

5 April 2019

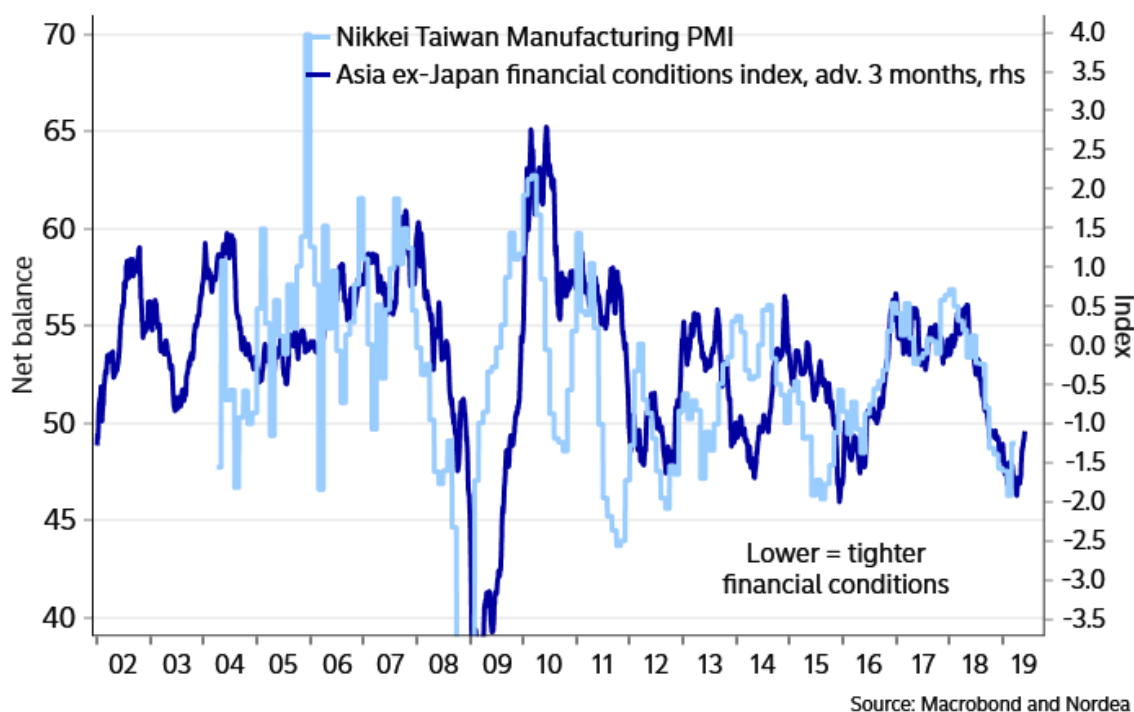
# Week ahead - Green shoots: to grow, to wilt, or to get stomped?

Martin Enlund | Andreas Steno Larsen

- Green shoots in East Asia
- S&P500 estimates consistent with V-shaped profit recovery
- Will China M1 growth boost green shoots narrative?

Equity bulls have had the upper hand over the past week, with risk sentiment generally being fuelled by signs of some green shoots in the global economy. Positive remarks with regards to global trade tensions from China's Xi Jinping and US' Donald Trump have also helped. Purchasing Manager Indices this week managed to top expectations in China, Korea, Taiwan and the US (ISM), while the final version of the PMI composite in the Euro area was revised higher. **Market participants have consequently needed to put a higher probability of a non-recessionary scenario playing out later in 2019 and 2020.**

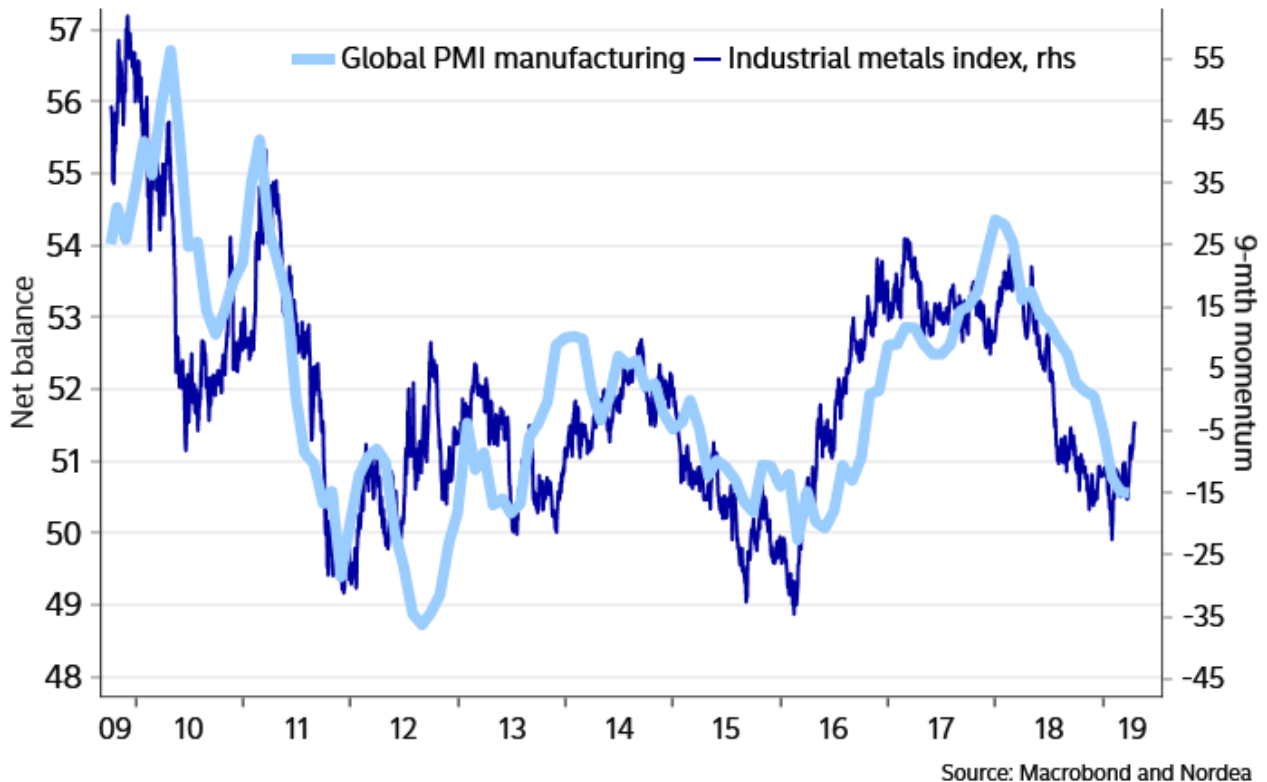
Chart 1. East Asian PMIs offers glimmers of hope



Of course, some of the improvement in the East Asian figures might be explained by the timing of the **Chinese New Year**. When a new year starts in February, the PMI compiled by the Chinese government [tends to rise](#) substantially. However, the improvement was corroborated by less problematic PMIs

compiled by the private sector, by industrial metals, and was also predicted by the recent easing of financial conditions in Asia.

