



Week Ahead

14 – 22 May



Nordea Research, 13 May 2015

Next week's key events

- **US**

Minutes of the 28-29 April FOMC minutes meeting are expected to signal that the Fed still sees a first rate hike later this year. However, the minutes are unlikely to clearly indicate when the FOMC expects lift-off in rates. Also, we expect CPI headline inflation to remain at -0.1% y/y in April, held down by lower energy prices. The consensus forecast is -0.2%.

- **Euro area**

We expect a sideways movement for the flash PMIs (Thursday) and small decline for the Ifo-Index (Friday), all in all data indicating that growth continues but does not accelerate. Final inflation numbers should confirm the preliminary reading. Talks between Greece and its creditors will go on. We stick to the view, that ultimately an agreement will be found, but not necessarily soon.

- **UK**

As expected the BoE kept its monetary policy stance unchanged at the MPC meeting on 7-8 May (Bank rate at 0.5% and the size of the Asset Purchase Programme at GBP 375bn). Most likely the MPC members unanimously (9-0) voted for unchanged policy stance.

- **China**

The HSCB/Markit flash PMI for May is likely to extend the weakness from last month (48.9). It will add more evidence to the fact that China's industrial sector is the economy's weakest link.

- **Japan**

We expect the preliminary GDP figures for Q1 to show steady growth in Japan, of 0.6% q/q (2.4% annualised). This is higher than market consensus of 0.4% q/q (1.5% annualised) and an improvement from Q4 (0.4% q/q).

- **Sweden**

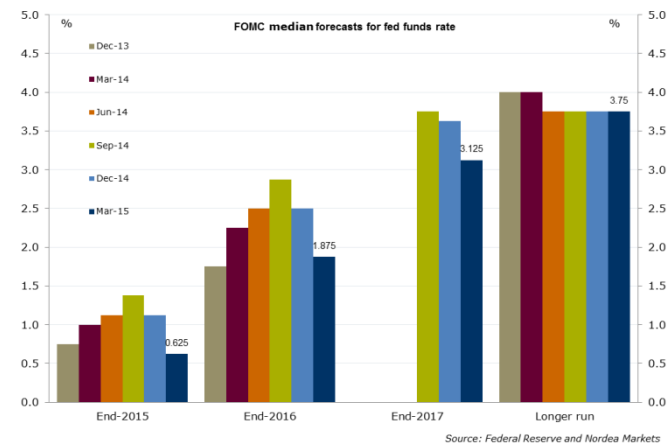
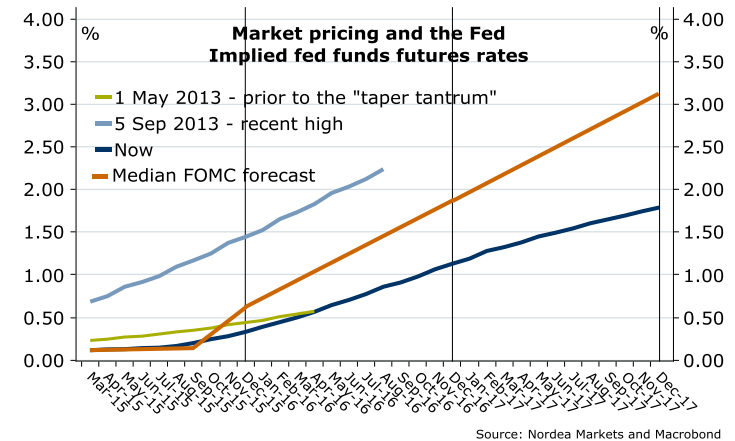
We have penciled in a rise in unemployment to 7.7% from 7.6% in March (seasonally adjusted). Labour Force Survey data is volatile and the expected uptick in April reflects panel effects and other statistical noise.

- **Norway**

Mainland GDP growth averaged 0.5% q/q last year and that was also growth in Q4. Surveys and the labour market figures points to a slow-down in 2015.

