

Weekly Focus

Maybe not quite so high for quite so long

The “higher for longer” narrative about interest rates was toned down in a week with little concrete news about the economy, based on recent indicators that inflation is coming down. Not least last Friday’s US labour market report pointed in that direction, with job growth in October below expectations and downward revisions of the two preceding months, hourly earnings increasing just 0.2% in October, and private sector average working hours decreasing 0.3%. During the week, we have in general seen both a declining trend in bond yields and positive sentiment in equity markets. However, central banks have been eager to say that the inflation problem should not yet be considered solved, not least Fed Chairman Jerome Powell, who sent that message on Thursday, leading to a partial reversal of the previous market moves.

Helpful for the inflation outlook, oil prices have again dropped to around USD 80 per barrel. We see this as mostly another sign of markets becoming more convinced of a cooling world economy.

As central banks around the world emphasised during the week, it is still too soon to conclude that inflation has been vanquished. Wage growth in most Western countries remains above what is consistent with 2% inflation, including the US, by other measures than the hourly earnings from the job report. In the US this week, the Senior Loan Officer Opinion Survey showed that banks are not to the same extent as earlier experiencing declining credit demand, although it is clear that financial conditions are still a drag on activity and that credit standards are still being tightened. The Reserve Bank of Australia actually hiked its rates by 25bp to 4.35% for the Cash Rate as it saw especially services inflation being more persistent than anticipated. The Polish central bank had been expected to cut rates this week, but did not do.

In China, however, deflation talk has returned to the headlines after CPI declined 0.2% y/y in October. This was driven by a 30% decline in pork prices, and we do not expect deflation to persist, but core inflation is low at 0.6% y/y and more economic stimulus is likely. Already in the coming week, there is a chance of a rate cut on Wednesday when we will also be following the meeting between Presidents Xi and Biden for signs of improvement in China-US relations. Also on Wednesday, a range of interesting Chinese data is released, not least home and retail sales.

Globally, the most important data release in the coming week will likely be US CPI where we expect energy prices to pull headline inflation lower. We see the underlying price pressure as moderate if still to the high side of the Fed’s target. However, the October number could be distorted by the auto workers’ strike leading to temporarily higher car prices and the effect from health insurance premiums.

The UK labour market report will be watched for signs of easing in the stubbornly high wage growth. Data from this week showed a stronger than expected economy with GDP unchanged in Q3 and growing 0.2% in September. In principle, it will also be important to see how the labour market more broadly is developing, but the data for employment and unemployment is currently “experimental”.

Key global views

- Weak near-term growth outlook in the US and Europe, but recovery from summer 2024
- US and euro area headline set to decline further, but core inflation to remain sticky
- Fed and ECB policy rates have peaked

Key market movers

- Tuesday: US CPI, UK labour market report
- Wednesday: UK CPI, US retail sales, Japan GDP, Xi-Biden meeting, China home sales, retail sales, industrial production
- Thursday: US industrial production

Selected reading from Danske Bank

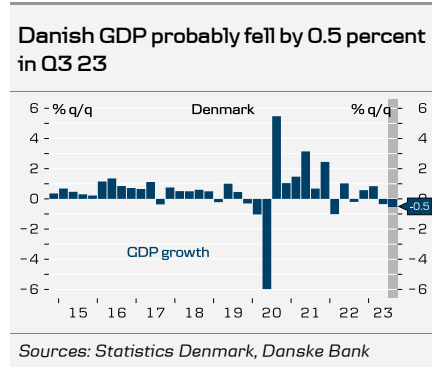
- *Executive Briefing - War and signs of soft landing*, 3 November
- *Research US - Bond yields headed lower towards 2024*, 3 November
- *Euro Area Macro Monitor: inflation is coming down, but so is growth*, 6 November

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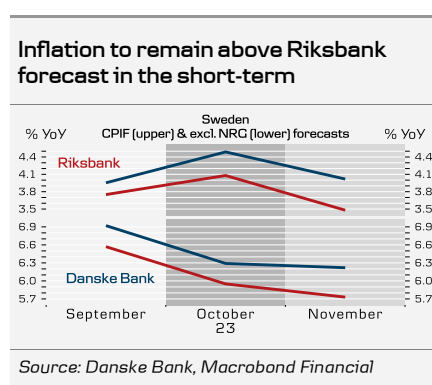
Scandi market movers

