

# Weekly Focus

## Risk of escalation in Middle East drives oil prices higher

**Geopolitics has taken centre stage in financial markets once again.** As the risk of escalation in Middle East grows, oil prices continue to drift higher (breaching USD 93 level), raising stagflationary concerns for the global economy. Israel continues its air attacks in Gaza and prepares for a ground operation. Meanwhile, the US has seen stepped up drone attacks targeting its military bases in Iraq and Syria. Further underlining the risk of an escalation, fighting is also taking place in the north of Israel between the Israeli Defence Forces and Lebanon's Hezbollah (Iran's proxy), and in the Syrian border region.

**In order to anticipate how the conflict may evolve from here, we think it is crucial to understand the geopolitical and cultural context in the Middle East,** most importantly, the different religious factions within Islam. In our *Geopolitical radar – Risk of escalation in Middle East, Xi-Biden meeting in November, tensions rise on Baltic Sea*, 19 October, we analyse who benefits and who loses from chaos in Middle East. Overall, we hear echoes familiar from Arab Spring, and think that the long-standing conflict between Muslim Brotherhood (supported by Turkey and Qatar) and its opponents (mainly Saudi Arabia, UAE and Egypt) may end up playing a role in how political instability spreads in the region.

**Apart from geopolitics, attention remains on the rise in long yields, driven both by a rising term premium and a stronger than expected macro momentum.** This week, Fed chair Powell echoed the slightly cautious tone of his colleagues' recent speeches, highlighting that the tightening financial conditions 'takes some pressure off the Fed' to continue hiking policy rates and that the FOMC is 'proceeding carefully'. Next week, the market will keep a close eye on the US October flash PMIs on Tuesday and the Q3 flash GDP release on Thursday. We expect the former to show gradual cooling in services sector activity growth, while any further upticks in the manufacturing index are likely to remain modest for now. We expect GDP to have grown by 3.3% q/q AR, driven by still upbeat private consumption and structures investment. While growth has remained stronger than we have anticipated for now, we still foresee weakening towards the winter not least amid tightening financial conditions, and think the Fed is done with hiking rates.

**Next week's main event will be the ECB meeting on Thursday, where the Governing Council is widely expected to keep rates unchanged** (see *ECB Preview – Keeping a tightening bias with optionality*, 17 October). As the ECB has opted to work with the 'patience' argument, it will now be crucial to follow the speed of the monetary policy transmission to predict their next move. If the speed is low, more patience will be needed and rates should be kept higher for longer, but if the speed is high, the first rate cut could come earlier. In this regard, the bank lending survey due on Tuesday will provide valuable input to this discussion through updated data on changes in lending standards and credit demand.

Flash PMIs will be released for euro area and the UK as well, we expect both to remain in contractionary territory across the board. We also get the rest of the UK labour market report on Tuesday after wage numbers were released this week. We expect the numbers to continue to show weakness as slack is set to gradually increase.

### Key global views

- Stagnation and periodic contraction in the US and Europe in 2023
- US and euro area headline inflations set to decline further but core inflation to remain sticky
- Fed and ECB policy rates have peaked

### Key market movers

- Tuesday: EA, US and UK PMIs, ECB bank lending survey, UK labour market report
- Wednesday: German IFO
- Thursday: ECB meeting, US GDP

### Selected reading from Danske Bank

- *Geopolitical radar – Risk of escalation in Middle East, Xi-Biden meeting in November, tensions rise on Baltic Sea*, 19 October
- *US Labour Market Monitor – US labour markets defy slowdown expectations*, 18 October
- *FX Strategy – UK debt woes cloud the outlook for GBP*, 18 October
- *ECB Preview – Keeping a tightening bias with optionality*, 17 October

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# Scandi market movers

- In **Denmark**, Monday brings consumer confidence data for October. The indicator dropped to -13 in September, due mainly to weaker expectations for the coming year. A robust labour market and improving purchasing power are good news for consumer finances, but most are probably now resigned to interest rates remaining high for a long time. Energy prices are also rising again, with the outlook there more uncertain, and we are in the midst of an economic slowdown. This probably spells more pessimistic expectations, and so we expect the indicator to edge down to -14.

