



Week Ahead

16 – 22 Aug



Nordea Research, 15 August 2014

Next week's key events

- **US**

Next week's key event is Fed chairman Yellen's speech on Friday at the Jackson Hole conference. Everyone will be closely listening to find out whether she is changing the dovish outlook for monetary policy so far outlined for the coming years.

- **Euro Area**

A quiet week in terms of data. We expect Flash PMIs to decline a bit on Thursday. On Friday, Mario Draghi will talk at the Jackson Hole conference. The ECB is under pressure to do more but we don't expect Draghi to point towards new stimulus measures.

- **UK**

The July MPC minutes stated that members have different views on interpretation of data, especially the degree of spare capacity and wage growth. However "Members had no timing for the first increase in Bank Rate, which would be driven by the data". We believe that focus will remain on spare capacity and inflation in the August MPC Minutes.

- **China**

The Chinese manufacturing sector has enjoyed the tailwinds from the previous CNY weakening. During the first six months this year, the CNY has weakened 4% compared to its major trading partners. The currency effect is close to perish after August.

- **Sweden**

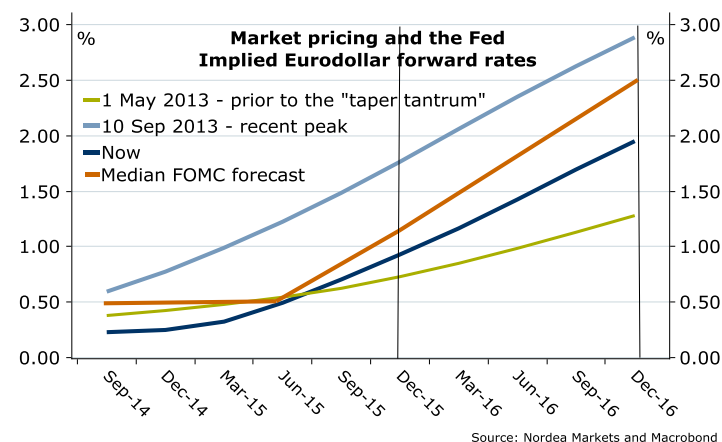
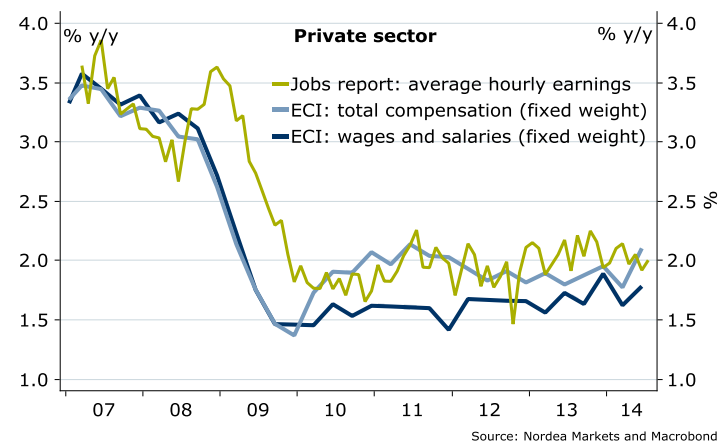
The situation in the labour market is improving. Employment is on a robust upward trend and the employment ratio, i.e. employment in relation to the population, is rising.

- **Norway**

We forecast Q2 mainland GDP to increase by 0,9 % q/q (2.4% y/y), after a rise at 0.5% in Q1. Also watch employment figures which will be published together with GDP. If quarterly growth is above 0.2-0.3% it will add to the impression that the economy is stronger than forecasted.

