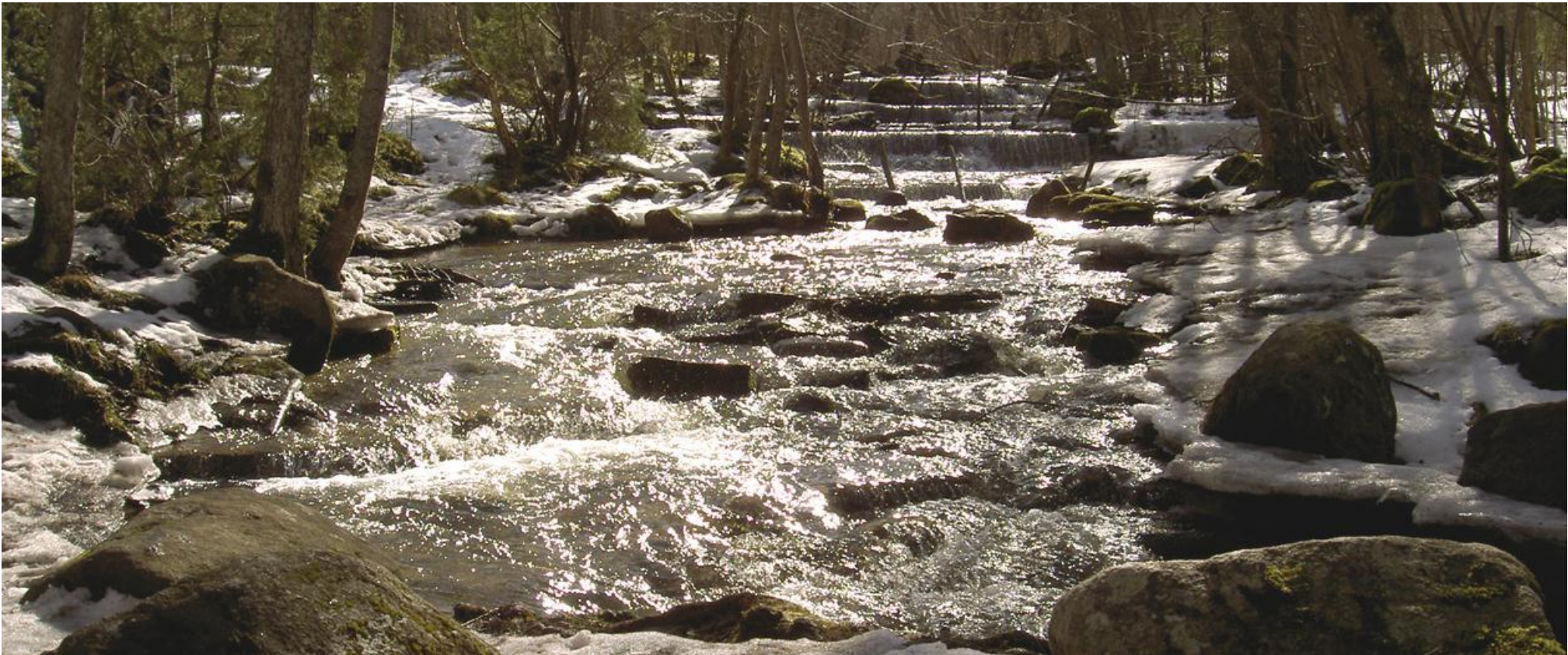


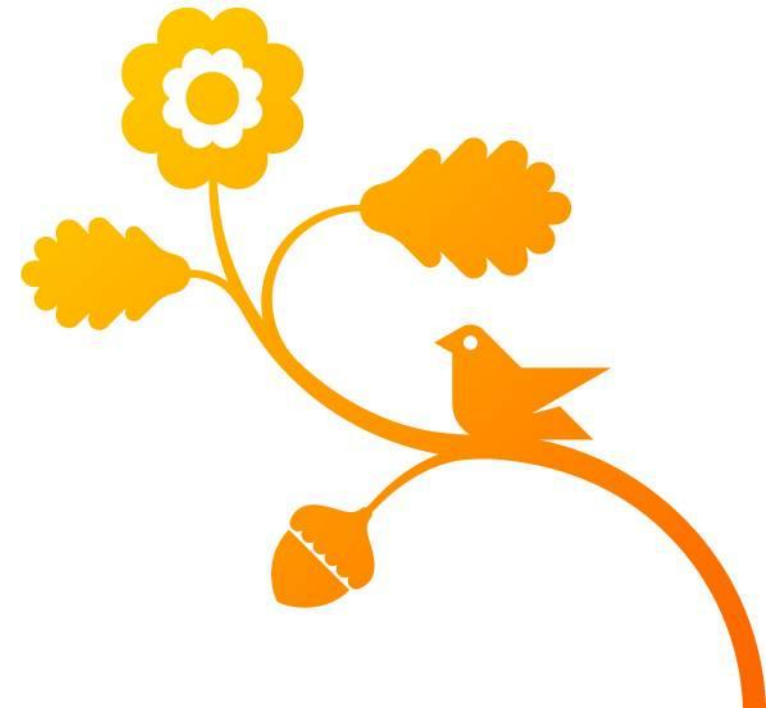
# Swedbank Economic Outlook - Update

Choppy waters – but a gradual improvement ahead



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# Executive Summary

- Since our August forecast, policy developments in the **U.S** have dominated global macroeconomic news. The surprising decision by the Federal Reserve not to start winding down monetary stimulus was followed by the failure to reach a timely fiscal policy compromise. Thus, confidence has taken a hit and we revise down slightly our US growth forecast. However, we expect monetary policy tightening to be delayed, and the underlying growth momentum to resume. The risk is primarily further fiscal policy contraction in 2014.
- **Euro-area** economic prospects remain mildly positive, albeit the recovery will be protracted. Steady progress on a banking union, far less fiscal tightening and a prolonged period of loose monetary policy will provide support for an expanding economy.
- The outlook for **emerging economies** has improved as the main downside risks have subsided. Recent data suggests a continued solid growth outlook for the Chinese economy, and that other major emerging market economies have seen the bottom of their cycles.
- The **Nordic countries** are not unaffected by the global developments; but in particular in **Sweden** we expect the domestic economy to continue to boost growth. Following a downward revision of past GDP numbers, we expect growth to pick up from around 1 % in 2013 towards 3% in 2014 and 2015. Election related fiscal stimulus will benefit households and, due to international developments, monetary policy will not tighten as fast as we forecast in August. In **Norway**, the biggest risk is a correction of the housing market.
- Also in the **Baltic countries**, we do not foresee any major revisions to our forecasts. In Estonia weaker external demand lowers growth somewhat, while the outlooks in Latvia and Lithuania remain roughly the same.



# Global outlook: Steady recovery despite US turmoil

## Swedbank's GDP forecast - Global<sup>1/</sup> (annual percentage change)

	Outcome	Forecast			August forecast		
	2012	2013	2014	2015	2013	2014	2015
USA	2,8	1,6	2,7	3,2	1,8	2,9	3,0
EMU countries	-0,6	-0,4	1,2	1,8	-0,5	1,2	1,8
Of which							
Germany	0,9	0,5	1,9	2,0	0,4	1,9	2,0
France	0,0	0,2	1,0	1,9	-0,1	0,9	2,0
Italy	-2,6	-1,9	0,6	1,5	-1,9	0,6	1,5
Spain	-1,6	-1,3	0,8	1,8	-1,4	0,7	1,8
Finland	-0,8	-0,6	1,0	1,8	-0,6	1,0	1,8
UK	0,1	1,2	1,9	2,6	1,2	2,0	2,7
Denmark	-0,4	0,4	1,7	1,9	0,3	1,6	1,9
Norway	3,3	1,7	2,0	2,0	1,8	2,0	2,0
Japan	2,0	2,0	1,9	0,9	1,7	1,2	1,0
China	7,8	7,4	7,3	7,1	7,4	7,3	7,1
India	5,1	4,7	5,7	7,3	6,0	6,5	6,7
Brazil	0,9	3,4	4,0	4,1	2,7	3,9	4,1
Russia	3,5	1,3	2,8	2,8	1,3	3,2	3,0
<b>Global GDP in PPP<sup>2/</sup></b>	<b>3,1</b>	<b>2,8</b>	<b>3,5</b>	<b>3,9</b>	<b>2,9</b>	<b>3,6</b>	<b>3,8</b>
<b>Global GDP in US\$</b>	<b>2,5</b>	<b>2,3</b>	<b>3,0</b>	<b>3,5</b>	<b>2,3</b>	<b>3,0</b>	<b>3,4</b>
OECD	1,3	0,9	2,0	2,4	0,9	2,0	2,3

Sources: National statistics and Sw edbank.

1/ Countries representing around 70 % of the global economy.

2/ Weights from World bank 2011 have been used.

- Small changes to overall global growth
- Increased uncertainty weighs down on US growth
- Recovery in peripheral Eurozone, while Germany serves as an anchor
- Recent indicators underpin steady Chinese rate of expansion, while India and Brazil have seen the bottom of the downturn
- Russia struggles with domestic imbalances and lack of structural reforms

# Global Outlook cont.: Monetary policy stays loose

## Interest and exchange rate assumptions

	Outcome	Forecast				
	2013	2013	2014	2014	2015	2015
	21-Oct	31 Dec	30 Jun	31 Dec	30 Jun	31 Dec
<b>Policy rates</b>						
Federal Reserve, USA	0,25	0,25	0,25	0,25	0,50	1,00
European Central Bank	0,50	0,50	0,50	0,50	0,50	0,75
Bank of England	0,50	0,50	0,50	0,50	0,50	0,75
Bank of Japan	0,10	0,10	0,10	0,10	0,10	0,10
<b>Exchange rates</b>						
EUR/USD	1,37	1,33	1,30	1,25	1,30	1,35
USD/CNY	6,1	6,1	6,0	5,9	5,8	5,7
USD/JPY	98	100	102	104	105	107
EUR/GBP	0,85	0,84	0,83	0,82	0,80	0,80

Sources: Reuters Ecowin and Swedbank.

### EMU (Germany)

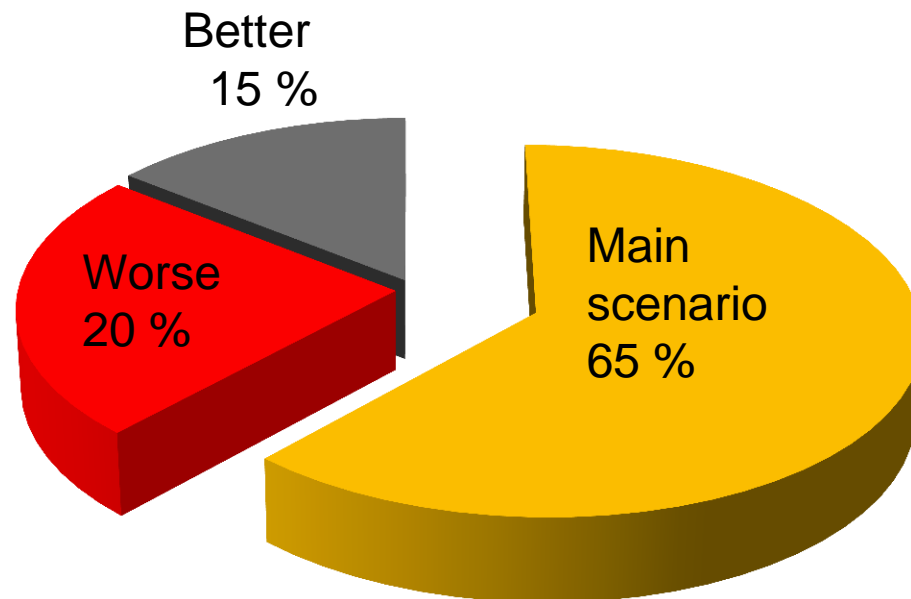
	21-Oct-13	end 2013	mid2014	end 2014	mid 2015	end 2015
Refi rate	0,50	0,50	0,50	0,50	0,50	0,75
2y	0,19	0,25	0,55	0,90	1,30	1,60
5y	0,83	1,00	1,30	1,65	2,05	2,35
10y	1,85	2,05	2,35	2,70	3,00	3,30

### USA

	21-Oct-13	end 2013	mid 2014	end 2014	mid 2015	end 2015
Fed funds	0,25	0,25	0,25	0,25	0,50	1,00
2y	0,31	0,50	1,10	1,60	1,90	2,10
5y	1,35	1,55	2,20	2,55	2,80	2,90
10y	2,60	2,90	3,50	3,60	3,80	3,90

- Fed's tapering decision dominates globally monetary policy making:
  - Tapering starts 1<sup>st</sup> quarter 2014, lasts well into 2<sup>nd</sup> half of the year
  - Fed policy rate hike postponed, 3 hikes in 2015
- ECB delays rate increase towards end of 2015, LTROs remains a possibility
- US dollar strengthens, yen slides and pound gains on the euro
- Bond markets yield curves steepen before short rates catch up

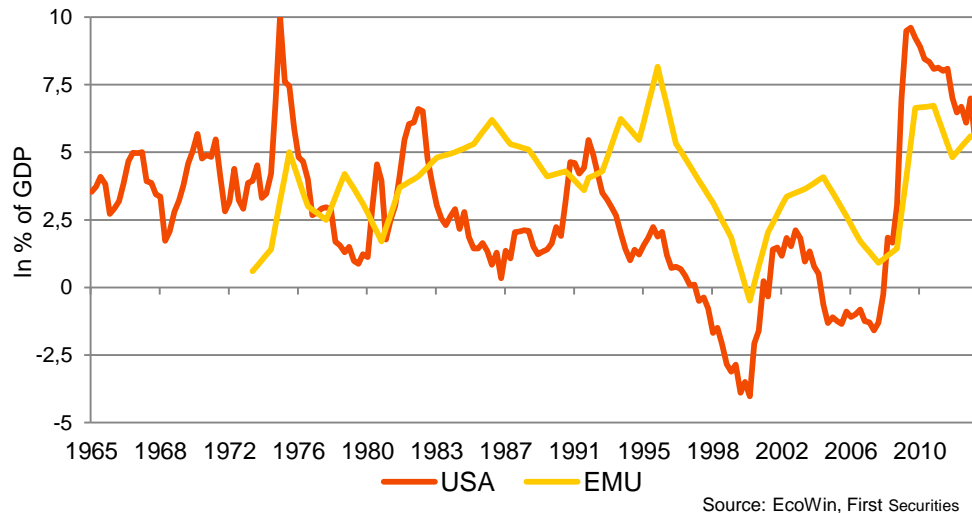
# Downside risks have increased: Primarily on account of policy uncertainty in the U.S.



