

27 September 2024

Weekly Focus

China makes a big push to turn the economy

The big news this week was the barrage of new stimulus measures from China. At an economic briefing on Tuesday, People's Bank of China and financial regulators announced a wide range of measures to shore up the ailing economy: the policy rate was cut by 30bp, Reserve Requirement Ratios for banks were cut by 50bp, measures to increase buying in the stock market was launched and mortgage rates on existing loans will be cut by 50bp. On top of this reports suggested China's big banks will be recapitalized with 1 trillion CNY (142 billion USD). On Thursday, China top leaders dedicated their monthly meeting in the Politburo to the economy, which is not normally the case in September. They sent a clear signal that stimulus will be stepped up across the board and turning the economy has the number one priority now. It is the biggest round of stimulus since the current crisis started three years ago and could turn out to be China's 'whatever-it-takes' moment. We now see upside risk to our growth estimate of 4.8% this year and next.

The Chinese stock market rallied strongly all week and is up 15% from the start of the week (offshore stocks); albeit coming from very low levels. The CNY also strengthened significantly. It is probably not a coincidence the measures were launched a week before China goes into the one-week National Holiday starting on Tuesday as policy makers hope for the measures to lift confidence when millions of families get together across China.

It has also been an eventful week on the data front. Flash PMIs from the euro zone and US kicked off the week with disappointing readings. Euro manufacturing PMI slipped further to 44.8 from 45.8 signalling clear contraction and raising the chance that the ECB could cut rates again next month. Service PMI also dropped, although it was probably more related to the end of the Olympics. US manufacturing PMIs also disappointed but the service PMI stayed at robust levels alleviating recession fears. **Focus is also still on US labour market data as they are key for Fed policy.** This week provided a mixed bag with the 'jobs plentiful' index in the consumer confidence survey falling yet again signalling a further rise in unemployment. However, initial jobless claims was better than expected.

On the geopolitical front we saw escalation in the Middle East with extensive Israeli attacks in Lebanon (see *Geopolitical Radar – Up the escalation ladder in the Middle East*, 26 September). It is still not having much impact on markets, though, and oil prices actually dropped this week from USD75 per barrel to USD71.5 per barrel as *Saudi Arabia plans to increase supply* and a new agreement in Libya is also set to put more oil on the market.

Risk sentiment was generally improving this week with global stocks moving higher while bond yields and the USD moved broadly sideways. Metal prices saw a strong rally following the Chinese stimulus announcements.

Focus the coming week will be on the US labour market report where both payrolls and the unemployment rate will be key for guiding Fed policy. ISM for both manufacturing and services are also due. In the eurozone, the Flash CPI for September will be a key input going into the October meeting. We expect euro area HICP inflation to decline to 1.7% y/y (consensus 2.0% y/y) in September from 2.2% in August after lower-than-expected data this week from France and Spain.

Key global views

- Global manufacturing cycle to move gradually higher
- Recession risk is still low
- US and EA inflation to decline further, but EA core remains sticky
- We expect the Fed and ECB to ease policy only gradually from here

Key market movers

- Mon: German CPI, China PMI
- Tue: Euro Flash CPI, US ISM manufacturing
- Wed: Euro unemployment
- Thu: US ISM service
- Fri: US payrolls and unemployment

Selected reading from Danske Bank

- *FX Forecast Update - Near term NOK strength, medium term bearish on Scandies*, 23 September
- *Geopolitical Radar - Up the escalation ladder in the Middle East*, 26 September
- *Reading the Markets USD - Soothing recession fears*, 24 September
- *Research Euro Area - Southern Europe to continue outperforming*, 23 September

