

Weekly Focus

Markets turn more cautious after the CPI rally

After the rally driven by the low US CPI print, markets have traded more cautiously this week. US October retail sales growth surprised to the upside, signalling that the low inflation print did not necessarily reflect easing demand, as Fed would have hoped for. We continue to see near-term balance of inflation risks tilted to the upside, and expect the market optimism to turn out only temporary; in our latest *FX Forecast Update - USD sell-off to prove temporary*, 14 November, we maintain our 12M EUR/USD forecast at 0.93.

Geopolitics were on the agenda in the first G20 meeting after Russia's invasion to Ukraine. Joe Biden and Xi Jinping met for first time face-to-face after Biden became the president, and despite the past years' tensions, **the leaders struck a more constructive tone**, emphasizing that neither party wants to enter a new cold war and that communications lines would be reopened. That being said, we think that especially the Taiwan issue and the recent US tech restrictions will maintain tensions elevated; see our earlier paper: *Research US-China: Long-term tensions are here to stay no matter the election result*, 5 October.

While the Democratic Party ended up performing better than expected in the US midterm elections, and managing to maintain the control of senate, republicans did narrowly clinch the control of house this week, ensuring a divided congress. For markets, the result is a positive (although broadly expected) outcome, as the divided congress is less likely to be able to pass potentially inflationary deficit spending measures. Markets will next focus on how the congress will be able to raise the US debt ceiling, which is expected to be hit early next year. So far, republicans' key demands for supporting the debt ceiling raise have been related to spending cuts to social security and Medicare, which would have limited impact on the broader economy, but which could be difficult for the democratic senate to pass.

Europe will also focus on the continuation of US support to Ukraine, and while we do not expect an abrupt end to the support measures, the republican control of the house could mean that 'America first' style cost-cutting will be increasingly on the agenda as the recession looms. More broadly, while the war has so far united western nations to support a common ally, we see rising risks of US-EU relations turning sour going forward, see *Euro macro notes - Transatlantic ties are in for a chill*, 16 November.

Next week, focus turns back towards the economic growth outlook, as November **Flash PMIs** are released on Wednesday. We expect the Euro Area figures to provide further evidence of contraction in the Q4 as inflation is weighing on demand and companies' order books, while we still foresee modest growth in the US economy. **FOMC and ECB minutes** will also be released on Wednesday and Thursday respectively, and while markets' focus remains on more forward-looking data, we will keep an eye out for any hints of the expected hiking pace in December (50 or 75bp) as well as ECB's view on the QT timeline.

In China, focus remains on the rising Covid-cases and on any signs of potentially changing tolerance for the spread of the virus. We will also focus on any potential new easing measures after the October growth figures once again surprised to the downside this week. On the central bank front, we expect 75bp hikes by both the **Riksbank** on Thursday (see more below) and the **Reserve Bank of New Zealand** on Wednesday.

Key global views

- Europe in recession during the winter. US recession hits in Q2 23.
- US inflation has peaked, but to come down only gradually. Euro inflation to stay elevated in Q4 on high energy prices. Easing pressure from recession, oil, metals, freight rates and food prices to pull global inflation lower in 2023.
- Fed to hike by 75bp in December and 50bp in February, then stop. ECB to hike 50bp in December and February.

Key market movers

- Tuesday: EA Flash Consumer Confidence
- Wednesday: RBNZ meeting, EA & US S&P Global Flash PMIs, FOMC Minutes
- Thursday: Riksbank meeting, German Ifo

Selected reading from Danske Bank

- *FX Forecast Update - USD sell-off to prove temporary*, 14 November
- *Euro macro notes - Transatlantic ties are in for a chill*, 16 November

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Scandi market movers

- In **Denmark**, we are expecting September's wage earner employment figures on Monday. The number of people in work rose in August to a new record high after a slight dip in July – evidence that the Danish labour market remains red hot despite the increasing challenges facing the economy. We expect employment will begin to decline in the course of next year, but at a relatively modest pace. Employment will be hit as demand decreases. Nevertheless, there are still many vacant positions in multiple industries, which should limit the decline.

On Tuesday, we will be waiting for consumer confidence in November. In October, consumers' views on the Danish economy hit an all-time low, both with respect to the current situation and looking ahead. Danes were also historically negative when asked about the outlook for their own finances a year from now. Nevertheless, recent months have seen a decline in energy prices, which should ease some of the pressure on household finances. Conversely, we can also see that Danes have begun to more strictly prioritise their spending than we have seen previously, which would tend to suggest a more negative view on both the country's and their own finances.

