

Weekly Focus

Turmoil returns to the euro area

Market movers ahead

- Italian politics will remain in focus, even after the reaching of a coalition deal this week. Attention is set to be on any comments on policy priorities, particularly whether we will see the toning down of some of the spending proposals.
- This week showed an escalation of the trade conflict between the US, EU and China. We will be looking for signs of a further escalation in coming weeks.
- In the UK, we expect services PMI to rise but Brexit will remain in focus ahead of the EU summit in late June.
- In the Scandi area, we do not believe Nationalbanken intervened in the currency market in May, despite the Danish kroner strengthening against the euro. We expect the modest increase in Norwegian house prices to continue.

Global macro and market themes

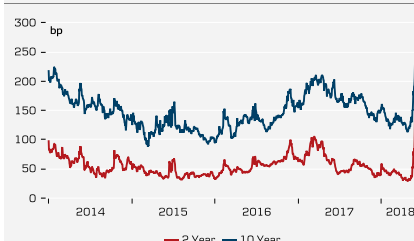
- The euro area is hit from multiple directions – not least the Italian crisis and US tariffs.
- A declining business cycle and the outlook for ECB tapering are also weighing on the euro area.
- Uncertainty continues to be high in Italy and we see downside risks to equities and the euro in the short term.
- However, our baseline is that we do not enter a new euro debt crisis or Italian euro exit and we see equities higher on a 12-month horizon.

Focus

Flash Comment – The Italian market panic - drivers and near-term outlook, 30 May.

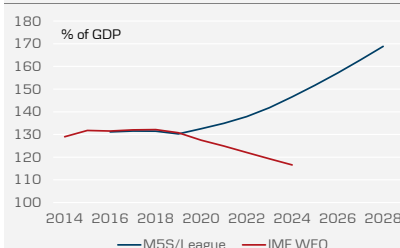
Italian Election Monitor – Rising market pressure set to challenge spending plans, 24 May.

Italian spreads to Germany have risen markedly



Source: Bloomberg Macrobond Financial, Danske Bank

Italian debt set to be on an unsustainable path with the M5S/League policy



Source: IMF WEO April 2018 and Danske Bank

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Financial views

| Major indices | | | |
|---------------|--------|------|------|
| | 01-Jun | 3M | 12M |
| 10yr EUR swap | 1.03 | 1.05 | 1.55 |
| EUR/USD | 122 | 119 | 128 |
| ICE Brent oil | 74 | 72 | 72 |

Source: Danske Bank

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Market movers

Global

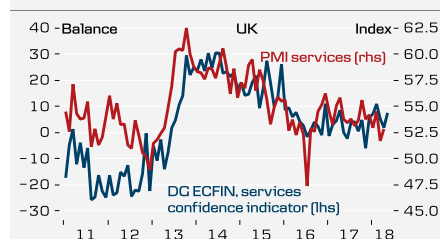
- In the **US**, we have a quiet week next week with mostly tier-2 releases and the Fed's blackout period ahead of the FOMC meeting on 12-13 June beginning.
- In the **euro area**, we do not have any market movers in terms of data releases. However, Italian politics are still in focus following the market turmoil last week (see also *The Italian market panic - drivers and near-term outlook*, 30 May). After Five Star and League finally reached a coalition deal, the new government will face confidence votes in parliament on Monday and Tuesday, which should not be a big hurdle. Instead, markets will focus on any comments on policy priorities and whether some of the spending proposals will be toned down (see also *Italian election monitor – Rising market pressure set to challenge spending plans*, 24 May).
- In the **UK** next week, we only have one important data release, which is the PMI service index for May due out on Tuesday. PMI growth was just 0.1% q/q in Q1 and the service index in April showed no signs of a rebound. However, the service confidence indicator in May was encouraging, as it indicates service sector growth was stronger in May. Also Lloyds Business Barometer rose in May. Hence, we expect an increase in PMI service to 53.5 from 52.8.

Otherwise, Brexit remains in focus, as the important EU summit on 28-29 June is fast approaching. The Government has said it is going to lay out its position on customs and trade in a White Paper set for release in June. Also, the House of Commons is going to discuss the House of Lords' amendments to the EU withdrawal bill, which is going to be a war between the soft and hard Brexiteers. Unfortunately, we do not have any exact dates.

- In **Japan**, we get April cash earnings on Wednesday. They have become increasingly interesting after the large spike we saw in March, which was higher than expected, even though the wage increases negotiated this spring were higher than last year. It will be interesting to see if real earnings growth can keep up the pace. In that case, the inflation outlook could start to brighten. On Tuesday, we get the household spending survey for April. The question here is whether the strong cash earnings begin to spill over to private consumption.
- In **China** it is time for trade figures next week. When it comes to trade data, they are very volatile on a monthly basis. But we expect the trend to show some levelling off in both import and export growth as has been the case in the past couple of months.

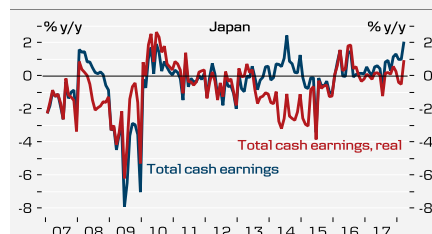
On the trade front, the focus will also be on the trade talks from Saturday to Monday with the US Commerce Secretary, who is in Beijing with a 50-person delegation to continue negotiations with China.

