

11 May 2018

Week Ahead: When it rains, it pours

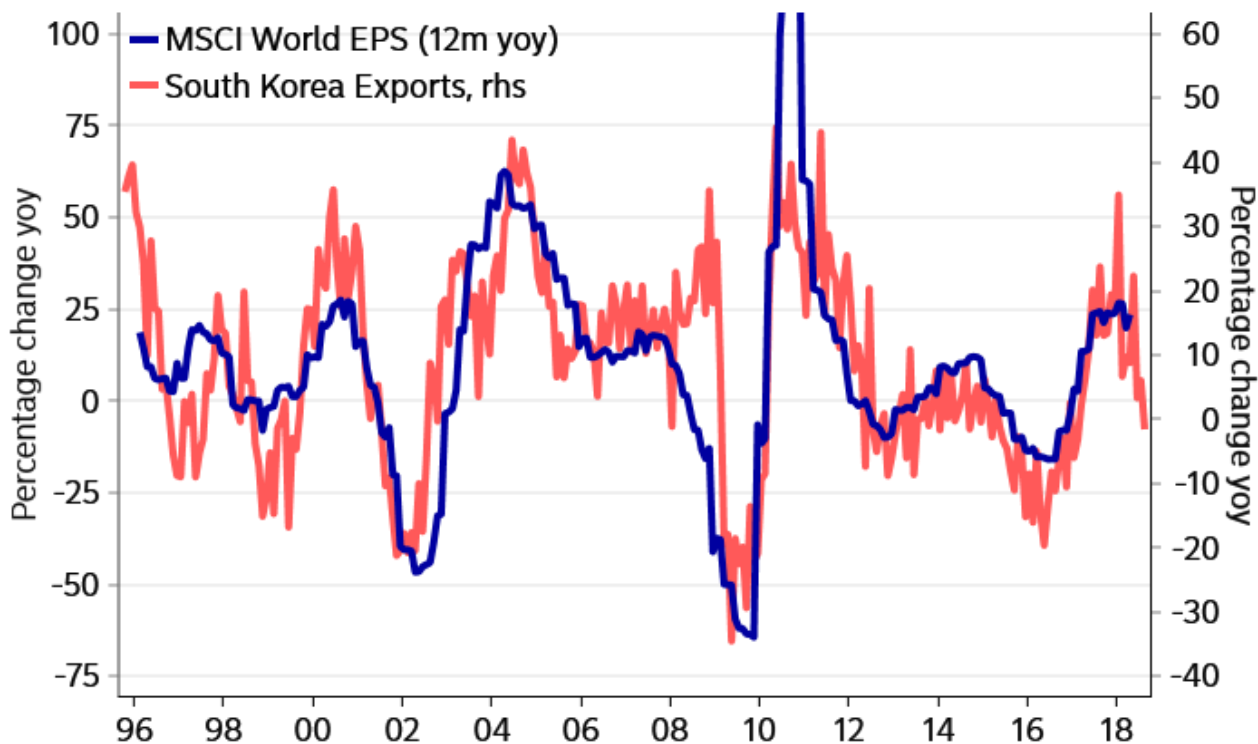
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A mini-me version of 2014
Trump's Fed not a soft one
Riksbank dovish, but not THAT dovish

When it rains, it pours

There are plenty of interesting stories worth tracking across global markets currently: fading global growth momentum, the associated albeit sudden rise in the dollar, weakness in emerging market currencies, burgeoning political risks in Italy, and of course there's also focus on trade deals as well as on Trump and (the art of?) the nuclear deal, to name but a few. This is reminiscent of the market environment in 2014, albeit in a significantly milder form.

Chart 1: How's South Korean exports as a canary for you?

