



Week Ahead

21 – 27 Feb



Nordea Research, 20 February 2015

Next week's key events

- **US**

Yellen testifies. If the Fed Chair would like to start shifting the rhetoric that has pointed to a first rate hike around mid-year towards a later date for lift-off, next week's congressional testimony may be just the forum.

- **Euro area**

We expect more indications that the recovery is firming, starting with the Ifo on Monday. Germany and Italy will publish inflation preliminary inflation numbers for February. Given the recent increase in the oil price we expect less negative inflation rates. ECB president Draghi will testify to the European Parliament on Wednesday.

- **Greece**

We continue to see Grexit as a tail risk and expect an agreement on the bailout extension over the weekend. Note that the story doesn't end there as several parliaments – including the German, the Finnish and not least the Greek – have to vote on the agreement.

- **UK**

We expect no revision to the Q4 GDP first estimate. Thus Q4 GDP increased by 0.7% q/q and 2.7% y/y.

- **China**

Chinese New Year distortion will likely cause another weak flash PMI reading.

- **Norway**

We expect January **retail sales** to drop by 0,3 m/m s.a, after +0,2 % in December.

- **Sweden**

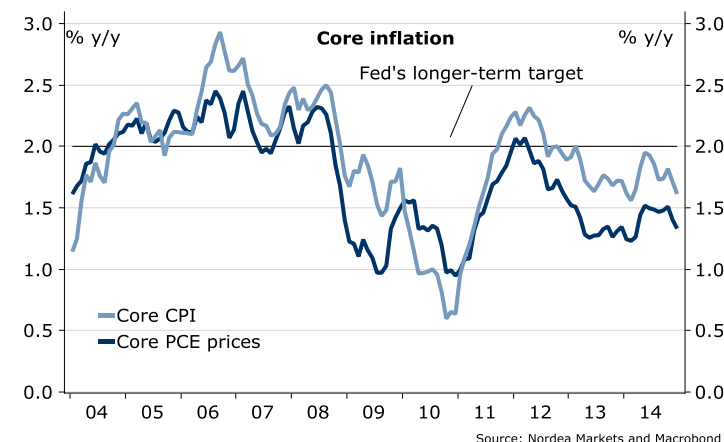
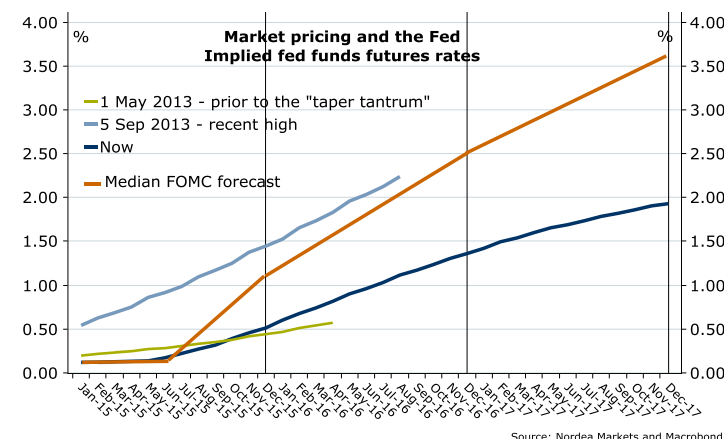
Fourth quarter GDP rose by a modest 0.1% q/q and by only 1.2% y/y according to our forecast. This marks the second consecutive quarter of weak quarterly GDP growth.

- **CCE**

The Turkish central bank is likely to deliver another 50 bp rate cut and this time also cut the overnight corridor. We expect no rate change in Hungary.

