



Week Ahead

17 – 23 Jan



Nordea Research, 16 January 2015

Next week's key events

- **US**

No major data releases and events this week. Monday all markets are closed, as Martin Luther King Jr. day is celebrated.

- **Euro area**

The ECB meeting on Thursday will be the event of the week. A sovereign QE announcement feels very likely, although the ECB might be short on details of the programme. Otherwise, the ECB will publish the latest results of the lending survey on Tuesday and of the survey of professional forecasters on Friday. Long-term inflation expectations probably moved further away from the ECB target. PMI numbers will be round off the week on Friday. Much focus will also be on Greece where election polls will be published until Friday with the election following on Sunday. Left-wing SYRIZA is still best positioned to win but unlikely to secure an outright majority in parliament.

- **UK**

As expected the BoE kept the bank rate unchanged at 0.5% and the size of the Asset Purchase Programme at GBP 375bn at its MPC meeting on 7-8 January. We believe that the most interesting in the December MPC minutes will be the inflation outlook. Particularly, how the members see the effects of the sharp drop in the oil prices and the wage growth.

- **China**

Tuesday is moment of truth for if China has missed its 2014 growth target. We believe it will. The HSBC/Markit flash PMI will likely to stay relatively flat from the last month's reading, no big jump on either side.

- **Japan**

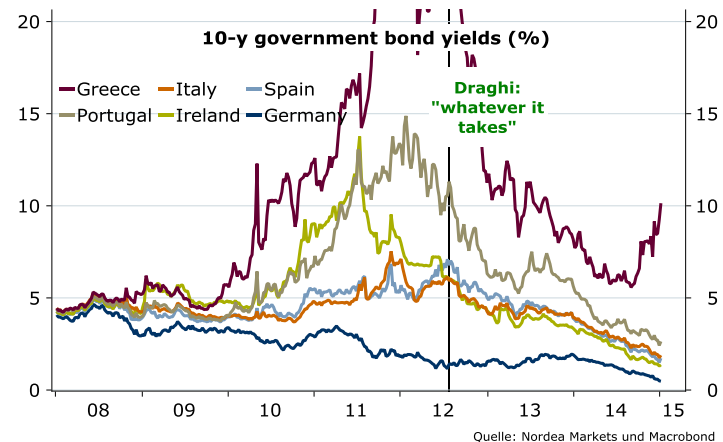
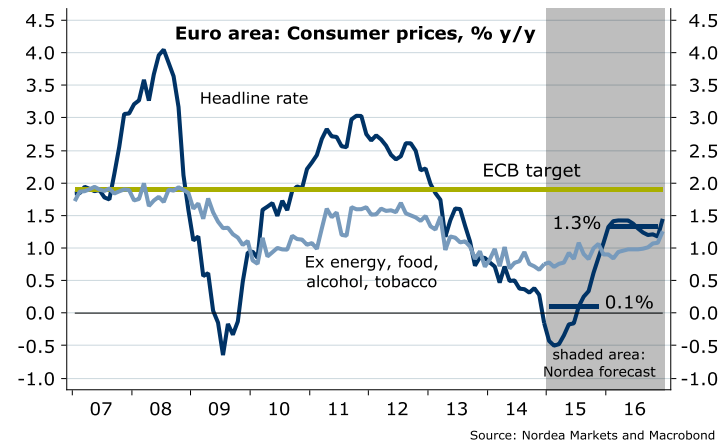
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- **Sweden**

Labour market indicators remain upbeat, indicating that employment growth will accelerate. We expect employment to show impressive growth also in 2015.

