



Week Ahead

25 Oct – 1 Nov



Nordea Research, 24 October 2014

Next week's key events

- **US**

Fed meeting Wednesday. Despite the recent market turmoil we still expect the Fed to end its asset purchase programme at next week's FOMC meeting. As for the GDP numbers on Thursday, we expect the US economy expanded at an annual rate of 3.2% in Q3, following a 4.6% pace in Q2 when activity rebounded after the weather-related slump in Q1.

- **Euro area**

On Sunday at 12:00 CET, the ECB will publish the long-awaited results of the health check for banks (asset quality review and stress test). [Here](#) is our preview. Markets will have to digest that on Monday together with the Ifo index that we expect to decline again. Friday brings the flash estimate for inflation in October. We expect the rate to rise to 0.5% y/y (from 0.3%) which is slightly above consensus.

- **Japan**

The BoJ is expected, by us and the market, to stay put regarding its QQE programme on Friday. Along the monetary policy decision, the BoJ will release its semi-annual outlook report.

- **Sweden**

We expect the Riksbank to cut its repo rate to 0.05% at next week's monetary policy meeting. Also, the inflation forecast and the rate path will be significantly revised downward.

- **Norway**

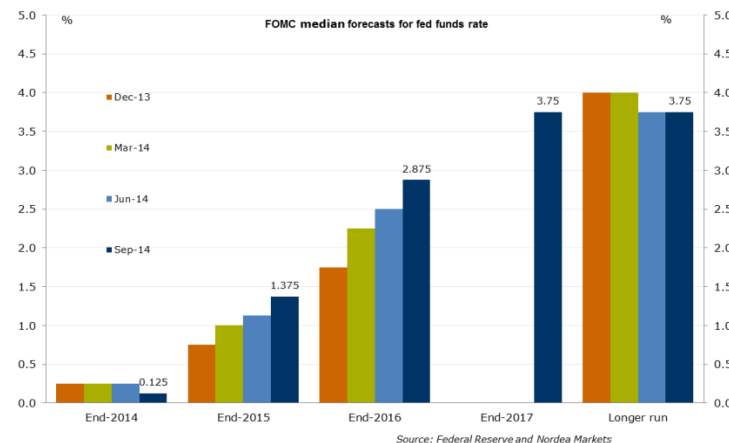
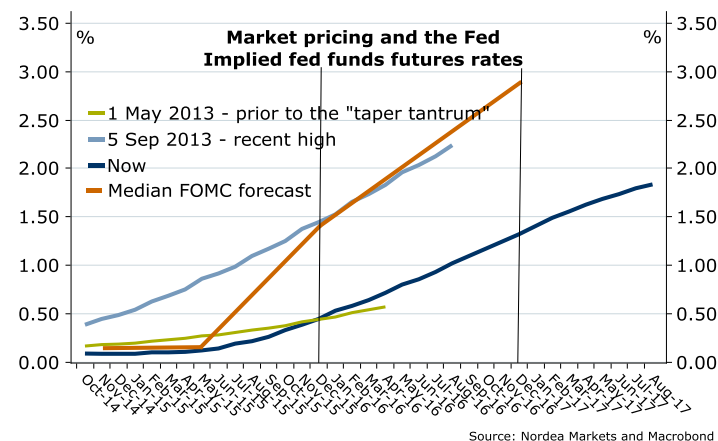
We expect retail sales to increase by 0,4 % in September (Wed 10:00 CET), following +0,6 % in August.

- **Brazil**

Second round of elections on Sunday. Polls show President Rousseff in a small lead ahead of the runoff.

