

Weekly Focus

Rising stagflation risks from surge in commodity prices

The war in Ukraine intensified further this week and concerns mounted about the humanitarian situation in Ukraine and what the end game will be in Ukraine. Fighting around Europe's largest nuclear plant that caused a fire to break out stoked fears over a possible nuclear accident. However, the fire was put out.

Financial markets have seen a further risk-off move throughout the week with especially European stocks taking a big hit. Euro Stoxx 50 has dropped 9% this week at the time of writing and are down 16% from the peak. German 10-year bond yields have dropped 30bp over the past 2-3 weeks and now trade around zero again. The USD and CHF have gained further on flight to safety and EUR/USD has also moved lower on overall EUR weakness as the euro area is most exposed to the economic fall-out from the war in Ukraine.

Commodity prices have surged with not least oil and gas prices accelerating higher. Brent oil hit USD118 this week before falling back to USD111 but it's still a rise of 40% compared to late last year. Food and metals prices are also moving higher as Russia is a big exporter of wheat and many metals. Food prices also see spill-over from higher gas prices as it is an input in fertilizer production. The CRB food stuff index is up 20% over the past three months. Apart from being inflationary it also adds to vulnerabilities among emerging and developing countries on top of continued struggle with covid in some of these countries.

The crisis has led to renewed downside risks to global growth with Europe being most exposed. Inflation could rise even further on the commodity price surge, which in turn erodes purchasing power. Underlying inflation is also likely to move up due to second round effects on wage growth and higher inflation expectations.

The inflationary effect of the crisis is keeping central banks on a hiking path despite the risks to growth. Fed Chairman Jerome Powell this week said he supported a 25bp hike at the meeting on 16 March and that 50bp hikes could be necessary later in the year if inflation failed to come down as projected. A similar message was given from other Fed members. We also expect the ECB to still hike in December, which is in line with market pricing. Inflation for February released this week surprised to the upside again hitting 5.8% (consensus 5.6%).

Looking into next week, the war in Ukraine will remain the most important thing to follow. Among other things, focus is on a possible siege of Kyiv by Russian forces. Otherwise the ECB meeting will be key for not least fixed income markets. We expect ECB to formally put an end date to the APP programme (in September this year), due to the high inflation pressure, but fall short of giving a firm indication of a coming rate hike, see *ECB Preview – Inflation forces normalisation process to continue*, 3 March. The US releases CPI inflation for February, which will also be key to gauge current inflation pressures. The Fed's blackout period starts Saturday so we'll get no further comments after that ahead of the 16 March meeting. In China, the annual National People's Congress begins tomorrow. It starts with read-out of the work report, which outlines policies for the coming year including a growth target. We expect a target of 5+% or 5½%.

Key market movers

- During the week: Ukraine-Russia
- Saturday: China's NPC kicks off
- Wed: China CPI and PPI
- Thurs: ECB meeting, US CPI
- Fri: US consumer confidence/inflation expectations

Key global views

- Rising 'stagflation' risk from war in Ukraine – especially in Europe.
- We don't expect global expansion to be derailed but uncertainty is high
- Surge in commodity prices to keep inflation elevated for longer
- Fed to stick to hiking path (a total of 200bp in 2022), ECB to hike in December on high inflation

Selected reading from Danske Bank

ECB Preview – Inflation forces normalisation process to continue, 3 March

FX Strategy – Oil diplomacy, 1 March

Monthly Executive Briefing – Ukraine crisis a new risk to global growth, 1 March

Research Euro Area – Rising stagflationary headwinds from Ukraine conflict, 28 February

Research Russia – the West walks the talk with unprecedented sanctions against Russia – what's next?, 27 February

Editor

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Scandi market movers

- In **Denmark**, industrial production figures for January are due on Monday. Industrial companies reported reduced order books and production expectations in January, perhaps indicating January was not a particularly strong month for industrial production. As always, the numbers are difficult to predict, as they fluctuate considerably month to month.

Monday should also bring bankruptcy figures for February, and we expect them to remain low in the coming months.

