

Weekly Focus

Central banks push brakes on rate hike speculation

The past week shed some light into central banks' thinking amid growing stagflation fears around the world, and the general message was at least somewhat to the dovish side. At the same time, market's inflation fears appear to have moderated slightly, with 5y5y inflation expectation rates falling below 1.9% in Europe and 2.5% in the US, providing support to the transitory camp of the inflation discussion.

Fed announced the widely expected tapering of their asset purchase program, with the pace of USD15bn per month from mid-November, indicating an end to the purchases by next June. While we got no updated projections from the interim meeting, Powell sounded generally dovish, trying to slightly push against the markets aggressive pricing, yet still acknowledging the increased upside risks to inflation. We see the taper as a beginning of a hiking cycle, and look for two Fed hikes next year, read our more in-depth take in *Fed Research - Review: Tapering marks the beginning of a tightening cycle*, 3 November.

US macro data also surprised to the upside with payrolls growth of 531,000 in October and upwards revisions to previous months. However, employment is still 4.2m below pre-COVID levels. US ISM Services reached an all-time high at 66.7 (from 61.9). While supplier's delivery times continued to increase for both the Manufacturing and Services PMIs, especially Services index was also supported by strong growth in business activity and new orders.

Against markets' hawkish pricing, **Bank of England** refrained from hiking rates this week, although it still signals that rate hikes will come at a later stage. Inflation is seen peaking at 5% next April, but labor market developments will be key to follow for gauging the upcoming hiking pace, we look for a 15bp hike in February, followed by two more 25bp hikes in 2022, read more in *UK Research - Bank of England Review: Unchanged but hikes are coming*, 4 November.

Reserve Bank of Australia also maintained a dovish view, and while the April 2024 yield cap was ended, RBA only pointed towards the first hike in 2023. On the contrary, central banks in Eastern Europe continued their aggressive hiking, with the **National Bank of Poland** first hiking by 75bp and **Czech National Bank** following with 125bp. **Norges Bank's** interim meeting was among the less eventful ones this week, read more in the scandi section below.

The upcoming week is light in terms of data releases, with focus also on the central bank speeches following this week's meetings. **US CPI** for October will be released on Wednesday, with market looking for signs of increasing pass-through of high raw material, component and labor costs into consumer prices. In the **Euro Area**, German ZEW will give us the first glimpse on the November growth momentum, while the EU commission will release their new forecasts on Thursday, including the latest draft budget projections.

For **China**, the October trade data released on Sunday is expected to display continued high trade surplus supported by robust exports and weakening imports amid the domestic slowdown. The high surplus is likely a key factor supporting CNY despite the recent uncertainties. Inflation data will also be released on Wednesday, with focus on the PPI currently at the highest levels in 26 years, and where we look for a further rise to 12.3%.

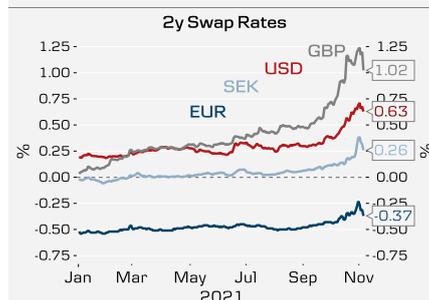
Key market movers

- **Sunday:** Chinese October Trade
- **Tuesday:** German November ZEW, US October PPI
- **Wednesday:** Chinese October PPI, US October CPI
- **Friday:** University of Michigan Consumer Sentiment

Selected reading from Danske Bank

- *Top 10 global cycle indicators - more weakness*, 5 November
- *UK Research - Bank of England Review: Unchanged but hikes are coming*, 4 November
- *Fed Research - Review: Tapering marks the beginning of a tightening cycle*, 3 November

Markets pulled back the aggressive rate hike pricing



Source: Macrobond Financial, Note: Past or current performance is no guarantee of future performance

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Scandi market movers

- In **Denmark**, Tuesday should bring the latest foreign trade figures, which lately have been driven higher by the increase in trade with services. We expect the trend towards a gradual slowdown in the global demand for goods and a shift over to services will continue. Export conditions remain decent, though growth in Denmark's export markets is slowing, and it will be interesting to see whether this is reflected in the monthly figures.

