

Week ahead: isn't Wyoming full of cowboys?

Martin Enlund | Andreas Steno Larsen

- Relief schmelief, says the US yield curve
- The currency war is back with a vengeance
- Will Powell come out with his guns blazing in Wyoming?

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Main Releases:

Date	Key figure	Nordea	Consensus	Last
19-Aug	Export restrictions to Huawei might be introduced			
20-Aug	Italy's PM Conte addresses the Senate			
21-Aug	FOMC minutes			
21-Aug	South Korea 20-day exports			-13.6%
22-Aug	Euro-area PMI (Flash)	51.0	51.2	51.5
22-Aug	Sweden LFS unemployment		5.9%	7.6%
22-Aug	Norwegian oil investment survey			
22-24 aug	Fed Jackson Hole symposium titled Challenges for Monetary Policy			

Relief schmelief, says the US yield curve

The US president's attempt at de-escalating the China/US trade clash has not done much if anything to bolster confidence across global markets. Instead, **the US 2y/10y yield curve has traded in inverted territory during the past week.** This is often a bad sign for future growth. While one could argue that the yield curve has lost its forecasting prowess based on central bank asset purchases which may be distorting its signal, its empirical track-record remains much better than that of the economic consensus. The fixed income market may simply be telling us that the Fed is behind the curve – not doing enough to prevent a further downturn – a conclusion it (and we) drew after Powell's insufficient easing in July.

e-markets.nordea.com/article/51349/week-ahead-isnt-wyoming-full-of-cowboys

Nordea

Chart 1: Delayed tariffs did not prevent the US yield curve from (briefly) inverting



Source: Macrobond and Nordea

Moreover, when the curve goes from trading with a positive slope to inverting, **experience from the five inversions over the past ~40 years suggests the curve will flatten further over the next couple of months.**

Chart 2: US curve tends to keep flattening for a few months after inverting

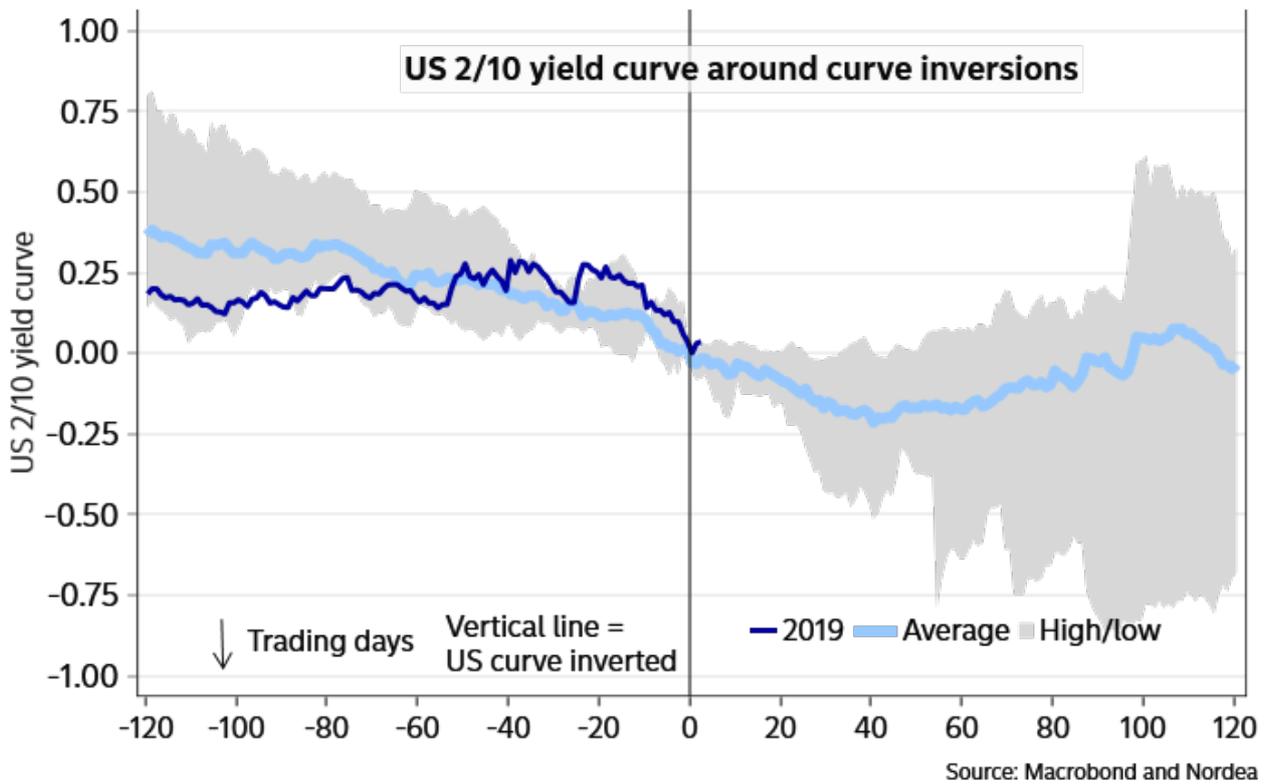
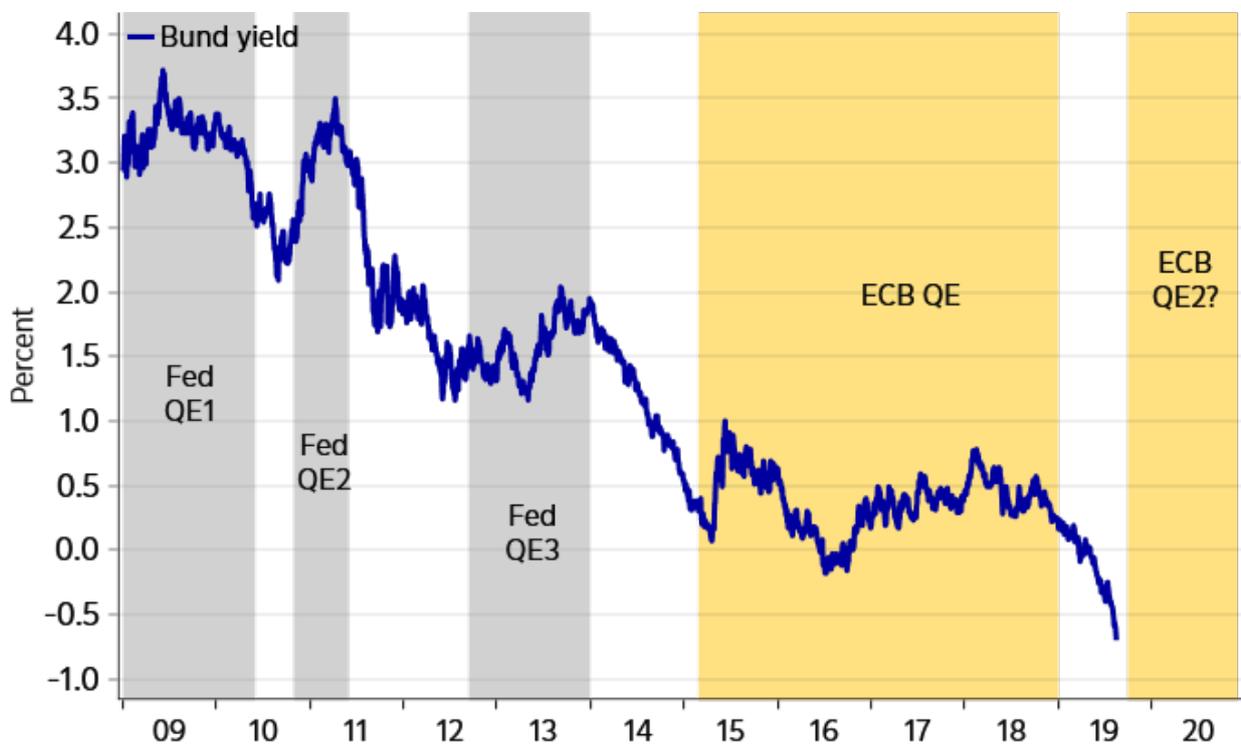


