

Weekly Focus

Hiking season

We saw significant market jitters this week with VIX volatility starting off at a two month high. The lack of a hawkish message from the Federal Reserve (Fed) turned things around for a while only for US equities to take a big plunge on Thursday as investors largely consider Fed to be behind the curve. In London, a trading error caused a flash crash in Swedish stocks of 8% on Monday, which immediately spread to the other Nordic and European bourses. Markets quickly normalised again, though.

This was also the week where 10-year US treasuries traded through the 3%-level for the first time since 2018. Oil prices bounced to the highest level since March on the back of EU plans to phase out imports of Russian oil and US looking to start re-filling its strategic reserves. Adding further to inflation pressures, refined oil products have increased more in price than crude since the war broke out as Russia is a big exporter here.

The Fed largely did what was expected of them this week, as they hiked rates by 50bp and hinted that they will hike by 50bp again at the "next couple of meetings". Fed chair Powell communicated that the Fed is not "actively considering" a larger 75bp rate hike although he did not rule it out. We are still just at the beginning of the hiking cycle and we see risks skewed towards more aggressive tightening.

Several other central banks also hiked rates this week. Bank of England did 25bp as widely expected but removed the risk of steep rate hikes for now, as the BoE remains concerned about the growth outlook, which translated into a weaker pound. We also got hikes from the Reserve Bank of Australia and surprise 75bp hikes from both the National Bank of Poland and the Czech National Bank. The former was significantly less than priced by markets and the latter was more.

This week's economic data predominantly indicates European resilience to the war in Ukraine so far. Unemployment declined to an all-time low in March and the service sector showed a nice rebound amid reopening in April. On the other hand, the manufacturing sector is slowing down, German industrial orders and output are declining and producer price inflation increased further in March, indicating more headwinds for consumers going forward. We saw high inflation starting to take its toll on Euro area retail sales, which declined in March. Chinese PMI's plunged in April on the back of the Shanghai lockdown, a warning for the global manufacturing sector, which typically lags China by a few months. On a positive note, the outbreak seems increasingly under control.

Next week, we will look out for Russian victory day. We expect Russian president Putin will escalate his rhetoric against the West. The market reaction is uncertain and will depend on the possibility of a Russian attack on other countries. We will also follow discussions on the EU's sixth sanctions package and if agreement for a Russian oil embargo is found. In the US, April CPI data could very well mark the peak in inflation. We will focus on mom moves, though, which are still too high for the Fed to feel really comfortable.

Key market movers

- Monday: Russian Victory day
- Tuesday: German ZEW index
- Wednesday: US CPI inflation
- Thursday: Chinese credit data
- All week: EU sanctions

Key global views

- Rising 'stagflation' risk from war in Ukraine – especially in Europe
- Weaker growth in coming quarters but not a global recession
- Higher commodity prices to keep inflation elevated for longer
- Fed to hike by another 175bp this year, ECB to hike in July

Selected readings from Danske Bank

- *Euro Area Macro Monitor - Conflicting signals*, 5 May
- *Bank of England Update Review: Another rate hike but mixed signals*, 5 May
- *Fed Research - Review: 50bp rate hike but no appetite for 75bp (yet?)*, 4 May
- *China Macro Monitor - PMI plunges as growth headwinds intensify*, 2 May

Editor

Senior Analyst
Bjorn Tangaa Sillemann
+45 45 12 82 29
bjsi@danskebank.dk

Scandi market movers

- In **Denmark**, we get foreign trade figures for March on Monday. Exports started off the year on a firm footing, and the figures we have for exports to countries outside the EU indicate that March will also be a decent month. While momentum is slowing, growth remained solid across key Danish export markets in March. The limiting factor for exports at the moment is not demand but rather shortages of materials and labour.

Tuesday we get April CPI inflation and we expect it increased further to 6.0% from 5.4% in March. We expect the primary driver to be the large increase in electricity prices we saw in the spring. On top of that, the tobacco fee should be fully faced in with the April figures. We will also keep a close eye on food prices which have accelerated recently and are already at 6.3% yoy. It is our expectation that this marks the peak in Danish inflation for now as we have seen particularly electricity prices decline again. Much will be up to energy prices.

