

25 May 2018

Week Ahead: Fake news on FOMC!

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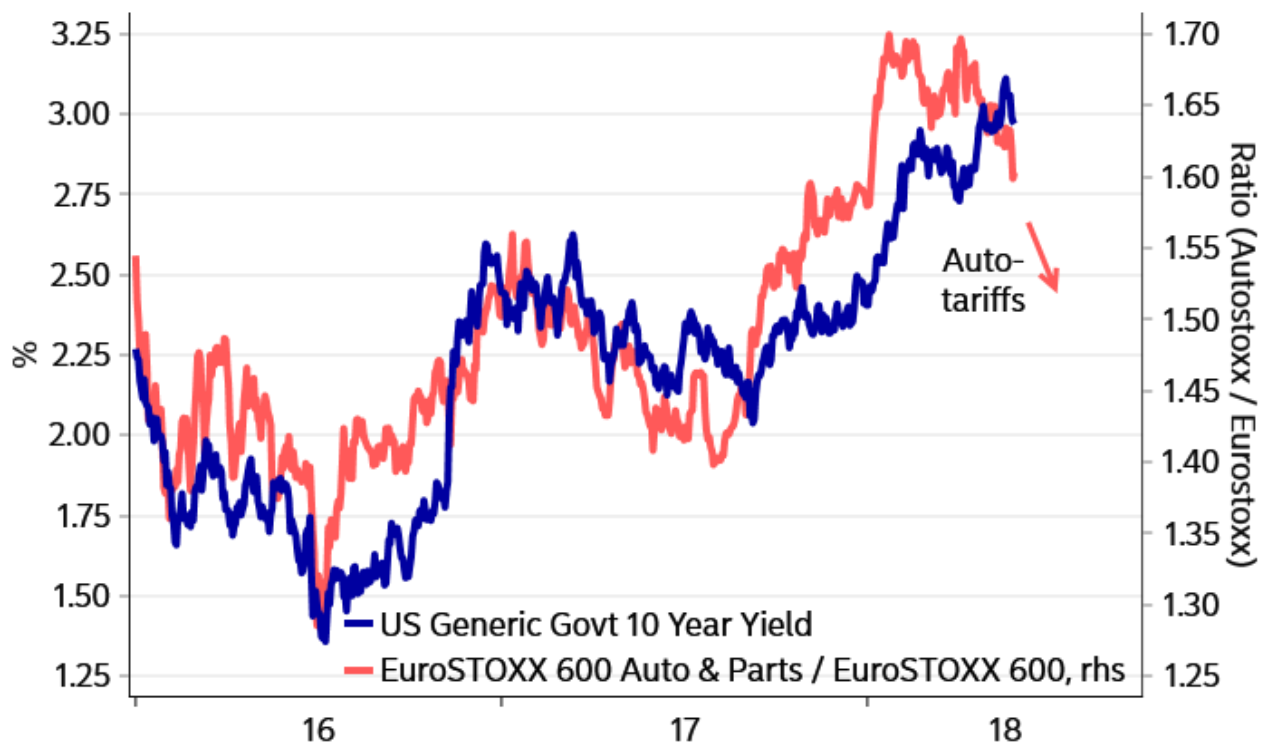
While most interpreted the FOMC minutes as dovish, we don't necessarily share that view ahead of a week when US ISM, geopolitics and European inflation take centre stage. Will the US momentum continue to hold up against the rest of the world?

Tariff risks and the rocket man are back in town

It has been another week of bumpy risk appetite, as both tariff risks and North Korea have entered the frame again. We warned a few months back that Auto tariffs would be the obvious next target for Donald Trump ([FX weekly: "Taxation mirror on the wall, who is the fairest of them all?"](#)) given the discrepancies in the import-taxation of Autos between the US and Europe (and the US and China for that matter). The concept of mirror-taxation that Trump launched at his press meeting on the steel and aluminium tariffs thus stills seems to be at the top of the US president's agenda.

While the market overestimated the Trump risks a few months back, we now tend to think that risks are more balanced or **even tilted towards Trump re-rocking the market boat.** The market repercussions of a renewed focus on tariffs and the breakdown of North Korea talks are relatively clear. If North Korean tensions increase again and if Trump decides to launch auto tariffs, **it will take its toll on risk appetite in general and likely also be a game-changer for the current USD positive market environment (at least initially).**

Chart 1: Weaker Autostoxx usually coincide with less upside pressure on long bond yields



Source: Nordea Markets and Macrobond

Dovish FOMC minutes? Fake news

While you can read the Fed's tolerance towards overshooting on inflation as dovish news, the primary reason behind the dovish shift in the fed funds pricing in the aftermath of the minutes was the comment on a potential 20 bp hike in the IOER rate instead of a 25 bp hike.

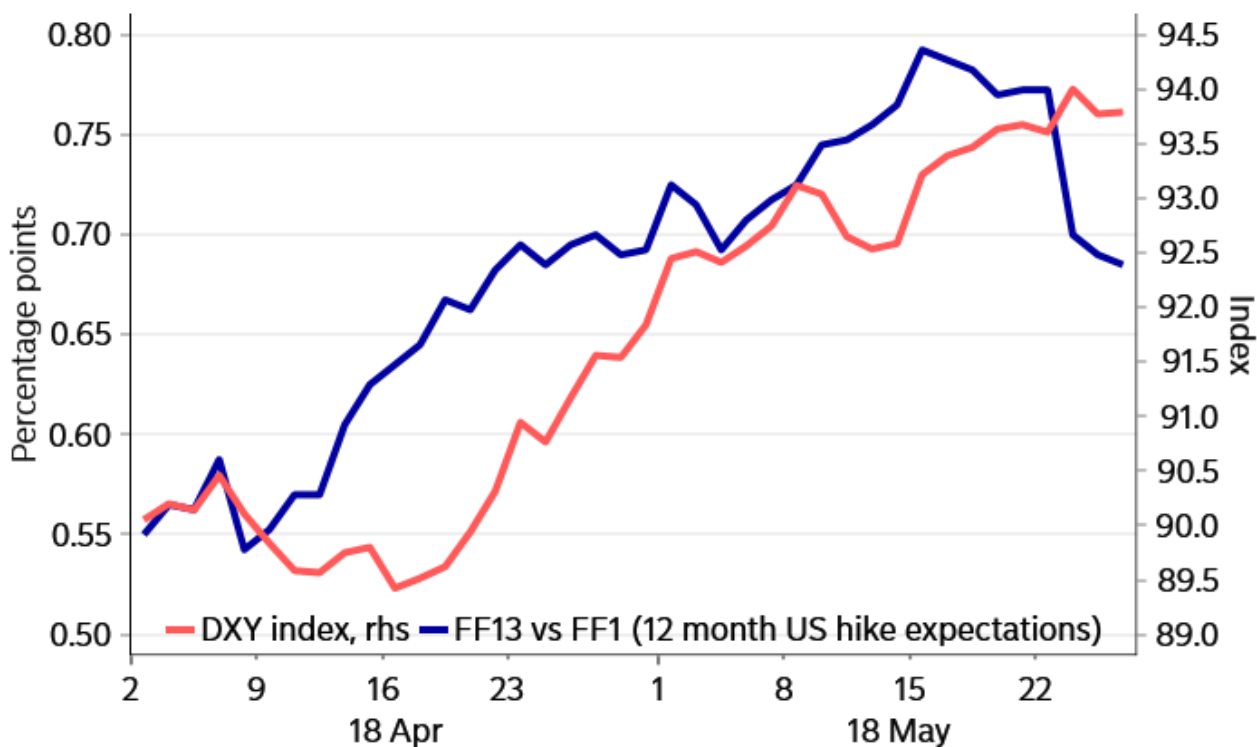
The Fed wrote *"Since the target range was established in December 2008, the IOER rate has been set at the top of the target range to help keep the effective federal funds rate within the range. Lately the spread of the IOER rate over the effective federal funds rate had narrowed to only 5 basis points. A technical adjustment of the IOER rate to level 5 basis points below the top of the target range could keep the effective federal funds rate well within the target range."*

