



# Week Ahead

13 Dec – 19 Dec



Nordea Research, 12 December 2014

## Next week's key events

- **US**

We expect **CPI** headline inflation to dip to 1.3% in November from 1.7% in October, held down by lower energy prices in November. The consensus forecast is 1.5%. The recent low was 1.0% in October.

- **Euro area/Germany/Greece**

We expect increases of the PMIs, ZEW expectations (both on Tuesday) and the Ifo index (on Thursday), mainly driven by the plunging oil price. Euro area inflation for November should be confirmed at 0.3% y/y (on Wednesday), but the main risk is to the downside. Also on Wednesday, keep an eye on the first round of the presidential election in Greece.

- **China**

In December, we are likely to see improved momentum in the industrial sector, so the HSBC/Markit PMI may recover marginally from its November-low of 50.0.

- **Japan**

No Christmas present from **the BoJ** in the form of a second expansion of the Quantitative and Qualitative Easing (QQE). While the prospect of low growth and inflation provides room for the BoJ to ease further in the future, it will very unlikely happen already on Friday.

- **UK**

At the last four MPC meetings two of the MPC members, Weale and Mc Cafferty, have voted for a 25bp rate hike. **We believe that the vote 2/7 remained unchanged at the December meeting.**

- **Sweden**

The outcome of inflation in November was well in line with the Riksbank's forecast. Nevertheless, the Riksbank still remains under pressure as the sharp decline of oil prices will prompt the bank to revise down its inflation forecast.

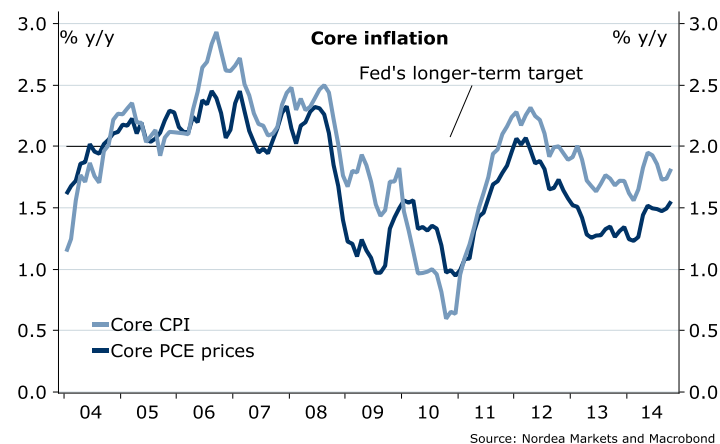
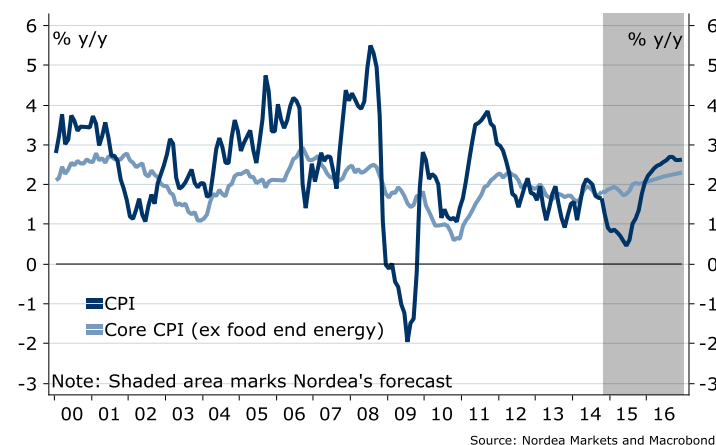
- **Norway**

December registered unemployment is expected to increase slightly.

