

Weekly Focus

Another week, another rise in bond yields

It has been an eventful week on the central bank front. The Fed delivered a historical 75bp hike to a target range of 1.5-1.75% and signalled that another 75bp hike in July is possible if there are no signs inflation pressures ease. It is striking that just one year ago, the Fed did not expect to deliver any hikes in 2022. And now we are looking at the steepest hiking cycle since the 1980's. We look for another 75bp in July as we see no sign that inflation pressure is easing in the short term. We expect it to be followed by 50bp hikes in September, November and December to take the Fed funds rate to 3.75-4.00% by year-end, which is 25bp higher than current market pricing.

Since the 75bp hike was already signalled on Monday, the market reaction was quite muted. Initially yields dropped but on Thursday they rebounded again with the US 10-year yield trading close to 3.5%. German yields increased yet again to a new cycle high at 1.83%, partly lifted by a 'hawkish' 25bp hike by Bank of England, and a surprise 50bp hike by the Swiss central bank SNB. Equity markets also moved lower again on concerns that the aggressive rate hikes can trigger a deeper recession than already priced.

The ECB held an extraordinary meeting on Wednesday to discuss 'fragmentation' on the back of the recent sharp widening of the 10-year Italy-Germany bond yields spread, which had increased from 100bp in September last year to 240bp early this week. With the end of ECB's purchasing programmes investors have less confidence in holding Italian bonds setting off a negative spiral. In the meeting statement, the ECB said it would a) use flexibility in reinvesting redemptions in ECB's portfolio and b) accelerate the design of a new anti-fragmentation instrument for consideration by the Governing Council. The 10-year Italy-Germany spread has narrowed to 205bp in response. Whether the improvement will last will ultimately, depend on the details of the new instrument once it is ready.

On the data front, US data disappointed again. US retail sales was weaker than expected with total sales declining 0.3% m/m (corresponding to a real decline of 1.3% m/m due to the high inflation). Housing starts dropped 14.4% m/m in May and the Philadelphia Fed business outlook declined to the lowest level in two years. In the euro area, the German ZEW increased to -28 from -34.3 but is still at quite low level. China saw a new small covid outbreak in Beijing but seems to have it under control. Shanghai is going to test the whole city every weekend until end-July in order to catch outbreaks as early as possible and use more targeted lockdowns in order to avoid city-wide lockdowns. Chinese data on industrial production and retail sales showed a small rebound in May and they will likely recover further in June and July due to a re-opening effect and more forceful stimulus.

Looking into next week, we have a fairly light calendar with Flash PMI's in the US and euro area as well as German ifo business confidence being the most interesting. We look for a further decline due to the strong financial headwinds currently. Fed chairman Jerome Powell will deliver the semi-annual testimony in Congress but we doubt it will provide much news. On the political front EU leaders will meet for a summit on Thursday and Friday to discuss Ukraine's EU membership application, and economic issues. On Sunday France goes to the polls for the second round in the parliamentary election.

Key global views

- US to fall into recession in Q2 23, Europe will follow later in 23
- Higher commodity prices, higher wage growth and high inflation expectations will keep inflation elevated for longer
- Fed to hike by another 225bp this year, ECB to hike by a total of 125bp this year (upside risk)

Key market movers

- Wed: Fed chairman Powell semi-annual testimony to Congress
- Thurs: Flash PMI in US and Euro, EU summit
- Fri: German ifo. EU Summit
- Sun: Second round of French parliamentary election

Selected reading from Danske Bank

Fed Research – Review: big rate hikes until inflation pressure eases, 15 June

FX Strategy – Stagflation supports more USD strength, 13 June

Global Inflation Watch – still no sign of easing US and euro inflation pressure, 13 June

Monthly Executive Briefing: Inflation risks trump growth risks for central banks, 3 June

Big Picture: A (mild) recession in western economies seems unavoidable, 3 June

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Scandi market movers

- In **Denmark**, consumer confidence for June is due on Wednesday. Consumer confidence has been extremely negative in recent months and the climate of falling equity prices and higher inflation and interest rates remains in place. However, this does not necessarily mean consumer confidence will sink even further, as we are already at a very low level.

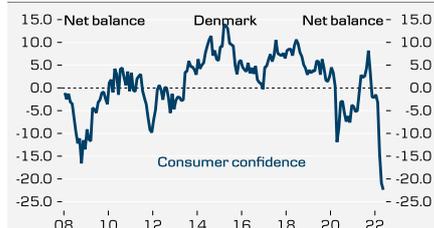
Wednesday should also bring wage earner employment for April. Employment has risen for 14 months in a row and the labour market is very tight. There is nothing to indicate the labour market is about to soften anytime soon, and we therefore expect a small increase in employment in April.

