24 June, 2019

Macro Research

Weekly update 26/2019

Harald Magnus Andreassen
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.no

Synne Holbæk-Hanssen
Phone : (+47) 24 13 36 31
Mobile : (+47) 40 49 55 48
E-mail : shh@sb1markets.no

SpareBank 1 Markets
Phone : (+47) 24 14 74 18
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PostBox 1398 Vika, 0114 Oslo

The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets. Rich countries (DM) in the lead, more to go in most EM. Unemployment is low, wage inflation on the way up, not low vs. productivity. Most emerging countries (EM) x China are in recovery mode. Some hotspots EM will get burned, as usual – but there are fewer EM imbalances than normal. Barring policy mistakes, the global economy is not yet rigged for a *hard* downturn	Global composite PMI probably stabilised in June, we f'cast a 0.1 p decline to 51.1. Signals below 3% GDP growth. US PMIs/ISM are now the most worrisome?
China	The governments' stimulus measures may have turned the growth momentum, at least that's what some of the data indicate. The invest/GDP ratio is declining rapidly. Debt growth has slowed, and will not accelerate much even if authorities are now, probably successfully, stimulating to counter negative impacts from the trade war/prev. tightening. Fiscal policy is also activated. Exports to US (net of interm. imp) approx 2% of GDP, and a 10% decline here is manageable. However, a full scale tech/trade war will be bad, a deal with US is important	House price inflation has stabilized recent months, albeit slowing in May.
USA	Growth is now slowing substantially, from an above trend level. Employment growth has come down too but is still not too low, and unemployment is trending down while wage inflation has slowed. CPI inflation is showing signs of some easing as well. No serious overinvestments but most sectors at/above trend. Business investments are probably slowing amid trade war uncertainty. Recent housing and consumption data OK. Household debt 'low' – and the savings rate is OK, limited consumption risk. Fiscal stimulus continues into '19, but not by much. The deficit is far, far too high, given the low unemployment rate. Recession risk is increasing, but still not overwhelming, short term, and a dovish Fed may give some support. **Risk: Trump/trade/bus investments**	The Fed opens the door for a rate cut, even if the en of '19 median dot plot was unch. Still, markets too optimistic? Both NY Fed and Phil Fed's manufacturing surveys tumbled in June, pointing to a substantial slowdown. Housing starts/permits and the HMI continue to signal a housing market stabilization. Jobless claims still very low.
EMU	Growth has slowed and recent manufacturing data are worrying but services OK. The labour market is still tightening, and labour cost infl. back to a normal level. Investment ratios on the way up but are not too high. Credit growth still muted. Household savings are high, still consumption has kept up well. Policy risk: Trade war, populist revolt. Italy 'saved' now, not forever. Even without obvious recession triggers, weak short term data signals a substantial risk for a downturn	June prelim. PMIs were decent, albeit there are no signs of growth upswing. Manuf. remain weak, services solid. Labour costs rose to 2.6% y/y, slowly accelerating as the labour market strengthens.
Norway	Growth is and will remain above trend – and unemployment declines further. Oil investments have more to go (we have revised our f'cast up). Mainland business inv. not low anymore, risks balanced. Housing investments have bottomed, for now. The labour market is not tight yet, but wage inflation is above target. Electr. prices have fallen sharply, will take the headline CPI furher down. Credit growth almost kept at bay just due to regulations.	Norges Bank hiked to 1.25% and nudged up the interest rate path by 11 bps in the short term, implying a hike in Sept and a 'last one' in 2020. Housing starts have stabilised recently, other construction is surging

Colour codes: Green=more to go. Yellow=the cycle is maturing, close to peak. Orange=at peak, downside risk. Red=recession level

Last week – the main takes

- **Make peace, not war.** Trump decided not to kill (up to) 150 Iranians in response to Iran's drone downing. His best move, ever? Still, the trouble he himself created by withdrawing US from the nuclear deal remains unsolved with no end in sight. The risk of a war is still high. **President Trump and Xi** confirmed that they will meet and dine at the G20 summit late this week. Perhaps they both badly want a deal? While Wall Street is sanguine (or expects at deal), US businesses are rapidly ramping up their critic of the trade war

- **The global composite** PMI probably stabilised in June, following the 1 p drop in May. **The US PMI** fell further, and is approaching the 50 line, and as two regional Fed manuf. surveys 'collapsed' without weaker export orders, something 'must be going on'. We have no signals of a household retreat. Thus, the only culprit left is business investments, and we think we know why… The **Eurozone PMI** edged up 0.3 p to 52.1, the best level in 7 months, driven by a recovery in services. However, the manufacturing sector remains in the doldrums, especially are German manufacturers still struggling badly. However, June PMIs note tentative signs of a moderating downturn. **Japan manufacturing** PMI inched down, and is well below the 50 line

- **The Fed** left the door wide open for cutting the funds rate if necessary, even if the majority did not expect it to happen before 2020 (but then all agreed). However, the average of the FOMC members' rate forecast was lowered by 30 bps, and 7 out of 17 members expected Fed funds to be cut by 50 bps by the end of the year (and one member by 25 bps). If just one more member flip, the majority is for a cut. In response, US bond yields and FRAs slipped, and is pricing in a 100% probability for a July cut, of which 38% probability of a 50 bps! **The US housing market** continues on the recovery track; housing permits inched up for the 4th month in a row, and housing starts are slowly rising. **The housing market index** fell marginally, confirming solid confidence among homebuilders

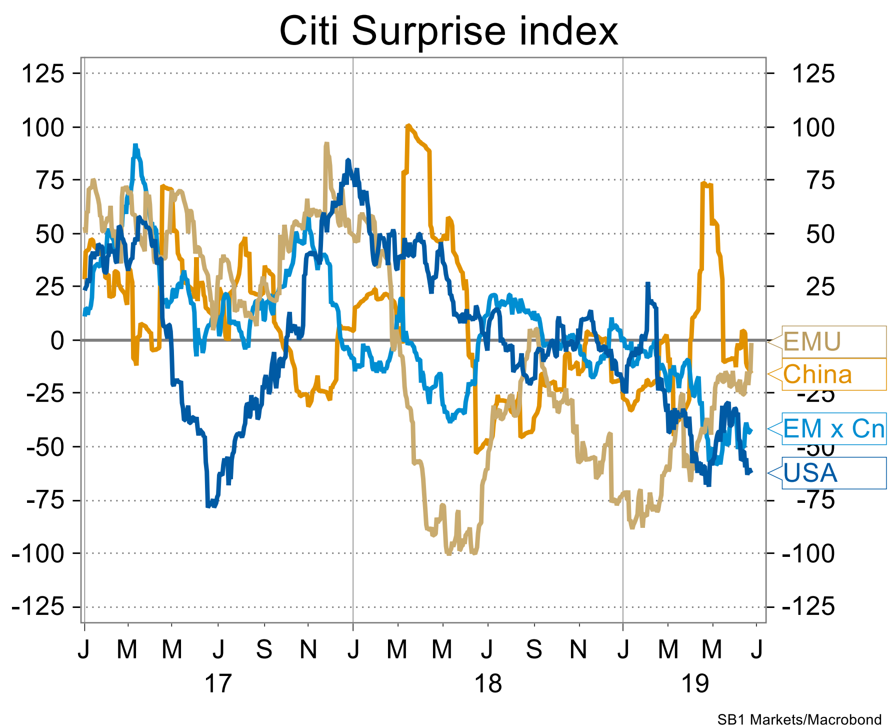
- **European risk markets surged after Draghi surprisingly hinted of more monetary stimulus,** if the growth and inflation outlook did not strengthen from the present level. Draghi opened the door for further QE and interest rate cuts and noted that the 'APP still has considerable headroom'. Responding, EUR interest rates dropped all over the curve, the best daily performance in 4-5 years. The German 10 y bond fell to another record low at -0.33%. And the EUR fell, until the Fed knocked the USD down the next day. **EMU labour costs** are slowly accelerating, to 2.6% y/y in Q1. Face value, zero productivity growth and rising unit labour costs are not indicating easing monetary policy justified by the 'real' inflation outlook. **Consumer confidence** has stabilized, at a solid level

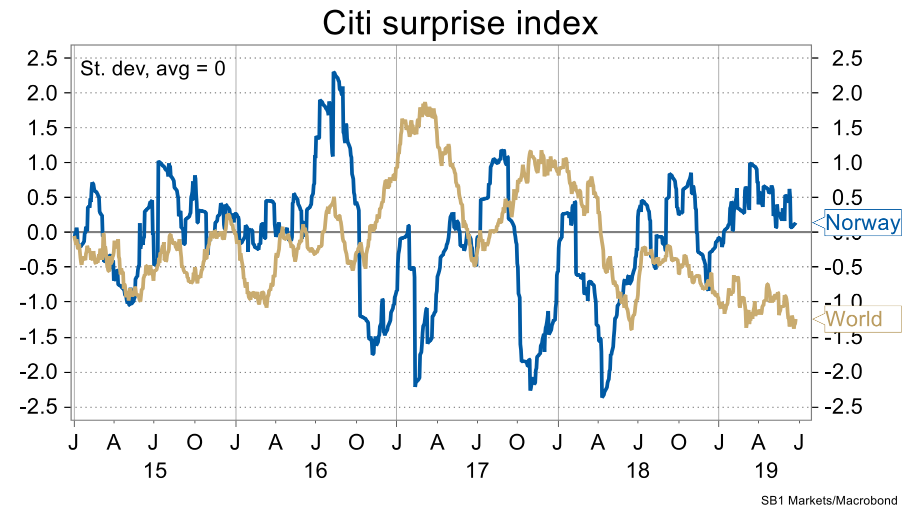
- **Swedish house prices** surprisingly soared 0.8% m/m in May, the 4th consecutive month of increase. Consumer confidence is weakening and the economy is not thriving, is the dovish Riksbank bolstering demand? **The labour market** is showing signs of weakness; LFS unemployment has flattened out (as registered unempl.) and employment tumbled in May

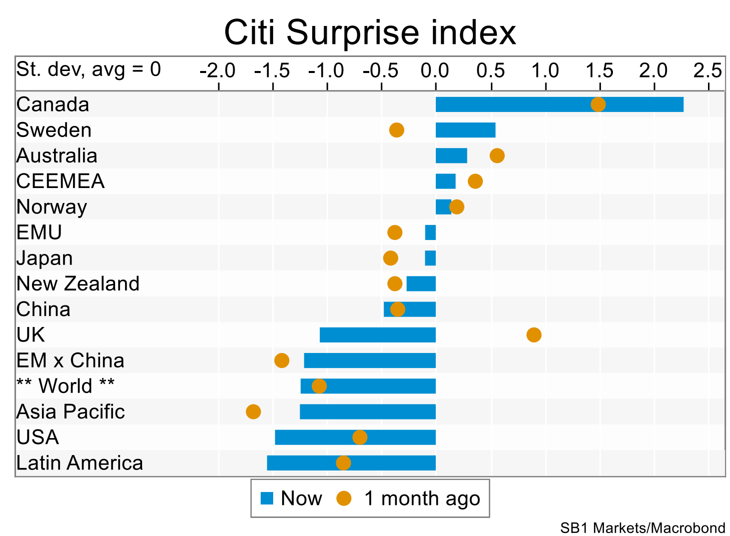
- **Norges Bank** delivered the 3rd interest rate hike, to 1.25%, as expected. The interest rate path was lifted by up to 11 bps in the short term and lowered by 6 bps in the long end. The path implies a Sept hike, from Dec in the March path (by a high probability, that is), and an final hike in 2020. The rate path was somewhat less aggressive than we f'casted in the short/medium term, however, markets did not expect an upward revisions and FRAs kicked up some 10 bps. The NOK immediately appreciated 0.6% vs EUR (and 1.4% from Tuesday's low)

No more negative surprises in the EMU, 1st time since last Sept

… while the US is disappointing more again. The world is also unusually slack vs. vs expectations





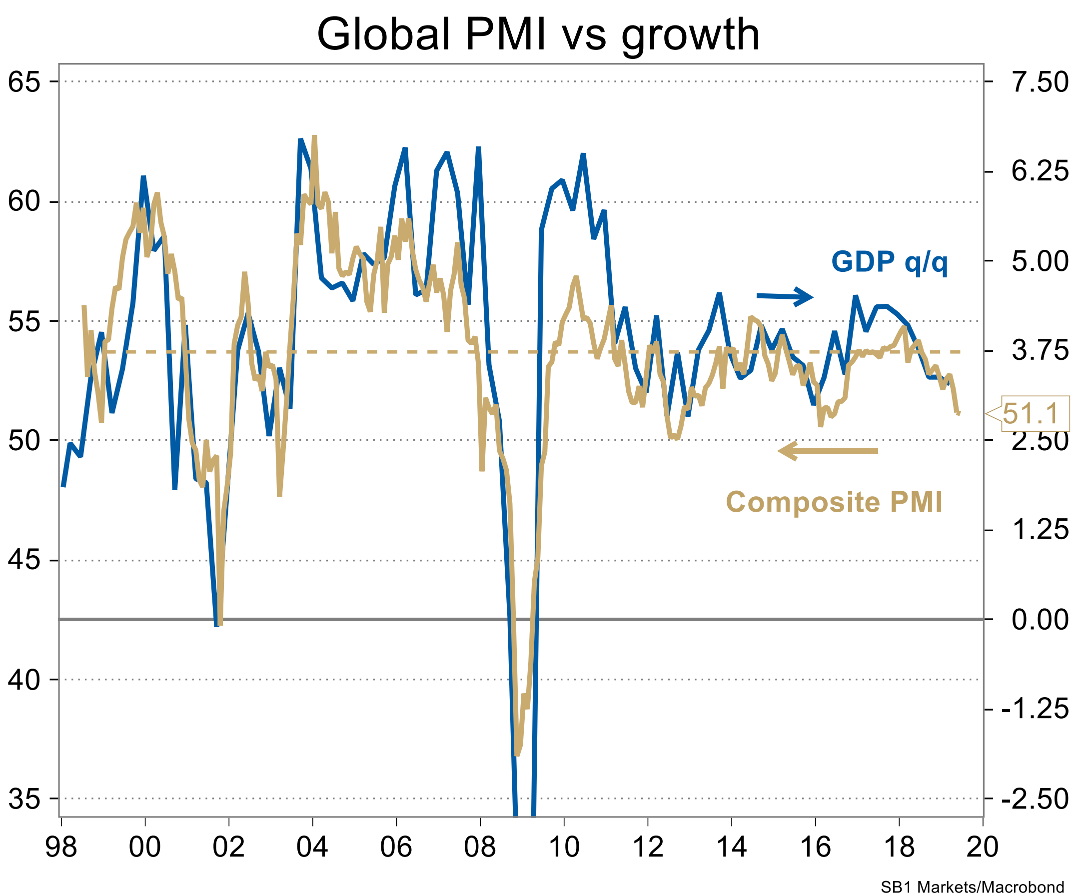


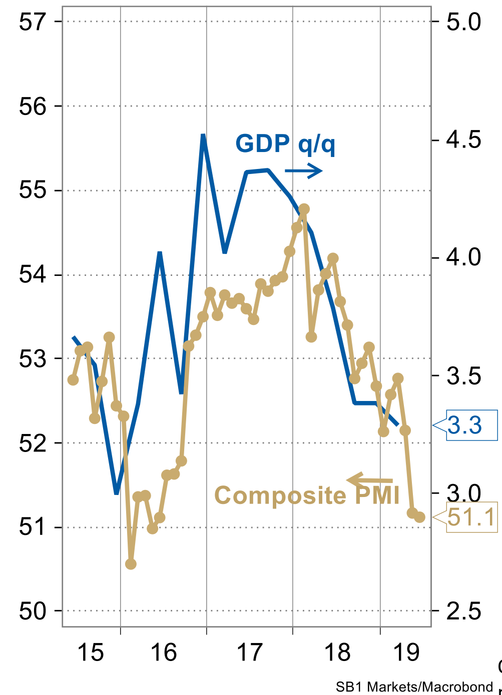
- The global surprise index has been in negative territory since last spring
- EMU stable vs expectations, data have improved somewhat recently (and expectations may have been adjusted)
- The US is the most disappointing of the major indices. Last week, disturbingly weak business surveys pulled the index further down
- Chinese data are just below a neutral territory. EM x China is slightly less disappointing
- Norwegian data down to neutral. Canada, Sweden and Australia in the lead

Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

Global PMI (probably) almost stabilised in June, signals below 3% global growth

Preliminary data indicate a 0.1 decline, following the April/May 1.6 p 'crash'. US further down



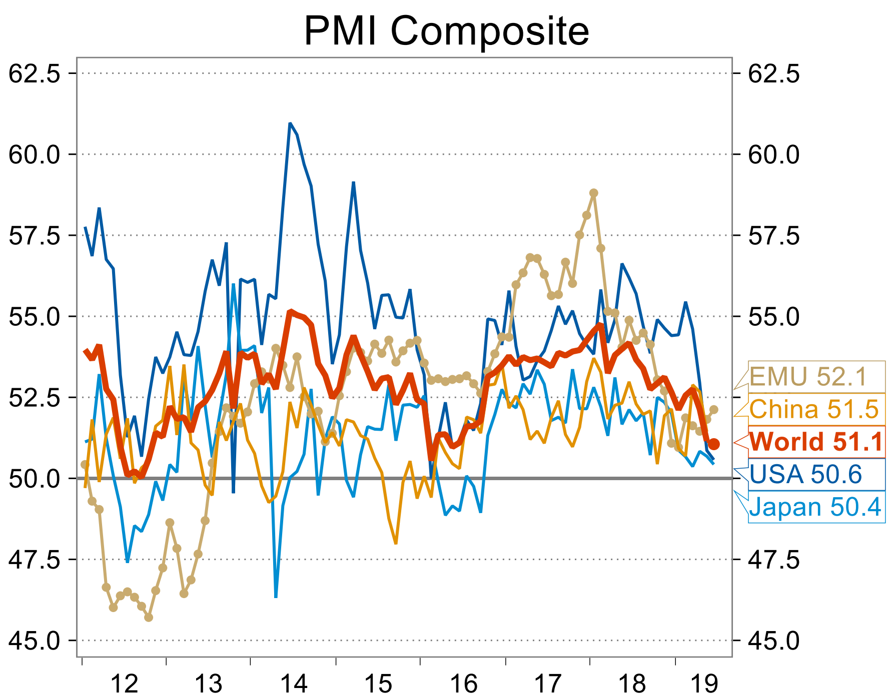


Our estimate is based on the preliminary composite PMIs from EMU and US, and the manuf. PMI from Japan. The estimate is uncertain

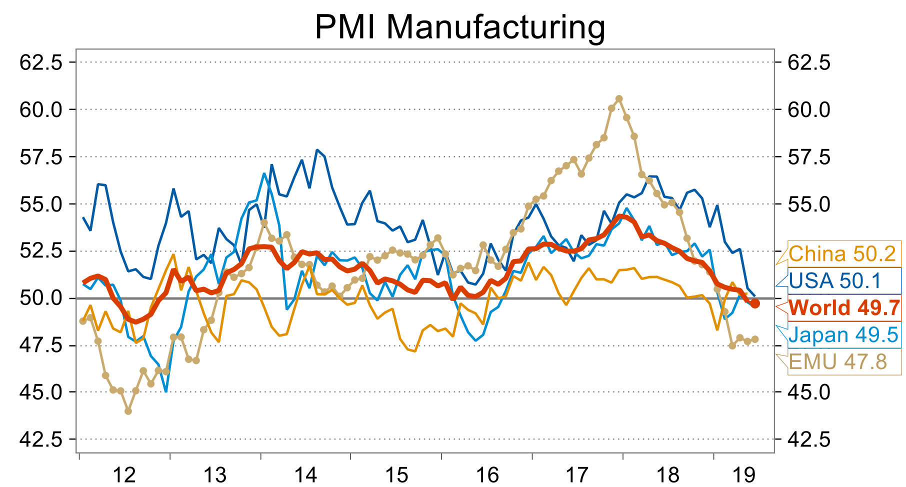
- We estimate a global composite PMI at 51.1 in June, a 0.1 p decrease from May, the lowest level since June 2016. In April the index fell by 0.6 p and another 1 point in May.
  - The PMI has fallen by close to 4 points from the Jan 18 local peal, equalling more than a 1 pp slower global GDP growth. The manufacturing PMI signals a 20 pp slowdown in global EPS (earnings per share), down to zero

EMU services OK, broad manufacturing weakness

Composite EMU PMI up on services and level not that bad; US further down, well below EMU



Source: IHS Markit, SB1 Markets, Macrobond



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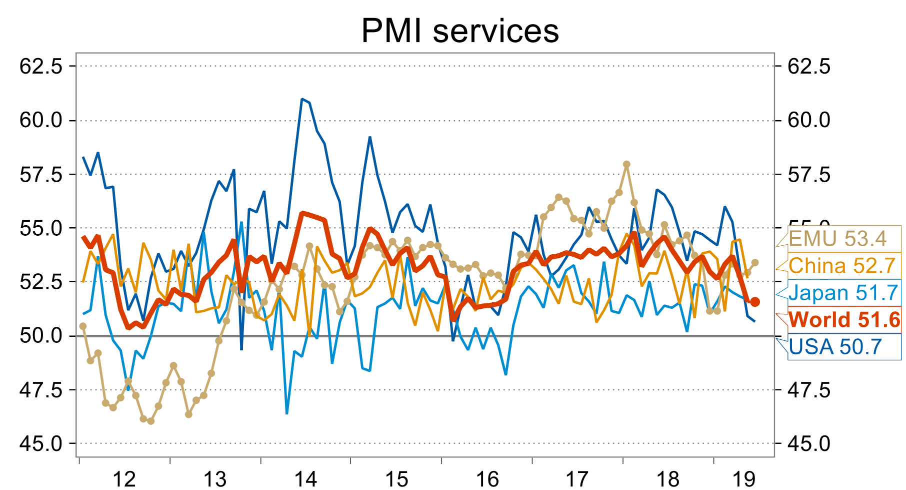
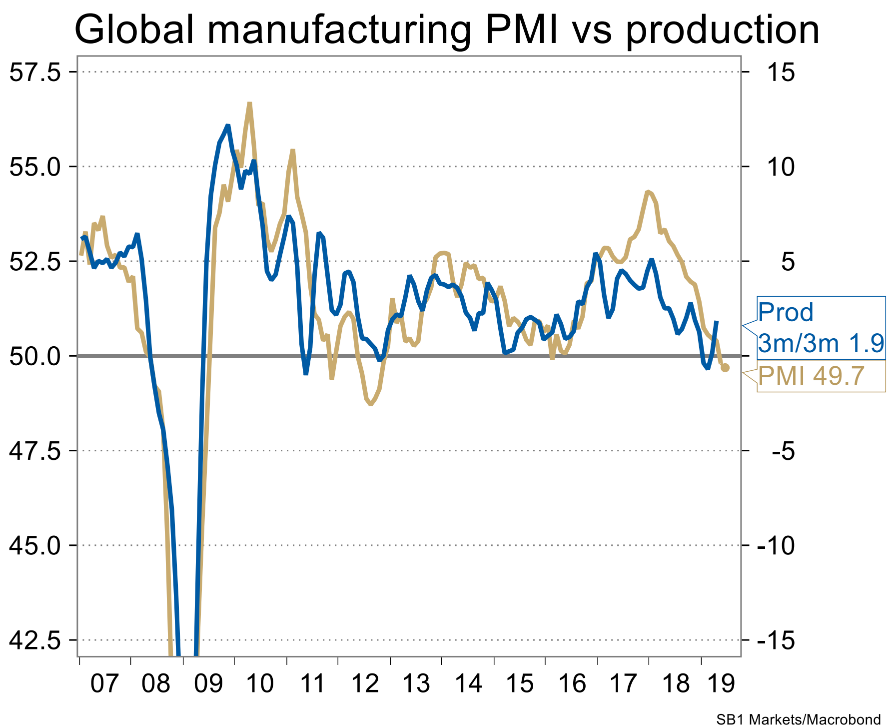


SB1 Markets/Macrobond

- Memo:
  - » The last obs for world indices for total & manuf. PMIs are based on prelim. data from the US, EMU, Japan
  - » The Japan composite last observation is an estimate based on the manufacturing index
  - » China has not yet reported any June PMI data

Global manufacturing PMI indicates stagnating production

We estimate a 0.1 p decline in the manuf. PMI in June, to the weakest level since 2012



- And the PMI has been too upbeat the past two years…

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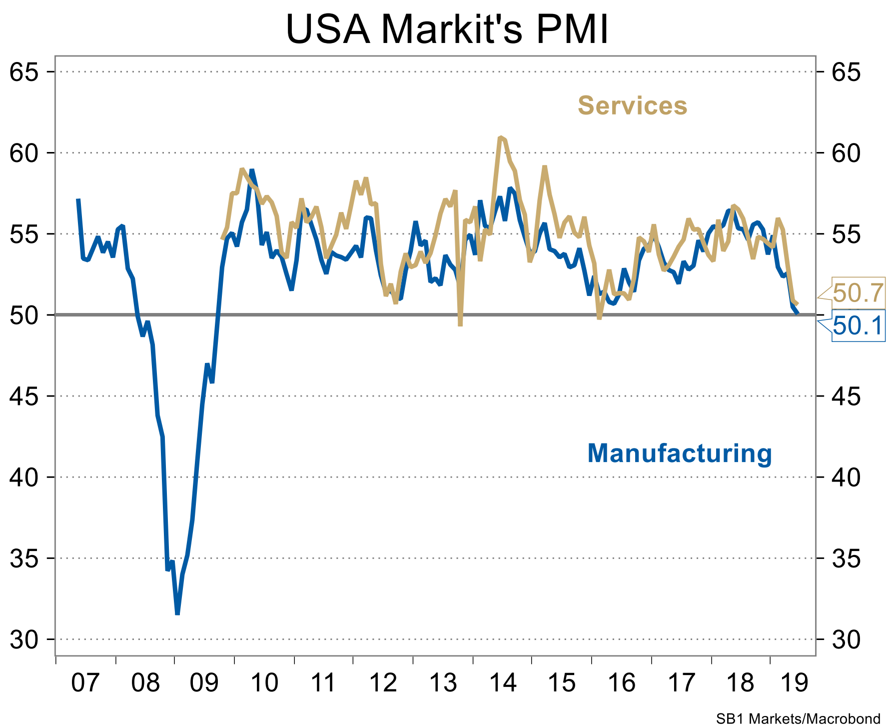
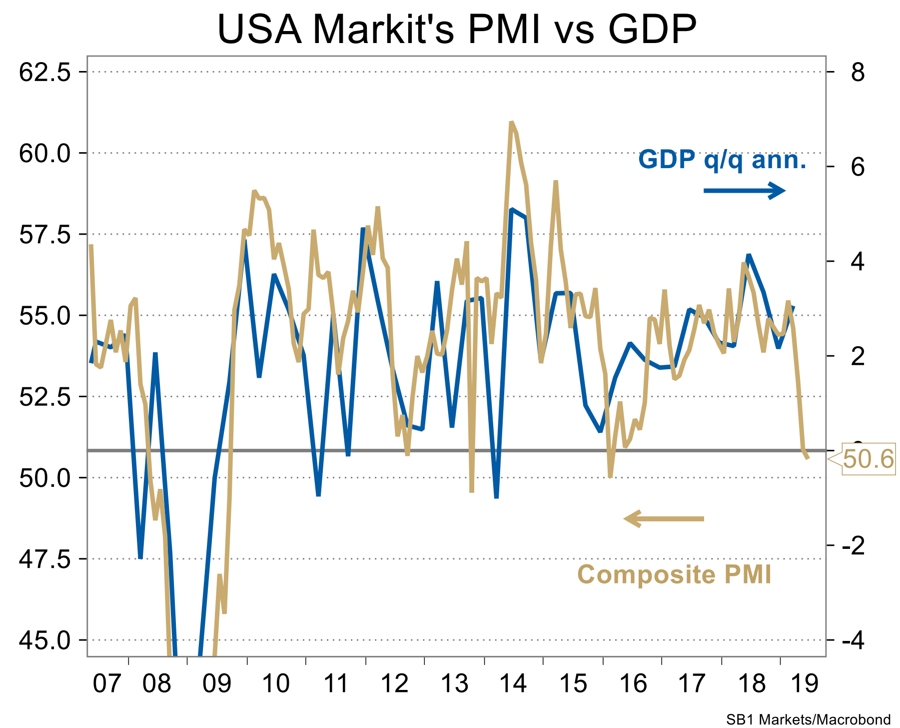
US PMIs further down in June, do not signal much growth. ISM far better (May)

The manufacturing PMI weakest on downturn since May 2008, at 50.1 (-0.4). Services down to 50.7





- Following the sharp 2 p May dive, the comp. PMI fell further in June, expected marginally up. Service businesses are reporting the softest conditions since '16, ***while the manuf. PMI is at the weakest since May '08, on a downturn***
  - Two regional manufacturing Fed surveys fell unprecedented/sharply in May, check here. Together with the PMI, they signal a huge decline in the ISM
- What explains the slump? We have no indications of households are retreating, retail sales, housing is OK. The domestic orders index has slowed sharply, not export orders. Thus, the setback has to be caused by a sharp slowdown in business investments, at least partly due to uncertainty created by Trump's trade war and companies are now complaining much more loudly. Business investments can drive the US economy into recession. That's not the norm, but it happened in 2001, without much contribution from the household sector

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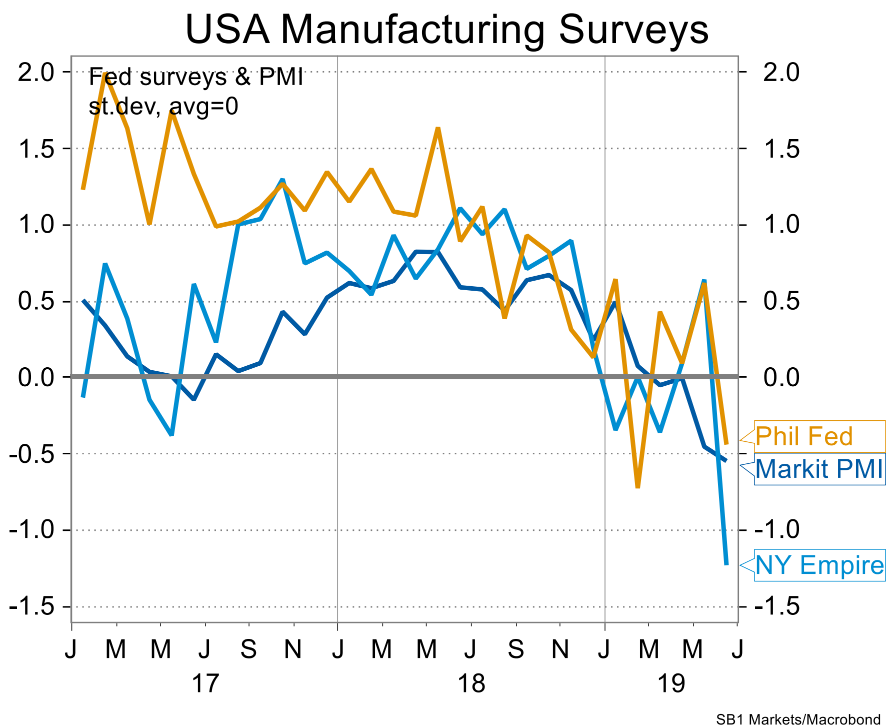
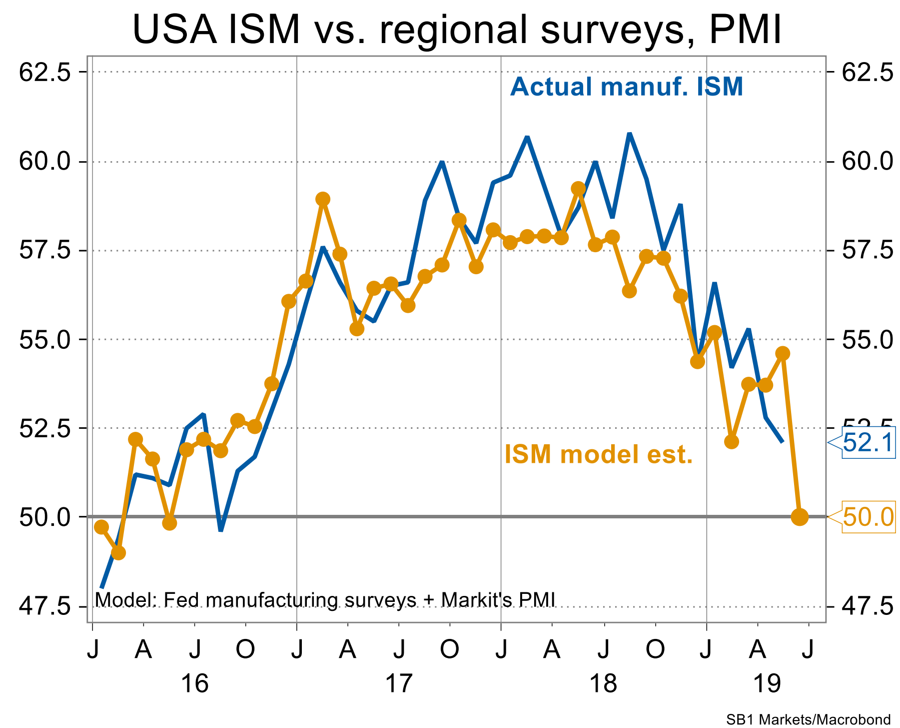
NY Fed & Phil Fed plummet, and together with PMI, a bad omen for the ISM

NY Fed manuf. survey down almost 2 st.dev (half of a normal cycle!!), Phil Fed down 1 st.dev

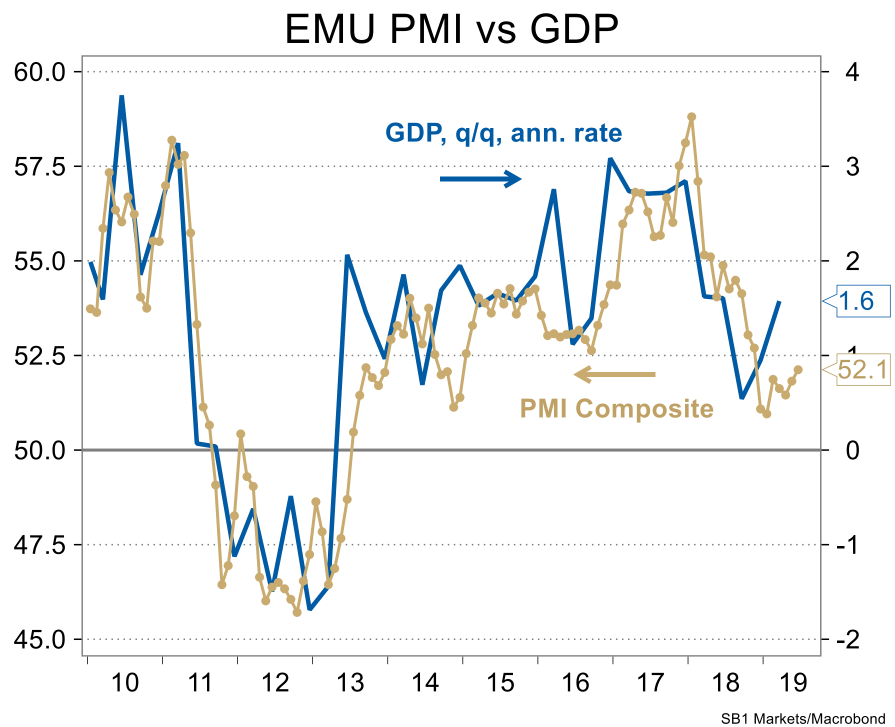


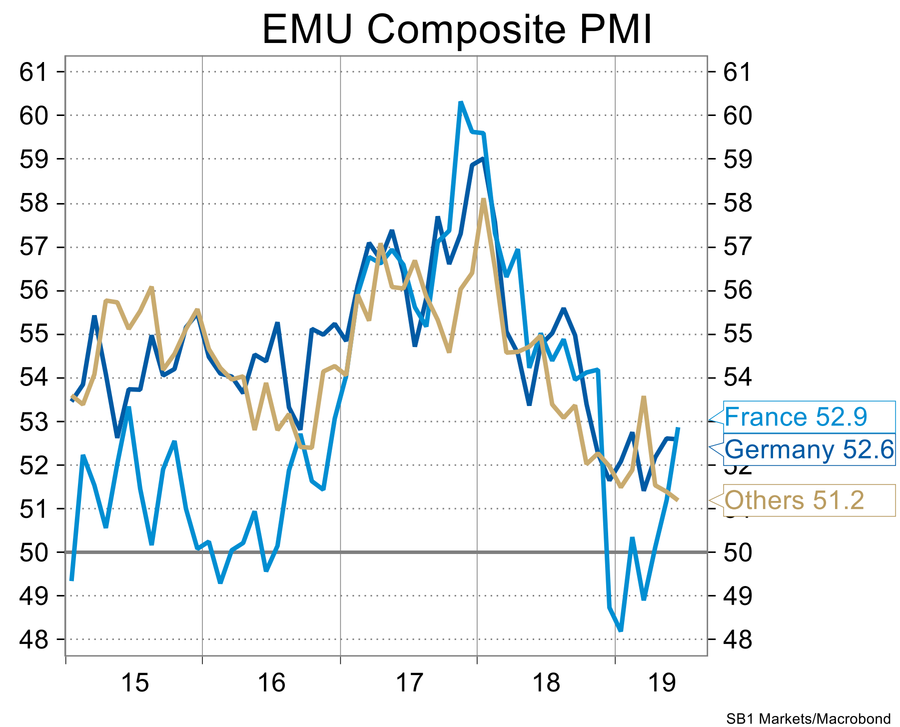


- Both NY Fed and Phil Fed's manufacturing may have been 'too strong' in May but the plunge in June is really remarkable. The NY Fed Empire suffered the largest decline ever, equaling 1.9 standard deviations, which represents half of a normal cycle! The level is not still not lower than it was in 2016, but it is far below average, -1.2 st.dev, signaling a sharp decline in manufacturing activity. Phil Fed later confirmed that something may be happening now, as the index fell much more than expected, by 1 st.dev to -0.4 st. dev below average. The details were (of course) weak as well
- If we add on the PMI, these three surveys signals an almost 5 p decline in the ISM. That will not happen – partly because both NY & Phil indices were 'too strong' in May. However a decline to 50, to the PMI's June level, from 52.1 in May is far from unlikely

Eurozone PMI up, best in 7 months, thanks to France. Level still modest

A rebound in France lifted the EMU index in June, Germany stabilised, others (implicitly) down

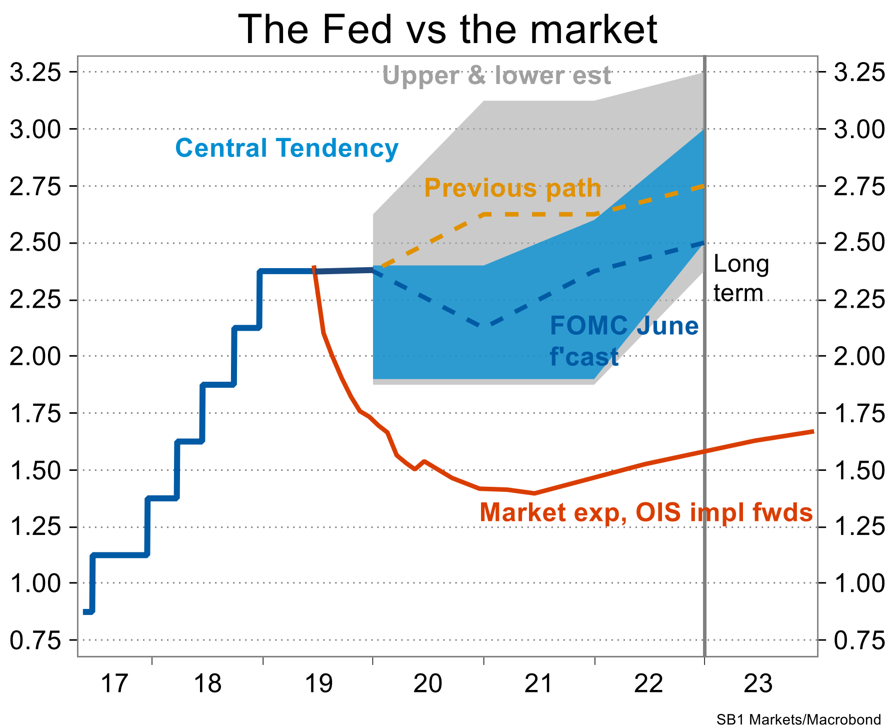




- The preliminary EMU composite PMI rose 0.3 p to 52.1 in June, marginally above expectations. The PMI recovered 0.9 p from the Jan 51.2 through, following an almost 8 p tumble through 2018. Thus, the index is not suggesting any brisk recovery in the Eurozone, GDP growth will most likely slow to below 1% in Q2
  - » The manufacturing PMI points to a prolonged contraction, albeit improving marginally to 47.8 in June, with Germany still at the bottom
  - » The service sector reported slightly higher activity, up 0.5 pp to 53.4. Services are recovering, mostly due to the French index, which fell sharply when the yellow vests blocked much activity during the winter. German services have been reporting decent growth all the time, the index is at 55.6!

Fed held the 2019 dot plot unchanged but leans towards interest rate cuts

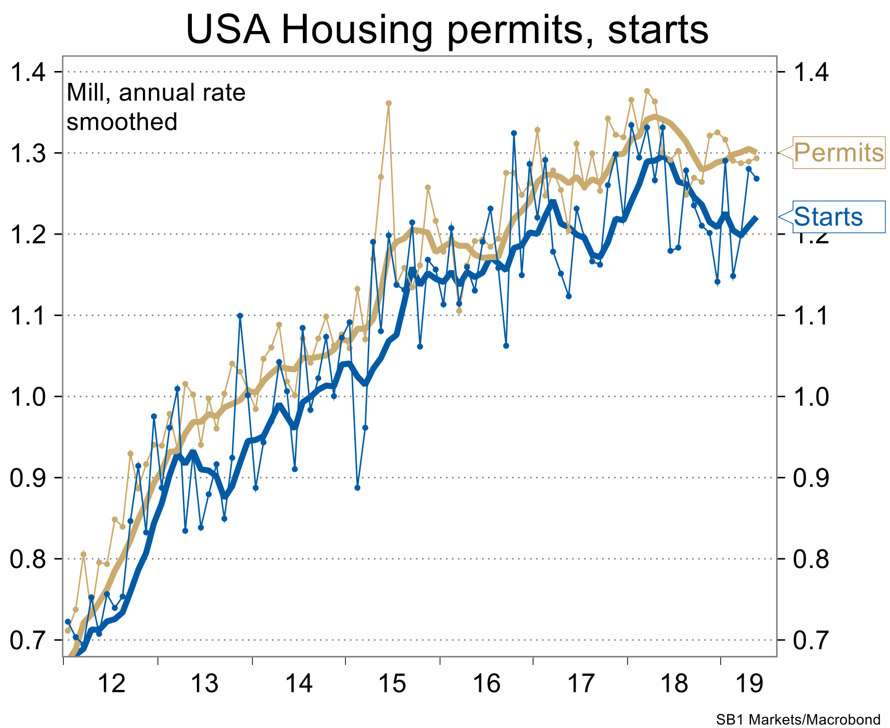
Fed raised GDP growth, nudged down the unempl. f'cast – and signals a more dovish stance

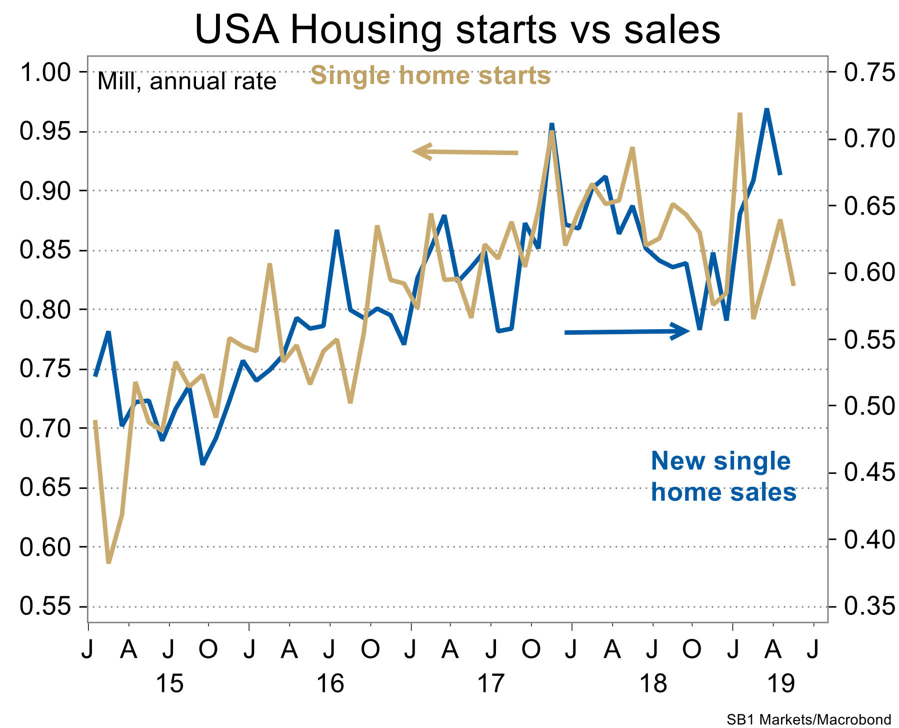


- The FOMC kept interest rates unchanged, as broadly expected. The Fed held the 2019 'dot-plot' (the median projection of the Committee) unchanged at 2.4% and lowered the 2020 path by 50 bps, and 2021 by 20 bps
  - However, the average end of 2019 projection was some 30 bps lower than in March, and 7 of the 17 officials assess the appropriate interest rate to be 50 bps below the current level, and 1 expected a 25 bps cut! The Committee is no doubt leaning towards lower interest rates
  - The projection on the long run, 'normal' Fed funds rate was nudged down to 2.5%, from 2.8% (but to 2.7% from 2.8% in March, measured by the average estimate). Anyway, his estimate of the normal or neutral rate has been slowing down from an above 4% estimate in 2012
- The GDP f'cast growth was held unchanged at 2.1% in 2019 and raised by 0.1 pp to 2.0% in 2020, yet the assessment of economic activity was changed from 'solid' to 'moderate'. The unemployment projection was nudged down by 0.1 pp and the inflation f'cast was lowered by 0.3 pp in 2019 and 0.1 pp in 2020
- The argument for the dovish turn was that the FOMC recognized that uncertainties have increased (surprise, surprise) and underscored that they will 'act as appropriate to sustain the expansion'
- Markets were probably expecting that the Fed would address an increasing probability of a cut, however, market reaction indicate that the Fed was more dovish than expected. Stock markets climbed, bond yields dropped among all maturities - and Fed Fund futures plunged
  - The market is now fully expecting a cut at the July meeting, and 38% probability of a 50 bps cut! The Dec' 20 contract is slipping too, markets are expecting 3 cuts or more by more than 60% probability, up from 50% before the FOMC meeting
  - For more on market implications, check here

Housing permits & starts are slowly climbing

Starts came in above expectations due to an upwardly revised April, permits marginally up in May

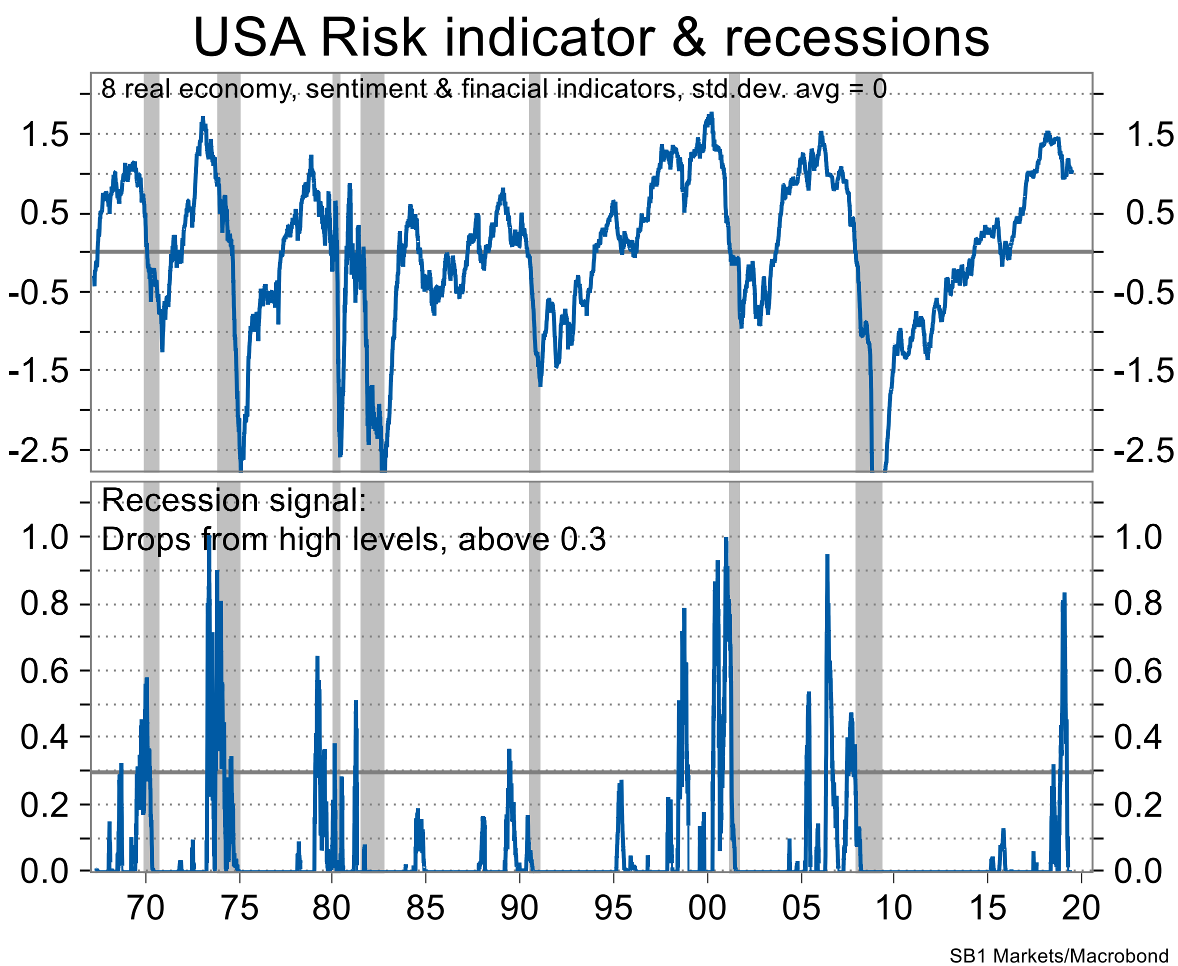


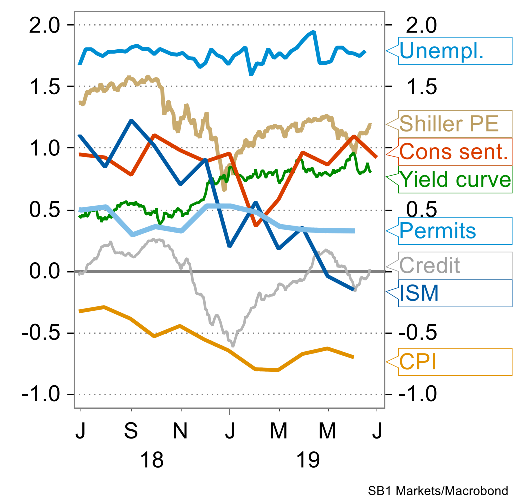


- Housing starts fell 0.9% m/m in May, to 1.27 mill. (annual rate) vs expectations at 1.24 mill. Both March and April were revised up (April to 1.28 mill, from 1.24'). Starts have stabilised since late 2018
- Housing permits are a less volatile than actual starts, and are a more useful gauge of the activity in the sector than actual starts. Permits rose marginally to 1.29 mill in May, close to expectations. Permits fell some 5% through the first half of 2018 and have been slowly recovering since last autumn, up some 2% from the bottom
- Declining mortgage rates have no doubt supported housing demand, as rising new home sales confirm
- *New home sales will be reported this week*

US Indicators: Not a recession warning, now

… but data are deteriorating, barring the labour market and housing. To be continued

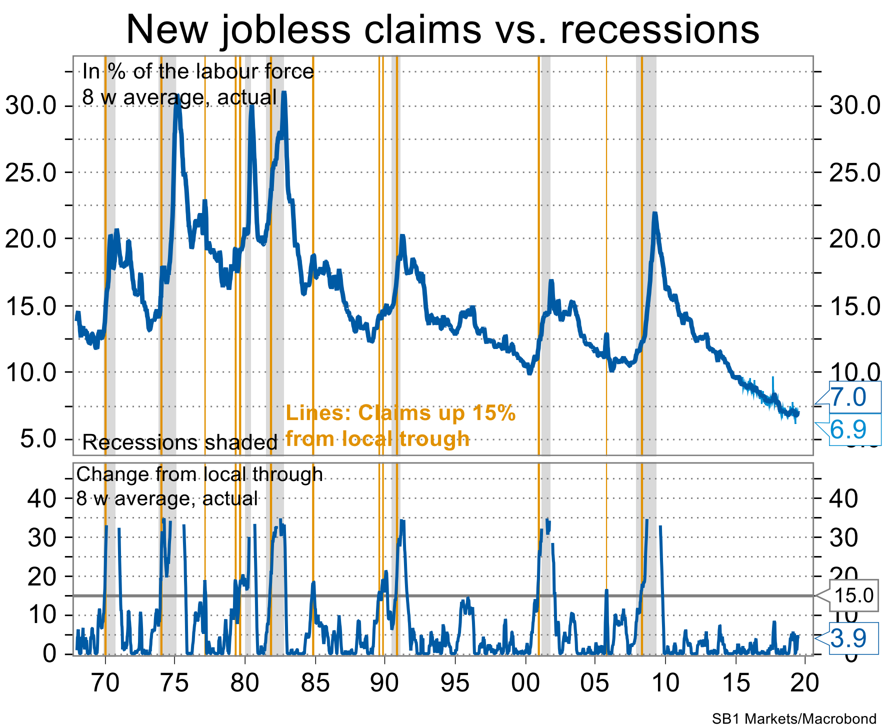


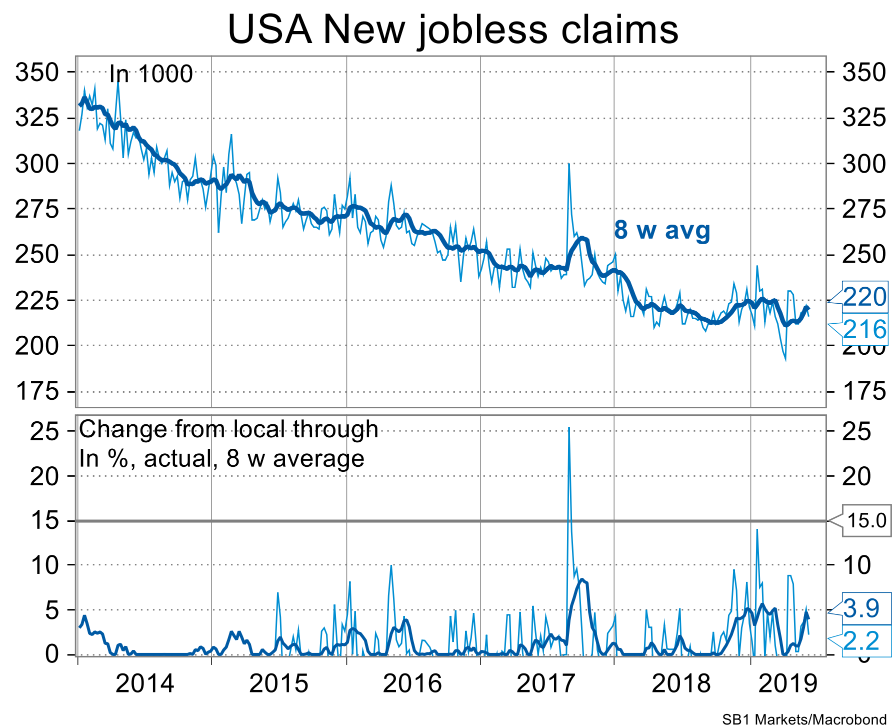


Inspired by Goldman Sachs Bull/Bear indicator. We are using jobless claims instead of unemployment, and have added housing starts, consumer sentiment, and a credit spread. In average, our Risk or Good Times Indicator leads recession starts by 18 months. The lower panel above shows changes in the squared index (if index >0) to accentuate the dangerous declines from high levels

Jobless claims remain low, no signs of labour market weakness

Jobless claims fell marginally last week, and the level is very low, reflecting a tight labour market





- Last week, jobless claims ticked down to 216', from 222' the prior week. Claims have inched up recent week but the level is still very low, the 8 week average is 220', up just slightly from the bottom at 193'in mid-April (the lowest since 1969!)
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

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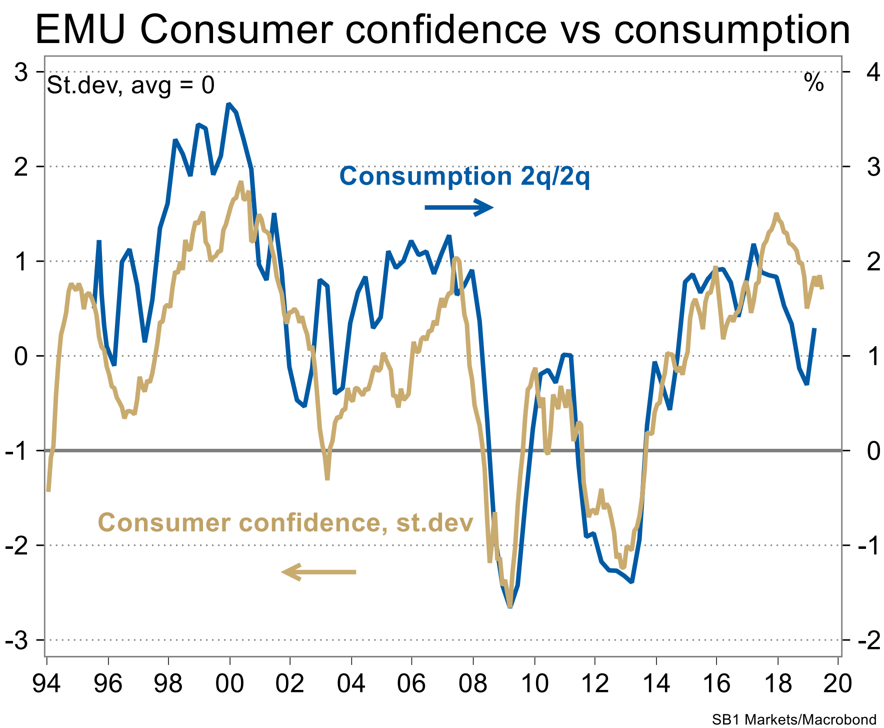
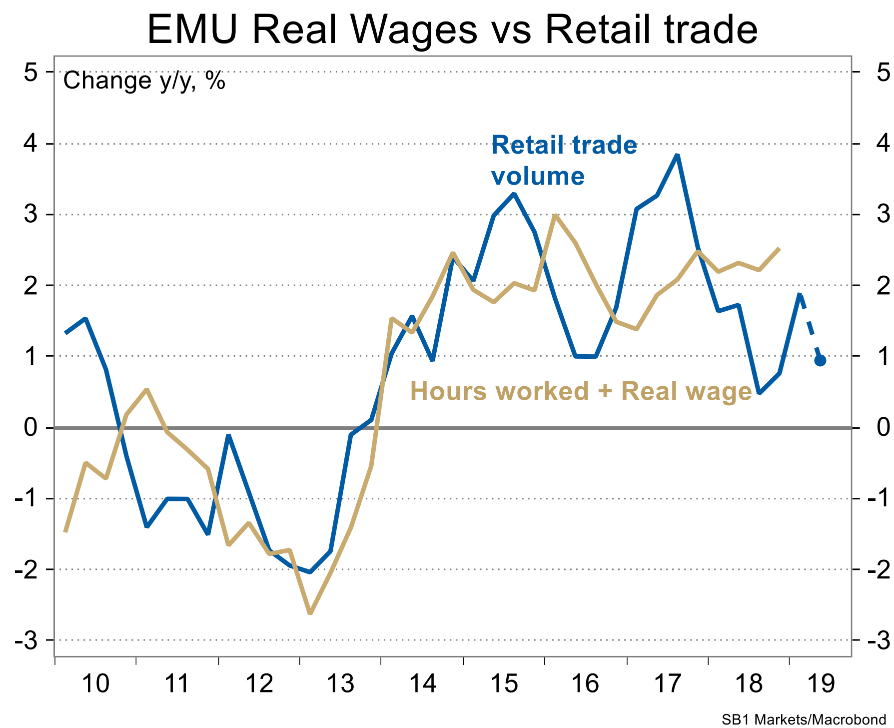
Consumer confidence stabilized, signals higher consumption

The consumption upside is probably limited but a moderate growth pace should be within reach





- Consumer confidence fell marginally in June. Confidence has improved through 2019 and the level is not low, even as the index fell through 2018. The index points do not signal any weakness in household demand
- Real wages + hours worked, a good proxy of real total disposable income, is expanding at a much faster rate than retail sales

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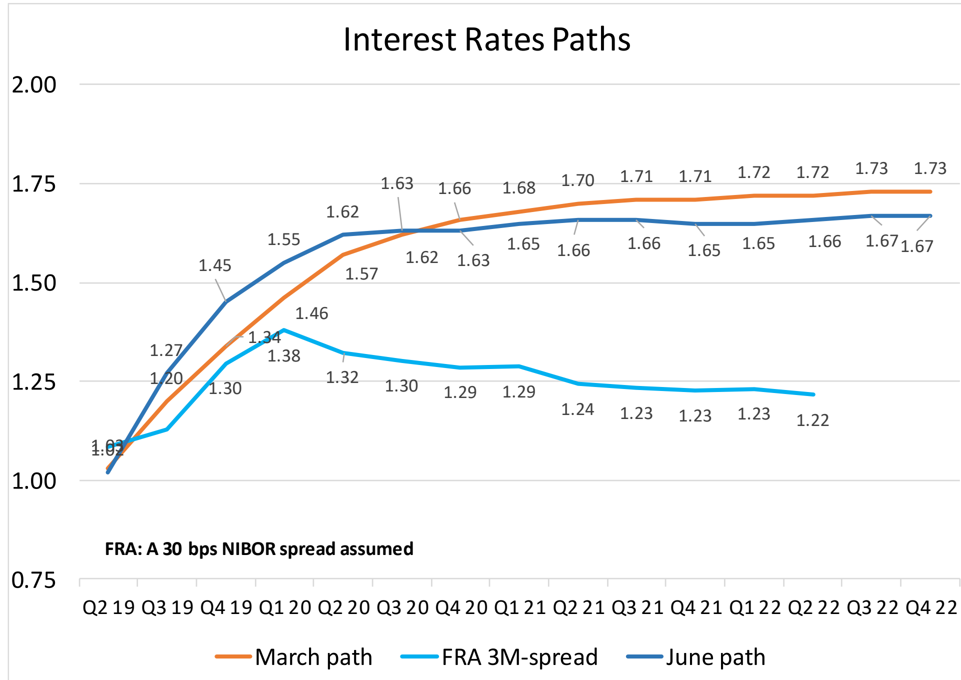
Norges Bank signalled another hike in September (and one in 2020)

Interest rate path nudged up to 11 bps in the short term and lowered by 6 bps in the long end

- **Norges Bank delivered the 3rd interest rate hike and raised the signal deposit rate by 25 bps to 1.25%, as everyone expected**
- The bank surprised the market by nudging up the interest rate path by up to 11 bps in H2 2019 (6 bps in Q3 and 11 in Q4), thus, implying a high probability of a hike already in September, by some 67%, and 100% of a hike before the end of the year. At the March meeting, the bank signaled a hike in December
- The interest rate path implies another hike in 2020 (most likely Q2 or Q3). And that's it, for now. The long end of the curve, the end of 2022, was lowered to 1.67%, from 1.73%
  - » A substantial upward revision of oil investments and somewhat stronger overall domestic demand lifted the path. A weaker than expected NOK contributed on the upside in the short/medium term
  - » A softer global growth outlook, lower oil price and rising global uncertainties due to the trade tensions (marked by the 'judgement' component) pushed the path down substantially
- **Our view:** Norges Bank is eager to lift interest rates to stabilize the economy and reduce the risks imposed by highly indebted households and still elevated house prices. Unlike some others, we do not judge Norges Bank's stance to be too hawkish. Given the solid upturn in the economy, with GDP growth at close to 3% this year, an interest rate at 1.5% by the end of the year (and peaking at 1.75%) is a rather cautious approach! Households may respond 'too much' to the hikes, and the world economy may deteriorate, or the NOK could appreciate too much. But unless than occurs, just continue upwards!