US: Fed to end QE (Wed)

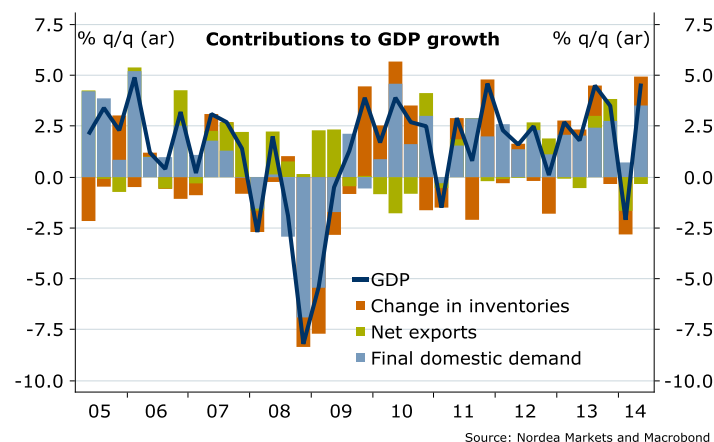
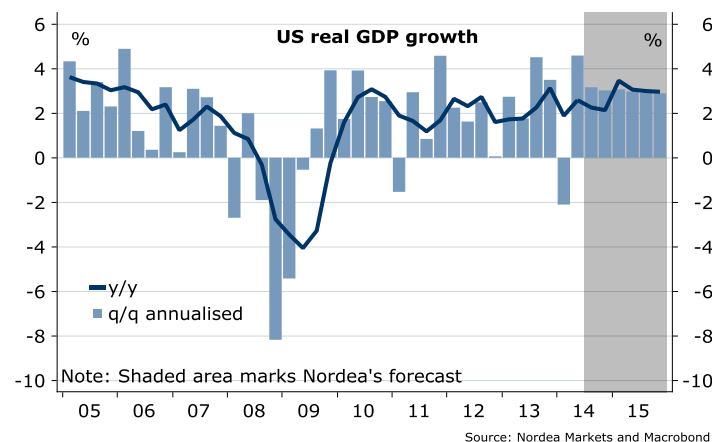
- Despite the recent market turmoil we still expect the Fed to end its asset purchase programme at next week's FOMC meeting.
- With unemployment now below 6% we also believe the Fed will remove from its post-meeting statement the phrase that rates would stay low for "a considerable time" after the end of QE and move to guidance that is more data dependent. However, we do acknowledge that this key phrase might be left in next week's statement due to the current weak market sentiment.
- However, to limit the risk of sharply adverse market reactions to such a change the Fed will likely make it clear that there are no plans for tightening yet. Thus, an acknowledgement of increased downside risks to the US growth outlook posed by global factors seems likely in the FOMC statement.
- The FOMC statement will be released at 19:00 CET. There is no press conference after the meeting, and no projections will be released.
- We now expect the first Fed rate hike in June 2015, see [New financial forecasts - majors](#).



US: Q3 GDP growth to remain above potential (Thu)

- We expect the US economy expanded at an annual rate of 3.2% in Q3, following a 4.6% pace in Q2 when activity rebounded after the weather-related slump in Q1. The consensus forecast is 3.0%.
- If we are right, that would be the fourth time in five quarters that growth has exceeded 3%, something that hasn't happened since a stretch in 2004 and 2005.
- Growth around 3% is well above most estimates of potential growth (our estimate is 2%) and this implies that we should expect continued declines in unemployment. We currently expect payrolls growth of around 225k per month in Q4.
- Within the GDP, we expect to see improvements from the previous quarter. Thus, final demand (GDP less changes in inventories) probably expanded 3.5%, stronger than the 3.2% pace in Q2. Net exports are expected to have added 0.3% point to Q3 GDP growth after a 0.4% point drag in Q2.
- For now , we expect 3.2% growth in Q4 2014.

Q3 2014	Nordea	Consensus	Previous
Real GDP, % q/q annualised	3.2	3.0	4.6

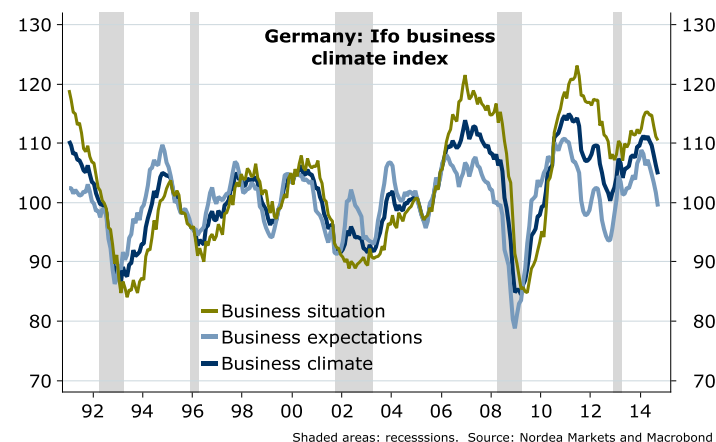


Germany: Ifo to decline again (Mon)

