

# Weekly Focus

## ECB pre-announces rate hikes

The ECB took centre of attention this week. According to the monetary policy meeting statement, **the ECB intends to end QE by 1 July and hike policy rates by 25bp in connection with the July meeting. The ECB also opened the door for hiking by 50bp in September** “if the medium-term inflation outlook persists or deteriorates”. European yields and EUR/USD rose after the announcement. 10yr German bund yields are trading at 1.43% at the time of writing. **We now expect the ECB to hike by 25bp in July, 50bp in September and 25bp on each of the following meetings until March 2023 when the hiking cycle is likely to end, in our view.** We see risks as skewed towards more 50bp rate hikes. For more see *ECB Review: Ready for lift-off – confirmed!*, 9 June 2022.

**Several central banks are meeting next week. We expect the Federal Reserve to hike by another 50bp on Wednesday** and signal that at least one more 50bp rate hike is likely in July. With still high underlying inflation pressure and high labour demand, risk is skewed towards the Fed signalling that more 50bp is needed, not least after Fed’s Waller opened the door for continuing with larger 50bp rate hikes in the autumn.

**In the UK, we expect the Bank of England to hike the Bank Rate by another 25bp to 1.25%** but simultaneously still sending slightly mixed signals by repeating that “some degree of further tightening in monetary policy may still be appropriate in the coming months” (own highlight).

**In Switzerland, we do not expect the SNB to hike at next week’s meeting but the pressure is increasing**, as the ECB is about to hike policy rates and CPI inflation is now running close to 3%.

The Bank of Japan has made it very clear that they do not see the weak yen as a problem. With still modest inflation pressure, we expect no changes to the bank’s accommodative stance on the policy meeting ending Friday. **In other words, the Bank of Japan remains an outlier among advanced central banks.**

**Besides plenty of central bank meetings, we have several important data releases next week.** In the US, the key release is retail sales in May. In the euro area, ZEW expectations due out on Tuesday will give some hints about growth momentum/confidence. Otherwise focus remains on inflation, including on the announcement of more support measures for consumers and final May HICP figures will give more insights into the core inflation drivers. In China, we get data for credit growth, industrial production and retail sales. Especially credit growth is interesting in the light of more stimulus. We cannot rule out that the Chinese authorities ease monetary policy further (rate cut or lower reserve requirement), which is quite different compared to what is going on in advanced economies.

**In Scandi, Swedish inflation data is due out on Tuesday.** In Norway, we also receive the monthly GDP estimate for April.

### Key global views

- US to fall in recession in Q2 23, Europe will follow later in 23
- Higher commodity prices, higher wage growth and high inflation expectations will keep inflation elevated for longer
- Fed to hike by another 175bp this year (upside risks), ECB to hike by a total of 125bp this year (upside risks)

### Key market movers

- During the week: Parliamentary election in France, Chinese credit growth data
- Tue: euro area ZEW expectations
- Wed: FOMC meeting, US retail sales, Chinese retail sales and industrial production
- Thurs: BoE, SNB and BoJ meetings
- Fri: euro area final HICP

### Selected reading from Danske Bank

- *Big Picture: A (mild) recession in western economies seems unavoidable*
- *Monthly Executive Briefing: Inflation risks trump growth risks for central banks*
- *Emerging Markets Outlook*

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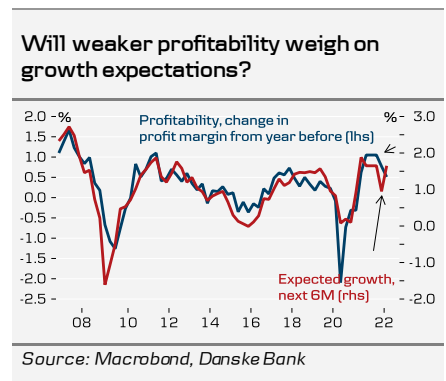
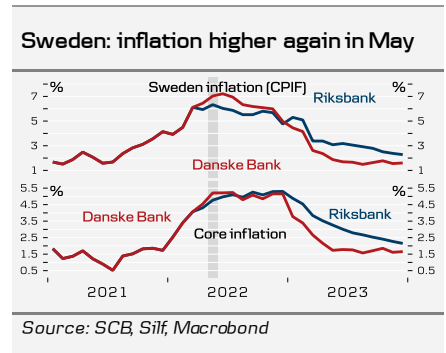
# Scandi market movers

