

# Monthly Executive Briefing

## Positive vaccine news strengthens global economic outlook

**While Europe has bent the coronavirus curve, the situation in many US states is still challenging.** Several European countries are seeing declining virus cases and this week France joined the club, with a big decline in new cases. Italy is finally showing signs of stabilisation but the level of new cases is still high and pressure on hospitals is significant. In the US, there is an acceleration in new infections and record-high hospitalisation rates. More and more states are tightening restrictions and more are likely to follow suit in our view. In both the US and Europe, we expect restrictions to be in place in some form of another through to the spring.

**The tightening of restrictions in Europe has hit service sector activity in particular.** The euro area PMI and the German ifo survey for November revealed that business confidence in the service sector in Europe has fallen. In contrast, European manufacturers overall continue to buck the negative trend, which is also visible in stable export expectations. The US economy has so far held up despite escalating virus infections and new restrictions. However, as we expect the imposition of further restrictions, we believe the US economy will also take a hit in coming months.

**However, positive vaccine news is strengthening the outlook for the global economy.** In recent weeks, several pharmaceutical companies have announced positive results from their Phase 3 testing of COVID-19 vaccines. Both Pfizer and Moderna have already submitted their emergency use authorisation (EUA) request to the US FDA and may get approval in the second half of December. AstraZeneca may get its approval in early January. A similar process has started in Europe. We estimate that the three companies can produce approximately 3bn doses in 2021. We expect the vaccination process for risk groups and healthcare workers to start in late December, continuing into Q1 21, while vaccination of the broader population is likely to start in Q1 21 or early Q2 21.

**In our base-case scenario (60%) outlined in *Big Picture—Darkest Before dawn*, 1 December, we expect the US and Europe to recover gradually** from Q2, as restrictions related to COVID are lifted and improving sentiment from a vaccine roll-out starts to unleash pent-up demand (for a more in-depth discussion see *Big Picture – Darkest before dawn*). We look for the biggest effect of pent-up demand to drive a robust recovery in the middle of 2021, with growth above potential and unemployment falling globally. We expect the service sector to benefit most but manufacturing should also gain due to higher investments and more purchases of consumer durables as employment increases.

**At the same time, we believe the vaccine rollout reduces the risk of a deeper economic setback.** Normalisation of economies in the wake of a vaccine rollout should limit the number of bankruptcies and mortgage delinquencies, which could have ignited typical recession dynamics and stress in financial markets. We have lowered the probability for this scenario from 35% to 15%. Among the remaining downside risks are a hard Brexit and delays in approving fiscal stimuli in the US and eurozone. In our view, there are bigger upside risks to our baseline (now 25% versus 15% likelihood before), stemming from a faster rollout and take-up of vaccines, as well as the release of greater pent-up demand than envisaged. In such a scenario, we believe strong global growth would cause unemployment rates to fall to pre-COVID-19 pandemic levels in China, the Nordic countries, the US and the eurozone as soon as 2021.

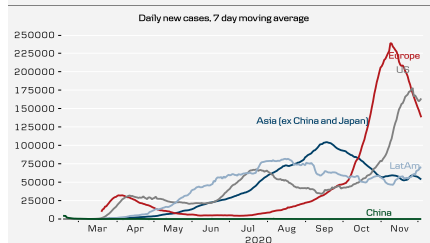
### Key points

- Europe is seeing a sharp decline in new cases while the US is struggling.
- Restrictions are set to stay in place until early spring.
- We expect the roll out of vaccines over the spring.
- Global service sectors in particular are set to benefit from the release of pent-up demand.
- We expect global growth momentum to peak around mid-2021.

### Other readings

- *The Big Picture – Darkest before dawn*, 1 December
- *FX Top Trades 2021 – Our guide on how to position for the year ahead*, 3 December
- *Green Research – Climate and Financial Markets – what we will look out for in 2021*, 30 November

### US struggling to contain its third COVID-19 wave, while Europe is seeing clear improvements



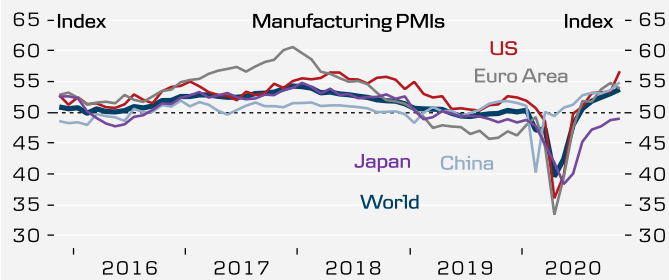
Source: ECDC, Macrobond Financial, Danske Bank

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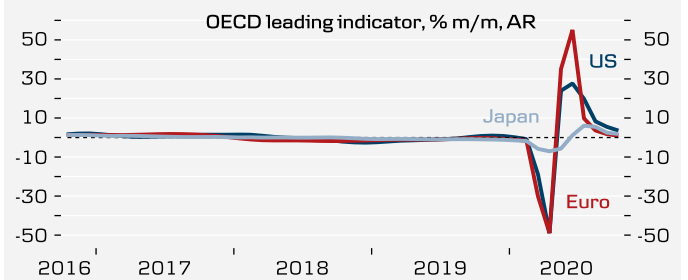
### Macro charts overview

