



Week Ahead

02 – 08 Aug



Nordea Research, 01 July 2014

Next week's key events

- **US**

Next week offers only second-tier data from the US. The most important release will likely be Friday's Q2 unit labour cost and productivity data.

- **Euro Area**

No new measures should be expected from the ECB at this point. The big picture remains that the ECB will want to assess the effects of the June easing package and that can be done at the end of the year at the earliest. On the data side, apart from Euro-area retail sales and final PMI numbers, we will see a preliminary estimate for Italian Q2 GDP on Wednesday. We expect 0.2% q/q.

- **BoE**

We expect no change in either the policy rate or the size of the Asset Purchase Program at the August MPC meeting. If no new actions are taken, no statement will be published.

- **China**

As indicated by the PMI export orders, Chinese exports are expected to trend higher in July, thanks to recovered demand from the advanced world and a weaker CNY.

- **Japan**

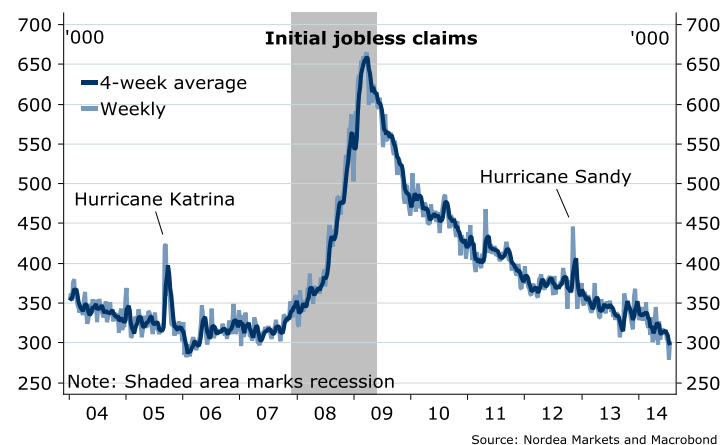
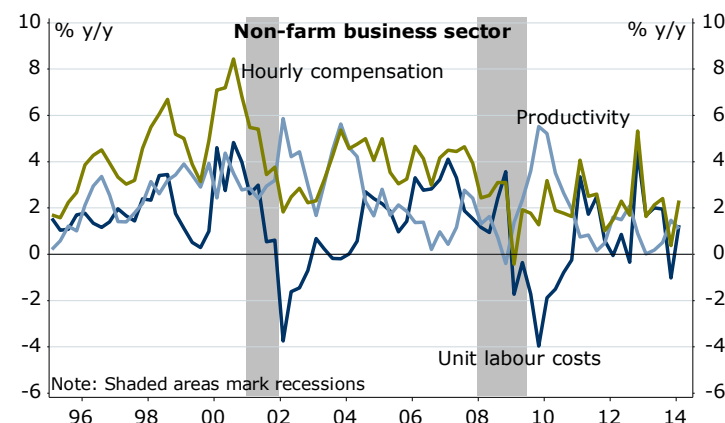
Despite disappointing data from Japan lately, we still expect the BoJ to stay on hold.

- **Sweden**

Manufacturing production plummeted in May. The production figures are extremely volatile and we forecast production to rebound in June. The private service sector has shown healthy growth this year.