US: Yellen's semi-annual testimony (Tue & Wed)

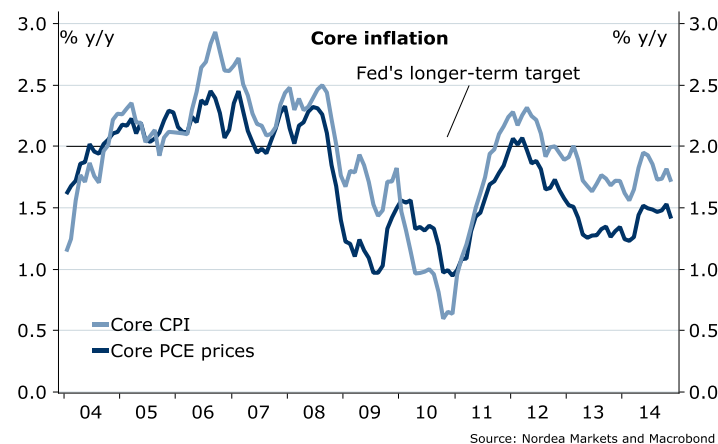
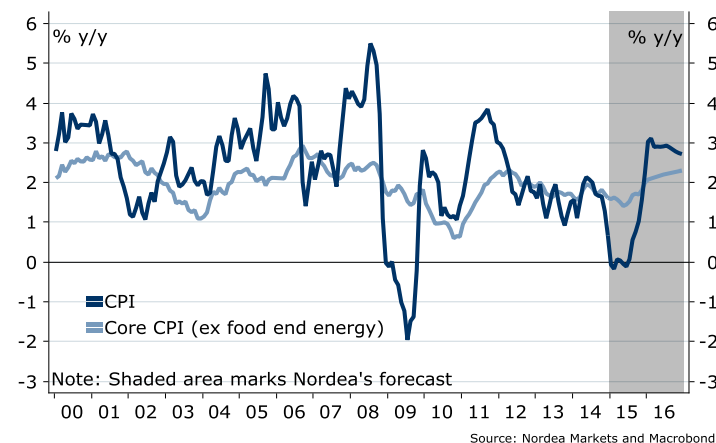
- Fed Chair Yellen presents her semi-annual monetary policy testimony to Congress next week.
- If Yellen would like to start shifting the rhetoric that has pointed to a first rate hike around mid-year towards a later date for lift-off, the congressional testimony may be just the forum.
- Increased concern about low inflation and/or “international developments” would obviously suggest a potentially delayed start to rate hikes.
- If the Fed still thinks a June rate hike is a possibility, it will need to remove the assurance that the bank will be “patient” before raising rates at the next FOMC meeting in March. The reference to patience indicates that the Fed is unlikely to begin raising rates for “at least the next couple of meetings,” according to the December FOMC minutes.
- We expect Yellen to repeat that the Fed will be “patient” before raising rates. We look for the first rate hike in September, but a June hike cannot be ruled out.



US: CPI headline inflation turns negative, core steady (Thu)

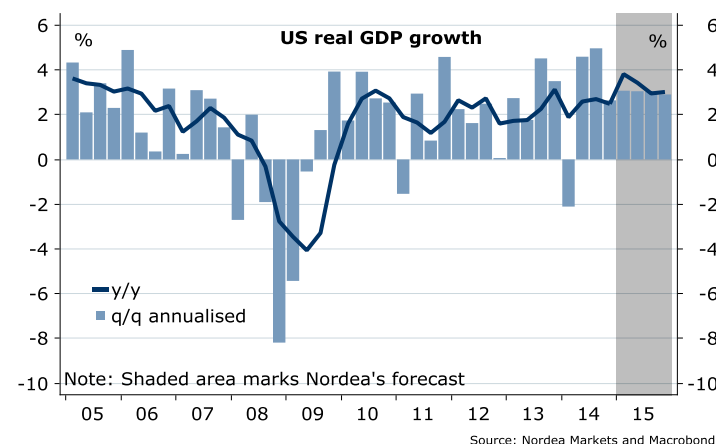
- We expect **CPI** headline inflation to drop to -0.1% in January from 0.8% in December, pulled down by lower energy prices. The consensus forecast is -0.1%.
- Headline CPI inflation is expected to remain close to zero through Q2 before gradually moving towards 2% by end-2015 and 3% (!) in early 2016, given our forecast that Brent oil prices will gradually rise to around USD 70 over this period.
- We expect the **core rate** to remain at 1.6% in January, also 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 1.3%, 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.

