

Weekly Focus

Wait and see mode in central banks

In a week with no big data or central bank surprises, **renewed fears of turmoil in the US banking sector on the back of the free fall of the New York Community Bancorp (NYCB) stock, drove longer dated yields lower as markets largely ignored hawkish Fed comments.** With decent macro data and declining inflation as a solid backbone, equity markets did not suffer any big blows on the back of the NYCB situation.

January inflation data played well into the optimistic market perception that central banks will be able to cut rates aggressively this year. Euro area inflation declined slightly, and core price pressures remained modest for the sixth month in a row. Many annual price adjustments happen in January and thus the modest price increase removes some upside risk to the inflation outlook. With unemployment flat at a record-low 6.4% in December there are no signs of slowing wage pressures, though, and we continue to believe markets are too optimistic on the number of rate cuts this year.

The euro area barely avoided a technical recession with flat GDP growth in Q4 2023. The manufacturing recession is still weighing heavy on the German economy, which shrunk 0.3%, while Southern Europe and particularly Spain got a boost from a strong tourism sector.

Global manufacturing bellwethers like South Korean semiconductor exports and PMIs and Taiwan and ASEAN PMIs ticked in quite strong in January which indicate **the worst of the global manufacturing recession is behind us.** Elsewhere in Asia, Chinese PMIs indicate a continued muddling through scenario with the service sector importantly not falling out of the bed.

Fed remained on hold as widely expected, as Fed chair Powell signalled optimism on inflation but pushed back on a March rate cut. He said that data seen so far has been 'good enough' and that the Fed simply needs to see more similar evidence on disinflation to initiate the cutting cycle. Data were mixed with more job openings in December but higher initial jobless claims. For the third consecutive quarter, productivity growth was reported a lot higher than expected and even if such data is by definition uncertain, it does support cooling inflation.

Also the Bank of England kept (BoE) and the Riksbank kept policies unchanged at their respective policy meetings. The BoE removed its tightening bias but caused little market reaction. We expect both to cut rates for the first time in June.

Next week is thin on the data front. In the US, we will look out for ISM services. December PMIs indicate a rebound here after a relatively weak December. In China, we will likely see another deflation print. It is partly driven by food prices, though, and we still do not see broad-based declines in core prices.

Key global views

- Weak near-term growth outlook in the US and Europe, but recovery from summer 2024.
- US and euro area headline inflation set to decline further, but core inflation to remain sticky.
- The Fed to start cutting rates in March, followed by ECB in June.

Key market movers

- Monday: US ISM services
- Tuesday: Euro area retail sales, Japanese wage data, Reserve Bank of Australia
- Wednesday: German industrial production
- Thursday: Chinese CPI inflation

Selected reading from Danske Bank

Bank of England Review - Removing the tightening bias, 1 February

Research US - Fed review: In a risk management mode, 31 January

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Scandi market movers

- In **Denmark**, we get bankruptcies statistics for January on Wednesday. In H2 2023 bankruptcies stabilized on a higher level, after it increased from very low levels during 2022 and H1 2023. Until now we still see a large share of bankruptcies in companies which had benefited from VAT loans as part of the pandemic support. We expect that the number of bankruptcies continues to be at a high level for now.

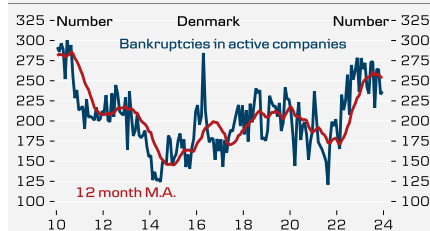
Balance of payments and international trade statistics for December will be published on Thursday. The current account surplus increased over a two-month period from less than DKK 20bn in September to over DKK 30bn in November, primarily due to the contribution from services going from slightly negative to positive. The current account surplus has potential to increase even more during 2024 on the back of the surge in international freight rates. A great share of Denmark's service exports comes from the shipping industry, so historically we have seen that the Danish current account surplus increases with a lag after freight rates have increased.

- In **Sweden**, the week starts off with Services PMI. Last month, it increased to 50.0 – the highest level in 5 months. The NIER economic tendency survey published last week showed a similar trend, with the strongest confidence in the service sector in six months. The subindex for price increases from the supplier level has been gradually decreasing recently after experiencing some recoils disturbing the downward trend. As expected, selling prices remained way too elevated in the service sector. A continuing stabilizing price trend higher up in the production chain could probably ease the upward price pressure ahead. The labour force survey for Q4 2023 will be published on Tuesday. Note that the data to be published cover no periods that have not already been covered and will just give us a comprehensive number for the whole quarter, but either way it might grab some attention in the media.

