

Weekly Focus

PMI to update the picture of economic recovery

Financial markets continue to be moderately positive on risk with the market pricing in some form of gradual and sustained recovery with the probability of another lockdown being low, and we think this can continue – albeit more choppy in weeks to come as some concerns about a resurgence of COVID-19 second wave are noted. The pace of the economic rebound is still not clear as economies gradually open up. Pockets of COVID-19 spread may lend uncertainty to the economic rebound.

Next week, we will get important data for the opening of the economies, where the PMIs in both the US and the euro area will be closely watched. In the US, we expect the indices to rise to around 50 (or perhaps slightly higher) and similarly in the euro area. High frequency data and some of the sentiment indicators we already have for June at least point to a strengthening of the recovery signal in the euro area (see our *twitter*, 17 June, with Zew from this week moving into the upswing quadrant). Last month the euro area PMIs told us that the trough is behind us and the bleeding has stopped, but to talk of a ‘real’ recovery taking shape in Europe, we need to see these PMIs move back into expansion territory. In the US, we also get real private consumption in May. We already know that retail sales improved more than expected, so it will be interesting to see if consumption followed.

Central bank support and fiscal measures continue to act as a backdrop in the uncertain environment. Most recently, the Fed announced it will activate one of its several emergency facilities and start purchasing corporate bonds. And since the Fed meeting last week, market speculation on further easing has been present in markets. In *Fed Monitor - A primer on the Fed's discussions on changing its forward guidance*, 17 June, we take a closer look at the Fed's ongoing discussions on how to strengthen its forward guidance, which we identify as the Fed's main concern, from both a theoretical and practical point of view. **Overall, we expect the Fed to implement a mix of yield curve control and an average inflation target at its September meeting.** We believe the Fed recognises the drawbacks of a stand-alone yield curve control policy. We consider some sort of average inflation targeting as better for risk than yield curve control policy. In Europe, the ECB allotted EUR1.3trn in its TLTRO liquidity operation supporting the banks funding behaviour / need and risk sentiment, see more *ECB Research Record-high TLTRO3.4 take-up*, 18 June.

As regards Brexit, UK has now formally ruled out extending the transition period running until 31 December 2020, as expected. The UK and the EU have agreed to hold more negotiation rounds in July and August. The ambition is now to reach an agreement in August ahead of the EU summit in October. There are signs that both sides may be willing to soften their positions during these negotiations, but comments after the meeting suggest the individual negotiating positions are unchanged. Our base case (65%) remains a simple free trade agreement on goods (not services) in the autumn. We do not expect any breakthrough this summer. We still assign a 35% probability of a no deal Brexit by year-end. see more in *Brexit Monitor - New "soft" deadline in August but the "hard" deadline is still 31 December 2020*, 17 June.

Key market movers

- Tuesday: US and euro area PMI
- Wednesday: German IFO
- Thursday: ECB minutes, US personal consumption, durable goods, jobless claims

Selected reading from Danske Bank

- *Fed Monitor - A primer on the Fed's discussions on changing its forward guidance*, 17 June
- *Brexit Monitor - New "soft" deadline in August but the "hard" deadline is still 31 December 2020*, 17 June

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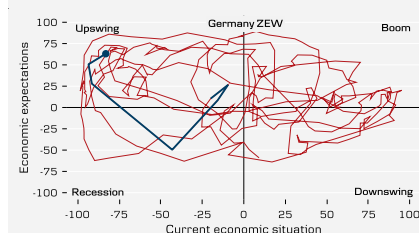


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Video
Danske Bank research playlist

Germany moving further into the 'upswing' quadrant



Source: Macrobond Financial, Danske Bank

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Market Movers Scandinavia

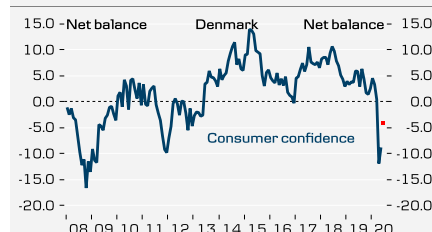
- In **Denmark**, the coming week kicks off with wage-earner employment figures for April and consumer confidence for June. According to the Ministry of Employment's daily figures, unemployment has risen by around 45,000 since March, so we expect a further fall in the April figures for wage-earner employment on the heels of the record fall of 25,000 in March. The daily figures have stabilised lately but, as we approach the expiry date for the current wage-compensation schemes in August, we expect approximately a further 50,000 to join the dole queues.

