3 October 2014 | 20 pages

Developed Markets
Western Europe

Euro Economics Weekly

Greece — Six Crucial Months Ahead

- Possible deadlock in the early-2015 vote among MPs to choose the next Greek President could trigger early national parliamentary elections in Greece in spring 2015, in our view, with a distinct possibility that the next government will be led by the opposition, anti-bailout, party SYRIZA. This is likely to take the degree of confrontation with Greece's official lenders much higher than in the past, possibly jeopardising still-fragile foreign investor sentiment on Greece. An early exit from the bailout programme, as the government is pledging, risks yielding a similar result.

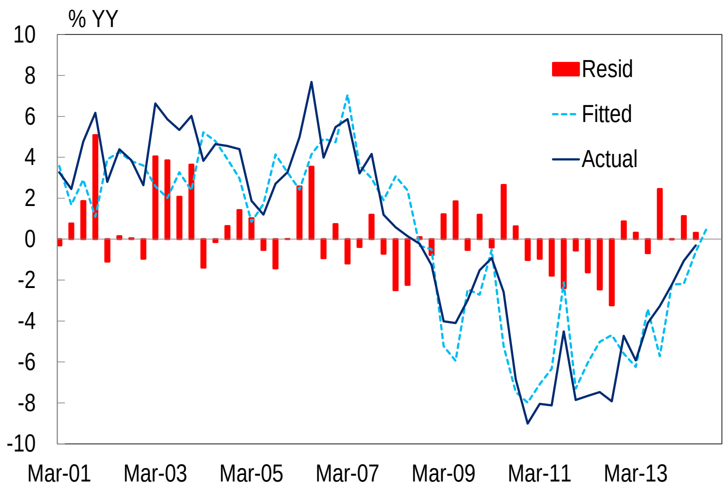
- We believe Greece needs foreign capital inflows to support the economic recovery, given the still-tight domestic liquidity situation and recent signs of weakening economic momentum. Greece will likely accept some form of external monitoring by official creditors continuing beyond 2014, possibly agreeing on a precautionary credit line after the EFSF programme expires in Dec-14. While contagion from Greece to the rest of Europe is likely to remain limited (barring the unlikely scenario of renewed Grexit worries), we reckon idiosyncratic risks around Greek assets will remain elevated in coming months.

Figure 1. Citi Forecasts

	$/€	Euro Repo	10-yr Bunds	£/€	UK Bank Rate	10-Yr Gilt Bund
4Q 14	1.21	0.05	0.75	0.76	0.50	177
2Q 15	1.15	0.05	1.25	0.73	1.00	178

Source: Citi Research

Figure 2. Greece – Real GDP Growth (YY), Actual and Fitted, 2001-Q3 2014



Sources: Haver Analytics and Citi Research

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Greece — Six Crucial Months Ahead

Recent political developments have reignited market concerns around Greek assets. First, there has been increasing evidence in the latest opinion polls that anti-bailout opposition party SYRIZA is gaining voter support, to some extent at the expense of the governing coalition. This may worry investors as early elections in the near future are a distinct possibility, given the government's likely inability to elect a new Greek president in Feb-15. Second, PM Samaras recently announced that Greece is willing to formally leave the bailout programme at the end of 2014, giving up the remaining IMF disbursements (of around €12.5bn) planned until Q1 16[1]. By disengaging from the troika's strict supervision and successfully closing the bailout, the government hopes to win back some support from discontented/independent MPs ahead of the presidential vote. However, the move will imply less accountability on the reform agenda and more vulnerability on government financing.

Finally, in response to this fragile situation, the government announced on Wednesday **a confidence vote for next week** to restate its mandate ahead of the new round of troika negotiations and dispel speculation over imminent early elections. With 154 seats in the 300-member Parliament, the government is unlikely to lose the vote next week. However, uncertainty around the presidential election and bailout exit is unlikely to be resolved before spring 2015. Together with recent signs that the economy may be weakening again, this suggests that idiosyncratic risks around Greece are likely to stay high for the next few months.

Greek Politics in the Next Six Months

Political instability remains the main source of risk for Greece. The key political hurdle facing Samaras' governing coalition is the presidential election due in February 2015, one month before the 5-year term of current President of the Republic Karolos Papoulias ends (on 12 March 2015). The Greek president is elected by MPs, not through a direct popular vote. The government puts forward a candidate who must receive *"a two-thirds majority of the total number of Members of Parliament"* (the Greek Constitution recites, that is 200 of 300 seats) to be elected. If the candidate falls short of this majority in two rounds of voting, a third and final ballot is held in which the candidate needs to gain 3/5 of Parliament's backing (180 votes). If the candidate does not draw the necessary support, the outgoing President sets a date for early parliamentary elections to be held within 30 days.

