

Weekly Focus

Risk back on amid Chinese support

After a few volatile weeks, equity markets stabilised this week on the back of Chinese authorities cutting stamp duties on stock trades in half. The VIX volatility index was back at the lowest levels since early August. US job openings took a sharp decline in July and the jobs plentiful index declined indicating more people have a hard time finding a job. Consumer sentiment also took a turn for the worse, which all weighed on the dollar and took US yields lower.

European yields moved lower as well, fuelled by some small promising signs that core inflation is moving lower in the euro area. ECB pricing went a couple of basis points lower as this could be the first signs that the decline in activity we have seen so far in Q3 is feeding through to companies' price setting. Headline inflation was unchanged at 5.3%, though, which remains a big headwind to consumers.

July German retail sales confirmed service sector weakness with a 0.8% MoM decline, much worse than expected. Germans are being compensated for lost purchasing power, though, and wages increased at a record annual pace of 6.6% in Q2, giving a much-needed boost to consumers' spending power but also fuelling inflation concerns. The unemployment rate in the euro area did not budge in July and remained at 6.4%, a record low. Strong data for the labour market in Q3 is not much of a surprise, though. Labour markets should be the last to react to the slowdown in activity.

In Japan, the labour market surprisingly loosened somewhat in July with an increase in the unemployment rate to 2.7% from 2.5% in June. This looks like a bump on the road and does not change the fact that the Japanese labour market remains tight. Even so, **it will probably only trigger an even more cautious Bank of Japan (BoJ) at the policy meeting later this month.**

Elsewhere in Asia, Chinese data is watched closely by financial markets these days considering the recent weakness in the economy. **Overall, both private and national PMIs were better than expected indicating the economy has not fallen completely out of the bed.** Authorities came with a range of stimulating measures to the economy this week with a reduction of the required down payment for home-buyers as particularly important given the increasing risk stemming from the housing market.

Next week brings more important data from the euro area ahead of the ECB meeting with compensation per employee for Q2. **We already saw negotiated wage growth spike, but the data next week is ECB's preferred measure of labour costs.**

In China the most important event will be whether the developer Country Garden defaults. This might cause renewed stress in Chinese markets. We also get trade balance figures where weak exports have caught attention lately. In Japan, we will look out for July wage growth, which is important information ahead of the next BoJ meeting. In the US, we will look out for ISM services. Leading data indicates they will be on the weak side.

In Danske Bank we publish our Nordic Outlook on Tuesday with an update of our views on the Nordics and the global economy.

Key global views

- Stagnation and periodic contraction in the US and in Europe during 2023
- US and euro area headline inflation set to decline further, but core inflation to remain sticky
- Fed on hold, ECB to hike once more

Key Market movers

- Tuesday: Country Garden grace period expires. Danske Bank Nordic Outlook
- Wednesday: US ISM services
- Thursday: Euro area compensation per employee, Chinese trade data
- Friday: Japanese wage data

Selected reading from Danske Bank

Research Global - The new BRICS+ is not a love marriage, 25 August

Research US - Could investment boom pave the way for a soft landing?, 22 August

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Scandi market movers

- In **Denmark**, the week kicks off with August's FX intervention figures from Danmarks Nationalbank. The DKK has traded stably within its fluctuation bands around its central parity rate against the EUR over the past month, so the central bank has probably not had to intervene in FX markets.

Danish industrial production figures for July 2023 are due Thursday. Industry has generally been growing throughout the year, but looking below the surface, growth has been driven almost exclusively by the pharmaceutical industry. Danish industry is very much export-driven, and we expect the general downturn abroad will continue to be reflected in lower production figures ex. pharma.

Thursday should also bring the latest bankruptcy figures, for August 2023. July's figures were the highest since 2016, and the number of bankruptcies has generally been on an upward path all year. Given still high interest rates and the general slowdown, we expect this trend to continue.