- In **Sweden** April inflation is likely to come out higher than in March, driven largely by food prices, recreation, rent and furniture. Energy prices have soared the last months, but compared to March, electricity prices came down during April and should subtract 0.3 p.p of the headline figure. We have pencilled lower electricity prices in coming months due to warmer weather, but uncertainty remains extremely high, and it remains to be seen what effect EU's ban on Russian oil from year end will have on oil prices.

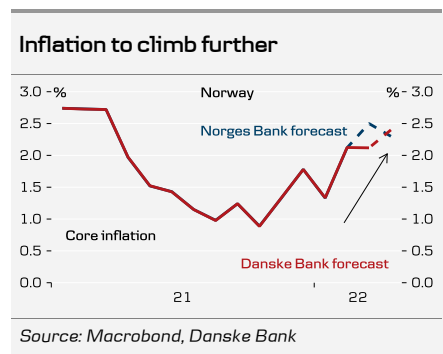
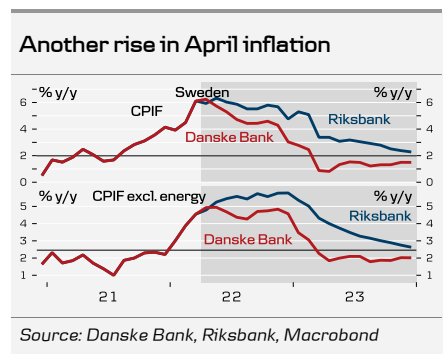
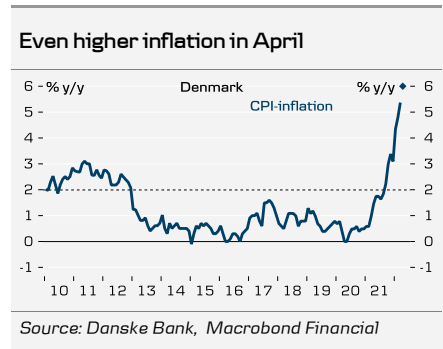
Generally, we have underestimated the effects from supply disruptions, transportation costs and higher electricity prices in recent months. That said, wage growth has still not increased, underlining that inflation still stems from supply disturbances, and hence is not sustainable in the long run. If we start to see a pickup in compensation claims, inflation would move from being supply to demand driven or a combination of both.

CPIF is expected to rise to 6.2% from 6.1% y/y in March while underlying inflation is expected to jump to 4.5% y/y compared to 4.1% y/y last month. Headline is expected to be 0.3 p.p above Riksbank forecast while CPIF ex Energy only 0,15 p.p above.

Just the day before inflation, Prospera monthly inflation expectation survey will be out. Given the rise in inflation, we expect to see increases across the board. Most of interest will be the 5Y horizon, last month was on 2.2%, which probably is OK level for the Riksbank, but if we will see larger upticks from here it will for sure be uncomfortable for the Riksbank.

- In **Norway**, core inflation surprised to the downside in March, held in check by a drop in prices for food and some other imported goods. Given stronger global inflationary pressures and higher wage growth, however, it is likely to climb further. We expect the upward trend in imported inflation to continue, and so we expect core inflation to rise to 2.4% y/y in April. That would be only marginally above the 2.3% Norges Bank predicted in its March monetary policy report and should not therefore impact notably on market expectations. Having said that, history has seen big movements in April due to Easter-related effects on food and transport, so the uncertainty is abnormally high.

The week also brings GDP data for Q1, which will be hit by the drop in activity in December and January following the introduction of new pandemic restrictions in December. The monthly figures showed a clear upswing in February which probably continued in March, driven by higher investment in both the mainland economy and the oil sector. This will probably not, however, be enough to stop mainland GDP from falling 0.6% q/q in Q1.

