

Weekly Focus

Budget risks replace war concerns, for now

The conflict between Israel and Iran has deescalated and a truce seems to hold. This has calmed market fears that Iran might disrupt global energy supplies by hindering traffic through the Strait of Hormuz, and the oil price has declined around 15% since last week's peak, taking it down to levels similar to before Israel's surprise airstrike. Financial markets in general responded relatively calmly to escalation of the conflict, and hence the reaction to the de-escalation has also not been large. Most notably, the USD has come under renewed pressure, also driven by a media story that President Trump might consider replacing Jerome Powell as head of the Federal Reserve before his term ends next year. Trump has very clearly stated his wish for lower interest rates, while Powell this week repeated his view that it is better to wait and see what effect tariffs will have on inflation.

NATO member countries agreed to target defence spending of 3.5% of GDP in 2035, with an additional 1.5% of GDP for defence-and-security related spending. It is unclear how much of the latter will mean higher spending than what already spent, but the former target alone will – if reached – means an additional 1.5% of GDP in spending in the euro area. If a large part of this is financed with new borrowing, as seems likely, it should have a modestly positive effect on European GDP growth in the short term. Over the 10-year implementation period, we expect the impact on GDP to be minimal and the increased demand for defence instead to result in higher interest rates, all else equal. Together with the outlook for easier fiscal policy also in the US, we believe that risks are tilted to the upside for longer bond yields.

In economic data, euro area PMI was slightly to the weak side. It looks like GDP growth declined but remained positive in Q2. The first June inflation data, for Spain and France, was if anything a little higher than expected. US PMI remains somewhat above European, indicating that GDP rebounded in Q2 after the decline in Q1. Consumer confidence disappointed in June and the share of Americans who think jobs are plentiful continues to decline, which has historically been a fairly good indicator of a weakening labour market. As inflation expectations are also easing, sentiment supports the outlook for lower interest rates from the Fed.

In the coming weeks, attention is likely to turn back to US tariffs, as the various postponements of tariff hikes are set to expire, creating deadlines for negotiations. Also, the US budget process for 2026 should be finalised including tax cuts. Economic data, especially for the labour market, should be key in terms of the timing of coming US rate cuts. We will also monitor the ECB's upcoming Sintra Forum (with our colleague Piet Christiansen speaking) for signs of cracks in the internal consensus that rates are at an appropriate level now, although it will take a lot to make a cut at the July monetary policy meeting likely. In China, we expect to see a lift to the economy as US exports rebound, and domestic stimulus increases.

Weekly Focus will be on summer break until 8 August. We wish all readers a happy summer.

Key global views

- The trade war will weigh on the global economy, but we do not forecast a recession
- The Fed will resume cutting in September. ECB set to cut one more time in September

Key market movers over the summer

- Tariff and trade negotiations
- US budget and tax cuts for 2026
- Economic data such as US jobs reports, PMIs, inflation and Japanese Tankan report
- ECB's Sintra Forum with global central bank heads
- FOMC meeting 30 July, ECB meeting 24 July, BoJ meeting 31 July

Selected reading from Danske Bank

- *Navigating the Uncertainty - Trade and foreign policy scenarios for a turbulent autumn*, 26 June
- *Geopolitical Radar: Is it a ceasefire if Trump says so?*, 24 June
- *Yield Outlook - Upside risks dominate*, 24 June
- *FX Forecast Update - NOK remains vulnerable*, 23 June

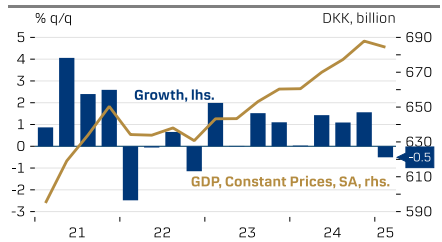
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Scandi market movers

