



Week Ahead

26 Jul – 01 Aug



Nordea Research, 25 July 2014

Next week's key events

- **US**

Big week with GDP, Fed, ISM and payrolls. For the FOMC meeting, we see tapering on autopilot and in terms of changes in wording – if anything – a slightly more upbeat stance on the labour market. Otherwise solid ISM and labour market data and rebound in GDP, but probably not a very strong one.

- **Euro area**

The ECB will publish the Bank Lending Survey on Wednesday. For the flash estimate on inflation (July), we expect an unchanged rate of 0.5% y/y with the main risk to the downside.

- **Norway**

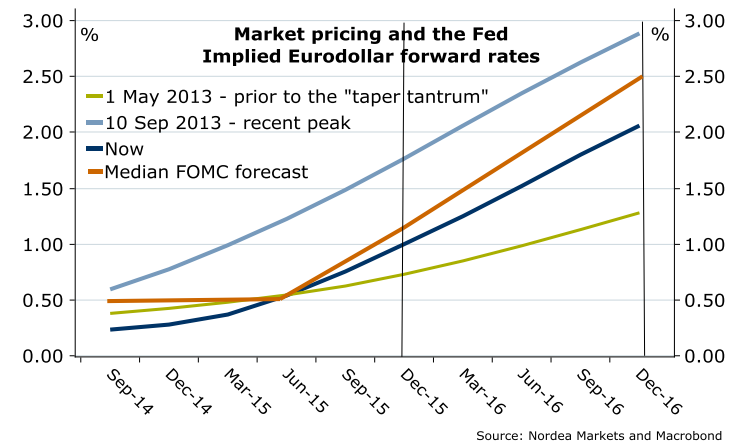
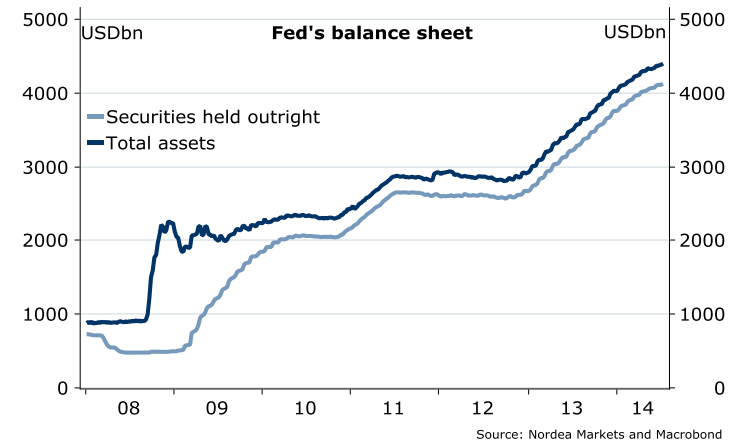
With both ***May LFS unemployment (Wed 10:00 CET)*** and ***July registered unemployment (Fri 10:00 CET)*** the labour market will be in focus in Norway.

- **Sweden**

Swedish PMI on 1st Aug, should stay well above 50. GDP Q2 on 30th July is an early estimate and therefore uncertain as always.

US: FOMC – not much news expected (*Wednesday*)

- We have little doubt that the Fed will continue tapering its monthly bond purchases by USD 10bn to USD 25bn at next week's FOMC meeting. We still expect QE to end in October.
- Otherwise, we don't expect much news from the meeting. Just recently, in her testimony to the Senate Banking Committee, Fed Chair Janet Yellen pointed towards an ongoing recovery but also towards inflation below target. We see a chance that the statement could take a slightly more upbeat stance on recent labour market developments.
- Recent CPI data provided no evidence of accelerating underlying inflation ([See our recent comment](#)). Therefore, as we see it, no reason for the FOMC to turn significantly less dovish next week. A "highly accommodative stance of monetary policy" will most likely be considered as appropriate.
- The Fed's message is unlikely to provide further steam to the recent bond rally, and risks are tilted towards a small correction higher in bond yields in response to the message. Even a slight change to more hawkish rhetoric would support the dollar further.
- The FOMC statement will be released at 20:00 CEST.



