23 September, 2019

Macro Research

Weekly update 39/2019

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

SpareBank 1 MARKETS

Last week – the main takes

- **Trade war:** The US China trade talks in Washington last week were just 'constructive', and optimism has faded as a Chinese delegation on Friday cancelled a trip to US farmers, while Trump said he was not looking for a partial deal, and that there was no need for a deal before the election next year either (he also called China a 'treat to the world', but who aren't, these days?) There are some movements in the UK/EU **Brexit talks** on the Irish backstop, some say

- **Chinese house prices** are slowing, the annualized m/m rate was the softest print in 4 years in August. This time, credit cannot be blamed, as the authorities are stimulating lending and the credit impulse has turned neutral. **The 1 year lending rate** was cut marginally (by 5 bps), to 4.20%, another measured step to support businesses amid trade war struggles

- **The Fed** cut the signal rate by 25 bps to 1.75-2%, as widely expected, in spite doing no revisions to the growth f'casts, its just 'uncertainty', and risk. However, the 'dot plot' does not signal additional cuts in 2019 or 2020 (at least if counting all FOMC members, and just not the voters, the 10 of 17). **US Manufacturing production** rose more than expected in August, and it has improved slightly recent months. However, neither surveys nor order inflows point to an sustained upswing. **The first Sept manufacturing surveys** from NY Fed and Phil Fed both fell modestly. Both **housing starts and permits** surprisingly jumped in Aug, to above the 2018 peak levels; are lower mortgage rates boosting demand? The Homebuilders' are not reporting any similar upswing, even as the HMI is heading steadily up. **Households' debt growth** inched up to 3.1% in Q2 but the debt/income ratio is declining rapidly. Corporate credit growth may be slowing

- **EMU consumer confidence** remains steady at a decent level**. German ZEW survey** rebounded in September but is far below par, still signaling a gloomy outlook

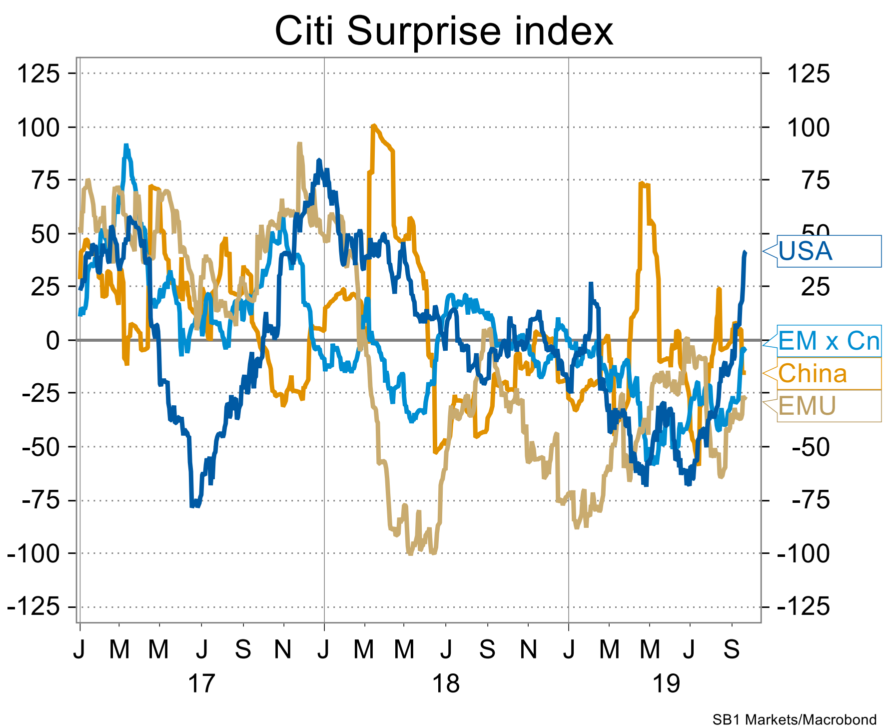
- **Bank of England** held the interest rate unchanged at +0.75% amid persistent Brexit turmoil. The bank acknowledges that short term data are softening and warns that long lasting uncertainties regarding Brexit could lead to a persistent demand slowdown

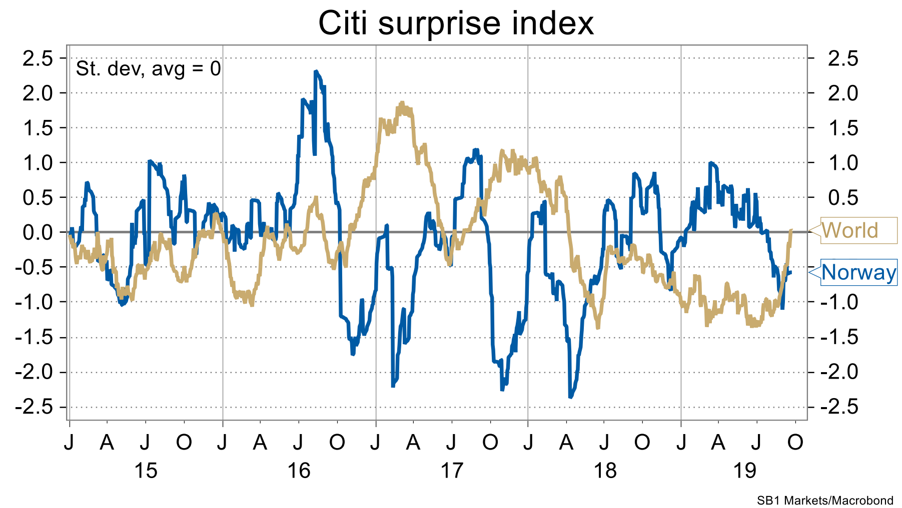
- **Swedish unemployment** is increasing at a disturbing speed. The smoothed rate soared to 7.1% in August, up from 6.3% in early 2019 and to a 2½ year high. Employment is heading steeply down, broad based, amid a sharp slowdown in GDP growth (even if interest rates are record low, will the Riksbank forever be stuck in negative?) Anyway, **house prices** are increasing moderately

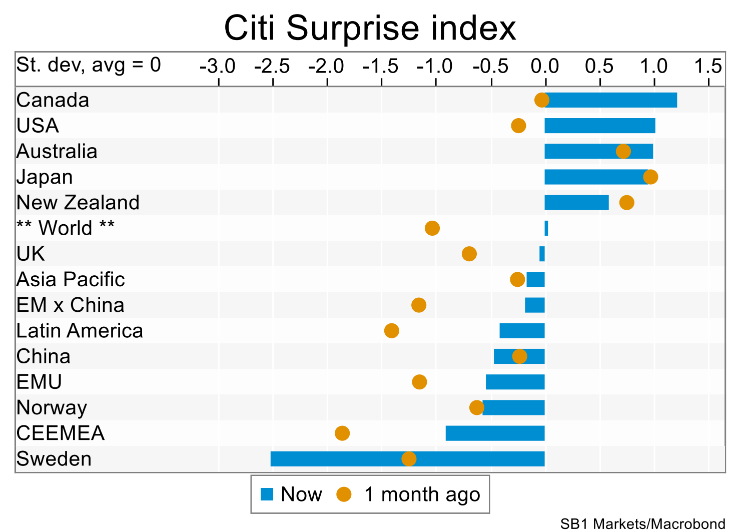
- **Norges Bank** delivered the 25 bps hike to 1.5%, as we expected, while some 50% of economists did not, and the market even less so. The interest rate path was nudged down, as we exp, signaling that the interest rate **most likely** will remain flat throughout the forecast period. However, the probability of a 2020 hike is still some 40% (we assumed a slightly below 50% message). FRAs climbed further following the announcement, while NIBOR rose less than we anticipated (15 bps now, implying just a 27 bps NIBOR spread, vs. 42 bps implied by the Dec FRA, strange). Will NIBOR turn up the coming days? The NOK? It fell last week too…

Global macro data are not disappointing anymore, best in 1 ½ year!

US data much more upbeat, China back in negative territory, EM neutral, EMU less disappointing





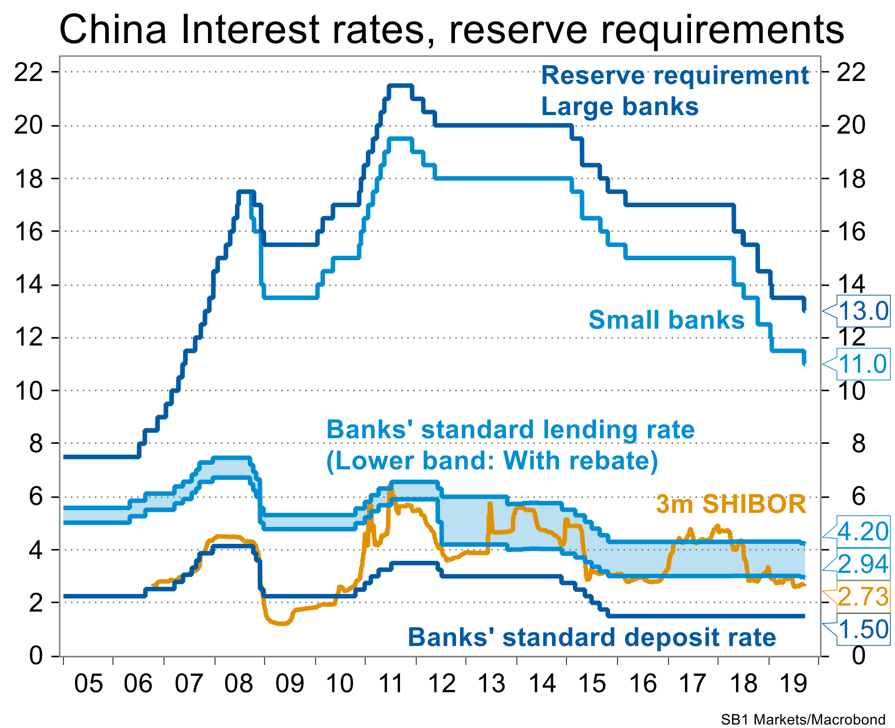


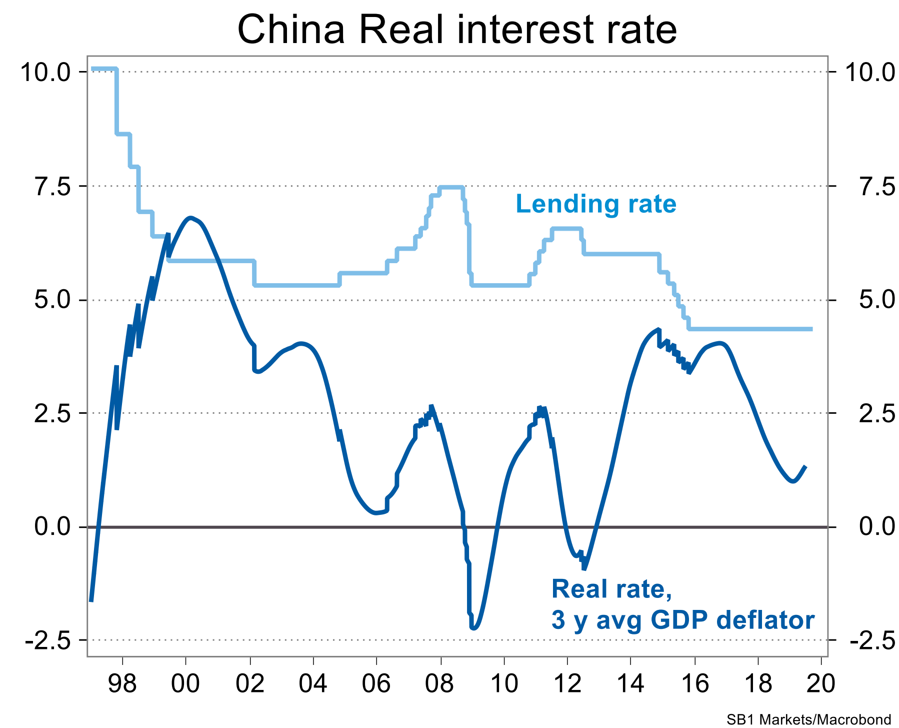
- The global surprise index climbed to a 'neutral' level for the first time since April 2018- The index has improved steeply through July and August, lifted by the US, EM ++
- US data flows are beating expectations, upbeat US housing data helped last week. Recent weeks, consumer data, non-manuf ISM, CPI inflation have contributed
- The EMU surprise index is weak but less so in September
- Chinese August data were in sum weaker than expected. Other EM improving
- Norwegian data are disappointing vs expectations but less recent weeks

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

A minor cut in the lending rate

One year Loan Prime Rate trimmed by 5 bps to 4.2%, to support businesses amid trade war drags

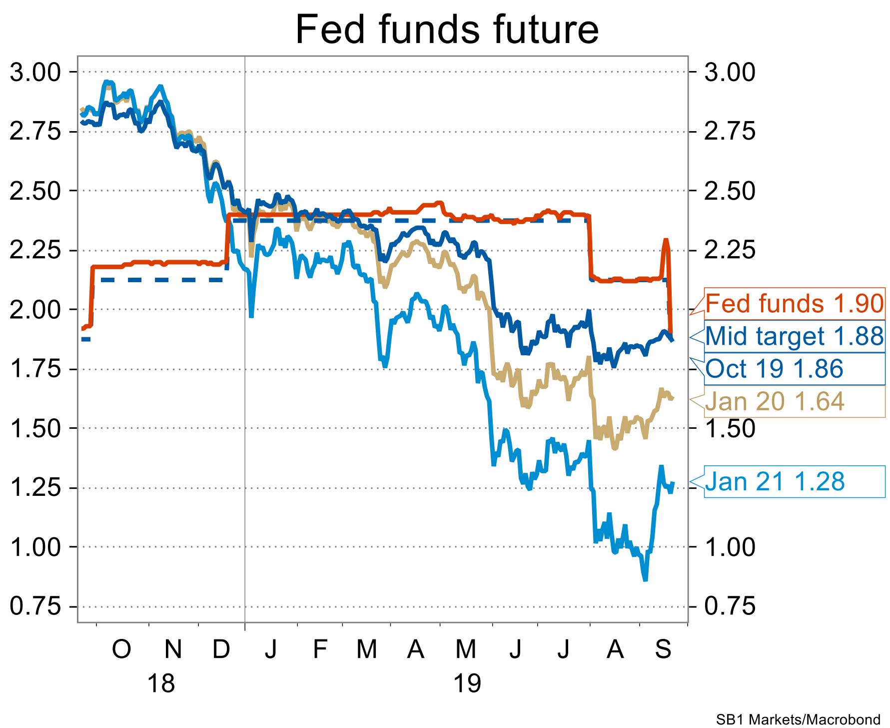


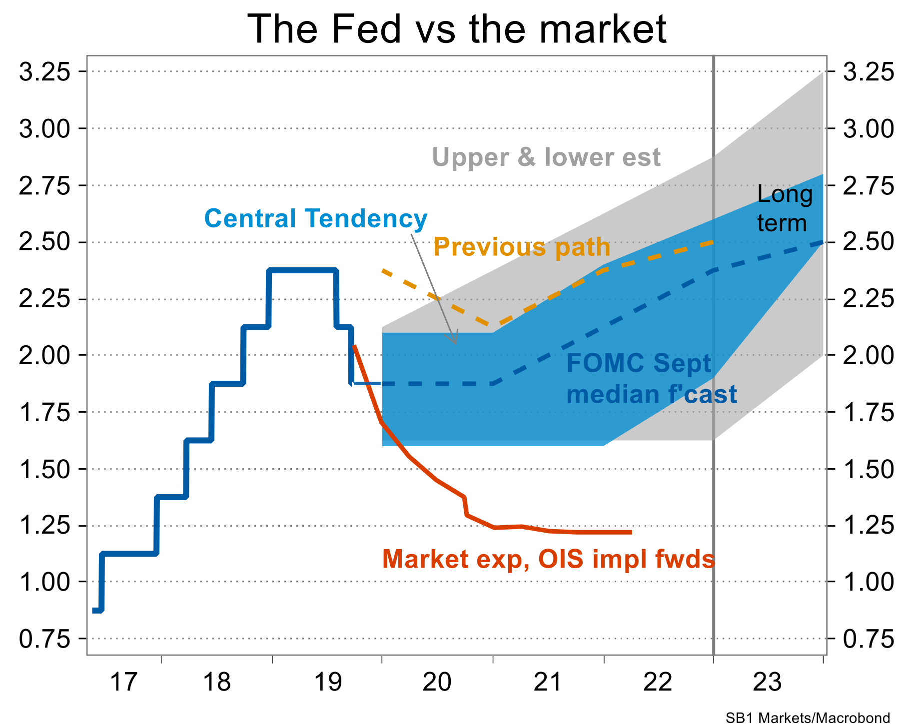


- The small cut in the lending reference rate was largely expected and came after the PBOC cut lowered the banks' reserve requirements once again two weeks ago. The central bank's reference rate is a guideline rate for banks, who may give rebates to their clients, down to below 3% now
- The central bank did not cut the lending rate for 5 y loans.

