

# Weekly Focus

## Markets price in high rates for longer

**A slew of US macro data this week confirmed that the US economy stands strong, and as a response, market are pricing in high rates for longer.** US curve inversion steepened, and in line with our call for a stronger USD, EUR/USD slid to below 1.07 level. The US January CPI details continued to illustrate persistent underlying price pressures. Headline CPI grew 0.5% m/m and core CPI 0.4%. Core Services ex. shelter inflation remained steady at 0.6% m/m, but excluding healthcare and shelter, a key measure of core services inflation picked up to 0.65% m/m (from 0.35%). Also, US January retail sales topped expectations with core sales (excl. motor vehicles & gas stations) rising by 2.6% m/m. The strong momentum appears to have continued in February as well, as NAHB housing market index and NY Fed's Empire Manufacturing index also surprised to the upside.

**While the recovering macro indicators point towards lower recession risks in the near-term, they also raise the risk of underlying price pressures being protracted.** In our *Global Inflation Watch - High services inflation remains a worry for central banks*, 15 February, we highlight how core price pressures remain sticky on both sides of the Atlantic. For now, we stick to our forecast of two more 25bp Fed hikes, and first rate cuts only in early 2024, but we also highlight that both market and consumer survey based inflation expectations have ticked slightly up recently, supporting the case for keeping nominal rates higher for longer. We expect the ECB to hike rates by 50bp in March and by 25bp in May.

**Over the weekend, senior policy makers will gather for the Munich Security Conference.** On the sidelines, a meeting between US Secretary of State Anthony Blinken and China's top foreign policy official Wang Yi is possible. Also, one week from now marks exactly one year since Russia started its invasion of Ukraine, and the war will undoubtedly be on the meeting's agenda. Back in 2007, it was this same conference where Russian President Putin held his infamous speech where he criticised NATO's eastern expansion. In our Research Russia-Ukraine: *One year since Russia's invasion – Europe faces three changes as it settles into new reality*, 17 February, we explain how the war has changed the European security order, our energy model and decision makers' priorities.

**Next week's focus will be on February flash PMI releases.** In the euro area, we are interested to see whether the data brings more evidence of rebounding activity amid easing inflation pressures. In the US we expect PMIs to edge higher, although signals from NY Fed's Empire and Philly Fed Manufacturing indices have been mixed. A clear upside surprise could push markets to price in further tightening in financial conditions. We will also get the FOMC minutes on Wednesday, but given that the market narrative has changed a lot since the February meeting due to the strong data releases, the minutes are likely somewhat outdated. In the euro area, the final January HICP figures could show an upside revision on Thursday, given the impact from the delayed German figures.

**It will be a rather quiet central bank week** but we do have RBNZ meeting on Wednesday where a 50bp hike is the clear base case, while the Central Bank of Turkey, after the devastating earthquakes, is again expected to resort to a 100bp rate cut.

### 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.
- More rate hikes in store.

### Selected reading from Danske Bank

- Tuesday: US and euro area PMIs
- Wednesday: FOMC minutes, RBNZ meeting
- Thursday: Final euro area HICP
- Friday: US Michigan University survey

### Selected reading from Danske Bank

- *Research Russia-Ukraine: One year since Russia's invasion – Europe faces three changes as it settles into new reality*, 17 February
- *Global Inflation Watch – High services inflation remains a worry for the central banks*, 15 February

Editor

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# Scandi market movers

- In **Denmark**, February's consumer confidence figures are due on Monday. We expect consumer confidence to continue the trend of recent months and pick up further to -23. Inflation is falling and energy prices in particular have greatly calmed after a tumultuous 2022, which may mean Danish consumers have a more upbeat view on both recent and coming months. Meanwhile, the Danish labour market continues to perform, and there is much to suggest that private consumption has got off to a fine start this year. That being said, we still expect consumer confidence to remain low in a historical context. We continue to face a difficult economic reality in 2023 with recession as the overarching theme, though the latest indicators suggest the downturn will not be as pronounced as previously feared.