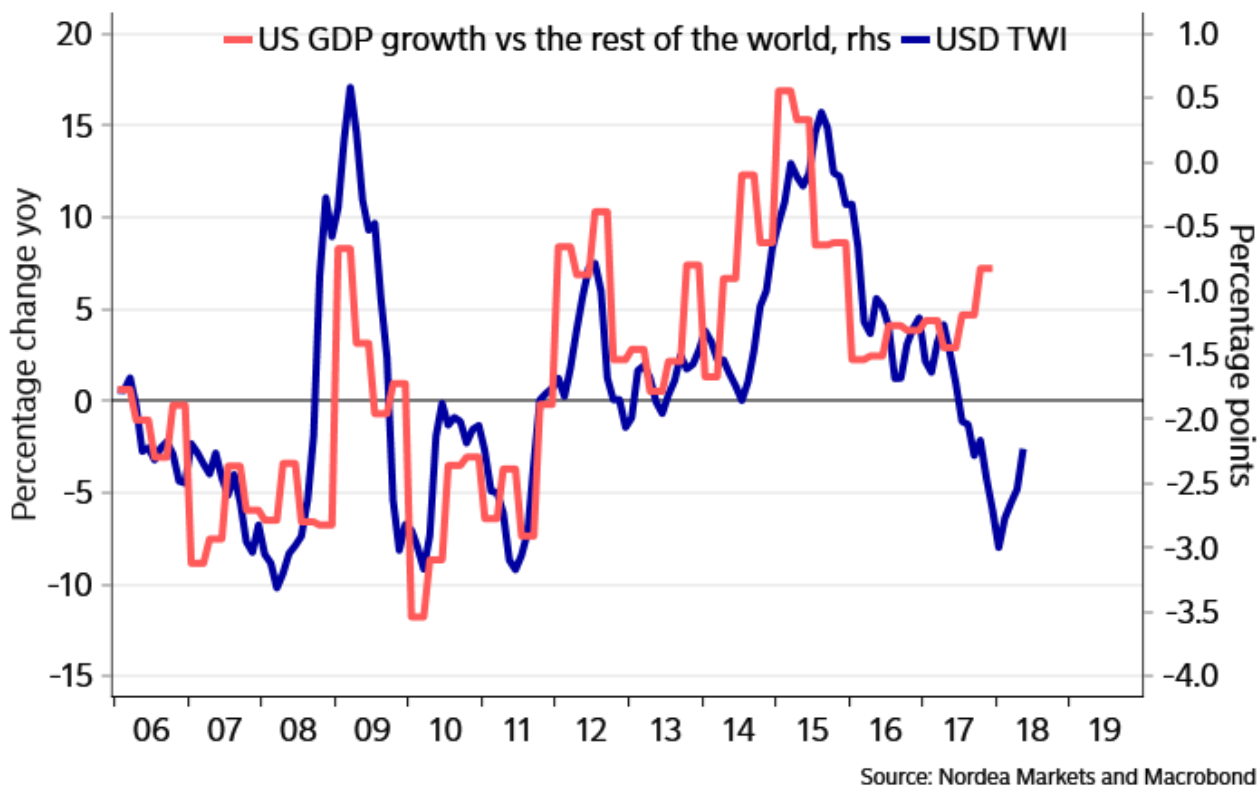


Source: Nordea Markets and Macrobond

A mini-me version of 2014

Global growth momentum has been fading (and will fade further), but the US economy is yet to show any really significant disappointments. As a consequence, the US economy has suddenly been outperforming the rest of the world – but primarily due to disappointments elsewhere rather than positive surprises in the US. The USD is thus, at least partly, gaining for the wrong reasons. One lesson from 2014 is that the rise of the dollar can actually hurt risk-taking in other parts of the world, by means of financial spillovers, so **maybe it is not a coincidence that emerging market currencies aren't doing so well.**

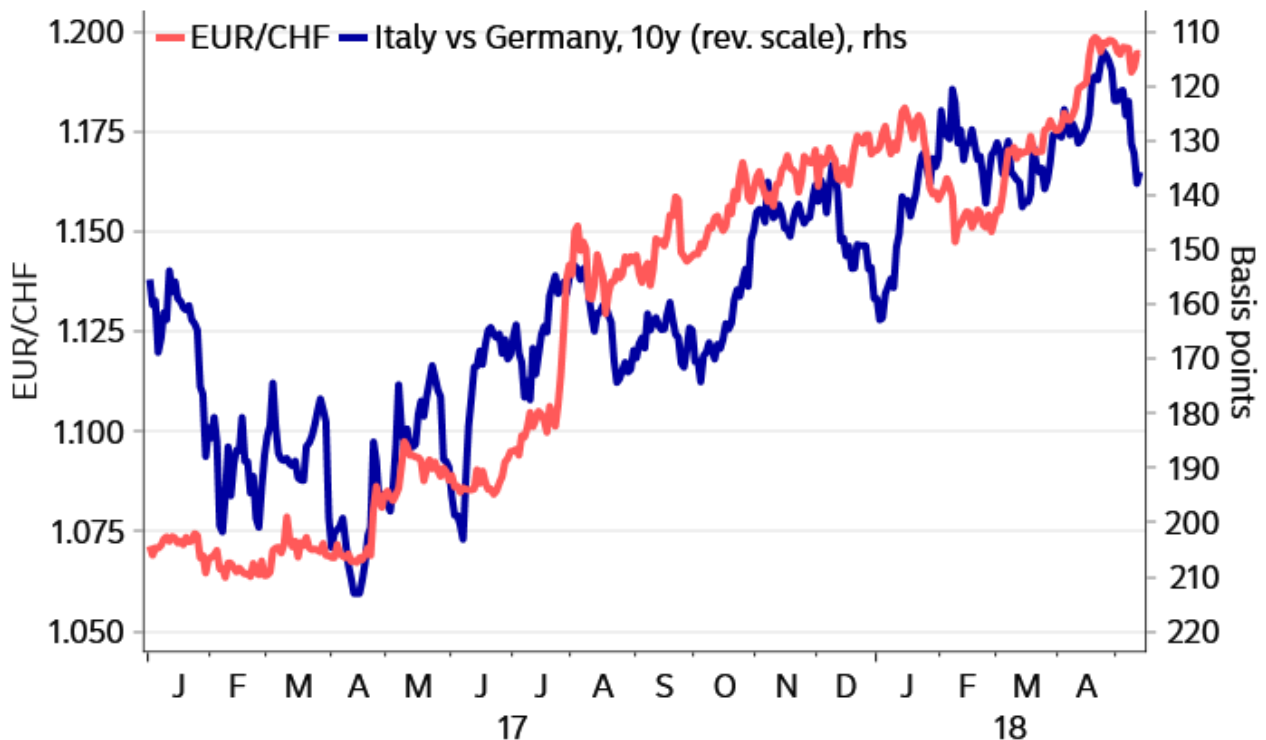
Chart 2: Trade-weighted USD performs when US growth outperforms the rest of the world



