

Weekly Focus

Biden inauguration next week amid Fed repricing

President-Elect Joe Biden is due to be inaugurated on Wednesday. While the event is normally a pure formality, tensions are high in the US, with concerns about another riot. We expect the Biden administration to be more stimuli-friendly near-term, as Biden told us when he presented his economic plan yesterday.

The GBP was one of the winners this week, as Bank of England (BoE) Governor Andrew Bailey said there are downsides to negative policy rates leading to higher short-term rates in the UK. We believe the BoE will keep the Bank Rate at +0.1% and not cut it into negative territory.

The Fed has attracted much attention this (and last) week with comments about when to start tapering the QE bond buying pace. The comments have caused a repricing of the Fed, where investors now see a higher probability of a rate hike next year. We believe the discussions are premature but expect the talks to start more seriously in Q4 21, followed by actual tapering from Q1 22 (see *Fed Monitor – Still too early for the Fed to start the normalisation process*, 13 January). The Fed will be quiet from tomorrow when the blackout period starts ahead of the next meeting, which concludes on 27 January. We do not expect it to send any new signals but believe Fed Chair Jerome Powell is very likely to be asked about tapering during the Q&A.

The CDU party convention in Germany has begun today, with the ruling CDU party set to elect a new party leader to replace Angela Merkel. That person may potentially become Chancellor after the September parliamentary election, when Merkel is set to step down officially. The opinion polls are currently pointing to Friedrich Merz, considered a fiscal hawk. If he is elected, it could mean the German fiscal approach reverting to its pre-COVID-19 pandemic approach.

In our view, the ECB meeting next week is set to be a fairly uneventful one, which we largely expect to be a stock-taking meeting with no new policy signals. As the Euro area economy is still in lockdown and could be all through Q1, it is likely the services sector will continue to drag economic sentiment lower but with the rollout of the vaccines and improvement in the weather conditions, we believe economic activity is set to pick up. We expect the press conference to convey this ray of optimism. The recent recalibration of the policy instruments from the ECB in December has been well absorbed by markets, which means the ECB has no urgency to signal a new policy stance. We expect the ECB to refrain from commenting on any potential taper discussion, which has started in the US. For more details, see *ECB Preview: Taking stock*, 14 January. We do not expect any policy changes from the Bank of Japan despite a renewed state of emergency in half of the country.

In terms of economic data releases, we are due to get preliminary January PMI data for the euro area, the UK, Japan and the US. We expect these to show that there is still a big difference between the manufacturing sector doing well and the service sector doing poorly due to restrictions. We are also due to get Chinese Q4 20 GDP data, which we expect to show growth of 6.2% y/y, up from 4.9% y/y in Q3 20.

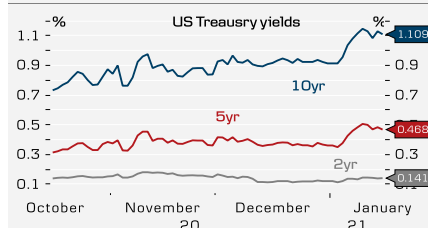
Key market movers

- **Weekend:** CDU party convention
- **Monday:** Chinese Q4 GDP data
- **Wednesday:** Biden's inauguration
- **Thursday:** ECB meeting
- **Friday:** Preliminary PMIs

Selected reading from Danske Bank

- *COVID-19 Update. Vaccination process is speeding up slightly, while we are waiting for AstraZeneca and Johnson & Johnson*, 14 January
- *Fed Monitor – Still too early for the Fed to start the normalisation process*, 13 January
- *Euro Area Macro Monitor – Getting worse before getting better*, 13 January

Fed repricing



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

Sources: Bloomberg, Macrobond Financial

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Market Movers Scandinavia

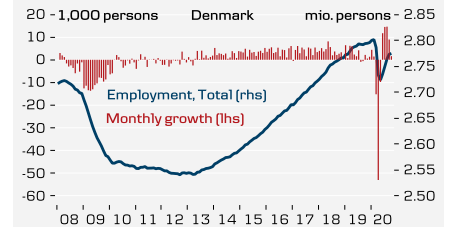
- In **Denmark**, we are set to receive figures for November's wage-earner employment on Thursday. After a strong summer, employment growth slowed in the autumn, with the Ministry of Employment's jobless numbers unfortunately pointing to a further slowdown in November and a subsequent small increase in unemployment. The situation is only likely to have deteriorated further in December and January on the back of the latest strict lockdown and we do not expect the labour market to be back at pre-coronavirus levels until sometime in 2022.

