

Weekly Focus

Reopening lifts spirits, US-China tensions increase

This week we got some encouraging data releases. In Germany, the May labour market report showed a further increase in the unemployment rate to 6.3% from 5.8% in April. Still, the employment losses remain relatively contained, as Kurzarbeit is cushioning the labour market crisis. PMI and IFO point to improving employment expectations in May, not least among service providers. The euro area unemployment rate also increased significantly less than expected in April from 7.1% to 7.3%. The rate might be artificially low though, as many are not actively looking for jobs at the moment. Euro area composite PMI rebounded but remained at just 31.9 in May. In China, the Caixin service PMI rebounded to the highest level since October 2010 at 55.0. We still see a fair chance that most advanced economies will see a similar rebound in a couple of months' time.

This is also what we express in our new global macro update, *The Big Picture - Reopening, recovery and risks, 2 June*. While the world economy is in the deepest economic recession since the Great Depression, we continue to think it will be relatively short-lived. High-frequency data support the view that the advanced economies are recovering, as the virus comes under control and economies start to reopen.

Europe is set to get a significant push along the way with the approval of another recovery stimulus package of EUR130bn (3.8% of GDP) for 2020 and 2021 by the German government. The package is a combination of support for struggling municipalities, car sales incentives, a VAT reduction until the end of 2020 as well as direct payments to families with children. The fiscal boost comes on top of the EUR750bn coronavirus emergency package already deployed in March.

President Trump was busy over the weekend. First he terminated the US relationship with WHO after criticising the organisation for being controlled by the Chinese. The US is the largest financial contributor, paying more than 15% of the budget. Then he said he would begin to remove policy agreements with Hong Kong, including an extradition treaty, commercial relations and export controls. A Chinese foreign ministry spokesman said that harm to the interests of China will be resolutely counterattacked by the Chinese side. The spat is becoming a threat to the US-China trade deal. Meanwhile protests against police violence continued to rage across the US and a number of cities have imposed curfews as a consequence. Some protests turned violent but violence subsided after the president threatened to deploy the military. So far, none of the above have knocked Wall Street off course, with stock markets closing in on all-time highs from mid-February. The lifting of lockdowns and government and central bank stimulus still seem to dominate.

Next week, much focus will be on the virus development now that Southern Europe is also opening larger parts of the service sector. We will keep an eye on the Brexit process as the 1 July deadline for a potential extension of the transition period is drawing nearer. At the Fed meeting, we expect the Fed to keep the policy rate unchanged at 0.00-0.25%, as the appetite for going negative is very limited. We also expect the Fed to keep the QE programme unchanged (i.e. unlimited and flexible), although we cannot rule out it will start saying how much it will buy each month. We could also see a strengthening of the forward guidance, i.e. be more precise about what the conditions are for the Fed to start consider hiking (assuming a recovery).

Key market movers

- Brexit focus ahead of 1 July deadline, COVID-19 developments
- Mon: German industrial production
- Tue: US NFIB business optimism
- Wed: Fed meeting
- Thurs: US initial jobless claims
- Fri: UK GDP April estimate, US consumer confidence

Selected reading from Danske Bank

- *The Big Picture: Reopening, recovery and risks, 2 June*
- *COVID-19 update, 3 June*
- *Nordic Research: Updated overview of government bond supply in the Nordic countries, 2 June*
- *Monthly Executive Briefing, 4 June*

