

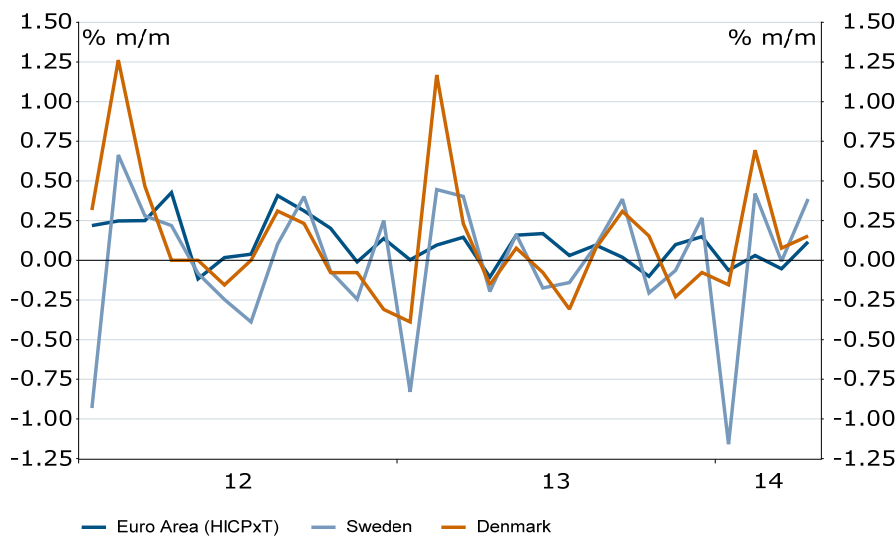
Inflation SEK, DKK & EUR

May previews and markets

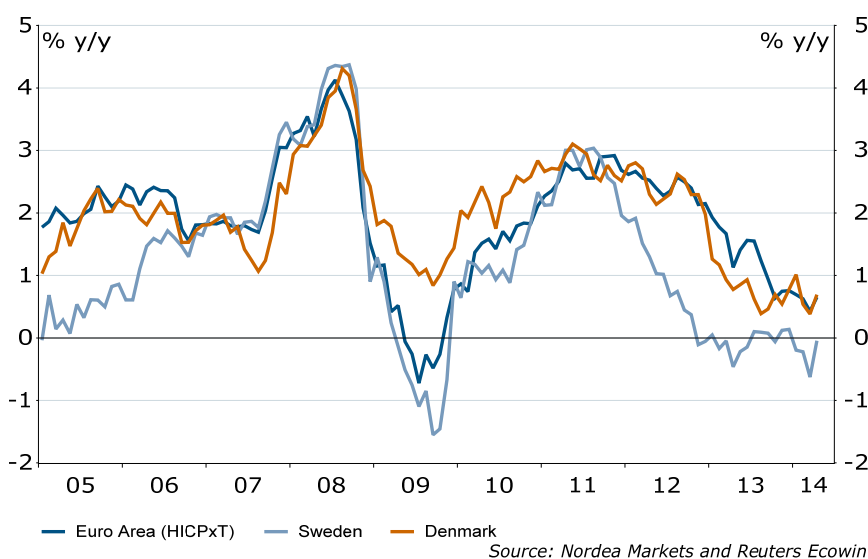
Nordea Research, 10 June 2014

- **SEK:** Foggy outlook and event risks
- **DKK:** Inflation on a slow uptrend, with the key word being slow. We're neutral on the inflation linker
- **EUR:** Another flash hit the dust, but the ECB certainly delivered, and a now battling dis-inflation with almost all they have.

Consumer prices – monthly changes



Consumer prices – yearly changes



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SEK: Foggy outlook and event risks

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- Our call for CPI in May is -0.2% y/y (0.0% m/m)
- Ticket prices for foreign flights are a wild card. They rose by 39% m/m in April and boosted the April CPI by almost 0.3% point. We expect them to fall in May and shave off 0.12% point of the CPI. Electricity prices rose in May and lifted the CPI by almost 0.1% point. We expect them to decline again in June.
- We see the March reading as the trough for inflation for this time around. However, the main question remains how low underlying cost pressures are. There have been many very low CPI prints the past 6 months, and although we have taken the low CPI trend into account downside risks is still looming in the background.

