

3 May 2019

Week ahead: On MMT and why you shouldn't listen to Jerome Powell

Andreas Steno Larsen | Martin Enlund

Trump sounds increasingly like a textbook MMT supporter, while the Fed could pave the way for inflation overshooting. Powell sounded less inflation worried than other Fed members, but it is not as if Powell has been the thought leader within the Fed.

Main Releases:

Date	Key figure	Nordea	Consensus	Last
07-May	SE: Riksbanken minutes			
09-May	NO: Norges Bank's Interest Rate Decision	1.00%	1.00%	1.00%
10-May	DK: CPI	1.1%		0.0
10-May	NO: CPI, core (y/y)	2.4%		2.7%
10-May	GB: GDP (q/q)	0.5%	0.2%	0.2%
10-May	US: CPI, core (m/m)	0.2%	0.2%	0.1%

Jerome Powell managed to kill a bit of the emerging optimism by hinting that the weak inflation pressure in the US may be transitory. This hint is also at odds with the otherwise dovish inflation signals seen from the Fed recently.

Clarida has been the front runner of the more inflation dovish signals from the Fed. If he continues to speak in softer words than Powell, then it could reverse some of the hawkish front-end re-pricing seen after the press conference. After all, Clarida has been more on top of the trend shifts within the Fed than Powell, **and it is not as if Powell was a big thought leader behind the triple U-turn** (balance sheet, Fed funds and inflation target) **from the Fed early this year.** Rather he was told to change course.

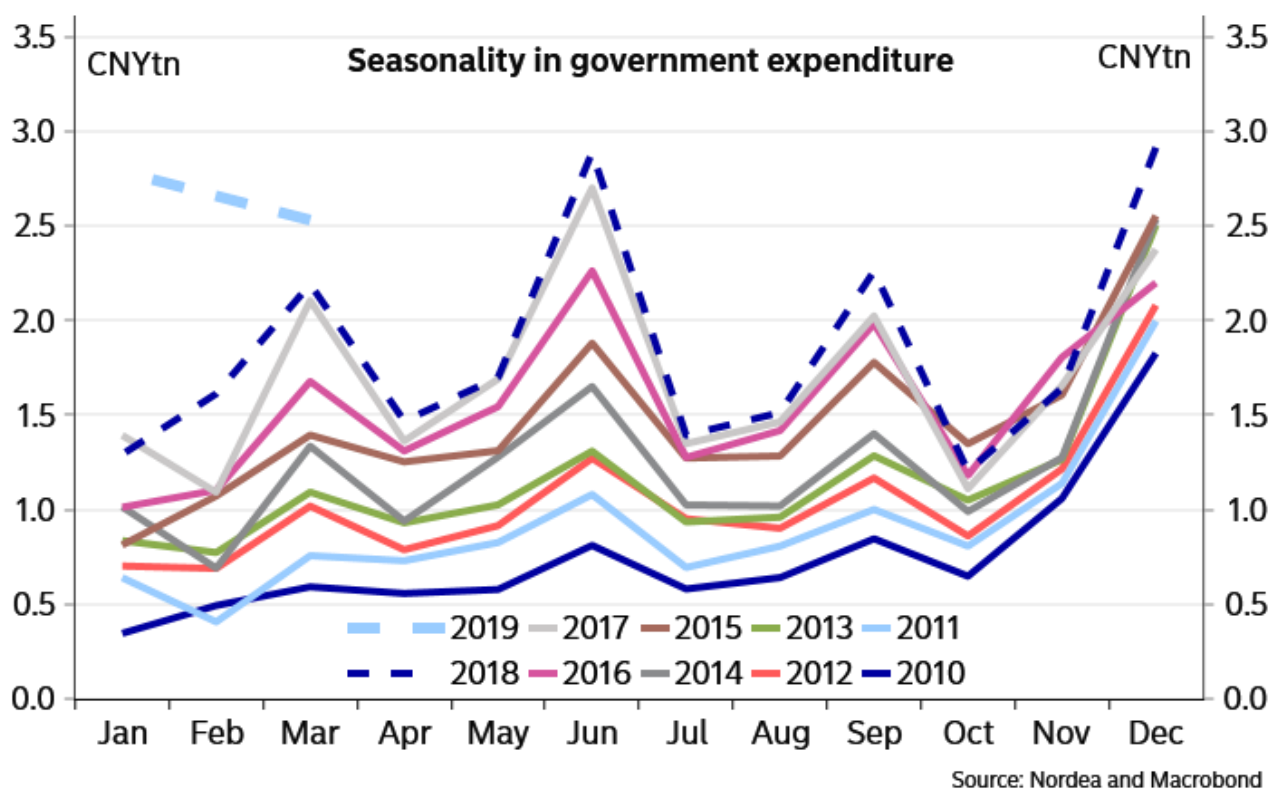
Chinese green shoots took a setback, but don't throw in the towel

The story of an emerging spring season in Asian key figures took a setback with lower-than-expected Chinese PMIs this week, but it wasn't all that bad. On the one hand, orders (and export orders) dropped, but that could owe to weak global demand still. On the other hand, the import component rebounded further, suggesting that the domestic Chinese economy is still recovering.

Beijing signalled a few weeks back that it was done stimulating the economy probably at least partly due to the early signs of a convincing rebound in key figures. In that sense a devil's advocate could almost argue that weak April PMIs raise the probability of new stimulus. **Remember that the Chinese administration usually spends big in May and June.**

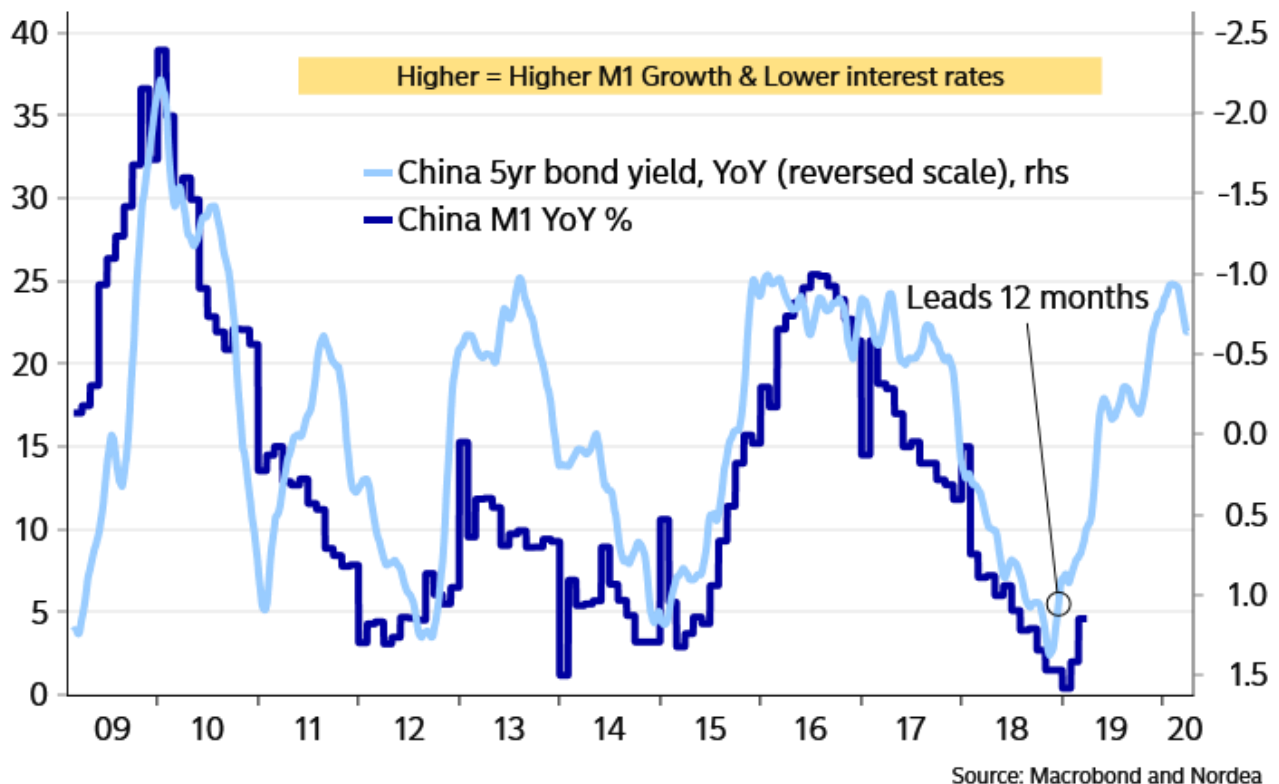
After all, it was not such a big surprise to see a setback in Chinese PMIs in April. Especially not given the unusually large stimulus seen in Q1. In other words, it is too early to throw in the towel on the green shoots.

