

Weekly Focus

Bracing for Trump 2.0

A new year is upon us and for sure it shapes up to be another interesting year. A key question from the start is how much of his policies US President-elect Donald Trump will actually pursue on issues such as tariffs, immigration, fiscal policy and Ukraine peace talks? We are yet to find out how much is rhetoric and what he will actually go for. And there is also a question of what he will be able to implement. On trade and foreign policy issues he has a lot of power, though. This week we introduced a revamp of our *Geopolitical Radar*, 9 January, where we take stock of geopolitical developments and outline scenarios. **As we wrote in *Nordic Outlook* in December, despite the uncertainties our baseline is still that it will be a year of normalisation in growth and inflation** – and a further removal of tightness in monetary policy in most countries. Our baseline is a soft landing in the US, moderate growth improvement in the eurozone and continued muddling through in China. Often, we tend to overestimate the impact of politics on growth compared to other key drivers of the economies, such as the development in labour markets.

Speaking of labour markets, we see signs of cooling in the euro area after a long period of resilience: Consumers' unemployment expectations have shot higher lately and now point to rising unemployment and the PMI employment index has fallen below 50 indicating a decline in employment. At the same time, though, unemployment data this week showed another low reading at 6.3% so we have yet to see the cooling in the hard data. Focus in the euro area is predominantly on growth risks with clear structural concerns over too much regulation, high energy costs and rising competition from China coming on top of the weak cyclical indicators. We look for ECB to cut rates all the way to 1.5% by late summer (from 3% currently), which is around 50bp more than what markets price. Inflation data this week for December was in line with expectations showing an unchanged reading of 2.7% y/y for core inflation with a continued disinflationary trend in underlying momentum.

In the US, focus has instead shifted back on inflation risks, as the labour market has stopped cooling and consumer demand continues to look robust. This week JOLTS data showed an increase in job openings and a further decline in initial jobless claims (non-farm payrolls was released after deadline). Bond yields have shot higher lately due to the change in focus back on inflation as well as higher term premia related to debt concerns. We believe the optimism about the US economy is a bit overdone as we still look for moderation, not least due to much slower growth in the labour force. We believe the Fed has room to continue to cut rates on a quarterly basis in 2025 vs. market pricing of less than two cuts.

China has shown some rays of light in the housing market lately and policy makers have sharply increased focus on lifting home sales and private consumption (see *China Headlines*, 8 January). However, a trade war with the US is looming later this year and China is likely to face another bumpy year when it comes to growth.

Focus in the coming week will be on US CPI where consensus looks for 0.2% m/m in core CPI. An upward surprise could be challenging for bonds that are under pressure at the moment. Other market movers will be US retail sales, UK CPI, Chinese data for GDP, housing and retail sales.

Key global views

- Outlook for slightly higher growth in Europe and China, slightly lower in the US
 - Political uncertainty has limited short-term effect
 - Fed and ECB to cut further but at different paces
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Key market movers

- Wed: US CPI, Philadelphia Fed survey, UK CPI
 - Thu: US retail sales, German GDP
 - Fri: China GDP, home sales and retail sales, euro CPI final,
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Selected reading from Danske Bank

- *Reading the Markets USD - Term premium lift US bond yields*, 8 January
 - *Executive Briefing - Markets reduce rate cut expectations for 2025*, 7 January
 - *China Headlines - More rays of light in housing, strong policy focus on consumption, CNY weakens further*, 8 January
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Scandi market movers

- There are no market movers in Denmark next week.
- Riksbank Deputy Governor Bunge will speak on Tuesday and Wednesday on macro/monetary policy and financial stability, respectively, while Governor Thedeén will speak on Wednesday afternoon about monetary policy. This means that he will have the opportunity to comment on the final December inflation release.

The final December inflation data including price components details will be released on 15 January. As shown in the table, the preliminary outcome was below Riksbank's forecast. We have no reason to expect any change to the preliminary outcome. The details, however, may have implications for how we see the January inflation release as some price components are very volatile during the December-January period.

Origo Group (previously Kantar Prospera) releases January money market inflation expectations on 16 January. Since this is a new provider there is some uncertainty about the consistency with earlier surveys.

- There are no market movers in Norway next week.