Consumer confidence for January is scheduled for release on the same day and we are expecting a print of -2.3, which is slightly up on the December figure of -3.8. Overall expectations for both Danes' personal finances and the Danish economy as a whole will probably push the figure higher, though the situation looks more challenging in the near term.

- Next week is quite data empty in **Sweden** with only SCB sales indicator (Friday). October and November data suggest growth is likely to be quite strong in Q4 despite the second wave of COVID-19 and tighter restrictions. Although showing relatively strong growth, household consumption is the weaker part, which might be evident in next week's sales figures. The sales indicator correlates with the GDP-indicator, which means that next week's release is set to give us a first glimpse of the December development.

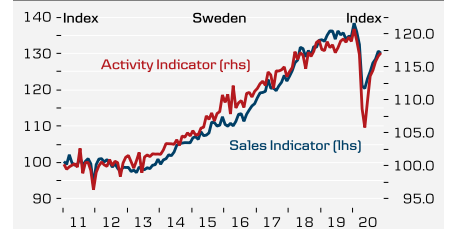
- In **Norway**, we expect Norges Bank to stay on hold at its rate-setting meeting on Thursday. For one thing, this is one of its 'interim' meetings with only a press release and no monetary policy report. For another, it is only just over a month since the last meeting. We therefore expect the bank to repeat the message that its policy rate will remain unchanged for some time, with the projections in the December monetary policy report suggesting a first hike in March 2022. What might be interesting is whether the bank comments on the effects of the new containment measures brought in at New Year, considering that the economic fallout from the previous set of restrictions in November was not as bad as expected. We also expect the bank to attribute the NOK's appreciation since the December meeting mainly to higher oil prices and a general increase in risk appetite, the latter a result of two sources of short-term uncertainty having been eliminated, namely Brexit and the senate elections in Georgia. We still expect the timing of the first rate increase in Norway to depend on when vaccinations reach the point where activity and behaviour can return to normal. If this happens during the summer as we assume, a first rate hike will most probably follow in September.

Labour market likely ended 2020 on a lacklustre note



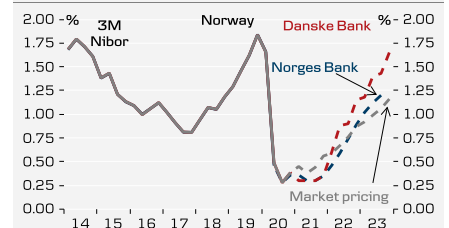
Source: Danske Bank, Macrobond Financial

Some sectors under pressure, while others seem to be fine



Source: SCB, Macrobond Financial

We expect a rate hike in September



Source: Macrobond Financial, Danske Bank

Scandi Update

Denmark – Seven out of eight years with inflation below 1%

Monday’s export figures for November revealed an increase of 3.3% m/m and thus more or less made up for the decline in October. The statistic has been revamped and now focuses more on Danish companies’ overall purchases and sales rather than what physically crosses the border. Goods exports are approximately back at pre-coronavirus levels, while service exports remain under pressure – particularly because of the decimation of the tourist industry. A recovery has been underway in global industry in recent months – as can also be seen in our latest *Export barometer*, 11 January – and this should lend further support to exports in the time ahead.

Inflation came in at 0.5% in December and was thus unchanged compared to November. Energy prices, in particular, tended to push inflation higher, while food and clothing pulled down. December’s figures mean that inflation for 2020 as a whole was 0.4%, making it the seventh out of the past eight years with inflation below 1%. The new year will see the weightings adjusted to 2020 consumption patterns, which have been far from the norm, and this will probably cause increased volatility in the inflation figures going forward.

