

Weekly Focus

Central banks hold steady course despite banking jitters

After UBS' takeover of Credit Suisse and the wipe-out of AT1 bondholders, risk sentiment remained on shaky grounds this week. Investors took courage from comments from European regulators that reiterated that common equity instruments are first in line to absorb losses before AT1s. Yields started to rebound and markets have now repriced the ECB peak rate back to 3.5%. As more time lapses (without more negative news on the banking turmoil), more focus will return to macro data - which still warrants further repricing higher in our view. President Lagarde delivered a fairly balanced speech at the ECB watchers conference, stressing that policymakers will maintain a data-dependent approach that allows it to respond to inflation risks, but also aid financial markets if threats emerge. She also repeated that if the ECB's baseline holds there will be more ground to cover in terms of future rate hikes.

After ECB remained in tightening mode last week, also the Federal Reserve chose to hold a steady course this week and hiked policy rates by 25bp. That said, both the statement and Fed chair Powell's comments were tilted to the dovish side, highlighting that the 'recent (banking sector) developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation'. US Treasury yields declined again after the meeting and EUR/USD ticked higher. Equity markets came under renewed pressure after US Treasury Secretary Yellen commented that the US is not considering a 'blanket insurance' for bank deposits. For now, we stick to our call of a final Fed hike in May, and no rate cuts through 2023 (see also *Fed review: A cautious 25bp hike*, 22 March). Bank of England also hiked its policy rate by 25bp to 4.25%, after inflation surprisingly accelerated again in February (see also *Bank of England Review - Set for another 25bp hike in May*, 23 March).

Chinese President Xi Jinping concluded his three-day-visit in Moscow. During the visit China's peace proposal was discussed, but also a deepening trade relationship. We have doubts that China's peace proposal will gain traction, as it has been widely criticized by the US, and Ukraine and Russia are very far from each other in their individual demands. A key concern that could escalate global tensions has been whether China would deliver weapons to Russia, but so far there are few indications of this.

With the big central bank meetings out of the way, developments in the banking sector will continue to set the tone for markets in the near-term. In the US, focus remains on any signs of tightening bank credit standards, the use of Fed's liquidity facilities and FOMC commentary. In light of ECB's data-dependence, markets will also keep a close eye on the euro area HICP figures for March released on Friday. Despite a further decline in headline inflation to 7.9%, we expect them to show still a picture of strong underlying inflation pressures, with core inflation remaining unchanged at 5.6%. The official Chinese PMIs are also on the agenda on Friday. After the rebound in February, we look for a moderation in March, as the initial post-covid lift in activity is likely to fade. However, overall PMIs in both manufacturing and services should still signal above-trend growth, and thus a continued recovery.

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.
- Rising emphasis on financial stability risks but more rate hikes in store as long as a systemic crisis can be avoided.

Key market movers

- Monday: German IFO
- Friday: China PMI, euro area inflation, US personal spending

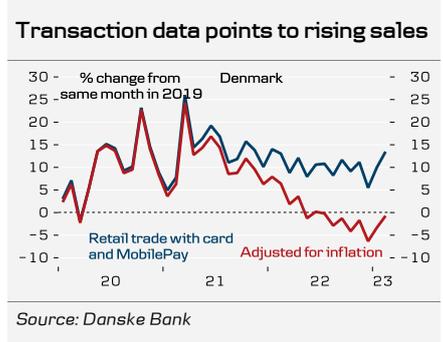
Selected reading from Danske Bank

- *Bank of England Review - Set for another 25bp hike in May*, 23 March
- *Fed review: A cautious 25bp hike*, 22 March
- *Yield Outlook - Uncertainty about US banking sector clouds rate outlook*, 20 March
- *FX Forecast Update - There is no way around a stronger dollar*, 20 March

