

6 September 2024

Weekly Focus

Focus on US CPI and ECB meeting

This week, we published our updated macroeconomic projections for the main economies and the Nordics. We expect euro area and US growth rates to converge as the US economy is now losing steam, and the euro area economy is gradually picking up speed. We expect inflation to stabilise close to central bank targets by next year and interest rates to decline significantly, albeit not back to zero. The risk picture has changed, as upside inflation risks are less pronounced while downside growth risks have risen. That said, soft landing remains our base case. Nordic economies are expected to follow the trend and witness accelerating growth towards 2025. Read more on *Nordic Outlook – Normalising economies, with risks*, 3 September.

As the risk of inflation remaining too high for too long has abated, central banks can afford to front-load rate cuts compared to what we expected before. We have revised our calls both for the Fed and the ECB. We now expect the Fed to conduct 25bp rate cuts at each meeting until summer next year, starting this month. We expect the ECB to cut rates by 25bp both in next week's meeting, and again in December, and follow with three more cuts in 2025. If we are right, policy rate would land at 3.00-3.25% in the US and at 2.50% in the euro area by year-end 2025. Our forecast remains hawkish relative to market pricing, and the risks are tilted towards even lower rates.

The week in financial markets played an already familiar tune as risk appetite was poor on most days and volatility increased, while USD and short-term interest rates declined. Underperformance in the tech sector has been linked to sector rotation and earnings disappointments, but rising stock market volatility is also in line with weaker macro momentum and tighter liquidity in the global financial system, as central banks continue to taper their balance sheets.

Next week's main event will be the ECB meeting on Thursday where a 25bp cut now seems like a done deal. Wage growth in euro area declined significantly in the second quarter to 4.3% y/y from 4.8% y/y in Q1, measured by the ECB's closely watched compensation per employee measure. Hence, despite service inflation remaining high for now, ECB can be more confident that underlying price pressures are abating, and inflation will return to target. But even so, weak productivity and labour force growth suggest that euro area's potential growth remains weak. At roughly similar growth rates, the euro area is more prone to overheating and re-emerging inflationary pressures compared to the US.

Next week's key data point will be the US August CPI due on Wednesday. We forecast headline inflation easing to +0.1% m/m SA (2.5% y/y) but core inflation remaining steady at +0.2% m/m SA (3.2% y/y). On the political front, Kamala Harris and Donald Trump will have their first face-off in a live debate on Tuesday evening US time. Read more about the current outlook from our first *US Election Monitor - Latest data shows Harris in a narrow lead*, 6 September. Also, in China focus will be on Monday's CPI data. We expect rising headline inflation to 0.7% y/y from 0.5% in July, but core inflation will likely stay lower. China August trade data is released on Tuesday, and it will be interesting to see whether China's exports continue to reflect the persistent weakness in global manufacturing.

Key global views

- Global manufacturing cycle moving gradually higher
- Upside inflation risks have diminished, and focus has shifted to downside growth risks
- Fading uncertainty around inflation outlook allows the Fed and ECB to front-load rate cuts

Key market movers

- Monday: China CPI and PPI, EA Sentix
- Tuesday: China trade data, Harris-Trump debate
- Wednesday: US CPI
- Thursday: ECB meeting
- Friday: EA industrial production

Selected reading from Danske Bank

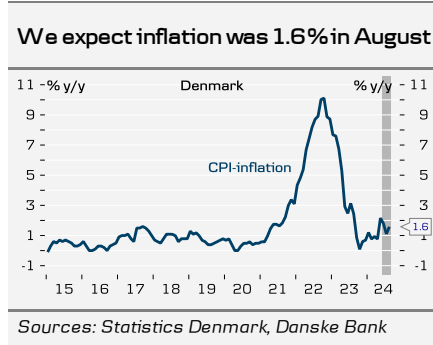
- *Nordic Outlook: Normalising economies, with risks*, 3 September
- *Yield Outlook – Faster route to 'normality'*, 3 September
- *US Election Monitor - Latest data shows Harris in a narrow lead*, 6 September

Editor

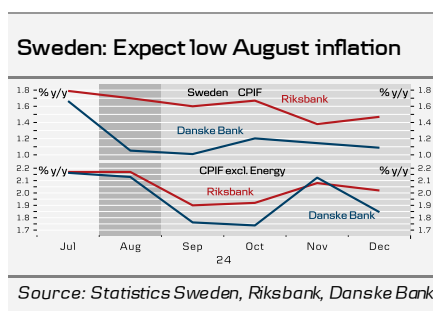
Director
Minna Kuusisto
+358 442 609 979
minna.kuusisto@danskebank.com