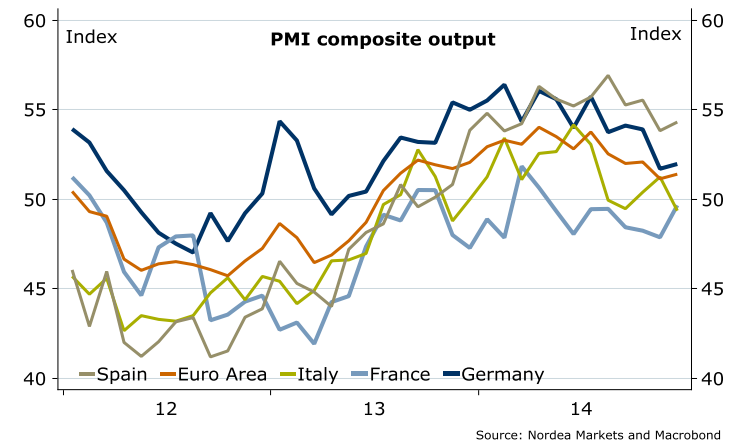
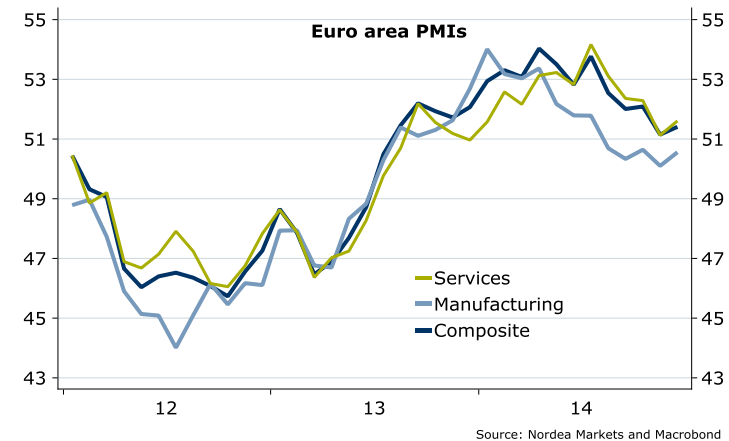
ECB: Finally a QE announcement (Thu)

- We expect the ECB to announce an expansion of the types of assets purchased to government, agency and investment grade corporate bonds.
- The ECB may not have all the details ready for this meeting. Our take is that the ECB will start buying in Q1, according to capital shares, including inflation linkers, along the curve. Even though the ECB is unlikely to exclude negative yielding bonds, such bonds are not going to be the main target of the purchases.
- We expect the ECB to increase the pace of purchases to expand the balance sheet faster. Assuming that asset purchases of EUR 750bn are needed to reach the target, that would amount to purchases in all asset classes of roughly EUR 50 to 70bn per month.
- Our base case is that the ECB will announce a credible programme. In such a scenario, following initial volatility, we would expect core yields to rebound higher after the huge rally we have seen and the curve to steepen. Intra-Euro-area spreads should have more room to narrow.
- A credible programme should also gradually start to support the euro, after the initial euro-negative reaction.
- More details: [ECB preview on Nexus](#).



