

Weekly Focus

Inflation pressure builds further

Stock markets continue to struggle as inflation pressures build and both Fed's Powell and ECB's Lagarde, at the central banking forum in Sintra, stressed the need to fight inflation even if it involves some pain for the economy.

After supply worries drove oil prices higher, oil dropped again in the wake of OPEC+ confirmation of faster production hikes in July and August. IEA data released earlier in the week showed much larger drawdown of crude oil stock levels than expected, and US president Biden will travel to the Middle East and try to convince the Saudis to increase oil production further later this month. Natural gas and electricity prices continued to increase this week from already very high levels.

High energy prices are fuelling recession fears, which is particularly visible in industrial metals markets these days. Here we have seen a selloff across the board over the last couple of weeks. Copper in particular has declined to a 16-month low, driven not least by Chinese lockdowns. PMI figures indicated a strong rebound in the service sector on the back of an easing of restrictions, which also drove Chinese stock markets higher. That said, President Xi confirmed this week that zero COVID policy remains the right policy for China, which will likely pull economic growth below potential going forward. Easing restrictions also pulled manufacturing PMIs higher. The overall trend for the global manufacturing sector is still pointing down, though, with most Asian PMIs printing lower and the Bank of Japan's quarterly Tankan business survey also disappointing for the manufacturing sector. Chinese lockdown is a key drawdown here, and easing restrictions could maybe give some relief over the summer.

Inflation continues to increase across Europe. Spanish inflation increased above 10% in June. The German fuel tax rebate and cheap public transport over the summer pulled German inflation lower in June. That said, the underlying price pressure continues to build and we will likely see another spike here when we exit the summer months. The Riksbank reacted to the increased inflation pressure by hiking rates by 50 bps as expected.

Next week, in the euro area, we will look out for ECB minutes and different views in the Governing Council about the pace of monetary tightening. Also, we will keep an eye on a meeting between German chancellor Scholz, unions, employer representatives, Bundesbank staff and leading economists to discuss ways to support consumers while avoiding a wage-price-spiral from emerging.

In the US, we get a new jobs report. A tight labour market supports the case for further Fed tightening. The FOMC minutes will probably not be so important since we have heard from several members since the meeting. We expect the Reserve Bank of Australia to hike rates by 50 bps next week on the back of still persistent global inflation pressures and we expect the National Bank of Poland to hike by 75 bps but with risk of more. Over the summer we will follow how the headwinds for the global economy accumulate, not least inflation pressures. We expect ECB to hike by 25 and Fed by 75 bps in July.

Key market movers

- Monday: German price-wage meeting
- Tuesday: RBA meeting
- Wednesday: Euro area retail sales, FOMC minutes
- Thursday: ECB minutes, German industrial production, National bank of Poland meeting
- Friday: US jobs report

Key global views

- Western economies to fall into recession in 2023 but risk is skewed to earlier.
- High commodity prices, higher wage growth and high inflation expectations will keep inflation elevated for longer.
- Fed to hike by another 225bp this year, ECB to hike by a total of 125bp this year (upside risk).

Selected readings from Danske Bank

- *Flash comment Riksbank*, 30 June
- *Research Global - Natural rates - regime change or low for longer?*, 29 June
- *Emerging Markets Monthly - EM feels the heat from tighter financial conditions*, 27 June

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Scandi market movers

- In **Denmark**, we are set to receive June's bankruptcy figures on Wednesday. The trend has been upwards this year after a very low level of bankruptcies last year. We suspect we are heading into a period with a backlog of bankruptcies that will keep the numbers elevated this year as the repayment of corona loans from the government falls due. The risk of a pronounced increase next year due to higher interest rates and an economic slowdown, or even recession, has grown of late. Wednesday should also bring the number of forced home sales for June.

May's industrial production figures are scheduled for Thursday. Industrial production has looked very strong this year, with the global demand for goods keeping the wheels spinning quickly. Nevertheless, order books are beginning to shrink, and April mainly saw an increase in pharmaceutical production. So, will the slowdown in industry excl. pharma continue? That is what will be interesting to find out next week, and also something we expect to see in H2 22.