On Wednesday, the Swedish Debt Office will publish the January budget data. A SEK 35bn deficit is expected. The accumulated difference to date between forecast and actual was a SEK 12bn deficit. Hence, funding has been somewhat higher than expected recently. On Thursday, Svensk Mäklarstatistik will be publishing new price data for the housing market. Lastly, on Friday we will get a bunch of indicators from December in the form of household consumption and supply side factors such as the production value indicator and new orders. NIER's confidence indicator for the manufacturing industry climbed remarkably upwards last week primarily due to fewer firms reporting excessive stocks, and more positive production plans. Given this and the fact that Q3 2023 GDP was heavily dragged down by reduction in inventories, an inevitable refill of inventories should eventually be reflected in these indicators.

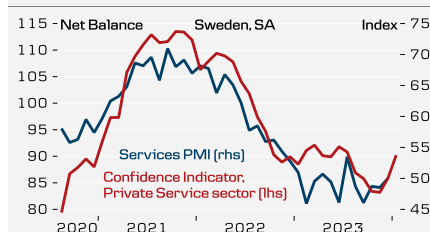
However, the week will probably be characterized by an epilogue of last week's monetary policy meeting from the Riksbank as there is a lot of public activity from them. On Tuesday, Riksbank governor Thedéen will participate in the Riksdag Committee on Finance's annual public meeting with a hearing on financial stability in an uncertain world and how Sweden is unaffected by the situation. On Wednesday, minutes from the Executive Board's monetary policy discussion last week will be published. The minutes will be more interesting than usual, as no new forecasts or monetary report were published last week in order to hear the board members' more detailed opinions on the recent development of the economy in comparison to their forecasts from November. Furthermore, on Wednesday Thedéen and on Thursday Jansson are set to give lectures on Sweden's economic situation and current monetary policy.

Bankruptcies have stabilized on a higher level than previous periods



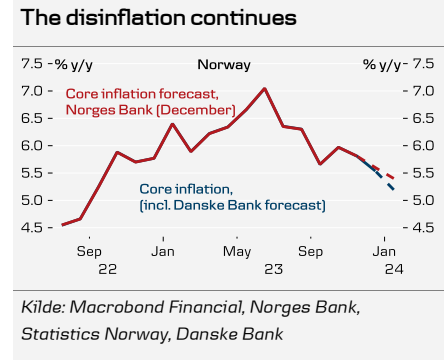
Sources: Macrobond Financial, Statistics Denmark, Danske Bank

Take-off for the service sector?



Source: Macrobond Financial, Swedbank, NIER, Danske Bank

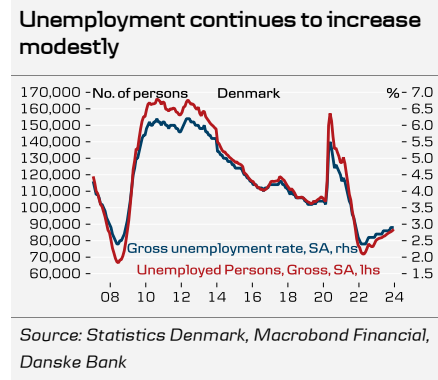
- **Core inflation in Norway** is on the way down, driven by weaker global price impulses and lower capacity utilization in the Norwegian economy. The slight appreciation of the NOK since December will also contribute in the same direction over time. If we add the base effects (high inflation in H1 last year), this will pull the annual growth rates down. We have already seen the grocery sector announce price promotions on food products and the furniture industry cut prices. We therefore believe that core inflation eased to 5.2% in January, with the risk actually slightly on the downside. In that case, it will be somewhat lower than Norges Bank assumed in MPR in December (5.4%), and will perhaps help to keep the market's cut expectations alive.



Scandi update

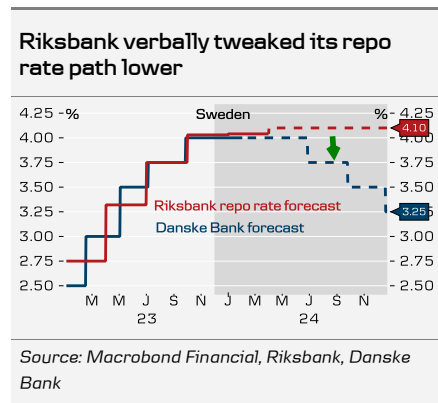
Denmark – Unemployment continues its slow and steady increase

The number of unemployed persons increased by 1,000 in December compared to November. This means that Danish unemployment continues its slow and steady increase. However, this week’s print does not change the fact that the Danish labour market is still tight since unemployment is very low in a historical context and payrolls increased by 3,200 persons in the latest November print, which was the fifth straight month that employment rose.