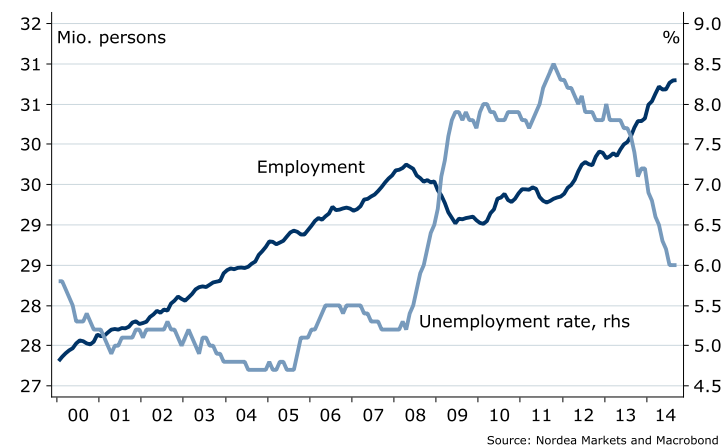
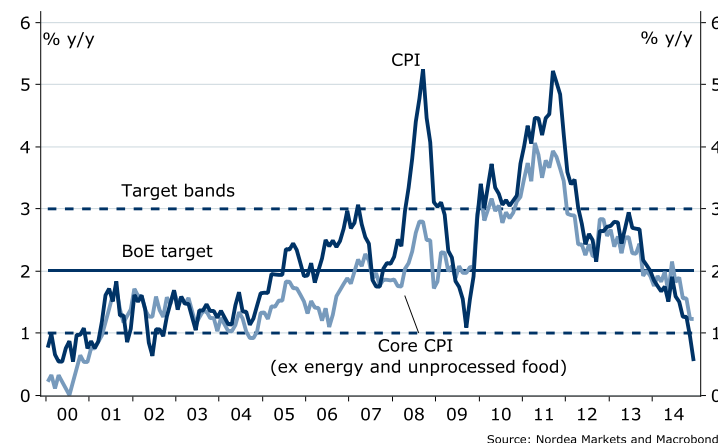
Euro area: PMIs expected slightly up (Fri)

- For January, we expect further small increases in the manufacturing, the service and the composite PMIs.
- A lower oil price and a weaker EUR should help the manufacturing sector. Our special focus will be on the manufacturing new orders component. It has risen above 50 in December and we expect the improvement to continue.
- The timing of the data release – on the day after the much-awaited ECB meeting – could mean that market attention is low. We would warn against reading much into small PMI movements anyway.
- Euro-area data will be published at 10:00h (France at 9:00h; Germany at 9:30h).



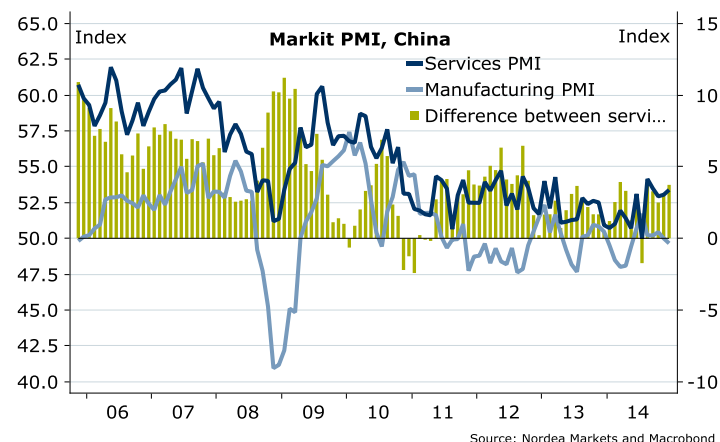
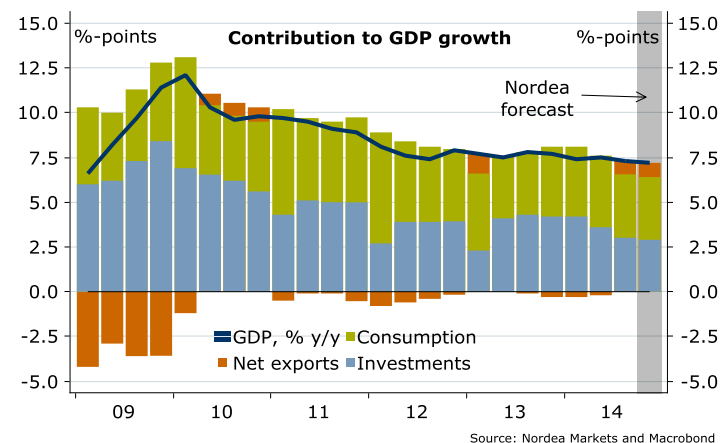
BoE: Inflation outlook in focus in MPC minutes (Wed)

