

19 April 2024

Weekly Focus

Middle East situation remains tense

Market sentiment has remained volatile throughout the week. Iran's strikes to Israel last weekend sparked uncertainty, which eased gradually through the week, only to be reignited by Israel's retaliation last night. The jury is still out on whether this leads to a wider regional escalation, but at the time of writing, *Iranian sources* have said there is no plan for immediate retaliation. Oil prices are still below levels seen a week ago, equity markets are down, and government bond yields are relatively little changed despite the volatility.

On Saturday, US congress will vote on new support measures for Israel, Ukraine and Taiwan. House speaker Mike Johnson has blocked the bills from a vote on the House floor for months, but the Iran's attack seemed to spark a bipartisan sense of urgency. As some of the hardline House republicans still oppose the measures, Johnson turned to democrats for support by including humanitarian aid to Gaza as part of the package. As such, the bills advanced through the House Rules Committee on Thursday with all democrat members voting in favour. The move is politically risky for Johnson himself, but good news for Ukraine. We do not yet know if Israel's latest strikes will affect the discussions in any way, but as a base case, we expect the bills to pass the final vote over the weekend.

While the past week was light in terms of macro data, the releases were generally on the strong side. US retail sales grew more than expected in March, as control group sales edged up by 1.1% m/m SA (Feb +0.3%). That said, more favourable seasonal adjustment factor and declines seen in sales of some of the 'big ticket' categories spark questions about the strength of the underlying trend. While US macro data shows few signs of cooling, we still remain optimistic that disinflation can continue towards the latter half of the year, with the Fed cutting rates three times this year, see *Reading the Markets USD - Supply-driven growth can still rhyme with disinflation*, 16 April.

Chinese Q1 GDP growth also exceeded expectations at 5.3% y/y (Q4 5.2%), although the latest March data for retail sales was disappointing. In our view, the data remains consistent with the Chinese economy 'muddling through' its latest challenges. There are some rays of light in the horizon for example on the housing sector, but growth in consumption and credit remains moderate at best despite the stimulus.

Next week, the main data focus will be on **preliminary PMI data** for April, as markets gauge strength of the economies at the beginning of Q2. While winter brought welcome news of recovery in the global manufacturing cycle, the latest leading signals point towards tentative signs of a peak in H2. In addition, the latest upticks in oil and industrial metal prices are set to dampen demand going forward. We discussed the outlook this week in *Research Global - Manufacturing recovery to continue into the summer*, 15 April.

We expect the **Bank of Japan** (BoJ) to stay put on the policy meeting ending early Friday after they made the decisive move to hike the policy rate out of negative territory in March. BoJ will present its new economic projections up to 2026, and focus will naturally be on the expected persistence of inflation after the recent range of solid wage growth indications. We expect BoJ to hike rates one more time this year, most likely in the July meetings.

Key global views

- Weak near-term growth outlook in the US and euro area, but recovery from summer 2024
- Global manufacturing cycle moving gradually higher
- US and Euro inflation set to decline further, but core inflation to remain sticky
- We expect 3 rate cuts of 25bp from both ECB and Fed this year

Key market movers

- Monday: China Loan Prime Rates, EA flash consumer confidence
- Tuesday: EA, UK & US Flash PMIs for April
- Wednesday: Germany Ifo, US durable goods
- Friday: BoJ Meeting, US March PCE

Selected reading from Danske Bank

- *FX Forecast Update - Gear up for prolonged NOK slump*, 16 April
- *Research Global - Manufacturing recovery to continue into the summer*, 15 April

Editor
Associate
Antti Ilvonen
+358 445 180 297
antti.ilvonen@danskebank.com

Scandi market movers

- In **Denmark**, the week begins with consumer confidence for April on Monday. We expect that confidence has improved in April, to -5 from -7.6, as wage increases from public sector wage negotiations are set to take effect in April, while taxpayers who have overpaid taxes will be reimbursed their surplus. Inflation has been low for a while now, as has the unemployment rate. This has supported the personal finances of consumers which should manifest itself in the confidence figure.

Also on Monday, we get monthly payrolls for February. The figure was flat in January, but has been increasing since spring 2021, though at a slower pace recently. Monthly unemployment figures have been fluctuating between increases and declines though at very low levels. This indicates another flat move in payrolls.

