17 November 2023

Weekly Focus

Inflation pressures easing but too early to declare victory

The big market mover this week was US CPI for October, which surprised to the downside with a rise in the core CPI inflation of 0.2% m/m versus a consensus estimate of 0.3% m/m. The number added to the picture that inflation pressures are easing. The October inflation print from the euro area showed a similar development earlier this month. However, it is still too early to declare victory over inflation. While goods price inflation has come down a lot, service price inflation is still too high. Labour markets remain tight sustaining high wage growth. We need to see more cooling of the economies to get further cooling of the labour markets and service inflation under control. Some Fed members during the week did warn that it was too early to declare victory and said higher rates could still be needed. San Francisco Fed's Daly said the data pointed to a deceleration in inflation but cautioned against prematurely calling for a "time out" on further hikes.

In the US retail sales for October was stronger than expected and still points to quite resilient private consumption. Hence we have yet to see consumers give in to the higher interest rates. However, we continue to see a further cooling of the labour market and consumption to kick in over the coming quarters implying that the Fed is done for now and can start lowering rates in the first half of 2024. The market is also convinced the Fed is done following the lower inflation print and bond yields moved much lower during the week and the USD weakened further. Stocks rallied on the positive signs of a soft landing.

In the euro area, it was a fairly quiet week. The German ZEW showed a rebound in November from -1.1 to 9.8. It tends to give a good signal on the Ifo business survey, which we get in the coming week. ECB's Kazak said it was premature to say we have reached the terminal rate and said there was no clear peak in wage growth yet. ECB's Guindos said he wouldn't prejudge further rate movements and future decisions will be data dependent. However, Centeno delivered more dovish comments saying inflation retreated faster than it went up and that real rates continue to rise as inflation comes down.

A decline in oil prices is providing additional help with easing inflation pressures. Brent oil dropped further this week below USD80 per barrel on concerns over weak demand and it is back to the levels seen in the summer months after hitting USD96 in late September. If the sell-off continues, we will likely see further supply cuts by OPEC and US resuming buying of oil for its strategic reserves. Both factors would help floor oil prices.

Turning to Asia, Japan's GDP growth for Q3 disappointed with a decline of 0.5% q/q (consensus -0.1% q/q). Chinese data for October showed positive surprises for retail sales and industrial production but housing remained a key concern with further declines in both house prices and home sales. On the geopolitical front leaders of the US and China, Joe Biden and Xi Jinping, met for the first time in a year. We see it as positive that the dialogue is back, which is key to managing the strained relationship and put up guard rails to avoid escalation into military conflict at some point. But the intense rivalry is likely to be with us in the years to come, see also our *Geopolitical Radar* released on Thursday.

Looking ahead to the coming week focus turns to Flash PMI's in the US and the euro area, German Ifo survey, Japan CPI and a Riksbank meeting in Sweden.

Key global views

- Weak near-term growth outlook in the US and Europe, but recovery from summer 2024
- US and euro area headline set to decline further, but core inflation to remain sticky
- Fed and ECB policy rates have peaked

Key market movers

- Tuesday: **FOMC minutes**, US existing home sales
- Wednesday: US durable goods orders, euro consumer confidence
- Thursday: **Riksbank meeting, Euro Flash PMI**, Norway GDP
- Friday: **German Ifo survey**, US Flash PMI, Japan CPI

Selected reading from Danske Bank

FX Forecast Update – The relief-boost to Scandies will not be sustained, 16 November

Geopolitical Radar – War in Middle East shifts attention away from Ukraine, US and China reinstall defence communication, 16 November

Global Inflation Watch - Signs of weaker demand ease inflation risks in October, 14 November

Spending Monitor – Overall positive October despite signs of weakening service spending, 10 November

Editor

Allan von Mehren
+45 4514 1488
alvo@danskebank.com

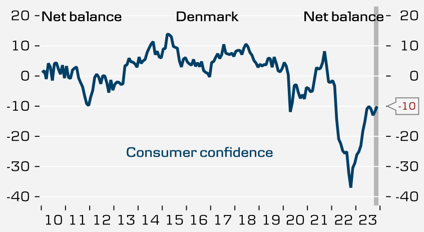
Scandi market movers

- In **Denmark,** we get consumer confidence numbers for November on Wednesday. We expect an improvement in confidence from -11.8 in October to -10 in November. The labour market continues to be robust, and energy prices are substantially lower than last year. This should support confidence, at least when comparing to one year ago. Furthermore, the very low inflation prints over the past few months and high wage growth means purchasing power has risen – and is set to rise further, which should support consumer confidence in the coming period. On the other hand, high interest rates will continue to take their toll on consumers' personal finances, especially home owners with variable rate loans that are set to adjust in the coming period. Furthermore, economic activity has declined, and we expect employment to gradually decrease into 2024. This will be negative for confidence.

