04 November 2022

Weekly Focus

Easing of financial conditions comes to a halt as Fed maintains a hawkish tilt

Whereas last week ended on the note that we may be approaching the point of peak hiking pace, this week brought a reality check. The Federal Reserve hiked rates by 75bp on Wednesday and the widely expected hike was accompanied by Powell's hawkish message that financial conditions need to be tightened further. In contrast to any speculation around a possible Fed pivot, Powell stated clearly that 'it is very premature to be thinking about pausing' even if downside risks to growth are building. As a result, we adjusted our call to include a 50bp hike in February in addition to our earlier forecast of one more 75bp hike in December (see *Research US - Fed review: Another hawkish 75bp hike - We now expect 50bp also in February*, 2 November). The futures market is now pricing terminal rate at around 5.20%, 15bp higher compared to pre-meeting levels at 5.05%.

The Bank of England also hiked the bank rate by 75bp to 3.0% as expected on Thursday but with a dovish tilt compared to the Fed. Hence, we expect smaller hikes going forward and foresee the peak rate in February at 3.75%. Our view is for less hikes than the market is currently pricing in as we expect GDP data next week to confirm that the economy is already in recession. That being said, risks remain skewed towards additional hikes.

Norges Bank (NB) also delivered a dovish 25bp hike on Thursday, sending the sight deposit rate to 2.50%. While our call was for a 25bp hike, analysts and markets (37bp priced) were evenly split between 25bp and 50bp. This led to considerable market moves in rates and FX markets post announcement.

This week saw a sharp reversal in risk sentiment as premature optimism regarding the big central bank pivot faded. Broad USD as measured by the DXY index gained 1.9% while EUR/USD broke below the 0.98 level. At the time of writing on Thursday, both the US and German 10y yields were 15bp higher on the week. The easing in global financial conditions that we witnessed in October and that works against central banks' efforts and interests now seems to have halted, which means hawkish communication still does the trick.

Next week, the focus will be on US midterm election on Tuesday. Republicans are favoured to win control of both house and senate, although the senate race remains a close call. If republicans win the senate with a slim margin or if democrats are able to retain the senate, market reaction should be quite muted, as major changes in fiscal policy would be difficult to pass. The (modest) risk-scenario for markets would be a clear victory for republicans also in the senate, as this could increase the risk of more expansionary fiscal policies amid the looming recession. We see the risk as fairly unlikely for now, however, as politicians are likely well aware of the inflation risks.

US October CPI will also be in focus next week. We are looking for another high print at +0.7% m/m / +8.0% y/y. There are also several Fed speeches scheduled throughout the week, which will of course be interesting after this week's meeting. Several ECB speakers on the wires as well starting with Lagarde on Monday. Friday brings UK GDP growth for Q3 which we expect will be in negative territory (-0.3% q/q), marking an official start of the recession. In China, we get exports on Monday and CPI data on Wednesday but these are unlikely to move the markets.

Key global views

- Europe in recession in H2 22. We expect a US recession in Q2 2023.
- US inflation has peaked, but to come down only gradually. Euro inflation to stay elevated in Q4 on high energy prices. Easing pressure from recession, oil, metals, freight and food to pull global inflation lower in 2023.
- Fed to hike by 75bp in December and 50bp in February, then stop. ECB to hike by 50bp in Dec and Feb.

Selected reading from Danske Bank

- Monday: German industrial production
- Thursday: US CPI
- Friday: EU Commission economic forecasts, UK GDP Q3

Selected reading from Danske Bank

- *Research US – Fed review: Another hawkish 75bp hike – we now expect also 50bp in February*, 2 November
- *China Macro Monitor – No respite for the Chinese economy*, 2 November
- *Executive Briefing – Economies weaken as inflation remains high*, 1 November

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Scandi market movers

- In **Denmark**, industrial production figures for September are due on Monday. Industrial production in Denmark has remained strong throughout 2022, and between June and August increased by an impressive 2.1%. In the longer term, the global slowdown is of course unlikely to bypass Danish industry. While pharmaceuticals, wind turbines and food – which constitute a relatively large chunk of Denmark's industrial sector – are not so dependent on the economic cycle, Danish manufacturing is also significant in other areas, such as construction materials, electronics, metals and furniture.

