6 May 2013

Global Macro Views

US soft patch set to be short

Global recovery moderating as US hits soft patch

- In our *Global Macro Views* in February, we highlighted the outlook for a US soft patch. This is now materialising. However, we expect the **US soft patch to be fairly short** due to positive inventory dynamics, the recent decline in gasoline prices and healthy underlying fundamentals. Our US forecast is above consensus.
- Soft Q1 GDP data for China and weaker PMI have cast some doubt over the recovery. **We continue to expect a gradual improvement in China** but have lowered our growth forecast for 2013 by 0.2 percentage points to 8.0%.
- In the **euro area we look for weaker growth than consensus in 2013 at -0.6% (consensus -0.4%).** While PMI should rise from current low levels, the improvement will be slow and fragile.
- **Oil prices have fallen sharply to their lowest levels since summer 2012**. This is positive for the advanced economies and supports the case for a *short* soft patch.

Markets prepared for temporary slowdown

- **While growth is slowing down, we believe the markets and investor positioning broadly reflect this**. Macro tail risks are generally low at the moment as Italian political tensions have eased and massive liquidity is giving support to risk assets. As we approach the summer, the US debt ceiling may raise uncertainty.
- Economic surprise indices have declined in all regions recently with the euro area and China seeing the biggest disappointments. Data may disappoint further in the short term but **surprise indices are expected to edge higher during the summer**.

What to watch

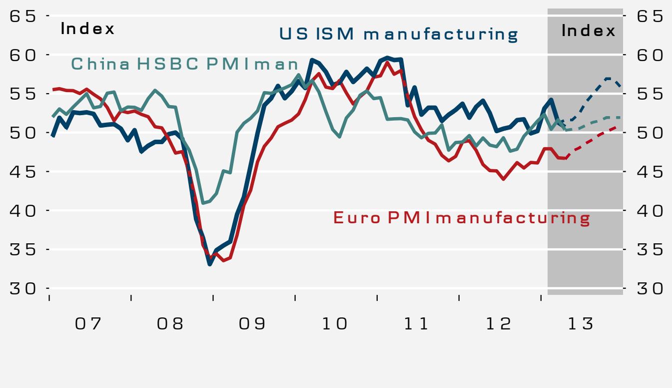
Increase of US debt ceiling in July: will likely get in focus during June

Development in French economy: continued weakness could hold back euro recovery

Oil prices: how much support will global recovery get from fall in oil prices?

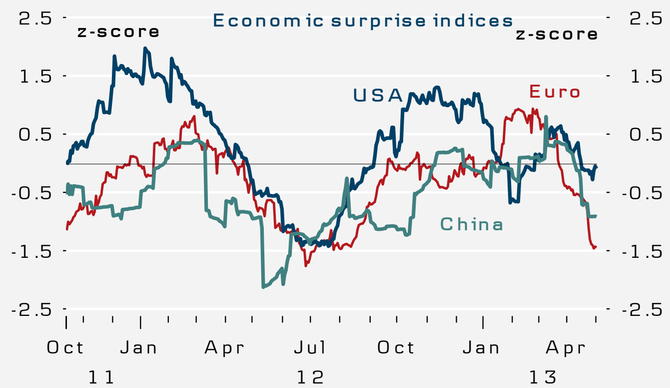
Source: Danske Bank Markets

PMI data to grind higher over the summer



Source: Reuters EcoWin, Danske Bank Markets

Economic surprises reaching low levels in euro and China



Source: Reuters EcoWin, Danske Bank Markets

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US: Soft patch but no more than that