So the re-pricing of the front of the Fed Funds curve was much more about technicalities than actual dovish policy signals. Something that was misinterpreted by many commentators – and likely also the reason why the USD did not react negatively to the minutes.

The FOMC mentioned the word "symmetrical" eleven times in the minutes ([Fed comment: On track](#)), indicating that they are willing to tolerate overshooting inflation short term. **However, we don't consider this a particularly dovish policy signal, but rather see it as prudent risk management from the Fed.** As the

Fed is obviously not in control of short-term fluctuations in inflation, the FOMC has simply adjusted the language to minimise the negative market impact of the almost certain overshooting inflation.

Chart 2: Only Fed funds pricing reacted dovishly to the FOMC minutes, not the USD



And while this symmetrical inflation focus from the FOMC may sound USD negative at first glance, **it is not necessarily bad news for the USD**. Since 2016, periods of relative steepening of the USD curve versus the EUR curve have coincided with a stronger USD, as a steeper USD curve invites partially FX hedged international bond flows into US.

Our **bottom line is that tolerance towards inflation could prove temporarily USD positive via a relative steepening of the USD curve**. Recently, the core inflation spread widening between the US and Japan, the UK and the Euro area has been a key driver of the USD gaining versus most peers. [Our newly updated G10 forecasts also include a short-term expectation of a stronger USD.](#)

Chart 3: Overshooting inflation leads to a steeper USD curve and a stronger USD



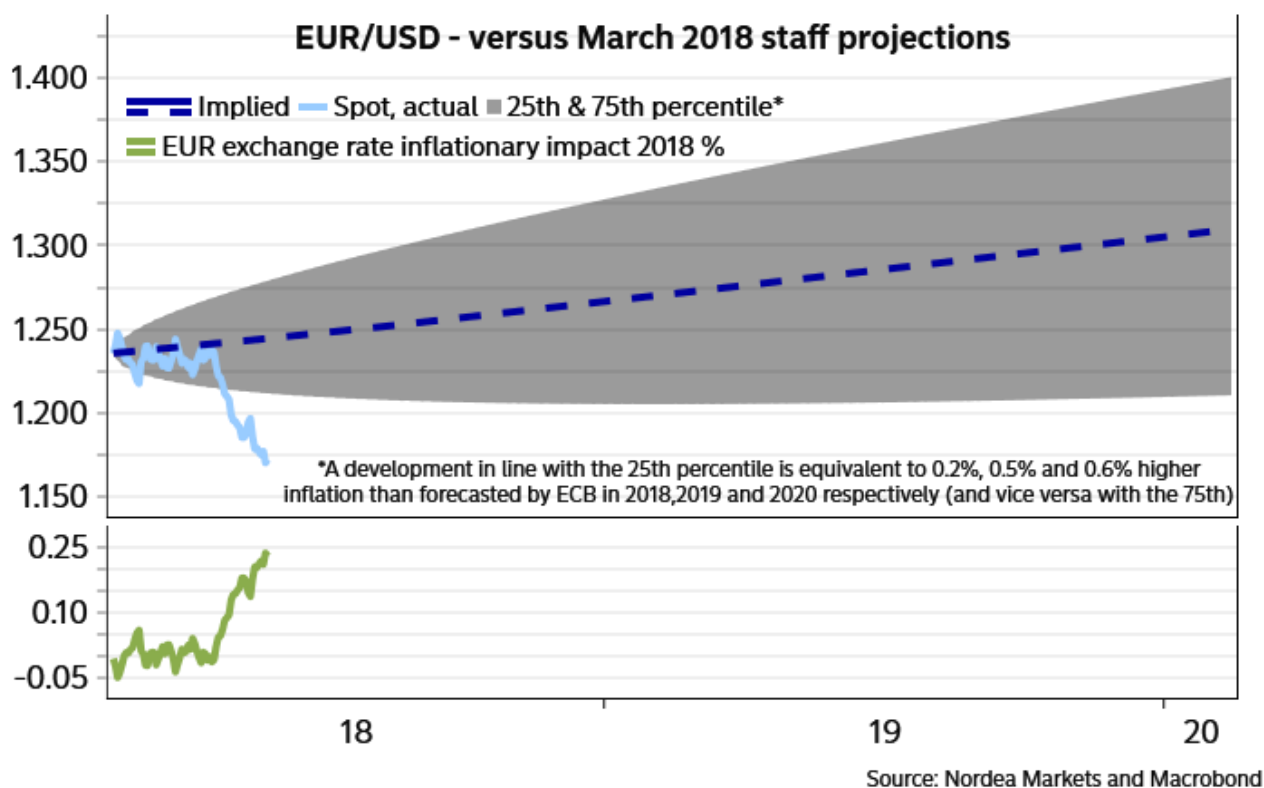
Source: Nordea Markets and Macrobond

ECB to face higher headline inflation, but weak core inflation and growth momentum

On the EUR side of the equation, the ECB meeting in a few weeks' time looks increasingly interesting. While our base case is that ECB will refrain from taking any policy actions in June (our base case is July), the updated staff projections could prove unusually interesting.