UK service confidence rose in May indicating higher service sector growth



Source: IHS Markit, DG ECFIN, Macrobond Financial

Earnings finally picking up?



Source: Japan Statistics Bureau, Japanese Ministry of Labour, Macrobond Financial

Scandi

- **Denmark** can look forward to a busy week data-wise. Danmarks Nationalbank will release currency reserve figures for May on Monday. The Danish krone (DKK) strengthened against the euro this past week as the political turmoil in Italy escalated. However, EUR/DKK did not approach the levels seen in February and March last year when Danmarks Nationalbank last intervened by selling DKK. The numbers will thus presumably show that May was yet another consecutive month without intervention. We also expect the data release to show that the central government account remains high due to surprisingly strong public finances.

Wednesday will see house prices for March, together with the number of bankruptcies and forced home sales in May. On Thursday, Statistics Denmark will release new figures for industrial production in April.

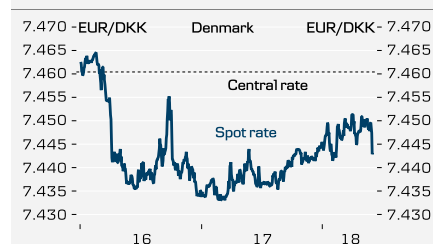
- At the top of the **Swedish** statistical calendar next week is April production in various forms: private sector, industry (and new orders) and services. Looking at survey data for guidance, these are mixed but on average suggest unchanged or lower growth. This would not be a surprise given declining European PMIs.

The consumption indicator is set to rise slightly to about 3.5 % y/y in April on the back of the 3.6 % y/y print in retail trade. We expect it to slow down towards 2% in coming months.

SNDO releases the May budget balance. The debt office forecasts a SEK47.2bn surplus. Up to April borrowing was SEK1.7bn higher than expected. That said, tax revenues were SEK3bn higher than expected, hence, the underlying positive trend still appears to be intact.

- The risk of a major setback for the housing market in **Norway** has gradually receded in the opening months of 2018. House prices have now risen for three consecutive months, while the stock of unsold homes is continuing to fall and the number of completed sales to rise. Developments in the Oslo market in particular have been surprisingly strong, with prices rising by more than 5% so far this year. While we expect that an increasing supply of homes for sale combined with signs of interest rates gradually rising will dampen house prices later this year, housing market growth is becoming an upside risk for interest rates going forward. We estimate that prices rose a further 0.4% m/m in May.

EUR/DKK fell in the past week



Source: Statistics Denmark

Industry weakening too?



Source: SCB

Market movers ahead

| Global movers | | | | Event | | | Period | Danske | Consensus | Previous |
|---------------|--------|-------|-----|----------------------------|---------|-----|----------|--------|------------|----------|
| Tue | 05-Jun | 10:30 | GBP | PMI services | Index | May | 53.5 | 52.9 | 52.8 | |
| Wed | 06-Jun | 2:00 | JPY | Labour cash earnings | y/y | Apr | | 1.3% | 2.0% | |
| Fri | 08-Jun | - | CNY | Trade balance | USD bn | May | | 32.5 | 28.4 | |
| Scandi movers | | | | | | | | | | |
| Mon | 04-Jun | 16:00 | DKK | Currency reserves | DKK bn | May | 59.0 | | 467.5 | |
| Tue | 05-Jun | 8:30 | SEK | PMI services | Index | May | | 60.1 | | |
| | | 11:00 | NOK | House price report | m/m | May | | | | |
| Wed | 06-Jun | 8:00 | DKK | House and apartment prices | m/mly/y | Mar | | | | |
| Thurs | 07-Jun | 8:00 | NOK | Manufacturing production | m/mly/y | Apr | | | -0.1% 0.9% | |
| Fri | 08-Jun | 9:30 | SEK | Budget balance | SEK bn | May | | | 2.8 | |
| | | 9:30 | SEK | Household consumption | m/mlv/v | Apr | ... 3.5% | | 0.5% 3.3% | |

Source: Bloomberg, Danske Bank

Global Macro and Market Themes

Clouds gathering over the euro area

After some years of economic expansion and calm financial markets, the clouds are gathering over the eurozone again.

