

Weekly Focus

ECB preparing for a lift-off in July

Euro area inflation once again exceeded expectations in May, sparking further speculation of faster ECB rate hikes. With core inflation rising to 3.8% y/y and seasonally adjusted m/m rate still around 0.5%, we now expect core inflation to peak only after the summer. Consequently, we have lifted our expectations for ECB rate hikes ahead of next Thursday's meeting, and now look for 25bp hikes in every meeting from July to March (which would bring the deposit rate to 1.00%). Next week's meeting will likely mark the formal end to ECB's net asset purchases, and the focus will be on the possibility of 50bp rate hikes in the coming meetings, as markets are pricing in around 30% risk of such a hike in July. Read our full *ECB Preview - Ready for lift-off*, 2 June.

Today, we published *Big Picture: A (mild) recession in western economies seems unavoidable*, 3 June, with our latest economic forecasts. We now expect US economy to fall into a mild recession during H1 2023, with euro area following suit in H2 2023.

The combination of weakening real purchasing power and tighter financial conditions will weigh on economic growth, even though pent-up demand, savings and the re-opening of economies will continue to support activity especially in the service sector in the near-term. Chinese growth will likely recover towards 2023 on the back of renewed stimulus, but with the latest lockdowns and no signs of easing the 'zero-covid' strategy for now, we have downgraded our growth forecast for 2022. As global demand outlook weakens towards 2023, we also expect the current inflation pressures to ease. That being said, we still expect euro area and US core inflation to remain above central banks' target levels even in 2023, supporting the case for further rate hikes.

OPEC+ failed to stabilise rising oil prices after EU announced the embargo on Russian oil. OPEC+ agreed to hike production by 648 thousand barrels per day (bpd) in July and August, above the initial plan of 432 bpd, but it did not yet address Russia's status within the group. While the larger production increases ease the supply situation in the near-term, they also mean less potential production capacity in the future, leaving the oil market vulnerable to new supply shocks. We expect prices to remain elevated in the coming months, and maintain our forecast for Brent at USD115/bbl towards Q3.

In China, Shanghai was able to end its two-month long lockdown this week. PMIs rebounded in May, and the recovering Chinese demand outlook is another factor supporting commodity prices. New stimulus was also announced this week, as policy banks are funding increasing number of infrastructure projects for the central government. Next week, focus remains on the Covid-situation, while the trade data released on Thursday will likely remain weak due to the disruptions caused by the pandemic.

In terms of economic data, next week's highlight will be the US CPI on Friday. We expect the figures to continue illustrating strong and broad-based price pressures. Aside from the ECB, we expect the Reserve Bank of Australia (RBA) to continue its hiking cycle with another 25bp hike, but following recent 50bp hikes by the Fed, Bank of Canada and the RBNZ, risks are tilted towards a larger hike also in Australia.

Key global views

- Rising 'stagflation' risk from war in Ukraine – especially in Europe
- Weaker growth in coming quarters but not a global recession
- Higher commodity prices to keep inflation elevated for longer
- Fed to hike by another 175bp this year, ECB to hike in July, September, October and December

Key market movers

- Mon: China Caixin Services PMI
- Tue: RBA Meeting
- Thu: ECB Meeting, China International Trade
- Friday: US CPI, Norway CPI

Selected readings from Danske Bank

- *Big Picture: A (mild) recession in western economies seems unavoidable*, 3 June
- *ECB Preview - Ready for lift-off*, 2 June.

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Scandi market movers

- In **Denmark**, we should get industrial production figures for April on Tuesday. Industrial production has had a very strong start to the year, though we probably have to expect a slowdown in the industrial sector going forward. Major global challenges exist, not only due to the war in Ukraine, but also the lockdowns in China and, not least, the impact of monetary policy being tightened to counter the high rate of inflation. This is also likely to hit demand for Danish goods, as recently evidenced by business confidence figures, which showed declining order books.

