Nordea

11 May 2017

Week Ahead 15-21 May: New Riksbank target; stronger Norway

Anders Svendsen, Amy Yuan Zhuang, Tuuli Koivu, Andreas Wallström, Erik Johannes Bruce, Johnny Bo Jakobsen

Political risks eased with Macron's victory. Global equities are at a record high, while the VIX is at a 24-year low. Can inflation numbers prompt fears that the major central banks will be forced to end the party? Focus on Sweden + Norway next week.

Political risks eased with Mr Macron's win on Sunday and paved the way for markets to re-focus on fundamentals. Fundamentals remain strong and the company earnings season have so far to a large extent reflected the massive improvement in economic growth momentum this year. As a result, this week included a record high in global equities (eg MSCI World) and a 24-year low in US equity volatility (VIX).

Inflation numbers will be closely watched for signs that central banks could be forced to pull the brake on these happy equity days. US numbers are due tomorrow and final Euro-area numbers are due next week, while this week's gave little reason to worry: Chinese producer price increases slowed and commodity prices have been falling until yesterday.

Next week's calendar has no major data releases and events in the major economies that are likely to change this picture. The Nordic calendar is much more interesting with news on the Riksbank's changes to its inflation target and Norwegian GDP growth.

Here are our recent research notes:

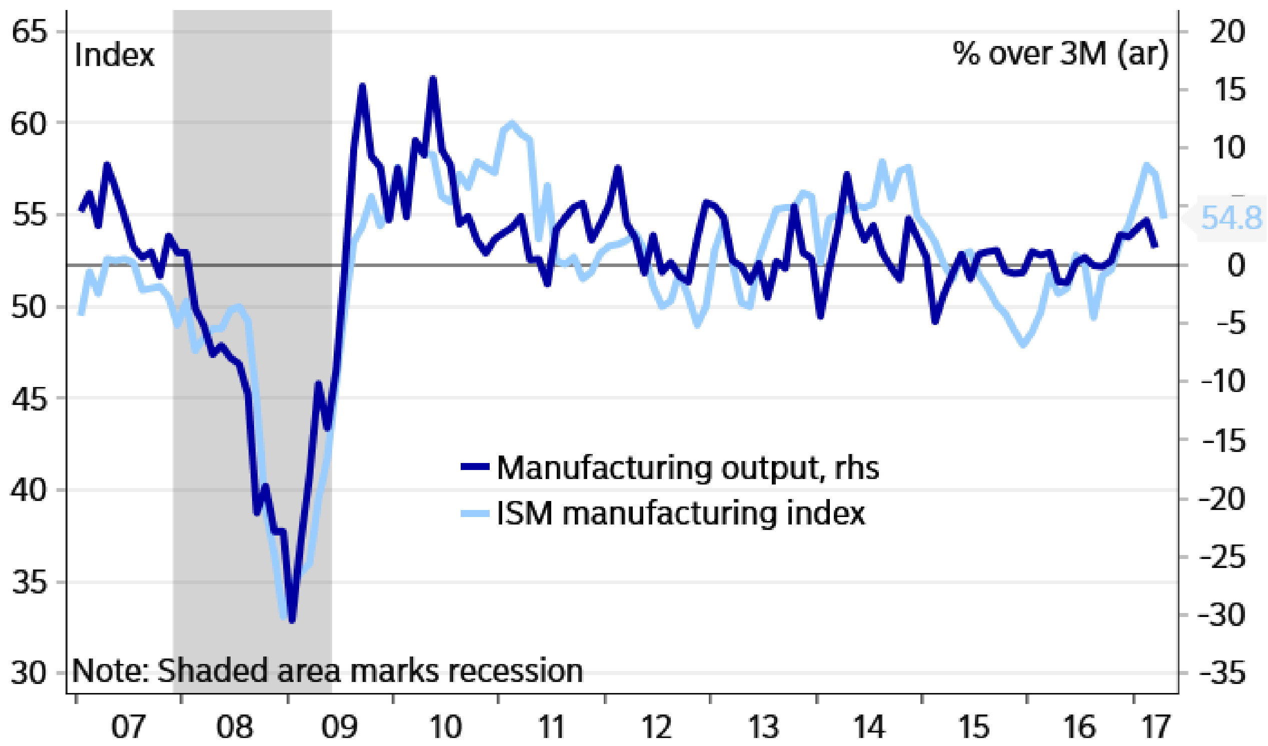
- France: Macronomics gets a chance
- Riksbank minutes: Softness
- Norway inflation: Easter pulled down inflation
- Higher Danish inflation
- Germany: Strong economy puts Merkel in pole position for election
- China: Mixed data for April
- Financial forecasts – Back to basics – May 2017