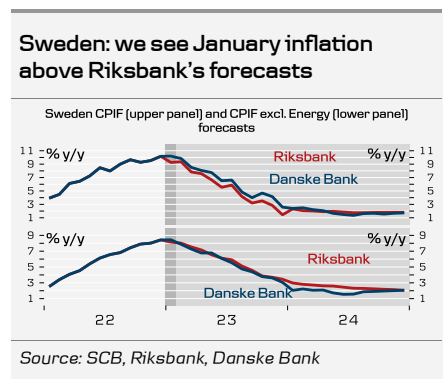
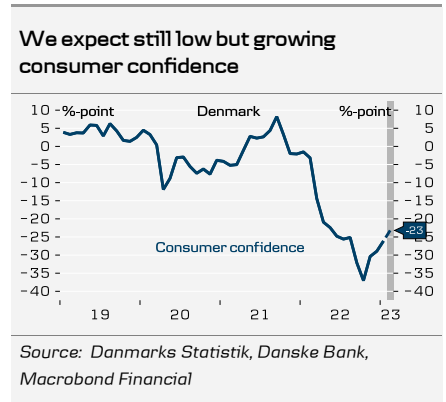
Tuesday is scheduled to bring wage-earner employment figures for December. Employment continued to grow in the second half of 2022, even if the rate of growth slowed a little. The number of jobless grew by 2,700 in December, which is a moderate increase. Statistics Denmark this week published its preliminary employment indicator for the national accounts, which pointed to an increase in employment of 0.3% in Q4 22, which suggests wage-earner employment was largely unchanged in December compared to November.

Retail sales figures are due on Friday. We expect retail sales to rise in January compared to December after correcting for the usually extraordinarily busy Christmas month. Christmas sales were deeply disappointing this year, but payment card transactions indicate that January, in contrast, saw decent activity in the shops.

- Both January inflation (08.00 CET) and Riksbank Minutes (09.30 CET) are out Monday morning. We expect both headline and core CPIF to print higher than Riksbank's forecasts respectively: CPIF at 10.2 % yoy vs 9.3 % yoy and CPIF excl. Energy at 8.4 % yoy vs 8.2 % yoy. Markets call is closer to Riksbank's view than our own.

Looking at core inflation, CPIF excl. Energy, a slew of January price hikes were announced in late autumn: bank fees, electricity grid fees, district heating prices, garbage/water charges, dental care and pre-school child care fees. On top of that, there are several indications that up to 80 % of tenant-owner flats associations (bostadsrättsföreningar) need to raise its monthly rents (charges) by at least 10 %. All in all, these price hikes are likely to add about 1 p.p. to January monthly core inflation. Headline CPIF is likely to have been dragged down by plunging electricity prices, though.

Riksbank Minutes will be scrutinized about how the four 'old' Board members came to change their mind about quantitative tightening. During the autumn meetings these members were content with reducing the bond portfolio with just letting bonds mature just to shift their stance to active QT with the two new Board members at the February meeting.



- In **Norway**, the week's main event is the meeting of trade union confederation LO Norway. It does not normally formulate specific demands at this point, but this year it will be interesting to see whether the country's largest union grouping might show a willingness to accept negative real wage growth in the upcoming pay talks. This would lower the risk of price-wage spirals and reduce the upside risk to both inflation and interest rates.



# Scandi update

## Denmark – Strong GDP growth in Q4 22, but figure cannot stand alone

Statistics Denmark’s GDP indicator, which is the first and a preliminary calculation of GDP growth in Q4 22, showed the Danish economy growing strongly at 1.1% q/q. The expansion was due, in particular, to a huge jump in industrial production, which accounts for around 0.8 percentage points of the uptick. Nevertheless, this was still solid quarterly growth even after deducting the industrial production element. Given the extensive signs of weakness in consumption, we were somewhat surprised by the figure. Industrial production growth was largely driven by the pharmaceutical industry, where production rose 46.2% in December. This increase may prove to be temporary or driven by production that physically takes place abroad. That is why we have to be careful about using GDP to interpret how the economy is performing. For example, if growth is due to a patent changing ownership within a Danish-owned company, that would mean higher GDP but lower income from abroad, so the national income would remain the same.

