2 March 2018

Weekly Focus

ECB set to remove easing bias

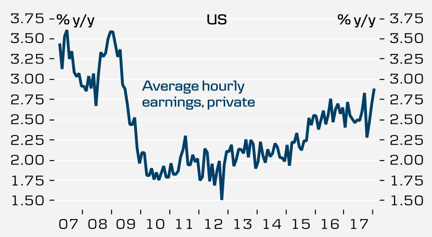
Market movers ahead

- In the **US**, the most important release is the jobs report for February, with most focus on average hourly earnings (AHE), where another strong monthly print would be likely to add to the reflation story.
- In the **euro area,** we await 'Super EU politics Sunday', with the Italian Parliamentary election being held and the results of the German SPD's member vote on the coalition with CDU/CSU due to be released on Sunday.
- The other big event is the March ECB meeting, which is scheduled for Thursday, when we expect the ECB to change its forward guidance, removing its easing bias.
- In the **UK**, focus remains on Brexit, as we approach the important EU summit on 22-23 March, where the ambition is to reach an agreement on transition.
- In **Japan**, the main event next week is the Bank of Japan's monetary policy meeting ending on Friday, where we expect it to keep its 'QQE with yield curve control' policy unchanged.

Global macro and market themes

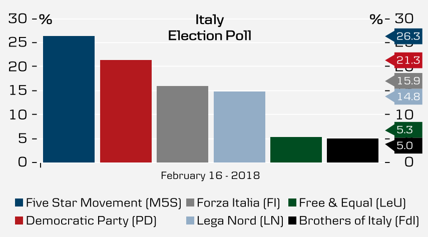
- Inflation has been a key market driver this year and the balance of risks to our inflation forecasts is on the upside given the US fiscal stimulus and closing global output gaps.
- Jerome Powell said the outlook for the US economy has strengthened —we still expect three Fed hikes this year but see the possibility of the Fed raising its 'dots' to three hikes for 2019 at its next meeting.
- The ECB is set to remove some of its QE bias next week.
- We remain positive on equities but see the US inflation outperformance as negative for the USD.

Average hourly earnings are moving gradually higher



Source: BLS, Macrobond Financial

Italy: polls point to hung parliament



Source: Macrobond Financial, Danske Bank

Contents

Financial views

Major indices

	02-Mar	3M	12M
10yr EUR swap	1.09	1.30	1.65
EUR/USD	122	123	128
ICE Brent oil	64	62	64

Source: Danske Bank

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Market movers

Global

- In the **US**, the most important release is the jobs report for February with most focus on average hourly earnings (AHE), as employment growth remains solid and there are no signs that this trend has discontinued. The monthly increase in AHE was strong in both December and January so we think there is a likelihood that it disappointed in February, as the series is quite volatile. We estimate AHE rose 0.2% m/m in February, implying a decline in the annual growth rate from 2.9% y/y to 2.8%. If we are wrong and it is another strong monthly print, it would be likely to add to the reflation story, which has been a major market theme this year.

  We will also listen carefully to the upcoming speeches from Fed members next week. William Dudley's two speeches are likely to be the most important given his seniority. This week Fed Chair Jerome Powell said his 'personal outlook has strengthened' (see *Flash Comment US: Powell says 'personal outlook has strengthened'*, 27 February) but does that mean the Fed is ready to signal four hikes at the meeting later this month? It is not our base case at the moment but something we have to keep an eye on.

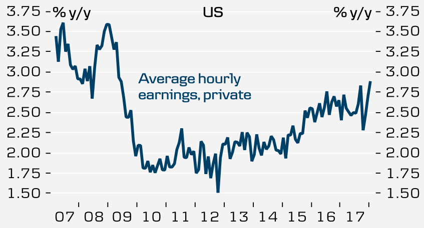
- In the **euro area,** we await 'Super EU politics Sunday'. First, the Italian Parliamentary election is due to be be held on Sunday. Polls have continued to point to a hung parliament. We believe the most likely outcome will be a grand coalition (FI & PD), which will mean moderately higher fiscal spending entailing rising debt level in the medium term (See *Italian Election Monitor – The good, the bad and the ugly scenarios for Italy,* 25 February*)*. Second, the results of the SPD's member vote on the coalition with CDU/CSU will be released. Our base scenario is a close and reluctant 'yes' from the SPD members, as a 'no' would be likely to result in a new federal election where the SPD would lose out. Still, we emphasise that the vote is likely to be close, as the SPD party base has generally been opposed to another grand coalition and has experienced turmoil in the party leading up to the vote.

  The March ECB meeting is due to be held on Thursday. We do not expect any changes to the policy rates at this time and find it unlikely that the ECB will outline a decision on extension/termination of the QE programme before June. However, we believe it will make changes to the forward guidance in March. Specifically, we are looking for the ECB to have removed the easing bias in the forward guidance, meaning it will drop the paragraph about increasing the APP in size and/or duration if economic conditions turn less favourable.

- In the **UK**, focus remains on Brexit, as we are approaching the important EU summit on 22-23 March, where the ambition is to reach an agreement on transition. Currently, the Northern Ireland issue has risen from the dead. It remains our base case that the two sides can reach an agreement on transition but we are likely to see more headlines and stories about the difficulties ahead of the meeting.

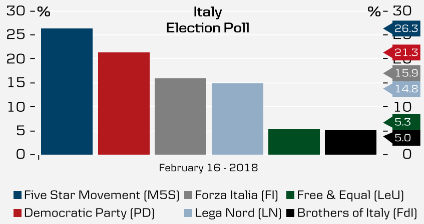
  With respect to data releases, the most important release is the PMI service index due out on Monday. Both the service confidence indicator from the EU and the Lloyds Business Barometer signal an increase. We estimate the index rose to 53.8 from 53.0. Despite an increase, it does not alter the picture that UK growth remains moderate.

