16 February 2024

Weekly Focus

Data dampens rate cut expectations

The overall theme for markets this week continued to be the scaling back of expectations of rate cuts especially in the US as the economy looks stronger, and inflation higher, than expected. However, the change should not be exaggerated. Inflation expectations are well in line with targets and indicators for banking activity in both the US and Europe confirm that the current stance of monetary policy is having a dampening effect on economies.

The latest significant upside surprise to US data was the January CPI. The core price index rose 0.4% m/m, so clearly more than what is compatible with 2% annual inflation. The increase was driven by a broad-based increase in service prices. The so-called "super core" index of services excluding shelter rose 0.85% m/m. This likely reflected higher than normal January price adjustments to make up for past cost increases in businesses and so is not likely to be repeated to the same extent in coming months, but nevertheless feeds into concerns in the Fed and elsewhere that a tight labour market and high wage growth could make it difficult to get service inflation down far enough.

On the negative side, **US retail sales declined 0.8% in January** and were revised down for December, and industrial production declined 0.5%. Especially retail sales is a highly volatile data series though, and these numbers do not really change the view on the US economy.

In Europe, the economic news has been slightly more positive this week. **Employment growth in the euro area actually accelerated in Q4** to 0.3% q/q. The labour market usually reacts with a lack to the economy, so it is perhaps not surprising that the stagnating European economy has not yet produced a decline in jobs, but accelerating outright growth in employment is harder to explain. Surveys continue to show a large, unmet demand for labour among euro area companies. The strong labour market reduces pressure on the ECB to cut rates and adds to concerns about a potential rebound in inflation from high wage growth. The German ZEW index showed a new increase in business expectations in February consistent with the view of a more positive global situation for manufacturing, although assessment of current conditions actually worsened.

Unlike in the US**, UK inflation was lower than expected in January, which helped dampen market worries globally**. Core CPI increased just 0.16% m/m seasonally adjusted, and service prices dragged down. On the other hand, wage growth declined less than expected in December and stands at 6.2% y/y, while the unemployment rate declined from 4.0% to 3.8%. With core inflation still as high as 5.1% y/y, we still expect the Bank of England to be cautious in cutting rates.

Next week, on Thursday, we will get February PMI data for most major economies. They could show a renewed strengthening in global manufacturing. Regional PMIs published this week in the US point in that direction, as does indicators from several Asian countries that are normally leading in the manufacturing cycle. However, PMIs might also point to continued weakness in services which at least in the euro area seem to be stagnating or contracting, albeit with rising prices.

Key global views

- Weak near-term growth outlook in the US and Europe, but recovery from summer 2024
- US and euro area headline inflation set to decline further, but core inflation to remain sticky

Key market movers

- Tuesday: Chinese rate decision
- Wednesday: euro area consumer confidence
- Thursday: PMIs for major economies including US, euro area, UK and Japan
- Friday: German Ifo survey

Selected reading from Danske Bank

- *Global Inflation Watch – Unpleasant US surprise, euro inflation better behaved*, 13 February
- *Market Guide – Global environment and strong US economy to support USD*, 13 February
- *Research Global – buckle up for EU-China trade tensions*, 8 February

Editor

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Scandi market movers

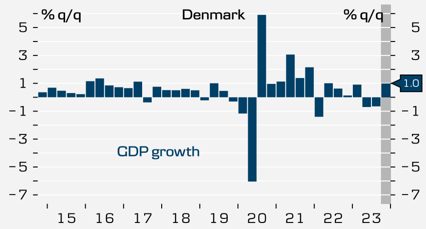
- In **Denmark,** we no longer get the early GDP indicator, but the first release of the national accounts including GDP for Q4 has been moved forward from the end of the month to Tuesday in the coming week. We expect the numbers to show a sharp rebound in GDP in Q4 after the 0.7% decline in Q3. Both the decline and the rebound are driven by industrial production which again is primarily driven by pharmaceuticals. According to the industrial production index, total production declined 5.5% in Q3 and rose 9.8% in Q4. Outside of pharma, the economy appears to be stagnating as we see elsewhere in Europe. For example, our data indicate an unchanged level of private consumption, except for an increase in car sales. If we are right, full year GDP growth for 2023 will be around 1%, significantly more than in the euro area due to the impact of Novo Nordisk.

