

13 September 2024

# Weekly Focus

## Enter Fed cutting cycle

**Markets started off the week lingering at the fear of recession after the August US jobs report failed to shake off those fears.** Chinese core inflation dropping further to 0.3% as a symptom of weak Chinese demand only added further to the sour risk sentiment. We saw it in FX markets, with further slides in Swedish and Norwegian kroner, the latter also weighed down by cheaper oil. Sentiment turned around a bit on Thursday, though, with equities higher and a rebound in industrial metals and oil prices.

**The ECB cut rates by 25bp as widely expected.** President Lagarde provided no guidance on the timing of the next policy move yet given that she did not see the need to impact the market pricing, we believe that the ECB is overall content with the current market pricing of 25bp/quarter through the end of next year, as domestic inflation pressure remains elevated due to high wage growth. Lagarde also highlighted the further confidence of the 2% inflation target being met in the medium-term, while the accompanying staff projections only saw cosmetic changes. On the data front, July industrial production data from the euro area confirmed what PMIs have already shown, namely that the manufacturing sector will weigh on Q3 GDP growth.

**In the US, Kamala Harris came out of the presidential debate on top and markets reacted by sending the USD and yields slightly lower,** suggesting that expectations of Trump pursuing more expansionary fiscal policies and protectionist measures remain intact. This is probably also a good gauge for how markets may react to election news going forward.

**With a big question mark still hanging over the US labour market, inflation data once again took markets' focus this week on the hopes of getting some clarity on the next Fed move.** 0.3% m/m core inflation was a bit more than expected, mostly driven by shelter prices. On the one hand, it is a comforting sign that businesses still see room to hike prices, and a low inflation print would have added to recession concerns. On the other hand, it forces the Fed to keep an eye on the inflation mandate and probably deprives them from the opportunity to cut rates by more than 25bp next week. Ahead of the FOMC meeting, August retail sales are released but we think the bar for changing the rate outlook is high. We see a 25bp cut as the clear base case.

**We also have several other central bank meetings on the schedule next week.** We expect rates unchanged at all of them. The Bank of England meeting on Thursday will be focused on the inflation data, which is released the day ahead. On Friday, inflation data released during the Bank of Japan's two-day policy meeting will probably show price pressures picking up. Even so, the bond market rally since the late July meeting and cheaper oil prices has been a boon to the yen, which makes the initial motive for hiking rates less acute. We expect the next BoJ hike in December. We will also zoom in on the final euro area inflation data, which will allow us to gauge domestic inflation. It has remained high and is a key reason we expect only a gradual cutting approach from the ECB.

### Key global views

- Global manufacturing cycle moving gradually higher
- Upside inflation risks have diminished, and focus has shifted to downside growth risks
- Fading uncertainty around inflation outlook allows the Fed and ECB to front-load rate cuts

### Key market movers

- Tue: US retail sales, German ZEW
- Wed: FOMC meeting, final euro area inflation data
- Thu: BoE and Norges Bank meeting
- Fri: Japanese CPI, BoJ meeting

### Selected reading from Danske Bank

- *Flash: ECB Review - A cut and no rate guidance*, 12 September
- *Global Inflation Watch - Inflation expectations heading lower*, 11 September
- *Research US - Fed preview: Dovish 25bp*, 13 September

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# Scandi market movers

- In **Denmark**, next week brings consumer confidence for September on Friday. The overall figure dropped in August after reaching its highest level since 2022 in June, though all the while it has been in negative territory meaning most consumers are still pessimistic. With rising real wages and signals of a strong labour market, we expect an improvement in September, to -5.