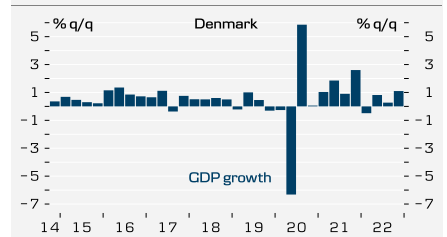
Incorporating this growth estimate for Q4 means GDP for 2022 as a whole rose 3.4%. The year was marked by the post-pandemic reopening, which has been reflected in growth far above the norm and also somewhat above what the economy can sustain over the long term. Hence, the outlook is for a slowdown here in 2023.

Figures from property website ‘boligsiden’ show 2,769 houses and 962 apartments were sold in January. Seasonally adjusted, that means 2.5% more houses and 3.7% fewer apartments were sold in January compared to December. However, if we compare to January last year, the number of houses sold is 31% lower and for apartments the figure is 42% lower. Hence, housing market activity is markedly down here at the start of 2023 relative to last year. In our view, this is due to the increase in interest rates making mortgage loans considerably more expensive to finance, which has put a natural damper on demand. In addition, the huge number of sales in 2020, 2021 and the start of 2022 means that many have recently bought a home and so are not considering a new purchase. We therefore continue to expect that sales activity in the housing market will be low for most of 2023.

## Sweden – Layoffs risk probably overstated

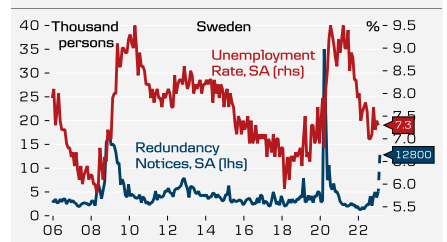
The sharp rise in layoffs in the first two weeks of February (12800 people) caused some nervousness about whether this was the canary in the coalmine for the labour market. As it turns out this was not the prelude of a broad-based increase in layoffs as feared but rather a single company (Humana, a personal care company) potentially shedding 11 000 persons of its staff as there are uncertainties whether it will get the permission needed.

GDP grew 1.1% in Q4 and thus 3.4% in 2022 overall



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sweden: rise in layoffs notices appears to be single company effect

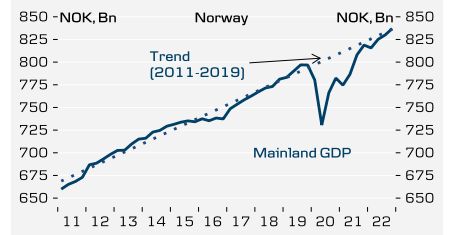


Source: SCB

## Norway – Strong growth towards the end of last year

Mainland GDP climbed 0.8% q/q in Q4. While growth in Q3 was revised down from 0.8% to 0.6%, the figures confirm that growth held up surprisingly well towards the end of last year and that activity levels are higher than previously assumed. These figures are also much better than the 0.0% growth that Norges Bank projected in its December monetary policy report, lending support to expectations that the policy rate will go up again in March, and increasing the chances of further increases after that. However, we still expect growth to begin to slow in the course of this year as consumer spending is hit by households being less able/willing to draw on their savings to compensate for reduced purchasing power, construction firms run down their order books, and a combination of cost increases and weaker demand force businesses to cut costs, partly through downsizing which causes unemployment to rise.

Activity back on trend



Source: Macrobond, Statistics Norway, Danske Bank

# Calendar – 20-25 February 2023

## Monday, February 20, 2023

				Period	Danske Bank	Consensus	Previous
8:00	SEK	Underlying inflation CPIF	m/mly/y	Jan	-10.2%	-1.4% 9.4%	1.9% 10.2%
8:00	SEK	CPI	m/mly/y	Jan		-1.1% 11.8%	2.1% 12.3%
8:00	DKK	Consumer confidence	Net. bal.	Feb	-23		-26.1
16:00	EUR	Consumer confidence, preliminary	Net bal.	Feb		-19.0	-20.9

