply chain challenges. Lockdowns will continue in Shanghai next week, read our latest take in *COVID-19 Update: China sticks to its "dynamic zero covid"-policy*, 31 March.

Next week will be quiet in terms of economic data or events. From US we will have a range of Fed speakers as well as FOMC minutes from the March meeting, with focus on any hints about the upcoming QT announcement. ECB minutes will also be released alongside a range of European February hard data, which will however be mostly outdated due to the war. The Reserve Bank of Australia (RBA) will meet Tuesday morning, but despite the global inflationary pressures, we do not yet expect to see changes to their monetary policy.

Key market movers

- Tue: RBA meeting, US ISM Services PMI
- Wed: FOMC Minutes
- Thu: ECB Minutes

Key global views

1. Rising stagflation risk from war in Ukraine – especially in Europe
2. Weaker growth in the coming quarters but not a global recession
3. Higher commodity prices to keep inflation elevated for longer
4. Fed to hike rates further by a total of 250bp in 2022, ECB to hike in December but risks tilted towards an earlier hike

Selected readings from Danske Bank

- *Research Russia-Ukraine: Talk is cheap - we expect no immediate breakthrough in peace talks but market focus to shift elsewhere*, 31 March.
- *Fed Update - Quickly back to neutral by front-loading rate hikes*, 30 March

Editor

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Scandi market movers

Denmark – Pronounced upward revision to Danish growth

Business sentiment indicators for March showed that the war in Ukraine had not triggered any great wave of pessimism among companies. Sentiment across all the major sectors is at normal levels or better, with the exception of construction, where there is no longer a significant overweight of companies that expect to increase employment in the coming months. The war will doubtless impact the demand for companies' goods and services, but this comes at a time when companies are already unable to supply everything that consumers want to buy. Labour and materials shortages are a bigger problem for companies right now, and there is no real prospect of companies having an easier time finding workers in the time ahead, while materials shortages will only be compounded by the war and sanctions.

Registered unemployment fell by 3,400 in February, so we can, as expected, conclude that the increase in January was a one-off triggered by new holiday rules. Unemployment is again down at 2.5% of the workforce, the lowest level since a few months before the financial crisis.

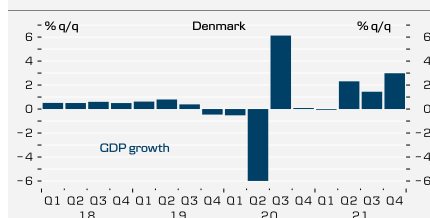
Revised national accounts figures for Q4 21 showed GDP rising by 3% q/q and not the previous estimate of 1.1%. The difference was mostly due to new figures for VAT payments. The revision thus paints a somewhat different picture of the final months of the year, where there was now apparently broad-based growth. The one major exception was private consumption, which declined by 1% in Q4 21 despite a significant upward revision. Given the new numbers, we can conclude that the upswing in 2021 was considerably stronger than expected, with overall GDP growth of 4.7%.

Sweden – NIER gives a mixed picture of the economy

The national institute of economic research (NIER) published the monthly survey, which was the first one catching businesses sentiment since Russia's attack on Ukraine. The overall indicator was unchanged at 110, still indicating better than normal sentiment. Sentiment among manufactures, private service sectors and construction increased somewhat while retail trade decreased from 119 to 111. Price expectations continued to be high among retail trade and private service sectors but now also notable an increase in manufacturing price expectations, probably driven by higher commodity prices due to the war. Domestic orders actually increased while export orders unchanged and the order inflow seems to have stabilized on a high level and normalized from super high levels on back of the recovery from the pandemic. This happened at the same time as the sentiment among households took a large jump down to 73 - now lower than during the pandemic. Worth noted is that the large jump down in sentiment among households was mainly driven by the micro index i.e. household's view of their own economy. At the same time, household's inflation expectations are at the highest level measured since 2015 – indicating that household expects a stagflation scenario.

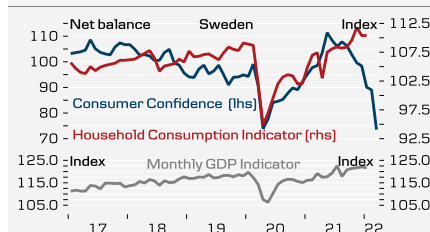
This means that the survey gave a mixed picture. Depressed households but OK growth among businesses and this spread can't last forever. Historically, the sentiment among households correlate quite well with consumption and as household consumption accounts for a substantial share of GDP, a drop in household consumption spells a downward revision of GDP growth.