- As expected the BoE kept the bank rate unchanged at 0.5% and the size of the Asset Purchase Programme at GBP 375bn at its MPC meeting on 7-8 January.
- Most likely the MPC members Weale and McCafferty voted for a 25bp rate hike, as at the last five meetings.
- We believe that the most interesting in **the December MPC minutes** will be the inflation outlook. Particularly, how the members see the effects of the sharp drop in the oil prices and the wage growth.
- Inflation fell to 0.5% y/y in December. Thus, Carney has to write a letter to the Chancellor Osborne explaining why inflation deviates so far from the target. However, Carney is confident that inflation below 1% will only be *temporary* and that the inflation will return to the target without any additional action.
- The **unemployment rate** was 6.0% in October. We believe that the labour market continues to strengthen and that wage growth will continue to pick up.
- **For now we stick to our forecast that the BoE will start to hike rates in June 2015.** However, given the low inflation pressure the risk for a later rate hike has certainly increased.



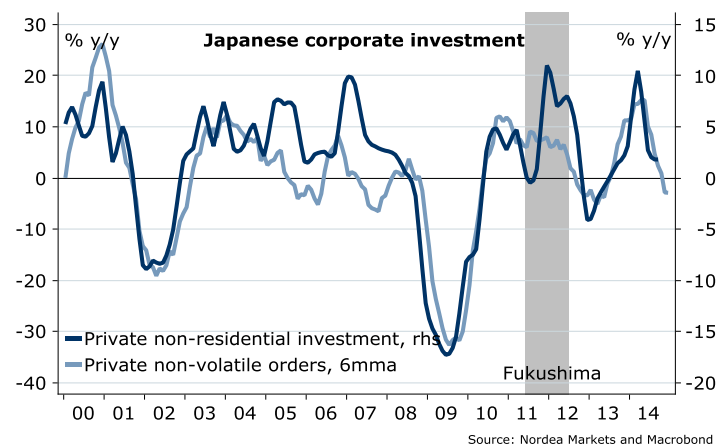
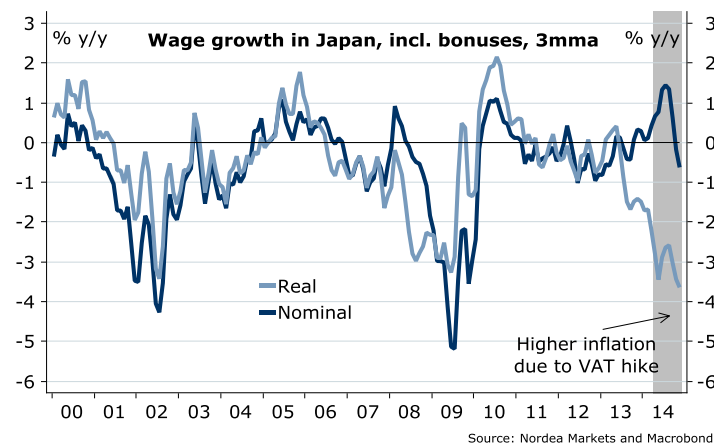
China: weak GDP (Tue) and PMI (Fri)

- Tuesday is moment of truth for if China has missed its 2014 growth target. We believe it will. Both we and market consensus expect **Q4 GDP growth** at 7.2% y/y, which will deliver a full-year growth of 7.4%. Market has likely already priced in the likelihood of missing growth target and the reaction will be limited.
- Momentum in the Chinese economy has been depressingly weak. The export sector has remained steady and likely contributed positively to growth. Investment may once again contribute less to growth than consumption. But this may change this year as Beijing has just approved CNY7tn (USD1.1tn) on infrastructure spending for 2015.
- 2015 will likely deliver another soft landing, with growth expected at 7.2%. Growth stability is still the above all most important goal for Beijing.
- **The HSBC/Markit flash PMI** will likely to stay relatively flat from the last month's reading, no big jump on either side. Property sales in the tier 1 cities have recovered strongly in the last two months. This is good news for the industrial sector with a few months' lag. Longer out, PMI manufacturing is likely to trend-wise underperform PMI services as a result of economic transition.



