

Weekly Focus

Halloween did not spook markets

Markets were not spooked by Halloween as equities climbed significantly higher while rates and the index of fear (the VIX) declined during the week. The market moves were driven by weaker US data, dovish market perceptions of the Fed, and a better outlook for the US treasury as it now expects to slow the pace of longer-term bonds issuance.

The Bank of Japan (BoJ) used Halloween to “trick or tweak” and tweaked its yield curve yield curve control policy (YCC) by redefining the 1% cap on 10-year JGB yields as a reference rather than a rigid bound. This was likely the last, step ahead of dismantling the YCC altogether. However, the BoJ still needs confirmation that inflation has sustainably moved above the 2% target before they are ready to take bigger steps to normalisation. They are slowly recognising higher inflation is not temporary and moved their inflation forecast significantly higher for the fiscal year 2024 to 2.8% from 1.9%.

Economic data from the US showed weaker than expected ISM manufacturing driven by lower new orders, production and employment, reversing some of the more positive signals seen over the past months. ADP employment change was also lower than expected, while JOLTs job openings continue to signal quite resilient labour markets. The latter was also visible in the Conference Board wage index that rose 1.2% in Q3 vs 1% in Q2.

The Federal Reserve decided, as expected, to keep the Fed Funds target range unchanged at 5.25-5.50%. Powell delivered a balanced message with dovish undertones. The recent strong labour market data that has lifted inflation expectations provided Powell an option to deliver a more hawkish message, but he did not consider it necessary and said that inflation expectations remain “in a good place”.

In the euro area, inflation and GDP data corroborated the ‘soft-landing’ narrative. Headline inflation fell significantly again to 2.9% y/y from 4.3% and core inflation ticked down to 4.2% y/y from 4.5%. Base effects drove the yearly growth rate down but the underlying inflationary momentum again showed positive signs with core inflation increasing just 0.11% m/m s.a. from 0.17%. GDP growth in the third quarter was -0.1% q/q which is not a bad as one could fear given the significant monetary policy tightening.

In China, October PMIs from both NBS and Caixin disappointed. Manufacturing PMI fell to 49.5 (consensus 50.2) from 50.2 and service PMI dropped to 50.6 (consensus 52.0) from 51.7. The lower service PMIs raise concerns over the consumer engine in China.

Bank of England (BoE) left the bank rate unchanged at 5.25% in line with expectations. The BoE lowered growth and near-term inflation projections amid pushing back against market pricing of rate cuts. We continue to expect the peak in the Bank Rate to have been reached and see another rate hike as unlikely at this point.

Next week, focus is on comments from the Fed and the flash University of Michigan survey. In Japan, we look out for September wage figures while China releases trade data and CPI. The reserve bank of Australia meeting on Tuesday is interesting as market pricing is split 50/50 on the probability of a hike/ no hike. On Friday, we receive UK GDP

Key global views

- Weak near-term growth outlook in the US and Europe, but recovery from summer 2024
- US and euro area headline set to decline further, but core inflation to remain sticky
- Fed and ECB policy rates have peaked

Key market movers

- Tuesday: Japan cash earnings. Chinese trade data. Euro area PPI. Australia rate decision
- Wednesday: Poland rate decision
- Thursday: Chinese CPI
- Friday: U. of Mich. Survey, UK GDP

Selected reading from Danske Bank

- *Bank of England Review: BoE paves the way for more EUR/GBP topside*, 2 November
- *Research US - Fed review: Still on track*, 1 November
- *Postcard from China: 10 key takeaways from China trip*, 31 October

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Scandi market movers

- In **Denmark**, September's industrial production figures are due on Tuesday. Pharmaceuticals continued to be the main workhorse the previous month when production was unchanged from July but down 1% ex. pharma. In fact, production ex. pharma has been declining throughout 2023, largely due to the economic downturn affecting many of Denmark's export markets. As this has not changed, we expect the trend to continue.

Bankruptcy figures for October are also due on Tuesday. Some 250 active companies have gone under, on average, every month in 2023, which is relatively high. In light of the recession that Denmark is currently experiencing and given the rising wage and interest costs faced by business, we expect a similarly high level in October.

Thursday should bring foreign trade figures for September. Exports rose by 0.8% in August compared to July, with goods exports, including pharmaceutical sales to the US, being a major contributor. Denmark continues to sell a lot of pharmaceutical products and the US economy remains strong, which will tend to pull exports higher. However, the economic slowdown in Germany, one of Denmark's key trading partners, will be pulling in the opposite direction.