Sweden: Thedeén may comment on the final December inflation data

December prel		Riksbank	Actual	Diff vs Riksbank
CPI	% mom		0,0	
	% yoy	1,3	0,8	-0,5
CPIF	% mom		0,3	
	% yoy	1,8	1,5	-0,3
CPIF excl. Energy	% mom		0,4	
	% yoy	2,2	2,1	-0,1

Source: SCB, Riksbank

Scandi Update

Denmark – Inflation increased in line with expectations

Danish inflation increased from 1.6% in December to 1.9% in December in line with our expectations. The increase is largely due to a base effect from low energy prices in December 2023, and the fact that food prices did not drop as much this Christmas as last Christmas. Core inflation, excluding energy and food prices, also rose in December, but overall, it remains modest at 1.5%. This indicates that the solid wage increases Danes are experiencing are far from being passed on one-to-one from businesses to consumers. This is good news and indicates continued limited underlying price pressure in Denmark.

Industrial production in Denmark fell by 3.6% in November compared to October. The drop was broadly distributed across industries and not just in the pharmaceutical industry, which often shows large fluctuations from month to month. Furthermore, Danish exports fell by 1.4% in November. The past year and a half has been good for Danish industry compared to the production in other countries, and not only because of the pharmaceutical industry. However, activity seems to have slowed somewhat in the latter part of 2024. We are not alone in experiencing this in Denmark, but it suggests that we are unlikely to continue the streak of very impressive Danish growth figures when we receive data for the final quarter of 2024.

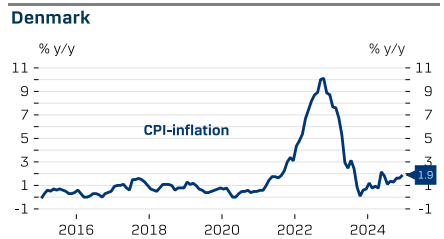
We received two releases on Danish unemployment in December this week. According to the Danish Agency for Labour Market and Recruitment (STAR), unemployment increased by 2,300 people from November to December, adjusted for seasonal variations. However, according to the unemployment indicator by Statistics Denmark, unemployment was unchanged after data was adjusted for seasonal variation. For that reason, the development in unemployment is unclear in December. The differences are not due to discrepancies in seasonal adjustment. If the data from STAR is accurate, unemployment has increased more in this single month than throughout the rest of 2024. We, along with many others, have repeatedly been surprised by how strong the labour market has been in recent years, and today's figures may be a sign that it is now starting to shift. However, it is important to emphasise that this is only a possibility.

Nationalbanken did not intervene in the foreign exchange market in December, thereby marking the 23rd consecutive month without interventions.

Sweden – Surprisingly low inflation increases likelihood of January cut

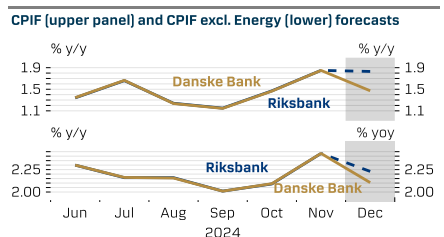
The Riksbank's monetary policy minutes from December revealed that most Riksbank members anticipate a cut early this year, in January or March, rather than later in the period. Only Thedéen and Seim are on the more hawkish side, still advocating for an additional rate cut during the first half of 2025, but without specifying the timing. They argue that it is too early to determine the full effects of the previous rate cuts and that the current monetary policy should already be neutral or even expansionary. The December minutes and the surprisingly low inflation figures for December (preliminary) increase the likelihood of a January cut. The latest inflation figures for December showed CPIF 1.5% and CPIF ex. Energy 2.1%, which were below market expectations and below the Riksbank's and our forecast.

Inflation increased in line with expectations



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Comparison of inflation forecasts



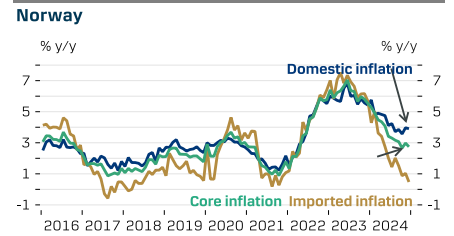
Source: Danske Bank, Macrobond

Looking ahead, we expect the Riksbank to cut the policy rate twice during the first half of 2025. While the timing of the next rate cut is uncertain, our current forecast suggests March and June. The reason for these additional rate cuts is the downside risk to the Swedish economy and inflation. The Riksbank’s forecast for the Swedish economy is relatively optimistic, while macroeconomic data presents mixed signals, indicating that the weak business cycle might persist longer. For example, the Economic Tendency Indicator remains below normal, PMI is moving sideways, the labour market is weaker than usual, and indicators suggest weak development in the euro area.