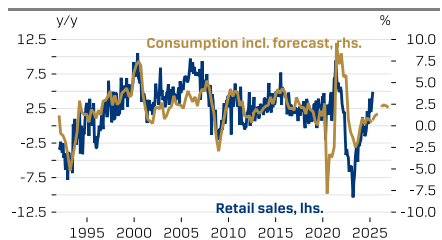
- In **Denmark**, the revised 2025 Q1 national accounts are due on Monday. The first print showed a contraction in GDP of 0.5% q/q. However, the uncertainty surrounding flash releases is always significant, and it will be interesting to see the extent of any revisions on Monday. On Tuesday, we will receive flash private sector earnings for Q2. Nominal earnings rose by 4.4% y/y in Q1. We anticipate substantial nominal wage growth for Q2 2025, which will continue the trend of real wage growth, albeit at a slower pace than observed over the past year and a half. On Friday, the unemployment indicator from the Danish Agency for Labour Market and Recruitment will be released, providing an initial insight into the labour market in June.
- Next week, we will receive retail sales and PMI in **Sweden**. Composite PMI declined slightly in May but still showed a strong figure at 53.6, which is close to the historical average of 54.3 and marks the 10th month in a row above 50. Retail sales in May were unexpectedly strong, suggesting the potential for increased consumption growth. There has been a noticeable gap between household statements and actions, as retail sales have been strong despite weak consumer confidence. However, consumer confidence is beginning to improve, albeit from a low base. Retail sales next week, for May, will provide further clarity on April's strong figures and whether the trend will continue.
- In **Norway**, throughout the monthly fluctuations, an underlying trend in the manufacturing PMI has been pointing downward since this winter. Increased uncertainty around global growth driven by trade conflicts may be one reason, while somewhat lower order intake in the oil industry may be another. In June, global uncertainty should have eased somewhat, while we still believe there is slightly less (but still high) optimism in the oil industries. We therefore believe the PMI rose moderately to 52.0 but are also excited to see whether new orders can be positive for the first time since January.

Flash GDP growth was -0.5% q/q in Q1



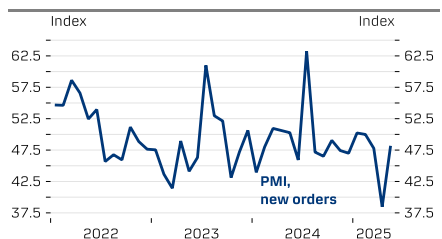
Source: Statistics Denmark, Danske Bank

Retail sales and consumption



Source: Statistics Sweden, Macrobond and Danske Bank.

Manufacturing orders have been weak



Kilde: Macrobond, Danske Bank

Scandi Update

Denmark – rise in retail sales amid declining sector confidence

Retail sales in May increased by 1.0% compared to April (SA). This growth was mainly driven by a 5.6% rise in clothing sales, while other consumer goods saw a 1.0% increase. Food and other everyday commodities experienced a slight rise of 0.1%. Overall, retail sales during the first five months of 2025 were 3.1% higher than in the same period of 2024.

The business confidence indicator, which balances expectations across manufacturing, construction, retail, and services, increased to 103.3 in June from 103.0 in May. Among the underlying confidence indicators, manufacturing increased from 96.3 to 98.4, construction rose from 100.0 to 101.8, retail fell from 101.9 to 95.3, while services increased from 106.1 to 106.9. The overall business confidence is thus supported by improved expectations in three of the four sectors, offsetting the sizeable decline in retail. The indicator remains above its historical average of 100.

The Ministry of Finance significantly revised its assessment of public finances, indicating DKK58bn (in 2025 prices) improvement in 2030 or 1.7% of GDP. This expansion of the so-called fiscal space means that politicians can now plan to increase expenses or reduce revenues accordingly without compromising the goal of a budget deficit of 0.5% of GDP in 2030.