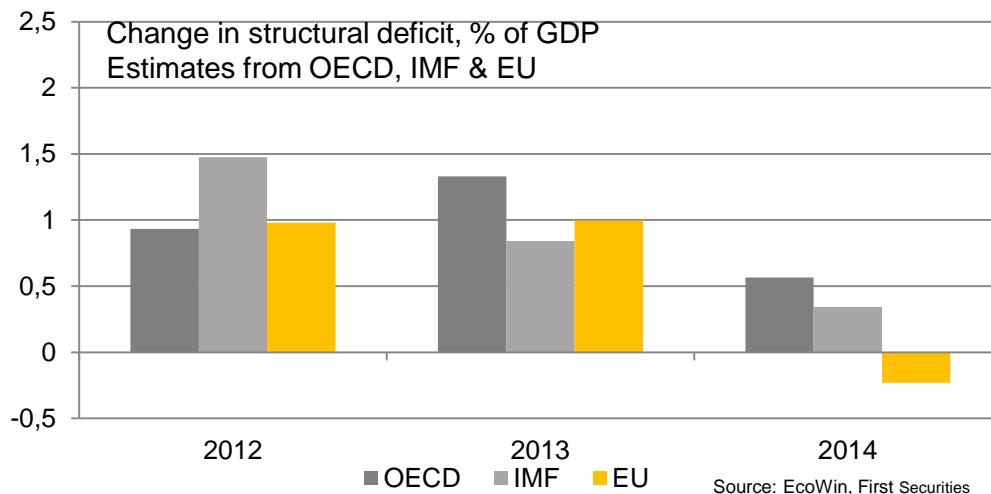
- Lower probability of the main scenario mainly due to the lack of policy coherence in the US
- A worse scenario could be triggered by:
  - A return of the political in fighting in the US Congress
  - A disorderly unwinding of structural imbalances in emerging market economies
  - A return of financial sector crisis in the euro area
  - Geopolitical risks mainly related to the Middle East and energy prices
- A more positive scenario could be the result of:
  - A stronger rebound in both the US and euro area
  - Lower energy prices due to an agreement with Iran on nuclear enrichment

# EMU: A gradual recovery, imbalances are reduced

## Private sector savings, Household & corporate cash flow



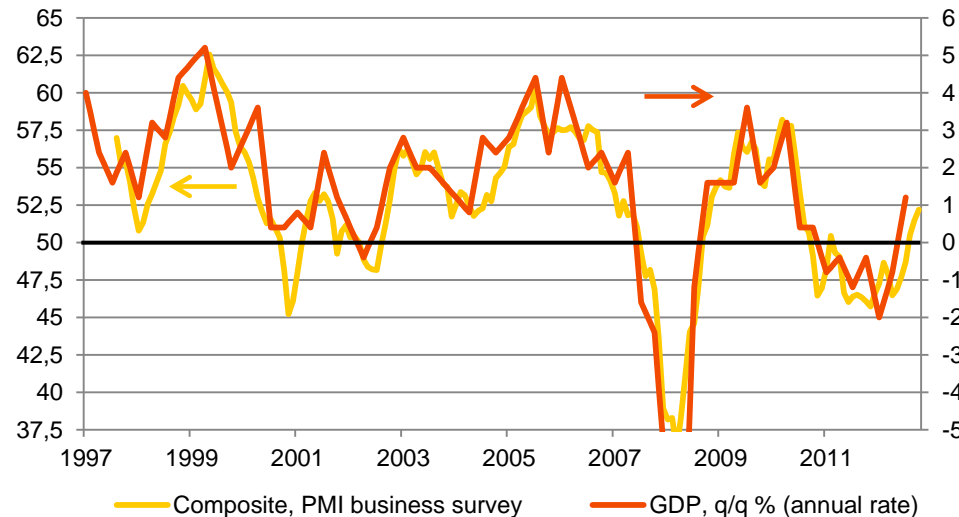
## EMU Fiscal policy



- We keep our growth forecasts unchanged
  - A gradual recovery, and falling unemployment
- Inflation is well below target, and falling
- Private sector consolidation mostly behind us
  - Banks, credit markets are recovering
- Much of the fiscal consolidation is behind us
  - Limited or no fiscal tightening in the region in 2014 following several years of tightening
- Monetary policy will remain expansionary
- Smaller imbalances within the Union
  - The PIGS countries are now running surpluses at their current accounts
  - EMU is running a record high C/A surplus
- Risks: Banks are still under capitalised, no banking union, a policy breakdown. Too low wage inflation
  - However, bank & policy risks are gradually declining

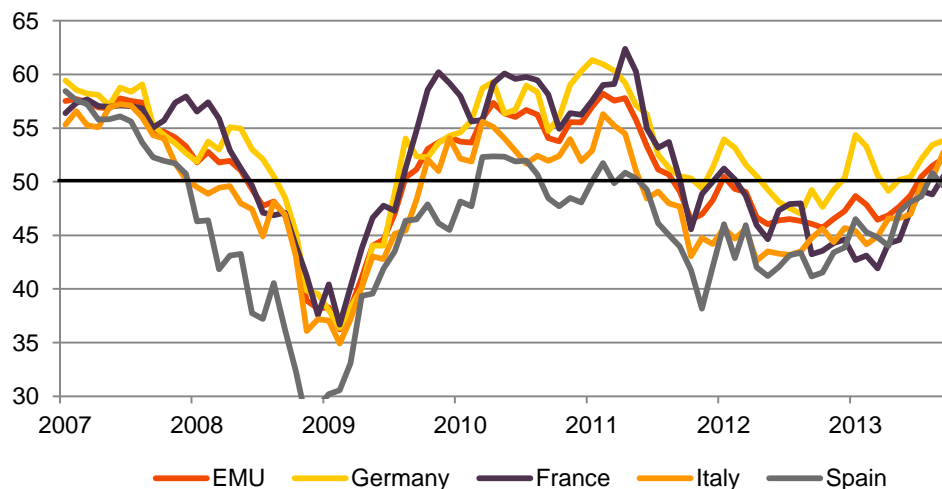
# EMU: Surveys point upwards & some convergence

EMU – PMI vs. GDP



EMU Composite PMI

Source: EcoWin, First Securities



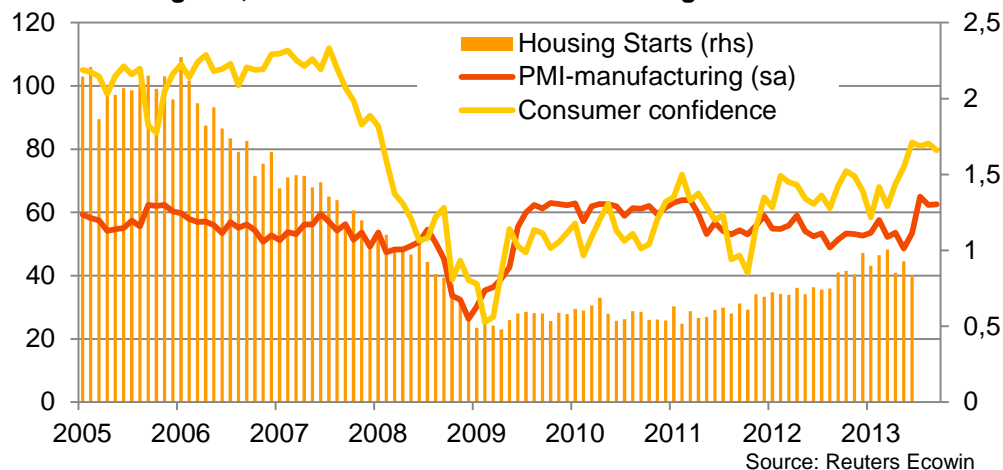
Source: EcoWin, First Securities

- EMU business and consumer surveys confirm a gradual recovery
  - The PMI signals a 1% GDP growth rate
- Germany is still in the lead but the momentum gap vs. the others is sharply reduced
- Private demand in Spain and Italy is stabilising
- Foreign trade will continue to support growth in the periphery, competitive position is rapidly strengthening
- Private demand in Germany is still weak, in spite of a strong overall economy

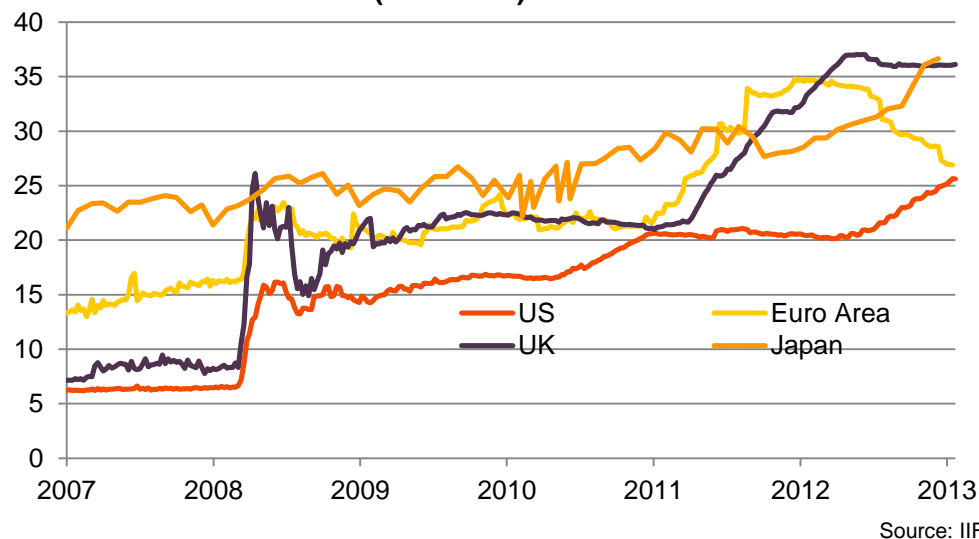


# US: Underlying growth potential despite political mess

Manufacturing PMI, consumer confidence and housing starts

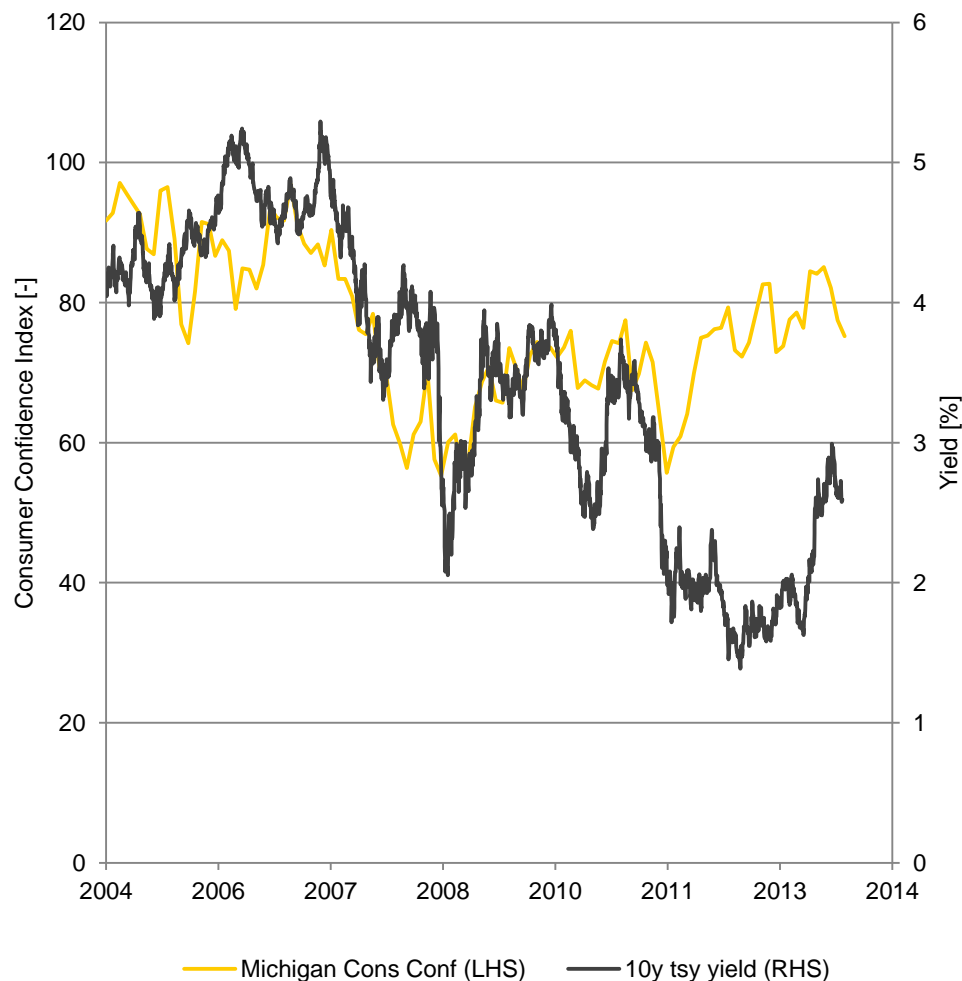


Central bank balance sheet (% of GDP)



- The recovery of the US economy went through a hiatus due to the close down of the federal government and threat of hitting the debt ceiling. It principally affected confidence, but also overall demand was negatively affected
- Despite the short term nature of the deal in congress, it is unlikely that the scale of the crisis will be repeated early next year
- However, a lack of agreement could cause fiscal policy to continue to be tight in 2014
- On the other hand, monetary policy will be looser, and we expect tapering to start only in the first quarter of 2014
- Overall, we revise down marginally our growth forecast compared to our August Outlook

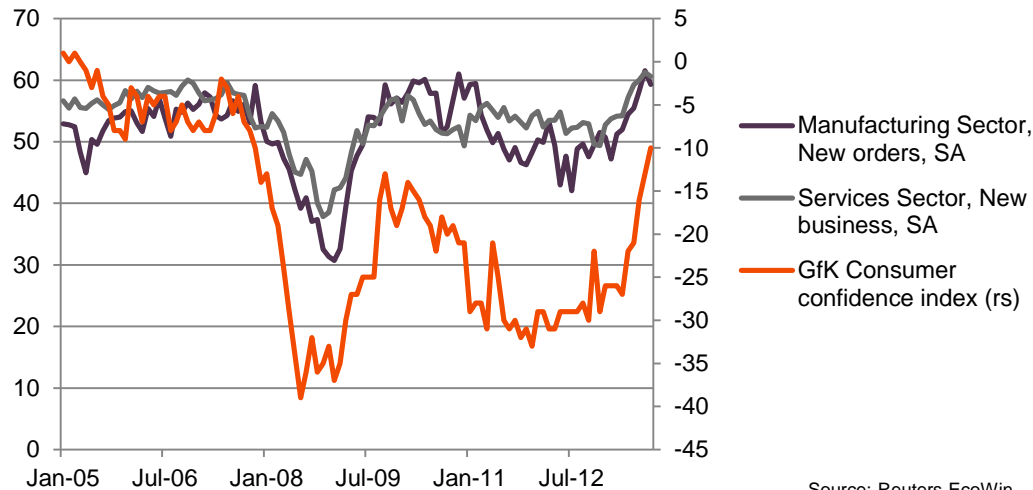
## US: The US 10y treasury yield is low



- Fed's postponement of tapering caused a rally in 10s
  - Following the debt ceiling trouble the market has pulled 10s below 2.60%,
  - And significant sell-offs seem less likely ahead of Fed tapering
- Considering the strength of the US economy 10s trade too low
  - The Michigan Consumer Confidence Index suggests significantly higher 10y yield levels

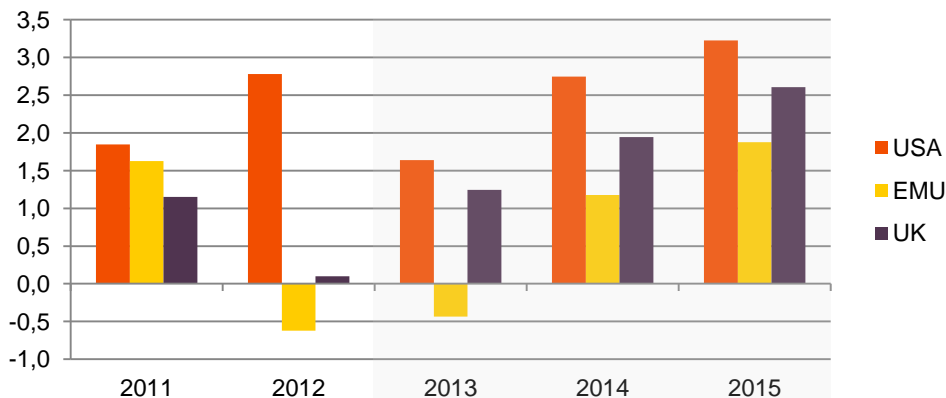
# UK: Short-run indicators good, sustainability uncertain

## New orders and consumer confidence



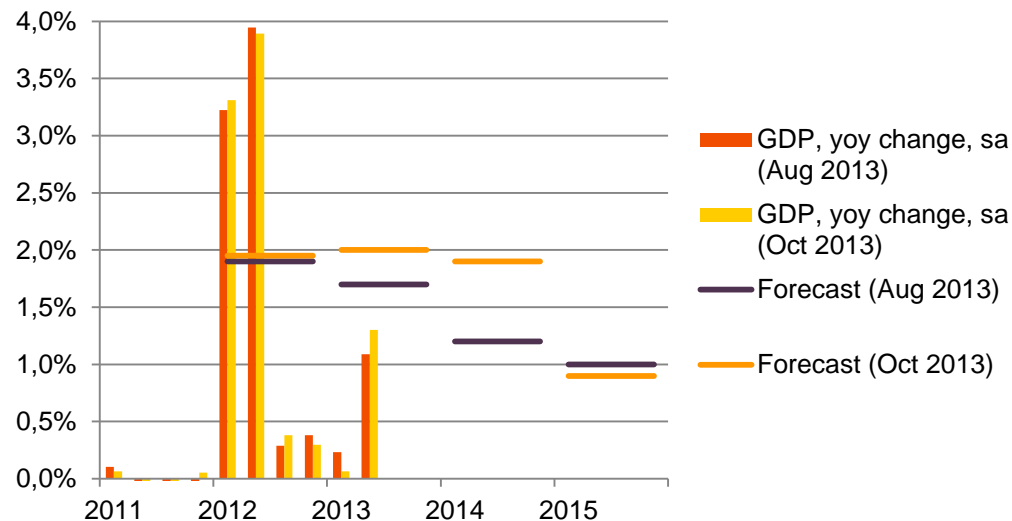
- New orders in both manufacturing and service sectors continue to support a pick in activity
- However, industrial production fell back in August suggesting a slower than anticipated recovery
- The UK government launched “Help to Buy” mortgage guarantee scheme ahead of plans
- Consumer confidence strengthens, but a rebounding housing market cannot drive growth in the medium term.
- We expect growth to exceed EMU but lag USA