We expect there to have been a further rise in consumer confidence in June from -8.8 to -4.1. The rise would have probably been driven by a considerable pickup in the Danes' view on the current state of the economy – though from a level that strictly speaking could not have been much worse. Danes' expectations for the future may well also improve a little, but there are still many concerns to grapple with, which is also reflected in the still low confidence numbers.

Thursday is scheduled to bring retail sales figures for May, when we expect without a doubt to see considerable growth after two months of dramatically reduced sales figures. The upturn will likely be most obvious in the otherwise squeezed shoe and clothing shops, which we expect to have almost certainly benefitted from the reopening of large shopping centres in early May. The question is just how strong the recovery was in May and how quickly the Danes have dared to go out and spend again.

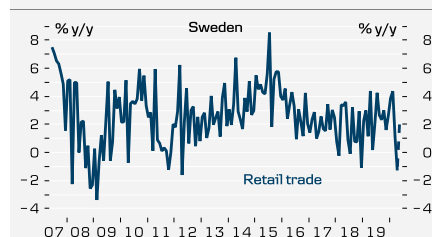
- In **Sweden**, both NIER (June) and retail sales (May) are due next week. What NIER showed last month is that households' expectations of their own economy and the risk of becoming unemployed have improved somewhat, which may cause households to dare to spend more. Since the figures for the retail sales refer to May, we believe they would have improved somewhat compared to April and our estimate is 0.4% m/m/2.0% y/y. It will be interesting to check in NIER if: (1) the order inflow has changed. Since we believe the bottom was reached in April, we will probably see a rise, which, however, will still signal contraction but just at a slower pace; and (2) if households' micro index continued to improve.
- In **Norway**, retail sales surprised sharply to the upside in April, climbing 4.8% m/m. Strong income protection for laid-off workers and lower interest rates have helped prop up purchasing power, so a stabilisation was not unexpected after the fall in March, but the effects of a shift in consumption away from services in favour of certain types of goods, together with a standstill in cross-border shopping, were greater than we had anticipated. It would be easy to assume a correction in May after such strong numbers in April, and we also know that consumption of services picked up well in May. On the other hand, the restrictions on travel to and from Sweden are still in place, plugging the usual retail leakage. We also have figures for card turnover in May, which suggest that overall consumer spending was at least as high as in the same month last year. Despite strong growth in consumption of services, we reckon this spells a further 5% jump in retail sales from April to May.

Consumer confidence continues to improve



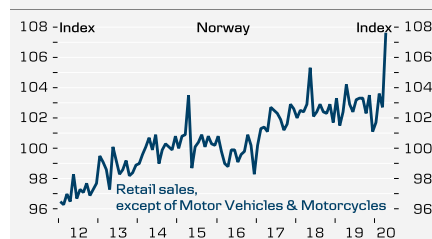
Source: Statistics Denmark, Macrobond Financial

Retail sales set to rise in May



Source: SCB, Macrobond Financial, Danske Bank

Surge in retail sales



Source: Macrobond Financial, Danske Bank

Scandi update

Denmark – optimistic forecasts

No less than three new forecasts for the Danish economy arrived in the past week – from us, in the form of *Nordic Outlook*, 16 June, from the Economic Councils and from Danmarks Nationalbank. Common to all three was their relative optimism considering the current situation. Whereas our projection for growth in the Danish economy in 2020 and 2021 was -3.5% and 2.5%, respectively, both the Economic Councils – or so-called wisemen – and the central bank were more pessimistic on developments this year, with growth estimates of -4.5% and -4.1%, respectively, but slightly more optimistic on how much can be recouped next year, with growth estimates of 5.5% and 4.2%, respectively. The ‘wisemen’ are thus reckoning that all the growth lost in 2020 will be recovered in 2021, which to a great extent is built on their projection for private consumption, which is set to plunge this year, but to recover very strongly in 2021. Here at Danske Bank, we are looking for a more moderate fall this year, but also that the subsequent consumption recovery will be less pronounced. Overall, though, what the three forecasts have in common is that they are markedly more optimistic than the forecasts from the OECD, IMF and the EU Commission.

