



Week Ahead

10 – 16 Jan



Nordea Research, 9 January 2015

Next week's key events

- **US**

The CPI headline inflation is expected to drop to 0.5%, while we expect the core rate to be steady. In addition to the CPI data a lot of second-tier data will also be delivered from the US next week. The most important will likely be Wednesday's retail sales data for December. Following a strong 0.6% rise in November we expect a 0.4% increase in the so-called control sales, which filters into GDP.

- **Euro area**

The data calendar is fairly light in the pre-ECB week. Data from German and France are pointing to a small decline in industrial production (-0.2% m/m, Wednesday). Also on Wednesday, it is worth keeping an eye on the European Court of Justice (ECJ) that will issue a legal opinion (not a final ruling) on the ECB's OMT programme. A year ago, the German Federal Constitutional Court had expressed major concerns about the OMT's legality and asked the ECJ for a ruling. The most likely outcome in our view is that the court will ask for several clarifications from the ECB but that it will not impose serious restrictions that would also cast doubt on the feasibility of QE. – On Friday, final inflation numbers will probably confirm the flash estimate (-0.2% y/y for the headline rate, core 0.8% y/y).

- **UK**

CPI inflation fell to 1.0% in November from 1.3% the previous month. Our forecast is that CPI inflation fell below 1.0% in December. Carney recently stated that he is confident that inflation below 1% will only be “temporary” and that the inflation will return to the 2 percent target by the end of the BoE's forecast period, without any additional action.

- **Sweden**

Our forecast for December CPI Data is in line with the central bank's forecast. But already as from January 2015 the forecasts differ substantially. The difference in H1 2015 is driven by the Riksbank's assumption of higher energy prices.

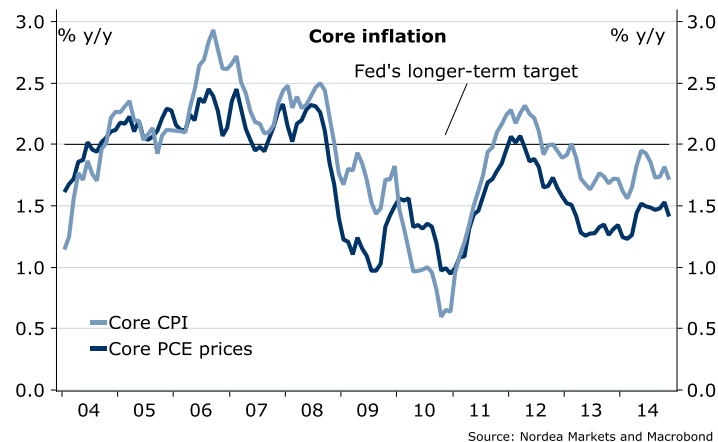
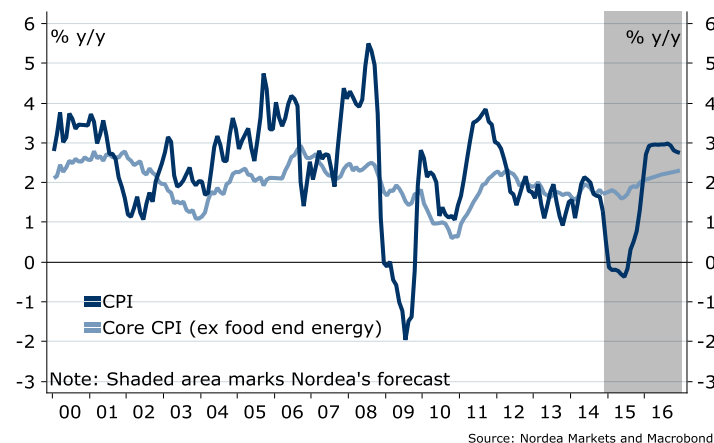
- **Denmark**

Last month Danish inflation surprised on the upside, staying unchanged at 0.5% y/y. In December we expect to see a rather step drop, causing the Danish inflation to fall by 0.3% m/m, equivalent to 0.3% y/y.