## UK growth compared to the U.S. and EMU

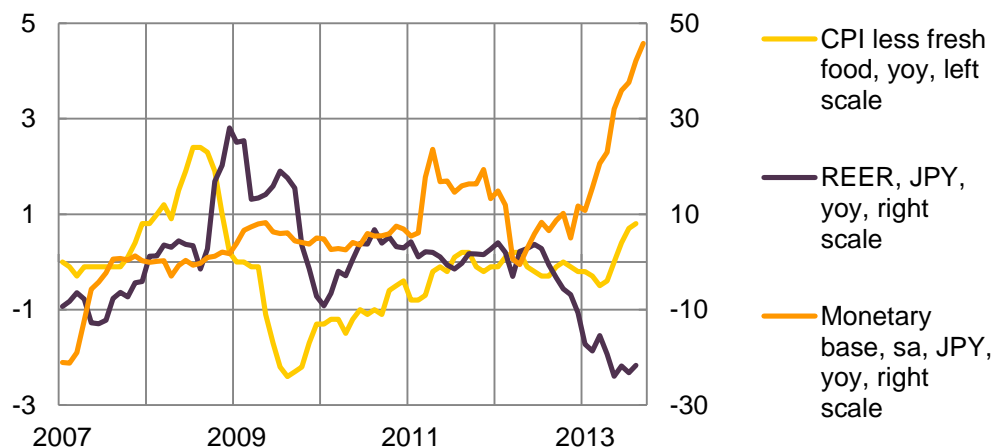


# Japan: On path to a moderate recovery

## Japan's growth forecast



## Japan's inflation

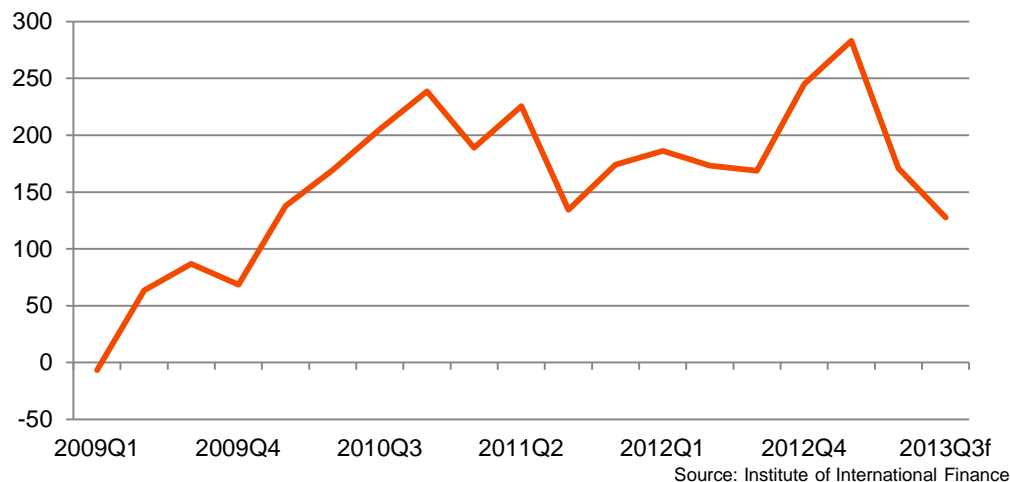


Sources: Reuters, Swedbank

- Changes in the forecast vs. Aug:
  - 2013: +0.2% (revisions of Q2 data)
  - 2014: +0.6% (fiscal stimulus package to soften sales tax raises impact)
  - 2015: -0.1% (fiscal consolidation)
- More monetary stimulus expected in Q1 2014
- JPY expected to continue weakening against the USD until the end of 2015
- Main risks:
  - Fiscal policy sustainability
  - Lack of structural reforms

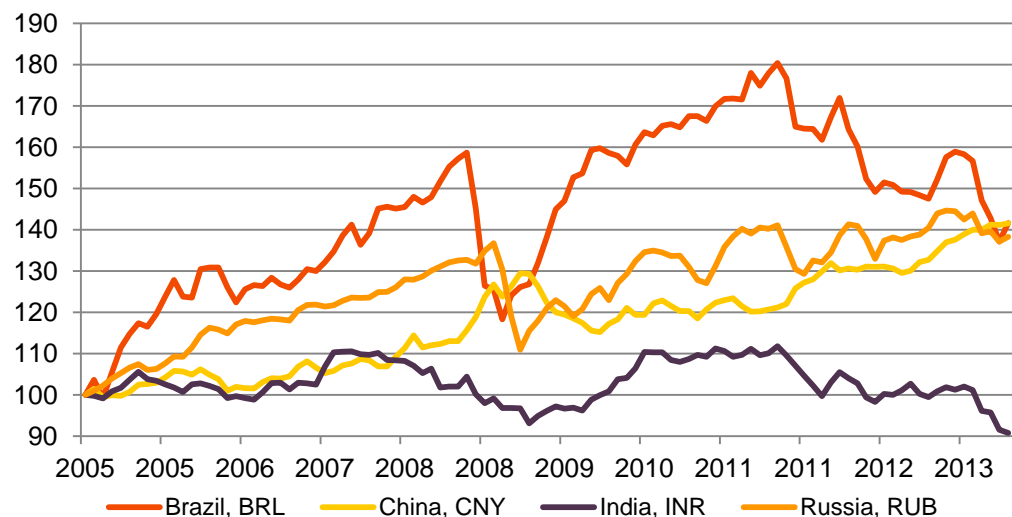
# Emerging markets: Signs of stabilisation

Capital inflows to emerging markets (bUSD)



- China Q3 numbers stronger than expected
- Signs of growth bottoming out in other emerging market economies
- Currencies have adjusted to slow growth
- Currencies with large current accounts fell hard on fears of less dollar liquidity
- Inflation pressures to remain high, central banks are likely to maintain tight monetary policies

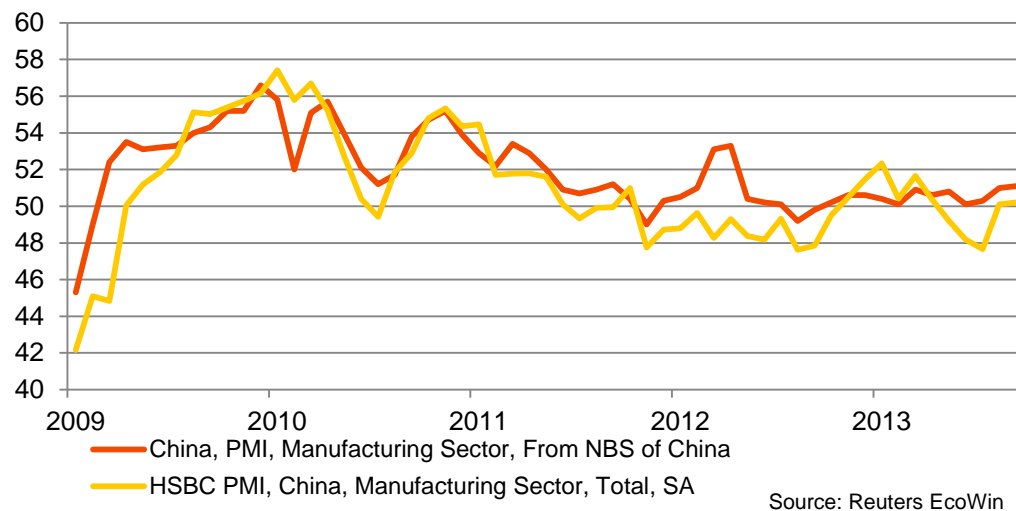
BRIC, BIS, Real Broad Effective Exchange Rate Index



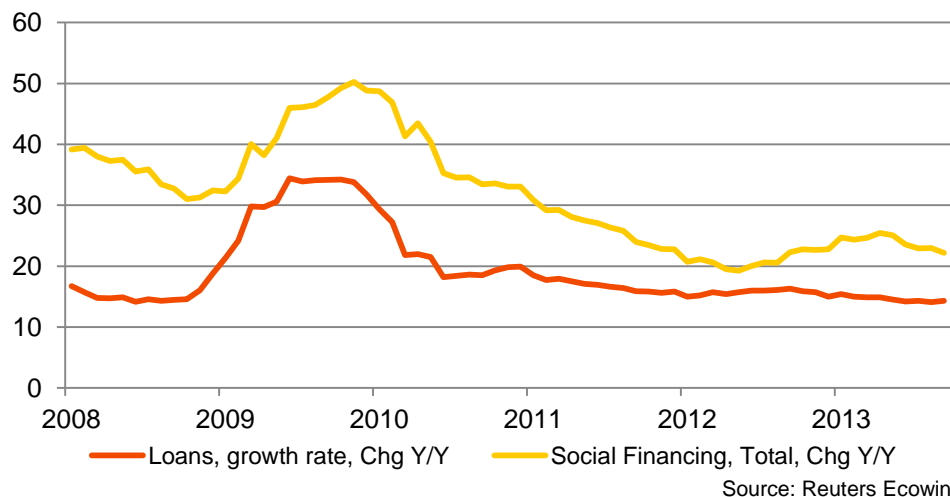


# China: Growth in line with authorities' orders

China PMI Manufacturing, Total, SA



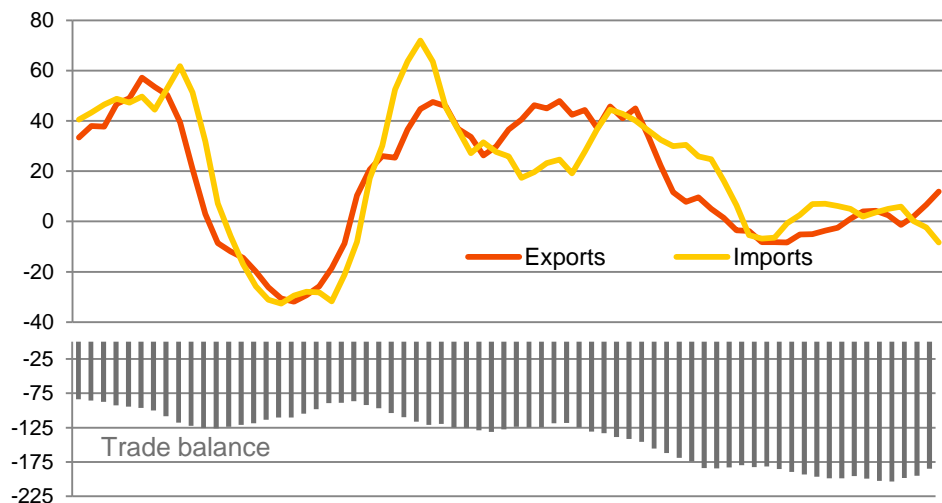
China growth in credit



- June interbank turbulence didn't filter through to economic sentiment
- The economy is stabilising, in line with our 7.4 per cent growth forecast
- Credit is slowing but is still fuelling property prices
- Foreign trade is very moderate
- Commodity prices are calm, indicating slow investments demand from China
- September month-end went quiet after the central bank flushed interbank market with liquidity
- November's Third Plenary session will set the direction of economic policy for the coming decade

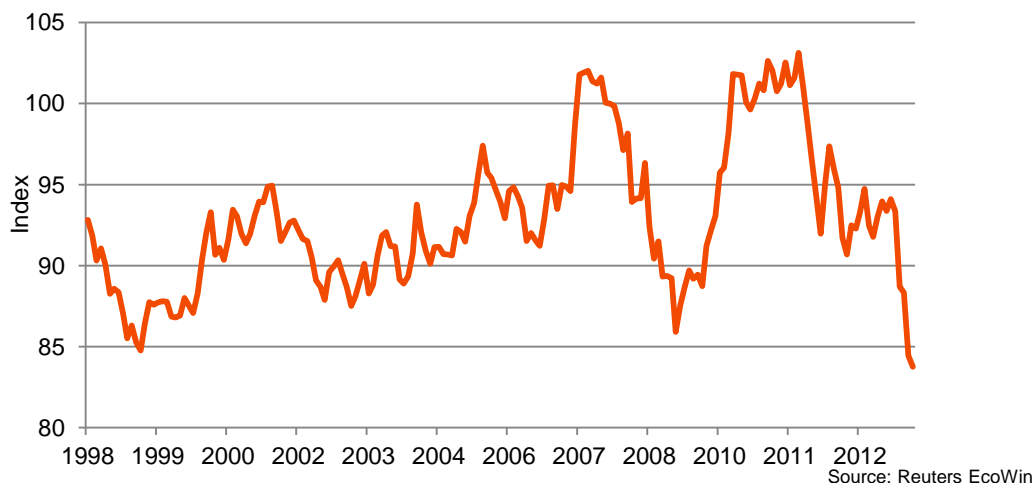
# India: The economy has stabilised at a lower level

India, Foreign trade, USD



Source: Reuters EcoWin

India, BIS, Real Effective Exchange Rate

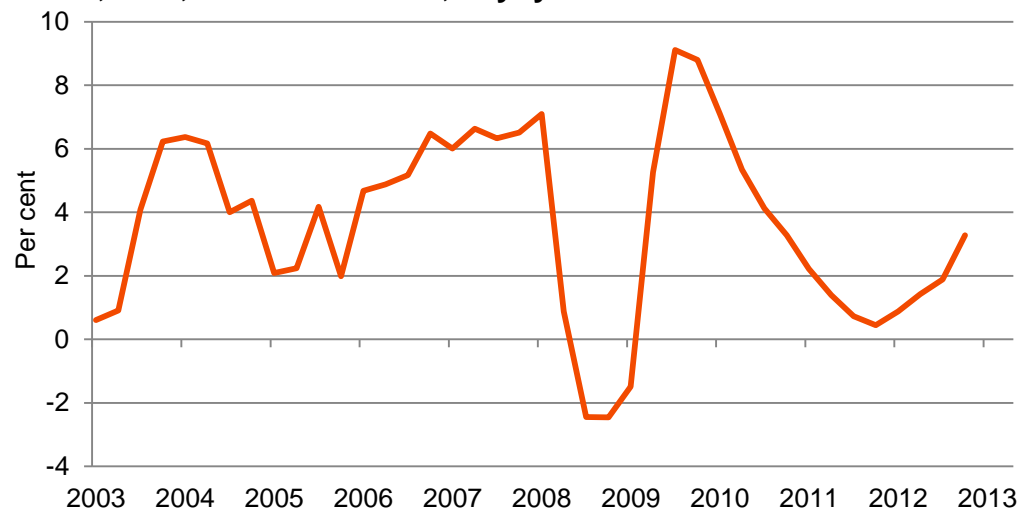


Source: Reuters EcoWin

- Growth disappointed in Q2 with GDP down to 4.4 per cent, lowest since 2009
- Growth outlook will be supported with better external trade developments
- High inflation will restrain domestic demand
- However, the current account will improve
- The trade balance will improve as the real effective rupee is at a 17-year low

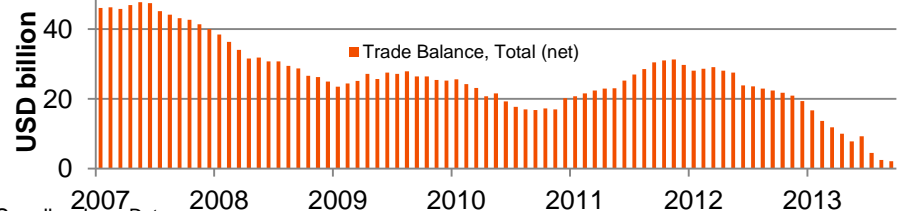
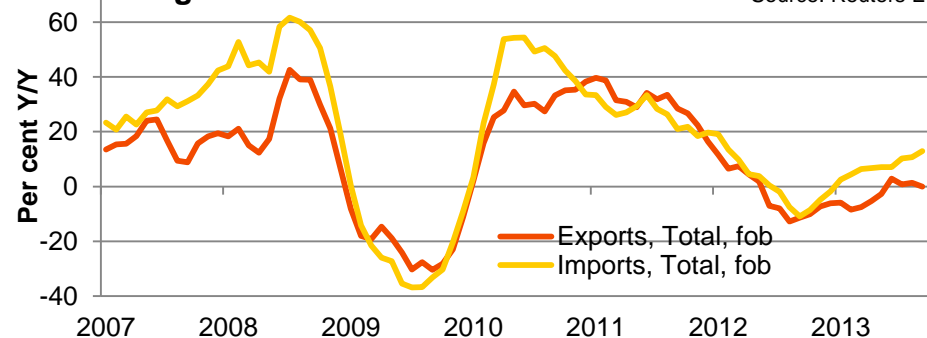
# Brazil: Growth cautiously on its way up

Brazil, GDP, Constant Prices, % yoy



Brazil foreign trade

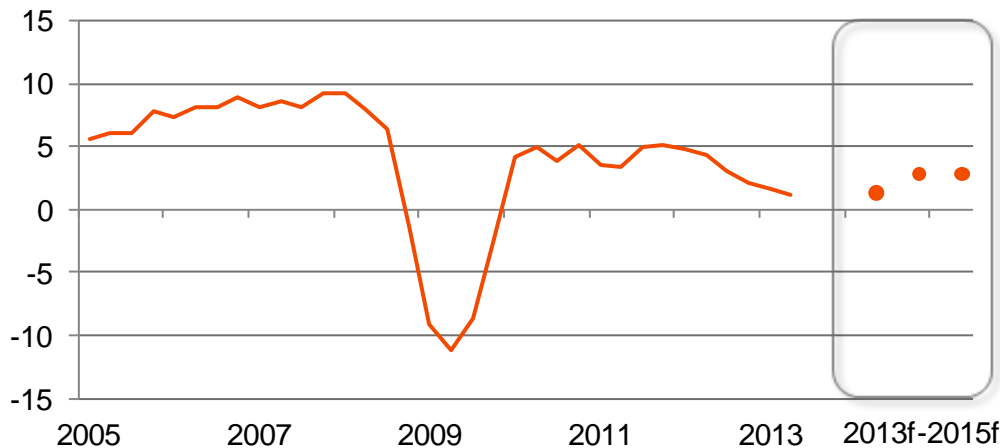
Source: Reuters EcoWin



- GDP growth bottoming out but the recovery will be slow
- Industrial production weak and PMI just below 50
- Stable China growth crucial for Brazil exports
- Tighter monetary policy ahead as inflation expectations are the highest since 2004
- The real effective real at lowest since 2008

