

31 May 2024

Weekly Focus

Strong euro area inflation in May

The main release this week was euro area inflation from May. Inflation rose to 2.6% y/y from 2.4% in April, which was above expectations of 2.5%. The increase in inflation was due to core inflation rising to 2.9% y/y from 2.7% on the back of very strong services inflation. Overall, the inflation in May confirmed the picture we have seen in the past months of a strong underlying pressure on inflation from service prices. This sticky services inflation is a key reason for the ECB to wait for more data before embarking on a series of rate cuts after June as growth has also returned, and the labour market is historically strong.

The historically strong labour market was visible in the euro area unemployment rate, which declined to an all-time low of 6.4% in April. The strong labour market bodes well for an uptick in private consumption this year in combination with rising incomes and decent savings, but it also puts upward pressure on domestic inflation. **A recovery may also be in the horizon in Germany where the Ifo index for May showed expectations rising to the highest level since mid-2023.** Yet, the assessment of the current business situation declined, so while European growth is undeniably picking up pace, Germany's recovery continues to trail behind.

In the US, consumer confidence for May came in stronger than expected and marked the first time in three months where the confidence indicator rose. Also in the US, Fed's Kashkari said that he did not believe that any FOMC member had ruled out a rate hike.

Out of Asia, we got Chinese PMIs for May from NBS that disappointed to the low side, as the official PMI for the manufacturing sector dropped into retracting territory (below the 50 mark), standing at 49.5. The data highlights the fragility of Chinese growth and the continued need for stimulus, which is also recognized by the government. In Japan, Tokyo inflation (excl. fresh food) increased to 1.9% in May from 1.6%. Core price pressures remain modest though.

Next week focus turns to the ECB and the US jobs market report. The ECB is widely expected to deliver a 25bp rate cut, largely because the governing council members have stated as much. The updated June staff projections are expected to suggest that the prevailing economic and monetary policy narrative stays broadly unchanged, and we expect the rate cut to be formulated as a rollback of the 'insurance hike' from September last year. In the euro area, we also will closely follow the compensation per employee wage data for Q1 that is released with the final national accounts data on Friday.

In the US, the main event next week is the May job market report. We expect nonfarm payrolls to have grown by 190k, a modest uptick from April when weak public sector jobs growth weighed on the headline figure. Average hourly earnings growth likely remained steady at +0.2% m/m. Also in the US, we look out for the ISM data on Monday and Wednesday.

In Asia, we receive wage growth data from Japan and Chinese PMIs. It will be interesting to see if the Caixin PMI can hold up despite the decline in the NBS this week as it has generally been stronger than the NBS PMI. During the week we may get the results of the EU Commission's investigation into Chinese EVs. Finally, we also look out for May inflation in Switzerland which is very important before the June monetary policy meeting.

Key global views

- Improving European growth
- Global manufacturing cycle moving gradually higher
- US and EA inflation to decline further, but core remains sticky
- Two US and euro rate cuts in 2024

Key market movers

- Mon: ISM manufacturing
- Tue: US durable goods orders, US JOLTs, Swiss inflation
- Wed: ISM services, Japan wage growth, Bank of Canada rate decision, US ADP employment
- Thu: Euro area retail sales, ECB rate decision, US jobless claims
- Fri: US job markets report, Euro area Q1 wage growth

Selected reading from Danske Bank

- *Research Global: Diverse productivity growth amid demographic challenges, 27 May*
- *ECB Preview: A political rate cut in June, and no cut in September, 24 May*
- *Yield Outlook: Is inflation set to flare up again?, 24 May*

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Scandi market movers

- In **Denmark**, Friday brings industrial production for April. Production, excl. pharma, has recovered since late last year in the wake of the bottoming out of the global manufacturing recession. Surveys show business conditions have improved during the spring underpinning the further recovery in production.

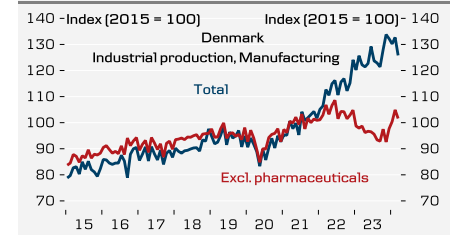
On Tuesday, we publish our new outlook for the Danish economy. We also get FX reserve data from Danmarks Nationalbank. The Danish krone has been stable against the euro in May, so we expect that there were no interventions.

