

Weekly Focus

Peak of hiking pace

We saw flatter yield curves this week on a string of weaker than expected US data releases. Particularly the housing market is increasingly getting attention as the surge in mortgage rates weighs heavily, with new home sales down 10.9% in September, and also prices trending lower, which could soon be reflected in consumer demand. This also weakened the dollar which traded back around parity vs. euro as markets start to price in a potentially slowing of the tightening pace from the Fed. The tendency in equity markets that “bad data is good data” as long as yields drop continued, and stocks overall had a good week.

As widely expected, the ECB hiked its policy rate by 75bp and guides markets for further rate increases ahead. ECB will set the hiking pace with the economic outlook in mind, which is a clear indication of a slowing hiking cycle, and the market also priced out some almost 25bp of ECB hikes. The ECB also announced changes to the TLTRO terms, which will cause a significant drop in excess liquidity already from 23 November. Danmarks Nationalbank followed suit but only with 60bp in order to lift EUR/DKK off the low levels for good.

The economic contraction in the euro area continued for the fourth consecutive month, with October PMI declining further to 47.1. The contraction was driven particularly by a weaker than expected manufacturing sector. Germany is probably the weakest link, and Ifo data also confirms that Germany is headed for recession in H2. Supply bottlenecks do in fact show further signs of easing, but the weaker demand environment does not yet seem to have weakened firms' pricing power noticeably, which leaves inflation pressures high.

After continuous weakening of the yen, the Bank of Japan (BoJ) has intervened in the FX market several times during the recent week. At the same time, the BoJ injects yen into the market to defend its yield curve control, while the government prepares a USD 200 billion (4% of GDP) spending package to ease the pain from energy bills.

Next week, the FOMC meeting is the main event for markets. It is too early to turn soft for the Fed, and we look for a 75bp hike and hawkish communication. We also expect to see a relatively strong jobs report later next week. In the UK, the Bank of England will also have to tighten further to bring down inflation and wage growth.

In the euro area, the highlight will be the HICP figures for October. Given strong underlying inflation pressures, we expect core inflation still trending higher to 4.9%, and HICP inflation likely jumping above the 10% mark. GDP figures for Q3 might show that a recession has started to take hold in H2 22, but a late rebound in industrial production amid easing supply bottlenecks leaves upside risks. In China, we will look out for PMI data, and we see some downside risks as weaker exports now add to the headwinds from the property crisis and zero-Covid policy.

Key global views

- Europe in recession in H2 22. We expect a US recession in Q2 2023.
- US inflation has peaked, but to come down only gradually. Euro inflation to stay elevated in Q4 on high electricity prices. Easing pressure from recession, oil, metals, freight and food to pull global inflation lower in 2023.
- Fed to hike by another 150bp this year, then stop. ECB to hike by 50bp in Dec and Feb.

Key market movers

- Mon: EA HICP, Chinese NBS PMIs.
- Tue: US ISM manufacturing, Chinese Caixin PMIs.
- Wed: FOMC meeting
- Thu: BoE, US ISM non-manufac.
- Fri: US jobs report

Selected reading from Danske Bank

- *Research US - Fed preview: Too early for a pivot, 28 Oct*
- *Flash: ECB review, 27 Oct*
- *Flash Comment Denmark - DN 'only' hikes 60bp to end DKK strength, 27 Oct*
- *Research China - CPC Congress cements Xi's power - and US-China rivalry, 24 Oct.*

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Scandi market movers

- In **Denmark**, we should receive September's unemployment figures on Monday. The unemployment indicator from a couple of weeks ago pointed to a decline in unemployment of 1,000 persons. If these preliminary figures hold, unemployment will have fallen for the second month in a row. This comes after unemployment had been on the way up, but these figures bear witness to a still very robust demand for labour. In the slightly longer term, we expect the slowdown in the Danish economy to also hit the labour market, and then unemployment will likely begin to rise.