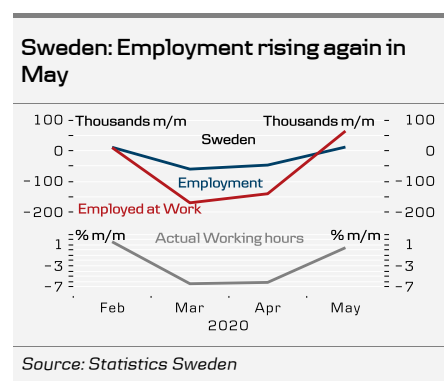
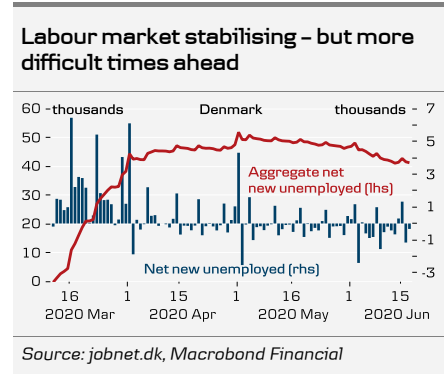
The total number of net new jobless claims since 9 March still appears to be gradually moving lower, even after last week, when companies had to reapply if they wanted to remain part of the wage compensation scheme. Nevertheless, last week also saw the highest number of announced redundancies this year at 3,092. By comparison, there were 2,239 job losses announced in week 12 (16-22 March) and on average 3-400 per week in the years 2015-19. This indicates that there could very well be further increases in unemployment in the not too distant future.

Finance Denmark’s housing market statistic for Q1 further underpinned the general picture painted by other recent housing market statistics, namely that the housing market overall is performing substantially better than initially feared – house prices were stable compared to the previous quarter, while square metre prices rose for both apartments and vacation homes. All in all, we expect a small decline in house prices this year of 0.3%, which is rather modest considering the current situation.

Sweden – May LFS shows employment rebound

Even though lay-offs have been on gradual decline since horrible prints in the last two weeks of March, there has been no real evidence of a real turnaround in the labour market. Until now. Seasonally adjusted data suggests that while employment rose by 12k m/m, employed at work rose by a stronger 64k m/m and actual working hours by 0.4% m/m in May. The narrowing spread between employed and employed at work which dropped to 117k, implies less use of the government’s short-week furlough measure. According to the Swedish Agency for Economic and Regional Growth, furloughs for 535k people have been granted. Comparing that figure to the spread between employed and working employed suggests on average 22% of the short-week scheme is used. It seems the government’s efforts to provide a safety net for employers and employees has been successful this far and less of it was needed in May.

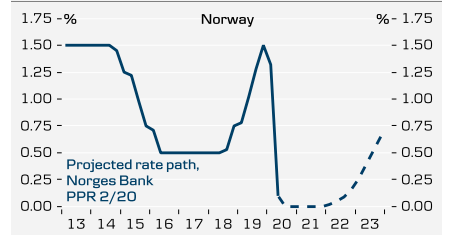
Looking at the implications for GDP growth, the decline in hours worked eased from -11.3% in April to -9.2% y/y calendar adjusted. This suggests the GDP indicator, which fell by 7.3% y/y calendar adjusted in April, should improve in May. This is well in line with our forecast in the June Nordic Outlook just recently released.



Norway – Norges Bank signals rate increases from 2022

As expected, Norges Bank left its key rate unchanged at 0.0% at its meeting during the week. The decision was unanimous, with governor Øystein Olsen commenting: ‘The Committee’s current assessment of the outlook and balance of risks suggests that the policy rate will most likely remain at today’s level for some time ahead.’ In the accompanying monetary policy report, the bank revised up its projections for the Norwegian economy more or less as we anticipated. It now expects mainland GDP to shrink 3.5% in 2020 and grow 3.7% in 2021. Registered unemployment has therefore been revised down to 5.0% this year and 3.2% next year. Given these changes, capacity utilisation is now expected to return to normal levels towards the end of the projection period. The bank therefore warns that interest rates could start to rise again during the course of 2022, projecting roughly one hike in 2022 and two more in 2023. We are a tad more optimistic about the global outlook, however, and reckon that Norges Bank will actually deliver a first hike towards the end of next year.