Figure 3. Greece — Recent Opinion Polls on Voting Intention

Date	Polling Firm	N.D.	SYRIZA	PA.SO.K.	Anel	XA	DIMAR	K.K.E.	To Potami
23-Sep-14	Public Issue*	25.0	36.0	5.5	4.0	7.5	1.0	6.5	9.5
20-Sep-14	MRB	19.9	23.6	4.2	3.2	6.7	1.0	5.1	5.6
18-Sep-14	Alco	22.2	26.0	4.3	3.1	6.2	1.7	4.4	4.3
18-Sep-14	RASS	25.8	22.0	4.2	3.2	6.7	1.0	5.5	4.7
15-Sep-14	UoM	18.0	24.0	5.5	3.0	6.5	1.0	5.5	5.5
12-Sep-14	Metron Analysis	23.0	20.4	4.6	3.0	5.3	1.0	5.6	4.8
05-Sep-14	E-Voice	20.2	17.7	4.8	2.4	7.1	1.3	6.5	3.9
03-Sep-14	Alco	25.5	21.7	4.3	3.5	7.3	2.3	4.6	3.7
25-May-14	EP Election	22.7	26.6	8.0	3.5	9.4	1.2	6.1	6.6
17-Jun-12	National Election	29.7	26.9	12.3	7.5	6.9	6.2	4.5	N/A

* Public Issue poll of 23-Sep-14 disregards undecided voters and assigns them to the parties by using same shares of those decided.
New Democracy (ND), Independent Greeks (Anel), Golden Dawn (XA), Democratic Left (DIMAR), Communist Party of Greece (K.K.E.).
Sources: Polling firms, Hellenic Parliament and Citi Research

[1] This assumes the sixth programme review (started this week) will be completed before year-end and the associated disbursement of €3.5bn paid out before December.

The government currently lacks the necessary qualified majority to elect a new president. After the legislative election in June 2012 the government coalition controlled 179 seats in Parliament. However, the subsequent exit from the coalition (in summer 2013) of the junior party DIMAR and departures of several MPs from the other two coalition parties (centre-right New Democracy and Socialist PASOK) have reduced the government majority to only 154 at present. The government has not yet put forward its candidate, but it is virtually certain that the opposition parties — Communist Party (12 seats), Golden Dawn (16 seats) and SYRIZA (71 seats) — will vote against any government candidate, as they have repeatedly stated their intention to do so in recent months. The government might have hoped to count on DIMAR MPs (10), but DIMAR's leader Kouvelis excluded this possibility this week.[2] Some independent MPs could be available to support the government, especially those who have left its ranks in the recent past, although these may not be more than 8 or 10 in total. Overall, we reckon it seems quite unlikely the government will obtain more than 165 votes in support of its presidential candidate — well short of the required 180 majority for the final ballot. Therefore, early national parliamentary elections in spring 2015, ahead of the scheduled date of mid-2016, look to be a high-probability event.[3]

The anti-bailout opposition party SYRIZA is likely to be part of the next government, if early elections happen in spring 2015, as it is widening its lead in the latest polls. Recent opinion polls conducted in September show SYRZA ahead of ruling party New Democracy by some 4pp to 5pp, with the junior coalition party PASOK stuck at around 4-5% of the votes (see Figure 3). One poll run by Public Issue published last week put SYRIZA at 36% of the votes (+5pp vs. last poll in July) against 25% for governing party New Democracy and 5.5% for the junior government party PASOK[4]. With such a distribution of votes and considering the 50-seat bonus granted to the party winning the largest number of votes, SYRIZA may not be far from winning a parliamentary majority (although it has to be noted that polls overstated the actual result for SYRIZA at the May 2014 European election). According to calculations by local media, the Public Issue poll results suggest that SYRIZA would win 146 seats (out of 300), New Democracy 66, To Potami 25, Golden Dawn 20, KKE 17, Pasok 15 and Independent Greeks 11.

Early elections are an increasingly likely outcome. The closer SYRIZA gets to an absolute majority, the higher their incentive to oppose the government candidate in February and to push the country into early elections. Among the general public, there also seem to be a large share of voters in favour of early elections. An opinion poll by Metron Analysis published in mid-September showed that 54% of respondents would prefer the next president to be elected by this parliament while 41% want to go ahead with early elections.

SYRIZA is calling for extensive public debt write-offs and reversal of austerity. If the left party enters into the next government, the relationship with official creditors is likely to become much more confrontational. While SYRIZA's stance on Greece's membership of the euro has clearly shifted away from exit in the last two years, in detailing his economic policy programme in September, SYRIZA leader Tsipras confirmed that his party will pursue an *"extensive write-off"* of government

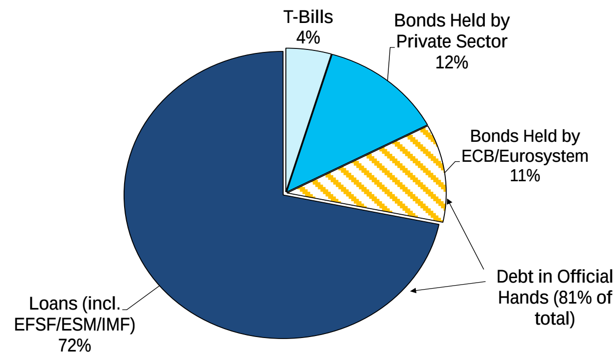
[2] In fact, DIMAR is reportedly ready to cooperate with SYRIZA at the next election.

[3] Local media have recently reported the possibility of the government changing the process of presidential elections before the end of this year to avoid running into early elections. However, we note that this would probably only be possible with an amendment of the Constitution, which requires again a majority of 3/5 (180 votes) of Parliament.

[4] Note that the Public Issue poll distributes the undecided voters among parties based on the shares of those who have expressed a voting intention.

debt to return the country to public debt sustainability. He also pledged that the remainder of the outstanding debt after the write-off should be indexed (in an unspecified way) to the country's GDP growth rates. With more than 70% of public debt held in official loans, an extensive write-off would inevitably imply a large "official sector involvement" (OSI) — something that has been repeatedly ruled out by the Europeans (see Figure 4).

