

Weekly Focus

Risk sentiment on the back foot

Weak US economic data brought a setback to the soft landing narrative and start-of-the-year risk rally. US retail sales fell by more than expected (-1.1% m/m) in December, while industrial production declined 0.7% m/m, supporting the view that the US economy is losing further momentum. Risk sentiment soured and yield curves flattened from the long end, despite comments from Fed officials that stressed more rate hikes are needed.

In contrast, the euro optimism got another boost after German ZEW expectations showed a larger than expected rebound in January, turning positive for the first time since Russia's invasion of Ukraine. The German economy has been holding up better than feared and leading indicators suggest that the European recession could actually be milder and shorter than we have previously anticipated. That said, until the energy crisis is truly resolved, Germany is unlikely to return as the euro area's economic powerhouse anytime soon.

An 'ECB sources' news story further added to the European fixed income rally, reporting that policymakers are starting to consider a slower pace of rate hikes than President Lagarde indicated in December. While the 50bp hike she signalled for February remains likely, the prospect of a smaller 25bp increase at the following meeting in March is gaining support according to officials. Implied ECB peak rate pricing edged down to 3.3%, but we stick to our call of 50bp hikes in both February and March and only expect ECB to slow the hiking pace to 25bp in May amid still high core inflation pressures.

Bank of Japan kept monetary policy unchanged at its meeting this week. The market had speculated another hike of the cap over 10Y yields could come and was left disappointed, which triggered a rally in USD/JPY above 131. We stick to our view that a policy rate hike to 0% and another hike in the yield curve control target awaits in Q2 23.

The Chinese economy performed better than expected in Q4 22 (0.0% q/q versus our and consensus expectations of a decline of -1.0% q/q), leaving annual growth for 2022 at 2.9%. Data also suggests that Q1 23 could be stronger than expected, as Covid cases have already peaked in the big cities and we now look for an even more frontloaded recovery starting already in early Q1 (see *China growth update - More frontloaded recovery*, 18 January). That said, longer term the Chinese economy faces some of the same challenges as most western economies, with the population declining in 2022 for the first time in 60 years.

UK inflation eased 0.2pp to 10.5% in December, but with core inflation remaining unchanged at 6.3% and wage growth edging even higher (+0.2pp to 6.4% in November), pressure is rising for Bank of England to deliver another 25bp rate hike not only in February, but also in March.

The macro highlight next week will be the January PMI figures on Tuesday. It will be interesting to see whether the rebound in euro area leading indicators extends into Q1 23. In the US, we expect PMIs still to paint a weak overall picture, as it seems the economy clearly lost steam in December and we look 2.8% q/q AR in the Q4 22 GDP figures released on Thursday.

Key global views

- Europe in recession during the winter. US recession hits in Q2 23.
- US and euro area headline inflation have peaked and set to come down gradually. Tight labour markets and wage pressures keep core inflation high for some time.
- Fed hikes by 25bp in February, but still target peak rate at 5.00-5.25% in May. ECB to hike by 50bp in February and March, and by 25bp in May.

Key market movers

- Tuesday: PMIs in euro area, US, UK, Japan
- Wednesday: German IFO
- Thursday: US GDP
- Friday: US personal spending

Selected reading from Danske Bank

- *China growth update - More frontloaded recovery*, 18 January
- *Euro macro notes - The China connection: short-term boost, long-term worry*, 12 January

Editor

Senior Analyst
Aila Mihr
+45 45 12 85 35
amih@danskebank.dk

Scandi market movers

- In **Denmark**, the key data release next week will be Statistics Denmark’s business confidence indicator, which should arrive on Tuesday. Activity indexes have been clearly pointing to a recession in recent months, so it will be interesting to see whether the slightly more upbeat view of the economy recorded in other countries has percolated through to Denmark. The figures will also provide an indication of the direction for the labour market via corporate employment expectations and assessments of labour shortages. We will also be keeping a close watch on inventory evaluations and expected price changes, especially in the retail sector.

Consumer confidence figures are due on Monday. Consumer confidence rose for a second consecutive month in December, but remains extremely low from a historical perspective. The statistic has at times proved to be a good pointer for actual private consumption, though that was not really the case in 2022.

- In **Sweden**, Prospera’s survey of money market players’ inflation expectations ought to show a significant drop, in particular at the 1-year horizon from the most recent print of 4.6%. This is because we ourselves forecast inflation to be quite close to 2% in the beginning of 2024.