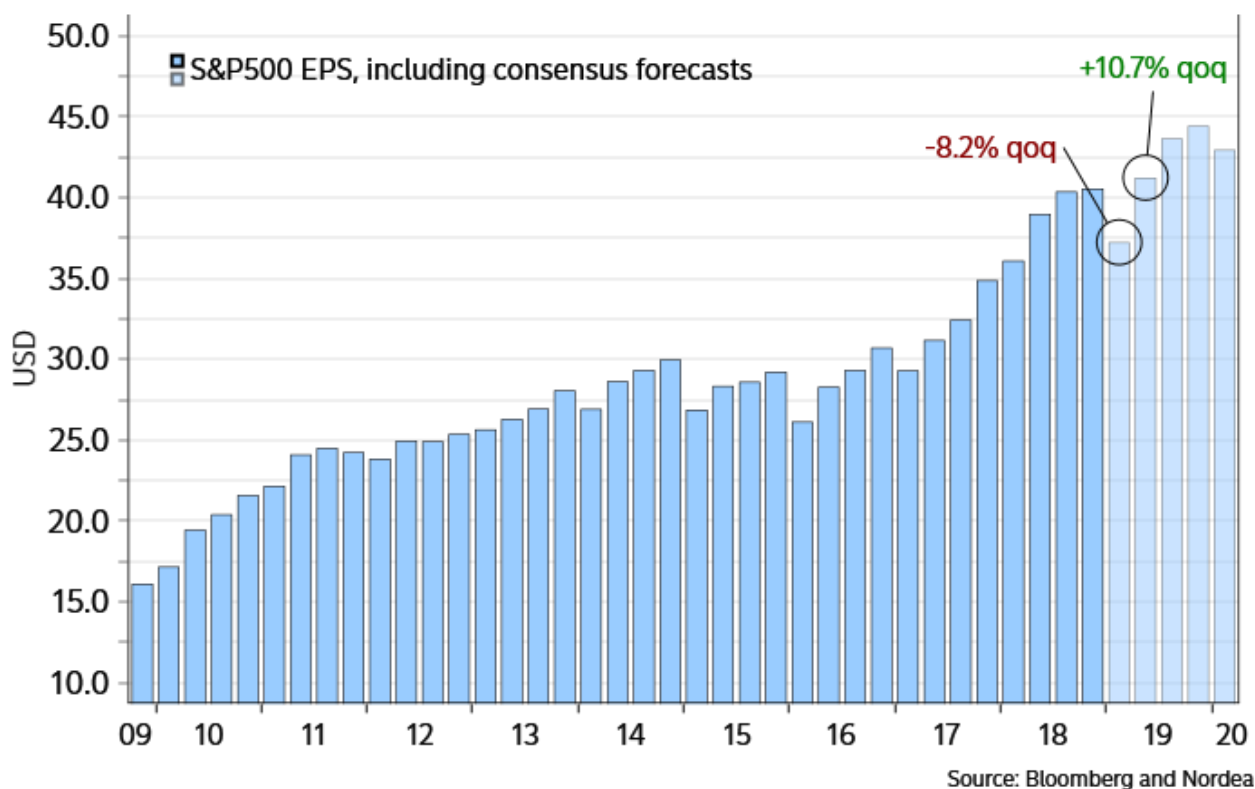
Chart 2. Global PMI manufacturing vs industrial metals – light at the end of the tunnel?



The situation does remain fragile however. **Similar signals from industrial metals such as the one in early 2012 or late 2015 were nothing but false starts** for the global economy. Admittedly, global PMI then improved temporarily, but soon started to fall again. Some of the rise in metal prices has also come about for adverse reasons such as a dam disaster in Brazil and a cyclone in Australia (impacting iron ore).

The plunge in US real rates, which have fuelled inflows to Emerging Markets and thereby eased financial conditions, may also be running out of steam. If that is the case, global growth may have stabilised, but a V-shaped recovery would still seem to be unlikely.