The Fed cut 25 bps, as broadly expected, but does not signal further cuts

A divided FOMC cut the Fed Funds rate to 1.75-2.0%, due sustained global risks (read: trade war)

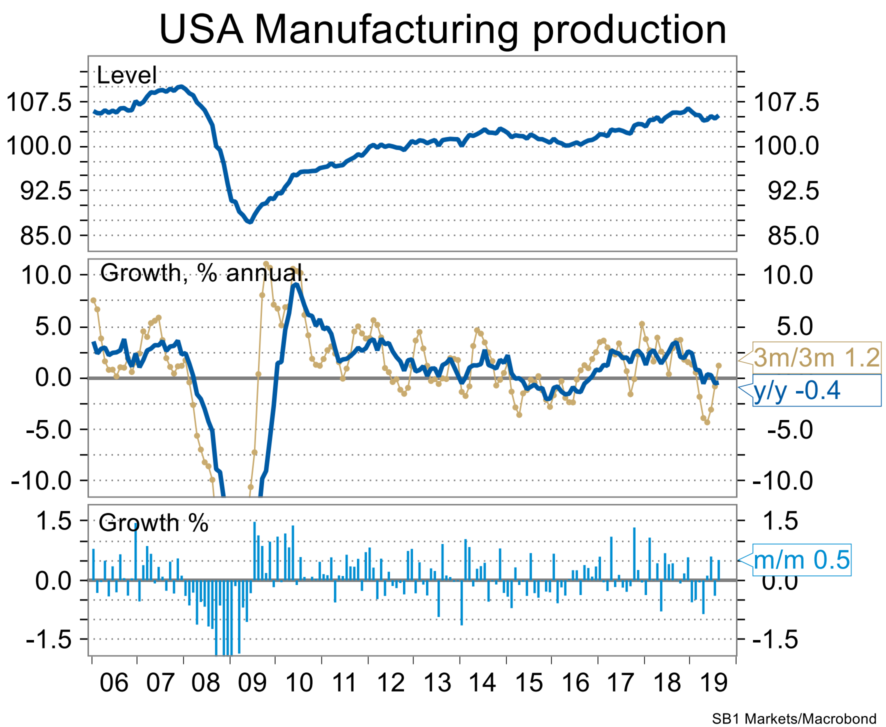


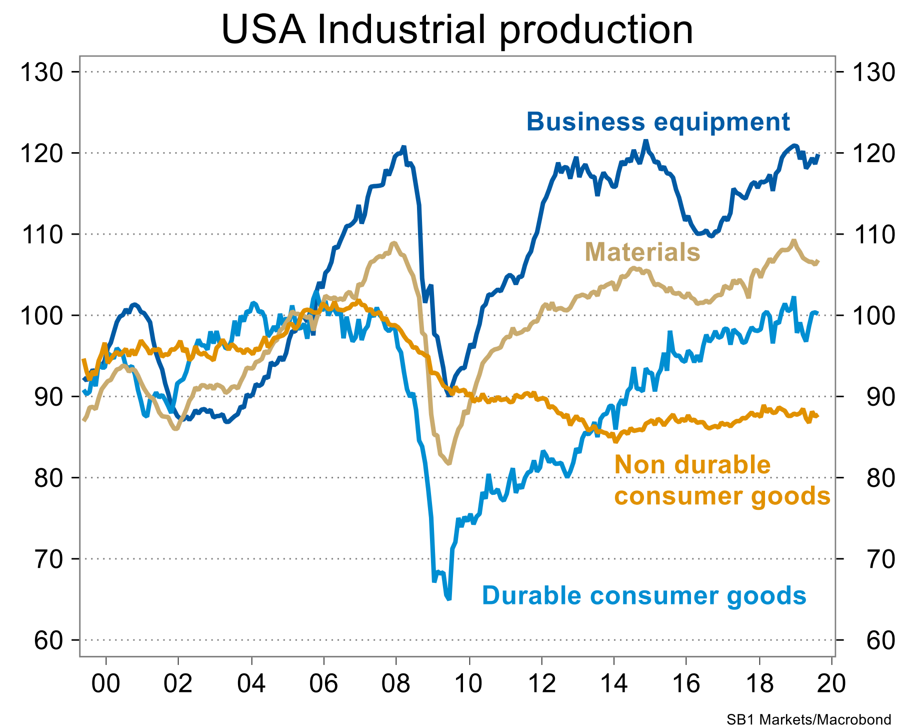


- The FOMC delivered the 25 bps cut to 1.75%-2.0%, as widely expected. Ahead of the announcement, markets priced some 85% prob of a 25 bps cut and 15% of no cut. The Fed is divided; 7 members voted for a 25 bps cut, two voted in favour of an unchanged rate and one preferred a 50 bps cut. The 'dot plot' was lowered, of course, but the current path does not signal any further interest rate cuts in 2019 or 2020, less dovish than the market expected
- The Fed emphasized that the fundamentals remains strong; with tight labour market and solid consumption. Business investments have softened and inflation is running slightly below the price target, however, the major rationale for cutting interest rates is sustained downside risks on the outlook, stemming from global trade uncertainties. Hence, the cut is a precautionary move to support the economy
- Market reaction: FRAs were broadly unchanged, even as the market is pricing 2-3 interest rate cuts (of 25 bps) by the end of 2020. Because the market does not believe in Fed's dot plot? Short term interest rates climbed, although the 1 y gov was flat (1y 1y up 10 bps). 10 y gov down 1 bps. Stocks rose
- The actual Fed funds rate rose sharply in the first part of last week as the repo market dried completely up but came down Friday, check more here

Manufacturing production stabilized but the outlook still not that upbeat

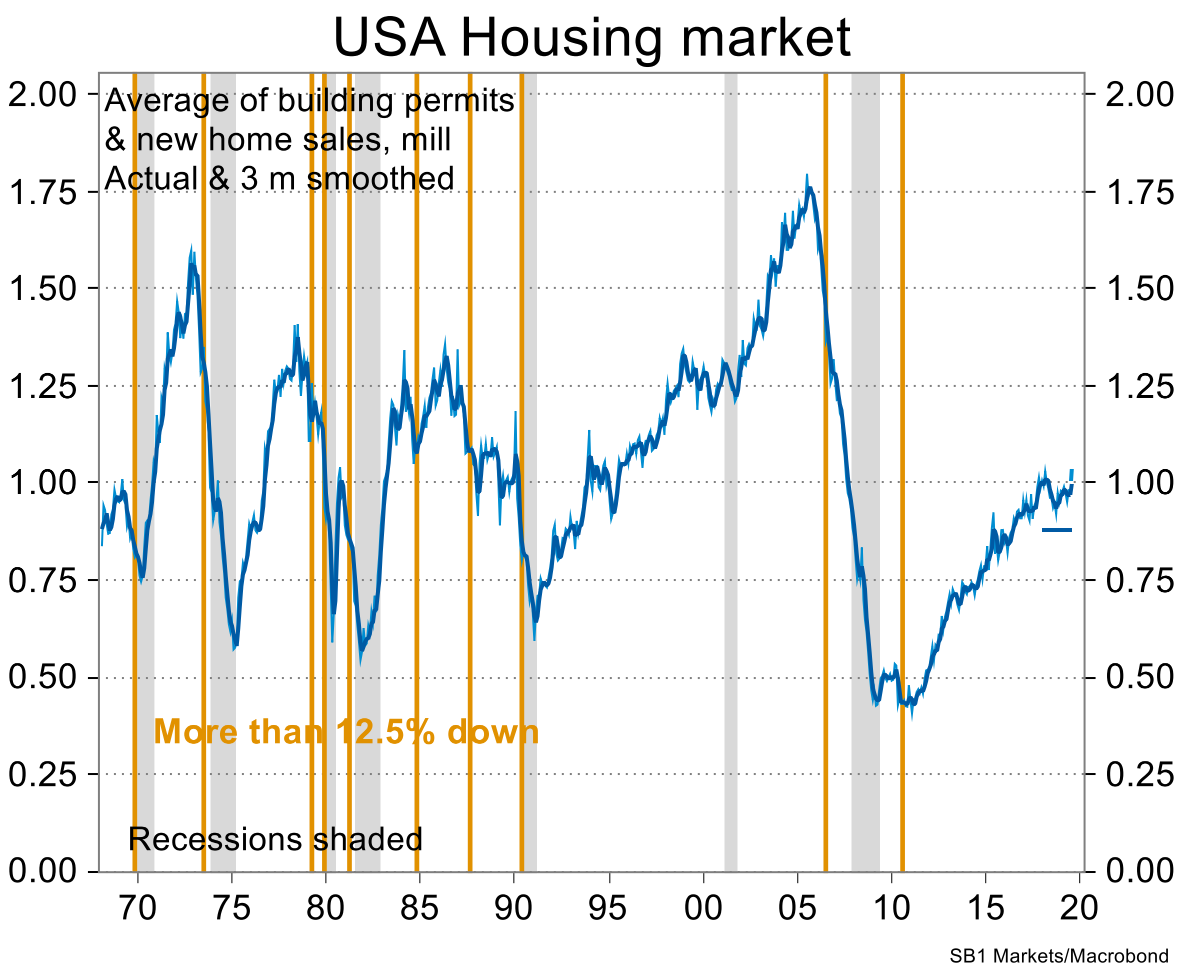
Production rose 0.5% m/m in August, better than expected. Underlying growth up modest 1,2%

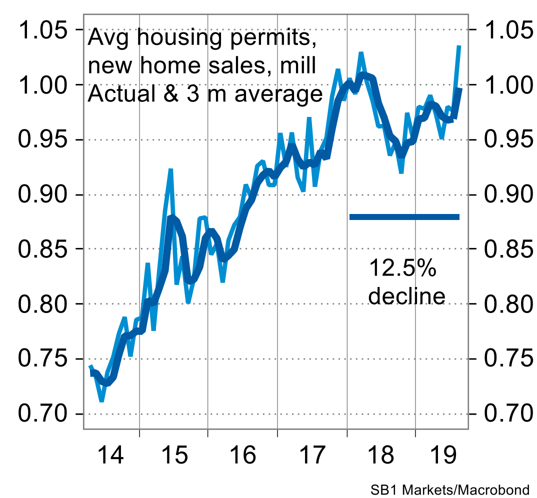




- Manufacturing production increased by 0.5% m/m in August, 0.3 pp above expectations. Production has ticked up the past 3-4 months, reflected by the +1.2% underlying growth rate (3m/3m). Hence, Q3 is heading for a better print than Q2. Production is still down 0.5% y/y, and it’s 0.8% below the Dec local peak
  - » Total industrial production including energy & mining was up 0.6%, underlying growth a tad slower than for manufacturing
  - » Production of business equipment and durable consumer goods have recovered somewhat, while (leading) materials still heading down
- The first September surveys? Check two pages forward!

Housing vs recession: Safe, for now (at least in this sector)

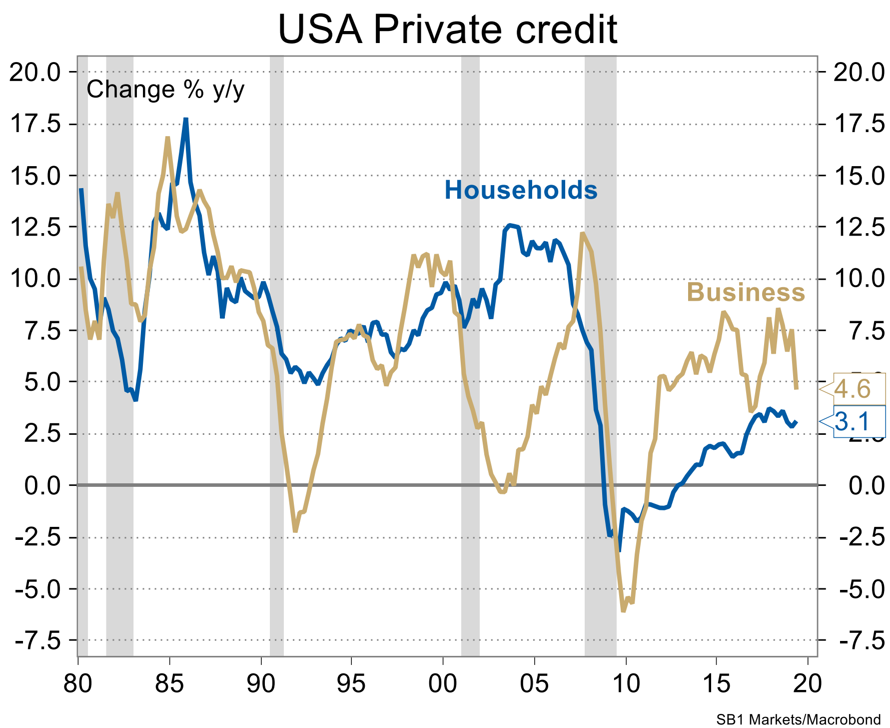


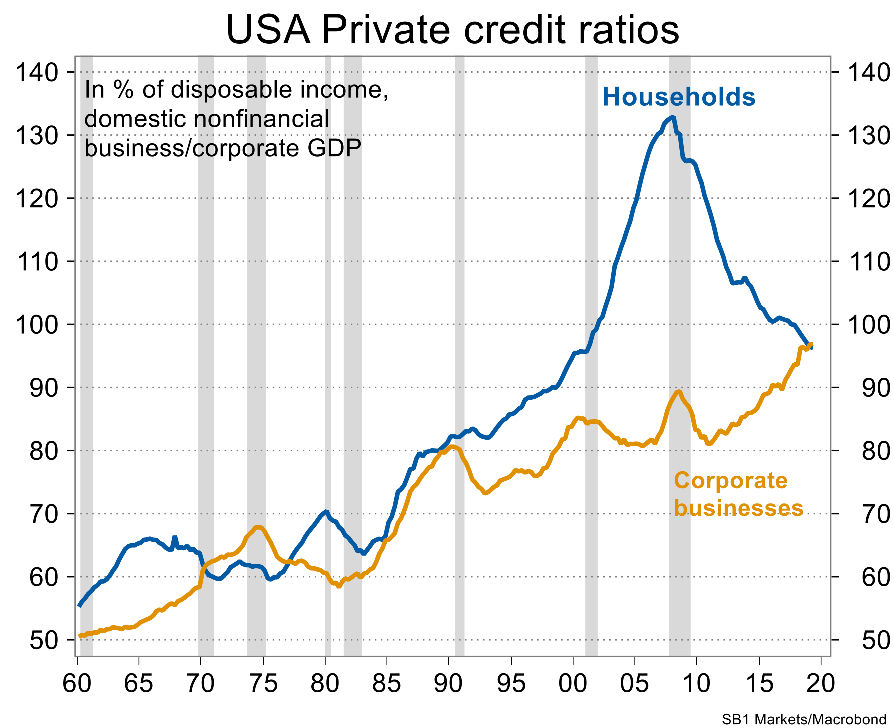


Memo: New Home sales are assumed marginally up in Aug, in line with consensus f'cast

Household credit up in Q2, remains low. Corporate debt growth may be slowing

Household debt up 3.1% in Q2, from 2.8%, corporate debt growth down to 4.6%, from 7.6%

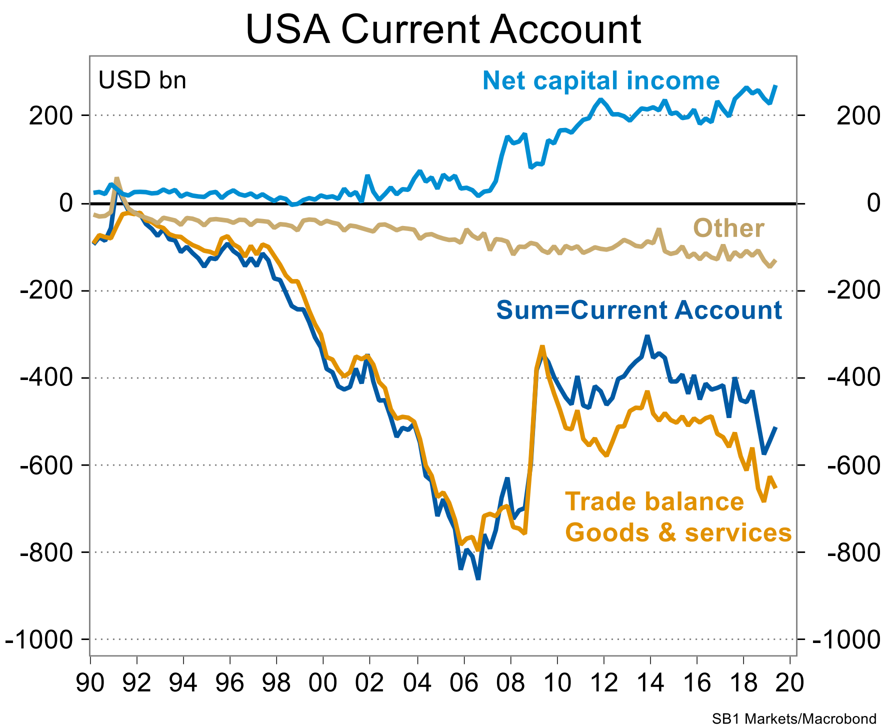


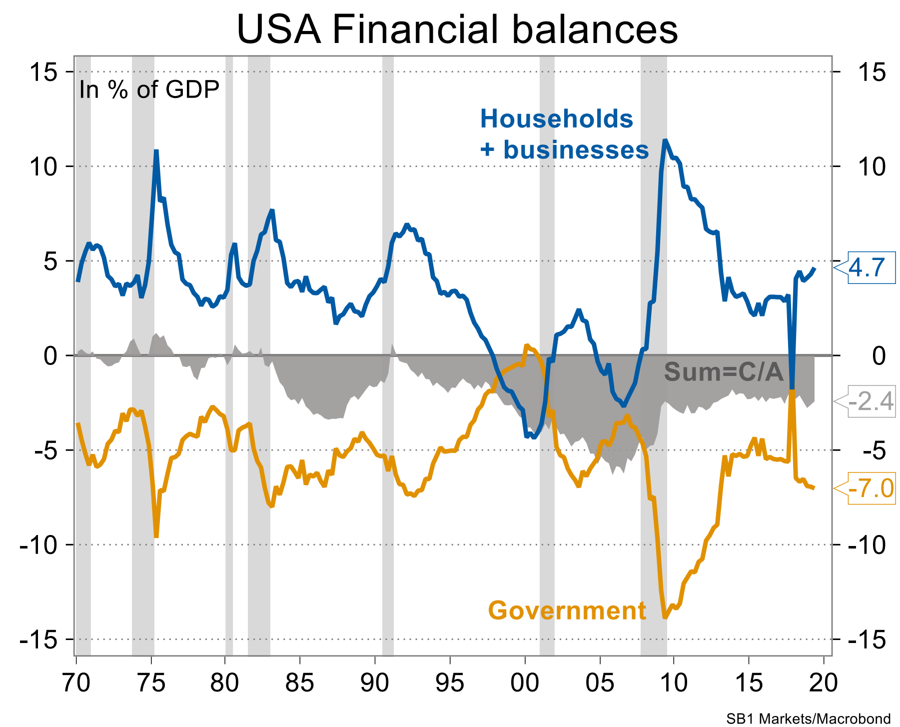


- Household debt accelerated slightly in Q2, but is increasing slower than household income. The debt/income ratio has fallen to well below 100%, down from 133% in 2007! The largest deleveraging ever in the US. Even so, unemployment has fallen most of the time!
- Corporate credit growth is more volatile but growth is most likely slowing somewhat, the past quarters to below 5%, still faster than growth in corporate (or total) GDP. The debt ratio has increased sharply since the financial crisis. If not for equity buybacks past 10 years the debt ratio would have been 97% but in the 50'ies, lowest 'ever' (measured vs corp. GDP), from 90% at local peak during the financial crisis, and it fell to close to 80% after the crisis)

The current account deficit shrank in Q2, saved by net capital income

The C/A deficit is still trending out, public deficit to blame, -7%!! The good news: Private in plus!