- In **Denmark**, we will receive the GDP indicator for Q3 23 on Tuesday 14 November, which is a preliminary measure of GDP growth. Novo Nordisk has been supporting the Danish economy for quite some time now. However, the third quarter seems to have marked a shift in this trend, with industrial production falling significantly – not just, but primarily driven by pharmaceuticals. At the same time, private consumption was in weak form in the third quarter. This collectively suggests waning economic activity, leading us to anticipate a 0.5 percent contraction in GDP for the third quarter compared with the second quarter.



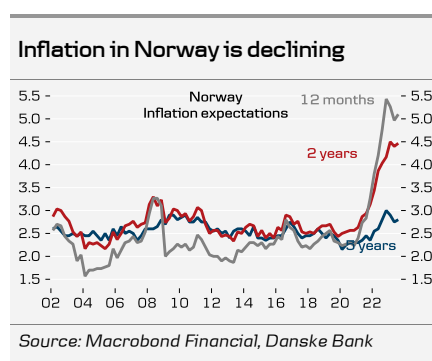
On Thursday 16 November, we will get the monthly home sales statistics from Boligsiden for October. Adjusting for regular seasonal effects, the number of sold homes has continuously risen since October last year. The latest edition of *Homes boligbrief* indicates that this trend continued in October.

- In **Sweden**, we expect October inflation (released 14 November) to show a temporary increase in CPIF inflation while core CPIF excl. Energy will likely continue to slow. Both measures, however, will print on the high side of the Riksbank’s most recent forecasts. We forecast CPIF and CPIF excl. Energy to print 4.5 % YoY and 6.3 % YoY respectively, which is 0.4 and 0.3 percentage points above Riksbank’s dittos. In October, core prices rose in general, which is also incorporated in our forecast. That said, there is uncertainty about food prices, which might have turned higher again in October, according to Matpriskollen, and about foreign airline and charter prices. Especially charter prices behaved abnormally in September and could dip in October or November before normalizing at a higher level in December. Concerning energy, electricity prices bounced back up sharply in October outweighing the decline in car fuel prices. We estimate net contribution from energy to be 0.1 p.p. Overall, it is worth noting that Swedish inflation correlates with that of the eurozone and Nordic neighbours with only minor differences.



Otherwise, the second most interesting statistic being released is the unemployment rate. Once again, we remain sceptical of any large diversion from the long-term trend in unemployment from Statistics Sweden’s labour force survey (due on 17 November), as it has remained highly volatile. We continue to be most interested in the public employment service statistic of registered unemployed persons which will be released on 14 November. It has increased for two months in a row for the first time in two years (although by only 0.1%), so it will be interesting to see if this trend fortifies itself. Furthermore, money market inflation expectations will be released next week, and Aino Bunge will be holding the last Riksbank speech before the beginning of the blackout period ahead of the rate decision on 22 November.

- In a situation where inflation in **Norway** is running well above the inflation target and the exchange rate is weakening, it is important that inflation expectations are firmly anchored. The Q4 Expectations Survey will be important for Norges Bank (NB) in the current situation with a weakening NOK but all other inflation drivers are moving in the opposite direction. In the previous Expectations Survey, inflation expectations were rising across the board. Lower inflation and weaker GDP growth beyond the autumn have probably dampened inflation expectations, especially on 12-month and 2-year horizons. The further they fall, the less likely NB will be to hike rates again in December.



Scandi update

Denmark – Inflation at just 0.1 percent in October

In **Denmark**, CPI inflation printed at 0.1 percent y/y in October. This should mark the bottom for now after inflation peaked at 10.1 percent in October 2022. The main driver is the drop in energy prices, which were extremely high one year ago. However, there are also signs that the underlying price pressure has declined. Food prices fell by 0.8 percent compared to September, and s.a. m/m inflation ex. food and energy was just 0.2 percent. With high wage growth and dissipating basis effects from energy prices, we expect inflation to rise again going forward – but eventually normalise, as high interest rates take their toll on the economy.

