

Weekly Focus

Hawkish messages from the Fed and ECB

In a big central bank week, the ECB delivered a 25bp hike, which was no surprise, but an upward revision to the 2025 inflation forecast to 2.2% from 2.1% clearly indicated that the ECB has more work to do. ECB President Lagarde confirmed that the hiking journey is not over yet and that a rate increase in July was “*very likely*”. As expected she left little guidance beyond July as uncertainty is high and they take a meeting-by-meeting approach. However, we continue to expect the ECB to reach the rate peak in September at 4.0% as there are no signs that the super tight labour market is easing in the coming months, see *ECB Review – ‘Very likely to hike again in July’*, 15 June.

The Fed on the other hand paused its rate hiking cycle on Wednesday as widely anticipated, but they delivered a hawkish message as the updated median rate projection signalled two more 25bp rate hikes by the end of 2023. The 2023 GDP forecast was lifted to 1.1% (from 0.4%), suggesting that the outlook for more rate hikes relies on a fairly optimistic growth assumption. As we remain more pessimistic on the macro outlook for H2, we also think that the projected rate hikes will not end up materializing, and stick to our previous forecast of no rate changes by the Fed for the remainder of the year, read more from our *Fed review: Powell's hawkish bluff*, 14 June, and see also our thoughts on the latest inflation data and outlook from *Global Inflation Watch - Euro area inflation pressures remain sticky*, 14 June.

The Chinese central bank is going against the global trend and cut the policy rate by 10bp this week. It follows signs of a sputtering recovery and data on Thursday confirmed weakness in housing and manufacturing in May, while the service sector is holding up still. We expect to see a broader stimulus package soon aimed at providing more support to housing and sustaining demand from consumers. **Bank of Japan did not make any changes** on Friday but we expect to see a moderate tightening in July or September.

Bond yields trended higher this week on the back of the hawkish signals from the Fed and ECB with especially short end yields rising. The central banks didn't scare stock markets, though, which saw further upside taking S&P500 to the highest level in more than a year, not least driven by a strong rally in tech stocks. EUR/USD also rebounded again lifted by a stronger rise in euro short end rates relative to the US.

Next week the key focus will be Flash PMI's for May in US and the Euro zone. Manufacturing has been weak lately while service has been strong. Will we see some convergence this month? We also have a range of Fed speakers that may cast more light over Fed's view on future tightening. Inflation data in Japan will be key to gauge the outlook for a possible tightening of monetary policy. In Emerging markets, the central bank meeting in Turkey on Thursday will be interesting following new appointments of Simsek as finance minister and Erkan as central bank governor. Also look out for possible stimulus announcements in China. **On Tuesday we will publish Nordic Outlook** with updated macro forecasts for the Nordics as well as the global economy.

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.
- ECB to deliver two more rate hikes, the Fed on hold rest of the year

Key market movers

- Monday: US NAHB housing index
- Thursday: US existing home sales, Turkey central bank meeting
- Friday: Euro Flash PMI, US Flash PMI, Japan CPI

Selected reading from Danske Bank

ECB Review – ‘Very likely to hike again in July’, 15 June.

Fed review: Powell's hawkish bluff, 14 June

Global Inflation Watch – Euro area inflation pressures remain sticky, 14 June

Executive Briefing - strong service sectors and weak manufacturing, 2 June

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Scandi market movers

- In **Denmark**, we are expecting wage earner employment figures for April on Wednesday. Denmark's labour market remains red-hot. Unemployment was unchanged for the first four months of the year, though it rose a little in May, and given the still decent demand for labour, we expect the time is ripe for a new increase in employment numbers in April.

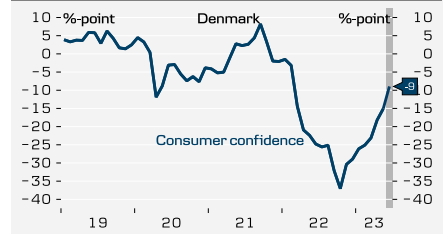
June's consumer confidence figures are due on Thursday. We expect an increase to -9, from -15 in May which would mean consumers here in Denmark remain pessimistic about their own finances and the Danish economy but have also gradually grown less pessimistic since the figures bottomed out at -37 in October. Consumers continue to view their own finances and the Danish economy very negatively compared to one year ago but are positive about both when looking to the future. We expect Danish consumers to remain roughly as positive about the future in next week's figures, but at the same time to turn considerably less negative about their own finances and the Danish economy compared to 12 months ago.

