# Week Ahead

## 09 – 15 Aug

Nordea Research, 08 August 2014

# Next week´s key events

- **US**

  Like this week, the coming week offers only second-tier data from the US. The most important release will likely be Friday's producer price data (PPI) for July, which will be scrutinized for any signs of further acceleration in inflation.

- **Euro Area**

  The major data release will be Q2 GDP numbers on Thursday. We expect stagnation for the Euro area and a small minus for Germany, both below consensus. Industrial production numbers for June and final inflation numbers for July will also be published. ZEW expectations will likely take a new hit.

- **UK**

  The UK economy has evolved broadly in line with the BoE's forecast in the May inflation report. Thus, we believe there will only be minor forecast revisions in the August inflation report.

- **China**

  CPI inflation tomorrow (Saturday) will again be a non-event (consensus 2.3%). PPI inflation is the indicator worthwhile watching for. Markets expect producer prices to fall by 0.9% y/y – the 29th straight month of falling PPI.

- **Japan**

  On Wednesday Japan is expected to deliver one of the worst GDP readings on record. The negative shock to the economy is hardly surprising and reflects consumers' reaction to the sales tax hike in April.

- **Sweden**

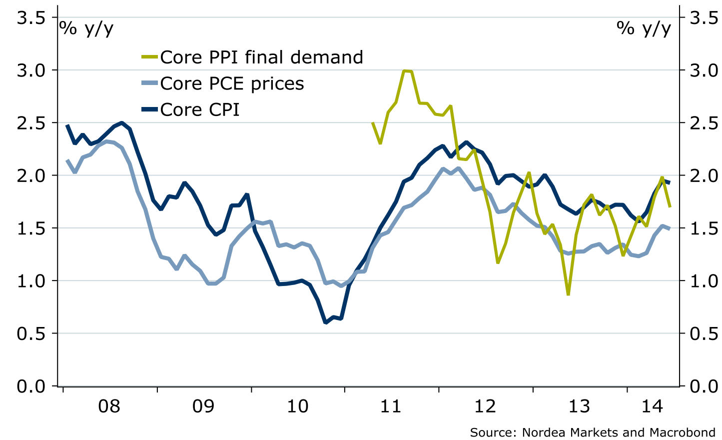
  If we are right in our CPIF forecast for July, the difference versus the Riksbank's forecast will narrow from 0.2% point to 0.1% point. Even though the difference is small, in makes an additional easing move by the Riksbank even more unlikely.

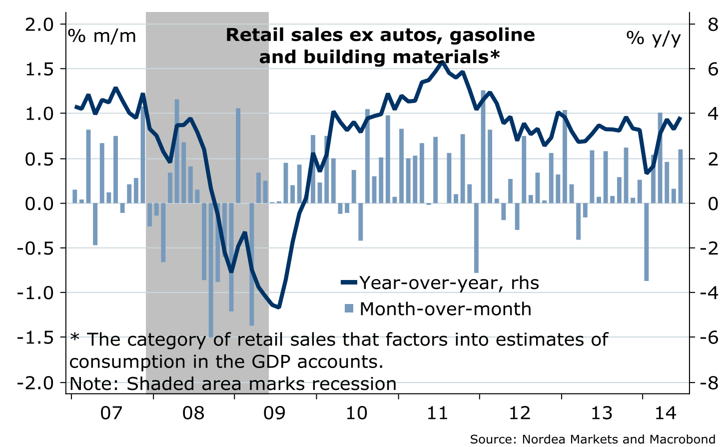
- **Norway**

  We expect a drop in core inflation. If that is the case, core inflation is 0.2% points below Norges Bank's forecast, which is enough to have a downward effect on Norges Bank's rate forecast, but far from enough to counter the effect of weaker NOK and stronger labour market figures.