  Next week, on Thursday, we get monthly home sales for January from Boligsiden. Statistics from estate agent *home* show a m/m decline in house sales of 1.4% and a very large decline in apartment sales of 17.1%, with the latter development mainly driven by apartment sales in the capital region (see also *homes Boligbrief*). We expect Boligsiden's statistics to paint a similar picture.

- In **Sweden,** we expect January inflation data (released Monday 19 February) to show an increase in CPIF inflation to 3.2 % y/y, while core inflation (CPIF excl. Energy) continues to fall to 4.4 % y/y. This would put CPIF at the Riksbank's forecast and core inflation a tenth of a percentage point below. Prices usually decline in January as clothing, furniture, household appliances and electronics go on sale. This time we have assumed a somewhat bigger sale in clothing than last year, as prices were hiked in December 2023. Prices for airline tickets and package holidays are also assumed to show big declines after much higher prices for December holiday trips. Food prices are likely to increase slightly. Rents and tenant-owner apartment fees are set to show a significant jump on the back of record high rent agreements and a need to cover higher common (interest) costs. Finally, electricity costs are being boosted by operators hiking grid fees. This is to some extent mitigated by a sharp drop primarily in diesel prices due to a slashing of the green diesel content from 30% to 6%. District heating may have added to a higher energy print. Needless to say, January prints always carry the extra risk of an impact from new weights and the so-called "basket effect", the latter most often pulling inflation slightly lower as consumers substitute for cheaper goods and services. Supposedly, risks in total remain tilted to the upside.

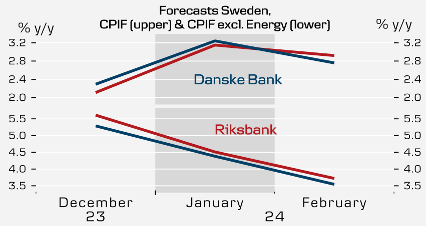
  Next week we have several appearances by Riksbank board members. Thedéen and Flodén will each talk about the economic situation and current monetary policy. First Deputy Governor Anna Breman talks about the Riksbank's view of the Swedish housing and property market at a seminar organized by the Stockholm Chamber of Commerce. Otherwise, the data releases we get are industrial inventories and capacity utilization for Q4, and money market players' inflation expectations. The latter release is not that exciting, as inflation expectations are almost fully aligned at the two percent target for all time periods.

We expect GDP growth to have rebounded to 1% q/q in Q4



Sources: Statistics Denmark, Danske Bank

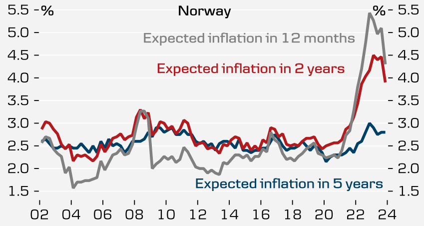
Inflation to remain below Riksbank forecast, especially core CPIF



Source: SCB, Danske Bank, Riksbank

- In **Norway**, the Q1 Expectations Survey will be important in a situation where core inflation is well above the 2%-target, and the NOK remains weak. Medium term inflation drivers have however turned significantly. In the previous round, there were lower inflation expectations across the board. Lower inflation and a stronger NOK have probably dampened inflation expectations, especially in the 12-month and 2-year horizon. Furthermore, one ought to keep an eye on the wage expectations, especially from the labour unions.

Inflation expectations are coming down



Kilde: Macrobond, Danske Bank

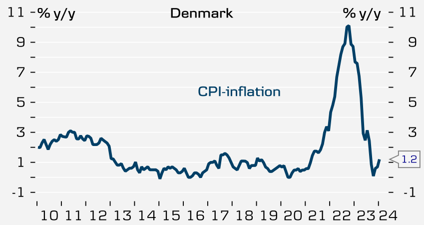
Scandi update

Denmark – Energy tariffs pushed up inflation in January, but it is still at a low level

Inflation increased moderately to 1.2% y/y in January from 0.7% y/y in December. On a monthly basis, consumer prices rose 0.9%. Higher energy prices were a key driver as tariffs, for example on petrol and electricity, are linked to inflation with a lag. As such this year's substantial increase in tariffs reflects the high inflation in 2022. Food prices were also substantial contributors with a moderate uptick after having declined in December. Energy and food prices are notoriously volatile components, and prices rose just 0.2% m/m adjusted for seasonality and excluding food and energy. Annualized, this is very close to the implicit target of 2%, and while we do expect inflation to climb going forward due to, especially, pressure from climbing wages, inflation very much looks to be under control in Denmark.

