ECB's Coeuré Downplays Obstacles to QE

Summary | Today's News in Detail | Latest Issues of Sovereign Debt Update | Macroeconomic Forecasts | Recent Research

18 December 2014

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With thanks to Ann O'Kelly

Economics
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Summary

ECB's Coeuré: on the broad consensus and its legal responsibility – indicated in a WSJ interview that "*I see a broad consensus around the table in the governing council that we need to do more*" to raise inflation and boost the economy. On **QE**, Mr. Coeuré declared that "*it's not that much of a question on whether we should do something, but more a discussion on the best way to do it*", adding that "*if we want to do more we obviously have to reach out to market segments where there is more liquidity and that is why the government bond market is the baseline option, which doesn't necessarily mean we would only buy government bonds*". He played down concerns that the ECB would only be able to move forward with QE, making references to the OMT that Bundesbank President Weidmann had opposed at the time and pointing to designing a "*solution in a way that mitigates the concerns of as many people around the table as possible*". He acknowledged that "*what has changed is the confirmation of low growth and low inflation, and the oil shock which is obviously new*", also noting that while the ECB would like to assess the pass-through from lower oil prices to core inflation, "*we don't want to be behind the curve and act too late*". Making a specific reference to the low level of inflation, Mr. Coeuré highlighted that "*we have both a moral and legal responsibility to deliver on our mandate*".

France: calls for better adapted macro-economic policy, hoping for ECB action – EcoMin Macron told lawmakers on Wednesday that President Francois Hollande will call at today's EU summit "*for a [European] macro-economic policy that is better adapted to the current context, in terms of better coordination of budgetary policies and - even if one should never talk about this - wish that, as early as January, a more suitable monetary policy supports our efforts*".

Italy: real GDP to rise by 0.5% in 2015, Confindustria says. Separately, FinMin Padoan says oil prices at $60/bbl could boost growth by 0.5%.

Italy: privatization target of €10bn maintained for 2015 says FinMin Padoan.

Spain: Government to announce better financing conditions for regions on Dec 26, including a reduction on the interest rate charged under the Autonomous Liquidity Fund FLA (to 0% from 1% currently).

Spain: Trade balance continues to deteriorate in October, posting a deficit of €2.3bn vs. a deficit of €1.4bn in Oct-13.

Greece: first round of presidential election fails to elect a president – with 160 'Yes' votes, 135 'Present' votes and 5 MPs not attending the vote.

Greece: **poll after presidential vote shows Syriza in the lead** – with 28.5% of voting intentions vs 24.9% for New Democracy.

Euro Area: Inflation Slowdown Confirmed, Negative December Print Seen – see also ***Europe: Monthly Inflation Profiles***.

Switzerland - SNB Sets Negative Interest Rates.

Recent Research

Switzerland — SNB Sets Negative Interest Rates

18 December 2014

The SNB has today set a negative interest rate (minus 25bp) on banks' sight deposit account balances at the SNB, aiming to take its policy rate (interbank rates) *"into negative territory."* The negative rate will only apply to sight deposits above a specified *"exemption threshold"* which, for domestic banks corresponds to 20 times the minimum reserve requirement, adjusted for any holdings of notes and coin. The SNB has set the exemption threshold at a level which does not penalize the banks for holding high reserve levels, but which does aim to push the interbank rate well below zero. This structure appears flexible enough to allow the SNB to set an even more negative interest rate if needed, without excessively penalising banks. Likewise, if renewed FX intervention inflates banks' aggregate sight deposits further, the SNB could if necessary adjust the