Chart 3: ECB QE expectations good news for German bonds until QE2 is announced

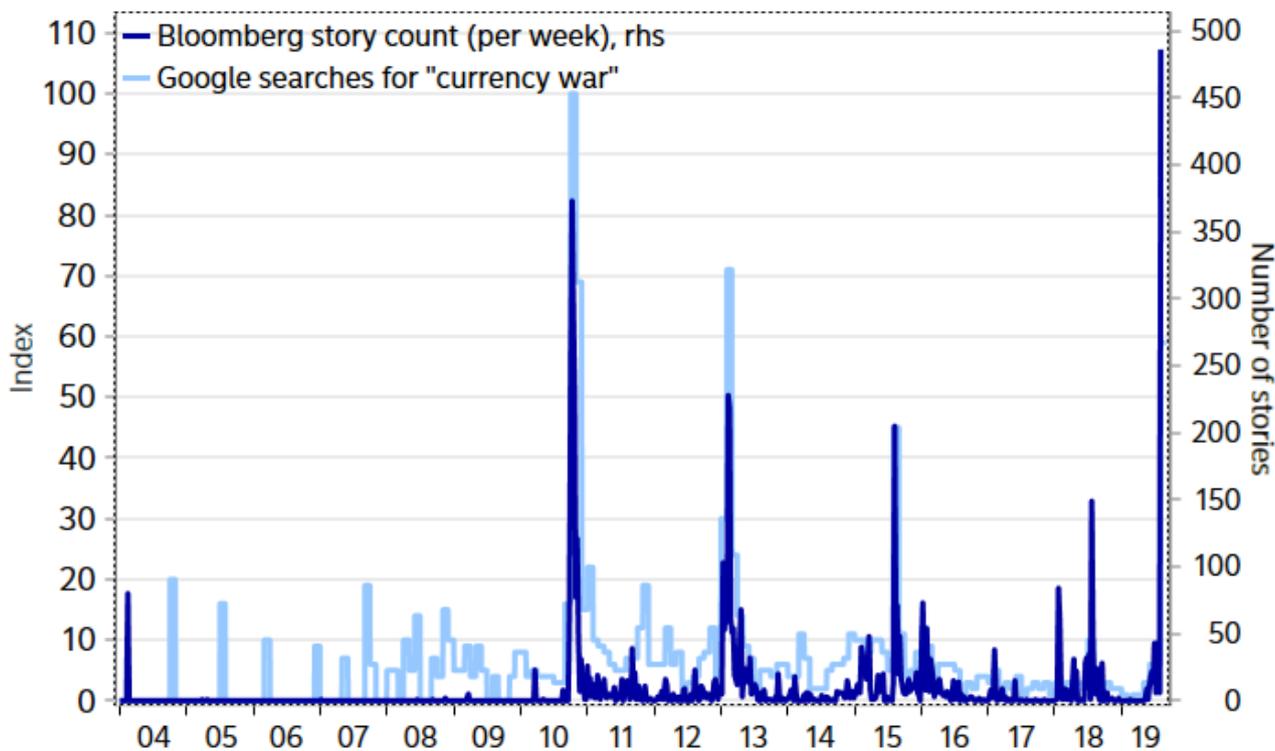


Source: Macrobond and Nordea

Moreover, **the ECB being widely expected to announce more bond purchases this autumn also helps cement a strong bid for duration.** Usually the fixed income markets price in a new QE programme before it is formally announced. As central banks such as the ECB and others are desperate enough to go deeper into negative territory with their policy rates, fears of a currency war have also escalated. This too is positive news for bonds as well, though we have to admit that [we are not surprised](#).

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Chart 4: Google search data and news flow suggest investors are worried about currency war