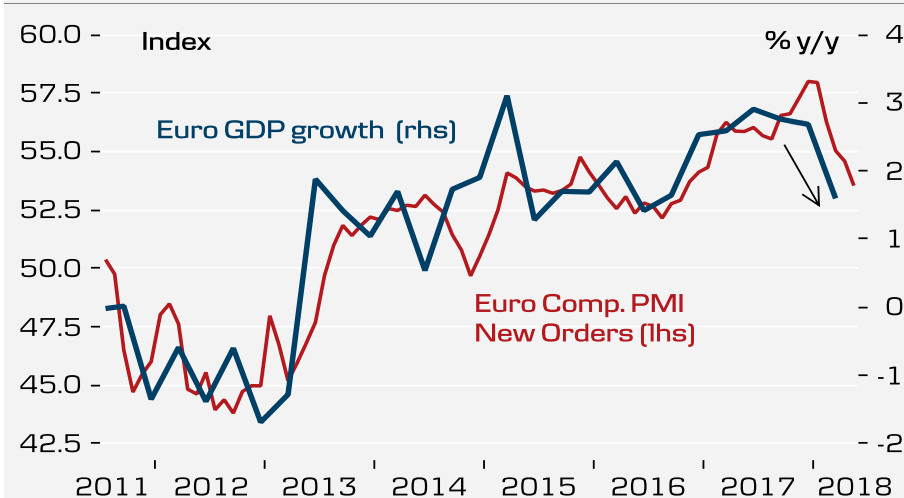
This week, fears over a reawakening of the euro debt crisis riled financial markets, as political stalemate in Italy could trigger new elections with an extended period of political uncertainty (see *Flash Comment – The Italian market panic and near-term outlook*, 30 May). Italian 10-year yields saw the biggest increase since the euro debt crisis caused havoc in financial markets in 2011/12. While things calmed down towards the end of the week, the markets are still very nervous and we see a risk that the sell-off in Italian bonds could flare up again on any renewed uncertainty.

On the positive side, a new Italian government was put in place on Thursday, as the Five Star Movement and the League managed to form a government. However, it remains to be seen whether the new government will be on collision course with the EU and rating agencies. This could happen if they stick to an expansionary budget and backtrack on structural reforms. Economist Giovanni Tria took the key position of Finance Minister. He has expressed the need for reform of the euro system but it is still unclear what he will put forward. The controversial Paolo Savona, who the President rejected as Finance Minister, will be Minister for EU Affairs.

Key points

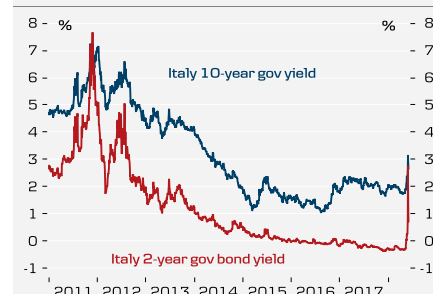
- The euro area is currently being hit from many sides – not least, the Italian crisis and US tariffs.
- A declining business cycle and the outlook for ECB tapering are also weighing on the euro area.
- Uncertainty continues to be high in Italy and we see downside risks to equities and the euro in the short term.
- However, our base case is that we do not enter into a new euro debt crisis or Italian euro exit and we see equities higher on a 12-month horizon.

New clouds gathering amid a slowing business cycle



Source: Macrobond Financial, Markit, Danske Bank

Sharpest rise in Italian yields since the euro debt crisis



Source: Bloomberg, Macrobond Financial, Danske Bank

The situation is currently very fluid and **even if markets calm down short term, Italian debt fundamentals are very poor and there is a risk that Italy will enter a rating spiral. This could happen if, for example, growth slows down and yields stay higher.** We already expect a negative effect on Italian growth, as banks may start to hold back on lending and businesses will become cautious about investments in an environment where funding costs are rising and the outlook is becoming blurred.

While debt sustainability could increasingly come into question, we do not expect Italy to exit the euro. A recent poll shows 72% of the Italian population supports staying in the euro and the cost for Italy of going down that path would simply be too great.

In Spain, the political situation is also getting messy, as the as Prime Minister Rajoy looks likely be ousted by the Socialist opposition in a no-confidence motion today. This could lead to a new election down the road, so, in short, uncertainty is also on the rise in Spain

It's gonna be a hot summer

If this was not enough, the US this week announced that it plans to implement a 25% tariff on imports of steel and aluminium from the EU, Canada and Mexico. The EU could very well be the loser in the current trade frictions, hit by both higher US tariffs and China redirecting some imports away from the EU towards the US to fend off too-high US trade barriers.

All this is happening in an environment where the euro area business cycle has already moved lower and where the ECB is preparing to stop the QE programme at the end of the year, leading to tighter liquidity and less direct demand for bonds.

While we continue to see equities higher on a 12-month horizon, we see rising tail risks persisting in the short term and expect continued high market volatility over the summer.

We also look for continued high volatility in credit markets, where very poor market liquidity is a key concern. Many investors have been overweight credit in the past years' search for yield and they may find it hard to get out of the positions if financial stress increases further.

Bond yields set to stay low short term - downside risks to EUR

Due to the short-term downside risks, we look for bond yields in the US and Germany to stay low in the months ahead. However, as our base case is still that we are not entering a new euro debt crisis, we continue to see higher bond yields on a 12-month horizon.

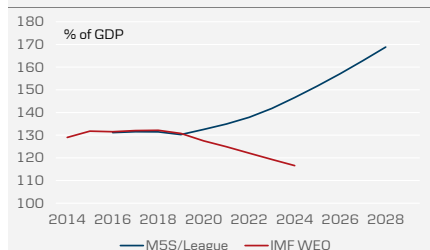
The euro has taken a big hit recently due to both the rising risks and continued decent US data. This week, more US regional business surveys increased to very robust levels. We see continued downward risk to EUR/USD in the short term. Our 12-month EUR/USD forecast of 1.28 is also currently under review.