The preliminary unemployment indicator showed a very modest uptick in unemployment in January, with 300 more persons unemployed than in December. This is less than last month where unemployment increased by 1,000 persons but with the uncertainty not least around the seasonal adjustment, it is not really a new trend. Unemployment growth is still low, as also reflected in the very low unemployment rate, considering the (outside pharmaceuticals) stagnant economy. However, we are coming from a period with a very tight labour market, and the number of open jobs is still at a high level in a historical context. It should be noted that this is a preliminary statistic, with an uncertainty of ± 1,000 persons according to Statistics Denmark, so there is room for revisions. Overall, we expect that unemployment will continue to increase throughout the year.

Inflation was 1.2% in January



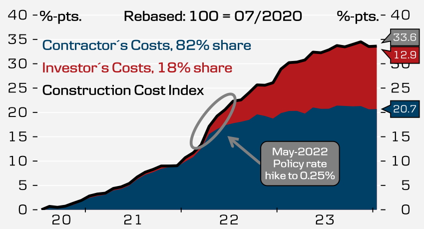
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sweden – The construction sector's headache

The Swedish public employment office released labour market statistics for January where unemployment increased to 6.8% from 6.5%. However, the decline in new vacancies has slowed down a bit. Also, notably, there were both less layoffs and more people who found work in comparison to January last year. Once again, the statistic shows unemployment increasing markedly due to more people entering the labour force who were not previously a part of it, rather than due to bankruptcies and layoffs.

The construction cost index for January were almost unchanged m/m and is now down to 3.7% y/y. At first sight, this might seem hopeful for the extremely struggling Swedish construction sector as it is down from the peak rate of 16.6% in February last year. However, it does not provide any real comfort, as the alleviated price level still stands 33.6% higher than when prices took off in 2020. Taking a closer look, it is noteworthy how the price increases are no longer a reflection of higher costs of materials, as they have only increased 0.3% since September 2022. What have been pressuring the construction sector since then are the investor's costs that have increased due to the restrictive monetary policy. Although the weight of investor's costs in the total construction cost index stands at 18%, it has accounted for approximately 40% of the increase since 2020.

The rate hikes are pressuring the construction sector



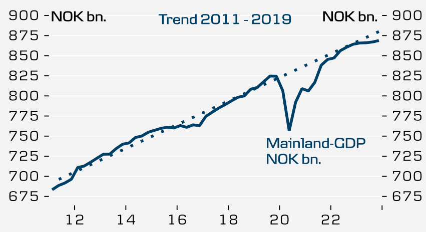
Source: Statistics Sweden

Riksbank deputy governor Per Jansson gave a speech where he continued to highlight the inflation risk a newly weakened SEK could pose through increased import prices. In the recently published monetary policy minutes he stated: "implementing a first policy-rate cut as early as in March is something that I currently do not consider impossible but nor do I think it is particularly probable”. However, in the speech he tried to tone down this statement, seeking to highlight he does not think a March cut is particularly probable. In the decade before the pandemic, the Riksbank had troubles reaching the inflation target of two percent. Jansson was then one of the greatest advocators of continuing to extend the expansionary policy with any means necessary in order to increase the inflation rate. Even if only by a few tenths of a percentage point. Therefore, it was also notable that he seems to have changed his opinion on this matter. He stated he thinks the perspective in the monetary policy debate has changed in a way, so that people probably put less weight on deviations of 0.2-0.3 percentage points from the inflation target, and instead maintain a more relaxed stance regarding what is possible to achieve with monetary policy.

