

Vacation Wrap-Up

ECB wants higher inflation but is not adding more stimuli

Main macro themes

- **Number of new cases has increased in many countries amid the delta variant spreading.** Importantly, the vaccines appear to be effective, as for example in the US, authorities have reported that virtually all new hospitalizations and deaths are among the unvaccinated people. With most of the elderly and risk groups fully vaccinated already, new strict lockdowns in western economies appear unlikely. Vaccine inequality remains high, though, with coverage being much weaker in most emerging economies. Read more in our latest *Covid-19 Update*, 22 July.
- **ECB introduced a new strategy framework, with a symmetric 2% inflation target.** ECB will aim for inflation to fluctuate around the 2% target, but the implementation will be more flexible compared to Fed's Average Inflation Targeting (AIT), which requires inflation to overshoot the target after a period of below 2% inflation. **ECB's first meeting since the new strategy took effect was mostly about aligning the language to the review outcome.** The main new element worth highlighting is the forward guidance on rates stating that inflation has to reach 'two per cent well ahead of the end of its projection horizon and durably for the rest of the projection horizon' which compares 'to the end of the forecast horizon' in June. This also means that the new strategy is more focused on the duration of the accommodative policy stance and not the size of the support. For more details see *ECB Research: Stepping up on inflation ambitions, but not on tools*, 22 July.
- **US inflation surprised to the upside in June:** Both headline and core CPI rose by 0.9% m/m, with headline reaching 5.4% and core 4.5% y/y. Shortage of semiconductors is limiting new car production, which in turn has supported demand and prices for used cars and contributed to the higher CPI. Fed's Powell took a dovish line in his recent remarks, once again calling for the inflationary pressures to remain transitory and saying that Fed will continue bond purchases in coming months. We still expect the Fed to turn more hawkish in the fall, as US labour markets continue their recovery. Globally, the narrative for more hawkish central banks continued in New Zealand, where RBNZ announced ending of their QE program already this July.

Market developments

- **Risk sentiment has been shaky in July with a big sell-off last Monday.** S&P 500 has recovered since then, however. Long-term bond yields have also started to move slightly higher again with US10yr Treasury yields approaching 1.30% (still much below the 1.50% by the end of June). US 10yr breakeven inflation expectations have recovered slightly to 2.29%.
- **Broad USD strengthening continues,** as EUR/USD has fallen below 1.18. EUR/SEK and EUR/NOK have moved slightly lower after a sharp increase due to the risk sell-off. Recently, we published our new FX Forecasts, where we still expect further USD strength and weaker scandies, read more in *FX Forecast Update – holiday edition: More Scandi-weakness in store for H2*, 15 July.

Key themes

- Number of new cases has risen in many countries due to the delta variant, new lockdowns unlikely in developed economies as vaccines protect the risk groups
- ECB is stepping up on inflation ambitions, but not on tools, after the strategic review.
- Further signs of peak in manufacturing
- Global bond yields have moved slightly higher over the past week, dollar strength continues
- Oil prices have rebounded and are now close to USD74 per barrel

Risk sentiment has rebounded after sell-off last week



Note: Past performance is not a reliable indicator of current or future results

Source: Bloomberg, Macrobond Financial, Danske Bank

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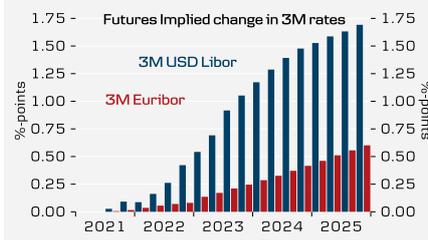
Market themes in pictures

PMIs losing momentum



Source: Markit, Macrobond Financial

Markets price first Fed hike for late 2022



Source: Macrobond Financial

Recent publications

ECB Research: Stepping up on inflation ambitions, but not on tools, 22 July

COVID-19 Update: New delta wave in the US, as the EU surpasses the US in the vaccination race, 22 July