  Also due on Monday is the number of bankruptcies in October. There were 251 bankruptcies among active companies in September, which is on the high side, and we expect to see even more going forward as the slowdown increasingly takes hold. 2022 is currently on course to have the highest number of bankruptcies since 2012.

  September's current account and foreign trade figures are scheduled to arrive on Wednesday. Denmark's current account surplus has been growing month by month to reach a new high in August of DKK41.7bn. Growth here has been driven by shipping in particular, on the back of high freight rates. However, freight rates have begun to ease again, which will tend to push the surplus lower going forward, but there is ample room for that. In contrast, the normalisation of energy prices will tend to drive the current account surplus higher. Hence, while the surplus may decline slightly, there is nothing to suggest we will have to say goodbye to a very high surplus.

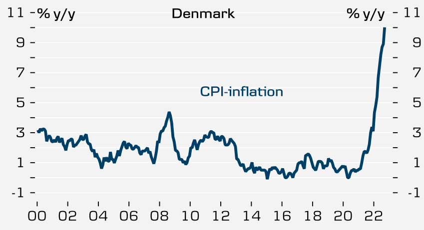
  We expect a decline in Danish CPI inflation in October to 9.2% from 10.0% in September. Electricity and natural gas prices have declined significantly, and fuel prices will likely pull inflation down as well, as the m-o-m increase in October was smaller than the increase in October last year. On the other hand, German food prices indicate the pressure here is far from over, and in general we pencil in a gradual increase in the underlying price pressure.

  Friday should bring preliminary Danish unemployment figures for October. Recently released figures revealed that unemployment fell in September, and we also expect unemployment to remain low in October. However, we expect unemployment will begin to tick up over the winter as the economy softens. Friday's figures should give us some indication of whether we face a turning point in the labour market, or if companies will continue to postpone potential layoffs.

- Next week brings some hard data releases for September in **Sweden** including production figures and household consumption. We have already received the GDP Q3 indicator figure which surprised on the upside at 1% q/q. However, since the GDP indicator just comes with a press release and hence not much details, next week's figure will be important in that sense. Particularly how the composition in household consumption was during September.

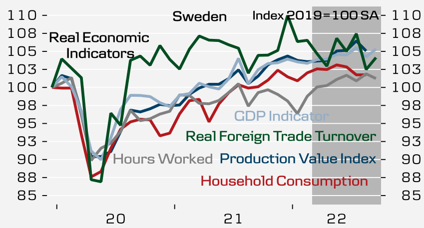
  The new government is also expected to present the new budget for next year. The latest comments have been that fiscal policy will be neutral and not expansive so in inflation terms we are not worried but the details will of course be very interesting, especially the energy parts. However, note that the energy packaged released last week is not included in the budget since the money is transferred from Svenska Kraftnät and is collected from capacity fees and hence will not affect the public finances. Sweden's public finances is in very good shape and we expect that the Maastricht debt as a share of GDP will stay around 30% of GDP during 2023.

We expect lower inflation



Source: Statistics Denmark, Danske Bank, Macrobond Financial

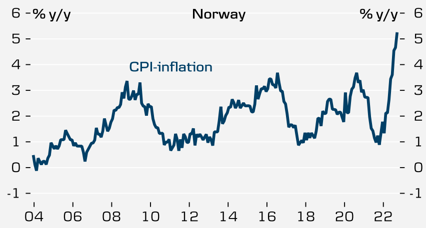
Next figure will probably explain



Source: SCB, Macrobond

- In **Norway**, inflation surprised to the upside once again in September, and we reckon that inflationary pressures are still relatively strong. The economy is still running above potential, and firms are passing on large parts of their cost increases to customers, as is being seen in supermarkets. Much of the rest of the retail trade, on the other hand, is battling with much weaker demand and abnormally high stock levels. The big question is what is happening to spending on services, such as hotels, restaurants and cafés. We have seen a slight levelling off of demand in parts of this segment, but it is perhaps too early to expect prices to correct. We reckon that core inflation will rise from 5.3% to 5.4% y/y, while headline inflation will probably fall thanks to lower power prices. We will also be keeping an eye on job vacancies, which hit record levels in Q2. The labour market still seems to be tight, but the number of new job openings has begun to come down. We may therefore see a moderate fall in the total number of vacancies in Q3.

