6 January 2023

Weekly Focus

A tug of war in financial markets

2023 has arrived and it looks set to be another interesting year for financial markets. Diverging forces are at play leaving markets in a tug of war between different drivers.

In **bond markets** lower inflation and recession points to lower yields, but on the other hand still strong labour markets and high wage pressures as well as the Chinese reopening, which is set to be an inflationary force, is pulling in the other direction. An easing of financial conditions also challenge central banks as tighter conditions are needed to cool down the economy further. Hence, we see a risk of more hikes (and fewer cuts in H2 and 2024) than markets currently price – especially in the US. We look for bond yields to be range bound for some time caught in the middle of the diverging forces.

In **equity markets** lower inflation, somewhat better visibility than in 2023, the Chinese reopening as well as plenty of cash on the sideline are all positive forces that could reduce risk premia and underpin stocks. However, the outlook of recession, still hawkish central banks and profits under pressure still point to a more defensive stance. We believe stocks will end the year higher but see the short-term outlook being murky still. EM should benefit from the Chinese reopening as we have seen reflected in markets also lately.

In the **FX market** we see more two-way action for the USD. The USD has weakened lately but we look for a rebound as the market prices too few Fed hikes and current account imbalances still favour the USD. We look for EUR/USD to go back to previous lows around 0.98 over coming quarters but it is unlikely to happen in a straight line.

We see increasing signs that headline inflation has peaked. German inflation for December dropped to 8.6% y/y from 10.0% y/y while Spanish inflation declined to 5.8% y/y from 6.8% y/y. However, the drop in Germany was driven by a government-backed discount to the energy bill and core inflation was high in both countries. Oil and gas prices have moved lower this week adding downward pressure on goods inflation and transport services. However, a key concern for the ECB is still the tight labour market. In an interview last week, ECB President Christine Lagarde said that wages are probably rising faster than expected and limiting fast wage growth was key to reining in inflation.

The Fed also struck a hawkish tone in the FOMC minutes from the December meeting and Fed member Neel Kaskhari (voter, hawk) said on Wednesday he sees rates move to 5.4% (market prices peak around 5%). Like ECB, the Fed also highlights a tight labour market as key for sustaining the tightening path. In addition, easing financial conditions is a concern for the Fed, see also *Research US – Good news is bad news for the Fed*, 4 January.

China' re-opening has led to a surge in Covid cases, but the wave looks set to peak within the next month. We look for a recovery starting in February/March, which will make China an inflationary force in the global economy again, see *China Outlook – Earlier reopening to drive faster rebound*, 3 January.

Next week all eyes will be on the US CPI for December. Lower gasoline and food prices will likely weigh on the headline (0.0% m/m), but services will continue to support core (0.3% m/m). In the euro area, we will keep an eye on data for unemployment and ECB comments following the recent CPI prints.

Key global views

- Europe in recession during the winter. US recession hits in Q2 23.
- US and euro headline inflation has peaked, but set to come down gradually. Tight labour markets and wage pressures to keep underlying inflation high for some time.
- The Fed to hike by 50bp in February and 25bp in March. ECB to hike 50bp in February, 50bp in March and 25bp in May.

Key market movers

- Monday: Euro Sentix index, Euro unemployment, German IP
- Tuesday: Japan Tokyo CPI, US NFIB small business optimism
- Thursday: **US CPI,** China CPI/PPI
- Friday: US 5-10Y inflation expectations (Uni. of Michigan)

Selected reading from Danske Bank

- *Nordic Outlook – Time to get inflation down,* 5 January
- *Research US – Good news is bad news for the Fed, 4 January*
- *China Outlook – Earlier reopening to driver faster rebound, 3 January*

Editor

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Scandi market movers

- In **Denmark**, we are expecting November's foreign trade and current account figures on Monday. So far, Denmark has run a very large current account surplus in 2022, not least due to high freight rates in the shipping business. However, freight rates appear to be waning and this will now begin to feed through to the data. Nevertheless, this does not change the fact that there is an underlying surplus on the current account, which is contributing to the strengthening pressure on the DKK.