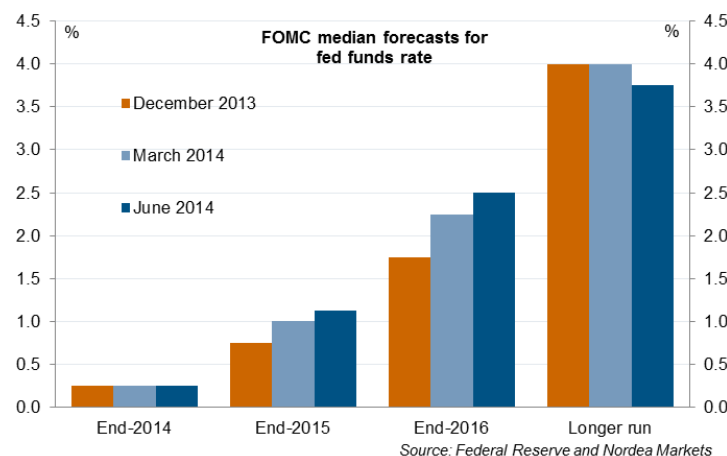
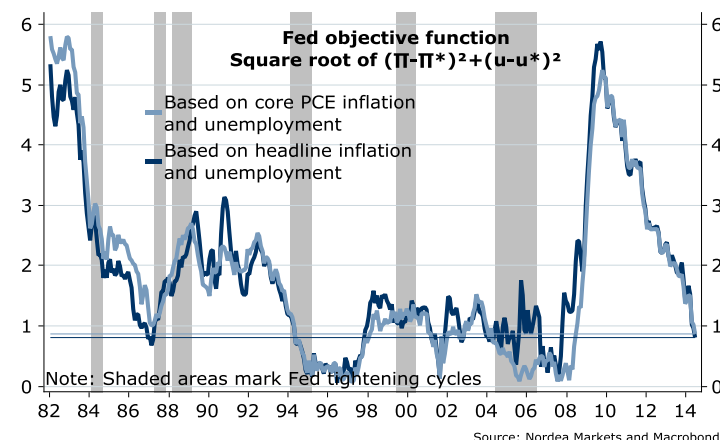
US: All eyes on Yellen in Jackson Hole (Fri)

- Next week's key event is Fed chairman **Yellen's speech** on Friday at the Jackson Hole conference. Everyone will be closely listening to find out whether she is changing the dovish outlook for monetary policy so far outlined for the coming years.
- We expect no hawkish surprises from the Wyoming mountains. Until Yellen sees clear evidence of higher wage increases, she will likely remain content with normalising policy slowly.
- We doubt the Fed Chair will give much information on the timing of the Fed's tightening moves. However, Yellen might elaborate on the Fed's exit strategy and the potential sequence of steps the Fed might take when it comes to tightening policy. If so, she is likely to repeat that the interest paid on excess reserves (IOER) should play a "central role" in the exit, while the fixed-rate reverse repo (RRP) facility could play a useful "supporting role".
- In other words, it appears that the Fed may not drain a significant amount of reserve balances from the banking system before it ultimately decides to hike rates
- For more analysis, see [US: No hawkish surprises from Yellen next week – Jackson Hole preview.](#)



US: FOMC minutes – still not hawkish (Wed)