Scandi market movers

- In **Denmark**, the week begins with foreign trade and current account for July, due for release on Monday. Exports made a positive contribution to GDP in Q2, in particular due to exports of pharmaceuticals pulling up the current account balance. This print will give us an idea of the extent to which this has continued into Q3.
- Then, on Tuesday, we will get inflation for August. We expect an increase to 1.6% from 1.1% in July, as base effects on particularly electricity and food pull higher. Much will also depend on the extent of the price decline in summer house rentals following a large holiday price spike.



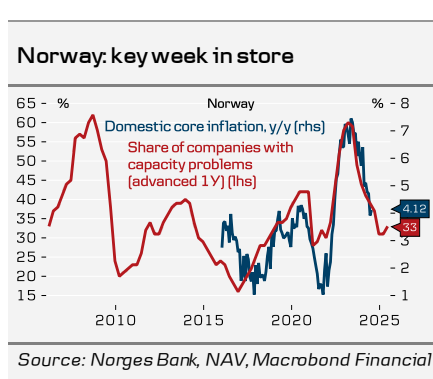
- We expect CPIF inflation in **Sweden** to drop significantly to 1.1% y/y in August, causing a big (0.6 p.p.) deviation to Riksbank's forecast. Our forecast for CPIF excl. energy (2.1% y/y) is, however, very close to Riksbank's ditto. If correct, the question for the market is to what extent Riksbank in its monetary policy considerations will try to "see through" such an outcome. The implication is that such low inflation prints mean that the realized real repo rate is rising – tightening monetary policy, rather than easing it as intended by Riksbank.



Looking at the monthly drivers, August is usually coloured by big price reductions in transportation services and recreation categories, simply because travel and holiday expenses fall back after several months of price gains. Food prices usually fall in August while clothing instead rebounds after the summer sales. Energy will, according to our calculations, again give big negative contributions. This is mainly because of lower electricity prices, however, car fuel prices also took a dive in August.

Looking further ahead we expect CPIF's difference versus Riksbank's forecast to prevail. Our current forecast suggests CPIF excl. energy will drop to 1.8% y/y in September, aggravating the low recent CPIF prints.

- In **Norway** the coming week will bring the final two data releases ahead of the 19 September Norges Bank rate announcement. First, we get the monthly inflation release. Like in most other parts of the world the last year has been characterised by disinflation which has brought core inflation momentum back close to 2%. We expect core inflation next week to print at 3.2% y/y which would continue the trend of lower-than-expected inflation with Norges Bank pencilling in a release of 3.6% y/y. We expect most drivers to show a broad-based decline in price pressures, but we will especially monitor developments on domestic service price inflation.



Secondly, we get the Regional Network Survey where details on capacity utilisation might be the deciding factor as to the Norges Bank message on 19 September. While back in June Norges Bank told markets not to speculate in Norwegian rate cuts this year recent developments both domestically and globally have significantly lifted the probability of a rate cut this side of Christmas. Should capacity utilisation metrics turn over significantly we stand ready to adjust our current call for the first Norges Bank rate cut to not come until March 2025.

Scandi Update

Denmark – Strong start to Q3 in manufacturing

Industrial production jumped 7.3% in July compared to June, supported by a very strong pharmaceuticals industry which saw a 10.1% increase in production. Manufacturing outside pharmaceuticals also had a good month, however, with production up 5.5%. This is despite a slowdown in global manufacturing and headwind from weaker eurozone manufacturing but could reflect a catch-up after a couple of slow months. We have recently seen how activity in manufacturing is a strong indicator for growth in a quarter, so this print bodes well for Q3 GDP.

Unemployment was likely unchanged in August as the flash indicator from Jobindsats showed a modest increase of just 200 persons. Compared to last year there are now 3000 more unemployed persons which shows that the labour market has become considerably less tight. This is well aligned with the slowdown in activity we have seen in the first half of the year compared to 2023 coupled with a large increase in real wages, though unemployment has barely changed since January meaning that the labour market is by no means weak.