US: FOMC minutes to point to lift-off this year (Wed)

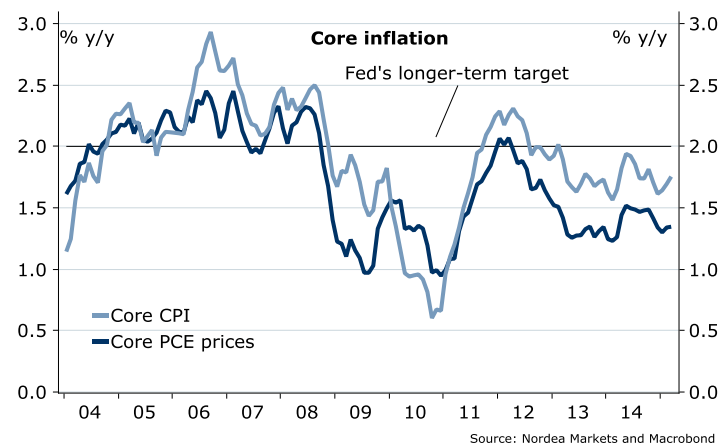
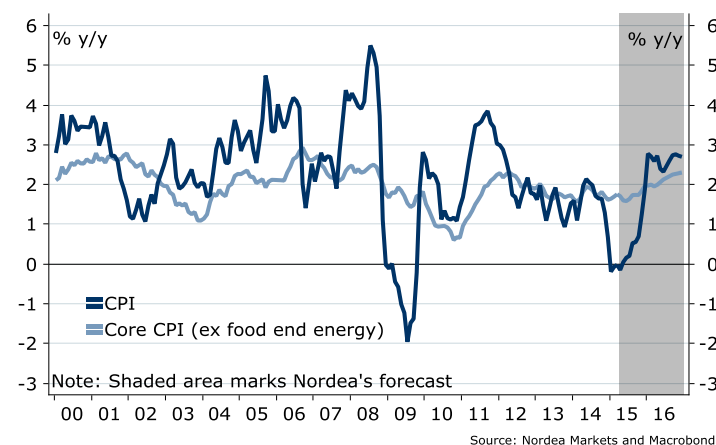
- Minutes of the 28-29 April FOMC minutes meeting are expected to signal that the Fed still sees a first rate hike later this year. However, the minutes are unlikely to clearly indicate when the FOMC expects lift-off in rates.
- The most interesting part of the minutes will likely be on the discussion of the underlying reasons behind the economic weakness in Q1. The role of the stronger USD will be of key interest.
- We expect that the majority of FOMC participants attributed the slowdown in growth and employment at the start of the year to transitory factors, in effect signalling that a rate hike remains on the table for the months ahead.
- We continue to expect lift-off in September. The probability of a Fed rate hike in June has recently faded, while we do not exclude that the central bank could delay the first move until December.
- Our fed funds rate forecast by end-2015 and end-2015 are spot on the Fed's new median forecasts.



US: CPI inflation to remain negative (Fri)

- We expect **CPI** headline inflation to remain at -0.1% y/y in April, held down by lower energy prices. The consensus forecast is -0.2%.
- Headline CPI inflation is expected to remain close to zero through Q2 before gradually moving towards 2% by end-2015 and 2½% in early 2016, given our forecast that Brent oil prices will gradually rise to around USD 70 over this period.
- We expect the **core rate** to dip to 1.7% y/y in April from 1.8% in March, in line with the consensus estimate. In April the core CPI will likely be held up by rising shelter cost, offsetting pass-through from a stronger USD into core goods prices. Labour-intensive service prices and rents represent around 75% of the core CPI, while imported goods prices make up only about 6% of the core.
- Given the typical gap between CPI and PCE inflation, our forecast is consistent with core PCE inflation around 1.3%, well below the Fed's 2% longer-run target.
- However, an increase in core price inflation or wage inflation is not a prerequisite for lift-off in Fed rates.

Apr-15	Nordea	Consensus	Previous
CPI, % y/y	-0.1	-0.2	-0.1
Core CPI, % y/y	1.7	1.7	1.8