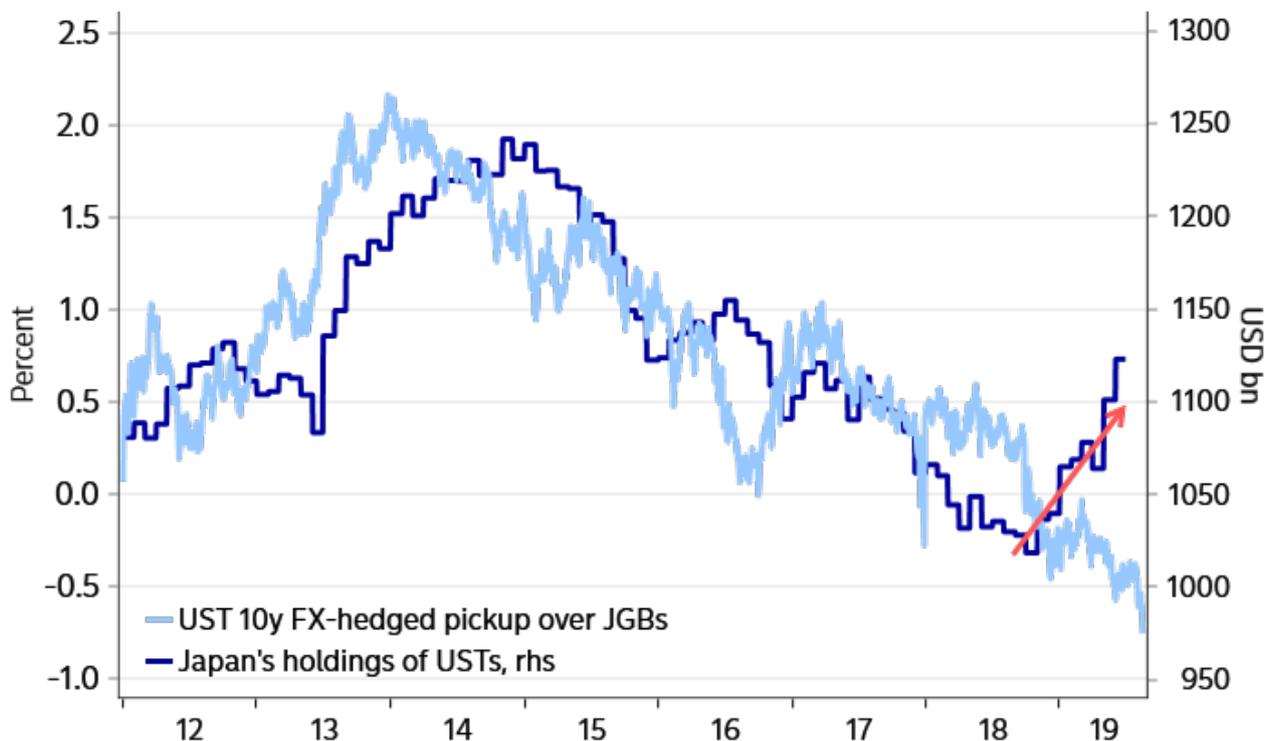
Source: Bloomberg, Google trends, Macrobond and Nordea

Generally, **safe-haven flows remain the name of the game**, with a long list of things worrying investors. To name but a few; Argentina, Brexit, China, company profits, currency war, Hong Kong; Iran, Italy, Kashmir, North Korea, South China Sea, trade war, Turkey and Venezuela.

While the consensus still describes the China/US situation as a trade war, how does that moniker fit with the US's plans to place medium-range nuclear missiles in Asia? Might as well call *that* a brewing Cuba crisis, but this time close to the South China Sea. And if that's a Cuban crisis, isn't Cold War 2.0 a more fitting moniker than the trade war? If so, Hong Kong is a proxy conflict. And you don't want to be the proxy in a Great Power conflict.

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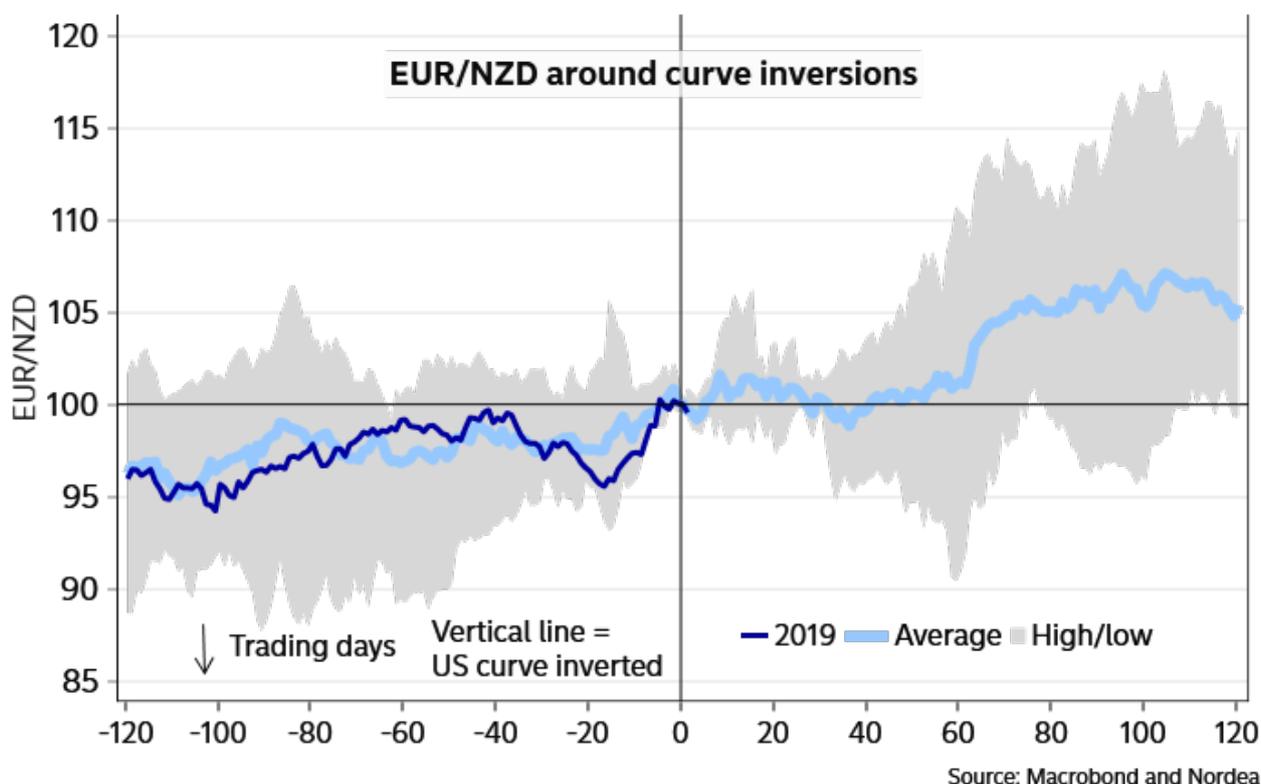
Chart 5: Japanese investors buying USTs despite a negative pick-up vs JGB (a sign of haven demand)



Source: Macrobond and Nordea

The rise in economic and political uncertainty also helps explain why Japanese investors have been accumulating US Treasuries *en masse* despite USTs offering a negative pick-up vs 10y JGBs (when FX-hedged). Haven-demand also means more liquid currencies such as USD, EUR, JPY and CHF will do better than less liquid and often procyclical currencies (such as the Antipodeans & Scandies). Incidentally, the Antipodeans (AUD & NZD) tend to do badly after an inversion of the US curve. For more, see [FX: what usually happens after US curve inversions?](#)

Chart 6: An inverted US curve could spell trouble for the NZD



What is most important in the week ahead?