Chart 1: Chinese April setback could be due to unusually large spending in Q1 plus seasonally weak spending in April



Usually M1 growth in China is a bit slow out of the starting blocks after fiscal/monetary stimulus, and this time may be no different. Usually it takes 12 months from a drop in interest rates before the following peak in M1 growth is reached. If that pattern persists then we may have plenty of Chinese re-acceleration left.

Chart 2: Maybe green shoots haven't even started yet? M1 growth could re-accelerate as a lagged response to monetary stimulus



On another positive note, South Korean exports beat expectations this week. **South Korea is usually a harbinger of global trade trends**, which is why this could be seen as a prewarning of a trade pick-up. As you may have noticed by now, **we love leading indicators of leading indicators**. Semi-conductor stocks already hinted this pick-up in Korean exports and there is likely more in store for us in coming months.

Chart 3: South Korean export growth beat expectations (still negative though) and there is more in store for us

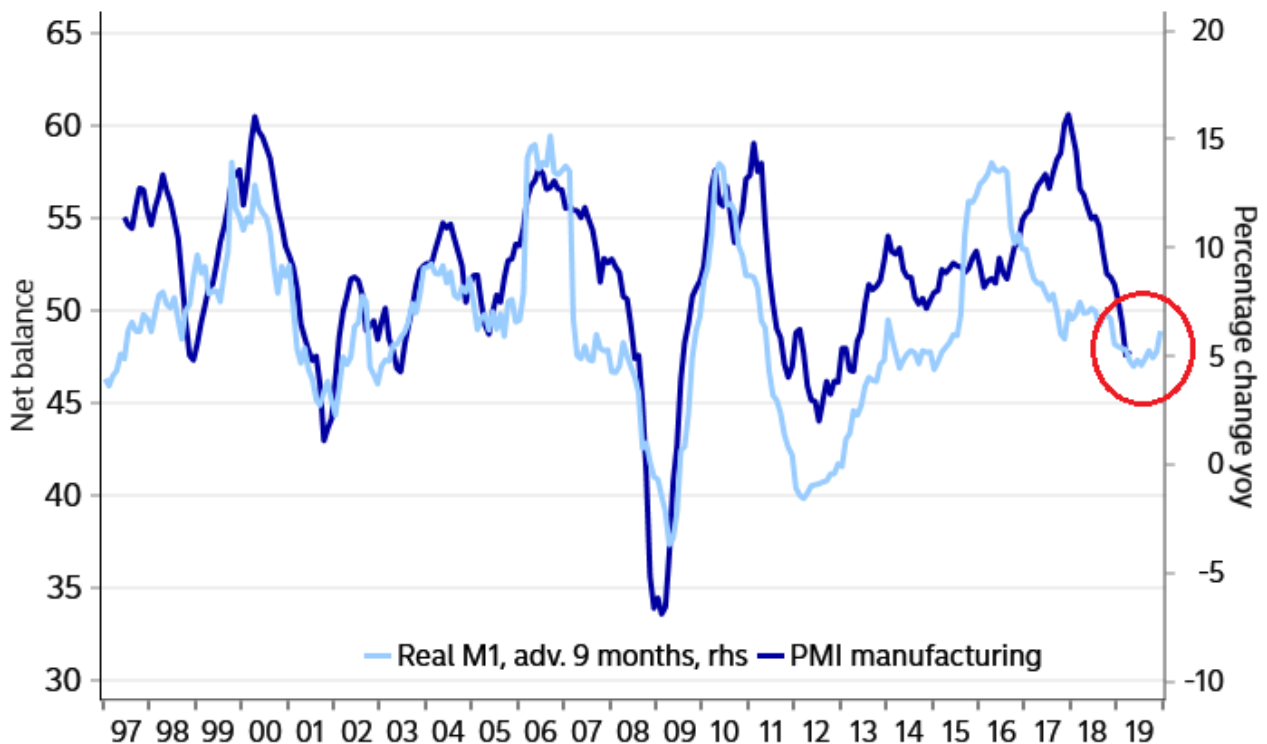


There is even a tad of light at the end of the tunnel in the Euro area ...

We have been mulling a stabilisation or even a slight comeback in Euro-area momentum for a month or two. We still hold decent hopes of such a stabilisation/rebound by early summer because of i) a weak EUR (in particular versus USD), ii) the slight pick-up in M1 growth in the Euro area and iii) lagged positive spill-overs from a Chinese rebound to German key figures.

The biggest risks to our stabilisation narrative are if Trump decides to impose car tariffs or if the Chinese authorities call off the stimuli-fuelled comeback and adopt a focus on structural reforms again. Also risk appetite could be caught between a rock and a hard place, if the USD stays as resurgent as currently.

Chart 4: Euro area M1 growth showed early signs of a rebound this week. Good news for PMIs in a while

