

12 April 2024

Weekly Focus

US inflation shakes up markets

A surprisingly high US inflation print this week triggered the biggest shake-up in US bond markets in more than a year. The US 2-year government bond yield closed 23bp higher on the day, which was the biggest one-day move since March last year. It reflects a further repricing of expectations for Fed policy with money markets now pushing the first cut out to September (priced with 90% probability). The reason was not so much the size of the upward surprise in core CPI which increased 0.36% m/m versus expectations of 0.3%. But it was the third month in a row with an upward surprise and the details showed a renewed worrying upward trend in the 'super-core' inflation of services excluding shelter and health care. **The data also triggered a negative response in stock markets**, although the decline was overall moderate (S&P500 down 1%). Equities are currently supported by a turn higher in the global manufacturing cycle, but the high inflation data may cap performance in the short term. The USD strengthened significantly on the numbers with EUR/USD moving from 1.087 to 1.07 on Friday, the lowest in two months.

On Thursday, the ECB decided to leave policy rates unchanged as unanimously expected. A rate cut looks set to come in June, subject to further confidence on the three criteria that have guided ECB policy making through the past year. The next to no new policy signals left markets largely unchanged. We continue to like our ECB rate call of a 25bp rate cut call in June, followed by further 25bp rate cuts once per quarter through the end of 2025. We see risks skewed to less than three rate cuts this year, though.

Commodity prices have been on the rise over the past weeks as a gradual recovery in the global manufacturing cycle is lifting demand. This week oil prices moved above USD90 per barrel coming from USD80 at the beginning of the year. The LMEX metal price index has seen a further increase this week and is now up 10% since early March. The upward pressure implies that global goods price inflation has likely passed the bottom and central banks will get no further help from this side.

While US inflation is too high, China is still struggling with too low inflation. Headline CPI fell back to 0.1% y/y in March from 0.7% y/y as a temporary lift in February related to the Chinese New Year holiday dropped out again. The low inflation reflects too weak demand and the government shortly after vowed to provide further consumer stimulus.

Over the coming week focus turns to US retail sales on Monday. The numbers have been softer lately, but decent income growth should keep it supported. US also releases the surveys from Empire and Philadelphia. In the euro area the main indicators due being German ZEW and Euro industrial production. For the UK, we get the labour market report for February/March on Tuesday, where focus will be on developments in wage growth. On Wednesday, inflation for March is released where we expect both headline and core inflation to moderate. In China we get GDP for Q1 as well as the batch of industrial production, retail sales and housing data for March. Japan releases CPI inflation on Friday, which will be interesting following the change in BoJ policy lately. February inflation spiked to 2.8% on a base effect. Tokyo data indicated that price pressures remain well in line with the 2% target.

Key global views

- Weak near-term growth outlook in the US and euro area, but recovery from summer 2024
- Global manufacturing cycle moving gradually higher
- US and Euro inflation set to decline further, but core inflation to remain sticky
- We expect 3 rate cuts of 25bp from both ECB and Fed this year

Key market movers

- Monday: US retail sales, China policy rate, euro IP
- Tuesday: China GDP, IP retail sales and house prices, German ZEW
- Thursday: US Philly Fed survey
- Friday: Japan CPI

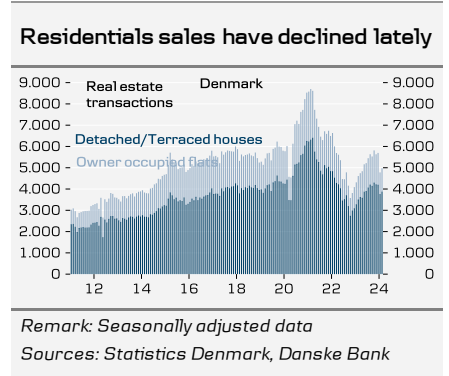
Selected reading from Danske Bank

- *Global Inflation Watch - Another upward surprise in US inflation*, 11 April
- *Spending monitor - Timing of Easter boosts March spending*, 10 April
- *Euro Area Macro Monitor: The economy waves goodbye to contraction*, 8 April

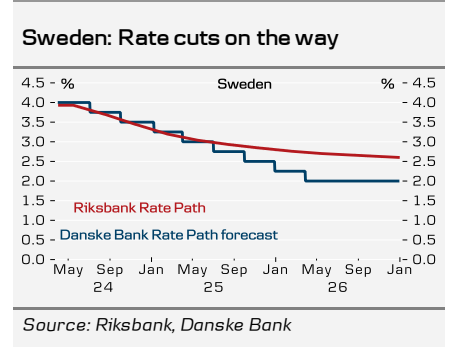
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Scandi market movers

- In **Denmark**, it will be a quiet week on the data front. Thursday, we get monthly residential sales for March from Boligsiden. Data from the broker *home* shows that house sales declined 2.1% m/m while apartment sales declined 6.3% m/m. Both house and apartment prices edged slightly lower in March, which could again indicate that there were fewer sales in March.