While the rising energy prices will start to surface in EUR headline inflation as early as next week, **also the FX developments since the latest projection update in March argue for a higher HICP inflation path in the staff projections** (currently as much as 0.25% for 2018 according to the ECB's own methodology). This leaves a potential difficult communication task ahead for the ECB, as they likely want to sound dovish despite a higher inflation forecast.

Chart 4: The EUR weakness since the last staff projections argue for 0.2% higher HICP inflation in 2018



We see elevated risks that markets will put too much emphasis on rising headline inflation in the Euro area over the next months and as [the market pricing of the ECB has almost collapsed recently](#), there is a risk that the market will reprice the ECB hawkishly from the current levels. **If a hawkish re-pricing were to arise into the summer, we would prefer to fade such a move.**

Both core inflation and growth momentum are worrying the ECB and this is maybe also what the EUR/USD currently prices in.

Chart 5: EUR/USD is pricing in renewed growth divergence between US and Europe



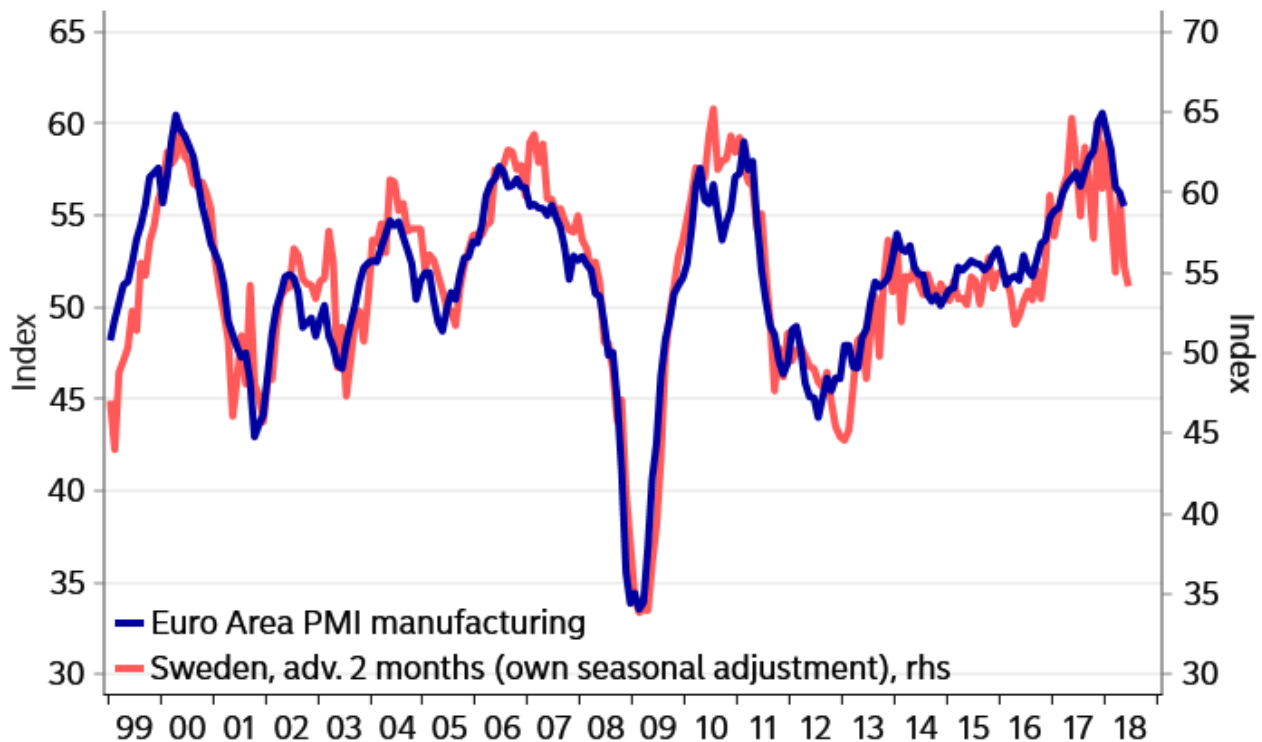
Source: Nordea Markets and Macrobond

Fly, please fly, oh Swedish canary

In terms of the European growth momentum, Mario Draghi and co. should cross their fingers ahead of the Swedish PMIs next week. Sweden is a small open export-dependent country that picks up changes in global demand faster than the Euro area. **That is why the Swedish PMI tells us where Euro-area PMI will head a couple of months later.**

So if the Swedish canary doesn't fly next Friday, it is a sign that the ECB could turn even more dovish than anticipated two to four months from now.

Chart 6: If you monitor Sweden, then you will now what happens in the Euro area two months later



Source: Nordea Markets and Macrobond

Otherwise it has been a relatively quiet week on the data front from Scandinavia. The most newsworthy story from Sweden is that the Swedish Debt Office will take a position for a stronger krona. While the flow effects are marginal from this decision (7bn SEK), the signal value could prove to be strong. The trade-weighted krona is still 1% weaker than the Riksbank anticipated for Q2 and 3.5% weaker than anticipated for Q3. The Riksbank's KIX forecasts are consistent with EUR/SEK at 10.15 in Q2 and 9.90 in Q3.

In Norway, the AKU unemployment rate came out in line with consensus of 3.9%. But even with the economic surprise index at depressed levels in Norway, we think that the recent patch of data still argues for an unchanged rate path in June. Low inflation and high spreads in the money market argue for a lower rate path. However, higher oil prices pull significantly in the other direction. [A September rate hike is still on the table.](#)

