8 September 2023

Weekly Focus

All eyes on the ECB next week

This week, we published our latest economic forecasts for both Nordic and global economies in *Nordic Outlook - Divergent fortunes*, 5 September. The outlook for the euro area remains weak, and we think the economy is headed for a slight contraction towards the end of the year. In the US, we have lifted our growth forecast for this year (1.9%) due to more upbeat investment outlook, but still look for clearly below-trend growth towards 2024 on weakening consumption (+0.6%). And while Chinese authorities have recently rolled out increasing number of stimulus measures, we expect growth to remain below the official target at 4.8% in 2023 and 4.2% in 2024.

The divergent outlook was reflected in this week's mixed data releases as well. Euro area Sentix index signalled further weakening in investor confidence in early September, while China's Caixin Services PMI confirmed the slowdown in the official NBS measure released earlier. In contrast, US ISM Services index defied weaker signals from PMIs, and rose sharply against expectations (54.5; from 52.7). Notably, the uptick was broad-based across subcomponents, including new orders, employment and prices paid.

The strong reading lifted UST yields, which were further boosted by initial jobless claims falling to the lowest levels since February. The fear of rates staying higher for longer weighed on equity sentiment and EUR/USD. We discussed the recent US labour market data and implications for the Fed in *US Labour Market Monitor*, 7 September.

Next week, the focus turns to the ECB meeting, where we anticipate a final 25bp hike. Markets remain divided between a hike and a pause, with the implied probability of the former hovering around 35-40%. This week, the Q2 compensation of employees, which is ECB's key measure for wage growth, continued to grow at a pace of 5.6% y/y, close to Q1 rate of 5.4%. The figure was slightly higher than ECB estimated for 2023 back in June (5.3%). This could provide support to the still elevated underlying core inflation, which we expect to fall below 3% only in H2 2024. Read our more detailed *ECB Preview*, 6 September and further details on data from *Euro Area Macro Monitor*, 7 September.

In the US, next week brings the final key data release ahead of the September FOMC meeting, including the August CPI. While the recent uptick in oil prices will likely lift the headline measure by 0.5% m/m, cooling wage pressures should translate into further easing in core services inflation, and we forecast another low core CPI print at 0.2% m/m. While both us and the markets remain convinced that the Fed will go on a pause in September, market pricing implies that the November meeting is essentially a coin-flip between a hike and a pause. The next meeting will provide some interest cues in the form of updated rate projections however, and a low CPI print could tilt some of the FOMC participants to revert their June call for one more hike later in the year.

Other data releases include **US retail sales**, where early card transaction data is pointing towards slowing real spending growth, especially when considering the higher gasoline prices. The Fed will keep an eye out for the preliminary **University of Michigan** survey as well, and if the declining trend on inflation expectations continued into September.

Key global views

- Stagnation and periodic contraction in the US and in Europe during 2023
- US and euro area headline inflation set to decline further, but core inflation to remain sticky
- Fed on hold, ECB to hike once more

Key market movers

- Monday: Norway CPI, Danish CPI
- Tuesday: German ZEW, US NFIB
- Wednesday: US CPI
- Thursday: Sweden CPI, **ECB Meeting**, US Retail sales & PPI
- Friday: US Univ. of Michigan consumer survey

Selected reading from Danske Bank

- *Nordic Outlook - Divergent fortunes*, 5 September
- *ECB Preview - A final rate hike, but restrictive policies are not over*, 6 September
- *Budget Guide 2024 - Guide to corporate financial exposure*, 6 September.

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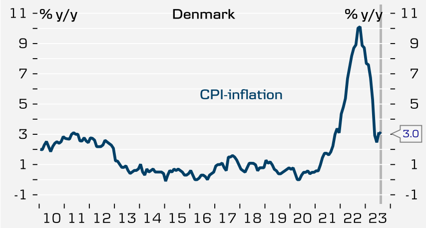
Scandi market movers

- In **Denmark**, next week begins with inflation figures for August on Monday. We expect a slight decline in prices of 0.1% from July, which brings inflation to 3.0% y/y. Last year's August surge in natural gas prices drops out of inflation but on the other hand fuel prices have increased significantly throughout August. We will look out for the quarterly rent increase (one of the less significant ones) because it could be an indication of upcoming rent trends, but we expect no large increases here. Food price developments are somewhat of a joker after several stories about retailers cutting prices. So far, food price increases have moderated but prices keep going up.