- In **Denmark**, the coming week is set to be rather quiet data-wise. Wednesday should bring the working time accounts for Q1, which is our first insight into hours worked and may provide a more nuanced picture of developments in the labour market. Also due on Wednesday are purchases and sales by enterprises in April and the producer and import price index for commodities for May.

- **Swedish inflation** is set to take another leg up in May with headline CPIF piercing the 7% y/y threshold (forecast: CPIF 7.1 % y/y, CPIF excl. energy 5.2 % y/y). European inflation data released so far suggest food, furniture, and hotel/restaurant prices will be main drivers on a m/m basis besides electricity (again). The contributions from transportation and recreation are very uncertain as they include volatile foreign airline ticket prices and holiday packages prices, respectively.

The broader quarterly inflation expectations survey will certainly show higher 5y mean expectations again, noting that money market's corresponding monthly 5y expectations data rose to 2.4 %. That said, a comforting fact so far has been that there is no shift above the 2 % target in median expectations as has been seen in previous high inflations episodes. The gap between mean and median suggests a number of respondents seeing above target inflation has raised their forecasts further. Needless to say, inflation expectations above 2.5 % will to Riksbank signal a distrust in the target, adding to pressures for Riksbank to tighten.

- In **Norway**, the February edition of Norges Bank's regional network survey somewhat surprisingly saw firms report a stronger growth outlook despite increasing problems sourcing labour and other resources. Capacity constraints appear to have worsened since then, so the big question now is whether this will impact on growth expectations. Construction firms in particular but also manufacturers will probably report weaker growth prospects, and it is possible that retailers will join them. Otherwise, we will naturally be looking to see whether expectations for wage growth this year have risen from 3.7% last time around. A marked upward revision here would be the most important catalyst for more aggressive signals from Norges Bank at its June meeting. It will also be interesting to see what happens to firms' profitability expectations. Slower revenue growth and faster cost growth have put margins under pressure. This increases the risk of firms passing on higher costs to customers, further fuelling inflation. But it could also ease the pressure on wage growth from a tight labour market and put a damper on investment.



# Scandi update

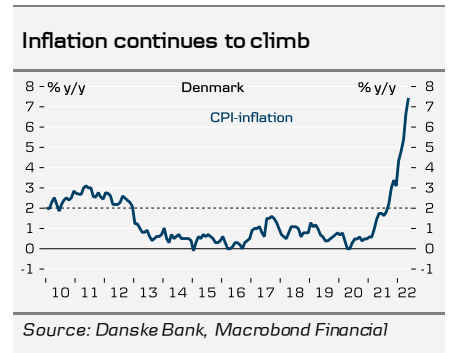
## Denmark – Inflation continues to climb

Industrial production rose 1.8% from March to April, or 5.7% in total over the past three months. Growth was mostly driven by the pharmaceutical industry, which was up 12.2%, and is normally a sector that experiences considerable fluctuations from month to month. The rest of the industrial sector retreated overall, not least due to a substantial decline in the transport sector. Demand is likely to fall in the not too distant future as interest rates are increased to rein in the high rate of inflation and consumers shift consumption from goods to services in the wake of the corona crisis.

May saw 205 bankruptcies among active companies (seasonally adjusted), which was 2.8% more than in April. Bankruptcies have been gradually increasing in recent months and the number of job losses considerably higher. We expect the number of bankruptcies to rise going forward as corona loans and postponed tax and VAT payments fall due. Forced home sales totalled 104 in May compared to 134 the previous month. The risk of an increase in forced sales in the coming months has risen, as higher interest rates may contribute to a shift in the housing market.

