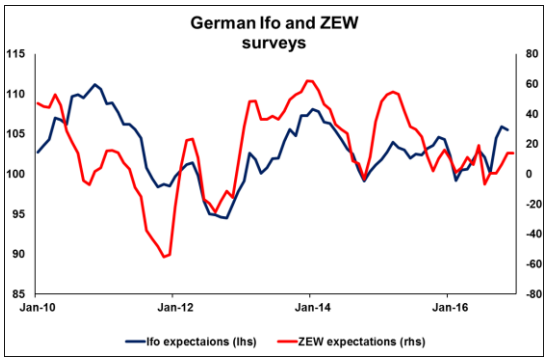
Week ahead: December 19th – 23rd

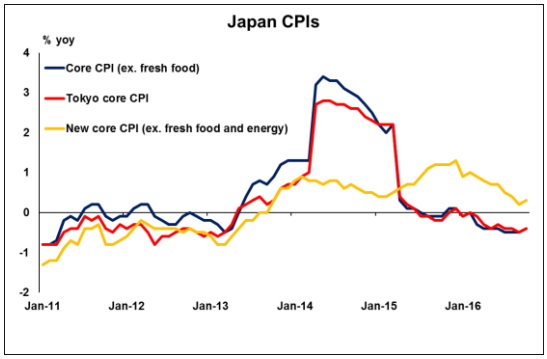
BoJ & Riksbank policy meetings, key data in focus

Next week's market movers

- In Japan, the BoJ is likely to stand pat amid relatively optimistic data, as well as a weaker JPY.
- In Sweden, the Riksbank may take the sidelines as well, though continued undershooting in inflation may prompt a policy response in the foreseeable future.
- We also get key economic data from Germany, New Zealand, the US, the UK and Canada.

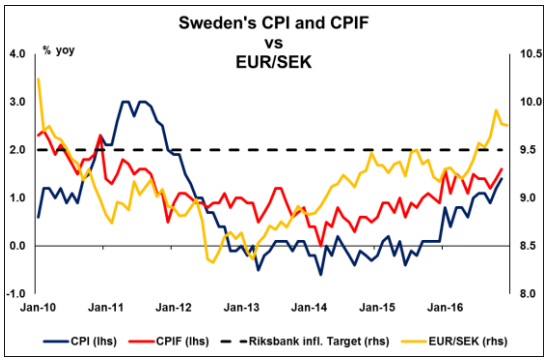


On Monday, Germany's Ifo survey for December will be released. The forecast is for both the current conditions and the expectations indices to have risen, albeit slightly. We see the risks surrounding the current conditions forecast as skewed to the upside, considering the unexpected surge in the current assessment index of the ZEW survey as well as the upbeat German composite PMI survey. Importantly, the PMI showed that German companies raised their prices at the sharpest rate since 2011, as the weaker euro placed upward pressure on import costs. This was already evident in November's Ifo report, which showed that an increased number of companies intended to raise their prices in the near future. Should December's Ifo survey show that businesses continue to expect prices to rise, this would be encouraging news for the ECB, as it could confirm that the Bank's prior easing measures are working as intended with regards to lifting inflationary pressures.

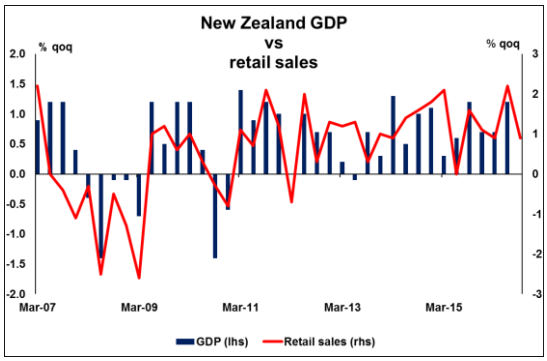


On Tuesday, during the Asian morning, the Bank of Japan rate decision will take center stage. We see a very low likelihood for BoJ officials to expand their stimulus program, at least for now. Economic data have been somewhat optimistic since the Bank's latest meeting, with another positive GDP growth print in Q3 and the October headline CPI rate surging to enter the positive territory for the first time since February. Alas, the core CPI rate for the month rose only marginally, indicating that the biggest part of the improvement was due to movements in the prices of volatile items, such as fresh food. What's more, the Tankan survey for Q4 showed that the sentiment of large manufacturers improved, even though the large non-manufacturers print remained unchanged. Despite the data supporting that, on balance, the Japanese economy is showing signs of improvement, our main argument for the BoJ to stand pat is the recent collapse of the yen. Ever since Trump's election as US President and the subsequent dollar rally, the Japanese currency has depreciated by roughly 12% against its US counterpart, something that is likely to be a very welcome development for the BoJ. A weaker currency makes the Bank's job of returning inflation to target easier, as it raises the cost of imported products and thereby the nation's general price level. As a result, we expect the BoJ to hold off from acting at this meeting, and to take the sidelines for some time while it examines fresh data under its new policy framework and following the yen's slump.