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Market movers Scandinavia

Scandi

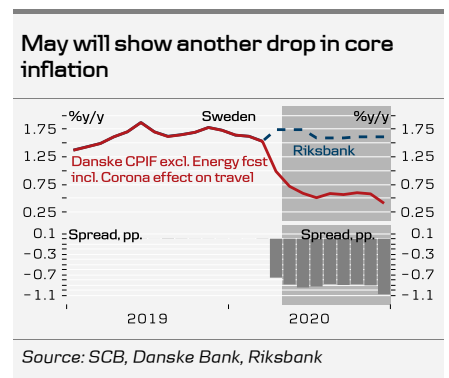
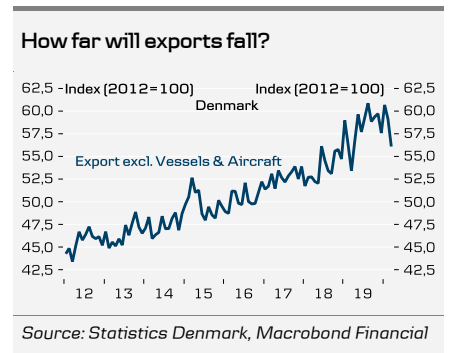
- The coming week in **Denmark** should see the release of the April figures for industrial production and foreign trade on Monday and Tuesday, respectively, while Wednesday should bring May's consumer prices. Industry has not been forced into lockdown, which resulted in a rather modest fall in production in March of 0.4%. However, the economic slump that the rest of the lockdown has prompted in Denmark and among its trading partners has almost certainly pulled production further down in April. This was also hinted at in Statistics Denmark's spot check for April, which showed a non-seasonally corrected downturn in industrial turnover of 13%.

The same survey found that turnover on companies' export markets fell by 15%. This, combined with our own export confidence measure for April hitting its lowest level since the financial crisis, points to the export numbers for April probably making for grim reading. On a more positive note, trade with goods outside the EU has seemingly escaped relatively unscathed from the crisis, most likely due mainly to healthcare exports to the US. How hard foreign trade is ultimately hit will be crucial for how the Danish economy performs during the rest of the year, so the upcoming figures will be extremely interesting to read.

Danish May CPI inflation is due on Wednesday. We expect inflation to hit -0.3%, the lowest reading on record. The uncertainty is higher than usual on this estimate, though. The primary driver behind the decline is clothing prices. We think the summer sales have come early this year as retailers risk being stuck with their spring collections because spending plunged during the lockdown. Last month, the figures did not show this effect, probably because up to 90% of clothing prices were not collected in April. Data collection on clothing should be back to normal in May. Another key joker remains book prices. They still have not come down from their record highs: up 44% y/y in April they currently add 0.15 percentage points to headline inflation. We expect them to decline gradually over the summer months.

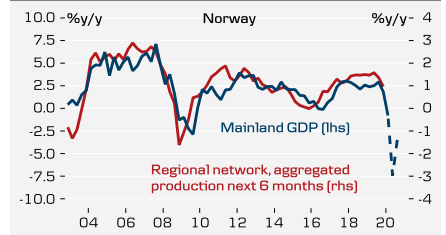
- Prospera's quarterly Q2 survey is likely to show a further decline in CPIF expectations, in **Sweden** which were already well below 2% on all horizons in Q1. In particular, the focus will be on social partners' wage expectations as nominal wages is the prime driver of domestic consumer inflation. We would not be surprised to see 1y expectations getting close to 2% as in 2010 or 2015 or longer-term expectations tumbling versus all time lows.

We expect Swedish May core inflation (CPIF excl. Energy) to be unchanged m/m. Together with the April outcome (+0.1% m/m) the two months taken together will show the weakest price gains seen over the past 20 years. Hence, core inflation will drop to a mere 0.7% y/y in May and hover around 0.5% y/y for the rest of the year. This means that there is a repetition of the 2005-06 and 2014 episodes. It was extremely cumbersome for the Riksbank to get inflation back towards the target after 2014 and it will not be easier now. We expect COVID-19 again to have a slight positive impact on food prices while instead having a negative impact on clothing, hotel/restaurants and cars and possibly some recreational services. SCB is likely to have continued problems in gathering price data for foreign airline tickets and charter travels, and hence to use the replacement methodology for these categories. Energy probably added 0.2 pp to core inflation, putting CPIF at +0.2% m/m and -0.4% y/y.



- In **Norway**, Norges Bank publishes the results of its Q2 regional network survey on Tuesday. As usual, interest will centre on the aggregated output index for the next six months. Given that activity bottomed out around mid-April but has since picked up only fairly moderately, growth expectations for the rest of the year ought to be very strong. On the other hand, firms may instead base their assessment on some measure of ‘normal’, e.g. last year. Growth expectations could then be very weak. We have a sneaking suspicion that it is the latter picture that will emerge, with the index perhaps dropping to around -2.0 as shown in the chart. The underlying data will probably reveal a very bleak outlook for oil-related industries, and weakness for exporters, construction and services, but greater optimism among retailers. It will also be worth keeping an eye on expectations for employment and wage growth. The week also brings inflation numbers for May. Core inflation surprised strongly to the upside in April, with the annual rate climbing to 2.8% on the back of higher import prices. Although we reckon much of this was down to one-off adjustments rather than a persistent trend, we do not expect any great correction in May. Due to base effects (low inflation in May last year), we actually expect the annual rate of core inflation to edge up to 2.9%.

