

Weekly Focus

Geopolitics and inflation spark volatility in the markets

Risk sentiment remained shaky over the past week as markets digested a mix of renewed geopolitical worries, mixed data on inflation and cautious signals from the central bankers. The conflict between Israel and Hamas has quickly escalated into the worst bloodbath in 50 years on both sides. Hamas's attacks are estimated to have caused 1300 casualties, most of which civilian, while Israel has begun a massive counteroffensive towards Gaza in response. Possible involvement of the Iran-backed Hezbollah remains a key worry, although many of the surrounding Arab nations, including Qatar and Egypt, have so far pushed to avoid further escalation. As both Israel and Iran are small natural gas exporters, and the production of the former has already been affected, European natural gas prices rose by around 40% this week. Oil markets have remained calmer, dampened by cooling demand and spare production capacity especially in Saudi Arabia. Read our early take on the outlook from Monday: *Geopolitical radar - Extra edition: Fauda - what to expect from chaos in Israel?* 9 October.

On the data front, US September CPI surprised to the upside for the second month in a row. Headline CPI rose by 0.4% m/m (consensus 0.3%), while core CPI was better in line with expectations at 0.3% m/m (consensus 0.3%). Shelter inflation (+0.65% m/m; Aug +0.29%) accelerated against expectations, even though more timely rental price indices still point towards moderating inflation. Health care prices, which are distorted by lagged estimation of health insurance premiums, contributed to the upside surprise as well. Excluding the two categories, core services inflation cooled in m/m terms, which is a positive signal of moderating underlying inflation for the Fed. We still believe rate hikes are already over in the US, which remains the base case for the markets as well. We discussed the mixed data in more detail in our monthly *Global Inflation Watch*, 13 October.

While equity and credit markets remained relatively stable, longer-dated US yields rose towards the end of the week and broad USD appreciated. Besides the CPI print, weak demand on 3y, 10y and 30y UST auctions played a role, as persistent budget deficits seem to remain a key worry for markets even amid the uncertain economic outlook. In any case, **central bankers have sounded increasingly cautious about hiking rates further in an environment where financial conditions have tightened markedly since summer.** September meeting minutes from both the ECB and the Fed also flagged growing worries about the risk of overtightening monetary policy.

Next week, the focus will turn to economic data. US retail sales are expected to signal weakening consumer demand after early credit card data and leading services PMI components fell in September. In Europe, German October ZEW index will provide hints on the latest investor sentiment amid higher uncertainty, and final September HICP data will give more detailed insight into inflation drivers. In UK, focus will be on both labour market and inflation data. The latest KPMG and REC report on jobs pointed towards cooling wage inflation, while markets will keep a close eye on if the August downtick in price inflation was just a one-off. In China, Q3 GDP is expected to come out around 1.0% q/q, which would pave way for the government to meet its growth target of 5%.

Key global views

- Stagnation and periodic contraction in the US and in Europe in 2023
- US and euro area headline inflation set to decline further, but core inflation to remain sticky
- Fed and ECB policy rates have peaked

Key market movers

- Monday: US Empire man. index
- Tuesday: UK labour market report, German ZEW index, US retail sales
- Wednesday: China Q3 GDP, UK CPI, EA final HICP
- Thursday: US Philly Fed Index

Selected reading from Danske Bank

Geopolitical radar - Extra edition: Fauda - what to expect from chaos in Israel? 9 October.

