



Week Ahead

10 May – 16 May



Nordea Research, 9 May 2014

Next week's key events

- **US**

We expect CPI headline inflation to continue upwards with a jump from 1.5% y/y in March to 1.9% in April, mainly due to base effects related to a sharp drop in energy prices in April last year.

- **Euro area**

We expect GDP to have grown by 0.4% q/q in Q1, in line with consensus. Industrial production (Wednesday) is likely to have shrank (-0.2% m/m). The flash estimate for Euro-area inflation should be confirmed (0.7% y/y). We expect German ZEW expectations to decline again, driven by the uncertainty about Ukraine/Russia.

- **UK**

Inflation has fallen sharply to 1.6% in March and will stay below the inflation target a good while. We expect the BoE to revise down their inflation forecast.

- **Sweden**

We forecast CPI inflation at 0.3% m/m in April, translating into -0.1% y/y – an uptick from -0.6% in March.

- **Norway**

Wednesday May 14, the Government will present its Revised Budget for 2014. Norway got a new Government last fall that inherited the outgoing Government's budget. The revisions may therefore be larger this time than we have been used to the last years.

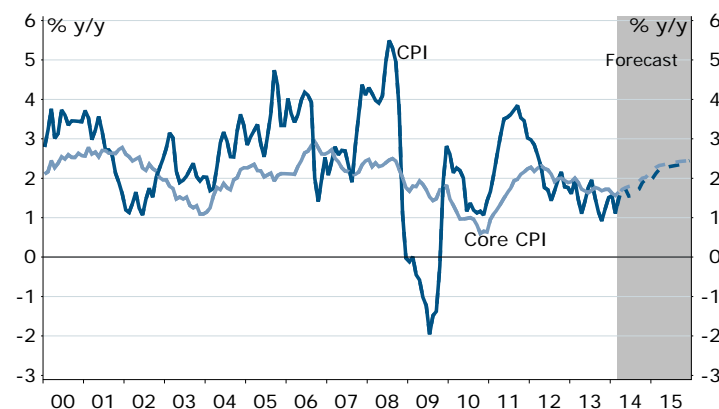
- **Japan**

We expect the Japanese economy to post a strong growth record in Q1, at 4.9% annualised q/q.

US: CPI inflation to move close to the 2% target (*Thu.*)

- We expect CPI headline inflation to continue upwards with a jump from 1.5% y/y in March to 1.9% in April, mainly due to base effects related to a sharp drop in energy prices in April last year. The consensus forecast is 2.0%. The recent low was 1.0% in October.
- The core rate should remain stable at 1.7%, in line with the consensus forecast.
- If CPI inflation in fact moves close to the Fed's 2% target next week, it could cause markets to price in more and earlier rate hikes from the Fed.
- Going forward, we expect CPI inflation to move slightly lower in the next couple of months before a renewed rebound to around 2% in late 2014. The pickup is expected to be led by rents and, with a lag, some pressures from stronger wage increases.

	Nordea	Consensus	Previous
CPI, % y/y	1.9	2.0	1.5
Core CPI, % y/y	1.7	1.7	1.7



Source: Nordea Markets and Reuters Ecowin

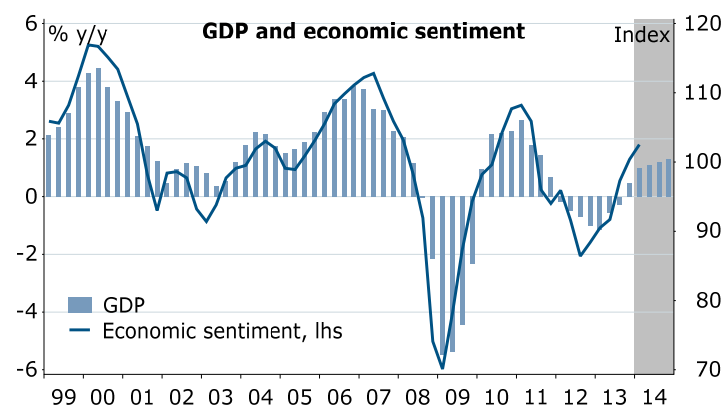
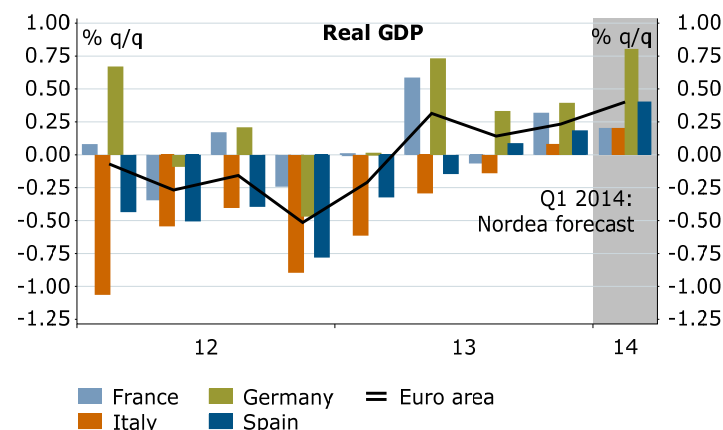


