



Week Ahead

30 – 05 Sep



Nordea Research, 29 August 2014

Next week's key events

- **US**

We expect a 245k gain in nonfarm payrolls in August, up from July's 209k rise but in line the 3- and 6-month averages. So another strong report, actually the seventh in a row with more than 200k new jobs if we are right. The consensus is 220k with a 15k standard deviation.

- **Euro Area**

The key event is obviously the ECB meeting on Thursday. We expect soft words from Mario Draghi and an open mind, some more insight into an upcoming ABS purchase programme, but no rate cuts and no QE either. On top of that, we will get detailed GDP numbers for Q2 for the Euro area and Germany. On Sunday, there will be a regional election in Germany (in the state of Sachsen). According to polls, the euro-critical party AfD will make its first entry into a German state parliament.

- **UK**

We expect no change neither in the policy rate nor of the size of the Asset Purchase Programme at the September MPC meeting. No actions taken means that no statement will be published.

- **Japan**

The BoJ will likely refrain from making any change to the quantitative and qualitative easing (QQE) programme at the meeting next week.

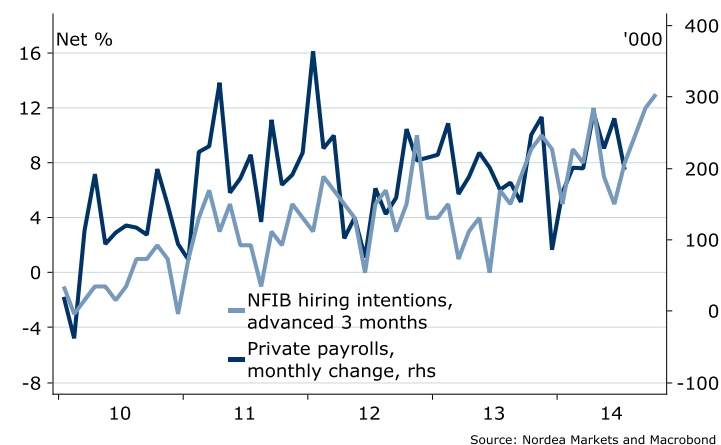
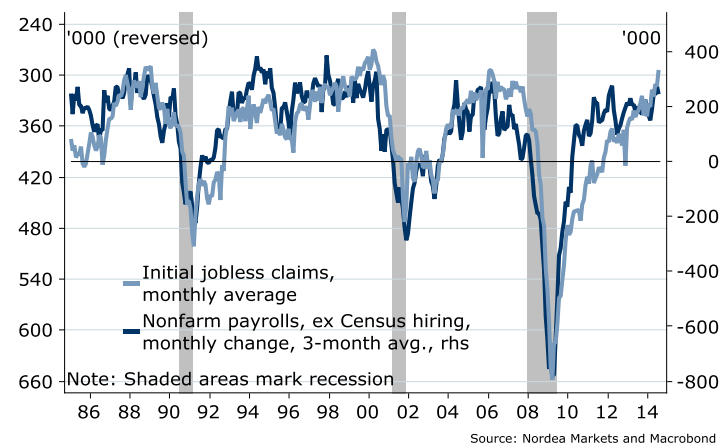
- **Norway**

The Q3 oil investment survey is published on Wednesday (10: CET)

US: Another strong jobs report (*Friday*)

- We expect a 245k gain in nonfarm **payrolls** in August, up from July's 209k rise but in line the 3- and 6-month averages. So another strong report, actually the seventh in a row with more than 200k new jobs if we are right. The consensus is 220k with a 15k standard deviation.
- Anything over 125k jobs per month will keep the unemployment rate trending down unless the participation rate starts increasing sharply (something we don't expect).
- In line with the consensus we expect the **unemployment** rate to slip back to 6.1% after rising to 6.2% in July caused by a 329k rise in the labour force.
- Again the primary focus will likely be on the wage data. After being unchanged in July **average hourly earnings** are expected to revert to the previous 0.2%-per-month trend rise in August. A stronger rise would reinforce the impression that the labour market is tighter than the Fed believes. Consensus: 0.2%. Year-over-year average hourly earnings growth should remain at 2.0%.
- The average workweek is expected to remain at 34.5 hours for the sixth straight month.

