

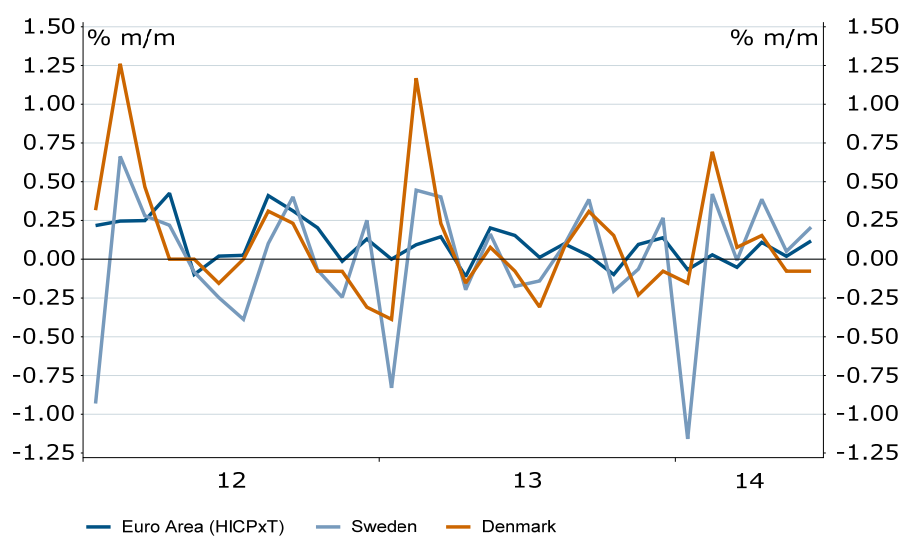
# Inflation SEK, DKK & EUR

## July previews and markets

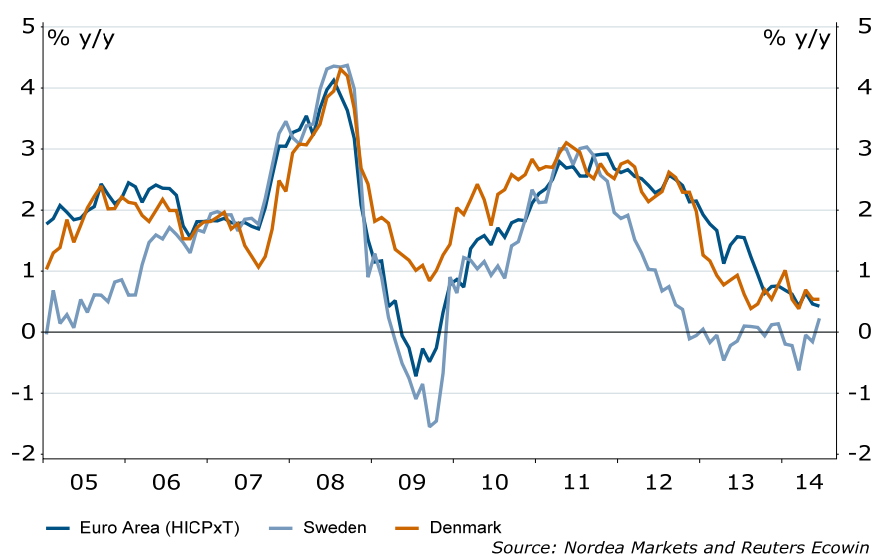
Nordea Research, 8 August 2014

- **SEK:** Mortgage rates weigh on the CPI
- **DKK:** Stable inflation at a very low level
- **EUR:** A new lower low

### Consumer prices – monthly changes



### Consumer prices – yearly changes



#### Holger Sandte

Chief Analyst  
+45 33331191  
holger.sandte@nordea.com

#### Lars Peter Lilleøre

Chief Analyst  
+45 33331457  
lars.peter.lilleore@nordea.com

#### Mats Hydén

Chief Analyst  
+46 8 10 36 41  
fredrik.floric@nordea.com

#### Torbjörn Isaksson

Chief Analyst  
+46 8 614 96 02  
torbjorn.isaksson@nordea.com

#### Jan Størup Nielsen

Senior Analyst  
+45 3333 3171  
jan.storup.nielsen@nordea.com

#### Daniel F Gustafsson

Assistant Analyst  
+45 3333 5115  
daniel.freyr.gustafsson@nordea.com

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## SEK: Mortgage rates weigh on the CPI