# US: CPI headline inflation down, core steady (Wed)

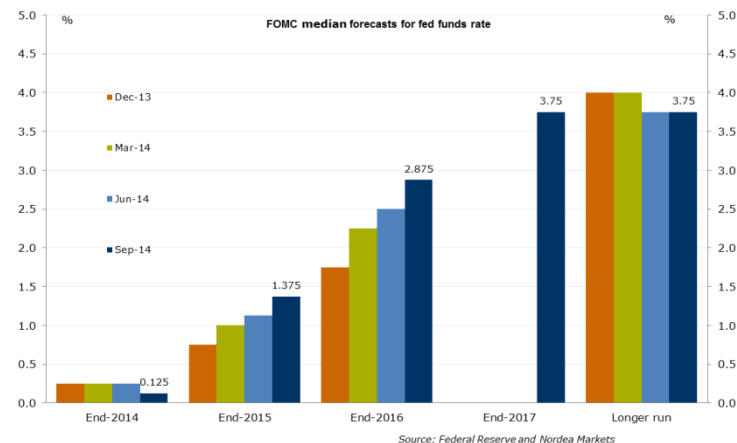
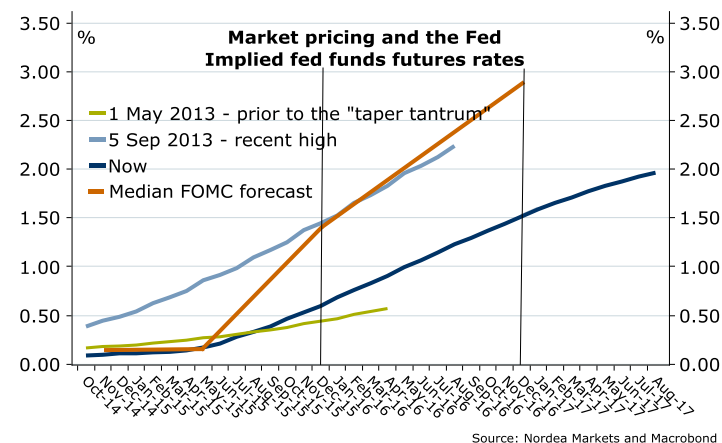
- We expect **CPI** headline inflation to dip to 1.3% in November from 1.7% in October, held down by lower energy prices in November. The consensus forecast is 1.5%. The recent low was 1.0% in October.
- The key uncertainty is to what extent the lower energy prices will spill over to core prices.
- We expect the **core rate** to remain at 1.8% in November. The consensus forecast is also 1.8%. Because service prices account for a full 74% of overall core CPI inflation, it will be difficult for the core rate to move much lower, despite the drop in energy prices.
- Our forecast implies a 2.0% annual rate of increase in the core CPI in the last three months (September-November), up 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 1.6%, up from the 1.2% recent low but still well below the Fed's 2% longer-run target.
- The continued weak CPI data imply that the Fed is still in no hurry to start hiking rates.

November 2014	Nordea	Consensus	Previous
CPI, % y/y	1.3	1.5	1.7
Core CPI, % y/y	1.8	1.8	1.8



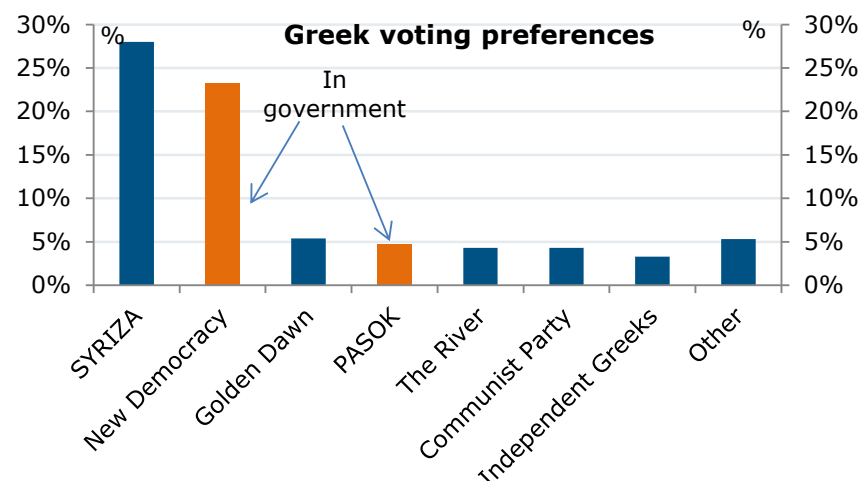
# US: Expect a more hawkish Fed (Wed)

- At next week's meeting the Fed is likely to appear somewhat more hawkish. Thus, we expect that the central bank will drop its assessment that the first rate hike is still a "considerable time" away. In addition, we expect a more hawkish dot plot.
- Given the strength of recent growth data and comments from senior Fed officials, we expect the Fed to drop its closely watched assurance that it will not raise rates for a "considerable time".
- To reduce the risk that dropping the commitment to keep rates unchanged for a "considerable time" will shake financial markets, the Fed might replace it by saying that it will be "patient" before raising rates.
- We expect no major changes to the median FOMC projection for the funds rate from 1.375% in September, but look for the end-2016 forecast to be moved from 2.875% to around 3%. We expect no changes to the 3.75% median forecast by end-2017 and in the longer run.
- The FOMC statement will be released at 20:00 CET and Yellen's press conference starts at 20:30. For more analysis, see [US: Expect a more hawkish Fed – FOMC preview](#).



