

Weekly Focus

PMIs next week could be decisive for ECB and Fed

Over the last week, we have seen bond yields trend upwards, probably driven by a range of factors including government bond supply and better than expected economic data. US retail sales excluding cars and gasoline increased 1% m/m in July, to some extent likely driven by the “Amazon Prime Day” sale event, but nevertheless a robust number that markets reacted to, even if retail sales are not always a good indicator for total consumer spending. Minutes from the July FOMC meeting showed that “a couple of participants” wanted to leave rates unchanged and stated that risks have become more two sided which underlines that it will be up to the data if there is another hike in September or not. Since the meeting, hard data for July like retail sales and industrial production have generally been strong. **Early soft data for August is so far sending mixed signals and it will be very interesting to see the PMI data in the coming week.** Overall, we still see unchanged rates at the September meeting as the most likely outcome.

In the Euro Area, employment increased by 0.2% q/q in Q2 so more moderate than the 1.6% jump in Q1 but still remarkable given the relatively stagnant underlying economic picture. **Strong labour markets remain a significant factor in why the ECB, in our view, is likely to hike interest rates again at the September meeting** even though there are concerns about the state of the economy more broadly. However, it is not a done deal, and one key data point to watch will be the August PMI release on Wednesday, after July showed very weak manufacturing numbers and declining strength in the service sector.

Sentiment on the Chinese economy has taken a negative turn. Industrial production was 3.7% y/y in July and retail sales 2.5% y/y, both significantly below expectations and below the June outcome. More importantly, there are increasing signs of financial stress. There are reports that China’s biggest private property developer Country Garden is seeking to delay bond payments as home sales remain weak. There is risk of a negative spiral where eroding confidence causes sales to weaken further and further weaken developers and confidence in them. In addition, if developers miss bond payments, that can again hit investment products linked to them, further undermining household confidence and cause outflows from the ‘shadow banking system’ that is an important source of financing. Authorities responded this week with a 15bp rate cut – unusually large by Chinese standards – and by restating their commitment to the 5% growth target, but in our view, more forceful measures are likely to be needed to restore confidence and reduce the risk of financial crisis. We are less concerned about the deflation, as that is driven by temporary factors.

GDP growth in Japan hit 1.5% q/q in Q2, much stronger than expected. However, it was very much driven by foreign demand, whereas private consumption in Japan decreased 0.5%, and the GDP number in itself does not really change the rate outlook, in our view.

The Fed’s Jackson Hole symposium is next week. Last year Powell’s hawkish comments sparked an uptick in yields, and this year it will be interesting to hear how they assess the latest more promising inflation data.

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.
- Fed on hold, ECB to hike once more

Key events next week

- Wednesday: PMI’s for Japan, Euro Area, UK, US
- Friday: IFO and detailed GDP for Germany
- Thursday-Saturday: The Fed’s Jackson Hole Symposium

Selected reading from Danske Bank

- *China holiday wrap-up - part 3 - Risks of a financial crisis resurface*, 14 August
- *FX Strategy - Pharma success bolsters healthy DKK fundamentals*, 16 August
- *Geopolitical Radar - No peace in sight for Ukraine*, 17 August

Editor

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Scandi market movers

- In **Denmark**, we are due to receive June's figures for wage-earner employment on Tuesday of next week. The Danish labour market remains red-hot, with employment setting a new record in May. Unemployment has remained largely unchanged during the year and the demand for labour is still significant. Given positive GDP growth in Q2 this year, we expect employment rose further in June.

August's consumer confidence numbers are scheduled for release on Wednesday. We expect to see a modest increase from -10 in July to -9 in August, which would make August the tenth month in a row of growing consumer confidence – though it is still on the low side. Our call is driven by an expectation that consumers now have a less negative view on both their own finances and the Danish economy over the past year. However, we also expect a tad less optimism on the prospects for both their own and the country's finances over the coming year.

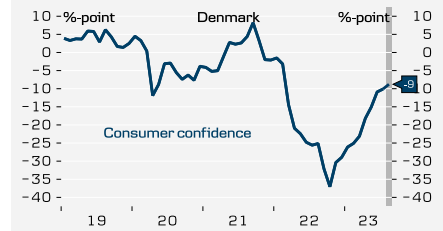
- In **Sweden**, even though house and tenant-owned apartment prices have turned higher in 2023 we expect household lending (mortgage) to remain at a standstill in July as transactions remain depressed.