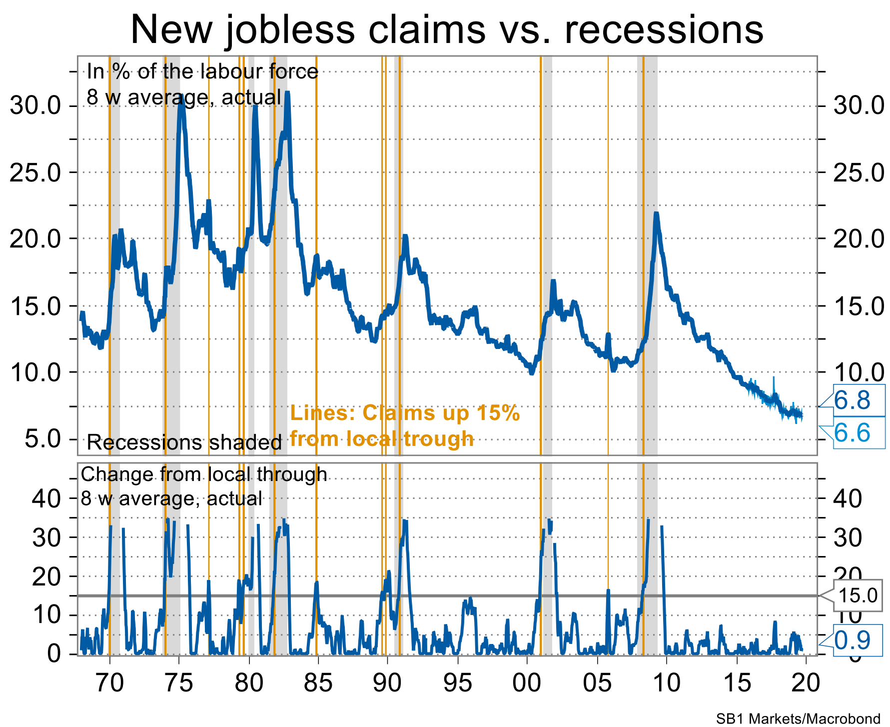


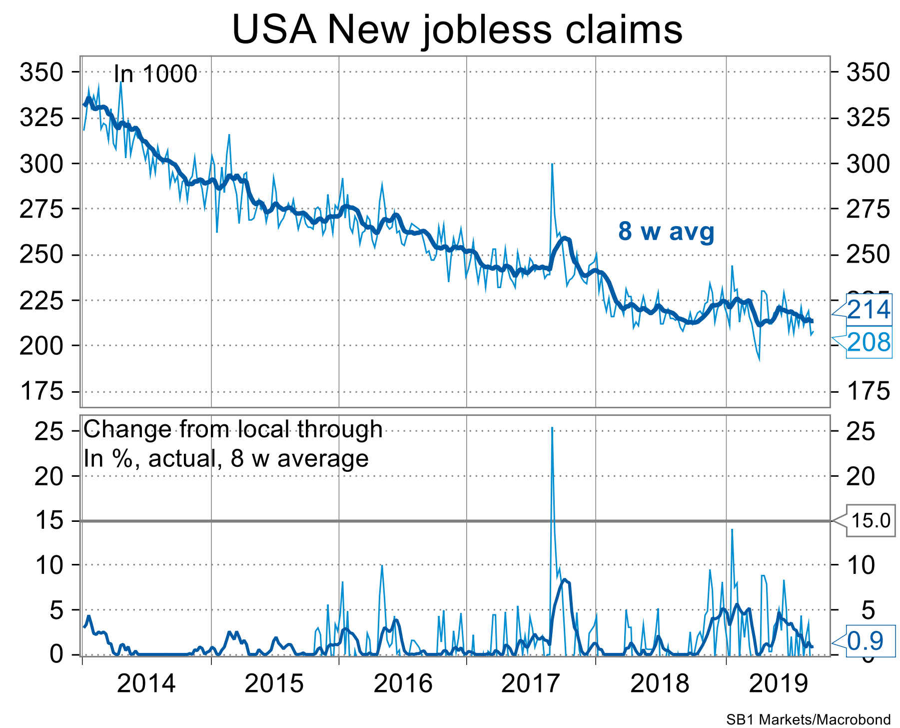
- The US government is running a huge cash deficit, equalling 7.0% of GDP in Q2 (from 6.8%). The deficit was just above 4% of GDP in 2015!
  - » The ups/downs in private sector/public sector balance in Q1 2018 are due to the tax reform accounting
- The private sector surplus widened to 4.7% in Q1 and its larger than in 2017, as tax cuts are not fully spent. However, it is much lower than a few years ago).
- The private sector cash surplus is the best argument for NOT fearing a hard US recession. 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

SpareBank 1 MARKETS

Jobless claims remain close to record low, no signs of weakness

Jobless claims inched up to 208’ last week and the 8 w avg is very low, at 214’



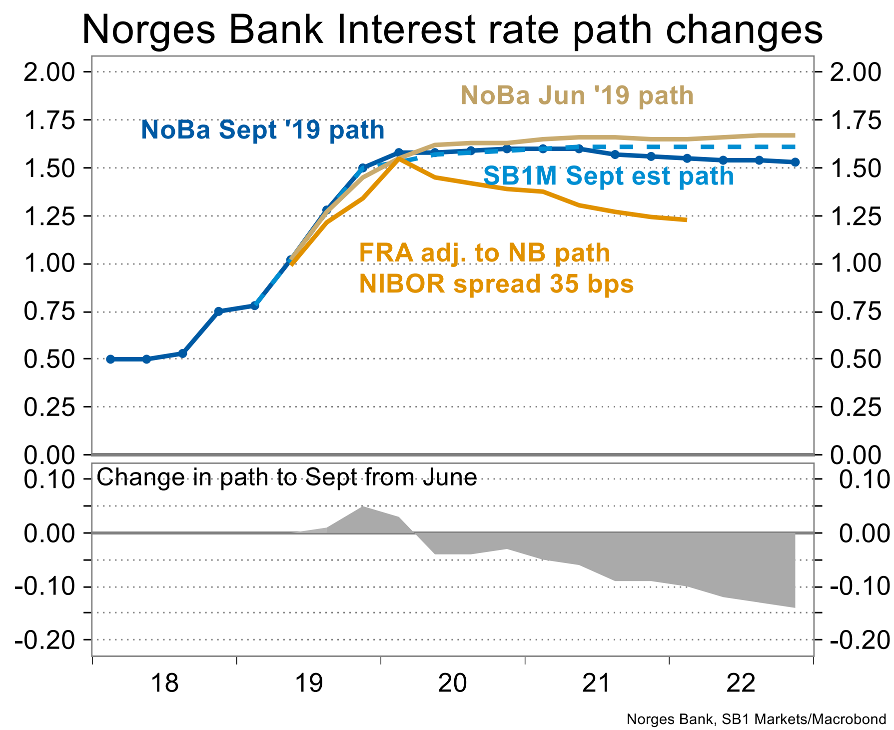


- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow ‘recession’ warning line is to be drawn, check the chart to the left. So, no reason to worry now?

Norges Bank walks alone – rightfully, we think

NoBa delivered the 25 bps hike as we expected and nudged down the path, 40% prob. of a 2020 hike

- **Norges Bank delivered the 4th interest rate hike, to 1.50%, as we expected (but not everyone!)**
- The Bank stuck to its June plan and raised the deposit rate to 1.5%. Some 50% of economists expected a hike (and the rest unchanged), while market rates implied a much lower probability, the 3m NIBOR was 1.62% the prior day
- The interest rate path was lowered by 4 bps in 2020 and 14 bps in 2022, we expected -7 bps. The path implies that the interest rate will most likely remain unchanged, but there is still some 40% probability of another hike in 2020
  - » Global factors; a softer growth outlook and lower interest rates were the major drag on the interest rate path in the long end. Slightly weaker domestic inflation than expected and signs of a less tight labour market than presumed, as well as a 'judgement' component reflecting rising uncertainties pulled the path down
  - » Just the very weak NOK contributed on the upside and the Bank now assumes a persistent NOK weakness in the years ahead
- **Our view:** We judge Norges Bank's assessment to be appropriate. The decline in interest rates globally should not prevent NoBa from hiking when other factors indicate so – particularly as the NOK is unusually weak



Market implications

- Markets were caught by surprise, but the 3m NIBOR rose less than we assumed, by 14 bps to 1.76%. We doubt the NIBOR spread will stay at 26 bps (and it is close to record low the 1m NIBOR! The Dec 3m FRA rose 5 bps to 1.90%, implies a 40 bps spread (given zero probability of another hike in Dec, which must be accurate). How come? We expect the NIBOR spread to widen the coming days/weeks (both 3m NIBOR and the Dec FRA rose further Friday but the difference between the two rose marginally)
- The NOK initially strengthened but later depreciated and closed down 0.4% (vs EUR) on Thursday! (And it fell sharply Friday)

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 down 0.3 p in August, to 51.3, suggesting some 3% GDP growth. The global manuf. PMI rose marginally, after 15 months of decline. Auto sales rose in Aug, trend flat so far in '19 but are down 8% y/y
China	The governments' stimulus measures may have stabilised the economy, and surveys and data do not point to any swift turn of growth momentum. The invest/GDP ratio is still sliding down. Debt growth has slowed, and will not accelerate much even if authorities are trying to stimulate credit in order to compensate for the negative impacts from the trade war/previous tightening. Fiscal policy is also activated. Exports to US approx 2% of GDP, and a (so far) 10 % decline here is manageable. **However, a full scale trade and even more a tech war will hurt the Chinese economy**	Aug data softer than expected but no signs of an abrupt halt. House price inflation is easing, in spite a credit upswing. The 1 y lending rate was reduced by 5 bps, to 4.20%
USA	Growth has slowed, from well above trend. The employment rate is still trending up, and unemployment down while inflation is just marg. below target. No serious overinvestments but most sectors at/above trend and corporate debt is high. Business investments have weakened amid weaker growth in profits and trade war uncertainty. Recent consumption data are solid, halfway funded by lower (but still unusual high) savings. Housing mostly positive. Fiscal stimulus continues in '19/20 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 more support. **Risks: Trump/trade/business investments**	Fed delivered the 25 bps cut in spite sustained solid growth but does not promise more cuts. Manufacturing production has stagnated but recent months a tad better. Surveys signal declining production. The housing market is recovering swiftly, starts and permits soared in August and existing home sales are rising
EMU	Growth has slowed and manufacturing data are worrying while services remain resilient. The labour market is still tightening, and labour cost infl. is back to a normal level. Investment ratios are above trend. Credit growth is accelerating, but still muted. Household savings are high, still consumption has kept up well. Policy: ECB has turned dovish but has not that much ammunition left, barring a huge QE. Fiscal policy debate has turned. **Risks: Trade war (but less risk for a US/EU war after G7). Italy. Weak short term data signals a substantial further slowdown risk**	ZEW survey better than expected but expectations remain in the doldrums. Auto sales rose sharply in August but probably just to clear inventories of no emission compliant cars before the Sept deadline
Norway	Growth is still above trend but may soon be peaking. For now, unempl. declines further (some soft data recently, though!). Wage inflation is accelerating. Oil investments are peaking in H2. Mainland business inv. not low anymore, will probably slow in '20. Mixed signals from the housing market, starts may be slowing. Electr. prices have taken the headline CPI down but core still above target. Credit growth still above income growth, is spite of heavy regulations. **Risks: Debt, housing. A harsh global slowdown**	Norges Bank surprised markets by hiking to 1.5%. The interest rate path was lowered, the 'base case' is an unchanged rate the coming years but the path opens up for a possible 2020 hike

The Calendar

In focus: The first Sept PMIs, US PCE inflation, durable orders, housing, Norway unemployment

Time	Country	Indicator	Period	Forecast	Prior
Monday Sept 23					
08:00	NO	Housing Starts	Aug		37'
10:00	EC	Eurozone Composite PMI	Sep P	52	51.9
12:00	UK	CBI Trends Total Orders	Sep	-16	-13
14:30	US	Chicago Fed National Activity Index	Aug	0.05	-0.36
15:45	US	Markit Composite PMI	Sep P	--	50.7
Tuesday Sept 24					
02:30	JN	PMI Composite	Sep P	--	51.9
10:00	GE	IFO Expectations	Sep	92	91.3
15:00	US	CS 20-City House Prices MoM	Jul	0.3%	0.0%
16:00	US	Conf. Board Consumer Confidence	Sep	134	135.1
Wednesday Sept 25					
08:00	NO	Unemployment Rate LFS/AKU	Jul	(3.6)3.6%	3.6%
15:00	WO	World Trade MoM, CPB	Aug		-0.5%
16:00	US	New Home Sales	Aug	653k	635k
Thursday Sept 26					
09:00	SW	Economic Tendency Survey	Sep	95	94.9
09:00	SW	Consumer Confidence	Sep	--	94
14:30	US	GDP Annualized QoQ	2Q T	2.0%	2.0%
14:30	US	Trade Balance, Goods	Aug	-$73.5b	-$72.3b
14:30	US	Initial Jobless Claims	Sep-21	--	208k
16:00	US	Pending Home Sales MoM	Aug	1.0%	-2.5%
Friday Sept 27					
08:00	NO	Credit Growth YoY	Aug	(5.5%)	5.6%
09:30	SW	Retail Sales MoM	Aug	0.2%	0.4%
10:00	NO	Unemployment Rate, Registered	Sep	(2.2)2.2%	2.3%
11:00	EC	Economic Confidence	Sep	103	103.1
14:30	US	Personal Income	Aug	0.4%	0.1%
14:30	US	Personal Spending	Aug	0.3%	0.6%
14:30	US	PCE Core Deflator YoY	Aug	1.8%	1.6%
14:30	US	Durable Goods Orders	Aug P	-1.2%	2.0%
14:30	US	Capital Goods Orders, Core	Aug P	0.0%	0.2%
16:00	US	U. of Mich. Sentiment, Revision	Sep F	92.1	92
Monday Sept 30					
01:50	JN	Industrial Production MoM	Aug P	--	1.3%
03:00	CH	Composite PMI, NBS/CFLP	Sep	--	53
03:45	CH	Manufacturing PMI, Caixin/Markit	Sep	--	50.4

- **Preliminary September PMIs**
  - » The **composite global PMI** ticked down to 51.3 in August, however, the index has stabilized the past 3 months. A soft rebound in China and EM x China boosted the global PMI, while some DM, like the US, are cooling. Prelim. PMIs from the US, EMU, Japan tomorrow, and next Monday morning the Chines indices
- **USA**
  - » Will the **core PCE deflator,** Fed's preferred measure, follow CPI inflation up? Most likely, the deviance between the indices is more elevated than usual, as core CPI inflation has accelerated to 2.4% y/y, vs PCE at 1.6%
  - » **Consumption** probably rose moderately in Aug, as retail and auto sales inched up. The trend is anyway straight up, consumption is blooming
  - » **Consumer sentiment** remains upbeat, according to the CB index, while UoM reports that it's sagging. Unfortunately, UoM is leading, marginally
  - » **Durable goods orders** (core) and **capital orders** have stalled but are not pointing to any dramatic decline in business investments
  - » **The US housing market** is slowly improving, helped by dropping mortgage rates (until Aug). **Home sales, house prices** released this week
- **Norway**
  - » **Registered unemployment** is still sliding down, albeit at a slower pace most recently. **LFS unemployment** is trending down too, confirming a tightening labour market. However, there are some signs of weakness; new jobless claims are inching up and slightly fewer new vacancies
  - » How are households responding to rising interest rates? So far, **credit growth** has been kept steady, although the longer trend is downwards
  - » **Housing starts** have most likely peaked, the Homebuilders are reporting a decline, SSB's figures are boosted by a temp. boom in student homes

Source: Bloomberg. SB1M est. in brackets. The key data points are highlighted

In this report

Global	• Global macro data are not disappointing anymore, best in 1 ½ year! • Retail sales still OK, manufacturing production rose in July but trend flattish
China	• A minor cut in the lending rate • House price inflation is slowing, and credit is probably not to blame
USA	• The Fed cut 25 bps, as broadly expected, but does not signal further cuts • Manufacturing production stabilized but the outlook still not that upbeat • Both NY & Phil Fed manuf. surveys a tad down in Sept, implication uncertain • What, housing starts & permits above 2018 peak?? • Homebuilders' confidence is still improving • Existing home sales are climbing along with pending sales • Household credit up in Q2, remains slow. Corporate debt growth may be slowing • The current account deficit shrank in Q2, saved by net capital income • Jobless claims remain close to record low, no signs of weakness • The Leading indicators retreated in August, following July spike
EMU	• EMU and UK auto sales surged in August, thanks to another emission deadline • Consumer confidence steady, signals sustained moderate consumption growth • ZEW survey expectations rebound on reduced global risks, still far below par
Sweden	• A sharp turnaround; unemployment is rising rapidly, employment falling • GDP growth weaker than previously reported, adding to signs of slowdown • House prices are trending modestly up
UK	• Retail sales growing above trend, Brexit has not suppressed household demand • Core CPI inflation slipped to 1.5%, due to base effects. Trend probably still flat
Japan	• Core CPI inflation is turning very slowly up
Norway	• Norges Bank walks alone – rightfully • Exports and imports rose in Aug, both heading up at a moderate pace

Highlights

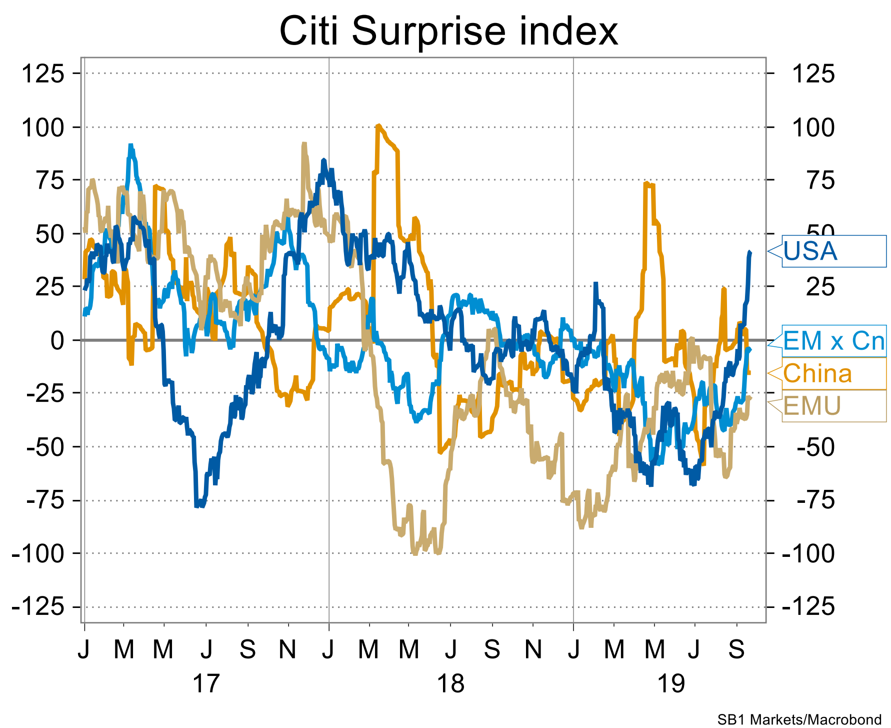
The world around us

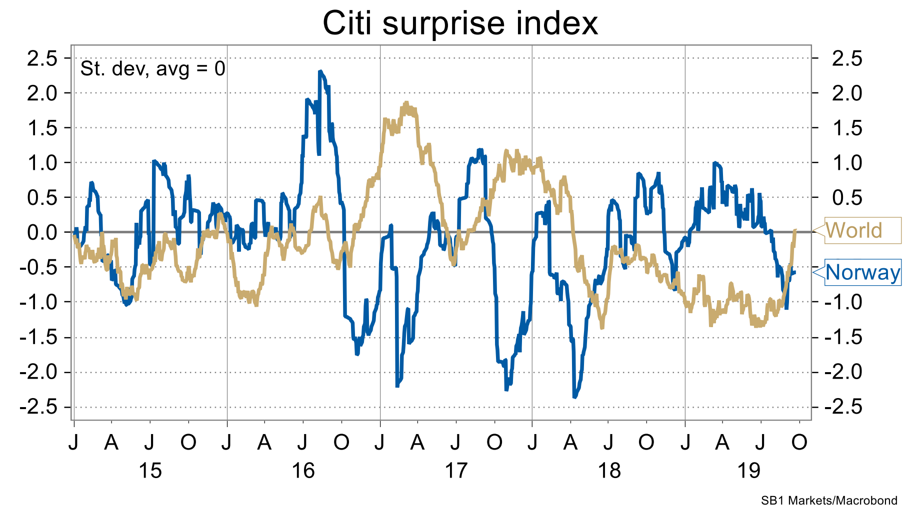
The Norwegian economy

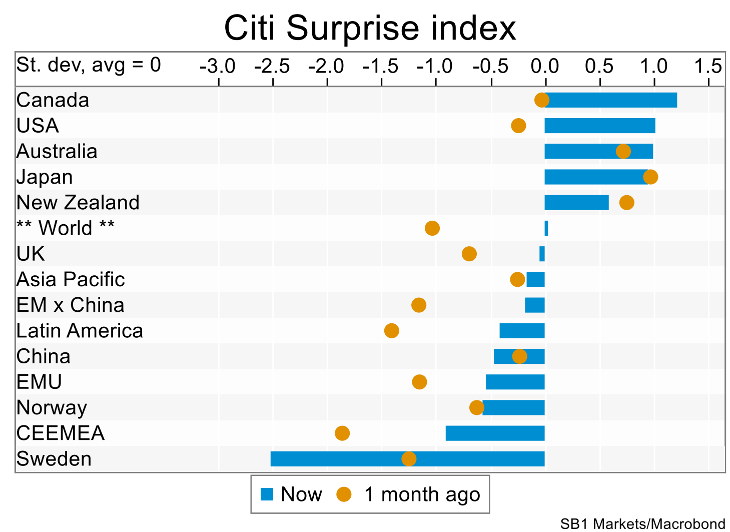
Market charts & comments

Global macro data are not disappointing anymore, best in 1 ½ year!