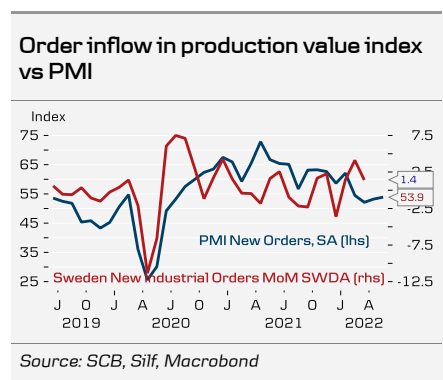
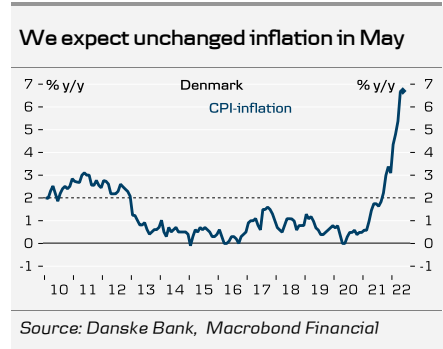
Tuesday is also scheduled to bring bankruptcy numbers for May, and they have been rising in recent months. Bankruptcy numbers were lower in both 2020 and 2021 than in previous years despite the pandemic and lockdowns, which was to be expected given the help companies have been afforded and not least the opportunity to postpone tax and VAT payments. Those loans are now falling due, however, and while payments may be spread over two years, some companies will probably be unable to repay their debts. Tuesday will also bring forced home sales for May.

Foreign trade figures for April should arrive on Thursday. As with industrial production, we also expect to see a slowdown in goods exports – a development already apparent in Q1 22, when goods exports fell by 3% according to national accounts figures.

Friday we get Danish May CPI inflation and expect it was unchanged at 6.7% in May. A correction in electricity and natural gas prices drags down after last month’s huge spike. Pulling in the other direction, petrol prices have increased significantly and quarterly rent increases are introduced for the first time. The latter adds some risk to the upside along with particularly food prices. We have pencilled in a handsome increase in food prices after the 2.1% mom increase in German food prices in May, though.

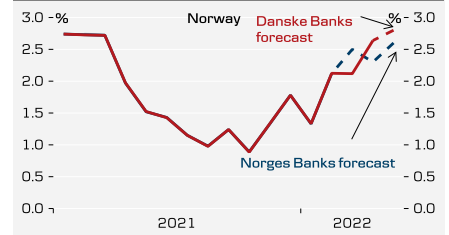
- We expect that the weak demand in **Sweden** also will be reflected in monthly indicator released next week (household consumption and April GDP-indicator). Non-essential consumptions is usually the first one to decrease which we also expect to see in next week’s figures. Especially clothing and restaurants & hotels have had a tough time since the start of the pandemic, however, we have so far not seen a rise in bankruptcies. Also production data is released next week. During March production numbers came out flat compared to February while the order inflow came out strong in contrast to the order inflow in PMI. If PMI is correct, new orders in hard data should decrease from here which seem reasonable given the weaker global demand.

Debt office budget balance for May is also out next week, with only one week since the Debt office published new forecasts meaning next weeks figures hopefully should be in line with the estimates. But worth noting is that the DO had quite optimistic picture regarding tax incomes and with weaker economy from here, this figure will be important to follow.



- In **Norway**, core inflation surprised to the upside in April, driven partly by higher food prices but also by a 40% m/m jump in airfares. These are typical Easter effects, however, and we expect these prices to drop back again somewhat in May. On the other hand, we can see global inflationary pressures continuing to make their mark, both directly via import prices and indirectly via higher production costs for domestically produced goods and services. We therefore expect core inflation to climb to 2.8% y/y in May. While that would be above Norges Bank's forecast of 2.6% in the March monetary policy report, the question is whether it would be enough to confirm the market's aggressive expectations of the central bank ahead of the June rate-setting meeting.

Inflation to climb further



Source: Macrobond, Danske Bank

Scandi update

Denmark – Unemployment approaching lows from last upswing

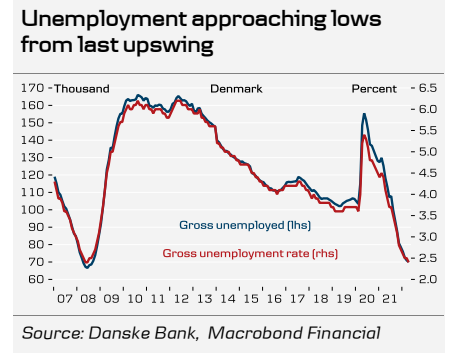
The Confederation of Danish Employers' (DA) private sector wage statistics showed growth of 3.8% in Q1 22 compared to the same period last year – and a clear pick up from Q4 21, when growth was 3.2%. Wage growth has significantly increased across both the manufacturing and service sectors, while wage growth in construction remains unchanged but nevertheless high at 4.4%. Consumer prices rose by 4.8% over the same period, so real wages are in decline. The indications are that we will see an actual downturn in real wages for 2022 as a whole – something last seen in 2012.