Friday should bring retail sales figures for October. Retail sales have so far been trending lower in 2022 when adjusted for the substantial price increases. Nevertheless, retail sales have remained decent and above pre-Corona levels. However, Danske Bank's Spending Monitor shows that Danish consumers have begun to prioritise their spending more carefully, and that will hit retailing hard. We therefore expect to see a significant fall in the retail sales index in October.

- In **Sweden** the Riksbank November meeting is of course the next week's main event (Thursday) and a 75bp hike remains our base case. The repo rate path will probably be lifted to a level around 2.75-3%, slightly below market pricing, but somewhat higher than our own call (peak at 2.75% following 25bp in February).

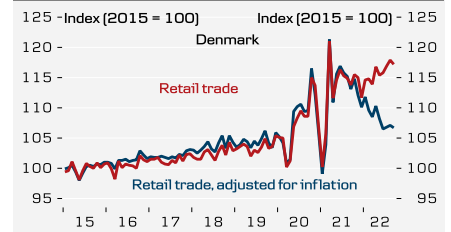
A 50bp hike, which would be in line with the Riksbank path from September, is also still feasible, but given that inflation has been higher and international central banks are expected to deliver more than the Riksbank envisaged at the September meeting, a larger step is warranted. Another 100bp hike cannot completely be ruled out, but the probability is in our view lower than it was in September.

Markets are currently pricing in 75bp for next week but in our view, market reaction will not only be based on the size of the hike, rather the Riksbank communication for upcoming meetings.

Valugard home price index will also be out earlier next week (Tuesday) which will show the price developments during October. Our own indicator for price developments shows that the price decrease continued during October (-1.7 m/m s.a). As we expect further hikes from the Riksbank (75bp + 25bp) we forecast that housing prices will decrease by a total of 20% from the price top in February. That means we expect another 10% drop from here, which implies that prices will be back at mid-2020 levels.

In **Norway**, the labour market is still tight, with low unemployment and numerous vacancies, but there are now signs of the tide turning: the number of new job openings is falling, employment seems to have levelled off, and unemployment has bottomed out. We therefore expect the jobless rate to edge up from 3.2% to 3.3% in September (August-October), but with employment more or less unchanged.

Economic slowdown affecting retail trade



Source: Statistics Denmark, Danske Bank, Macrobond Financial

Market pricing on upcoming Riksbank meetings

Effective date	Riksbanken pricing per meeting	Danske Bank forecast
30-Nov	+75	+75
15-Feb	+50	+25
03-May	+13	+0
05-Jul	+0	+0
20-Sep	+0	+0
29-Nov	-5	+0
14-Feb	-5	
08-May	-5	
Total	+123	

Source: Danske Bank

Tide turning in the labour markets



Source: Macrobond, Danske Bank

Scandi update

Denmark – GDP growth in Q3, but it will not continue

Statistics Denmark’s GDP indicator, the first preliminary estimate, shows GDP rising 0.5% in Q3 22 – we had expected a slight fall. Private consumption has shown signs of decline, not because Danes are spending less, but because they get less for their money due to the very substantial increases in prices. Sales of goods are in fact declining but, conversely, services are growing, pulling the figure higher. Industry is also pulling GDP up, driven by high levels of pharmaceutical production, which is not so affected by the global slowdown. Despite the upside surprise, we expect GDP to decline going forward. The Danish economy is currently outperforming capacity, and we can see unequivocal signs of the slowdown taking hold in many industries. Inflation and higher interest rates, meanwhile, are draining purchasing power from the economy. Nevertheless, we do not expect Denmark to slide into a severe crisis or very high unemployment, which is underpinned by the Danish economy continuing to perform well despite these difficult circumstances.

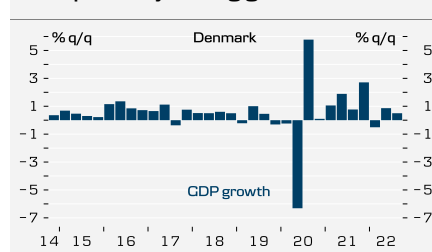
Private sector wage growth came in at 3.5% y/y in Q3 22, according to new figures from the Confederation of Danish Employers. Hence, wage pressures increased by a modest 0.1 percentage point compared to Q2 22. Given the high level of inflation, we can therefore note the continued absence of any significant upward pressure on wages. Naturally, this means a pronounced fall in real wages, which have been sent back to end-2018 levels. Limited wage growth continuing also means reduced purchasing power, with consumers having to prioritise their purchases much more carefully than before. Conversely, the relatively slow pace of wage growth reduces the risk of a wage-price spiral emerging, which would also not be conducive to getting real wage growth back into positive territory.

