

Weekly Focus

ECB hike coming up, what about the Fed?

We are entering a big central bank week, with rate decisions from the US Federal Reserve, the European Central Bank and the Bank of Japan. It seems highly likely that the ECB will deliver another 25bp rate hike, but the Fed outlook is a bit more uncertain. We expect that this will be the first FOMC meeting since January 2022 where there is no rate hike, but market pricing is not ruling out a hike on Wednesday.

Central banks in both Australia and Canada hiked rates in the past week, with Canada's hike being especially surprising. It was the first increase in the country's overnight rate since January, taking it to its highest level in 22 years and sending market rates higher also in the US and Europe.

In the US, the job report for May was clearly stronger than expected in terms of payroll growth, but also showed increasing slack in the labour market from an increasing work force and slowing wage growth. Also, jobless claims were higher than expected this week.

In our view, the Fed can afford to pause rate hikes now. Just before the decision next week, we will get the CPI for June, where we can see monthly inflation decline to just 0.2%, also reducing the need for further hikes. Apart from the rate decision, we will also get projections from FOMC members, and there is chance that they will point towards a hike in July.

The ECB has quite clearly signalled that there will be a 25bp rate hike on Thursday which is also fully priced by markets, and an end to APP reinvestment from July. We will get new staff projections and policy signals at the meeting. With the current market mood focusing on signs of decreasing inflation, the market could react strongly on dovish signals from the ECB, while hawkish tones are more likely to be ignored. In the hawkish direction, though, new data show a 5.2% y/y increase in wages in Q1 measured as compensation per employee, the ECB's preferred measure.

We expect the Bank of Japan to tweak the yield curve control at one of the upcoming meetings. Widening of the yield curve control band to e.g. +/-100bps can be explained as a move to improve market functioning, but will essentially be tightening. **We still deem it most likely that the BoJ will stay put at the Friday meeting**, though.

In China, producer prices declined 4.6% y/y, the biggest decline since 2016. This puts further downwards pressure on consumer prices, which are barely increasing in China and it is possible that we will get more central bank easing. Credit data will be out during the coming week and could be key to watch.

The Turkish lira weakened significantly this week as local banks stopped intervening. Hopes are building up that Erdogan's newly appointed economic team would soon take steps towards normalizing policies. This week's move in the lira can perhaps be seen as an 'intentional devaluation' as opposed to a full loosening of controls. In the absence of interventions, we think there is still room for significant lira depreciation until the central bank credibility is restored and we see interest rate hikes.

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 likely to stay elevated.
- ECB to deliver 3 more 25bp hikes, while the Fed is on hold for the rest of the year.

Key market movers

- Tuesday: US CPI
- Wednesday: US Fed meeting
- Thursday: ECB meeting
- Friday: Bank of Japan meeting, Euro Area final HICP

Selected reading from Danske Bank

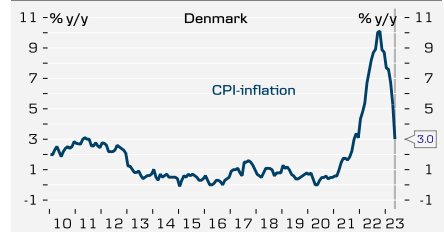
- *Research US - Fed preview: on hold*, June 8
- *ECB preview - looking beyond next week*, June 8
- *Executive Briefing - strong service sectors and weak manufacturing*, June 2