Chart 3. S&P500 EPS expectations – V-shaped profit recovery after Q1 crash

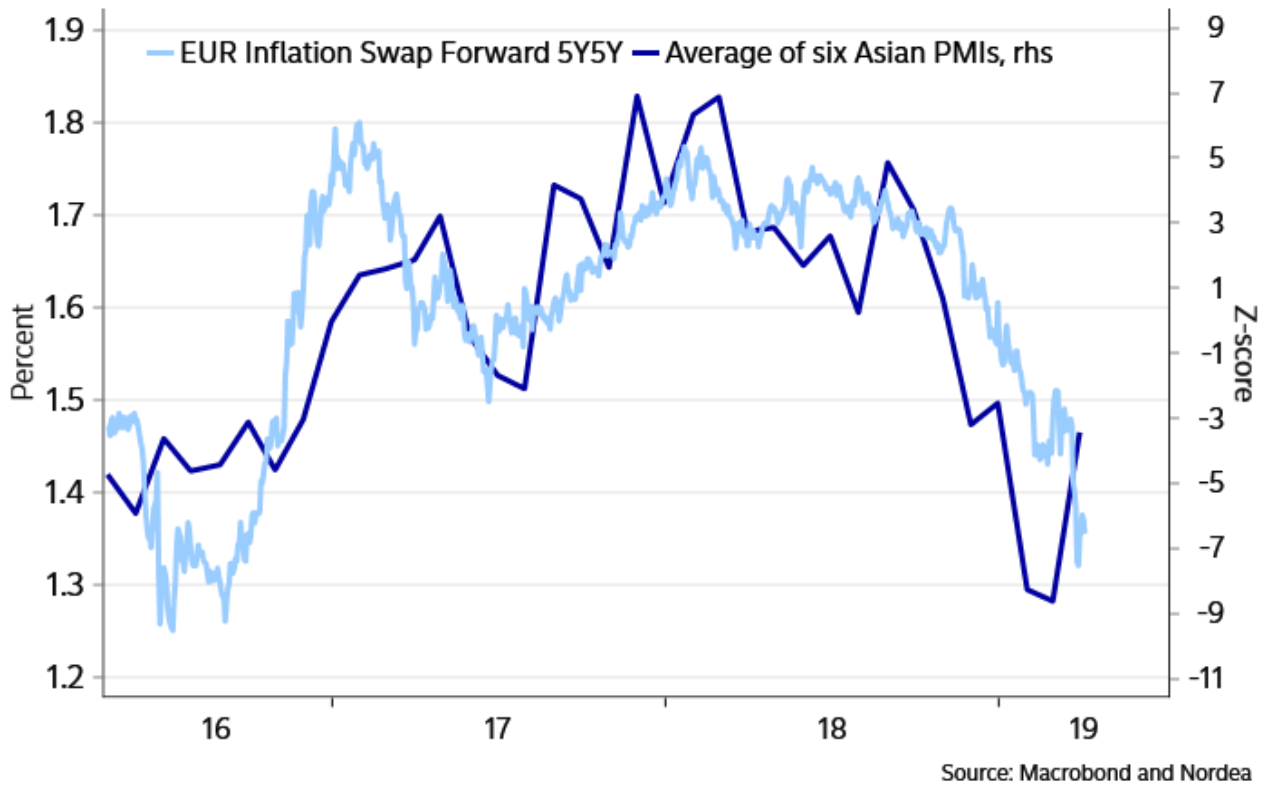


The enormous repricing of the Fed over the past couple of months has led to a marked drop in US real rates which has not only fuelled inflows to EM, but also underpinned equity market valuation. The risk rally has not had much if any support from earnings revisions. This is interesting because the report season kicks off in earnest over the next couple of days, and the consensus is looking for an 8.2% drop in EPS for the S&P500 index in the first quarter. After the first quarter, a quick V-shaped rebound in earnings is supposedly on the cards. **Equities may need the green shoots growing into hulking trees or else they risk a Wile E. Coyote moment** at some time later this year (we recommend defensive positioning, see [Nordea View](#)).

## In fixed income...

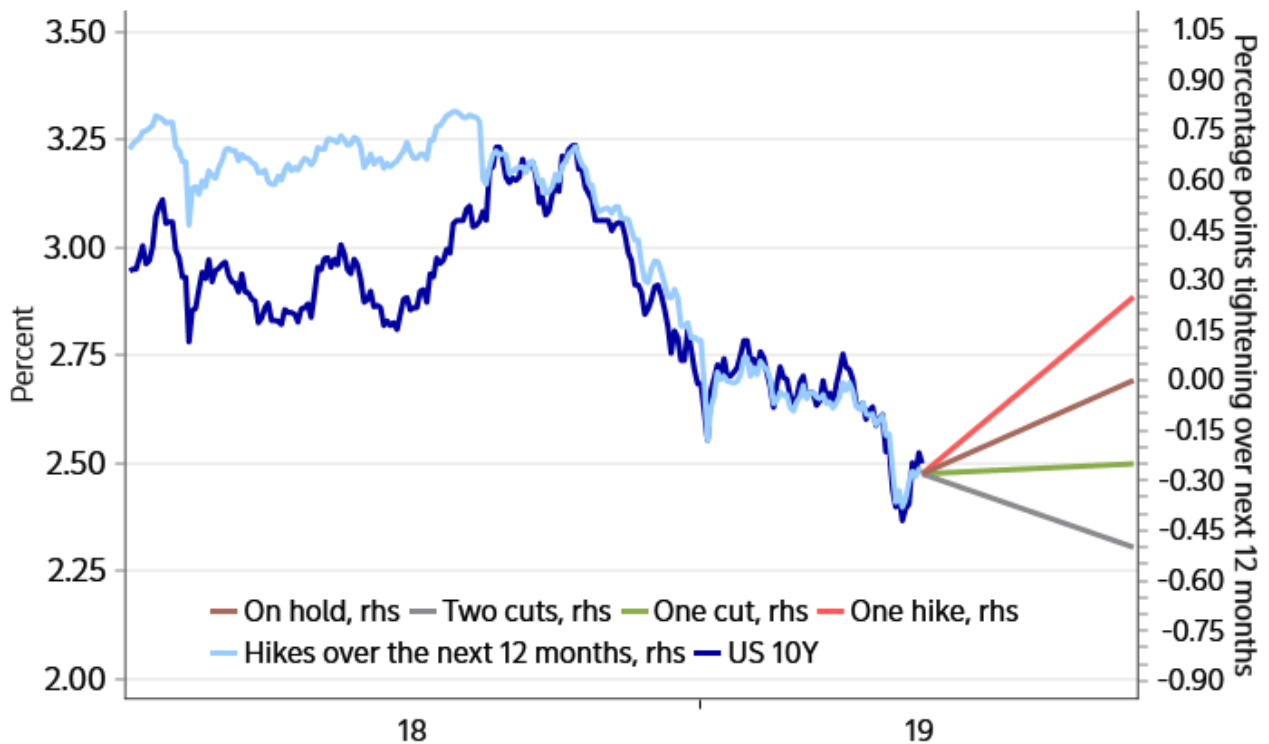
In the fixed income space, the “recessionistas” have faced headwinds for much of the same reasons, and if the green shoot story has some more legs it suggests EUR inflation expectations may be very low currently. This would also mean that market expectations of the ECB might need to be reassessed in a less dovish direction later this year. **The EUR 10y swap rate is likely to remain capped in the near term at 60bp** – the downtrend since October.

Chart 4: EUR inflation expectations too low if green shoots continue to materialise



Improving sentiment has also paved the way for a modest bounce in the US 10y yield. If the global green shoots grow into trees, the US 10y yield could gradually be pressured back towards 2.70% - if, for instance, the market were to start to believe the Fed won't cut rates at all over the next 12 months.