  Tuesday should bring inflation figures for December. November delivered a decent downside surprise on the back of lower energy prices, which presents the risk of an upside surprise in the December figures. On the other hand, December has seen the market prices of electricity, gas, petrol and diesel fall, which overall means we expect a decline in the consumer price index of 0.3% relative to November. However, in terms of the annual inflation rate comparing to December last year, it implies an increase from 8.9% in November to 9.0% in December. Developments remain very uncertain, for example for food prices, which we have incorporated into our forecast with a small decline. Bankruptcy figures are due on the same day, and here the trend is up on the back of economic recession and the expiry of Covid-19 relief packages.

  Thursday's unemployment indicator from Statistics Denmark will provide the first glimpse of unemployment in December. There is not much sign of unemployment actually beginning to rise yet, even though both companies and ourselves expect this will happen soon.

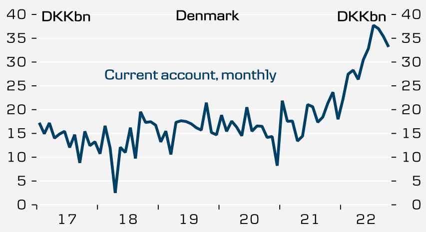
- In **Sweden**, the focus next week will be December inflation data (end of week). We expect soaring electricity prices to have lifted both CPI and CPIF to new record highs (12.0 % y/y and 9.9 % y/y respectively). Hence, CPIF will be significantly higher than Riksbank's forecast of 9.1 % y/y if this is correct. That said, Riksbank may be more interested in CPIF excl. Energy which we believe will print 8.2 % y/y vs Riksbank's 8.3 % y/y. Although that is also a new record high it should mark the peak of core inflation.

  Next week ahead of the inflation release, we get a bunch of November data with production figures, household consumption and GDP-indicator all due. Household consumption is likely to be affected by the bounce up in retail sales, probably an effect of Black Friday sales. GDP and PVI (production) are usually quite correlated. Although recent GDP prints have been resilient, both NIER and PMI's points to a slowdown with weak order inflow and this should start to show up in the production figures.

  The National Debt Office releases the December budget outcome and its forecast is a borrowing requirement of SEK 138 bn. Note, however, that in the previous two months the borrowing requirement has been SEK 13 bn lower than expected, largely due to higher tax revenues.

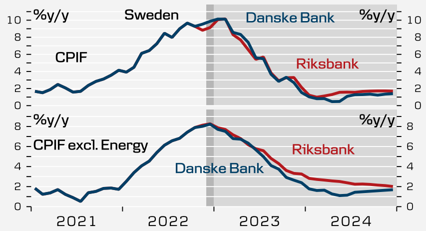
  Riksbank holds an international symposium January 10 on central bank independence from four different angles: climate, payments, mandate and policy coordination. Among the attendants are Bailey (BoE), Kuroda (BoJ), Schnabel (ECB), Powell (Fed) and Knot (ECB).

Surplus goes from big to very big



Source: Statistics Denmark, Macrobond Financial

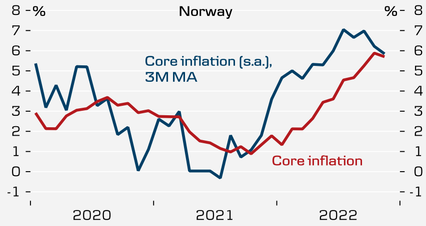
Sweden: December should mark the peak in core inflation



Source: SCB, Riksbank, Danske Bank

- In **Norway**, core inflation for once surprised to the downside in November, with prices for food, hotels/restaurants and furniture/interiors not rising as much as expected. Although the figures were probably affected by discounting during Black Week, they confirmed that the underlying trend, as reflected in the monthly change in seasonally adjusted terms, is still down. A slight correction after Black Week means that we expect the annual rate to hold at 5.7% in December. GDP growth has held up surprisingly well given the headwinds from strong cost growth, rapid inflation and higher interest rates, and has also been better than predicted by leading indicators. Stronger-than-expected growth in consumption in particular, but also higher business investment and mainland exports, have been the main drivers. We expect much of this picture to be intact in November, but that mainland GDP will fall 0.1% m/m.