- The October PMIs were surprisingly robust, especially in the manufacturing sector. Headwinds from China may be about to abate, while other dampening factors remain in place. The ifo index may be close to bottoming out, but for October, we expect it to decline again, mainly driven by lower expectations.
- At current levels, the Ifo index is broadly compatible with zero growth; it could be a small plus or minus. The recession debate is slightly beside the point. The important question is not whether GDP is growing or falling a bit. Is it growing enough to create more jobs – that's important. Job creation has slowed down recently, and that's a worrying sign.
- A positive surprise from the Ifo will not take pressure away from the ECB to add more stimulus. On the other hand, it would strengthen the German government's view that more stimulus is not needed.

Oct-14	Nordea	Consensus	Previous
Ifo business climate	103.8	104.1	104.7
Ifo business expectations	98.0	98.4	99.3
Ifo business conditions	110.0	109.5	110.5

Source: Nordea Markets and Macrobond

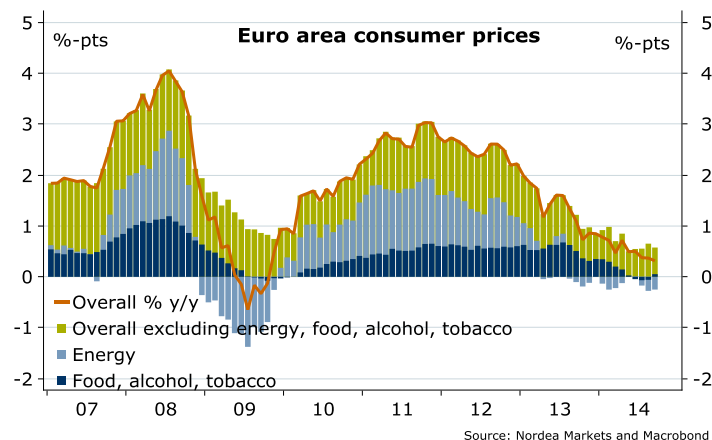
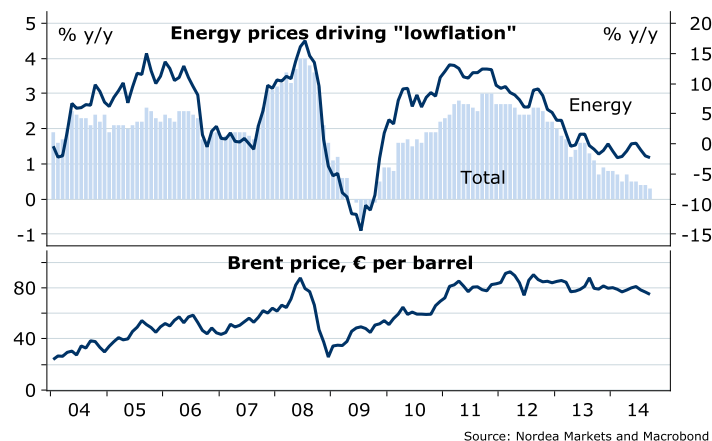


Euro area: Inflation up to 0.5% y/y (Fri)

- We expect the Euro area inflation rate to increase to 0.5% y/y in October (flash estimate). This forecast is above consensus and the main risk is to the downside.
- Given the recent fall in oil prices, the energy component will certainly decline again over the month, but in our view by less than a year ago so that there is a small positive base effect.
- Then all depends on how prices ex energy developed. After the very low m/m increase of core prices in September, we now expect a somewhat stronger, more normal increase that lifts the y/y core rate.
- Ahead of the Euro-area numbers on Friday, German and Spanish numbers will be published on Thursday.
- Inflation failing to pick up in Q4 could lead the ECB one step closer to sovereign bond purchases. If media speculation is correct, however, the ECB could first aim at broadening the spectrum of private assets purchases by buying corporate bonds.