- In **Sweden**, there are no noteworthy statistical releases from Sweden next week. Next week, all members of the Riksbank executive board have scheduled appearances and therefore it will be highly interesting to see how much they weigh in today's print compared to other factors in their assessments. The March inflation print is the last one that has been posted until the next monetary policy decision in May. Today's inflation print is obviously making it more likely for the Riksbank to cut already in May. However, we still expect a first cut of 25bp in June and then two more cuts in September and December (total 75bp decreased policy rate in 2024). Members of the executive board constantly reminds us that they do not base their assessment of the inflationary development in simply one print. They have expressed that they will make a broad-based assessment of the inflationary development when conducting monetary policy ahead. The greatest risk they perceived is a SEK weakening, it remains to be seen how it develops going forward and how exchange rates react to today's print. Additionally, the recent unfavorable inflationary development in the US may postpone cuts from the Fed. Several members of the executive board have stated that their actions are to various extent affected by other central banks.
- On Monday, the government presents its Spring Fiscal Policy Bill and amending budget bill for the current budget year. The government has already promised to announce SEK 16.8bn additional reforms. SEK 16.8bn is only roughly 0.3% of current Swedish GDP, which is hardly worth calling any expansionary fiscal policy. The government thus maintains their restrictive stance due to their fear of triggering new inflationary impulses (or at least uses it as an excuse to avoid increase spending). As we have argued before we are strongly sceptical to the idea of that increased stimulus would prove inflationary since only the bare minimum is being conducted at the moment. Looking ahead, this is perhaps expected as the next Swedish general election will take place in 2026. The current frugality of the government is therefore likely due to them saving until the election campaign take places to have room for increased spending later on to then appear responsible towards the Swedish voters.
- There are no market movers in **Norway** next week.



Scandi update

Denmark – Slow but steady rebound in industrial production

Industrial production rose in February by 1.6% m/m. Pharmaceuticals, which makes up about half of industrial production, had a good month while growth excluding pharmaceuticals was also strong with a 2.0% m/m increase. Electronics, furniture and cement performed better in February. Thus, the slow but steady rebound in Danish manufacturing (excl. pharma) continues in line with what we have seen from other parts of the world. One reason is that the balance of services vs goods consumption is normalising after being strongly skewed towards services in the post-pandemic years, although manufacturing in most of Europe, namely Germany, is still struggling.

Inflation rose to 0.9% y/y in March. There was some effect from the Easter holidays which were in March this year rather than April, while base effects from energy pushed inflation up. The low inflation means that real private sector wages rose 4.5% y/y in Q1, a substantial improvement in consumer purchasing power.

House prices declined 0.2%, in line with data from the broker *home*, while apartment prices declined 0.9% in March, slightly less than indicated, data from Boligsiden shows. Apartment sales have been declining the past few months which now seems to be translating into lower prices.

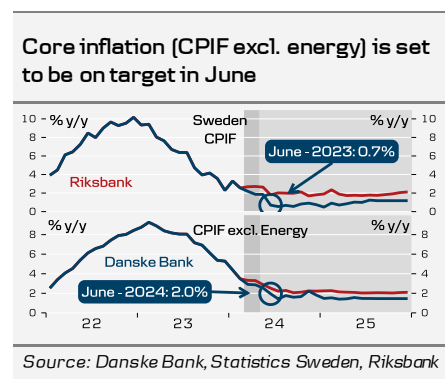
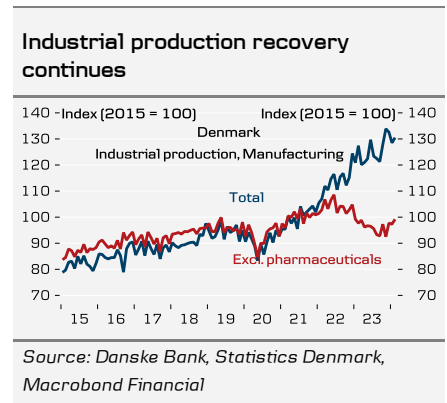
Flash unemployment from Statistics Denmark showed a small decrease of 300 persons in March. This is different to what from Jobindsats showed last week where the number was +100 persons. The only difference should be the seasonal adjustment method, so it is peculiar, but note that the confidence margin is ±1000 persons and we have previously seen revisions. Regardless, both numbers indicate that the labour market is still very robust. We expect job growth to stall through the year and for unemployment to rise very modestly.