Inflation in Norway has peaked on a monthly basis



Source: Macrobond Financial, Danske Bank

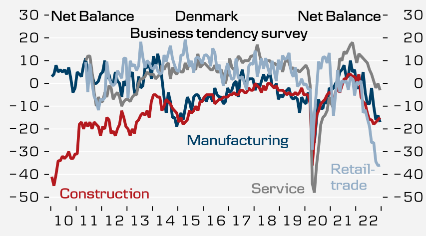
Scandi update

Denmark – new year starts on a pessimistic note

Corporate Denmark is rather pessimistic about the immediate future, with both the construction and industrial sectors expecting to have fewer employees, while the service sector looks set to tread water going forward. Companies appear to have a relatively tough year ahead, with consumers hit by inflation, rising interest rates squeezing construction and investments, and the global economy marked by turmoil and a slowdown. We expect GDP to fall by 1% here in 2023 but, on the other hand, we can hopefully look forward to a more normal period of steady growth next year. Retailing is the gloomiest of the major sectors, with a large majority of stores expecting further setbacks. Consumers have seriously cut back on their purchases, as rising prices have had a clear impact. Retailers are also reporting excessive inventories, which could indicate downward pressure on prices, yet more than half of retailers are expecting to raise prices further in the time ahead, so the future for consumers looks rather mixed.

Danmarks Nationalbank sold DKK5.8bn in December to prevent the Danish currency strengthening unduly against the euro (EUR). In all, Denmark's central bank intervened to the tune of DKK54.8bn in 2022 to rein in the krone in a year that could otherwise easily have been a weak one for the DKK, which normally faces headwinds when equities come under pressure – but that was not how last year unfolded. Danmarks Nationalbank helped ease the strengthening pressure somewhat when it hiked interest rates by less than the European Central Bank (ECB) in October, but that has not proved sufficient. We are expecting the ECB to hike by 0.5 percentage points in February, which will present Danmarks Nationalbank with an opportunity to enlarge the rate spread slightly by only raising rates by 0.4 percentage points. Hence, in Denmark the outlook is still for further rate hikes, but at a slower pace than in the euro area.

Low expectations

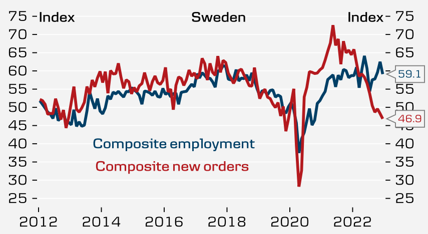


Source: Statistics Denmark, Macrobond Financial

Sweden – Mixed PMI's but weak order inflow

PMI's out this week showed some mixed signals. The manufacturing index was flat on the month and the details showed that new orders slightly improved, although still in contraction territory. The services side on the other hand continued the downward trend but is still in growth territory. However, the order inflow is still in contraction territory and signals weakening demand and lower production in the coming period. Employment figures in PMI's are still on good levels but the gap between order inflow and employment continues to be very big. One will have to change direction and in our view, it is the employment figures. Our view is that the unemployment rate will increase further from here.

Weak demand

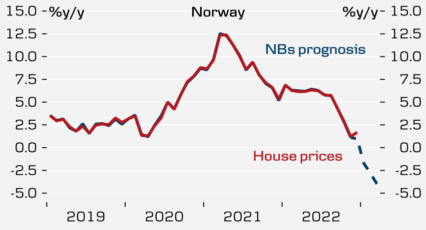


Source: Silf, Macrobond

Norway – Housing market continues to weaken

Housing prices climbed unexpectedly in December despite headwinds from higher interest rates, with a rise of 0.2% m/m in seasonally adjusted terms taking the annual rate of increase to 1.7%. However, turnover is lower than it has been over the past couple of years, and the stock of unsold properties is growing. This may mean that we continue to see lower prices for a while, at least until the rise in interest rates has its full effect. We expect prices to continue to fall through to summer, but then begin to stabilise. Although there are now more homes on the market, levels are still lower than before the pandemic, and there has been low levels of homebuilding over the past year. The risk of a more severe correction is therefore limited and hangs largely on the risk of interest rates and/or unemployment rising a lot further than we anticipate. Although the latest figures are somewhat better than Norges Bank assumed in the December monetary policy report, this is unlikely to be a game changer at the January and March rate-setting meetings.