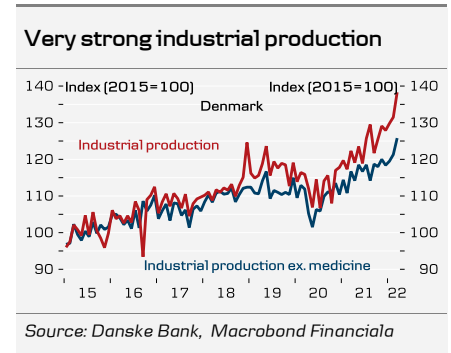


Scandi update

Denmark – Industrial production surges

The Danish Pension Commission submitted its recommendations for improving the pension system on Wednesday, including a proposal to raise the retirement age more slowly from 2045 onwards than had been envisaged. That implies a considerably smaller government surplus and increased public debts in the longer term. The commission also opened the door to phasing out a number of special pension supplements, to increasing mandatory savings and providing more opportunities to save via the so-called ‘aldersopsparring’ retirement savings scheme. We expect these measures to increase the Danes’ pension savings in the coming decades. However, the Pension Commission’s report comprises only recommendations and there remains much uncertainty about the extent to which they will become actual policies.

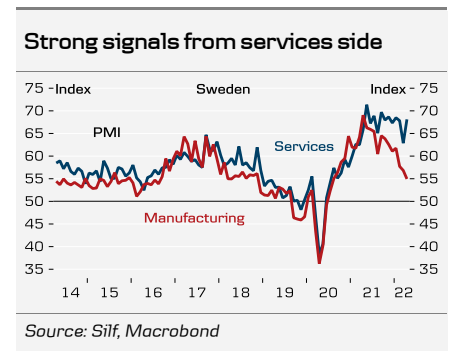
Industrial production rose 5.2% in March, and the already solid figures for January and February were revised higher, taking overall growth here for Q1 22 to 4.5%. Quarterly growth of some 9.1% in the pharmaceutical industry was a major driver, but even ex-pharma quarterly growth came in at 2.9%. Denmark’s industrial sector performing so well at a time marked by companies reporting massive problems with sourcing materials, commodities and labour comes as something of a surprise, and we should likely reckon on a slowdown going forward.



Sweden – Mixed signals from PMI's

PMI manufacturing decreased in April to 55 from 57.3 at the same time as March was revised down somewhat. The main contributors to the decline was production and employment. Domestic orders decline marginally while export orders increased, though largely due to a rebound from last month large decline in exports (but below 50.). On a positive note, delivery times actually declined (from high levels) but as widely known, the developments in China isn't good which probably will add further pressure on supply chains. In total, April PMI's indicate that business cycle reaching more normal levels

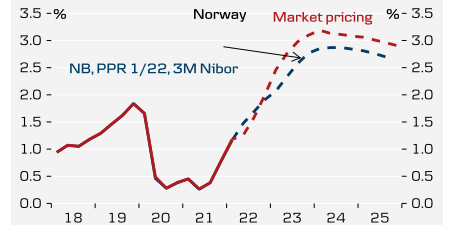
A few days later, a strong PMI services overall number was delivered at the same time as the month before was revised down. Opposite Manufacturing, delivery times increased, and hence add to the total index but not for good reasons. However, all sub-index increased (employment, production, business volume and order inflow) meaning the service side gives a much better indication of the economy than PMI for manufacturing did, so for sure some mixed signals about the Swedish economy this week.



Norway – No change from Norges Bank, next hike June

As expected, Norges Bank kept its policy rate at 0.75% and signalled that it will most likely go up again in June. It also repeated its risk assessment from March: “If there are prospects of persistently high inflation, the policy rate may be raised more quickly than indicated by the policy rate forecast in the March Report.” Looking at the global economy, the bank notes higher inflation and inflation expectations and slightly weaker growth than expected, attributing this partly to uncertainty about the war in Ukraine. Domestic developments since the March meeting have been mixed, but activity has been high and unemployment low. Inflation has been lower than expected, and pay settlements to date “appear to be consistent with the projection for overall wage growth in the March Report.” All in all, this means that the upside risk noted in March, in the form of higher wage and price inflation, has so far not materialised. The bank is therefore sticking to its strategy of raising interest rates gradually, i.e. by 25bp per quarter. We too expect another hike in June, but we still think that market expectations are overly aggressive, especially towards the end of next year.