Norway – core inflation is coming down

Core inflation dropped from 3.0% to 2.7% in December, a bit lower than we, consensus, and Norges Bank had expected (2.8%). Most importantly, this figure confirms that the disinflationary trend continues, and that the surprising jump in November was a one-off, which should be reassuring to Norges Bank and clearly supports the case for a rate cut in March. As core inflation now is marginally below Norges Bank’s forecast, this should also support the case for at least three cuts in 2025.

The disinflation continues



Source: Macrobond, Danske Bank

Calendar – 13-17 January 2025

Monday, January 13, 2025				Period	Danske Bank	Consensus	Previous
3:00	CNY	Trade balance	USD bn	Dec		100.0	97.4
20:00	USD	Budget statement	USD bn	Dec			-366.8
Tuesday, January 14, 2025				Period	Danske Bank	Consensus	Previous
6:00	SEK	Maklarstatistik Swedish housing price data		Dec		100.5	101.7
12:00	USD	NFIB small business optimism	Index	Dec			
14:30	USD	PPI	m/mly/y	Dec		0.3% ...	0.4% 3.0%
14:30	USD	PPI core	m/mly/y	Dec		0.2% ...	0.2% 3.4%
21:05	USD	Fed's Williams speaks					
Wednesday, January 15, 2025				Period	Danske Bank	Consensus	Previous
8:00	GBP	CPI	m/mly/y	Dec		0.4% 2.7%	0.1% 2.6%
8:00	GBP	CPI core	y/y	Dec		3.4%	3.5%
8:00	SEK	Underlying inflation CPIF, final	m/mly/y	Dec		0.3% 1.5%	0.3% 1.5%
8:00	SEK	Underlying inflation CPIF excl energy, final	m/mly/y	Dec		0.3% 1.5%	0.3% 1.5%
8:00	SEK	Service production	y/y	Dec			3.7%
8:00	NOK	Trade balance	NOK bn	Dec			74.2
8:00	SEK	CPI, final	m/mly/y	Dec		... 0.8%	0.0% 0.8%
8:45	FRF	HICP, final	m/mly/y	Dec		0.2% 1.8%	0.2% 1.8%
9:00	ESP	HICP, final	m/mly/y	Dec		0.4% 2.8%	0.4% 2.8%
10:00	DEM	Budget real GDP (Maastricht)	%			-2.2%	-2.0%
10:00	DEM	GDP	%			-0.2%	-0.3%
11:00	EUR	Industrial production	m/mly/y	Nov		0.3% 1.8%	0.0% 1.2%
14:30	USD	CPI headline	m/mly/y	Dec	0.3% 2.8%	0.3% 2.9%	0.3% 2.7%
14:30	USD	CPI core	m/mly/y	Dec	0.2% 3.3%	0.2% 3.3%	0.3% 3.3%
14:30	USD	Empire Manufacturing PMI	Index	Jan		-2.0	0.2
15:20	USD	Fed's Barkin speaks					
16:00	USD	Fed's Kashkari speaks					
16:30	USD	DOE U.S. crude oil inventories	K				-959
17:00	USD	Fed's Williams speaks					
Thursday, January 16, 2025				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		5.75%	5.75%	5.75%
1:01	GBP	RICS house price balance	Index	Dec		0.3	0.3
1:30	AUD	Employment change	1000	Dec		15	35.6
8:00	NOK	Industrial confidence (SSB)	Net. bal.	4th quarter			1.5
8:00	DEM	HICP, final	m/mly/y	Dec		0.7% 2.8%	0.7% 2.8%
8:00	GBP	Monthly GDP estimate	m/m q/q	Nov		0.002 0	-0.001 0.001
8:00	GBP	Index of services	m/m 3m/3m	Nov		0.001 0.001	0 0.001
10:00	ITL	HICP, final	m/mly/y	Dec		... 1.4%	... 1.4%
11:00	EUR	Trade balance	EUR bn	Nov			6.1
14:30	USD	Initial jobless claims	1000				201
14:30	USD	Import prices	m/mly/y	Dec			0.1% 1.3%
14:30	USD	Philly Fed index	Index	Jan		-8.0	-10.9
14:30	USD	Retail sales control group	m/m	Dec		0.3%	0.4%
16:00	USD	NAHB Housing Market Index	Index	Jan			46.0
Friday, January 17, 2025				Period	Danske Bank	Consensus	Previous
3:00	CNY	Industrial production	y/y	Dec		5.4%	5.4%
3:00	CNY	Retail sales	y/y	Dec		3.5%	3.0%
3:00	CNY	Real GDP	q/q y/y	4th quarter		1.6% 5.0%	0.9% 4.6%
3:00	CNY	Fixed assets investments	y/y	Dec		3.3%	3.3%
8:00	GBP	Retail sales ex fuels	m/mly/y	Dec		0.3% 3.3%	0.3% 0.1%
10:00	EUR	Current account	EUR bn	Nov			25.8
11:00	EUR	HICP inflation, final	m/mly/y	Dec	0.4% 2.4%	0.4% 2.4%	0.4% 2.4%
11:00	EUR	HICP - core inflation, final	y/y	Dec	2.7%	2.7%	2.7%
14:30	USD	Housing starts	1000 (m/m)	Dec		1315	1289.0 (-1.8%)
14:30	USD	Building permits, preliminary	1000 (m/m)	Dec		1458	1493.0 (5.2%)
15:15	USD	Capacity utilization	%	Dec		77.0%	76.8%
15:15	USD	Industrial production	m/m	Dec		0.3%	-0.1%
15:15	USD	Manufacturing production	m/m	Dec		0.4%	0.2%
22:00	USD	TICS international capital flow, Net inflow	USD bn	Nov			203.6