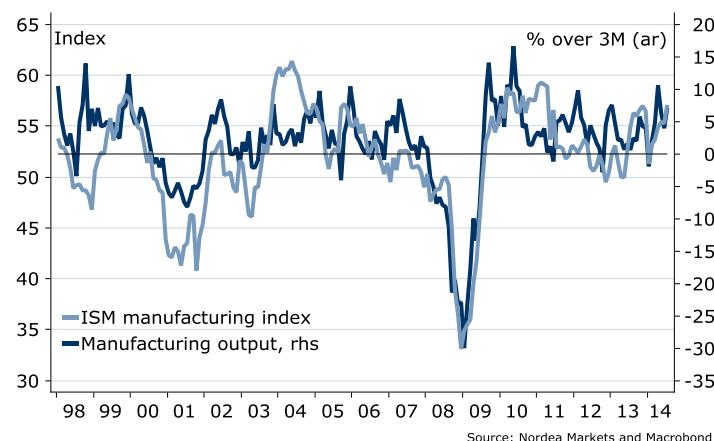
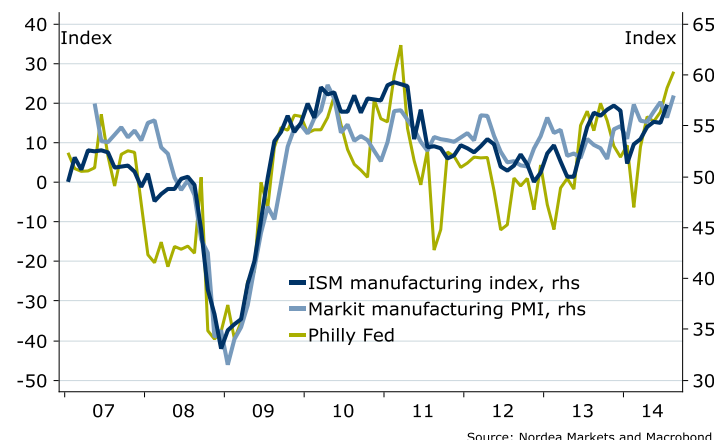
August 2014	Nordea	Consensus	Previous
Nonfarm payrolls growth, k	245	220	209
Unemployment rate, %	6.1	6.1	6.2
Average hourly earnings, % m/m	0.2	0.2	0.0



US: Another strong ISM index (Tuesday)

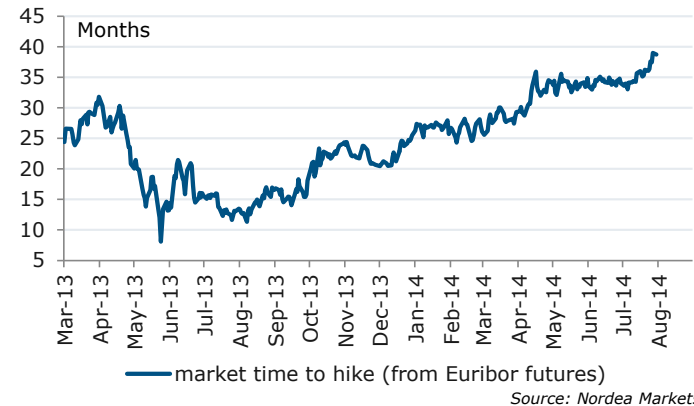
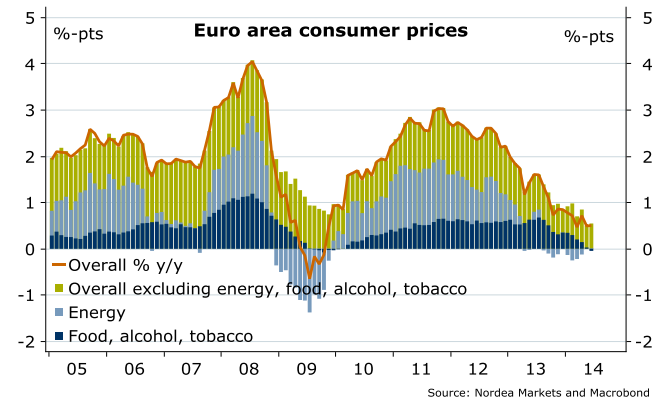
- We expect the ISM manufacturing index to rise from July's 57.1 to 58.0 in August, which would be the highest score since 2011. The consensus is 56.8.
- An outcome in line with our forecast would add to the evidence that the trend in growth has picked up this year. A 58 reading is typically consistent with at 7-8% annualised growth rate in manufacturing output. The ISM manufacturing index averaged 53.9 in 2013, 52.7 in Q1 2014, 55.2 in Q2.
- The indicators are generally stronger in August. Both the Philly Fed and Markit PMI surprised on the upside with increases from already high levels. Empire State, on the other hand, slipped back from a strong July.