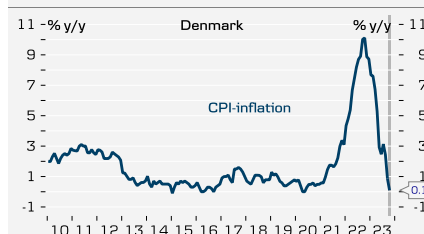
On Friday, we get the CPI for October. We expect another decline in inflation from 0.9% in September to 0.1% in October, driven largely by energy base effects. Also core inflation pressures have come lower recently and it will be interesting to see if this has continued. October will probably mark the bottom of inflation for now, though, as energy base effects will pull inflation higher again in November.

October's unemployment indicator rounds off the week. The labour market has remained robust throughout the year and unemployment numbers rose by just 300 in September. That is rather remarkable given that the Danish economy is in recession. However, having come from a situation with many unfilled positions, companies are keener to hold onto employees. In addition, the labour-intensive service sector has so far fared well. Nevertheless, the number of job vacancies has declined and wages have increased. We therefore expect a modest increase in unemployment numbers once again.

- Up to September, Government borrowing in Sweden was an accumulated SEK 48 bn lower than forecast for the May-Sep period, quite a hefty deviation. It seems a significant part of this, but far from all, is the result of less payments of corporate electricity support which was part of the government's fiscal spending package last year. The Debt Office's new October forecast for the budget deficit during Oct-Dec is SEK 60 bn, very close to the SEK 58 bn May forecast. DO said it expects further payments for electricity payments to be made in coming months. It forecasts a SEK 4bn deficit in October.

The September PVI (production value indicator) and consumption indicator will add some colour to the already released Q3 GDP indicator (unchanged qoq SA). September data already released suggest real goods net exports demand gave a significant positive contribution (+0.7 p.p.) to GDP growth while retail sales basically remained unchanged. On the supply side, hours worked dropped by 0.4 % qoq SA. Consumption is likely to be affected by the moderation in retail sales growth. Looking at composite PMI, which appears to have stabilized in Q3, there should be a modest decline in PVI. To us, it seems the demand side of GDP is gradually, slowly recovering, while supply instead has turned sour.

We expect inflation fell to 0.1% in October



Source: Statistics Denmark, Danske Bank

Sweden: SNDO expect to borrow SEK 4 bn in October

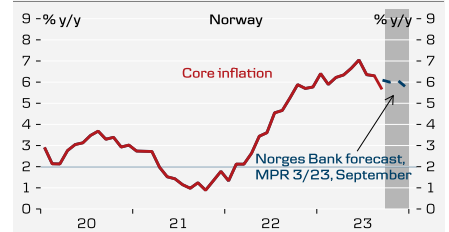


Source: Swedish National Debt Office

There are several Riksbank events the coming week: Deputy Governors Flodén speaks on Tuesday 7th November about the macro outlook and monetary policy. On Thursday the 9th, the Financial Stability Report is released.

- In **Norway**, inflation surprised to the downside in September, with the core rate dropping to 5.7%. The decrease was relatively broad-based, and some underlying measures were even lower. It would seem that the worst of the pressure on prices for food and imported goods is behind us, which means that inflation will probably fall further in the coming months. It also means that we expect only a moderate correction of food prices and the like in October after the slowdown in September. There is a slight risk of there having been an upward adjustment of prices ahead of Black Week offers this month, but that would then reverse in the November data. All in all, we reckon that core inflation will edge down further to 5.6% y/y in October, which would be well below Norges Bank's forecast of 6.0% in the September monetary policy report and so a strong argument in favour of leaving the policy rate unchanged again at its December meeting.

Inflation on its way down



Source: Macrobond, Danske Bank

Scandi update

Denmark – No revision of unemployment numbers

The number of unemployed rose by 300 in September, confirming what the unemployment indicator pointed to previously.

As expected, Danmarks Nationalbank did not intervene in the FX market in October. FX reserves increased by DKK1.8bn as a result of the government taking up net foreign loans of DKK0.7bn and the central bank buying foreign currency for a net DKK1.1bn