Figure 4. Greece — Government Debt Composition by Debt Holders, June 2014



Sources: Greek Treasury, Bloomberg and Citi Research

Extensive debt relief is needed, in our view, to restore fiscal sustainability… To be sure, Greece is now in a stronger negotiating position with EU lenders compared to the last few years: it has reached a primary budget surplus (of around 1.5% of GDP estimated for 2014), a current account surplus (1.6% of GDP in the 12 months ending in Jul-14) and the largest part of its public debt is held by official creditors (more than 80% when ECB bond holdings are added to bailout loans). It has also regained some degree of market access, although at still fairly high interest rates. A more confrontational stance from the Greek side may actually do some good for long-term public debt sustainability in Greece, as a SYRIZA-led government may be able to achieve more extensive debt relief from the European official creditors than its predecessor.

…but private investors will not appreciate the reversing of austerity. Tsipras has pledged to reverse several fiscal measures adopted as part of the troika programme, by abolishing the new property tax (ENFIA), introducing a higher tax-free threshold and a higher minimum wage. The Finance Ministry recently issued a note estimating that these measures may cost the government budget some 9pp of GDP, while SYRIZA claims the costs would be much smaller and covered by clamping down on tax evasion/settling tax arrears. Even if only part of these measures might actually be implemented, pledges to reverse the fiscal consolidation achievements of the past four years — with the fiscal binge having been the origin of the Greek crisis in 2009 — are likely to disappoint not only official lenders but also private investors in Greek assets.

Early exit from the bailout might also jeopardise investors' appetite for Greek assets. Probably in the attempt to counteract SYRIZA's rising support, the Greek government has recently been calling for an early exit from the bailout programme at the end of this year. Formally, the European contributions in the second bailout (via the EFSF) are ending in Dec-14, while IMF disbursements are planned to run

until Q1 16 (with €12.4bn still remaining for 2015-16, if the next tranche of €3.5bn is paid out at the end of the current review before December). The ECB decision this week to purchase Greek (and Cypriot) ABS/covered bonds only if the country is under an EU/IMF programme could be a significant disincentive against early exit (although a close monitoring system would continue even after the end of the disbursements, as in Portugal and Ireland, which could possibly still be enough for the ECB to purchase Greek assets).

Greece needs foreign capital inflows to recover. The relationship between Greece and its international official creditors has never been easy, especially in comparison with other bailed-out periphery countries. But an increased degree of confrontation with official lenders (if SYRIZA comes into power) and/or an early bailout exit, in our view, would likely hurt what seems to remain fragile investor appetite for Greek assets. We reckon it is premature for Greece to stand on its own feet without official financial support, given its record-high debt-to-GDP ratio (180.1% of GDP projected for 2014) and weak domestic economy. Foreign capital inflows, public and private, are a necessary ingredient, in our view, for a sustainable recovery of the Greek economy.

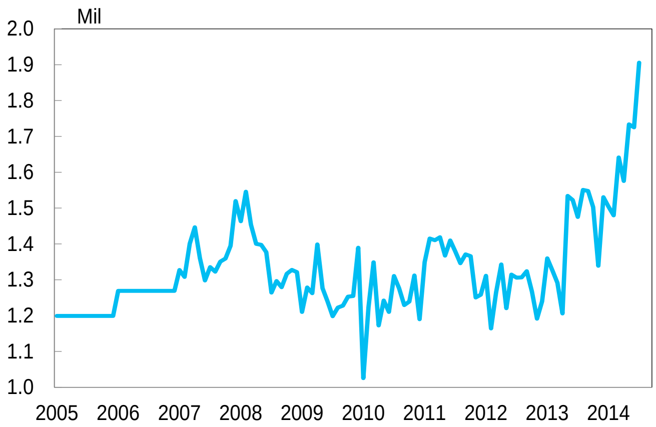
The economy is not helping the incumbents

The economy has stabilised. There is no doubt that the Greek economy has stabilised over the past year. The contraction in real GDP eased from -4.1% YY in Q2 13 to only -0.3% YY in Q2 14, with an even more pronounced swing in domestic demand (-0.3% YY in Q2 14 from -7.2% YY in Q2 13). Our bean-count model suggests Q3 GDP will likely see the first positive YY growth rate (we estimate +0.5% YY) since Q2 2008 (see Figure 2 on the Front Page). Confidence has rebounded even more than hard data, on better business expectations on future activity and probably increased interest by foreign investors in Greek assets.

However, the improvements have been quite narrowly based. We believe the stabilization in GDP has been underpinned by two factors: a strong rebound in tourist arrivals and a surge in EU fund transfers to Greece. Tourism activity (as proxied by the gross value added in the trade, transportation, accommodation and food sectors) is an important part of the Greek economy, accounting for up to 20% of GDP (albeit this share is now smaller than in other Mediterranean European countries such as Spain, Portugal or Cyprus). These sectors provided the only positive contribution to overall GDP growth in Q2 14 (+1.6pp to YY GDP growth), while all other nine sectors covered in the national accounts, with the exception of the public administration, were still recording large negative YY growth rates.