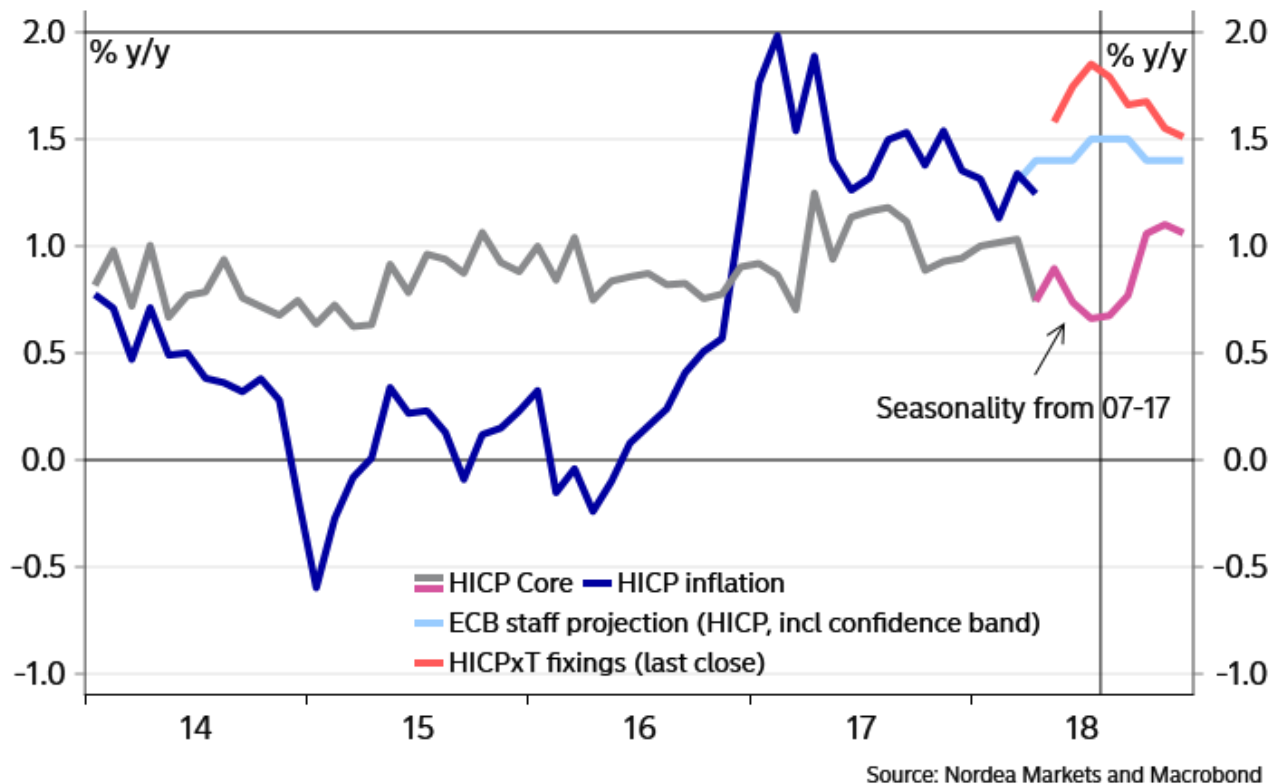
What is most important in the week ahead?

In addition to the continued developments surrounding the North Korean summit and auto tariffs, next week is relatively data-heavy in both the US and the Euro area.

The European inflation print (Wednesday) will be extra closely scrutinised by markets, as the very weak April print caused a dovish shift in market expectations for the ECB. We expect Euro-area core inflation to rebound to 1%, while headline inflation could print at 1.6%.

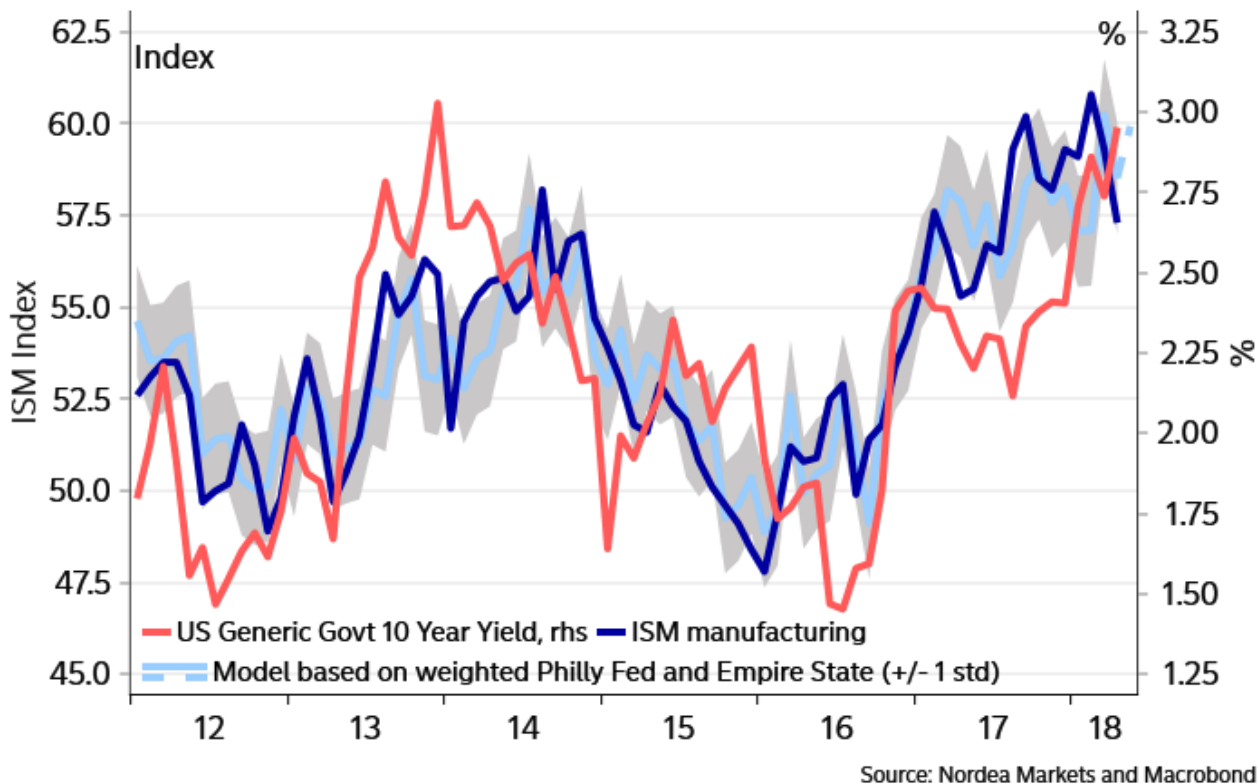
Given the seasonal pattern in Euro-area core inflation for the past ten years, **core inflation better rebound in May, otherwise a very weak summer for core inflation could be on the cards**. A rebound to 1% alongside headline inflation at 1.6% should limit the need for a further dovish repricing of the ECB short term. We get the first inflationary hints out of Germany already on Tuesday.

Chart 7: EA core inflation better rebound in May, otherwise it will be a weak summer for core inflation



We will get new clues on whether the US will continue to outpace the rest of the world in terms of economic momentum when the ISM index is published (*Friday*). The regional surveys point to a rebound in the ISM. While most of this anticipated rebound in the ISM is already priced in (consensus expects a rebound from 57.3 to 58.1), it should still work to emphasise that the US is in the driving seat at the moment. But we still don't judge that there is good risk/reward in betting on a high ISM print. Also the job report will be in focus in the US on Friday afternoon.

