11 March 2022

Weekly Focus

All ECB meetings are "live" from now

The stand-off between the west and Russia over Ukraine intensified further this week. The US and UK announced an oil-embargo toward Russia. Russia retaliated by banning exports of telecoms, medical, vehicle, agricultural, and electrical equipment, as well as some forestry products such as timber. The end-game for the conflict is highly uncertain, but our base-case is that some level of conflict is likely to remain in Ukraine despite a potential truce, and uncertainty will prevail, but the war will not spread to other countries in Europe. In any case, we do not expect sanctions against Russia to be removed any time soon (for more details on our updated scenarios see *here*).

The war in Ukraine has led to huge swings in commodity prices. Brent oil briefly hit USD130 this week before falling back to USD109, as both Middle Eastern producers pointed to a possible rise in output amid the higher oil prices and Russian president Putin said Russia would stand-by its oil contracts with even "un-friendly" countries. Similarly the spike in European natural gas prices to EUR335 MWh at the start of the week reversed to EUR140 at the end of the week. The EU outlined a plan to reduce dependence on Russian gas by two-thirds this year, which seeks to tap new supplies and rely on efficiency gains.

The crisis and higher commodity prices have raised concerns about the global economic outlook, especially in Europe, which has closer economic ties to Russia. At its meeting this week, the ECB lowered its GDP forecast for 2022 to 3.7% from 4.2%. We share the view about headwinds to growth, which raises the risk of a global recession (read more in *Research Global - Rising recession risk as yet another supply shock hits*, 9 March).

The higher commodity prices put central banks in a tight spot. The ECB this week was no exception. Inflation was already high going into the crisis. Despite the possible hit to economic activity from the war in Ukraine, ECB decided to announce an end to its APP programme in Q3 and removed the "or lower" from its forward guidance. Going forward ECB will stay data dependent (especially regarding inflation prints), with optionality and flexibility in its monetary policy calibration, as all meetings from here will be "live".

The mood in financial markets followed the swings in commodity prices closely. At the beginning of the week, risk sentiment took a big hit but sentiment later recovered with the fall in commodity prices. The EUR/USD also went on a rollercoaster, dropping sharply in the beginning of the week, but recovered along with global risk sentiment, ECBs mild hawkish signals and drop in commodity prices.

Next week, the Fed meeting will be the key focus for financial markets. We expect it to raise its policy rate by 25 bps given the strong inflation pressures, which are likely to be further enhanced by the rise in oil prices. We had previously expected a 50 bps hike, but the uncertainty from the war in Ukraine will make the Fed a tad more cautious in our view. BOE is similarly expected to raise its policy rate by 25bps next week. In contrast, the Chinese central bank is expected to lower its policy rate amid economic weakness. Other things in focus are war developments in Ukraine and response in commodity prices. In Germany, the ZEW will give a glimpse on the economic hit to confidence from the Ukraine-Russia war and we will likely see a marked dip.

Key market movers

- During the week: Ukraine-Russia
- Tuesday: German ZEW
- Wed: US Fed meeting
- Thurs: BOE meeting , Turkey central bank meeting
- Fri: Russia and Japan central bank meetings

Key global views

- Rising 'stagflation' risk from war in Ukraine – especially in Europe.
- We don't expect global expansion to be derailed but uncertainty is high
- Higher commodity prices to keep inflation elevated for longer
- Fed to stick to hiking path (a total of 200bp in 2022), ECB to hike in December on high inflation

Selected reading from Danske Bank

Flash: ECB Review - ECB never pre-commits, but stays data dependent, 10 March

Research Russia-Ukraine - Updated scenarios and implications for commodity markets, 9 March

Research Global - Rising recession risk as yet another supply shock hits, 9 March

Euro Area Macro Monitor: In the eye of the storm, 8 March

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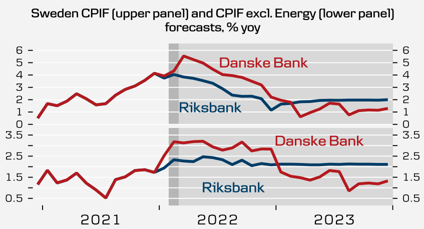
Scandi market movers

- In **Denmark,** we have a rather quiet week ahead on the data front. Danmarks Nationalbank is set to publish its forecast for the Danish economy on Wednesday, and we will be particularly focused on the central bank's take on the labour market and inflation.