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 ²	Public budget ³	Public debt ³	Current acc. ³
Denmark	2024	3.0	0.2	1.4	-1.2	6.3	1.2	1.4	5.2	2.9	2.7	31.8	12.5
	2025	2.5	1.9	2.6	3.0	2.7	2.4	1.8	3.6	3.1	1.5	29.7	12.8
	2026	2.3	2.3	2.0	3.6	3.1	3.7	1.7	3.2	3.1	0.9	28.0	12.8
Sweden	2024	0.7	0.3	1.1	-1.4	2.3	2.2	3.0	3.5	8.4	-1.2	33.0	4.9
	2025	2.5	2.5	2.1	2.1	3.8	3.8	1.7	3.5	8.2	-0.8	33.0	4.9
	2026	2.2	2.8	1.1	2.8	3.2	3.6	1.2	3.2	7.7	-0.2	32.0	4.7
Norway	2024	0.9	1.3	2.2	4.0	5.0	1.8	3.0	5.1	2.0	-	-	-
	2025	1.9	3.0	2.0	1.4	2.0	2.0	2.3	3.8	2.4	-	-	-
	2026	1.7	2.5	2.0	1.5	1.0	1.8	2.0	3.3	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 ²	Public budget ³	Public debt ³	Current acc. ³
Euro area	2024	0.7	0.7	1.9	-2.2	1.8	-0.2	2.4	4.5	6.4	-3.0	89.1	3.0
	2025	0.9	1.1	1.0	0.7	1.8	2.1	2.0	3.4	6.7	-3.1	89.9	3.0
	2026	1.4	1.5	0.8	1.8	2.5	2.6	2.0	3.1	6.6	-2.8	90.0	2.8
Finland	2024	-0.3	-0.2	1.0	-5.5	1.0	-0.8	1.6	2.9	8.3	-3.9	80.5	0.2
	2025	1.8	1.5	0.2	4.5	3.5	4.0	1.2	3.1	8.1	-3.6	82.2	-0.2
	2026	1.6	1.5	0.5	5.5	3.0	4.5	1.8	3.0	7.3	-2.6	82.6	-0.2
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	2024	2.8	2.7	3.4	3.9	3.4	5.8	2.9	3.9	4.0	-6.7	123.1	-3.3
	2025	1.9	2.2	3.0	1.8	2.5	5.3	2.8	3.5	4.4	-6.5	125.1	-3.1
	2026	2.1	1.8	1.8	4.3	3.5	4.4	2.3	3.5	4.3	7.0	128.0	-3.0
China	2024	4.7	4.5	-	5.0	-	-	0.2	-	5.1	-7.4	90.1	1.4
	2025	4.7	5.6	-	5.5	-	-	1.5	-	5.2	-8.1	94.3	1.4
	2026	4.8	5.8	-	5.5	-	-	1.5	-	5.2	-8.2	98.2	1.3
UK	2024	0.9	-	-	-	-	-	2.5	-	4.3	-	-	-
	2025	1.3	-	-	-	-	-	2.5	-	4.7	-	-	-
	2026	1.5	-	-	-	-	-	2.0	-	4.5	-	-	-

