

Weekly Focus

Softer inflation prints drive yields lower

Hopes for inflation coming down faster than expected drove market sentiment towards the end of the week.

The euro area inflation print released on Thursday confirmed the disinflationary prints from country releases in previous days. HICP came in at 6.1%, which is a sharp drop from 7% in April. Core inflation also slowed more than anticipated to 5.3% from 5.6% in April. For now, the introduction of the EUR49 German transport ticket is likely to have been a key reason for this decline and hence we should be careful interpreting this core print. Nevertheless, stock markets cheered inflation coming lower faster than expected while yields drifted lower. The German 10y yield is trading almost 30bp lower compared to a week ago and the ECB peak rate is priced 9bp lower at 3.64%.

A financial market apocalypse in the US was avoided as the policymakers agreed on a deal to raise the country's debt ceiling.

The bill passed the senate with 46 Democrats and 17 Republicans supporting it while five Democrats and 31 Republicans opposed the legislation. The debt ceiling driven drain in the Treasury General Account has supported liquidity, and hence, contributed to easing financial conditions lately, a development which we now expect to reverse.

Chinese PMI from NBS on Wednesday was weaker than expected across the board and pointed to new stimulus soon from the government and PBOC.

The NBS PMI manufacturing PMI dropped from 49.2 to 48.8 (consensus 49.5) with details also being soft. Both new orders and export orders dropped. Then again, Caixin manufacturing PMI came out better than expected and in the expansionary territory. We still conclude that recovery in China is losing steam. Markets turning positive on Friday is more related to positioning and unlikely to be a sustainable phenomenon.

In Turkey's presidential run-off, Erdogan secured 52.2% of the votes and sealed his iron grip on power for the next five years.

We think that in the absence of a turnaround in economic policy, Turkey could eventually end up in a currency crisis where lira's value would collapse, inflation would explode and even goods shortages could occur. Turkish corporates with large foreign liabilities would face substantial rollover risks. Read more in our election review *Research Turkey – Time to fasten seat belts as Erdogan secures another term*, 29 May.

Next week, we get the ISM services index from the US.

Service PMI was fairly strong in May, so it will be interesting to see whether this is being reflected in the ISM as well. We are expecting the RBA to maintain rates unchanged on Tuesday. Markets are pricing a small (30-35%) risk of a 25bp hike. German factory orders for April are out on Tuesday as well. Orders fell a lot in March and now we are looking into more signals of whether this was a temporary thing or a sign of a more severe contraction. China will publish CPI data for May out on Friday. Inflation was 0.1% y/y in April, and a below zero print would create some headlines. On the geopolitical front, we continue to follow the events in Ukraine as the spring offensive is looming.

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 likely to stay elevated.
- ECB to deliver 3 more 25bp hikes, while the Fed is on hold for the rest of the year.

Key market movers

- Monday: US ISM service index, factory orders, durable goods, EA PMIs
- Tuesday: RBA meeting, Germany factory orders

Selected reading from Danske Bank

- *Research Turkey – Time to fasten seat belts as Erdogan secures another term*, 29 May

Editor

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Scandi market movers

- In **Denmark**, we should receive industrial production figures for April on Wednesday. Industrial production fell 2.3% in March, but nevertheless remains very high, in no small measure due to the surging Danish pharmaceutical industry. Subtracting pharmaceuticals, the rest of Danish industry is more in slowdown mode, which is also consistent with the slowing seen in the industrial sector globally.

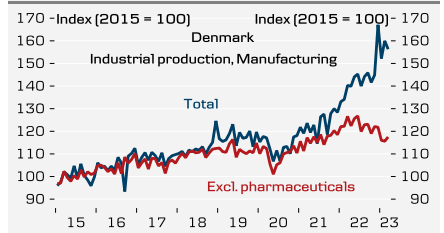
Thursday is set to bring bankruptcy numbers for May. April's figures were higher than any month during the years 2020-2021, even though they fell in March. Bankruptcies beginning to trend slightly lower would make sense, as we are now past the wave of business closures that followed in the wake of pandemic loans expiring.