Fed Chair Powell does not believe the Fed's monetary policies should be blamed for EM turmoil. [In his latest speech](#), he argued that "actions by major central banks [primarily meaning the Fed] account for only a relatively small fraction of global financial volatility and capital flow movements". **This is a hawkish shift compared to 2016-17** when the lessons from 2014-15 resulted in the idea of spillovers (the Fed's role in tightening financial conditions for EM) and spillbacks (when weaker EM activity spilled back to the US) which dominated the discussions.

The Fed's stance nonetheless puts a final nail in the coffin for the idea that President Trump's FOMC was going to be a softly cooing clutch of doves. If the market were to manage to price in our expectations of seven rate hikes over the course of 2017 and 2018, it would imply a fair value of 3.5% of the 10y yield. For now this is a hard sell in these more volatile markets: 3.05% is still the key resistance level for US 10Y yields, with potential support around 2.85% (the uptrend since September).

Chart 3: Italian political risks on the rise, impacting Italian bonds, equities, & the CHF



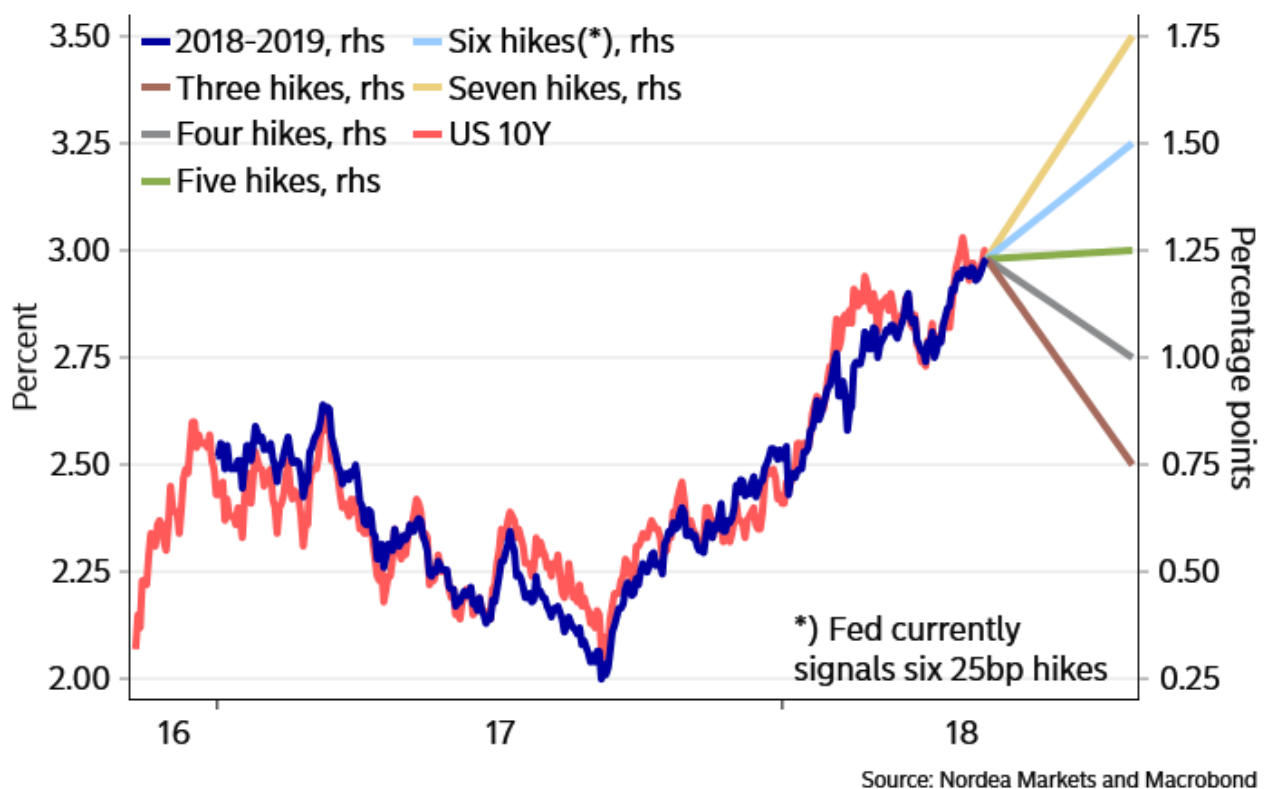
Source: Nordea Markets and Macrobond

That Italian political risks have been on the rise surely cannot be blamed on the dollar or on the Fed however, but has added to the headwinds for the common currency. Italian bonds and equities have recently weakened as investors have reassessed Italian political risks. Initially, a new election in which anti-establishment parties looked likely to gain an even stronger hold of the parliament seemed probable, but now it appears as if they are forming an “anti-system” government coalition instead. **Given how tight Italy is still trading versus Germany, there is a risk of further BTP weakness, and for more CHF-positive inflows.** The EUR 5y swap rate has tested four-month lows but is strongly supported around 35 bp.

