7 October 2022

Weekly Focus

Is the 'central bank pivot' here?

It's been another eventful week with focus on the timing of the 'central bank pivot', UK budget mess, a large OPEC production cut and rising tensions in the Ukraine war. **Especially the possible pivot of central banks towards a slower pace of rate hike have been in focus and drove a decent rally in global bonds as well as equities in the middle of the week**. It got more fuel with the dovish surprise by Reserve Bank of Australia reducing the hiking rates 25bp rather than the 50bp seen in the previous four meetings and which analysts were looking for again this week. The Polish central bank also surprised by refraining from lifting rates after being on a steady path of tightening monetary policy over the past year taking the policy rate to 6.75% from the starting point of 0.1%.

Will the Fed follow in the footsteps soon? We believe it is still too early, although there are some signs that the labour market is softening with job openings in August showing the biggest decline in a long time (non-farm payrolls arrived after deadline). However, with core inflation still elevated and the labour market overall still tight despite the moderate loosening, we believe it is too early for the Fed to allow an easing of financial conditions, which would immediately follow a more dovish signal from them. This week showed that any hint that a pivot is here, triggers a rally in both bonds and equity markets and also lifts commodity prices. For this reason, we think the Fed will have to strike a fairly hawkish tone until it is convinced that inflation pressures are indeed easing on a sustained basis. **The same goes for the ECB**, which struggles with inflation at 10% now and concerns about a price-wage spiral. Policy makers also seem increasingly eager to ease fiscal policy to cushion the hit to consumers, which adds to the burden for central banks. A prime example was the new *British governments' fiscal easing* but also *Germany's up to EUR200bn package* to cushion the economic hit shows politicians feel a rising pressure to respond to the crisis. However, as the recession becomes more visible, we believe inflation pressures *will* come down as unemployment begins to rise amid interest rates moving into restrictive territory. This will eventually make both the Fed and the ECB stop hiking and then the market will likely start to price in more cuts in late 2023 and 2024. Key data to watch for gauging when the pivot is here will be labour market as well as core inflation data.

Goods price inflation pressures are easing in the US as oil and metal prices are lower, freight rates are almost back to pre-pandemic levels and inventories are rising. But in Europe the rising costs from electricity and gas prices keep inflation pressures high. OPEC+ didn't show much willingness to help on easing inflation as they decided *to cut production by two million barrels* to counterweight a decline in demand. While in practice it will only amount to one million barrels it will, all else equal, delay a decline in inflation back to 2%.

Economic data was a mixed bag. ISM manufacturing for September was weaker than expected with the new orders index dropping to a low 47.1 from 51.3 but ISM service fell less than expected to a still robust 57.7 from 57.9. Euro retail sales (volumes) for August dropped 0.3% m/m adding to a decline of 0.4% in July. But while consumer spending is clearly weakening it could have been worse given the massive hit to real wage growth.

In the coming week, the key data release will be US CPI for September. It surprised to the upside again last month and has proved very sticky despite the easing pressures on goods. IMF will publish new forecasts and it will be interesting to see how much they revise down growth and what they see on the inflation front.

Key global views

- Europe in recession in H2 22. We expect a US recession in Q22023.
- US inflation has peaked, but to come down only gradually. Euro inflation to stay elevated in Q4 on high electricity prices. Easing pressure from recession, oil, metals, freight and food to pull global inflation lower in 2023.
- Fed to hike by another 150bp this year, then stop. ECB to hike 75bp in Oct, 50bp in Dec and Feb.