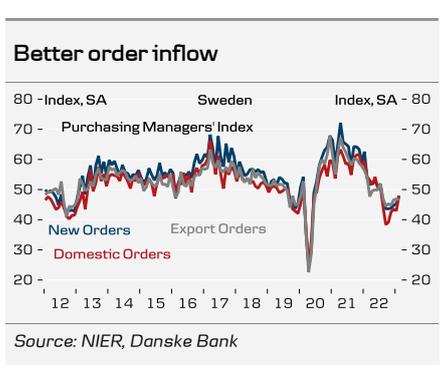
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Scandi market movers

- In **Denmark**, Wednesday is set to bring February’s retail sales figures, where electronic transaction data points to considerable month-on-month growth in DKK terms. One reason for this is further increases in food prices in particular, though also in the price of many other groups of goods. Nevertheless, there appears to have been growth even after adjusting for inflation, and this has continued into March. The coming week will also see revisions to already released figures for unemployment in February and GDP in Q4 22. GDP growth came in at 0.9% q/q, very much driven by rising pharmaceutical production, and the new calculation may shed more light on this and potentially prompt a revision.

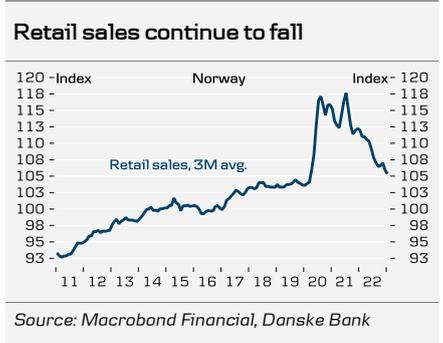


- The most interesting data in **Sweden** next week will be the NIER business and household survey, retail sales figures (both out Wednesday) and Riksbank speeches. Particularly the one with Bunge (Thursday) “How can we ensure stability in the financial sector?”



Regarding the NIER survey, we will especially look for developments regarding price expectations, order inflow and hiring plans. The February reading signalled increased sentiment among all sectors, better order inflow compared to January and slightly higher hiring plans. The corporate sector has held up surprisingly well while the effects from the Riksbank rate hikes are already having an impact on Swedish households, being more interest rate sensitive than in other countries. This divided growth picture in the economy will most likely be reflected in next week’s NIER survey as well.

- In **Norway**, retail sales bounced back a bit in January after the sharp fall in December, but the underlying trend is still down, thanks to a combination of reduced purchasing power and the shift towards services after the economy reopened in spring 2022. Figures from BankAxept for card purchases in February suggest that spending dropped back again slightly, so we expect retail sales to fall 0.8% m/m SA, continuing the underlying downward trend. Unemployment has remained surprisingly low despite leading indicators pointing to softer – albeit still strong – labour demand. We expect the jobless rate to rise moderately to 1.7% SA in February.



Scandi update

Denmark – Employment surprises on the upside in January

Some 4,400 new jobs were created in January compared to December – the largest monthly increase since August 2022, with the private sector largely responsible for the growth in employment. The jump in January came as something of a surprise, as the message from companies pointed in the opposite direction. One explanation may be that many companies are still experiencing labour shortages and are ready to take on those who lose their jobs elsewhere. However, it may also simply be that the Danish economy is stronger than we and the corporate sector assume. We still expect to see a slight decline in employment in 2023, driven by a slowdown in both Denmark and the rest of the world. Job figures continuing to demonstrate considerable strength increases the risk of needing a more pronounced downturn next year instead, as how else can inflation be tamed.