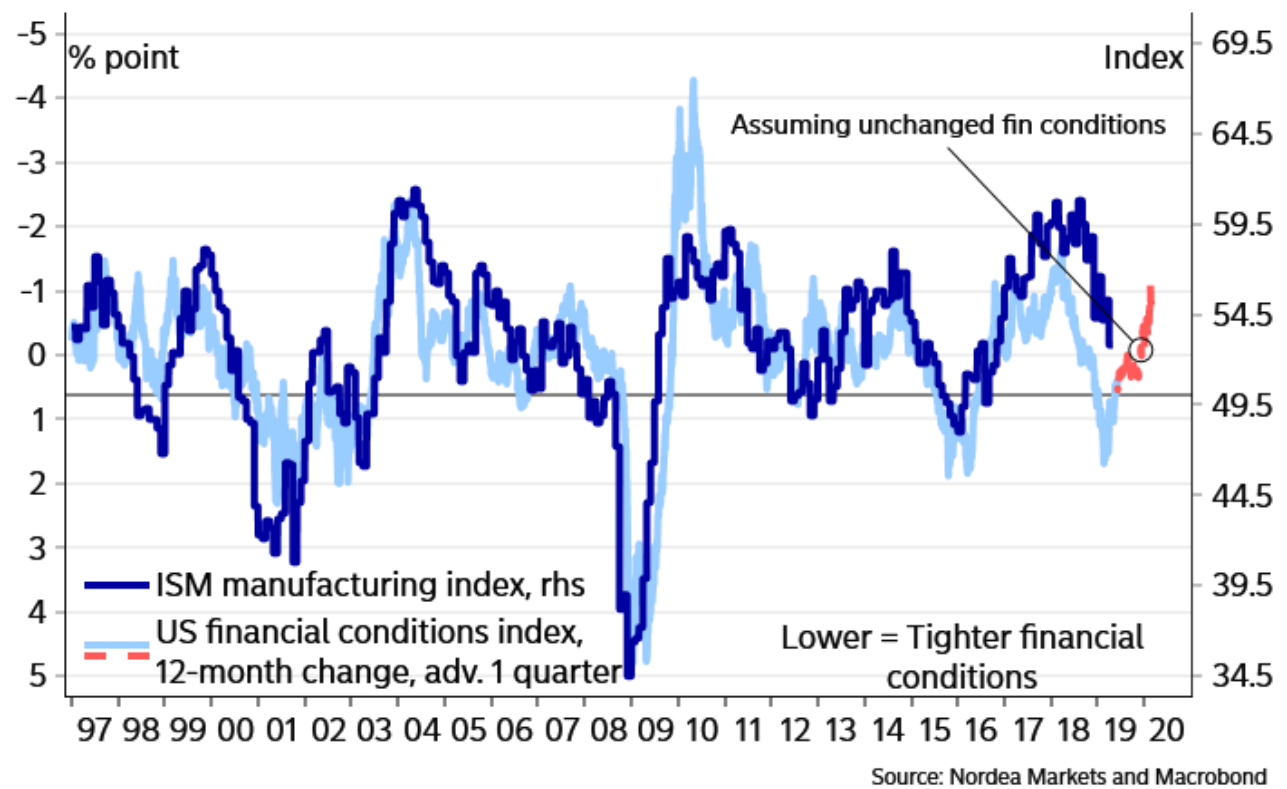


Source: Macrobond and Nordea

Our view that the spread between US ISM and Euro-area PMIs could narrow received some tailwind with the weak ISM figure, but it would be the understatement of the year to say that it is not without importance whether the gap closes from the top or from the bottom. If the gap only closes from the top, then you should expect a stronger USD and weak risk appetite (vice versa if the gap closes from the bottom).

ISM could have more downside left, but if financial conditions stay as easy as currently (ie no big equity sell-off), then ISM could rebound again by the end of 2019. Lately cyclical equities have partied like the ISM was going to rebound already now. The weak ISM therefore leaves the positivity around US cyclicals a little at odds (to say the least).

Chart 5: ISM versus financial conditions. Lower before higher?



Though the Swedish PMI (our favourite leading indicator for the Euro area) was not exactly a confirmation of a global trade trend-shift (no Korean summer here), the details still underpin our stabilisation narrative for Euro-area PMIs around early summer.

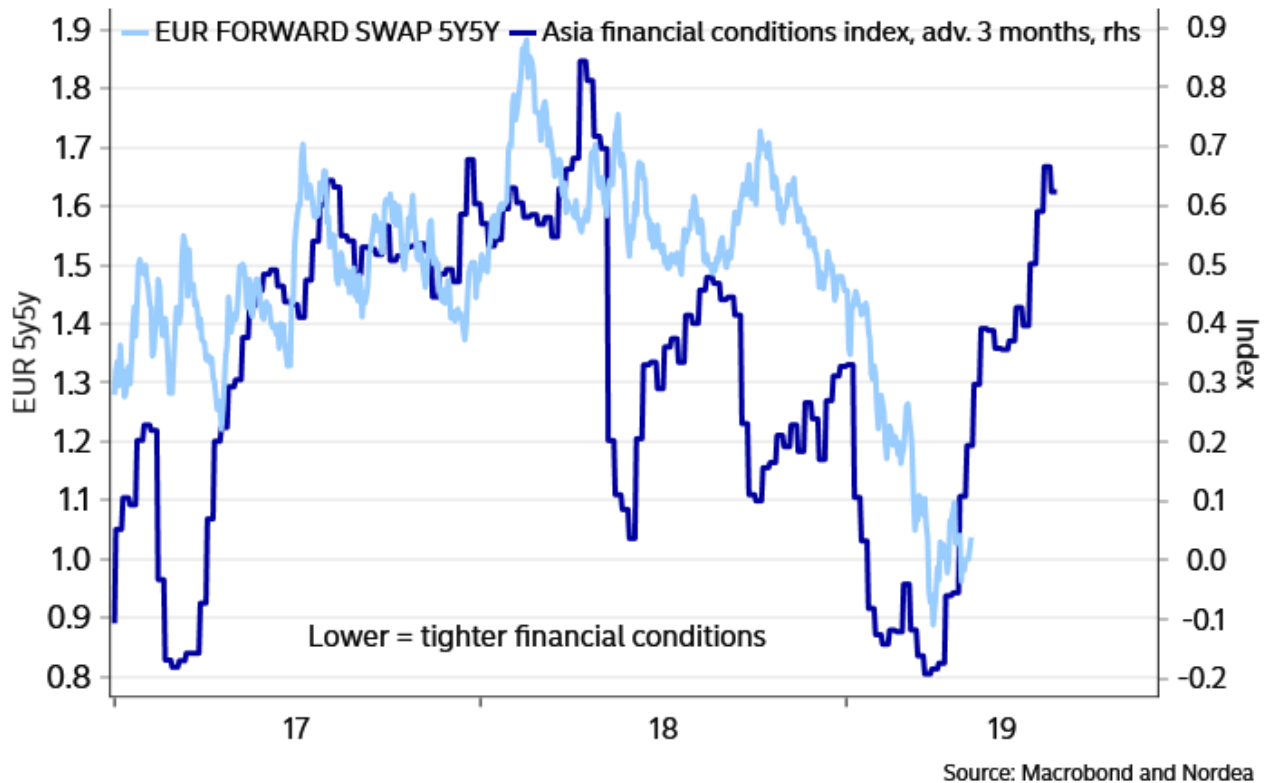
Chart 6: Sweden now also points at a stabilisation hope for the Euro area



The jury is still out on whether the easier financial conditions seen in Asia this year will spill over to a rebound in EUR swap rates. If easier financial conditions lead to better Asian momentum (as we tend to think) it usually drags industrial metal prices higher, which could spill-over to a most welcomed reflationary boost also in the Euro area (and in the US for that matter).

We see an increasingly bad risk/reward in betting on even lower long bond yields in EURs (and USD for that matter). A prolonged period of low vol and low rates is the most likely, but risks seem biggest on the upside by now.

Chart 7: Could an Asian comeback also reignite the otherwise stone-dead EUR rates vol?