Average hourly earnings are moving gradually higher



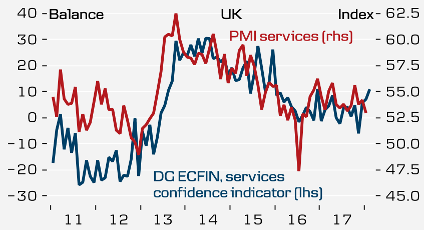
Source: BLS, Macrobond Financial

Italy: polls point to hung parliament



Source: Macrobond Financial, Danske Bank

Higher service confidence suggests higher PMI services

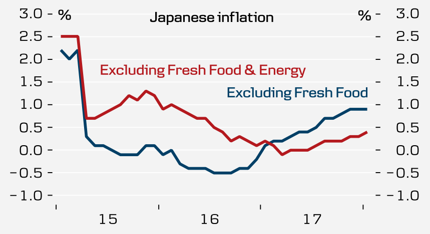


Source: IHS Markit, DG ECFIN, Macrobond Financial

- In **Japan**, the main event next week will be the Bank of Japan's (BoJ) monetary policy meeting ending on Friday. We expect the BoJ to keep its 'QQE with yield curve control' policy unchanged. Governor Haruhiko Kuroda has repeatedly stated his commitment to the current policy framework, which he also reiterated at a hearing in parliament on Monday. Recently, we have seen inflation stall at low levels and private demand remains weak as annual real wage increases are close to zero. Thus, growth in Japan is still driven primarily by the strong global economic recovery. With the recent yen appreciation in mind, which hampers Japanese competitiveness and induces deflationary pressure through falling import prices, any tightening discussions in the BoJ should be off the table for now. We do not expect any policy changes this year.

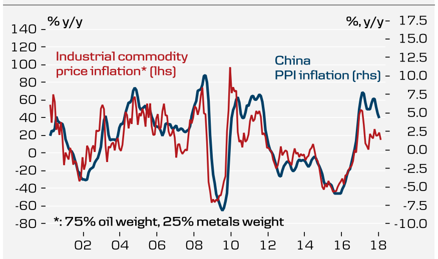
- Key movers in **China** next week will be FX reserves, trade balance and inflation. We look for FX reserves (Wednesday) to be broadly flat around the level in January of USD3.16trn. Trade data (Thursday) is likely to be distorted by the Chinese New Year and should be taken with a grain of salt. Chinese inflation numbers (Friday) is likely to show a further drop in PPI inflation to 4.0% y/y from 4.3% y/y in January. It is driven mostly by industrial commodity prices, where inflation has come down slightly (see chart to the right). CPI inflation is set to rise above 2% y/y from 1.5% y/y but this is related in part to higher prices around the Chinese New Year in February. Focus will also be on the National People's Congress, which is due to start on Monday and typically lasts for 10-14 days. It is likely to approve the proposal from the Central Committee of the Communist Party to remove the two-term limit for the President and Vice-President, paving the way for Xi Jinping to stay in power beyond 2023 (see *Research: Xi Jinping set to secrure reform path*, 26 February 2018).

Underlying price pressure still very low



Source: Japanese Cabinet Office, Macrobond Financial

China: PPI to fall a bit further in February on lower commodity inflation



Source: Macrobond Financial, Danske Bank

Scandi

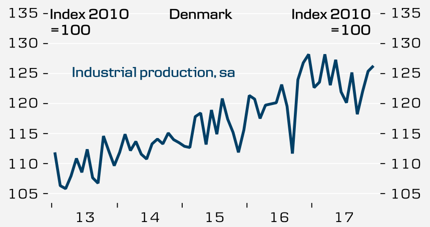
- In **Denmark**, Wednesday brings industrial production data for January. This measure was highly volatile last year, with big swings from month to month. The overall trend, however, was down although there was a rise in production towards the end of the year, and it will be interesting to see whether this has continued into 2018. Statistics Denmark will also release December housing prices the same day, while February bankruptcies and repossessions are due out on Tuesday.

- The week in **Sweden** kicks off with services PMI (Monday) for February, with a previous reading of 61.3. Its manufacturing counterpart released on Thursday recovered a little but both PMIs seem to be off peak though still at historically relatively elevated levels.

  Later in the week (Thursday), business production indicators (industry and services) for January are due out, the first hard data for the start of this year. Due to considerable volatility in the data, we refrain from trying to come up with an estimate.

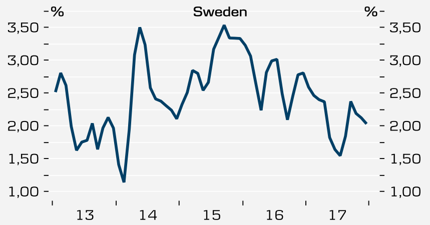
  Also, Friday SCB reports average house prices and household consumption. Note that the former covers only single-family houses while market stress over the past half year has concerned owner-occupied flats. As far as the consumption indicator is concerned, it is a broader measure than retail sales. However, as the retail sales numbers for January were modest (and below expectations) we will probably see relatively soft figures coming out.at 3.0% y/y.

Industrial production highly volatile from month to month



Source: Statistics Denmark

Household consumption indicator



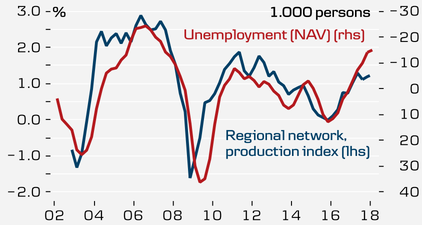
Source: Macrobond Financial, Danske Bank

- A busy week is in store in **Norway**. While February housing prices will probably grab the headlines, we reckon the main event will be the results of Norges Bank's regional network survey. Economic growth appears to have accelerated since the previous round in November. Leading manufacturing indicators are at their highest since before the oil crisis – indeed, the PMI is at its highest for more than a decade. Strong global growth and a relatively weak krone are helping exporters, while higher oil prices are giving oil-related industries a boost and the oil investment survey is now suggesting an increase of around 7% this year. This is also likely to lift activity in many other sectors that supply services to manufacturing – everything from engineering and IT services to recruitment agencies. Higher real wage growth, lower unemployment and reduced housing market risk have also pushed up growth in private consumption, which suggests a brighter outlook for both retail and consumer services. On the other hand, construction orders are now growing somewhat more slowly. Although there is still solid growth in the sector, this means that the regional network's construction index will fall from high levels and, in isolation, pull down the aggregated index. We therefore expect the aggregated output index to rise to 1.4 and believe that the risk to this forecast is balanced, with upside risk from manufacturing and downside risk from construction. However, the decrease in unemployment at the beginning of the year could indicate a slight bias to the upside, as shown in the chart. If we are right, the index will point to quarterly GDP growth of around 0.7% going forward, which is slightly higher than Norges Bank assumed in the December monetary policy report.

