

Weekly Focus

Bond yields increasing

This week, we have seen a significant increase in bond yields in both the US and Europe. Markets are reducing expectations for rate cuts from central banks, which are now priced to happen only slowly. This follows signals from the central banks themselves that they are still ready to combat inflation which remains too high.

In our view, uncertainty over the economic outlook remains large, and we see a significant risk that the interest rate outlook will have to be adjusted lower again. There has been a serious tightening of financing conditions both in the US and the euro area, and the market move towards higher yields is tightening conditions further. Current market pricing implies a very soft landing for the economy, and history shows that such expectations are often too optimistic.

On the inflation side, we got the preliminary September data for the euro area, where the y/y inflation rate declined from 5.2% to 4.3%. This decline was largely driven by base effects, but the m/m increase in both headline and core price indices also declined and landed close to 0.2%, which is close to consistent with 2% annual inflation. This is a volatile measure but nevertheless good news for the ECB.

Large government borrowing is also behind the increase in bond yields. This week, we had downwards revisions to the outlook for public finances in France and Italy, but Germany lowered its estimated borrowing requirement for this year.

One reason behind higher bond yields could also be expectations of monetary policy tightening in Japan through an easing of the yield curve control. We agree that this is likely to happen in the not too distant future, however inflation in Japan slowed from 2.8% to 2.5% y/y in September. The quarterly Tankan business survey due Monday and wage data Friday will be key to judge the longer term inflation momentum.

In China, property developer Evergrande returned to the headlines with news that it had missed a bond payment and scrapped creditor meetings. This is not helpful to the efforts for revitalising home buying and hence the construction part of the economy, and is adding to concerns over growth. Note that the coming week is the Golden Week holiday in China.

A US government shutdown might be a reality from Monday if the US Congress fails to either pass a budget agreement or a resolution to continue with the old budget temporarily. A shutdown would mean a sharp reduction in government spending until it is resolved and could have a somewhat negative effect on growth if it lasts more than a few weeks, but it is not a threat to the US meeting its debt payments like the debt ceiling problem earlier this year was. Also, a shutdown would mean that government statistics such as the coming week's job report and job openings are not published, whereas private sector data such as the ISM and the ADP employment report are not affected. If we do get data, it could be very important for whether or not the soft landing narrative persists.

On the central bank front, we will get rate decisions in Poland, Australia and New Zealand.

Key global views

- Stagnation and periodic contraction in the US and in Europe in 2023
- US and euro area headline inflation set to decline further, but core inflation to remain sticky
- Fed and ECB policy rates have peaked, rate cuts start gradually next year

Key market movers

- Monday: US ISM manufacturing, euro area unemployment
- Tuesday: US job openings*
- Wednesday: US ISM non-manufacturing, ADP employment
- Friday US job report*

*Will not be published if there is a shutdown of US government

Selected reading from Danske Bank

- *EUR excess liquidity - ECB to speed up liquidity tightening next year, September 21*
- *Market Guide - Near-term risk of higher EUR/USD, September 25*
- *Spending Monitor - Retail spending weakens through first half of September, September 27*

Editor

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Scandi market movers

- In **Denmark**, we are expecting the flash estimate for Q3 wage growth from the Confederation of Danish Employers (DA) on Monday. Wages grew by 3.4% in Q2 2023, reflecting the new collective agreements. However, far from all companies had implemented the agreed pay rises when the data was collected, plus the increase in the employer pension contribution was not included. However, these factors will be part of the Q3 figures, which is why we are expecting a more pronounced increase in wage costs.

Tuesday should also bring data on Danmarks Nationalbank's intervention in the FX market in September. However, the EUR/DKK cross has been stable around the central parity rate, so we are not expecting the central bank to have intervened in September.

