Danske Bank

08 March 2024

Weekly Focus

Rate cuts on the horizon

This week, we published our updated economic projections for the major economies and the Nordics, see *Nordic Outlook – Return to Nordic growth*, 5 March. While political risks remain high, the global economy is performing better than feared. The Nordic economies are currently in stagnation or mild recession, but our forecasts point to gradual return to normal growth over the coming years, supported by lower interest rates, higher purchasing power and lower inflation.

The ECB held interest rates unchanged as was expected. At the press conference President Lagarde was quite clear with guidance for a June rate cut, as she emphasised the need for more data ahead of the decision. Whilst April was not definitively ruled out, she said they will know a little more in April, and a lot more in June. We doubt that the incoming data ahead of the 11 April meeting will be sufficiently weak to change that view, and still expect ECB to deliver its first rate cut in June. The ECB's new staff projections saw a downward revision of the 2024 projections across growth, headline and core inflation. Read more in our *Flash: ECB Review - June cut is coming*, 7 March.

In the US, the so-called Super Tuesday this week confirmed that the presidential election in November will most likely be a rematch between Biden and Trump after republican Nikki Haley officially dropped out of the race. Fed Chairman Powell did not provide new policy signals in his testimonies to Congress. We still expect Fed to start rate cuts in May.

China announced that its official GDP growth target for this year will be 5%. The announcement was expected but markets were clearly disappointed with the lack of stimulus signals in the 'Work Report'. On a more positive note, trade data on Thursday confirmed a significant rebound in both exports and imports from a year ago. These signals are in line with our view of a 'muddling through' in China and the gradual recovery of the global industrial cycle.

Markets moved largely sideways this week. The biggest mover was gold that recorded a fresh all-time high above USD 2160 per troy ounce. The sudden rush to this traditional inflation hedge and safe-haven fits together with the decline in yields seen this week.

In geopolitics, there has been no breakthrough in ceasefire talks between Hamas and Israel. Israel has threatened to attack the city of Rafah by 10 March if hostages are not released. In our view, if the talks fail and Israel storms Rafah, it marks yet another escalation of the conflict and raises the risk of retaliation by Iran-backed militant groups in the region.

Next week, in euro area, industrial production figures for January are due on Wednesday. Final country-level CPI prints for February are also out during the week. In the US, focus is on February CPI data that is released on Tuesday, retail sales on Thursday and the Michigan survey on Friday. In Japan, the biggest labour union will release the latest tally of pay deals on Friday. This will be the first indication of whether wage growth is creating sustainable inflation pressures that would warrant monetary policy tightening. In China, we get credit and money growth data next week, but the date is not set. On Friday, the PBOC announces medium-term lending facility rates, which we expect to stay unchanged.

Key global views

- Weak near-term growth outlook in the US and Europe, but recovery from summer 2024
- US and euro inflation set to decline further, but core inflation to remain sticky
- The Fed to cut in May, ECB in June

Key global views

- Tue: US CPI, Germany final CPI
- Wed: EA industrial production
- Thu: US retail sales
- Fri: China MLF rates, US Michigan survey

Selected reading from Danske Bank

- *Research China: A long and painful transition*, 7 March
- *Research Euro Area: Soft landing in sight*, 6 March
- *Executive Briefing: Stubborn inflation points to cautious monetary easing*, 5 March
- *Research China: 5% growth target as expected, stimulus signals disappoint*, 5 March
- *Nordic Outlook: Return to Nordic growth*, 5 March

Editor

Chief Analyst
Minna Kuusisto
+358 442 609 979
minna.kuusisto@danskebank.com

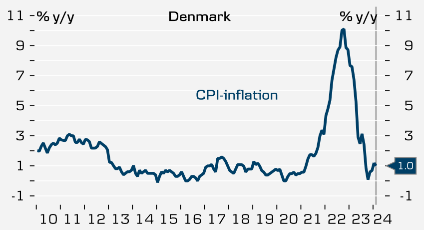
Scandi market movers

- In **Denmark,** on Monday we get the CPI print for February. We expect, inflation decreased to 1.0% in February from 1.2% in January. Food prices is the key driver as the February price surge from last year rolls out of the inflation measure. A large base effect on natural gas pulls in the other direction. The February inflation print is particularly interesting because we get the lion's share of rent increases and rent makes up 20.8% of the entire CPI index. The quarterly increases through 2023 imply that the February rent increase will be somewhat lower than last year's 1.8% increase in February.

