



Financial forecasts

Nordea Research, 20 January 2014



Overview	Major forecast changes	
Central banks	Fed ECB Riksbanken Norges Bank Nationalbanken	<i>QE to end in 2014 – first rate hike next year the heat is on... again no further rate cuts two rate cuts central bank in raised state of alert</i>
Market rates	USD rates EUR rates	<i>tapering has finally arrived rise in short rates more than year-end</i>
Foreign exchange	USD GBP JPY CHF SEK NOK EM FX	<i>short term risks, bullish medium to long term expected strengthening moved forward strength on macro uncertainty stable strong momentum in 2014 gone too far revisions to USD/CNY and EUR/TRY</i>
Commodities	Oil	<i>tales of the unexpected, downside risk H1</i>

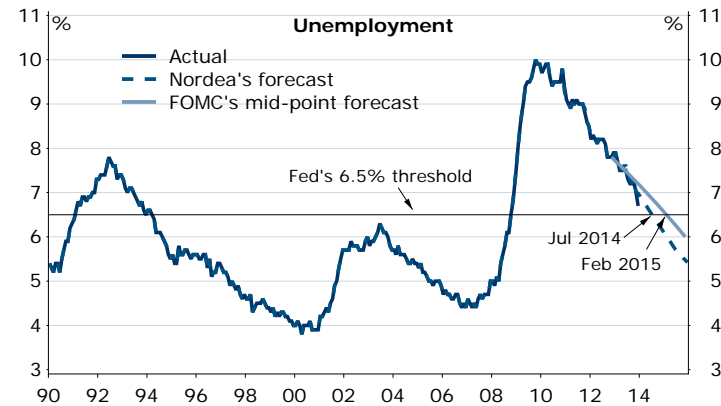
Tables

Changes since the December forecast revision

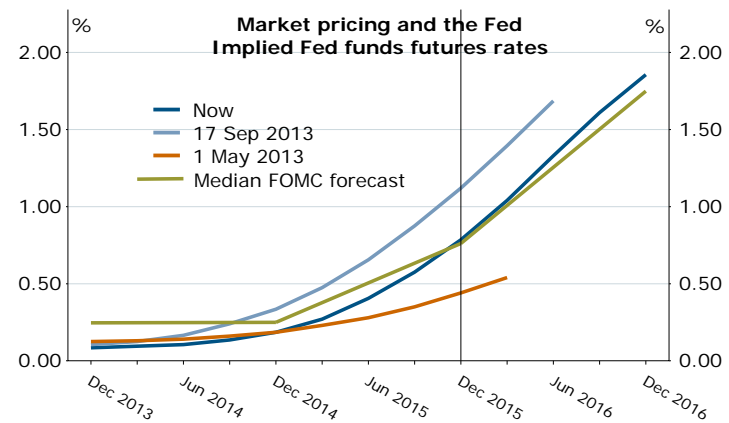
- **Fed:** The Fed is expected to stick to the course set for tapering, reducing its monthly asset purchases by USD 10bn per FOMC meeting. QE is expected to end in October.
- **Riksbanken:** We expect no new rate cuts after the December surprise. The growth outlook has improved and we do not expect inflation to surprise the Riksbank on the downside again.
- **Rates:** We expect 10-year **USD** yields to remain in a trading range of 2.70% - 3.05% in the near term, but we have lifted our year-end forecast by 25bp to 3.5%. **EUR** money market rates are seeing upward pressure. Thus, we have lifted the short-end of the EUR curve just a bit.
- **FX:** We keep our 3-month **EUR/USD** forecast of 1.33 unchanged, but still see upward pressure in the near term. We have moved a big part of the expected **GBP** strengthening forward and now see GBP/USD at 1.66 on a 3-month's horizon. Longer out, we see most GBP potential vs the EUR. 8.70 is our new 3-month's forecast for **EUR/SEK** (from 8.90) and 8.45 for mid-year. A few more months of convincing hard data will be sufficient to reprice short rates. We think the recent move in **EUR/NOK** is overdone and expect a return to 8.10 in 3-month's time. We have updated our **EUR/TRY** forecast to reflect the recent negative developments in the political arena in Turkey. And, **USD/CNY** projections are revised modestly.
- **Commodities:** We see downside risks to our **oil** prices forecast for Q1 of USD 108/brl as the physical market is set to weaken as we move into the refinery maintenance season

Fed: QE to end in 2014 – first rate hike next year

- The Fed is expected to stick to the course set for tapering, reducing its monthly asset purchases by USD 10bn per FOMC meeting. QE is expected to end in October. The threshold for stopping or slowing down the taper pace is believed to be rather high.
- We don't believe the FOMC will be able to agree on lowering the 6.5% unemployment threshold. However, even if Fed lowered it to 6% we would expect only a minor shift in the timing of the first rate hike. Expect to hear the “threshold, not a trigger” phrase repeated again and again in coming months.
- We continue to expect the first Fed rate hike in Q1 2015, with the Fed funds rate reaching 1.25% by end-2015.



