



Week Ahead

11 – 17 July



Nordea Research, 10 July 2015

Next week's key events

- **US**

On Wednesday **Fed Chair Yellen delivers her semiannual testimony** to the Congress which might be a good opportunity to start preparing markets for a move in September.

CPI headline inflation left negative territory in May as it was unchanged at 0.0% y/y. With a consensus forecast of +0.2% y/y, inflation is expected to turn positive in June. In Tuesday's **retail sales report** for June our focus will as always be on the so-called control sales. For June the consensus forecast is a solid 0.4% increase

- **Euro area**

European heads of state are meeting on Sunday for "final" decisions on Greece. We see an increasing risk of Greece sliding out of the Euro area, but at the same time the will to keep the Euro area together is still strong and hence our Grexit probability is only 65 %.

ECB will also have its regular **monetary policy meeting** on Thursday, but we expect the Greek chaos to dominate the ECB's agenda. Monday July 20th, is when Greece is due to pay the ECB 3.5 bn. Closely linked to this is the central banks Emergency Liquidity Assistance to Greek banks. If no solution is found on Sunday, the ECB might cut or further restrict the ELA already ahead of July 20th. The ECB will do this only with political backing and with the confirmation that there is no hope of a solution for Greece.

- **UK**

CPI rose by 0.2% m/m in May, pushing up the annual figure to 0.1%. Our forecast is that **CPI inflation** remained at 0.2% m/m and 0.1% y/y in June.

- **China**

Our best-fit model, based on growth in industrial output and M1, predicts **Q2 GDP growth** to be 6.8% y/y (1.6% q/q), in line with market consensus. The high frequency macro indicators, such as industrial output and fixed assets investment, have continued to decline in April and May from the Q1 levels.

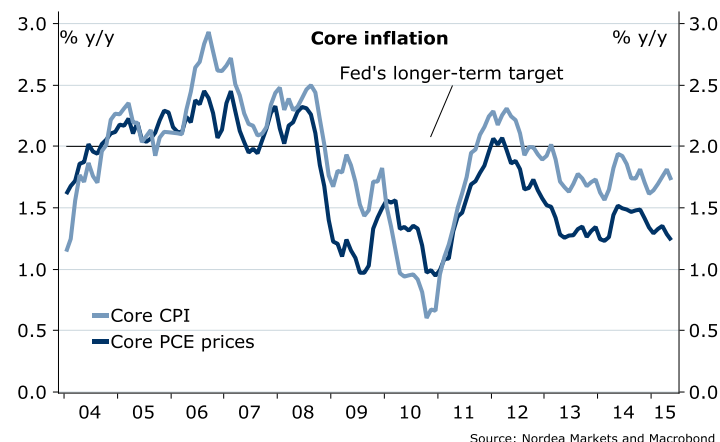
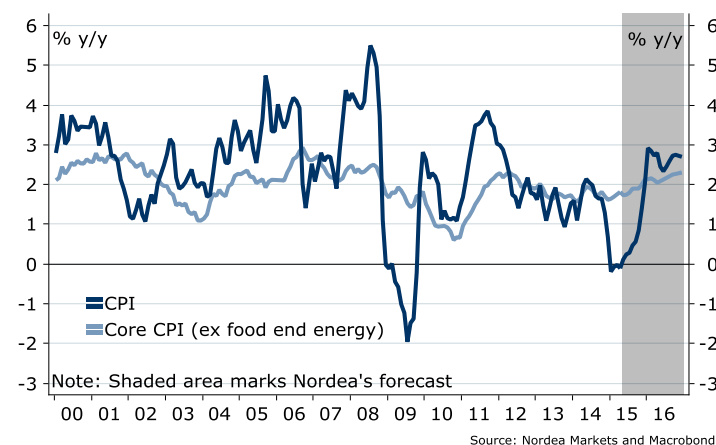
- **Sweden**

On Tuesday, we expect the **CPI** to be down 0.1% m/m in June. Looking at the same month last year, the CPI was up 0.2%. The differences in the month-on-month change are, among other things, attributable to our forecast of lower clothing and footwear prices as well as lower energy prices.

