

Weekly Focus

Hopes for peace boost market sentiment as Fed starts hiking

Positive signals from Russia-Ukraine talks boosted market sentiment this week. Media reports that Ukrainian and Russian negotiators are discussing a 15-point draft peace deal raised early optimism that the two sides could be approaching a diplomatic solution to the ongoing war in Ukraine. In our *Research Russia-Ukraine – Updated scenarios and implications for commodity markets*, March 9, we argue that the two sides are likely to eventually agree on a ceasefire/truce but that will require some painful concessions from the Ukrainian side. Despite a potential truce, some level of conflict/unrest is likely to remain but on a baseline we do not expect an escalation of the conflict outside Ukraine.

In our base case of a frozen conflict in Ukraine, we think the global economy will see weaker growth but escape a recession (see *Big Picture – Headwinds to the global economy from Ukraine and Fed tightening*, March 17). In a downside scenario, where there is an escalation of the war beyond the borders of Ukraine, the risk of recession in Europe increases significantly. With rising inflation, euro area consumers will see the biggest real income erosion in decades this year, and we revise down our 2022 euro area GDP forecast to 2.5%. The US economy is more insulated from the Ukraine war repercussions, but strong stagflation dynamics will keep the pressure on Fed to tighten financial conditions. Overall, we now expect US GDP growth of 2.8% this year. We have also postponed our expectation of a recovery in China and now look for GDP growth of only 4.7% this year.

As widely expected, Fed launched its hiking cycle on Wednesday by raising the Fed funds target range by 25 bps to 0.25-0.50%. Despite signalling six further rate hikes for this year, we still think Fed is behind the curve, and keep our call unchanged, expecting a total of 175bp hikes this year (25bp at each meeting but 50bp in June). We still expect an announcement on QT in May.

Risk markets recovered this week on the back of rising optimism around Russia-Ukraine talks. Equity markets gained in Europe and the US, and EUR pared losses against USD breaching 1.10 level. German and US 10y yields increased around 10bp as demand for safe havens took a breather. Commodity prices also backed off with Brent oil briefly visiting below USD 100/barrel and European gas prices hovering around 110€/MWh. Despite optimism around peace talks, we highlight that markets remain highly sensitive to headlines. Also, in the light of ever more aggressive use of force by the Russian army against civilians in Ukraine, we cannot rule out a further step-up of Western sanctions against Russia, and a potential further hit to the global risk sentiment.

In the coming week, focus will remain in Ukraine war developments and the peace talks. European leaders will meet for an EU-summit on Thursday-Friday, discussing the economic fallout from the war and possible fiscal support measures. The data calendar is light but we will keep a close eye on global PMIs on Wednesday. Particularly, we expect the renewed disruptions from the war on supply chains to be reflected in a dip in the euro area manufacturing activity.

Key market movers

- Wednesday: EA consumer confidence
- Thursday: Markit PMIs from US, EA and UK
- Friday: US Michigan survey, UK retail sales

Key global views

- Rising stagflation risk from war in Ukraine – especially in Europe
- We expect weaker growth in the coming quarters but not a global recession
- Higher commodity prices to keep inflation elevated for longer
- Fed to hike rates further by a total of 175bp in 2022, ECB to hike in December but risks tilted towards an earlier hike

Selected reading from Danske Bank

- *Big Picture – Headwinds to the global economy from Ukraine war and Fed tightening*, March 17
- *Fed Research- Review: Fed is still behind the curve despite signalling six further rate hikes*, March 16

Source:

Editor

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Scandi market movers

- In **Denmark**, we are set to receive wage-earner employment figures for January on Monday. The corona lockdown during the month may have slowed the otherwise rapid growth of the labour market, but we still expect further progress in 2022, albeit at a slower pace. There are simply not enough people to meet the high demand for labour, so the labour market cannot continue improving at the same pace as in 2021.

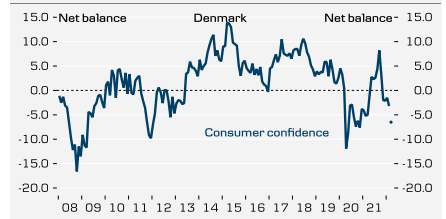
Wednesday should bring consumer expectations for March, and we are looking for a decline to -6.5 from -3.2 in February. The last time we saw so low a level was in autumn 2020, when the second wave of Covid-19 infections was weighing on people’s minds. We expect high energy prices and uncertainty in connection with the war in Ukraine to affect consumers’ views on their own finances and the Danish economy.