US: CPI headline inflation down, core steady (Friday)

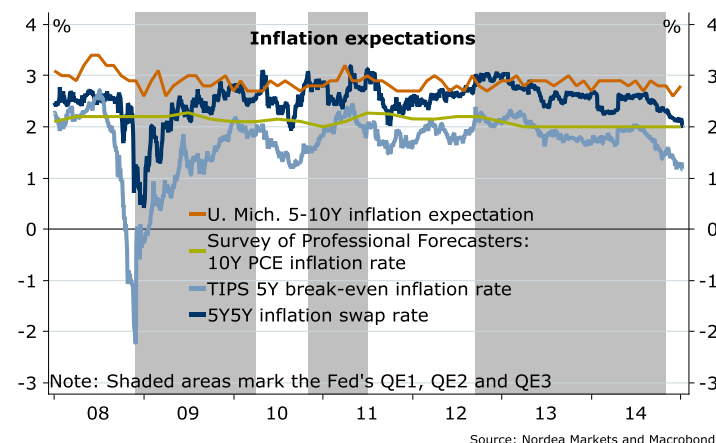
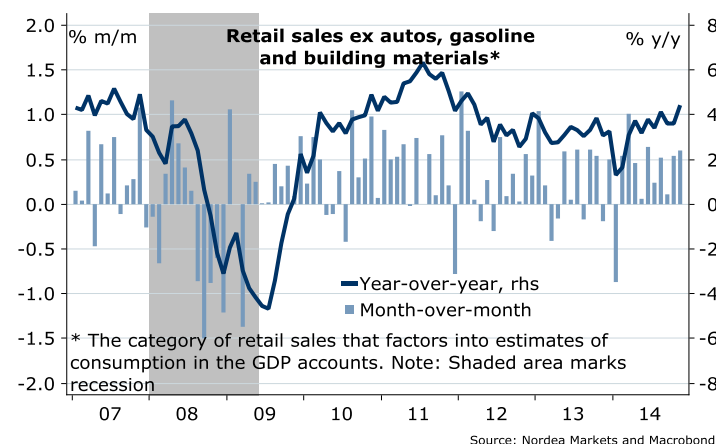
- We expect **CPI** headline inflation to drop to 0.5% in December from 1.3% in November, held down by lower energy prices in December. The consensus forecast is 0.7%.
- We expect the **core rate** to remain at 1.7% in December, in line with the consensus estimate. Because service prices account for 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.
- 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.
- The continued weak CPI data imply that the Fed is still in no hurry to start hiking rates. However, it is important to note that the December FOMC minutes suggested that the Fed would be willing to raise rates even if core inflation remains near current levels, as long as the central bank is still confident that it is on course to get there eventually.

Dec-14	Nordea	Consensus	Previous
CPI, % y/y	0.5	0.7	1.3
Core CPI, % y/y	1.7	1.7	1.7



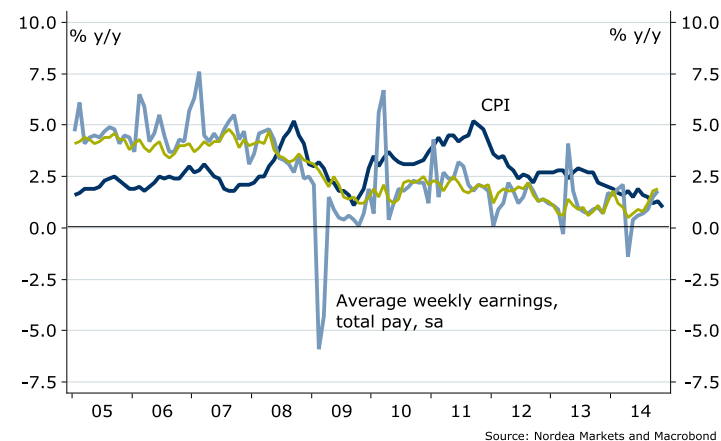
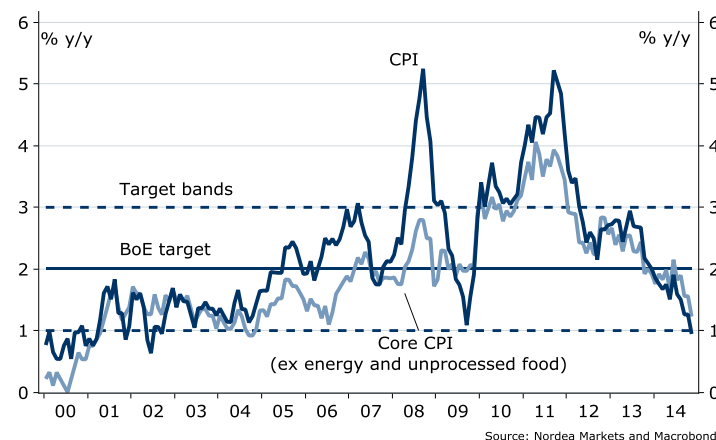
US: Also a lot of second-tier data delivered

