

15 March 2024

Weekly Focus

Will the SNB lead the way in the cutting cycle?

US inflation data was the centre of attention this week for financial markets, as price pressures remain elevated. Monthly core CPI inflation of 0.4% for the second consecutive month is too high for the Fed as strong wage growth pushes service prices higher at an annualised 7% pace. Markets zigzagged somewhat on the release but in the end the outcome was higher global yields. Producer prices and New York Fed inflation expectations added to the impression of a sustained inflation pressure in the US, with both increasing more than expected. It supported the move higher in yields and strengthened USD. On the dovish side, retail sales were weaker than expected, a challenging combination for the Fed.

With risk appetite improving through the week, prices for oil and industrial metals have also increased. Oil traded back above USD 85 per barrel in a week where an IEA report indicated an expected deficit in the oil market this year on the back of OPEC+ production cuts.

We have seen signs of global manufacturing bottoming out over the past couple of months. The data does not support any kind of boom, though, and we got some further weakening signs this week. **Euro area industrial production was down 3.2% m/m in January, implying we will see no growth contribution from here until Q2 or Q3.** At the same time, Asian export data, a leading indicator of global manufacturing, have been to the weak side.

In Japan, the biggest labour union federation released the first tally of this year's pay deals. This largely reflects **big businesses which got 5.28%, close to what they asked for.** The big question, however, remains whether this will rub sufficiently off on SMEs, where wage increases have been very modest so far. Elsewhere in Asia, the Chinese housing market continues to struggle as prices declined 1.4% y/y in February, the biggest annual drop in 13 months. The Peoples Bank of China kept rates unchanged as it likely awaits clearer signals of Fed easing.

Next week has a very busy central bank schedule. We expect no changes at the FOMC meeting but will look for clues about the timing of rate cuts and the end game for QT. **We could also be in for an unusual couple of days with a Bank of Japan rate hike followed by an SNB cut two days later.** While we expect the BoJ to hold the horses until April, we do expect a cut from the SNB. Both are close calls, though.

On the data front, we will start next week with key Chinese data on home and retail sales covering the first two months of the year. It will give us important information on the state of the housing crisis and the Chinese consumer. Thursday is PMI-day and it will be particularly interesting to see if the upward trend in global manufacturing PMIs continues after the recent signs of setback. In Japan we will look closely at the second wage tally at the end of the week.

Key global views

- Weak near-term growth outlook in the US and Europe, but recovery from summer 2024
- US and euro inflation set to decline further, but core inflation to remain sticky
- The Fed to cut in May, ECB in June

Key market movers

- Monday: Chinese home and retail sales, final EA inflation data
- Tuesday: BoJ and RBA meeting, German ZEW
- Wednesday: FOMC meeting, EA consumer confidence, UK CPI
- Thursday: EA, UK, US, Japan PMIs, BoE and SNB meeting
- Friday: German IFO, Second Japanese wage tally and CPI

Selected reading from Danske Bank

- *Global Inflation Watch - Underlying services inflation remains elevated*, 12 March
- *Research Japan - BoJ hike in sight - but no reason to rush*, 15 March

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Scandi market movers

- In **Denmark**, on Wednesday we get consumer confidence for March. Sentiment improved throughout 2023 but stabilised in deep negative territory at the end of the year. This pessimism is a bit of a surprise given the very low unemployment rate and rising real wages, but it appears that household sentiment continues to be formed by the chock of high inflation in recent years. However, with Inflation still printing lower, and the recently concluded public sector wage negotiations resulting in fairly high pay rises for the coming years we expect to see confidence improve and print at -6 for March.

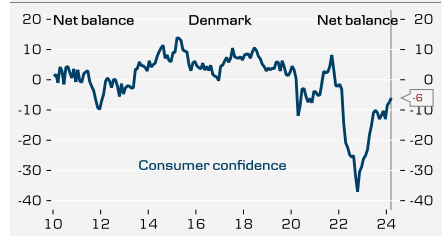
Thursday brings business confidence for March. Business confidence improved in February, particularly in manufacturing which has previously been very pessimistic. Overall sentiment was still in negative territory leaving some way to go.

