2 October 2024

# Executive Briefing

## Recovery hopes rising in China

Economic data over the past month has been a mixed bag with news out of the euro area pointing to more downside risks to growth, while recession fears have eased somewhat in the US. In China investor confidence got a big boost from a strong stimulus package.

**The disappointing news in the euro area came mainly from September PMI's**, which showed a big drop in both manufacturing and services. The employment components also indicated that the labour market may finally give in to the weak demand, which suggests the unemployment may finally start to increase from the current low levels. On the inflation front, September provided some relief with a downward surprise in headline inflation to 1.8% y/y and thus below the 2% target. Core inflation is still at 2.7% but the good news was that the monthly momentum in prices showed some cooling after a longer period of stickiness. Based on downside surprises to both growth indicators and inflation, we now expect the ECB to cut rates again already this month. We expect ECB to revert to quarterly rate reductions of 25bp after that.

**When it comes to the US, recession fears have eased somewhat over the past month** as consumer data has remained resilient and the savings rate was revised quite a bit higher. The latter dampened concern that consumption growth might be heading for a hard landing due to a reversal of a low savings rate. Focus remains a lot on the labour market after some months of cooling but the data so far for September did not point to further cooling. Inflation is still well behaved in the US and no longer a concern for the Fed. After they cut rates by 50bp at the September meeting, they signalled a more gradual easing path from here with 25bp cut per meeting, which is in line with our expectations.

**In China the big news has been the announcement of large-scale stimulus across a wide range of areas.** Lower interest rates, a reduction in the reserve requirement ratio for banks, lower mortgage rates on existing loans and measures to lift the equity market were among the policy initiatives. China's leadership in the Politburo also sent a strong signal that the decline in the housing market should come to a halt now and sent a clear pro-growth signal after some years of more moderate signals and stimulus. The news has sent offshore Chinese equities sharply higher with an increase of 25% in seven days, the biggest 7-day increase since 2008, as investors have scrambled to close underweight positions in Chinese equities. The jury is still out if the stimulus will be big enough to turn the crisis but with the strong policy signal, we expect more stimulus to be rolled out if needed. We now expect to see a gradual improvement in Chinese housing and private consumption growth over the next year and that the two sectors will slowly put the economy on a more solid footing.

**On the geopolitical front, the conflict in the Middle East has escalated further** after Israel has launched a wider attack on Hezbollah in Lebanon and Iran launched a missile attack on Israel on 1 October. Until now, it has had limited impact on oil markets, and markets in general, but oil prices have started to move higher lately as the risk of a wider escalation is rising. Before the latest escalation, oil prices were edging lower as Saudi Arabia signalled increases in output to regain some of the market share lost to not least US shale oil producers over the past year.

### Today's key points

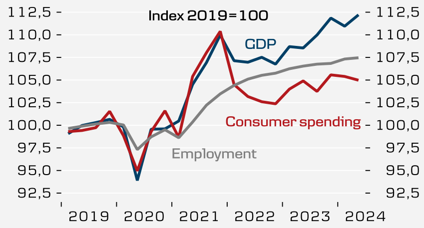
- A package of growth-supporting initiatives and statement form the Chinese leadership has been well received by equity markets as it raises hope of a growth rebound.
- Data for both growth and inflation in the euro area has come in on the low side, clearing the path for faster rate cuts.
- The path is also clear for rate cuts in Sweden with a small chance that they will accelerate. In contrast, Norges Bank is worried by the inflation impact from high wage growth.
- Yield curves are normalising further after a 50bp rate cut in the US, but in Denmark, a 3.5% coupon 30 year mortgage bond is coming into play instead of the 4% one.

*Editor-in-chief*
Las Olsen
*(see page 4 for list of all authors)*

## Denmark

GDP growth was revised up substantially for both Q1 and Q2, and now stands at 3.4% y/y in Q2, compared to an EU average of 0.8%. The revision was mainly due to production abroad and likely linked to Novo Nordisk, and the domestic non-pharma economy seems to have more or less stagnated during H1. However, income growth accelerated and we see potential for renewed consumer spending growth going forward. The government has proposed a budget that will add about 0.4% to demand in 2025 compared to this year. Nationalbanken has expressed mild concern over this expansion, as the labour market is already tight. The effect on the economy is not straightforward though, as increased military spending might have a large element of imports. Housing prices continue to rise modestly, supported by lower interest rates and rising incomes.

