

Vacation Wrap-Up

Monetary tightening continues despite the recession risks

Main macro themes

- **The European gas situation remains fragile although an immediate European gas crisis has been averted.** European gas prices surged to new highs, as Russia cut supply further, despite the re-opening of North Stream 1 after the maintenance period, see *FT*. See also *Research - A full-on gas crunch would bring Europe to its knees*, 20 July. The EU Commission unveiled a new *plan* to cut EU gas consumption by 15% until next spring, which received a lukewarm reception from EU countries. Meanwhile, **Italy has been plunged into a new government crisis** and early elections will be held on 25 September (read more in *Flash comment - Italy is falling back into old habits*, 20 July).
- **Concerns about the global growth outlook have intensified.** Despite the post-lockdown rebound, Chinese Q2 GDP growth surprised on the downside at 2.6% q/q, while the rising property stress remains a key headwind (see *China Macro Monitor*, 18 July). PMIs brought more evidence that economic momentum is slowing, as tighter financial conditions and persistently high inflation are weighing on demand, bringing the euro area to the brink of recession (see also *Research Germany – Zeitenwende*, 25 July). The US is in technical recession, as GDP fell in both Q1 and Q2, but the strong July Jobs report as well as ISM Services index suggest that the underlying growth is still relatively strong. Employment gains were broad-based across sectors, and the tight labour market conditions continue to put upward pressure on wages, rising the probability of another 75 basis point Fed hike in September.
- **Central banks are increasingly frontloading monetary policy tightening.** ECB surprised with a 50bp rate hike, while also complementing its normalisation process with a new Transmission Protection Instrument (TPI) to limit unwarranted spread widening (see also *ECB Review*, 21 July). As expected, the Fed hiked the target range by 75bp to 2.25-2.50% and policy is now back to neutral. Bank of England also hiked rates by 50bp for the first time since 1995 despite now expecting UK economy falling into a recession in Q4. With inflation pressures still strong and broad-based, we continue to see risks tilted towards more front-loading of rate hikes, see *Fed Research – Review: Front-loading to continue despite growth risks*, 27 July, and *Bank of England Update Review: dovish 50bp rate hike*, 4 August.

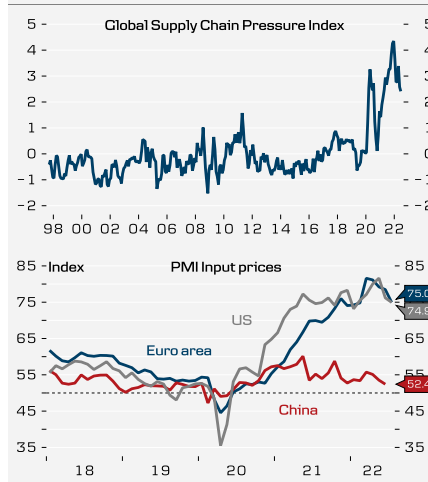
Market developments

- **Risk sentiment remains fragile amid recession fears**, although moderating inflation and rate hike expectations have supported equity markets over the past weeks. Italian bonds have come under pressure following the government crisis and lingering market doubts about the effectiveness of ECB's TPI.
- **USD has continued to strengthen on a broad basis** with EUR/USD falling briefly below parity on 14 July. We expect a further drop in the cross to 0.95 over the next year, as the euro area continues to suffer from a negative terms of trade shock and EUR/USD is overvalued vs fair value (see also our new *FX Forecast Update - holiday edition: EUR/USD to move firmly below parity*, 14 July).

Key themes

- Economic momentum is weakening amid high inflation and tightening financial conditions.
- Inflation remains high, although falling commodity prices and freight rates point to abating price pressures.
- Central banks are frontloading rate hikes.
- USD remains on a strong footing

More signs of peaking inflation pressures

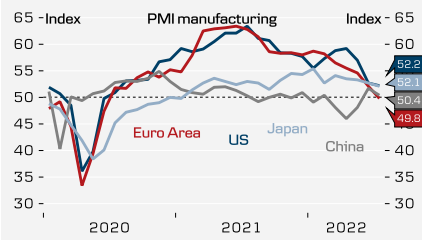


Source: Markit, NY Fed, Macrobond Financial, Danske Bank

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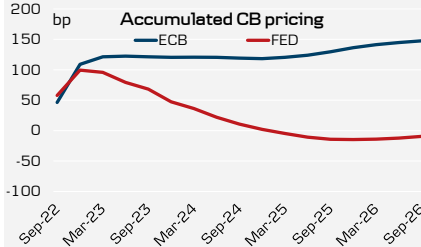
Market themes in pictures

