Danske Bank

4 October 2024

Weekly Focus

Lower inflation clears path for European rate cuts

This week saw a further escalation of the conflict in the Middle East, as Israel attacked Hezbollah in Lebanon and Iran launched missiles at Israel. There was little market reaction. Oil prices rose around two dollars per barrel but are still lower than last week, among other things held down by Saudi Arabia's wish to increase its production. It still seems most likely that the conflict will not evolve into attacks or blockades that will seriously affect energy production and exports, but there is clearly a risk of that happening.

Another factor that has contributed to relatively stable oil prices is weak demand growth in China, but it seems that authorities there are now fully committed to supporting the housing market and reigniting economic growth, and the strong rally in Chinese equities continued this week. We have also upgraded our expectations of growth in China. However, we are sceptical that the growth recovery will be strong enough to turn into a seriously inflationary force for the rest of the world and hence be a hindrance for expected rate cuts.

Euro area inflation declined in September to 1.8% y/y and is hence now below the 2% target. Perhaps more important, the month-to-month momentum in service prices dropped to just 0.14% by the ECB's calculation. There are some temporary factors at play and it is just one month, but we now judge the scale to have tipped in favour of an ECB rate cut at the next meeting on October 17, also because of weaker economic data (see *Yield Outlook - Arguments for policy restrictiveness fade*, 30 September). For example, although euro area unemployment remained at a record low in August, several indicators point to easing labour markets. Not least the reported labour demand from companies in the PMI surveys, which is usually a fairly good indicator of credit growth, has taken a turn downwards in the September data, but the euro area labour market also remains very fragmentated with more weakness to the North and strength to the South.

In the US, job growth of 254,000 in September was much stronger than expected. The unemployment rate declined to 4.1% from 4.2%, whereas average hourly earnings increased 0,4% compared to August, the second month with such a relatively strong increase. Together with other indicators of a relatively strong US labour market, this likely means that the next rate cut from the Fed will be 25bp rather than 50bp as last time. Note however that there will be one more job report before the rate decision in November, and as the September surprise illustrates, the job numbers are hard to predict and could surprise also in the other direction.

The most interesting data release scheduled for next week is US inflation data due on Thursday. The release is unlikely to change the market perception that inflation is mostly a solved problem and not a hindrance for rate cuts and that the labour market is the more important factor to watch, but how sticky service inflation is could well affect the Fed's thinking about the pace of rate cuts. With just a month to go before the election and the race being very close, US politics is also likely to draw attention – feel free to *join our webinar* on the fiscal, trade and market implications on 10.00 CET Thursday.

Key global views

- Global manufacturing to gradually improve
- Recession risk is still low
- Fed and ECB to ease further at a gradual pace

Key market movers

- Tuesday: Japan cash earnings, US NFIB
- Wednesday: US FOMC minutes; New Zealand rate decision
- Thursday: US CPI
- Friday: Euro final HICP

Selected reading from Danske Bank

- *US Election Monitor - The race in battleground states is extremely close*, 3 October
- *Research China - Lift to GDP forecast after leaders draw line in the sand*, 2 October
- *Research Euro Area - Moderating labour market with downside risks*, 3 October
- *Reading the Markets USD - Households remain on a solid footing*, 1 October

Editor

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Scandi market movers

- In Denmark we receive data for industrial production in August on Monday. The production increased heavily in Q2 both when including and excluding the pharmaceutical sector. It is impressing that Danish manufactures have continued to increase production given the global circumstances. Global manufacturing PMIs continue to underperform, so it will be interesting to see if Danish companies can continue the pace under these conditions. In that context it will also be important to keep an eye on export data for August.

  Also Monday, we get data for bankruptcies in September. The trend in bankruptcies has declined since October last year but is still at a relatively high level compared to the previous 10 years up to 2022. We expect the number of bankruptcies to continue to trend downwards as the economy improves further.

  Thursday, we get September inflation data. Energy prices will drag inflation lower, and we expect a decline to 1.2% from 1.4% in August. The underlying price pressure has remained muted in Denmark despite solid wage growth. It will be interesting to see if this trend continues.

  Friday, Statistics Denmark releases the unemployment indicator for September. We are interested in seeing how it aligns with the unemployment indicator we got from the Danish Agency for Labour Market and Recruitment, where we saw a modest increase in unemployment of 600 persons.