Today's News in Detail

ECB's Coeuré: on the broad consensus and its legal responsibility – European Central Bank executive board member Benoît Coeuré gave an interview to the *Wall Street Journal* in which he indicated that "*I see a broad consensus around the table in the governing council that we need to do more*" to raise inflation and boost the economy. On **QE**, Mr. Coeuré declared that "*It's not that much of a question on whether we should do something, but more a discussion on the best way to do it*", adding that "*if we want to do more we obviously have to reach out to market segments where there is more liquidity and that is why the government bond market is the baseline option, which doesn't necessarily mean we would only buy government bonds*". He played down concerns that the ECB would only be able to move forward with QE, making references to the OMT that Bundesbank President Weidmann had opposed at the time and pointing to designing a "*solution in a way that mitigates the concerns of as many people around the table as possible*". He acknowledged that "*what has changed is the confirmation of low growth and low inflation, and the oil shock which is obviously new*", also noting that while the ECB would like to assess the pass-through from lower oil prices to core inflation, "*we don't want to be behind the curve and act too late*". Making a specific reference to the low level of inflation, Mr. Coeuré highlighted that "*we have both a moral and legal responsibility to deliver on our mandate*". On the subject of **minutes**, Mr. Coeuré confirmed that the ECB was planning to publish public accounts of its policy meetings starting in 2015. The accounts would likely be released four weeks after meetings and will be "*substantial*" in providing the balance of views among officials, but would not include individual board members' arguments, and that officials haven't decided yet whether to keep votes anonymous. Comment: Mr. Coeuré suggested that despite some opposition to QE from a number of national central bank governors, the majority view would likely win the day, although there could be some concessions in the design of the purchase programme and stressed the need for action soon. We continue to think that Jan 22 is the date to watch for the formal announcement of sovereign bond purchases as part of the ECB's QE programme.

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France: calls for better adapted macro-economic policy, hoping for ECB action – Economy Minister Emmanuel Macron told lawmakers on Wednesday that French President Francois Hollande will call at today's EU summit "*for a [European] macro-economic policy that is better adapted to the current context, in terms of better coordination of budgetary policies and - even if one should never talk about this - wish that, as early as January, a more suitable monetary policy supports our efforts*". Separately, Finance Minister Michel Sapin indicated before the lower house of parliament that France will respect European budget rules and the European Commission will not have to apply budget sanctions. Comment: the policy mix is likely to be loosened in coming months, in our view, thanks in part to the ECB's more accommodative monetary policy stance. But it remains debatable as to whether the budgetary coordination that the French government is encouraging will yield much, given Germany's reluctance to debate the issue and the ECB's insistence on fiscal rules to be respected.

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Italy: real GDP to rise by 0.5% in 2015, Confindustria says – Confindustria, the largest employers' organisation in Italy, noted on Wednesday that it expects the Italian economy to expand by 0.5% in 2015 and by 1.1% in 2016, after a 0.5% contraction in 2014. Confindustria said its forecasts are based on improvements it sees in the global economic scenario, adding that "*uncertainty remains the main obstacle*" for many business plans, daily Ansa reported. GDP growth is expected to expand in the first two quarters of 2015 according to

exemption threshold accordingly.

Michael Saunders

Euro Area — Inflation Slowdown Confirmed, Negative December Print Seen

17 December 2014

Inflation slowed to 0.3% YY in November — in seasonally adjusted terms prices also fell for the 2nd successive month. Not seen since Nov & Dec 2008. Lower energy prices contributing the most — but core inflation rates also slowed to new record lows. December HICP estimate revised down to -0.1% YY, January to -0.2% YY. Sensitivity to oil prices — we show what would happen if oil prices were to be stable at $60 over the forecast horizon. See ***Europe: Monthly Inflation Profiles***.

