

21 June 2024

Weekly Focus

PMIs question the strength of euro area recovery

In a fairly quiet week equities edged modestly higher, and a barrel of crude oil traded back above USD 85. Along a hawkish Norges Bank twist this supported NOK while more pricy oil weighs on JPY which continues to weaken. Japan's top currency diplomat stressed that there is no limit to FX intervention resources. We are probably just a small JPY sell-off away from the government stepping back in to prop up the JPY.

In bond markets, we have seen some intra-euro area spread tightening after the knee-jerk reaction last week when French president Macron called a snap election. On Friday, the French-German yield spread was still about 25bp wider than ahead of the EU parliament election, though. The EU Commission put France and Italy, among others, into Excessive Deficit Procedures, a disciplinary tool, which has, until now, been suspended since the pandemic. The respective governments will now need to come up with proposals on how to improve public finances.

We had several central bank meetings on the agenda this week. While Norges Bank adjusted their rate path higher on inflation worries, the SNB opted for another rate cut after they kicked off the global cutting cycle back in March. This leaves the policy rate at 1.25% and reflects the significant CHF strengthening through the recent month. With UK core inflation at 3.5% in May and particularly service prices continuing to move too fast, it was no surprise that the Bank of England kept the bank rate unchanged at 5.25%.

Euro area PMIs released Friday were weaker than expected, which drove 10-year Bund yields 5bp lower and weakened the euro a bit. The service sector recovery slowed, and the manufacturing recession accelerated after we had seen positive signs on that front for a while. Also worth noting, the index for output prices in the service sector took another leg lower. It has been a good indicator for core price pressures in the euro area. The German ZEW survey continues to signal a dire assessment of the current economic situation, whereas expectations are much more promising.

Also, Japanese PMIs were weak as the service sector cooled significantly. At the same time core inflation ticked back below 2% as price pressures remain very muted. This is not what the Bank of Japan wants to see before embarking on further rate hikes. Elsewhere in Asia, Chinese May data paint a picture of a still fragile economy with the housing crisis remaining a key drag on demand. After a strong start to the year, production seems to have lost some momentum.

Next week, we will zoom in not least on France as they release some of the first euro area inflation data for June on Friday along Spain and Italy. The first round of the French National Assembly elections kicks off the following Sunday. The most likely scenario is a "hung parliament", which would imply that the worst fears in markets of large spending increases should diminish. We will probably have to wait until the second round the following Sunday for the final results, though.

Key global views

- Improving European growth
- Global manufacturing cycle moving gradually higher
- US and EA inflation to decline further, but core inflation to remain sticky
- We expect two rate cuts from Fed and one more from ECB this year

Key market movers

- Monday: German Ifo data
- Friday: US PCE inflation, FRA/ESP/ITA inflation
- Sunday: First round of French election

Selected reading from Danske Bank

- *US Labour Market Monitor - Mixed employment indicators*, 19 June
- *ECB Research - The profit, wage and productivity triangulation*, 20 June
- *Geopolitical Radar - Israel approves 'offensive' in Lebanon, EU-China trade tensions rise*, 20 June
- *Bank of England Review - August rate cut in play*, 20 June

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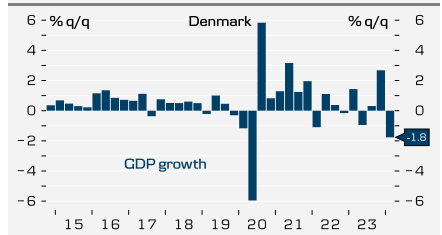
Scandi market movers

- In **Denmark**, next week brings revisions to the national accounts for Q1 2024. The first print showed a decline in GDP of 1.8% q/q, influenced in part by a substantial drop in pharmaceutical production which we argued must clearly be temporary. This has resulted in large fluctuations in the quarterly growth rate. Recently we have gotten signals from other data that these fluctuations could be smoothed out with the coming revision. For instance, the current account surplus was revised down by 1% of GDP in 2023. This suggests higher growth than first reported in Q1 2024.
- The main event in **Sweden** next week is the Riksbank’s monetary policy rate decision. The Riksbank is widely expected to leave the policy rate unchanged at 3.75%. Given this, market focus will instead be on the updated rate path projections and the updated inflation forecast. Up until the publication of the Swedish May inflation print, one would have expected the Riksbank to revise the rate path lower. However, as the May inflation outcome surprised to the upside, levels are now roughly back in line with the “outdated” inflation forecast from the Riksbank’s March meeting, and therefore do not call for any large revision of the policy rate path. For 2024, we note that our CPIF excluding Energy forecast is relatively well aligned with the Riksbank, but lower in 2025. All the Riksbank governors have been arguing for a gradual and cautious approach to cutting rates and are still worried for backlashes in the inflation development. For example, governor Thedéen said on 28 May that the bar for a June cut is “very high”. We hold on to our Riksbank call with a next cut in September followed by a 25bp cut every quarter, bringing the policy rate to 2.25% at the end of 2025.