Key market movers

- During week: China credit growth
- Mon: Euro Sentix index
- Tue: IMF forecasts, US NFIB small business optimism
- Wed: US PPI, FOMC minutes
- Thur: **US CPI**
- Fri: **US retail sales**, China CPI

Selected reading from Danske Bank

Nordic Outlook – Hoping for a mild winter, 4 October

Euro Area Monitor – Tug of war between fiscal easing and monetary tightening, 6 October

Research US-China: Long-term tensions are here to stay no matter the election result, 5 October

FX Strategy – Low probability of coordinated USD FX intervention, 5 October

Executive Briefing: Rising risk of deeper recession, 4 October

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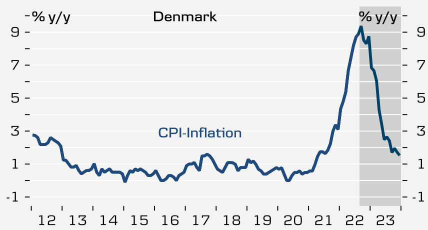
Scandi market movers

- In **Denmark,** we are expecting August's current account and foreign trade figures on Monday. Denmark has accumulated a huge current account surplus, and in these times of inflation being on a par with the early 1980s, we should be happy that a massive current account deficit is not on our list of problems, as it was back then. The Danish economy has been reformed, so that we now have much higher levels of savings and are more competitive, which tends to pull us in the opposite direction. We should expect the current account surplus to diminish as freight rates are declining, but we nevertheless have plenty of leeway here.

  On Monday we get Danish CPI-inflation for September as well. We expect another big leap in Danish CPI inflation in September to 9.6% from 8.9% in August. The increase is largely driven by what we expect to be the largest monthly increase in electricity prices we have seen so far. A surge in natural gas prices contributes to the inflation increase as well. We also expect food prices to continue higher whereas gasoline has become cheaper. September will mark the top for Danish inflation, at least for now, as electricity and gas prices have declined significantly recently.

  Thursday should bring the figures for purchases and sales by enterprises in August. We saw total sales fall last month, while domestic sales have fallen for the past two months.

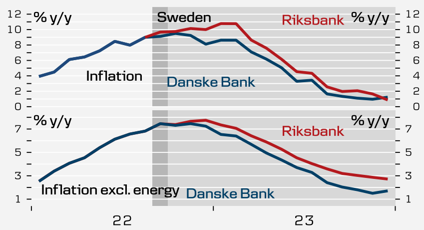
We expect inflation to reach 9,6 per cent in September



Source: Statistics Denmark, Danske Bank

- In **Sweden**, the September money market inflation expectations are due the coming week. Over the past couple of months CPIF expectations (which excludes the inflationary impact from Riksbank pushing mortgage rates higher) have turned lower on all horizons. We expect to see another leg down this month.
- Swedish September core inflation (CPIF excl. Energy) appears likely to make another jump up to 7.5 % y/y which is in line with Riksbank's call. We do, however, see headline CPIF (9.1 % y/y) a tad below Riksbank's forecast (9.7 % y/y) as electricity prices were basically unchanged and petrol prices showed a slight decline. In terms of m/m changes, the highest contributions to inflation come from mortgage cost, food and clothing, all contributing about 0.2 p.p. each to the monthly increase. Alcohol, hotel/restaurant and furniture add another 0.2 p.p. taken together.

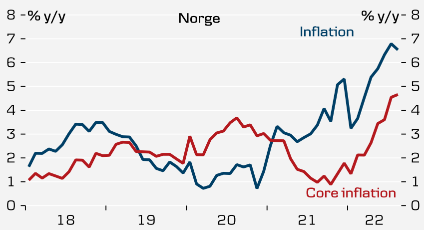
Sweden: CPIF probably below Riksbank's September forecast



Source: SCB, Riksbank, Danske Bank

- In **Norway**, core inflation surprised strongly to the upside over the summer, driven by both imports and domestically produced goods and services. Costs are probably still rising fast, but we think the slowdown in demand will gradually make it harder to pass on cost increases to customers. We therefore expect underlying price pressures to remain considerable but not mount further, and forecast core inflation of 4.8% y/y in September. This is slightly below Norges Bank's forecast of 5.0% in the September monetary policy report and could help sow some doubt about how aggressive future monetary policy will be. We expect headline (CPI) inflation to ease from 6.5% to 6.0% y/y in September.

