

# Monthly Executive Briefing

## Economies are strong and inflation fears ease

**The western world continues moving closer to overcoming the COVID-19 crisis.** In the EU, cases are falling in most countries while restrictions are lifted. Vaccination pace has picked up with 35% of the population vaccinated. In the US, the situation continues to improve with hospitalisations at the lowest level during the pandemic, although the pace of vaccinations has declined. The situation is more critical in some emerging markets, notably India, but also here new cases are now declining. Vaccines also appear effective against known mutations, reducing the chance of renewed lockdowns in the fall.

**Momentum in global economy continues to be supported** by re-opening of economies and sizable fiscal stimulus in the US. US PMIs hit new record highs (data goes back to 2010) and the German ifo expectations rose further. Euro area consumer confidence rose sharply in May to the highest level since 2018. US "jobs plentiful" index is back to the high levels seen before the COVID crisis. The main barrier for job growth in the US right now is not the availability of jobs but rather that some people refraining from taking a job. However, when the extended benefits expire in September and the vaccine roll-out is complete in the coming months, we expect more people to take on available jobs.

**Inflation pressures are re-emerging.** US and Euro Area headline inflation crept higher in April driven by commodity prices and base effects. US Core inflation is also rebounding but increases were more muted in Europe. While the general view is that the inflation rate will fall later this year as base effects dissipate, risks that could keep inflation high include overheating in global manufacturing as well as sharp increases in commodity prices. Both factors could eventually lead to companies starting to pass on higher costs to consumers. For more details see our latest notes *Global Research: Global manufacturing heading for a hot (inflation) summer*, 12 May 2021 and *Global Research – The impact on inflation of a commodity super cycle*, 25 May 2021

**Fed and ECB continue to signal patience when it comes to tapering bond purchases.**

The Fed has highlighted that the US economy is still far away from normalisation and that current inflation pressures are temporary. We think that the tapering discussion will be launched at the September meeting. ECB is sticking to the same view with ECB member Francois Villeroy at Danske Bank's Nordic Summit on 25 May stroking a dovish tone by saying "let me be crystal-clear: any hypothesis of a reduction of purchases partly for the third quarter or the following quarters is purely speculative". However, other central banks, such as in Hungary, Czech Republic, New Zealand and Norway, are communicating monetary tightening amid economic rebound and inflation pressures.

**Despite the strong data, reflation trades have taken a break.** US yields and equities have moved sideways. In Europe yields have climbed higher. Oil prices remain in the upper 60s to the USD, copper prices have drifted lower and iron ore prices took a dive. Inflation expectations have declined in both the US and the euro area. Investors appear positioned for the reflation theme already, making it hard for markets to go much further for now. In the medium term we still look for higher bond yields once the service sector becomes the driver of growth and job creation picks up, see also *Yield Outlook: Inflation = higher rates and yields*, 11 May 2021. We are still constructive on equities, although returns may be lower from here given higher valuations and a peak in the cycle in H2.

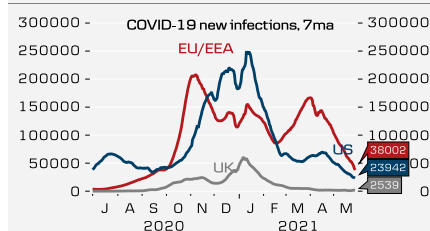
### Key points

- The western world continues moving closer to overcoming the COVID-19 crisis.
- Momentum in global economy remains strong both in the manufacturing and services.
- Inflation pressures are re-emerging due to base-effects and commodity price increases.
- Both the Fed and ECB continue to signal patience when it comes to tapering bond purchases.
- Despite generally strong data, reflation trades have in general taken a break over the past month

### Other readings

- *Global Research: The impact of a commodity super cycle*, 26 May 2021
- *FX Strategy: Strong manufacturing keeping dollar on weak footing*, 25 May 2021
- *Global Research: Global manufacturing heading for a hot (inflation) summer*, 12 May 2021