US: Hello to positive CPI inflation (Fri)

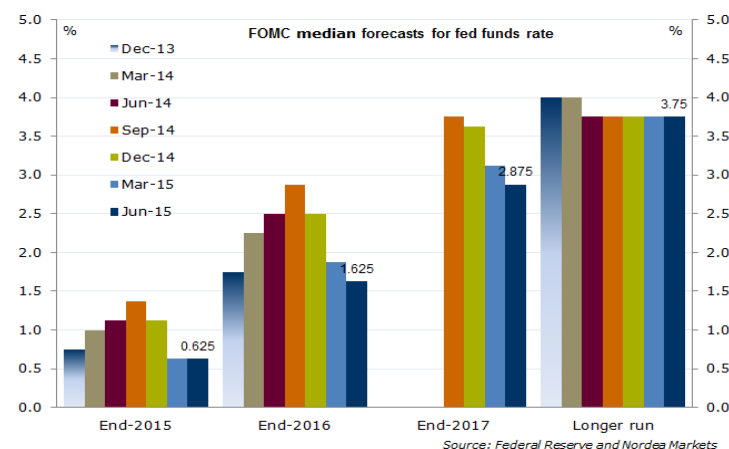
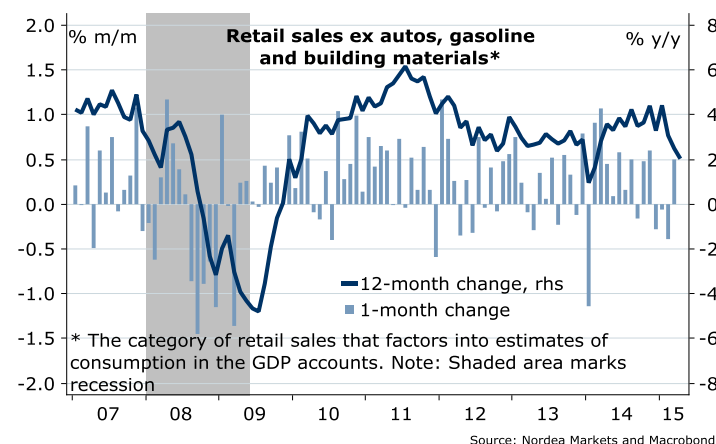
- **CPI headline inflation** left negative territory in May as it was unchanged at 0.0% y/y. With a consensus forecast of +0.2% y/y, inflation is expected to turn positive in June.
- Headline CPI inflation is expected to remain close to zero through Q2 before gradually moving towards 2% by end-2015 and 2½% in early 2016, given our forecast that Brent oil prices will gradually rise to around USD 70 over this period.
- The consensus forecast for the **core rate** is an 1.8% y/y increase in June, slightly higher than the 1.7% increase in May. In June core CPI is expected to rise 0.2% over the month following May's disappointing 0.1% increase.
- Given the typical gap between CPI and PCE inflation, core PCE inflation is still expected to remain 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.

	Consensus	Previous
CPI, % y/y	0.2	0.0
Core CPI, % y/y	1.8	1.7



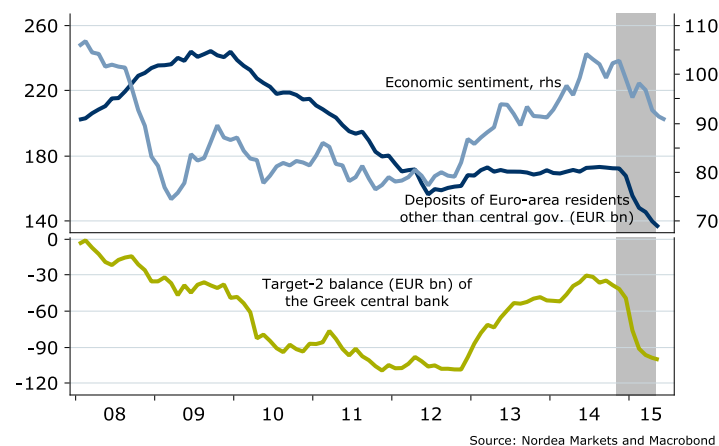
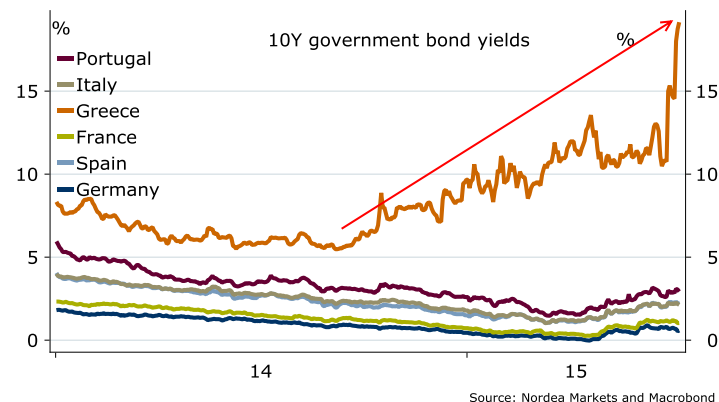
US: Focus on retail sales and Yellen's testimony