LFS July unemployment data is probably the most interesting data next week. June showed a jump up, however, we remain sceptical to the idea that unemployment is about to rise sharply. There are too many contrarian indicators suggesting a general scarcity of labour and the Public Employment Services' own unemployment statistics still shows the rate is declining and not rising. We prefer to rely on that measure instead of SCB's for the moment.

In the July PPI data set focus should be on ITPI consumer goods measure, that is the measure that shows prices on consumer goods and which is weighted the same way as CPI i.e. a mix of domestic and imported prices. This is the measure relevant for goods in CPIF and core CPIF.

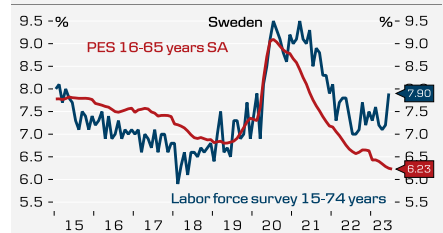
- In **Norway**, there was a clear flattening of growth in Q1 which continued into April and May. Private consumption has begun to level off, housing investment is falling, and growth in both mainland exports and business investment is slowing. The combination of rapidly rising costs, negative real wage growth, higher interest rates and weak global (industrial) growth is a challenging cocktail. Based on the monthly output figures, we expect mainland GDP to be unchanged in Q2, but there is a risk that consumer spending will surprise in June so that we end up with a slight increase in GDP for the quarter. Either way, it looks as though growth (including revisions) will be very close to the projections presented by Norges Bank in its June monetary policy report and so ought not, in isolation, have any great impact on rate expectations.

We expect consumer confidence to pick up to -9 in August



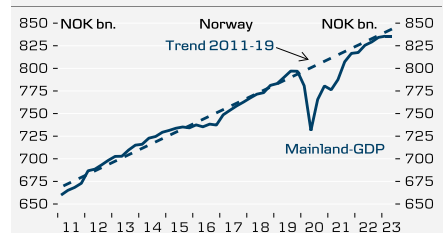
Source: Statistics Denmark, Danske Bank

Sweden: diverging unemployment data



Source: SCB, Public Employment Service

Growth is slowing



Source: Macrobond, Danske Bank

Scandi update

Denmark – GDP grows 0.2% between Q1 and Q2 23, driven by the pharmaceutical industry in particular

The first estimate of GDP growth in Q2 23, the GDP indicator, showed modest growth of 0.2% between Q1 and Q2. Growth was very much driven by the pharmaceutical industry, where production is thundering ahead. Subtract pharmaceuticals, and growth would probably have been negative again, which means the broader economy is likely in a mild recession. Tailwinds are particularly evident in other areas of the industrial sector due to global industry being hit by a slowdown.

Some 3,868 houses and 1,229 apartments were sold in Denmark in July. Seasonally adjusted, the number of houses sold was up 3.4% and apartments 5% compared to June. Housing market activity has been on an upward trajectory since the start of the year, though this has to be seen against the very low level at the end of 2022, and we are still far from the peak in 2021.

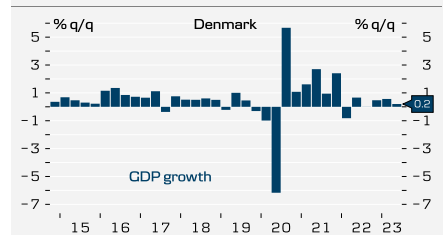
Sweden – Expecting rate increase in September

New inflation numbers dropped this Tuesday, which were marginally below expectations and showed no real surprises. CPIF were +6.4 YoY and -0.2% MoM. Food prices are increasing while energy prices are decreasing and rents are evening it out. Core inflation rose to 8.0% YoY and 0.4% MoM. It is mainly upheld by continuous increases in service prices, which remains a headache for the Riksbank. It has recently been reinforced by prices related to recreation and culture, such as package holidays. This supports the expectation of a 25bp rate increase in September to 4.00% by the Riksbank, and three more inflation updates await until the decision after that in November. These numbers and other further developments, such as the actions of the ECB, will determine whether another rise is on the table. The SEK weakened again as EURSEK reached 11.85 and USDSEK 10.87 this week.