# Euro area: Greece – towards political vacuum (Wed)

- The final days of the year became much more interesting after the [Greek Prime Minister called for early presidential elections for December](#).
- The first round of voting will take place on 17 December, but the government is nowhere near to gathering the 200 votes needed to elect the President during the first two rounds of the vote.
- The deciding vote looks set to take place on 29 December, when 180 votes are needed to elect the President.
- The government parties currently have 155 votes, and will struggle to reach the 180 limit. A failure to elect the President would lead to snap parliamentary elections.
- The polls are currently led by left-wing SYRIZA, whose policy proposals, including the restructuring of government debt, have caused serious market worries.
- The vote on 17 December should be a non-event, as the vote should not be taken as a clear indication of how the MPs will vote on the third round.
- Still, there is a risk that already the early results will be interpreted as showing the government lacking the required majority, which would lead to safety demand of core bonds and wider intra-Euro-area spreads.



Source: Nordea Markets and Alco (Dec 2014)



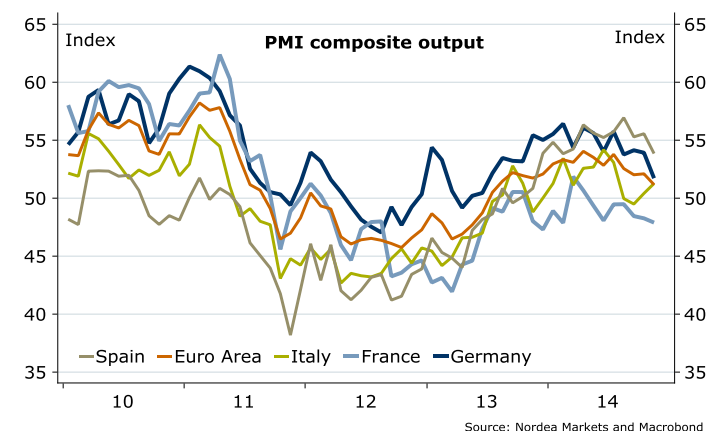
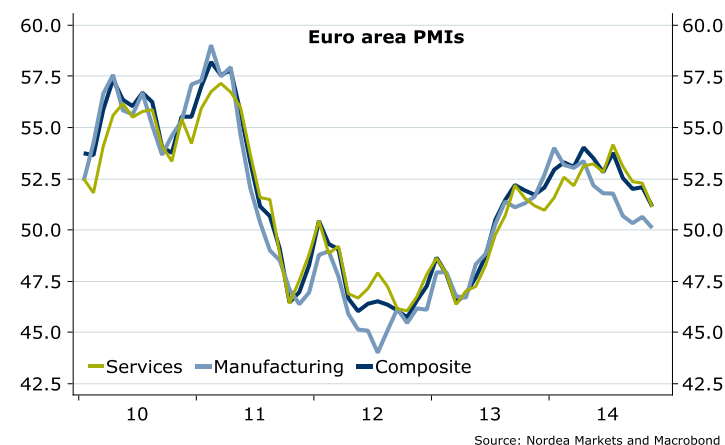
Source: Nordea Markets and Bloomberg

# Euro area: PMIs expected slightly up (Tue)

- We expect small increases for the manufacturing, the service and the composite PMI in December. A lower oil price and a weaker EUR should take some pressure off the manufacturing sector.
- Our special focus will be on the manufacturing new orders component. It has been below 50 since September and we expect it to rise.
- The service sector looks reasonably robust (at a slow pace of expansion). We don't have a good explanation for the decline in November and expect a rebound.
- Our forecasts are close to consensus.
- Euro-area data will be published at 10:00h (France at 9:00h; Germany at 9:30h).