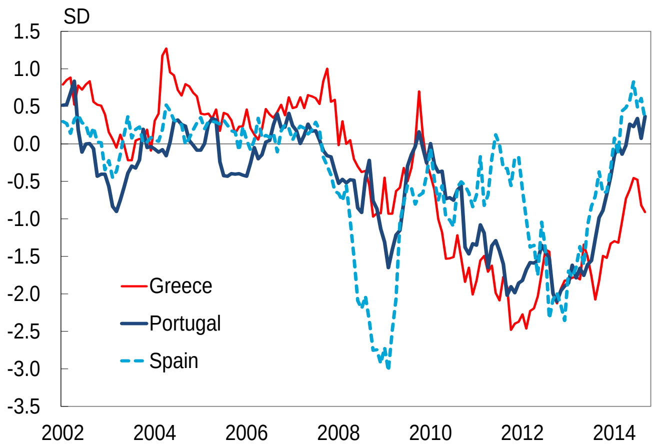
Rebound in tourism expected to continue. Tourism data show the pick-up has been accelerating through the summer; tourist arrivals were up by 19% in the first seven months of 2014, after rising by 13% on average in 2013 (see Figure 5). Tourist arrivals are well above the levels prevailing in pre-recession years, suggesting a genuine improvement in the sector’s competitive position. Moreover, tourism has been one of the hardest-hit sectors of the economy in terms of value added losses during the past five years’ recession. We reckon that a bounce-back from those lows and a likely improved competitive position (owing to extensive wage cuts) explain the recent strong performance of this sector. We estimate these factors will continue underpinning a strong recovery in this sector also in 2015.

Figure 5. Greece — Tourist Arrivals (SA). 2005-2014



Sources: Bank of Greece, Haver Analytics and Citi Research

Figure 6. Selected Euro Area Countries — Consumer Sentiment, 2002-14



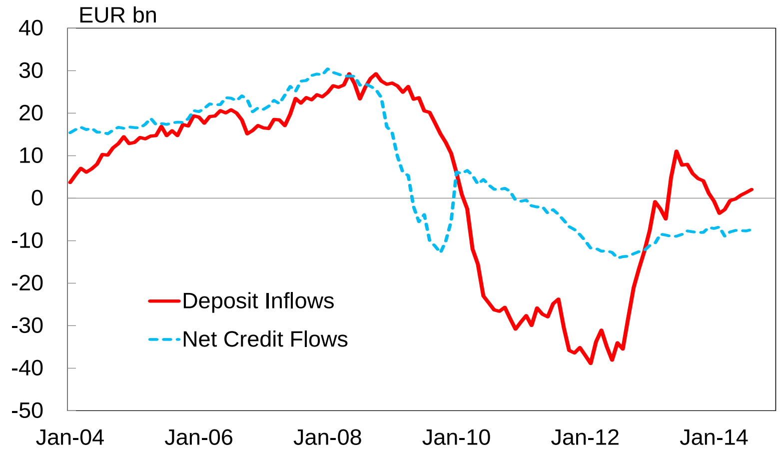
Sources: EU Commission and Citi Research

The reported acceleration in the absorption rate of EU funds disbursed to Greece probably also explains part of the economic stabilization. Data from the balance of payments show that current transfers to the general government from foreign residents have increased by €2.7bn — or 1.5% of Greek GDP — over the past year, possibly helping to lift GDP by a similar extent.[5] However, we reckon the same absorption rate of EU funds is unlikely to persist in the near future, especially because a new EU Budget (2014-2020) has just come into force and new projects will have to be approved before funds are disbursed.

A narrow-based recovery may imply that **the economic improvements have not been perceived as such across all sectors of the economy**. Domestic consumers are still struggling. Consumer confidence has failed to improve as much as in other periphery economies and has weakened again over the last two months (see Figure 6). According to the latest data available from the quarterly sector account (available until Q3 13), the household saving rate was still running at very negative figures, around -5% of disposable income. Bank deposits by households have stabilised over the past two years, but they remain flat on end-2012 levels (although they are up in real terms due to negative inflation). A very similar picture holds for corporate deposits, which, aside from the last two monthly readings (Jul and Aug 2014), have been broadly unchanged relative to end-2012 levels (see Figure 7). When coupled with shrinking credit flows (at a fairly consistent annualized monthly rate of €7bn, or nearly 4% of GDP for the past 18 months), all these data suggest to us that the liquidity situation of the domestic economy remains very tight.

[5] According to Bank of Greece, current transfers in the balance of payments mainly include EU budget transfers from the EU Social Fund and from European Agricultural Guidance and Guarantee Fund.

Figure 7. Greece — Households and Non-Financial Corporations Bank Deposits and Net Credit Flows (12-Month Cumulated Sum, EUR bn), 2004-Aug 14



Sources: ECB, Bank of Greece and Citi Research

To be sure, **we have been expecting the recovery to broaden out**, owing to signs that total employment has stopped falling, the unemployment rate has started to come off the peaks and export performance is improving (although still largely related to the tourism sector). We currently expect real GDP to expand by 1.3% in 2015, after flat-lining (+0.1%) this year. However, recent survey data suggest that the momentum in the economy may be weakening, possibly because of the end of the summer tourist season and also perhaps mirroring the slowdown in the rest of the euro area. Lower sentiment is likely to weaken further the support for the government and benefit the opposition parties. The introduction of some tax rebates in the 2015 Budget[6], as recently announced by PM Samaras, may represent an offsetting factor boosting confidence, but the troika is likely to agree only on small tax rebates that do not have a meaningful impact on the fiscal deficit.

