

Weekly Focus

Will Fed acknowledge rising inflation risks?

Inflation remains the key theme for markets and a surge in Chinese producer price inflation to 9.0% y/y in May on the back of higher commodity prices added to the inflation scare this week. That said, implied volatilities moved lower across assets ranging from equities and bonds to FX and commodities. Inflation prints in Sweden and especially Norway came out lower than expected in May among other things as the currency appreciation seen over the last six months kept imported inflation low. The lower inflation print in Norway does not change our call for a September rate hike from Norges Bank.

In the third paper in our series on global inflation we focus on the outlook for euro area core inflation. Overall, we see few evidence that core inflation is about to return to the highs preceding the Global Financial Crisis on a sustained basis. However, we have lifted our euro area core inflation forecast for 2022 to 1.2% (1.0% previously), mostly on the back of higher goods price inflation (see [Research Euro Area - Mind the inflation gap](#)).

While markets fear a return of inflation, central bankers continue to stay patient. Despite upgrades to its growth and inflation outlook, ECB continued to maintain its accommodative policy stance at the June meeting, with PEPP purchases still to be conducted at a 'significantly higher pace' in Q3 compared to the first months of the year (see [Flash: ECB Research - ECB turning risk manager](#)). In the US, the May jobs showed moderate jobs growth paired with rising wage pressures due to labour shortages. However, FOMC members downplayed the risk of a wage-price spiral, seeing the wage increases mostly as transitory and due to the enhanced benefits which are set to expire in early September. The May CPI release added another piece to the US inflation puzzle and showed a further rise in core inflation to 3.8% y/y. That sets the scene for some interesting discussions at the upcoming FOMC meeting on Wednesday, which will be the key focal point for markets next week. We do not expect the Fed to send any significant new policy signals, but updated projections will likely show a first rate hike now in 2023, as more Fed policymakers recently have "started talking about when to talk about tapering".

Apart from the Fed meeting, **next week** also brings US retail sales for May (Tuesday), which will be monitored closely for any signs that the high US goods demand is starting to peak. In Europe, we keep an eye on the EU-US leaders' summit in Brussels (Tuesday), where discussions will likely centre on rebuilding trade ties and a solution to the Airbus-Boeing subsidy dispute. US President Biden will likely also try to persuade his allies to take a tougher stance on China at the G7 Summit in Cornwall over the weekend, before he rounds off his European tour with a meeting of Russia's President Putin in Geneva on Wednesday. We expect Bank of Japan (BoJ) to hold policy rates and its QQE programme unchanged on Friday, but in light of the service sector still struggling with a state of emergency in big parts of the country, the BoJ will likely extend its special programme aimed at channelling money to cash-strapped firms. Apart from ongoing trade disputes with the EU regarding Northern Ireland, the biggest theme in the UK remains whether the grand re-opening on 21 June goes ahead as planned or is postponed for another 2-4 weeks due increasing number of new corona cases. Finally, Chinese retail sales and industrial production should start to mover lower, after strong base effects boosted figures in April.

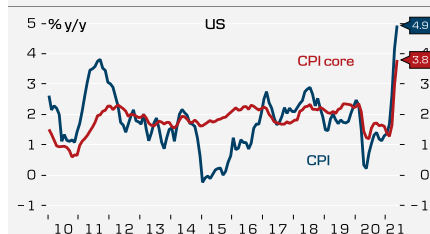
Key market movers

- **Sat/Sun:** G7 summit
- **Tue:** US retail sales, EU-US leaders' summit in Brussels
- **Wed:** FOMC meeting, Biden-Putin meeting, China retail sales & industrial production
- **Fri:** Bank of Japan meeting

Selected reading from Danske Bank

- [Research Euro Area - Mind the inflation gap](#), 8 June
- [Flash: ECB Research - ECB turning risk manager](#), 10 June
- [FX Strategy: Interventionism remains an important long-term FX factor](#), 8 June
- [Spending Monitor - First week of June shows very strong spending](#), 10 June

US core inflation on the rise



Source: BLS, Macrobond Financial

Editor

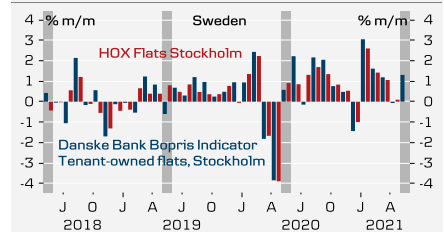
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Scandi market movers

The number of data releases scheduled for next week in **Denmark** is very limited. Corporate sales and purchases in April will, however, be interesting to follow in the wake of the reopening and disappointing export and industrial production figures for the month.