### Torbjörn Isaksson

Chief Analyst  
+46 8 614 96 02  
torbjorn.isaksson@nordea.com

### Mats Hydén

Chief Analyst  
Strategy Research Sweden  
+46 8 614 96 02  
mats.hyden@nordea.com

- In July, especially clothing and footwear prices change with the summer sale in full swing. This contributes to reducing the CPI by 0.4% point according to our forecast. Also mortgage rates declined in the wake of the Riksbank's rate cut, and electricity became somewhat cheaper.
- Prices of package holidays and international flights diverged in July, with the former rising and the latter dropping according to our forecast. In net terms, these price changes contribute just under +0.1% point to the CPI. Prices of international flights are highly volatile and this has made the monthly CPI forecasts more uncertain. They are a wild card also for July, and prices may have been reduced more than assumed in this forecast.
- Looking further ahead, we have revised up our CPIF forecast, mainly due to a weaker krona. However, the forecast for the CPI has been revised downwards on lower mortgage rates and the new outlook for the Riksbank. We now expect the Riksbank to stay on hold until late 2015

### Market

- Swedish 10y linkers continue to trade in a rather tight range, break-even wise. Still, the unexpectedly large 50 bps rate cut from the Riksbank in July combined with an easing bias and a commitment to inflation targeting even on a near-term horizon in the latest minutes, should all be supportive factors for longer term linkers (SGBi 3108, 3109 and 3104).
- The decrease of floating mortgage lending rates in the aftermath of the rate cut will directly pull CPI downward the next coming months (3 month rolling average om 3m floating rates used in the CPI basket), while the consolidation of the SEK at these weaker levels will feed-through into higher CPI numbers on an y/y basis. In one way, this should lead to a steepening of the BEI curve, but clearly factors abroad (lower US 10s and a potentially flatter US 2-10s curve as end of QE3 approaches) may keep a lid on nominal 10s. So a more cautious choice would be to vouch for a flatter real rate curve, such as SGBi 3102 versus 3109 or 3104.
- On the 14th August, 1 bn SEK SGBi 3109s (maturity June 2025) are being auctioned. This will be the first index-linked auction since June.

### CPI forecast and contributions

Forecasts for June	Nordea	Riksbank	Prior
CPI m/m	-0.4		0.2
CPI v/y	-0.1	-0.3	0.2
CPIF m/m	-0.3		0.2
CPIF v/y	0.5	0.4	0.8
CPI, index	313.36		314.70

	Weight, %	Change, % m/m July 2014E	Contribution m/m, % points: July 2014E	July 2013
Food	13.3	0.0	0.00	0.03
Clothing and footwear	5.2	-7.3	-0.38	-0.39
Rents	11.4	0.2	0.02	0.01
Mortgage rates	5.7	-1.9	-0.09	-0.04
Fuel, heating oil	4.4	0.0	0.00	0.10
Electricity	4.2	-0.6	-0.03	0.02
Other goods and services	55.8	0.1	0.05	0.13
<b>CPI, total</b>	<b>100.0</b>	<b>-0.42</b>	<b>-0.42</b>	<b>-0.14</b>

### Swedish and French BEIs in range over the summer



Source: Nordea Markets



## DKK: Stable at a very low level

**Jan Størup Nielsen**  
Senior Analyst  
+45 3333 3171  
jan.storup.nielsen@nordea.com

**Daniel F Gustafsson**  
Assistant Analyst  
+45 3333 5115  
daniel.freyr.gustafsson@nordea.com

	Jul	Consensus	Jun
CPI, %m/m	-0.3%	-	-0.1%
CPI, %y/y	0.5%	-	0.5%
CPI, index	130.4	-	130.8