Jan-15	Nordea	Consensus	Previous
CPI, % y/y	-0.1	-0.1	0.8
Core CPI, % y/y	1.6	1.6	1.6



US: A lot more on the plate

- In addition to Yellen's testimony and the CPI report next week will see several other data releases.
- **Q4 GDP growth** (Fri) is expected to be revised from a 2.6% annual rate to 1.8%, due to lower inventory investment than initially estimated and an even larger drag from imports. Domestic final demand was probably little revised. The consensus forecast is 2.1%.
- In the **durable goods orders** report (Thu) our focus will as always be on core capital goods orders, a guide to business investment trends. The data are volatile, but after four straight declines they merit watching. The consensus forecast is a 0.3% decline in January.
- Also on the agenda are **existing- and new home sales** (Mon & Wed), **Case-Shiller home prices** (Tue) and The Conference Board's **consumer confidence** survey (Tue).



Germany: Ifo to rise again (Mon)

- We expect the Ifo index to rise to 108.0, basically back to the level of last summer before the Ukrainian crisis hit sentiment. An increase would show that German corporates are not too worried about the Greek situation.
- The German economy has overcome its soft spot as witnessed by the surprisingly strong 0.7% q/q increase in GDP in Q4. Although there might be some exaggeration in this number, the outlook is positive as well: Strong fundamentals, lower energy prices and the weaker EUR provide momentum.
- Expected Ifo trend for the coming months: up.

Feb-15	Nordea	Consensus	Previous
Ifo business climate	108.0	107.6	106.7
Ifo business expectations	103.5	103.0	102.0
Ifo business conditions	112.7	112.7	111.7

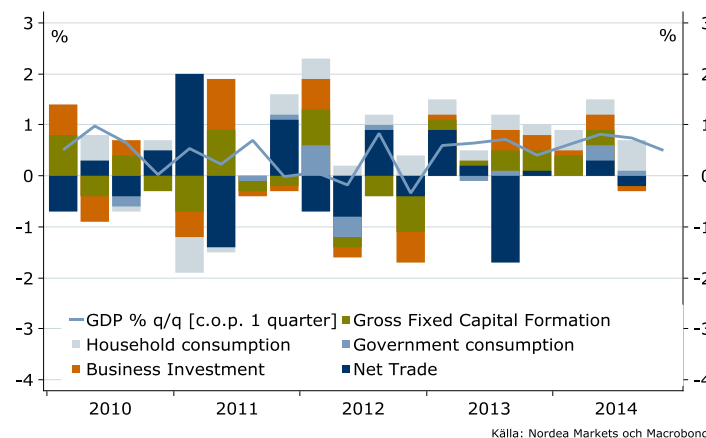
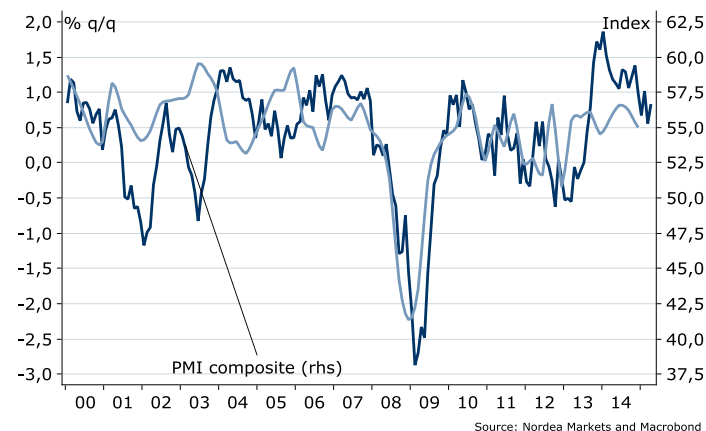
Source: Nordea Markets and Macrobond



UK: GDP Q4 second estimate (Fri)