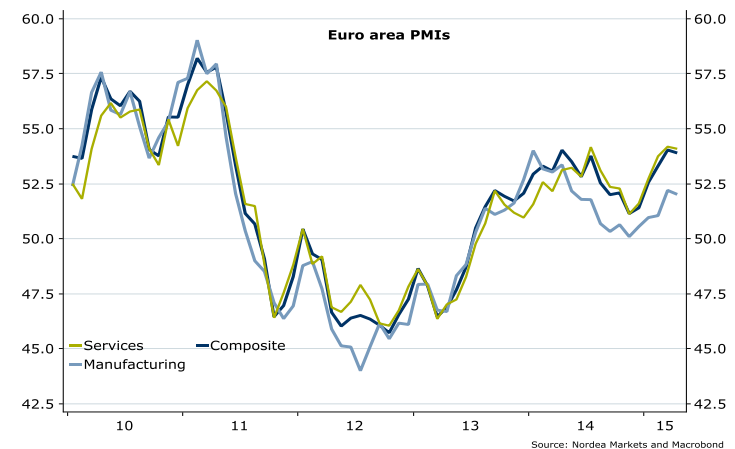
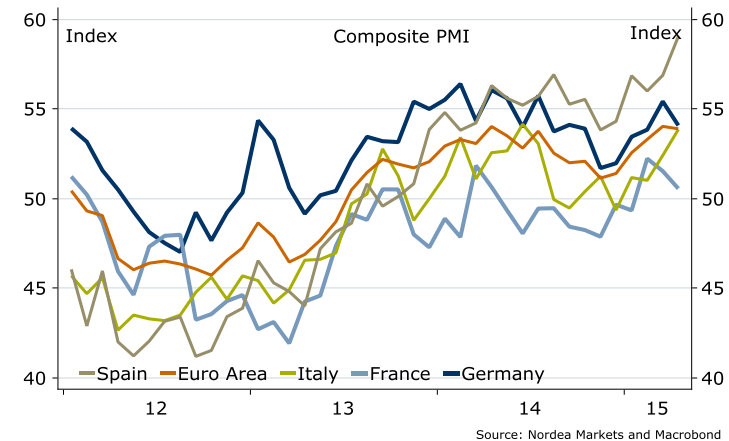


Euro area: Confidence close to peak (Thu & Fri)

- On Thursday we will get the PMIs for May and on Friday the IFO index for Germany.
- The purchasing manager indices will remain at elevated levels indicating growth around 0.3-0.4 % q/q going forward.
- The services sector continues to be the engine of growth and the long awaited pick up in manufacturing will not be seen this month either.
- In Germany business expectations will fall slightly while the perception of the current situation continues to improve.
- The still weak currency and oil price, albeit higher than in the beginning of the year, will continue to support growth during the second quarter of the year.

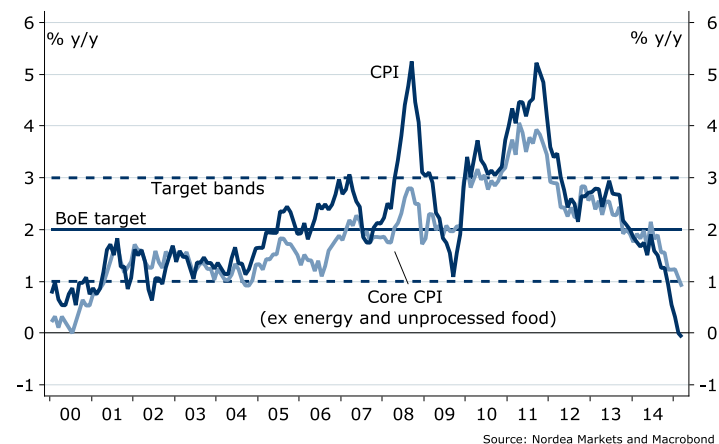
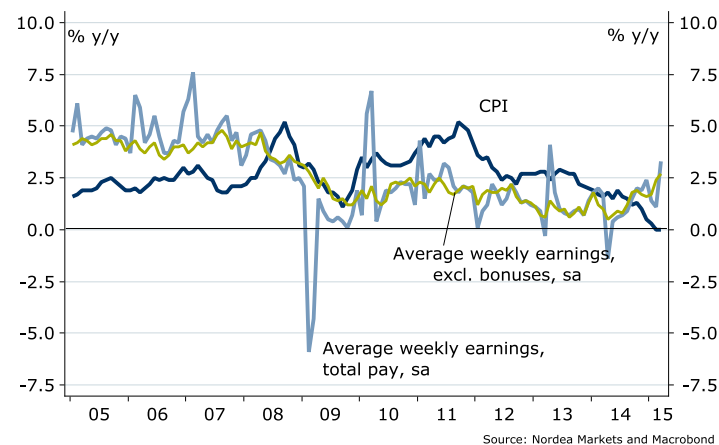
May 2015	Nordea	Consensus	Previous
PMI composite	53.8	-	53.9
PMI manufacturing	51.8	-	52.0
PMI services	54.1	-	54.1
Ifo business climate	108.5	-	108.6
Ifo business expectations	103.0	-	103.4
Ifo business conditions	114.3	-	113.9

