

# Weekly Focus

## Central banks remain in focus as rates peak

**This week, the ECB delivered a 25bp hike** which, combined with a dovish message, we see as a compromise in a stagflationary-ish environment. We were quite surprised by the limited optionality for further hikes in the statement, although Lagarde naturally refused to write off the possibility. We see the ECB's approach now focusing much more on the time horizon for rates being in restrictive territory. As the new staff projections kept the forecast for headline and core inflation in 2025 above 2%, the road to neutral rates could end up being a long one. Our baseline is for the ECB to abstain from further hikes, and we see the next move being gradual cuts starting in the summer 2024 (see *Flash ECB Review Confirmed: A final rate hike, but restrictive policies are not over*, September 14).

**Next week, focus turns to Federal Reserve which we expect to keep rates unchanged** despite an upside surprise in August core CPI this week. The uptick in core was driven by faster services inflation, particularly airfares, but overall, underlying price pressures seem to have remained slightly higher than anticipated in early Q3. In this context, we think markets will keep a close eye on how FOMC participants assess the need for later hikes. In June, 12 out of 18 dots looked for one more hike, but we doubt it will materialise. Markets have bought into the 'higher for longer' narrative, and in our view, the consequent tightening in financial conditions limits the need for further hikes (see *Research US: Fed preview – Plotting the way forward*, 15 September).

**We believe the Riksbank will deliver one final rate hike next week**, as core inflation is still too high, and they want to be sure they are not relaxing monetary policy too early. Weaker SEK fuels inflation for imported products, and hence, Riksbank cannot deviate too much from ECB's policy. Luckily for Riksbank, this time, ECB's dovish hike weakened the euro versus the hard-hit Swedish krona. Also in Sweden, rates will remain high for some time, and we do not expect rate cuts until Q2 next year. Starting in Apr-2024, we expect 25bp cut at each meeting, taking the policy rate to 3.0% by year-end.

We also expect both **Norges Bank and the SNB** to deliver their final 25bp hikes next week accompanied, and we expect this to mark the peak for both central banks. For **Bank of England**, we also expect a 25bp hike to 5.50% but the August CPI print ahead of the meeting could prove decisive.

We expect no changes in monetary policy by **Bank of Japan** next Friday. We do however expect another tweak to YCC later this year. On Thursday, the **People's Bank of China (PBoC)** announced a 25bp cut to the reserve requirement ratio for most banks. They also injected a net CNY191bn into the financial system through 1-year policy loans while keeping the lending rate unchanged. We see room for further policy support, if needed, to counter problems in the country's real estate sector.

**In terms of data releases, next week's focus will be on September preliminary PMIs from euro area and the US on Friday.** While global manufacturing has been in a contractionary territory for 12 consecutive months, service sector has kept the engine running, but in August, euro area service PMI fell below 50. We also expect modest weakening in the US driven by service sector.

### Key global views

- Stagnation and periodic contraction in the US and in Europe in 2023
- US and euro area headline inflation set to decline further, but core inflation to remain sticky
- Fed and ECB policy rates have peaked, rate cuts to start gradually next year

### Key market movers

- Wednesday: China loan rates, FOMC meeting
- Thursday: Riksbank, Norges bank, SNB and BOE meetings
- Friday: BOJ meeting, US and EA PMIs

### Selected reading from Danske Bank

- *Research US: Fed preview – Plotting the way forward*, 15 September
- *Flash ECB Review: Confirmed: A final rate hike, but restrictive policies are not over*, September 15
- *Global Inflation Watch – Underling price pressures remain sticky*, 13 September
- *Nordic Outlook – Divergent fortunes*, 5 September

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# Scandi market movers

- In **Denmark**, Danmarks Nationalbank is set to publish its semi-annual Outlook for the Danish economy on Wednesday. The report includes data projections for the coming years as well as analyses of various economic conditions and recommendations on economic policy.