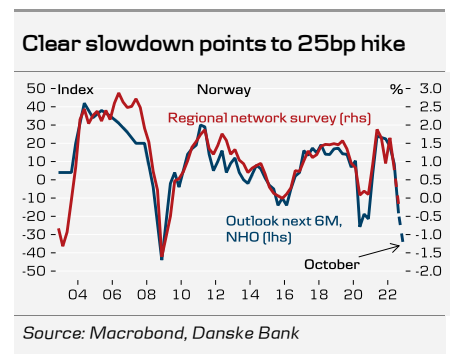
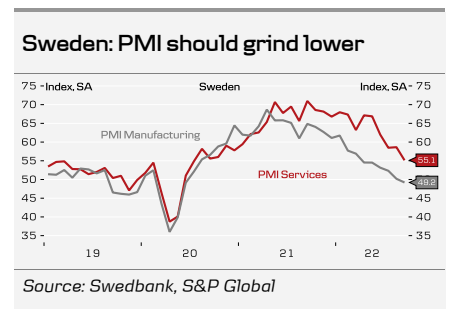
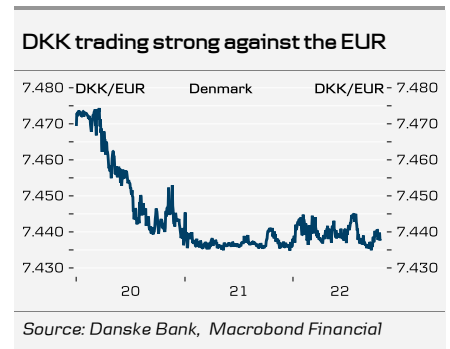
Movements in Denmark's FX reserves in October are set to be revealed on Wednesday. The DKK is currently trading strong against the EUR, and in September Denmark's Nationalbank had to intervene to the tune of DKK23bn to slow its progress. Previously, interventions on such a scale quickly triggered a unilateral rate cut. And indeed the Danish central bank reacted this week by raising its benchmark rate by just 60 basis points, whereas the ECB hiked interest rates by 75 basis points. We therefore expect the data to show that Denmark's Nationalbank had to intervene again and sell DKK to prevent the currency from strengthening in October.

- The agenda is pretty thin in **Sweden**, October PMI is the only thing of interest in terms of data points. We expect in particular Swedish manufacturing PMI to follow the German ditto lower, driven by weaker order intake. The Swedish services PMI is less connected to foreign activity but should nevertheless not be able to escape the pinch from slowing global activity. Services are after all dependent on manufacturing demand.

- In **Norway**, Norges Bank indicated in September that it would most likely raise its policy rate by 25bp at its next meeting on 3 November. Since then, inflation has once again surprised to the upside, with core inflation climbing to 5.3% y/y in September, higher than the expected 5.0%. There has therefore been speculation that Norges Bank will go for a "double hike" of 50bp despite its signals in September. This is probably based largely on the central bank's reaction to the surprise jump in inflation in July. However, we see at least three ways in which the current situation is different to that in July/August:

- The policy rate has risen 150bp in three months and is now 50bp above what Norges Bank considers the neutral rate. In July, it was 50bp below the neutral rate.
- There are clear signs of growth slowing, and capacity utilisation has fallen. In June/July, there were still signs of acceleration, and capacity utilisation was still rising.
- Inflation was only 0.25pp higher than forecast in September, as against 1.3pp in July.

We therefore expect Norges Bank to stick to its plan of raising the policy rate by 25bp. While we would not completely rule out a 50bp hike, we consider the chances of this to be down around 20%. We also expect the bank to signal a further rate increase in December, again of 25bp. On the other hand, we are now looking at quite a sharp economic slowdown, with unemployment also now beginning to climb, and so we expect Norges Bank to go on hold after the December meeting.



Scandi update

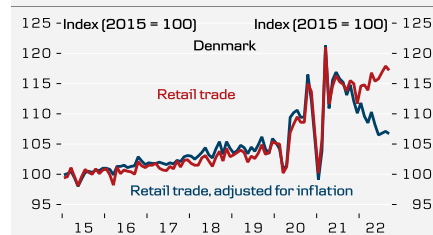
Denmark – Central bank raises benchmark interest rate, but by less than the ECB

Danmarks Nationalbank raised its benchmark interest rate by 0.60 percentage points to 1.25% this week. The hike comes in the wake of the ECB increasing its monetary policy rate by 0.75 percentage points. Danmarks Nationalbank normally moves in lockstep when the ECB changes interest rates in order to maintain the EUR/DKK exchange rate, but this time the Danish central bank opted for a smaller rate hike due to the strength of the Danish krone. Interest rates being 0.15 percentage points higher or lower do not make much difference to the Danish economy, which is in any case likely heading for a noticeable slowdown due to both increasing interest rates and a deterioration in consumer purchasing power. And the hiking cycle is probably not finished yet. While the ECB placed a little more emphasis on the negative economic outlook, causing market expectations for future increases in interest rates to decline, more rate hikes going forward seems a relatively safe bet.