Inflation keeps on climbing



Source: Macrobond, Danske Bank

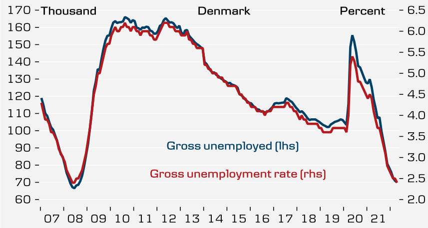
Scandi update

Denmark – Unemployment falls again

The number of jobless fell by 1,800 to 74,500 in September, pushing the unemployment rate down to 2.5% from 2.6%. These latest figures confirm the increase in unemployment over the summer did not signal a shift in the economy but was simply driven by Ukrainian refugees being included in the statistics. Hence, we can clearly conclude the labour market remained strong in September, while preliminary figures suggest this was also the case in October.

Danmarks Nationalbank intervened in the FX market in October, selling DKK22.3bn to prevent the krone from strengthening unduly. This follows on the heels of a DKK23bn sell-off in September. So much intervention in the space of two months is at the high end historically speaking, and sheds some light on the surprisingly large widening of the rate spread between Denmark and the euro area that the central bank decided on last week. The sale reflects the pressure for a stronger DKK, which Danmarks Nationalbank is keen to avoid due to Denmark's fixed exchange rate policy. After the European Central Bank last week hiked its policy rate by 0.75 percentage points and the Danish central bank only raised rates by 0.6 percentage points, the DKK has become less attractive, and we do not envisage a need for further market intervention for now. Reacting to currency pressures by first selling the DKK and later widening the rate spread to the eurozone if pressure persists are very normal actions for Danmarks Nationalbank

Fall in unemployment confirms no shift in labour market



Source: Danske Bank, Macrobond Financial

Sweden – Riksbank survey take-away

Although Riksbank labelled the September 2022 survey "costs accelerating, economy slowing down" citing a lot of companies for saying all costs are increasing, prices are raised constantly and the base scenario is more prices increases. That said, digging a bit deeper into the survey shows a chart depicted beside here, with anticipated inflation drivers for the next year. The interesting fact here is that price gains (inflation) is expected to slow overall. There is, however, a difference between how non-household related companies (i.e. industry) and household related companies (retail trade) are being affected. The main drivers for the former are energy (read electricity), input costs and wage costs while the latter says the exchange rate, energy (electricity again) and input costs are main drivers. Two factors are the same suggesting there is still an upward pressure from higher input costs and electricity. The first factor should be moderating as we see a global decline in most industry-related input costs such as container freight rates, base metals, raw industrials, semis, lumber, chemicals etc. The Government's proposed SEK 55bn electricity compensation of which half is directed toward companies will take away some of the need to raise prices due to higher electricity costs. Hence, these factors should decrease going forward in our view. Higher wage costs are probably related to scarcity of qualified labour in industry but also that the upcoming wage negotiations may result in higher wage deals. There are no such signs in retailing. Finally, retail trade obviously sees the weaker SEK as a major factor as this sector is an importer. Industry on the other hand takes back higher import costs via higher export prices with a neutral net effect. Overall, companies appear to be saying that price increases will slow, i.e. inflation will slow over the next year.

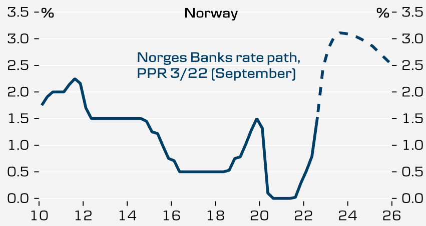
Sweden: receding price plans, after all

Source: Riksbank

Norway – Norges Bank hikes policy rate as expected

Norges Bank raised its policy rate by 25bp to 2.50% at its November meeting and warned that it will "most likely" go up again in December. In the press release, the central bank notes that inflation has once again been higher than it anticipated, and that the labour market remains tight with low unemployment and plenty of vacancies. This argues in favour of more substantial monetary tightening. On the other hand, the bank points to clear signs of slower growth and a drop in commodity and freight prices. Combined with the fact that the policy rate has already risen considerably in a relatively short period and is now above what the central bank considers to be the neutral rate, this argues in favour of a more cautious approach to rate setting. In September, Norges Bank's projections indicated a terminal rate of 3.00% in March, and there were no new signals on this. We now expect Norges Bank to raise the policy rate by a further 25bp to 2.75% in December, and that this will be the final hike in the current cycle.