Source: Nordea Markets and macrobond



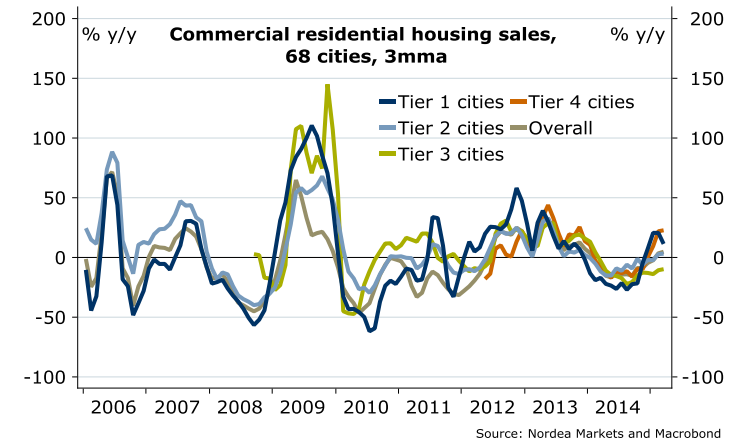
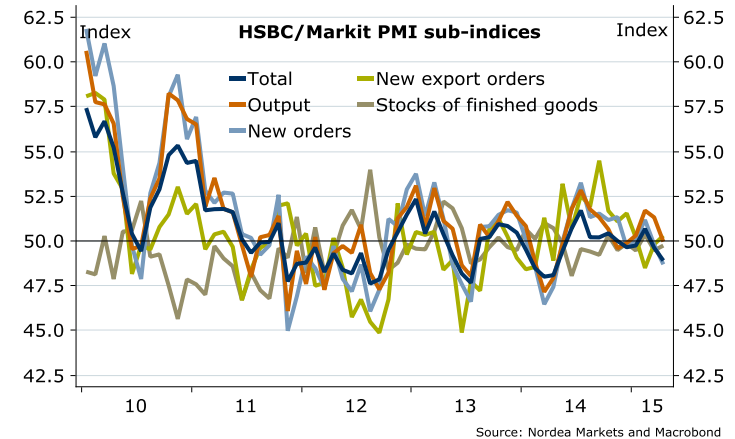
BoE: Still 9-0 (Wed)

- As expected the BoE kept its monetary policy stance unchanged at the MPC meeting on 7-8 May (Bank rate at 0.5% and the size of the Asset Purchase Programme at GBP 375bn).
- Most likely the MPC members unanimously (9-0) voted for unchanged policy stance.
- The minutes from the April MPC meeting stated that *"... all Committee members agreed that it was appropriate to leave the stance of monetary policy unchanged at this meeting, although two members regarded this month's decision as finely balanced. There was a range of views over the most likely future path of Bank Rate, but all members agreed that it was more likely than not that Bank Rate would rise over the three-year forecast period."*
- We believe that the May MPC minutes will focus on the absorption of the slack in the economy and the strengthening of the GBP (Wed).
- CPI inflation was 0.0% y/y in March, mainly due to fall in food and energy prices. We believe inflation will remain around zero in April (Tue).
- Our forecast is that the BoE will hike rates in Q4 2015.**