- As highlighted in this publication in February, we expected the US to hit a soft patch caused by the 1 January fiscal cliff deal. This has materialised, as fiscal tightening is starting to bite on economic growth. The March retail sales report suggests that consumers are finally reacting to the negative income shock imposed in January. Weakness is also evident outside private consumption with the ISM plunging to 50.7 and the non-manufacturing ISM slowing to 53.1. The weakness could last for a couple of months more as consumers adjust consumption and businesses react to lower demand.
- Looking further ahead, we expect the weakness to be short-lived and the underlying recovery to remain intact. The fiscal blow to growth is significant but the growth impact should peak this quarter. Importantly, businesses have been running lean inventories despite strong growth in Q1 and fundamentals such as bank credit, household debt levels, housing market balances and interest rates remain supportive. The recent decline in commodity prices is also an important tailwind.
- The risk is that the current loss in global growth momentum fuels a negative feed-back loop between demand and the labour market as we experienced last year. However, with the latest revision of US job growth, that risk seems smaller than just one week ago.
- Talk about scaling back QE this year was temporary silenced and markets pushed expectations for a scale-back into next year. After Friday's report, this is now back at the agenda. We recommend to position for a rebound in growth in H2 13. We expect job growth above 200,000 in H2 and believe the Fed will ultimately decide to scale down its asset purchases this year, most likely in December.

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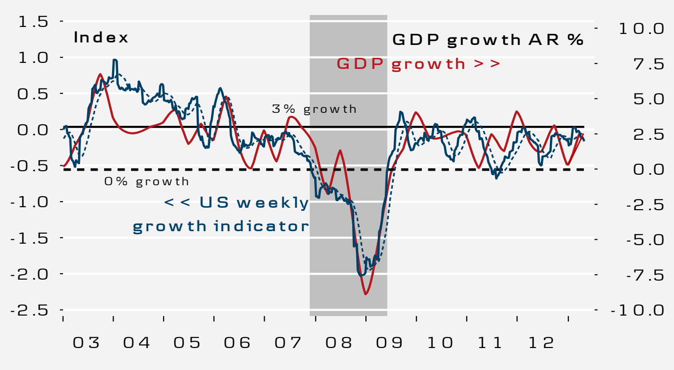
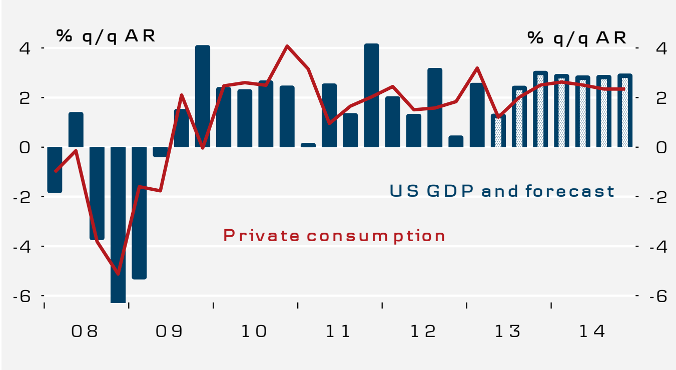
Short-term GDP indicator



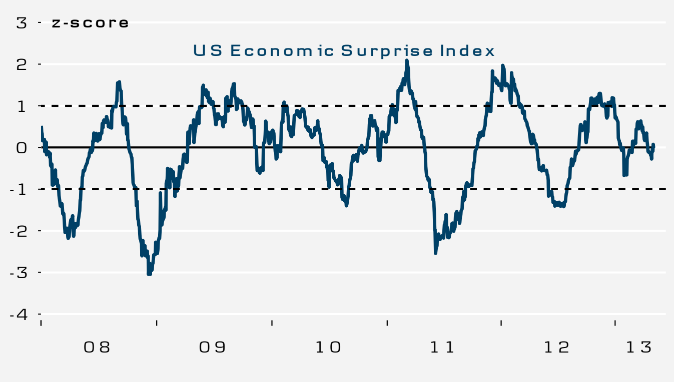
Source: Reuters EcoWin, Danske Bank Markets