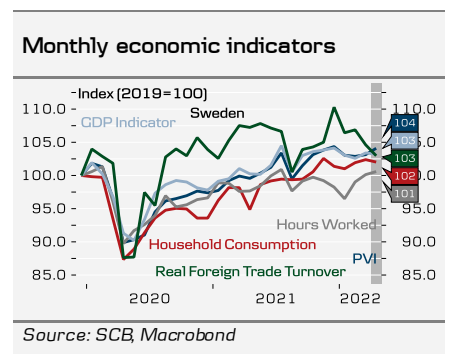
Total exports of goods and services declined by 2.4% in April compared to March. The decline was driven by two areas, namely energy and machinery. Energy tends to be rather volatile, not least in price. The fall in machinery sales follows on the heels of an extraordinary jump in March, and the area is still doing very well when looking over the two months combined. The figures confirm the heavy demand that companies are struggling to meet due to shortages of labour and materials.

Inflation printed at 7.4% in May compared to 6.7% in April. Price increases are still very much being driven by energy, with petrol prices making a particularly large contribution in May. The big surprise was the increase in food prices, which are now up 10.1% y/y. Clothing prices continue to increase very modestly, while shoes have actually become cheaper in the past year. But otherwise the indications are that other goods and services are continuing to become more expensive, with dining out now 7.8% more expensive and hotel stays 15.7% more expensive than last year, for example. Core inflation came in at 4.4%, which is a considerable increase on April's 3.6%.



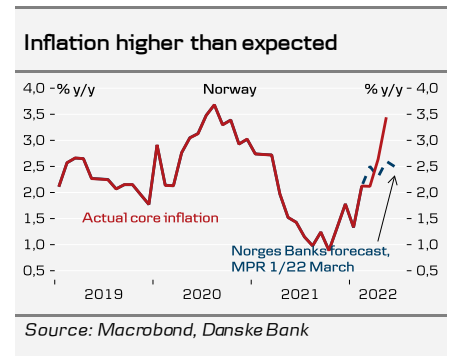
## Sweden – the weak demand continues in Q2

Monthly economic indicators released this week gave a mixed picture. Household consumption decreased as expected -0.4% m/m while productions data came out quite strong +0.9% but worth noting is that industrial orders declined by 2% compared to the month before. Meaning especially household consumption seems to be the driver to the GDP indicator at -0.2% m/m. With that said, Q2 did not start in the best way for the Swedish economy and remember that Q1 came out weaker than expected at -0.8% q/q. We look for another minus quarter, in other words technical recession. The Riksbank has addressed that inflation is the main focus and not growth but with two consecutive quarters of negative growth might adjust the communication. So far we only have 1/3 outcomes of the quarter but coming months will be important to follow.



## Norway – High inflation puts pressure on Norges Bank

Core inflation climbed to 3.4% y/y in May, continuing the upward trend driven by high global commodity, energy and freight prices and labour shortages, including in Norway, which have pushed up prices via higher wage costs. Against our expectation, there was no real correction of the typical Easter effects on food prices and airfares that drove prices up in April. Underlying price pressures are also continuing to mount, and so inflation is rising faster than we anticipated. That said, it was mainly imported inflation that accelerated, from 2.6% to 4.3% y/y, while domestic inflation climbed more modestly from 2.8% to 2.9%. Even so, inflation is well above Norges Bank's forecast of 2.6% in the March monetary policy report and will push up the bank's policy rate projections in the June report in less than a fortnight. The big question is whether this is enough for Norges Bank to be more aggressive than indicated in March (and May), when it signalled a further three hikes this year (June, September and December) but warned: *"If there are prospects of persistently high inflation, the policy rate may be raised more quickly"*. Whether higher inflation in the short term means there are "prospects of persistently high inflation" is entirely possible, although we interpret this formulation as referring primarily to the drivers of inflation – wage growth, inflation expectations, global price pressures and the NOK exchange rate. If so, there is still space for Norges Bank to stick to its strategy of raising the policy rate gradually, i.e. hike in June and signal a further increase in September. If, on the other hand, the bank becomes more aggressive, as is now very probable, we think it is more likely to raise the policy rate by 25bp in June and signal another 25bp increase in August than go for a 50bp jump now in June, as Norges Bank is not behind the curve to the same extent as some other central banks.