Research Germany: What drives the recent divergence between employment and GDP? 12 October

Global Inflation Watch - Underlying price pressures remain sticky, 13 October

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Scandi market movers

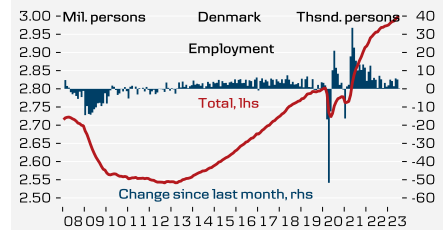
- In **Denmark**, we are scheduled to receive wage earner employment figures for August on Thursday next week. Employment was largely unchanged between June and July, with just 200 finding work. We expect the low level of job growth to continue for a little while and then reverse into a modest decline in employment towards the end of 2023 and into 2024. The unemployment rate remained at 2.9% in September, with the Danish economy ex. pharma now in recession, though wages are growing. Denmark's labour market has proved robust despite the slowdown, with no decline in employment so far. We see this as reflective of the recession hitting industry and to some extent construction hardest, whereas the more labour-intensive service sector remains buoyant.

Property website 'Boligsiden' is due to release housing market activity figures on Thursday, too. Housing sales have been rising every month since November 2022 (seasonally adjusted), and we see scope for a further increase in the near term. Considering how much interest rates have risen, the housing market has proved remarkably robust. More subdued energy prices and inflation along with unemployment remaining low are probably the reasons. Looking further ahead, we see positive impulses from the restoration of consumer purchasing power, though high interest rates and the gradual deterioration of the labour market will be headwinds.

- **Sweden** has a quiet week ahead on the data release front. The only significant release is Statistics Sweden's Labour Force Survey for September and Q3. The past four months' unemployment numbers have been highly volatile and varied between 7.2% and 8%. As it recoiled in August to 8%, we now expect unemployment to drop. Last week, the Public Employment Service Office published its own unemployment number for registered unemployed people which increased two months in a row for the first time in a year. However, registered unemployment is rising only at a modest pace (up from 6.3% in July to 6.4% in September). This is way too early for the increase to be seen as negative trend breaking. Instead, it should be interpreted as the labour market normalizing. The numbers were accompanied by somewhat ominous indications for the labour market, as new vacancies declined and redundancy notices increased, which, some speculate, indicates a turnaround in the hitherto robust Swedish labour market. However, looking through a broader perspective, we question this negative narrative as new vacancies remain in line with the long run trend despite the decline because of its relatively small magnitude comparing to the massive increase after the lockdown. Also, worth noting that redundancy notices does not increase relatively at the same pace as new vacancies, showcasing the long-term trend of increasing flexibility of the labour force and voluntary resignations.

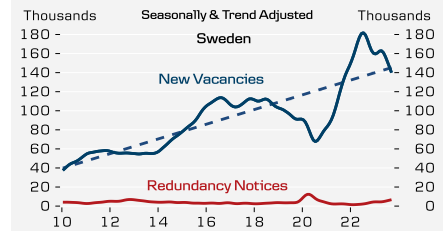
- There are no market movers in **Norway** next week.

Wage earner employment largely unchanged in July



Source: Statistics Denmark, Danske Bank

New vacancies dropping in Sweden although not alarmingly



Source; Swedish Public Employment Service

Scandi update

Denmark – Inflation falls to 0.9% in September, largely due to base effects from lower energy prices

Inflation in Denmark printed at 0.9% in September compared to the same month last year – so a hefty decline from 2.4% in August. The fall was largely driven by base effects, as energy prices, especially for electricity and gas, were extremely high in September last year. Barring a further significant decline in energy prices, inflation therefore looks set to slowly but surely start rising again. That being said, there are signs that underlying price pressures are easing. Seasonally adjusted, ex. energy and food prices were more or less unchanged between August and September – and given the ongoing slowdown, businesses will find it difficult to keep hiking prices. On the other hand, wage growth is accelerating, with major pay rises scheduled for all the way into 2025, which would tend to pull inflation up. All in all, we have pencilled in inflation at 4% for 2023.

Exports rose by 0.8% between July and August, led by exports of goods produced outside Denmark, and especially goods sold to the US, which so far in 2023 has been the largest buyer of Danish exports. Denmark sells a great deal of pharmaceuticals to the US, plus the US economy has been rock solid so far this year.