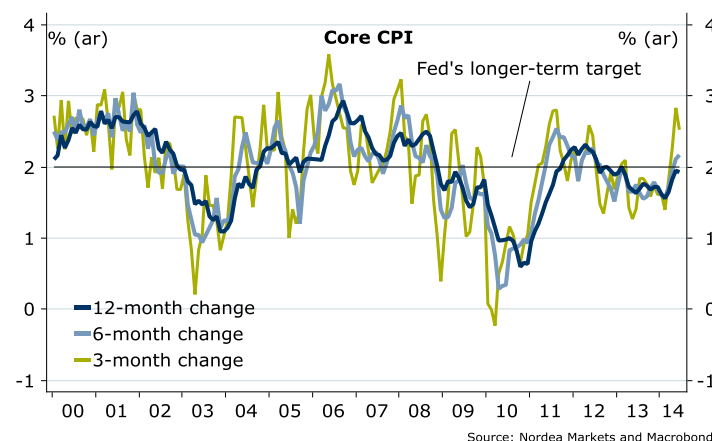
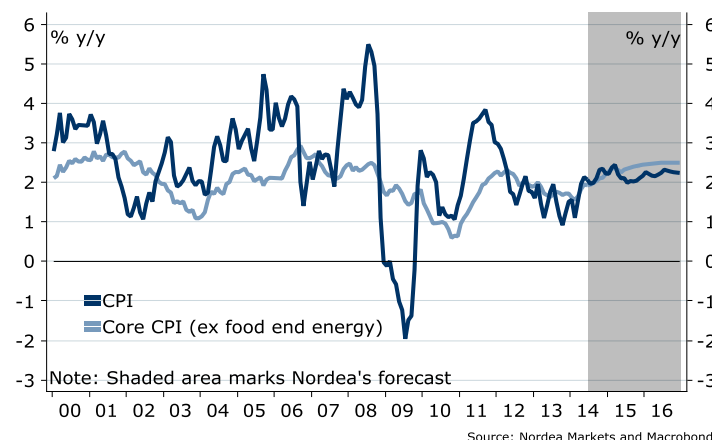
- Minutes of the 29-30 July FOMC meeting will be released on Wednesday, ahead of Yellen's much expected speech on Friday.
- Although the post-meeting [FOMC statement](#) was more optimistic on both employment and inflation, the minutes are likely to reaffirm the continued, although slightly diminished, dovish signals from the Fed. Until the committee sees clear evidence of higher wage increases, it will likely remain content with normalising policy slowly.
- The most interesting part of the minutes might be the hawkish views of Philly Fed President Plosser, who dissented at the meeting, arguing that the FOMC's forward guidance on interest rates wasn't appropriate given the "considerable economic progress" already witnessed.



US: CPI inflation to remain close to the 2% target (Tue)

- We expect CPI headline inflation to dip to 2.0% in July from 2.1% in June, mainly due to lower energy prices in July. The consensus forecast is also 2.0%. The recent low was 1.0% in October.
- The core rate is expected to remain at 1.9% in July, also in line with consensus. In June core CPI was weaker than expected, offsetting some of the upside surprises in recent months. However, the net result is still acceleration. Core CPI is up at a 2.2% annual rate so far in 2014 (June vs December), up from a 1.7% pace in all of 2013.
- Going forward, we continue to expect core inflation to grind higher as evidence of a tighter labour market points to stronger wage increases. At the same time, the low rental vacancy rate suggests rents (40% of core CPI) should accelerate further.

	Nordea	Consensus	Previous
CPI, % y/y	2.0	2.0	2.1
Core CPI, % y/y	1.9	1.9	1.9

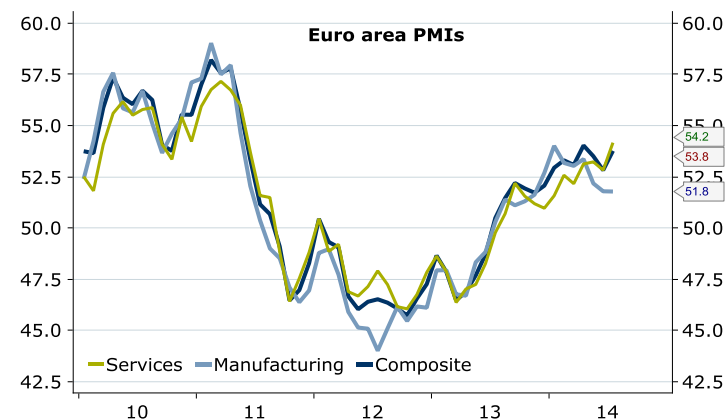


Euro-area: Flash PMIs – slightly down (Thu)