US data has only started to deteriorate

A few months ago, betting on downside in Euro area data was basically unheard of, but this has increasingly becoming the consensus, and with the EUR surprise indices this low, maybe it is time to bet on a move higher. However, we believe that the European soft patch will last longer than currently expected, that Euro area growth expectations have started to fall, and also that the next shoe to drop is US data. The US surprise index is ripe for disappointments, in our view. (US data usually disappoints over the course of Q2: [US: Spoiler alert – negative data surprises ahead](#)). Weaker-than-expected US data would suggest downside risks to yields, as well as continued weaker risk sentiment. However, **as long as the Fed is on track for rate hikes, we believe the downside in yields will be limited**, and the Fed will need severe disappointments (which we do not foresee) to prevent it from tightening further. The unanticipated softness in April’s core CPI inflation can furthermore easily be explained away as the biggest drag was a slump in used car prices which are mean-reverting lower after surging in the wake of last year’s hurricane season.

Chart 4: Downside in US 10y yields limited as long as Fed's hikes remains on track



This also implies that the scope for a boost to risk sentiment stemming from a drop in yields is also limited. We have indeed been trying to sound the alarm on global risk appetite throughout this year, and stick to that view. Unless data becomes truly awful (wobble factor 1), yields (wobble factor 2) can't drop much so as to "bail out" risky assets, and if data were to turn out that ugly, it would still be bad news for risk appetite...

Scandinavia: Riksbank dovish, but not THAT dovish...

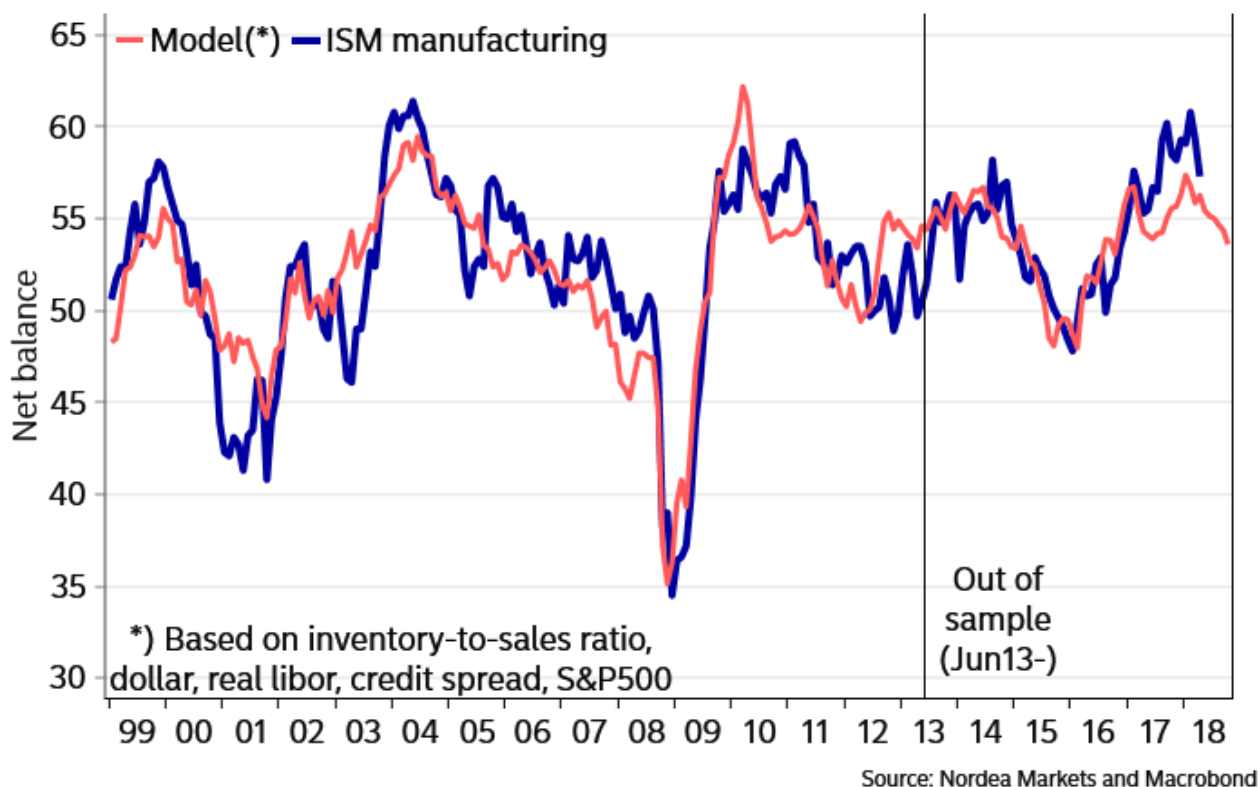
Riksbank minutes from its April meeting provided a [mixed message](#): concern about the lack of inflation, but also signs of support for a rate hike later this year. But after the market's über-dovish read of the April decision, this prompted some scaling back of SEK shorts as well as a general reassessment that maybe the Riksbank could lift rates this year after all. These reallocations picked up further after the Swedish inflation number for April, even though the [outcomes were in line with expectations](#). In contrast, [Norwegian inflation undershot expectations](#) again, which decreases the likelihood of a September rate hike from Norges Bank. Our forecast is that inflation will pick up however, so we keep our call of a September hike.

