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Week Ahead: Goldilocks, interrupted

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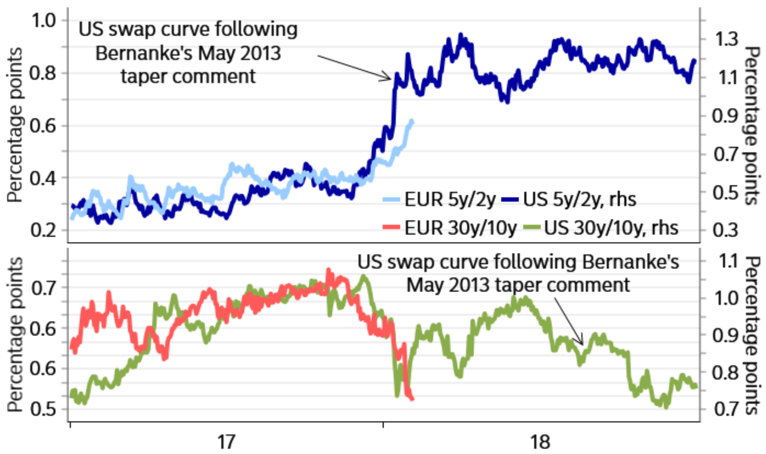
Euro-area mini-tantrum continues
Equity markets not so elated anymore
Is Sweden a canary in the European coalmine?

Goldilocks, interrupted

The global story is mostly intact, with bets in general being placed on global monetary policy normalisation. After a slightly more upbeat Fed statement in January, the market's pricing of the Fed Funds curve in 2018 is now almost glued on the dot-plot indications from December – though there's increased speculation that the Fed might just as well go for four rate hikes this year vs the currently indicated three. In the Euro area, in an apparent attempt to prove the value of forward guidance, ECB officials (and sources) have been all over the place, meaning that any supposed signal has been drowned out by the noise. Maybe this is why **the Euro-area mini-tantrum has continued**, with further 5y/2y (panda) steepening and continued flattening of the 30y/10y curve.

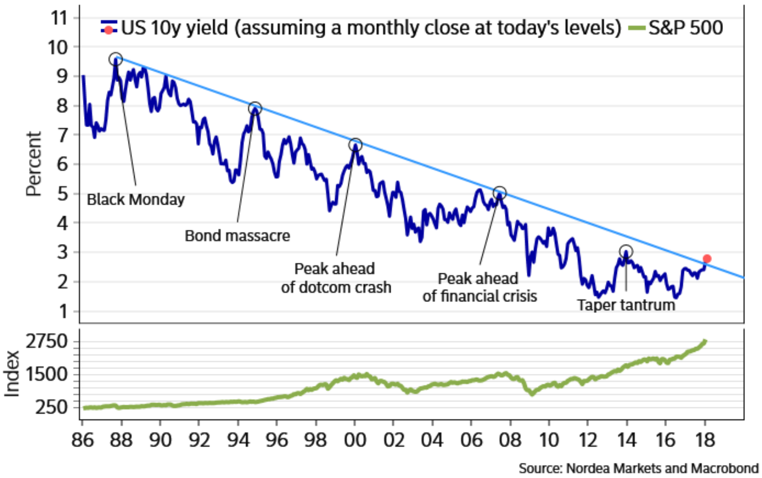
Chart 1: EUR FI markets still in tapering mood



Source: Nordea Markets and Macrobond

In sharp contrast to a week ago, however, risky assets are no longer melting up despite continued positive momentum in earnings estimates (the largest 2-month change to S&P500 forward EPS estimates in at least 12 years). **Equity indices are either experiencing a technical correction for profit-taking reasons after the year-to-date melt-up, or they are facing some valuation headwinds** with e.g. the US 10y yield in the 2.70%-2.80% area (incidentally, 2.75% is the Fed's current estimate of the long-term fair value of the policy rate, an estimate which currently helps cap the upside in yields). That the market is pondering a possible a hike in the Fed's neutral rate, at times referred to as R-star, has also helped to buoy yields.

Chart 2: Valuation headwinds for equities?