Italian PMI already heading lower before the turmoil



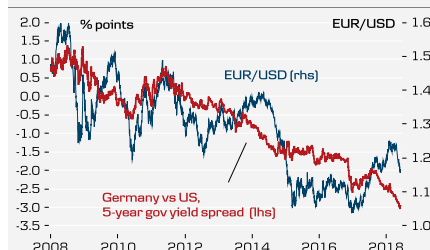
Source: Markit, Macrobond Financial, Danske Bank

Italian debt on unsustainable path with the M5S/League policy programme



Source: IMF WEO April 2018, Danske Bank

More short-term downside risk to EUR/USD as outflows could pick up and relative rates favour US



Source: Markit, Macrobond Financial, Danske Bank

| Financial views | |
|---|--|
| Asset class | Main factors |
| Equities | |
| Positive on 3-12 month horizon | Short-term volatility but fundamentals still support equities on a 3-12 month horizon. |
| Bond market | |
| German/Scandi yields – lower for now, higher in 12M | ECB set to normalise only gradually due to a lack of wage pressure and a stronger euro. ECB on hold for a long time. |
| EUR 2Y10Y steeper, USD 2Y10Y flatter | The ECB keeps a tight leash on the short end of the curve but 10Y higher as US has an impact. |
| US-euro spread – short-end set to widen further | The spread in the short-end is set to widen further as the Fed continues to hike. |
| Peripheral spreads – tightening | Economic recovery, ECB stimuli, better fundamentals, an improved political picture and rating upgrades set to lead to further tightening despite the recent strong moves. Italian politics remain a clear risk factor. |
| FX & commodities | |
| EUR/USD – USD strength is temporary | USD strength near term but supported longer term by valuation and capital-flow reversal due to ECB 'normalisation'. |
| EUR/GBP – gradually lower over the medium term | Brexit uncertainty dominates but GBP should strengthen in 6-12M on Brexit clarification and Bank of England rate hikes. |
| USD/JPY – lower short term | US yields decisive near term; downside risks reduced on positioning. Longer term higher on Fed-Bank of Japan divergence. |
| EUR/SEK – risk on the upside | Negative on the SEK due to lower growth, subdued inflation and too aggressive Riksbank pricing; eventually EUR/SEK lower but not in H1 18. |
| EUR/NOK – to move lower but near-term topside risk | Positive on NOK on valuation, relative growth, positioning, terms of trade, the global outlook and Norges Bank initiating a hiking cycle. |
| Oil price – upside risks near term | Rising prices on supply concerns, falling inventories and geopolitical risks (Iran). 22 June OPEC next key event. |
| Source: Danske Bank | |

Scandi update

Denmark – GDP growth less than impressive

Danish GDP grew 0.4% in the first quarter of 2018, according to the latest figures from Statistics Denmark. This increase is up slightly on the GDP indicator that Statistics Denmark released two weeks ago. However, 0.4% q/q growth is not particularly impressive considering we are in the midst of an upswing. Consumers did their bit to push growth higher, as consumption rose 0.9% – more than we had forecast. Consumption has long been sluggish but this seems to have changed a little in the early part of the year. In contrast, exports falling by 0.5% helped to pull growth lower. This was extremely disappointing given the solid growth rates across Denmark's export markets in Q1. That said, much of the explanation lies in a decline in the export of shipping services. We still hope for and expect a little more GDP growth in coming quarters. Companies and consumers have ample liquidity, which could provide potential for further growth. Moreover, exports should be able to do rather better than in Q1. Nevertheless, 2% growth is beginning to appear elusive for this year.

We also received business confidence indicators for May this week. Manufacturing confidence indicators generally performed well, rising between 1 and 4 points, with the mood now buoyant compared with recent years. Construction was also more positive. However, the numbers were collected prior to the market turmoil prompted by Italy's political crisis, which could dampen optimism from next month.

Finally, we have also received numbers for gross unemployment in April, which fell by 1,300. Hence, the downward trend of recent years continued in April and unemployment is now at just 4.0%. This indicates the Danish labour market is tightening. However, we are still some way from pre-financial crisis levels, when unemployment sank as low as 2.4%.

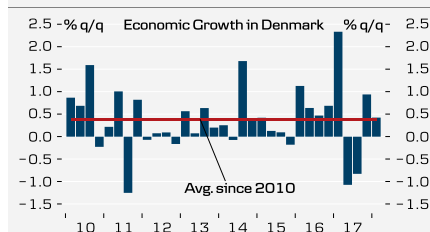
Sweden – Q1 GDP: the devil is in the detail

There was a lot of data in Sweden last week, with Q1 GDP growing at 3.3 % y/y calendar adjusted, marginally above our 3.2% call. Now, beneath the surface there are interesting, weaker developments. First, although total dwelling investment rose, **new** dwelling investment fell around 5% q/q seasonally adjusted, confirming our view that the housing market correction is showing up in NA data now. Second, cold weather boosted the GDP figure. Of the 0.9% q/q seasonally adjusted rise in private consumption, housing costs (which include heating) accounted for 0.4 percentage points. Moreover, for the first time in several years, items such as purchases of clothing and restaurant visits actually declined. This may be signs of household spending being squeezed by FSA amortisation and falling property prices. Hence, developments are in line with our forecast.