  We reckon that housing prices are very close to bottoming out. The number of properties on the market is on its way down, and turnover is rising relatively quickly. This means that the stock-to-sales ratio levelled off in September and has now begun to fall. Historically, this has proved a good indicator of turning points in prices as well. We therefore expect housing prices to climb 0.2% m/m in February. While this does not by any means signify that the danger is over, it does at least suggest that the risk of a serious crash is fading further. Financial markets have had a real focus on the Norwegian and Swedish housing markets since the autumn, so signs of stabilisation in Norway may well be received very positively.

  Finally, the week brings inflation figures for February. There was a surprise fall in core inflation to 1.1% y/y in January, but closer analysis reveals that almost all of this was due to an increase in various duties not yet having passed through to prices. When Statistics Norway adjusts for increases in duties, it assumes full pass-through from day 1, but it takes much longer in practice. The surprise fall was not therefore the result of a decrease in underlying inflationary pressures. Quite the opposite: the krone's depreciation last year boosted import prices through to the autumn, while higher wage growth means that domestic inflation is set to stabilise or rise moderately. We therefore expect core inflation to climb back to 1.4% y/y in February.

Growth set to accelerate further



Source: Macrobond Financial, Danske Bank

Market movers ahead

Global movers				Event		Period	Danske	Consensus	Previous
During the week		Sun 04	ITL	Italian Parliamentary election					
		Sun 04	DEM	SPD vote on coalition with CDU/CSU					
		-	CNY	National Peoples Congress					
Mon	05-Mar	-	CNY	National Peoples Congress					
		10:30	GBP	PMI services	Index	Feb	**53.8**	*53.2*	53.0
Wed	07-Mar	-	CNY	Foreign exchange reserves	USD bn	Feb		*3150.0*	3161.5
Thurs	08-Mar	-	CNY	Trade balance	USD bn	Feb		*-8.5*	20.4
		13:45	EUR	ECB announces refi rate	%		**0.00%**		0.00%
		13:45	EUR	ECB announces deposit rate	%		**-0.40%**		-0.40%
		14:30	EUR	ECB's Draghi speaks at press conference					
Fri	09-Mar	-	JPY	BoJ policy rate	%		**-0.1%**		-0.1%
		-	JPY	BoJ monetary policy announcement					
		2:30	CNY	PPI	y/y	Feb	**4.0%**	*3.8%*	4.3%
		2:30	CNY	CPI	y/y	Feb		*2.4%*	1.5%
		14:30	USD	Unemployment	%	Feb	**4.1%**	*4.0%*	4.1%
		14:30	USD	Average hourly earnings, non-farm	m/m|y/y	Feb	**0.2%|2.8%**	*0.3%|2.9%*	0.3%|2.9%
Scandi movers									
Mon	05-Mar	8:30	SEK	PMI services	Index	Feb			61.3
		11:00	NOK	Housing prices	m/m	Feb	**0.2%**		
Tue	06-Mar	9:30	SEK	Industrial production s.a.	y/y	Jan			
		10:00	NOK	Norges Bank Regional Network Report: Output next	Index	Feb	**1.4**		1.2
Wed	07-Mar	9:30	SEK	Budget balance	SEK bn	Feb			0
Thurs	08-Mar	8:00	NOK	Manufacturing production	m/m|y/y	Jan			1.3%|3.4%
Fri	09-Mar	8:00	NOK	Core inflation (CPI-ATE)	m/m|y/y	Feb	**0.8%|1.4%**	*0.7%|1.3%*	-0.8%|1.1%
		9:30	SEK	Average house prices	SEK m	Feb			3.195

Source: Bloomberg, Danske Bank

Global Macro and Market Themes

The great inflation battle and what it means to markets

US stimulus and closing output gaps pose upside risks to global inflation…

Since the financial crisis, policymakers in developed economies have fought a frantic fight first against deflation and then later in getting inflation back to central bank targets. There are now signs that the inflation tide is finally turning. Since June 2017, markets have been pricing higher inflation, supported by rising global growth expectations. In the US, the approval of the tax reform in December and budget deal early this year have prompted a further rise in inflation expectations.

Given the significant market focus, we have this week published a series of documents on the global and Scandi inflation outlooks and the implications for FX and fixed income markets (see the documents in our *Research Library* – find the links under *Inflation series documents* later in this document). Looking at different factors such as fiscal and monetary policies, output gaps, oil prices and China/emerging market factors, we believe the balance of risks to global inflation relative to our forecasts and market expectations is on the upside particularly in 2019.

The significant US fiscal boost at a time when output gaps are closing poses upside risks to global inflation, as we do not expect central banks to offset this by tightening monetary policy aggressively. Moreover, risks to oil prices are skewed on the upside, which could have a significant impact on inflation. On the other hand, we see the reflationary force from China easing in 2018 and we expect emerging market inflation to remain modest.

…prompting central banks to move on with policy normalisation

This week saw the new Fed Chair Jerome Powell making his first official appearances in his new role, addressing the US Congress on Tuesday and Thursday. While he appeared slightly hawkish on Tuesday, pointing out that his personal view on the US economy had strengthened and using the words 'overheated economy' to describe the Fed's dilemma, he appeared more dovish on Thursday, toning down the risk of an overheating US economy and pointing to there still being some slack in the US labour market and limited pickup in wage growth.

Upside risks to our inflation forecasts

	2018	2019
Output gap	↗	↗
Fiscal policy	↗	↗
Monetary policy	→	→
Oil prices	↗	↗
China factors	↘	→
EM ex. China factors	→	→↗
Total	→↗	↗

Source: Danske Bank

Market pricing is below even our conservative base-case scenario

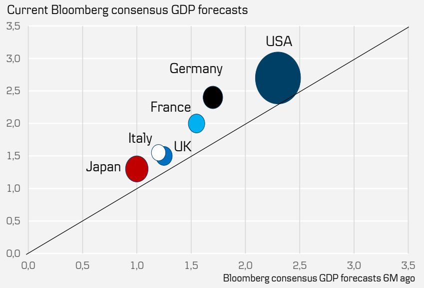
DB CPI forecasts , market pricing in bracket	2017	2018	2019
US CPI	2,2	2.5 (2.4)	2.1 (2.0)
Euro area HICP	1,5	1.4 (1.3)	1.3 (1.3)
UK CPI	2,6	2,2	1,8
Japan Core CPI	0,4	0,6	1,0
China CPI	2,0	2,3	2,3

Source: Danske Bank

Today's key points

- Inflation has been a key market driver this year.
- The balance of risks to our inflation forecasts is on the upside given the US fiscal stimulus and closing global output gaps.
- Jerome Powell said the outlook for the US economy has strengthened —we still expect three Fed hikes this year but see the possibility of the Fed raising its 'dots' to three hikes for 2019 at its next meeting.
- The ECB is set to remove some of its QE bias next week.
- We remain positive on equities.
- US inflation outperformance will be negative for the USD.