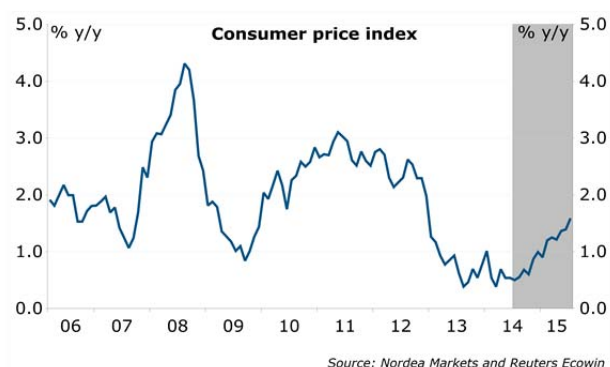
- Danish inflation stayed unchanged in June at 0.5% y/y. This is close to the historical low level of 0.4% reached in March
- In July we expect Danish CPI-inflation to fall by 0.3% m/m, equivalent to an unchanged 0.5% y/y. It is mainly a negative contribution from Transport and Clothing & Footwear which are expected to push the month-over-month-inflation numbers lower in July. Package holidays are the big unknown in the July numbers. Normally prices rise sharply over the summer vacation but due to the very warm weather there could be a stronger than normal downward price pressure.
- The Danish inflation is expected to remain relatively low for the rest of 2014, as a very modest price increase in housing rentals will limit the potential increase. On average we expect the CPI-index to increase by 0.7% in 2014, increasing to 1.5% next year.

### Market

**Lars Peter Lilleøre**  
Chief Analyst  
+45 33331457  
lars.peter.lilleore@nordea.com

- All time low on DGBi23 Break-even, now below 1.20% mimicking the drops in e.g. DBRi23. The real-rate spread to Germany is down a few bps but still at a sizeable 27bps. Given the macro projections on DKK inflation and this healthy pick-up, DGBi23 does look attractive at these levels.
- A wildcard for DGBi23 continues to lie with issuance though the bulk is expected to come in the DGB25 nominal bond. Next auction is scheduled for the 19<sup>th</sup> of August (which bonds that will be issued there are not known yet).
- While the linker is attractive relative to Germany, we continue to believe that the best bet for spread tightening is the swap spread where the 10Y spread lately has been quite stable around 32bps. This is in particular the case for EUR investors due to a still low xCcy basis for EURDKK.

### CPI Development



### Break-even inflation: Free falling





## EUR: A new lower low

Jul-14	Nordea	Consensus	Previous
HICP, % m/m (nsa)	-0.6	-0.6	0.1
HICP, % y/y	0.4	0.4	0.5
HICPxT, % y/y	0.4	-	0.4
HICPxT, index (nsa)	118.8	-	117.6

**Holger Sandte**  
Chief Analyst  
+45 33331191  
holger.sandte@nordea.com

- According to the flash estimate, Euro area inflation fell to 0.4% y/y in July, a new cyclical low. Declining energy prices in the wake of the falling oil price played a dominant role. The core rate (ex food, energy, alcohol and tobacco) remains stable at 0.8% y/y. We expect these readings to be confirmed in the final reading on 14 August.
- Still according to flash estimates, German HICP inflation was down to 0.3% (Italy: 0.0%; Spain: -0.3%). For France, we expect -0.4% m/m and 0.5% y/y, to be published on 13 August.
- Looking forward, inflation could move lower in August to 0.3% y/y, depending mainly on energy/oil prices. For the moment, our take for August is an unchanged rate of 0.4% y/y. We expect a rate of 0.75% by the end of the year, driven by positive base effects in energy prices.

### Market

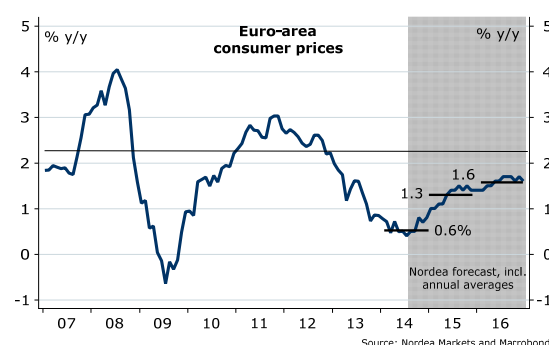
- Yesterday's ECB meeting was more of the same regarding HICP inflation. Draghi naturally acknowledged the recent lows, but reiterated that over the medium and long term inflation continues to be firmly anchored. He also underlined that the ECB are strongly determined to safeguard this anchoring. New ECB projections for inflation are up next meeting, and further downward revision cannot be discounted.
- Indeed, the market is pricing in ever lower fixings for the immediate future with September bottoming out with just 0.23%. Further out, does 1.07% for the 5Y inflation swap correspond to a firm anchor? Depends on who sees it evidently. We continue to see the spread between 5Y5Y (now around 2.05%) and 5Y as way too high.
- The ECB are also caught in the calendar insofar as new initiatives (apart from an ABS programme) make limited sense until the first effects of the tLTRO can be assessed. So the question is how they will safeguard the expectations they say they will; the market is rightfully sceptic. Some solace can come from the EURUSD currency which has weakened to below 1.34 now.