Another sign of this is NIER's confidence survey. May data show that consumer, retail trade and private services confidence is close to average, construction confidence is falling rapidly and manufacturing confidence is still at a very high level, probably driven by the weak SEK.

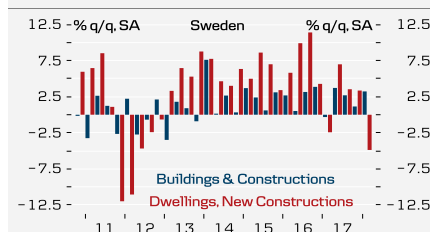
April 'hard data' was mixed: retail sales much better at 3.6 % y/y, foreign trade much worse with a SEK6.5bn deficit and household lending growth easing to 6.8 % y/y. Our GDP indicator suggests Q2 GDP growth at about 2.5% y/y (based on a very limited amount of data so far).

Just modest GDP growth in Q1



Source: Statistics Denmark

New dwellings falling as in 2012



Source: SCB

Norway – oil investment set to be a powerful engine of growth

We expect oil investments to grow by 7-8% both this year and next. This view is supported further by investment figures for the oil sector released this week. While the estimate for 2018 was revised down from NOK160.0bn to NOK156.5bn, it still represents around 6% growth in oil investments this year, although this figure is somewhat lower than Norges Bank's projection in its March Monetary Policy Report of +7.4%. In contrast, some of the downward revision may be due to costs continuing to fall and not necessarily to activity levels being reduced. Oil companies expect to make investments totalling NOK155.5bn in 2019. While there is still considerable uncertainty attached to this figure, it would indicate growth in oil investments of 7-8% next year (Norges Bank expects 8.2%). Particularly encouraging is that investment in exploration is now expected to reach NOK33bn next year, which is around 25% higher than the estimate for 2018 a year ago. Moreover, given current oil prices and particularly that forward prices have begun to pick up, there is little downside to be seen to oil investments ahead.

First upturn in oil investment for five years



Source: Macrobond Financial, Danske Bank

Latest research from Danske Bank

6/1 Italian Election Monitor - Five Star-League government steering towards a clash with the EU

Markets are set to focus on any indications by the new Five Star-League government on its policy agenda and priorities in coming days and weeks.

31/5 China In One Page: IMF positive on reforms and growth outlook

Theme: China outlook: The IMF on Tuesday concluded its 2018 Article IV mission to China and released the end-of-mission [press release](#).

30/5 Yield Outlook: Italy pushes Scandinavian and German yields lower temporarily

The focal point in the European bond market at the moment is the political situation in Italy. Since the beginning of May Italian 10-year yields have widened more than 140bp, and the spread to Germany is now above 260bp while the outright 10-year yield has been above 3% in Italy.

30/5 Flash Comment: The Italian market panic - drivers and near-term outlook

The Italian bond sell-off reached unprecedented levels yesterday and is starting to have significant global ramifications as we saw during the euro debt crisis in 2012.

Macroeconomic forecast

Macro forecast, Scandinavia

| | Year | GDP ¹ | Private cons. ¹ | Public cons. ¹ | Fixed inv. ¹ | Stock build. ² | Ex-ports ¹ | Im-ports ¹ | Infla-tion ¹ | Unem-ploym. ³ | Public budget ⁴ | Public debt ⁴ | Current acc. ⁴ |
|---------|------|------------------|----------------------------|---------------------------|-------------------------|---------------------------|-----------------------|-----------------------|-------------------------|--------------------------|----------------------------|--------------------------|---------------------------|
| Denmark | 2017 | 2.2 | 1.5 | 1.2 | 3.7 | 0.1 | 4.4 | 4.1 | 1.1 | 4.2 | 1.0 | 36.4 | 7.7 |
| | 2018 | 1.8 | 1.9 | 1.0 | 5.8 | 0.3 | 1.2 | 4.2 | 0.6 | 4.0 | -0.2 | 35.7 | 7.5 |
| | 2019 | 1.9 | 2.6 | 0.5 | 4.2 | -0.2 | 2.9 | 3.6 | 1.3 | 3.8 | -0.1 | 34.5 | 7.5 |
| Sweden | 2017 | 2.7 | 2.2 | 0.4 | 5.9 | 0.1 | 3.6 | 4.8 | 1.8 | 6.7 | 1.2 | 41.0 | 4.1 |
| | 2018 | 1.7 | 1.6 | 1.3 | -1.1 | 0.2 | 5.6 | 4.8 | 1.6 | 7.1 | 1.0 | 37.0 | 3.5 |
| | 2019 | 2.0 | 1.8 | 0.8 | 0.4 | 0.2 | 4.7 | 3.8 | 1.3 | 7.6 | 0.8 | 35.0 | 3.9 |
| Norway | 2017 | 1.9 | 2.5 | 2.2 | 4.9 | -1.6 | 1.1 | 2.8 | 1.8 | 2.7 | - | - | - |
| | 2018 | 2.5 | 2.5 | 1.8 | 3.0 | -0.2 | 2.0 | 2.0 | 2.0 | 2.3 | - | - | - |
| | 2019 | 2.3 | 2.3 | 1.8 | 2.0 | 0.0 | 2.0 | 2.0 | 1.9 | 2.2 | - | - | - |