Also on Thursday, we get monthly home sales for February, from Boligsiden. Apartment sales took a dive in January, with a 30.6% drop compared to December, driven by the new housing taxation scheme, which has a significant adverse effect on apartments. House sales also declined, with the figure showing 6.5% fewer sales than in December. Data from the broker *home* suggests a slight drop in February, as outlined in *Boligbrief – Februar 2024*. We expect Boligsiden’s statistics to show the same picture.

- **Sweden** next week lacks any statistic releases worth highlighting. Other than that, Riksbank Deputy Governor Flodén speaks on the economic situation and current monetary policy.

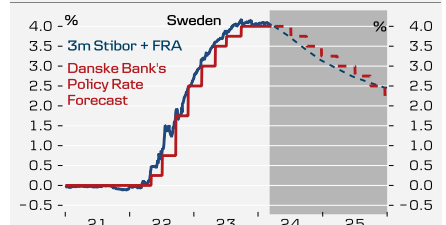
- In **Norway**, we expect Norges Bank (NB) to keep the policy rate unchanged at 4.5% at rate meeting on 21 March. We also believe NB reiterates that the policy rate will probably be kept at this level for quite some time to come. In December, the interest rate path in the Monetary policy report indicated that the policy rate will most likely be kept unchanged until September, while a full cut was not until the end of the year. Since December, there have been a mixed picture where global rates and the oil price/oil investments will pull the rate path upwards whereas a stronger NOK and lower inflation will pull in the opposite direction. Overall, we are expecting a downward adjustment of the rate path by 10-15 bp. In that case, it will move the rate path approximately one quarter closer in time, and open the door for a cut already in June. This is of course supported by the fact that inflation is now about a quarter ahead of schedule, i.e. core inflation in Q1 will be roughly at the same level as what NB expected for Q2. However, we recognize that central bank are risk managers, and given that both wage and price growth are still high, NB will probably be sure that inflation is on the way down before they open the door to rate cuts. This clearly suggests that NB will use its discretion to adjust the rate path upwards, so that the probability of a June cut ends up below 50%. But at the same time, NB must deal with the fact that inflation appears to be decreasing faster than expected. In December, NB wrote in the risk assessment: ‘If there is a more pronounced slowdown in the Norwegian economy or inflation declines more rapidly, the policy rate may be lowered earlier than currently envisaged.’ Hence, NB will signal a significant probability for a cut in June, should inflation continue to moderate at the current pace in the coming months.

We expect that confidence improved in March



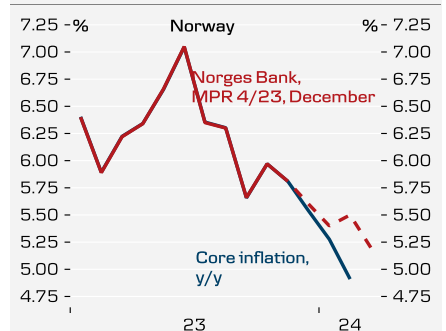
Sources: Statistics Denmark, Danske Bank

Money Market Pricing & Danske Bank's Forecast



Source: Macrobond, Sveriges Riksbank, Danske Bank

Inflation falling faster than expected



Kilde: Macrobond, Danske Bank

Scandi update

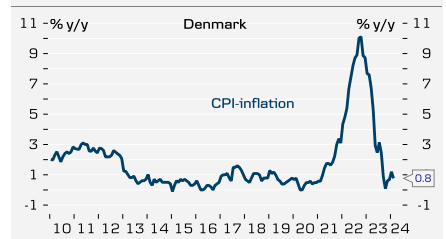
Denmark – Inflation declined more than expected in February

Inflation declined to 0.8% y/y in February from 1.2% in January. On a monthly basis, prices increased 0.5%. However, this was particularly due to seasonality, as the past year’s rent increases are largely captured in the February print, and once you adjust for this, prices were on average unchanged from January to February. It is the same story for core inflation. Digging deeper, food prices continued to decline in February, showing a 0.4% drop m/m. Conversely, service prices gained 1.0% as wage increases weigh on costs. We expect that pressure from wage increases will contribute to increasing inflation in the coming months, but all in all, February’s print indicates that inflation has normalized in Denmark.

Unemployment increased by 300 persons in February, and January’s decline was revised to a 0. This is evident from the latest unemployment indicator. We are back to the picture of a modestly increasing unemployment figure, coupled with increasing employment. This tendency reflects a growing workforce on one hand, but also that the labour market is cooling on the other. Going forward, we expect that wage pressures will push unemployment up, but at a slow pace due to increasing activity.