# Calendar

## Monday, June 13, 2022

				Period	Danske Bank	Consensus	Previous
8:00	GBP	Monthly GDP estimate	m/m q/q	Apr		0.001	-0.001 0.008
8:00	GBP	Index of services	m/m 3m/3m	Apr			-0.002 0.004
8:00	NOK	GDP (mainland)	m/m	Apr	0.4%		1.0%
15:00	USD	Fed's George speaks					
20:00	USD	Fed's Brainard speaks					

## Tuesday, June 14, 2022

				Period	Danske Bank	Consensus	Previous
6:30	JPY	Industrial production, final	m/mly/y	Apr			-1.3% -4.8%
8:00	SEK	CPI	m/mly/y	May	0.9% 7.1%	0.8% 7.0%	0.6% 6.4%
8:00	GBP	Unemployment rate (3M)	%	Apr		3.7%	3.7%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Apr		4.0%	4.2%
8:00	SEK	Underlying inflation CPIF	m/mly/y	May	0.8% 7.0%	0.8% 7.0%	0.6% 6.4%
8:00	DEM	HICP, final	m/mly/y	May		1.1% 8.7%	1.1% 8.7%
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index	May			1.7
11:00	DEM	ZEW current situation	Index	Jun		-32.1	-36.5
11:00	DEM	ZEW expectations	Index	Jun		-28.6	-34.3
12:00	USD	NFIB small business optimism	Index	May		93.0	93.2
14:30	USD	PPI	m/mly/y	May		0.8% 10.8%	0.5% 11.0%
14:30	USD	PPI core	m/mly/y	May		0.6% 8.6%	0.4% 8.8%

## Wednesday, June 15, 2022

				Period	Danske Bank	Consensus	Previous
4:00	CNY	Industrial production	y/y	May		-1.0%	-2.9%
4:00	CNY	Retail sales	y/y	May		-7.1%	-11.1%
4:00	CNY	Fixed assets investments	y/y	May		6.1%	6.8%
8:00	SEK	Prospera inflation expectations					
8:00	NOK	Trade balance	NOK bn	May			92.6
8:45	FRF	HICP, final	m/mly/y	May		0.7% 5.8%	0.7% 5.8%
11:00	EUR	Industrial production	m/mly/y	Apr		0.6% -0.9%	-1.8% -0.8%
11:00	EUR	Trade balance	EUR bn	Apr			-17.6
14:30	USD	Import prices	m/mly/y	May		1.2%	0.0% 12.0%
14:30	USD	Empire Manufacturing PMI	Index	Jun		3.0	-11.6
14:30	USD	Retail sales control group	m/m	May		0.5%	1.0%
16:00	USD	NAHB Housing Market Index	Index	Jun		68.0	69.0
16:30	USD	Fed's George speaks					
16:30	USD	DOE U.S. crude oil inventories	K				2025
20:00	USD	FOMC meeting	%		1.5%	1.5%	1.0%
22:00	USD	TICS international capital flow, Net inflow	USD bn	Apr			149.2