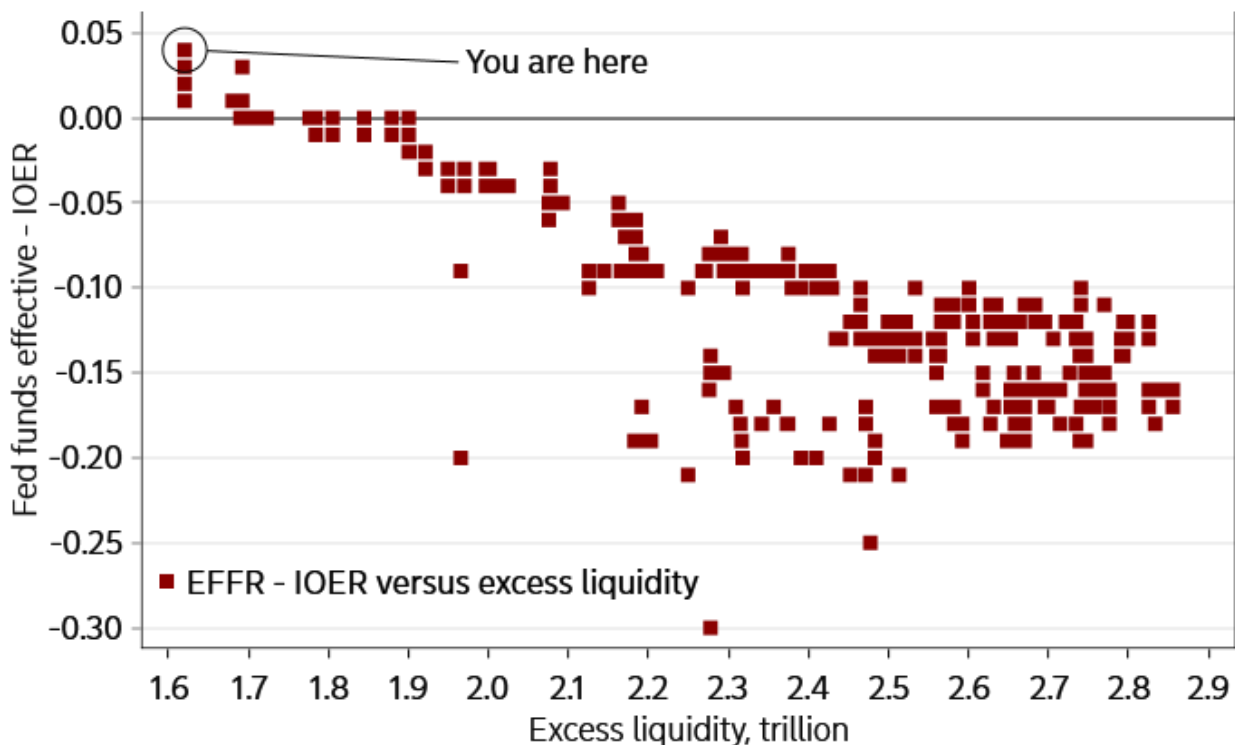


US/Fed: MMT may be coming to a town near you, while the Fed could end QT prematurely ... Time to steepen the USD curve?

The Fed reacted to a wider spread between the effective Fed funds rate (EFFR) and the interest on excess reserves (IOER), which could be seen as a sign of USD reserves scarcity in the commercial banking system. The technical cut to the IOER by 5 basis points is designed to drag the effective Fed funds rate lower in the target range.

This technicality took up some focus at this weeks Fed meeting and it will likely continue to do so until at least 1 October, as excess liquidity will continue to shrink. This was the third technical correction in the IOER spread to RRP and more could be on the cards, if excess liquidity is allowed to dwindle further (as is the current Fed policy).

Chart 8: The less USD reserves the wider a spread between EFFR and IOER ... More reserves needed?

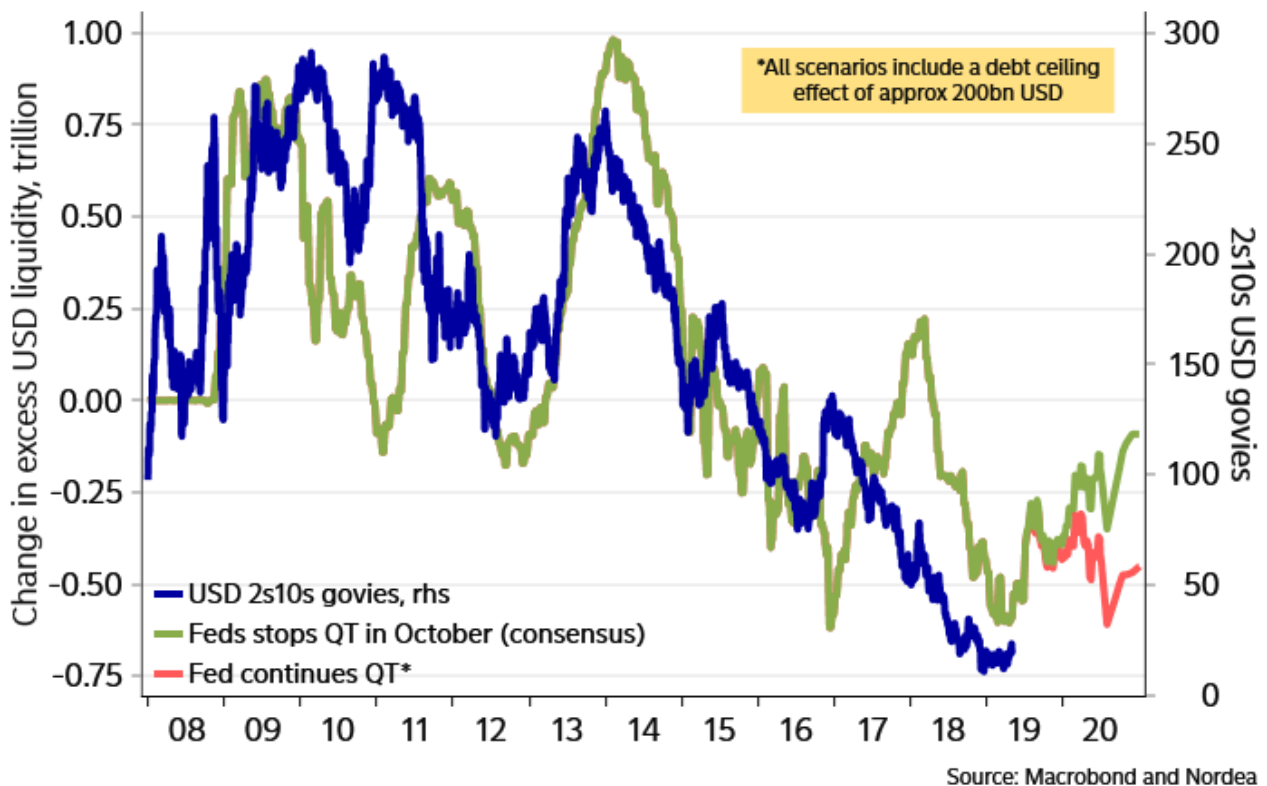


Source: Macrobond and Nordea

The Fed ultimately holds three options in terms of addressing this reserves scarcity. Either they i) cut IOER rates more (without cutting RRP, ii) introduce a repo-facility (potentially open-ended reserves) or iii) end QT earlier than October to provide the market with a liquidity relief. We rank them by 1, 2 and 3 in terms of probability.

2 and 3 would also entail upside risks to the current USD liquidity outlook, which could be seen as risk positive – and furthermore a signal to re-steepen the USD curve. A more benign liquidity outlook (read: a more benign money supply) usually coincides with higher 5y5y break-evens and a steeper curve. **Maybe that is also the reason why we have seen early signs of a re-steepening of the USD curve recently (until Powell wreaked havoc with that move at the presser)?**

Chart 9: The more benign the liquidity outlook, the larger the possibility of a re-steepening of the USD curve