Pronounced upward revision to Danish growth



Source: Statistics Denmark, Danske Bank, Macrobond Financial

We expect lower consumption



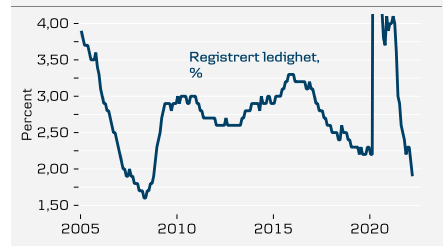
Source: Macrobond, NIER

Norway – Unemployment continues to tumble

Registered unemployment fell from 2.1% in February to 1.9% in March, its lowest since October 2008. Vacancies remain high, so demand for labour is still very strong, pointing to further downward pressure on the jobless rate over the course of the year.

The PMI rose unexpectedly in March, climbing to 59.6 thanks to increases in both orders and production. Global manufacturing appears to have picked up lately, and together with a gradual improvement in activity in oil-related industries, this means production in Norway should gradually gain momentum. There are still problems on the supply side, however, with delivery times and purchasing prices both increasing, so there is a certain risk of growth being held back by capacity problems.

Lowest unemployment for 14 years



Source: Macrobond, Danske Bank

Scandi update

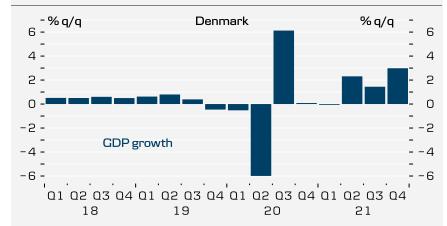
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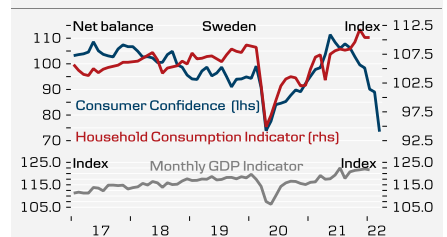
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We expect lower consumption



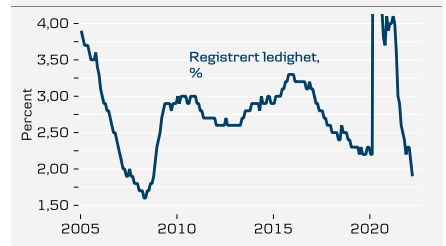
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Source: Macrobond, Danske Bank

Calendar

During the week			Period	Danske Bank	Consensus	Previous
Sat 02	USD	Fed's George speaks				
Sat 02	USD	Fed's Williams speaks				
Monday, April 4, 2022			Period	Danske Bank	Consensus	Previous
8:00	DEM	Trade balance	EUR bn			3.3
10:30	EUR	Sentix Investor Confidence	Index		-9.4	-7.0
16:00	USD	Core capital goods orders	%			-0.3%
17:00	DKK	Currency reserves	DKK bn			536.4
Tuesday, April 5, 2022			Period	Danske Bank	Consensus	Previous
1:30	JPY	Labour cash earnings	y/y		0.6%	0.9%
2:30	JPY	Markit PMI services, final	Index			48.7
6:00	DKK	Danske Bank publishes Nordic Outlook				
6:30	AUD	Reserve Bank of Australia rate decision	%		0.1%	0.1%
8:30	SEK	PMI services	Index			68.0
8:45	FRF	Industrial production	m/mly/y		0.0%	1.6% -1.5%
9:15	ESP	PMI services	Index		54.3	56.6
9:15	EUR	S&P may publish Spain's debt rating			54.3	56.6
9:15	EUR	S&P may publish Spain's debt rating				56.5
9:45	EUR	S&P may publish Italy's debt rating			51.4	52.8
9:45	EUR	S&P may publish Italy's debt rating				53.6
9:45	ITL	PMI services	Index		51.4	52.8
9:50	EUR	S&P may publish France's debt rating, final			57.4	57.4
9:50	EUR	S&P may publish France's debt rating, final			56.2	56.2
9:50	FRF	PMI services, final	Index		57.4	57.4
9:55	DEM	PMI services, final	Index		55.0	55.0
9:55	EUR	S&P may publish Germany's debt rating, final			55	55
9:55	EUR	S&P may publish Germany's debt rating, final			54.6	54.6
10:00	EUR	PMI composite, final	Index		54.5	54.5
10:00	EUR	PMI services, final	Index		54.8	54.8
10:00	EUR	S&P may publish <PLACE>'s debt rating, final			54.8	54.8
10:00	EUR	S&P may publish <PLACE>'s debt rating, final			54.5	54.5
10:30	GBP	PMI services, final	Index		60.9	61.0
14:30	USD	Trade balance	USD bn		-88.6	-89.7
15:45	USD	Markit PMI service, final	Index		58.9	58.9
16:00	USD	ISM non-manufacturing	Index		58.6	56.5
16:05	USD	Fed's Brainard speaks				
Wednesday, April 6, 2022			Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		4.0%	3.5%
3:45	CNY	Caixin PMI service	Index		49.8	50.2
8:00	SEK	Industrial orders	m/mly/y			9.9% 3.6%
8:00	SEK	Private Sector Production	m/mly/y			0.2% 7.6%
8:00	SEK	Household consumption	m/mly/y			0.0% 5.1%
8:00	DEM	Factory orders	m/mly/y		-0.4% 5.5%	1.8% 7.3%
9:30	EUR	S&P may publish Germany's debt rating				54.9
10:30	GBP	PMI construction	Index			59.1
11:00	EUR	PPI	m/mly/y			30.6% 5.2%
15:30	USD	Fed's Harker speaks				
16:30	USD	DOE U.S. crude oil inventories	K			-3449
20:00	USD	FOMC minutes				
Thursday, April 7, 2022			Period	Danske Bank	Consensus	Previous
-	CNY	Foreign exchange reserves	USD bn		3193.8	3213.8
7:00	JPY	Leading economic index, preliminary	Index		100.8	102.5
7:45	CHF	Unemployment	%		2.2%	2.2%
8:00	SEK	Budget balance	SEK bn			85.6
8:00	NOK	Manufacturing production	m/mly/y			3.3% -0.2%
8:00	NOK	Industrial production	m/mly/y			0.9% 0.2%
8:00	DEM	Industrial production	m/mly/y		0.1% 4.0%	2.7% 1.8%
9:00	CHF	SNB Foreign Currency Reserves	CHF bn			938.3
11:00	EUR	Retail sales	m/mly/y		0.6% 4.9%	0.2% 7.8%
14:30	USD	Initial jobless claims	1000			202
15:00	USD	Fed's Bullard speaks				
20:00	USD	Fed's Evans speaks				
20:00	USD	Fed's Bostic speaks				
21:00	USD	Consumer credit	USD bn		16.9	6.8
Friday, April 8, 2022			Period	Danske Bank	Consensus	Previous
6:00	SEK	Maklarstatistik Swedish housing price data				
7:00	JPY	Consumer confidence	Index		36.8	35.3
8:00	DKK	Industrial production	m/m			2.2%
8:00	NOK	GDP (mainland)	m/m	+0.9%		-0.9%
14:30	CAD	Net change in full time employment	1000			121.5

