05 September 2023

# Executive Briefing

## US looking stronger, China looking weaker

**Economic data has been softening further over the summer with especially Europe showing additional weakness in the service sector and continued recession in manufacturing.** So far, the euro area labour market still looks solid, though, and core inflation remains sticky above 5%. The tight labour market has also pushed up wage inflation to around 5%, keeping inflation pressures sustained for now. However, we expect the weakening economy to push unemployment higher and wage inflation gradually lower in the medium term. We still have not seen the full effect of the monetary tightening, which should work to keep growth subdued over the coming year. In our new Nordic Outlook, we look for euro area growth in 2023 to be 0.5% and staying below trend growth in 2024 at 0.8%. We also expect inflation to move gradually lower due to the pass-through from lower commodity prices and weakening wage pressures. But we still forecast an average inflation in 2024 of 2.8% and thus above the 2% target. We project one more hike of 25bp from the ECB this month, taking the policy rate to 4.0% while we expect rate cuts to begin in summer 2024 driving rates to 3.25% by year-end.

**In the US, the economy has developed as well as one could have hoped for over the past months.** Growth is slowing moderately while the labour market is showing signs of cooling down gradually as needed to achieve a soft landing. Core inflation has clearly moderated with monthly momentum now close to 2% annualised. While we do project a soft landing scenario for the US with growth at 1.9% in 2023 and 0.6% in 2024, it is still too soon to celebrate. We still have not seen the full effects of the significant amount of rate hikes and there is a risk they hit harder once the full impact is felt. We believe the Fed is done tightening policy and starts cutting the fed funds rate in Q1 when inflation has fallen further and unemployment started to move higher. Lowering the policy rate does not imply a real easing of policy, though, as lower inflation expectations will keep the real rate from declining.

**Downside risks have been going up in China with the housing crisis intensifying once again over the summer and exports being in recession.** We have revised down our forecast to 4.8% growth this year from 5.8% three months ago and to 4.2% in 2024. However, we believe China has the tools to avoid a full-blown crisis and will use them to the extent necessary. In recent weeks, they have implemented stronger measures to support the housing market, Chinese consumers and infrastructure investments and we believe they will improve financing conditions for developers as well to fend off a new wave of defaults. With banks being largely state owned, the government has a large amount of control over lending and can mitigate a credit crunch scenario. Nevertheless, we do see the risks mainly skewed to the downside, which could for example be triggered by a 'run' on the shadow banking system, making things worse before necessary policy measures are implemented and take effect.

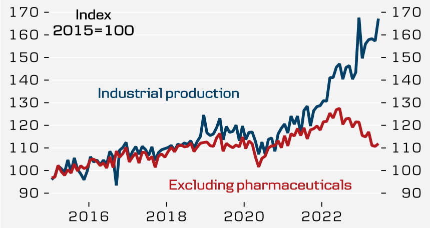
To sum up, we predict a global economy with slow growth over the next year but no recession. But we see a risk that the effects of monetary tightening could have a bigger effect than currently envisaged and trigger a less favourable outcome.

### Key points

- In our new *Nordic Outlook* published today, we continue to expect a modest slowdown in the Nordic countries, but have revised up GDP expectations for Denmark in light of Novo Nordisk's improved outlook, and revised down for Sweden in light of disappointing data for Q2.
- The US economy is developing as hoped for by the central bank, with inflation coming down and the labour market cooling without signs of the economy falling into recession, causing relief in equity markets.
- In the euro area, by contrast, indicators are pointing to recession here in H2, while inflation has not yet eased enough.
- Concerns over the Chinese economy are increasing. Growth is likely to slow down, but we expect a financial crisis to be avoided.