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Scandi market movers

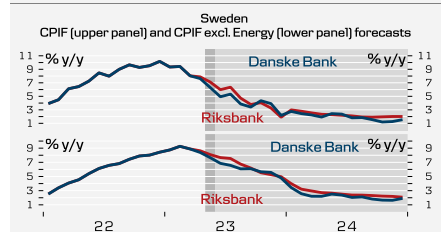
- On Monday, we get inflation figures. We expect a very big decline in CPI inflation in May to 3.0% from 5.3% in April. Energy prices will be the key driver, as we are looking for a big decline in electricity prices. Also fuel prices have declined in May and German food prices suggest that also Danish prices have slowed. If we are right, this highly challenges our 5.1% headline inflation forecast for this year. With the May figures, Statistics Denmark registers a quarterly rent increase, which will be highly interesting as it also sets the tone for what we can expect of rents over the coming year.
- Monday is also scheduled to bring May's unemployment indicator. Denmark's labour market remains tight, with unemployment hovering around 2.8% since the start of the year despite a slowdown in the Danish economy. This suggests that while some companies may be struggling, other companies still need a good many workers. We expect unemployment to rise by around 0.3 percentage points before the end of the year.
- We expect Denmark's Nationalbank to replicate the ECB's 25bp rate hike following its meeting on Thursday. With the EUR/DKK exchange rate stabilised well within the fluctuation band after Denmark's central bank expanded the rate spread by 15bp back in February, there is no need to cut by less
- Home sales figures from property site Boligsiden are due on Friday. The number of homes sold has been ticking up from very low levels around the start of the year. We see this trend reflecting greater certainty about household finances in Denmark, with energy prices calming and the economy suffering only a mild recession so far. These economic developments look set to continue, so we expect home sales increased in May compared to April – which is also what *home's boligbrief* indicated earlier this week.
- Swedish** May inflation is due on Wednesday June 14th. We expect CPIF and CPIF excl. Energy to slow to 6.3 % yoy and 7.7 % yoy respectively. This is 0.8 and 0.4 percentage points below Riksbank's respective forecasts. These are fairly sizeable deviations, however, given the level of inflation this is hardly enough to make Riksbank change its rhetoric. There are a few things to keep in mind: Firstly, food prices are expected to decline marginally as suggested by Matpriskollen and in line with price cuts seen in German states. Secondly, Flygprisindex suggests prices on international airline travels dropped by 15 % on the month, hence, we have assumed this will pull transportation services and recreation prices lower. It should be noted though that there is no 100 % correlation here so this is a bit of a guess. Thirdly, we have assumed roughly a third of the remaining rent increases will take place in May, but this is of course very uncertain. The remaining price components are expected to behave in a seasonally normal fashion.
- On June 15th, Prospera's big quarterly inflation expectations survey will be released. Money market's 1- and 2-year expectation have turned decidedly lower and the latter is now just slightly above the 2 % target, at 2.4 %. Similar tendencies has been seen in the quarterly survey. This time we believe there could be especially interesting to watch purchasing managers inflation expectations as other survey data such as PMI and NIER's monthly confidence survey suggests declining consumer goods selling price expectations in manufacturing.

We expect a pronounced decline in inflation to 3.0% in May



Source: Statistics Denmark, Danske Bank, Macrobond

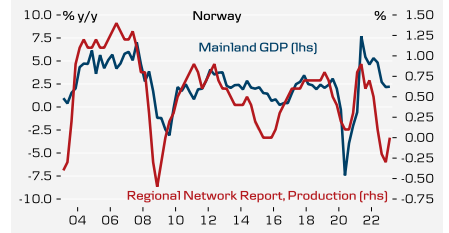
Sweden: May inflation expected to drop below Riksbank forecasts



Source: SCB, Riksbank, Danske Bank

- In **Norway**, Norges Bank's regional network survey in February pointed to growth levelling off, and expectations for output growth were much stronger than in November. Growth expectations this time around are likely to be in the same ballpark, but probably with even bigger variations between sectors. Oil services and parts of the service sector are doing very well, but both retail and construction will probably report weak growth prospects. We nevertheless expect overall capacity utilisation to fall further, which will be key for Norges Bank as it is the main driver of domestic inflation in the medium term in the bank's models. Other leading indicators suggest that employment expectations may actually have improved slightly, but we are more interested to see what firms have to say about investment next year.

Norway outlook still weaker



Source: Macrobond, Danske Bank

Scandi update

Denmark – Bankruptcies still high but down for a second month

Danmarks Nationalbank did not intervene in FX markets in May – the fourth consecutive month where intervention was unnecessary. It seems the central bank's 15bp widening of the rate spread to the euro area in February is still keeping the EUR/DKK exchange rate well within the fluctuation band.

