

23 August 2024

Weekly Focus

More soft manufacturing signals

Markets remained calm this week with risk sentiment improving further. Stock markets continued to trade higher taking S&P500 back to the recent highs reached in mid-July and cyclical metal prices increased as well. Bond yields drifted moderately lower in the US while EUR/USD continued higher to the highest level in a year. The next big market mover the market will be awaiting will come in two weeks with the US employment report on 6 September followed by the ECB meeting on 12 September.

In the euro area PMI data for July painted a soft picture as PMI manufacturing dropped from 45.8 to 45.6 (consensus 45.8). While PMI services increased from 51.9 to 53.3, it was driven mainly by a big increase in France related to the Olympics. The weaker manufacturing picture fits with the recent loss of manufacturing momentum witnessed in China. On the euro inflation front this week provided some encouraging news as negotiated wage growth for Q2 dropped to 3.6% y/y down from 4.7% y/y in Q1.

US economic news provided a mixed bag. PMI manufacturing also dropped here – from 49.6 to 48.0, the weakest number since December. PMI service, however, stayed at a robust level at 55.2. The leading indicator from Conference Board softened from -0.2% m/m to -0.6% m/m in July (consensus -0.4% m/m) but the indicator has not performed so well in the past couple of years as the economy has performed better than the indicator suggested. The weekly jobless claims get more attention with the increased focus on the labour market, but they did not provide much news as they were broadly unchanged at 232k versus 228k the week before. BLS released a preliminary annual revision of the employment data and reported a revision of -818k jobs. The market did not react much, though, and a couple of Fed speakers stated it did not change their view of the labour market.

Fed speakers as well as the FOMC minutes generally signalled more confidence with getting inflation back to 2% while some members have increasingly turned their attention to risks in the labour market. However, the overall message is still that a gradual path of rate reductions is expected for now but that it will be data dependent. Hence, a path of moving with 25bp increments is currently seen as most likely. The market currently prices 100bp of easing over the next three meetings, which entails a move to a 50bp cut on one of the meetings, which we do not expect. Should the labour market cool faster than expected, though, the Fed would likely turn to 50bp steps of easing as they start from a quite restrictive stance.

Focus the coming week will be on Flash euro area CPI for August, a key data point ahead of the ECB meeting on 12 September. Focus is on core inflation which we forecast to only marginally decline to 2.8% from 2.85% as service inflation likely remained sticky. The euro area also releases consumer confidence and unemployment numbers. In the US we get consumer confidence from Conference Board, where the labour market questions ‘jobs hard to get’ and ‘jobs plentiful’ will be in focus. Finally in Japan, we will get retail sales, industrial production and Tokyo CPI. China is not releasing any tier-1 data and policy rates will likely stay on hold after they were cut last month.

Key global views

- Global manufacturing cycle moving gradually higher
- Recession risk is still low
- US and EA inflation to decline further, but EA core remains sticky
- We expect the Fed and ECB to ease policy only gradually

Key market movers

- Mon: China policy rate,
- Tue: US consumer conf. (Conf. Board)
- Thu: Euro consumer confidence
- Fri: Euro Flash CPI and unemployment, US core PCE and personal spending, Japan Tokyo CPI, retail sales and IP

Selected reading from Danske Bank

- *FX Forecast Update - Turning point for the JPY but not for the USD, 21 August*
- *Riksbank Review: 25bp cut to 3.5% as expected, we adjust our call and expect more front-loaded cutting cycle, 20 August*
- *Global Inflation Watch: Price pressures moderating – but only gradually, 14 August*

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Scandi market movers

- In **Denmark**, we get the business sentiment indicators for August on Thursday. Sentiment improved for both services and manufacturing in July, with improving optimism in the former and less pessimism in the latter. Conversely, both construction and retail remained very pessimistic. We may see a negative effect from the market turmoil at the beginning of the month on the sentiment of those firms exposed to the global economic situation. Consumer sentiment soured in August which does not bode particularly well for spending, but we do expect it to pick up through the fall. For construction we may see an effect of potentially lower interest rates, though the outlook is uncertain.

