Global Update

Happy New Year 2014

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The world economy looks set to get a good beginning to the New Year. Confidence indicators from the major countries have been quite extraordinarily strong recently, and the US economy seems heading in the direction of a self-sustaining recovery. The burgeoning growth in the Euro area will be supported by stronger external demand and a more expansionary economic policy, while the outlook for China has improved after the authorities have managed to stimulate the ' Middle Kingdom ' back on the growth track. Against this background, we believe that the world economy will grow by 3.7% in 2014 after an increase of 3% this year.

A good end to the old year

Source: Nordea Markets and Reuters Ecowin

The baseline scenario

Real GDP growth, %	2011	2012	2013E	2014E	2015E
World	4.0	3.3	3.0	3.7	3.9
G3	1.4	1.5	1.0	2.1	2.3
BRIC	7.6	6.0	5.9	6.0	6.0
Nordics	2.5	1.0	0.8	1.6	1.8

Source: Nordea Economic Outlook Nordics, December 2013

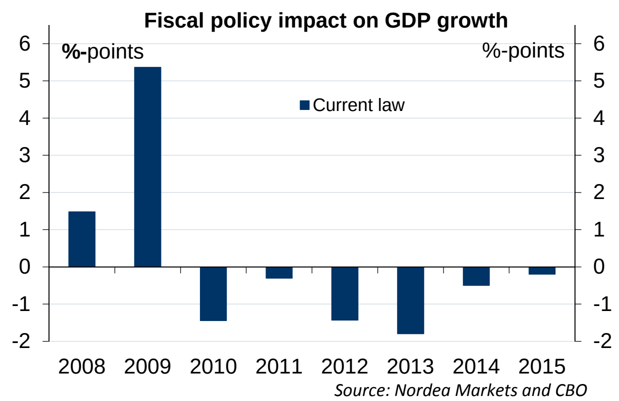
Bright US outlook

The outlook for the **US economy** is bright thanks to recent years' significant improvement in private-sector fundamentals: households have significantly reduced their debt loads, business balance sheets are about as strong as ever, the banking system is well capitalised and flush with liquidity and financial conditions are very lenient. As the drag from fiscal policy tightening eases significantly in 2014, the economy is therefore expected to shift to above-trend growth, with GDP growth around 3% spurred by a gradual acceleration in private consumption and business investment.

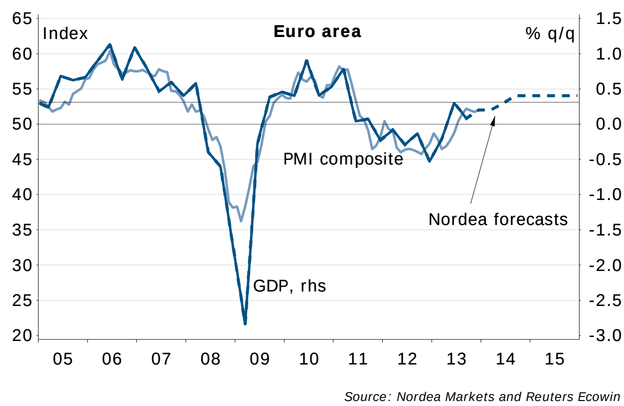
Uneven European recovery

We expect growth in **the Euro area** of about 1% in 2014, but it will still be an uneven recovery led by Germany. However, France, Italy and Spain should also post small positive growth rates, driven by a smaller fiscal drag and a supportive global environment. We expect a small contribution to growth from net exports and a larger one from domestic demand. Fixed capital spending should firm, reflecting stronger confidence and also leading to slightly higher employment. The firmer recovery does not make the Euro area an engine of growth for the world economy, but it will be less of a drag.