Nordea

Next week (15-21 May)

Majors

USA: Next week is rather quiet for US economic data and events. The most interesting releases are April **industrial production** data (Tue) and the **Philly Fed** (Thu) and **Empire State** (Mon) manufacturing surveys for early May. We expect the hard output data to suggest that the March weakness in factory output was a pause rather than a signal of new weakening. We continue to expect the gap between the hard output data and the soft data, including business confidence indicators like the Philly Fed and Empire State indices, to further narrow, driven by weaker soft data and stronger hard data.

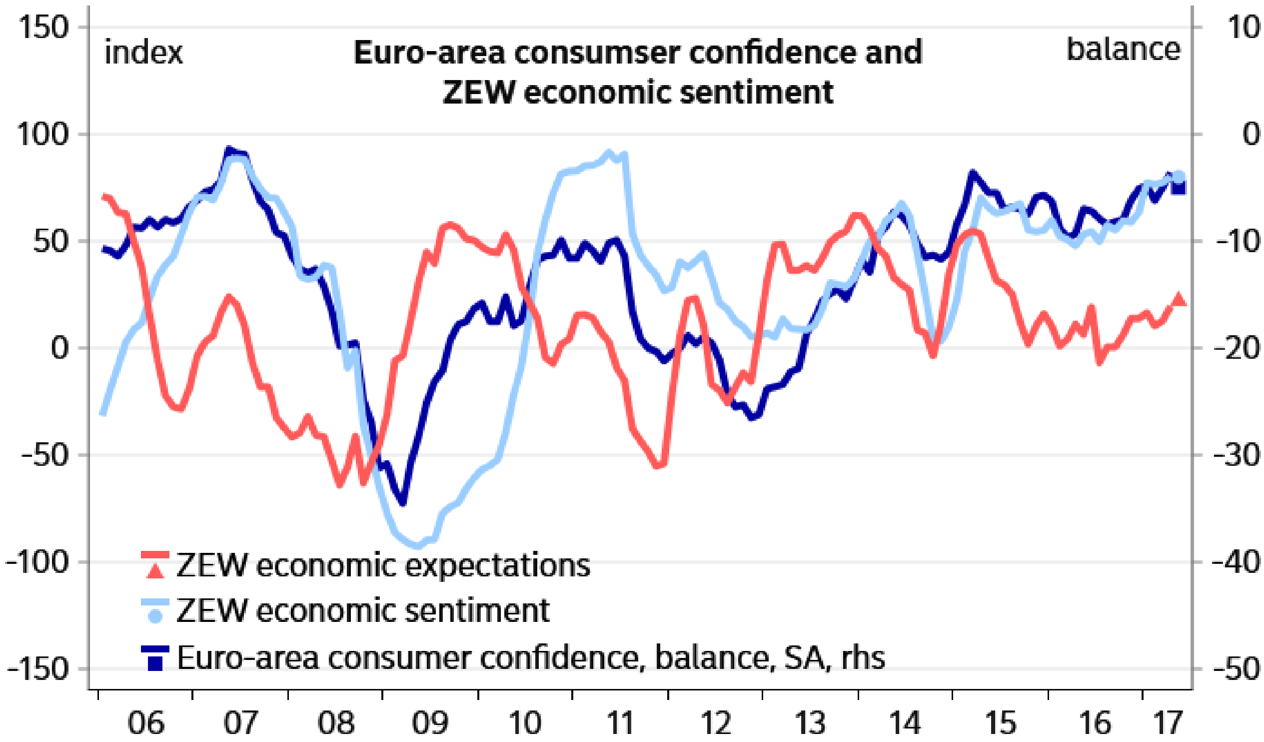


Source: Nordea Markets and Macrobond

Euro area: A calm week is expected in the Euro area. The second round of GDP and inflation data will be published. Statistical revisions are often small and we do not expect changes to the flash inflation numbers (headline inflation of 1.9% and core inflation of 1.2% in April) or to the preliminary GDP growth estimate (0.5% q/q in Q1).

