



# Week Ahead

13 – 19 Sep



Nordea Research, 12 September 2014

## Next week's key events

- **US**

The most anticipated economic event next week is the 16-17 September FOMC meeting, where the Fed's forward guidance will be in the spotlight. Also, we expect CPI headline inflation to dip to 1.9% in August from 2.0% in July, held down by lower energy prices in August. The consensus forecast is also 1.9%.

- **Euro area**

In the Euro area, the main focus will be on the first TLTRO allotment on Thursday. We look for a EUR 140bn number, which will likely disappoint, pushing bond yields and the euro lower. In terms of economic data, the German ZEW index will be released on Tuesday and final August inflation data for the area on Wednesday.

- **UK**

Wage growth has been weaker than expected. How wages and unit costs evolve onwards will be key factors for the BoE. Thus, we believe that focus in the September MPC minutes will be on the weak wage growth. In addition to this, Scotland holds a referendum on independence on September 18.

- **Sweden**

Election to the Riksdag is a wild card as opinion polls show that the gap is narrowing between the two main political blocks. If there will be a change of government, there may be tax hikes affecting the inflation path already from January 2015.

- **Norway**

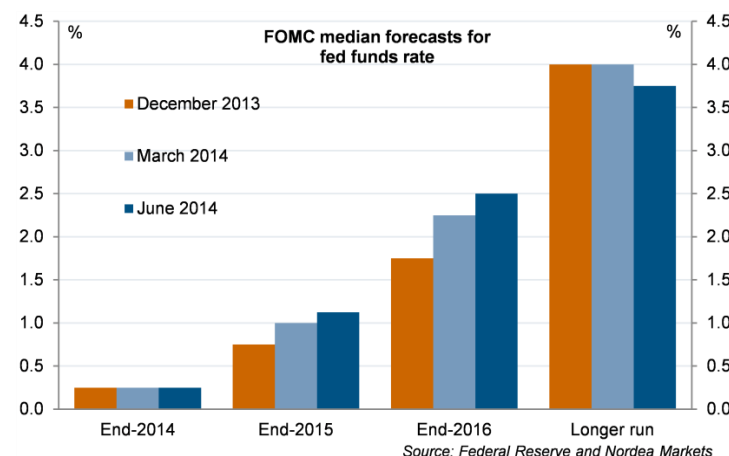
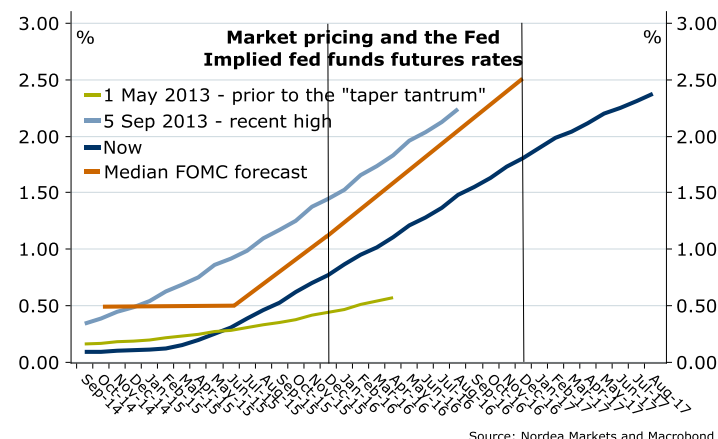
Unchanged rates are widely expected at the Norges Bank MPC meeting (Thu). All focus will be on new interest rate forecast.

- **Switzerland**

We expect no change in the policy rates from SNB on 18 September (3M Libor Target rate at 0%). But the pressure on the SNB has been intensified after ECB has cut the deposit rate to negative and pledged to expand the balance sheet by EUR 1 tn.