House prices stronger than expected



Source: Macrobond, Danske Bank

Calendar - 9-13 January 2023

During the week				Period	Danske Bank	Consensus	Previous
Sat 07	CNY	Foreign exchange reserves	USD bn	Dec		3150.0	3117.5
Mon 09	CNY	Money supply M2	y/y	Dec		12.4%	12.4%
Monday, January 9, 2023				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Dec		12.4%	12.4%
7:45	CHF	Unemployment	%	Dec			2.0%
8:00	DKK	Trade balance ex ships	DKK bn	Nov			8.5
8:00	DKK	Current account (nsa|sa)	DKK bn	Nov			...|33.2
8:00	DEM	Industrial production	m/m|y/y	Nov		0.2%|0.3%	-0.1%|0.0%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Dec			790
10:30	EUR	Sentix Investor Confidence	Index	Jan		-16.5	-21.0
11:00	EUR	Unemployment	%	Nov	6.5%	6.5%	6.5%
18:30	USD	Fed's Bostic speaks					
21:00	USD	Consumer credit	USD bn	Nov		25.0	27.1
Tuesday, January 10, 2023				Period	Danske Bank	Consensus	Previous
8:00	SEK	Industrial orders	m/m|y/y	Nov			-4.0%|-7.1%
8:00	SEK	Private Sector Production	m/m|y/y	Nov			0.2%|3.2%
8:00	SEK	Household consumption	m/m|y/y	Nov			-0.3%|0.0%
8:00	NOK	CPI	m/m|y/y	Dec			-0.2%|6.5%
8:00	NOK	PPI	m/m|y/y	Dec			5.2%|22.3%
8:00	DKK	CPI	m/m|y/y	Dec	-0.3%|9.0%		-0.9%|8.9%
8:00	DKK	Industrial production	m/m	Nov			-2.3%
8:00	DKK	Bankruptcies (active companies)		Dec			709
8:00	SEK	Budget balance	SEK bn	Dec			36.7
8:00	NOK	Core inflation (CPI-ATE)	m/m|y/y	Dec	0.4%|5.7%	...|5.7%	-0.1%|5.7%
8:45	FRF	Industrial production	m/m|y/y	Nov		0.8%|-1.3%	-2.6%|-2.7%
12:00	USD	NFIB small business optimism	Index	Dec		91.5	91.9
15:00	USD	Fed chair Powell speaks					
Wednesday, January 11, 2023				Period	Danske Bank	Consensus	Previous
6:00	JPY	Leading economic index, preliminary	Index	Nov		97.6	98.6
16:30	USD	DOE U.S. crude oil inventories	K				1694
21:00	USD	Fed's George speaks					
Thursday, January 12, 2023				Period	Danske Bank	Consensus	Previous
2:30	CNY	CPI	y/y	Dec		1.8%	1.6%
2:30	CNY	PPI	y/y	Dec		-0.1%	-1.3%
8:00	NOK	GDP (mainland)	m/m	Nov	0.1%		0.0%
8:00	DKK	Unemployment	m/m	Dec			
10:00	EUR	ECB Publishes Economic Bulletin					
13:30	USD	Fed's Harker speaks					
14:30	USD	CPI headline	m/m|y/y	Dec	0.0%|	0.0%|6.6%	0.1%|7.1%
14:30	USD	CPI core	m/m|y/y	Dec	0.3%|	0.3%|5.7%	0.2%|6.0%
14:30	USD	Initial jobless claims	1000				204
17:30	USD	Fed's Bullard speaks					
20:00	USD	Budget statement	USD bn	Dec			-248.5
Friday, January 13, 2023				Period	Danske Bank	Consensus	Previous
-	EUR	Spain's debt rating (Moody's)					
-	CNY	Trade balance	USD bn	Dec		78.0	69.3
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	GBP	Monthly GDP estimate	m/m|q/q	Nov		-0.003|-0.003	0.005|-0.003
8:00	GBP	Index of services	m/m|3m/3m	Nov		-0.002|-0.002	0.006|-0.001
8:00	SEK	Underlying inflation CPIF	m/m|y/y	Dec		1.5%|9.8%	0.7%|9.5%
8:00	SEK	CPI	m/m|y/y	Dec		1.8%|12.0%	1.0%|11.5%
8:45	FRF	HICP, final	m/m|y/y	Dec		-0.1%|6.7%	-0.1%|6.7%
9:00	ESP	HICP, final	m/m|y/y	Dec		...|5.6%	0.1%|5.6%
10:00	DEM	Budget real GDP (Maastricht)	%				-3.7%
10:00	DEM	GDP	%			1.8%	2.6%
11:00	EUR	Industrial production	m/m|y/y	Nov		0.5%|0.5%	-2.0%|3.4%
11:00	EUR	Trade balance	EUR bn	Nov		-18	-28.3
14:30	USD	Import prices	m/m|y/y	Dec		-0.9%|...	-0.6%|2.7%
16:00	USD	University of Michigan Confidence, preliminary	Index	Jan		60.5	59.7