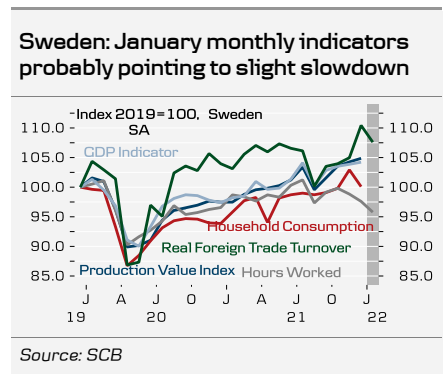
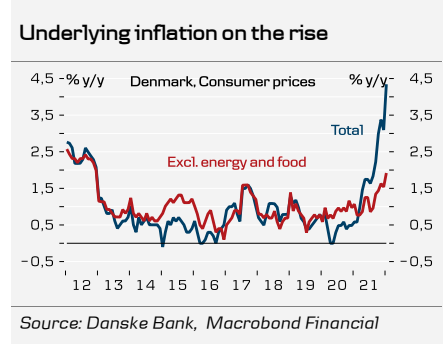
February's inflation figures are due on Thursday. January's annual inflation rate of 4.3% was very much due to a dramatic increase in consumer electricity prices, which in turn was triggered by very high market prices in December. Market prices have fallen significantly since then. On the other hand, petrol prices rose almost 5% in February, higher tobacco duties presumably had an impact, and we expect to see higher prices generally, as in other countries of late. All in all, however, we expect inflation to decline in February compared to January and our forecast figure is 3.9%. February also brings the annual rent figures, which make up more than 20% of the overall consumer price index. Even modest surprises here can shift the overall figure substantially, but there is also considerable scope for surprises elsewhere. Volatile energy, commodity and transport prices, for example, have resulted in inflation fluctuating markedly in many countries, and eurozone companies have displayed a clear tendency here in 2022 to pass on higher costs to consumers, something that Danish shops have so far been more reluctant to do. That provides a potential for higher Danish inflation in the course of this year.

January's foreign trade figures are scheduled for Friday. Exports had a particularly good year in 2021, so it will be interesting to see whether the slimmer order books and lower production expectations also had an impact on exports in January.

- The **Swedish** Debt Office forecast is for a SEK 74.2 bn surplus in February. The January outcome was as forecast. Hence, February may give important signals about whether the improvement trend is intact or not.

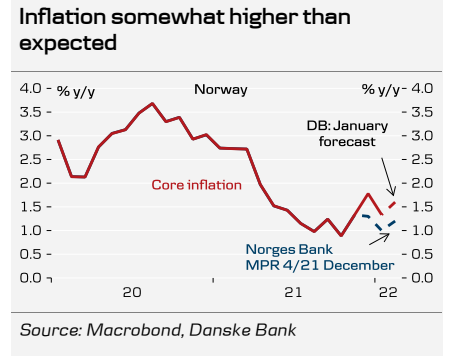
Several monthly indicators for January are released. The 4.5 % mom rise in January retail sales should bolster the consumption indicator. Production has been on a steady rising trend and is likely to have continued up. That said, the outcome for hours worked and real foreign trade turnover dropped in January. Taking all bits and pieces together, it seems reasonable to expect a slight increase in the January GDP outcome.

- In **Norway**, the week brings inflation data for February. Price rises have been volatile over the past couple of months but basically somewhat higher than expected. Part of the reason is that strong global price pressures have meant that import prices have held up better than might have been expected given the strengthening of the NOK during the autumn. We also know from various surveys that there are still substantial cost pressures working their way through the value chain, and wage growth looks set to be higher than anticipated last year.



We therefore predict core inflation of 0.7% m/m in February, taking the annual rate up from 1.3% to 1.6%. This would once again be well above Norges Bank’s December forecast (1.2% y/y for February) and contribute to the expected upward revision of the bank’s interest rate projections at the March rate-setting meeting. That said, core inflation is still moderate and below the 2% target, so there is no reason for Norges Bank to panic.

We expect mainland GDP to grow 0.2% m/m in January, boosted by the partial reopening of parts of the service sector but held back by high power prices undermining retail sales. However, as we already know that capacity utilisation is higher than normal and that wage and price expectations have risen sharply, there is currently less focus on the strength of economic growth.