What will firms base their expectations on?



Source: Statistics Norway, Norges Bank, Danske Bank, Macrobond Financial

Scandi Update

Denmark – limited increase in unemployment

This week’s unemployment figures from the Ministry of Employment were again rather positive given that, in contrast with the past two month-ends, there was no dramatic increase in the numbers. Unemployment has in fact gradually fallen in the past month, with the net new jobless figure now at around 47.5K since the lockdown began. The final figure for the increase in unemployment will be heavily dependent on how many workers are laid off when the wage compensation schemes end, which is currently set for 8 July. Unfortunately, the number of workers currently on the schemes is difficult to determine – we only know that more than 200,000 have been affected since the schemes were launched.

Danmarks Nationalbank did not intervene in the currency market in May, but as part of financing this year’s deficit, the central bank raised foreign debt by a further DKK7.7bn. Borrowing in recent months has now increased the government’s net foreign debt to DKK96.6bn in all.

Sweden – dark but positive signals

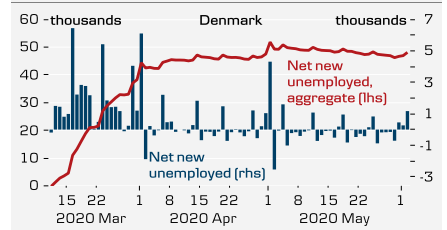
In this week, both PMI Manufacturing and services were released. We had expected a rebound in both indices, which we did in fact see, though quite a small one. The manufacturing PMI followed the same trend as the Eurozone, while the service sector, which has taken a much smaller hit than rest of the Eurozone, showed a smaller rebound. Starting with the latter, services turned slightly upward in May following the sharp fall in March and April. Orders were slightly higher alongside employment, while business volumes dropped below 30. It is the first time in four months that employment did rise, but it is still at an index level that shows that employment is trending down in the services sector. In addition, the low level of business plans increases the risk that we will see a further decline in employment. However a positive signal was that delivery times declined in both services and industry PMI. Normally, higher delivery times is positive since it indicates higher demand, but during COVID-19 it has probably been driven by lack of access to goods and services. Regarding the manufacturing PMI, the rise was mainly driven by production and order inflow, mainly domestic orders. The economic downturn in the manufacturing industry has slowed down, but it is too early to say whether the economic downturn has passed, but the likelihood of a recovery has increased now that more countries have begun to ease their restrictions.

Norway – oil investment to fall

The latest investment survey shows that the oil companies now expect to invest NOK180.3bn in 2020 and NOK145.6bn in 2021. We therefore tentatively predict that investment on the Norwegian continental shelf will fall by 1-2% this year and almost 20% next year, which is much better than feared for this year, but roughly as expected for next year. Having said that, there is great uncertainty when it comes to 2021, not only about oil prices but also about the design and impact of the changes to the tax system for the oil companies. In our view the risk to oil investment next year is mainly to the upside.

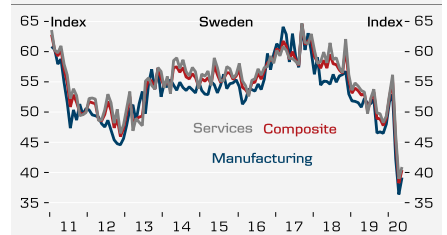
Housing prices climbed 1.4% m/m in May to just 0.25pp below what they were in February. Turnover also increased and was only 7.5% down on May last year. While it is still too early to give the housing market a clean bill of health, the risk of a collapse is receding month by month.

