



# Week Ahead

18 – 24 Oct



Nordea Research, 17 October 2014

## Next week's key events

- **US**

The upcoming week offers CPI data from the US. The CPI headline inflation is expected to dip due the lower energy prices in September and we expect the core rate to rise. Both forecasts are in line with consensus.

- **Euro area**

Euro-area PMIs will likely continue to fall, bringing the manufacturing PMI below 50 for the first time since mid-2013, which would increase talks of another recession. In addition, EU leaders will gather to yet another summit on Thursday and Friday to discuss the economic situation in the EU, among other matters. Euro-area leaders will have their own session, and differences of opinion regarding fiscal policy and budget rules are set to feature in the discussions.

- **UK**

We believe that the October MPC minutes will focus on the development of the slack in the economy and the weak wage growth. The upcoming GDP will reflect that the British economy continues to grow strongly.

- **China**

We expect the Chinese economy to grow by 2.0% q/q (consensus 1.8%) in Q3. The growth path in H1 this year has been similar to the previous two years in Q1 and Q2 while Q3 was different and saw a mixed performance. Uncertainty regarding the flash HSBC/Markit PMI for October is large. Unfortunately, the risk tilts to the downside, so the headline index may dip below 50, the first time since May.

- **Sweden**

We expect the unemployment rate (SA) to edge down by 0.1% as a consequence of the expected decline in the labour supply. The coming week offers the government budget for 2015 as well. Most reforms and measures have probably already been announced.

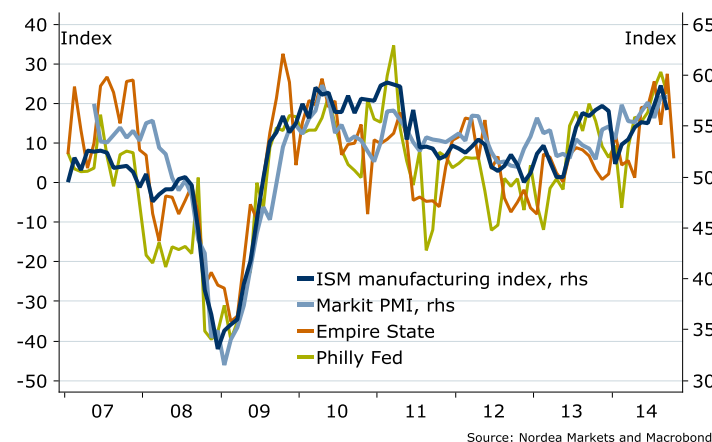
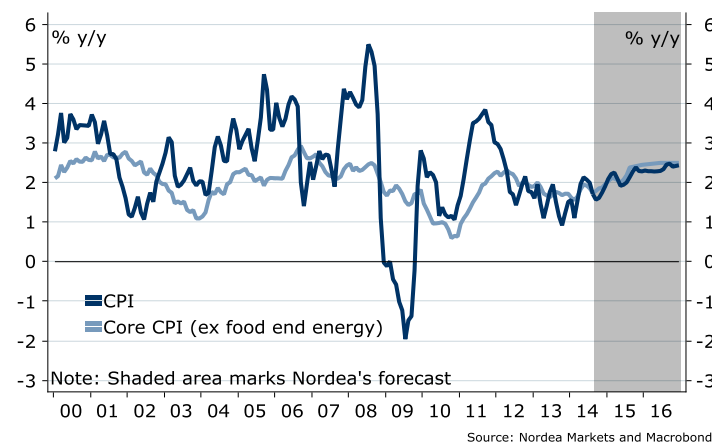
- **Norway**

Next week Norges Bank will publish its rate decision, but it will not publish interest rate forecast this time.

# US: CPI inflation to remain tame (*Wednesday*)

- We expect **CPI** headline inflation to dip to 1.6% in September from 1.7% in July, held down by lower energy prices in September. The consensus forecast is also 1.6%. The recent low was 1.0% in October.
- The **core rate** is expected to rise to 1.8% in September from August's 1.6%, also in line with consensus. This week's tame PPI data point to some downside risks to our forecast.
- After a pickup earlier this year core CPI has recently slowed down. Our forecast implies a 1.2% annual rate of increase in the core CPI in the last three months (July-September), down from 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.
- Moreover, the October **Markit PMI** (Thu) will be watched for any signs that the decline in the September ISM index to 56.6 was a signal of softening rather than just a correction of recent exaggerated strength.