Unemployment rose by 800 persons in October, as measured by the unemployment indicator, which is a preliminary statistic. This is a modest increase, reflecting that economic activity is waning in Denmark, and that real wages have increased. The unemployment rate was unchanged, however, and the trend of a robust labour market continues.

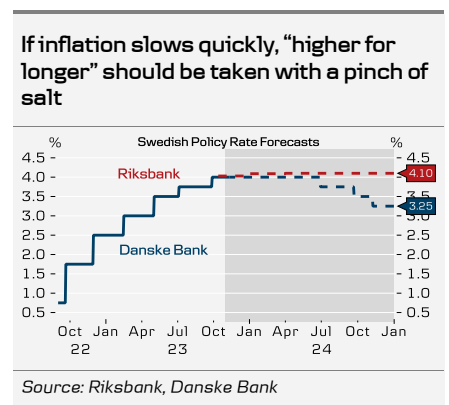
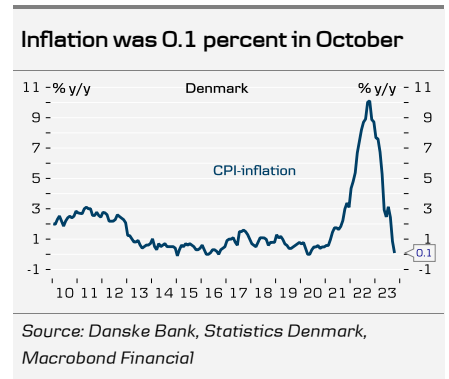
Industrial production was virtually unchanged in September compared to August, even when you discount pharmaceuticals, which have previously been almost single-handedly responsible for keeping production growth positive. We now have data for the entire third quarter, and here the outlook is quite negative. While total production is up 3.8 percent compared to the same quarter in 2022, it is down 12.1 percent when discounting the pharmaceutical industry. The Danish manufacturing sector exports the majority of their production, so this reflects the economic downturn on many key export markets – especially the German market.

In October, 269 active companies went bankrupt, adjusted for seasonal effects. This is almost unchanged from September, and thus, the trend of a relatively high number of bankruptcies throughout 2023 continued in October. All in all, the number of bankruptcies is so far 14 per cent higher in 2023 compared to the same period in 2022, but some lines of business have been hit harder. Manufacturing stands out, with an increase in the number of bankruptcies of 27 per cent compared to 2022. This aligns with the increase in wage and interest costs faced by businesses, as well as the industrial recession on export markets.

Exports of goods and services were 0.8 percent lower in September than in August. This was largely driven by a decrease in the export of industrial products, in particular pharmaceuticals. This marks a shift compared to the rest of the year, where the export of pharmaceuticals has been growing.

Sweden – November policy rate decision remains a close call

In a speech held this week, Riksbank Deputy Governor Flodén was reluctant to comment on the rate decision in two weeks’ time. He said that, on the one hand, inflation was too high in September and the SEK remains weak, but on the other, the overall economy has been cooling and the labour market has been weaker than expected. Overall, his statements were quite soft, although he questioned the major banks’ forecasts of rate cuts being initiated next year and stood firm that monetary policy will remain tight for a longer period. We think it is a bit strange that the Riksbank should remain strong in its stance, as the same people are also stating that the upcoming rate decision in November will be data dependent. The intention is probably to avoid making commitments which the Riksbank would then

