

Weekly Focus

Two-sided risks ahead for H2

The first half of 2023 was characterized by economic growth surprising to the upside, but also inflation proving stickier than expected. As such, when policymakers from around the world gathered in Sintra this week for the ECB's Forum on Central Banking, it was no surprise that (aside from Bank of Japan), central banks maintained a tightening bias towards H2.

ECB's Lagarde reiterated that a 25bp hike in July is almost given, and Fed's Powell noted that despite the pause in June, going back to consecutive hikes is not off the table. On Thursday, Riksbank hiked rates by 25bp and signalled at least one more 25bp hike going forward, in line with our expectations.

In July, markets' focus will revert back towards macro data. Recent releases have been mixed, with this week's German Ifo Business Climate cooling further in June, but US Conference Board's consumer confidence rebounding – defying contrasting signals from PMIs last week. We still think growth is set to remain weak across most developed economies for the remainder of the year, with the US headed for a modest recession.

Next week brings a series of important US data releases, including ISM, JOLTs and the June Jobs Report, which will be key to watch ahead of the upcoming FOMC meeting on 26 July. Following a positive revision to Q1 GDP figures and lower jobless claims, markets are pricing the peak Fed Funds Rate at 35bp above the current level by November, implying a 40% probability of two more hikes. We forecast June non-farm payrolls at 180k, and if we do see further signs of wage inflation cooling followed by a lower Core CPI release on 12 July, we think the Fed could still end up staying on hold in the next meeting.

Euro Area inflation cooled further to 5.5% in June. Core inflation ticked slightly higher to 5.4%, but part of the increase reflects base effect from the last year's German public transport subsidies. That said, we still think the ECB will hike both in July and September.

While Ueda refrained from hawkish hints in Sintra, we still think it is only a matter of time before the Bank of Japan will acknowledge the continuously building inflationary pressure in **Japan** by easing the yield curve control, which we expect to happen either at the next meeting on 28 July or in September. **China** is the only major economy where we expect further policy stimulus measures to be announced over summer.

After surprising both analysts and markets by hiking 50bp in June, we expect the **Bank of England** to hike by 25bp on 3 August. However, the return to smaller hikes depends on data not surprising significantly to the upside. BoE's focus remains on wages and services inflation, so job market report (11 July) and CPI (19 July) will be the key to watch.

Besides macro, geopolitics came back on the radar last weekend. In Russia, the attempted mutiny by Yevgeny Prigozhin, the leader of the Wagner mercenary group, ended as quickly as it began. But even so, Putin's position appears to have been weakened as his closest allies might not be as unified in support as previously thought. In our baseline expectation, we do not foresee major breakthroughs in the war in Ukraine over the coming weeks, but the Russian internal instability remains a key source of potential volatility for now.

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 two more 25bp hikes, while the Fed is on hold for the rest of the year.

Key upcoming events

- 7 July: US Jobs Report
- 12 July: US CPI
- 26 July: FOMC Meeting
- 27 July: ECB Meeting
- 28 July: BoJ Meeting
- 3 August: BoE Meeting

Selected reading from Danske Bank

- *Geopolitical radar - Making sense of what is happening in Russia*, 26 June
- *FX Strategy - USD liquidity unaffected by rebuild of cash balance*, 28 June

The Weekly Focus will be on summer break until 11 August

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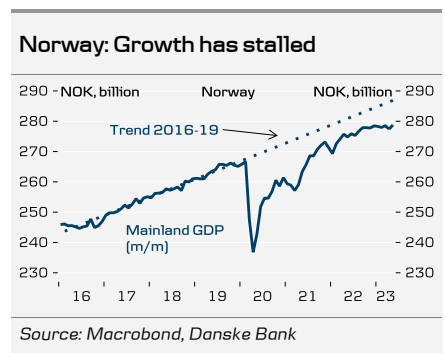
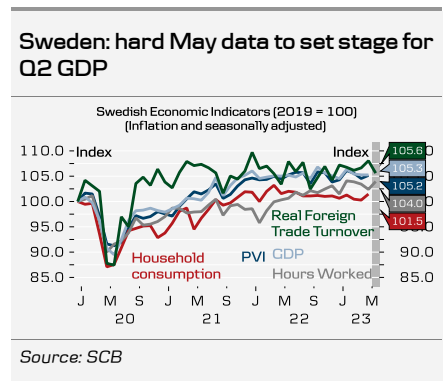
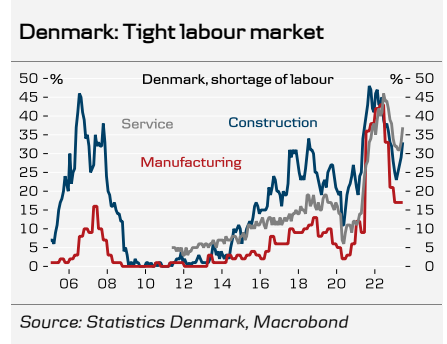
Scandi market movers