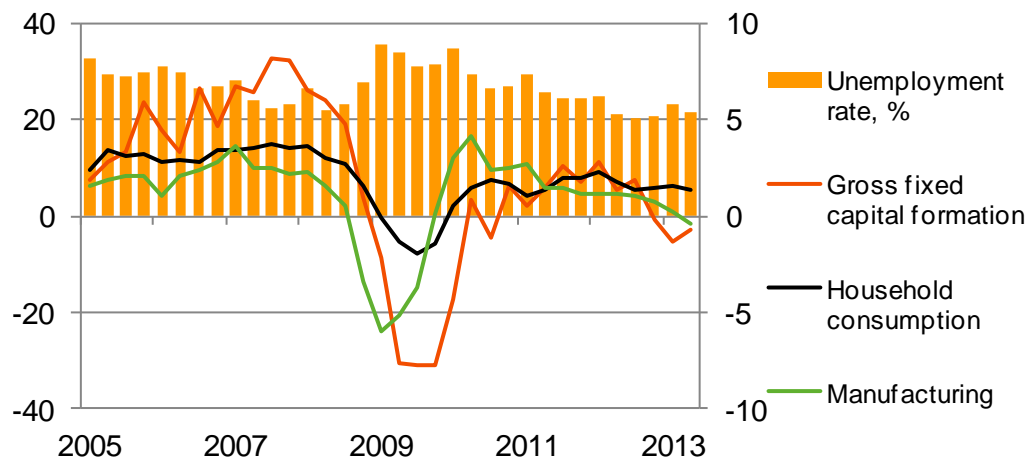
# Russia: Returning to growth, but recovery will be weak

## GDP annual growth, %



Source: Reuters EcoWin

## Selected indicators, annual growth, %

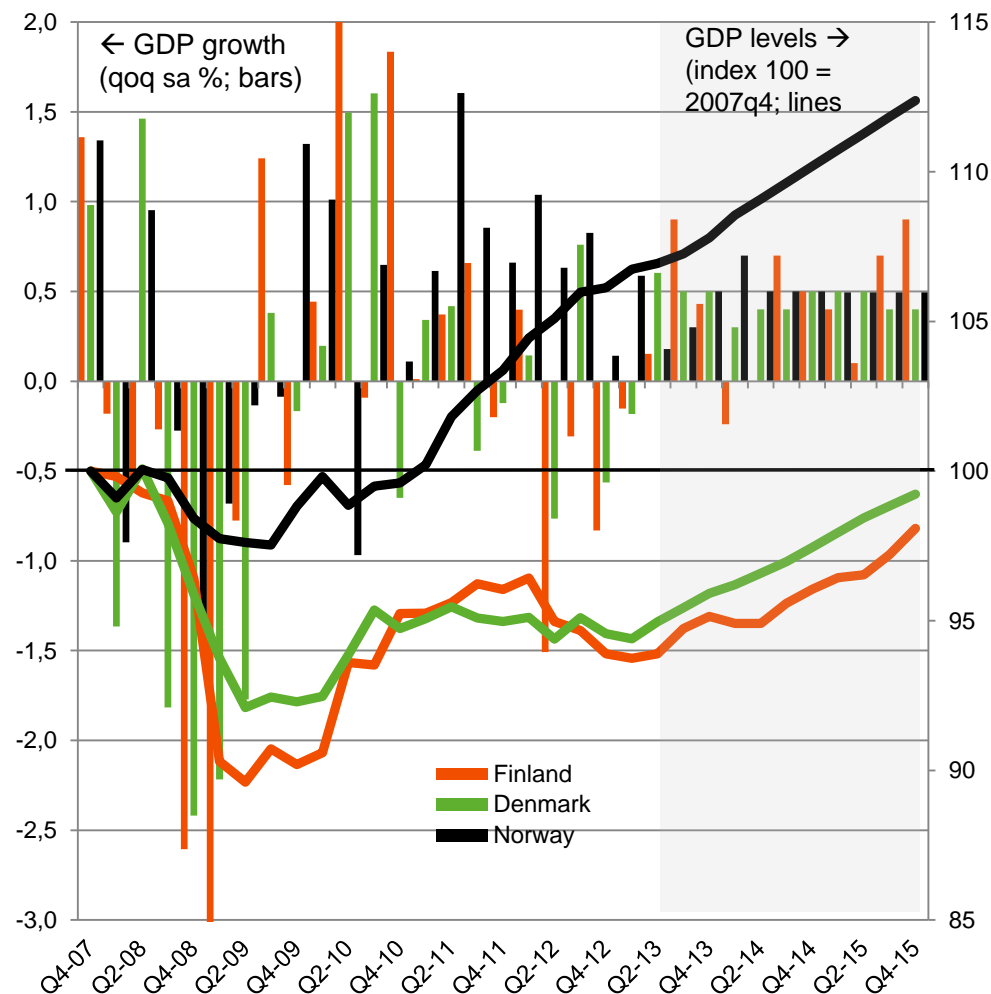


Source: Reuters EcoWin

- Recession to end in 2H 2013
  - Mainly due to household spending supported by rising incomes, slowing inflation and robust credit growth
  - Weaker drag from inventory cycle,
  - One-offs such as good harvest and approaching Olympics,
- But recovery to be disappointing by historical standards
  - Weak global outlook for commodities,
  - Limited room for fiscal (unemployment already low) and monetary (inflation above target) stimulus,
  - Lack of structural reforms to boost business investment/ industrial output means that growth shifts to a low gear
  - We keep the 2013 growth forecast at 1.3%, but lower it to 2.8% for 2014 and 2015 (3.2% and 3.0% before)
  - Rouble to keep weakening amid spells of temporary seasonal strengthening

# The Nordic-3: Divergence continues

GDP and economic growth in the Nordic region

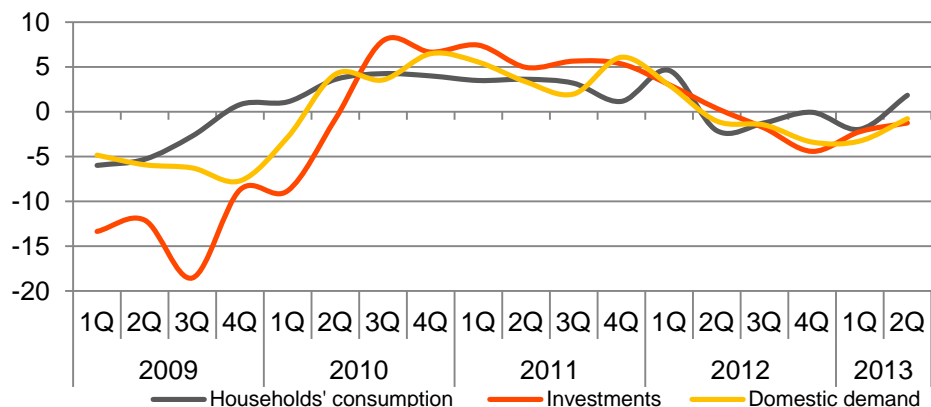


- Denmark and Finland still lag behind despite a pick up in growth: the unwinding of imbalances still hampers growth prospects
- The Norwegian rate of expansion falls back and risks are mainly to be found in the housing market.



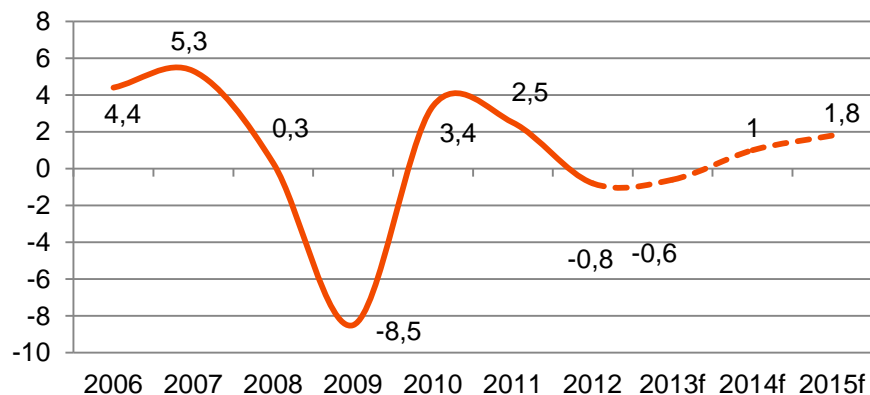
# Finland: Slow recovery of growth

Real growth of domestic demand, %



Source: Statistics Finland

GDP growth forecast, %

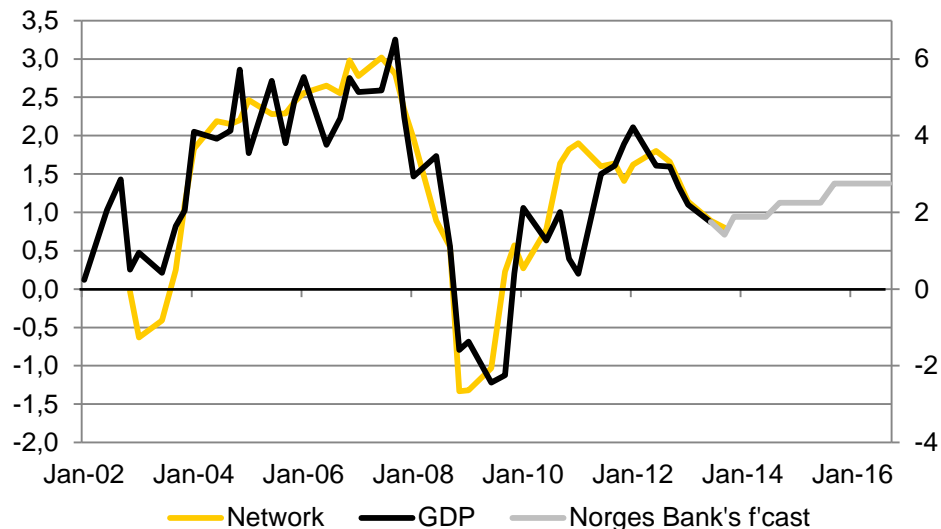


Source: Statistics Finland, Swedbank

- Euro area's gradual recovery will increase the demand for Finnish goods and services
  - Finnish export growth will lag behind the global trade growth
- Recovering exports have positive effect on domestic demand
  - Especially on households' consumption, but this effect comes with a delay
  - The growth of consumption is hampered by increasing unemployment and relatively weak real purchasing power
- Companies postpone investments:
  - There is still a lot of idle capacity
  - Decline in investments is mainly caused by the electrical and electronics industry
- Acceleration of the GDP growth will be modest
  - Due to moderate growth of exports and domestic demand, ongoing restructuring of the economy and problems with the cost competitiveness
  - The settlement on a moderate wage agreement will gradually improve competitiveness

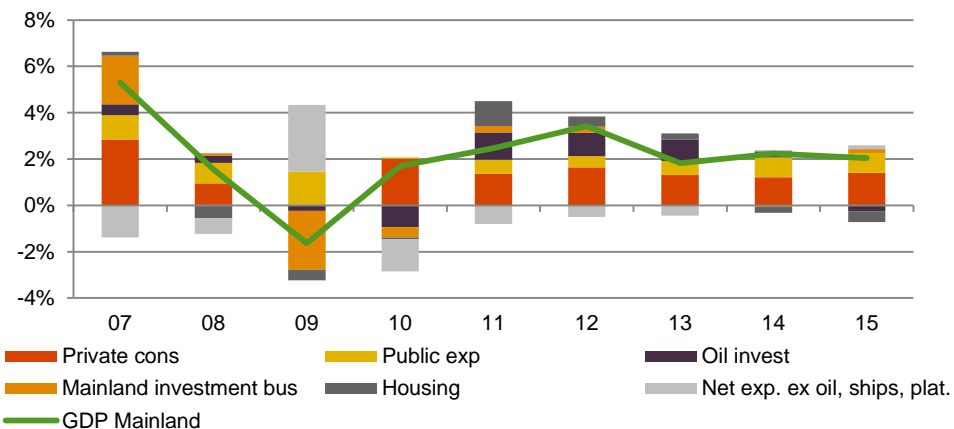
# Norway: Towards the end of the exceptionalism

Norway Mainland GDP vs network survey



Sources: Norges Bank and Swedbank.

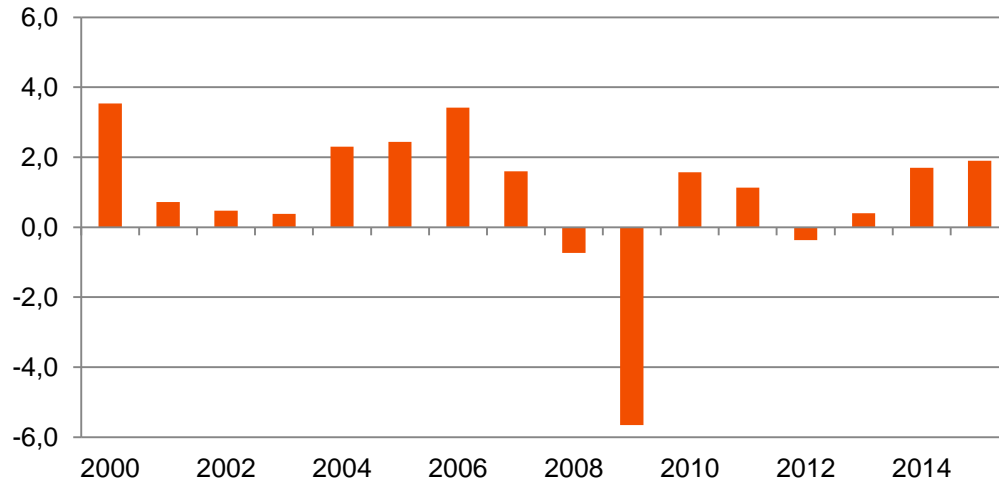
Norway Mainland GDP, contribution to growth



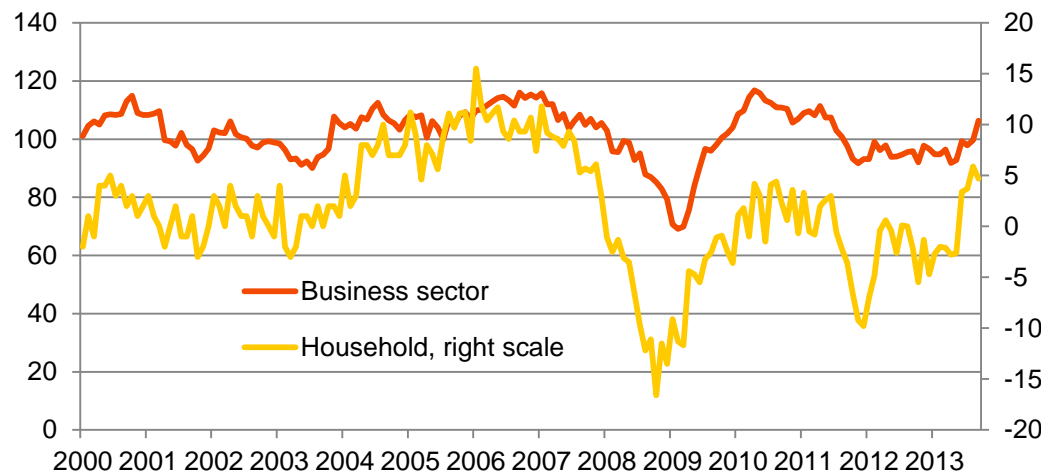
- We have revised our growth forecasts downwards, but our main scenario is not a recession
  - Oil sector & housing investment have been important growth contributors
  - We do not expect oil investments to increase much more, and there is a downside from 2015
  - House prices have flattened out, as the number of unsold homes is increasing sharply. Housing starts are declining, from a high level
- Fiscal policy will remain expansionary, even if it is tight vs. the long term budget rule
  - The new conservative government will probably increase the non oil deficit by cutting taxes
- Monetary policy will remain expansionary, especially if the housing market weakens further
- A sharp NOK depreciation will support export growth, even if the cost level is still high
  - The non oil terms of trade is heading southwards