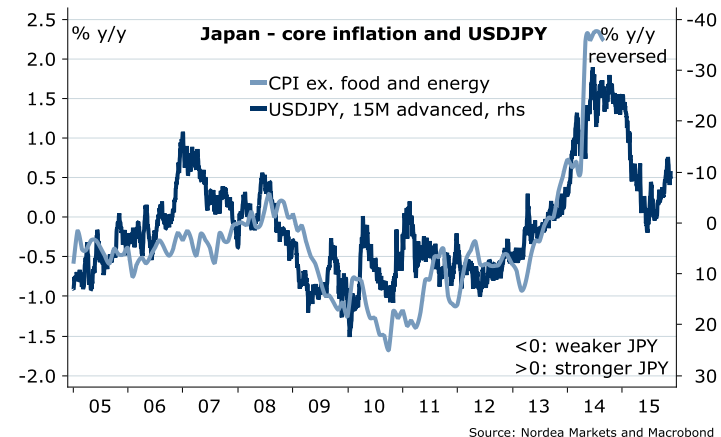
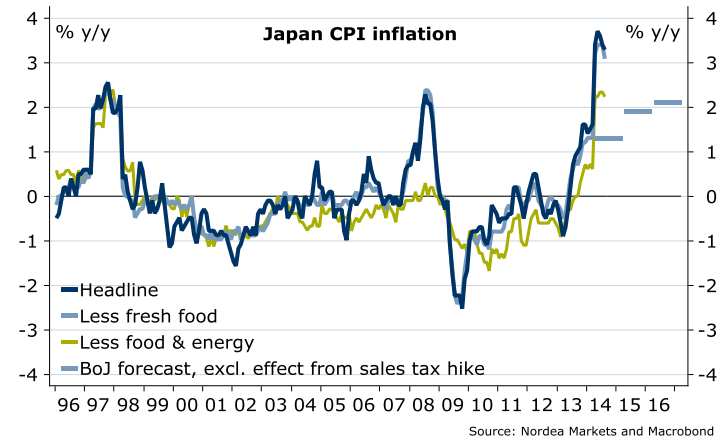
October 2014, % y/y	Nordea	Consensus	Previous
HICP headline rate	0.5	0.4	0.3
HICP ex food, energy, alc., tob.	0.9	0.9	0.8

Source: Nordea Markets and Macrobond



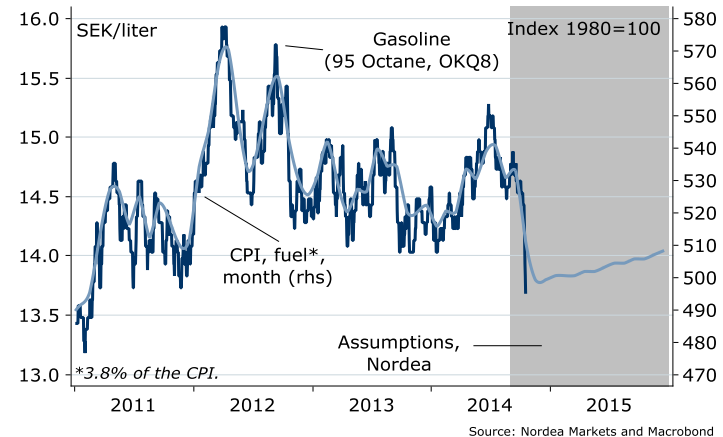
Japan: BoJ (Fri)

- The BoJ is expected, by us and the market, to stay put regarding its QQE programme on Friday.
- Along the monetary policy decision, the BoJ will release its semi-annual outlook report. The market is widely speculating that the BoJ will modify its inflation forecasts, currently at 1.3% for fiscal year 2015 and 1.9% for fiscal year 2016. There has been rumour that the BoJ will make the time frame of the inflation target, perceived by the market to be early next year, more flexible.
- At the last monetary policy meeting on 7 October, governor Kuroda maintain his upbeat inflation view. But there are signs that inflation may fall sharply in the coming months. Downward price pressure comes also from declining crude oil prices.
- Hiroshi Watanabe, a former top currency diplomat and a close friend to Kuroda, said this week that the BoJ will keep monetary policy steady even if inflation does not reach 2% early next year. On the JPY, he said that no FX intervention is likely from the BoJ.