- In addition to the CPI data a lot of second-tier data will also be delivered from the US next week.
- The most important will likely be Wednesday's **retail sales** data for December. Following a strong 0.6% rise in November we expect a 0.4% increase in the so-called control sales, which filters into GDP. Overall retail sales should see only a 0.1% rise, held down by lower gasoline prices.
- With the increased focus on **inflation expectations**, Friday's University of Michigan consumer survey should be monitored closely. In December 5-10Y inflation expectations rebounded to 2.8% after dipping to 2.6% in November.
- On Tuesday the Job Opening and Labor Turnover Survey (**JOLTS**) will report on job openings, new hires, and separations including layoffs and quits – important parts of the Fed's labour market assessments. Last month the report showed the most job openings in 13 years.
- In the **NFIB small business survey** on Tuesday we will especially focus on the net percentage of firms reporting an increase in labour compensation and the net share reporting few or no qualified applicants for job openings. Historically both indices have tended to be good leading indicators for wage growth.



UK: Time for Carney to write a letter (Tuesday)

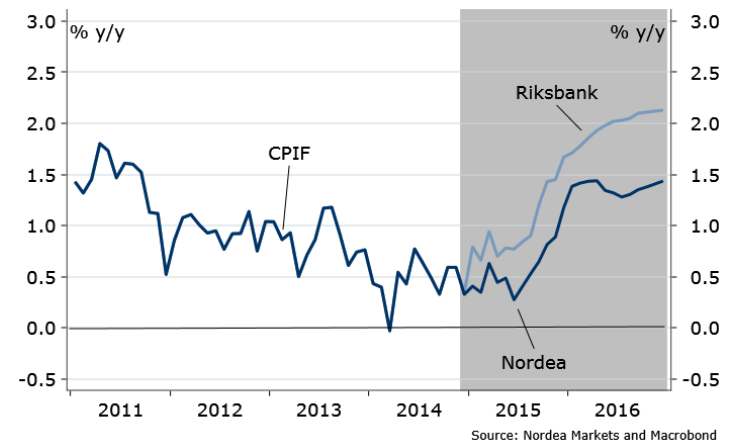
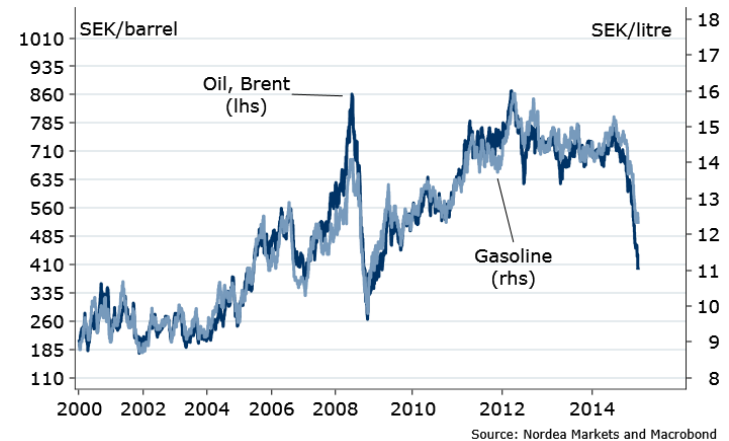
- **CPI inflation** fell to 1.0% in November from 1.3% the previous month. This was more than we as well as the market and the Bank of England (BoE) expected. The main contributions came from lower transport costs and falling prices of recreational and cultural goods. Also prices on motor fuels and food contributed to the fall.
- **Our forecast is that CPI inflation fell below 1.0% in December.**
- Inflation below 1% requires Mark Carney to write a letter to the chancellor (Finance Minister) George Osborne explaining why inflation has deviated so far from the target. Carney recently stated that he is confident that inflation below 1% will only be “temporary” and that the inflation will return to the 2 percent target by the end of the BoE’s forecast period, without any additional action
- The labour market continues to strengthen and real wages have started to pick up. This is in line with the BoE’s wage growth forecast in its November Inflation Report.
- **We stick to our forecast 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: Oil flooding in (Tuesday)