Quarterly GDP profile



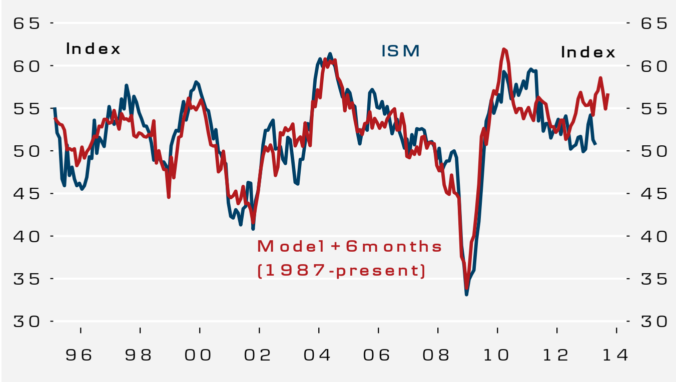
Source: Reuters EcoWin, Danske Bank Markets

US economic surprise index



Source: Reuters EcoWin, Danske Bank Markets

ISM model



Source: Reuters EcoWin, Danske Bank Markets

Euro area: Weaker outlook in the 'core'

- We have lowered our growth outlook slightly to -0.6% (consensus -0.4%) in 2013 and 1.0% (consensus 1.0%) in 2014 and we continue to see downside risk to growth. Soft indicators were weaker than expected in Q1 and our soft data model points to a contraction in GDP of 0.25% q/q. The weakness is less pronounced in recent hard data.
- The medium-term recovery in the euro area is largely dependent on the global outlook, which also seems to be more mixed. The downside risk to our expectations of a stabilisation in Q2 has increased. However, most of our models still signal a return to growth in the medium term.
- The weakness in the overall euro area economy reflects a more fragile outlook for the 'core' countries. Soft indicators for France and the Netherlands signal a deep downturn while Germany is sliding back into recessionary territory. Many euro area countries are struggling to reduce their budget deficit and the weak growth outlook is likely to result in less fiscal tightening than planned and a shift towards more growth-promoting policies.
- At the ECB meeting in May, the ECB cut the refi rate by 25bp to 0.5% and kept the deposit rate unchanged at 0.0%. Draghi does not seem to be ruling out lower or negative rates, as he said the ECB has an open mind with regard to negative deposit rates. We believe rate cuts have come to an end, even though Draghi has opened the door. Instead of cuts we expect an instrument for SMEs but it does not seem likely that it will be announced any time soon.

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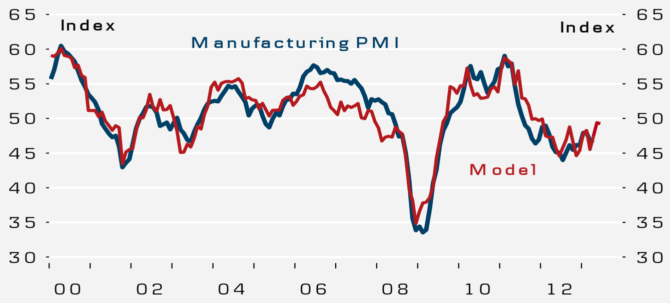
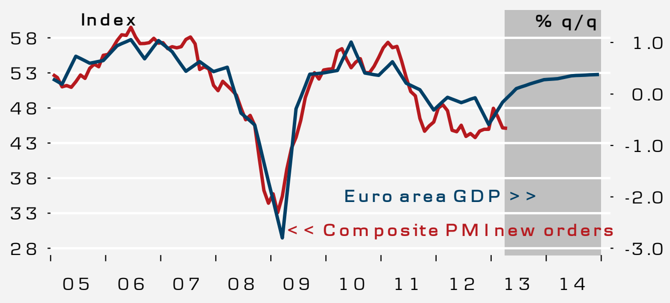
PMI model