Source: Nordea Markets and Reuters Ecowin

Euro area: GDP (*Thursday*)

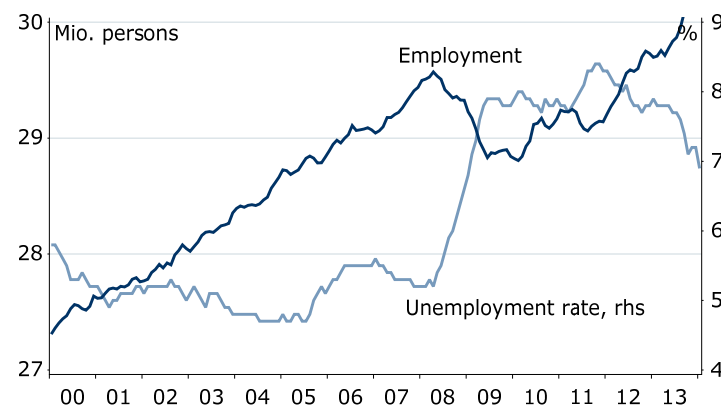
- Q1 numbers are due for most member countries and the aggregate. For the Euro area as a whole, we expect a slight acceleration to 0.4% over the quarter which is in line with consensus.
- There are preliminary 0.4% estimates out both for Spain and Belgium. We penciled in a strong 0.8% q/q for Germany, where mild winter weather came on top of a healthy underlying trend. For both France and Italy, our (cautious) take is 0.2% q/q.
- Any upside surprise should not be taken as the new trend – conditions for that are just not in place. A 0.2% reading would increase doubts about the sustainability of the recovery and might play a role for the ECB.
- Outlook: We expect the moderate recovery to go on, but growth in Q2 will probably be slightly weaker than Q1 that ended on a weaker note for industrial production.

Q1 2014	Nordea	Consensus	Previous
Euro area flash GDP % q/q	0.4	0.4	0.2

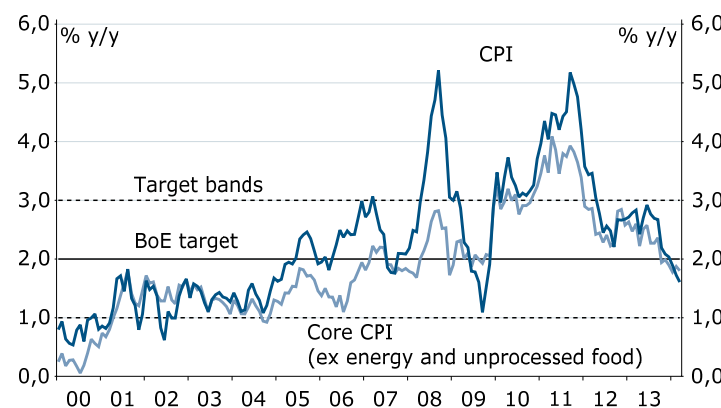


BoE: To revise down inflation forecast (*Wednesday*)

- The BoE's inflation report will include its new growth and inflation forecasts as well as an update on its view of labour market spare capacity.
- The UK economy continues to gain momentum with falling unemployment (6.9% in February) and rapidly raising house prices but the inflation stays below the target.
- The strengthening of the labour market continues, but we expect the unemployment rate to fall in a slower pace onwards.
- The degree of **spare capacity** ranged between 1.0-1.5% of GDP in the February inflation report and will probably stay within this range.
- **Inflation** has fallen sharply to 1.6% in March and will stay below the inflation target a good while. We expect the BoE to revise down their inflation forecast.
- Surprisingly strong business surveys and consumer confidence suggest that the BoE will revise the near term **growth forecast** upwards.
- Markets are currently pricing the first full rate hike in Q1 2015. We believe that the **low inflation eases pressures on the BoE to hike rates** and our forecast is still a first rate hike in Q2 next year.