  Wednesday is scheduled to bring the unemployment indicator for August. The labour market has been rock-solid all year, and while the number of jobless has risen in recent months, the unemployment rate has remained unchanged at 2.8%. However, the economy ex. pharma is at best stagnating and wages are rising as a result of collective agreements. We therefore expect a modest increase in the number of unemployed in August.

  Thursday's agenda will bring the ECB's interest rate meeting, and we expect Danmarks Nationalbank to follow on the heels of the ECB and hike its benchmark deposit rate by 25bp to 3.60% – given that the DKK has been stable around the central parity rate.

We expect inflation of 3.0% in August

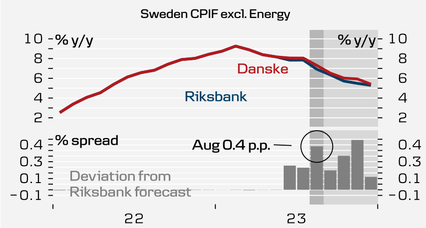


Source: Statistics Denmark, Danske Bank

- **In Sweden,** August inflation is expected to show a significant drop in general, CPIF slowing by 1.5 p.p. to 4.9 % y/y while CPIF excl. energy slows by 0.7 p.p to 7.3 % y/y. The latter is still 0.4 p.p. above Riksbank's forecast. Details suggest clothing, car fuel, hotel/restaurants and other goods and services together will add 0.4 p.p. to the monthly increase in CPIF while transportation services and recreation will subtract the same amount. Travel market data seems to suggest there has been a sharp fall in foreign airline tickets in August, hence, there may be a slight downside to our forecasts for these two components.

  Prospera's quarterly inflation expectations survey is released. Inflations expectations should be retreating in general.

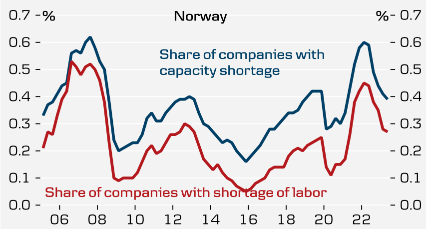
Sweden: core inflation drops but remains above Riksbank's forecast



Source: SCB, Riksbank, Danske Bank

- In **Norway**, economic growth levelled off in H1, and we expect Norges Bank's regional network survey to show this trend continuing into H2. Particularly interesting will be whether the service sector remains relatively optimistic or whether the outlook there has deteriorated. We expect aggregate output growth to come out around 0.1-0.2% for the next quarter. Given the strong pressures in the economy and on wages and prices, it will perhaps be equally important to see whether capacity utilisation continues to decline and whether labour shortages are becoming less precarious. Core inflation has been volatile in recent months, driven largely by food prices. These climbed far less in July than last year, which may mean that they come down more cautiously than normal in August. There are also signs that the biggest price hikes may now be behind us, and producer prices have slowed in recent months. On the other hand, we expect services inflation to remain high due to stronger wage growth, and airfares look likely to rise further. We therefore expect core inflation to climb to 6.6% y/y in August.

Pressures in the economy easing



Source: Macrobond, Danske Bank

Scandi update

Denmark – Pharma takes a negative turn while the rest of the industrial sector continues to slow.

Industrial production fell some 10% between June and July, with the main reason being the pharmaceutical industry and especially Novo Nordisk, which is now so big that fluctuations here can shift the overall figure substantially. However, if we compare with July 2022, production is still 17% higher. Looking at industrial production ex. pharma, the decline was 1.7% between June and July, with production down 15% year-on-year. The trend has been downward throughout the year, and this looks set to continue. One reason is a lower production of wind turbines, but looking at the broader picture, goods are in a global slump, with many consumers in Denmark's export markets shifting their consumption towards experiences rather than physical goods.