- **Swedish** February inflation is in focus this week. First of all, we have raised the forecast for food prices in coming months as several warnings signs have been flashing. On the home front food producers have been saying for a while prices need to be raised. And finally, both Russia and Ukraine are important grain producers and the war means a significant drop in supply. Moreover, fertilizers are rising on the back of energy prices. Secondly, the weakening SEK means import prices are rising. Our statistical models suggest that on average roughly 0.25 percentage points of a 10% change in the Swedish trade–weighted KIX-index shows up in CPIF excl. energy with app. 6 months lag. Hence, assuming an average 10 % depreciation suggest an extra 0.2 percentage points on core CPIF (CPIF excl. Energy). This lifts the "normal" February 0.6 %mom by 0.2 percentage points. Thirdly, energy prices are soaring. Electricity prices that dropped sharply in January and February has again soared back to December extremes in the first days of March. Should it stay there, electricity prices at the consumer level is likely to rise > 20% as in December, which would add about 0.8 p.p to our current March forecast. Moreover, even before the March survey period has started, global oil pressures have lifted Swedish pump prices by some 15-20 % above February. That will add another 0.3-0.4 percentage points to the current March forecast. Summing up, energy in total may add an extra 1.0 percentage point to March CPIF.

  In total, 1) we see risks that core inflation may be 0.2 percentage points higher than normal in February also raising headline by the same amount (CPIF 0.7 % m/m/4.1 % y/y, CPIF excl. Energy 0.8 % m/m/3.2 % yoy). 2) March risks being hit by an energy Shock of about 1.0 percentage points unless prices fall back from where they are now. This will lift core CPIF and headline CPIF above 3 % and 5 % respectively in the coming months, well above the Riksbank's forecasts.

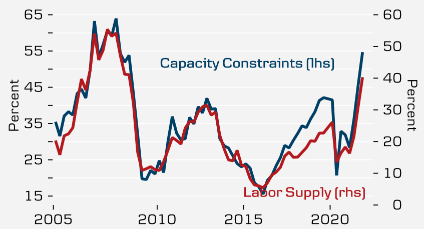
Sweden: war-induced energy and FX movements pushes inflation to highs



Source: SCB, Riksbank Danske Bank

- In **Norway**, Norges Bank's regional network survey has long been the central bank's preferred economic indicator. We expect the March round to show a further slowdown in growth as that most of the boost from the reopening of the economy has already been seen. The prospect of higher inflation, including power prices, and higher costs may also have tempered firms' optimism. The interviews for this round of the survey normally take place in late January and early February, or before the Russian invasion of Ukraine, which means that this is unlikely to affect the results unless the bank added a brief telephone survey later on. Thus, we will still be looking mostly at capacity utilisation, labour shortages and wage expectations. In the previous round, capacity utilisation was at its highest since before the financial crisis, and labour shortages were as precarious as when the oil boom peaked in 2012. Any further tightening here would very clearly increase the risk of Norges Bank having to put out more aggressive signals at its rate-setting meeting on 24 March. We will also be very interested in firms' take on wage growth this year, which Norges Bank estimated at 3.2% in the December monetary policy report. Should their expectations be closer to 3.5%, this would put further pressure on the central bank.

Highest capacity utilisation for 15 years



Source: Macrobond, Danske Bank

Scandi update

Denmark – underlying price pressures growing

A broad majority in the Danish parliament has agreed to increase defence spending to 2% of GDP by 2033 from the current 1.3%, which equates to an annual increase in expenditure of DKK18bn. Funding will mainly be achieved by targeting a government deficit of 0.5% of GDP by 2030. The agreement will also necessitate revising the Finance Act to allow for a structural deficit of 1% of GDP compared to 0.5% at present. The limit for the actual deficit will presumably remain at 3% of GDP. Immediate, additional defence spending of DKK3.5bn in 2022 and again in 2023 is also part of the agreement. Again, this is set to be funded by increasing the government deficit, but should not require additional issuance given the current strong state of government finances.