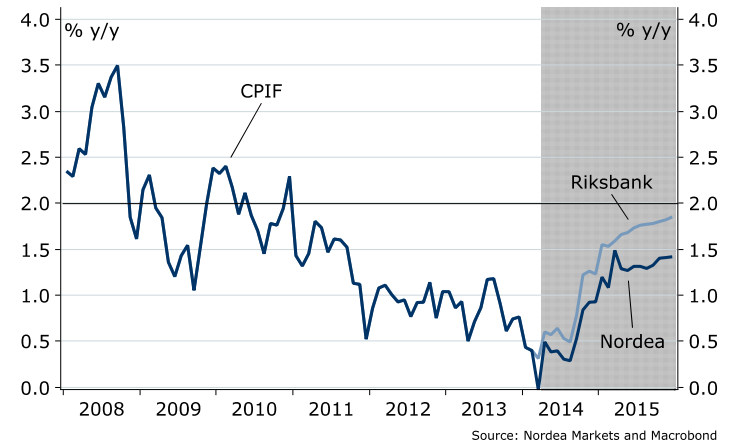
Source: Nordea Markets and Reuters Ecowin



Source: Nordea Markets and Reuters Ecowin

Sweden: Less low inflation (*Tuesday*)

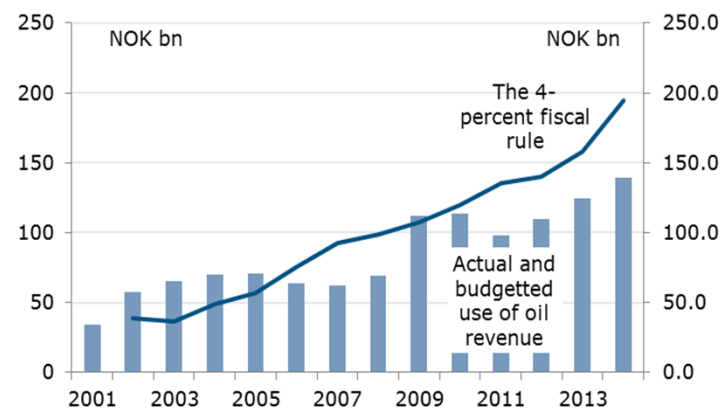
- We forecast CPI inflation at 0.3% m/m in April, translating into -0.1% y/y – an uptick from -0.6% in March.
- The CPIF reading is also higher at 0.5% y/y in April versus the surprisingly low zero level in March.
- If our forecast is correct, the deviation versus the Riksbank's April forecast will narrow to 0.1% point from last month's 0.3% point. Still, the Riksbank is under pressure to keep the credibility of the inflation target intact. Although the zero reading in March probably marked the bottom of CPIF inflation during this economic cycle, we do not think it will climb higher than about 0.5% until September this year (see chart).
- Hence, much indicates that the Riksbank will continue to struggle with very low inflation going forward. This supports an already clear picture of a rate cut in July and we cannot rule out that the rate path will have a bias for further easing.



	Nordea	Riksbank	Prior
CPI m/m	0.3		0.0
CPI y/y	-0.1	0.0	-0.6
CPIF m/m	0.4		0.1
CPIF y/y	0.5	0.6	0.0
CPI, index	313.72		312.68

Norway: Probably more expansionary fiscal policy(Thu.)

- Wednesday May 14, the Government will present its Revised Budget for 2014. There is usually very limited reactions in the market to revised budgets, even in when significant changes are made.
- Norway got a new Government last fall that inherited the outgoing Government's budget. The revisions may therefore be larger this time than we have been used to the last years.
- The new Government, subscribes to the Fiscal Rule saying that the real return (defined to be 4 percent) on the Oil Fund may over time be used in the annual budgets. In downturns, more oil revenue may be used and in upturns less. Last fall, the outgoing Government presented a budget for 2014 using oil revenue corresponding to 2.9 percent of the Oil Fund. The new Government made some quick amendments to the budget, but stuck to 2,9 percent number for use of oil revenue.