Inflation still high



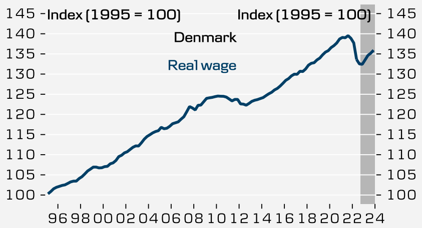
Source: Macrobond, Danske Bank

Scandi update

Denmark – Wage growth remains subdued

Preliminary private sector wage growth figures show an increase of 3.5% compared to a year ago. Hence, this was a little above the Q2 22 figure of 3.4%, but nevertheless moderate in the bigger picture. If our forecast proves to be correct, inflation hit 9% in Q3, which means real wages fell 5% – probably the largest decline in purchasing power to befall consumers since World War II. If, as we expect, inflation slows in the coming years, real wages should grow again.

Further decline in real wages, but we could be at a turning point



Source: Statistics Denmark, Danske Bank

Denmarks Nationalbank intervened to the tune of DKK23bn in September to counter the strengthening of the Danish krone (DKK). That is a huge sum for a single month and tends to suggest Denmark needs a lower interest rate relative to the eurozone. We seriously doubt that Danmarks Nationalbank would buck the trend and implement an actual rate cut. While that may be one possibility, the more obvious route is for the central bank to instead hike by a little less the next time the European Central Bank (ECB) raises interest rates. The strengthening pressure on the DKK is partly due to the current account surplus going from big to bigger thanks to mammoth earnings from shipping.

September saw 251 bankruptcies among active enterprises. That is on the high side, historically speaking, and also means that 2022 so far looks set to end up with the highest number of bankruptcies since 2012. Some are likely due to the slowdown and rising costs, but the most important explanation is probably that the loan schemes enacted during the pandemic have fallen due. The schemes have kept many companies above water, including some that would have sunk even without Covid-19. Nevertheless, we can still say that the number of bankruptcies between 2020 and now is low. So far this year, 45% of bankruptcies among active companies have involved those that received a VAT loan.

The Prime Minister has called a general election for November 1. Polls point to a close race between the main blocks. Much depends on whether some smaller parties will make the threshold and it is not clear what coalitions are possible. Still, there appears to be broad agreement about the macroeconomic framework among the main parties, so there should be no near-term market impact. It was widely expected that an election would be called this Autumn.

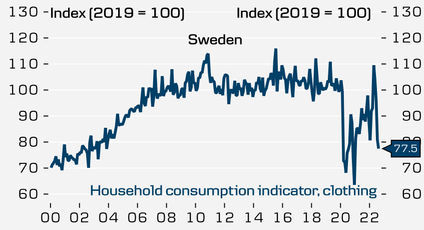
Industrial production rose 2.6% in August. The increase comes after a decline in July, but over the past three months growth has been an impressive 2.1%. August's growth spurt was quite broadly based, though in the bigger picture pharmaceuticals is the star performer. In the longer term, it will clearly be hard to avoid the global slowdown hitting much of Danish industry. While pharmaceuticals, wind turbines and food are not so dependent on the business cycle, manufacturing also has a significant presence in other areas, like building materials, electronics, metal and furniture.

Sweden – weak data

Survey data (PMI's): Surveys have for a longer time been in a downward slope and with manufacturing index now below 50 (49.2) and services at 55.1. Details a bit mixed with a large drop in order inflow which gives the direction for production coming months. Employment actually increased somewhat on the manufacturing while basically sideways in services. However, we know that hiring plans has decreased in NIER survey. On the positive note, delivery times seems to be back to normal levels, although probably driven by both easing supply chain problems but also weaker demand.

Hard data (PVI, Household consumption and GDP indicator): GDP indicator -1.3 % mom, appears to be driven mainly private production (PVI) down 1.3 % mom. Household consumption surprisingly only flat on the month considering retail sales dipped significantly. However, if looking into details one can see that clothing, hotel and restaurants and furniture all dropped. In fact, clothing consumption is now on the weakest level (if excluding during the pandemic) since 2004. New orders -4.2 % m/m spells trouble coming months. Summing up, this suggests the recessionary tendencies may have started a little bit earlier than we have anticipated in Nordic Outlook released earlier this week.