Dec-14	Nordea	Consensus	Previous
Composite	51.7	51.5	51.1
Manufacturing	50.6	50.5	50.1
Services	52.0	51.5	51.1

Source: Nordea Markets & Macrobond

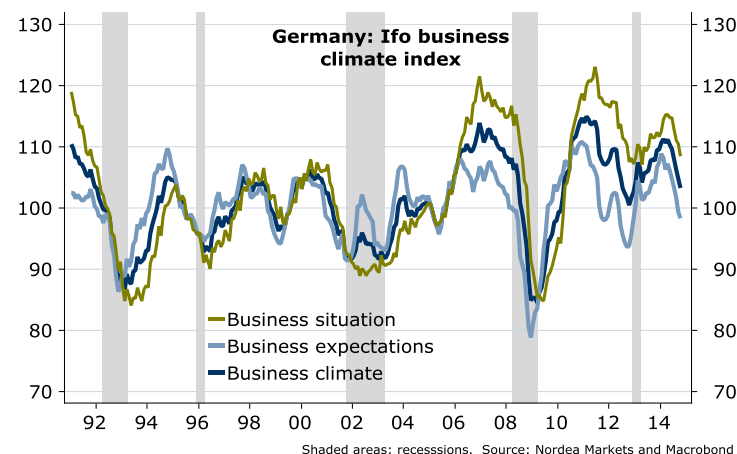


# Germany: Ifo to rise again (*Thu*)

- We expect the Ifo index to rise again, both the expectations and the assessment of the current situation. It would be (only) the second rise in a row after six declines between May and October.
- The much lower oil price is the single most important catalyst for a brighter business climate. The weaker EUR should help, too.
- Our Ifo call is slightly above consensus.
- At current levels, the Ifo index is compatible with zero to very slow growth; for Q4, we pencil in 0.1% q/q as in Q3. Growth is likely to strengthen from Q1 on.
- As we see it, it would take several and massive positive data surprise to take easing pressure off the ECB. And even very positive indications for the business cycle won't keep inflation from moving further away from the ECB target.

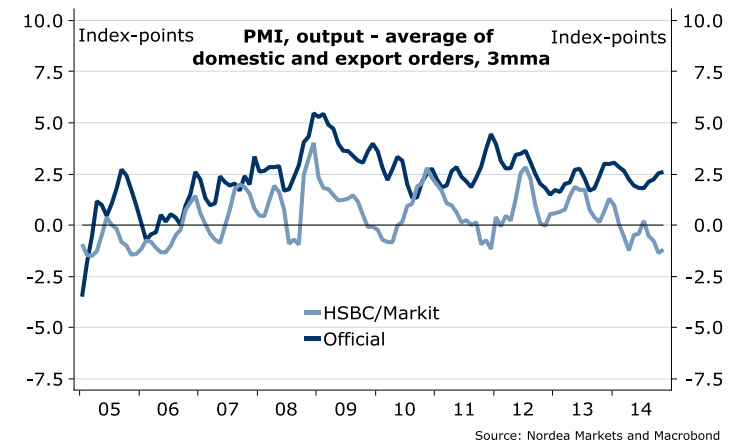
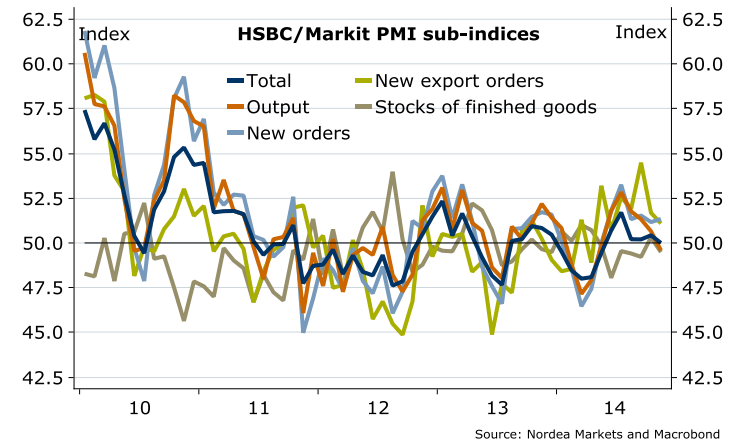
Nov-14	Nordea	Consensus	Previous
Ifo business climate	105.9	105.1	104.7
Ifo business expectations	101.0	100.9	99.7
Ifo business conditions	111.0	110.2	110.0