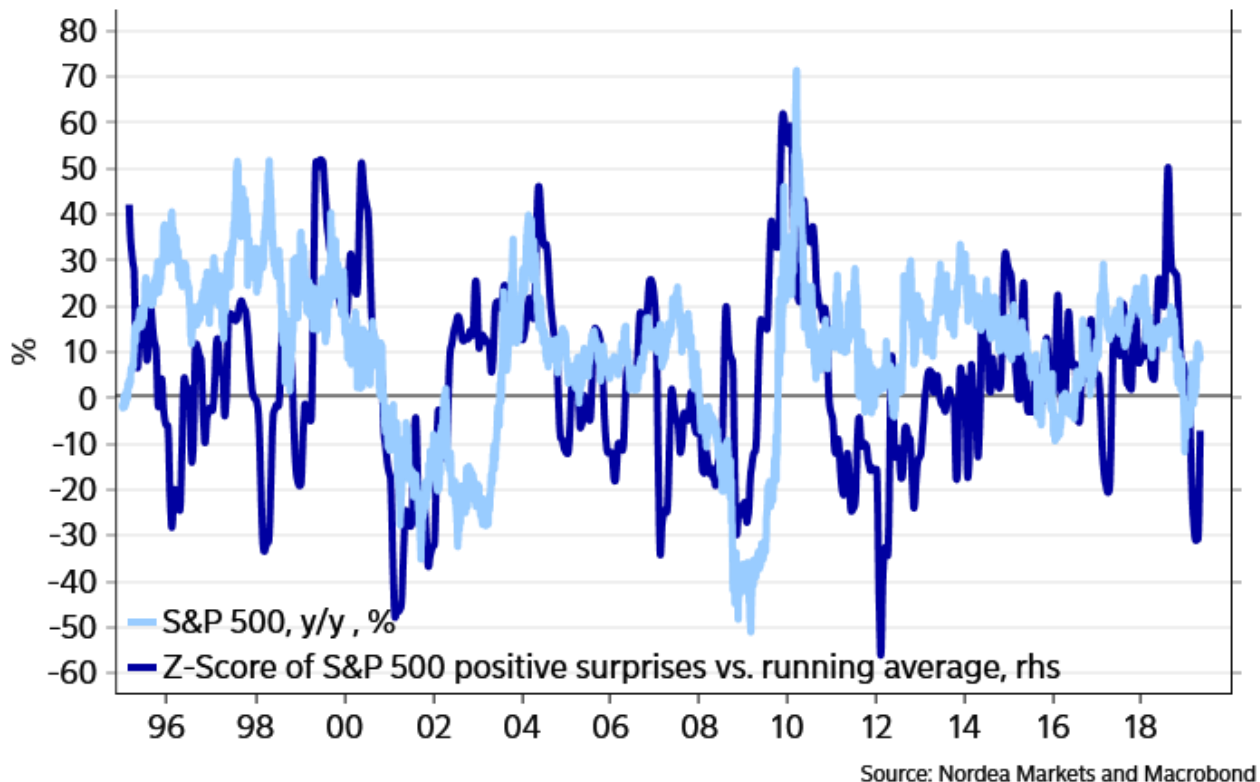


On top of the perceived easing prospects from the Fed (even though mainly, if not solely, driven by technicalities.), Trump and the Democrats allegedly agreed on a USD 2trn infrastructure package this week. Trump later announced on Twitter that the Fed should cut rates and buy bonds, as the “wonderfully low inflation” allows the US to spend more. **This is almost textbook MMT thinking.** Spend more and let the central bank buy the bonds, as long as inflation is not skyrocketing. MMT may be coming to a town near you. The final obstacle that is not passed yet is the Republicans at Capitol Hill.

The market seems to be “high” on these combined fiscal and monetary easing prospects currently. Some commentators have even started to talk of a resurgence of a goldilocks scenario (increasing growth momentum with no inflation paired with easy monetary policy). We think such rhetoric is still mostly unwarranted, especially given the continued underlying cost pressure from higher wages.

Although the average S&P 500 company has beat expectations for EPS on average, our earnings surprise indicator is still relatively muted. The earnings outlook does not seem to be the big driver of the new records in US equities. **Rather hopes of fiscal and monetary stimulus seem to be running in the veins of the current rebound.** Given Powell’s stance at the press conference, it is a question mark whether that is enough to fuel the rebound further by now.

Chart 10: Our earnings surprise indicator is not impressed by the Q1 reporting season so far

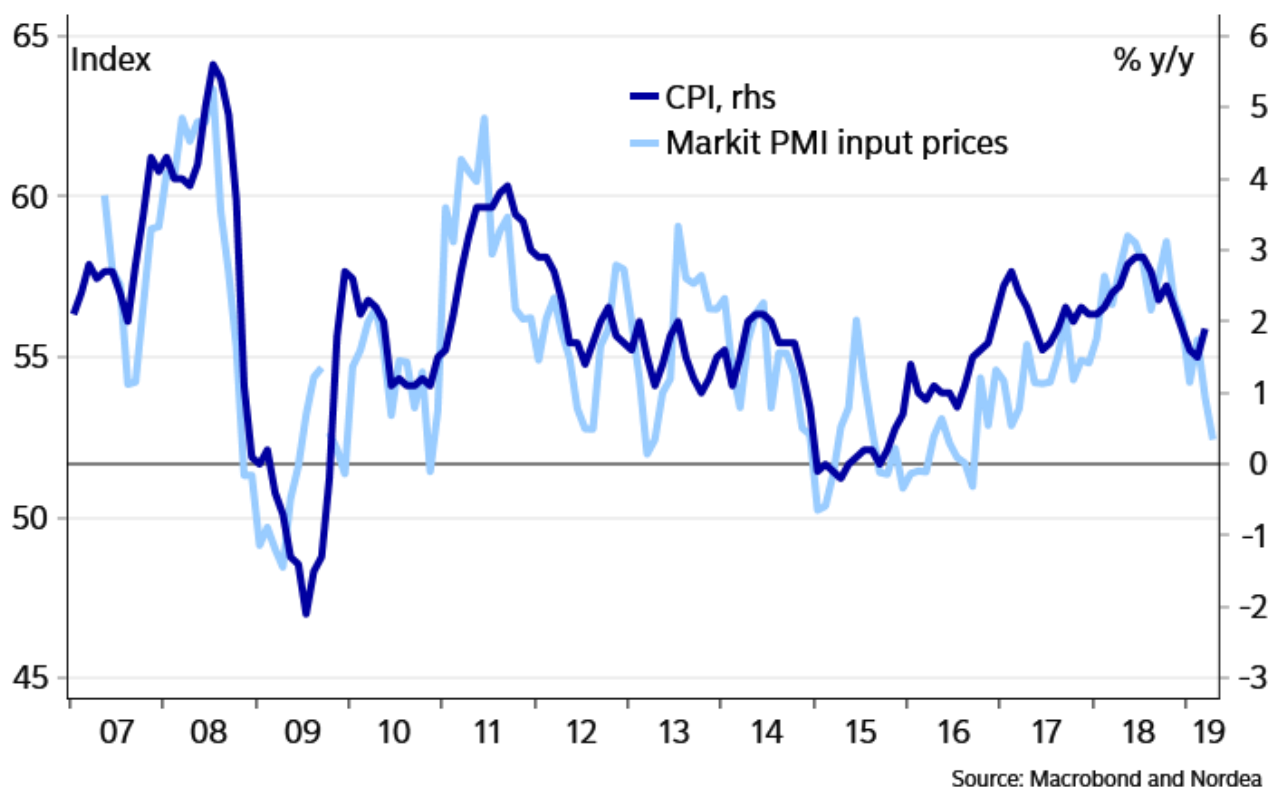


What is most important in the week ahead?

The big question for markets ahead of next week is whether Powell managed to kill all hopes of precautionary lowflation rate cuts during 2019. The first hint of that will be out already this evening European time (Friday 3 May), when Clarida speaks. In our view he is the new thought leader in Fed, and he should be given all the attention in the world. Even if the PCE deflator is the Fed's favourite measure, we will still watch the US core CPI on Friday.

Input prices in the Markit survey hint of downside inflation risks in the short run, mainly as a slightly lagged consequence of a strong USD. Most, if not all, of our underlying indicators continue to paint a medium-term picture of higher inflation, though. The market may be more sensitive to inflation disappointments given Powell's "transitory" phrasing this week.

Chart 11: Downside risks to the US CPI due to lower input prices and a strong USD?