The current account surplus declined to 25.5 bn. in January. After increasing in December, the surplus on service trade almost disappeared in January and the surplus on goods not crossing the Danish border also decreased. The overall surplus is still at a high level comparable to the first half of 2023, but not at the record highs seen during 2022.

The CPI gained just 0.8% y/y in February



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sweden – Riksbank hearing & February inflation down under

Public Employment Service (PES) reported that unemployment increased to 6.8 (6.6 seasonally adjusted) in February. PES’ market analyst commented the increase that it is a bit worrisome. But he added, like we have been arguing for a while, that if you put it in perspective and compare the development to the ones in earlier recessions, the situation is not close to being as severe. The thing that worries him is that long term employment is steadily increasing, however this is not connected to any business cycle factors but rather long-term and structural factors in the economy. He also stated that their overall former assessments and its forecasts stands unchanged. Their forecast for 2024 is that their unemployment measure will average 6.6% while the official Labour Force Survey unemployment rate from Statistics Sweden will be 8.3%, which is the same as ours.

The Executive Board took part in an open hearing at the Committee on Finance about the Riksbank’s operations and its Annual Report for 2023, as well as current monetary policy. Governor Thedén clarified that even though they left the policy rate unchanged at the monetary policy meeting in February, they still actually took a decision. The important decision that they took was to talk about rate cuts for the first time in two years and officially leaving their restrictive stance. This stand clearly in contrast to the communication from ECB’s President Lagarde at their last monetary policy meeting. She on the other hand stated that governing council of the ECB did not discuss any rate cuts on their last meeting and are just beginning to discuss the dialling back of their restrictive stance (despite having a lower inflation in most aspects in comparison to Sweden).

Deputy Governor Jansson also stated when being asked during the hearing to compare the service inflation situations in Sweden and in the US, that Sweden are in a more favourable position now. He thought that the Fed cannot yet fully be sure that no demand driven inflation still lingers in the American economy and that it therefore might be hard in their

Sweden: February inflation down under Riksbank expectations

February		Danske	Market	Riksbank	Actual	Diff vs Riksbank
CPI	% m/m	0.1	0.4		0.2	
	% y/y	4.4	4.7	5.5	4.5	-0.1
CPIF	% m/m	0.1	0.3		0.2	
	% y/y	2.4	2.8	2.9	2.5	-0.4
CPIF excl. Energy	% m/m	0.6	0.7		0.6	
	% y/y	3.5	3.6	3.7	3.5	-0.2

Source: SCB, Danske Bank, Bloomberg, Riksbank

“last mile” in reaching the inflation target. On the other hand, he said that the Riksbank was more secure that there were no underlying inflation pressure sparking in the real Swedish economy and that it therefore will be easier for them than the US to reach the inflation target. Rather the contrary, he saw a risk of using too restrictive monetary policy that instead could cause the inflation rate to end up below the target.

All basic measures of February inflation turned out below or even well below Riksbank’s forecast. While core CPIF excl. Energy inflation was spot on our forecast, CPIF and CPI was both a tenth above. That said, the outcome was overall below market consensus. All this is in the withstanding table.

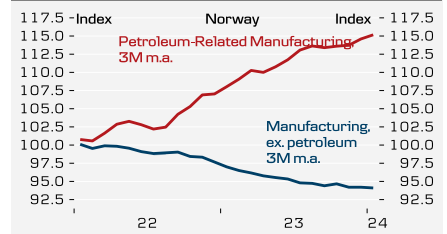
Frontloaded inflation (% 3m SAAR), is even lower: CPIF at 2.1 % and CPIF excl. Energy at 2.8 %. Measured this way goods and imported inflation rare both actually negative (-1.3 % and -0.8 % resp.). Hence, it is services that keeps core inflation higher, but not just any services inflation. It is actually “housing services” i.e. the component that contains mortgage costs, rents and tenant-owner apartment monthly charges, that pulls it higher. These are of course a direct bi-product of Riksbank’s previous tightening, currently adding to core inflation. If you also strip out heating you get Services ex. Housing which rose by 2.8% 3m SAAR, not at all that bad.

We see no reason to change our view on Riksbank start cutting by end-June as this outcome was very much in line with our forecast.