Editor
Director
Allan von Mehren
+45 4514 1488
alvo@danskebank.dk

Scandi market movers

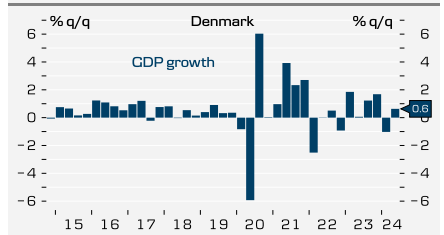
- Next week will be quiet in **Denmark** in terms of data releases, with the revisions to the Q2 national accounts as the only major release. The first print showed 0.6% q/q growth in GDP after a soft Q1 print, but we have previously seen upwards revisions in growth.
- In **Sweden**, the Riksbank minutes from the meeting on 25 September will be released on 1 October. Drawing on the impression we got from the analyst meeting chaired by Deputy Governor Jansson the day after the announcement, these should reveal that 1) There has been a glitch in communication; the base case for Riksbank is to move in 25bp steps at the next two meetings and the "possibility" of a 50bp cut as suggested by the press at one of these meetings is actually very low (rate path implies roughly about 10% at any of these meetings), 2) Riksbank focuses on CPIF excl. energy as it cannot impact energy. The latter is only important to the extent it impacts inflation expectations or core inflation components such as for example rents. 3) Our conclusion is that something significant in terms of a huge drop in core inflation, or a considerable weakening of the economic outlook relative to Riksbank's forecasts, needs to happen short-term to justify that the market prices almost a 100% probability of a 50bp rate cut at one of these meetings. That said, Riksbank may of course consider a significantly softer shift in ECB's policy stance, should it occur; the only major central bank decision ahead of Riksbank's next meeting on 7 November.

Given the significant improvement seen in consumer confidence and real wage growth coupled with rate cuts and forthcoming income tax cuts we expect a slight increase in August retail sales.

Especially Swedish manufacturing PMI data (September) may suffer from weakness seen in both eurozone and US PMI prints.

- Through monthly volatility, there is no doubt that the Norwegian PMI index points to a significantly stronger sentiment in Norwegian industry than is the case, for example, in the eurozone. Some of this is because the weak exchange rate makes the Norwegian export industry very competitive at the moment. At the same time, activity in the oil-related industry is very high as a result of the investment boom on the Norwegian continental shelf. We believe this trend will continue and think the PMI stayed around 52 in September.

First revisions to Q2 growth in Denmark are due on Monday



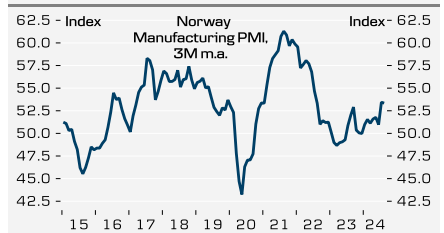
Sources: Statistics Denmark

Sweden: Riksbank remains behind the curve

Market vs Riksbank repo rate path		
	Market	Riksbank
13-Nov	-42	-27
08-Jan	-29	-28
Total	-71	-55

Source: Riksbank, Danske Bank

Relatively strong manufacturing sector in Norway



Kilde: Macrobond, Danske Bank

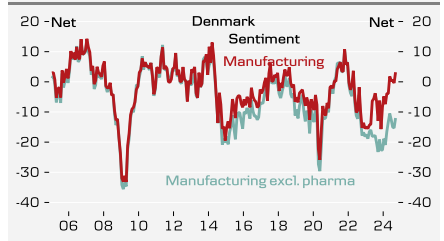
Scandi Update

Denmark – Solid improvement in business confidence

Business confidence gave a bullish signal in September, as the composite figure reached its highest level in more than two years. Manufacturing in particular saw improved sentiment, with the figure now net positive. This is despite the current gloom in particularly German manufacturing where production remains depressed, and part of the explanation for this is pharmaceuticals in Denmark, which has a large positive impact on the overall figure. However, we also see improving confidence outside pharmaceuticals, which has pulled the figure up recently. Construction and retail both remained in gloomy territory with no change from August, while services got slightly more optimistic.

Retail spending increased 0.4% m/m in August adjusted for prices and seasonality, which corresponds to a 1.5% y/y increase. This is in line with what we had expected as our own Spending Monitor data also showed improving spending. Inflation-adjusted sales remain below levels from before the inflation crisis, however, and growth has been slow considering the large increase in real wages. Thus, a basis for additional consumption growth remains as real wages will likely keep increasing into 2025, while both housing and labour markets are doing well.