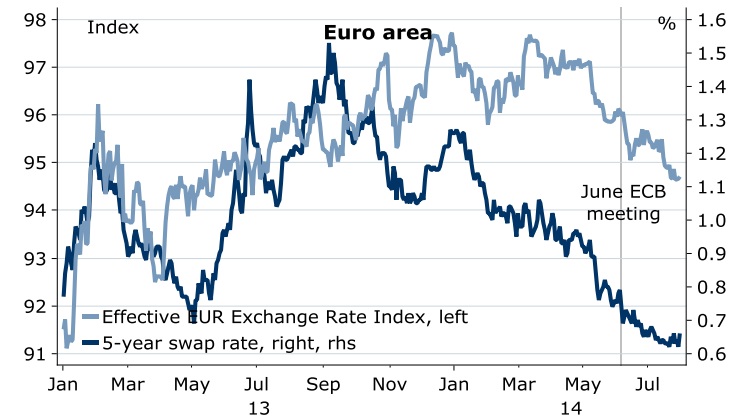
US: Second-tier data delivered

- Next week offers only second-tier data from the US. The most important release will likely be Friday's Q2 **unit labour cost** and productivity data. The Fed continues to emphasise that slow trends in labour costs reflect slack in the labour market, and as this week's employment cost index indicated wage acceleration in Q2, unit labour costs (ULC) will likely get more attention than usual.
- With the rebound in Q2 GDP we expect to see a correction of the exaggerated weakness in productivity in Q1 and hence weak ULC in Q2. Such an outcome is also reflected in the consensus forecast, which is looking for a 1.2% annualised rise in ULC after a weather-related 5.7% surge in Q1.
- The **ISM non-manufacturing index** on Tuesday is expected to reach a new year-high of 56.5 in July, up from June's 56.0.
- As usual, weekly **jobless claims** will be released on Thursday. Auto plant shutdowns during this time of year provide an extra source of volatility in claims, and it is going to be a couple of weeks before we get a clean reading. Through the volatility, however, the claims data continue to signal an improving labour market. This week the 4-week average fell to 297k, the lowest since April 2006.

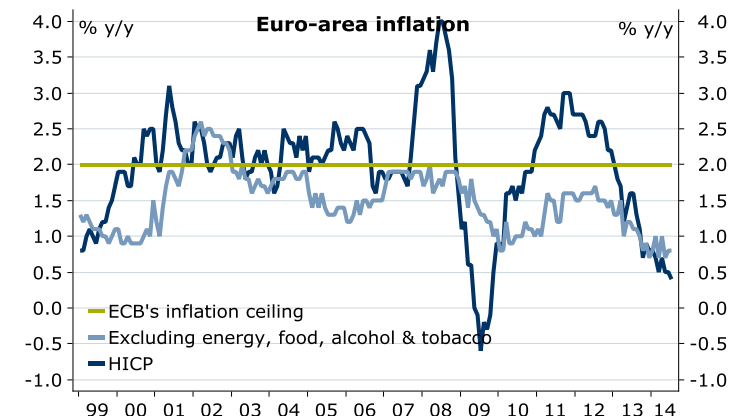


ECB: Draghi unlikely to rock the boat (*Thursday*)

- No new measures should be expected from the ECB at this point. The big picture remains that the ECB will want to assess the effects of the June easing package and that can be done at the earliest at the end of the year.
- The PMI's have improved again in July, while the weakening of the euro should somewhat offset the effect of a weaker growth outlook stemming from geopolitical tensions. However, ECB should emphasize that geopolitical risks have increased lately.
- Euro area July inflation printed at 0.4%, painfully low, but the ECB has acknowledged that inflation is expected to remain at low levels over the coming months.
- This week euro was pressed below 1.34 for first time since November 2013. If the move continues, it should contribute to a pick-up in inflation over the medium term and give some comfort to the ECB.
- Long government bond yields are still flirting with all time lows in euro area, something that the ECB's message is unlikely to change. The ECB should also be happy with the recent FX moves, and does not want to break the euro weakening trend with less dovish comments.



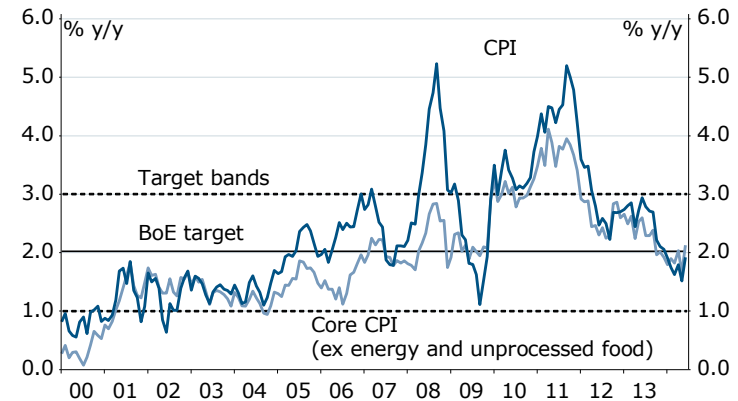
Source: Nordea Markets and Macrobond



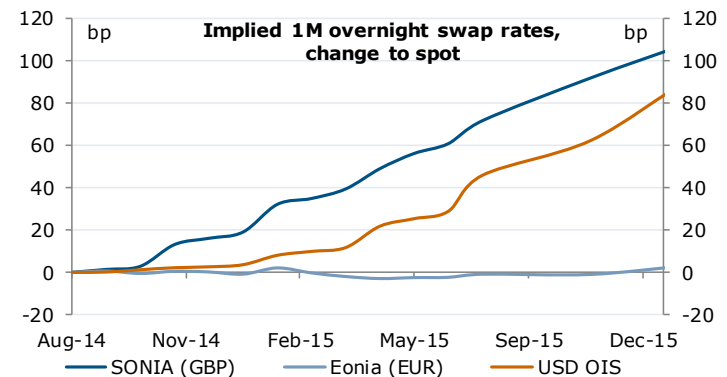
Source: Nordea Markets and Macrobond

BoE: Another non-event (*Thursday*)