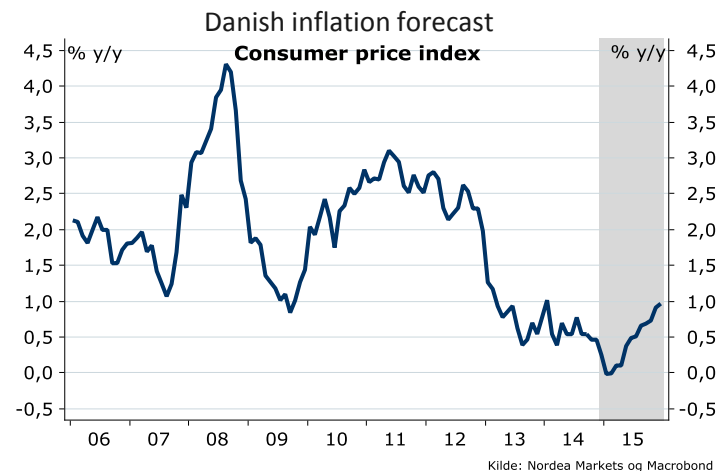
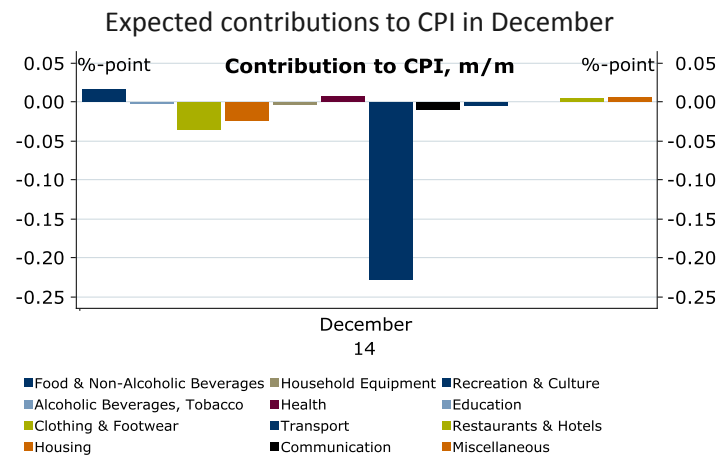
- We expect the CPI to be down 0.1% m/m in December, translating into figures as low as -0.5% y/y for the CPI and +0.3% y/y for the CPIF.
- Our forecast for December, which is the last reading ahead of the Riksbank's February meeting, is in line with the central bank's forecast.
- But already as from January 2015 the forecasts differ substantially. The difference in H1 2015 is driven by the Riksbank's assumption of higher energy prices, and longer out also due to different views on cost pressures.
- In all, the Riksbank will - yet again - need to revise down their inflation forecast at the upcoming monetary policy meeting.
- Read also our CPI preview [here](#).

Forecasts for December, %	Nordea	Riksbank	Prior
CPI m/m	-0.1		-0.1
CPI y/y	-0.5	-0.5	-0.2
CPIF m/m	0.0		0.0
CPIF y/y	0.3	0.4	0.6
CPI, index	313.39		313.56



Denmark: Heading lower (Monday)

- Last month Danish inflation surprised on the upside, staying unchanged at 0.5% y/y
- In December we expect to see a rather step drop, causing the Danish inflation to fall by 0.3% m/m, equivalent to 0.3% y/y.
- This expected drop will mainly stem from a large negative contribution from the falling prices on oil. In December, we expect this to result in a negative contribution from Transport of 0.22 %-points. Also Housing is expected to be influenced by the falling oil prices through a lower price on heating. Housing is expected to drag down the monthly inflation figures by 0.04 %-points in December.
- We expect the downward trend in Danish inflation to continue over the coming months, taking the year-over-year numbers down to 0.0% in the beginning of 2015. Later we expect the inflation to turn as the base effects from falling prices on energy and food will start to diminish