Spending Monitor - Spending 7% up from 2019, 22 July

Top 10 global cycle indicators - clear signs of a peak, 20 July

FX Forecast Update - holiday edition: More Scandi-weakness in store for H2, 15 July

Flash: ECB Research - Strategic Review: Striving for symmetry, 8 July

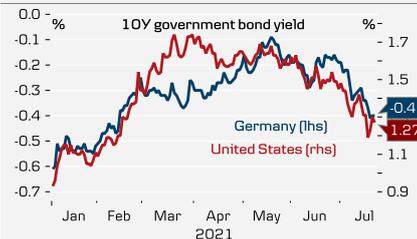
FX Strategy: Evidence of 'twin peak' are adding up to dollar strength, 5 July

Euro Area Macro Monitor: We have lift-off, 5 July

Strategy - Peak performance in assets and the end of deflation, 2 July

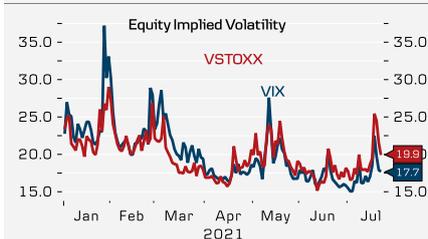
Flash comment Riksbank - Confirms a soft stance, 1 July

Bond yields have declined in July



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

Volatility is declining again



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

EUR/USD below 1.18



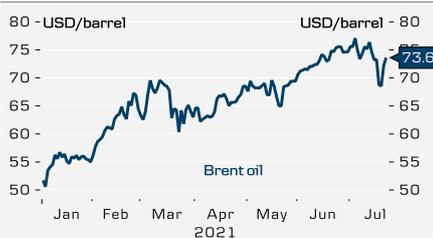
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial

We expect further scandi-weakness towards fall



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

Oil price rally stabilized



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

Equities have rebounded after sell-off last week



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

High Frequency Activity Tracker

Euro area	Last obs	Value	Last 4 months	1W chg.	1M chg.	Low
Bundesbank weekly activity index*	Week 29	1.19		0.02	-0.26	-5.8
German truck toll mileage (1w m.a.), % y/y	14-Jul	4.1%		-0.5 p.p.	-5.3 p.p.	-16.2%
OpenTable restaurant bookings, Germany (1w m.a.)**	21-Jul	51.0%		22.5 p.p.	38.6 p.p.	-100%
USA						
NY Fed weekly economic index*	Week 29	8.73		0.14	-1.48	-11.4
Transaction card spending, (1w m.a.), % y/y	16-Jul	27.1%		-1.3 p.p.	-4.8 p.p.	-40.6%
OpenTable restaurant bookings (1w m.a.)**	21-Jul	-4.7%		1.8 p.p.	-5.2 p.p.	-100%
Google mobility trends retail & recreation (1w m.a.)**						
Germany	19-Jul	0.0%		2.4 p.p.	7 p.p.	-67.3%
France		0.1%		-2.7 p.p.	7.6 p.p.	-88.0%
Italy		2.0%		3.6 p.p.	6.9 p.p.	-88.9%
Spain		-10.0%		0.9 p.p.	5.1 p.p.	-91.7%
UK		-13.3%		1.6 p.p.	2.4 p.p.	-77.6%
Japan		-11.1%		1.7 p.p.	3.7 p.p.	-37.9%
United States		-2.7%		2.1 p.p.	0.1 p.p.	-46.1%
Electricity demand (1w m.a.)***						
Germany	22-Jul	-6.8%		-8.1 p.p.	-11.6 p.p.	-16.7%
France		-3.2%		1.4 p.p.	-2.3 p.p.	-22.0%
Italy		-1.9%		-1.9 p.p.	-6.2 p.p.	-20.0%
Spain		-1.5%		3.3 p.p.	2.4 p.p.	-23.6%
UK		0.0%		0 p.p.	0 p.p.	-22.2%
Japan		2.0%		0.8 p.p.	-5.3 p.p.	-7.3%
United States	21-Jul	-3.3%		0 p.p.	-6.4 p.p.	-12.5%

*NOWcast, Actual index value, **Relative to same day/week in 2019, *** Relative to same day/week in 15-19 avg.