Chart 5: US 10y yield has bounced as the front end has been repriced

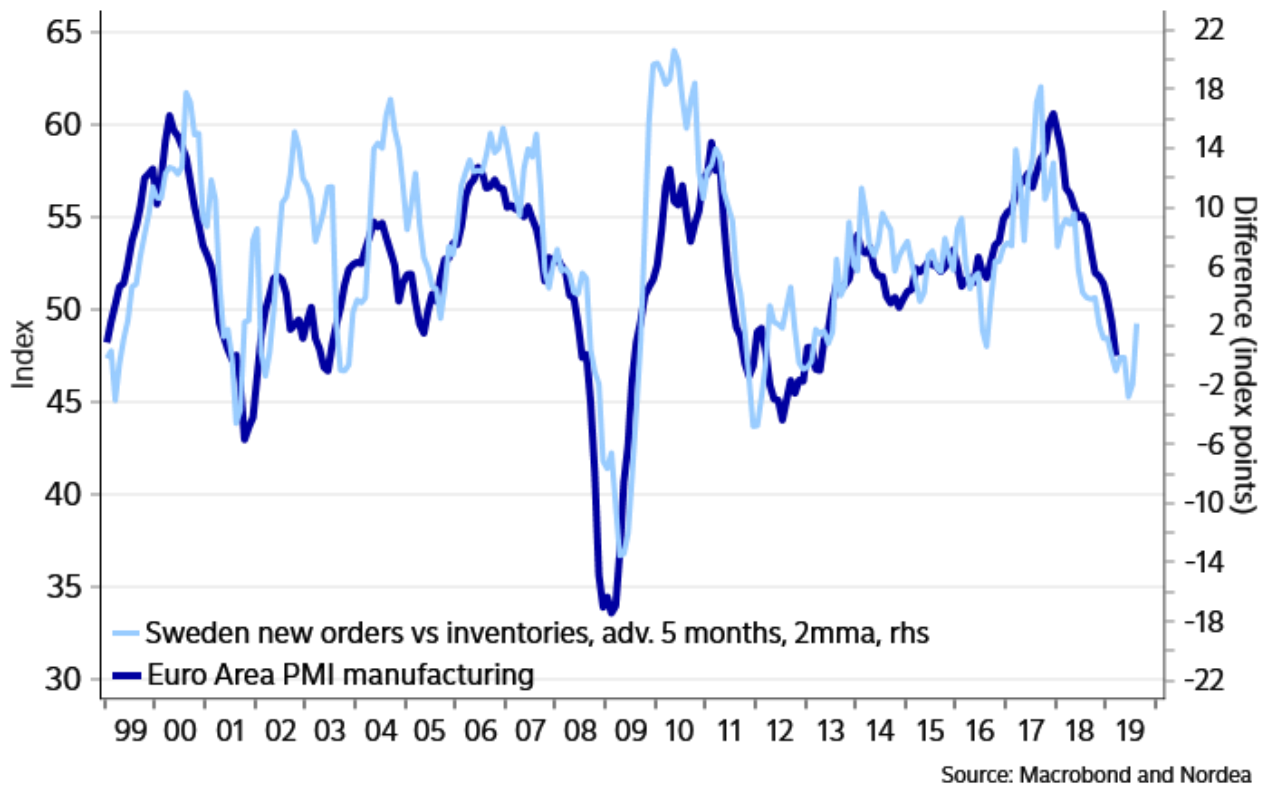


Source: Macrobond and Nordea

## In Scandinavia...

In Scandinavia, **Sweden's PMI manufacturing topped expectations in March**. This too can be viewed as a green shoot, as headline PMI as well as its details have led Euro-area figures over the past 2.5 years or so. At this juncture, both the Euro area and Sweden could be about to feel tailwinds from weaker currencies, which could help growth stabilise or pick up (not our forecast) if the global manufacturing cycle doesn't continue to deteriorate as we expect it will.

Chart 6: Swedish PMI details a good sign for Euro-area PMI manufacturing



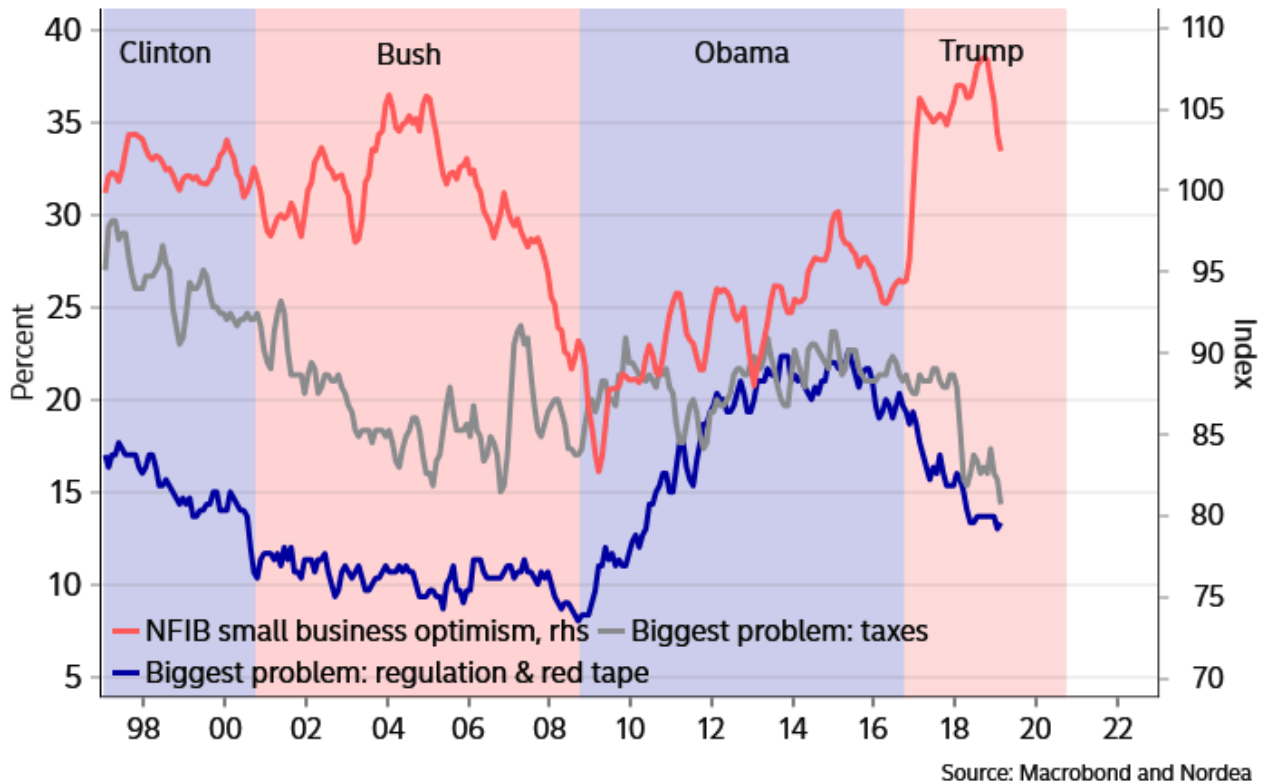
Norway is looking great as usual. [Wages](#) were close to Norges Bank's forecast, PMI topped expectations and house prices were in line with Norges Bank's expectations. We lifted our target for the NOK DEC19 FRA in the past week: [Don't fight Norges Bank: Pay the NOK short end](#). Industrial production disappointed in Norway, but this won't change anyone's mind. Norway is doing well, and Norges Bank will likely hike in June.