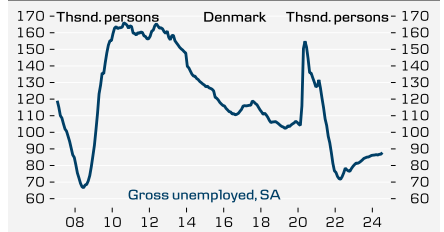
Friday brings final unemployment for July. The preliminary print showed an increase of 1000 persons, which is the largest increase since January 2023. Though unemployment is still at a very low level, it will be interesting to see if the final release shows the same.

- In **Sweden**, Riksbank the minutes of the latest monetary meeting will be released on Monday at 09.30 CET. Focus will be on whether there was any discussion about the possibility of 50bp rate cuts and what could trigger such moves going forward.

Most important data during the week is the Q2 GDP report. The (extremely uncertain) unofficial GDP indicator suggests a drop of 0.8% q/q, which we find hard to believe. In the run-up to the print (Thursday) there is a slew of July data in the form of household lending, PPI, trade balance and retail sales giving a hint to the start of Q3. In addition, NIER (Konjunkturinstitutet) releases the August confidence survey, where market's focus may have shifted from price expectations to confidence and growth indicators.

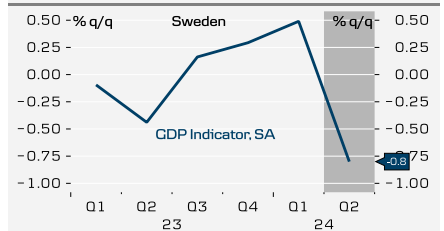
- In **Norway**, the coming week will bring monthly retail sales figures alongside labour market reports from both NAV (registered) and SSB (survey). Our expectations are for the releases to show a continued loosening in the labour market with a further rise in unemployment. We expect an unchanged registered unemployment rate of 2.1% which would still be 0.1pp above Norges Bank's expectation. The retail sales figures are subject to considerable monthly volatility and hence uncertainty although a monthly rebound is on the cards after a sharp June drop. Overall, card data does not suggest that private consumption has picked up meaningfully in Q3 and our baseline entails that of flat goods consumption in the coming months.

Flash unemployment showed the largest increase since January 2023



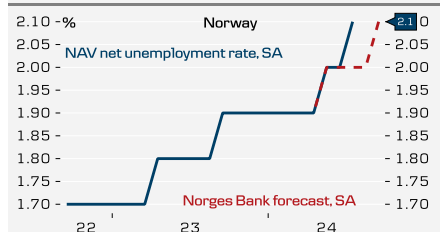
Sources: Statistics Denmark, Danske Bank, Macrobond Financial

Indicator suggests a weak GDP reading



Source: SCB, Danske Bank, Macrobond Financial

Unemployment to continue higher



Source: Norges Bank, NAV, Danske Bank, Macrobond Financial

Scandi Update

Denmark – Modest growth in Q2

GDP grew 0.6% q/q in Q2 while Q1 growth was revised up to -1.0% from -1.4%. Pharmaceuticals once again had a solid contribution, but both exports and industrial production showed broad improvements in Q2, so growth is not just due to pharma. On the investment side housing remains depressed, in particular due to low construction of new dwellings. Other fixed investments are still growing, however. Despite large wage increases, private consumption had a negative contribution with a 0.4% q/q drop. Moving forward, we expect this trend to shift as lower interest rates and real income growth boosts household finances.

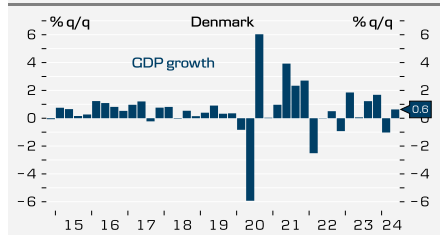
Perplexingly, consumer confidence declined for a second month in a row in August to -7.4. The decline was broad-based across subcomponents though consumers' view of their own and the Danish economic situation compared to a year ago took a particular turn for the worse. A possible explanation is the financial markets turmoil at the beginning of the month, which saw equity markets plummet amid fears of an oncoming US recession. Another is that the ghosts of the inflation crisis still haunt the minds of consumers. Many likely still feel that the purchasing power of their savings has been eaten up by the price increases, which explains both the depressed sentiment and the fact that consumption has yet to balloon, despite substantial real wage increases. Regardless, we still think confidence is going to improve going forward as real wages continue to rise and unemployment remains low.