Conclusion

Greece may get trapped into something of a vicious circle in which an unstable political situation damages the economy by hitting foreign and domestic investor sentiment, which in turn makes the position of incumbent parties more difficult to preserve. We reckon Greece will eventually accept some form of external monitoring by official creditors, possibly agreeing on a precautionary credit after the current EFSF programme expires in Dec-14. But political uncertainty is likely to persist at least until the presidential election next year. While the extent to which Greece can still cause contagion effects through the rest of the euro area remains limited, in our view, because the threat of leaving EMU has clearly been scaled back, we reckon idiosyncraticc risk around Greek assets is very likely to remain elevated.[7]

[6] Specifically, PM Samaras announced last month a 30% cut to the indirect tax on heating oil, and a reduction in the single property tax (ENFIA) and in the income "solidarity tax" to be included in the 2015 Budget bill.

[7] See also "European Rates Weekly", Citi Research, 2 October 2014.

Figure 8. Key Economic Indicators (6 October — 10 October 2014)

During The Week		Forecast	Last
08:00	UK: Halifax House Prices, Sep		
	UK: Liberal Democrat Party Conference, Glasgow, Oct 4-8		
	IMF/World Bank Autumn Meetings, Washington DC, to Oct 12		
Monday 6 October		**Forecast**	**Last**
07:00	Germany: Incoming Orders, Aug	-2.9% MM, 2.2% YY	4.6% MM, 4.9% YY
09:30	Euro Area: Sentix Investor Confidence, Oct		
Tuesday 7 October		**Forecast**	**Last**
00:01	UK: British Chambers of Commerce Quarterly Economic Survey		
00:01	UK: KPMG/REC Report on Jobs		
07:00	Germany: Industrial Production, Aug	-1.1% MM, -0.1% YY	1.9% MM, 2.4% YY
07:45	France: Budget Balance, Aug		
08:15	Switzerland: Retail Sales, Aug		
08:15	Switzerland: Consumer Prices, Sep		
09:00	Norway: Manufacturing Production, Aug	-0.2% MM	-0.1% MM
09:30	UK: Industrial Production, Aug	0.2% MM, 2.9% YY	0.5% MM, 1.7% YY
	Manufacturing Output, Aug	0.5% MM, 3.7% YY	0.3% MM, 2.2% YY
11:00	Ireland: Industrial Production, Aug		
14:00	Global: IMF Briefing on *World Economic Outlook*		
Wednesday 8 October		**Forecast**	**Last**
06:45	Switzerland: Unemployment Rate, Sep		
07:30	France: Bank of France Business Sentiment, Sep	97	97
08:00	Spain: Industrial Production, Aug	1.0% YY	0.7% YY
14:00	Global: IMF Briefing on *Global Financial Stability Report* and *Fiscal Monitor*		
Thursday 9 October		**Forecast**	**Last**
	G-20: Finance Ministers and Central Bank Governors' Meeting, Washington DC, to Oct 10		
00:01	UK: RICS House Price Survey, Sep		
07:00	Germany: Trade Balance, Aug		
07:45	France: Trade Balance, Aug		
08:30	Netherlands: Consumer Prices, Sep		
08:30	Sweden: Average House Price, Sep		
09:00	Euro Area: ECB Monthly Bulletin		
10:00	Greece: Unemployment Rate, Jul		
10:00	Greece: Consumer Prices, Sep		
11:00	Ireland: Consumer Prices, Sep		
12:00	UK: MPC Outcome		
Friday 10 October		**Forecast**	**Last**
07:00	Sweden: PES Unemployment, Sep	4.2%	4.4%
10:0	Germany: Insolvencies, Jul		
07:45	France: Industrial Production, Aug	-0.3% MM, -1.0% YY	0.2% MM, 0.1% YY
	Manufacturing Production, Aug	0.0% MM, -0.8% YY	-0.3% MM, 0.2% YY
08:30	Netherlands: Trade Balance, Aug		
08:30	Netherlands: Industrial Production, Aug		
09:00	Italy: Industrial Production, Aug	-0.3% MM	-1.0% MM
09:00	Norway: Consumer Prices, Sep	0.8% MM, 2.4% YY	-0.3% MM, 2.1% YY
	CPI-ATE, Sep	0.8% MM, 2.6% YY	-0.5% MM, 2.2% YY
09:30	UK: Construction Output, Aug		
09:30	UK: Trade Balance – Goods & Services, Aug	£-3.0 Billion	£-3.3 Billion
10:00	Greece: Industrial Production, Aug		
11:00	Ireland: Trade Balance, Jul		

Sources: National statistical offices, central banks and Citi Research forecasts

Figure 9. Economic Indicators – Comments: Germany, France, Italy, Spain and United Kingdom