Global growth expectations have risen sharply



Note: The size of the circles reflects the size of the economies measured in USDbn
Source: Bloomberg, Danske Bank

We believe that the Fed will stick to its ‘three hikes’ signal for 2018 at the upcoming meeting in March (but with greater conviction, as those members who indicate two or less hikes move to three), with the signal for 2019 raised to three hikes (see also *Flash Comment US – Powell says ‘personal outlook has strengthened’*, 27 February).

In the coming week, it is the ECB’s turn to take a little step towards policy normalisation. We believe there are a good deal of diverging views within the ECB that a delicate compromise between the doves (led by Draghi and Peter Praet) and the hawks (led by Jens Weidmann and Benoît Coeuré) needs to be found. We expect the ECB to remove the QE bias from its forward guidance relating to the statement ‘we stand ready to increase the asset purchase programme in terms of size and/or duration if the outlook turns less favourable’ (see *ECB Preview – Striking a compromise*, 2 March). Nevertheless, we expect Draghi to adopt a relatively dovish tone by inferring that the removal of that specific QE bias would be natural given the overall better shape of the economy.

This morning, Bank of Japan governor Haruhiko Kuroda also hinted at an exit from its accommodative monetary policy in fiscal year 2019 (which starts in April 2019), as he sees the chances of hitting the 2% target as high. He also stressed that there could be a policy change before the 2% target is achieved.

Misaligned rates and inflation markets in euro area

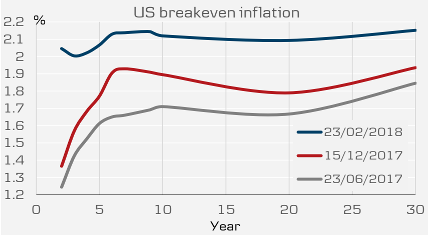
EUR nominal rates and inflation markets still disagree on the ECB reaching its ‘close to but below 2%’ inflation target and eventually hiking rates. Currently, the market is pricing euro inflation at 1.3% on average in 2019, i.e. well below 2%. Meanwhile, the market expects the first ECB 10bp deposit rate hike to materialise in early spring 2019, while it expects the 1M Eonia swap to trade above 0% in early 2020.

In our view, the current misalignment between front-end market-based EUR nominal rates and euro inflation expectations is inconsistent. Despite opposing factors potentially maintaining the current inconsistence temporarily, we believe that either market-based EUR nominal rates or euro HICP inflation expectations will eventually have to give, leading to lower EUR real rates at the front-end. Following the ECB meeting on Thursday, when we expect Draghi to take a relatively dovish stance, despite the removal of QE flexibility, we do not expect a sell-off in Bunds on the back of the ECB meeting and expect the ongoing performance in the periphery to continue.

Still positive outlook for equities

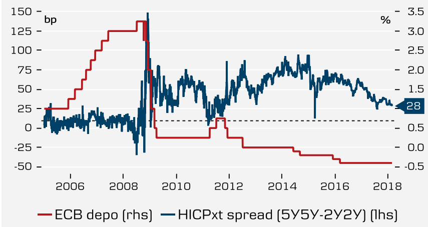
In a scenario where inflation still rises gradually, we stick to our positive view for equities. With inflation below or close to the central bank’s target, real yields are very low and hence equities find support in low financing cost for companies while their earnings grow with higher inflation. As long as economic growth remains solid and inflation rises slowly from current levels, equities will, in our view, be superior to bonds. We also think that such an environment will support capex from companies and the cyclical sectors, such as industrials, technology and financials. Should inflation gain more momentum, this tends to favour energy and materials, while sectors that resemble fixed income, such as utilities and telecom, will suffer.

US breakeven inflation has risen sharply since mid-December 2017



Source: Bloomberg, Danske Bank

ECB has previously hiked only when 2Y2Y vs 5Y5Y market-based inflation spread was around 10bp

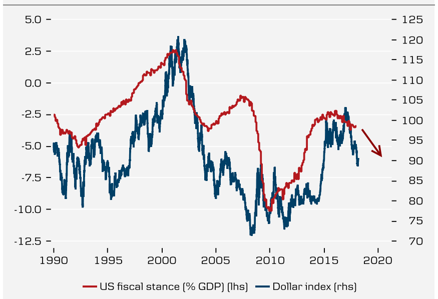


Source: Bloomberg, ECB, Macrobond Financial, Danske Bank

US inflation outperformance will mean continued USD weakness

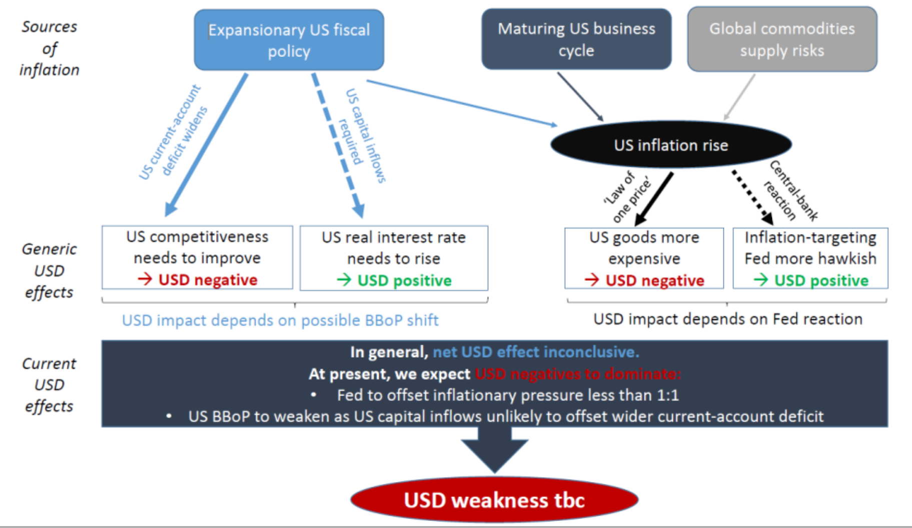
What about FX? How will FX markets be affected by the global reflation? Well we see the case for a weaker USD (see *Part 5: FX and inflation - US inflation outperformance + comfy Fed = weaker USD*, 2 March.). First, the fiscal easing, which partly explains the higher US inflation and GDP growth projections, tends to be negative for USD given the worsening of the US current account balances associated, with a weaker fiscal balance more than outweighing the impact of the possible higher rates in the US as the Fed will not offset the inflationary pressures one to one. Furthermore, we expect the relatively higher inflation in the US over a period of time to lead to a weaker USD due to the 'law of one price' (PPP). As a result, our FX medium-term valuation model gives an 'inflation-divergence-corrected' EUR/USD estimate of 1.30, although we still see the cross headed for 1.28 in 12M. In our opinion, clients with USD income/assets should keep high hedge ratios and use longer dated forwards and/or options for hedging; we stay long EUR/USD via options.