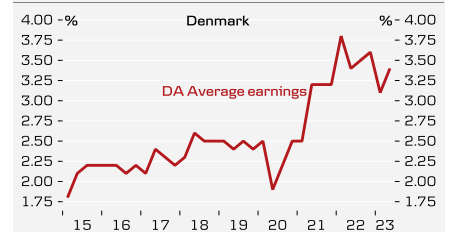
- In **Sweden** Riksbank Minutes is out Monday morning 09.30 CET. We will look for Board members' views on the probability for another rate hike and any thoughts about how long rates need to be high.

September PMI is out Monday and the services ditto on Wednesday. Both NIER Manufacturing confidence and the German flash PMI was higher in September, hence, the stage looks set for a slight rebound.

The Debt Office releases the September budget balance. The accumulated difference vs forecast up to and including August was a hefty SEK 46 bn surplus. The main reason for this was much smaller than expected payments in August for company electricity support (SEK 30bn less than assumed), but corporate taxes were also higher than expected. DO forecasts a SEK 8 bn deficit in September. It seems fair to assume that delayed payment of electricity support can push that deficit considerably higher.

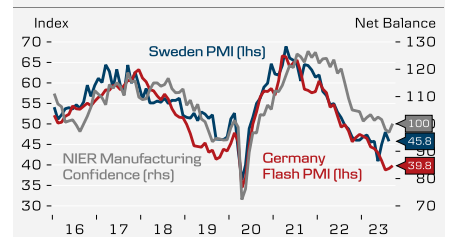
- In **Norway**, the government will be unveiling its budget for 2024. As usual, we are mostly interested in how expansionary the budget will be – in other words, how the proposals would affect economic activity. In a situation where many households and firms are battling with higher costs and higher interest rates, it would be tempting to table an expansionary budget. In the current situation, however, with high inflation, strong activity and a tight labour market, monetary policy is being used actively to limit growth. This naturally reduces the government's room to manoeuvre, and so we expect the budget to be more or less neutral, which would tie in nicely with Norges Bank's projections in the September monetary policy report. The government's estimates for the non-oil budget deficit and for tax revenue from the oil sector will also give us an idea of how much currency the central bank will need to exchange for the Ministry of Finance next year.

Wage costs rose 3.4% in Q2 2023



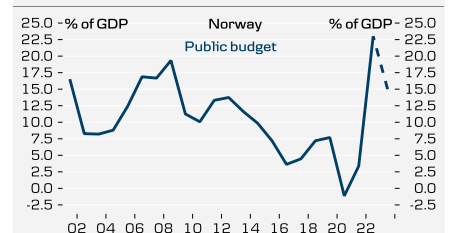
Source: Statistics Denmark, Danske Bank

Sweden: September PMI bouncing higher?



Sources: NIER, Swedbank, Hamburg Commercial Bank

Further solid surpluses



Source: Macrobond, Danske Bank

Scandi update

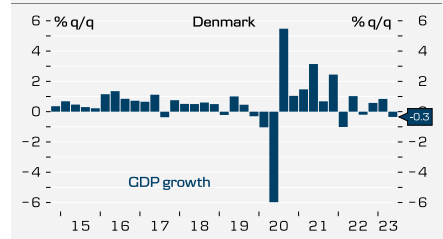
Denmark – GDP growth from Q1 to Q2 revised down to -0.3%.

Statistics Denmark has revised growth from Q1 to Q2 23 down to -0.3% from 0.3%. The main culprit was an underestimation of imports. Hence, demand was the same or better – domestic production merely covered a smaller proportion of it. Nevertheless, comparing to Q2 last year, there was still positive growth of 0.9%, which is decent given the global slowdown. Much of the growth was driven by the pharmaceutical industry – ignore that, and the economy actually shrank by 1.5%, which underlines the difficulties faced by the rest of the economy.

Retail sales rose by 3.9% from July to August (seasonally and price adjusted). This represents a marked improvement but has to be seen against retail sales falling by a similar amount between June and July. Compared to the same period last year, retail sales were down 1%, however, so Danes are generally spending cautiously in the shops.