Source: Google mobility data, ENTSO-E, EIA, Open Table, Statistisches Bundesamt, TextilWirtschaft, Bundesbank, NY Fed, Macrobond Financial, Danske Bank

Calendar – key data and events in week 30

Key Data and Events in Week 30

During the week

Monday, July 26, 2021

				Period	Danske Bank	Consensus	Previous
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2:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jul			52.4
2:30	JPY	Markit PMI services, preliminary	Index	Jul			48.0
10:00	DEM	IFO - business climate	Index	Jul		102.0	101.8
10:00	DEM	IFO - current assessment	Index	Jul		101.8	99.6
10:00	DEM	IFO - expectations	Index	Jul		103.6	104.0
16:00	USD	New home sales	1000 (m/m)	Jun		800	769.0 (-5.9%)

Tuesday, July 27, 2021

				Period	Danske Bank	Consensus	Previous
3:30	CNY	Industrial profits	y/y	Jun			36.4%
8:00	DKK	Retail sales	m/m y/y	Jun			0.9% 6.4%
9:30	SEK	Household lending	y/y	Jun			6.0%
9:30	SEK	Trade balance	SEK bn	Jun			5.1
10:00	EUR	Money supply (M3)	y/y	Jun		8.2%	8.4%
10:00	EUR	Loans to households (adj. for sales and sec.)	%	Jun		8.2%	8.4%
10:00	EUR	Loans to NFCs (adj. for sales and sec.)	%	Jun		8.2%	8.4%
14:00	HUF	Central Bank of Hungary rate decision	%			1.1%	0.9%
14:30	USD	Core capital goods orders, preliminary	%	Jun		0.5%	0.1%
15:00	USD	FHFA house price index	m/m	May			1.8%
16:00	USD	Conference Board consumer confidence	Index	Jul		124.0	127.3

Wednesday, July 28, 2021

				Period	Danske Bank	Consensus	Previous
3:30	AUD	CPI	q/q y/y	2nd quarter		0.7% 3.7%	0.6% 1.1%
7:00	JPY	Leading economic index, final	Index	May			102.6
8:00	NOK	Retail sales, s.a.	m/m	Jun			5.8%
8:00	DEM	GfK consumer confidence	Net. Bal.	Aug		1	-0.3
8:45	FRF	Consumer confidence	Index	Jul		102.0	102.0
9:30	SEK	Retail sales s.a.	m/m y/y	Jun			2.3% 10.3%
14:30	CAD	CPI	m/m y/y	Jun			... 3.6%
14:30	USD	Advance goods trade balance	USD bn	Jun		-88.0	-88.1
16:30	USD	DOE U.S. crude oil inventories	K				2107
20:00	USD	FOMC meeting	%			0.3%	0.3%
20:30	USD	Fed chair Powell (voter, neutral) speaks					

Thursday, July 29, 2021

				Period	Danske Bank	Consensus	Previous
9:00	ESP	HICP, preliminary	m/m y/y	Jul		-1.2% 2.9%	0.5% 2.5%
9:00	SEK	Consumer confidence	Index	Jul			109.4
9:00	SEK	Economic Tendency Survey	Index	Jul			119.8
9:00	SEK	Manufacturing confidence	Index	Jul			125.2
9:55	DEM	Unemployment	%	Jul		5.8%	5.9%
11:00	EUR	Industrial confidence	Net bal.	Jul		13.0	12.7
11:00	EUR	Economic confidence	Index	Jul		118.7	117.9
11:00	EUR	Consumer confidence, final	Net bal.	Jul			-4.4
11:00	EUR	Service confidence	Net bal.	Jul		19.0	17.9
14:00	DEM	HICP, preliminary	m/m y/y	Jul		0.4% 2.9%	0.4% 2.1%
14:30	USD	GDP, ___ release, preliminary	q/q AR	2nd quarter		0.083	0.064
14:30	USD	Initial jobless claims	1000				419
14:30	USD	PCE core, preliminary	q/q AR	2nd quarter		0.06	0.025
16:00	USD	Pending home sales	m/m y/y	Jun		1.0% ...	8.0% 13.9%