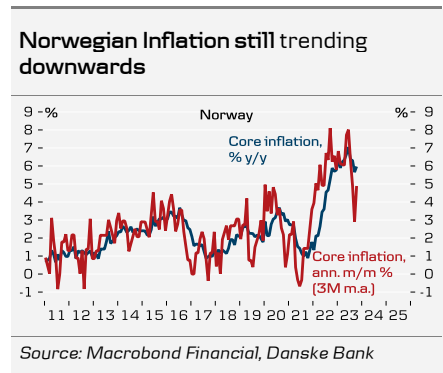


be obliged to fulfil. If inflation continues to come down fast at the current pace, the Riksbank will likely feel a high pressure to cut the policy rate. Similarly, as the bank was criticized for raising rates too slowly when inflation rose, it will be scrutinized for potentially being too inactive in adjusting policy rates as inflation drops. Looking back, even Flodén himself admitted last month in an open hearing in the Swedish parliament, the Riksdag, that he regrets questioning the 50bp back in April. Our focus is now shifting to the inflation numbers next week, which, in our view, will be pivotal for the rate decision. Our forecast is on the high side of the Riksbank path, potentially challenging our on-hold call. We also think that still using the SEK as an argument for a hike is a strongly contradictory argument since the SEK is now significantly stronger than in the Riksbank's latest forecast. That said, almost all other inputs (except the latest inflation print) – including growth data, surveyed price signals, business surveys, squeezed households, quickly declining foreign inflation and softer foreign central banks – suggest the Riksbank should leave rates unchanged.

The Swedish debt office reported a deficit of SEK 0.7bn in October whereas a SEK 4bn deficit was forecast. The main reason was lower net lending to government agencies, etc., as this came in SEK 4.6bn lower than forecast. The Financial Stability Report was also released and stated that the Swedish financial system is functioning well overall, though risks remain elevated. The report recommended that the squeezed companies in the property sector should reduce their financial risks. However, the report still highlighted that the calculations indicate that banks have sufficient capital to handle a major economic downturn and significant problems in the property sector.

Norway – core inflation surprised on the upside

Core inflation rose to 6.0% y/y in October (expected: 5.6%). Thus (seasonally-adjusted) monthly price growth rose from 0.15% in September to 0.7% in October, so that 'underlying inflation' (annualized m/m, 3-month moving average) rose from 2.9% to 4.9%. The details show that, somewhat surprisingly, there was a significant rebound in food prices. The prices of furniture/household equipment, air tickets, and hotel/restaurant services also rose more than expected, so the rise was quite broad-based. This, of course, completely changes the picture of a clear disinflationary trend (underlying inflation close to 5%) and means that there is still little evidence that price growth in Norway is in the process of decreasing. Given what Norges Bank (NB) said after the interest rate meeting last week, this means we would either have to get another sharp downwards correction in prices in November (released 10 December) or the growth picture (GDP, regional network, etc.) would have to be much weaker than expected if NB should not raise interest rates again in December.