Norway – GDP-details weaker than headlines

Mainland GDP rose 0.2% in Q4, meaning annual growth ended at 1.1% in 2023. Thus, it appears as if growth picked up towards the end of last year, but the details show otherwise. The consumption of goods, which makes up about a quarter of GDP, rose 2% q/q, but this rise was driven by a sharp increase in electricity consumption due to abnormally cold weather. Apart from this, the consumption of goods was lower in Q4, which means that the underlying growth in the Norwegian economy is still weak, and activity was more or less unchanged throughout last year. Aggregate consumption is moving roughly sideways, residential investment continues to fall and business investment is now coming down from high levels. On the other hand, there is still solid growth in mainland exports and oil investment is starting to pick up as expected. Although growth is apparently stronger than Norges Bank assumed in its monetary policy report in December (0.0%), we think the figures are about as expected when adjusting for electricity consumption. Capacity utilization will probably continue to fall and will allow NB to cut rates once other central banks lift their foot off the brake.

Growth is stalling



Source: Macrobond, Danske Bank

Calendar – 19-23 February 2024

				Period	Danske Bank	Consensus	Previous
Monday, February 19, 2024				Period	Danske Bank	Consensus	Previous
8:00	SEK	Underlying inflation CPIF	m/m|y/y	Jan	**-0.4%|3.2%**	*-0.6%|3.1%*	0.6%|2.3%
8:00	SEK	Underlying inflation CPIF excl energy	m/m|y/y	Jan	**-0.5%|4.4%**	*-0.5%|4.4%*	0.7%|5.3%
8:00	SEK	CPI	m/m|y/y	Jan		*-0.4%|5.1%*	0.7%|4.4%
Tuesday, February 20, 2024				Period	Danske Bank	Consensus	Previous
2:15	CNY	1-Year Loan Prime Rate		Feb	**3.50%**	*3.50%*	*3.50%*
2:15	CNY	5-Year Loan Prime Rate		Feb	**4.10%**	*4.10%*	*4.10%*
8:00	SEK	Prospera inflation expectations					
8:00	DKK	GDP, preliminary	q/q|y/y	4th quarter	**1%|...**		-0.7%|...
8:00	SEK	Capacity utilization, industry	%	4th quarter			90.0%
10:00	EUR	Current account	EUR bn	Dec			24.6
11:00	EUR	ECB Indicator of Negotiated Wage Rates					
14:30	CAD	CPI	m/m|y/y	Jan		*...|3.3%*	...|3.4%
Wednesday, February 21, 2024				Period	Danske Bank	Consensus	Previous
0:50	JPY	Exports	y/y (%)	Jan		*0.1*	0.1
0:50	JPY	Import	y/y (%)	Jan		*-0.1*	-0.1
0:50	JPY	Trade balance, s.a.	JPY bn	Jan		*-230.7*	-412.7
8:00	DKK	Consumer confidence	Net. bal.	Feb			-8.4
14:00	USD	Fed's Bostic speaks					
16:00	EUR	Consumer confidence, preliminary	Net bal.	Feb		*-15.8*	-16.1
20:00	USD	FOMC minutes					
Thursday, February 22, 2024				Period	Danske Bank	Consensus	Previous
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Feb			48.0
1:30	JPY	Markit PMI services, preliminary	Index	Feb			53.1
8:45	FRF	Business confidence	Index	Feb		*99.0*	98.0
9:15	FRF	PMI manufacturing, preliminary	Index	Feb		*43.5*	43.1
9:15	FRF	PMI services, preliminary	Index	Feb		*45.6*	45.4
9:30	DEM	PMI manufacturing, preliminary	Index	Feb		*46.0*	45.5
9:30	DEM	PMI services, preliminary	Index	Feb		*48.0*	47.7
10:00	ITL	HICP, final	m/m|y/y	Jan		*...|0.9%*	...|0.9%
10:00	EUR	PMI manufacturing, preliminary	Index	Feb		*47.0*	46.6
10:00	EUR	PMI composite, preliminary	Index	Feb		*48.5*	47.9
10:00	EUR	PMI services, preliminary	Index	Feb		*48.8*	48.4
10:30	GBP	PMI manufacturing, preliminary	Index	Feb		*47.5*	47.0
10:30	GBP	PMI services, preliminary	Index	Feb		*54.4*	54.3
11:00	EUR	HICP inflation, final	m/m|y/y	Jan	**-0.4%|2.8%**	*-0.4%|2.8%*	-0.4%|2.8%
11:00	EUR	HICP - core inflation, final	y/y	Jan	**3.3%**	*3.3%*	3.3%
12:00	TRY	Central Bank of Turkey rate decision	%		**45.00%**	*45.0%*	45.0%
14:30	CAD	Retail sales	m/m	Dec			-0.2%
14:30	USD	Initial jobless claims	1000				212
15:45	USD	Markit PMI manufacturing, preliminary	Index	Feb		*50.1*	50.7
15:45	USD	Markit PMI service, preliminary	Index	Feb		*52.0*	52.5
16:00	USD	Existing home sales	m (m/m)	Jan		*3.97*	3.78|-1.0%
17:00	USD	DOE U.S. crude oil inventories	K				12018
19:00	USD	Fed's Bowman speaks					
20:00	USD	Fed's Harker speaks					
23:00	USD	Fed's Kashkari speaks					
Friday, February 23, 2024				Period	Danske Bank	Consensus	Previous
1:01	GBP	GfK consumer confidence	Index	Feb		*-18.0*	-19.0
1:35	USD	Fed's Waller speaks					
8:00	NOK	Credit indicator (C2)	y/y	Jan			3.4%
8:00	DEM	GDP, final	q/q|y/y	4th quarter		*-0.3%|-0.2%*	-0.3%|-0.2%
8:00	DEM	Private consumption	q/q	4th quarter			-0.3%
8:00	DEM	Government consumption	q/q	4th quarter			0.2%
8:00	DEM	Gross fixed investments	q/q	4th quarter			0.6%
10:00	DEM	IFO - business climate	Index	Feb		*85.4*	85.2
10:00	DEM	IFO - current assessment	Index	Feb		*86.6*	87.0
10:00	DEM	IFO - expectations	Index	Feb		*84.0*	83.5
10:20	EUR	ECB's Schnabel speaks					
14:00	EUR	ECB's Schnabel speaks					