Data-wise, PPI, household lending growth and trade statistics are released. NIER’s Economic Tendency Survey is also published, which last month still showed weaker sentiment than normal in the Swedish economy. This is somewhat in contrast to what has been reported in the recent PMI prints that instead indicate a recovering manufacturing sector. On the other hand, consumer confidence is quickly improving and at a much higher pace than in Sweden’s neighbouring countries. The survey indicates a more positive outlook for the labour market than what the Labour Force Survey has shown lately as hiring plans remain slightly positive. Last week, NIER also published new economic forecasts in which they most notably revised their forecast on Swedish exports heavily upwards following strong foreign demand and the quickly increasing PMI subindex of new export orders in, which is in line with our recent reasoning.

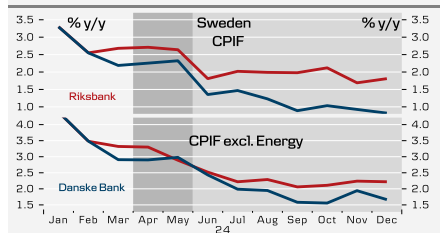
- The headwind in **Norway** from negative real wage growth and ever-higher mortgage rates is fading or even reversing. But at the same time, mortgage rates are still high, real wage growth is moderate and the savings rate is roughly zero. So even if we expect an improvement in consumption going forward, this will probably be moderate. Having said that, the combination of good weather and many long weekends seems to have lifted consumption in May. We therefore expect retail trade increased by 1% m/m in May. Registered unemployment jumped in April by over 2,000 unemployed, and the unemployment rate increased to 2.0% (seasonally adjusted). However, we believe that part of this increase is the effect of Easter this year being in April, so that we will have a clearly more subdued increase in unemployment in May. The seasonally adjusted unemployment rate is expected to be unchanged at 2.0%.

New data should show smaller fluctuations in growth



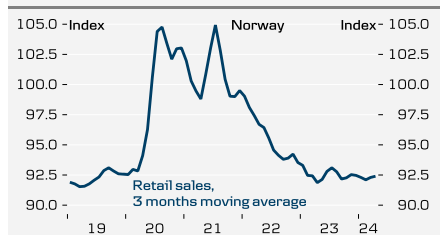
Sources: Statistics Denmark, Danske Bank

Inflation forecasts vs Riksbank - updated after May's inflation outcome



Source: Statistics Sweden, Riksbank, Danske Bank

Retail sales about to turn more positive



Kilde: Macrobond, Danske Bank

Scandi update

Denmark – Continued growth in the number of payrolls

April payrolls showed a seasonally adjusted increase of 6.600 persons compared to March. Thus, the jobs growth continues, despite indications of sluggish production growth outside pharma. This suggests that firms are still opting to retain existing employees and hire more in anticipation of future growth.

Unemployment increased modestly by 280 full-time persons in May, figures from Jobindsats show. The flash print saw a decline. The unemployment figure has experienced minor fluctuations but remained largely flat since late 2023, supporting the view of a robust labour market.

Consumer confidence jumped to -4.4 in June, its highest level in two years. Consumer views on the Danish economy both now and in the future improved but remains in net negative territory. Sentiment is supported by strong real wage growth and the fact that inflation has fallen to normal levels, while recently we have even seen declines in food prices. On balance consumers are still pessimistic, especially regarding their current personal finances, highlighting that the aftermath of the inflation shock is still top of mind. Looking ahead, we expect confidence to gradually improve as consumers regain their lost purchasing power, which could give a boost to private consumption.

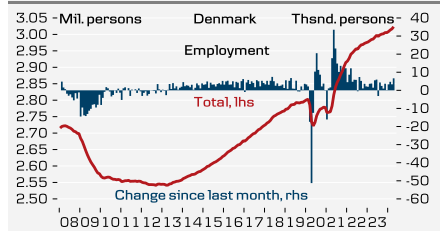
Business sentiment improved in June with the figure showing modest optimism from firms. Services and retail sentiment improved, suggesting that consumer demand is picking up, while manufacturing sentiment deteriorated. Construction is now the only line of business with a truly pessimistic outlook, likely driven by weak housing construction. Overall, the figure indicates that the broader economy continues to improve to more normal growth from the previous stagnation.