Calendar – 13-17 November 2023

During the week				Period	Danske Bank	Consensus	Previous
Sat 11	USD	Fed's Bostic speaks					
Monday, November 13, 2023				Period	Danske Bank	Consensus	Previous
20:00	USD	Budget statement	USD bn	Oct		-65.0	-171.0
Tuesday, November 14, 2023				Period	Danske Bank	Consensus	Previous
6:30	NOK	Consumer confidence	Net. bal.	4th quarter			-30.2
8:00	SEK	CPI	m/mly/y	Oct	0.48% (6.76%)	0.4% (6.7%)	0.5% (6.5%)
8:00	DKK	GDP indicator	q/q	3rd quarter	-0.5%		0.2%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Sep		7.7%	7.8%
8:00	SEK	Underlying inflation CPIF	m/mly/y	Oct	0.39% (4.49%)	0.3% (4.4%)	0.4% (4.0%)
8:00	SEK	Underlying inflation CPIF excl energy	m/mly/y	Oct	0.29% (6.29%)		
9:00	ESP	HICP, final	m/mly/y	Oct			0.3% (3.5%)
11:00	DEM	ZEW current situation	Index	Nov		-76.0	-79.9
11:00	DEM	ZEW expectations	Index	Nov		5.0	-1.1
11:00	EUR	GDP, preliminary	q/qly/y	3rd quarter	-0.1% ..	-0.1% (0.1%)	-0.1% (0.1%)
11:00	EUR	Employment, preliminary	q/qly/y	3rd quarter			0.2% (1.3%)
12:00	USD	NFIB small business optimism	Index	Oct			90.8
14:30	USD	CPI headline	m/mly/y	Oct	0.1% (3.3%)	0.1% (3.3%)	0.4% (3.7%)
14:30	USD	CPI core	m/mly/y	Oct	0.3% (4.1%)	0.3% (4.1%)	0.3% (4.1%)
Wednesday, November 15, 2023				Period	Danske Bank	Consensus	Previous
0:50	JPY	GDP deflator, preliminary	y/y	3rd quarter		4.8%	3.5%
0:50	JPY	GDP, preliminary	q/q ann.	3rd quarter		-0.1% -0.4%	1.2% (4.8%)
3:00	CNY	Fixed assets investments	y/y	Oct		3.1%	3.1%
3:00	CNY	Industrial production	y/y	Oct		4.5%	4.5%
3:00	CNY	Retail sales	y/y	Oct		7.0%	5.5%
5:30	JPY	Industrial production, final	m/mly/y	Sep			0.2% (-4.6%)
7:30	FRF	ILO unemployment	%	3rd quarter			7.2%
8:00	GBP	CPI	m/mly/y	Oct		0.0% (4.8%)	0.5% (6.7%)
8:00	GBP	CPI core	y/y	Oct		5.7%	6.1%
8:00	NOK	Trade balance	NOK bn	Oct			45.6
8:45	FRF	HICP, final	m/mly/y	Oct		0.2% (4.5%)	0.2% (4.5%)
10:00	ITL	HICP, final	m/mly/y	Oct		.. (1.9%)	.. (1.9%)
11:00	EUR	Industrial production	m/mly/y	Sep		-0.8% (-6.3%)	0.6% (-5.1%)
11:00	EUR	Trade balance	EUR bn	Sep			11.9
14:30	USD	Retail sales control group	m/m	Oct		0.2%	0.6%
14:30	USD	PPI	m/mly/y	Oct		0.1% ..	0.5% (2.2%)
14:30	USD	PPI core	m/mly/y	Oct		0.3% ..	0.3% (2.7%)
14:30	USD	Empire Manufacturing PMI	Index	Nov		-2.1	-4.6
16:30	USD	DOE U.S. crude oil inventories	K				773
Thursday, November 16, 2023				Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y (%)	Oct		0.0	0.0
0:50	JPY	Import	y/y (%)	Oct		-0.1	-0.2
0:50	JPY	Trade balance, s.a.	JPY bn	Oct		-712.1	-434.1
1:30	AUD	Employment change	1000	Oct		24.5	6.7
12:30	EUR	ECB's Lagarde speaks					
14:30	USD	Initial jobless claims	1000				217
14:30	USD	Import prices	m/mly/y	Oct		-0.3% ..	0.1% (-1.7%)
14:30	USD	Philly Fed index	Index	Nov		-11.0	-9.0
14:30	USD	Fed's Mester speaks					
15:15	USD	Capacity utilization	%	Oct		79.4%	79.7%
15:15	USD	Industrial production	m/m	Oct		-0.4%	0.3%
15:15	USD	Manufacturing production	m/m	Oct			0.4%
15:25	USD	Fed's Williams speaks					
16:00	USD	NAHB Housing Market Index	Index	Nov		40.0	40.0
17:45	USD	Fed's Mester speaks					
22:00	USD	TICS international capital flow, Net inflow	USD bn	Sep			134.4
Friday, November 17, 2023				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Italy's debt rating					
-	EUR	Fitch may publish Spain's debt rating					
-	EUR	S&P may publish Ireland's debt rating					
-	EUR	Moody's may publish Portugal's debt rating					
8:00	GBP	Retail sales ex fuels	m/mly/y	Oct			-1.0% (-1.2%)
9:00	EUR	ECB's Lagarde speaks					
10:00	EUR	Current account	EUR bn	Sep			27.7
11:00	EUR	HICP inflation, final	m/mly/y	Oct	0.1% (2.9%)	0.1% (2.9%)	0.1% (4.3%)
11:00	EUR	HICP - core inflation, final	y/y	Oct	4.2%	4.2%	4.2%
14:30	USD	Building permits	1000 (m/m)	Oct		1450	1471.0 (-4.5%)
14:30	USD	Housing starts	1000 (m/m)	Oct		1350	1358.0 (7.0%)
16:00	USD	Fed's Daly speaks					