December PPI likely to show a high print again as electricity prices rose sharply.

Valueguard releases December HOX data. Expect a further decline in housing prices in general, however, probably at a slowing pace.

December trade balance appears unlikely to buck the previous 2022 trend with increasingly bigger deficits.

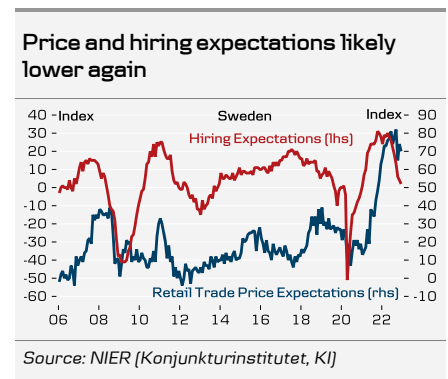
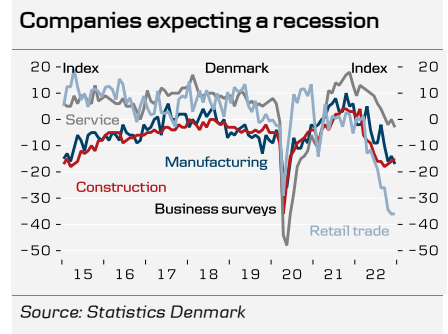
NIER’s January confidence survey should give important signals in different respects. Beside the aggregated confidence prints, particular interest will be devoted to retail price expectations and hiring expectations in the overall economy.

The December LFS seems likely to reveal an uptick in the unemployment rate noting that the labour market has been very resilient so far with still significant shortage of skilled labour.

December household lending may have come to a complete standstill looking at a seasonally adjusted monthly change judging from the trend in recent months.

Retail sales showed a strong rebound in November on the back of Black Friday sales. We expect it to have drop back down again in December.

- In **Norway**, retail sales grew again towards the end of last year, which was a surprise given the headwinds from increased consumption of services, negative real wage growth and higher interest rates. Much of this was because consumers drew on their savings to support their spending, an effect which will probably fade or reverse in the first part of 2023. We also reckon that Black Week will have pulled some Christmas trading forward to November. Figures from BankAccept for card transactions in December suggest that Christmas trading was fairly healthy nonetheless, so we expect retail sales to fall just 1% m/m SA.

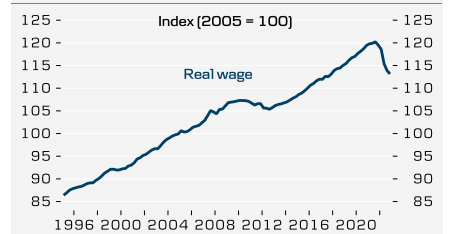


Scandi update

Denmark – Difficult collective bargaining round under way

Denmark’s latest round of collective bargaining has officially started, including in the industrial sector, traditionally the benchmark for the entire labour market. Following a decline in private sector real wages of 3.8% in 2022, pay is at the very centre of the negotiations. Claus Jensen, president of the Danish Metal Workers’ Union (Dansk Metal), has indicated real wages should preferably recover within two to three years. Based on our expectations for inflation, a full recovery within three years would require a pay increase of around 4.4% a year. The government has presented a plan to scrap ‘Great Prayer Day’ (Store Bededag) as a public holiday but compensate by hiking the holiday supplement by 0.45% of wages, roughly the equivalent of one additional workday at full pay.

Pronounced decline in real wages in 2022



Source: DA, Statistics Denmark, Danske Bank

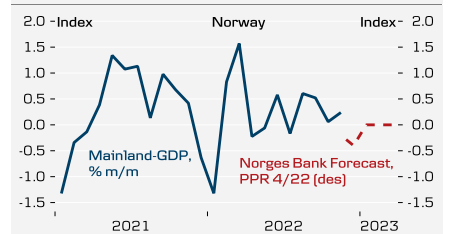
Sweden – no economic data

In Sweden no economic data were published this week.