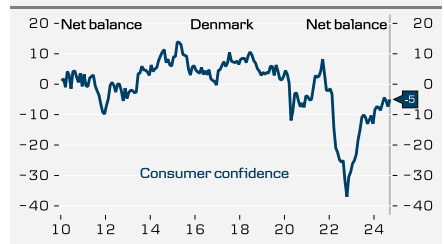
Payrolls for July are also due on Friday. Unemployment increased in July which is a signal that we could see a weak print, however, the number of new vacancies and open positions were still at high levels in July. It will also be interesting to gauge the employment of foreign workers, which has dropped since its peak in April. Foreign workers are typically the first to be laid off but have an asymmetrical impact on payrolls and unemployment data as they often do not show up in the latter statistic.

- Next week's schedule is relatively quiet regarding **Sweden's** macroeconomic events, with the Labour Market Survey being the highlight on Wednesday. Although an upward trend in the unemployment rate seems inevitable, the overall labour market remains fine. Hiring plans continue to be optimistic, yet we anticipate a slight increase in the unemployment rate over the coming months (current level at 8.5% s.a.). However, we expect it to stabilize and begin to decline by 2025, reaching 8% by year-end 2025. For next week's outcome, we anticipate a slight decrease in unemployment as the summer months end. However, there is a risk that this improvement might be postponed until the September figures are released.

Particularly noteworthy next week will be the employment rate and hours worked. After observing a decline in hours worked for two consecutive months, we are optimistic that this could reverse in August, shifting towards a positive outcome.

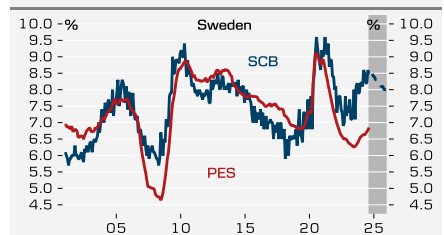
- In **Norway**, we expect that Norges Bank (NB) will keep the policy rate unchanged at 4.5% at the monetary policy meeting next week, and that the rate path published in the new monetary policy report will signal a somewhat faster decline through 2025-27 than indicated in June. The uncertainty is therefore mainly related to whether NB will open the door to cutting rates already this year. Since the meeting in June, when NB signaled that the policy rate would be kept unchanged until after the New Year, we have seen some large movements in the financial markets. However, these movements affect the rate path in opposite ways, where a clearly weaker exchange rate pulls in the direction of a higher rate path, while lower global interest rates and a lower oil price pull in the opposite direction. Of the more fundamental factors, inflation has been somewhat lower than expected, economic growth lower than expected, while unemployment has risen moderately as expected. The regional survey points to somewhat weaker growth than previously expected, but capacity utilization is increasing. The latter means that the estimate for the output gap is unlikely to change, so that domestic growth will appear neutral on the interest rate path. As the level of activity is more or less at normal levels, NB does not face a trade-off between inflation and growth but can focus entirely on bringing inflation back to the target. With core inflation well above the target and the krone exchange rate at these levels, it suggests that NB will not open the door to cutting rates already this year.

We expect consumer confidence to improve in September



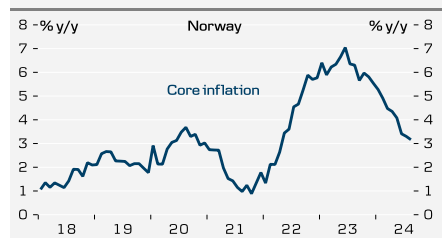
Sources: Statistics Denmark, Macrobond Financial, Danske Bank

Unemployment rate



Source: Statistics Sweden, PES, Macrobond Financial, Danske Bank

Inflation well above the 2% target



Kilde: Statistics Norway, Macrobond Financial, Danske Bank

# Scandi Update

## Denmark – inflation increased less than expected in August while spending growth picked up

Inflation increased to 1.4% in August, which was slightly less than we had expected. The uptick reflects base effects from increased electricity prices while food prices also increased. Conversely, the notoriously volatile holiday home rental prices dragged the overall figure down. Thus, no signs of higher underlying price pressure – yet. As we go into autumn, we expect the real wage increases to boost demand and for firms to start passing the increased costs on to consumers, which will lift inflation slightly above 2%.