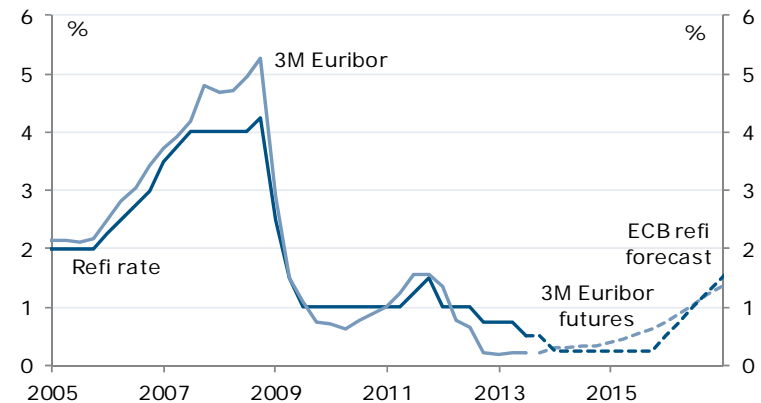
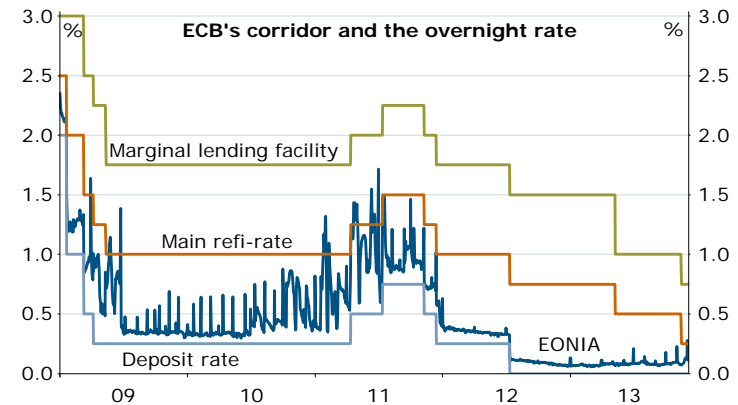
Source: Nordea Markets and Reuters Ecowin



Source: Nordea Markets and Reuters Ecowin

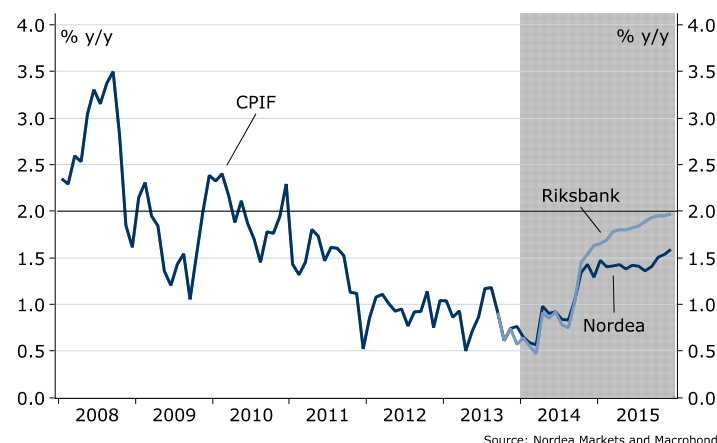
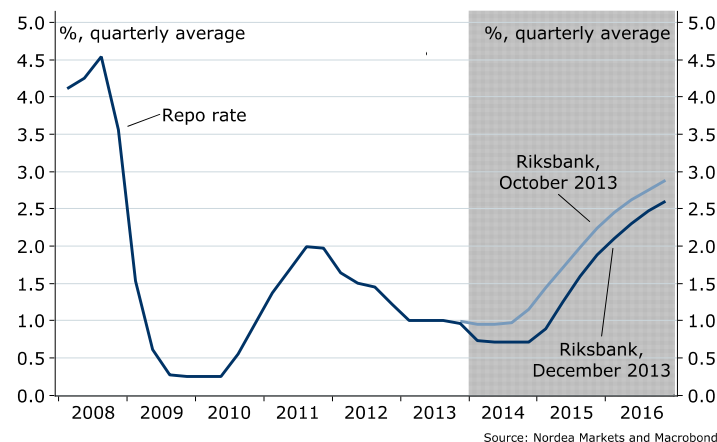
ECB: The heat is on... again

- After the November refi rate cut, we have no more rate cuts in our baseline forecast and no unconventional measures either.
- Risks are biased towards more easing. Excess liquidity is falling, monetary conditions are tightening, inflation is too low and the recovery too slow.
- A refi rate cut, deposit rate cut and more liquidity measures (ending SMP sterilization or cutting reserve requirements) are the most likely measures in the near term.
- However, the recovery is ongoing and inflation is close to the bottom. Thus, we do not expect new ECB measures unless a fresh shock hits.
- The barrier for more easing is small, but will probably require new shocks.
- We see the first rate hike at the end of 2015.



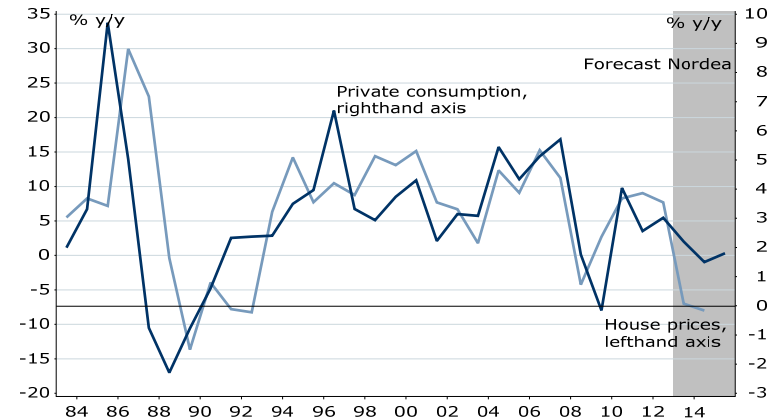
Riksbank: No further rate cuts

- The surprisingly low inflation made the Riksbank cut rates in December. In addition, the rate path had a near term bias for an additional rate cut.
- However, much suggests that the Riksbank will not cut rates again. An important reason is that we have the same inflation forecast for H1 2014. Thus, we don't expect inflation to surprise the Riksbank on the downside again.
- Moreover, the growth outlook have improved. Not least is growth strong in the domestic economy. In addition, the manufacturing industry has finally started to recover.
- Our inflation forecast for H2 2014 is lower than that of the Riksbank. Still, we see a rate hike in Q4 2014 as we believe the strong domestic economy will make the Riksbank take the foot off the accelerator and hike rates.