Some 206 active companies went bankrupt in March adjusted for seasonality. This is almost unchanged from February's 212, and is around the average since 2010. So far, the number of bankruptcies for 2024 is 26% lower than in 2023, which rhymes well with the soft-landing narrative of the economy.

Sweden – Positive indications of improved growth

Various growth indicators for February were released this week that were in most regards positive. The GDP-indicator for February showed growth of 0.1% m/m, simultaneously as the number for January was revised upwards to 1.1% m/m from 0.9%. The main contributor to these numbers was strong private sector service production, which was mostly driven by strong information and communication services. Household consumption decreased by 0.5% in seasonally adjusted m/m terms. However, we saw diverse development among sectors. The largest negative contribution stemmed from furniture, its y/y growth rate has been negative ever since February 2022. The Swedish Public Employment Service reported a marginally lower employment rate at 6.7% where the declining trend in redundancy notices continues after peaking in September 2023.

The national debt office has announced that the government had a deficit of SEK 0.3bn in March. This is noteworthy because it means that there is a SEK 32bn smaller accumulated deficit than what they forecasted back in February. It is still too early to draw any major conclusion from this development, but it is not unexpected as their forecast regarding Swedish growth is significantly more pessimistic than ours.

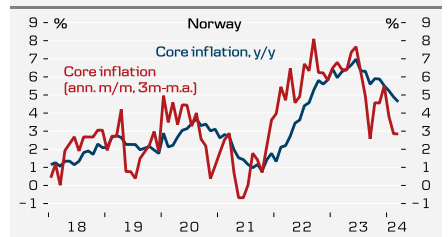


March inflation greatly surprised on the downside both compared to our forecast and even more compared to the Riksbank’s forecast. CPI and CPIF was both 0.3 percentage points below our forecast while CPIF excl. energy was 0.2 percentage points lower. The decline was broad-based, but it was mostly dragged down by the categories food, electricity, furniture, and recreation. The only significant contributor upwards was transport services that increased 2.7% m/m. Worth noting is that the sticky service inflation is still quite high and was spot on compared to the Riksbank’s forecast of sub-categories. However, this is still mainly driven by housing components that are mostly lagged and are not affected by demand and which the Riksbank is unable to affect (rather the opposite they contribute positively to it through increased interest rate costs). Looking at service inflation excluding the housing component, the seasonally adjusted three-months inflation rate recalculated in an annual rate (3m SAAR) is below the inflation target at 2% and is therefore looking very promising.

Norway – inflation surprised to the downside in March

There has been a clear disinflationary trend in Norway in recent months. Core inflation fell from 4.9% y/y in February to 4.5% y/y in March, and the underlying trend (annualised m/m, 3M moving average) remained at 2.8%. We believe that the declining trend will continue throughout the year, as the most important inflation drivers have turned the corner and base effects will gradually fade. As growth seems to hold up better than feared it remains below trend and the output gap is probably negative. Hence, the Norwegian economy currently seems to be headed for a soft landing.