October business confidence follows on Tuesday. The pharmaceutical industry, spearheaded by Novo Nordisk, has been upbeat about the future to date and will probably remain so. The rest of the manufacturing sector is somewhat more pessimistic, as are construction and retail, due largely to the global economic downturn. The service sector has fared well up until now and has been positive about the outlook. Consumers have been favouring services over goods for some time, which has been good for the sector, but optimism is on the wane here too.

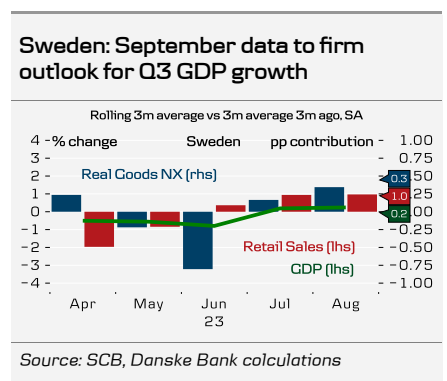
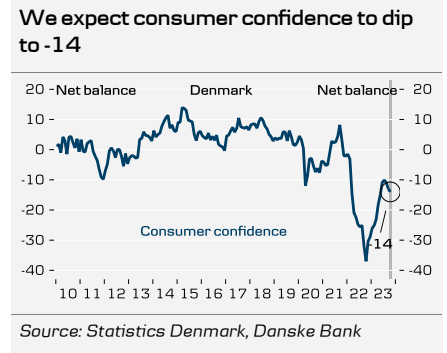
Boligsiden's figures for property sales were due Thursday but will now be released this coming Tuesday. Sales have risen every month since November 2022 once adjusted for normal seasonal variations, and we see scope for further increases in the short term. The housing market has been remarkably robust given how far interest rates have climbed. We see this as a reflection of homebuyers having come to terms with energy prices and inflation, and unemployment still being low. Looking slightly further ahead, we expect the housing market to benefit from improved consumer purchasing power, but there will be headwinds from high interest rates and a gradual deterioration in the labour market.

Thursday sees a rate-setting meeting at the ECB, and we expect Danmarks Nationalbank (DN), the Danish central bank to follow its lead and leave rates unchanged.

Finally, Friday brings the retail sales index for September. Real retail sales fell 1% from July to August. Our latest *Spending Monitor* finds that card transactions at retailers were down 1.1% y/y in September once adjusted for inflation, which points to another slight drop in retail sales from August to September.

- In **Sweden** there are a few interesting data points for September released next week that will provide a take on how Q3 GDP has evolved. The PPI report (which includes export and import prices) and the trade balance together provides the final data to assess to real net exports has evolved. It is no secret that foreign trade has been weakening since March, measured in current prices. However, it is also true that export and import prices have been falling since Q4 last year. Summing up the pieces and seasonally adjusting the result means the real goods trade balance has improved over the past two months and we expect this to have continued in September. Overall, net real exports should add to Q3 GDP growth. Real retail sales are also released. It has been rising on a seasonally adjusted monthly basis since March, in tandem with a similar trend in the broader consumption indicator. We expect this upward trend to have continued in September.

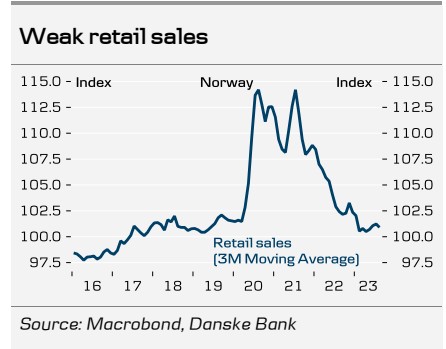
The October confidence survey will be scrutinized on three specific points: 1) Any signs of bottoming in manufacturing and services confidence, 2) The balance between hiring expectations and labor hoarding and 3) Selling price plans in retail trade and services. The first two will give hints about the probability of a recession and the latter how disinflation at the consumer level is proceeding, it needs to come down further.



Riksbank: Jansson talk about current monetary policy on the 25<sup>th</sup> and Riksbank's semi-annual business survey is released the 27<sup>th</sup>.

The Debt Office releases its new forecast Oct 26. The underlying budget outcome has been some SEK30bn better than expected. We anticipate the SNDO to adjust the forecast for 2023 in a similar magnitude and also revise the budget balance for 2024 higher. The volume of nominal and inflation-linked bonds is expected to be unchanged for 2023 and 2024 and the bulk of the funding cut taken by less T-bills.