  We will also get employment statistics for wage earners in September on Wednesday. The employment indicator for the third quarter, which came last week and is based on the last month of the quarter, indicates a 0.3 percent increase in employment, which implies that employment was almost unchanged from August to September, and thus a continued robust labour market. It will be interesting to see if the data release paints the same picture.

  On Thursday, we get business confidence for November. Sentiment was generally negative in October, with manufacturing ex. pharmaceuticals, and construction among the more pessimistic parts of the business sector. Services have so far fared well, both in terms of activity and sentiment. The outlook of rising wage costs and high interest rates has not changed, so the negative sentiment will most likely continue.

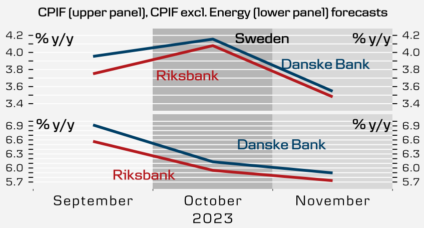
We expect consumer confidence to improve to -10 in November



Source: Statistics Denmark, Danske Bank

- Riksbank rate decision is the main event of the week in **Swedish** financial markets. We expect Riksbank to keep the repo rate unchanged while still keeping the door open for a rate hike later on if inflationary pressures remain higher than forecast. In other words a "hawkish hold". The main reasons behind this stance are: 1) both headline and core CPIF was only 0.1 percentage points higher than Riksbank's forecasts and this is simply too small to justify a rate hike. Moreover, calculations of frontloaded and momentum inflation suggest inflationary pressures are receding quickly now. 2) The Krona (KIX index) is at the time of writing 4.1 percent stronger than Riksbank's forecast, at a level Riksbank does not expect to see until April 2025. The implication of this deviation is that it adds to lower inflationary pressures than assumed in Riksbank's forecasts. 3) Other central banks, most notably the ECB, have taken on a "hawkish hold" approach to the policy rate. We cannot see any strong reason for Riksbank to have any other approach than the ECB in the absence of a considerably weaker Krona than forecast (which is obviously not the case now). 4) Riksbank's own semi-annual business survey showed that household-related companies are signalling price cuts going forward on the back of easing labour and energy costs, weakening demand and increasing competition. 5) Recent Swedish macro data such as consumption, GDP and labour market data has weakened. We do not expect any news about the pace of QT, however, it is not possible to entirely rule out a step to speed up bond sales further.

Sweden: Inflation deviation too small to matter for Riksbank

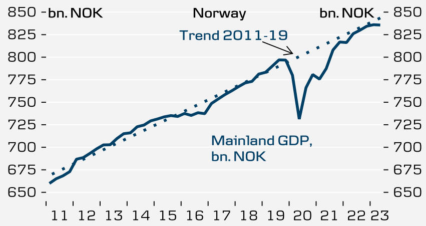


Source: SCB, Riksbank, Danske Bank

October PPI, especially import and domestic supply prices, may have been affected by the recent strengthening of the SEK. If not, we expect to see more of a disinflationary impact in November instead.

- There has been a clear slowdown in the **Norwegian** economy during 2023. Negative real wage growth and higher interest rates affect private consumption and housing investment. Weaker global growth is becoming visible in the figures for mainland exports, and now it may look as if lower capacity utilisation, higher uncertainty, higher funding costs and somewhat lower profitability are starting to slow down investment in mainland industries. On the other hand, there is good momentum in the oil supplier industry. We expect growth in mainland GDP of 0.2 percent q/q in Q3.