Guillaume Menuet

Europe — Europe: Monthly Inflation Profiles For Selected Countries

Western Europe

Updated monthly inflation forecasts for Euro Area, Germany, France, Italy, Spain, UK, Sweden and Switzerland.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Ebrahim Rahbari | Tina Mortensen

UK — MPC Minutes and Labour Market Data

17 December 2014

The jobless rate edged down to 6.0% in Aug-Oct from 6.2% three months earlier and job growth is more than four times workforce growth. Job growth is increasingly concentrated in full-time employees, rather than self-employment and part-time work. The level of job vacancies is close to the pre-crisis peak and the second-highest for any month since data began in 2001. The long period of weakness in pay is ending, with the YY growth in earnings ex bonuses up to 1.6% in Aug-Oct versus 0.8% three months earlier. We expect real pay per head to rise by more than 2% in 2015 – with aggregate household real disposable income growth of 3½% YY or so in 2015. The MPC minutes highlight the extent to which low oil prices (and weakness in other costs) are likely to produce a benign mix of strong

Bloomberg. Separately, in an interview for daily *Il Messaggero*, FinMin Pier Carlo Padoan said that if oil prices stabilise at $60/bbl, Italian GDP could increase by a further 0.5%. Currently the government estimates a Brent price of $99/bbl and real GDP growth of 0.5% in 2015 and 0.8% in 2016.

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Italy: privatization target of €10bn maintained for 2015 says FinMin Padoan – Mr Padoan remarked in the same *Il Messaggero* interview that public debt is expected to continue increasing in 2015 and to start falling in 2016. On privitisation plans, Mr. Padoan indicated that the Italian government is considering the sale of 40% of Poste, 49% of Enav (air traffic control) and about 40% of Ferrovie dello Stato (railways), noting that the timing will depend on market conditions and that the government remains confident of meeting its privatisation target of €10bn in 2015.

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Spain: Government to announce better financing conditions for regions. Speaking in front of Congress, FinMin Cristobal Montoro said the central government will announce measures to reduce the interest burden on regional governments at the forthcoming Financial and Fiscal Policy Council meeting due on Dec 26, daily *Expansion* reports. Among the measures, the government is expected to announce a further reduction in the interest rate charged under the Autonomous Liquidity Fund (FLA) to 0% (from 1% currently). The government expects the measure will attract those regions that have so far declined financing from the FLA. Separately, speaking earlier this week to reporters, PM Rajoy ruled out a possible debt haircut for regional governments (as local media had been suggesting recently), noting that the measure will not be on the agenda in the near future and that he was generally against it. Comment: improving financing conditions for the regions is yet another measure aiming to continue centralising public debt issuance in Spain, in the context where the sovereign continues to enjoy quite supportive market funding conditions. Granting interest-free loans to the regions will indeed improve their financial situation, although we remain sceptical that it could be enough to bring the fiscal deficit in some regions in line with target next year (0.7% of GDP).

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Spain: Trade balance continues to deteriorate in October, posting a deficit of €2.3bn vs. a deficit of €1.4bn in Oct-13, data from the Economy Ministry showed. Exports of goods continued to increase in October (by 4.1% YY after 9.6% YY in Sept), although partly offset by a large increase in imports (up by 7.7% YY after 7.5% YY in Sept). In particular, the rise in exports in October was accounted for by exports of semi-manufactured goods (up by 15.1% YY), food (7.6% YY), and automotive (5.2% YY). Year-to-date, the trade deficit rose to €21.1bn in Oct, compared to a deficit of €12.3bn in the same period of 2013. The deterioration in the YTD deficit was driven by a 6.2% YY increase in imports in Jan-Oct, while exports rose by 2.1% YY. Comment: strong import growth is continuing to translate into a sharp deterioration in the trade balance, and even despite still robust export growth performance.

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Greece: first round of presidential election fails to elect a president – The presidential candidate of the senior government coalition party New Democracy, Stavros Dimas, gathered 160 'Yes' votes, short of the 200 votes required to be elected. 135 MPs abstained (voting 'Present'), while 5 were absent (there was no possibility to vote 'No'). The 160 Yes votes were delivered by the 155 coalition MPs and 5 independents. *Kathimerini* reports that the support for the government was somewhat smaller than expected, in part because some independents that had previously suggested that they would support Dimas (e.g. Panayiotis Melas, even though he later that suggested that he might change his stance in the

real growth and very low inflation in the UK.