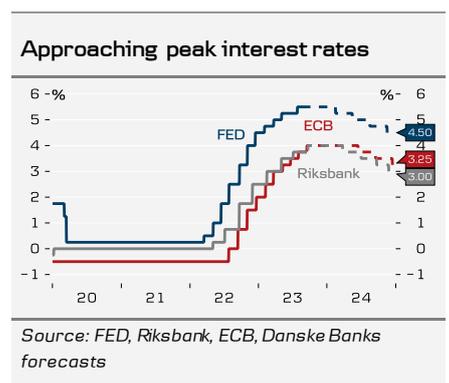
Thursday should bring September's consumer expectations figures from Statistics Denmark. The housing market remains in pretty good shape, inflation has fallen and purchasing power is increasing. Moreover, energy prices were extremely high in September last year, which is now the comparison month. All these factors should tend to pull the figures higher. Tending to pull the figures lower will be high interest rates and the acknowledgement by many that they will likely remain elevated. We therefore expect a relatively flat development overall in the statistic.

Wage earner employment for July is also due Thursday. The job market continued to grow in June, and while unemployment rose a little in July, the number of new job vacancies remained relatively high, which points to yet another increase in employment in July.

The week ends with business confidence figures from Statistics Denmark, which will show corporate expectations in September. Business confidence fell in August, especially in the retail sector. Looking beyond Denmark, many of the country's trading partners are experiencing a decided downturn, while wages are rising – which points to a further fall in business confidence.

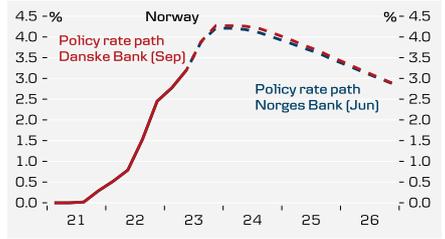
- In **Sweden**, the Labour Force Survey unemployment rate for August drops which is notable as the statistic has been relatively volatile in recent months. Some argue that the unemployment's declining trend is currently reversing. However, the Public Employment Service's own unemployment statistics indicates an even continued decline. Remains to be seen how the trend develop.

The main attraction this week is the release of the Monetary Policy Report of the Riksbank. We expect a 25bp policy rate hike to 4.00%, which is consensus on the market and has been since last meeting. As the hike is almost certain it is more interesting to see the Riksbank's guidance on an eventual final rate hike in November. We expect the September hike to be the last one but that they will remain open for a final one and signal that they will keep the rate flat throughout 2024. This is to try to push back against what they regard as a too optimistic pricing on the market. In terms of QT, we do not expect any changes. The Riksbank decided in June to increase the monthly volumes (from SEK3.5bn to SEK5bn per month), but as this increase has only been implemented since September, we judge it too early to make any adjustments. However, depending on the demand in the QT auctions, and need for more tightening, further adjustments later cannot be ruled out.



- In **Norway**, Norges Bank signalled in its June monetary policy report that interest rates would probably be raised in both August and September with a slight chance of further hikes after that, and this message was repeated at the August rate-setting meeting. Developments since June have largely been in line with the bank’s expectations. Growth in the Norwegian economy has been exactly as expected, and the rise in unemployment to 1.9% in August was also exactly as Norges Bank predicted in June. Core inflation has been volatile in recent months but was 0.1pp lower than expected in August, while the headline inflation of 4.8% y/y in August was well below the 6.1% assumed by the bank in June. Taken together, this suggests that Norges Bank will stick to its plan from June and raise the policy rate by 25bp to 4.25% in the coming week, and that the new policy rate path will be very close to the one in the June report. We expect the bank to signal that the policy rate has in all likelihood peaked but is more likely to go up than down over the next couple of quarters, i.e. its projections will show the policy rate just above 4.25% in Q4 this year and Q1 next year. It will also stress that it is ready to raise rates further if necessary. The bank’s projections in the June monetary policy report showed between one and two rate cuts from next summer through to the end of 2024. Given the rise in global forward rates for 2024 (fewer cuts) since June, we think it likely that the policy rate path will be revised up slightly so that the first cut does not come until Q3 next year, and show a greater chance of one rather than two cuts next year in total. We believe that the rise to 4.25% in the coming week to be the last increase in this cycle. We also believe that other central banks will start to lower their rates before next summer, and that growth in the Norwegian economy will deteriorate further, with the result that Norges Bank delivers a first cut before summer, possibly as early as March, and a total of four cuts by the end of the year.