The amount of money Danes spent in the retail sector fell by 0.6% in September relative to the previous month. Taking into account price growth, the decline was a more modest 0.4%. Since December, Danes have increased their monthly shopping spend by 4.9% in DKK terms, though they get 3.1% less for their money after adjusting for strongly rising prices. While consumer confidence is at an all-time low, we do not see consumers spending decidedly less money and instead adding more to their savings. On the other hand, consumer spending has not throttled up to such an extent that Danes can continue to buy the same goods even though prices have increased. In fact, there is a clear tendency towards Danes adapting by buying fewer of the items that have risen most in price. For example, we have seen Danes increasingly saving on groceries that have risen sharply in price by shopping at discount stores. Clothing sales have, in contrast, fared better, perhaps because this is a category of goods where price increases have been more modest.

Business confidence figures show deteriorating views on the economy across the business community, with the exception of construction, where the mood was already very negative, however. The slowdown is starting to have a noticeable impact on Danish companies, even though we cannot yet see this in, for example, unemployment figures. Both manufacturing and construction are now clearly in negative territory, while the retail sector has extremely gloomy expectations. In contrast, the service sector remains reasonably upbeat, which is some consolation, as this sector accounts for the majority of jobs. Inflation does not look set to fall by itself, as 70% expect to hike prices in the coming months, while very few expect to do the opposite. However, another aspect of this story is retailers also reporting very large and growing inventories.

Retail sales retreat a little in September



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sweden – Economic sentiment strengthen the view of a decline in GDP coming quarters

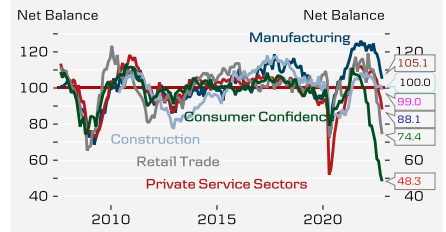
The economic sentiment among both businesses and consumers continues to broadly deteriorate. Confidence plunged among all sectors and the manufacturing industry is the only one above 100 i.e. in growth territory while especially retail trade and private services took a large jump down. Also the order inflow fell quite sharply, both from the domestic market but also export orders, in line with Euro Area PMI's out earlier during the week. Also hiring plans continued to deteriorate and both retail trade and construction will reduce the work force in coming months. On the consumer side, the overall indicator continues even further down at the same time as the risk for being unemployed increase which probably reflects the recent headlines in Swedish media with more and more layoffs in different industries. It is also worth noting that labour shortages decreased in all sectors but is still at a high level.

Price expectations still at a high level while consumers planned purchases from here is at record low and profitability in retail trade are falling quite sharply. This limits the room for raising prices from here. All in all, confidence numbers out this week strengthen the view that the economy will take a large hit coming months.

Norway – Labour market at tipping point

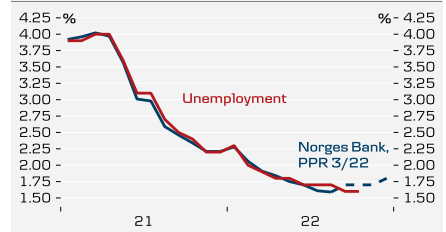
Both employment and unemployment have so far been relatively unaffected by the much weaker growth outlook. We think the sharp pressure now being seen on profitability will gradually force firms to adjust their staffing, pushing up the jobless rate. The LFS is also showing employment starting to level off. While registered unemployment was unchanged at 1.6% in October, short-term unemployment has begun to rise, which is normally a reliable sign of a shift in the labour market, and new vacancies are continuing to fall.