Norway – Norges Bank raises policy rate as expected

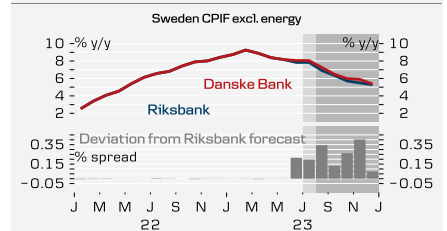
Norges Bank raised its policy rate by 25bp to 4.00% as expected and retained its tightening bias: “Based on the Committee’s current assessment of the outlook and balance of risks, the policy rate will most likely be raised further in September.” At the same time, the bank stresses that this will be data-dependent: “If the krone proves to be weaker than previously projected or pressures in the economy persist, a higher policy rate than signalled in June may be needed to bring down inflation. If there is a more pronounced slowdown in the Norwegian economy or inflation declines more rapidly, the policy rate may be lower than envisaged in June.” These signals open up the possibility of further rate increases after September, of which there was little sign in the bank’s projections in June. In its assessment of developments since then, the bank writes: “Since the June Report, overall economic developments have been broadly in line with expectations. Activity in the Norwegian economy remains high, and the labour market is tight. At the same time, the policy rate is having a tightening effect, and pressures in the economy are easing. Consumer price inflation has edged down but remains high and markedly above the target. Underlying inflation has remained elevated. The Committee assesses that a somewhat higher policy rate is needed to bring inflation back to target.” This is probably an acknowledgement that

GDP indicator points to growth of 0.2% in Q2 23



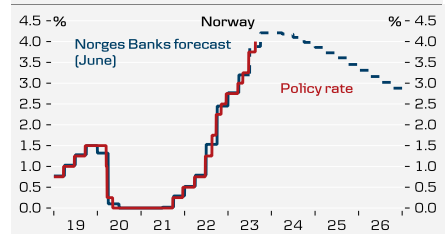
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Inflation follows forecasts



Source: Macrobond, Danske Bank

Terminal rate approaching



Source: Macrobond, Danske Bank

interest rates are now having a restrictive effect, and “a somewhat higher policy rate” can be interpreted as Norges Bank saying that we are now close to peaking. When looking across indicators across the Norwegian economy, we still lean towards no more rate hikes, but it will depend, among other things, on if (i) other central banks are done or close to being done, (ii) the NOK holds at current levels or strengthens further, (iii) inflation shows signs of levelling off, and (iv) growth continues to slow and the labour market weakens.