Scandi update

Denmark – new holiday law causes unemployment to increase in January

National accounts figures showed quarterly GDP growth of 1.1% in Q4 21. Annual GDP growth for 2021 was 4.1% after full year growth was revised higher compared to earlier. Growth in 2021 was the highest since 1994, which says something about how unique the corona crisis has been. The recovery in the wake of the Covid-19 pandemic is complete, and there are no longer plentiful resources in companies and on the labour market to drive the recovery further. Rather, we see shortages of materials and labour as a limiting factor for growth in 2022.

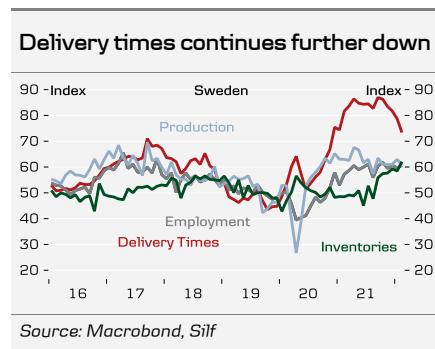
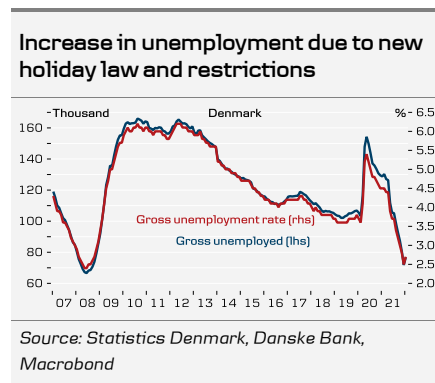
Prices rose 0.2% on houses and 1% on apartments from November to December, according to Statistics Denmark. Seasonally adjusted, house prices actually rose by a stronger 0.8% and apartments 2.4% – equal to the dip in November. This data release marks a significant revision of house prices, and means they rose in the autumn rather than fell – which makes sense, as other statistical sources have also pointed to slight price appreciation in H2 21.

Registered unemployment rose by 5,000 in January relative to December. Statistics Denmark has noted that the December figures were pulled lower by more of the unemployed than normal taking holidays and so not being counted in the statistic. This was due to the new holiday law, which meant that quite a lot of holidays had to be held before year-end. In addition, extensive restrictions were in place in January that affected the restaurant trade, among others, which therefore likely held back on hiring. For this reason alone, we should probably count on unemployment falling again in February.

Sweden – Mixed data

Final Q4 GDP somewhat lower than GDP-indicator indicated, +1.1% q/y (GDP-indicator at 1.4% q/q). Primarily driven by stronger private consumption and exports. On the other side was public consumption and fixed investment which came of somewhat weaker. High electricity prices and now also a jump in fuel prices will probably weigh on household consumption during Q1.

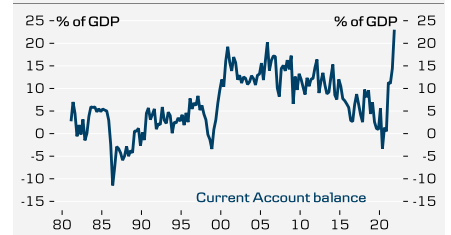
Both PMI for services and manufacturing slightly decreased during February, mainly driven by shorter delivery times, although much longer than normal but also by weakening demand reflected in lower index measuring order inflow. However, on the positive note except further signals of easing supply disruptions, also employment increased in both manufacturing and services sector. Looking at inventories in the manufacturing sector which increased, probably reflecting the ongoing supply disruptions and hence “better safe than sorry” but could also indicate that businesses have half-done products. To summarise, details in PMI’s shows a mixed bag but the total index still indicates a strong economy. The ongoing war between Russia-Ukraine has caused a rush in commodity prices which will give another push in prices coming months, there is also a risk with increased supply chain problems.



Norway – Massive boost from commodity prices

The high oil and gas prices towards the end of last year massively improved Norway’s balance of trade, and the current account surplus soared to a record 23% of GDP in Q4. With the war in Ukraine now having pushed oil and gas prices up further to around 50% above their Q4 average, this record is likely to be very short-lived. Both historically and theoretically, an improvement in the terms of trade like this would be expected to bring real currency appreciation. There is therefore a risk of the NOK strengthening over the course of this year and/or substantially higher wage growth than among Norway’s trading partners, even though much of the effect will be absorbed by the oil fund.