## Thursday, June 16, 2022

				Period	Danske Bank	Consensus	Previous
0:45	NZD	GDP	q/q y/y	1st quarter		0.5% 2.3%	3.0% 3.1%
1:50	JPY	Exports	y/y (%)	May		0.2	0.1
1:50	JPY	Import	y/y (%)	May		0.4	0.3
1:50	JPY	Trade balance, s.a.	JPY bn	May		-1704.5	-1618.9
3:30	AUD	Employment change	1000	May		25	4
9:30	CHF	SNB policy rate	%		-0.8%	-0.8%	-0.8%
10:00	ITL	HICP, final	m/mly/y	May		- 7.3%	- 7.3%
11:00	EUR	Labour costs	y/y	1st quarter			1.9%
13:00	GBP	BoE minutes				0.0125	0.01
13:00	GBP	BoE Bank rate	%		1.25%	1.3%	1.0%
14:30	USD	Building permits	1000 (m/m)	May		1790	1823.0 (-3.0%)
14:30	USD	Housing starts	1000 (m/m)	May		1714	1724.0 (-0.2%)
14:30	USD	Initial jobless claims	1000				229
14:30	USD	Philly Fed index	Index	Jun		5.0	2.6

## Friday, June 17, 2022

				Period	Danske Bank	Consensus	Previous
-	JPY	BoJ policy rate	%		-0.1%		-0.1%
8:00	GBP	Retail sales ex fuels	m/mly/y	May		-0.5%	1.4% -6.1%
11:00	EUR	HICP inflation, final	m/mly/y	May		0.8% 8.1%	0.8% 7.4%
11:00	EUR	HICP - core inflation, final	y/y	May		3.8%	3.8%
14:45	USD	Fed chair Powell speaks					
15:15	USD	Capacity utilization	%	May		79.3%	79.0%
15:15	USD	Industrial production	m/m	May		0.5%	1.1%
15:15	USD	Manufacturing production	m/m	May		0.4%	0.8%

Source: Danske Bank

# Macroeconomic forecast

## Macro forecast. Scandinavia

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
Denmark	2021	4.7	4.3	3.7	5.6	7.8	8.2	1.9	3.0	3.7	2.4	36.7	8.3
	2022	3.5	2.2	0.6	2.0	6.0	4.0	5.5	3.7	2.4	1.7	32.6	7.5
	2023	1.3	2.5	0.5	1.1	3.1	4.1	1.7	4.0	2.5	1.8	30.3	7.7
Sweden	2021	4.5	5.7	2.5	5.9	7.2	9.1	2.2	2.7	8.8	-0.2	37.7	5.1
	2022	2.5	3.3	1.3	2.8	5.1	5.6	4.0	2.0	7.0	0.8	33.0	4.8
	2023	2.0	1.9	1.2	2.2	3.9	3.4	1.3	2.1	6.8	0.8	30.0	5.1
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	3.3	3.7	2.0	-	-	-
	2023	2.0	2.5	1.3	2.0	4.0	4.0	1.8	3.7	1.9	-	-	-

## Macro forecast. Euroland

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
Euro area	2021	5.3	3.6	3.9	4.1	10.8	8.7	2.6	4.1	7.7	-5.1	97.4	3.2
	2022	2.8	2.4	2.9	2.4	5.5	6.5	7.3	3.2	6.8	-3.7	94.7	2.4
	2023	1.8	0.7	3.7	3.5	3.9	4.4	2.8	3.4	6.8	-2.5	92.7	2.9
Germany	2021	2.9	0.3	2.9	1.0	9.5	9.0	3.2	3.4	3.6	-3.7	69.3	7.4
	2022	1.4	3.0	1.3	2.2	1.9	6.7	7.6	3.3	3.0	-2.5	66.4	6.4
	2023	1.8	0.7	4.1	3.5	3.9	4.5	3.2	3.9	3.0	-1.0	64.5	6.8
Finland	2021	3.5	3.1	3.2	1.2	4.7	5.3	2.2	2.3	7.7	-2.6	65.8	0.7
	2022	1.7	2.3	1.0	3.0	3.0	4.0	4.4	2.8	7.0	-3.0	66.1	0.2
	2023	2.0	2.5	1.0	3.0	3.0	3.5	2.0	2.6	6.6	-1.8	65.5	0.4