Large drop in clothing consumption

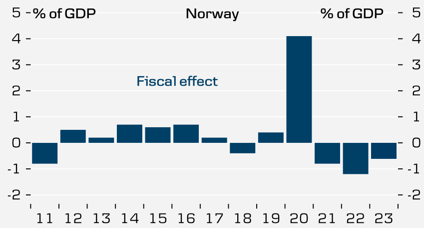


Source: Maacrobond,SCB.

Norway – Government budget will help Norges Bank

The government presented its budget for 2023 during the week. The turbulence ahead of the budget proposals underlined the importance of covering the additional cost of compensation for high power prices etc. so that fiscal policy does not "work against" monetary policy, and also because an increased borrowing requirement could push up long-term interest rates. While the latter is not a problem for Norway, it is important that fiscal policy is not eased in a situation when central banks are struggling to put a lid on inflation. In the light of this, it was a relief to see that the budget indicator estimates that the impact of the budget on the economy will be moderately contractionary at -0.6% of mainland GDP. This is slightly less restrictive than Norges Bank assumed in the September monetary policy report, but is primarily a result of a tighter budget for this year – the overall fiscal tightening for 2022 and 2023 is actually slightly greater than the bank assumed in September. Fiscal policy will thus pull in the same direction as monetary policy in damping down demand and hence inflation, although the effect will probably be modest.

Sensible budget



Source: Macrobond, Danske Bank

Calendar 10-14 October 2022

During the week				Period	Danske Bank	Consensus	Previous
Sat 08	CNY	Caixin PMI service	Index	Sep		54.4	55.0
Sun 09	CNY	Money supply M2	y/y	Sep		12.1%	12.2%
Monday, October 10, 2022				Period	Danske Bank	Consensus	Previous
8:00	NOK	CPI	m/m|y/y	Sep			-0.2%|6.5%
8:00	NOK	PPI	m/m|y/y	Sep			8.2%|77.3%
8:00	DKK	Current account (nsa|sa)	DKK bn	Aug			...|34.8
8:00	DKK	CPI	m/m|y/y	Sep	1.0%|9.6%		0.0%|8.9%
8:00	DKK	Trade balance ex ships	DKK bn	Aug			1.8
8:00	NOK	Core inflation (CPI-ATE)	m/m|y/y	Sep	0.6%|4.8%	...|5.0%	-0.5%|4.7%
10:30	EUR	Sentix Investor Confidence	Index	Oct		-33.0	-31.8
15:00	USD	Fed's Evans speaks					
19:00	USD	Fed's Brainard speaks					
Tuesday, October 11, 2022				Period	Danske Bank	Consensus	Previous
-	USD	Budget statement	USD bn	Sep			-219.6
8:00	GBP	Unemployment rate (3M)	%	Aug		3.6%	3.6%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Aug		5.3%	5.2%
12:00	USD	NFIB small business optimism	Index	Sep		91.8	91.8
12:00	DKK	Danish economic council publishes fall report					
18:00	USD	Fed's Mester speaks					
Wednesday, October 12, 2022				Period	Danske Bank	Consensus	Previous
8:00	GBP	Monthly GDP estimate	m/m|q/q	Aug		0.1%|-0.1%	0.2%|0%
8:00	GBP	Index of services	m/m|3m/3m	Aug		0.1%|0.1%	0.4%|-0.2%
8:00	SEK	Prospera inflation expectations					
11:00	EUR	Industrial production	m/m|y/y	Aug		0.7%|1.2%	-2.3%|-2.4%
14:30	USD	PPI	m/m|y/y	Sep		0.2%|8.4%	-0.1%|8.7%
14:30	USD	PPI core	m/m|y/y	Sep		0.3%|7.3%	0.4%|7.3%
16:00	USD	Fed's Kashkari speaks					
20:00	USD	FOMC minutes					
Thursday, October 13, 2022				Period	Danske Bank	Consensus	Previous
0:30	USD	Fed's Bowman speaks					
1:01	GBP	RICS house price balance	Index	Sep		0.5	0.5
8:00	SEK	Underlying inflation CPIF	m/m|y/y	Sep	0.6%|9.1%	...|9.3%	1.5%|9.0%
8:00	SEK	CPI	m/m|y/y	Sep	0.9%|10.2%	...|10.5%	1.8%|9.8%
8:00	DEM	HICP, final	m/m|y/y	Sep		2.2%|10.9%	2.2%|10.9%
14:30	USD	Initial jobless claims	1000				219
14:30	USD	CPI headline	m/m|y/y	Sep	0.2%|8.2%	0.2%|8.1%	0.1%|8.3%
14:30	USD	CPI core	m/m|y/y	Sep		0.4%|6.5%	0.6%|6.3%
17:00	USD	DOE U.S. crude oil inventories	K				-1356
Friday, October 14, 2022				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Sep		81.2	79.4
3:30	CNY	CPI	y/y	Sep		2.8%	2.5%
3:30	CNY	PPI	y/y	Sep		1.0%	2.3%
8:45	FRF	HICP, final	m/m|y/y	Sep		-0.5%|6.2%	-0.5%|6.2%
9:00	ESP	HICP, final	m/m|y/y	Sep		0.0%|9.3%	0.0%|9.3%
11:00	EUR	Trade balance	EUR bn	Aug			-40.3
14:30	USD	Retail sales control group	m/m	Sep			0.0%
14:30	USD	Import prices	m/m|y/y	Sep		-1.1%|...	-1.0%|7.8%
16:00	USD	University of Michigan Confidence, preliminary	Index	Oct		58.8	58.6