Danish house price figures for May are due on Friday. The housing market has generally surprised positively this year, but despite the fine start to 2023, we continue to expect that housing prices will fall further – by around 9.5% overall this year compared to 2022. In our view, the housing market still needs to make further adjustments in order to find a new equilibrium with the much higher level of interest rates.

- A string of April data will be released next week, providing further information on how Q3 started. Household consumption has been trending lower for two years, although it began at a high level due to the recovery after the significant drop in 2020. Retail sales showed an uptick in April, which should be interpreted as a rebound after the weak figure in March. However, a similar trend may be observed in household consumption as well. Production figures will be of large interest; January and February figures looked promising, but March figures showed a 1.1% month-on-month drop. PMI for the manufacturing sector has continued to decline and is now at the lowest level seen in 2 years. It's important to note that the correlation between survey data and actual performance does not always align, so next week's figures will provide valuable information regarding the state of the economy.

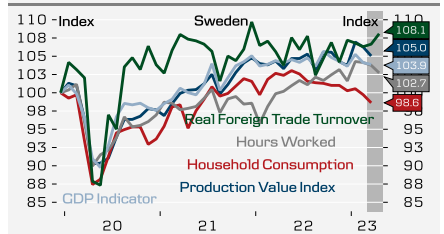
- In **Norway**, core inflation is still high but no longer seems to be accelerating. Behind the headline figure, however, we can see that while prices for domestic goods (including agricultural produce) are now falling, prices for services are clearly still rising, and prices for imported goods have also now begun to pick up sharply. This last factor is probably down to the decline in the NOK since the autumn, and there is much to suggest that it will remain weak for some time. Core inflation has likely remained high, and we expect it to be 6.2% y/y in May.

Pharmaceuticals keep industrial production buoyant



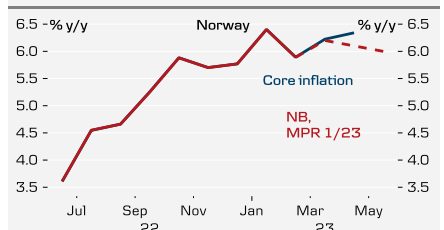
Source: Statistics Denmark, Danske Bank, Macrobond

Monthly indicators



Source: SCB, Macrobond

Inflation has been higher than expected



Source: Macrobond, Danske Bank

Scandi update

Denmark – Retail spending grew in April

Figures from Statistics Denmark show that retail sales grew 1.6% between March and April 2023 after adjusting for general price growth and seasonality. However, retail sales were still 6% down in April compared to the same month last year – so not overly impressive, but nonetheless positive news that consumption is picking up. The increase surprised us slightly, as consumption fell according to Danske Bank’s own Spending Monitor.