## Denmark

The Novo Nordisk effect

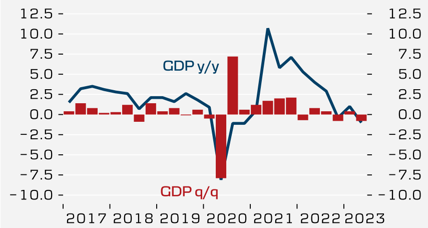



*Source: Statistics Denmark, Macrobond Financial*

GDP was 1.7% higher in the first half of 2023 compared to a year earlier, but excluding the pharmaceutical industry, it was 0.3% lower. The Danish economy resembles what we see elsewhere in Europe with stagnating GDP and still-low unemployment, but with the addition of the very successful Novo Nordisk, which is also adding to the current account surplus and hence helping to keep interest rates low relative to the euro area. Inflation has increased after the reintroduction of the electricity tax in July, but remains low compared to the euro area. House prices appear to have stabilised after declining 8% from the peak in 2022. We are concerned that there might be new declines over the coming year especially in the more expensive areas, as the increase in interest rates is not fully reflected yet.

## Sweden

GDP hovering around non-growth

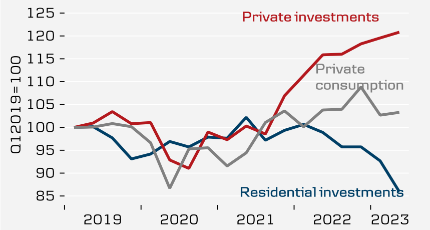



*Source: SCB, Macrobond Financial*

GDP for Q2 showed a smaller fall (-0.8% q/q seasonally adjusted) than earlier indicated. The economy is supported by the strong labour market where the employment rate is record high, and house prices have bottomed out as fundamentals look better now. The Riksbank is expected to hike 25bp in September and only when the inflation rate approaches two percent, which will only become relevant in the second quarter of 2024, is the Riksbank likely to lower the policy rate again. This is partly motivated by the weak SEK, where the EUR/SEK recently reached an all-time high at 11.96. The government announced that reforms in the budget will total SEK 40bn, and the budget will result in tightening fiscal policy. It is motivated to not disturb the Riksbank's efforts in fighting inflation.

## Norway

Higher interest rates affecting growth

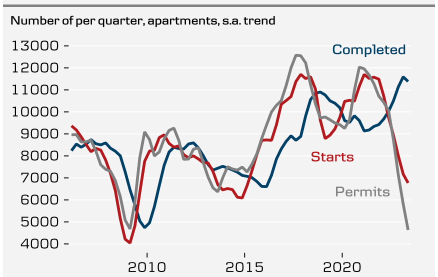



*Source: Macrobond Financial*

Mainland GDP was flat in Q2 after growth of just 0.2% in Q1, confirming a clear levelling off so far this year. Private consumption is no longer being propped up by spending on services and is now lower than a year ago. Add in the fact that households will probably see mortgage rates climb 75bp in Q3 and another 50bp in Q4, and the risk to growth is clearly to the downside. Housing investment is also struggling badly, as has been clear from housing starts for some time. On the other hand, there is still strong growth in business investment and oil investment is volatile but likely to make a solid contribution to growth in H2 and 2024. The slowdown is now gradually affecting the labour market and unemployment is rising moderately from low levels.

## Finland

Housing construction falling in H2




*Source: Macrobond Financial, Statistics Finland*

The Finnish economy is pushing slowly through a weak period. Despite better than expected H1, we expect the GDP to shrink 0.2% in 2023 as foggy outlook and headwinds from higher interest rates freeze consumption, housing construction and manufacturing investment. Unemployment rises in some industries, like construction, while others, like healthcare, suffer from labour shortage. Wages rise roughly 4% in 2023 and 2024. Consumer confidence is still below average, although early 2023 has brought some rebound. Higher interest rates continue to transmit into existing housing loans. Housing market has remained quiet but stable this year. Demand for housing loans has stayed flat at roughly 1/3 below normal. Housing prices could fall slightly more, but there is no pressure for a large price movement and pent-up demand is growing. Housing construction is going to fall significantly. There will be additional investment into domestic energy. The new conservative government tightens fiscal policy, but public deficit stays large in 2024.