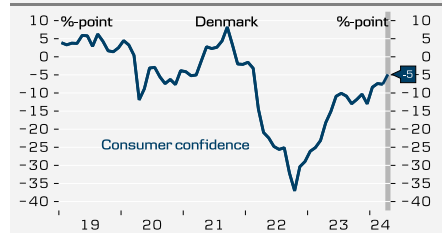
Tuesday brings business confidence for April. Manufacturing confidence improved to -3 in March and has been trending higher from its very low levels seen at the end of 2023. Global PMIs suggest weak but positive growth in manufacturing which should support confidence. Sentiment in both retail and services worsened in March with retail in deep negative territory. It will be interesting to see how the balance of higher costs but also more purchasing power from consumers, both due to increasing wages, affects sentiment in these lines of business. Construction could catch headwind from the recent upwards trend in global rates which can mean higher borrowing costs for longer.

- In **Sweden**, next week we get a new Labor Force Survey. The unemployment rate is currently rising mainly due to more people outside the labour force seeking work rather than people inside the labour force losing their jobs. The Public Employment Service report that more people found work in Q1 2024 compared to the same period last year. Even though bankruptcies are historically high they have little effect on unemployment. This is reflected in redundancies as companies have often given notice of redundancy to many employees before they go bankrupt, and if they have more than five employees at the time of bankruptcy, they must give them notice of termination of employment in advance. Thereby, bankruptcies will not have a severe effect on the labour market until there is a greater increase in redundancies. Redundancies also seem to have petered out, with the number of notices clearly starting to fall.

In a speech this week Riksbank Deputy Governor Aino Bunge stated that even though the March inflation outcome was clearly lower than expected, it must be weighed against the risks to inflation going forward. As she earlier stated in the Minutes of the March meeting, in the speech she reiterated the risk of geopolitics, exchange rate and companies' price plans. Next week we get the last NIER Economic Tendency Survey before the May rate decision from the Riksbank. Therefore, companies' expected selling prices will be of high interest as always. Although the Riksbank have stated that companies' price plans are now compatible with an inflation rate of 2%, the exception remains in the private service sector which had an uptick in the last survey.

PPI and trade statistics are also published. The strong increasing trend in exports has had some setbacks recently. This mainly owes to the collapse in iron ore export caused by a severe train derailment in the northern parts of Sweden, decreasing exports of electricity and a drop in service export. However, exports of machinery and transport equipment continues to perform well which reflects the recovery in the manufacturing sector.

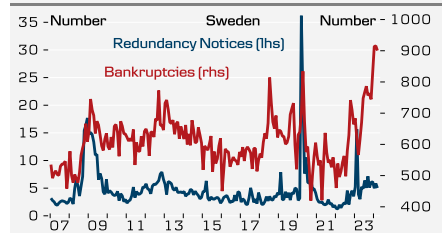
We expect consumer confidence to have improved in April



Remark: Seasonally adjusted data

Sources: Statistics Denmark, Danske Bank

Mainly micro companies affected by bankruptcies which is reflected in the relatively few redundancies notices



Note: Seasonally Adjusted

Source: UC, Swedish Public Employment Service

- After some signs of stabilization in **Norway** over the autumn of last year, retail sales have continued to trend downwards since November. Although real wage growth is about to become positive, this is still counteracted by higher mortgage rates reducing purchasing power. As the savings rate is already negative, there is not as much support from more positive sentiment as one might hope for. Add that service consumption continues a moderate rise, and you can see that there is enough headwind for the retail sector. Hence, we expect that retail sales fell by 0.3% in March but emphasize that the March estimates are extremely uncertain due to Easter, which makes seasonal adjustment challenging. In addition, we get unemployment figures from LFS, which we normally do not focus on much. But in this phase of the cycle, when companies have started to limit hiring and lay-offs remain low, the LFS-figure can capture this somewhat faster than the (more stable) NAV figures.