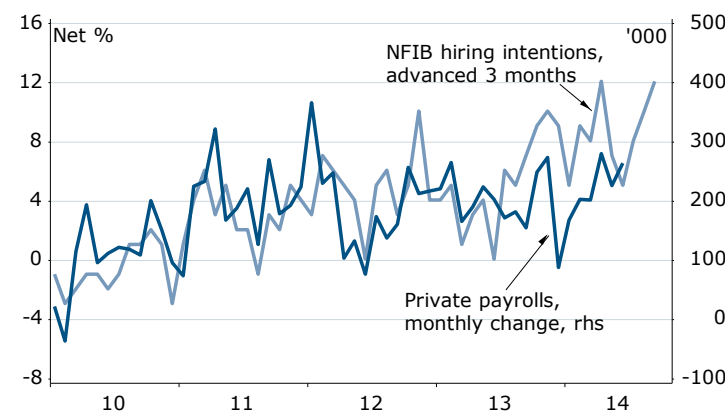
US: Payrolls growth to remain above 200k (Friday)

- For July, we expect a 235k gain in nonfarm **payrolls** following the surprisingly strong 288k rise in May. So another at least solid report, actually the sixth in a row with more than 200k new jobs.
- The average jobs gain in the last five months amounted to 248k – we haven't seen that since 2006.
- In line with consensus, we expect an unchanged unemployment rate at 6.1%.
- Our primary focus is currently on the wage data. **Average hourly earnings** increased by 0.2% m/m in May and June. We expect a 0.3% gain in July, which would reinforce the impression that the labour market is tighter than the Fed believes. Consensus: 0.2%.
- Payrolls growth much stronger than consensus would probably lift bond yields and the USD, while the opposite could be the outcome with payrolls growth clearly weaker. Almost no matter what, we expect the Fed to remain on QE tapering autopilot.

July 14	Nordea	Consensus	Previous
Nonfarm payrolls growth, k	235	230	288
Unemployment rate, %	6.1	6.1	6.1
Average hourly earnings, % m/m	0.3	0.2	0.2



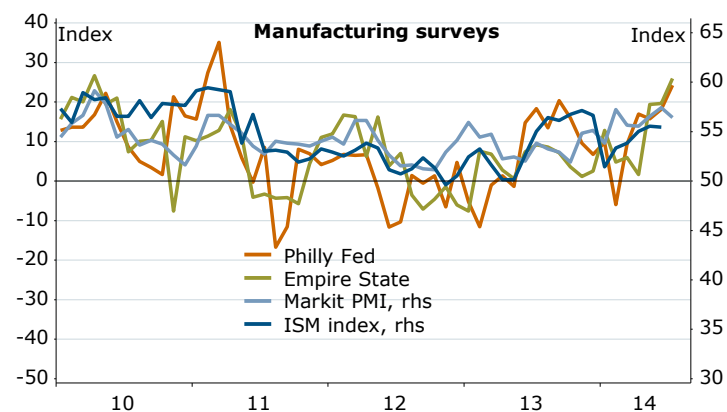
Source: Nordea Markets and Reuters Ecowin



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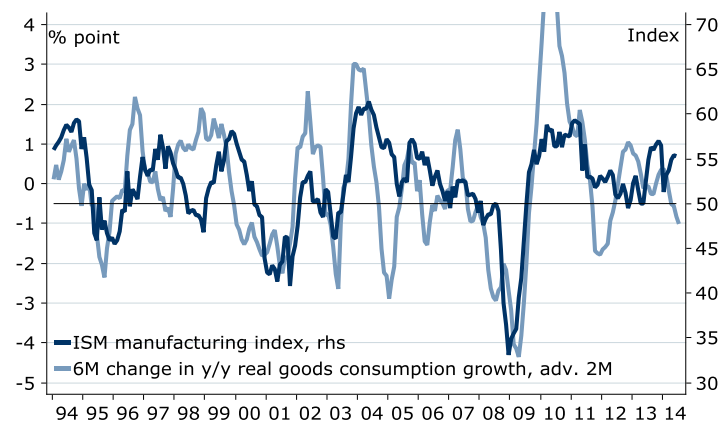
US: ISM index to rise (Friday)

- The ISM manufacturing averaged 52.7 in Q1 and 55.2 in Q2. In line with consensus, we expect it to rise to 56.0 in July which would be the highest score this year.
- Regional indicators for July like Philly Fed and Empire State were quite strong, while the Markit PMI fell by one point to 56.3.