## Macro forecast. Global

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
USA	2021	5.7	7.9	0.5	7.8	4.5	14.0	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	2.4	2.9	-0.8	3.9	2.9	9.6	8.2	5.2	3.6	-4.2	124.0	-3.5
	2023	0.1	0.1	1.1	-1.2	-2.3	-1.7	4.6	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	3.7	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	7.4	6.2	14.3	5.9	-1.3	3.8	2.6	5.1	4.5	-3.8	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-1.7	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-2.0	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.3	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.7	3.3	1.4	-1.8	3.6	4.1	1.6	-	2.5	-	-	-
	2023	1.8	1.6	0.7	1.7	2.9	1.1	1.1	-	2.5	-	-	-

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	10-Jun	1.00	1.69	3.19	3.09	106.1	-	701.0	958.8	992.3
	+3m	2.00	2.59	3.25	3.40	102.0	-	729.7	1029.4	1009.8
	+6m	2.50	3.11	3.55	3.60	101.0	-	737.1	1029.7	1039.6
	+12m	3.25	3.40	3.65	3.40	100.0	-	745.0	1000.0	1070.0
EUR	10-Jun	-0.50	-0.28	1.47	2.09	-	106.1	744.0	1017.6	1053.1
	+3m	0.25	0.52	1.30	2.05	-	102.0	744.3	1050.0	1030.0
	+6m	0.50	0.90	1.45	2.30	-	101.0	744.5	1040.0	1050.0
	+12m	1.25	1.37	1.50	2.20	-	100.0	745.0	1000.0	1070.0
JPY	10-Jun	-0.10	-0.03	0.10	0.43	120.5	133.8	6.17	8.44	8.74
	+3m	-0.10	-	-	-	131.6	129.0	5.66	7.98	7.83
	+6m	-0.10	-	-	-	128.3	127.0	5.80	8.11	8.19
	+12m	-0.10	-	-	-	122.0	122.0	6.11	8.20	8.77
GBP*	10-Jun	1.00	-	2.69	2.37	85.1	124.8	874.7	1196.4	1238.1
	+3m	1.50	-	2.15	2.10	86.0	118.6	865.4	1220.9	1197.7
	+6m	1.75	-	2.25	2.10	85.0	118.8	875.9	1223.5	1235.3
	+12m	1.75	-	2.15	1.90	84.0	119.0	886.9	1190.5	1273.8
CHF*	10-Jun	-0.75	-	0.68	1.61	103.9	97.9	716.3	979.8	1014.0
	+3m	-0.75	-	-	-	103.0	101.0	722.6	1019.4	1000.0
	+6m	-0.50	-	-	-	101.0	100.0	737.1	1029.7	1039.6
	+12m	0.00	-	-	-	99.0	99.0	752.5	1010.1	1080.8
DKK	10-Jun	-0.60	-0.02	1.79	2.37	743.95	701.00	-	136.78	141.55
	+3m	0.15	0.72	1.55	2.30	744.25	729.66	-	141.08	138.39
	+6m	0.65	1.13	1.70	2.55	744.50	737.13	-	139.69	141.03
	+12m	1.15	1.55	1.75	2.45	745.00	745.00	-	134.23	143.62
SEK	10-Jun	0.25	0.63	2.34	2.77	1053.1	992.3	70.6	96.6	100.0
	+3m	0.50	0.85	2.25	2.65	1030.0	1009.8	72.3	101.9	-
	+6m	0.75	1.10	2.45	2.65	1050.0	1039.6	70.9	99.0	-
	+12m	1.25	1.40	2.40	2.60	1070.0	1070.0	69.6	93.5	-
NOK	10-Jun	0.75	1.36	2.96	3.20	1017.6	958.8	73.1	100.0	103.5
	+3m	1.00	1.62	2.70	3.30	1050.0	1029.4	70.9	-	98.1
	+6m	1.25	1.91	2.80	3.40	1040.0	1029.7	71.6	-	101.0
	+12m	1.75	2.32	2.95	3.30	1000.0	1000.0	74.5	-	107.0

\*Note: GBP swaps are SONIA and CHF swaps are SHARON

Commodities												
	10-Jun	2022				2023				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023	
ICE Brent	123	98	112	115	100	95	95	95	95	106	95	

Source Danske Bank

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