Macro forecast, Euroland

| | Year | GDP ¹ | Private cons. ¹ | Public cons. ¹ | Fixed inv. ¹ | Stock build. ² | Ex-ports ¹ | Im-ports ¹ | Infla-tion ¹ | Unem-ploym. ³ | Public budget ⁴ | Public debt ⁴ | Current acc. ⁴ |
|-----------|------|------------------|----------------------------|---------------------------|-------------------------|---------------------------|-----------------------|-----------------------|-------------------------|--------------------------|----------------------------|--------------------------|---------------------------|
| Euro area | 2017 | 2.5 | 1.7 | 1.2 | 3.2 | - | 5.4 | 4.5 | 1.5 | 9.1 | -0.9 | 86.7 | 3.5 |
| | 2018 | 2.1 | 1.7 | 1.4 | 4.0 | - | 4.9 | 5.0 | 1.5 | 8.4 | -0.7 | 86.0 | 3.4 |
| | 2019 | 1.9 | 1.9 | 1.3 | 4.2 | - | 3.4 | 4.4 | 1.4 | 8.0 | -0.6 | 85.5 | 3.4 |
| Germany | 2017 | 2.5 | 2.0 | 1.5 | 4.0 | - | 5.3 | 5.6 | 1.7 | 3.7 | 1.3 | 64.1 | 8.0 |
| | 2018 | 2.2 | 1.8 | 2.3 | 3.4 | - | 5.0 | 6.0 | 1.6 | 3.4 | 1.2 | 60.2 | 7.9 |
| | 2019 | 2.0 | 2.3 | 2.2 | 4.5 | - | 3.1 | 4.8 | 1.7 | 3.3 | 1.0 | 56.3 | 7.6 |
| Finland | 2017 | 2.6 | 1.6 | 1.3 | 6.3 | - | 7.8 | 3.5 | 0.7 | 8.6 | -0.6 | 61.4 | 0.7 |
| | 2018 | 2.4 | 2.1 | 0.5 | 3.5 | - | 4.5 | 4.5 | 1.0 | 8.0 | -0.2 | 59.6 | 0.6 |
| | 2019 | 2.0 | 1.6 | 0.5 | 3.5 | - | 4.5 | 4.0 | 1.4 | 7.7 | -0.2 | 58.0 | 0.8 |

Macro forecast, Global

| | Year | GDP ¹ | Private cons. ¹ | Public cons. ¹ | Fixed inv. ¹ | Stock build. ² | Ex-ports ¹ | Im-ports ¹ | Infla-tion ¹ | Unem-ploym. ³ | Public budget ⁴ | Public debt ⁴ | Current acc. ⁴ |
|-------|------|------------------|----------------------------|---------------------------|-------------------------|---------------------------|-----------------------|-----------------------|-------------------------|--------------------------|----------------------------|--------------------------|---------------------------|
| USA | 2017 | 2.3 | 2.8 | 0.1 | 4.0 | -0.1 | 3.4 | 4.0 | 2.1 | 4.4 | -3.6 | 106.0 | -2.4 |
| | 2018 | 2.4 | 2.2 | 0.0 | 5.1 | 0.0 | 3.6 | 2.6 | 2.5 | 4.0 | -4.1 | 109.0 | -3.0 |
| | 2019 | 2.1 | 1.9 | 0.4 | 4.9 | 0.0 | 3.1 | 3.0 | 2.1 | 3.8 | -5.2 | 113.0 | -3.1 |
| China | 2017 | 6.9 | - | - | - | - | - | - | 2.0 | 4.1 | -3.7 | 47.6 | 1.4 |
| | 2018 | 6.5 | - | - | - | - | - | - | 2.3 | 4.3 | -3.4 | 50.8 | 1.1 |
| | 2019 | 6.3 | - | - | - | - | - | - | 2.3 | 4.3 | -3.4 | 53.9 | 1.2 |
| UK | 2017 | 1.8 | 1.7 | 0.1 | 4.0 | -0.4 | 5.7 | 3.2 | 2.7 | 4.4 | -2.4 | 87.0 | -4.6 |
| | 2018 | 1.3 | 1.3 | 0.5 | 1.9 | 0.1 | 2.4 | 2.2 | 2.3 | 4.1 | -2.0 | 87.3 | -4.7 |
| | 2019 | 1.2 | 1.0 | 0.4 | 2.0 | 0.0 | 2.6 | 1.8 | 1.6 | 4.1 | -1.8 | 87.4 | -4.6 |