Denmark’s current account surplus remains impressive but has now fallen for three months in a row. The decline was due to a reduced surplus on goods that cross the Danish border. However, these figures do not detract from the Danish current account surplus still being among the global elite and in fact at the level of the oil-producing nations. Novo Nordisk is of course a major reason for the surplus, but even without Novo Nordisk, Denmark produces much more than it consumes.

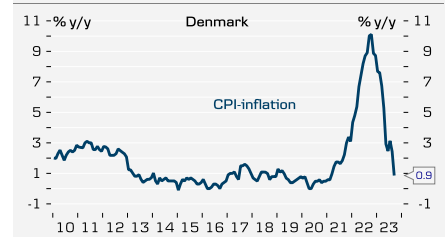
Jobless numbers rose by 300 between August and September, according to the unemployment indicator from Statistics Denmark. So, a relatively modest increase that indicates the labour market remains robust despite the Danish economy being in recession. Note, though, that these are preliminary figures and can change.

September saw 265 active companies go bankrupt (seasonally adjusted), an increase of 21.6% on August, though the statistic fluctuates considerably from month to month. Looking at the underlying trend, an average of around 250 companies a month have gone under in 2023, which is a relatively high number. The reason is the slowdown the Danish economy is currently experiencing. Nevertheless, the trend has been slightly down, doubtless because most companies heading for bankruptcy due to VAT loan repayments have now collapsed.

Sweden – September inflation set-back

September inflation turned out much higher than we expected, above market expectations and more importantly, higher than Riksbank’s forecasts, see withstanding table. The deviation from our own forecast suggest it was caused by recreation (+0.2 p.p.), partly charter packs, partly recreation goods, and by furniture/household goods. Charter prices have been very volatile past couple of years and might fall back in October. The increase in recreation and household goods, however, might be driven by SEK depreciation and is hence unlikely to reverse back. Overall, the outcome raises the probability that Riksbank may have to hike the repo rate yet again in November, however, note that there will be another inflation print ahead of that meeting that may mitigate the impression of the September outcome.

Inflation fell to 0.9% in September



Source: Danske Bank, Statistics Denmark, Macrobond Financial

Sweden: Too high September inflation raises odds for further Riksbank hike

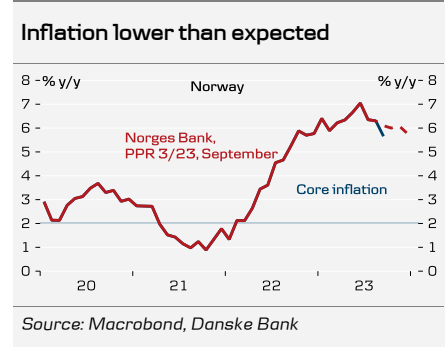
September		Riksbank	Actual	Diff vs Riksbank
CPI	% m/m		0.5	
	% y/y	6.4	6.5	0.1
CPIF	% m/m		0.4	
	% y/y	3.8	4.0	0.2
CPIF excl. Energy	% m/m		0.5	
	% y/y	6.6	6.9	0.3

Source: SCB, Riksbank

Note also August GDP, consumption and production data together with previously released net goods exports and hours worked points to a rising Q3 GDP after the slump in Q2. It seems as if demand indicators like net exports, consumption and retail sales are recovering while supply indicators like production and hours worked is falling, giving a positive net +0.2 % gain for GDP on a 3m/3m % basis. Hence, this appears to support our view that the outlook is improving cautiously.

Norway – surprising fall in inflation

Inflation fell by more than expected in September. Headline inflation fell to 3.3%, the lowest rate since January of last year, driven by lower electricity prices. Core inflation fell from 6.3% to 5.7%, also well below expectations. The rate is also considerably lower than Norges Bank’s estimate of 6.1% provided in its September monetary policy report, and the market has responded by lowering expectations for a rate hike in December to less than a 50% probability. This seems reasonable assuming the trend of slowing growth and inflation will continue, and is further supported by the somewhat lower-than-expected GDP growth rate in August.