**We anticipate slight upward revision of policy rate path**



Source: Macrobond, Danske Bank

# Scandi update

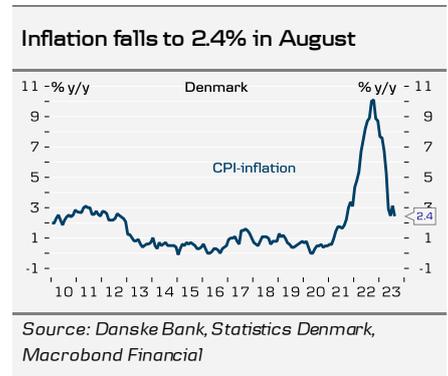
## Denmark – Inflation surprise as August figure prints at 2.4% on the back of falling food prices.

Consumer price inflation printed at 2.4% in August – a surprisingly large fall compared to July’s figure of 3.1%. Natural gas prices played a prominent role, as they were extremely high in August last year but have since fallen sharply. One major surprise was food prices, down 1.4% m/m, while price pressures were generally less than expected in August. However, we should not expect lower interest rates anytime soon because of these figures. Danish interest rates very much shadow European rates, and here inflation is still some way above the 2% target.

Unemployment numbers ticked up by a modest 700 in August, according to Statistics Denmark’s unemployment indicator, which as the name suggests provides only a preliminary estimate of developments. The unemployment rate was revised 0.1 percentage points higher to 2.9% in July but remained unchanged in August. The picture emerging is of an economy in mild recession but where job opportunities remain pretty decent.

Danmarks Nationalbank hiked its benchmark interest rate by 25 basis points in reaction to the European Central Bank (ECB) doing the same earlier on Thursday. The EUR/DKK cross has been trading close to the central parity rate of late, so we expect Danmarks Nationalbank to maintain the current rate spread of 0.4 percentage points, also after upcoming rate meetings.

Square metre prices for apartments rose 0.96% in August, while detached and terrace houses appreciated by 0.22% (seasonally adjusted), according to figures from property site Boligsiden. As has generally been the case throughout 2023, the housing market thus continues to enjoy a tailwind, with the still solid labour market and increasing real wages positives for house prices. The housing market probably also still has to fully acknowledge that high interest rates are not just a temporary phenomenon. Looking ahead towards the end of the year and into next year, we expect prices to remain largely flat.



## Sweden – Core inflation slows, but remains too high

Swedish August inflation turned out lower than expected by the Riksbank for all three measures CPI, CPIF and CPIF excl. Energy (core). In relation to Danske Bank’s forecast it was lower food, transportation services (which includes foreign airline tickets) and recreation (which includes charter packs) prices that constituted the downside surprises. For Riksbank, core inflation and especially services inflation remains the primary headache. Despite the goods readings it is easy to conclude that core inflation at 7.2 % yoy is still 0.3 p.p. above Riksbank’s forecast. This fact and the need to keep a tight distance to ECB implies that Riksbank will raise the repo rate by another 25 bp next week.

Looking forward we do expect inflation to continue to fall. Inflation momentum, calculated as the annual percentage change in the seasonally adjusted 3-month moving average, is for most price indices lower than the ordinary 12-month percentage change, suggesting inflation will slow further in coming months. As can be seen in the withstanding table, part of services inflation and imported inflation are the exceptions. It is also obvious that it is domestic price pressures that are easing the most.

**Sweden: Inflation momentum shows broad based slowdown**

August 2023	% yoy	3m SAAR	Diff heatmap
CPI	4.7	3.8	-0.9
CPIF excl. Energy	7.2	5.5	-1.7
Goods	7.2	3.8	3.4
Services	6.4	3.4	-1.0
Services excl. housing	7.0	8.2	0.4
Housing	8.1	5.5	-2.6
Domestic	3.4	1.1	2.3
Imported	7.6	8.6	1.0

Source: SCB, Danske Bank's calculations

## Norway - Growth slowing

Norges Bank's regional network survey confirmed that growth is slowing, with expectations for output growth in the coming quarter falling from 0.3% to 0.1%. Capacity utilisation fell further from 39% to 37%, while the share of firms reporting labour shortages as a constraint on production was unchanged at 27%. The survey shows considerable variation between sectors, while there is considerable optimism in oil services and business services, expectations were revised down in manufacturing and household services, and both construction and retail remain deeply pessimistic. Wage growth is expected to be 5.4% this year and 4.6% next year. Firms still anticipate a moderate rise in employment, but expectations for investment growth next year were revised down sharply from 1.2% to -2.8%.