The number of payrolls increased by 1,600 people from May to June. It is not surprising that Novo Nordisk is hiring more employees, but it is somewhat puzzling that companies in most other industries are also continuing to increase their staff. The economy grew by 1.3% last year, excluding the pharmaceutical industry, and normally such growth could be achieved with a relatively unchanged number of employed. It does not seem like the economy has picked up significantly so far this year, but employment continues to rise regardless. We still expect it to stop at some point, and then return to a more normal development, where economic growth is primarily driven by higher productivity. But for now, we simply have to acknowledge that the strong development continues.

Sweden – Updated Riksbank call

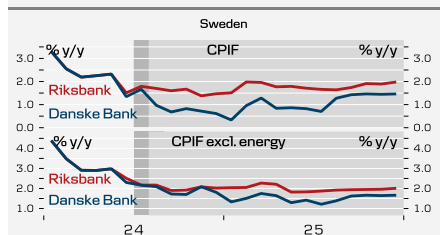
The Swedish Riksbank delivered a rate cut of 25bp to 3.5%, as expected. However, the message of “two to three” more rate cuts for 2024 was a tad on the dovish side to our expectations. In the statement, the bar to changing this outlook is also seemingly high as they seem confident that upside risks to inflation have “declined significantly”. As it was a “small” meeting, no new macro projections or rate path was uploaded. We have adjusted our call by adding a 25bp rate cut in September, meaning that we expect 25bp cuts at the three remaining meetings for 2024. For 2025, we expect three cuts during the first half of the year, reaching an endpoint of 2.00% by summer (previously 2.00% by Q4 25). Currently 29bp is expected for the September meeting, but we still believe that the bar for a 50bp cut is very high and require a significant deterioration in data to realize.

Modest increase in GDP in Q2



Source: Statistics Denmark, Danske Bank, Macrobond Financial

Our inflation forecast vs Riksbank



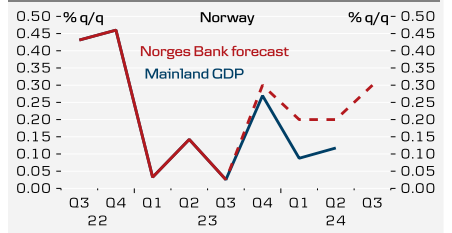
Source: SCB, Riksbank, Danske Bank, Macrobond Financial

Norway – Data releases keep Norges Bank rate cuts in play

Quarterly national account figures revealed disappointing mainland growth in Q2 of 0.1% q/q which alongside negative revisions paint a picture of a somewhat weaker mainland economy than Norges Bank has pencilled in. Also, the details revealed that the primary contribution to growth from private consumption came from car sales which will reverse in the coming quarter. Business investments surprised positively yet the overall interpretation of the figures is that of an economy characterised by weak growth, stagnating employment gains and close to zero productivity growth.

Our base case remains that Norges Bank will wait until March next year before delivering the first rate cut although the probability of a December rate cut has risen close to 50/50.