Norway – the cooling continues, at a lower pace

The regional survey indicates that the cooling of the Norwegian economy continues, but at a somewhat lower pace than in Q1. The corporates expect a moderate fall in Q1 and zero growth in Q2. In terms of sectors, there is less pessimism in the retail sector and somewhat less optimism in oil-related industry. The service sectors now look brighter on Q2, and there is still the greatest pessimism in construction. Capacity utilization was unchanged at 31%, which is well below the level from before the pandemic (42%) and lower than the historical average (34%), which indicates that the economy is in a mild recession. The proportion of companies reporting labour shortages to limit growth was unchanged at 21%, which is also lower than pre-pandemic (25%) and the historical average. The companies in the Regional survey now expect wage growth of 4.9% this year, up from 4.5% in the December survey. This is somewhat lower than NB’s estimate from PPR in December (5.0%), but keep in mind that these are the employers. Expectations for employment growth were marginally adjusted upwards, and companies expect moderate growth (0.1%) in both Q1 and Q2. Businesses still expect a 3% drop in investment this year, and expect a moderate drop in 2025. All in all, a report that confirms that the economy is cooling, and that pressures are easing and are now below normal levels.

Two counteracting forces to the manufacturing sector



Source: Macrobond, Danske Bank

Calendar – 18-22 March 2024

Monday, March 18, 2024				Period	Danske Bank	Consensus	Previous
3:00	CNY	Fixed assets investments	y/y	Feb		3.2%	
5:00	NOK	GDP (mainland)	m/m	Jan	0.0%		-0.1%
11:00	EUR	HICP inflation	m/mly/y	Feb	0.6% 2.6%	0.6% 2.6%	0.6% 2.6%
11:00	EUR	HICP - core inflation	y/y	Feb	3.1%	3.1%	3.1%
11:00	EUR	Trade balance	EUR bn	Jan			13
17:00	USD	NAHB Housing Market Index	Index	Mar		48.0	48.0
Tuesday, March 19, 2024				Period	Danske Bank	Consensus	Previous
9:00	AUD	Reserve Bank of Australia rate decision	%		4.35%	4.35%	4.35%
10:00	JPY	Industrial production, final	m/mly/y	Jan			-7.5% -1.5%
13:00	DEM	ZEW expectations	Index	Mar		20.5	19.9
13:30	EUR	Labour costs	y/y	4th quarter			5.3%
13:30	DEM	ZEW current situation	Index	Mar		-79.4	-81.7
16:00	USD	Building permits	1000 (m/m)	Feb		1500	1470.0 (-0.3%)
16:30	USD	Housing starts	1000 (m/m)	Feb		1430	1331.0 (-14.8%)
16:30	CAD	CPI	m/mly/y	Feb		-13.1%	-12.9%
Wednesday, March 20, 2024				Period	Danske Bank	Consensus	Previous
5:00	USD	TICS international capital flow, Net inflow	USD bn	Jan			139.8
8:00	JPY	BoJ policy rate	%		-0.10%	-0.10%	-0.10%
10:00	GBP	CPI	m/mly/y	Feb		0.7% 3.6%	-0.6% 4.0%
10:00	GBP	CPI core	y/y	Feb		4.6%	5.1%
10:00	DKK	Consumer confidence	Net. bal.	Mar	-6		-7.4
11:00	EUR	ECB's Lagarde speaks					
17:00	EUR	ECB's Schnabel speaks					
20:00	USD	DOE U.S. crude oil inventories	K				-1536
Thursday, March 21, 2024				Period	Danske Bank	Consensus	Previous
-	USD	Initial jobless claims	1000				209
0:50	EUR	Consumer confidence, preliminary	Net bal.	Mar		-15.0	-15.5
8:45	USD	FOMC meeting	%		5.50%	5.50%	5.50%
9:00	USD	Fed chair Powell speaks					
10:00	NZD	GDP	q/qly/y	4th quarter		0.1% 0.0%	-0.3% -0.6%
10:00	JPY	Exports	y/y (%)	Feb		0.1	0.1
10:00	JPY	Import	y/y (%)	Feb		0.0	-0.1
10:00	JPY	Nikkei Manufacturing PMI, preliminary	Index	Mar			47.2
10:00	JPY	Trade balance, s.a.	JPY bn	Feb		-850.3	235.3
10:30	JPY	Markit PMI services, preliminary	Index	Mar			52.9
10:30	AUD	Employment change	1000	Feb		40	0.5
13:00	FRF	Business confidence	Index	Mar			98.0
13:30	FRF	PMI manufacturing, preliminary	Index	Mar		47.3	47.1
13:30	FRF	PMI services, preliminary	Index	Mar		48.5	48.4
13:30	CHF	SNB policy rate	%		1.50%	1.75%	1.75%
13:30	DEM	PMI manufacturing, preliminary	Index	Mar		44.0	42.5
13:30	DEM	PMI services, preliminary	Index	Mar		48.8	48.3
14:00	NOK	Norges Banks monetary policy meeting	%		4.50%		4.50%
14:00	EUR	PMI manufacturing, preliminary	Index	Mar	47.2	47.1	46.5
14:00	EUR	PMI composite, preliminary	Index	Mar		49.8	49.2
14:00	EUR	PMI services, preliminary	Index	Mar	50.5	50.5	50.2
14:00	EUR	Current account	EUR bn	Jan			31.9
14:00	EUR	ECB Publishes Economic Bulletin					
16:30	GBP	PMI manufacturing, preliminary	Index	Mar		47.7	47.5
16:30	GBP	PMI services, preliminary	Index	Mar		54.0	53.8
18:00	TRY	Central Bank of Turkey rate decision	%		45.00%	45.00%	45.00%
19:00	USD	Current account	USD bn	4th quarter		-209.5	-200.3
19:00	GBP	BoE minutes					
19:00	GBP	BoE Bank rate	%		5.25%	5.25%	5.25%
21:30	USD	Philly Fed index	Index	Mar		-4.0	5.2
Friday, March 22, 2024				Period	Danske Bank	Consensus	Previous
1:01	USD	Markit PMI manufacturing, preliminary	Index	Mar		51.8	52.2
1:24	USD	Markit PMI service, preliminary	Index	Mar		52.0	52.3
5:00	USD	Existing home sales	m (m/m)	Feb		3.92	4.00 0.031
15:00	JPY	CPI - national	y/y	Feb		2.9%	2.2%
15:30	JPY	CPI - national ex. fresh food	y/y	Feb		2.8%	2.0%
18:00	GBP	GfK consumer confidence	Index	Mar		-20.0	-21.0