- An important focus for us on the Danish economy over the summer will be inflation and labour market developments – and whether we begin to see signs of a slowdown here. Denmark’s labour market remains very tight, with labour shortages particularly pronounced in the service and construction sectors and plenty of job openings. The Confederation of Danish Employers (DA) is due to publish the first measure of Q2 wage growth on Monday, and we are looking for a marked increase. Wage growth is set to rise to around 5% y/y as the new collective agreements kick in, but we are not likely to see the full impact until Q3 23. We will also be keeping an eye on July’s business confidence surveys and what they say about activity levels and labour shortages.
- We expect inflation fell further in June, though the reintroduction of the electricity tax in July could make the downward shift temporary. We have seen signs of price pressures easing and slightly lower core inflation, but will this trend be confirmed by June’s inflation numbers? Housing market momentum should also be worth tracking given the turnaround in recent months that has seen sales activity pick up and a modest increase in prices.
- In **Sweden** several important data points are to be covered next week. June PMI’s need to be gauged against the corresponding data from NIER. While the signals from manufacturing PMI has been more negative than NIER’s ditto (actually pointing in different direction) the tendency in services appear more coherently positive.

There’s also hard May data in the form of the GDP, production (PVI) and consumption indicators. These will be important as we would now have two-thirds of important data forming Q2 GDP. So far NIER has been a better guidance for PVI than PMI. And retail sales showed a small bounce in May for the second time in a row which may also have implications for consumption.

Finally, June budget data is released. So far the positive trend appears intact and with improving economy and no spending on reforms it seems likely it could have continued in June too.

- In **Norway**, mainland GDP fell 0.4% m/m in April, which may have been a sign that economic growth is now seriously starting to flag under the burden of weak real wage growth, rapidly rising costs in the business sector and higher interest rates. However, indicators for May suggest a solid rebound, driven partly by higher retail sales. We therefore expect mainland GDP to climb 0.5% m/m in May, but this does not change the picture of an economy where the underlying trend is more or less sideways. Looking ahead, we still expect the impact of the past year’s rate increases to become more and more visible, and growth to remain weak.

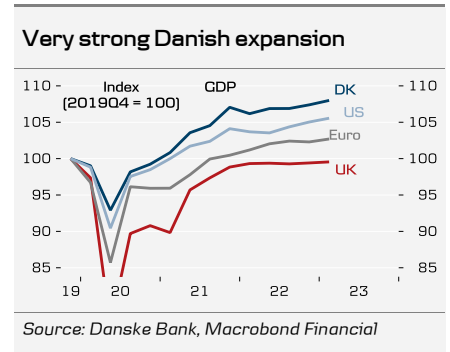


Scandi update

Denmark – Danish expansion even stronger than previously calculated

Statistics Denmark’s revised national accounts numbers put growth in Q1 23 at 0.6%, which is 0.4 percentage points higher than the flash figures from a month ago. The growth revision was largely prompted by a marked upward adjustment to the inventories contribution. Pharmaceutical production remains a key component for growth, whereas many other sections of industry are struggling with waning demand. Consumption bounced back strongly in Q1 23 after a very challenging 2022, due in particular to booming car sales.

The revision to the national accounts also shows Denmark’s expansion has been even stronger than previously calculated. Incorporating the DKK16bn upward revision to the balance of trade in 2022 and a more accurate picture of the inputs used for production lifts GDP growth between 2020 and 2022 by 0.4 percentage points, taking total growth over the two years to 7.1%. This further reinforces the already very solid picture of the Danish expansion after the pandemic



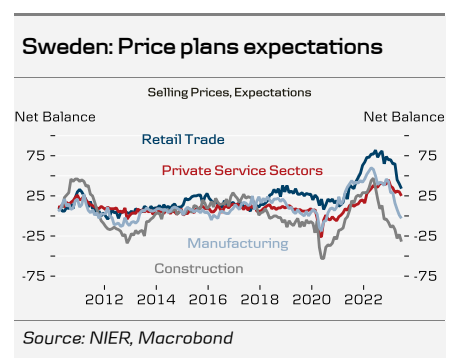
Sweden – More positive signs and a hike from the Riksbank in line with expectations

Riksbank: Overall a decision that was in line with our call. The policy rate was hiked by 25bp to 3.75% and the rate path signals that more is to come with at least one more hike expected this year. The QT auction volumes in SGBs was also raised, from 3.5bn per month to 5bn, roughly in line with our expectations. Notably, the decision was unanimous this time. **We stick to our call for a final 25bp in September to 4.00%.**

The rate path signals 30bp of additional hikes, with 20bp for the September meeting and 10bp for the November meeting. The rate path hence peaks at 4.05% in Q1 2024 and stays unchanged until Q3 2025. The end point of the path has been lifted from 3.35% in April to 3.75%. We believe that markets will continue to ignore the rate path further out and continue to discount cuts next year.