US headwinds from fiscal tightening fade



Fragile upswing in the Euro area

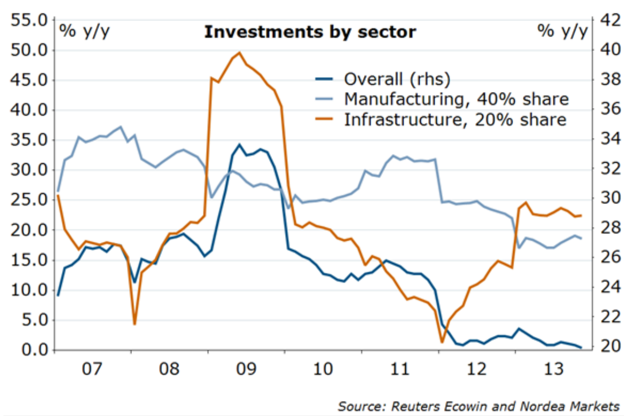


Rebalancing the economy

China has during most of the economic crisis been the world's engine of growth but will likely see declining growth in 2014 when the economy is being rebalanced. This is an active choice by the top leaders, who have become more tolerated for lower growth. The growth target may be lowered

On a slower growth trajectory

Investments of less magnitude than earlier

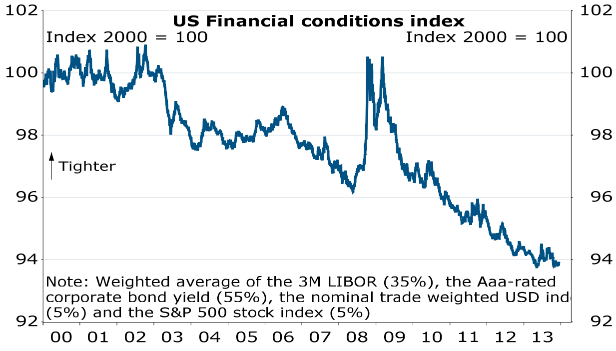


to 7% or even abolished. Overall investment will still play a leading role in generating growth, but it will no longer be uncontrollable and fuelled by credit. Manufacturing investment will be slowed to bring down overcapacity. Infrastructure investment in central and west China will increase due to regional underdevelopment. To ensure cooperation from the local officials, other criteria such as air quality will be included in the evaluation and promotion process. Further boosting private consumption requires an improved social safety net, narrower income gap, easier housing burden and liberalised financial markets. We expect to see reforms commencing in all these areas in 2014. Monetary policy is likely to remain broadly unchanged while fiscal policy could be used as a counter-cyclical tool. Although China's new growth model will inevitably lower growth in the near term, the risk of a hard landing is significantly reduced if the comprehensive reform agenda is implemented.

Two directions for monetary policy

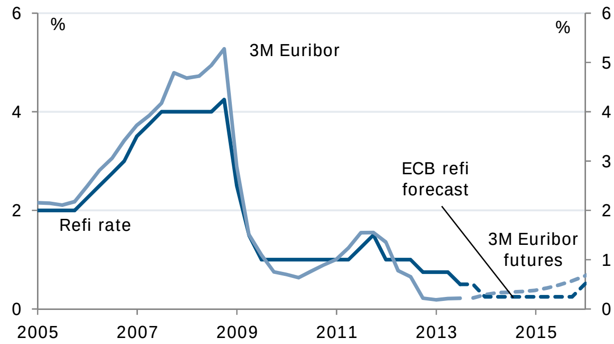
Especially in countries with rising inflation and falling unemployment, speculation of a swift tightening of monetary policy could emerge. The Fed is in our view the clear lead in the monetary policy cycle, but is unlikely to raise interest rates before 2015. However, the Fed is expected to start tapering its asset purchases soon and end QE in Q3 next year.

US financial conditions as easy as ever



Source: Nordea Markets and Reuters Ecowin

Extraordinary lenient monetary policy to stay



Source: Nordea Markets and Reuters Ecowin

Fragility implies lenient monetary policy

The economic recovery in the Euro area remains fragile and ongoing support from monetary policy will be needed. Therefore we expect the ECB to maintain a clear easing bias well into 2014. There are plenty of tools in the toolbox to prevent new setbacks, but probably no tools with the potential to allow the weak economies to immediately embark on a strong recovery path. Thus, more easing is possible – with everything from another rate cut and forward guidance to negative deposit rates and a conditional LTRO – but only if new shocks occur.