Germany			
Oct 6 07:00 London Time	*Incoming Orders, Aug*	Forecast: -2.9% MM, 2.2% YY	Prior: 4.6% MM, 4.9%YY
	German industrial orders rose very sharply in July, but the large increase was driven by an unusual number of large orders (excluding these, the increase in July was only 0.4% MM vs a 4.6% MM rise including large orders). August is therefore very likely to see a significant decline. The underlying trend in German industrial activity is still weakening, with the Manufacturing PMI in September falling below 50 and weaker sentiment readings. Even with the large decline we forecast in August, orders in July-August would still be up by 0.7% over the 2Q average, suggesting that despite weakening momentum QQ% growth in 3Q in Germany may temporarily be quite high.		
Oct 7 07:00 London Time	*Industrial Production incl Constr., Aug SWDA*	Forecast: -1.1% MM, -0.1% YY	Prior: 1.9% MM, 2.4% YY
	We expect industrial production (including construction) in Germany to fall in August after the fairly large rise in July. The increase in July was in part driven by this year's different calendar for summer holidays in Germany, which implied that fewer workers took holidays in July (and correspondingly more in August). Payback from this calendar effect and the continued decline in PMI and sentiment readings therefore suggest that the level of IP in August and September will likely be below the July level. But even with moderate declines in IP in August and September, IP may still be up in 3Q over 2Q (we estimate by perhaps 0.5% QQ).		
France			
Oct 8 07:30 London Time	*Bank of France Business Sentiment, Sep*	Forecast: 97	Prior: 97
	After a one-point gain in August, we look for business sentiment to be unchanged at 97 (-0.3sd) in September. Both the flash manufacturing PMI and the INSEE survey posted modest gains last month. One of the key aspects of the survey will be whether employment expectations and capacity utilisation recover after large drops in August to 13- and 8-month lows, respectively. We expect business confidence to rise modestly in coming quarters as the government reaffirms its intention to deliver more reforms and focuses on supply side policies.		
Oct 10 07:45 London Time	*Industrial Production, Aug*	Forecast: -0.3% MM, -1.0% YY	Prior: 0.2% MM, 0.1% YY
	Manufacturing Production, Aug	Forecast: 0.0% MM, -0.8% YY	Prior: -0.3% MM, 0.2% YY
	We estimate that industrial production fell by 0.3% MM in August, unwinding the 0.2% gain recorded in July. Anecdotal evidence suggests that industrialists experienced a very slow summer. Surveys reported noticeable declines in personal as well as general output expectations, alongside sizeable drops in various gauges of recent production. The ratio of orders versus stocks of finished goods also hit a 15-month low in August. Based on July and August readings, we anticipate a modest rebound in IP worth 0.3% QQ after a 0.5% QQ in 2Q.		
Italy			
Oct 10 09:00 London Time	*Industrial Production, Aug*	Forecast: -0.3% MM	Prior: -1.0% MM
	Weak business surveys and poor trade data during the summer suggest industrial output continued to decline in August, after a quite large drop in July. With the manufacturing PMI back below the 50 mark in August (49.8) there is little room for a rebound in output in coming months. This suggests IP will probably fall by more than 1% QQ in 3Q, leading to another probable decline in GDP.		
Spain			
Oct 8 08:00 London Time	*Industrial Production, Aug*	Forecast: 1.0% YY	Prior: 0.7% YY
	Still buoyant survey data (manufacturing PMI stood at 52.8 in August, 0.5 sd above its long-term average) suggest industrial production probably bounced back in August – we project by 1.3% MM after a flat MM reading in July and a 0.9% MM decline in June. We expect this will translate into a YY figure (WDA) in August of +1% (up from +0.7% in July). Going forward, rises in both new and existing orders suggest that further output growth is likely in coming months.		
United Kingdom			
Oct 7 09:30 London Time	*Industrial Production, Aug*	Forecast: 0.2% MM, 2.9% YY	Prior: 0.5% MM, 1.7% YY
	Manufacturing Output, Aug	Forecast: 0.5% MM, 3.7% YY	Prior: 0.3% MM, 2.2% YY
	Surveys suggest that manufacturing output continues to grow strongly and we anticipate another solid gain this month. However, industrial production outpaced the manufacturing sector in July because of a sharp gain in utilities output – which we suspect was partly erratic. We look for this category to fall back in August hence causing IP to show less buoyancy than manufacturing output. Note that recent data will be revised as part of the national accounts revisions.		
Oct 10 09:30 London Time	*Trade Balance – Goods & Services, Aug*	Forecast: £-3.0 Billion	Prior: £-3.3 Billion
	So far this year, the trade deficit is running a little below last year's levels, with both imports and exports showing sluggish YY growth. We anticipate little change either way this month. Note that recent data may well be revised as part of the national accounts revisions.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, and Citi Research forecasts.