It could be that the global economy and markets will be able to handle a regime shift towards higher yields in a non-disorderly way. This is indeed the direction in which most market participants have been placing their bets recently. But the downtrend in 10y yields has been intact for some 30 years, and, while at the risk of sounding like Cassandra, it is worth noting that **when the downtrend was threatened in 2000 and 2007, higher yields coincided with (or caused?) global crises.** The world economy is also a third more indebted today than ten years ago, suggesting greater sensitivity to interest rate changes than in the past.

Survey setbacks primarily in Europe

We continue to look for softening in various sentiment indicators, dragging down economic surprise indices from their lofty levels and denting the market's still fairly euphoric mind-set. While US core inflation risks are probably on the upside, the opposite applies to Euro-area core inflation. Deteriorating surprise indices usually imply tailwinds for bonds and somewhat weaker risk sentiment, which is what we expect to materialise over the coming months (offering better opportunities for long-term normalisation bets).

US ISM manufacturing managed to top expectations in January, even though you would think it was lofty enough already. The outcome is consistent with further US GDP growth acceleration. The US will experience further positive effects from earlier currency weakness in coming quarters.

In sharp contrast to the stellar US ISM outcome, Swedish PMI manufacturing disappointed significantly: PMI has peaked. We think **Sweden is a canary in the European coalmine**. Due to being a small and open economy, it is often the case that turning points are visible earlier in Sweden than in the lumbering titanic that is the Euro area. Indeed, we expect to see further deterioration in Euro area and Swedish sentiment in coming months, see EURUSD: Time to question the Quadvergence.

Chart 3: Sweden is a canary in the European coalmine

Scandinavian divergence

Aside from the PMI numbers in Sweden, recent wage growth was also a disappointment for the repeatedly too-optimistic Riksbank. Elsewhere, company reports from homebuilders made for somewhat pessimistic reading, and the supply of **homes available for sale in January was well above historical norms**, a reminder that the jury on Sweden's housing market is still out.

In Norway, retail sales disappointed a tad, but not enough to be regarded as anything but noise. And in contrast to Swedish developments, Norwegian PMI surprised positively; while this gauge is of no interest for Norges Bank, it does suggest upside risks to Norwegian growth in the eyes of many observers.

What's most important in the coming week?

In focus next week are primarily the central bank meetings of the RBA on Tuesday, the RBNZ on Wednesday, and, more importantly from our perspective, the Bank of England on Thursday. The current macro environment is benign, and **most central banks are likely to view the economic situation as booming**, although some countries will have to react to rapid changes in the foreign exchange market. **What will the Bank of England make of a 7% stronger GBP** than it had assumed in its November Inflation Report?

The company reporting season also continues, and in Europe there is a pattern of margin pressure due to adverse currency moves, higher input costs as well as bottlenecks. This pattern will likely be present also in coming weeks.

In Scandinavia, Norwegian house prices will take centre stage on Monday, where we expect a stable reading. Inflation and GDP growth data is due on Friday, where we predict higher inflation but GDP to be a tad lower than Norges Bank's expectations. Swedish production data on Tuesday will be scrutinised for clues on construction production growth after the recent housing market hubbub.

Key research pieces over the past week:

Italy: Splitting the vote (January 29)

Market Pulse SEK: The whole story about Stibor (January 30)

Fed Watch: autopilot (January 31)

EUR/USD forecast update: Are we in the midst of a regime shift? (February 1)

Table 1: Main releases to watch

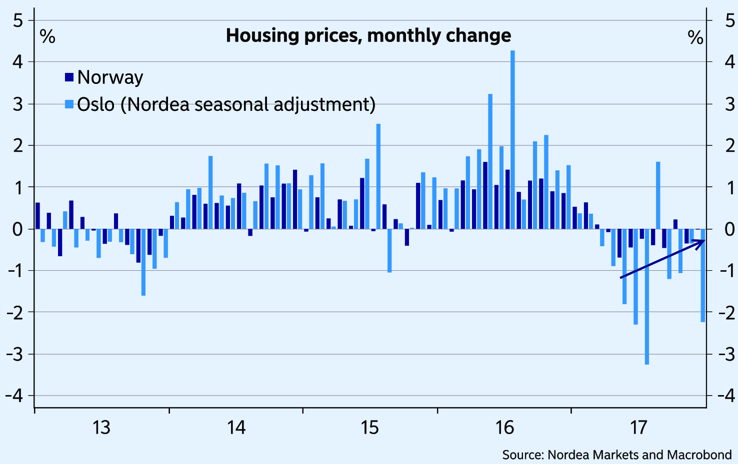
Date	Key figure	Nordea	Consensus	Last
05 Feb	Norway: House prices EFF (m/m, sa)	0.0%		-0.5%
08 feb	BoE announces interest rates	0.50%	0.50%	0.50%
09 Feb	Norway: Mainland GDP (q/q, sa)	0.5%		0.6%