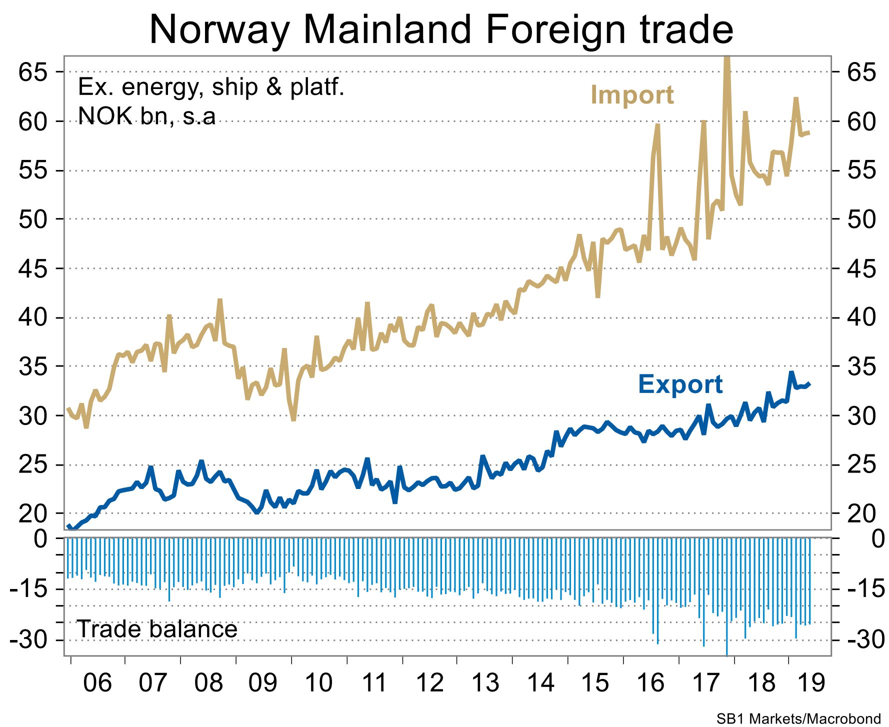
Source: Norges Bank MPR 2/2019, Macrobond

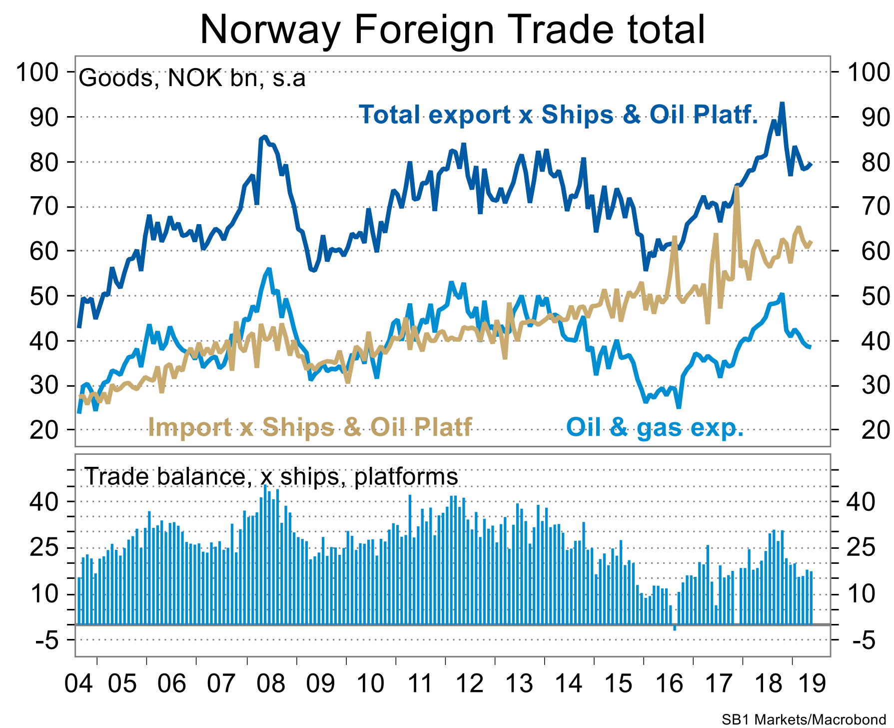
Market implications

- Market interest rates expectations (FRAs) initially spiked 10 bps (the pre hike FRA curve at the graph above). The FRA contracts imply some 50% probability of a hike in September and 96% probability of a hike in Dec or earlier, thus, the market is not THAT far behind
- Markets were expecting a more dovish stance; the NOK immediately rose 0.6% against EUR

Both imports and exports are climbing, trade deficit more or less flat

Mainland trade deficit narrowed marginally in May. Oil & gas exports still weak

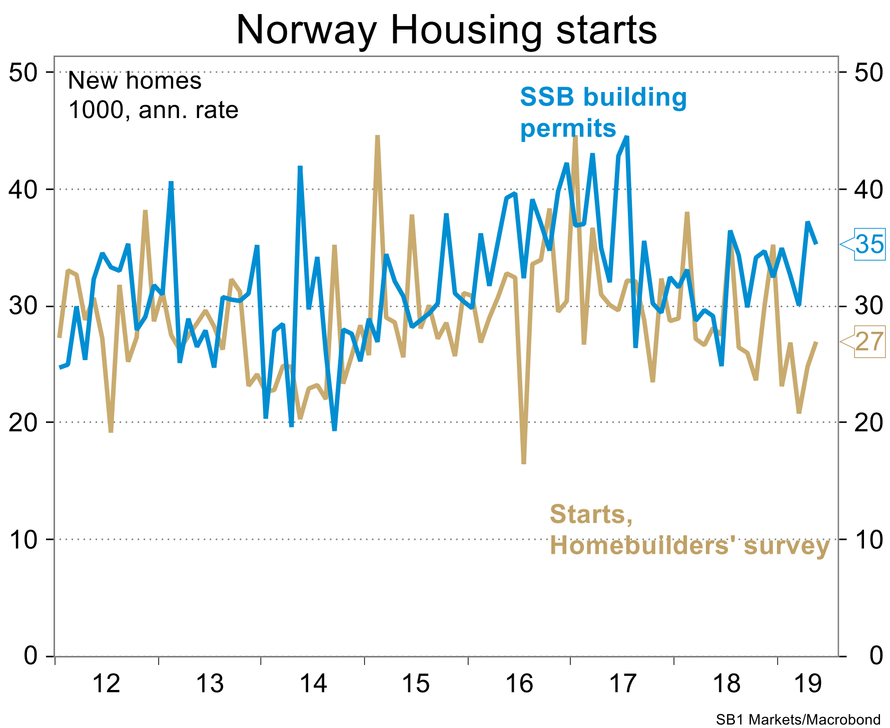


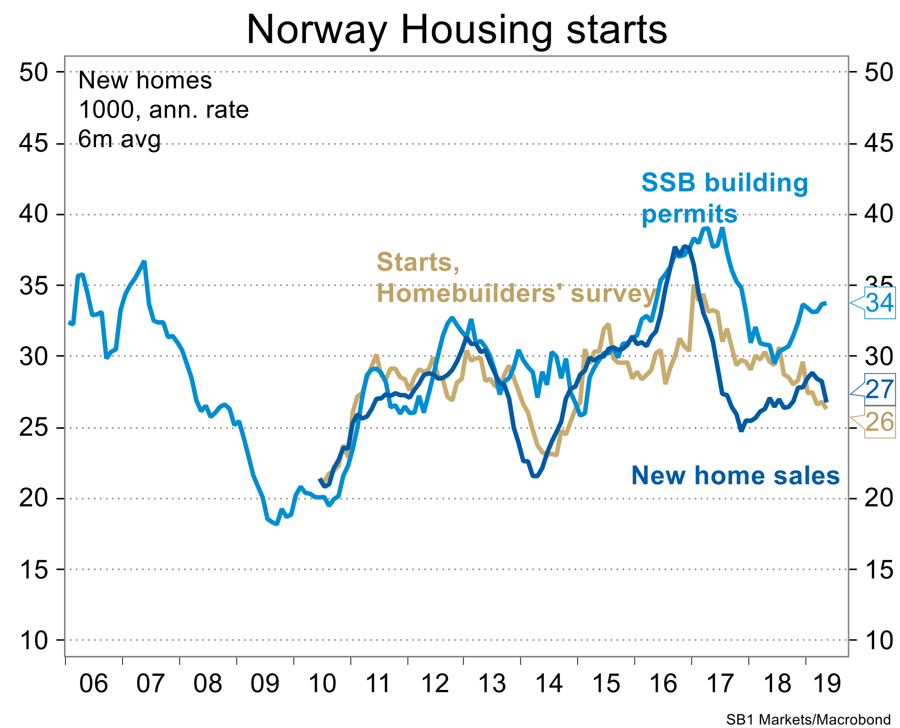


- The Mainland trade deficit fell just marginally to NOK 25.5 bn in May. The deficit has been more or less flat the past year, following a gradual widening the previous years
  - » Imports (in value) rose 0.1% m/m (smoothed) and are up 6.6% y/y, primarily due to soaring imports of machinery & equipment + vehicles
  - » Mainland exports rose 1.2% (in value). Exports have gained speed through the past year, and are up 8.9% y/y, driven by machinery and fishing
- The overall trade surplus (incl oil & gas, ex ships & platforms) came down to NOK 17.4 bn/month in May. Oil/gas exports are still sliding down since last autumn, when the oil price slipped. The total trade surplus equals some 6% of total GDP

Housing 'starts' flattened out?

Building permits ticked down to 35' in May. New home sales indicates a limited upside





- SSB reported housing starts (building permits) at 35' annually in May, down from 37' in April. Starts have more or less flattened out since the recovery last summer/fall last fall. Home building is up 10-15% from the bottom in H1 2018
  - » Mixed signals; the Homebuilders' are still reporting declining housing starts. The Homebuilders are usually reporting a lower level of starts than SSB, not all projects are included. New home sales have slowed somewhat and is not signalling a further rise in starts
- The level of housing starts is not low, although we are still well below the 2016-2017 peak. Housing starts are above the average since 2000, and approx. at the per capita average (with low population growth and real income growth much below what we have been used too). Moreover, the level is still high vs most other countries, check this page

The Calendar

In focus: A dinner, China PMI, US home sales, PCE, consumption, orders, Norw unempl., retail, credit

Time	Country	Indicator	Period	Forecast	Prior
Monday June 24					
10:00	GE	IFO Expectations	Jun	94.8	95.3
14:30	US	Chigaco Fed Nat Activity Index	May	0.1	-0.45
Tuesday June 25					
15:00	US	FHFA House Price Index MoM	Apr	--	0.1%
15:00	US	CS 20-City House Price Index MoM	Apr	0.1%	0.1%
16:00	US	New Home Sales	May	688k	673k
16:00	US	CB Consumer Confidence	Jun	131	134.1
Wednesday June 26					
08:00	NO	Unemployment Rate LFS	Apr	3.5%(3.5)	3.5%
14:30	US	Durable Goods Orders	May P	-0.2%	-2.1%
14:30	US	Cap Goods Orders Nondef Ex Air	May P	0.2%	-1.0%
14:30	US	Advance Goods Trade Balance	May	-$72.0b	-$72.1b
Thursday June 27					
08:00	NO	Retail Sales MoM	May	-1%(-0.5)	1.8%
11:00	EC	Economic Confidence	Jun	104.8	105.1
11:00	EC	Consumer Confidence	Jun F	-7.2	-7.2
14:30	US	GDP Annualized QoQ	1Q T	3.2%	3.1%
14:30	US	Initial Jobless Claims	Jun-22	220k	216k
16:00	US	Pending Home Sales MoM	May	1.0%	-1.5%
Friday June 28					
01:30	JN	Jobless Rate	May	--	2.4%
01:50	JN	Industrial Production MoM	May P	0.7%	0.6%
08:00	NO	Credit Indicator Growth YoY	May	(5.8%)	5.7%
09:30	SW	Retail Sales MoM	May	-1.0%	1.9%
10:00	NO	Unemployment Rate, Registered	Jun	2.1%(2.1)	2.1%
11:00	EC	CPI Core YoY	Jun A	0.9%	0.8%
14:30	US	Personal Income	May	0.3%	0.5%
14:30	US	Personal Spending	May	0.5%	0.3%
14:30	US	PCE Core Deflator YoY	May	1.6%	1.6%
15:45	US	Chicago PMI	Jun	54	54.2
16:00	US	UoM Consumer Sentiment	Jun F	97.7	97.9
Sunday June 30					
03:00	CH	NBS Composite PMI	Jun	--	53.3
Monday Jul 1					
02:30	JN	Manufacturing PMI	Jun F	--	49.5
03:45	CH	Caixin/Markit Manufacturing PMI	Jun	49.9	50.2

Source: Bloomberg, SB1M

- **The Trade War**
  - » This year's most important dinner party? The terrific good friends Presidents Trump and Xi to dine at G20 in Japan at Saturday. Some sushi?
- **China**
  - » **Both composite PMIs** came down in May but the levels are not low – still suggesting a modest growth upswing (which economic data are confirming, so far)
- **USA**
  - » **PCE inflation** is running 0.4 pp below Fed's price target of 2%. CPI inflation or producer prices does not signal any rebound soon
  - » **Private consumption** was most likely brisk in May, retail sales are recovering and auto sales increased. We expect a solid uptick in Q2
  - » Both **new home sales** and **pending home sales** have been recovering swiftly this year, as lower mortgage rates are boosting demand
  - » In spite the housing market rebound; there have been no take off in **house price inflation,** we expect a modest upturn the coming months
  - » **Durable goods orders** are probably stagnating and the risks are now skewed to the downside
  - » **Consumer confidence** is so far resilient to the weakening growth momentum; the problem seems to be within manuf. and not service sectors
- **EMU**
  - » No signs of recovery in the German **Ifo survey** so far (or any other surveys..)
  - » **CPI inflation** remains subdued at close to 1%, no indications of upswing
- **Norway**
  - » **LFS unemployment** is falling along with registered unemployment. Last month, the LFS rate dropped steeply, we do not expect another dip in June
  - » **Retail sales** will most likely retreated in May after soaring in April. However, sales have been improving, supported by subsiding inflation
  - » **Credit** is growing steadily and household debt is growing well above income

In this report

Global + PMIs

- The world remains in the doldrums, according to the surprise index
- Retail sales still growing but slower, manuf. prod gained speed in March/April
- Global PMI probably stabilised in June, following the May setback
- The US PMIs continued down, does not signal any growth (and other surveys collapsed)
- The EMU PMI up to the best level in 7 months but is far from strong. Services OK, manuf. not
- Japan manufacturing businesses are reporting a moderate decline

USA

- Fed held the 2019 dot plot unchanged but leans towards interest rate cuts
- Housing permits & starts are slowly climbing
- Homebuilders' confidence remain solid in June
- Existing home sales still on the way up
- The current account deficit shrank in Q1, equalling 2.5% of GDP
- Jobless claims remain low, no signs of labour market weakness
- The Leading Index is stagnating – still signalling 1.5 – 2% growth
- US Indicators: Not a recession warning, now

China

- House price inflation stabilised?

EMU

- Wage inflation picked up in Q1, trending up
- Consumer confidence stabilized, signals solid consumption
- German ZEW survey expectations took another dive, current situation flat

UK

- Retail sales still growing strongly
- Core CPI inflation ticked down to 1.7%, total inflation have probably bottomed
- Manufacturing orders are nosediving as businesses are destocking

Sweden

- House prices are starting to accelerate??
- Unemployment is flattening out, employment may be slowing
- Consumer confidence is softening, even with the June rebound
- The KI business survey another step down in June, to the lowest level since '13

Norway

- Norges Bank signalled another hike in September (and one in 2020)
- Both imports and exports are climbing, trade deficit more or less flat
- Housing 'starts' have flattened out, at peak?

Highlights

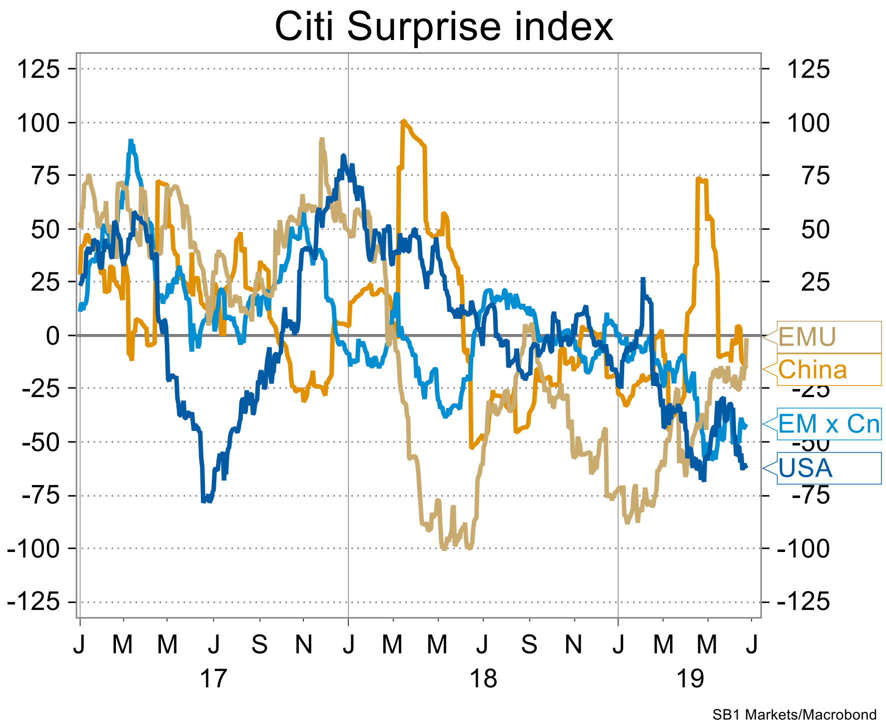
The world around us

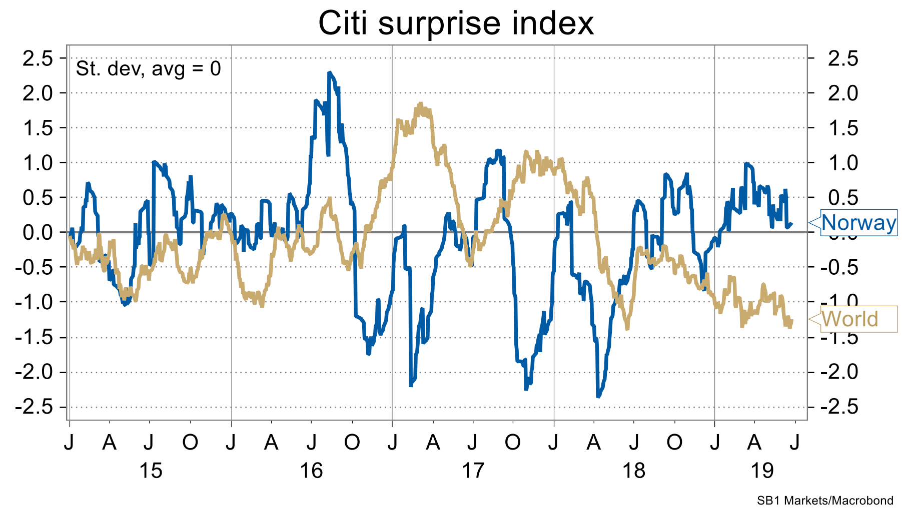
The Norwegian economy

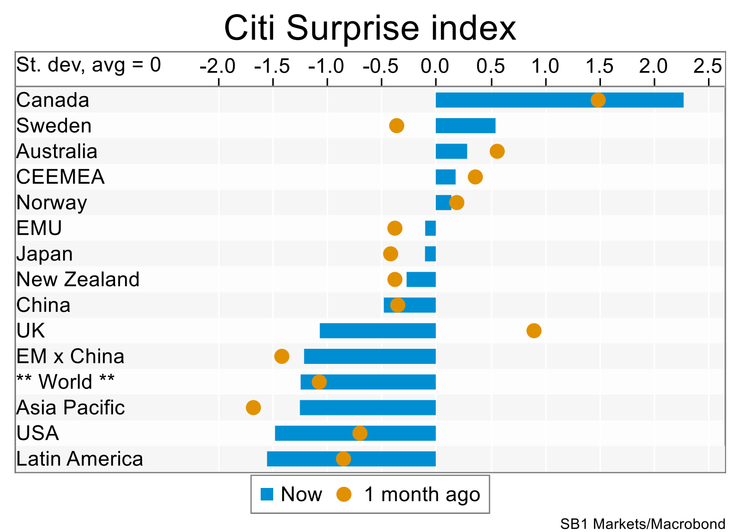
Market charts & comments

No more negative surprises in the EMU, 1st time since last Sept

… while the US is disappointing more again. The world is also unusually slack vs. vs expectations





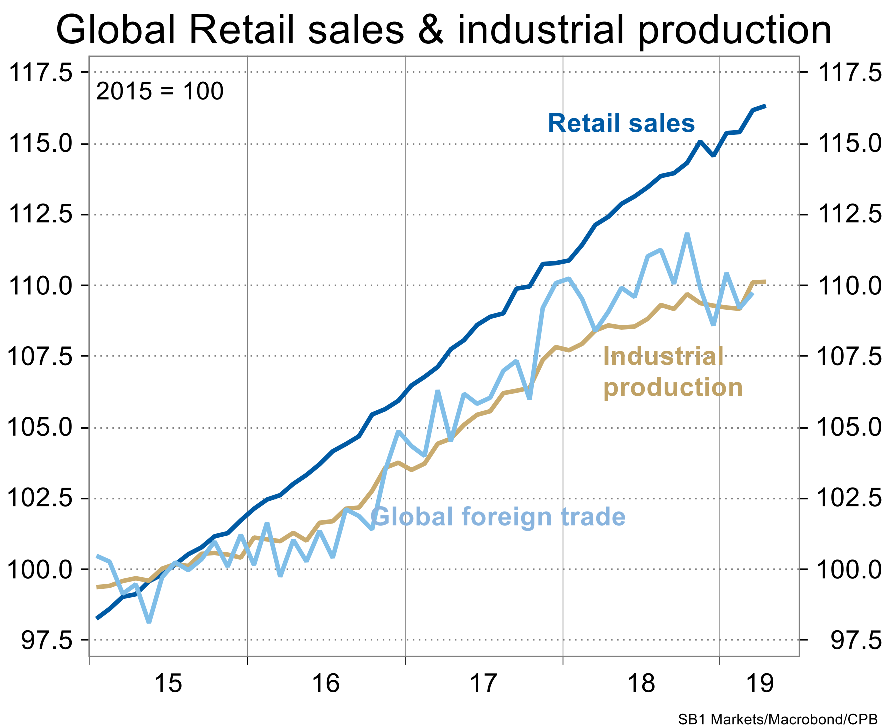


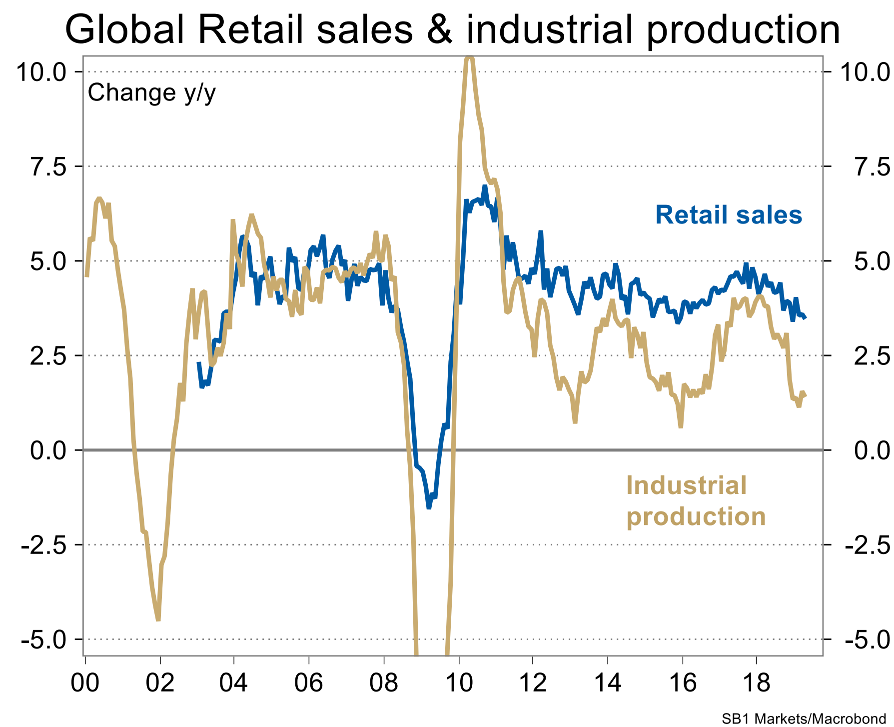
- The global surprise index has been in negative territory since last spring
- EMU stable vs expectations, data have improved somewhat recently (and expectations may have been adjusted)
- The US is the most disappointing of the major indices. Last week, disturbingly weak business surveys pulled the index further down
- Chinese data are just below a neutral territory. EM x China is slightly less disappointing
- Norwegian data down to neutral. Canada, Sweden and Australia in the lead

Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

Retail sales still growing but slower, manuf. prod gained speed in March/April

Still, manufacturing production was flat the previous months. Foreign trade weak too

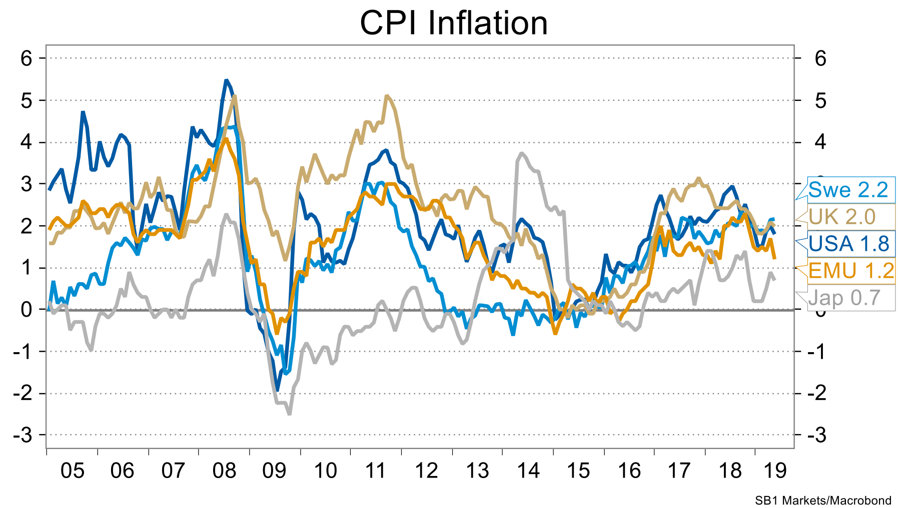


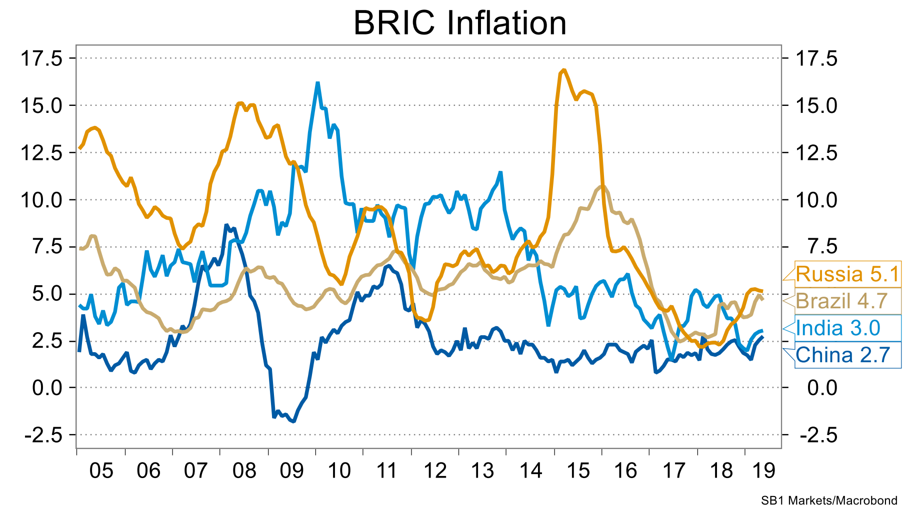


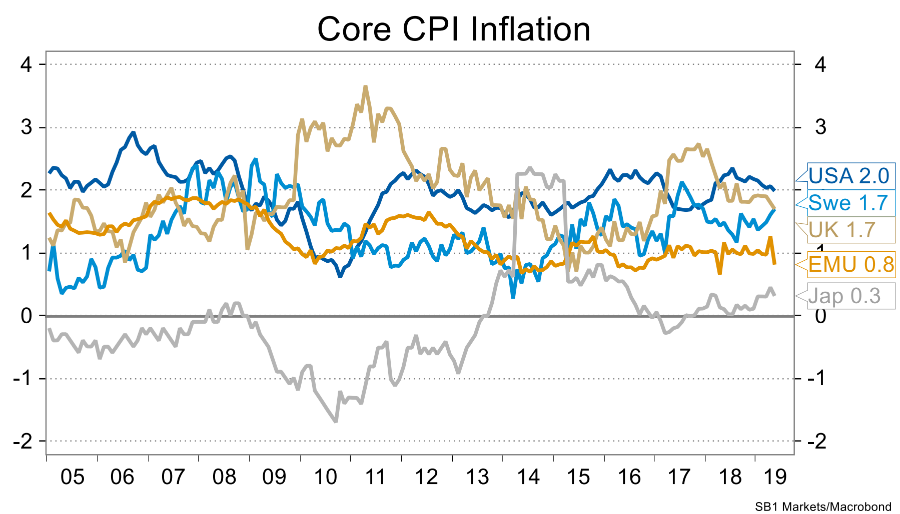
- Manufacturing production has stagnated since last autumn. However, the slowdown has not accelerated recent months, production probably grew marginally in April, after a lift in March. The downturn the past 6 months is due to lower investments and probably destocking following an unwarranted inventory build-up during 2018, stabilising now?
- Global retail sales increased in April and is still tending up, but at a somewhat slower pace
- Global trade volumes improved in March, recovering just slightly the past 3 months. Foreign trade has no doubt slowed, however; no growth since last summer

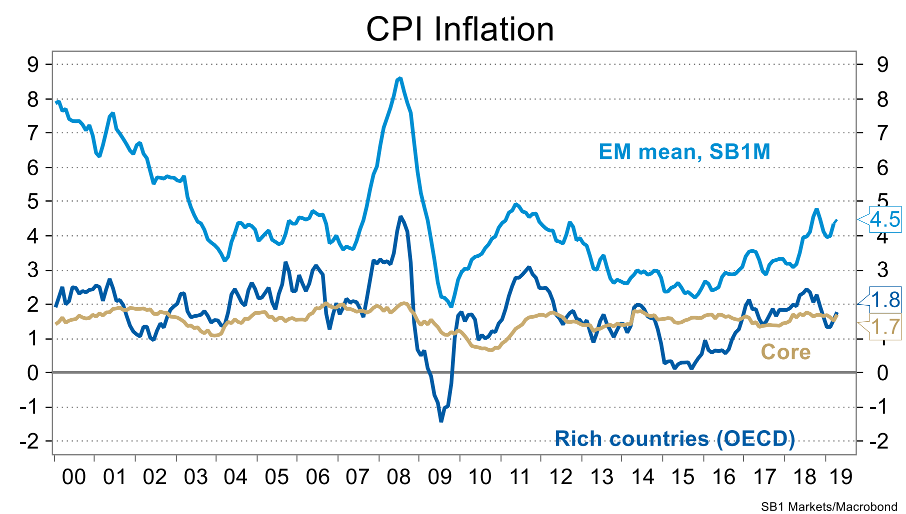
DM to turn south again, with the oil price? Core is sum flattish

Core inflation at target in US, not far below in UK, Sweden. EMU still muted. EM inflation will pick up





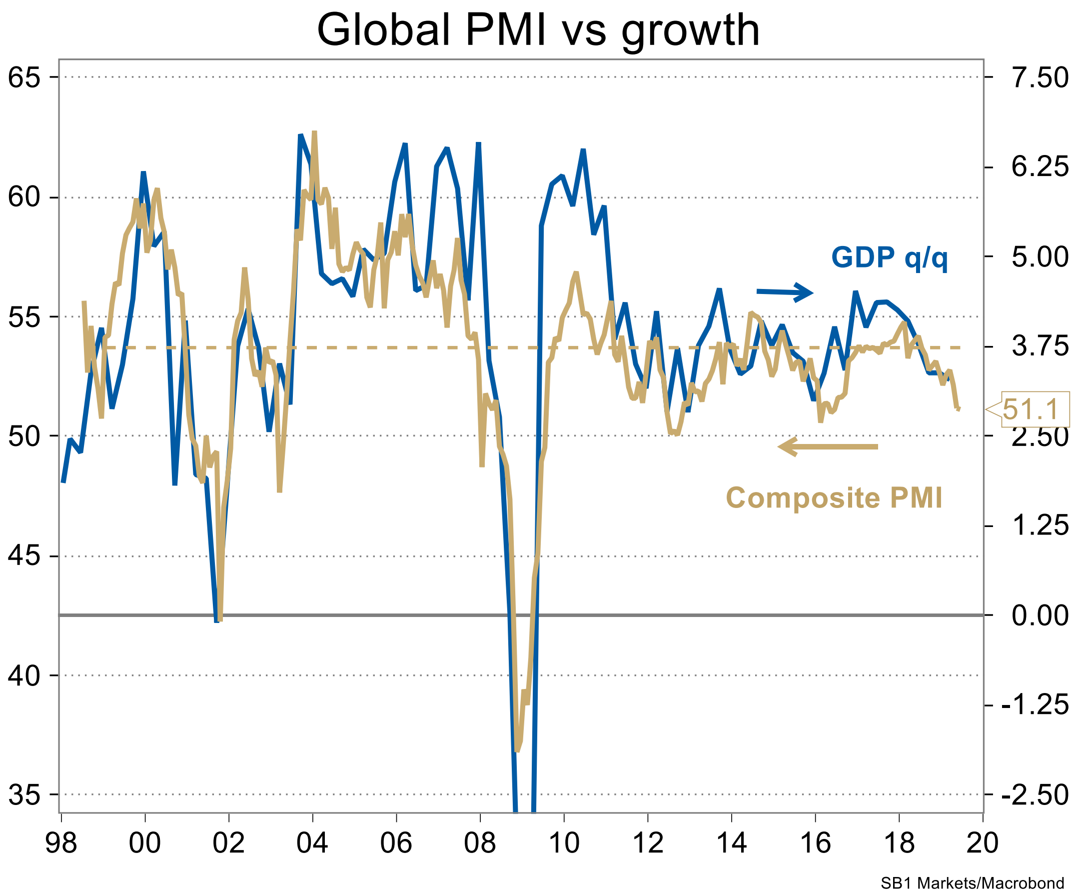


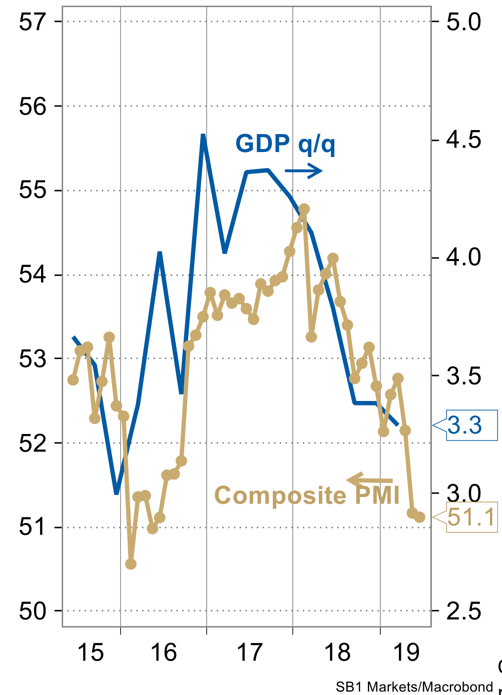


Change in % y/y in all charts. EMU core based on a seasonally adjusted price index

Global PMI (probably) almost stabilised in June, signals below 3% global growth

Preliminary data indicate a 0.1 decline, following the April/May 1.6 p ‘crash’. US further down



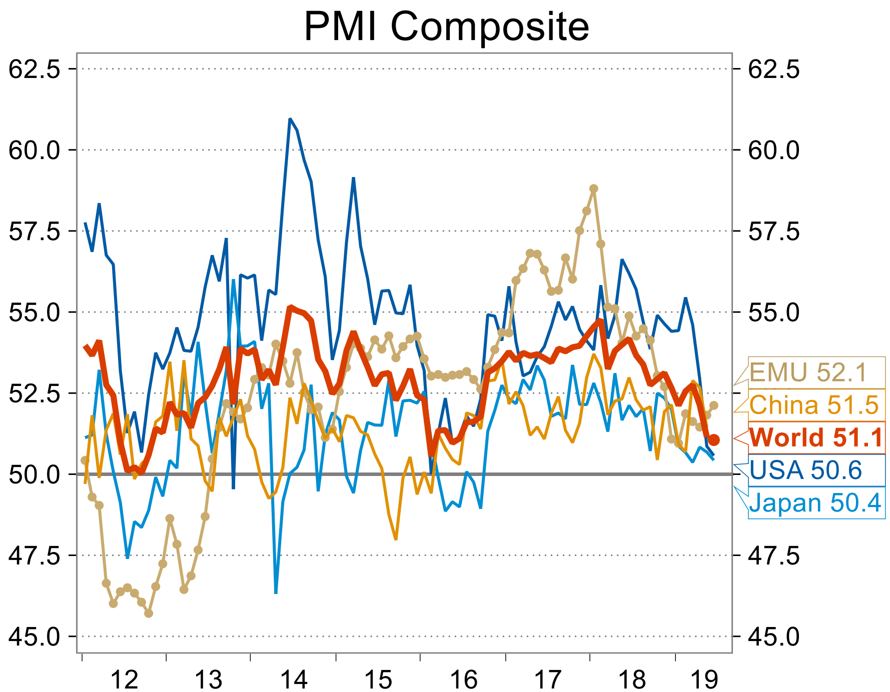


Our estimate is based on the preliminary composite PMIs from EMU and US, and the manuf. PMI from Japan. The estimate is uncertain

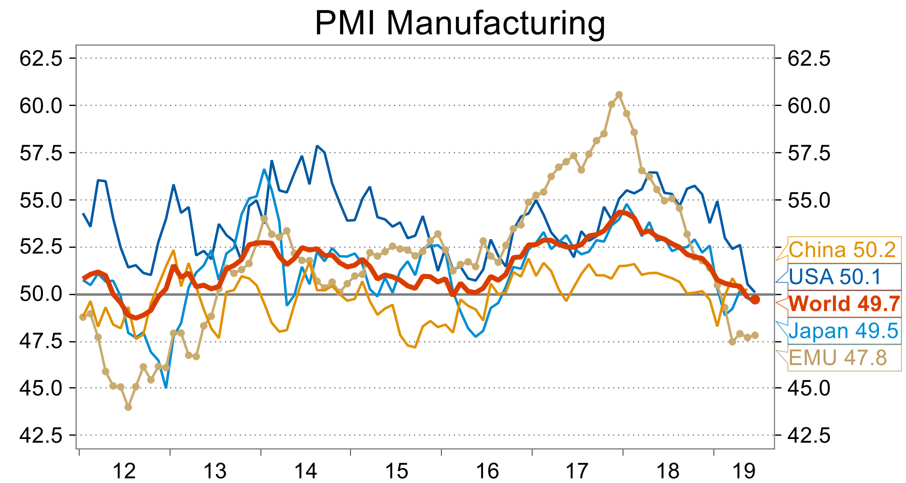
- We estimate a global composite PMI at 51.1 in June, a 0.1 p decrease from May, the lowest level since June 2016. In April the index fell by 0.6 p and another 1 point in May.
  - » The PMI has fallen by close to 4 points from the Jan 18 local peal, equalling more than a 1 pp slower global GDP growth. The manufacturing PMI signals a 20 pp slowdown in global EPS (earnings per share), down to zero

EMU services OK, broad manufacturing weakness

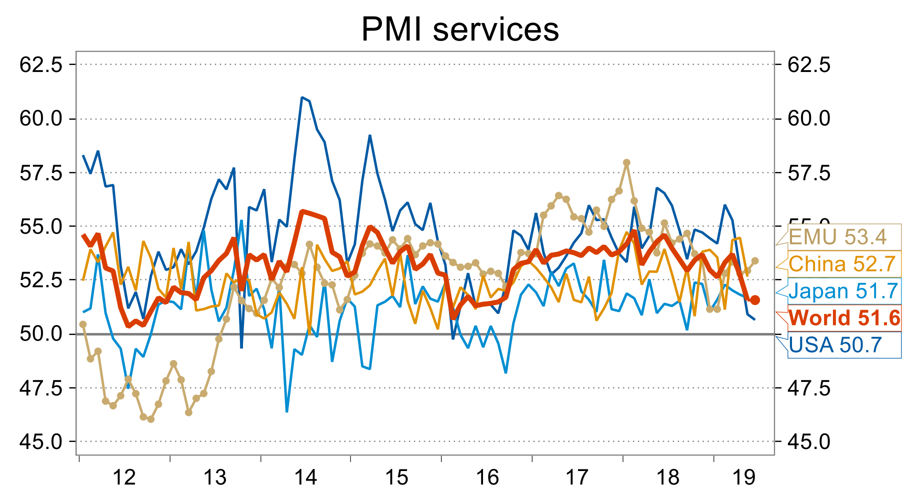
Composite EMU PMI up on services and level not that bad; US further down, well below EMU



Source: IHS Markit, SB1 Markets, Macrobond



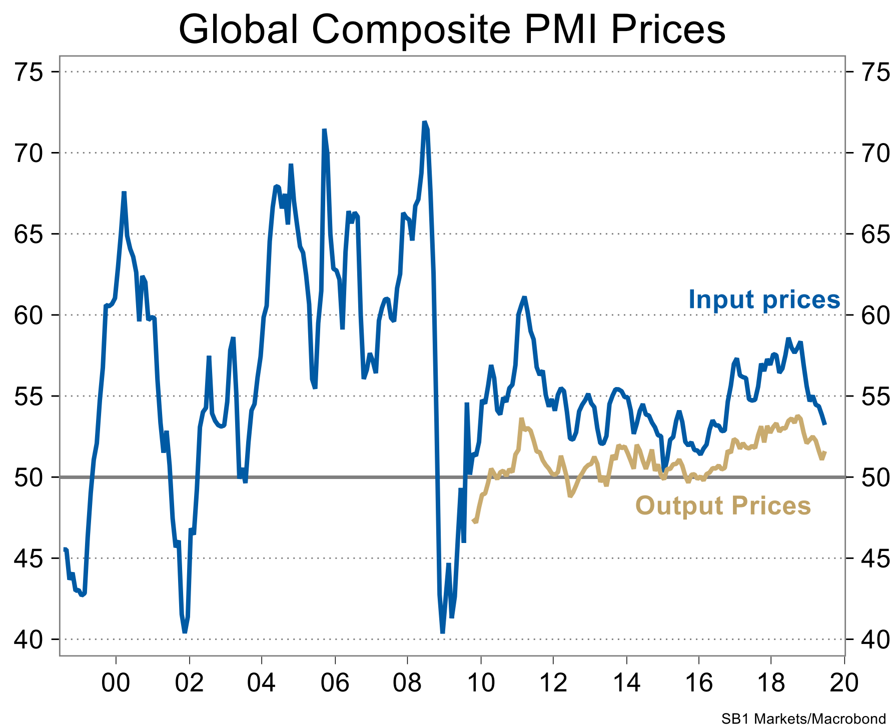
Source: IHS Markit, SB1 Markets, Macrobond

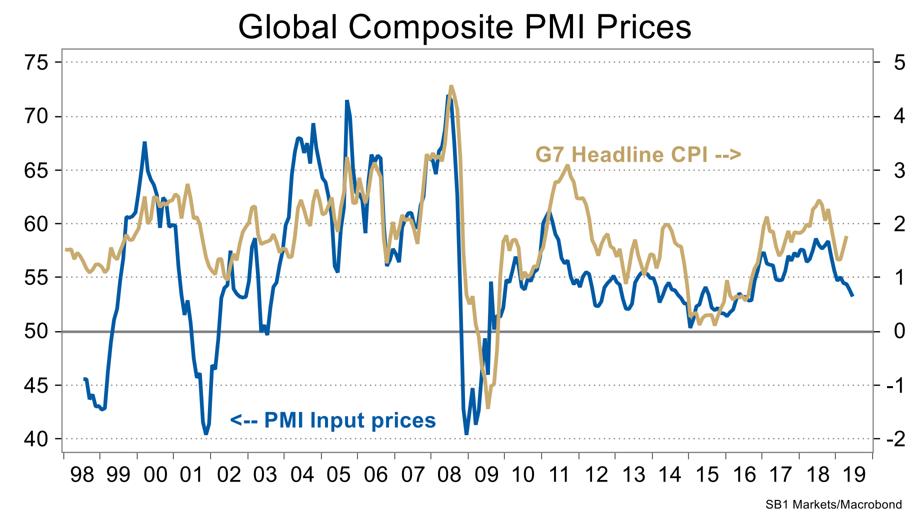


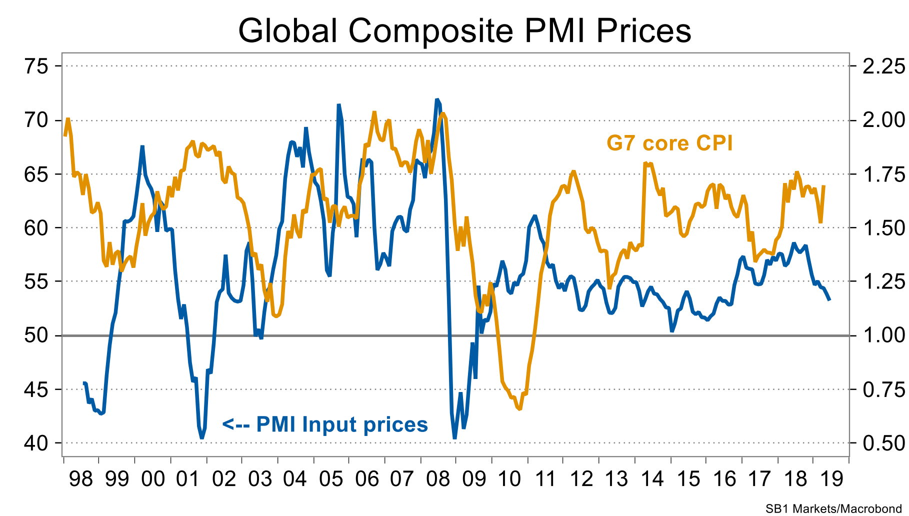
SB1 Markets/Macrobond

- Memo:
  - » The last obs for world indices for total & manuf. PMIs are based on prelim. data from the US, EMU, Japan
  - » The Japan composite last observation is an estimate based on the manufacturing index
  - » China has not yet reported any June PMI data

Price pressures are easing, still no deflation in sight





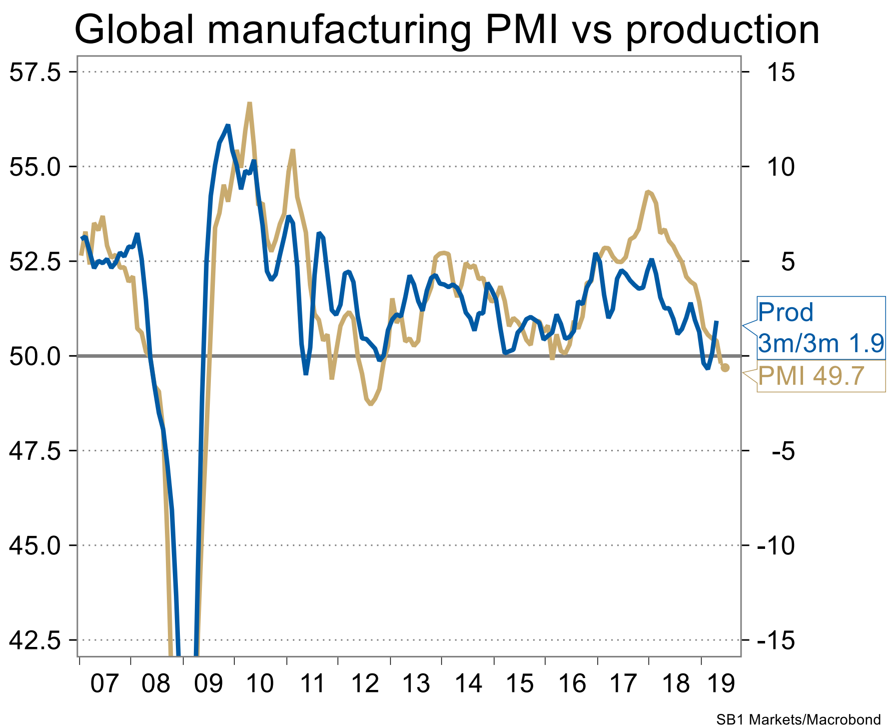


- The PMI price indices have fallen since last autumn
- The input index is much closer correlated to G7 headline CPI than the core CPI