The retail sales index rose 1.7% in April (price and seasonally adjusted). The increase was most pronounced in clothing and footwear, which leapt some 7.3% compared to March, while food rose by a more modest 0.2% and other consumer goods by 2%. Nevertheless, retail sales have been on a slight downward trajectory overall in recent months despite the uptick in April. This is due, not least, to the post-pandemic reopening of the service sector, which has prompted Danish consumers to cut down on goods purchases and increase consumption of travel and restaurant dining, etc.

Business confidence figures for May showed companies are generally less optimistic than in April, with both manufacturing and construction reporting slimmer order books. However, the general picture remains very positive, with labour and materials shortages still the biggest hurdle for companies rather than a lack of customers. Nevertheless, we expect to see a clear shift in sentiment in the next year or two, with companies no longer just steaming ahead at full speed.

The number of jobless fell by 900 in April, taking the unemployment rate down to 2.4%. Hence, we are now down at a level that was only achieved for a very few months prior to the financial crisis. While there are plenty of bad news stories at the moment, we do not expect unemployment to rise significantly anytime soon. Demand continues to look solid, and if and when that changes, there will still be a backlog of job vacancies.

The full national accounts for Q1 22 confirmed growth at -0.1%. The main culprit was a fall in goods exports, though this followed on the heels of a very strong Q4 21. The lockdown at the start of the year pulled private consumption down 1.2% overall. Normalisation was not much in evidence in Q1 22 after the pandemic skewed consumption towards more goods and fewer services. The consumption of goods remains high, even though a shortage of cars has been a downward force, while consumption of services has stalled. In contrast, corporate investment has grown, which contributes to increasing the capacity in the economy that has otherwise been limited by widespread shortages of almost everything.



Sweden – growth is slowing, overstated too?

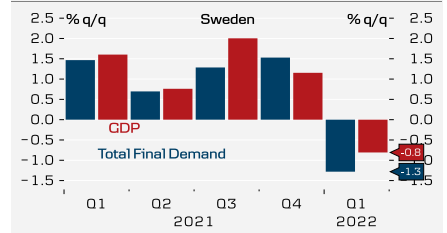
Q1 GDP printed -0.8 % qoq sa, a drop that was double the expected -0.4 % qoq (and as indicated by the advance GDP indicator). The decline was broad-based encompassing private and public consumption, gross fixed investments and net exports. The only components that rose were inventories which probably mirrored an unexpected decline in sales as suggested by the drop in the other (demand) components. This simply means that total final demand i.e. GDP less inventories, declined 1.3 % qoq sa, quite a big drop then.

But this is not the end of the story. We were surprised to see a mere -0.4 % qoq drop in private consumption as inflation readings had suggested a big decline in real wage income. The explanation is that Statistics Sweden (for some undisclosed reason) in the National Accounts use a different price index (the so called implicit consumption deflation) than CPI. The former “only” shows 4.0 % yoy inflation while CPI shows 6.0 % yoy. The 2 percentage point difference in effect means that consumption growth in the National Accounts is about 2 % higher than what you would expect from what CPI inflation suggest. The reason for the deviation mainly lies in the COICOP 4 component (housing) which uses a different price deflation for measuring electricity and district heating. This is very odd in our view, to say the least. Which one is correct? Well, we remain confident that CPI does give a good indication about households’ cost of living. Hence, we fear that the economy was weaker in Q1 than what official data suggest and that this may very well remain the case in Q2 too.