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	1.1	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	3.6	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	4.2	1.6	2.8	7.4	8.0	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	3.7	8.5	7.1	2.4	6.8	-0.8	73.3	-2.5
	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	1.9	2.5	-0.9	1.3	7.0	8.6	8.0	5.3	3.6	-5.5	123.3	-3.9
	2023	2.4	2.2	3.8	0.3	1.8	-2.0	4.2	4.1	3.6	-5.4	123.6	-3.1
	2024	1.1	0.2	2.9	3.1	-1.6	0.5	2.3	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*	09-Nov	5.50	-	4.79	4.19	0.93	-	6.96	11.12	10.85
	+3m	5.50	-	4.54	4.31	0.93	-	6.97	11.31	10.75
	+6m	5.25	-	4.27	4.07	0.94	-	7.03	11.42	11.04
	+12m	4.75	-	3.95	3.85	0.97	-	7.23	11.65	11.46
EUR	09-Nov	4.00	3.92	3.53	3.13	-	1.07	7.4571	11.91	11.62
	+3m	4.00	3.93	3.57	3.17	-	1.07	7.4550	12.10	11.50
	+6m	4.00	3.70	3.37	3.04	-	1.06	7.4500	12.10	11.70
	+12m	3.50	3.25	2.95	2.90	-	1.03	7.4500	12.00	11.80
JPY	09-Nov	-0.10	-	-	-	0.006	0.007	4.61	7.37	7.19
	+3m	-0.10	-	-	-	0.007	0.007	4.91	7.96	7.57
	+6m	0.00	-	-	-	0.007	0.008	5.32	8.65	8.36
	+12m	0.00	-	-	-	0.007	0.008	5.56	8.96	8.81
GBP*	09-Nov	5.25	-	4.80	4.09	1.15	1.07	8.55	13.66	13.33
	+3m	5.25	-	4.87	4.27	1.14	1.22	8.47	13.75	13.07
	+6m	5.25	-	4.68	4.08	1.12	1.19	8.37	13.60	13.15
	+12m	4.75	-	4.50	3.95	1.12	1.16	8.37	13.48	13.26
CHF	09-Nov	1.75	-	-	-	1.04	1.11	7.74	12.36	12.06
	+3m	1.75	-	-	-	1.06	1.14	7.93	12.87	12.23
	+6m	1.75	-	-	-	1.08	1.14	8.01	13.01	12.58
	+12m	1.25	-	-	-	1.08	1.11	8.01	12.90	12.69
DKK	09-Nov	3.60	3.96	3.66	3.31	0.134	0.144	-	1.60	1.56
	+3m	3.60	3.98	3.72	3.32	0.134	0.144	-	1.62	1.54
	+6m	3.60	3.75	3.52	3.19	0.134	0.142	-	1.62	1.57
	+12m	3.10	3.30	3.10	3.05	0.134	0.138	-	1.61	1.58
SEK	09-Nov	4.00	4.12	3.83	3.20	0.086	0.092	0.64	1.02	-
	+3m	4.00	4.12	3.84	3.23	0.087	0.093	0.65	1.05	-
	+6m	4.00	4.02	3.45	2.97	0.085	0.091	0.64	1.03	-
	+12m	3.50	3.53	3.10	2.90	0.085	0.087	0.63	1.02	-
NOK	09-Nov	4.25	4.82	4.64	3.97	0.084	0.090	0.63	-	0.98
	+3m	4.25	4.55	4.40	3.95	0.083	0.088	0.62	-	0.95
	+6m	4.00	4.23	4.12	3.72	0.083	0.088	0.62	-	0.97
	+12m	3.50	3.84	3.80	3.55	0.083	0.086	0.62	-	0.98

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

Commodities

	09-Nov	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	80	82	78	86	85	80	80	80	80	83	80

Source Danske Bank

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