German ZEW indices based on survey indicators will be published on Tuesday. Although we expect robust growth to continue, that may not be reflected as improvements in ZEW, which is already at a high level. Especially any rise in the current conditions would take the indicator to a historical high. Thus, we expect the relief resulting from the French elections to be mainly reflected in the economic sentiment indicator, which may rise slightly. The same applies to the Euro-area flash consumer confidence index (Fri), which was at its highest level in April (-3.6) since 2007.

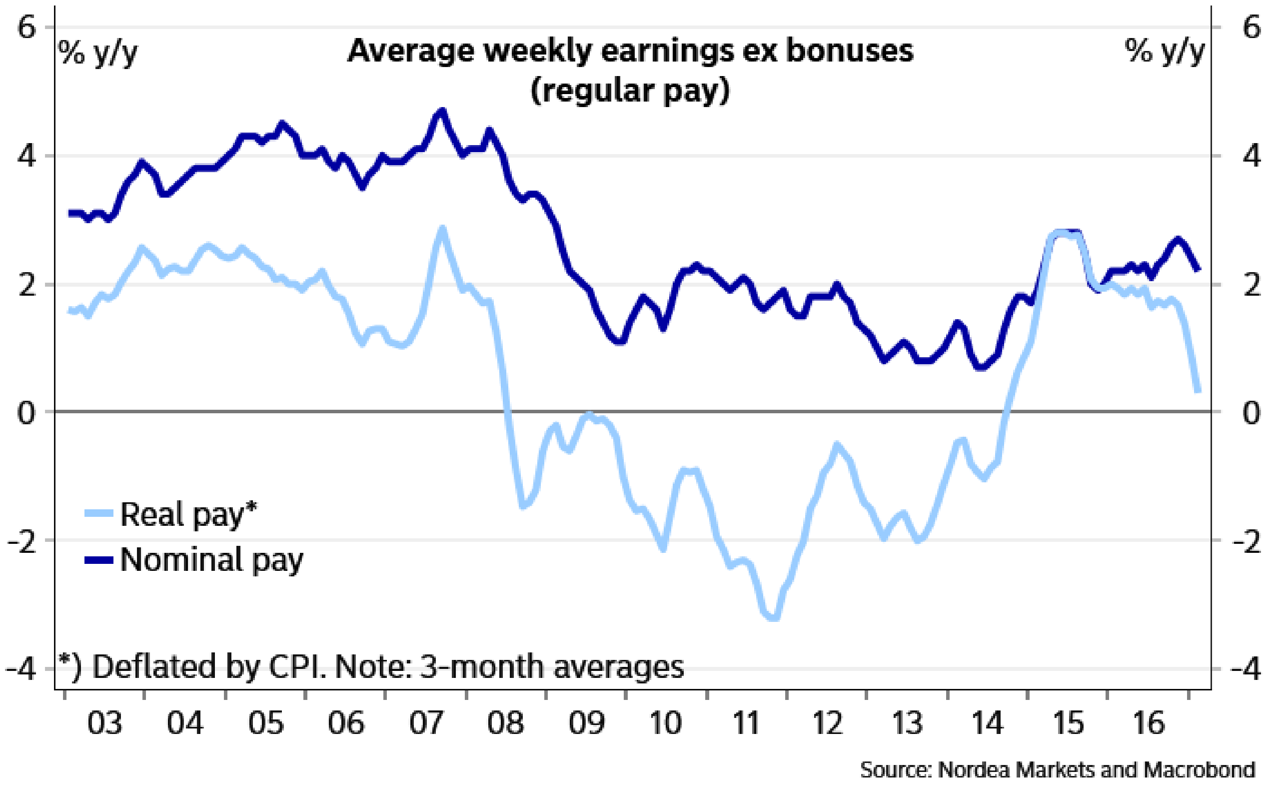
Nordea



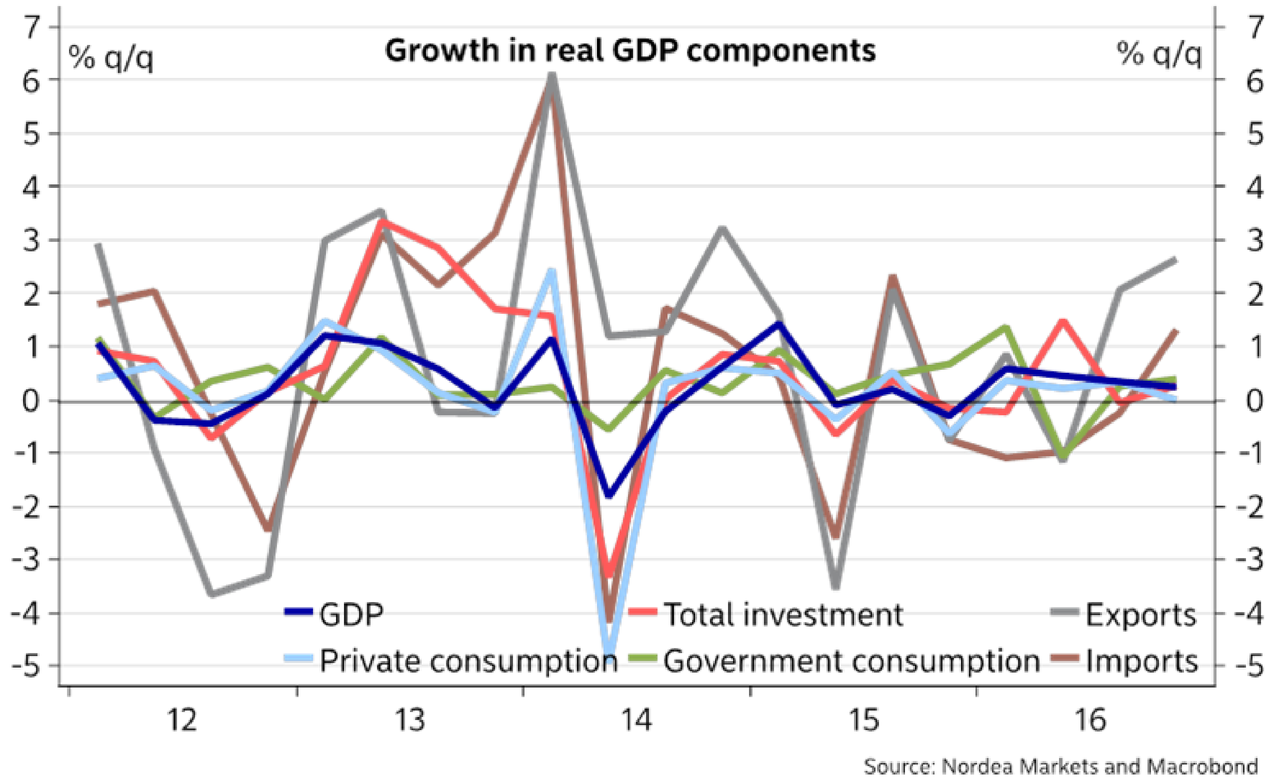
On the policy front, the ECB will publish the minutes from its April meeting on Thursday. Not much new information regarding either the sequencing of the use of separate monetary policy tools or the future changes to forward guidance is expected.

In France, Macron will appoint a prime minister at the beginning of the week.

UK: We expect next week's data to bring more evidence that the decline in the GBP continues to be passed on to consumers. Headline **CPI inflation** (Tue) is expected to rise from 2.3% in March to 2.6% y/y in April, while the core rate is forecast to increase from 1.8% to 2.2%, both driven by higher import prices. Going forward, higher import prices are likely to continue to feed through to consumers, pushing the headline inflation rate to a peak of around 3% in early 2018. This will squeeze real household spending power further and add to the economic slowdown. April **retail sales** (Thu) are expected to support this picture, with evidence of continued weakness. In Q1 retail sales volumes posted their biggest decline in seven years as consumers felt the pinch from the partly GBP-driven surge in inflation. The **employment report** (Wed) is likely to show that real wage growth has slowed to a crawl. Real wage growth nosedived to only 0.3% y/y in February, a low since September 2014. Employment growth has been roughly halved after the Brexit vote.



Japan: We expect the synchronised global recovery to benefit Japan's economy in Q1, driven primarily by strong exports. Our forecast for the preliminary GDP growth (Thu) is 0.3% q/q and 1.4% on annualized terms, lower than consensus of 0.4% and 1.8%, respectively. The positive export momentum will likely diminish later this year due to policy uncertainties in China and the US. Domestic demand remains lacklustre as neither companies nor households are convinced about the duration of the current recovery.