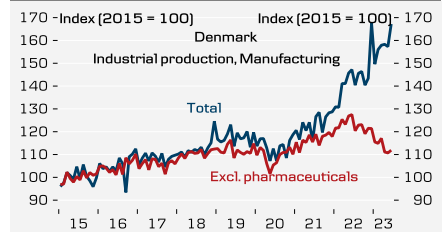
July's balance of payments and foreign trade figures will arrive on Friday. In June, the current account surplus was running at DKK27.2bn, which is huge. The surplus was largely driven by pharmaceutical exports, and as the situation has probably not changed, we also expect a very large surplus in July.

- In **Sweden**, there is a slew of interesting data also next week, starting with August services PMI. Question here if it will bounce back down again after the positive July print. SNDO July budget balance and August Mäklarstatistik house price data is also on the agenda.

That said, focus is likely to be on July prints for the GDP, PVI (production value indicator) and consumption indicators. We are fairly convinced that the latter will show an increase vs June as retail sales rose strong 1.0 % mom s.a. Already released July data suggest unchanged hours worked while there is a fierce increase in real net exports. On the back of that we wouldn't be surprised to see upward correction in both PVI and the GDP indicator.

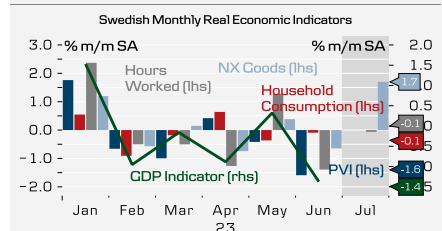
- In **Norway**, the only item of any real interest in a quiet week is housing prices for August. After a surprisingly strong increase during the winter, prices have softened in recent months. This is probably due mainly to higher mortgage rates and a better balance in the market (more properties for sale). With mortgage rates set to rise further, and perhaps slightly greater uncertainty in the market, we expect prices to fall. However, after the OBOS-prices dropped 2.0 % m/m (published Friday), there is a huge downside risk to our call.

Pharmaceutical industry booting Danish production



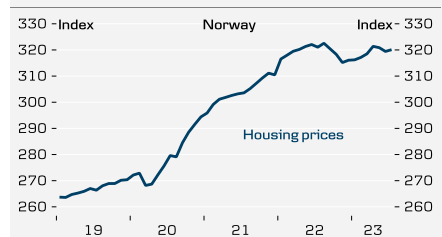
Source: Statistics Denmark, Danske Bank

Sweden: we should see an upward bounce in July data



Source: SCB, Danske Bank calculations

Moderate decline in housing prices



Source: Macrobond, Danske Bank

Scandi update

Denmark – Travel instead of grocery purchases pushed retail sales lower in July

Retail sales fell noticeably in July, down 4.4% (seasonally adjusted) on June. Sales were roughly 4.5% lower in DKK terms, with grocery sales in particular, such as food, pulling the index lower. Being July, many residents were also on holiday – plane ticket sales were some 21.2% higher than in July 2022, as mentioned in our latest *spending monitor* – and as Danish consumption abroad is not counted in the retail sales index, the result is lower sales here in Denmark.

The latest national accounts figures showed growth of 0.3% in Q2 23 compared to Q1. Growth is being driven by the pharmaceutical industry in particular, and GDP would actually be 1% down on last year ex. pharma. Private consumption is also a positive force, especially in terms of car sales and spending on holidays. This probably ties in with electricity prices calming and real wages ticking up. Transport investment also rose, including in ships, while housing investment declined – with the latter now 13.9% down compared to last year.

Statistics Denmark’s wage index showed annual growth of 3.2% in Q2 23, so very close to DA’s (Confederation of Danish Employers) wage statistic printout of 3.4%. Wages rose most strongly in the construction and commerce sectors, at 3.9%. The new collective agreements are having an effect but will not fully feed through until Q3 23.