- Statistics Sweden for the first time releases preliminary inflation statistics on 8 October. Roughly a week later the ordinary figures September will be released.

  The biggest positive contributions to the monthly change in core inflation is expected to come from clothing and furniture, while energy just gives a small addition to CPIF. The impact from rate cuts remains very small.

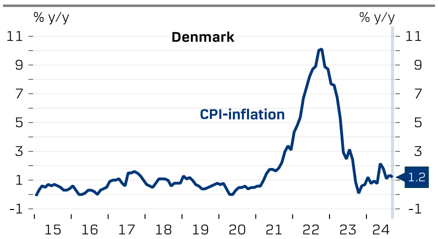
  We expect CPI, CPIF and CPIF excl. energy to print 0.2% m/m, 1.6% y/y, 0.3% m/m 1.1% y/y and 0.3% m/m 1.9% y/y.

  As seen in the chart to the right, CPIF and CPIF excl. energy would thus both be about 0.1 percetage points above Riksbank's forecasts measured with two decimals.

- Inflation in Norway continues to decline, driven by significantly lower imported inflation and somewhat lower price growth for domestic goods and services. In August, core inflation was also pulled down by lower maximum prices for kindergartens. We believe that the disinflationary tendency continued in September as well, but still expect core inflation to rise to 3.4% y/y. It is related to unusually low inflation in September last year, but due to rounding effects, the risk is on the downside for our estimate. If we are right, this will be 0.1 %-point higher than Norges Bank assumed in the MPR in September, and in isolation confirm that there will be no rate cut this year. Having said that, our estimate will mean that the underlying trend (measured as annualized monthly growth over the last 3 months) in core inflation will be just under 2.5%, i.e. only marginally higher than the inflation target of 2%.

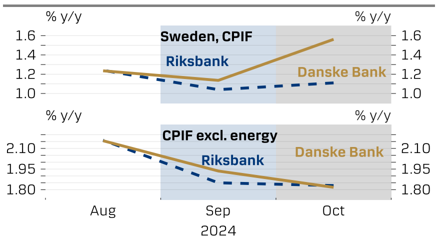
- The government publishes the fiscal budget for 2025 on Monday, where we focus on the overall budget impulse. We expect this to show a moderately expansive budget, around 0.3% of mainland GDP. In that case, it will be exactly in line with Norges Bank's estimate from the MPR, and hence be neutral for the rate outlook.

We expect inflation to decrease to 1.2%



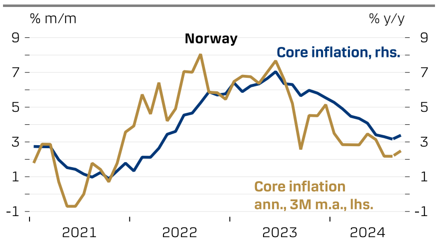
Sources: Statistics Denmark, Danske Bank

Sweden: Preliminary September inflation likely above Riksbank's forecast



Source: SCB, Riksbank, Danske Bank

The disinflation continues



Kilde: Macrobond, Danske Bank

Scandi Update

Denmark – Wage continues to increase at a high pace as expected

Wage growth continues to increase at a high pace at 4.8% in Q3 compared to same period the year before. Note that wage growth was extraordinarily high in Q2 at 6.4% due to technicalities and timing of implementation of different policies agreed on in the collective agreement from 2023. Therefor Q3 wage growth should be seen as a normalization of the high wage growth, which was determined in the collective agreements from last year, around 5%. The real wage for an average privately employed worker is now back around the level from before inflation increased in medio 2021. Going forward, we keep an eye on the 2025 negotiations for a new collective agreement. In the 2023 collective agreement trade unions and employers agreed on some centrally decided extraordinarily high wage increases, due to the declining real wage in 2022. We expect the labour market to normalize back to a state with wage growth around 3-3.5% per year.

GDP growth was revised from 0.6% q/q in Q2 to 1.1% q/q, and from -1.0% q/q to -0.8% q/q in Q1. Thus, GDP increased by 3.4% y/y compared to 2.5% in the latest release. Especially exports perform better compared to the first release. A big part of the revision is based on stronger production abroad; however, domestic investments were revised up as well.