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Source: Various sources, Danske Bank

Calendar – key data and events in week 30

Friday, July 30, 2021			Period	Danske Bank	Consensus	Previous
-	EUR	Moody's may publish Germany's debt rating				
-	EUR	Fitch may publish Ireland's debt rating				
1:30	JPY	Unemployment rate	%	Jun	3.0%	3.0%
1:30	JPY	Job-to-applicant ratio		Jun	1.1	1.09
1:50	JPY	Retail trade	m/m y/y	Jun	2.9% 0.2%	-0.3% 8.3%
1:50	JPY	Industrial production, preliminary	m/m y/y	Jun	5.0% 20.9%	-6.5% 21.1%
7:30	FRF	Household consumption	m/m y/y	Jun	0.1% -3.1%	10.4% 7.4%
7:30	FRF	GDP, preliminary	q/q y/y	2nd quarter	0.8% 17.4%	-0.1% 1.2%
8:00	DKK	Gross unemployment s.a.	K (%)	Jun		0.04
8:45	FRF	HICP, preliminary	m/m y/y	Jul	-0.1% 1.4%	0.2% 1.9%
9:00	ESP	GDP, preliminary	q/q y/y	2nd quarter	2.3% 19.0%	-0.4% -4.2%
9:00	CHF	KOF leading indicator	Index	Jul	129.0	133.4
9:30	SEK	Wages (blue collars/white collars)	y/y	May		2.9%
10:00	NOK	Norges Bank's daily FX purchases	m	Aug		-1700
10:00	NOK	Unemployment	%	Jul		2.9%
10:00	DEM	GDP, preliminary	q/q y/y	2nd quarter	2.1% 9.6%	-1.8% -3.1%
10:00	ITL	GDP, preliminary	q/q y/y	2nd quarter	1.4% 15.6%	0.1% -0.8%
10:30	EUR	Portugal, GDP, preliminary	q/q y/y	2nd quarter	3.8% ...	-3.3% -5.4%
11:00	ITL	HICP, preliminary	m/m y/y	Jul	-1.1% 1.0%	0.2% 1.3%
11:00	EUR	Unemployment	%	Jun	7.9%	7.9%
11:00	EUR	HICP inflation, preliminary	m/m y/y	Jul	-0.3% ...	0.3% ...
11:00	EUR	HICP - core inflation, preliminary	y/y	Jul	0.7%	0.9%
11:00	EUR	HICP inflation, preliminary	y/y	Jul	2.0%	1.9%
11:00	EUR	GDP, preliminary	q/q y/y	2nd quarter	1.5% 13.2%	-0.3% -1.3%
14:30	USD	Personal spending	m/m	Jun	0.6%	0.0%
14:30	USD	PCE headline	m/m y/y	Jun	0.7% 4.1%	0.4% 3.9%
14:30	CAD	GDP	m/m y/y	May		-0.3% 20.0%
14:30	USD	PCE core	m/m y/y	Jun	0.7% 3.7%	0.5% 3.4%
14:30	USD	Employment cost index	m/m	2nd quarter	0.9%	0.9%
15:45	USD	Chicago PMI	Index	Jul	63.7	66.1
16:00	USD	University of Michigan Confidence, final	Index	Jul	80.8	80.8

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Source: Various sources, Danske Bank

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