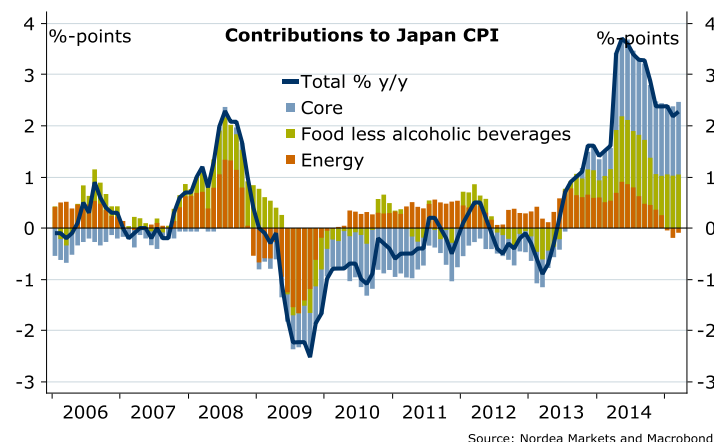
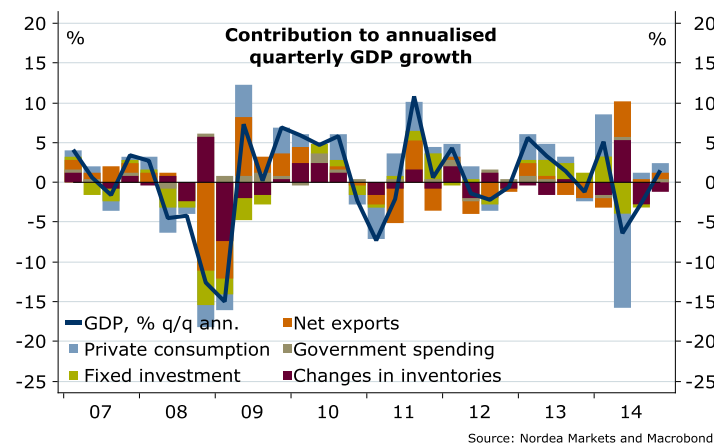
China: flash PMI likely stays weak (Thu)

- The HSCB/Markit flash PMI for May is likely to extend the weakness from last month (48.9). It will add more evidence to the fact that China's industrial sector is the economy's weakest link.
- An improvement of the PMI reading, and hence the industrial sector, cannot come without a property market recovery. Fortunately, the property market seems to be bottoming out. In the last few months, we have seen that the relaxed property market policies have triggered a return of transaction volumes. The PBoC's survey shows households' housing price satisfaction at multi-year high. Prices have stopped falling sharp. Some developers are purchasing land again.
- If this recovery materialises and sustains, it will benefit the industrial demand through construction activities and housing-related consumption goods, for instance furniture and household appliances.
- It will likely take a few more months' good news from the property market before new orders start turning in. So for May, new orders sub-index may remain sluggish. The better new export orders in April may appear to be temporary as China continues to lose competitiveness due a relatively strong trade-weighted CNY.



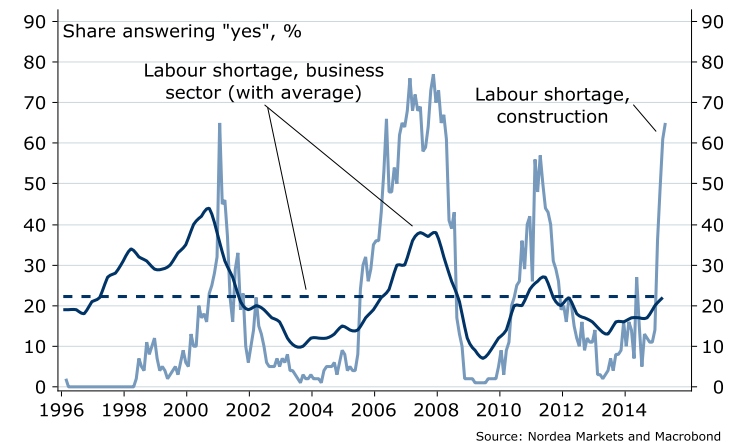
Japan: steady GDP growth (Tue) & pressed BoJ (Fri)

- We expect the **preliminary GDP figures** for Q1 to show steady growth in Japan, of 0.6% q/q (2.4% annualised). This is higher than market consensus of 0.4% q/q (1.5% annualised) and an improvement from Q4 (0.4% q/q).
- Tailwind will come from lower oil prices, weaker yen and the monetary easing expansion that took place in late October last year. In addition, the second sales tax hike, originally scheduled for October this year, has been delayed to April 2017. This should calm the consumers and promote spending (at least remove the hurdle to spend). These favourable factors will likely support growth for this year to close to trend growth of 1%.
- The **BoJ** is not expected to change the monetary policy stance. What remains a game-changer for the BoJ's QQE is inflation. We believe that the weaker yen and the sales tax hike in last April stood behind the lion's share of the inflation created so far. With the base effect from the sales tax hike fading, inflation is falling and it is not only due to the lower oil prices. We expect headline inflation to drop sharply to zero in April.
- The BoJ is in a dilemma: to expand the QQE and defend its inflation target or keep the QQE unchanged and lose its credibility.