Sweden – Swedish economy remains idle

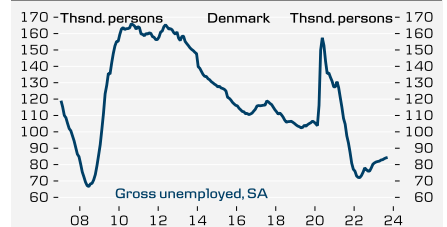
Swedish GDP indicator was weaker than expected as it seasonally adjusted remained unchanged from Q2 (expected +0.3% q/q), it is worth noting that the Riksbank has -0.2% q/q in their forecast. Unfortunately, as it is only a flash estimate that is classified as an experimental unofficial statistic, Statistic Sweden provided no details on the compositions and explanation of the development. Once again, this number has constantly been greatly revised afterwards needs to be taken with caution. Either way, this turnout was much better than many forecasters had predicted for their Swedish total growth y/y 2023. Given that GDP was +0.6 in q1 and -0.8 in q2, q3 needs to be revised downwards or q4 to be incredibly bad for the doomsday prophecies to be correct and ours of unchanged growth for 2023 to be off the rails. Compared to other Nordic countries, not to mention Germany and the Eurozone, Swedish GDP growth has developed better since the end of 2019 before the lockdown.

Manufacturing PMI was 45.7 in October compared to 43.4 in September, which marked the fifteenth month in a row in contraction. The subindex for output was the biggest monthly contributor to the increase in the PMI (1.3 pp.), followed by new orders (0.5 pp.), employment (0.3 pp.), delivery times and stocks of purchases with 0.1 pp. each. Swedish industry stands in no way out compared to neighbouring economies. Rather a generally weaker development for worldwide manufacturing has been seen in the PMIs published until now for October.

Norway – No change from Norges Bank

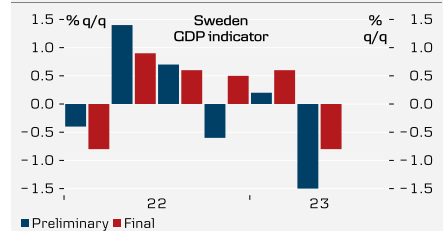
As expected, Norges Bank left its policy rate unchanged at 4.25% at its meeting during the week, which was one of its interim meetings with no new economic forecasts. In the press release, the bank writes: “Based on the Committee’s current assessment of the outlook and balance of risks, the policy rate will likely be raised in December. The Committee will have received more information about the inflation outlook ahead of its monetary policy meeting in December. If the Committee becomes more assured that underlying inflation is on the decline, the policy rate may be kept on hold.” In other words, if we are right about inflation remaining lower than the central bank projected in September, and economic growth remaining weak, Norges Bank will leave the policy rate unchanged at its meeting in December.

The number of unemployed rose by 300 in September



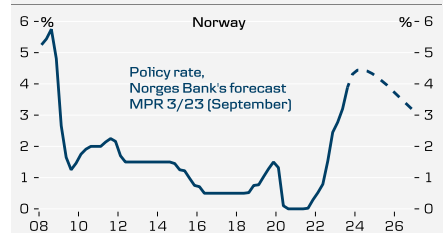
Source: Danske Bank, Statistics Denmark, Macrobond Financial