- In Tuesday's **retail sales** report for June our focus will as always be on the so-called control sales, which filter into GDP and exclude autos, gasoline and building materials. The robust May retail sales report suggest that spending is already back on track and therefore points to a pick up in Q2 growth. For June the consensus forecast is a solid 0.4% increase in control sales and 0.3% in overall retail sales.
- On Wednesday Fed Chair **Yellen delivers her semiannual testimony** to the Congress. Even though the minutes from the 16-17 June FOMC meeting provided little insight as to when Fed lift-off is to take place, we continue to expect a first rate hike at the 16-17 September FOMC meeting. Yellen's testimony might be a good opportunity to start preparing markets for a move in September if data remains strong over the summer and the Greek situation does not escalate.



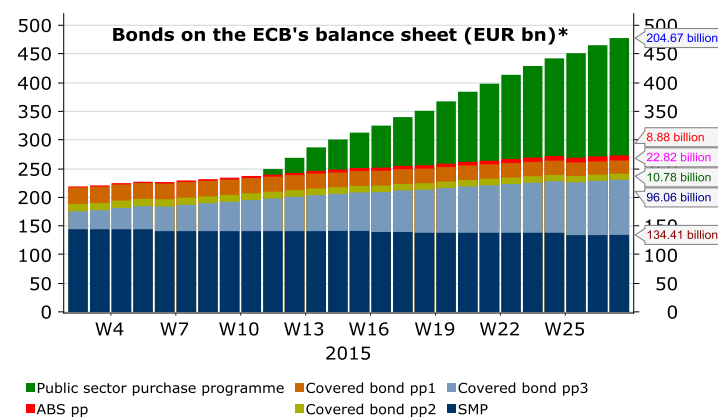
Euro area: Greece still in the spotlight (Sun)

- After more deadlines than can be counted it seems the true deadline for Greece is approaching this weekend.
- European heads of state are meeting on Sunday for “final” decisions on Greece.
- After last weekend’s no vote in the Greek referendum the patience of many Euro area leaders seem to have ended and we see an increasing risk of Greece sliding out of the Euro area.
- We still, however, believe there is a strong will to keep Greece in the Euro area and hence our Grexit probability is *only* 65 %.
- ECB’s actions are of utmost importance for Greece. The country is running out of money and if the central bank cuts the emergency assistance to Greek banks there will be very few options except for some form of parallel currency. We do not believe ECB would do this without political backing.
- Monday July 20th, when Greece is due to pay the ECB 3.5 bn, is after this weekend the most crucial date. If Greece does not manage to repay the ECB and there is no long term solution in place, the central bank might cut the emergency financing.



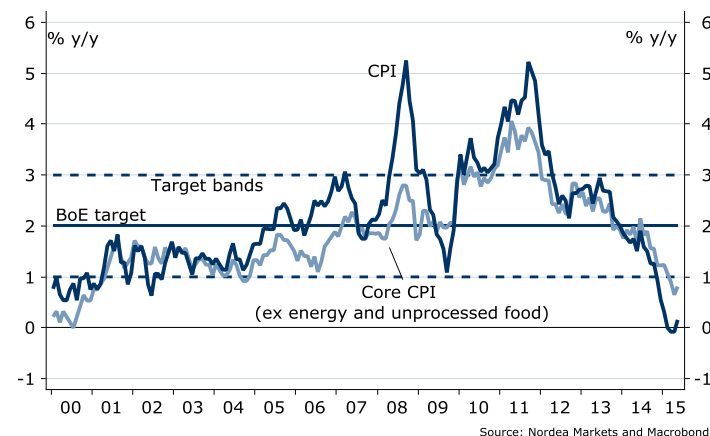
Euro area: ECB has a lot at its plate (Thu)