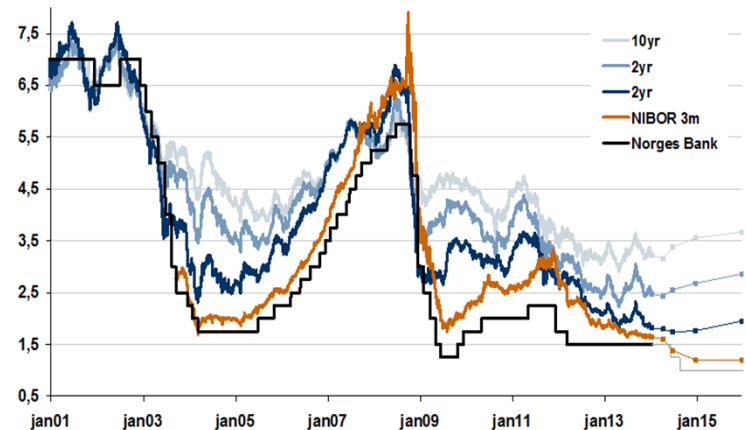


Norges Bank: Two rate cuts

- Our view on the economy in the very near term is not necessarily much more pessimistic than that of Norges Bank. During the spring we expect definite signs to emerge that we are facing a prolonged period of weak economic trends and lower capacity utilisation. This will in turn make Norges Bank cut rates 25bp twice this summer.
- Our forecast for cuts in the base rate combined with significantly higher European rates pulls the Norwegian curve in two directions: lower in the short end and higher in the long end. The result is a steeper curve and significantly lower spreads to European rates, particularly in the short end. In the long end the net effect is a rise in rates, albeit significantly smaller than the rise we expect in European rates.

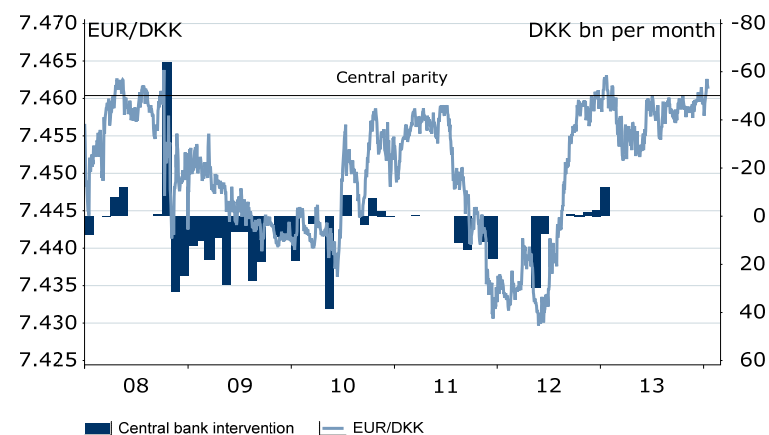


Source: Nordea Markets and Reuters Ecowin



Nationalbanken: Central bank in raised state of alert

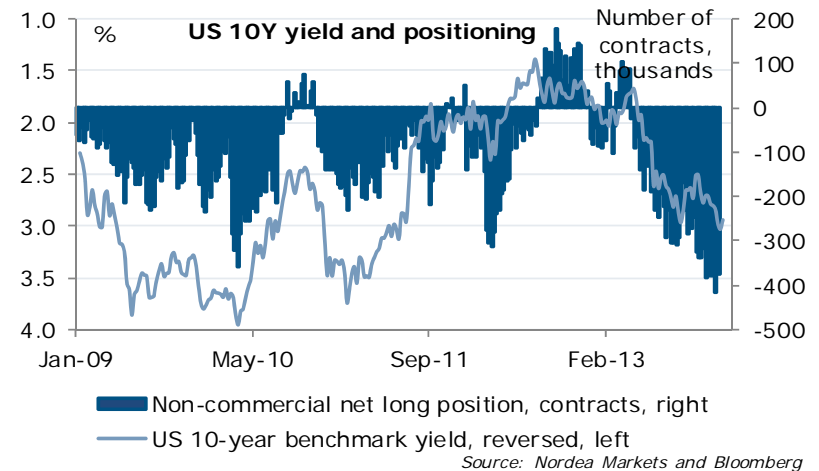
- The DKK has weakened relatively sharply versus the EUR as a result of short money market rates in the Euro area rising relatively sharply, widening the spread to corresponding interest rates in Denmark
- The weakening of the DKK means that the EUR/DKK cross is currently close to the levels where the Danish central bank has previously reacted.
- We believe that the central bank will try to ease the current pressure on the DKK through minor open market operations.
- On the other hand, we believe that an actual isolated Danish rate hike is still some way off. The central bank will probably be relatively cautious about hiking rates in the current situation where there is still significant uncertainty about the ECB's future monetary policy line. Against this background we do not think the central bank will implement the first isolated Danish rate hike until some time during the autumn.



Denmark	Spot	3M	30/06/14	31/12/14	31/12/15
Leading rate	0.20	0.20	0.20	0.40	1.00
3M	0.29	0.35	0.40	0.45	1.00
2Y	0.28	0.35	0.80	1.10	1.90
5Y	1.02	0.95	1.45	1.80	2.45
10Y	1.84	1.85	2.20	2.50	2.85
30Y	2.63	2.55	2.75	2.95	3.20

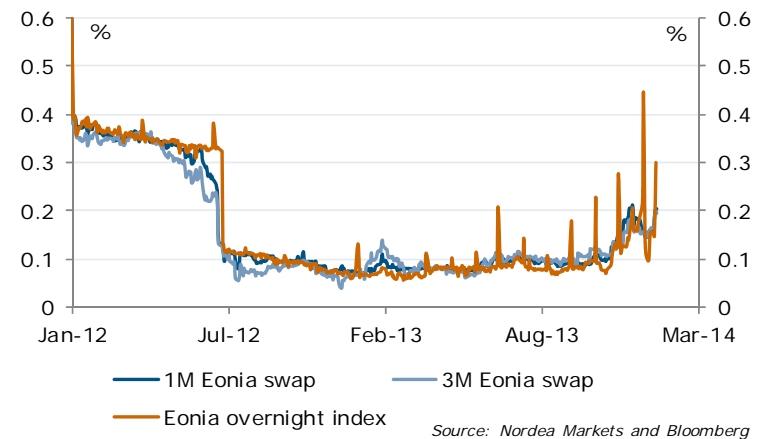
USD rates: tapering has finally arrived

- Disappointing December payrolls report led to a good bond rally again, and long yields have started 2014 with a clear fall.
- Expectations for near-term US economic data already appear to be rather high, which makes meeting high expectations increasingly hard.
- Speculative short positions remain high, leaving bonds performance potential in the near term, as these positions are neutralized.
- On a 3-month horizon, we expect the 10-year yield to remain in a trading range of 2.70% - 3.05%. We have revised upwards our end-14 forecast by 25 bp to 3.5%.
- Longer out, we still expect market rates to move gradually higher as the US economic recovery gains more momentum and markets start to re-price the Fed outlook. [Insights: The secular bond bull market will not return](#)