Figure 10. Economic Indicators – Comments: Sweden and Norway

Sweden			
Oct 9	*Average House Prices, Sep*		
08:30			
London Time	Real estate prices for one- or two-dwelling buildings increased by 3% during the three-month period June-August 2014, compared to the previous period March-May 2014. In annual terms, home prices gained 6% during the last three month period June-August 2014, compared to the same period a year earlier. House prices have increased gradually since 2013, and the uptrend has continued this year. Ahead, short-term indicators point to ongoing upward pressures. Ahead, we expect house prices gradually to level out next year with macroprudential measures restraining lending and the Riksbank starting to hike rates in early-2016. With the focus back on inflation, we do not expect a continued moderate increase in housing (and lending) will have immediate implications for monetary policy.		
Oct 10	*PES Unemployment Rate, Sep*	Forecast: 4.2%	Prior: 4.4%
07:00			
London Time	Short-term indicators point to ongoing improvement in the labour market ahead. In line with the seasonal pattern, we expect the registered unemployment rate to fall in September.		
Norway			
Oct 7	*Manufacturing Production, Aug*	Forecast: -0.2% MM	Prior: -0.1% MM
09:00			
London Time	Momentum in manufacturing production has been rather steady so far this year as the quarterly gains were 1.2% QQ and 1.4% QQ in 1Q and 2Q, respectively. Despite the marginal drop in July, the 3m/3m rate of change remained steady at an above-trend 1.4%. Hence, developments are well in line with indications from the latest Business Tendency Survey from Statistics Norway, showing that solid demand from abroad is making up for stagnating overall domestic orders, which are being dented by the downshifting investment cycle in the petroleum sector. Following a very strong gain in June and a smaller-than-expected decline in manufacturing production in July, we expect additional payback is in the offing in August.		
Oct 10	*Consumer Prices, Sep*	Forecast: 0.8% MM, 2.4% YY	Prior: -0.3% MM, 2.1% YY
09:00	*CPI-ATE, Sep*	Forecast: 0.8% MM, 2.6% YY	Prior: -0.5% MM, 2.2% YY
London Time			
	Core inflation moderated as expected in August, to stand at a below target-rate of 2.2% YY. September is normally a month where inflation increases due to very strong seasonal effects, e.g. the end of summer sales on shoes and clothing. Combined with base effects (CPI-ATE rose by 0.4% MM in Sep-13 vs. a 10y average gain of 0.9% MM), we expect a rather marked upshift in annual inflation in September, with underlying inflation once again overshooting the 2.5% target. Our forecasts are identical to those of Norges Bank.		

Sources: National Statistical Offices, National Central Banks, Bloomberg, and Citi Research forecasts.

Figure 11. Key Economic Indicators (13 October – 17 October 2014)

Monday 13 October		Forecast	Last
	Euro Area: Informal Eurogroup, Luxembourg		
	US: Columbus Day Holiday		
Tuesday 14 October		**Forecast**	**Last**
	EU: EcoFin meeting, Luxembourg		
07:45	France: Consumer Prices, Sep		
07:45	France: Balance of Payments, Aug		
08:00	Spain: Consumer Prices, Sep Final		
08:15	Switzerland: Producer and Import Prices, Sep		
08:30	Sweden: Consumer Prices, Sep		
09:00	Italy: Consumer Prices, Sep Final		
09:30	Italy: General Government Debt, Aug		
09:30	UK: Consumer Prices, Sep	0.2% MM, 1.4% YY	0.5% MM, 1.5% YY
	CPI Ex Food, Drink, Tobacco, Energy, Sep	0.3% MM, 1.8% YY	0.5% MM, 1.9% YY
	Retail Prices, Sep	0.4% MM, 2.4% YY	0.4% MM, 2.4% YY
	RPIX – Excludes Mortgages, Sep	0.4% MM, 2.5% YY	0.4% MM, 2.5% YY
09:30	UK: Producer Input Prices, Sep	-0.1% MM, -6.4% YY	-0.6% MM, -7.2% YY
09:30	UK: Producer Output Prices, Sep	0.1% MM, -0.2% YY	-0.1% MM, -0.3% YY
	Ex Food, Drink, Tobacco, Energy, Sep	0.1% MM, 1.0% YY	0.1% MM, 0.9% YY
10:00	Germany: ZEW Economic Expectations, Oct		
10:00	Euro Area: Industrial Production, Aug		
Wednesday 15 October		**Forecast**	**Last**
07:00	Germany: Consumer Prices, Sep Final		
08:30	Netherlands: Retail Sales, Aug		
09:00	Norway: Trade Balance, Sep		
09:00	Italy: GDP Details, 2Q		
09:30	UK: LFS Unemployment, 3-Month Average, Jun-Aug	-143,000 QQ, 6.1%% Rate	-145,000 QQ, 6.2% Rate
	LFS Unemployment Rate, Single Month, Aug	5.9%	5.9%
	Claimant Count Unemployment, Sep	-35,000 MM, 2.8% Rate	-37,200 MM, 2.9% Rate
	Average Earnings Ex Bonus, 3-Month Average, Aug	0.9% YY	0.7% YY
	Spain: Current Account, Jul		
	Ireland: 2015 Budget		
Thursday 16 October		**Forecast**	**Last**
06:45	Switzerland: SECO Economic Forecasts		
08:30	Netherlands: Unemployment, Sep		
09:00	Italy: Trade Balance, Aug		
10:00	Euro Area: Consumer Prices, Sep Final		
10:00	Euro Area: Trade Balance, Aug		
Friday 17 October		**Forecast**	**Last**
07:00	EU-27: New Car Registrations, Sep		
09:30	UK: EU Government Debt and Deficit Returns, Sep		
10:00	Euro Area: Construction Output, Aug		
	Italy: Current Account, Aug		