PMIs losing momentum



Source: Markit, Macrobond Financial, Danske Bank

Markets price rate cuts from the Fed in 2023



Note: Past performance is not a reliable indicator of current or future results
Source: Bloomberg, Danske Bank

Recent publications

COTW: First line of defence enacted. Inflation repricing higher again, 5 August

Bank of England Update Review: dovish 50bp rate hike, 4 August.

Euro Area Macro Monitor - Hiking into recession, 29 July

Fed Research - Review: Front-loading to continue despite growth risks, 27 July

Research Germany - Zeitenwende, 25 July

Flash comment - Italy is falling back into old habits, 20 July

Research - A full-on gas crunch would bring Europe to its knees, 20 July

China Macro Monitor - Strong headwinds from property, covid and global recession risks, 18 July

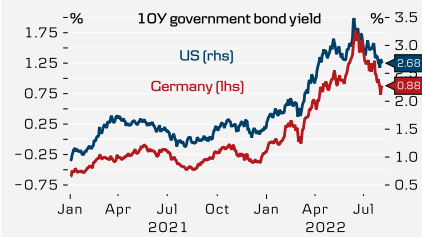
FX Forecast Update - holiday edition: EUR/USD to move firmly below parity, 14 July

Global Inflation Watch - Another nasty surprise in US core inflation, 14 July

MacroScope: still negative, 14 July

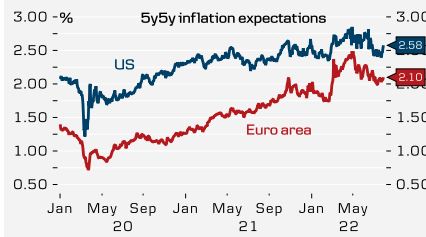
US Labour Market Monitor - Labour market indicators support the case for further another 75bp hike, 13 July

Long-end bond yields have declined in July...



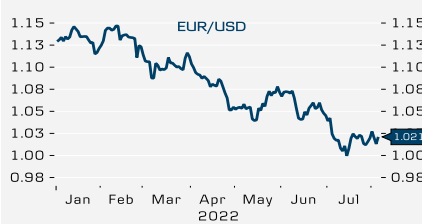
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Source: Macrobond Financial, Danske Bank

...as inflation expectations have fallen back



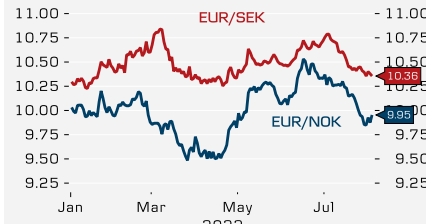
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Source: Macrobond Financial, Danske Bank

EUR/USD slightly above parity



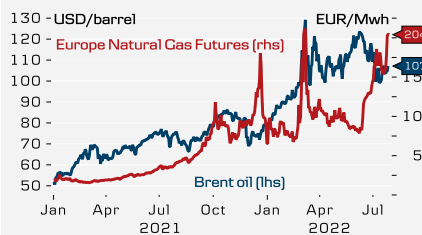
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Source: Macrobond Financial, Danske Bank

Scandi currencies recovering some ground



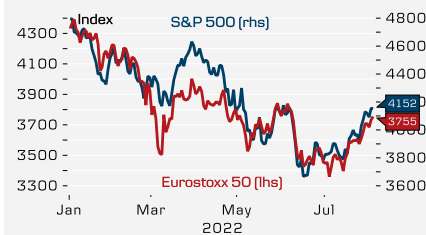
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

European gas prices are rising again



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

Equities recovering some ground



Note: Past performance is not a reliable indicator of current or future results
Source: Bloomberg, Macrobond Financial, Danske Bank