- In **Norway**, consumer spending is under pressure from weak real wages and higher interest rates. After a moderate upswing during the spring, retail sales seemed to have levelled off again. Norges Bank's half-point hike in June will also have pushed up mortgage costs from late August/early September. We therefore expect retail sales to fall 0.5% m/m in September.

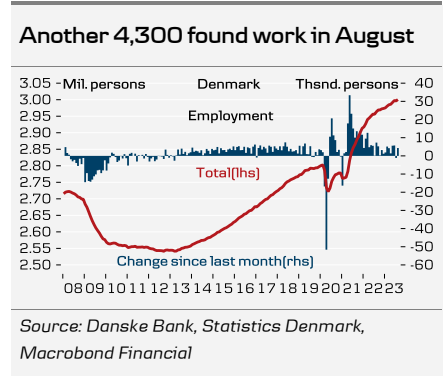


# Scandi update

## Denmark – More than 3 million in work

The number of people in work in Denmark increased by 4,300 from July to August, taking employment above the 3 million mark. This bears witness to a robust labour market which has held up well during the year. This is remarkable given the slowdown in the Danish and European economies, but August began with large numbers of vacancies and a strong service sector. Real wages are also still low in comparison to 2019-2021. The number of vacancies is on the way down, however, and real wages are on the way up. We therefore expect a moderate decline in employment in the time ahead, assuming a soft landing for the European economy.

Transaction data for the housing market were due during the week but have been postponed to the coming week.

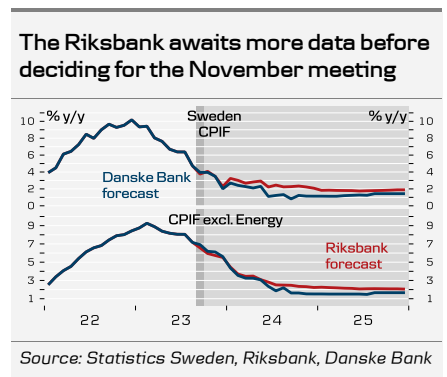


## Sweden – What is on the mind of the board members of the Riksbank?

The main focus last week has been on the various speeches and appearances by board members from the Riksbank. These has been of interest in order get any indications on what impact last week's higher than expected inflation print for September will have on November's policy rate decision. E.g., there was the opening hearing of the Riksbank's Executive Board by the Riksdag Committee on Finance. The overall message from the board during the hearing was that they wanted to make clear that last policy meeting's rate path still applies and that there is still a possibility of a hike on the November meeting.

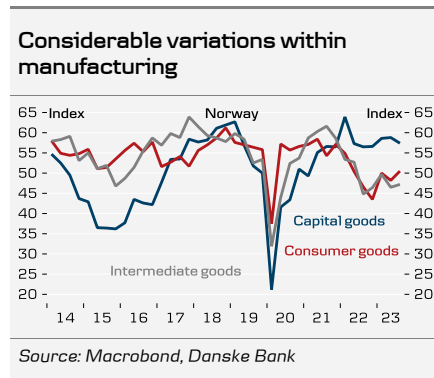
Furthermore, it was stated that as last week's inflation print exceeded their forecast, the probability for a hike obviously increased somewhat. Flodén said that it may have been due to an effect of a greater impact from a weaker SEK, although they stressed that it is too early to draw any conclusions before making their decision for the November meeting as additional data will be added until then.

Breman highlighted that they will mainly focus on the following the developments of the following areas: household consumption and savings, the labour market, and companies pricing behaviour. Therefore, some upcoming data releases that will be of highly importance are: Price Plans from NIER Business Confidence Survey (Oct 26), Household Consumption (Nov 10), October CPI (Nov 14), Statistics Sweden's Labor Force Survey (20 Oct & 17 Nov) and the Swedish Public Employment Service's Unemployment Statistics (14 Nov). It is also worth noting that Thedéen commented that other Swedish financial actors that are exposed abroad similarly like the Riksbank should review their FX-strategy and perhaps hedge more in anticipation of a strengthened SEK.