February’s retail sales figures are due on Friday. Our Spending Monitor indicates that retail sales were slightly down in February compared to January. With previous lockdowns, we have seen consumption shift somewhat from services to retail, and this has also been the case this time, though to a lesser extent than with earlier, more extensive lockdowns.

- **Sweden**: Valueguard releases February real estate prices. We expect another leg up as indicated by our own Boprisindikator (which is limited to Stockholm flats though). Normally one might suspect that stock market turmoil and higher inflation would dent buying sentiment. This of course remains a risk.

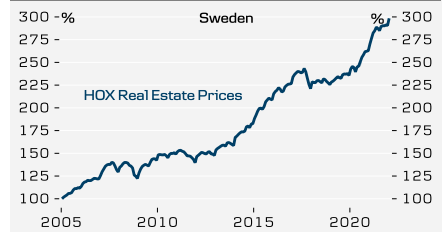
- In Norway, we expect Norges Bank to announce a 25bp rate hike to 0.75% at its policy meeting next week. This is in line with both the consensus and market pricing. The question is which signals will be given about interest rates going forward. In December, the rate path indicated slightly more than three rate increases this year, two next year and another half in 2024. Since December, the factors impacting interest rate developments have changed considerably, as especially capacity utilisation has increased and wage and price expectations have risen. In addition, rate forecasts in other countries have risen substantially, and financial factors such as exchange rates, commodity prices and money market premiums have moved considerably. We think Norges Bank will use its judgement to signal a continued gradual normalisation of monetary policy with four rate hikes this year and two next year.

Consumer confidence expected to fall due to uncertainty and high energy prices



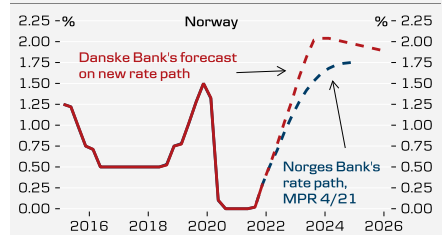
Source: Danske Bank, Macrobond Financial

Sweden: Probably new high in real estate prices in February



Source: KTH Valueguard

Norges Bank likely to adjust interest rate projections higher



Source: Macrobond, Danske Bank

Scandi update

Denmark – Central bank expects war to have significant impact on the Danish economy

The past week has been rather quiet data-wise in Denmark. Danmarks Nationalbank produced a new forecast for the Danish economy, revising down its expectations for GDP growth from 3.1% to 2.1%. The overriding reason for the change was the war in Ukraine. We do not expect the impact to be so pronounced, not least because we had a more modest view on the Danish economy prior to the war and projected GDP growth of 2.5%. Clearly, demand will now be lower due to the war, and we see the central bank’s growth estimate as quite realistic, even though we were also less optimistic to begin with.

Sweden – Ingves says “inflation much too high”

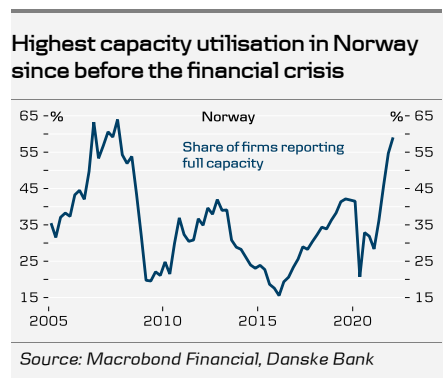
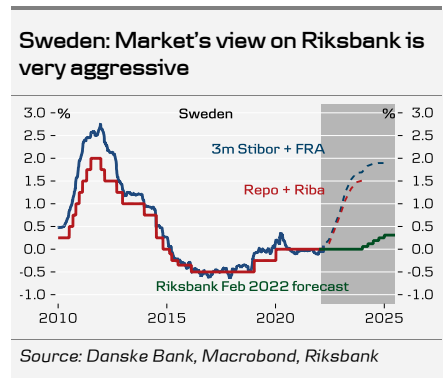
The February inflation numbers with CPI ex energy at 3.4% y/y apparently came as a shock to the Riksbank. The 1.1 percentage point gap to the latest RB-forecast for February is as far as we can recall the widest on record. Also, the numbers show that it is no longer true to say that high inflation above all is a matter of energy.

We have updated our RB call now looking for a larger revamp of policy guidance at the next policy meeting in April. It may not fully be reflected in the repo path in April, but in the end we expect the Riksbank to deliver two rate hikes this year (Sep and Nov) and a third in February 2023. Given the extreme interest rate sensitivity among households, this may very well prove to be enough especially as inflation is largely supply-driven and, hence, contractionary by itself. With the Riksbank moving more hawkish it should be accompanied by an earlier phasing out of reinvestments. A guesstimate is that reinvestments are scaled back to SEK20bn in Q3 and SEK10bn in Q4 and from the first quarter 2023 assets will be allowed to roll off as they mature.