## Tuesday, February 21, 2023

				Period	Danske Bank	Consensus	Previous
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Feb			48.9
1:30	JPY	Markit PMI services, preliminary	Index	Feb			52.3
8:00	SEK	Prospera inflation expectations					
8:00	DKK	Employment	1000	Dec	2974		2974
8:00	SEK	Capacity utilization, industry	%	4th quarter			90.3%
9:15	FRF	PMI manufacturing, preliminary	Index	Feb		51.0	50.5
9:15	FRF	PMI services, preliminary	Index	Feb		50.1	49.4
9:30	DEM	PMI manufacturing, preliminary	Index	Feb		48.0	47.3
9:30	DEM	PMI services, preliminary	Index	Feb		51.0	50.7
10:00	EUR	PMI manufacturing, preliminary	Index	Feb		49.4	48.8
10:00	EUR	PMI composite, preliminary	Index	Feb		50.8	50.3
10:00	EUR	PMI services, preliminary	Index	Feb		51.2	50.8
10:30	GBP	PMI manufacturing, preliminary	Index	Feb		47.5	47.0
10:30	GBP	PMI services, preliminary	Index	Feb		49.2	48.7
11:00	DEM	ZEW current situation	Index	Feb		-52.0	-58.6
11:00	DEM	ZEW expectations	Index	Feb		19.5	16.9
14:30	CAD	CPI	m/mly/y	Jan			-16.3%
14:30	CAD	Retail sales	m/m	Dec			-0.1%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Feb		47.0	46.9
15:45	USD	Markit PMI service, preliminary	Index	Feb		46.9	46.8
16:00	USD	Existing home sales	m (m/m)	Jan		4110000	4020000 -0.015
18:30	USD	Fed's George speaks					
20:00	USD	Fed's George speaks					

## Wednesday, February 22, 2023

				Period	Danske Bank	Consensus	Previous
2:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%		4.75%	4.8%	4.3%
8:00	DEM	HICP, final	m/mly/y	Jan		0.5% 9.2%	0.5% 9.2%
8:45	FRF	Business confidence	Index	Feb		102.0	102.0
10:00	DEM	IFO - business climate	Index	Feb		91.0	90.2
10:00	DEM	IFO - current assessment	Index	Feb		94.5	94.1
10:00	DEM	IFO - expectations	Index	Feb		88.1	86.4
10:00	ITL	HICP, final	m/mly/y	Jan		-110.9%	-110.9%
17:00	USD	Fed's George speaks					
20:00	USD	FOMC minutes					

## Thursday, February 23, 2023

				Period	Danske Bank	Consensus	Previous
8:00	NOK	Credit indicator (C2)	y/y	Jan			5.5%
11:00	EUR	HICP inflation, final	m/mly/y	Jan	-18.6%	-0.2% 8.6%	-0.4% 8.5%
11:00	EUR	HICP - core inflation, final	y/y	Jan	5.3%	5.2%	5.2%
12:00	TRY	Central Bank of Turkey rate decision	%		8.0%	8.0%	9.0%
14:30	USD	Initial jobless claims	1000				194000
14:30	USD	PCE core	q/q AR	4th quarter			0.039
14:30	USD	GDP, ___ release	q/q AR	4th quarter		0.029	0.029
16:50	USD	Fed's Bostic speaks					
17:00	USD	DOE U.S. crude oil inventories	K				16283000
18:00	USD	Fed's George speaks					
20:00	USD	Fed's Daly speaks					
21:30	USD	Fed's George speaks					