Industrial production rose 2.2% in January and 2.7% over the past 3 months compared to the previous 3 months. Progress was broadly based, with 8 out of 10 sectors experiencing growth during the period November-January compared to the previous 3 months. Looking ahead, we will be keen to track the impact of rising commodity prices on industrial production.

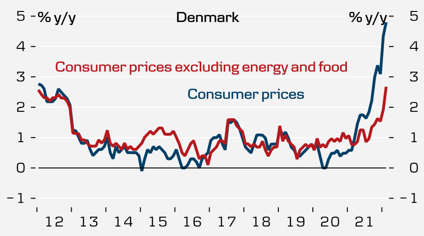
The number of bankruptcies among active companies in February was 5.7% down on January (seasonally adjusted), so bankruptcy levels remain low. In contrast, the number of compulsory dissolutions in connection with the winding up of enterprises from October last year was significant in February, though still resulted in few bankruptcies.

Consumer prices rose 4.8% y/y in February, which is the highest rate of inflation since December 1989 and was driven by several factors. Food prices were 5.7% higher than in February last year, whereas they were 4.3% higher y/y in January. Energy prices remain a key driver, though their contribution to inflation in February was considerably less than in January. Core inflation, i.e. excluding energy and non-processed foods, was 2.7% y/y in February, which represents a solid increase from January, when core inflation was 1.9%. The increase in prices was broadly based, with higher prices across restaurants, travel and a great many goods. Companies are increasingly passing on the bill for rising energy and commodity prices to consumers. Rents were up 1.7% compared with February last year, and this has a relatively large impact on core inflation, as rents account for 21% of the consumer price index.

Given the high February figures and the sharp increase in energy prices, we must acknowledge that our inflation forecast for 2022 will not hold. We have therefore made a new, preliminary forecast of inflation reaching 4.6% this year, though the picture could quickly change.

Total exports of goods and services rose by 0.9% m/m in January, thus continuing the fine progress of recent times, with total exports up 7.4% over the past three months. The figures are difficult to fully interpret, however, due to the high level of price volatility being seen at the moment.

Underlying price pressures growing



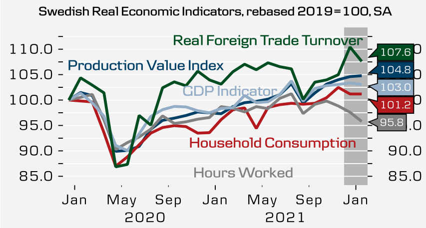
Source: Statistics Denmark, Danske Bank, Macrobond Financial

Sweden – 2022 started in negative territory

Monthly indicators for January indicated quite broad based weakness with production as the only monthly indicator in positive territory at +0.2 %, consumption 0.0 % mom while GDP indicator -0.3 % mom, all seasonally adjusted. The GDP indicator does not come with many details but the weakness probably stems from negative numbers already released for foreign trade and hours worked.

This means that even before the war, the year started with some weakness. A sharp increase in both fuel and electricity prices in March will probably not show up in numbers before April and will likely weigh on the growth outlook. So far, we have received no support from the government in that perspective but the minister for Finance in Sweden stated that the government is looking into this and that some support will likely come in a week. With that said, the debt office also published budget figures for February which continued to outperform. The surplus came in at 85.6 bn vs debt office forecast of 74.2 bn.

Broad based weakness

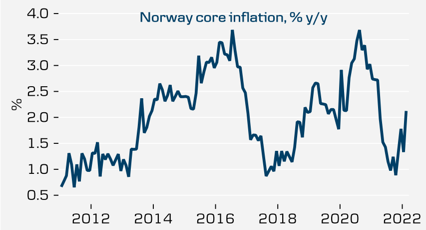


Source: Macrobond, Silf

Norway – Inflation pushing up

Core inflation surprised to the upside in February by jumping from 1.3% to 2.1% y/y. It was primarily prices for imported goods such as furniture, household items, clothing and footwear that climbed further than expected, along with domestically produced foods. This is presumably a result of global inflation fuelled by commodity prices being so strong that Norway is importing inflation despite the stronger NOK. Inflation is thus much higher than the 1.2% Norges Bank anticipated in the December monetary policy report and will push up its interest rate projections in the upcoming report on 24 March. We nevertheless expect the bank to settle for signalling four hikes this year, given that inflation is still only moderately above the 2% target, albeit rising. Whether Norges Bank is forced to raise rates more than that will probably depend instead on the outcome of this year's pay talks.