Calendar – 16-20 October 2023

During the week				Period	Danske Bank	Consensus	Previous
Sat 14	EUR	ECB's Lagarde speaks					
Monday, October 16, 2023				Period	Danske Bank	Consensus	Previous
-	USD	Budget statement	USD bn	Sep		-146.0	-429.8
-	EUR	Eurogroup meeting in Luxembourg					
6:30	JPY	Industrial production, final	m/mly/y	Aug			0.0% -3.8%
8:00	NOK	Trade balance	NOK bn	Sep			61.4
10:00	ITL	HICP, final	m/mly/y	Sep		-15.7%	-15.7%
11:00	EUR	Trade balance	EUR bn	Aug			2.9
14:30	USD	Empire Manufacturing PMI	Index	Oct		-5.0	1.9
16:30	USD	Fed's Harker speaks					
22:30	USD	Fed's Harker speaks					
23:45	NZD	CPI	q/qly/y	3rd quarter		1.9% 5.9%	1.1% 6.0%
Tuesday, October 17, 2023				Period	Danske Bank	Consensus	Previous
8:00	GBP	Unemployment rate (3M)	%	Aug		4.3%	4.3%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Aug		7.8%	7.8%
11:00	DEM	ZEW current situation	Index	Oct		-80.0	-79.4
11:00	DEM	ZEW expectations	Index	Oct		-10.3	-11.4
14:00	USD	Fed's Williams speaks					
14:30	USD	Retail sales control group	m/m	Sep		-0.1%	0.1%
14:30	CAD	CPI	m/mly/y	Sep			-14.0%
15:15	USD	Capacity utilization	%	Sep		79.5%	79.7%
15:15	USD	Industrial production	m/m	Sep		-0.1%	0.4%
15:15	USD	Manufacturing production	m/m	Sep		-0.1%	0.1%
15:20	USD	Fed's Bowman speaks					
16:00	USD	NAHB Housing Market Index	Index	Oct		45.0	45.0
16:45	USD	Fed's Barkin speaks					
22:00	USD	TICS international capital flow, Net inflow	USD bn	Aug			140.6
Wednesday, October 18, 2023				Period	Danske Bank	Consensus	Previous
4:00	CNY	Industrial production	y/y	Sep		4.3%	4.5%
4:00	CNY	Retail sales	y/y	Sep		4.9%	4.6%
4:00	CNY	Real GDP	q/qly/y	3rd quarter		1.0% 4.5%	0.8% 6.3%
4:00	CNY	Fixed assets investments	y/y	Sep		3.2%	3.2%
8:00	GBP	CPI	m/mly/y	Sep		0.5% 6.5%	0.3% 6.7%
8:00	GBP	CPI core	y/y	Sep		6.1%	6.2%
11:00	EUR	HICP inflation, final	m/mly/y	Sep	0.3% 4.3%	0.3% 4.3%	0.3% 4.3%
11:00	EUR	HICP - core inflation, final	y/y	Sep	4.5%	4.5%	4.5%
14:30	USD	Building permits	1000 (m/m)	Sep		1450	1541.0 (6.8%)
14:30	USD	Housing starts	1000 (m/m)	Sep		1393	1283.0 (-11.3%)
16:30	USD	DOE U.S. crude oil inventories	K				10176
18:00	USD	Fed's Waller speaks					
18:30	USD	Fed's Williams speaks					
19:00	USD	Fed's Bowman speaks					
21:15	USD	Fed's Harker speaks					
Thursday, October 19, 2023				Period	Danske Bank	Consensus	Previous
1:50	JPY	Exports	y/y (%)	Sep		0.0	0.0
1:50	JPY	Import	y/y (%)	Sep		-0.1	-0.2
1:50	JPY	Trade balance, s.a.	JPY bn	Sep		-500.4	-555.7
2:30	AUD	Employment change	1000	Sep		20	64.9
8:00	NOK	Industrial confidence (SSB)	Net. bal.	3rd quarter			-5.3
8:45	FRF	Business confidence	Index	Oct		100.0	100.0
10:00	EUR	Current account	EUR bn	Aug			20.9
14:30	USD	Initial jobless claims	1000				209
14:30	USD	Philly Fed index	Index	Oct		-6.4	-13.5
16:00	USD	Existing home sales	m (m/m)	Sep		3.9	4.04 -0.7%
18:00	USD	Fed chair Powell speaks					
22:00	USD	Fed's Bostic speaks					
23:30	USD	Fed's Harker speaks					
Friday, October 20, 2023				Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish France's debt rating					
-	EUR	S&P may publish Italy's debt rating					
-	EUR	Moody's may publish Ireland's debt rating					
-	EUR	S&P may publish Netherlands's debt rating					
-	EUR	S&P may publish Greece's debt rating					
1:01	GBP	GfK consumer confidence	Index	Oct		-20.0	-21.0
1:30	JPY	CPI - national	y/y	Sep		3.0%	3.2%
1:30	JPY	CPI - national ex. fresh food	y/y	Sep		2.7%	3.1%
8:00	GBP	Retail sales ex fuels	m/mly/y	Sep		-0.1% 0.0%	0.6% -1.4%
14:30	CAD	Retail sales	m/m	Aug			0.3%
15:00	USD	Fed's Harker speaks					
18:15	USD	Fed's Mester 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	2022	2.7	-1.6	-2.8	3.2	10.8	6.5	7.7	3.6	2.6	3.4	29.7	13.0
	2023	1.7	0.1	0.2	-5.2	6.7	0.8	4.0	4.3	2.9	2.1	27.7	12.5
	2024	1.2	1.6	1.5	0.7	1.7	1.7	3.2	5.6	3.2	1.0	26.0	12.5
Sweden	2022	2.9	1.9	0.0	6.2	7.0	9.3	8.4	2.5	7.5	0.7	31.0	3.7
	2023	0.0	-1.6	2.2	-0.9	2.5	0.7	8.4	4.0	7.5	-0.4	29.0	4.7
	2024	1.7	1.7	1.5	2.0	3.0	2.9	1.8	3.3	7.8	-0.8	29.0	4.7
Norway	2022	3.8	6.9	0.1	4.3	5.9	9.2	5.8	4.3	1.8	-	-	-
	2023	1.2	-1.7	1.4	0.5	4.0	3.0	5.8	5.4	1.9	-	-	-
	2024	1.4	1.2	1.0	4.0	2.0	1.6	2.5	4.4	2.3	-	-	-