  Also on Monday, we get foreign trade and the current account for January. The current account surplus has increased back towards the 2022 record highs recently, particularly on the back of a bigger surplus on service trade.

  Tuesday will bring the unemployment indicator for February. Unemployment declined slightly in January by 400 persons, which could be a sign that things are improving in the hardest-hit sectors such as manufacturing. Rising wages put upwards pressure on unemployment. It will be interesting to see what Tuesday's figure shows.

We expect, inflation decreased to 1.0% in February

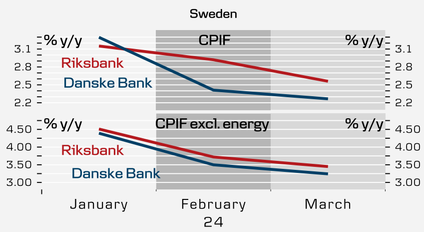


Source: Danske Bank, Statistics Denmark, Macrobond Financial

- Main focus in **Sweden** this week will be February inflation. We forecast CPIF at 0.1% m/m (2.4% y/y) and CPIF excl. energy at 0.6% m/m (3.5% y/y). This is 0.4 and 0.2 percentage points below the Riksbank's forecasts. Core inflation is expected to fall markedly, by close to a full percentage point. The major contributors to core inflation (i.e. CPIF excl. energy) this month are; in order of significance, clothing, food, rent and hotel/restaurant prices. Rents are quite hard to estimate as January turned out slightly lower than we forecast, there could be an upside surprise there. Matpriskollen suggests food prices rose by 0.5% m/m – and has been fairly accurate in recent months. Car prices fell unexpectedly in January and may rebound, this is also a risk. Energy moves in different directions, electricity probably fell sharply after an increase in the previous month, while higher petrol prices contributed slightly to the upside.

  The big, quarterly, Prospera inflation survey is released. Inflation expectations should have converged to what is seen in the monthly money market survey, i.e. moving close to 2% on all horizons. Social Partners' wage expectations are likely to continue its recent decline in line with the lower wage increases for the second year which is part of the 2-year central wage agreement struck last year.

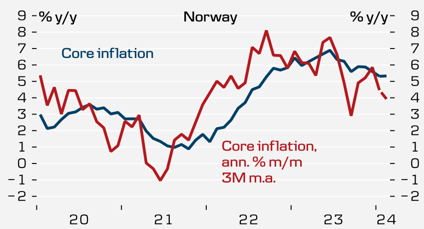
We expect inflation just below Riksbank's forecasts



Source: Danske Bank, SCB, Riksbank, Macrobond Financial

- In **Norway**, next week will bring inflation figures (Monday) and the regional survey (Thursday). As growth is already clearly below trend and capacity utilization has fallen significantly, the inflation figures are most important for Norges Bank and thus the markets. The inflation figures for January were somewhat higher than we had expected, with core inflation at 5.3%. While import prices fell more than expected, both domestic food prices and service prices rose more than expected. With signals of price cuts from several grocery chains, there is reason to believe that food inflation will decrease. Also, January was pulled up by transport prices, but it may appear that the price adjustment is more than sufficient to close the gap against wage growth, so it is most likely a one-off effect. We therefore believe that service prices will rise much less in February, and contribute to pulling down the annual growth in core inflation by approx. 0.2 percentage points. We still expect core inflation to remain unchanged at 5.3%, partly because import prices are likely to have risen again.

The disinflation continues



Source: Danske Bank, Statistics Norway, Macrobond Financial

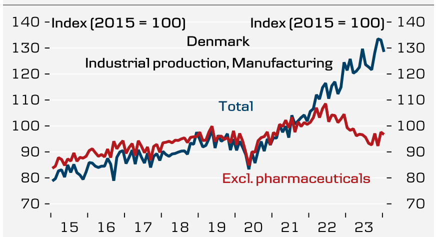
The regional survey pointed to a drop in activity in Q1, and showed that capacity utilization was assessed to be lower than normal. Signs that the rate peak has been reached seem to have improved the sentiment among both corporates and households, and hence we expect that growth prospects will return to positive ground and that capacity utilization will not fall further. It is important to emphasize that this does not mean that growth will pick up sharply into the summer, but just stop falling further.