There were 500 more unemployed in August compared to July in Denmark. That is 200 less than the unemployment indicator pointed to earlier in the month. The unemployment rate rose to 2.9%, which is also a sign that much of the economy is in recession.

GDP contracted by 0.3% between Q1 and Q2 this year



Source: Danske Bank, Statistics Denmark, Macrobond Financial

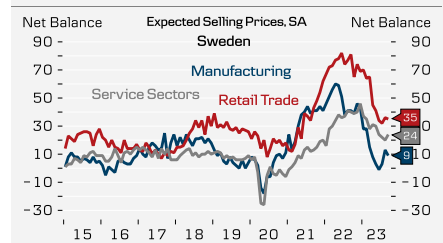
Sweden – Mixed bag of figures with a slightly negative touch

The producer price index for August decreased by 0.7% in August m/m. This also meant -5.9% y/y which marks the biggest y/y decline ever in the dataset since it started being released in 1990. The decline was mainly led by energy-related products that decreased by 37.5% y/y. The most important take-away from the numbers are that front-loaded consumer inflation at the producer level is now back to the pre-pandemic range, which is consistent with 2% inflation target.

Export of goods for July decreased by 4% m/m. While this may at first sight seem to indicate gloomy prospects for the Swedish export sector, one should instead look at the situation from broader perspective. August's trade balance figures dropped far less which shows that net real goods trade balance instead continues an upward trend suggesting the impact on GDP will shift from being a drag in Q2 to giving a boost of the roughly the same order in Q3. Household lending growth decreased to by 0.7% y/y in August where 83% of the total consisted of mortgages. The current interest rate level affects households as 75% of all new mortgages in August where had a floating rate, compared to 34% in March 2022.

NIER's overall September Economic Tendency Indicator rose solely on the back of a bounce up to the 100 threshold in manufacturing confidence. Measures for all other sectors fell, mostly in retail trade. Price plans dipped in manufacturing and retail trade but unfortunately rose in the service sector which remains a major contributor to overall inflation. Price plans remain too high in retail trade and services to be consistent with 2% inflation. To complement the increased unemployment rate number in August (whose reliability we question), the survey also included labour market indications which do not support any sudden increase in unemployment as businesses hiring expectations and households' personal perceived risk of being unemployed remains almost unaltered at neutral levels.

Price plans remains too elevated

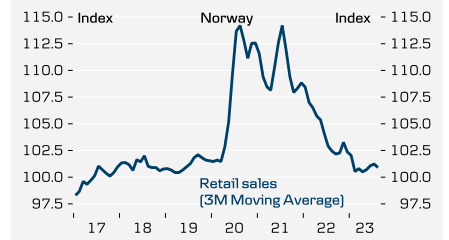


Source: NIER

Norway – Spending levelling off

Retail sales fell further in August and have moved more or less sideways in recent months. Negative real wage growth and ever higher mortgage rates are currently massive headwinds for households and will remain so for the rest of the year. On the other hand, unemployment is still low despite edging up. The jobless rate was unchanged at 1.9% in September, as the rise in the number of people out of work over the spring and summer largely stalled. The number of new job openings is still high but creeping down, which may be a sign that demand for labour is softening slightly.