US data much more upbeat, China back in negative territory, EM neutral, EMU less disappointing







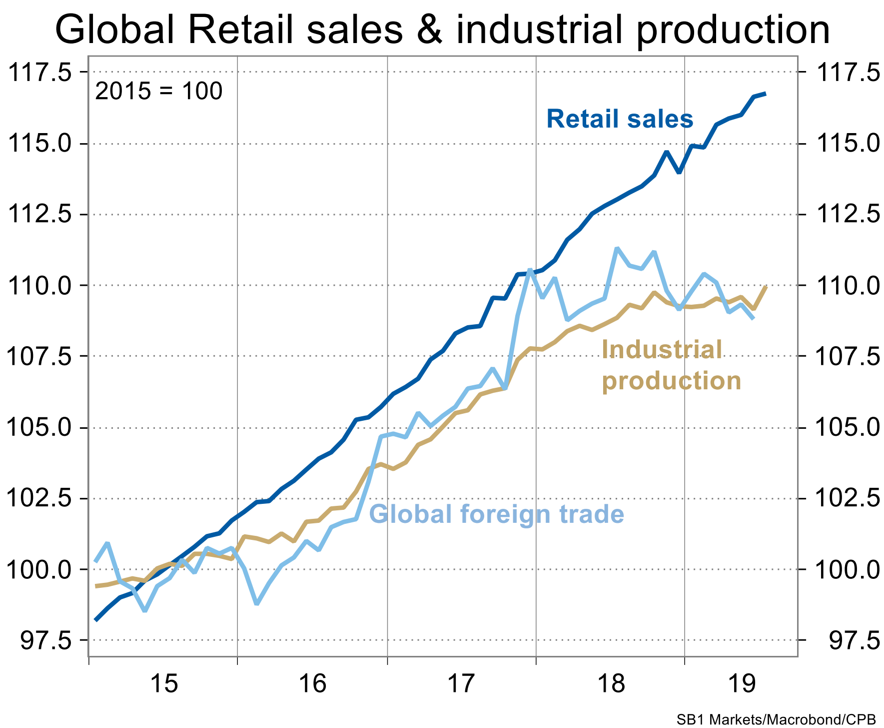
- The global surprise index climbed to a 'neutral' level for the first time since April 2018- The index has improved steeply through July and August, lifted by the US, EM ++
- US data flows are beating expectations, upbeat US housing data helped last week. Recent weeks, consumer data, non-manuf ISM, CPI inflation have contributed
- The EMU surprise index is weak but less so in September
- Chinese August data were in sum weaker than expected. Other EM improving
- Norwegian data are disappointing vs expectations but less recent weeks

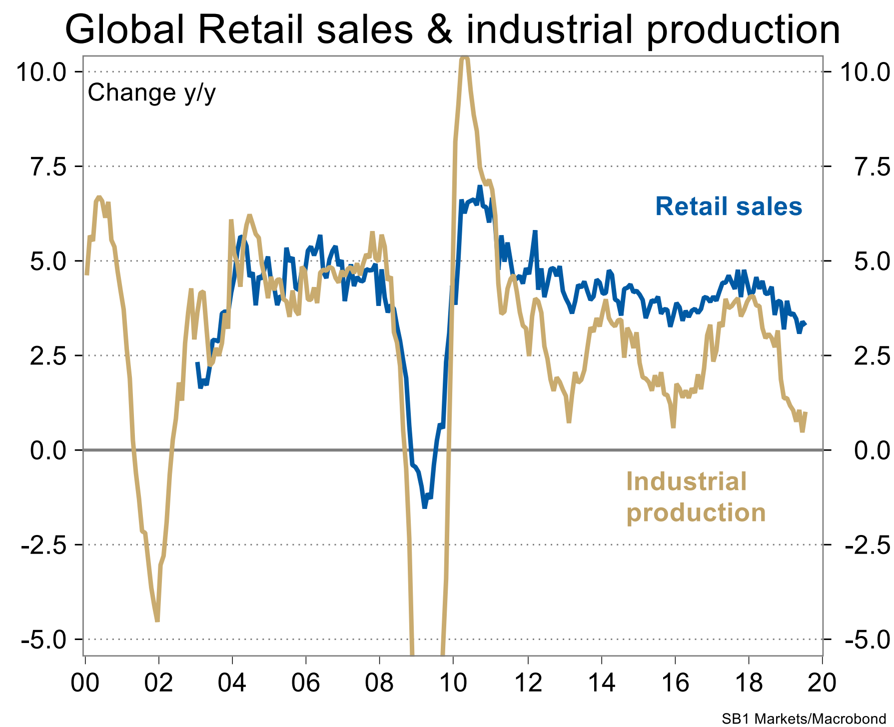
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

SpareBank 1 MARKETS

Retail sales still OK, manufacturing production rose in July but trend flattish

While global trade flows have fallen since last summer, trade war uncertainties are curbing demand

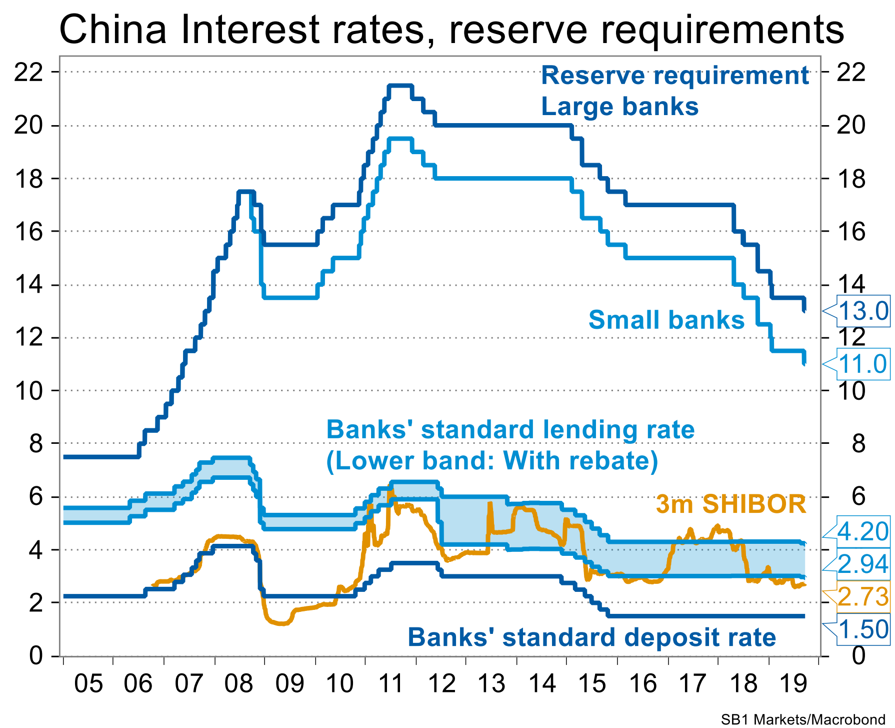


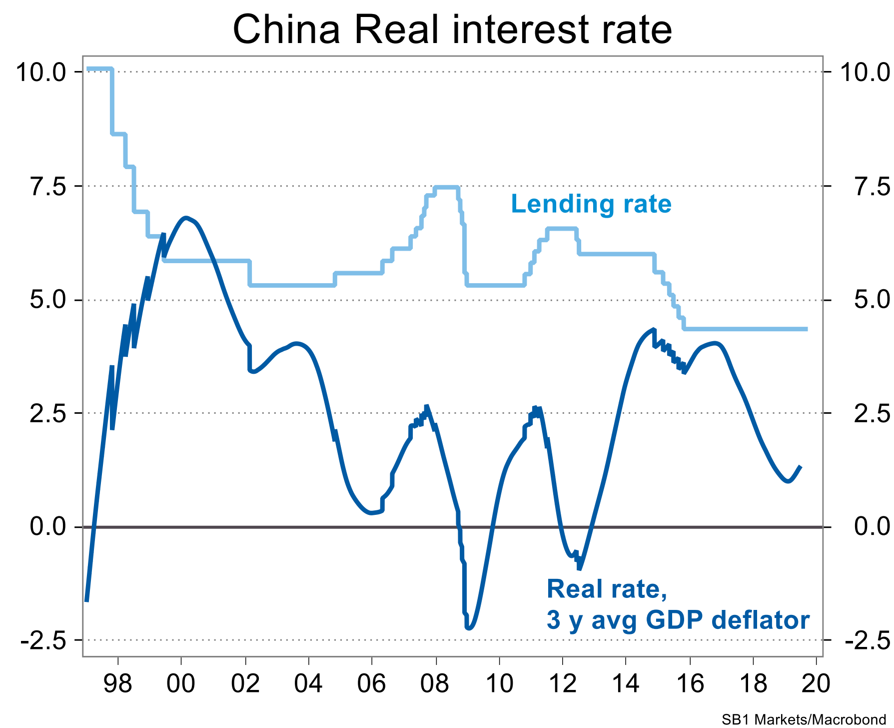


- **Global foreign trade** fell 0.5% m/m in June, and is now trending sharply down. The weakness was rather broad based but Emerging Asia ex China and Lat. Am were the weakest links in the chain
- Global **industrial production** recovered in July, from the June slump, even if both China, EMU and the US have reported weak figures but other EMs, that were weak in June recovered sharply (and even more than we assumed). Still, the overall trend is no better than just marginally upwards. Global business surveys signal a marginal decline
- **Retail sales** accelerated in June but slowed in July. Growth has come down, more or less in tandem with manufacturing production (given the normal correlation between the two, retail sales are less volatile than retail sales). Even so, consumption is still supporting the global economy

A minor cut in the lending rate

One year Loan Prime Rate trimmed by 5 bps to 4.2%, to support businesses amid trade war drags

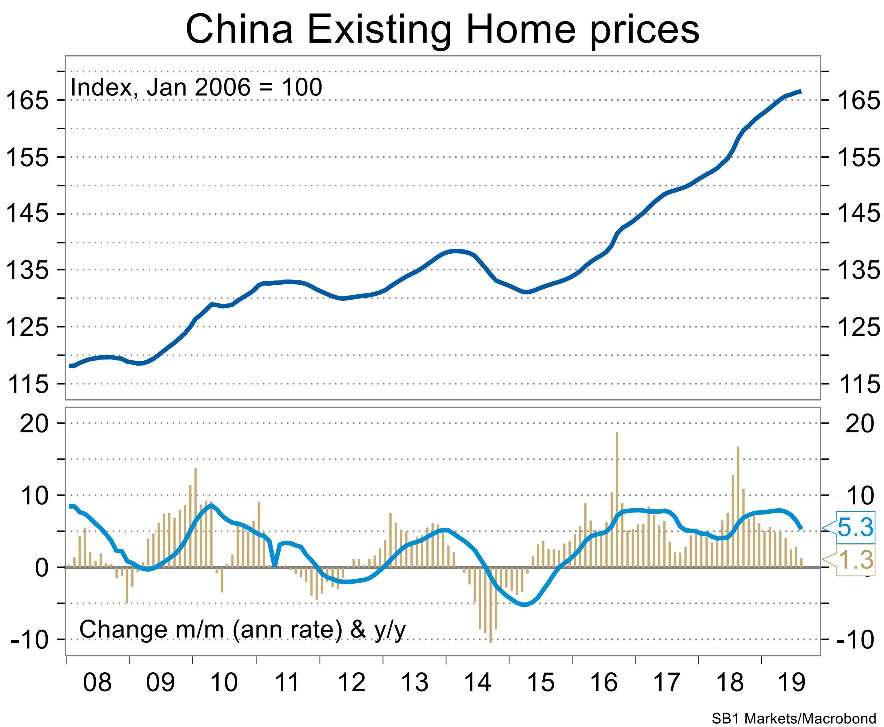


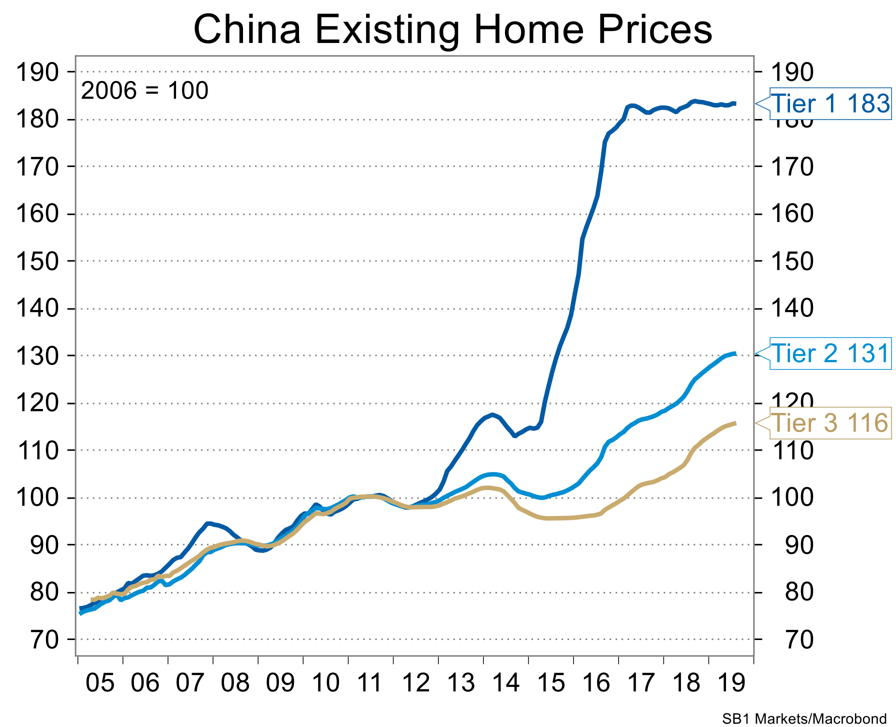


- The small cut in the lending reference rate was largely expected and came after the PBOC cut lowered the banks' reserve requirements once again two weeks ago. The central bank's reference rate is a guideline rate for banks, who may give rebates to their clients, down to below 3% now
- The central bank did not cut the lending rate for 5 y loans.

House price inflation is slowing, and credit is probably not to blame

Up just 1.3% in August (annualised), the softest print in 4 years

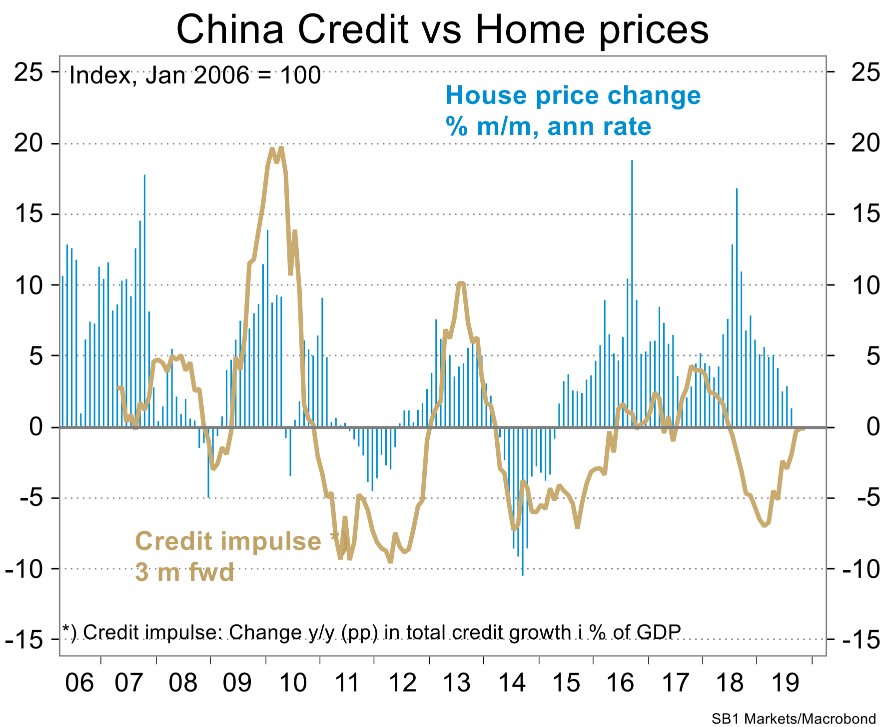


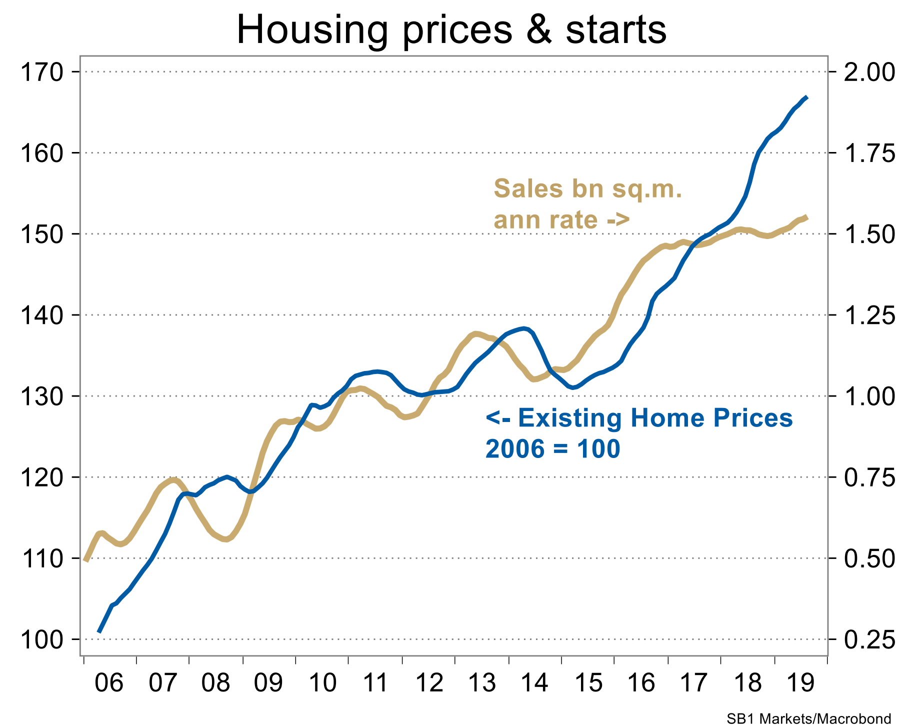


- The annual growth rate came down 1.2 pp to 5.3% in August (mostly due an elevated m/m growth in Aug last year). Monthly price inflation was just 0.1% (1.3% annualised), the lowest since April 2015, and July was revised down. Growth has been slowing gradually but steady since last summer, this was partly 'announced' a long time ago due to high monthly growth rates last year
  - » Prices in the four tier 1 cites have remained more or less flat since early 2017 (following a 60% lift past 2 years), prices in the 'smaller' cities are still on the way up, but at a slower pace than in early 2019
  - » SouFun reported an uptick in m/m rate to some 4.6% in August, slowly accelerating since last winter
- The credit (impulse) contraction in 2017 and into 2018 was most likely the main reason for the mild downshift in late 2018. Now, credit can probably not be attributed, as the authorities are stimulating lending – and the credit impulse is back in neutral?