The number of unemployed rose by 600 in July to 83,500, which was half of what the unemployment indicator showed earlier in August. However, the unemployment rate remained unchanged at 2.8% of the workforce.

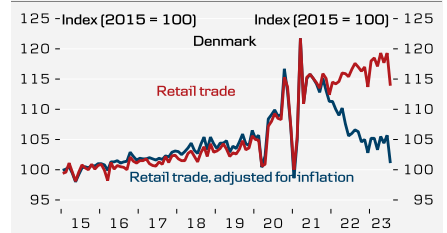
Sweden – GDP not as weak as expected in Q2

The discourse regarding the Swedish economy has recently been gloomy as the experimental GDP-indicator by SCB pointed at -1.5% for Q2 QoQ. As these numbers usually strongly diverge from the actual numbers, we highly questioned the credibility of this number. As GDP for Q2 then dropped 0.8% QoQ on Tuesday, although worrisome, it shows that the situation is not as catastrophic as some speculated. The main contributor to the decline is reduced exports of goods by -4% QoQ. The export trend is not as negative looking at a broader perspective. Noteworthy that exports goods till rose 2% in value compared with the Q2 2022. Export to Sweden’s biggest trading partner Germany, rose 12% in H1 HoH. Taking the weak development of the SEK into account it is only natural that this is reflected in increased export sales. The negative trend in household consumption is also stabilising as it only decreased by 0.2% in Q2 QoQ.

More rays of hope can be found in the strong labour market as the employment rate continuous to grow by 0.4% in Q2 QoQ. Another highlight is that retail sales volume increased by 1% MoM in June. NIER’s indicator for consumer confidence backed 70.4 from 72.5 in July after some gaining some ground lately. The aggregated confidence indicator backed 2.5 units which mainly is contributed by the decline in service sector which now is the least positive forward looking sector of all in the private sector.

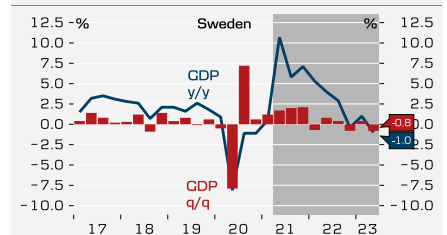
Deputy Governors Martin Flodén, Anna Breman and Aino Bunge spoke this week. Overall, they said nothing remarkably new. As earlier they highlighted that service inflation is too sticky, that it requires continued high interest rates for a longer period and that their future

Retail sales fell 4.4% in July



Source: Danske Bank, Statistics Denmark, Macrobond Financial

GDP hovering around non-growth

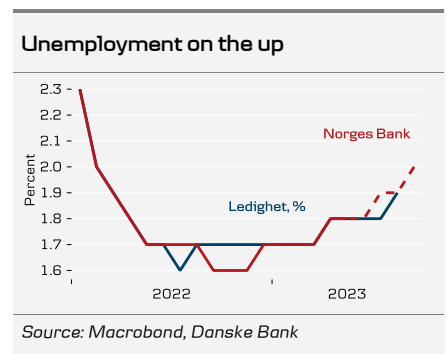


Source: Macrobond Financial, SCB

rate decisions will be data dependent. They deem the SEK to be undervalued and that it will strengthen eventually. This supports our view with a 25 bps policy rate raise in September.

Norway – Unemployment creeping up

The Norwegian labour market remains tight but is slackening slightly as economic growth slows. The registered unemployment rate climbed to 1.9% SA in August, which is still very low, but there are almost 10,000 more people out of work than last autumn. With growth in output and employment now slowing, the jobless rate will probably continue to rise. Productivity growth has flatlined over the past year, however, which may indicate that Norwegian firms are slightly overstaffed, and so there is a risk of interest rates moving slightly higher than expected. The August figures are in line with Norges Bank’s projections in the June monetary policy report and so support its intention to raise the policy rate again in September, but the deterioration in the labour market suggests that this may be the final hike in the cycle.