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	4.9	4.3	4.2	6.2	8.0	8.0	1.9	3.0	3.7	3.6	36.6	8.2
	2022	3.0	-1.5	0.4	4.8	5.3	3.7	7.5	3.5	2.7	1.3	31.8	10.0
	2023	-0.6	-1.0	-0.2	-2.1	1.7	1.5	3.4	4.0	3.2	1.0	30.2	9.0
Sweden	2021	4.6	5.9	2.5	6.0	7.6	9.3	2.2	2.7	8.8	-0.1	37.3	5.2
	2022	2.4	3.4	-0.3	4.6	4.9	8.7	8.0	2.5	7.4	0.7	31.0	3.7
	2023	-1.2	-1.3	1.1	-2.2	2.4	1.8	6.1	2.8	8.2	-0.9	31.0	4.1
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	2.8	4.6	0.9	1.0	3.0	8.0	5.5	4.1	1.8	-	-	-
	2023	0.9	0.9	1.3	4.0	3.0	3.5	3.4	4.2	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	2021	5.2	3.7	4.2	4.1	10.3	8.0	2.6	4.1	7.7	-5.1	97.4	3.2
	2022	3.1	3.9	2.2	3.1	6.4	7.7	8.5	4.0	6.8	-3.7	94.7	2.4
	2023	0.3	0.6	2.4	2.3	2.7	4.9	5.0	3.4	6.8	-2.5	92.7	2.9
Germany	2021	2.6	0.4	3.8	1.0	9.5	8.9	3.2	3.4	3.6	-3.7	69.3	7.4
	2022	1.5	4.1	4.6	0.7	2.0	6.7	8.8	3.3	3.0	-2.5	66.4	6.4
	2023	-0.1	0.2	3.2	2.0	2.0	4.8	6.5	3.9	3.0	-1.0	64.5	6.8
Finland	2021	3.0	3.7	2.9	1.5	5.4	6.0	2.2	2.3	7.7	-2.6	72.4	0.9
	2022	2.0	2.0	3.0	3.5	0.5	4.0	6.6	2.6	6.8	-3.1	70.6	-2.6
	2023	-0.2	0.1	1.0	0.5	-0.5	0.5	3.7	3.5	7.3	-2.6	71.3	-1.4