Michael Saunders

UK — Inflation Likely to Fall Below 1% in December

16 December 2014

The ONS report that CPI inflation fell to 1.0% YY in November from 1.3% YY in October, well below our and consensus forecasts for 1.2% YY. The split shows widespread weakness across food, drink, petrol and core inflation. With lower petrol prices, ongoing weakness in food prices (reflecting declines in producer prices and import prices for foods), plus pressure on retail margins from the buildup in retail inventories in November, we expect CPI inflation to fall to only about 0.5% YY in the December data, triggering the first of several open letters from the BoE Governor. If oil prices stay at current levels, CPI inflation is likely to fall to a low of perhaps 0.3% YY in early 2015, with an annual average of about 0.6% YY for 2015 as a whole, the lowest for decades.

Michael Saunders

Sweden — Riksbank Is Considering Additional Measures Next Year

16 December 2014

There are three important points in today's Riksbank statement. First, while keeping its repo rate unchanged at 0.00%, the Riksbank lowered its conditional interest rate path further; initial tightening has been postponed from mid-2016 to 2H-2016. Second, the Riksbank gave a clear signal of its willingness to provide further near-term stimulus. As before, the Bank reiterated that the first measure will be to further postpone initial tightening. But, in addition, it opened the door to further unconventional measures, with the measures under consideration being asset purchases, loans to banks, a negative repo rate or currency intervention. Third, the Riksbank gave what may be a nod towards a form of state-contingent forward guidance, with a hint that it will keep rates on hold until CPIF inflation is close to the 2%-target. Our base case is for a cut to a negative

coming votes) only voted ‘Present’. Two former MPs of far right Golden Dawn, which had been expected to vote for Dimas, did not turn up for the vote. The article also suggests that an initiative by five independents and three Democratic Left MPs aimed at securing a cross-party consensus for a presidential candidate and at the same time setting elections for later in 2015 could gain extra backing in the coming days. Ahead of the vote, Deputy Prime Minister Venizelos said that the government would be open to suggestions that might help reach a compromise with the opposition so a president could be elected. Venizelos suggested, for example, providing opposition party Syriza with representation on a Greek team to negotiate with the troika. Greek PM Samaras said that conditions are difficult for Greece, and that the country must avoid turmoil, adding that “*today’s vote was the first of three, I believe we will elect a president in the next two votes*”. The leader of the main opposition party Tsipras said that “*the fearmongering of the last few days failed…the strategy of fear has collapsed. Tomorrow will be a new day because democracy cannot be blackmailed. The people and democracy will provide the way out*.”

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Greece: opinion poll released after presidential vote shows Syriza in the lead – Reuters reports that a poll conducted by Marc for Alpha TV showed that the leftist main opposition party Syriza had 28.5% of voting intentions vs 24.9% for New Democracy and 4.8% for Pasok. The poll was carried out on December 14-17 and showed that 56.1% of Greeks prefer to have a new president elected by parliament versus 40.4% who favour snap elections.

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Latest Issues of Sovereign Debt Update

First Round of Greek Presidential Election Today

17 December 2014

First round of Greek presidential election today. ECB's Coeuré warns that budgetary uncertainty harms effectiveness of monetary policy. Euro Area flash PMIs improve marginally in Dec. Weidmann says whole row of economic reasons against QE. German ZEW survey improves. Italy's President Napolitano says he may retire in early 2015. Italy: Jobs Act decrees to be adopted on Dec 24, says Renzi. Italy's goods exports rise. Spain's fiscal watchdog Airef: nine regions may breach 2015 fiscal targets.