There are plenty of interesting numbers due over the summer, and we will be monitoring them closely to ascertain how far the economy has transitioned from overheating to slowdown. We expect inflation to rise further in June, and of course we will be keen to see how the erosion of purchasing power affects our own consumption figures in July. We will also be keeping a close watch on the housing and labour markets.

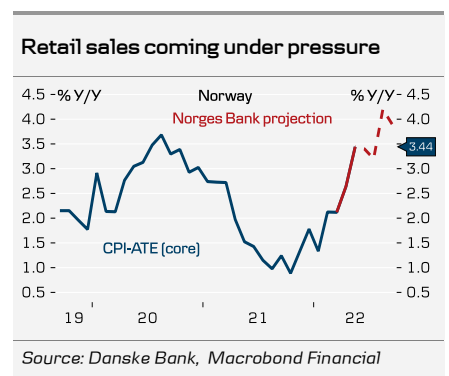
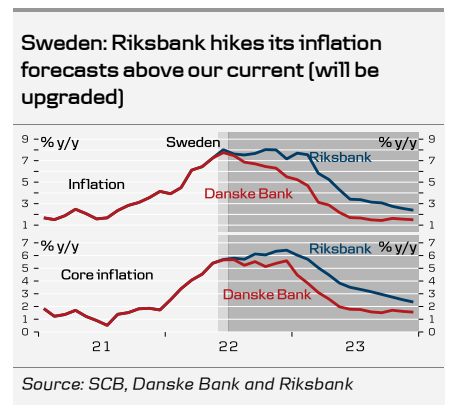
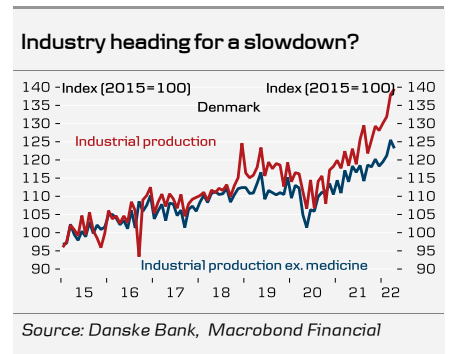
- The most important market event for **Sweden** in July will surely be the June inflation report. Our current forecast says +0.6% mom/7.7 % yoy and +0.3 % mom/5.7 % yoy for CPIF and CPIF excl. Energy respectively. That is 0.3 p.p and 0.0 p.p below Riksbank's respective new forecasts. As German preliminary June inflation data showed no signs of slowdown in food, household goods, recreation and hotel/restaurant prices, the risk is we have to revise up our forecast for June again. There are obviously some common trends in prices to be aware of.

Next in line is Propera's survey of money market players' inflation expectations. This survey carries less weight than the broader quarterly one, but any suggestion that 5y expectations would turn higher again after the dip seen in June would add to Riksbank's woes.

- In **Norway**, we will in particular look forward to the June inflation print to be released in July. Higher-than-expected inflation and a general concern that inflation may persistently prove high was the very reason for Norges Bank hiking policy rates by a surprising 50bp in June and signalling a very sharp and frontloaded tightening path. We expect the June core inflation print to come in at 3.5% Y/Y which would support Norges Bank's signal of another hike in August – albeit this time only of 25bp.

Apart from inflation we will naturally also get the monthly batch of data on activity data in the likes of manufacturing production, monthly national accounts and retail sales figures. Overall, we expect data to continue to signal above trend growth and a further downside pressure on unemployment. Meanwhile, given the global macro backdrop and the outlook for sharp front-loaded monetary tightening we increasingly see risks skewed to the downside for the mainland economy. Also we are seeing tentative signs that unemployment could be bottoming out during summer.

- Next week brings house prices. Amid weaker growth in household disposable income growth and higher policy rates we pencil a slowing housing market over the coming year. However, for June we expect a rise of 0.2% m/m SA.



Scandi update

Denmark – Wage pressures ease

Retail sales fell by 1.1% in May (price and seasonally adjusted). The trend appears to be downward at the moment – a natural development given the very high level of retail sales last year. Danes have cut spending on goods and instead channelled their money towards travel and dining out, etc.