Source: Nordea Markets and Reuters Ecwin

July 14	Nordea	Consensus	Previous
ISM manufacturing index	56.0	56.0	55.3

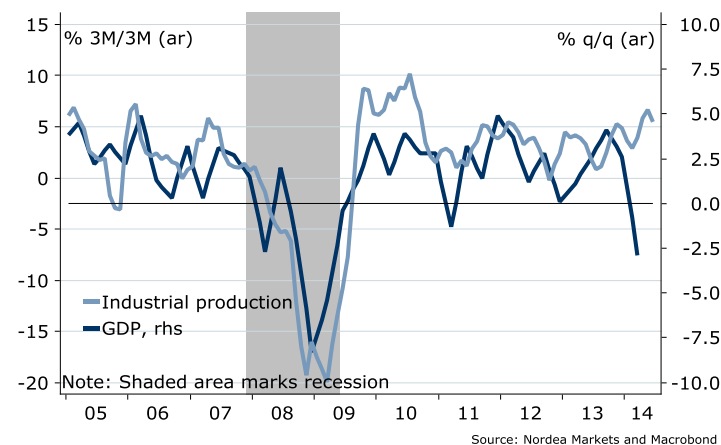
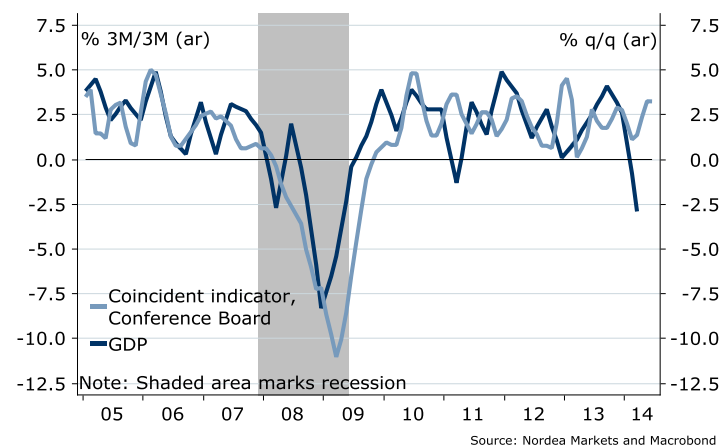


Source: Nordea Markets and Macrobond

US: Q2 GDP – unimpressive rebound (Wednesday)

- The steep decline in GDP during Q1 was an outlier caused by temporary factors but the rebound in Q2 was not as strong as economists and the Fed would wish for – that's the message we expect from Q2 GDP numbers.
- We expect GDP to increase by an annualized 3.1%, close to consensus.
- Several hard data points suggest that the rebound in activity was not particularly strong. While retail sales came in solid all in all, most housing data disappointed. Industrial production rose slightly stronger than in Q1. As always, surprises in inventories can influence the GDP outcome a lot.
- Fed Chair Janet Yellen recently downplayed the importance of (volatile) GDP numbers but markets could care. A stronger reading would probably been seen as just more compensation for weak Q1, while a significant downside surprise would cause questions about the recovery's real strength and sustainability.