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

ECB’s Visco: Fresh Inflation Declines Would Require Rapid QE Launch

16 December 2014

ECB: Visco says fresh inflation declines would require rapid QE launch, Nowotny says broad economic conditions will be key input in any QE decision. Bundesbank advocates sticking to EU fiscal rules. Italy's PM Renzi meets former PM Prodi, reportedly discussing potential presidential candidacy of Mr Prodi. Spain's government approves new benefit for long-term unemployed. EU's Moscovici says for Greece not to repay debt would be "suicidal". Greece: Syriza lead narrows in new poll.

Antonio Montilla | Guillaume Menuet | Ebrahim Rahbari

Greece: Syriza’s Lead Narrows in Two Opinion Polls

15 December 2014

Greece: Syriza's lead narrows, FinMin applies for precautionary credit line. ECB's Draghi to ask for reforms at EU Council meeting. ECB relaxed about low TLTRO take-up, SSM endorses bank capital plans. Weidmann says QE advantages don't outweigh costs. German FinMin: balanced budgets through 2018. France: Poll

repo rate, plus a clear shift to state-contingent forward guidance.

Tina Mortensen

Norway — Low Oil Price Could Fuel Additional Norges Bank Rate Cut(s)

16 December 2014

The continued downward trend in oil prices means not only lower growth, but also increased risk of a more pronounced downturn in the Norwegian economy. If oil prices stay at current levels or drift even lower, this probably would prompt Norges Bank to cut interest rates further, likely as soon as March (the next policy meeting).

Tina Mortensen

Euro Economics Weekly — Will Political Risk Matter in 2015?

12 December 2014

Recent developments in Greece have highlighted political risks in the Eurozone. The situation in Greece is unique and we do not expect events there to trigger a major crisis in the Eurozone, but political risks are likely to rise in the Eurozone more broadly in 2015. In Greece, Syriza could become the first non-mainstream party in the Eurozone to lead a government, should early elections take place in January 15. In Spain, the popularity of the leftist Podemos party is rising, but we do not expect it to be part of the next Spanish government. In Portugal, an opposition victory is still likely to lead to another mainstream coalition. The large rise in political fragmentation in the Eurozone implies weaker mandates for governments, raises the risk of political inaction and instability, and increases the likelihood of market- and business-unfriendly policies. Such risks are likely to rise further even after 2015.

Ebrahim Rahbari | Tina M Fordham | Guillaume Menuet | Michael Saunders | Antonio Montilla

UK Economics Weekly — Looking Back…What Were The Surprises of 2014?

12 December 2014

For the second year in a row, the UK has had the opposite of stagflation, with above-consensus real GDP growth and

confirms voters' appetite for reforms. Italy: 60% participation in General Strike. Spanish banks' borrowing from Eurosystem falls. Portugal: opposition PS ahead of ruling coalition - poll.

Guillaume Menuet | Ebrahim Rahbari | Antonio Montilla

2nd ECB TLTRO Take-Up Below Expectations at €129.8bn

12 December 2014

TLTRO take-up insufficient to compensate for maturing 3-Y LTROs. ECB moves to 6-week cycle for new Economic Bulletin. ECB's Liikanen stresses importance of ability to act over unanimity. Germany: economy recovering with "low dynamism". France: deficit trajectory adjusted down, EC gives long list of insufficient actions. French pension system shortfall likely, says watchdog. Italy: IP falls again. Greek PM slams Syriza for reviving Grexit fears, Syriza hits back. Portugal's HICP at 0% YY.

Ebrahim Rahbari | Guillaume Menuet | Antonio Montilla

“1% Economics” Unsustainable, Warns ECB’s Coeuré

11 December 2014

ECB's Hansson: too early to say if QE decision in Jan. ECB's Angeloni: capital gap for many banks "tip of iceberg". Germany: DIW head says ECB should buy sovereign debt. Euro Working Group approves 2-month extension for Greece. Greece: reform progress hailed, PM says Syriza provoking "terror" among investors. France: reform bill approved by cabinet, CPI slows. Italy's NPL ratio rises. Spain: population falls, house transactions rise. Portugal: goods exports rise.