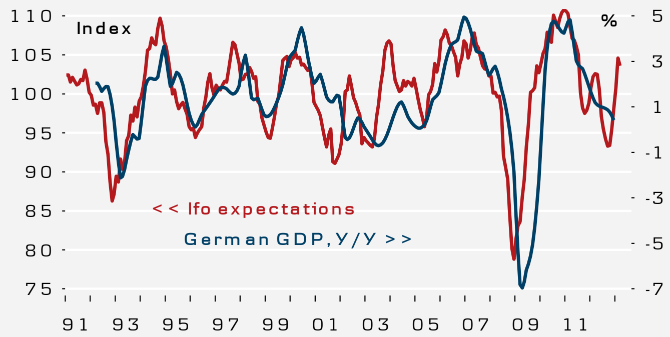
Source: Reuters EcoWin

Euro: GDP outlook



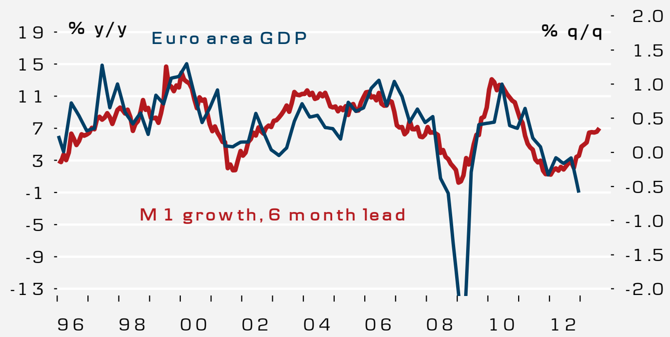
Source: Markit, Reuters EcoWin

German Ifo expectations and GDP



Source: Reuters EcoWin

Money growth and GDP



Source: Reuters EcoWin

China: Recovery weaker than expected

- Chinese economic data has generally painted a softer picture of the economy than we expected. As a consequence we revise down our growth forecast to 8.0% in 2013 and 8.2% in 2014 (previously 8.2% and 8.4%, respectively).
- We still look for a moderate recovery in China, though, with growth peaking in Q3 13. Chinese PMI manufacturing should be flattish in the short term around 50.5 followed by a gradual rise over the summer to reach a level of 52 in the autumn.
- Money and credit growth has continued to rise and typically leads the business cycle. A pick-up in home sales also suggests that construction activity should pick up slightly in coming quarters.
- On top of higher construction activity, we expect export growth to recover somewhat in Q3 as the US rebounds from its soft patch.
- Inflation has fallen to 2.5% and if anything risk is to the downside going forward as global food prices have declined. Hence China is likely to undershoot its target of 3.5% inflation in 2013.
- Policy-wise the economic weakness is not severe enough to force the Chinese government into new stimulus but tightening of fiscal and monetary policy later in 2013 appears to be off the table.

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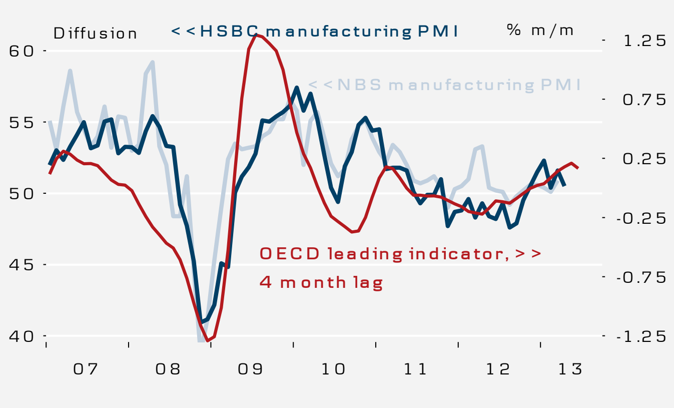
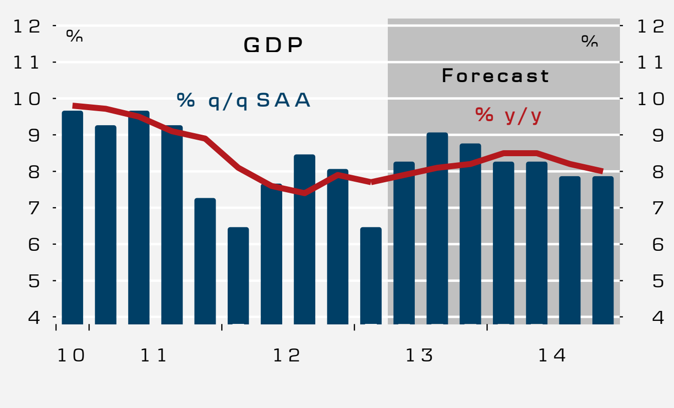
Leading indicator points to continued slow recovery