Euro area (%)	18/12/2013	3M	mid-2014	end-2014	end-2015
Main refi rate	0.25	0.25	0.25	0.25	0.75
3M	0.30	0.20	0.20	0.20	0.75
2Y Bund	0.23	0.15	0.50	0.80	1.60
10Y Bund	1.82	1.75	2.10	2.40	2.75

US (%)	18/12/2013	3M	mid-2014	end-2014	end-2015
Fed Funds Rate	0.25	0.25	0.25	0.25	1.25
3M	0.24	0.30	0.35	0.55	1.60
2Y	0.34	0.30	0.95	1.50	2.50
10Y	2.85	2.75	2.90	3.25	3.90
EUR/USD	1.38	1.33	1.30	1.25	1.20
Brent (US $ per barrel)	110.90	108	104	107	108

Against this background, our main scenario assumes rising market interest rates in 2014 in anticipation of better economic times and the USD is expected to make a comeback as the Fed slows the pace of the printing press. The oil price is expected to remain relatively stable during 2014.

Risks at a glance

Tapering again and again...

Renewed political gridlock in Washington and a lagged impact of sharp taper -related increases in longer-term rates are the key downside risks to the US growth outlook. In Europe, a much stronger euro might prevent the recovery from firming. A weaker economic environment could translate into higher political disunity with a possible renewed flare-up of the euro crisis. The biggest global risks coming out of China are likely to stem from a lack of reform commitment and renewed tensions with Japan and other neighbouring countries on geopolitical issues. These risks are, however, expected to fade as the year progresses.

Upside risks to our global outlook include lower oil prices, easier fiscal policies in Europe, an accelerating shift in economic sentiment and China benefiting from stronger-than-expected export growth with positive effects on the rest of the world.

Upside risks for the world economy:

- Accelerating improvement in economic sentiment, leading to pent-up demand being realised.
- Later-than-expected tapering of the Fed's bond-buying programme driving the entire yield curve lower.
- An easier fiscal policy line accepted in the Euro area to support growth.
- Lower oil prices – maybe as a result of increasingly larger shale gas production.
- Higher local investments than planned in China.

Downside risks for the world economy:

- Fed tapering of asset purchases scaring financial markets more than we expect, leading to severe repercussions both in advanced and emerging economies.
- The Euro-area crisis flaring up again, leading the region back into recession and increasing political disunity.
- Major unrest in the MENA region leading to drastic increases in oil prices.
- Political gridlock in the US.
- Geopolitical risks in Southeast Asia

Scenario	Baseline	Low Growth	High Growth
World real GDP, %	3.7	<3.2	>4.2
Probability, %	60	25	15

Event calendar 2014

January-June

January	
	Span to exit financial sector programme
1st week	Fed stress test (to be released in March)
Early 2014	ESM board of governor and various EMU parliaments have to approve direct bank recap deal
Early 2014	German Constitutional Court rules on ECB's OMT programme and ESM
1	Latvia adopts the Euro
1	Greece takes over EU presidency (until 30 June 2014)
9	ECB Governing Council meeting
15	Deadline for passing temporary funding measure to avoid government shutdown
27-28	Eurogroup/ECOFIN meeting
29	Fed: Bernanke hands over the chair to Yellen
28-29	FOMC meeting
February	
	EU Commission presents winter 2014 European Economic Forecast
	Fed: Semi-annual Monetary Policy Report to the Congress
6	ECB Governing Council meeting
7	US Federal debt ceiling suspension expires
17-18	Eurogroup/ECOFIN meeting
22-23	G20 Finance Ministers and Central Bank Governors meet in Sydney
March	
By March	EU Commission's working group to publish report on feasibility of a debt redemption fund and Eurobills
6	ECB Governing Council meeting (including projections)
10-11	Eurogroup/ECOFIN meetings
18-19	FOMC meeting (including projections and press conference)
20-21	EU Summit
April	
By April	Slovakia: Presidential elections
By April	EU banking union: Final agreement EP/Council on Single Resolution Mechanism
	Greece: Eurogroup may decide on changes to the adjustment programme, may provide further aid
	National governments have to present their medium-term budget plans to the EU Commission
April/May/June	South Africa: General elections
1-2	Informal Ecofin meeting
3	ECB Governing Council meeting
11-13	Spring meetings of IMF and World Bank
29-30	FOMC meeting
May	
	EU Commission presents spring economic forecast
5-6	Eurogroup/ECOFIN meetings
8	ECB Governing Council meeting in Brussels
15-16	EU Summit (to be confirmed)
22-25	European Parliament Elections
25	Belgium: General and regional elections
31	India: General Elections
June	
Before June	Troika visits Portugal as bailout ends
12 June to 13 July	FIFA World Cup in Brazil
	Ireland/Spain: First semi-annual post-programme review by troika
4-5	G8 summit in Sochi, Russia
5	ECB Governing Council meeting (including projections)
17-18	FOMC meeting (including projections and press conference)
19-20	Eurogroup/ECOFIN meetings
26-27	EU Summit