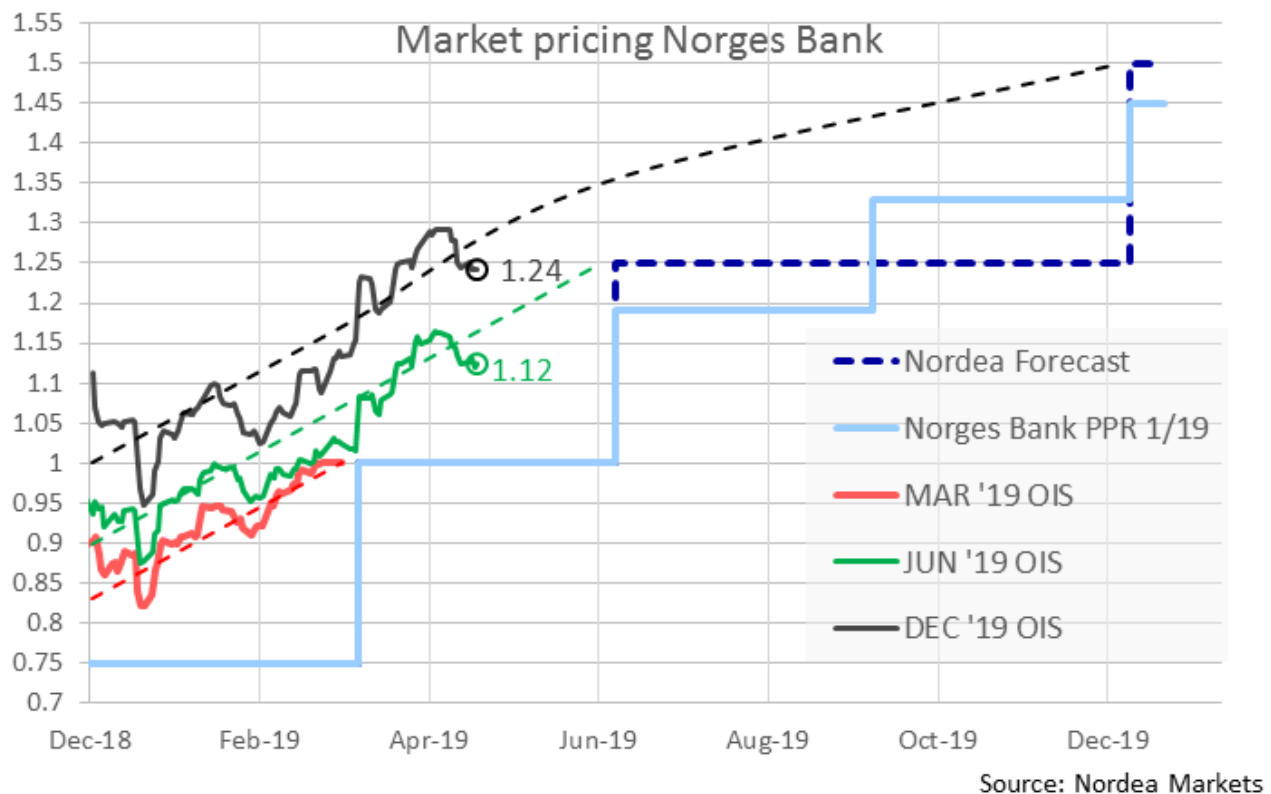
In Scandinavia, Norway will take centre stage as the “odd central bank out” meets on Thursday. It is one of those in-between meetings in Norges Bank with only a short statement on the website. We will get a brief quote from Governor Olsen on whether Norges Bank has increased or decreased confidence in a June hike. We place our bets on an upgraded confidence in a June hike, as the overall macro picture has been roughly in line with Norges Banks view from March, while oil prices are higher, and the NOK is weaker.

Currently the market prices in a 50/50 probability for a June hike (12 bp are priced). **We wouldn't be surprised if the Norges Bank meeting lifted the pricing by 2-3 bp.**

On Friday, the Norwegian CPI-ATE is released. While we expect a lower reading than last month (2.7% in March), we still see risks to the topside of Norges Bank view of a CPI-ATE print at 2.3%.

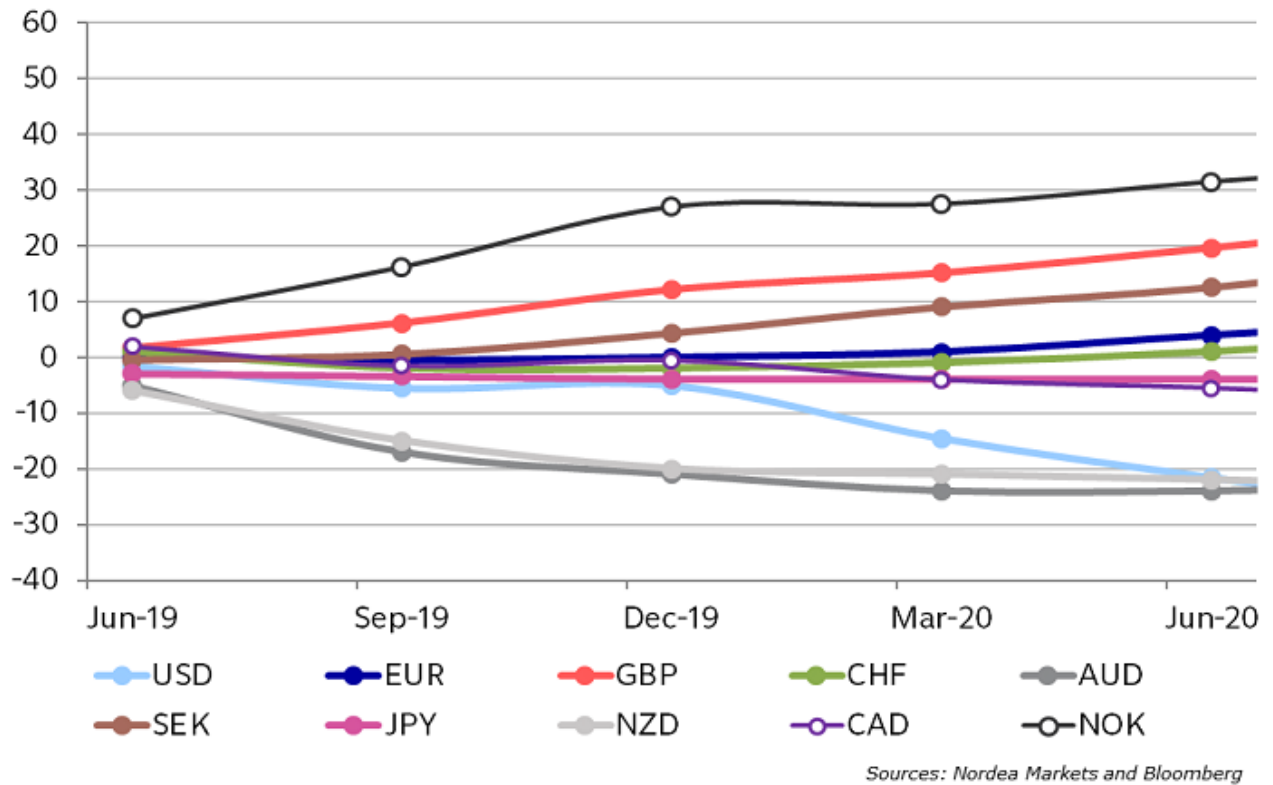
Also, the Swedish Riksbank minutes will be out on Tuesday. The most important thing is to look for clues on the SEK exchange rate (maybe in particular from Flodén), **but minutes have become less interesting now that it seems as if Per Jansson is “back in charge” of the Riksbank.**

Chart 12: Market prices 12 bp ahead of June (a little less than 50/50 probability for a hike)



It's not only the most hawkish G10 central bank that will see action next week. **Also, the two most dovish central banks (at least according to market pricing), RBNZ and RBA, will meet up.** Some investment banks call for a rate cut from RBA (and also a few for RBNZ) already next week. **We see a relatively low risk of cuts already next week**, as the RBA and RBNZ may decide to wait and see a little longer whether the Chinese green shoots could spill over positively on domestic momentum in Australia and New Zealand respectively.