The last observation is an estimated based on US, EMU PMI surveys

Global manufacturing PMI indicates stagnating production

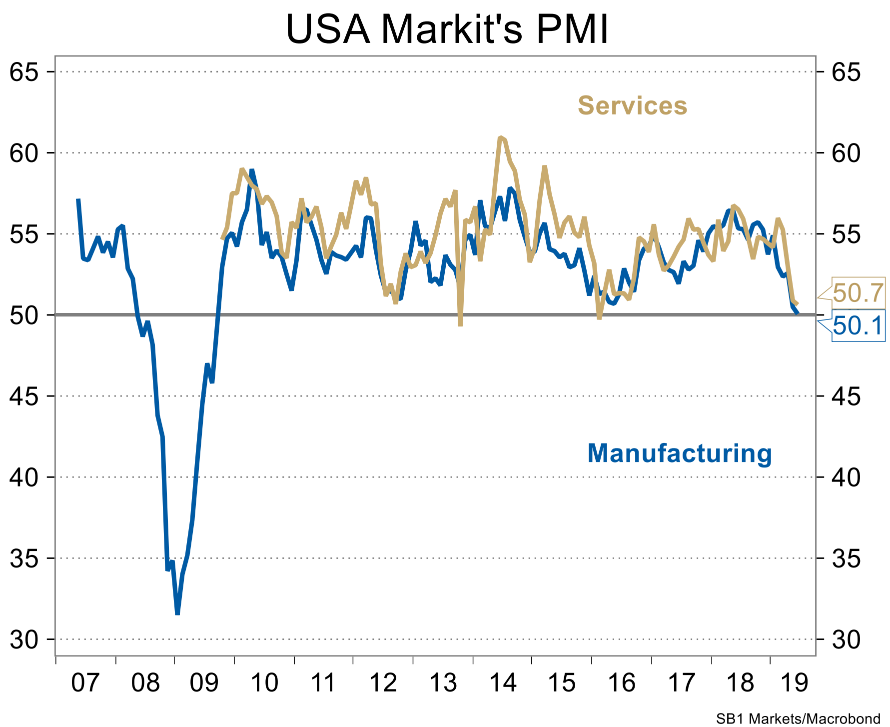
We estimate a 0.1 p decline in the manuf. PMI in June, to the weakest level since 2012

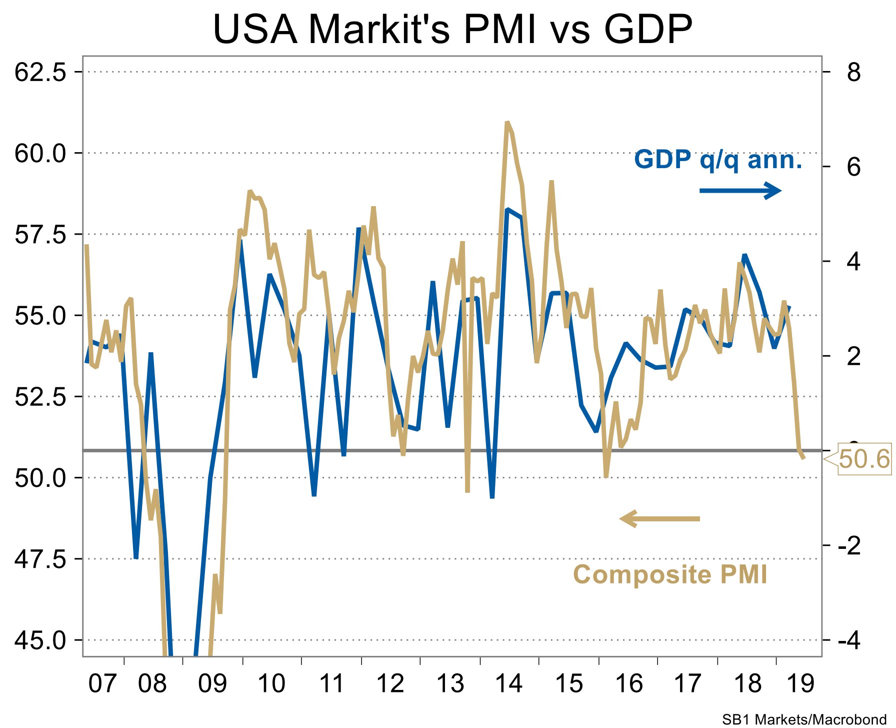


- And the PMI has been too upbeat the past two years…

US PMIs further down in June, do not signal much growth. ISM far better (May)

The manufacturing PMI weakest on downturn since May 2008, at 50.1 (-0.4). Services down to 50.7

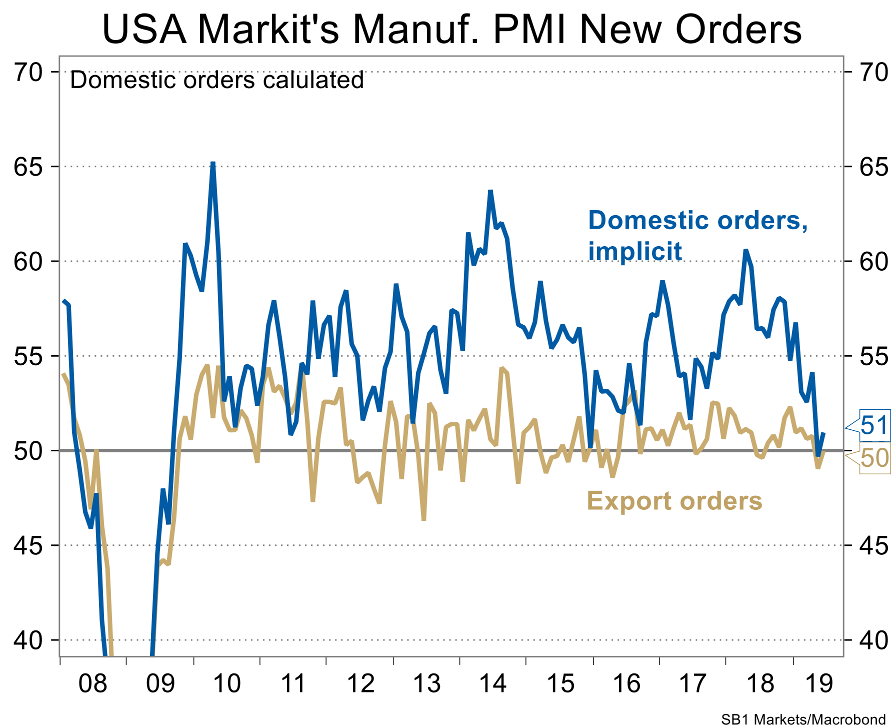


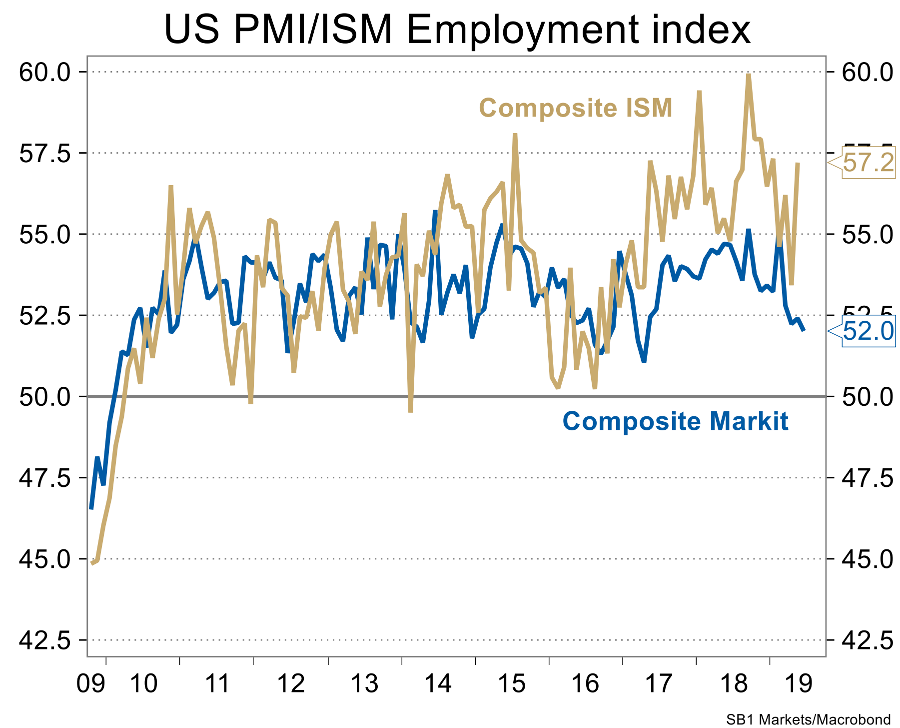


- Following the sharp 2 p May dive, the comp. PMI fell further in June, expected marginally up. Service businesses are reporting the softest conditions since ‘16, ***<u>while the manuf. PMI is at the weakest since May ’08, on a downturn</u>***
  - » Two regional manufacturing Fed surveys fell unprecedented/sharply in May, check here. Together with the PMI, they signal a huge decline in the ISM
- What explains the slump? We have no indications of households are retreating, retail sales, housing is OK. The domestic orders index has slowed sharply, not export orders. Thus, the <u>setback has to be caused by a sharp slowdown in business investments, at least partly due to uncertainty created by Trump’s trade war and</u> companies are now complaining much more loudly. Business investments can drive the US economy into recession. That’s not the norm, but it happened in 2001, without much contribution from the household sector

Foreign orders not the problem, it's domestic orders. Both a tad up in June

Domestic demand has slowed sharply, even if household demand keeps up. Investments to blame?

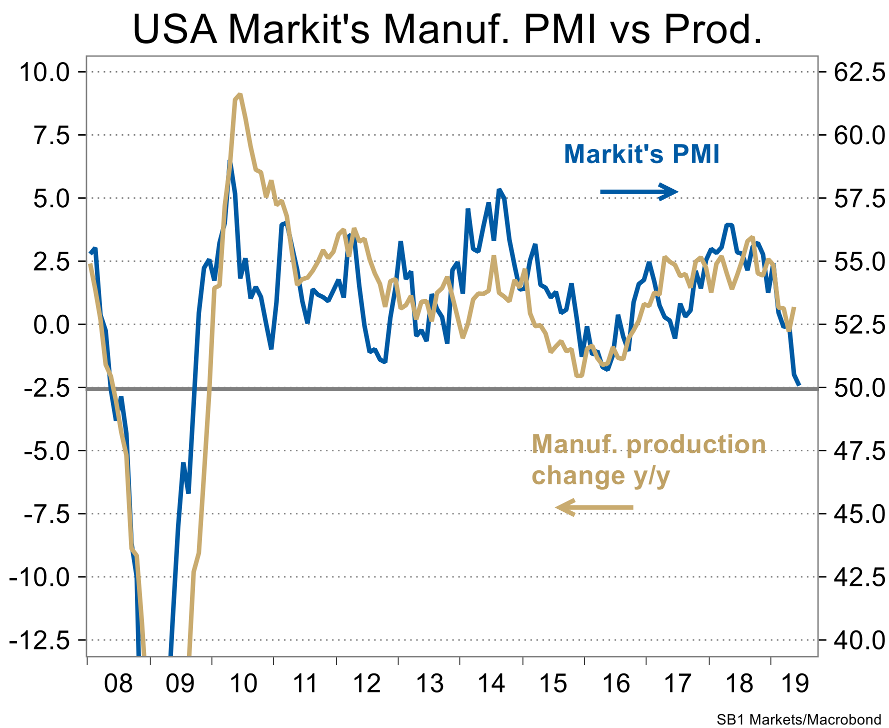


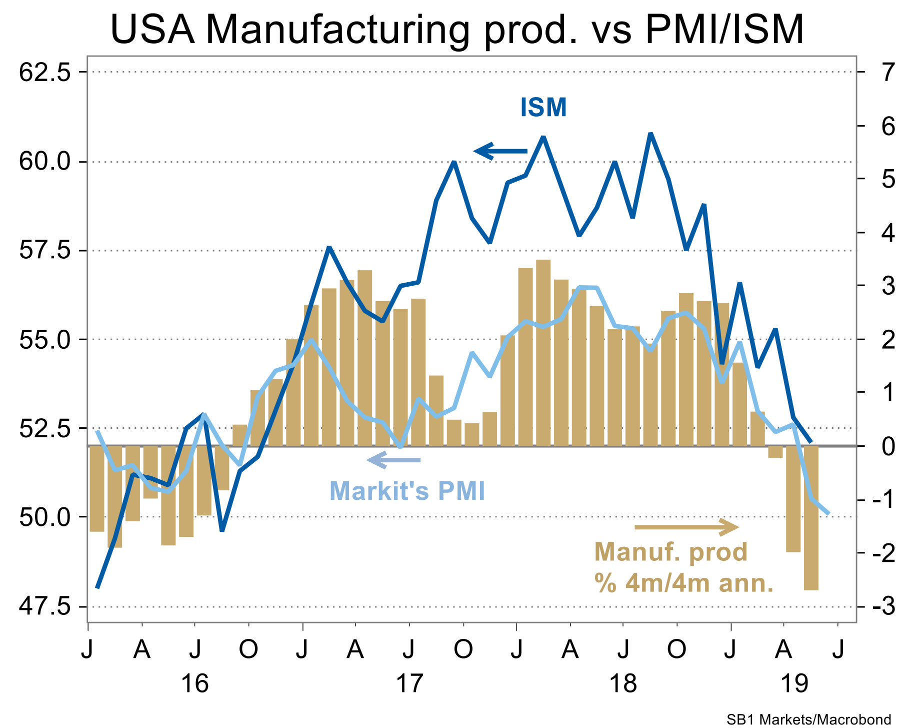


- Manuf. businesses are reporting a significant downshift, with the most noticeable decline in domestic orders. The export index is usually at a much lower level than domestic orders, and the recent decline is not dramatic. Household demand (consumption and housing investments) has not slowed that much. Are investments now slowing sharply? Most likely
- Firms report that they are putting breaks on hiring, according to the PMI. However, the composite employment index at 52 is still indicating growth (the ISM survey has been and was much more upbeat (in April, that is). More on the ISM vs PMI on the next slide)

Markit's PMI has been closer to the ball vs production than the ISM recently

Now, the PMI is signaling stalling manufacturing production (which has fallen so far in '19)

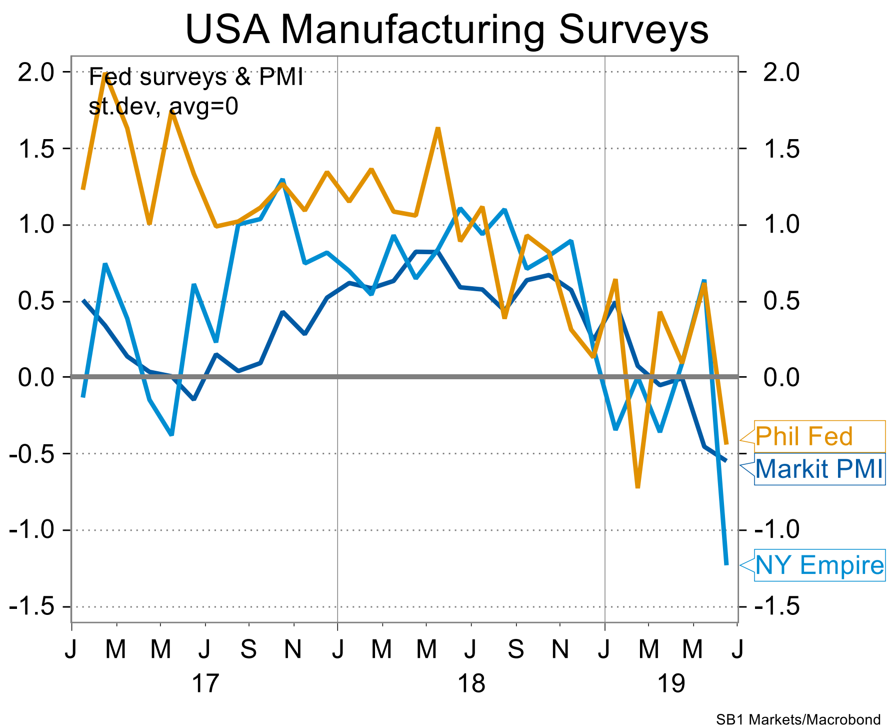


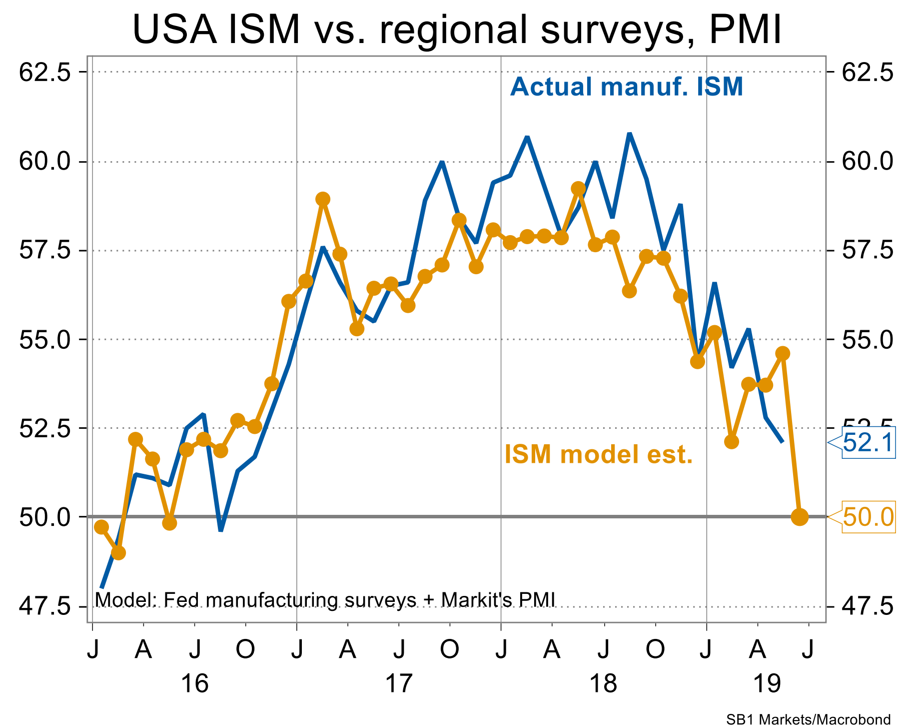


- The past years, Markit's PMI has been more closely correlated to actual manufacturing production than the ISM
  - » The PMI just reaches back to 2007, thus, the ISM a more 'reliable' recession indicator
- ISM has not reported June data yet, flip to the next slide for our f'cast

NY Fed & Phil Fed plummet, and together with PMI, a bad omen for the ISM

NY Fed manuf. survey down almost 2 st.dev (half of a normal cycle!!), Phil Fed down 1 st.dev

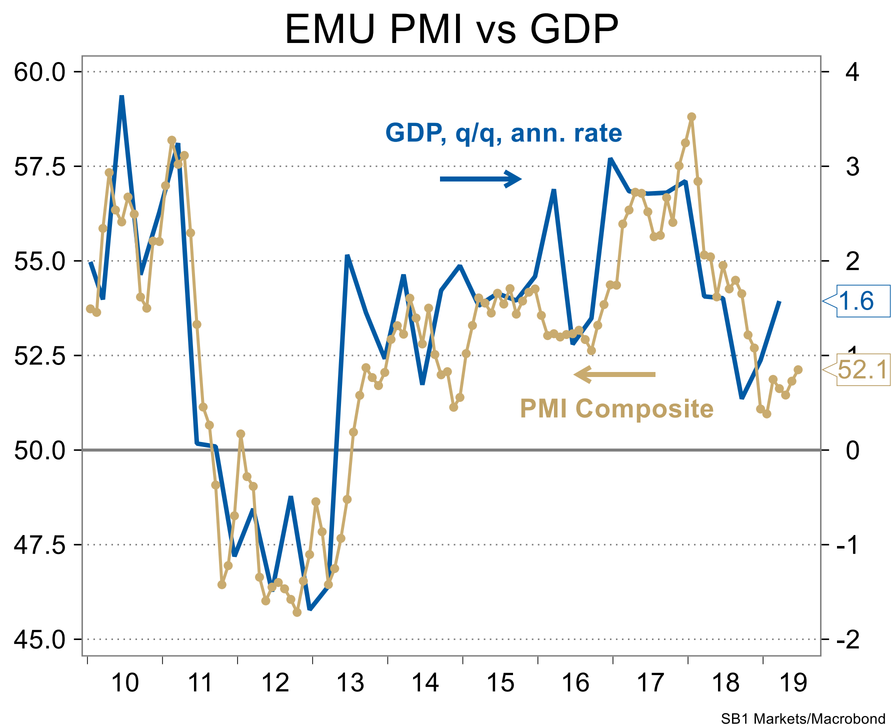


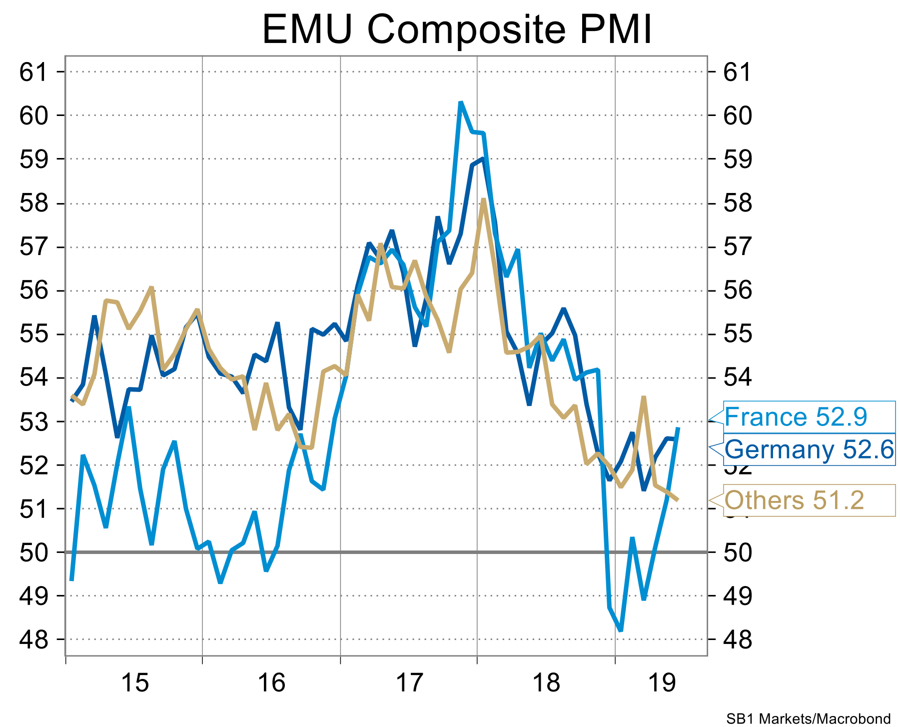


- Both NY Fed and Phil Fed's manufacturing may have been 'too strong' in May but the plunge in June is really remarkable. The NY Fed Empire suffered the largest decline ever, equaling 1.9 standard deviations, which represents half of a normal cycle! The level is not still not lower than it was in 2016, but it is far below average, -1.2 st.dev, signaling a sharp decline in manufacturing activity. Phil Fed later confirmed that something may be happening now, as the index fell much more than expected, by 1 st.dev to -0.4 st. dev below average. The details were (of course) weak as well
- If we add on the PMI, these three surveys signals an almost 5 p decline in the ISM. That will not happen – partly because both NY & Phil indices were 'too strong' in May. However a decline to 50, to the PMI's June level, from 52.1 in May is far from unlikely

Eurozone PMI up, best in 7 months, thanks to France. Level still modest

A rebound in France lifted the EMU index in June, Germany stabilised, others (implicitly) down



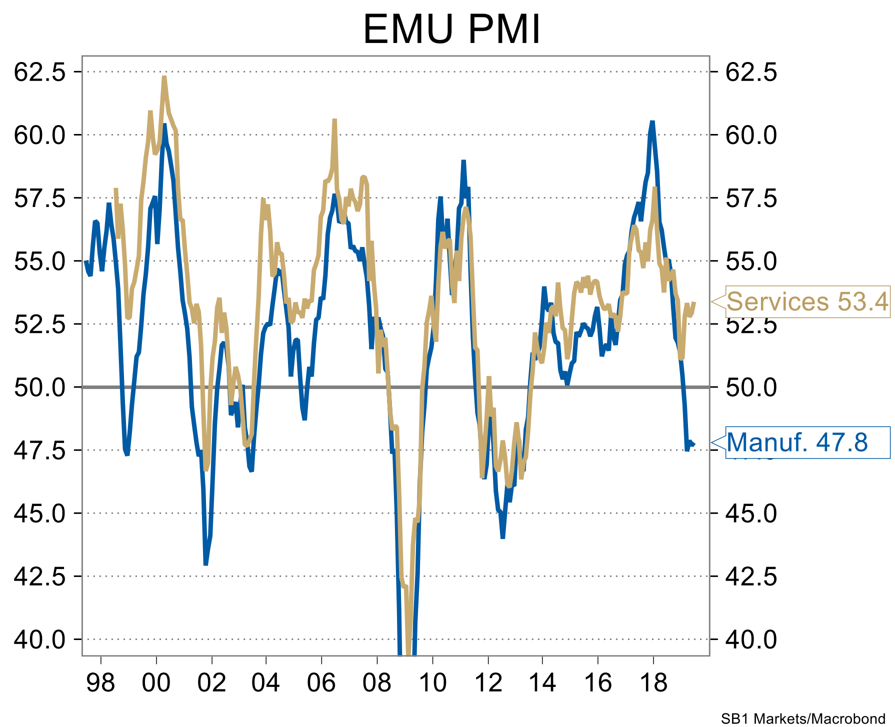


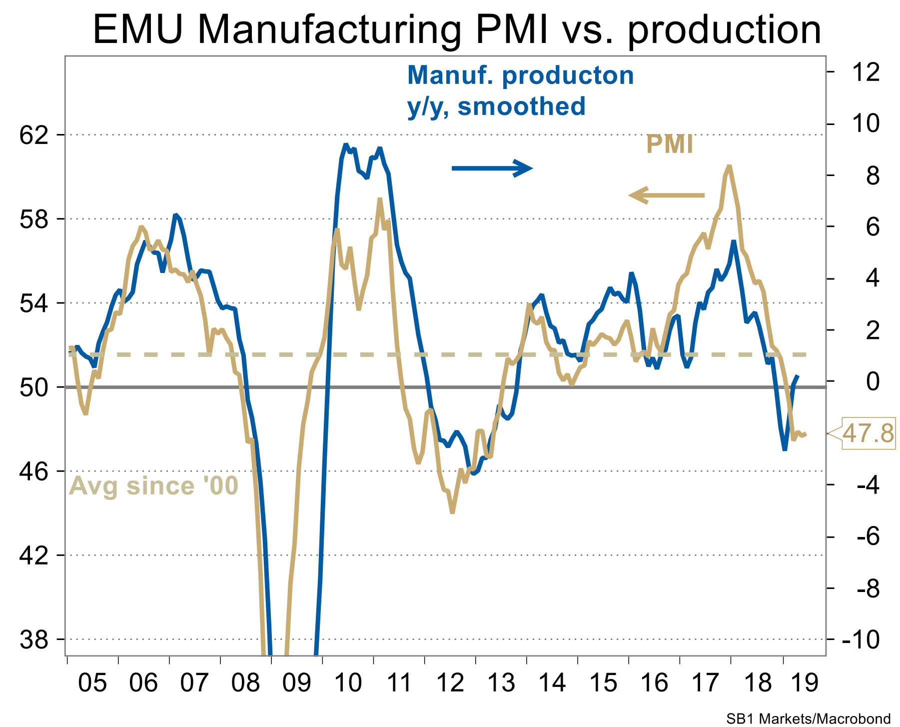
- The preliminary EMU composite PMI rose 0.3 p to 52.1 in June, marginally above expectations. The PMI recovered 0.9 p from the Jan 51.2 through, following an almost 8 p tumble through 2018. Thus, the index is not suggesting any brisk recovery in the Eurozone, GDP growth will most likely slow to below 1% in Q2
  - » The manufacturing PMI points to a prolonged contraction, albeit improving marginally to 47.8 in June, with Germany still at the bottom
  - » The service sector reported slightly higher activity, up 0.5 pp to 53.4. Services are recovering, mostly due to the French index, which fell sharply when the yellow vests blocked much activity during the winter. German services have been reporting decent growth all the time, the index is at 55.6!

SpareBank 1 MARKETS

The manufacturing contraction prolongs; services remain resilient

The manufacturing PMI may have stabilised, still signalling declining production



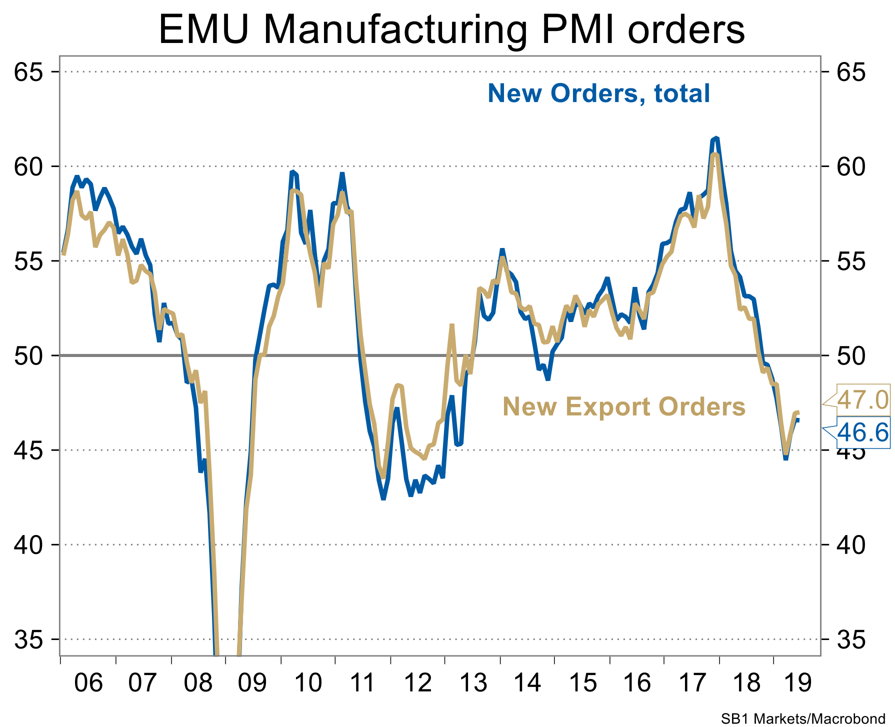


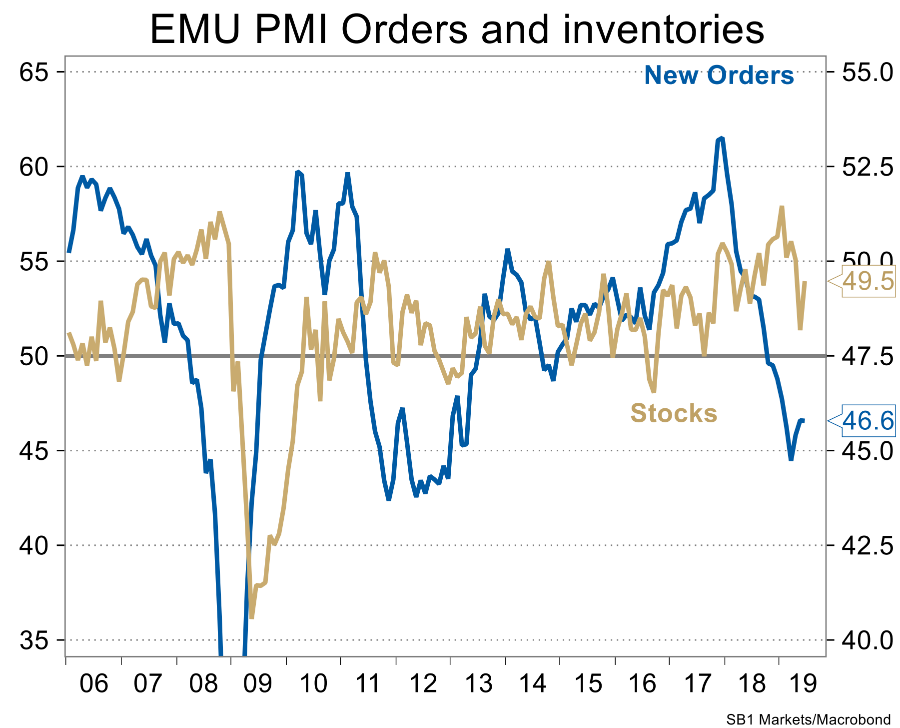
- Manufacturing production stabilised in Q1, the PMI is indicating a decline
- The slump in new orders may be easing, more on the next slides

SpareBank 1 MARKETS

The downturn in orders shows tentative signs of moderating

Manufacturing order PMIs have edged higher in Q2, albeit still reporting a decline in orders

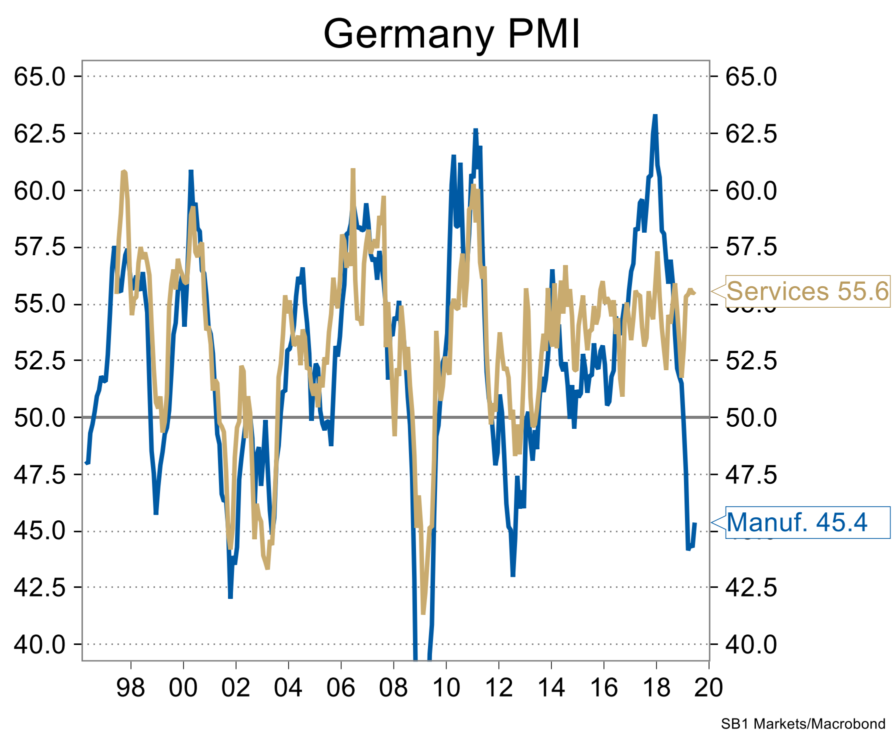


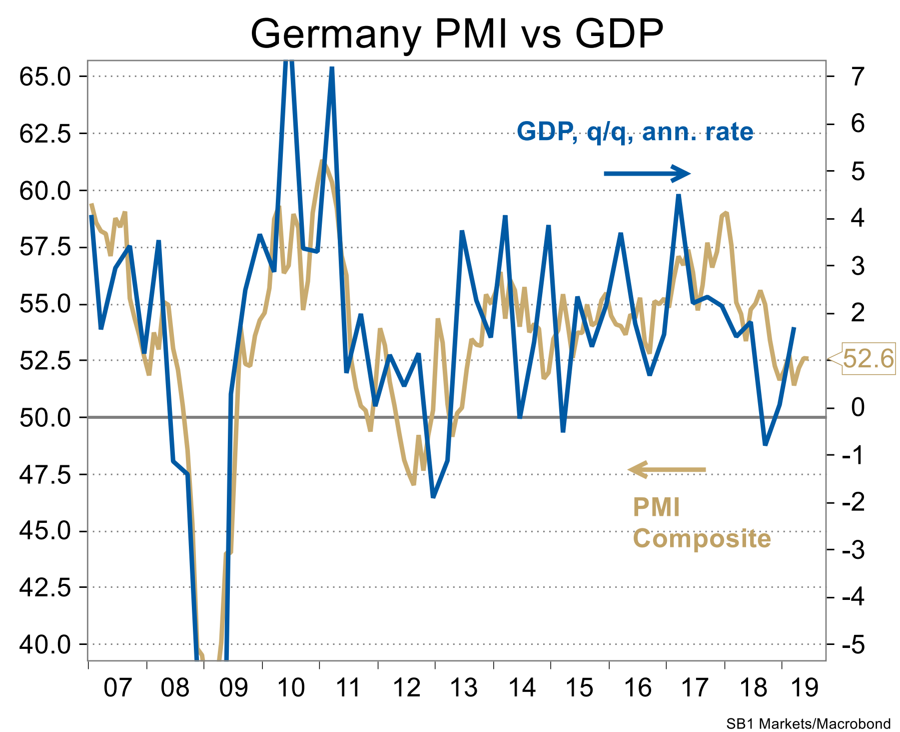


- Businesses reported a further decline, the total orders index was unchanged at 46.6, the third month of stabilisation. Both domestic and export orders are still contracting (the export index includes intra-area exports and not just out of EMU exports). The recent upswing is modest, orders are still falling at the fastest pace since the 2012 Euro crisis
- The inventories of finished goods index rose in June. The level is not very high– but companies most likely will have to reduce their inventories (implying an inventory index below average)

Services still STRONG, manufacturing remains very WEAK

The bright spot in manufacturing: The manufacturing contraction eased marginally

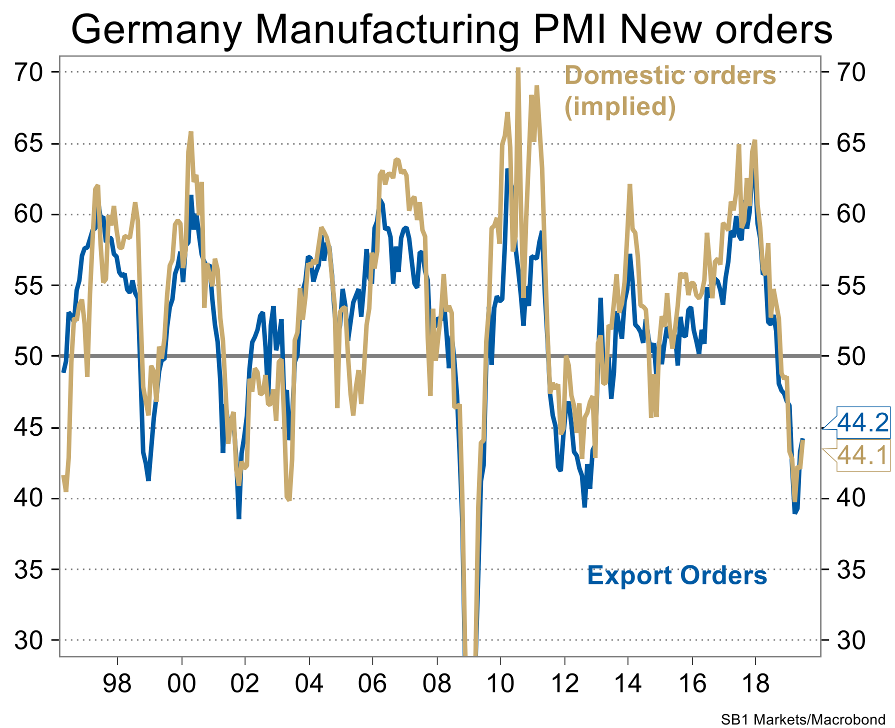


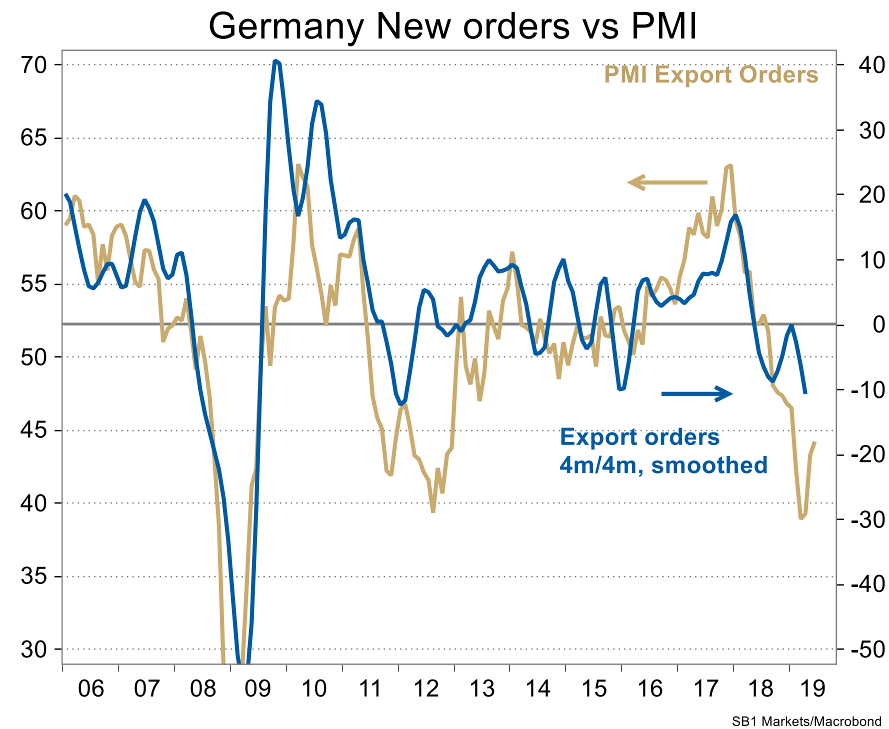


- The preliminary composite PMI was unchanged at 52.6 in June, pointing to 1% GDP growth, below the 1.6% reported in Q1
- The manuf. PMI rose 1.1 p, the largest gain since late 2017. May be an early signal of an upcoming recovery but the index at 45.4 continues to signal a deep slump among manufacturers
- The service index edged up marginally and continues to note solid growth in services. The discrepancy between services and manufacturing is the largest since 2008

The worst may be behind us? At least, order contraction slows

The manuf. orders PMI climbs, yet export orders still indicate substantial export downside risk

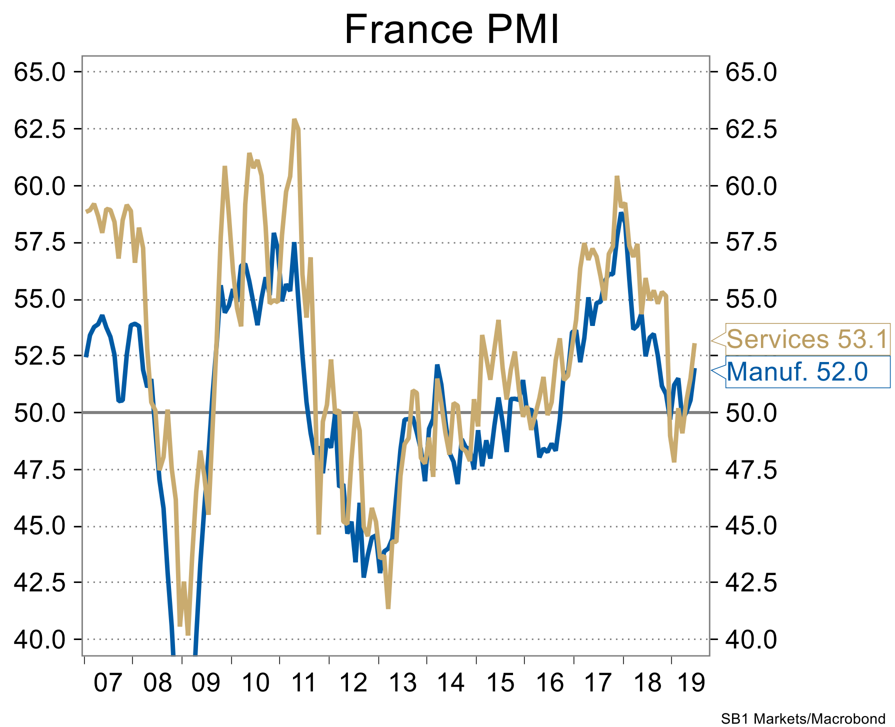


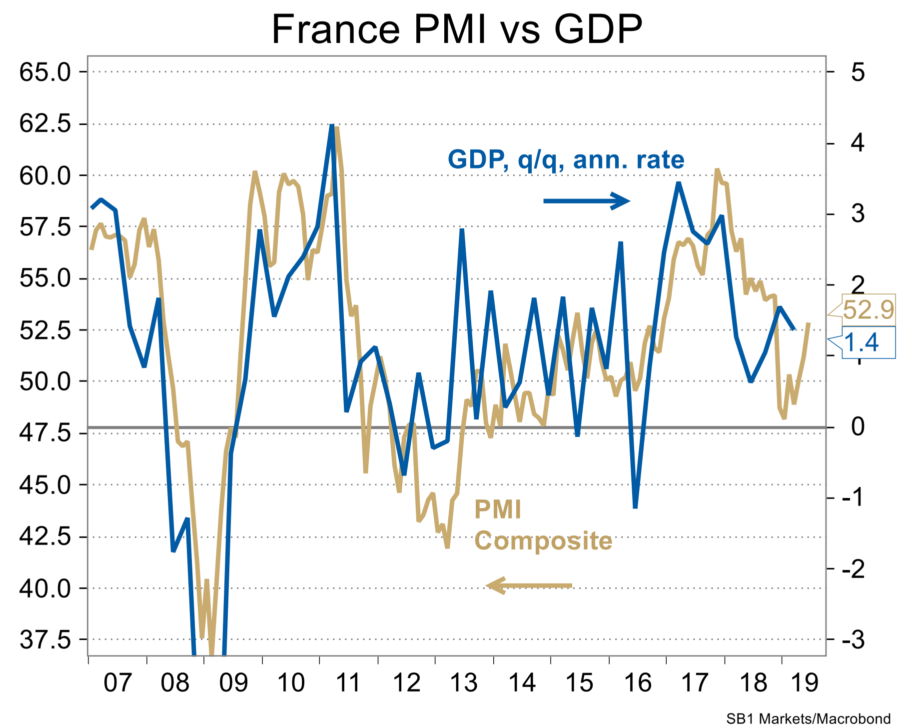


- Both domestic and export orders PMIs are up some 5 p since March. May be an early sign of recovery – but the level is still dreadfully low (44) and pointing to a further noteworthy decline in order inflows
-

PMIs are recovering as impacts from the 'yellow vests' protests wane

The composite index rose 1.7 p to 52.9 in June, suggesting stable GDP growth, at some 1.5%





- Both PMIs fell were into stagnation territory early in 2019. Service sectors were brought down most likely as the 'yellow vest' protests were hampering activity. Now, these have faded and the PMI climbs towards pre-protest levels
- Manufacturers noted an upswing in June too, to the highest level since late 2018. The composite index at 52.9 is pointing a GDP growth at some 1.5%, approx at trend

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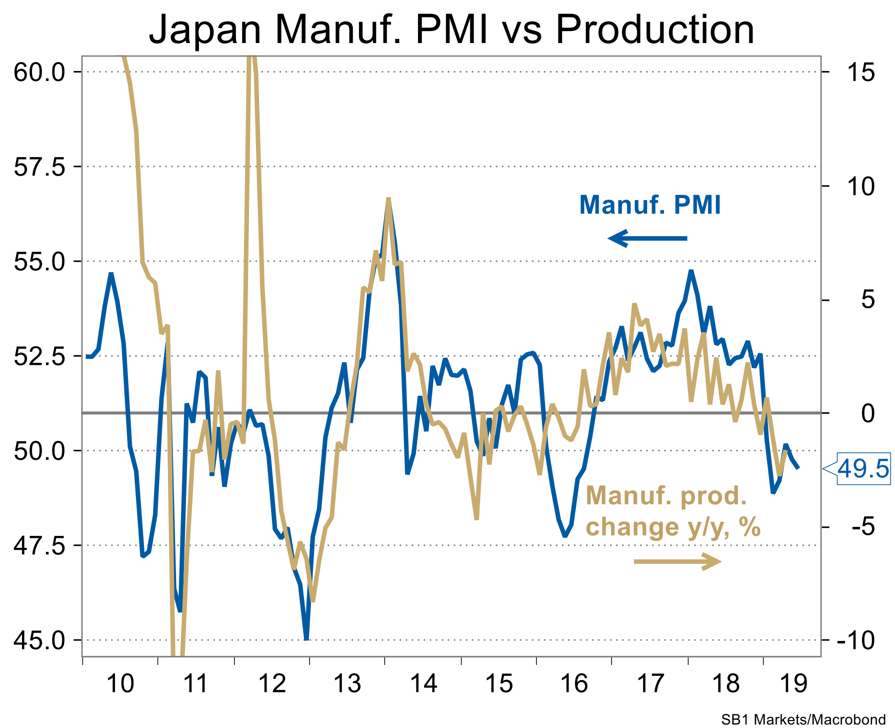
Manufacturers are reporting a moderate decline, orders are falling sharply

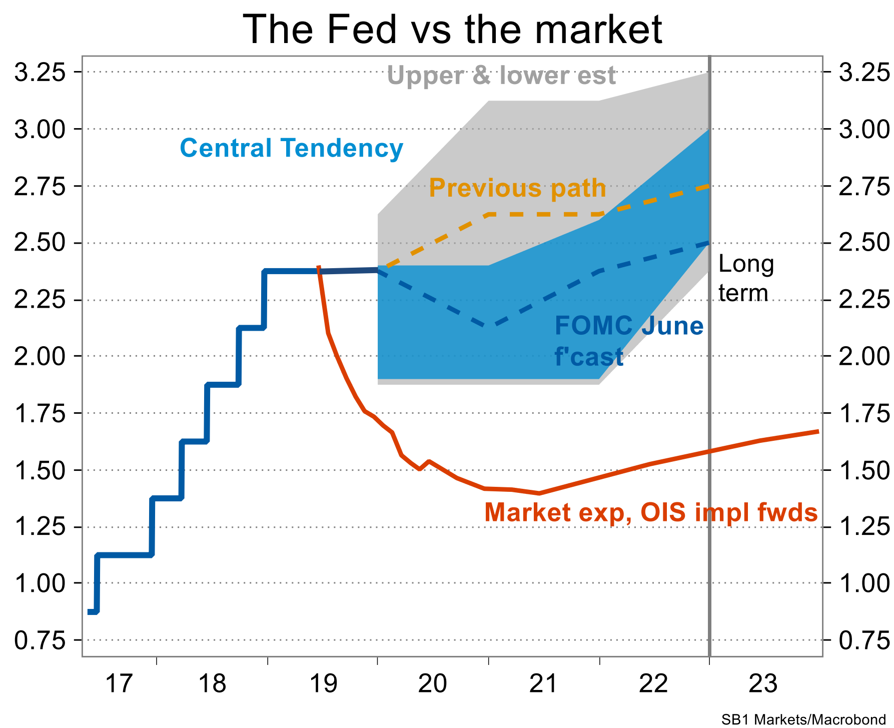
The manuf. PMI fell 0.3 p in June, signalling a continued downturn



- The index has not always been closely correlated to actual manufacturing production but the recent decline is not good news. The index now, at 495 signals a 2% contraction in manufacturing production
- Businesses are reporting declining manufacturing orders, the total order index fell to 47.3. Export orders are a tad weaker, at 46.4. Actual exports and actual order inflows are not that weak, not so far, at least

Fed held the 2019 dot plot unchanged but leans towards interest rate cuts

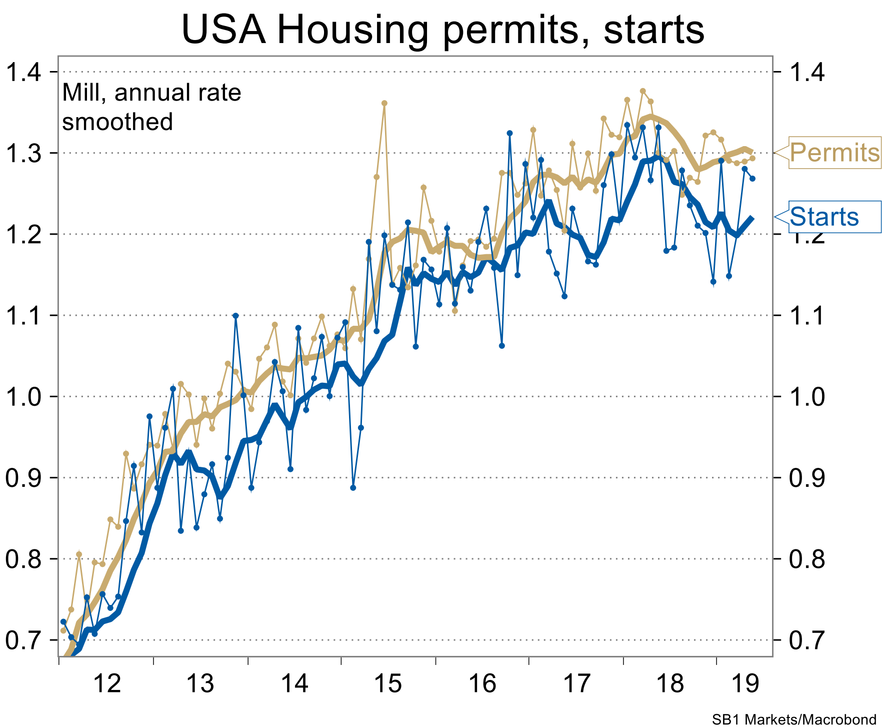
Fed raised GDP growth, nudged down the unempl. f'cast – and signals a more dovish stance

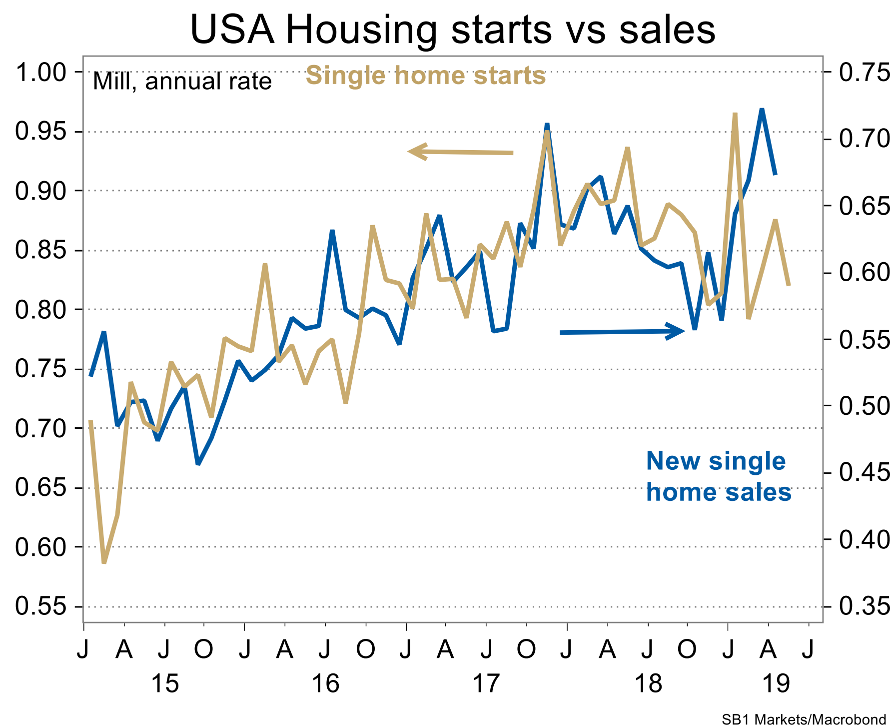


- The FOMC kept interest rates unchanged, as broadly expected. The Fed held the 2019 'dot-plot' (the median projection of the Committee) unchanged at 2.4% and lowered the 2020 path by 50 bps, and 2021 by 20 bps
  - » However, the average end of 2019 projection was some 30 bps lower than in March, and 7 of the 17 officials assess the appropriate interest rate to be 50 bps below the current level, and 1 expected a 25 bps cut! The Committee is no doubt leaning towards lower interest rates
  - » The projection on the long run, 'normal' Fed funds rate was nudged down to 2.5%, from 2.8% (but to 2.7% from 2.8% in March, measured by the average estimate). Anyway, his estimate of the normal or neutral rate has been slowing down from an above 4% estimate in 2012
- The GDP f'cast growth was held unchanged at 2.1% in 2019 and raised by 0.1 pp to 2.0% in 2020, yet the assessment of economic activity was changed from 'solid' to 'moderate'. The unemployment projection was nudged down by 0.1 pp and the inflation f'cast was lowered by 0.3 pp in 2019 and 0.1 pp in 2020
- The argument for the dovish turn was that the FOMC recognized that uncertainties have increased (surprise, surprise) and underscored that they will 'act as appropriate to sustain the expansion'
- Markets were probably expecting that the Fed would address an increasing probability of a cut, however, market reaction indicate that the Fed was more dovish than expected. Stock markets climbed, bond yields dropped among all maturities - and Fed Fund futures plunged
  - » The market is now fully expecting a cut at the July meeting, and 38% probability of a 50 bps cut! The Dec' 20 contract is slipping too, markets are expecting 3 cuts or more by more than 60% probability, up from 50% before the FOMC meeting
  - » For more on market implications, check here