Credit impulse has turned neutral, should not be a drag on house prices

The 2018 credit slowdown did not take house prices down, just slowed them…

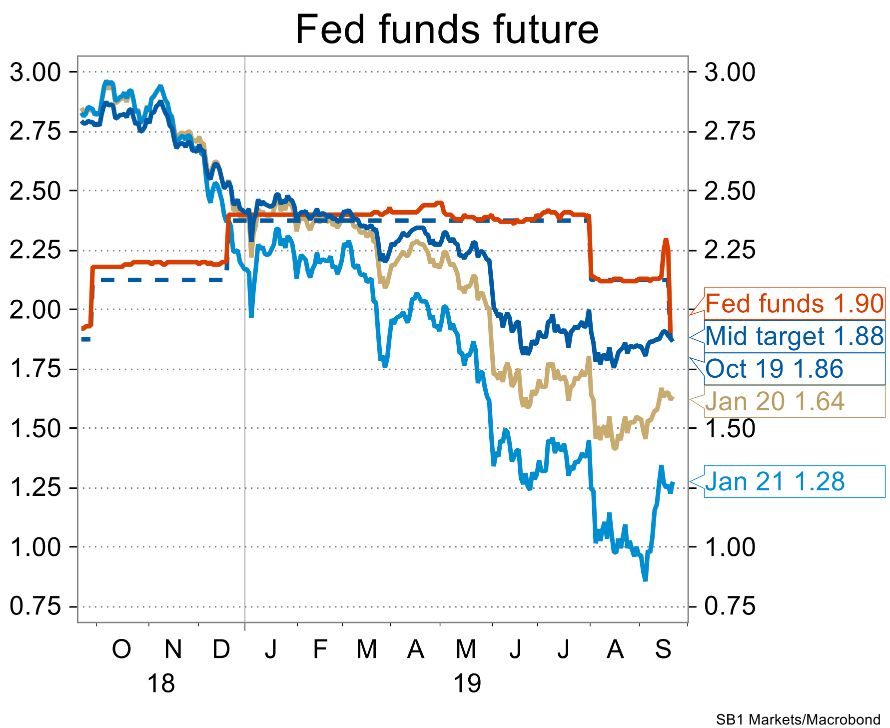


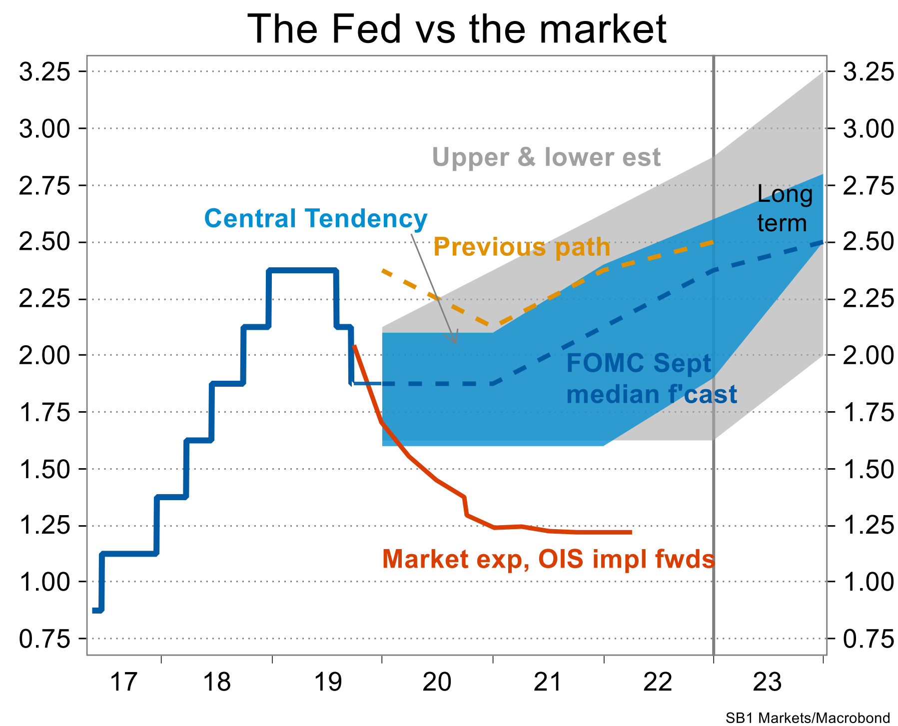


- Through 2018, house prices kept up surprisingly well, given the negative credit impulse
  - » That has been the case with new homes sales too – and sales are still trending slowly up
- Now, the authorities are pushing the credit accelerator – and they may succeed, as many times before, at least the credit impulse have turned neutral (even if bank credit growth is slowing
- New home sales are still moving upwards, normally a sign of higher existing house prices

The Fed cut 25 bps, as broadly expected, but does not signal further cuts

A divided FOMC cut the Fed Funds rate to 1.75-2.0%, due sustained global risks (read: trade war)





- The FOMC delivered the 25 bps cut to 1.75%-2.0%, as widely expected. Ahead of the announcement, markets priced some 85% prob of a 25 bps cut and 15% of no cut. The Fed is divided; 7 members voted for a 25 bps cut, two voted in favour of an unchanged rate and one preferred a 50 bps cut. The 'dot plot' was lowered, of course, but the current path does not signal any further interest rate cuts in 2019 or 2020, less dovish than the market expected
- The Fed emphasized that the fundamentals remains strong; with tight labour market and solid consumption. Business investments have softened and inflation is running slightly below the price target, however, the major rationale for cutting interest rates is sustained downside risks on the outlook, stemming from global trade uncertainties. Hence, the cut is a precautionary move to support the economy
- Market reaction: FRAs were broadly unchanged, even as the market is pricing 2-3 interest rate cuts (of 25 bps) by the end of 2020. Because the market does not believe in Fed's dot plot? Short term interest rates climbed, although the 1 y gov was flat (1y 1y up 10 bps). 10 y gov down 1 bps. Stocks rose
- The actual Fed funds rate rose sharply in the first part of last week as the repo market dried completely up but came down Friday, check more here

The FOMC raised the 2019 GDP f'cast but nudged down the unempl. f'cast

No major changes were made to the projections, interest rates are cut due to trade turbulence

Percent

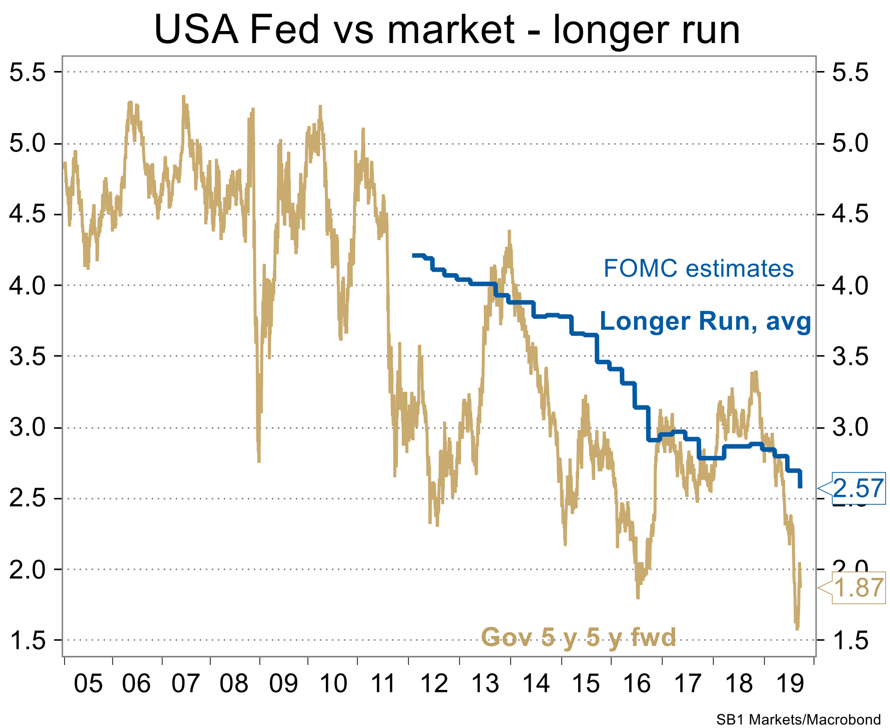
Variable	Median[1]				
	2019	2020	2021	2022	Longer run
Change in real GDP	2.2	2.0	1.9	1.8	1.9
June projection	2.1	2.0	1.8		1.9
Unemployment rate	3.7	3.7	3.8	3.9	4.2
June projection	3.6	3.7	3.8		4.2
PCE inflation	1.5	1.9	2.0	2.0	2.0
June projection	1.5	1.9	2.0		2.0
Core PCE inflation[4]	1.8	1.9	2.0	2.0	
June projection	1.8	1.9	2.0		
Memo: Projected appropriate policy path					
Federal funds rate	1.9	1.9	2.1	2.4	2.5
June projection	2.4	2.1	2.4		2.5

Source: Federal Reserve

- Fed emphasized that labour market remain strong and household spending is thriving
- The only weak spots are sluggish business investments and inflation below the 2% target (for now..)
- Changes in the median projections:
  - » F'cast on 2019 GDP growth was nudged up to 2.2%, from 2.1% and held unchanged at 2% in 2020
  - » 2019 unemployment revised up marginally, to 3.7%, we assume due to slowing employment growth
  - » No changes were made to inflation f'casts
- Looking merely at these projections, who would have guessed the Fed would cut interest rates at this meeting?? The upbeat f'cast underscores that the Fed is not cutting rates due to a worsening economic outlook but due to elevated and sustained risks
  - » The main question then remains; will a 25 bps interest rate cut (or 50, incl. July) offset the negative effects from global uncertainties caused by the trade war? Probably not.

In the long run

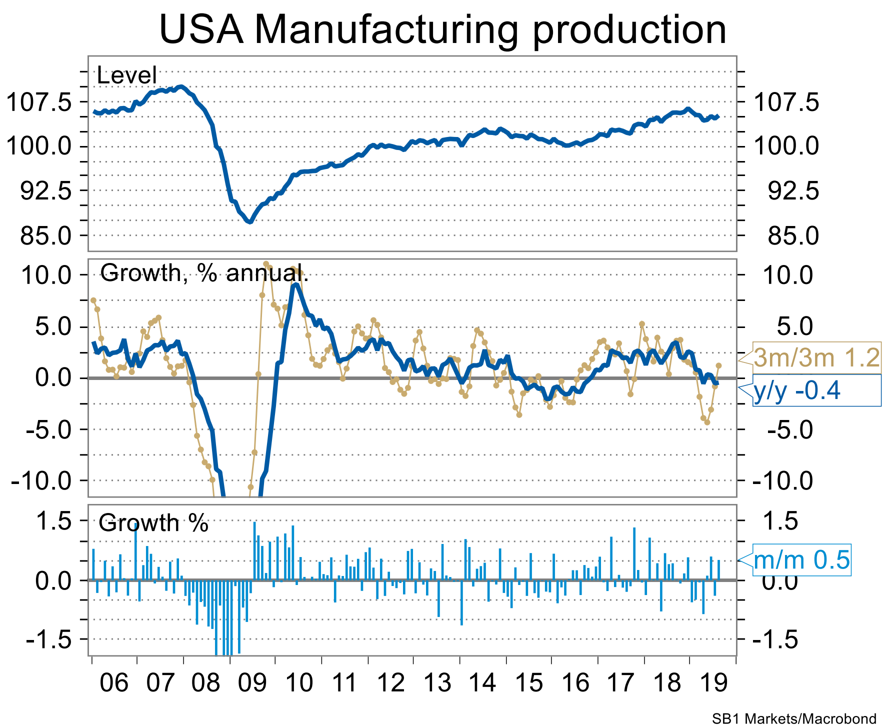
Once more, the FOMC members revised down their forecast of the 'neutral rate'

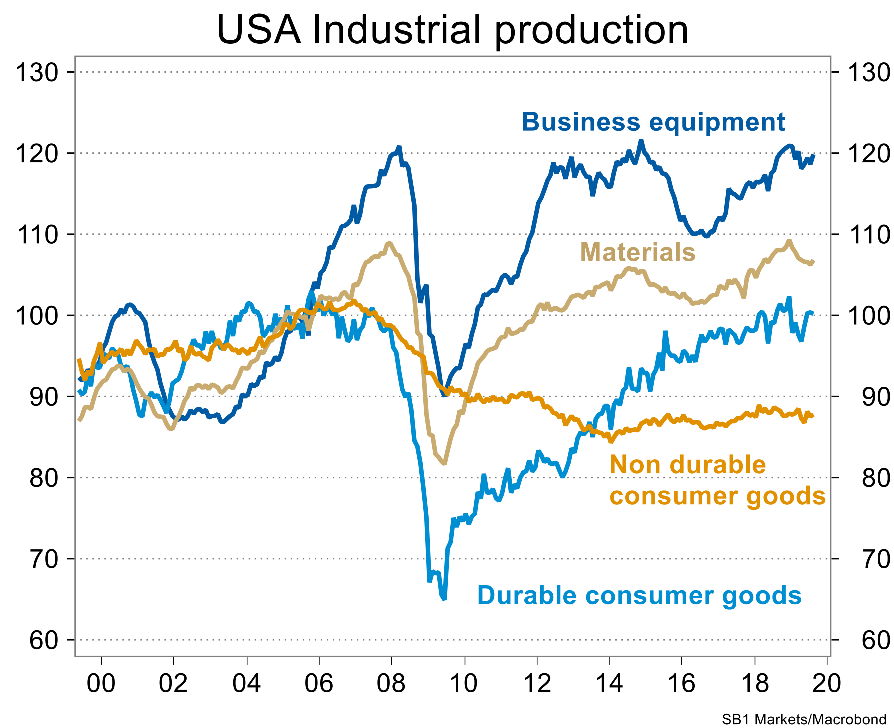


- The average estimate was revised down to 2.57% from 2.7%, while the median estimate was unch at 2.5%
- Since 2011 the estimate has fallen from 4.2%
- Market's expectations are much more volatile, and are below 2% now (measured by the 5y 5y fwd rate)

Manufacturing production stabilized but the outlook still not that upbeat

Production rose 0.5% m/m in August, better than expected. Underlying growth up modest 1,2%

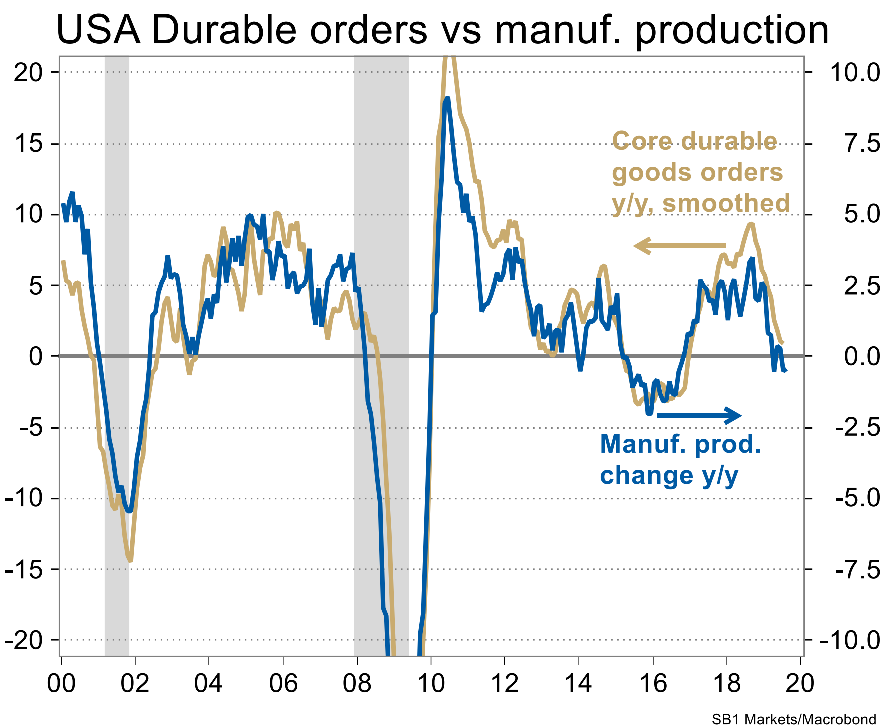


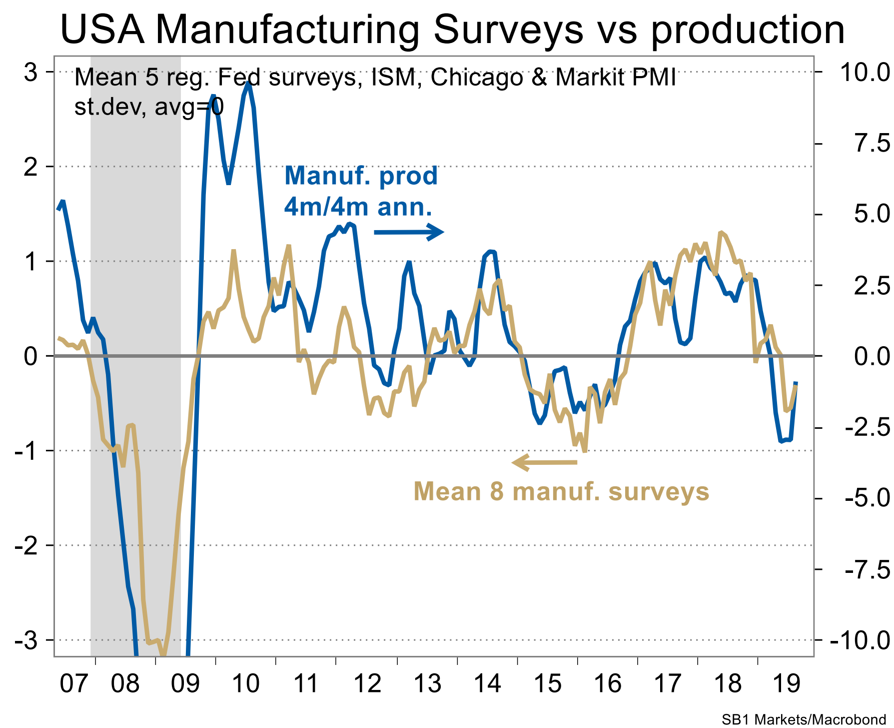


- Manufacturing production increased by 0.5% m/m in August, 0.3 pp above expectations. Production has ticked up the past 3-4 months, reflected by the +1.2% underlying growth rate (3m/3m). Hence, Q3 is heading for a better print than Q2. Production is still down 0.5% y/y, and it's 0.8% below the Dec local peak
  - » Total industrial production including energy & mining was up 0.6%, underlying growth a tad slower than for manufacturing
  - » Production of business equipment and durable consumer goods have recovered somewhat, while (leading) materials still heading down
- The first September surveys? Check two pages forward!