- In **Sweden**, May PMIs are out next week, which is the only data we get. Manufacturing PMI is set to continue higher as suggested by the order/inventory-spread reaching the highest last month since mid-2021. We expect services PMI to bounce back from the broad-based (orders, business volume and delivery times) and unexpected drop in April and continue the previous upward trend.

Riksbank's Breman talks about the economy and monetary policy.

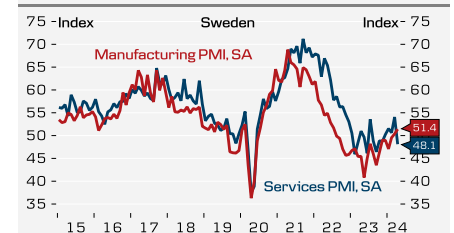
- In **Norway**, April manufacturing production is released next week. Manufacturing production delivered a significant upside surprise in March rising 5.4% m/m, probably on a combination of seasonality issues around Easter and completion of some larger oil-related projects. That said, leading indicators like the PMI have painted a brighter picture of the manufacturing sector than hard data lately, so we are probably on a moderate upward trend at the moment. Hence, we do not expect a full correction in April, but forecast a drop in the size of 3-4% from March.

Also the Danish manufacturing sector has improved



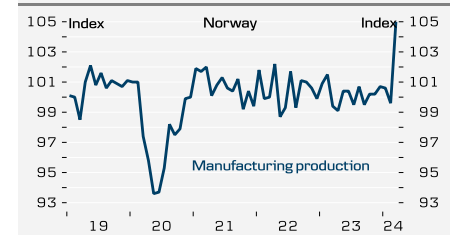
Source: Statistics Denmark, Danske Bank

Higher PMIs expected



Source: Swedbank, Danske Bank

Expect a correction in manufacturing



Source: Macrobond, Danske Bank

Scandi update

Denmark – Retail sales might paint a too gloomy picture of consumption

February retail sales were down 0.6% m/m once you adjust for seasonality and inflation. Thus, retail sales continue to stall around the same level we saw in the autumn. Particularly clothing sales declined, while the decline in food and other goods was more moderate. The data is uncertain due to Easter and the retail statistics is based on a sample. We notice that card data does show a more upbeat picture.

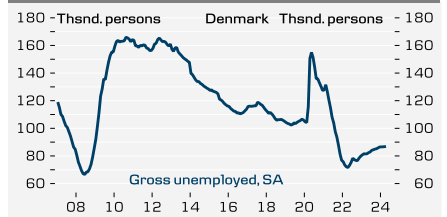
The unemployment rate remained at 2.9% in April, which has also been the level since November, reflecting a continued strong labour market.

Sweden – The return of Swedish growth

The era of negative Swedish growth is finally over with GDP starting 2024 rising by 0.7% q/q. The figure showed a broad rise in the Swedish economy that was primarily driven by a great increase in inventories that contributed with 0.5 pp. This was expected as changes in inventories reduced the figure in the previous year at the same time as underlying demand was stronger. We are seeing an inventory adjustment taking place now as the companies' new orders are beginning to exceed their inventory levels as the global manufacturing cycle is turning. What pulled in the other direction, however, is household consumption, which still has not taken off. Decreased goods exports pulled the figure down equally much as the inventor change drove it up. This was expected given recent temporary setbacks in the export sector after the collapse in iron ore exports and significant decrease in electricity exports. However, in total, net export still contributed by 0.1 pp. since imports remained unchanged and export of services strongly recovered after its drastic dip in Q4 2024. This publication further highlights inadequate reliability of the estimates of the GDP-indicator as this print meant that the GDP figure for Q1 was revised upwards by as much as 0.8 pp.