Growth is slowing



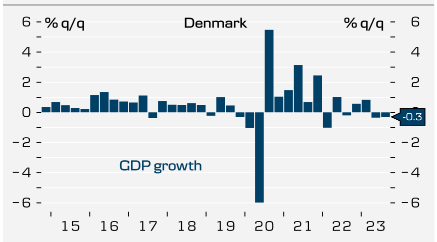
Source: Macrobond, Danske Bank

Scandi update

Denmark – Technical recession in the third quarter, particularly driven by declining industrial production

In **Denmark**, GDP contracted by 0.3% in Q3 compared to Q2. This is the second quarter in a row with a fall in GDP, and as such, Denmark is now in a technical recession. A key driver of the contraction is industrial production, which was 5.9% lower in Q3 compared to Q2. Pharmaceuticals in particular lost steam, and drove a large part of the fall as it did in Q2. This seems somewhat odd and we are likely in for significant revisions later on. Private consumption was also weak as consumers are still recovering from the large erosion of purchasing power due to high inflation. Despite the contraction, the labour market is still looking strong, with employment up 0.3 percent in Q3. Looking ahead, high wage growth should support consumption, to the extent that it does not lead to a significantly weaker labour market. On the business side, high interest and wage costs will continue to take a toll on production. All in all, our outlook is still a soft landing with growth rates hovering around 0 for the coming period.

GDP declined 0.3 percent in Q3 compared to Q2



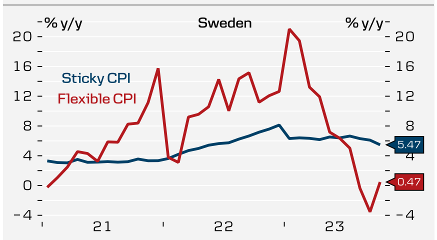
Source: Danske Bank, Statistics Denmark, Macrobond Financial

Monthly home sales increased again in October, as 4.391 houses and 1.567 apartments were sold, adjusted for regular seasonal effects. This is an increase of 6.7% and 15.6% respectively from September. Home sales peaked during the pandemic years, then fell sharply, but have since recovered to levels comparable to those seen during the years 2014-2019. This recovery can be partially explained by the very robust labour market and rising wages will support the market going forward. On the other hand, the effective interest rate on loans is rising as more home owners with variable rate loans see their interest payments increase. New loans are also expensive and as long as prices do not fall, this will dampen activity on the market.

Sweden – October inflation was to the dismay for inflation hawks

In **Sweden**, October inflation was lower than expected in general. CPIF and core inflation (CPIF excl. energy) was just 0.1 percentage point above the Riksbank's forecast (4.5%/6.3% YoY). Looking at details it shows that clothing, furniture, and recreation dragged core inflation lower than expected. Headline was lower mainly as electricity did not rise as much as expected. We created a sticky price index for Sweden by using the same methodology as Atlanta Fed that sorts the components of the CPI into either flexible or sticky (slow to change) categories based on the frequency of their price adjustment. Interestingly, flexible inflation bounced upwards for the first time since January. However, more importantly, sticky inflation has steadily been decreasing since July. This emphasizes the significance of the recent slowdown of inflation and proving that it is persistent. Looking at "front-loaded" inflation (3m SAAR) on all accounts is significantly lower than the YoY rate. Instantaneous inflation (exponentially forward weighted) mostly shows the same pattern. In conclusion, inflation is cooling quite quickly now. Inflation expectations for money market players was barely unchanged in November reinforcing the cooling from the inflation print. CPIF expectations for two and five years stayed at 2.1% both while one year increased 0.1% to 2.8%. All in all, this week statistics must have been welcomed by the Riksbank for next week rate decision which remains a close call, although it is now leaning towards unchanged.

Inflation is losing its grip



Source: Atlanta Fed, SCB

Registered unemployed people remains stable, as in October the number was unchanged at 6.4% (can be compared to 6.6% a year ago). The construction start indicator was also released and finally signals a turnaround in housing construction during the spring as it increased by 3.2% in October. Earlier months were revised up leading to a third month in a row increase.

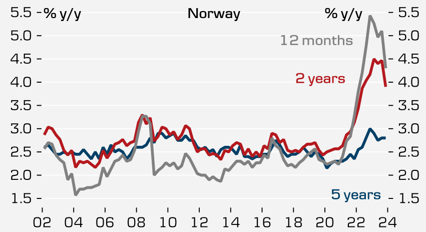
Norway – Inflation expectations coming down

Norges Bank's Q4 Expectations Survey (ES) revealed that an (unweighted) average of the participants (CEOs, economists and labour market partners) now expect inflation in the next 12M of 4.3% (5.1%), in 2 years of 3.9% (4.5%) and in 5 years of 2.8% (2.8%). Numbers in brackets show the previous measurement.