Calendar – key data and events in week 31

During the week				Period	Danske Bank	Consensus	Previous
Sun 07	CNY	Foreign exchange reserves	USD bn	Jul		3057.2	3071.3
Sun 07	CNY	Trade balance	USD bn	Jul		87.3	97.9
Mon 08	NOK	PMI manufacturing	Index	Jul			56.4
Monday, August 8, 2022				Period	Danske Bank	Consensus	Previous
-	NOK	PMI manufacturing	Index	Jul			56.4
7:45	CHF	Unemployment	%	Jul			2.2%
8:00	DKK	Industrial production	m/m	Jun			2.8%
8:00	NOK	Manufacturing production	m/mly/y	Jun			-2.2% -2.0%
8:00	NOK	Industrial production	m/mly/y	Jun			0.7% 5.1%
10:30	EUR	Sentix Investor Confidence	Index	Aug			-26.4
Tuesday, August 9, 2022				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Jul			11.4%
8:00	DKK	Current account (naejæe)	DKK bn	Jun			-126.7
8:00	DKK	Trade balance ex ships	DKK bn	Jun			1.8
8:00	DKK	Exports	m/m	Jun			180.0%
12:00	USD	NFIB small business optimism	Index	Jul			89.5
14:30	USD	Unit labour cost, preliminary	q/q	2nd quarter		9.5%	12.6%
Wednesday, August 10, 2022				Period	Danske Bank	Consensus	Previous
3:30	CNY	CPI	y/y	Jul			2.5%
3:30	CNY	PPI	y/y	Jul			6.1%
6:00	SEK	Maklarstatistik Swedish housing price data					
8:00	NOK	CPI	m/mly/y	Jul			0.9% 6.3%
8:00	NOK	PPI	m/mly/y	Jul			7.2% 68.8%
8:00	DKK	CPI	m/mly/y	Jul			0.8% 8.2%
8:00	SEK	Industrial orders	m/mly/y	Jun			-5.5% -7.5%
8:00	SEK	Private Sector Production	m/mly/y	Jun			0.8% 6.0%
8:00	SEK	Household consumption	m/mly/y	Jun			0.7% 5.2%
8:00	DEM	HICP, final	m/mly/y	Jul			0.8% 8.5%
8:00	NOK	Core inflation (CPI-ATE)	m/mly/y	Jul			0.5% 3.6%
14:30	USD	CPI headline	m/mly/y	Jul		0.2% 8.8%	1.3% 9.1%
14:30	USD	CPI core	m/mly/y	Jul		0.5% 6.2%	0.7% 5.9%
17:00	USD	Fed's Evans speaks					
20:00	USD	Fed's Kashkari speaks					
20:00	USD	Budget statement	USD bn	Jul			-88.8
Thursday, August 11, 2022				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Jul			0.7
8:00	SEK	Prospers inflation expectations					
14:30	USD	PPI	m/mly/y	Jul		0.3%L	1.1% 11.3%
14:30	USD	PPI core	m/mly/y	Jul		0.5%L	0.4% 8.2%
Friday, August 12, 2022				Period	Danske Bank	Consensus	Previous
7:30	FRF	ILO unemployment	%	2nd quarter			7.3%
8:00	GBP	GDP, preliminary	q/qly/y	2nd quarter			0.8% 8.7%
8:00	GBP	Monthly GDP estimate	m/m q/q	Jun			0.005 0.004
8:00	GBP	Index of services	m/m 3m/3m	Jun			0.004 0.001
8:00	SEK	Underlying inflation CPIX	m/mly/y	Jul			1.2% 8.5%
8:00	SEK	CPI	m/mly/y	Jul			1.4% 8.7%
8:45	FRF	HICP, final	m/mly/y	Jul			0.3% 6.8%
9:00	ESP	HICP, final	m/mly/y	Jul			-0.5% 10.8%
11:00	EUR	Industrial production	m/mly/y	Jun			0.8% 1.6%
14:30	USD	Import prices	m/mly/y	Jul		-1.3%L	0.2% 10.7%
16:00	USD	University of Michigan Confidence, preliminary	Index	Aug		52.0	51.5

Note: The editors do not guarantee the accuracy of figures, hours or dates stated above

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Source: Various sources, Danske Bank

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