Calendar – 21-25 August 2023

Monday, August 21, 2023				Period	Danske Bank	Consensus	Previous
Tuesday, August 22, 2023							
8:00	NOK	GDP (total)	q/q	2nd quarter			0.2%
8:00	NOK	GDP (mainland)	q/q	2nd quarter	0.0%	0.1%	0.2%
8:00	NOK	GDP (mainland)	m/m	Jun			0.5%
10:00	EUR	Current account	EUR bn	Jun			9.1
16:00	USD	Existing home sales	m (m/m)	Jul		4.15	4.16 -3.3%
21:30	USD	Fed's Bowman speaks					
Wednesday, August 23, 2023							
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Aug			49.6
2:30	JPY	Markit PMI services, preliminary	Index	Aug			53.8
8:00	DKK	Consumer confidence	Net. bal.	Aug	-9		-10.1
8:00	NOK	Credit indicator (C2)	y/y	Jul			4.3%
9:15	FRF	PMI manufacturing, preliminary	Index	Aug		44.5	45.1
9:15	FRF	PMI services, preliminary	Index	Aug		47.3	47.1
9:30	DEM	PMI manufacturing, preliminary	Index	Aug		38.5	38.8
9:30	DEM	PMI services, preliminary	Index	Aug		51.5	52.3
10:00	EUR	PMI manufacturing, preliminary	Index	Aug		42.6	42.7
10:00	EUR	PMI composite, preliminary	Index	Aug		48.5	48.6
10:00	EUR	PMI services, preliminary	Index	Aug		50.5	50.9
10:30	GBP	PMI manufacturing, preliminary	Index	Aug		44.8	45.3
10:30	GBP	PMI services, preliminary	Index	Aug		50.7	51.5
14:30	CAD	Retail sales	m/m	Jun			0.2%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Aug		49.0	49.0
15:45	USD	Markit PMI service, preliminary	Index	Aug		52.0	52.3
16:00	EUR	Consumer confidence, preliminary	Net bal.	Aug		-14.3	-15.1
16:00	USD	New home sales	1000 (m/m)	Jul		707	697.0 (-2.5%)
16:30	USD	DOE U.S. crude oil inventories	K				-5960
Thursday, August 24, 2023							
8:45	FRF	Business confidence	Index	Aug		100.0	100.0
13:00	TRY	Central Bank of Turkey rate decision	%		20.0%	19.5%	17.5%
14:30	USD	Core capital goods orders, preliminary	%	Jul		0.0%	0.1%
14:30	USD	Initial jobless claims	1000				239
18:00	USD	Fed's Harker speaks					
Friday, August 25, 2023							
-	EUR	Fitch may publish Austria's debt rating					
-	EUR	S&P may publish Austria's debt rating					
-	EUR	Moody's may publish Austria's debt rating					
-	EUR	Moody's may publish Sweden's debt rating					
1:01	GBP	GfK consumer confidence	Index	Aug		-29.0	-30.0
8:00	SEK	PPI	m/m y/y	Jul			1.5% -3.1%
8:00	SEK	Household lending	y/y	Jul			1.1%
8:00	DEM	GDP, final	q/q y/y	2nd quarter		0.0% -0.2%	0.0% -0.2%
8:00	DEM	Private consumption	q/q	2nd quarter		0.2%	-1.2%
8:00	DEM	Government consumption	q/q	2nd quarter			-4.9%
8:00	DEM	Gross fixed investments	q/q	2nd quarter		-0.5%	3.0%
10:00	DEM	IFO - business climate	Index	Aug		86.8	87.3
10:00	DEM	IFO - current assessment	Index	Aug		89.8	91.3
10:00	DEM	IFO - expectations	Index	Aug		83.8	83.5
15:00	USD	Fed's Harker speaks					
15:40	USD	Fed's Harker speaks					
16:00	USD	University of Michigan Confidence, final	Index	Aug		71.2	71.2
16:05	USD	Fed chair Powell speaks					
21:00	EUR	ECB's Lagarde 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	2022	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.6	2.6	3.5	30.1	13.1
	2023	1.5	0.6	-0.7	-7.2	5.7	0.1	4.1	4.7	2.9	2.2	27.4	13.5
	2024	1.0	1.7	1.8	-2.9	1.2	0.7	3.2	5.3	3.4	1.2	25.7	13.5
Sweden	2022	2.9	1.9	0.1	6.1	7.0	9.4	8.4	2.5	7.5	0.7	32.9	3.6
	2023	0.5	-2.2	1.4	1.4	3.2	0.4	8.4	4.0	7.5	-0.4	29.0	5.0
	2024	1.9	1.7	1.1	2.3	2.8	2.6	1.9	3.3	7.8	-0.8	29.0	5.1
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.1	-2.0	1.4	0.5	4.0	3.0	5.3	5.3	1.9	-	-	-
	2024	1.4	1.2	1.5	4.0	2.0	2.0	2.5	4.2	2.3	-	-	-