# Denmark: Modest growth following stagnation

Denmark growth forecast



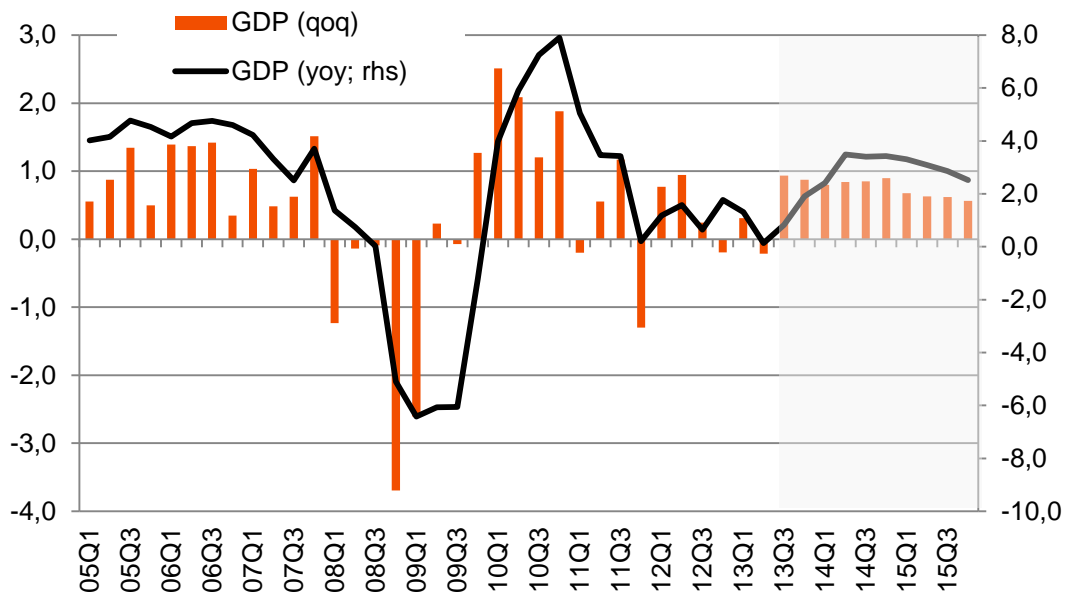
Confidence household and business sector



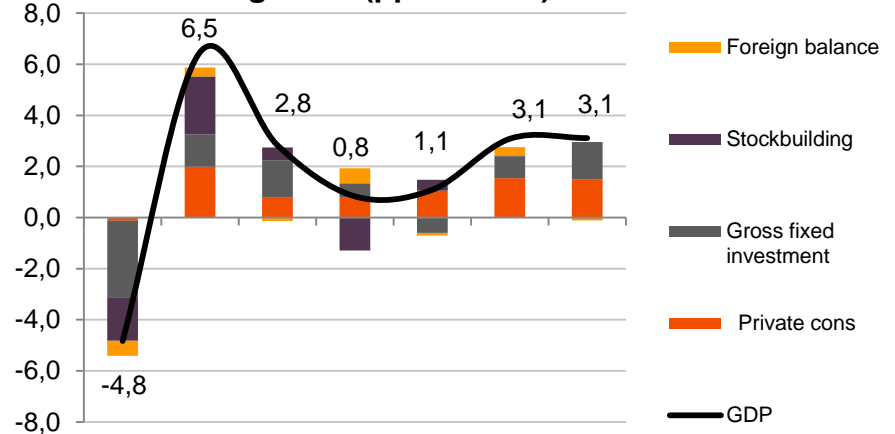
- A recovery in the EMU-area in 2014-2015 will have a positive impact on the Danish export possibilities
- Tax cuts, higher real wages and stronger household confidence mean that consumer will become the main driver of economic growth
- Low interest rates, growing demand and large pent-up demand raise the investments in the business sector. The housing market stabilizes
- Risk for a job less growth could postpone a planned fiscal consolidation policy

# Sweden: Surge postponed, but growth is set to rise

GDP growth annually and quarterly (in %)



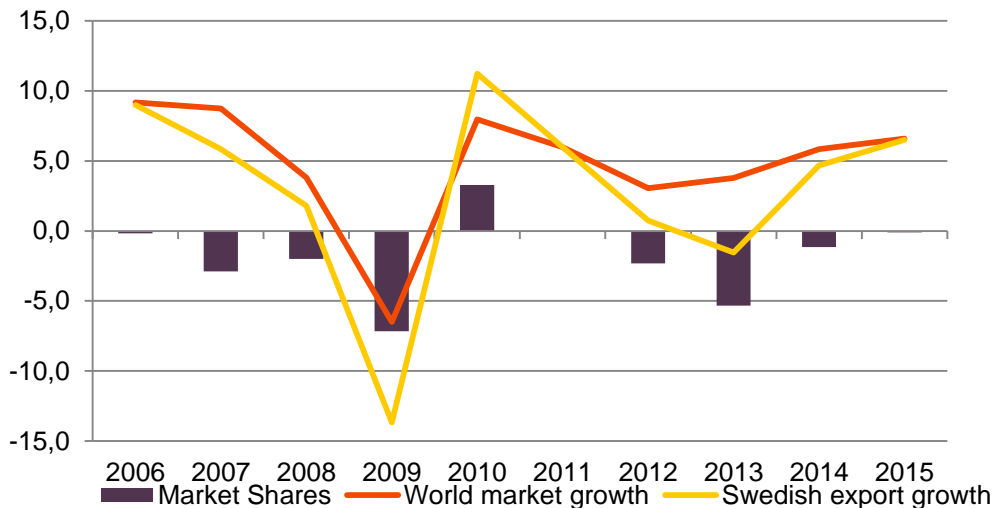
Contribution to growth (ppt of GDP)



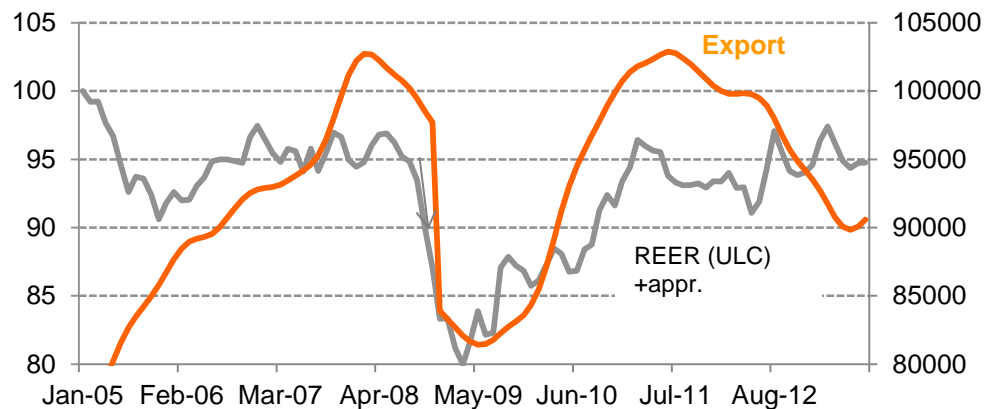
- Data revisions for 2012/13 lower the GDP level mainly due to higher imports
- Household demand remains largely intact
- Overall growth will be driven by strong household balance sheets and a boost of disposable income from fiscal policy expansion and an improving labour market.
- Riksbank is set to raise the repo rate twice next year held back by fear of a strong krona and the possible impact from the implementation of macroprudential tools.

# Export speeds up when global demand strengthens

Export growth and market share (%)



Export growth and competitiveness

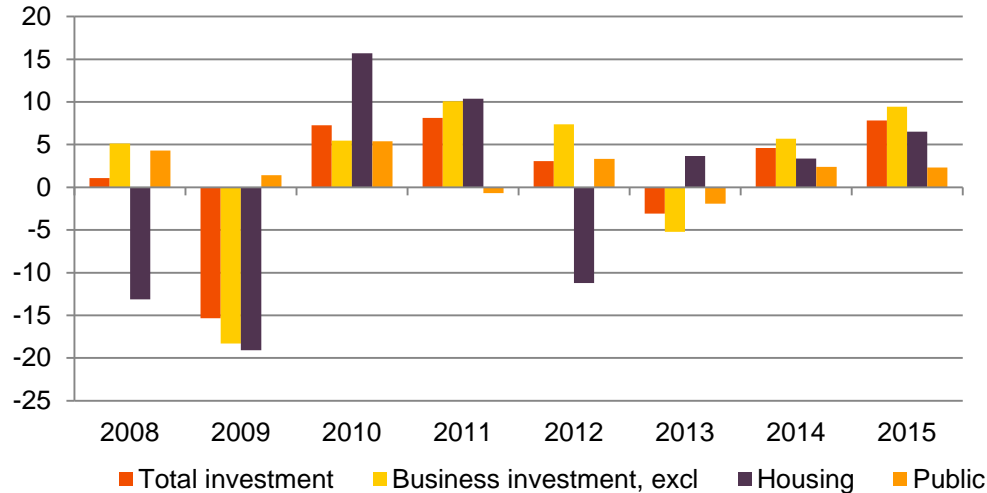


- Two years with subdued export we foresee a recovery in 2014 and 2015 when the global growth is increasing
  - A large export orientation to Europe (over 70% of total export) will have positive impact on Swedish export when the European economies are growing again
  - The demand for intermediate and investment goods will drive the export growth when the global investment cycle starts to pick up. The dependence of export of services continues
  - Swedish competitiveness is strengthened due to a higher productivity growth, but pressured during 2014 by a stronger krona

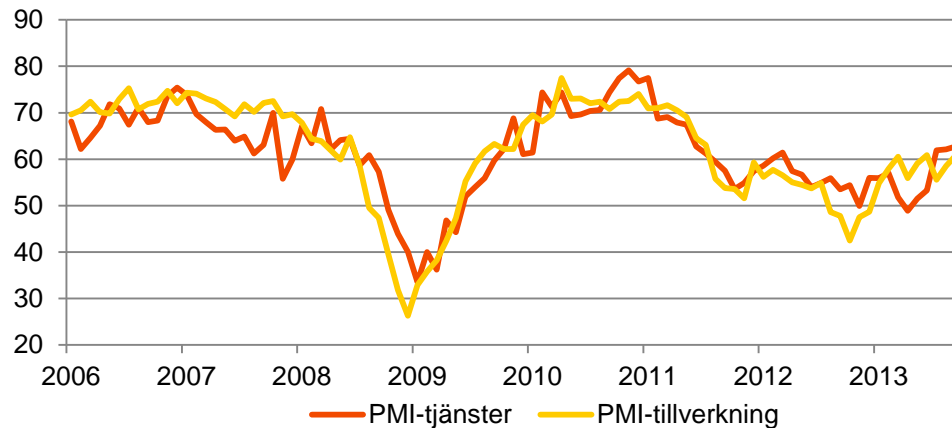


# Higher investment activity when production is growing

Investment growth for different sectors, (%)



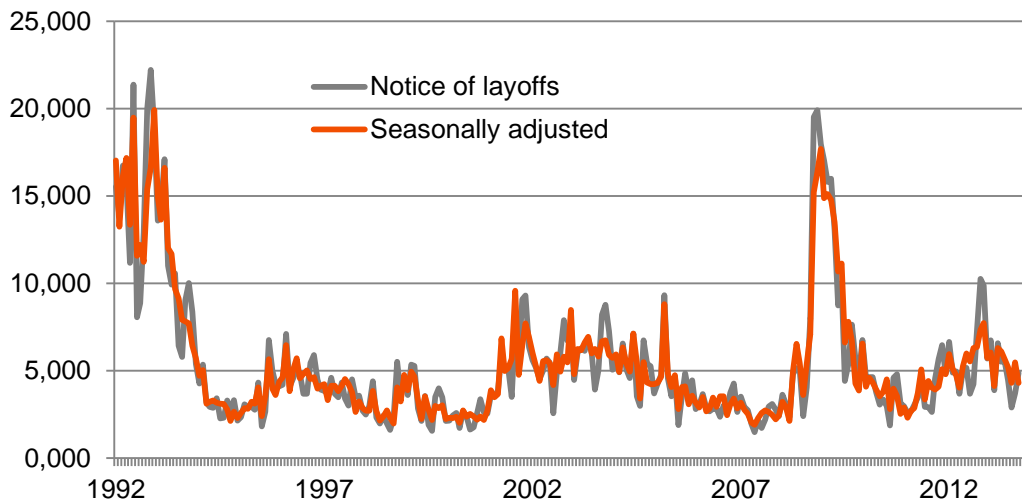
Production plans, PMI



- Investments increase next year
  - Low interest rates, higher disposable income, increasing housing prices and lack of houses will raise the house investments
  - Higher confidence and production plans will increase the needs for new investments.
  - Low utilization rate and low production level will have a dampening impact on industrial investments. Due to a stronger domestic demand we foresee a rebound in investments in private services

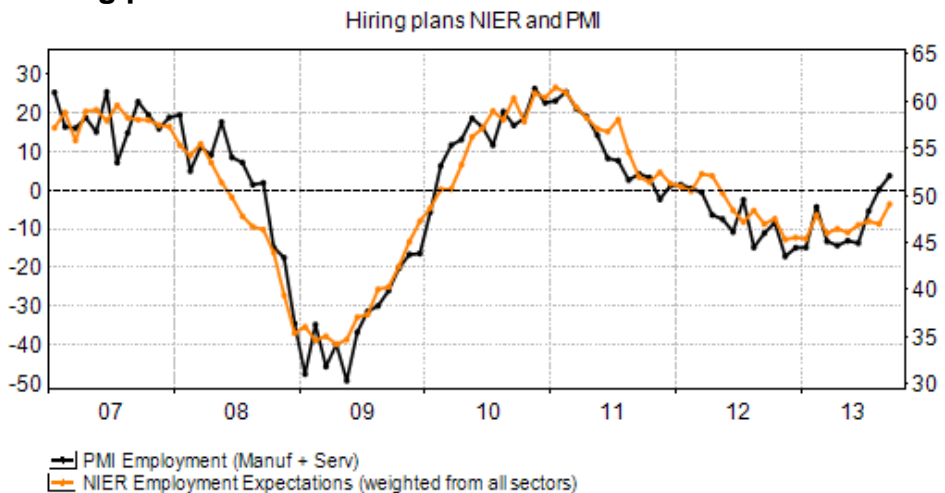
# Improvement in labour market indicators

## Notice of layoffs



- Number of layoffs has decreased
- New vacancies slightly higher compared with last year
- Hiring plans in the Business sector have improved recently according to NIER survey and PMI

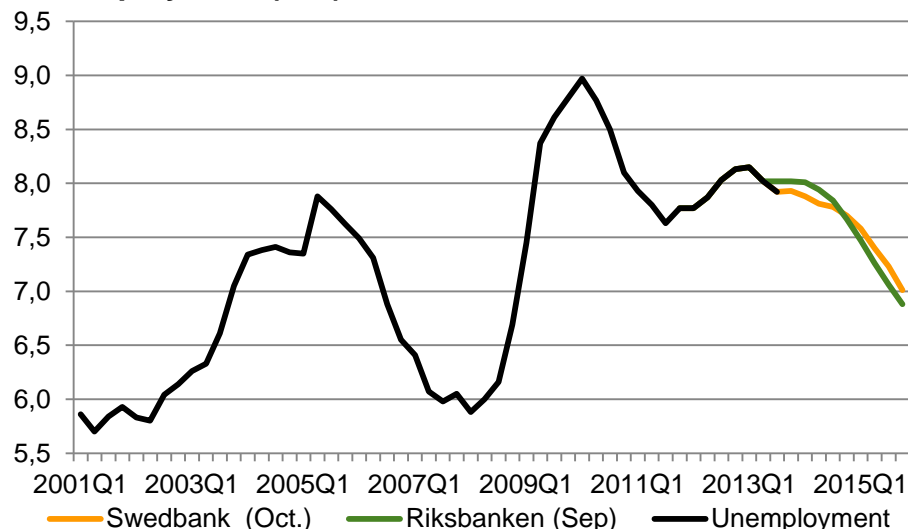
## Hiring plans NIER and PMI



Source: Reuters EcoWin

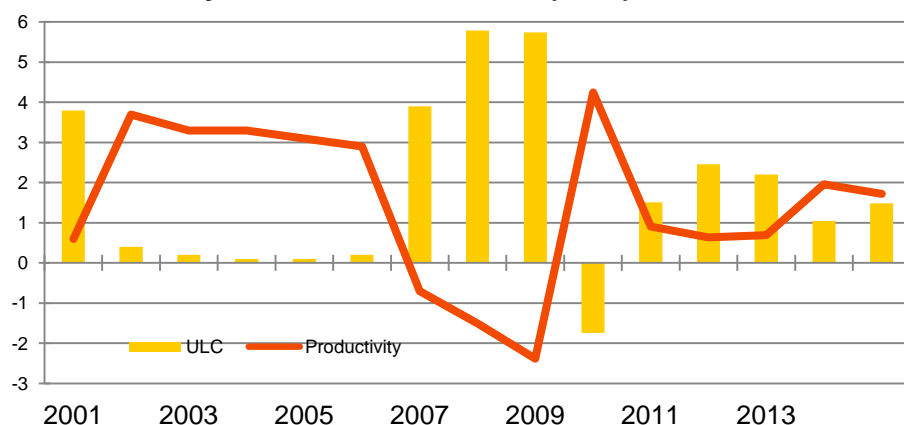
# Labour market strengthens

Unemployment (s.a.)