Wednesday, we get CPI inflation and we expect it reached the highest level since 2011 as energy prices have surged. Fuel prices have reached the highest level on record through October, which should take inflation to 2.7% from 2.2% in September. The underlying price pressure has remained modest so far but we see businesses reporting widespread shortages of labour and supplies and thus it will be very interesting to see whether consumer prices start to move higher as well, also outside energy.

- It is that time of the month again when monthly indicators are released in **Sweden**. We have already received the (preliminary) September GDP indicator and hence the Q3 GDP indicator. The latter showed a surprisingly strong 1.8 % qoq sa gain, well above market expectations. This week's batch with September production and consumption data should just give some colour to the numbers mentioned. For instance, signals about whether supply disruptions are still rocking production and to what extent leisure sectors are finally recovering from abolished COVID restrictions. Both should bounce back from the dip in August. One should note that even the strong Q3 GDP indicator print was well below Riksbank's 2.4% q/q forecast.

- In **Norway**, inflation has slowed considerably since summer last year, driven by a stronger NOK and base effects. We believe that (core) inflation will now bottom out as both of these drivers fade or reverse. We nevertheless expect core inflation to drop from 1.2% to 1.0% y/y in October due to the sharp rise in prices that month last year. The risk is increasingly to the upside, as the strong growth in commodity and energy prices and freight costs will probably push up consumer prices in Norway before long.

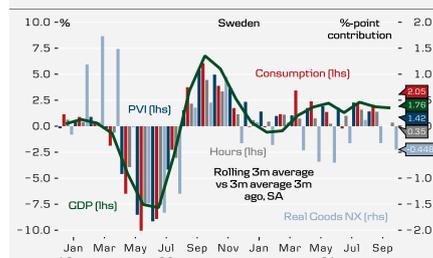
The economic recovery has continued more or less as expected since May, and we anticipate mainland GDP growth of 2.5% in Q3. It is mainly higher private consumption that is driving the recovery, but there has also been solid growth in investment and exports from the mainland economy. If our predictions are right, both inflation and growth will be somewhat higher than Norges Bank anticipated in the September monetary policy report, supporting our expectation of another rate increase in December. It is also worth keeping an eye on the data for job vacancies after they climbed to a record-high 93,000 in Q2, as this could be a sign of growing matching problems in the Norwegian labour market.

Energy prices likely to push inflation higher



Source: Statistics Denmark, Macrobond Financial

Sweden: new prints will only add colour to GDP



Source: Statistics Sweden

Core inflation set to bottom out



Source: Macrobond, Danske Bank

Scandi update

Denmark – Industrial production strong in Q3

Forced home sales remain stable, with 105 in October compared to 117 the previous month. The average for 2021 so far is 120, and we would have to go all the way back to 2007 to find a lower average. Such low figures are not unexpected given the pace of house price growth.

The Danish Car Importers Association report that 12,655 new cars were registered in October, which is down 9.7% on September (seasonally adjusted). Car sales have fallen drastically since the spring and are currently 16% lower than at the same point last year. One explanation may be that supply chain issues are hampering car producers in keeping up with demand. Weaker car sales will very likely continue to pull private consumption lower in Q4 2021.

Industrial production fell 5.6% in September, but significant month-to-month fluctuations are par for the course here. Looking at Q3 as a whole, production was up 4.8%, or 1.2% ex-pharma. That adds up to a particularly strong quarter, though we nevertheless expect growth to be considerably more subdued in the coming months, as there is little or no catching up left to do post-pandemic.

There were 234 bankruptcies in October among active companies (seasonally adjusted). That is 28.2% up on September but led to 35.3% more fulltime jobs lost. Bankruptcies have continued to climb in recent months, though there is no indication that a wave of bankruptcies is imminent.

Sweden – PMI's indicates a solid growth

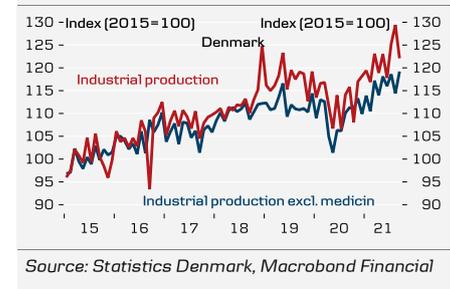
Small changes in PMI's for both the manufacturing and services side in the October survey meaning the survey still indicates a healthy growth in the Swedish economy and that businesses holding up well despite supply chain problems and high input prices.

