

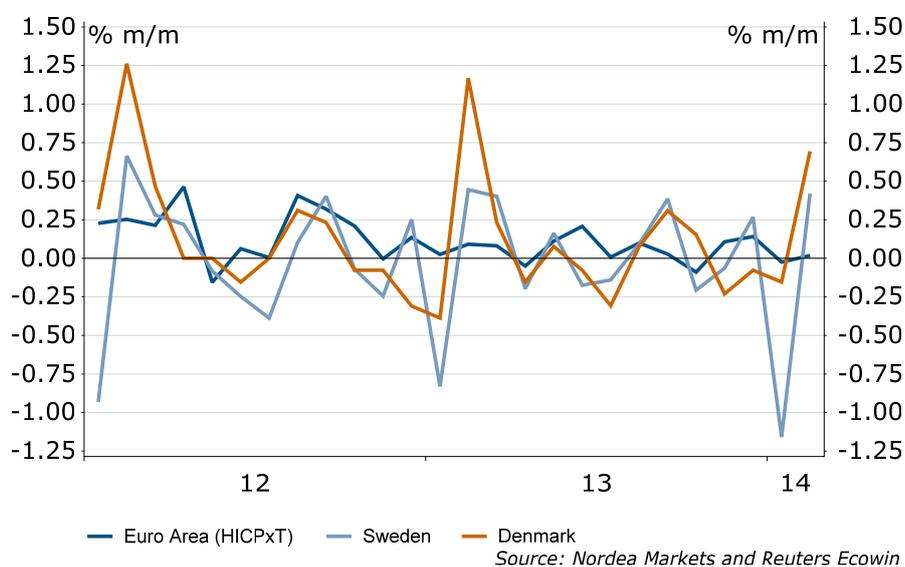
Inflation SEK, DKK & EUR

March previews and markets

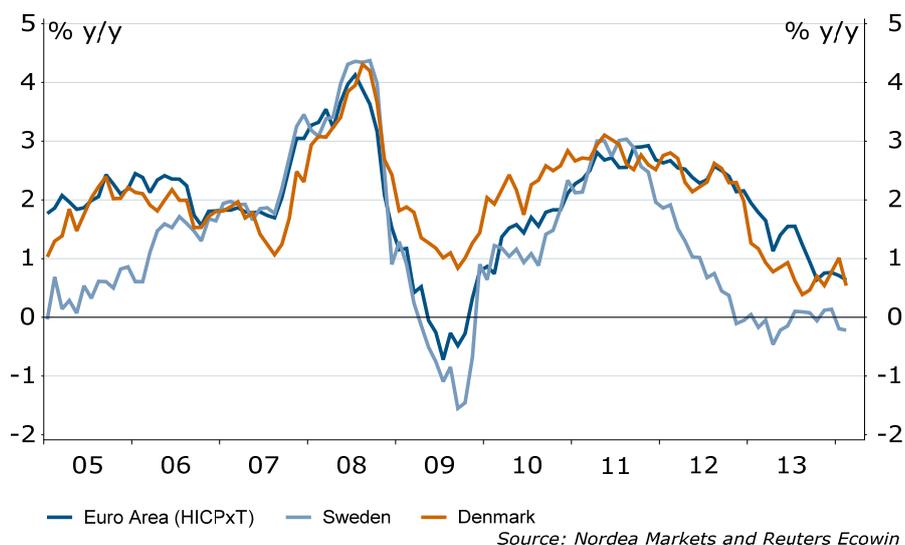
Nordea Research, 9 April 2014

- **SEK:** Eastern effects, not enough carry
- **DKK:** Inflation is about to pick up
- **EUR:** Inflation at a low point

Consumer prices – monthly changes



Consumer prices – yearly changes



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SEK: Eastern effects, not enough carry

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- Our call for CPI in March is -0.3% y/y (+0.3% m/m)
- Over the coming months, headline CPI will likely turn out 0.2-0.3 percentage points below the Riksbank's current forecast. The main reason for the lower CPI is the warm weather that has pushed electricity prices down.
- Since Eastern is late this year compared to last year, we expect prices on foreign travels to fluctuate quite a bit between March and April (March lower, April higher). There is also a continued negative contribution to CPI from mortgage interest rate costs due to the latest rate cut by the Riksbank in December. See "Low inflation holds Riksbank in iron grip" for more details.