## Currency markets

August was characterised by a broad strengthening of the USD on the back of wider rates spreads and a resilient US economy. This brought EUR/USD close to two percent lower towards the 1.08 level. In the other end of the spectre both NOK and SEK underperformed peers amid a repricing of the monetary policy outlooks (both Norges Bank and Riksbank), signs of weaker inflation impulses and general risk off appetite weighing on cyclically sensitive assets. CNY weakness was very pronounced in the beginning of August following Chinese growth concerns but has since partly reversed on amongst other things rising offshore costs of shorting the renminbi. The JPY has generally suffered from higher global yields and higher oil prices but has still done better than the Scandies, NZD and AUD over the last month. Finally, EUR/DKK has stayed above the 7.45 mark.

## Bond markets

High day-to-day volatility in yields continued in August and 10Y German yields moved up and down within a 25bp range between 2.42% to 2.67%. It was much the same story for the short end yields with a slightly narrower range. Hence, the market is still struggling to find the direction and level of yields going forward in a balancing act between still too high inflation and macro figures pointing towards slowdown. The pricing of next ECB meeting suggests higher likelihood of no hike than our expectation of a 25bp hike – hence, a hike could send yields higher. In Denmark, the refinancing auctions of flex bonds (DKK 30bn) and floater bonds (DKK 50bn) saw good demand overall with 1Y flex bonds widening 5bp in spreads – largely as expected. The floater bonds are still trading with a discount to flex bonds of close to 13bp – and this discount could be reduced going forward. Spreads on callable bonds traded also in a range during August and net supply ended higher than normal due to primarily subsidized housing loans take up of low coupons loans before these series closed end of August (the shift in callable series that happens every third year).

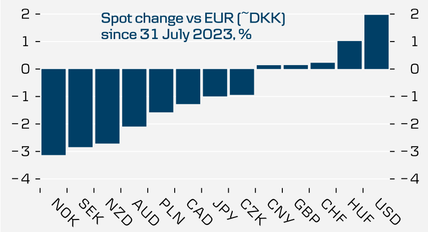
## Credit markets

Credit spreads have moved very mixed during August where synthetic indices widened quite markedly during the first three weeks of the month, but staging a strong comeback in the last part to finish the month only moderately wider than where they started. Meanwhile, cash bonds were supported by the seasonally low supply during the first part of August, but started widening as issuance picked up. Issuance activity has been high during the last week where particularly corporate issuers have been active. The AT1 (additional tier 1 bonds issued by banks) market attracted some attention during the month where Santander and ZKB decided to skip AT1 calls despite BNP, KBC and Intesa having shown the market is open for AT1 issuance though issuers have to pay interest rates on new AT1s in the 8-9.5% area. AT1 indices widened during the middle of August, but there has not been a fierce reaction since the non-call decisions.

## Equities

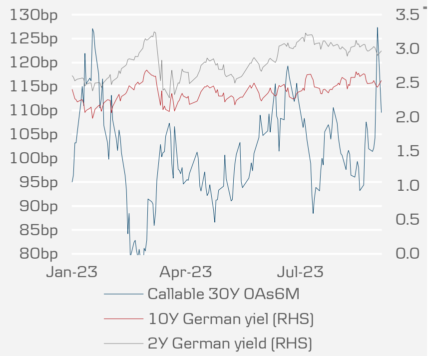
Equities continued to do well in August with a late month rally. Interestingly, part of that rally was triggered by weak macro prints taking yields lower. Hence, we are still in environment where bad data is perceived as good data. Equity investors are still fearful of high inflation and hawkish central banks. Earnings season came to an end during August and the conclusion was earnings being better than we and consensus was looking for. Q2 earnings results from consumer discretionary were particularly strong with an earnings surprise factor of 25%. Big part of this driven by sector giant Amazon, but even excluding Amazon, earnings beat was an impressive 15%.