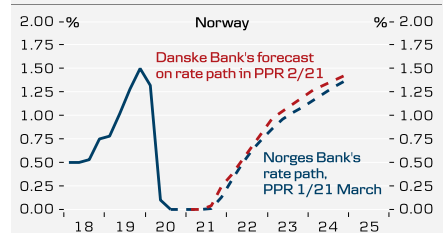
- Next week is a data empty week in **Sweden** with only PES unemployment data (Tuesday) and HOX housing price index (Friday). Our own Boprisindikator (insert link [Danske Bank Research](#)) showed that prices picked up again in May +1.6% m/m s.a (after prices remained almost unchanged in April). At the same time as sales was significantly higher compared to previous years. Hence we expect HOX to show similar numbers. Also PES is expected to show further improvements at the labour market.
- In **Norway**, we do not expect Norges Bank to touch interest rates on Thursday, so interest will centre on what signals the bank puts out about future developments in the monetary policy report. Since the previous report in March, virtually all factors impacting the rate path have come out on the upside. Pay settlements have been more generous than anticipated, the revised budget more expansionary, and oil investment expectations higher. At the same time, as global growth and inflation have been stronger than expected, the krone slightly weaker despite higher oil prices, and money market premiums smaller. The only exception is inflation, which has been a fair bit lower than foreseen in May. Remember, however, that in Norges Bank's models, inflation in the medium term (2-3 years) is driven by the output gap. As long as inflation expectations remain properly anchored, which they are, the bank can therefore look past temporary fluctuations in inflation in its rate-setting. This was clear in spring last year, when the fall in the krone produced high imported inflation, but the central bank was still able to cut its policy rate on this very basis. Since Norges Bank has already signalled a rate increase in H2 this year, with a 50/50 chance of it coming in September or December, any upward revision of its interest rate projections now will automatically tip the balance in favour of September. It will also increase the chances of a further hike this year (in December) and more than another two next year

Demand for larger homes is the main driver for higher prices



Source: HOX Valueguard, Danske Bank

New rate path expected to show hike in September



Source: Macrobond Financial, Norges Bank, Danske Bank

Scandi update

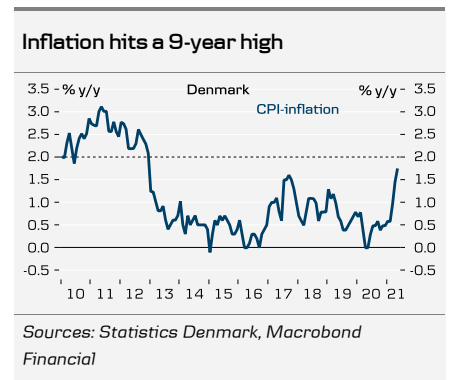
Denmark – Inflation hits a 9-year high

Inflation hit 1.7% in May, an increase of 0.2 percentage points relative to April and the highest level since 2012. Oil prices were twice as high in May this year compared to a year ago, and indeed the rise in inflation was largely driven by energy and package holiday prices. However, the contribution to inflation from the extremely low energy prices of last spring will fade in the coming months. Flight and package holiday prices, meanwhile, normally fall significantly in May, but as they count for less in the consumer price index this year than normal, the overall result contributes to higher inflation. However, this effect is temporary, and should pull in the opposite direction in June and July.

Industrial production fell by 3.6% in April compared to March due to a broad-based retreat. Moreover, the figures for February and March were also revised substantially lower, which means that production has risen by a respectable 1.2% over the past three months. One possibility is that problems with sourcing materials are becoming more apparent, though we tend to view the latest figures as a bump in the road in an otherwise positive picture, and we expect to see growth here again in the coming months.

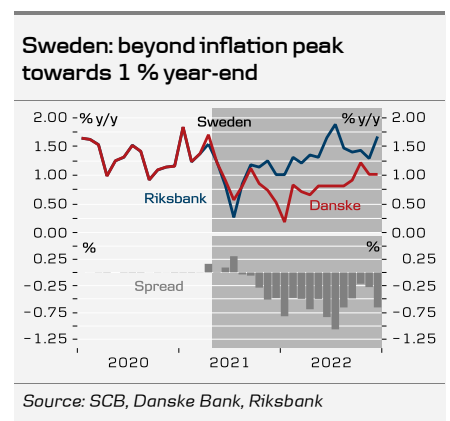
Reflecting developments in industrial production, exports fell by 3.1% in April, the first decline since October. The decline was driven, in particular, by goods that do not cross the Danish border, which were down 7.8%.