### Norway – Moderate improvement in manufacturing sentiment

Statistics Norway’s industrial confidence indicator improved moderately from -5.1 to -2.2 in Q3, meaning that sentiment is still in negative territory but less so than in Q2. A quick glance at the underlying data reveals considerable variations within the sector. Producers of capital goods – essentially the oil service industry – anticipate solid growth in production in the coming quarter. Producers of consumer goods – mainly serving the domestic market – have revised up their expectations and now also predict an increase in production for the first time in more than a year. On the other hand, producers of intermediate goods – mainly exporters – still expect a decline in production, which ties in well with the picture of a global manufacturing sector still battling with headwinds. The overall improvement in manufacturing sentiment in Norway could also be seen in the regional network survey in September and will not therefore come as any surprise to Norges Bank.



# Calendar – 23-27 October 2023

Monday, October 23, 2023				Period	Danske Bank	Consensus	Previous
8:00	DKK	Consumer confidence	Net. bal.	Oct	-14		-13
16:00	EUR	Consumer confidence, preliminary	Net bal.	Oct		-18.3	-17.8
Tuesday, October 24, 2023				Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Oct			48.5
2:30	JPY	Markit PMI services, preliminary	Index	Oct			53.8
8:00	GBP	Unemployment rate (3M)	%	Aug		4.3%	4.3%
8:00	DEM	GfK consumer confidence	Net. Bal.	Nov		-27	-26.5
9:15	FRF	PMI manufacturing, preliminary	Index	Oct		44.8	44.2
9:15	FRF	PMI services, preliminary	Index	Oct		44.8	44.4
9:30	DEM	PMI manufacturing, preliminary	Index	Oct		40.0	39.6
9:30	DEM	PMI services, preliminary	Index	Oct		50.0	50.3
10:00	EUR	ECB publishes euro area Bank Lending Survey					
10:00	EUR	PMI manufacturing, preliminary	Index	Oct		43.5	43.4
10:00	EUR	PMI composite, preliminary	Index	Oct		47.5	47.2
10:00	EUR	PMI services, preliminary	Index	Oct		48.7	48.7
10:30	GBP	PMI manufacturing, preliminary	Index	Oct		44.8	44.3
10:30	GBP	PMI services, preliminary	Index	Oct		49.6	49.3
14:00	HUF	Central Bank of Hungary rate decision	%		13.00%	12.50%	13.00%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Oct		49.5	49.8
15:45	USD	Markit PMI service, preliminary	Index	Oct		49.4	50.1
Wednesday, October 25, 2023				Period	Danske Bank	Consensus	Previous
2:30	AUD	CPI	q/q y/y	3rd quarter		1.1% 5.3%	0.8% 6.0%
7:00	JPY	Leading economic index, final	Index	Aug			109.5
8:00	SEK	PPI	m/m y/y	Sep			-0.7% -5.9%
10:00	DEM	IFO - business climate	Index	Oct		85.8	85.7
10:00	DEM	IFO - current assessment	Index	Oct		88.5	88.7
10:00	DEM	IFO - expectations	Index	Oct		83.2	82.9
10:00	EUR	Money supply (M3)	y/y	Sep		-1.7%	-1.3%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Sep			
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Sep			
16:00	USD	New home sales	1000 (m/m)	Sep		684	675.0 (-8.7%)
16:00	CAD	Bank of Canada rate decision	%			5.00%	5.00%
16:30	USD	DOE U.S. crude oil inventories	K			-550	-4491
22:35	USD	Fed chair Powell speaks					
Thursday, October 26, 2023				Period	Danske Bank	Consensus	Previous
8:00	SEK	Household lending	y/y	Sep			0.7%
8:00	SEK	Trade balance	SEK bn	Sep			-8.4
9:00	SEK	Consumer confidence	Index	Oct			69.1
9:00	SEK	Economic Tendency Survey	Index	Oct			85.8
9:00	SEK	Manufacturing confidence	Index	Oct			100.1
13:00	TRY	Central Bank of Turkey rate decision	%		35.00%	35.00%	30.00%
14:15	EUR	ECB's Lagarde speaks at press conference					
14:15	EUR	ECB announces refi rate	%		4.50%	4.50%	4.50%
14:15	EUR	ECB announces deposit rate	%		4.00%	4.00%	4.00%
14:30	USD	Initial jobless claims	1000				198
14:30	USD	PCE core, preliminary	q/q AR	3rd quarter			0.037
14:30	USD	Core capital goods orders, preliminary	%	Sep		0.0%	0.9%
14:30	USD	Advance goods trade balance	USD bn	Sep		-85.5	-84.6
14:30	USD	GDP, ___ release, preliminary	q/q AR	3rd quarter	0.033	0.043	0.021
14:45	EUR	ECB's Lagarde speaks					
15:00	USD	Fed's Waller speaks					
16:00	USD	Pending home sales	m/m y/y	Sep		1.0% _	-7.1% -18.8%
Friday, October 27, 2023				Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/m y/y	Sep		0.6% _	-1.2% -1.9%
-	EUR	France's debt rating (Fitch)					
-	EUR	EFSP's debt rating (Moody's)					
-	EUR	ESM's debt rating (Moody's)					
-	EUR	Belgium's debt rating (Moody's)					
-	EUR	Finland's debt rating (S&P)					
1:30	JPY	Tokyo CPI Ex-Fresh Food YoY	y/y	Oct		2.5%	2.5%
1:30	JPY	Tokyo CPI Ex-Fresh Food, Energy YoY	y/y	Oct		3.7%	3.9%
3:30	CNY	Industrial profits	y/y	Sep			17.2%
8:00	DKK	Retail sales	m/m y/y	Sep			3.9% -1.0%
8:00	SEK	Retail sales s.a.	m/m y/y	Sep			0.2% -1.7%
8:00	NOK	Retail sales, s.a.	m/m	Sep	-0.5%		-0.3%
8:45	FRF	Consumer confidence	Index	Oct		82.0	83.0
9:00	ESP	GDP, preliminary	q/q y/y	3rd quarter		0.2% 1.5%	0.5% 2.2%
10:00	EUR	ECB's survey of professional forecasters					
14:30	USD	PCE headline	m/m y/y	Sep		0.3% 3.4%	0.4% 3.5%
14:30	USD	Personal spending	m/m	Sep		0.4%	0.4%
14:30	USD	PCE core	m/m y/y	Sep		0.2% 3.7%	0.1% 3.9%
16:00	USD	University of Michigan Confidence, final	Index	Oct		63.2	63.0