Sweden – Riksbank placed a neutral message

To put it simple, the message from the Riksbank’s new and first Monetary Policy Update (February) is that the economic outlook remains weak (we don’t agree) and that frontloaded inflation (typically 3m SAAR % rates or similar) has dropped close to the inflation target, making the Riksbank more confident about the inflation progress. This is the backdrop for the Riksbank saying it does not preclude a rate cut in H1 2024, emphasizing that the rate reduction path should be “cautious”. To us this means that the Riksbank is contemplating rate cuts at a slower pace than the +50bps currently priced by the market for H1. Actually, it seems more in line with our own take of a modest pace of cuts starting at the June/July meeting.

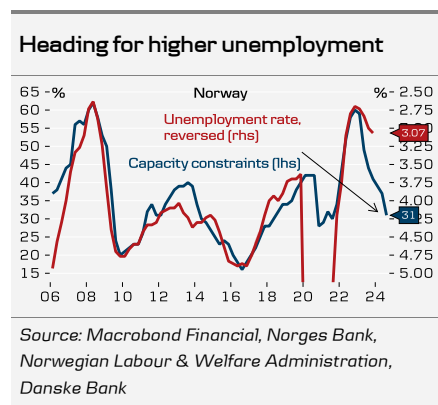


On QT, the Riksbank raised the pace less than we expected, from SEK 5bn per month (nominals SEK 4.2bn and linkers SEK 0.8bn) to SEK 6.5bn, o/w 5.7bn was in nominals (hence no increase in linkers).

All in all, the message was pretty neutral, as it included both dovish and hawkish components.

Norway – More signs of weakness

After mainland GDP fell by 0.2% in November, there have been several weak figures from the Norwegian economy which show that there are no signs of an upswing whatsoever. Retail sales fell 0.4% in December, washing out the moderate upswing in October and November, credit growth to both households and businesses continues to slow, the confidence indicator for the manufacturing sector points to a weak Q1 2024 and production in the construction sector fell in December. Thus, capacity utilization is presumably about to fall further, and the Norwegian economy is already in a mild recession which probably will cause unemployment rates to rise.