- Unemployment on its way down
- Impressive development for employment and labour force
- Wage increases remains low but on an upward trends in coming year as labour market improves
- Productivity improves after weak development this year

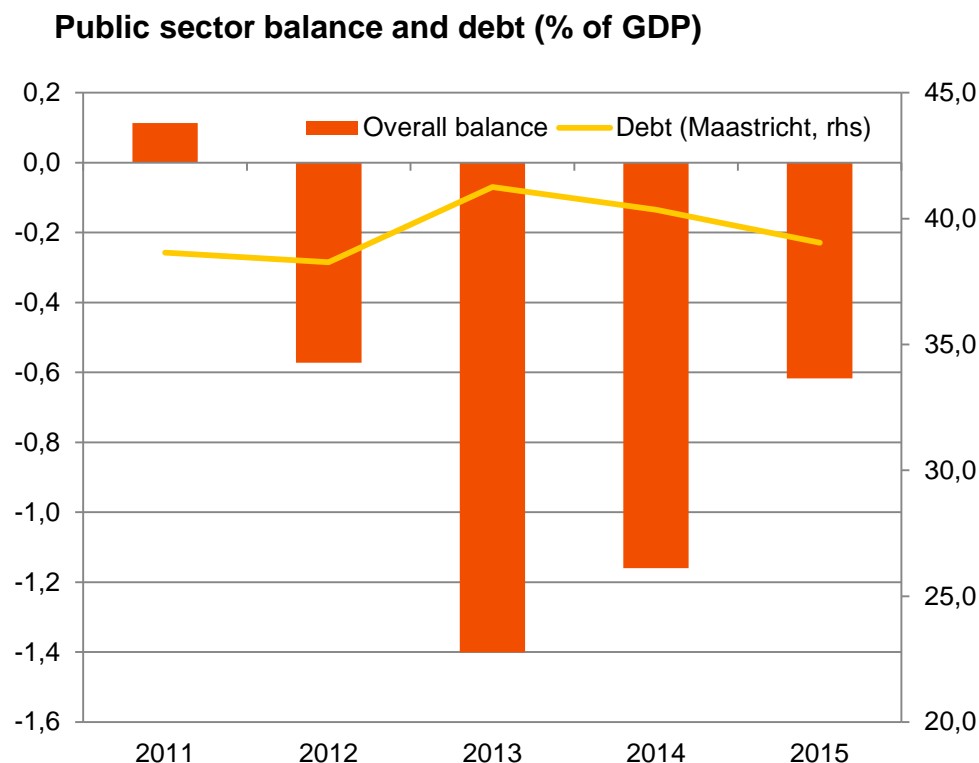
Productivity and unit labour cost (ULC)



Forecast

	2012	2013	2014	2015
Employment	0,6%	1,0%	0,9%	1,1%
Labour force	0,8%	1,0%	0,6%	0,5%
Unemployment	8,0%	8,0%	7,8%	7,3%
Working hours	0,6%	0,5%	1,3%	1,2%
Wage growth	3,0%	2,7%	2,9%	3,2%

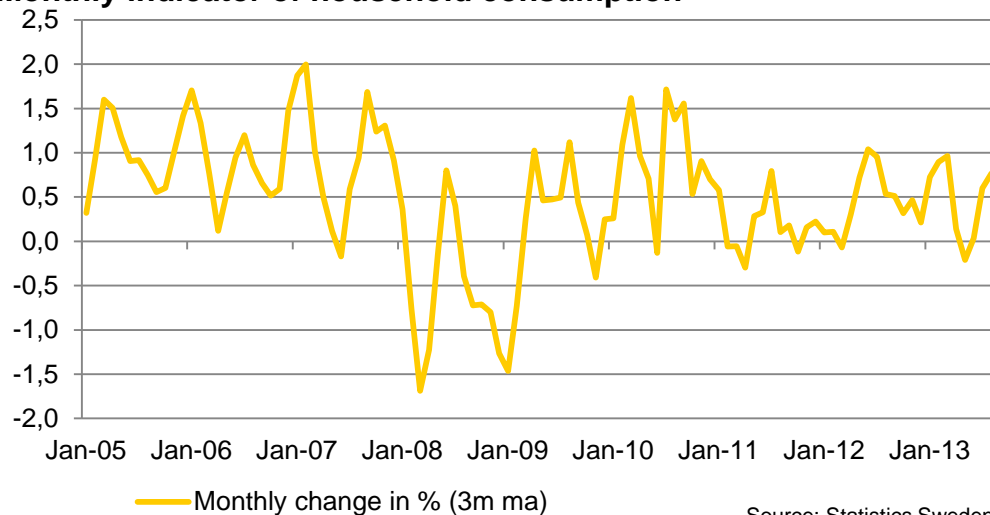
# Expansionary fiscal policy stimulates consumption



- **Fall Budget Bill in line with expectation**
  - More than 80 per cent of unfinanced reforms to increase households' possible incomes
  - Earned income tax credit and lower tax on pensions
- **Nordea sale gives SEK 21,6bn**
  - Lower government debt according to the Maastricht criteria
  - Does not affect government net lending except from marginally lower interest rate payments
- **Private insurance money repaid to local government**
  - SEK 11 bn 2014
  - Improves net lending in the public sector 2014

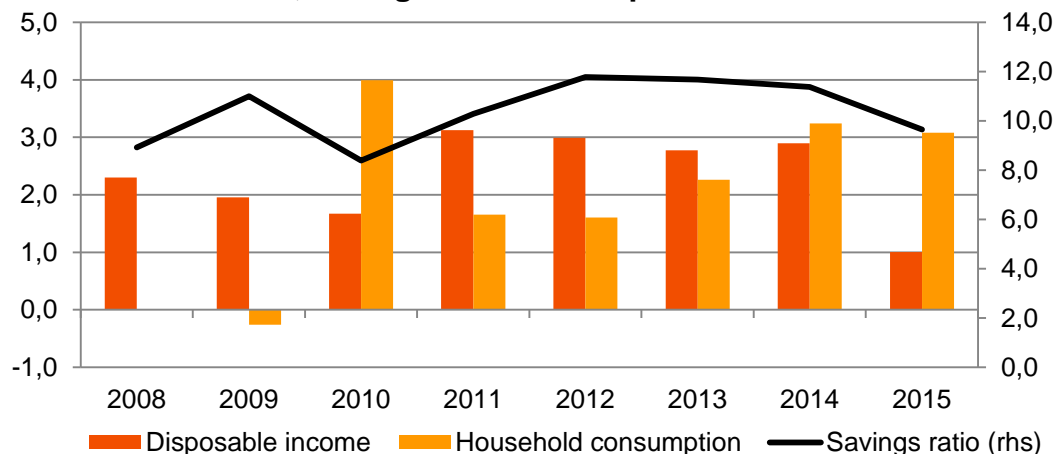
# Strong consumption

Monthly indicator of household consumption



Source: Statistics Sweden

Household income, savings and consumption



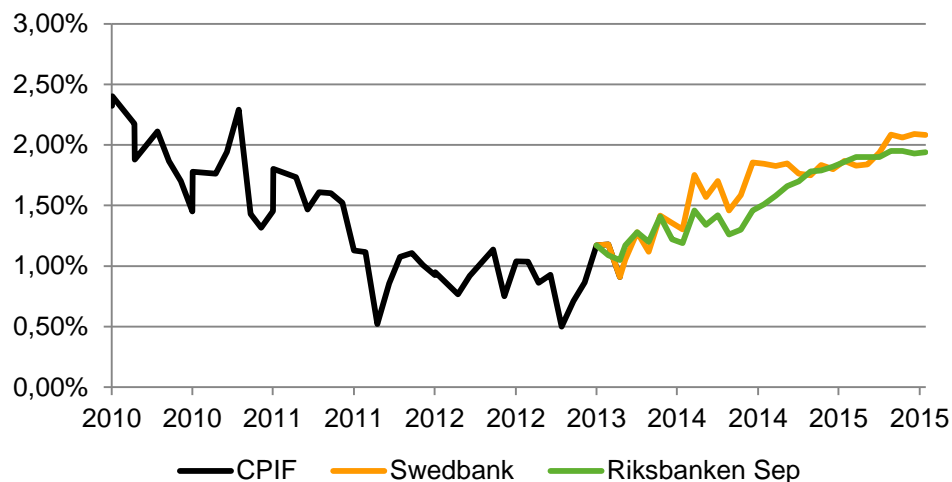
Sources: Statistics Sweden and Swedbank

- Savings ratio at historically high levels
- Strong increases in real disposable income
  - Labour market continues to surprise on the upside
  - Income tax reductions in the Budget Bill for 2014
- Forward looking indicators point to strong consumption growth
  - NIER's household sentiment indicator and Statistics Sweden household consumption indicator shows positive trend
  - Cars and retail sales higher during third quarter



# Inflation rate is picking up

**Inflation, CPIF (%)**



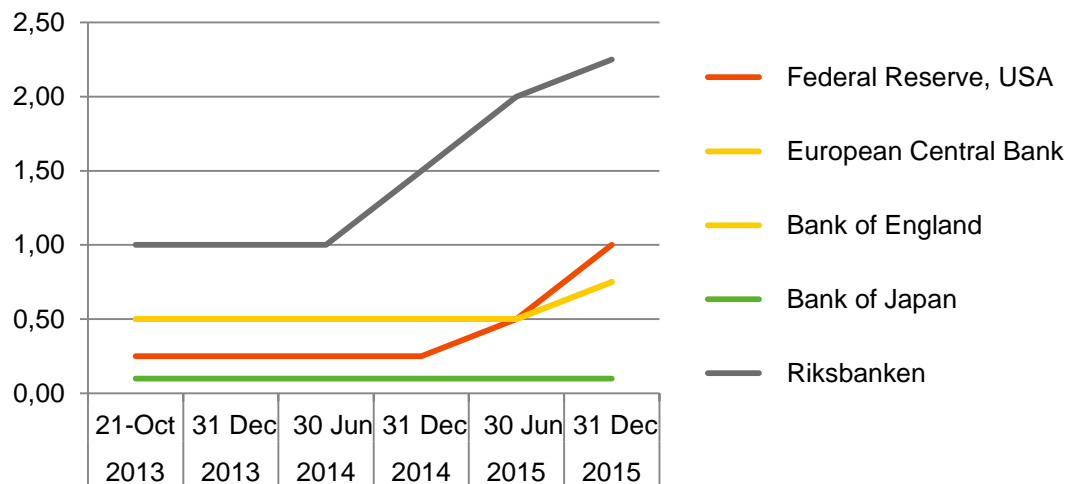
**CPI, Sub groups**

	2011	2012	2013	2014	2015
1. Food and non-alcoholic beverages	1,3%	1,5%	2,5%	2,4%	2,8%
2. Alcoholic beverages, tobacco	1,0%	4,6%	1,5%	3,2%	2,3%
3. Clothes and footwear	1,6%	-0,9%	0,7%	2,3%	2,7%
4. Housing	8,7%	1,4%	-0,6%	2,5%	5,7%
Electricity	2,0%	-5,4%	0,3%	3,8%	3,1%
Fuels	3,1%	6,5%	-1,1%	1,9%	3,5%
Rents (Total)	2,3%	2,6%	2,3%	2,2%	2,5%
Mortgage costs	45,5%	6,1%	-10,1%	2,1%	19,3%
5. Furnishings and household goods	-0,7%	-0,5%	-2,4%	0,0%	0,9%
6. Health	1,7%	2,8%	2,0%	2,7%	2,5%
7. Transport	3,1%	2,0%	-0,8%	0,4%	1,3%
Fuels	9,0%	6,3%	-2,4%	1,8%	0,7%
8. Communication	-2,0%	-1,8%	-2,2%	-2,8%	-3,0%
9. Recreation and culture	-1,2%	-2,2%	-0,7%	-0,1%	0,1%
Audio-visual	-15,1%	-14,7%			
Package holidays	-4,2%	1,7%	2,5%	9,4%	9,8%
10. Education	2,3%	1,6%	2,1%	1,4%	1,9%
11. Restaurants and hotels	2,8%	0,5%	2,0%	2,6%	2,4%
12. Miscellaneous goods/services	1,0%	2,5%	1,0%	2,4%	3,5%
<b>CPI</b>	<b>3,0%</b>	<b>0,9%</b>	<b>0,1%</b>	<b>1,6%</b>	<b>2,8%</b>
<b>CPIF</b>	<b>1,4%</b>	<b>1,0%</b>	<b>1,0%</b>	<b>1,7%</b>	<b>1,9%</b>

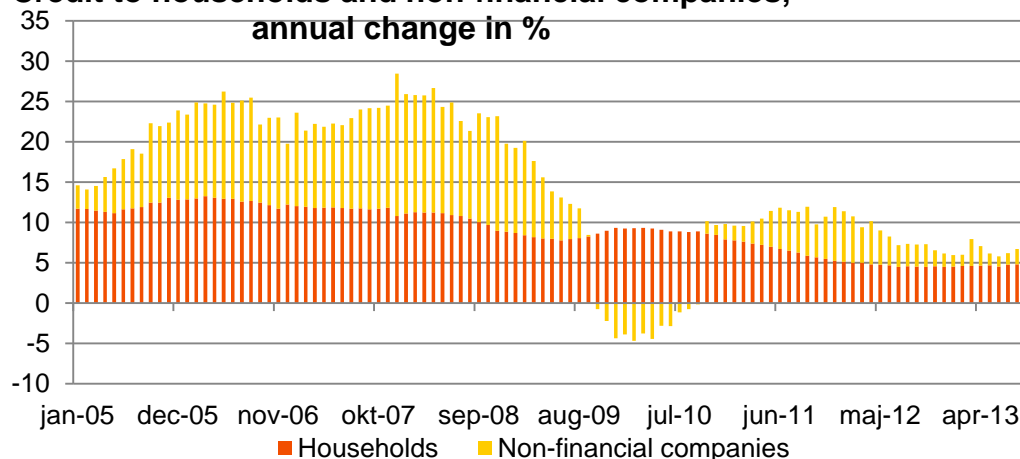
- Marginal changes in Swedbank CPI-forecast compared with SEO in August
- Pronounced increase in inflation during the forecast period
- Still subdued import prices
- Higher inflation rate is mainly driven by increasing domestic demand
- Modest inflation pressure from the labour market
- Increasing mortgage interest costs contributes larger increase in CPI

# Cautious monetary policy

Policy rates



Credit to households and non-financial companies, annual change in %



Source: Statistics Sweder

- Federal reserve will begin tapering first quarter 2014
- Major central banks will be on hold during 2014
  - Federal reserve will begin to hike in first half of 2015. All-in-all three hikes during the forecast period.
  - ECB and Bank of England follow suit with a first hike in the second half of 2015
- A looser global monetary policy in the near term and a clarification regarding macro prudential tools opens up for the Riksbank to be on hold until the second half of 2014.
- First hike from the Riksbank in second half of 2014
- The high interest rate sensitivity in the Swedish economy means that the repo rate path will level of towards the end of the forecasting period

# The first repo rate hike is expected in September 2014

## Swedbank forecast (%) – Sweden

<u>Sweden</u>	Spot	3M	6M	mid 2014	end 2014	mid 2015	end 2015
Repo	1,00	1,00	1,00	1,00	1,50	2,00	2,25
2y	1,08	1,20	1,35	1,55	2,15	2,75	2,90
5y	1,86	2,00	2,15	2,35	2,90	3,35	3,40
10y	2,53	2,60	2,70	2,80	3,30	3,65	3,60
2y/10y	145	140	135	125	115	90	70
2y/5y	79	80	80	80	75	60	50

- In the August forecast the first repo rate hike was in April, 2014
- In the short term bond yields seem capped, and Central Banks should stay on hold (Fed tapering starts in Q1 2014)
- In the medium term our positive macro view will push interest rates higher
- We project Central Bank actions to occur somewhat later than in our August forecast
- 5y and 10y yields at the end of the forecast period now are some 20 bps lower than in our August forecast

## Swedbank forecast (%) – the Euro zone

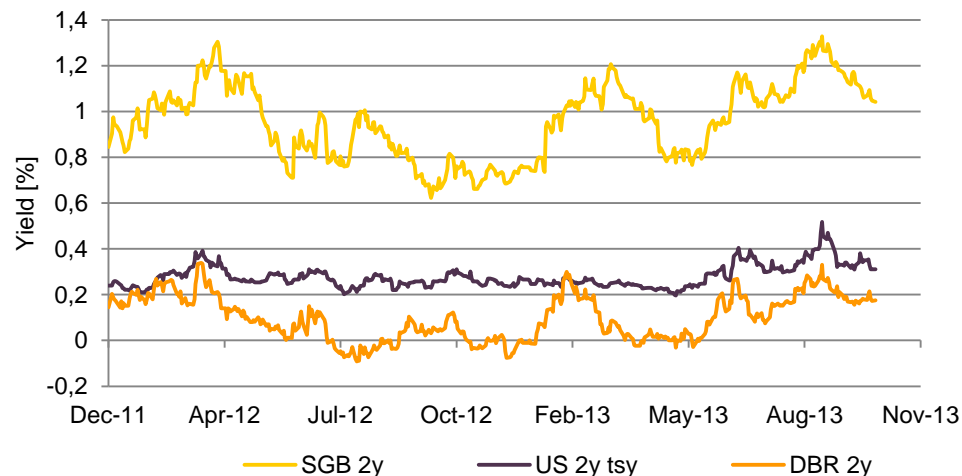
<u>Euro zone</u>	Spot	3M	6M	mid 2014	end 2014	mid 2015	end 2015
Refi rate	0,50	0,50	0,50	0,50	0,50	0,50	0,75
2y	0,19	0,25	0,40	0,55	0,90	1,30	1,60
5y	0,87	1,00	1,15	1,30	1,65	2,05	2,35
10y	1,88	2,05	2,20	2,35	2,70	3,00	3,30
2y/10y	169	180	180	180	180	170	170
2y/5y	67	75	75	75	75	75	75