What is most important next week?

The Fed recently noted that household spending has moderated, and while the consensus expects a strong pick-up in **US retail sales** (Tuesday), we see downside risks, for instance due to the winter storm and recent equity market volatility. This week's regional surveys of manufacturing activity, Empire State on

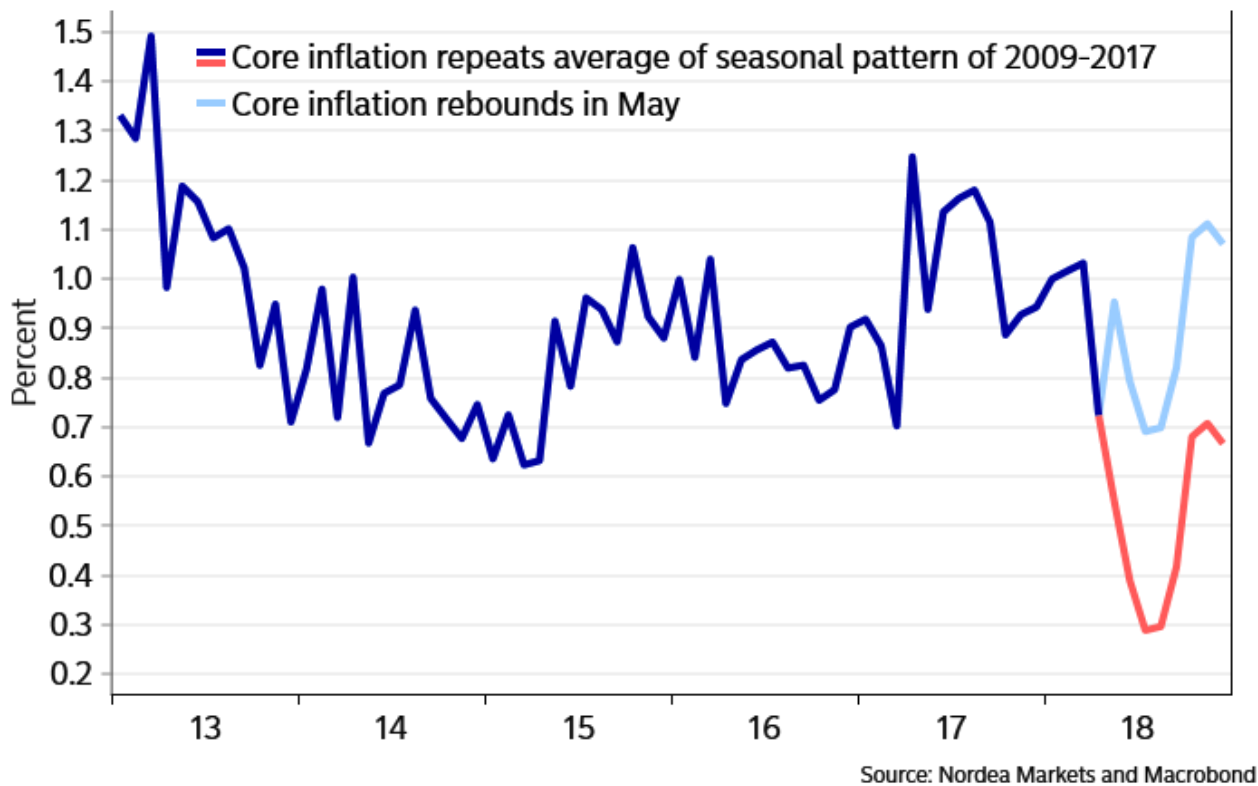
Tuesday and Philly Fed on Thursday will also shed some light on how much further downside in ISM manufacturing is to be expected for the month of May.

Chart 5: Will weaker US regional surveys support our story of softening ISM manufacturing?



The final HICP inflation figures for the Euro area will be published on Wednesday. ECB officials such as chief economist Praet have downplayed both the growth and the recent inflation slowdown, stating April's surprising drop in core inflation reflected the timing of Easter. Whether this interpretation is correct will not be clear until the flash inflation reading at the end of this month: core inflation must overshoot so as to compensate for the undershoot in April, or the ECB's 2018 core inflation forecasts will look very doubtful.

Chart 6: Euro area core inflation undershot in April, rebound needed later in May



In **Scandinavia**, the Norwegian GDP numbers for Q1 will be published on Tuesday. Based on hard data outcomes, we believe Norges Bank will be in for another disappointment. This may cast further doubt on the scope for a September rate hike. Sweden will see a release of the HOX/Valueguard housing price index on Wednesday. In terms of housing momentum, it appears as if the worst is behind us on the Swedish market. Price pressures appear to have eased, and the demand/supply situation is improving, though there might be some shadow supply looming as activity picks up in the peak months of May and August.