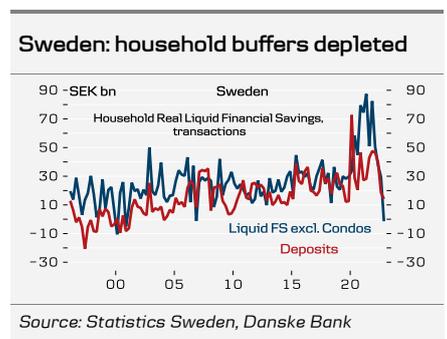
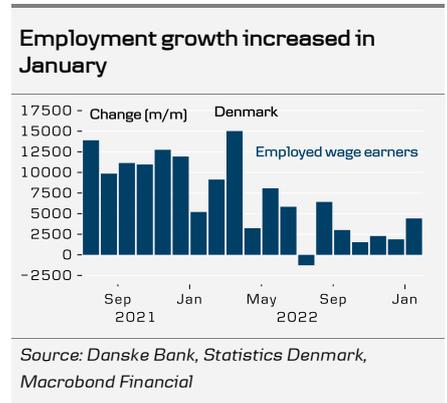
Consumer confidence has also picked up, from -25.1 in February to -23.1 in March. Despite still being at a very low level, we should not forget there has been a steady improvement here since bottoming out in October 2022. The main reason is a more upbeat view on the Danish economy both at present and in the future as well as a brighter outlook for household finances. In contrast, Danish consumers see their current financial situation as continuing to deteriorate, which underlines that while the overall trend is positive, the high level of inflation still poses a significant challenge for many households.

Denmark’s government presented both its forecast for the Danish economy and the finance bill (budget proposal) for 2023 on Thursday. The government is proposing to tighten fiscal policy and take no further significant steps to support the Danish economy due to fears of unnecessarily fanning inflation. The Danish economy is expected to slow this year overall, with a relatively modest decline in employment and approximately zero growth in GDP. The government also expects inflation to fall to 3.9% this year, which we see as a tad low.

March’s business confidence figures in Denmark showed clear signs of improvement, even though the overall picture is still to the negative side. Retailers in particular have a less downbeat view, with revenue expectations shifting from negative into clearly positive territory over the month. All in all, the figures continue to point to a mild recession and thus are well aligned with our own views of the economy.

Sweden – Household buffers exhausted?

The Q4 Financial Accounts statistics released this week sent a quite astonishing message: “households sold assets to fund increasing costs”. If this is true then it is quite exceptional, implying a negative savings ratio. Here we take a quick look at the data, and have defined “liquid financial savings” (transactions values) as seasonally adjusted data for deposits, debt securities, listed shares, investment funds and life insurance savings but excluded condo ownership as it is hard to see how this could be seen as liquid. Thereafter the data has been deflated by CPI to transform it into purchasing power adjusted constant prices. As can be seen in the chart, the Q4 outcome is the weakest since Q4 2006. During 2022 there was a significant depletion of financial savings, a flow shift amounting to roughly SEK 80bn, of which half appears to be deposit outflows. Needless to say, it is fair to assume that household buffers should be almost gone.



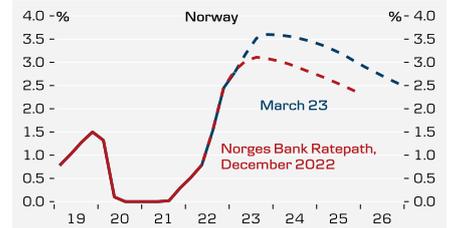
Norway – Norges Bank raises rate as expected but signals further rises in both May and June

Norges Bank raised its policy rate by 25bp to 3.00% as expected, but indicated that there will probably be a further hike in May: *“There is considerable uncertainty about future economic developments, but the Committee’s current assessment of the outlook and balance of risks implies that the policy rate will most likely be raised further in May.”* This is more aggressive than both our own and the market’s expectations. The bank’s projections in the new monetary policy report now show rate increases in both May and June, with a slight chance of the bank going even further. The projections show a growing probability of a rate cut in the second half of 2024, but this is not fully priced in until early 2025. The bank now anticipates a rate of around 2.5% at the end of 2026.

Norges Bank’s clear signalling of a further rate increase in May is more aggressive than we anticipated. The risk to the upside seems to relate to a fresh round of more aggressive market pricing of global rate expectations and an associated fall in the krone, while the downside risk presumably stems from a sharper slowdown in economic activity on the back of the rise in interest rates over the past year, or a significant tightening of financial conditions in the wake of the turmoil around Silicon Valley Bank and Credit Suisse. Although we expect this effect to become gradually more apparent as time goes on, the June meeting will probably come too early for Norges Bank to pivot. We are therefore revising our forecast and now anticipate 25bp hikes in both May and June, giving a terminal rate of 3.5% over the summer.