Emerging markets

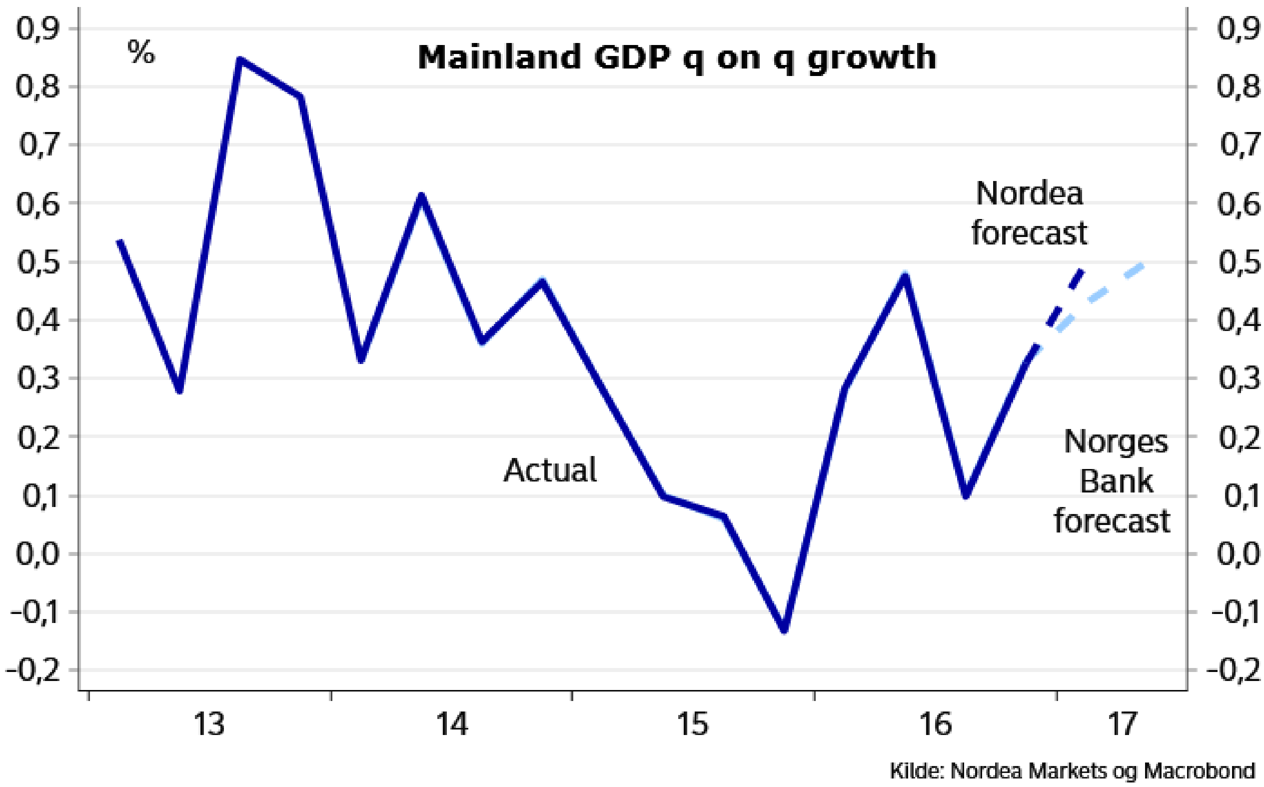
Russia: Tax payments (~RUB 450bn) are to be paid on Monday. Otherwise, the commodity prices are likely to drive the RUB. Money markets are still digesting the CBR's decision to cut the key rate by 50 bp and the money market rates are slowly going lower. Among the macro data, trade balance and GDP for Q1 2017 are to be released next week. We expect no big surprises: the trade surplus is about 50% higher than a year ago (partly explains the RUB strengthening in 2017), and we expect GDP growth around 0.3-0.5% in Q1 (thanks to the positive temporary impulse of private consumption, which was sponsored by the one-off pension payment in Jan).

Mexico: We expect Banxico to be done hiking its key interest rates at this week's meeting, but it will be a close call, especially with the slight increase in inflation in April. The strengthening of the MXN should give the central bank some comfort that inflation will quickly come back lower.

Nordics

Sweden: The Riksbank's proposal for a new policy target will be the climax of the week. The referral will be published on Tuesday (09.30). Read also Riksbank taking a wider aim. Later that day, Governor Ingves will hold a speech "Monetary policy challenges – weighing today against tomorrow", which will also be published.