/ Martin Enlund (Chief FX Strategist)

Key research pieces over the past week:

[FX weekly: Is there anything left in the USD bull-run?](#) (6 May)

[China monthly: No bad news is good news](#) (7 May)

[Russia: Putin's 150 goals for the next six years](#) (8 May)

[Riksbank minutes: Krona maze](#) (8 May)

[Swedish inflation April review: In line with Riksbank](#) (9 May)

[Norway inflation: Inflation – still well below Norges Bank](#) (9 May)

[Bank of England review: If not now, when?](#) (10 May)

[MYR: Post-election weakness will be temporary](#) (10 May)

Table 1: Main releases to watch

Date	Key figure	Nordea	Consensus	Last
15-May	US Retail Sales (m/m)		0.4%	0.6%
15-May	US Empire manufacturing		15	15.8
15-May	ZEW, expectations		-8.2	-8.2
15-May	NO Mainland GDP (q/q, sa)	0.4%		0.6%
16-May	EU HICP core (y/y, final)	0.7%	0.7%	0.7%
16-May	SE House prices, HOX/Valueguard	-4.0%		-4.5%
17-May	US Philadelphia Fed		21.7	23.2

Monday

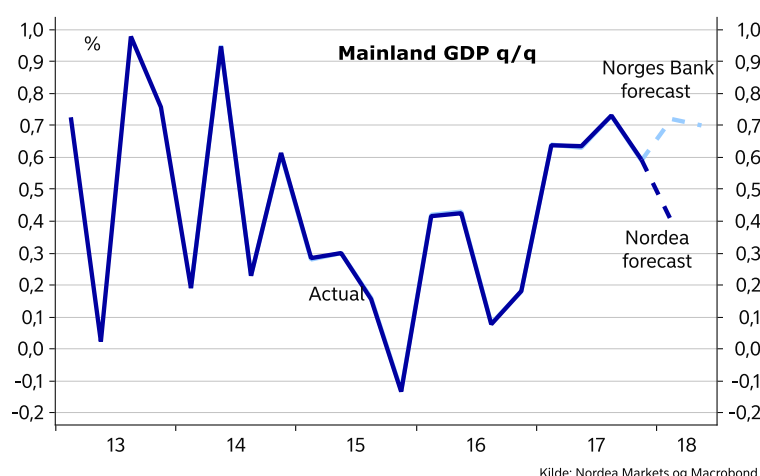
There are no first-tier releases from the major economies today. In Sweden, the PES unemployment rate is due. FOMC members Mester (hawk, voter) and Bullard (dove, voter) will give speeches during the day.

Monday, 14/05/2018				Nordea	Consensus	Previous
08:00	SE	Unemployment, Swedish Public Employment Service	Apr			
08:45	US	Fed's Mester speaks at Bank of France Conference				
09:30	SE	House prices, Statistic Sweden (y/y)	Apr			5%
12:15	NO	Parliamentary Hearing on the conduct of monetary policy				
14:00	IN	CPI (y/y)	Apr		4.4%	4.3%

Tuesday

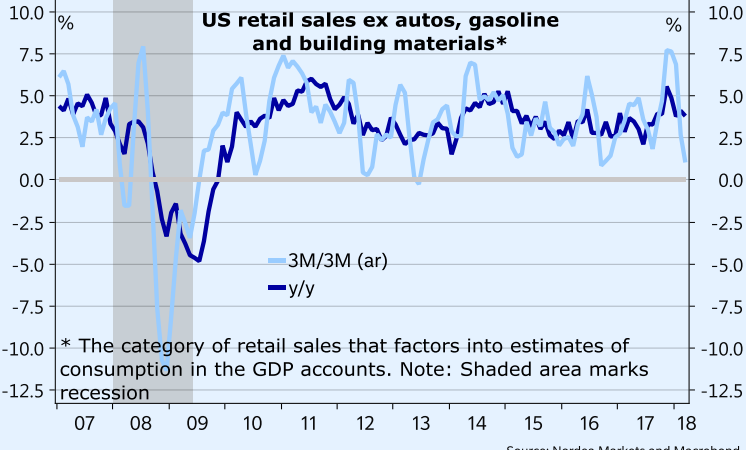
The day kicks off with Chinese retail sales and industrial production data before Q1 GDP numbers from Norway are released. The focus will then switch to the UK jobs report where investors will be scrutinising the wage and unemployment data. In the Euro area, the German ZEW index will be released along with the revised German and Euro-area Q1 GDP data. From the US, retail sales and the Empire State manufacturing index will be interesting given the recent slowdown in private consumption and the ISM manufacturing index.

Tuesday, 15/05/2018				Nordea	Consensus	Previous
03:30	AU	Minutes of RBA rate meeting				
06:30	CN	Fixed asset inv. excl. rural YTD (y/y)	Apr		7.4%	7.5%
06:30	CN	Industrial production (y/y)	Apr		6.4%	6.0%
06:30	CN	Retail sales (y/y)	Apr		10.0%	10.1%
08:00	DE	GDP (q/q, flash, sa)	Q1		0.3%	0.6%
08:00	NO	Foreign trade with goods	Apr			
08:00	NO	Mainland GDP (q/q, sa)	Q1	0.4%		0.6%



Growth in mainland GDP picked up during 2017. Norges Bank's regional network (best and broadest business survey) indicated that growth held up well in Q1. However, hard data in the form of production indices and retail sales point to rather weak or falling production in construction, manufacturing and the retail sector. That is why we forecast a slowdown from 0.6% q/q to 0.4% in Q1. We trust the regional network that growth was strong in services outside the retail sector. That prevents a stronger slowdown. Our forecast is below Norges Bank's at 0.6% q/q and will add to the impression that key figures in Norway are on the weak side.