Spending growth picked up in August, card data from Danske Bank showed (*Spending Monitor*, 10 September), with spending excl. energy up 2.8% y/y, meaning real spending was up 1.6%. Restaurant spending performed well, and bars and nightclubs also had a nice August, while travel spending posted a modest decrease in real terms. Retail spending was a mixed bag, as grocery- and sporting goods spending picked up while clothing- and bookstore spending declined.

The surplus on the goods balance remained elevated in July, in particular due to an increase in exports of goods that cross the border, such as machinery. A strong industrial production print from last week had signalled this development. Exports in general also remained strong suggesting the Q2 strength has continued into Q3.

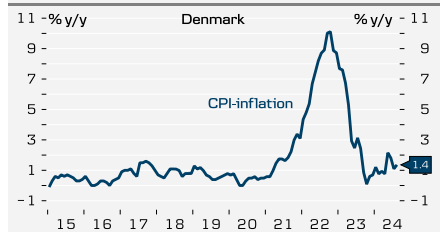
## Sweden – how will Riksbank handle diverging headline and core inflation?

Even though both CPIF and CPIF excl. energy overshot our August forecasts slightly, the former significantly undershot Riksbank’s forecast and to some extent also market consensus. CPIF excl. energy was bang in line with Riksbank’s forecast and market consensus. There were no major deviations to our forecasts for the underlying price components.

Looking forward, incorporating energy data up to 12 September, our preliminary take on the September outcome is that core inflation should slow to 1.9 % y/y in line with Riksbank’s forecast. That said, still-low electricity prices and a drop in global petrol prices will pull down CPIF further to 0.9% y/y. Importantly, we do not expect a more significant drop in CPIF excl. energy until January 2025. This has to do with our assumption that the upcoming rent negotiations this fall will result in significantly lower rent agreements in 2025 than what has been the case over the past two. The bulk of these agreements usually come into effect in January each year.

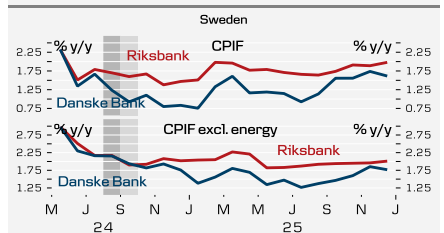
At the September monetary policy meeting, Riksbank policy board members will have the opportunity to lay out their views on the current divergence between headline and core CPIF and why they prefer to act on one of them but not the other. Our understanding is that they currently focus on core inflation, however, there is probably a limit to how much focus they can put on core rather than the target variable CPIF.

Inflation increased to 1.4% in August



Source: Statistics Denmark, Macrobond Financial, Danske Bank

Low August CPIF inflation set to fall below 1% in September

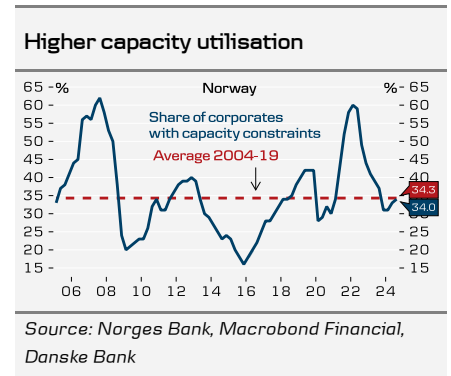


Source: SCB, Riksbank, Macrobond Financial, Danske Bank

## Norway – inflation remains above target, activity at normal levels

Core inflation fell to 3.2% y/y in August. Having said that, the reduction in the maximum price for kindergartens helped to reduce inflation by approximately 0.3 pp according to Statistics Norway. Disregarding this effect, which it can be argued that you should if you want to look at the underlying inflationary pressure, core inflation was unchanged at 3.5%. Hence, the disinflationary trend seems to be continuing, but at a somewhat slower pace. In August, import prices in particular surprised to the upside, and this may be a signal that the krone's weakening over the summer is starting to affect the retail prices of imported goods.