Business sentiment figures for June showed a clear retreat, especially in terms of future expectations. While the figures are not as apocalyptic as the extremely low numbers for consumer confidence, they nevertheless indicate the post-pandemic upswing is drawing to a close. Construction and manufacturing order books have slimmed, while retail activity has slowed considerably on this measure. The service sector is keeping its head above water, but here, too, expectations are trending lower.

The number of jobless rose by 800 in May. Combined with an upward revision of previous months, the unemployment rate now stands at 2.5%, though this includes 1,800 more Ukrainians entering the system in May as ready to work. Hence, the underlying trend remains towards lower unemployment, though on a very modest scale, which confirms to us we are close to a bottom.

Revised national accounts for Q1 22 showed a dip of 0.5% and not 0.1% as hitherto thought. The downturn was led by a decline in exports, though this followed a very strong H2 21. Lockdowns early in the year pulled private consumption 2.0% lower overall.

DA’s wage statistic for Q2 22, the release of which was brought forward, showed a slowdown in wage growth to 3.4% from 3.8% in Q1 22. While that is still a little above what we saw last year, wage growth not being more pronounced is surprising given how tight the labour market is. However, the figures were also affected by lockdowns and the many incidences of sick leave in Q1 22, and so should be interpreted with caution.

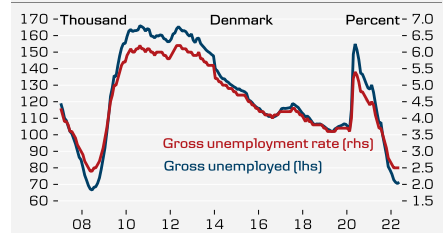
Sweden – 50bp from Riksbank and front-loaded rate path

Riksbank delivered a 50 bp interest rate hike this week as expected and also signaled more aggressive hikes during rest of 2022. However, from 2023 and beyond the new rate path was somewhat lower than we expected the Riksbank to present today. But on the other hand the rate path is now close to our own forecast, delivering 50bp in September and November followed by 25bp in Feb-23 ending at 2.0%.

The inflation forecast for 2022 and 2023 was significantly revised higher, however, in essence the change basically means Riksbank does not see significantly higher inflation but rather a lengthened period of high inflation before it turns lower. Correspondingly, GDP growth is lowered substantially both years and it is now close to what one could call a mild recession in 2023. Riksbank now sees unemployment turning higher in 2023. Overall, Riksbank appears to be worried about firms inclination to hike prices.

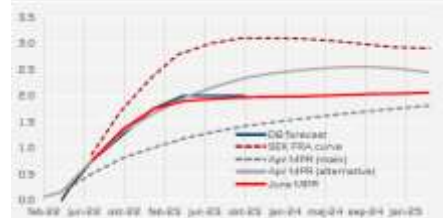
On the QE front, RB announced a reduction in QE reinvestment volumes for the second half of the year during the April policy meeting, the Riksbank now has further cut the forecast from the previous SEK 37bn to SEK 18.5bn, keeping the split between the different bond types unchanged, i.e. SEK 6bn each of government bonds, covered bonds and municipal bonds, as well as SEK 0.5bn of corporate bonds. Purchases during first half of the year amounted to SEK 73bn.

More Ukrainians entering the labour force



Source: Danske Bank, Macrobond Financial

New rate path and SEK FRA curve



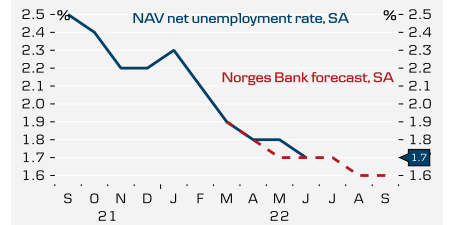
Source: Danske Bank, Riksbanken

Norway – labour market remains tight

Unemployment has been on a steady downward-slope since the peak of the corona crisis. With growth still above potential the June NAV labour market report revealed a further decline in the number of unemployed people – albeit with a smaller drop than in previous months. Adjusted for seasonal variations the registered net unemployment rate is now 1.7% which is exactly what Norges Bank has pencilled in. Hence, the labour market remains supportive of more monetary tightening and we expect the next hike (of 25bp) to come at the monetary policy meeting in August. That said, we also see signs that the unemployment rate could be bottoming leaving a more challenging trade-off for Norges Bank when balancing inflation risks against higher unemployment.