Just modest increase in unemployment at month-end



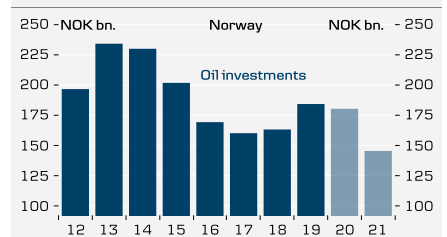
Source: Ministry of Employment, Macrobond

PMI – a small rebound



Source: Sif, Macrobond

Sharp fall in oil investment next year



Source: Statistics Norway, Macrobond, Danske Bank

Calendar

Key Data and Events in Week 24

During the week				Period	Danske Bank	Consensus	Previous
Sun 07	CNY	Foreign exchange reserves	USD bn	May		3095.0	3091.5
Sun 07	CNY	Trade balance	USD bn	May		40.0	45.3
Monday, June 8, 2020				Period	Danske Bank	Consensus	Previous
1:50	JPY	GDP deflator, final	y/y	1st quarter		0.9%	0.9%
1:50	JPY	GDP, final	q/q ann.	1st quarter		-0.5% -2.1%	-0.9% -3.4%
8:00	DEM	Industrial production	m/m y/y	Apr		-15.0% -24.8%	-9.2% -11.6%
8:00	DKK	Industrial production	m/m	Apr			-0.4%
9:30	SEK	Current account	SEK bn	1st quarter			38.8
10:30	EUR	Sentix Investor Confidence	Index	Jun			-41.8
Tuesday, June 9, 2020				Period	Danske Bank	Consensus	Previous
1:30	JPY	Labour cash earnings	y/y	Apr			0.1%
6:00	SEK	Maklarstatistik Swedish housing price data					
7:45	CHF	Unemployment	%	May			3.3%
8:00	DKK	Trade balance ex ships	DKK bn	Apr			9.4
8:00	DKK	Exports	m/m	Apr			
8:00	DKK	Current account (nsa sa)	DKK bn	Apr			... 16.3
8:00	DEM	Trade balance	EUR bn	Apr			17.4
8:00	DEM	Labour costs	q/q y/y	1st quarter			0.0% 3.0%
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index	May	-2.0		0.8
11:00	EUR	GDP, final	q/q y/y	1st quarter			-3.8% -3.2%
11:00	EUR	Gross fixed investments	q/q	1st quarter			4.4%
11:00	EUR	Government consumption	q/q	1st quarter			0.4%
11:00	EUR	Private consumption	q/q	1st quarter			0.1%
11:00	EUR	Employment, final	q/q y/y	1st quarter			-0.2% 0.3%
12:00	USD	NFIB small business optimism	Index	May			90.9
Wednesday, June 10, 2020				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	May		11.3%	11.1%
3:30	CNY	PPI	y/y	May		-3.2%	-3.1%
3:30	CNY	CPI	y/y	May		2.6%	3.3%
8:00	NOK	Core inflation (CPI-ATE)	m/m y/y	May	.. -2.9%		1.1% 2.8%
8:00	SEK	Prospera inflation expectations					
8:00	NOK	CPI	m/m y/y	May			0.4% 0.8%
8:00	NOK	PPI	m/m y/y	May			-3.3% -16.1%
8:00	DKK	CPI	m/m y/y	May	.. -0.3%		-0.1% 0.0%
8:45	FRF	Industrial production	m/m y/y	Apr			-16.2% -17.3%
9:30	SEK	Household consumption	m/m y/y	Apr			-5.4% -3.1%
14:30	USD	CPI headline	m/m y/y	May		0.0% 0.2%	-0.8% 0.3%
14:30	USD	CPI core	m/m y/y	May		0.0% 1.3%	-0.4% 1.4%
16:30	USD	DOE U.S. crude oil inventories	K				-2077
20:00	USD	Budget statement	USD bn	May		-600.0	-737.9
20:00	USD	FOMC meeting	%		0.25%	0.25%	0.25%
20:30	USD	Fed chair Powell (voter, neutral) speaks					
Thursday, June 11, 2020				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	May			-0.2
9:30	SEK	Underlying inflation CPIF	m/m y/y	May	0.2% -0.4%		
9:30	SEK	CPI	m/m y/y	May			
14:30	USD	Initial jobless claims	1000				
14:30	USD	PPI	m/m y/y	May		0.1% -1.2%	-1.3% -1.2%
14:30	USD	PPI core	m/m y/y	May		-0.1% 0.5%	-0.3% 0.6%