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	2022	3.4	4.3	1.4	2.9	7.2	8.1	8.4	3.1	6.7	-3.6	91.5	-0.9
	2023	0.5	0.1	-0.7	0.5	1.7	1.0	5.5	5.3	6.5	-3.2	90.0	1.3
	2024	0.8	1.1	1.0	0.5	2.0	2.0	2.6	4.5	6.8	-2.6	89.1	1.7
Finland	2022	1.6	1.7	0.8	3.2	3.7	8.5	7.1	2.4	6.8	-0.9	73.3	-2.5
	2023	-0.2	-0.2	3.0	-5.0	-0.5	-3.0	6.5	4.0	7.2	-2.8	72.3	-4.0
	2024	0.8	1.0	0.5	1.0	1.5	1.5	2.3	3.4	7.0	-2.7	73.4	-3.0

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	2022	1.9	2.5	-0.9	1.3	7.0	8.6	8.0	5.3	3.6	-5.5	123.3	-3.9
	2023	1.9	1.9	3.5	-0.7	-0.3	-4.2	4.2	4.1	3.6	-5.4	123.6	-3.1
	2024	0.6	-0.2	2.7	3.2	-4.0	-1.3	2.3	3.2	4.1	-5.8	125.4	-2.8
China	2022	3.0	2.8	-	4.0	-	-	2.0	-	5.5	-7.5	77.1	2.3
	2023	4.8	6.5	-	4.5	-	-	0.8	-	5.2	-7.5	82.8	1.4
	2024	4.2	5.0	-	3.8	-	-	1.2	-	5.1	-7.5	87.4	1.0
UK	2022	4.2	-	-	-	-	-	9.0	-	3.7	-	-	-
	2023	0.4	-	-	-	-	-	7.6	-	4.3	-	-	-
	2024	0.4	-	-	-	-	-	2.9	-	4.6	-	-	-