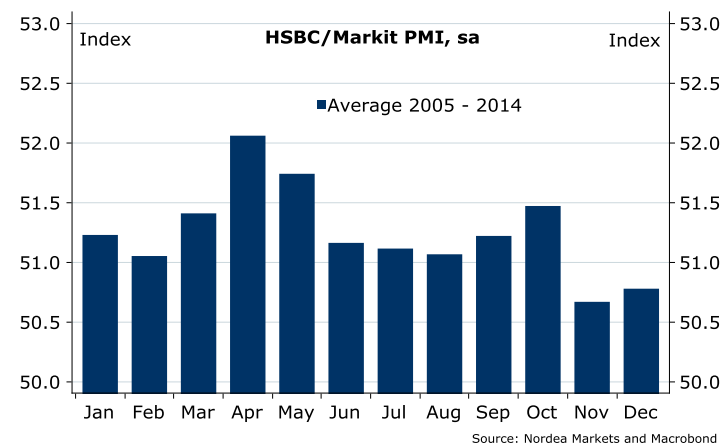
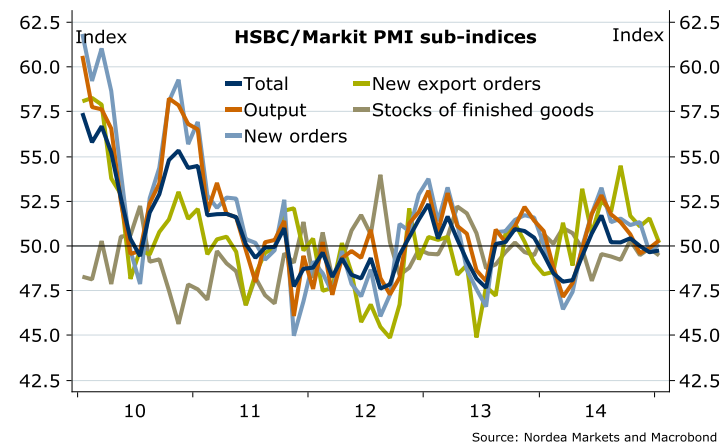
- The British economy continues to grow strongly, mainly driven by private consumption. We expect no revision to the Q4 GDP first estimate. Thus Q4 GDP increased by 0.7% q/q and 2.7% y/y.
- PMI is still comfortably above the 50 mark indicating strong growth.
- The labour market continues to strengthen and unemployment has fallen rapidly, to 5.7% in December.
- Retail sales perform very well and increased more than expected in January.
- Most of the recent business surveys and official data have performed better than expected.

	Nordea	Consensus	Previous
Real GDP q/q, %	0,50	0,50	0,50
Real GDP y/y, %	2,70	2,70	2,70



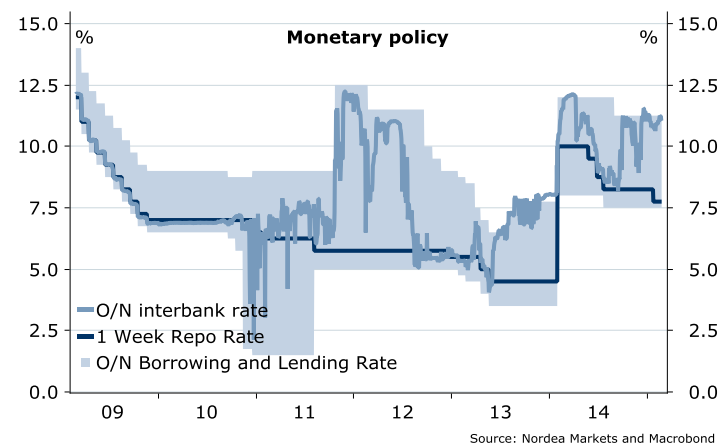
China: prepare for weak flash PMI (Wed)

- We prepare for another below-50 reading from the HSBC/Markit flash PMI that will add to the existing concerns about the Chinese growth.
- However, we call for cautious interpretation of Chinese data in February, as the calendar effect of the Chinese New Year (18 – 24 February) should not be understated. Last year, the Chinese New Year fell on January and this year on February. It means that factories and industrial orders may have reacted differently. On top of it, Chinese statisticians still lack the skill to properly adjust for these calendar effects.
- In the near term, the PMI depends crucially on the expected rebound of the housing market. If property sales continue to recover as we expect, then it will help lift PMI above 50.
- In longer term, we expect the manufacturing sector to perform sluggishly. The Chinese economy has started transitioning from being dependent on manufacturing to relying on the service sector, which has surpassed industry to become the largest sector in the economy.
- In addition, the severe overcapacity remains in the heavy manufacturing sectors, notably the mining sector. This will cap the growth potential for these sectors.



