

Weekly Focus

Central banks opt for cautious tone as growth falters

As many Europeans continue to enjoy their summer breaks, their mood can be lifted by expectations that peak rates loom in the horizon. In July, the ECB hiked the deposit rate to 3.75%, as expected, but at the press conference, President Lagarde opted for a clearly dovish tone. Service sector, the prime engine for economic growth in Europe this year, has started to lose steam, and the ECB is clearly more concerned about growth than before. As it is evident the ECB has now entered the fine-tuning phase in its policy tightening, Lagarde emphasized that they could hike rates again in September, or they could choose to pause, depending on the upcoming data. Furthermore, if they pause in September, they could still hike later on, if necessary. We keep our call of one more hike in September, read more on *Flash ECB Review – A decisive maybe*, 27 July.

After pausing in June, the Federal Reserve also delivered a 25bp hike in July to 5.25-5.50%. No doubt the US economy has performed better than expected lately. Nevertheless, as there are clear signs of inflation now starting to stabilise to levels consistent with the central bank's 2% mandate, we think this was the final hike of the cycle (see *Research US – Fed Review: Balancing act with focus on data*, 26 July). The BoE also delivered according to expectations and hiked the policy rate by 25bp, bringing the bank rate to 5.25%. We expect one more hike in September and stay negative on GBP.

Boosted by expectations of rates peaking in near future, the US stock market rallied in June-July with the S&P500 rising 10%, converging with European stocks that have been outperforming since last November. Until now, high inflation has led to a rising corporate profit share at the cost of earners, which makes sense since selling prices move more flexibly than wages. Going forward, however, corporate profits will have to absorb the increases in wages, if inflation is to be tamed. Alternatively, corporates maintain their pricing power, passing through rising wage costs to prices, in which case inflation could again prove stickier than expected. In this light, could it be that the markets are relying on a central bank pivot that will not happen, not as soon as the markets expect anyway?

Risk market rally also drove a weaker in USD in early July, and EUR/USD hit a 16-month high before changing course around mid-month. We still like our strategic call for a weaker EUR/USD (see *FX Forecast Update – holiday edition: Q3 to mark peak in policy rates*, 17 July). This week, energy sector concerns have again raised their head after news of a planned strike at Australian LNG plants led to a spike in gas prices.

The Bank of Japan surprised the markets in July by keeping its yield curve control (YCC) but announcing they would allow long-term interest rates to rise up to 1%. The practical modalities were likely intentionally left vague, but at least the BoJ can now choose not to intervene in the market if pressure builds up for higher yields. We expect a gradual easing of the YCC in the course of the autumn.

Next week, focus will be on US July retail sales and other real sector data. FOMC minutes will be released on Wednesday. In euro area, we keep an eye on the ZEW index on Tuesday and the final July HICP print due on Friday.

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.
- Fed on hold, ECB to hike once more.

Key events next week

- Tuesday: EA ZEW index, US retail sales
- Wednesday: RBNZ meeting, US housing data and IP, EA GDP, FOMC minutes
- Friday: EA final HICP

Selected reading from Danske Bank

- *Research Global – Are Nordic companies deglobalizing?* 9 August
- *Euro Area Macro Monitor – Will the benign Q2 growth mark a turning point for the European economy?* 8 August
- *Flash ECB Review – A decisive maybe*, 27 July
- *Research US – Fed review: Balancing act with focus on data*, 26 July

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Scandi market movers

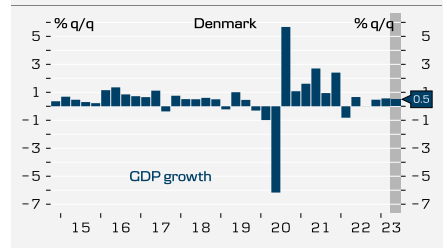
- Denmark**, Tuesday next week should bring the GDP indicator for Q2 from Statistics Denmark. This will be the first preliminary estimate of GDP growth, which we expect to print at 0.5% q/q. Industrial production continues to get a significant helping hand from the pharmaceutical industry – without that, industrial production would be in decline and the economy would be slowing overall. Private consumption has so far performed better than expected and is exhibiting modest signs of picking up as real wages are restored.

The coming week should also see new figures for home sales from property website Boligsiden. Sales activity has been on the rise since the start of the year, in part due to more stable energy prices. The July edition of *homes boligbrief*, 2 August, (housing market overview from estate agent home), published last week, points to still increasing sales activity.