# US: Forward guidance heading for a change (Wed)

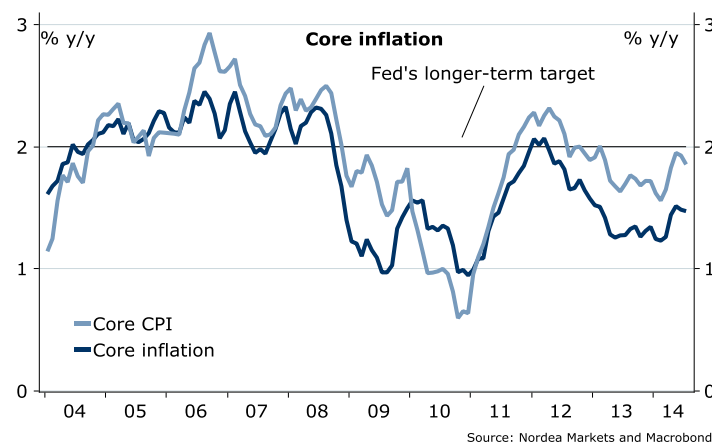
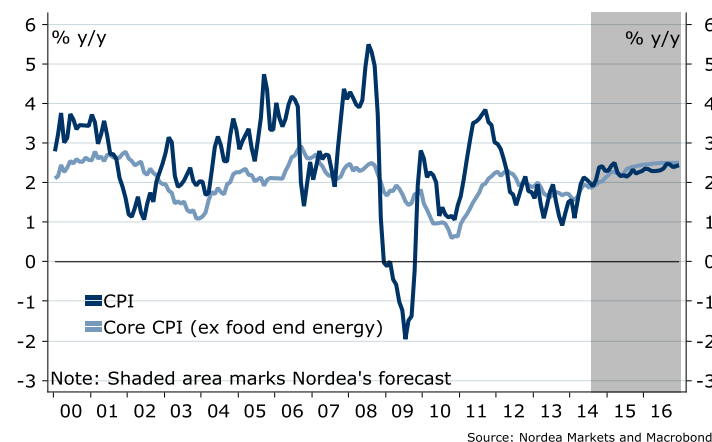
- The most anticipated economic event next week is the 16-17 September FOMC meeting, where the Fed's forward guidance will be in the spotlight.
- The Fed is highly likely to announce a further USD 10bn tapering of its QE programme to USD 15bn a month. Less certain is whether the Fed will change its forward guidance on future interest rates now or wait until next month.
- In our view, the FOMC is likely to appear somewhat more hawkish. Thus, we expect that the committee next week will drop its assessment that the first rate hike is still a "considerable time" away.
- However, to limit the risk of sharply adverse market reactions the FOMC is unlikely to make any hawkish changes to the median FOMC projections for the funds rate at this juncture.
- Such a shift in Fed rhetoric would likely strengthen the USD further and put further upward pressure on yields and lead to bearish flattening on the curve initially. However, we expect no major losses to longer-term bonds.
- For more analysis, see [US: Forward guidance heading for a change - FOMC preview](#).



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

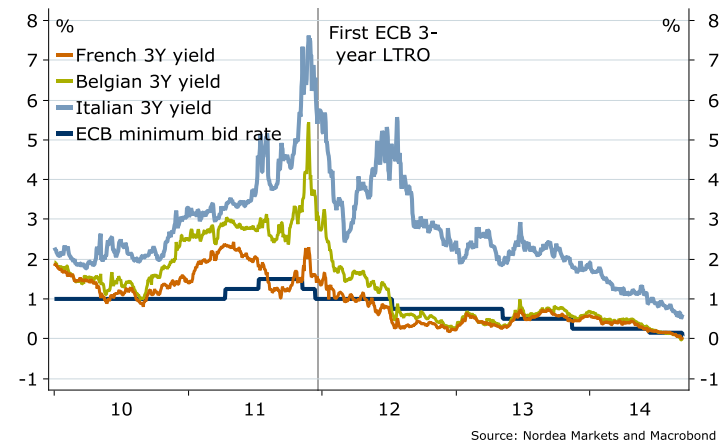
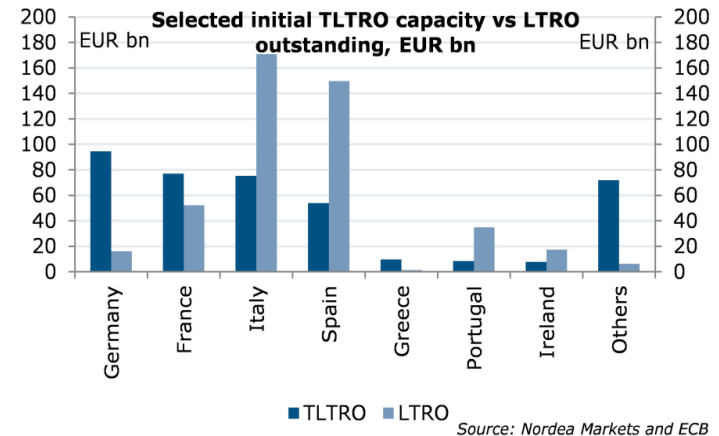
- We expect CPI headline inflation to dip to 1.9% in August from 2.0% in July, held down by lower energy prices in August. The consensus forecast is also 1.9%. The recent low was 1.0% in October.
- The core rate is expected to remain at 1.9% in August, also in line with consensus. In both June and July core CPI was weaker than expected, offsetting some of the upside surprises in prior months.
- After a pickup earlier this year core CPI has not accelerated further. Our forecast implies a 1.6% annual rate of increase in the core CPI in the last three months (June-August), roughly in line with the 1.7% pace in 2013 (Dec/Dec).
- Given the typical gap between CPI and PCE inflation, our forecast is consistent with core PCE inflation around 1.5%, up from the 1.2% recent low but still well below the Fed's 2% longer-run target.
- Going forward, however, we continue to expect core inflation to grind higher due to evidence of tighter labour and rental markets.