Housing permits & starts are slowly climbing

Starts came in above expectations due to an upwardly revised April, permits marginally up in May

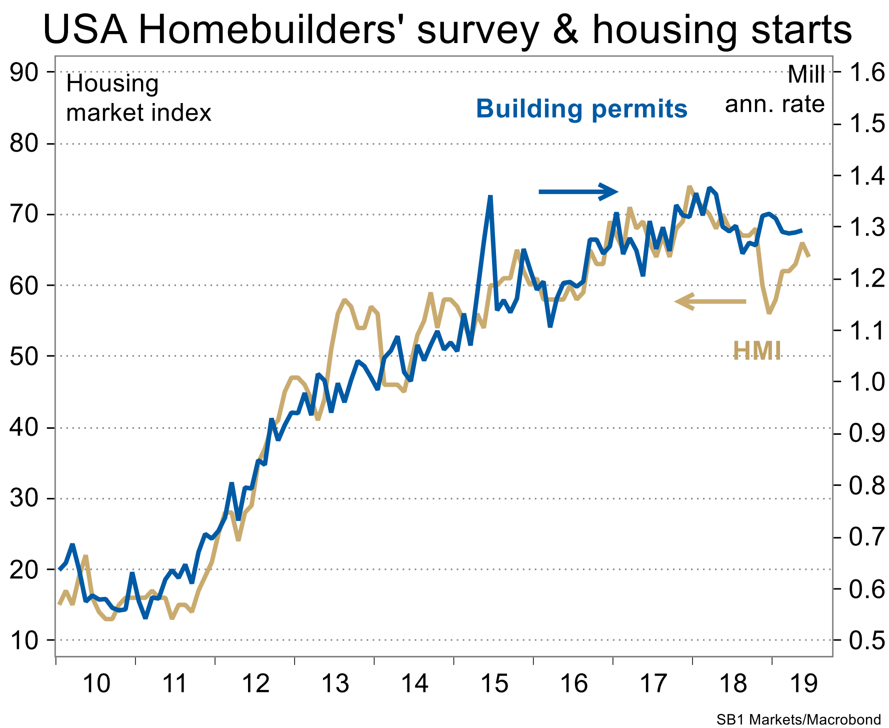


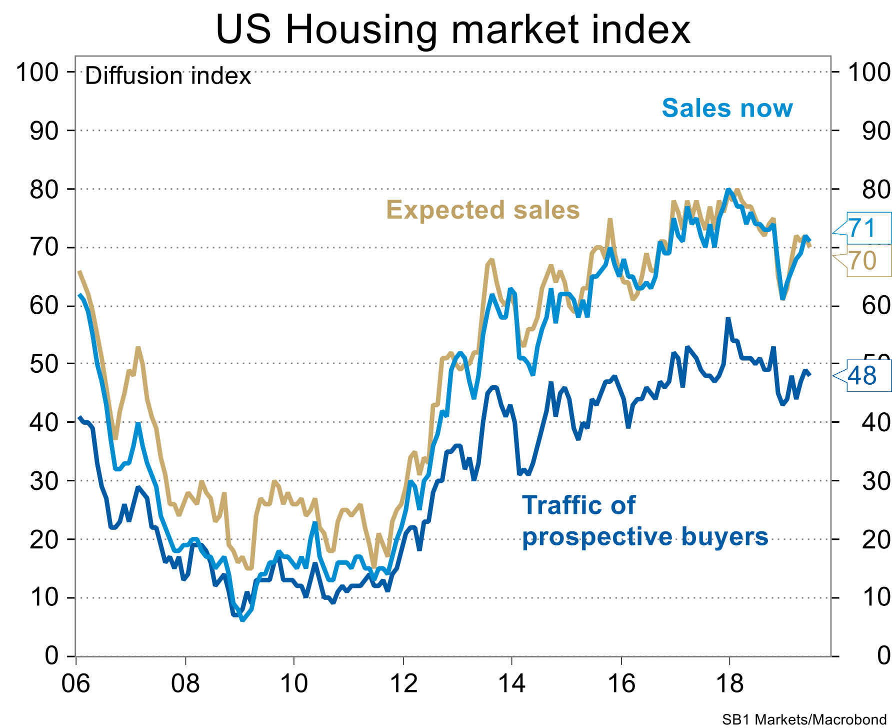


- Housing starts fell 0.9% m/m in May, to 1.27 mill. (annual rate) vs expectations at 1.24 mill. Both March and April were revised up (April to 1.28 mill, from 1.24'). Starts have stabilised since late 2018
- Housing permits are a less volatile than actual starts, and are a more useful gauge of the activity in the sector than actual starts. Permits rose marginally to 1.29 mill in May, close to expectations. Permits fell some 5% through the first half of 2018 and have been slowly recovering since last autumn, up some 2% from the bottom
- Declining mortgage rates have no doubt supported housing demand, as rising new home sales confirm
- *New home sales will be reported this week*

Homebuilders’ confidence remain solid in June

The HMI weakened marginally in June. The short term trend is up – but is not signaling higher starts





- The housing market index (HMI) fell 2 p to 64 in June, a tad weaker than expected. The homebuilders have been reporting improved market conditions since January and the index is now just 4 p below the October 2018 peak (before the housing market cooled)
  - » HMI still does not suggest an increase in building permits, the survey is most likely pointing to a stabilization
- The homebuilders are reporting that labour shortages and rising material costs are depressing supply. At the same time, they have been noting that fewer (than one year ago) are interested in buying, and that both actual sales and expected sales are below last year’s levels. So demand must have slowed too

HMI is a based on a sentiment survey of US homebuilders, in which the respondents rate housing market conditions at the present time and the next six months. The index ranges from 0 to 100

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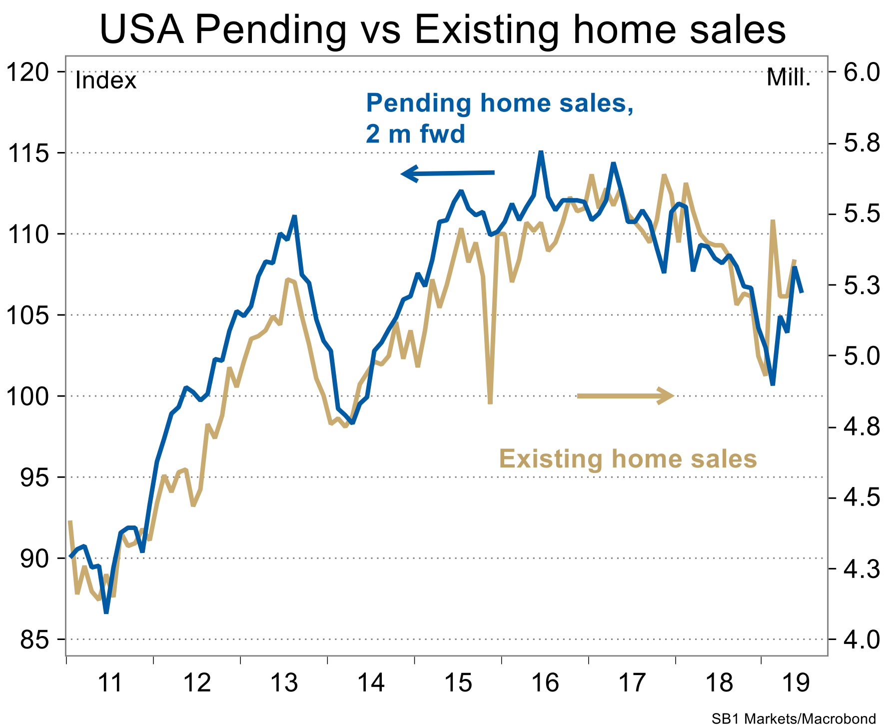
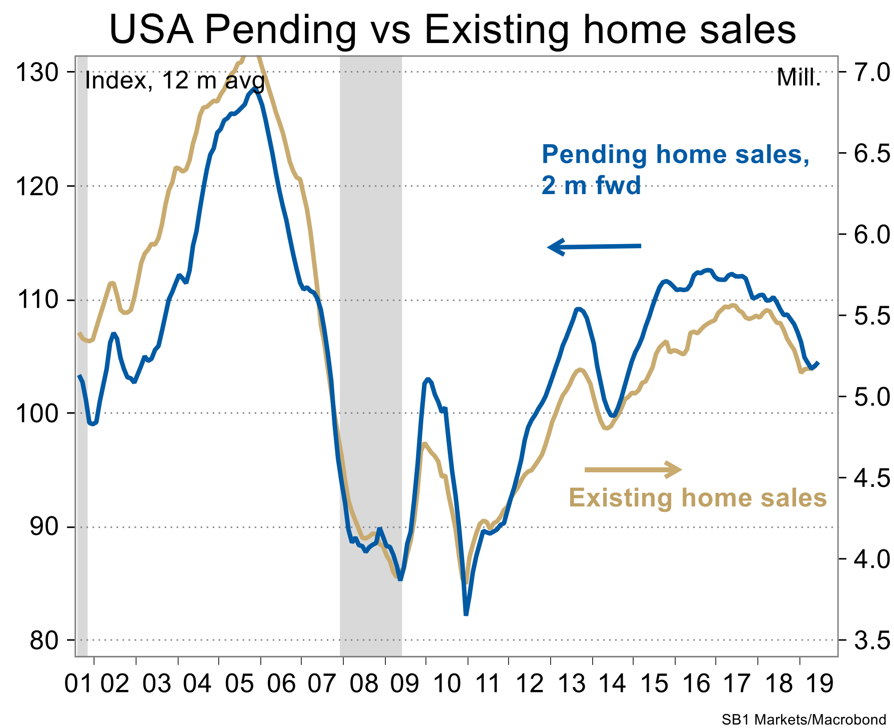
Existing home sales up in May, confirms a modest 2019 recovery

Existing sales rose in May and the Q4 slump is more than reversed. Still, the level below 2017 peak

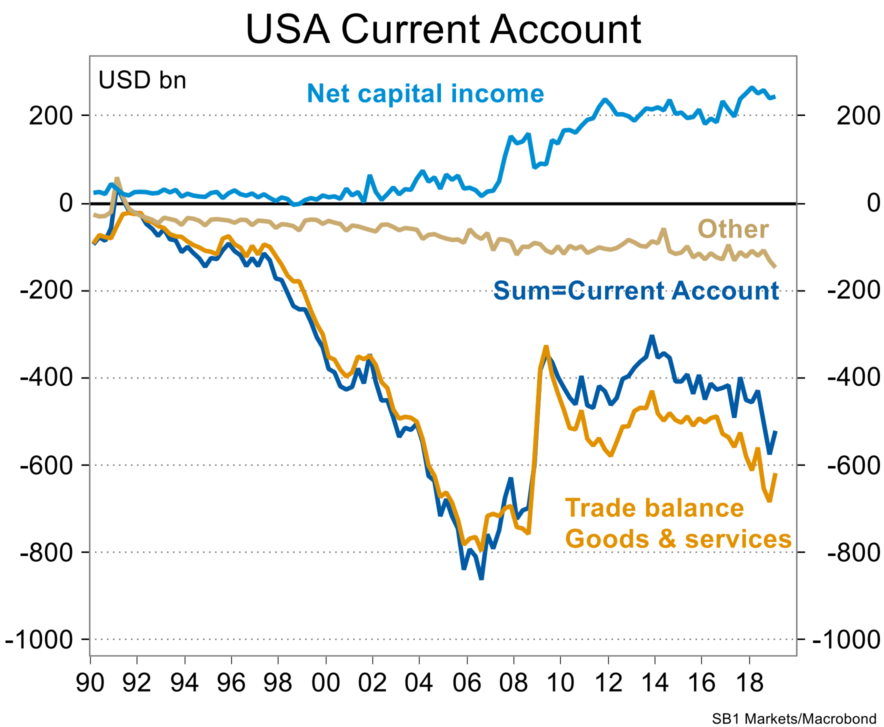


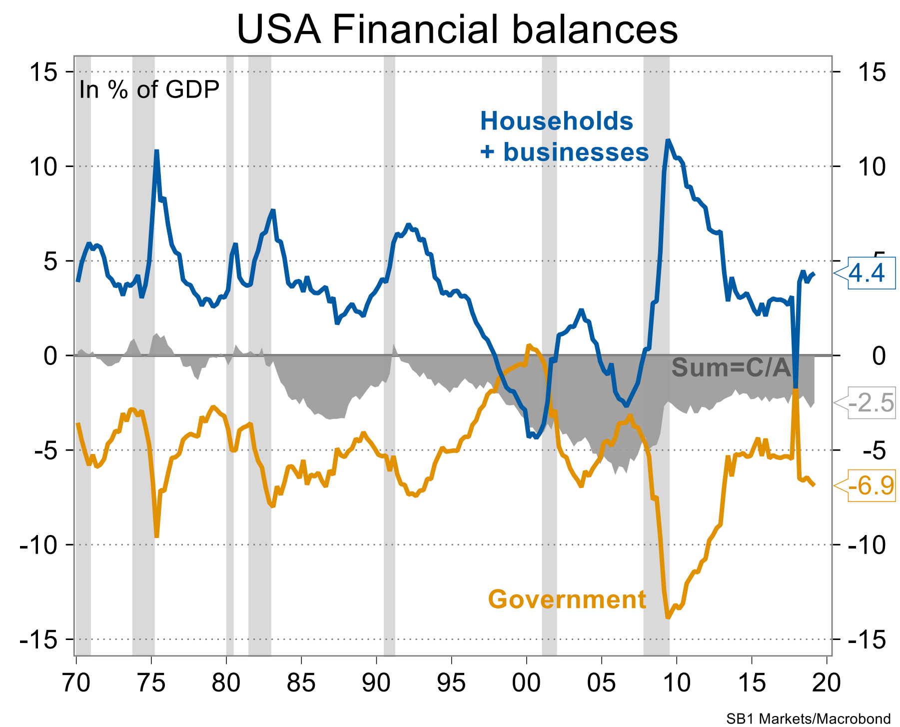


- Existing home sales rose 2.5% in May, to 5.34 mill, expected up to 5.25 mill. Sales have no doubt improved the past 4 months, and the level is back to last summer's level. The inventory of homes for sale is steady at a low level, no signs of weakness
- Pending (existing) home sales confirm the recovery but not a further increase

The current account deficit shrank in Q1, equalling 2.5% of GDP

Still, the C/A deficit is trending out, the public deficit to blame. The good news: <u>Private in plus!</u>

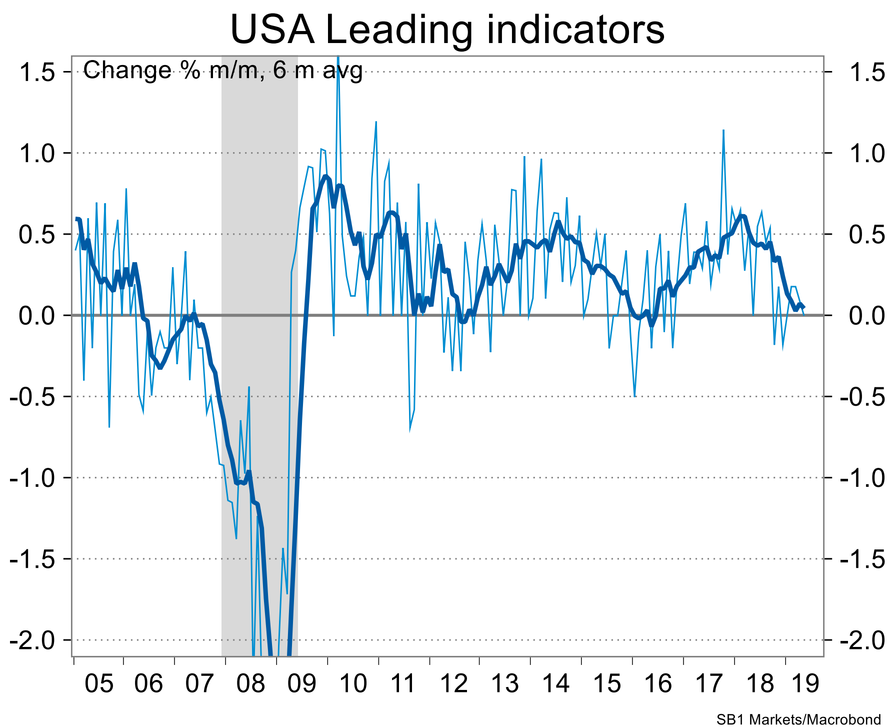


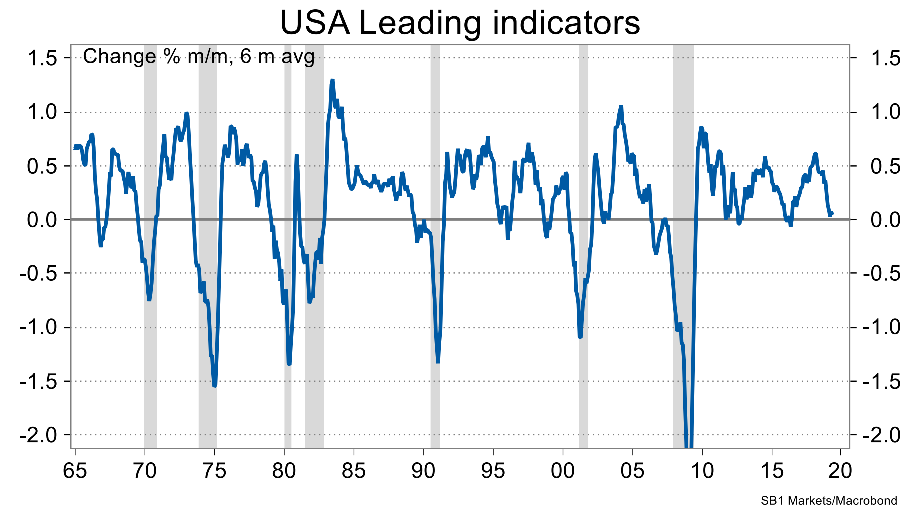


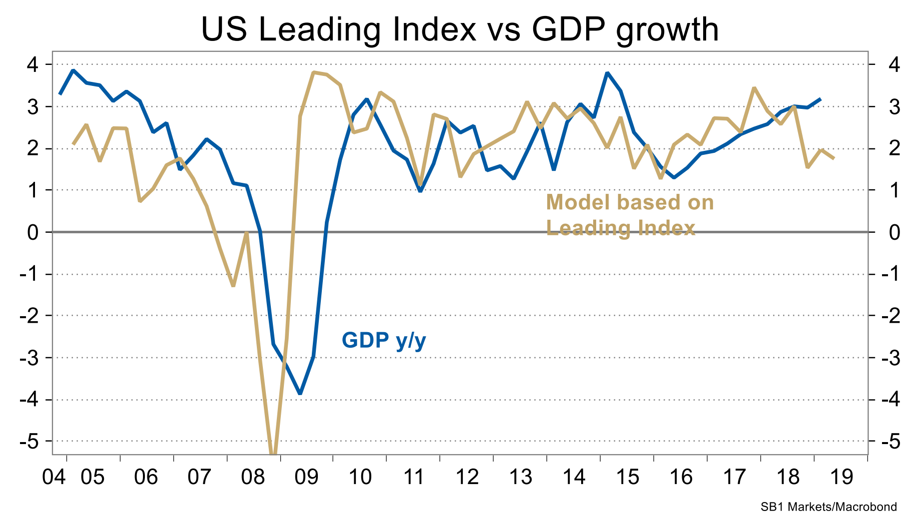
- The US government is running a huge cash deficit, equalling 6.9% of GDP in Q1. The deficit was just above 4% of GDP in 2015
  - » The ups/downs in private sector/public sector balance in Q1 2018 are due to the tax reform
- The private sector surplus inched up 4.4% in Q1 and its larger than in 2017 (albeit much lower than a few years ago), as <u>tax cuts are not fully spent</u>
- <u>The private sector cash surplus is the best argument for NOT fearing a hard US recession</u>. Recessions are almost always caused by higher household and corporate cash savings (=spending falls faster than incomes). The downside risk is now limited, as the cash surplus is well above normal levels. In addition, we very much doubt the public sector will cut the deficit in an uncontrollable fashion (if ever, would sceptics add), creating a negative demand shock

The Leading Index is stagnating – confirms growth slowdown to 1.5 – 2%

The LEI has indicated a slowdown for a long while but does not signal any setback/recession





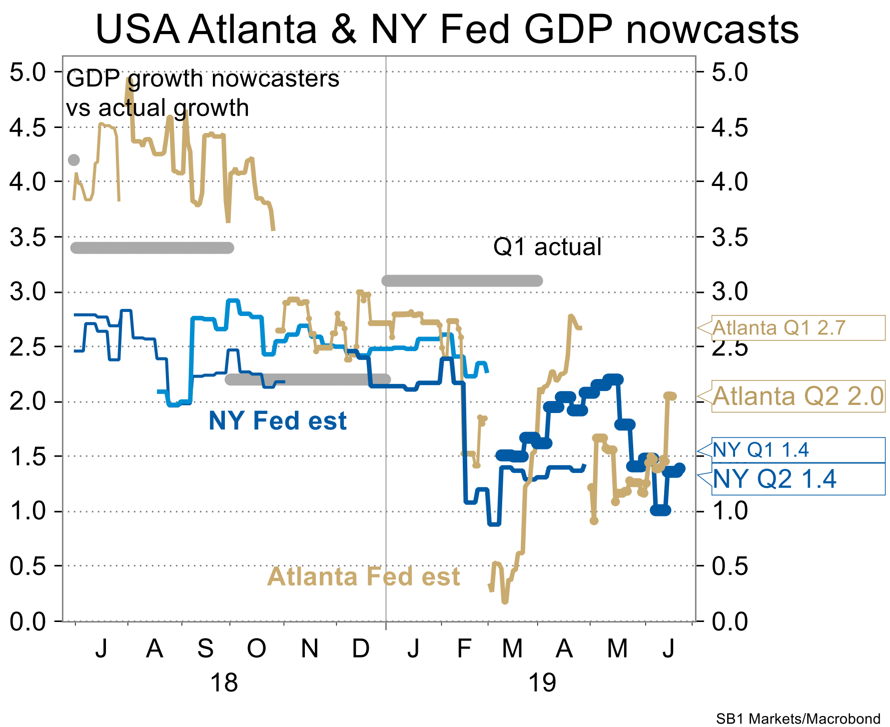


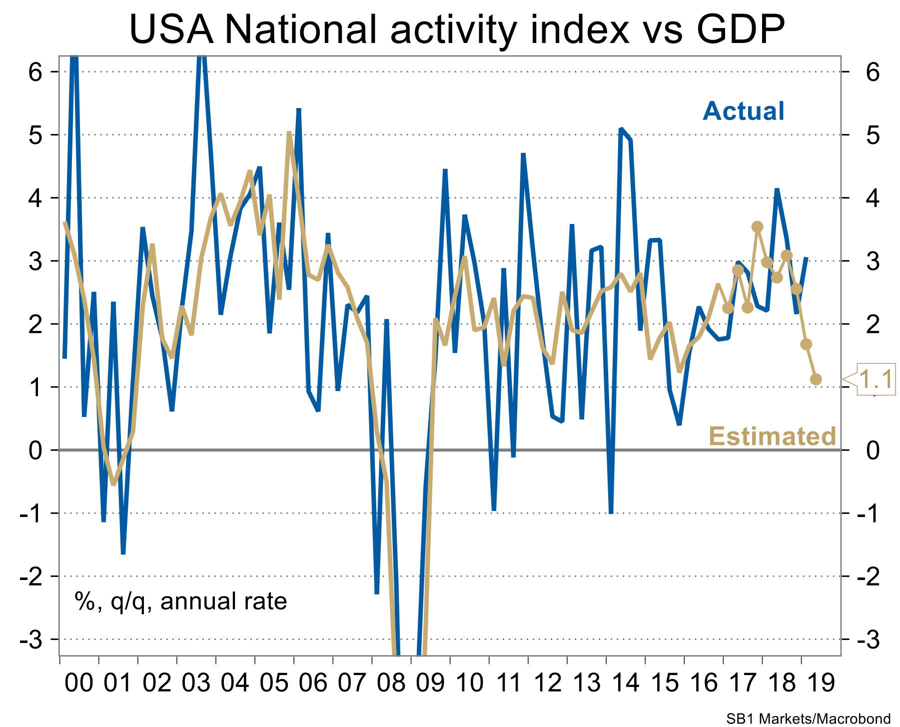
- Conference Board's Leading indicators was unchanged m/m May, weaker than expected. The index has been sliding down since last spring
- The LEI is signaling just below 2% growth so far in Q2, not far from what the nowcasters are reporting

Conference Board's Leading Index (LEI) is a composite index based on ten already published leading indicators that are judged to be leading the overall cycle

Fed nowcasters stable at 1.4 – 2.0% Q2 growth

The National activity index signals 1.1 % growth

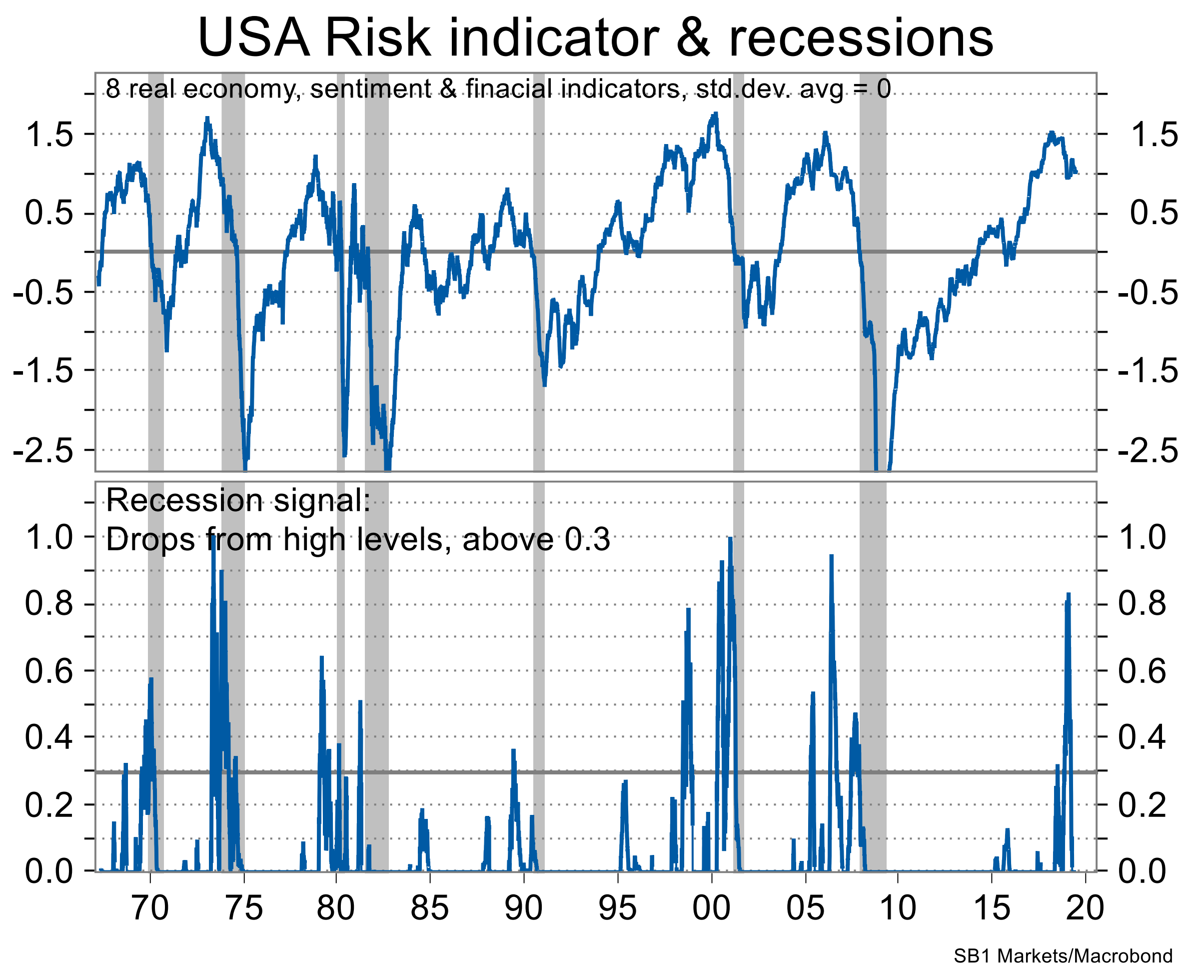


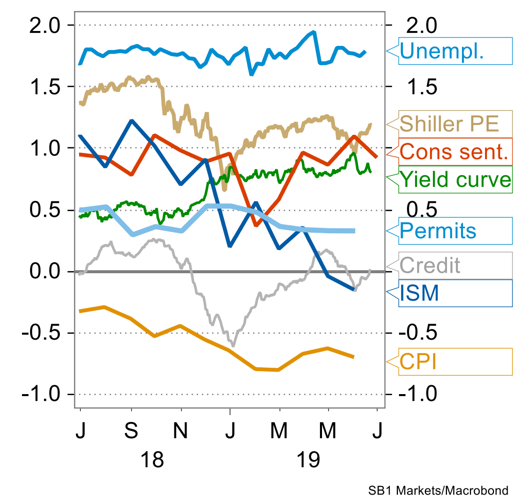


- However, a lot of data has still to be reported – and the nowcasters often miss the target (as they change their mind through to the quarter

US Indicators: Not a recession warning, now

... but data are deteriorating, barring the labour market and housing. To be continued

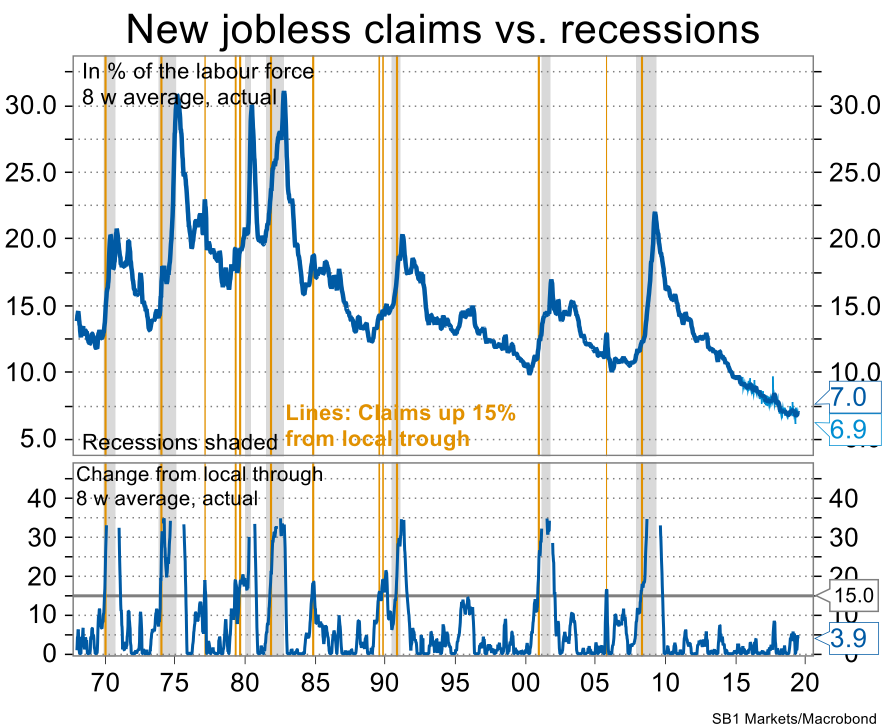


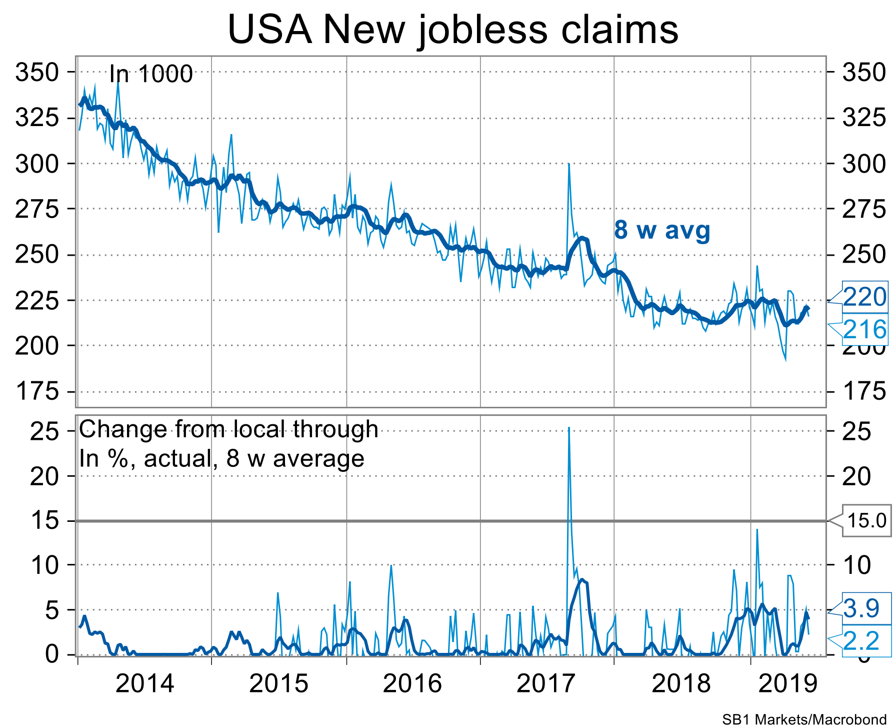


Inspired by Goldman Sachs Bull/Bear indicator. We are using jobless claims instead of unemployment, and have added housing starts, consumer sentiment, and a credit spread. In average, our Risk or Good Times Indicator leads recession starts by 18 months. The lower panel above shows changes in the squared index (if index >0) to accentuate the dangerous declines from high levels

Jobless claims remain low, no signs of labour market weakness

Jobless claims fell marginally last week, and the level is very low, reflecting a tight labour market

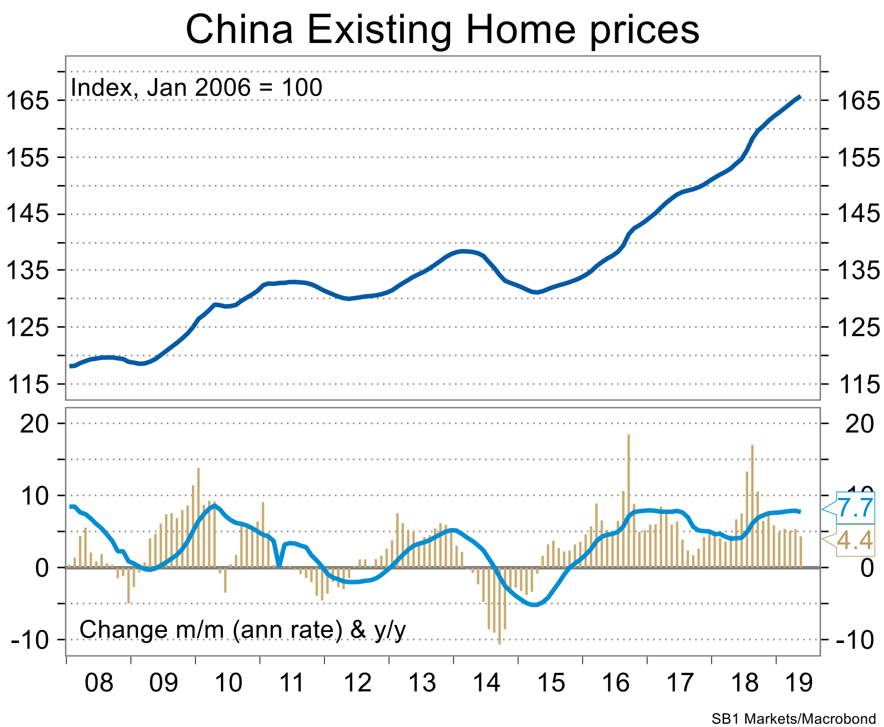


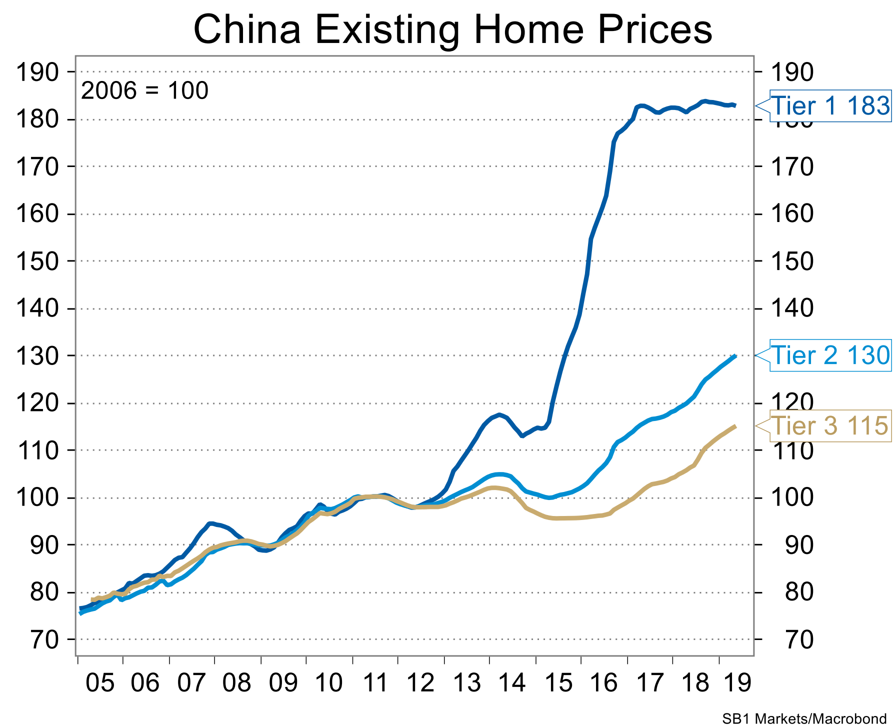


- Last week, jobless claims ticked down to 216’, from 222’ the prior week. Claims have inched up recent week but the level is still very low, the 8 week average is 220’, up just slightly from the bottom at 193’in mid-April (the lowest since 1969!)
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow ‘recession’ warning line is to be drawn, check the chart to the left. So, no reason to worry now?

House price inflation quite stable, at a comfortable level

The annualised m/m rate slowed to 4.4% in May, the annual rate ticked down to 7.7%

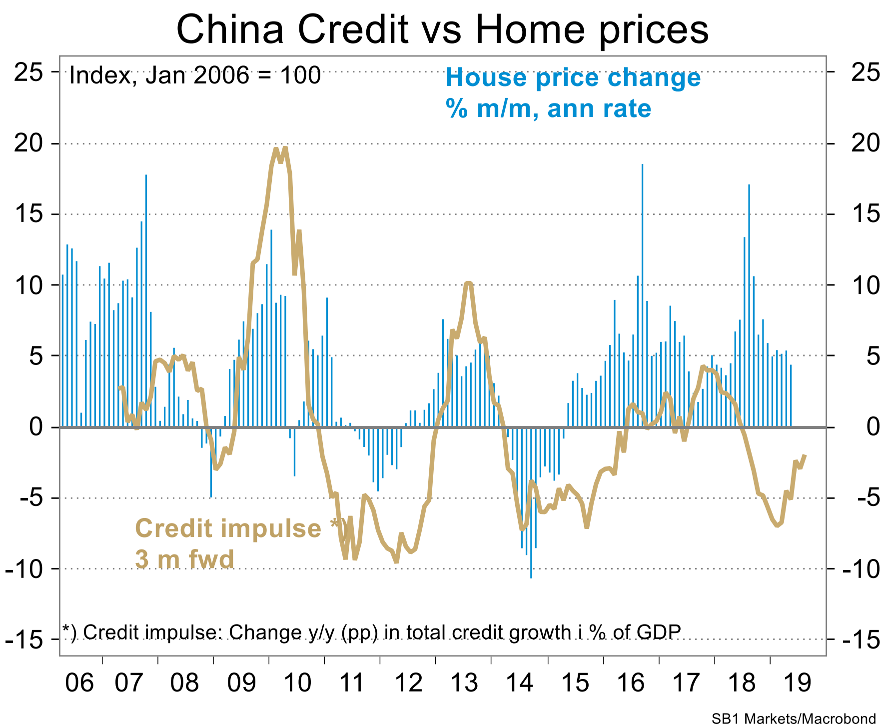


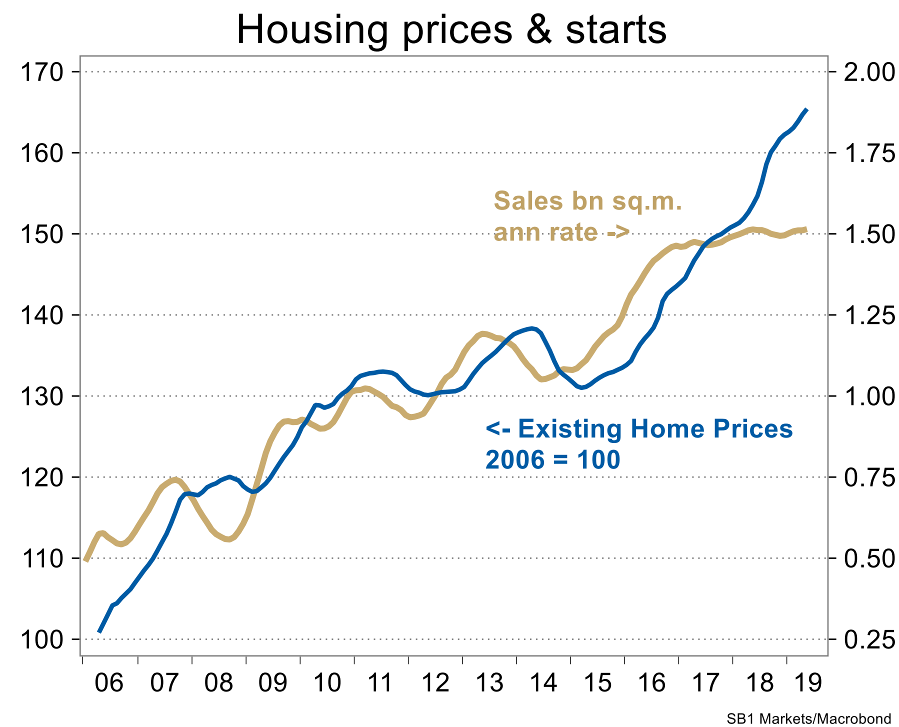


- The annual growth rate came down 0.2 pp to 7.7% in May. Monthly price inflation slowed to 4.4% annualised, after growing steadily at 5-6 % the past months. House prices are on a steep upward trend path (in tier 2 and tier 3 cities, that is)
  - Prices in the four tier 1 cites have remained more or less flat since early 2017 (following a 60% lift past 2 years)
  - SouFun has also reported an uptick in m/m in April, to 3.3% annualised. The annual growth rate is still slowing, to , to 4.3% y/y
- The credit (impulse) contraction in 2017 and into 2018 was most likely the main reason for the mild downshift in late 2018. Now, the authorities are (trying to) stimulate credit growth, will support price growth?

The 2018 credit slowdown did not take house prices down…

… and higher house prices do not signal lower new home sales/starts

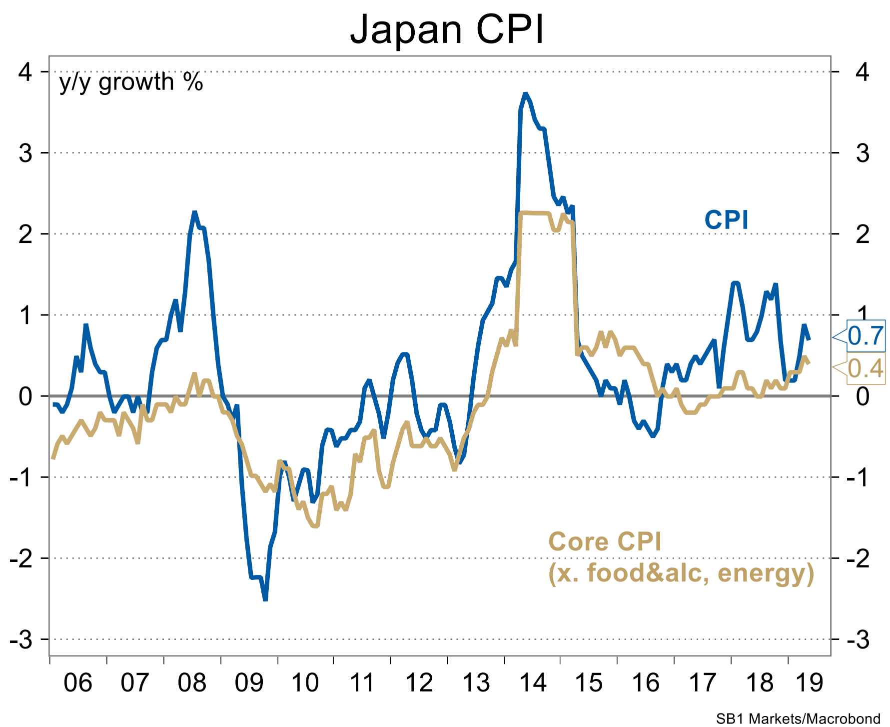


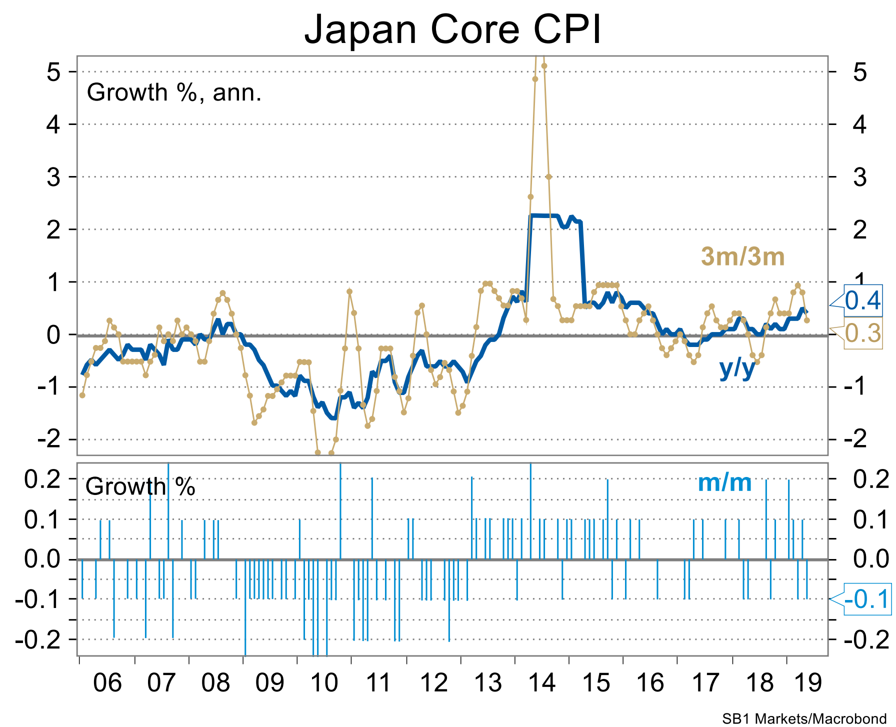


- So far, prices have kept up better than usual, even as the credit impulse has been negative since early 2018
- That's the case with new homes sales too – sales are still trending slowly up
- Now, the authorities are pushing the credit accelerator again – and they may succeed, as many times before. However, March/April data indicate that credit is not accelerating, more stimulus needed?

Core CPI inflation is turning slowly up

Prices fell m/m in May and the annual rate inched down to 0.4%, most likely trending up





- Total inflation came down to 0.7% y/y. Core inflation is slowly turning up from the bottom, came in at 0.4% in May (from the highest level in 3 years in April!)
- Wage inflation has fallen steeply this year and does not indicate accelerating price growth

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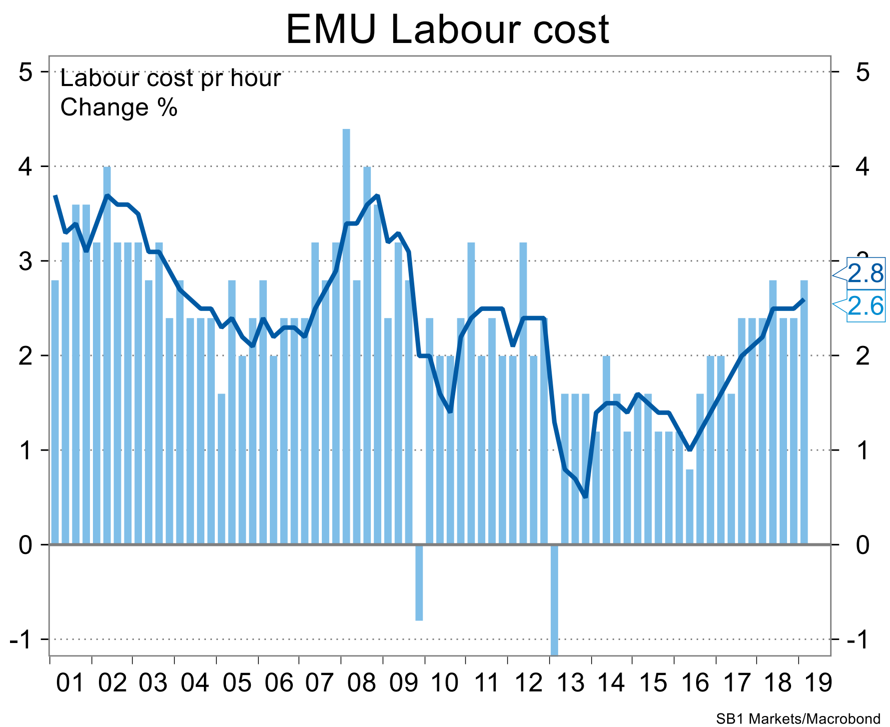
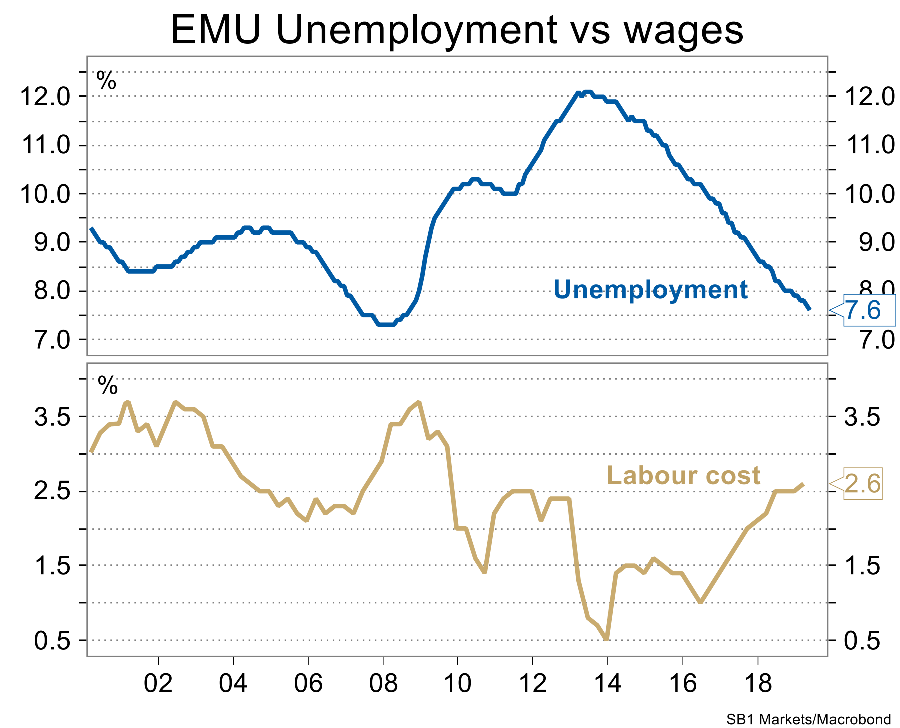
Wage inflation picked up in Q1, trending up

Labour cost inflation ticked up to 2.6% y/y in Q1, the highest since 2009

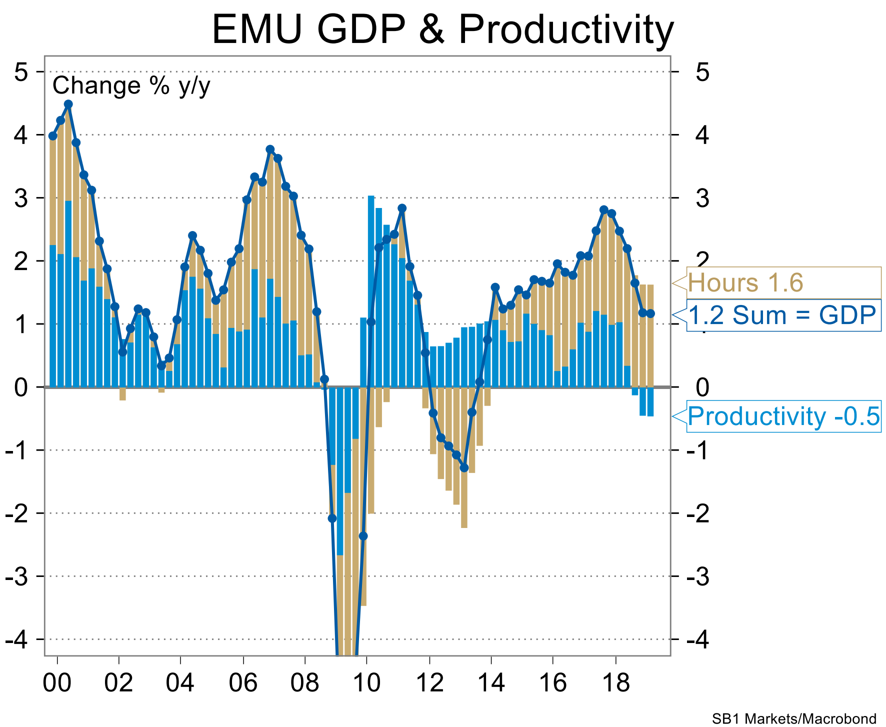


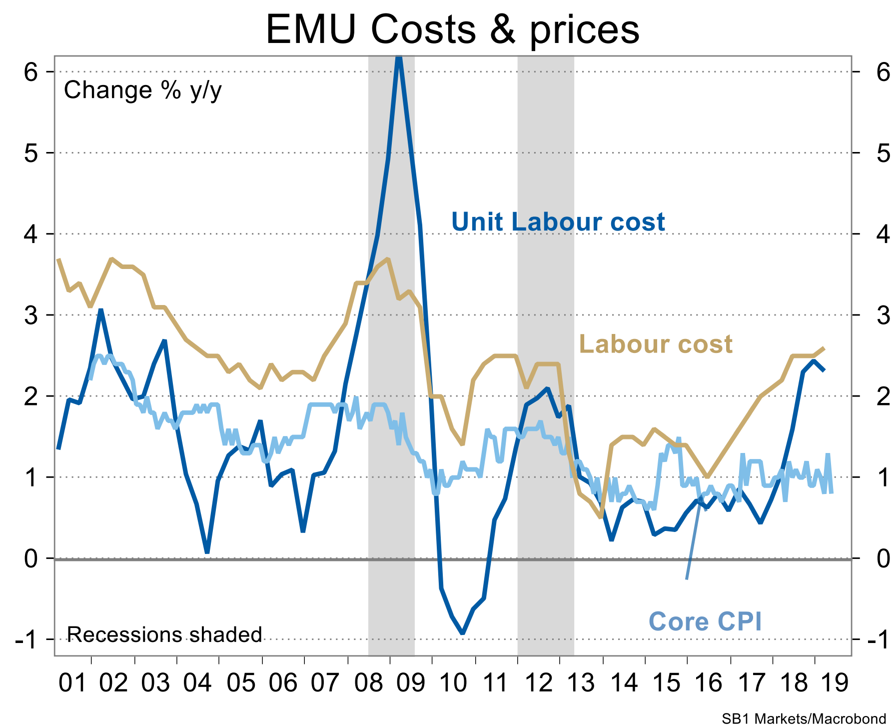


- Wage inflation inched up to 2.6% y/y in Q1, a 0.1 pp increase from a 0.1 pp upwardly revised Q4. Growth q/q rose to 2.8% annualised
  - » Unemployment is still sliding steadily down and the level is not high anymore. The strengthening labour market stands in contradiction to the loss of momentum in the EMU economy, particularly within manufacturing, however, it is probably a lagging indicator
  - » Rising wage inflation has to translate into higher CPI inflation at one point?? So far, it has not
  - » No Q1 country details are published yet

Unit labour cost inflation above 2%, productivity stalls

ULC at 2.3% and no productivity growth, not arguments for a more expansionary monetary policy?