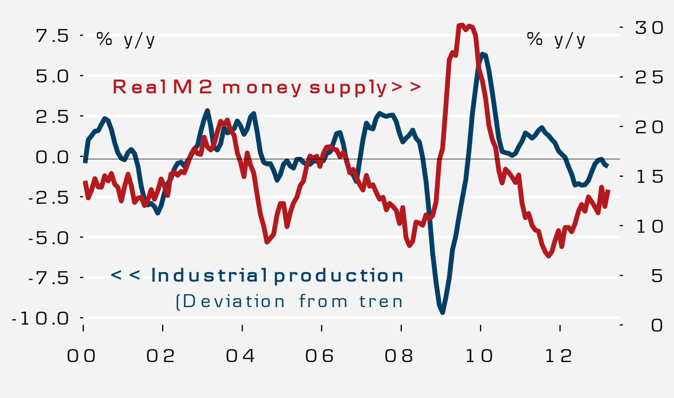
Source: Markit, Reuters EcoWin

We look for GDP growth to rise in coming quarters



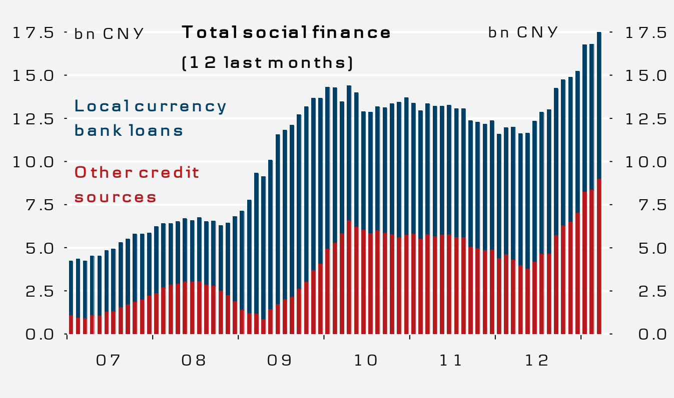
Source: Reuters EcoWin

Money growth supports case for gradual improvement



Source: Markit, Reuters EcoWin

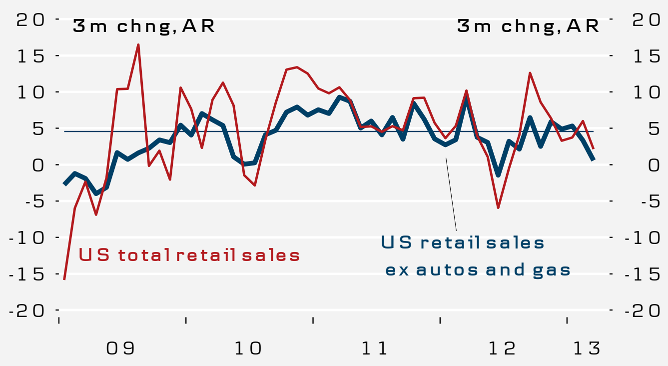
Chinese credit keeps expanding at fast pace – positive for growth short term but raises risks of financial imbalances