USD tends to weaken as US fiscal stance deteriorates



Source: CBO, Macrobond Financial. Danske Bank

Illustration: causes and effects of a US inflation pickup on USD



Source: Danske Bank

Inflation series documents

- *Part 1: Global Inflation - US stimulus and closing output gaps pose upside risk*, 26 February.
- *Part 2: Eurozone Inflation - Upside risks from oil prices and rising wage pressures*, 27 February.
- *Part 3: Scandi Inflation. The diverging Phillips curves in Norway and Sweden*, 28 February.
- *Part 4: EUR Fixed Income 6 Misaligned rates and inflation markets*, 1 March.
- *Part 5: FX and inflation - US inflation outperformance + comfy Fed = weaker USD*, 2 March.

Financial views

Asset class	Main factors
Equities	
Positive on 3-12 month horizon.	Strong business cycle and near double digit earnings growth in most major regions. Low rates and bond yields drive demand for risk assets.
Bond market	
German/Scandi yields – in recent range for now, higher in 12M	Inflation set to stay subdued despite decent growth. Stronger euro keeps euro inflation outlook down. ECB to normalise gradually only, due to lack of wage pressure and stronger euro. ECB on hold for a long time. But risk has risen that the ECB will start to sound more confident/hawkish.
EU curve – 2Y10Y modestly steeper; 5Y10Y and 10y30 flatter. US curve - 2Y10Y steepening set to be to continued.	The ECB keeps a tight leash on the short end of the curve. But the 5y point has become the pivotal point now. Further flattening of the curve 10y30y. A mirror of the US curve dynamics.
US-euro spread - set to widen marginally	The Fed's QT programme (balance sheet reduction) is set to happen at a very gradual pace and the effect on the Treasury market should be benign. Yet, market pricing for Fed hikes is still dovish for 2020 and Fiscal policy seems more expansionary than previously expected and yields should move higher on a 12M horizon.
Peripheral spreads – tightening but still some factors to watch	We expect economic recovery, ECB stimuli, better fundamentals, particularly in Portugal and Spain, an improved political picture and rating upgrades to lead to further tightening despite the recent strong moves. Italy is the big risk factor but it is very expensive to be short Italian bonds.
FX	
EUR/USD – consolidation for now but upside risks still dominate	Any dip in EUR/USD near term set to prove shallow and shortlived; cross supported longer term by valuation and capital-flow reversal.
EUR/GBP – gradually lower over the medium term on BoE and Brexit	High expectations of BoE rate hike in May and Brexit to underpin EUR/GBP near term, Longer term, GBP should strengthen on Brexit clarifications and BoE rate hikes.
USD/JPY – lower short term	Expect JPY to strenghten in coming months on the back of portfolio flows into Japan ahead of Fiscal Year end, stretched JPY positioning and fragile risk markets.
EUR/SEK – risk to the topside on housing market, inflation and RB	We remain negative on the SEK on the back of lower growth, weak inflation outlook and too aggressive RB pricing.. Eventually EUR/SEK lower but not a H1 story.
EUR/NOK – set to move lower	We remain positive on NOK on valuation, relative growth, positoning, terms-of-trade, relative rates and the global outlook.
Commodities	
Oil price - starting to correct lower again	June review weakens impact of extension of OPEC+ output cuts. Geopolitical tensions around Saudi Arabia and Iran looming. Support from falling USD.

Source: Danske Bank

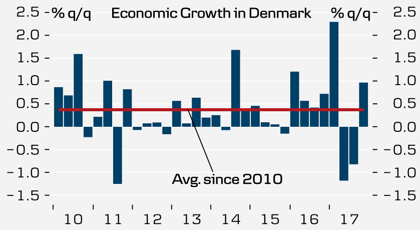
Scandi Update

Denmark – strong growth in Q4

Output climbed 1.0% in Q4, according to the latest figures from Statistics Denmark, which is more than suggested by its GDP indicator a fortnight ago. Growth in 2017 as a whole ended up at no less than 2.1%, the highest since 2006, but this was due partly to a large one-off patent payment from abroad in Q1. Allowing for this, growth was a more modest 1.7%, which has to be seen as slightly disappointing. Given the strong job growth we are still seeing in Denmark, and a European economy with fire in its belly still, the Danish economy should be moving faster and the figures do point in that direction. This is despite the prospect of Europe running into headwinds from a weaker dollar, and slower growth in Sweden cannot fail to have an impact on the Danish economy either.

The week also brought business confidence data for February. The indicators were generally healthy, with stronger sentiment in manufacturing and services, the latter indicator hitting its highest level since the statistics began in 2011. In addition, fewer firms reported problems sourcing labour with the right skills in February. This is good news, as it will help allay fears of bottlenecks in the labour market.