Unfortunately, orders & surveys do not signal any recovery

An average of surveys signals a continued decline in production, orders point to just a stagnation

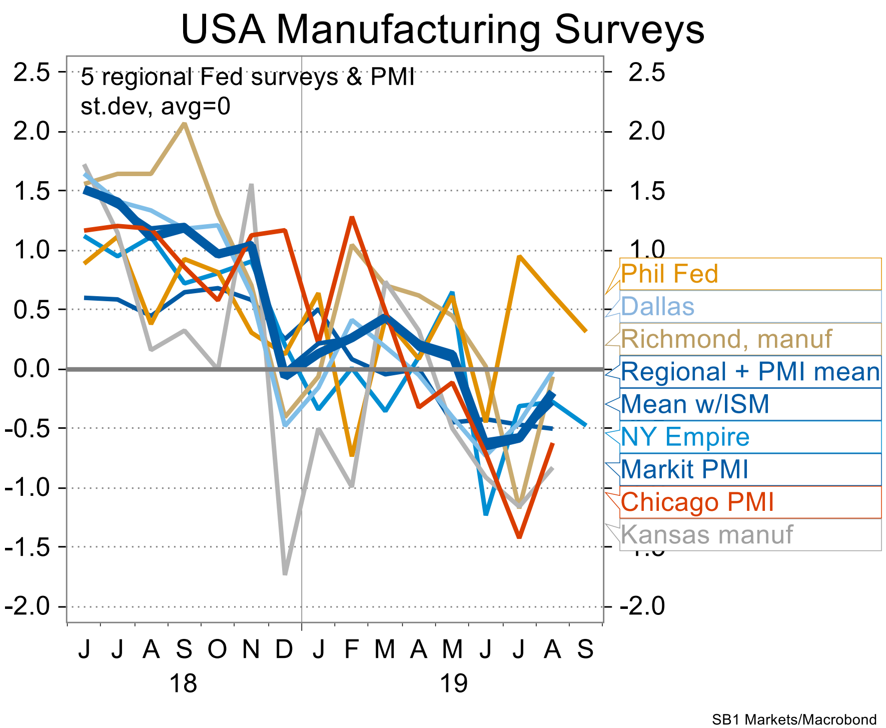


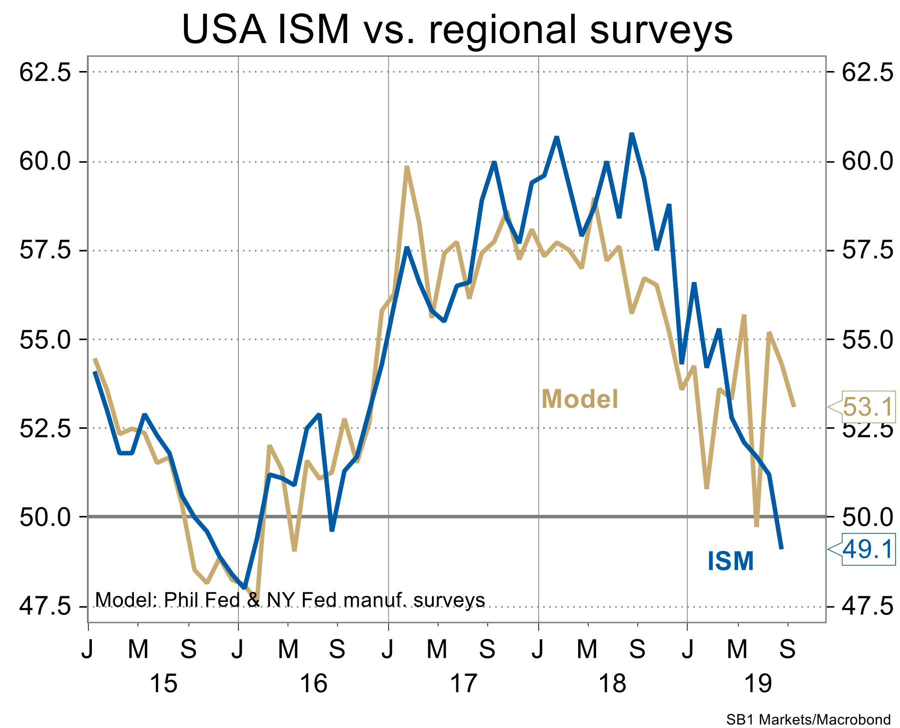


- Flip to the next slide for more on the surveys

Both NY & Phil Fed manuf. surveys a tad down in Sept, implication uncertain

Phil Fed has been out of line vs other surveys recent months, the NY Fed survey close to

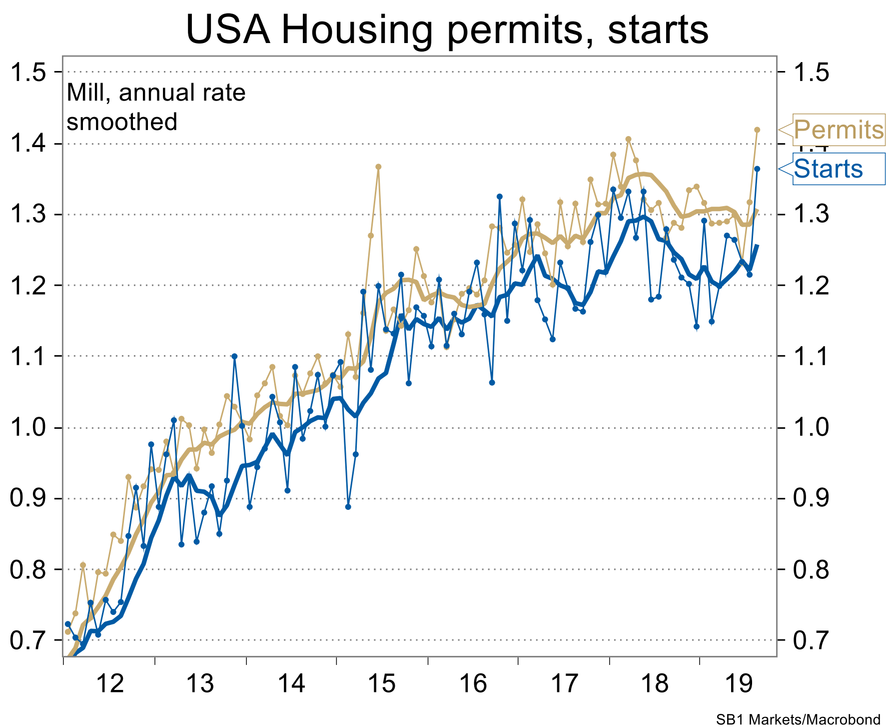


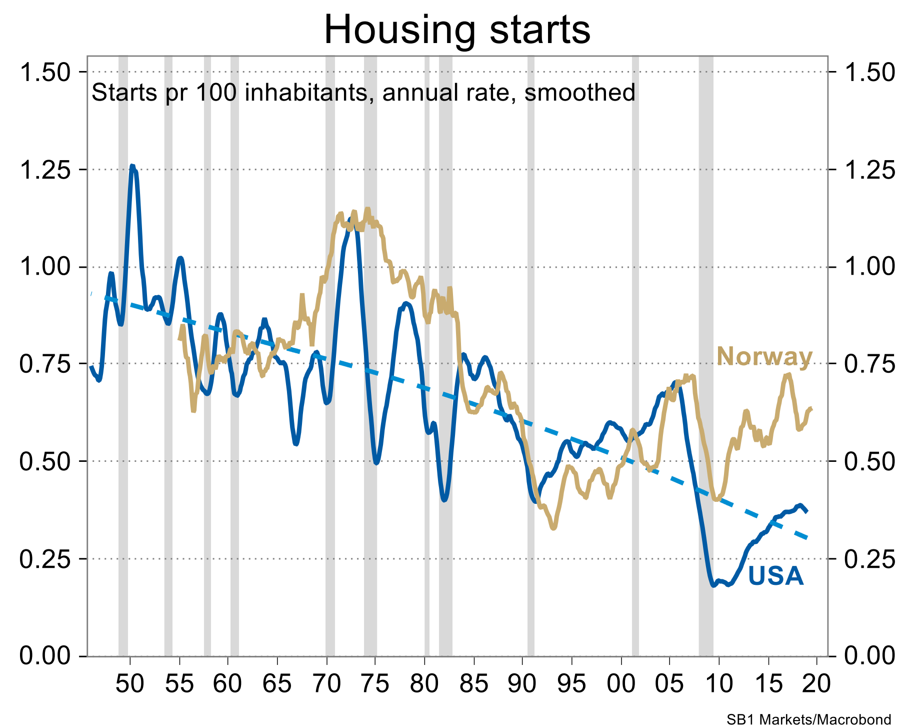


- The Philadelphia Fed index fell less than expected and remains just above the average level, much more upbeat than other US manufacturing surveys. The NY Empire is more in line with others, the survey fell more than expected in Sept. Manufacturing is certainly not thriving, yet these two surveys have stabilized the past 3 months, in avg
  - » The order index held steady in both surveys but remain weak in NY Empire stat index, probably more reliable
- These two surveys have been extra volatile so far in 2019. Taken face value, they indicate a 0.8 p decline in the manufacturing ISM. However, if we are more modest and let the two surveys indicate the level, they signal a lift in the ISM, to approx. 53 (from 49.1 in August). More surveys out this week, like Markit's PMI today

What, housing starts & permits above 2018 peak??

Monthly data are volatile, smoothed rate is not more than flat since late '18. But anyway good news!

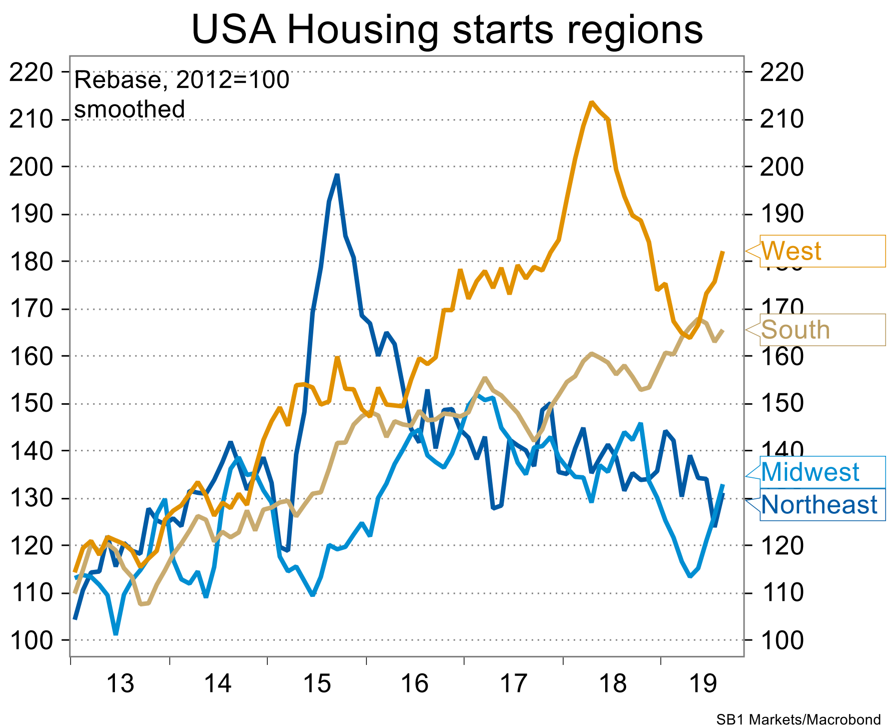


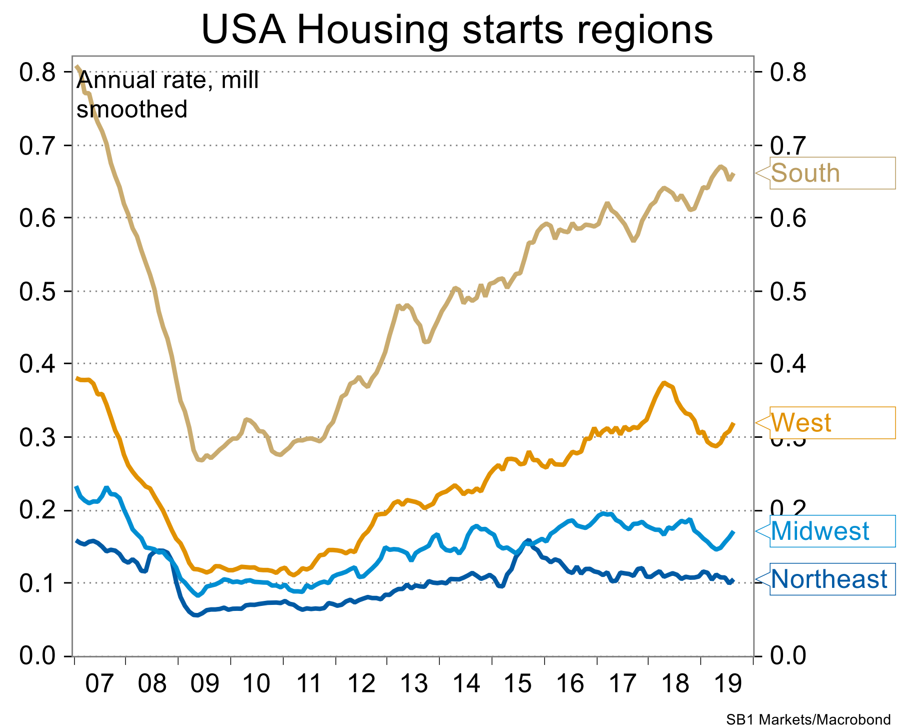


- Housing starts surprisingly spiked 12.3% m/m in August, to an annual rate of 1.36 mill (1.27 smoothed), vs expectations at 1.25 mill
- Housing permits rose 7.7% m/m, to 1.42 mill (annual rate), miles above expectations, following a rebound in July. Housing permits are usually less volatile than actual starts, thus, a more useful gauge of the activity in the sector than actual starts. Now, both starts and permits are well above the early 2018 peak levels! The smoothed permits rate is not that impressive, at 1.31 mill, more or less flat since late 2018. Starts have increased more than permits
- Housing starts/permits confirm a solid housing market, boosted by low mortgage rates. However, the Aug spike is most likely somewhat exaggerated – and not confirmed by the Homebuilders. The level of housing starts is still quite low, and the home construction downside is not large compared to the downturn in 2006-09

Home building is rising in most regions, powered by the South in August

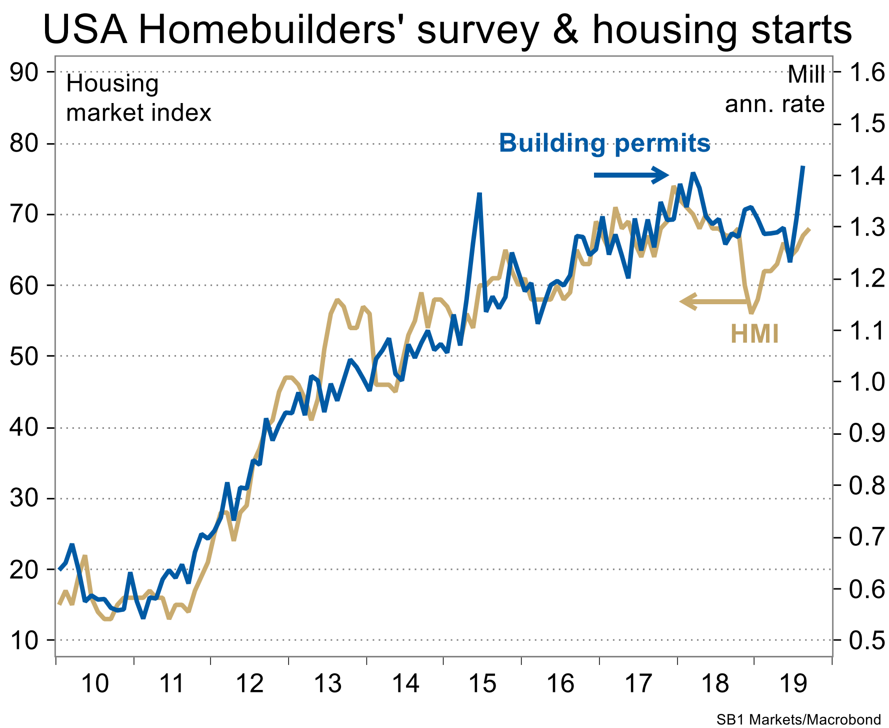
Starts are heading up in the West, Midwest and probably in the South too. Just Northeast sagging

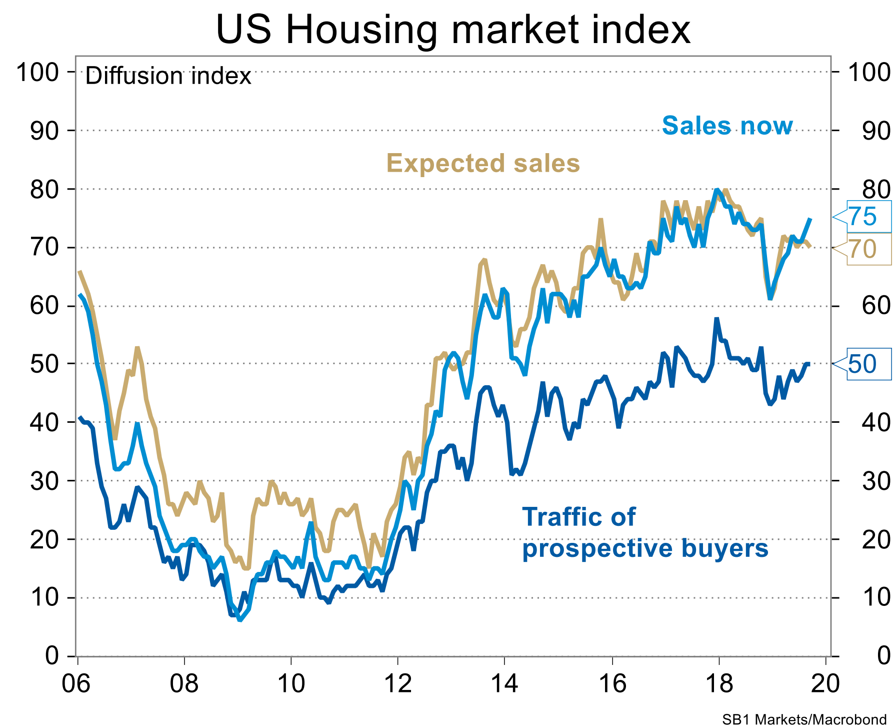




Homebuilders' confidence is still improving

The HMI ticked further up in September, however, the index signals lower building activity