Core inflation higher than expected



Source: Macrobond, Danske Bank

Calendar

During the week				Period	Danske Bank	Consensus	Previous
Sat 12	USD	Fed's George speaks					
Monday, March 14, 2022				Period	Danske Bank	Consensus	Previous
8:00	SEK	Underlying inflation CPIF	m/m|y/y	Feb	0.71%|4.34%	0.4%|4.1%	-0.5%|3.9%
8:00	SEK	CPI	m/m|y/y	Feb	0.71%|4.14%	0.4%|4.0%	-0.5%|3.7%
Tuesday, March 15, 2022				Period	Danske Bank	Consensus	Previous
3:00	CNY	Fixed assets investments	y/y	Feb		5.0%	4.9%
5:00	USD	Fed's George speaks					
8:00	SEK	Prospera inflation expectations					
8:00	NOK	Trade balance	NOK bn	Feb			91.8
8:00	GBP	Unemployment rate (3M)	%	Jan		4.0%	4.1%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jan		3.6%	3.7%
8:45	FRF	HICP	m/m|y/y	Feb		0.8%|4.1%	0.8%|4.1%
10:00	NOK	Norges Bank Regional Network Report: Output next 6M	Index	Feb			1.0
11:00	EUR	Industrial production	m/m|y/y	Jan		0.4%|-0.3%	1.2%|1.6%
11:00	DEM	ZEW current situation	Index	Mar		-30.0	-8.1
11:00	DEM	ZEW expectations	Index	Mar		5.0	54.3
13:30	USD	PPI	m/m|y/y	Feb		1.0%|10.0%	1.0%|9.7%
13:30	USD	PPI core	m/m|y/y	Feb		0.6%|8.7%	0.8%|8.3%
13:30	USD	Empire Manufacturing PMI	Index	Mar		7.2	3.1
21:00	USD	TICS international capital flow, Net inflow	USD bn	Jan			-52.4
Wednesday, March 16, 2022				Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y (%)	Feb		0.2	0.1
0:50	JPY	Import	y/y (%)	Feb		0.3	0.4
0:50	JPY	Trade balance, s.a.	JPY bn	Feb		-390.5	-932.6
5:30	JPY	Industrial production, final	m/m|y/y	Jan			-1.3%|-0.9%
10:00	ITL	HICP	m/m|y/y	Feb		...|6.2%	...|6.2%
13:30	USD	Retail sales control group	m/m	Feb		0.4%	4.8%
13:30	USD	Import prices	m/m|y/y	Feb		1.6%|...	2.0%|10.8%
13:30	CAD	CPI	m/m|y/y	Feb			...|5.1%
15:00	USD	NAHB Housing Market Index	Index	Mar		81.0	82.0
15:30	USD	DOE U.S. crude oil inventories	K				-1863
19:00	USD	FOMC meeting	%		0.5%	0.5%	0.3%
22:45	NZD	GDP	q/q|y/y	4th quarter		3.2%|3.2%	-3.7%|-0.3%