- Sweden** will be in market focus next week. Again, and despite last month's miss, we expect Swedish July inflation to print close to Riksbank's forecasts of CPIF 6.6% y/y and CPIF ex. Energy 7.8% y/y, as we expect 6.5% y/y and 8.0% y/y. Core inflation is expected to be 0.4% m/m. This is mainly driven by the "leisure" components in recreation and transportation services components, i.e. holiday spending. After significant price hikes on airline tickets and charter packs in June we expect another lift in July due to the bad weather. We also expect rents to have risen significantly as tenant-apartment associations have flagged a need to raise monthly charges in H2. Moreover, we expect food prices to have continued its upward trend, however, note that this is not corroborated by Matpriskollen which only saw a small increase in July. Hence, food prices constitute a potential downside risk this month. While fuel remained unchanged in July, the sharp plunge in electricity prices is expected to pull energy contribution down by 0.4 p.p. this month. The impact from Riksbank rate hikes on mortgage cost is gradually waning, adding 0.1 to monthly change in CPI. Looking forward we expect inflation to slow significantly as selling price expectations in general are on a steady downward trajectory, albeit slow in retail trade and services sectors.

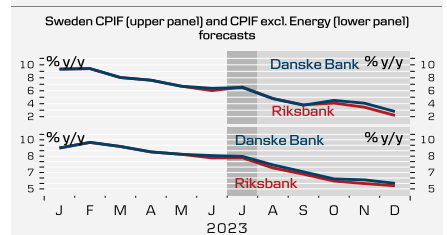
- Norway**, Norges Bank signalled in June that the policy rate would probably be raised further at the coming week's meeting. High inflation figures for June unexpectedly opened up the possibility of the bank having to deliver another half-point hike in August, but core inflation fell again in July from 7.0% to 6.4%, which is only marginally above the 6.3% assumed in the June monetary policy report. Together with a slightly stronger NOK, higher FRA-OIS spreads and somewhat lower rate expectations abroad, this points clearly to a quarter-point hike as signalled at the June meeting. Whether the policy rate goes up further in September will, of course, depend on how the data pan out, but continued strength in the NOK, other central banks being more cautious, further moderate inflation and/or weaker economic growth (regional network) could enable Norges Bank to stop at 4.00%.

We expect GDP growth of 0.5% in Q2 23



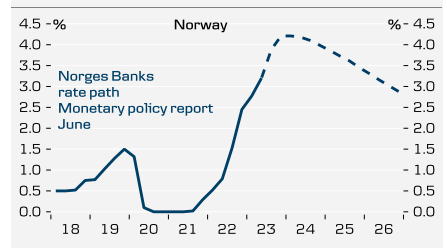
Source: Statistics Denmark, Danske Bank

Sweden: July expected close to Riksbank's forecasts



Source: SCB, Riksbank, Danske Bank

Norges Bank signalling further rate increases



Source: Macrobond, Danske Bank

Scandi update

Denmark – Inflation rises to 3.1% in July, mainly due to re-imposition of electricity tax

As we had expected, inflation rose in July to 3.1% from 2.5% in June. The increase was mainly due to the reimposition of the electricity tax, which was temporarily dropped in H1. We still expect Denmark to be on track for lower inflation in 2023, as energy prices in particular are markedly lower than in 2022. Food price inflation is also declining, from 8.8% in June to 6.6% in July. Nevertheless, underlying inflationary pressures remain high – as seasonally adjusted ex. energy prices rose by 0.7% between June and July, which equates to an annual increase of 8.7%. Wages, too, are on the rise, which will increase costs for businesses. That being said, the economy has not yet felt the full impact of the higher interest rates, which should gradually dampen demand and thus price pressures. Furthermore, euro area inflation printed at 5.3% in July and so is still some way above the ECB's target of 2%. This presumably means the ECB will raise interest rates again in September, with Denmark's Nationalbank likely to follow suit.

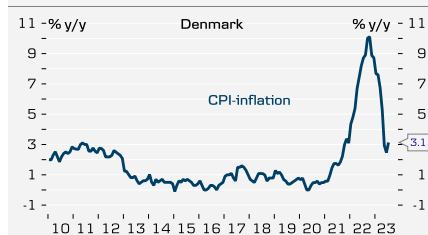
Denmark's current account surplus amounted to DKK27.2bn in June, an increase of DKK2.9bn compared to May. This is a huge sum – when measured in relation to the size of the Danish economy – and Denmark looks set to join the global top 10 alongside a selection of oil-producing nations. While the surplus has previously been boosted by service exports, especially shipping, goods exports have taken over as the primary driving force, with pharmaceutical products comprising a key component.