- Productivity slipped by 0.5% y/y in Q1 and the 1 year average is -0.2%. Hours worked up 1.5%
- Unit labour costs (wage costs per unit) are on the way up, as labour costs rise and productivity is slowing (and now outright falling y/y). In the total economy, Unit Labour Cost rose 2.3%, much higher than over the previous 4 years (the 2.6 hourly labour cost inflation refers to the business sector, not the total economy)
- <u>Unit labour cost inflation is well above ECB's CPI inflation target at close to but below 2%, However, as long at CPI inflation remains subdued the ECB can pinpoint that if a more expansionary monetary policy should be explained</u>

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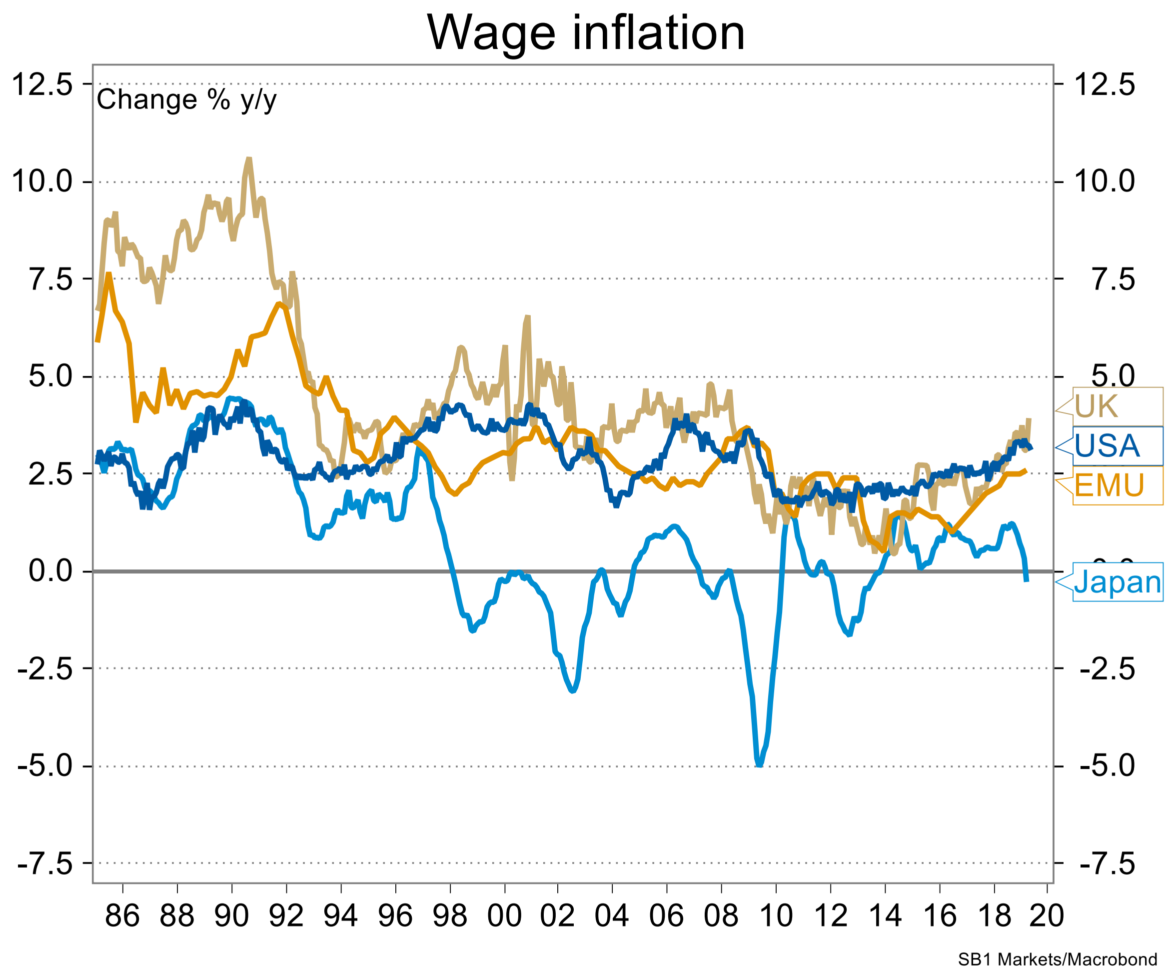
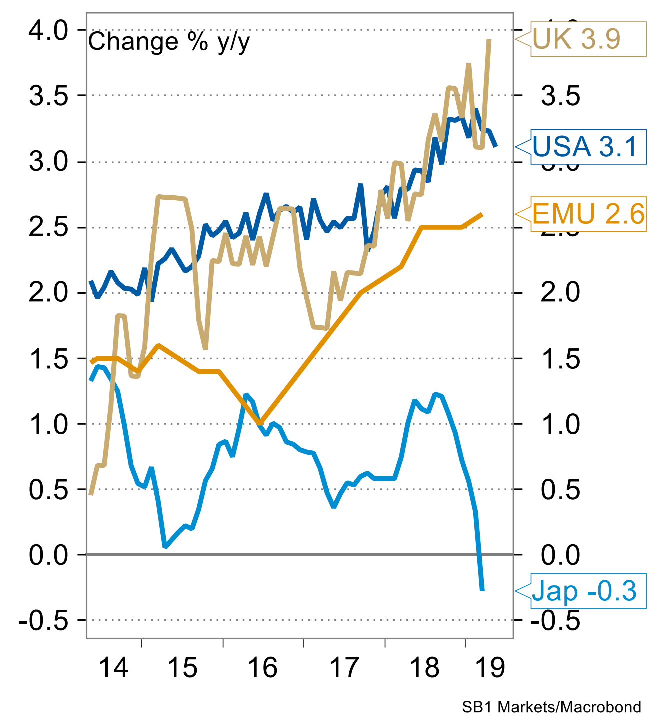
Wage inflation is heading up most places, ex Japan (and slowing in the US?)

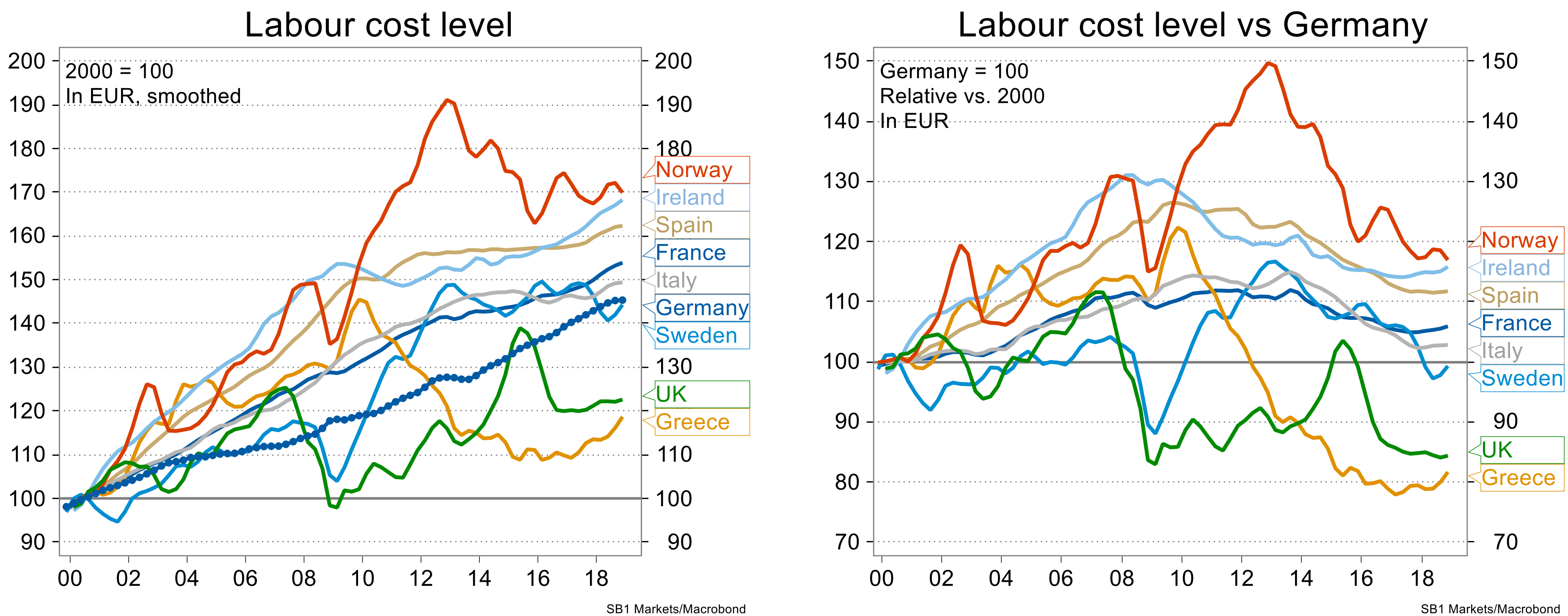
Productivity growth is slow everywhere and cost inflation is accelerating





Slowly towards wage “harmonization”

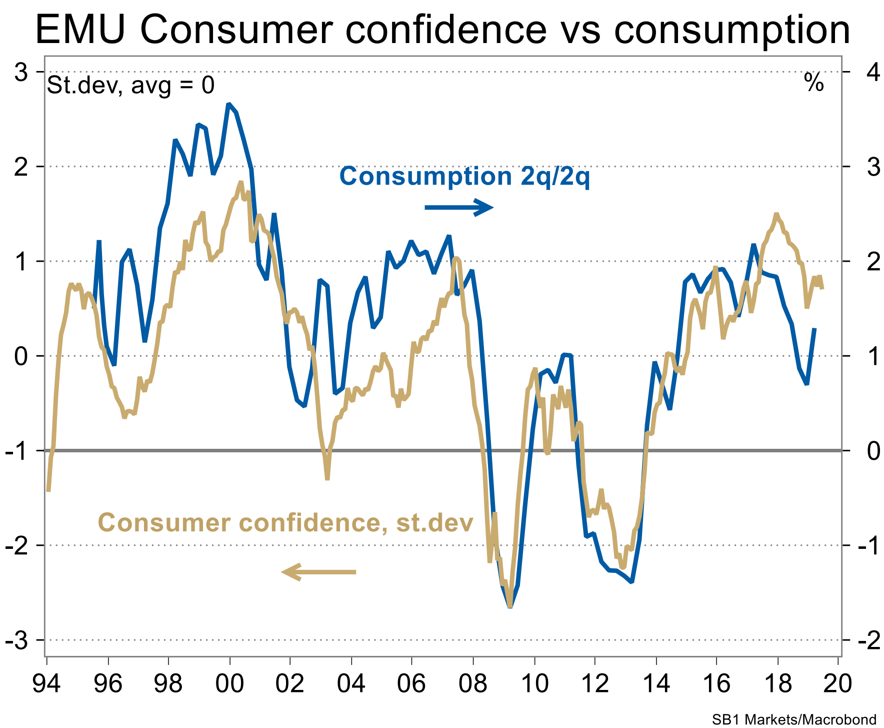
Most countries are closing the wage cost gap vs. Germany (and some are ‘below’, vs the 2000 level)

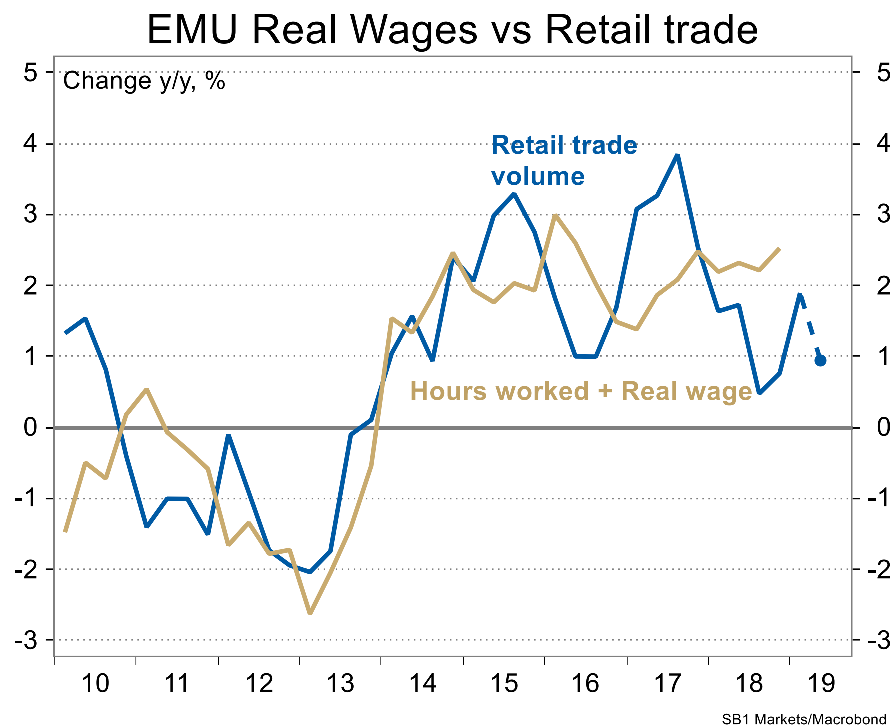


- Wages in most EMU countries rose too fast vs German wages (that barely rose) before the Financial Crisis. Since then, relative wages have been adjusting back to where they came from, more or less.
  - » The adjustment within the currency area would of course have been easier if German wage inflation had been higher than 2 – 2.5%
  - » Wages in Greece have fallen dramatically vs. other countries. Probably more than enough
  - » Norway, Sweden and UK have brought their cost levels down with help from their flexible currencies

Consumer confidence stabilized, signals higher consumption

The consumption upside is probably limited but a moderate growth pace should be within reach

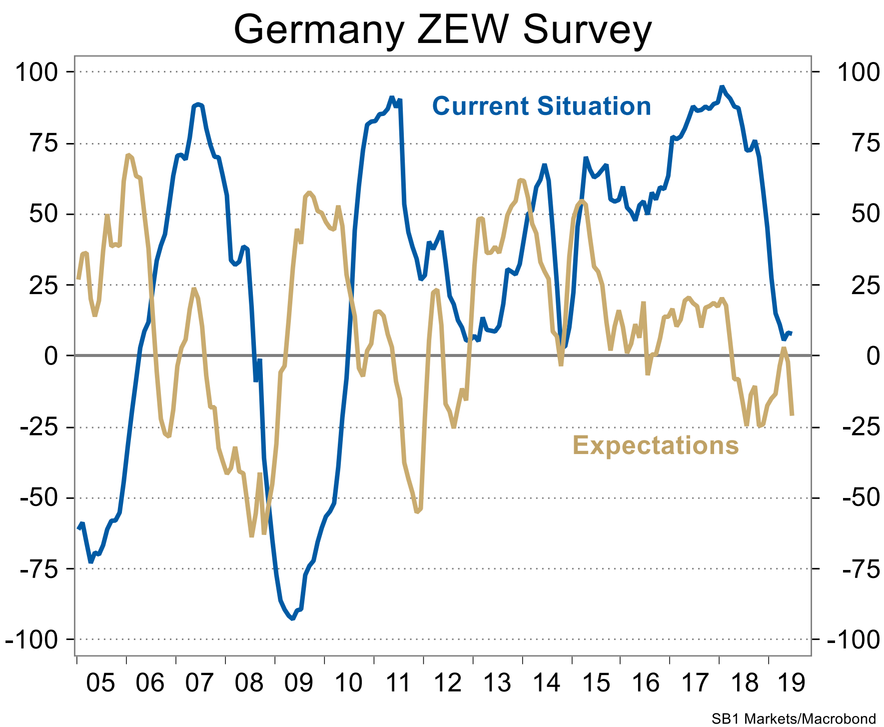


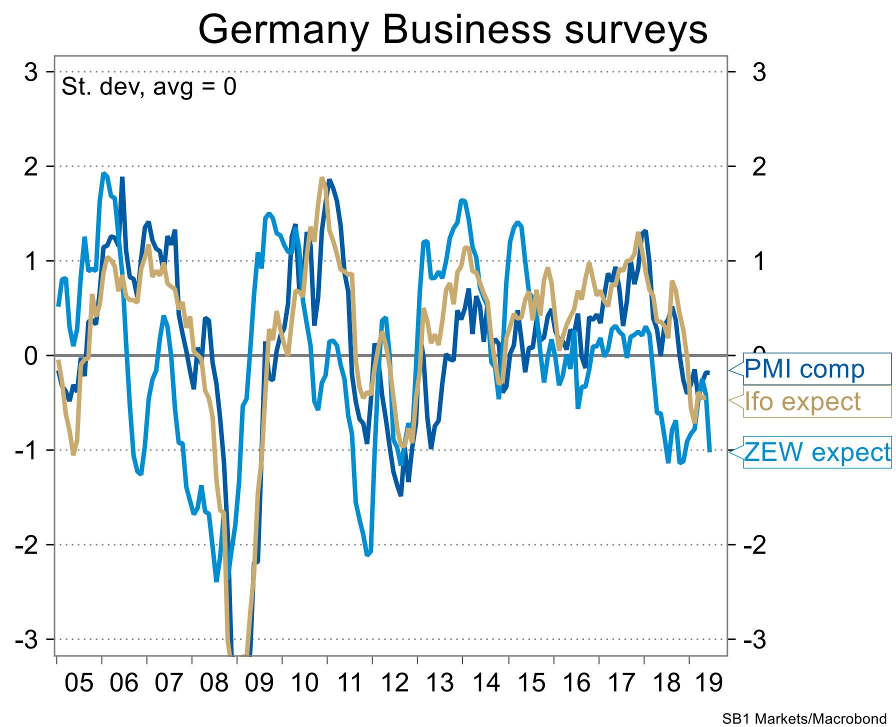


- Consumer confidence fell marginally in June. Confidence has improved through 2019 and the level is not low, even as the index fell through 2018. The index points do not signal any weakness in household demand
- Real wages + hours worked, a good proxy of real total disposable income, is expanding at a much faster rate than retail sales

ZEW survey expectations took another dive, current situation flat

Weak domestic data flow and the intensified trade dispute darken the economic outlook

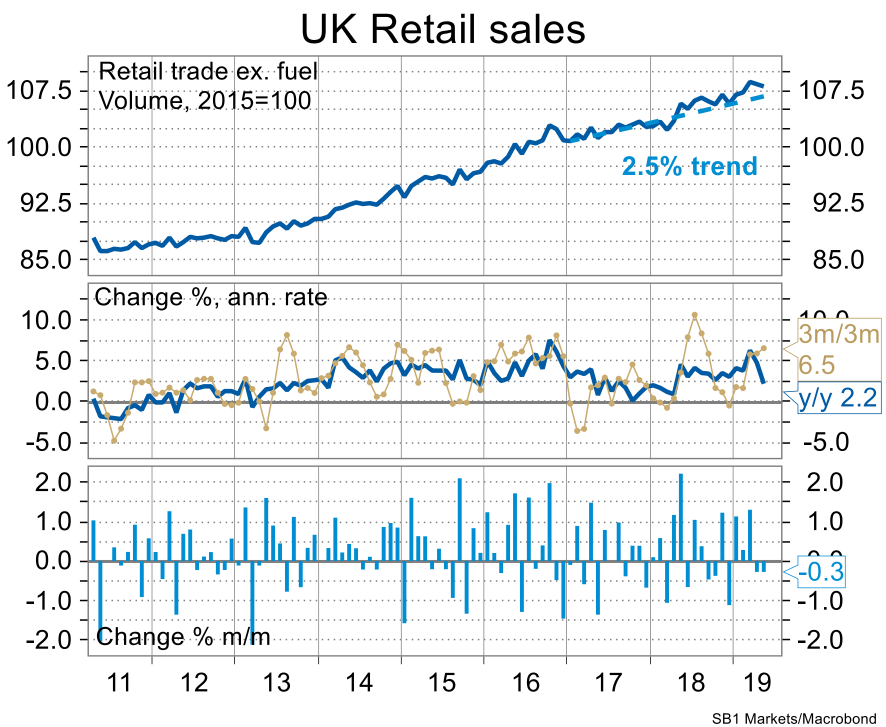


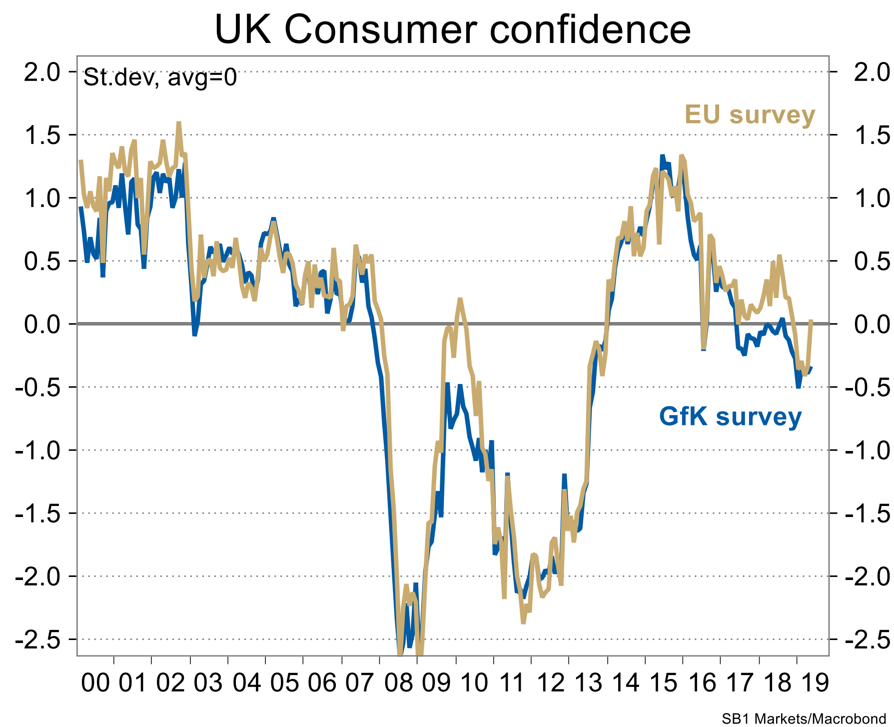


- Expectations in the German ZEW survey dropped 19 p in June, the largest decline in 4 years. Expectations are miles below the average level are almost back at the late 2018 through, after improving slightly in the first months of 2019
  - » The ZEW survey points grim Q2 growth. The ZEW is a sentiment survey among economists and analysts, not a business survey, and is usually leading the Ifo and PMI by a wide margin – however with a rather weak correlation
  - » The assessment of the current situation held steady in June, has been plummeting
- All German surveys are pointing to a rather bleak outlook. The ZEW sentiment survey has been the weakest recently, we prefer the PMI and Ifo, as these are business surveys and better correlated to actual growth

Retail sales still growing strongly, confidence rebounds?

Sales fell slightly in April and May yet underlying growth remains above 6% after the March spike

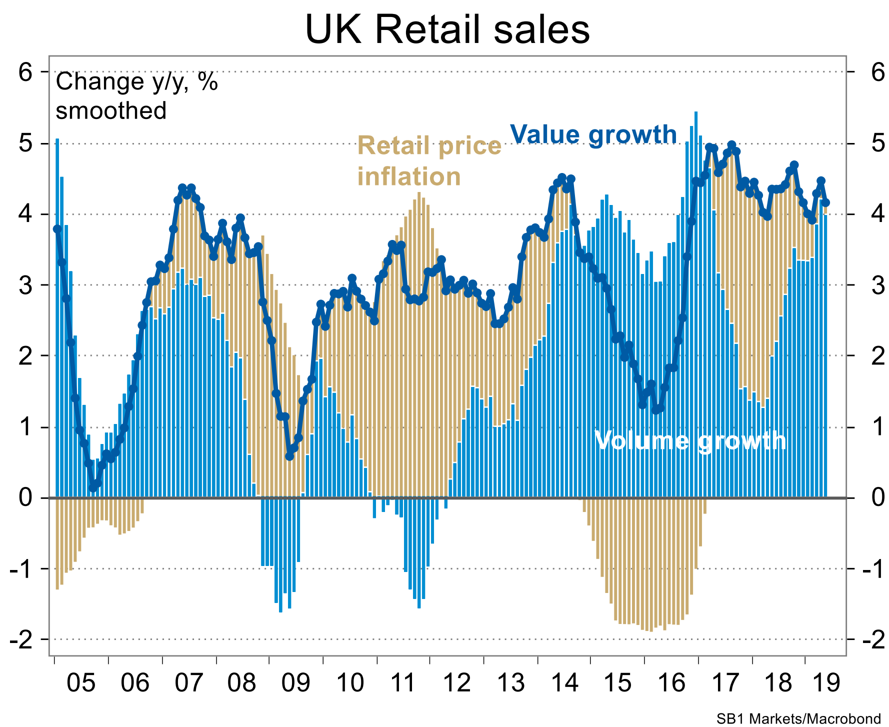


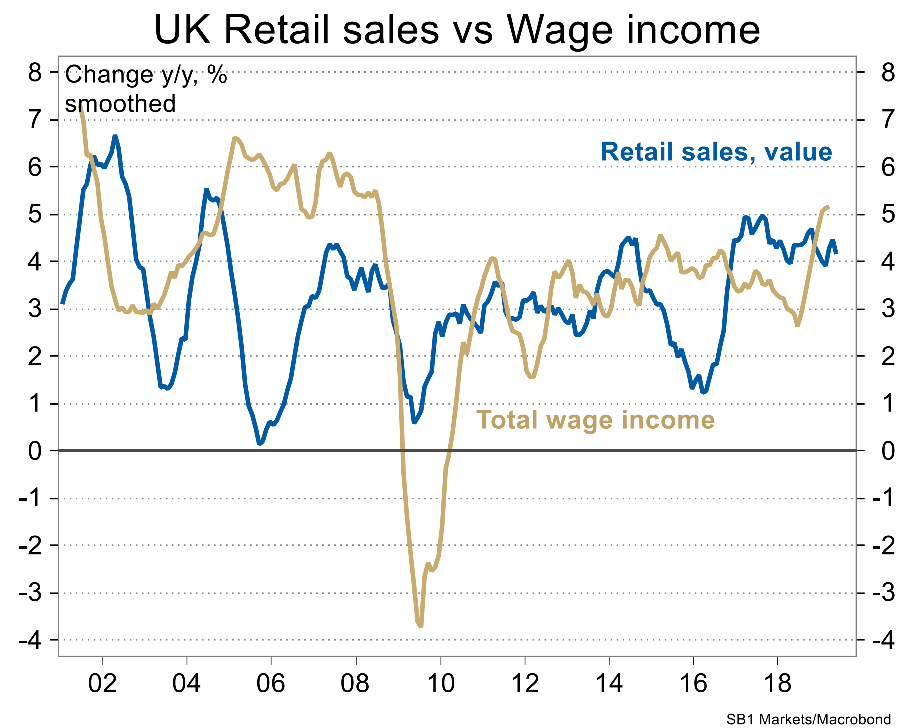


- Sales volume fell 0.3% m/m in May, less than expected. Sales have remained stronger than expected in April/May after a 1.3% jump in March and underlying growth is still accelerating. The annual rate came down to 2.2%, level well above the 'old' 2.5% path
- Record high employment and rising real wages are helpful. However, consumption has been fuelled by a sharp decline in household savings. Given the drop in savings, the risk is on the downside
- Consumer confidence surveys have fallen substantially, which is no surprise, given the Brexit turmoil. Yet, the EU survey noted a sharp rebound in May, back to an average level. The GfK survey improved just marginally

Retreating inflation & more wage income boost volume growth

Higher retail prices took its toll on volume growth in 2017-2018, now the effect is reversed

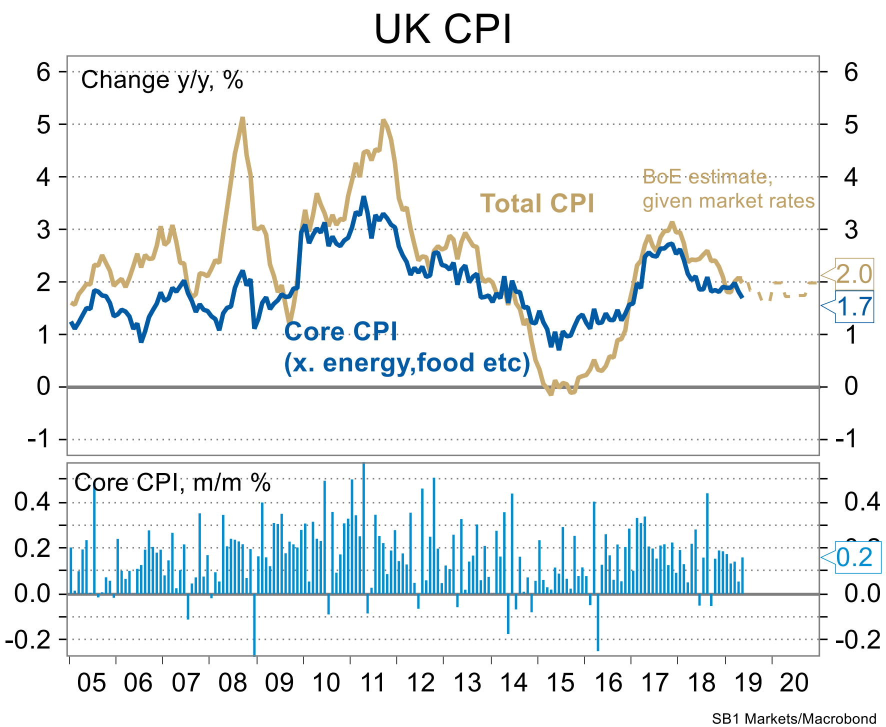


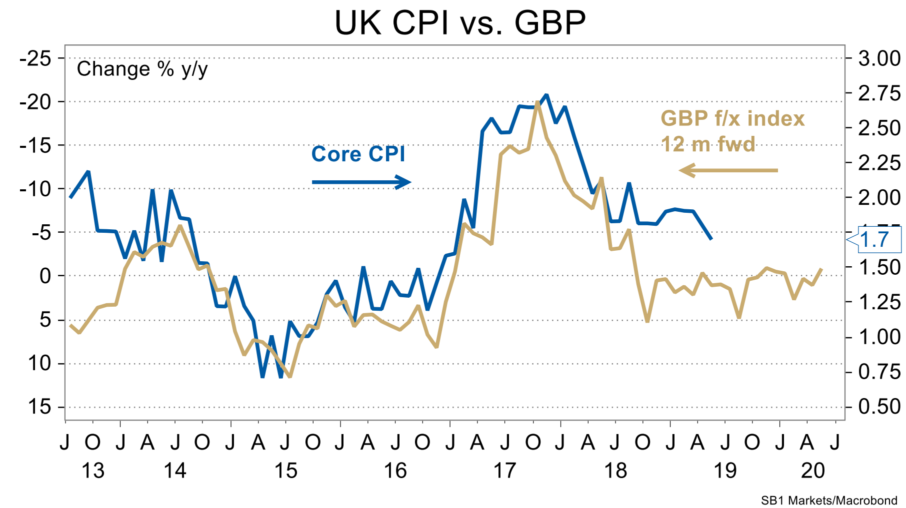


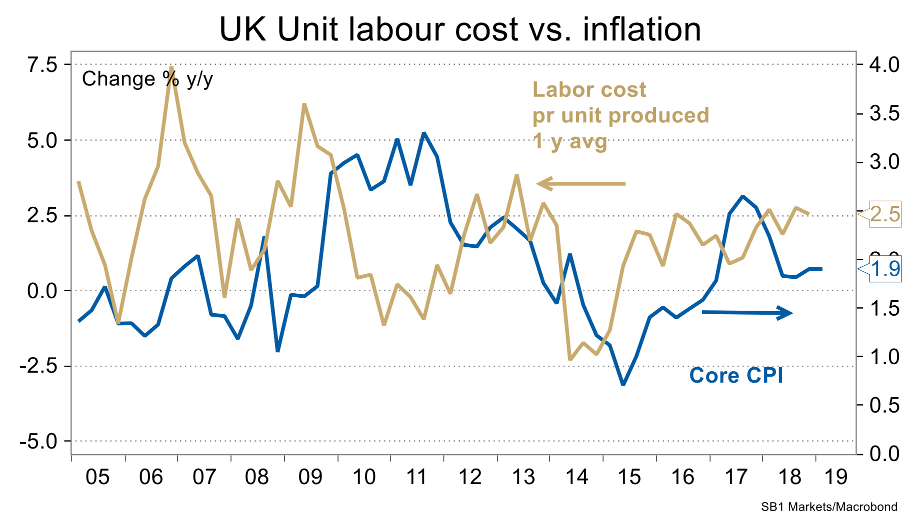
- Total wage income is now accelerating (to 5.2% y/y), as total hours worked is increasing (although still modestly), wage inflation is well above 3%. A good support to growth in consumption
- Low retail price inflation is helpful too!

Core CPI inflation ticked down to 1.7%, total inflation have probably bottomed

The GBP impact is probably soon taken out, core inflation at the lowest in 2 years



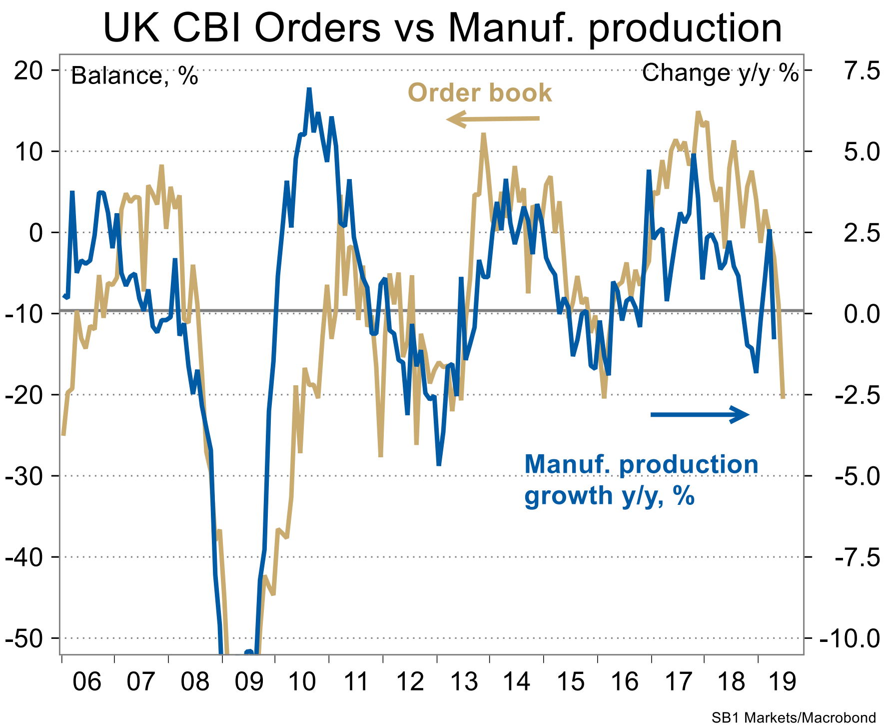


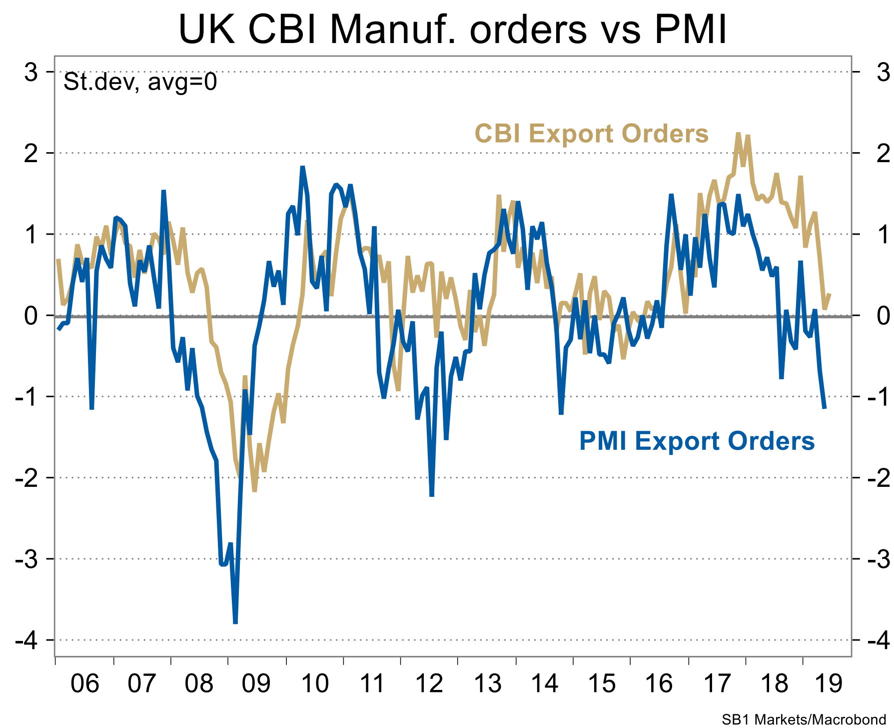


- Core CPI inflation inched down to 1.7% in May, a 0.1 pp decline. Core inflation may still be trending slowly down but is not far from BoE's price target of 2%. Total inflation came down 0.1 pp too, to 2.0%, stabilising the past 4 months
- Inflation came down through 2018, as the upward pressure from the GBP depreciation in 2016 changed sign. Our simple f/x based model still may still point to lower CPI inflation. However, domestic costs are trending up and is not indicating a decline

Manufacturing orders are nosediving as businesses are destocking

UK manufacturers are starting to run down their precautionary pre-Brexit inventories

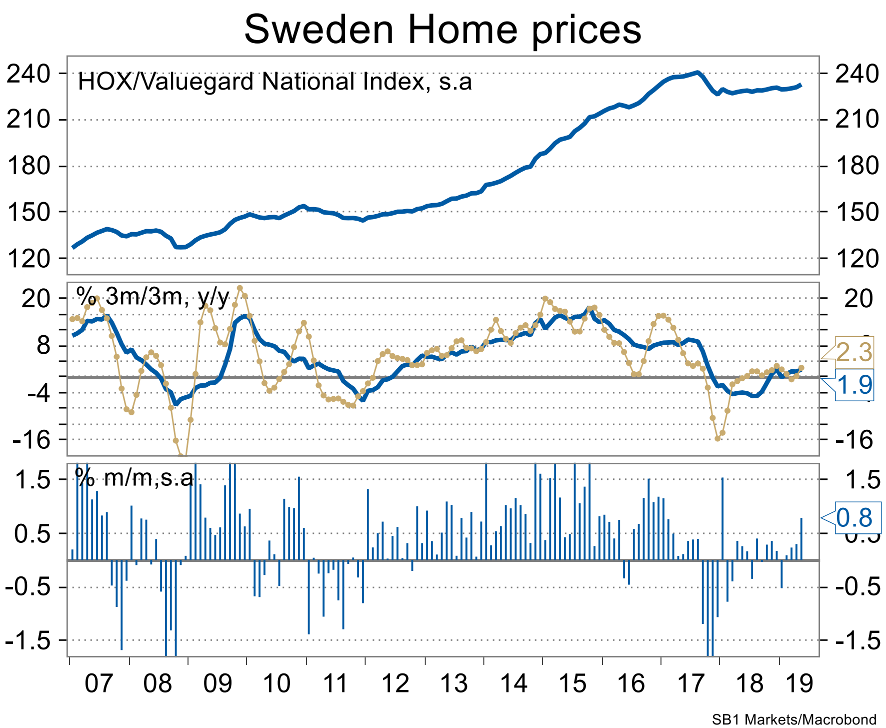


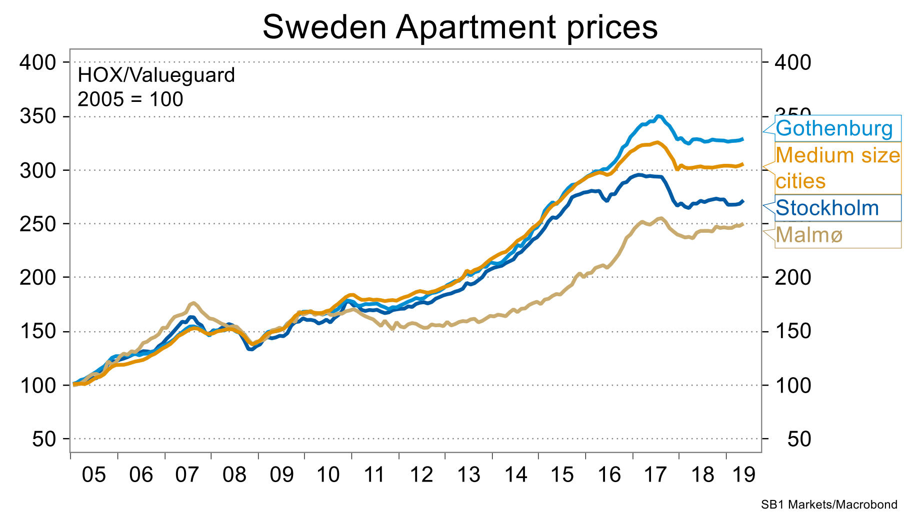


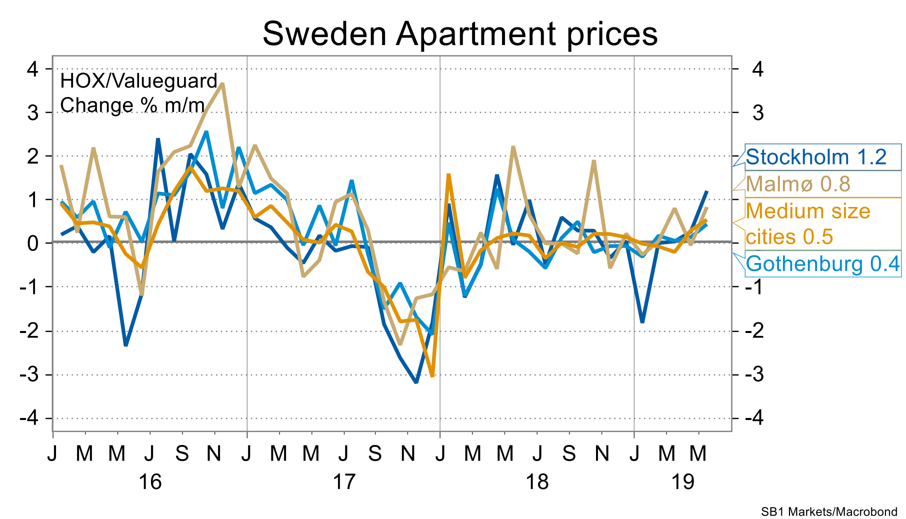
- The CBI order book index delivered the steepest monthly decline since 2014 in June. Orders and production have been kept up by huge emergency stockpiling ahead of the (prior) Brexit deadline. Now, businesses are cutting back their inventories and orders are plummeting. It will not be pretty
  - » The export order index rose marginally in June (thus, domestic orders are leading the downswing). The CBI is much less negative than the PMI export order index (as it often is), which is reporting declining export orders
- The weak order book signals deteriorating manufacturing production the coming months

House prices are starting to accelerate??

Prices rose 0.8% m/m in May, the highest speed in more than a year. Prices are up modest 1.9% y/y



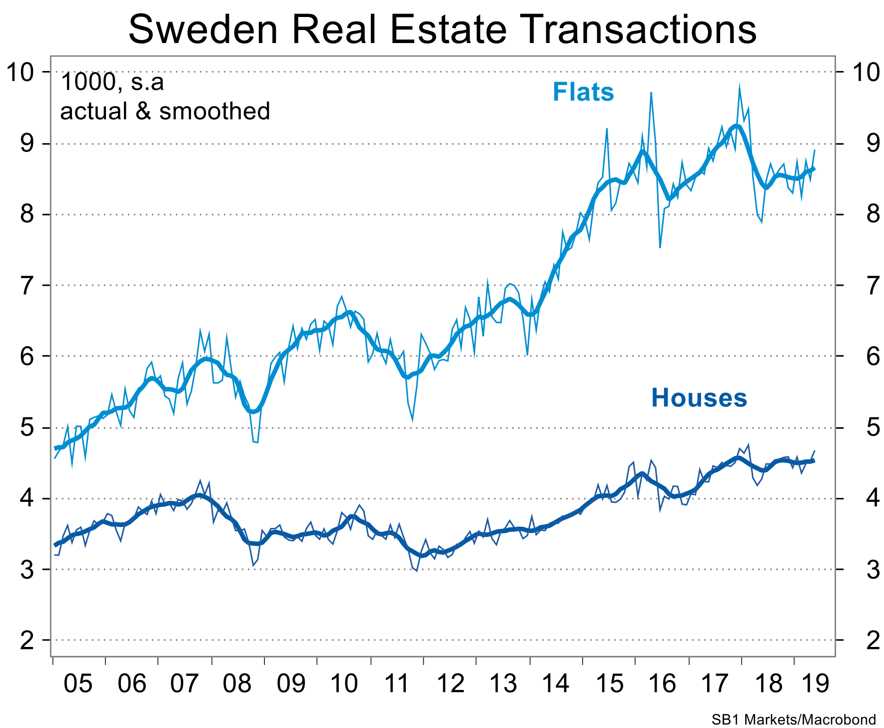


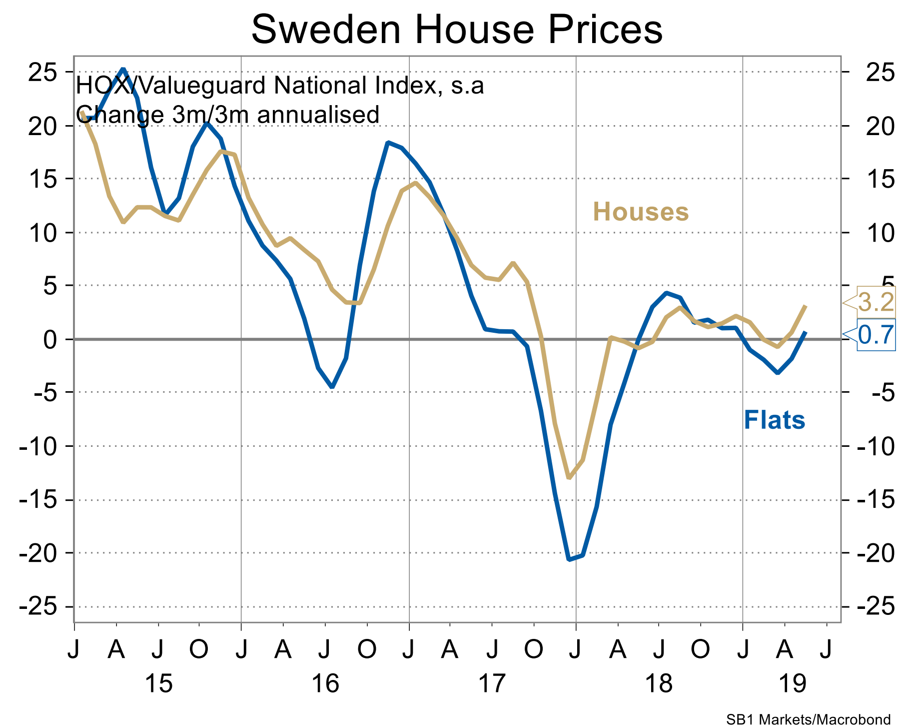


- Home prices rose 0.8% m/m seas. adj. in May (0.7% unadjusted). Price inflation has climbed the past 4 months, after flattening out through 2018. The annual rate ticked up to 1.9%
  - » Apartment prices in Stockholm soared in May, all other cities up too
- The number of transactions has stabilised but does not indicate very strong demand, check the next slide

Apartment sales have stabilised but demand is not thriving

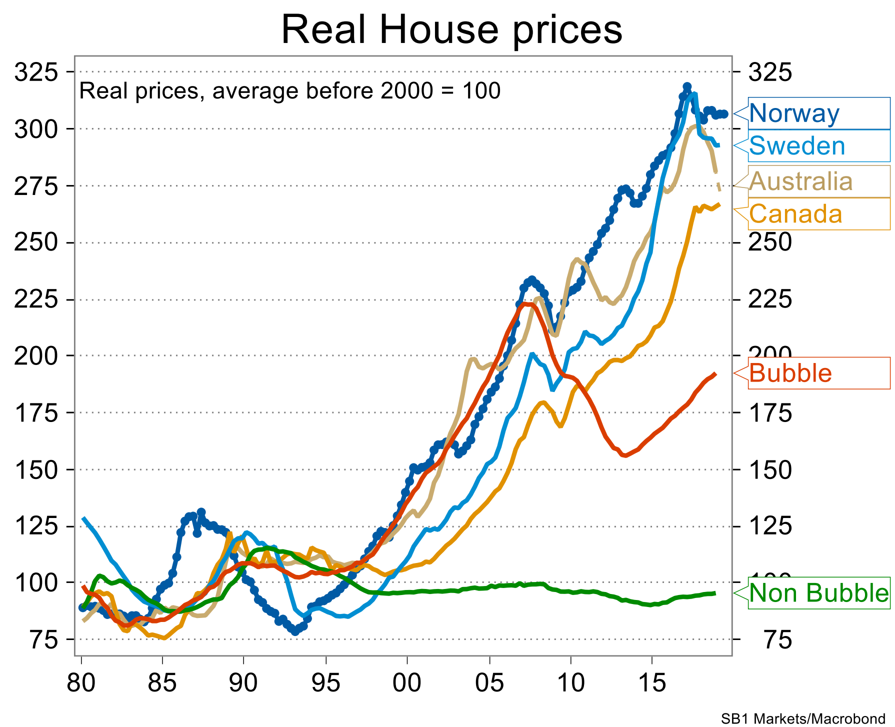
Number of apartment transactions is 10% weaker than at the 2017 peak. House sales flat

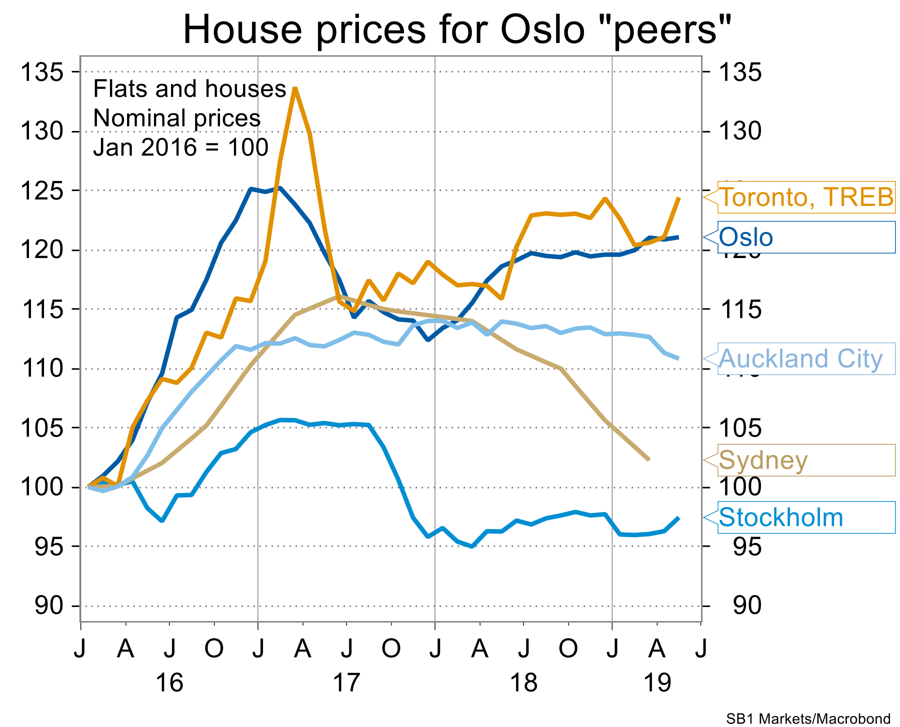




Real home prices have fallen/flattened out in all supercycle countries

Sweden down 7% in real terms, Norway 4% and Australia 10%, Canada flat

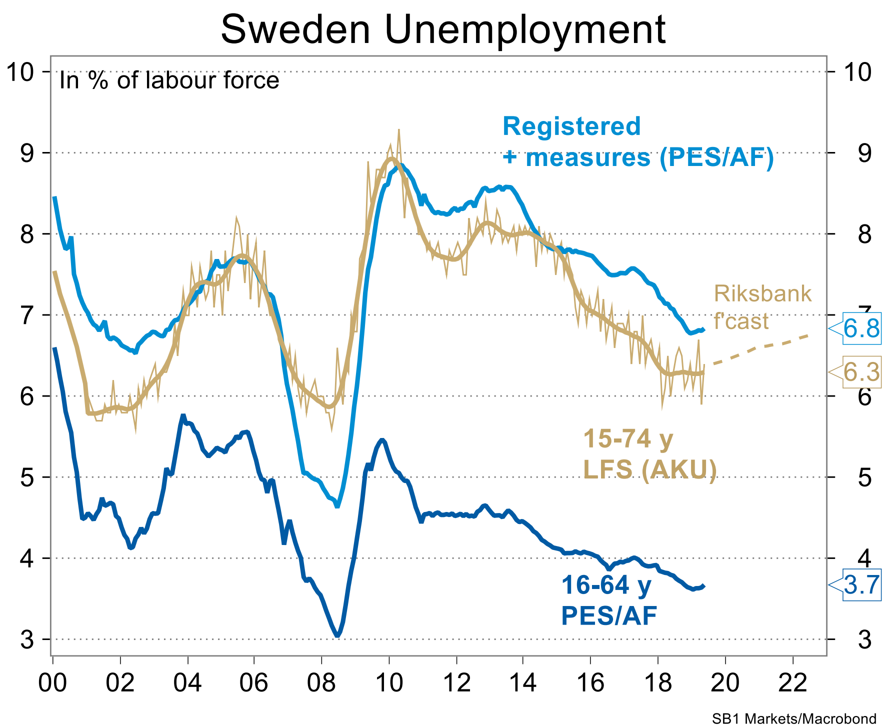


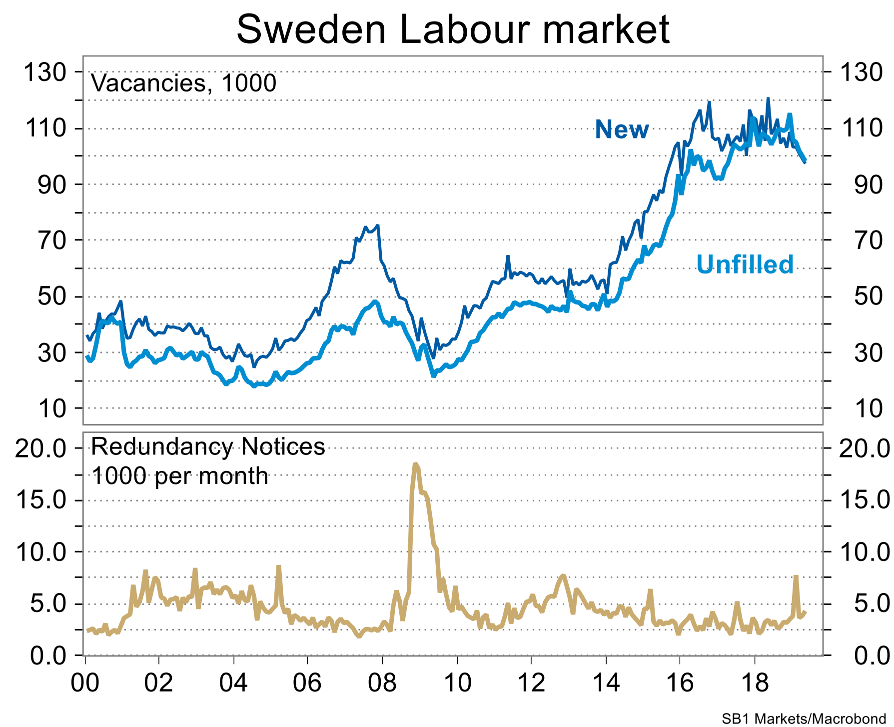


- Mixed among the super cycle guys recently: Oslo is slowly on the way up again, Stockholm flat (and slightly up most recently), Toronto more or less flat, after a comeback in May. Auckland is trending down and Sydney is falling steeply, down 12% from the peak in Q2 2017, in nominal terms!
- New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – may have created ‘some turbulence’ – prices have slowed/declined since 2017