Guillaume Menuet | Ebrahim Rahbari | Antonio Montilla

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Macroeconomic Forecasts

Europe — Europe: Monthly Inflation Profiles For Selected Countries

17 December 2014

Updated monthly inflation forecasts for Euro Area, Germany, France, Italy, Spain, UK, Sweden and Switzerland.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Ebrahim Rahbari | Tina Mortensen

UK — UK Monthly Inflation Profile, December 2014

16 December 2014

Our latest inflation profile for the UK – Figure 1 shows annual forecasts and Figure 2 shows monthly inflation forecasts to Oct 2019.

Michael Saunders

European Economic Forecast Highlights, December 2014

3 December 2014

This companion to the December issue of Global Economic Outlook and Strategy - Prospects for Economies and Financial Markets in 2015 and Beyond gives more detailed forecasts for the main European countries to 4Q16. Figures 21-22 give annual forecasts to 2018 for growth, inflation, current balance, fiscal balance, primary balance and government debt and Figure 23 shows the change in forecasts from last month. Figure 24 shows forecast unemployment to 2019, and Figures 25-27 compare our forecasts with those of other institutions.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Ebrahim Rahbari | Tina Mortensen

Europe — Europe: Monthly Inflation Profiles for Selected Countries

below-consensus inflation. 2014 saw the biggest inflation undershoot (versus consensus) of the last 25 years. The labour market again proved surprisingly flexible, with below-consensus pay growth (fourth year in a row) and below-consensus unemployment (third year in a row). We expect many of these themes will carry over into 2015, with the oil price collapse helping to ensure above-consensus real GDP growth, very low inflation (we expect CPI inflation will average just 1.1% in 2015) and another sharp drop in unemployment. But, unlike the last few years, we expect 2015 will also see a marked rise in real wages. We wish all our readers a Merry Christmas and a Happy New Year. The next edition of UK Economics Weekly will be published week commencing 5 January 2015.

Michael Saunders | Ann O'Kelly

Norway — Dovish Norges Bank: Cuts by 25bp and Signals More Could Come

11 December 2014

Norges Bank surprisingly cut the key policy rate by 25bp to 1.25% and lowered its conditional interest rate path by more than expected at today’s monetary policy meeting, indicating a 48% probability of another near-term interest rate cut. In addition, initial tightening was postponed further from 4Q-16 to 1Q-17. The Bank’s dovish stance was motivated by a *“notably weaker”* outlook for the domestic economy *“than envisaged earlier”,* due in particular to softer-than-expected activity in the petroleum industry, but also to the heightened uncertainty surrounding the global and domestic growth outlook. With the large downward revision to the Bank’s growth outlook and its expectations of a significant strengthening of the NOK, the Bank will have to turn substantially more pessimistic on growth or inflation pressures decrease for it to lower rates again in March, in our view. However, having learned our lesson, we caution that one should never underestimate a dovish Central Bank.

Tina Mortensen

Switzerland — SNB On Hold,

2 December 2014

Updated monthly inflation forecasts for Euro Area, Germany, France, Italy, Spain, UK, Sweden and Switzerland.

Ann O'Kelly | Michael Saunders | Guillaume Menuet | Ebrahim Rahbari | Tina Mortensen

Global Economic Forecasts — December 2014

3 December 2014

This file shows summary forecasts as published in Citi's Global Economic Outlook and Strategy

Michael Saunders

Global Economic Outlook and Strategy — Prospects for Economies and Financial Markets in 2015 and Beyond

1 December 2014

In this "Prospects" edition, Citi's research team presents updated forecasts for economies, interest rates, FX rates, commodity prices and sovereign ratings around the world for 2015 and beyond. Overview essays discuss the drift into secular stagnation, whether globalization is stalling, political issues for 2015, emerging market strains, advanced economy "low-flation" and long-run projections for the size of major economies. We are cutting 0.1 percent off our global growth forecast for 2015 and 0.2 percent off for 2016, and expect only a modest pick up in global growth in 2015, led by advanced economies. Major monetary policy divergence is likely, with QE by the ECB and BoJ, widespread nearterm monetary easing across emerging markets, but (in late-2015) tightening by the Fed and BoE. We forecast further major USD appreciation, breaching €1.10/$ and ¥125/$ in 2015, with levels of €1.00/$ and ¥135/$ likely over the next 2-3 years.