September 2014	Nordea	Consensus	Previous
CPI, % y/y	1.6	1.6	1.7
Core CPI, % y/y	1.8	1.8	1.7

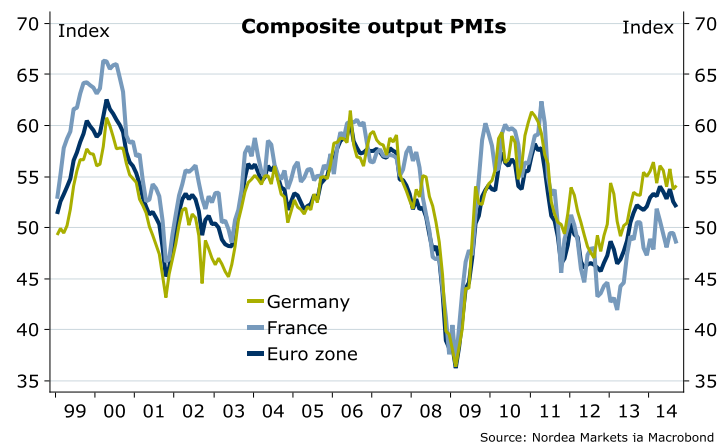


# Euro area: Flash PMIs to lose even more momentum

- Recent Euro-area economic data releases have been disappointing, and next week's PMI data are unlikely to be an exception.
- The Euro-area economy has clearly lost momentum lately, and the composite output PMI has fallen for two months in a row, while the manufacturing PMI has been heading lower for five months already.
- The weaker euro, lower oil price and the ECB's easing measures are unlikely to have offset the drag coming from weakening growth momentum, geopolitical tensions and wobbly risk appetite: both services and manufacturing PMI expected to slip, increasing talks of another recession.
- Considering recent data has already looked rather ugly, we would likely need to see a sizable drop in the PMIs to induce a large market reaction.

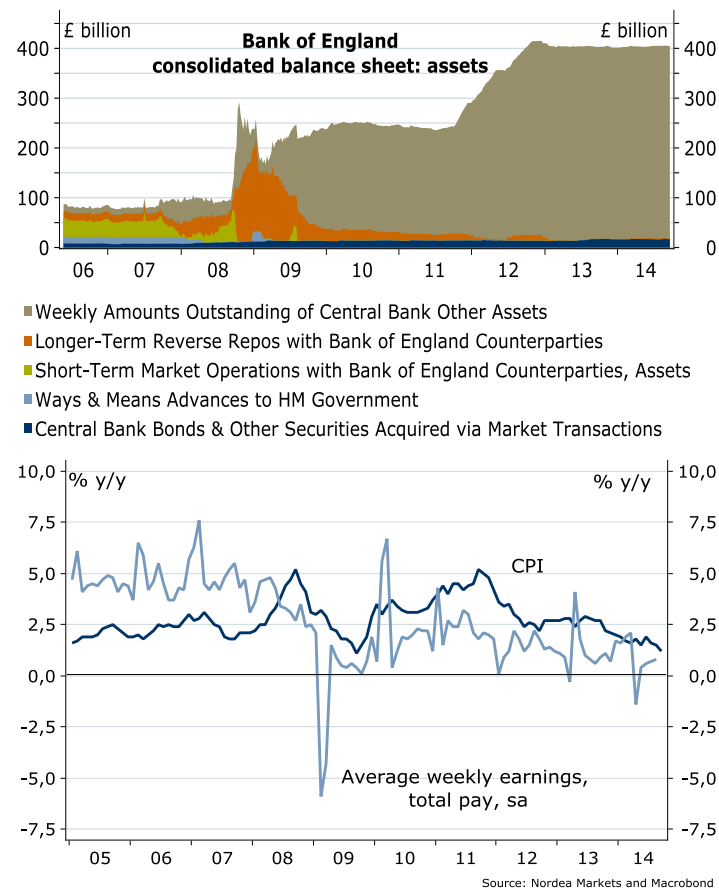
Oct-14	Nordea	Consensus	Previous
Composite	50.9	51.6	52.0
Manufacturing	49.0	50.0	50.3
Services	51.4	52.0	52.4