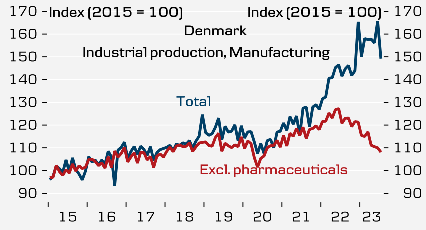
Some 215 active companies went bankrupt in August (seasonally adjusted), a decline of 20% relative to July. One reason for the fall was relatively fewer closing up shop because of repayments on VAT loans. In August, such companies accounted for 26.4% of businesses that collapsed, which is the lowest percentage since October 2021. Taking a longer perspective, the number of bankruptcies from January to August 2023 is, however, still up 19% on January to August 2022. Given the general slowdown and the high level of interest rates, we should therefore expect more bankruptcies going forward.

FX intervention numbers from Danmarks Nationalbank for August also arrived in the past week. As expected, the central bank did not intervene, as the EUR/DKK cross has been stable around the central parity rate. FX reserves increased by DKK3.6bn due to the government raising a loan abroad for DKK1.8bn and Danmarks Nationalbank making net foreign currency purchases of DKK1.8bn.

Foreign trade figures showed exports increasing slightly in July while imports fell a little, which does not reflect the marked decline in industrial production during the same month. However, gaining full insight is difficult, as the trade figures are not adjusted for price changes.

Attention is probably more on the current account, which so far has produced a massive surplus, though Statistics Denmark has shaved a little of the top by revising the surplus down by DKK13.2bn in H1 23, though to a still very solid DKK168.4bn. Looking at the July figures alone, that equates to a current account surplus of roughly 11% of GDP

Industrial production fell 10% from June to July

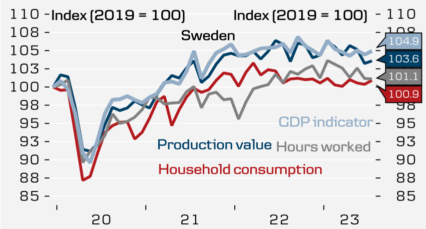


Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sweden – While inflation persists, the economy remains viable

The current account in Q2 widened slightly in comparison to last year which is at least to be expected with the weak development of the SEK recently in mind. Swedish service PMI is losing pace, new figures for August show 49 from 53.4. At the same time, price pressure is increasing from the service sector which has been a headache for the Riksbank for a long time showing to be extra stubborn. Housing prices remained the same m/m for August while apartments prices dropped by 1%. Sweden continues to follow the global recovery trend in the housing market while it is still noticeable that Sweden manages it when taking the country's relative interest rate sensibility into account. The GDP indicator increased by 0.5% in July m/m clearly beating expectations thanks to increased production in the business sector as the production value index increased by 0.3% and household consumption increased 0.5%. The highly bespoken GDP indicator number for June also

Stable development for Swedish economy



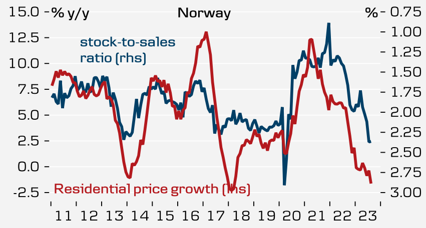
Remark: Own seasonal adjustment
Source: SCB, Danske Bank calculations

got revised from -1.4% to -0.5%. As we expected the worries that Sweden's economy was falling into a deep recession when the numbers dropped was too exaggerated and Sweden's economy remains stable relative to the countries in its proximity.