- Swedish labour force survey (LFS) (June 21): The labour market has continued to show resilience and data from PES showed that the unemployment rate dropped further during May, hence remains on the lowest level seen since 2009. LFS data should indicate the same direction, although at a higher level. The LFS survey will also provide information regarding the employment rate, labour force and hours worked. Hours worked is usually an early indicator were the labour market is heading. It's worth noting that hiring plans in NIER business survey improved during May.

Riksbank (June 29): We expect a hike of 25bp to 3.75% and also an increase of QT volumes (+50%). After this, we keep our call for a final 25bp hike in September reaching 4.00%. As for the policy rate path, we expect the Riksbank to signal a probability for another hike in September, say around 10-15bp. This is similar to the profile in the April meeting. We expect that markets will continue to ignore the Riksbank's rate path beyond the coming 1-2 meetings, and keep aligned to market pricing in primarily EUR and USD markets. In general, macro developments have also been much better than feared during 2023, and also the housing market seems to be bottoming out. Hence, the general macro picture also supports more rate hikes, as we see it.

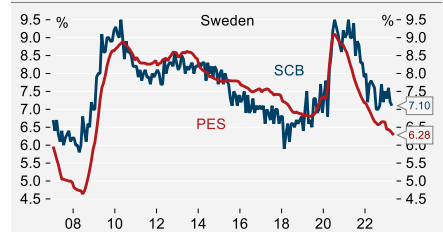
- In **Norway**, we expect Norges Bank to raise its policy rate by 25bp to 3.50% at its meeting during the week and signal that it will most likely go up again in August. In the new monetary policy report, we expect the policy rate path to be revised up by around 50bp in the coming quarters. This is because wage growth and price inflation have been stronger than expected, the NOK has depreciated further, and global interest rate expectations have risen. Norges Bank's regional network survey also shows that firms now expect slightly stronger growth in the coming months, even though capacity utilisation is continuing to fall. The only factor pulling in the other direction is a sizeable increase in money market premiums. Following recent data, the fixed-income market has priced in a higher probability of Norges Bank delivering a double hike at the June meeting, but we do not expect this to happen. Food prices and airfares accounted for around 0.5pp of the jump in inflation in May, and this is also supported by the average of Norges Bank's two measures of core inflation falling from 6.4% in April to 6.2% in

We expect consumer confidence to pick up further but remain low at -9



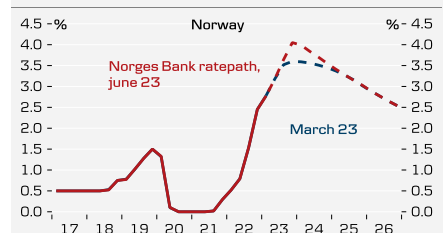
Source: Statistics Denmark, Danske Bank, Macrobond

Strong labour market



Source: PES, LFS and Macrobond

Policy rate path to rise in the near term



Source: Macrobond, Danske Bank

May. Economic growth is also now clearly slowing, and unemployment has begun to creep up. Both wage and price expectations seem to be easing, and interest rates are probably above the equilibrium level, making monetary policy contractionary. All of this points towards Norges Bank settling for a quarter-point hike. However, there is no doubt that developments since March demand more aggressive monetary policy, and Norges Bank will probably signal that the policy rate is likely to go up again in August, with the policy rate path in the monetary policy report showing a further hike in September. The chances of a double hike have also increased and will depend on how Norges Bank now sees the balance of risk.