# US: focus on inflation data (Fri)

- The coming week offers only second-tier data from the US. The most important release will likely be Friday's **producer price** data (PPI) for July, which will be scrutinized for any signs of further acceleration in inflation. Despite some moderation in June, core PPI inflation still show a pick-up this year, which makes the acceleration in the more important core CPI and PCE measures more credible.
- **Retail sales** data for July are released on Wednesday. Our key focus is on the so-called control sales – ex autos, gasoline, building materials and food services – which is the category which factors into estimates of consumption in GDP. The data are volatile but our best guess is a 0.4% increase after a solid 0.6% gain in June, in line with the consensus and consistent with a good start to goods consumption in Q3.
- As usual, weekly **jobless claims** will be released on Thursday. Effects of the annual auto plant shutdowns, which recently have caused some additional volatility, are typically over by now. This week the 4-week average fell to 294k, a new low since 2006 and a strong signal of continued improvement in the labour market.



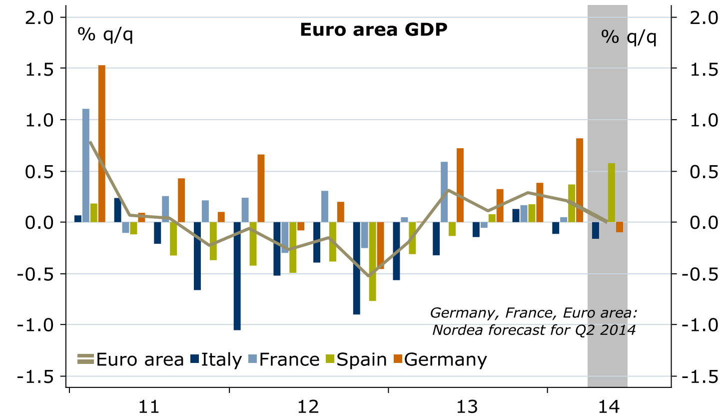



Holger Sandte

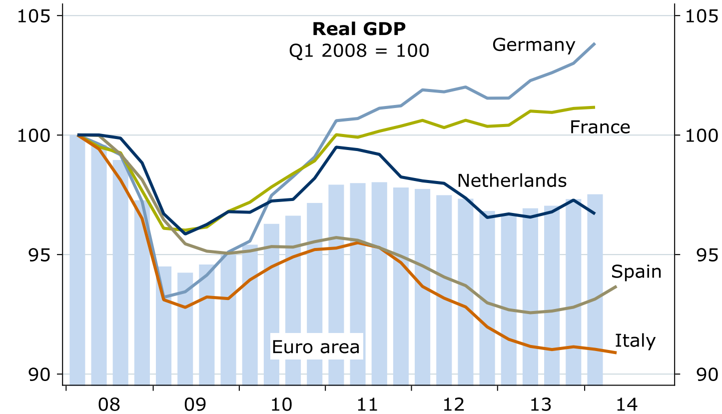
# **Euro area:** GDP (Thu) - stagnation

- We expect Euro-area to have stagnated in Q2. There were negative calendar effects and a payback in construction after the unusually mild first quarter, but there is no denying the fact the recovery has slowed down in Q2. The main reasons are the "Putin effect" and the temporary weakness in China and the US.
- We have preliminary estimates from Italy (-0.2% q/q), Spain (0.6%) and Belgium (0.1%). So Spain seems to be the new growth engine. We penciled in 0.0% q/q for France and -0.1% for Germany, where manufacturing production declined by 1% q/q.
- Looking ahead, sentiment indicators don't point towards a strong rebound in Q3. A lot of course depends on how long the "Putin factor" will weigh on sentiment. The stabilisation of growth in China and the positive outlook for the US and the UK are encouraging. We do not expect the Euro area to go into recession, but a downside GDP surprise would surely fuel the debate.

| *Q2 2014* | Nordea | Consensus | Previous |
|---|---|---|---|
| Euro area flash GDP % q/q | 0.0 | 0.2 | 0.2 |