Recent improvement in manufacturing confidence is not just due to pharma



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sweden – A 25bp cut from the Riksbank as expected

Riksbank: a cut by 25bp to 3.25% as expected. The rate path signals that the base case is still 25bp steps for the next meetings, but verbally the Riksbank now opens up to moving by 50bp either at the November or the December meeting. As our own inflation forecasts are well aligned with the Riksbank in the near-term and our GDP forecasts for 2024 and 2025 are higher, we see no reason to motivate a change to our current call for 25bp cuts over the next meetings (November, December, January and March) followed by a final 25bp cut in June (reaching 2.00%). However, the verbal signal has importance, and we interpret it as the board will look for evidence to motivate a 50bp move. Near term, this means that the September inflation and inflation expectations survey will be key, and any downward surprise may trigger a larger step in November.

The Economic Tendency Survey gave a mixed picture. The overall indicator ticked slightly lower, mainly driven by lower sentiment in the manufacturing and building industries. The confidence indicator for the retail trade on the other hand, climbed 3.7 points to 105.6, making it by far the most upbeat part of the business sector. The indicator has trended up since bottoming out just below 80.0 in spring 2023. Also, the service sector rose but still shows weaker sentiment than normal. The improvement came mainly from the question about demand over the past three months. Household sentiment ticked higher and is now close to 100 = "normal level" (99.5). Hiring plans continued to improve in almost all sectors.

Market pricing on upcoming Riksbank meetings

RIKS Implied fr RIBAs	
13-Nov	-43
08-Jan	-29
05-Feb	-25
26-Mar	-25
14-May	-20
25-Jun	-12
27-Aug	-8
Total	-187

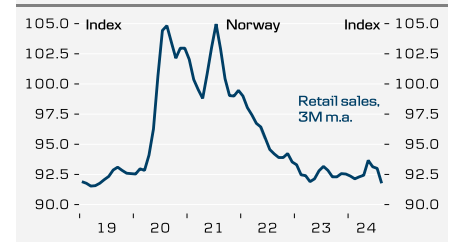
Source: Danske Bank

Norway – no signs of a lift in consumption

Retail sales rose 0.1% m/m in August, and after the extreme monthly volatility over the Summer, retail sales seem to be trending downwards (-2.0% 3M/3M). This is probably a bit of a surprise as real wage growth is improving and the headwind from higher rates is past us. This could however give some support to our view that the financial situation of at least many households still is stretched. We still expect private consumption to pick up going forward, but these figures at least show moderate risk of an immediate boom in consumption.

The labour market remains tight despite a more moderate rise in employment. The number of vacancies dropped in Q2 and unemployment is rising. However, the unemployment rate is still below the pre-pandemic level at 2.1%.