Source: Danske Bank

Calendar

Friday, June 12, 2020

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Germany's debt rating					
-	EUR	Fitch may publish Spain's debt rating					
6:30	JPY	Industrial production, final	m/m y/y	Apr			-9.1% -14.4%
8:00	GBP	Monthly GDP estimate	m/m q/q	Apr			-0.058 0.001
8:00	GBP	Index of services	m/m 3m/3m	Apr			-6.2% -1.9%
8:00	GBP	Trade balance	GBP mio.	Apr			-6676
8:45	FRF	HICP, final	m/m y/y	May			0.0% 0.2%
9:00	ESP	HICP, final	m/m y/y	May			0.0% -0.9%
11:00	EUR	Industrial production	m/m y/y	Apr			-11.3% -12.9%
14:30	USD	Import prices	m/m y/y	May		0.8% ...	-2.6% -6.8%
16:00	USD	University of Michigan Confidence, preliminary	Index	Jun		75.0	72.3

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

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	2019	2.4	2.3	0.5	3.4	1.6	0.1	0.8	2.2	3.7	3.7	33.0	8.6
	2020	-2.5	-1.5	1.7	-2.4	-4.9	-3.6	0.4	2.0	5.2	-4.8	39.6	7.0
	2021	2.5	3.7	0.7	1.2	1.6	1.4	1.4	2.1	4.4	-1.9	39.3	7.6
Sweden	2019	1.3	1.2	0.4	-1.2	4.2	1.8	1.8	2.6	6.8	0.5	35.7	1.0
	2020	-2.8	-0.8	1.0	-6.1	-3.9	-3.7	0.6	2.4	8.8	-3.0	40.0	4.9
	2021	2.3	1.7	1.2	0.9	2.8	2.5	1.2	2.4	8.5	-1.0	38.0	4.6
Norway	2019	2.3	1.5	1.7	6.1	1.5	5.2	2.2	3.5	2.3	-	-	-
	2020	-2.5	-1.5	2.1	-1.5	2.0	-2.0	2.1	3.5	4.7	-	-	-
	2021	3.3	2.7	2.5	-0.3	4.0	3.0	2.3	3.3	2.7	-	-	-

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	2019	1.2	1.3	1.7	5.5	2.5	3.8	1.2	2.0	7.6	-0.6	84.1	3.3
	2020	-6.7	-6.5	2.1	-5.8	-11.0	-6.9	0.6	1.7	8.9	-8.5	102.7	3.4
	2021	5.2	7.3	3.5	0.7	12.9	12.6	1.3	1.9	8.1	-3.5	98.8	3.6
Germany	2019	0.6	1.7	2.7	2.6	1.0	2.5	1.4	3.2	3.2	1.4	59.8	7.1
	2020	-5.5	-5.2	3.0	-4.5	-15.1	-11.0	1.1	1.7	4.0	-7.0	75.6	5.7
	2021	4.7	6.0	3.6	1.8	13.7	13.9	1.5	2.2	3.5	-1.5	71.8	7.0
Finland	2019	1.0	1.0	0.9	-0.8	7.2	2.2	1.0	1.0	6.7	-1.1	59.4	-0.8
	2020	-4.0	-4.0	2.0	-10.0	-10.0	-10.0	0.6	1.2	8.0	-3.0	64.5	-0.6
	2021	2.0	2.0	1.0	3.0	5.0	5.0	1.2	1.5	7.5	-2.1	65.0	-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	2019	2.3	2.6	2.3	1.3	0.0	1.0	1.8	3.2	3.7	-4.6	105.0	-2.5
	2020	-5.3	-5.6	2.7	-10.0	-8.0	-12.4	2.1	3.1	9.0	-17.9	127.0	-2.6
	2021	4.4	5.3	3.3	2.1	3.3	4.3	2.1	3.3	7.0	-9.8	134.0	-2.5
China	2019	6.2	8.0	-	3.8	-	-	2.7	8.0	-	-6.1	-	0.5
	2020	1.0	2.5	-	0.0	-	-	2.7	7.5	-	-6.3	-	0.4
	2021	9.0	9.0	-	10.0	-	-	2.2	7.5	-	-6.2	-	0.2
UK	2019	1.4	1.1	3.5	0.6	4.8	4.6	1.8	3.5	3.8	-2.1	85.4	-3.5
	2020	-5.8	-7.0	0.9	-9.5	-10.9	-13.5	1.4	1.9	7.3	-13.9	97.6	-3.7
	2021	4.2	4.1	3.9	2.8	3.2	4.2	1.7	3.0	6.0	-3.2	99.4	-3.7
Japan	2019	0.7	0.1	1.9	1.3	-1.6	-0.6	0.6	-	2.4	-	-	-
	2020	-4.0	-5.2	3.2	-6.4	-11.5	-10.3	0.1	-	4.0	-	-	-
	2021	2.6	3.3	4.9	-2.0	3.5	2.4	0.2	-	3.8	-	-	-