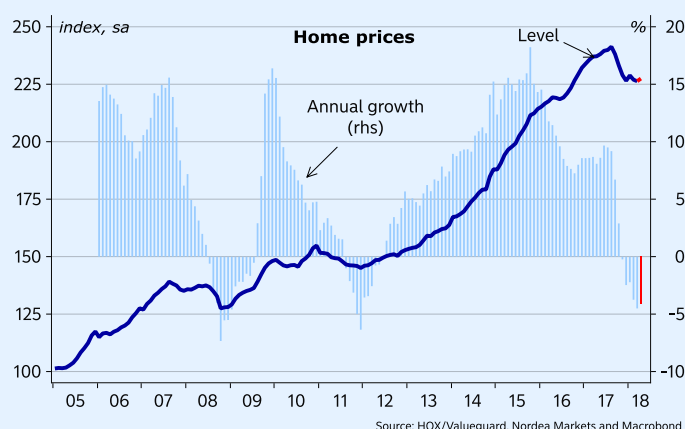
08:00	NO	Total GDP (q/q, sa)	Q1			-0.3%
08:45	FR	HICP (y/y)	Apr			1.8%
09:00	CN	Money supply, M2 (y/y) (exp 10-15 may)	Apr		8.5%	8.2%

Tuesday, 15/05/2018				Nordea	Consensus	Previous
10:30	GB	Claimant Count Rate	Apr			2.4%
10:30	GB	Earnings, ex bonus, average (y/y, 3mma)	Mar		2.9%	2.8%
10:30	GB	Unemployment rate, ILO	Mar		4.2%	4.2%
11:00	EU	GDP (q/q, flash, sa)	Q1			
11:00	EU	Industrial production (m/m, sa)	Mar		0.6%	-0.8%
11:00	DE	ZEW, current situation	May		86.2	87.9
11:00	DE	ZEW, expectations	May		-8.2	-8.2
14:30	US	Empire manufacturing	May		15	15.8
14:30	US	Retail sales (m/m)	Apr		0.4%	0.6%
14:30	US	Retail sales control group	Apr		0.4%	0.4%
 <p>US retail sales ex autos, gasoline and building materials*</p> <p>%</p> <p>10.0 7.5 5.0 2.5 0.0 -2.5 -5.0 -7.5 -10.0 -12.5</p> <p>07 08 09 10 11 12 13 14 15 16 17 18</p> <p>— 3M/3M (ar) — y/y</p> <p>* The category of retail sales that factors into estimates of consumption in the GDP accounts. Note: Shaded area marks recession</p> <p>Source: Nordea Markets and Macrobond</p>				<p>US private consumption growth has lost steam lately despite the boost to disposable income due to the personal tax cuts. Also the April data are facing some downside risks. First, colder-than-usual weather may have had a negative impact. Second, higher gasoline prices should dent growth in core retail sales. Third, the weekly sales data are pointing to somewhat slower growth in sales. Overall then, the April retail sales data are unlikely to lead to any pick-up in optimism regarding US private consumption.</p>		
14:30	US	Retail sales, ex auto and gas (m/m)	Apr		0.4%	0.3%
14:30	US	Retail sales, less autos (m/m)	Apr		0.5%	0.2%
16:00	US	Business inventories (m/m)	Mar		0.2%	0.6%
16:00	US	Housing market index, NAHB	May		70	69
17:30	NO	Deputy Governor Jon Nicolaisen gives a speech at a meeting hosted by Econa				
22:00	US	TIC flows, net long-term	Mar			49.0bn
22:00	US	TIC flows, net total	Mar			44.7bn

Wednesday

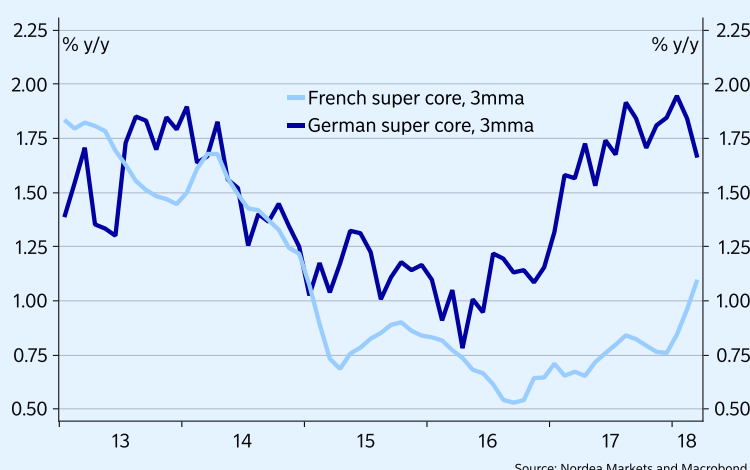
Japanese preliminary Q1 GDP data and Chinese house prices will be released early in the morning. From Sweden, the HOX/Valueguard house price data are due, and in the Euro-area final inflation numbers will be scrutinised by the ECB. In the EM space, the Brazilian and Polish central banks are expected to keep their key interest rates at hold. The Fed's Bostic (hawk, neutral) will speak during the day.