On Monday, an important deadline concerning US sanctions against Huawei looms large – will the digital iron curtain against China tech companies solidify? The US gave companies an exemption from certain export restrictions three months ago, but these months have now passed. If Trump gives US companies (and Huawei) a Christmas present similar to the one just delivered to households – it could perhaps buttress risk sentiment, or vice-versa. The semiconductor sector, and by extension global and US capex activity, does look like it would need some positive news on the Huawei front.

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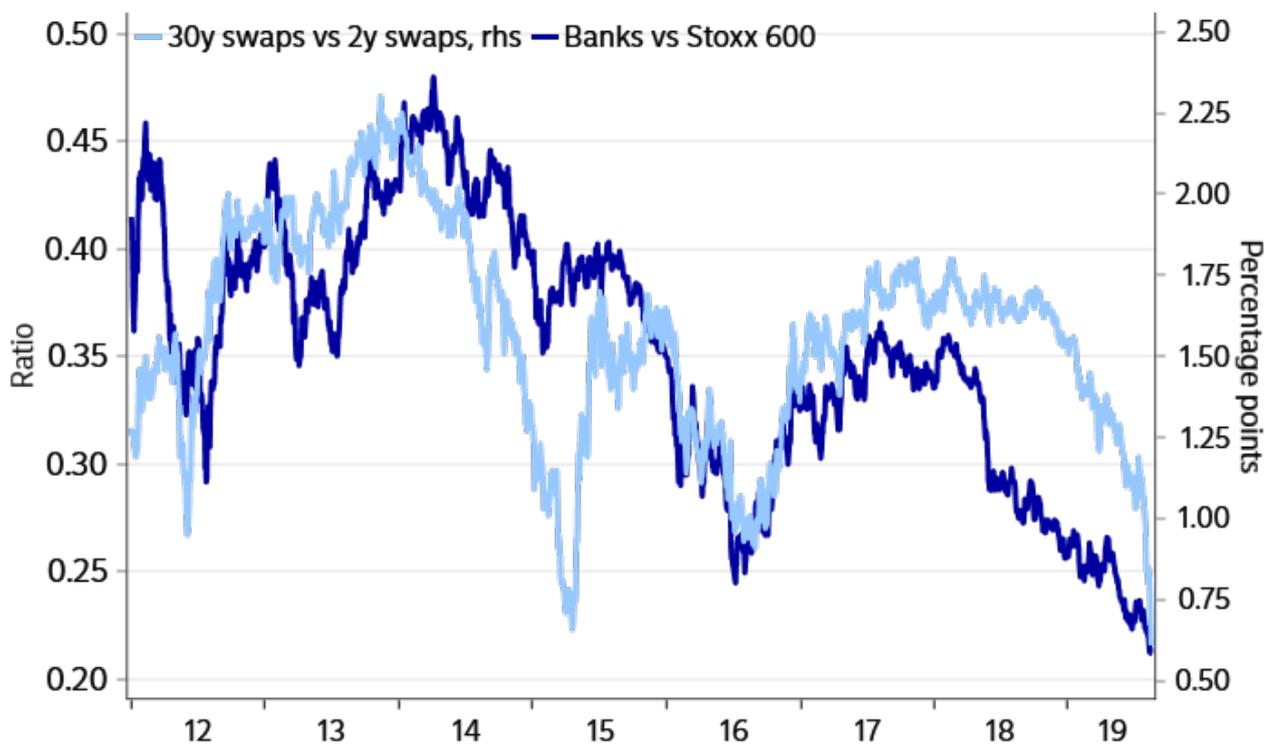
Chart 7: The semiconductor sector would like some good news on the Huawei front



Source: Macrobond and Nordea

On Tuesday, Italian lawmakers have summoned Prime Minister Giuseppe Conte to appear before the Senate. This might lead to a confidence vote during the week. Lega's Salvini is pushing to bring down the government. If PM Conte is voted down, it would switch attention to the Italian president, who must decide the next steps. If President Mattarella decides there now no way of creating a new stable government, he will call for a election (likely in October) – but it is a theoretical possibility that other parties can manage to form a new government without including the Lega. **Italian political risks nonetheless pose another headwind for the Euro-area banking sector, on top of weak growth, a surge in regulation, negative rates, and überflat yield curves.**