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	2022	2.9	-2.6	-1.1	4.4	7.4	3.2	7.8	3.5	2.6	1.2	29.7	11.8
	2023	-1.0	-2.3	0.0	-3.3	1.3	-0.7	4.9	4.1	3.1	1.0	28.1	9.5
	2024	1.0	1.8	0.9	-2.1	1.2	0.4	2.0	4.2	3.4	0.8	27.0	9.5
Sweden	2022	2.6	2.6	-0.2	5.6	4.6	7.9	8.3	2.5	7.5	0.7	31.0	3.9
	2023	-1.2	-1.3	1.1	-3.0	1.3	0.2	8.5	3.2	8.2	-0.9	29.0	4.4
	2024	1.2	2.0	1.2	1.8	2.8	2.6	1.3	2.7	8.1	-0.4	29.0	4.5
Norway	2022	3.7	6.6	0.3	4.0	3.0	12.1	5.8	3.9	1.8	-	-	-
	2023	0.6	-0.5	1.3	0.5	3.5	2.5	4.8	4.3	2.2	-	-	-
	2024	1.5	0.9	1.5	4.0	2.0	2.0	2.1	3.8	2.4	-	-	-

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	2022	3.3	3.9	1.1	4.4	7.4	8.6	8.4	4.2	6.7	-3.9	93.7	1.5
	2023	-0.9	-1.6	1.3	0.7	2.9	4.5	6.8	4.9	7.4	-4.0	92.5	1.9
	2024	0.0	0.7	1.7	-0.1	1.3	2.7	2.9	3.6	8.3	-3.5	91.6	2.4
Germany	2022	1.8	4.6	1.6	0.4	3.2	6.7	8.6	4.1	3.0	-2.3	67.4	3.7
	2023	-1.4	-2.1	1.9	-1.2	2.4	3.7	7.9	5.4	3.8	-2.7	65.5	4.6
	2024	-0.5	0.9	2.3	0.2	-0.1	3.0	3.9	4.3	4.2	-1.9	66.2	4.9
Finland	2022	1.8	2.3	2.5	4.5	1.5	7.0	7.2	2.6	6.8	-1.8	70.7	-3.3
	2023	-0.7	-0.3	1.5	-1.0	-1.5	-2.0	4.8	4.0	7.3	-2.5	71.0	-2.7
	2024	0.5	0.4	1.0	0.5	1.5	1.0	2.2	3.5	7.2	-2.0	71.7	-2.1

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	2022	1.9	2.6	-0.9	-0.4	7.9	8.5	8.0	5.2	3.6	-4.2	124.0	-3.9
	2023	-0.2	-0.2	1.1	-5.4	1.1	-4.4	3.3	4.4	4.0	-3.8	121.0	-3.1
	2024	0.5	0.4	1.3	0.6	-0.1	0.5	1.7	2.1	5.6	-3.9	120.5	-2.8
China	2022	2.8	2.8	-	4.5	-	-	2.0	3.0	-	-8.9	76.9	1.6
	2023	4.6	5.1	-	5.2	-	-	2.2	5.0	-	-7.2	84.1	1.0
	2024	6.0	5.5	-	5.5	-	-	2.5	5.5	-	-7.5	89.8	0.8
UK	2022	4.2	-	-	-	-	-	8.9	-	3.8	-	-	-
	2023	-0.7	-	-	-	-	-	6.2	-	4.4	-	-	-
	2024	0.8	-	-	-	-	-	2.6	-	5.0	-	-	-
Japan	2022	1.4	3.0	1.6	-0.8	4.7	8.0	2.2	-	2.6	-	-	-
	2023	0.7	0.9	0.6	1.3	2.5	3.2	2.4	-	2.8	-	-	-
	2024	0.9	0.8	0.5	0.6	1.5	0.5	1.4	-	2.8	-	-	-