Scandi update

Denmark – Pronounced fall in inflation

Denmark’s inflation printed at 2.9% in May – a marked decline from 5.3% in April. The main reason was energy prices now being actually lower than last year, not least for electricity and also petrol, for example. Core inflation was 5% in May, so also well down on April’s 6.1%. In month-on-month (seasonally adjusted) terms, core inflation was 0.3%, or just over 4% annually, so underlying inflationary pressures remain excessive in Denmark, although we are progressing in the right direction. Nevertheless, this major decline in inflation does not mean the issue is resolved. While energy and other commodity prices have fallen sharply as the global economy has slowed, many areas are still experiencing rather solid price growth, which has then simply been offset by cheaper electricity, gas and so on. In our view, many prices are continuing to rise because companies are still in the process of passing on earlier increases in their costs to consumers, while a strong economy is causing shortages of labour in particular and also pushing prices higher. The economy will seemingly have to slow further to truly tame inflation, and that process could well take several years.

The number of jobless rose by 1,600 from April to May, taking gross unemployment in Denmark to 83,800. This was the largest uptick in unemployment since December, and perhaps indicates that the Danish labour market is losing a little steam. Nevertheless, the increase was still relatively modest, and it would be premature to say anything negative about the labour market right now. The unemployment rate is still 2.8%, but we expect this to trend up in the second half of 2023.

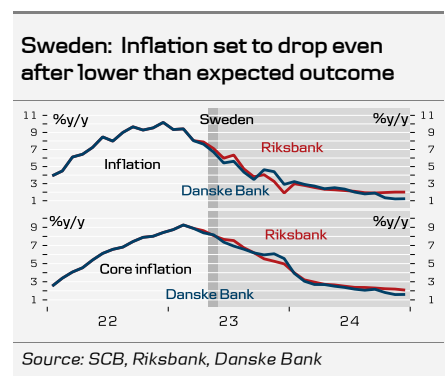
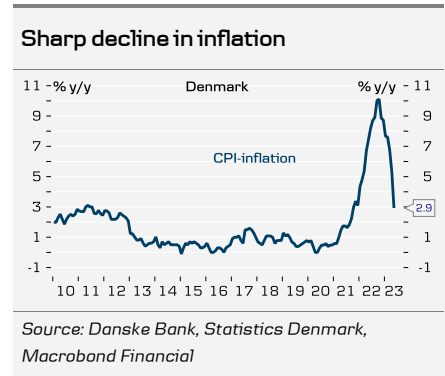
Danmarks Nationalbank hiked interest rates by 25 basis points in reaction to the European Central Bank (ECB) doing the same a little earlier on Thursday. There is still considerable leeway between the current EUR/DKK exchange rate and the fluctuation band around the central parity rate, so we expect Danmarks Nationalbank to maintain the current interest rate spread of 0.4 percentage points, also at upcoming rate meetings.

May saw 4,451 houses and 1,382 apartments sold in Denmark. Seasonally adjusted, house sales were thus up 5.2% and apartment sales down 0.7%. All in all, activity levels continue to track higher in the housing market. We should, however, remember that sales activity had sunk to a very low level, from which it has now risen for six months in a row.

Sweden – The Beyoncé Effect

It sounds a bit ridiculous, but the start of Beyoncé’s World Tour in Stockholm was most likely responsible for pushing hotel rates in and around Stockholm to multiples compared to normal at the two day event. The impact on inflation was increases in the restaurant and hotel component by 3.3 % mom contributing to the monthly change in core inflation by 0.3 percentage points. We guess Beyoncé’s shows might be responsible for 0.2 percentage points of this. This is a rare but not unique thing. In May 2017 hotel rates surged even more when the Europa League final between Ajax and Manchester United took place at Friends arena in Stockholm. Most likely this just caused a “blip” in inflation statistics as we guess hotel rates are returning to normal in June. That said, world stars such as Bruce Springsteen, Coldplay, Metallica, Elton John to mention a few will soon perform ...

Looking at the 12-month percentage change in COICOP components we can conclude that all of them most likely appear to have peaked and are set for a steady decline, bringing



inflation lower. There is only one exception: mortgage cost, the component that Riksbank interest rate hikes impacts directly.