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	2021	4.7	4.3	3.7	5.6	7.8	8.2	1.9	2.8	3.7	0.0	37.6	7.6
	2022	2.5	3.1	-1.2	2.1	5.4	4.9	4.4	3.2	2.5	1.3	33.9	7.6
	2023	1.7	2.6	-0.6	3.1	3.3	3.8	1.1	3.4	2.5	0.9	32.5	6.8
Sweden	2021	4.5	5.5	3.2	6.9	6.6	8.8	2.2	2.7	8.8	-0.8	37.0	1.4
	2022	3.0	4.1	1.4	5.4	3.4	5.6	4.0	1.8	7.3	0.2	33.0	3.9
	2023	2.2	2.4	1.2	2.2	4.0	3.4	1.2	2.1	6.5	0.7	30.0	4.1
Norway	2021	4.2	5.0	3.9	-0.3	4.8	2.0	3.5	3.2	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	3.3	3.4	2.3	-	-	-
	2023	2.0	2.0	1.3	2.0	4.0	4.0	1.8	3.6	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	2021	5.3	3.5	3.8	4.3	10.9	8.6	2.6	4.1	7.7	-6.9	99.8	3.1
	2022	2.5	2.8	3.9	3.7	7.3	9.4	7.2	2.5	6.7	-3.6	97.6	3.2
	2023	2.8	1.2	3.7	4.5	5.3	4.9	2.0	3.4	6.5	-2.1	96.7	3.4
Germany	2021	2.9	0.1	3.1	1.3	9.8	9.1	3.2	3.4	3.6	-4.9	71.4	6.6
	2022	1.0	2.8	2.6	0.2	6.2	8.8	7.4	3.2	3.1	-2.1	69.2	6.6
	2023	3.6	1.6	4.1	4.0	6.4	4.9	2.7	3.8	2.9	-0.5	68.1	6.8
Finland	2021	3.5	3.1	3.2	1.2	4.7	5.3	2.2	2.4	7.7	-2.7	65.8	0.9
	2022	2.8	3.5	1.0	4.0	6.0	6.5	2.6	2.8	6.9	-2.3	67.0	0.8
	2023	1.6	1.5	0.5	3.0	3.0	3.0	1.8	2.6	6.6	-1.3	66.7	0.7