Norway – Higher rates taking toll on housing market

Housing prices fell 0.6% in August and are now around the same level as at the beginning of 2022. Higher mortgage rates are the most obvious reason for the downturn, but the boost from the relaxation of the mortgage rules before Christmas last year is probably coming to an end, and there is also now a better balance between supply and demand. With mortgage rates set to climb even higher in the wake of further policy rate hikes in August and September, we expect the downward pressure on prices to persist. This will be exacerbated by the rise in the number of properties on the market having pushed the stock-to-sales ratio to its highest level since 2010 (barring March 2020). We therefore expect prices to remain weak certainly for the rest of this year and maybe well into 2024.

Slacker housing market



Source: Macrobond, Danske Bank

Calendar – 11-15 September 2023

During the week				Period	Danske Bank	Consensus	Previous
Sat 09	CNY	Money supply M2	y/y	Aug		10.7%	10.7%
Sat 09	CNY	PPI	y/y	Aug		-2.9%	-4.4%
Sat 09	CNY	CPI	y/y	Aug		0.1%	-0.3%
Monday, September 11, 2023				Period	Danske Bank	Consensus	Previous
8:00	NOK	CPI	m/m|y/y	Aug		...|5.4%	0.4%|5.4%
8:00	NOK	PPI	m/m|y/y	Aug			-2.9%|-35.4%
8:00	DKK	CPI	m/m|y/y	Aug	-0.1%|3.0%		1.8%|3.1%
8:00	NOK	Core inflation (CPI-ATE)	m/m|y/y	Aug	...|6.6%	...|6.5%	0.9%|6.4%
11:00	EUR	EU Commission Summer 2023 Interim Economic Forecast					
Tuesday, September 12, 2023				Period	Danske Bank	Consensus	Previous
8:00	NOK	GDP (mainland)	m/m	Jul	-0.1%	0.0%	0.0%
8:00	GBP	Unemployment rate (3M)	%	Jul		4.3%	4.2%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jul		7.8%	7.8%
9:00	ESP	HICP, final	m/m|y/y	Aug		0.5%|2.4%	0.5%|2.4%
11:00	DEM	ZEW current situation	Index	Sep		-75.0	-71.3
11:00	DEM	ZEW expectations	Index	Sep		-15.1	-12.3
12:00	USD	NFIB small business optimism	Index	Aug		91.3	91.9
Wednesday, September 13, 2023				Period	Danske Bank	Consensus	Previous
8:00	GBP	Monthly GDP estimate	m/m|q/q	Jul		0.0%|0.3%	0.5%|...
8:00	GBP	Index of services	m/m|3m/3m	Jul		0.1%|0.3%	0.2%|0.1%
11:00	EUR	Industrial production	m/m|y/y	Jul		-0.7%|-0.7%	0.5%|-1.2%
14:30	USD	CPI headline	m/m|y/y	Aug	0.5%|3.6%	0.5%|3.6%	0.2%|3.2%
14:30	USD	CPI core	m/m|y/y	Aug	0.2%|4.3%	0.2%|4.3%	0.2%|4.7%
16:30	USD	DOE U.S. crude oil inventories	K				-6307
20:00	USD	Budget statement	USD bn	Aug			-220.8
Thursday, September 14, 2023				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Aug		-0.6	-0.5
3:30	AUD	Employment change	1000	Aug		25.5	-14.6
6:30	JPY	Industrial production, final	m/m|y/y	Jul			-2.0%|-2.5%
8:00	SEK	CPI	m/m|y/y	Aug	0.2%|7.5%	0.2%|7.7%	0.0%|9.3%
8:00	SEK	Underlying inflation CPIF	m/m|y/y	Aug	0.1%|7.3%	0.1%|4.9%	-0.2%|6.4%
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index				
14:15	EUR	ECB's Lagarde speaks at press conference					
14:15	EUR	ECB announces refi rate	%		4.50%	4.50%	4.25%
14:15	EUR	ECB announces deposit rate	%		4.00%	3.75%	3.75%
14:30	USD	PPI	m/m|y/y	Aug		0.4%|1.5%	0.3%|0.8%
14:30	USD	PPI core	m/m|y/y	Aug		0.2%|2.2%	0.3%|2.4%
14:30	USD	Retail sales control group	m/m	Aug		-0.2%	1.0%
14:30	USD	Initial jobless claims	1000				216
14:45	EUR	ECB's Lagarde speaks					
Friday, September 15, 2023				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Germany's debt rating					
-	EUR	S&P may publish Spain's debt rating					
-	EUR	S&P may publish Belgium's debt rating					
-	EUR	Moody's may publish Greece's debt rating					
4:00	CNY	Industrial production	y/y	Aug		3.9%	3.7%
4:00	CNY	Retail sales	y/y	Aug		3.0%	2.5%
4:00	CNY	Fixed assets investments	y/y	Aug		3.3%	3.4%
8:00	SEK	Prospera inflation expectations					
8:00	NOK	Trade balance	NOK bn	Aug			61.3
8:45	FRF	HICP, final	m/m|y/y	Aug		1.1%|5.7%	1.1%|5.7%
11:00	ITL	HICP, final	m/m|y/y	Aug		...|5.5%	...|5.5%
11:00	EUR	Trade balance	EUR bn	Jul			12.5
11:00	EUR	Labour costs	y/y	2nd quarter			5.0%
12:30	RUB	Central Bank of Russia rate decision	%			12.3%	12.0%
14:30	USD	Empire Manufacturing PMI	Index	Sep		-10.7	-19.0
14:30	USD	Import prices	m/m|y/y	Aug		0.3%|...	0.4%|-4.4%
15:15	USD	Capacity utilization	%	Aug		79.3%	79.3%
15:15	USD	Industrial production	m/m	Aug		0.1%	1.0%
15:15	USD	Manufacturing production	m/m	Aug		0.1%	0.5%
16:00	USD	University of Michigan Confidence, preliminary	Index	Sep		69.4	69.5