Source: Nordea Markets, Macrobond and Reuters



# UK: Focus on spare capacity in the MPC minutes (Wed)

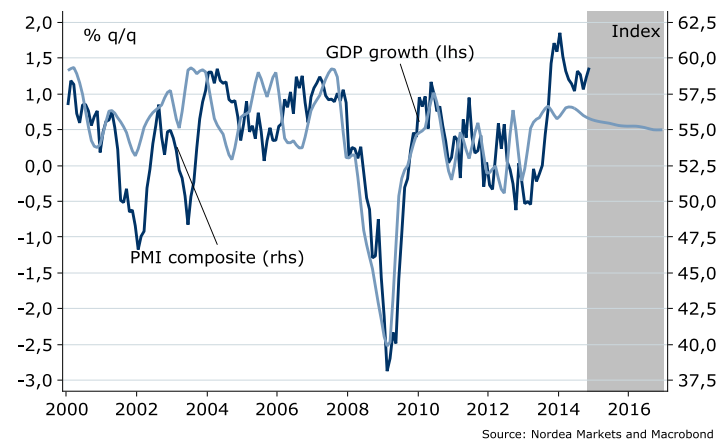
- At the MPC meeting on 8-9 October the **Bank of England (BoE)** 7 of 9 members voted for maintaining the rate at 0.5% and the size of the Asset Purchase Programme at £375. Two of the MPC members, *McCaffery and Weale*, see that economic circumstances are sufficient to justify a rate hike by 25 bps. We don't believe that there were further members voting for a rate hike at the October MPC meeting.
- The September minutes also stated that *"The key judgement was whether unit labour costs would rise more or less rapidly than suggested by the August Inflation Report projections"*. We believe that the **October MPC minutes** will focus on the development of the slack in the economy and the weak wage growth.
- Weak wage growth and low inflation outlook (down to 1.2% in September) together with a tightening of macro-prudential policy support our view on **a first rate hike in Q2 2015**.



# UK: Strong growth momentum (Friday)

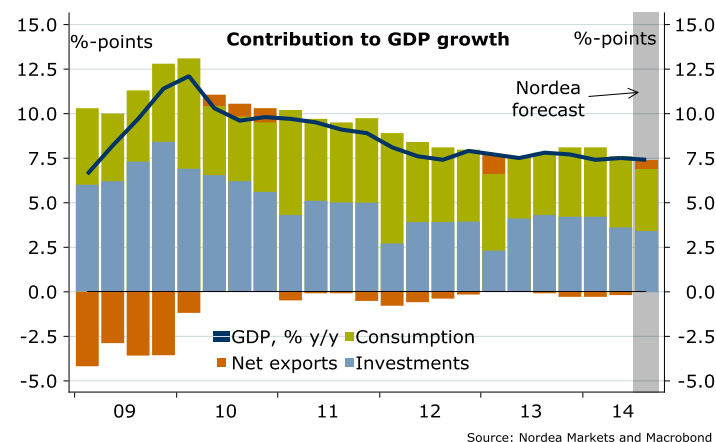
- The British economy continues to grow strongly and we expect Q3 GDP to rise by 0.7% q/q and 3.0% y/y.
- PMI has been volatile on the last months but has remained comfortably above the 50 mark supporting strong growth ahead.

UK	Nordea	Consensus	Previous
GDP, m/m	0.7	0.7	0.9
GDP, y/y	3.0	3.0	3.2



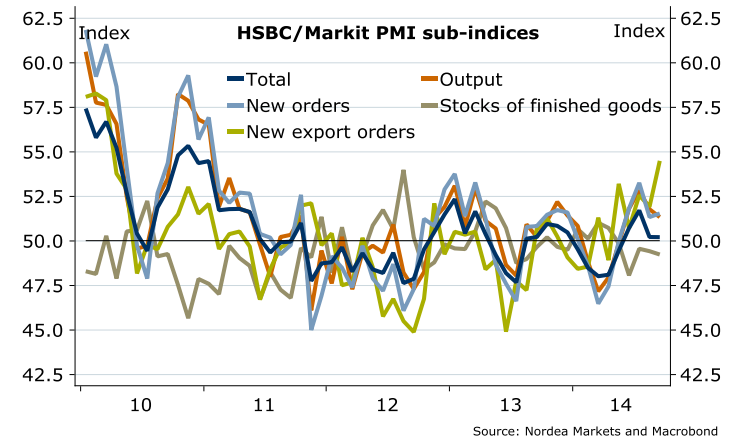
# China: GDP (*Tuesday*)