Chart 8: Is the likely rebound in the ISM index already priced in?



In Scandinavia, the week will kick off with the **Oil Investment Survey from Norway on Monday**. Strong growth in oil investment both in 2018 and 2019 is an important reason for ours and Norges Bank's upbeat view on the economy. The rise in oil investment more than counteracts the effect of lower housing activity which follows last year's slowdown in housing prices. [We believe in a moderate upward revision of the oil investments this year](#), which will point to growth at 8-10%. Also Norwegian registered unemployment will be important for Norges Bank (*Friday*).

From Sweden, the first quarter GDP report is due out on Wednesday. [We believe that GDP growth moderated in the early months of the year](#) – and more than the Riksbank anticipates. Household consumption grew at a healthy pace, while exports flattened. **On Friday the Swedish PMI is due.**

Editorial by Andreas Steno Larsen, Senior Strategist

Key research pieces over the past week:

[Major forecasts: A temporary return of king USD](#)

[Swedish Q1 GDP preview: Downside risks to Riksbank forecast](#)

[Norway preview: Strong growth in oil investment and tighter labour market](#)

[TRY: Where do we go from here?](#)

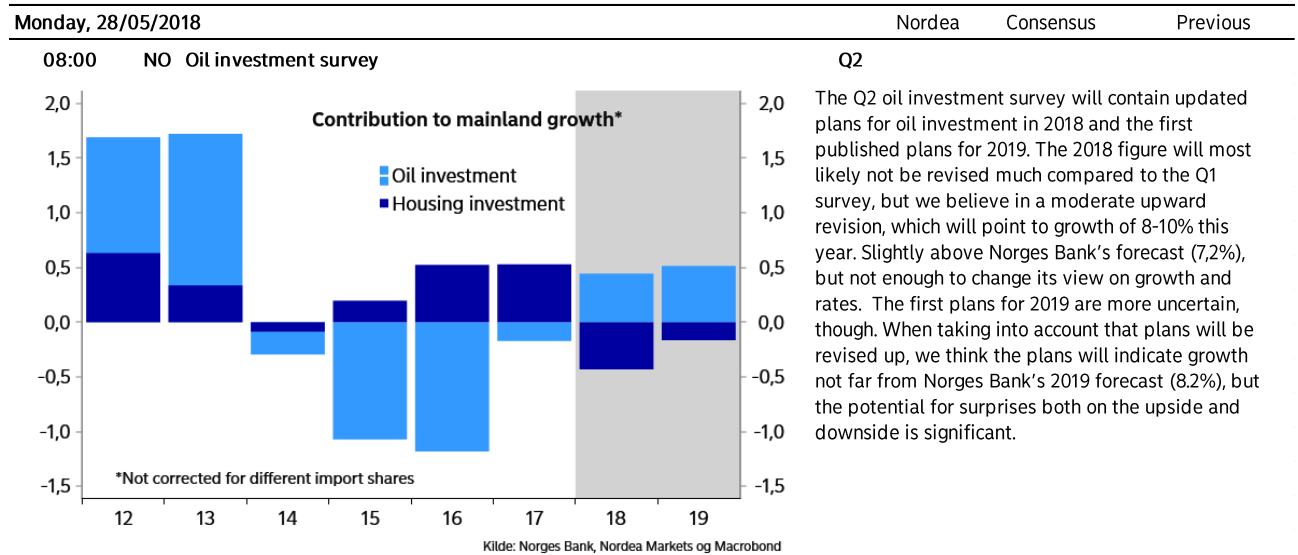
[Should Russia fear US recession?](#)

Table 1: Main releases to watch

Date	Key figure	Nordea	Consensus	Last
28-May	NO, Norway oil investment survey			
29-May	EU, ECB's Villeroy to Speak in Paris			
30-May	DE, HICP (y/y, flash)			1.4%
30-May	CA, BoC announces interest rate		1.25%	1.25%
30-May	SE, GDP (calendar adj, y/y)			3.3%
31-May	EU, HICP core (y/y, flash)	1.0%		0.7%
31-May	US, PCE prices, core (y/y)		1.8%	1.9%
01-Jun	SE, PMI, manufacturing			54.5
01-Jun	US, Job report			
01-Jun	US, ISM, manufacturing		58.1	57.3
01-Jun	NO, Unemployment rate, registered	2.2%		2.4%

Monday

The US and UK markets are closed today due to Memorial Day and UK spring bank holiday, respectively. In Sweden, retail sales from April are released and from Norway the Oil Investment survey is due out, but otherwise the day is very quiet on the data front. The ECB's Villeroy (neutral) will speak during the day.



09:00	EU	Villeroy speaks in Paris		
09:30	SE	Retail Sales (sa, m/m)	Apr	1.2%
09:30	SE	Retail Sales (y/y)	Apr	2.9%
09:30	SE	Trade Balance	Apr	2.6 bnSEK

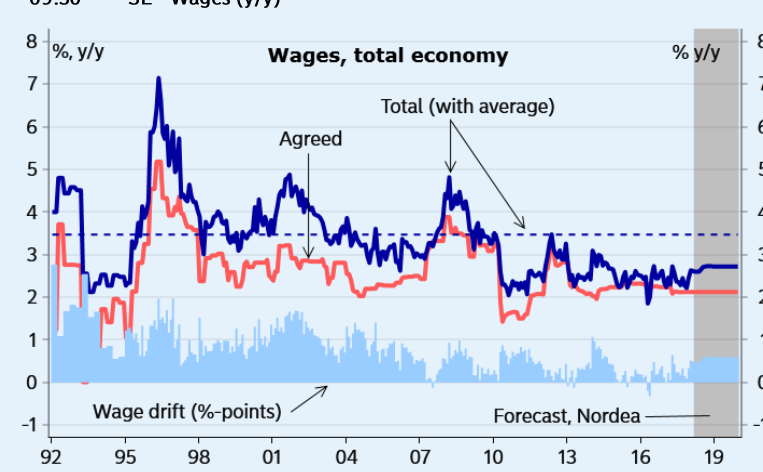
Tuesday

Swedish and US consumer confidence are the only key releases today. A bunch of central bankers will give speeches, including the Fed's Bullard (dove, non-voter) and ECB members Villeroy (neutral), Mersch (neutral), Lautenschläger (hawk) and Couere (dove).