The Riksbank made modest adjustments to the macroeconomic projections. Inflation remains unchanged for 2023, 0.1 p.p higher in 2024. The revised unemployment rate is lower, with an anticipated level of 8.2% in 2024, compared to the previously forecasted 8.5%. Additionally, GDP growth has been slightly revised upward to -0.2% (-0.5%) for 2023, while it has been revised downward to 0.0% (+0.2%) for 2024. In comparison to our own forecast of +0.5% in 2023, followed by 1.9% in 2024, there is a significant divergence, particularly during 2024.

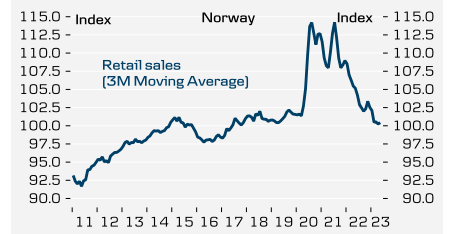
NIER Business Survey: If excluding the construction sector, the sentiment among all sectors ticked higher, also among consumers. The pricing plans moved lower and the most important, price plans in retail trade and services sectors seems to follow the trend seen among manufactures. In retail trade, price expectations have dropped from 65 in March to now 34 in June. As written many times before, the labour market is strong and NIER business survey confirmed this view even more with hiring plans moved higher in all sectors, but again, except for the construction sector. On the weaker note, order inflow continued lower. It however, remains to be seen if this will show up in production data as well. There has been some periods historically when there has been a discrepancy between hard data and soft data.



Norway – Retail sales jump in May

Retail sales surprised by climbing 1.2% in May, and the April figures were also revised up, which means that the underlying trend seems to be a levelling-off after almost two years of decline. It might therefore appear that the downturn in retail sales is over, something which would reduce the downside risk to the Norwegian economy and so increase the probability of further rate hikes. However, given that growth in household income is still being gobbled up by inflation, and that interest rates will probably climb a further 125bp from May to August, we do not consider the outlook for private consumption to be particularly bright. We still expect growth in consumer spending to be weak or negative, and will naturally be keeping a close eye on the data in the coming months.