August 2014	Nordea	Consensus	Previous
ISM manufacturing index	58.0	56.8	57.1



ECB: ABSolutely interesting (*Thursday*)

- We expect soft words from Draghi and an open mind, lower projections for growth and inflation in 2014 and 2015, some more insight into an upcoming ABS purchase programme, but no rate cuts and no QE either.
- Announcing QE clearly feels premature. Cutting the refi rate now would make more sense than cutting it after first TLTRO due on 18 September. But still, we don't expect it to happen, given the weaker EUR and lower short- and long-term rates.
- On ABS purchases, we expect Draghi to stress that the ECB will go forward with the issue, and he might unveil more details beyond "real, simple, transparent" ABS. Our impression is that there are still too many open questions for him to announce an official and precise program ([read more](#)).
- The market has reacted rather strongly to Draghi's Jackson Hole appearance (though the move down in rates lately has been fuelled by e.g. the situation in the Ukraine as well), and any ECB tightening is now priced way out; late 2017 as judged by the pricing of Euribor futures which currently indicates no hikes before November 2017.
- Eonia swaps have rebounded slightly since Monday, but 1Y and 2Y swaps still lie below zero. Draghi's rhetoric on Thursday will have to be sharper than we anticipate for these levels to sustain. Note however, that on 28 August a barrier was broken as the Eonia fixing printed negative for the first time ever.



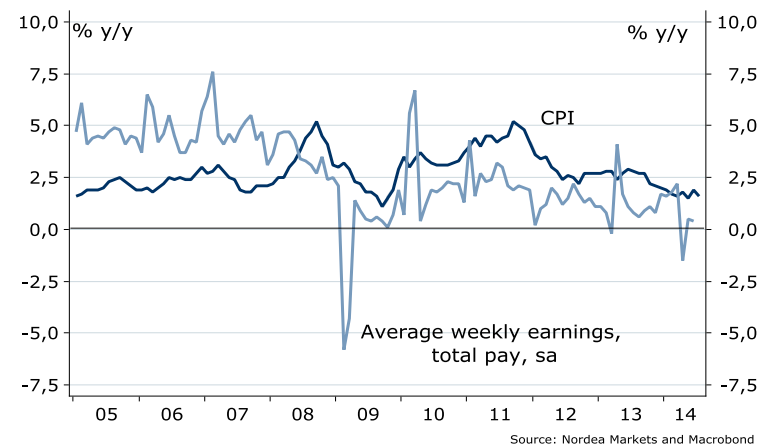
ECB staff projections

	2014		2015		2016	
	June 14	Sep 14*	June 14	Sep 14*	June 14	Sep 14*
GDP	1.0	0.8	1.7	1.3	1.8	1.8
HICP	0.7	0.6	1.1	1.0	1.4	1.4

* Nordea forecast for ECB projections. Source: Nordea Markets, ECB

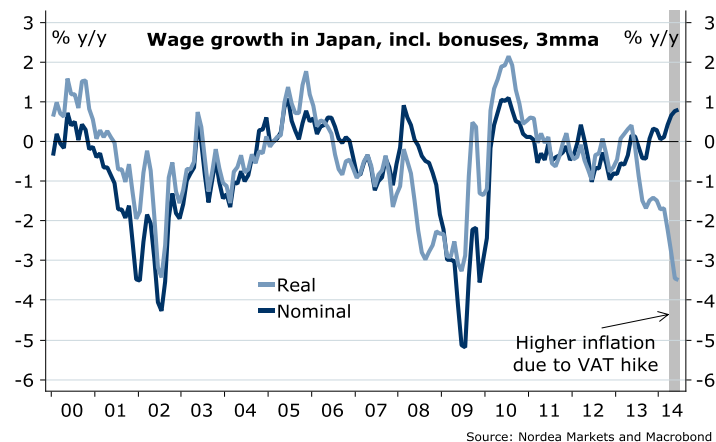
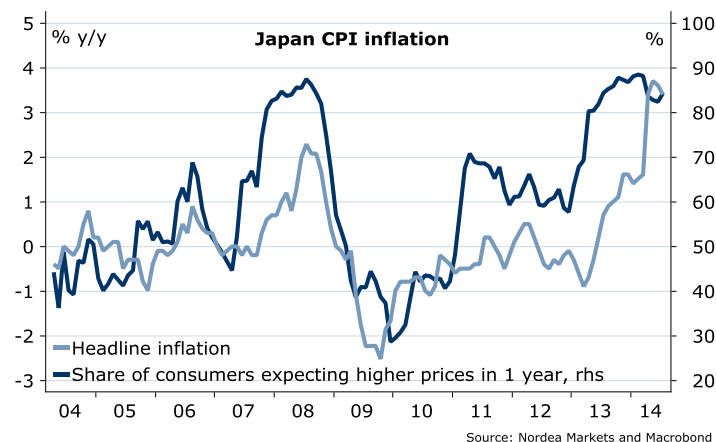
BoE: No change in policy (*Thursday*)