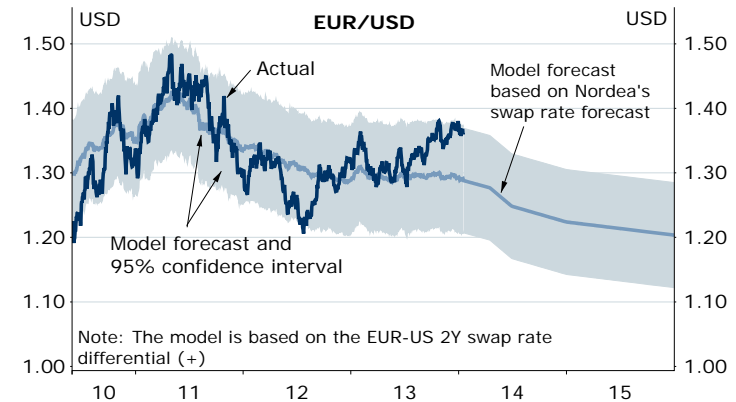
EUR rates: Rise in short rates more than year-end

- After some pressure late last year, German bonds have started the year with a rally, which is likely to continue in the short term.
- Short-term rates have seen upward pressure re-emerge, as liquidity conditions gradually tighten, illustrating the rise in short yields have been more than just a year-end effect.
- As a result, the curve continues to have more flattening potential.
- Interest for peripheral bonds has been strong early in the new year. Investors have flocked to buy new bond issues, while e.g. Spanish and Italian bond yields have fallen below 4%. Search for carry likely to prevail for now, supporting more narrowing in spreads.
- We still see gradually rising rates beyond the 3-month horizon as fundamentals gradually improve.

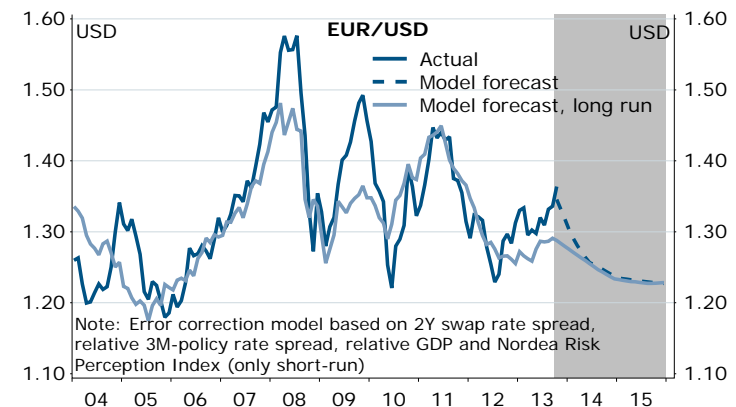


USD: short term risks, bullish medium to long term

- With the expectations for higher US growth and Fed tapering (10bn/month) dominating, it doesn't take much of a negative surprise (key figures) to make USD weaker short term. EUR/USD should rise to 1.38 yet again.
- Relative portfolio flows keep supporting EUR broadly. ECB will likely remain on hold for now.
- But longer out we expect the US economy to outpace the Euro area and this should keep interest rate spreads supportive for the USD going forward.
- Hence, we expect a gradually stronger USD. Our 3M EUR/USD forecast is 1.33, the end-2014 forecast is 1.25 and the end-2015 forecast is 1.20.



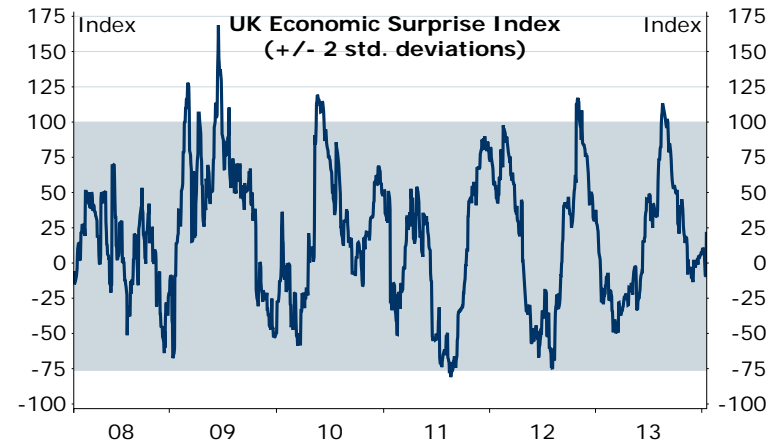
Source: Nordea Markets and Reuters Ecowin



Source: Nordea Markets and Reuters Ecowin

GBP: Expected strengthening moved forward

- We move the expected GBP strengthening forward and now see GBP/USD at 1.66 in 3-month. Longer our, we see most GBP potential vs the EUR.
- Data has recently been exceptionally strong in UK – Both PMI's, labour market and last week's retail sales point to a solid recovery. Hence, BoE is turning into the least dovish of the major central banks as the unemployment rate approaching their 7% threshold.
- Key for GBP – Inflation Report (February 12) where BoE is likely to modify forward guidance.
- GBP positioning indicators are close to “neutral”, macro surprise index trending higher, technically GBP/USD has broken the long term range and should find support at 1.6200.



