

Weekly Focus

A debt ceiling deal in the vicinity?

Markets' focus has been on the debt ceiling negotiations, and while time is running short, the parties seem close to reaching a deal. While risk sentiment recovered towards the end of the week, equities have generally headed lower and yields higher while USD has gained especially vis-à-vis cyclical currencies. Based on the short-end of the US T-bill curve, default worries appear to be concentrated on the first two weeks of June. The first date when the treasury cash balance is expected to decline to dangerously low levels is next Thursday, 1 June, unless Congress can agree on raising the ceiling before then.

And while the negotiations could once again go down to the wire, ultimately we do think a deal will be struck in time to avoid a default. Following the debt ceiling raise, the treasury will soon start rebuilding its cash balance, which is set to tighten USD liquidity conditions towards the latter half of the year. Even so, we see room for the Fed to continue QT into 2024, read more from *FX Strategy - Time to focus on QT and USD liquidity*, 24 May.

On the macro data front, May flash PMIs continued to paint a relatively upbeat picture, although a two-speed one, of the economy. Both growth and inflation pressures are driven by the services sector, with US indices signalling even accelerating growth. That said, we still expect growth to weaken towards H2, which we are also increasingly seeing in our quantitative business cycle model *MacroScope: recovery stalling*, 25 May.

FOMC May minutes illustrated divided views among the participants. Fed's recent commentary has highlighted that the doves, and not least Powell, prefer a more cautious stance going forward, while the hawks found it 'crucial' to underscore that cuts would not be likely this year and that further hikes could not be ruled out. Markets have almost fully priced in one more 25bp Fed hike by the July meeting and while we do not expect it to materialize, we see no room for cuts this year either.

Over the weekend, the Turkish presidential election run-off will take place between the opposition candidate Kemal Kilicdaroglu and the incumbent president Recep Tayyip Erdoğan, who stands out as a favourite after nearly clinching the victory on the first round (with 49.5% of votes). We discussed Turkey, the war in Ukraine as well as US-China relations in our monthly *Geopolitical radar - Spring offensive starting in Ukraine*, 22 May.

Next week, the main focus besides the debt ceiling will be on the **euro area flash HICP** data for May, where consensus is looking for a slight moderation in core inflation pressures. On Friday, we expect to see another relative upbeat **US Jobs Report**. So far the signals from leading data have pointed towards healthy employment growth, which could be further supported by a renewed uptick in labour force participation. We think non-farm payrolls grew by a solid 200 thousand, and besides employment, markets will closely follow if the April uptick in average hourly earnings growth has persisted into May.

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.
- ECB to deliver 3 more 25bp hikes, while the Fed is on hold for the rest of the year.

Key market movers

- Sunday: Turkish presidential election run-off
- Wednesday: China NBS PMIs, German Inflation, US JOLTs
- Thursday: China Caixin Manf. PMI, EA Flash HICP, US ADP & ISM Manf.
- Friday: US Jobs Report

Selected reading from Danske Bank

- *Geopolitical radar - Spring offensive starting in Ukraine*, 22 May
- *MacroScope: recovery stalling*, 25 May.

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Scandi market movers

- After a relatively strong start to the year, the pick-up in retailing has been replaced by some weakness, and we expect to see a modest decline in real terms when April's retail sales figures arrive on Tuesday – perhaps indicating that while consumption in general bottomed out at the end of 2022, we are not going to experience a particularly robust recovery.

Final unemployment figures for April are due on Wednesday. April's unemployment indicator pointed to a decline of 200 in the number of unemployed persons, which is effectively zero, given the statistical uncertainty.