Scandi update

Denmark – Pharmaceuticals pulled industrial production down in January

Industrial production declined 3.5% m/m in January, adjusted for regular seasonal patterns and inflation, after a strong finish to 2023. The decline was more muted when excluding pharmaceuticals, with a 0.9% decline. Pharma accounts for 21% of total industrial production, so monthly fluctuations can have a big impact on the overall figure. Lately we have seen signs that the industrial cycle has bottomed out, which should support the Danish industrial sector going forward, though it may face headwinds from a struggling German industry sector. Overall, we think the cyclically sensitive segments of industry have put the worst behind them.

Only a very slight drop in industrial production when excluding pharma



Source: Danske Bank, Statistics Denmark, Macrobond Financial

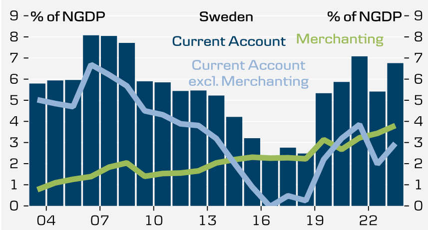
Adjusted for regular seasonal patterns, 212 active companies went bankrupt in February. This is 3.2% more than in January, but when comparing December-February to September-November, the number of bankruptcies is 13.5% lower. The trend has been negative for the past months, down from relatively high levels in 2023, and we expect this trend to continue as the economy is still on track for a soft landing.

As expected, Danmarks Nationalbank did not intervene on the foreign exchange market in February.

Sweden – Flawed current account approach

Services PMI dropped to 50.5 in February from 51.5 in January, however it was still the third consecutive month that the index is indicating expansion (above the 50-mark). In February, the sub-index for employment was the biggest reason for the decline while new orders pulled in the opposite direction. Price pressures in the service sector stopped easing as the sub-index of suppliers' input goods rose to 62.4 from 56.4 which is the highest level in six months. However, this is a highly volatile number that should not be overestimated. Its development has been almost opposite of the expected selling prices in the service sector in the Economic Tendency Survey from NIER which thus gives ambiguous indications. Overall, data provide mixed signals to the Riksbank as Services PMI employment shows the lowest number since October 2020 while the price pressures counterpart tick higher.

Sweden's savings surplus goes abroad – consistent SEK outflows



Source: Danske Bank, Statistics Sweden, Macrobond Financial

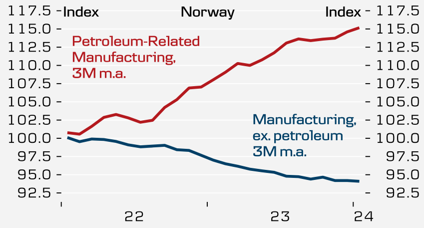
Balance of payments statistics for Q4 was released and showed a historically high current account surplus of 116.7bn surplus (meaning it accrued to 6.8% of GDP in 2023). It is an increase of SEK 8.7bn compared to the Q4 of 2022. A lot of it was driven by net exports in goods while somewhat reduced by decreasing balance of services. Some argue that this is a sign that the krona is severely undervalued with great strengthening potential given the strength of the Swedish economy and its strong export sector. We disagree. The surplus is rather reflecting that Sweden has an increasing net lending (i.e. a deficit in demand). A majority of the surplus is invested abroad and is not compensated by capital inflow from abroad which further leads to a need to sell SEK and further depreciation. Merchanting is a part of the balance of trade in goods which in turn increased by SEK 6.4bn. Merchanting does not create any inflow of capital at all to Sweden and thus has no impact on the SEK. Excluding merchanting, the current account surplus is only 2.9% of GDP. One could also argue that the surplus is partly contributed by keeping the government debt low while maintaining restrictive fiscal policy in Sweden. This creates a "crowding-in" effect as it leads to relatively low domestic demand and in turn attract fewer private investments in Sweden. This inevitably leads to less inflow of capital to Sweden and thus weakens the SEK in the long term. Therefore, we argue that the fiscal policy stance in Sweden has been so restrictive that it has not been helping decreasing inflation, but rather increasing it, as in this former example through a depreciation of the SEK and higher import prices.