Source: Danske Bank

# Macroeconomic forecast

## Macro forecast. Scandinavia

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
Denmark	2022	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.6	2.6	3.4	29.7	13.0
	2023	1.7	0.1	0.2	-5.2	6.7	0.8	4.0	4.3	2.9	2.1	27.7	12.5
	2024	1.2	1.6	1.5	0.7	1.7	1.7	3.2	5.6	3.2	1.0	26.0	12.5
Sweden	2022	2.9	1.9	0.0	6.2	7.0	9.3	8.4	2.5	7.5	0.7	31.0	3.7
	2023	0.0	-1.6	2.2	-0.9	2.5	0.7	8.4	4.0	7.5	-0.4	29.0	4.7
	2024	1.7	1.7	1.5	2.0	3.0	2.9	1.8	3.3	7.8	-0.8	29.0	4.7
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.2	-1.7	1.4	0.5	4.0	3.0	5.8	5.4	1.9	-	-	-
	2024	1.4	1.2	1.0	4.0	2.0	1.6	3.6	4.4	2.3	-	-	-

## Macro forecast. Euroland

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
Euro area	2022	3.4	4.2	1.6	2.8	7.4	8.0	8.4	3.1	6.7	-3.6	91.5	-0.9
	2023	0.5	0.1	-0.7	0.5	1.7	1.0	5.5	5.3	6.5	-3.2	90.0	1.3
	2024	0.8	1.1	1.0	0.5	2.0	2.0	2.6	4.5	6.8	-2.6	89.1	1.7
Finland	2022	1.6	1.7	0.8	3.2	3.7	8.5	7.1	2.4	6.8	-0.9	73.3	-2.5
	2023	-0.2	-0.2	3.0	-5.0	-0.5	-3.0	6.5	4.0	7.2	-2.8	72.3	-4.0
	2024	0.8	1.0	0.5	1.0	1.5	1.5	2.3	3.4	7.0	-2.7	73.4	-3.0