- In **Sweden**, HOX Valueguard publishes the index for how house prices have developed during May and we expect a decrease in prices for the third consecutive month. Our own housing price indicator showed that the decline accelerated in May (-1.3% s.a). Our indicator only covers tenant-owned apartments in Stockholm but have historically been a good early marker for show how prices will move in the country as a whole. The tide also seems to have turned in terms of turnover, with the number of transactions plummeting almost to pre-pandemic levels from the giddy heights of the past 18 months according to our own indicator. Which is probably a first sign of households becoming more cautious.

Also statistics Sweden's labour force survey will be out later in the week giving a hint of how the economy have developed during May, especially hours worked will be an important input. The unemployment rate remain highly volatile according to SCB but are trending down. For the unemployment rate, the Public Employment Service's statistics is a much better indicator which shown an unemployment rate of 6.9% s.a.

- In **Norway**, everything points to a further increase in interest rates next week, so the question is simply how aggressive Norges Bank will be. Since the March rate-setting meeting and monetary policy report, almost all factors relevant to the bank's policy rate projections have come out to the upside of its expectations. Interest rates among Norway's trading partners are 1-1.5pp higher, the krone 4% weaker, forward oil prices USD 5-15 higher, core inflation in May 0.8pp higher, and wage growth set to be 0.2pp higher. Unemployment is also lower than expected, but capacity utilisation in the regional network survey was only slightly higher than in Q1, and the growth outlook weaker, so domestic demand has probably changed very little. Global rates are rising, however, as central banks the world over tighten monetary policy to rein in inflation, and this spells lower imported inflation in Norway going forward. Norges Bank will therefore need to exercise a fair amount of judgement when updating its policy rate projections. With domestic demand and capacity utilisation increasing only marginally since March, there is little reason to accelerate the hiking cycle. On the other hand, wage growth and especially inflation have been higher than expected, which would support signalling somewhat more aggressive monetary policy than in March. Our call is therefore that the bank will raise its policy rate by 25bp and open the door for a further hike in August, but without referring to this as "most likely". We expect the policy rate path in the monetary policy report to signal about a 50/50 chance of a further three hikes this year after the June meeting, and slightly more than four more next year.

Will consumer confidence continue to fall



Source: Danske Bank, Macrobond Financial

Slowing turnover at the housing market



Source: Hemnet, Danske Bank, Macrobond

Moderate rise in capacity utilisation



Source: Macrobond, Danske Bank

Scandi update

Denmark – Hours worked rose again in Q1 22

The working time accounts for Q1 22 showed an increase in hours worked of 1.7% compared to Q4 21. Employment growth in Q1 22 was 1.1%, so there is even more momentum in the job upswing than employment data indicates.

Total sales by enterprises excl. energy were unchanged from March to April, meaning the April figures remain at a high level. However, we should be cautious about drawing conclusions of a slowdown from this statistic, as major revisions have been made previously. For example, the March figures were revised 1.8% higher.

Hours worked rose again in Q1 22



Source: Danske Bank, Macrobond Financial

Sweden – new record inflation, but stable expectations

Swedish May inflation was no exception from the rising trend in global inflation with CPIF and CPIF excl. Energy printing 7.2 % yoy and 5.4 % yoy respectively. Again it was slightly higher than anticipated. The main drivers were the same as seen in recent months, i.e. food, furniture/household appliances and hotels/restaurant prices. In addition, transportation services and recreation prices were significantly higher than expected in the run-up to the holiday season. There were no significant deviations on the downside. Looking forward, this means a slight upward revision to the near-term inflation outlook.

On the positive front, Prospera’s “big” Q2 survey showed 5y inflation expectations staying put at 2.2 %, probably a significant relief for Riksbank. It can also be noted that while Social Partners’ 2-year wage expectations rose to 3.1 %, the highest since Q2 2011, the corresponding real wage expectation dropped to the lowest ever in the survey’s history, - 0.1 %. This is the first time the survey (implicitly) has showed negative real wage expectations.