Source: Nordea Markets and Macrobond

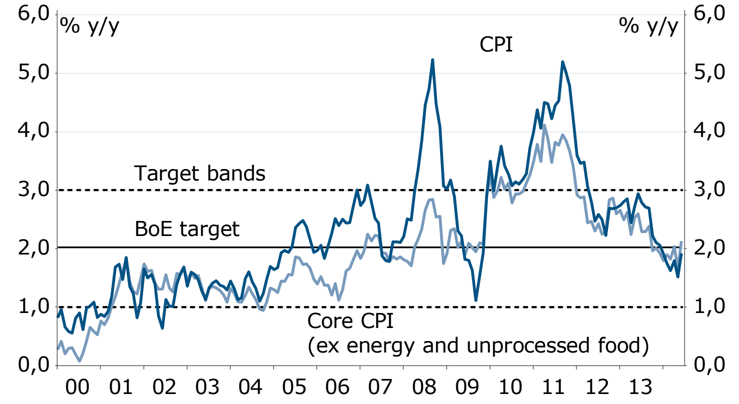



Source: Nordea Markets and Macrobond

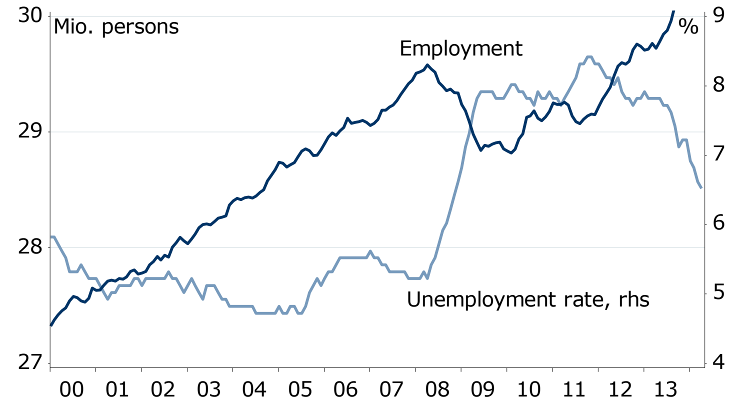
Lena Sellgren

# **UK:** Minor revisions in the BoE inflation report and unchanged unemployment rate (Wed)

- The UK economy has evolved broadly in line with the BoE's forecast in the May inflation report. Thus, we believe there will only be minor forecast revisions in the August inflation report.
- We believe the degree of **spare capacity** will still range between 1.0-1.5% of GDP.
- CPI came in at 0.2 percent m/m in June pushing up the **inflation** to 1.9 percent y/y , much higher than expected. The UK inflation has been volatile on a monthly level and the June increase only brought it back to a level seen earlier this year. Thus it's too early to argue that the trend of falling inflation has reversed. We expect the BoE to basically keep their inflation forecast.
- The labour market continues to strengthen. However, we expect the unemployment rate to fall in a slower pace onwards and stay unchanged at 6.5 percent in June.
- Markets are currently pricing the first full rate hike in Q1 2015. Despite strong growth prospects and the jump in inflation, we believe that lack of wage growth and spare capacity in the economy means that BoE is not in a hurry to hike rates. **Our forecast is a first rate hike in Q2 next year.**