Some 285 active companies went bankrupt in July, which is 2.9% up on June and a whopping 22.7% up on May. Bankruptcy numbers are clearly increasing and are now running at their highest level since April 2016. Looking at the 12-month moving average, we would have to go all the way back to 2010 to find a higher level. The trend could be an early indication of a general slowdown in the Danish economy on the back of higher interest rates, which tend to dampen both domestic and overseas demand. Higher interest rates also have a direct impact via interest expenses for businesses. The expiration of pandemic loan schemes for businesses is another factor likely contributing to the high number of bankruptcies.

In the housing market, seasonally adjusted detached and terraced house prices rose by 0.4% while apartment prices were unchanged in July compared to June – according to data from property website Boligsiden. Hence, the housing market continues to demonstrate robustness – reflecting a solid economy and a very strong labour market. Nevertheless, we expect the housing market to weaken slightly again later this year as the effect of higher interest rates feeds through.

Preliminary unemployment figures for July showed an increase of 1,200 (seasonally adjusted) and an unemployment rate of 2.8%. That is the largest increase in jobless numbers since December 2022 and means there are now 12,200 more people unemployed compared to the low in April last year. While this is not a major increase, especially considering that the labour force has grown substantially, it nevertheless points to a slight slowdown in the Danish labour market too. We expect unemployment to rise modestly in the time ahead.

Inflation rose to 3.1% in July after the electricity tax was re-imposed

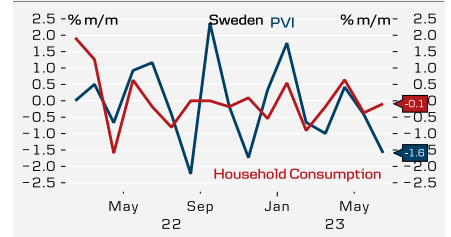


Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sweden – NIER revised growth forecast

NIER scaled down their growth forecast for 2023 to -0.9% and 1.2% for 2024. The updated Household Consumption and Private sector production (PVI) for June, released on Thursday by Statistics Sweden, shows that consumption fell marginally by 0.1% m/m, and production decreased by 1.6%. From the demand side, the negative consumption trend is levelling out. The supply side looks gloomier, but no major conclusion should be drawn from it as the production dip could mainly be due to the unpredictability during summertime. This dip could be reversed this fall, like last year. Therefore, NIER’s forecasts could be a bit too harsh. Looking forward, the Riksbank will, in the end, base their rate decision in September on the national accounts published 29th of August.

Not as negative consumption and production trends

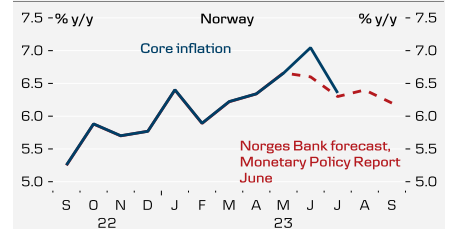


Source: Macrobond, Statistics Sweden

Norway – Core inflation down in July

Core inflation slowed from 7.0% in June to 6.4% in July. This was mainly a result of lower food price inflation due to base effects and big price rises in June, but prices for other domestic goods and even imported goods also increased somewhat less than expected. Pulling in the other direction were prices for services ex rent, especially for culture/leisure, so it looks as though amusement parks and the like had a good summer. It is, of course, far too early to conclude that inflation has peaked, but with a stronger NOK and a slightly weaker labour market this is looking more likely.