Record current account surplus



Source: Macrobond, Danske Bank

Calendar

During the week				Period	Danske Bank	Consensus	Previous
Mon 07	CNY	Foreign exchange reserves	USD bn	Feb		3227.0	3221.6
Monday, March 7, 2022							
-	CNY	Foreign exchange reserves	USD bn	Feb		3227.0	3221.6
7:45	CHF	Unemployment	%	Feb		2.3%	2.3%
8:00	SEK	Budget balance	SEK bn	Feb			0.8
8:00	DKK	Industrial production	m/m	Jan			-1.2%
8:00	NOK	Manufacturing production	m/mly/y	Jan			-1.6% -1.0%
8:00	NOK	Industrial production	m/mly/y	Jan			2.9% 2.0%
8:00	DEM	Factory orders	m/mly/y	Jan		1.0% 5.1%	2.8% 5.5%
8:00	DEM	Retail sales	m/mly/y	Jan		1.8% 9.1%	-4.6% 0.8%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Feb			947.2
10:30	EUR	Sentix Investor Confidence	Index	Mar		7.6	16.6
21:00	USD	Consumer credit	USD bn	Jan		24.0	18.9
Tuesday, March 8, 2022							
-	PLN	Polish central bank rate decision	%			3.3%	2.8%
0:30	JPY	Labour cash earnings	y/y	Jan		0.1%	-0.4%
6:00	JPY	Leading economic index, preliminary	Index	Jan		103.6	104.8
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	DEM	Industrial production	m/mly/y	Jan		0.8% -1.9%	-0.3% -4.1%
8:00	NOK	GDP (mainland)	m/m	Jan	0.2%		-0.4%
11:00	EUR	GDP, final	q/qly/y	4th quarter	0.3% 4.6%	0.3% 4.6%	0.3% 4.6%
11:00	EUR	Gross fixed investments	q/q	4th quarter		0.5%	-0.9%
11:00	EUR	Government consumption	q/q	4th quarter		0.1%	0.5%
11:00	EUR	Private consumption	q/q	4th quarter		-0.4%	4.3%
11:00	EUR	Employment, final	q/qly/y	4th quarter			0.5% 2.1%
12:00	USD	NFIB small business optimism	Index	Feb		97.4	97.1
14:30	USD	Trade balance	USD bn	Jan		-87.2	-80.7
Wednesday, March 9, 2022							
-	CNY	Money supply M2	y/y	Feb		9.6%	9.8%
0:50	JPY	GDP deflator, final	y/y	4th quarter		-1.3%	-1.3%
0:50	JPY	GDP, final	q/qann.	4th quarter		1.4% 5.6%	1.3% 5.4%
2:30	CNY	PPI	y/y	Feb		8.6%	9.1%
2:30	CNY	CPI	y/y	Feb		0.9%	0.9%
8:00	SEK	Industrial orders	m/mly/y	Jan			-5.1% -7.7%
8:00	SEK	Private Sector Production	m/mly/y	Jan			0.6% 7.7%
8:00	SEK	Household consumption	m/mly/y	Jan			-2.8% 6.5%
16:30	USD	DOE U.S. crude oil inventories	K				-2597
Thursday, March 10, 2022							
1:01	GBP	RICS house price balance	Index	Feb			0.7
6:00	SEK	Service production	y/y	Feb			3.5%
8:00	NOK	CPI	m/mly/y	Feb	1.6%		-0.9% 3.2%
8:00	NOK	PPI	m/mly/y	Feb			-1.2% 58.2%
8:00	DKK	CPI	m/mly/y	Feb	3.9%		1.4% 4.3%
8:00	NOK	Core inflation (CPI-ATE)	m/mly/y	Feb	0.7%		-0.3% 1.3%
13:45	EUR	ECB's Lagarde speaks at press conference				0	0
13:45	EUR	ECB announces refi rate	%			0.00%	0.00%
13:45	EUR	ECB announces deposit rate	%		-0.50%	-0.50%	-0.50%
14:30	USD	Initial jobless claims	1000				215
14:30	USD	CPI headline	m/mly/y	Feb	0.8% 7.9%	0.8% 7.9%	0.6% 7.5%
14:30	USD	CPI core	m/mly/y	Feb	0.5% 6.5%	0.6% 6.4%	0.6% 6.0%
20:00	USD	Budget statement	USD bn	Feb			118.7
Friday, March 11, 2022							
8:00	GBP	Monthly GDP estimate	m/m/q/q	Jan		0 0.008	-0.002 0.011
8:00	GBP	Index of services	m/m 3m/3m	Jan		-0.001	-0.005 0.012
8:00	DKK	Current account (nsa sa)	DKK bn	Jan			-118.0
8:00	DEM	HICP	m/mly/y	Feb		0.9% 5.5%	0.9% 5.5%
8:00	DKK	Trade balance ex ships	DKK bn	Jan			3.9
8:00	DKK	Exports	m/m	Jan			390.0%
9:00	ESP	HICP	m/mly/y	Feb		0.7% 7.5%	0.7% 7.5%
14:30	CAD	Net change in full time employment	1000	Feb			-82.7
16:00	USD	University of Michigan Confidence, preliminary	Index	Mar		62.8	62.8