Chart 8: Eurostoxx banks doesn't like a flatter yield curves

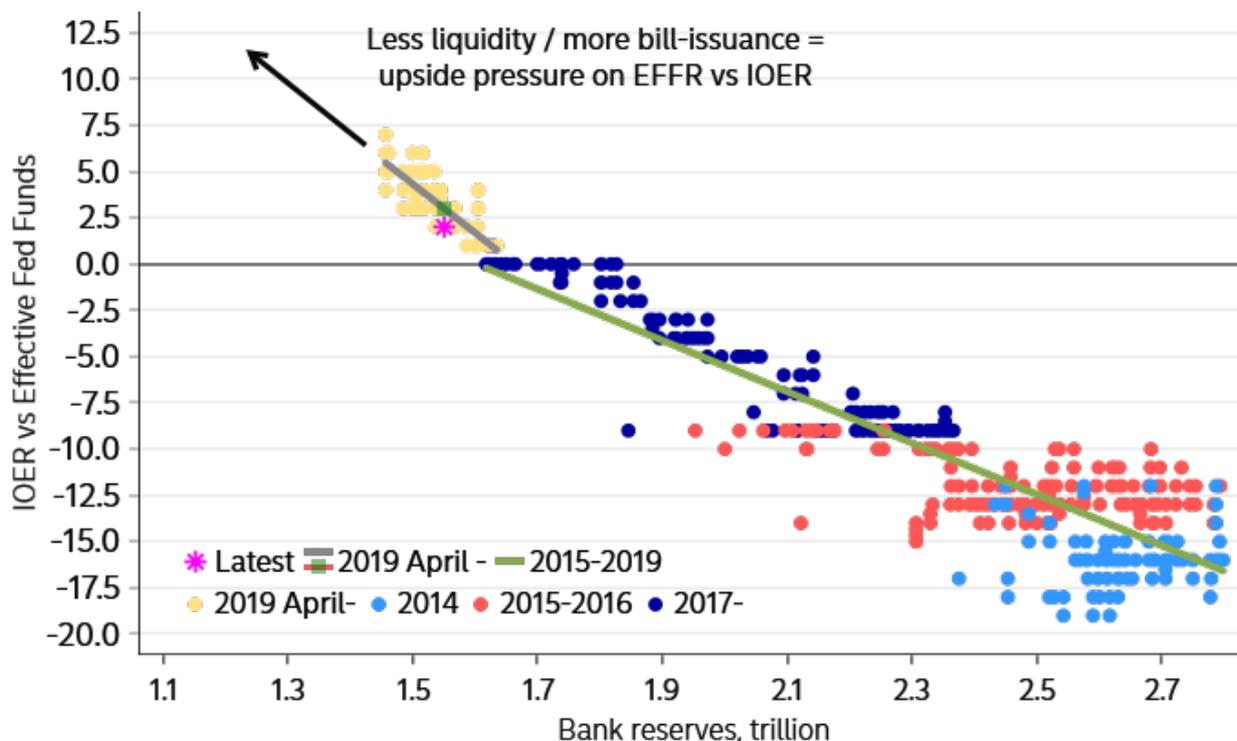


Source: Macrobond and Nordea

On Wednesday, minutes from the FOMC's fateful July 31 meeting is due. What can force the Fed to go beyond the "mid-cycle rate cut"? Was the Fed prepared for the surge in volatility triggered by its not-dovish-enough decision? **And what is the Fed's plan on the liquidity front?** The debt ceiling deal will lead to a surge in bill and bond issuance, which will drain liquidity, in turn adding upside pressures to the effective fed funds rate, 3m Libor and so on. The Fed might consequently face growing challenges in keeping the policy rate within its target interval and might need to take action (bond purchases "soft QE", a repo facility, IOER rate cuts, ...) later this year.

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Chart 9: Dwindling liquidity to push EFR higher, possibly prompting IOER rate cuts this autumn

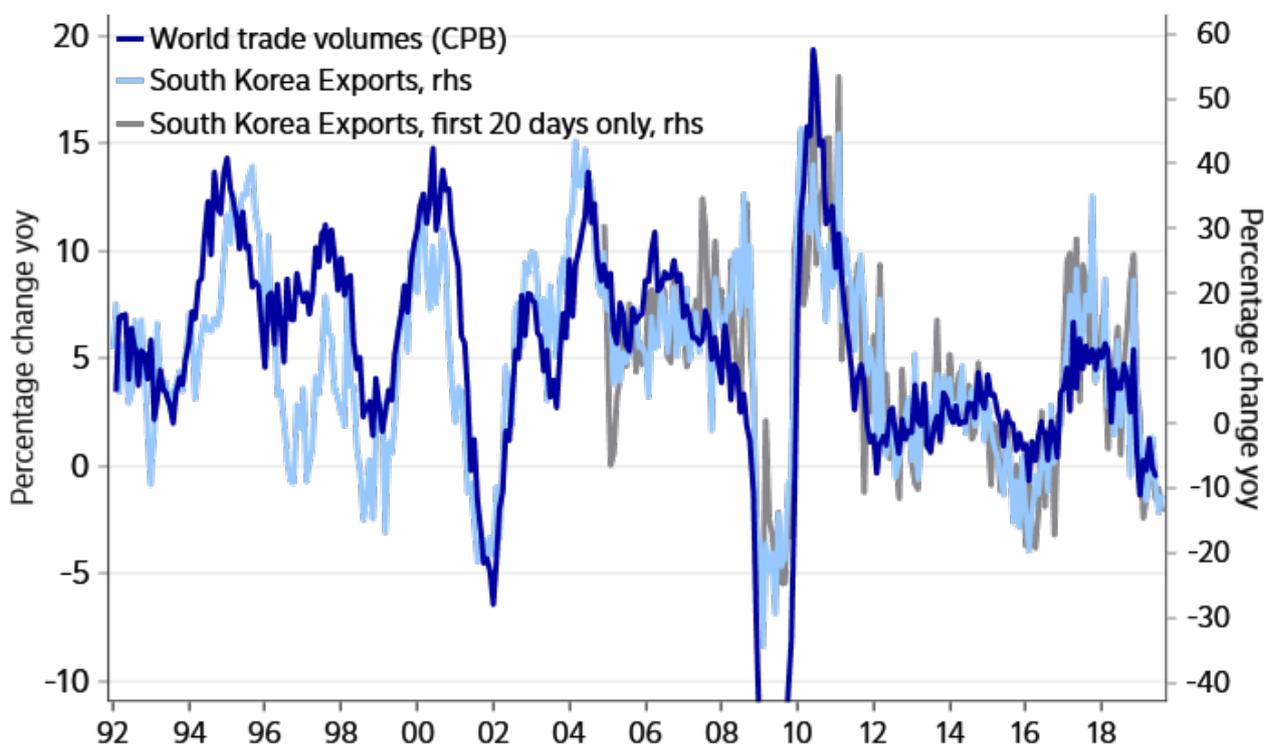


Source: Macrobond and Nordea

South Korea 20-day exports are also due on Wednesday. These numbers provide an early read on global trade growth (as well as global earnings growth). While the trade war escalated during the period, Asian financial conditions have eased substantially this year. Easier financial conditions ought to be good news for trade growth, but so far there are no signs of that helping enough to stabilise trade. The negative effects from uncertainty currently dominate.

Nordea

Chart 10: World trade growth likely to keep deteriorating



Source: Macrobond and Nordea

We are not looking forward for the next batch of Euro-area PMI figures, due Thursday 22 August. The Sentix recently crashed to its lowest level since 2014 and ZEW expectations fell to its lowest level since 2011 in August. The EA ought to be feeling some tailwinds from lower rates, a weaker EUR and a modest pick-up in money growth – but as in Asia other shocks appear to be mitigating these positive impulses.