Inflation more or less as expected



Source: Macrobond, Danske Bank

Calendar – 14-18 August 2023

Monday, August 14, 2023				Period	Danske Bank	Consensus	Previous
Tuesday, August 15, 2023				Period	Danske Bank	Consensus	Previous
1:50	JPY	GDP deflator, preliminary	y/y	2nd quarter		3.8%	2.0%
1:50	JPY	GDP, preliminary	q/qlann.	2nd quarter		0.7% 2.9%	0.7% 2.7%
4:00	CNY	Industrial production	y/y	Jul		4.3%	4.4%
4:00	CNY	Retail sales	y/y	Jul		4.2%	3.1%
4:00	CNY	Fixed assets investments	y/y	Jul		3.8%	3.8%
6:30	JPY	Industrial production, final	m/mly/y	Jun			2.0% -0.4%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jun		7.3%	7.3%
8:00	SEK	Underlying inflation CPIF	m/mly/y	Jul	-0.1% 6.5%	-0.1% 6.5%	0.9% 6.4%
8:00	NOK	Trade balance	NOK bn	Jul			44.2
8:00	SEK	CPI	m/mly/y	Jul	0.1% 9.3%	0.2% 9.3%	1.1% 9.3%
8:00	GBP	Unemployment rate (3M)	%	Jun		4.0%	4.0%
8:00	DKK	GDP indicator	q/q	2nd quarter	0.5%		0.3%
11:00	DEM	ZEW current situation	Index	Aug		-62.1	-59.5
11:00	DEM	ZEW expectations	Index	Aug		-14.7	-14.7
14:30	USD	Import prices	m/mly/y	Jul		0.2%	-0.2% -6.1%
14:30	USD	Empire Manufacturing PMI	Index	Aug		-0.7	1.1
14:30	USD	Retail sales control group	m/m	Jul		0.5%	0.6%
14:30	CAD	CPI	m/mly/y	Jul		_ 2.9%	_ 2.8%
16:00	USD	NAHB Housing Market Index	Index	Aug		56.0	56.0
17:00	USD	Fed's Kashkari speaks					
22:00	USD	TICS international capital flow, Net inflow	USD bn	Jun			-167.6
Wednesday, August 16, 2023				Period	Danske Bank	Consensus	Previous
4:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%		5.50%	5.50%	5.50%
6:30	NOK	Consumer confidence	Net. bal.	3rd quarter			-34.4
8:00	GBP	CPI	m/mly/y	Jul		-0.6% 6.7%	0.1% 7.9%
8:00	GBP	CPI core	y/y	Jul		6.8%	6.9%
8:00	SEK	Prospera inflation expectations					
11:00	EUR	Industrial production	m/mly/y	Jun		-0.6% -4.4%	0.2% -2.2%
11:00	EUR	GDP, preliminary	q/qly/y	2nd quarter	0.3% 0.6%	0.3% 0.6%	0.3% 0.6%
11:00	EUR	Employment, preliminary	q/qly/y	2nd quarter			0.6% 1.6%
14:30	USD	Housing starts	1000 (m/m)	Jul		1440	1434.0 (-8.0%)
14:30	USD	Building permits	1000 (m/m)	Jul		1464	1441.0 (-3.7%)
15:15	USD	Capacity utilization	%	Jul		79.2%	78.9%
15:15	USD	Industrial production	m/m	Jul		0.4%	-0.5%
15:15	USD	Manufacturing production	m/m	Jul		0.0%	-0.3%
16:30	USD	DOE U.S. crude oil inventories	K				5851
20:00	USD	FOMC minutes					
Thursday, August 17, 2023				Period	Danske Bank	Consensus	Previous
1:50	JPY	Exports	y/y (%)	Jul		0.0	0.0
1:50	JPY	Import	y/y (%)	Jul		-0.2	-0.1
1:50	JPY	Trade balance, s.a.	JPY bn	Jul		-436	-553.2
3:30	AUD	Employment change	1000	Jul		15	32.6
10:00	NOK	Norges Banks monetary policy meeting	%		4.00%	4.00%	3.75%
11:00	EUR	Trade balance	EUR bn	Jun			-0.9
14:30	USD	Initial jobless claims	1000				248
14:30	USD	Philly Fed index	Index	Aug		-10.0	-13.5
Friday, August 18, 2023				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Netherlands's debt rating					
1:01	GBP	GfK consumer confidence	Index	Aug		-29.0	-30.0
1:30	JPY	CPI - national	y/y	Jul		3.3%	3.3%
1:30	JPY	CPI - national ex. fresh food	y/y	Jul		3.1%	3.3%
8:00	GBP	Retail sales ex fuels	m/mly/y	Jul		-0.6% -1.9%	0.8% -0.9%
8:00	SEK	Capacity utilization, industry	%	2nd quarter			90.6%
11:00	EUR	HICP inflation, final	m/mly/y	Jul		-0.1% 5.3%	-0.1% 5.5%
11:00	EUR	HICP - core inflation, final	y/y	Jul		5.5%	5.5%