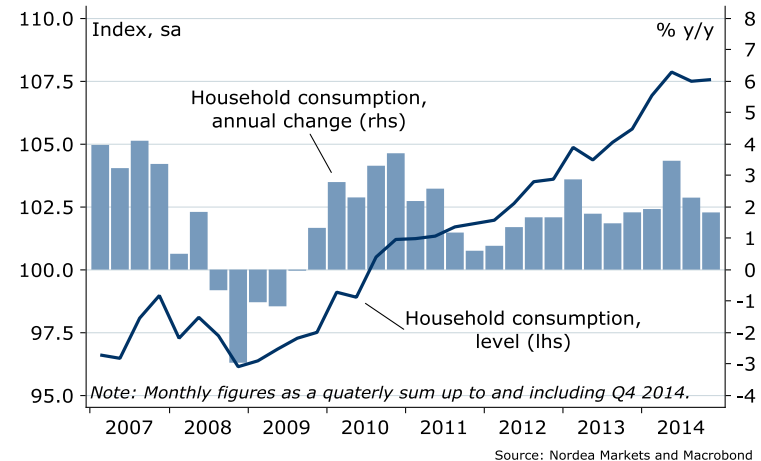
CEE: CBRT to cut

- The Turkish central bank (CBRT) may cut its key rate by 50 bp at its meeting on Tuesday and at the same time lower the corridor by 50-75 bp. The political pressure to cut rates is massive and inflation is coming down relatively fast. The TRY has weakened a good deal after the CBRT's talk about potential emergency rate cut, which have actually moved the risks a bit towards a smaller cut. A 50 bp cut in the corridor would be a small disappointment.
- There is some risk that the Hungarian central bank (MNB) will cut rates at its meeting on Tuesday.



Sweden: Minutes to shed light on reaction function

- There's currently a large uncertainty regarding monetary policy and the **Riksbank's minutes** will of course be watched closely. In February, the Riksbank yet again changed reaction function and the bank seems now committed to quickly lift both inflation and inflation expectations. Governors potential discussions on lower limits to the repo rate and other unconventional will be important. Also, we will know why deputy Governor Flodén, previously classified as a dove, was the only one *not* voting for bond buying.
- **Fourth quarter GDP rose by a modest 0.1% q/q** and by only 1.2% y/y according to our forecast. This marks the second consecutive quarter of weak quarterly GDP growth. Our forecast is lower than the Riksbank's. On the margin this supports the view that the Riksbank will ease its monetary policy stance further in April.
- Read more on *Q4 GDP*.