Very gloomy outlook from here



Source: NIER, Mactobond

Unemployment bottoming out



Source: Macrobond Financial, Danske Bank

Calendar – 31 October – 4 November 2022

Monday, October 31, 2022

				Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/mly/y	Sep		-0.5% 3.4%	-1.8% -1.7%
0:50	JPY	Industrial production, preliminary	m/mly/y	Sep		-0.8% 10.5%	3.4% 5.8%
0:50	JPY	Retail trade	m/mly/y	Sep		0.6% 3.9%	1.3% 4.1%
2:30	CNY	PMI manufacturing	Index	Oct		49.7	50.1
2:30	CNY	PMI non-manufacturing	Index	Oct		50.1	50.6
6:00	JPY	Consumer confidence	Index	Oct		31.3	30.8
8:00	SEK	Wages (blue collars/white collars)	y/y	Aug			3.1%
8:00	NOK	Credit indicator (C2)	y/y	Sep			5.2%
8:00	DKK	Gross unemployment s.a.	K (%)	Sep			0.027
10:00	NOK	Norges Bank's daily FX purchases	m	Nov			4300
10:00	ITL	GDP, preliminary	q/qly/y	3rd quarter			1.1% 5.0%
10:30	EUR	Portugal, GDP, preliminary	q/qly/y	3rd quarter			0.0% 7.1%
11:00	EUR	HICP inflation, preliminary	m/mly/y	Oct			1.2%L
11:00	EUR	HICP - core inflation, preliminary	y/y	Oct	5.0%		4.8%
11:00	EUR	HICP inflation, preliminary	y/y	Oct	10.6%		10.0%
11:00	EUR	GDP, preliminary	q/qly/y	3rd quarter	0.3%		0.8% 4.1%
14:45	USD	Chicago PMI	Index	Oct		47.7	45.7

Tuesday, November 1, 2022

				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Oct		14.2	13.49
1:30	JPY	Nikkei Manufacturing PMI, final	Index	Oct			50.7
2:45	CNY	Caixin PMI manufacturing	Index	Oct		48.5	48.1
4:30	AUD	Reserve Bank of Australia rate decision	%		2.85%	2.85%	2.6%
8:30	SEK	PMI manufacturing	Index	Oct			49.2
10:00	NOK	PMI manufacturing	Index	Oct			50.0
10:30	GBP	PMI manufacturing, final	Index	Oct			45.8
14:30	CAD	RBC manufacturing PMI	Index	Oct			49.8
14:45	USD	Markit PMI manufacturing, final	Index	Oct			49.9
15:00	USD	Construction spending	m/m	Sep		-0.5%	-0.7%
15:00	USD	ISM manufacturing	Index	Oct		50.0	50.9
16:00	USD	Fed's George speaks					

Wednesday, November 2, 2022

				Period	Danske Bank	Consensus	Previous
9:15	ESP	PMI manufacturing	Index	Oct			49.0
9:45	ITL	PMI manufacturing	Index	Oct			48.3
9:50	FRF	PMI manufacturing, final	Index	Oct			47.4
9:55	DEM	PMI manufacturing, final	Index	Oct		45.7	45.7
9:55	DEM	Unemployment	%	Oct		5.6%	5.5%
10:00	EUR	PMI manufacturing, final	Index	Oct		46.6	46.6
13:15	USD	ADP employment	1000	Oct		195	208
15:30	USD	DOE U.S. crude oil inventories	K				2588
17:00	DKK	Currency reserves	DKK bn	Oct			554.2
19:00	USD	FOMC meeting	%		4.0%	4.0%	3.25%

Thursday, November 3, 2022

				Period	Danske Bank	Consensus	Previous
2:45	CNY	Caixin PMI service	Index	Oct		48.9	49.3
8:30	CHF	GPI	m/mly/y	Oct		0.2% 3.2%	-0.2% 3.3%
8:30	SEK	PMI services	Index	Oct			55.1
10:00	NOK	Norges Banks monetary policy meeting	%		2.50%		2.25%
10:30	GBP	PMI services, final	Index	Oct			47.5
11:00	EUR	Unemployment	%	Sep		6.6%	6.6%
13:00	GBP	BoE minutes					
13:00	GBP	BoE Bank rate	%			3.0%	2.25%
13:30	USD	Unit labour cost, preliminary	q/q	3rd quarter		3.9%	10.2%
13:30	USD	Trade balance	USD bn	Sep		-68.1	-67.4
13:30	USD	Initial jobless claims	1000				
14:45	USD	Markit PMI service, final	Index	Oct			46.6
15:00	USD	Core capital goods orders, final	%	Sep			
15:00	USD	ISM non-manufacturing	Index	Oct		55.9	56.7