Sweden – Diffusing Labour Force Survey

The Riksbank published their triannual Business Survey for May that overall stated that the economic situation remains weaker than normal although more companies than in February believe that the economic situation will improve. Just as it has been reported in surveys from Commerce Sweden and NIER, actors in the retail sector report that the worst is behind them and see some signs that sales have increased since the autumn. Companies that sell to households' price plans have also started to indicate price increases once again given stronger demand, however, the planned price increases are moderate and "in line with the inflation target".

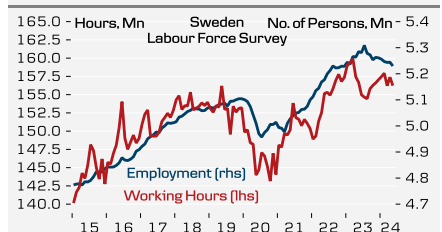
Statistic Sweden released their Labour Force Survey which showed a quite diffusing development. The unemployment rate unexpectedly dropped to 8.2% seasonally adjusted. This was caused by a sudden drop in the labour force which was offset by a decrease in the number of unemployed. Working hours also continued to decrease after its recovery since the turn of the year. This print's development further increases the divergence between the survey's three samples through each quarter. Beforehand this print, the sample that was used this month clearly diverged by having a lower labour force, this development massively further increased this month. All in all, the Labour Force Survey must be cautiously interpreted, even though the Swedish labour market is mildly deteriorating, the unemployment rate continues to represent it poorly.

Payrolls increased by 6.600 persons in April



Source: Danske Bank, Statistics Denmark, Macrobond Financial

The unemployment rate decreased in May because of the wrong reasons



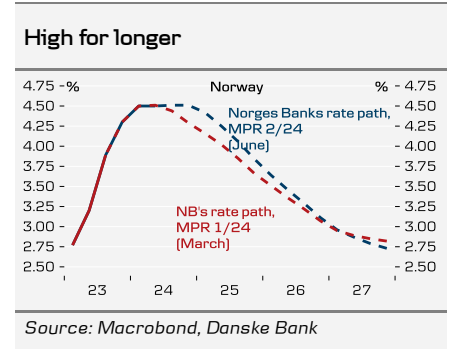
Note: Seasonally adjusted, three-month rolling average
Source: Statistics Sweden, Macrobond Financial

Norway – Norges Bank postpones the first rate cut until March

As expected, Norges Bank kept the policy rate unchanged at 4.5%. At the same time, the Interest Rate Committee states that: “Based on the Committee's current assessment of the outlook and balance of risks, the policy rate will likely be kept at that level for some time ahead”.

The rate path published in the new monetary policy report indicates that the policy rate will be kept unchanged for the rest of the year, before being gradually reduced throughout the forecast period. The trajectory indicates approximately three interest rate cuts in 2025 and 2026 and 1.5 interest rate cuts in 2027, so that the key interest rate will be slightly above 2.50% at the end of 2027. Note that Norges Bank has raised the estimate for the neutral real interest rate to 0-1% (from -0.5% to + 0.5%).

We had expected that the combination of stronger growth and higher global interest rate expectations (especially for 2024) would pull the interest rate path upwards, so that Norges Bank would push the timing of the first rate cut from September to December. However, as this appears to be the case, the threshold for cutting interest rates in Q3 has been raised. Although we still belong to the more pessimistic group regarding growth prospects, and we think inflation will be lower than Norges Bank has assumed, this will hardly be enough to cause a cut in Q3, and the threshold is also high for 2024. We have therefore changed our forecast and now expect that Norges Bank will deliver the first rate cut in March and cut four times next year so that the policy rate will remain at 3.5% at the end of 2025.