Event calendar 2014

July-December

July	
	ECB banking supervision: Single Supervisory Mechanism (SSM) is to become operational
	Fed: Semi-annual Monetary Policy Report to the Congress
1	Italy takes over EU presidency (until 31 December 2014)
3	ECB Governing Council meeting
29-30	FOMC meeting
August	
	Turkey: Presidential election
7	ECB Governing Council meeting
September	
4	ECB Governing Council meeting (including projections)
16-17	FOMC meeting (including projections and press conference)
18	Scottish independence referendum
20-21	G20 Finance Ministers and Central Bank Governors meet in Cairns
October	
	ECB to publish results of the "comprehensive assessment of the banking systyem" / AQR, stress test
2	ECB Governing Council meeting in Rome
5	Brazil: General Elections
10-12	Annual meetings of IMF and World Bank
28-29	FOMC meeting
November	
	EU Commission presents autumn economic forecast
4	USA: Mid-term elections, House of Representatives & Senate
4	ECB/SSM takes over full supervisory tasks for Euro-area banks
6	ECB Governing Council meeting
9	Planned date for Catalonian self-determination referendum
15-16	G20 leaders meet in Brisbane
December	
4	ECB Governing Council meeting (including projections)
16-17	FOMC meeting (including projections and press conference)

Growth, %

	2011	2012	2013E	2014E	2015E
World1)	4.0	3.3	3.0	3.7	3.9
USA	1.8	2.8	1.7	3.0	3.2
Euro area	1.5	-0.5	-0.4	1.0	1.5
China	9.3	7.8	7.7	7.4	7.0
Japan	-0.6	2.0	1.8	1.4	1.0
Denmark	1.1	-0.4	0.3	1.3	1.7
Norway	2.5	3.4	1.8	1.3	1.2
Sweden	2.9	0.9	1.0	2.4	2.4
UK	1.1	0.2	1.4	2.5	2.0
Germany	3.4	0.9	0.5	1.6	2.0
France	2.0	0.0	0.2	0.8	1.5
Italy	0.5	-2.4	-1.9	0.4	1.0
Spain	0.1	-1.6	-1.3	0.9	1.5
Finland	2.7	-0.8	-1.0	0.8	2.0
Estonia	9.6	3.9	1.0	3.1	3.8
Poland	4.5	1.9	1.4	3.2	4.0
Russia	4.4	3.5	1.9	2.0	2.2
Latvia	5.5	5.6	3.9	4.4	3.2
Lithuania	5.9	3.6	4.0	3.8	4.0
India	7.5	5.1	5.0	6.0	6.5
Brazil	2.8	0.9	2.4	2.2	2.5
Rest of World	4.5	3.7	3.1	3.9	4.2