Friday, November 4, 2022

				Period	Danske Bank	Consensus	Previous
1:30	JPY	Markit PMI services, final	Index	Oct			53.0
8:00	DEM	Factory orders	m/mly/y	Sep		-1.0%	-2.4% -4.1%
8:45	FRF	Industrial production	m/mly/y	Sep			2.4% 1.2%
9:15	ESP	PMI services	Index	Oct			48.5
9:45	ITL	PMI services	Index	Oct			48.8
9:50	FRF	PMI services, final	Index	Oct			51.3
9:55	DEM	PMI services, final	Index	Oct			44.9
10:00	EUR	PMI composite, final	Index	Oct			47.1
10:00	EUR	PMI services, final	Index	Oct		48.2	48.2
10:30	GBP	PMI construction	Index	Oct			52.3
11:00	EUR	PPI	m/mly/y	Sep			43.3% 50.0%
13:30	USD	Unemployment	%	Oct		3.6%	3.5%
13:30	USD	Average hourly earnings, non-farm	m/mly/y	Oct		0.3% 4.6%	0.3% 5.0%
13:30	USD	Non farm payrolls	1000	Oct	220	200	263
13:30	CAD	Net change in full time employment	1000	Oct			5.7

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	2021	4.9	4.3	4.2	6.2	8.0	8.0	1.9	3.0	3.7	3.6	36.6	8.2
	2022	3.0	-1.5	0.4	4.8	5.3	3.7	7.5	3.5	2.7	1.3	31.8	10.0
	2023	-0.6	-1.0	-0.2	-2.1	1.7	1.5	3.4	4.0	3.2	1.0	30.2	9.0
Sweden	2021	4.6	5.9	2.5	6.0	7.6	9.3	2.2	2.7	8.8	-0.1	37.5	5.2
	2022	2.4	3.4	-0.3	4.6	4.9	8.7	8.0	2.5	7.4	0.7	31.0	3.7
	2023	-1.2	-1.3	1.1	-2.2	2.4	1.8	6.1	2.8	8.2	-0.9	31.0	4.1
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	2.8	4.6	0.9	1.0	3.0	8.0	5.5	4.1	1.8	-	-	-
	2023	0.9	0.9	1.3	4.0	3.0	3.5	3.4	4.2	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	2021	5.3	3.7	4.3	3.7	10.5	8.3	2.6	4.1	7.7	-5.1	97.4	3.2
	2022	3.1	3.9	2.2	3.1	6.4	7.7	8.4	4.0	6.7	-3.7	94.7	2.4
	2023	0.3	0.6	2.4	2.3	2.7	4.9	5.4	3.4	6.8	-2.5	92.7	2.9
Germany	2021	2.6	0.4	3.8	1.0	9.5	8.9	3.2	3.4	3.6	-3.7	68.6	7.4
	2022	1.5	4.1	4.6	0.7	2.0	6.7	8.8	3.3	3.0	-2.5	66.4	6.4
	2023	-0.1	0.2	3.2	2.0	2.0	4.8	6.5	3.9	3.0	-1.0	64.5	6.8
Finland	2021	3.0	3.7	2.9	1.5	5.4	6.0	2.2	2.3	7.7	-2.7	72.4	0.6
	2022	2.0	2.0	3.0	3.5	0.5	4.0	6.6	2.6	6.8	-3.1	70.6	-2.6
	2023	-0.2	0.1	1.0	0.5	-0.5	0.5	3.7	3.5	7.3	-2.6	71.3	-1.4