|                 | Nordea | Consensus | Previous |
|-----------------|--------|-----------|----------|
| CPI, % y/y      | 1.9    | 1.9       | 2.0      |
| Core CPI, % y/y | 1.9    | 1.9       | 1.9      |



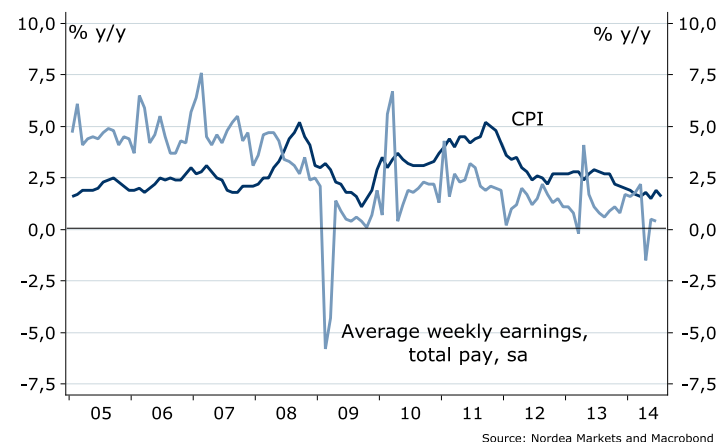
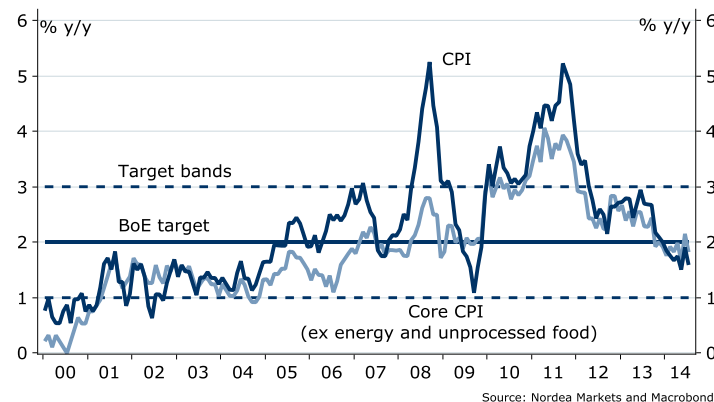
# Euro area: First TLTRO to disappoint (Thu)

- All the talk of the ECB targeting a balance sheet increase of around EUR 700 – 1000bn have boosted expectations that the ECB's actions will amount to sizable support.
- The cost of 15bp for roughly 4-year funding certainly looks attractive, while the case for carry trades weakened significantly.
- We would examine the two initial TLTROs together, but the near-term market reaction will be determined by the first TLTRO demand alone.
- We estimate the two first TLTROs will amount to around EUR 300bn (compared to the theoretical maximum of around EUR 400bn) , and expect the second operation to be somewhat bigger than the first one, as banks balance between a few months' difference in the maturity and the uncertainty of not knowing what the others will do.
- We look for a EUR 140bn allotment in the first TLTRO.
- The rather low number will likely cause a disappointment, and push bond yields back lower by creating more expectations that the ECB will have to be more aggressive in its bond purchases. Such an outcome would also keep the pressure on the euro.