Spending levelling off



Source: Macrobond, Danske Bank

Calendar – 2-6 October 2023

During the week				Period	Danske Bank	Consensus	Previous
Sat 30	CNY	PMI manufacturing	Index	Sep		50.1	49.7
Sat 30	CNY	PMI non-manufacturing	Index	Sep		51.6	51.0
Sun 01	CNY	Caixin PMI manufacturing	Index	Sep		51.2	51.0
Sun 01	CNY	Caixin PMI service	Index	Sep		52.0	51.8
Monday, October 2, 2023				Period	Danske Bank	Consensus	Previous
1:50	JPY	Tankan large manufacturers index (outlook)	Index	3rd quarter		6.0	5.0 9.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	3rd quarter		24.0	23.0 20.0
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Sep			48.6
8:30	SEK	PMI manufacturing	Index	Sep			45.8
9:15	ESP	PMI manufacturing	Index	Sep		46.0	46.5
9:45	ITL	PMI manufacturing	Index	Sep		45.7	45.4
9:50	FRF	PMI manufacturing, final	Index	Sep		43.6	43.6
9:55	DEM	PMI manufacturing, final	Index	Sep		39.8	39.8
10:00	NOK	PMI manufacturing	Index	Sep	50.7		51.4
10:00	EUR	PMI manufacturing, final	Index	Sep		43.4	43.4
10:30	GBP	PMI manufacturing, final	Index	Sep		44.2	44.2
11:00	EUR	Unemployment	%	Aug		6.4%	6.4%
15:30	CAD	RBC manufacturing PMI	Index	Sep			48.0
15:45	USD	Markit PMI manufacturing, final	Index	Sep		48.9	48.9
16:00	USD	Construction spending	m/m	Aug		0.6%	0.7%
16:00	USD	ISM manufacturing	Index	Sep		47.8	47.6
17:00	USD	Fed chair Powell speaks					
17:00	USD	Fed's Harker speaks					
19:30	USD	Fed's Williams speaks					
Tuesday, October 3, 2023				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Sep		15.4	15.04
5:30	AUD	Reserve Bank of Australia rate decision	%		4.10%	4.10%	4.10%
8:30	CHF	CPI	m/m y/y	Sep		0.1% 1.8%	0.2% 1.6%
11:00	NOK	House Price data	m/m	Sep	-0.50%		
16:00	USD	JOLTS Job openings	K	Aug		8900	8827 8827
17:00	DKK	Currency reserves	DKK bn	Sep			606.4
Wednesday, October 4, 2023				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		5.75%	5.75%	6.0%
2:30	JPY	Markit PMI services, final	Index	Sep			53.3
3:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%		5.50%	5.50%	5.50%
8:30	SEK	PMI services	Index	Sep			49.0
9:15	ESP	PMI services	Index	Sep		49.5	49.3
9:45	ITL	PMI services	Index	Sep		50.0	49.8
9:50	FRF	PMI services, final	Index	Sep		43.9	43.9
9:55	DEM	PMI services, final	Index	Sep		49.8	49.8
10:00	EUR	ECB's Lagarde speaks					
10:00	EUR	PMI composite, final	Index	Sep		47.1	47.1
10:00	EUR	PMI services, final	Index	Sep		48.4	48.4
10:30	GBP	PMI services, final	Index	Sep		47.2	47.2
11:00	EUR	PPI	m/m y/y	Aug		-11.7%	-7.6% -0.5%
11:00	EUR	Retail sales	m/m y/y	Aug		-0.3% -0.5%	-0.2% -1.0%
14:15	USD	ADP employment	1000	Sep		150	177
15:45	USD	Markit PMI service, final	Index	Sep		50.2	50.2
16:00	USD	Core capital goods orders, final	%	Aug			0.9%
16:00	USD	ISM non-manufacturing	Index	Sep		53.5	54.5
16:25	USD	Fed's Bowman speaks					
16:30	USD	DOE U.S. crude oil inventories	K				-2169
Thursday, October 5, 2023				Period	Danske Bank	Consensus	Previous
8:45	FRF	Industrial production	m/m y/y	Aug		-0.3%	0.8% 2.7%
10:30	GBP	PMI construction	Index	Sep		50.0	50.8
14:30	USD	Trade balance	USD bn	Aug		-65.2	-65.0
14:30	USD	Initial jobless claims	1000				204
Friday, October 6, 2023				Period	Danske Bank	Consensus	Previous
1:30	JPY	Labour cash earnings	y/y	Aug		1.5%	1.1%
6:00	SEK	Maklarstatistik Swedish housing price data					
7:00	JPY	Leading economic index, preliminary	Index	Aug		109.1	108.2
7:45	CHF	Unemployment	%	Sep		2.1%	2.1%
8:00	SEK	Budget balance	SEK bn	Sep			34.3
8:00	NOK	Manufacturing production	m/m y/y	Aug			-1.2% -2.3%
8:00	NOK	Industrial production	m/m y/y	Aug			2.3% -1.5%
8:00	DEM	Factory orders	m/m y/y	Aug		1.8% -7.9%	-11.7% -10.5%
8:00	DKK	Industrial production	m/m	Aug			-10.0%
9:00	CHF	Foreign Currency Reserves	CHF bn	Sep			694.3
14:30	CAD	Net change in full time employment	1000	Sep			32.2
14:30	USD	Unemployment	%	Sep		3.7%	3.8%
14:30	USD	Average hourly earnings, non-farm	m/m y/y	Sep		0.3% 4.3%	0.2% 4.3%
14:30	USD	Non farm payrolls	1000	Sep	140	170	187
21:00	USD	Consumer credit	USD bn	Aug		11.3	10.4