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	5.9	8.3	0.6	7.4	6.1	14.1	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	1.6	2.4	-1.4	1.3	5.7	9.4	7.9	5.2	3.6	-4.2	124.0	-3.5
	2023	-0.2	-0.1	0.9	-2.9	-1.5	-3.4	3.8	4.2	3.9	-3.8	121.0	-3.2
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	2.8	4.8	-	3.0	-	-	2.5	5.0		-7.7	77.8	1.1
	2023	5.7	6.5		5.0			2.5	5.5		-7.1	81.8	1.0
UK	2021	7.5	6.2	12.6	5.6	-0.3	2.8	2.6	5.1	4.5	-5.4	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-3.9	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-1.9	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.2	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.3	2.8	1.5	-1.6	4.9	6.6	2.1	-	2.6	-	-	-
	2023	1.5	1.3	0.3	1.9	4.4	2.5	2.2	-	2.7	-	-	-

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	07-Oct	3.25	3.78	4.57	3.86	98.0	-	759.1	1069.9	1110.0
	+3m	4.75	4.90	4.65	4.00	97.0	-	766.8	1092.8	1113.4
	+6m	4.75	4.90	4.45	3.85	96.0	-	775.5	1062.5	1166.7
	+12m	4.75	4.71	4.25	3.75	95.0	-	784.2	1031.6	1178.9
EUR	07-Oct	0.75	1.29	2.92	3.17	-	98.0	743.9	1048.5	1087.8
	+3m	2.00	2.47	3.20	2.90	-	97.0	743.8	1060.0	1080.0
	+6m	2.50	2.62	3.15	2.80	-	96.0	744.5	1020.0	1120.0
	+12m	2.50	2.62	2.95	2.70	-	95.0	745.0	980.0	1120.0
JPY	07-Oct	-0.10	-0.04	0.15	0.56	120.5	144.9	6.17	8.70	9.03
	+3m	-0.10	-	-	-	137.7	142.0	5.40	7.70	7.84
	+6m	-0.10	-	-	-	136.3	142.0	5.46	7.48	8.22
	+12m	-0.10	-	-	-	123.5	130.0	6.03	7.94	9.07
GBP*	07-Oct	2.25	-	5.34	4.51	87.5	112.0	850.5	1198.8	1243.8
	+3m	3.25		4.00	3.20	86.0	112.8	864.8	1232.6	1255.8
	+6m	3.50		3.80	3.15	86.0	111.6	865.7	1186.0	1302.3
	+12m	3.50		3.70	3.00	85.0	111.8	876.5	1152.9	1317.6
CHF*	07-Oct	0.50	-	1.50	2.16	97.1	99.1	766.3	1080.0	1120.5
	+3m	1.25	-	-	-	95.0	97.9	782.9	1115.8	1136.8
	+6m	1.25	-	-	-	94.0	97.9	792.0	1085.1	1191.5
	+12m	1.25	-	-	-	93.0	97.9	801.1	1053.8	1204.3
DKK	07-Oct	0.65	1.67	3.21	3.42	743.86	759.07	-	140.95	146.24
	+3m	1.90	2.66	3.45	3.20	743.75	766.75	-	142.52	145.21
	+6m	2.40	2.80	3.40	3.10	744.50	775.52	-	137.00	150.44
	+12m	2.40	2.80	3.10	2.80	745.00	784.21	-	131.54	150.34
SEK	07-Oct	1.75	1.73	3.17	3.12	1087.8	1110.0	68.4	96.4	100.0
	+3m	2.50	1.95	2.70	2.40	1080.0	1113.4	68.9	98.1	-
	+6m	2.50	2.50	2.65	2.50	1120.0	1166.7	66.5	91.1	-
	+12m	2.50	2.50	2.50	2.40	1120.0	1178.9	66.5	87.5	-
NOK	07-Oct	2.25	3.05	3.74	3.63	1048.5	1069.9	70.9	100.0	103.8
	+3m	2.50	2.85	3.05	3.35	1060.0	1092.8	70.2	-	101.9
	+6m	2.50	2.85	2.95	3.40	1020.0	1062.5	73.0	-	109.8
	+12m	2.50	2.85	2.85	3.20	980.0	1031.6	76.0	-	114.3

*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	
	07-Oct	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	95	98	112	105	100	95	95	95	95	104	95

Source Danske Bank

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