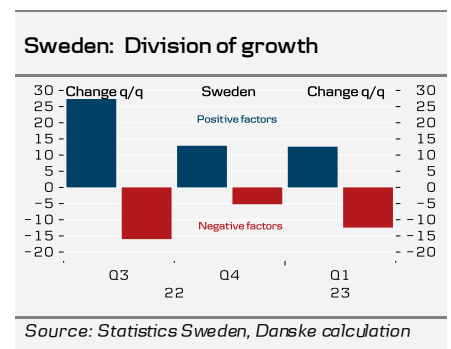
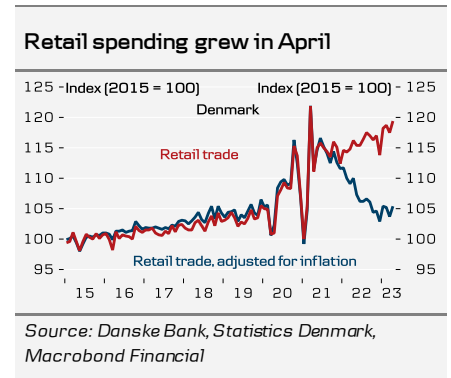
National accounts figures reveal that GDP growth in Q1 has been revised marginally lower from 0.3% in the preliminary figures to 0.2% now. That level of quarterly growth is on the low side, and as in the previous quarter affected by a surging pharmaceutical industry. Hence, much of the economy is experiencing a slowdown, while some sectors probably view this as a time of crisis. Both the Danish and the European economies will have to slow further to get inflation down, and we expect to see this in the time ahead, even though the indicators here in Q2 do not look that bad now. Growth in the first few months of the year was in part driven by private consumption rising a substantial 0.7%. This came after the downturn that characterised most of 2022 and reflects, among other things, the decline in inflation that means real wages are no longer shrinking. Energy prices played a major role in this. Many Danes were hit by very large gas bills towards the end of last year, for example, but prices have been swiftly moving in the opposite direction this year. Car purchases were one of the major drivers of the rise in consumption. On a positive note, we have also seen a marked increase in exports of 4.1% at a time when global industry is generally not performing particularly well. Part of the explanation is no doubt the success of the pharmaceutical industry, though service exports also increased. Investment slumped by some 17%, largely due to a single massive investment in Q4 22, though there are other signs of weakness too, including a sharp drop in housing investment of 6.3%.

Unemployment in April was revised marginally up to an increase of 100 in the number of jobless compared to the unemployment indicator earlier in the month pointing to a decline of 200. In practice this change is insignificant, and unemployment has in reality not shifted from the level it started the year at in January. Thus, the unemployment rate has remained at 2.8% during the first four months of the year.

Sweden – Growth holding up better than expected, but ...

The Swedish economy has performed better than what we had envisaged at the start of 2023. Not only was the drop in 2022 Q4 GDP smaller than expected, but 2023 Q1 was actually positive (+0.6 % qq). Obviously, we have been focusing too much on negative factors such as falling private consumption and dwellings construction. The fact is, that since 2022 Q3 the negative impact from these two sources has been outweighed by positive growth in the remaining demand sources (net exports, gross fixed investments excl. dwellings construction and public consumption). This is illustrated in the margin chart which clearly shows the divided nature of Swedish GDP development since Riksbank started to tighten monetary policy last year. The point here is that final demand, i.e. disregarding the contribution from inventory change, economic growth has actually been positive throughout this period. In extension, it suggests that corporate Sweden in terms of net exports and investment activity largely outside the housing sector is doing very well.

That said, we are of course worried about the implications of the recent (April and May) plunge in manufacturing PMI. New orders showed a plunge overall, in exports and

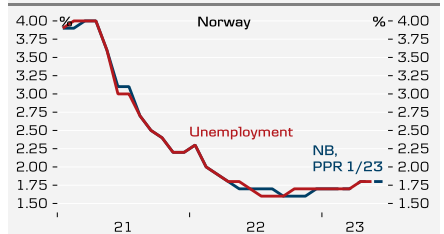


domestically, coinciding with a similar dip in the order stock. Disregarding the Covid period, we haven't seen such a negative development since 2009. This is indeed a warning sign for the 2023 Q2 outlook. Hopefully, PMI services will give signals about whether this setback is contained to manufacturing or whether it has a negative spill-over into that sector.

Norway – Slightly weaker labour market will not deter more aggressive Norges Bank

Unemployment has begun to rise, but only very slowly, coming out at 1.8% in May. The number of new job openings is also falling in seasonally-adjusted terms, which suggests that demand for labour is softening, albeit still strong. This would indicate that growth has now dropped below normal, but that activity is still higher than normal. Registered unemployment was exactly as Norges Bank projected in the last monetary policy report and so will not, in isolation, affect the rate outlook. On the other hand, the decline in the NOK since March has increased the upside risk to inflation. We have therefore revised our rate forecast and now expect Norges Bank to raise its policy rate in August as well as June, taking it to 3.75%.