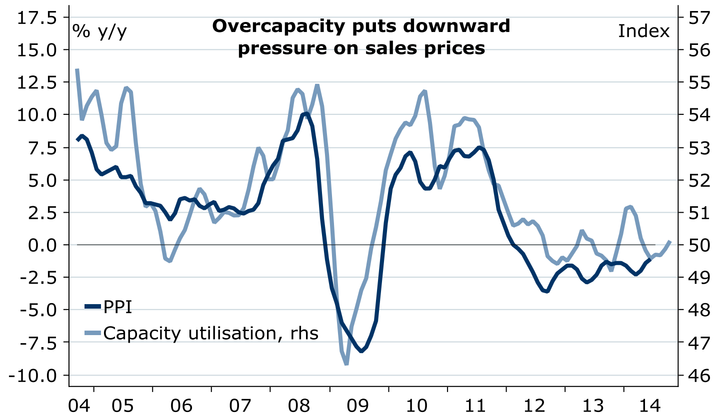

*Source: Nordea Markets and Reuters Ecowin*




*Source: Nordea Markets and Reuters Ecowin*

# **China:** Inflation, credit and production (*whole week*)

- CPI inflation tomorrow (Saturday) will again be a non-event (consensus 2.3%). **PPI inflation** is the indicator worthwhile watching for. Markets expect producer prices to fall by 0.9% y/y – the 29th straight month of falling PPI. The downward pressure on corporate profits, especially the heavy industries such as coal mining, remains heavy.
- This is the largest risk to Chinese growth. The rising number of insolvent companies could cause the vast credit bubble (corporate debt 145% of GDP) to burst.
- **New yuan loan** data (10-15th) will likely show that formal bank credit has been tightened in July (consensus CNY 780bn), as the fear of a liquidity shortage has eased. Market expects total new loans given this year to be CNY 9tn, implying only CNY 543bn monthly new loans for the rest of the year.
- Due to continued overcapacity, growth in **industrial production** (Wednesday) will likely stay flat at 9.1%, even though PMI manufacturing has improved lately.



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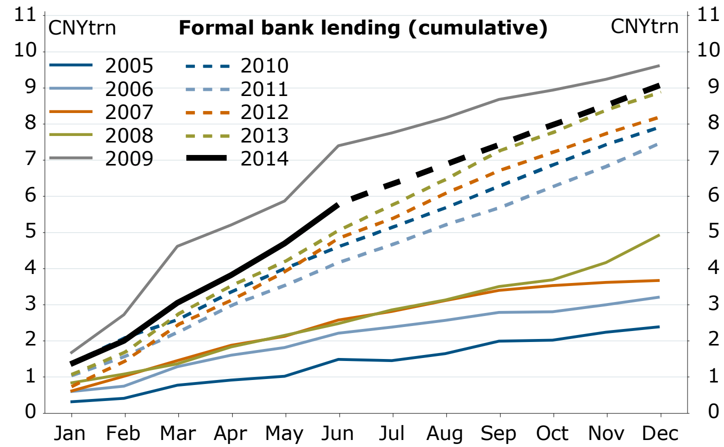
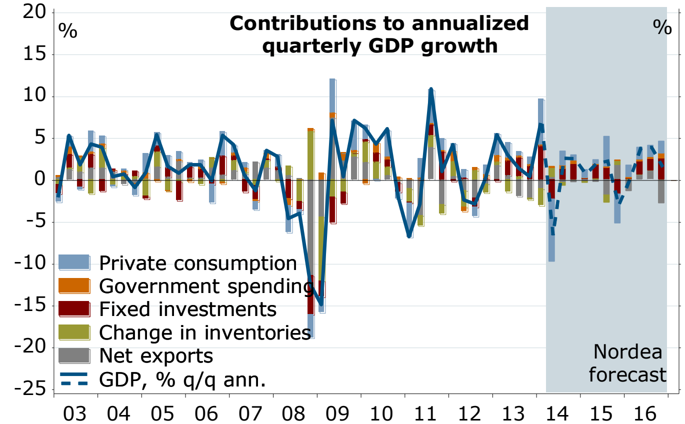