Rates to rise from 2022



Source: Norges Bank, Macrobond Financial, Danske Bank

Calendar

Key Data and Events in Week 26

During the week					Period	Danske Bank	Consensus	Previous
Monday, June 22, 2020					Period	Danske Bank	Consensus	Previous
8:00	DKK	Consumer confidence	Net. bal.	Jun	-4.1		-8.8	
16:00	USD	Existing home sales	m (m/m)	May		4.15	4.33 -0.178	
16:00	EUR	Consumer confidence, preliminary	Net bal.	Jun		-15.0	-18.8	
Tuesday, June 23, 2020					Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jun			38.4	
2:30	JPY	Markit PMI services, preliminary	Index	Jun			26.5	
9:15	FRF	PMI manufacturing, preliminary	Index	Jun		46.5	40.6	
9:15	FRF	PMI services, preliminary	Index	Jun		46.6	31.1	
9:30	DEM	PMI manufacturing, preliminary	Index	Jun		44.0	36.6	
9:30	DEM	PMI services, preliminary	Index	Jun		43.0	32.6	
10:00	EUR	PMI manufacturing, preliminary	Index	Jun		44.2	39.4	
10:00	EUR	PMI composite, preliminary	Index	Jun		41.8	31.9	
10:00	EUR	PMI services, preliminary	Index	Jun		40.1	30.5	
10:30	GBP	PMI manufacturing, preliminary	Index	Jun		45.0	40.7	
10:30	GBP	PMI services, preliminary	Index	Jun		36.8	29.0	
14:00	HUF	Central Bank of Hungary rate decision	%		0.9%	0.9%	0.9%	
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jun		47.8	39.8	
15:45	USD	Markit PMI service, preliminary	Index	Jun		44.8	37.5	
16:00	USD	New home sales	1000 (m/m)	May		630	623.0 (0.6%)	
Wednesday, June 24, 2020					Period	Danske Bank	Consensus	Previous
4:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%			0.3%	0.3%	
7:00	JPY	Leading economic index, final	Index	Apr			76.2	
8:00	NOK	Unemployment (LFS)	%	Apr			3.6%	
8:45	FRF	Business confidence	Index	Jun		75.0	59.0	
9:00	SEK	Consumer confidence	Index	Jun			77.3	
9:00	SEK	Economic Tendency Survey	Index	Jun			64.1	
9:00	SEK	Manufacturing confidence	Index	Jun			76.8	
9:00	SEK	NIER economic forecasts						
10:00	DEM	IFO - business climate	Index	Jun		85.0	79.5	
10:00	DEM	IFO - current assessment	Index	Jun		85.0	78.9	
10:00	DEM	IFO - expectations	Index	Jun		87.0	80.1	
15:00	USD	FHFA house price index	m/m	Apr			0.1%	
16:30	USD	DOE U.S. crude oil inventories	K				1215	
18:30	USD	Fed's Evans (non-voter, neutral) speaks						
21:00	USD	Fed's Bullard (non-voter, dovish) speaks						

Source: Danske Bank

Calendar

Thursday, June 25, 2020			Period	Danske Bank	Consensus	Previous
8:00	DEM	GfK consumer confidence	Net. Bal.	Jul	-11	-18.9
8:00	DKK	Retail sales	m/m y/y	May	0.4% -2.6%	
13:00	TRY	Central Bank of Turkey rate decision	%	7.75%	8.0%	8.25%
14:30	USD	GDP, 3rd release	q/q AR	1st quarter	-0.05	-0.05
14:30	USD	PCE core	q/q AR	1st quarter	0.016	0.016
14:30	USD	Core capital goods orders, preliminary	%	May	-6.1%	-6.1%
14:30	USD	Advance goods trade balance	USD bn	May	-68.3	-69.7
14:30	USD	Initial jobless claims	1000			1508
17:00	USD	Fed's Bostic (non-voter, neutral) speaks				
Friday, June 26, 2020			Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Finland's debt rating				
8:00	NOK	Retail sales, s.a.	m/m	May		4.8%
8:45	FRF	Consumer confidence	Index	Jun	95.0	93.0
9:30	SEK	Retail sales s.a.	m/m y/y	May	0.4% 2.0%	0.2% -1.3%
9:30	SEK	PPI	m/m y/y	May		0.0% -3.0%
9:30	SEK	Household lending	y/y	May		5.2%
10:00	EUR	Money supply (M3)	y/y	May	8.5%	8.3%
10:00	EUR	Loans to households [adj. for sales and sec.]	%	May		
10:00	EUR	Loans to NFCs [adj. for sales and sec.]	%	May		
13:30	EUR	ECB minutes				
14:30	USD	PCE headline	m/m y/y	May	0.0% 0.5%	-0.5% 0.5%
14:30	USD	Personal spending	m/m	May	8.7%	-13.6%
16:00	USD	University of Michigan Confidence, final	Index	Jun	78.9	78.9