The disinflation continues



Source: Macrobond, Danske Bank

Calendar – 15-19 April 2024

Monday, April 15, 2024					Period	Danske Bank	Consensus	Previous
8:00	NOK	Trade balance	NOK bn	Mar				51.8
11:00	EUR	Industrial production	m/m/y/y	Feb		0.7% -5.5%		-3.2% -6.7%
14:30	USD	Empire Manufacturing PMI	Index	Apr		-5.0		-20.9
14:30	USD	Retail sales control group	m/m	Mar		0.3%		0.0%
16:00	USD	NAHB Housing Market Index	Index	Apr		51.0		51.0
Tuesday, April 16, 2024					Period	Danske Bank	Consensus	Previous
2:00	USD	Fed's Daly speaks						
4:00	CNY	Real GDP	q/q/y/y	1st quarter		1.6% 4.8%		1.0% 5.2%
4:00	CNY	Fixed assets investments	y/y	Mar		4.0%		4.2%
4:00	CNY	Industrial production	y/y	Mar		6.0%		
4:00	CNY	Retail sales	y/y	Mar		5.0%		
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Feb		5.8%		6.1%
8:00	GBP	Unemployment rate (3M)	%	Feb		4.0%		3.9%
10:00	ITL	HICP, final	m/m/y/y	Mar		... 1.3%		... 1.3%
11:00	DEM	ZEW current situation	Index	Apr		-78.0		-80.5
11:00	DEM	ZEW expectations	Index	Apr		34.0		31.7
11:00	EUR	Trade balance	EUR bn	Feb				28.1
14:30	CAD	CPI	m/m/y/y	Mar		... 3.0%		... 2.8%
14:30	USD	Housing starts	1000 (m/m)	Mar		1480		1521.0 (10.7%)
14:30	USD	Building permits	1000 (m/m)	Mar		1520		1524.0 (2.4%)
15:15	USD	Capacity utilization	%	Mar		78.5%		78.3%
15:15	USD	Industrial production	m/m	Mar		0.4%		0.1%
15:15	USD	Manufacturing production	m/m	Mar		0.1%		0.8%
Wednesday, April 17, 2024					Period	Danske Bank	Consensus	Previous
0:45	NZD	CPI	q/q/y/y	1st quarter		0.6% 4.0%		0.5% 4.7%
1:50	JPY	Exports	y/y (%)	Mar		0.1		0.1
1:50	JPY	Import	y/y (%)	Mar		0.0		0.0
1:50	JPY	Trade balance, s.a.	JPY bn	Mar		-280		-451.6
8:00	GBP	CPI	m/m/y/y	Mar		0.5% 3.1%		0.6% 3.4%
8:00	GBP	CPI core	y/y	Mar		4.1%		4.5%
11:00	EUR	HICP inflation, final	m/m/y/y	Mar	0.8% 2.4%	0.8% 2.4%		0.8% 2.4%
11:00	EUR	HICP - core inflation, final	y/y	Mar	2.9%	2.9%		2.9%
16:30	USD	DOE U.S. crude oil inventories	K					5841
17:45	EUR	ECB's Schnabel speaks						
22:00	USD	TICS international capital flow, Net inflow	USD bn	Feb				-8.8
23:30	USD	Fed's Mester speaks						
Thursday, April 18, 2024					Period	Danske Bank	Consensus	Previous
0:30	USD	Fed's Bowman speaks						
3:30	AUD	Employment change	1000	Mar		10		116.5
8:00	NOK	Industrial confidence (SSB)	Net. bal.	1st quarter				-4.9
10:00	EUR	Current account	EUR bn	Feb				39.4
14:30	USD	Initial jobless claims	1000					211
14:30	USD	Philly Fed index	Index	Apr		0.0		3.2
15:15	USD	Fed's Williams speaks						
15:15	USD	Fed's Bowman speaks						
16:00	USD	Existing home sales	m (m/m)	Mar		4.16		4.38 0.095
17:00	USD	Fed's Bostic speaks						
23:45	USD	Fed's Bostic speaks						
Friday, April 19, 2024					Period	Danske Bank	Consensus	Previous
1:30	JPY	CPI - national	y/y	Mar		2.8%		2.8%
1:30	JPY	CPI - national ex. fresh food	y/y	Mar		2.7%		2.8%
8:00	GBP	Retail sales ex fuels	m/m/y/y	Mar		0.2% 0.8%		0.2% -0.5%

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	2023	1.9	1.0	0.0	-5.0	13.4	8.6	3.3	4.1	2.8	3.5	29.7	13.2
	2024	2.1	2.2	1.3	-1.9	8.8	6.3	2.0	5.3	3.0	1.9	28.0	12.5
	2025	2.0	1.7	1.8	2.4	1.9	1.7	1.9	3.6	3.1	1.1	26.7	12.5
Sweden	2023	0.2	-2.5	1.8	-1.2	3.7	-0.6	8.6	3.8	7.7	-0.4	29.0	5.8
	2024	1.5	1.7	0.7	-0.5	3.0	2.9	2.5	3.3	8.3	-0.8	30.0	5.9
	2025	2.0	2.4	1.5	2.7	3.2	3.8	1.0	2.5	8.1	-0.8	30.0	5.6
Norway	2023	1.1	-0.7	3.6	0.3	1.4	0.7	5.5	5.3	1.8	-	-	-
	2024	1.1	1.3	2.0	4.0	3.5	1.5	3.8	4.7	2.3	-	-	-
	2025	2.1	2.5	1.6	4.0	2.0	1.8	2.0	3.5	2.5	-	-	-

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	2023	0.5	0.6	0.7	1.4	-0.9	-1.4	5.4	4.5	6.5	-3.2	90.6	2.5
	2024	0.5	0.7	0.9	1.8	1.2	1.9	2.4	4.3	6.6	-2.9	89.9	2.0
	2025	1.3	1.5	1.0	1.2	2.9	3.1	2.1	3.4	6.6	-2.7	89.0	2.0
Finland	2023	-1.0	0.4	4.5	-4.2	-1.7	-7.1	6.3	4.2	7.2	-2.7	75.8	-1.4
	2024	-0.4	0.2	0.1	-1.5	-2.0	-1.0	2.0	3.5	7.9	-3.6	78.0	-0.4
	2025	1.9	1.2	0.2	4.0	3.0	2.5	1.6	2.5	7.4	-2.8	78.7	0.0