**GDP volatile, job growth steady**

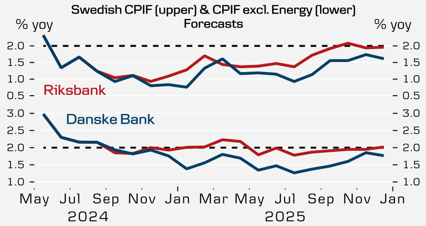



*Source: Statistics Denmark, Macrobond Financial*

## Sweden

Swedish manufacturing PMI continue to be stronger than elsewhere in Europe and has been in expansionary territory for a while but starts to close in to the historical average. Headline inflation is now well below the target, printing 1.2% y/y due to low energy prices. Core inflation is just above the target, but we expect a print at 1.9% y/y at the next release. The Riksbank cut the policy rate by 25bp to 3,25% as expected. They also opened the door for a cut by 50bp at one of the remaining meetings this year if necessary. Minutes however showed that the discussion between 25bp vs 50bp cuts was absent for most members but no one seems to prefer moving in 50bp steps. Surely, members agree to the rate path which has some probability for a 50bp cut but our assessment is that the bar for a 50bp cut is still high. We keep our forecast of 25bp cut at each meeting, reaching 2% by June next year.

**We expect lower inflation**




*Source: Statistics Sweden, Riksbank, Danske Bank, Macrobond Financial*

## Norway

The regional survey showed that companies now expect growth of 0.2% in the current quarter and the next quarter, indicating that the period of moderate growth continues. There is still relatively large sectoral variations, as construction and retail trade seems to be in a recession, oil related industries are in a boom whereas the service sectors and export industries are in a more normal business cycle. There is still no sign of a strong recovery in household spending despite the current lift in real wages. Disinflation continues, but service inflation is resistant and well above the 2 % target and the labour market remains relatively tight despite some sign of weakness lately. Hence, Norges Bank signalled that the policy rate most likely will remain at 4.5 % throughout the year.

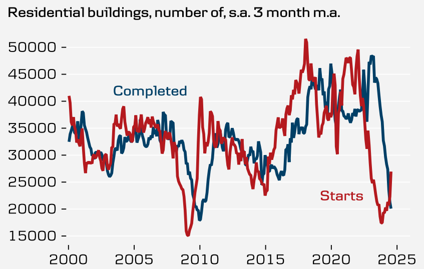
**Growth remains below trend**


*Source: Macrobond Financial*

## Finland

The Finnish economy is a making a slow exit from a shallow recession. Low inflation, falling interest rates and gradually improving Global demand support recovery. Headwinds from tight fiscal policy slow growth down, and higher unemployment makes consumers cautious in the short term. Consumer and business confidence improved during summer but moved sideways in September. The government raised the VAT rate to 25.5% in September. Fitch has lowered sovereign rating outlook to negative, implying that additional measures to reduce budget deficit can be expected. Housing construction is bottoming and housing market transactions increased modestly in late summer. There is plenty of pent-up demand for apartments and lower interest rates help to activate the housing market. Economic growth is expected to become more broad-based and speed up in 2025. Strength of export demand is the key factor for a sustained recovery.

**Construction starts past the worst**




*Source: Macrobond Financial, Statistics Finland*

## Currency markets

The month of September in FX markets was generally characterised by V-shaped (or reverse V-shaped) price action in most currency pairs. The beginning of the month saw cyclically sensitive currencies being under heavy pressure amid the sell-off in risky assets. Meanwhile, the second half of the month saw the opposite price action with not least AUD and GBP staging strong comebacks following the global rebound in risk appetite. The JPY proved to have a strong month amid the decline in global yields and continued hawkish guidance from the Japanese authorities. After an initial spike, both EUR/NOK and EUR/SEK saw a move lower with SEK even ending the month on a stronger footing against the single currency. EUR/DKK traded heavy towards the end of September bringing the cross towards 7.4550.

## Bond markets

September saw a 'twist' steepening of yield curves (lower short-term/higher long-term yields), with an 50bp start to the Fed's easing strengthening beliefs in a soft landing. Yield curves (10-year minus 2-year yields) have normalised in the US and German government bond markets, as usual during monetary policy easing. We expect the decline in short yields will continue as ECB cuts rates in October/December, while the long end is set to rise as markets fade the recession risk. Markets have, in response to the weak eurozone inflation/growth figures in September, lowered the expected ‘terminal rate’ – the end point for ECB’s deposit rate after the cuts have been finalized – to 1.5-1.75%, implying that monetary policy is expected turn expansionary next year. In the Danish callable market, a new 30Y 3.5% coupon bond was opened in September, as the price of the 4% coupon was trading very close to par. We expect the new 3,5% bond to trade around 97-97.5 through the next 12M, meaning that prepayments of existing 5% loans will likely remain limited.

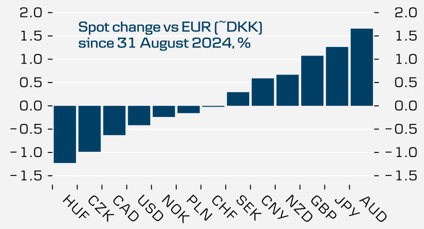
## Credit markets

Cash bond spreads finished the month largely unchanged as risk sentiment has improved following a sell-off in the beginning of the month. CDS indices are somewhat wider on the month, but this is due to the roll of the index (from series 41 to 42), which both extends the index and introduces changes to the composition. While the tone was somewhat soft in the secondary market for parts of the month, the new issue market has been busy throughout September, with both financials and corporates printing new deals at an elevated pace. Several banks have taken advantage of the good market conditions to issue AT1s. Among those was Nordea, which managed to print USD800m at 6.3% (which we see as below fair value) while still attracting orders of USD6.8bn. With September’s large supply, 2024 has already outpaced the last 3 years’ volumes.