Chart 13: RBNZ and RBA priced most dovishly in G10, while Norges Bank is the most hawkishly priced (chart shows running amount of bp priced in versus current 3m rate in FRA curve)



Next week is probably also a “last chance saloon” for Theresa May, if she wants to make a final attempt on her Brexit deal before the EP election. We consider Theresa May doomed and see a large risk that she needs to step down over the summer ([Brexit Watch: No May Deal, No Carney Hike](#))

Key research pieces over the past week:

[Euro area inflation watch: Temporary Easter spike](#) (3 May)

[BoE review: Mixed message](#) (2 May)

[Norges Bank preview: Not now, but in June](#) (2 May)

[China View: Old habits die hard](#) (2 May)

[Fed Watch: technical rate cut and inflation concerns](#) (1 May)

[Macro theme: Average inflation targeting: A new tool for the Fed?](#) (30 Apr)

[Green shoots have reached the Euro area](#) (30 Apr)

[Brexit Watch: No May deal, no Carney hike](#) (29 Apr)

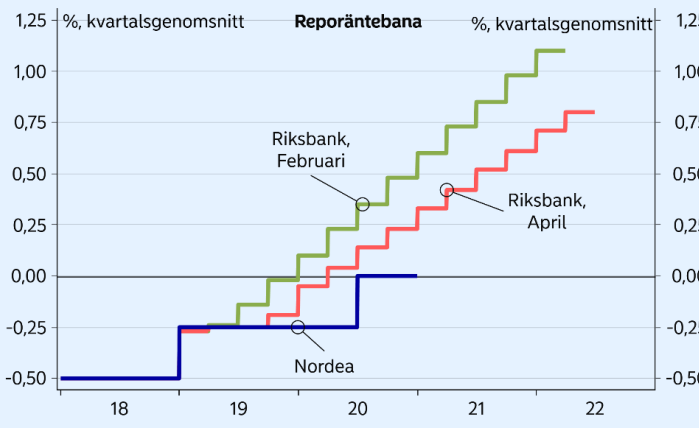
Monday

The week kicks off with services PMIs from Sweden, China and Russia. Final composite and services PMIs will be released for the Euro area and Germany. Besides, the Fed's Harker (dove, non-voter) speaks.

Monday, 06/05/2019				Nordea	Consensus	Previous
03:45	CN	PMI, services, Caixin	Apr		54.4	54.4
08:00	RU	PMI, services	Apr			54.4
08:30	SE	PMI, composite	Apr			54.6
08:30	SE	PMI, service sector	Apr			55.3
09:55	DE	PMI, services (final)	Apr		55.6	55.6
09:55	DE	PMI, composite (final)	Apr		52.1	52.1
10:00	EU	PMI, composite (final)	Apr		51.3	51.3
10:00	EU	PMI, services (final)	Apr		51.3	51.3
11:00	EU	Retail sales (y/y)	Apr		2.3%	2.8%
11:00	EU	Retail sales (m/m)	Apr			0.4%

Tuesday

On Tuesday, markets will focus on industrial production figures from Germany and Sweden. In the UK, the Halifax house price index is released. Furthermore, the Reserve Bank of Australia holds a monetary policy meeting, the Riksbank publishes minutes from its April meeting and the Fed's Kaplan (dove, non-voter) speaks.

Tuesday, 07/05/2019			Nordea	Consensus	Previous
06:30	AU	RBA announces interest rates (cash rate target)	Apr	1.50%	1.50%
08:00	DE	German Factory Orders (m/m)	Mar	0.8%	-4.2%
08:00	DE	German Industrial Production (m/m)	Mar	-0.7%	0.7%
09:30	UK	Halifax House Price Index (y/y)	Apr	2.3%	2.6%
09:30	UK	Halifax House Price Index (m/m)	Apr	-2.4%	-1.6%
09:30	SE	Business sector production (m/m)	Mar		1.2%
09:30	SE	Business sector production (y/y)	Mar		0.0%
09:30	SE	Manufacturing industry, order intake (y/y)	Mar		-2.8%
09:30	SE	Manufacturing production (m/m)	Mar		-2.0%
09:30	SE	Manufacturing production (y/y)	Mar		-2.8%
09:30	SE	Private service sector production (y/y)	Mar		0.8%
09:30	SE	Riksbank, minutes	Apr		
 <p>The Riksbank's Monetary Policy Report sent a clear and dovish message. The Riksbank reassessed the possibilities to control inflation and concluded that monetary policy needs to be even more expansionary to safeguard credibility regarding the inflation target. The minutes will most likely be characterised by concern over the inflation trend, reinforcing the view that a rate hike is distant. We also look for any comments on the exchange rate.</p> <p>By Torbjörn Isaksson</p>					
11:00	SE	SNDO to auction T-bills (SEK 5 bn)	Apr		
12:15	SE	The Riksbank's Ingves: Long term trends	Apr		
14:00	RU	CPI (y/y)	Apr	5.2%	5.3%
15:00	US	Mortgage delinquencies	Q1		4.1%
15:00	US	Mortgage foreclosures	Q1		1.0%
16:00	US	JOLTs job openings	Mar		7087
21:00	US	Consumer credit	Mar	17.0bn	15.2bn

Wednesday

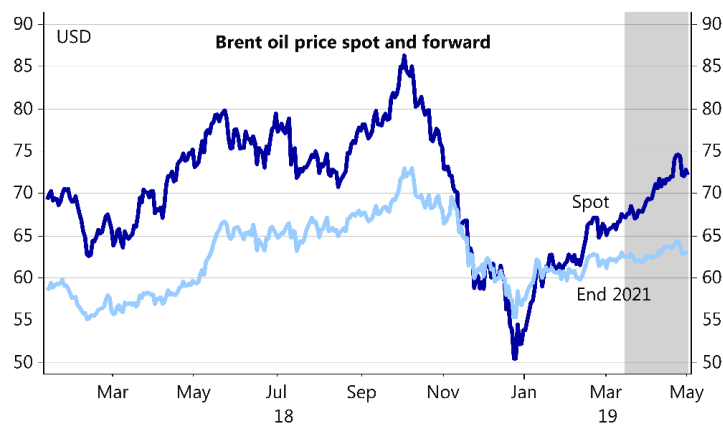
On Wednesday, we get a new print of Norwegian industrial production as well as trade figures from China. On the central bank front, we get meeting minutes from the Bank of Japan and policy rate decisions by the Reserve Bank of New Zealand and the Banco do Brasil.

Wednesday, 08/05/2019				Nordea	Consensus	Previous
01:50	JP	Monetary Policy Meeting Minutes	Apr			
08:00	NO	Manufacturing production (m/m)	Mar			
09:30	SE	Central Government Debt	Apr			1 144bn
09:30	SE	The Swedish central government debt	Apr			
11:00	SE	SNDO to auction bonds (SEK 1.5 bn)	Apr			
13:00	US	Mortgage applications, MBA	May			-4.3%
14:40	SE	The Riksbank's af Jochnick: The economic situation and current mon	Apr			
17:30	CN	Exports (y/y)	Apr		2.3%	14.2%
17:30	CN	Imports (y/y)	Apr		-3.6%	-7.6%
22:45	BR	BCB announces interest rates (SELIC target)	May		6.50%	6.50%
23:00	NZ	RBNZ announces interest rates (cash rate)	May		1.50%	1.75%

Thursday

On Thursday, we look at Norway where Norges Bank decides its policy rate. From China we get new inflation figures. Lastly, the FOMC members Bostic (dove, non-voter) and Evans (neutral, voter) speak.