- We expect no change neither in the policy rate nor of the size of the Asset Purchase Programme at the September MPC meeting. No actions taken means that no statement will be published.
- The MPC minutes from the 6-7 August stated that two of the MPC members, *McCaffery and Weale*, see that economic circumstances are sufficient to justify a rate hike by 25 bps.
- As manifested in recent speeches by Governor Carney, the exit strategy is clearly approaching. Rising disagreement over policy among the MPC members means increasing market volatility.
- Recent data has been weaker than expected. CPI came in at -0,3% m/m in July reducing inflation to 1,6% y/y, below our forecast as well as the BoE forecast.
- Weak wage growth following the financial crisis. In its August Inflation report the BoE halved its forecast for wage growth this year to 1,25%. Potential explanations to the weak wage growth; i) it takes longer time than usual for wages to respond to rising employment, ii) weak productivity and iii) increased labour supply.
- Subdued wage growth and inflation outlook together with tighter macro-prudential policy support our view that **the BoE will not sanction a first rate hike until Q2 2015**. Markets are currently pricing a first rate hike in Q1.



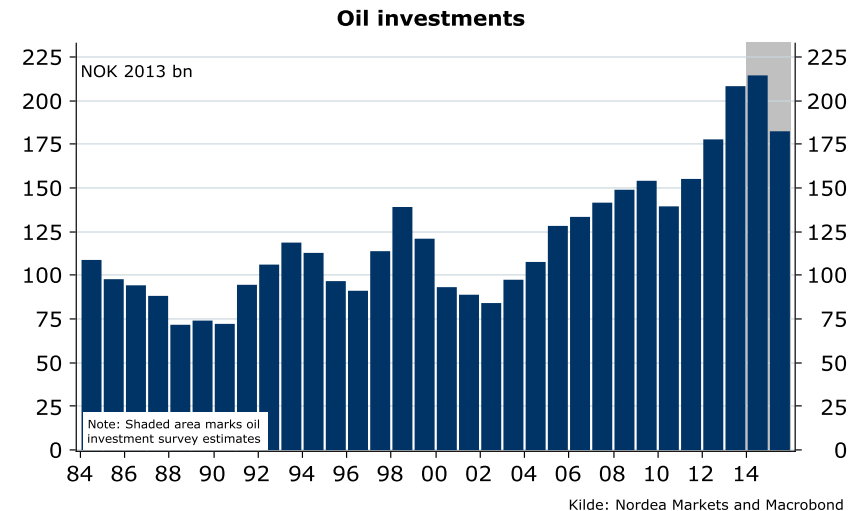
Japan: BoJ (*Thursday*)

- The BoJ will likely refrain from making any change to the quantitative and qualitative easing (QQE) programme at the meeting next week.
- The BoJ's key objective is no doubt price stability. Although inflation has shown signs of softening lately, it is too early to say that the inflation target of 2% cannot be achieved. Hence, there is no convincing inflation argument for expanding the QQE.
- At the Jackson Hole conference, governor Kuroda said *"an appropriate wage-setting mechanism plays an important part in anchoring inflation expectations at 2%"*. With this statement he is signalling that reform is as crucial as monetary policy to end deflation. Thus, the BoJ will not just expand the QQE without seeing progress in structural reform.
- Low-paid part-time workers, who account for 30% of the employees, are the reason for suppressed wages. Improving their remuneration conditions by making the labour market more flexible is key to raise overall wage levels and anchor inflation expectation.