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	4.1	3.5	4.3	4.1	7.5	7.9	1.9	2.8	3.7	0.0	37.6	7.6
	2022	2.5	3.1	-1.2	2.1	5.4	4.9	2.7	3.2	2.5	1.3	33.9	7.6
	2023	1.7	2.6	-0.6	3.1	3.3	3.8	1.4	3.4	2.5	0.9	32.5	6.8
Sweden	2021	4.5	5.5	3.2	6.9	6.6	8.8	2.2	2.7	8.8	-0.8	37.0	4.9
	2022	3.0	4.1	1.4	5.4	3.4	5.6	2.0	1.8	7.3	0.2	33.0	3.9
	2023	2.2	2.4	1.2	2.2	4.0	3.4	1.3	2.1	6.5	0.7	30.0	4.1
Norway	2021	4.2	5.0	3.9	-0.3	4.8	2.0	3.5	3.2	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	2.6	3.4	2.3	-	-	-
	2023	2.0	2.0	1.3	2.0	4.0	4.0	1.8	3.6	2.2	-	-	-

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	5.2	3.6	3.8	3.4	9.7	7.2	2.6	3.8	7.7	-6.9	99.8	3.1
	2022	4.0	6.5	1.3	2.0	6.6	7.0	4.7	2.4	7.3	-3.6	97.6	3.2
	2023	2.0	2.0	1.3	2.2	5.1	5.2	1.6	2.9	7.1	-2.1	96.7	3.4
Germany	2021	2.9	0.1	3.1	1.3	9.8	9.1	3.2	2.9	3.5	-4.9	71.4	6.6
	2022	4.0	8.1	0.5	1.3	5.1	6.5	5.1	2.8	3.2	-2.1	69.2	6.6
	2023	1.9	1.9	1.3	2.2	5.1	5.2	1.9	2.9	2.9	-0.5	68.1	6.8
Finland	2021	3.5	3.5	2.5	2.0	4.0	3.5	2.2	2.4	7.7	-2.7	67.7	1.0
	2022	2.8	3.5	1.0	4.0	6.0	6.5	2.6	2.8	6.9	-2.3	67.0	0.8
	2023	1.6	1.5	0.5	3.0	3.0	3.0	1.8	2.6	6.6	-1.3	66.7	0.7

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	4.6	14.0	4.7	4.0	5.4	-13.4	129.7	-3.5
	2022	3.5	2.9	0.8	3.6	1.9	3.3	6.4	5.0	4.0	-4.7	125.6	-3.5
	2023	2.2	2.1	1.0	3.4	1.6	1.9	2.8	4.6	3.8	-3.1	124.0	-3.3
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	5.0	6.0	-	3.0	-	-	2.0	5.5	-	-7.0	72.0	1.0
	2023	5.0	6.0	-	4.5	-	-	2.2	5.5	-	-6.8	74.5	0.7
UK	2021	7.5	3.8	15.8	5.3	-3.0	1.0	2.6	4.9	4.6	-5.3	96.9	-3.4
	2022	5.1	6.1	3.3	6.5	3.3	4.8	5.2	3.2	4.0	-0.6	96.7	-5.3
	2023	2.4	2.5	0.8	4.8	3.4	3.7	2.9	3.9	3.7	0.5	96.7	-4.7
Japan	2021	1.8	1.4	2.7	-1.1	10.9	5.9	-0.2	-	2.8	-	-	-
	2022	2.4	3.3	2.2	-0.5	3.0	2.0	0.4	-	2.6	-	-	-
	2023	1.2	1.4	0.7	0.4	3.2	2.0	0.5	-	2.5	-	-	-