Willem Buiter | Guillermo Mondino | Michael Saunders | William Lee | Kiichi Murashima

Emerging Markets Macro and Strategy Outlook — Prospects For 2015 And Beyond

1 December 2014

EM's prospects in 2015 will be governed by familiar themes: i) China's slowdown and its consequences; ii) the impact of falling commodity prices; and iii) the prospect of US monetary tightening. EM will face a challenging, though not insurmountable, year. After all, returns from (and flows into) EM were positive in 2014 in spite of a wide set of challenges. Weaker commodity prices in EM the last few quarters have had a notable effect on macroeconomic performance across the group of EM commodity exporters; so it is now possible to argue that a principal dividing line in EM is between manufacturing-based economies and commodity-based ones. On balance we expect EM spreads to widen by 15bp next year but with significant volatility, and with particular difficulty for quasi-sovereigns. In local markets, our themes are broadly negative on EMFX and more constructive on duration.

Guillermo Mondino | David Lubin | Johanna Chua

Foreign Exchange Forecasts — EUR/USD Parity Breach – November 2014

21 November 2014

The multi-year USD rally looks set to have legs as divergence in economic performance and monetary policies continues. We see 10-20% more USD upside vs. G10 currencies over the next couple of years. EUR/USD should find support in the low 1.20s short term but cut through, like a hot knife in butter, medium to long term. We expect parity to be approached and maybe breached over two years. BoJ QE acceleration announced on 31 October surprised the market and pushed USD/JPY sharply higher. We may get near term consolidation sometime

Projects Renewed Deflation

11 December 2014

The SNB kept policy on hold, with the mix of zero rates and CHF1.20/€ cap seen since late-2011, and repeated its standard language: *"the SNB will continue to enforce the minimum exchange rate with the utmost determination."* The SNB is actually a little more optimistic on the growth outlook than in September. Nevertheless, the SNB still judges that there is plenty of spare capacity in the economy. In addition, the SNB has (for the fifth consecutive quarter) again cut its inflation forecast – and now expects renewed mild deflation. Against this backdrop, we expect the SNB to keep rates on hold for several years.

Michael Saunders

Scandi Economics Update — NIER Publishes December sentiment and New Economic Forecasts

18 December 2014

Sweden — PM Löfven declares that he is prepared to drop the issue of trainee jobs to reach an agreement with the centre-right parties. He also says he is prepared to cooperate with a centre-right government if his party should lose at the early March election.

Sweden — We expect consumer sentiment to improve slightly in December (Citi: 98.5, prior: 96.8), while manufacturing confidence likely will moderate somewhat following the strong gain in October and another gain in November (Citi: 105.6, prior: 108.0). Data out at 8.00 UK time.

Norway — NB Governor Olsen sees krone weakness as a buffer for the economy at a time when oil prices fall markedly.

Norway — PM Solberg says Norway is *"very vulnerable"* to the decline in oil prices, but emphasizes at the same time that the government is prepared to ensure the current crisis does not harm the economy over the longer run.

Tina Mortensen

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given how overbought the USD is. But portfolio rebalancing and ongoing money base expansion should push USD/JPY towards 125-135 longer term. EM currencies are likely more protected by carry and lack of local quantitative easing. We expect USD gains of 5-6% vs. EM over 6-12m.

Jeremy Hale | Maximilian Moldaschl | Guillermo Mondino | Alexander Demyanets

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Appendix A-1

Analyst Certification

The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

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