Retail sales levelling off



Source: Macrobond, Danske Bank

Calendar – 3-7 July 2023

Monday, July 3, 2023				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Jun		1525	1505
1:50	JPY	Tankan large manufacturers index (outlook)	Index	2nd quarter		30	10 3.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	2nd quarter		22.0	20.0 15.0
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Jun			49.8
3:45	CNY	Caixin PMI manufacturing	Index	Jun		50.0	50.9
8:30	CHF	CPI	m/mly/y	Jun		0.2% 1.8%	0.3% 2.2%
8:30	SEK	PMI manufacturing	Index	Jun			40.6
9:15	ESP	PMI manufacturing	Index	Jun		47.7	48.4
9:45	ITL	PMI manufacturing	Index	Jun		45.4	45.9
9:50	FRF	PMI manufacturing, final	Index	Jun		45.5	45.5
9:55	DEM	PMI manufacturing, final	Index	Jun		41.0	41.0
10:00	EUR	PMI manufacturing, final	Index	Jun		43.6	43.6
10:00	NOK	PMI manufacturing	Index	Jun			47.4
10:30	GBP	PMI manufacturing, final	Index	Jun		46.2	46.2
15:45	USD	Markit PMI manufacturing, final	Index	Jun			46.3
16:00	USD	Construction spending	m/m	May		0.4%	1.2%
16:00	USD	ISM manufacturing	Index	Jun		47.1	46.9
Tuesday, July 4, 2023				Period	Danske Bank	Consensus	Previous
6:30	AUD	Reserve Bank of Australia rate decision	%		4.10%	4.10%	4.10%
15:30	CAD	RBC manufacturing PMI	Index	Jun			49.0
17:00	DKK	Currency reserves	DKK bn	Jun			603.3
Wednesday, July 5, 2023				Period	Danske Bank	Consensus	Previous
2:30	JPY	Markit PMI services, final	Index	Jun			54.2
3:45	CNY	Caixin PMI service	Index	Jun		56.2	57.1
8:30	SEK	PMI services	Index	Jun			50.2
8:45	FRF	Industrial production	m/mly/y	May		-0.4% 0.3%	0.8% 1.3%
9:15	ESP	PMI services	Index	Jun		55.8	56.7
9:45	ITL	PMI services	Index	Jun		53.5	54.0
9:50	FRF	PMI services, final	Index	Jun		48.0	48.0
9:55	DEM	PMI services, final	Index	Jun		54.1	54.1
10:00	EUR	PMI composite, final	Index	Jun		50.3	50.3
10:00	EUR	PMI services, final	Index	Jun		52.4	52.4
10:30	GBP	PMI services, final	Index	Jun		53.7	53.7
11:00	EUR	PPI	m/mly/y	May		-1.6% -1.9%	1.0% -3.2%
16:00	USD	Core capital goods orders, final	%	May			0.7%
20:00	USD	FOMC minutes					
22:00	USD	Fed's Williams speaks					
Thursday, July 6, 2023				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		6.75%	6.75%	6.75%
8:00	DEM	Factory orders	m/mly/y	May		1.5% -10.1%	-0.4% -9.9%
10:30	GBP	PMI construction	Index	Jun		51.0	51.6
11:00	EUR	Retail sales	m/mly/y	May		0.2% -2.7%	0.0% -2.6%
14:15	USD	ADP employment	1000	Jun		250	278
14:30	USD	Initial jobless claims	1000	Jun			239
14:30	USD	Trade balance	USD bn	May		-68.3	-74.6
15:45	USD	Markit PMI service, final	Index	Jun			54.1
16:00	USD	ISM non-manufacturing	Index	Jun		51.2	50.3
17:00	USD	DOE U.S. crude oil inventories	K				-9603
Friday, July 7, 2023				Period	Danske Bank	Consensus	Previous
-	CNY	Foreign exchange reserves	USD bn	Jun			3176.5
1:30	JPY	Labour cash earnings	y/y	May		1.2%	0.8%
6:00	SEK	Maklarstatistik Swedish housing price data					
7:00	JPY	Leading economic index, preliminary	Index	May		97.6	96.8
7:45	CHF	Unemployment	%	Jun		2.0%	2.0%
8:00	SEK	Budget balance	SEK bn	Jun			39.1
8:00	DKK	Industrial production	m/m	May			1.3%
8:00	NOK	GDP (mainland)	m/m	May	0.5%		-0.4%
8:00	NOK	Manufacturing production	m/mly/y	May			-0.4% -2.4%
8:00	NOK	Industrial production	m/mly/y	May			0.8% -4.7%
8:00	SEK	Industrial orders	m/mly/y	May			3.0% -0.1%
8:00	SEK	Private Sector Production	m/mly/y	May			0.6% 0.7%
8:00	SEK	Household consumption	m/mly/y	May			1.2% 0.0%
8:00	DEM	Industrial production	m/mly/y	May		0.2% 0.1%	0.3% 1.6%
9:00	CHF	Foreign Currency Reserves	CHF bn	Jun			734.1