Tuesday, 29/05/2018			Nordea	Consensus	Previous
06:40	US	Fed's Bullard Speaks in Tokyo			
08:00	SE	The Sw. Financial Supervisory Authority's stability report of Q1 is published			
08:15	SE	The Sw. FSA's chief economist Braconier speak on EU-recommendations			
08:45	FR	Consumer confidence	May		101
09:00	SE	CCI - Consumer confidence	May		100.3
09:00	SE	Economic tendency survey	May		106.6
09:00	SE	MCI - Manufacturing confidence	May		120.3
09:30	SE	Financial market statistics, household lending (y/y)	Apr		0.1%
09:45	EU	ECB's Villeroy to Speak in Paris			
10:00	EU	M3 (y/y)	Apr		3.7%
11:00	SE	Riksbank's Ohlsson speaks on economical and political challenges (publ.)			
11:30	EU	ECB's Mersch Speaks at Frankfurt Finance Summit			
15:00	US	House prices, S&P/Case-Shiller, national (m/m)	Mar		6.8%
15:00	US	House prices, S&P/Case-Shiller, national (y/y)	Mar		0.8%
16:00	US	Consumer confidence	May	127.9	128.7
16:30	US	Dallas Fed Man. Activity	May		21.8
17:30	EU	ECB's Lautenschlaeger Speaks at Colloquium in Frankfurt			
18:00	EU	ECB's Coeure Speaks at Roundtable Discussion in Paris			

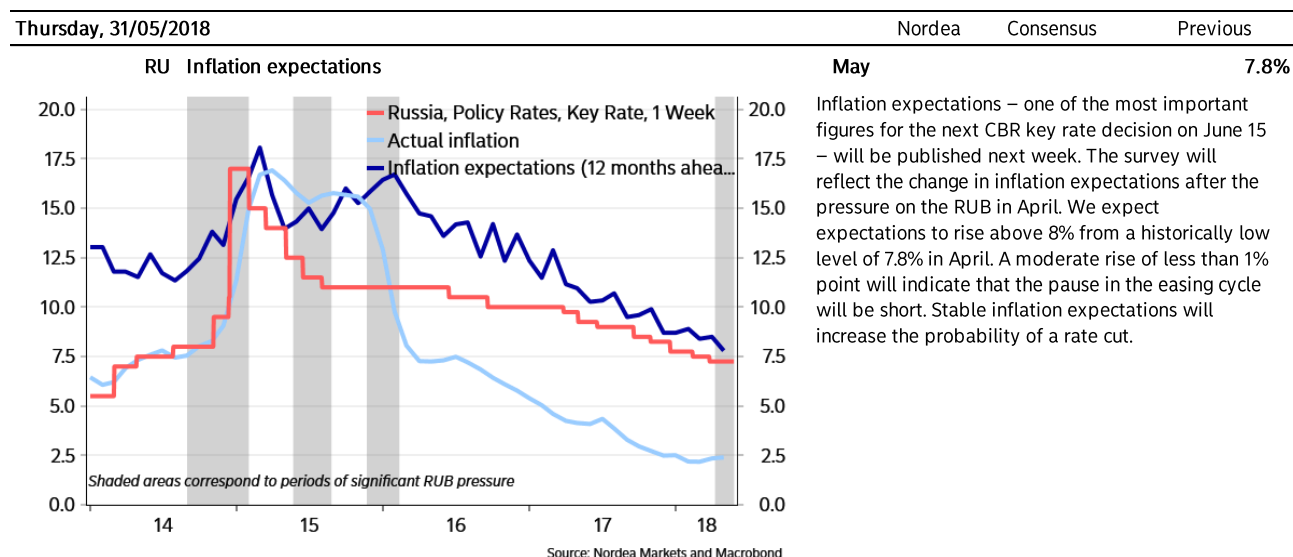
Wednesday

Today's HICP figures from Germany and Spain will indicate whether the risk concerning Thursday's Euro-area inflation numbers is to the upside or downside. In the Nordics, Norwegian retail sales are due along with Swedish Q1 GDP data. Across the Atlantic, revised Q1 GDP data are released and the ADP job report will give some indications of the outcome of Friday's official job report. The Bank of Canada will also announce its interest rate decision.

Wednesday, 30/05/2018			Nordea	Consensus	Previous
02:00	JP	BOJ Governor Kuroda speaks at conference			
07:30	FR	GDP (q/q, flash)	Q1		0.3%
08:00	NO	Consumption of goods indicator (m/m, sa)	Apr		
08:00	NO	Retail sales (m/m, sa)	Apr	0.2%	1.1%
08:45	FR	Consumer spending (m/m)	Apr		0.1%
09:00	ES	HICP inflation (y/y)	May		1.1%
09:00	CH	Leading indicator, KOF	May		105.3
09:30	SE	GDP (calendar adj, y/y)	Q1	3.2%	3.4%
09:30	SE	GDP (sa, q/q)	Q1	0.3%	1.0%
09:30	SE	Wages (y/y)	Mar	2.6%	2.6%
 <p>Wages are expected to have increased by 2.6% (y/y) in March. Wages are expected to continue to grow at a slower pace than in 2017 within the public sector, while wage growth in the private sector is expected to pick up slightly. However, wage expectations are rooted at modest levels, and not even the labour unions are expecting higher wage growth this year. Modest wage increases will continue to be a concern for the Riksbank and, among other factors, force it to stay side-lined until Q4 2019, we think.</p> <p>Source: Nordea Markets and Macrobond</p>					
09:55	DE	Unemployment rate (sa)	May		5.3%
11:00	EU	Consumer confidence (final)	May		0.2%
11:00	EU	Economic Sentiment Indicator (ESI)	May		112.7
11:00	NO	Auction of Treasury Bonds			
11:00	SE	SNDO to auction bonds (SEK 1.5 bn)			
13:00	US	Mortgage applications, MBA	May		-2.6%
14:00	DE	HICP (m/m, flash)	May		-0.1%
14:00	DE	HICP (y/y, flash)	May		1.4%
14:15	US	Employment, ADP (absolute change m/m)	Mar	195k	204k
14:30	US	GDP (q/q annualised, preliminary)	Q1	2.3%	2.3%
14:30	US	GDP deflator (q/q annualised, preliminary)	Q1	2.0%	2.0%
14:30	US	PCE prices, core (q/q annualised) (preliminary)	Q1		2.5%
14:30	US	Personal consumption (q/q annualised, preliminary)	Q1		1.1%
14:30	US	Trade Balance, Advance Goods	Apr	-71.1bn	-68.3bn
16:00	CA	BoC announces interest rate	May	1.25%	1.25%