The bank’s risk assessment seems fairly balanced: If the krone proves weaker than projected, or pressures in the economy persist, a higher policy rate than currently projected may be needed to bring inflation down to target. If inflation falls faster or unemployment rises more than projected, the policy rate may be lower than projected.

More aggressive monetary policy



Source: Macrobond Financial, Norges Bank, Danske Bank

Calendar – 27-31 March

Monday, March 27, 2023						Period	Danske Bank	Consensus	Previous
3:30	CNY	Industrial profits	y/y	Feb					
7:00	JPY	Leading economic index, final	Index	Jan				96.5	
8:00	SEK	Household lending	y/y	Feb				3.2%	
8:00	SEK	Trade balance	SEK bn	Feb				11.1	
10:00	DEM	IFO - business climate	Index	Mar			91.0	91.1	
10:00	DEM	IFO - current assessment	Index	Mar			94.1	93.9	
10:00	DEM	IFO - expectations	Index	Mar			88.3	88.5	
10:00	EUR	Money supply (M3)	y/y	Feb			3.1%	3.5%	
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Feb			3.1%	3.5%	
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Feb			3.1%	3.5%	
Tuesday, March 28, 2023						Period	Danske Bank	Consensus	Previous
8:45	FRF	Business confidence	Index	Mar			103.0	103.0	
14:00	HUF	Central Bank of Hungary rate decision	%			13.0%	13.0%	13.0%	
14:30	USD	Advance goods trade balance	USD bn	Feb			-89.9	-91.5	
15:00	USD	FHFA house price index	m/m	Jan				-0.1%	
16:00	USD	Conference Board consumer confidence	Index	Mar			101.5	102.9	
Wednesday, March 29, 2023						Period	Danske Bank	Consensus	Previous
8:00	SEK	Retail sales s.a.	m/mly/y	Feb				-0.1% -7.5%	
8:00	NOK	Retail sales, s.a.	m/m	Feb		-0.8%		1.3%	
8:00	DEM	GfK consumer confidence	Net. Bal.	Apr			-29.5	-30.5	
8:00	DKK	Retail sales	m/mly/y	Feb				2.3% -6.2%	
8:45	FRF	Consumer confidence	Index	Mar			81.0	82.0	
9:00	SEK	Consumer confidence	Index	Mar				59.9	
9:00	SEK	Economic Tendency Survey	Index	Mar				85.7	
9:00	SEK	Manufacturing confidence	Index	Mar				102.2	
16:00	USD	Pending home sales	m/mly/y	Feb			-2.3%	8.1% -22.4%	
16:30	USD	DOE U.S. crude oil inventories	K					1117	
Thursday, March 30, 2023						Period	Danske Bank	Consensus	Previous
8:00	DKK	Gross unemployment s.a.	K (%)	Feb		2.8%		2.8%	
9:00	ESP	HICP, preliminary	m/mly/y	Mar			2.2% 4.1%	0.9% 6.0%	
10:00	EUR	ECB Publishes Economic Bulletin							
11:00	EUR	Industrial confidence	Net bal.	Mar			0.4	0.5	
11:00	EUR	Economic confidence	Index	Mar			99.8	99.7	
11:00	EUR	Consumer confidence, final	Net bal.	Mar				-19.2	
11:00	EUR	Service confidence	Net bal.	Mar			9.8	9.5	
14:00	DEM	HICP, preliminary	m/mly/y	Mar			0.8% 7.5%	1.0% 9.3%	
14:30	USD	Initial jobless claims	1000					191	