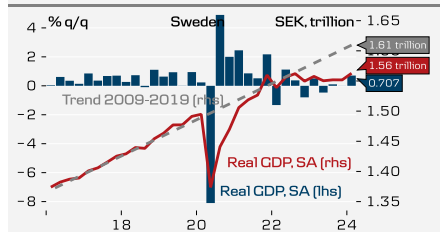
However, household consumption is something that should turn around shortly as the interest rate cuts have started and real wages are rising. In addition to that, The Economic Tendency Survey from NIER showed that consumer confidence is rising quickly and has now for the first time since 2022 passed 90. Households remain hopeful, but the view of their own financial situation greatly improved this month. The survey's overall indicator decreased slightly, there were only small changes in the among the sectors, with the exception for retail trade, which plunged dramatically this month. This decrease is crosswise to its underlying trend but is partly reasonable seen as it can be seen as a normalization the big jump upwards in April. Companies' price plans for the next three months remained unchanged, and households' expectations of increased prices have decreased.

Stable unemployment



Source: Danske Bank, Statistics Denmark, Macrobond Financial

The era of negative Swedish growth is finally over



Note: Seasonally adjusted

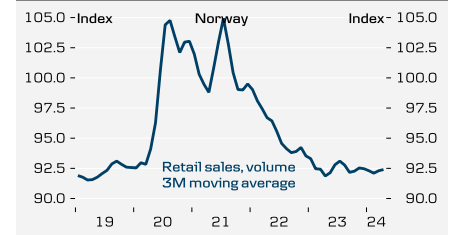
Source: Statistics Sweden, Macrobond, Danske Bank

Norway – Retail sales moving sideways

Retail sales fell 0.3% m/m in April. Uncertainty around Easter is always larger than normal, so we need to take the numbers with a pinch of salt. Leaving uncertainty aside, the April figure still confirms the more or less sideways trend seen in retail sales since last autumn, and the 3-months moving average is 0.1%. Going forward, private consumption will be supported by a gradual improvement in real wage growth and fading headwinds from higher mortgage rates. However, as the saving ratio is negative, the prospect of a strong recovery seems weak until rates are cut.

Oil companies operating on the Norwegian shelf have updated the investment forecasts for 2024 and 2025. The survey is in nominal terms, so the figures need to be adjusted for (increasing) cost inflation. As the survey only includes projects where an investment plan is delivered to the authorities, the forecast of course tends to increase during a calendar year. Adjusting for this, Statistics Norway assumes c. 15% growth in 2024, which adjusted for roughly 5% cost inflation should be very much in line with Norges Bank’s forecast from the March MPR at 10% (volume). For 2025, the forecast was lifted by NOK 10bn since the February survey, but visibility on these figures is low and probably reveal little new information. If anything, it seems to be a bit stronger than the 5% drop Norges Bank expects for next year.