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	2021	5.9	8.3	0.6	7.4	6.1	14.1	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	1.9	2.7	-0.9	-0.1	7.4	8.6	8.1	5.2	3.6	-4.2	124.0	-3.5
	2023	0.5	0.5	1.1	-2.6	1.3	-3.0	4.1	4.2	4.0	-3.8	121.0	-3.2
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	2.8	4.8	-	3.0	-	-	2.5	5.0	-	-7.7	77.8	1.1
	2023	5.7	6.5	-	5.0	-	-	2.5	5.5	-	-7.1	81.8	1.0
UK	2021	7.5	6.2	12.6	5.6	-0.3	2.8	2.6	5.1	4.5	-5.4	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-3.9	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-1.9	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.2	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.3	2.8	1.5	-1.6	4.9	6.6	2.1	-	2.6	-	-	-
	2023	1.5	1.3	0.3	1.9	4.4	2.5	2.2	-	2.7	-	-	-

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	28-Oct	3.25	4.36	4.76	4.04	99.5	-	748.2	1032.0	1098.0
	+3m	4.75	4.90	4.90	4.25	96.0	-	775.0	1114.6	1145.8
	+6m	4.75	4.90	4.80	4.15	95.0	-	783.7	1073.7	1178.9
	+12m	4.75	4.57	4.70	3.95	93.0	-	801.1	1053.8	1204.3
EUR	28-Oct	1.50	1.64	2.82	3.02	-	99.5	744.3	1026.6	1092.3
	+3m	2.00	2.60	3.15	3.15	-	96.0	744.0	1070.0	1100.0
	+6m	2.50	2.62	3.05	3.15	-	95.0	744.5	1020.0	1120.0
	+12m	2.50	2.62	2.95	2.80	-	93.0	745.0	980.0	1120.0
JPY	28-Oct	-0.10	-0.03	0.15	0.59	120.5	147.6	6.18	8.52	9.06
	+3m	-0.10	-	-	-	139.2	145.0	5.34	7.69	7.90
	+6m	-0.10	-	-	-	132.1	139.0	5.64	7.72	8.48
	+12m	-0.10	-	-	-	120.9	130.0	6.16	8.11	9.26
GBP*	28-Oct	2.25	-	4.49	3.75	86.2	115.4	863.1	1190.5	1266.7
	+3m	3.25	-	4.50	4.20	89.0	107.9	836.0	1202.2	1236.0
	+6m	3.50	-	4.50	4.20	87.0	109.2	855.7	1172.4	1287.4
	+12m	3.50	-	4.40	4.00	86.0	108.1	866.3	1139.5	1302.3
CHF*	28-Oct	0.50	-	1.20	1.94	99.2	99.7	750.4	1035.0	1101.2
	+3m	1.25	-	-	-	95.0	99.0	783.2	1126.3	1157.9
	+6m	1.25	-	-	-	94.0	98.9	792.0	1085.1	1191.5
	+12m	1.25	-	-	-	93.0	100.0	801.1	1053.8	1204.3
DKK	28-Oct	0.65	2.01	3.06	3.22	744.26	748.17	-	137.93	146.76
	+3m	1.75	2.74	3.40	3.35	744.00	775.00	-	143.82	147.85
	+6m	2.25	2.75	3.30	3.35	744.50	783.68	-	137.00	150.44
	+12m	2.25	2.75	3.20	3.00	745.00	801.08	-	131.54	150.34
SEK	28-Oct	1.75	2.03	3.18	3.08	1092.3	1098.0	68.1	94.0	100.0
	+3m	2.50	2.55	3.20	3.20	1100.0	1145.8	67.6	97.3	-
	+6m	2.50	2.60	3.20	3.30	1120.0	1178.9	66.5	91.1	-
	+12m	2.50	2.60	3.10	3.30	1120.0	1204.3	66.5	87.5	-
NOK	28-Oct	2.25	3.30	3.93	3.76	1026.6	1032.0	72.5	100.0	106.4
	+3m	2.50	3.18	3.80	3.85	1070.0	1114.6	69.5	-	102.8
	+6m	2.50	3.03	3.60	3.60	1020.0	1073.7	73.0	-	109.8
	+12m	2.50	2.85	3.40	3.45	980.0	1053.8	76.0	-	114.3

*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												
	28-Oct	2022				2023				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023	
ICE Brent	96	98	112	105	100	95	95	95	95	104	95	

Source Danske Bank

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