Slowing growth signal



Source: Macrobond, Danske Bank

# Calendar – 18-22 September 2023

Monday, September 18, 2023				Period	Danske Bank	Consensus	Previous
16:00	USD	NAHB Housing Market Index	Index	Sep		50.0	50.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Jul			147.8
Tuesday, September 19, 2023				Period	Danske Bank	Consensus	Previous
10:00	EUR	Current account	EUR bn	Jul			35.8
11:00	EUR	HICP inflation, final	m/m/y/y	Aug	<b>0.6% 5.3%</b>	0.6% 5.3%	0.6% 5.3%
11:00	EUR	HICP - core inflation, final	y/y	Aug	<b>5.3%</b>	5.3%	5.3%
14:30	USD	Building permits	1000 (m/m)	Aug		1448	1443.0 [0.1%]
14:30	USD	Housing starts	1000 (m/m)	Aug		1440	1452.0 [3.9%]
14:30	CAD	CPI	m/m/y/y	Aug			... 3.3%
Wednesday, September 20, 2023				Period	Danske Bank	Consensus	Previous
1:50	JPY	Exports	y/y (%)	Aug		0.0	0.0
1:50	JPY	Imports	y/y (%)	Aug		-0.2	-0.1
1:50	JPY	Trade balance, s.a.	JPY bn	Aug		-441.1	-557.2
8:00	GBP	CPI	m/m/y/y	Aug		0.7% 7.0%	-0.4% 6.8%
8:00	GBP	CPI core	y/y	Aug		6.8%	6.9%
16:30	USD	DOE U.S. crude oil inventories	K				3955
20:00	USD	FOMC meeting	%		<b>5.50%</b>	5.50%	5.50%
20:00	USD	Fed chair Powell speaks					
Thursday, September 21, 2023				Period	Danske Bank	Consensus	Previous
0:45	NZD	GDP	q/q/y/y	2nd quarter		0.4% 1.3%	-0.1% 2.2%
8:00	DKK	Consumer confidence	Net bal.	Sep	<b>-11.0</b>		-10.9
8:45	FRF	Business confidence	Index	Sep		98.0	99.0
9:30	CHF	SNB policy rate	%		<b>2.00%</b>	2.00%	1.75%
9:30	SEK	Riksbank, rate decision	%		<b>4.00%</b>	4.00%	3.75%
10:00	NOK	Norges Banks monetary policy meeting	%		<b>4.25%</b>	4.25%	4.00%
13:00	GBP	BoE minutes					
13:00	GBP	BoE Bank rate	%		<b>5.50%</b>	5.50%	5.25%
13:00	TRY	Central Bank of Turkey rate decision	%		<b>30.0%</b>	30.0%	25.0%
14:30	USD	Initial jobless claims	1000				220
14:30	USD	Current account	USD bn	2nd quarter		-219.8	-219.3
14:30	USD	Philly Fed index	Index	Sep		-0.4	12.0
16:00	EUR	Consumer confidence, preliminary	Net bal.	Sep		-16.0	-16.0
16:00	USD	Existing home sales	m (m/m)	Aug		4.1	4.07 -0.022
16:40	EUR	ECB's Schnabel speaks					
Friday, September 22, 2023				Period	Danske Bank	Consensus	Previous
-	EUR	Germany's debt rating (S&P)					
-	JPY	BoJ policy rate	%		<b>-0.10%</b>		-0.10%
1:01	GBP	GfK consumer confidence	Index	Sep		-27.0	-25.0
1:30	JPY	CPI - national ex. fresh food	y/y	Aug		3.0%	3.1%
1:30	JPY	CPI - national	y/y	Aug		3.0%	3.3%
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Sep			49.6
2:30	JPY	Markit PMI services, preliminary	Index	Sep			54.3
8:00	GBP	Retail sales ex fuels	m/m/y/y	Aug		0.6% -1.4%	-1.4% -3.4%
9:00	ESP	GDP, final	q/q/y/y	2nd quarter		0.4% ...	0.4% 1.8%
9:15	FRF	PMI manufacturing, preliminary	Index	Sep		46.3	46.0
9:15	FRF	PMI services, preliminary	Index	Sep		46.0	46.0
9:30	DEM	PMI manufacturing, preliminary	Index	Sep		39.5	39.1
9:30	DEM	PMI services, preliminary	Index	Sep		47.5	47.3
10:00	EUR	PMI manufacturing, preliminary	Index	Sep		44.0	43.5
10:00	EUR	PMI composite, preliminary	Index	Sep		46.4	46.7
10:00	EUR	PMI services, preliminary	Index	Sep		47.8	47.9
10:30	GBP	PMI manufacturing, preliminary	Index	Sep		44.0	43.0
10:30	GBP	PMI services, preliminary	Index	Sep		49.3	49.5
14:30	CAD	Retail sales	m/m	Jul			0.1%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Sep		47.9	47.9
15:45	USD	Markit PMI service, preliminary	Index	Sep			50.5