Unemployment in line with Norges Bank's projections



Source: Macrobond, Danske Bank

Calendar – 5-9 June 2023

Monday, June 5, 2023					Period	Danske Bank	Consensus	Previous
2:30	JPY	Markit PMI services, final	Index	May			56.3	
3:45	CNY	Caixin PMI service	Index	May		55.2	56.4	
8:30	SEK	PMI services	Index	May			50.5	
8:30	CHF	CPI	m/m y/y	May		0.3% 2.2%	0.0% 2.6%	
9:15	ESP	PMI services	Index	May		57.0	57.9	
9:45	ITL	PMI services	Index	May		57.1	57.6	
9:50	FRF	PMI services, final	Index	May		52.8	52.8	
9:55	DEM	PMI services, final	Index	May		57.8	57.8	
10:00	EUR	PMI composite, final	Index	May		53.3	53.3	
10:00	EUR	PMI services, final	Index	May		55.9	55.9	
10:30	EUR	Sentix Investor Confidence	Index	Jun		-15.0	-13.1	
10:30	GBP	PMI services, final	Index	May		55.1	55.1	
11:00	EUR	PPI	m/m y/y	Apr		1.8% -2.8%	5.9% -1.6%	
15:45	USD	Markit PMI service, final	Index	May		55.2	55.1	
16:00	USD	Core capital goods orders, final	%	Apr			1.4%	
16:00	USD	ISM non-manufacturing	Index	May		52.5	51.9	
Tuesday, June 6, 2023					Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%			6.75%	6.75%	6.75%
1:30	JPY	Labour cash earnings	y/y	Apr		1.8%	1.3%	
6:30	AUD	Reserve Bank of Australia rate decision	%			3.85%	3.85%	
8:00	DEM	Factory orders	m/m y/y	Apr		3.0% -8.7%	-10.7% -11.0%	
10:30	GBP	PMI construction	Index	May		51.4	51.1	
11:00	EUR	Retail sales	m/m y/y	Apr		0.2% -3.0%	-1.2% -3.8%	
Wednesday, June 7, 2023					Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	May		94.2	90.2	
-	CNY	Foreign exchange reserves	USD bn	May		3188.0	3204.8	
3:30	AUD	GDP	q/q y/y	1st quarter		0.3% 2.4%	0.5% 2.7%	
7:00	JPY	Leading economic index, preliminary	Index	Apr		98.2		
7:45	CHF	Unemployment	%	May		1.9%	1.9%	
8:00	DKK	Industrial production	m/m	Apr			-2.3%	
8:00	NOK	Manufacturing production	m/m y/y	Apr			-0.4% -0.3%	
8:00	NOK	Industrial production	m/m y/y	Apr			2.1% -5.4%	
8:00	DEM	Industrial production	m/m y/y	Apr		0.7% 1.5%	-3.4% 1.8%	
9:00	CHF	SNB balance sheet, intervention	CHF bn	May			732.2	
14:30	USD	Trade balance	USD bn	Apr		-75.4	-64.2	
16:00	CAD	Bank of Canada rate decision	%			4.5%	4.5%	
16:30	USD	DOE U.S. crude oil inventories	K				4489	
21:00	USD	Consumer credit	USD bn	Apr		21.2	26.5	
Thursday, June 8, 2023					Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	May		-0.4	-0.4	
1:50	JPY	GDP deflator, final	y/y	1st quarter		2.0%	2.0%	
1:50	JPY	GDP, final	q/qlann.	1st quarter		0.5% 1.9%	0.4% 1.6%	
8:00	SEK	Budget balance	SEK bn	May			12.7	
11:00	EUR	GDP, final	q/q y/y	1st quarter		0.0% 1.3%	0.1% 1.3%	
11:00	EUR	Gross fixed investments	q/q	1st quarter			-3.5%	
11:00	EUR	Government consumption	q/q	1st quarter			0.8%	
11:00	EUR	Private consumption	q/q	1st quarter			-0.9%	
11:00	EUR	Employment, final	q/q y/y	1st quarter			0.6% 1.7%	
14:30	USD	Initial jobless claims	1000				232	
Friday, June 9, 2023					Period	Danske Bank	Consensus	Previous
-	EUR	Greece's debt rating (Fitch)						
-	CNY	Money supply M2	y/y	May		12.0%	12.4%	
3:30	CNY	PPI	y/y	May		-4.2%	-3.6%	
3:30	CNY	CPI	y/y	May		0.2%	0.1%	
6:00	SEK	Maklarstatistik Swedish housing price data						
8:00	NOK	CPI	m/m y/y	May		0.3% 6.4%	1.1% 6.4%	
8:00	NOK	PPI	m/m y/y	May			0.8% -15.3%	
8:00	DKK	Current account (nsa sa)	DKK bn	Apr			...	
8:00	DKK	Trade balance ex ships	DKK bn	Apr			9.3	
8:00	DKK	Exports	m/m	Apr			930.0%	
8:00	SEK	Industrial orders	m/m y/y	Apr			-1.0% -9.3%	
8:00	SEK	Private Sector Production	m/m y/y	Apr			-1.1% 0.6%	
8:00	SEK	Household consumption	m/m y/y	Apr			-1.1% -4.0%	
8:00	NOK	Core inflation (CPI-ATE)	m/m y/y	May		0.3% 6.2%	0.4% 6.3%	
12:30	RUB	Central Bank of Russia rate decision	%			7.5%	7.5%	
14:30	CAD	Net change in full time employment	1000	May			-6.2	