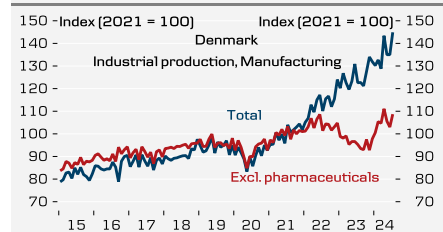
The downwards trend in bankruptcies stalled in August as 214 active companies went bust, adjusted for seasonality, which was a few more than in July. The monthly number of bankruptcies is significantly lower than in the past 18 months but remains somewhat elevated compared to pre-2022. The number of lost jobs because of bankruptcies continued its downwards trend, however, suggesting employees are still able to find new jobs despite their employer going out of business.

Sweden – Not as bad GDP print as feared

Swedish Q2 GDP was not as weak as feared: -0.3% q/q SA vs GDP indicator suggesting -0.8% q/q. Q1 was revised marginally higher to +0.8% q/q. Details show that consumption dropped marginally (hence quite OK), while there was a set-back in gross fixed investments (hopefully just a temporary dip). Inventory change detracted by a significant -0.6 p.p. Question here is why since net exports contributed significantly to growth, adding 0.9 p.p. It could be the case that inventory drawdown come on the back of rising exports. To sum up: there is still some life in the Swedish economy.

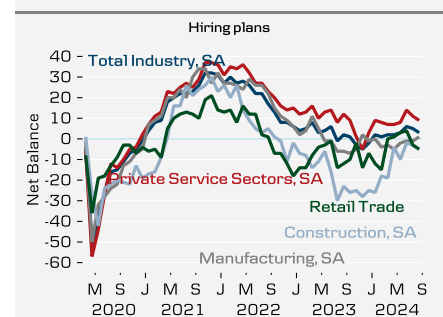
NIER survey: The overall indicator was almost unchanged (94.7) compared to last month (95). The unchanged sentiment looks to be broad based if looking at the different sectors. No change in order inflow either. On the positive note, hiring plans in the manufacturing industry is now in positive territory i.e. plans to increase the workforce from here. Both retail trade and the construction sector continue to flag for decreasing the workforce from here. All in all, NIER continues to show a below-normal sentiment for the economy as a whole, although we have seen broad-based improvements over the past year.

Industrial production jumped 7.3% m/m in July and 5.5% outside pharma



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Hiring plans according to NIER

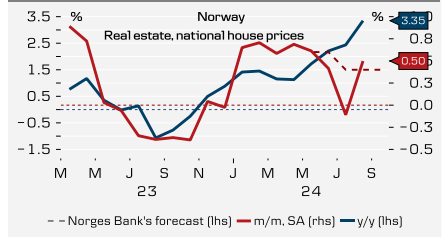


Source: NIER, Macrobond

Norway – house prices rose in August

It has been a quiet week in terms of domestic data releases. The week has brought August house prices showing a monthly rise of 0.5% m/m seasonally adjusted which was slightly higher than Norges Bank’s projection and market expectations. While the housing market has generally done better in recent years than expected amid Norges Bank’s rate hikes we had seen house prices ease slightly in June and July. Overall, we expect house prices to continue to rise modestly in the coming year as not least the supply situation in Oslo remains very tight and since real disposable incomes are rebounding across the country.