There were 152 bankruptcies among companies with real activities in May, which cost 773 jobs. This is low compared to the norm and suggests the opportunity to postpone tax and VAT payments and borrow from the government has helped many companies survive.



Sweden – May confirmed inflation party is over

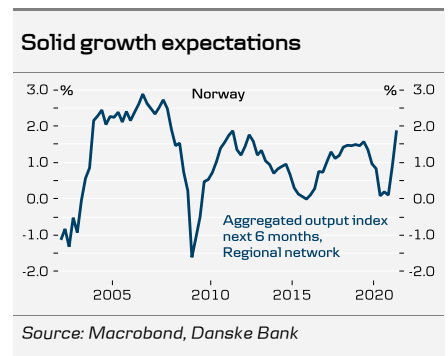
Both May CPI and CPI excl. Energy turned out well below our forecast and closed in on the Riksbank's. CPI at 2.1 % yoy is 0.2 p.p. above Riksbank's forecast and excl. energy at 1.2 % yoy is spot on. In our view this is secondary to the fact that we now can confirm that inflation peaked in April (excl. Energy peaked already in January). The greatest surprise was the 28% mom plunge in charter package prices. These were actual collected prices, not imputed as last year. Normally, charter prices embark on a three month surge in May, but this year was radically different. It remains to be seen whether price developments remains depressed in June and July too or if they recover. Looking forward there is also great uncertainty when it comes to clothing prices as there are usually big sales in June and July. That was not the case last year as retailers were squeezed by plunging sales from the start. Looking even further out we expect inflation to grind lower as Covid19 effects fade and weak wage growth and a stable SEK comes into play again. And more headache for the Riksbank, of course.



A bunch of Swedish April data was also released this week giving a first glimpse of Q2. A step back was seen with household consumption at -5.1% m/m, production -0.2% m/m and GDP-indicator at -1.4% m/m. Meaning, especially household consumption came out super weak however, note that infection rates was high and restrictions wasn't lifted in April. So what does this mean for Q2 in total? Yet we only have 1/3 outcomes but to get growth back on track we need to see some good prints for May and June. If the GDP remains at the same level as in April, it would suggest a Q2 GDP print at low 0.1% q/q.

Norway – Strong data from regional network

The week saw Norges Bank publish the results of the May regional network survey, its preferred economic indicator. The aggregated output index for the next six months climbed from 0.92 to 1.88, which would normally point to quarterly growth in mainland GDP of 3.76% for the next two quarters. As expected, the underlying data show the upswing to be broad-based, with strong improvements in all sectors. Both investment and employment expectations have been revised up further, and capacity constraints are mounting. The capacity constraints indicator is now up at 36.09, which is above the historical average and suggests that economic activity is already back to normal. Also worth noting is that expected wage growth this year has climbed to 2.74% from 2.34% in February. As in many other expectations surveys, both in Norway and abroad, firms are continuing to report high selling prices.



Activity tracker

Euro area	Last obs	Value	Last 4 months	1W chg.	1M chg.	Low
Bundesbank weekly activity index*	Week 23	1.03		0.12	0.39	-6.0
German truck toll mileage (1w m.a.), % y/y	02-Jun	4.8%		-8.8 p.p.	-17.5 p.p.	-16.2%
OpenTable restaurant bookings, Germany (1w m.a.)**	09-Jun	-15.3%		19.4 p.p.	79.9 p.p.	-100%
USA						
NY Fed weekly economic index*	Week 23	1001		-1.23	-1.36	-11.4
Transaction card spending, (1w m.a.), % y/y	27-May	33.9%		-7.8 p.p.	-21.8 p.p.	-40.6%
OpenTable restaurant bookings (1w m.a.)**	09-Jun	-11.0%		-5 p.p.	9.1 p.p.	-100%
Google mobility trends retail & recreation (1w m.a.)**						
Germany	07-Jun	-11.7%		5.3 p.p.	26.7 p.p.	-67.3%
France		-11.3%		1 p.p.	27.7 p.p.	-88.0%
Italy		-5.7%		3 p.p.	14.3 p.p.	-88.9%
Spain		-14.1%		2.7 p.p.	6.7 p.p.	-91.7%
UK		-10.7%		1.3 p.p.	19.6 p.p.	-77.6%
Japan		-17.0%		-0.4 p.p.	-8.1 p.p.	-37.9%
United States		-3.6%		0.9 p.p.	2 p.p.	-46.1%
Electricity demand (1w m.a.)***						
Germany	10-Jun	0.9%		1 p.p.	-4.2 p.p.	-16.2%
France		-0.6%		0.5 p.p.	-5.4 p.p.	-23.1%
Italy		-2.6%		3.1 p.p.	-1.6 p.p.	-28.2%
Spain		0.5%		1.2 p.p.	1.2 p.p.	-24.2%
UK		-0.1%		2.9 p.p.	-3.1 p.p.	-22.1%
Japan		-1.7%		-2.4 p.p.	-5.5 p.p.	-18.3%
United States		09-Jun	5.1%		12.5 p.p.	4.6 p.p.