The same participants now expect wage growth this year of 4.9%, against 5.4% in the previous round. Estimates for 2024 now show an expected wage growth of 4.4% (4.7%). Employees' organisations now expect wage growth next year at 4.5 %, compared to 5.4% in Q3. In comparison, Norges Bank's forecast from September showed wage growth of 5.5% and 5.2% in 2023 and 2024. Hence, the figures from the ES to suggest that Norges Bank must adjust the wage estimates for 2024 downwards in the next MPR in December.

Lower wage and price expectations are exactly what Norges Bank wants now, because it reduces the risk of wage and price spirals in a situation with a weakening of the krone exchange rate. Especially lower wage growth expectations for next year will probably be important for Norges Bank's decision on the policy rate in December.

Lower inflation expectations



Source: Macrobond, Danske Bank

Calendar – 20-24 November 2023

Time	Currency	Event	Unit	Period	Danske Bank	Consensus	Previous
Monday, November 20, 2023				Period	Danske Bank	*Consensus*	Previous
Tuesday, November 21, 2023				Period	Danske Bank	*Consensus*	Previous
8:00	SEK	Capacity utilization, industry	%	3rd quarter			91.2%
14:00	HUF	Central Bank of Hungary rate decision	%		**12.00%**	*11.50%*	12.25%
14:30	CAD	CPI	m/m|y/y	Oct		*...|3.2%*	...|3.8%
16:00	USD	Existing home sales	m (m/m)	Oct		*3.9*	3.96|-0.02
17:00	EUR	ECB's Lagarde speaks					
18:00	EUR	ECB's Schnabel speaks					
20:00	USD	FOMC minutes					
Wednesday, November 22, 2023				Period	Danske Bank	*Consensus*	Previous
8:00	DKK	Consumer confidence	Net. bal.	Nov	**-10**		-11.8
14:30	USD	Initial jobless claims	1000				231
14:30	USD	Core capital goods orders, preliminary	%	Oct		*0.2%*	0.5%
16:00	EUR	Consumer confidence, preliminary	Net bal.	Nov		*-17.6*	-17.9
16:00	USD	University of Michigan Confidence, final	Index	Nov		*60.5*	60.4
16:30	USD	DOE U.S. crude oil inventories	K				3592
Thursday, November 23, 2023				Period	Danske Bank	*Consensus*	Previous
8:00	NOK	Credit indicator (C2)	y/y	Oct			4.1%
8:00	NOK	GDP (total)	q/q	3rd quarter			0.0%
8:00	NOK	GDP (mainland)	q/q	3rd quarter	**0.2%**		0.0%
8:00	NOK	GDP (mainland)	m/m	Sep			-0.2%
8:45	FRF	Business confidence	Index	Nov		*98.0*	98.0
9:15	FRF	PMI manufacturing, preliminary	Index	Nov		*43.3*	42.8
9:15	FRF	PMI services, preliminary	Index	Nov		*45.6*	45.2
9:30	DEM	PMI manufacturing, preliminary	Index	Nov		*41.1*	40.8
9:30	DEM	PMI services, preliminary	Index	Nov		*48.3*	48.2
9:30	SEK	Riksbank, rate decision	%		**4.00%**	*4.25%*	4.00%
10:00	EUR	PMI manufacturing, preliminary	Index	Nov		*43.3*	43.1
10:00	EUR	PMI composite, preliminary	Index	Nov		*47.0*	46.5
10:00	EUR	PMI services, preliminary	Index	Nov		*48.1*	47.8
10:30	GBP	PMI manufacturing, preliminary	Index	Nov		*45.0*	44.8
10:30	GBP	PMI services, preliminary	Index	Nov		*49.7*	49.5
12:00	TRY	Central Bank of Turkey rate decision	%		**37.5%**	*37.5%*	35.0%
Friday, November 24, 2023				Period	Danske Bank	*Consensus*	Previous
0:30	JPY	CPI - national	y/y	Oct		*3.4%*	3.0%
0:30	JPY	CPI - national ex. fresh food	y/y	Oct		*3.0%*	2.8%
1:01	GBP	GfK consumer confidence	Index	Nov		*-31.0*	-30.0
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Nov			48.7
1:30	JPY	Markit PMI services, preliminary	Index	Nov			51.6
6:00	JPY	Leading economic index, final	Index	Sep			108.7
8:00	SEK	PPI	m/m|y/y	Oct			1.8%|-4.6%
8:00	DEM	GDP, final	q/q|y/y	3rd quarter		*-0.1%|-0.3%*	-0.1%|-0.3%
8:00	DEM	Private consumption	q/q	3rd quarter		*-0.2%*	0.0%
8:00	DEM	Government consumption	q/q	3rd quarter		*0.2%*	0.1%
8:00	DEM	Gross fixed investments	q/q	3rd quarter		*0.1%*	0.4%
10:00	DEM	IFO - business climate	Index	Nov		*87.4*	86.9
10:00	DEM	IFO - current assessment	Index	Nov		*89.4*	89.2
10:00	DEM	IFO - expectations	Index	Nov		*85.5*	84.7
11:00	EUR	ECB's Lagarde speaks					
14:30	CAD	Retail sales	m/m	Sep		*0.0%*	-0.1%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Nov		*49.8*	50.0
15:45	USD	Markit PMI service, preliminary	Index	Nov		*50.5*	50.6