Editorial by Martin Enlund, Chief FX strategist

Monday

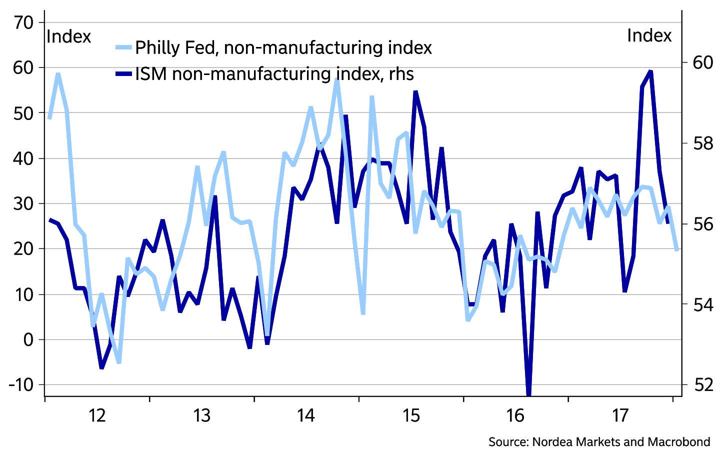
Norwegian housing prices will take centre stage today, at least in the Nordics. We expect housing prices to have remained unchanged in January. ISM non-manufacturing will be the most important key figure outside the Nordics. Final Euro-area PMIs are likely to be in line with the flash estimates. During the night, the Reserve Bank of Australia is expected to keep rates on hold.

Monday, 05/02/2018				Nordea	Consensus	Previous
08:00	TR	CPI (y/y)	Jan			11.9%
08:30	SE	PMI, service sector				
09:55	DE	PMI composite (final)	Jan		58.8	58.9
09:55	DE	PMI services (final)	Jan		57.0	57
10:00	EU	PMI, composite (final)	Jan		58.6	58.6
10:00	EU	PMI, services (final)	Jan		57.6	57.6
10:30	GB	PMI, composite	Jan			54.9
10:30	GB	PMI, services	Jan		54.0	54.2
11:00	EU	Retail sales (m/m)	Dec		-1.0%	1.5%
11:00	**NO**	**House prices EFF (m/m, sa)**	**Jan**	**0%**		**-0.5%**



Revised housing price statistics released recently show that Norwegian housing prices have been more or less flat since September. Our view on the housing market has been fairly positive for a while. The downturn will be no more than a healthy correction that is about to level out. The new statistics support our view and we expect January housing prices (released Monday) to remain roughly unchanged (0.0% m/m).

				Nordea	Consensus	Previous
15:45	US	Markit composite PMI (final)	Jan		53.9	53.8
15:45	US	Markit services PMI (final)	Jan		53.5	53.3
16:00	**US**	**ISM, non-manufacturing, composite**	**Jan**		**56.5**	**55.9**