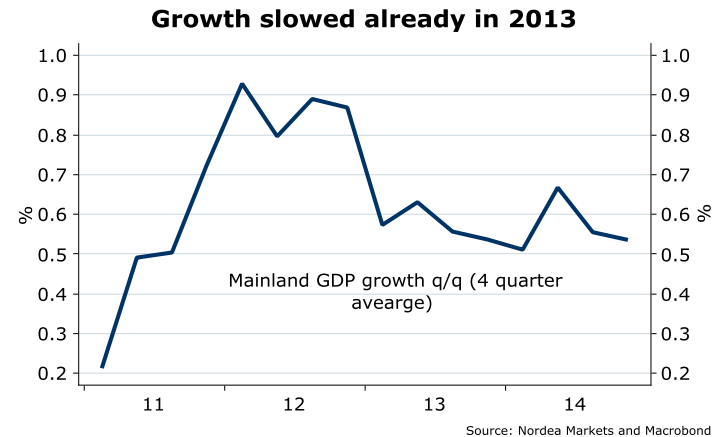
Sweden: Temporary uptick in unemployment (Wed)

- The labour market is improving. Employment is showing strong growth and was up by a full 0.4% on the quarter in Q1. Unemployment is declining, but only gradually as labour supply is increasing too.
- As for April, we have penciled in a rise in unemployment to 7.7% from 7.6% in March (seasonally adjusted). Labour Force Survey data is volatile and the expected uptick in April reflects panel effects and other statistical noise. Thus, it is not a sign that the labour market has turned to the worse if our forecast proves right. On the contrary, indicators paint a rather bright picture and the upward trend in employment is expected to continue. Notably, some bottle necks have already occurred. *(Wednesday)*
- Read more on the labour market and the coming wage round [here](#).



Norway: How much will the economy slow (Wed)

- Mainland GDP growth averaged 0.5% q/q last year and that was also growth in Q4. Surveys and the labour market figures points to a slow-down in 2015.
- Norges Bank forecast mainland GDP growth in Q1 (Wed) at 0.35% q/q. Our preliminary forecast is 0.3% (trade figures out 15/5 will decide the final forecast)
- Manufacturing production is clearly hit by the slow down in oil related industries and is expect to drop by 1% q/q. We also believe some services sectors to be hit by the slow down.
- On the other hand consumption seems to have increased in Q1 and there is very moderate rebound in construction after a drop in Q4.
- Electricity production (ignored by Norges Bank) pull up 0.1% points in our forecast. Corrected for that mainland growth is rather weak and if we are right slightly on the downside to Norges Bank