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	2023	2.5	2.2	4.1	0.6	2.6	-1.7	4.1	4.3	3.6	-5.8	124.6	-3.0
	2024	2.0	1.6	3.5	2.1	2.3	2.8	3.3	3.2	3.9	-5.8	126.8	-2.8
	2025	1.4	1.1	2.0	3.6	2.9	4.4	2.4	2.5	4.2	-5.8	128.6	-2.6
China	2023	5.2	6.6	-	4.6	-	-	0.2	-	5.2	-7.1	83.0	1.5
	2024	4.5	5.5	-	3.8	-	-	0.7	-	5.2	-7.0	87.4	1.4
	2025	4.5	5.5	-	3.8	-	-	1.5	-	5.2	-7.3	91.8	1.1
UK	2023	0.1	-	-	-	-	-	7.3	-	4.0	-	-	-
	2024	0.0	-	-	-	-	-	2.5	-	4.5	-	-	-
	2025	1.0	-	-	-	-	-	1.9	-	4.9	-	-	-

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*	11-Apr	5.50	-	4.84	4.14	0.93	-	6.94	10.83	10.72
	+3m	5.25	-	4.24	3.90	0.92	-	6.84	10.73	10.46
	+6m	5.00	-	4.00	3.90	0.93	-	6.96	11.21	10.84
	+12m	4.75	-	3.80	3.90	0.95	-	7.10	11.52	10.95
EUR	11-Apr	4.00	3.85	3.26	2.70	-	1.07	7.4590	11.64	11.54
	+3m	3.75	3.61	3.00	2.65	-	1.09	7.4550	11.70	11.40
	+6m	3.50	3.40	2.75	2.65	-	1.07	7.4500	12.00	11.60
	+12m	3.00	2.95	2.50	2.65	-	1.05	7.4500	12.10	11.50
JPY	11-Apr	0.10	-	-	-	0.006	0.007	4.54	7.09	7.01
	+3m	0.10	-	-	-	0.006	0.007	4.72	7.40	7.21
	+6m	0.20	-	-	-	0.007	0.007	4.87	7.84	7.58
	+12m	0.20	-	-	-	0.007	0.007	5.07	8.23	7.82
GBP*	10-Apr	5.25	-	4.63	3.89	1.17	1.09	8.72	13.60	13.46
	+3m	5.00	-	4.31	3.70	1.14	1.24	8.47	13.30	12.95
	+6m	4.75	-	4.11	3.70	1.12	1.20	8.37	13.48	13.03
	+12m	4.50	-	3.90	3.70	1.12	1.18	8.37	13.60	12.92
CHF	10-Apr	1.50	-	-	-	1.02	1.10	7.61	11.87	11.75
	+3m	1.25	-	-	-	1.02	1.11	7.61	11.94	11.63
	+6m	1.00	-	-	-	1.03	1.10	7.68	12.37	11.96
	+12m	0.50	-	-	-	1.04	1.09	7.76	12.60	11.98
DKK	10-Apr	3.60	3.84	3.37	2.85	0.134	0.144	-	1.56	1.54
	+3m	3.35	3.55	3.20	2.85	0.134	0.146	-	1.57	1.53
	+6m	3.10	3.29	2.94	2.85	0.134	0.144	-	1.61	1.56
	+12m	2.60	2.80	2.65	2.85	0.134	0.141	-	1.62	1.54
SEK	10-Apr	4.00	3.99	3.39	2.83	0.087	0.093	0.65	1.01	-
	+3m	3.75	3.86	2.80	2.80	0.088	0.096	0.65	1.03	-
	+6m	3.50	3.59	2.68	2.86	0.086	0.092	0.64	1.03	-
	+12m	3.00	3.15	2.50	2.90	0.087	0.091	0.65	1.05	-
NOK	10-Apr	4.50	4.78	4.60	3.92	0.086	0.092	0.64	-	0.99
	+3m	4.50	4.60	4.25	3.70	0.085	0.093	0.64	-	0.97
	+6m	4.25	4.30	3.95	3.65	0.083	0.089	0.62	-	0.97
	+12m	3.50	3.80	3.70	3.60	0.083	0.087	0.62	-	0.95

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

Commodities

	10-Apr	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	91	82	78	86	83	82	80	80	80	82	80

Source Danske Bank

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