- We expect no change in either the policy rate or the size of the Asset Purchase Program at the August MPC meeting. If no new actions are taken, no statement will be published. The inflation report released on 13 August will be more interesting.
- Minutes of the July meeting indicated the surprising June jump in inflation to 1.9% y/y requires further analysis, while in general the MPC seems puzzled over the weak wage developments despite sizable employment gains.
- The composition of the MPC will continue to change, as Deputy Governor Shafik will join in August.
- Rate hike pressures are gradually building, and disagreements over policy are likely to surface soon, increasing volatility in markets.
- Already in July, there were views that *a rise in Bank Rate at a time when the economy was growing strongly would facilitate a more gradual path thereafter and would allow the Committee to evaluate the sensitivity of households, firms and financial markets to changes in interest rates.*
- Our forecast for the first hike from the BoE remains Q2 2015, somewhat later than the current market pricing of early 2015.



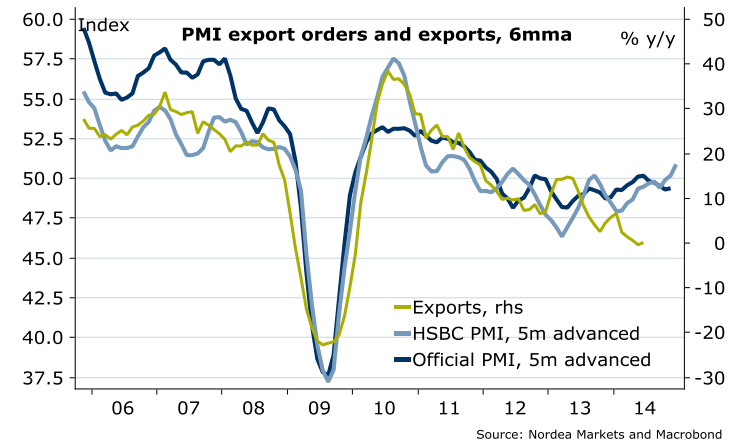
Source: Nordea Markets and Reuters Ecowin



Source: Nordea Markets and Bloomberg

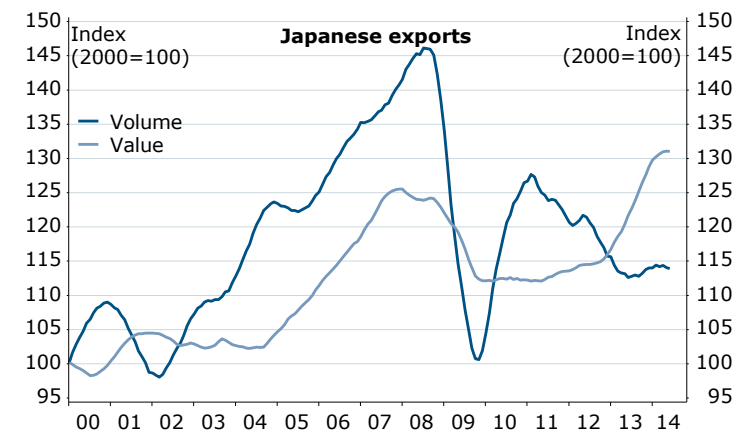
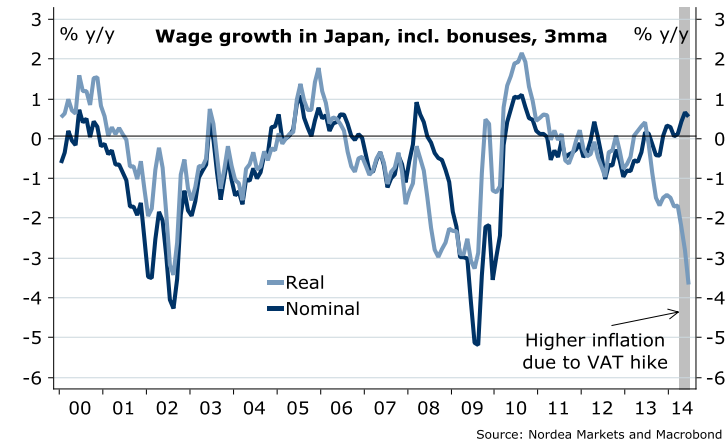
China: Exports (Friday)