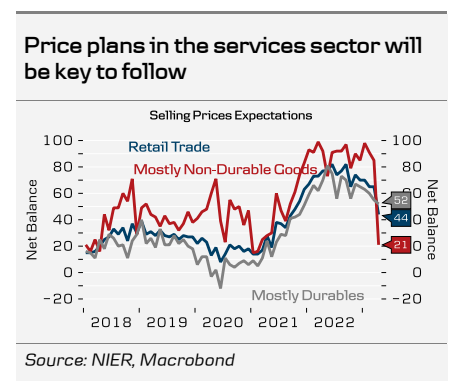
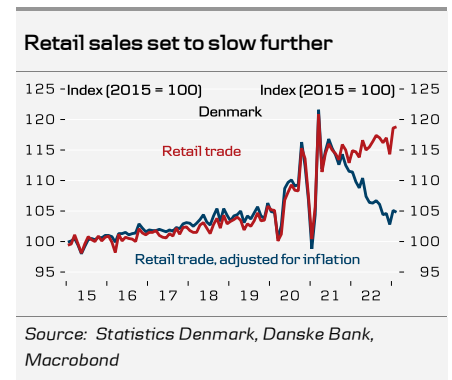
Initial National accounts figures for Q1 23 are due on the same day. The GDP indicator showed growth of 0.3%, and now we will see what the driving forces were. Pharmaceutical production and consumer services have looked strong.

Friday is scheduled to bring FX reserve figures from Danmarks Nationalbank. May has been a calm month for the DKK, and we do not expect the central bank had reason to intervene in FX markets.

- In Sweden, the revised GDP figure for Q1 will be released. The GDP indicator has indicated a quarterly and yearly growth of +0.2%, which is much higher than our forecast of -1% q/q in the *Nordic Outlook* report in April. If there are no significant revisions, this suggests that the Swedish economy is on track to avoid a recession in 2023, assuming no other changes are made to our forecasts for Q2-Q4. However, the economy remains divided, with pressure on households and the housing market, while the production side and labour markets continue to do OK. Since this data pertains to Q1 and is therefore more backward-looking, both the NIER survey and PMI figures also out next week will be very interesting, as they provide more forward-looking information.

Both the NIER and PMI surveys have presented a somewhat mixed picture so far. The PMI's have held up relatively well, especially in the services sector, whereas the NIER survey indicates the opposite, with better-than-normal sentiment among manufacturers but pressure on the services sector. The NIER survey covers a broader range of businesses with a heavier focus on consumer activity, which likely explains the divergences. In addition to overall sentiment, we will pay special attention to price plans. Manufacturing prices have been trending lower for about a year, while price plans have been more resilient in the services sector. The development of these will most likely be the most interesting, giving some more clues on how fast the inflation will move lower. We will also look out for hiring plans, household sentiment, and the order inflow.

Furthermore, there will be an open hearing with the Board of the Riksbank on monetary policy for 2022. Although this discussion will be largely backward-looking, it might provide some comments or clues regarding their perspective on the latest inflation data or the weakness of the SEK.



- In **Norway**, the labour market remains tight but is showing some signs of weakening. New job openings are down, and the number of jobless has begun to edge up. Short-term unemployment too has begun to climb, which is often a harbinger of rising unemployment further ahead. We expect this trend to have continued in May, but with the seasonally adjusted jobless rate unchanged at 1.8%. After trending down for the whole of last year, the manufacturing PMI has rallied over the past couple of months and was back above 50 in April, pointing to increasing activity. This contrasts with global PMIs, which have generally fallen further into recessionary territory in recent months. This could be down to higher activity in oil services in Norway, but could also just be noise. Our best guess is that the PMI will hold steady around 51.0. There is also a lot of interest ahead of Norges Bank's announcement of daily currency purchases on behalf of the oil fund (GPFG). Based on the updated estimates in the revised budget, we now expect the central bank to sell the equivalent of NOK 1.7-1.8bn a day in June, up from NOK 1.4bn in May.

Unemployment edging up



Source: Macrobond, Danske Bank

Scandi update

Denmark – Labour market remains very tight

Wage earner employment numbers rose by 4,800 in March, so yet another strong month, even if February’s figures were at the same time revised down by 1,800. The number of people in work increased despite many areas of the economy experiencing a slowdown. One explanation is presumably the widespread shortage of labour that many employers have experienced for the past many months, which has likely prompted them both to hold onto their workforce and to employ more when the chance has arisen. This pattern could well continue for some time yet, but sooner or later we should expect the slowdown to materialise in the labour market too.