**FX. Sorted spot returns vs EUR**



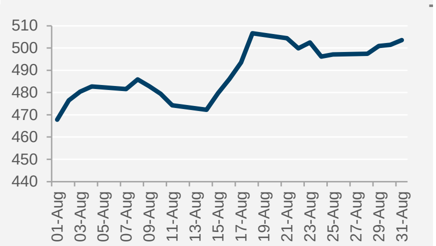

*Past performance is not a reliable indicator of current or future results. Source: Macrobond Financial*

**Volatile but directionless yields**



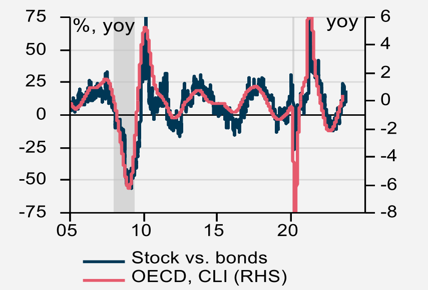

*Past performance is not a reliable indicator of current or future results. Source: Danske Bank*

**AT1 spreads wider (basis points)**



*Past performance is not a reliable indicator of current or future results. Source: Bloomberg*

**Equity markets performing better than suggested by macro**




*Past performance is not a reliable indicator of current or future results. Source: Refinitv*

## Names and contact information of analysts


| | | | |
|---|---|---|---|
| **Editor:** | | | |
| Las Olsen, *Chief Economist* | Denmark | +45 45 14 14 94 | laso@danskebank.com |
| | | | |
| Allan von Mehren, *Chief Analyst* | Global | +45 45 14 14 88 | alvo@danskebank.com |
| Michael Grahn, *Chief Economist* | Sweden | +46 8 568 807 00 | mika@danskebank.com |
| Frank Jullum, *Chief Economist* | Norway | +47 85 40 65 40 | fju@danskebank.com |
| Pasi Petteri Kuoppamäki, *Chief Economist* | Finland | +358 10 546 7715 | paku@danskebank.com |
| | | | |
| Kristoffer Lomholt, *Chief Analyst* | FX Research | +45 45 12 85 29 | klom@danskebank.com |
| Jan Weber Østergaard, *Chief Analyst* | Fixed Income Research | +45 45 13 07 89 | jast@danskebank.com |
| | | | |
| Mark Thybo Naur, *Senior Analyst* | Credit Research | +45 45 12 84 30 | mnau@danskebank.com |
| Bjarne Breinholt Thomsen, Senior Equity Strategist | Equities Research | +45 61 22 56 13 | bt@danskebank.com |

# 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[2] | Public budget[3] | Public debt[3] | Current acc.[3] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Denmark | 2022 | 2.7 | -1.6 | -2.8 | 3.2 | 10.8 | 6.5 | 7.7 | 3.6 | 2.6 | 3.4 | 29.7 | 13.0 |
| | 2023 | 1.7 | 0.1 | 0.2 | -5.2 | 6.7 | 0.8 | 4.0 | 4.3 | 2.9 | 2.1 | 27.7 | 12.5 |
| | 2024 | 1.2 | 1.6 | 1.5 | 0.7 | 1.7 | 1.7 | 3.2 | 5.6 | 3.2 | 1.0 | 26.0 | 12.5 |
| Sweden | 2022 | 2.9 | 1.9 | 0.0 | 6.2 | 7.0 | 9.3 | 8.4 | 2.5 | 7.5 | 0.7 | 31.0 | 3.7 |
| | 2023 | 0.0 | -1.6 | 2.2 | -0.9 | 2.5 | 0.7 | 8.4 | 4.0 | 7.5 | -0.4 | 29.0 | 4.7 |
| | 2024 | 1.7 | 1.7 | 1.5 | 2.0 | 3.0 | 2.9 | 1.8 | 3.3 | 7.8 | -0.8 | 29.0 | 4.7 |
| Norway | 2022 | 3.8 | 6.9 | 0.1 | 4.3 | 5.9 | 9.2 | 5.8 | 4.3 | 1.8 | - | - | - |
| | 2023 | 1.2 | -1.7 | 1.4 | 0.5 | 4.0 | 3.0 | 5.8 | 5.4 | 1.9 | - | - | - |
| | 2024 | 1.4 | 1.2 | 1.0 | 4.0 | 2.0 | 1.6 | 2.5 | 4.4 | 2.3 | - | - | - |