Wednesday, 16/05/2018			Nordea	Consensus	Previous
00:50	JP	GDP (q/q annualised, preliminary)	Q1	-0.1%	1.6%
00:50	JP	GDP (q/q, preliminary)	Q1	0.0%	0.4%
03:30	CN	New home prices (m/m)	Apr		0.4%
06:00	SE	House prices, Mäklarstatistik (y/y)			
08:00	DE	HICP (y/y, final)	Apr	1.4%	1.4%
09:00	SE	House prices, HOX/Valueguard	Apr	0.5%	-0.3%



We forecast home prices to have increased by 0.5% m/m (seasonally adjusted) and -4% y/y. Apartment prices in Stockholm are expected to stay flat on the month (0.0% seasonally adjusted), with -10% y/y. According to weekly data from Booli Pro, home prices declined markedly during March and moved back up in April. At the end of April, prices stood at the same level as in the beginning of March. If home prices continue to increase, a bigger upturn will be visible in May.

09:30	SE	Capacity utilization, manufacturing industry	Q1		
09:30	SE	Inventories, manufacturing industry	Q1		
11:00	EU	HICP (y/y, final)	Apr	1.2%	1.3%
11:00	EU	HICP core (y/y, final)	Apr	0.7%	0.7%




We expect the final Euro-area HICP inflation print to confirm the flash estimate for headline inflation at 1.2% y/y and for core (ex energy, food, alcohol and tobacco) at a surprisingly low 0.7% y/y in April. Final numbers rarely surprise and rarely move the markets, but provide details that are not included in the flash estimate. These details are likely to be weak and super core inflation – the part of core inflation that is responsive to the business cycle – is likely to have lost momentum across the board. It will be interesting to see if the trend towards normalisation in France and Italy will be completely offset by the weakness in the April details.

Wednesday, 16/05/2018				Nordea	Consensus	Previous
11:00	NO	Auction of Treasury Bonds				
11:00	SE	SNDO to auction bonds (SEK 1.5 bn)				
12:10	PL	NBP announces interest rates (Base rate)	May		1.50%	1.50%
13:00	US	Mortgage applications, MBA	May			-0.4%
14:30	US	Building permits	Apr		1355k	1354k
14:30	US	Fed's Bostic to give Economic update				
14:30	US	Housing starts	Apr		1322k	1319k
14:30	US	Housing starts (m/m)	Apr	-1.1%	0.1%	1.9%
15:15	US	Capacity utilization	Apr		78.4%	78.0%
15:15	US	Industrial production (m/m)	Apr		0.6%	0.5%
16:30	US	EIA Crude Oil stock change	May			
22:45	BR	BCB announces interest rates (SELIC target)	May		6.25%	6.50%

Thursday

Across the Atlantic, the Philadelphia Fed manufacturing index will be released, the Fed's Kashkari (dove, non-voter) will speak and the Mexican central bank will announce its interest rate decision. Norwegian markets are closed today because of Constitution Day.

Thursday, 17/05/2018				Nordea	Consensus	Previous
	NO	Markets closed				
09:00	SE	Business Sweden's Export Managers' Index				
11:00	EU	Trade balance (sa)	Mar			21.0bn
14:00	RU	GDP (y/y) (Exp 17-18 May)	Q1	1.1%	1.5%	0.9%
 <p>First estimate of Russian GDP in Q1 is likely to show a growth of around 1% y/y after 0.9% y/y in Q4 2017 and 1.5% for the whole 2017. Growth remained subdued in Q1 even before the newest round of US sanctions. For further quarters risks are tilted to the downside as business confidence might deteriorate because of sanctions. Some one-off support might come in June-July at a time of the World Cup. Nevertheless, we don't expect GDP growth for the whole 2018 to exceed 1.2%.</p> <p>Source: Nordea Markets and Macrobond</p>						
14:30	US	Jobless claims, continuing	May			1790k
14:30	US	Jobless claims, initial	May			211k
14:30	US	Philadelphia Fed	May		21.7	23.2
16:00	US	Leading index	Apr		0.4%	0.3%
16:45	US	Fed's Kashkari speaks at moderated Q&A in Minneapolis				
20:00	MX	Banxico announces interest rates	May			7.50%

Friday

Japanese CPI data from April will be released early in the morning. Otherwise, the day does not involve many key figures. Fed member Mester (hawk, voter) will speak in the morning about macroprudential and monetary policy.

Friday, 18/05/2018			Nordea	Consensus	Previous
01:30	JP	CPI, national (y/y)	Apr	0.7%	1.1%
01:30	JP	CPI, national, excluding food and energy (y/y)	Apr	0.4%	0.5%
01:30	JP	CPI, national, excluding fresh food (y/y)	Apr	0.8%	0.9%
09:00	US	Fed's Mester speaks at ECB on Macroprudential, Monetary Policy			
14:30	CA	CPI (y/y)	Apr		2.3%
14:30	CA	CPI, core (y/y)	Apr		2.1%

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