Inflation, %

	2011	2012	2013E	2014E	2015E
World1)	5.0	3.9	3.6	3.7	3.9
USA	3.1	2.1	1.5	1.8	2.3
Euro area	2.7	2.5	1.4	1.0	1.5
China	5.4	2.6	2.7	3.5	4.0
Japan	-0.3	0.0	0.4	2.3	1.7
Denmark	2.8	2.4	0.8	1.4	1.6
Norway	1.2	0.8	2.1	1.8	1.8
Sweden	3.0	0.9	0.0	0.9	2.1
UK	4.5	2.8	2.5	2.0	2.3
Germany	2.5	2.1	1.6	1.6	1.8
France	2.3	2.2	1.0	1.0	1.3
Italy	2.9	3.3	1.3	1.3	1.4
Spain	3.1	2.4	1.5	0.7	1.0
Finland	3.4	2.8	1.5	1.5	1.6
Estonia	5.0	3.9	2.9	2.3	3.1
Poland	4.3	3.7	1.0	2.1	2.5
Russia	8.5	5.1	6.3	5.9	5.8
Latvia	4.4	2.3	0.7	3.0	2.3
Lithuania	3.4	2.8	1.7	2.5	2.8
India	9.5	7.5	6.0	6.5	7.0
Brazil	6.6	5.2	6.2	5.8	5.6
Rest of World	6.8	6.3	6.3	5.9	5.5

1) Weighted average of 184 countries. Weights for all countries and data for Rest of World are from the most recent World Economic Outlook, by the IMF. The weights are calculated from PPP-adjusted GDP-levels

Public finances, % of GDP

	2011	2012	2013E	2014E	2015E
USA	-8.4	-6.8	-3.9	-3.1	-2.4
Euro area	-4.1	-3.7	-3.1	-2.5	-2.4
China	-1.1	-1.6	-1.9	-2.0	-2.1
Japan	-10.0	-10.2	-10.0	-9.5	-9.0
Denmark	-2.0	-4.2	-1.1	-1.3	-1.8
Norway	13.6	14.3	11.7	11.2	11.3
Sweden	0.0	-0.5	-1.4	-1.8	-1.1
UK	-7.8	-6.3	-6.3	-5.5	-3.0
Germany	-0.8	0.1	0.0	0.1	0.2
France	-5.3	-4.8	-4.2	-3.8	-3.7
Italy	-3.7	-2.9	-2.8	-2.5	-2.3
Spain	-9.6	-10.6	-6.8	-5.5	-4.1
Finland	-0.7	-1.8	-2.3	-2.3	-2.1
Estonia	1.2	-0.2	-0.4	-0.5	-0.1
Poland	-5.0	-3.9	-4.4	4.5	-3.0
Russia	7.0	0.0	-0.7	-0.8	-1.0
Latvia	-3.5	-1.5	-1.0	-0.5	0.0
Lithuania	-5.5	-3.0	-2.8	-2.4	-2.0
India	-6.7	-5.5	-5.3	-5.5	-5.0
Brazil	-2.6	-2.1	-3.3	-3.6	-3.0

Current account, % of GDP

	2011	2012	2013E	2014E	2015E
USA	-2.9	-2.7	-3.0	-3.0	-3.0
Euro area	0.3	1.8	2.3	2.8	3.0
China	2.8	2.6	2.2	1.5	1.0
Japan	2.0	1.0	1.5	1.0	0.5
Denmark	5.9	6.0	6.5	5.8	5.1
Norway	12.8	14.2	10.6	12.0	12.0
Sweden	7.3	6.3	6.0	5.8	5.9
UK	-1.5	-3.8	-4.1	-4.0	-3.5
Germany	6.3	7.0	7.0	6.6	6.3
France	-2.5	-2.1	-1.8	-1.5	-1.5
Italy	-3.1	-0.5	1.0	1.2	1.1
Spain	-4.0	-1.2	1.4	2.6	3.1
Finland	-1.5	-1.8	-2.0	-2.0	-1.9
Estonia	1.8	-1.8	-0.9	-1.2	-1.3
Poland	-5.0	-3.7	-2.0	-1.7	-1.8
Russia	5.4	3.5	3.3	3.1	3.0
Latvia	-2.2	-1.7	-1.5	-2.2	-2.7
Lithuania	-3.7	-0.5	-0.5	-1.5	-2.0
India	-3.4	-5.1	-5.5	-5.3	-4.5
Brazil	-2.1	-2.6	-3.5	-3.2	-2.7