Retail trade is grinding lower

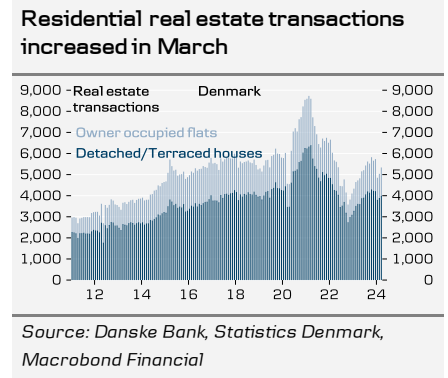


Sources: Macrobond, Danske Bank

Scandi update

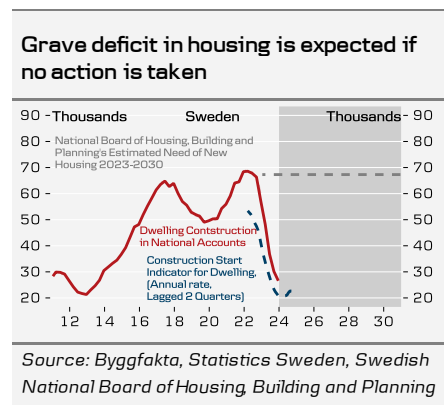
Denmark – Residential sales up in March

Monthly residential sales for March showed an increase in sales, with house sales at 4074 (+2.6%) and apartment sales jumping to 1345 (+17.5%). We expected a decline. Both figures took a dive as we entered 2024 and have since increased again but are yet to reach the late-2023 highs. The increasing purchasing power of consumers and still low unemployment rate have likely supported demand while the ‘shock’ from the new taxation scheme, which especially affected tax receipts on large apartments, seems to be wearing off.



Sweden – Deficit in housing, but no deficit in the government’s budget

The construction sector is one of the sectors that has been worse affected by the elevated interest rates. The Construction Cost Index for multi-dwelling buildings increased 2.9% y/y in March. We have made a simple forecast of the index. The forecast is given that the interest component of the index will fall in line with our forecast for the policy rate, while the other components have the same price trend as the time before the pandemic. We see that in that case, construction costs will fall, but only very moderately. They would be 2% lower at the end of 2025 compared to today. The effect is so small since the reduced interest costs are largely eaten up by the normal price increases from the other components.

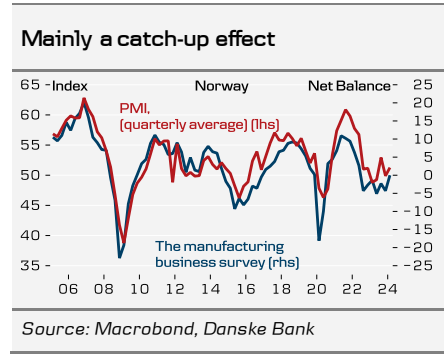


The crisis in the construction sector does not have a major impact on the labour market since the sector consists of a large share of foreign labour that is not included in the statistics. If the sector's recovery is too slow, it may lead to larger structural problems with significant shortage of vital skilled labour as both domestic and foreign labour will leave the country and the industry. Byggbakta’s Constructing Start Indicator for March showed that Sweden’s worst slump in home construction in more than three decades is over for now, however, it still has a long way to go until it reaches the need of new housing estimated by the National Board of Housing, Building and Planning’s. Regardless of the amount of fiscal investment that would then be conducted in the years to come to address this housing deficit, the limited labour supply will put a real limit on how much can be constructed.

As our forecast shows that the upcoming expansive monetary policy is only expected to provide very moderate support to the sector going forward, the lack of any fiscal policy is even more visible. The government's Spring Fiscal Policy Bill included expected additional reforms of SEK 16.8 billion, where none of the reforms were dedicated to the construction sector. The government’s current short-term fiscal thinking and its fear of inflation and increased government indebtedness may thereby lead to severe structural issues where an easy remedy to it will be hard to find if nothing is done soon.

Norway – some improvement in the manufacturing sector

The Q1 manufacturing business survey reveals a lift in the aggregated index from -4.3 to 0.0. Hence, the index is currently more in line with the monthly PMI, which read 51.3 on average in Q1. The survey still points to moderate, but below-trend growth in the manufacturing sector. The survey is also well in line with the latest PMI and the manufacturing part of the latest regional survey. Details on the strong side, with expected new orders next quarter from 48.1 to 51.5, expected employment at 52.6 and expected production at 53.5. The capital goods part of the sector, which is mainly oil-related industries, is still a significant positive contribution to growth, counteracting considerably weaker activity in export and home-based industries.