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For further information, call (+45) 45 12 85 22.

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	2019	2.4	2.3	0.5	3.4	1.6	0.1	0.8	2.2	3.7	3.8	33.2	7.8
	2020	-3.5	-1.4	1.4	-6.0	-7.7	-5.7	0.5	2.0	5.4	-6.9	44.1	6.6
	2021	2.5	3.5	0.5	-0.7	4.1	2.8	1.2	2.1	5.2	-1.9	42.1	7.1
Sweden	2019	1.3	1.2	0.5	-1.1	4.2	1.8	1.8	2.6	6.8	0.5	35.7	1.1
	2020	-4.1	-5.0	0.7	-8.1	-1.0	-3.3	-0.1	2.4	8.8	-7.4	45.0	4.9
	2021	3.7	4.3	-0.7	4.3	4.2	5.2	1.1	2.4	8.5	-1.0	47.0	4.6
Norway	2019	2.3	1.5	1.7	6.1	1.5	5.2	2.2	3.5	2.3	-	-	-
	2020	-3.5	-5.0	3.5	-6.5	-4.5	-8.0	1.5	3.5	5.1	-	-	-
	2021	3.5	4.0	2.0	0.0	5.0	3.5	2.8	3.3	3.5	-	-	-

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	2019	1.2	1.3	1.8	5.8	2.5	4.0	1.2	2.0	7.6	-0.6	84.1	3.3
	2020	-6.7	-6.9	1.5	-8.8	-11.9	-9.7	0.4	0.4	8.9	-8.5	102.7	3.4
	2021	5.2	7.2	3.5	0.7	12.9	12.6	1.2	1.3	8.1	-3.5	98.8	3.6
Germany	2019	0.6	1.7	2.7	2.6	1.0	2.5	1.4	3.2	3.2	1.4	59.8	7.1
	2020	-5.5	-5.2	3.0	-4.5	-15.1	-11.0	0.7	1.7	4.0	-7.0	75.6	5.7
	2021	4.7	6.0	3.6	1.8	13.7	13.9	1.5	2.2	3.5	-1.5	71.8	7.0
Finland	2019	1.1	0.9	1.2	-1.0	7.5	2.4	1.0	1.0	6.7	-1.1	59.2	-0.8
	2020	-5.5	-6.0	4.0	-10.0	-13.0	-11.0	0.2	1.2	8.0	-9.4	71.5	-1.5
	2021	3.5	4.5	1.0	3.0	6.0	5.0	1.2	1.5	8.0	-3.8	72.5	-1.3

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	2019	2.3	2.6	2.3	1.3	0.0	1.0	1.8	3.3	3.7	-4.6	105.0	-2.5
	2020	-5.3	-5.6	2.7	-10.0	-8.0	-12.4	2.1	3.7	9.0	-17.9	127.0	-2.6
	2021	4.4	5.3	3.3	2.1	3.3	4.3	2.1	0.8	7.0	-9.8	134.0	-2.5
China	2019	6.2	8.0	-	3.8	-	-	2.7	8.0	-	-6.1	-	0.5
	2020	1.0	2.5	-	0.0	-	-	2.7	7.5	-	-6.3	-	0.4
	2021	9.0	9.0	-	10.0	-	-	2.2	7.5	-	-6.2	-	0.2
UK	2019	1.4	1.1	3.5	0.6	4.8	4.6	1.8	3.5	3.8	-2.1	85.4	-3.5
	2020	-5.8	-7.0	0.9	-9.5	-10.9	-13.5	1.4	0.3	7.3	-13.9	97.6	-3.7
	2021	4.2	4.1	3.9	2.8	3.2	4.2	1.7	1.2	6.0	-3.2	99.4	-3.7
Japan	2019	0.7	0.1	1.9	1.3	-1.6	-0.6	0.6	-	2.4	-	-	-
	2020	-4.0	-5.2	3.2	-6.4	-11.5	-10.3	0.1	-	4.0	-	-	-
	2021	2.6	3.3	4.9	-2.0	3.5	2.4	0.2	-	3.8	-	-	-