## What is most important in the week ahead?

**Will the green shoots wilt or not?** That's the question of the week. Will small business optimism remain robust in the US on the NFIB survey? (Tuesday), and will the same hold for consumer sentiment in the Michigan survey on Friday?

In the NFIB small business survey, respondents are asked about their "biggest problems". After being increasingly dissatisfied with government regulation and red tape under President Obama, the election of Trump brought a trend change. **Maybe we and others are underestimating the effects on "animal spirits" in the US from Trump's deregulation?**

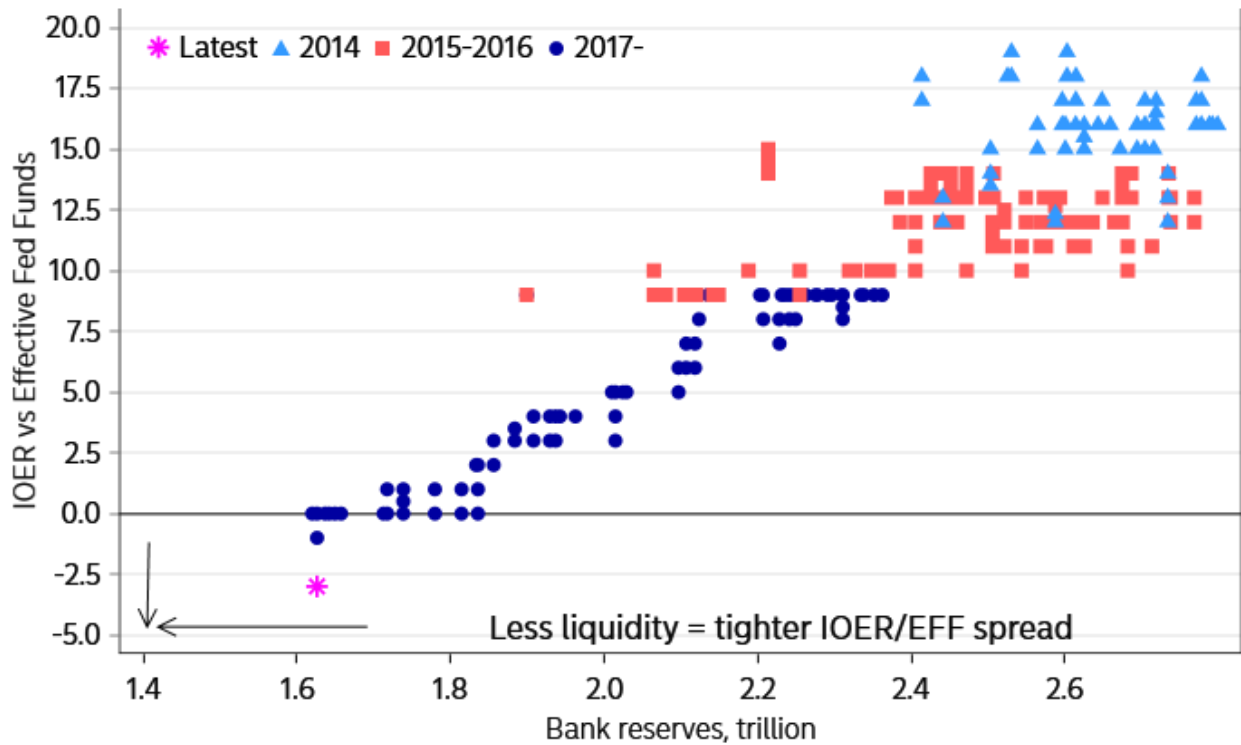
Chart 7: Small businesses increasingly happy about taxes and deregulation under Trump



The ECB minutes did not discuss tiering interest rates according to latest minutes, and while a tiered system may eventually end up becoming policy, the upcoming meeting will be closely scrutinised for clues on the ECB's risk assessments and TLTRO3 details.

Minutes from the Fed's latest meeting are up for grabs on Wednesday. **The Fed has turned dovish in three different ways in a mere three months (on rates, on the balance sheet, and signalling tolerance for inflation overshooting)**, and with recent upside pressure on the Effective Fed Funds Rate one cannot help but speculate that another IOER rate adjustment, an earlier end to QT or perhaps a repo facility might be needed at some point.

Chart 8: EFFR has been pressured higher as US liquidity has dwindled



Source: Macrobond and Nordea

China's monetary statistics are due between 10 and 15 April and will likely be important for global sentiment. China's M1 growth recently ticked a touch higher and is expected to pick up further by the consensus. If this materialises, market participants may increasingly come to expect further improvements in Asian activity. Chinese trade data for March will also be closely scrutinised on Friday (April 12).



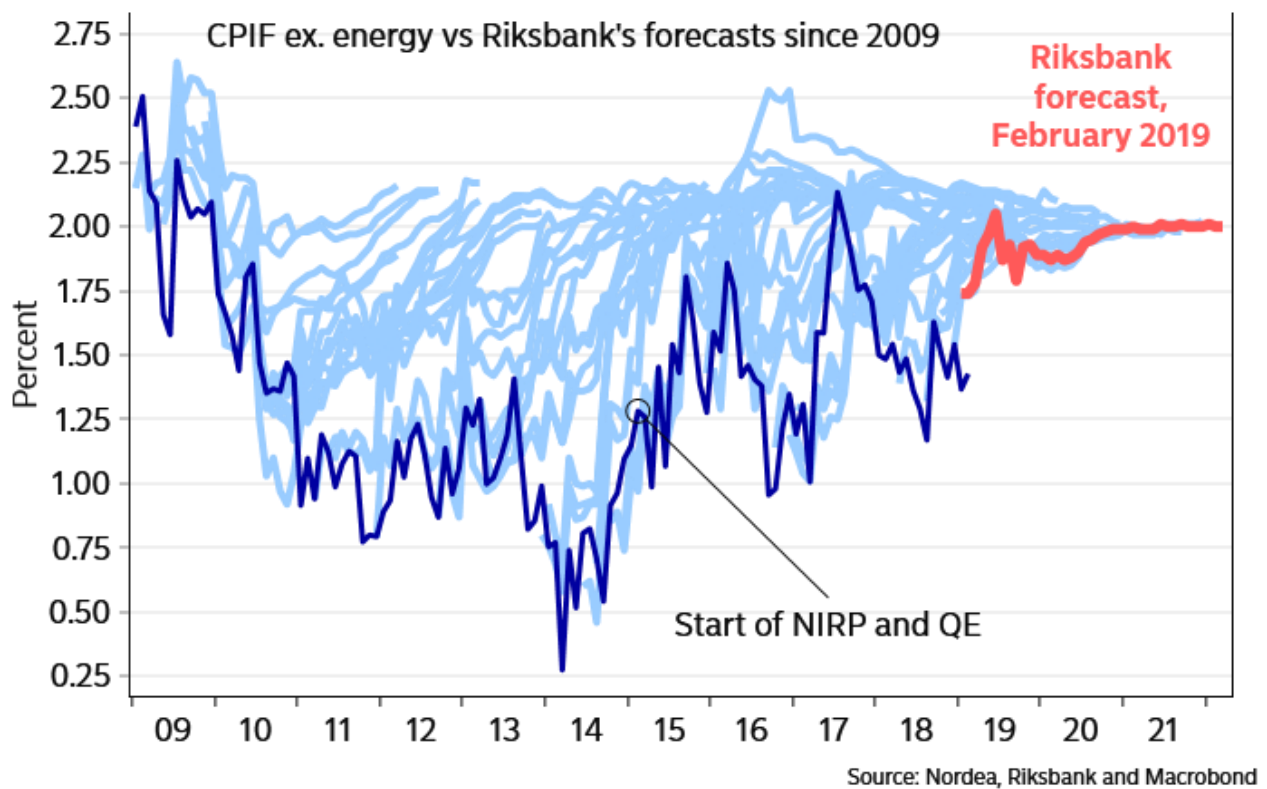
Chart 9: Will China money growth pick up further after recent stimuli?