## 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[2] | Public budget[3] | Public debt[3] | Current acc.[3] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Euro area | 2022 | 3.4 | 4.5 | 1.4 | 3.0 | 7.3 | 8.2 | 8.4 | 3.1 | 6.7 | -3.6 | 91.5 | -0.9 |
| | 2023 | 0.5 | 0.1 | -0.7 | 0.5 | 1.7 | 1.0 | 5.5 | 5.3 | 6.5 | -3.2 | 90.0 | 1.3 |
| | 2024 | 0.8 | 1.1 | 1.0 | 0.5 | 2.0 | 2.0 | 2.6 | 4.5 | 6.8 | -2.6 | 89.1 | 1.7 |
| Finland | 2022 | 1.6 | 1.7 | 0.8 | 3.2 | 3.5 | 8.3 | 7.1 | 2.6 | 6.8 | -0.9 | 72.9 | -3.6 |
| | 2023 | -0.2 | -0.2 | 3.0 | -5.0 | -0.5 | -3.0 | 6.5 | 4.0 | 7.2 | -2.8 | 72.3 | -4.0 |
| | 2024 | 0.8 | 1.0 | 0.5 | 1.0 | 1.5 | 1.5 | 2.3 | 3.5 | 7.0 | -2.7 | 73.4 | -3.0 |

## 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[2] | Public budget[3] | Public debt[3] | Current acc.[3] |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| USA | 2022 | 2.1 | 2.7 | -0.6 | -0.2 | 7.1 | 8.1 | 8.0 | 5.3 | 3.6 | -5.5 | 123.3 | -3.9 |
| | 2023 | 1.9 | 1.9 | 3.5 | -0.7 | -0.3 | -4.2 | 4.0 | 4.1 | 3.6 | -5.4 | 123.6 | -3.1 |
| | 2024 | 0.6 | -0.2 | 2.7 | 3.2 | -4.0 | -1.3 | 2.1 | 3.2 | 4.1 | -5.8 | 125.4 | -2.8 |
| China | 2022 | 3.0 | 2.8 | - | 4.0 | - | - | 2.0 | - | 5.5 | -7.5 | 77.1 | 2.3 |
| | 2023 | 4.8 | 6.5 | - | 4.5 | - | - | 0.8 | - | 5.2 | -7.5 | 82.8 | 1.4 |
| | 2024 | 4.2 | 5.0 | - | 3.8 | - | - | 1.2 | - | 5.1 | -7.5 | 87.4 | 1.0 |
| UK | 2022 | 4.2 | - | - | - | - | - | 9.0 | - | 3.7 | - | - | - |
| | 2023 | 0.4 | - | - | - | - | - | 7.6 | - | 4.3 | - | - | - |
| | 2024 | 0.4 | - | - | - | - | - | 2.9 | - | 4.6 | - | - | - |