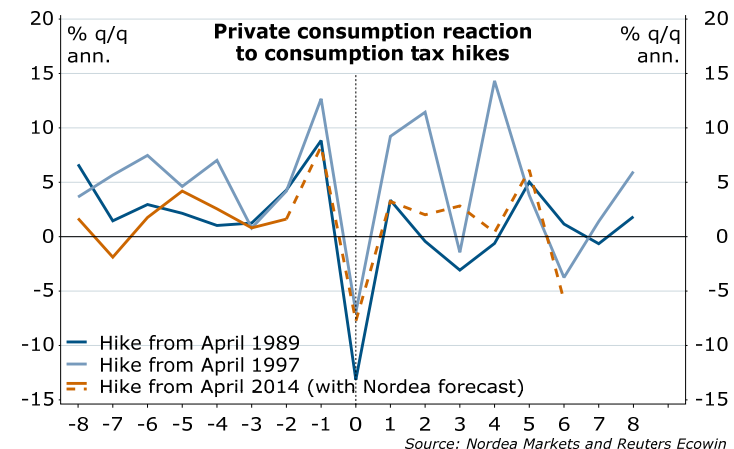
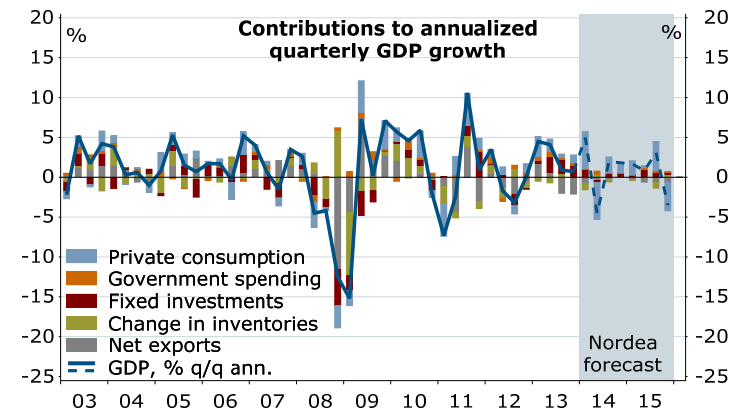


Source:

- By the end of 2013, the Oil Fund proved to become nearly NOK 200bn larger than assumed by the new Government. In the revised budget to be presented on May 14th, the Government may continue to stick to 2,9 percent limit. But because the Oil Fund became larger, this would give room for an extra use of oil revenue of NOK 7 bn. The budget will then become somewhat more expansionary (about 0,3 %points of underlying mainland GDP) than adopted last fall. Somewhat weaker economic growth in 2014 than forecasted last fall may be used to justify a more expansionary budget.

Japan: GDP (Wednesday)

- We expect the Japanese economy to post a strong growth record in Q1, at 4.9% annualised q/q.
- According to our projections, private consumption will likely contribute 4.6%-points to growth. Higher frequency data showed that consumers have frontloaded purchase of durable goods in the months ahead of the planned sales tax hike to 8%.
- The robust growth number in Q1 is only temporary and will be offset by a large contraction in Q2.
- In order to achieve a self-sustaining recovery, structural reform is a necessary ingredient to improve earnings not only for the large companies, but also smaller firms, who employ 70% of the labour force.
- Without this element, real wage will continue falling and hurt consumer sentiment. Corporations would rather invest abroad than domestically.
- So far the government's reform progress has been disappointing. Thus we remain cautious on Japan's outlook and maintain our 2014 forecast to 1.3%.