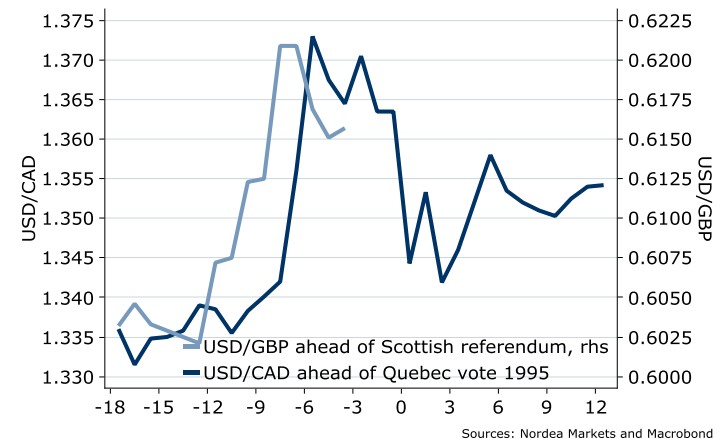
# BoE: Focus on wage growth in the MPC Minutes (Wed)

- As expected **Bank of England** (BoE) kept the rate unchanged at 0.5% and the asset purchase at £375 bn at the September MPC meeting.
- Wage growth has been weaker than expected. How wages and unit costs evolve onwards will be key factors for the BoE. Thus, we believe that focus in the September MPC minutes will be on the weak wage growth.
- Carney recently reiterated the view of the BoE's policymakers that the amount of slack in the labour market was equivalent to around 1% of GDP. Carney does not expect wages to rise faster than inflation until the middle of next year.
- The MPC minutes from the August meeting stated that two members (McCafferty and Weale) voted for an immediate rate hike by 25 bps. Most interesting is to see if there were more MPC members voting for a rate hike at the September meeting. We don't believe that another member voted for a rate hike (Wednesday).
- The **CPI inflation** slowed to 1.6% y/y in July, mainly due to a fall in clothing prices. We expect CPI inflation to increase to 1.7% y/y in August (Tuesday).
- Continuing weak wage growth supports our forecast on modest inflation and a first rate hike in Q2 2015.



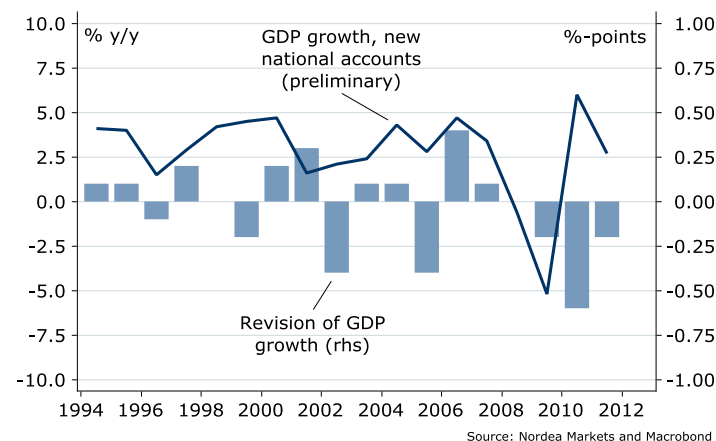
# UK: Scottish referendum (Thu)

- Scotland holds a referendum on independence on September 18. The GBP has weakened over the past few weeks. Since we in June made our 'worst case' outlook for GBP depreciation of around 10% in case of a 'Yes', the GBPUSD has already fallen more than 6%.
- The markets may have overestimated the chances of a 'Yes' vote. The GBP could bounce on the 'No', and even a 'Yes' wouldn't bring it much more lower, we believe. Volatility should decline. Note, also, the similarity of GBP behavior with the CAD around the Quebec vote back in 1995 (figure to the right).
- So far only one major poll (YouGov) has shown the odds slightly for a 'Yes' vote last weekend. But the latest September 11 YouGov poll has turned against Scottish independence again (52% for a 'No', 48% for a 'Yes').
- There will be more polls during the weekend and the coming week: notably, Panelbase over the weekend, YouGov and Ipsos MORI final polls next Wednesday.
- The results of the referendum will start to appear only 3am CET on September 19, final declaration time around 7am CET.
- We believe the outcome will be a 'No'.