## Friday, February 24, 2023

				Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Netherlands's debt rating					
-	EUR	S&P may publish Austria's debt rating					
-	EUR	Moody's may publish Austria's debt rating					
0:30	JPY	CPI - national	y/y	Jan		4.3%	4.0%
0:30	JPY	CPI - national ex. fresh food	y/y	Jan		4.2%	4.0%
1:01	GBP	GfK consumer confidence	Index	Feb		-43.0	-45.0
8:00	DKK	Retail sales	m/mly/y	Jan			-2.2% -7.8%
8:00	DEM	GfK consumer confidence	Net. Bal.	Mar		-30.9	-33.9
8:00	DEM	GDP, final	q/qly/y	4th quarter		-0.2% 1.1%	-0.2% 1.1%
8:00	DEM	Private consumption	q/q	4th quarter		-0.6%	1.0%
8:00	DEM	Government consumption	q/q	4th quarter		-1.0%	0.0%
8:00	DEM	Gross fixed investments	q/q	4th quarter		-0.3%	0.2%
8:45	FRF	Consumer confidence	Index	Feb		80.0	80.0
9:00	SEK	Consumer confidence	Index	Feb		56.5	56.3
9:00	SEK	Economic Tendency Survey	Index	Feb			82.3
9:00	SEK	Manufacturing confidence	Index	Feb			99.5
14:30	USD	Personal spending	m/m	Jan		1.0%	-0.2%
14:30	USD	PCE headline	m/mly/y	Jan		0.4% 4.9%	0.1% 5.0%
14:30	USD	PCE core	m/mly/y	Jan		0.4% 4.3%	0.3% 4.4%
16:00	USD	New home sales	1000 (m/m)	Jan		620000	6160000 (2.3%)
16:00	USD	University of Michigan Confidence	Index	Feb		66.4	66.4
19:30	USD	Fed's Waller speaks					
22:30	USD	Fed's George 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>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
Denmark	2022	2.9	-2.6	-1.1	4.4	7.4	3.2	7.7	3.5	2.6	1.2	29.7	11.8
	2023	-1.0	-2.3	0.0	-3.3	1.3	-0.7	4.9	4.1	3.1	1.0	28.1	9.5
	2024	1.0	1.8	0.9	-2.1	1.2	0.4	2.0	4.2	3.4	0.8	27.0	9.5
Sweden	2022	2.6	2.6	-0.2	5.6	4.6	7.9	8.4	2.5	7.5	0.7	31.0	3.9
	2023	-1.2	-1.3	1.1	-3.0	1.3	0.2	8.5	3.2	8.2	-0.9	29.0	4.4
	2024	1.2	2.0	1.2	1.8	2.8	2.6	1.3	2.7	8.1	-0.4	29.0	4.5
Norway	2022	3.8	6.8	0.1	4.4	5.9	9.3	5.8	3.9	1.8	-	-	-
	2023	0.6	-0.5	1.3	0.5	3.5	2.5	4.8	4.3	2.2	-	-	-
	2024	1.5	0.9	1.5	4.0	2.0	2.0	2.1	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>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
Euro area	2022	3.5	4.0	1.2	4.4	7.5	8.6	8.4	4.2	6.7	-3.9	93.7	1.5
	2023	0.1	-0.3	0.8	1.7	3.5	5.2	5.6	4.9	6.9	-4.0	92.5	1.9
	2024	0.3	0.9	1.0	0.0	3.6	4.6	2.5	3.6	7.0	-3.5	91.6	2.4
Germany	2022	1.9	4.6	1.6	0.4	3.2	6.7	8.7	4.1	3.0	-2.3	67.4	3.7
	2023	-0.4	-0.6	0.9	-0.7	3.3	4.4	6.6	5.4	3.3	-2.7	65.5	4.6
	2024	0.1	0.8	1.2	0.0	3.2	4.6	2.6	4.3	3.5	-1.9	66.2	4.9
Finland	2022	1.8	2.3	2.5	4.5	1.5	7.0	7.1	2.6	6.8	-1.8	70.7	-3.3
	2023	-0.7	-0.3	1.5	-1.0	-1.5	-2.0	4.8	4.0	7.3	-2.5	71.0	-2.7
	2024	0.5	0.4	1.0	0.5	1.5	1.0	2.2	3.5	7.2	-2.0	71.7	-2.1

## 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>3</sup>	Public budget <sup>4</sup>	Public debt <sup>4</sup>	Current acc. <sup>4</sup>
USA	2022	2.1	2.8	-0.6	-0.3	7.2	8.1	8.0	5.2	3.6	-4.2	124.0	-3.9
	2023	0.3	0.3	1.5	-5.2	1.0	-5.7	3.8	4.0	4.0	-3.8	121.0	-3.1
	2024	0.9	0.8	1.3	1.5	1.2	1.7	1.6	2.1	5.6	-3.9	120.5	-2.8
China	2022	3	2.8	-	4.5	-	-	2.0	3.0	-	-8.9	76.9	1.6
	2023	5.5	5.1	-	5.2	-	-	2.2	5.0	-	-7.2	84.1	1.0
	2024	5.2	5.5	-	5.5	-	-	2.5	5.5	-	-7.5	89.8	0.8
UK	2022	4.2	-	-	-	-	-	8.9	-	3.8	-	-	-
	2023	-0.7	-	-	-	-	-	6.2	-	4.4	-	-	-
	2024	0.8	-	-	-	-	-	2.6	-	5.0	-	-	-
Japan	2022	1.4	3.0	1.6	-0.8	4.7	8.0	2.2	-	2.6	-	-	-
	2023	0.7	0.9	0.6	1.3	2.5	3.2	2.4	-	2.8	-	-	-
	2024	0.9	0.8	0.5	0.6	1.5	0.5	1.4	-	2.8	-	-	-