Market

- The March Eurozone flash HICP estimate points to a month-on-month increase of more than 1 percent and this is well above the likely turn-out for Swedish CPI around 0.3 %. This means that Swedish short-end linkers need to outperform their Eurozone peers significantly to break even, and it creates a "carry cushion" for country spread wideners.
- Speculation on possible new QE measures from the ECB have helped to compress peripheral-core spreads and to push long-dated EUR inflation swaps upward. Action or announcements from the ECB in the general direction of QE would if anything be a factor that would speak for a weaker EUR and this would be negative for Swedish index-linked since imported inflation would be less.
- We have some time argued that Swedish break-even wideners are good risk-reward trades for higher rates and that the short-end (SGBi 3107, 3102) has contained more value than the long-end. However, for the reasons mentioned above, we now see value in a tactical reduction of SGBi 3107 holdings for the benefit of DBRi 2016 and 2018. One should also consider extending further out the index-linked curve, foremost into the relatively cheap SGBi 3109.

CPI forecast and contributions

	Nordea	Riksbank	Prior
CPI m/m	0.3		0.4
CPI y/y	-0.3	0.0	-0.2
CPIF m/m	0.4		0.5
CPIF y/y	0.3	0.5	0.4
CPI, index	313.63		312.70

	Weight, %	Change, % m/m		Contribution m/m, % points	
		March 2014E	March 2014E	March 2014E	March 2013
Food	13.3	0.3	0.04	0.02	
Clothing and footwear	5.2	6.2	0.32	0.38	
Rents	11.4	0.3	0.03	0.04	
Mortgage rates	5.7	-1.0	-0.05	-0.07	
Fuel, heating oil	4.4	-0.2	-0.01	-0.09	
Electricity	4.2	-1.1	-0.04	0.03	
Other goods and services	55.8	0.0	0.01	0.09	
CPI, total	100.0	0.30	0.30	0.40	

Source: Nordea Markets

Generic 10y break-even inflation vs yield level



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DKK: Inflation is about to pick up

	Mar	Consensus	Feb
CPI, %m/m	0.4%	-	0.7%
CPI, %y/y	0.7%	-	0.5%
CPI, index	131.1	-	130.6

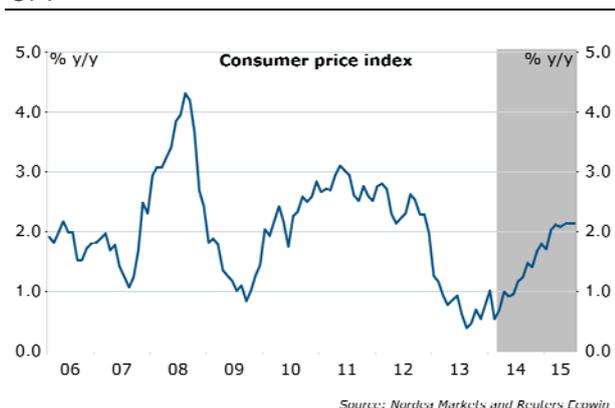
- Last month we saw a significant drop in Danish year-over-year inflation. This was mainly due to a smaller-than-expected price rise on rent of housing (1.8% vs. 2.3%).
- In March we expect to see a small rebound in the Danish inflation. On a monthly basis this pickup will mainly stem from a large contribution from clothing and footwear, bouncing back from the winter's sales. Food will pull the monthly price change upwards, while we expect to see a price decrease in package holidays. Overall we expect this to lift the monthly inflation by 0.4% in March
- The annual inflation (expected to rise to 0.7% in March) is mainly held afloat by rent, financial services and insurance, while transport and non-alcoholic drinks are pulling it downwards.
- We expect the rise in March to continue over the coming months, rising to just above 1% around mid-year

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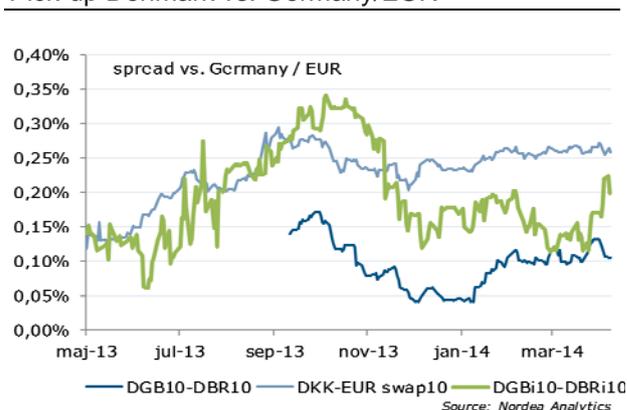
Market