**Lars Peter Lilleøre**  
Chief Analyst  
+45 33331457  
niels.blixenkrone@nordea.com

### HICP forecast and contributions

Jul-14	Weight	%m/m (nsa)		%y/y
		Forecast	Contribution	Forecast
Ex energy & unpr food	81.7	-0.7	-0.57	0.8
- of which tobacco	2.3	0.2	0.00	2.4
Energy	10.8	-0.2	-0.02	1.0
Unprocessed food	7.5	-0.7	-0.05	-2.5
<b>Euro area</b>	<b>100.0</b>	<b>-0.6</b>	<b>-0.6</b>	<b>0.4</b>
Germany	27.8	0.3	0.08	0.8
France	20.6	-0.4	-0.08	0.5
Italy	17.7	-2.1	-0.37	0.0
Spain	12.0	-1.5	-0.18	-0.3

### Low inflation for long





## Index-linked data matrix

Bond	Cpn	Maturity	Risk	Quote	Yld	Real rate carry		BEI carry		SA BEI	Tail BEI	Comparator
						Sep01	Sep01to Oct01	BEI	Sep01			
SE IL 3105	3.5	2015-01-12	1.69	-0.68	-0.68	2.5		0.85	6.4	0.65		SE 1049
SE IL 3107	0.5	2017-01-06	3.02	-0.71	-0.71	0.8		1.12	1.6	1.07	1.37	SE 1051
SE IL 3102	4	2020-01-12	9.50	-0.32	-0.32	0.8		1.32	0.6	1.27	1.50	SE 1047
SE IL 3108	0.25	2022-01-06	8.08	-0.14	-0.14	0.8		1.37	0.4	1.36	1.86	SE 1054
SE IL 3109	1	2025-01-06	11.36	0.09	0.09	0.7		1.47	0.1	1.46	1.77	SE 1058
SE IL 3104	3.5	2028-01-12	21.59	0.23	0.23	0.6		1.75	0.0	1.73	1.59	SE 1056
DK IL 0.115 Nov23	0.1	15/11/2023	9.75	101.70	-0.08	-0.7		1.15	-1.4	1.18		DK 15 15 Nov23
DE IL 15 15 Apr16	15	15/04/2016	1.98	102.24	0.16	3.8		-0.15	4.7	0.35		DE 2.75 08 Apr16
DE IL 0.75 15 Apr18	0.75	15/04/2018	4.06	104.29	-0.41	0.6		0.51	0.9	0.73	1.01	DE 0.25 13 Apr18
DE IL 1.75 15 Apr20	1.75	15/04/2020	6.82	118.08	-0.52	0.3		0.88	0.1	1.04	1.58	DE 3.04 Jul20
DE IL 0.115 Apr23	0.1	15/04/2023	9.35	103.90	-0.34	0.3		1.22	-0.2	1.31	1.88	DE 15 15 May23
DE IL 0.5 15 Apr30	0.5	15/04/2030	16.43	107.19	0.04	0.3		1.48	-0.1	1.54	2.39	DE 6.25 04 Jan30
FR IL 16 25 Jul15 (OATel)	16	25/07/2015	1.17	102.05	-0.55	15		0.57	3.3	0.04		FR 2 12 Jul15
FR IL 0.25 25 Jul18 (OATel)	0.25	25/07/2018	4.24	102.96	-0.49	0.4		0.73	0.4	0.60	0.84	FR 125 May18
FR IL 2.25 25 Jul20 (OATel)	2.25	25/07/2020	8.09	116.25	-0.44	0.3		0.98	0.0	0.89	1.58	FR 3.5 25 Apr20
FR IL 11.25 Jul22 (OATel)	11	25/07/2022	9.27	110.77	-0.24	0.4		1.09	0.0	1.03	1.91	FR 8.25 25 Apr22