The GDP Indicator is not the most reliable indicator



Remark: Data are seasonally adjusted
Source: SCB

Policy rate about to peak



Source: Macrobond, Danske Bank

Calendar – 6-10 November 2023

Monday, November 6, 2023					Period	Danske Bank	Consensus	Previous
1:30	JPY	Markit PMI services, final	Index	Oct				51.1
8:00	DEM	Factory orders	m/mly/y	Sep			-1.7%	3.9% -4.2%
9:15	ESP	PMI services	Index	Oct			49.5	50.5
9:45	ITL	PMI services	Index	Oct			49.0	49.9
9:50	FRF	PMI services, final	Index	Oct			46.1	46.1
9:55	DEM	PMI services, final	Index	Oct			48.0	48.0
10:00	EUR	PMI composite, final	Index	Oct			46.5	46.5
10:00	EUR	PMI services, final	Index	Oct			47.8	47.8
10:30	EUR	Sentix Investor Confidence	Index	Nov			-21.7	-21.9
10:30	GBP	PMI construction	Index	Oct			46.0	45.0
Tuesday, November 7, 2023					Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Oct			84.2	77.8
-	CNY	Foreign exchange reserves	USD bn	Oct				3115.1
0:30	JPY	Labour cash earnings	y/y	Sep			1.0%	0.8%
4:30	AUD	Reserve Bank of Australia rate decision	%		4.10%		4.35%	4.10%
7:45	CHF	Unemployment	%	Oct			2.1%	2.1%
8:00	SEK	Budget balance	SEK bn	Oct				-6.3
8:00	NOK	Manufacturing production	m/mly/y	Sep				1.5% 1.4%
8:00	NOK	Industrial production	m/mly/y	Sep				0.5% -8.7%
8:00	DEM	Industrial production	m/mly/y	Sep			-0.4%	-0.2% -2.0%
8:00	DKK	Industrial production	m/m	Sep				0.2%
9:00	CHF	Foreign Currency Reserves	CHF bn	Oct				678.4
11:00	EUR	PPI	m/mly/y	Sep			-12.8% 0.3%	-11.5% 0.6%
14:30	USD	Trade balance	USD bn	Sep			-60.5	-58.3
21:00	USD	Consumer credit	USD bn	Sep			10.0	-15.6
Wednesday, November 8, 2023					Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		5.50%		5.50%	5.75%
6:00	JPY	Leading economic index, preliminary	Index	Sep			108.7	109.2
6:00	SEK	Maklarstatistik Swedish housing price data						
8:00	DEM	HICP, final	m/mly/y	Oct			-0.2% 3.0%	-0.2% 3.0%
11:00	EUR	Retail sales	m/mly/y	Sep			-0.2%	-1.2% -2.1%
Thursday, November 9, 2023					Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Oct				10.3%
1:01	GBP	RICS house price balance	Index	Oct			-0.7	-0.7
2:30	CNY	PPI	y/y	Oct			-2.8%	-2.5%
2:30	CNY	CPI	y/y	Oct			-0.2%	0.0%
8:00	DKK	Current account (nsa sa)	DKK bn	Sep				- 21.4
8:00	DKK	Trade balance ex ships	DKK bn	Sep				8.4
8:00	DKK	Exports	m/m	Sep				0.8%
10:00	EUR	ECB Publishes Economic Bulletin						
14:30	USD	Initial jobless claims	1000					217
15:30	USD	Fed's Barkin speaks						
15:30	USD	Fed's Bostic speaks						
18:30	EUR	ECB's Lagarde speaks						
20:00	USD	Fed chair Powell speaks						
Friday, November 10, 2023					Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Italy's debt rating						
8:00	NOK	Core inflation (CPI-ATE)	m/mly/y	Oct	0.3% 5.6%		0.3% 5.6%	0.4% 5.7%
8:00	GBP	GDP, preliminary	q/qly/y	3rd quarter			-0.1% 0.6%	0.2% 0.6%
8:00	GBP	Monthly GDP estimate	m/m q/q	Sep			0.0%	0.2%
8:00	GBP	Index of services	m/m 3m/3m	Sep			0.1% -0.2%	0.4% 0.1%
8:00	SEK	Industrial orders	m/mly/y	Sep				5.0% -0.4%
8:00	SEK	Private Sector Production	m/mly/y	Sep				0.5% 0.7%
8:00	SEK	Household consumption	m/mly/y	Sep				0.5% 0.6%
8:00	NOK	CPI	m/mly/y	Oct			- 3.4%	-0.1% 3.3%
8:00	NOK	PPI	m/mly/y	Oct				4.8% -29.3%
8:00	DKK	CPI	m/mly/y	Oct	0.3% 0.1%			-0.3% 0.9%
15:00	USD	Fed's Bostic speaks						
16:00	USD	University of Michigan Confidence, preliminary	Index	Nov			63.5	63.8
20:00	USD	Budget statement	USD bn	Oct				-171.0

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	2022	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.6	2.6	3.4	29.7	13.0
	2023	1.7	0.1	0.2	-5.2	6.7	0.8	4.0	4.3	2.9	2.1	27.7	12.5
	2024	1.2	1.6	1.5	0.7	1.7	1.7	3.2	5.6	3.2	1.0	26.0	12.5
Sweden	2022	2.9	1.9	0.0	6.2	7.0	9.3	8.4	2.5	7.5	1.1	31.0	3.7
	2023	0.0	-1.6	2.2	-0.9	2.5	0.7	8.4	4.0	7.5	-0.4	29.0	4.7
	2024	1.7	1.7	1.5	2.0	3.0	2.9	1.8	3.3	7.8	-0.8	29.0	4.7
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.2	-1.7	1.4	0.5	4.0	3.0	5.8	5.4	1.9	-	-	-
	2024	1.4	1.2	1.0	4.0	2.0	1.6	3.6	4.4	2.3	-	-	-

Macro forecast. Euroland

	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ²	Public budget ³	Public debt ³	Current acc. ³
Euro area	2022	3.4	4.2	1.6	2.8	7.4	8.0	8.4	3.1	6.7	-3.6	91.5	-0.9
	2023	0.5	0.1	-0.7	0.5	1.7	1.0	5.5	5.3	6.5	-3.2	90.0	1.3
	2024	0.8	1.1	1.0	0.5	2.0	2.0	2.6	4.5	6.8	-2.6	89.1	1.7
Finland	2022	1.6	1.7	0.8	3.2	3.7	8.5	7.1	2.4	6.8	-0.8	73.3	-2.5
	2023	-0.2	-0.2	3.0	-5.0	-0.5	-3.0	6.5	4.0	7.2	-2.8	72.3	-4.0
	2024	0.8	1.0	0.5	1.0	1.5	1.5	2.3	3.4	7.0	-2.7	73.4	-3.0