International politics remain noteworthy. US Vice President Pence recently warned Turkey that the US **“will not stand idly by while NATO allies purchase weapons from our adversaries”**. He also said Germany’s NATO stance was **“unacceptable”**. Indeed, even if China and the US manage to put a trade deal together, who’s to say the EU28 isn’t next on Trump’s chopping block? The EU28 has been quite friendly with China lately, which might lead the US to implement tariffs on the EU – **tariffs which could crush any European green shoots**. Let’s see what the EU-China summit on Monday 9 April can bring.

In Scandinavia, the main event is Swedish inflation due on Thursday 11 April. After two inflation disappointments, the market is increasingly expecting a dovish response from the Riksbank later in April, such as another flattening of the repo rate path and/or a decision to expand its balance sheet once more. **We expect CPIF inflation at 1.7% – 0.6pp below the Riksbank’s latest forecast and 0.1pp below the consensus.** [Swedish March CPIF preview: The misery continues](#). While the risk to our forecast is balanced, one upside risk stems from imported goods prices. If anything Norwegian inflation surprises lead Swedish ones by one month, and Norway saw a “ketchup effect” of imported inflation in February. In contrast to Swedish developments, we expect inflation [well above target in Norway](#).

Chart 10: Swedish inflation disappointments are pressuring Riksbank to tilt dovishly



## Key research pieces over the past week:

[FX weekly: There is a smell of Q1-2016 in the air](#) (31 March)

[Sweden: Stable PMI](#) (1 April)

[China: Positive PMIs ease growth concerns](#) (1 April)

[Don't fight Norges Bank: Pay the NOK short end](#) (1 April)

[The flat tyre in the German car industry](#) (1 April)

[Euro-area inflation watch: Weak numbers not solely due to Easter](#) (1 April)

[Norway: Wage settlement close to Norges Bank forecast](#) (1 April)

[EM Traffic Light March 2019](#) (2 April)

[GBP: A Brexit-deal is roughly priced in by now](#) (2 April)

[Update of Nordeas callable bond model](#) (3 April)

[USD hedging costs may have peaked](#) (4 April)

[ECB Watch: Growing concerns](#) (4 April)

[Swedish March CPIF preview: The misery continues](#) (5 April)

[China View: Another soft landing](#) (5 April)

## Main Releases:

Date	Key figure	Nordea	Consensus	Last
09-Apr	US: NFIB small business optimism index		101.2	101.7
09-Apr	EU-China Summit			
10-15 Apr	CN: China M1 growth		3.0%	2.0%
10-Apr	EU Brexit Summit			
10-Apr	EU: ECB Monetary Policy decision	-0.40%	-0.40%	-0.40%
10-Apr	US: Minutes of FOMC rate meeting			
10-Apr	NO: CPI, core (y/y)	2.5%		2.6%
11-Apr	SE: CPIF (y/y)	1.7%		1.9%
12-Apr	GB: The UK is set to leave the EU			

## Monday

The week starts off slowly with a print of Swedish industrial production.

Monday, 08/04/2019				Nordea	Consensus	Previous
09:30	SE	Business sector production (m/m)	Feb			-0.7%
09:30	SE	Business sector production (y/y)	Feb			2.1%
09:30	SE	Manufacturing industry, order intake (y/y)	Feb			-0.5
09:30	SE	Manufacturing production (m/m)	Feb			
09:30	SE	Manufacturing production (y/y)	Feb			
09:30	SE	Private service sector production (y/y)	Feb			1.7%
14:30	US	Durable goods orders (m/m)	Feb			-1.6%
14:30	US	Durable goods orders, ex transportation (m/m)	Feb			0.1%
15:00	NO	Øystein Olsen: Seminar for diplomats				
16:00	US	Factory orders (m/m)	Feb		-0.5%	0.1%
16:00	US	Factory orders, ex transportation (m/m)	Feb			-0.2%
16:30	SE	The Riksbank's Flodén: Riksbank's perspective on the mortgage market				

## Tuesday

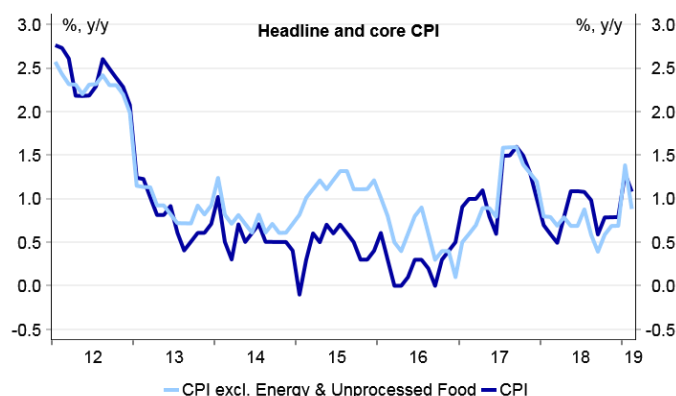
On Tuesday, markets will focus on the latest release of the NFIB small business survey in the US, the EU-China summit in Brussels and monthly GDP figures from Norway.