- As indicated by the PMI export orders, Chinese exports are expected to trend higher in July, thanks to recovered demand from the advanced world and a weaker CNY. The Chinese currency has lost 4% on real effective terms in the first six months this year.
- The good news could last a few more months, with demand coming from especially China's EM trading partners. First of all, the new governments in India and Indonesia have both declared infrastructure investment as a key to revive growth. Demand for Chinese machinery may pick up.
- In addition, EU's sanctions on Russia offers China an excellent opportunity to boost sales to Russia.
- The recovery does not change the downward trend in exports since 2010, owing to both cyclical and structural reasons. Cyclically, China's largest trading partners, have been battling with economic slump since the global financial crisis. Structurally, Beijing has intentionally reduced its export dependence.



Japan: BoJ (Friday)

- Despite disappointing data from Japan lately, we still expect the BoJ to stay on hold.
- Sluggish exports, factory output and retail sales over the past two weeks have painted a grim picture for Japan's economy. In July, the central bank again slashed its growth expectation, now to 1% for the current fiscal year.
- As we have long argued, one of the most crucial indicators nowadays is real wage growth, which plunged after the sales tax hike in April. Consumers have not yet been compensated for the higher prices.
- The BoJ will likely downgrade their views on exports, which are challenged by outsourced production.
- Yesterday board member Kiuchi warned about the potential risks in keeping the unconventional policy (QQE) in place for too long. He urged the BoJ to exit from, not expand, the monetary stimulus in the next policy move. This is, however, a view not shared by the other board members.



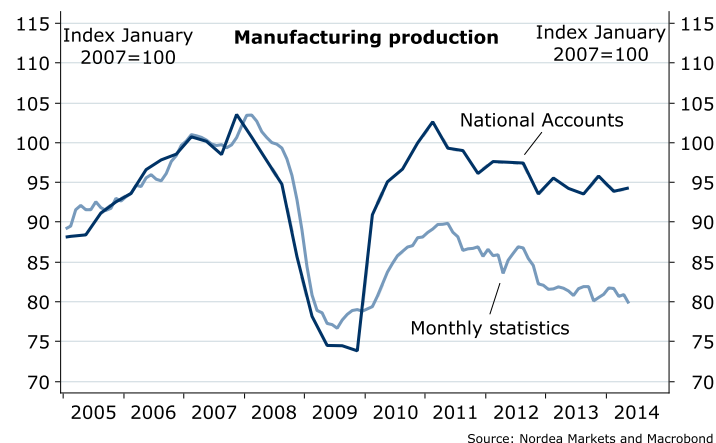
Sweden: Sluggish production (*Friday*)

- Manufacturing production** plummeted in May. The production figures are extremely volatile and we forecast production to rebound in June, in line with fluctuations seen during the past year. Production is unchanged compared to a year ago despite the uptick according to our forecast. Note that the monthly figures have been a poor indicator for National Accounts in recent years, see chart. (*Friday*)

Manufacturing production:

m/m: Nordea +2.5%; prior -3.2%.

y/y: Nordea 0.0%; prior -2.2%.

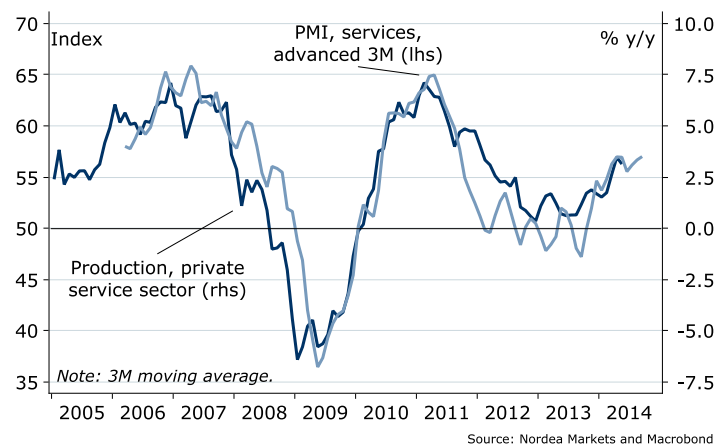


- The private service sector** has shown healthy growth this year. However, sentiment has deteriorated according to the Business Tendency Survey, which probably also will be reflected in the services PMI (*Tuesday*). Therefore we expect production to level out somewhat in the near term, although we remain optimistic longer out. (*Friday*)

Private service sector production:

m/m: Nordea 0.0%; prior -1.0%.

y/y: Nordea 2.8%; prior 1.7%.