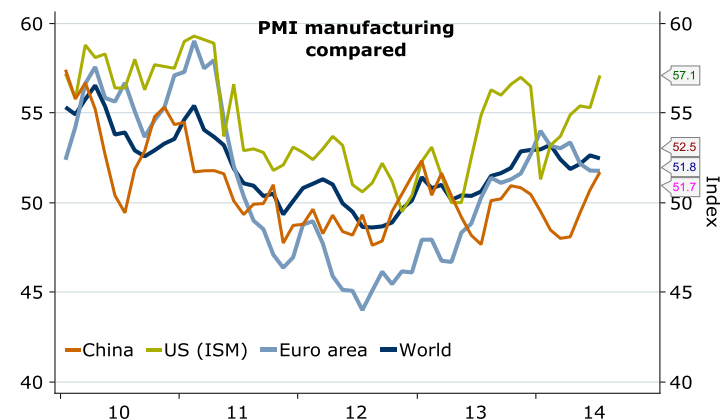
- We expect a small, undramatic decline for the manufacturing, the service and the composite PMI.
- The composite surprised with a fairly strong increase last time, driven by services. Although we liked it, there was no convincing reason for the service component to rise to a 3-year high. We expect it to come down.
- Reflecting the current geopolitical uncertainty, we expect a decline in the manufacturing PMI, but only a small one. It's not all gloom and doom out there as both the US ISM index and the Chinese PMI have recently risen.
- PMIs are pointing towards slow growth but have recently not been particularly reliable indicators for GDP.
- Euro area data will be published at 10:00h (France at 9:00h; Germany at 9:30h).

Aug-14	Nordea	Consensus	Previous
Composite	53.2	53.3	53.8
Manufacturing	51.3	51.2	51.8
Services	53.5	53.5	54.2

Source: Nordea Markets and Macrobond



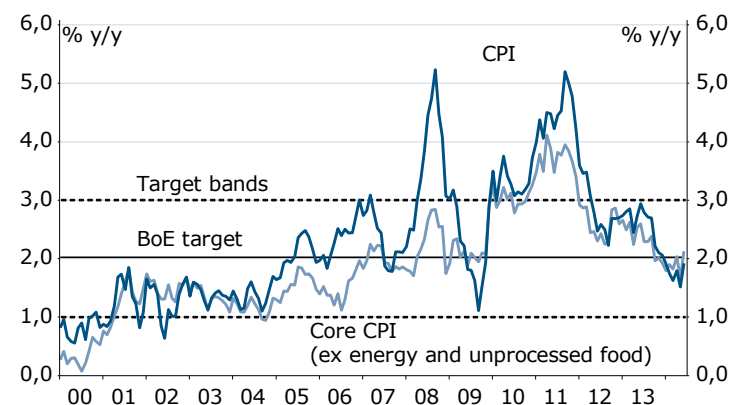
Source: Nordea Markets and Macrobond



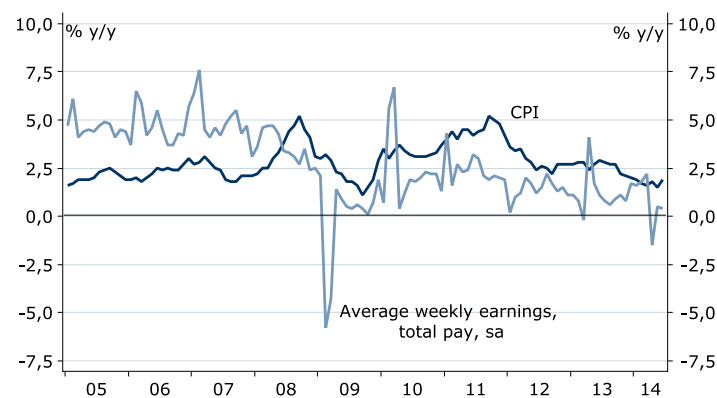
Source: Nordea Markets and Macrobond

BoE: Focus on spare capacity and inflation in MPC Minutes (Wed) and CPI inflation to fall back (Tue)

- The August MPC decision to leave monetary policy unchanged was most likely unanimous (Wed).
- The July MPC minutes stated that members have different views on interpretation of data, especially the degree of spare capacity and wage growth. However *“Members had no timing for the first increase in Bank Rate, which would be driven by the data”*. We believe that focus will remain on spare capacity and inflation in the August MPC Minutes.
- CPI grew by 1.9% y/y in June, up from 1.5% in May. Much higher than expected! The largest contribution to the increase came from higher prices on clothing, food & non-alcoholic drinks and air transport. We expect these prices to fall back in July .
- We believe that CPI inflation fell by 0.2 percent m/m, bringing inflation down to 1.7 per cent y/y (Tue).
- In its August Inflation Report the Bank of England (BoE) revised its CPI inflation forecast upwards for this year as well as for the beginning of next year. Thereafter the forecast was revised downwards. BoE sees downside risks around the 2% target due to weak wage growth.
- Markets are currently pricing the first rate hike in Q2 2015, in line with our forecast.