Calendar

Monday, 12/01/2015				Nordea	Consensus	Actual	Previous
	JP	Coming of Age (Adults') Day					
09:00	DK	CPI (y/y)	Dec				0.5%
09:00	DK	CPI, EU harmonized (y/y)	Dec				0.2%
09:30	SE	The Swedish central government debt					
13:00	IN	CPI (y/y)	Dec		5.33%		4.38%
14:00	RU	CPI (y/y)	Dec				11.4%
18:40	US	Fed's Lockhart Speaks on U.S. Economic Outlook in Atlanta					
Tuesday, 13/01/2015				Nordea	Consensus	Actual	Previous
	CN	Exports (y/y)	Dec		6.0%		4.7%
	CN	Imports (y/y)	Dec		-6.2%		-6.7%
	CN	Trade balance (USD)	Dec		48.65n		54.47bn
08:00	SE	Unemployment, Swedish Public Employment Service	Dec				4.1%
09:00	RO	CPI (y/y)	Dec				1.3%
09:30	SE	Business sector production (m/m)	Nov				-0.4%
09:30	SE	CPI (m/m)	Dec	-0.1%			-0.2%
09:30	SE	CPI (y/y)	Dec	-0.5%			-0.2%
09:30	SE	CPI, index	Dec	313.39			313.56
09:30	SE	CPIF (m/m)	Dec	0.0%			0.0%
09:30	SE	CPIF (y/y)	Dec	0.3%			0.6%
09:30	SE	Household consumption (m/m)	Nov	0.6%			0.1%
09:30	SE	Household consumption (y/y)	Nov	2.2%			1.8%
10:30	GB	CPI (y/y)	Dec				1.0%
15:00	US	NFIB small business optimism index	Dec		97.8		98.1
16:00	US	JOLTs job openings					4834
23:00	US	Fed's Kocherlakota Speaks on Economic Outlook in New York					
Wednesday, 14/01/2015				Nordea	Consensus	Actual	Previous
08:45	FR	HICP (m/m)	Dec	0.0%	-0.1%		-0.2%
08:45	FR	HICP (y/y)	Dec	0.0%	-0.1%		0.4%
09:00	HU	CPI (y/y)	Dec		-0.4%		-0.7%
10:00	NO	Mortgage rate, banks and mortgage companies (SSB)	Nov				3.58%
11:00	EU	Industrial production (sa, m/m)	Nov	-0.2%	0.2%		0.1%
12:10	PL	NBP announces interest rates (Base rate)	Jan		2.00%		2.00%
13:00	US	Mortgage applications, MBA					11.1%
14:00	US	Fed's Plosser Speaks on the Economy in Philadelphia					
14:30	US	Import prices (m/m)	Dec		-2.9%		-1.5%

Calendar

Wednesday, 14/01/2015 (continued)				Nordea	Consensus	Actual	Previous
14:30	US	Retail sales (m/m)	Dec		0.1%		0.7%
14:30	US	Retail sales control group	Dec		0.3%		0.6%
14:30	US	Retail sales, ex auto and gas (m/m)	Dec		0.3%		0.6%
16:00	US	Business inventories (m/m)	Nov		0.2%		0.2%
20:00	US	U.S. Federal Reserve Releases Beige Book					
Thursday, 15/01/2015				Nordea	Consensus	Actual	Previous
	ID	BI announces Reference Rate	Jan		7.75%		7.75%
01:01	GB	House price balance, RICS	Dec				13%
02:00	KR	BoK announces interest rates (7-day repo rate)	Jan				2.00%
09:00	CN	Money supply, M2 (y/y) (Exp. 10-15 Jan)	Dec		12.5%		12.3%
09:30	SE	House prices, Statistics Sweden (y/y)	Dec				7%
10:00	NO	Foreign trade with goods (bn)	Dec				24.6bn
10:00	NO	Norges Bank's survey of bank lending					
10:00	SE	ESV publish their budget forecast					
11:00	EU	Trade balance, sa	Nov	21bn			19.4bn
13:00	SE	Meeting of the Executive Board of the Riksbank					
14:00	PL	CPI (m/m)	Dec				-0.2%
14:30	US	Empire manufacturing	Jan		5		-3.58
14:30	US	Jobless claims, initial					294k
14:30	US	PPI final demand (m/m)	Dec		-0.4%		-0.2%
14:30	US	PPI, core (m/m)	Dec		0.9%		0.0%
16:00	US	Philadelphia Fed	Jan		20		24.5
Friday, 16/01/2015				Nordea	Consensus	Actual	Previous
08:00	SE	House prices, Mäklarstatistik (y/y)	Dec				6%
11:00	EU	HICP (m/m, final)	Dec	-0.1	-0.1		-0.2%
11:00	EU	HICP (y/y, final)	Dec	-0.2	-0.2%		
12:00	RU	Trade balance (USD)	Nov		14.0bn		13.6bn
13:50	US	Fed's Kocherlaktota Speaks on Economy and Monetary Policy					
14:30	US	CPI (y/y)	Dec		0.8%		1.3%
14:30	US	CPI, core (y/y)	Dec		1.7%		1.7%
15:00	US	TIC flows, net total	Nov				\$178.4bn
15:15	US	Capacity utilization	Dec		80.1%		80.1%
15:15	US	Industrial production (m/m)	Dec		0.1%		1.3%
15:55	US	Consumer confidence, U. of Mich., 5-10Y inflation (prelim.)	Jan				2.8%
15:55	US	Consumer confidence, University of Michigan (preliminary)	Jan		94.1		93.6
19:10	US	Fed's Bullard Delivers Presentation on U.S. Economy and Monetary Policy					

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