Source: Nordea Markets and Macrobond



# China: Flash PMI possible upside (Tue)

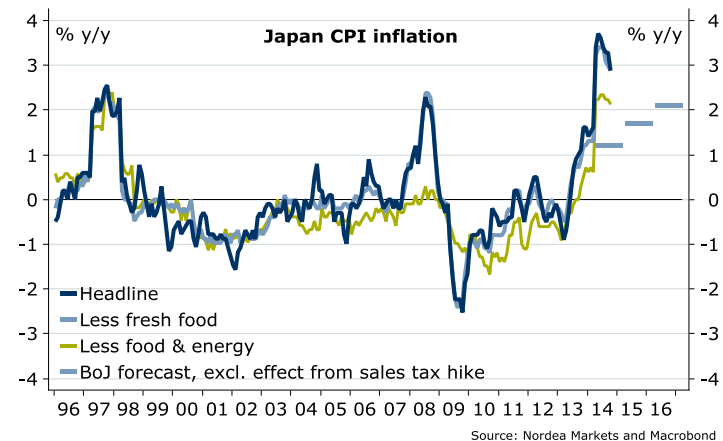
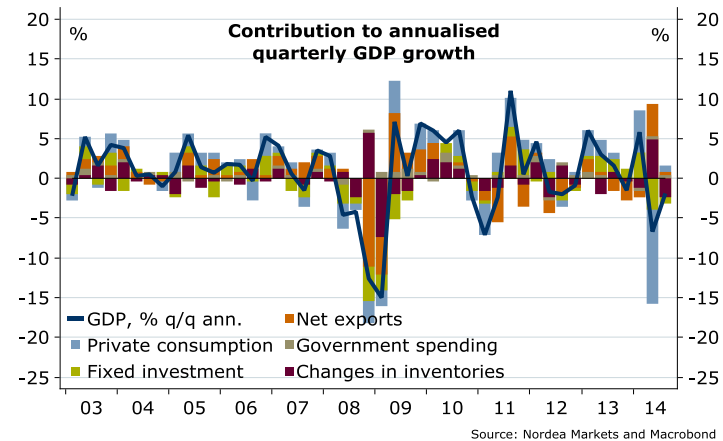
- In December, we are likely to see improved momentum in the industrial sector, so the HSBC/Markit PMI may recover marginally from its November-low of 50.0.
- The November slump could be partly explained by the mass production shutdown Beijing and the surrounding provinces (heavy manufacturing provinces) in the weeks up to the annual APEC meeting on the 11-12 November. The Chinese government did so to ensure that global leaders would be welcomed by a clear blue sky in Beijing. This was clearly reflected by the output sub-index below 50 even though domestic new orders actually picked up.
- In December, production has been turned back on. There is a good chance that we may even see higher than normal production, because some producers want to compensate for the lost output during November. Thus, the flash PMI may surprise on the upside.
- There are discouraging signs of overproduction in the state heavy industrial sectors, which are measured by the official PMI. Looking at output subtracting an average of domestic and export orders, it is clear that state industries are still overproducing, which may cause the PPI inflation to remain negative for some time.





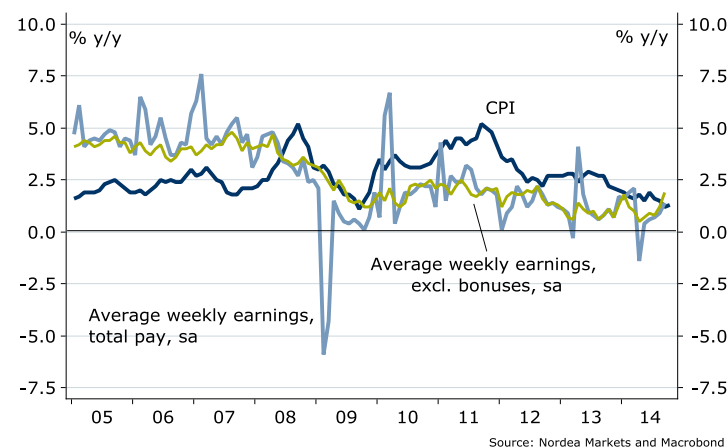
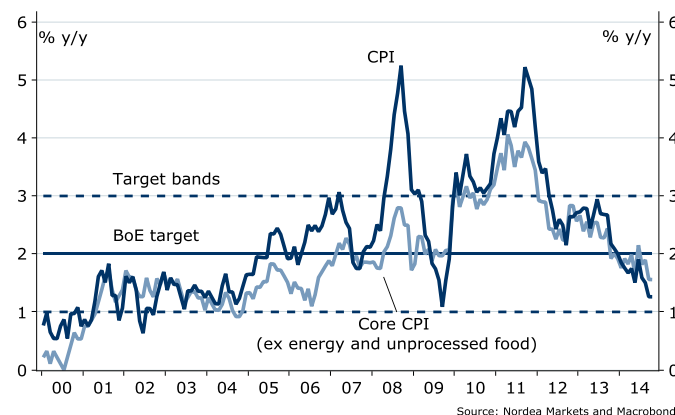
# Japan: No Christmas present from BoJ (Fri)