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	2021	5.7	7.9	0.5	7.8	4.5	14.0	4.7	4.0	5.4	-13.4	129.7	-3.5
	2022	2.8	2.5	0.1	2.9	4.9	5.5	7.2	5.0	4.0	-4.7	125.6	-3.5
	2023	2.0	1.9	1.0	3.5	1.5	1.8	3.0	4.6	3.8	-3.1	124.0	-3.3
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	4.7	6.0	-	3.0	-	-	3.0	5.5	-	-7.0	72.0	1.0
	2023	5.3	6.0	-	4.5	-	-	2.5	5.5	-	-6.8	74.5	0.7
UK	2021	7.4	6.2	14.3	5.9	-1.3	3.8	2.6	4.9	4.5	-5.3	96.9	-3.4
	2022	5.1	6.1	3.3	6.5	3.3	4.8	5.2	3.2	4.0	-0.6	96.7	-5.3
	2023	2.4	2.5	0.8	4.8	3.4	3.7	2.9	3.9	3.7	0.5	96.7	-4.7
Japan	2021	1.8	1.4	2.7	-1.1	10.9	5.9	-0.2	-	2.8	-	-	-
	2022	2.4	3.3	2.2	-0.5	3.0	2.0	0.4	-	2.6	-	-	-
	2023	1.2	1.4	0.7	0.4	3.2	2.0	0.5	-	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										
		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	01-Apr	0.50	0.97	2.59	2.47	110.6	-	672.6	874.8	934.2
	+3m	1.50	1.40	2.40	2.50	108.0	-	689.1	925.9	944.4
	+6m	2.25	1.88	2.60	2.60	106.0	-	702.4	943.4	952.8
	+12m	3.25	2.77	2.90	2.70	105.0	-	709.5	952.4	971.4
EUR	01-Apr	-0.50	-0.46	0.55	1.23	-	110.6	743.9	967.6	1033.3
	+3m	-0.50	-0.53	0.40	1.10	-	108.0	744.3	1000.0	1020.0
	+6m	-0.50	-0.53	0.80	1.20	-	106.0	744.5	1000.0	1010.0
	+12m	0.00	-0.03	1.10	1.45	-	105.0	745.0	1000.0	1020.0
JPY	01-Apr	-0.10	0.00	0.09	0.36	120.5	122.4	6.17	8.03	8.57
	+3m	-0.10	-	-	-	132.8	123.0	5.60	7.53	7.68
	+6m	-0.10	-	-	-	128.3	121.0	5.80	7.80	7.87
	+12m	-0.10	-	-	-	123.9	118.0	6.01	8.07	8.23
GBP*	01-Apr	0.75	-	2.05	1.69	84.2	131.4	883.9	1149.7	1227.8
	+3m	1.00	-	2.25	1.80	84.0	128.6	886.0	1190.5	1214.3
	+6m	1.25	-	2.35	1.90	84.0	126.2	886.3	1190.5	1202.4
	+12m	1.50	-	2.40	1.90	84.0	125.0	886.9	1190.5	1214.3
CHF*	01-Apr	-0.75	-	0.05	0.90	102.2	92.4	727.7	946.6	1010.9
	+3m	-0.75	-	-	-	102.0	94.4	729.7	980.4	1000.0
	+6m	-0.75	-	-	-	101.0	95.3	737.1	990.1	1000.0
	+12m	-0.75	-	-	-	100.0	95.2	745.0	1000.0	1020.0
DKK	01-Apr	-0.60	-0.22	0.83	1.48	743.88	672.55	-	130.08	138.91
	+3m	-0.60	-0.24	0.65	1.35	744.25	689.12	-	134.36	137.05
	+6m	-0.60	-0.23	1.05	1.45	744.50	702.36	-	134.32	135.66
	+12m	-0.10	0.26	1.35	1.70	745.00	709.52	-	134.23	136.91
SEK	01-Apr	0.00	0.05	1.36	1.91	1033.3	934.2	72.0	93.6	100.0
	+3m	0.00	0.03	1.00	1.70	1020.0	944.4	73.0	98.0	-
	+6m	0.25	0.30	1.10	1.70	1010.0	952.8	73.7	99.0	-
	+12m	0.75	0.80	1.25	1.70	1020.0	971.4	73.0	98.0	-
NOK	01-Apr	0.75	1.28	2.54	2.76	967.6	874.8	76.9	100.0	106.8
	+3m	1.00	1.43	2.55	2.75	1000.0	925.9	74.4	-	102.0
	+6m	1.25	1.69	2.75	2.80	1000.0	943.4	74.5	-	101.0
	+12m	1.75	2.19	2.95	2.85	1000.0	952.4	74.5	-	102.0

*Note: GBP swaps are SONIA and CHF swaps are SHARON

Commodities												
	01-Apr	2022				2023				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023	
ICE Brent	105	98	125	115	100	95	95	95	95	110	95	

Source Danske Bank

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