Mainland GDP lower than Norges Bank projected



Source: Norges Bank, Danske Bank, Macrobond Financial

Calendar – 26-30 August 2024

Monday, August 26, 2024				Period	Danske Bank	Consensus	Previous
7:00	JPY	Leading economic index, final	Index	Jun			108.6
10:00	DEM	IFO - business climate	Index	Aug		86.1	87.0
10:00	DEM	IFO - current assessment	Index	Aug		86.8	87.1
10:00	DEM	IFO - expectations	Index	Aug		86.5	86.9
14:30	USD	Core capital goods orders, preliminary	%	Jul		0.1%	0.9%
Tuesday, August 27, 2024				Period	Danske Bank	Consensus	Previous
3:30	CNY	Industrial profits	y/y	Jul			3.6%
8:00	SEK	PPI	m/mly/y	Jul			-0.4% 0.8%
8:00	SEK	Household lending	y/y	Jul			0.7%
8:00	DEM	GDP, final	q/qly/y	2nd quarter		-0.1% -0.1%	-0.1% -0.1%
8:00	DEM	Private consumption	q/q	2nd quarter			-0.4%
8:00	DEM	Government consumption	q/q	2nd quarter			-0.4%
8:00	DEM	Gross fixed investments	q/q	2nd quarter			1.2%
14:00	HUF	Central Bank of Hungary rate decision	%		6.75%	6.75%	6.75%
15:00	USD	FHFA house price index	m/m	Jun			0.0%
16:00	USD	Conference Board consumer confidence	Index	Aug		100.0	100.3
Wednesday, August 28, 2024				Period	Danske Bank	Consensus	Previous
-	EUR	Ireland, GDP, final	q/qly/y	2nd quarter			1.2% -1.4%
8:00	DKK	Retail sales	m/mly/y	Jul			-0.1% 0.8%
8:00	SEK	Trade balance	SEK bn	Jul			8.7
8:00	DEM	GfK consumer confidence	Net. Bal.	Sep		-18.4	-18.4
8:45	FRF	Consumer confidence	Index	Aug		92.0	91.0
10:00	EUR	Money supply (M3)	y/y	Jul		2.6%	2.2%
10:00	EUR	Loans to households [adj. for sales and sec.]	%	Jul			
10:00	EUR	Loans to NFCs [adj. for sales and sec.]	%	Jul			
16:30	USD	DOE U.S. crude oil inventories	K				-4649
Thursday, August 29, 2024				Period	Danske Bank	Consensus	Previous
-	USD	Fed's Bostic speaks					
7:00	JPY	Consumer confidence	Index	Aug		37.0	36.7
8:00	NOK	Retail sales, s.a.	m/m	Jul			-5.1%
8:00	SEK	Retail sales s.a.	m/mly/y	Jul			-0.3% -0.1%
8:00	SEK	GDP	q/qly/y	2nd quarter	-0.5% ...	-0.8% ...	0.7% 0.7%
9:00	SEK	Consumer confidence	Index	Aug			96.6
9:00	SEK	Economic Tendency Survey	Index	Aug			95.0
9:00	SEK	Manufacturing confidence	Index	Aug			97.0
9:00	ESP	HICP, preliminary	m/mly/y	Aug		... 2.4%	-0.7% 2.9%
11:00	EUR	Industrial confidence	Net bal.	Aug		-10.8	-10.5
11:00	EUR	Economic confidence	Index	Aug		95.8	95.8
11:00	EUR	Consumer confidence, final	Net bal.	Aug			-13.4
11:00	EUR	Service confidence	Net bal.	Aug		4.0	4.8
14:00	DEM	HICP, preliminary	m/mly/y	Aug		0.0% 2.3%	0.5% 2.6%
14:30	USD	GDP, revised	q/q AR	2nd quarter		2.8	2.8
14:30	USD	Initial jobless claims	1000				232
14:30	USD	PCE core	q/q AR	2nd quarter			2.9
14:30	USD	Advance goods trade balance	USD bn	Jul		-97.5	-96.6
16:00	USD	Pending home sales	m/mly/y	Jul			4.8% -7.8%