Sweden – Riksbank minutes and the NIER Economic Tendency Indicator

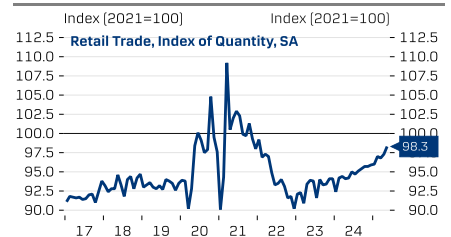
The minutes from the Riksbank's June meeting were consistent with the dovish stance of the Monetary Policy Report (MPR). Although the board members acknowledged the potential inflation risks, they appeared comfortable with the inflation forecast and noted that inflation risks have decreased since the May meeting. The MPR opened for another rate cut later this year. Thedéen commented that the signal in the rate path should not be "over-interpreted", but our assessment is that the Riksbank is prioritising growth recovery.

In June, the NIER Economic Tendency Indicator declined. The Economic Tendency Indicator is a good proxy for Swedish GDP. Hence, the June figure does not give any clear indication of a recovery in growth for Q2 and is thus a downside risk to our (and the Riksbank's) forecast. On a positive note, there was another modest rise in consumer confidence, reinforcing the trend shift from the sharp decline in the first months of the year. Price plans are still elevated but declined from May, now nearing the historical average.

Norway – the labour market is weakening

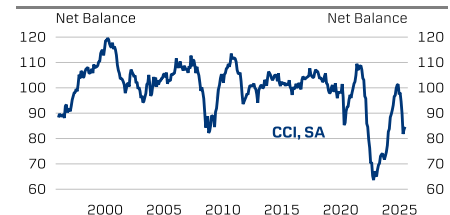
The labour market remains tight, but there is no doubt that it is weakening. The trend-adjusted LFS unemployment rate rose from 4.4% to 4.5% in May and the number of registered unemployed from NAV rose by 700 people in June - to the highest level we have seen since January 2022, after seasonal adjustment. The number of new vacancies also fell in June to the lowest level since September 2023 and although these figures can fluctuate somewhat from month to month, there is no doubt that the trend has turned downward, indicating slightly weaker demand for labour. The figures are well in line with Norges Bank's projections from the Monetary Policy Report and should support signals of another interest rate cut in September.