Sweden – Better than expected

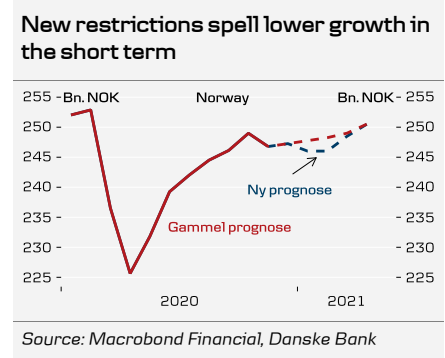
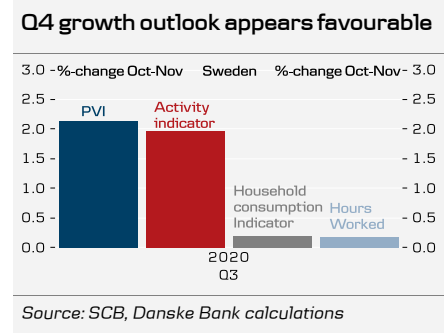
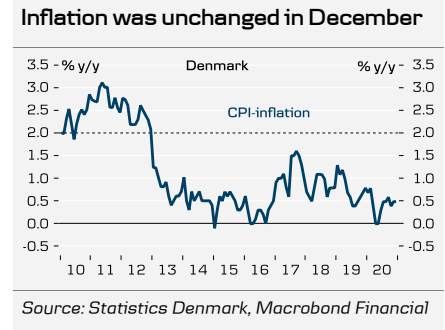
Even though recent data reveals a crack in growth’s composition, in which consumption is weak due to the second coronavirus wave but production remains strong, the seasonally adjusted level of the October/November activity indicator was 2% above the Q3 level. This suggests Q4 GDP growth is likely to be quite strong, possibly well above the 1% q/q sa we pencilled in in our December Nordic Outlook.

Another sign of strength is the Debt Office’s borrowing requirement, which again undershot its forecast in December. Over the October-December period the central government deficit was SEK35bn lower than forecast, not only due to higher tax revenues but also due to less spending (on rescue measures). All in all, this points in the direction of lower issuance going forward but currently most of that potential lies with reduced short-term funding, not bond issuance.

The Riksbank said it will begin to transition to a fully self-financed foreign FX reserve in which current loans in foreign currency via the Swedish National Debt Office at the current exchange rate amount to SEK178bn, of which SEK122bn is loans in USD and SEK56bn is loans in EUR.

Norway – Slowdown in November

Mainland GDP fell by 0.9% m/m in November. Adjusted for a sharp drop in fisheries, the fall was only 0.4%. As expected, the decline was concentrated in service industries hit by restrictions and reduced mobility and the rest of the economy was little affected. Activity probably fell slightly less than many had anticipated and the economy will avoid negative growth in Q4 as a whole by a good margin. Given the additional measures to contain infections introduced at New Year, we will probably see another drop in activity in January (but hopefully after a small rise in December). We would stress, however, that this does not change our expectation of more normal activity levels from the summer if vaccinations proceed as planned.



Activity tracker

Activity tracker

Euro area	Last obs	Value	Last 4 months	1W chg.	1M chg.	Low
Bundesbank weekly activity index*	Week 2	-0.25		-0.38	-0.96	-6.0
Germany, turnover textiles retail trade, weekly, % y/y	Week 51	-54.0%		-42 p.p.	-26 p.p.	-54%
German truck toll mileage (1w m.a.), % y/y	06-Jan	7.1%		2.3 p.p.	4 p.p.	-16.2%
OpenTable restaurant bookings, Germany (1w m.a.)**	13-Jan	-99.3%		-1.4 p.p.	-2.8 p.p.	-100%
USA						
NY Fed weekly economic index*	Week 2	-1.70		0.20	1.02	-11.5
Transaction card spending, (1w m.a.), % y/y	02-Jan	-15.4%		2.5 p.p.	-5.1 p.p.	-40.6%
OpenTable restaurant bookings (1w m.a.)**	13-Jan	-60.3%		-9.8 p.p.	5.8 p.p.	-100%
Google mobility trends retail & recreation (1w m.a.)**						
Germany	10-Jan	-60.1%		3.6 p.p.	-29.7 p.p.	-67.3%
France		-39.0%		2 p.p.	-9.9 p.p.	-88.0%
Italy		-44.7%		7.7 p.p.	-7.9 p.p.	-88.9%
Spain		-38.6%		-7.9 p.p.	-4.9 p.p.	-91.7%
UK		-62.6%		-4.3 p.p.	-30.4 p.p.	-77.6%
Japan		-16.6%		-6.6 p.p.	-7 p.p.	-37.9%
United States		-22.9%		-0.6 p.p.	-2.9 p.p.	-46.1%
Electricity demand (1w m.a.)***						
Germany	14-Jan	-2.8%		6.7 p.p.	1.7 p.p.	-16.2%
France		9.5%		3.1 p.p.	13 p.p.	-23.1%
Italy		-2.6%		6.6 p.p.	0.7 p.p.	-28.2%
Spain		4.8%		4.5 p.p.	7.3 p.p.	-24.2%
UK		0.9%		0.7 p.p.	7.2 p.p.	-22.1%
Japan		5.6%		8.4 p.p.	8.3 p.p.	-18.3%
United States	14-Jan	3.0%		11 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.