Retail sales has stabilised



Source: Macrobond, Danske Bank

Calendar – 3-7 June 2024

During the week				Period	Danske Bank	Consensus	Previous
Sat 01	USD	Fed's Bostic speaks					
Mon 03	EUR	Ireland, GDP, preliminary	q/qly/y	1st quarter			1.1% 0.8%
Monday, June 3, 2024				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	May		15.82	15.74
2:30	JPY	Nikkei Manufacturing PMI, final	Index	May			50.5
3:45	CNY	Caixin PMI manufacturing	Index	May		51.6	51.4
8:30	SEK	PMI manufacturing	Index	May			51.4
9:15	ESP	PMI manufacturing	Index	May		52.5	52.2
9:45	ITL	PMI manufacturing	Index	May		47.9	47.3
9:50	FRF	PMI manufacturing, final	Index	May		46.7	46.7
9:55	DEM	PMI manufacturing, final	Index	May		45.4	45.4
10:00	NOK	PMI manufacturing	Index	May			52.4
10:00	EUR	PMI manufacturing, final	Index	May		47.4	47.4
10:30	GBP	PMI manufacturing, final	Index	May		51.3	51.3
15:30	CAD	RBC manufacturing PMI	Index	May			49.4
15:45	USD	Markit PMI manufacturing, final	Index	May			50.9
16:00	USD	Construction spending	m/m	Apr		0.2%	-0.2%
16:00	USD	ISM manufacturing	Index	May		49.7	49.2
Tuesday, June 4, 2024				Period	Danske Bank	Consensus	Previous
6:00	DKK	Danske Bank publishes Nordic Outlook					
8:30	CHF	CPI	m/mly/y	May		0.4% 1.5%	0.3% 1.4%
9:55	DEM	Unemployment	%	May		5.9%	5.9%
16:00	USD	Core capital goods orders, final	%	Apr			0.3%
16:00	USD	JOLTS Job openings	K	Apr		8300	8488 8488
17:00	DKK	Currency reserves	DKK bn	May			637.3
Wednesday, June 5, 2024				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%		5.75%	5.75%	5.75%
1:30	JPY	Labour cash earnings	y/y	Apr		1.8%	1.0%
2:30	JPY	Markit PMI services, final	Index	May			53.6
3:30	AUD	GDP	q/qly/y	1st quarter		0.2% 1.2%	0.2% 1.5%
3:45	CNY	Caixin PMI service	Index	May		52.6	52.5
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	SEK	Current account	SEK bn	1st quarter			116.7
8:30	SEK	PMI services	Index	May			48.1
8:45	FRF	Industrial production	m/mly/y	Apr		0.5% 0.6%	-0.3% 0.7%
9:15	ESP	PMI services	Index	May		56.3	56.2
9:45	ITL	PMI services	Index	May		54.3	54.3
9:50	FRF	PMI services, final	Index	May		49.4	49.4
9:55	DEM	PMI services, final	Index	May		53.9	53.9
10:00	EUR	PMI composite, final	Index	May		52.3	52.3
10:00	EUR	PMI services, final	Index	May		53.3	53.3
10:30	GBP	PMI services, final	Index	May		52.9	52.9
11:00	EUR	PPI	m/mly/y	Apr		-5.3% -0.5%	-7.8% -0.4%
14:15	USD	ADP employment	1000	May		175	192
15:45	USD	Markit PMI service, final	Index	May			54.8
15:45	CAD	Bank of Canada rate decision	%		5.0%	4.75%	5.0%
16:00	USD	ISM non-manufacturing	Index	May		51.0	49.4
16:30	USD	DOE U.S. crude oil inventories	K				-4156
Thursday, June 6, 2024				Period	Danske Bank	Consensus	Previous
7:45	CHF	Unemployment	%	May		2.3%	2.3%
8:00	DEM	Factory orders	m/mly/y	Apr		0.6% 0.3%	-0.4% -1.9%
10:30	GBP	PMI construction	Index	May		52.5	53.0
11:00	EUR	Retail sales	m/mly/y	Apr		0.2% 0.3%	0.8% 0.7%
14:15	EUR	ECB announces deposit rate	%		3.75%	3.75%	4.00%
14:15	EUR	ECB's Lagarde speaks at press conference					
14:30	USD	Unit labour cost, final	q/q	1st quarter		4.7%	4.7%
14:30	USD	Trade balance	USD bn	Apr		-69.8	-69.4
14:30	USD	Initial jobless claims	1000				219
14:45	EUR	ECB's Lagarde speaks					
Friday, June 7, 2024				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	May		71.5	72.4
-	CNY	Foreign exchange reserves	USD bn	May			3200.8
7:00	JPY	Leading economic index, preliminary	Index	Apr		111.7	112.2
8:00	DKK	Industrial production	m/m	Apr			-5.2%
8:00	NOK	Manufacturing production	m/mly/y	Apr			5.4% 5.7%
8:00	NOK	Industrial production	m/mly/y	Apr			3.8% 4.6%
8:00	DEM	Industrial production	m/mly/y	Apr		0.0% -3.3%	-0.4% -3.3%
9:00	CHF	Foreign Currency Reserves	CHF bn	May			720.4
10:00	EUR	ECB's Schnabel speaks					
11:00	EUR	GDP, final	q/qly/y	1st quarter	0.3% 0.4%	0.3% 0.4%	0.3% 0.4%
11:00	EUR	Gross fixed investments	q/q	1st quarter			1.0%
11:00	EUR	Government consumption	q/q	1st quarter			0.5%
11:00	EUR	Private consumption	q/q	1st quarter			0.1%
11:00	EUR	Employment, final	q/qly/y	1st quarter			0.3% 1.0%
14:30	CAD	Net change in full time employment	1000	May			40.1
14:30	USD	Unemployment	%	May	3.9%	3.9%	3.9%
14:30	USD	Average hourly earnings, non-farm	m/mly/y	May	0.2% ...	0.3% 3.9%	0.2% 3.9%
14:30	USD	Non farm payrolls	1000	May	190	180	175
21:00	USD	Consumer credit	USD bn	Apr		10.2	6.3