Calendar – 5-9 February 2024

Monday, February 5, 2024				Period	Danske Bank	Consensus	Previous
1:30	JPY	Markit PMI services, final	Index	Jan			52.7
2:45	CNY	Caixin PMI service	Index	Jan		53.0	52.9
8:30	SEK	PMI services	Index	Jan			50.0
9:15	ESP	PMI services	Index	Jan		52.1	51.5
9:45	ITL	PMI services	Index	Jan		50.6	49.8
9:50	FRF	PMI services, final	Index	Jan		45.0	45.0
9:55	DEM	PMI services, final	Index	Jan		47.6	47.6
10:00	EUR	PMI composite, final	Index	Jan		47.9	47.9
10:00	EUR	PMI services, final	Index	Jan		48.4	48.4
10:30	EUR	Sentix Investor Confidence	Index	Feb		-15.0	-15.8
10:30	GBP	PMI services, final	Index	Jan		53.8	53.8
11:00	EUR	PPI	m/m/y/y	Dec		-10.5% -0.8%	-8.8% -0.3%
15:45	USD	Markit PMI service, final	Index	Jan			52.9
16:00	USD	ISM non-manufacturing	Index	Jan		52.1	50.5
20:00	USD	Fed's Bostic speaks					
Tuesday, February 6, 2024				Period	Danske Bank	Consensus	Previous
0:30	JPY	Labour cash earnings	y/y	Dec		1.3%	0.7%
4:30	AUD	Reserve Bank of Australia rate decision	%		4.35%	4.35%	4.35%
8:00	DEM	Factory orders	m/m/y/y	Dec		0.1% -5.6%	0.3% -4.4%
10:30	GBP	PMI construction	Index	Jan		47.2	46.8
11:00	EUR	Retail sales	m/m/y/y	Dec		-1.0% -1.0%	-0.3% -1.1%
18:00	USD	Fed's Mester speaks					
19:00	USD	Fed's Kashkari speaks					
Wednesday, February 7, 2024				Period	Danske Bank	Consensus	Previous
-	CNY	Foreign exchange reserves	USD bn	Jan		3218.5	3238.0
-	PLN	Polish central bank rate decision	%		5.75%	5.75%	5.75%
1:00	USD	Fed's Harker speaks					
6:00	JPY	Leading economic index, preliminary	Index	Dec		109.4	107.6
7:45	CHF	Unemployment	%	Jan		2.2%	2.2%
8:00	SEK	Budget balance	SEK bn	Jan			-100.3
8:00	NOK	Manufacturing production	m/m/y/y	Dec			-0.3% -0.6%
8:00	NOK	Industrial production	m/m/y/y	Dec			2.4% -6.2%
8:00	DEM	Industrial production	m/m/y/y	Dec		0.0% -2.2%	-0.7% -4.8%
8:00	DKK	Industrial production	m/m	Dec			9.9%
9:00	CHF	Foreign Currency Reserves	CHF bn	Jan			653.7
14:30	USD	Trade balance	USD bn	Dec		-62.3	-63.2
16:30	USD	DOE U.S. crude oil inventories	K				1234
18:30	USD	Fed's Barkin speaks					
20:00	USD	Fed's Bowman speaks					
21:00	USD	Consumer credit	USD bn	Dec		16.5	23.8
Thursday, February 8, 2024				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Jan			-0.3
2:30	CNY	CPI	y/y	Jan		-0.5%	-0.3%
2:30	CNY	PPI	y/y	Jan		-2.6%	-2.7%
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	DKK	Current account (nsa sa)	DKK bn	Dec			_ 30.5
8:00	DKK	Trade balance ex ships	DKK bn	Dec			7.4
8:00	DKK	Exports	m/m	Dec			740.0%
10:00	EUR	ECB Publishes Economic Bulletin					
14:30	USD	Initial jobless claims	1000				224
18:05	USD	Fed's Barkin speaks					
Friday, February 9, 2024				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Jan		9.2%	9.7%
8:00	SEK	Industrial orders	m/m/y/y	Dec			0.5% 1.0%
8:00	SEK	Private Sector Production	m/m/y/y	Dec			-0.3% -1.2%
8:00	SEK	Household consumption	m/m/y/y	Dec			-0.5% 0.1%
8:00	NOK	CPI	m/m/y/y	Jan		_ 4.8%	0.1% 4.8%
8:00	NOK	PPI	m/m/y/y	Jan			-7.4% -25.6%
8:00	DEM	HICP, final	m/m/y/y	Jan		-0.2% 3.1%	-0.2% 3.1%
8:00	NOK	Core inflation (CPI-ATE)	m/m/y/y	Jan	-0.1% 5.2%	_ 5.3%	0.2% 5.5%
14:30	CAD	Net change in full time employment	1000	Jan			-23.5

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 ²	Public budget ³	Public debt ³	Current acc. ³
Denmark	2023	1.1	1.0	1.2	-4.6	10.3	8.7	3.3	4.1	2.8	2.0	29.7	10.5
	2024	1.0	1.8	2.0	-0.4	3.6	5.4	2.0	5.7	3.1	1.0	27.9	11.5
	2025	1.6	1.7	1.6	2.2	1.6	1.8	1.9	3.6	3.3	0.7	26.5	11.5
Sweden	2023	-0.2	-1.7	2.3	-1.0	2.6	0.7	8.5	4.0	7.7	-0.4	29.0	4.7
	2024	1.3	1.1	0.9	1.3	2.9	2.9	2.3	3.3	8.2	-0.8	29.0	4.8
	2025	1.8	2.0	1.5	2.3	3.2	3.6	1.0	2.5	8.0	-0.8	29.0	4.6
Norway	2023	1.1	-1.0	2.0	0.5	4.0	3.0	5.5	5.4	1.8	-	-	-
	2024	1.1	1.2	1.3	4.0	2.0	1.8	3.0	4.4	2.3	-	-	-
	2025	2.1	2.5	1.6	4.0	2.0	1.8	2.0	3.5	2.5	-	-	-

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 ²	Public budget ³	Public debt ³	Current acc. ³
Euro area	2023	0.5	0.4	0.0	0.9	0.2	-0.3	5.4	5.6	6.5	-3.2	90.6	2.5
	2024	0.5	0.6	0.7	0.6	1.7	2.0	2.4	4.6	6.8	-3.0	89.9	2.0
	2025	1.2	1.1	0.8	1.5	2.7	2.6	2.1	3.7	7.1	-2.8	88.8	2.4
Finland	2023	-0.5	-0.5	3.0	-5.5	-0.5	-4.5	6.3	4.0	7.2	-2.8	73.8	-0.7
	2024	0.3	0.5	0.2	0.0	1.0	1.5	1.9	3.4	7.8	-3.0	75.3	-0.3
	2025	1.9	1.2	0.2	4.0	3.0	2.0	1.5	2.5	7.2	-2.7	75.4	0.0