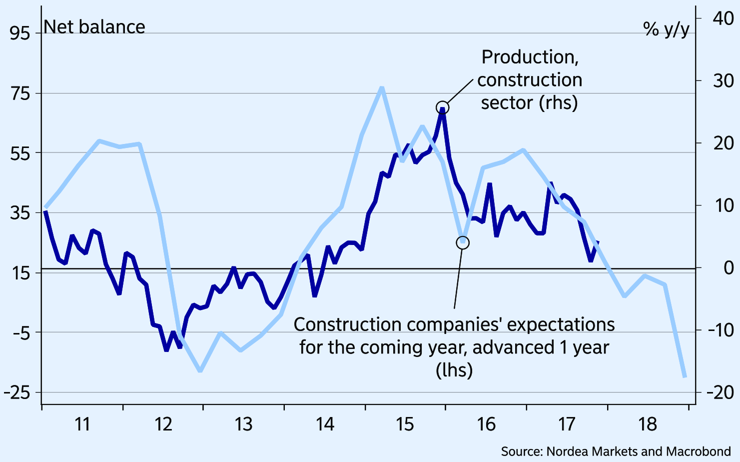


ISM non-manufacturing could drop, adding to the concerns that the peak of the business cycle is behind us. That would go directly against consensus expectations of a small increase to 56.3 in January. The Philly Fed non-manufacturing index points to a drop to 55, which would be below the range of consensus estimates.

Tuesday

Fed's Bullard speaks in the afternoon (non-voter, dove) and the JOLTS report will shed more light on the US labour market. In Sweden, we get numbers for industrial production and private service sector production. During the night, the Reserve Bank of India is expected to keep rates on hold.

Tuesday, 06/02/2018				Nordea	Consensus	Previous
04:30	AU	RBA announces interest rates (cash rate target)	Feb		1.50%	1.50%
09:30	**SE**	**Production, business sector (y/y)**	**Dec**	**4.0%**		**6.6%**



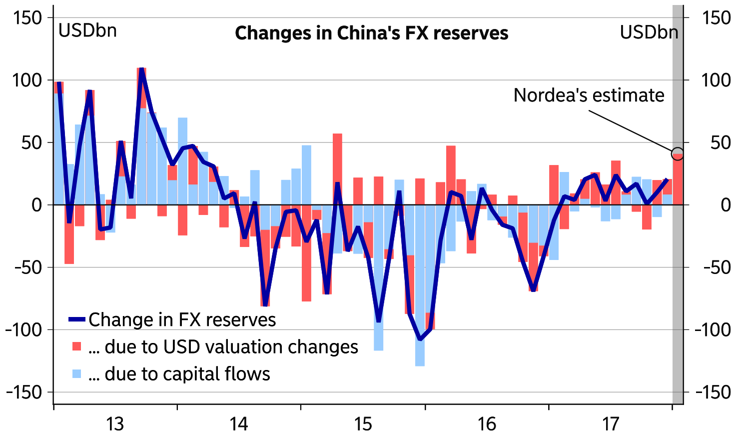
Production in the business sector rose swiftly in 2017. But growth has probably peaked, mainly as declining activity in the construction sector is weighing on growth. By contrast, growth in the service sector has accelerated in recent months. Moreover, there has been an uptick at the end of every year since Ericsson was classified to the service sector in 2015, creating uncertainty for the December 2017 forecast too. Activity in the manufacturing industry is rising, although some indicators point to a slowdown longer out. We have pencilled in unchanged production on the month for the total business sector, implying a year-on-year figure of around 4% and healthy GDP growth for Q4 – but this is subject to significant uncertainty.

09:30	SE	Industrial orders (y/y)	Dec			7.9%
09:30	SE	Industrial production (m/m)	Dec	0.5%		
09:30	SE	Industrial production (y/y)	Dec	7.5%		
09:30	SE	Private service sector production (m/m)	Dec	1.0%		
09:30	SE	Private service sector production (y/y)	Dec	2.0%		
14:30	US	Trade balance	Dec		-52.1bn	-50.5bn
14:50	US	Fed's Bullard Speaks on U.S. Economy and Monetary Policy				
16:00	US	JOLTs job openings	Dec		5999	5879

Wednesday

Fed's Dudley (voter, neutral), Williams (voter, neutral), Kaplan (non-voter, neutral) and Evans (non-voter, dove) all speak during the day, while ECB's Nouy and Lautenschläger speak in Frankfurt. In the Nordics, Danish industrial and Norwegian manufacturing production figures are due. Chinese FX reserves could prove a positive surprise for January, boosted by the weakness of the USD, while the National Bank of Poland is widely expected to keep rates on hold. During the evening, the Reserve Bank of New Zealand is expected to keep rates on hold, while the Brazilian Central Bank is expected to cut rates for the last time in this cycle and Chinese trade figures are released during the night.