Market pricing Norges Bank aggressively



Source: Macrobond, Danske Bank

Calendar

During the week

				Period	Danske Bank	Consensus	Previous
Sat 07	CNY	Foreign exchange reserves	USD bn	Apr		3130.0	3188.0
Sat 07	USD	Fed's Bullard speaks					
Sat 07	USD	Fed's Daly speaks					
Mon 09	CNY	Money supply M2	y/y	Apr		9.9%	9.7%
Mon 09	CNY	Trade balance	USD bn	Apr		51.9	47.4

Monday, May 9, 2022

				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Apr		51.9	47.4
-	CNY	Money supply M2	y/y	Apr		9.9%	9.7%
1:30	JPY	Labour cash earnings	y/y	Mar		0.9%	1.2%
2:30	JPY	Markit PMI services, final	Index	Apr			50.5
8:00	DKK	Trade balance ex ships	DKK bn	Mar			46
8:00	DKK	Exports	m/m	Mar			460.0%
8:00	NOK	Manufacturing production	m/mly/y	Mar			-2.1% -1.9%
8:00	NOK	Industrial production	m/mly/y	Mar			-0.8% 1.6%
8:00	DKK	Current account (nsa sa)	DKK bn	Mar			┘20.4
10:30	EUR	Sentix Investor Confidence	Index	May		-20.5	-18.0
21:00	USD	Fed's George speaks					

Tuesday, May 10, 2022

				Period	Danske Bank	Consensus	Previous
8:00	NOK	CPI	m/mly/y	Apr			0.6% 4.5%
8:00	NOK	PPI	m/mly/y	Apr			16.9% 79.4%
8:00	DKK	CPI	m/mly/y	Apr			0.6% 5.4%
8:00	NOK	Core inflation (CPI-ATE)	m/mly/y	Apr	0.6% 2.4%		0.3% 2.1%
11:00	DEM	ZEW current situation	Index	May		-35.0	-30.8
11:00	DEM	ZEW expectations	Index	May		-44.0	-41.0
12:00	USD	NFIB small business optimism	Index	Apr		92.9	93.2
13:40	USD	Fed's Williams speaks					
15:15	USD	Fed's Barkin speaks					
19:00	USD	Fed's Waller speaks					
21:00	USD	Fed's Mester speaks					

Wednesday, May 11, 2022

				Period	Danske Bank	Consensus	Previous
1:00	USD	Fed's Bostic speaks					
3:30	CNY	CPI	y/y	Apr		1.9%	1.5%
3:30	CNY	PPI	y/y	Apr		7.8%	8.3%
7:00	JPY	Leading economic index, preliminary	Index	Mar		100.9	100.0
8:00	DEM	HICP, final	m/mly/y	Apr		0.7% 7.8%	0.7% 7.8%
8:00	SEK	Prospera inflation expectations					
14:30	USD	CPI headline	m/mly/y	Apr	0.5% 8.4%	0.2% 8.1%	1.2% 8.5%
14:30	USD	CPI core	m/mly/y	Apr	0.5% 6.0%	0.4% 6.1%	0.3% 6.5%
16:30	USD	DOE U.S. crude oil inventories	K				1303
18:00	USD	Fed's Bostic speaks					
20:00	USD	Budget statement	USD bn	Apr			-192.7

Thursday, May 12, 2022

				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Apr		0.7	0.7
8:00	SEK	Underlying inflation CPIF	m/mly/y	Apr	0.4% 6.2%	0.4% 6.2%	1.7% 6.1%
8:00	GBP	GDP, preliminary	q/qly/y	1st quarter		1.0% 8.9%	1.3% 6.6%
8:00	GBP	Monthly GDP estimate	m/m q/q	Mar		-0.001 _	0.001 _
8:00	GBP	Index of services	m/m 3m/3m	Mar		0.001 0.008	0.002 0.008
8:00	SEK	CPI	m/mly/y	Apr	0.5% 6.2%	0.5% 6.2%	1.8% 6.0%
14:30	USD	Initial jobless claims	1000				200
14:30	USD	PPI	m/mly/y	Apr		0.5% 10.7%	1.4% 11.2%
14:30	USD	PPI core	m/mly/y	Apr		0.6% 8.9%	1.0% 9.2%
22:00	USD	Fed's Daly speaks					