Source: Markit, Reuters EcoWin

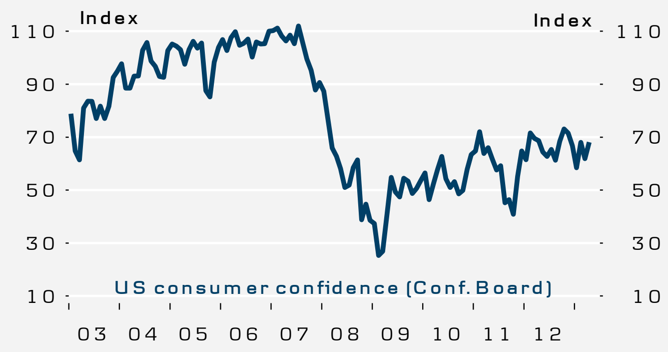
Key trends to watch in coming months

US retail sales in a soft period



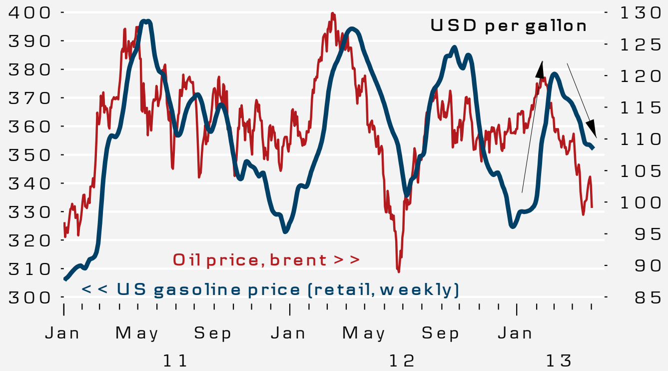
Source: Reuters EcoWin

US consumer sentiment holding up well



Source: Reuters EcoWin

Sharp oil price decline to give relief to consumers

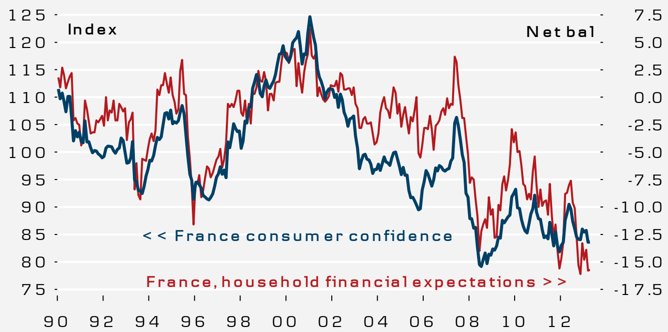


Source: Reuters EcoWin

Downtrend in US jobless claims suggests moderate soft patch

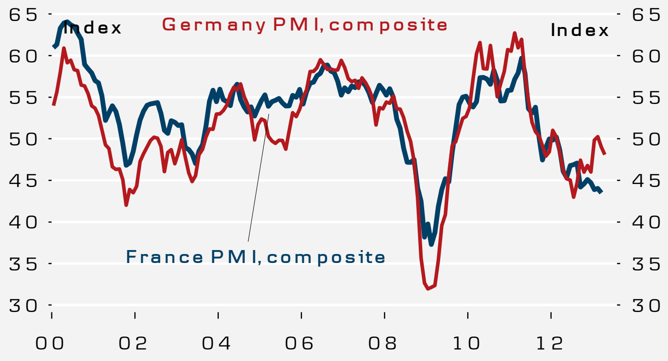
Source: Reuters EcoWin

French consumers still very downbeat



Source: Reuters EcoWin

French PMI still extremely weak



Source: Reuters EcoWin

Global GDP forecasts

% y/y	2013 Danske Bank	2013 Consensus	2014 Danske Bank	2014 Consensus
USA	2.3	2.0	2.8	2.7
Euro area	-0.6	-0.4	1.0	1.0
Japan	1.6	1.3	1.1	1.3
China	8.0	8.0	8.2	8.0
Global	3.6	3.4	3.9	3.8

Source: Danske Bank Markets, Bloomberg

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