The regional survey showed that companies now expect growth of 0.2% in the current quarter and the next quarter, indicating that the period of moderate growth continues. But at the same time capacity utilization increased from 33% to 34%, which is roughly in line with the historical average. This indicates that the level of activity in Norway is now approximately at normal levels, even if growth remains weak.



# Calendar – 16-20 September 2024

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During the week				Period	Danske Bank	Consensus	Previous
Sat 14	CNY	Fixed assets investments	y/y	Aug		3.5%	3.6%
Sat 14	CNY	Industrial production	y/y	Aug		4.7%	5.1%
Sat 14	CNY	Retail sales	y/y	Aug		2.5%	2.7%
Monday, September 16, 2024				Period	Danske Bank	Consensus	Previous
8:00	NOK	Trade balance	NOK bn	Aug			59.3
10:00	ITL	HICP, final	m/mly/y	Aug		... 1.3%	... 1.3%
11:00	EUR	Trade balance	EUR bn	Jul			17.5
11:00	EUR	Labour costs	y/y	2nd quarter			5.1%
14:30	USD	Empire Manufacturing PMI	Index	Sep		-3.9	-4.7
Tuesday, September 17, 2024				Period	Danske Bank	Consensus	Previous
11:00	DEM	ZEW current situation	Index	Sep		-80.0	-77.3
11:00	DEM	ZEW expectations	Index	Sep		17.5	19.2
14:30	USD	Retail sales control group	m/m	Aug		0.3%	0.3%
14:30	CAD	CPI	m/mly/y	Aug		... 2.1%	... 2.5%
15:15	USD	Capacity utilization	%	Aug		77.9%	77.8%
15:15	USD	Industrial production	m/m	Aug		0.1%	-0.6%
15:15	USD	Manufacturing production	m/m	Aug		-0.1%	-0.3%
16:00	USD	NAHB Housing Market Index	Index	Sep		40.0	39.0
Wednesday, September 18, 2024				Period	Danske Bank	Consensus	Previous
1:50	JPY	Exports	y/y (%)	Aug		0.1	0.1
1:50	JPY	Import	y/y (%)	Aug		0.2	0.2
1:50	JPY	Trade balance, s.a.	JPY bn	Aug		-976	-755.2
8:00	GBP	CPI	m/mly/y	Aug		0.3% 2.2%	-0.2% 2.2%
8:00	GBP	CPI core	y/y	Aug		3.5%	3.3%
11:00	EUR	HICP inflation, final	m/mly/y	Aug	0.2% 2.2%	0.2% 2.2%	0.2% 2.2%
11:00	EUR	HICP - core inflation, final	y/y	Aug	2.8%	2.8%	2.8%
14:30	USD	Building permits	1000 (m/m)	Aug		1410	1396.0 (-3.3%)
14:30	USD	Housing starts	1000 (m/m)	Aug		1311	1238.0 (-6.8%)
16:30	USD	DOE U.S. crude oil inventories	K				833
20:00	USD	FOMC meeting	%		5.25%	5.25%	5.50%
20:00	USD	Fed chair Powell speaks					
22:00	USD	TICS international capital flow, Net inflow	USD bn	Jul			107.5
Thursday, September 19, 2024				Period	Danske Bank	Consensus	Previous
0:45	NZD	GDP	q/qly/y	2nd quarter		-0.4% -0.6%	0.2% 0.3%
3:30	AUD	Employment change	1000	Aug		25	58.2
10:00	NOK	Norges Banks monetary policy meeting	%		4.50%	4.50%	4.50%
10:00	EUR	Current account	EUR bn	Jul			50.5
11:00	EUR	ECB's Schnabel speaks					
13:00	GBP	BoE minutes					
13:00	GBP	BoE Bank rate	%		5.0%	5.0%	5.0%
13:00	TRY	Central Bank of Turkey rate decision	%		50.0%	50.0%	50.0%
14:30	USD	Initial jobless claims	1000				230
14:30	USD	Current account	USD bn	2nd quarter		-261.0	-237.6
14:30	USD	Philly Fed index	Index	Sep		0.9	-7.0
16:00	USD	Existing home sales	m (m/m)	Aug		3.9	3.95 0.013
16:40	EUR	ECB's Schnabel speaks					
Friday, September 20, 2024				Period	Danske Bank	Consensus	Previous
-	JPY	BoJ monetary policy announcement	%		0.25%	0.25%	0.25%
1:01	GBP	GfK consumer confidence	Index	Sep		-12.0	-13.0
1:30	JPY	CPI - national ex. fresh food	y/y	Aug		2.8%	2.7%
1:30	JPY	CPI - national	y/y	Aug		3.0%	2.8%
8:00	GBP	Retail sales ex fuels	m/mly/y	Aug		0.5% 1.1%	0.7% 1.4%
8:00	DKK	Consumer confidence	Net. bal.	Sep	-5		-7.4
8:45	FRF	Business confidence	Index	Sep		98.0	97.0
14:30	CAD	Retail sales	m/m	Jul		0.4%	-0.3%
16:00	EUR	Consumer confidence, preliminary	Net bal.	Sep		-13.0	-13.5
17:00	EUR	ECB's Lagarde speaks					