# Sweden: Election, minutes and final Q2 GDP

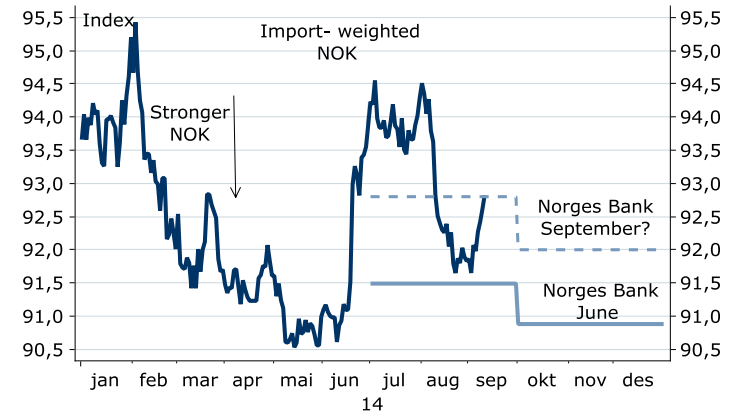
- **Election to the Riksdag** is a wild card as opinion polls show that the gap is narrowing between the two main political blocks. If there will be a change of government, there may be tax hikes affecting the inflation path already from January 2015, read more [here](#). (Sunday)
- The Riksbank's board was unanimous at [the 3 September monetary policy meeting](#) regarding the rate decision as well as the rate path. The **minutes** will probably be characterized by a "wait-and-see"-stance after the policy jolt in July. Note that the meeting was the day before the ECB's rate cut and announcement of additional measures. (Wednesday)
- Statistics Sweden will release **final Q2 GDP** data but also a new time series from 1993 based on an updated manual for the national accounts. The update and revisions will probably have no major bearing on monetary policy as all eyes are currently on inflation. Read more [here](#). (Thursday)





# Norway: Norges Bank new rate path (Thu)

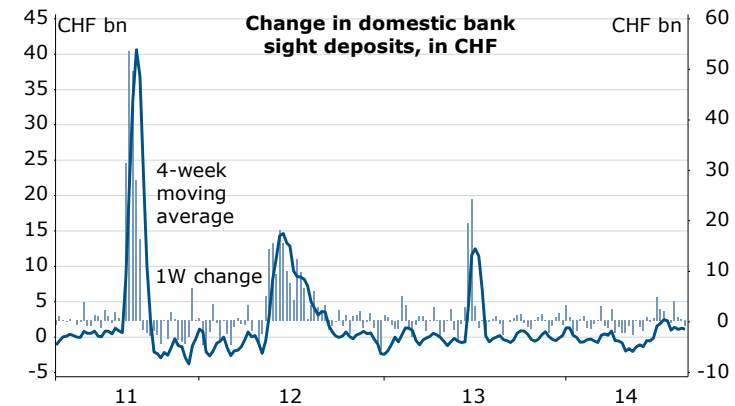
- Unchanged rates is widely expected at the Norges Bank MPC meeting (Thu). All focus will be on new interest rate forecast.
- Key question is whether Norges Bank keeps the short term downside risk to rates ( path below 1.50%)
- We do not think so. Inflation has been somewhat higher than expected and NOK weaker. Growth/labour market if anything slightly on the strong side.
- But the path will indicate low rates for long. Rates have fallen abroad. And the outlook for growth abroad weaken
- Main downside risk is oil investment. It is not our best guess, but Norges Bank could lower its forecast for oil investment.
- Risk to the upside: Norges Bank could lower its forecast for banks mortgage rates which argues for higher key rates