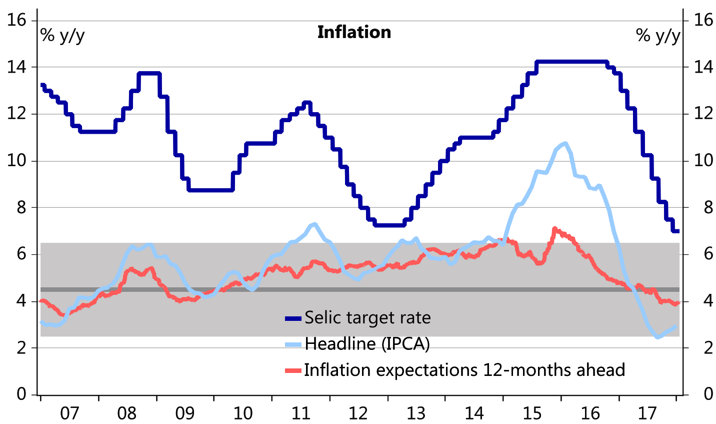
Wednesday, 07/02/2018				Nordea	Consensus	Previous
	CN	**Foreign exchange reserves**	**Jan**		**3170bn**	**3140bn**



Source: Nordea Markets and Macrobond

For January 2018, China's FX reserves will likely extend the increase from last year. Market consensus expects FX reserves to rise to USD 3.17tn from USD 3.14bn. We see room for positive surprises as dollar weakening is estimated to boost the FX reserves by USD 40bn. In addition, the month probably saw capital net inflows into China's bond market thanks to relatively higher yields and a stronger yuan. Stable FX reserves are crucial for Beijing's decision to relax capital controls.

06:00	IN	RBI announces interest rate (Repurchase Rate)	Feb	6.00%	6.00%	6.00%
08:00	DK	Industrial production (m/m, sa)	Dec			2.7%
08:00	DE	Industrial production (m/m)	Dec		-0.5%	3.4%
08:00	NO	Manufacturing production (m/m)	Dec			0.3%
09:00	GB	House prices, Halifax (m/m)	Jan		0.1%	-0.6%
09:00	GB	House prices, Halifax (y/y, 3mma)	Jan		3.3%	2.7%
09:00	US	Consumer credit	Dec		19.7bn	28.0bn
09:30	SE	Central Government Debt	Jan			
09:30	SE	The Swedish central government debt				
10:00	EU	ECB's Nouy and Launtenschlaeger speak in Frankfurt				
11:00	NO	Auction of Treasury Bonds				
11:00	SE	SNDO to auction bonds (SEK 9.5 bn)				
12:00	US	Fed's Kaplan Speaks in Frankfurt				
12:10	PL	NBP announces interest rates (Base rate)	Feb	1.50%	1.50%	1.50%
13:00	US	Mortgage applications, MBA	Feb			
14:30	US	Fed's Dudley Speaks in Moderated Q&A				
16:15	US	Fed's Evans Speaks on Economic and Policy Outlook				
16:30	US	EIA Crude Oil stock change	Feb			
21:00	NZ	RBNZ announces interest rates (cash rate)	Feb		1.75%	1.75%
22:45	**BR**	**BCB announces interest rates (SELIC target)**	**Feb**	**6.75%**	**7.00%**	**7.00%**



Source: Nordea Markets and Macrobond

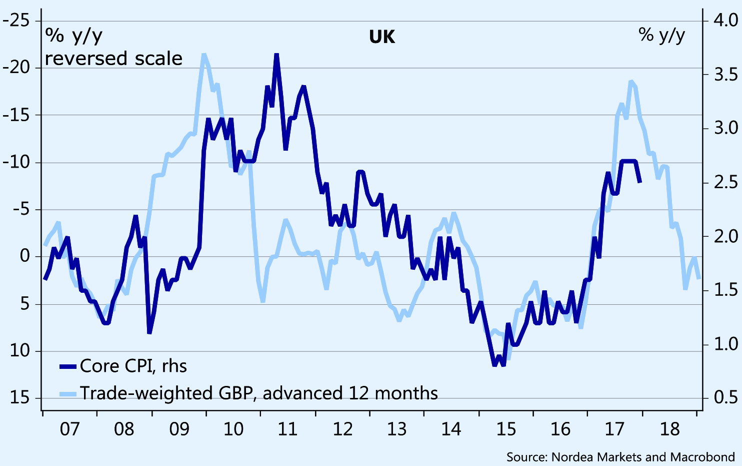
We expect the BCB to deliver a final 25bp cut at the February meeting, concluding its long and aggressive easing cycle and bringing the policy rate to an all-time low at 6.75%, enabled by historically low inflation levels by Brazilian standards. A significantly lower policy rate is expected to help the Brazilian economic recovery, which is underway.