Sources: National statistical offices, central banks and Citi Research forecasts

Figure 12. Recent Research

Euro Area - Sovereign Debt Update		
ECB to Start ABS and Covered Bonds Purchases in Q4	European Economics Team	Oct 3, 2014
ECB to Announce Modalities of Private Purchases	European Economics Team	Oct 2, 2014
Many Governments Against Providing ABS Guarantees	European Economics Team	Oct 1, 2014
Spanish Constitutional Court Suspends Catalan Independence Referendum in Interim Ruling	European Economics Team	Sep 30, 2014
ECB Open to QE, Says Latvian Central Bank Governor	European Economics Team	Sep 29, 2014
Euro Area		
ECB - ECB: 'Let's See' First, But Leaves Door Open To QE	Ebrahim Rahbari	Oct 2, 2014
Global Economic Forecasts - September 2014	Michael Saunders	Oct 1, 2014
Euro Area - ECB Preview: Will all be revealed on Oct 2?	Guillaume Menuet	Sep 25, 2014
European Economic Forecast Highlights, September 2014	Ann O'Kelly	Sep 25, 2014
Italy - Growth and Inflation keep undershooting expectations	Giada Giani	Sep 25, 2014
Euro Area - ECB Cuts Rates and Announces Asset Purchase Programme	Guillaume Menuet	Sep 4, 2014
Euro Area - Euro Area: What Are The Prospects For Fiscal Easing?	Ebrahim Rahbari	Sep 3, 2014
Euro Area - Inflation Hit a New 5-Year Low	Giada Giani	Aug 29, 2014
Euro Area - ECB Preview: Will Draghi Highlight Downside Risks to Inflation?	Guillaume Menuet	Aug 28, 2014
Euro Area - ECB Draghi Notes Fall in Inflation Expectations	Guillaume Menuet	Aug 26, 2014
Euro Area - PMIs Suggest Very Little Room for Economic Rebound in H2 14	Giada Giani	Aug 21, 2014
Euro Area - SPF Survey: Downward Drift In 2014-15 Inflation Expectations	Guillaume Menuet	Aug 14, 2014
Euro Area: NFC Net Borrowing Falling More Slowly	Antonio Montilla	Aug 12, 2014
European Economic Indicators – Week Ahead	Michael Saunders	Aug 8, 2014
Euro Area - ECB – Happy To Wait And See, For Now	Giada Giani	Aug 7, 2014
Italy - Why is the Economy Underperforming so Badly?	Giada Giani	Aug 6, 2014
Europe: Monthly Inflation Profiles for Selected Countries	Ann O'Kelly	Jul 31, 2014
European Economic Forecast Highlights, July 2014	Ann O'Kelly	Jul 31, 2014
Euro Economics Weekly		
Focus On The ECB's Balance Sheet	Ebrahim Rahbari	Sep 26, 2014
H2 GDP Uptick Too Small to Stop ECB QE	Guillaume Menuet	Sep 19, 2014
Euro Area: Housing Sector Close to a Turnaround	Antonio Montilla	Sep 12, 2014
Low-flation Is Here To Stay	Giada Giani	Sep 5, 2014
Is the Period of German Outperformance Over?	Ebrahim Rahbari	Aug 29, 2014
ECB QE: Why, When and How?	Guillaume Menuet	Aug 22, 2014
What's Behind the Periphery Growth Outperformance?	Giada Giani	Aug 15, 2014
How Might Russia Developments Affect The Eurozone Economy?	Ebrahim Rahbari	Aug 1, 2014
France: More Reforms to Jump Start Confidence?	Guillaume Menuet	Jul 25, 2014
Public Debt Sustainability: Has It Really Been Restored?	Giada Giani	Jul 18, 2014
Why Banking Union Matters: Then and Now	Ebrahim Rahbari	Jul 11, 2014
Is The Euro Area Recovery at Risk of Faltering?	Guillaume Menuet	Jul 4, 2014
Weak Pay Trends Imply Further Inflation Undershoot	Giada Giani	Jun 27, 2014
A Great Rotation towards Eurozone Portfolio Assets?	Ebrahim Rahbari	Jun 20, 2014
Labour Market Slack	Giada Giani	Jun 13, 2014
ECB TLTRO: Ambitious But Probably Not Enough, QE Lies Ahead	Guillaume Menuet	Jun 6, 2014
Negative Deposit Rate: Limiting Risks, Limited Upside	Ebrahim Rahbari	May 30, 2014
Chief Economist Publications		
Global Economic Outlook and Strategy - September 2014	Willem Buiter	Sep 24, 2014
Scandi and Swiss		
Scandi Economics Update	Tina Mortensen	Oct 3, 2014
Sweden - Manufacturing Production Falls Further in August	Tina Mortensen	Oct 3, 2014
Norway - Norges Bank to Buy NOK in October	Tina Mortensen	Sep 30, 2014
UK		
UK - Services PMI Indicates Continued Solid Growth	Michael Saunders	Oct 3, 2014
UK - PMI Weakens, Productivity Remains Flat	Michael Saunders	Oct 1, 2014
UK - GDP Revisions Highlight Domestic Demand Surge	Michael Saunders	Sep 30, 2014
UK - Deloitte CFO Survey Highlights Corporate Balance Sheet Strength	Michael Saunders	Sep 29, 2014
UK - Tax Revenues Continue to Disappoint	Michael Saunders	Sep 23, 2014
UK Economics Weekly		
Stubborn Fiscal Red Ink	Michael Saunders	Sep 26, 2014
After the "No" Vote	Michael Saunders	Sep 19, 2014
More Questions Regarding Scottish Independence	Michael Saunders	Sep 12, 2014
Resolving The Labour Market Puzzles	Michael Saunders	Sep 5, 2014
Rewriting the Economy's Past and Present	Michael Saunders	Aug 29, 2014
Scottish Independence Referendum: Less Than A Month To Go	Michael Saunders	Aug 22, 2014

Source: Citi Research

Appendix A-1

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