Big swings in GDP growth in 2017

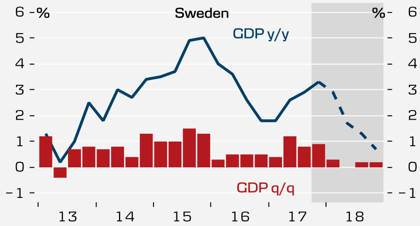


Source: Statistics Denmark

Sweden – GDP Q4 marked the peak in this cycle

Sweden ended last year on a positive tone, with Q4 GDP rising 0.9% q/q and by 3.3% y/y (w.d.a.). Sweden is of course benefiting from the ongoing global recovery (net exports added 0.6 percentage points to GDP) and consumer spending remains moderately positive backed by rising real disposable income. What was a little surprising was that business capital expenditures backed down somewhat on a consecutive basis. We do not have any obvious explanation for that, so we just have to wait and see how investments unfold going forward. Still, our feeling is that Q4 might have been the peak of this cycle. Housing investments have been a main growth driver for the past few years but this is obviously coming to an end. Housing construction admittedly increased a little further in Q4 but only very modestly. In the meantime, building permits have slumped recently and a new special study made by the NIER on behalf of Stockholm's Chamber of Commerce among construction companies says that the business is seeing fewer orders and expects a clearly lower activity level in the Stockholm area going forward. GDP rose by 2.4% last year and this year Danske Bank forecasts 1.7%.

GDP Q4 market the peak in this cycle

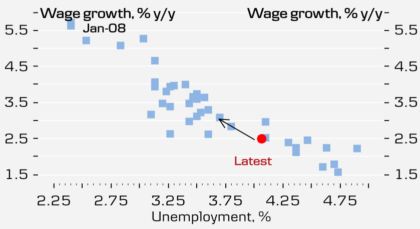


Source: Riksbank, Danske Bank

Norway – wage growth on the up

Both the Technical Calculation Committee for Wage Settlements (TBU) report and the quarterly wage statistics showed wage growth of around 2.5% in 2017, up from 1.7% in 2016 and also marginally higher than estimated previously. This is still very moderate though and far from being enough to push inflation up towards the 2.5% target. Its acceleration does, however, confirm the relationship between unemployment and wage growth known as the Phillips curve. This means that we can expect wage growth – and therefore inflation – to accelerate further as unemployment keeps heading down. This, in turn, will make Norges Bank feel more confident about starting to normalise interest rates gradually in the not-too-distant future. We still expect wage growth to climb to around 3% this year, fuelled by lower unemployment and stronger corporate earnings. This will still be too low for inflation to hit 2.5%, but then we need to remember that interest rates are so low at the moment that it could take a full 10 hikes to get them back to normal, so it would be better to start too early than wait too long.

Phillips curve in fine fettle



Source: Macrobond Financial, Danske Bank

Latest research from Danske Bank

2/3 ECB Preview - Striking a compromise

The more and more complicated task of adjusting monetary policy communication without triggering a sell-off will be on display at next week's ECB meeting.

2/3 Part 5: FX and inflation - US inflation outperformance + comfy Fed = weaker USD

We discuss the channels through which US inflation outperformance affects the FX market, concluding on a case for continued USD weakness.

1/3 Part 4: EUR Fixed Income 6 Misaligned rates and inflation markets

In this fourth part of our series on the theme of whether inflation is finally coming and the implications of this for markets, we focus on EUR fixed income.

1/3 Flash Comment Denmark: Messy and disappointing GDP figures

Strong GDP growth in Q4 but the overall growth picture for 2017 is not as nice as previously suggested.

1/3 Flash Comment - China slowing but not as much as PMI suggests

The official Chinese PMI manufacturing fell sharply in February from 51.3 to 50.3 (Consensus 51.1). While there could be some distortion due to Chinese New Year, the decline is nevertheless so big that it is still likely to be more than just noise.

28/2 Part 3: Scandi Inflation. The diverging Phillips curves in Norway and Sweden

In this third document in our series, we focus on inflation in Scandinavia. The Scandinavian economies are rather similar in structure but their inflation outlooks are very dissimilar, as wage dynamics and local business cycles differ.

27/2 Flash Comment US: Powell says 'personal outlook has strengthened'

Our interpretation of Fed Chair Powell's testimony before the House of Representatives' Financial Services Committee is that he was being slightly hawkish , especially during the following Q&A session (no big changes in the prepared speech).

27/2 The Remarkable Decline in Emerging Market Inflation: Facts and investment implications

Inflation in emerging markets has hit an all-time low, pushing the divergence from inflation in developed markets to a decade low.

27/2 Part 2: Eurozone Inflation - Upside risks from oil prices and rising wage pressures

In this second document in our series, we focus on eurozone inflation.

26/2 Research - Xi Jinping set to secure China's reform path

China's news agency *Xinhua* yesterday reported that the Central Committee of the Communist Party has made a proposal to change the Constitution and remove the phrase that says the President can sit for only two terms (each of five years).

26/2 Part 1: Global Inflation - US stimulus and closing output gaps pose upside risk

This week, we plan to publish a series of papers on the theme 'is inflation finally coming and implications for markets?' In this first paper, we focus on global inflation. In our base case, we forecast that inflation will rise gradually from very subdued levels.

25/2 Italian Election Monitor - The good, the bad and the ugly scenarios for Italy

With the Italian parliamentary election only one week away, polls continue to point to a hung parliament with no clear majority in sight.

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	2.1	1.5	1.1	2.5	0.1	4.6	4.1	1.1	4.3	0.0	36.0	8.0
	2018	2.0	2.0	0.7	5.5	-0.2	2.7	3.4	0.9	4.1	-0.3	35.1	7.7
	2019	1.9	2.5	0.5	4.3	0.0	2.6	3.6	1.4	4.0	-0.1	33.9	7.3
Sweden	2017	2.4	2.4	0.4	6.0	0.2	3.7	5.0	1.8	6.7	0.9	39.0	4.8
	2018	1.7	1.6	1.3	1.1	0.0	5.1	5.0	1.5	7.1	0.6	36.0	4.8
	2019	2.0	1.9	0.8	0.4	0.2	4.7	3.8	1.3	7.6	0.4	34.0	5.4
Norway	2017	1.8	2.3	2.0	3.5	-0.2	0.8	2.2	1.8	2.7	-	-	-
	2018	2.3	2.6	1.7	2.7	-0.1	2.7	1.4	1.9	2.4	-	-	-
	2019	2.2	2.3	1.9	2.5	0.0	2.2	3.0	2.0	2.3	-	-	-