## Swedbank forecast (%) - USA

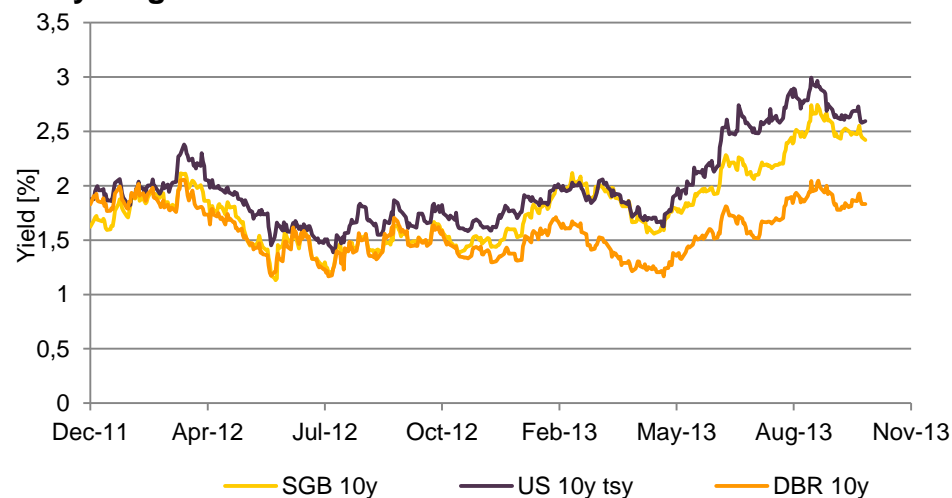
<u>USA</u>	Spot	3M	6M	mid 2014	end 2014	mid 2015	end 2015
Fed funds	0,25	0,25	0,25	0,25	0,25	0,50	1,00
2y	0,32	0,50	0,80	1,10	1,60	1,90	2,10
5y	1,37	1,55	1,90	2,20	2,55	2,80	2,90
10y	2,64	2,90	3,20	3,50	3,60	3,80	3,90
2y/10y	232	240	240	240	200	190	180
2y/5y	105	105	110	110	95	90	80

# Market yields

**2 year government bond**

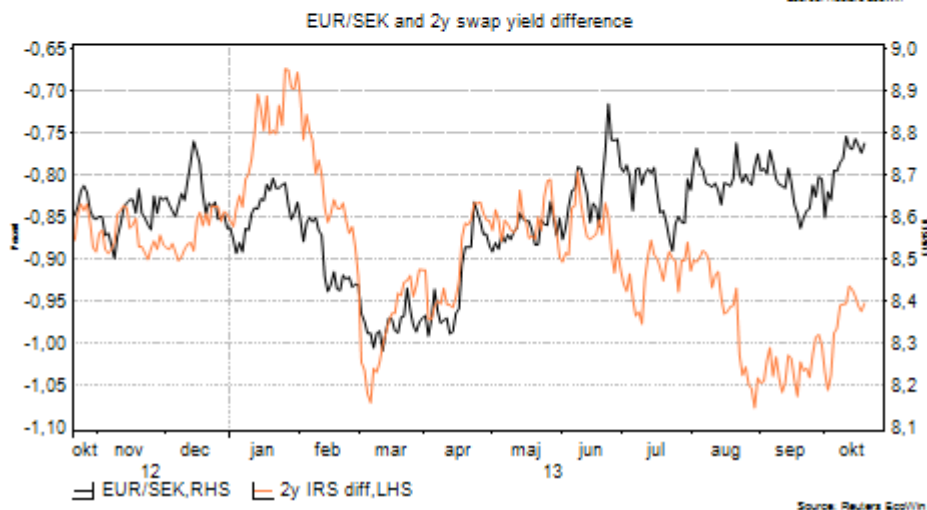
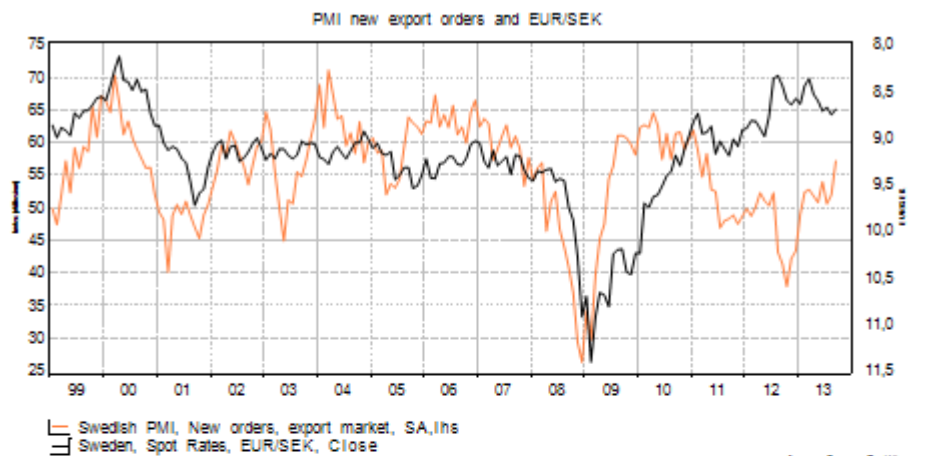


**10 year government bond**



- Market yields across the curves rebounded after highs due to Fed and Washington action
- 2y government bond yields in the US, Germany and Sweden are back on pre-tapering expectation levels...
- ...and the US 2s/10s yield curve remains significantly steeper than its European peers

# Gradually stronger SEK against EUR

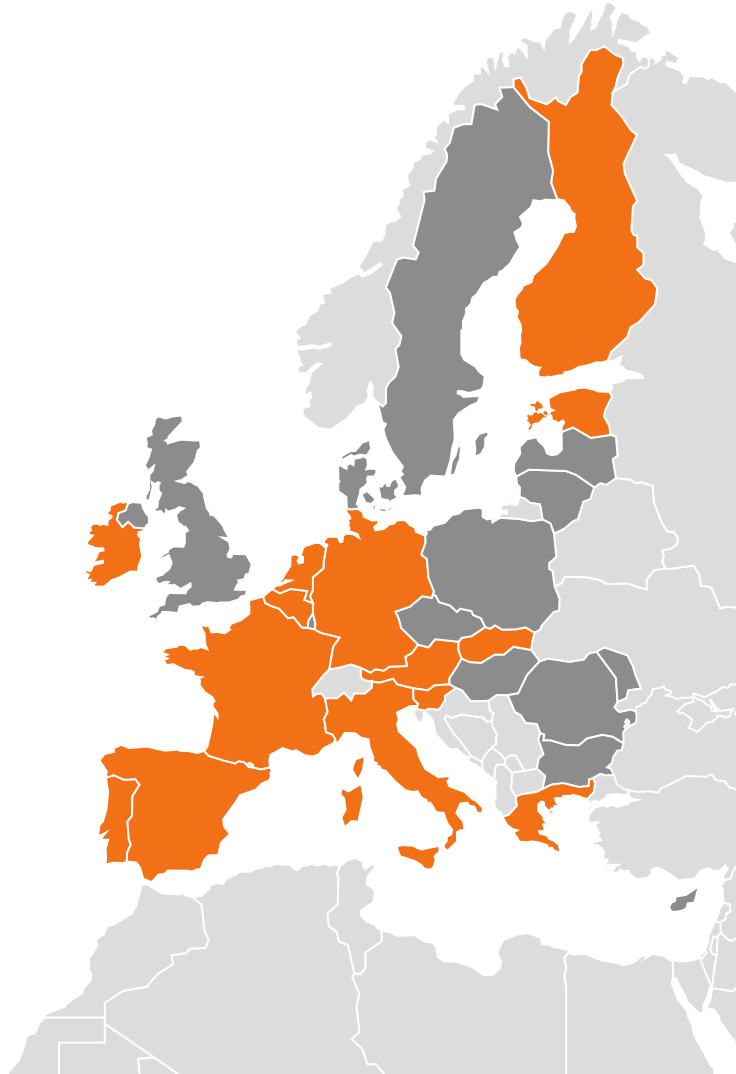


- Swedish exports gather pace, but from low level, as Euro zone picks up
- Interest rate market is now already priced for a slow start of rate hikes next year
- ECB will fight tighter financial conditions, including a stronger euro
- No taper from Fed until Q1 support asset prices and low volatility, usually consistent with SEK appreciation
- SEK is supported by c/a surplus and a valuation that is more or less neutral
- We forecast EURSEK at 8.60 in 3m and 8.35 in 12m (SEK appreciation will come somewhat later)

	Outcome	Forecast				
	2013 21-Oct	2013 31 Dec	2014 30 Jun	2014 31 Dec	2015 30 Jun	2015 31 Dec
Exchange rates						
EUR/USD	1,37	1,33	1,30	1,25	1,30	1,35
USD/CNY	6,1	6,1	6,0	5,9	5,8	5,7
USD/JPY	98	100	102	104	105	107
EUR/GBP	0,85	0,84	0,83	0,82	0,80	0,80

Sources: Reuters Ecowin and Sw edbank.

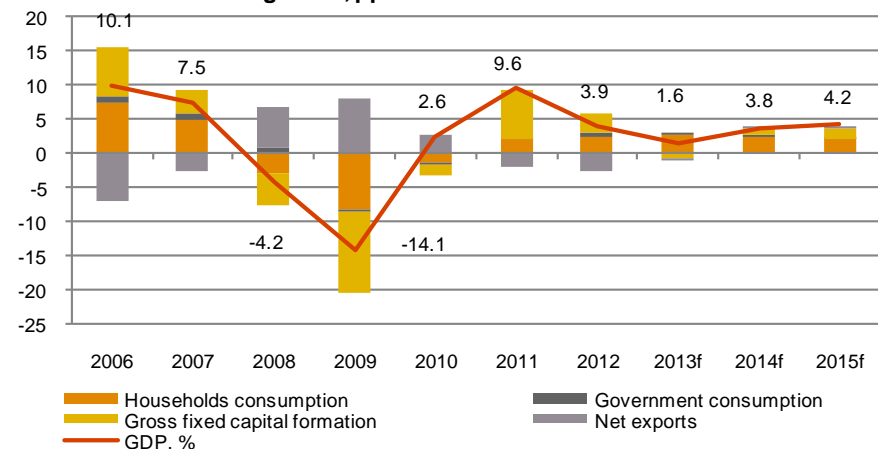
# The Baltic-3: Strengthening links to EMU



- Recovery continues in the three Baltic countries
- Increased reliance on domestic demand for sustaining growth
- With Latvia's euro adoption in 2014 and Lithuania's most likely in 2015, links to EMU will strengthen
- As growth turns positive in Europe, the Baltics will benefit

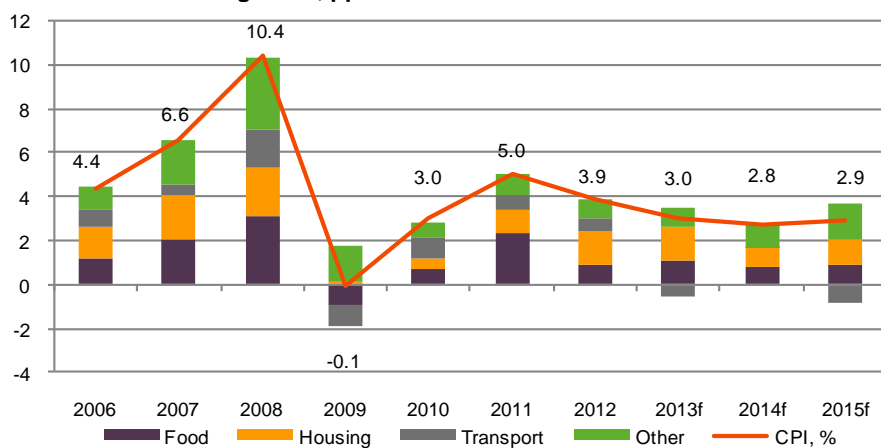
# Estonia: Further forecast downgrade

Contributions to GDP growth, pp



Source: Statistics Estonia, Swedbank

Contributions to CPI growth, pp

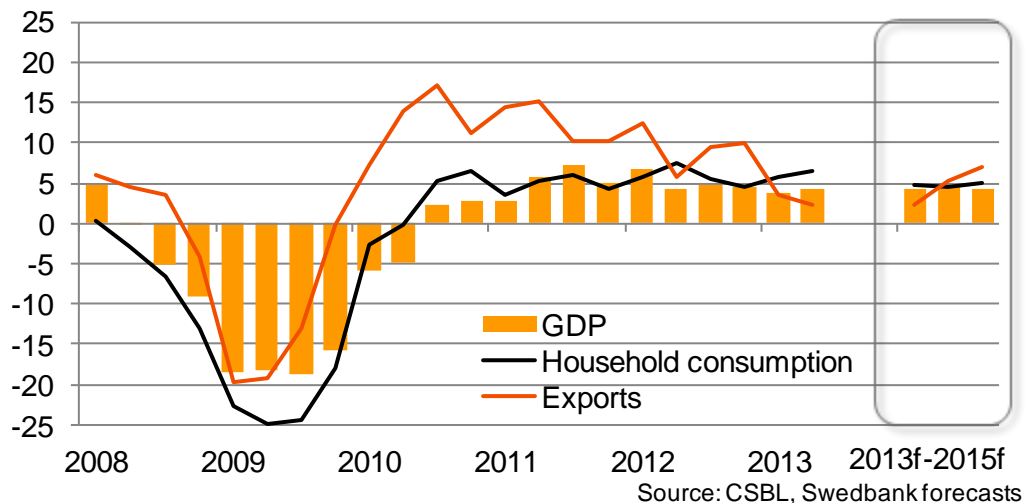


Source: Statistics Estonia, Swedbank

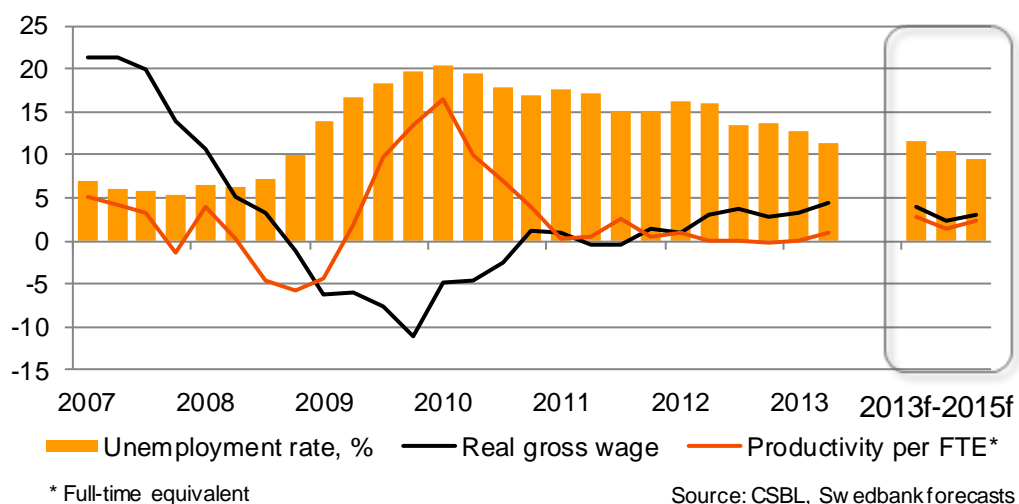
- We have revised down our GDP growth forecast in 2013 and 2014, due to
  - Weaker than expected export demand
  - A downward revision of government investment in the 1st half of 2013
- Household consumption is growing faster in 2013
  - Acceleration of both nominal and real wages have increased purchasing power
  - However, deceleration of employment growth in 2014-15 will slow down household consumption
- CPI growth decelerates to 3% in 2013
  - 0.3 pp less than forecasted in August
  - Faster decrease in food, housing and transport prices

# Latvia: Growth to remain balanced and vigorous

GDP annual growth, %



Labour market indicators, annual growth (%)