Sweden: Riksbank - cutting to zero but then what? (Mon)

- We expect the Riksbank to cut its repo rate to **0.05%** at next week's monetary policy meeting. Also, the inflation forecast and the **rate path will be significantly revised downward.**
- Looking further ahead, we do not expect a repo rate below zero or the launch of unconventional measures. **If unconventional measures were to become relevant anyway, a floor for the krona exchange rate against the euro is the most likely choice.**
- See more details in our Riksbank preview: ["Down to zero, but then what?"](#)



**Falling oil prices push down CPI further...
....and monetary policy is all about spot inflation**

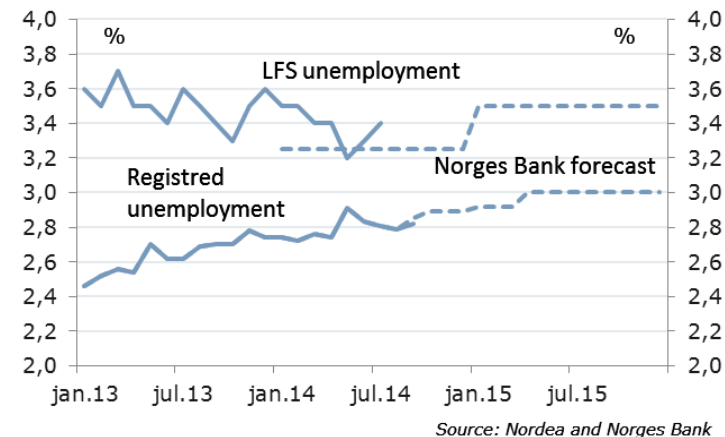
Norway: Retail sales and labour market figures

- We expect **retail sales to increase by 0,4 % in September** (Wed 10:00 CET), following +0,6 % in August.
- Despite two months of decent growth the trend is still weak due to the big drop in July. Retail sales will drop with 0,6 % q/q in Q3.
- That is bad news for Norges Bank, which expect a 2,25 % growth in private consumption in 2014. Even with a strong rebound in Q4 consumption could easily end up on the weak side of its forecast.
- This weeks two unemployment figure is expected to rise moderately due a relatively slow growth.
- The unemployment figure to follow is **September registered unemployment (Thur 10:00)**. We forecast a moderately rise in seasonally adjusted unemployment, in line with Norges Bank's forecast.
- The unadjusted registered unemployment rate which the market follow should however drop from 2.7% to 2.6%.

Flattening trend i retail sales (s.a.)



Norges Bank believe in higher unemployment (s.a.)



Brazil: 2nd run-off of Presidential Election (Sun)

26 Oct: Second round run-off

1 Jan: The president takes office

- Polls show President Rousseff in a small lead ahead of the runoff on Sunday.
- Markets have largely been driven by opinion polls – **markets bullish on signs of victory by the opposition** – believe Neves to be more market-friendly.

Victory by Rousseff:

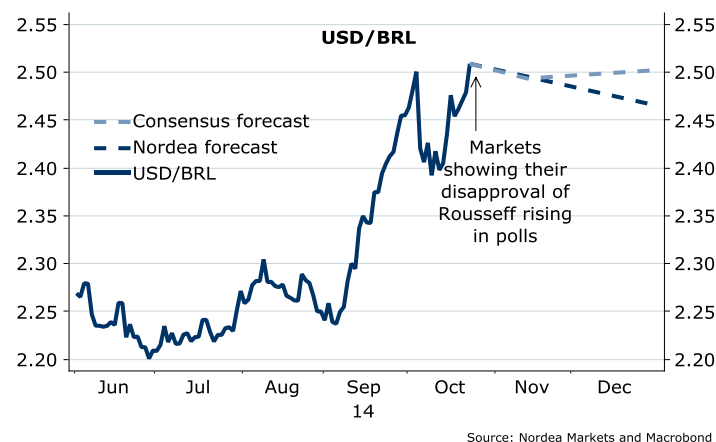
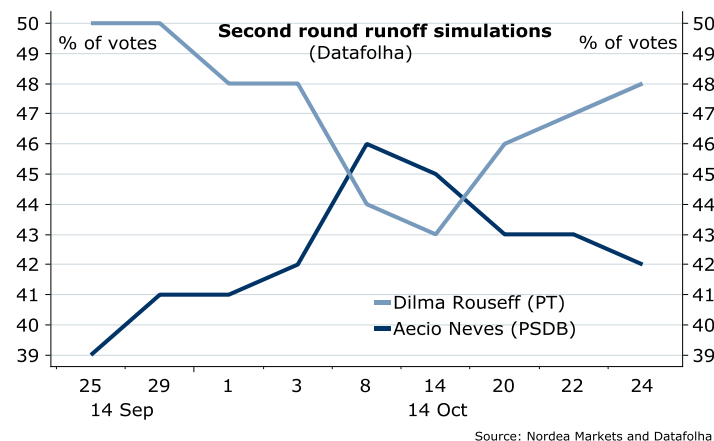
- Likely to lead to a short term weakening of the BRL. However, we believe the step up of the CB interventions should lead it back to close **around 2.45 year-end**.

Victory by Neves:

- A small appreciation of the BRL after the results are known. However, he argues for a floating BRL and a stop of the BCBs currency intervention program adding risks for a weakening of the BRL in the medium term.

Read more:

- [Brazil: Election uncertainties and the BRL](#)



Calendar

Sunday, October 26, 2014					Nordea	Consensus	Actual	Previous
	BR	Presidential Election Second round run-off						
Monday, October 27, 2014					Nordea	Consensus	Actual	Previous
05:30	JP	Industrial Production (y/y, preliminary)	Sep			-0.1%		-3.3%
09:00	SE	Riksbank's monetary policy meeting 5						
09:30	SE	Financial market statistics, household lending (y/y)	Sep	5.6%				5.6%
10:00	EU	M3 (y/y)	Sep	2.1%	2.2%			2.0%
10:00	DE	Ifo, business climate (main)	Oct	103.8	104.6			104.7
10:00	DE	Ifo, current assessment	Oct	110	110.1			110.5
10:00	DE	Ifo, expectations	Oct	98	99.3			99.3
15:45	US	Markit composite PMI (preliminary)	Oct					59
15:45	US	Markit services PMI (preliminary)	Oct					58.9
16:00	US	Home sales, pending (m/m)	Sep		1.0%			-1%
16:30	US	Dallas Fed Man. Activity	Oct		11.0			10.8
Tuesday, October 28, 2014					Nordea	Consensus	Actual	Previous
09:30	SE	Monetary Policy Report Oct 2014, published		0.05%				0.25%
09:30	SE	PPI (y/y)	Sep					2.7%
09:30	SE	Retail sales (sa, m/m)	Sep	-0.7%				1.9%
09:30	SE	Retail sales (y/y)	Sep	3.0%				4.6%
09:30	SE	Trade Balance	Sep					-2.8bn
10:00	NO	Business survey, manufacturing	Q3					8
10:00	NO	Norges Bank publishes report on Financial Stability						
14:30	US	Durable goods orders (m/m)	Sep		0.4%			-18.2%
14:30	US	Durable goods orders, ex transportation (m/m)	Sep		0.6%			0.7%
15:00	US	House prices, S&P/Case-Shiller, composite-20 (y/y)	Aug		5.65%			6.75%
16:00	US	Consumer confidence	Oct		87.2			86
16:00	US	Richmond Fed manufacturing index	Oct		10			14
Wednesday, October 29, 2014					Nordea	Consensus	Actual	Previous
08:45	FR	Consumer confidence	Oct			86		86
09:00	SE	Consumer confidence	Oct	97.0				102.4
09:00	SE	Economic tendency survey	Oct					101.1
09:00	SE	Manufacturing confidence	Oct	100.0				102.8
10:00	NO	Consumption of goods indicator (m/m)	Sep					1.5%
10:00	NO	Retail sales (m/m)	Sep	0.4%				0.6%
10:00	NO	Unemployment rate, LFS	Aug	3.5%				3.4%
11:00	SE	SNDO to auction bonds (SEK 3.5 bn)						
12:00	NO	Norges Bank announces auction of Treasury Bills						
19:00	US	FOMC announces interest rates	Oct	0.25%	0.25%			0.25%