*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

Calendar

Monday, June 14, 2021					Period	Danske Bank	Consensus	Previous
6:30	JPY	Industrial production, final	m/mly/y	Apr			2.5%	15.4%
11:00	EUR	Industrial production	m/mly/y	Apr		0.4%	37.3%	0.1%
Tuesday, June 15, 2021					Period	Danske Bank	Consensus	Previous
8:00	NOK	Trade balance	NOK bn	May				17
8:00	DEM	HICP, final	m/mly/y	May		0.3%	2.4%	0.3%
8:00	GBP	Unemployment rate (3M)	%	Apr		4.7%		4.8%
8:00	GBP	Average weekly earnings ex bonuses (3M)	y/y	Apr		5.3%		4.6%
8:45	FRF	HICP, final	m/mly/y	May		0.4%	1.8%	0.4%
9:00	SEK	NIER economic forecasts						
10:00	ITL	HICP, final	m/mly/y	May		-1.3%		-1.3%
11:00	EUR	Trade balance	EUR bn	Apr				13
14:30	USD	Retail sales control group	m/m	May		0.6%		-1.5%
14:30	USD	PPI	m/mly/y	May		0.4%	6.2%	0.6%
14:30	USD	PPI core	m/mly/y	May		0.5%	4.8%	0.7%
14:30	USD	Empire Manufacturing PMI	Index	Jun		22.0		24.3
15:15	USD	Capacity utilization	%	May		75.0%		74.6%
15:15	USD	Industrial production	m/m	May		0.6%		0.5%
15:15	USD	Manufacturing production	m/m	May		0.7%		0.4%
16:00	USD	NAHB Housing Market Index	Index	Jun		83.0		83.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Apr				146.4
Wednesday, June 16, 2021					Period	Danske Bank	Consensus	Previous
1:50	JPY	Exports	y/y (%)	May		0.5		0.4
1:50	JPY	Import	y/y (%)	May		0.3		0.1
1:50	JPY	Trade balance, s.a.	JPY bn	May		241.8		65.2
8:00	GBP	CPI	m/mly/y	May		0.3%	1.8%	0.6%
8:00	GBP	CPI core	y/y	May		1.5%		1.3%
9:00	CNY	Industrial production	y/y	May		9.2%		9.8%
9:00	CNY	Retail sales	y/y	May		14.0%		17.7%
9:00	CNY	Fixed assets investments	y/y	May		17.0%		19.9%
11:00	EUR	Labour costs	y/y	1st quarter				3.0%
14:30	USD	Import prices	m/mly/y	May		0.7%		0.7%
14:30	CAD	CPI	m/mly/y	May				-3.4%
14:30	USD	Building permits	1000 (m/m)	May		1730		1733.0 (-1.3%)
14:30	USD	Housing starts	1000 (m/m)	May		1650		1569.0 (-9.5%)
16:30	USD	DOE U.S. crude oil inventories	K					-5241
20:00	USD	FOMC meeting	%			0.3%		0.3%
20:00	USD	Fed chair Powell (voter, neutral) speaks						
20:30	USD	Fed chair Powell (voter, neutral) speaks						
Thursday, June 17, 2021					Period	Danske Bank	Consensus	Previous
-	EUR	Eurogroup meeting						
0:45	NZD	GDP	q/qly/y	1st quarter		0.5%	0.8%	-1.0%
3:30	AUD	Employment change	1000	May		30		-30.6
9:30	CHF	SNB 3-month Libor target rate	%			-0.8%		-0.8%
10:00	NOK	Norges Banks monetary policy meeting	%			0.0%		0.0%
11:00	EUR	HICP inflation, final	m/mly/y	May		0.3%	2.0%	0.3%
11:00	EUR	HICP - core inflation, final	y/y	May		0.9%		0.9%
13:00	TRY	Central Bank of Turkey rate decision	%		19.0%	19.0%		19.0%
14:30	USD	Philly Fed index	Index	Jun		30.5		31.5
14:30	USD	Initial jobless claims	1000					376
Friday, June 18, 2021					Period	Danske Bank	Consensus	Previous
-	EUR	ECOFIN meeting						
-	JPY	BoJ policy rate	%		-0.1%			-0.1%
1:30	JPY	CPI - national ex. fresh food	y/y	May		0.0%		-0.1%
1:30	JPY	CPI - national	y/y	May		-0.2%		-0.4%
8:00	GBP	Retail sales ex fuels	m/mly/y	May		2.1%	27.3%	9.0%
10:00	EUR	Current account	EUR bn	Apr				17.8