Norway – Manufacturing slowdown

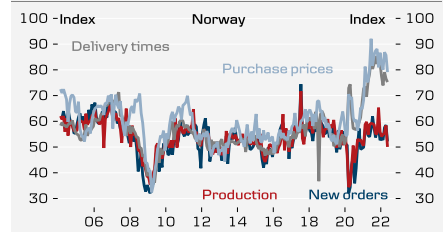
The manufacturing PMI fell from 59.9 in April to 54.9 in May. While this was a big drop, the index still points to solid growth in activity. The underlying data, however, were slightly less encouraging. The production index fell from 58.4 to 50.1, its lowest since August 2020. The indices for delivery times and stocks of finished goods suggest that there are still big problems sourcing intermediates, which could explain part of the slowdown. On the other hand, the index for new orders fell from 58.5 to 52.2, and this was due particularly to orders from the domestic market. While we acknowledge that the Norwegian PMI can fluctuate considerably from month to month, this could be a sign of a certain slowdown in manufacturing ahead.

Sweden: final demand is falling, question is how fast



Source: SCB, Danske Bank calculations

Capacity problems and price pressures continuing, but orders now slowing



Source: Macrobond, Danske Bank

Calendar

Monday, June 6, 2022				Period	Danske Bank	Consensus	Previous
3:45	CNY	Caixin PMI service	Index	May		46.0	36.2
Tuesday, June 7, 2022				Period	Danske Bank	Consensus	Previous
-	CNY	Foreign exchange reserves	USD bn	May		3115.0	3119.7
1:30	JPY	Labour cash earnings	y/y	Apr		1.5%	2.0%
6:30	AUD	Reserve Bank of Australia rate decision	%		0.6%	0.8%	0.35%
7:00	JPY	Leading economic index, preliminary	Index	Apr		102.5	100.8
8:00	SEK	Current account	SEK bn	1st quarter			68.5
8:00	DEM	Factory orders	m/mly/y	Apr		-0.3% -4.7%	-4.7% -3.1%
8:00	DKK	Industrial production	m/m	Apr			5.2%
9:00	CHF	SNB balance sheet, intervention	CHF bn	May			926.1
9:30	EUR	S&P may publish Germany's debt rating		May			46
10:30	EUR	Sentix Investor Confidence	Index	Jun		-21.3	-22.6
10:30	GBP	PMI services, final	Index	May		51.8	51.8
14:30	USD	Trade balance	USD bn	Apr		-89.2	-109.8
21:00	USD	Consumer credit	USD bn	Apr		32.8	52.4
Wednesday, June 8, 2022				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		6.0%	6.0%	5.25%
1:50	JPY	GDP deflator, final	y/y	1st quarter		-0.4%	-0.4%
1:50	JPY	GDP, final	q/qlann.	1st quarter		-0.3% -1.1%	-0.2% -1.0%
7:45	CHF	Unemployment	%	May		2.2%	2.2%
8:00	SEK	Budget balance	SEK bn	May			-16
8:00	NOK	Manufacturing production	m/mly/y	Apr			0.6% -2.2%
8:00	NOK	Industrial production	m/mly/y	Apr			2.2% 3.0%
8:00	DEM	Industrial production	m/mly/y	Apr		1.0% -3.2%	-3.9% -3.5%
10:30	GBP	PMI construction	Index	May		56.9	58.2
11:00	EUR	GDP, final	q/qly/y	1st quarter		0.3% 5.1%	0.3% 5.1%
11:00	EUR	Gross fixed investments	q/q	1st quarter		1.2%	3.4%
11:00	EUR	Government consumption	q/q	1st quarter			0.5%
11:00	EUR	Private consumption	q/q	1st quarter		-0.7%	-0.3%
11:00	EUR	Employment, final	q/qly/y	1st quarter			0.5% 2.6%
16:30	USD	DOE U.S. crude oil inventories	K				-5068
Thursday, June 9, 2022				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	May		57.8	51.1
-	CNY	Money supply M2	y/y	May		10.2%	10.5%
1:01	GBP	RICS house price balance	Index	May		0.8	0.8
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	DKK	Current account (nsajsa)	DKK bn	Apr			- 25.3
8:00	SEK	Industrial orders	m/mly/y	Apr			3.9% 6.5%
8:00	SEK	Private Sector Production	m/mly/y	Apr			0.0% 3.2%
8:00	SEK	Household consumption	m/mly/y	Apr			-0.1% 3.1%
8:00	DKK	Trade balance ex ships	DKK bn	Apr			7.3
8:00	DKK	Exports	m/m	Apr			730.0%
13:45	EUR	ECB's Lagarde speaks at press conference				0	0
13:45	EUR	ECB announces refi rate	%		0.00%	0.00%	0.00%
13:45	EUR	ECB announces deposit rate	%		-0.50%	-0.50%	-0.50%
14:30	USD	Initial jobless claims	1000				200
23:26	USD	Fed's George speaks					
Friday, June 10, 2022				Period	Danske Bank	Consensus	Previous
3:30	CNY	GPI	y/y	May		2.2%	2.1%
3:30	CNY	PPI	y/y	May		6.5%	8.0%
7:06	USD	Fed's George speaks					
8:00	NOK	Core inflation (CPI-ATE)	m/mly/y	May	-0.2% 2.8%	0.0% 3.1%	0.9% 2.6%
8:00	NOK	CPI	m/mly/y	May		- 5.7%	1.2% 5.4%
8:00	NOK	PPI	m/mly/y	May			-7.2% 66.4%
8:00	DKK	CPI	m/mly/y	May	0.0% 6.7%		1.6% 6.7%
9:00	ESP	HICP, final	m/mly/y	May		0.7% 8.5%	0.7% 8.5%
12:30	RUB	Central Bank of Russia rate decision	%			10.0%	11.0%
14:30	USD	CPI headline	m/mly/y	May	0.8% 8.4%	0.7% 8.2%	0.3% 8.3%
14:30	USD	CPI core	m/mly/y	May	0.5% 5.9%	0.4% 5.9%	0.6% 6.2%
14:30	CAD	Net change in full time employment	1000	May			-31.6
16:00	USD	University of Michigan Confidence, preliminary	Index	Jun		58.9	58.4
20:00	USD	Budget statement	USD bn	May			308.2