Calendar

Monday 12. May 2014				Nordea	Consensus	Actual	Prior
09:00	CZ	CPI (y/y)	Apr		0.3%		0.2%
09:00	DK	CPI (m/m)	Apr	0.2%			0.1%
09:00	DK	CPI (y/y)	Apr	0.8%			0.4%
09:00	DK	CPI, EU harmonized (m/m)	Apr				0.2%
09:00	DK	CPI, EU harmonized (y/y)	Apr				0.2%
14:00	RU	Trade balance (USD)	Mar		18.0bn		12.4bn
16:00	US	Mortgage foreclosures	Q1				2.86%
Tuesday 13. May 2014				Nordea	Consensus	Actual	Prior
03:00	CN	Industrial production (y/y)	Apr		8.9%		8.8%
03:00	CN	Retail sales (y/y)	Apr		12.2%		12.2%
09:00	HU	CPI (y/y)	Apr		0.2%		0.1%
09:30	SE	CPI (m/m)	Apr	0.3%			0.0%
09:30	SE	CPI (y/y)	Apr	-0.1%			-0.6%
09:30	SE	CPIF (m/m)	Apr	0.4%			0.1%
09:30	SE	CPIF (y/y)	Apr	0.5%			0.0%
09:30	SE	Unemployment labourforce survey (AKU)	Q1				7.4%
11:00	DE	ZEW, current situation	May	57.0	60.0		59.5
11:00	DE	ZEW, economic sentiment	May	42.0	44.5		43.2
14:30	US	Import prices (m/m)	Apr		0.4%		0.6%
14:30	US	Retail sales (m/m)	Apr		0.3%		1.1%
14:30	US	Retail sales, ex auto and gas (m/m)	Apr		0.4%		1.0%
16:00	US	Business inventories (m/m)	Mar		0.4%		0.4%
17:30	SE	Riksbank's Ekholm presentation on Swedish economy after the recent crises					
Wednesday 14. May 2014				Nordea	Consensus	Actual	Prior
08:00	SE	Prospera, inflation expectations survey, money market					
08:30	IN	Wholesale price inflation (y/y)	Apr				5.70%
08:45	FR	HICP (m/m)	Apr	-0.1%			0.4%
08:45	FR	HICP (y/y)	Apr	0.7%			0.6%
10:30	GB	Earnings, ex bonus, average (3mma, y/y)	Mar		1.5%		1.4%
10:30	GB	Unemployment rate, claimant count	Apr		3.3%		3.4%
11:00	EU	Industrial production (sa, m/m)	Mar	-0.2%			0.2%
11:00	EU	Industrial production (wda, y/y)	Mar	1.0%			1.7%
11:30	GB	BoE publish inflation report	May				
13:00	US	Mortgage applications, MBA	May				5.3%
14:00	PL	CPI (y/y)	Apr		0.7%		0.7%
14:00	SE	Riksbank's Flodén: "The low rate of inflation", published					

Calendar

Thursday 15. May 2014				Nordea	Consensus	Actual	Prior
00:50	JP	GDP (q/q annualised, preliminary)	Q1		4.2%		0.7%
00:50	JP	GDP (q/q, preliminary)	Q1		1.0%		0.2%
03:00	CN	Money supply, M2 (y/y) (Exp 10- 15 May)	Apr		12.2%		12.1%
08:00	DE	GDP (sa, q/q, preliminary)	Q1	0.8%	0.7%		0.4%
08:00	DE	GDP (wda, y/y, preliminary)	Q1	2.2%			1.4%
08:00	SE	House prices, Mäklarstatistik (y/y)	Apr				
08:00	SE	The Swedish FSA publish their annual Consumer Report					
08:45	FR	GDP (q/q, preliminary)	Q1	0.2%			0.3%
09:00	CZ	GDP (y/y, advance)	Q1		2.3%		1.2%
09:00	HU	GDP (sa, q/q, preliminary)	Q1		0.7%		0.5%
09:00	HU	GDP (y/y, preliminary)	Q1		2.5%		2.7%
09:30	SE	Industrial production (q/q)	Q1				
10:00	EU	ECB publishes monthly report					
10:00	NO	Exports, traditional, volume (q/q)	Apr				
10:00	NO	Foreign trade with goods (bn)	Q1				31,4 bn
10:00	NO	Introduction to hearing in Norwegian Parliament by Norges Bank Governor Olsen					
10:00	PL	GDP (y/y, preliminary)	Q1		3.1%		2.7%
10:30	SE	Riksbank's risk survey spring 2014, published					
11:00	EU	GDP (sa, y/y, preliminary)	Q1	0.4%			0.5%
11:00	EU	HICP (m/m)	Apr	0.2%			0.9%
11:00	EU	HICP (y/y)	Apr	0.7%	0.7%		
14:00	PL	CPI core, ex food and energy (y/y)	Apr				1.1%
14:00	PL	Trade balance (EUR)	Mar		- 265m		179m
14:30	US	CPI (m/m)	Apr		0.3%		0.2%
14:30	US	CPI (y/y)	Apr		2.0%		1.5%
15:00	US	TIC flows, net total	Mar				167.7B
15:15	US	Industrial production (m/m)	Apr		0.1%		0.7%
16:00	US	Philadelphia Fed	May		13.5		16.6
Friday 16. May 2014				Nordea	Consensus	Actual	Prior
11:00	EU	Trade balance, sa	Mar				15.0bn
13:00	RU	GDP indicator (Exp 15- 16 May)	Q1		0.8%		2.0%
14:30	US	Building permits	Apr				990k
14:30	US	Housing starts (m/m)	Apr				2.8%
15:55	US	Consumer confidence, University of Michigan (preliminary)	May				84.1

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