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	04-Jun	0.25	0.33	0.27	0.75	112.1	-	665.3	949.7	932.9
	+3m	0.25	0.31	0.25	0.50	109.0	-	684.6	990.8	972.5
	+6m	0.25	0.25	0.30	0.70	107.0	-	697.2	981.3	1009.3
	+12m	0.25	0.25	0.35	1.00	107.0	-	696.7	962.6	1009.3
EUR	04-Jun	-0.50	-0.34	-0.30	-0.06	-	112.1	745.4	1064.1	1045.3
	+3m	-0.50	-0.41	-0.35	-0.15	-	109.0	746.3	1080.0	1060.0
	+6m	-0.50	-0.41	-0.35	-0.05	-	107.0	746.0	1050.0	1080.0
	+12m	-0.50	-0.41	-0.25	0.15	-	107.0	745.5	1030.0	1080.0
JPY	04-Jun	-0.10	-0.04	-0.03	0.06	120.5	109.1	6.19	8.83	8.67
	+3m	-0.10	-	-	-	119.9	110.0	6.22	9.01	8.84
	+6m	-0.10	-	-	-	119.8	112.0	6.22	8.76	9.01
	+12m	-0.10	-	-	-	119.8	112.0	6.22	8.59	9.01
GBP	04-Jun	0.10	0.24	0.27	0.46	89.5	125.2	833.1	1189.3	1168.2
	+3m	0.10	0.14	0.30	0.40	90.0	121.1	829.2	1200.0	1177.8
	+6m	0.10	0.14	0.35	0.50	90.0	118.9	828.9	1166.7	1200.0
	+12m	0.10	0.14	0.40	0.55	86.0	124.4	866.9	1197.7	1255.8
CHF	04-Jun	-0.75	-0.65	-0.64	-0.28	107.7	96.1	692.1	988.0	970.5
	+3m	-0.75	-	-	-	105.0	96.3	710.7	1028.6	1009.5
	+6m	-0.75	-	-	-	104.0	97.2	717.3	1009.6	1038.5
	+12m	-0.75	-	-	-	103.0	96.3	723.8	1000.0	1048.5
DKK	04-Jun	-0.60	-0.14	-0.10	0.14	745.4	665.3	-	142.8	140.2
	+3m	-0.60	-0.19	-0.15	0.05	746.3	684.6	-	144.7	142.0
	+6m	-0.60	-0.21	-0.15	0.15	746.0	697.2	-	140.8	144.8
	+12m	-0.60	-0.22	-0.05	0.35	745.5	696.7	-	138.2	144.9
SEK	04-Jun	0.00	0.16	0.09	0.44	1045.3	932.9	71.3	101.8	100.0
	+3m	0.00	0.10	0.05	0.45	1060.0	972.5	70.4	101.9	-
	+6m	0.00	0.10	0.05	0.50	1080.0	1009.3	69.1	97.2	-
	+12m	0.00	0.10	0.10	0.65	1080.0	1009.3	69.0	95.4	-
NOK	04-Jun	0.00	0.29	0.44	0.85	1064.1	949.7	70.1	100.0	98.2
	+3m	0.00	0.25	0.20	0.75	1080.0	990.8	69.1	-	98.1
	+6m	0.00	0.25	0.30	0.85	1050.0	981.3	71.0	-	102.9
	+12m	0.00	0.25	0.50	1.10	1030.0	962.6	72.4	-	104.9

Commodities												
		2020				2021				Average		
	04-Jun	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021	
ICE Brent	39	35	35	35	35	44	44	44	44	35	44	

Source Danske Bank

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