Source: Danske Bank

Macroeconomic forecast

	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	3.8	-2.4	-3.5	8.6	8.6	4.2	7.7	3.6	2.6	3.3	29.8	13.1
	2023	0.5	0.0	-0.4	-5.0	1.3	-2.0	5.1	4.7	3.1	2.0	27.1	11.5
	2024	1.3	1.8	1.6	-1.7	1.3	0.6	3.6	5.0	3.6	1.1	25.1	11.3
Sweden	2022	2.9	1.9	0.1	6.1	7.0	9.4	8.4	2.5	7.5	0.7	33.0	4.6
	2023	-1.0	-2.3	1.1	-2.8	2.0	-0.1	9.6	4.1	8.0	-0.9	29.0	5.7
	2024	1.7	1.8	1.2	2.3	2.8	2.6	2.3	3.3	7.9	-0.9	29.0	5.8
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.0	-1.0	1.2	0.5	4.0	3.0	4.8	5.0	2.1	-	-	-
	2024	1.5	0.9	1.7	4.0	2.0	2.0	2.5	4.0	2.4	-	-	-
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	3.5	4.3	1.4	3.8	7.1	8.0	8.4	4.5	6.7	-3.6	93.2	0.6
	2023	0.4	-0.1	1.2	-0.8	3.4	3.4	6.3	4.9	6.9	-3.2	90.9	2.2
	2024	0.6	1.2	1.0	0.2	3.6	4.6	3.5	3.6	7.0	-3.0	90.1	2.4
Finland	2022	2.1	2.1	2.9	5.0	1.7	7.5	7.1	2.4	6.8	-0.9	73.0	-3.9
	2023	-0.2	-0.2	1.2	-2.0	-0.5	-1.0	5.5	4.1	7.0	-2.5	72.1	-1.4
	2024	0.9	1.0	0.5	2.0	1.5	2.0	2.1	3.7	6.8	-1.7	72.4	-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	0.8	0.7	1.7	-5.5	-0.3	-5.5	4.1	4.1	3.7	-5.4	123.6	-3.1
	2024	0.3	0.4	1.3	-1.5	-1.9	-1.9	2.1	3.2	4.2	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	-	-7.5	77.1	2.3
	2023	6.2	7.0	-	6.0	-	-	2.2	-	-	-6.9	82.4	1.4
	2024	5.0	5.2	-	4.8	-	-	2.5	-	-	-6.4	87.2	1.1
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	02-Jun	5.25	5.42	4.69	3.81	107.5	-	693.0	1099.7	1072.4
	+3m	5.25	5.40	4.00	3.45	107.0	-	695.8	1093.5	1046.7
	+6m	5.25	5.35	3.70	3.45	106.0	-	702.4	1066.0	1066.0
	+12m	5.00	4.82	3.30	3.35	103.0	-	723.3	1048.5	1116.5
EUR	02-Jun	3.25	3.46	3.66	3.15	-	107.5	744.8	1181.9	1152.5
	+3m	3.75	3.98	3.50	3.05	-	107.0	744.5	1170.0	1120.0
	+6m	4.00	4.02	3.15	2.95	-	106.0	744.5	1130.0	1130.0