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>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
Denmark	2023	2.5	1.3	0.2	-6.6	10.4	3.7	3.3	4.1	2.8	3.3	33.6	9.8
	2024	1.8	1.0	1.7	-1.8	3.7	0.8	1.5	5.1	2.9	2.1	32.0	10.1
	2025	2.0	2.1	2.6	3.8	2.6	3.3	1.9	3.5	3.1	1.1	30.5	10.9
Sweden	2023	0.1	-2.2	1.1	-1.1	3.5	-0.8	8.6	3.8	7.7	-0.5	32.0	4.8
	2024	1.2	0.1	0.8	-1.8	2.4	0.8	2.8	3.5	8.4	-0.8	33.0	5.6
	2025	2.4	2.6	1.9	1.6	3.5	3.3	0.6	2.5	8.2	-0.2	33.0	5.7
Norway	2023	1.1	-0.8	3.4	0.0	1.4	0.7	5.5	5.3	1.8	-	-	-
	2024	0.7	1.3	2.2	4.0	3.0	1.5	3.2	5.1	2.1	-	-	-
	2025	2.0	2.9	1.8	4.0	3.0	2.0	2.0	3.8	2.4	-	-	-

## 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>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
Euro area	2023	0.5	0.8	1.2	1.1	-0.4	-0.7	5.4	5.2	6.6	-3.6	90.2	2.9
	2024	0.7	0.8	1.2	-0.5	1.3	-0.2	2.4	4.3	6.5	-3.0	90.1	2.8
	2025	1.2	1.3	0.8	1.3	3.0	3.1	2.1	3.4	6.6	-2.9	90.7	2.9
Finland	2023	-1.2	0.2	3.4	-8.8	-0.1	-6.6	6.3	4.2	7.2	-2.7	76.6	-1.1
	2024	-0.4	0.2	0.5	-5.0	-1.0	-1.5	1.9	3.0	8.3	-4.1	80.3	-0.7
	2025	1.8	1.2	0.2	5.0	3.0	3.5	1.5	3.0	8.0	-3.5	81.8	-0.5