Thursday, March 17, 2022				Period	Danske Bank	Consensus	Previous
1:30	AUD	Employment change	1000	Feb		40	12.9
5:00	USD	Fed's George speaks					
11:00	EUR	HICP inflation	m/m|y/y	Feb		0.9%|5.8%	0.9%|5.1%
11:00	EUR	HICP - core inflation	y/y	Feb		2.7%	2.7%
12:00	TRY	Central Bank of Turkey rate decision	%			14.0%	14.0%
13:00	GBP	BoE minutes				0.0075	0.005
13:00	GBP	BoE Bank rate	%		0.75%	0.8%	0.5%
13:30	USD	Building permits	1000 (m/m)	Feb		1865	1895.0 (0.5%)
13:30	USD	Housing starts	1000 (m/m)	Feb		1695	1638.0 (-4.1%)
13:30	USD	Philly Fed index	Index	Mar		15.0	16.0
13:30	USD	Initial jobless claims	1000				227
14:15	USD	Capacity utilization	%	Feb		77.9%	77.6%
14:15	USD	Industrial production	m/m	Feb		0.5%	1.4%
14:15	USD	Manufacturing production	m/m	Feb		0.9%	0.2%
17:02	USD	Fed's George speaks					
Friday, March 18, 2022				Period	Danske Bank	Consensus	Previous
-	JPY	BoJ policy rate	%			-0.1%	-0.1%
0:30	JPY	CPI - national	y/y	Feb		0.9%	0.5%
0:30	JPY	CPI - national ex. fresh food	y/y	Feb		0.6%	0.2%
11:00	EUR	Trade balance	EUR bn	Jan			-9.7
11:00	EUR	Labour costs	y/y	4th quarter			2.5%
11:30	RUB	Central Bank of Russia rate decision	%				20.0%
13:30	CAD	Retail sales	m/m	Jan			-1.8%
15:00	USD	Existing home sales	m (m/m)	Feb		6.2	6.50|0.067
18:20	USD	Fed's Barkin speaks					
19:00	USD	Fed's Bowman 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[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2021	4.1	3.5	4.3	4.1	7.5	7.9	1.9	2.8	3.7	0.0	37.6	7.6
	2022	2.5	3.1	-1.2	2.1	5.4	4.9	4.6	3.2	2.5	1.3	33.9	7.6
	2023	1.7	2.6	-0.6	3.1	3.3	3.8	1.4	3.4	2.5	0.9	32.5	6.8
Sweden	2021	4.5	5.5	3.2	6.9	6.6	8.8	2.2	2.7	8.8	-0.8	37.0	1.4
	2022	3.0	4.1	1.4	5.4	3.4	5.6	2.0	1.8	7.3	0.2	33.0	3.9
	2023	2.2	2.4	1.2	2.2	4.0	3.4	1.3	2.1	6.5	0.7	30.0	4.1
Norway	2021	4.2	5.0	3.9	-0.3	4.8	2.0	3.5	3.2	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	2.6	3.4	2.3	-	-	-
	2023	2.0	2.0	1.3	2.0	4.0	4.0	1.8	3.6	2.2	-	-	-