Manufacturing PMIs have for a long time been notoriously volatile in Norway. Yet this week’s release was a source of some optimism as they revealed a surprise increase to 56.4 from a revised 54.7. The details also showed that the rise was driven by output and new orders while delivery times was the primary drag. Overall, Norwegian manufacturing is better insulated from the global slowdown than most other countries as Norway manufacturing consists of a large share of petroleum related entities that are benefitting from higher oil and gas prices.

Unchanged unemployment rate in July



Source: Macrobond, Danske Bank

Calendar

Monday, July 4, 2022				Period	Danske Bank	Consensus	Previous
8:30	CHF	CPI	m/mly/y	Jun		0.3% 3.2%	0.7% 2.9%
10:30	EUR	Sentix Investor Confidence	Index	Jul		-20.0	-15.8
11:00	EUR	PPI	m/mly/y	May		37.0% 1.3%	37.2% 1.2%
15:30	CAD	RBC manufacturing PMI	Index	Jun			56.8
17:00	DKK	Currency reserves	DKK bn	Jun			534
Tuesday, July 5, 2022				Period	Danske Bank	Consensus	Previous
1:30	JPY	Labour cash earnings	y/y	May		1.5%	1.3%
2:30	JPY	Markit PMI services, final	Index	Jun			54.2
3:45	CNY	Caixin PMI service	Index	Jun		49.0	41.4
6:30	AUD	Reserve Bank of Australia rate decision	%			1.4%	0.9%
8:30	SEK	PMI services	Index	Jun			68.2
8:45	FRF	Industrial production	m/mly/y	May			-0.1% -0.3%
9:15	EUR	S&P may publish Spain's debt rating		Jun		53.9	56.5
9:15	EUR	S&P may publish Spain's debt rating		Jun			55.7
9:15	ESP	PMI services	Index	Jun		53.9	56.5
9:45	ITL	PMI services	Index	Jun		51.8	53.7
9:45	EUR	S&P may publish Italy's debt rating		Jun		51.8	53.7
9:45	EUR	S&P may publish Italy's debt rating		Jun			52.4
9:50	FRF	PMI services, final	Index	Jun		54.4	54.4
9:50	EUR	S&P may publish France's debt rating, final		Jun		54.4	54.4
9:50	EUR	S&P may publish France's debt rating, final		Jun		52.8	52.8
9:55	EUR	S&P may publish Germany's debt rating, final		Jun		52.4	52.4
9:55	EUR	S&P may publish Germany's debt rating, final		Jun		51.3	51.3
9:55	DEM	PMI services, final	Index	Jun		52.4	52.4
10:00	EUR	PMI composite, final	Index	Jun		51.9	51.9
10:00	EUR	PMI services, final	Index	Jun		52.8	52.8
10:00	EUR	S&P may publish <PLACE>'s debt rating, final		Jun		52.8	52.8
10:00	EUR	S&P may publish <PLACE>'s debt rating, final		Jun		51.9	51.9
10:30	GBP	PMI services, final	Index	Jun		53.4	53.4
16:00	USD	Core capital goods orders, final	%	May			0.5%
Wednesday, July 6, 2022				Period	Danske Bank	Consensus	Previous
8:00	SEK	Industrial orders	m/mly/y	May			-2.0% 7.4%
8:00	SEK	Private Sector Production	m/mly/y	May			0.9% 4.6%
8:00	SEK	Household consumption	m/mly/y	May			-0.4% 7.5%
8:00	DEM	Factory orders	m/mly/y	May		-1.0% -5.4%	-2.7% -6.2%
9:30	EUR	S&P may publish Germany's debt rating		Jun			45.4
10:30	GBP	PMI construction	Index	Jun			56.4
11:00	EUR	Retail sales	m/mly/y	May		0.5% -0.1%	-1.3% 3.9%
15:45	USD	Markit PMI service, final	Index	Jun		51.6	51.6
16:00	USD	ISM non-manufacturing	Index	Jun		54.3	55.9
20:00	USD	FOMC minutes					
Thursday, July 7, 2022				Period	Danske Bank	Consensus	Previous
-	CNY	Foreign exchange reserves	USD bn	Jun		3120.4	3127.8
-	PLN	Polish central bank rate decision	%		7.0%	6.75%	6.0%
6:00	SEK	Maklarstatistik Swedish housing price data					
7:00	JPY	Leading economic index, preliminary	Index	May		101.5	102.9
7:45	CHF	Unemployment	%	Jun		2.2%	2.2%
8:00	SEK	Budget balance	SEK bn	Jun			69.2
8:00	NOK	GDP (mainland)	m/m	May	0.4%		-0.5%
8:00	NOK	Manufacturing production	m/mly/y	May			1.0% 2.4%
8:00	NOK	Industrial production	m/mly/y	May			-0.5% 3.0%
8:00	DEM	Industrial production	m/mly/y	May		0.3% -1.8%	0.7% -2.2%
8:00	DKK	Industrial production	m/m	May			1.1%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Jun			925.4
14:30	USD	Initial jobless claims	1000				231
14:30	USD	Trade balance	USD bn	May		-84.9	-87.1
17:00	USD	DOE U.S. crude oil inventories	K				-2762
19:00	USD	Fed's Bullard speaks					
19:00	USD	Fed's Waller speaks					
Friday, July 8, 2022				Period	Danske Bank	Consensus	Previous
14:30	USD	Unemployment	%	Jun	3.6%	3.6%	3.6%
14:30	USD	Average hourly earnings, non-farm	m/mly/y	Jun		0.3% 5.1%	0.3% 5.2%
14:30	USD	Non farm payrolls	1000	Jun	400	250	390
14:30	CAD	Net change in full time employment	1000	Jun			135.4
17:00	USD	Fed's Williams speaks					
21:00	USD	Consumer credit	USD bn	May		30.0	38.1