- We expect the Chinese economy to grow by 7.4% y/y (consensus 7.2%) and 2.0% q/q (1.8%) in Q3.
- The growth path in H1 this year was similar to the previous two years, with a slowdown in Q1 followed by stabilisation/recovery in Q2. However, Q3 was different this year and saw a mixed performance.
- Even though infrastructure investment picked up, it was inadequate to offset the falling trend of industrial investment which is due to overcapacity and the cooling housing market. We expect investment to contribute less to growth than in the previous quarters. On a more positive note, net exports were the star component in Q3 and may contribute positively to growth, which is a rare sight since 2010.
- We stick to our call on the annual growth of 7.5% this year. Premier Li Keqiang voiced the same confidence in a recent speech. At the same time, he stressed that growth slightly lower than the target would also be acceptable. Thus, no large stimulus should be expected, incl. rate cuts or RRR cuts.



# China: Flash PMI (*Thursday*)

- Uncertainty regarding the flash HSBC/Markit PMI for October is large. Unfortunately, the risk tilts to the downside, so the headline index may dip below 50, the first time since May.
- Since 2012, the PMI has followed its own peak-bottom cycle within a year. For this year, it bottomed in April, which means that it should stay comfortably above 50 for at least a few more months, but the cooling housing market has distorted the picture.
- Falling housing sales over the summer caused new orders and output to drop sharply in August. But as we expect the relaxed housing restrictions and favourable mortgage conditions to stabilise the market in the coming 3-6 months, the PMI should see some upside by then.
- While the manufacturing PMI has fluctuated around the 50-mark, the service PMI has sustained above it. The future trend is clear. The service sector will enjoy faster expansion than the industrial sector.





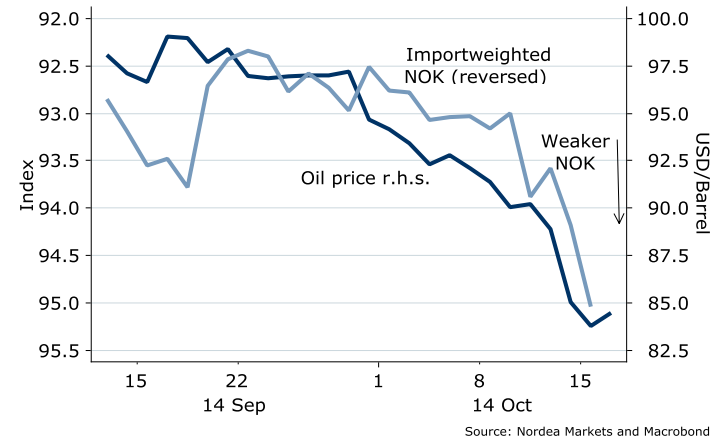
# Sweden: Labour market strength (*Thursday*)

- The domestic economy is showing good growth, which is reflected in the strong labour market trends. **Employment** growth has accelerated recently according to the Labour Force Survey, and the small set back we forecast for September doesn't alter the picture of labour market strength. Indicators remain rather upbeat.
- The labour supply is expected to show a similar development, i.e. a small decline after several months with robust growth. As a consequence, seasonally adjusted **unemployment** should edge down by 0.1% point to 7.9% in September. (*Thursday*)
- The **government budget** for 2015 will be presented next week. Most reforms and measures have probably already been announced. Income taxes and some payroll taxes will be hiked while there seems to be few tax changes with direct impact on the CPI. (*Thursday*)



# Norway: Norges Bank MPC meeting (Thursday)

- **Norges Bank will publish its rate decision** (Thur. 10.00 CET). It will not publish interest rate forecast this time
- The press release will give some information about how Norges Bank views the latest information
- NOK is significantly weaker than expected and banks are cutting mortgage rates more than Norges Bank has expected
- But oil price has fallen, turmoil in market increased, the international picture more uncertain and if anything domestic figures have been on the weak side
- Norges Bank will point to the various factor pulling in various directions, but not give any clear conclusion to whether development in sum is for higher, lower or unchanged rate path