FR IL 0.25 25 Jul24 (OATel)	0.25	25/07/2024	10.31	102.79	-0.03	0.5		1.23	-0.2	1.18	2.23	FR 4.25 25 Oct23
FR IL 1.85 25 Jul27 (OATel)	1.85	25/07/2027	16.30	121.33	0.18	0.4		1.59	-0.4	1.55	2.28	FR 2.75 25 Oct27
FR IL 3.15 25 Jul32 (OATel)	3.15	25/07/2032	26.94	147.45	0.40	0.4		1.63	-0.2	1.59	2.21	FR 5.75 25 Oct32
FR IL 18.25 Jul40 (OATel)	18	25/07/2040	32.50	130.91	0.52	0.3		1.78	-0.3	1.76	2.34	FR 4.5 25 Apr41
FR IL 0.45 25 Jul16 (OAT I)	0.45	25/07/2016	2.09	101.57	-0.35	-3.3		0.40	-2.6	0.27		FR 2.5 25 Jul16
FR IL 12.5 Jul17 (OAT I)	1	25/07/2017	3.47	104.23	-0.42	-2.2		0.55	-2.0	0.46	0.81	FR 125 Jul17
FR IL 13.25 Jul19 (OAT I)	1.3	25/07/2019	5.66	109.05	-0.50	-1.4		0.85	-1.6	0.80	1.48	FR 4.25 25 Apr19
FR IL 0.125 Jul21 (OAT I)	0.1	25/07/2021	7.25	103.00	-0.33	-0.9		1.05	-1.3	1.01	1.71	FR 3.75 25 Apr21
FR IL 2.125 Jul23 (OAT I)	2.1	25/07/2023	11.09	120.59	-0.18	-0.5		1.33	-1.3	1.30	2.21	FR 1.75 25 May23
FR IL 3.4 25 Jul29 (OAT I)	3.4	25/07/2029	23.15	146.76	0.22	-0.1		1.63	-0.8	1.61	2.54	FR 5.5 25 Apr29
IT IL 2.1 15 Sep16	2.1	15/09/2016	2.28	103.61	0.36	3.6		0.23	2.5	0.03		IT 4.75 15 Sep16
IT IL 2.1 15 Sep17	2.1	15/09/2017	3.66	104.81	0.53	2.9		0.33	1.5	0.19	0.63	IT 5.25 01 Aug17
IT IL 1.7 15 Sep18	1.7	15/09/2018	4.18	104.34	0.62	2.3		0.50	0.8	0.40	1.19	IT 4.5 01 Aug18
IT IL 2.35 15 Sep19	2.35	15/09/2019	5.76	107.97	0.75	2.0		0.66	0.5	0.57	1.27	IT 4.25 01 Sep19
IT IL 2.1 15 Sep21	2.1	15/09/2021	7.60	106.36	1.17	1.9		0.93	0.1	0.87	1.91	IT 4.75 01 Sep21
IT IL 2.6 15 Sep23	2.6	15/09/2023	10.05	108.55	1.59	1.9		1.05	-0.1	1.00	1.78	IT 4.75 01 Aug23
IT IL 2.35 15 Sep24	2.35	15/09/2024	9.52	105.71	1.74	1.8		1.21	-0.1	1.16	2.07	IT 5.01 Mar25
IT IL 3.1 15 Sep26	3.1	15/09/2026	12.14	112.60	1.94	1.6		1.19	0.0	1.15	2.19	IT 7.25 01 Nov26
IT IL 2.35 15 Sep35	2.35	15/09/2035	20.36	102.66	2.20	1.2		1.48	-0.3	1.46	2.31	IT 5.01 Aug34
IT IL 2.55 15 Sep41	2.55	15/09/2041	21.21	100.40	2.55	1.2		1.41	-0.3	1.38	1.43	IT 5.01 Sep40

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