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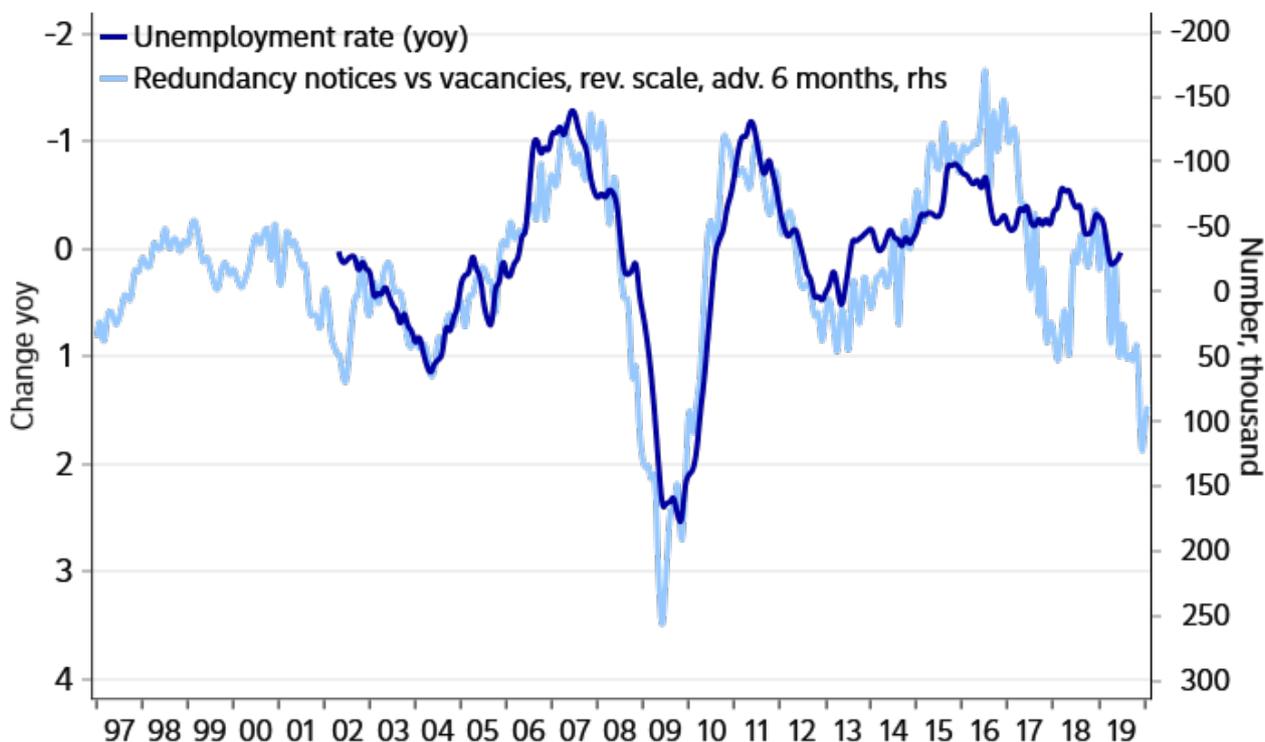
Chart 11: Euro-area export orders so far keep crashing despite easier financial conditions in Asia



Swedish unemployment is also due on Thursday. Redundancy notices and vacancy data suggest a weaker labour market down the road, and the unemployment rate did rise unexpectedly in June. It might be that the Riksbank will soon have to add a weaker labour market to its list of reasons why it should abandon its hiking plans: i) weaker growth, ii) a dovish ECB, iii) a pick-up in economic-political uncertainty, iv) plummeting inflation expectations (5y inflation expectations among money market participants recently fell to their lowest level since 2015).

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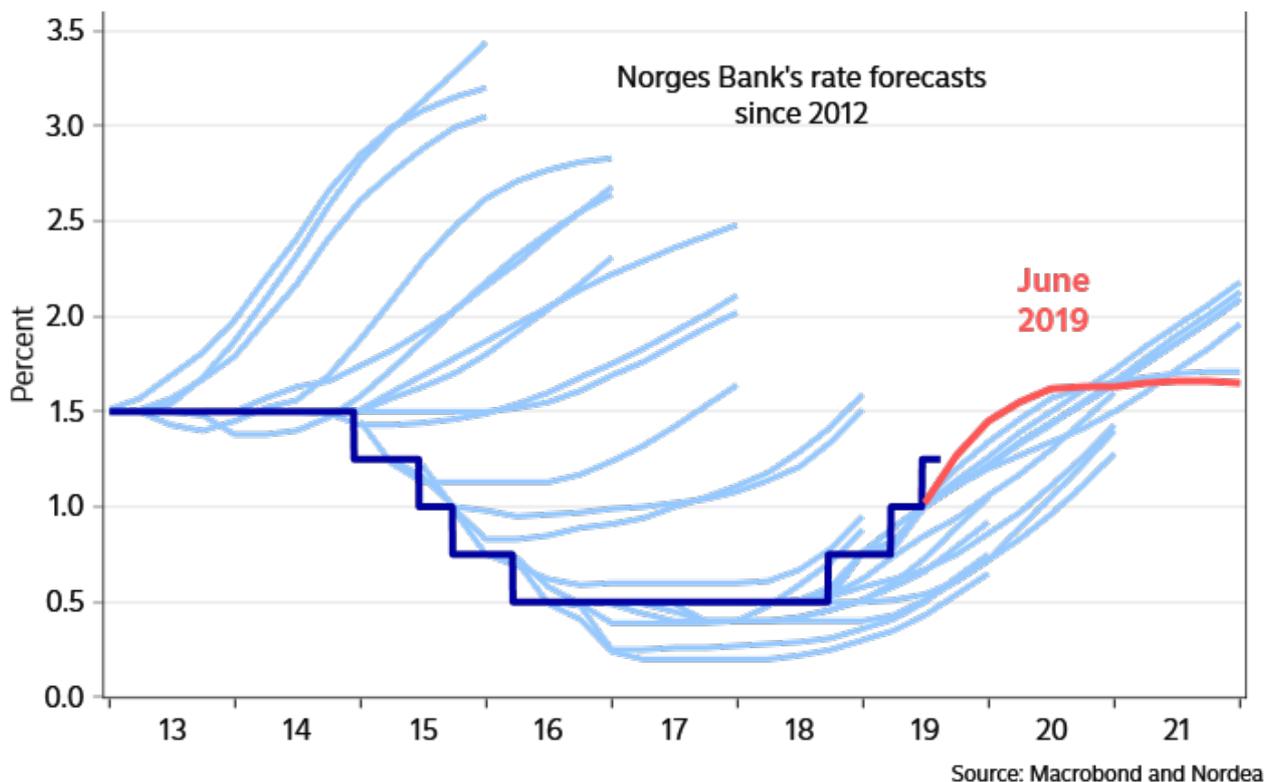
Chart 12: Labour market weakness may start worrying the Riksbank within months



Source: Macrobond and Nordea

The next Norwegian oil investment survey is also out on Thursday. While Norges Bank recently noted that the global risk outlook entails greater uncertainty, it saw “an unchanged outlook for the policy rate for the period ahead”. Implicitly it is signalling a 80% chance of [another hike on September 19](#). The SEP19 NOK FRA rate looks low given this signal. Key upcoming Norwegian data such as the oil investment survey (Thursday) or, more likely, **the regional survey on September 10 will have to disappoint to prevent Norges Bank from hiking**. If Norges Bank does hike once more, it puts the bank sharply at odds with further easing from all other G10 central banks. (The market is pricing a ~40% likelihood of a -50bp move from the Fed in September).