Thursday, 09/05/2019				Nordea	Consensus	Previous
03:30	CN	CPI (y/y)	Apr		2.5%	2.3%
03:30	CN	CPI (m/m)	Apr		0.1%	-0.4%
03:30	CN	PPI (y/y)	Apr		0.6%	0.4%
06:00	SE	House prices, Mäklarstatistik (y/y)	Apr			0.0%
08:30	NO	Hearing on Monetary Policy	Apr			
09:30	SE	House prices, Statistic Sweden (y/y)	Apr			-2.0%
10:00	NO	Norges Bank's Interest Rate Decision	Apr	1.00%	1.00%	1.00%



Source: Nordea Markets and Macrobond

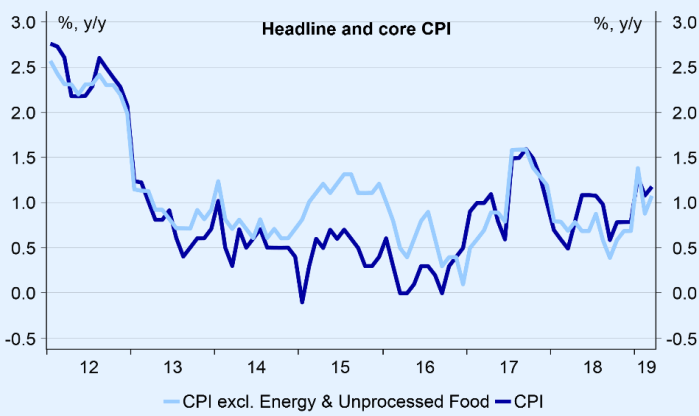

By Erik Bruce

Norges Bank will be on hold at the "in-between meeting" (no new rate path) in line with the March rate path. In the board's general assessment, the central bank will compare the latest developments to the forecast made in December. In sum domestic growth and inflation/wage figures have been broadly as expected. However, oil prices are up at the same time as NOK is on the weak side. Therefore, Norges Bank will at least conclude that the outlook for the policy rate has not changed much which we will read as a signal of a high probability of a June hike. More likely, Norges Bank will be even clearer, thus indicating that news is on the upside, hence removing any doubt about a June hike.

14:30	US	Jobless claims, continuing	Apr			
14:30	US	Jobless claims, initial	May			
14:30	US	PPI final demand (m/m)	Apr		0.2%	0.6%
14:30	US	PPI final demand (y/y)	Apr		2.3%	2.2%
14:30	US	PPI, core (m/m)	Apr		0.2%	0.3%
14:30	US	PPI, core (y/y)	Apr		2.5%	2.4%
14:30	US	Trade balance	Mar		-53.4bn	-49.4bn

Friday

The week rounds off with inflation figures from the US, Norway and Denmark. In the UK, preliminary GDP estimates are released. Finally, the Fed's Bostic (dove, non-voter) and Williams (hawk, voter) speak.

Friday, 10/05/2019			Nordea	Consensus	Previous
03:30	AU	RBA Statement on Monetary Policy	Apr		
08:00	DK	CPI (y/y)	Apr	1.1%	1.2%
 <p>Source: Nordea Markets and Macrobond</p>			<p>In March Danish inflation increased to 1.2% y/y, mainly due to higher Transport prices. We expect higher gasoline prices to have made another positive contribution in April. Also, higher prices of package holidays and clothing are expected to have made positive contributions, lifting the CPI by 0.4% m/m. However due to a large monthly increase in April 2018, this will be equivalent to a small drop in the y/y inflation to 1.1%.</p>		
			By Jan Størup Nielsen		
08:00	NO	CPI (y/y)	Apr		2.9%
08:00	NO	CPI, core (y/y)	Apr	2.4%	2.7%
 <p>Source: Nordea Markets and Macrobond</p>			<p>We expect core inflation at 2.4% y/y in April down from 2.7% in February. That is 0.1% point above Norges Bank's forecast from March. Easter is distorting the figure, and the forecast is highly uncertain. Food prices pull down y/y growth compared to March due to the timing of Easter. Partly a temporary effect and there are arguments for inflation to increase again in May (but probably not to 2.7%). Inflation 0.1% point above Norges Bank forecast should not have any significant effect on the rate path and remember that we will have the May figure before the June meeting</p>		
			By Erik Bruce		
08:40	NO	Jon Nicolaisen seminar at Stord	Apr		
09:30	SE	Household Consumption (m/m)	Mar		0.2%
09:30	SE	Household Consumption (y/y)	Mar		3.0%
09:30	SE	PPI	Q1		
10:30	GB	GDP (y/y)	Q1	1.8%	1.4%

Friday (continued), 10/05/2019

Nordea

Consensus

Previous

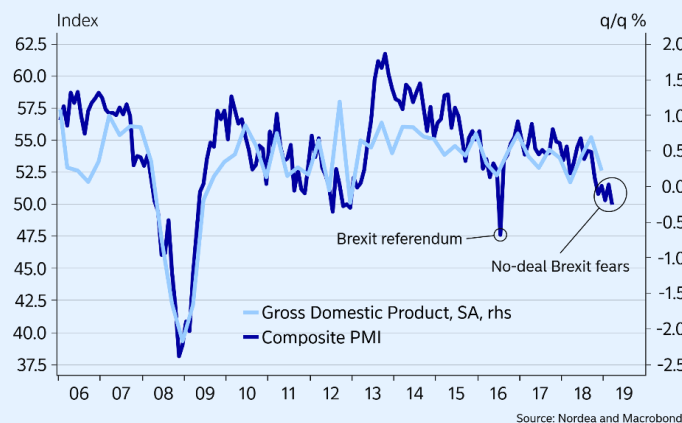
10:30 GB GDP (q/q)

Q1

0.5%

0.2%

0.2%



The PMIs suggest that Q1 experienced around zero growth. However, the PMIs, which clearly was squeezed by no-deal Brexit fears, tend to be too downbeat during periods of political uncertainty. Furthermore, the PMIs do not cover the retail sector, which appears to have performed well in Q1. Therefore, we and consensus expect a decent GDP figure showing an increase of 0.5% q/q. This is also in line with Bank of England's recent inflation report. The details in the GDP figures will, however, likely not be comforting as business investments, which had negative growth in all four quarters in 2018, are expected to have declined yet again, and inventory building is also likely to have temporarily boosted the numbers. Hence, we expect growth to slow in Q2. For 2019 as a whole, we expect GDP to be below potential at 1.3% (BoE: 1.5%). Read more about Brexit and the BoE [here](#).

By Morten Lund

10:30 GB GDP (m/m)

Q1

14:00 BR CPI, IPCA (m/m)

Apr

0.8%

14:00 BR CPI, IPCA (y/y)

Apr

4.6%

14:30 US CPI (m/m)

Apr

0.4%

0.4%

14:30 US CPI (y/y)

Apr

2.1%

1.9%

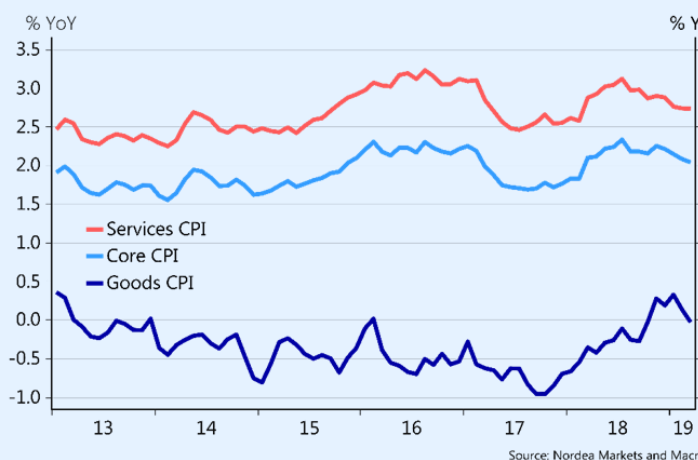
14:30 US CPI, core (m/m)

Apr

0.2%

0.2%

0.1%



We expect core inflation at 0.2% m/m (2.1% y/y) in April, 3.5one tenth above the March reading and in line with consensus. Price growth in consumer services has 3.0deteriorated lately despite rising wage growth, which is 2.5now at its highest for many years. There is no doubt that the strong dollar has put a lid on inflation that has trended 2.0lower since last summer and base effects will persist for a 1.5few more months. Powell pointed to a number of transitory effects in financial services and apparel prices. The weaker 1.0inflationary pressure is part of the reason why the Fed is on 0.5hold.

By Nick Fisker

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

Apr

2.1%

2.0%

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