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 ²	Public budget ³	Public debt ³	Current acc. ³
USA	2023	2.5	2.2	4.0	0.5	2.7	-1.7	4.1	4.3	3.6	-5.8	124.6	-3.0
	2024	1.1	0.2	3.3	3.1	-1.7	0.4	2.5	3.2	4.4	-5.8	126.8	-2.8
	2025	1.6	0.7	2.0	5.4	3.8	4.2	2.5	2.5	4.4	-5.8	128.6	-2.6
China	2023	5.4	6.6	-	4.6	-	-	0.5	-	5.3	-7.5	83.0	1.5
	2024	4.5	5.5	-	3.8	-	-	1.0	-	5.2	-7.2	87.4	1.4
	2025	4.5	5.5	-	3.8	-	-	1.5	-	5.2	-7.0	91.8	1.1
UK	2023	0.5	-	-	-	-	-	7.4	-	4.2	-	-	-
	2024	0.0	-	-	-	-	-	2.8	-	4.6	-	-	-
	2025	1.0	-	-	-	-	-	1.9	-	4.9	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % of labour force. 3) % 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-Feb	5.50	-	4.04	3.54	0.92	-	6.88	10.46	10.43
	+3m	5.25	-	4.08	3.81	0.92	-	6.84	10.55	10.46
	+6m	5.00	-	3.88	3.85	0.93	-	6.96	11.03	10.84
	+12m	4.50	-	3.70	3.85	0.95	-	7.10	11.24	11.05
EUR	01-Feb	4.00	3.85	2.88	2.57	-	1.08	7.4542	11.33	11.30
	+3m	4.00	3.78	2.98	2.70	-	1.09	7.4550	11.50	11.40
	+6m	3.75	3.58	2.84	2.70	-	1.07	7.4500	11.80	11.60
	+12m	3.25	3.15	2.55	2.70	-	1.05	7.4500	11.80	11.60
JPY	01-Feb	-0.10	-	-	-	0.006	0.007	4.71	7.16	7.13
	+3m	0.00	-	-	-	0.007	0.007	4.85	7.48	7.42
	+6m	0.00	-	-	-	0.007	0.007	5.05	7.99	7.86
	+12m	0.00	-	-	-	0.007	0.007	5.26	8.32	8.18
GBP*	01-Feb	5.25	-	4.22	3.58	1.17	1.08	8.73	13.28	13.24
	+3m	5.25	-	4.18	3.65	1.14	1.24	8.47	13.07	12.95
	+6m	5.00	-	3.98	3.65	1.12	1.20	8.37	13.26	13.03
	+12m	4.50	-	3.75	3.65	1.12	1.18	8.37	13.26	13.03
CHF	01-Feb	1.75	-	-	-	1.07	1.16	8.00	12.16	12.12
	+3m	1.75	-	-	-	1.06	1.16	7.93	12.23	12.13
	+6m	1.50	-	-	-	1.08	1.15	8.01	12.69	12.47
	+12m	1.00	-	-	-	1.08	1.13	8.01	12.69	12.47
DKK	01-Feb	3.60	3.85	3.02	2.74	0.134	0.145	-	1.52	1.52
	+3m	3.60	3.73	3.14	2.85	0.134	0.146	-	1.54	1.53
	+6m	3.35	3.47	2.98	2.85	0.134	0.144	-	1.58	1.56
	+12m	2.85	3.00	2.70	2.85	0.134	0.141	-	1.58	1.56
SEK	01-Feb	4.00	4.09	2.97	2.53	0.089	0.096	0.66	1.00	-
	+3m	4.00	4.05	2.68	2.71	0.088	0.096	0.65	1.01	-
	+6m	3.75	3.78	2.49	2.76	0.086	0.092	0.64	1.02	-
	+12m	3.25	3.30	2.50	2.90	0.086	0.091	0.64	1.02	-
NOK	01-Feb	4.50	4.70	4.15	3.57	0.088	0.096	0.66	-	1.00
	+3m	4.50	4.62	3.77	3.65	0.087	0.095	0.65	-	0.99
	+6m	4.25	4.20	3.59	3.65	0.085	0.091	0.63	-	0.98
	+12m	3.25	3.50	3.40	3.65	0.085	0.089	0.63	-	0.98

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

Commodities

	01-Feb	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	79	82	78	86	83	80	80	80	80	82	80

Source Danske Bank

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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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