Normal
Nearing normal
Some improvements
Bad
Very bad

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

Calendar

Key Data and Events in Week 4

During the week				Period	Danske Bank	Consensus	Previous
Monday, January 18, 2021							
3:00	CNY	Industrial production	y/y	Dec		6.9%	7.0%
3:00	CNY	Retail sales	y/y	Dec		5.5%	5.0%
3:00	CNY	Real GDP	q/q y/y	4th quarter		2.7% 6.2%	2.7% 4.9%
3:00	CNY	Fixed assets investments	y/y	Dec		3.2%	2.6%
5:30	JPY	Industrial production, final	m/m y/y	Nov			0.0% -3.4%
10:00	ITL	HICP, final	m/m y/y	Dec		... -0.3%	... -0.3%
Tuesday, January 19, 2021							
8:00	DEM	HICP, final	m/m y/y	Dec		0.6% -0.7%	0.6% -0.7%
10:00	EUR	Current account	EUR bn	Nov			26.6
11:00	DEM	ZEW current situation	Index	Jan		-70.0	-66.5
11:00	DEM	ZEW expectations	Index	Jan		55.0	55.0
22:00	USD	TICS international capital flow, Net inflow	USD bn	Nov			-10.4
Wednesday, January 20, 2021							
8:00	GBP	CPI	m/m y/y	Dec		0.2% 0.5%	-0.1% 0.3%
8:00	GBP	CPI core	y/y	Dec		1.3%	1.1%
11:00	EUR	HICP inflation, final	m/m y/y	Dec		0.3% -0.3%	0.3% -0.3%
11:00	EUR	HICP - core inflation, final	y/y	Dec		0.2%	0.2%
14:30	CAD	CPI	m/m y/y	Dec			... 1.0%
16:00	CAD	Bank of Canada rate decision	%			0.3%	0.3%
16:00	USD	NAHB Housing Market Index	Index	Jan		86.0	86.0
Thursday, January 21, 2021							
-	JPY	BoJ policy rate	%			-0.1%	-0.1%
0:50	JPY	Exports	y/y (%)	Dec		0.0	0.0
0:50	JPY	Import	y/y (%)	Dec		-0.1	-0.1
0:50	JPY	Trade balance, s.a.	JPY bn	Dec		755.4	570.2
1:30	AUD	Employment change	1000	Dec		50	90
8:00	DKK	Consumer confidence	Net. bal.	Jan		-2.3	-3.8
8:00	NOK	Industrial confidence (SSB)	Net. bal.	4th quarter			1.7
8:45	FRF	Business confidence	Index	Jan			91.0
10:00	NOK	Norges Banks monetary policy meeting	%		0.0%	0.0%	0.0%
12:00	TRY	Central Bank of Turkey rate decision	%			17.0%	17.0%
13:45	EUR	ECB announces refi rate	%			0.00%	0.00%
13:45	EUR	ECB announces deposit rate	%			-0.50%	-0.50%
14:30	EUR	ECB's Lagarde speaks at press conference					
14:30	USD	Building permits	1000 (m/m)	Dec		1600	1635.0 (5.9%)
14:30	USD	Housing starts	1000 (m/m)	Dec		1564	1547.0 (1.2%)
14:30	USD	Philly Fed index	Index	Jan		12.0	9.1
14:30	USD	Initial jobless claims	1000				965
16:00	EUR	Consumer confidence, preliminary	Net bal.	Jan		-15.0	-13.9
22:45	NZD	CPI	q/q y/y	4th quarter		0.2% 1.1%	0.7% 1.4%
Friday, January 22, 2021							
0:30	JPY	CPI - national ex. fresh food	y/y	Dec		-1.1%	-0.9%
0:30	JPY	CPI - national	y/y	Dec		-1.3%	-0.9%
1:01	GBP	GfK consumer confidence	Index	Jan		-30.0	-26.0
1:30	JPY	Nikkei Manufacturing PMI, preliminary	Index	Jan			50.0
1:30	JPY	Markit PMI services, preliminary	Index	Jan			47.7
8:00	GBP	Retail sales ex fuels	m/m y/y	Dec		0.5% 7.1%	-2.6% 5.6%
9:15	FRF	PMI manufacturing, preliminary	Index	Jan		50.6	51.1
9:15	FRF	PMI services, preliminary	Index	Jan		49.7	49.1
9:30	DEM	PMI manufacturing, preliminary	Index	Jan		57.5	58.3
9:30	DEM	PMI services, preliminary	Index	Jan		45.0	47.0
10:00	EUR	PMI manufacturing, preliminary	Index	Jan		54.9	55.2
10:00	EUR	PMI composite, preliminary	Index	Jan		48.0	49.1
10:00	EUR	PMI services, preliminary	Index	Jan		45.0	46.4
10:00	EUR	ECB's survey of professional forecasters					
10:30	GBP	PMI manufacturing, preliminary	Index	Jan		53.0	57.5
10:30	GBP	PMI services, preliminary	Index	Jan		45.5	49.4
14:30	CAD	Retail sales	m/m	Nov			0.4%
15:45	USD	Markit PMI manufacturing, preliminary	Index	Jan		56.5	57.1
15:45	USD	Markit PMI service, preliminary	Index	Jan		54.0	54.8
16:00	USD	Existing home sales	m (m/m)	Dec		6.55	6.69 -0.025
17:00	USD	DOE U.S. crude oil inventories	K				-3248