Calendar – 24-28 June 2024

Monday, June 24, 2024				Period	Danske Bank	Consensus	Previous
3:20	CNY	China 1-year MLF	%				
9:00	USD	Fed's Waller speaks					
9:00	CZK	Czech republic central bank rate decision	%	Jun	5.00%	5.25%	
10:00	DEM	IFO - business climate	Index	Jun	89.6	89.3	
10:00	DEM	IFO - current assessment	Index	Jun	88.5	88.3	
10:00	DEM	IFO - expectations	Index	Jun	90.8	90.4	
17:30	EUR	ECB's Schnabel speaks					
20:00	USD	Fed's Daly speaks					
Tuesday, June 25, 2024				Period	Danske Bank	Consensus	Previous
7:00	JPY	Leading economic index, final	Index	Apr			111.6
8:00	NOK	Credit indicator (C2)	y/y	May			3.2%
9:00	ESP	GDP, final	q/q/y/y	1st quarter		0.7% ...	0.7% 2.4%
13:00	USD	Fed's Bowman speaks					
14:30	CAD	CPI	m/m/y/y	May		... 2.6%	... 2.7%
15:00	USD	FHFA house price index	m/m	Apr			0.1%
16:00	USD	Conference Board consumer confidence	Index	Jun	100.0		102.0
20:10	USD	Fed's Bowman speaks					
Wednesday, June 26, 2024				Period	Danske Bank	Consensus	Previous
8:00	SEK	PPI	m/m/y/y	May			0.5% 0.9%
8:00	DEM	GfK consumer confidence	Net. Bal.	Jul		-20	-20.9
8:45	FRF	Consumer confidence	Index	Jun		89.0	90.0
16:00	USD	New home sales	1000 (m/m)	May		650	634.0 [-4.7%]
16:30	USD	DOE U.S. crude oil inventories	K				-2547
Thursday, June 27, 2024				Period	Danske Bank	Consensus	Previous
1:50	JPY	Retail trade	m/m/y/y	May		0.8% 2.0%	0.8% 2.0%
3:30	CNY	Industrial profits	y/y	May			4.0%
8:00	DKK	Retail sales	m/m/y/y	May			-0.6% 0.2%
9:00	SEK	Consumer confidence	Index	Jun			91.3
9:00	SEK	Economic Tendency Survey	Index	Jun			94.0
9:00	SEK	Manufacturing confidence	Index	Jun			98.5
9:30	SEK	Riksbank, rate decision	%		3.75%	3.75%	3.75%
10:00	EUR	Money supply (M3)	y/y	May		1.5%	1.3%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	May			
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	May			
11:00	EUR	Service confidence	Net bal.	Jun		6.4	6.5
11:00	EUR	Industrial confidence	Net bal.	Jun		-9.5	-9.9
11:00	EUR	Economic confidence	Index	Jun		96.4	96.0
11:00	EUR	Consumer confidence, final	Net bal.	Jun			-14.0
13:00	TRY	Central Bank of Turkey rate decision	%		50.0%	50.0%	50.0%
14:30	USD	Initial jobless claims	1000				238
14:30	USD	GDP, final release	q/q AR	1st quarter		1.5%	1.3%
14:30	USD	Core capital goods orders, preliminary	%	May			0.2%
14:30	USD	Advance goods trade balance	USD bn	May		-95.5	-99.4
16:00	USD	Pending home sales	m/m/y/y	May			-7.7% -0.8%
Friday, June 28, 2024				Period	Danske Bank	Consensus	Previous
1:30	JPY	Unemployment rate	%	May		2.6%	2.6%
1:30	JPY	Job-to-applicant ratio		May		1.26	1.26
1:30	JPY	Tokyo CPI Ex-Fresh Food YoY	y/y	Jun		2.0%	1.9%
1:30	JPY	Tokyo CPI Ex-Fresh Food, Energy YoY	y/y	Jun		1.6%	1.7%
1:50	JPY	Industrial production, preliminary	m/m/y/y	May		2.0% -0.1%	-0.9% -1.8%
8:00	DKK	GDP, final	q/q/y/y	1st quarter			-1.8% ...
8:00	GBP	GDP, final	q/q/y/y	1st quarter		0.6% 0.2%	0.6% 0.2%
8:00	SEK	Retail sales s.a.	m/m/y/y	May			0.3% 0.5%
8:00	SEK	Household lending	y/y	May			0.6%
8:00	SEK	Trade balance	SEK bn	May			7.9
8:00	NOK	Retail sales, s.a.	m/m	May	1.0%		-0.3%
8:00	DKK	Gross unemployment s.a.	K (%)	May			86.66 (2.9%)
8:45	FRF	Household consumption	m/m/y/y	May			-0.8% 0.2%
8:45	FRF	HICP, preliminary	m/m/y/y	Jun		0.2% 2.5%	0.1% 2.6%
9:00	CHF	KOF leading indicator	Index	Jun		101.0	100.3
9:00	ESP	HICP, preliminary	m/m/y/y	Jun		... 3.5%	0.2% 3.8%
9:55	DEM	Unemployment	%	Jun		6.0%	5.9%
10:00	NOK	Unemployment	%	Jun	2.0%		1.9%
10:00	NOK	Norges Bank's daily FX purchases	m	Jul			550
11:00	ITL	HICP, preliminary	m/m/y/y	Jun		0.2% 1.0%	0.2% 0.8%
12:00	USD	Fed's Barkin speaks					
14:30	USD	Personal spending	m/m	May		0.3%	0.2%
14:30	USD	PCE headline	m/m/y/y	May		0.0% 2.6%	0.3% 2.7%
14:30	CAD	GDP	m/m/y/y	Apr		0.3% 1.0%	0.0% 0.6%
14:30	USD	PCE core	m/m/y/y	May		0.1% 2.6%	0.2% 2.8%
15:45	USD	Chicago PMI	Index	Jun			35.4
16:00	USD	University of Michigan Confidence, final	Index	Jun			65.6
18:00	USD	Fed's Bowman speaks					