14:30	CAD	Net change in full time employment	1000	Jun			-32.7
14:30	USD	Unemployment	%	Jun		3.6%	3.7%
14:30	USD	Average hourly earnings, non-farm	m/mly/y	Jun		0.3% 4.2%	0.3% 4.3%
14:30	USD	Non farm payrolls	1000	Jun	180	200	339
18:45	EUR	ECB's Lagarde 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	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.6	2.6	3.5	30.1	13.1
	2023	1.5	0.6	-0.7	-7.2	5.7	0.1	4.1	4.7	2.9	2.2	27.4	13.5
	2024	1.0	1.7	1.8	-2.9	1.2	0.7	3.2	5.3	3.4	1.2	25.7	13.5
Sweden	2022	2.9	1.9	0.1	6.1	7.0	9.4	8.4	2.5	7.5	0.7	33.0	3.6
	2023	0.5	-2.2	1.4	1.4	3.2	0.4	8.4	4.0	7.5	-0.4	29.0	5.0
	2024	1.9	1.7	1.1	2.3	2.8	2.6	1.9	3.3	7.8	-0.8	29.0	5.1
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.1	-2.0	1.4	0.5	4.0	3.0	5.3	5.3	1.9	-	-	-
	2024	1.4	1.2	1.5	4.0	2.0	2.0	2.5	4.2	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 ³	Public budget ⁴	Public debt ⁴	Current acc. ⁴
Euro area	2022	3.5	-	-	-	-	-	8.4	-	6.7	-	-	-
	2023	0.5	-	-	-	-	-	5.3	-	6.7	-	-	-
	2024	1.0	-	-	-	-	-	2.8	-	6.6	-	-	-
Finland	2022	1.6	1.7	0.8	3.2	3.5	8.3	7.1	2.4	6.8	-0.9	72.9	-3.8
	2023	-0.2	-0.2	2.0	-4.5	-0.5	-2.0	5.9	4.1	7.0	-2.7	72.1	-1.4
	2024	0.8	1.0	0.5	2.5	1.5	2.0	2.1	3.7	6.8	-1.9	72.6	-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	1.3	1.5	2.7	-2.7	1.2	-4.3	4.1	4.1	3.7	-5.4	123.6	-3.1
	2024	0.5	0.1	1.3	1.0	-1.9	-1.9	2.2	3.2	4.3	-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	5.8	7.0	-	5.0	-	-	1.2	-	5.2	-7.0	82.6	1.4
	2024	4.8	5.0	-	4.8	-	-	2.0	-	5.1	-6.5	87.4	1.0
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	30-Jun	5.25	5.54	4.94	3.77	108.4	-	686.8	1075.0	1088.3
	+3m	5.25	5.40	4.40	3.55	107.0	-	695.8	1093.5	1056.1
	+6m	5.25	5.29	4.10	3.45	106.0	-	702.4	1066.0	1075.5
	+12m	4.75	4.68	3.60	3.25	103.0	-	723.3	1048.5	1126.2
EUR	30-Jun	3.50	3.58	3.79	2.95	-	108.4	744.8	1165.8	1180.1
	+3m	4.00	4.02	3.60	2.90	-	107.0	744.5	1170.0	1130.0
	+6m	4.00	4.02	3.45	2.90	-	106.0	744.5	1130.0	1140.0
	+12m	3.75	3.71	3.05	2.75	-	103.0	745.0	1080.0	1160.0
JPY	30-Jun	-0.10	-	-	-	157.0	144.8	4.74	7.43	7.52
	+3m	-0.10	-	-	-	143.4	134.0	5.19	8.16	7.88
	+6m	0.10	-	-	-	136.7	129.0	5.44	8.26	8.34
	+12m	0.10	-	-	-	130.8	127.0	5.70	8.26	8.87
GBP*	30-Jun	5.00	-	5.88	4.29	85.8	126.3	867.7	1358.2	1375.0
	+3m	5.50	-	5.35	4.10	87.0	123.0	855.7	1344.8	1298.9
	+6m	5.50	-	5.00	3.90	88.0	120.5	846.0	1284.1	1295.5
	+12m	5.25	-	4.80	3.85	88.0	117.0	846.6	1227.3	1318.2
CHF*	30-Jun	1.75	-	1.97	1.81	97.7	90.1	762.1	1192.9	1207.6
	+3m	2.00	-	-	-	97.0	90.7	767.5	1206.2	1164.9
	+6m	2.00	-	-	-	96.0	90.6	775.5	1177.1	1187.5
	+12m	2.00	-	-	-	96.0	93.2	776.0	1125.0	1208.3
DKK	30-Jun	3.10	3.61	3.89	3.09	744.75	686.77	-	156.53	158.46
	+3m	3.60	4.10	3.75	3.05	744.50	695.79	-	157.15	151.78
	+6m	3.60	4.10	3.60	3.05	744.50	702.36	-	151.78	153.12
	+12m	3.35	3.81	3.20	2.90	745.00	723.30	-	144.97	155.70
SEK	30-Jun	3.75	3.82	3.99	3.01	1180.1	1088.3	63.1	98.8	100.0
	+3m	4.00	4.10	3.75	3.00	1130.0	1056.1	65.9	103.5	-
	+6m	4.00	4.15	3.35	2.85	1140.0	1075.5	65.3	99.1	-
	+12m	3.50	3.70	3.00	2.80	1160.0	1126.2	64.2	93.1	-
NOK	30-Jun	3.75	4.33	4.70	3.73	1165.8	1075.0	63.9	100.0	101.2
	+3m	4.00	4.35	4.45	3.65	1170.0	1093.5	63.6	-	96.6
	+6m	4.00	4.22	4.20	3.55	1130.0	1066.0	65.9	-	100.9
	+12m	3.50	3.43	3.90	3.50	1080.0	1048.5	69.0	-	107.4

*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

	30-Jun	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	75	82	78	80	80	80	80	80	80	80	80

Source Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Antti Ilvonen, Analyst.

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