Chart 13: Norges Bank stuck to its June rate path in August – hinting at another hike in September



At the back end of the coming week, Thursday to Saturday, the world's foremost yield curve apologists (central bankers) will gather in Jackson Hole to discuss "challenges for monetary policy". While primarily of academic nature, these speeches can at times be extremely relevant for the market. It is widely believed that Ben Bernanke announced QE2 at this conference in 2010. **Let's hope we see Powell come out with his guns blazing! After all, Wyoming is supposedly full of cowboys...**

Key research pieces over the past week

[FX: what usually happens after US curve inversions?](#) (15 Aug)

[Norges Bank indicates a September hike](#) (15 Aug)

[Germany: On the brink of recession](#) (14 Aug)

[EURDKK: Easing package from the ECB will be hard to match ...](#) (14 Aug)

[Market Pulse SEK: Stibor is a many-splendoured thing](#) (14 Aug)

[Sweden: New figures and darker clouds](#) (12 Aug)

[FX weekly: The liquidity doom loop](#) (11 Aug)

We start the week with final Eurozone inflation figures for July.

Monday, 19/08/2019		Nordea	Consensus	Previous	
06:00	SE HOX Home Prices (m/m), sa	Jul	0.2%	0.1%	
<p>Home prices (Sweden)</p> <p>Yearly change, rhs</p> <p>Source: Macrobond and Nordea</p>		<p>We forecast home prices to have increased by 0.2% m/m (sa) and 2.5% y/y. According to weekly numbers, prices of flats rose while house prices declined. Transaction volumes were unusually high. A stabilisation of home prices supports domestic demand to some extent, thereby slightly brightening the outlook for consumption. Falling rates might further support the housing market during the autumn, suggesting some upside risks to our forecast of stable home prices.</p> <p>By Susanne Spector</p>			
06:00	SE HOX Home Prices (y/y), sa	Jul		1.9%	
09:30	SE Inventories, manufacturing industry (quarter)	Q2		3.8%	
11:00	EU HICP (m/m)	Jul	-0.4%	-0.2%	
11:00	EU HICP (y/y)	Jul	1.1%	1.3%	
11:00	EU HICP core (y/y)	Jul	0.9%	0.9%	
14:00	RU Real retail sales (y/y)	Jul	1.0%	1.5%	1.4%
<p>VAT increase</p> <p>— Total retail sales MoM, s.a., 3mma — Non-food goods sales MoM, s.a., 3mma — Food goods MoM, s.a., 3mma</p> <p>Source: Nordea and Macrobond</p>		<p>Rosstat will release its monthly set of real economic activity data, including retail sales, real wages, construction and transportation. We expect the sluggish development in retail turnover to continue given the ongoing slowdown in real wages growth and weak internal demand. Nevertheless, the chart clearly shows that retail sales have recovered from the VAT hike in early 2019, but the current sales turnover is still quite weak. We expect that another weak figure will confirm the persistent weakness in internal demand and the lack of inflationary pressure, which will strengthen the likelihood of one more rate cut from the Bank of Russia by the end of this year.</p> <p>By Grigory Zhirnov</p>			
14:00	RU Real wages (y/y)	Jul		2.3%	
14:00	RU Unemployment rate	Jul		4.4%	

Tuesday

Tuesday is a quiet day with no major releases

Tuesday, 20/08/2019		Nordea	Consensus	Previous
03:30	AU Minutes of RBA rate meeting	Aug		
08:00	NO Housing starts (m/m, sa)	Jul		

Wednesday

On Wednesday, all eyes will turn to the US in the evening for the release of FOMC meeting minutes from 31 July.

Wednesday, 21/08/2019				Nordea	Consensus	Previous
08:00	NO	Unemployment rate, LFS	Jun			
13:00	US	Mortgage applications, MBA	Aug			
14:30	CA	CPI (y/y)	Jul			2.0%
14:30	CA	CPI, core (y/y)	Jul			2.2%
16:00	US	Home sales, existing	Jul		5.4m	5.3m
16:00	US	Home sales, existing (m/m)	Jul		2.2%	-1.7%
20:00	US	FOMC meeting minutes	Aug			

Fed vs markets

Legend:
-- Market-implied (effective Fed funds rate)
— Fed funds rate (middle of target range)

Source: Nordea and Macrobond

Aug

At the FOMC meeting in July, the Fed delivered a rate cut and put an end to QT slightly ahead of schedule. At the following press conference Chairman Powell revealed that the Fed sees this as a "mid-cycle adjustment" rather than the start of a long cutting cycle. One of the reasons why the Fed took this action was increased uncertainty arising from the trade war. In the meeting minutes, we will look for any details on how many cuts a "mid-cycle adjustment" implies. Specifically, we will look for details on the discussion about the appropriate action necessary to support the expansion and soften the trade war blow. Historically, the Fed has cut rates three times "mid-cycle", while markets are currently pricing in roughly four more cuts in addition to the one already delivered. Given the sensitive markets, any surprises will likely spur volatility following the release.

By Nick Fisker & Dane Cekov

Thursday

Thursday is packed with manufacturing, services and composite PMI-indicators from the Eurozone, Germany, France and the US. In the US, the annual Fed Policy Symposium in Jackson Hole begins, and the manufacturing index from Kansas Fed is out. Lastly, Swedish unemployment figures are released.