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

Financial forecast

Penge-, obligations- og valutamarkedet										
		Ledende rente	3 måneders rente	2-årig swap rente	10-årig swap rente	Valuta over for EUR	Valuta over for USD	Valuta over for DKK	Valuta over for NOK	Valuta over for SEK
USD	04-Mar	0.25	0.52	1.68	1.86	109.7	-	678.2	896.1	982.9
	+3m	1.00	1.18	1.90	2.15	112.0	-	664.1	919.6	937.5
	+6m	1.50	1.70	2.20	2.35	111.0	-	670.7	936.9	927.9
	+12m	2.50	2.80	2.75	2.50	108.0	-	689.8	963.0	953.7
EUR	04-Mar	-0.50	-0.52	0.01	0.71	-	109.7	743.9	983.0	1078.1
	+3m	-0.50	-0.53	0.25	0.75	-	112.0	743.8	1030.0	1050.0
	+6m	-0.50	-0.53	0.45	0.85	-	111.0	744.5	1040.0	1030.0
	+12m	-0.25	-0.11	0.75	1.10	-	108.0	745.0	1040.0	1030.0
JPY	04-Mar	-0.10	-0.01	0.06	0.25	120.5	115.4	6.17	8.16	8.95
	+3m	-0.10	-	-	-	127.1	113.5	5.85	8.10	8.26
	+6m	-0.10	-	-	-	124.3	112.0	5.99	8.37	8.29
	+12m	-0.10	-	-	-	118.8	110.0	6.27	8.75	8.67
GBP	04-Mar	0.50	-	1.67	1.32	82.6	132.8	900.8	1190.2	1305.4
	+3m	1.00	-	1.30	1.35	84.0	133.3	885.4	1226.2	1250.0
	+6m	1.25	-	1.30	1.40	84.0	132.1	886.3	1238.1	1226.2
	+12m	1.50	-	1.55	1.65	84.0	128.6	886.9	1238.1	1226.2
CHF	04-Mar	-0.75	-	-0.36	0.45	100.7	91.8	738.6	975.9	1070.4
	+3m	-0.75	-	-	-	103.0	92.0	722.1	1000.0	1019.4
	+6m	-0.75	-	-	-	101.0	91.0	737.1	1029.7	1019.8
	+12m	-0.75	-	-	-	100.0	92.6	745.0	1040.0	1030.0
DKK	04-Mar	-0.60	-0.26	0.29	0.96	743.94	678.22	-	132.13	144.92
	+3m	-0.60	-0.28	0.50	0.95	743.75	664.06	-	138.49	141.18
	+6m	-0.60	-0.28	0.70	1.05	744.50	670.72	-	139.69	138.35
	+12m	-0.35	0.14	1.00	1.30	745.00	689.81	-	139.60	138.26
SEK	04-Mar	0.00	0.00	0.56	1.30	1078.1	982.9	69.0	91.2	100.0
	+3m	0.00	-0.02	0.50	1.45	1050.0	937.5	70.8	98.1	-
	+6m	0.00	-0.02	0.50	1.55	1030.0	927.9	72.3	101.0	-
	+12m	0.25	0.23	0.60	1.65	1030.0	953.7	72.3	101.0	-
NOK	04-Mar	0.50	1.27	1.98	2.14	983.0	896.1	75.7	100.0	109.7
	+3m	0.75	1.31	2.15	2.40	1030.0	919.6	72.2	-	101.9
	+6m	1.00	1.53	2.25	2.50	1040.0	936.9	71.6	-	99.0
	+12m	1.50	1.90	2.25	2.60	1040.0	963.0	71.6	-	99.0

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

Råvarer

	04-Mar	2022				2023				Gennemsnit	
		K1	K2	K3	K4	K1	K2	K3	K4	2022	2023
ICE Brent	112	87	77	75	75	80	80	80	80	79	80

Source Danske Bank

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