Q2 2014	Nordea	Consensus	Previous
Real GDP, % q/q annualised	3.1	2.9	-2.9

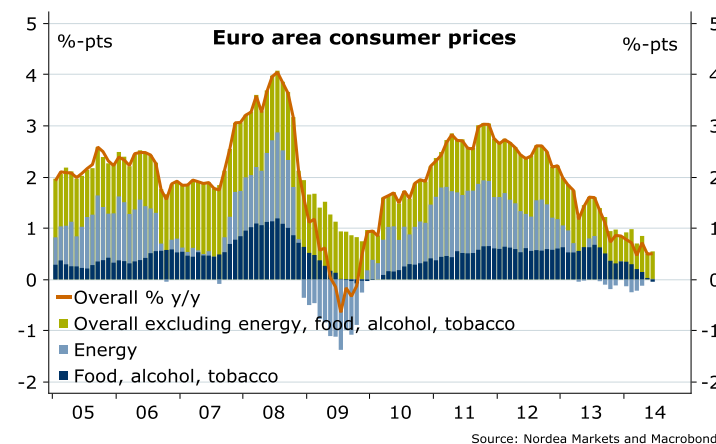
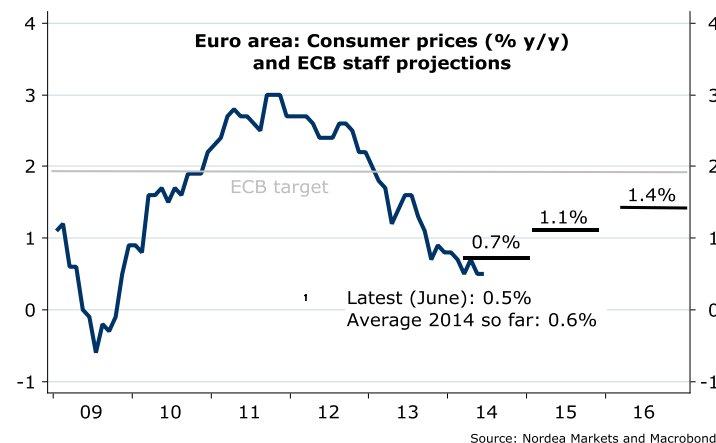


Euro area: Inflation expected unchanged at 0.5% y/y

- We expect headline inflation to print at 0.5% y/y for the third month in a row, with the main risk to the downside, however. An outcome below 0.5% would be new cyclical low and increase the pressure on the ECB “to do more” to fight against the risk of deflation.
- During the summer months, forecasting becomes (even more) difficult because of large swings in prices for footwear and clothing (summer sales) as well as package holidays. In countries like France, Italy and Spain struggling retailers might cut prices by more than usual to attract buyers. We don’t know, but sense a downside risk.
- The same applies to energy prices. Oil prices declined during July, although by less in EUR terms than in USD terms. Lower energy prices may have fed through more to consumer prices than we estimate.
- 0.5% or lower – does it really matter to the ECB? Probably not so much in the short term, as the effects of the June easing package have to be assessed first. A bit longer out, however, lower inflation prints increase the likelihood of a QE program.

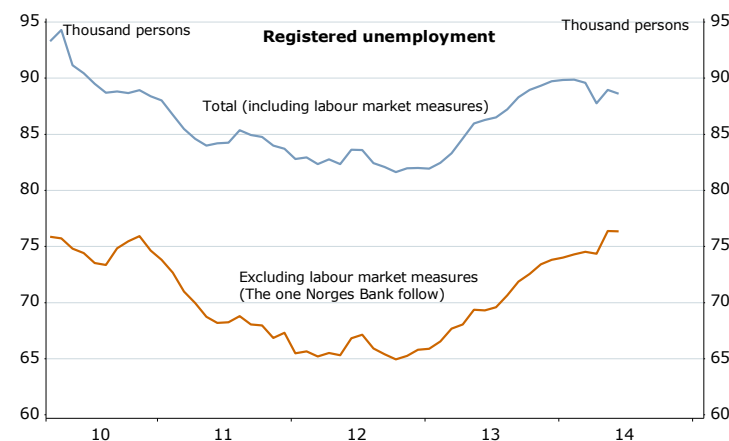
July 2014, % y/y	Nordea	Consensus	Previous
HICP headline rate	0.5	0.5	0.5
HICP ex food, energy, alc., tob.	0.8	0.8	0.8