*Source: Nordea Markets and Reuters Ecowin*

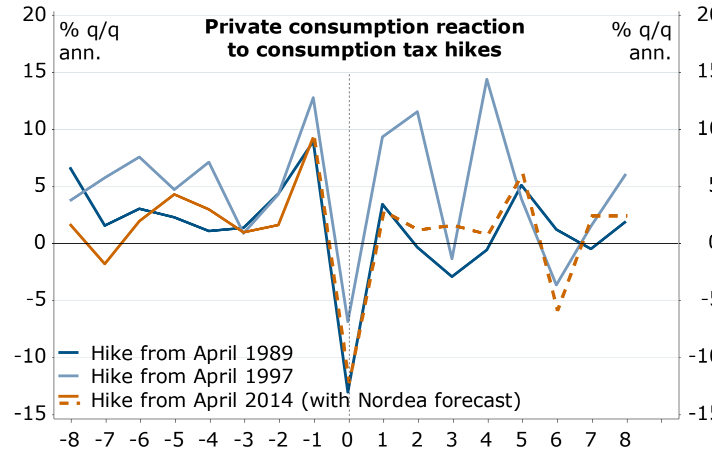
Amy Yuan Zhuang, CFA

# Japan: GDP (*Wed*)

- On Wednesday Japan is expected to deliver one of the worst GDP readings on record. We expect the Japanese economy to have **contracted 1.7% q/q in Q2** (-6.5% on annualised terms). We are slightly more bullish than the consensus of -1.8% (-7.1% ann. q/q).
- The negative shock to the economy is hardly surprising and reflects consumers' reaction to the sales tax hike in April. Same outcome was observed after the two previous hikes, in 1989 and 1997.
- However, we expect stronger consumer response this time than in 1997. Back then, the Japanese enjoyed a nominal (and real) wage growth of 3%. Today, nominal wage growth is just 0.4% and real wage growth -3.8% (-1.3% before the tax hike). Thus, we would not be surprised to see private spending contributing -7.5%-points to growth in Q2.
- Consumers have likely "overspent" in Q1 in front-loading the purchases, which could not be matched by the low consumer confidence. This is another reason for a large contraction in spending in Q2.




Source: Reuters Ecowin and Nordea Markets



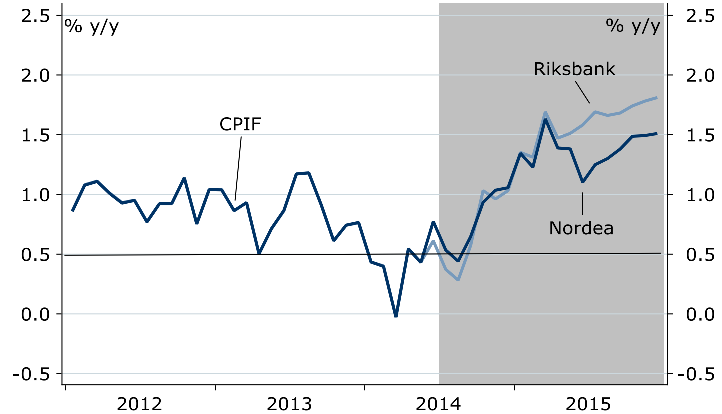

Source: Nordea Markets and Reuters Ecowin

*Torbjörn Isaksson*

# **Sweden:** Inflation (Tue) still above Riksbank forecast

- We expect the **CPI** to be down 0.4% m/m in July. The **CPIF** should come in at 0.5% y/y.
- If we are right in our CPIF forecast for July, the difference versus the Riksbank's forecast will narrow from 0.2% point to 0.1% point. Even though the difference is small, in makes an additional easing move by the Riksbank even more unlikely.
- The main driver on the downside in July are prices for clothing and footwear with the summer sale in full swing. Also mortgage rates declined and electricity became somewhat cheaper. Read more *here*.

