

Executive Briefing

War and signs of soft landing

Further uncertainty was added to the global economy with the Hamas attack on Israel and breakout of war. In itself, Israel is only a relatively small producer of natural gas but given the strained gas market in Europe, there was an initial reaction in the form of higher prices. Oil prices were also modestly higher, driven by the risk that the conflict will escalate further and for example lead to tightened sanctions against Iran. Potentially, higher energy prices could give both a positive impulse to inflation and a negative impulse to growth, creating a dilemma for central banks, which would normally not react strongly to such supply shocks but might have to now, given that inflation is already too high. However, energy prices are less likely to rise sharply now than for example last year, were the global economy was growing strongly. The situation clearly adds to the already large geopolitical tensions and creates further uncertainty and risk aversion among investors, although the global economic impact for now is not large.

Economic data has been mixed in the US. Annualised GDP growth was 4.9% in Q3 largely driven by consumer spending, but growth indicators for October pointed somewhat down, and the October job report was weaker than expected. Inflation was higher than expected in September, but despite the high numbers, the Fed kept interest rates unchanged. As previously, the thinking is that just maintaining high interest rates will dampen the economy and inflation going forward, now also with the addition of continuously increasing long-term bond yields, which are reflected in for example 30-year mortgage rates approaching 8%. We also expect tightening financial conditions to dampen the economy markedly going forward, and still see a risk for a hard landing.

In Europe, inflation is clearly declining. According to the ECB's calculations, core prices (excluding energy and food) have increased less month to month in both September and October than they would if inflation was running steadily at 2% per year. This should be taken with a grain of salt and wage pressures are still likely to lead to more inflation going forward, but the likelihood of more rate hikes from the ECB has become small, in our view, not least since higher bond yields in the US are also affecting Europe. The euro area economy is stagnating with GDP declining 0.1% in Q3 and with more small signs of weakness appearing in the labour market, as unemployment increased to 6.5% in September from the all-time low of 6.4%. These data are consistent with a soft landing for the euro area economy, but it is too soon to conclude that we are in fact seeing that.

The Bank of Japan tweaked its monetary policy by removing its pledge to buy an unlimited amount of bonds if necessary to prevent 10-year yields to exceed 1%. The bank has also lifted its inflation forecast for fiscal 2024 to 2.8% from 1.9% in a sign that it is coming around to the view that inflation above 2% is not only a short-run phenomenon. We see this month's tweak as a further cautious step towards normalisation of monetary policy.

Our impression from China is that growth is significantly constrained by weak consumer and business sentiment and that there is definite risk of financial crisis related to the housing sector. On the other hand, the government is showing signs of increasing stimulus and going for rather high growth of 5%, see [Postcard from China](#), 31 October 2023.

Key points

- The accelerating tensions in the Middle East could lead to higher energy costs and hence higher inflation and weaker growth, but the reaction has so far been modest.
- US data is mixed, but the Fed seems to be on hold despite inflation still exceeding target.
- Euro area data is consistent with a soft landing, as inflation has declined quite sharply, the economy is stagnating and unemployment rising marginally.
- The Nordic countries are in general following the same pattern, but with large variations but within and between countries.
- Financial markets have seen declining risk appetite especially for credit bonds and continued increases in long-term yields, although with a lot of volatility.

Denmark

Economic data for Denmark continues to paint a mixed picture with strong growth in parts of manufacturing driven by Novo Nordisk and contraction in other parts, weakness in housing construction but much less so in construction overall, low consumer spending on durable goods but high spending on travel and restaurants. Unemployment is rising, but so far very slowly. Inflation was as low as 0.9% y/y in September and likely even lower in October. The very low numbers are driven by a strong base effect from energy prices which will reverse somewhat, but inflation has clearly surprised to the downside. House prices are increasing slowly while apartment listings for sale has gone up, likely driven by a wish to finalise sales before a new tax system comes into effect in 2024.