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	1.8	**1.1**	**3.2**	-	5.0	4.2	1.5	9.1	-1.1	89.3	3.0
	2018	2.0	1.9	**1.3**	**4.1**	-	3.9	4.5	1.4	8.4	-0.9	87.2	3.0
	2019	1.8	1.9	**1.3**	**4.2**	-	3.4	4.4	1.3	8.0	-0.8	85.2	2.9
Germany	2017	2.5	2.1	1.6	3.9	-	5.3	5.6	1.7	3.8	0.9	64.8	7.8
	2018	2.2	1.8	2.3	3.4	-	5.0	6.0	1.5	3.5	1.0	61.2	7.5
	2019	2.0	2.3	2.2	4.5	-	3.1	4.8	1.5	3.3	1.0	57.9	7.2
Finland	2017	3.1	1.8	0.3	8.9	-	8.1	3.5	0.8	8.6	-1.6	62.0	0.0
	2018	2.3	2.0	0.4	4.5	-	4.0	4.5	1.2	8.0	-1.0	61.0	-0.2
	2019	1.9	1.5	0.2	3.5	-	4.0	3.5	1.4	7.7	-0.8	60.0	0.2

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	2.7	0.1	4.0	-0.1	3.4	3.9	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	-3.5	107.0	-3.0
	2019	2.1	1.9	0.4	4.9	0.0	3.1	3.0	2.1	3.8	-4.0	109.0	-3.1
China	2017	6.8	-	-	-	-	-	-	2.0	4.1	-3.7	47.6	1.4
	2018	6.3	-	-	-	-	-	-	2.3	4.3	-3.4	50.8	1.1
	2019	6.0	-	-	-	-	-	-	2.3	4.3	-3.4	53.9	1.2
UK	2017	1.7	1.8	0.6	3.9	-0.4	4.5	3.0	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	2.2	4.1	-2.0	87.3	-4.7
	2019	1.2	1.0	0.4	2.0	0.0	2.6	1.8	1.8	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	02-Mar	1.50	1.98	2.54	2.89	122.2	-	609.5
	+3m	1.75	2.10	2.50	3.00	123.0	-	605.3
	+6m	2.00	2.17	2.65	3.10	125.0	-	595.6
	+12m	2.25	2.42	2.90	3.30	128.0	-	581.8
EUR	02-Mar	0.00	-0.33	-0.12	1.09	-	122.2	744.7
	+3m	0.00	-0.33	-0.05	1.30	-	123.0	744.5
	+6m	0.00	-0.33	0.00	1.45	-	125.0	744.5
	+12m	0.00	-0.33	0.20	1.65	-	128.0	744.8
JPY	02-Mar	-0.10	-0.06	0.05	0.27	130.8	107.0	5.69
	+3m	-0.10	-	-	-	127.9	104.0	5.82
	+6m	-0.10	-	-	-	135.0	108.0	5.51
	+12m	-0.10	-	-	-	140.8	110.0	5.29
GBP	02-Mar	0.50	0.58	1.04	1.60	88.4	138.2	842.3
	+3m	0.75	0.78	1.20	1.80	87.0	141.4	855.7
	+6m	0.75	0.79	1.30	1.90	86.0	145.3	865.7
	+12m	1.00	1.04	1.60	2.15	84.0	152.4	886.6
CHF	02-Mar	-0.75	-0.74	-0.49	0.50	115.2	94.3	646.3
	+3m	-0.75	-	-	-	117.0	95.1	636.3
	+6m	-0.75	-	-	-	120.0	96.0	620.4
	+12m	-0.75	-	-	-	123.0	96.1	605.5
DKK	02-Mar	0.05	-0.30	0.01	1.26	744.7	609.5	-
	+3m	0.05	-0.30	0.10	1.45	744.5	605.3	-
	+6m	0.05	-0.30	0.15	1.60	744.5	595.6	-
	+12m	0.05	-0.30	0.35	1.80	744.8	581.8	-
SEK	02-Mar	-0.50	-0.46	-0.17	1.32	1009.4	826.1	73.8
	+3m	-0.50	-0.45	0.00	1.60	1020.0	829.3	73.0
	+6m	-0.50	-0.40	0.00	1.70	1020.0	816.0	73.0
	+12m	-0.50	-0.40	0.05	1.70	1000.0	781.3	74.5
NOK	02-Mar	0.50	1.01	1.38	2.31	961.5	786.9	77.5
	+3m	0.50	0.80	1.30	2.45	940.0	764.2	79.2
	+6m	0.50	0.80	1.45	2.60	920.0	736.0	80.9
	+12m	0.75	1.10	1.75	2.85	910.0	710.9	81.8

Commodities

		2018				2019				Average	
	02-Mar	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2018	2019
NYMEX WTI	58	58	58	60	60	60	60	61	61	58	61
ICE Brent	64	62	62	64	64	64	64	65	65	63	65