*Source: OECD and Danske Bank. 1) % y/y. 2) % of labour force. 3) % 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-Sep | 5.50 | - | 4.79 | 3.92 | 0.93 | - | 6.91 | 10.66 | 11.02 |
| | +3m | 5.50 | - | 4.51 | 3.72 | 0.93 | - | 6.96 | 11.03 | 10.75 |
| | +6m | 5.50 | - | 4.22 | 3.53 | 0.94 | - | 7.02 | 10.94 | 10.94 |
| | +12m | 5.00 | - | 3.85 | 3.35 | 0.97 | - | 7.23 | 10.87 | 11.36 |
| EUR | 04-Sep | 3.75 | 3.75 | 3.66 | 3.14 | - | 1.08 | 7.4528 | 11.50 | 11.89 |
| | +3m | 4.00 | 3.99 | 3.47 | 3.09 | - | 1.07 | 7.4450 | 11.80 | 11.50 |
| | +6m | 4.00 | 3.99 | 3.28 | 2.94 | - | 1.06 | 7.4450 | 11.60 | 11.60 |
| | +12m | 3.75 | 3.56 | 3.00 | 2.85 | - | 1.03 | 7.4500 | 11.20 | 11.70 |
| JPY | 04-Sep | -0.10 | - | - | - | 0.006 | 0.007 | 4.72 | 7.28 | 7.53 |
| | +3m | -0.10 | - | - | - | 0.007 | 0.007 | 4.90 | 7.77 | 7.57 |
| | +6m | 0.10 | - | - | - | 0.007 | 0.008 | 5.32 | 8.29 | 8.29 |
| | +12m | 0.10 | - | - | - | 0.007 | 0.008 | 5.56 | 8.36 | 8.74 |
| GBP* | 04-Sep | 5.25 | - | 5.50 | 4.39 | 1.17 | 1.08 | 8.72 | 13.45 | 13.91 |
| | +3m | 5.50 | - | 5.31 | 4.22 | 1.15 | 1.23 | 8.56 | 13.56 | 13.22 |
| | +6m | 5.50 | - | 4.97 | 4.09 | 1.14 | 1.20 | 8.46 | 13.18 | 13.18 |
| | +12m | 5.00 | - | 4.60 | 3.95 | 1.14 | 1.17 | 8.47 | 12.73 | 13.30 |
| CHF | 04-Sep | 1.75 | - | - | - | 1.05 | 1.13 | 7.81 | 12.05 | 12.46 |
| | +3m | 2.00 | - | - | - | 1.05 | 1.13 | 7.84 | 12.42 | 12.11 |
| | +6m | 2.00 | - | - | - | 1.06 | 1.13 | 7.92 | 12.34 | 12.34 |
| | +12m | 2.00 | - | - | - | 1.06 | 1.10 | 7.93 | 11.91 | 12.45 |
| DKK | 04-Sep | 3.35 | 3.80 | 3.77 | 3.27 | 0.134 | 0.145 | - | 1.54 | 1.60 |
| | +3m | 3.60 | 3.99 | 3.63 | 3.24 | 0.134 | 0.144 | - | 1.58 | 1.54 |
| | +6m | 3.60 | 4.00 | 3.43 | 3.09 | 0.134 | 0.142 | - | 1.56 | 1.56 |
| | +12m | 3.35 | 3.56 | 3.15 | 3.00 | 0.134 | 0.138 | - | 1.50 | 1.57 |
| SEK | 04-Sep | 3.75 | 4.01 | 3.95 | 3.24 | 0.084 | 0.091 | 0.63 | 0.97 | - |
| | +3m | 4.00 | 4.10 | 3.81 | 3.08 | 0.087 | 0.093 | 0.65 | 1.03 | - |
| | +6m | 4.00 | 3.81 | 3.35 | 2.88 | 0.086 | 0.091 | 0.64 | 1.00 | - |
| | +12m | 3.50 | 3.24 | 3.00 | 2.85 | 0.085 | 0.088 | 0.64 | 0.96 | - |
| NOK | 04-Sep | 0.00 | 4.76 | 4.92 | 4.13 | 0.087 | 0.094 | 0.65 | - | 1.03 |
| | +3m | 4.25 | 4.75 | 4.24 | 3.82 | 0.085 | 0.091 | 0.63 | - | 0.97 |
| | +6m | 4.25 | 4.75 | 3.98 | 3.63 | 0.086 | 0.091 | 0.64 | - | 1.00 |
| | +12m | 3.75 | 4.17 | 3.70 | 3.45 | 0.089 | 0.092 | 0.67 | - | 1.04 |

*Notes: GBP swaps are SONIA, USD swaps are SOFR

## Commodities

| | | 2023 | | | | 2024 | | | | Average | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 04-Sep | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | 2023 | 2024 |
| ICE Brent | 89 | 82 | 78 | 80 | 80 | 80 | 80 | 80 | 80 | 80 | 80 |

*Source Danske Bank*

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