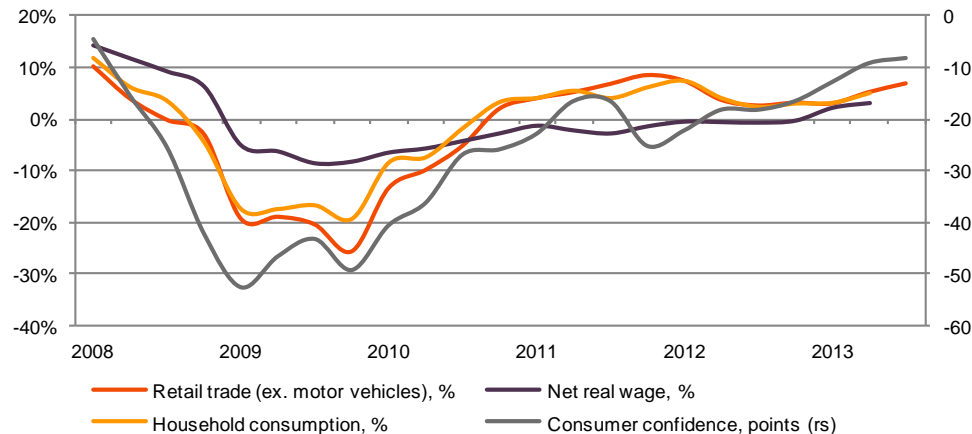


- Growth to remain robust
  - We keep the 2013 growth forecast at 4.3%, but lower it to 4.3% for 2014 and 4.2% in 2015 (4.7% and 4.3% before). The story largely unchanged and the cut is due to historical data revisions (mainly inventory cycle path) and less aggressive labour tax cuts.
  - Long term growth is export-driven; the current export / investment weakness is temporary and it will not discourage consumer confidence and spending
  
- Unemployment keeps retreating and will put pressure on wages over medium term
  - Productivity expected to keep up and wage pressures will not translate to inflationary pressures
  - Currently very low inflation to return to more typical levels of just below 3% driven by one offs such as household electricity market liberalisation in spring 2014. Global price pressures to remain timid



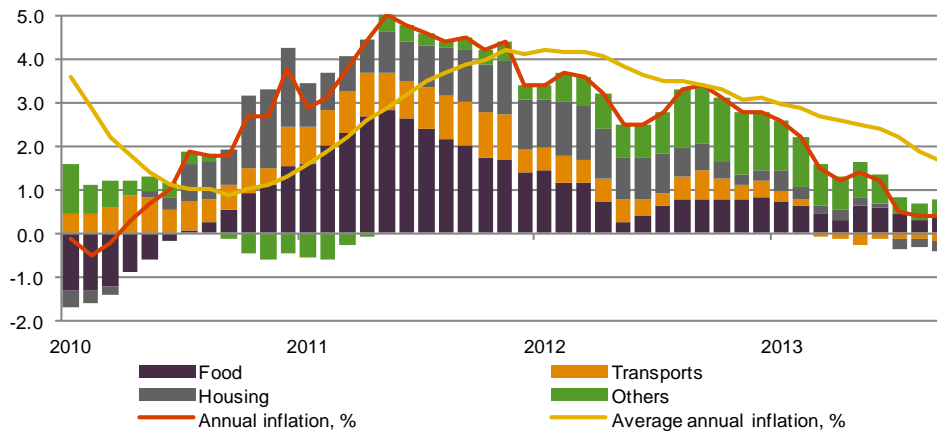
# Lithuania: From export to local demand driven growth

## Annual growth



Source: Statistics Lithuania

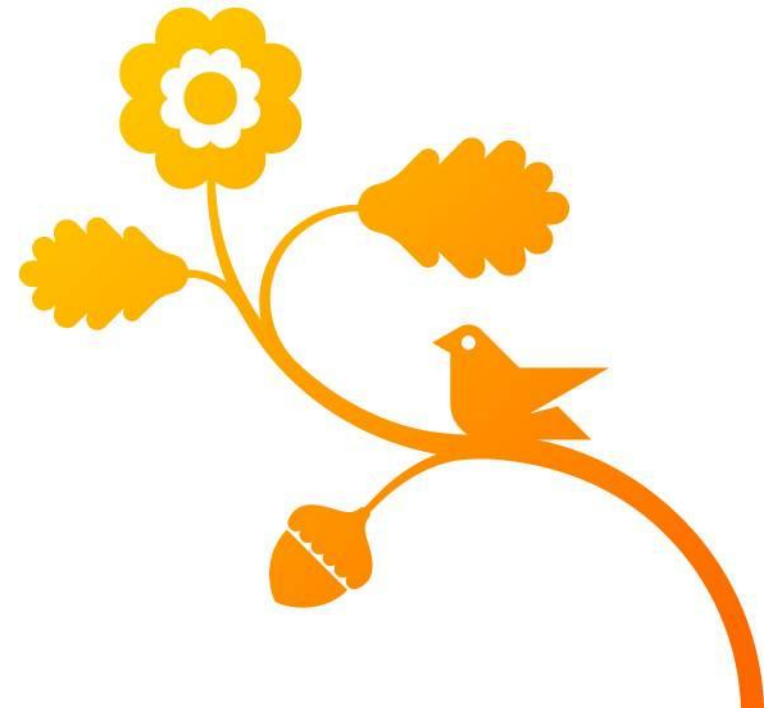
## Contributions to annual CPI growth, pp



Source: Statistics Lithuania

- We keep growth forecast unchanged
  - the economy is likely to expand by 4.0% this year and the next, before accelerating to 4.5% in 2015
  - Exports are growing somewhat slower and household consumption somewhat faster than we forecasted in August
  - There are risks related to foreign trade, not least due to recent Russian embargo on all Lithuanian dairy products, which can be extended to other products
- Inflation declined slightly more than we expected, thus we lower this year's forecast to 1.3%
- Both declining inflation and improving public finances suggest that adoption of euro in 2015 is very likely

# Appendix: Key economic indicators & national accounts for Swedbank's home markets



# Sweden: Key economic indicators, 2012-2015<sup>1/</sup>

## Key Economic indicators

	2012	2013f	2014f	2015f
Real GDP (calendar adjusted)	1,3	1,1	3,2	2,9
Industrial production	-3,2	-2,5	4,0	5,2
CPI index, average	0,9	0,1	1,6	2,8
CPI, end of period	-0,1	0,6	2,4	3,2
CPIF, average <sup>2/</sup>	1,0	1,0	1,7	1,9
CPIF, end of period	1,0	1,1	1,8	2,1
Labour force (15-74)	0,8	1,0	0,6	0,5
Unemployment rate (15-74), % of labor force	8,0	8,0	7,8	7,3
Employment (15-74)	0,6	1,0	0,9	1,1
Productivity growth, faktisk, % change	1,1	0,7	2,1	1,2
Unit labour cost, % change	1,9	2,0	0,8	2,0
Nominal hourly wage whole economy, average	3,0	2,7	2,9	3,2
Savings ratio (households), %	11,8	11,8	11,6	9,8
Real disposable income (households)	3,0	2,8	2,9	1,0
Current account balance, % of GDP	6,6	6,2	6,0	5,5
General government budget balance, % of GDP <sup>3/</sup>	-0,6	-1,4	-1,1	-0,5
General government debt, % of GDP <sup>4/</sup>	38,3	41,2	40,3	38,7

Sources: Statistics Sweden and Swedbank.

<sup>1/</sup> Annual percentage growth, unless otherwise indicated.

<sup>2/</sup> CPI with fixed interest rates.

<sup>3/</sup> As measured by general government net lending.

<sup>4/</sup> According to the Maastricht criteria.

## National accounts (August 2013 in italics)

Changes in volume, %	2012	2013f	2014f	2015f
Households' consumption expenditure	1,6	1,5	2,2	2,5
Government consumption expenditure	0,7	0,7	1,1	1,0
Gross fixed capital formation	3,1	3,2	-3,1	-3,4
Change in inventories <sup>1/</sup>	-1,3	-1,1	0,4	0,8
Exports, goods and services	0,7	0,8	-1,5	-2,2
Imports, goods and services	-0,5	0,1	-1,5	-2,4
GDP	0,8	0,7	1,1	1,6
GDP, calendar adjusted	1,3	1,1	1,1	1,6
Domestic demand <sup>1/</sup>	1,5	1,5	0,8	0,8
Net exports <sup>1/</sup>	0,6	0,4	-0,1	0,0

Sources: Statistics Sweden and Swedbank.

<sup>1/</sup> Contribution to GDP growth.

## Interest and exchange rate assumptions

	Outcome	Forecast				
	2013 21-Oct	2013 31 Dec	2014 30 Jun	2014 31 Dec	2015 30 Jun	2015 31 Dec
Interest rates (%)						
Policy rate	1,00	1,00	1,00	1,50	2,00	2,25
10-yr. gvt bond	2,43	2,60	2,80	3,30	3,65	3,60
Exchange rates						
EUR/SEK	8,75	8,60	8,50	8,35	8,50	8,60
USD/SEK	6,39	6,47	6,54	6,68	6,54	6,37
KIX (SEK) <sup>1/</sup>	103,5	102,0	101,7	101,5	102,0	102,4

Sources: Reuters Ecowin and Swedbank.

<sup>1/</sup> Total competitiveness weights. Trade-weighted exchange rate index for SEK.

# Estonia: Key economic indicators, 2011-2015<sup>1/</sup>

## Estonia: Key economic indicators, 2011-2015 <sup>1/</sup>

	2011	2012	2013f		2014f		2015f	
Real GDP growth, %	9,6	3,9	1,6	(1,9)	3,8	(3,9)	4,2	(4,2)
Household consumption	3,8	4,9	5,1	(3,2)	4,6	(3,6)	3,8	(3,8)
Government consumption	1,3	3,8	0,6	(0,6)	1,1	(1,0)	1,0	(1,0)
Gross fixed capital formation	38,0	10,8	-2,0	(-0,6)	4,0	(6,2)	5,8	(5,8)
Exports of goods and services	23,4	5,6	3,5	(5,5)	5,5	(5,7)	7,3	(7,3)
Imports of goods and services	28,4	8,8	4,0	(5,3)	5,3	(5,9)	7,0	(7,1)
Consumer price growth, %	5,0	3,9	3,0	(3,3)	2,8	(2,8)	2,9	(2,9)
Unemployment rate, % <sup>2/</sup>	12,5	10,2	8,7	(8,9)	8,3	(8,4)	7,9	(8,3)
Real gross monthly wage growth, %	0,4	1,9	3,6	(2,1)	3,7	(3,4)	3,8	(3,5)
Nominal GDP, billion euro	16,2	17,4	18,5	(18,0)	19,7	(19,2)	21,1	(20,6)
Exports of goods and services (nominal), % growth	28,9	7,5	4,9	(6,1)	7,6	(6,5)	9,7	(7,6)
Imports of goods and services (nominal), % growth	35,6	11,7	4,2	(5,6)	6,8	(6,6)	9,3	(7,2)
Balance of goods and services, % of GDP	6,1	2,5	1,3	(0,9)	1,6	(0,9)	1,9	(1,2)
Current account balance, % of GDP	1,8	-1,8	-1,4	(-1,8)	-1,3	(-2,1)	-1,1	(-1,4)
Current and capital account balance, % of GDP	5,9	1,7	1,7	(1,7)	1,8	(1,2)	1,9	(1,7)
FDI inflow, % of GDP	1,5	6,8	1,4	(4,7)	4,6	(4,7)	4,3	(4,4)
Gross external debt, % of GDP	94,0	95,4	91,4	(94,2)	86,9	(90,1)	82,2	(85,5)
General government budget balance, % of GDP <sup>3/</sup>	1,0	-0,3	-0,2	(-0,5)	-0,6	(-0,1)	-0,7	(0,1)
General government debt, % of GDP	6,0	9,8	10,0	(10,2)	10,1	(9,7)	10,2	(9,2)

<sup>1/</sup> August 2013 forecast in parenthesis

<sup>2/</sup> According to Labour force survey

<sup>3/</sup> According to Maastricht criterion

Sources: Statistics Estonia, Bank of Estonia and Swedbank.

# Latvia: Key Economic indicators, 2012-2015<sup>1/</sup>

## Latvia: Key economic indicators, 2012-2015 <sup>1/</sup>

	2012	2013f		2014f		2015f	
Real GDP growth, %	5,0	4,3	(4,3)	4,3	(4,7)	4,2	(4,3)
Household consumption	5,8	5,8	(4,7)	4,0	(4,5)	5,2	(5,1)
Government consumption	-0,2	2,0	(1,6)	2,1	(2,3)	0,5	(2,5)
Gross fixed capital formation	8,7	0,5	(0,5)	11,0	(11,0)	8,0	(8,0)
Exports of goods and services	9,4	1,3	(2,3)	4,8	(5,3)	7,0	(7,0)
Imports of goods and services	4,5	0,5	(3,5)	7,0	(8,7)	8,6	(9,0)
Consumer price growth, %	2,3	0,1	(0,4)	2,8	(3,0)	2,8	(2,7)
Unemployment rate, % <sup>2/</sup>	15,0	11,5	(11,6)	10,5	(10,5)	9,5	(9,5)
Real net monthly wage growth, %	1,6	4,9	(4,6)	3,1	(3,4)	4,1	(4,2)
Nominal GDP, billion euro	22,1	23,6	(23,4)	25,7	(25,6)	28,0	(28,0)
Exports of goods and services (nominal), % growth	13,9	2,2	(5,4)	7,6	(9,8)	10,7	(11,3)
Imports of goods and services (nominal), % growth	12,0	1,3	(4,2)	9,1	(12,5)	11,5	(12,3)
Balance of goods and services, % of GDP	-3,6	-2,7	(0,0)	-3,5	(-3,9)	-4,0	(-4,5)
Current account balance, % of GDP	-1,7	-1,4	(-0,9)	-2,3	(-2,6)	-2,9	(-3,2)
Current and capital account balance, % of GDP	1,3	1,4	(1,8)	0,2	(-0,4)	0,0	(-0,6)
FDI inflow, % of GDP	3,9	3,0	(3,3)	3,7	(3,8)	3,2	(3,7)
Gross external debt, % of GDP	136,2	135,6	(136,3)	129,2	(129,8)	119,8	(120,5)
General government budget balance, % of GDP <sup>3/</sup>	-1,3	-1,3	(-1,5)	-0,6	(-0,9)	-0,6	(-0,7)
General government debt, % of GDP	40,6	42,7	(43,2)	39,6	(40,0)	31,2	(33,1)

<sup>1/</sup> August 2013 forecast in parenthesis

<sup>2/</sup> According to Labour force survey.

<sup>3/</sup> According to Maastricht criterion.

Sources: CSBL and Swedbank.

# Lithuania: Key economic indicators, 2011-2015<sup>1/</sup>

## Lithuania: Key economic indicators, 2011-2015 <sup>1/</sup>

	2011	2012	2013f	2014f	2015f
Real GDP growth, %	6.0	3.7	4.0 (4.0)	4.0 (4.0)	4.5 (4.5)
Household consumption	4.8	3.9	3.8 (3.5)	4.0 (4.0)	4.5 (4.5)
Government consumption	0.3	0.6	3.0 (3.0)	2.0 (2.0)	5.0 (5.0)
Gross fixed capital formation	20.7	-3.6	6.5 (6.5)	7.0 (7.0)	8.0 (8.0)
Exports of goods and services	14.1	11.8	9.0 (9.5)	7.0 (7.0)	6.0 (6.0)
Imports of goods and services	13.7	6.1	10.0 (10.0)	9.5 (9.5)	7.5 (7.5)
Consumer price growth, %	4.1	3.1	1.3 (1.5)	2.5 (2.5)	3.0 (3.0)
Unemployment rate, % <sup>2/</sup>	15.4	13.4	11.5 (11.5)	9.5 (9.5)	8.5 (8.5)
Real net monthly wage growth, %	-1.3	0.5	3.0 (2.8)	2.8 (2.8)	3.0 (3.0)
Nominal GDP, billion euro	31.0	32.9	34.6 (34.6)	36.8 (36.8)	39.6 (39.6)
Exports of goods and services (nominal), % growth	27.5	15.7	9.5 (10.0)	8.0 (8.0)	9.0 (9.0)
Imports of goods and services (nominal), % growth	28.2	10.6	10.7 (10.5)	9.5 (9.5)	10.5 (10.5)
Balance of goods and services, % of GDP	-2.6	1.0	0.1 (0.2)	-1.2 (-1.0)	-2.4 (-2.3)
Current account balance, % of GDP	-3.7	-0.2	-0.9 (-0.8)	-2.2 (-2.0)	-3.1 (-3.0)
Current and capital account balance, % of GDP	-1.2	2.0	1.1 (1.2)	0.1 (0.3)	-0.4 (-0.3)
FDI inflow, % of GDP	3.4	1.7	3.0 (3.0)	3.5 (3.5)	4.0 (4.0)
Gross external debt, % of GDP	77.8	75.4	73.5 (74.1)	70.5 (71.7)	66.6 (68.2)
General government budget balance, % of GDP <sup>3/</sup>	-5.5	-3.2	-2.7 (-2.7)	-1.7 (-1.7)	-0.7 (-0.7)
General government debt, % of GDP	38.5	40.7	39.5 (39.5)	38.6 (38.6)	36.6 (36.5)

1/ April 2013 forecast in parenthesis

2/ According to Labour force survey

3/ According to Maastricht criterion

Sources: Statistics Lithuania,  
Bank of Lithuania and Swedbank.

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