On Wednesday, market attention will shift to the Riksbank policy meeting. When they last met, officials shifted to a dovish tone, indicating that the probability for a rate cut has increased. Without an official forecast for this meeting, we expect the Bank to extend the duration of its QE program, but not to introduce anything beyond that. Even though November's CPI and CPIF both lie below the Riksbank's own forecasts, the difference between the forecasts and the actual prints is relatively small. Thus, we doubt that this will be enough to trigger an immediate policy response, like a rate cut or increasing the pace of asset purchases. Instead, we expect the Riksbank to follow in the ECB's footsteps and simply extend QE. However, the decision may be accompanied with an ultra-dovish message that any further downside surprises in inflation will require further easing. In addition, we believe that the weaker SEK, at least versus the dollar, may be another factor encouraging policymakers to wait for further information before pulling the easing trigger.



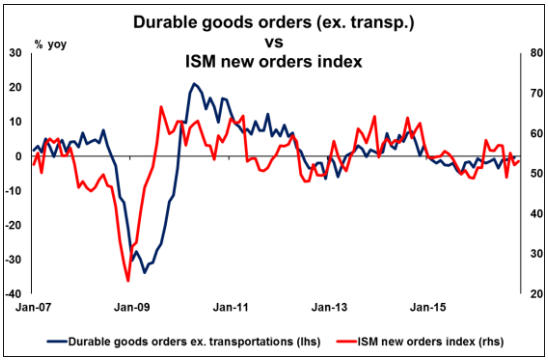
In New Zealand, GDP data for Q3 are coming out. Economic indicators throughout the quarter were somewhat mixed. On the positive side, milk auctions were stronger on average in Q3 compared to Q2, and the labor market tightened further. However, retail sales were much weaker than the previous quarter, making us believe that consumer demand may have remained soft. Thus, we expect GDP growth to have remained more or less unchanged from Q2, with risks skewed to the downside, considering that consumer spending accounts for a far larger share of GDP than exports do.



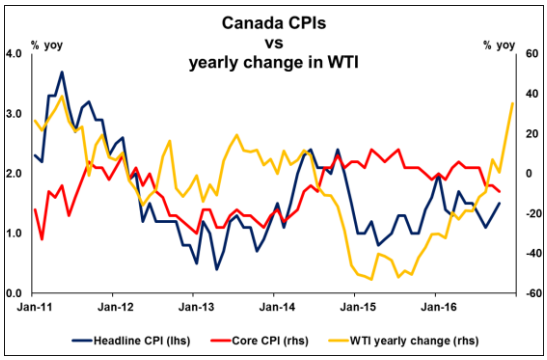
On Thursday, we get a variety of US economic indicators. Personal income and spending data, as well as durable goods orders, all for November are coming out.

Personal income is expected to have slowed in monthly terms, but to have still grown at a healthy pace, while personal spending is forecast to have accelerated. Such prints would likely be another set of encouraging data for the Fed, as they could show that the US economy enjoyed another month of robust consumer demand as well as continued gains in wages. However, we would like to sound a note of caution, as we see the risks surrounding both of these forecasts as tilted to the downside. We base our view for personal income on the fact that average hourly earnings unexpectedly fell in November, while the below-expectations retail sales print for the month makes us hesitant to trust the forecast of personal spending.

At the same time, we get the US durable goods orders for November. The headline rate is forecast to have fallen, a turnaround from the previous month, while no forecast is available for the core rate. We see some upside risks to the forecast, perhaps for a smaller than expected decline, considering that the New Orders index of the ISM manufacturing PMI for the month rose, which means accelerating growth in orders.



From Canada, we get CPI data for November. Without any forecast available yet, we see the case for both the headline and the core rates to have risen. We base our expectations on the nation's Markit manufacturing PMI for the month, which showed that the rate of inflation for finished goods was the fastest in two-and-a-half years. At its latest policy meeting, the Bank of Canada struck a somewhat worried tone with regards to inflation, stating that although the core CPI is close to 2%, this is linked to the past depreciation of CAD, an effect which is dissipating. Thus, we believe that accelerating inflation will be pleasant news for the Bank, and may reduce the likelihood for any further easing in the foreseeable future.



On Friday, we get the UK's final estimate of Q3 GDP, as well as the current account balance for the quarter. Even though these data may be viewed as outdated given that the fourth quarter is almost over, they will likely provide the final verdict of how the UK economy fared in the aftermath of the referendum.

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