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

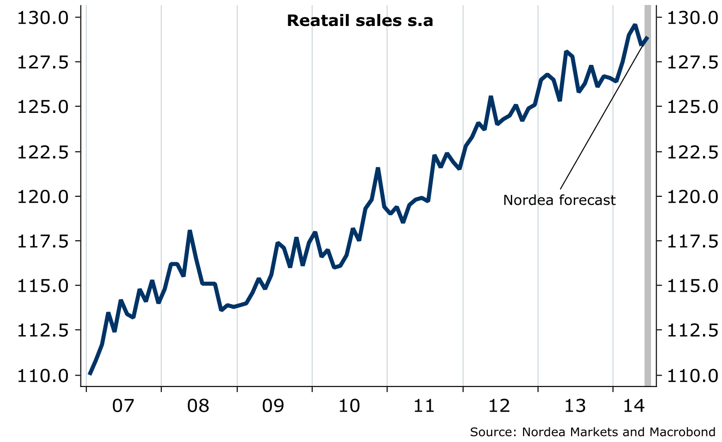


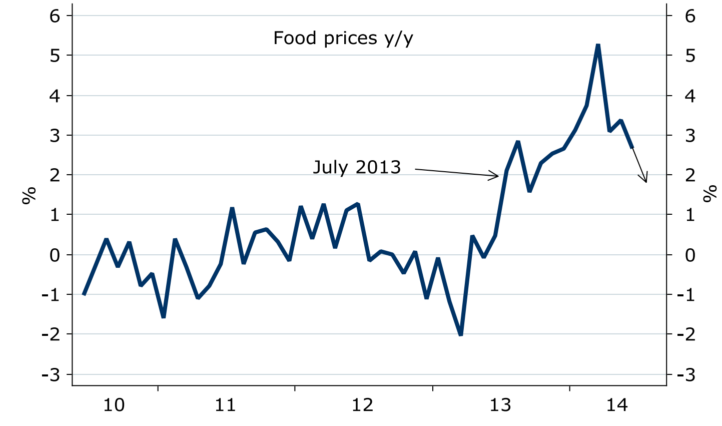

Source: Nordea Markets and Macrobond

Erik Bruce

# **Norway:** Inflation has peaked (Mon)

- We expect ***June retail sales (Wed 10:00***) to increase by 0,4 % m/m s.a, following the drop of 0,9 % in May.
- Retail sale have been strong the first part of 2014 and if we are right growth in Q2 will be 1 % q/q, after 0,9 % In Q1. That is in line with Norges Bank's forecast.
- We expect ***July core inflation (Mon 10:00 CET) to drop to 2.0% y/y,*** from 2,4 % in May. Norges Bank forecast is 2.2%.
- The 2014 agricultural settlement points to lower food price inflation.
- If we are right core inflation is 0.2% points below Norges Bank's forecast.
- Enough to have an downward effect on Norges Bank's rate forecast. But far from enough to counter the effect of weaker NOK and stronger labour market figures.




*July 2013 is not going to affect inflation (y/y) any more*

# Calendar

| Saturday, August 9, 2014 | | | | Nordea | Consensus | Actual | Previous |
|---|---|---|---|---|---|---|---|
| 03:30 | CN | CPI (y/y) | Jul | | 2.3% | | 2.3% |
| **Monday, August 11, 2014** | | | | Nordea | Consensus | Actual | Previous |
| 09:00 | CZ | CPI (y/y) | Jul | | 0.3% | | 0.0% |
| 09:00 | DK | CPI (y/y) | Jul | 0.6% | 0.5% | | 0.5% |
| 09:00 | DK | Current account balance | Jun | 13.0bn | 12.5bn | | 13.3bn |
| 09:00 | DK | Trade balance, ex. ships (sa) | Jun | 6.5bn | 6.5bn | | 7.0bn |
| 10:00 | NO | CPI (y/y) | Jul | 1.5% | | | 1.9% |
| 10:00 | NO | CPI, core (y/y) | Jul | 2.0% | | | 2.4% |
| 12:00 | RU | Trade balance (USD) | Jul | | 16.3bn | | 18.3bn |
| 14:00 | NO | CPIXE and other inflation indicators | Jul | | | | 2.3% |
| **Tuesday, August 12, 2014** | | | | Nordea | Consensus | Actual | Previous |
| 06:30 | JP | Industrial Production (y/y, final) | Jun | | | | 3.2% |
| 09:00 | HU | CPI (y/y) | Jul | | -0.1% | | -0.3% |
| 09:30 | SE | Business sector production (m/m) | Jun | | | | -1.7% |
| 09:30 | SE | CPI (y/y) | Jul | -0.1% | | | 0.2% |
| 09:30 | SE | CPIF (y/y) | Jul | 0.5% | | | 0.8% |
| 11:00 | DE | ZEW, current situation | Aug | 57.0 | 54.0 | | 61.8 |
| 11:00 | DE | ZEW, economic sentiment | Aug | 15.0 | 17.0 | | 27.1 |
| 13:30 | US | NFIB small business optimism index | Jul | | 95 | | 95 |
| 14:00 | IN | CPI (y/y) | Jul | | 7.40% | | 7.31% |
| 14:00 | RU | GDP (y/y) (Exp 11-12 Aug) | Q2 | | 0.7% | | 0.9% |
| 16:00 | US | JOLTs job openings | Jun | | | | 4635 |
| **Wednesday, August 13, 2014** | | | | Nordea | Consensus | Actual | Previous |
| 01:50 | JP | GDP (q/q, preliminary) | Q2 | -1.7% | -1.8% | | 1.6% |
| 07:30 | CN | Fixed asset inv. excl. rural YTD (y/y) | Jul | | 17.4% | | 17.3% |
| 07:30 | CN | Industrial production (y/y) | Jul | | 9.1% | | 9.2% |
| 07:30 | CN | Retail sales (y/y) | Jul | | 12.5% | | 12.4% |
| 08:00 | SE | Prospera inflation expectations survey, money market players | | | | | |
| 08:45 | FR | HICP (y/y) | Jul | 0.5% | 0.5% | | 0.6% |
| 10:00 | NO | Consumption of goods indicator (m/m) | Jun | | | | -0.4% |
| 10:00 | NO | Retail sales (m/m) | Jun | 0,4% | | | -0.9% |
| 10:30 | GB | Unemployment rate, claimant count | Jul | | 3.0% | | 3.1% |
| 11:00 | EU | Industrial production (sa, m/m) | Jun | 0.2% | 0.4% | | -1.1% |
| 11:30 | GB | BoE publish inflation report | Aug | | | | |
| 14:00 | PL | CPI (y/y) | Jul | | -0.2% | | 0.3% |
| 14:30 | US | Retail sales (m/m) | Jul | | 0.3% | | 0.2% |
| 16:00 | US | Business inventories (m/m) | Jul | | 0.4% | | 0.5% |