Source: Nordea Markets and Macrobond



Norway: Labour market is focus

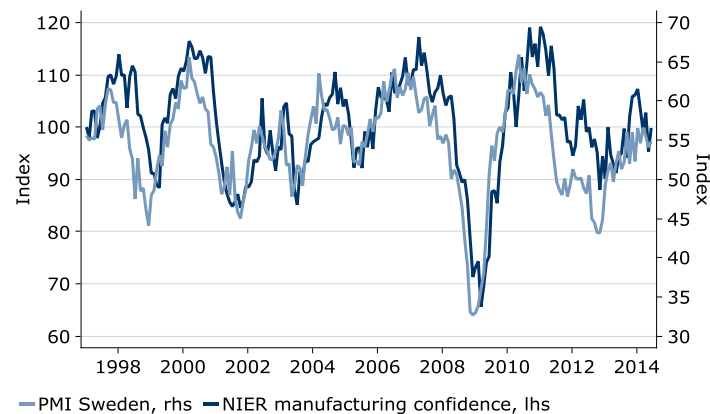
- With both **May LFS unemployment (Wed 10:00 CET)** and **July registered unemployment (Fri 10:00 CET)** the labour market will be in focus in Norway. Norges Bank will give most weight to the registered figures.
- We forecast May LFS unemployment (s.a) at 3.3% unchanged from previous month
- The unadjusted registered rate should be 3.0% in July up from 2.7% in June. The rise is mostly due to seasonal factor. But we also forecast small rise in the seasonal adjusted figures. That is in line with Norges Bank's view.
- Total unemployment seems to have leveled out this year, but there are fewer participants on labour market measures meaning Norges Bank favorite indicator has increased somewhat lately.



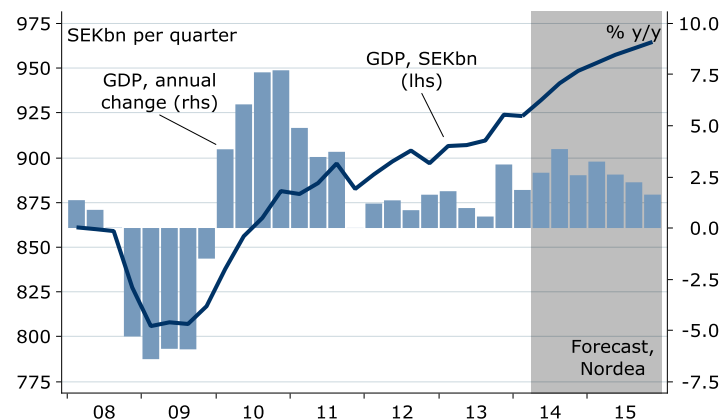
Unemployment has leveled out, but fewer participate on labour market measures

Sweden: Q2 GDP estimate uncertain as always (Wed.)

- NIER survey on 30th July is expected to show overall increasing activity compared to the previous month. Manufacturing sector should be positively surprised by Riksbank's 50 bps cut that pushed the SEK weaker (good for exporters). Also, flash PMI in the Eurozone surprised somewhat positively in July. Consumer confidence should bounce from last month and again the rate cut should play a role (as the really nice summer weather!). The geopolitical turbulence hurt stock markets at the beginning of the month, but later rallied back (the survey was conducted about a week prior to the publishing, so only minor effect from geopolitics assumed). Swedish PMI on 1st Aug, should stay well above 50, with an increase inline with the reasoning mention above.
- GDP Q2 on 30th July is an early estimate (released early every year for the benefit of preparing the government's budget for coming year). The q/q number should bounce from the low reading in Q1, but a more thorough analysis will be delivered early next week.