Policy rate close to peaking



Source: Macrobond, Danske Bank

Calendar 7-11 November 2022

Monday, November 7, 2022

				Period	Danske Bank	Consensus	Previous
-	CNY	Trade balance	USD bn	Oct		*96.0*	84.7
-	CNY	Foreign exchange reserves	USD bn	Oct		*3029.5*	3029.0
7:45	CHF	Unemployment	%	Oct		*2.1%*	2.1%
8:00	SEK	Budget balance	SEK bn	Oct			-5.9
8:00	NOK	Manufacturing production	m/m|y/y	Sep			-1.0%|-1.1%
8:00	NOK	Industrial production	m/m|y/y	Sep			3.1%|4.7%
8:00	DEM	Industrial production	m/m|y/y	Sep		*-0.2%|...*	-0.8%|2.1%
8:00	DKK	Industrial production	m/m	Sep			2.6%
9:00	CHF	SNB balance sheet, intervention	CHF bn	Oct			807.1
10:30	EUR	Sentix Investor Confidence	Index	Nov			-38.3
21:00	USD	Consumer credit	USD bn	Sep		*33.2*	32.2

Tuesday, November 8, 2022

				Period	Danske Bank	Consensus	Previous
-	USD	Fed's Barkin speaks					
0:30	JPY	Labour cash earnings	y/y	Sep			1.7%
6:00	JPY	Leading economic index, preliminary	Index	Sep		*98.3*	101.3
6:00	SEK	Maklarstatistik Swedish housing price data					
11:00	EUR	Retail sales	m/m|y/y	Sep			-0.3%|-2.0%
12:00	USD	NFIB small business optimism	Index	Oct		*92.1*	92.1

Wednesday, November 9, 2022

				Period	Danske Bank	Consensus	Previous
-	CNY	Money supply M2	y/y	Oct		*12.0%*	12.1%
-	PLN	Polish central bank rate decision	%			*6.8%*	6.8%
2:30	CNY	ge	y/y	Oct		*2.4%*	2.8%
2:30	CNY	PPI	y/y	Oct		*-1.6%*	0.9%
8:00	DKK	Trade balance ex ships	DKK bn	Sep			4.1
8:00	DKK	Exports	m/m	Sep			410.0%
8:00	SEK	Industrial orders	m/m|y/y	Sep			-4.2%|-0.6%
8:00	SEK	Private Sector Production	m/m|y/y	Sep			-1.3%|4.3%
8:00	SEK	Household consumption	m/m|y/y	Sep			0.0%|1.7%
8:00	DKK	Current account (nsa|sa)	DKK bn	Sep			..|41.7
9:00	USD	Fed's Williams speaks					
16:30	USD	DOE U.S. crude oil inventories	K				-3115

Thursday, November 10, 2022

				Period	Danske Bank	Consensus	Previous
1:01	GBP	RICS house price balance	Index	Oct			0.3
8:00	NOK	CPI	m/m|y/y	Oct			1.4%|6.9%
8:00	NOK	PPI	m/m|y/y	Oct			-7.2%|52.4%
8:00	DKK	CPI	m/m|y/y	Oct	**0.2%|9.2%**		1.3%|10.0%
8:00	NOK	Core inflation (CPI-ATE)	m/m|y/y	Oct	**|5.4%**		1.0%|5.3%
10:00	EUR	ECB Publishes Economic Bulletin					
14:30	USD	Initial jobless claims	1000				
14:30	USD	CPI headline	m/m|y/y	Oct	**0.7%|8.0%**	*0.7%|8.1%*	0.4%|8.2%
14:30	USD	CPI core	m/m|y/y	Oct		*0.5%|6.6%*	0.6%|6.6%
18:30	USD	Fed's Mester speaks					
20:00	USD	Budget statement	USD bn	Oct			-429.7