## 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>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
USA	2023	2.5	2.2	4.1	0.6	2.6	-1.7	4.1	4.3	3.6	-6.3	122.3	-3.0
	2024	2.5	2.1	3.4	4.1	2.0	4.1	2.9	3.2	4.1	-6.7	123.1	-2.8
	2025	1.5	1.2	2.6	3.5	1.9	4.5	2.4	2.5	4.7	-6.5	125.1	-2.6
China	2023	5.2	6.6	-	4.6	-	-	0.2	-	5.2	-7.1	83.6	1.5
	2024	4.8	4.5	-	5.0	-	-	0.3	-	5.2	-7.4	88.6	1.3
	2025	4.8	5.6	-	4.5	-	-	1.5	-	5.2	-7.6	93.0	1.4
UK	2023	0.1	-	-	-	-	-	7.3	-	4.0	-	-	-
	2024	1.1	-	-	-	-	-	2.8	-	4.6	-	-	-
	2025	1.4	-	-	-	-	-	1.9	-	4.9	-	-	-

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*	12-Sep	5.50	-	3.43	3.18	0.91	-	6.76	10.78	10.32
	+3m	5.00	-	3.60	3.45	0.92	-	6.84	10.64	10.46
	+6m	4.50	-	3.45	3.45	0.93	-	6.90	11.02	10.83
	+12m	3.75	-	3.25	3.50	0.93	-	6.97	11.40	10.93
EUR	12-Sep	3.50	3.48	2.44	2.36	-	1.10	7.4626	11.89	11.39
	+3m	3.25	3.15	2.65	2.65	-	1.09	7.4575	11.60	11.40
	+6m	3.00	2.90	2.55	2.65	-	1.08	7.4550	11.90	11.70
	+12m	2.50	2.51	2.45	2.65	-	1.07	7.4550	12.20	11.70
JPY	12-Sep	0.25	-	-	-	0.006	0.007	4.75	7.56	7.24
	+3m	0.25	-	-	-	0.006	0.007	4.78	7.44	7.31
	+6m	0.50	-	-	-	0.007	0.007	4.93	7.87	7.74
	+12m	1.00	-	-	-	0.007	0.007	5.16	8.45	8.10
GBP*	12-Sep	5.00	-	3.78	3.41	1.19	1.07	8.84	14.10	13.50
	+3m	4.75	-	3.80	3.65	1.20	1.31	8.98	13.98	13.73
	+6m	4.50	-	3.60	3.65	1.19	1.29	8.88	14.17	13.93
	+12m	3.50	-	3.25	3.65	1.18	1.26	8.77	14.35	13.76
CHF	12-Sep	1.25	-	-	-	1.06	1.17	7.92	12.62	12.08
	+3m	0.75	-	-	-	1.04	1.14	7.77	12.08	11.88
	+6m	0.75	-	-	-	1.05	1.14	7.85	12.53	12.32
	+12m	0.75	-	-	-	1.06	1.14	7.93	12.98	12.45
DKK	12-Sep	3.10	3.36	2.54	2.50	0.134	0.148	-	1.59	1.53
	+3m	2.85	3.10	2.75	2.80	0.134	0.146	-	1.56	1.53
	+6m	2.60	2.85	2.65	2.80	0.134	0.145	-	1.60	1.57
	+12m	2.10	2.41	2.55	2.80	0.134	0.144	-	1.64	1.57
SEK	12-Sep	3.50	3.26	2.08	2.13	0.088	0.097	0.66	1.04	-
	+3m	3.00	2.83	2.30	2.60	0.088	0.096	0.65	1.02	-
	+6m	2.50	2.38	2.40	2.75	0.085	0.092	0.64	1.02	-
	+12m	2.00	2.05	2.40	2.85	0.085	0.091	0.64	1.04	-
NOK	12-Sep	4.50	4.78	3.70	3.32	0.084	0.093	0.63	-	0.96
	+3m	4.50	4.75	3.75	3.50	0.086	0.094	0.64	-	0.98
	+6m	4.50	4.50	3.65	3.55	0.084	0.091	0.63	-	0.98
	+12m	4.00	4.01	3.55	3.60	0.082	0.088	0.61	-	0.96

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

## Commodities

	12-Sep	2024				2025				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025
ICE Brent	72	82	85	80	80	85	85	85	85	82	85

Source Danske Bank

## Disclosures

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