#### Global PMI manufacturing



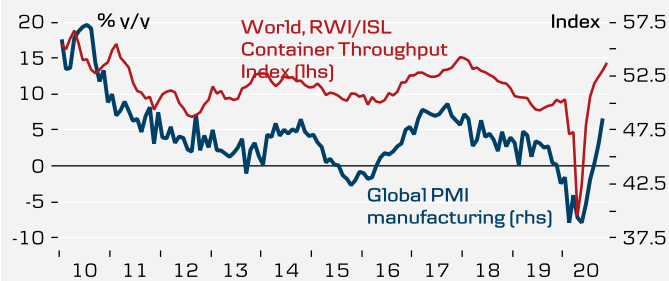
Source: IHS Markit, Macrobond Financial

#### OECD leading indicator



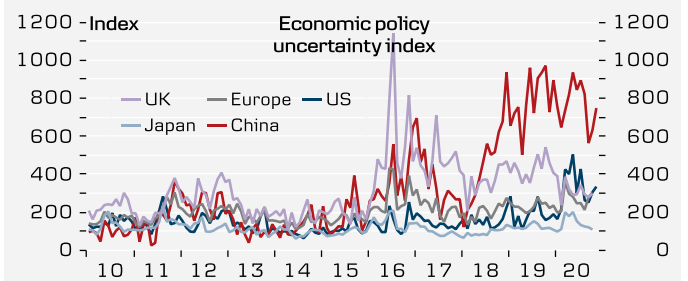
Source: OECD, Macrobond Financial

#### Global trade growth versus global PMI manufacturing



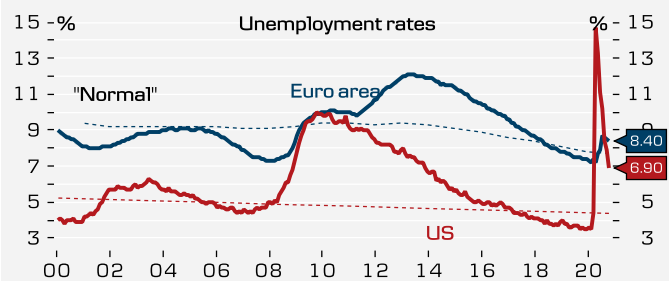
Source: IHS Markit, RWI/ISL, Macrobond Financial

#### Economic policy uncertainty index



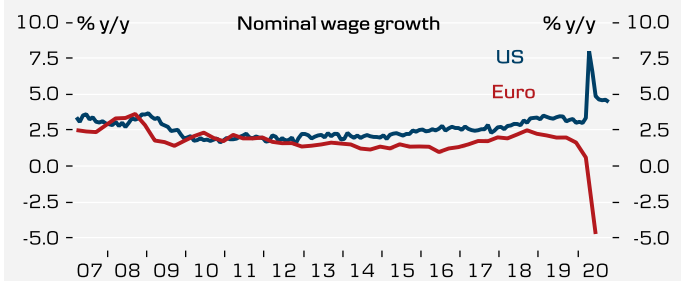
Source: Policy Uncertainty, Macrobond Financial

#### Unemployment rates



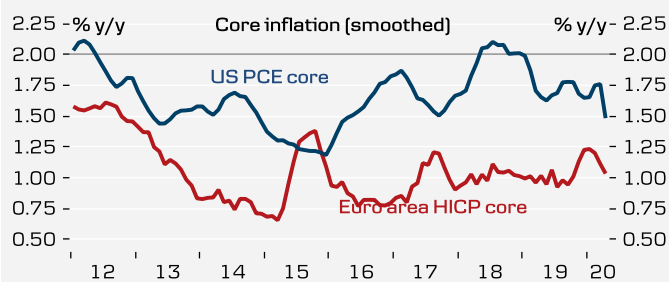
Source: BLS, Eurostat, Macrobond Financial

#### Wage growth



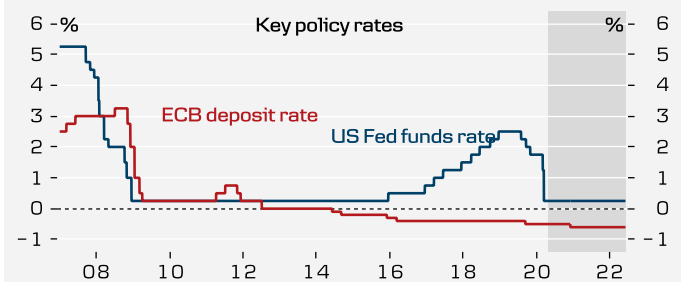
Source: BLS, ECB, Macrobond Financial

#### Inflation rates



Source: IHS Markit, Macrobond Financial

#### Policy rates



Source: ECB, Federal Reserve, Danske Bank forecasts

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