Swedish industry continues to be a bit of an outlier if comparing with peers (see graph). Delivery times however, continue to be at super high 87 meaning supply disruptions is still affecting the Swedish industry. If excluding delivery times from the index, PMI is still at high 61.9 indicating that other components also drives the growth especially new orders and employment. Prices (forecast) reached record high 98.1 probably driven by higher raw material prices and supply chain problems.

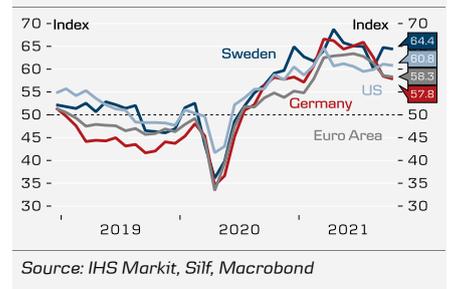
Norway – Norges Bank signals December rate hike

As expected, Norges Bank kept its policy rate at 0.25% and signalled that it will most likely go up again in December. Economic developments in Norway have been very much as expected, including in the labour market, although the central bank did note that employment growth has been somewhat stronger. The NOK has gained more than 3% since the September meeting, but, as we expected, Norges Bank cited higher oil and gas prices as the main reason. It did note, however, that the stronger NOK could mean lower inflation than expected going forward. On the other hand, the central bank wrote that growing capacity constraints and higher price pressures globally could bring higher inflation in Norway. The risks to inflation have thus increased, but to both sides. The bank's overall assessment is therefore unchanged. At the same time, Norges Bank reiterated the need for interest rates to rise gradually, as the impact of rate increases is uncertain when interest rates are so low. This quite clearly reduces the risk of rates going up more frequently than each quarter. Norges Bank also noted that while Covid cases are on the rise, the high vaccination rate will limit the need for new restrictions.

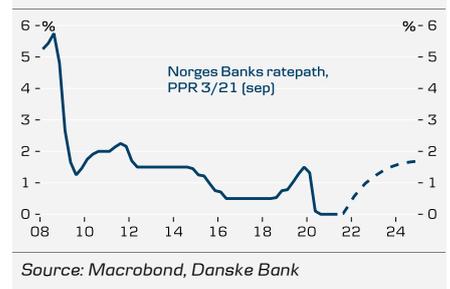
Industrial production delivers strong Q3



Manufacturing PMI - Sweden is holding up well



The normalisation of monetary policy



Activity tracker

Euro area	Last obs	Value	Last 4 months	1W chg.	1M chg.	Low
Bundesbank weekly activity index*	Week 44	-0.05		0.24	0.03	-5.9
German truck toll mileage (1w m.a.), % y/y	27-Oct	0.9%		-0.4 p.p.	0.2 p.p.	-16.2%
OpenTable restaurant bookings, Germany (1w m.a.)**	03-Nov	22.9%		4 p.p.	5 p.p.	-100%
USA						
NY Fed weekly economic index*	Week 44	7.23		0.16	-0.88	-11.3
Transaction card spending, (1w m.a.), % y/y	20-Oct	20.2%		-4.6 p.p.	0.5 p.p.	-40.6%
OpenTable restaurant bookings (1w m.a.)**	03-Nov	-10.1%		-4.4 p.p.	-4.9 p.p.	-100%
Google mobility trends retail & recreation (1w m.a.)**						
Germany	01-Nov	-2.3%		1.3 p.p.	-4.7 p.p.	-67.3%
France		-6.1%		1.1 p.p.	0.7 p.p.	-88.0%
Italy		-6.1%		-0.3 p.p.	-4.3 p.p.	-88.9%
Spain		-10.6%		1.1 p.p.	-1.3 p.p.	-91.7%
UK		-7.0%		2.4 p.p.	4.9 p.p.	-77.6%
Japan		-3.7%		2.9 p.p.	10.3 p.p.	-37.9%
United States		-5.9%		0.1 p.p.	-0.1 p.p.	-46.1%
Electricity demand (1w m.a.)***						
Germany	04-Nov	-0.6%		1.3 p.p.	-2.8 p.p.	-8.1%
France		-3.4%		-2.8 p.p.	-0.1 p.p.	-22.0%
Italy		2.9%		2.4 p.p.	1.3 p.p.	-8.8%
Spain		-3.4%		0.8 p.p.	1.2 p.p.	-23.6%
UK		0.0%		0 p.p.	0 p.p.	-22.2%
Japan	03-Nov	-5.2%		-4.4 p.p.	-3.4 p.p.	-7.3%
United States		0.2%		-1.2 p.p.	-0.8 p.p.	-12.5%

*NOWcast, Actual index value, **Relative to same day/week in 2019, *** Relative to same day/week in 15-19 avg.