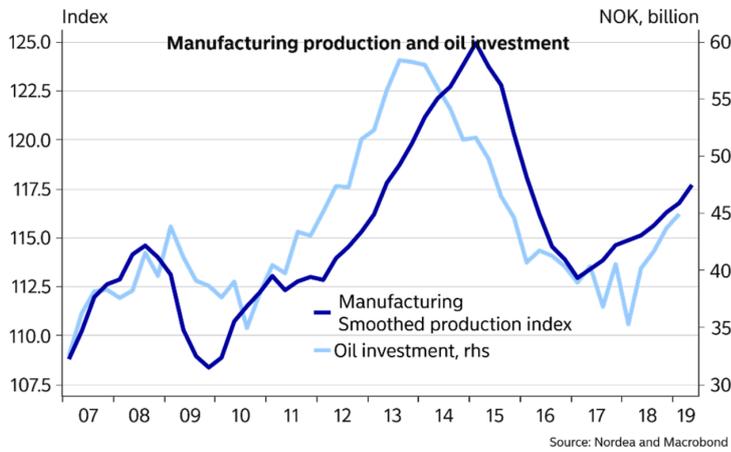
Thursday, 22/08/2019

Nordea

Consensus

Previous

08:00 NO Oil Investment Survey



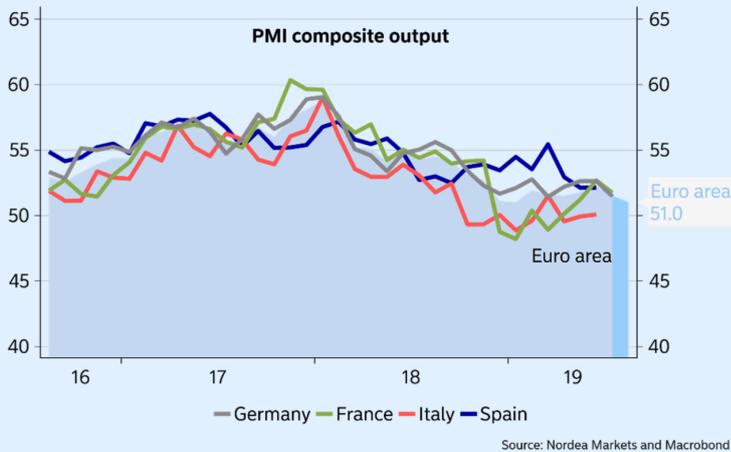
Q3

We expect the Q3 oil investment survey to be well in line with Norges Bank's forecast of a sharp rise in oil investments this year followed by levelling out in 2020. We expect the figure for investment plans in 2019 to be around NOK 180 bn. That is somewhat higher than Norges Bank's 2019 forecast, but Norges Bank will probably conclude that the figure will be slightly revised down from here. The 2020 figure will be harder to interpret since we know there will be big revisions. We expect a 2020 figure in the range of NOK 175-180bn. Depending a bit on the details we will judge that as roughly in line with Norges Bank's forecast of real growth at 1%.

By Erik Bruce

09:30	DE	PMI composite (flash)	Aug	50.9	50.9
09:30	DE	PMI manufacturing (flash)	Aug	43.0	43.2
09:30	DE	PMI, services (flash)	Aug	54.0	54.5
09:30	SE	Capacity utilization, manufacturing industry (quarter)	Q2		
09:30	SE	Unemployment, Labour Force survey (AKU)	Jul		*
09:30	SE	Unemployment, Labour Force survey (AKU), sa	Jul		

10:00 EU PMI, composite (final)



Aug 51.0 51.2 51.5

We expect the composite PMI for the Euro area to decline to 51.0 in August, after a 0.7-point-decrease in July driven by plummeting manufacturing PMIs across the Euro area. There continues to be a divide across sectors which we do not expect to narrow down in the short-run as services fare well thanks to strong labour markets and resilient private consumption, while manufacturing falls further into recession. On an individual-country-level, we see Germany slowing down at the fastest pace while France maintains a dynamic growth momentum given a very strong services sector. French composite PMI has rebounded from its low in early 2019 by already 4.5 points in July.

By Daniel Bäuml

10:00	EU	PMI, manufacturing (final)	Aug	46.5	46.5
10:00	EU	PMI, services (final)	Aug	52.8	53.2
10:00	NO	Norges Bank's survey of inflation expectations	Q3		
11:00	EU	Consumer confidence (final)	Aug	-6.8	-6.6
11:00	EU	ECB Publishes Account of Policy Meeting	Aug		
14:30	US	Jobless claims, continuing	Aug		1726k
14:30	US	Jobless claims, initial	Aug		220k
15:45	US	Markit composite PMI (preliminary)	Aug		52.6
15:45	US	Markit manufacturing PMI (preliminary)	Aug	50.5	50.4
15:45	US	Markit services PMI (preliminary)	Aug		53
16:00	US	Fed Policy Symposium in Jackson Hole	Aug		
16:00	US	Leading index	Jul	0.2%	-0.3%
17:00	US	Kansas City Fed manufacturing activity	Aug		-1

On Friday, the annual Fed Policy Symposium in Jackson Hole will continue and end the following Saturday. Furthermore, we will get a new print of Japanese inflation figures during the night.

Friday, 23/08/2019			Nordea	Consensus	Previous
<p>US Fed Policy Symposium in Jackson Hole</p> <p>Percent</p> <p>10 9 8 7 6 5 4 3 2 1 0</p> <p>90 92 94 96 98 00 02 04 06 08 10 12 14 16 18</p> <p>— Fed fund's rate</p> <p>Mid-cycle adjustment</p> <p>Source: Nordea Markets and Macrobond</p>			<p>Aug</p> <p>Central bankers participating in this year's Jackson Hole Symposium will discuss "challenges for monetary policy" ten years after the financial crisis. The symposium presents the perfect opportunity for the Fed to send signals and clarify any misunderstandings they believe are currently present. It would not be the first time this forum is used for that purpose. In particular, market participants will be looking for any information on how the Fed views this "mid-cycle" versus the two previous ones in the 90s. Additional topics of interest are discussions of the Fed's balance sheet and inflation target. Some FOMC members – in particular New York Fed's Williams – have been advocating for an average inflation targeting system to replace the current symmetric target. Changes to the inflation target could have long-term implications for monetary policy.</p> <p>By Nick Fisker & Dane Cekov</p>		
08:00	DK	Consumer confidence	Aug		2.9
08:00	SE	Capital requirements for Swedish banks	Q2		
08:00	SE	Capital requirements for swedish banks	Q2		
16:00	US	Home sales, new	Jul	640k	646k
16:00	US	Home sales, new (m/m)	Jul	-0.9%	7.0%

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