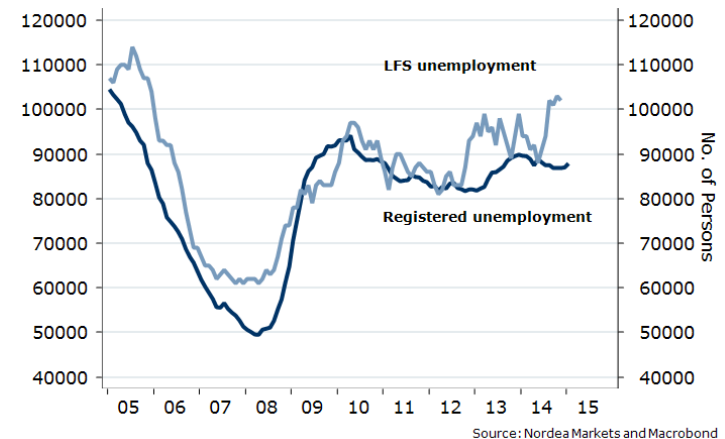
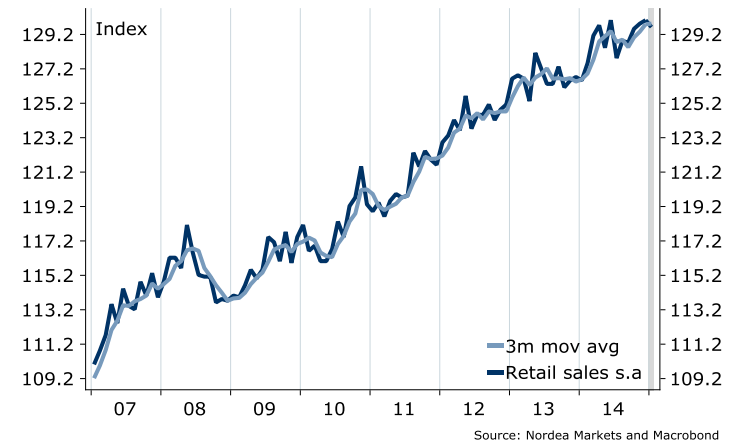


Forecasts for Q4 2014

Percentage change	Nordea	Riksbank	Previous (Q3 2014)
GDP y/y	1.2	---	2.1
GDP, cal. adj. y/y	1.2	1.5	2.1
GDP, seasonally adj. q/q	0.1	0.5	0.3
Hours worked, cal.adj. y/y	1.3	---	2.9

Norway: Small correction in retail sales

- We expect January **retail sales** to drop by 0,3 m/m s.a, after +0,2 % in December
- Retail sales picked up through Q4, indicating moderate growth in private consumption
- We expect retail sales to continue to grow at a moderate pace (1,5-2,0% y/y) in 2015. Norges Bank expects growth in private consumption of 2,0% in 2015
- We get both LFS and registered unemployment this week
- Registered unemployment is the most important labor market indicator. We expect the number of unemployed and on labor market measures to increase by 500 persons in February
- We expect that LFS unemployment remained unchanged at 3,7% in December
- Norges Bank publish its foreign exchange transactions in the market for March. Last month FX sales increased to NOK 700 mio per day. With oil price stabilizing we think that will stay unchanged for March



Calendar

Monday, 23/02/2015				Nordea	Consensus	Actual	Previous
	RU	Defense of the Fatherland					
10:00	DE	Ifo, business climate (main)	Feb	108			106.7
10:00	DE	Ifo, current assessment	Feb	112.7			111.7
10:00	DE	Ifo, expectations	Feb	103.5			102
10:00	NO	Housing starts (s.a.)	Jan				2 130
10:00	NO	Investment survey, manufacturing	Q1				
14:45	EU	ECB's Mersch Speaks in London					
16:00	US	Home sales, existing	Jan		5.00m		5.04m
16:00	US	Home sales, existing (m/m)	Jan		- 0.8%		2.4%
16:30	US	Dallas Fed Man. Activity	Feb		0		- 4.4
Tuesday, 24/02/2015				Nordea	Consensus	Actual	Previous
08:00	DE	GDP (sa, q/q, final)	Q4	0.7%			0.7%
08:00	DE	GDP (wda, y/y, final)	Q4	1.5%			1.4%
08:45	FR	Business confidence, INSEE	Feb				94
10:30	ZA	GDP (q/q, annualised)	Q4				1.4%
11:00	EU	HICP (m/m, final)	Jan	- 1.6%			- 1.6%
13:00	TR	CBT announces interest rates (Benchmark repo rate)	Feb	7.75%			7.75%
13:00	TR	CBT announces interest rates (Overnight lending rate)	Feb	11.25%			11.25%
14:00	HU	MNB announces interest rates (Base rate)	Feb		2.10%		2.10%
15:00	US	House prices, S&P/Case- Shiller, composite- 20 (y/y)	Dec		4.5%		4.3%
15:45	US	Markit services PMI (preliminary)	Feb				54.2
16:00	US	Consumer confidence	Feb		100		102.9
16:00	US	Fed Chair Yellen Testifies to Senate Bank Panel in Washington					
16:00	US	Fed's Yellen Testifies to Senate Banking Panel in Washington					
16:00	US	Richmond Fed manufacturing index	Feb		6		6
Wednesday, 25/02/2015				Nordea	Consensus	Actual	Previous
02:45	CN	PMI, manufacturing (flash), HSBC	Feb		49.5		49.7
08:45	FR	Consumer confidence	Feb				90
09:30	SE	Minutes from the Monetary Policy meeting published					
10:00	NO	Unemployment rate, LFS	Dec	3.7%			3.7%
11:00	SE	SNDO to auction bonds (SEK 3.5bn)					
13:00	US	Mortgage applications, MBA	Feb				- 13.2%
16:00	US	Fed Chair Yellen Testifies to House Financial Services Committ					
16:00	US	Home sales, new	Jan		475k		481k
16:00	US	Home sales, new (m/m)	Jan		- 1.3%		11.6%
17:30	EU	ECB's Draghi Testifies to European Parliament in Brussels					