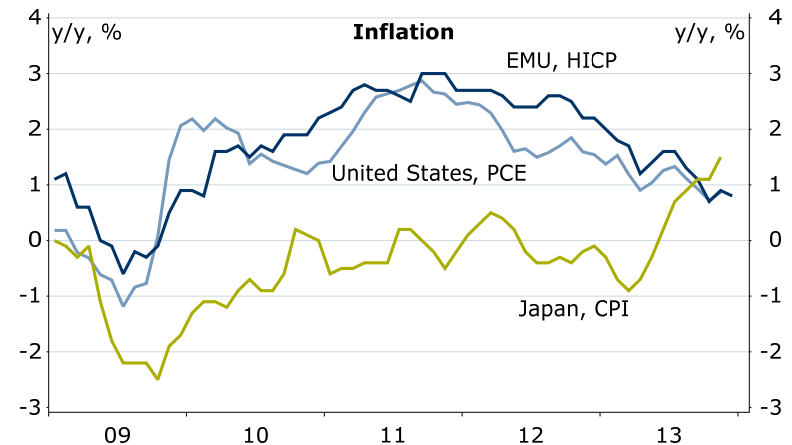
Source: Nordea Markets, Citigroup and Reuters Ecowin



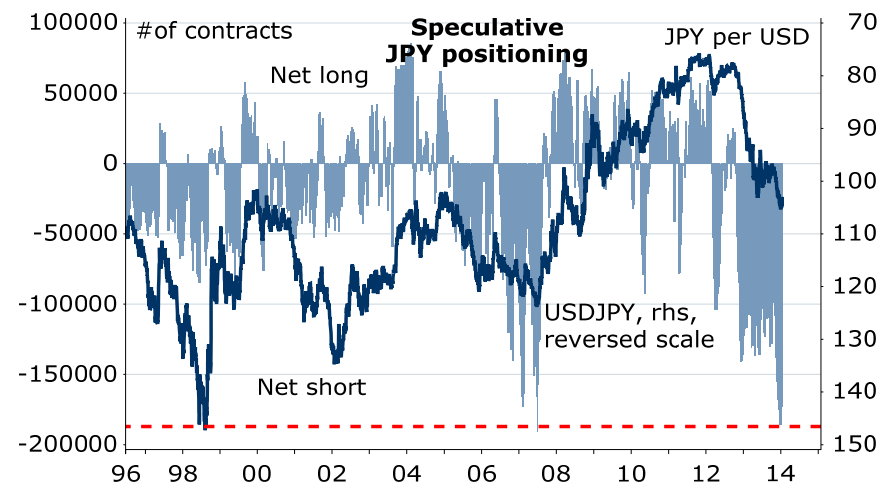
Source: Nordea Markets and Reuters Ecowin

JPY: strength on macro uncertainty

- We expect JPY to strengthen in the short term, with the stock markets likely to take a hit (after a +70%+) year ahead of the April consumption tax hike. JPY short positions are still very high – risks for an ugly unwind.
- With the US macro surprise index and UST short positions at historic highs, risks are for USD yields to edge lower, dragging USDJPY to 100 – and below (3M 97).
- We maintain our JPY forecast on the longer term, i.e. Dec-15 = 110. Monetary policy will remain relatively aggressive compared to the US. Abenomics will only be called a success when structural reforms aimed at lifting potential growth are introduced, which is unfortunately not the case yet.

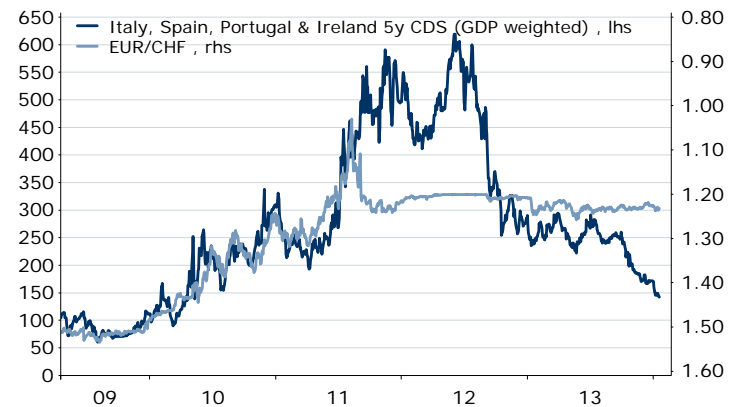


Source: Nordea Markets and Reuters Ecowin



CHF: Stable

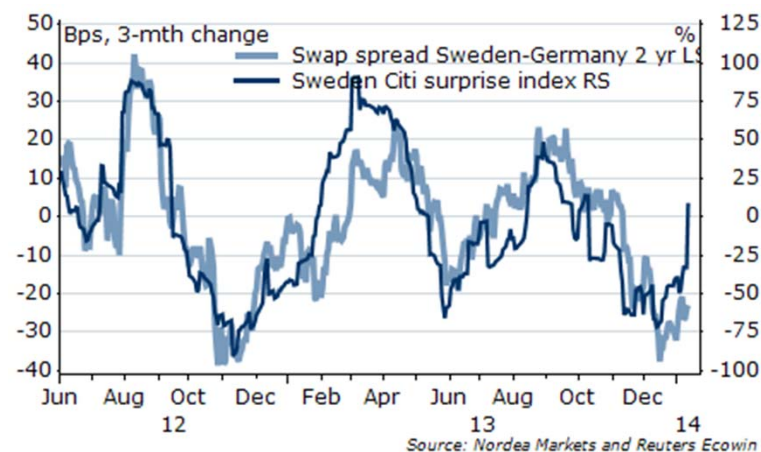
- The global economic outlook is improving, albeit very slowly, and risk perception is improving. Still, the CHF is surprisingly stable just above the 1.20 EUR/CHF-floor.
- We keep our 3 month forecast of 1.25. I will probably take a longer period of calm markets and more clear evidence of a sustainable improvement in the Euro-area for the CHF to weaken again.
- We expect the SNB to keep rates unchanged and the floor untouched at 1.20. Our base case for EUR/CHF is to remain in the 1.20-1.30 range this year and the next with risk perception likely to be the main driver.
- A break above 1.30 would make us change our longer-term view on the economy, the SNB and the CHF.