Source: Danske Bank

Macroeconomic forecast

Makroprognose, Skandinavien

	år	BNP[1]	Privat-forb.[1]	Off. forb.[1]	Faste inv.[1]	Eks-port[1]	Im-port[1]	Infla-tion[1]	Ledig-hed[2]	Løn-vækst[1]	Off. budget[3]	Off. gæld[3]	Betal. bal[3]
Danmark	2023	1.1	1.0	1.2	-4.6	10.3	8.7	3.3	2.8	4.1	2.0	29.7	10.5
	2024	1.0	1.8	2.0	-0.4	3.6	5.4	2.0	3.1	5.7	1.0	27.9	11.5
	2025	1.6	1.7	1.6	2.2	1.6	1.8	1.9	3.3	3.6	0.7	26.5	11.5
Sverige	2023	-0.2	-1.7	2.3	-1.0	2.6	0.7	8.5	7.7	4.0	-0.4	29.0	4.7
	2024	1.3	1.1	0.9	1.3	2.9	2.9	2.3	8.2	3.3	-0.8	29.0	4.8
	2025	1.8	2.0	1.5	2.3	3.2	3.6	1.0	8.0	2.5	-0.8	29.0	4.6
Norge	2023	1.1	-0.7	3.6	0.3	1.4	0.7	5.5	1.8	5.4	-	-	-
	2024	1.1	1.2	1.3	4.0	2.0	1.8	3.0	2.3	4.4	-	-	-
	2025	2.1	2.5	1.6	4.0	2.0	1.8	2.0	2.5	3.5	-	-	-

Makroprognose, Euroland

	år	BNP[1]	Privat-forb.[1]	Off. forb.[1]	Faste inv.[1]	Eks-port[1]	Im-port[1]	Infla-tion[1]	Ledig-hed[2]	Løn-vækst[1]	Off. budget[3]	Off. gæld[3]	Betal. bal[3]
Euroland	2023	0.5	0.4	0.0	0.9	0.2	-0.3	5.4	6.5	5.6	-3.2	90.6	2.5
	2024	0.5	0.6	0.7	0.6	1.7	2.0	2.5	6.8	4.6	-3.0	89.9	2.0
	2025	1.2	1.1	0.8	1.5	2.7	2.6	2.1	7.1	3.7	-2.8	88.8	2.4
Finland	2023	-0.5	-0.5	3.0	-5.5	-0.5	-4.5	6.3	7.2	4.0	-2.8	73.8	-0.7
	2024	0.3	0.5	0.2	0.0	1.0	1.5	1.9	7.8	3.4	-3.0	75.3	-0.3
	2025	1.9	1.2	0.2	4.0	3.0	2.0	1.5	7.2	2.5	-2.7	75.4	0.0