Norway – Norges Bank on hold

As expected, Norges Bank left its policy rate unchanged at 2.75% at the January meeting. In its assessment, the bank notes that growth in the Norwegian economy is holding up slightly better than expected, the labour market is tight, and there is still strong pressure on prices, but that gas prices have fallen and global inflationary pressures are easing. It also says that the growth outlook seems to be deteriorating, and that there is considerable uncertainty about the impact of the sharp rise in interest rates since last summer. The bank argues that this warrants a more gradual approach so that it has more time to assess these effects. It has therefore kept the policy rate unchanged for now, but concludes: “Based on the Committee’s current assessment of the outlook and balance of risks, the policy rate will most likely be raised in March.” We have long argued that the December hike would be the last in this cycle. While growth has been better than expected, and the labour market tighter, we believe that the economy is at a turning point and that consumption will slow and unemployment will start to rise. However, for Norges Bank to stay on hold in March, hard data will now need to reflect the decline seen in leading indicators, with unemployment in particular needing to rise. Alternatively, inflationary pressures will need to be somewhat weaker than the bank envisaged in December. As the bank puts it in its assessment: “The outlook for the Norwegian economy is more uncertain than normal. The future policy rate path will depend on economic developments. If economic pressures persist and signs emerge that inflation will remain high for longer than projected, a higher policy rate may be needed than envisaged earlier. If inflation falls faster or unemployment rises more than projected, the policy rate may be lower than projected in December.”

Growth has been better than expected



Source: Macrobond, Danske Bank

Calendar – 23-27 January 2023

Monday, January 23, 2023				Period	Danske Bank	Consensus	Previous
8:00	DKK	Consumer confidence	Net. bal.	Jan			-28.9
16:00	EUR	Consumer confidence, preliminary	Net bal.	Jan		-20.0	-22.2
Tuesday, January 24, 2023				Period	Danske Bank	Consensus	Previous
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jan			48.9
1:30	JPY	Markit PMI services, preliminary	Index	Jan			51.1
8:00	SEK	Prospera inflation expectations					
8:00	DEM	GfK consumer confidence	Net. Bal.	Feb		-33	-37.8
8:45	FRF	Business confidence	Index	Jan		103.0	102.0
9:15	FRF	PMI services, preliminary	Index	Jan		49.8	49.5
9:15	FRF	PMI manufacturing, preliminary	Index	Jan		49.6	49.2
9:30	DEM	PMI manufacturing, preliminary	Index	Jan		48.0	47.1
9:30	DEM	PMI services, preliminary	Index	Jan		49.6	49.2
10:00	EUR	PMI manufacturing, preliminary	Index	Jan		48.5	47.8
10:00	EUR	PMI composite, preliminary	Index	Jan		49.9	49.3
10:00	EUR	PMI services, preliminary	Index	Jan		50.2	49.8
10:30	GBP	PMI manufacturing, preliminary	Index	Jan		45.4	45.3
10:30	GBP	PMI services, preliminary	Index	Jan		49.6	49.9
14:00	HUF	Central Bank of Hungary rate decision	%		13.0%	13.0%	13.0%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jan		46.5	46.2
15:45	USD	Markit PMI service, preliminary	Index	Jan		46.0	44.7
22:45	NZD	CPI	q/q y/y	4th quarter		1.4% 7.1%	2.2% 7.2%
Wednesday, January 25, 2023				Period	Danske Bank	Consensus	Previous
1:30	AUD	CPI	q/q y/y	4th quarter		1.6% 7.5%	1.8% 7.3%
6:00	JPY	Leading economic index, final	Index	Nov			97.6
8:00	SEK	PPI	m/m y/y	Dec			2.0% 19.5%
10:00	DEM	IFO - business climate	Index	Jan		90.1	88.6
10:00	DEM	IFO - current assessment	Index	Jan		94.9	94.4
10:00	DEM	IFO - expectations	Index	Jan		85.0	83.2
16:00	CAD	Bank of Canada rate decision	%		4.25%	4.5%	4.25%
16:30	USD	DOE U.S. crude oil inventories	K				8408
21:30	USD	Fed's George speaks					
Thursday, January 26, 2023				Period	Danske Bank	Consensus	Previous
8:00	SEK	Trade balance	SEK bn	Dec			-5.4
8:00	DKK	Retail sales	m/m y/y	Dec			-0.5% -7.6%
9:00	SEK	Consumer confidence	Index	Jan			54.1
9:00	SEK	Economic Tendency Survey	Index	Jan			84.7
9:00	SEK	Manufacturing confidence	Index	Jan			104.1
9:00	SEK	Consumer confidence	Index	Jan			54.1
9:00	SEK	Economic Tendency Survey	Index	Jan			84.7
9:00	SEK	Manufacturing confidence	Index	Jan			104.1
14:30	USD	Core capital goods orders, preliminary	%	Dec		-0.2%	0.1%
14:30	USD	Advance goods trade balance	USD bn	Dec		-88.8	-83.3
14:30	USD	Initial jobless claims	1000				190
14:30	USD	GDP, ___ release, preliminary	q/q AR	4th quarter	0.028	0.026	0.032
14:30	USD	PCE core, preliminary	q/q AR	4th quarter			0.047
16:00	USD	New home sales	1000 (m/m)	Dec		614	640.0 (5.8%)
20:15	USD	Fed's George speaks					
Friday, January 27, 2023				Period	Danske Bank	Consensus	Previous
8:00	SEK	Retail sales s.a.	m/m y/y	Dec			2.2% -6.3%
8:00	SEK	Household lending	y/y	Dec			4.1%
8:00	NOK	Retail sales, s.a.	m/m	Dec	-1.0%		0.9%
8:45	FRF	Consumer confidence	Index	Jan		83.0	82.0
9:00	ESP	GDP, preliminary	q/q y/y	4th quarter		0.1% 2.1%	0.1% 4.4%
10:00	EUR	Money supply (M3)	y/y	Dec		4.6%	4.8%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Dec		4.6%	4.8%
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Dec		4.6%	4.8%
14:30	USD	Personal spending	m/m	Dec		-0.1%	0.1%
14:30	USD	PCE core	m/m y/y	Dec		0.3% 4.4%	0.2% 4.7%
14:30	USD	PCE headline	m/m y/y	Dec		0.0% 5.0%	0.1% 5.5%
16:00	USD	Pending home sales	m/m y/y	Dec		-1.0% _	-4.0% -38.6%
16:00	USD	University of Michigan Confidence, final	Index	Jan		64.6	64.6