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	1.1	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	3.6	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	4.2	1.6	2.8	7.4	8.0	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	-0.8	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	2.4	2.2	3.8	0.3	1.8	-2.0	4.1	4.1	3.6	-5.4	123.6	-3.1
	2024	1.1	0.2	2.9	3.1	-1.6	0.5	2.1	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*	16-Nov	5.50	-	4.66	4.11	0.92	-	6.85	10.87	10.56
	+3m	5.50	-	4.52	4.29	0.92	-	6.84	10.92	10.55
	+6m	5.25	-	4.25	4.06	0.94	-	7.03	11.42	11.13
	+12m	4.75	-	3.95	3.85	0.96	-	7.16	11.63	11.35
EUR	16-Nov	4.00	3.91	3.49	3.08	-	1.09	7.4589	11.83	11.49
	+3m	4.00	3.92	3.56	3.15	-	1.09	7.4550	11.90	11.50
	+6m	4.00	3.68	3.35	3.03	-	1.06	7.4500	12.10	11.80
	+12m	3.50	3.25	2.95	2.90	-	1.04	7.4500	12.10	11.80
JPY	16-Nov	-0.10	-	-	-	0.006	0.007	4.56	7.23	7.03
	+3m	-0.10	-	-	-	0.006	0.007	4.68	7.48	7.23
	+6m	0.00	-	-	-	0.007	0.007	4.95	8.04	7.84
	+12m	0.00	-	-	-	0.007	0.007	5.27	8.55	8.34
GBP*	16-Nov	5.25	-	4.70	3.98	1.14	1.05	8.53	13.53	13.15
	+3m	5.25	-	4.85	4.25	1.14	1.24	8.47	13.52	13.07
	+6m	5.25	-	4.66	4.07	1.12	1.19	8.37	13.60	13.26
	+12m	4.75	-	4.50	3.95	1.12	1.17	8.37	13.60	13.26
CHF	16-Nov	1.75	-	-	-	1.04	1.13	7.73	12.26	11.91
	+3m	1.75	-	-	-	1.05	1.15	7.85	12.53	12.11
	+6m	1.75	-	-	-	1.06	1.13	7.93	12.87	12.55
	+12m	1.25	-	-	-	1.06	1.11	7.93	12.87	12.55
DKK	16-Nov	3.60	3.95	3.63	3.26	0.134	0.146	-	1.59	1.54
	+3m	3.60	3.97	3.71	3.30	0.134	0.146	-	1.60	1.54
	+6m	3.60	3.73	3.50	3.18	0.134	0.142	-	1.62	1.58
	+12m	3.10	3.30	3.10	3.05	0.134	0.140	-	1.62	1.58
SEK	16-Nov	4.00	4.13	3.70	3.08	0.087	0.095	0.65	1.03	-
	+3m	4.00	4.12	3.81	3.21	0.087	0.095	0.65	1.03	-
	+6m	4.00	4.00	3.43	2.95	0.085	0.090	0.63	1.03	-
	+12m	3.50	3.53	3.10	2.90	0.085	0.088	0.63	1.03	-
NOK	16-Nov	4.25	4.87	4.58	3.88	0.085	0.092	0.63	-	0.97
	+3m	4.25	4.53	4.37	3.93	0.084	0.092	0.63	-	0.97
	+6m	4.00	4.21	4.10	3.71	0.083	0.088	0.62	-	0.98
	+12m	3.50	3.84	3.80	3.55	0.083	0.086	0.62	-	0.98

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

Commodities

		2023				2024				Average	
	16-Nov	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	77	82	78	86	85	80	80	80	80	83	80

Source Danske Bank

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