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 int. rate | 3m interest rate | 2-yr swap yield | 10-yr swap yield | Currency vs EUR | Currency vs USD | Currency vs DKK |
|-----|--------|------------------|------------------|-----------------|------------------|--------------------|--------------------|--------------------|
| USD | 01-Jun | 1.75 | 2.36 | 2.76 | 3.04 | 121.7 | - | 612.2 |
| | +3m | 2.00 | 2.42 | 2.80 | 3.05 | 119.0 | - | 625.6 |
| | +6m | 2.00 | 2.62 | 3.00 | 3.15 | 123.0 | - | 605.3 |
| | +12m | 2.50 | 2.95 | 3.30 | 3.35 | 128.0 | - | 581.4 |
| EUR | 01-Jun | 0.00 | -0.33 | -0.13 | 1.03 | - | 121.7 | 745.1 |
| | +3m | 0.00 | -0.33 | -0.15 | 1.05 | - | 119.0 | 744.5 |
| | +6m | 0.00 | -0.33 | -0.10 | 1.25 | - | 123.0 | 744.5 |
| | +12m | 0.00 | -0.33 | 0.10 | 1.55 | - | 128.0 | 744.3 |
| JPY | 01-Jun | -0.10 | -0.03 | 0.06 | 0.28 | 133.0 | 109.3 | 5.60 |
| | +3m | -0.10 | - | - | - | 130.9 | 110.0 | 5.69 |
| | +6m | -0.10 | - | - | - | 137.8 | 112.0 | 5.40 |
| | +12m | -0.10 | - | - | - | 143.4 | 112.0 | 5.19 |
| GBP | 01-Jun | 0.50 | 0.75 | 1.12 | 1.64 | 87.4 | 139.3 | 852.9 |
| | +3m | 0.75 | 0.82 | 1.15 | 1.70 | 86.5 | 137.6 | 860.7 |
| | +6m | 0.75 | 0.82 | 1.45 | 1.90 | 84.0 | 146.4 | 886.3 |
| | +12m | 1.00 | 1.07 | 1.70 | 2.15 | 83.0 | 154.2 | 896.7 |
| CHF | 01-Jun | -0.75 | -0.73 | -0.44 | 0.56 | 119.7 | 98.4 | 622.4 |
| | +3m | -0.75 | - | - | - | 119.0 | 100.0 | 625.6 |
| | +6m | -0.75 | - | - | - | 121.0 | 98.4 | 615.3 |
| | +12m | -0.75 | - | - | - | 123.0 | 96.1 | 605.1 |
| DKK | 01-Jun | 0.05 | -0.29 | 0.01 | 1.20 | 745.1 | 612.2 | - |
| | +3m | 0.05 | -0.30 | 0.00 | 1.20 | 744.5 | 625.6 | - |
| | +6m | 0.05 | -0.30 | 0.05 | 1.40 | 744.5 | 605.3 | - |
| | +12m | 0.05 | -0.30 | 0.25 | 1.70 | 744.3 | 581.4 | - |
| SEK | 01-Jun | -0.50 | -0.37 | -0.13 | 1.31 | 1040.9 | 855.4 | 71.6 |
| | +3m | -0.50 | -0.45 | -0.15 | 0.95 | 1030.0 | 865.5 | 72.3 |
| | +6m | -0.50 | -0.40 | -0.15 | 1.15 | 1050.0 | 853.7 | 70.9 |
| | +12m | -0.50 | -0.40 | -0.05 | 1.40 | 1020.0 | 796.9 | 73.0 |
| NOK | 01-Jun | 0.50 | 1.13 | 1.49 | 2.29 | 969.2 | 796.5 | 76.9 |
| | +3m | 0.50 | 1.15 | 1.55 | 2.40 | 940.0 | 789.9 | 79.2 |
| | +6m | 0.75 | 1.30 | 1.65 | 2.55 | 930.0 | 756.1 | 80.1 |
| | +12m | 1.00 | 1.50 | 2.00 | 2.75 | 920.0 | 718.8 | 80.9 |

Commodities

| | | 2018 | | | | 2019 | | | | Average | |
|-----------|--------|------|----|----|----|------|----|----|----|---------|------|
| | 01-Jun | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2018 | 2019 |
| NYMEX WTI | 68 | 63 | 66 | 68 | 68 | 69 | 69 | 70 | 70 | 66 | 70 |
| ICE Brent | 74 | 67 | 70 | 72 | 72 | 72 | 72 | 74 | 74 | 70 | 73 |