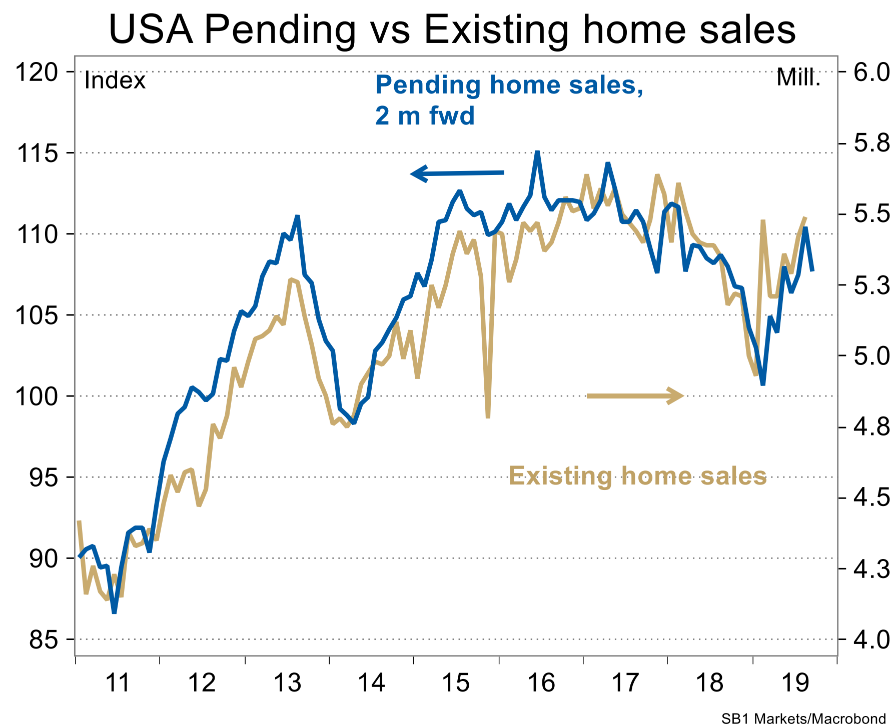


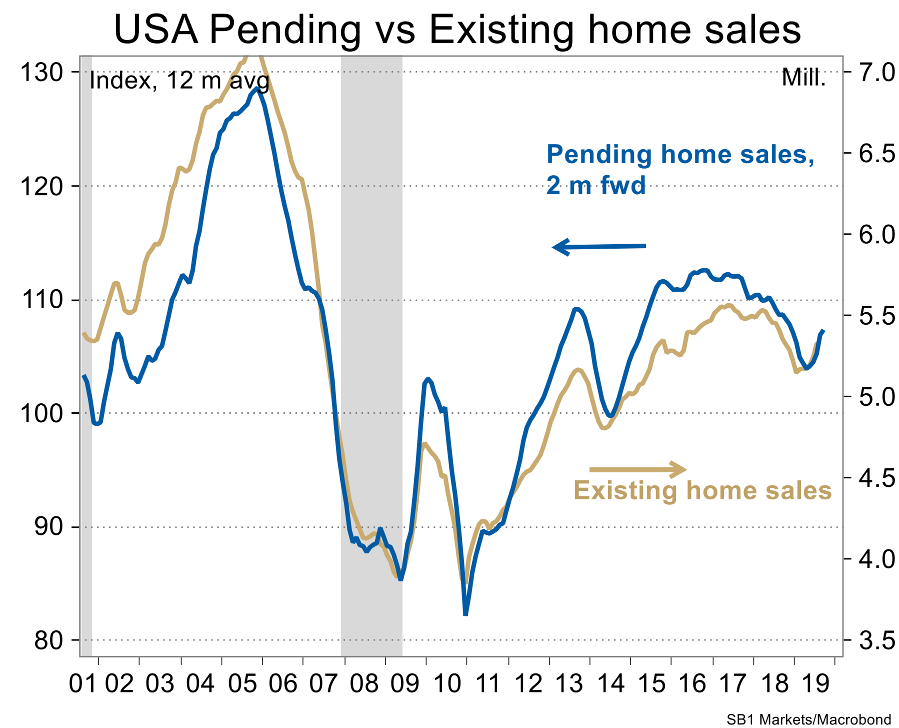
- The housing market index (HMI) rose 2 p to 68 in September, expected unchanged. The homebuilders have been reporting improved market conditions since January but is still 6 p below the 2018 peak. HMI point to flat housing starts/permits
- According to the homebuilders, lower mortgage rates and strong demand are boosting activity. At the same time, the trade war is causing higher construction input costs as well as weaker demand in some parts of the country
- The homebuilders have been complaining about lack of labour and lack of building lots

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

Existing home sales are climbing along with pending sales

Existing home sales increased by 1.3% m/m in August, heading up since January

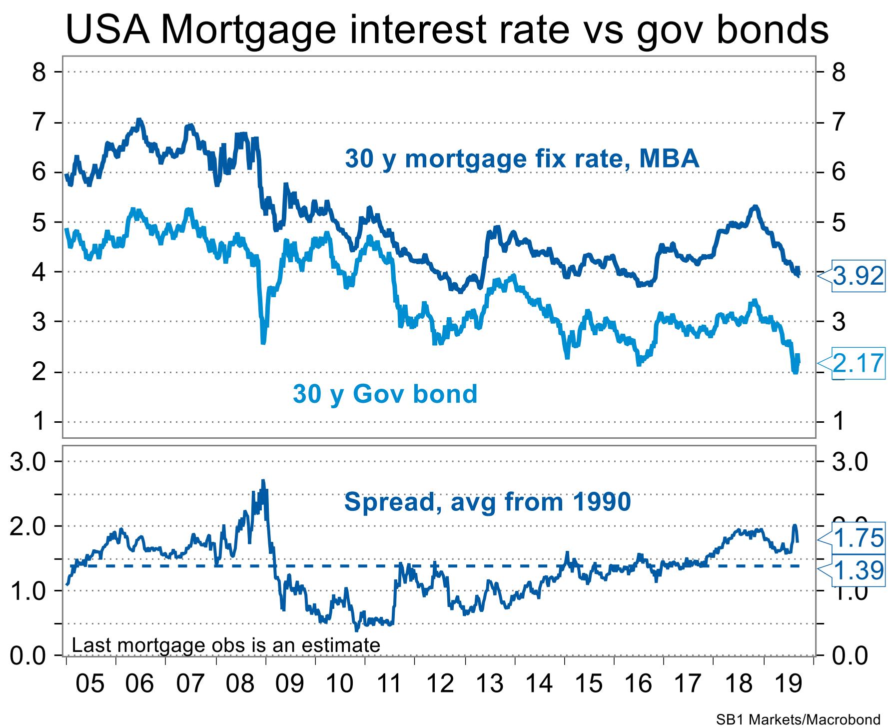


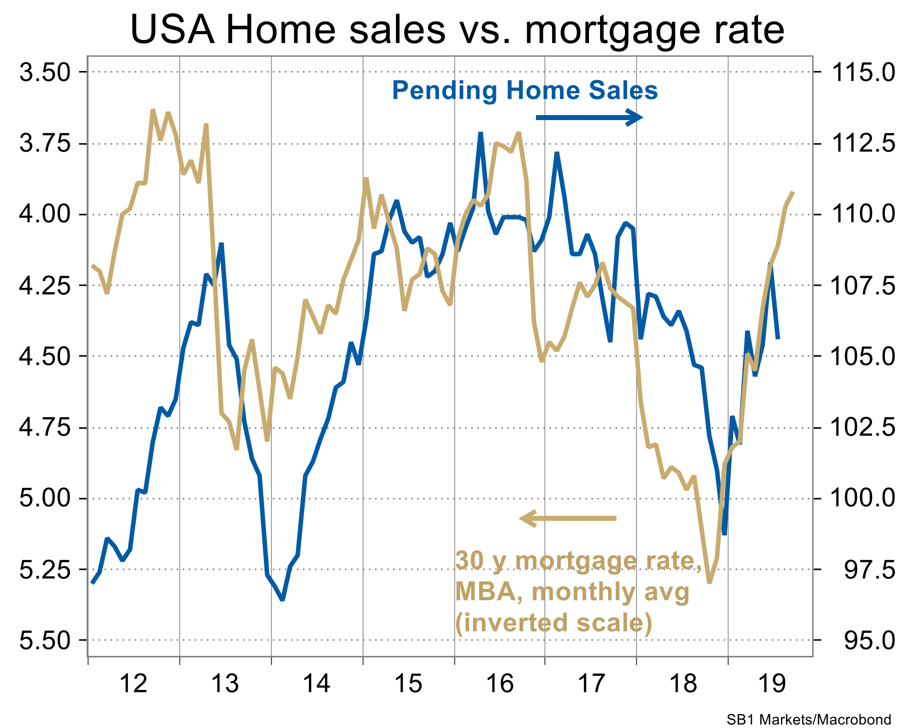


- Existing home sales increased to 5.49' in August, just above expectations. Sales have been climbing so far in 2019, up 11% since January, following a some 12% retreat in 2018
  - » Pending (existing) home sales are trending up but do not point to a further rise in actual sales (usually quite well correlated)
- Strong home sales adds to upbeat August housing data. Tumbling mortgage rates must be boosting demand?

Mortgage rates marginally up from the bottom, still low

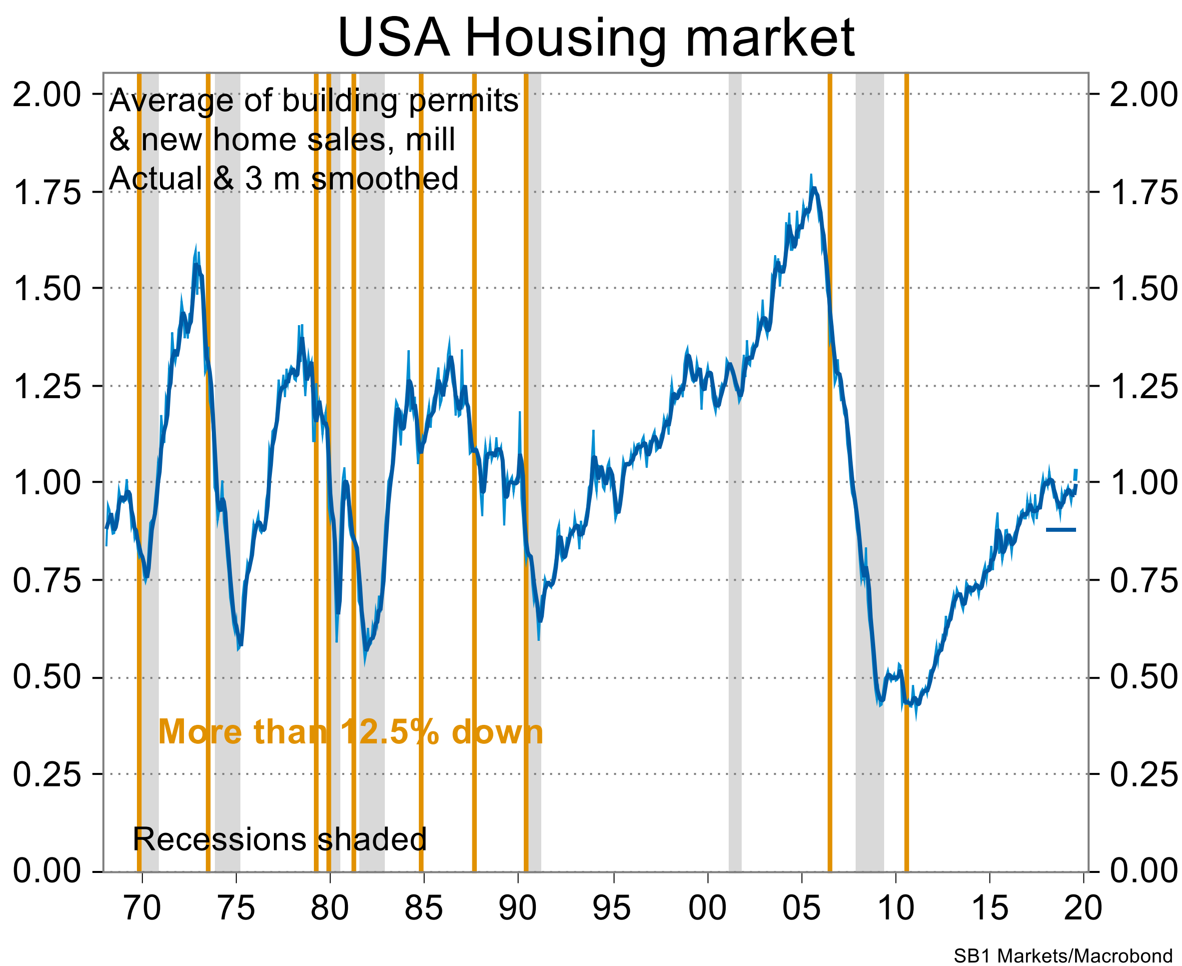
US households are paying less than 4% at new mortgages, was 5.25% last autumn

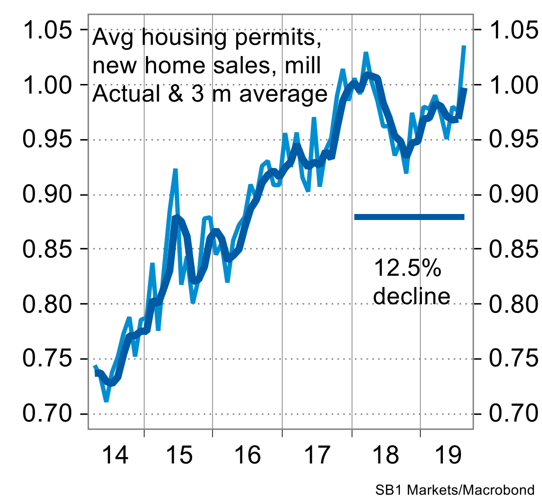




- Will the decline in mortgage rates initiate the animal spirit at the housing market when the labour market is strong at the same time? So far, just a moderate expansion (before the Aug spike in starts, at least)
  » Pending home sales have recovered most of the 2017/18 losses so far in 2019.

Housing vs recession: Safe, for now (at least in this sector)

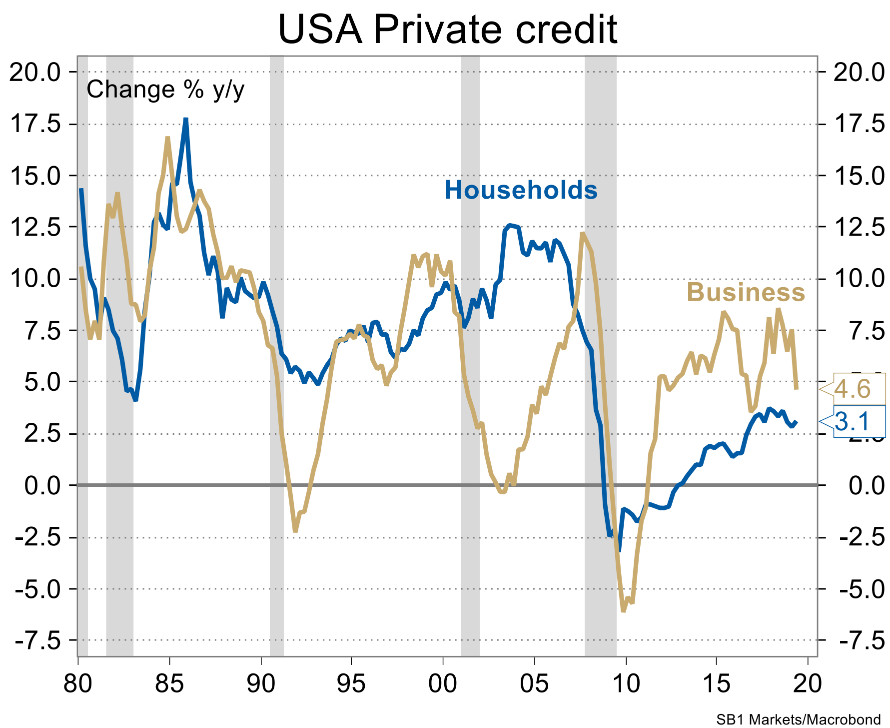


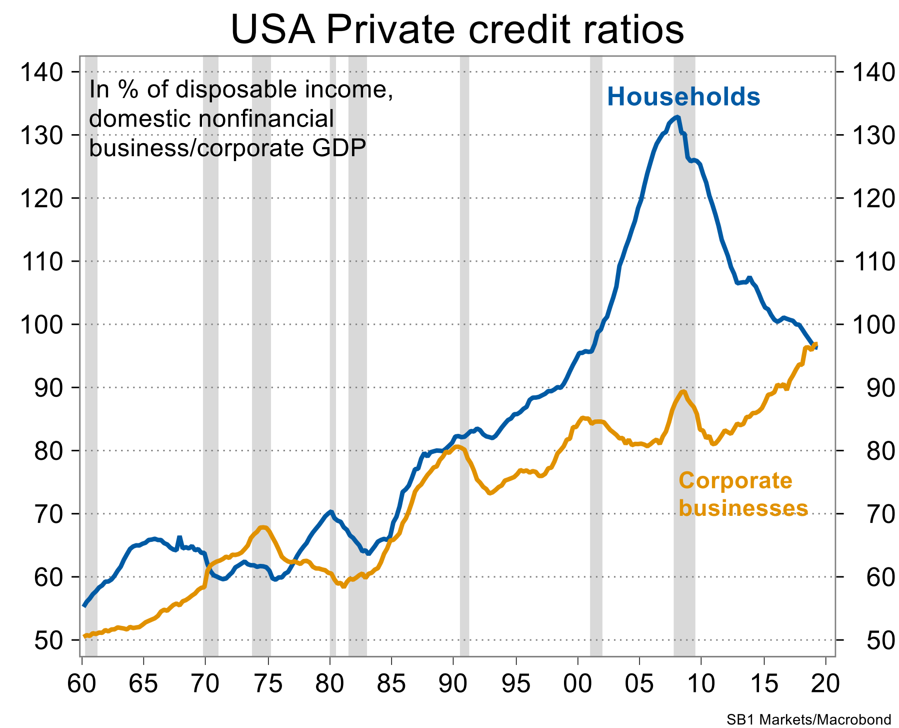


Memo: New Home sales are assumed marginally up in Aug, in line with consensus f'cast