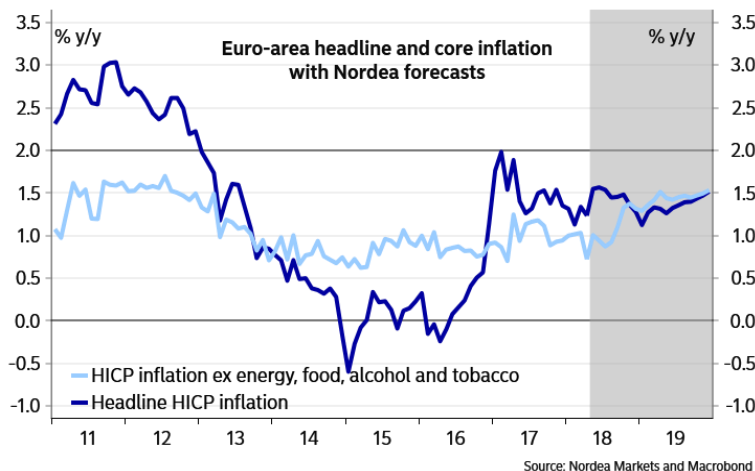
Thursday

Today is the big inflation day as we get both flash Euro-area HICP numbers and the Fed's preferred inflation measure, the core PCE price index. Otherwise, the day will bring official PMIs from China and a couple of speeches from FOMC members Bostic (neutral/dove, voter) and Bullard (dove, non-voter).



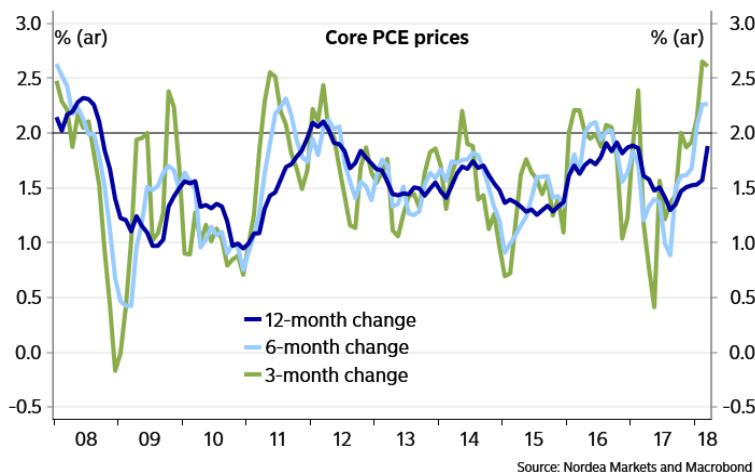
01:05	GB	Consumer Confidence, Gfk	May	-9
03:00	CN	PMI, manufacturing, NBS	Mar	51.4
07:45	CH	GDP (q/q)	Q1	0.6%
07:45	CH	GDP (y/y)	Q1	1.9%
08:00	DK	GDP (q/q, preliminary)	Q1	0.9%
08:00	DK	GDP (y/y, preliminary)	Q1	1.3%
08:00	DK	Unemployment rate, gross	Apr	4.1%
08:00	NO	Credit growth	Apr	
08:45	FR	HICP (y/y)	May	1.8%
09:00	ES	GDP (q/q, final)	Q1	0.7%
10:00	NO	Norges Bank publishes FX buys to Pension Fund-International	May	
10:00	NO	Norges Bank publishes foreign exchange transactions	Jun	

11:00	EU	HICP (y/y, flash)	May	1.6%	1.6%	1.2%
11:00	EU	HICP core (y/y, flash)	May	1.0%		0.7%



Euro-area inflation surprised negatively in April. Part of that weakness was probably due to temporary factors. Thus, core inflation should rebound to 1.0%. Headline inflation will get another boost from the high oil price and we expect it to rise to 1.6%. Although the ECB's attention is on the monthly changes in core inflation, we expect the weak inflation outlook to imply that the ECB will extend its asset purchase programme beyond September at the July meeting.

11:00	EU	Unemployment rate	Apr	8.5%	8.5%
11:00	IT	HICP (y/y, flash)	May		0.6%
12:00	US	Fed's Bullard Takes Part in MNI Roundtable in Tokyo			
13:30	US	Challenger job cuts (y/y)	May		-1.4%
14:00	IN	GDP (y/y)	Q1		7.2%
14:30	SE	Riksbank's Skingsley on fiscal framework in a small open economy (not publ.)			
14:30	US	Jobless claims, continuing	May		
14:30	US	Jobless claims, initial	May		
14:30	US	PCE prices (m/m)	Apr	0.2%	0.0%
14:30	US	PCE prices (y/y)	Apr		2.0%
14:30	US	PCE prices, core (m/m)	Apr	0.1%	0.2%
14:30	US	PCE prices, core (y/y)	Apr	1.8%	1.9%



Momentum in core PCE inflation is clearly upwards and we expect this trend to continue in the coming months, but not so much for next week's numbers for April. The core CPI reading for April was relatively weak and points to an increase in core PCE of 0.1% m/m, corresponding to a slight drop in core PCE inflation to 1.8% y/y in April from 1.9% y/y in March. Core PCE rarely surprises given that core CPI for the same month is released earlier.

14:30	US	Personal income (m/m)	Apr	0.3%	0.3%
14:30	US	Personal spending (m/m)	Apr	0.4%	0.4%
15:45	US	Chicago PMI	May	58.1	57.6
16:00	US	Home sales, pending (m/m)	Apr	1.0%	0.4%
16:30	US	EIA Crude Oil stock change	May		5778k
18:30	US	Fed's Bostic Speaks in Moderated Q&A in Orlando			

Friday

Today's main release is the US job report where focus once again will be on the wage component. The day, however, also brings a lot of important growth and activity indicators, including the ISM index from the US and flash PMIs from China (Caixin), Sweden, Norway, Russia and the UK. Final PMIs from the Euro-area are also due.