Calendar

Thursday, 26/02/2015					Nordea	Consensus	Actual	Previous
08:00	DE	Consumer confidence, Gfk	Mar	9.4				9.3
09:30	SE	Financial market statistics, household lending (y/y)	Jan					6.1%
09:30	SE	Trade Balance	Jan					0.4bn
09:55	DE	Unemployment rate (sa)	Feb	6.5%				6.5%
10:00	EU	M3 (y/y)	Jan	3.8%				3.6%
10:30	GB	GDP (y/y, preliminary)	Q4					2.7%
11:00	EU	Economic Sentiment Indicator (ESI)	Feb	102				101.2
14:30	CA	CPI (m/m, sa)	Jan					
14:30	US	CPI (y/y)	Jan		- 0.1%			0.8%
14:30	US	CPI, core (y/y)	Jan		1.6%			1.6%
14:30	US	Durable goods orders (m/m)	Jan		1.9%			- 3.4%
14:30	US	Jobless claims, continuing	Feb					
14:30	US	Jobless claims, initial	Feb					
15:00	US	House prices, FHFA (m/m)	Dec		0.5%			0.8%
15:00	US	House prices, purchases (q/q)	Q4					0.9%
16:00	US	Kansas City Fed manufacturing activity	Feb					3
Friday, 27/02/2015					Nordea	Consensus	Actual	Previous
00:30	JP	CPI, national (y/y)	Jan					2.4%
01:05	GB	Consumer Confidence, Gfk	Feb					1
06:00	US	Fed's Mester Speaks to Monetary Policy Forum in New York						
08:45	FR	Consumer spending (m/m)	Jan					1.5%
09:30	SE	GDP (wda, y/y) (flash)	Q4					2.1%
09:30	SE	PPI (y/y)	Jan					- 0.1%
09:30	SE	Retail Sales (y/y)	Jan					3.4%
10:00	NO	Consumption of goods indicator (m/m)	Jan					0.1%
10:00	NO	Norges Bank publishes NOK buys to Pension Fund- Internationa	Mar					0.7bn
10:00	NO	Retail sales (m/m)	Jan	- 0,3%				0.2%
10:00	NO	Unemployment, registered and persons on labour market schen	Feb	88300				87874
10:00	PL	GDP (y/y, final)	Q4					3.0%
14:00	DE	HICP (y/y, preliminary)	Feb	- 0.4%				- 0.5%
14:30	US	GDP (q/q annualised, second)	Q4		2.0%			2.6%
14:30	US	GDP deflator (q/q annualised, second)	Q4		0.0%			0.0%
14:30	US	PCE prices, core (q/q, annualised) (second)	Q4					1.1%
14:30	US	Personal consumption (q/q annualised, second)	Q4		4.3%			4.3%
15:15	US	Chicago PMI	Feb		58			59.4
16:00	US	Consumer confidence, U. of Mich., 5- 10Y inflation (final)	Feb					2.7%
16:00	US	Home sales, pending (m/m)	Jan		2.0%			- 3.7%

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