Source: Danske Bank

Macroeconomic forecast

Macro forecast. Scandinavia

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Denmark	2021	4.7	4.3	3.7	5.6	7.8	8.2	1.9	3.0	3.7	2.4	36.7	8.3
	2022	3.5	2.2	0.6	2.0	6.0	4.0	5.5	3.7	2.4	1.7	32.6	7.5
	2023	1.3	2.5	0.5	1.1	3.1	4.1	1.7	4.0	2.5	1.8	30.3	7.7
Sweden	2021	4.5	5.7	2.5	5.9	7.2	9.1	2.2	2.7	8.8	-0.2	37.7	1.4
	2022	2.5	3.3	1.3	2.8	5.1	5.6	4.0	2.0	7.0	0.8	33.0	4.8
	2023	2.0	1.9	1.2	2.2	3.9	3.4	1.3	2.1	6.8	0.8	30.0	5.1
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	3.3	3.7	2.0	-	-	-
	2023	2.0	2.5	1.3	2.0	4.0	4.0	1.8	3.7	1.9	-	-	-

Macro forecast. Euroland

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euro area	2021	5.4	3.5	3.9	4.2	11.0	8.7	2.6	4.1	7.7	-5.1	97.4	3.2
	2022	2.5	3.2	3.9	3.5	6.7	9.0	7.3	3.2	6.8	-3.7	94.7	2.4
	2023	1.8	0.7	3.7	3.5	3.9	4.4	2.8	3.4	6.8	-2.5	92.7	2.9
Germany	2021	2.9	0.3	2.9	1.0	9.5	9.0	3.2	3.4	3.6	-3.7	69.3	7.4
	2022	1.4	3.0	1.3	2.2	1.9	6.7	7.6	3.3	3.0	-2.5	66.4	6.4
	2023	1.8	0.7	4.1	3.5	3.9	4.5	3.2	3.9	3.0	-1.0	64.5	6.8
Finland	2021	3.5	3.1	3.2	1.2	4.7	5.3	2.2	2.3	7.7	-2.6	65.8	0.7
	2022	1.7	2.3	1.0	3.0	3.0	4.0	4.4	2.8	7.0	-3.0	66.1	0.2
	2023	2.0	2.5	1.0	3.0	3.0	3.5	2.0	2.6	6.6	-1.8	65.5	0.4