Source: Danske Bank

Calendar

Key Data and Events in Week 23

| During the week | | | | Period | Danske Bank | Consensus | Previous |
|--------------------------------|-----|---|---------|-------------|-------------|-----------|-------------|
| Monday, June 4, 2018 | | | | | | | |
| 9:30 | SEK | Current account | SEK bn | 1st quarter | | | 33.5 |
| 10:30 | EUR | Sentix Investor Confidence | Index | Jun | | 19.0 | 19.2 |
| 10:30 | GBP | PMI construction | Index | May | | 51.8 | 52.5 |
| 11:00 | EUR | PPI | m/m y/y | Apr | | | 2.1% 0.1% |
| 16:00 | DKK | Currency reserves | DKK bn | May | | | 467.5 |
| 16:00 | USD | Core capital goods orders, final | % | Apr | | | 1.0% |
| Tuesday, June 5, 2018 | | | | | | | |
| - | DKK | Constitution Day | | | | | |
| 2:30 | JPY | Markit PMI services | Index | May | | | 52.5 |
| 3:45 | CNY | Caixin PMI service | Index | May | | 52.9 | 52.9 |
| 6:30 | AUD | Reserve Bank of Australia rate decision | % | | 1.5% | 1.5% | 1.5% |
| 8:30 | SEK | PMI services | Index | May | 59.0 | | 60.1 |
| 9:15 | ESP | PMI services | Index | May | | 56.0 | 55.6 |
| 9:30 | SEK | Industrial and services production and orders | m/m y/y | Apr | | | -1.7% -1.9% |
| 9:45 | ITL | PMI services | Index | May | | 52.9 | 52.6 |
| 9:50 | FRF | PMI services, final | Index | May | | 54.3 | 54.3 |
| 9:55 | DEM | PMI services, final | Index | May | | | 52.1 |
| 10:00 | EUR | PMI composite, final | Index | May | | 54.1 | 54.1 |
| 10:00 | EUR | PMI services, final | Index | May | | 53.9 | 53.9 |
| 10:30 | GBP | PMI services | Index | May | 53.5 | 52.9 | 52.8 |
| 11:00 | EUR | Retail sales | m/m y/y | Apr | | 0.5% 1.9% | 0.1% 0.8% |
| 11:00 | NOK | House price report | m/m | May | | | |
| 15:45 | USD | Markit PMI service, final | Index | May | | | 55.7 |
| 16:00 | USD | ISM non-manufacturing | Index | May | | 58.0 | 56.8 |
| Wednesday, June 6, 2018 | | | | | | | |
| - | SEK | National Day | | | | | |
| - | PLN | Polish central bank rate decision | % | | 1.5% | 1.5% | 1.5% |
| 2:00 | JPY | Labour cash earnings | y/y | Apr | | 1.3% | 2.0% |
| 3:30 | AUD | GDP | q/q y/y | 1st quarter | | 0.8% 2.7% | 0.4% 2.4% |
| 8:00 | DKK | House and apartment prices | m/m y/y | Mar | | | |
| 8:00 | DKK | Forced sales (s.a.) | Number | May | | | |
| 8:00 | DKK | Bankruptcies (s.a.) | Number | May | | | |
| 9:15 | CHF | CPI | m/m y/y | May | | 0.3% 0.9% | 0.2% 0.8% |
| 14:30 | USD | Unit labour cost, final | q/q | 1st quarter | | 2.8% | 2.7% |
| 14:30 | USD | Trade balance | USD bn | Apr | | -50.5 | -49.0 |
| 16:30 | USD | DOE U.S. crude oil inventories | K | | | | 5778 |

Source: Danske Bank

Calendar (continued)

| Thursday, June 7, 2018 | | | | Period | Danske Bank | Consensus | Previous |
|------------------------|-----|--------------------------------------|----------|-------------|-------------|-------------|-------------|
| - | CNY | Foreign exchange reserves | USD bn | May | | 3106.0 | 3124.9 |
| 7:00 | JPY | Leading economic index, preliminary | Index | Apr | | 105.6 | 104.4 |
| 7:45 | CHF | Unemployment | % | May | | 2.6% | 2.7% |
| 8:00 | DKK | Industrial production | m/m | Apr | | | -0.4% |
| 8:00 | NOK | Manufacturing production | m/m y/y | Apr | | | -0.1% 0.9% |
| 8:00 | NOK | Industrial production | m/m y/y | Apr | | | -0.7% 0.2% |
| 8:00 | DEM | Factory orders | m/m y/y | Apr | | 0.8% 3.6% | -0.9% 3.1% |
| 9:00 | CHF | SNB balance sheet, intervention | CHF bn | May | | | 757.1 |
| 11:00 | EUR | GDP, final | q/q y/y | 1st quarter | | 0.4% 2.5% | 0.4% 2.5% |
| 11:00 | EUR | Gross fixed investments | q/q | 1st quarter | | | 1.2% |
| 11:00 | EUR | Government consumption | q/q | 1st quarter | | | 0.3% |
| 11:00 | EUR | Private consumption | q/q | 1st quarter | | | 0.2% |
| 13:00 | TRY | Central Bank of Turkey rate decision | % | | 16.5% | 16.5% | 16.5% |
| 14:30 | USD | Initial jobless claims | 1000 | | | | |
| 21:00 | USD | Consumer credit | USD bn | Apr | | 14.0 | 11.6 |
| Friday, June 8, 2018 | | | | Period | Danske Bank | Consensus | Previous |
| - | CNY | Trade balance | USD bn | May | | 32.5 | 28.4 |
| 1:50 | JPY | GDP deflator, final | y/y | 1st quarter | | 0.5% | 0.5% |
| 1:50 | JPY | GDP, final | q/q ann. | 1st quarter | | -0.2% -0.5% | -0.2% -0.6% |
| 8:00 | DEM | Industrial production | m/m y/y | Apr | | 0.4% 2.6% | 1.0% 3.2% |
| 8:00 | DEM | Trade balance | EUR bn | Apr | | 19.2 | 24.7 |
| 8:00 | DEM | Labour costs | q/q y/y | 1st quarter | | | 0.4% 1.5% |
| 8:45 | FRF | Industrial production | m/m y/y | Apr | | 0.3% 3.0% | -0.4% 1.8% |
| 9:30 | SEK | Average house prices | SEK m | May | | | 3.067 |
| 9:30 | SEK | Budget balance | SEK bn | May | | | 2.8 |
| 9:30 | SEK | Household consumption | m/m y/y | Apr | .. 3.5% | | 0.5% 3.3% |
| 14:30 | CAD | Net change in full time employment | 1000 | May | | | 28.8 |

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Source: Danske Bank

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