Retail trade increased by 1.0% May



Source: Statistics Denmark, Danske Bank

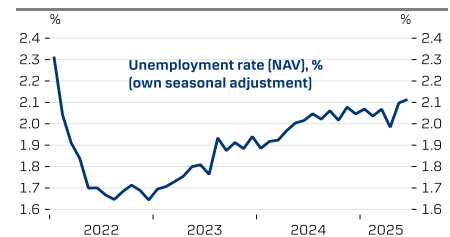
Consumer Confidence Indicator



Källa: Macrobond och Danske Bank

Source: NIER, Macrobond and Danske Bank

Higher unemployment



Source: Boligprodusentenes forening, Danske Bank

Calendar – 30 June – 4 July 2025

This week			Period	Danske Bank	Consensus	Previous
EC	ECB's Schnabel speaks					
June 30, 2025			Period	Danske Bank	Consensus	Previous
JN	Industrial production, preliminary	m/m y/y	May		3.5% 1.6%	-1.1% 0.5%
CH	PMI manufacturing	Index	Jun		49.6	49.5
CH	PMI non-manufacturing	Index	Jun		50.2	50.3
JN	Housing starts	y/y	May		-14.30%	-26.60%
DE	GDP, final	q/q y/y	1st quarter			-0.5% ...
DE	Gross unemployment s.a.	K (%)	May			0.029
DE	GDP, preliminary, final	q/q y/y	1st quarter			-0.5% ...
GE	Retail sales	m/m y/y	May		0.5% ...	-0.9% 4.4%
SW	Retail sales s.a.	m/m y/y	May			0.9% 5.3%
SW	Wages (blue collars/white collars)	y/y	Apr			3.30%
SW	Household lending	y/y	May			2.30%
UK	GDP, final	q/q y/y	1st quarter		0.7% 1.3%	0.7% 1.3%
SZ	KOF leading indicator	Index	Jun		99.4	98.5
EC	Money supply (M3)	y/y	May		4.00%	3.90%
EC	Loans to households (adj. for sales and sec.)	%	May		4.00%	3.90%
EC	Loans to NFCs (adj. for sales and sec.)	%	May		4.00%	3.90%
IT	HICP, preliminary	m/m y/y	Jun		... 1.9%	-0.1% 1.7%
GE	HICP, preliminary	m/m y/y	Jun		0.2% 2.1%	0.2% 2.1%
US	Chicago PMI	Index	Jun		43	40.5
US	Fed's Bostic speaks					
EC	ECB's Lagarde speaks					
July 1, 2025			Period	Danske Bank	Consensus	Previous
US	Total vehicle sales	m	Jun		15.49	15.65
JN	Tankan large manufacturers index (outlook)	Index	2nd quarter		10	12.0 12.0
JN	Tankan large non-manufacturers index (outlook)	Index	2nd quarter		34	35.0 28.0
JN	Nikkei Manufacturing PMI, final	Index	Jun			50.4
CH	Caixin PMI manufacturing	Index	Jun		49.3	48.3
JN	Consumer confidence	Index	Jun		33.5	32.8
NE	S&P may publish Netherlands's debt rating		Jun			49
SW	PMI manufacturing	Index	Jun			53.6
SP	PMI manufacturing	Index	Jun		50.2	50.5
IT	PMI manufacturing	Index	Jun		49.5	49.2
FR	PMI manufacturing, final	Index	Jun		47.8	47.8
GE	PMI manufacturing, final	Index	Jun		49	49
GE	Unemployment	%	Jun		6.40%	6.30%
EC	PMI manufacturing, final	Index	Jun		49.4	49.4
GR	S&P may publish Greece's debt rating, final		Jun			53.2
NO	PMI manufacturing	Index	Jun			51.2