The national debt office stated that the government payments resulted in a surplus of SEK 74.3bn in February which can be compared to their forecast of 52.2bn. The increase was due to higher tax income than anticipated.

Norway – Manufacturing moving sideways

The manufacturing output was unchanged in January, so the sideways trend seen since last summer seems to continue despite a lift in oil-related industries. Hence, there is still no sign of a global cyclical upswing in mainland manufacturing, at least for now. Housing prices surprised to the upside once again in February, at 0.7% m/m seasonally adjusted. As real prices (deflated by wage inflation) are down more than 10% since the peak in 2022 the market starts to look cheaper despite higher rates, and in addition to lower inventory/sales ratios this will probably stop prices from dropping more substantially. For Norges Bank, this just means that all focus can remain on bringing inflation down.

Two counteracting forces to the manufacturing sector



Source: Danske Bank, Statistics Norway, Macrobond Financial

Calendar – 11-15 March 2024

During the week				Period	Danske Bank	Consensus	Previous
Sat 09	CNY	Money supply M2	y/y	Feb		8.8%	8.7%
Sat 09	CNY	PPI	y/y	Feb		-2.5%	-2.5%
Sat 09	CNY	CPI	y/y	Feb		0.3%	-0.8%
Monday, March 11, 2024				Period	Danske Bank	Consensus	Previous
0:50	JPY	GDP deflator, final	y/y	4th quarter		3.8%	3.8%
0:50	JPY	GDP, final	q/q|ann.	4th quarter		0.3%|1.1%	-0.1%|-0.4%
8:00	NOK	CPI	m/m|y/y	Feb			0.1%|4.7%
8:00	NOK	PPI	m/m|y/y	Feb			-3.2%|-12.9%
8:00	DKK	Current account (nsa|sa)	DKK bn	Jan			...|36.3
8:00	DKK	CPI	m/m|y/y	Feb	|1.0%		0.9%|1.2%
8:00	DKK	Trade balance excl. ships	DKK bn	Jan			6.4
8:00	DKK	Exports	m/m	Jan			
8:00	NOK	Core inflation (CPI-ATE)	m/m|y/y	Feb	|5.3%		0.0%|5.3%
Tuesday, March 12, 2024				Period	Danske Bank	Consensus	Previous
8:00	DEM	HICP	m/m|y/y	Feb		0.6%|2.7%	0.6%|2.7%
8:00	GBP	Unemployment rate (3M)	%	Jan		3.8%	3.8%
8:00	GBP	Average weekly earnings excl. bonuses (3M)	y/y	Jan		6.2%	6.2%
11:00	USD	NFIB small business optimism	Index	Feb			89.9
13:30	USD	CPI headline	m/m|y/y	Feb	0.3%|3.0%	0.4%|3.1%	0.3%|3.1%
13:30	USD	CPI core	m/m|y/y	Feb	0.3%|3.7%	0.3%|3.7%	0.4%|3.9%
19:00	USD	Budget statement	USD bn	Feb			-21.9
Wednesday, March 13, 2024				Period	Danske Bank	Consensus	Previous
8:00	GBP	Monthly GDP estimate	m/m|q/q	Jan		0.01%|-0.01%	-0.01%|-0.03%
8:00	GBP	Index of services	m/m|3m/3m	Jan			-0.01%|-0.02%
11:00	EUR	Industrial production	m/m|y/y	Jan		-1.5%|-2.6%	2.6%|1.2%
15:30	USD	DOE U.S. crude oil inventories	K				1367
Thursday, March 14, 2024				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Feb			-0.2
8:00	SEK	Underlying inflation CPIF	m/m|y/y	Feb	0.06%|2.41%	0.2%|2.8%	-0.3%|3.3%
8:00	SEK	Underlying inflation CPIF excl. energy	m/m|y/y	Feb	0.63%|3.50%	0.7%|3.6%	-0.5%|4.4%
8:00	SEK	CPI	m/m|y/y	Feb	0.09%|4.37%	0.3%|4.7%	-0.1%|5.4%
9:00	ESP	HICP	m/m|y/y	Feb		0.4%|2.9%	0.4%|2.9%
13:30	USD	Retail sales control group	m/m	Feb			-0.4%
13:30	USD	Initial jobless claims	1000				217
13:30	USD	PPI	m/m|y/y	Feb		0.3%|...	0.3%|0.9%
13:30	USD	PPI core	m/m|y/y	Feb		0.2%|...	0.5%|2.0%
Friday, March 15, 2024				Period	Danske Bank	Consensus	Previous
8:00	SEK	Prospera inflation expectations					
8:00	NOK	Trade balance	NOK bn	Feb			72.9
8:45	FRF	HICP	m/m|y/y	Feb		0.9%|3.1%	0.9%|3.1%
10:00	ITL	HICP	m/m|y/y	Feb		...|0.9%	...|0.9%
13:30	USD	Empire Manufacturing PMI	Index	Mar		-8.0	-2.4
13:30	USD	Import prices	m/m|y/y	Feb		0.2%|...	0.8%|-1.3%
14:15	USD	Capacity utilization	%	Feb		78.4%	78.5%
14:15	USD	Industrial production	m/m	Feb		0.0%	-0.1%
14:15	USD	Manufacturing production	m/m	Feb			-0.5%
15:00	USD	University of Michigan Confidence, preliminary	Index	Mar		77.0	76.9