The editors do not guarantee the accurateness of figures, hours or dates stated above
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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	-3.7	-3.1	-1.2	0.8	-8.8	-6.6	0.4	2.5	4.7	-2.6	42.5	7.4
	2021	2.3	3.0	1.6	3.1	3.6	4.7	0.8	2.0	4.7	-1.9	41.1	6.9
	2022	3.4	3.6	0.4	3.8	7.2	6.4	1.2	1.8	3.8	-1.2	40.7	7.7
Sweden	2020	-3.2	-4.7	-0.2	-1.4	-5.5	-6.8	0.5	2.0	8.3	-3.0	39.0	5.3
	2021	3.3	3.8	2.4	4.1	6.9	7.6	1.2	1.9	8.3	-2.8	40.0	5.1
	2022	2.6	3.0	1.5	2.7	3.9	3.9	0.8	1.9	7.3	-1.0	39.0	5.1
Norway	2020	-3.3	-7.5	1.7	-5.6	-3.0	-12.0	1.3	2.0	5.0	-	-	-
	2021	4.0	8.0	2.0	1.0	5.8	5.0	2.5	2.3	3.3	-	-	-
	2022	3.3	5.5	2.0	2.0	4.5	6.0	2.1	2.9	2.6	-	-	-

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	-7.0	-8.8	-0.8	-13.7	-9.1	-10.5	0.3	-1.0	8.0	-8.8	101.7	2.6
	2021	4.9	4.5	3.2	-1.2	13.1	10.6	1.1	1.0	8.9	-6.2	102.1	2.6
	2022	3.4	5.3	1.8	2.1	3.5	4.3	1.1	1.0	8.6	-4.4	102.3	2.8
Germany	2020	-5.3	-5.9	4.5	-3.7	-10.2	-8.8	0.5	-0.1	4.2	-6.0	71.2	6.0
	2021	4.0	3.2	4.1	2.8	13.8	10.9	1.2	-0.1	4.2	-4.0	70.1	6.3
	2022	2.2	3.3	1.4	2.1	3.3	4.3	1.3	-0.1	3.7	-2.5	69.0	6.1
Finland	2020	-3.3	-4.0	0.0	-2.5	-10.0	-8.0	0.3	1.9	7.8	-8.0	68.6	-0.6
	2021	2.2	3.5	1.5	2.0	5.0	5.0	1.0	2.5	8.0	-4.1	71.0	-0.6
	2022	2.8	2.7	1.0	3.0	6.0	5.0	1.5	2.5	7.2	-2.4	70.8	-0.6