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	2023	1.8	1.3	0.0	-5.0	12.5	7.7	3.3	4.1	2.8	3.5	29.7	13.2
	2024	2.1	2.2	1.3	-1.9	8.8	6.3	2.0	5.3	3.0	1.9	28.0	12.5
	2025	2.0	1.7	1.8	2.4	1.9	1.7	1.9	3.6	3.1	1.1	26.7	12.5
Sweden	2023	0.2	-2.5	1.8	-1.2	3.7	-0.6	8.6	3.8	7.7	-0.4	29.0	5.8
	2024	1.5	1.7	0.7	-0.5	3.0	2.9	2.5	3.3	8.3	-0.8	30.0	5.9
	2025	2.0	2.4	1.5	2.7	3.2	3.8	1.0	2.5	8.1	-0.8	30.0	5.6
Norway	2023	1.1	-0.7	3.6	0.3	1.4	0.7	5.5	5.3	1.8	-	-	-
	2024	1.1	1.3	2.0	4.0	3.5	1.5	3.8	4.7	2.3	-	-	-
	2025	2.1	2.5	1.6	4.0	2.0	1.8	2.0	3.5	2.5	-	-	-

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	2023	0.5	0.6	0.7	1.4	-0.9	-1.4	5.4	4.5	6.5	-3.2	90.6	2.5
	2024	0.5	0.7	0.9	1.8	1.2	1.9	2.4	4.3	6.6	-2.9	89.9	2.0
	2025	1.3	1.5	1.0	1.2	2.9	3.1	2.1	3.4	6.6	-2.7	89.0	2.0
Finland	2023	-1.0	0.4	3.8	-4.2	-1.7	-7.1	6.3	4.2	7.2	-2.7	75.8	-1.4
	2024	-0.4	0.2	0.1	-1.5	-2.0	-1.0	2.0	3.5	7.9	-3.6	78.0	-0.4
	2025	1.9	1.2	0.2	4.0	3.0	2.5	1.6	2.5	7.4	-2.8	78.7	0.0