Friday, 01/06/2018		Nordea	Consensus	Previous
03:45	CN PMI, manufacturing, Caixin	Apr	51.2	51.1
<div> <div>Index</div> <div>Caixin/Markit PMI sub-indices</div> <div>Index</div> </div> <p>The Caixin PMI is expected to remain above 51 in May. Domestic demand is the main driver, underpinned by accelerating fixed investments and a housing market that has been resilient to tighter policies. Export orders have a chance of recovering from its two-year low as trade tensions with the US eased in mid-May. Domestic conditions will likely deteriorate over the course of this year. The authorities remain determined to cool down the housing market.</p> <p>Source: Nordea Markets and Macrobond</p>				
07:00	IN PMI, manufacturing	May		51.6
08:00	RU PMI, manufacturing	May		51.3
08:30	SE PMI, manufacturing	May		54.5
08:30	SE Sw. FSA's Thedéen speaks on new actors on the mortgage market (not publ.)			
09:00	CZ GDP (y/y, final)	Q1		4.5%
09:00	NO PMI (index, sa)	May		
09:55	DE PMI manufacturing (final)	May		56.8
10:00	EU PMI, manufacturing (final)	May		55.5
10:00	NO Unemployment rate, registered (unadj. and excl. labour market schemes)	May	2.2%	2.4%
10:00	NO Unemployment, registered and persons on labour market schemes (sa)	May	82600	83432

Friday, 01/06/2018 (continued)

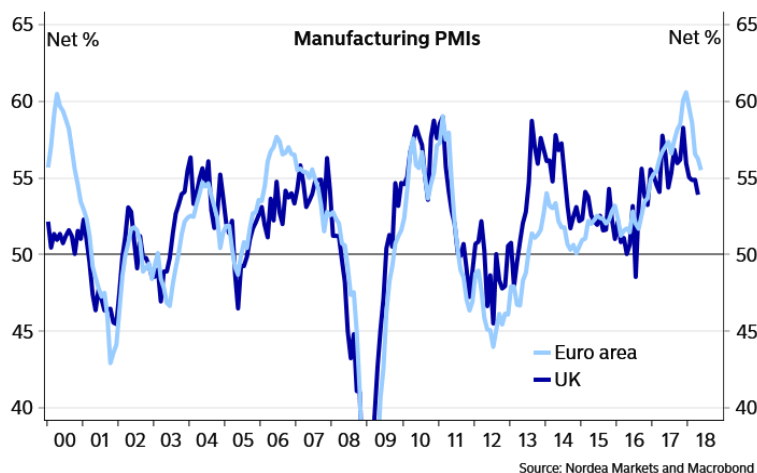
Nordea Consensus Previous

10:30 GB PMI, manufacturing

May

53.5

53.9



Sentiment among UK firms and households has clearly deteriorated so far during 2018. As regards the PMI for the manufacturing sector we would not be surprised to see a further drop in May in line with recently published flash PMIs for Germany, France and the Euro area as a whole. If so, this would add to Bank of England's worries about the economic outlook.

11:00 DK PMI survey

May

53.3

13:30 US Nonfarm payrolls (absolute change m/m)

May

190k

164k

14:00 PL Minutes of NBP rate meeting

14:30 US Average weekly hours

May

34.5

34.5

14:30 US Hourly earnings, average (m/m)

May

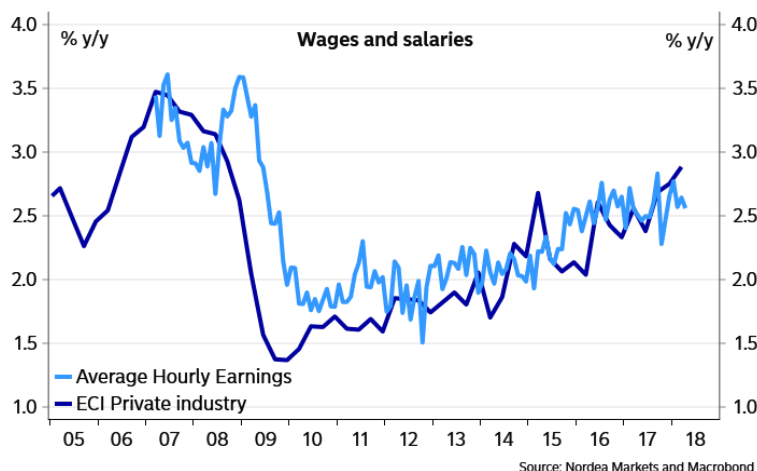
0.1%

14:30 US Hourly earnings, average (y/y)

May

2.7%

2.6%



The US labour market has continued to strengthen. After an average monthly increase of a decent 200k during the first four months of 2018, consensus is looking for an increase of 185k in May. This is more than enough to bring unemployment further down over time and would indicate that growth in the US economy continues at a brisk pace. However, the market will yet again focus on wage numbers. More signs of wage growth picking up will support further upside pressure on US interest rates. Consensus is an increase in average hourly earnings of 0.2% m/m and 2.7% y/y. We continue to see upside risk given both the uptrend in the broader and more relevant ECI numbers and the general labour market. See more here: US: Watch for rising wage growth.

14:30 US Labour force participation rate

May

62.8%

14:30 US Unemployment rate

May

3.9%

3.9%

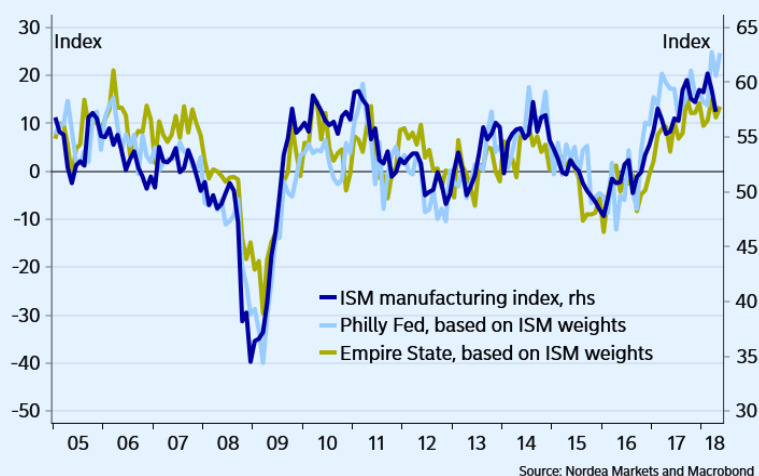
15:45 US Markit manufacturing PMI (final)

May

56.6

Friday, 01/06/2018 (continued)

			Nordea	Consensus	Previous
16:00	US	Construction spending (m/m)	Apr	1.0%	-1.7%
16:00	US	ISM, manufacturing	May	58.1	57.3



The rebounds seen in the regional manufacturing confidence surveys very much point to a rise in the manufacturing ISM after two months of clear falls. Such a reading would be very welcome especially after the disappointing PMI data seen from the Euro area recently and would point to a US economy continuing to enjoy solid momentum. The recent strengthening of the USD does present some downside risks, though.

16:00	US	ISM, new orders	May	61.2
16:00	US	ISM, prices paid	May	79.3
23:00	US	Vehicle sales, domestic	May	
23:00	US	Vehicle sales, total	May	17.2m

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