House prices remain slightly lower than Norges Bank’s projections



Source: Norges Bank, Macrobond,

Calendar – 9-13 September 2024

During the week					Period	Danske Bank	Consensus	Previous
Sat 07	CNY	Foreign exchange reserves	USD bn	Aug		3292.0	3256.4	
Mon 09	CNY	Money supply M2	y/y	Aug		6.2%	6.3%	
Mon 09	DEM	Retail sales	m/mly/y	May		0.1% ...	-0.2% ...	
Monday, September 9, 2024					Period	Danske Bank	Consensus	Previous
-	DEM	Retail sales	m/mly/y	May		0.1% ...	-0.2% ...	
-	CNY	Money supply M2	y/y	Aug		6.2%	6.3%	
1:50	JPY	GDP deflator, final	y/y	2nd quarter		3.0%	3.0%	
1:50	JPY	GDP, final	q/q ann.	2nd quarter		0.8% 3.2%	0.8% 3.1%	
3:30	CNY	PPI	y/y	Aug		-1.5%	-0.8%	
3:30	CNY	CPI	y/y	Aug		0.7%	0.5%	
8:00	DKK	Current account (nsa sa)	DKK bn	Jul			... 28.0	
10:30	EUR	Sentix Investor Confidence	Index	Sep		-11.0	-13.9	
21:00	USD	Consumer credit	USD bn	Jul		11.2	8.9	
Tuesday, September 10, 2024					Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Aug		81.0	84.7	
8:00	NOK	Core inflation (CPI-ATE)	m/mly/y	Aug		... 3.2%	0.8% 3.3%	
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Jul			5.4%	
8:00	GBP	Unemployment rate (3M)	%	Jul			4.2%	
8:00	SEK	Industrial orders	m/mly/y	Jul			2.6% 0.8%	
8:00	SEK	Private Sector Production	m/mly/y	Jul			0.0% 1.5%	
8:00	SEK	Household consumption	m/mly/y	Jul			-0.6% 1.1%	
8:00	NOK	CPI	m/mly/y	Aug		0.5% 2.8%		
8:00	NOK	PPI	m/mly/y	Aug			0.1% 6.5%	
8:00	DKK	CPI	m/mly/y	Aug		-0.2% 1.6%	1.1% 1.1%	
8:00	DEM	HICP, final	m/mly/y	Aug		-0.2% 2.0%	-0.2% 2.0%	
12:00	USD	NFIB small business optimism	Index	Aug		93.7	93.7	
Wednesday, September 11, 2024					Period	Danske Bank	Consensus	Previous
8:00	GBP	Monthly GDP estimate	m/m q/q	Jul			0 0.9%	
8:00	GBP	Index of services	m/m 3m/3m	Jul			-0.1% 0.8%	
14:30	USD	CPI headline	m/mly/y	Aug		0.1% 2.5%	0.2% 2.6%	
14:30	USD	CPI core	m/mly/y	Aug		0.2% 3.2%	0.2% 3.2%	
16:30	USD	DOE U.S. crude oil inventories	K				-6873	
Thursday, September 12, 2024					Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Aug			-0.2	
8:00	SEK	Underlying inflation CPIF	m/mly/y	Aug		... 1.1%	0.1% 1.7%	
8:00	SEK	Underlying inflation CPIF excl energy	m/mly/y	Aug		... 2.1%	0.1% 1.7%	
8:00	SEK	CPI	m/mly/y	Aug			0.1% 2.6%	
9:00	ESP	HICP, final	m/mly/y	Aug			0.0% 2.4%	
14:15	EUR	ECB announces deposit rate	%			3.50%	3.50%	
14:15	EUR	ECB's Lagarde speaks at press conference						
14:30	USD	Initial jobless claims	1000				227	
14:30	USD	PPI	m/mly/y	Aug		0.2% 1.8%	0.1% 2.2%	
14:30	USD	PPI core	m/mly/y	Aug		0.2% ...	0.0% 2.4%	
14:45	EUR	ECB's Lagarde speaks						
20:00	USD	Budget statement	USD bn	Aug			-243.7	
Friday, September 13, 2024					Period	Danske Bank	Consensus	Previous
6:30	JPY	Industrial production, final	m/mly/y	Jul			2.8% 2.7%	
8:45	FRF	HICP, final	m/mly/y	Aug			0.6% 2.2%	
11:00	EUR	Industrial production	m/mly/y	Jul		-0.3% -2.1%	-0.1% -3.9%	
12:30	RUB	Central Bank of Russia rate decision	%				18.0%	
14:30	USD	Import prices	m/mly/y	Aug		-0.3% ...	0.1% 1.6%	
16:00	USD	University of Michigan Confidence, preliminary	Index	Sep		69.0	67.9	

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	3.3	33.6	9.8
	2024	1.8	1.0	1.7	-1.8	3.7	0.8	1.5	5.1	2.9	2.1	32.0	10.1
	2025	2.0	2.1	2.6	3.8	2.6	3.3	1.9	3.5	3.1	1.1	30.5	10.9
Sweden	2023	0.1	-2.2	1.1	-1.1	3.5	-0.8	8.6	3.8	7.7	-0.5	32.0	4.8
	2024	1.2	0.1	0.8	-1.8	2.4	0.8	2.8	3.5	8.4	-0.8	33.0	5.6
	2025	2.4	2.6	1.9	1.6	3.5	3.3	0.6	2.5	8.2	-0.2	33.0	5.7
Norway	2023	1.1	-0.8	3.4	0.0	1.4	0.7	5.5	5.3	1.8	-	-	-
	2024	0.7	1.3	2.2	4.0	3.0	1.5	3.2	5.1	2.1	-	-	-
	2025	2.0	2.9	1.8	4.0	3.0	2.0	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	1.2	-0.5	1.3	-0.2	2.4	4.3	6.5	-3.0	90.1	2.8
	2025	1.2	1.3	0.8	1.3	3.0	3.1	2.1	3.4	6.6	-2.9	90.7	2.9
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	0.2	0.5	-5.0	-1.0	-1.5	1.9	3.0	8.3	-4.1	80.3	-0.7
	2025	1.8	1.2	0.2	5.0	3.0	3.5	1.5	3.0	8.0	-3.5	81.8	-0.5