Business confidence figures show that the mood of the corporate sector picked up considerably in the past month, though it remains less than stellar. The industrial sector in particular seems more buoyant, though we should not draw sweeping conclusions, as there is a huge difference between the producers of industrial machinery and pharmaceuticals, for example. The confidence measures also gave an indication of the tightness of the labour market right now. Industry has become considerably more optimistic on employment in the coming months, while both the service sector and construction continue to face massive shortages of labour – a problem that only became more acute in the past month. The tight labour market inevitably points to further inflation pressures in Denmark. Conversely, we had some positive inflation news from retailers, who have suddenly cut their price expectations markedly for the coming three months, with just 9% of companies (seasonally adjusted) now expecting to raise prices further compared to 43% in April.

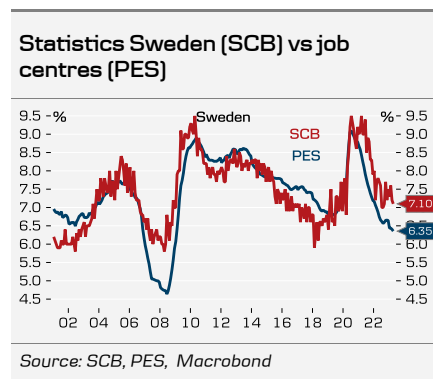
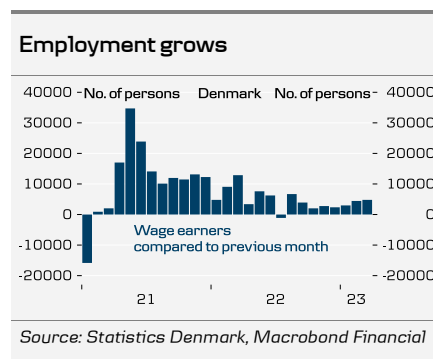
Consumer confidence, meanwhile, rose to -15.1 from -18.2, so the gradual improvement continues – this time pulled higher by the state of the national economy and expectations for the coming year.

Sweden – The labour market still doing fine

According to the Labour Force Survey out this week, the unemployment rate dropped further in April to 7.1% s.a from earlier 7.2% s.a, pointing in the same direction as PES figures did as well. Both hours worked and the employment rate increased at the same time as the labour force ticked slightly higher. So all in all, the labour market remains strong, hiring plans in the NIER survey are out next week and it will be interesting to see if this trend has continued during May.

Norway – Retail sales down further in April

Retail sales fell 1.2% m/m in April, suggesting that the downward trend may be accelerating. While spending data for March and April are always prone to greater seasonal variations due to the timing of Easter, it would not be surprising to see the combination of negative real wage growth and higher interest rates ending up hitting private consumption hard. We would, however, have to see some of the same weakness in consumption of services for this to affect monetary policy.