Source: Nordea Markets and Reuters Ecowin

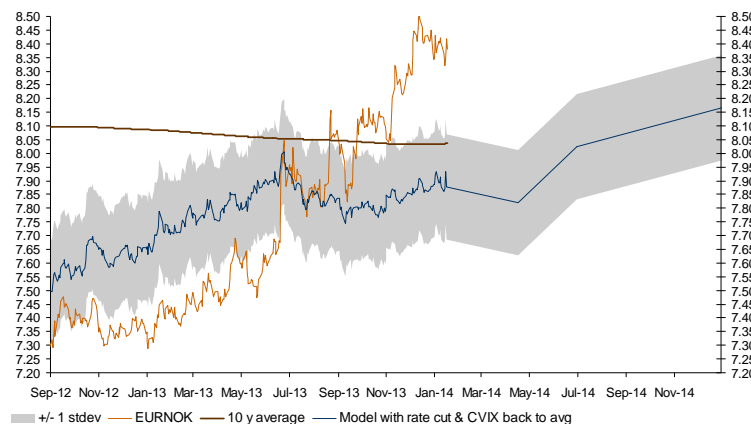
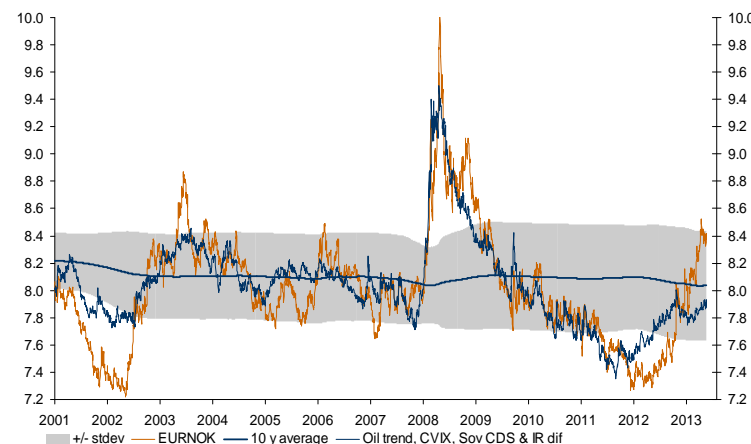
SEK: Strong momentum in 2014

- The SEK – a procyclical currency, sticking to its old tracks but on a new, stronger level. This could very well be the theme of 2014.
- And, the bitter stew of macro statistics featured in the second half of 2013 has now turned around, giving Sweden an economic advantage to the EMU.
- However, an economic improvement that does not result in a re-discounting of the present hike cycle will probably not have a sustainable effect on the EUR/SEK.
- Relative monetary policy and market's perception of how central bank cards will be played affect the EUR/SEK.
- While a first hike from the Riksbank may prove to be distant (October is our call), the market will end up speculating on it earlier.
- 8,70 (from 8,90) is our new 3m forecast and 8.45 for mid year. A few more months of convincing hard data will be sufficient to reprice short rates.



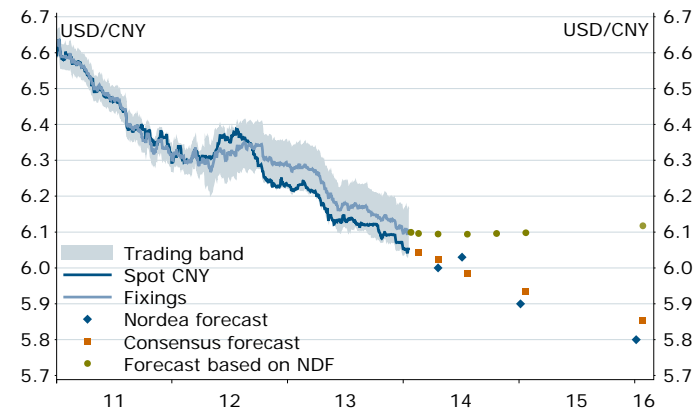
NOK: gone too far

- EURNOK was quite a journey last year, reflecting a massive weakening of the NOK. Weak key figures and a dovish Norges Bank are to blame. With prospects weakening in Norway at the same time as growth is picking up abroad, a sell off among foreign investors is probably also to blame for the upside.
- The latest weakening of the NOK, taking us to 8,36, is hard to anchor in fundamentals. We think the move is overdone and expect EURNOK to come down going forward. Our 3 months forecast is 8,10. Our view is based on EURNOK being far off what can be explained by our model based on fundamentals.
- Towards the summer the market is expected to start discounting cuts from Norges Bank, taking EURNOK back to the 8,35-level.

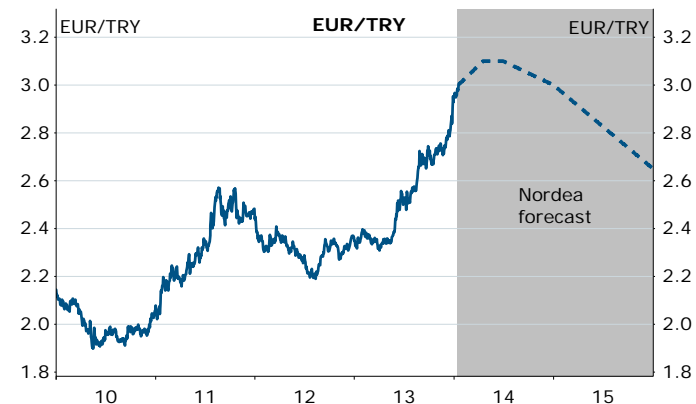


EM FX: Revisions to USD/CNY and EUR/TRY

- Our USDCNY projections are revised modestly. [Click here for the comment.](#)
- We expect now a minor depreciation at the end of June this year as a result of the widening of the trading band.
- On a longer horizon, we still see a stronger CNY vs. the USD.
- We also update our EUR/TRY forecast to reflect the recent negative developments in the political arena in Turkey.
- The TRY remains undermined by large external imbalances, elevated inflation and now a political crisis.
- In the near term we see more weakness to come, but expect the TRY to regain some strength against the EUR towards 2015.
- Risks to this scenario are, however, skewed towards more depreciation.