- The ECB governing council will meet to discuss monetary policy issues on Thursday (16th July) amid all the Greek chaos.
- Even if the monetary policy challenge of pushing inflation towards the medium term target of 2 % looks increasingly difficult, traditional monetary policy probably gets to play second fiddle this week.
- The decision on how to proceed with the Emergency liquidity assistance to Greek banks, even if not a monetary policy decision, is the most important decision by the central bank this week as Greece is due to pay the ECB 3.5 bn on the 20th of July.
- We do not expect any rate changes, but there is a chance the central bank will increase the pace of its QE purchases in order to support the situation in the Euro area, if the Greek situation escalates towards a Grexit.



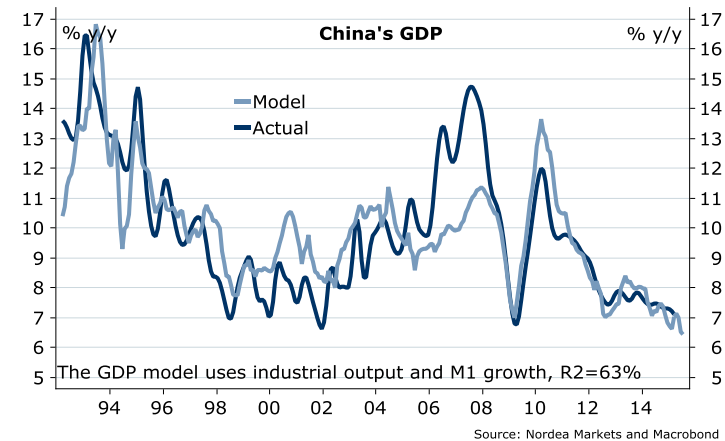
UK: CPI inflation to remain slightly above zero (Tue)

- **CPI rose** by 0.2% m/m in May, pushing up the annual figure to 0.1%. This was in line with expectations. The main contribution came from transport services and prices on food and motor fuels. **Core CPI inflation**, excluding energy and food prices, increased to 0.9% y/y, from 0.8% the previous month.
- **Our forecast is that CPI inflation remained at 0.2% m/m and 0.1% y/y in June.**
- BoE expects the CPI inflation to rise notably around the turn of the year as the temporary factors (lower food and energy prices) begin to fade.
- Oil prices have started to increase and real wages are now increasing at the fastest rate since the crisis. Wages excluding bonuses is now up to 2.7% year on year. A further tightening of the labour market and reduced slack in the economy will boost the inflation, despite the strengthening of the GBP.
- **We stick to our forecast that the BoE will start to hike rates in Q4 2015.**



China: GDP likely below 7% in Q2 (Wed)

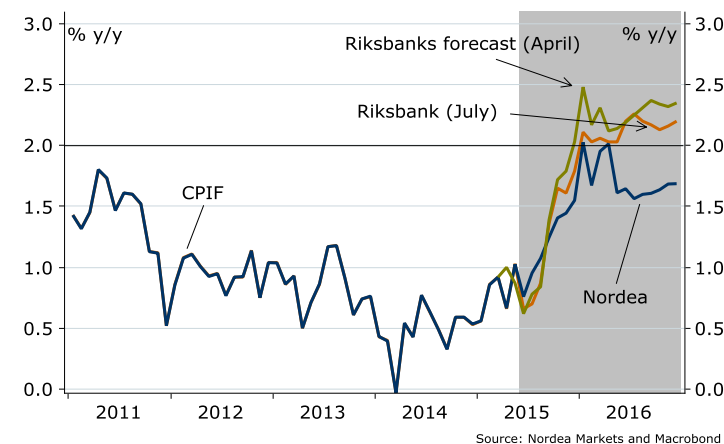
- Our best-fit model, based on growth in industrial output and M1, predicts **Q2 GDP growth to be 6.8% y/y** (1.6% q/q), in line with market consensus. The high frequency macro indicators, such as industrial output and fixed assets investment, have continued to decline in April and May from the Q1 levels.
- The stock market crash and Beijing has launched support measures almost daily in the last week highlights the downside risks. It is not unlikely that the stock market crash could trigger a burst of the property and the credit bubble. This risk has increased in the last few weeks, so has the downside risk for growth this year.
- Together with the GDP figure, the **industrial output** may see marginal improvement in June, lifted by better momentum in the property market. **Credit data** (10-15 July) is likely to show more lending in June as the central bank has injected liquidity to the market to stabilise the plunging stock market.
- June **trade data** will be out on Monday. The market expects export growth to return to positive (+1% y/y), while import growth will remain deeply negative (-15.5% y/y). Exports face some downside risk from Grexit. Chinese exports to Europe has been under pressure for most of this year.