Retail sales on a downward trend again



Source: Macrobond, Danske Bank

Calendar - 30 September - 4 October 2024

Monday, September 30, 2024				Period	Danske Bank	Consensus	Previous
1:50	JPY	Industrial production, preliminary	m/m/y/y	Aug		-0.5% 1.5%	3.1% 2.9%
1:50	JPY	Retail trade	m/m/y/y	Aug		0.5% 2.6%	0.2% 2.7%
3:30	CNY	PMI manufacturing	Index	Sep		49.4	49.1
3:30	CNY	PMI non-manufacturing	Index	Sep		50.4	50.3
3:45	CNY	Caixin PMI manufacturing	Index	Sep		50.5	50.4
3:45	CNY	Caixin PMI service	Index	Sep		51.6	51.6
8:00	DKK	GDP, final	q/q/y/y	2nd quarter			0.6% ...
8:00	GBP	GDP, final	q/q/y/y	2nd quarter		0.6% 0.9%	0.6% 0.9%
8:00	SEK	Retail sales s.a.	m/m/y/y	Aug			0.5% 0.5%
8:00	SEK	Wages (blue collars/white collars)	y/y	Jul			4.5%
8:00	DKK	Gross unemployment s.a.	K (%)	Aug			87.68 (2.9)
9:00	CHF	KOF leading indicator	Index	Sep		101.0	101.6
10:00	NOK	Norges Bank's daily FX purchases	m	Oct			400
11:00	ITL	HICP, preliminary	m/m/y/y	Sep		1.2% 0.7%	-0.2% 1.2%
14:00	DEM	HICP, preliminary	m/m/y/y	Sep		0.0% 1.9%	-0.2% 2.0%
15:00	EUR	ECB's Lagarde speaks					
15:45	USD	Chicago PMI	Index	Sep		46.8	46.1
19:00	USD	Fed chair Powell speaks					
Tuesday, October 1, 2024				Period	Danske Bank	Consensus	Previous
-	USD	Total vehicle sales	m	Sep		15.67	15.13
1:30	JPY	Unemployment rate	%	Aug		2.6%	2.7%
1:30	JPY	Job-to-applicant ratio		Aug		1.24	1.24
1:50	JPY	Tankan large manufacturers index (outlook)	Index	3rd quarter		12.0	13.0 14.0
1:50	JPY	Tankan large non-manufacturers index (outlook)	Index	3rd quarter		32.0	33.0 27.0
2:30	JPY	Nikkei Manufacturing PMI, final	Index	Sep			49.6
8:30	SEK	PMI manufacturing	Index	Sep			52.7
9:15	ESP	PMI manufacturing	Index	Sep		50.2	50.5
9:45	ITL	PMI manufacturing	Index	Sep		49.0	49.4
9:50	FRF	PMI manufacturing, final	Index	Sep		44.0	44.0
9:55	DEM	PMI manufacturing, final	Index	Sep		40.3	40.3
10:00	EUR	PMI manufacturing, final	Index	Sep		44.8	44.8
10:00	NOK	PMI manufacturing	Index	Sep			52.1
10:30	GBP	PMI manufacturing, final	Index	Sep		51.5	51.5
11:00	EUR	HICP inflation, preliminary	m/m/y/y	Sep	-0.1% 1.7%	0.1% 2.0%	0.1% 2.2%
11:00	EUR	HICP - core inflation, preliminary	y/y	Sep	2.7%	2.8%	2.8%
15:30	CAD	RBC manufacturing PMI	Index	Sep			49.5
15:45	USD	Markit PMI manufacturing, final	Index	Sep		47.0	47.0
16:00	USD	JOLTS Job openings	K	Aug			7673 7673
16:00	USD	Construction spending	m/m	Aug		0.1%	-0.3%
16:00	USD	ISM manufacturing	Index	Sep		47.6	47.2
17:00	USD	Fed's Bostic speaks					
17:10	USD	Fed's Bostic speaks					
17:30	EUR	ECB's Schnabel speaks					
Wednesday, October 2, 2024				Period	Danske Bank	Consensus	Previous
-	PLN	Polish central bank rate decision	%			5.8%	5.8%
0:15	USD	Fed's Barkin speaks					
0:15	USD	Fed's Bostic speaks					
7:00	JPY	Consumer confidence	Index	Sep		37.0	36.7
11:00	EUR	Unemployment	%	Aug		6.4%	6.4%
14:15	USD	ADP employment	1000	Sep		123	99
16:30	USD	DOE U.S. crude oil inventories	K				-4471
17:00	DKK	Currency reserves	DKK bn	Sep			638.7
17:00	USD	Fed's Bowman speaks					
18:15	USD	Fed's Barkin speaks					
18:45	EUR	ECB's Schnabel speaks					
Thursday, October 3, 2024				Period	Danske Bank	Consensus	Previous
2:30	JPY	Markit PMI services, final	Index	Sep			53.9
8:30	SEK	PMI services	Index	Sep			52.9
8:30	CHF	CPI	m/m/y/y	Sep		-0.1% 1.1%	0.0% 1.1%
9:15	ESP	PMI services	Index	Sep		54.2	54.6
9:45	ITL	PMI services	Index	Sep		51.1	51.4
9:50	FRF	PMI services, final	Index	Sep		48.3	48.3
9:55	DEM	PMI services, final	Index	Sep		50.6	50.6
10:00	EUR	PMI composite, final	Index	Sep		48.9	48.9
10:00	EUR	PMI services, final	Index	Sep		50.5	50.5
10:30	GBP	PMI services, final	Index	Sep		52.8	52.8
11:00	EUR	PPI	m/m/y/y	Aug		-2.4% 0.4%	-2.1% 0.8%
14:30	USD	Initial jobless claims	1000				218
15:45	USD	Markit PMI service, final	Index	Sep			55.4
16:00	USD	Core capital goods orders, final	%	Aug			0.2%
16:00	USD	ISM non-manufacturing	Index	Sep		51.5	51.5
16:40	USD	Fed's Kashkari speaks					
16:40	USD	Fed's Bostic speaks					
Friday, October 4, 2024				Period	Danske Bank	Consensus	Previous
7:45	CHF	Unemployment	%	Sep		2.6%	2.5%
8:45	FRF	Industrial production	m/m/y/y	Aug		0.5% 1.9%	-0.5% 2.2%
10:30	GBP	PMI construction	Index	Sep		53.0	53.6
14:30	USD	Unemployment	%	Sep		4.2%	4.2%
14:30	USD	Average hourly earnings, non-farm	m/m/y/y	Sep		0.3% 3.7%	0.4% 3.8%
14:30	USD	Non farm payrolls	1000	Sep		140	142