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	-0.8	3.4	0.0	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	0.8	1.4	-1.0	-1.4	5.4	4.5	6.6	-3.2	90.6	2.5
	2024	0.5	0.7	0.9	1.8	1.2	1.9	2.3	4.3	6.6	-2.9	89.9	2.0
	2025	1.3	1.5	1.0	1.2	2.9	3.1	2.0	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	3.1	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*	30-May	5.50	-	4.83	4.20	0.92	-	6.88	10.53	10.60
	+3m	5.50	-	4.54	3.95	0.93	-	6.97	10.93	10.75
	+6m	5.25	-	4.28	3.95	0.95	-	7.10	11.43	11.14
	+12m	4.75	-	3.75	3.90	0.97	-	7.23	11.75	11.36
EUR	30-May	4.00	3.69	3.39	2.90	-	1.08	7.4585	11.42	11.49
	+3m	3.75	3.75	3.24	2.85	-	1.07	7.4550	11.70	11.50
	+6m	3.75	3.53	3.14	2.80	-	1.05	7.4500	12.00	11.70
	+12m	3.25	3.00	3.00	2.80	-	1.03	7.4500	12.10	11.70
JPY	30-May	0.10	-	-	-	0.006	0.006	4.39	6.72	6.77
	+3m	0.10	-	-	-	0.006	0.007	4.68	7.34	7.21
	+6m	0.20	-	-	-	0.006	0.007	4.83	7.77	7.58
	+12m	0.20	-	-	-	0.007	0.007	4.99	8.10	7.83
GBP*	30-May	5.25	-	4.76	4.07	1.17	1.08	8.76	13.41	13.50
	+3m	5.00	-	4.49	3.95	1.15	1.23	8.57	13.45	13.22
	+6m	4.75	-	4.29	3.95	1.14	1.19	8.47	13.64	13.30
	+12m	4.25	-	3.95	3.95	1.14	1.17	8.47	13.75	13.30
CHF	30-May	1.50	-	-	-	1.02	1.11	7.61	11.65	11.72
	+3m	1.25	-	-	-	1.02	1.09	7.61	11.94	11.73
	+6m	1.00	-	-	-	1.03	1.08	7.68	12.37	12.06
	+12m	0.50	-	-	-	1.04	1.07	7.76	12.60	12.19
DKK	30-May	3.60	3.69	3.51	3.06	0.134	0.145	-	1.53	1.54
	+3m	3.35	3.60	3.35	3.00	0.134	0.144	-	1.57	1.54
	+6m	3.35	3.38	3.24	2.95	0.134	0.141	-	1.61	1.57
	+12m	2.85	2.90	3.10	2.95	0.134	0.138	-	1.62	1.57
SEK	30-May	3.75	3.75	3.29	2.87	0.087	0.094	0.65	0.99	-
	+3m	3.75	3.65	2.89	2.80	0.087	0.093	0.65	1.02	-
	+6m	3.50	3.42	2.80	2.85	0.085	0.090	0.64	1.03	-
	+12m	3.00	3.10	2.60	2.90	0.085	0.088	0.64	1.03	-
NOK	30-May	4.50	4.81	4.59	3.98	0.088	0.095	0.65	-	1.01
	+3m	4.50	4.49	4.29	3.80	0.085	0.091	0.64	-	0.98
	+6m	4.00	4.12	4.09	3.75	0.083	0.088	0.62	-	0.98
	+12m	3.50	3.60	3.70	3.65	0.083	0.085	0.62	-	0.97

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

Commodities

	30-May	2024				2025				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025
ICE Brent	82	82	85	80	80	85	85	85	85	82	85

Source Danske Bank

Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank').

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