Sweden

September inflation was higher than the Riksbank's forecast, which raises the probability for a rate hike in November; however, there will be another inflation number before the meeting which may mitigate the impression of the September outcome. The Riksbank's Business Survey in September was surprisingly positive and reported that competition puts downward pressure on prices as companies revised down their plans for future price increases. The Debt Office released a new forecast where their borrowing plan was in line with expectations, however, they commented that the next borrowing report (due Feb-24) will include an estimate on the Riksbank recapitalisation which will seemingly be along the lines of SEK80bn. GDP for Q3 was lower than expected and unchanged from Q2. Note however that there is large uncertainty in the preliminary figures as it often comes with major revisions for the final figure.

Norway

There is a clear slowdown in activity at the moment, mainly driven by weak private consumption and residential investments and signs of weaker growth in corporate investments as well. The labour market remains tight, but is clearly also weakening. The construction sector is facing headwinds and the export industries are now starting to feel the effect of weaker global growth. Norges Bank kept the policy rate unchanged at 4.25 %, but is keeping the door open for further hikes if needed.

Finland

The Finnish economy is in a shallow recession. Despite better than expected H1, we expect the GDP to shrink 0.2% in 2023 as foggy outlook and headwinds from high interest rates freeze consumption, housing construction and manufacturing investment. Unemployment rises in some industries, like construction, while others, like healthcare, suffer from labour shortages. Wages rise roughly 4% in 2023 and 2024. Consumer confidence is below average and purchase intentions low. Housing construction is going to fall significantly and stay low in 2024. Outlook for 2024 includes positive factors, as falling inflation improves consumer purchasing power and expected decline in interest rates should boost sentiment. Housing market has remained quiet but stable this year. Demand for housing loans has stayed flat at roughly 1/3 below normal. The Finnish government lowers the transfer on real estate and abolishes tax exemption for first-time home purchases at year-end. This will increase the number of housing transactions before the year-end.

Unemployment slowly rising



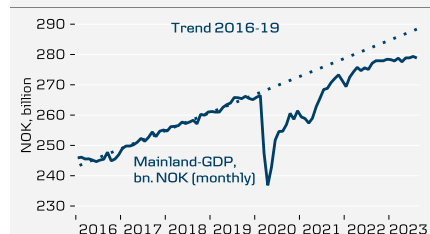
Source: Statistics Denmark, Macrobond Financial

Is inflation in Sweden still too hot to handle?

September 2023	Danske	Market	Riksbank	Actual	Diff vs Riksbank
CPI % MoM	0.0	0.3	0.5	0.5	0.1
CPI % YoY	5.9	6.3	6.4	6.5	0.1
CPIF % MoM	-0.1	0.2	0.4	0.4	0.2
CPIF % YoY	3.5	3.7	3.8	4.0	0.2
CPIF excl. Energy % MoM	0.2	0.3	0.5	0.5	0.3
CPIF excl. Energy % YoY	6.6	6.7	6.6	6.9	0.3

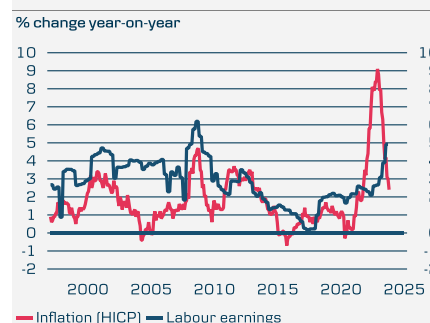
Source: SCB, Bloomberg, Danske Bank, Riksbank

Activity is levelling off



Source: Macrobond Financial

Real earnings growing again



Source: Macrobond Financial, Statistics Finland

Currency markets

Cyclically sensitive and commodity exporting currencies like CAD, SEK, NZD and not least NOK have weakened. After a strong summer performance, the NOK has been last month's underperformer with EUR/NOK moving up to 11.85. The SEK rally has come to a halt despite the Riksbank continuing its hedging (SEK buying) of the FX reserve. From mid-July to early October, EUR/USD declined c. 7%. The decline has stopped with the cross range trading in October. Among the better performing currencies, we find HUF and PLN, which both have enjoyed more idiosyncratic tailwinds, not least the Polish election. The CHF has benefitted from safe haven flows following the escalating conflict in the Middle East even if EUR/CHF has rebounded towards the very end of October. Finally, EUR/DKK has continued its trajectory higher reaching new highs just short of 7.4650 – completing a steady shift away from the low spot levels characterising 2021 and 2022.