Unemployment is flattening out, employment may be slowing

Unchanged unemployment and weaker employment add to signs of a softening labour market

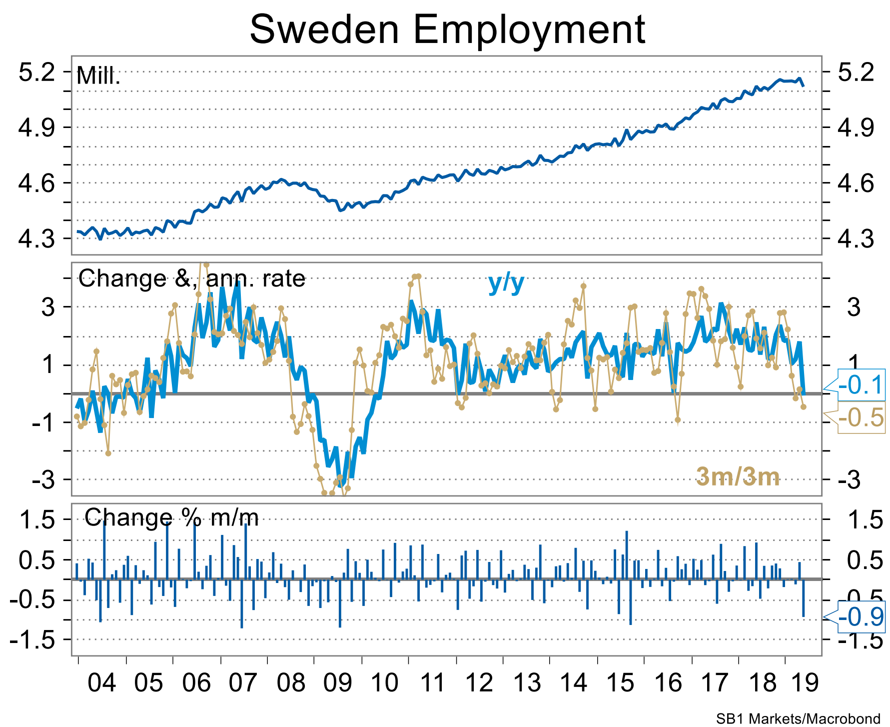


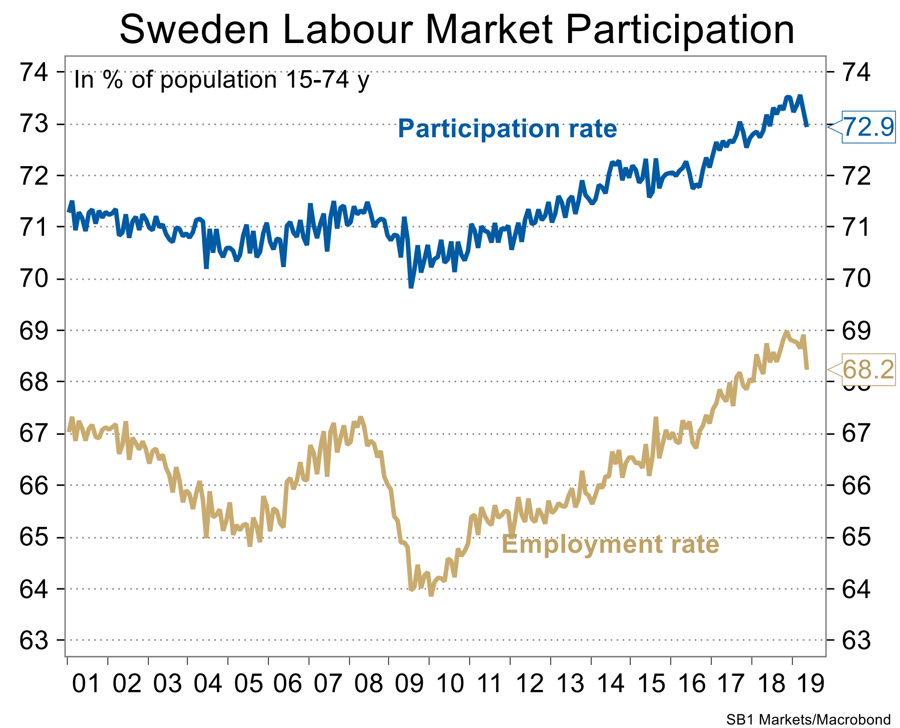


- The LFS unemployment rate rose to 6.4% in May, after a steep decline in April. The smoothed rate, which we prefer, was unchanged at 6.3%, as it has been for more than a year! Is unemployment bottoming out, some 0.5 pp above previous throughs?
- Employment fell sharply in May, the weakest month since 2015. Both the empl. rate and participation rate declined from the peak
- PES open (registered) unemployment rate is confirming a weakening labour market; unempl. rose marginally to 3.7% in May and has flattened out the past 5-6 months. Even as the rates are not low compared to 2007-2008 levels
- The number of unfilled vacancies and new, incoming vacancies have probably peaked – and both came further down in May. Still, the levels are very high. The number of redundancies has fallen back after a temporary spike but may be trending slowly up

Employment plunged in May, weakest month since 2015

.. may turn out to be a one off but we are not too confident, as employment has been slowing

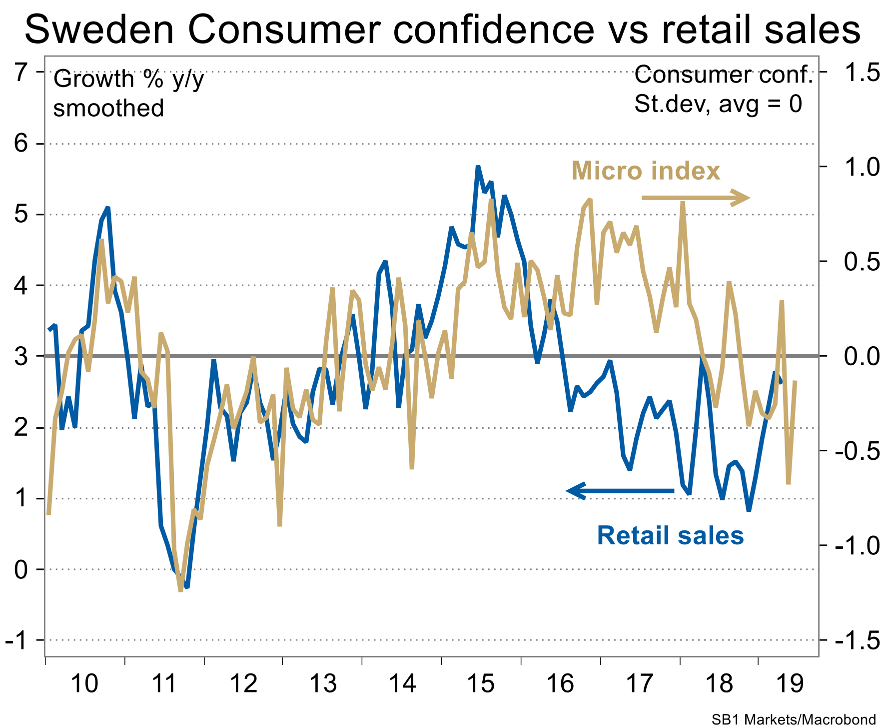


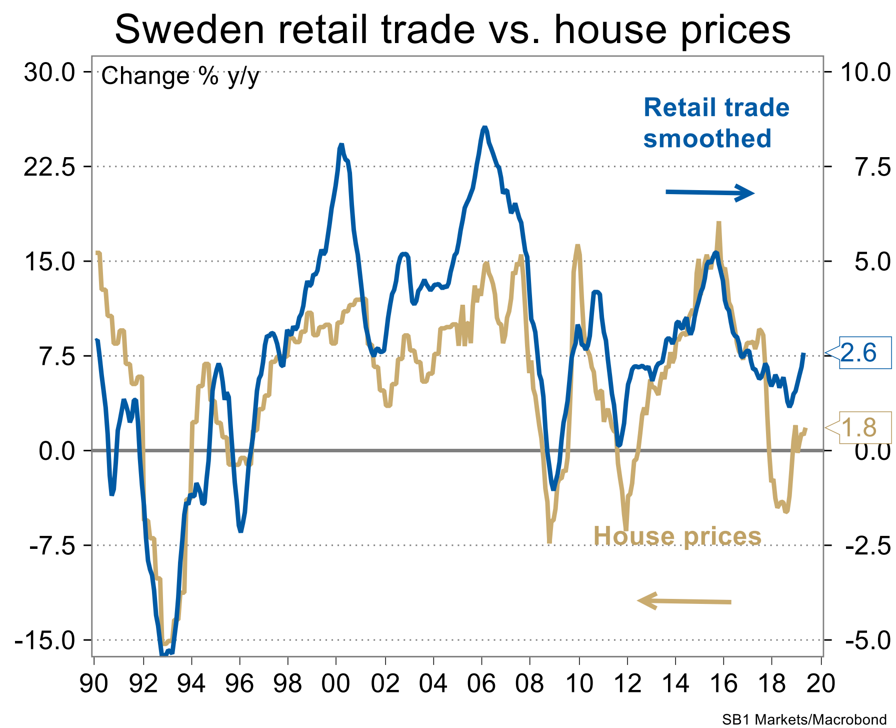


- Underlying growth (measured 3m/3m ann.) is down 0.5% and the annual rate is -0.1%
- Labour market participation was trending up. In may, participation fell by almost as much as employment in May

Consumer confidence is softening, even with the June rebound

(Volatile) confidence is still signalling growth in retail sales – at a slower pace

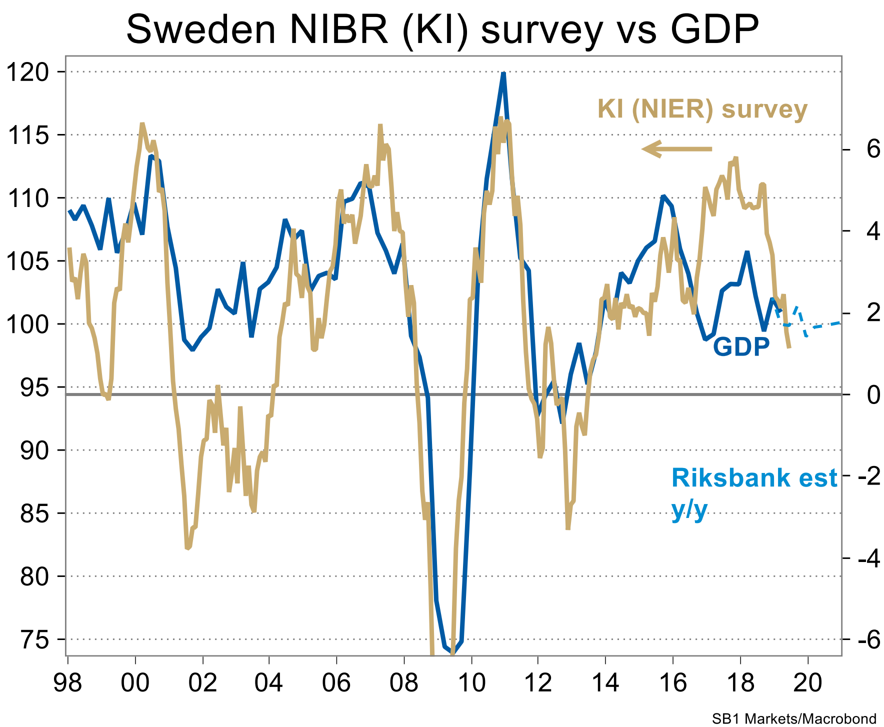


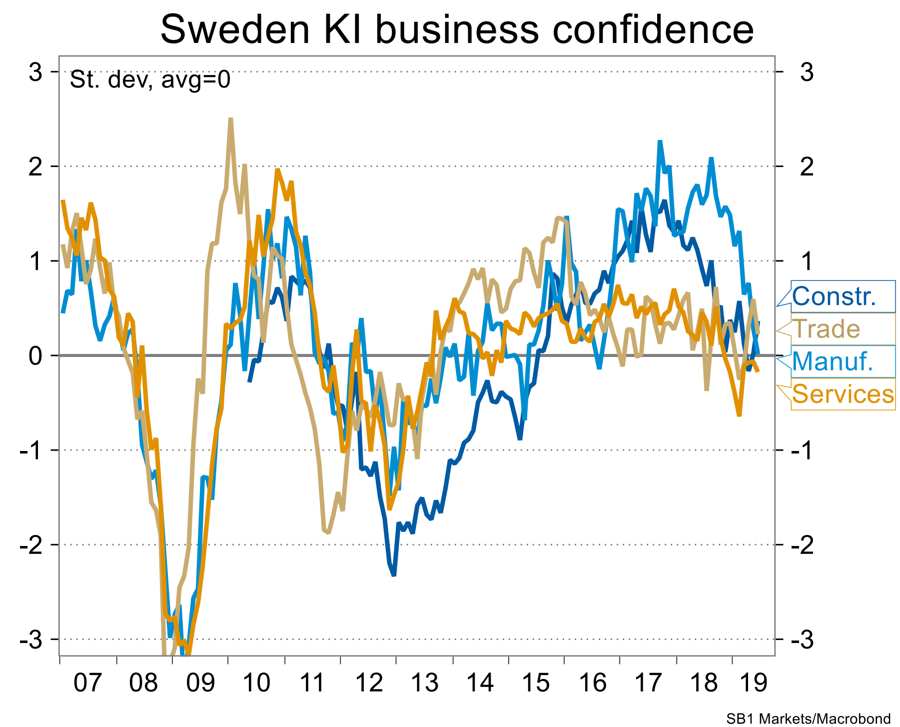


- The consumer confidence survey is volatile, and recent months have been zig zagging too much to give any useful signals. However, confidence is below avg and most likely still trending down. The survey has been too optimistic vs actual consumption the past 2 years (vs the normal correlation to and the correlation is anyway not very strong
- House prices and retail sales are often quite closely correlated. Consumption did not follow house prices down in late 2017/early 2018 and now house prices have stabilised, unemployment is still declining (?)and real wages are on the rise – limited downside. (Until the Riksbank hikes, and/or the Swedes recognise that they have become too indebted?)

The KI business survey another step down in June, to the lowest level since '13

Confidence is falling steeply, points to a substantial slowdown in GDP growth



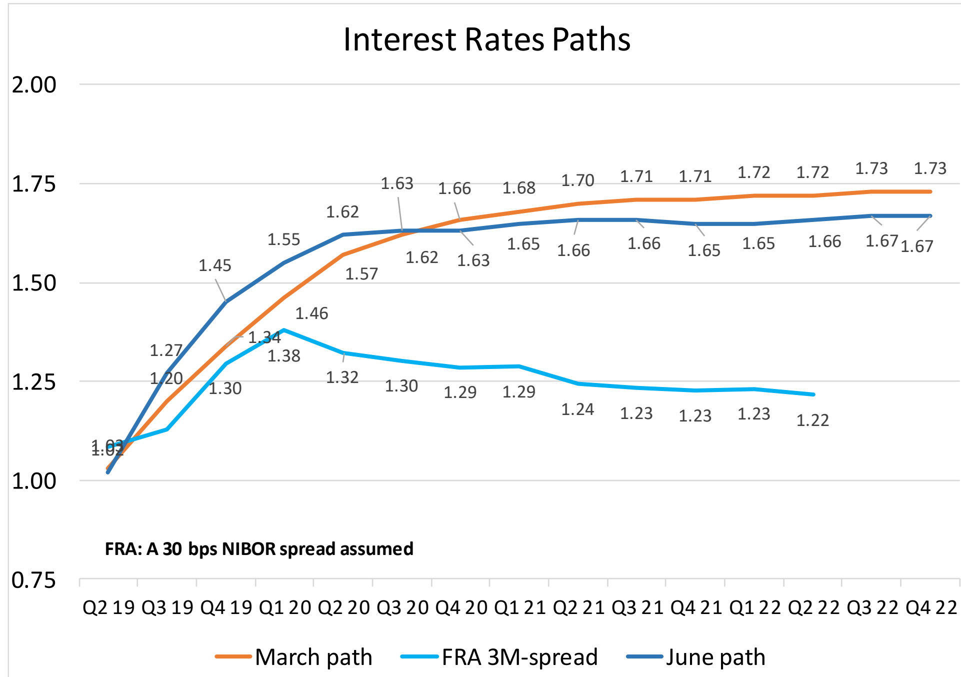


- The KI economic tendency survey, which usually correlates well with GDP growth, were pointing to much higher growth rates from 2016 and until a couple of months ago. Now, the index has fallen below the 2016 level and is most likely signalling a rapid downswing in GDP growth
  - » The best reason for expecting growth to slow substantially is that productivity growth has slowed to zero – and it will be close to impossible to keep hours worked growing above 3% for long
- Business confidence in manufacturing are deteriorating, trade and services are not thriving either. Construction came back up in June after dropping the prior months and is now marginally more upbeat than the other sectors

Norges Bank signalled another hike in September (and one in 2020)

Interest rate path nudged up to 11 bps in the short term and lowered by 6 bps in the long end

- **Norges Bank delivered the 3rd interest rate hike and raised the signal deposit rate by 25 bps to 1.25%, as everyone expected**
- The bank surprised the market by nudging up the interest rate path by up to 11 bps in H2 2019 (6 bps in Q3 and 11 in Q4), thus, implying a high probability of a hike already in September, by some 67%, and 100% of a hike before the end of the year. At the March meeting, the bank signaled a hike in December
- The interest rate path implies another hike in 2020 (most likely Q2 or Q3). And that's it, for now. The long end of the curve, the end of 2022, was lowered to 1.67%, from 1.73%
  - » A substantial upward revision of oil investments and somewhat stronger overall domestic demand lifted the path. A weaker than expected NOK contributed on the upside in the short/medium term
  - » A softer global growth outlook, lower oil price and rising global uncertainties due to the trade tensions (marked by the 'judgement' component) pushed the path down substantially
- **Our view:** Norges Bank is eager to lift interest rates to stabilize the economy and reduce the risks imposed by highly indebted households and still elevated house prices. Unlike some others, we do not judge Norges Bank's stance to be too hawkish. Given the solid upturn in the economy, with GDP growth at close to 3% this year, an interest rate at 1.5% by the end of the year (and peaking at 1.75%) is a rather cautious approach! Households may respond 'too much' to the hikes, and the world economy may deteriorate, or the NOK could appreciate too much. But unless than occurs, just continue upwards!



Source: Norges Bank MPR 2/2019, Macrobond

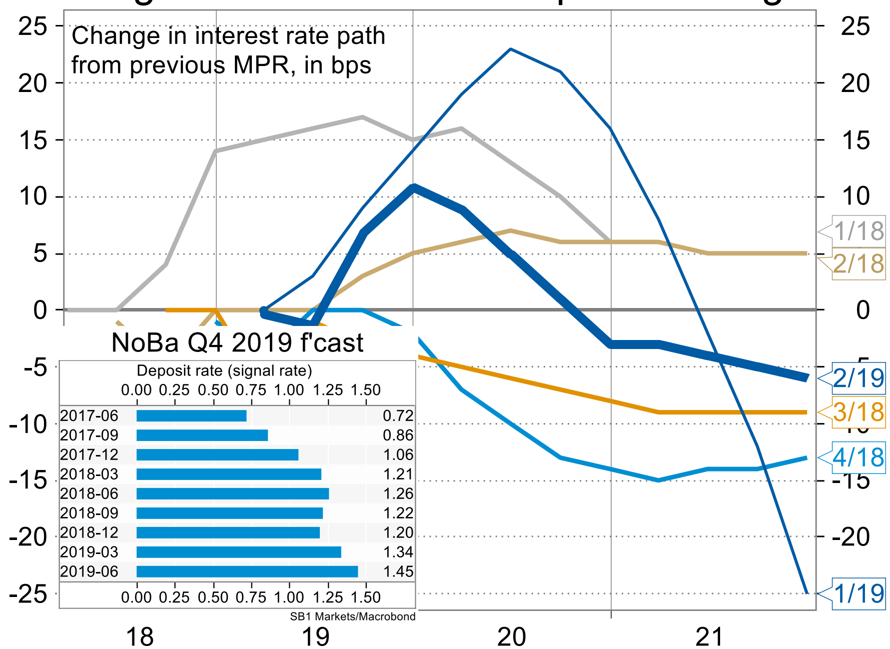
Market implications

- Market interest rates expectations (FRAs) initially spiked 10 bps (the pre hike FRA curve at the graph above). The FRA contracts imply some 50% probability of a hike in September and 96% probability of a hike in Dec or earlier, thus, the market is not THAT far behind
- Markets were expecting a more dovish stance; the NOK immediately rose 0.6% against EUR

Some small adjustments were sufficient to bring forward the next hike

NoBa lifted the path by up to 11 bps this year – and lowered it by 6 bps in the long end

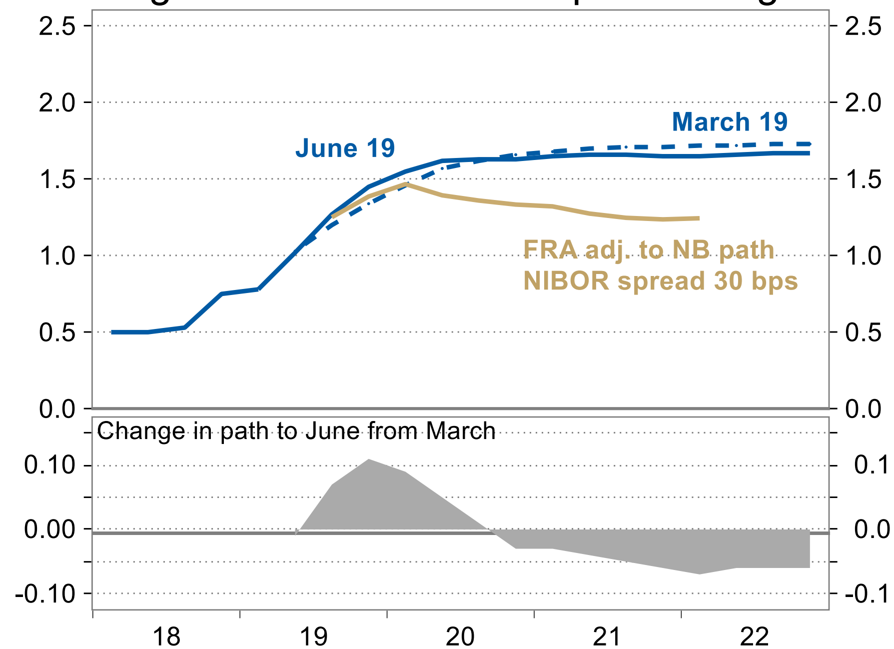
Norges Bank Interest rate paths changes



Source: Norges Bank

SB1 Markets/Macrobond

Norges Bank Interest rate path changes



Source: Norges Bank

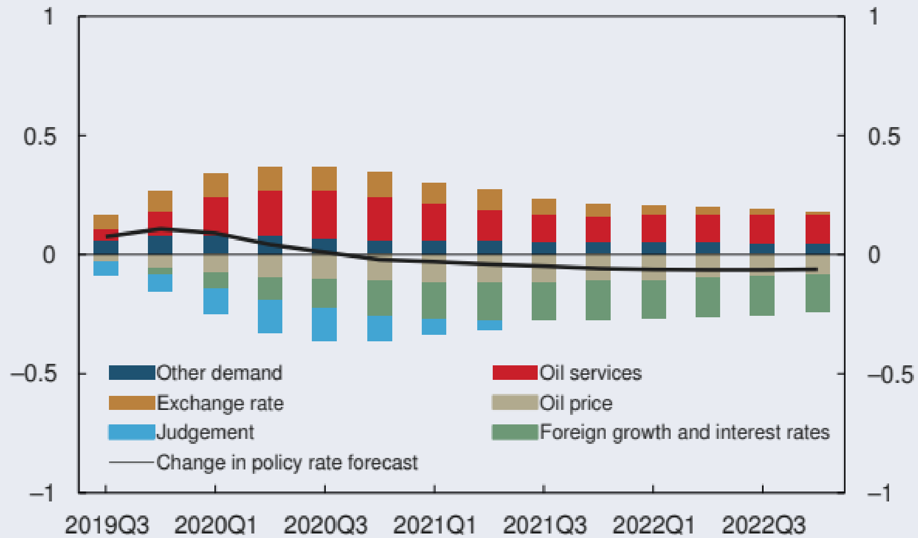
SB1 Markets/Macrobond

- Norges Bank did not alter the interest rate path much. The Bank is still projecting (most likely) 2 additional hikes; one more in 2019 and another in 2020. The upward adjustments of the Q3 and Q4 projections imply a high probability that the next hike will come in September. The long end of the path was lowered by 6 bps to 1.67%
- The Bank has gradually nudged up the Q4 2019 f'cast since 2019. The June projection at 1.45% is the highest so far (and Q1 2020 is 1.55%, hence, a hike by the end of 2019 is projected)
- The FRA path implies that markets have become confident that Norges Bank will hike one more time this year. But not more..

Domestic demand, oil investments and the NOK lifted the path

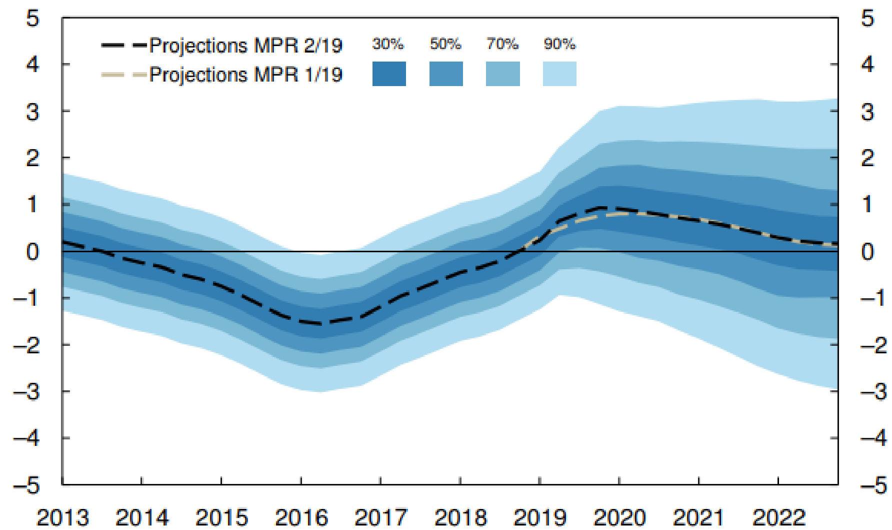
.. while global factors conducted more than 30 bps from the interest rate path

Chart 5.C Factors behind changes in policy rate forecast since MPR 1/19.
Cumulative contribution. Percentage points. 2019 Q3 – 2022 Q4



Source: Norges Bank

Chart 1.1b Estimated output gap[1] with fan chart[2].
Percent. 2013 Q1 – 2022 Q4

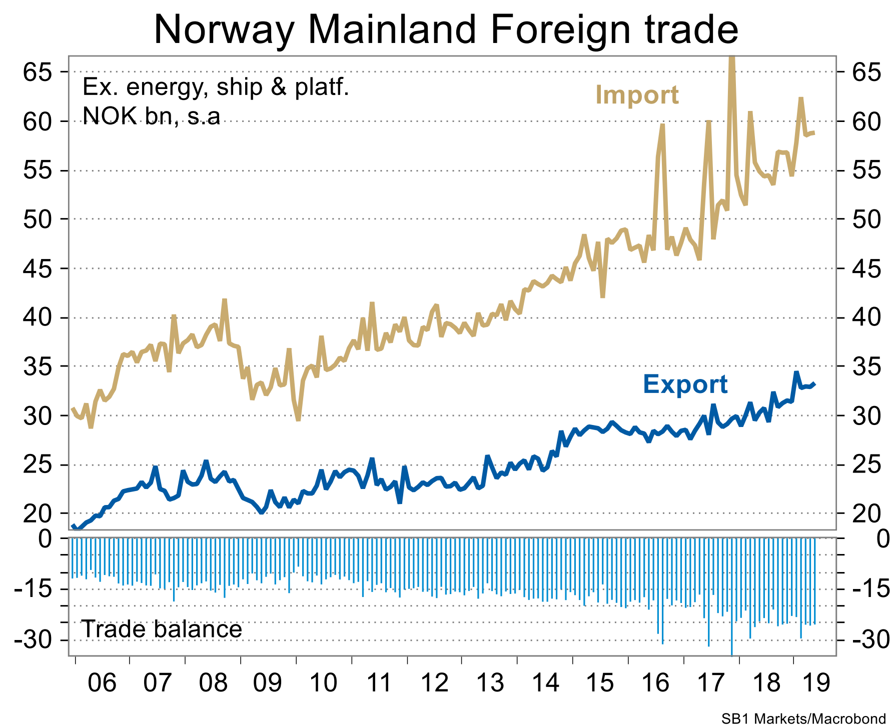


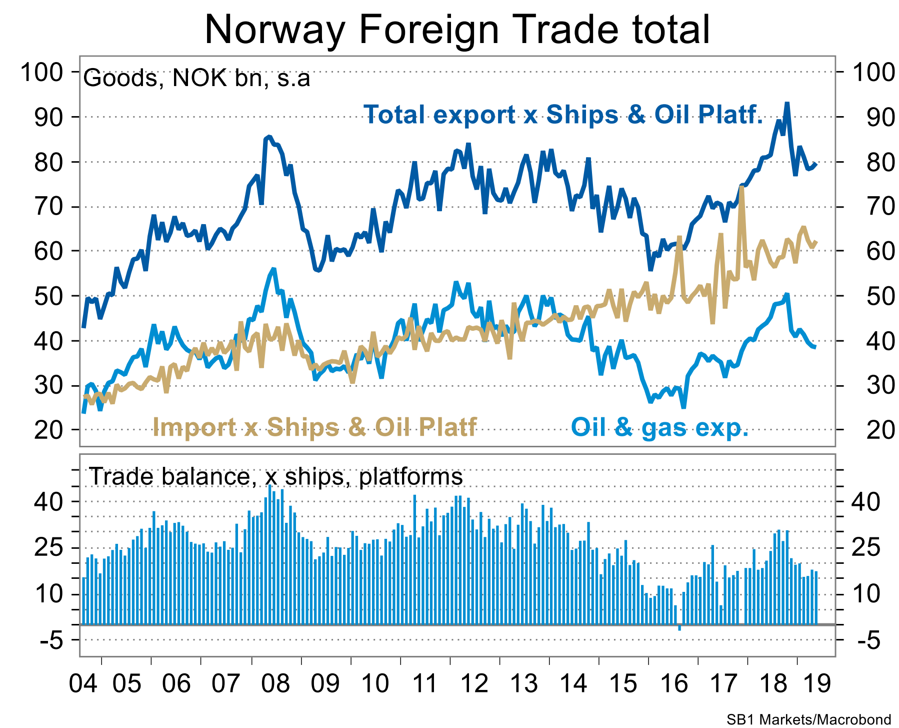
1) The output gap measures the percentage deviation between mainland GDP and estimated potential mainland GDP. **2)** The fan chart is based on historical experience and stochastic simulations in Norges Bank's main macroeconomic model, NEMO.
Source: Norges Bank

- Higher 2019 oil investments than previously f'casted (revised up by 1.5 pp to 14%) was the major contributor to the lift. Additionally, the NOK is weaker than expected and overall domestic demand stronger (lower unemployment, higher consumption, business investments and public demand)
  - » Not many substantial changes in the Bank's growth f'casts; the output gap was revised up marginally, unemployment marginally down, domestic demand up
- The negative impact from a weaker global growth momentum and lower interest rate among trading partners was no surprise. However, we did not expect the substantial contribution from the 'judgement' component (approx. 15 bps). Moreover, a lower oil price than expected pulled interest rate down along the path
- NoBa assumes a 35 bps Nibor spread in Q3, than up to 40 bps. The spread is now 30 bps (exactly as we assumed). Had the bank used our number (as we expected), the bank would have had to lift the path another 10 bps. In addition, lending margins have narrowed, but banks are probably taking care of that now (by lifting their lending rates)

Both imports and exports are climbing, trade deficit more or less flat

Mainland trade deficit narrowed marginally in May. Oil & gas exports still weak



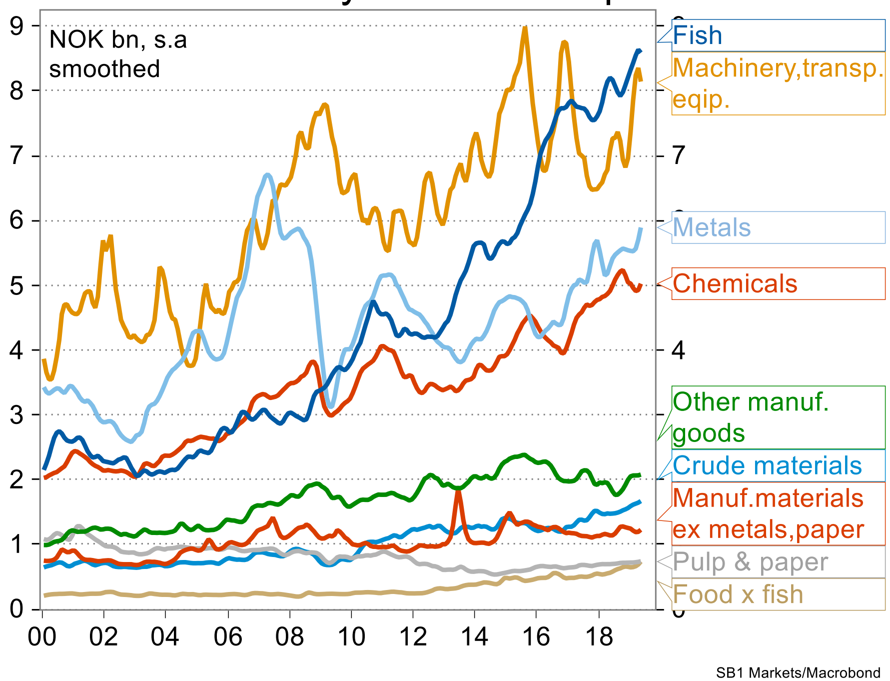


- The Mainland trade deficit fell just marginally to NOK 25.5 bn in May. The deficit has been more or less flat the past year, following a gradual widening the previous years
  - » Imports (in value) rose 0.1% m/m (smoothed) and are up 6.6% y/y, primarily due to soaring imports of machinery & equipment + vehicles
  - » Mainland exports rose 1.2% (in value). Exports have gained speed through the past year, and are up 8.9% y/y, driven by machinery and fishing
- The overall trade surplus (incl oil & gas, ex ships & platforms) came down to NOK 17.4 bn/month in May. Oil/gas exports are still sliding down since last autumn, when the oil price slipped. The total trade surplus equals some 6% of total GDP

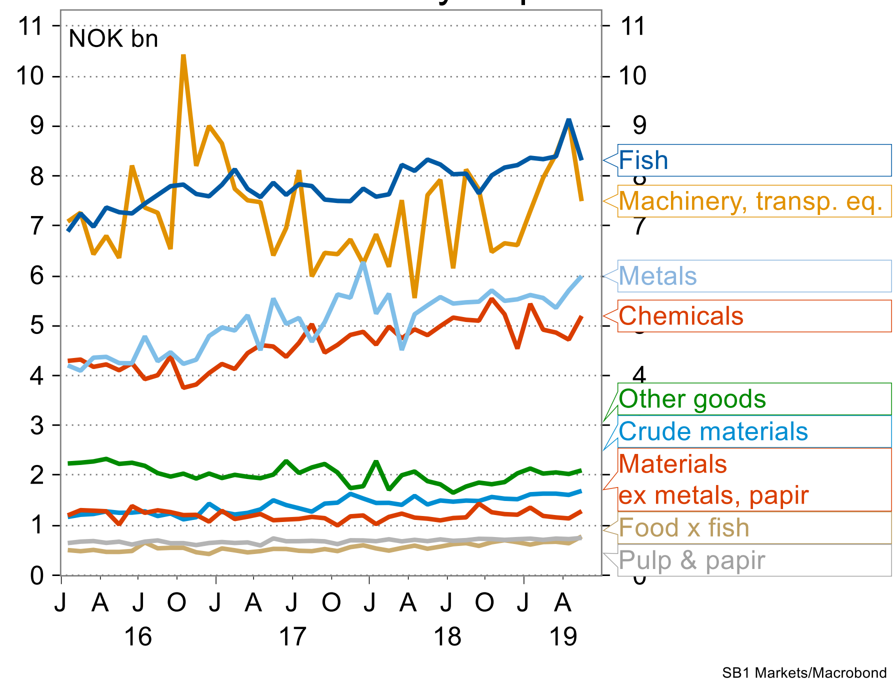
Export upswing led by machinery & transport equip, fish and metals

Most sectors are heading up, ex manufacturing materials and other manuf. goods

Norway Mainland Export



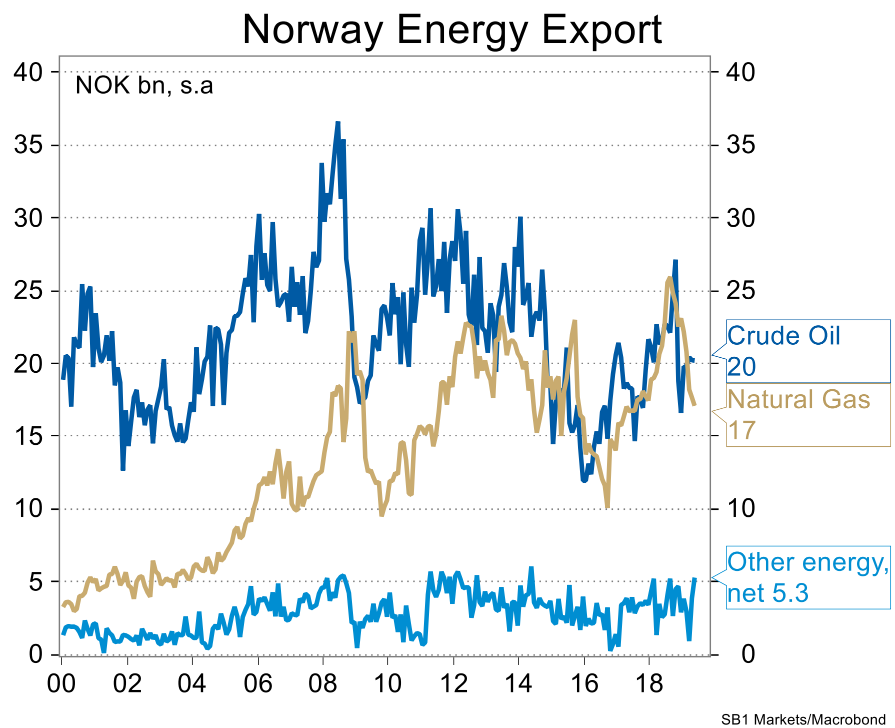
Norway Export

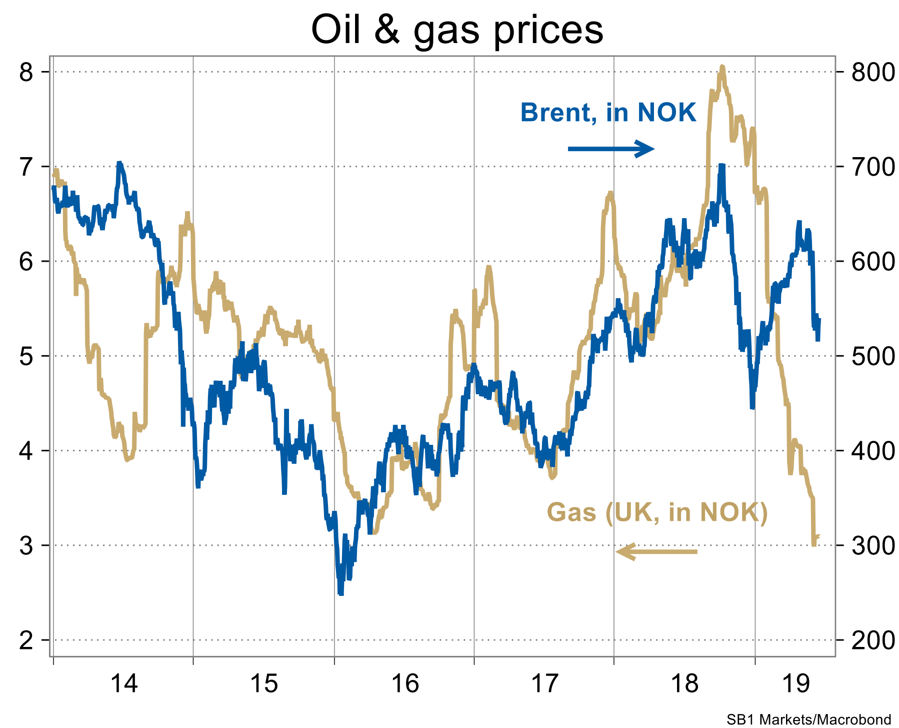


- Fish exports came down in value terms in May, have been soaring both in value and volume recent years
- Exports of machinery and transport equipment (probably related to oil activities abroad) have accelerated, following a downturn in late 2018. Exports are still below the 2015 and 2016 peaks

Oil exports have been recovering; gas still sliding down

In May, both gas and oil exports came down amid falling prices. Oil exports down 7% y/y, gas 14%



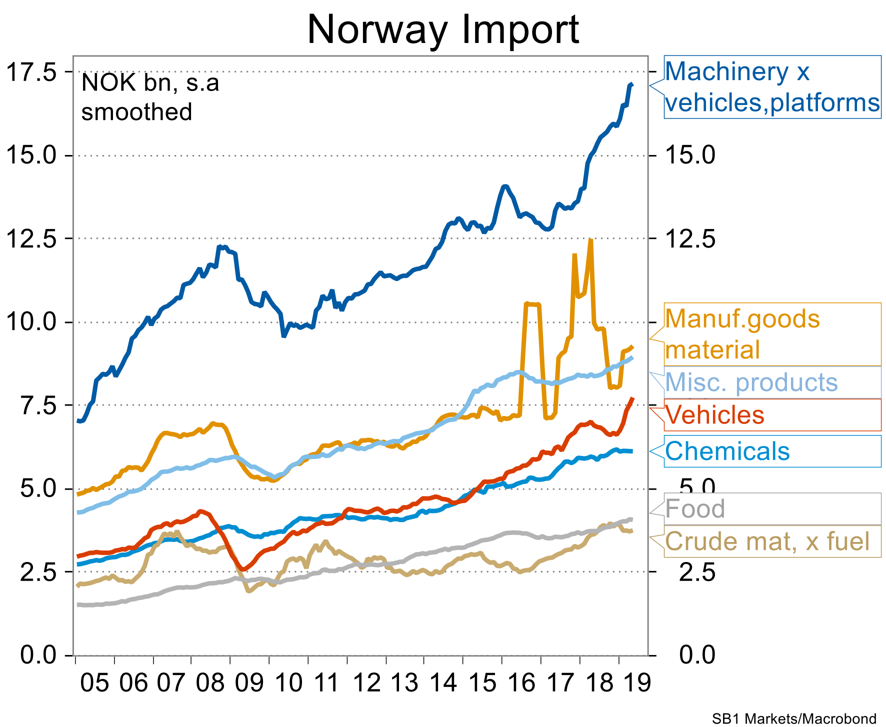


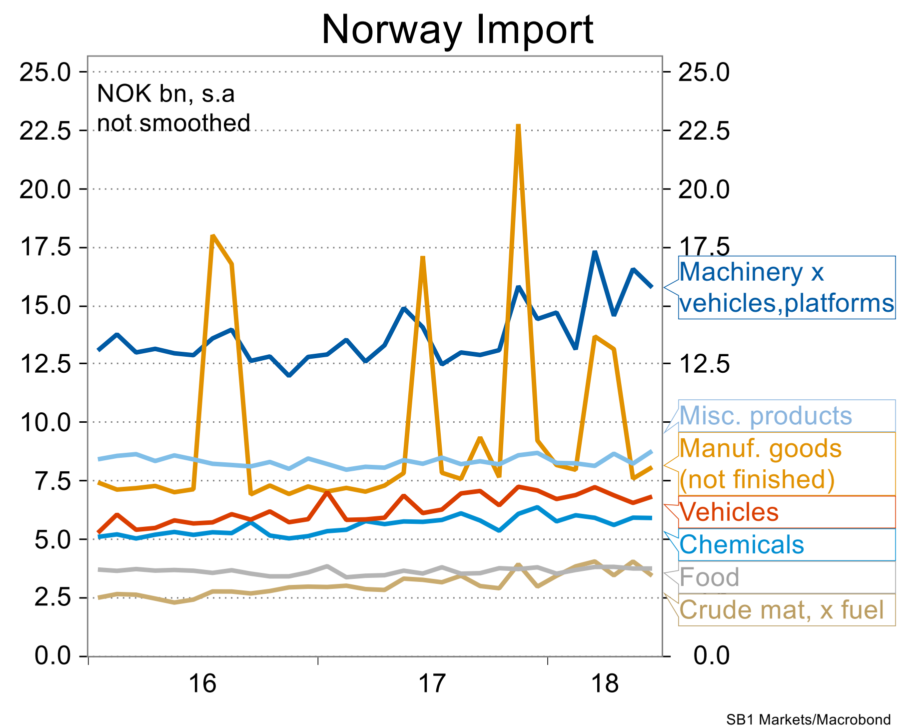
- **Crude oil** exports (in NOK bn) fell marginally to NOK 20 bn in May, down from 28 bn at peak in Oct '18. Export values have increased with the oil price since January this year. Given the oil price downturn through May, we do not expect an upswing in June
- **Gas** export values have fallen sharply too, to 17 bn in May. from 26 at the peak in Aug. European gas prices (UK balance price) did not recover in the winter/spring as the oil price, they rather continued down, and gas export values came further down

SpareBank 1 MARKETS

Imports of machinery equipment are soaring, vehicles up too

Imports of most goods are trending up. Vehicles have gained pace, due to electric cars



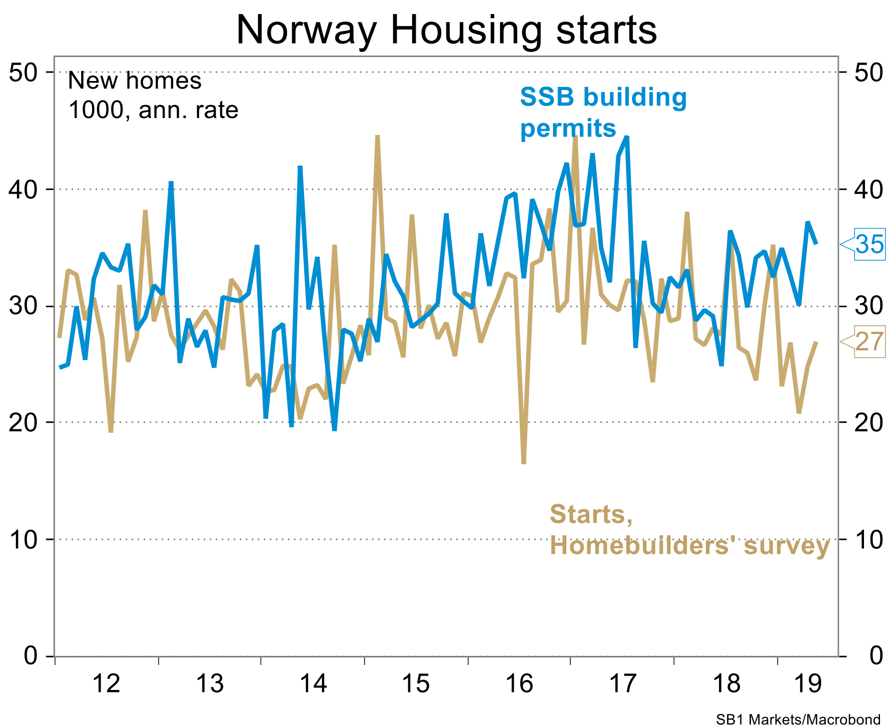


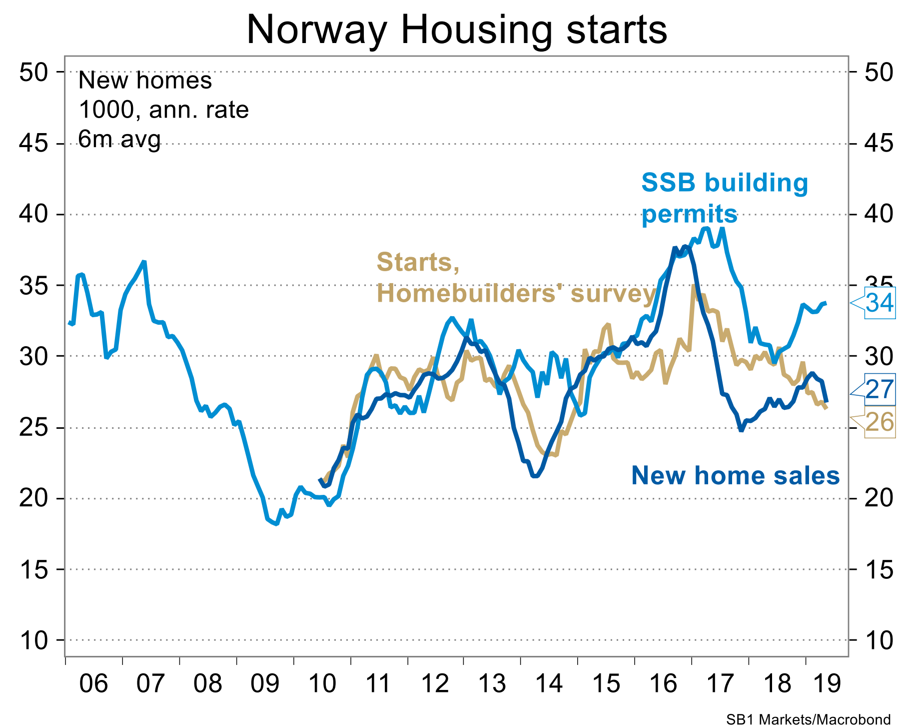
- Imports of manufacturing materials have had some huge spikes, due to some massive transactions; of oil platforms, wind mills and combat airplanes. Regardless, the trend is steeply up. Machinery ex vehicles and platforms, much oil related, are rising steeply too
- Chemicals, food and crude materials are all slowly expanding
- Vehicle imports slowed through 2018 and have been soaring since. Partly due to rising imports of electric cars, particularly the new Tesla in March, and electric busses. Imports of electric cars equalled 35% of total auto imports (in value) in May

SpareBank 1 MARKETS

Housing ‘starts’ flattened out?

Building permits ticked down to 35’ in May. New home sales indicates a limited upside

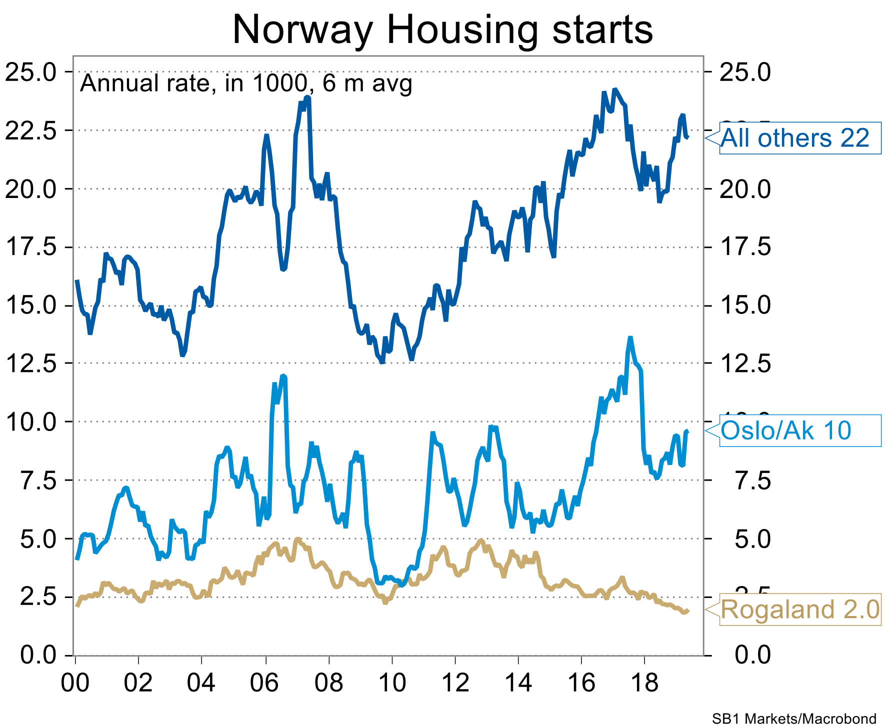


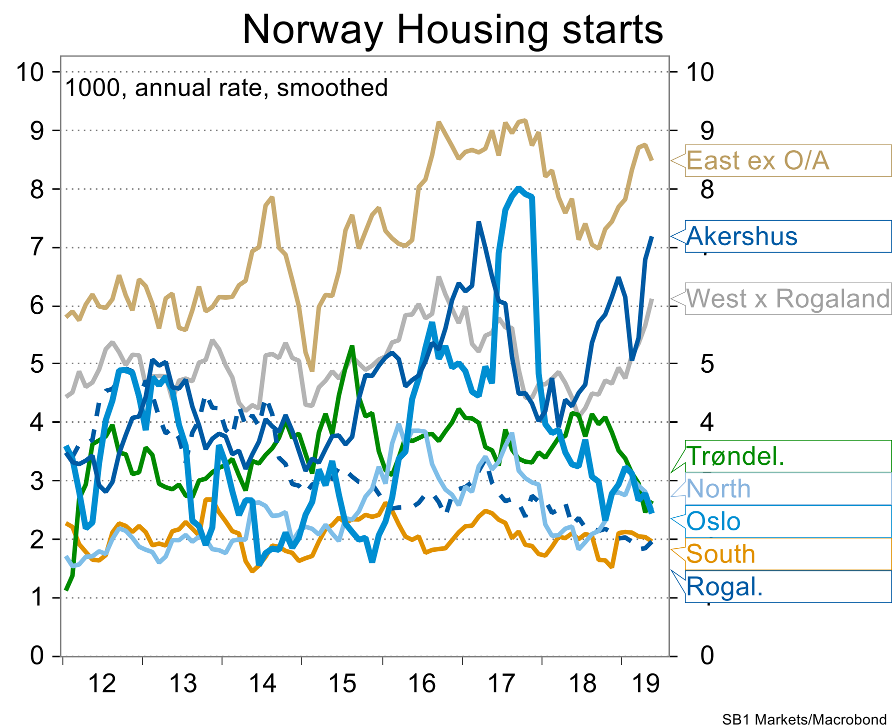


- SSB reported housing starts (building permits) at 35’ annually in May, down from 37’ in April. Starts have more or less flattened out since the recovery last summer/fall last fall. Home building is up 10-15% from the bottom in H1 2018
  - » Mixed signals; the Homebuilders’ are still reporting declining housing starts. The Homebuilders are usually reporting a lower level of starts than SSB, not all projects are included. New home sales have slowed somewhat and is not signalling a further rise in starts
- The level of housing starts is not low, although we are still well below the 2016-2017 peak. Housing starts are above the average since 2000, and approx. at the per capita average (with low population growth and real income growth much below what we have been used too). Moreover, the level is still high vs most other countries, check this page

Starts are soaring in Akershus, other East and West x Rogaland

In Trøndelag and Rogaland, starts are declining. Oslo starts remain low following the 2016-18 spike

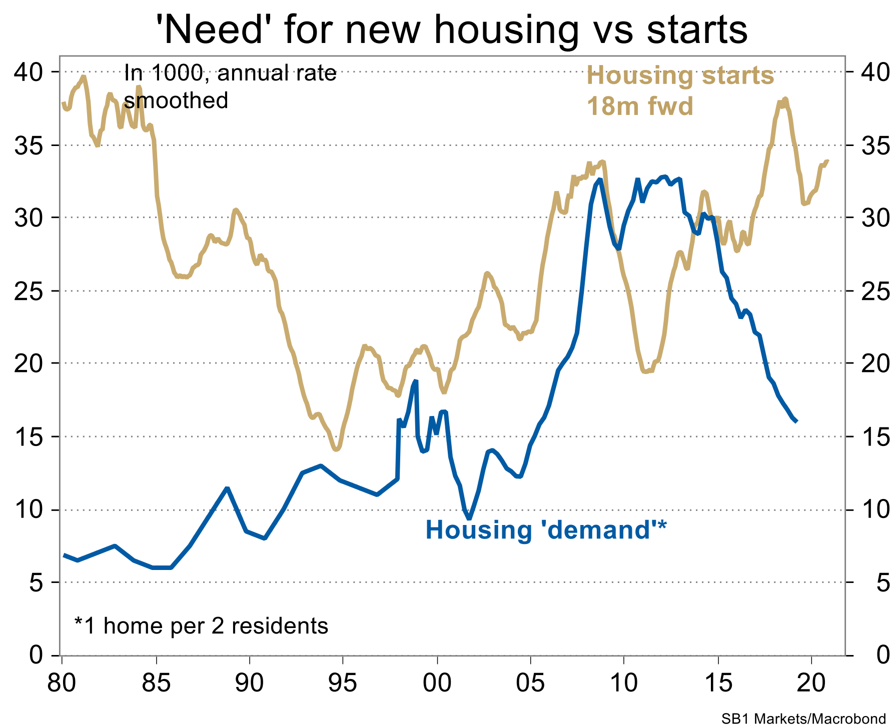


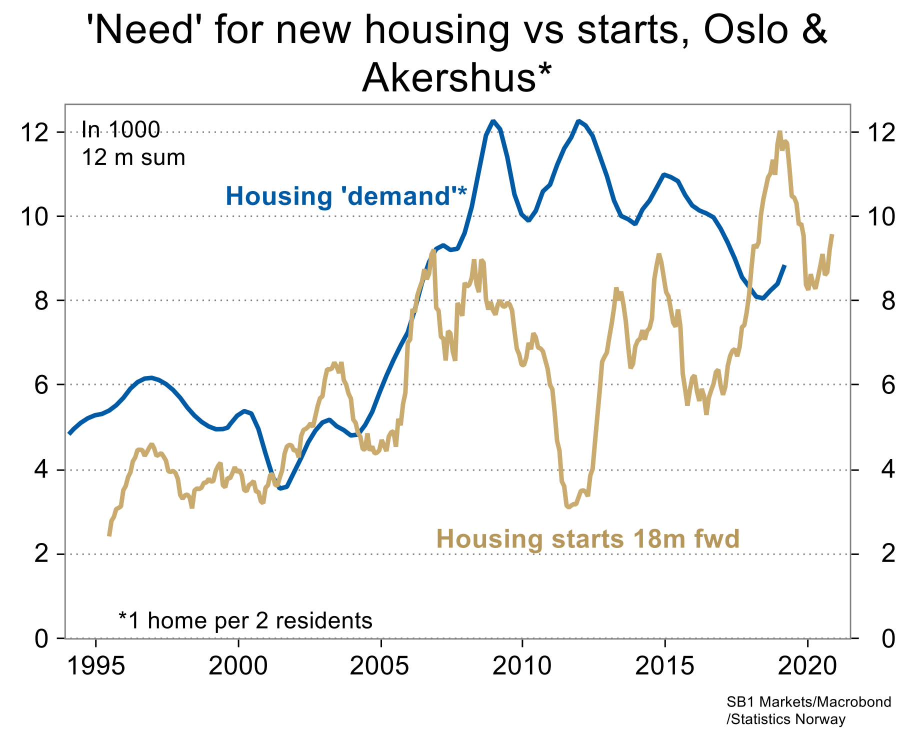


- Housing starts ex. Oslo and Akershus been soaring since last spring, closing in on the 2016-2017 peak level. The level is much higher than 'normal' the past 20 years
  - » The upturn is driven by a steep rise in Akershus, East x Oslo/Akershus and West x Rogaland. Rogaland is sliding down, no boost from the oil market upswing? Trøndelag is waning, North not impressive either
- In Akershus, building has soared this spring and are back at the 2017 peak, have builders become too eager?? In Oslo, starts fell much more than in Akershus in late 2017-2018 and gained much less last year, the level is miles below peak

One house per new inhabitant (or 2 new house per 'normal household)?