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	19-Jun	0.25	0.32	0.26	0.70	112.2	-	664.5	949.1	940.5
	+3m	0.25	0.30	0.25	0.60	115.0	-	648.7	913.0	913.0
	+6m	0.25	0.25	0.25	0.80	111.0	-	672.1	927.9	964.0
	+12m	0.25	0.25	0.30	1.10	111.0	-	672.1	918.9	964.0
EUR	19-Jun	-0.50	-0.39	-0.35	-0.14	-	112.2	745.6	1065.0	1055.3
	+3m	-0.50	-0.38	-0.30	-0.05	-	115.0	746.0	1050.0	1050.0
	+6m	-0.50	-0.38	-0.30	0.05	-	111.0	746.0	1030.0	1070.0
	+12m	-0.50	-0.38	-0.25	0.20	-	111.0	746.0	1020.0	1070.0
JPY	19-Jun	-0.10	-0.05	-0.03	0.06	120.5	107.0	6.19	8.84	8.76
	+3m	-0.10	-	-	-	125.4	109.0	5.95	8.38	8.38
	+6m	-0.10	-	-	-	124.3	112.0	6.00	8.29	8.61
	+12m	-0.10	-	-	-	124.3	112.0	6.00	8.20	8.61
GBP	19-Jun	0.10	0.17	0.21	0.40	90.1	124.5	827.4	1182.0	1171.2
	+3m	0.10	0.14	0.30	0.50	90.0	127.8	828.9	1166.7	1166.7
	+6m	0.10	0.14	0.35	0.50	86.0	129.1	867.4	1197.7	1244.2
	+12m	0.10	0.14	0.40	0.55	86.0	129.1	867.4	1186.0	1244.2
CHF	19-Jun	-0.75	-0.65	-0.61	-0.30	106.6	95.0	699.1	998.7	989.6
	+3m	-0.75	-	-	-	107.0	93.0	697.2	981.3	981.3
	+6m	-0.75	-	-	-	108.0	97.3	690.7	953.7	990.7
	+12m	-0.75	-	-	-	110.0	99.1	678.2	927.3	972.7
DKK	19-Jun	-0.60	-0.18	-0.15	0.06	745.6	664.5	-	142.8	141.5
	+3m	-0.60	-0.18	-0.10	0.15	746.0	648.7	-	140.8	140.8
	+6m	-0.60	-0.21	-0.10	0.25	746.0	672.1	-	138.1	143.4
	+12m	-0.60	-0.22	-0.05	0.45	746.0	672.1	-	136.7	143.4
SEK	19-Jun	0.00	0.09	0.03	0.37	1055.3	940.5	70.7	100.9	100.0
	+3m	0.00	0.10	0.05	0.45	1050.0	913.0	71.0	100.0	-
	+6m	0.00	0.10	0.05	0.50	1070.0	964.0	69.7	96.3	-
	+12m	0.00	0.10	0.10	0.65	1070.0	964.0	69.7	95.3	-
NOK	19-Jun	0.00	0.37	0.51	0.90	1065.0	949.1	70.0	100.0	99.1
	+3m	0.00	0.30	0.65	1.10	1050.0	913.0	71.0	-	100.0
	+6m	0.00	0.30	0.70	1.30	1030.0	927.9	72.4	-	103.9
	+12m	0.00	0.30	0.90	1.50	1020.0	918.9	73.1	-	104.9

Commodities

	19-Jun	2020				2021				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021
ICE Brent	42	35	35	40	40	45	45	50	60	38	50

Source Danske Bank

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