Sweden: No further rise in expectations despite soaring inflation

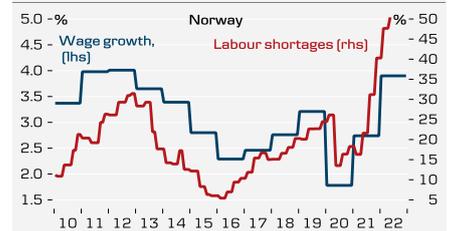


Source: SCB, Prospera

Norway – Capacity utilisation up only moderately

In Norges Bank’s regional network survey, the aggregated output index fell from 1.65 to 0.8, pointing to annualised growth in the Norwegian economy of around 1.6% over the next six months. The decline in expectations was broad-based, with all sectors now either less optimistic or, in the case of retail, more pessimistic. More important, perhaps, is that 60.8% of firms reported that they are operating at full capacity, up only moderately from 59.1% in February, which suggests that the output gap is only marginally wider than then. On the other hand, the share of firms reporting labour shortages as a constraint on production climbed from 47.7% to 50.4%, the highest since 2008. This confirms that the labour market has tightened further as shown by other indicators. So it was interesting to see expectations for wage growth this year rising only moderately from 3.7% to 3.9%, which suggests that the tightening of the labour market has had only a modest impact on wages. We also noted that, for the first time in more than a year, firms are no longer expecting improved profitability.

Wage growth not reflecting tightness of labour market



Source: Macrobond, Danske Bank

Calendar

During the week				Period	Danske Bank	Consensus	Previous
Sat 18	USD	Fed's Waller speaks					
Monday, June 20, 2022				Period	Danske Bank	Consensus	Previous
18:45	USD	Fed's Bullard speaks					
Tuesday, June 21, 2022				Period	Danske Bank	Consensus	Previous
9:15	SEK	NIER economic forecasts					
10:00	EUR	Current account	EUR bn	Apr			-1.6
14:30	CAD	Retail sales	m/m	Apr			0.0%
16:00	USD	Existing home sales	m (m/m)	May		5.4	5.61 -0.024
16:00	USD	Fed's George speaks					
18:00	USD	Fed's Mester speaks					
21:30	USD	Fed's Barkin speaks					
Wednesday, June 22, 2022				Period	Danske Bank	Consensus	Previous
8:00	GBP	CPI	m/m/y/y	May		0.8% 9.2%	2.5% 9.0%
8:00	GBP	CPI core	y/y	May		6.0%	6.2%
8:00	DKK	Consumer confidence	Net. bal.	Jun			-22.4
14:30	CAD	CPI	m/m/y/y	May			-16.8%
15:30	USD	Fed chair Powell speaks					
15:30	USD	Fed chair Powell speaks					
16:00	EUR	Consumer confidence, preliminary	Net bal.	Jun		-20.5	-21.1
18:50	USD	Fed's Evans speaks					
19:30	USD	Fed's Barkin speaks					
19:30	USD	Fed's Harker speaks					
Thursday, June 23, 2022				Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jun			53.3
2:30	JPY	Markit PMI services, preliminary	Index	Jun			52.6
8:00	SEK	PPI	m/m/y/y	May			1.2% 23.8%
8:45	FRF	Business confidence	Index	Jun		105.0	106.0
9:15	FRF	PMI manufacturing, preliminary	Index	Jun		53.7	54.6
9:15	FRF	PMI services, preliminary	Index	Jun		57.5	58.3
9:15	EUR	S&P may publish France's debt rating, preliminary		Jun		53.7	54.6
9:15	EUR	S&P may publish France's debt rating, preliminary		Jun		57.5	58.3
9:15	EUR	S&P may publish France's debt rating, preliminary		Jun			57
9:30	DEM	PMI manufacturing, preliminary	Index	Jun		54.0	54.8
9:30	DEM	PMI services, preliminary	Index	Jun		54.5	55.0
9:30	EUR	S&P may publish Germany's debt rating, preliminary		Jun		54	54.8
9:30	EUR	S&P may publish Germany's debt rating, preliminary		Jun		54.5	55
9:30	EUR	S&P may publish Germany's debt rating, preliminary		Jun		53	53.7
10:00	EUR	PMI manufacturing, preliminary	Index	Jun		54.0	54.6
10:00	EUR	PMI composite, preliminary	Index	Jun		54.1	54.8
10:00	EUR	PMI services, preliminary	Index	Jun		55.5	56.1
10:00	EUR	S&P may publish <PLACE>'s debt rating, preliminary		Jun		54	54.6
10:00	EUR	S&P may publish <PLACE>'s debt rating, preliminary		Jun		55.5	56.1
10:00	EUR	S&P may publish <PLACE>'s debt rating, preliminary		Jun		54.1	54.8
10:00	EUR	ECB Publishes Economic Bulletin					
10:00	NOK	Norges Banks monetary policy meeting	%		1.0%	1.0%	0.75%
10:30	GBP	PMI manufacturing, preliminary	Index	Jun		53.8	54.6
10:30	GBP	PMI services, preliminary	Index	Jun		53.0	53.4
13:00	TRY	Central Bank of Turkey rate decision	%		14.0%	14.0%	14.0%
14:30	USD	Current account	USD bn	1st quarter		-284.8	-217.9
14:30	USD	Initial jobless claims	1000				229
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jun		56.3	57.0
15:45	USD	Markit PMI service, preliminary	Index	Jun		53.7	53.4
16:00	USD	Fed chair Powell speaks					
16:00	USD	Fed chair Powell speaks					
17:00	USD	DOE U.S. crude oil inventories	K				1956
Friday, June 24, 2022				Period	Danske Bank	Consensus	Previous
1:01	GBP	GfK consumer confidence	Index	Jun		-41.0	-40.0
1:30	JPY	CPI - national ex. fresh food	y/y	May		2.1%	2.1%
1:30	JPY	CPI - national	y/y	May		2.5%	2.5%
8:00	NOK	Credit indicator (C2)	y/y	May			4.8%
8:00	GBP	Retail sales ex fuels	m/m/y/y	May		-1.0% 5.1%	1.4% 6.1%
9:00	ESP	GDP, final	q/q/y/y	1st quarter		0.3% 6.4%	0.3% 6.4%
10:00	DEM	IFO - business climate	Index	Jun		92.5	93.0
10:00	DEM	IFO - current assessment	Index	Jun		98.9	99.5
10:00	DEM	IFO - expectations	Index	Jun		87.4	86.9
13:30	USD	Fed's Bullard speaks					
16:00	USD	University of Michigan Confidence, final	Index	Jun		50.2	50.2
16:00	USD	New home sales	1000 (m/m)	May		595	591.0 (-16.6%)
22:00	USD	Fed's Daly speaks					