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	-	5.2	-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*	26-Sep	5.00	-	3.38	3.33	0.90	-	6.68	10.53	10.11
	+3m	4.50	-	3.60	3.46	0.91	-	6.77	10.54	10.26
	+6m	4.00	-	3.43	3.45	0.93	-	6.90	11.02	10.79
	+12m	3.50	-	3.25	3.50	0.93	-	6.97	11.40	10.89
EUR	26-Sep	3.50	3.35	2.34	2.39	-	1.12	7.4571	11.75	11.30
	+3m	3.25	3.13	2.65	2.66	-	1.10	7.4575	11.60	11.30
	+6m	3.00	2.88	2.54	2.65	-	1.08	7.4550	11.90	11.65
	+12m	2.50	2.50	2.45	2.65	-	1.07	7.4550	12.20	11.65
JPY	26-Sep	0.25	-	-	-	0.006	0.007	4.61	7.27	6.99
	+3m	0.25	-	-	-	0.007	0.007	4.88	7.59	7.39
	+6m	0.50	-	-	-	0.007	0.007	5.08	8.11	7.94
	+12m	1.00	-	-	-	0.007	0.008	5.24	8.58	8.19
GBP*	26-Sep	5.00	-	3.87	3.63	1.20	1.07	8.94	14.10	13.55
	+3m	4.75	-	3.79	3.66	1.20	1.33	8.98	13.97	13.61
	+6m	4.25	-	3.58	3.65	1.19	1.29	8.88	14.17	13.88
	+12m	3.50	-	3.25	3.65	1.18	1.26	8.77	14.35	13.70
CHF	26-Sep	1.25	-	-	-	1.06	1.18	7.88	12.42	11.93
	+3m	0.75	-	-	-	1.04	1.15	7.77	12.09	11.77
	+6m	0.75	-	-	-	1.05	1.14	7.85	12.53	12.27
	+12m	0.75	-	-	-	1.06	1.14	7.93	12.98	12.39
DKK	26-Sep	3.10	3.24	2.41	2.52	0.134	0.150	-	1.58	1.51
	+3m	2.85	3.03	2.75	2.80	0.134	0.148	-	1.56	1.52
	+6m	2.60	2.78	2.64	2.80	0.134	0.145	-	1.60	1.56
	+12m	2.10	2.40	2.55	2.80	0.134	0.144	-	1.64	1.56
SEK	26-Sep	3.25	3.16	2.03	2.24	0.089	0.099	0.66	1.04	-
	+3m	2.75	2.79	2.31	2.60	0.089	0.097	0.66	1.03	-
	+6m	2.50	2.36	2.40	2.76	0.086	0.093	0.64	1.02	-
	+12m	2.00	2.05	2.40	2.85	0.086	0.092	0.64	1.05	-
NOK	26-Sep	4.50	4.80	3.81	3.52	0.085	0.095	0.63	-	0.96
	+3m	4.50	4.69	3.75	3.50	0.086	0.095	0.64	-	0.97
	+6m	4.25	4.43	3.64	3.55	0.084	0.091	0.63	-	0.98
	+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

	26-Sep	2024				2025				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2024	2025
ICE Brent	71	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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