Index-linked

- With the buy-backs of SGBi 3105 over and done with, the next piece of information regarding bond supply will be in the upcoming borrowing report from the debt office (17th June). We currently see a balanced risk around any changes to gross issuance for the coming year.
- The near-term event risk for Swedish index-linked is the potential strengthening of the currency in the event of central bank driven weakening of the Euro. From this perspective we see some value in real curve flatteners, such as selling SGBi 3102 versus 3104 or 3109.
- In break-evens, most value is still found on shorter maturities, such as in SGBi 3107 and 3102.

CPI forecast and contributions

	Nordea	Riksbank	Prior
CPI m/m	0.0		0.4
CPI y/y	-0.2	0.0	0.0
CPIF m/m	0.1		0.4
CPIF y/y	0.4	0.6	0.5
CPI, index	314.02		313.89

	Weight, %	Change, % m/m May 2014E	Contribution m/m, % points May 2014E	May 2013
Food	13.3	0.2	0.02	0.08
Clothing and footwear	5.2	0.2	0.01	-0.04
Rents	11.4	0.0	0.00	0.01
Mortgage rates	5.7	-0.3	-0.02	-0.01
Fuel, heating oil	4.4	-0.5	-0.02	0.05
Electricity	4.2	1.6	0.07	-0.08
Other goods and services	55.8	0.0	-0.02	0.15
CPI, total	100.0	0.04	0.04	0.16

Source: Nordea Markets

Swedish and US generic real rate curves



Source: Nordea Markets

DKK: Inflation on a slow uptrend

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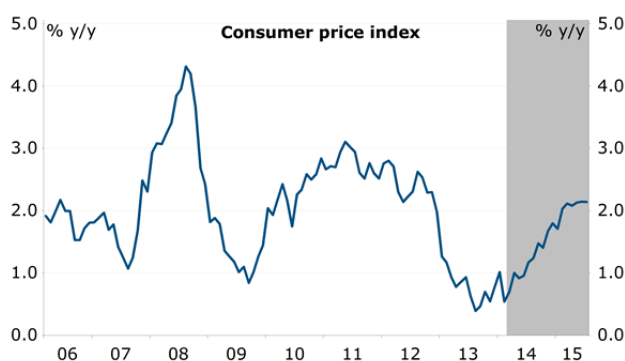
	May	Consensus	Apr
CPI, %m/m	0.2%	-	0.1%
CPI, %y/y	0.8%	-	0.7%
CPI, index	131.2	-	130.9

- After reaching a historical low in March Danish inflation is expected to continue on a gradual higher trend. In May we expect the CPI-index to increase by 0.2% m/m, equivalent 0.8% y/y
- In May it is mainly a positive contribution from heating and insurances which are expected to push the inflation numbers higher.
- 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 0.9% in 2014, increasing to 1.6% next year.