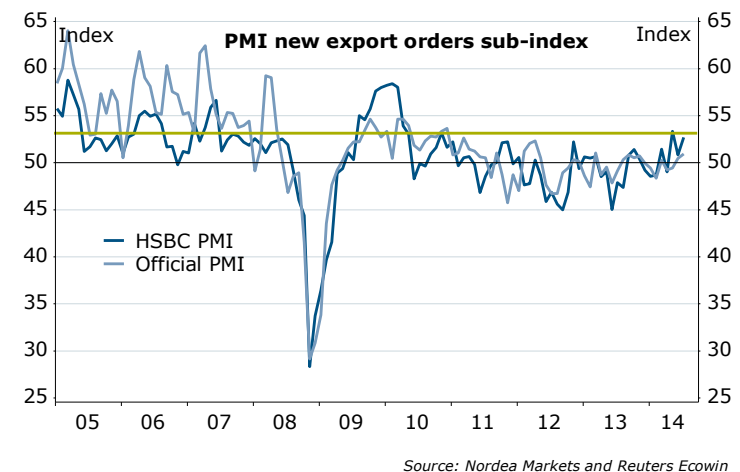
Source: Nordea Markets and Reuters Ecowin



Källa: Nordea Markets och Macrobond

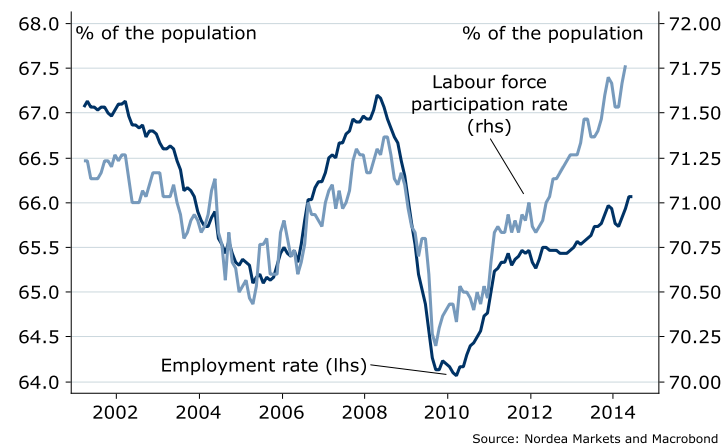
China: Flash PMI (Thu)

- According to our model, the HSBC/Markit PMI is likely to extend its rally in August to 52.
- The Chinese manufacturing sector has enjoyed the tailwinds from the previous CNY weakening. During the first six months this year, the CNY has weakened 4% compared to its major trading partners. The currency effect is close to perish after August.
- But there is room for upside surprises in the coming few months. On one hand, demand from within China and the advanced world may keep to be robust.
- In addition orders will likely flow in from China's EM trading partners as well. The new governments in India and Indonesia have both declared infrastructure investment as key to revive growth. Demand for Chinese machinery may pick up.
- Also China will probably benefit from EU's sanctions against Russia, which usually imports 15% of its machinery (its most important imported good) from Germany.



Swedish LFS: be prepared for surprises (Thu)