## Macro forecast. Global

	Year	GDP <sup>1</sup>	Private cons. <sup>1</sup>	Public cons. <sup>1</sup>	Fixed inv. <sup>1</sup>	Ex-ports <sup>1</sup>	Im-ports <sup>1</sup>	Infla-tion <sup>1</sup>	Wage growth <sup>1</sup>	Unem-ploym <sup>2</sup>	Public budget <sup>3</sup>	Public debt <sup>3</sup>	Current acc. <sup>3</sup>
USA	2022	1.9	2.5	-0.9	1.3	7.0	8.6	8.0	5.3	3.6	-5.5	123.3	-3.9
	2023	2.1	2.0	3.7	0.4	0.0	-3.8	4.2	4.1	3.6	-5.4	123.6	-3.1
	2024	0.9	0.1	2.7	3.4	-3.6	-1.4	2.3	3.2	4.1	-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	4.8	6.5	-	4.5	-	-	0.8	-	5.2	-7.5	82.8	1.4
	2024	4.2	5.0	-	3.8	-	-	1.2	-	5.1	-7.5	87.4	1.0
UK	2022	4.2	-	-	-	-	-	9.0	-	3.7	-	-	-
	2023	0.4	-	-	-	-	-	7.6	-	4.3	-	-	-
	2024	0.4	-	-	-	-	-	2.9	-	4.6	-	-	-

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-Oct	5.50	-	5.09	4.60	0.95	-	7.06	11.04	10.98
	+3m	5.50	-	4.72	3.91	0.93	-	6.96	11.03	10.84
	+6m	5.25	-	4.31	3.63	0.94	-	7.02	11.04	11.04
	+12m	4.75	-	3.95	3.45	0.97	-	7.23	11.07	11.46
EUR	19-Oct	4.00	3.93	3.83	3.47	-	1.06	7.4648	11.67	11.61
	+3m	4.00	3.94	3.53	3.08	-	1.07	7.4450	11.80	11.60
	+6m	4.00	3.76	3.33	2.94	-	1.06	7.4450	11.70	11.70
	+12m	3.50	3.30	3.00	2.80	-	1.03	7.4500	11.40	11.80
JPY	19-Oct	-0.10	-	-	-	0.006	0.007	4.71	7.36	7.32
	+3m	-0.10	-	-	-	0.007	0.007	4.90	7.77	7.63
	+6m	0.00	-	-	-	0.007	0.008	5.32	8.36	8.36
	+12m	0.00	-	-	-	0.007	0.008	5.56	8.51	8.81
GBP*	19-Oct	5.25	-	5.25	4.55	1.15	1.09	8.58	13.41	13.33
	+3m	5.25	-	4.98	4.03	1.15	1.23	8.56	13.56	13.33
	+6m	5.25	-	4.67	3.95	1.14	1.20	8.46	13.30	13.30
	+12m	4.75	-	4.30	3.75	1.14	1.17	8.47	12.95	13.41
CHF	19-Oct	1.75	-	-	-	1.06	1.12	7.88	12.31	12.25
	+3m	1.75	-	-	-	1.05	1.13	7.84	12.42	12.21
	+6m	1.75	-	-	-	1.06	1.13	7.92	12.45	12.45
	+12m	1.25	-	-	-	1.06	1.10	7.93	12.13	12.55
DKK	19-Oct	3.60	3.97	3.95	3.63	0.134	0.142	-	1.56	1.55
	+3m	3.60	3.99	3.68	3.23	0.134	0.144	-	1.58	1.56
	+6m	3.60	3.81	3.48	3.09	0.134	0.142	-	1.57	1.57
	+12m	3.10	3.35	3.15	2.95	0.134	0.138	-	1.53	1.58
SEK	19-Oct	4.00	4.09	4.05	3.51	0.086	0.091	0.64	1.01	-
	+3m	4.00	4.12	3.85	3.23	0.086	0.092	0.64	1.02	-
	+6m	4.00	4.09	3.47	2.98	0.085	0.091	0.64	1.00	-
	+12m	3.75	3.60	3.10	2.85	0.085	0.087	0.63	0.97	-
NOK	19-Oct	4.25	4.79	4.80	4.26	0.086	0.091	0.64	-	0.99
	+3m	4.25	4.74	4.36	3.82	0.085	0.091	0.63	-	0.98
	+6m	4.00	4.55	4.08	3.64	0.085	0.091	0.64	-	1.00
	+12m	3.50	3.92	3.80	3.45	0.088	0.090	0.65	-	1.04

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

## Commodities

	19-Oct	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	93	82	78	86	80	80	80	80	80	81	80

Source Danske Bank



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