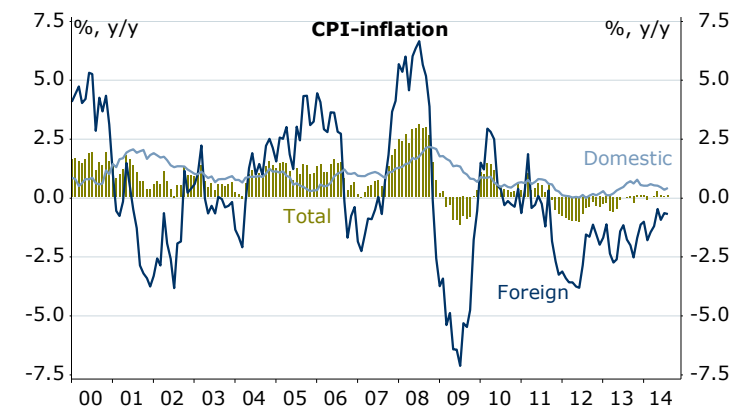
Kilde: Nordea Markets and Macrobond

# SNB: intervention first (Thu)

- We expect no change in the policy rates from SNB on September 18<sup>th</sup> (3M Libor Target rate at 0%).
- But the pressure on the SNB has been intensified after ECB has cut the deposit rate to negative and pledged to expand the balance sheet by EUR 1 tn.
- We believe the SNB will firstly exploit the FX intervention (so far, barely any, as seen from the sight deposit data to the right), which would be consistent with the recent comments from the policymakers.
- However, the hints and threats about the coming benchmark or sight deposit rate cut to negative will continue. Last week SNB's Moser reiterated that *"We have always said this is a possibility"*, which was sufficient to lift the EURCHF 0.5% off the floor.
- If intervention is tried, and is not successful – that is, has to last more than a month, and is intensive – the SNB will eventually cut the sight deposit rate.
- The current economic conditions – the recent slowdown in economic activity, money supply and mortgage lending, as well as inflation still hovering around zero – make the SNB's motivations clear: they will defend the 1.20 floor for the EURCHF whatever it takes.



Source: Nordea Markets and Reuters Ecowin



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# Calendar

| Saturday, September 13, 2014 |    |   |     |        | Nordea | Consensus | Actual | Previous |
|------------------------------|----|---|-----|--------|--------|-----------|--------|----------|
| 07:30                        | CN | Fixed asset inv. excl. rural YTD (y/y)  | Aug |        |        | 16.9%     |        | 17.0%    |
| 07:30                        | CN | Industrial production (y/y)             | Aug |        |        | 8.8%      |        | 9.0%     |
| 07:30                        | CN | Retail sales (y/y)                      | Aug |        |        | 12.1%     |        | 12.2%    |
| Monday, September 15, 2014   |    |   |     |        | Nordea | Consensus | Actual | Previous |
| 09:00                        | CN | Money supply, M2 (y/y) (Exp 10- 15 Sep) | Aug |        |        | 13.5%     |        | 13.5%    |
| 10:00                        | NO | Foreign trade with goods (bn)           | Aug |        |        |           |        | 22.6 bn  |
| 11:00                        | EU | Trade balance, sa                       | Jul | 14.5bn |        |           |        | 13.8bn   |
| 11:00                        | NO | Auction of Treasury Bills               |     |        |        |           |        |          |
| 14:00                        | PL | CPI (y/y)                               | Aug |        |        | -0.3%     |        | -0.2%    |
| 14:30                        | US | Empire manufacturing                    | Sep |        |        | 16.00     |        | 14.69    |
| 15:15                        | US | Capacity utilization                    | Aug |        |        | 79.3%     |        | 79.2%    |
| 15:15                        | US | Industrial production (m/m)             | Aug |        |        | 0.3%      |        | 0.4%     |
| Tuesday, September 16, 2014  |    |   |     |        | Nordea | Consensus | Actual | Previous |
| 08:00                        | SE | House prices, Mäklarstatistik (y/y)     | Aug |        |        |           |        | 7.0%     |
| 10:30                        | GB | CPI (m/m)                               | Aug | 0.5%   |        |           |        | -0.3%    |
| 10:30                        | GB | CPI (y/y)                               | Aug | 1.7%   |        |           |        | 1.6%     |
| 11:00                        | DE | ZEW, current situation                  | Sep | 50     |        |           |        | 44.3     |
| 11:00                        | DE | ZEW, economic sentiment                 | Sep | 5      |        |           |        | 8.6      |
| 14:30                        | US | PPI final demand (m/m)                  | Aug |        |        | 0.1%      |        | 0.1%     |
| 14:30                        | US | PPI final demand (y/y)                  | Aug |        |        | 1.8%      |        | 1.7%     |
| 14:30                        | US | PPI, core (m/m)                         | Aug |        |        | 0.1%      |        | 0.2%     |
| 14:30                        | US | PPI, core (y/y)                         | Aug |        |        | 1.8%      |        | 1.6%     |
| 22:00                        | US | TIC flows, net long-term                | Jul |        |        |           |        | -18.7bn  |
| 22:00                        | US | TIC flows, net total                    | Jul |        |        |           |        | -153.3bn |