Calendar

Thursday, 14/05/2015					Nordea	Consensus	Actual	Previous
	DK	Ascension Day						
	NO	Ascension Day						
	SE	Ascension Day						
01:01	GB	House price balance, RICS	Apr			22%		21%
14:00	PL	CPI (y/y)	Apr			- 1.2%		- 1.5%
14:30	US	Jobless claims, continuing	May			2232k		2228k
14:30	US	Jobless claims, initial	May			273k		265k
14:30	US	PPI final demand (y/y)	Apr			- 0.8%		- 0.8%
14:30	US	PPI, core (y/y)	Apr			1.1%		0.9%
Friday, 15/05/2015					Nordea	Consensus	Actual	Previous
	DK	Day After Ascension						
09:00	CN	Money supply, M2 (y/y) (Exp 10- 15 May)	Apr			11.9%		11.6%
10:00	NO	Exports, traditional, volume (q/q)	Q1					
10:00	NO	Foreign trade with goods (bn)	Apr					20.7bn
14:30	US	Empire manufacturing	May			5		- 1.19
15:00	US	TIC flows, net total	Mar					4.1bn
15:15	US	Capacity utilization	Apr			78.3%		78.4%
15:15	US	Industrial production (m/m)	Apr			0.0%		- 0.6%
16:00	US	Consumer confidence, U. of Mich., 5- 10Y inflation (prelim.)	May					2.6%
16:00	US	Consumer confidence, University of Michigan (preliminary)	May			95.9		95.9
Monday, 18/05/2015					Nordea	Consensus	Actual	Previous
08:00	US	Fed's Evans Speaks on Economy and Monetary Policy in Stockholm						
09:00	SE	Meeting of the Executive Board of the Riksbank						
09:30	SE	Capacity utilization, manufacturing industry (q/q)	Q1					0.5%
09:30	SE	Industrial production (y/y)	Q1					
09:30	SE	Inventories, manufacturing industry	Q1					- 8.0bn
16:00	US	Housing market index, NAHB	May			56		56
Tuesday, 19/05/2015					Nordea	Consensus	Actual	Previous
10:30	GB	CPI (y/y)	Apr					0.0%
11:00	EU	HICP (m/m, final)	Apr		0.2%			1.1%
11:00	EU	HICP (y/y, final)	Apr		0.0%			0.0%
11:00	EU	HICP core - ex food, energy, alcohol & tobacco (m/m, final)	Apr		0.6%			
11:00	EU	HICP core - ex food, energy, alcohol & tobacco (y/y, final)	Apr		0.3%			0.6%
11:00	EU	Trade balance (sa)	Mar					22.0bn
11:00	DE	ZEW, current situation	May		65			70.2
11:00	DE	ZEW, expectations	May		50			53.3
14:30	US	Building permits	Apr			1057k		1039k

Calendar

Tuesday, 19/05/2015 (continued)					Nordea	Consensus	Actual	Previous
14:30	US	Housing starts (m/m)	Apr			10.2%		2.0%
Wednesday, 20/05/2015					Nordea	Consensus	Actual	Previous
01:50	JP	GDP (q/q annualised, preliminary)	Q1			1.6%		1.5%
09:00	US	Fed's Evans Speaks on Economy and Monetary Policy in Munich						
09:30	SE	Unemployment, labour force survey (AKU), sa	Apr					7.6%
10:00	NO	GDP (q/q)	Q1					0.9%
10:00	NO	GDP, mainland (q/q)	Q1					0.5%
10:00	NO	Mortgage rate, banks and mortgage companies (SSB)	Mar					3.04%
10:30	GB	Minutes of the BoE meeting						
20:00	US	U.S. Fed Releases Minutes from April 28- 29 FOMC Meeting						
Thursday, 21/05/2015					Nordea	Consensus	Actual	Previous
03:45	CN	PMI, manufacturing (flash), HSBC	May					48.9
09:00	FR	PMI, manufacturing (preliminary)	May					48
09:30	DE	PMI, manufacturing (preliminary)	May					52.1
10:00	EU	PMI, composite (flash)	May	53.8				53.9
10:00	EU	PMI, manufacturing (flash)	May	51.8				52.0
10:00	EU	PMI, services (flash)	May	54.1				54.1
10:30	GB	Retail sales ex auto (y/y)	Apr					5.0%
10:30	GB	Retail sales ex auto fuel (m/m)	Apr					0.2%
13:30	EU	ECB account of the monetary policy meeting						
14:30	US	Jobless claims, initial	May					
16:00	EU	Consumer confidence (flash)	May	- 4.8				- 4.6
16:00	US	Home sales, existing (m/m)	Apr		0.7%			6.1%
16:00	US	Leading index	Apr		0.3%			0.2%
16:00	US	Philadelphia Fed	May		8			7.5
Friday, 22/05/2015					Nordea	Consensus	Actual	Previous
	JP	BoJ Monetary Policy Meetings						
01:00	US	Fed's Williams Speaks on Central Bank Governance at Stanford						
08:45	FR	Business confidence (manufacturing), INSEE	May					101
10:00	DE	Ifo, business climate (main)	May	108.5				108.6
10:00	DE	Ifo, current assessment	May	114.3				113.9
10:00	DE	Ifo, expectations	May	103				103.5
10:00	NO	Financial accounts households	Q1					
14:30	US	CPI (y/y)	Apr		- 0.1%			- 0.1%
14:30	US	CPI, core (y/y)	Apr		1.8%			1.8%
14:30	US	Hourly earnings, average (y/y)	Apr					2.2%
15:45	US	Markit manufacturing PMI (preliminary)	May					54.1

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