14:30	USD	PCE core	q/q AR	4th quarter				4.3%	
14:30	USD	GDP, ___ release	q/q AR	4th quarter			2.7%	2.7%	
18:45	USD	Fed's Barkin speaks							
Friday, March 31, 2023						Period	Danske Bank	Consensus	Previous
-	EUR	Fitch may publish Germany's debt rating							
-	EUR	Moody's may publish Cyprus's debt rating							
1:30	JPY	Unemployment rate	%	Feb			2.4%	2.4%	
1:30	JPY	Job-to-applicant ratio		Feb			1.36	1.35	
1:50	JPY	Retail trade	m/mly/y	Feb			0.4% 5.9%	0.8% 5.0%	
1:50	JPY	Industrial production, preliminary	m/mly/y	Feb			2.7% -2.1%	-5.3% -3.1%	
3:30	CNY	PMI manufacturing	Index	Mar			51.8	52.6	
3:30	CNY	PMI non-manufacturing	Index	Mar			54.3	56.3	
8:00	DKK	GDP, final	q/qly/y	4th quarter				0.9%	
8:00	GBP	GDP, final	q/qly/y	4th quarter			0.0% 0.4%	0.0% 0.4%	
8:00	DEM	Retail sales	m/mly/y	Feb			0.5% -5.2%	0.0% -4.2%	
8:45	FRF	Household consumption	m/mly/y	Feb			0.3% -3.5%	1.5% -3.7%	
8:45	FRF	HICP, preliminary	m/mly/y	Mar			0.8% 6.5%	1.1% 7.3%	
9:00	CHF	KOF leading indicator	Index	Mar			100.5	100.0	
9:55	DEM	Unemployment	%	Mar			5.5%	5.5%	
10:00	NOK	Norges Bank's daily FX purchases	m	Apr				1700	
10:00	NOK	Unemployment	%	Mar		1.7%	1.9%	1.9%	
11:00	ITL	HICP, preliminary	m/mly/y	Mar			1.7% 9.1%	0.1% 9.8%	
11:00	EUR	Unemployment	%	Feb			6.6%	6.6%	
11:00	EUR	HICP inflation, preliminary	m/mly/y	Mar			1.1%	0.8%	
11:00	EUR	HICP - core inflation, preliminary	y/y	Mar		5.6%	5.8%	5.6%	
11:00	EUR	HICP inflation, preliminary	y/y	Mar		7.9%	7.2%	8.5%	
14:30	USD	Personal spending	m/m	Feb			0.3%	1.8%	
14:30	USD	PCE headline	m/mly/y	Feb			0.3% 5.1%	0.6% 5.4%	
14:30	CAD	GDP	m/mly/y	Jan				-0.1% 2.3%	
14:30	USD	PCE core	m/mly/y	Feb			0.4% 4.7%	0.6% 4.7%	
15:45	USD	Chicago PMI	Index	Mar			43.6	43.6	
16:00	USD	University of Michigan Confidence, final	Index	Mar			63.4	63.4	
21:00	USD	Fed's Williams speaks							
22:00	USD	Fed's Waller 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	3.6	-2.6	-2.8	8.4	7.9	3.8	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	4.3	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	3.8	6.8	0.1	4.4	5.9	9.3	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	3.5	4.3	1.1	3.8	7.2	8.0	8.4	4.2	6.7	-3.9	93.7	1.5
	2023	0.1	-0.3	0.8	1.7	3.5	5.2	6.1	4.9	6.9	-4.0	92.5	1.9
	2024	0.3	0.9	1.0	0.0	3.6	4.6	2.6	3.6	7.0	-3.5	91.6	2.4
Germany	2022	1.9	4.4	1.2	0.6	3.0	6.1	8.7	4.1	3.1	-2.3	67.4	3.7
	2023	-0.4	-0.6	0.9	-0.7	3.3	4.4	6.6	5.4	3.3	-2.7	65.5	4.6
	2024	0.1	0.8	1.2	0.0	3.2	4.6	2.6	4.3	3.5	-1.9	66.2	4.9
Finland	2022	2.1	2.1	2.9	5.0	1.7	7.5	7.1	2.6	6.8	-0.8	73.0	-3.9
	2023	-0.2	-0.2	1.2	-2.0	-0.5	-1.0	5.5	4.0	7.0	-2.5	72.1	-4.0
	2024	0.9	1.0	0.5	2.0	1.5	2.0	2.1	3.5	6.8	-1.7	72.4	-3.0