Source: Google mobility data, ENTSO-E, EIA, Open Table, Statistisches Bundesamt, TextilWirtschaft, Bundesbank, NY Fed, Macrobond Financial

Calendar

Monday, November 8, 2021				Period	Danske Bank	Consensus	Previous
6:00	JPY	Leading economic index, preliminary	Index	Sep		99.8	101.3
7:45	CHF	Unemployment	%	Oct		2.7%	2.8%
8:00	NOK	Manufacturing production	m/mly/y	Sep			0.0% 2.2%
8:00	NOK	Industrial production	m/mly/y	Sep			2.7% 2.7%
10:30	EUR	Sentix Investor Confidence	Index	Nov		15.0	16.9
15:00	USD	Fed vice chair Clarida (voter, neutral) speaks					
16:30	USD	Fed chair Powell (voter, neutral) speaks					
18:00	USD	Fed's Harker (voter, neutral) speaks					
18:00	USD	Fed's Bowman (voter, neutral) speaks					
19:50	USD	Fed's Evans (non-voter, neutral) speaks					
Tuesday, November 9, 2021				Period	Danske Bank	Consensus	Previous
0:30	JPY	Labour cash earnings	y/y	Sep		0.6%	0.6%
8:00	DKK	Trade balance ex ships	DKK bn	Sep			4.2
8:00	DKK	Exports	m/m	Sep			420.0%
8:00	DKK	Current account (nsa sa)	DKK bn	Sep			... 14.3
8:00	DEM	Trade balance	EUR bn	Sep		16	11.7
9:30	SEK	Industrial orders	m/mly/y	Sep			-2.4% 2.3%
9:30	SEK	Private Sector Production	m/mly/y	Sep			-4.7% 3.4%
9:30	SEK	Household consumption	m/mly/y	Sep			-1.1% 4.6%
11:00	DEM	ZEW current situation	Index	Nov		18.7	21.6
11:00	DEM	ZEW expectations	Index	Nov		19.0	22.3
12:00	USD	NFIB small business optimism	Index	Oct		99.3	99.1
14:30	USD	PPI	m/mly/y	Oct		0.6% 8.6%	0.5% 8.6%
14:30	USD	PPI core	m/mly/y	Oct		0.5% 6.8%	0.2% 6.8%
15:00	USD	Fed's Bullard (non-voter, dovish) speaks					
15:00	USD	Fed chair Powell (voter, neutral) speaks					
17:35	USD	Fed's Daly (non-voter, neutral) speaks					
19:30	USD	Fed's Kashkari (voter, dovish) speaks					
Wednesday, November 10, 2021				Period	Danske Bank	Consensus	Previous
-	NOK	Consumer confidence	Net. bal.	4th quarter			10.9
2:30	CNY	PPI	y/y	Oct		12.5%	10.7%
2:30	CNY	CPI	y/y	Oct		1.4%	0.7%
8:00	NOK	Core inflation (CPI-ATE)	m/mly/y	Oct	... 1.0%	... 1.2%	0.4% 1.2%
8:00	DEM	HICP, final	m/mly/y	Oct		0.5% 4.6%	0.5% 4.6%
8:00	NOK	CPI	m/mly/y	Oct		... 3.9%	1.0% 4.1%
8:00	NOK	PPI	m/mly/y	Oct			8.0% 57.8%
8:00	DKK	CPI	m/mly/y	Oct	... 2.7%		0.3% 2.2%
14:30	USD	CPI headline	m/mly/y	Oct		0.6% 5.8%	0.4% 5.4%
14:30	USD	CPI core	m/mly/y	Oct		0.4% 4.3%	0.2% 4.0%
14:30	USD	Initial jobless claims	1000			265	269
16:30	USD	DOE U.S. crude oil inventories	K				3290
20:00	USD	Budget statement	USD bn	Oct			-61.5
Thursday, November 11, 2021				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Oct		0.7	0.7
1:30	AUD	Employment change	1000	Oct		50	-138
8:00	GBP	GDP, preliminary	q/q y/y	3rd quarter		1.5% 6.9%	5.5% 23.6%
8:00	GBP	Monthly GDP estimate	m/m q/q	Sep		0.005 ...	0.004 ...
8:00	GBP	Index of services	m/m 3m/3m	Sep		0.006 0.019	0.003 0.037
10:00	EUR	ECB Publishes Economic Bulletin					
Friday, November 12, 2021				Period	Danske Bank	Consensus	Previous
-	EUR	S&P may publish Netherlands's debt rating					
-	EUR	Fitch may publish Portugal's debt rating					
9:00	ESP	HICP, final	m/mly/y	Oct		1.7% 5.5%	1.7% 5.5%
11:00	EUR	Industrial production	m/mly/y	Sep		-0.2% 4.1%	-1.6% 5.1%
16:00	USD	University of Michigan Confidence, preliminary	Index	Nov		72.3	71.7
18:10	USD	Fed's Williams (voter, neutral) speaks					