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	2022	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.6	2.6	3.4	29.7	13.0
	2023	1.7	0.1	0.2	-5.2	6.7	0.8	4.0	4.3	2.9	2.1	27.7	12.5
	2024	1.2	1.6	1.5	0.7	1.7	1.7	3.2	5.6	3.2	1.0	26.0	12.5
Sweden	2022	2.9	1.9	0.0	6.2	7.0	9.3	8.4	2.5	7.5	0.7	31.0	3.7
	2023	0.0	-1.6	2.2	-0.9	2.5	0.7	8.4	4.0	7.5	-0.4	29.0	4.7
	2024	1.7	1.7	1.5	2.0	3.0	2.9	1.8	3.3	7.8	-0.8	29.0	4.7
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.2	-1.7	1.4	0.5	4.0	3.0	5.8	5.4	1.9	-	-	-
	2024	1.4	1.2	1.0	4.0	2.0	1.6	2.5	4.4	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[2]	Public budget[3]	Public debt[3]	Current acc.[3]
Euro area	2022	3.4	4.3	1.4	2.9	7.2	8.1	8.4	3.1	6.7	-3.6	91.5	-0.9
	2023	0.5	0.1	-0.7	0.5	1.7	1.0	5.5	5.3	6.5	-3.2	90.0	1.3
	2024	0.8	1.1	1.0	0.5	2.0	2.0	2.6	4.5	6.8	-2.6	89.1	1.7
Finland	2022	1.6	1.7	0.8	3.2	3.5	8.3	7.1	2.4	6.8	-0.9	72.9	-3.6
	2023	-0.2	-0.2	3.0	-5.0	-0.5	-3.0	6.5	4.0	7.2	-2.8	72.3	-4.0
	2024	0.8	1.0	0.5	1.0	1.5	1.5	2.3	3.4	7.0	-2.7	73.4	-3.0