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	2020	-2.7	-2.0	-0.1	2.1	-7.7	-4.8	0.4	2.3	4.6	-1.1	42.2	8.3
	2021	3.0	2.5	1.5	4.4	5.1	5.7	1.2	2.2	4.6	-2.5	40.0	7.9
	2022	3.4	4.0	-0.3	3.5	6.8	5.9	1.2	2.2	4.0	-1.0	37.6	8.2
Sweden	2020	-3.1	-4.7	-0.5	0.6	-5.2	-5.8	0.5	2.0	8.3	-3.1	37.9	1.4
	2021	3.4	3.2	1.6	3.6	7.5	7.3	1.2	1.9	8.5	-1.7	39.0	5.1
	2022	3.3	4.2	1.5	3.2	4.1	4.1	0.8	1.9	7.3	-0.4	36.0	5.1
Norway	2020	-2.5	-6.9	1.7	-3.8	-0.5	-11.9	1.3	3.1	5.0	-	-	-
	2021	3.7	6.0	2.0	1.0	2.6	5.0	2.8	2.6	3.3	-	-	-
	2022	3.4	7.0	2.0	2.0	6.0	6.0	1.4	3.0	2.5	-	-	-

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	2020	-6.7	-8.0	1.4	-8.4	-9.6	-9.1	0.3	-0.6	8.0	-7.2	98.0	3.0
	2021	4.7	2.6	3.3	5.0	10.0	8.2	1.9	3.1	8.4	-7.8	102.2	3.1
	2022	4.1	5.7	1.8	2.1	4.6	4.3	1.5	2.0	8.3	-4.4	102.3	3.1
Germany	2020	-5.1	-6.2	3.7	-3.5	-10.2	-9.0	0.4	0.0	4.2	-4.2	69.8	6.9
	2021	3.2	-0.7	1.8	3.2	12.0	9.9	2.5	1.2	4.3	-7.5	73.0	7.5
	2022	4.0	5.1	1.4	2.1	5.0	4.3	1.6	1.8	3.8	-2.5	72.1	6.9
Finland	2020	-2.8	-4.9	2.3	-3.1	-6.6	-6.6	0.3	1.8	7.8	-5.4	69.2	0.3
	2021	2.3	4.0	1.5	2.0	3.5	5.0	1.4	2.5	8.0	-3.5	70.0	-0.2
	2022	3.0	3.0	1.0	3.0	6.0	5.0	1.5	2.5	7.2	-2.3	69.6	-0.2