The number of unemployed persons increased by 600 persons, which is the biggest unemployment increase in 2024, however, this is still a very muted increase. Going forward it is not unlikely that we can see unemployment increase slightly, because we have seen jobs growth slow slightly. On the other hand, increasing purchasing power and lower interest rates in the horizon will be a supportive factor.

Still high wage growth in Q3 despite decline compared to Q2

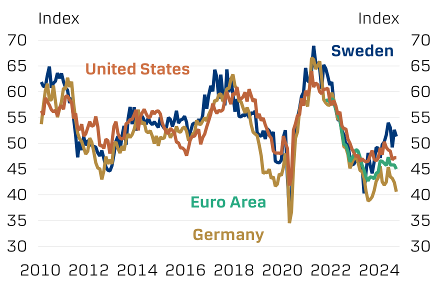
Source: Danske Bank, Dansk Arbejdsgiverforening, Macrobond Financial

Sweden – Mixed PMI signals

Riksbank Minutes: If the August minutes surprised us by the extent of the discussion between 25bp and 50bp steps (see *Flash Comment Riksbank - August 2024 minutes*, 1 October), the September minutes was rather the opposite. As the press release from the September MPR stated that a 50bp cut is possible (see *Riksbank Review*, 25 September), the discussions in the September minutes were less pronounced than expected. The discussion between 25bp vs 50bp cuts was absent for most members and no one seems to prefer moving in 50bp steps. Surely, members agree to the rate path which has some probability for a 50bp cut in either November or December (c.27-28bp per meeting), but our assessment is that the bar for a 50bp cut is still high.

This week's PMI reports delivered mixed signals about the state of the Swedish economy. On the manufacturing front, Sweden presented a more positive outlook with an overall index above 50 (51.3), indicating expansion, in contrast to Europe and the US. However, the weaker European figures were also mirrored in the Swedish data, with relatively weak inflows of export orders. On the other hand, domestic demand remains more robust. Key indicators such as employment, total order inflow, and production all continue to stay above the 50-level.

Sweden stands out, better manufacturing, weaker services



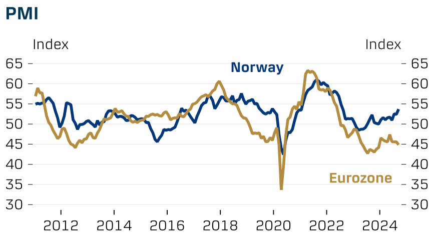
Source: Macrobond

The most surprising development was the weak performance in the services sector as reflected in the PMIs. The overall index dropped into contraction territory, falling to 49.1 from a previous 52.4, with all components now below 50, employment at 46, order inflow at 49.9, and business volume at 48. This downturn contrasted with last week's NIER business survey, which indicated improved sentiment within the services sector in September. Additionally, this decline stands in contrast to the situation in both the euro area and the US, where the services sector continues to remain in expansion territory. It remains to be seen whether this is a one-off (our belief) or a shift in the underlying trend, which would indeed be a worrying signal.

Norway – oil driven manufacturing cycle

Through monthly fluctuations, the manufacturing PMI for Norway has been better than in the eurozone for a long time. Although the index fell back somewhat in September, the relative picture is intact. This is probably partly because a weak exchange rate contributes to parts of the export industry gaining market shares in global markets. But at the same time, much of the explanation is probably to be found in the fact that activity in the oil-related parts of the industry is very high. Based on the estimates for oil investments, this situation will persist well into next year.