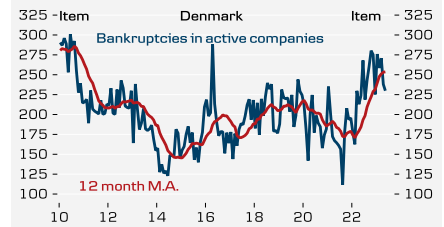
Some 230 active companies went bankrupt in May, which is 3.5% less than in April. The number of companies having to close is now somewhat lower compared to the end of last year and Q1 23. This should be seen against the relative robustness of the Danish economy this year, for while much of the economy has slowed, demand has not collapsed, which means the number of bankruptcies has stabilised at an elevated level instead of continuing to rise. That being said, the high number of bankruptcies is primarily due to the end of the loan schemes that kept bankruptcy numbers unnaturally low during the pandemic.

Danish industrial production grew an impressive 1.3% in April and clearly puts Denmark in pole position compared to the industrial sectors of Denmark's trading partners. Scratch the surface a little, however, and the story is not so straightforward. Denmark's strong industrial production figures have been almost exclusively driven by the Danish pharmaceutical industry – a fantastic success story that is helping to keep Danish growth in positive territory at the moment. However, much of the rest of the Danish industrial sector is struggling with a demand slump. Globally, industry is in recession, so conditions are tough for the most cyclical Danish industrial companies.

Turning to house prices, detached and terrace house prices rose 0.1% between April and May, while apartment prices increased by 0.7% (seasonally adjusted). Apartment prices have now appreciated for three months in a row after the pronounced correction in housing prices between July 2022 and February 2023. The spring sunshine has injected a dose of optimism into the housing market on the back of improved financial security for consumers, who have seen purchasing power increase and unemployment remain low. Nevertheless, we view this uptick in house prices as temporary, as the housing market is still adjusting to a high interest rate environment.

Denmark's current account surplus printed at DKK35.6bn in April – up DKK2.6bn on March and essentially a colossal sum. Denmark's current account surplus relative to the size of its economy puts it in the absolute top class globally, and today's figures in fact make it even bigger, as the figures have again been revised higher. For example, the surplus was DKK15.4bn greater than previously estimated in 2022, mainly because a shipping company transferred activities from an overseas office to the Danish parent company.

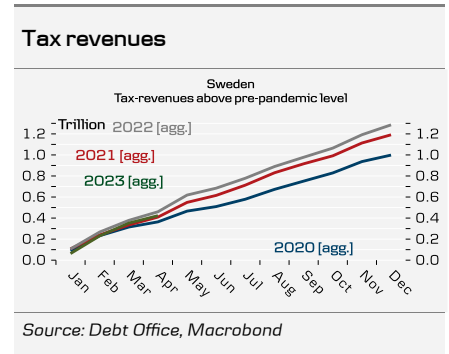
Danish bankruptcy numbers declined in May but remained on the high side



Source: Danske Bank, Statistics Denmark, Macrobond Financial

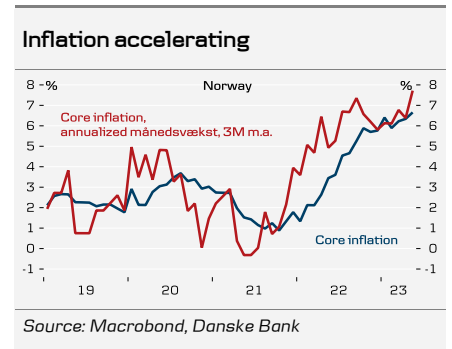
Sweden – Stronger budget balance than expected

The budget balance once again surprised to the upside, showing a surplus of SEK 39.1bn in May which can be compared to debt office forecast at SEK 23bn. The deviation against the forecast is largely explained by higher tax revenues than expected which bolsters the perspective that the economy have continued to perform better than anticipated. For the twelve-month period up to the end of May 2023, central government payments have resulted in a surplus of SEK 92 billion.