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	2020	-3.5	-3.9	1.1	-1.8	-12.9	-9.3	1.2	4.6	8.1	-16.0	126.4	-2.1
	2021	7.5	8.4	1.6	8.9	5.6	11.2	3.5	2.0	4.7	-12.2	132.3	-2.1
	2022	5.3	6.7	3.1	3.7	2.0	4.4	2.6	2.3	3.5	-7.2	131.9	-2.1
China	2020	2.3	1.5	-	3.0	-	-	3.0	7.5	-	-11.9	-	0.6
	2021	9.0	9.0	-	10.0	-	-	2.0	7.0	-	-11.8	-	0.4
	2022	5.4	7.0	-	4.0	-	-	2.5	7.0	-	10.9	-	0.4
UK	2020	-9.8	-10.6	-6.5	-8.8	-15.8	-17.8	0.9	2.0	4.5	-12.3	104.5	-2.0
	2021	5.2	4.2	4.0	6.2	6.4	6.1	1.5	1.2	4.9	-7.7	109.3	-3.8
	2022	6.9	8.3	2.1	11.9	5.9	8.2	1.8	1.6	4.6	-4.5	108.3	-3.6
Japan	2020	-4.9	-6.4	2.7	-4.2	-12.4	-6.8	-0.2	-	2.8	-	-	-
	2021	3.1	1.3	3.3	3.3	10.5	2.5	0.3	-	2.7	-	-	-
	2022	2.0	2.4	-1.1	3.2	4.1	3.5	0.6	-	2.5	-	-	-

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	11-Jun	0.25	0.12	0.22	1.42	121.5	-	611.9	829.4	828.1
	+3m	0.25	0.20	0.30	1.90	119.0	-	625.2	865.5	857.1
	+6m	0.25	0.20	0.40	2.05	117.0	-	636.3	888.9	880.3
	+12m	0.25	0.20	0.75	2.25	115.0	-	647.4	913.0	904.3
EUR	11-Jun	-0.50	-0.55	-0.49	0.06	-	121.5	743.6	1007.8	1006.3
	+3m	-0.50	-0.54	-0.45	0.25	-	119.0	744.0	1030.0	1020.0
	+6m	-0.50	-0.54	-0.45	0.35	-	117.0	744.5	1040.0	1030.0
	+12m	-0.50	-0.54	-0.40	0.65	-	115.0	744.5	1050.0	1040.0
JPY	11-Jun	-0.10	-0.10	-0.04	0.07	120.5	109.5	6.17	8.36	8.35
	+3m	-0.10	-	-	-	130.9	110.0	5.68	7.87	7.79
	+6m	-0.10	-	-	-	129.9	111.0	5.73	8.01	7.93
	+12m	-0.10	-	-	-	128.8	112.0	5.78	8.15	8.07
GBP	11-Jun	0.10	0.08	0.31	0.95	85.8	141.6	866.5	1174.4	1172.6
	+3m	0.10	0.07	0.40	1.25	85.0	140.0	875.3	1211.8	1200.0
	+6m	0.10	0.07	0.45	1.35	84.0	139.3	886.3	1238.1	1226.2
	+12m	0.10	0.07	0.60	1.75	83.0	138.6	897.0	1265.1	1253.0
CHF	11-Jun	-0.75	-0.75	-0.65	-0.04	108.9	89.6	682.8	925.4	923.9
	+3m	-0.75	-	-	-	111.0	93.3	670.3	927.9	918.9
	+6m	-0.75	-	-	-	112.0	95.7	664.7	928.6	919.6
	+12m	-0.75	-	-	-	113.0	98.3	658.8	929.2	920.4
DKK	11-Jun	-0.50	-0.21	-0.14	0.36	743.62	611.94	-	135.53	135.32
	+3m	-0.60	-0.30	-0.17	0.50	744.00	625.21	-	138.44	137.10
	+6m	-0.60	-0.30	-0.17	0.60	744.50	636.32	-	139.69	138.35
	+12m	-0.60	-0.30	-0.12	0.90	744.50	647.39	-	141.03	139.69
SEK	11-Jun	0.00	-0.04	0.02	0.73	1006.3	828.1	73.9	100.2	100.0
	+3m	0.00	-0.05	-0.05	0.73	1020.0	857.1	72.9	101.0	-
	+6m	0.00	-0.05	-0.05	0.80	1030.0	880.3	72.3	101.0	-
	+12m	0.00	-0.05	0.00	0.95	1040.0	904.3	71.6	101.0	-
NOK	11-Jun	0.00	0.21	0.92	1.69	1007.8	829.4	73.8	100.0	99.8
	+3m	0.00	0.40	1.00	2.05	1030.0	865.5	72.2	-	99.0
	+6m	0.25	0.67	1.10	2.15	1040.0	888.9	71.6	-	99.0
	+12m	0.50	0.90	1.30	2.35	1050.0	913.0	70.9	-	99.0

Commodities												
		2021				2022				Average		
	11-Jun	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2021	2022	
ICE Brent	73	55	65	70	70	73	73	73	73	65	73	

Source Danske Bank

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