UK	PMI manufacturing, final	Index	Jun		47.7	47.7
EC	HICP inflation, preliminary	m/m y/y	Jun	0.4% 2.1%	0.2% ...	0.0% ...
EC	HICP - core inflation, preliminary	y/y	Jun	2.20%	2.20%	2.30%
EC	ECB's Schnabel speaks					
EC	ECB's Lagarde speaks					
US	Fed chair Powell speaks					
US	Markit PMI manufacturing, final	Index	Jun		52	52
US	ISM manufacturing	Index	Jun		48.8	48.5
US	Construction spending	m/m	May		-0.10%	-0.40%
US	JOLTS Job openings	K	May			7391 7391

Source: Danske Bank

Calendar - 30 June - 4 July 2025

Wednesday, July 2, 2025					Period	Danske Bank	Consensus	Previous
-	PD	Polish central bank rate decision	%			5.25%	5.25%	5.25%
11:00	EC	Unemployment	%	May			6.20%	6.20%
14:15	US	ADP employment	1000	Jun			110	37
15:30	CA	RBC manufacturing PMI	Index	Jun				46.1
16:15	EC	ECB's Lagarde speaks						
16:30	US	DOE U.S. crude oil inventories	K					-5836
17:00	DE	Currency reserves	DKK bn	Jun				660.9
Thursday, July 3, 2025					Period	Danske Bank	Consensus	Previous
02:30	JN	Markit PMI services, final	Index	Jun				51.5
03:45	CH	Caixin PMI service	Index	Jun			51	51.1
08:30	SW	PMI services	Index	Jun				50.8
08:30	SZ	CPI	m/mly/y	Jun			0.1% -0.1%	0.1% -0.1%
09:15	SP	PMI services	Index	Jun			51.1	51.3
09:45	IT	PMI services	Index	Jun			52.9	53.2
09:50	FR	PMI services, final	Index	Jun			48.7	48.7
09:55	GE	PMI services, final	Index	Jun			49.4	49.4
10:00	EC	PMI composite, final	Index	Jun			50.2	50.2
10:00	EC	PMI services, final	Index	Jun			50	50
10:30	UK	PMI services, final	Index	Jun			51.3	51.3
14:30	US	Initial jobless claims	1000					236
14:30	US	Non farm payrolls	1000	Jun	110	120		139
14:30	US	Unemployment	%	Jun	4.20%	4.30%		4.20%
14:30	US	Average hourly earnings, non-farm	m/mly/y	Jun	0.30%	0.3% 3.9%		0.4% 3.9%
14:30	US	Trade balance	USD bn	May		-69.8		-61.6
15:45	US	Markit PMI service, final	Index	Jun				53.1
16:00	US	ISM non-manufacturing	Index	Jun			50.8	49.9
16:00	US	Core capital goods orders, final	%	May				1.70%
17:00	US	Fed's Bostic speaks						
Friday, July 4, 2025					Period	Danske Bank	Consensus	Previous
01:30	JN	Household spending	y/y	May			1.20%	-0.10%
08:00	GE	Factory orders	m/mly/y	May			0.5% 5.9%	0.6% 4.8%
08:45	FR	Industrial production	m/mly/y	May			0.5% ...	-1.4% -2.1%
09:00	SZ	Unemployment	%	Jun				2.90%
10:30	UK	PMI construction	Index	Jun			49	47.9
11:00	EC	PPI	m/mly/y	May				0.7% -2.2%