### Waning COVID-19 crisis



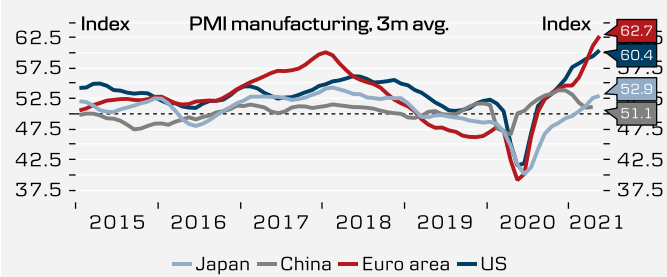
Source: WHO, Macrobond Financial

#### Chief Analyst

Jakob Ekholdt Christensen  
+45 30 58 4714  
jakc@danskebank.dk

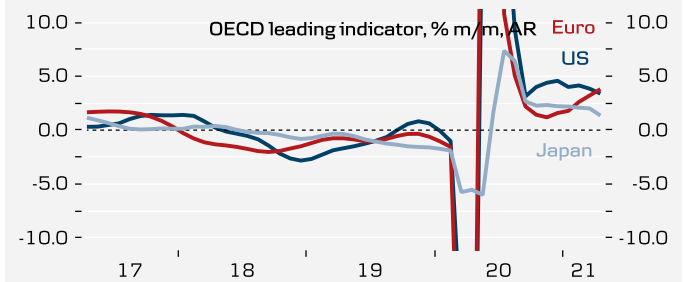
# Macro charts overview

## Global PMI manufacturing



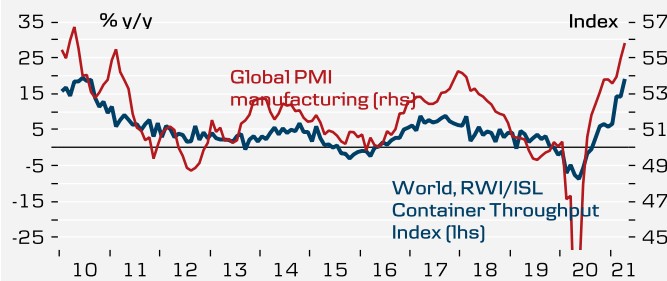
Source: Markit, Macrobond Financial

## OECD leading indicator



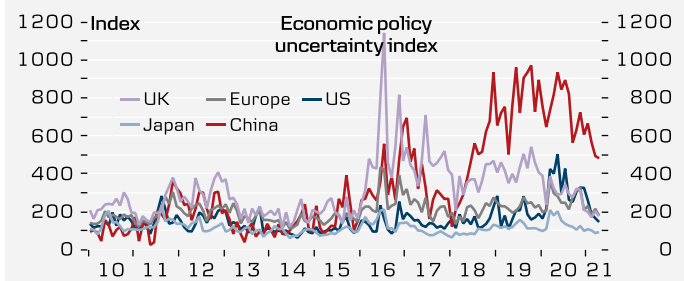
Source: OECD, Macrobond Financial

## Global trade growth vs global PMI manufacturing



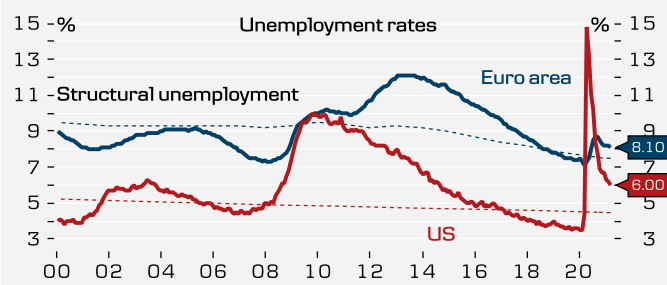
Source: Markit, RWI/ISL, Macrobond Financial

## Economic policy uncertainty index



Source: Policy Uncertainty, Macrobond Financial

## Unemployment rates



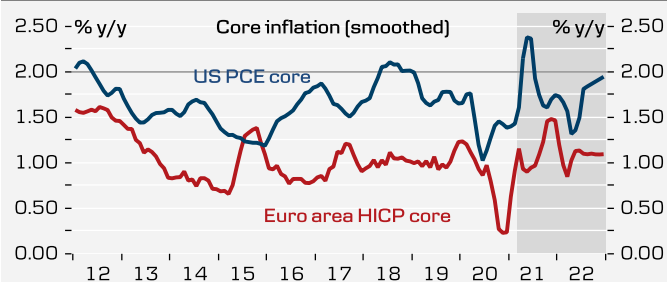
Source: BLS, Eurostat, Macrobond Financial

## Wage growth



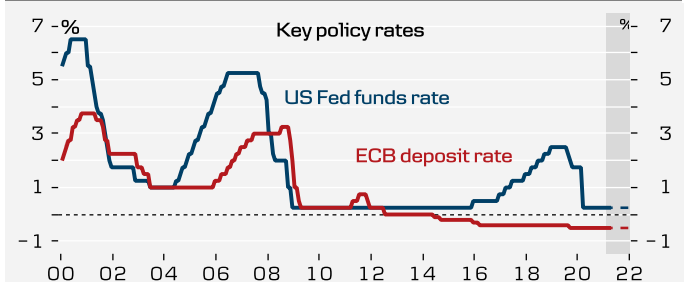
Source: BLS, ECB, Macrobond Financial

## Inflation rates



Source: IHS Markit, Macrobond Financial, Danske Bank estimates

## Policy rates



Source: ECB, Federal Reserve, Danske Bank estimates

## Disclosures

This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Jakob Ekholdt Christensen, Chief Analyst.

### Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

### Regulation

Danske Bank is authorised and subject to regulation by the Danish Financial Supervisory Authority and is subject to the rules and regulation of the relevant regulators in all other jurisdictions where it conducts business. Danske Bank is subject to limited regulation by the Financial Conduct Authority and the Prudential Regulation Authority (UK). Details on the extent of the regulation by the Financial Conduct Authority and the Prudential Regulation Authority are available from Danske Bank on request.

Danske Bank's research reports are prepared in accordance with the recommendations of the Danish Securities Dealers Association.

### Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are organised independently from, and do not report to, other business areas within Danske Bank.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

### Financial models and/or methodology used in this research report

Calculations and presentations in this research report are based on standard econometric tools and methodology as well as publicly available statistics for each individual security, issuer and/or country. Documentation can be obtained from the authors on request.

### Risk warning

Major risks connected with recommendations or opinions in this research report, including as sensitivity analysis of relevant assumptions, are stated throughout the text.

### Expected updates

Monthly.

### Date of first publication

See the front page of this research report for the date of first publication.

## General disclaimer

This research report has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

The research report has been prepared independently and solely on the basis of publicly available information that Danske Bank considers to be reliable. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation is made as to its accuracy or completeness and Danske Bank, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts responsible for the research report and reflect their judgement as of the date hereof. These opinions are subject to change and Danske Bank does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided herein.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom or the United States.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank's prior written consent.

## Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/A, pursuant to SEC Rule 15a-6 and related

interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank who have prepared this research report are not registered or qualified as research analysts with the NYSE or FINRA but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

**Report completed:** 1 June 2021, 15:00 CET

**Report first disseminated:** 1 June 2021, 17:05 CET