Norway: We forecast mainland GDP growth at 0.5% q/q (1.4% y/y) in Q1 (Tue) up from 0.3% in Q4. The drag from falling oil investment at home and abroad is losing its grip. Manufacturing production increased by a healthy 0.5% q/q if we are to believe the production index. We also believe oil-related services are doing better. In addition, construction probably grew fairly strongly helped by strong growth in housing investment. Our forecast of 0.5% is marginally above Norges Bank's and, if anything, it will strengthen the case for unchanged rates. We would look closely at the employment figure. If it increases again, it will clearly add to the impression from the production figure that the economy is on an improving trend.



See next week's calendar here.

Nordea

Disclaimer and legal disclosures

Disclaimer

Origin of the publication or report
This publication or report originates from: Nordea Bank AB (publ), including its branches Nordea Danmark, filial af Nordea Bank AB (publ), Sverige, Nordea Bank AB (publ), Finnish Branch, Nordea Bank AB (publ), filial i Norge and other branches in various jurisdictions (together "Nordea") acting through their unit Nordea Markets. Nordea Bank AB (publ) is supervised by the Swedish Financial Supervisory Authority and the branches are supervised by the Swedish Financial Supervisory Authority and the banking and/or securities regulators in each relevant jurisdiction. Banking activities may be carried out internationally by different branches, subsidiaries and affiliates of Nordea according to local regulatory requirements. With respect to any jurisdiction in which there is an entity of Nordea, this publication or report is distributed in such jurisdiction by, and is attributable to, such local entity of Nordea. Recipients in any jurisdiction should contact the local entity of Nordea in relation to any matters arising from, or in connection with, this publication or report. Not all products and services are provided by all entities of Nordea.

This publication or report does not necessarily represent the views of every function within Nordea. Opinions or suggestions from Nordea Markets may deviate from recommendations or opinions presented by other departments or companies in Nordea.

Validity of the publication or report
The information in this publication or report is, regardless of source, given in good faith, and may only be valid as of the stated date of this publication or report. The information may be subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company, jurisdiction or financial instruments referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein is not to be relied upon as a representation and/or warranty by Nordea and/or its other associated and affiliated companies, that: (i) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and (ii) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

No individual investment or tax advice
This publication or report is intended only to provide general and preliminary information and shall not be construed as the basis for any investment decision. This publication or report has been prepared by Nordea Markets as general information for private use of investors to whom the publication or report has been distributed, but it is not intended as a personal recommendation of particular financial instruments or strategies. Any information or recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient or any class of persons, and has not been prepared for any particular person or class of persons. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate.

This publication or report is not and does not constitute or form part of any offer, recommendation, invitation or solicitation to subscribe to or to enter into any transaction; nor is it calculated to invite, nor does it permit the making of offers to the public to subscribe to or enter into, for cash or other consideration, any transaction, and should not be viewed as such.

This publication or report is not intended to provide, and should not be relied upon for accounting, legal or tax advice or investment recommendations and is not to be taken in substitution for the exercise of judgment by the reader, who should obtain separate legal or financial advice. Nordea does not act as an adviser and assumes no fiduciary responsibility or liability for any consequences, financial or otherwise.

Sources
This publication or report may be based on or contain information, such as opinions, recommendations, estimates, price targets and valuations which emanate from: (i) Nordea Markets' analysts or representatives, (ii) Publicly available information, (iii) Information from other units of Nordea, or (iv) Other named sources.

Whilst Nordea Markets has taken all reasonable care to ensure that the information contained in this publication or report is not untrue or misleading at the time of publication, Nordea and/or its other associated and affiliated companies cannot guarantee, and do not make any representation or warranty, as to its adequacy, completeness, accuracy or timeliness for any particular purpose. The perception of opinions or recommendations such as Buy or Sell or similar expressions may vary and the definition is therefore shown in the research material or on the website of each named source.

Limitation of liability
The publication and distribution of this document does not constitute nor does it imply any form of endorsement by Nordea and/or its other associated and affiliated companies of any person, association, entity, government, jurisdiction, services or products described or appearing in the information.

Nordea and/or its other associated and affiliated companies assume no liability as regards to any investment, divestment or retention decision taken by the investor on the basis of this publication or report. In no event will Nordea and/or its other associated and affiliated companies be liable for any direct, indirect or incidental, special and/or consequential damages (including any claims for loss of profits) arising from any use of and/or reliance upon this publication or report and/or further communication given in relation to this publication or report.