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	-6.3	122.3	-3.0
	2024	2.5	2.1	3.4	4.1	2.0	4.1	3.2	3.2	4.1	-6.7	123.1	-2.8
	2025	1.5	1.2	2.6	3.5	1.9	4.5	2.5	2.5	4.7	-6.5	125.1	-2.6
China	2023	5.2	6.6	-	4.6	-	-	0.2	-	5.2	-7.1	83.6	1.5
	2024	4.8	4.5	-	5.0	-	-	0.3	-	5.2	-7.4	88.6	1.3
	2025	4.8	5.6	-	4.5	-	-	1.5	-	5.2	-7.6	93.0	1.4
UK	2023	0.1	-	-	-	-	-	7.3	-	4.0	-	-	-
	2024	1.1	-	-	-	-	-	2.8	-	4.6	-	-	-
	2025	1.4	-	-	-	-	-	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*	05-Sep	5.50	-	3.52	3.27	0.90	-	6.73	10.65	10.29
	+3m	5.00	-	3.60	3.45	0.92	-	6.84	10.64	10.46
	+6m	4.50	-	3.45	3.45	0.93	-	6.97	11.12	10.93
	+12m	3.75	-	3.25	3.50	0.94	-	7.03	11.51	11.04
EUR	05-Sep	3.75	3.47	2.57	2.44	-	1.11	7.4619	11.80	11.40
	+3m	3.50	3.20	2.65	2.65	-	1.09	7.4575	11.60	11.40
	+6m	3.25	2.90	2.55	2.65	-	1.07	7.4550	11.90	11.70
	+12m	2.75	2.50	2.45	2.65	-	1.06	7.4550	12.20	11.70
JPY	05-Sep	0.25	-	-	-	0.006	0.007	4.68	7.40	7.15
	+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*	05-Sep	5.00	-	3.98	3.57	1.19	1.07	8.86	14.01	13.54
	+3m	4.75	-	3.80	3.65	1.20	1.31	8.98	13.98	13.73
	+6m	4.50	-	3.60	3.65	1.19	1.27	8.88	14.17	13.93
	+12m	3.50	-	3.25	3.65	1.18	1.25	8.77	14.35	13.76
CHF	05-Sep	1.25	-	-	-	1.06	1.18	7.94	12.56	12.13
	+3m	0.75	-	-	-	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	05-Sep	3.35	3.39	2.65	2.58	0.134	0.149	-	1.58	1.53
	+3m	3.10	3.10	2.75	2.80	0.134	0.146	-	1.56	1.53
	+6m	2.85	2.85	2.65	2.80	0.134	0.144	-	1.60	1.57
	+12m	2.35	2.45	2.55	2.80	0.134	0.142	-	1.64	1.57
SEK	05-Sep	3.50	3.28	2.18	2.22	0.088	0.097	0.65	1.04	-
	+3m	3.00	2.82	2.30	2.60	0.088	0.096	0.65	1.02	-
	+6m	3.00	2.38	2.40	2.75	0.085	0.091	0.64	1.02	-
	+12m	2.50	2.05	2.40	2.85	0.085	0.091	0.64	1.04	-
NOK	05-Sep	4.50	4.77	3.79	3.40	0.085	0.094	0.63	-	0.97
	+3m	4.50	4.75	3.75	3.50	0.086	0.094	0.64	-	0.98
	+6m	4.50	4.55	3.65	3.55	0.084	0.090	0.63	-	0.98
	+12m	4.00	4.05	3.55	3.60	0.082	0.087	0.61	-	0.96

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

Commodities

	05-Sep	2024				2025				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025
ICE Brent	73	82	85	80	80	85	85	85	85	82	85

Source Danske Bank

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Date of first publication

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Report completed: 6 September 2024, 13.00 CET

Report first disseminated: 6 September 2024, 13.20 CET