Calendar – 29 May – 2 June 2023

Monday, May 29, 2023				Period	Danske Bank	Consensus	Previous
7:00	JPY	Leading economic index, final	Index	Mar			97.7
8:00	SEK	Household lending	y/y	Apr			2.3%
Tuesday, May 30, 2023				Period	Danske Bank	Consensus	Previous
1:30	JPY	Unemployment rate	%	Apr		2.7%	2.8%
1:30	JPY	Job-to-applicant ratio		Apr		1.32	1.32
8:00	DKK	Retail sales	m/mly/y	Apr			-1.5% -4.6%
8:00	SEK	GDP	q/qly/y	1st quarter	0.2%	0.2% 0.2%	-0.5% -0.2%
8:00	SEK	Wages (blue collars/white collars)	y/y	Mar			3.3%
8:00	SEK	Trade balance	SEK bn	Apr			6.9
9:00	SEK	Consumer confidence	Index	May			65.1
9:00	SEK	Economic Tendency Survey	Index	May			87.3
9:00	SEK	Manufacturing confidence	Index	May			101.6
9:00	ESP	HICP, preliminary	m/mly/y	May		0.3% 3.4%	0.5% 3.8%
9:00	CHF	GDP	q/qly/y	1st quarter		0.1% 0.6%	0.0% 0.8%
9:00	CHF	KOF leading indicator	Index	May		96.0	96.4
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Apr		2.0%	2.5%
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Apr		2.0%	2.5%
10:00	EUR	Money supply (M3)	y/y	Apr		2.0%	2.5%
11:00	EUR	Service confidence	Net bal.	May		10.3	10.5
11:00	EUR	Industrial confidence	Net bal.	May		-3.0	-2.6
11:00	EUR	Economic confidence	Index	May		99.0	99.3
11:00	EUR	Consumer confidence, final	Net bal.	May			-17.4
15:00	USD	FHFA house price index	m/m	Mar		0.3%	0.5%
16:00	USD	Conference Board consumer confidence	Index	May		99.9	101.3
19:00	USD	Fed's Barkin speaks					
Wednesday, May 31, 2023				Period	Danske Bank	Consensus	Previous
-	EUR	Ireland, GDP, final	q/qly/y	1st quarter			-2.7% 6.4%
1:50	JPY	Industrial production, preliminary	m/mly/y	Apr		1.4% 1.9%	1.1% -0.6%
1:50	JPY	Retail trade	m/mly/y	Apr		0.6% 7.1%	0.3% 6.9%
3:30	CNY	PMI manufacturing	Index	May		49.5	49.2
3:30	CNY	PMI non-manufacturing	Index	May		55.0	56.4
7:00	JPY	Consumer confidence	Index	May		36.0	35.4
8:00	DKK	Gross unemployment s.a.	K (%)	Apr	-200 (2.8%)		2.80%
8:00	DKK	GDP, preliminary	q/qly/y	1st quarter	0.3%		0.6% ...
8:45	FRF	Household consumption	m/mly/y	Apr		0.3% ...	-1.3% -4.2%
8:45	FRF	HICP, preliminary	m/mly/y	May		0.3% 6.4%	0.7% 6.9%
8:45	FRF	GDP, final	q/qly/y	1st quarter		0.2% 0.8%	0.2% 0.8%
9:55	DEM	Unemployment	%	May		5.6%	5.6%
10:00	ITL	GDP, final	q/qly/y	1st quarter		0.5% 1.8%	0.5% 1.8%
10:00	NOK	Norges Bank's daily FX purchases	m	Jun		1400	1400
11:00	ITL	HICP, preliminary	m/mly/y	May		-0.2% 7.6%	0.9% 8.7%
12:00	EUR	Portugal, GDP, final	q/qly/y	1st quarter			1.6% 2.5%
14:00	DEM	HICP, preliminary	m/mly/y	May		0.3% 6.8%	0.6% 7.6%
14:30	CAD	GDP	m/mly/y	Mar		-0.1% 1.7%	0.1% 2.5%
14:50	USD	Fed's Bowman speaks					
15:45	USD	Chicago PMI	Index	May		47.5	48.6
Thursday, June 1, 2023				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	May		15.3	15.9
2:30	JPY	Nikkei Manufacturing PMI, final	Index	May			50.8
3:45	CNY	Caixin PMI manufacturing	Index	May		49.5	49.5
8:00	DEM	Retail sales	m/mly/y	Apr		1.0% -5.8%	-2.2% -6.2%
8:30	SEK	PMI manufacturing	Index	May			45.5
9:15	ESP	PMI manufacturing	Index	May		47.9	49.0
9:45	ITL	PMI manufacturing	Index	May		45.9	46.8
9:50	FRF	PMI manufacturing, final	Index	May		46.1	46.1
9:55	DEM	PMI manufacturing, final	Index	May		42.9	42.9
10:00	EUR	PMI manufacturing, final	Index	May		44.6	44.6
10:00	NOK	PMI manufacturing	Index	May	50.8		51.2
10:30	GBP	PMI manufacturing, final	Index	May		46.9	46.9
11:00	EUR	Unemployment	%	Apr		6.5%	6.5%
11:00	EUR	HICP inflation, preliminary	m/mly/y	May		0.2% ...	0.6% ...
11:00	EUR	HICP - core inflation, preliminary	y/y	May	5.4%	5.5%	5.6%
11:00	EUR	HICP inflation, preliminary	y/y	May	6.4%	6.3%	7.0%
14:15	USD	ADP employment	1000	May		160	296
14:30	USD	Unit labour cost, final	q/q	1st quarter		6.3%	6.3%
14:30	USD	Initial jobless claims	1000				229
15:30	CAD	RBC manufacturing PMI	Index	May			50.2
15:45	USD	Markit PMI manufacturing, final	Index	May			48.5
16:00	USD	Construction spending	m/m	Apr		0.2%	0.3%
16:00	USD	ISM manufacturing	Index	May		47.0	47.1
17:00	USD	DOE U.S. crude oil inventories	K				-12456
19:00	USD	Fed's Harker speaks					
Friday, June 2, 2023				Period	Danske Bank	Consensus	Previous
-	EUR	France's debt rating (S&P)					
-	EUR	Finland's debt rating (Moody's)					
8:00	SEK	Current account	SEK bn	1st quarter			85
8:45	FRF	Industrial production	m/mly/y	Apr		0.2% 1.2%	-1.1% -0.1%
10:00	NOK	Unemployment	%	May	1.8%	1.7%	1.8%
14:30	USD	Unemployment	%	May		3.5%	3.4%
14:30	USD	Average hourly earnings, non-farm	m/mly/y	May		0.3% 4.3%	0.5% 4.4%
14:30	USD	Non farm payrolls	1000	May	200	180	253
17:00	DKK	Currency reserves	DKK bn	May			603