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 ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Denmark	2021	4.7	4.3	3.7	5.6	7.8	8.2	1.9	3.0	3.7	2.4	36.7	8.3
	2022	3.5	2.2	0.6	2.0	6.0	4.0	5.5	3.7	2.4	1.7	32.6	7.5
	2023	1.3	2.5	0.5	1.1	3.1	4.1	1.7	4.0	2.5	1.8	30.3	7.7
Sweden	2021	4.5	5.7	2.5	5.9	7.2	9.1	2.2	2.7	8.8	-0.2	37.7	5.1
	2022	2.5	3.3	1.3	2.8	5.1	5.6	4.0	2.0	7.0	0.8	33.0	4.8
	2023	2.0	1.9	1.2	2.2	3.9	3.4	1.3	2.1	6.8	0.8	30.0	5.1
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	3.3	3.7	2.0	-	-	-
	2023	2.0	2.5	1.3	2.0	4.0	4.0	1.8	3.7	1.9	-	-	-

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	2021	5.3	3.6	3.9	4.1	10.8	8.7	2.6	4.1	7.7	-5.1	97.4	3.2
	2022	2.8	2.4	2.9	2.4	5.5	6.5	7.3	3.2	6.8	-3.7	94.7	2.4
	2023	1.8	0.7	3.7	3.5	3.9	4.4	2.8	3.4	6.8	-2.5	92.7	2.9
Germany	2021	2.9	0.3	2.9	1.0	9.5	9.0	3.2	3.4	3.6	-3.7	69.3	7.4
	2022	1.4	3.0	1.3	2.2	1.9	6.7	7.6	3.3	3.0	-2.5	66.4	6.4
	2023	1.8	0.7	4.1	3.5	3.9	4.5	3.2	3.9	3.0	-1.0	64.5	6.8
Finland	2021	3.5	3.1	3.2	1.2	4.7	5.3	2.2	2.3	7.7	-2.6	65.8	0.7
	2022	1.7	2.3	1.0	3.0	3.0	4.0	4.4	2.8	7.0	-3.0	66.1	0.2
	2023	2.0	2.5	1.0	3.0	3.0	3.5	2.0	2.6	6.6	-1.8	65.5	0.4