# Calendar

| <b>Wednesday, September 17, 2014</b> |    |   |     |       | Nordea   | Consensus | Actual | Previous |
|--------------------------------------|----|---|-----|-------|----------|-----------|--------|----------|
| 09:30                                | SE | Minutes from the Monetary policy meeting 3 Sept, published              |     |       |          |           |        |          |
| 10:30                                | GB | Earnings, ex bonus, average (3mma, y/y)                                 | Aug |       |          |           |        | -0.2%    |
| 10:30                                | GB | Minutes of the BoE meeting  |     |       |          |           |        |          |
| 10:30                                | GB | Unemployment rate, claimant count                                       | Aug |       |          |           |        | 3.0%     |
| 11:00                                | EU | HICP (m/m, final)   | Aug | 0.1%  |          |           |        | -0.7%    |
| 11:00                                | EU | HICP (y/y, final)   | Aug | 0.8%  |          |           |        | 0.3%     |
| 11:00                                | EU | HICP core (final, y/y)  | Aug |       |          |           |        | 0.9%     |
| 11:00                                | SE | SNDO to auction bonds (SEK 3.5bn)                                       |     |       |          |           |        |          |
| 13:00                                | US | Mortgage applications, MBA  | Sep |       |          |           |        | -7.2%    |
| 14:00                                | RU | Retail sales Real (y/y)   | Aug |       | 1.0%     |           |        | 1.1%     |
| 14:30                                | US | CPI (m/m)   | Aug | 0.0%  | 0.0%     |           |        | 0.1%     |
| 14:30                                | US | CPI (y/y)   | Aug | 1.9%  | 1.9%     |           |        | 2.0%     |
| 14:30                                | US | CPI, core (m/m)   | Aug | 0.2%  | 0.2%     |           |        | 0.1%     |
| 14:30                                | US | CPI, core (y/y)   | Aug | 1.9%  | 1.9%     |           |        | 1.9%     |
| 14:30                                | US | Current account balance   | Q2  |       | -113.3bn |           |        | -111.2bn |
| 16:00                                | US | Housing market index, NAHB  | Sep |       | 56       |           |        | 55       |
| 20:00                                | US | FOMC announces interest rates   | Sep | 0.25% | 0.25%    |           |        | 0.25%    |
| 20:00                                | US | Fed pace of MBS purchases   | Sep | 5bn   | 5bn      |           |        | 10bn     |
| 20:00                                | US | Fed pace of Treasury purchases  | Sep | 10bn  | 10bn     |           |        | 15bn     |
| <b>Thursday, September 18, 2014</b>  |    |   |     |       | Nordea   | Consensus | Actual | Previous |
| 00:45                                | NZ | GDP (q/q)   | Q2  |       |          |           |        | 1.0%     |
| 01:50                                | JP | Merchnds Trade Exports (y/y)  | Aug |       | -3.5%    |           |        | 3.9%     |
| 01:50                                | JP | Merchnds Trade Imports (y/y)  | Aug |       | -1.6%    |           |        | 2.3%     |
| 04:00                                | CN | FDI (y/y) (Exp 14-18 Sep)   | Aug |       | 1.0%     |           |        | -17%     |
| 09:30                                | SE | GDP (sa, q/q) (final)   | Q2  |       |          |           |        | 0.2%     |
| 10:00                                | NO | Norges Bank publishes interest rate decision and holds press conference |     |       |          |           |        |          |
| 10:00                                | NO | Norges Bank publishes new Montary Policy Report                         |     |       |          |           |        |          |
| 10:30                                | GB | Retail sales ex auto (y/y)  | Aug |       |          |           |        | 3.4%     |
| 11:15                                | EU | TLTRO allotment   |     |       |          |           |        |          |
| 12:00                                | NO | Norges Bank announces auction of Treasury bonds                         |     |       |          |           |        |          |
| 14:30                                | US | Building permits  | Aug |       | 1035k    |           |        | 1057k    |
| 14:30                                | US | Housing starts  | Aug |       | 1035k    |           |        | 1093k    |
| 14:30                                | US | Jobless claims, initial   | Sep |       |          |           |        | 315k     |
| 16:00                                | US | Philadelphia Fed  | Sep |       | 22.5     |           |        | 28       |
| <b>Friday, September 19, 2014</b>    |    |   |     |       | Nordea   | Consensus | Actual | Previous |
| 16:00                                | US | Leading index   | Aug |       | 0.4%     |           |        | 0.9%     |

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