Source: Danske Bank

Calendar

Key Data and Events in Week 10

During the week				Period	Danske Bank	*Consensus*	Previous
Sun 04	ITL	Italian Parliamentary election					
Sun 04	DEM	SPD vote on coalition with CDU/CSU					
-	CNY	National Peoples Congress					
Monday, March 5, 2018				Period	Danske Bank	*Consensus*	Previous
-	CNY	National Peoples Congress					
1:30	JPY	Markit PMI services	Index	Feb			51.9
2:45	CNY	Caixin PMI service	Index	Feb		*54.3*	54.7
8:30	SEK	PMI services	Index	Feb			61.3
9:15	ESP	PMI services	Index	Feb		*56.3*	56.9
9:30	SEK	Current account	SEK bn	4th quarter			50.7
9:45	ITL	PMI services	Index	Feb		*56.5*	57.7
9:50	FRF	PMI services	Index	Feb		*57.9*	57.9
9:55	DEM	PMI services	Index	Feb		*55.3*	55.3
10:00	EUR	PMI composite	Index	Feb		*57.5*	57.5
10:00	EUR	PMI services	Index	Feb		*56.7*	56.7
10:30	EUR	Sentix Investor Confidence	Index	Mar		*31.3*	31.9
10:30	GBP	PMI services	Index	Feb	**53.8**	*53.2*	53.0
11:00	EUR	Retail sales	m/m|y/y	Jan		*0.6%|2.7%*	-1.1%|1.9%
11:00	NOK	Housing prices	m/m	Feb	**0.2%**		
15:45	USD	Markit PMI service	Index	Feb			55.9
16:00	USD	ISM non-manufacturing	Index	Feb		*58.7*	59.9
Tuesday, March 6, 2018				Period	Danske Bank	*Consensus*	Previous
4:30	AUD	Reserve Bank of Australia rate decision	%		**1.5%**	*1.5%*	1.5%
8:00	DKK	Forced sales (s.a.)	Number	Feb			
8:00	DKK	Bankruptcies (s.a.)	Number	Feb			
9:15	CHF	CPI	m/m|y/y	Feb		*0.3%|0.5%*	-0.1%|0.7%
9:30	SEK	Industrial production s.a.	y/y	Jan			
9:30	SEK	Service production	y/y	Jan			
9:30	SEK	Industrial orders	m/m|y/y	Jan			-0.7%|5.8%
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index	Feb	**1.4**		1.2
13:30	USD	Fed's Dudley (voter, neutral) speaks					
16:00	USD	Core capital goods orders, final	%	Jan			-0.2%
23:30	USD	Fed's Brainard (voter, dovish) speaks					
Wednesday, March 7, 2018				Period	Danske Bank	*Consensus*	Previous
-	CNY	Foreign exchange reserves	USD bn	Feb		*3150.0*	3161.5
-	PLN	Polish central bank rate decision	%		**1.5%**	*1.5%*	1.5%
1:30	AUD	GDP	q/q|y/y	4th quarter		*0.5%|2.5%*	0.6%|2.8%
2:30	USD	Fed's Kaplan (non-voter, neutral) speaks					
6:00	JPY	Leading economic index, preliminary	Index	Jan		*106.1*	107.4
8:00	DKK	Industrial production	m/m	Jan			0.7%
8:00	DKK	House and apartment prices	m/m|y/y	Dec			
9:00	CHF	SNB balance sheet, intervention	CHF bn	Feb			731.4
9:30	SEK	Budget balance	SEK bn	Feb			0
11:00	EUR	GDP, final	q/q|y/y	4th quarter		*0.6%|2.7%*	0.6%|2.7%
11:00	EUR	Gross fixed investments	q/q	4th quarter			-0.3%
11:00	EUR	Government consumption	q/q	4th quarter			0.3%
11:00	EUR	Private consumption	q/q	4th quarter			0.4%
12:00	TRY	Central Bank of Turkey rate decision	%		**8.0%**		8.0%
14:00	USD	Fed's Dudley (voter, neutral) speaks					
14:15	USD	ADP employment	1000	Feb	**190**	*193*	234
14:30	USD	Unit labour cost, final	q/q	4th quarter		*2.1%*	2.0%
14:30	USD	Trade balance	USD bn	Jan		*-52.6*	-53.1
16:00	CAD	Bank of Canada rate decision	%		**1.25%**	*1.25%*	1.25%
16:30	USD	DOE U.S. crude oil inventories	K				3019
21:00	USD	Consumer credit	USD bn	Jan		*19.0*	18.4

Source: Danske Bank

Calendar (continued)

Thursday, March 8, 2018				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Feb		*-8.5*	20.4
0:50	JPY	GDP deflator, final	y/y	4th quarter		*0.0%*	0.0%
0:50	JPY	GDP, final	q/q|ann.	4th quarter		*0.2%|1.0%*	0.1%|0.5%
1:01	GBP	RICS house price balance	Index	Feb		*0.1*	0.1
7:45	CHF	Unemployment	%	Feb		*2.9%*	3.0%
8:00	NOK	Manufacturing production	m/m|y/y	Jan			1.3%|3.4%
8:00	NOK	Industrial production	m/m|y/y	Jan			-0.4%|0.3%
8:00	DEM	Factory orders	m/m|y/y	Jan		*-1.5%|11.7%*	3.8%|7.2%
13:45	EUR	ECB announces refi rate	%		**0.00%**		0.00%
13:45	EUR	ECB announces deposit rate	%		**-0.40%**		-0.40%
14:30	USD	Initial jobless claims	1000				
14:30	EUR	ECB's Draghi speaks at press conference					
Friday, March 9, 2018				**Period**	**Danske Bank**	***Consensus***	**Previous**
-	JPY	BoJ policy rate	%		**-0.1%**		-0.1%
-	JPY	BoJ monetary policy announcement					
1:00	JPY	Labour cash earnings	y/y	Jan		*0.6%*	0.7%
2:30	CNY	PPI	y/y	Feb	**4.0%**	*3.8%*	4.3%
2:30	CNY	CPI	y/y	Feb		*2.4%*	1.5%
8:00	NOK	Core inflation (CPI-ATE)	m/m|y/y	Feb	**0.8%|1.4%**	*0.7%|1.3%*	-0.8%|1.1%
8:00	NOK	CPI	m/m|y/y	Feb		*0.6%|1.7%*	-0.1%|1.6%
8:00	NOK	PPI	m/m|y/y	Feb			3.1%|10.3%
8:00	DEM	Industrial production	m/m|y/y	Jan		*0.5%|6.1%*	-0.6%|6.5%
8:00	DEM	Trade balance	EUR bn	Jan			18.1
8:00	DEM	Labour costs	q/q|y/y	4th quarter			0.7%|2.2%
8:45	FRF	Industrial production	m/m|y/y	Jan		*-0.4%|3.9%*	0.5%|4.5%
9:30	SEK	Average house prices	SEK m	Feb			3.195
9:30	SEK	Household consumption	m/m|y/y	Jan	**...|3.0%**		-0.5%|2.4%
10:30	GBP	Construction output	m/m|y/y	Jan		*0.0%|-0.5%*	1.6%|-0.2%
10:30	GBP	Industrial production	m/m|y/y	Jan		*1.1%|1.5%*	-1.3%|0.0%
10:30	GBP	Manufacturing production	m/m|y/y	Jan		*0.2%|2.8%*	0.3%|1.4%
10:30	GBP	Trade balance	GBP mio.	Jan		*-2900*	-4896
13:00	GBP	NIESR GDP estimate	q/q	Feb			0.5%
14:30	CAD	Net change in full time employment	1000	Feb			49
14:30	USD	Unemployment	%	Feb	**4.1%**	*4.0%*	4.1%
14:30	USD	Average hourly earnings, non-farm	m/m|y/y	Feb	**0.2%|2.8%**	*0.3%|2.9%*	0.3%|2.9%
14:30	USD	Non farm payrolls	1000	Feb		*200*	200
18:45	USD	Fed's Evans (non-voter, dovish) speaks					

The editors do not guarantee the accurateness of figures, hours or dates stated above

For furher information, call (+45) 45 12 85 22.

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 Jakob Christensen, Chief Analyst.

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