In a recent interview, governor Ingves took the unusual step of flagging a coming change in the policy outlook. In short he said that inflation has turned out far too high, the Riksbank must re-think its policy strategy and that is reasonable to expect a rate hike sooner than 2024. We don’t preclude an even earlier hike than September on the back of that, however, April appears to be too aggressive though. Concerning QE tapering, he was more unclear and we got the impression he didn’t want to pre-commit.

Norway – Positive growth outlook despite capacity problems

Norges Bank’s regional network survey showed an increase in the aggregated output index for the next six months from 0.95 to 1.65, which corresponds to annualised growth of 3.3%. This was higher than we expected, as the bulk of the recovery effect from the pandemic is now over, and firms are feeling the effects of bottlenecks and higher cost growth. Most interesting, therefore, was that the share of firms stating that they are operating at full capacity climbed from 54.7% to 59.1%. There was also an increase in the share of firms citing labour shortages as a constraint on production, from 40.3% to 47.7%. This confirms our assumption that the output gap is now positive and widening. Firms’ wage expectations for 2022 also climbed from 3.3% to 3.7%, which is well above Norges Bank’s projection of 3.2% in the December monetary policy report. Higher capacity utilisation, growing labour shortages and higher wage expectations point clearly to Norges Bank having to accelerate the normalisation of monetary policy.