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	2020	-2.1	-1.4	-1.7	5.1	-7.0	-4.1	0.4	2.3	4.6	-0.2	42.1	8.1
	2021	4.0	3.4	3.8	8.9	3.5	3.3	1.6	3.1	3.9	-1.4	37.8	7.8
	2022	3.0	3.4	-0.8	2.9	6.1	5.1	1.3	2.8	3.2	0.4	36.9	7.6
Sweden	2020	-3.1	-4.7	-0.5	0.6	-5.2	-5.8	0.5	2.1	8.3	-2.8	37.7	1.4
	2021	3.9	3.8	2.9	6.5	6.0	7.3	2.0	2.7	8.8	-0.8	37.0	5.3
	2022	3.5	4.1	1.7	5.2	3.0	4.0	1.6	1.8	7.5	0.2	33.0	4.7
Norway	2020	-2.5	-6.9	1.7	-3.8	-0.5	-11.9	1.3	3.1	5.0	-	-	-
	2021	3.8	4.2	3.0	1.0	2.7	3.5	3.2	3.0	3.1	-	-	-
	2022	4.0	7.0	1.7	2.0	7.0	7.0	1.6	3.3	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 ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euro area	2020	-6.5	-8.0	1.3	-7.3	-9.4	-9.3	0.3	-0.6	7.9	-7.2	97.3	3.0
	2021	5.3	3.6	3.3	3.8	9.5	6.7	2.3	3.1	7.8	-7.8	102.2	3.1
	2022	4.2	5.9	1.8	2.2	4.5	4.1	2.0	2.0	7.5	-3.5	100.4	3.1
Germany	2020	-4.9	-6.1	3.5	-3.0	-10.1	-9.2	0.4	0.0	3.9	-4.3	68.7	6.9
	2021	3.4	0.0	2.7	2.2	9.1	8.4	2.7	1.2	3.7	-7.5	73.0	7.5
	2022	4.4	5.4	2.1	2.0	4.7	3.8	1.7	1.8	3.4	-2.5	72.1	6.9
Finland	2020	-2.9	-4.7	0.5	-0.7	-6.8	-6.5	0.3	1.8	7.8	-5.5	69.5	0.8
	2021	3.3	4.0	2.5	4.0	3.5	4.5	2.0	2.5	7.7	-4.4	70.5	0.6
	2022	3.0	3.5	1.0	4.0	6.5	6.5	1.8	2.7	7.1	-2.6	70.5	0.6