Japan: Look for more easing signals from BoJ (Wed)

- It is almost with certainty that the BoJ will stand by and leave the Quantitative and Qualitative Easing (QQE) unchanged. It is still too soon after the previous expansion on 31 October. The BoJ's view on growth and inflation would be the highlight, perhaps revealing signals regarding future policy direction.
- At this moment we do not forecast further expansion of the QQE. But the prospect of low growth and inflation, especially given the falling oil prices, clearly provides a large room for the BoJ to ease further in the future.
- Despite Abenomics' two arrows, monetary and fiscal easing, being fired with full speed, momentum in the Japanese economy has remained weak in Q4. One of the crucial indicators for private consumption, the wages, fell by 0.6% y/y in November on nominal terms and by 3.6% on real terms! Another of our most watched indicator, machinery orders, fell by 14.6% y/y in November, suggesting subdued private investment.
- We expect better data in the coming quarters, as the economy benefits from the weaker yen, the delayed sales tax hike from October 2015 to April 2017 and the plunging commodity prices. These fixes are only temporary and promise no long-term growth.



Sweden: Risk of a disappointing LFS (Thu)

- **Employment has increased by a full 1.5% y/y** and 0.15% m/m on average over the past six months.
- Labour market **indicators remain upbeat**, indicating that employment growth will accelerate. We expect employment to show impressive growth also in 2015.
- As for December, we forecast employment to edge down by 0.1% m/m after the upsurge by 0.6% m/m the previous month. The labour supply will probably fall too, leaving **unemployment unchanged at 7.8%** (seasonally adjusted, not smoothed).
- **Risks for December are skewed to a weaker outcome.** There was an unusually high non-response level in the survey in December 2013, which probably resulted in employment being underestimated according Statistics Sweden. This could be the case also for December 2014. *(Thursday)*



Calendar

Saturday, 17-01-2015				Nordea	Consensus	Actual	Previous
14:50	US	Fed's Lockhart Speaks on Financial Literacy in Atlanta					
Monday, 19-01-2015				Nordea	Consensus	Actual	Previous
	US	Martin Luther King Jr. Day					
05:30	JP	Industrial Production (y/y, final)	Nov				-3.8%
10:00	NO	House prices SSB (y/y)	Q4				3.4%
12:00	NO	Norges Bank announces auction of Treasury bonds					
Tuesday, 20-01-2015				Nordea	Consensus	Actual	Previous
03:00	CN	GDP (q/q)	Q4		1.7%		1.9%
03:00	CN	GDP (y/y)	Q4		7.2%		7.3%
03:00	CN	Retail sales (y/y)	Dec		11.7%		11.7%
06:30	CN	Fixed asset inv. excl. rural YTD (y/y)	Dec		15.7%		15.8%
06:30	CN	Industrial production (y/y)	Dec		7.4%		7.2%
10:00	EU	Euro Area Bank Lending Survey	Q4				
11:00	DE	ZEW, current situation	Jan	15	12		10
11:00	DE	ZEW, expectations	Jan	40	39		34.9
13:00	TR	CBT announces interest rates (Benchmark repo rate)	Jan	8.25%	8.25%		8.25%
13:00	TR	CBT announces interest rates (Overnight lending rate)	Jan	11.25%	11.25%		11.25%
16:00	US	Fed's Powell Speaks on Libor in Washington					
16:00	US	Housing market index, NAHB	Jan		58		57
Wednesday, 21-01-2015				Nordea	Consensus	Actual	Previous
	BR	BCB announces interest rates (SELIC target)	Jan	12.25%	12.25%		11.75%
03:00	CN	FDI (y/y)	Dec		22.1%		22.2%
04:20	JP	BoJ announces interest rates	Jan				
08:00	SE	Prospera, inflation expectations survey					
10:00	ZA	CPI (y/y)	Dec		5.5%		5.8%
10:30	GB	Earnings, ex bonus, average (3mma, y/y)	Nov		1.9%		1.6%
10:30	GB	Minutes of the BoE meeting					
10:30	GB	Unemployment rate, claimant count	Dec		2.6%		2.7%
11:00	NO	Auction of Treasury Bonds					
11:00	SE	SNDO to auction T-bills (SEK 15 bn)					
13:00	US	Mortgage applications, MBA					49.1%
14:30	US	Building permits	Dec		1055k		1035k
14:30	US	Housing starts	Dec		1040k		1028k
14:30	US	Housing starts (m/m)	Dec		1.2%		-1.6%
16:00	CA	BoC Monetary Policy Report					
16:00	CA	BoC announces interest rate	Jan		1.00%		1.00%