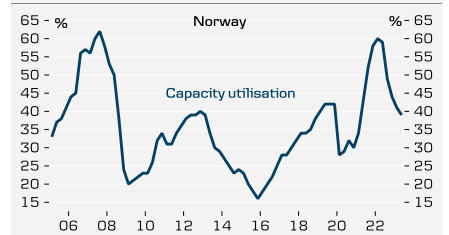
The higher than expected May outcome does not change our call on Riksbank, rather the opposite. This rather firms our view for two additional 25 bp hikes to 4.0 % by September. The weak Krona and ECB’s determinance to hike rates a few more times are also important factors which backs this view.

Norway – Pressures in the economy easing

Mainland GDP shrank 0.4% m/m in April, and growth in March was revised down from 0.5% to 0.2%. These figures clearly confirm a slowdown in the Norwegian economy, driven by low real wage growth, higher interest rates and strong cost inflation.

Norges Bank’s regional network survey is now pointing to a moderate increase in economic growth, with expected next-quarter output growth climbing from 0.0% q/q for Q2 in the previous survey to 0.3% q/q for Q3. This is slightly higher than expected, and also more than Norges Bank assumed in the March monetary policy report. On the other hand, the share of firms reporting full capacity utilisation decreased further from 41% to 39%, and the share of firms reporting labour shortages as a constraint on production fell from 28% to 27%. This suggests that the combination of weaker global growth, stronger inflation and higher interest rates is eroding demand, and that the output gap is closing. There are considerable variations between sectors, with considerable optimism in oil services and the service sector, while exporters are now anticipating moderate growth, and there is still real pessimism in both construction and retail. Expectations for wage growth this year are at 5.4%, roughly in line with estimates following the pay settlement. Next year, firms expect wage growth to slow to 4.4%, exactly as Norges Bank projected in March. Firms still anticipate moderate growth in employment, but expectations for investment growth next year were revised down. Interestingly, firms are again reporting a reduction in profitability.

Pressures in the economy easing



Source: Macrobond Financial, Danske Bank

Calendar – 19-23 June 2023

Monday, June 19, 2023				Period	Danske Bank	Consensus	Previous
16:00	USD	NAHB Housing Market Index	Index	Jun		51.0	50.0
Tuesday, June 20, 2023				Period	Danske Bank	Consensus	Previous
6:30	JPY	Industrial production, final	m/m/y/y	Apr			-0.4% -0.3%
10:00	EUR	Current account	EUR bn	Apr			31.2
12:30	USD	Fed's Bullard speaks					
14:00	HUF	Central Bank of Hungary rate decision	%		13.00%	13.00%	13.00%