- No Christmas present from **the BoJ** in the form of a second expansion of the Quantitative and Qualitative Easing (QQE). While the prospect of low growth and inflation provides room for the BoJ to ease further in the future, it will very unlikely happen already on Friday.
- Revised data for Q3 GDP (from -0.5% ann. q/q to -1.9% ann. q/q) painted an even uglier picture for the Japanese economy. Confidence indicators point to continued weakness in Q4.
- Momentum is expected to recover in the coming quarters, as the economy benefits from the weaker yen, the postponed sales tax hike from October 2015 to April 2017 and the plunging commodity prices.
- However, the above-mentioned factors will only provide a temporary fix. For a self-sustained recovery, Japan needs to undergo fundamental changes that make the labour market and corporate sector more competitive.
- **General election** on Sunday is likely to extend Shinzo Abe's premiership for four more year. His ruling coalition will mostly likely obtain a supermajority that provides support for market-friendly reforms that Abe has promised with Abenomics. The outcome is priced in, so no market reaction is expected.



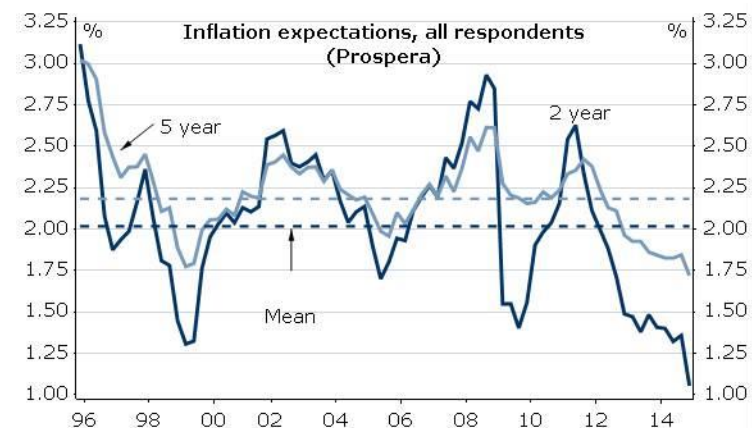
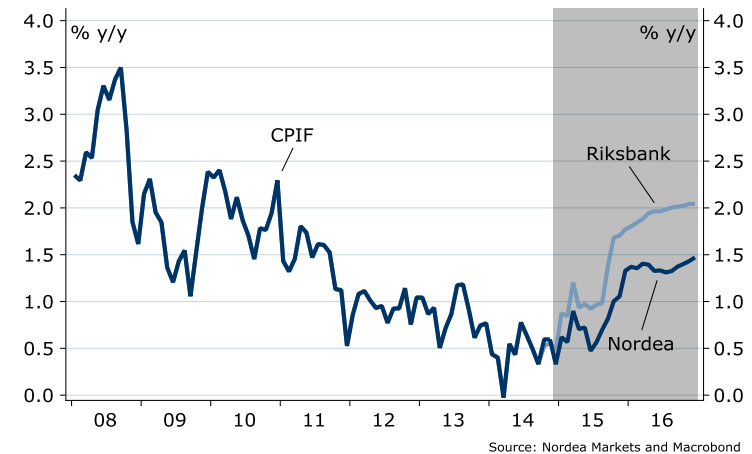
# UK: Still two votes for a rate hike (Wed)

- At the last four MPC meetings two of the MPC members, Weale and Mc Cafferty, have voted for a 25bp rate hike. **We believe that the vote 2/7 remained unchanged at the December meeting.**
- Main focus in the **December MPC minutes** will probably be the degree of slack in the economy and the weak wage growth (Wed).
- CPI inflation** fell to only 1.3% in October.. With the recent sharp fall in oil prices CPI inflation might dip below 1% later this year – a rate that would force the BoE Governor Carney to write his first letter to the chancellor, George Osborne, explaining why inflation deviates more than 1% point from its 2% target. Our forecast is that CPI inflation remains at 1.3% in November (Tue).
- The labour market continues to strengthen and real wages have started to pick up. This is in line with the BoE's view on **wage growth** in its November Inflation Report.
- Our forecast is that the BoE will start to hike rates in June 2015.** However, given the low inflation pressure there is a risk that a first rate hike will come later.