	+12m	4.00	3.70	2.85	2.85	-	103.0	745.0	1080.0	1150.0
JPY	02-Jun	-0.10	-0.03	-	-	120.5	139.8	6.18	9.81	9.56
	+3m	-0.10	-	-	-	141.2	132.0	5.27	8.28	7.93
	+6m	0.10	-	-	-	136.7	129.0	5.44	8.26	8.26
	+12m	0.10	-	-	-	130.8	127.0	5.70	8.26	8.79
GBP*	02-Jun	4.50	-	5.20	4.26	86.8	123.8	858.1	1361.6	1327.6
	+3m	4.75	-	4.40	4.00	88.0	121.6	846.0	1329.5	1272.7
	+6m	4.75	-	4.30	4.00	88.0	120.5	846.0	1284.1	1284.1
	+12m	4.50	-	4.20	4.00	88.0	117.0	846.6	1227.3	1306.8
CHF*	02-Jun	1.50	-	1.85	1.97	97.0	90.3	767.6	1218.1	1187.7
	+3m	2.00	-	-	-	97.0	90.7	767.5	1206.2	1154.6
	+6m	2.00	-	-	-	96.0	90.6	775.5	1177.1	1177.1
	+12m	2.00	-	-	-	96.0	93.2	776.0	1125.0	1197.9
DKK	02-Jun	2.85	3.47	3.77	3.27	744.84	693.03	-	158.68	154.73
	+3m	3.35	3.82	3.65	3.20	744.50	695.79	-	157.15	150.44
	+6m	3.60	3.85	3.30	3.10	744.50	702.36	-	151.78	151.78
	+12m	3.60	3.53	3.00	3.00	745.00	723.30	-	144.97	154.36
SEK	02-Jun	3.50	3.68	3.73	3.08	1152.5	1072.4	64.6	102.6	100.0
	+3m	4.00	4.10	3.65	2.90	1120.0	1046.7	66.5	104.5	-
	+6m	4.00	4.15	3.30	2.80	1130.0	1066.0	65.9	100.0	-
	+12m	3.75	3.70	3.00	2.75	1150.0	1116.5	64.8	93.9	-
NOK	02-Jun	3.25	3.88	4.19	3.59	1181.9	1099.7	63.0	100.0	97.5
	+3m	3.50	4.03	4.05	3.35	1170.0	1093.5	63.6	-	95.7
	+6m	3.50	3.84	3.70	3.25	1130.0	1066.0	65.9	-	100.0
	+12m	3.25	3.60	3.35	2.95	1080.0	1048.5	69.0	-	106.5

*Notes: GBP swaps are SONIA and CHF swaps are SHARON.

We have updated our Norges Bank forecasts after yesterday's Norges Bank meeting but not yet our Norwegian yield outlook

Commodities												
	02-Jun	2023				2024				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024	
ICE Brent	77	87	90	85	80	80	80	80	80	86	80	

Source Danske Bank

Disclosures

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