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	2022	2.1	2.7	-0.6	-0.2	7.1	8.1	8.0	5.3	3.6	-5.5	123.3	-3.9
	2023	1.9	1.9	3.5	-0.7	-0.3	-4.2	4.0	4.1	3.6	-5.4	123.6	-3.1
	2024	0.6	-0.2	2.7	3.2	-4.0	-1.3	2.1	3.2	4.1	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	5.5	-7.5	77.1	2.3
	2023	4.8	6.5	-	4.5	-	-	0.8	-	5.2	-7.5	82.8	1.4
	2024	4.2	5.0	-	3.8	-	-	1.2	-	5.1	-7.5	87.4	1.0
UK	2022	4.2	-	-	-	-	-	9.0	-	3.7	-	-	-
	2023	0.4	-	-	-	-	-	7.6	-	4.3	-	-	-
	2024	0.4	-	-	-	-	-	2.9	-	4.6	-	-	-

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*	07-Sep	5.50	-	4.90	3.99	0.93	-	6.97	10.72	11.15
	+3m	5.50	-	4.50	3.71	0.93	-	6.96	11.03	10.75
	+6m	5.50	-	4.21	3.53	0.94	-	7.02	10.94	10.94
	+12m	5.00	-	3.85	3.35	0.97	-	7.23	10.87	11.36
EUR	07-Sep	3.75	3.77	3.69	3.17	-	1.07	7.4591	11.47	11.92
	+3m	4.00	3.99	3.47	3.08	-	1.07	7.4450	11.80	11.50
	+6m	4.00	3.99	3.27	2.93	-	1.06	7.4450	11.60	11.60
	+12m	3.75	3.56	3.00	2.85	-	1.03	7.4500	11.20	11.70
JPY	07-Sep	-0.10	-	-	-	0.006	0.007	4.74	7.28	7.57
	+3m	-0.10	-	-	-	0.007	0.007	4.90	7.77	7.57
	+6m	0.10	-	-	-	0.007	0.008	5.32	8.29	8.29
	+12m	0.10	-	-	-	0.007	0.008	5.56	8.36	8.74
GBP*	07-Sep	5.25	-	5.47	4.41	1.17	1.09	8.70	13.37	13.90
	+3m	5.50	-	5.30	4.22	1.15	1.23	8.56	13.56	13.22
	+6m	5.50	-	4.96	4.09	1.14	1.20	8.46	13.18	13.18
	+12m	5.00	-	4.60	3.95	1.14	1.17	8.47	12.73	13.30
CHF	07-Sep	1.75	-	-	-	1.05	1.12	7.80	12.00	12.48
	+3m	2.00	-	-	-	1.05	1.13	7.84	12.42	12.11
	+6m	2.00	-	-	-	1.06	1.13	7.92	12.34	12.34
	+12m	2.00	-	-	-	1.06	1.10	7.93	11.91	12.45
DKK	07-Sep	3.35	3.82	3.80	3.31	0.134	0.143	-	1.54	1.60
	+3m	3.60	3.99	3.62	3.23	0.134	0.144	-	1.58	1.54
	+6m	3.60	3.99	3.42	3.08	0.134	0.142	-	1.56	1.56
	+12m	3.35	3.56	3.15	3.00	0.134	0.138	-	1.50	1.57
SEK	07-Sep	3.75	4.05	4.00	3.32	0.084	0.090	0.63	0.96	-
	+3m	4.00	4.10	3.80	3.07	0.087	0.093	0.65	1.03	-
	+6m	4.00	3.80	3.34	2.88	0.086	0.091	0.64	1.00	-
	+12m	3.50	3.24	3.00	2.85	0.085	0.088	0.64	0.96	-
NOK	07-Sep	4.00	4.80	4.96	4.16	0.087	0.093	0.65	-	1.04
	+3m	4.25	4.75	4.22	3.81	0.085	0.091	0.63	-	0.97
	+6m	4.25	4.74	3.98	3.63	0.086	0.091	0.64	-	1.00
	+12m	3.75	4.17	3.70	3.45	0.089	0.092	0.67	-	1.04

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

Commodities

		2023				2024				Average	
	07-Sep	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	90	82	78	80	80	80	80	80	80	80	80

Source Danske Bank

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