Source: Danske Bank

Calendar – 26-30 August 2024

Friday, August 30, 2024			Period	Danske Bank	Consensus	Previous
1:30	JPY	Unemployment rate	%	Jul	2.5%	2.5%
1:30	JPY	Job-to-applicant ratio		Jul	1.23	1.23
1:30	JPY	Tokyo CPI Ex-Fresh Food y/y	y/y	Aug	2.2%	2.2%
1:30	JPY	Tokyo CPI Ex-Fresh Food, Energy y/y	y/y	Aug	1.4%	1.5%
1:50	JPY	Retail trade	m/mly/y	Jul	0.4% 2.8%	0.6% 3.7%
1:50	JPY	Industrial production, preliminary	m/mly/y	Jul	3.6% 2.7%	-4.2% -7.9%
8:00	SEK	Wages (blue collars/white collars)	y/y	Jun		4.2%
8:00	DKK	Gross unemployment s.a.	K (%)	Jul		86 (2.9%)
8:00	DEM	Retail sales	m/mly/y	May	0.6% ...	-0.2% 2.9%
8:45	FRF	Household consumption	m/mly/y	Jul		-0.5% -1.0%
8:45	FRF	HICP, preliminary	m/mly/y	Aug	0.6% 2.1%	0.2% 2.7%
8:45	FRF	GDP, final	q/qly/y	2nd quarter	0.3% 1.1%	0.3% 1.1%
9:00	CHF	KOF leading indicator	Index	Aug	100.6	101.0
9:05	EUR	ECB's Schnabel speaks				
9:35	EUR	ECB's Schnabel speaks				
9:55	DEM	Unemployment	%	Aug	6.0%	6.0%
10:00	NOK	Norges Bank's daily FX purchases	m	Sep		400
10:00	NOK	Unemployment	%	Aug	2.1%	2.1%
11:00	ITL	HICP, preliminary	m/mly/y	Aug	-0.1% 1.3%	-0.9% 1.6%
11:00	EUR	Unemployment	%	Jul	6.5%	6.5%
11:00	EUR	HICP inflation, preliminary	m/mly/y	Aug	0.2% 2.2%	0.1% ...
11:00	EUR	HICP - core inflation, preliminary	y/y	Aug	2.8%	2.9%
11:00	EUR	HICP inflation, preliminary	y/y	Aug	2.2%	2.6%
12:00	EUR	Portugal, GDP, final	q/qly/y	2nd quarter		0.1% 1.5%
14:30	CAD	GDP	m/mly/y	Jun	0.1% ...	0.2% 1.1%
14:30	USD	PCE core	m/mly/y	Jul	0.2% 2.7%	0.2% 2.6%
14:30	USD	Personal spending	m/m	Jul	0.5%	0.3%
14:30	USD	PCE headline	m/mly/y	Jul	0.2% 2.6%	0.1% 2.5%
15:45	USD	Chicago PMI	Index	Aug		45.3
16:00	USD	University of Michigan Confidence, final	Index	Aug	67.8	67.8

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	2.5	1.3	0.2	-6.6	10.4	3.7	3.3	4.1	2.8	3.5	29.3	10.9
	2024	2.1	1.5	2.9	2.8	5.7	7.7	1.8	4.9	2.9	1.9	27.7	10.4
	2025	2.0	2.6	2.0	3.2	1.6	2.2	2.0	3.7	3.1	1.1	26.3	11.0
Sweden	2023	0.3	-2.2	1.3	-1.0	3.6	-0.7	8.6	3.8	7.7	-0.5	31.0	4.8
	2024	1.5	1.3	0.7	-0.3	1.9	1.4	2.5	3.5	8.4	-0.8	30.0	5.1
	2025	2.0	2.6	1.5	2.3	3.0	3.8	1.0	2.5	8.1	-0.6	30.0	4.7
Norway	2023	1.1	-0.8	3.4	0.0	1.4	0.7	5.5	5.3	1.8	-	-	-
	2024	0.9	0.6	2.0	4.0	3.5	1.5	3.4	5.1	2.1	-	-	-
	2025	2.0	2.5	1.6	4.0	3.0	1.8	2.0	3.8	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 ²	Public budget ³	Public debt ³	Current acc. ³
Euro area	2023	0.5	0.7	1.0	1.2	-0.4	-1.1	5.4	5.2	6.6	-3.6	90.2	2.9
	2024	0.7	0.8	1.5	1.0	0.1	0.4	2.4	4.4	6.5	-3.0	90.0	2.3
	2025	1.3	1.4	0.9	1.3	3.0	3.1	2.1	3.4	6.6	-2.8	90.5	2.0
Finland	2023	-1.2	0.2	3.4	-8.8	-0.1	-6.6	6.3	4.2	7.2	-2.7	76.6	-1.1
	2024	-0.4	0.5	1.0	-3.0	-2.5	-1.5	1.8	3.5	8.2	-3.9	79.5	-1.1
	2025	1.8	1.2	0.2	5.0	3.5	3.5	1.8	2.5	7.9	-2.7	80.0	-0.7