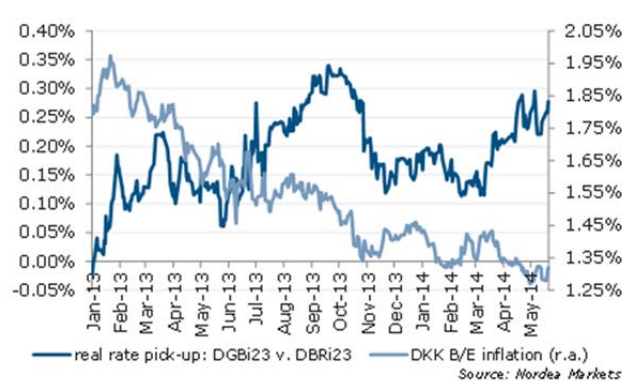
Market

- Another auction and another tap in the Danish inflation linker. Last week, Nationalbanken issued another DKK 2.85bn in DGBi23 with a bid-to-cover of 1.51. DGBi23 now has an outstanding amount just under DKK 33.5bn.
- The market has – with some difficulty initially – digested the supply fairly well. Relative to a suppressed DBRi23 we do still see a real-rate pick-up of 27bps, but the B/E inflation have moved up 6bps to 1.32% recently.
- Further supply is a wildcard on the linker, though we're of the opinion that the bulk of 10Y issuance going forward will be in the new 2025 nominal bond. Overall, we're neutral on the linker currently.

CPI Development



Pick-up Denmark vs. Germany & Danish 10Y B/E



EUR: Another downward inflation surprise

May-14	Nordea	Consensus	Previous
HICP, %m/m (nsa)	-0.1	-	0.2
HICP, %y/y	0.5	-	0.7
HICPxT, %y/y	0.5	-	0.7
HICPxT, index (nsa)	117.5	-	117.7

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- According to the flash estimate out on 3 June, Euro area inflation fell to 0.5% y/y in May, matching the cyclical low we had seen in March. We expect this reading to be confirmed in the final reading on 16 June. The decline in inflation was driven by energy, food and also by volatile core components like package holidays, a post-Easter effect. The overall price index was down 0.1% over the month, and that is what we also expect for the HICPxT, leading to a 0.5% y/y reading for May.
- Still according to flash estimates, German HICP inflation was down to 0.6% (Italy: 0.4%; Spain: 0.2%). For France, we expect -0.1% m/m and 0.7% y/y, to be published on 12 June.
- Looking forward, inflation is unlikely to move much during the coming months. For June, we penciled in an unchanged y/y readings of 0.5% both for the overall index and for HICPxT. Rates around 1% will probably only be reached in Q4 2014.

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Market

- Draghi really hates dis-inflation/deflation and the ECB threw the kitchen sink at it last Thursday. While even in the best of circumstances, prints will not react to these measures for say 12 months, the ECB did succeed in lifting the inflation swap curve, cf. the move in 5Y5Y highlighted in the chart.
- On a longer horizon, if the collective measures of last Thursday actually work in pulling Eurozone inflation upwards, then 2Y2Y on the swap curve should be more receptive than 5Y5Y. Related, 5s10s on the HICPxT EUR inflation curve should flatten from its current elevated level of 42.5bps.
- While the gap between the ECB inflation expectations (cf. table below) and those from the market for say 2016 now is less than previously, it is still there with the ECB substantially above the market. It is critical that this gap eventually diminishes from the market side as well as that would be evidence of confidence in inflation being delivered on a horizon of 2-3 years.

ECB revising their projections up

ECB staff projections and Nordea forecast, % y/y

	2014		2015		2016	
	March 14	June 14	March 14	June 14	March 14	June 14
GDP	1.2	1.0	1.5	1.7	1.8	1.8
HICP	1.0	0.7	1.3	1.1	1.5	1.4
Nordea forecast						
GDP	1.2		1.5		-	
HICP	0.8		1.5		-	

* Nordea's forecast.