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	17-Feb	4.75	4.86	4.80	3.69	107.0	-	695.5	1018.4	1040.9
	+3m	5.25	5.40	5.10	3.85	104.0	-	715.6	1019.2	1057.7
	+6m	5.25	5.40	4.90	3.65	102.0	-	729.9	1019.6	1098.0
	+12m	5.25	5.11	4.70	3.45	102.0	-	730.4	1000.0	1098.0
EUR	17-Feb	2.50	2.62	3.38	2.90	-	107.0	744.5	1090.1	1114.2
	+3m	3.25	3.41	3.35	3.00	-	104.0	744.3	1060.0	1100.0
	+6m	3.25	3.41	3.20	2.85	-	102.0	744.5	1040.0	1120.0
	+12m	3.25	3.39	2.90	2.55	-	102.0	745.0	1020.0	1120.0
JPY	17-Feb	-0.10	-0.03	-	-	120.5	131.0	6.18	9.05	9.25
	+3m	-0.10	-	-	-	130.0	125.0	5.73	8.15	8.46
	+6m	-0.10	-	-	-	127.5	125.0	5.84	8.16	8.78
	+12m	-0.10	-	-	-	127.5	125.0	5.84	8.00	8.78
GBP*	17-Feb	4.00	-	4.10	3.43	88.4	121.1	842.4	1233.5	1260.7
	+3m	4.25	-	4.10	3.40	87.0	119.5	855.5	1218.4	1264.4
	+6m	4.25	-	4.10	3.40	85.0	120.0	875.9	1223.5	1317.6
	+12m	4.00	-	3.90	3.30	85.0	120.0	876.5	1200.0	1317.6
CHF*	17-Feb	1.00	-	1.54	1.80	98.8	92.3	753.5	1103.4	1127.7
	+3m	1.25	-	-	-	98.0	94.2	759.4	1081.6	1122.4
	+6m	1.25	-	-	-	97.0	95.1	767.5	1072.2	1154.6
	+12m	1.25	-	-	-	97.0	95.1	768.0	1051.5	1154.6
DKK	17-Feb	2.10	2.82	3.49	3.00	744.46	695.48	-	146.43	149.66
	+3m	2.85	3.10	3.50	3.15	744.25	715.63	-	142.43	147.80
	+6m	2.85	3.10	3.35	3.00	744.50	729.90	-	139.69	150.44
	+12m	2.85	3.10	3.05	2.70	745.00	730.39	-	136.91	150.34
SEK	17-Feb	2.50	3.16	3.42	2.86	1114.2	1040.9	66.8	97.8	100.0
	+3m	3.25	3.35	3.35	2.85	1100.0	1057.7	67.7	96.4	-
	+6m	3.25	3.40	3.15	2.80	1120.0	1098.0	66.5	92.9	-
	+12m	3.00	3.05	2.80	2.75	1120.0	1098.0	66.5	91.1	-
NOK	17-Feb	2.75	3.17	3.54	3.14	1090.1	1018.4	68.3	100.0	102.2
	+3m	3.00	3.20	3.35	3.15	1060.0	1019.2	70.2	-	103.8
	+6m	3.00	3.20	3.20	2.85	1040.0	1019.6	71.6	-	107.7
	+12m	2.75	2.95	3.05	2.70	1020.0	1000.0	73.0	-	109.8

\*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

	17-Feb	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	86	90	90	85	80	80	80	80	80	86	80

Source Danske Bank



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