Based on pop. growth, too many homes have been built recently, except from in Oslo/Akershus?

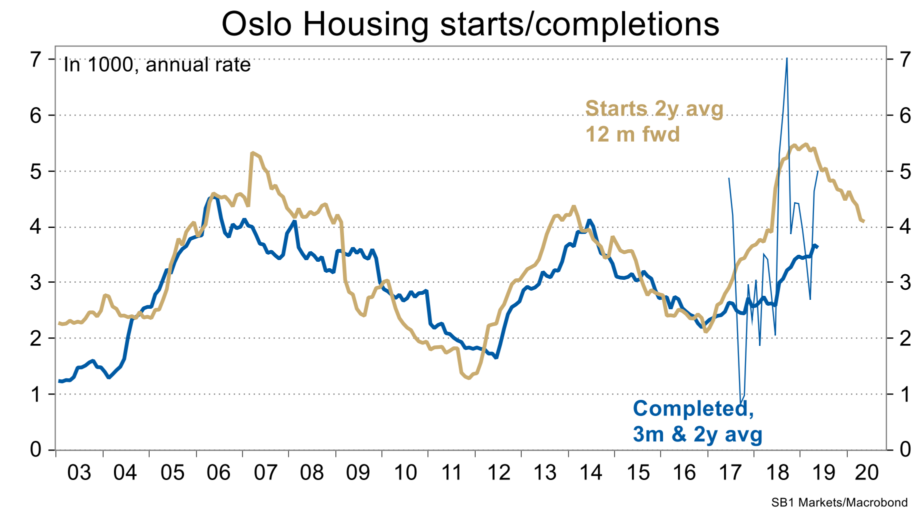


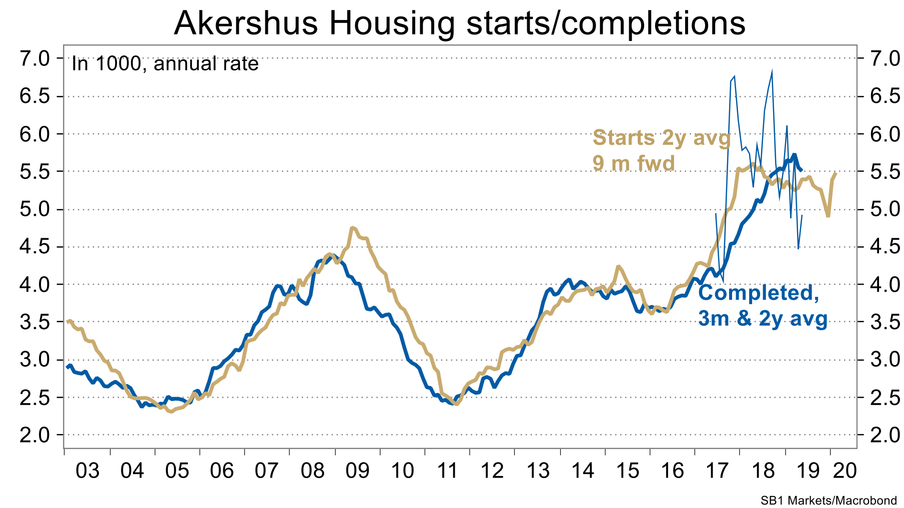


- More new homes than people have been the norm in periods with high domestic migration, which is not the case now

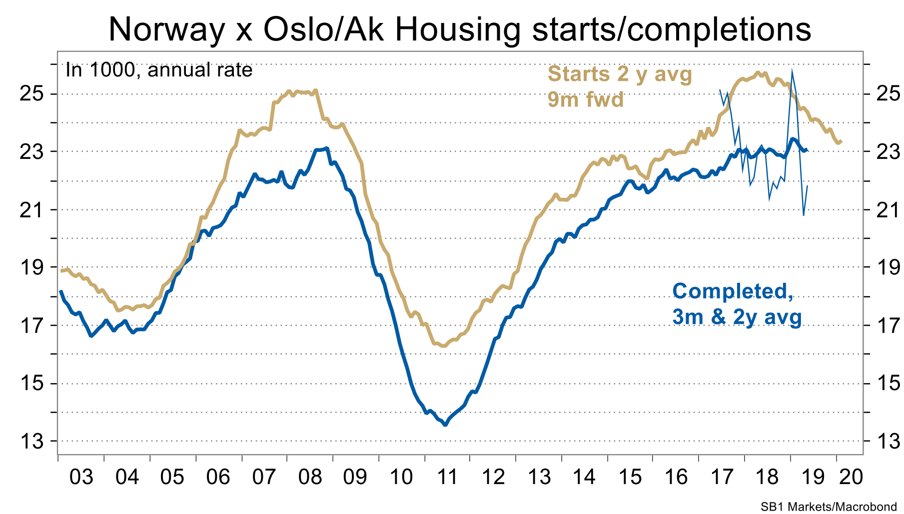
Housing completions close to peak but will remain high for some time

Oslo supply is soaring, will remain high. Akershus has peaked, Norway ex Oslo/Ak may be at peak



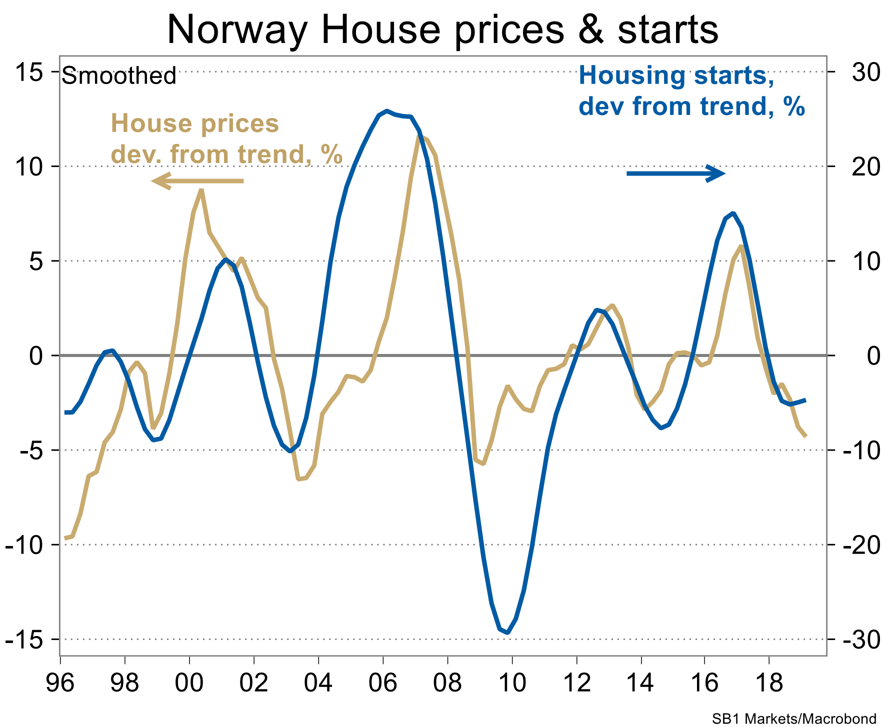


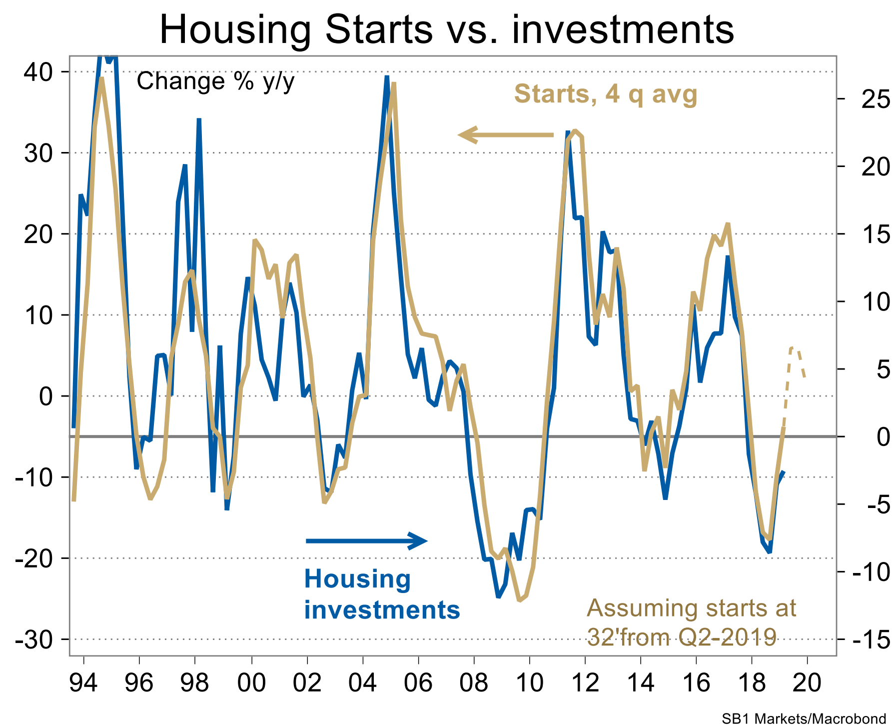
- The number of completed homes in Oslo is rising steeply and it will remain higher than 'normal' the past 10 years for some time
  - » Completions will most likely remain above a 4' annual rat
- In Akershus, the peak supply is behind us
- In the rest of the country, completions jumped in the winter, the upside is probably not large. Still, supply will probably remain high the coming months
- Usually, some of permits are not utilised and the supply of new homes is lower than the permits indicate



House prices indicate a limited housing starts upside

Prices are still on the weak side – does not normally imply rising starts



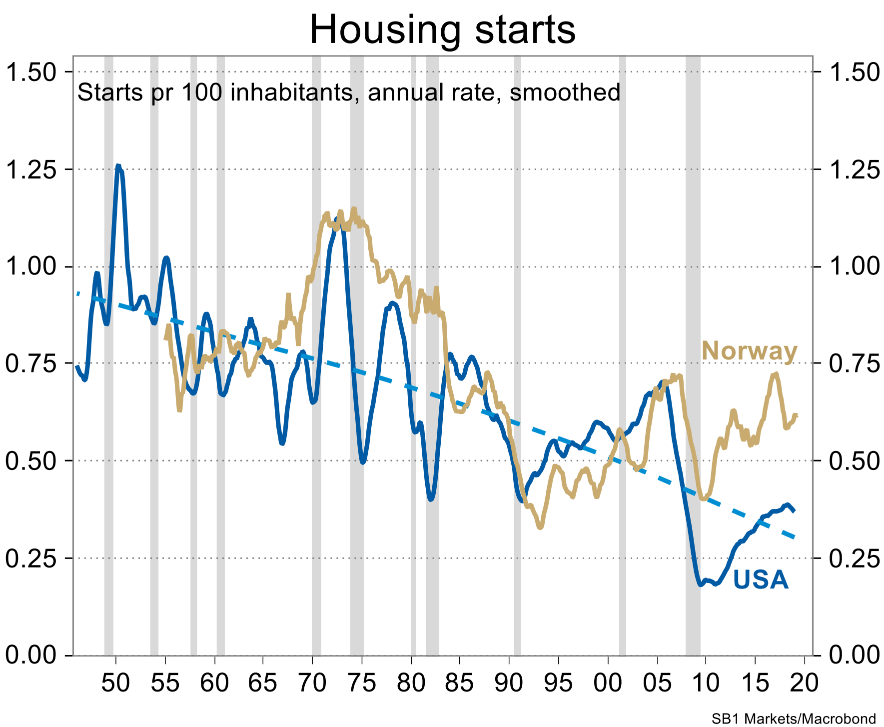


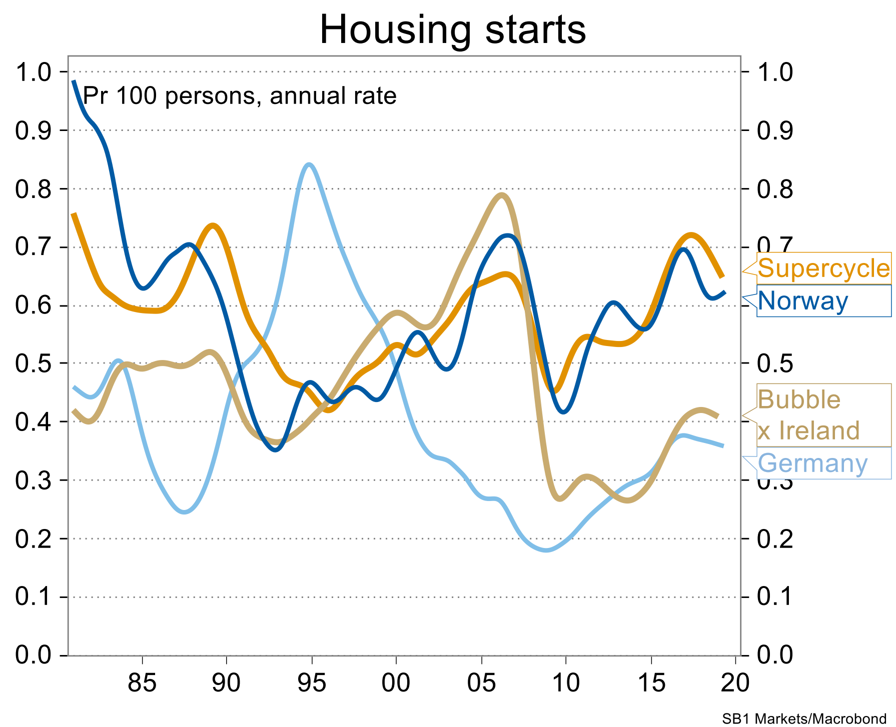
- Housing investments fell by 2.5% y/y in Q1, up from -3.5% in Q4 (but investments rose q/q in both Q4 and Q1)
- In the June MPR, Norges Bank nudged up its forecast on 2019 housing investments to +0.3% from zero. Given the level of starts, the estimate may still be on the soft side?

SpareBank 1 MARKETS

Home building is still quite high vs. other countries

In line with other 'supercycle' countries, in which starts have been 2 x higher than in other DM

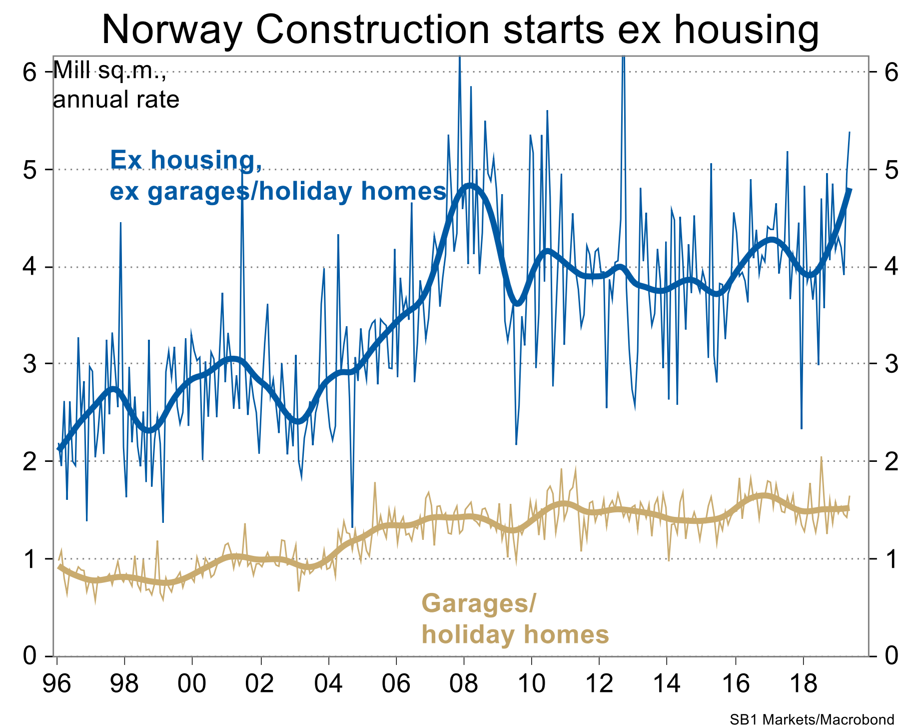


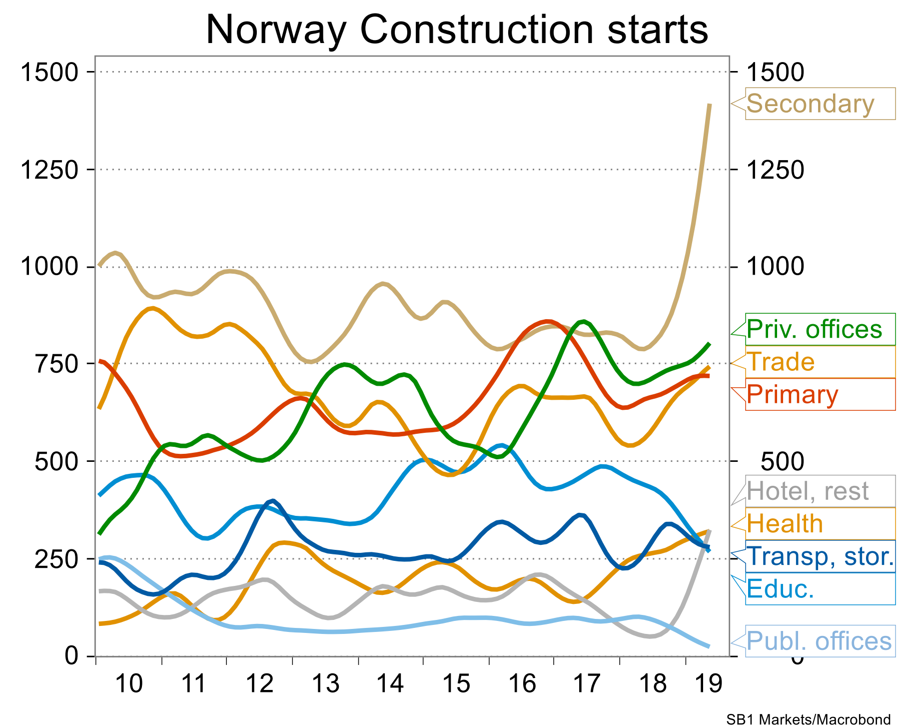


- The cycles among the supercyclicals (Australia, Canada, New Zealand, Norway, Sweden) have been quite closely correlated the past decades. Starts have fallen in both AUS, CAN and SWE the past 2 years (and in Norway before the H2 2018 uptick)
- House price and debt inflation are higher and yields are lower in these supercycle countries than other DMs. Because interest rates were cut to more or less the same level as in countries that actually needed a strong monetary stimulus?

Construction ex. housing is surging, back at 2008 peak level

May upswing is probably partly transitory, as electricity supply construction spiked. Trend up anyway



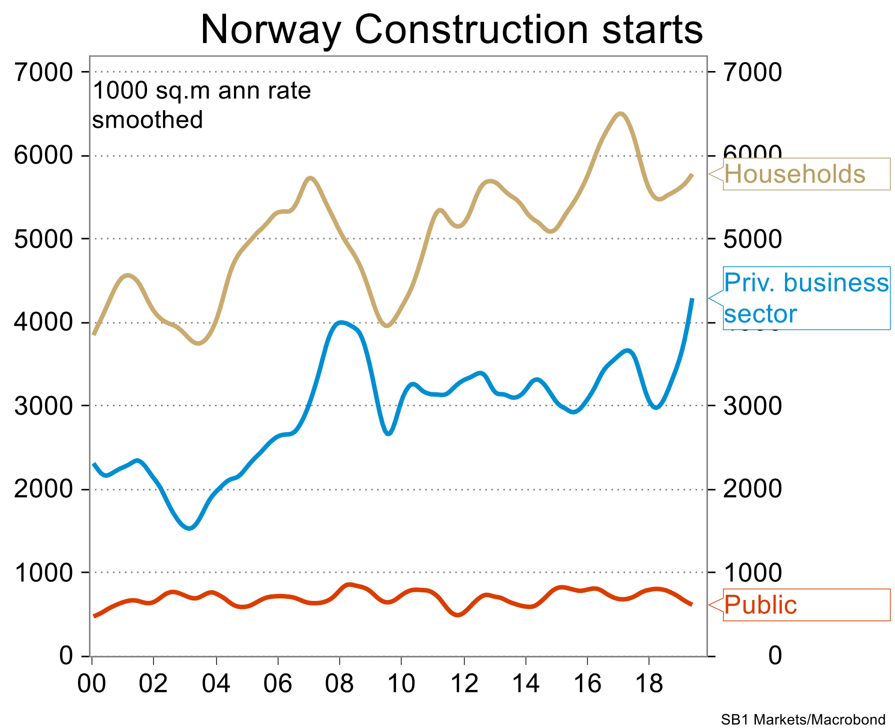


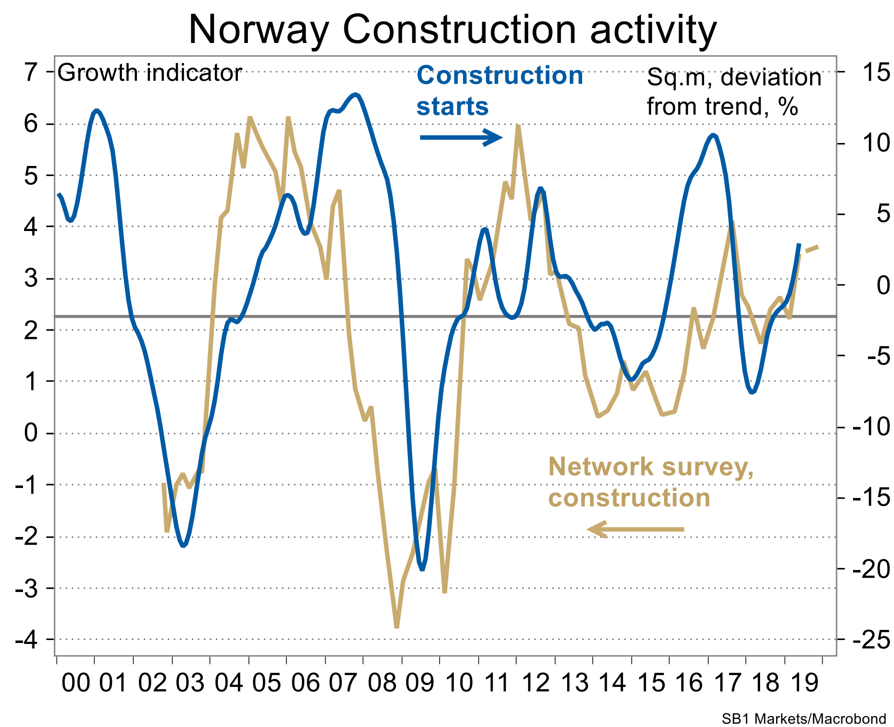
- Construction ex housing, garages/cabins is increasing rapidly, even as the May spike will be at least partly reversed
  - » The upswing is driven by secondary (industry) sectors. Electricity supply construction soared in May and will most likely be reversed the coming months. Nonetheless, manufacturing construction is soaring too, industrial sector construction is no doubt trending up
  - » Hotels/restaurants, health and trade, primary and health sectors are increasing too. The upswing in trade is surprising, given the weakness in retail sales (particularly physical sales). Construction within the education sector is falling, along with transport
  - » Public sector offices starts are heading slowly down, private offices stable
- Construction starts of cabins/garages are holding steady, after a mild downturn in 2017

SpareBank 1 MARKETS

Regional Network expects growth slightly above trend

Total construction lifted by business construction, which is rising much more than housing





Public on the chart to the left: Construction starts in public administration, education and health

Highlights

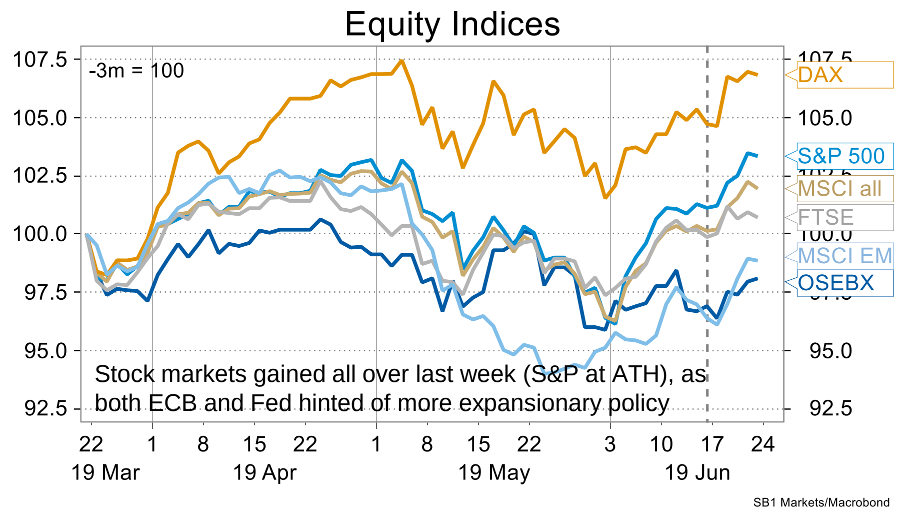
The world around us

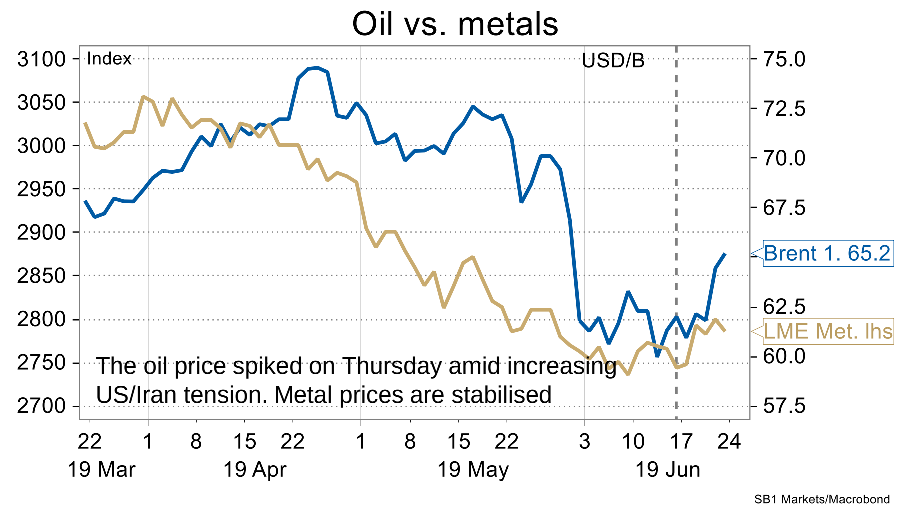
The Norwegian economy

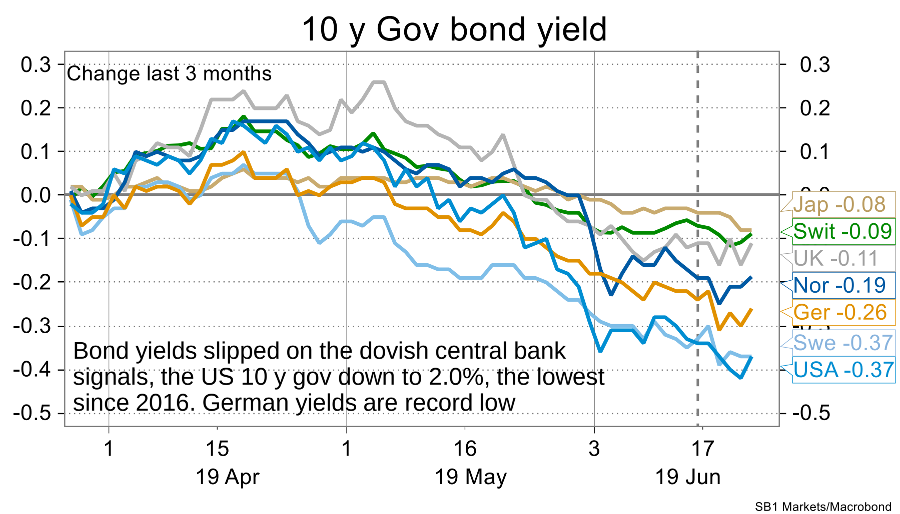
Market charts & comments

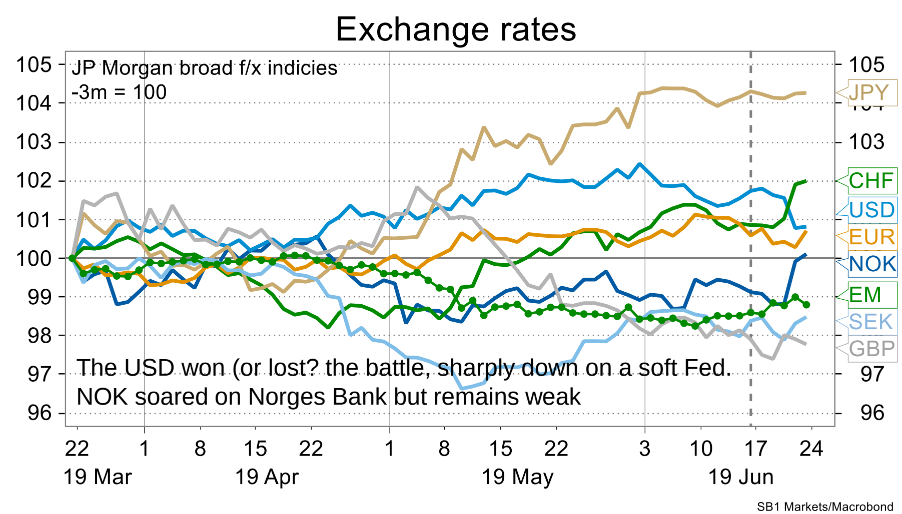
Stock markets thrive and bond yields slide down amid dovish ECB & Fed

ECB and Fed opened the door for easing monetary policy, while Norges Bank's hike plans sent the NOK up



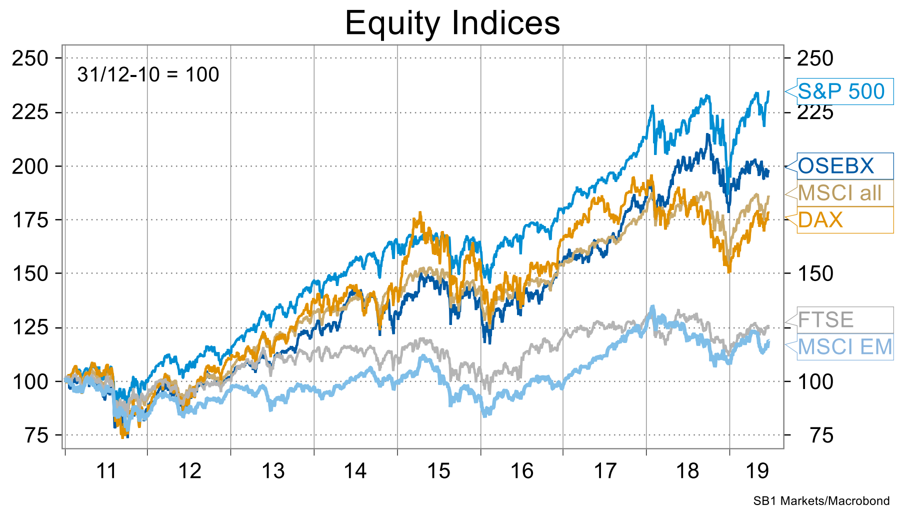


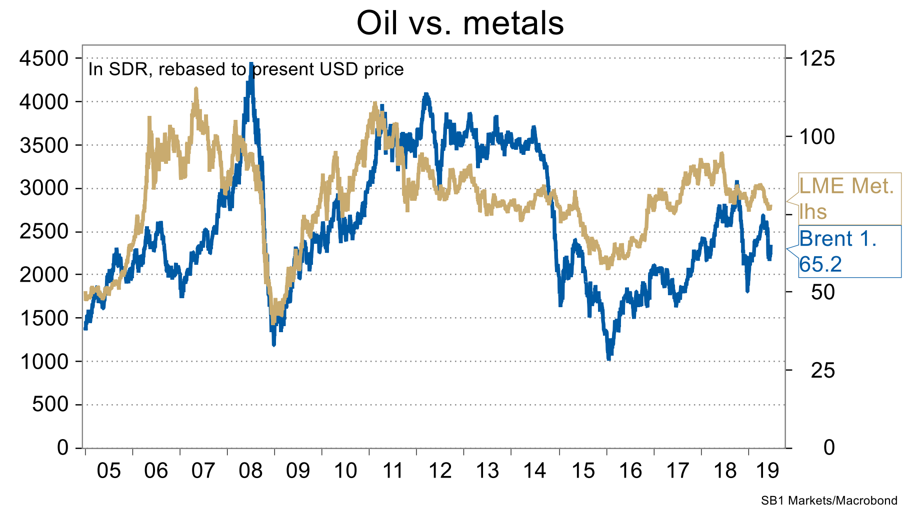


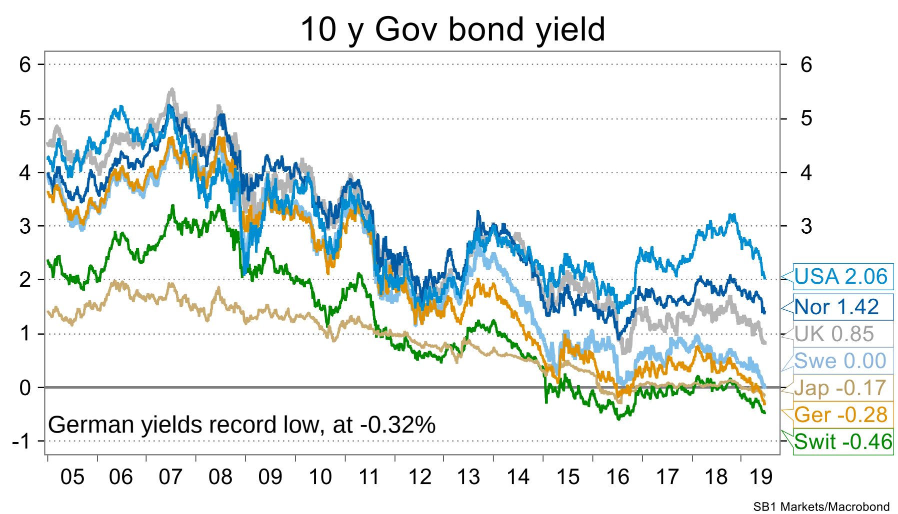


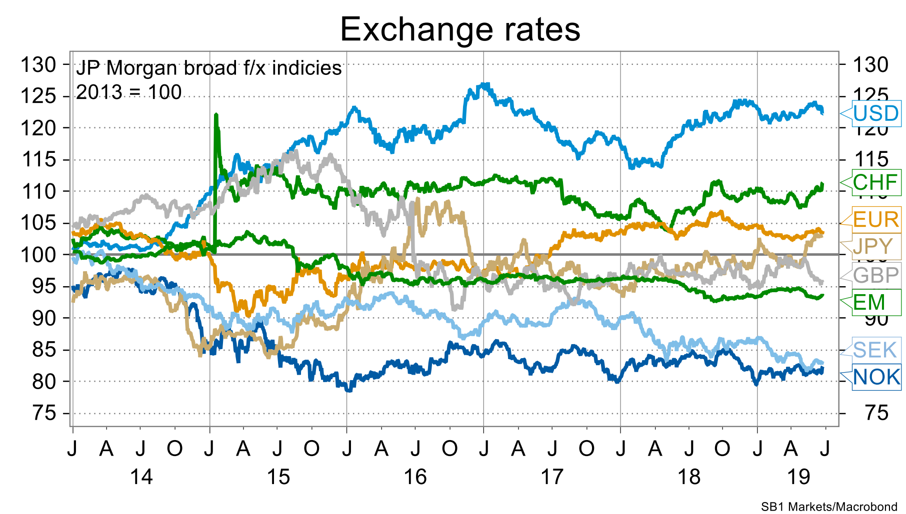
US at ATH. It's not the economy, stupid. (It's the Fed, until further notice)

Economic data are now extremely important, risk markets are vulnerable. The trade war is key





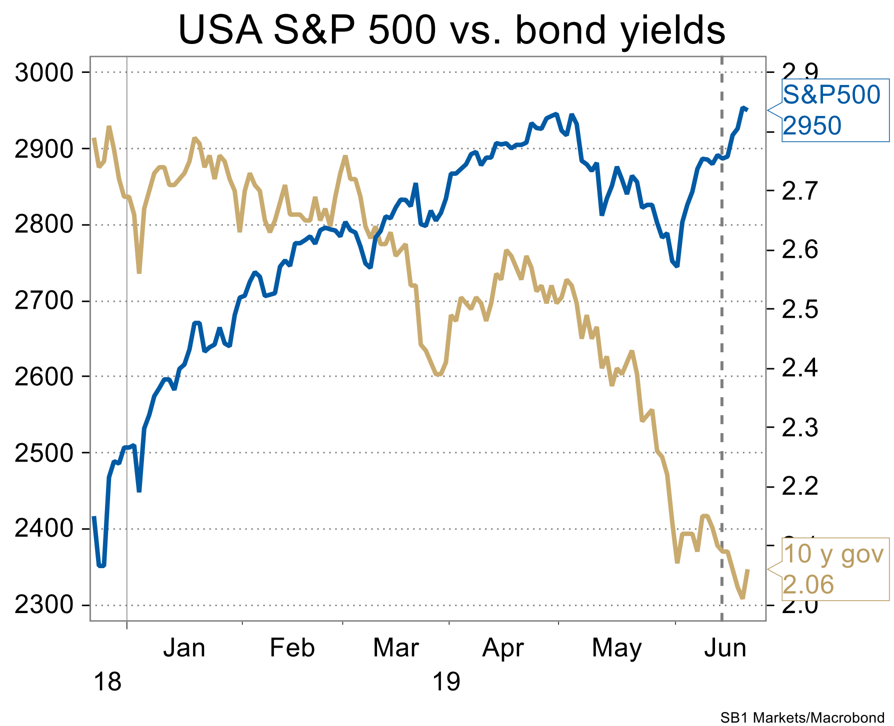


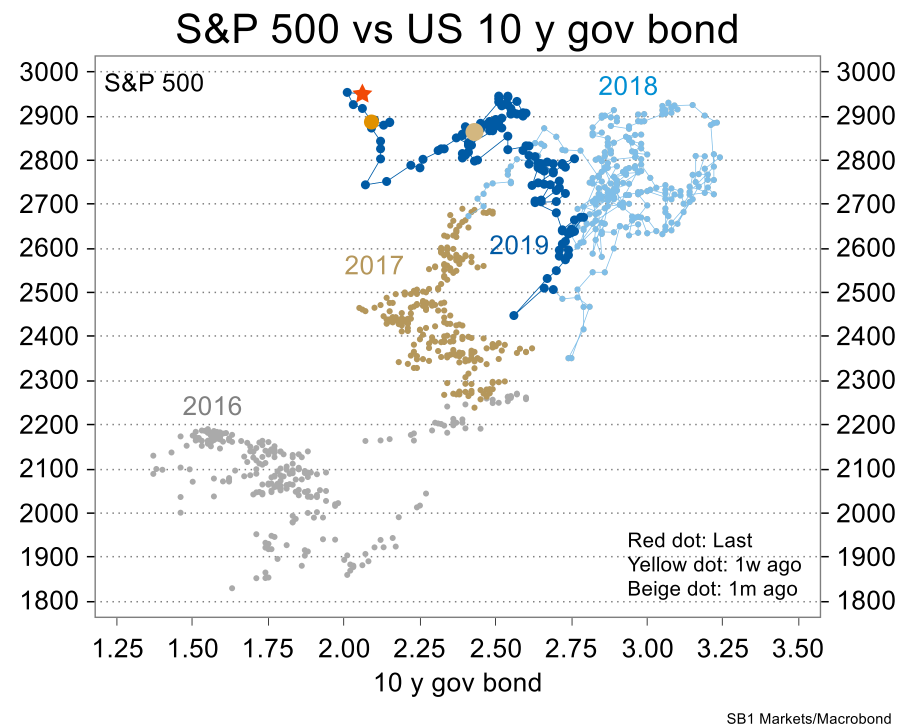


SpareBank 1 MARKETS

Stock market climb and bond yields down on Fed, weak US manuf. surveys

Bond yields fell 3 bps while S&P reached a ATH, shrugging off weak data and US/Iran tension

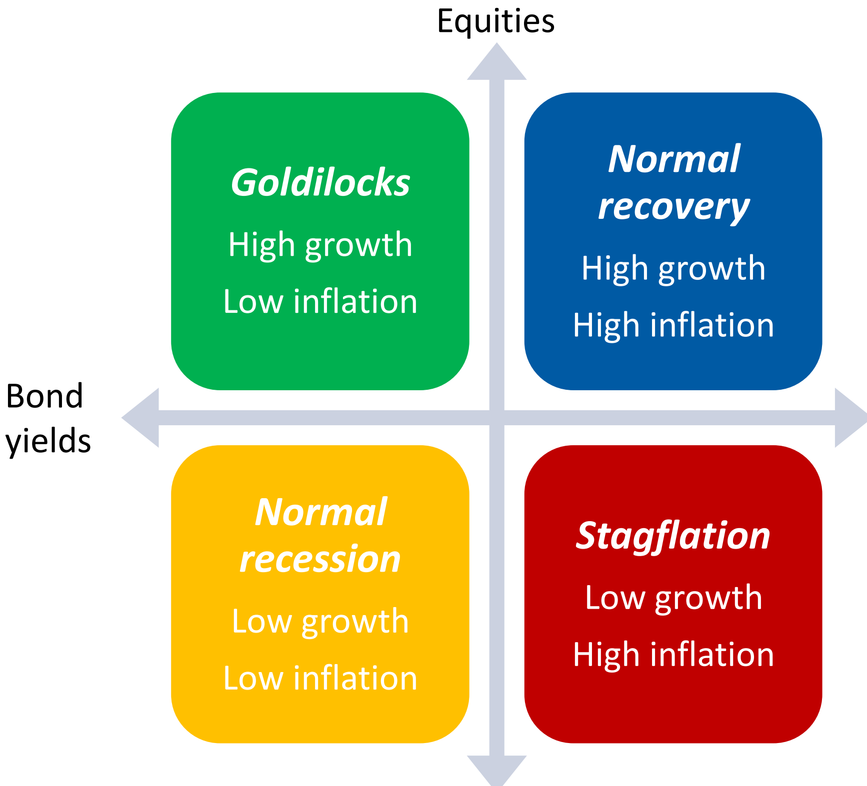


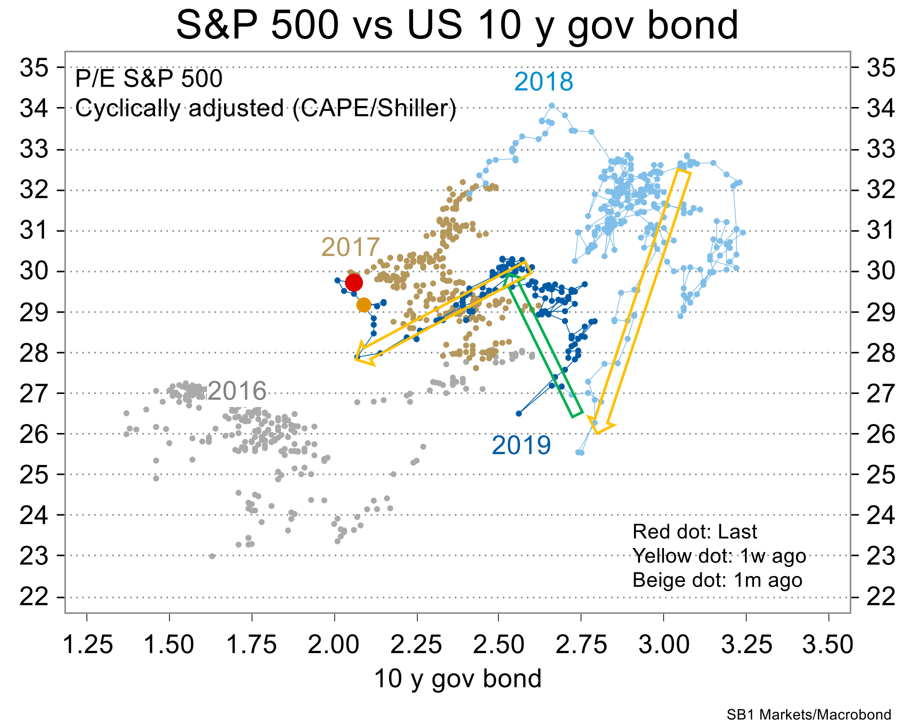


- S&P has recovered swiftly recent weeks, reversing the May downturn. On Thursday, the S&P reached a new all time high, as markets are cheering the dovish signals from central banks
- At the same time, the 10 y bond yield slipped to 2.0% before recovering somewhat, the lowest level since late 2016 as the Fed triggered a bond rally, helped by disturbingly weak US regional manufacturing surveys (NY Empire and Phil Fed) and rising US/Iran tension
- For more on the relation between stocks and bonds, check next page

Markets are moving towards the 'Goldilocks' scenario. But not for too long?

Last week: Another step towards the 'Goldilocks' scenario, supported by soft central banks

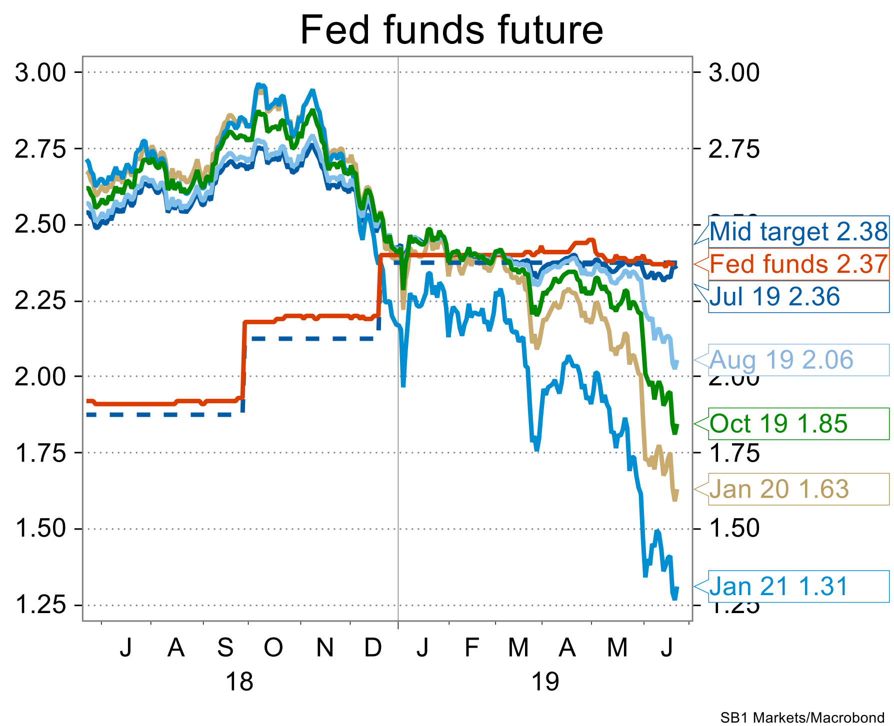


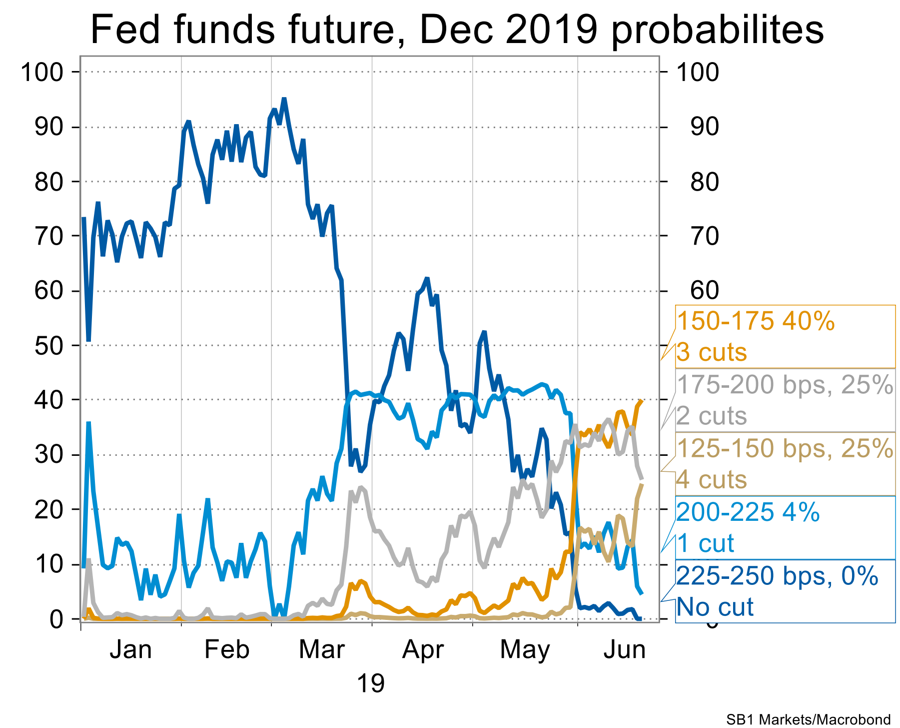


- Until three weeks ago, both stocks and bond yields fell sharply, towards the 'normal recession' corner. The past 3 weeks, stocks have increased while yields have been held down, thus, back to a 'Goldilocks' scenario, similar to the movements before the trade war escalated this spring (check the green arrow)
- We are not that worried for 'Stagflation', a take off in inflation will happen only if central banks make serious policy mistakes, over time. Trump want the Fed to do just that but we doubt he will succeed
- We stick to our 'normal' axis, driven by growth, and with inflation (or at least interest rates) over time following growth up or down. The risks of a slide in the recession direction has increased significantly past weeks, primarily due to trade war escalation

Fed funds futures are pricing above 60% prob. of at least 3 cuts this year

.. and markets are pricing 40% probability of a 50 bps cut in July! No '19 cut is reduced to zero





- Soft signals from the Fed lowered the curve steeply last week, even if the 2019 dot plot median was unchanged (but almost half of many members moved to the downside, 8 out of 17 are in favour of a '19 cut, of which 7 for 50 bps
- The market now take it for granted that the Fed will cut at the end of July, and 38% even for a 50 bps cut!
  - The market expects 2 cuts or more by the end of 2019 with a 96% probability, 65% for three or more cuts (none of the FOMC members thought more than 50 bps in cuts were needed.
- Zero chance for no cut in July, with the S&P at ATH, the unemployment at the lowest in 50 years, and inflation close to target?? These fundaments do not signal any need for an imminent rate cut. We think some bad news is needed the coming weeks. Perhaps a escalation of the trade war, ISM below 50?