Norway – Broad-based jump in inflation

Core inflation surprised to the upside in May, rising to 6.7% y/y. Somewhat surprisingly, imported inflation slowed despite the recent decline in the NOK. Domestic inflation, on the other hand, climbed from 5.5% to 6.5% y/y, driven by food, clothing, transport, health services and rents. The only thing that looks like a one-off was a leap in airfares of more than 50% y/y, which was probably a result of the two long weekends in May sparking high travel activity. As can be seen from the chart, core inflation is now accelerating from already high levels. This naturally puts more pressure on Norges Bank, meaning that a double hike in June and/or a further hike in September are now on the table. We note that the NOK rallied on these strong inflation numbers as a result of more aggressive interest rate expectations.



Calendar – 12-16 June 2023

During the week					Period	Danske Bank	Consensus	Previous
Sat 10	CNY	Money supply M2	y/y	May		12.0%	12.4%	
Monday, June 12, 2023					Period	Danske Bank	Consensus	Previous
8:00	DKK	CPI	m/mly/y	May	-1.3% 3.0%		0.3% 5.3%	
20:00	USD	Budget statement	USD bn	May			176.2	
Tuesday, June 13, 2023					Period	Danske Bank	Consensus	Previous
8:00	DEM	HICP, final	m/mly/y	May		-0.2% 6.3%	-0.2% 6.3%	
8:00	NOK	GDP (mainland)	m/m	Apr	-0.2%	0.1%	0.5%	
8:00	GBP	Unemployment rate (3M)	%	Apr		4.0%	3.9%	
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Apr		6.9%	6.7%	
9:00	ESP	HICP, final	m/mly/y	May		-0.2% 2.9%	-0.2% 2.9%	
11:00	DEM	ZEW current situation	Index	Jun		-40.0	-34.8	
11:00	DEM	ZEW expectations	Index	Jun		-13.8	-10.7	
12:00	USD	NFIB small business optimism	Index	May		88.2	89.0	
14:30	USD	CPI headline	m/mly/y	May	0.2% 4.2%	0.2% 4.1%	0.4% 4.9%	
14:30	USD	CPI core	m/mly/y	May	0.3% 5.2%	0.4% 5.3%	0.4% 5.5%	
Wednesday, June 14, 2023					Period	Danske Bank	Consensus	Previous
8:00	GBP	Monthly GDP estimate	m/m q/q	Apr		0.003 0.001	-0.003 0.001	
8:00	GBP	Index of services	m/m 3m/3m	Apr		0.003 -0.001	-0.005 0.001	
8:00	SEK	Underlying inflation CPIF	m/mly/y	May	-0.3% 6.3%	-0.2% 6.5%	0.2% 7.6%	
8:00	SEK	CPI	m/mly/y	May	-0.1% 9.2%	0.0% 9.5%	0.5% 10.5%	
11:00	EUR	Industrial production	m/mly/y	Apr		0.7% 1.0%	-4.1% -1.4%	
14:30	USD	PPI	m/mly/y	May		-0.1% 1.5%	0.2% 2.3%	
14:30	USD	PPI core	m/mly/y	May		0.2% 2.9%	0.2% 3.2%	
16:30	USD	DOE U.S. crude oil inventories	K				-452	
20:00	USD	FOMC meeting	%		5.25%	5.25%	5.25%	
Thursday, June 15, 2023					Period	Danske Bank	Consensus	Previous
0:45	NZD	GDP	q/q y/y	1st quarter		-0.1% 2.6%	-0.6% 2.2%	
1:50	JPY	Import	y/y (%)	May			0.0	
1:50	JPY	Exports	y/y (%)	May		0.0	0.0	
1:50	JPY	Trade balance, s.a.	JPY bn	May		-811.1	-1017.2	
3:30	AUD	Employment change	1000	May			-4.3	
4:00	CNY	Industrial production	y/y	May		3.5%	5.6%	
4:00	CNY	Retail sales	y/y	May		13.7%	18.4%	
4:00	CNY	Fixed assets investments	y/y	May		4.4%	4.7%	
6:00	SEK	Service production	y/y	May			2.8%	
8:00	SEK	Prospera inflation expectations						
8:00	NOK	Trade balance	NOK bn	May			76.1	
8:45	FRF	HICP, final	m/mly/y	May		-0.1% 6.0%	-0.1% 6.0%	
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index					
11:00	EUR	Trade balance	EUR bn	Apr		5	17	
14:15	EUR	ECB's Lagarde speaks at press conference				0.04	0.0375	
14:15	EUR	ECB announces refi rate	%		4.00%	4.00%	3.75%	
14:15	EUR	ECB announces deposit rate	%		3.50%	3.50%	3.25%	
14:30	USD	Philly Fed index	Index	Jun		-12.3	-10.4	
14:30	USD	Retail sales control group	m/m	May		0.3%	0.7%	
14:30	USD	Initial jobless claims	1000				261	
14:30	USD	Import prices	m/mly/y	May		-0.6% ...	0.4% -4.8%	
14:30	USD	Empire Manufacturing PMI	Index	Jun		-15.6	-31.8	
15:15	USD	Capacity utilization	%	May		79.7%	79.7%	
15:15	USD	Industrial production	m/m	May		0.1%	0.5%	
15:15	USD	Manufacturing production	m/m	May		-0.1%	1.0%	
22:00	USD	TICS international capital flow, Net inflow	USD bn	Apr			56.7	
Friday, June 16, 2023					Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Cyprus's debt rating						
-	JPY	BoJ policy rate	%		-0.10%	-0.10%	-0.10%	
10:00	ITL	HICP, final	m/mly/y	May		... 8.1%	... 8.1%	
11:00	EUR	HICP inflation, final	m/mly/y	May		0.0% 6.1%	0.0% 6.1%	
11:00	EUR	HICP - core inflation, final	y/y	May		5.3%	5.3%	
11:00	EUR	Labour costs	y/y	1st quarter			5.7%	
16:00	USD	University of Michigan Confidence, preliminary	Index	Jun		60.0	59.2	