Friday, May 13, 2022

				Period	Danske Bank	Consensus	Previous
8:00	NOK	GDP (total)	q/q	1st quarter			0.1%
8:00	NOK	GDP (mainland)	q/q	1st quarter			1.4%
8:00	NOK	GDP (mainland)	m/m	Mar			0.5%
8:45	FRF	HICP, final	m/mly/y	Apr		0.5% 5.4%	0.5% 5.4%
9:00	ESP	HICP, final	m/mly/y	Apr		-0.2% 8.3%	-0.2% 8.3%
11:00	EUR	Industrial production	m/mly/y	Mar		-0.8% -1.0%	0.7% 2.0%
14:30	USD	Import prices	m/mly/y	Apr		0.6% _	2.6% 12.5%
16:00	USD	University of Michigan Confidence, preliminary	Index	May		63.7	65.2
17:00	USD	Fed's Kashkari speaks					
18:00	USD	Fed's Mester 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	2021	4.7	4.3	3.7	5.6	7.8	8.2	1.9	3.0	3.7	2.4	36.7	8.3
	2022	3.5	2.2	0.6	2.0	6.0	4.0	4.5	3.7	2.4	1.7	32.6	7.5
	2023	1.3	2.5	0.5	1.1	3.1	4.1	1.2	4.0	2.5	1.8	30.3	7.7
Sweden	2021	4.5	5.7	2.5	5.9	7.2	9.1	2.2	2.7	8.8	-0.2	37.7	1.4
	2022	2.5	3.3	1.3	2.8	5.1	5.6	4.0	2.0	7.0	0.8	33.0	4.8
	2023	2.0	1.9	1.2	2.2	3.9	3.4	1.3	2.1	6.8	0.8	30.0	5.1
Norway	2021	4.2	5.0	3.9	-0.3	4.8	2.0	3.5	3.5	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	3.3	3.7	2.0	-	-	-
	2023	2.0	2.5	1.3	2.0	4.0	4.0	1.8	3.7	1.9	-	-	-

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	5.4	3.5	3.9	4.2	11.0	8.7	2.6	4.1	7.7	-5.1	95.6	3.1
	2022	2.5	2.8	3.9	3.7	7.3	9.4	7.0	2.5	6.7	-3.6	97.6	3.2
	2023	2.8	1.2	3.7	4.5	5.3	4.9	2.0	3.4	6.5	-2.1	96.7	3.4
Germany	2021	2.9	0.1	3.1	1.3	9.8	9.1	3.2	3.4	3.6	-3.7	69.3	7.5
	2022	1.0	2.8	2.6	0.2	6.2	8.8	7.4	3.2	3.1	-2.1	69.2	6.6
	2023	3.6	1.6	4.1	4.0	6.4	4.9	2.7	3.8	2.9	-0.5	68.1	6.8
Finland	2021	3.5	3.1	3.2	1.2	4.7	5.3	2.2	2.3	7.7	-2.6	65.8	0.7
	2022	1.7	2.3	1.0	3.0	3.0	4.0	4.4	2.8	7.0	-3.0	66.1	0.2
	2023	2.0	2.5	1.0	3.0	3.0	3.5	2.0	2.6	6.6	-1.8	65.5	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	2021	5.7	7.9	0.5	7.8	4.5	14.0	4.7	4.0	5.4	-13.4	129.7	-3.5
	2022	2.8	2.5	0.1	2.9	4.9	5.5	7.2	5.0	4.0	-4.7	125.6	-3.5
	2023	2.0	1.9	1.0	3.5	1.5	1.8	3.0	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	4.7	6.0	-	3.0	-	-	3.0	5.5	-	-7.0	72.0	1.0
	2023	5.3	6.0	-	4.5	-	-	2.5	5.5	-	-6.8	74.5	0.7
UK	2021	7.4	6.2	14.3	5.9	-1.3	3.8	2.6	4.9	4.5	-8.1	95.6	-3.0
	2022	5.1	6.1	3.3	6.5	3.3	4.8	5.2	3.2	4.0	-3.9	95.5	-4.6
	2023	2.4	2.5	0.8	4.8	3.4	3.7	2.9	3.9	3.7	-1.9	94.1	-4.2
Japan	2021	1.7	1.1	2.1	-1.3	11.8	5.2	-0.2	-	2.8	-	-	-
	2022	2.1	3.3	1.5	-2.2	4.6	1.4	1.6	-	2.6	-	-	-
	2023	1.0	1.4	0.7	-0.6	3.2	2.0	1.1	-	2.5	-	-	-