# Sweden: Riksbank remains under pressure

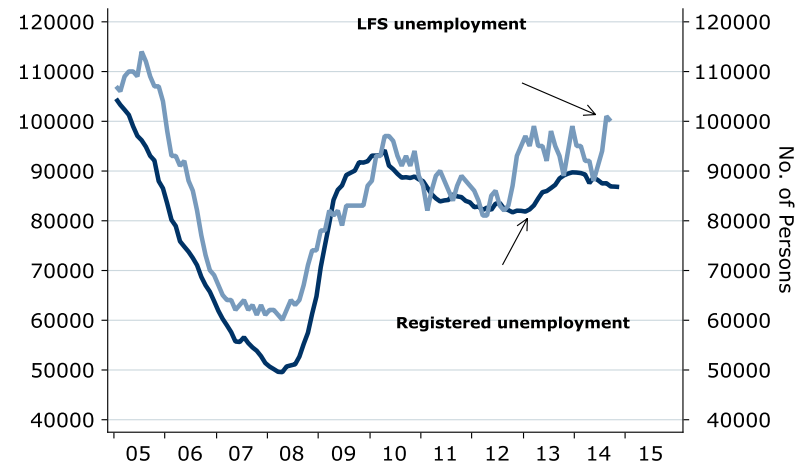
- The outcome of inflation in November was well in line with the Riksbank's forecast. Nevertheless, the Riksbank still remains under pressure as the sharp decline of oil prices will prompt the bank to revise down its inflation forecast.
- Furthermore, cost pressures remain low and inflation expectations are falling. We therefore expect a policy response from the Riksbank at the monetary meeting next week, albeit of a milder nature. We expect the rate path to be revised down and soft signals in general.
- Read our comment ahead of the Riksbank rate decision [here](#). (Tuesday)



# Norway prewarning: Unemployment slightly higher

- December registered unemployment is expected to increase slightly
- The unadjusted rate will be 2.7% compared to 2.6% , the increase mainly due to seasonal factors.
- A moderate increase is in line with Norges Bank's forecast.
- Registered unemployment has trended downward this year, but should soon start to rise reflecting the weakness in oil related industries.

Registered unemployment has trended downward



Source: Nordea Markets and Macrobond

# Calendar

Monday, December 15, 2014					Nordea	Consensus	Actual	Previous
00:50	JP	Tankan, large manufacturers	Q4			13		13
09:00	CN	Money supply, M2 (y/y) (Exp. 10-15 Dec)	Nov			12.5%		12.6%
09:00	SE	Monetary policy meeting 6						
09:30	SE	Business sector production (m/m)	Oct					0.0%
10:00	NO	Foreign trade with goods (bn)	Nov					31.7bn
11:00	NO	Auction of Treasury Bills						
14:00	PL	CPI (y/y)	Nov			-0.5%		-0.6%
14:30	US	Empire manufacturing	Nov			12		10.16
15:00	US	TIC flows, net total	Nov					-55.6bn
15:15	US	Capacity utilization	Nov			79.3%		78.9%
15:15	US	Industrial production (m/m)	Nov			0.7%		-0.1%
16:00	US	Housing market index, NAHB	Nov			59		58
Tuesday, December 16, 2014					Nordea	Consensus	Actual	Previous
02:45	CN	PMI, manufacturing (flash), HSBC	Dec			49.8		50
03:30	AU	Minutes of the RBA meeting	Dec					
08:00	SE	House prices, Mäklarstatistik (y/y)	Nov					6%
09:00	FR	PMI, manufacturing (preliminary)	Dec					48.4
09:00	FR	PMI, services (preliminary)	Dec					47.9
09:30	DE	PMI, manufacturing (preliminary)	Dec		50.5			49.5
09:30	DE	PMI, services (preliminary)	Dec		52.5			52.1
09:30	SE	Monetary Policy Update, December 2014, published						
10:00	EU	PMI, composite (flash)	Dec		51.7			51.1
10:00	EU	PMI, manufacturing (flash)	Dec		50.6			50.1
10:30	GB	CPI (m/m)	Nov			0.0%		0.1%
10:30	GB	CPI (y/y)	Nov			1.2%		1.3%
11:00	EU	Trade balance, sa	Oct		18bn			17.7bn
11:00	DE	ZEW, current situation	Dec		8			3.3
11:00	DE	ZEW, expectations	Dec		20			11.5
14:00	HU	MNB announces interest rates (Base rate)	Dec			2.10%		2.10%
14:00	RU	Industrial production (y/y) (Exp. 15-16 Dec)	Nov			1.1%		2.9%
14:30	US	Housing starts	Nov			1035k		1009k