Makroprognose, Global

	år	BNP[1]	Privat-forb.[1]	Off. forb.[1]	Faste inv.[1]	Eks-port[1]	Im-port[1]	Infla-tion[1]	Ledig-hed[2]	Løn-vækst[1]	Off. budget[3]	Off. gæld[3]	Betal. bal[3]
USA	2023	2.5	2.2	4.0	0.5	2.7	-1.7	4.1	3.6	4.3	-5.8	124.6	-3.0
	2024	1.7	0.8	3.5	2.5	-1.6	-0.4	2.5	4.4	3.2	-5.8	126.8	-2.8
	2025	1.2	0.2	2.3	4.9	3.1	3.8	2.5	4.4	2.5	-5.8	128.6	-2.6
Kina	2023	5.4	6.6	-	4.6	-	-	0.5	5.3	-	-7.5	83.0	1.5
	2024	4.5	5.5	-	3.8	-	-	1.0	5.2	-	-7.2	87.4	1.4
	2025	4.5	5.5	-	3.8	-	-	1.5	5.2	-	-7.0	91.8	1.1
UK	2023	0.5	-	-	-	-	-	7.4	4.2	-	-	-	-
	2024	0.0	-	-	-	-	-	2.8	4.6	-	-	-	-
	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*	15-Feb	5.50	-	4.40	3.84	0.93	-	6.93	10.55	10.46
	+3m	5.25	-	4.05	3.81	0.94	-	7.03	10.75	10.75
	+6m	5.00	-	3.86	3.86	0.95	-	7.10	11.14	11.05
	+12m	4.50	-	3.70	3.85	0.96	-	7.16	11.44	11.15
EUR	15-Feb	4.00	3.87	3.10	2.67	-	1.08	7.4551	11.35	11.25
	+3m	4.00	3.76	2.96	2.70	-	1.06	7.4550	11.40	11.40
	+6m	3.75	3.54	2.81	2.70	-	1.05	7.4500	11.70	11.60
	+12m	3.25	3.15	2.55	2.70	-	1.04	7.4500	11.90	11.60
JPY	15-Feb	-0.10	-	-	-	0.006	0.007	4.61	7.03	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*	15-Feb	5.25	-	4.47	3.79	1.17	1.09	8.72	13.27	13.16
	+3m	5.25	-	4.16	3.65	1.15	1.22	8.57	13.10	13.10
	+6m	5.00	-	3.95	3.65	1.14	1.19	8.47	13.30	13.18
	+12m	4.50	-	3.75	3.65	1.14	1.18	8.47	13.52	13.18
CHF	15-Feb	1.75	-	-	-	1.06	1.14	7.87	11.98	11.88
	+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	15-Feb	3.60	3.88	3.22	2.84	0.134	0.144	-	1.52	1.51
	+3m	3.60	3.70	3.13	2.85	0.134	0.142	-	1.53	1.53
	+6m	3.35	3.43	2.95	2.85	0.134	0.141	-	1.57	1.56
	+12m	2.85	3.00	2.70	2.85	0.134	0.140	-	1.60	1.56
SEK	15-Feb	4.00	4.05	3.25	2.73	0.089	0.096	0.66	1.01	-
	+3m	4.00	4.02	2.64	2.71	0.088	0.093	0.65	1.00	-
	+6m	3.75	3.73	2.47	2.77	0.086	0.091	0.64	1.01	-
	+12m	3.25	3.30	2.50	2.90	0.086	0.090	0.64	1.03	-
NOK	15-Feb	4.50	4.72	4.42	3.77	0.088	0.095	0.66	-	0.99
	+3m	4.50	4.57	3.73	3.65	0.088	0.093	0.65	-	1.00
	+6m	4.00	4.14	3.57	3.65	0.085	0.090	0.64	-	0.99
	+12m	3.25	3.50	3.40	3.65	0.084	0.087	0.63	-	0.97

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

Commodities

		2023				2024				Average	
	15-Feb	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	83	82	78	86	83	80	80	80	80	82	80

Source Danske Bank

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Expected updates

Weekly.

Date of first publication

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Report completed: 16 February 2024, 13.30 CET

Report first disseminated: 16 February 2024, 13.45 CET