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	3.8	-2.4	-3.5	8.6	8.6	4.2	7.7	3.6	2.6	3.3	29.8	13.1
	2023	0.5	0.0	-0.4	-5.0	1.3	-2.0	5.1	4.7	3.1	2.0	27.1	11.5
	2024	1.3	1.8	1.6	-1.7	1.3	0.6	3.6	5.0	3.6	1.1	25.1	11.3
Sweden	2022	2.7	2.1	0.0	5.2	6.6	8.7	8.4	2.5	7.5	0.7	33.0	4.6
	2023	-1.0	-2.3	1.1	-2.8	2.0	-0.1	9.6	4.1	8.0	-0.9	29.0	5.7
	2024	1.7	1.8	1.2	2.3	2.8	2.6	2.3	3.3	7.9	-0.9	29.0	5.8
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.0	-1.0	1.2	0.5	4.0	3.0	4.8	5.0	2.1	-	-	-
	2024	1.5	0.9	1.7	4.0	2.0	2.0	2.5	4.0	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	1.4	3.8	7.1	8.0	8.4	4.5	6.7	-3.6	93.2	0.6
	2023	0.4	-0.1	1.2	-0.8	3.4	3.4	6.3	4.9	6.9	-3.2	90.9	2.2
	2024	0.6	1.2	1.0	0.2	3.6	4.6	3.5	3.6	7.0	-3.0	90.1	2.4
Finland	2022	2.1	2.1	2.9	5.0	1.7	7.5	7.1	2.4	6.8	-0.9	73.0	-3.9
	2023	-0.2	-0.2	1.2	-2.0	-0.5	-1.0	5.5	4.1	7.0	-2.5	72.1	-1.4
	2024	0.9	1.0	0.5	2.0	1.5	2.0	2.1	3.7	6.8	-1.7	72.4	-1.0