Calendar

During the week				Period	Danske Bank	Consensus	Previous
Sat 19	USD	Fed's George speaks					
Monday, March 21, 2022				Period	Danske Bank	Consensus	Previous
8:00	DKK	Employment	1000	Jan			2916
13:00	USD	Fed's Bostic speaks					
16:00	USD	Fed's George speaks					
17:00	USD	Fed chair Powell speaks					
Tuesday, March 22, 2022				Period	Danske Bank	Consensus	Previous
10:00	EUR	Current account	EUR bn	Jan			22.6
14:00	HUF	Central Bank of Hungary rate decision	%		3.9%	4.3%	3.4%
15:00	USD	Fed's George speaks					
15:35	USD	Fed's Williams speaks					
19:00	USD	Fed's Daly speaks					
22:00	USD	Fed's Mester speaks					
Wednesday, March 23, 2022				Period	Danske Bank	Consensus	Previous
5:00	USD	Fed's George speaks					
6:00	JPY	Leading economic index, final	Index	Jan			103.7
8:00	DKK	Consumer confidence	Net. bal.	Mar	-6.5		-3.2
8:00	GBP	CPI	m/mly/y	Feb		0.5% 5.9%	-0.1% 5.5%
8:00	GBP	CPI core	y/y	Feb		4.8%	4.4%
13:00	USD	Fed chair Powell speaks					
15:00	USD	New home sales	1000 (m/m)	Feb		815	801.0 [-4.5%]
15:30	USD	DOE U.S. crude oil inventories	K				4345
16:00	EUR	Consumer confidence, preliminary	Net bal.	Mar		-12.8	-8.8
16:45	USD	Fed's Daly speaks					
17:00	USD	Fed's George speaks					
20:00	USD	Fed's Bullard speaks					
Thursday, March 24, 2022				Period	Danske Bank	Consensus	Previous
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Mar			52.7
1:30	JPY	Markit PMI services, preliminary	Index	Mar			44.2
2:05	USD	Fed's Bullard speaks					
5:00	USD	Fed's George speaks					
8:45	FRF	Business confidence	Index	Mar		112.0	112.0
9:15	FRF	PMI manufacturing, preliminary	Index	Mar		55.0	57.2
9:15	FRF	PMI services, preliminary	Index	Mar		55.0	55.5
9:30	CHF	SNB policy rate	%		-0.75%	-0.75%	-0.75%
9:30	DEM	PMI manufacturing, preliminary	Index	Mar		55.8	58.4
9:30	DEM	PMI services, preliminary	Index	Mar		54.2	55.8
10:00	NOK	Norges Banks monetary policy meeting	%		0.75%	0.75%	0.5%
10:00	EUR	PMI manufacturing, preliminary	Index	Mar		56.0	58.2
10:00	EUR	PMI composite, preliminary	Index	Mar		53.7	55.5
10:00	EUR	PMI services, preliminary	Index	Mar		54.3	55.5
10:00	EUR	ECB Publishes Economic Bulletin					
10:30	GBP	PMI manufacturing, preliminary	Index	Mar		57.0	58.0
10:30	GBP	PMI services, preliminary	Index	Mar		58.0	60.5
13:30	USD	Core capital goods orders, preliminary	%	Feb		0.5%	1.0%
13:30	USD	Initial jobless claims	1000				214
13:30	USD	Fed's Kashkari speaks					
13:30	USD	Current account	USD bn	4th quarter		-217.8	-214.8
14:10	USD	Fed's Waller speaks					
14:45	USD	Markit PMI manufacturing, preliminary	Index	Mar		55.0	57.3
14:45	USD	Markit PMI service, preliminary	Index	Mar		56.0	56.5
16:00	USD	Fed's Bostic speaks					
22:30	USD	Fed's George speaks					
Friday, March 25, 2022				Period	Danske Bank	Consensus	Previous
1:01	GBP	GfK consumer confidence	Index	Mar		-30.0	-26.0
5:00	USD	Fed's Daly speaks					
8:00	DKK	Retail sales	m/mly/y	Feb			4.2% 12.9%
8:00	GBP	Retail sales ex fuels	m/mly/y	Feb		1.0% 6.1%	1.7% 7.2%
8:00	SEK	PPI	m/mly/y	Feb			0.7% 19.8%
8:00	SEK	Household lending	y/y	Feb			6.7%
9:00	ESP	GDP, final	q/qly/y	4th quarter		2.0% 5.2%	2.0% 5.2%
10:00	DEM	IFO - business climate	Index	Mar		94.0	98.9
10:00	DEM	IFO - current assessment	Index	Mar		96.4	98.6
10:00	DEM	IFO - expectations	Index	Mar		92.6	99.2
10:00	EUR	Money supply (M3)	y/y	Feb		6.3%	6.4%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Feb		6.3%	6.4%
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Feb		6.3%	6.4%
14:10	USD	Fed's Waller speaks					
15:00	USD	Fed's Williams speaks					
15:00	USD	University of Michigan Confidence, final	Index	Mar		59.7	59.7
15:00	USD	Pending home sales	m/mly/y	Feb		1.0%	-5.7% -9.1%
16:30	USD	Fed's Barkin 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	4.1	3.5	4.3	4.1	7.5	7.9	1.9	2.8	3.7	0.0	37.6	7.6
	2022	2.5	3.1	-1.2	2.1	5.4	4.9	4.2	3.2	2.5	1.3	33.9	7.6
	2023	1.7	2.6	-0.6	3.1	3.3	3.8	1.4	3.4	2.5	0.9	32.5	6.8
Sweden	2021	4.5	5.5	3.2	6.9	6.6	8.8	2.2	2.7	8.8	-0.8	37.0	1.4
	2022	3.0	4.1	1.4	5.4	3.4	5.6	4.0	1.8	7.3	0.2	33.0	3.9
	2023	2.2	2.4	1.2	2.2	4.0	3.4	1.2	2.1	6.5	0.7	30.0	4.1
Norway	2021	4.2	5.0	3.9	-0.3	4.8	2.0	3.5	3.2	3.2	-	-	-
	2022	3.8	6.5	1.3	3.1	6.0	7.5	3.3	3.4	2.3	-	-	-
	2023	2.0	2.0	1.3	2.0	4.0	4.0	1.8	3.6	2.2	-	-	-

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	3.5	3.8	4.3	10.9	8.6	2.6	4.1	7.7	-6.9	99.8	3.1
	2022	2.5	2.8	3.9	3.7	7.3	9.4	7.0	2.5	6.7	-3.6	97.6	3.2
	2023	2.8	1.2	3.7	4.5	5.3	4.9	2.0	3.4	6.5	-2.1	96.7	3.4
Germany	2021	2.9	0.1	3.1	1.3	9.8	9.1	3.2	3.4	3.5	-4.9	71.4	6.6
	2022	1.0	2.8	2.6	0.2	6.2	8.8	7.4	3.2	3.1	-2.1	69.2	6.6
	2023	3.6	1.6	4.1	4.0	6.4	4.9	2.7	3.8	2.9	-0.5	68.1	6.8
Finland	2021	3.5	3.1	3.2	1.2	4.7	5.3	2.2	2.4	7.7	-2.7	65.8	0.9
	2022	2.8	3.5	1.0	4.0	6.0	6.5	2.6	2.8	6.9	-2.3	67.0	0.8
	2023	1.6	1.5	0.5	3.0	3.0	3.0	1.8	2.6	6.6	-1.3	66.7	0.7