Tuesday, 09/04/2019				Nordea	Consensus	Previous
08:00	DK	Current account balance (sa)	Feb			14.9bn
08:00	DK	Trade balance, ex. ships (sa)	Feb			9.1bn
08:00	NO	Mainland GDP (m/m, sa)	Feb			
08:00	NO	Total GDP (m/m, sa)	Feb			
09:00	HU	CPI (y/y)	Mar			3.1%
11:00	NO	Jon Nicolaisen speech				
12:00	US	NFIB small business optimism index	Mar		101.2	101.7
14:05	SE	The Riksbank's Ohlsson: The inflation target is a benchmark for price-setting				
16:00	US	JOLTs job openings	Feb		7550	7581

# Wednesday

Wednesday is a big central bank day with the ECB announcing its MPC decision and with the latest FOMC minutes being released. On the inflation front, we get figures from the US, Norway and Denmark. The UK draws plenty of attention as Brexit is on the agenda at the extraordinary EU-summit. From Sweden we get a new release of the Prospera inflation expectations survey.

Wednesday, 10/04/2019			Nordea	Consensus	Previous
	CN	M1 Growth (y/y) (exp. Between 10-15 April)		3.0%	2.0%
	GB	Emergency EU Summit about Brexit			
08:00	US	FOMC Member Clarida Speaks			
08:00	DK	CPI (m/m)	Mar		0.5%
08:00	DK	CPI (y/y)	Mar	1.3%	1.1%

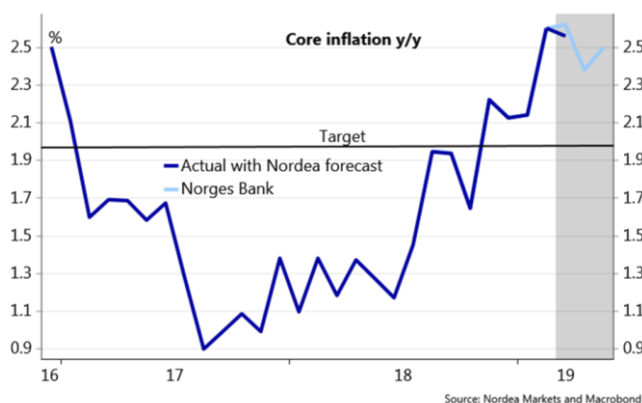


Source: Nordea Markets and Macrobond

Last month Danish inflation surprised on the downside, mainly due to a much weaker annual increase in housing rents than expected. In March we expect consumer prices to have increased by 0.2% m/m, equivalent to 1.3% y/y. Higher prices of gasoline and the usual seasonal increase in prices of clothing and footwear are expected to have made the most positive contributions in March.

By Jan Størup Nielsen

08:00	DK	CPI, EU harmonized (m/m)	Mar	0.5%	
08:00	DK	CPI, EU harmonized (y/y)	Mar	1.1%	
08:00	NO	CPI (Y/Y)	Mar		
08:00	NO	CPI, core (y/y)	Mar	2.5%	2.6%



Source: Nordea Markets and Macrobond

We expect core inflation at 2.5% y/y in March, slightly below Norges Bank's view at 2.6%. Consumer prices surprised strongly on the upside in February and increased to 2.6% from 2.1% in January. The big question is whether this was a one-off or whether inflation will remain elevated. We believe it will remain high as Easter falls in April this year compared to March last year, which likely spells into higher growth in food prices y-o-y. On the other hand, the yearly book sale took place in March this year compared to February last year. Our forecast is too close to Norge Bank's to have any impact on its view on monetary policy.

By Erik Bruce

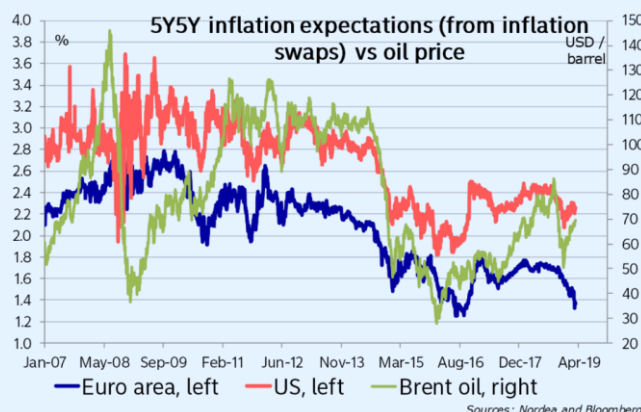
08:00	SE	Prospera, inflation expectations, monthly survey		
08:45	FR	Industrial production (m/m)	Feb	1.3%
09:00	CN	Money supply, M2 (y/y)	Mar	8.2% 8.0%
09:00	CZ	CPI (y/y)	Mar	2.7%
10:30	GB	Industrial production (m/m)	Feb	0.8%
10:30	GB	Industrial production (y/y)	Feb	-0.9%
10:30	GB	Manufacturing production (m/m)	Feb	0.8%
10:30	GB	Manufacturing production (v/v)	Feb	-1.1%

00:45	US	FOMC Member Clarida Speaks
11:00	SE	SNDO to auction T-bills (SEK 5 bn)
11:00	SE	The FI's Braconier speaks about household debt
13:00	US	Mortgage applications, MBA

Apr 18.6%

13:45 EU ECB announces interest rates (deposit rate)

Apr -0.40% -0.40% -0.40%



After surprising the markets in March, we expect the ECB to take a breath at the April meeting and not make any noticeable policy actions. There is a long list of interesting topics for discussion such as vulnerable growth outlook, almost record-low long-term inflation expectations and the future steps of the ECB monetary policy. Draghi's comments on the tiered reserve system, details of the TLTRO III and possible extension of forward guidance will draw a lot of attention.

By Tuuli Koivu

13:45 EU ECB announces interest rates (main refi rate)

Apr 0.00% 0.00%

14:30 US CPI (m/m)

Mar 0.3% 0.2%

14:30 US CPI (y/y)

Mar 1.8% 1.5%

14:30 US CPI, core (m/m)

Mar 0.2% 0.2% 0.1%



We expect an increase at 0.2% m/m and 2.1% y/y. In February, the reading dwindled as the core goods component fell 0.2% m/m due to lower prices on new vehicles and prescription drugs. This component is volatile from one month to another and more influenced by the USD than the core services component which is much more stable. We still expect higher prices on core services going forward as higher wage growth will spill-over on consumer prices. More generally, the inflationary pressure has eased over the last two quarters, partly due to the strong USD. Despite a potential increase above the 2% target later this year, the Fed will be on hold as it has revealed its intentions to let inflation overshoot the target for a while at least.