23:20	US	Fed's Williams Speaks in Hawaii				

Thursday

Swedish housing prices take centre stage today in the Nordics today, but while this number will receive some attention, it a lagging indicator of the leading HOX housing index which is due on February 14. The Bank of England is widely expected to keep rates on hold. Russian inflation numbers are likely to remain way below target, allowing gradual rate cuts. Fed's Harker (non-voter, neutral), Kashkari (non-voter, dove) and George (non-voter, hawk) will speak and Chinese inflation figures are released overnight.

Thursday, 08/02/2018				Nordea	Consensus	Previous
01:01	GB	House price balance, RICS	Jan		5.6%	8%
04:00	CN	Exports (y/y)	Jan		14.5%	10.9%
04:00	CN	Imports (y/y)	Jan		10.0%	4.5%
04:00	CN	Trade balance (USD)	Jan		52.4bn	54.7bn
08:00	DK	Current account balance (sa)	Dec			13.8bn
08:00	DK	Trade balance, ex. ships (sa)	Dec			7.5bn
09:30	SE	House prices, Statistic Sweden (y/y)	Jan			8%
09:30	SE	The Sw. Financial Supervisory Authority¿sr Thedéen & financial market				
12:00	BR	CPI, IPCA (m/m)	Jan			0.4%
12:00	BR	CPI, IPCA (y/y)	Jan			3.0%
13:00	GB	BoE announces asset purchase target	Feb	435bn	435bn	435bn
13:00	**GB**	**BoE announces interest rates**	**Feb**	**0.50%**	**0.50%**	**0.50%**



The Bank of England (BoE) will not make any changes to rates next week and will likely continue to signal that further modest increases in the bank rate would be warranted over the next few years. The inflation report will provide more insight into the BoE's thinking. Since the meeting in December, GDP growth has surprised on the upside, but the latest PMI data and core inflation have been softer than expected. Markets are pricing in another hike later this year, but we rather believe the BoE will remain on hold for a long time.

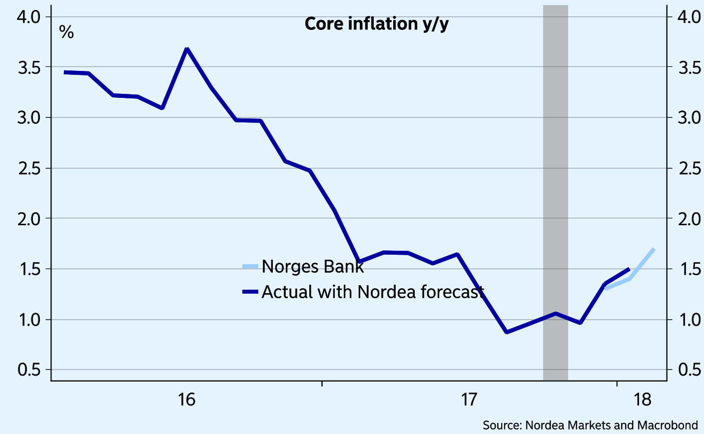
13:00	GB	Bank of England Inflation Report				
14:00	RU	CPI (y/y) (Exp 7-8 Feb)	Jan		2.4%	2.5%
14:00	US	Fed's Harker Speaks on Economy: Outlook and Impact for College				
14:30	US	Jobless claims, continuing	Jan		231k	230k
14:30	US	Jobless claims, initial	Feb		1.939	1.953m
15:00	US	Fed's Kashkari Speaks in Moderated Q&A				

Friday

All eyes will be on Norway today when inflation and GDP figures will be released. We expect core inflation to have picked up a bit to 1.5% in January, whereas growth momentum has slowed a bit to 0.5% q/q in Q4.