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	2021	5.3	3.5	3.8	4.3	10.9	8.6	2.6	3.8	7.7	-6.9	99.8	3.1
	2022	4.0	6.5	1.3	2.0	6.6	7.0	4.7	2.4	7.3	-3.6	97.6	3.2
	2023	2.0	2.0	1.3	2.2	5.1	5.2	1.6	2.9	7.1	-2.1	96.7	3.4
Germany	2021	2.9	0.1	3.1	1.3	9.8	9.1	3.2	2.9	3.5	-4.9	71.4	6.6
	2022	4.0	8.1	0.5	1.3	5.1	6.5	5.1	2.8	3.2	-2.1	69.2	6.6
	2023	1.9	1.9	1.3	2.2	5.1	5.2	1.9	2.9	2.9	-0.5	68.1	6.8
Finland	2021	3.5	3.5	2.5	2.0	4.0	3.5	2.2	2.4	7.7	-2.7	67.7	1.0
	2022	2.8	3.5	1.0	4.0	6.0	6.5	2.6	2.8	6.9	-2.3	67.0	0.8
	2023	1.6	1.5	0.5	3.0	3.0	3.0	1.8	2.6	6.6	-1.3	66.7	0.7

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	2021	5.7	7.9	0.5	7.8	4.6	14.0	4.7	4.0	5.4	-13.4	129.7	-3.5
	2022	3.5	2.9	0.8	3.6	1.9	3.3	6.4	5.0	4.0	-4.7	125.6	-3.5
	2023	2.2	2.1	1.0	3.4	1.6	1.9	2.8	4.6	3.8	-3.1	124.0	-3.3
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	5.0	6.0	-	3.0	-	-	2.0	5.5	-	-7.0	72.0	1.0
	2023	5.0	6.0		4.5			2.2	5.5		-6.8	74.5	0.7
UK	2021	7.5	3.8	15.8	5.3	-3.0	1.0	2.6	4.9	4.6	-5.3	96.9	-3.4
	2022	5.1	6.1	3.3	6.5	3.3	4.8	5.2	3.2	4.0	-0.6	96.7	-5.3
	2023	2.4	2.5	0.8	4.8	3.4	3.7	2.9	3.9	3.7	0.5	96.7	-4.7
Japan	2021	1.8	1.4	2.7	-1.1	10.9	5.9	-0.2	-	2.8	-	-	-
	2022	2.4	3.3	2.2	-0.5	3.0	2.0	0.4	-	2.6	-	-	-
	2023	1.2	1.4	0.7	0.4	3.2	2.0	0.5	-	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 int. rate	3m interest rate	2-yr swap yield	10-yr swap yield	Currency vs EUR	Currency vs USD	Currency vs SEK
USD	11-Mar	0.25	0.75	1.95	2.09	109.8	-	969.2
	+3m	1.00	1.18	1.90	2.15	112.0	-	937.5
	+6m	1.50	1.70	2.20	2.35	111.0	-	927.9
	+12m	2.50	2.80	2.75	2.50	108.0	-	953.7
EUR	11-Mar	-0.50	-0.50	0.28	0.99	-	109.8	1064.3
	+3m	-0.50	-0.53	0.25	0.75	-	112.0	1050.0
	+6m	-0.50	-0.53	0.45	0.85	-	111.0	1030.0
	+12m	-0.25	-0.11	0.75	1.10	-	108.0	1030.0
JPY	11-Mar	-0.10	-0.01	0.07	0.29	120.5	116.9	8.83
	+3m	-0.10	-	-	-	127.1	113.5	8.26
	+6m	-0.10	-	-	-	124.3	112.0	8.29
	+12m	-0.10	-	-	-	118.8	110.0	8.67
GBP	11-Mar	0.50	-	1.91	1.56	83.9	130.9	1268.2
	+3m	1.00		1.30	1.35	84.0	133.3	1250.0
	+6m	1.25		1.30	1.40	84.0	132.1	1226.2
	+12m	1.50		1.55	1.65	84.0	128.6	1226.2
CHF	11-Mar	-0.75	-	-0.19	0.68	102.3	93.2	1040.3
	+3m	-0.75	-	-	-	103.0	92.0	1019.4
	+6m	-0.75	-	-	-	101.0	91.0	1019.8
	+12m	-0.75	-	-	-	100.0	92.6	1030.0
DKK	11-Mar	-0.60	-0.25	0.55	1.24	744.01	677.56	143.05
	+3m	-0.60	-0.28	0.50	0.95	743.75	664.06	141.18
	+6m	-0.60	-0.28	0.70	1.05	744.50	670.72	138.35
	+12m	-0.35	0.14	1.00	1.30	745.00	689.81	138.26
SEK	11-Mar	0.00	0.03	0.84	1.58	1064.3	969.2	100.0
	+3m	0.00	-0.02	0.50	1.45	1050.0	937.5	-
	+6m	0.00	-0.02	0.50	1.55	1030.0	927.9	-
	+12m	0.25	0.23	0.60	1.65	1030.0	953.7	-
NOK	11-Mar	0.50	1.38	2.30	2.46	980.4	892.8	108.6
	+3m	0.75	1.31	2.15	2.40	1030.0	919.6	101.9
	+6m	1.00	1.53	2.25	2.50	1040.0	936.9	99.0
	+12m	1.50	1.90	2.25	2.60	1040.0	963.0	99.0

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

Commodities

		2022				2023				Average	
	11-Mar	K1	K2	K3	K4	K1	K2	K3	K4	2022	2023
ICE Brent	111	87	77	75	75	80	80	80	80	79	80

Source Danske Bank

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