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	2022	1.9	2.5	-0.9	1.3	7.0	8.6	8.0	5.3	3.6	-5.5	123.3	-3.9
	2023	2.4	2.2	3.8	0.3	1.8	-2.0	4.2	4.1	3.6	-5.4	123.6	-3.1
	2024	1.1	0.2	2.9	3.1	-1.6	0.5	2.3	3.2	4.1	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	5.5	-7.5	77.1	2.3
	2023	4.8	6.5	-	4.5	-	-	0.8	-	5.2	-7.5	82.8	1.4
	2024	4.2	5.0	-	3.8	-	-	1.2	-	5.1	-7.5	87.4	1.0
UK	2022	4.2	-	-	-	-	-	9.0	-	3.7	-	-	-
	2023	0.4	-	-	-	-	-	7.6	-	4.3	-	-	-
	2024	0.4	-	-	-	-	-	2.9	-	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 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-Nov	5.50	-	4.81	4.31	0.94	-	7.03	11.18	11.14
	+3m	5.50	-	4.57	4.33	0.93	-	6.97	11.31	10.75
	+6m	5.25	-	4.28	4.09	0.94	-	7.03	11.42	11.04
	+12m	4.75	-	3.95	3.85	0.97	-	7.23	11.65	11.46
EUR	02-Nov	4.00	3.92	3.50	3.22	-	1.06	7.4634	11.87	11.83
	+3m	4.00	3.94	3.59	3.18	-	1.07	7.4550	12.10	11.50
	+6m	4.00	3.72	3.39	3.04	-	1.06	7.4500	12.10	11.70
	+12m	3.50	3.25	2.95	2.90	-	1.03	7.4500	12.00	11.80
JPY	02-Nov	-0.10	-	-	-	0.006	0.007	4.67	7.43	7.40
	+3m	-0.10	-	-	-	0.007	0.007	4.91	7.96	7.57
	+6m	0.00	-	-	-	0.007	0.008	5.32	8.65	8.36
	+12m	0.00	-	-	-	0.007	0.008	5.56	8.96	8.81
GBP*	02-Nov	5.25	-	4.87	4.23	1.15	1.08	8.56	13.61	13.56
	+3m	5.25	-	4.88	4.28	1.14	1.22	8.47	13.75	13.07
	+6m	5.25	-	4.69	4.09	1.12	1.19	8.37	13.60	13.15
	+12m	4.75	-	4.50	3.95	1.12	1.16	8.37	13.48	13.26
CHF	02-Nov	1.75	-	-	-	1.04	1.10	7.75	12.33	12.29
	+3m	1.75	-	-	-	1.06	1.14	7.93	12.87	12.23
	+6m	1.75	-	-	-	1.08	1.14	8.01	13.01	12.58
	+12m	1.25	-	-	-	1.08	1.11	8.01	12.90	12.69
DKK	02-Nov	3.60	3.95	3.63	3.39	0.134	0.142	-	1.59	1.58
	+3m	3.60	3.99	3.74	3.33	0.134	0.144	-	1.62	1.54
	+6m	3.60	3.77	3.54	3.19	0.134	0.142	-	1.62	1.57
	+12m	3.10	3.30	3.10	3.05	0.134	0.138	-	1.61	1.58
SEK	02-Nov	4.00	4.09	3.78	3.29	0.085	0.090	0.63	1.00	-
	+3m	4.00	4.12	3.87	3.24	0.087	0.093	0.65	1.05	-
	+6m	4.00	4.03	3.48	2.98	0.085	0.091	0.64	1.03	-
	+12m	3.50	3.53	3.10	2.90	0.085	0.087	0.63	1.02	-
NOK	02-Nov	4.25	4.82	4.60	4.07	0.084	0.089	0.63	-	1.00
	+3m	4.25	4.57	4.42	3.98	0.083	0.088	0.62	-	0.95
	+6m	4.00	4.26	4.13	3.74	0.083	0.088	0.62	-	0.97
	+12m	3.50	3.84	3.80	3.55	0.083	0.086	0.62	-	0.98

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

Commodities

	02-Nov	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	87	82	78	86	85	80	80	80	80	83	80

Source Danske Bank

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