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[2]	Public budget[3]	Public debt[3]	Current acc.[3]
Denmark	2023	1.8	1.3	0.0	-5.0	12.5	7.7	3.3	4.1	2.8	3.5	29.7	13.2
	2024	2.1	2.2	1.3	-1.9	8.8	6.3	2.0	5.3	3.0	1.9	28.0	12.5
	2025	2.0	1.7	1.8	2.4	1.9	1.7	1.9	3.6	3.1	1.1	26.7	12.5
Sweden	2023	0.2	-2.5	1.8	-1.2	3.7	-0.6	8.6	3.8	7.7	-0.4	29.0	5.8
	2024	1.5	1.7	0.7	-0.5	3.0	2.9	2.5	3.3	8.3	-0.8	30.0	5.9
	2025	2.0	2.4	1.5	2.7	3.2	3.8	1.0	2.5	8.1	-0.8	30.0	5.6
Norway	2023	1.1	-0.7	3.6	0.3	1.4	0.7	5.5	5.3	1.8	-	-	-
	2024	1.1	1.3	2.0	4.0	3.5	1.5	3.8	4.7	2.3	-	-	-
	2025	2.1	2.5	1.6	4.0	2.0	1.8	2.0	3.5	2.5	-	-	-

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[2]	Public budget[3]	Public debt[3]	Current acc.[3]
Euro area	2023	0.5	0.5	0.2	1.3	-0.4	-0.9	5.4	4.5	6.5	-3.2	90.6	2.5
	2024	0.5	0.7	0.9	1.8	1.2	1.9	2.4	4.3	6.6	-2.9	89.9	2.0
	2025	1.3	1.5	1.0	1.2	2.9	3.1	2.1	3.4	6.6	-2.7	89.0	2.0
Finland	2023	-1.0	-1.0	5.1	-5.1	-1.8	-7.4	6.3	4.2	7.2	-2.7	74.9	-1.0
	2024	-0.4	0.2	0.1	-1.5	-2.0	-1.0	2.0	3.5	7.9	-3.6	78.0	-0.4
	2025	1.9	1.2	0.2	4.0	3.0	2.5	1.6	2.5	7.4	-2.8	78.7	0.0