Bond markets

Another volatile month for yields with 10Y EUR swap rates topping at 3.5% and ending October at 3.18%. One driver may well be investors demanding higher term premiums for buying longer bonds given the higher duration risk and supply in the market. Short-end yields dropped during the month, as expectations for more ECB hikes faded. EUR covered bonds are still repricing and spreads are getting more attractive for asset managers and hedge funds. In Danish mortgage bonds, spreads tightened in lower coupon callables but with a marginal widening in higher coupon callables. Issuance is still in 5% 2056 callable bonds at price 98. Buybacks accelerated, leading the net supply in callables back to negative. Next month, focus will be on the refinancing auctions in Flex and Floater bonds with the bulk part of the supply in 1Y flex bonds (DKK 55bn expected) and low supply in 3Y and 5Y flex bonds. Spreads looks fair in the short end of the flex bonds currently.

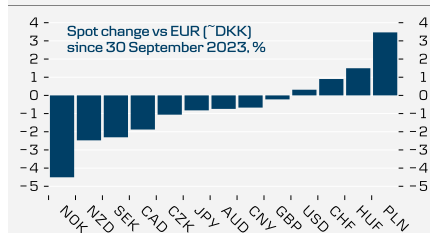
Credit markets

October was a rough month for credit with marked widening in both synthetic indices and cash bonds though sentiment did improve towards the end of the month. The challenging market conditions are also visible from primary market statistics where we have seen very low activity – even adjusting for the typically slow October due to blackout period – with particularly corporate issuance almost coming to a halt. Usually, this would have been positive for spreads (as low activity tends to make investors buy bonds in the secondary market), but the seasonally more positive technical backdrop did not materialize in spreads. Cash bonds are trading markedly tighter than CDS indices and absent further shocks to the market (which tend to impact CDS indices faster than cash bonds), we believe the discrepancy has become unsustainably large.

Equities

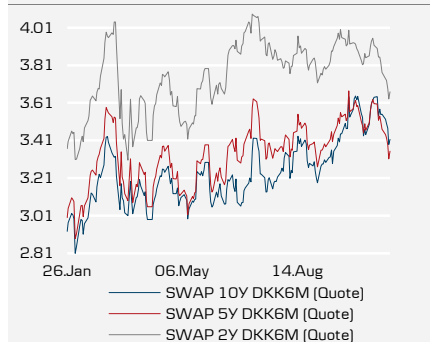
October was yet another challenging month for equities but not for the classic reasons. Macro surprises were positive, yields rose, inflation came lower, and the earnings results were better than expected, with surprise factor being above the long-term average. In other words, good data being perceived as negative for equities continued in October. It is earnings season, 58% of the S&P500 companies have reported as of end-October. Earnings surprise factor is 8.3% while revenues are running 1.0% ahead of analysts' estimates. In isolation, this should be supportive for equities. Looking ahead, we see a good chance of better equity performance in the coming months. Most of the drivers behind the weak performance the last three months have turned in a more benign direction and hence we see more upside potential short-term.