Calendar

Monday, September 4, 2023

				Period	Danske Bank	Consensus	Previous
8:00	SEK	Current account	SEK bn	2nd quarter			88.6
9:00	CHF	GDP	q/qly/y	2nd quarter		0.1% 0.6%	0.3% 0.6%
10:30	EUR	Sentix Investor Confidence	Index	Sep		-20.0	-18.9
17:00	DKK	Currency reserves	DKK bn	Aug			602.8

Tuesday, September 5, 2023

				Period	Danske Bank	Consensus	Previous
2:30	JPY	Markit PMI services, final	Index	Aug			54.3
3:45	CNY	Caixin PMI service	Index	Aug		53.7	54.1
6:30	AUD	Reserve Bank of Australia rate decision	%		4.1%	4.1%	4.1%
8:30	SEK	PMI services	Index	Aug			52.7
9:00	EUR	ECB's Lagarde speaks					
9:15	ESP	PMI services	Index	Aug		52.0	52.8
9:45	ITL	PMI services	Index	Aug		50.5	51.5
9:50	FRF	PMI services, final	Index	Aug		46.7	46.7
9:55	DEM	PMI services, final	Index	Aug		47.3	47.3
10:00	EUR	PMI composite, final	Index	Aug		47.0	47.0
10:00	EUR	PMI services, final	Index	Aug		48.3	48.3
10:30	GBP	PMI services, final	Index	Aug		48.7	48.7
11:00	EUR	PPI	m/mly/y	Jul		-7.8%	-3.4% -0.4%
14:30	EUR	ECB's Schnabel speaks					
16:00	USD	Core capital goods orders, final	%	Jul			0.1%

Wednesday, September 6, 2023

				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		6.5%	6.6%	6.8%
3:30	AUD	GDP	q/qly/y	2nd quarter		0.3% 1.8%	0.2% 2.3%
8:00	DEM	Factory orders	m/mly/y	Jul		-4.0% -3.4%	7.0% 3.0%
10:30	GBP	PMI construction	Index	Aug			51.7
11:00	EUR	Retail sales	m/mly/y	Jul		0.0% -1.1%	-0.3% -1.4%
14:30	USD	Trade balance	USD bn	Jul		-67.5	-65.5
15:45	USD	Markit PMI service, final	Index	Aug			51.0
16:00	USD	ISM non-manufacturing	Index	Aug		52.4	52.7
16:00	CAD	Bank of Canada rate decision	%		5.0%	5.0%	5.0%

Thursday, September 7, 2023

				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Aug		67.7	80.6
-	CNY	Foreign exchange reserves	USD bn	Aug		3180.0	3204.3
7:00	JPY	Leading economic index, preliminary	Index	Jul		107.8	108.9
7:45	CHF	Unemployment	%	Aug		2.1%	2.1%
8:00	SEK	Budget balance	SEK bn	Aug			6.5
8:00	NOK	Manufacturing production	m/mly/y	Jul			0.0% 1.4%
8:00	NOK	Industrial production	m/mly/y	Jul			0.2% -11.0%
8:00	DKK	Industrial production	m/m	Jul			6.3%
8:00	DEM	Industrial production	m/mly/y	Jul		-0.6% -2.1%	-1.5% -1.7%
9:00	CHF	Foreign Currency Reserves	CHF bn	Aug			697.6
11:00	EUR	GDP, final	q/qly/y	2nd quarter	0.3% 0.6%	0.3% 0.6%	0.3% 0.6%
11:00	EUR	Gross fixed investments	q/q	2nd quarter			0.6%
11:00	EUR	Government consumption	q/q	2nd quarter			-1.6%
11:00	EUR	Private consumption	q/q	2nd quarter			-0.3%
11:00	EUR	Employment, final	q/qly/y	2nd quarter			0.2% 1.5%
14:30	USD	Initial jobless claims	1000				228
14:30	USD	Unit labour cost, final	q/q	2nd quarter		1.6%	1.6%
17:00	USD	DOE U.S. crude oil inventories	K				-10584
21:30	USD	Fed's Williams speaks					
18:00	EUR	ECB's Guindos speaks					