By Nick Fisker

14:30 US CPI, core (y/y)

Mar 2.1% 2.1%

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

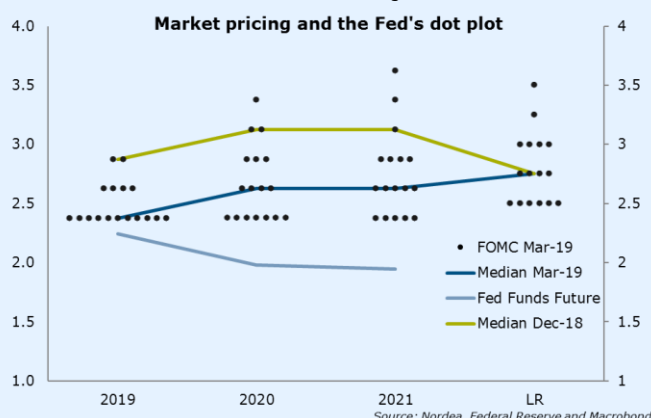
Mar 1.6%

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

Mar 1.9%

19:00 US Minutes of FOMC rate meeting

Mar



The last FOMC meeting had a dovish tilt as the dots migrated lower and QT will be scaled down from May and essentially ended from October onwards. Fed does not signal any hikes for 2019 and guides only one hike during 2020. This is a significant shift from the guidance during 2018. We will look for any potential confirmation on whether the fewer dots reflect a willingness to let inflation overshoot the target for a while or a less optimistic assessment of the economy among the FOMC members compared to the January meeting. Also, we would like more details on the downscaling of the QT-program.

By Nick Fisker

## Thursday

Thursday is another day of inflation with figures from Sweden and China, as well as final data from Germany and France. India commences its 6-weeks-long general elections and the Fed's Clarida (neutral, voter) speaks.

Thursday, 11/04/2019					Nordea	Consensus	Previous
01:01	GB	House price balance, RICS	Mar				-28%
02:30	CN	CPI (y/y)	Mar			2.4%	1.5%
08:00	DE	HICP (y/y, final)	Mar			1.4%	1.4%
08:45	FR	HICP (y/y)	Mar				1.3%
09:30	SE	CPI (m/m)	Mar				0.7%
09:30	SE	CPI (y/y)	Mar				1.9%
09:30	SE	CPIF (m/m)	Mar				0.7%
09:30	SE	CPIF (y/y)	Mar		1.7%		1.9%

We expect a CPIF inflation reading of 1.7% for March or as much as 0.5% point below the Riksbank's forecast. Prices of foreign travel remain a wild card and were probably low in March. Looking ahead, we expect CPIF inflation to drop to around 1-1.5% in H2 2019. Inflation thus remains a challenge for the Riksbank. The next rate hike is distant, we think.

Source: Nordea Markets and Macrobond By Torbjörn Isaksson

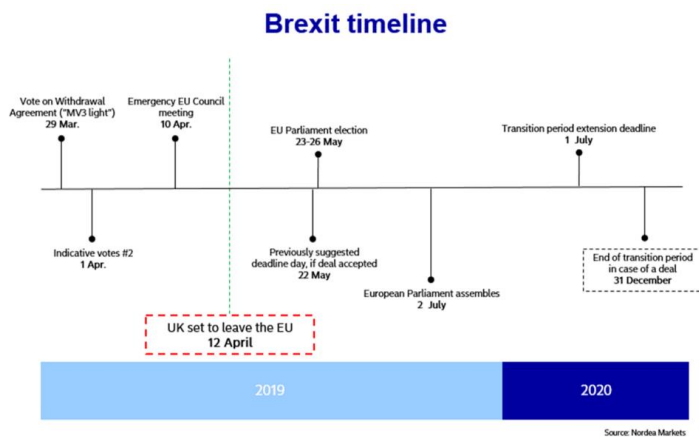
  

09:30	SE	House prices, Statistic Sweden (y/y)	Mar				-2.0%
09:30	SE	Household Consumption (m/m)	Feb				0.7%
09:30	SE	Household Consumption (y/y)	Feb				1.1%
12:00	RU	Trade balance (USD)	Feb		12.6bn		13.4bn
14:00	DE	HICP (m/m, final)	Mar		0.5%		0.5%
14:30	US	Jobless claims, continuing	Mar				1717k
14:30	US	Jobless claims, initial	Apr				202k
14:30	US	PPI final demand (m/m)	Mar		0.3%		0.1%
14:30	US	PPI final demand (y/y)	Mar		1.9%		1.9%
14:30	US	PPI, core (m/m)	Mar		0.2%		0.1%
14:30	US	PPI, core (y/y)	Mar		2.5%		2.5%

## Friday & Saturday

The week rounds off with industrial production figures from the Euro area and a new print of the Michigan consumer sentiment index from the US. We get trade figures from China and finally, the UK might leave the EU at midnight, if no further Brexit extension has been agreed upon.

Friday, 12/04/2019					Nordea	Consensus	Previous
04:00	CN	Exports (y/y)	Mar			6.4%	-20.8%
04:00	CN	Imports (y/y)	Mar			-2.1%	-5.2%
04:00	CN	Trade balance (USD)	Mar			6.0bn	4.1bn
09:00	ES	HICP inflation (y/y)	Mar				
09:30	SE	Current account balance	Feb				
11:00	EU	Industrial production (m/m, sa)	Feb				1.4%
14:30	US	Export prices (m/m)	Mar			0.1%	0.6%
14:30	US	Export prices (y/y)	Mar				0.3%
14:30	US	Import prices (m/m)	Mar			0.4%	0.6%
14:30	US	Import prices (y/y)	Mar				-1.3%
16:00	US	Consumer confidence, U. of Mich., 5-10Y inflation (prelim.)	Apr			98.0	98.4
Saturday, 13/04/2019					Nordea	Consensus	Previous
00:00	GB	The UK is set to leave the EU					



The UK once again faces a no-deal, cliff-edge Brexit outcome on 12 April at midnight (CET), unless the EU27 decides to extend the deadline again at the emergency EU Council meeting on 10 April. The EU has indicated that they will (still) accept an extension until 22 May, if the House of Commons decides to pass the Withdrawal Agreement before 10 April. However, although Theresa May has now reached out to the opposition leader Jeremy Corbyn it still seems unlikely that the two can present a compromise that can gain a majority. Thus, the only majority present is avoiding a no-deal (now part of a bill). Therefore, our base-case scenario remains that we will see a long extension of the Brexit deadline, i.e. until year-end or longer. Read more about our Brexit house view [here](#).

By Morten Lund



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