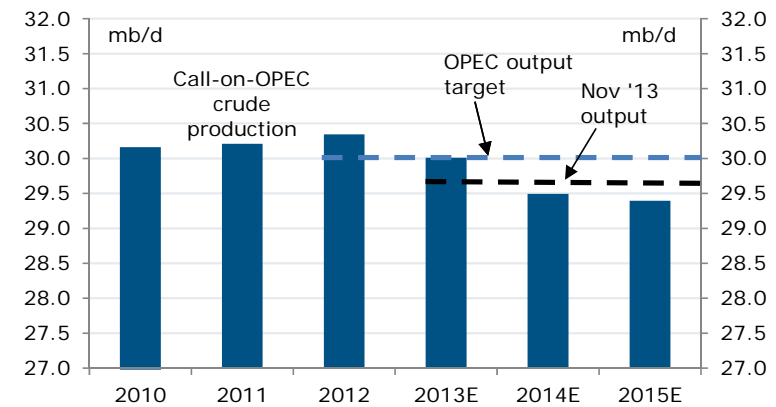
Source: Reuters Ecowin and Nordea Markets



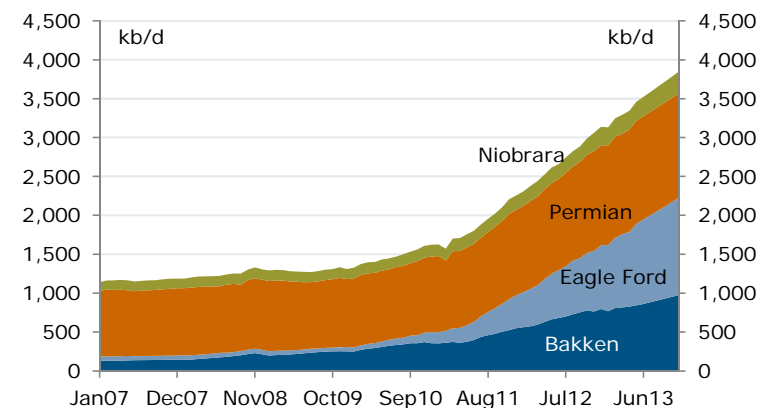
Source: Nordea Markets and Reuters Ecowin

Oil: Tales of the unexpected, downside risk H1

- Downside risk to Q1 forecast of USD 108bbl as the physical market is set to weaken as we move into the refinery maintenance season
- Demand is on a steady rise and we expect global oil demand will be up by 1.2 mb/d in 2014 pulled up China, Middle East and stronger than expected growth in the US.
- Supply: Strong non-OPEC supply growth expected, led by US shale liquids and Canada, but rate of US supply growth will slow.
- Limited OPEC capacity growth. Signs of improving conditions in Libya, but may not last for long. Oil production at risk in Nigeria, South Sudan and Iraq
- Market balance: World supply/demand situation is expected to improve H1, but risk on the upside with increasing political risk



Source: International Energy Agency and Nordea Markets



Source: Energy Information Administration and Nordea Markets

Tables

Policy rates

Policy rates

Country	Spot	3M	chg	30-Jun-14	chg	31-Dec-14	chg	31-Dec-15	chg
US	0.25	0.25	-	0.25	-	0.25	-	1.25	-
Japan	0.10	0.10	-	0.10	-	0.10	-	0.10	-
Euro area	0.25	0.25	-	0.25	-	0.25	-	0.75	-
Denmark	0.20	0.20	-	0.20	-	0.40	-	1.00	-
Sweden	0.75	0.75	- 0.25	0.75	- 0.25	1.25	-	1.75	-
Norway	1.50	1.50	-	1.25	-	1.00	-	1.00	-
UK	0.50	0.50	-	0.50	-	0.50	-	1.25	-
Switzerland	0.00	0.00	-	0.00	-	0.00	-	0.75	-
Poland	2.50	2.50	-	2.50	-	3.00	- 0.50	3.50	- 1.00
Czech Rep.	0.05	0.05	-	0.05	-	0.05	- 0.20	0.50	- 0.50
Hungary	3.00	2.80	- 0.70	2.80	- 0.70	2.80	- 0.70	3.50	- 1.00
Romania	4.25	4.00	-	4.00	-	4.00	-	5.00	-
Turkey	4.50	4.50	-	4.50	- 0.25	5.50	0.25	6.00	-
Russia	5.50	5.50	- 2.50	5.25	- 2.50	5.00	- 2.50	5.00	- 2.50
Kazakhstan	5.50	5.50	-	5.50	-	6.00	-	7.00	-
South Africa	5.00	5.00	-	5.00	-	5.25	-	6.25	-
China	6.00	6.00	-	6.00	-	6.25	-	6.50	-
India	7.75	8.00	-	8.00	-	7.50	-	7.00	-
Brazil	10.50	11.00	0.75	11.00	0.75	11.00	0.75	11.00	0.75
Mexico	3.50	3.50	-	3.50	-	3.50	-	3.50	-

Note: "chg" is the change in percentage points from forecasts 5 December to current forecasts.