Friday, September 8, 2023

				Period	Danske Bank	Consensus	Previous
-	EUR	Portugal's debt rating (S&P)					
-	EUR	Norway's debt rating (S&P)					
1:30	JPY	Labour cash earnings	y/y	Jul		2.4%	2.3%
1:50	JPY	GDP deflator, final	y/y	2nd quarter		3.4%	3.4%
1:50	JPY	GDP, final	q/q ann.	2nd quarter		1.4% 5.6%	1.5% 6.0%
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	DKK	Current account (nsa sa)	DKK bn	Jul			- 27.2
8:00	DEM	HICP, final	m/mly/y	Aug		0.4% 6.4%	0.4% 6.4%
8:00	SEK	Industrial orders	m/mly/y	Jul			-7.1% 0.3%
8:00	SEK	Private Sector Production	m/mly/y	Jul			-1.6% -3.4%
8:00	SEK	Household consumption	m/mly/y	Jul			-0.1% -1.7%
8:00	DKK	Trade balance ex ships	DKK bn	Jul			7.2
8:00	DKK	Exports	m/m	Jul			
8:45	FRF	Industrial production	m/mly/y	Jul		0.0%	-0.9% -0.3%
14:30	CAD	Net change in full time employment	1000	Aug			1.7
21:00	USD	Consumer credit	USD bn	Jul		16.0	17.8

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	2022	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.6	2.6	3.5	30.1	13.1
	2023	1.5	0.6	-0.7	-7.2	5.7	0.1	4.1	4.7	2.9	2.2	27.4	13.5
	2024	1.0	1.7	1.8	-2.9	1.2	0.7	3.2	5.3	3.4	1.2	25.7	13.5
Sweden	2022	2.9	1.9	0.1	6.1	7.0	9.4	8.4	2.5	7.5	0.7	32.9	3.6
	2023	0.5	-2.2	1.4	1.4	3.2	0.4	8.4	4.0	7.5	-0.4	29.0	5.0
	2024	1.9	1.7	1.1	2.3	2.8	2.6	1.9	3.3	7.8	-0.8	29.0	5.1
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.1	-2.0	1.4	0.5	4.0	3.0	5.3	5.3	1.9	-	-	-
	2024	1.4	1.2	1.5	4.0	2.0	2.0	2.5	4.2	2.3	-	-	-

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	2022	3.4	4.5	1.4	3.0	7.2	8.1	8.4	2.9	6.7	-3.6	93.2	0.6
	2023	0.5	0.2	1.2	-0.2	3.0	2.9	5.3	4.3	6.9	-3.2	90.9	2.2
	2024	1.0	1.2	0.8	0.5	3.2	3.3	2.8	3.0	7.0	-2.7	90.1	2.4
Finland	2022	1.6	1.7	0.8	3.2	3.5	8.3	7.1	2.4	6.8	-0.9	72.9	-3.6
	2023	-0.2	-0.2	2.0	-4.5	-0.5	-2.0	5.9	4.1	7.0	-2.7	72.1	-1.4
	2024	0.8	1.0	0.5	2.5	1.5	2.0	2.1	3.7	6.8	-1.9	72.6	-1.0

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	2022	2.1	2.7	-0.6	-0.2	7.1	8.1	8.0	5.3	3.6	-5.5	123.3	-3.9
	2023	1.3	1.5	2.7	-2.7	1.2	-4.3	4.0	4.1	3.7	-5.4	123.6	-3.1
	2024	0.5	0.1	1.3	1.0	-1.9	-1.9	2.2	3.2	4.3	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	5.5	-7.5	77.1	2.3
	2023	4.8	6.5	-	4.5	-	-	0.8	-	5.2	-7.5	82.8	1.4
	2024	4.2	5.0	-	3.8	-	-	1.2	-	5.1	-7.5	87.4	1.0
UK	2022	4.2	-	-	-	-	-	8.9	-	3.8	-	-	-
	2023	-0.7	-	-	-	-	-	6.2	-	4.4	-	-	-
	2024	0.8	-	-	-	-	-	2.6	-	5.0	-	-	-