Sweden – High core inflation puts pressure on Riksbank

The October inflation outcome was mixed in the sense that headline CPI (9.3 % yoy) was 0.5 p.p. lower than Riksbank’s forecast while core CPI excl. Energy (7.9 % yoy) was 0.5 p.p. higher instead. As Riksbank is unable to affect energy prices we believe it will focus on the latter and this was also suggested by a comment from Deputy Governor Martin Flodén. Hence, we expect our call of 75 bp rate hike (Riksbank path has 50 bp) to come into play at the upcoming November monetary policy meeting. This is also what is being priced by the money market. There is a high probability that Riksbank in addition lifts the pivot rate in its path to somewhere in the 2.75-3.00 % range in H1 2023.

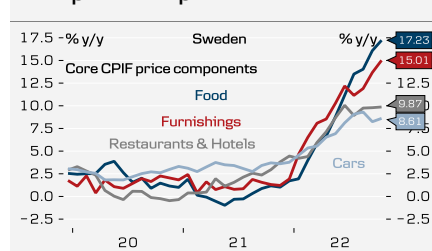
Looking at the October inflation details, disregarding the obvious fact that energy and mortgage rates (CPI only) are the components with the by far highest price increases, there are little or no evidence of a slowdown in food and furniture inflation yet, while cars and hotel/restaurant inflation remain very high. Price increases in some components appear to be peaking but remain elevated. Hence, core inflation will continue to trend sideways to higher in coming months and not until a few months into 2023 we can expect to see a clear slowdown.

Unexpectedly strong growth in Q3 22



Source: Danske Bank, Statistics Denmark, Macrobond Financial

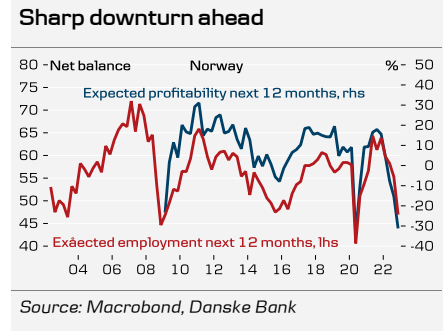
Sweden: higher or even higher among core price components



Source: SCB

Norway – Higher inflation and lower growth

There were some very mixed messages from Norges Bank’s Q4 expectations survey. Wage and price expectations were revised up further, which is of course a challenge for the central bank in terms of the balance between high inflation and lower growth. At the same time, business leaders are now anticipating both lower employment and, not least, much weaker profitability. This suggests that the combination of high cost growth, high inflation and higher interest rates is really now beginning to bite, and the economic downturn could be sharper than previously expected.



Calendar - 21-25 November 2022

Monday, November 21, 2022

				Period	Danske Bank	Consensus	Previous
6:00	USD	Fed's George speaks					
8:00	SEK	Capacity utilization, industry	%	3rd quarter			91.4%
18:00	USD	Fed's George speaks					

Tuesday, November 22, 2022

				Period	Danske Bank	Consensus	Previous
8:00	DKK	Consumer confidence	Net. bal.	Nov	-39		-37
10:00	EUR	Current account	EUR bn	Sep			-26.3
14:00	HUF	Central Bank of Hungary rate decision	%		13.0%	13.0%	13.0%
14:30	CAD	Retail sales	m/m	Sep		1.1%	0.7%
16:00	EUR	Consumer confidence, preliminary	Net bal.	Nov		-26.0	-27.6
17:00	USD	Fed's Mester speaks					
18:00	USD	Fed's George speaks					
20:15	USD	Fed's George speaks					
20:45	USD	Fed's Bullard speaks					

Wednesday, November 23, 2022

				Period	Danske Bank	Consensus	Previous
2:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%		4.3%	4.3%	3.5%
8:00	NOK	Credit indicator (C2)	y/y	Oct			5.1%
9:15	FRF	PMI manufacturing, preliminary	Index	Nov		46.9	47.2
9:15	FRF	PMI services, preliminary	Index	Nov		50.6	51.7
9:30	DEM	PMI manufacturing, preliminary	Index	Nov		45.0	45.1
9:30	DEM	PMI services, preliminary	Index	Nov		46.4	46.5
10:00	EUR	PMI manufacturing, preliminary	Index	Nov		46.0	46.4
10:00	EUR	PMI composite, preliminary	Index	Nov		47.0	47.3
10:00	EUR	PMI services, preliminary	Index	Nov		48.0	48.6
10:30	GBP	PMI manufacturing, preliminary	Index	Nov		45.6	46.2
10:30	GBP	PMI services, preliminary	Index	Nov		48.0	48.8
14:30	USD	Core capital goods orders, preliminary	%	Oct		-0.2%	-0.4%
14:30	USD	Initial jobless claims	1000				222
15:45	USD	Markit PMI manufacturing, preliminary	Index	Nov		50.0	50.4
15:45	USD	Markit PMI service, preliminary	Index	Nov		48.0	47.8
16:00	USD	University of Michigan Confidence, final	Index	Nov		55.5	54.7
16:00	USD	New home sales	1000 (m/m)	Oct		576	603.0 (-10.9%)
16:30	USD	DOE U.S. crude oil inventories	K				-5400
20:00	USD	FOMC minutes					