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	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	0.7	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	2.5	4.4	2.3	-	-	-

## 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	2022	3.4	4.3	1.4	2.9	7.2	8.1	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	3.5	8.3	7.1	2.4	6.8	-0.9	72.9	-3.6
	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 <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	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	1.9	1.9	3.5	-0.7	-0.3	-4.2	4.0	4.1	3.6	-5.4	123.6	-3.1
	2024	0.6	-0.2	2.7	3.2	-4.0	-1.3	2.0	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*	14-Sep	5.50	-	4.89	3.96	0.94	-	6.99	10.72	11.16
	+3m	5.50	-	4.47	3.69	0.93	-	6.96	11.03	10.75
	+6m	5.50	-	4.20	3.52	0.94	-	7.02	10.94	10.94
	+12m	5.00	-	3.85	3.35	0.97	-	7.23	10.87	11.36
EUR	14-Sep	4.00	3.92	3.76	3.14	-	1.07	7.4581	11.44	11.91
	+3m	4.00	3.99	3.45	3.07	-	1.07	7.4450	11.80	11.50
	+6m	4.00	3.99	3.26	2.92	-	1.06	7.4450	11.60	11.60
	+12m	3.75	3.56	3.00	2.85	-	1.03	7.4500	11.20	11.70
JPY	14-Sep	-0.10	-	-	-	0.006	0.007	4.75	7.29	7.59
	+3m	-0.10	-	-	-	0.007	0.007	4.90	7.77	7.57
	+6m	0.10	-	-	-	0.007	0.008	5.32	8.29	8.29
	+12m	0.10	-	-	-	0.007	0.008	5.56	8.36	8.74
GBP*	14-Sep	5.25	-	5.24	4.19	1.16	1.09	8.69	13.32	13.87
	+3m	5.50	-	5.27	4.20	1.15	1.23	8.56	13.56	13.22
	+6m	5.50	-	4.94	4.08	1.14	1.20	8.46	13.18	13.18
	+12m	5.00	-	4.60	3.95	1.14	1.17	8.47	12.73	13.30
CHF	14-Sep	1.75	-	-	-	1.05	1.12	7.82	11.99	12.48
	+3m	2.00	-	-	-	1.05	1.13	7.84	12.42	12.11
	+6m	2.00	-	-	-	1.06	1.13	7.92	12.34	12.34
	+12m	2.00	-	-	-	1.06	1.10	7.93	11.91	12.45
DKK	14-Sep	3.35	3.91	3.89	3.29	0.134	0.143	-	1.53	1.60
	+3m	3.60	3.99	3.61	3.22	0.134	0.144	-	1.58	1.54
	+6m	3.60	3.99	3.41	3.07	0.134	0.142	-	1.56	1.56
	+12m	3.35	3.56	3.15	3.00	0.134	0.138	-	1.50	1.57
SEK	14-Sep	3.75	4.06	3.98	3.26	0.084	0.090	0.63	0.96	-
	+3m	4.00	4.08	3.77	3.06	0.087	0.093	0.65	1.03	-
	+6m	4.00	3.77	3.31	2.87	0.086	0.091	0.64	1.00	-
	+12m	3.50	3.24	3.00	2.85	0.085	0.088	0.64	0.96	-
NOK	14-Sep	4.00	4.80	4.79	4.00	0.087	0.093	0.65	-	1.04
	+3m	4.25	4.75	4.19	3.79	0.085	0.091	0.63	-	0.97
	+6m	4.25	4.73	3.97	3.62	0.086	0.091	0.64	-	1.00
	+12m	3.75	4.17	3.70	3.45	0.089	0.092	0.67	-	1.04

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

## Commodities

	14-Sep	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	94	82	78	80	80	80	80	80	80	80	80

Source Danske Bank

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