- The DGBi23 now has an outstanding amount of 28.255bn DKK (with 5.755bn coming on Mar 18th).
- Recent price action has pushed the real rate spread out to some 20bps vs. DBRi23. This is a 6bp widening since the last inflation preview – and an attractive entry level for buying an additional clip.
- Danish BE trades @ 1,40 which is in line with our Danish inflation forecast of 1,2% for 2014 and 1,6% for 2015, but it seems low compared to a German 1,49% BE – especially given our March call for the Danish print of 0.7%.
Given the latest re-pricing we now see value in the Danish linker again – especially as a relative value trade vs. DBRi23

CPI



Pick-up Denmark vs. Germany/EUR



EUR: Inflation at a low point

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- We expect HICPxT at 0.4% y/y in March (1% m/m) and HICP at 0.5% y/y. The latter is in line with the flash estimate and consensus.
- According to flash estimates, German HICP inflation dropped to 0.9% y/y, Italian HICP inflation eased to 0.3% y/y and in Spain, consumer prices declined by 0.2% y/y. To make that consistent with the Euro-area flash estimate, the French HICP must have risen by something like 0.6% m/m and 0.8% y/y. There is still some potential for surprise in either direction in that, as the extent to which the January VAT hike shows up (and will show up) in prices is unclear.
- Looking ahead, and barring large moves in oil prices, we expect the March print to be the cycle-low. In our forecast, core inflation moves gradually higher in April, hovers around 1% until autumn, before gradually moving higher.

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Market

- Disappointing prints over the past half year has spilled aggressively over to especially 5y swaps – resulting in a 5y HICPxT low of 1.15% and a steepening of the 5y10y to 47bps in the build-up to the flash estimate.
- But, the “low” flash inflation estimate on March 31 actually meant a rebound in inflation swap rates – presumably because the trough was almost as predictable as the date for next Christmas eve (everybody realized the effect of Easter being in April this year, and in March last year) and investors therefore were positioned that way. Further out on the curve, 5y5y above 2.10% continues to justify “firmly anchored”.
- We continue to be of the view that the ECB is on top of the inflation expectations in the long end of the inflation market. Therefore, we like receiving inflation prints (and paying fixed) in e.g. 20Y (2.01%) and 30Y (2.12%) inflation swaps.

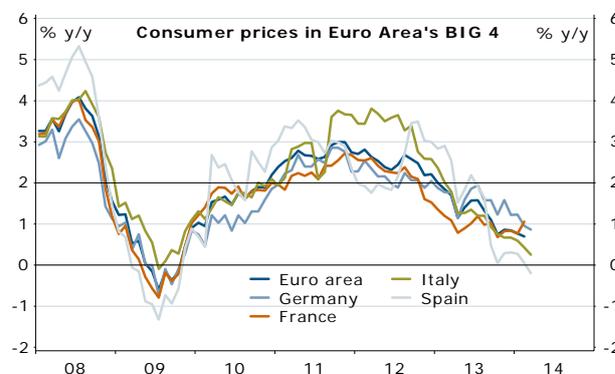
CPI forecast and contributions

Mar-14	Nordea	Consensus	Previous
HICP, %m/m (nsa)	1.0		0.3
HICP, %y/y	0.5	0.5	0.7
HICPxT, %y/y	0.4		0.6
HICPxT, index (nsa)	117.4		116.3

Mar-14	Weight	%m/m (nsa)		%y/y
		Forecast	Contribution	Forecast
Ex energy & unpr food	81.7	1.2	0.98	0.9
-of which tobacco	2.4	0.3	0.01	3.8
Energy	11.1	-0.3	-0.03	-2.2
Unprocessed food	7.2	0.2	0.01	0.6
Euro area	100.0	1.00	1.00	0.50
Germany	27.8	0.3	0.09	0.9
France	20.6	0.6	0.12	0.8
Italy	17.7	2.1	0.37	0.2
Spain	12.0	1.6	0.19	-0.2