Calendar – 22-26 April 2024

Monday, April 22, 2024				Period	Danske Bank	Consensus	Previous
8:00	DKK	Consumer confidence	Net. bal.	Apr	-5		-7.6
16:00	EUR	Consumer confidence, preliminary	Net bal.	Apr		-14.3	-14.9
Tuesday, April 23, 2024				Period	Danske Bank	Consensus	Previous
2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Apr			48.2
2:30	JPY	Markit PMI services, preliminary	Index	Apr			54.1
9:15	FRF	PMI manufacturing, preliminary	Index	Apr		46.8	46.2
9:15	FRF	PMI services, preliminary	Index	Apr		48.9	48.3
9:30	DEM	PMI manufacturing, preliminary	Index	Apr		42.6	41.9
9:30	DEM	PMI services, preliminary	Index	Apr		50.5	50.1
10:00	EUR	PMI manufacturing, preliminary	Index	Apr	47.1	46.5	46.1
10:00	EUR	PMI composite, preliminary	Index	Apr		50.8	50.3
10:00	EUR	PMI services, preliminary	Index	Apr	51.2	52.0	51.5
10:30	GBP	PMI manufacturing, preliminary	Index	Apr		50.2	50.3
10:30	GBP	PMI services, preliminary	Index	Apr		53.0	53.1
14:00	HUF	Central Bank of Hungary rate decision	%		7.75%	7.75%	8.25%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Apr		51.8	51.9
15:45	USD	Markit PMI service, preliminary	Index	Apr		52.1	51.7
16:00	USD	New home sales	1000 (m/m)	Mar		670	662.0 (-0.3%)
Wednesday, April 24, 2024				Period	Danske Bank	Consensus	Previous
3:30	AUD	CPI	q/q/y/y	1st quarter		0.8% 3.5%	0.6% 4.1%
10:00	DEM	IFO - business climate	Index	Apr		88.8	87.8
10:00	DEM	IFO - current assessment	Index	Apr		88.7	88.1
10:00	DEM	IFO - expectations	Index	Apr		88.9	87.5
14:30	CAD	Retail sales	m/m	Feb		0.1%	-0.3%
14:30	USD	Core capital goods orders, preliminary	%	Mar		0.2%	0.7%
16:00	EUR	ECB's Schnabel speaks					
16:30	USD	DOE U.S. crude oil inventories	K			1650	2735
Thursday, April 25, 2024				Period	Danske Bank	Consensus	Previous
7:00	JPY	Leading economic index	Index	Feb			111.8
8:00	SEK	PPI	m/m/y/y	Mar			0.0% -1.3%
8:00	DEM	GfK consumer confidence	Net. Bal.	May		-26	-27.4
8:45	FRF	Business confidence	Index	Apr		101.0	100.0
9:00	EUR	ECB's Schnabel speaks					
9:00	SEK	Consumer confidence	Index	Apr			87.5
9:00	SEK	Economic Tendency Survey	Index	Apr			93.1
9:00	SEK	Manufacturing confidence	Index	Apr			98.7
10:00	EUR	ECB Publishes Economic Bulletin					
13:00	TRY	Central Bank of Turkey rate decision	%			50.0%	50.0%
14:30	USD	PCE core, preliminary	q/q AR	1st quarter			0.02
14:30	USD	GDP, first release, preliminary	q/q AR	1st quarter		0.023	0.034
14:30	USD	Initial jobless claims	1000				212
14:30	USD	Advance goods trade balance	USD bn	Mar		-90.4	-90.3
16:00	USD	Pending home sales	m/m/y/y	Mar		1.0% ...	1.6% -2.2%
Friday, April 26, 2024				Period	Danske Bank	Consensus	Previous
-	JPY	BOJ Target Rate (Upper Bound)	%		0.1%	0.1%	0.1%
-	JPY	BOJ Target Rate (Lower Bound)	%		0.0%		0.0%
1:01	GBP	GfK consumer confidence	Index	Apr		-20.0	-21.0
1:30	JPY	Tokyo CPI Ex-Fresh Food YoY	y/y	Apr		2.2%	2.4%
1:30	JPY	Tokyo CPI Ex-Fresh Food, Energy YoY	y/y	Apr		2.7%	2.9%
8:00	SEK	Household lending	y/y	Mar			0.4%
8:00	SEK	Trade balance	SEK bn	Mar			9.3
8:00	NOK	Retail sales, s.a.	m/m	Mar	-0.3%		0.1%
8:45	FRF	Consumer confidence	Index	Apr		92.0	91.0
10:00	EUR	Money supply (M3)	y/y	Mar		0.6%	0.4%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Mar		0.6%	0.4%
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Mar		0.6%	0.4%
12:30	RUB	Central Bank of Russia rate decision	%			16.0%	16.0%
14:30	USD	PCE headline	m/m/y/y	Mar		0.3% 2.6%	0.3% 2.5%
14:30	USD	PCE core	m/m/y/y	Mar		0.3% 2.7%	0.3% 2.8%
14:30	USD	Personal spending	m/m	Mar		0.6%	0.8%
16:00	USD	University of Michigan Confidence, final	Index	Apr		77.9	77.9