14:30	USD	Building permits	1000 (m/m)	May		1430	1417.0 (-1.4%)
14:30	USD	Housing starts	1000 (m/m)	May		1400	1401.0 (2.2%)
17:45	USD	Fed's Williams speaks					
Wednesday, June 21, 2023				Period	Danske Bank	Consensus	Previous
8:00	GBP	CPI	m/m/y/y	May		0.5% 8.4%	1.2% 8.7%
8:00	GBP	CPI core	y/y	May		6.7%	6.8%
14:30	CAD	Retail sales	m/m	Apr			-1.4%
16:00	USD	Fed chair Powell speaks					
Thursday, June 22, 2023				Period	Danske Bank	Consensus	Previous
8:00	NOK	Credit indicator [C2]	y/y	May			5.3%
8:00	DKK	Consumer confidence	Net. bal.	Jun	-9		-15.1
8:45	FRF	Business confidence	Index	Jun		100.0	100.0
9:30	CHF	SNB policy rate	%		1.75%	1.75%	1.50%
10:00	NOK	Norges Banks monetary policy meeting	%		3.50%	3.50%	3.25%
10:00	USD	Fed's Waller speaks					
13:00	GBP	BoE minutes				47.5	45
13:00	GBP	BoE Bank rate	%		4.75%	4.75%	4.50%
13:00	TRY	Central Bank of Turkey rate decision	%			20.0%	8.5%
14:30	USD	Initial jobless claims	1000				262
14:30	USD	Current account	USD bn	1st quarter		-217.0	-206.8
15:55	USD	Fed's Bowman speaks					
16:00	EUR	Consumer confidence, preliminary	Net bal.	Jun		-17.0	-17.4
16:00	USD	Fed's Mester speaks					
16:00	USD	Fed chair Powell speaks					
16:00	USD	Existing home sales	m (m/m)	May		425	428 -3.4%
17:00	USD	DOE U.S. crude oil inventories	K				7919
22:30	USD	Fed's Barkin speaks					
Friday, June 23, 2023				Period	Danske Bank	Consensus	Previous
1:01	GBP	GfK consumer confidence	Index	Jun		-25.0	-27.0
1:30	JPY	CPI - national ex. fresh food	y/y	May		3.1%	3.4%
1:30	JPY	CPI - national	y/y	May		3.2%	3.5%
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jun			50.6
2:30	JPY	Markit PMI services, preliminary	Index	Jun			55.9
8:00	GBP	Retail sales ex fuels	m/m/y/y	May		-0.3% -2.1%	0.8% -2.6%
9:00	ESP	GDP, final	q/q/y/y	1st quarter		0.5%	0.5% 3.8%
9:15	FRF	PMI manufacturing, preliminary	Index	Jun		45.3	45.7
9:15	FRF	PMI services, preliminary	Index	Jun		52.0	52.5
9:30	DEM	PMI manufacturing, preliminary	Index	Jun		44.0	43.2
9:30	DEM	PMI services, preliminary	Index	Jun		56.0	57.2
10:00	EUR	PMI manufacturing, preliminary	Index	Jun		45.0	44.8
10:00	EUR	PMI composite, preliminary	Index	Jun		52.5	52.8
10:00	EUR	PMI services, preliminary	Index	Jun		54.1	55.1
10:30	GBP	PMI manufacturing, preliminary	Index	Jun		46.5	47.1
10:30	GBP	PMI services, preliminary	Index	Jun		54.8	55.2
11:15	USD	Fed's Bullard speaks					
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jun		48.5	48.4
15:45	USD	Markit PMI service, preliminary	Index	Jun		54.0	54.9
19:40	USD	Fed's Mester speaks					