## Equities

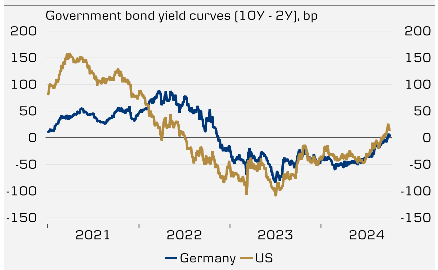
Global equities rose in September, driven predominantly by cyclicals. The first part of the month was very much driven by the US and labour market resilience, before a 50bp cut by the Fed took all focus mid-month. This was then eclipsed by Chinese stimulus last week, which may have led to increased optimism among investors and hopes for the global economy to start firing on more cylinders. However, we anticipate that focus will soon return to the US and its labour market. One thing became very clear on the last day of September: the focus of equity investors on inflation has turned more or less 180 degrees. We received very low inflation prints from both Italy and Germany, yet equities were lower. Such a scenario would not have occurred 3, 6, 9, or 12 months ago. However, this underscores just how extremely important demand, and particularly the US job market, will be for risky assets, especially equities, in the next 6-12 months..

### FX. Sorted spot returns vs EUR



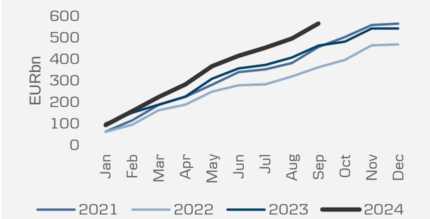

*Past performance is not a reliable indicator of current or future results. Source: Macrobond Financial*

### Curve steepening continued through September



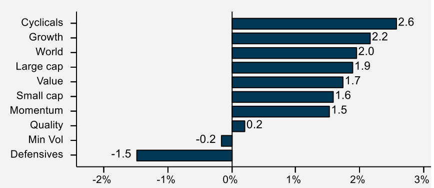

*Past performance is not a reliable indicator of current or future results. Source: Macrobond Financial*

### 2024 issuance has already surpassed the last three years




*Past performance is not a reliable indicator of current or future results. Source: Bloomberg*

### Cyclicals have performed in September




*Past performance is not a reliable indicator of current or future results. Source: Macrobond Financial.*

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# 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* | 01-Oct | 5.00 | - | 3.42 | 3.28 | 0.90 | - | 6.74 | 10.59 | 10.27 |
| | +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 | 01-Oct | 3.50 | 3.25 | 2.26 | 2.28 | - | 1.11 | 7.4579 | 11.73 | 11.37 |
| | +3m | 3.00 | 2.95 | 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 | 01-Oct | 0.25 | - | - | - | 0.006 | 0.007 | 4.69 | 7.37 | 7.14 |
| | +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* | 01-Oct | 5.00 | - | 3.88 | 3.57 | 1.20 | 1.08 | 8.94 | 14.06 | 13.63 |
| | +3m | 4.75 | - | 3.80 | 3.65 | 1.20 | 1.33 | 8.98 | 13.98 | 13.61 |
| | +6m | 4.25 | - | 3.60 | 3.65 | 1.19 | 1.29 | 8.88 | 14.17 | 13.81 |
| | +12m | 3.50 | - | 3.25 | 3.60 | 1.18 | 1.26 | 8.77 | 14.35 | 13.65 |
| CHF | 01-Oct | 1.00 | - | - | - | 1.07 | 1.18 | 7.96 | 12.52 | 12.14 |
| | +3m | 0.75 | - | - | - | 1.04 | 1.15 | 7.77 | 12.08 | 11.77 |
| | +6m | 0.75 | - | - | - | 1.05 | 1.14 | 7.85 | 12.53 | 12.21 |
| | +12m | 0.75 | - | - | - | 1.06 | 1.14 | 7.93 | 12.98 | 12.34 |
| DKK | 01-Oct | 3.10 | 3.18 | 2.34 | 2.41 | 0.134 | 0.148 | - | 1.57 | 1.52 |
| | +3m | 2.60 | 2.85 | 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 | 01-Oct | 3.25 | 3.09 | 2.00 | 2.15 | 0.088 | 0.097 | 0.66 | 1.03 | - |
| | +3m | 2.75 | 2.74 | 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 | 01-Oct | 4.50 | 4.84 | 3.80 | 3.46 | 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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 01-Oct | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2024 | 2025 |
| ICE Brent | 74 | 82 | 85 | 80 | 80 | 85 | 85 | 85 | 85 | 82 | 85 |

*Source Danske Bank*

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