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	4.9	4.3	4.2	6.2	8.0	8.0	1.9	3.0	3.7	2.6	36.7	8.3
	2022	3.5	2.1	-0.3	3.3	4.1	1.9	6.4	3.7	2.5	1.0	31.9	8.8
	2023	0.7	1.3	0.9	-0.4	2.2	2.5	2.6	4.0	2.7	0.7	29.9	8.1
Sweden	2021	4.8	6.1	2.6	5.9	7.6	9.3	2.2	2.7	8.8	-0.2	37.7	5.2
	2022	1.1	2.6	0.1	-0.3	5.4	6.3	6.4	2.0	7.4	-0.3	33.0	4.9
	2023	1.6	1.7	1.2	1.3	3.9	3.4	3.5	2.1	7.2	0.3	31.0	5.2
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	3.6	6.7	1.3	3.1	6.0	7.5	4.6	3.7	1.8	-	-	-
	2023	1.6	2.5	1.3	2.0	4.0	4.0	2.0	3.7	2.1	-	-	-

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	3.6	3.9	4.1	10.8	8.7	2.6	4.1	7.7	-5.1	97.4	3.2
	2022	2.8	2.4	2.9	2.4	5.5	6.5	7.3	3.2	6.8	-3.7	94.7	2.4
	2023	1.8	0.7	3.7	3.5	3.9	4.4	2.8	3.4	6.8	-2.5	92.7	2.9
Germany	2021	2.9	0.3	2.9	1.0	9.5	9.0	3.2	3.4	3.6	-3.7	69.3	7.4
	2022	1.4	3.0	1.3	2.2	1.9	6.7	7.9	3.3	3.0	-2.5	66.4	6.4
	2023	1.8	0.7	4.1	3.5	3.9	4.5	3.3	3.9	3.0	-1.0	64.5	6.8
Finland	2021	3.0	3.6	2.7	1.1	5.6	5.6	2.2	2.3	7.7	-2.6	72.3	0.9
	2022	1.5	1.6	1.5	4.0	1.0	2.5	6.0	2.8	6.4	-2.8	65.0	-0.6
	2023	1.6	2.5	1.0	2.5	2.0	3.5	2.5	2.6	6.3	-2.3	64.8	-0.2