Sweden: Cooling prices (Tue)

- On Tuesday, we expect the CPI to be down 0.1% m/m in June. Looking at the same month last year, the CPI was up 0.2%. The differences in the month-on-month change are, among other things, attributable to our forecast of lower clothing and footwear prices as well as lower energy prices.
- The summer sale and prices of clothing and footwear are uncertain factors with risks both on the upside and the downside.
- Travel prices moreover rose sharply last year after comparatively modest price changes the month before. This year we predict lower price increases in June following the strong rise in May. Import prices of clothing and footwear have increased significantly. While import prices are by no means a perfect indicator, they nevertheless suggest a further rise in clothing prices this year.
- Looking ahead, we see CPIF inflation rising in the second half of the year and around year-end, but it will only hit 2% for a month or two. So the challenges for the Riksbank remain.

	Weight, %	Change, % m/m June 2015E	Contribution m/m, % points:	
			June 2015E	June 2014
Food	13.7	0.0	0.00	0.04
Clothing and footwear	5.2	-3.8	-0.20	-0.13
Rents	11.5	0.0	0.00	0.00
Mortgage rates	4.8	-0.9	-0.03	-0.01
Fuel, heating oil	4.1	0.2	0.01	0.04
Electricity	4.3	-1.8	-0.08	-0.05
Other goods and services	56.5	0.4	0.23	0.32
CPI, total	100.0	-0.07	-0.07	0.21



Calendar

Sunday, 12/07/2015				Nordea	Consensus	Actual	Previous
	EU	Euro summit and special meeting of the European Council					
Monday, 13/07/2015				Nordea	Consensus	Actual	Previous
	CN	Exports (y/y)	Jun		1.0%		-2.5%
	CN	Imports (y/y)	Jun		-15.5%		-17.6%
	CN	Trade balance (USD)	Jun		56.70bn		59.49bn
14:00	IN	CPI (y/y)	Jun		5.1%		5.0%
Tuesday, 14/07/2015				Nordea	Consensus	Actual	Previous
	ID	BI announces interest rates	Jul				7.50%
08:00	SE	House prices, Mäklarstatistik (y/y)	Jun				13%
09:30	SE	CPI (m/m)	Jun	-0.1%			0.3%
09:30	SE	CPI (y/y)	Jun	-0.2%			0.1%
09:30	SE	CPIF (m/m)	Jun	0.0%			0.4%
09:30	SE	CPIF (y/y)	Jun	0.8%			1.0%
10:30	GB	CPI (m/m)	Jun	0.2%	0.1%		0.2%
10:30	GB	CPI (y/y)	Jun	0.1%	0.0%		0.1%
11:00	EU	Industrial production (m/m, sa)	May		0.2%		0.1%
11:00	DE	ZEW, current situation	Jul		60		62.9
11:00	DE	ZEW, expectations	Jul		30		31.5
14:30	US	Import prices (m/m)	Jun		0.2%		1.3%
14:30	US	Retail sales (m/m)	Jun		0.3%		1.2%
14:30	US	Retail sales control group	Jun		0.4%		0.7%
15:00	US	NFIB small business optimism index	Jun		98.5		98.3
16:00	US	Business inventories (m/m)	May		0.2%		0.4%
Wednesday, 15/07/2015				Nordea	Consensus	Actual	Previous
02:15	US	Fed's George Speaks on Economy in Kansas City					
04:00	CN	GDP (q/q)	Q2	1.6%	1.6%		1.3%
04:00	CN	GDP (y/y)	Q2	6.8%	6.8%		7.0%
04:00	CN	Industrial production (y/y)	Jun		6.0%		
04:00	CN	Retail sales (y/y)	Jun		10.2%		10.1%
08:45	FR	HICP (y/y)	Jun		0.4%		0.3%
09:00	CN	Money supply, M2 (y/y) (Exp 11- 15 Jul)	Jun		11.0%		10.8%
09:30	SE	Minutes from the Riksbank meeting 1 July 2015					
10:00	NO	Foreign trade with goods (bn)	Jun				21.8bn
10:30	GB	Earnings, ex bonus, average (y/y, 3mma)	May		3.3%		2.7%
10:30	GB	Unemployment rate, claimant count	Jun		2.3%		2.3%
13:00	US	Mortgage applications, MBA	Jul				4.6%
14:00	PL	CPI (y/y)	Jun		-0.8%		-0.9%