Thursday, November 24, 2022

				Period	Danske Bank	Consensus	Previous
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Nov			50.7
1:30	JPY	Markit PMI services, preliminary	Index	Nov			53.2
6:00	JPY	Leading economic index, final	Index	Sep			97.4
8:45	FRF	Business confidence	Index	Nov		101.0	102.0
9:30	SEK	Riksbank, rate decision	%		2.5%	2.5%	1.8%
10:00	DEM	IFO - business climate	Index	Nov		85.0	84.3
10:00	DEM	IFO - current assessment	Index	Nov		93.6	94.1
10:00	DEM	IFO - expectations	Index	Nov		77.0	75.6
12:00	TRY	Central Bank of Turkey rate decision	%		9.0%	9.0%	10.5%

Friday, November 25, 2022

				Period	Danske Bank	Consensus	Previous
8:00	SEK	PPI	m/m/y/y	Oct			0.4% 20.6%
8:00	SEK	Household lending	y/y	Oct			5.0%
8:00	DEM	GfK consumer confidence	Net. Bal.	Dec		-39.8	-41.9
8:00	DEM	GDP, final	q/q/y/y	3rd quarter		0.3% 1.2%	0.3% 1.2%
8:00	DEM	Private consumption	q/q	3rd quarter		0.3%	0.8%
8:00	DEM	Government consumption	q/q	3rd quarter			2.3%
8:00	DEM	Gross fixed investments	q/q	3rd quarter		-0.3%	-1.3%
8:00	DKK	Retail sales	m/m/y/y	Oct			-0.4% -5.4%
8:45	FRF	Consumer confidence	Index	Nov		82.0	82.0

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	4.9	4.3	4.2	6.2	8.0	8.0	1.9	3.0	3.6	3.6	36.6	8.2
	2022	3.0	-1.5	0.4	4.8	5.3	3.7	7.9	3.5	2.7	1.3	31.8	10.0
	2023	-0.6	-1.0	-0.2	-2.1	1.7	1.5	4.9	4.0	3.2	1.0	30.2	9.0
Sweden	2021	4.6	5.9	2.5	6.0	7.6	9.3	2.2	2.7	8.8	-0.1	37.5	5.2
	2022	2.4	3.4	-0.3	4.6	4.9	8.7	8.0	2.5	7.4	0.7	31.0	3.7
	2023	-1.2	-1.3	1.1	-2.2	2.4	1.8	6.1	2.8	8.2	-0.9	31.0	4.1
Norway	2021	4.1	4.5	4.9	-1.2	5.5	1.7	3.5	3.5	3.2	-	-	-
	2022	2.8	4.6	0.9	1.0	3.0	8.0	5.5	4.1	1.8	-	-	-
	2023	0.9	0.9	1.3	4.0	3.0	3.5	3.4	4.2	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	2021	5.3	3.7	4.3	3.7	10.5	8.3	2.6	4.1	7.7	-5.1	97.2	3.5
	2022	3.1	3.9	2.2	3.1	6.4	7.7	8.5	4.0	6.7	-3.7	93.7	1.5
	2023	0.3	0.6	2.4	2.3	2.7	4.9	5.8	3.4	6.8	-2.5	92.5	1.9
Germany	2021	2.6	0.4	3.8	1.0	9.5	8.9	3.2	3.4	3.6	-3.7	68.6	7.4
	2022	1.5	4.1	4.6	0.7	2.0	6.7	8.8	3.3	3.0	-2.5	66.4	3.7
	2023	-0.1	0.2	3.2	2.0	2.0	4.8	6.5	3.9	3.0	-1.0	64.5	4.6
Finland	2021	3.0	3.7	2.9	1.5	5.4	6.0	2.2	2.3	7.7	-2.7	72.4	0.6
	2022	2.0	2.0	3.0	3.5	0.5	4.0	6.6	2.6	6.8	-3.1	70.6	-2.6
	2023	-0.2	0.1	1.0	0.5	-0.5	0.5	3.7	3.5	7.3	-2.6	71.3	-1.4