Source: Danske Bank

Macroeconomic forecast

	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	3.8	-2.4	-3.5	8.6	8.6	4.2	7.7	3.6	2.6	3.3	29.8	13.1
	2023	0.5	0.0	-0.4	-5.0	1.3	-2.0	5.1	4.7	3.1	2.0	27.1	11.5
	2024	1.3	1.8	1.6	-1.7	1.3	0.6	3.6	5.0	3.6	1.1	25.1	11.3
Sweden	2022	2.9	1.9	0.1	6.1	7.0	9.4	8.4	2.5	7.5	0.7	33.0	4.6
	2023	-1.0	-2.3	1.1	-2.8	2.0	-0.1	9.6	4.1	8.0	-0.9	29.0	5.7
	2024	1.7	1.8	1.2	2.3	2.8	2.6	2.3	3.3	7.9	-0.9	29.0	5.8
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.0	-1.0	1.2	0.5	4.0	3.0	4.8	5.0	2.1	-	-	-
	2024	1.5	0.9	1.7	4.0	2.0	2.0	2.5	4.0	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	3.5	4.5	1.4	3.8	7.3	8.4	8.4	4.5	6.7	-3.6	93.2	0.6
	2023	0.4	-0.1	1.2	-0.8	3.4	3.4	6.3	4.9	6.9	-3.2	90.9	2.2
	2024	0.6	1.2	1.0	0.2	3.6	4.6	3.5	3.6	7.0	-3.0	90.1	2.4
Finland	2022	2.1	2.1	2.9	5.0	1.7	7.5	7.1	2.4	6.8	-0.9	73.0	-3.9
	2023	-0.2	-0.2	1.2	-2.0	-0.5	-1.0	5.5	4.1	7.0	-2.5	72.1	-1.4
	2024	0.9	1.0	0.5	2.0	1.5	2.0	2.1	3.7	6.8	-1.7	72.4	-1.0