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	29.3	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	0.6	0.6	1.0	1.5	-0.6	-1.2	5.4	5.1	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*	20-Jun	5.50	-	4.58	3.88	0.93	-	6.96	10.52	10.45
	+3m	5.25	-	4.26	3.90	0.93	-	6.97	10.93	10.75
	+6m	5.00	-	4.10	3.90	0.95	-	7.10	11.43	11.14
	+12m	4.50	-	3.71	3.90	0.97	-	7.23	11.75	11.36
EUR	20-Jun	3.75	3.70	3.22	2.78	-	1.07	7.4580	11.28	11.20
	+3m	3.75	3.71	3.10	2.80	-	1.07	7.4550	11.70	11.50
	+6m	3.50	3.46	3.00	2.80	-	1.05	7.4500	12.00	11.70
	+12m	3.00	2.96	2.90	2.80	-	1.03	7.4500	12.10	11.70
JPY	20-Jun	0.10	-	-	-	0.006	0.006	4.38	6.63	6.58
	+3m	0.20	-	-	-	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*	20-Jun	5.25	-	4.47	3.77	1.18	1.10	8.83	13.35	13.26
	+3m	5.00	-	4.21	3.75	1.15	1.23	8.57	13.45	13.22
	+6m	4.75	-	4.05	3.75	1.14	1.19	8.47	13.64	13.30
	+12m	4.25	-	3.95	3.75	1.14	1.17	8.47	13.75	13.30
CHF	20-Jun	1.50	-	-	-	1.05	1.12	7.81	11.82	11.73
	+3m	1.50	-	-	-	1.02	1.09	7.61	11.94	11.73
	+6m	1.25	-	-	-	1.03	1.08	7.68	12.37	12.06
	+12m	1.00	-	-	-	1.04	1.07	7.76	12.60	12.19
DKK	20-Jun	3.35	3.64	3.33	2.93	0.134	0.144	-	1.51	1.50
	+3m	3.35	3.56	3.20	2.95	0.134	0.144	-	1.57	1.54
	+6m	3.10	3.31	3.10	2.95	0.134	0.141	-	1.61	1.57
	+12m	2.60	2.81	3.00	2.95	0.134	0.138	-	1.62	1.57
SEK	20-Jun	3.75	3.71	3.02	2.64	0.089	0.096	0.67	1.01	-
	+3m	3.75	3.51	2.80	2.80	0.087	0.093	0.65	1.02	-
	+6m	3.25	3.29	2.70	2.85	0.085	0.090	0.64	1.03	-
	+12m	3.00	2.78	2.60	2.85	0.085	0.088	0.64	1.03	-
NOK	20-Jun	4.50	4.84	4.46	3.77	0.089	0.095	0.66	-	0.99
	+3m	4.50	4.80	4.35	3.75	0.085	0.091	0.64	-	0.98
	+6m	4.50	4.71	4.25	3.80	0.083	0.088	0.62	-	0.98
	+12m	4.00	4.21	3.96	3.80	0.083	0.085	0.62	-	0.97

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

Commodities												
		2024				2025				Average		
	20-Jun	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025	
ICE Brent	86	82	85	80	80	85	85	85	85	82	85	

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Weekly.

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Report completed: 21 June 2024, 13.45 CET

Report first disseminated: 21 June 2024, 14.00 CET