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	2023	2.5	2.2	4.0	0.6	2.7	-1.6	4.1	4.3	3.6	-5.8	124.6	-3.0
	2024	2.0	1.6	3.5	2.1	2.3	2.8	3.0	3.2	3.9	-5.8	126.8	-2.8
	2025	1.4	1.1	2.0	3.6	2.9	4.4	0.0	2.5	4.2	-5.8	128.6	-2.6
China	2023	5.2	6.6	-	4.6	-	-	0.2	-	5.2	-7.1	83.0	1.5
	2024	4.5	5.5	-	3.8	-	-	0.7	-	5.2	-7.0	87.4	1.4
	2025	4.5	5.5	-	3.8	-	-	1.5	-	5.2	-7.3	91.8	1.1
UK	2023	0.1	-	-	-	-	-	7.3	-	4.0	-	-	-
	2024	0.0	-	-	-	-	-	2.5	-	4.5	-	-	-
	2025	1.0	-	-	-	-	-	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*	14-Mar	5.50	-	4.56	3.88	0.92	-	6.85	10.56	10.33
	+3m	5.25	-	4.20	3.90	0.94	-	7.03	10.75	10.75
	+6m	5.00	-	3.99	3.90	0.95	-	7.10	11.14	11.05
	+12m	4.50	-	3.80	3.90	0.96	-	7.16	11.44	11.15
EUR	14-Mar	4.00	3.89	3.20	2.67	-	1.09	7.4570	11.50	11.25
	+3m	3.75	3.64	2.89	2.70	-	1.06	7.4550	11.40	11.40
	+6m	3.50	3.43	2.74	2.70	-	1.05	7.4500	11.70	11.60
	+12m	3.00	2.95	2.50	2.70	-	1.04	7.4500	11.90	11.60
JPY	14-Mar	-0.10	-	-	-	0.006	0.007	4.62	7.13	6.97
	+3m	0.00	-	-	-	0.007	0.007	4.85	7.42	7.42
	+6m	0.00	-	-	-	0.007	0.007	5.00	7.85	7.78
	+12m	0.00	-	-	-	0.007	0.007	5.19	8.29	8.08
GBP*	14-Mar	5.25	-	4.53	3.76	1.17	1.08	8.73	13.47	13.18
	+3m	5.25	-	4.19	3.75	1.15	1.22	8.57	13.10	13.10
	+6m	5.00	-	3.99	3.75	1.14	1.19	8.47	13.30	13.18
	+12m	4.50	-	3.75	3.75	1.14	1.18	8.47	13.52	13.18
CHF	14-Mar	1.75	-	-	-	1.04	1.13	7.75	11.96	11.70
	+3m	1.75	-	-	-	1.06	1.13	7.93	12.13	12.13
	+6m	1.50	-	-	-	1.08	1.13	8.01	12.58	12.47
	+12m	1.00	-	-	-	1.08	1.12	8.01	12.80	12.47
DKK	14-Mar	3.60	3.89	3.31	2.81	0.134	0.146	-	1.54	1.51
	+3m	3.35	3.59	3.05	2.90	0.134	0.142	-	1.53	1.53
	+6m	3.10	3.33	2.89	2.90	0.134	0.141	-	1.57	1.56
	+12m	2.60	2.85	2.65	2.90	0.134	0.140	-	1.60	1.56
SEK	14-Mar	4.00	4.01	3.18	2.62	0.089	0.097	0.66	1.02	-
	+3m	4.00	3.97	2.84	2.79	0.088	0.093	0.65	1.00	-
	+6m	3.75	3.71	2.69	2.86	0.086	0.091	0.64	1.01	-
	+12m	3.25	3.22	2.50	2.90	0.086	0.090	0.64	1.03	-
NOK	14-Mar	4.50	4.79	4.35	3.67	0.087	0.095	0.65	-	0.98
	+3m	4.50	4.48	4.29	3.80	0.088	0.093	0.65	-	1.00
	+6m	4.00	4.02	3.97	3.74	0.085	0.090	0.64	-	0.99
	+12m	3.25	3.60	3.40	3.65	0.084	0.087	0.63	-	0.97

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

Commodities

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

Source Danske Bank

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