Calendar

Thursday, 22-01-2015			Nordea	Consensus	Actual	Previous
09:00	DK	Consumer confidence	Jan			6.0
09:00	DK	Retail sales (sa, m/m)	Dec			0.8%
09:00	DK	Retail sales (y/y)	Dec			0.8%
09:30	SE	Unemployment, labour force survey (AKU)	Dec	7.4%		7.4%
09:30	SE	Unemployment, labour force survey (AKU), sa	Dec	7.8%		7.9%
11:00	SE	SNDO to auction inflation-linked bonds (SEK 1bn)				
13:45	EU	ECB announces interest rates (deposit rate)	Jan	-0.2%	-0.20%	-0.20%
13:45	EU	ECB announces interest rates (main refi rate)	Jan	0.05%	0.05%	0.05%
14:30	US	Jobless claims, continuing				2424k
14:30	US	Jobless claims, initial				316k
16:00	EU	Consumer confidence (flash)	Jan	-10.5	-10.5	-10.9
16:00	US	Kansas City Fed manufacturing activity	Jan			8
Friday, 23-01-2015			Nordea	Consensus	Actual	Previous
	KR	GDP (y/y, preliminary)	Q4		2.8%	3.2%
02:45	CN	PMI, manufacturing (flash), HSBC	Jan		49.6	49.6
08:45	FR	Business confidence, INSEE	Jan	100	99	99
09:00	FR	PMI, manufacturing (preliminary)	Jan	48	48.2	47.5
09:00	FR	PMI, services (preliminary)	Jan	50.8	51.0	50.6
09:30	DE	PMI, manufacturing (preliminary)	Jan	51.6	51.6	51.2
09:30	DE	PMI, services (preliminary)	Jan	52.5	52.4	52.1
10:00	EU	ECB Survey of Professional Forecasters	Q1			
10:00	EU	PMI, composite (flash)	Jan	52	51.7	51.4
10:00	EU	PMI, manufacturing (flash)	Jan	51	51.0	50.6
10:00	EU	PMI, services (flash)	Jan	52	52.0	51.6
10:00	NO	Housing starts (s.a.)	Dec			2 242
10:30	GB	Retail sales ex auto (y/y)	Dec		3.4%	6.9%
10:30	GB	Retail sales ex auto fuel (m/m)	Dec		-0.6%	1.7%
14:30	CA	CPI (m/m, sa)	Dec			-0.2%
14:30	CA	CPI (y/y)	Dec		1.7%	2.0%
14:30	CA	CPI, core (m/m, sa)	Dec			0.0%
14:30	CA	CPI, core (y/y)	Dec		2.1%	2.1%
15:45	US	Markit manufacturing PMI (preliminary)	Jan		54.0	53.9
16:00	US	Home sales, existing	Dec		5.05m	4.93m
16:00	US	Home sales, existing (m/m)	Dec		2.4%	-6.1%
16:00	US	Leading index	Dec		0.4%	0.6%

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Editor:

Daniel F Gustafsson
Assistant Analyst
Global Research
+45 33 33 51 15

daniel.freyr.gustafsson@nordea.com