FX. Sorted spot returns vs EUR



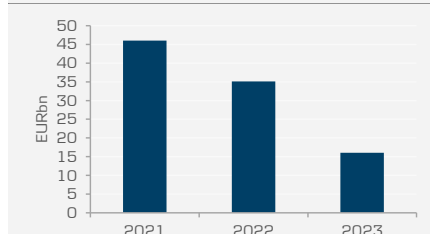
Past performance is not a reliable indicator of current or future results. Source: Macrobond Financial

Large volatility in yields



Past performance is not a reliable indicator of current or future results. Source: Danske Bank

October primary supply much lower



Past performance is not a reliable indicator of current or future results. Source: Bloomberg

Q3 Earnings surprise factor after 289 companies in the S&P500 reported

S&P 500	8.3%
Consumer Discretionary	19.1%
Information Technology	11.8%
Financials	9.7%
Communication Services	9.4%
Health Care	8.9%
Industrials	7.2%
Materials	5.9%
Consumer Staples	4.8%
Utilities	3.9%
Real Estate	2.6%
Energy	-4.6%

Past performance is not a reliable indicator of current or future results. Source: Refinitiv and Danske Bank

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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	4.2	4.1	3.6	-5.4	123.6	-3.1
	2024	1.1	0.2	2.9	3.1	-1.6	0.5	2.3	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) % 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*	02-Nov	5.50	-	4.81	4.31	0.94	-	7.03	11.18	11.14
	+3m	5.50	-	4.57	4.33	0.93	-	6.97	11.31	10.75
	+6m	5.25	-	4.28	4.09	0.94	-	7.03	11.42	11.04
	+12m	4.75	-	3.95	3.85	0.97	-	7.23	11.65	11.46
EUR	02-Nov	4.00	3.92	3.50	3.22	-	1.06	7.4634	11.87	11.83
	+3m	4.00	3.94	3.59	3.18	-	1.07	7.4550	12.10	11.50
	+6m	4.00	3.72	3.39	3.04	-	1.06	7.4500	12.10	11.70
	+12m	3.50	3.25	2.95	2.90	-	1.03	7.4500	12.00	11.80
JPY	02-Nov	-0.10	-	-	-	0.006	0.007	4.67	7.43	7.40
	+3m	-0.10	-	-	-	0.007	0.007	4.91	7.96	7.57
	+6m	0.00	-	-	-	0.007	0.008	5.32	8.65	8.36
	+12m	0.00	-	-	-	0.007	0.008	5.56	8.96	8.81
GBP*	02-Nov	5.25	-	4.87	4.23	1.15	1.08	8.56	13.61	13.56
	+3m	5.25	-	4.88	4.28	1.14	1.22	8.47	13.75	13.07
	+6m	5.25	-	4.69	4.09	1.12	1.19	8.37	13.60	13.15
	+12m	4.75	-	4.50	3.95	1.12	1.16	8.37	13.48	13.26
CHF	02-Nov	1.75	-	-	-	1.04	1.10	7.75	12.33	12.29
	+3m	1.75	-	-	-	1.06	1.14	7.93	12.87	12.23
	+6m	1.75	-	-	-	1.08	1.14	8.01	13.01	12.58
	+12m	1.25	-	-	-	1.08	1.11	8.01	12.90	12.69
DKK	02-Nov	3.60	3.95	3.63	3.39	0.134	0.142	-	1.59	1.58
	+3m	3.60	3.99	3.74	3.33	0.134	0.144	-	1.62	1.54
	+6m	3.60	3.77	3.54	3.19	0.134	0.142	-	1.62	1.57
	+12m	3.10	3.30	3.10	3.05	0.134	0.138	-	1.61	1.58
SEK	02-Nov	4.00	4.09	3.78	3.29	0.085	0.090	0.63	1.00	-
	+3m	4.00	4.12	3.87	3.24	0.087	0.093	0.65	1.05	-
	+6m	4.00	4.03	3.48	2.98	0.085	0.091	0.64	1.03	-
	+12m	3.50	3.53	3.10	2.90	0.085	0.087	0.63	1.02	-
NOK	02-Nov	4.25	4.82	4.60	4.07	0.084	0.089	0.63	-	1.00
	+3m	4.25	4.57	4.42	3.98	0.083	0.088	0.62	-	0.95
	+6m	4.00	4.26	4.13	3.74	0.083	0.088	0.62	-	0.97
	+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		
	02-Nov	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024	
ICE Brent	87	82	78	86	85	80	80	80	80	83	80	

Source Danske Bank

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