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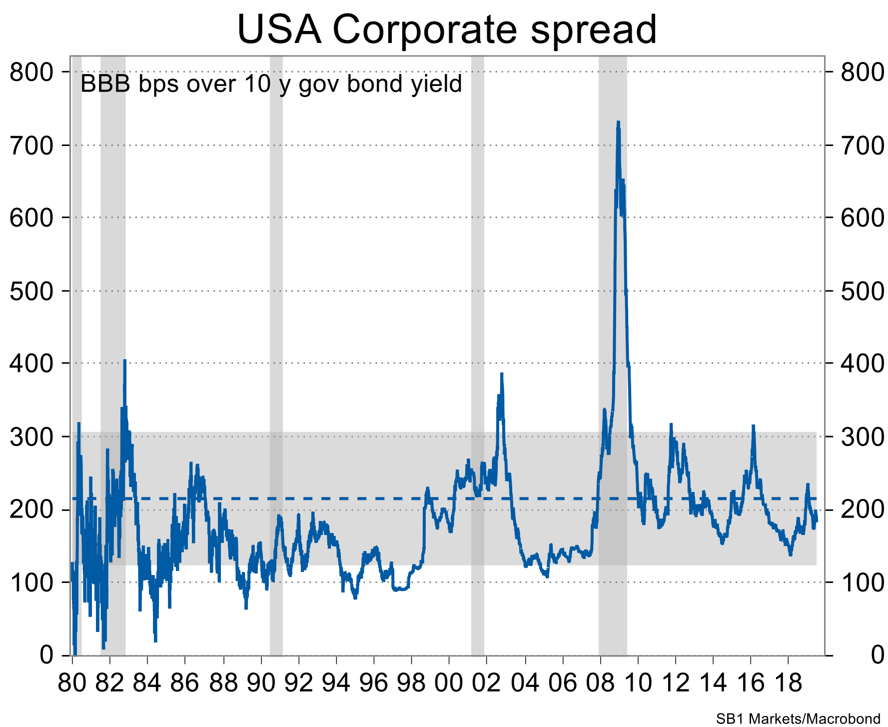
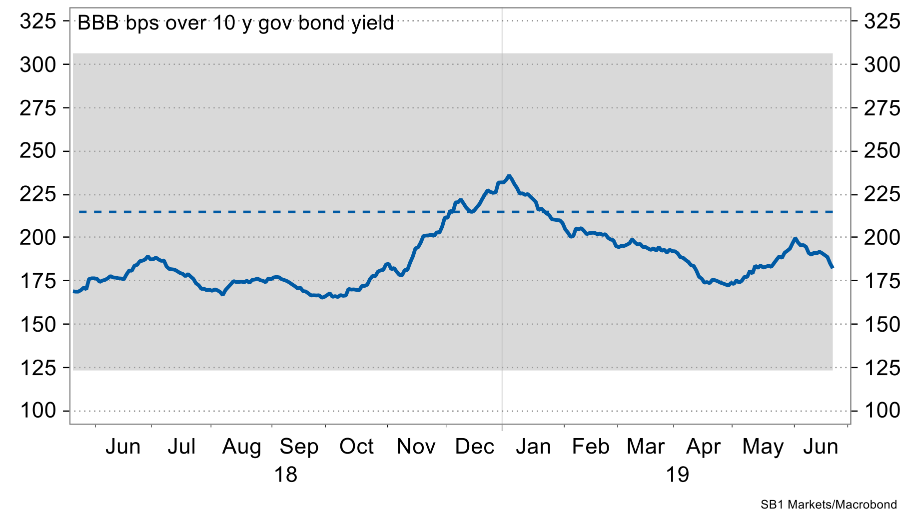
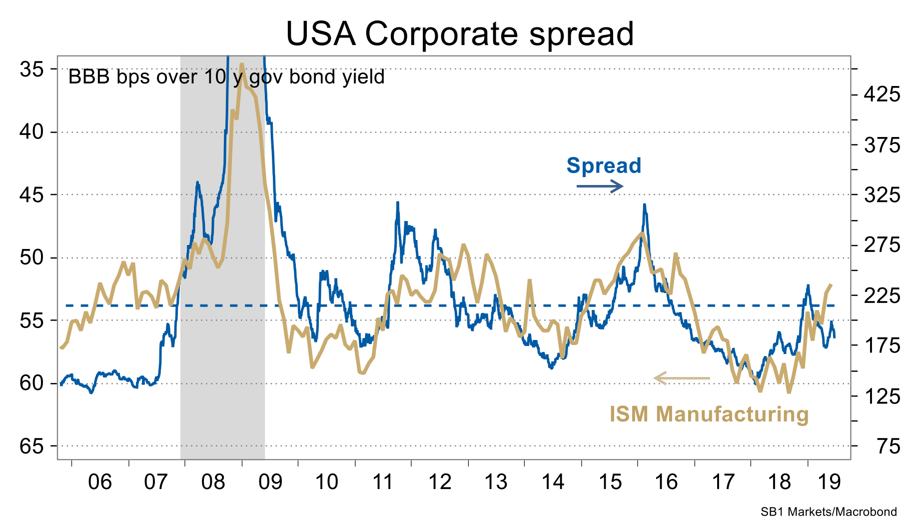
Credit spreads marginally further down last week – risk is on!

However, spreads are too low if the ISM and (most) other surveys are correct; <u>if growth is slowing</u>



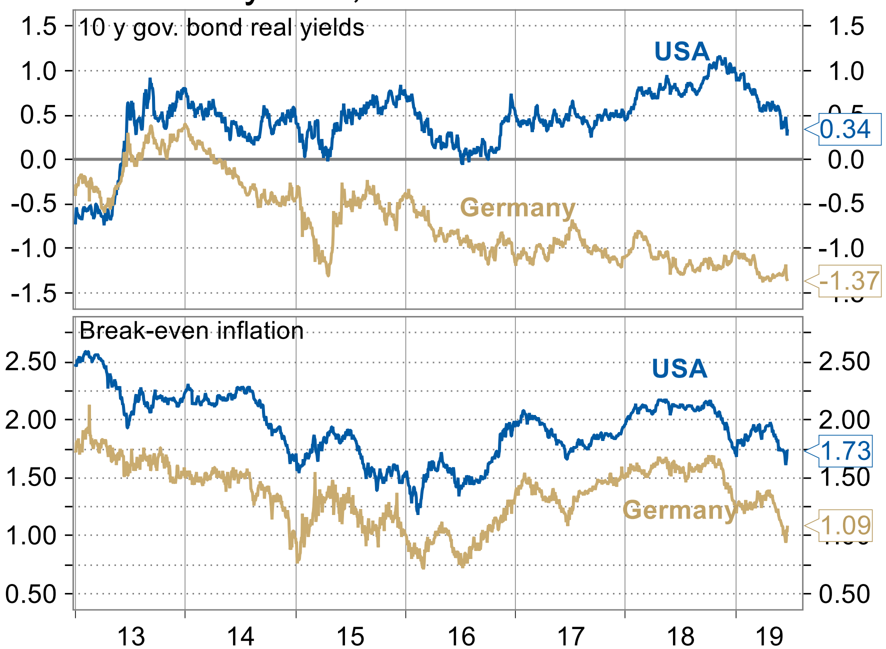




Fed & ECB sent real rates down the drain and inflation expectations up

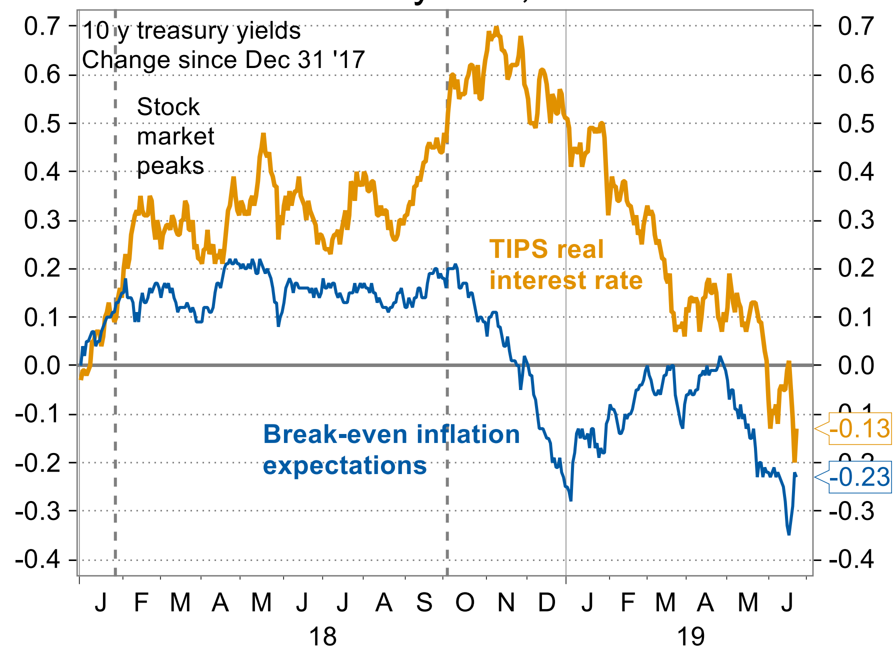
US real rates dropped 19 bps at the most last week and German rates -14 bps

Real yields, break-even inflation



SB1 Markets/Macrobond

USA Real yields, inflation



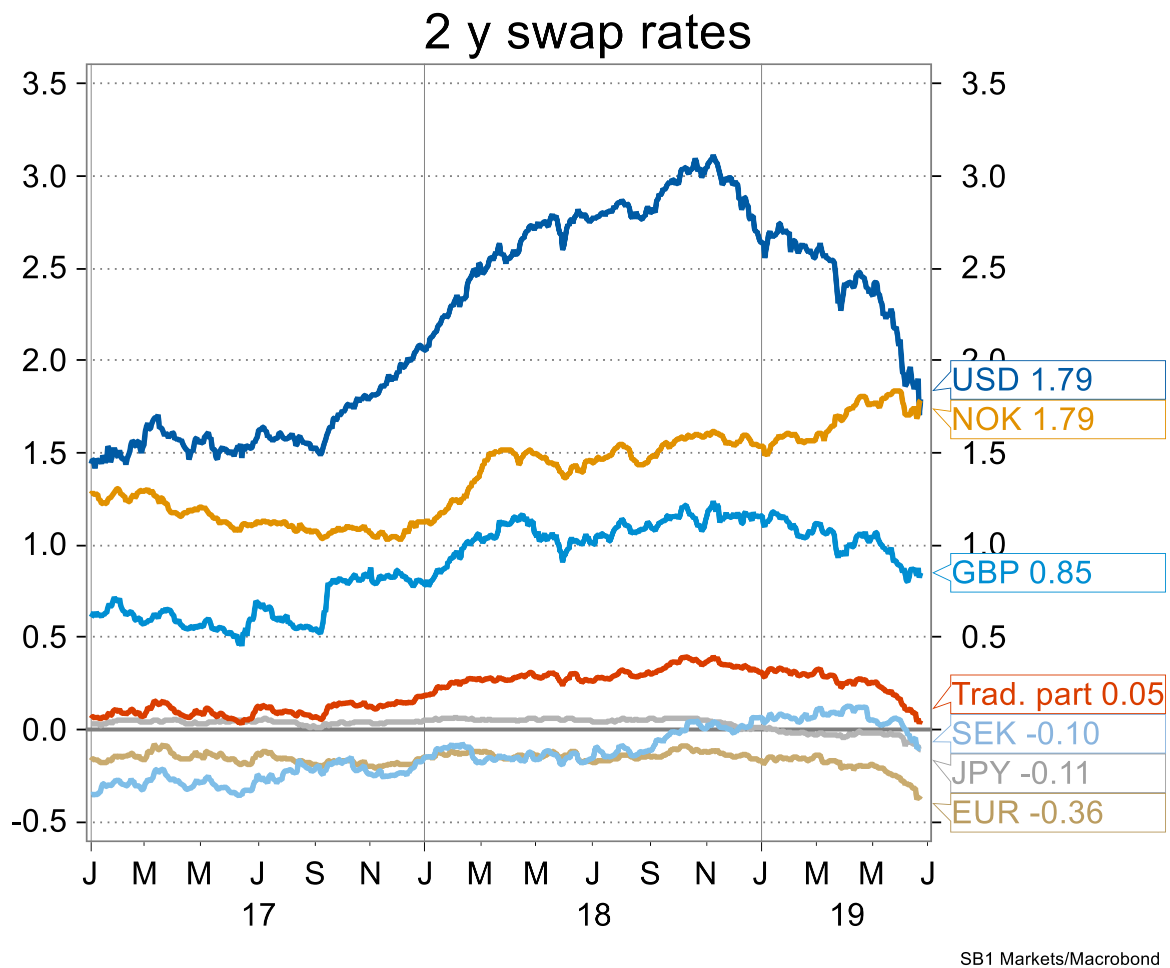
SB1 Markets/Macrobond

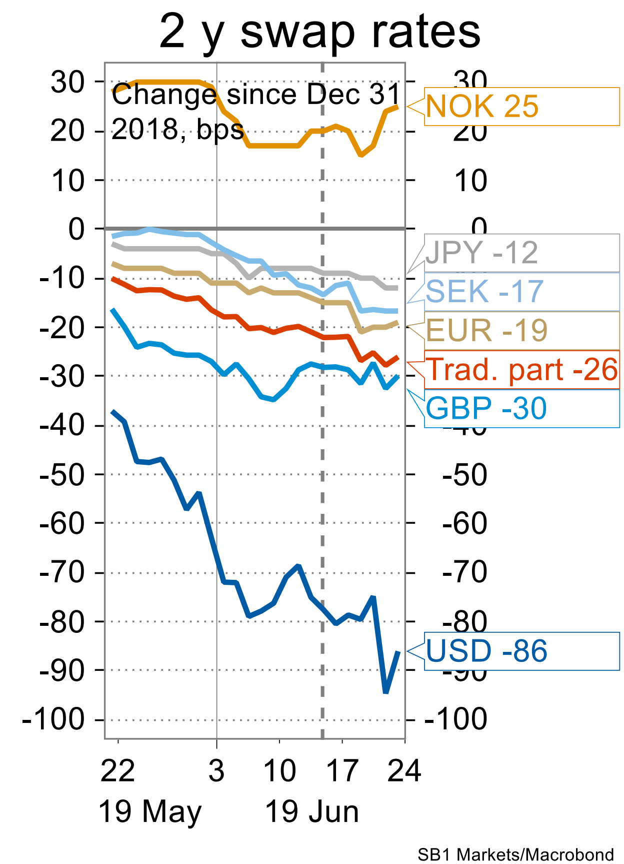
- The US 10 y real rate slipped 12 bps to 0.34%, the lowest since Sept 2017. US inflation expectations, which have collapsed recently, bounced back 10 bps 1.73%. Inflation expectations are well below the Fed's price target at 2% (measured by the PCE deflator, which usually some tenths below the CPI). Expected inflation the next 10 years has fallen almost 80 bps since last autumn, still very correlated with the spot oil price
- German real rates dropped on the dovish Draghi speech, -15 bps on the week to -1.37% (per year, the next 10 years..) 10 y inflation expectations rose 15 bps to 1.09%! Infl. Expectations have fallen more in Germany then in the US recently, and is well below the inflation target. The nominal bond yields dropped to a record low -0.32% last week

SpareBank 1 MARKETS

Norwegian short term rates edges up, US short term rates plummeting

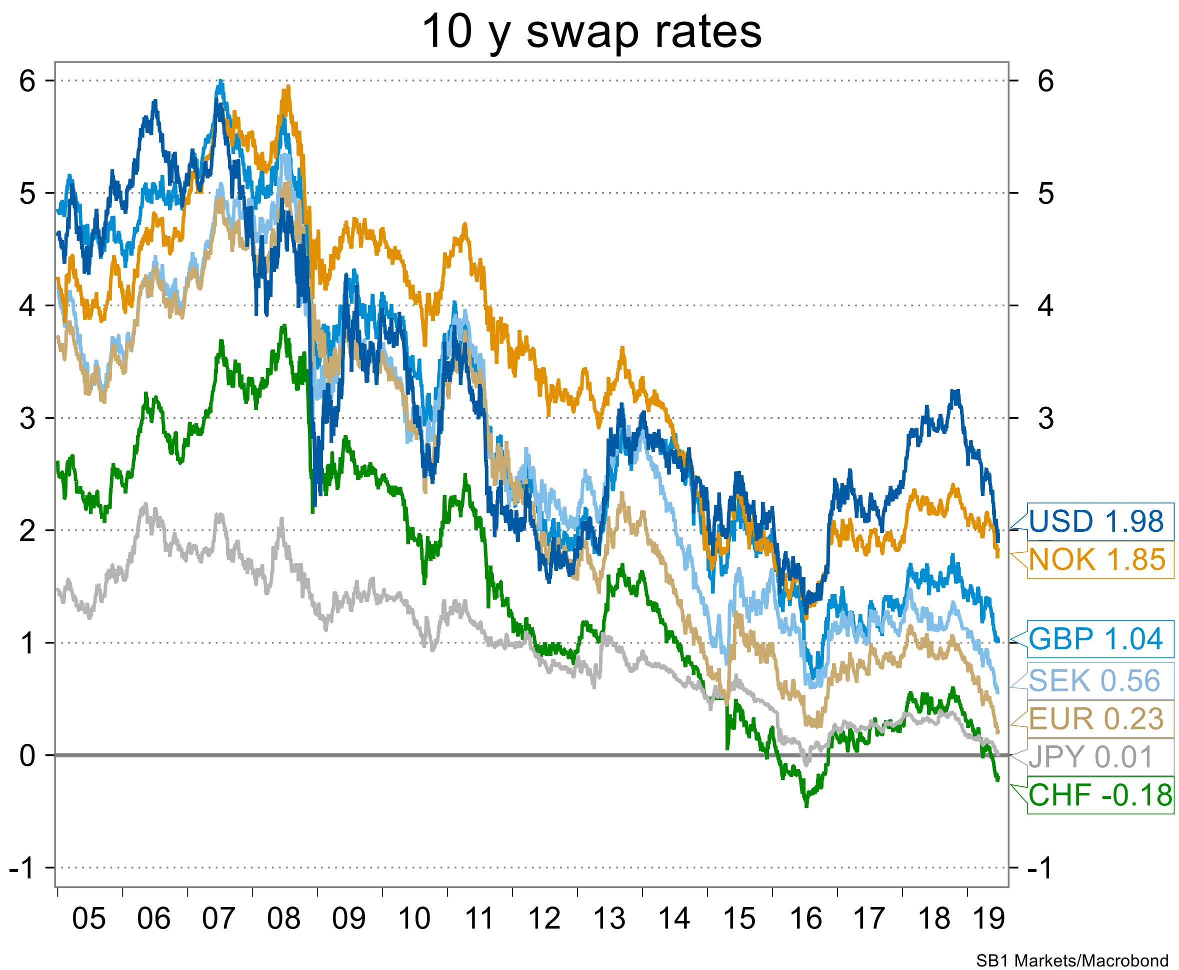
Norges Bank sent NOK 2 y rates up 7 bps Thursday while US rates nosedived

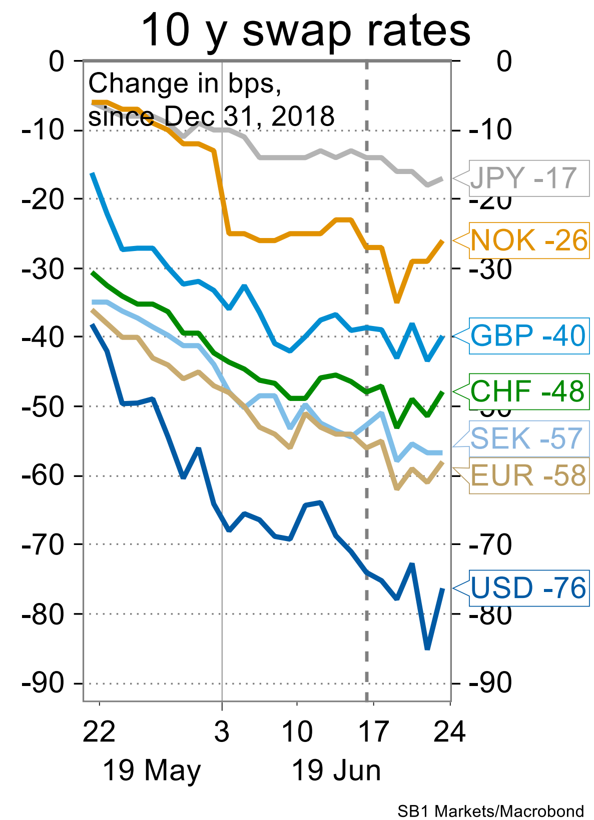




Long term rates are falling all over

Long term NOK rates held steady on a 'hawkish' Norges Bank

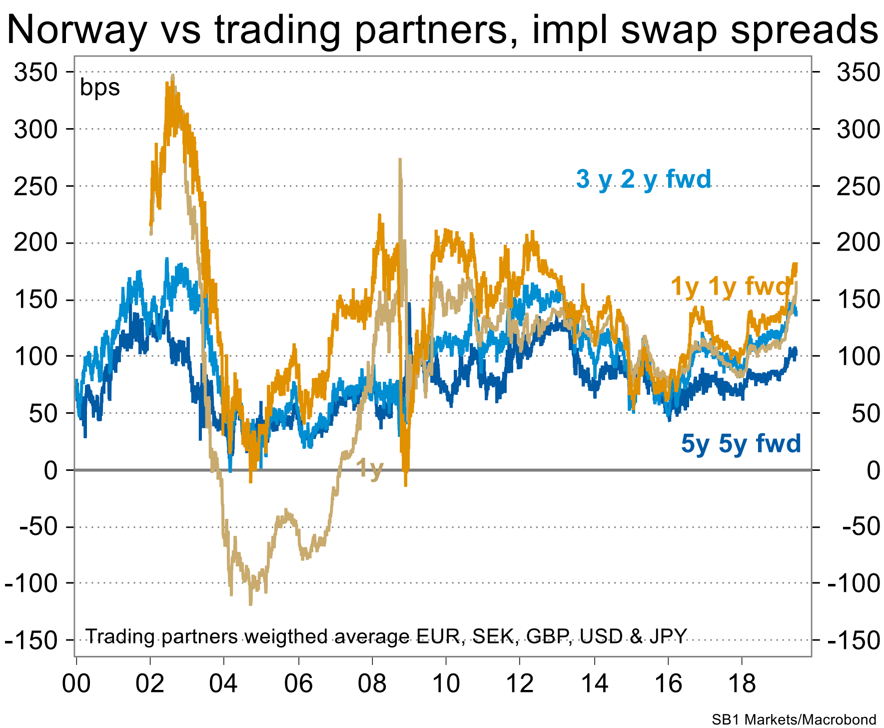


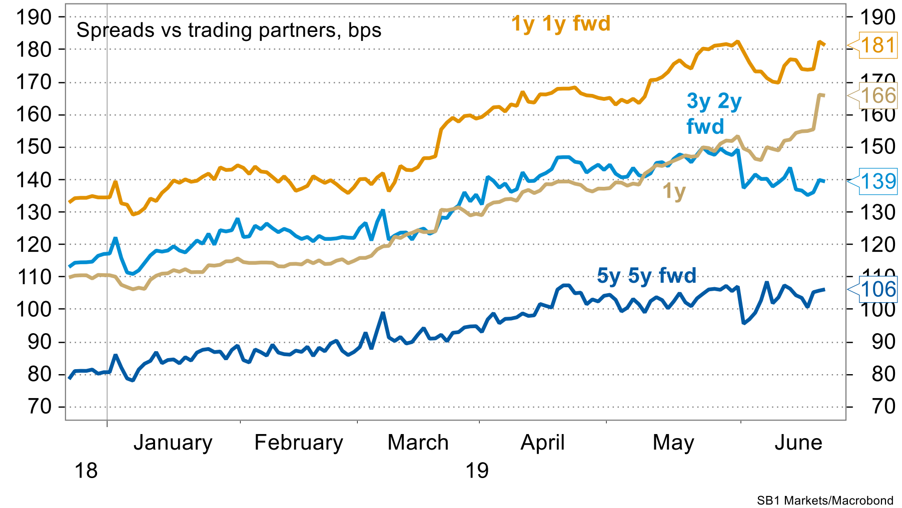


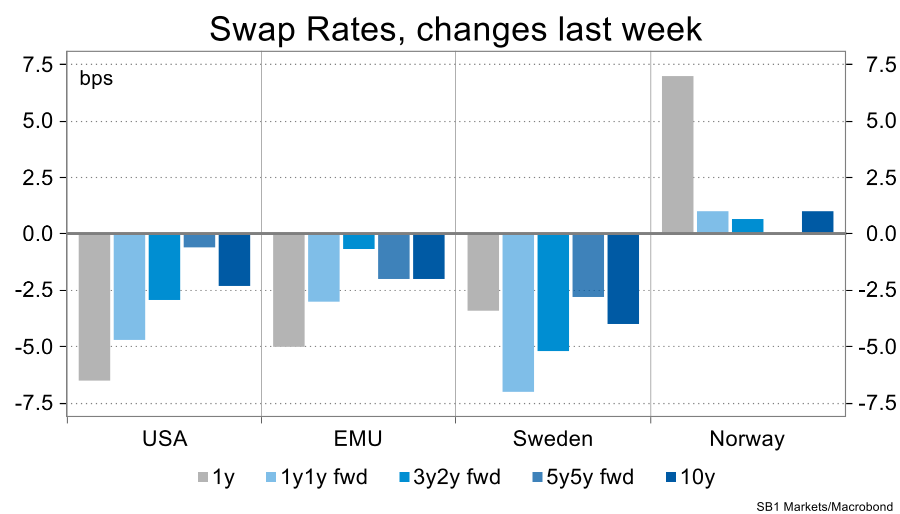
SpareBank 1 MARKETS

Swap spreads vs our trading partners are soaring again, but just up to 2y

Norges Bank walks alone, swap rates among trading partners fell broadly



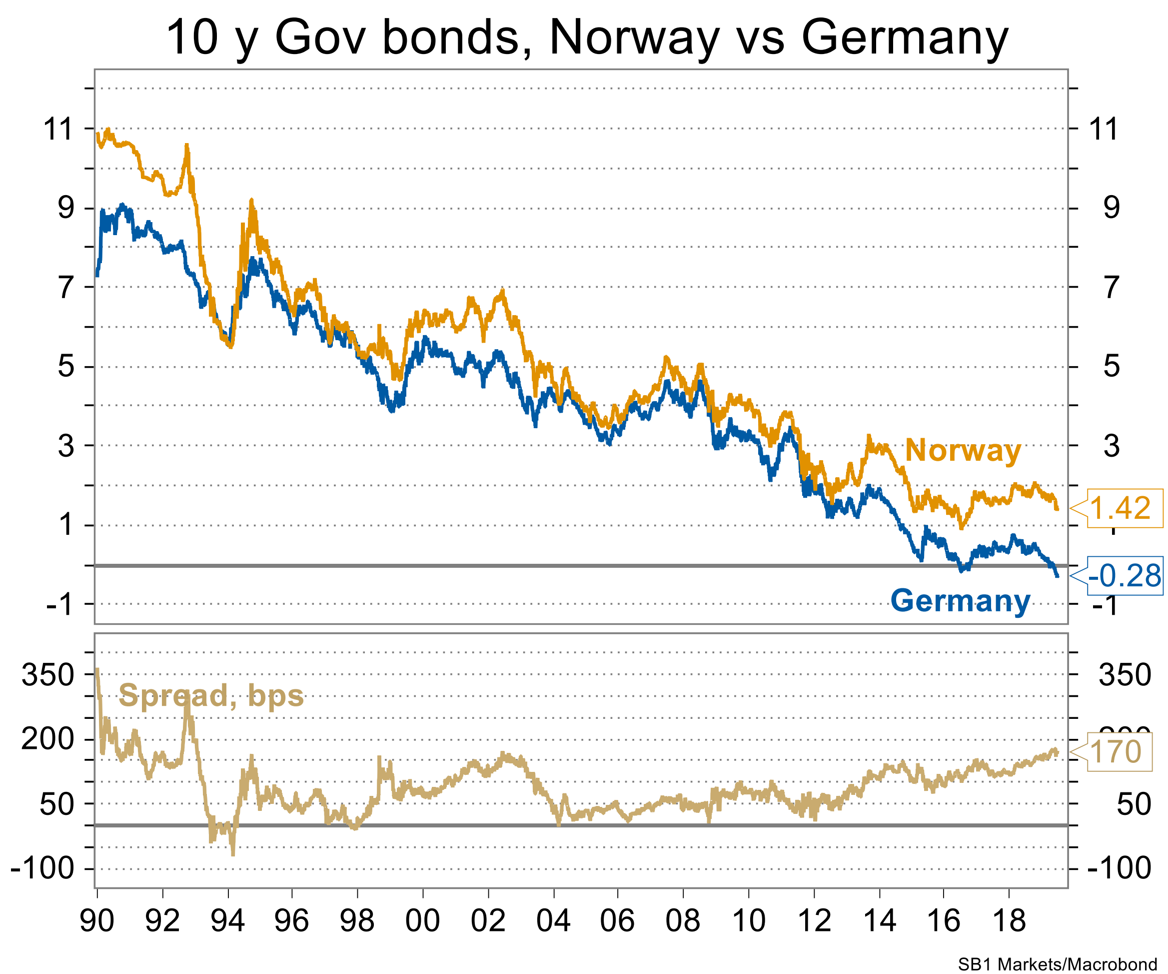


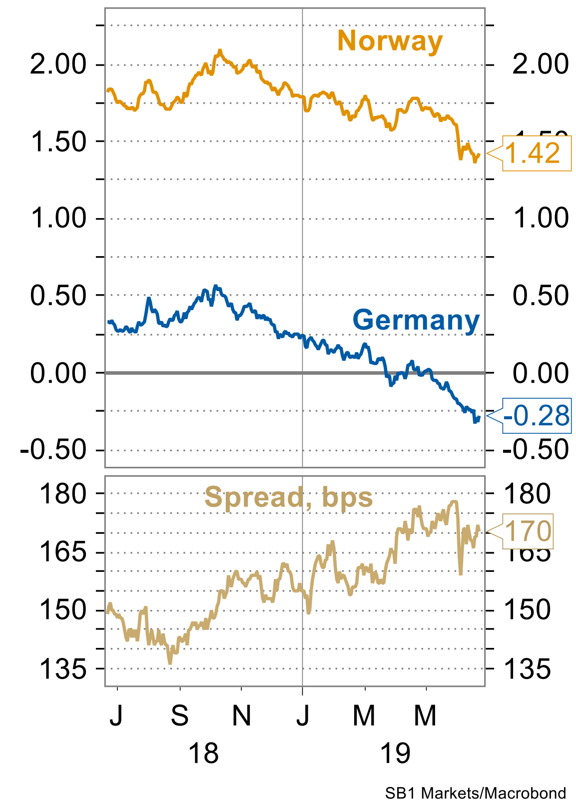


- A high spread is reasonable, given NoBa's stance vs Fed, ECB and the Riksbank (which is due to solid Norwegian data, not a hawkish bank..)
- Although the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March

German Bund down to -0.32%, the lowest ever (then up to -0.28%)

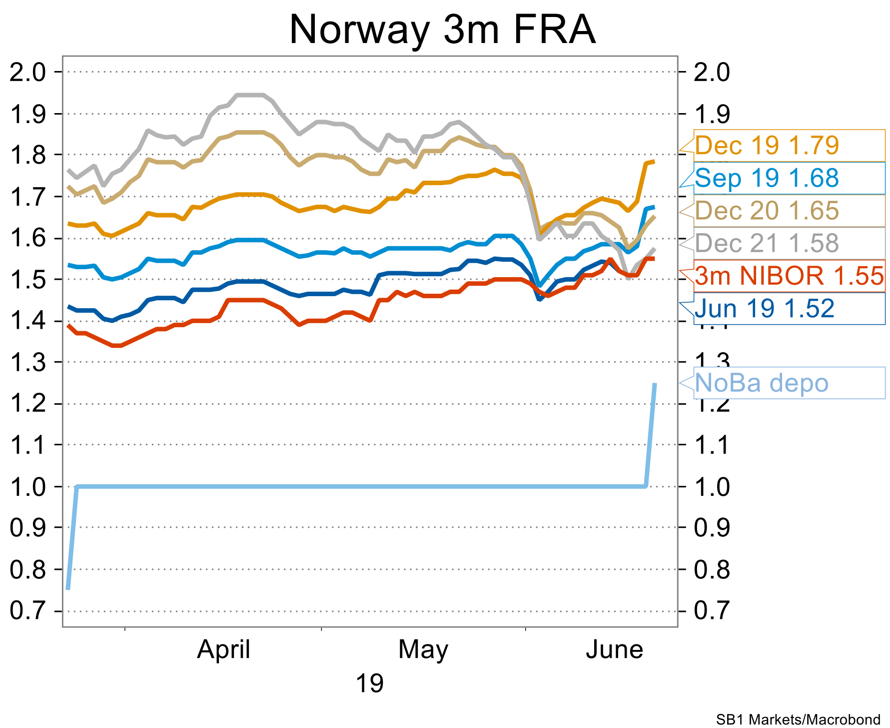
The 10 y gov spread at 170 bp is far too rich, long term

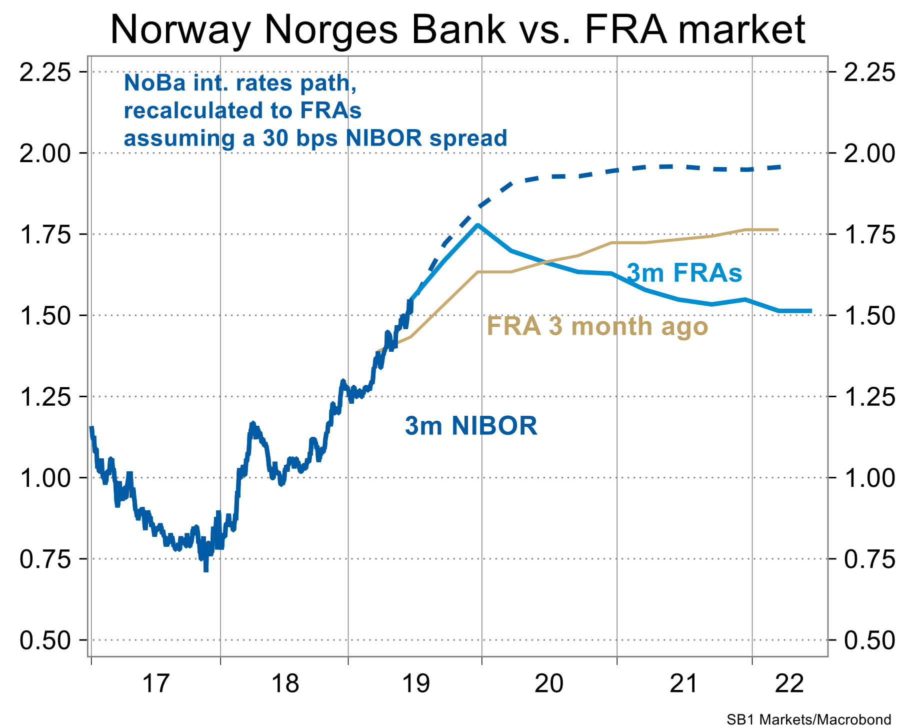




FRAs spiked on Norges Bank's path lift, another '19 hike is fully expected

Sept '19 contract implies that the market is assuming some 50% probability of a hike, and 96% in Dec



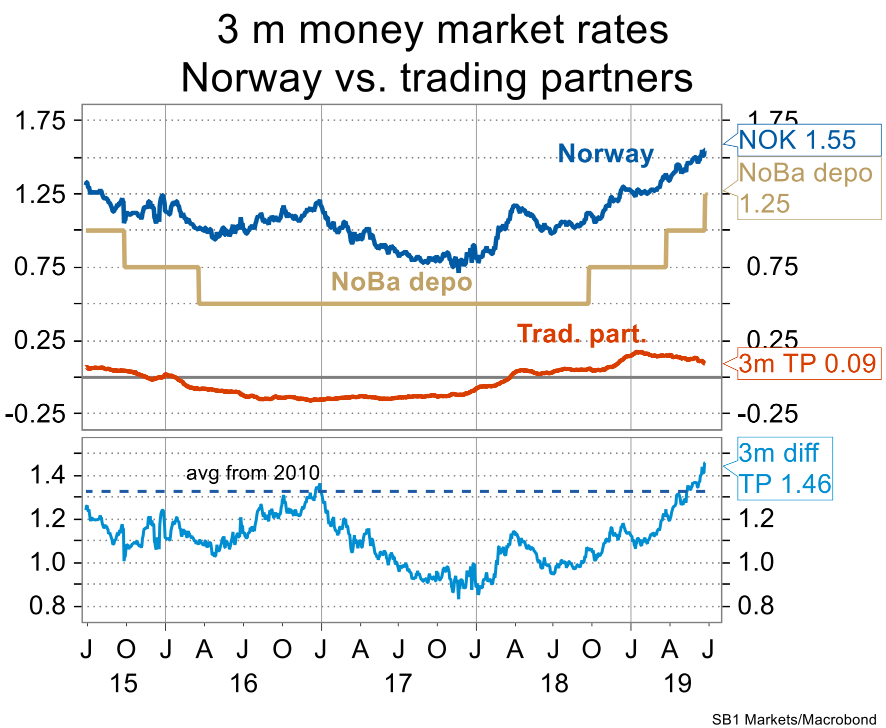


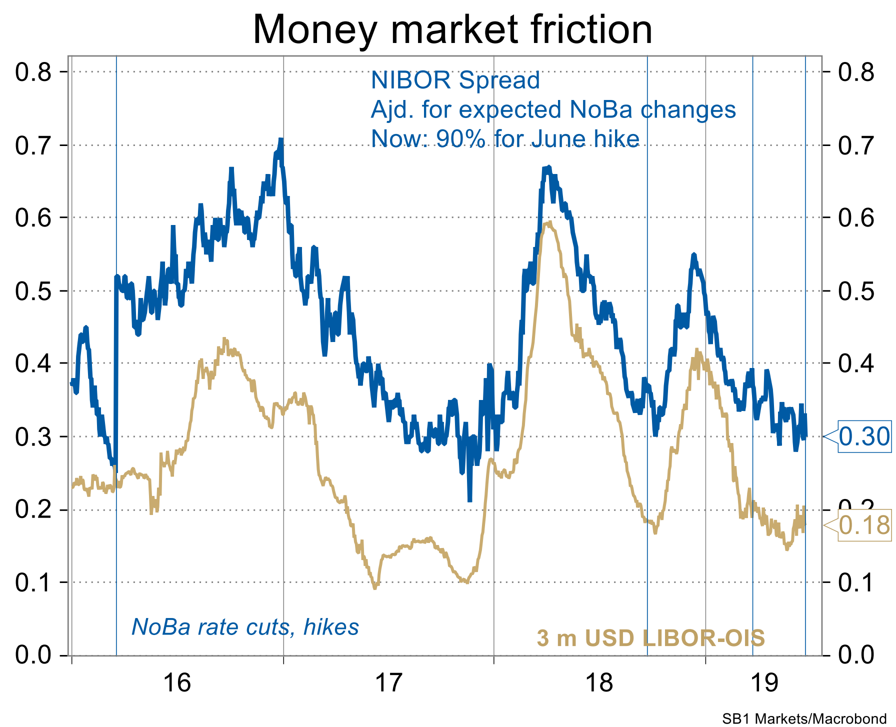
- The NIBOR Dec '19 FRA rose 9 bps following the NoBa announcement, thus, almost fully pricing in the 11 bps upward revision of the path in Q4
- The FRA curve is inverted from Dec 19 onwards, the market does not expect any hikes after 2019 (NoBa plans 1 in '20)
- The 3M NIBOR came in at 1.55, hence, implying a 30 bps money market spread, as we assumed

SpareBank 1 MARKETS

3m NIBOR at 1.55 confirms a 30 bps spread

The 3 m NIBOR up 4 bps when NoBa hiked, as was at 1.55% the previous Friday too





- We have for some weeks assumed a 30 bps NIBOR spread, which turned out to be the spread after NoBa's hike. Norges Bank forecast a 35 bps spread until October, and then up to 40 bps. That can of course turn out to be correct but had NoBa used our (so far more precise) estimate, it would have had to lift the interest rate path for the signal rate by 5 and 10 bps
- The US LIBOR-OIS spread widened by 2 bps to 18 bps last week, and has been trending somewhat out past two weeks
- The spread between NOK and trading partners' 3 m money market rates at 1.46 bps is up some 60 bps since December 2017 and is now above the 10 past year's average – without sending the NOK into the orbit

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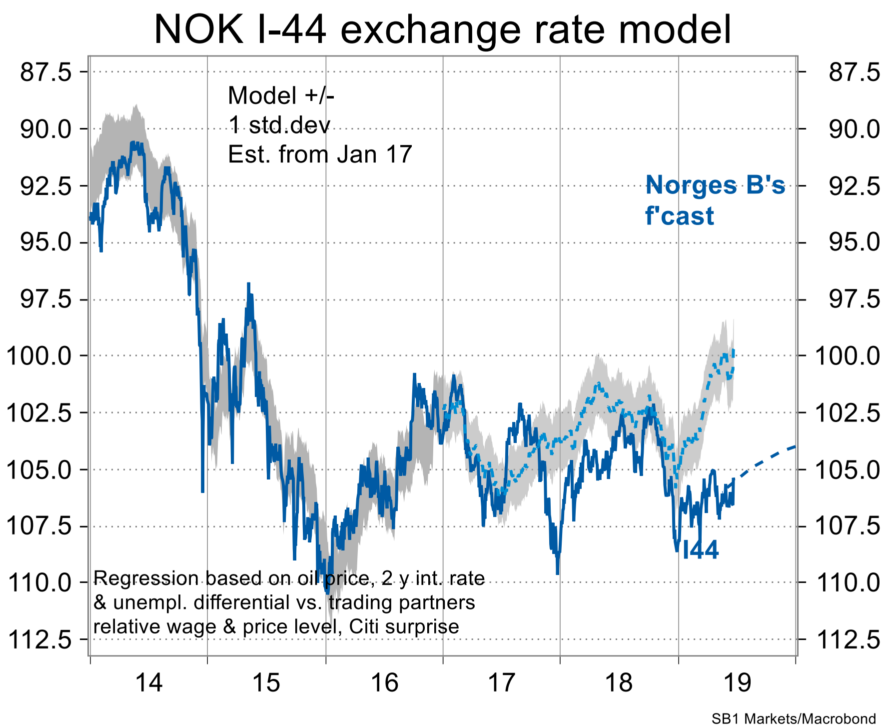
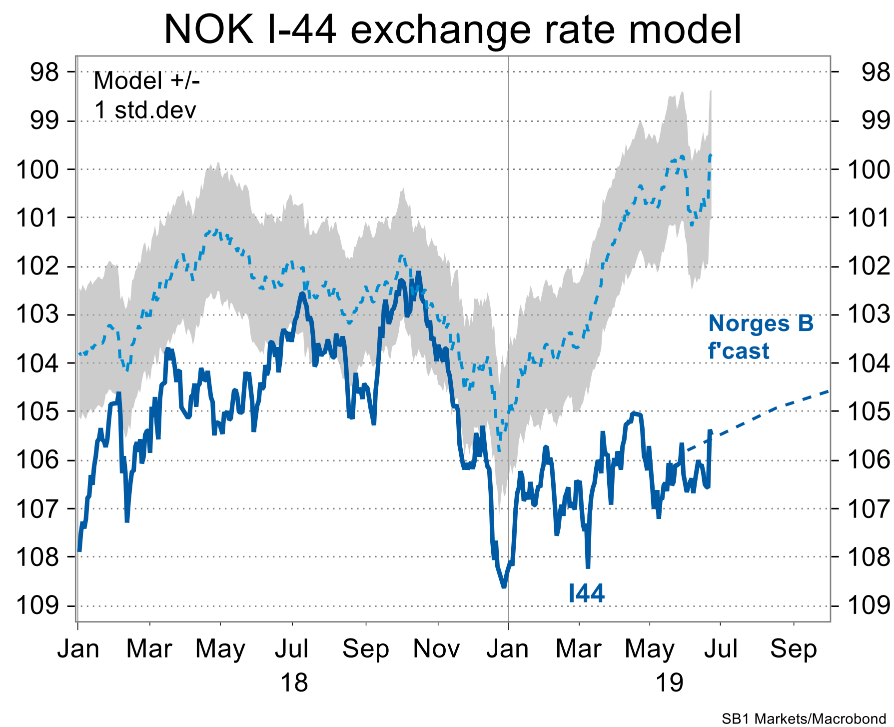
Norges Bank drove the NOK up last Thursday, supported by and the oil price

NOK appreciated 0.7% last week, the 'model' +0.9% - and the discrepancy remains at 5%++

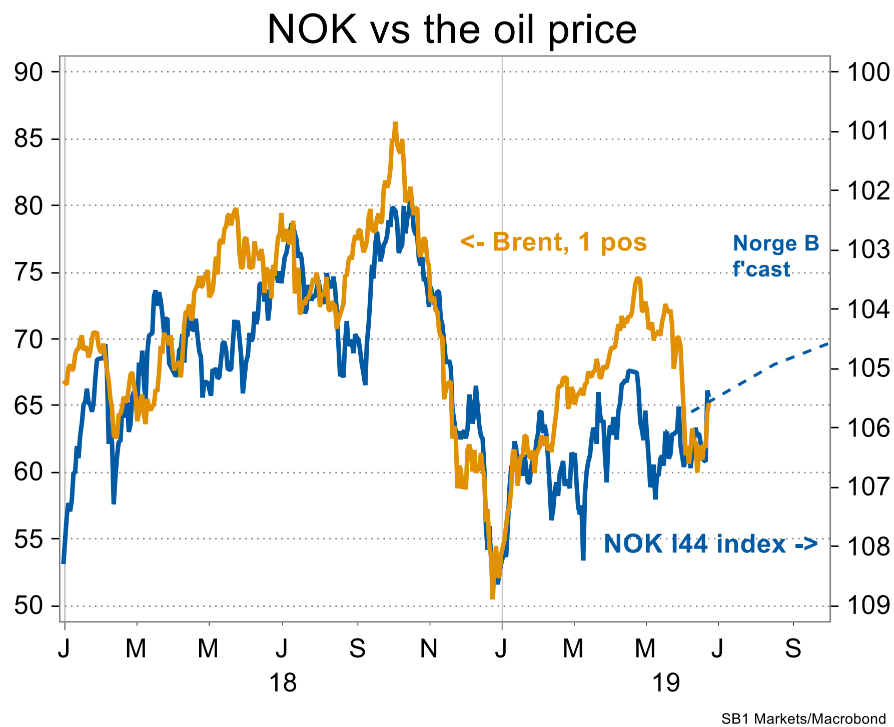


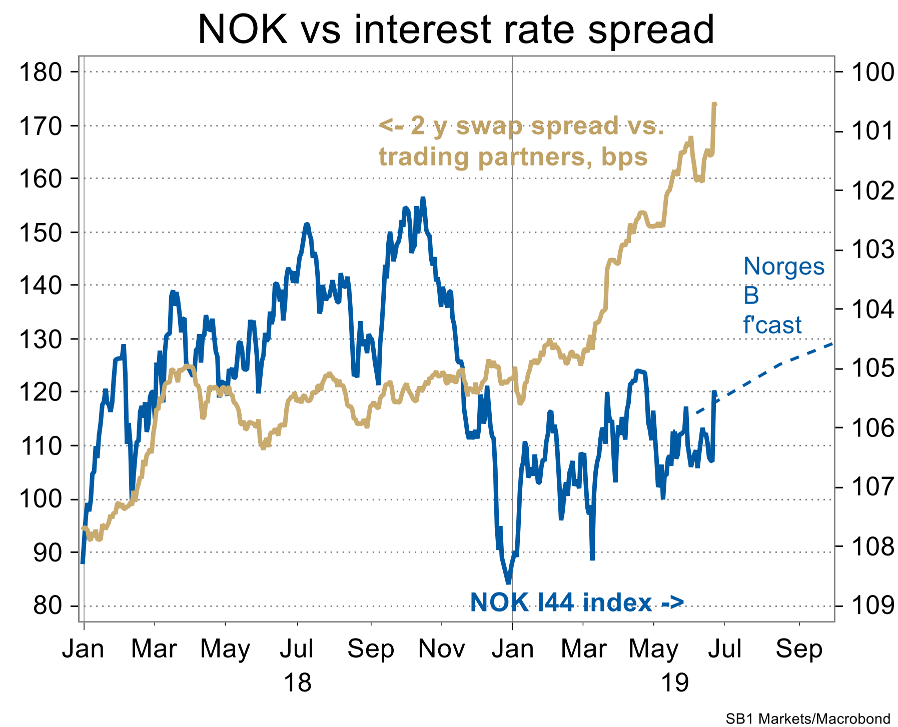


- The model forecast up with higher interest rate differential and a rising oil price. The NOK is still 5.6% below the model f'cast
- What explains the (extra) weakness vs the model estimate since March?
  - » No really weak Norwegian macro data, on the contrary, most data have been upbeat
  - » Risk aversion? Perhaps, yet EM currencies have not collapsed (even as many depreciated when the trade war escalated)
  - » Weakness in other supercycle currencies may be an explanation. NOK followed the SEK down after a dovish Riksbank. The AUD has fallen, due to RBA's rate cut. The CAD fall last week too but less than the AUD, following an appreciation the previous week
- We do not have any other recommendation than **Buy NOK**

SpareBank 1 MARKETS

NOK rose more than the oil price, as the interest rate spread soared





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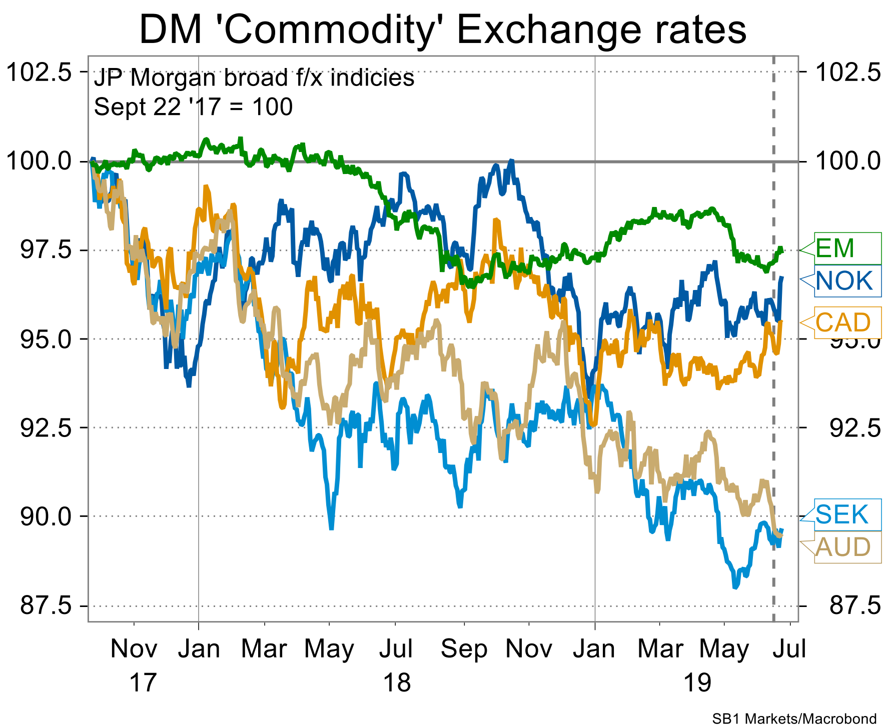
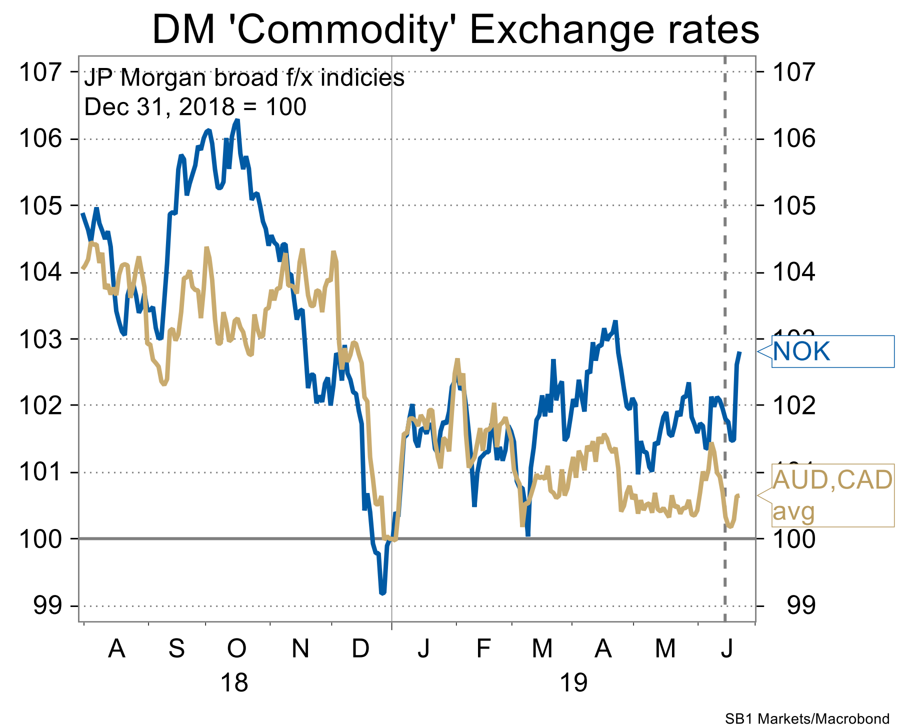
NOK have been stronger than its supercycle friends the past months

Last week the CAD and the SEK rose too, while the AUD flattened out following the ‘RBA’ deprec.

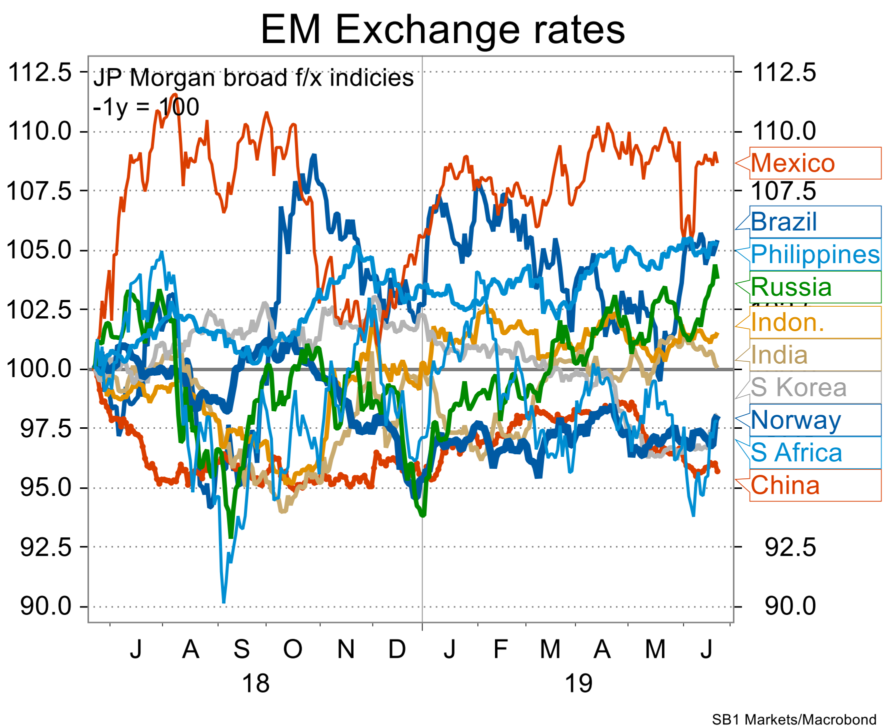


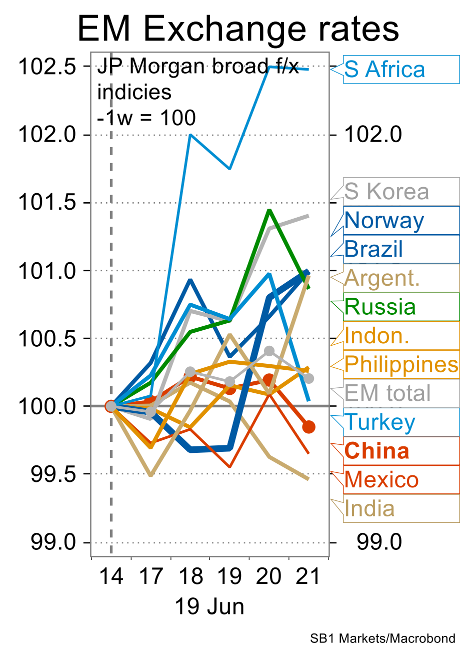


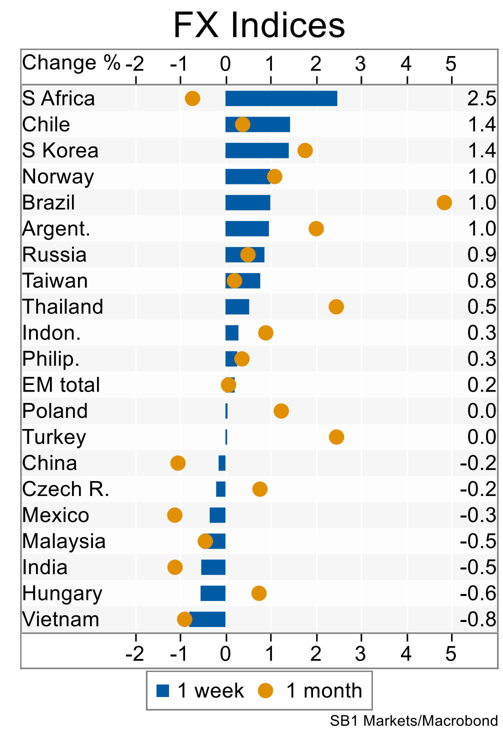
- Has a ‘hawkish’ NoBa have lifted the NOK some 2%, the NOK appreciation vs. the AUD/CAD average (measured by the currencies trade weighted indices. However the AUD has depreciated due the to dovish RBA, which has cut – and may cut more – as the housing market has turned south there. So, let’s say that NoBa has pulled the NOK up 1% since March (when the first hawkish signal was sent
- NOK is more closely correlated to AUD, than to CAD and SEK, over time. Weak ‘super cycle’ currencies are perhaps the best explanation for the large deviation between the NOK and its fundamental drivers the past year
  - » Global risk appetite can often but not regularly explain the trajectory of these ‘commodity’ currencies. Some housing market trouble, debt concerns as well??

EM f/x mostly up last week, a risk on move?

The CNY fell Friday, but most up on the week







- The Brazilian real has been volatile recently, sharply up last month (5%)
- The South African rand recovered after tumbling on weak macro data and a political squabble
- The Mexican real has recovered most of the immigration tariff shock, as a deal was reached two weeks ago

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