Source: Nordea Markets and Macrobond

Swaps



Index-linked data matrix

Bond	Cpn	Maturity	Risk	Quote	Yld	Real rate carry		BEI carry				SA BEI	Tail BEI	Comparator
						Jul01	Jul01to Aug01	BEI	Jul01	Jul01to Aug01				
SE IL 3105	3.5	2015-12-01	1.91	-0.57	-0.57	10.8		102	12.7			0.84		SE 1049
SE IL 3107	0.5	2017-06-01	3.15	-0.40	-0.40	5.7		116	5.6			1.11	129	SE 1051
SE IL 3102	4	2020-12-01	9.46	0.09	0.09	3.0		135	2.2			1.30	154	SE 1047
SE IL 3108	0.25	2022-06-01	7.91	0.29	0.29	2.8		139	2.0			1.37	184	SE 1054
SE IL 3109	1	2025-06-01	10.94	0.50	0.50	2.2		151	1.2			1.50	189	SE 1058
SE IL 3104	3.5	2028-12-01	20.61	0.62	0.62	1.5		181	0.6			1.79	175	SE 1056
DK IL 0.115Nov23	0.1	2023-11-15	9.71	99.69	0.13	10		132	0.0			1.34		DK 15 15Nov23
DE IL 15 15Apr16	15	2016-04-15	2.22	103.37	-0.32	3.5		0.37	4.3			0.81		DE 2.75 08Apr16
DE IL 0.75 15Apr18	0.75	2018-04-15	4.29	105.30	-0.61	1.1		0.86	1.1			1.08	128	DE 0.25 13Apr18
DE IL 1.75 15Apr20	1.75	2020-04-15	7.02	113.13	-0.46	0.9		1.10	0.4			1.25	151	DE 3 04Jul20
DE IL 0.115Apr23	0.1	2023-04-15	9.36	102.20	-0.15	0.9		1.39	0.0			1.48	2.03	DE 1.5 15May23
DE IL 0.5 15Apr30	0.5	2030-04-15	15.94	103.10	0.30	0.7		168	0.0			1.74	2.78	DE 6.25 04Jan30
FR IL 16 25Jul15 (OATei)	16	2015-07-25	1.39	102.63	-0.72	3.2		0.82	4.3			0.37		FR 2 12Jul15
FR IL 0.25 25Jul18 (OATei)	0.25	2018-07-25	4.46	103.50	-0.59	1.1		106	0.6			0.93	122	FR 125May18
FR IL 2.25 25Jul20 (OATei)	2.25	2020-07-25	8.26	115.79	-0.30	1.0		120	0.2			1.11	159	FR 3.5 25Apr20
FR IL 1.125Jul22 (OATei)	1.1	2022-07-25	9.25	108.60	0.04	1.1		122	0.3			1.16	190	FR 8.25 25Apr22
FR IL 0.25 25Jul24 (OATei)	0.25	2024-07-25	10.09	99.26	0.32	1.1		135	0.0			1.30	2.36	FR 4.25 25Oct23
FR IL 1.85 25Jul27 (OATei)	1.85	2027-07-25	14.78	116.55	0.54	0.9		174	-0.3			1.70	2.47	FR 2.75 25Oct27
FR IL 3.15 25Jul32 (OATei)	3.15	2032-07-25	25.85	141.59	0.70	0.7		184	-0.2			1.81	2.70	FR 5.75 25Oct32
FR IL 1.8 25Jul40 (OATei)	1.8	2040-07-25	30.28	122.66	0.83	0.6		197	-0.3			1.95	2.49	FR 4.5 25Apr41
FR IL 0.45 25Jul16 (OATi)	0.45	2016-07-25	2.30	102.35	-0.64	-4.3		0.79	-3.9			0.67		FR 2.5 25Jul16
FR IL 1.25Jul17 (OATi)	1	2017-07-25	3.72	105.13	-0.62	-2.8		0.91	-2.9			0.83	1.13	FR 125Jul17
FR IL 1.3 25Jul19 (OATi)	1.3	2019-07-25	5.86	109.08	-0.45	-1.4		109	-2.0			1.04	162	FR 4.25 25Apr19
FR IL 0.125Jul21 (OATi)	0.1	2021-07-25	7.28	101.06	-0.05	-0.7		119	-1.6			1.15	162	FR 3.75 25Apr21
FR IL 2.125Jul23 (OATi)	2.1	2023-07-25	10.91	117.15	0.20	-0.3		143	-1.5			1.40	2.05	FR 1.75 25May23
FR IL 3.4 25Jul29 (OATi)	3.4	2029-07-25	22.23	140.78	0.58	0.0		179	-1.0			1.77	2.89	FR 5.5 25Apr29

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