Nordea and/or its other associated and affiliated companies will not be liable for any loss, damage or expense arising from, but not limited to, any defect, error, imperfection, fault, mistake or inaccuracy with this document, its contents or associated services, or due to any unavailability of the document or any part thereof or any contents.

Risk-related information
The risk of investing in certain financial instruments, including those mentioned in this document, is generally high, as their market value is exposed to a lot of different factors such as the operational and financial conditions of the relevant company, country or economy, growth prospects, change in interest rates, the economic and political environment, foreign exchange rates, shifts in market sentiments etc. Where an investment or security is denominated in a different currency to the investor's currency of reference, changes in rates of exchange may have an adverse effect on the value, price or income of or from that investment to the investor. Investors investing in funds denominated in non-local currency should be aware of the risk of exchange rate fluctuations that may cause a loss of principal. Any past performance, projection, forecast or simulation of results is not necessarily indicative of the future or likely performance of any investment. Estimates of future performance are based on assumptions that may not be realized. Potential for profit is accompanied by the possibility of loss. The value of investments and the income from them may go down as well as up. When investing in individual instruments or financial products, the investor may lose all or part of the investments. Asset allocation, diversification and rebalancing strategies do not insure gains nor guarantee against loss. The use of leverage, shorting, and derivative strategies may accelerate the velocity of the potential losses. The use of currency strategies involves additional risks.

Nordea

Conflicts of interest

Nordea and/or its other associated and affiliated companies and their respective directors, officers and/or employees may at any time, to the extent permitted by applicable law and/or regulation, be long or short any securities, currencies or financial instruments ("Instruments") referred to in this publication or report, or have a material interest in any Instruments, or may effect transactions in the Instruments, or may be the only market maker in relation to such Instruments, or provide, or have provided advice, investment banking or other services, to issuers of such Instruments. Nordea and/or its other associated and affiliated companies are a market marker in Scandinavian currencies, including the Swedish Krona, Norwegian Kroner, and Danish Krone, and may execute large volumes of US dollar, Euro, and Japanese Yen, whether on a proprietary basis or as agent. Accordingly, Nordea and/or its other associated and affiliated companies may potentially have a conflict of interest. In producing this publication or report, Nordea and/or its other associated and affiliated companies receive no direct compensation or monetary reward.

The research analyst primarily responsible for the content of this publication or report, in part or in whole, certifies that the views about the companies and any Instruments expressed in this publication or report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of the date of this report, apart from foreign exchange trading solely for personal investment, the analyst does not have any proprietary position or material interest in the securities of the corporation(s) or any Instruments which are referred to in this report, unless otherwise expressly stated.

To limit possible conflicts of interest and counter the abuse of inside knowledge, the analysts of Nordea Markets are subject to internal rules on sound ethical conduct, the management of inside information, handling of unpublished research material, contact with other units of Nordea and personal account dealing. The internal rules have been prepared in accordance with applicable legislation and relevant industry standards. The object of the internal rules is for example to ensure that no analyst will abuse or cause others to abuse confidential information. It is the policy of Nordea Markets that no link exists between revenues from capital markets activities and individual analyst remuneration. Nordea and the branches are members of national stockbrokers' associations in each of the countries in which Nordea has head offices. Internal rules have been developed in accordance with recommendations issued by the stockbrokers associations. This material has been prepared following the Nordea Conflict of Interest Policy, which may be viewed at www.nordea.com/mifid Important disclosures of interests regarding this research material are available at: https://nerw.nordea.com/nerw/compliance

Distribution restriction

The Instruments referred to in this publication or report shall not be regarded as eligible for sale in some jurisdictions.

This report is not directed to, or intended for distribution to or use by, any non-accredited investor, non-professional counterparty, or any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

If this publication has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this publication, which may arise as a result of electronic transmission.

This research report is intended only for, and may be distributed only to, accredited investors, expert investors or institutional investors in Singapore who may contact Nordea Bank AB Singapore Branch of 138 Market Street, #09-01 CapitaGreen, Singapore 048946.

This publication or report may be distributed by Nordea Bank Luxembourg S.A., 562 rue de Neudorf, L-2015 Luxembourg which is subject to the supervision of the Commission de Surveillance du Secteur Financier.

In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.