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	-0.7	3.6	0.3	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	6.5	-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*	18-Apr	5.50	-	4.85	4.21	0.94	-	7.00	11.03	10.94
	+3m	5.25	-	4.65	4.15	0.94	-	7.03	11.04	10.75
	+6m	5.00	-	4.31	4.05	0.95	-	7.10	11.43	10.95
	+12m	4.50	-	3.80	3.95	0.97	-	7.23	11.75	11.17
EUR	18-Apr	4.00	3.82	3.27	2.76	-	1.07	7.4620	11.76	11.66
	+3m	3.75	3.60	3.15	2.65	-	1.06	7.4550	11.70	11.40
	+6m	3.50	3.41	2.91	2.65	-	1.05	7.4500	12.00	11.50
	+12m	3.00	2.90	2.65	2.65	-	1.03	7.4500	12.10	11.50
JPY	18-Apr	0.10	-	-	-	0.006	0.006	4.53	7.13	7.08
	+3m	0.10	-	-	-	0.006	0.007	4.78	7.51	7.32
	+6m	0.20	-	-	-	0.007	0.007	4.89	7.88	7.55
	+12m	0.20	-	-	-	0.007	0.007	5.09	8.27	7.86
GBP*	18-Apr	5.25	-	4.69	3.97	1.17	1.10	8.71	13.73	13.61
	+3m	5.00	-	4.45	3.90	1.14	1.20	8.47	13.30	12.95
	+6m	4.75	-	4.26	3.90	1.12	1.18	8.37	13.48	12.92
	+12m	4.25	-	4.00	3.90	1.12	1.16	8.37	13.60	12.92
CHF	18-Apr	1.50	-	-	-	1.03	1.10	7.68	12.09	11.99
	+3m	1.25	-	-	-	1.02	1.08	7.61	11.94	11.63
	+6m	1.00	-	-	-	1.03	1.08	7.68	12.37	11.86
	+12m	0.50	-	-	-	1.04	1.07	7.76	12.60	11.98
DKK	18-Apr	3.60	3.82	3.38	2.91	0.134	0.143	-	1.58	1.56
	+3m	3.35	3.55	3.30	2.85	0.134	0.142	-	1.57	1.53
	+6m	3.10	3.26	3.06	2.85	0.134	0.141	-	1.61	1.54
	+12m	2.60	2.75	2.80	2.85	0.134	0.138	-	1.62	1.54
SEK	18-Apr	4.00	3.96	3.36	2.85	0.086	0.091	0.64	1.01	-
	+3m	3.75	3.83	2.90	2.80	0.088	0.093	0.65	1.03	-
	+6m	3.50	3.59	2.85	2.85	0.087	0.091	0.65	1.04	-
	+12m	3.00	3.12	2.65	2.90	0.087	0.090	0.65	1.05	-
NOK	18-Apr	4.50	4.78	4.68	3.99	0.085	0.091	0.63	-	0.99
	+3m	4.50	4.60	4.40	3.80	0.085	0.091	0.64	-	0.97
	+6m	4.25	4.26	4.21	3.75	0.083	0.088	0.62	-	0.96
	+12m	3.50	3.80	3.80	3.75	0.083	0.085	0.62	-	0.95

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

Commodities												
	18-Apr	2023				2024				Average		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024	
ICE Brent	86	82	85	80	80	85	85	85	85	82	85	

Source Danske Bank

Disclosures

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