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	06-Jan	4.50	4.79	4.76	3.68	105.1	-	707.9	1026.7	1073.8
	+3m	5.25	5.40	5.20	4.05	102.0	-	729.4	1019.6	1078.4
	+6m	5.25	5.40	5.10	4.05	98.0	-	759.7	1040.8	1142.9
	+12m	5.25	5.24	4.80	3.65	98.0	-	760.2	1020.4	1122.4
EUR	06-Jan	2.00	2.25	3.30	2.93	-	105.1	743.7	1078.7	1128.2
	+3m	3.00	3.36	3.35	3.00	-	102.0	744.0	1040.0	1100.0
	+6m	3.25	3.41	3.20	2.85	-	98.0	744.5	1020.0	1120.0
	+12m	3.25	3.39	2.90	2.55	-	98.0	745.0	1000.0	1100.0
JPY	06-Jan	-0.10	-0.03	0.33	0.91	120.5	134.3	6.17	8.95	9.36
	+3m	-0.10	-	-	-	141.8	139.0	5.25	7.34	7.76
	+6m	-0.10	-	-	-	132.3	135.0	5.63	7.71	8.47
	+12m	-0.10	-	-	-	125.4	128.0	5.94	7.97	8.77
GBP*	06-Jan	3.50	-	4.41	3.64	88.6	118.6	839.8	1217.9	1273.9
	+3m	3.75		4.20	3.50	86.0	118.6	865.1	1209.3	1279.1
	+6m	3.75		4.20	3.50	85.0	115.3	875.9	1200.0	1317.6
	+12m	3.75		4.00	3.30	85.0	115.3	876.5	1176.5	1294.1
CHF*	06-Jan	1.00	-	1.51	1.86	98.7	93.9	753.9	1093.3	1143.6
	+3m	1.00	-	-	-	97.0	95.1	767.0	1072.2	1134.0
	+6m	1.50	-	-	-	96.0	98.0	775.5	1062.5	1166.7
	+12m	1.50	-	-	-	96.0	98.0	776.0	1041.7	1145.8
DKK	06-Jan	1.75	2.54	3.45	3.08	743.74	707.89	-	145.03	151.69
	+3m	2.65	3.45	3.50	3.15	744.00	729.41	-	139.78	147.85
	+6m	2.90	3.50	3.35	3.00	744.50	759.69	-	137.00	150.44
	+12m	2.90	3.50	3.05	2.70	745.00	760.20	-	134.23	147.65
SEK	06-Jan	2.50	2.79	3.36	2.93	1128.2	1073.8	65.9	95.6	100.0
	+3m	3.00	3.05	3.35	2.95	1100.0	1078.4	67.6	94.5	-
	+6m	3.00	3.10	3.15	2.85	1120.0	1142.9	66.5	91.1	-
	+12m	3.00	3.10	2.85	2.55	1100.0	1122.4	67.7	90.9	-
NOK	06-Jan	2.75	3.30	3.64	3.30	1078.7	1026.7	68.9	100.0	104.6
	+3m	2.75	2.95	3.45	3.15	1040.0	1019.6	71.5	-	105.8
	+6m	2.75	2.95	3.20	2.80	1020.0	1040.8	73.0	-	109.8
	+12m	2.50	2.95	3.05	2.70	1000.0	1020.4	74.5	-	110.0

*Notes: GBP swaps are SONIA and CHF swaps are SHARON.
We have updated our Norges Bank forecasts after yesterday's Norges Bank meeting but not yet our Norwegian yield outlook

Commodities

		2022				2023				Average	
	06-Jan	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	79	98	112	105	100	95	95	95	95	104	95

Source Danske Bank

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Report completed: 6 January 2023, 13:55 CET

Report first disseminated: 6 January 2023, 14:00 CET