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	2020	-3.4	-3.8	2.5	-2.7	-13.6	-8.9	1.2	4.6	8.1	-16.0	126.4	-2.1
	2021	5.6	7.8	0.8	8.9	4.3	13.7	4.4	2.0	4.7	-12.2	132.3	-2.1
	2022	3.3	2.6	0.8	4.1	2.4	3.6	3.1	2.3	3.5	-7.2	131.9	-2.1
China	2020	2.3	-0.8	-	4.6	-	-	2.4	4.0	-	-11.2	66.3	1.8
	2021	8.0	11.1	-	5.2	-	-	0.5	5.5	-	-7.5	68.9	1.6
	2022	4.5	5.0	-	3.5	-	-	1.8	5.5	-	-6.8	72.0	1.5
UK	2020	-9.7	-10.5	-6.3	-9.1	-14.7	-16.8	0.9	2.0	4.5	-12.9	104.5	-2.0
	2021	7.5	5.1	10.2	10.2	-0.5	0.2	2.4	1.2	4.7	-13.9	97.6	-3.8
	2022	6.4	7.9	2.1	9.7	5.5	8.0	2.7	1.6	4.1	-3.2	99.4	-3.6
Japan	2020	-4.7	-6.5	2.8	-4.3	-11.8	-7.3	-0.2	-	2.8	-	-	-
	2021	2.4	2.0	1.9	0.5	13.2	7.6	-0.2	-	2.8	-	-	-
	2022	2.6	3.8	1.4	0.7	4.7	3.8	0.4	-	2.6	-	-	-

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	05-Nov	0.25	0.14	0.64	1.56	115.3	-	644.9	859.0	859.9
	+3m	0.25	0.11	0.65	1.75	114.0	-	652.6	894.7	886.0
	+6m	0.25	0.11	0.80	1.85	112.0	-	664.7	928.6	919.6
	+12m	0.50	0.51	1.20	2.05	110.0	-	676.8	945.5	954.5
EUR	05-Nov	-0.50	-0.57	-0.37	0.15	-	115.3	743.8	990.7	991.8
	+3m	-0.50	-0.54	-0.35	0.40	-	114.0	744.0	1020.0	1010.0
	+6m	-0.50	-0.54	-0.30	0.50	-	112.0	744.5	1040.0	1030.0
	+12m	-0.50	-0.54	-0.20	0.65	-	110.0	744.5	1040.0	1050.0
JPY	05-Nov	-0.10	-0.08	0.01	0.11	120.5	113.8	6.17	8.22	8.23
	+3m	-0.10	-	-	-	131.1	115.0	5.68	7.78	7.70
	+6m	-0.10	-	-	-	129.9	116.0	5.73	8.00	7.93
	+12m	-0.10	-	-	-	127.6	116.0	5.83	8.15	8.23
GBP	05-Nov	0.10	0.23	0.95	1.10	85.8	134.5	867.2	1155.2	1156.4
	+3m	0.10	0.37	1.00	1.45	85.0	134.1	875.3	1200.0	1188.2
	+6m	0.25	0.44	1.10	1.50	84.0	133.3	886.3	1238.1	1226.2
	+12m	0.50	0.67	1.15	1.60	83.0	132.5	897.0	1253.0	1265.1
CHF	05-Nov	-0.75	-0.78	-0.53	0.13	105.7	91.6	703.7	937.4	938.4
	+3m	-0.75	-	-	-	107.0	93.9	695.3	953.3	943.9
	+6m	-0.75	-	-	-	108.0	96.4	689.4	963.0	953.7
	+12m	-0.75	-	-	-	109.0	99.1	683.0	954.1	963.3
DKK	05-Nov	-0.60	-0.27	-0.07	0.40	743.76	644.88	-	133.20	133.35
	+3m	-0.60	-0.28	-0.05	0.65	744.00	652.63	-	137.10	135.75
	+6m	-0.60	-0.28	-0.02	0.75	744.50	664.73	-	139.69	138.35
	+12m	-0.60	-0.28	0.08	0.90	744.50	676.82	-	139.69	141.03
SEK	05-Nov	0.00	-0.09	0.25	0.90	991.8	859.9	75.0	99.9	100.0
	+3m	0.00	-0.03	0.15	0.95	1010.0	886.0	73.7	101.0	-
	+6m	0.00	-0.03	0.15	0.95	1030.0	919.6	72.3	101.0	-
	+12m	0.00	-0.03	0.15	1.05	1050.0	954.5	70.9	99.0	-
NOK	05-Nov	0.25	0.81	1.53	1.81	990.7	859.0	75.1	100.0	100.1
	+3m	0.50	0.96	1.45	2.10	1020.0	894.7	72.9	-	99.0
	+6m	0.75	1.24	1.55	2.15	1040.0	928.6	71.6	-	99.0
	+12m	1.00	1.49	2.20	2.20	1040.0	945.5	71.6	-	101.0

Commodities

	05-Nov	2021				2022				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2021	2022
ICE Brent	81	55	65	70	75	75	75	75	75	66	75

Source Danske Bank

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