

## Nordic Alert



### Fed signals tapering decision in November – Norges Bank expected to hike rates today

#### Global key stories

Yesterday's FOMC meeting was slightly more hawkish than generally expected with the Fed now signalling a tapering decision at its 2-3 November meeting. Fed "dots" became more hawkish with half of the committee now seeing a first rate hike already next year and the median forecast suggesting that rates will move back to the pre-pandemic levels of 1.75-2.00% by end-2024 (read more in our Fed review here). The implied probability for a 25bps rate hike by end-2022 priced by fed funds futures jumped from 75% to 95%, the dollar gained slightly, and the 10y Treasury yield returned to pre-FOMC levels after an initial spike higher. Interestingly, while the yield curve flattened, the market pricing for short rates for the coming 3-5 years did not increase, meaning that the OIS market is pricing a faster pace of hikes in the beginning but no more hikes than before over a longer term. We have been arguing in SEB FI & FX Strategy reports that long term rate hike expectations (terminal rate) are likely to rise meaningfully only when the growth anxiety fades and the market sentiment turns better. With weaker macro data and China risk as headwinds, we think this will take some time and continue to target the 10y Treasury yield at 1.50% at the end of this year. US stock markets advanced around 1% after four days of declines in major indices, and the US index futures are pointing cautiously higher. Most Asian markets are edging higher this morning, aided by the PBoC's liquidity injection and hopes that a disorderly collapse of Evergrande Group can be avoided. The company said that it has resolved a domestic bond coupon payment due today and the imminent focus is now on a USD 83.5 million coupon on a dollar bond also due today. According to media reports, Chinese authorities are preparing for a restructuring where the state may take over Evergrande and divide the company into three parts and merge them with state-owned companies. According to Bloomberg, Evergrande Group has USD 669 million of interest due in dollar bonds through the end of this year and USD 7.4bn in maturing dollar bonds in 2022. Today's macro focus will be on PMI data for September and BOE's rate decision.

**BOE moving towards the exit.** The MPC is split but the balance is shifting towards a start of a normalization process. BOE's new Chief Economist Pill is known to be critical on a too extensive QE policy and Governor Bailey has said that economic conditions to warrant a rate hike were met already in August, despite a unanimous vote to keep rates unchanged. We believe that the MPC will decide to end asset purchases and pave the way for a small rate hike in 2022. We expect a moderation of further sterling appreciation, aiming EUR/GBP at 0.84 and 0.81 in end-2021 and 2022, respectively.

**PMI-day.** In the euro area, composite PMI took a small step lower in August as services joined the slight decline in manufacturing but levels are still strong though for most components. For manufacturing, the major four euro area economies' production is still below, or close to pre-pandemic levels. For services, the outlook is mixed. The summer has been a clear improvement compared to last year, but things are still not back to normal and the Delta wave remains a headwind. In the US, sentiment indicators signal that US manufacturing has lost some momentum recently but remain in clear expansionary territory with strong demand but continued supply disturbances. Price indexes have remained elevated. Services PMI declined already in July and is more at risk from the spread of the Delta variant. However, retail sales data for August suggest consumers remain resilient. PMI services prices peaked in May but have remained high.

#### Nordic key stories

**Norges Bank: Rate hike and slightly higher rate path.** Norges Bank is widely expected to hike the policy rate today by 25bps to 0.25% and strong economic developments suggest that also the rate path will be revised somewhat higher. However, while lower unemployment and rising capacity constraints are expected to push wages higher, the latest increase in electricity prices is a downside risk to domestic demand and could potentially become a factor that can affect the interest rate trajectory during next year. We think the

positive factors dominate for now and stick to our forecast of a policy rate at 1.25% in end-2022 and 1.50% in end-2023. After the market pricing turned more hawkish in recent weeks, we think the short end of the NOK curve looks attractive to receive at these levels. Deteriorating risk appetite have stolen the limelight from Norges Bank and pushed EUR/NOK clearly higher in recent days. Read more in What's up, Norway.

**Risk/reward favours an upside in EUR/NOK.** Fully priced hike in the rates market and expectations on a more hawkish rate path provides little room for a hawkish surprise and much more for a dovish one. Norges Bank weekly flows show that foreigners have added plenty of NOK the past four weeks making positioning a bit more sensitive for an adverse move, i.e. higher EUR/NOK. Long-term drift is higher in EUR/NOK. October seasonality for EUR/NOK points also higher as the currency pair has risen in October for five straight years.

## Today's key events

Chart package for the most important events this week here

Time	Country	Event	SEB forecast	Consensus	Last
08:00	NOR	LFS unemployment	Jul	---	4.8
08:45	FRA	Business confidence   manufacturing confidence	Sep	110.0   109.0	110.0   110.0
09:15	FRA	PMI manufacturing (Markit)   services   comp	Sep P	57.0   56.2   5	57.5   56.3   55.9
09:30	GER	PMI manufacturing (Markit/BME)   services	Sep P	61.4   60.3   5	62.6   60.8   60.0
10:00	NOR	Norges Bank's rate decision and MPR	0.25	0.25	0
10:00	EA	PMI manufacturing (Markit)   services   comp	Sep P	60.0   58.5   58.	60.5   58.5   5
10:00	POL	Unemployment rate	Aug	5.8	5.8
10:30	UK	PMI manufacturing (Markit/CIPS)   services	Sep P	---	60.3   55.0   54.8
13:00	UK	Bank of England bank rate	0.1	0.1	0.1
13:00	UK	BOE corporate bond target   gilt purchase targ	Sep	GBP 20bn   87	GBP 20bn   875bn
14:30	US	Chicago Fed nat. activity index	Aug	0.5	0.53
14:30	US	Initial jobless claims   continuing claims		315k   ---	332k   2665k
15:45	US	Langer consumer comfort		---	57.7
15:45	US	PMI manufacturing (Markit)   services   comp	Sep P	61.0   55.0   --	61.1   55.1   55.4
16:00	US	Leading index	Aug	0.5	0.9

**Auctions:** U.S. to sell bills & 10y TIPS (17:30, 19:00). **Speeches:** Norges Bank's press conference following the rate announcement (10:30). **Other:** ECB publishes Economic Bulletin (10:00), Philippines central bank monetary policy decision, on hold (10:00), South Africa's monetary policy decision (on hold), Taiwan monetary policy decision.

## Market data

### Market Data 7:09 CET

Equities	Index	Future	FX	Government yields			Credits & Commodities				
S&P 500	1.0%	0.3%	EUR/SEK	10.17	0.0%	US 10Y	1.30%	-2 bps	ITRX Main	49.5	-1 bps
NASDAQ	1.0%	0.2%	USD/SEK	8.69	-0.2%	US 2Y	0.24%	2 bps	ITRX Xover	242	-6 bps
Estoxx 50	1.3%	0.5%	NOK/SEK	1.004	0.0%	Germany 10Y	-0.32%	-1 bps	LME metals	4308	3.1%
OMX	1.1%		EUR/NOK	10.13	0.1%	Germany 2Y	-0.71%	0 bps	Brent fut \$/bl	76.4	0.2%
Nikkei	-0.7%		EUR/USD	1.171	0.2%	Swe 10Y	0.15%	0 bps	Gold fut \$/oz	1765	-0.8%
Shanghai	0.6%		USD/CNY	6.47	0.0%	Swe 2Y	-0.32%	-1 bps	VIX index fut	21.7	-0.4 pts

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