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-May	1.00	1.41	3.06	3.15	105.9	-	702.5	941.4	988.5
	+3m	2.00	2.30	3.10	3.20	107.0	-	695.6	915.9	953.3
	+6m	2.25	2.76	3.40	3.25	106.0	-	702.4	943.4	952.8
	+12m	3.25	3.30	3.50	3.25	105.0	-	709.5	933.3	971.4
EUR	06-May	-0.50	-0.43	1.04	1.87	-	105.9	744.0	997.0	1046.9
	+3m	-0.25	-0.11	0.95	1.75	-	107.0	744.3	980.0	1020.0
	+6m	0.00	0.16	1.15	1.80	-	106.0	744.5	1000.0	1010.0
	+12m	0.50	0.57	1.35	1.85	-	105.0	745.0	980.0	1020.0
JPY	06-May	-0.10	-0.02	0.11	0.44	120.5	130.3	6.17	8.27	8.69
	+3m	-0.10	-	-	-	133.8	125.0	5.56	7.33	7.63
	+6m	-0.10	-	-	-	130.4	123.0	5.71	7.67	7.75
	+12m	-0.10	-	-	-	125.0	119.0	5.96	7.84	8.16
GBP*	06-May	1.00	-	2.17	1.96	85.6	123.7	869.1	1164.6	1223.0
	+3m	1.25	-	2.25	2.10	84.0	127.4	886.0	1166.7	1214.3
	+6m	1.50	-	2.35	2.10	84.0	126.2	886.3	1190.5	1202.4
	+12m	1.75	-	2.40	2.20	84.0	125.0	886.9	1166.7	1214.3
CHF*	06-May	-0.75	-	0.32	1.35	104.1	98.3	714.5	957.5	1005.4
	+3m	-0.75	-	-	-	101.0	94.4	736.9	970.3	1009.9
	+6m	-0.50	-	-	-	100.0	94.3	744.5	1000.0	1010.0
	+12m	0.00	-	-	-	99.0	94.3	752.5	989.9	1030.3
DKK	06-May	-0.60	-0.18	1.33	2.14	743.98	702.49	-	134.00	140.71
	+3m	-0.35	0.13	1.20	2.00	744.25	695.56	-	131.68	137.05
	+6m	-0.10	0.39	1.40	2.05	744.50	702.36	-	134.32	135.66
	+12m	0.40	0.80	1.60	2.10	745.00	709.52	-	131.54	136.91
SEK	06-May	0.25	0.49	2.09	2.58	1046.9	988.5	71.1	95.2	100.0
	+3m	0.50	0.73	1.65	2.20	1020.0	953.3	73.0	96.1	-
	+6m	0.75	1.00	1.65	2.15	1010.0	952.8	73.7	99.0	-
	+12m	1.25	1.50	1.75	2.10	1020.0	971.4	73.0	96.1	-
NOK	06-May	0.75	1.31	2.74	3.15	997.0	941.4	74.6	100.0	105.0
	+3m	1.00	1.49	2.70	3.10	980.0	915.9	75.9	-	104.1
	+6m	1.25	1.76	2.90	3.15	1000.0	943.4	74.5	-	101.0
	+12m	1.75	2.26	3.05	3.25	980.0	933.3	76.0	-	104.1

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

Commodities

	06-May	2022				2023				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	113	98	125	115	100	95	95	95	95	110	95

Source Danske Bank

Disclosures

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