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	2.3	2.2	3.3	3.7	1.7	4.0	3.2	3.2	4.0	-5.8	126.8	-2.8
	2025	1.5	1.2	2.3	4.0	2.4	4.4	2.5	2.5	4.4	-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	5.2	6.2	-	4.6	-	-	0.7	-	5.2	-7.0	87.4	1.4
	2025	4.8	5.6	-	4.5	-	-	1.5	-	5.2	-7.3	91.8	1.1
UK	2023	0.1	-	-	-	-	-	7.3	-	4.0	-	-	-
	2024	0.8	-	-	-	-	-	2.4	-	4.4	-	-	-
	2025	1.1	-	-	-	-	-	1.9	-	4.5	-	-	-

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*	22-Aug	5.50	-	3.76	3.39	0.90	-	6.71	10.58	10.24
	+3m	5.25	-	4.10	3.84	0.92	-	6.84	10.64	10.46
	+6m	5.00	-	3.96	3.91	0.93	-	6.97	11.12	10.93
	+12m	4.50	-	3.70	3.90	0.94	-	7.03	11.51	11.04
EUR	22-Aug	3.75	3.54	2.69	2.47	-	1.11	7.4615	11.76	11.38
	+3m	3.50	3.50	2.95	2.72	-	1.09	7.4575	11.60	11.40
	+6m	3.25	3.24	2.82	2.75	-	1.07	7.4550	11.90	11.70
	+12m	2.75	2.85	2.70	2.80	-	1.06	7.4550	12.20	11.70
JPY	22-Aug	0.25	-	-	-	0.006	0.007	4.59	7.24	7.00
	+3m	0.25	-	-	-	0.006	0.007	4.78	7.44	7.31
	+6m	0.50	-	-	-	0.007	0.007	4.98	7.94	7.81
	+12m	1.00	-	-	-	0.007	0.007	5.21	8.53	8.18
GBP*	22-Aug	5.00	-	4.11	3.63	1.18	1.06	8.79	13.86	13.41
	+3m	4.75	-	4.15	3.77	1.20	1.31	8.98	13.98	13.73
	+6m	4.50	-	4.08	3.74	1.19	1.27	8.88	14.17	13.93
	+12m	4.25	-	3.90	3.75	1.18	1.25	8.77	14.35	13.76
CHF	22-Aug	1.25	-	-	-	1.06	1.17	7.88	12.42	12.01
	+3m	1.00	-	-	-	1.04	1.14	7.77	12.08	11.88
	+6m	0.75	-	-	-	1.05	1.13	7.85	12.53	12.32
	+12m	0.75	-	-	-	1.06	1.13	7.93	12.98	12.45
DKK	22-Aug	3.35	3.42	2.77	2.61	0.134	0.149	-	1.58	1.53
	+3m	3.35	3.40	3.05	2.86	0.134	0.146	-	1.56	1.53
	+6m	3.10	3.14	2.92	2.91	0.134	0.144	-	1.60	1.57
	+12m	2.60	2.75	2.80	2.95	0.134	0.142	-	1.64	1.57
SEK	22-Aug	3.50	3.39	2.32	2.23	0.088	0.098	0.66	1.03	-
	+3m	3.00	3.16	2.58	2.64	0.088	0.096	0.65	1.02	-
	+6m	2.50	2.84	2.48	2.83	0.085	0.091	0.64	1.02	-
	+12m	2.00	2.30	2.40	2.85	0.085	0.091	0.64	1.04	-
NOK	22-Aug	4.50	4.85	3.87	3.43	0.085	0.094	0.63	-	0.97
	+3m	4.50	4.78	4.15	3.78	0.086	0.094	0.64	-	0.98
	+6m	4.50	4.60	4.01	3.80	0.084	0.090	0.63	-	0.98
	+12m	4.00	4.15	3.75	3.80	0.082	0.087	0.61	-	0.96

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

Commodities

	22-Aug	2024				2025				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025
ICE Brent	77	82	85	80	80	85	85	85	85	82	85

Source Danske Bank

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