Calendar

Wednesday, 15/07/2015 (continued)				Nordea	Consensus	Actual	Previous
14:30	US	Empire manufacturing	Jun		3.25		- 1.98
14:30	US	PPI final demand (y/y)	Jun		- 0.9%		- 1.1%
15:15	US	Capacity utilization	Jun		78.1%		78.1%
15:15	US	Industrial production (m/m)	Jun		0.2%		- 0.2%
16:00	CA	BoC announces interest rate	Jul		0.75%		0.75%
16:00	US	Yellen Delivers semiannual Testimony to House Financial Panel					
18:25	US	Fed's Mester Speaks on Economic Outlook in Columbus, Ohio					
20:00	US	Fed's Beige Book					
21:00	US	Fed's Williams Speaks on Outlook in Phoenix					
Thursday, 16/07/2015				Nordea	Consensus	Actual	Previous
10:00	NO	Norges Bank's survey of bank lending	Q2				
11:00	EU	HICP (y/y, final)	Jun		0.2%		0.2%
11:00	EU	Trade balance (sa)	May		21.0bn		24.3bn
13:45	EU	ECB announces interest rates (deposit rate)	Jul		- 0.20%		- 0.20%
13:45	EU	ECB announces interest rates (main refi rate)	Jul		0.05%		0.05%
14:00	RU	Industrial production (y/y) (Exp 15- 16 Jul)	Jun		- 4.0%		- 5.5%
14:30	US	Jobless claims, continuing	Jul				2334k
14:30	US	Jobless claims, initial	Jul				297k
15:00	US	TIC flows, net total	May				106.6bn
16:00	US	Yellen delivers semiannual testimony to Senate Banking Panel					
16:00	US	Housing market index, NAHB	Jul		59		59
16:00	US	Philadelphia Fed	Jul		12.0		15.2
20:00	GB	Carney Speaks in Lincoln, England					
Friday, 17/07/2015				Nordea	Consensus	Actual	Previous
04:00	CN	FDI (y/y) (Exp 14- 17 Jul)	Jun		0.7%		7.8%
10:00	EU	ECB Survey of Professional Forecasters					
14:30	CA	CPI (y/y)	Jun		1.0%		0.9%
14:30	US	Building permits	Jun		1110k		1250k
14:30	US	CPI (m/m)	Jun		0.3%		0.4%
14:30	US	CPI (y/y)	Jun		0.2%		0.0%
14:30	US	CPI, core (m/m)	Jun		0.2%		0.1%
14:30	US	CPI, core (y/y)	Jun		1.8%		1.7%
14:30	US	Hourly earnings, average (y/y)	Jun				2.3%
14:30	US	Housing starts (m/m)	Jun		6.2%		- 11.1%
15:00	RU	Retail sales (y/y)	Jun		- 8.8%		- 9.2%
15:00	RU	Unemployment rate	Jun		5.7%		5.6%
16:00	US	Consumer confidence, University of Michigan (preliminary)	Jul		96.5		96.1
16:00	US	Fed's Fischer Speaks in Washington					

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