Norway: Oil investment survey to confirm 2015 drop

- The **Q3 oil investment survey** is published on Wednesday (10: CET)
- The report will contain both 2014 and 2015 estimates of oil investments, but the 2015 estimates are the most important ones
- The Q2 survey indicated in our view a fall in oil investment of around 15 % in 2015. Norges Bank forecast a drop by 10%. The drop in oil investment was the main reason for Norges Bank's downwards revision of the rate path in June
- Norges Bank will most likely take into account any new information that comes in the Q3 report, as the estimates becomes more certain as we are getting closer to the investment year
- We do not expect the Q3 survey to give any definitive answer to whether our forecast or Norges Bank's is right and it should therefore have no major impact on the upcoming (Sept. 18th.) rate path forecast from Norges Bank



Calendar

Monday 1. Sep 2014				Nordea	Consensus	Actual	Latest
	US	Labor Day					
03:45	CN	PMI, manufacturing (final), HSBC	Aug		50.3		50.3
08:00	DE	GDP (sa, q/q, final)	Q2	-0.20%	-0.20%		-0.20%
08:30	SE	PMI, manufacturing	Aug				55.2
09:00	NO	PMI (s.a. index)	Aug				50.6
09:00	SE	Meeting of the Executive Board of the Riksbank					
09:55	DE	PMI, manufacturing (final)	Aug		52		52
10:00	EU	PMI, manufacturing (final)	Aug		50.8		50.8
10:00	NO	Credit growth, domestic, C2 (y/y)	Jul				5.40%
10:30	GB	PMI, manufacturing	Aug		55		55.4
Tuesday 2. Sep 2014				Nordea	Consensus	Actual	Latest
07:45	CH	GDP (q/q)	Q2		0.50%		0.50%
15:45	US	Markit manufacturing PMI (final)	Aug				58
16:00	US	Construction spending (m/m)	Jul		0.80%		-1.80%
16:00	US	ISM, manufacturing	Aug	58	56.8		57.1
16:00	US	ISM, prices paid	Aug		59		59.5
Wednesday 3. Sep 2014				Nordea	Consensus	Actual	Latest
09:55	DE	PMI, services (final)	Aug		56.4		56.4
10:00	EU	PMI, services (final)	Aug		53.5		53.5
10:30	GB	PMI, services	Aug		58.4		59.1
11:00	EU	GDP (sa, q/q, preliminary)	Q2	0.00%	0.00%		0.00%
11:00	EU	Retail sales (m/m)	Jul	-0.50%	-0.20%		0.40%
13:00	US	Mortgage applications, MBA					2.80%
16:00	CA	BoC announces interest rate	Sep		1.00%		1.00%
16:00	US	Factory orders (m/m)	Jul		10.80%		1.10%
20:00	US	Fed's Beige Book					
22:45	BR	BCB announces interest rates (SELIC target)	Sep		11.00%		11.00%
23:00	US	Vehicle sales, total	Aug		16.5m		16.4m

Calendar

Thursday 4. Sep 2014					Nordea	Consensus	Actual	Latest
06:00	US	Fed's Powell speaks in New York						
08:00	DE	Factory orders (m/m), sa	Jul		1.50%	1.20%		- 3.20%
09:30	SE	Riksbank, rate decision and Monetary Policy Report						0.25%
12:30	US	Challenger job cuts (y/y)	Aug					24.40%
13:00	GB	BoE announces interest rates	Sep			0.50%		0.50%
13:45	EU	ECB announces interest rates (main refi rate)	Sep			0.15%		0.15%
14:15	US	Employment, ADP (absolute change m/m)	Aug			215k		218k
14:30	US	Jobless claims, continuing						2527k
14:30	US	Jobless claims, initial						298k
14:30	US	Nonfarm productivity (q/q annualised, final)	Q2			2.50%		2.50%
14:30	US	Trade balance	Jul			- 42.5bn		- 41.5bn
14:30	US	Unit labor costs (q/q annualised, final)	Q2			0.60%		0.60%
15:45	US	Markit composite PMI (final)	Aug					58.8
16:00	US	ISM, non-manufacturing, composite	Aug			57.4		58.7
Friday 5. Sep 2014					Nordea	Consensus	Actual	Latest
08:00	DE	Industrial production (m/m)	Jul		0.30%	0.50%		0.30%
08:45	FR	Consumer confidence	Aug		86	85		86
09:00	GB	House prices, Halifax (m/m) (Sep 01- 05)	Aug					1.40%
09:30	SE	Industrial production (m/m)	Jul					1.00%
14:30	US	Average weekly hours	Aug		34.5	34.5		34.5
14:30	US	Hourly earnings, average (m/m)	Aug		0.20%	0.20%		0.00%
14:30	US	Hourly earnings, average (y/y)	Aug		2.00%	2.10%		2.00%
14:30	US	Nonfarm payrolls (absolute change m/m)	Aug		245k	220k		209K
14:30	US	Nonfarm private payrolls (absolute change m/m)	Aug			203k		198k
14:30	US	Unemployment rate	Aug		6.10%	6.10%		6.20%
16:00	MX	BoM announces interest rates	Sep			3.00%		3.00%

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