Source: Danske Bank

Macroeconomic forecast

	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	3.8	-2.4	-3.5	8.6	8.6	4.2	7.7	3.6	2.6	3.3	29.8	13.1
	2023	0.5	0.0	-0.4	-5.0	1.3	-2.0	5.1	4.7	3.1	2.0	27.1	11.5
	2024	1.3	1.8	1.6	-1.7	1.3	0.6	3.6	5.0	3.6	1.1	25.1	11.3
Sweden	2022	2.9	1.9	0.1	6.1	7.0	9.4	8.4	2.5	7.5	0.7	33.0	4.6
	2023	-1.0	-2.3	1.1	-2.8	2.0	-0.1	9.6	4.1	8.0	-0.9	29.0	5.7
	2024	1.7	1.8	1.2	2.3	2.8	2.6	2.3	3.3	7.9	-0.9	29.0	5.8
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.0	-1.0	1.2	0.5	4.0	3.0	4.8	5.0	2.1	-	-	-
	2024	1.5	0.9	1.7	4.0	2.0	2.0	2.5	4.0	2.4	-	-	-

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	3.5	4.5	1.4	3.8	7.3	8.4	8.4	4.5	6.7	-3.6	93.2	0.6
	2023	0.4	-0.1	1.2	-0.8	3.4	3.4	6.3	4.9	6.9	-3.2	90.9	2.2
	2024	0.6	1.2	1.0	0.2	3.6	4.6	3.5	3.6	7.0	-3.0	90.1	2.4
Finland	2022	2.1	2.1	2.9	5.0	1.7	7.5	7.1	2.4	6.8	-0.9	73.0	-3.9
	2023	-0.2	-0.2	1.2	-2.0	-0.5	-1.0	5.5	4.1	7.0	-2.5	72.1	-1.4
	2024	0.9	1.0	0.5	2.0	1.5	2.0	2.1	3.7	6.8	-1.7	72.4	-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	0.8	0.7	1.7	-5.5	-0.3	-5.5	4.1	4.1	3.7	-5.4	123.6	-3.1
	2024	0.3	0.4	1.3	-1.5	-1.9	-1.9	2.1	3.2	4.2	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	-	-7.5	77.1	2.3
	2023	6.2	7.0	-	6.0	-	-	2.2	-	-	-6.9	82.4	1.4
	2024	5.0	5.2	-	4.8	-	-	2.5	-	-	-6.4	87.2	1.1
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	16-Jun	5.25	5.51	4.89	3.76	109.6	-	680.0	1051.4	1058.4
	+3m	5.25	5.40	4.00	3.45	107.0	-	695.8	1093.5	1046.7
	+6m	5.25	5.32	3.70	3.45	106.0	-	702.4	1066.0	1066.0
	+12m	5.00	4.74	3.30	3.35	103.0	-	723.3	1048.5	1116.5
EUR	16-Jun	3.50	3.57	3.77	3.07	-	109.6	745.1	1152.1	1159.8
	+3m	3.75	4.02	3.50	3.05	-	107.0	744.5	1170.0	1120.0
	+6m	4.00	4.02	3.15	2.95	-	106.0	744.5	1130.0	1130.0
	+12m	4.00	3.59	2.85	2.85	-	103.0	745.0	1080.0	1150.0
JPY	16-Jun	-0.10	-0.03	-	-	120.5	141.0	6.18	9.56	9.62
	+3m	-0.10	-	-	-	141.2	132.0	5.27	8.28	7.93
	+6m	0.10	-	-	-	136.7	129.0	5.44	8.26	8.26
	+12m	0.10	-	-	-	130.8	127.0	5.70	8.26	8.79
GBP*	16-Jun	4.50	-	5.52	4.30	85.6	127.9	870.0	1345.2	1354.1
	+3m	5.00	-	4.40	4.00	88.0	121.6	846.0	1329.5	1272.7
	+6m	5.00	-	4.30	4.00	88.0	120.5	846.0	1284.1	1284.1
	+12m	4.75	-	4.20	4.00	88.0	117.0	846.6	1227.3	1306.8
CHF*	16-Jun	1.50	-	2.04	1.98	97.7	89.1	762.8	1179.4	1187.3
	+3m	1.75	-	-	-	97.0	90.7	767.5	1206.2	1154.6
	+6m	1.75	-	-	-	96.0	90.6	775.5	1177.1	1177.1
	+12m	1.75	-	-	-	96.0	93.2	776.0	1125.0	1197.9
DKK	16-Jun	3.10	3.58	3.88	3.19	745.10	679.98	-	154.62	155.65
	+3m	3.35	3.82	3.65	3.20	744.50	695.79	-	157.15	150.44
	+6m	3.60	3.85	3.30	3.10	744.50	702.36	-	151.78	151.78
	+12m	3.60	3.53	3.00	3.00	745.00	723.30	-	144.97	154.36
SEK	16-Jun	3.50	3.78	3.84	3.05	1159.8	1058.4	64.2	99.3	100.0
	+3m	4.00	4.10	3.65	2.90	1120.0	1046.7	66.5	104.5	-
	+6m	4.00	4.15	3.30	2.80	1130.0	1066.0	65.9	100.0	-
	+12m	3.75	3.70	3.00	2.75	1150.0	1116.5	64.8	93.9	-
NOK	16-Jun	3.25	4.16	4.44	3.68	1152.1	1051.4	64.7	100.0	100.7
	+3m	3.75	4.02	4.05	3.35	1170.0	1093.5	63.6	-	95.7
	+6m	3.75	3.85	3.70	3.25	1130.0	1066.0	65.9	-	100.0
	+12m	3.50	3.60	3.35	2.95	1080.0	1048.5	69.0	-	106.5

*Notes: GBP swaps are SONIA and CHF swaps are SHARON.

We have updated our Norges Bank forecasts after yesterday's Norges Bank meeting but not yet our Norwegian yield outlook

Commodities

	16-Jun	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	76	87	90	85	80	80	80	80	80	86	80

Source Danske Bank

Disclosures

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