Source: Danske Bank

Macroeconomic forecast

Scandinavia													
	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Exports ¹	Imports ¹	Inflation ¹	Wage growth ¹	Unem-ploym. ²	Public budget ³	Public debt ³	Current acc. ³
Denmark	2024	3.7	0.9	1.4	2.7	7.5	3.0	1.4	5.2	2.9	4.5	31.1	13.0
	2025	3.2	1.0	3.9	4.7	2.9	5.3	1.5	3.6	2.9	2.2	28.7	12.6
	2026	2.5	2.1	0.6	2.7	3.4	2.6	1.6	3.3	3.0	2.0	27.1	12.6
Sweden	2024	1.0	0.7	1.2	0.2	2.0	2.2	1.5	4.1	8.4	-	33.0	-
	2025	1.6	1.1	0.8	-0.2	4.5	2.6	2.3	3.6	8.7	-	34.0	-
	2026	2.5	2.3	1.8	3.9	3.0	3.5	1.9	3.4	8.2	-	34.4	-
Norway	2024	0.6	1.4	2.4	-1.4	5.2	4.3	3.1	5.7	2.0	-	-	-
	2025	1.7	2.8	3.0	1.4	-0.5	2.2	2.7	4.4	2.2	-	-	-
	2026	1.6	2.5	1.5	1.5	1.0	1.8	2.3	3.7	2.3	-	-	-
Euroland													
	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Exports ¹	Imports ¹	Inflation ¹	Wage growth ¹	Unem-ploym. ²	Public budget ³	Public debt ³	Current acc. ³
Euro area	2024	0.8	1.1	2.5	-1.8	1.0	0.1	2.4	4.1	6.4	-3.0	89.1	3.0
	2025	0.9	1.4	1.6	0.8	0.9	1.2	2.1	3.2	6.2	-3.3	89.9	2.9
	2026	1.2	1.0	1.2	1.6	1.8	1.8	1.9	2.8	6.1	-3.2	91.0	2.9
Finland	2024	-0.1	-0.1	0.7	-7.1	0.1	-2.4	1.6	3.1	8.4	-4.4	82.0	0.0
	2025	0.9	0.5	0.1	1.2	1.0	1.1	0.7	3.1	8.8	-4.0	85.2	0.2
	2026	1.7	1.5	0.5	6.5	3.0	4.5	1.5	3.4	8.0	-2.9	86.4	0.2
Global													
	Year	GDP ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Exports ¹	Imports ¹	Inflation ¹	Wage growth ¹	Unem-ploym. ²	Public budget ³	Public debt ³	Current acc. ³
USA	2024	2.8	2.8	3.4	3.7	3.3	5.3	3.0	3.9	4.0	-6.7	123.1	-3.3
	2025	1.5	1.8	2.4	2.6	1.5	6.5	2.8	3.5	4.4	-6.5	125.1	-3.1
	2026	1.3	1.0	2.3	2.8	2.3	2.7	2.6	3.5	4.3	-7.0	128.0	-3.0
China	2024	5.0	4.5	-	5.0	-	-	0.2	-	5.1	-7.3	88.3	2.3
	2025	4.7	4.8	-	5.0	-	-	1.0	-	5.1	-9.1	96.8	1.7
	2026	4.8	5.0	-	5.2	-	-	1.5	-	5.1	-9.0	102.8	1.5
UK	2024	0.9	-	-	-	-	-	2.5	-	4.3	-	-	-
	2025	1.0	-	-	-	-	-	2.5	-	4.7	-	-	-
	2026	1.5	-	-	-	-	-	2.1	-	4.6	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % of labour force. 3) % 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-Jun	4.50	-	3.77	3.96	0.85	-	6.37	10.06	9.48
	+3m	4.25	-	3.60	3.90	0.85	-	6.32	10.00	9.41
	+6m	4.00	-	3.45	3.90	0.83	-	6.21	10.00	9.33
	+12m	3.50	-	3.25	3.85	0.82	-	6.11	10.00	9.26
EUR	26-Jun	2.00	1.98	1.97	2.55	-	1.17	7.4612	11.78	11.10
	+3m	1.75	1.80	2.05	2.50	-	1.18	7.4575	11.80	11.10
	+6m	1.75	1.80	2.05	2.50	-	1.20	7.4550	12.00	11.20
	+12m	1.75	1.80	2.05	2.50	-	1.22	7.4550	12.20	11.30
JPY	26-Jun	0.50	-	-	-	0.006	0.007	4.41	6.97	6.57
	+3m	0.50	-	-	-	0.006	0.007	4.45	7.04	6.62
	+6m	0.75	-	-	-	0.006	0.007	4.47	7.19	6.71
	+12m	1.00	-	-	-	0.006	0.007	4.53	7.41	6.86
GBP*	26-Jun	4.25	-	3.62	3.99	1.17	1.37	8.75	13.82	13.03
	+3m	4.00	-	3.65	3.95	1.16	1.37	8.67	13.72	12.91
	+6m	3.75	-	3.50	3.85	1.15	1.38	8.57	13.79	12.87
	+12m	3.25	-	3.30	3.80	1.15	1.40	8.57	14.02	12.99
CHF	26-Jun	0.00	-	-	-	1.07	1.25	7.96	12.57	11.85
	+3m	0.00	-	-	-	1.09	1.28	8.11	12.83	12.07
	+6m	0.00	-	-	-	1.10	1.32	8.19	13.19	12.31
	+12m	0.00	-	-	-	1.10	1.34	8.19	13.41	12.42
DKK	26-Jun	1.60	1.95	2.06	2.72	0.134	0.157	-	1.58	1.49
	+3m	1.35	1.75	2.20	2.70	0.134	0.158	-	1.58	1.49
	+6m	1.35	1.75	2.20	2.70	0.134	0.161	-	1.61	1.50
	+12m	1.35	1.75	2.20	2.70	0.134	0.164	-	1.64	1.52
SEK	26-Jun	2.00	2.16	1.94	2.55	0.090	0.105	0.67	1.06	-
	+3m	2.00	2.12	2.00	2.75	0.090	0.106	0.67	1.06	-
	+6m	2.00	2.12	2.15	2.85	0.089	0.107	0.67	1.07	-
	+12m	2.00	2.13	2.10	2.95	0.088	0.108	0.66	1.08	-
NOK	26-Jun	4.25	4.46	3.92	3.83	0.085	0.099	0.63	-	0.94
	+3m	4.00	4.04	3.85	3.90	0.085	0.100	0.63	-	0.94
	+6m	3.75	3.80	3.70	3.85	0.083	0.100	0.62	-	0.93
	+12m	3.25	3.30	3.55	3.75	0.082	0.100	0.61	-	0.93

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

Commodities

		2024				2025				2026	Average		
	26-Jun	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Y	2024	2025	2026
ICE Brent	67	82	85	79	74	75	70	80	85	90	80	78	90

Source Danske Bank

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