*Lower oil price, but weaker NOK*

# Calendar

<b>Saturday, October 18, 2014</b>					Nordea	Consensus	Actual	Previous
04:00	CN	FDI (y/y) (Exp 14- 18 Oct)	Sep			- 14.0%		- 14.0%
14:30	US	Fed's Rosengren Speaks at Boston Fed Conference on Inequality						
<b>Tuesday, October 21, 2014</b>					Nordea	Consensus	Actual	Previous
02:30	AU	Minutes of the RBA meeting						
04:00	CN	GDP (sa, q/q)	Q3		2.0%	1.8%		2.0%
04:00	CN	GDP (y/y)	Q3		7.4%	7.2%		7.5%
04:00	CN	Industrial production (y/y)	Sep			7.5%		6.9%
04:00	CN	Retail sales (y/y)	Sep			11.7%		11.9%
08:00	FI	Unemployment rate	Sep					7.4%
16:00	US	Home sales, existing (m/m)	Sep			0.7%		- 1.8%
<b>Wednesday, October 22, 2014</b>					Nordea	Consensus	Actual	Previous
01:50	JP	Merchnds Trade Exports (y/y)	Sep					- 1.3%
01:50	JP	Merchnds Trade Imports (y/y)	Sep					- 1.5%
10:00	ZA	CPI (y/y)	Sep					6.4%
10:30	GB	Minutes of the BoE meeting						
13:00	US	Mortgage applications, MBA	Sep					
14:30	US	CPI (y/y)	Sep		1.6%	1.6%		1.7%
14:30	US	CPI, core (y/y)	Sep		1.8%	1.8%		1.7%

# Calendar

Thursday, October 23, 2014					Nordea	Consensus	Actual	Previous
	SE	The Swedish budget bill is presented to the Riksdag						
03:45	CN	PMI, manufacturing (flash), HSBC	Oct					50.2
08:45	FR	Business confidence, INSEE	Oct	97				96
09:00	FR	PMI, manufacturing (preliminary)	Oct					48.8
09:00	FR	PMI, services (preliminary)	Oct					48.4
09:30	DE	PMI, manufacturing (preliminary)	Oct					49.9
09:30	DE	PMI, services (preliminary)	Oct					55.7
09:30	SE	Unemployment, labour force survey (AKU)	Sep	7.4%				7.4%
09:30	SE	Unemployment, labour force survey (AKU), sa	Sep	7.9%				8.0%
10:00	EU	PMI, composite (flash)	Oct					52
10:00	EU	PMI, manufacturing (flash)	Oct					50.3
10:00	EU	PMI, services (flash)	Oct					52.4
10:00	NO	Norges Bank publishes interest rate decision and holds press conference						
10:00	NO	Norges Bank publishes new Monetary Policy Report						
10:00	PH	BSP Overnight Borrowing Rate	Oct					2.50%
10:00	PH	BSP Special Deposit Account Rate	Oct					4.00%
10:30	GB	Retail sales ex auto (y/y)	Sep					4.5%
13:00	TR	CBT announces interest rates (Benchmark repo rate)	Oct					8.25%
13:00	TR	CBT announces interest rates (Overnight lending rate)	Oct					11.25%
14:00	PL	Minutes of the NBP meeting						
14:30	US	Jobless claims, initial	Oct					
15:45	US	Markit manufacturing PMI (preliminary)	Oct		57.5			57.5
16:00	EU	Consumer confidence (flash)	Oct					-11.4
16:00	US	Kansas City Fed manufacturing activity	Oct					6
16:00	US	Leading index	Sep		0.7%			0.2%
Friday, October 24, 2014					Nordea	Consensus	Actual	Previous
01:00	KR	GDP (y/y, preliminary)	Q3					3.5%
08:00	FI	PPI (y/y)	Sep					-0.8%
08:00	FI	Retail Sales Volume (y/y, preliminary)	Sep					
08:00	DE	Consumer confidence, GfK	Nov					8.3
10:00	NO	Housing starts (s.a.)	Sep					2 162
10:30	GB	GDP (q/q, preliminary)	Q3	0.7	0.7			0.9%
10:30	GB	GDP (y/y, preliminary)	Q3	3.0	3.0			3.2%
12:00	IT	Consumer confidence	Oct					102
16:00	US	Home sales, new (m/m)	Sep		-6.3%			18%

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