Macro forecast. Global

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
USA	2021	5.7	7.9	0.5	7.8	4.5	14.0	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	2.4	2.9	-0.8	3.9	2.9	9.6	8.2	5.2	3.6	-4.2	124.0	-3.5
	2023	0.1	0.1	1.1	-1.2	-2.3	-1.7	4.6	4.2	3.9	-3.8	121.0	-3.2
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	3.7	4.8	-	3.0	-	-	2.5	5.0	-	-7.7	77.8	1.1
	2023	5.7	6.5	-	5.0	-	-	2.5	5.5	-	-7.1	81.8	1.0
UK	2021	7.4	6.2	14.3	5.9	-1.3	3.8	2.6	5.1	4.5	-3.8	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-1.7	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-2.0	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.3	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.7	3.3	1.4	-1.8	3.6	4.1	1.6	-	2.5	-	-	-
	2023	1.8	1.6	0.7	1.7	2.9	1.1	1.1	-	2.5	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % of GDP.

Financial forecast

Bond and money markets										
		Key interest rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs DKK	Currency vs NOK	Currency vs SEK
USD	03-Jun	1.00	1.63	3.01	2.99	107.5	-	692.1	941.0	971.7
	+3m	2.00	2.58	3.25	3.40	102.0	-	729.7	1029.4	1009.8
	+6m	2.50	3.10	3.55	3.60	101.0	-	737.1	1029.7	1039.6
	+12m	3.25	3.40	3.65	3.40	100.0	-	745.0	1000.0	1070.0
EUR	03-Jun	-0.50	-0.33	1.24	1.98	-	107.5	743.9	1011.5	1044.4
	+3m	0.00	0.28	1.30	2.05	-	102.0	744.3	1050.0	1030.0
	+6m	0.50	0.71	1.45	2.30	-	101.0	744.5	1040.0	1050.0
	+12m	1.00	1.12	1.50	2.20	-	100.0	745.0	1000.0	1070.0
JPY	03-Jun	-0.10	-0.02	0.07	0.39	120.5	130.1	6.17	8.39	8.67
	+3m	-0.10	-	-	-	131.6	129.0	5.66	7.98	7.83
	+6m	-0.10	-	-	-	128.3	127.0	5.80	8.11	8.19
	+12m	-0.10	-	-	-	122.0	122.0	6.11	8.20	8.77
GBP*	03-Jun	1.00	-	2.45	2.19	85.5	125.7	870.0	1182.9	1221.3
	+3m	1.25	-	2.15	2.10	86.0	118.6	865.4	1220.9	1197.7
	+6m	1.50	-	2.25	2.10	85.0	118.8	875.9	1223.5	1235.3
	+12m	1.75	-	2.15	1.90	84.0	119.0	886.9	1190.5	1273.8
CHF*	03-Jun	-0.75	-	0.56	1.53	103.1	96.0	721.3	980.8	1012.7
	+3m	-0.75	-	-	-	103.0	101.0	722.6	1019.4	1000.0
	+6m	-0.50	-	-	-	101.0	100.0	737.1	1029.7	1039.6
	+12m	0.00	-	-	-	99.0	99.0	752.5	1010.1	1080.8
DKK	03-Jun	-0.60	-0.07	1.54	2.25	743.94	692.13	-	135.97	140.39
	+3m	-0.10	0.48	1.55	2.30	744.25	729.66	-	141.08	138.39
	+6m	0.40	0.89	1.70	2.55	744.50	737.13	-	139.69	141.03
	+12m	0.90	1.30	1.75	2.45	745.00	745.00	-	134.23	143.62
SEK	03-Jun	0.25	0.50	2.16	2.66	1044.4	971.7	71.2	96.9	100.0
	+3m	0.50	0.85	2.25	2.65	1030.0	1009.8	72.3	101.9	-
	+6m	0.75	1.10	2.45	2.65	1050.0	1039.6	70.9	99.0	-
	+12m	1.25	1.40	2.40	2.60	1070.0	1070.0	69.6	93.5	-
NOK	03-Jun	0.75	1.27	2.67	3.00	1011.5	941.0	73.5	100.0	103.3
	+3m	1.00	1.61	2.70	3.25	1050.0	1029.4	70.9	-	98.1
	+6m	1.25	1.90	2.80	3.40	1040.0	1029.7	71.6	-	101.0
	+12m	1.75	2.32	2.95	3.35	1000.0	1000.0	74.5	-	107.0

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

Commodities

	03-Jun	2022				2023				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	117	98	112	115	100	95	95	95	95	106	95

Source Danske Bank

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