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	2.7	-0.6	-0.2	7.1	8.1	8.0	5.3	3.6	-5.5	123.3	-3.9
	2023	0.8	0.7	1.7	-5.5	-0.3	-5.5	4.1	4.1	3.7	-5.4	123.6	-3.1
	2024	0.3	0.4	1.3	-1.5	-1.9	-1.9	2.1	3.2	4.2	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	-	-7.5	77.1	2.3
	2023	6.2	7.0	-	6.0	-	-	2.2	-	-	-6.9	82.4	1.4
	2024	5.0	5.2	-	4.8	-	-	2.5	-	-	-6.4	87.2	1.1
UK	2022	4.2	-	-	-	-	-	8.9	-	3.8	-	-	-
	2023	-0.7	-	-	-	-	-	6.2	-	4.4	-	-	-
	2024	0.8	-	-	-	-	-	2.6	-	5.0	-	-	-

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	26-May	5.25	5.42	4.69	3.81	107.5	-	693.0	1099.7	1072.4
	+3m	5.25	5.40	4.00	3.45	107.0	-	695.8	1093.5	1046.7
	+6m	5.25	5.35	3.70	3.45	106.0	-	702.4	1066.0	1066.0
	+12m	5.00	4.82	3.30	3.35	103.0	-	723.3	1048.5	1116.5
EUR	26-May	3.25	3.46	3.66	3.15	-	107.5	744.8	1181.9	1152.5
	+3m	3.75	3.98	3.50	3.05	-	107.0	744.5	1170.0	1120.0
	+6m	4.00	4.02	3.15	2.95	-	106.0	744.5	1130.0	1130.0
	+12m	4.00	3.70	2.85	2.85	-	103.0	745.0	1080.0	1150.0
JPY	26-May	-0.10	-0.03	-	-	120.5	139.8	6.18	9.81	9.56
	+3m	-0.10	-	-	-	141.2	132.0	5.27	8.28	7.93
	+6m	0.10	-	-	-	136.7	129.0	5.44	8.26	8.26
	+12m	0.10	-	-	-	130.8	127.0	5.70	8.26	8.79
GBP*	26-May	4.50	-	5.20	4.26	86.8	123.8	858.1	1361.6	1327.6
	+3m	4.75	-	4.40	4.00	88.0	121.6	846.0	1329.5	1272.7
	+6m	4.75	-	4.30	4.00	88.0	120.5	846.0	1284.1	1284.1
	+12m	4.50	-	4.20	4.00	88.0	117.0	846.6	1227.3	1306.8
CHF*	26-May	1.50	-	1.85	1.97	97.0	90.3	767.6	1218.1	1187.7
	+3m	2.00	-	-	-	97.0	90.7	767.5	1206.2	1154.6
	+6m	2.00	-	-	-	96.0	90.6	775.5	1177.1	1177.1
	+12m	2.00	-	-	-	96.0	93.2	776.0	1125.0	1197.9
DKK	26-May	2.85	3.47	3.77	3.27	744.84	693.03	-	158.68	154.73
	+3m	3.35	3.82	3.65	3.20	744.50	695.79	-	157.15	150.44
	+6m	3.60	3.85	3.30	3.10	744.50	702.36	-	151.78	151.78
	+12m	3.60	3.53	3.00	3.00	745.00	723.30	-	144.97	154.36
SEK	26-May	3.50	3.68	3.73	3.08	1152.5	1072.4	64.6	102.6	100.0
	+3m	4.00	4.10	3.65	2.90	1120.0	1046.7	66.5	104.5	-
	+6m	4.00	4.15	3.30	2.80	1130.0	1066.0	65.9	100.0	-
	+12m	3.75	3.70	3.00	2.75	1150.0	1116.5	64.8	93.9	-
NOK	26-May	3.25	3.88	4.19	3.59	1181.9	1099.7	63.0	100.0	97.5
	+3m	3.50	4.03	4.05	3.35	1170.0	1093.5	63.6	-	95.7
	+6m	3.50	3.84	3.70	3.25	1130.0	1066.0	65.9	-	100.0
	+12m	3.25	3.60	3.35	2.95	1080.0	1048.5	69.0	-	106.5

*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

	26-May	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	77	87	90	85	80	80	80	80	80	86	80

Source Danske Bank

Disclosures

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