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	2.8	-0.6	-0.2	7.2	8.2	8.0	5.2	3.6	-4.2	124.0	-3.9
	2023	0.3	0.3	1.5	-5.2	1.0	-5.7	4.2	4.0	4.0	-3.8	121.0	-3.1
	2024	0.9	0.8	1.3	1.5	1.2	1.7	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	24-Mar	5.00	5.08	3.88	3.29	107.3	-	694.2	1057.2	1044.5
	+3m	5.25	5.40	5.10	3.85	104.0	-	715.6	1076.9	1057.7
	+6m	5.25	5.40	4.90	3.65	102.0	-	729.9	1058.8	1098.0
	+12m	5.25	5.00	4.70	3.45	102.0	-	730.4	1039.2	1117.6
EUR	24-Mar	3.00	3.03	3.12	2.79	-	107.3	745.2	1134.8	1121.2
	+3m	3.75	4.08	3.45	3.25	-	104.0	744.3	1120.0	1100.0
	+6m	4.00	4.16	3.20	3.10	-	102.0	744.5	1080.0	1120.0
	+12m	4.00	4.13	3.00	2.90	-	102.0	745.0	1060.0	1140.0
JPY	24-Mar	-0.10	-0.03	-	-	120.5	130.0	6.18	9.42	9.30
	+3m	-0.10	-	-	-	130.0	125.0	5.73	8.62	8.46
	+6m	0.10	-	-	-	127.5	125.0	5.84	8.47	8.78
	+12m	0.10	-	-	-	127.5	125.0	5.84	8.31	8.94
GBP*	24-Mar	4.25	-	3.86	3.14	87.9	122.1	847.9	1291.2	1275.8
	+3m	4.50	-	4.10	3.40	88.0	118.2	845.7	1272.7	1250.0
	+6m	4.50	-	4.10	3.40	88.0	115.9	846.0	1227.3	1272.7
	+12m	4.25	-	3.90	3.30	88.0	115.9	846.6	1204.5	1295.5
CHF*	24-Mar	1.50	-	1.58	1.75	98.7	91.9	755.1	1150.0	1136.2
	+3m	1.75	-	-	-	98.0	94.2	759.4	1142.9	1122.4
	+6m	1.75	-	-	-	97.0	95.1	767.5	1113.4	1154.6
	+12m	1.75	-	-	-	97.0	95.1	768.0	1092.8	1175.3
DKK	24-Mar	2.60	3.11	3.30	2.95	745.16	694.22	-	152.28	150.46
	+3m	3.35	3.77	3.60	3.40	744.25	715.63	-	150.49	147.80
	+6m	3.60	3.85	3.35	3.25	744.50	729.90	-	145.06	150.44
	+12m	3.60	3.84	3.15	3.05	745.00	730.39	-	142.28	153.02
SEK	24-Mar	3.00	3.31	3.31	2.72	1121.2	1044.5	66.5	101.2	100.0
	+3m	3.75	4.15	3.65	3.00	1100.0	1057.7	67.7	101.8	-
	+6m	4.25	4.40	3.30	2.80	1120.0	1098.0	66.5	96.4	-
	+12m	4.00	4.00	3.00	2.75	1140.0	1117.6	65.4	93.0	-
NOK	24-Mar	2.75	3.66	3.47	3.00	1134.8	1057.2	65.7	100.0	98.8
	+3m	3.50	3.44	3.45	3.15	1120.0	1076.9	66.5	-	98.2
	+6m	3.50	3.37	3.20	2.85	1080.0	1058.8	68.9	-	103.7
	+12m	3.25	3.20	3.05	2.80	1060.0	1039.2	70.3	-	107.5

*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

	24-Mar	2022				2023				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	73	98	112	105	100	95	95	95	95	104	95

Source Danske Bank

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