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	4.2	5.4	-12.4	126.9	-3.5
	2022	2.4	2.9	-0.8	3.9	2.9	9.6	8.4	5.2	3.6	-4.2	124.0	-3.5
	2023	0.1	0.1	1.1	-1.2	-2.3	-1.7	4.6	4.2	3.9	-3.8	121.0	-3.2
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	3.7	4.8	-	3.0	-	-	2.5	5.0	-	-7.7	77.8	1.1
	2023	5.7	6.5	-	5.0	-	-	2.5	5.5	-	-7.1	81.8	1.0
UK	2021	7.4	6.2	14.3	5.9	-1.3	3.8	2.6	5.1	4.5	-5.4	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-3.9	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-1.9	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.3	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.7	3.3	1.4	-1.8	3.6	4.1	1.6	-	2.5	-	-	-
	2023	1.8	1.6	0.7	1.7	2.9	1.1	1.1	-	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-Jul	1.75	2.28	3.20	3.04	104.6	-	711.1	991.6	1030.1
	+3m	2.00	2.59	3.25	3.40	103.0	-	722.6	1038.8	1009.7
	+6m	2.50	3.11	3.55	3.60	102.0	-	729.9	1019.6	1049.0
	+12m	3.25	3.40	3.65	3.40	100.0	-	745.0	1000.0	1080.0
EUR	01-Jul	-0.50	-0.18	1.33	2.19	-	104.6	743.9	1037.2	1077.5
	+3m	0.25	0.52	1.30	2.05	-	103.0	744.3	1070.0	1040.0
	+6m	0.50	0.90	1.45	2.30	-	102.0	744.5	1040.0	1070.0
	+12m	1.25	1.37	1.50	2.20	-	100.0	745.0	1000.0	1080.0
JPY	01-Jul	-0.10	-0.03	0.11	0.49	120.5	135.4	6.17	8.61	8.94
	+3m	-0.10	-	-	-	133.9	130.0	5.56	7.99	7.77
	+6m	-0.10	-	-	-	130.6	128.0	5.70	7.97	8.20
	+12m	-0.10	-	-	-	125.0	125.0	5.96	8.00	8.64
GBP*	01-Jul	1.25	-	2.60	2.32	86.6	120.8	858.7	1197.4	1243.9
	+3m	1.50	-	2.15	2.10	86.0	119.8	865.4	1244.2	1209.3
	+6m	1.75	-	2.25	2.10	85.0	120.0	875.9	1223.5	1258.8
	+12m	1.75	-	2.15	1.90	84.0	119.0	886.9	1190.5	1285.7
CHF*	01-Jul	-0.25	-	0.70	1.67	100.3	95.9	741.4	1033.8	1074.0
	+3m	0.25	-	-	-	101.0	98.1	736.9	1059.4	1029.7
	+6m	0.75	-	-	-	100.0	98.0	744.5	1040.0	1070.0
	+12m	0.75	-	-	-	99.0	99.0	752.5	1010.1	1090.9
DKK	01-Jul	-0.60	0.09	1.64	2.48	743.86	711.11	-	139.44	144.86
	+3m	0.15	0.72	1.55	2.30	744.25	722.57	-	143.77	139.74
	+6m	0.65	1.13	1.70	2.55	744.50	729.90	-	139.69	143.72
	+12m	1.15	1.55	1.75	2.45	745.00	745.00	-	134.23	144.97
SEK	01-Jul	0.25	0.74	2.46	2.72	1077.5	1030.1	69.0	96.3	100.0
	+3m	1.25	0.85	2.25	2.65	1040.0	1009.7	71.6	102.9	-
	+6m	1.75	1.10	2.45	2.65	1070.0	1049.0	69.6	97.2	-
	+12m	2.00	1.40	2.40	2.60	1080.0	1080.0	69.0	92.6	-
NOK	01-Jul	1.25	1.67	3.18	3.22	1037.2	991.6	71.7	100.0	103.9
	+3m	1.50	2.38	2.95	3.30	1070.0	1038.8	69.6	-	97.2
	+6m	2.25	2.60	2.85	3.40	1040.0	1019.6	71.6	-	102.9
	+12m	2.25	2.60	2.75	3.30	1000.0	1000.0	74.5	-	108.0

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

Commodities

	01-Jul	2022				2023				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	111	98	112	120	100	95	95	95	95	106	95

Source Danske Bank

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Report completed: 1 July 2022, 13:50 CET

Report first disseminated: 1 July 2022, 14:00 CET