Source: Nordea Markets

Low inflation for long



Source: Nordea Markets and Reuters Ecowin

Index-linked data matrix

Bond	Cpn	Maturity	Risk	Quote	Yld	Real rate carry		BEI carry				Comparator	
						Apr01	Apr01to May01	BEI	Apr01	Apr01to May01	SA BEI		Tail BEI
SE IL3105	3.5	2015-12-01	2.22	-0.03	-0.03	-45.4		0.70	-45.0		0.88		SE 1049
SE IL3107	0.5	2017-06-01	3.38	0.10	0.10	-25.3		1.05	-26.1		1.10	1.37	SE 1051
SE IL3102	4	2020-12-01	9.56	0.54	0.54	-10.4		1.25	-11.5		1.30	1.50	SE 1047
SE IL3108	0.25	2022-06-01	7.90	0.67	0.67	-10.0		1.36	-11.1		1.37	2.11	SE 1054
SE IL3109	1	2025-06-01	10.78	0.84	0.84	-7.1		1.48	-8.3		1.50	1.88	SE 1058
SE IL3104	3.5	2028-12-01	20.08	0.94	0.94	-4.6		1.81	-5.6		1.83	1.85	SE 1056
DK IL0.115No v23	0.1	2023-11-15	9.82	98.86	0.22	-11		1.43	-2.3		1.41		DK 15 15No v23
DE IL1.15Apr18	1.5	2018-04-15	2.53	104.8	-0.45	-38.0		0.80	-37.7		0.20		DE 2.75 08Apr18
DE IL0.75 15Apr18	0.75	2018-04-15	4.53	104.83	-0.42	-19.4		0.89	-19.8		0.69	1.15	DE 0.25 13Apr18
DE IL1.75 15Apr20	1.75	2020-04-15	7.22	112.31	-0.25	-12.4		1.14	-13.1		1.00	1.81	DE 3.04Jul20
DE IL0.115Apr23	0.1	2023-04-15	9.37	100.03	0.10	-8.7		1.41	-9.8		1.32	2.06	DE 15 15M ay23
FR IL1.825Jul15 (OATe)	1.8	2015-07-25	1.72	103.83	-1.01	-60.3		1.19	-59.9		1.56		FR 2 12Jul15
FR IL0.25 25Jul18 (OATe)	0.25	2018-07-25	4.65	102.50	-0.32	-18.3		1.07	-19.2		1.19	1.11	FR 125M ay18
FR IL2.25 25Jul20 (OATe)	2.25	2020-07-25	8.40	114.6	0.03	-11.5		1.21	-12.6		1.29	1.64	FR 3.5 25Apr20
FR IL1.125Jul22 (OATe)	1.1	2022-07-25	9.24	106.21	0.35	-9.1		1.30	-10.1		1.37	2.29	FR 8.25 25Apr22
FR IL0.25 25Jul24 (OATe)	0.25	2024-07-25	9.95	98.23	0.63	-7.7		1.42	-9.0		1.47	2.32	FR 4.25 25Oct23
FR IL1.85 25Jul27 (OATe)	1.85	2027-07-25	14.47	113.03	0.82	-5.5		1.81	-6.9		1.85	2.54	FR 2.75 25Oct27
FR IL3.15 25Jul32 (OATe)	3.15	2032-07-25	24.98	136.70	0.96	-3.6		1.90	-4.6		1.93	2.76	FR 5.75 25Oct32
FR IL1.8 25Jul40 (OATe)	1.8	2040-07-25	28.88	116.61	1.07	-2.9		2.04	-3.8		2.06	2.59	FR 4.5 25Apr41
FR IL0.45 25Jul16 (OATi)	0.45	2016-07-25	2.59	103.20	-0.88	-20.3		1.18	-20.5		1.29		FR 2.5 25Jul16
FR IL1.25Jul17 (OATi)	1	2017-07-25	4.03	105.84	-0.71	-13.7		1.23	-14.3		1.31	1.30	FR 125Jul17
FR IL1.3 25Jul19 (OATi)	1.3	2019-07-25	6.04	108.23	-0.22	-8.0		1.20	-8.9		1.25	1.41	FR 4.25 25Apr19
FR IL0.125Jul21(OATi)	0.1	2021-07-25	7.35	99.33	0.19	-5.8		1.31	-7.1		1.34	1.84	FR 3.75 25Apr21
FR IL2.125Jul23 (OATi)	2.1	2023-07-25	10.90	115.11	0.45	-4.1		1.55	-5.6		1.58	2.13	FR 1.75 25M ay23
FR IL3.4 25Jul29 (OAT)	3.4	2029-07-25	21.86	137.84	0.78	-2.2		1.92	-3.4		1.94	3.08	FR 5.5 25Apr29

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