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	2022	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.6	2.6	3.5	30.1	13.1
	2023	1.5	0.6	-0.7	-7.2	5.7	0.1	4.1	4.7	2.9	2.2	27.4	13.5
	2024	1.0	1.7	1.8	-2.9	1.2	0.7	3.2	5.3	3.4	1.2	25.7	13.5
Sweden	2022	2.9	1.9	0.1	6.1	7.0	9.4	8.4	2.5	7.5	0.7	32.9	3.6
	2023	0.5	-2.2	1.4	1.4	3.2	0.4	8.4	4.0	7.5	-0.4	29.0	5.0
	2024	1.9	1.7	1.1	2.3	2.8	2.6	1.9	3.3	7.8	-0.8	29.0	5.1
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.1	-2.0	1.4	0.5	4.0	3.0	5.3	5.3	1.9	-	-	-
	2024	1.4	1.2	1.5	4.0	2.0	2.0	2.5	4.2	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 ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euro area	2022	3.4	4.5	1.4	3.0	7.2	8.1	8.4	2.9	6.7	-3.6	93.2	0.6
	2023	0.5	0.2	1.2	-0.2	3.0	2.9	5.3	4.3	6.9	-3.2	90.9	2.2
	2024	1.0	1.2	0.8	0.5	3.2	3.3	2.8	3.0	7.0	-2.7	90.1	2.4
Finland	2022	1.6	1.7	0.8	3.2	3.5	8.3	7.1	2.4	6.8	-0.9	72.9	-3.6
	2023	-0.2	-0.2	2.0	-4.5	-0.5	-2.0	5.9	4.1	7.0	-2.7	72.1	-1.4
	2024	0.8	1.0	0.5	2.5	1.5	2.0	2.1	3.7	6.8	-1.9	72.6	-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	1.3	1.5	2.7	-2.7	1.2	-4.3	4.0	4.1	3.7	-5.4	123.6	-3.1
	2024	0.5	0.1	1.3	1.0	-1.9	-1.9	2.2	3.2	4.3	-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	5.8	7.0	-	5.0	-	-	1.2	-	5.2	-7.0	82.6	1.4
	2024	4.8	5.0	-	4.8	-	-	2.0	-	5.1	-6.5	87.4	1.0
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	10-Aug	5.50	-	5.07	4.18	1.09	-	6.81	10.25	10.72
	+3m	5.50	-	4.21	3.27	1.09	-	6.83	10.64	10.37
	+6m	5.50	-	3.92	3.14	1.06	-	7.02	10.85	10.75
	+12m	4.75	-	3.59	3.24	1.03	-	7.23	10.68	11.26
EUR	10-Aug	3.75	3.72	3.71	3.20	-	1.09	7.4513	11.21	11.72
	+3m	4.00	3.99	3.57	2.88	-	1.09	7.4450	11.60	11.30
	+6m	4.00	4.04	3.26	2.74	-	1.06	7.4450	11.50	11.40
	+12m	3.75	3.67	3.04	2.75	-	1.03	7.4500	11.00	11.60
JPY	10-Aug	-0.10	-	-	-	156	142	4.79	7.20	7.53
	+3m	-0.10	-	-	-	144	132	5.17	8.06	7.85
	+6m	0.10	-	-	-	135	127	5.53	8.54	8.47
	+12m	0.10	-	-	-	129	125	5.79	8.54	9.01
GBP*	10-Aug	5.25	-	5.75	4.64	0.86	1.27	8.66	13.02	13.62
	+3m	5.50	-	5.37	4.08	0.87	1.25	8.56	13.33	12.99
	+6m	5.50	-	4.95	3.88	0.88	1.20	8.46	13.07	12.95
	+12m	5.25	-	4.79	3.85	0.88	1.17	8.47	12.50	13.18
CHF	10-Aug	1.75	-	-	-	0.96	0.88	7.79	11.71	12.25
	+3m	2.00	-	-	-	0.96	0.88	7.76	12.08	11.77
	+6m	2.00	-	-	-	0.95	0.90	7.84	12.11	12.00
	+12m	2.00	-	-	-	0.95	0.92	7.84	11.58	12.21
DKK	10-Aug	3.35	3.76	3.81	3.32	7.4513	6.81	-	1.50	1.57
	+3m	3.60	4.00	3.72	2.98	7.4450	6.83	-	1.56	1.52
	+6m	3.60	4.00	3.41	2.89	7.4450	7.02	-	1.54	1.53
	+12m	3.35	3.77	3.19	2.90	7.4500	7.23	-	1.48	1.56
SEK	10-Aug	3.75	3.97	3.90	3.21	11.72	10.72	1.57	1.05	-
	+3m	4.00	4.04	3.71	2.98	11.30	10.37	1.52	0.97	-
	+6m	4.00	3.87	3.31	2.84	11.40	10.75	1.53	0.99	-
	+12m	3.50	3.31	3.00	2.80	11.60	11.26	1.56	1.05	-
NOK	10-Aug	3.75	4.69	5.03	4.17	11.21	10.25	1.50	-	1.05
	+3m	4.00	4.43	4.38	3.64	11.60	10.64	1.56	-	0.97
	+6m	4.00	4.38	4.23	3.54	11.50	10.85	1.54	-	0.99
	+12m	3.50	3.77	3.90	3.45	11.00	10.68	1.48	-	1.05

*Notes: GBP swaps are SONIA

Commodities

	10-Aug	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	86	82	78	80	80	80	80	80	80	80	80

Source Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Minna Kuusisto, Director.

Analyst certification

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