Household consumption and producer prices are released in Sweden, and the Central Bank of Russia is expected to lower rates by 25bp. During the weekend, ECB's Visco will speak.

Friday, 09/02/2018				Nordea	Consensus	Previous
02:30	CN	CPI (y/y)	Jan			1.8%
03:00	US	Fed's George Speaks on the Economy				
03:30	AU	RBA Statement on Monetary Policy				
08:00	**NO**	**CPI. core (y/y)**	**Jan**	**1.5%**		**1.4%**



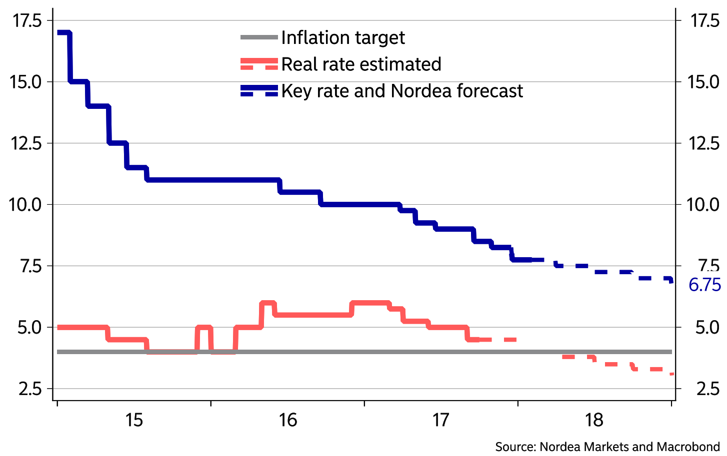
Core inflation in Norway is set to rise somewhat further due to the weakening of the NOK through 2017. We forecast January core inflation at 1.5%, up from 1.4%. This means inflation will be marginally above Norges Bank's forecast, but not enough to have any impact on its view on rates. See our preview.

				Nordea	Consensus	Previous
08:00	NO	CPI (y/y)	Jan	0.014		1.6%
08:00	**NO**	**Mainland GDP (q/q, sa)**	**Q4**	**0.5%**		**0.6%**

Mainland GDP increased by a strong pace of 0.6% in 2017. Looking ahead, we find convincing arguments for the rather strong growth remaining intact. However, in Q4 we believe growth will slow marginally to 0.5%. Norges Bank's forecast is 0.6%. The gap is too small to have any impact on monetary policy. See our preview.

				Nordea	Consensus	Previous
08:00	NO	Total GDP (q/q, sa)	Q4	0.1%		0.7%
08:45	FR	Industrial production (m/m)	Dec			-0.5%
09:30	SE	Household Consumption (m/m)	Dec			-1.4%
09:30	SE	Household Consumption (y/y)	Dec			3.3%
09:30	SE	PPI (m/m)	Q4			
09:30	SE	PPI (y/y)	Q4			2.3%
10:30	GB	Industrial production (m/m)	Dec		0.0%	0.4%
10:30	GB	Industrial production (y/y)	Dec		1.0%	2.5%
10:30	GB	Manufacturing production (m/m)	Dec		0.0%	0.4%
10:30	GB	Manufacturing production (y/y)	Dec		1.8%	3.5%

11:30	RU	CBR Annouces Interest Rates (Key Rate)	Feb	7.50%	7.75%



On 9 February the CBR will hold its first meeting in 2018. We expect there will be enough room for a cut of at least 25 bp: CPI is on the downslope (the latest figure is 2.2% annually – well below the targeted 4% level), inflation expectations are testing historical lows, the RUB depreciation risk is limited; meanwhile economic growth still needs some forward momentum. The key stumbling block on the way of easing is speculation regarding a new US sanctions package.

14:00	RU	Trade balance (USD)	Dec			11.5bn
15:00	US	Mortgage delinquencies (Exp 05-09 Feb)	Q4			4.9%
15:00	US	Mortgage foreclosures (Exp 05-09 Feb)	Q4			1.2%
Saturday, 10/02/2018				Nordea	Consensus	Previous
11:30	EU	ECB's Visco Speaks at Annual Assiom Forex Event in Verona				

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