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*	09-Jan	4.50	-	4.10	4.18	0.97	-	7.25	11.41	11.16
	+3m	4.25	-	3.90	3.90	0.96	-	7.17	11.54	10.96
	+6m	4.00	-	3.65	3.80	0.98	-	7.31	11.96	11.37
	+12m	3.50	-	3.50	3.70	1.00	-	7.46	12.40	11.70
EUR	09-Jan	3.00	2.78	2.34	2.51	-	1.03	7.4609	11.75	11.49
	+3m	2.50	2.15	2.10	2.25	-	1.04	7.4575	12.00	11.40
	+6m	2.00	1.70	1.90	2.20	-	1.02	7.4550	12.20	11.60
	+12m	1.50	1.55	1.70	2.15	-	1.00	7.4550	12.40	11.70
JPY	09-Jan	0.25	-	-	-	0.006	0.006	4.59	7.22	7.06
	+3m	0.50	-	-	-	0.006	0.007	4.85	7.80	7.41
	+6m	0.75	-	-	-	0.007	0.007	5.11	8.36	7.95
	+12m	1.00	-	-	-	0.007	0.007	5.33	8.86	8.36
GBP*	09-Jan	4.75	-	4.35	4.26	1.19	1.16	8.91	14.03	13.72
	+3m	4.50	-	4.15	3.95	1.22	1.27	9.09	14.63	13.90
	+6m	4.25	-	3.95	3.85	1.23	1.26	9.20	15.06	14.32
	+12m	3.75	-	3.65	3.60	1.22	1.22	9.09	15.12	14.27
CHF	09-Jan	0.50	-	-	-	1.06	1.10	7.94	12.51	12.23
	+3m	0.25	-	-	-	1.09	1.13	8.11	13.04	12.39
	+6m	0.00	-	-	-	1.10	1.12	8.19	13.41	12.75
	+12m	0.00	-	-	-	1.11	1.11	8.28	13.78	13.00
DKK	09-Jan	2.60	2.66	2.40	2.64	0.134	0.138	-	1.57	1.54
	+3m	2.10	2.05	2.15	2.35	0.134	0.139	-	1.61	1.53
	+6m	1.60	1.60	1.95	2.30	0.134	0.137	-	1.64	1.56
	+12m	1.10	1.45	1.75	2.25	0.134	0.134	-	1.66	1.57
SEK	09-Jan	2.50	2.48	2.30	2.69	0.087	0.090	0.65	1.02	-
	+3m	2.25	2.34	2.10	2.50	0.088	0.091	0.65	1.05	-
	+6m	2.00	2.09	2.10	2.60	0.086	0.088	0.64	1.05	-
	+12m	2.00	2.10	2.15	2.75	0.085	0.085	0.64	1.06	-
NOK	09-Jan	4.50	4.63	4.31	4.07	0.085	0.088	0.64	-	0.98
	+3m	4.25	4.45	4.00	3.80	0.083	0.087	0.62	-	0.95
	+6m	4.00	4.20	3.80	3.70	0.082	0.084	0.61	-	0.95
	+12m	3.50	3.70	3.40	3.60	0.081	0.081	0.60	-	0.94

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

Commodities												
	09-Jan	2024				2025				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025	
ICE Brent	77	82	85	79	80	75	80	85	85	80	81	

Source Danske Bank

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