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	2.9	-2.6	-1.1	4.4	7.4	3.2	7.7	3.5	2.6	1.2	29.7	11.8
	2023	-1.0	-2.3	0.0	-3.3	1.3	-0.7	4.9	4.1	3.1	1.0	28.1	9.5
	2024	1.0	1.8	0.9	-2.1	1.2	0.4	2.0	4.2	3.4	0.8	27.0	9.5
Sweden	2022	2.6	2.6	-0.2	5.6	4.6	7.9	8.4	2.5	7.5	0.7	31.0	3.9
	2023	-1.2	-1.3	1.1	-3.0	1.3	0.2	8.5	3.2	8.2	-0.9	29.0	4.4
	2024	1.2	2.0	1.2	1.8	2.8	2.6	1.3	2.7	8.1	-0.4	29.0	4.5
Norway	2022	3.7	6.6	0.3	4.0	3.0	12.1	5.8	3.9	1.8	-	-	-
	2023	0.6	-0.5	1.3	0.5	3.5	2.5	4.8	4.3	2.2	-	-	-
	2024	1.5	0.9	1.5	4.0	2.0	2.0	2.1	3.8	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	2022	3.3	3.9	1.1	4.4	7.4	8.6	8.4	4.2	6.7	-3.9	93.7	1.5
	2023	-0.9	-1.6	1.3	0.7	2.9	4.5	6.7	4.9	7.4	-4.0	92.5	1.9
	2024	0.0	0.7	1.7	-0.1	1.3	2.7	2.9	3.6	8.3	-3.5	91.6	2.4
Germany	2022	1.8	4.6	1.6	0.4	3.2	6.7	8.7	4.1	3.0	-2.3	67.4	3.7
	2023	-1.4	-2.1	1.9	-1.2	2.4	3.7	7.9	5.4	3.8	-2.7	65.5	4.6
	2024	-0.5	0.9	2.3	0.2	-0.1	3.0	3.9	4.3	4.2	-1.9	66.2	4.9
Finland	2022	1.8	2.3	2.5	4.5	1.5	7.0	7.1	2.6	6.8	-1.8	70.7	-3.3
	2023	-0.7	-0.3	1.5	-1.0	-1.5	-2.0	4.8	4.0	7.3	-2.5	71.0	-2.7
	2024	0.5	0.4	1.0	0.5	1.5	1.0	2.2	3.5	7.2	-2.0	71.7	-2.1