Friday, November 11, 2022

				Period	Danske Bank	Consensus	Previous
8:00	GBP	GDP, preliminary	q/q|y/y	3rd quarter	**-0.3%|**		0.2%|4.4%
8:00	GBP	Monthly GDP estimate	m/m|q/q	Sep			-0.3%|...
8:00	GBP	Index of services	m/m|3m/3m	Sep			-0.1%|-0.1%
8:00	DEM	HICP, final	m/m|y/y	Oct		*1.1%|11.6%*	1.1%|11.6%
16:00	USD	University of Michigan Confidence, preliminary	Index	Nov		*60.0*	59.9

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[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Denmark	2021	4.9	4.3	4.2	6.2	8.0	8.0	1.9	3.0	3.6	3.6	36.6	8.2
	2022	3.0	-1.5	0.4	4.8	5.3	3.7	7.5	3.5	2.7	1.3	31.8	10.0
	2023	-0.6	-1.0	-0.2	-2.1	1.7	1.5	3.4	4.0	3.2	1.0	30.2	9.0
Sweden	2021	4.6	5.9	2.5	6.0	7.6	9.3	2.2	2.7	8.8	-0.1	37.5	5.2
	2022	2.4	3.4	-0.3	4.6	4.9	8.7	8.0	2.5	7.4	0.7	31.0	3.7
	2023	-1.2	-1.3	1.1	-2.2	2.4	1.8	6.1	2.8	8.2	-0.9	31.0	4.1
Norway	2021	4.1	4.9	3.8	-0.9	4.7	2.3	3.5	3.5	3.2	-	-	-
	2022	2.8	4.6	0.9	1.0	3.0	8.0	5.5	4.1	1.8	-	-	-
	2023	0.9	0.9	1.3	4.0	3.0	3.5	3.4	4.2	2.4	-	-	-

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[3]	Public budget[4]	Public debt[4]	Current acc.[4]
Euro area	2021	5.3	3.7	4.3	3.7	10.5	8.3	2.6	4.1	7.7	-5.1	97.4	3.2
	2022	3.1	3.9	2.2	3.1	6.4	7.7	8.5	4.0	6.7	-3.7	94.7	2.4
	2023	0.3	0.6	2.4	2.3	2.7	4.9	5.8	3.4	6.8	-2.5	92.7	2.9
Germany	2021	2.6	0.4	3.8	1.0	9.5	8.9	3.2	3.4	3.6	-3.7	68.6	7.4
	2022	1.5	4.1	4.6	0.7	2.0	6.7	8.8	3.3	3.0	-2.5	66.4	6.4
	2023	-0.1	0.2	3.2	2.0	2.0	4.8	6.5	3.9	3.0	-1.0	64.5	6.8
Finland	2021	3.0	3.7	2.9	1.5	5.4	6.0	2.2	2.3	7.7	-2.7	72.4	0.6
	2022	2.0	2.0	3.0	3.5	0.5	4.0	6.6	2.6	6.8	-3.1	70.6	-2.6
	2023	-0.2	0.1	1.0	0.5	-0.5	0.5	3.7	3.5	7.3	-2.6	71.3	-1.4

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[3]	Public budget[4]	Public debt[4]	Current acc.[4]
USA	2021	5.9	8.3	0.6	7.4	6.1	14.1	4.7	4.2	5.4	-12.4	126.9	-3.5
	2022	1.9	2.7	-0.9	-0.1	7.4	8.6	8.1	5.2	3.6	-4.2	124.0	-3.5
	2023	0.5	0.5	1.1	-2.6	1.3	-3.0	4.1	4.2	4.0	-3.8	121.0	-3.2
China	2021	8.0	10.2	-	5.2	-	-	0.7	5.0	-	-5.6	68.9	3.0
	2022	3.3	4.8	-	3.0	-	-	2.5	5.0	-	-7.7	77.8	1.1
	2023	4.9	6.5		5.0			2.5	5.5		-7.1	81.8	1.0
UK	2021	7.5	6.2	12.6	5.6	-0.3	2.8	2.6	5.1	4.5	-5.4	95.6	-2.6
	2022	4.0	4.8	1.3	8.1	0.7	14.7	8.4	4.4	3.6	-3.9	95.5	-4.8
	2023	-0.2	-0.3	1.2	-1.9	-2.4	-2.4	5.6	3.3	4.1	-1.9	97.0	-3.7
Japan	2021	1.7	1.1	2.1	-1.2	11.9	5.1	-0.2	-	2.8	-	-	-
	2022	1.3	2.8	1.5	-1.6	4.9	6.6	2.1	-	2.6	-	-	-
	2023	1.5	1.3	0.3	1.9	4.4	2.5	2.2	-	2.7	-	-	-