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 ²	Public budget ³	Public debt ³	Current acc. ³
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	2.5	4.4	2.3	-	-	-

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 ²	Public budget ³	Public debt ³	Current acc. ³
Euro area	2022	3.4	4.3	1.4	2.9	7.2	8.1	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 ¹	Private cons. ¹	Public cons. ¹	Fixed inv. ¹	Ex-ports ¹	Im-ports ¹	Infla-tion ¹	Wage growth ¹	Unem-ploym ²	Public budget ³	Public debt ³	Current acc. ³
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	1.9	1.9	3.5	-0.7	-0.3	-4.2	4.0	4.1	3.6	-5.4	123.6	-3.1
	2024	0.6	-0.2	2.7	3.2	-4.0	-1.3	2.0	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*	28-Sep	5.50	-	5.06	4.37	0.95	-	7.06	10.73	10.95
	+3m	5.50	-	4.73	3.93	0.93	-	6.96	11.03	10.84
	+6m	5.25	-	4.33	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	28-Sep	4.00	3.93	3.89	3.49	-	1.06	7.4575	11.34	11.57
	+3m	4.00	3.95	3.53	3.09	-	1.07	7.4450	11.80	11.60
	+6m	4.00	3.82	3.34	2.94	-	1.06	7.4450	11.70	11.70
	+12m	3.50	3.34	3.00	2.80	-	1.03	7.4500	11.40	11.80
JPY	28-Sep	-0.10	-	-	-	0.006	0.007	4.73	7.18	7.33
	+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*	28-Sep	5.25	-	5.28	4.44	1.15	1.09	8.61	13.09	13.36
	+3m	5.25	-	4.98	4.04	1.15	1.23	8.56	13.56	13.33
	+6m	5.25	-	4.68	3.94	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	28-Sep	1.75	-	-	-	1.03	1.09	7.70	11.71	11.95
	+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	28-Sep	3.60	3.98	4.00	3.64	0.134	0.142	-	1.52	1.55
	+3m	3.60	4.00	3.68	3.24	0.134	0.144	-	1.58	1.56
	+6m	3.60	3.87	3.49	3.09	0.134	0.142	-	1.57	1.57
	+12m	3.10	3.39	3.15	2.95	0.134	0.138	-	1.53	1.58
SEK	28-Sep	4.00	4.18	4.12	3.58	0.086	0.091	0.64	0.98	-
	+3m	4.00	4.12	3.88	3.24	0.086	0.092	0.64	1.02	-
	+6m	4.00	4.09	3.48	2.99	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	28-Sep	4.25	4.84	4.95	4.35	0.088	0.093	0.66	-	1.02
	+3m	4.25	4.75	4.37	3.83	0.085	0.091	0.63	-	0.98
	+6m	4.25	4.63	4.09	3.64	0.085	0.091	0.64	-	1.00
	+12m	3.75	3.99	3.80	3.45	0.088	0.090	0.65	-	1.04

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

Commodities

	28-Sep	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	93	82	78	80	85	80	80	80	80	81	80

Source Danske Bank

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