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	1.9	2.6	-0.9	-0.4	7.9	8.5	8.0	5.2	3.6	-4.2	124.0	-3.9
	2023	-0.2	-0.2	1.1	-5.4	1.1	-4.4	3.1	4.4	4.0	-3.8	121.0	-3.1
	2024	0.5	0.4	1.3	0.6	-0.1	0.5	1.7	2.1	5.6	-3.9	120.5	-2.8
China	2022	3	2.8	-	4.5	-	-	2.0	3.0	-	-8.9	76.9	1.6
	2023	5.5	5.1	-	5.2	-	-	2.2	5.0	-	-7.2	84.1	1.0
	2024	5.2	5.5	-	5.5	-	-	2.5	5.5	-	-7.5	89.8	0.8
UK	2022	4.2	-	-	-	-	-	8.9	-	3.8	-	-	-
	2023	-0.7	-	-	-	-	-	6.2	-	4.4	-	-	-
	2024	0.8	-	-	-	-	-	2.6	-	5.0	-	-	-
Japan	2022	1.4	3.0	1.6	-0.8	4.7	8.0	2.2	-	2.6	-	-	-
	2023	0.7	0.9	0.6	1.3	2.5	3.2	2.4	-	2.8	-	-	-
	2024	0.9	0.8	0.5	0.6	1.5	0.5	1.4	-	2.8	-	-	-

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	20-Jan	4.50	4.81	4.42	3.41	108.5	-	685.9	986.8	1028.5
	+3m	5.25	5.40	5.20	4.05	107.0	-	695.3	972.0	1056.1
	+6m	5.25	5.40	5.10	4.05	105.0	-	709.0	971.4	1085.7
	+12m	5.25	5.24	4.80	3.65	103.0	-	723.3	980.6	1068.0
EUR	20-Jan	2.00	2.42	3.19	2.72	-	108.5	743.9	1070.2	1115.4
	+3m	3.00	3.36	3.35	3.00	-	107.0	744.0	1040.0	1130.0
	+6m	3.25	3.41	3.20	2.85	-	105.0	744.5	1020.0	1140.0
	+12m	3.25	3.39	2.90	2.55	-	103.0	745.0	1010.0	1100.0
JPY	20-Jan	-0.10	-0.03	0.32	1.05	120.5	129.3	6.17	8.88	9.26
	+3m	-0.10	-	-	-	133.8	125.0	5.56	7.78	8.45
	+6m	-0.10	-	-	-	131.3	125.0	5.67	7.77	8.69
	+12m	-0.10	-	-	-	128.8	125.0	5.79	7.84	8.54
GBP*	20-Jan	3.50	-	4.12	3.38	87.7	123.7	848.1	1220.1	1271.6
	+3m	3.75	-	4.20	3.50	87.0	123.0	855.2	1195.4	1298.9
	+6m	3.75	-	4.20	3.50	85.0	123.5	875.9	1200.0	1341.2
	+12m	3.75	-	4.00	3.30	85.0	121.2	876.5	1188.2	1294.1
CHF*	20-Jan	1.00	-	1.34	1.61	99.7	91.9	746.3	1073.7	1119.1
	+3m	1.50	-	-	-	100.0	93.5	744.0	1040.0	1130.0
	+6m	1.50	-	-	-	99.0	94.3	752.0	1030.3	1151.5
	+12m	1.50	-	-	-	99.0	96.1	752.5	1020.2	1111.1
DKK	20-Jan	1.75	2.67	3.35	2.86	743.89	685.94	-	143.87	149.94
	+3m	2.65	3.45	3.50	3.15	744.00	695.33	-	139.78	151.88
	+6m	2.90	3.50	3.35	3.00	744.50	709.05	-	137.00	153.12
	+12m	2.90	3.50	3.05	2.70	745.00	723.30	-	135.57	147.65
SEK	20-Jan	2.50	2.90	3.21	2.66	1115.4	1028.5	66.7	95.9	100.0
	+3m	3.00	3.05	3.35	2.95	1130.0	1056.1	65.8	92.0	-
	+6m	3.00	3.10	3.15	2.85	1140.0	1085.7	65.3	89.5	-
	+12m	3.00	3.10	2.85	2.55	1100.0	1068.0	67.7	91.8	-
NOK	20-Jan	2.75	3.25	3.30	2.92	1070.2	986.8	69.5	100.0	104.2
	+3m	2.75	2.95	3.45	3.15	1040.0	972.0	71.5	-	108.7
	+6m	2.75	2.95	3.20	2.80	1020.0	971.4	73.0	-	111.8
	+12m	2.50	2.95	3.05	2.70	1010.0	980.6	73.8	-	108.9

*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

	20-Jan	2022				2023				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	86	98	112	105	100	95	95	95	95	104	95

Source Danske Bank

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