Fixed income forecasts

Govies

US	Spot	3M	chg	30-Jun-14	chg	31-Dec-14	chg	31-Dec-15	chg
Leading rate	0.25	0.25	-	0.25	-	0.25	-	1.25	-
3M	0.24	0.30	-	0.35	-	0.55	-	1.60	-
2Y	0.37	0.40	0.10	0.95	-	1.50	-	2.50	-
5Y	1.62	1.65	0.30	1.90	-	2.40	-	3.25	-
10Y	2.82	2.90	0.15	3.10	0.20	3.50	0.25	3.90	-
30Y	3.75	3.80	-	3.90	0.05	4.00	-	4.40	-
5Y-2Y	1.25	1.25	0.20	0.95	-	0.90	-	0.75	-
10Y-2Y	2.45	2.50	0.05	2.15	0.20	2.00	0.25	1.40	-
30Y-10Y	0.93	0.90		0.80	- 0.15	0.50	- 0.25	0.50	-

Swap rate

US	Spot	3M	chg	30-Jun-14	chg	31-Dec-14	chg	31-Dec-15	chg
2Y	0.39	0.60	0.10	1.25	-	1.85	-	2.90	-
5Y	1.43	1.85	0.30	2.20	-	2.80	-	3.70	-
10Y	2.74	2.90	-	3.05	-	3.50	-	4.35	-
30Y	3.67	3.80	-	3.95	0.10	4.25	0.25	4.70	0.30
5Y-2Y	1.04	1.25	0.20	0.95	-	0.95	-	0.80	-
10Y-2Y	2.35	2.30	-0.10	1.80	-	1.65	-	1.45	-
30Y-10Y	0.93	0.90	-	0.90	0.10	0.75	0.25	0.35	0.30

Govies

Germany	Spot	3M	chg	30-Jun-14	chg	31-Dec-14	chg	31-Dec-15	chg
Leading rate	0.25	0.25	- 0.25	0.25	- 0.25	0.25	- 0.25	0.75	- 0.25
3M	0.30	0.30	0.10	0.20	-	0.20	-	0.75	-
2Y	0.17	0.15	-	0.50	-	0.80	-	1.60	-
5Y	0.84	0.75	-	1.25	-	1.55	-	2.20	-
10Y	1.76	1.75	-	2.10	-	2.40	-	2.75	-
30Y	2.65	2.60	-	2.80	-	3.00	-	3.20	-
5Y-2Y	0.68	0.60	-	0.75	-	0.75	-	0.60	-
10Y-2Y	1.59	1.60	-	1.60	-	1.60	-	1.15	-
30Y-10Y	0.89	0.85	-	0.70	-	0.60	-	0.45	-

Swap rate

EUR	Spot	3M	chg	30-Jun-14	chg	31-Dec-14	chg	31-Dec-15	chg
2Y	0.50	0.45	-	0.70	-	1.00	-	1.80	-
5Y	1.14	1.05	-	1.45	-	1.75	-	2.40	-
10Y	2.04	2.00	-	2.35	-	2.65	-	3.00	-
30Y	2.68	2.65	-	3.00	0.20	3.25	0.25	3.50	0.30
5Y-2Y	0.64	0.60	-	0.75	-	0.75	-	0.60	-
10Y-2Y	1.54	1.55	-	1.65	-	1.65	-	1.20	-
30Y-10Y	0.64	0.65	-	0.65	0.20	0.60	0.25	0.50	0.30

Note: "chg" is the change in percentage points from forecasts 5 December to current forecasts.

FX forecasts

Currencies	Spot	3M	chg	30-Jun-14	chg	31-Dec-14	chg	31-Dec-15	chg
EUR/USD	1.355	1.33	-	1.30	-	1.25	-	1.20	-
EUR/JPY	141.17	129.0	-	136.5	-	137.5	-	132.0	-
EUR/GBP	0.824	0.80	- 4.8	0.80	- 3.6	0.78	- 3.7	0.78	-
EUR/CHF	1.233	1.25	-	1.25	-	1.300	-	1.35	-
EUR/SEK	8.779	8.70	1.2	8.45	-	8.350	-	8.35	-
EUR/NOK	8.367	8.10	-	8.35	-	8.250	-	8.20	-
EUR/PLN	4.162	4.15	-	4.05	-	4.000	-	3.95	-
EUR/RON	4.538	4.45	1.1	4.45	1.1	4.400	1.9	4.30	2.4
EUR/CZK	27.43	27.00	-	27.00	-	26.40	-	25.60	-
EUR/TRY	3.034	3.10	19.2	3.10	27.0	3.000	29.3	2.65	24.4
EUR/RUB	45.69	44.22	0.3	43.03	0.3	41.00	0.6	39.24	0.6
USD/JPY	104.18	97.00	-	105.00	-	110.00	-	110.00	-
USD/GBP	1.645	1.66	5.2	1.63	3.5	1.603	4.1	1.54	- 0
USD/TRY	2.238	2.33	19.2	2.38	27.0	2.400	29.3	2.21	24.4
USD/CHF	0.910	0.94	-	0.96	-	1.040	-	1.13	-
USD/DKK	5.507	5.61	0.1	5.74	0.1	5.968	0.1	6.22	0.1
USD/SEK	6.479	6.54	1.2	6.50	-	6.680	-	6.96	-
USD/NOK	6.174	6.09	-	6.42	-	6.600	-	6.83	-
USD/PLN	3.071	3.12	-	3.12	-	3.200	-	3.29	-
USD/RUB	33.72	33.25	0.3	33.10	0.3	32.80	0.6	32.70	0.6
USD/CNY	6.053	6.00	- 1.6	6.03	0.5	5.900	- 0.8	5.80	- 0.9
USD/INR	61.55	60.00	-	60.00	-	58.00	-	53.00	-
USD/BRL	2.343	2.35	4.4	2.40	4.3	2.450	4.3	2.50	4.2
USD/KZT	155.3	152.00	-	153.00	-	154.0	-	155.00	-
USD/MXN	13.25	12.70	-	12.40	-	12.200	-	12.00	-
USD/ZAR	10.866	10.30	-	10.40	-	10.500	-	10.60	-

Note: "chg" is the percentage change from forecasts 5 December to current forecasts.

Commodities

Metals

Metals	Spot	2014	chg	2015	chg
Aluminum	1,738	2,200	-	2,350	-
Copper	6,967	7,500	-	7,500	-
Nickel	13,690	16,000	-	16,000	-
Zinc	1,860	2,200	-	2,400	-

Oil	Old	New	Change
Spot		110	
31/03/2014	108	108	0
30/06/2014	104	104	0
30/09/2014	108	108	0
31/12/2014	107	107	0
31/03/2015	107	107	0
30/06/2015	103	103	0
30/09/2015	106	106	0
31/12/2015	108	108	0

Note: "chg" is the change from forecasts 5 December to current forecasts.

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