Calendar

Monday 4. Aug 2014					Nordea	Consensus	Actual	Latest
09:00	TR	CPI (m/m)	Jul					0.31%
09:00	TR	CPI (y/y)	Jul					9.16%
14:00	RO	NBR announces interest rates	Aug					
16:00	DK	Foreign currency reserves	Jul					438.2
16:00	US	ISM, prices paid	Jul			58.5		60.5
Tuesday 5. Aug 2014					Nordea	Consensus	Actual	Latest
07:30	IN	RBI announces interest rate (Repurchase Rate)	Aug			8.00%		8.00%
08:30	SE	PMI, service sector	Jul					54.6
09:55	DE	PMI, services (final)	Jul					56.6
10:00	EU	PMI, composite (final)	Jul					54
10:00	EU	PMI, services (final)	Jul					54.4
10:30	GB	PMI, services	Jul					57.7
11:00	EU	Retail sales (m/m)	Jun	0.5%				0.0%
11:00	EU	Retail sales (y/y)	Jun					0.7%
11:00	NO	House prices EFF (m/m, s.a.)	Jul					0.5%
15:45	US	Markit composite PMI (final)	Jul					60.9
15:45	US	Markit services PMI (final)	Jul					61.0
16:00	US	Factory orders (m/m)	Jul			0.6%		-0.5%
16:00	US	ISM, non-manufacturing, composite	Jul			56.3		56.0
Wednesday 6. Aug 2014					Nordea	Consensus	Actual	Latest
08:00	DE	Factory orders (m/m), sa	Jun	2.0%				-1.7%
08:00	DE	Factory orders (y/y), nsa	Jun					5.5%
09:15	CH	CPI (m/m)	Jul					-0.1%
09:15	CH	CPI (y/y)	Jul					0.0%
10:30	GB	Industrial production (m/m)	Jun					-0.7%
10:30	GB	Industrial production (y/y)	Jun					2.3%
11:00	IT	GDP (q/q, preliminary)	Q2	0.2%				-0.1%
11:00	IT	GDP (y/y, preliminary)	Q2	0.1%				-0.5%
11:00	SE	SNDO to auction bonds (SEK 3.5bn)						
13:00	US	Mortgage applications, MBA	Jul					
14:30	US	Trade balance	Jul			-\$44.5bn		-\$44.4bn

Calendar

Thursday 7. Aug 2014					Nordea	Consensus	Actual	Latest
08:00	DE	Industrial production (m/m)	Jun		1.3%			- 1.8%
08:00	DE	Industrial production (y/y)	Jun					1.3%
09:30	SE	The Swedish Central Government Debt	Jul					
10:00	NO	Manufacturing production (m/m)	Jun					- 0.3%
13:00	GB	BoE announces asset purchase target	Aug					375bn
13:00	GB	BoE announces interest rates	Aug			0.5%		0.5%
13:45	EU	ECB announces interest rates	Aug			0.15%		0.15%
14:30	US	Jobless claims, continuing	Jul					
14:30	US	Jobless claims, initial	Jul					
Friday 8. Aug 2014					Nordea	Consensus	Actual	Latest
	CN	Exports (y/y)	Jul					7.2%
	CN	Imports (y/y)	Jul					5.5%
03:30	CN	Trade balance (USD)	Jul					- 1.1%
08:00	SE	Unemployment, Swedish Public Employment Service	Jul					7.6%
08:45	FR	Industrial production (m/m)	Jun		1.5%			- 1.7%
08:45	FR	Industrial production (y/y)	Jun					- 3.7%
09:00	DK	Industrial production (sa, m/m)	Jun					- 2.8%
09:00	GB	House prices, Halifax (3mma, y/y) (Exp 4- 8 Aug)	Jul					8.8%
09:00	GB	House prices, Halifax (m/m) (Exp 4- 8 Aug)	Jul					- 0.6%
09:30	SE	Industrial orders (y/y)	Jun					- 1.4%
09:30	SE	Industrial production (y/y)	Jun					- 2.2%
09:30	SE	Private service sector production (m/m)	Jun					- 1.0%
09:30	SE	Private service sector production (y/y)	Jun					1.7%
10:00	NO	Credit growth, domestic, C2 (y/y)	Jun		5.6%			5.5%
14:00	BR	CPI, IPCA (m/m)	Jul					0.40%
14:00	BR	CPI, IPCA (y/y)	Jul					6.52%
14:30	US	Nonfarm productivity (q/q annualised, preliminary)	Q2			0.0%		- 3.2%
14:30	US	Unit labor costs (q/q annualised, preliminary)	Q2			2.2%		5.7%

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