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	04-Nov	4.00	4.51	5.12	4.21	97.9	-	760.4	1049.0	1111.2
	+3m	4.75	5.29	4.90	4.25	96.0	-	775.0	1114.6	1145.8
	+6m	5.25	5.40	4.80	4.15	95.0	-	783.7	1073.7	1178.9
	+12m	5.25	5.30	4.70	3.95	93.0	-	801.1	1053.8	1204.3
EUR	04-Nov	1.50	1.73	3.07	3.16	-	97.9	744.2	1026.8	1087.7
	+3m	2.50	2.61	3.15	3.15	-	96.0	744.0	1070.0	1100.0
	+6m	2.50	2.62	3.05	3.15	-	95.0	744.5	1020.0	1120.0
	+12m	2.50	2.62	2.95	2.80	-	93.0	745.0	980.0	1120.0
JPY	04-Nov	-0.10	-0.03	0.18	0.69	120.5	147.9	6.18	8.52	9.03
	+3m	-0.10	-	-	-	139.2	145.0	5.34	7.69	7.90
	+6m	-0.10	-	-	-	132.1	139.0	5.64	7.72	8.48
	+12m	-0.10	-	-	-	120.9	130.0	6.16	8.11	9.26
GBP*	04-Nov	3.00	-	4.40	3.83	87.4	112.0	851.9	1175.2	1245.0
	+3m	3.75		4.50	4.20	89.0	107.9	836.0	1202.2	1236.0
	+6m	3.75		4.50	4.20	87.0	109.2	855.7	1172.4	1287.4
	+12m	3.75		4.40	4.00	86.0	108.1	866.3	1139.5	1302.3
CHF*	04-Nov	0.50	-	1.25	2.01	98.6	100.7	755.0	1041.5	1103.3
	+3m	1.25	-	-	-	95.0	99.0	783.2	1126.3	1157.9
	+6m	1.25	-	-	-	94.0	98.9	792.0	1085.1	1191.5
	+12m	1.25	-	-	-	93.0	100.0	801.1	1053.8	1204.3
DKK	04-Nov	1.25	2.01	3.28	3.33	744.24	760.41	-	137.96	146.15
	+3m	2.25	2.75	3.40	3.35	744.00	775.00	-	143.82	147.85
	+6m	2.25	2.75	3.30	3.35	744.50	783.68	-	137.00	150.44
	+12m	2.25	2.75	3.20	3.00	745.00	801.08	-	131.54	150.34
SEK	04-Nov	1.75	2.15	3.24	3.10	1087.7	1111.2	68.4	94.4	100.0
	+3m	2.50	2.55	3.20	3.20	1100.0	1145.8	67.6	97.3	-
	+6m	2.75	2.80	3.20	3.30	1120.0	1178.9	66.5	91.1	-
	+12m	2.75	2.80	3.10	3.30	1120.0	1204.3	66.5	87.5	-
NOK	04-Nov	2.25	3.40	3.81	3.66	1026.8	1049.0	72.5	100.0	105.9
	+3m	2.75	3.41	3.80	3.85	1070.0	1114.6	69.5	-	102.8
	+6m	2.75	2.95	3.60	3.60	1020.0	1073.7	73.0	-	109.8
	+12m	2.75	3.01	3.40	3.45	980.0	1053.8	76.0	-	114.3

*Notes: GBP swaps are SONIA and CHF swaps are SHARON.
We have updated our Norges Bank forecasts after yesterday's Norges Bank meeting but not yet our Norwegian yield outlook

Commodities

		2022				2023				Average	
	04-Nov	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2022	2023
ICE Brent	97	98	112	105	100	95	95	95	95	104	95

Source Danske Bank

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