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 ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
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	0.8	0.7	1.7	-5.5	-0.3	-5.5	4.1	4.1	3.7	-5.4	123.6	-3.1
	2024	0.3	0.4	1.3	-1.5	-1.9	-1.9	2.1	3.2	4.2	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	-	-7.5	77.1	2.3
	2023	6.2	7.0	-	6.0	-	-	2.2	-	-	-6.9	82.4	1.4
	2024	5.0	5.2	-	4.8	-	-	2.5	-	-	-6.4	87.2	1.1
UK	2022	4.2	-	-	-	-	-	8.9	-	3.8	-	-	-
	2023	-0.7	-	-	-	-	-	6.2	-	4.4	-	-	-
	2024	0.8	-	-	-	-	-	2.6	-	5.0	-	-	-

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	09-Jun	5.25	5.51	4.75	3.77	107.6	-	692.4	1079.8	1084.9
	+3m	5.25	5.40	4.00	3.45	107.0	-	695.8	1093.5	1046.7
	+6m	5.25	5.35	3.70	3.45	106.0	-	702.4	1066.0	1066.0
	+12m	5.00	4.82	3.30	3.35	103.0	-	723.3	1048.5	1116.5
EUR	09-Jun	3.25	3.47	3.60	3.01	-	107.6	745.1	1162.0	1167.4
	+3m	3.75	3.98	3.50	3.05	-	107.0	744.5	1170.0	1120.0
	+6m	4.00	4.02	3.15	2.95	-	106.0	744.5	1130.0	1130.0
	+12m	4.00	3.70	2.85	2.85	-	103.0	745.0	1080.0	1150.0
JPY	09-Jun	-0.10	-0.03	-	-	120.5	139.5	6.18	9.64	9.69
	+3m	-0.10	-	-	-	141.2	132.0	5.27	8.28	7.93
	+6m	0.10	-	-	-	136.7	129.0	5.44	8.26	8.26
	+12m	0.10	-	-	-	130.8	127.0	5.70	8.26	8.79
GBP*	09-Jun	4.50	-	5.17	4.16	85.8	125.5	868.7	1354.7	1361.1
	+3m	4.75	-	4.40	4.00	88.0	121.6	846.0	1329.5	1272.7
	+6m	4.75	-	4.30	4.00	88.0	120.5	846.0	1284.1	1284.1
	+12m	4.50	-	4.20	4.00	88.0	117.0	846.6	1227.3	1306.8
CHF*	09-Jun	1.50	-	1.95	1.96	97.0	90.2	767.8	1197.4	1203.0
	+3m	1.75	-	-	-	97.0	90.7	767.5	1206.2	1154.6
	+6m	1.75	-	-	-	96.0	90.6	775.5	1177.1	1177.1
	+12m	1.75	-	-	-	96.0	93.2	776.0	1125.0	1197.9
DKK	09-Jun	2.85	3.52	3.70	3.14	745.06	692.39	-	155.96	156.69
	+3m	3.35	3.82	3.65	3.20	744.50	695.79	-	157.15	150.44
	+6m	3.60	3.85	3.30	3.10	744.50	702.36	-	151.78	151.78
	+12m	3.60	3.53	3.00	3.00	745.00	723.30	-	144.97	154.36
SEK	09-Jun	3.50	3.70	3.68	2.97	1167.4	1084.9	63.8	99.5	100.0
	+3m	4.00	4.10	3.65	2.90	1120.0	1046.7	66.5	104.5	-
	+6m	4.00	4.15	3.30	2.80	1130.0	1066.0	65.9	100.0	-
	+12m	3.75	3.70	3.00	2.75	1150.0	1116.5	64.8	93.9	-
NOK	09-Jun	3.25	4.12	4.46	3.71	1162.0	1079.8	64.1	100.0	100.5
	+3m	3.50	4.03	4.05	3.35	1170.0	1093.5	63.6	-	95.7
	+6m	3.50	3.84	3.70	3.25	1130.0	1066.0	65.9	-	100.0
	+12m	3.25	3.60	3.35	2.95	1080.0	1048.5	69.0	-	106.5

*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												
		2023				2024				Average		
	09-Jun	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024	
ICE Brent	76	87	90	85	80	80	80	80	80	86	80	

Source Danske Bank

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