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*	31-Aug	5.50	-	4.78	3.82	0.92	-	6.87	10.66	10.95
	+3m	5.50	-	4.52	3.73	0.93	-	6.96	11.03	10.75
	+6m	5.50	-	4.22	3.53	0.94	-	7.02	10.94	10.94
	+12m	5.00	-	3.85	3.35	0.97	-	7.23	10.87	11.36
EUR	31-Aug	3.75	3.74	3.66	3.07	-	1.08	7.4522	11.56	11.88
	+3m	4.00	3.99	3.48	3.09	-	1.07	7.4450	11.80	11.50
	+6m	4.00	3.99	3.28	2.94	-	1.06	7.4450	11.60	11.60
	+12m	3.75	3.56	3.00	2.85	-	1.03	7.4500	11.20	11.70
JPY	31-Aug	-0.10	-	-	-	0.006	0.007	4.72	7.32	7.52
	+3m	-0.10	-	-	-	0.007	0.007	4.90	7.77	7.57
	+6m	0.10	-	-	-	0.007	0.008	5.32	8.29	8.29
	+12m	0.10	-	-	-	0.007	0.008	5.56	8.36	8.74
GBP*	31-Aug	5.25	-	5.51	4.33	1.17	1.08	8.70	13.50	13.87
	+3m	5.50	-	5.32	4.23	1.15	1.23	8.56	13.56	13.22
	+6m	5.50	-	4.97	4.09	1.14	1.20	8.46	13.18	13.18
	+12m	5.00	-	4.60	3.95	1.14	1.17	8.47	12.73	13.30
CHF	31-Aug	1.75	-	-	-	1.04	1.13	7.77	12.06	12.39
	+3m	2.00	-	-	-	1.05	1.13	7.84	12.42	12.11
	+6m	2.00	-	-	-	1.06	1.13	7.92	12.34	12.34
	+12m	2.00	-	-	-	1.06	1.10	7.93	11.91	12.45
DKK	31-Aug	3.35	3.82	3.77	3.21	0.134	0.146	-	1.55	1.59
	+3m	3.60	3.99	3.63	3.24	0.134	0.144	-	1.58	1.54
	+6m	3.60	4.00	3.43	3.09	0.134	0.142	-	1.56	1.56
	+12m	3.35	3.56	3.15	3.00	0.134	0.138	-	1.50	1.57
SEK	31-Aug	3.75	4.01	3.97	3.20	0.084	0.091	0.63	0.97	-
	+3m	4.00	4.11	3.82	3.09	0.087	0.093	0.65	1.03	-
	+6m	4.00	3.81	3.35	2.88	0.086	0.091	0.64	1.00	-
	+12m	3.50	3.24	3.00	2.85	0.085	0.088	0.64	0.96	-
NOK	31-Aug	4.00	4.77	4.91	4.02	0.087	0.094	0.64	-	1.03
	+3m	4.25	4.75	4.25	3.83	0.085	0.091	0.63	-	0.97
	+6m	4.25	4.75	3.98	3.63	0.086	0.091	0.64	-	1.00
	+12m	3.75	4.17	3.70	3.45	0.089	0.092	0.67	-	1.04

*Notes: GBP swaps are SONIA, USD swaps are SOFR

Commodities												
	31-Aug	2023				2024				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024	
ICE Brent	87	82	78	80	80	80	80	80	80	80	80	

Source Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Bjørn Tangaa Sillemann, Director.

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