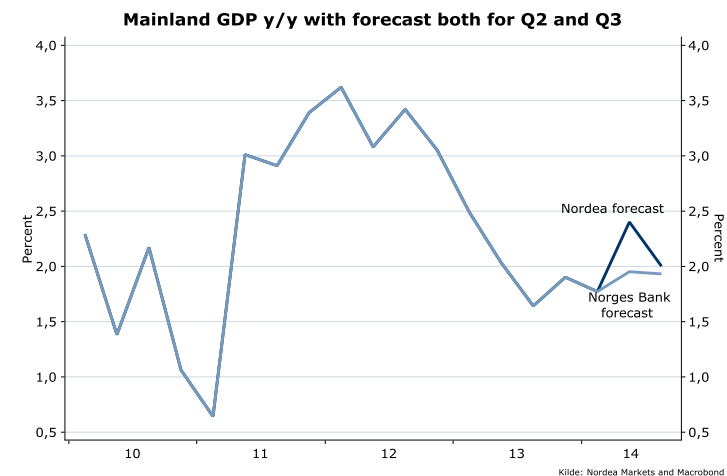
- The situation in the labour market is improving. Employment is on a robust upward trend and the employment ratio, i.e. employment in relation to the population, is rising.
- Unemployment is sticky as there is a strong inflow to the labour force. Unemployment has averaged 8.0% in H1 and our call is that it will remain at that level also in July. Note that the summer months are more volatile than other months, so be prepared for surprises!
- **Labour Force Survey, July**
Employment y/y: Nordea 41k; prior 54k.
Unemployment, sa: Nordea 8.0%; prior 8.0%.
(Thursday)



Norway: Strong growth - partly temporary

- We forecast **Q2 mainland GDP (Thur 10:00)** to increase by 0,9 % q/q (2.4% y/y), after a rise at 0.5% in Q1
- Strong consumption figures, and strong production figures both for manufacturing and electricity pulls up while construction most likely fell due to weaker housing investment
- Electricity production pull up 0.3% points. That is temporary and means GDP at 0.9% is not a sign of a stronger underlying trend
- Our Q2 forecast is 0.4% points above Norges Bank forecast , but Norges Bank will ignore the effect from electricity when assessing the figure.
- If we are right we will judge the figure as somewhat on the strong side to Norges Bank
- Also watch employment figures which will be published together with GDP . If quarterly growth is above 0.2-0.3% it will add to the impression that the economy is stronger than forecasted.

Temporary higher growth



Calendar

Monday, August 18, 2014					Nordea	Consensus	Actual	Previous
09:30	SE	Capacity utilization, manufacturing industry	Q2					
09:30	SE	Inventories, manufacturing industry	Q2					
11:00	EU	Trade balance, sa	Jun					15.3bn
16:00	US	Housing market index, NAHB	Aug			53		53
Tuesday, August 19, 2014					Nordea	Consensus	Actual	Previous
11:00	NO	Auction of Treasury Bonds						
14:30	US	Building permits	Jul			1000k		963k
14:30	US	CPI (y/y)	Jul			2.0%		2.10%
14:30	US	CPI, core (m/m)	Jul			0.2%		0.1%
14:30	US	Housing starts	Jul			970k		893k
Wednesday, August 20, 2014					Nordea	Consensus	Actual	Previous
	NO	Speech by Norges Bank Governor Olsen (Charts published)						
11:00	SE	SNDO to auction bonds (SEK 3.5bn)						
12:00	NO	Norges Bank announces auction of Treasury Bills						
13:00	US	Mortgage applications, MBA	Jul					-2.7%
Thursday, August 21, 2014					Nordea	Consensus	Actual	Previous
03:45	CN	PMI, manufacturing (flash), HSBC	Aug		52	51.6		51.7
09:00	DK	Retail sales (sa, m/m)	Jul		0.4%			-0.6%
09:30	SE	Unemployment, labour force survey (AKU)	Jul					9.2%
10:00	NO	GDP (q/q)	Q2		0.2%			0.3%
11:00	EU	PMI, manufacturing (flash)	Aug					51.8
14:30	US	Jobless claims, initial	Aug					
15:45	US	Markit manufacturing PMI (preliminary)	Aug			55.5		55.8
16:00	EU	Consumer confidence	Aug					-8.4
16:00	US	Home sales, existing	Jul			5.00M		5.04m
16:00	US	Leading index	Jul			0.6%		0.3%
16:00	US	Philadelphia Fed	Jul			18		23.9
Friday, August 22, 2014					Nordea	Consensus	Actual	Previous
09:00	DK	Consumer confidence	Aug		5.0			10.6
13:00	SE	Meeting of the General Council of the Riksbank						
16:00	US	Fed's Yellen to speak in Jackson Hole						

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Editor:

Jacob J. Hermann
Assistant Analyst
Global Research
+45 33 33 51 15

Jacob.hermann@nordea.com