Source: OECD and Danske Bank. 1) % y/y. 2) % contribution to GDP growth. 3) % of labour force. 4) % 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*	12-Oct	5.50	-	4.96	4.30	0.95	-	7.07	10.95	10.96
	+3m	5.50	-	4.74	3.94	0.93	-	6.96	11.03	10.84
	+6m	5.25	-	4.34	3.65	0.94	-	7.02	11.04	11.04
	+12m	4.75	-	3.95	3.45	0.97	-	7.23	11.07	11.46
EUR	12-Oct	4.00	3.92	3.76	3.32	-	1.06	7.4568	11.55	11.57
	+3m	4.00	3.95	3.55	3.10	-	1.07	7.4450	11.80	11.60
	+6m	4.00	3.78	3.35	2.95	-	1.06	7.4450	11.70	11.70
	+12m	3.50	3.30	3.00	2.80	-	1.03	7.4500	11.40	11.80
JPY	12-Oct	-0.10	-	-	-	0.006	0.007	4.72	7.31	7.32
	+3m	-0.10	-	-	-	0.007	0.007	4.90	7.77	7.63
	+6m	0.00	-	-	-	0.007	0.008	5.32	8.36	8.36
	+12m	0.00	-	-	-	0.007	0.008	5.56	8.51	8.81
GBP*	12-Oct	5.25	-	5.10	4.28	1.16	1.10	8.63	13.37	13.39
	+3m	5.25	-	5.00	4.04	1.15	1.23	8.56	13.56	13.33
	+6m	5.25	-	4.69	3.95	1.14	1.20	8.46	13.30	13.30
	+12m	4.75	-	4.30	3.75	1.14	1.17	8.47	12.95	13.41
CHF	12-Oct	1.75	-	-	-	1.05	1.10	7.80	12.08	12.10
	+3m	1.75	-	-	-	1.05	1.13	7.84	12.42	12.21
	+6m	1.75	-	-	-	1.06	1.13	7.92	12.45	12.45
	+12m	1.25	-	-	-	1.06	1.10	7.93	12.13	12.55
DKK	12-Oct	3.60	3.96	3.87	3.47	0.134	0.142	-	1.55	1.55
	+3m	3.60	4.00	3.70	3.25	0.134	0.144	-	1.58	1.56
	+6m	3.60	3.83	3.50	3.10	0.134	0.142	-	1.57	1.57
	+12m	3.10	3.35	3.15	2.95	0.134	0.138	-	1.53	1.58
SEK	12-Oct	4.00	4.06	3.86	3.31	0.086	0.091	0.64	1.00	-
	+3m	4.00	4.12	3.89	3.25	0.086	0.092	0.64	1.02	-
	+6m	4.00	4.10	3.49	3.00	0.085	0.091	0.64	1.00	-
	+12m	3.75	3.60	3.10	2.85	0.085	0.087	0.63	0.97	-
NOK	12-Oct	4.25	4.81	4.70	4.09	0.087	0.091	0.65	-	1.00
	+3m	4.25	4.75	4.39	3.84	0.085	0.091	0.63	-	0.98
	+6m	4.25	4.57	4.09	3.65	0.085	0.091	0.64	-	1.00
	+12m	3.75	3.92	3.80	3.45	0.088	0.090	0.65	-	1.04

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

Commodities

	12-Oct	2023				2024				Average	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2023	2024
ICE Brent	86	82	78	86	80	80	80	80	80	81	80

Source Danske Bank

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