Stronger manufacturing activity than peers



Source: Macrobond, Danske Bank

Calendar – 7-11 October 2024

During the week				Period	Danske Bank	Consensus	Previous
Mon 07	USD	Budget statement	USD bn	Sep			-380.1
Mon 07	CNY	Foreign exchange reserves	USD bn	Sep		*3308.1*	3288.2
Monday, October 7, 2024				Period	Danske Bank	Consensus	Previous
-	USD	Budget statement	USD bn	Sep			-380.1
-	CNY	Foreign exchange reserves	USD bn	Sep		*3308.1*	3288.2
7:00	JPY	Leading economic index, preliminary	Index	Aug		*106.9*	109.3
8:00	DEM	Factory orders	m/m|y/y	Aug		*-2.0%|-1.8%*	2.9%|3.7%
8:00	SEK	Prospera inflation expectations					
8:00	NOK	Manufacturing production	m/m|y/y	Aug			2.0%|6.6%
8:00	NOK	Industrial production	m/m|y/y	Aug			-3.8%|10.1%
8:00	DKK	Industrial production	m/m	Aug			7.3%
8:00	SEK	Budget balance	SEK bn	Sep			34.9
9:00	CHF	Foreign Currency Reserves	CHF bn	Sep			693.8
10:30	EUR	Sentix Investor Confidence	Index	Oct		*-14.0*	-15.4
11:00	EUR	Retail sales	m/m|y/y	Aug		*0.2%|1.0%*	0.1%|-0.1%
19:50	USD	Fed's Kashkari speaks					
21:00	USD	Consumer credit	USD bn	Aug		*13.4*	25.5
Tuesday, October 8, 2024				Period	Danske Bank	Consensus	Previous
-	USD	Fed's Bostic speaks					
1:30	JPY	Labour cash earnings	y/y	Aug		*3.0%*	3.4%
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	SEK	Underlying inflation CPIF, preliminary	m/m|y/y	Sep	0.3%|1.1%	*0.2%|1.1%*	-0.5%|1.2%
8:00	SEK	Underlying inflation CPIF excl energy, preliminary	m/m|y/y	Sep	0.3%|1.9%	*0.3%|1.9%*	-0.3%|2.2%
8:00	DEM	Industrial production	m/m|y/y	Aug		*0.8%|-3.8%*	-2.4%|-5.3%
8:00	SEK	CPI, preliminary	m/m|y/y	Sep	0.2%|1.6%	*0.1%|1.5%*	-0.6%|1.9%
12:00	USD	NFIB small business optimism	Index	Sep		*91.7*	91.2
14:30	USD	Trade balance	USD bn	Aug		*-71.3*	-78.8
18:45	USD	Fed's Bostic speaks					
Wednesday, October 9, 2024				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Sep		*6.4%*	6.3%
3:00	NZD	Reserve Bank of New Zealand (cash rate decision)	%		4.75%	*4.75%*	5.25%
8:00	NOK	PPI	m/m|y/y	Sep			1.9%|3.6%
8:00	DKK	Current account (nsa|sa)	DKK bn	Aug			...|35.3
14:00	USD	Fed's Bostic speaks					
16:30	USD	DOE U.S. crude oil inventories	K				3889
20:00	USD	FOMC minutes					
Thursday, October 10, 2024				Period	Danske Bank	Consensus	Previous
-	USD	Fed's Daly speaks					
1:01	GBP	RICS house price balance	Index	Sep		*0.1*	0.0
8:00	SEK	Industrial orders	m/m|y/y	Aug			-3.9%|-0.1%
8:00	SEK	Private Sector Production	m/m|y/y	Aug			-0.9%|-0.7%
8:00	SEK	Household consumption	m/m|y/y	Aug			0.7%|-1.1%
8:00	NOK	CPI	m/m|y/y	Sep		*...|3.3%*	-0.9%|2.6%
8:00	DKK	CPI	m/m|y/y	Sep	-0.4%|1.2%		-0.4%|1.4%
8:00	DEM	Retail sales	m/m|y/y	Aug			...|...
8:00	NOK	Core inflation (CPI-ATE)	m/m|y/y	Sep	0.6%|3.4%	*...|3.3%*	-0.7%|3.2%
14:30	USD	Initial jobless claims	1000				225
14:30	USD	CPI headline	m/m|y/y	Sep	0.1%|2.4%	*0.1%|2.3%*	0.2%|2.5%
14:30	USD	CPI core	m/m|y/y	Sep	0.2%|3.2%	*0.2%|3.2%*	0.3%|3.2%
16:30	USD	Fed's Barkin speaks					
17:00	USD	Fed's Williams speaks					
Friday, October 11, 2024				Period	Danske Bank	Consensus	Previous
8:00	GBP	Monthly GDP estimate	m/m|q/q	Aug		*0.2%|0.3%*	0%|0.5%
8:00	GBP	Index of services	m/m|3m/3m	Aug		*0.2%|0.3%*	0.1%|0.6%
8:00	DEM	HICP, final	m/m|y/y	Sep		*-0.1%|1.8%*	-0.1%|1.8%
14:30	CAD	Net change in full time employment	1000	Sep			-43.6
14:30	USD	PPI	m/m|y/y	Sep		*0.1%|1.7%*	0.2%|1.7%
14:30	USD	PPI core	m/m|y/y	Sep		*0.2%|2.7%*	0.3%|2.4%
16:00	USD	University of Michigan Confidence, preliminary	Index	Oct		*70.0*	70.1