# Calendar

Wednesday, December 17, 2014			Nordea	Consensus	Actual	Previous
00:45	NZ GDP (y/y)	Q3				3.9%
10:30	GB Minutes of the BoE meeting					
10:30	GB Unemployment rate, claimant count	Nov		2.7%		2.8%
11:00	EU HICP (y/y, final)	Nov	0.3%			
13:00	CZ CNB announces interest rates (Repo rate)	Dec		0.05%		0.05%
14:00	RU Investment in productive capacity (y/y)	Nov		-3.3%		-2.9%
14:00	RU Real wages (y/y)	Nov		0.0%		0.3%
14:00	RU Unemployment rate	Nov		5.2%		5.1%
14:30	US CPI (y/y)	Nov	1.3%	1.5%		1.7%
14:30	US Current account balance	Q3		-97.5bn		-98.5bn
20:00	US FOMC announces interest rates	Dec		0.25%		0.25%
20:00	US Fed Summary of Economic Projections					
Thursday, December 18, 2014			Nordea	Consensus	Actual	Previous
04:00	CN FDI (y/y) (Exp. 14-18 Dec)	Nov		1.1%		1.3%
09:00	SE Consumer confidence	Dec				96.8
09:00	SE Manufacturing confidence	Dec				108.0
09:30	SE Financial accounts	Q3				
10:00	DE Ifo, business climate (main)	Dec	105.9			104.7
10:00	DE Ifo, current assessment	Dec	111			110
10:00	DE Ifo, expectations	Dec	101			99.7
10:30	GB Retail sales ex auto (y/y)	Nov		4.5%		4.6%
14:00	PL Minutes of the NBP meeting	Dec				
14:30	US Jobless claims, continuing	Nov				2514k
14:30	US Jobless claims, initial	Nov				294k
16:00	US Leading index	Nov		0.5%		0.9%
Friday, December 19, 2014			Nordea	Consensus	Actual	Previous
01:05	GB Consumer Confidence, Gfk	Dec				-2
08:00	DE Consumer confidence, Gfk	Jan	8.8			8.7
08:45	FR Business confidence, INSEE	Dec				94
10:00	NO Unemployment rate, registered (unadj. and excl. labour market schemes)	Dec				2.6%
10:00	NO Unemployment, registered and persons on labour market schemes (sa)	Dec				86 748
13:00	SE Meeting of the General Council of the Riksbank					
14:30	US Fed's Evans gives opening remarks in Chicago					
14:30	CA CPI (y/y)	Nov				2.4%
16:00	US Kansas City Fed manufacturing activity	Nov				7
18:30	US Fed's Lacker Speaks on Economy in Charlotte, North Carolina					

Nordea Markets is the name of the Markets departments of Nordea Bank Norge ASA, Nordea Bank AB (publ), Nordea Bank Finland Plc and Nordea Bank Danmark A/S.

The information provided herein is intended for background information only and for the sole use of the intended recipient. The views and other information provided herein are the current views of Nordea Markets as of the date of this document and are subject to change without notice. This notice is not an exhaustive description of the described product or the risks related to it, and it should not be relied on as such, nor is it a substitute for the judgement of the recipient.

The information provided herein is not intended to constitute and does not constitute investment advice nor is the information intended as an offer or solicitation for the purchase or sale of any financial instrument. The information contained herein has no regard to the specific investment objectives, the financial situation or particular needs of any particular recipient. Relevant and specific professional advice should always be obtained before making any investment or credit decision. It is important to note that past performance is not indicative of future results.

Nordea Markets is not and does not purport to be an adviser as to legal, taxation, accounting or regulatory matters in any jurisdiction.

This document may not be reproduced, distributed or published for any purpose without the prior written consent from Nordea Markets.

**Editor:**

Jacob J Hermann  
Assistant Analyst  
Global Research  
+45 33 33 11 45

[jacob.hermann@nordea.com](mailto:jacob.hermann@nordea.com)