Source: Nordea Markets and Macrobond



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Calendar

Monday 28. Jul 2014				Nordea	Consensus	Actual	Latest
08:00	GB	House prices, nationwide (nsa, y/y) (Exp 28-1Jul)	Jul				11.8%
15:45	US	Markit composite PMI (preliminary)	Jul				61
15:45	US	Markit services PMI (preliminary)	Jul				61
Tuesday 29. Jul 2014				Nordea	Consensus	Actual	Latest
16:00	US	Consumer confidence	Jul		85.5		85.2
Wednesday 30. Jul 2014				Nordea	Consensus	Actual	Latest
01:50	JP	Industrial Production (y/y) P	Jun		5.1%		1%
08:45	FR	Consumer confidence	Jul				86
09:00	DK	Unemployment rate (sa)	Jun				4%
09:00	SE	Consumer confidence	Jul	104.0			101.3
09:00	SE	Manufacturing confidence	Jul	102.5			99.8
09:30	SE	GDP (wda, y/y)	Q2				1.9%
10:00	NO	Housing starts (s.a.)	Jun				3 471
10:00	NO	Unemployment rate, LFS	May	3.3%			3.3%
11:00	EU	Economic Sentiment Indicator (ESI)	Jul				102
13:00	US	Mortgage applications, MBA	Jul				2.4%
14:00	DE	HICP (y/y, preliminary)	Jul	0.9%			1.0%
14:30	US	GDP (q/q annualised, advance)	Q2		2.9%		-2.9%
14:30	US	Personal consumption (q/q annualised, advance)	Q2		1.8%		1.0%
20:00	US	FOMC announces interest rates			0.25%		0.25%

Calendar

Thursday 31. Jul 2014				Nordea	Consensus	Actual	Latest
	PH	BSP announces interest rates	Jul				
08:45	FR	Consumer spending (y/y)	Jun				- 0.60%
09:55	DE	Unemployment rate (sa)	Jul	6.7%			6.7%
10:00	NO	Norges Bank publishes FX buys to Pension Fund- International	Aug				0
10:00	SE	ESV publish their budget forecast					
11:00	EU	HICP (flash, y/y)	Jul	0.5%			0.5%
11:00	EU	Unemployment rate	Jun	11.6%			11.6%
11:00	IT	HICP (y/y, preliminary)	Jul	0.3%			0.3%
13:00	CZ	CNB announces interest rates (Repo rate)	Jul		0.05%		0.05%
13:30	US	Challenger job cuts (y/y)	Jul				- 20.2%
14:30	US	Employment cost index (q/q)	Q2		0.5%		0.3%
14:30	US	Jobless claims, initial	Jul				
15:45	US	Chicago PMI	Jul		63.1		62.6
Friday 1. Aug 2014				Nordea	Consensus	Actual	Latest
	CH	National Day					
03:00	CN	PMI, manufacturing, NBS	Jul				51
07:00	IN	PMI, manufacturing	Jul				51.5
07:00	RU	PMI, manufacturing	Jul				49.1
08:30	SE	PMI, manufacturing	Jul	55.5			54.8
09:00	NO	PMI (s.a. index)	Jul				49.6
09:00	PL	PMI, manufacturing	Jul				50.3
09:55	DE	PMI, manufacturing (final)	Jul	52.9			52.0
10:00	EU	PMI, manufacturing (final)	Jul				
10:00	NO	Unemployment rate, registered (unadj. and excl. labour market s	Jul	3.0%			2.7%
10:00	NO	Unemployment, registered and persons on labour market schen	Jul	89000			88 500
10:30	GB	PMI, manufacturing	Jul				57.5
11:00	DK	PMI survey	Jul				50.3
14:30	US	Hourly earnings, average (m/m)	Jul	0.3%	0.2%		0.2%
14:30	US	Nonfarm payrolls (absolute change m/m)	Jul	235K	223K		288K
14:30	US	PCE prices, core (y/y)	Jun				1.5%
14:30	US	Personal spending (m/m)	Jul		0.4%		0.2%
14:30	US	Unemployment rate	Jul	6.1%	6.1%		6.1%
15:45	US	Markit services PMI (final)	Jul				
16:00	US	ISM, manufacturing	Jul	56.0	55.5		55.3

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