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	4.6	14.0	4.7	4.0	5.4	-13.4	129.7	-3.5
	2022	2.8	2.5	0.1	2.9	4.9	5.5	7.2	5.0	4.0	-4.7	125.6	-3.5
	2023	2.0	1.9	1.0	3.5	1.5	1.8	3.0	4.6	3.8	-3.1	124.0	-3.3
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	4.7	6.0	-	3.0	-	-	3.0	5.5	-	-7.0	72.0	1.0
	2023	5.3	6.0	-	4.5	-	-	2.5	5.5	-	-6.8	74.5	0.7
UK	2021	7.5	3.8	15.8	5.3	-3.0	1.0	2.6	4.9	4.5	-5.3	96.9	-3.4
	2022	5.1	6.1	3.3	6.5	3.3	4.8	5.2	3.2	4.0	-0.6	96.7	-5.3
	2023	2.4	2.5	0.8	4.8	3.4	3.7	2.9	3.9	3.7	0.5	96.7	-4.7
Japan	2021	1.8	1.4	2.7	-1.1	10.9	5.9	-0.2	-	2.8	-	-	-
	2022	2.4	3.3	2.2	-0.5	3.0	2.0	0.4	-	2.6	-	-	-
	2023	1.2	1.4	0.7	0.4	3.2	2.0	0.5	-	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	18-Mar	0.50	0.95	2.14	2.24	110.4	-	674.2	880.7	944.7
	+3m	1.00	1.18	1.90	2.15	108.0	-	689.1	925.9	944.4
	+6m	1.50	1.70	2.20	2.35	106.0	-	702.4	943.4	952.8
	+12m	2.50	2.80	2.75	2.50	105.0	-	709.5	952.4	971.4
EUR	18-Mar	-0.50	-0.49	0.24	0.99	-	110.4	744.3	972.3	1043.0
	+3m	-0.50	-0.53	0.25	0.75	-	108.0	744.3	1000.0	1020.0
	+6m	-0.50	-0.53	0.45	0.85	-	106.0	744.5	1000.0	1010.0
	+12m	-0.25	-0.11	0.75	1.10	-	105.0	745.0	1000.0	1020.0
JPY	18-Mar	-0.10	-0.01	0.08	0.31	120.5	119.1	6.18	8.07	8.66
	+3m	-0.10	-	-	-	125.3	116.0	5.94	7.98	8.14
	+6m	-0.10	-	-	-	121.9	115.0	6.11	8.20	8.29
	+12m	-0.10	-	-	-	115.5	110.0	6.45	8.66	8.83
GBP*	18-Mar	0.75	-	1.74	1.53	84.1	131.3	885.1	1156.2	1240.4
	+3m	1.00	-	1.30	1.35	84.0	128.6	886.0	1190.5	1214.3
	+6m	1.25	-	1.30	1.40	84.0	126.2	886.3	1190.5	1202.4
	+12m	1.50	-	1.55	1.65	84.0	125.0	886.9	1190.5	1214.3
CHF*	18-Mar	-0.75	-	-0.22	0.66	103.3	93.5	720.6	941.4	1009.9
	+3m	-0.75	-	-	-	102.0	94.4	729.7	980.4	1000.0
	+6m	-0.75	-	-	-	101.0	95.3	737.1	990.1	1000.0
	+12m	-0.75	-	-	-	100.0	95.2	745.0	1000.0	1020.0
DKK	18-Mar	-0.60	-0.24	0.51	1.24	744.31	674.18	-	130.63	140.13
	+3m	-0.60	-0.28	0.50	0.95	744.25	689.12	-	134.36	137.05
	+6m	-0.60	-0.28	0.70	1.05	744.50	702.36	-	134.32	135.66
	+12m	-0.35	0.14	1.00	1.30	745.00	709.52	-	134.23	136.91
SEK	18-Mar	0.00	0.12	0.96	1.65	1043.0	944.7	71.4	93.2	100.0
	+3m	0.00	-0.02	0.50	1.45	1020.0	944.4	73.0	98.0	-
	+6m	0.25	-0.02	0.50	1.55	1010.0	952.8	73.7	99.0	-
	+12m	0.75	0.23	0.60	1.65	1020.0	971.4	73.0	98.0	-
NOK	18-Mar	0.50	1.41	2.36	2.51	972.3	880.7	76.6	100.0	107.3
	+3m	0.75	1.31	2.15	2.40	1000.0	925.9	74.4	-	102.0
	+6m	1.00	1.53	2.25	2.50	1000.0	943.4	74.5	-	101.0
	+12m	1.50	1.90	2.25	2.60	1000.0	952.4	74.5	-	102.0

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

Commodities

	18-Mar	2022				2023				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	108	98	125	115	100	95	95	95	95	110	95

Source Danske Bank

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