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[2]	Public budget[3]	Public debt[3]	Current acc.[3]
USA	2023	2.5	2.2	4.0	0.6	2.7	-1.6	4.1	4.3	3.6	-5.8	124.6	-3.0
	2024	2.0	1.6	3.5	2.1	2.3	2.8	2.7	3.2	3.9	-5.8	126.8	-2.8
	2025	1.4	1.1	2.0	3.6	2.9	4.4	2.5	2.5	4.2	-5.8	128.6	-2.6
China	2023	5.2	6.6	-	4.6	-	-	0.2	-	5.2	-7.1	83.0	1.5
	2024	4.5	5.5	-	3.8	-	-	0.7	-	5.2	-7.0	87.4	1.4
	2025	4.5	5.5	-	3.8	-	-	1.5	-	5.2	-7.3	91.8	1.1
UK	2023	0.1	-	-	-	-	-	7.3	-	4.0	-	-	-
	2024	0.0	-	-	-	-	-	2.5	-	4.5	-	-	-
	2025	1.0	-	-	-	-	-	1.9	-	4.9	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % of labour force. 3) % 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-Mar	5.50	-	4.42	3.70	0.92	-	6.82	10.43	10.24
	+3m	5.25	-	4.17	3.90	0.94	-	7.03	10.75	10.75
	+6m	5.00	-	3.98	3.90	0.95	-	7.10	11.14	11.05
	+12m	4.50	-	3.80	3.90	0.96	-	7.16	11.44	11.15
EUR	07-Mar	4.00	3.89	3.12	2.56	-	1.09	7.4539	11.40	11.20
	+3m	3.75	3.69	2.89	2.70	-	1.06	7.4550	11.40	11.40
	+6m	3.75	3.43	2.74	2.70	-	1.05	7.4500	11.70	11.60
	+12m	3.25	3.00	2.50	2.70	-	1.04	7.4500	11.90	11.60
JPY	07-Mar	-0.10	-	-	-	0.006	0.007	4.61	7.04	6.92
	+3m	0.00	-	-	-	0.007	0.007	4.85	7.42	7.42
	+6m	0.00	-	-	-	0.007	0.007	5.00	7.85	7.78
	+12m	0.00	-	-	-	0.007	0.007	5.19	8.29	8.08
GBP*	07-Mar	5.25	-	4.51	3.68	1.17	1.07	8.72	13.33	13.10
	+3m	5.25	-	4.15	3.74	1.15	1.22	8.57	13.10	13.10
	+6m	5.00	-	3.98	3.76	1.14	1.19	8.47	13.30	13.18
	+12m	4.50	-	3.75	3.75	1.14	1.18	8.47	13.52	13.18
CHF	07-Mar	1.75	-	-	-	1.04	1.14	7.76	11.86	11.66
	+3m	1.75	-	-	-	1.06	1.13	7.93	12.13	12.13
	+6m	1.50	-	-	-	1.08	1.13	8.01	12.58	12.47
	+12m	1.00	-	-	-	1.08	1.12	8.01	12.80	12.47
DKK	07-Mar	3.60	3.88	3.23	2.71	0.134	0.147	-	1.53	1.50
	+3m	3.35	3.61	3.02	2.90	0.134	0.142	-	1.53	1.53
	+6m	3.35	3.35	2.88	2.90	0.134	0.141	-	1.57	1.56
	+12m	2.85	2.90	2.65	2.90	0.134	0.140	-	1.60	1.56
SEK	07-Mar	4.00	4.05	3.17	2.58	0.089	0.098	0.67	1.02	-
	+3m	4.00	3.94	2.82	2.81	0.088	0.093	0.65	1.00	-
	+6m	3.75	3.68	2.68	2.86	0.086	0.091	0.64	1.01	-
	+12m	3.25	3.22	2.50	2.90	0.086	0.090	0.64	1.03	-
NOK	07-Mar	4.50	4.80	4.45	3.70	0.088	0.096	0.65	-	0.98
	+3m	4.50	4.49	4.29	3.80	0.088	0.093	0.65	-	1.00
	+6m	4.00	4.03	3.99	3.75	0.085	0.090	0.64	-	0.99
	+12m	3.25	3.60	3.40	3.65	0.084	0.087	0.63	-	0.97

*Notes: GBP swaps are SONIA, USD swaps are SOFR

Commodities

		2023				2024				Average	
	07-Mar	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	83	82	78	86	83	80	80	80	80	82	80

Source Danske Bank

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