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	0.8	1.2	1.1	-0.4	-0.7	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	2.3	4.3	6.5	-3.0	90.1	2.8
	2025	1.2	1.3	0.8	1.3	3.0	3.1	1.9	3.4	6.6	-2.9	90.7	2.9
Finland	2023	-1.2	0.3	3.4	-9.0	0.2	-6.6	6.3	4.2	7.2	-2.7	77.1	-0.4
	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	2.9	2.5	3.9	2.4	2.8	-1.2	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	2.9	3.2	4.1	-6.7	123.1	-2.8
	2025	1.5	1.2	2.6	3.5	1.9	4.5	2.4	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	-	5.3	-7.4	88.6	1.3
	2025	5.2	5.6	-	5.5	-	-	1.7	-	5.2	-8.1	93.5	1.2
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*	03-Oct	5.00	-	3.46	3.35	0.91	-	6.77	10.62	10.32
	+3m	4.50	-	3.30	3.45	0.91	-	6.78	10.55	10.27
	+6m	4.00	-	3.25	3.45	0.93	-	6.90	11.02	10.74
	+12m	3.25	-	3.15	3.50	0.93	-	6.97	11.40	10.84
EUR	03-Oct	3.50	3.24	2.31	2.37	-	1.10	7.4597	11.70	11.37
	+3m	3.00	2.90	2.20	2.40	-	1.10	7.4575	11.60	11.30
	+6m	2.75	2.70	2.15	2.50	-	1.08	7.4550	11.90	11.60
	+12m	2.25	2.20	2.10	2.60	-	1.07	7.4550	12.20	11.60
JPY	03-Oct	0.25	-	-	-	0.006	0.007	4.62	7.24	7.03
	+3m	0.50	-	-	-	0.007	0.007	4.88	7.59	7.39
	+6m	0.75	-	-	-	0.007	0.007	5.08	8.10	7.90
	+12m	1.00	-	-	-	0.007	0.008	5.24	8.57	8.15
GBP*	03-Oct	5.00	-	3.88	3.65	1.19	1.08	8.87	13.92	13.52
	+3m	4.75	-	3.80	3.89	1.20	1.33	8.98	13.98	13.61
	+6m	4.25	-	3.60	3.89	1.19	1.29	8.88	14.17	13.81
	+12m	3.50	-	3.25	3.89	1.18	1.26	8.77	14.35	13.65
CHF	03-Oct	1.00	-	-	-	1.06	1.17	7.94	12.45	12.09
	+3m	0.75	-	-	-	1.04	1.15	7.77	12.08	11.77
	+6m	0.50	-	-	-	1.05	1.14	7.85	12.53	12.21
	+12m	0.50	-	-	-	1.06	1.14	7.93	12.98	12.34
DKK	03-Oct	3.10	3.15	2.37	2.50	0.134	0.148	-	1.57	1.52
	+3m	2.60	2.80	2.25	2.55	0.134	0.148	-	1.56	1.52
	+6m	2.35	2.60	2.20	2.65	0.134	0.145	-	1.60	1.56
	+12m	1.85	2.10	2.15	2.75	0.134	0.144	-	1.64	1.56
SEK	03-Oct	3.25	3.05	2.02	2.25	0.088	0.097	0.66	1.03	-
	+3m	2.75	2.75	2.10	2.60	0.088	0.097	0.66	1.03	-
	+6m	2.25	2.37	2.30	2.70	0.086	0.093	0.64	1.03	-
	+12m	2.00	2.10	2.35	2.80	0.086	0.092	0.64	1.05	-
NOK	03-Oct	4.50	4.82	3.89	3.56	0.085	0.094	0.64	-	0.97
	+3m	4.50	4.70	3.75	3.50	0.086	0.095	0.64	-	0.97
	+6m	4.25	4.45	3.65	3.55	0.084	0.091	0.63	-	0.97
	+12m	3.75	3.95	3.55	3.60	0.082	0.088	0.61	-	0.95

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

Commodities

		2024				2025				Average	
	03-Oct	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025
ICE Brent	78	82	85	80	80	85	85	85	85	82	85

Source Danske Bank

Disclosures

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