Calendar

Wednesday, October 29, 2014 (continued)					Nordea	Consensus	Actual	Previous
19:00	US	Fed pace of MBS purchases (USD)			0bn	0bn		5bn
19:00	US	Fed pace of Treasury purchases (USD)			0bn	0bn		10bn
22:45	BR	BCB announces interest rates (SELIC target)	Oct			11.00%		11.00%
Thursday, October 30, 2014					Nordea	Consensus	Actual	Previous
09:00	DK	Unemployment rate, gross	Sep					5.0%
09:55	DE	Unemployment rate (sa)	Oct		6.7%	6.7%		6.7%
10:00	NO	Statistics Norway publishes new forecasts						
10:00	NO	Unemployment rate, registered (unadj. and excl. labour market s	Oct		2.6%			2.7%
10:00	NO	Unemployment, registered and persons on labour market schen	Oct		87500			86 711
11:00	EU	Consumer confidence (final)	Oct			- 11.1		- 11.1
11:00	EU	Economic Sentiment Indicator (ESI)	Oct		99.6	99.5		99.9
14:00	DE	HICP (m/m, preliminary)	Oct		- 0.1%	- 0.1%		0.0%
14:00	DE	HICP (y/y, preliminary)	Oct		0.9%	0.9%		0.8%
14:30	US	GDP (q/q annualised, advance)	Q3		3.2%	3.0%		4.6%
14:30	US	GDP deflator (q/q annualised, advance)	Q3			1.5%		2.1%
14:30	US	Jobless claims, continuing	Oct					2351k
14:30	US	Jobless claims, initial	Oct					283k
14:30	US	PCE prices, core (q/q, annualised) (advance)	Q3					2%
14:30	US	Personal consumption (q/q annualised, advance)	Q3		2.0%	2.0%		2.5%
Friday, October 31, 2014					Nordea	Consensus	Actual	Previous
01:05	GB	Consumer Confidence, Gfk	Oct			- 1		- 1
08:00	DE	Retail sales (m/m) [Exp 27- 31 Oct]	Sep		- 0.8%	- 0.9%		2.5%
08:00	GB	House prices, nationwide (nsa, y/y) (Exp 27- 31 Oct)	Oct			8.5%		9.4%
08:00	GB	House prices, nationwide (sa, m/m) (Exp 27- 31 Oct)	Oct			0.3%		- 0.2%
08:45	FR	Consumer spending (m/m)	Sep			- 0.4%		0.7%
09:30	NO	Speech by Norges Bank Governor Olsen (Charts published)						
10:00	NO	Credit growth, domestic, C2 (y/y)	Sep		5.3%			5.3%
10:00	NO	Norges Bank publishes FX transactions to Pension Fund- Intern	Nov					0.25bn
11:00	EU	HICP (flash, y/y)	Oct		0.5%	0.4%		0.3%
11:00	EU	HICP core (flash, y/y)	Oct		0.9%	0.9%		0.8%
11:00	EU	Unemployment rate	Sep		11.5	11.5%		11.5%
14:30	US	Employment cost index (q/q)	Q3			0.5%		0.7%
14:30	US	PCE prices, core (m/m)	Sep			0.0%		0.1%
14:30	US	Personal income (m/m)	Sep			0.3%		0.3%
14:30	US	Personal spending (m/m)	Sep			0.1%		0.5%
15:15	US	Chicago PMI	Oct			61.0		60.5
15:55	US	Consumer confidence, University of Michigan (final)	Oct			86.4		86.4

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