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	2021	5.7	7.9	0.5	7.8	4.5	14.0	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	2.4	2.9	-0.8	3.9	2.9	9.6	8.4	5.2	3.6	-4.2	124.0	-3.5
	2023	0.1	0.1	1.1	-1.2	-2.3	-1.7	4.6	4.2	3.9	-3.8	121.0	-3.2
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	3.7	4.8	-	3.0	-	-	2.5	5.0	-	-7.7	77.8	1.1
	2023	5.7	6.5	-	5.0	-	-	2.5	5.5	-	-7.1	81.8	1.0
UK	2021	7.4	6.2	14.3	5.9	-1.3	3.8	2.6	5.1	4.5	-3.8	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-1.7	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-2.0	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.3	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.7	3.3	1.4	-1.8	3.6	4.1	1.6	-	2.5	-	-	-
	2023	1.8	1.6	0.7	1.7	2.9	1.1	1.1	-	2.5	-	-	-

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-Jun	1.75	2.03	3.56	3.27	105.2	-	707.2	993.2	1016.1
	+3m	3.00	2.59	3.25	3.40	102.0	-	729.7	1029.4	1009.8
	+6m	4.00	3.11	3.55	3.60	101.0	-	737.1	1029.7	1039.6
	+12m	4.00	3.40	3.65	3.40	100.0	-	745.0	1000.0	1070.0
EUR	17-Jun	-0.50	-0.17	1.78	2.43	-	105.2	743.9	1044.7	1068.8
	+3m	0.25	0.52	1.30	2.05	-	102.0	744.3	1050.0	1030.0
	+6m	0.50	0.90	1.45	2.30	-	101.0	744.5	1040.0	1050.0
	+12m	1.25	1.37	1.50	2.20	-	100.0	745.0	1000.0	1070.0
JPY	17-Jun	-0.10	-0.02	0.17	0.54	120.5	134.7	6.17	8.67	8.87
	+3m	-0.10	-	-	-	131.6	129.0	5.66	7.98	7.83
	+6m	-0.10	-	-	-	128.3	127.0	5.80	8.11	8.19
	+12m	-0.10	-	-	-	122.0	122.0	6.11	8.20	8.77
GBP*	17-Jun	1.25	-	2.95	2.49	85.6	122.9	869.4	1221.1	1249.2
	+3m	1.50	-	2.15	2.10	86.0	118.6	865.4	1220.9	1197.7
	+6m	1.75	-	2.25	2.10	85.0	118.8	875.9	1223.5	1235.3
	+12m	1.75	-	2.15	1.90	84.0	119.0	886.9	1190.5	1273.8
CHF*	17-Jun	-0.75	-	1.10	1.93	101.4	96.5	733.3	1029.9	1053.6
	+3m	-0.75	-	-	-	103.0	101.0	722.6	1019.4	1000.0
	+6m	-0.50	-	-	-	101.0	100.0	737.1	1029.7	1039.6
	+12m	0.00	-	-	-	99.0	99.0	752.5	1010.1	1080.8
DKK	17-Jun	-0.60	0.05	2.10	2.72	743.87	707.19	-	140.45	143.68
	+3m	0.15	0.72	1.55	2.30	744.25	729.66	-	141.08	138.39
	+6m	0.65	1.13	1.70	2.55	744.50	737.13	-	139.69	141.03
	+12m	1.15	1.55	1.75	2.45	745.00	745.00	-	134.23	143.62
SEK	17-Jun	0.25	0.76	2.83	3.05	1068.8	1016.1	69.6	97.8	100.0
	+3m	1.25	0.85	2.25	2.65	1030.0	1009.8	72.3	101.9	-
	+6m	1.75	1.10	2.45	2.65	1050.0	1039.6	70.9	99.0	-
	+12m	2.00	1.40	2.40	2.60	1070.0	1070.0	69.6	93.5	-
NOK	17-Jun	0.75	1.46	3.03	3.19	1044.7	993.2	71.2	100.0	102.3
	+3m	1.00	1.62	2.70	3.30	1050.0	1029.4	70.9	-	98.1
	+6m	1.25	1.91	2.80	3.40	1040.0	1029.7	71.6	-	101.0
	+12m	1.75	2.32	2.95	3.30	1000.0	1000.0	74.5	-	107.0

*Note: GBP swaps are SONIA and CHF swaps are SHARON

Commodities

	17-Jun	2022				2023				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	120	98	112	115	100	95	95	95	95	106	95

Source Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Allan von Mehren, Chief Analyst.

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