# Calendar

| Thursday, August 14, 2014 | | | | Nordea | Consensus | Actual | Previous |
|---|---|---|---|---|---|---|---|
| | ID | BI announces interest rates | Aug | | | | |
| 01:01 | GB | House price balance, RICS | Jul | | 50% | | 53% |
| 03:00 | KR | BoK announces interest rates (7-day repo rate) | Aug | | 2.25% | | 2.50% |
| 07:30 | FR | GDP (q/q, preliminary) | Q2 | 0.0% | 0.1% | | 0.0% |
| 08:00 | DE | GDP (wda, y/y, preliminary) | Q2 | 1.4% | 1.4% | | 2.3% |
| 08:00 | SE | House prices, Mäklarstatistik (y/y) | Jul | | | | |
| 09:00 | CZ | GDP (y/y, advance) | Q2 | | 2.9% | | 2.9% |
| 09:00 | HU | GDP (y/y, preliminary) | Q2 | | 3.5% | | 3.5% |
| 10:00 | PL | GDP (y/y, preliminary) | Q2 | | 3.2% | | 3.4% |
| 11:00 | EU | GDP (sa, y/y, preliminary) | Q2 | 0.6% | 0.7% | | 0.9% |
| 11:00 | EU | HICP (y/y, final) | Jul | 0.4% | 0.4% | | 0.4% |
| 14:30 | US | Import prices (m/m) | Jul | | -0.4% | | 0.1% |
| 14:30 | US | Jobless claims, continuing | Jul | | | | 2518k |
| 14:30 | US | Jobless claims, initial | Jul | | | | 289k |
| **Friday, August 15, 2014** | | | | Nordea | Consensus | Actual | Previous |
| 09:00 | CN | Money supply, M2 (y/y) (Exp 10-15 Aug) | Jul | | 14.3% | | 14.7% |
| 09:30 | SE | Household consumption (y/y) | Jun | 2.0% | | | 3.3% |
| 10:00 | NO | Foreign trade with goods (bn) | Jul | | | | 17.8bn |
| 10:30 | GB | GDP (y/y, preliminary) | Q2 | 3.1% | 3.1% | | 3.1% |
| 14:30 | US | Empire manufacturing | Aug | | 20 | | 25.6 |
| 14:30 | US | PPI final demand (y/y) | Jul | | 1.8% | | 1.9% |
| 14:30 | US | PPI, core (y/y) | Jul | | 1.6% | | 1.8% |
| 15:00 | US | TIC flows, net total | Jul | | | | $35.5bn |
| 15:15 | US | Capacity utilization | Jul | | 79.2% | | 79.1% |
| 15:15 | US | Industrial production (m/m) | Jul | | 0.3% | | 0.2% |
| 15:55 | US | Consumer confidence, University of Michigan (preliminary) | Aug | | 82.5 | | 81.8 |

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