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	3.4	4.5	1.4	3.0	7.2	8.1	8.4	2.9	6.7	-3.6	93.2	0.6
	2023	0.5	0.2	1.2	-0.2	3.0	2.9	5.3	4.3	6.9	-3.2	90.9	2.2
	2024	1.0	1.2	0.8	0.5	3.2	3.3	2.8	3.0	7.0	-2.7	90.1	2.4
Finland	2022	1.6	1.7	0.8	3.2	3.5	8.3	7.1	2.4	6.8	-0.9	72.9	-3.6
	2023	-0.2	-0.2	2.0	-4.5	-0.5	-2.0	5.9	4.1	7.0	-2.7	72.1	-1.4
	2024	0.8	1.0	0.5	2.5	1.5	2.0	2.1	3.7	6.8	-1.9	72.6	-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	1.3	1.5	2.7	-2.7	1.2	-4.3	4.0	4.1	3.7	-5.4	123.6	-3.1
	2024	0.5	0.1	1.3	1.0	-1.9	-1.9	2.2	3.2	4.3	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	5.5	-7.5	77.1	2.3
	2023	5.8	7.0	-	5.0	-	-	1.2	-	5.2	-7.0	82.6	1.4
	2024	4.8	5.0	-	4.8	-	-	2.0	-	5.1	-6.5	87.4	1.0
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*	17-Aug	5.50	-	4.83	4.01	1.09	-	6.84	10.56	10.90
	+3m	5.50	-	4.55	3.75	1.09	-	6.83	10.64	10.37
	+6m	5.50	-	4.25	3.55	1.06	-	7.02	10.85	10.75
	+12m	5.00	-	3.85	3.35	1.03	-	7.23	10.68	11.26
EUR	17-Aug	3.75	3.82	3.80	3.31	-	1.09	7.4524	11.50	11.87
	+3m	4.00	3.99	3.50	3.10	-	1.09	7.4450	11.60	11.30
	+6m	4.00	4.00	3.30	2.95	-	1.06	7.4450	11.50	11.40
	+12m	3.75	3.57	3.00	2.85	-	1.03	7.4500	11.00	11.60
JPY	17-Aug	-0.10	-	-	-	159	146	4.69	7.23	7.46
	+3m	-0.10	-	-	-	144	132	5.17	8.06	7.85
	+6m	0.10	-	-	-	135	127	5.53	8.54	8.47
	+12m	0.10	-	-	-	129	125	5.79	8.54	9.01
GBP*	17-Aug	5.25	-	6.06	4.91	0.85	1.28	8.73	13.47	13.90
	+3m	5.50	-	5.35	4.25	0.87	1.25	8.56	13.33	12.99
	+6m	5.50	-	5.00	4.10	0.88	1.20	8.46	13.07	12.95
	+12m	5.00	-	4.60	3.95	0.88	1.17	8.47	12.50	13.18
CHF	17-Aug	1.75	-	-	-	0.96	0.88	7.79	12.03	12.41
	+3m	2.00	-	-	-	0.96	0.88	7.76	12.08	11.77
	+6m	2.00	-	-	-	0.95	0.90	7.84	12.11	12.00
	+12m	2.00	-	-	-	0.95	0.92	7.84	11.58	12.21
DKK	17-Aug	3.35	3.83	3.91	3.42	7.4524	6.84	-	1.54	1.59
	+3m	3.60	4.00	3.65	3.25	7.4450	6.83	-	1.56	1.52
	+6m	3.60	4.00	3.45	3.10	7.4450	7.02	-	1.54	1.53
	+12m	3.35	3.57	3.15	3.00	7.4500	7.23	-	1.48	1.56
SEK	17-Aug	3.75	4.03	4.06	3.37	11.87	10.90	1.59	1.03	-
	+3m	4.00	4.12	3.85	3.10	11.30	10.37	1.52	0.97	-
	+6m	4.00	3.85	3.40	2.90	11.40	10.75	1.53	0.99	-
	+12m	3.50	3.24	3.00	2.85	11.60	11.26	1.56	1.05	-
NOK	17-Aug	3.75	4.69	4.94	4.19	11.50	10.56	1.54	-	1.03
	+3m	4.00	4.50	4.30	3.85	11.60	10.64	1.56	-	0.97
	+6m	4.00	4.43	4.00	3.65	11.50	10.85	1.54	-	0.99
	+12m	3.50	3.82	3.70	3.45	11.00	10.68	1.48	-	1.05

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

Commodities

	17-Aug	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	84	82	78	80	80	80	80	80	80	80	80

Source Danske Bank

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Report completed: 18 August 2023, 14:15 CET

Report first disseminated: 18 August 2023, 14:30 CET