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	5.9	8.3	0.6	7.4	6.1	14.1	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	1.9	2.6	-0.9	-0.1	7.4	8.5	8.1	5.2	3.6	-4.2	124.0	-3.5
	2023	0.1	-0.1	1.1	-3.1	-0.2	-4.4	4.1	4.2	4.0	-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	3.3	4.8	-	3.0	-	-	2.5	5.0	-	-7.7	77.8	1.1
	2023	4.9	6.5	-	5.0	-	-	2.5	5.5	-	-7.1	81.8	1.0
UK	2021	7.5	6.2	12.6	5.6	-0.3	2.8	2.6	5.1	4.5	-5.4	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-3.9	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-1.9	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.2	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.3	2.8	1.5	-1.6	4.9	6.6	2.1	-	2.6	-	-	-
	2023	1.5	1.3	0.3	1.9	4.4	2.5	2.2	-	2.7	-	-	-

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-Nov	4.00	4.67	4.81	3.79	103.7	-	717.3	1010.6	1059.7
	+3m	4.75	5.29	4.90	4.25	98.0	-	759.2	1081.6	1122.4
	+6m	5.25	5.40	4.80	4.15	95.0	-	783.7	1073.7	1178.9
	+12m	5.25	5.30	4.70	3.95	93.0	-	801.1	1053.8	1182.8
EUR	18-Nov	1.50	1.82	2.92	2.82	-	103.7	743.8	1048.0	1098.8
	+3m	2.50	2.61	3.15	3.15	-	98.0	744.0	1060.0	1100.0
	+6m	2.50	2.62	3.05	3.15	-	95.0	744.5	1020.0	1120.0
	+12m	2.50	2.62	2.95	2.80	-	93.0	745.0	980.0	1100.0
JPY	18-Nov	-0.10	-0.04	0.16	0.58	120.5	139.9	6.17	8.70	9.12
	+3m	-0.10	-	-	-	141.1	144.0	5.27	7.51	7.79
	+6m	-0.10	-	-	-	132.1	139.0	5.64	7.72	8.48
	+12m	-0.10	-	-	-	120.9	130.0	6.16	8.11	9.10
GBP*	18-Nov	3.00	-	4.36	3.47	87.1	119.0	853.6	1202.6	1261.0
	+3m	3.75	-	4.50	4.20	88.0	111.4	845.5	1204.5	1250.0
	+6m	3.75	-	4.50	4.20	87.0	109.2	855.7	1172.4	1287.4
	+12m	3.75	-	4.40	4.00	86.0	108.1	866.3	1139.5	1279.1
CHF*	18-Nov	0.50	-	1.21	1.74	98.8	95.3	753.0	1061.0	1112.4
	+3m	1.25	-	-	-	97.0	99.0	767.0	1092.8	1134.0
	+6m	1.25	-	-	-	96.0	101.1	775.5	1062.5	1166.7
	+12m	1.25	-	-	-	94.0	101.1	792.6	1042.6	1170.2
DKK	18-Nov	1.25	2.11	3.08	2.96	743.81	717.31	-	140.89	147.72
	+3m	2.25	2.75	3.40	3.35	744.00	759.18	-	142.47	147.85
	+6m	2.25	2.75	3.30	3.35	744.50	783.68	-	137.00	150.44
	+12m	2.25	2.75	3.20	3.00	745.00	801.08	-	131.54	147.65
SEK	18-Nov	1.75	2.34	3.15	2.83	1098.8	1059.7	67.7	95.4	100.0
	+3m	2.50	2.55	3.20	3.20	1100.0	1122.4	67.6	96.4	-
	+6m	2.75	2.80	3.20	3.30	1120.0	1178.9	66.5	91.1	-
	+12m	2.75	2.80	3.10	3.30	1100.0	1182.8	67.7	89.1	-
NOK	18-Nov	2.50	3.36	3.83	3.41	1048.0	1010.6	71.0	100.0	104.9
	+3m	2.75	3.41	3.80	3.85	1060.0	1081.6	70.2	-	103.8
	+6m	2.75	2.95	3.60	3.60	1020.0	1073.7	73.0	-	109.8
	+12m	2.75	3.01	3.40	3.45	980.0	1053.8	76.0	-	112.2

*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

	18-Nov	2022				2023				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	89	98	112	105	100	95	95	95	95	104	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 Antti Ilvonen, Analyst.

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