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	-3.4	-3.8	0.9	-2.4	-13.7	-10.7	1.3	4.6	8.1	-16.0	126.4	-2.1
	2021	3.3	4.6	1.4	4.6	1.7	6.6	1.6	2.0	6.5	-12.2	132.3	-2.1
	2022	3.8	4.3	2.1	4.3	2.0	3.8	1.6	2.3	5.3	-7.2	131.9	-2.1
China	2020	1.7	1.5	-	3.0	-	-	3.0	7.5	-	-11.9	-	0.6
	2021	9.2	9.0	-	10.0	-	-	2.0	7.0	-	-11.8	-	0.4
	2022	5.5	7.0	-	4.0	-	-	2.5	7.0	-	10.9	-	0.4
UK	2020	-11.1	-14.4	-9.9	-12.8	-12.5	-21.1	0.9	2.0	4.4	-19.0	109.1	-2.0
	2021	5.2	4.2	4.0	6.2	6.4	6.1	1.6	1.2	4.9	-7.7	109.3	-3.8
	2022	6.9	8.3	2.1	11.9	5.9	8.2	1.9	1.6	4.6	-4.5	108.3	-3.6
Japan	2020	-5.6	-7.0	1.9	-5.7	-12.8	-7.5	-0.2	-	2.8	-	-	-
	2021	2.7	2.4	1.8	-1.0	9.1	1.5	0.3	-	2.7	-	-	-
	2022	2.5	2.7	-1.1	3.7	5.3	3.0	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	15-Jan	0.25	0.24	0.21	1.12	121.4	-	613.0	850.3	834.3
	+3m	0.25	0.20	0.25	1.00	122.0	-	609.8	827.9	819.7
	+6m	0.25	0.20	0.30	1.15	119.0	-	625.6	857.1	857.1
	+12m	0.25	0.22	0.35	1.35	116.0	-	641.8	887.9	887.9
EUR	15-Jan	-0.50	-0.55	-0.53	-0.23	-	121.4	743.9	1031.9	1012.5
	+3m	-0.50	-0.54	-0.50	-0.30	-	122.0	744.0	1010.0	1000.0
	+6m	-0.50	-0.54	-0.50	-0.20	-	119.0	744.5	1020.0	1020.0
	+12m	-0.50	-0.54	-0.45	-0.10	-	116.0	744.5	1030.0	1030.0
JPY	15-Jan	-0.10	-0.08	-0.06	0.05	120.5	103.7	6.17	8.56	8.40
	+3m	-0.10	-	-	-	124.4	102.0	5.98	8.12	8.04
	+6m	-0.10	-	-	-	120.2	101.0	6.19	8.49	8.49
	+12m	-0.10	-	-	-	116.0	100.0	6.42	8.88	8.88
GBP	15-Jan	0.10	0.03	0.08	0.50	88.9	136.5	836.6	1160.6	1138.7
	+3m	0.10	0.07	0.10	0.40	88.0	138.6	845.5	1147.7	1136.4
	+6m	0.10	0.07	0.15	0.60	87.0	136.8	855.7	1172.4	1172.4
	+12m	0.10	0.07	0.15	0.65	87.0	133.3	855.7	1183.9	1183.9
CHF	15-Jan	-0.75	-0.76	-0.71	-0.26	107.7	88.7	690.8	958.4	940.3
	+3m	-0.75	-	-	-	108.0	88.5	688.9	935.2	925.9
	+6m	-0.75	-	-	-	110.0	92.4	676.8	927.3	927.3
	+12m	-0.75	-	-	-	110.0	94.8	676.8	936.4	936.4
DKK	15-Jan	-0.60	-0.24	-0.19	0.00	743.88	612.97	-	138.72	136.11
	+3m	-0.60	-0.27	-0.20	-0.05	744.00	609.84	-	135.75	134.41
	+6m	-0.60	-0.27	-0.20	0.05	744.50	625.63	-	137.00	137.00
	+12m	-0.60	-0.30	-0.15	0.15	744.50	641.81	-	138.35	138.35
SEK	15-Jan	0.00	-0.03	-0.02	0.42	1012.5	834.3	73.5	101.9	100.0
	+3m	0.00	-0.05	0.03	0.30	1000.0	819.7	74.4	101.0	-
	+6m	0.00	-0.05	0.10	0.40	1020.0	857.1	73.0	100.0	-
	+12m	0.00	-0.05	0.10	0.40	1030.0	887.9	72.3	100.0	-
NOK	15-Jan	0.00	0.53	0.64	1.35	1031.9	850.3	72.1	100.0	98.1
	+3m	0.00	0.34	0.60	1.40	1010.0	827.9	73.7	-	99.0
	+6m	0.00	0.30	0.80	1.45	1020.0	857.1	73.0	-	100.0
	+12m	0.25	0.54	1.05	1.70	1030.0	887.9	72.3	-	100.0

Commodities												
		2020				2021				Average		
	15-Jan	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021	
ICE Brent	55	35	35	40	40	55	55	60	60	38	45	

Source Danske Bank

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