Household credit up in Q2, remains low. Corporate debt growth may be slowing

Household debt up 3.1% in Q2, from 2.8%, corporate debt growth down to 4.6%, from 7.6%

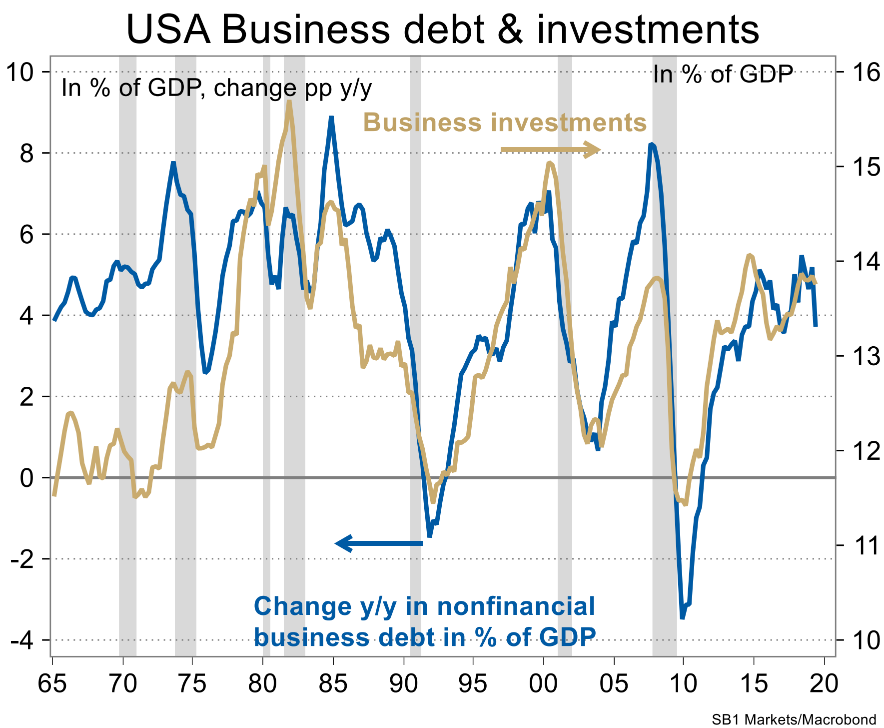




- Household debt accelerated slightly in Q2, but is increasing slower than household income. The debt/income ratio has fallen to well below 100%, down from 133% in 2007! The largest deleveraging ever in the US. Even so, unemployment has fallen most of the time!
- Corporate credit growth is more volatile but growth is most likely slowing somewhat, the past quarters to below 5%, still faster than growth in corporate (or total) GDP. The debt ratio has increased sharply since the financial crisis. If not for equity buybacks past 10 years the debt ratio would have been 97% but in the 50'ies, lowest 'ever' (measured vs corp. GDP), from 90% at local peak during the financial crisis, and it fell to close to 80% after the crisis)

Corporate credit and investments, usually hand in hand

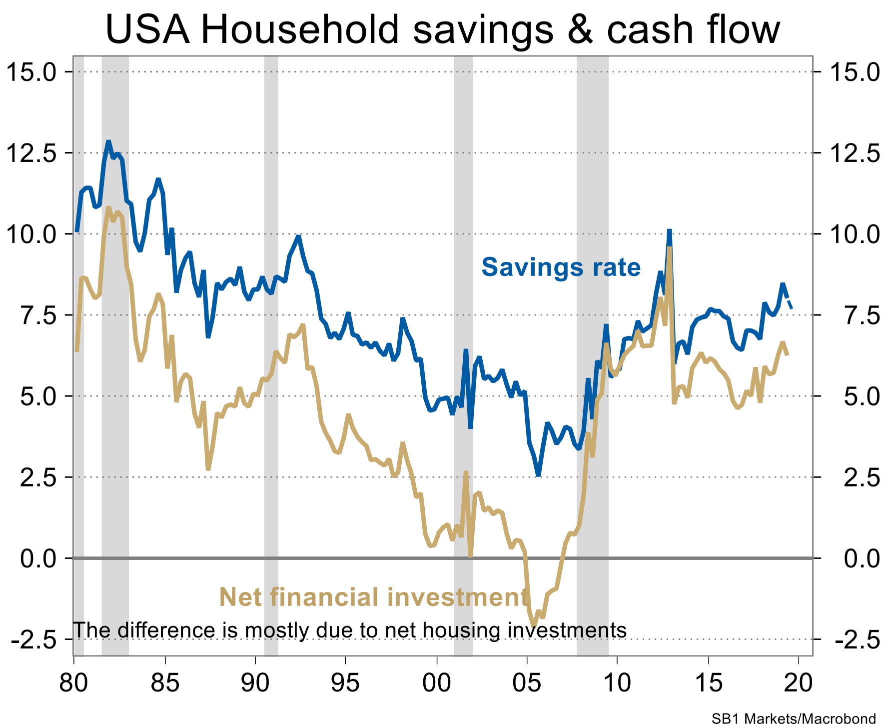
Now, corporate credit is probably signalling an investment slowdown but not an abrupt one

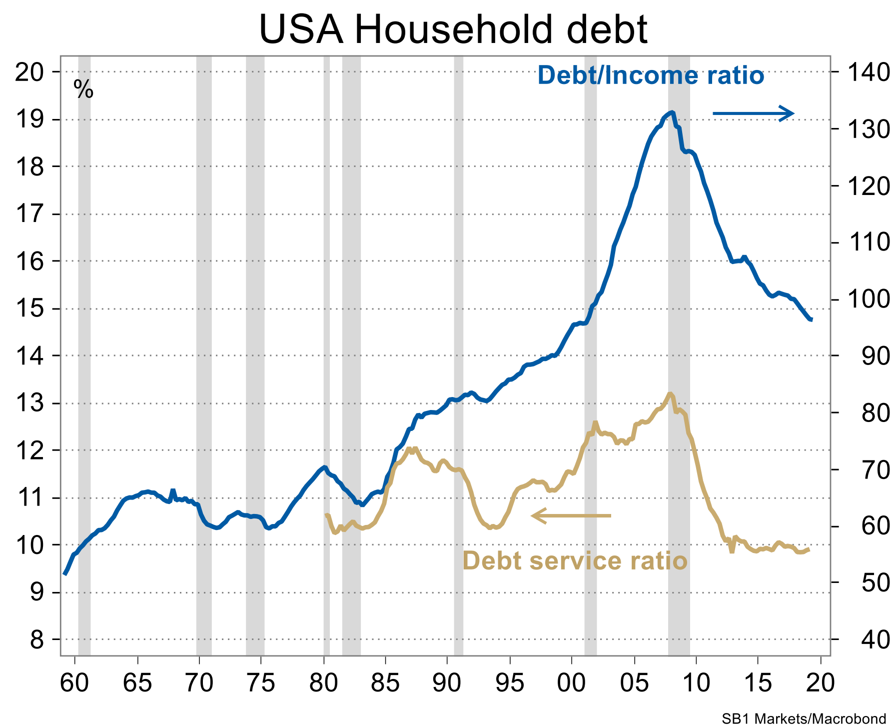


- Cashflow in the business sector is better than usually before recessions. Tax cuts have contributed

Households' savings down but still high. Strong cash flow, debt ratio still falling

Households are saving – and paying down debt (relative to income), debt service cost record low

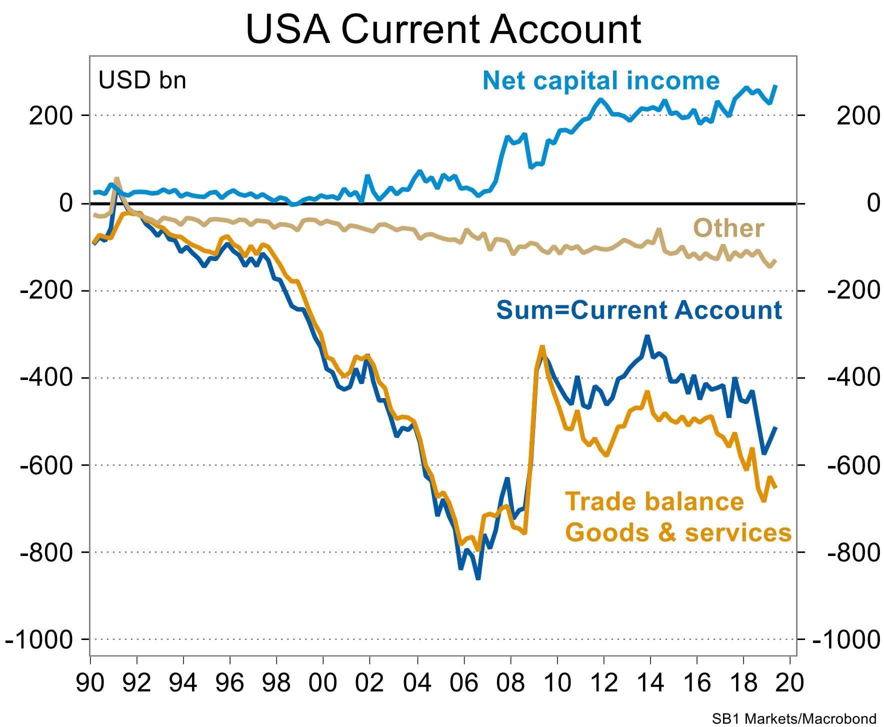


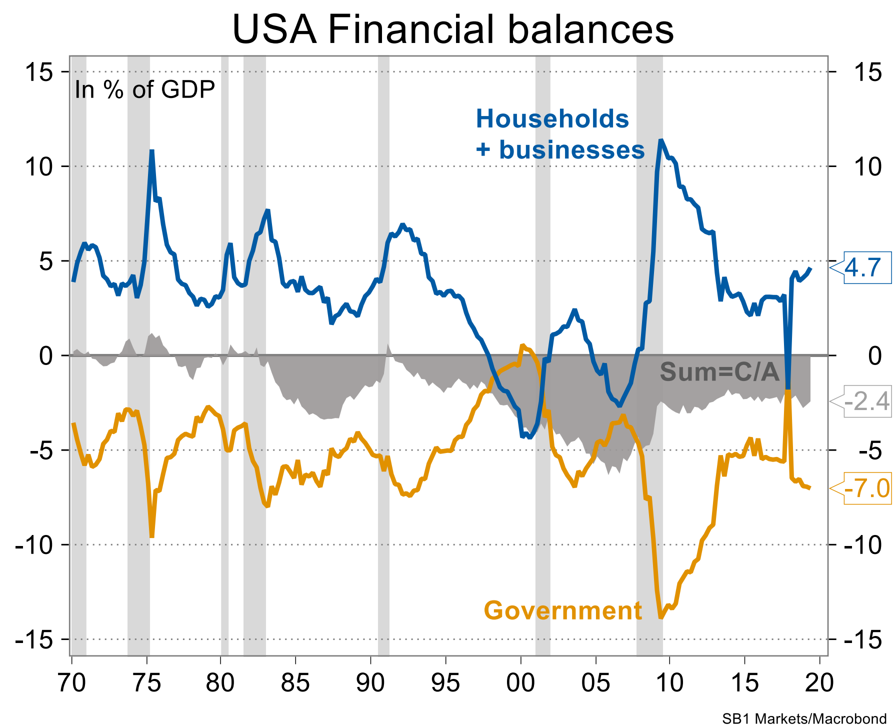


- The savings rate may have fallen marginally in Q2 but it has been rather stable the past years. The level is quite high (at least after a higher tax dodging estimate was added…) The cash surplus is at approx 5% and stable too, not a household drive recession signal
- Households were running a cash surplus at 6.3% in Q2, marginally lower than in Q1. The level is quite high
  - » Cash balance (net financial investments) = Savings – net (of depreciation) investments in fixed real capital (mostly housing)
  - » The savings rate fell to 8% of disp. income in Q2 and is probably trending up
- Households' debt ratio is much lower than 10 years ago and is still sliding down, almost back to the level in y 2000
  - » There are few signs of financial stress, at least barring student loans

The current account deficit shrank in Q2, saved by net capital income

The C/A deficit is still trending out, public deficit to blame, -7%!! The good news: Private in plus!

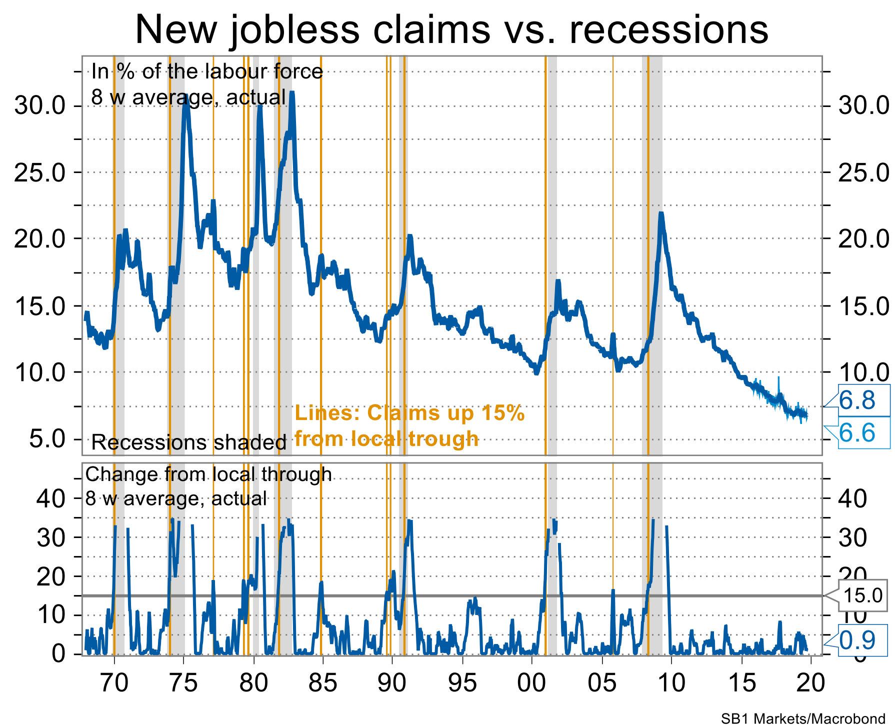


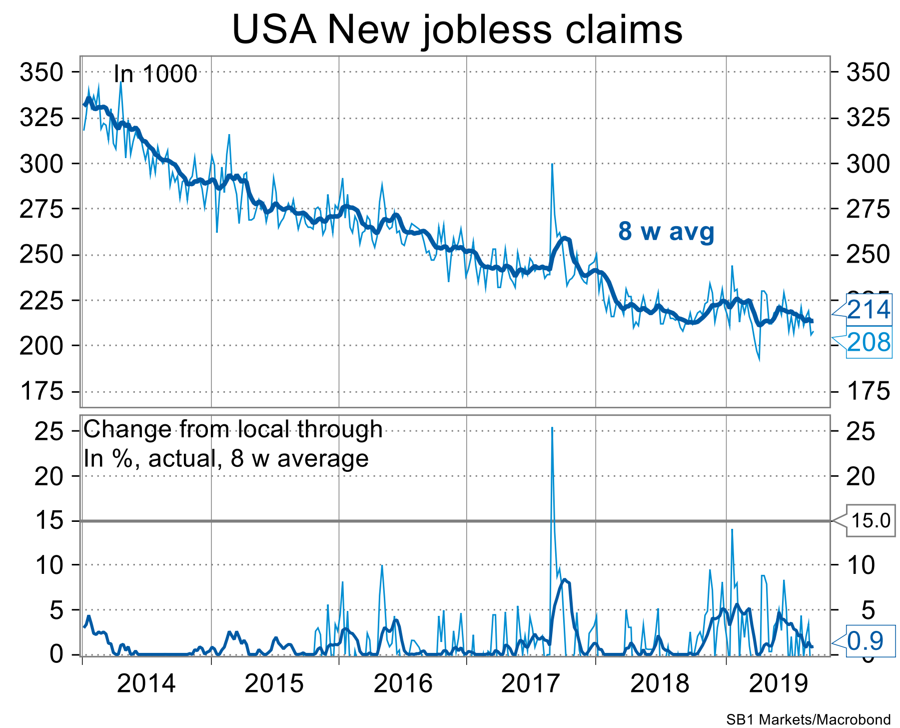


- The US government is running a huge cash deficit, equalling 7.0% of GDP in Q2 (from 6.8%). The deficit was just above 4% of GDP in 2015!
  - » The ups/downs in private sector/public sector balance in Q1 2018 are due to the tax reform accounting
- The private sector surplus widened to 4.7% in Q1 and its larger than in 2017, as tax cuts are not fully spent. However, it is much lower than a few years ago).
- The private sector cash surplus is the best argument for NOT fearing a hard US recession. 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

Jobless claims remain close to record low, no signs of weakness

Jobless claims inched up to 208' last week and the 8 w avg is very low, at 214'

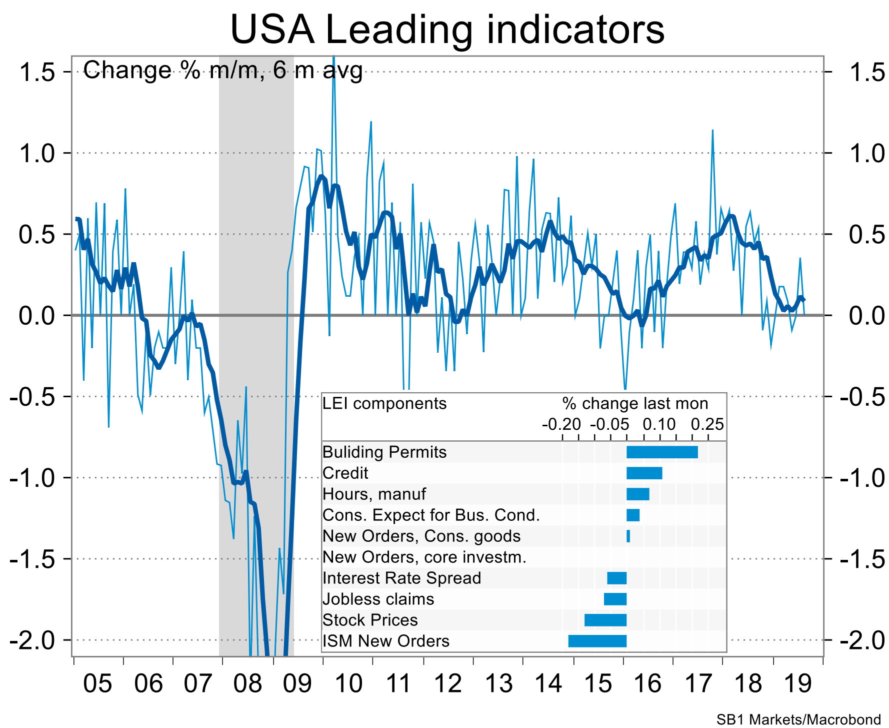


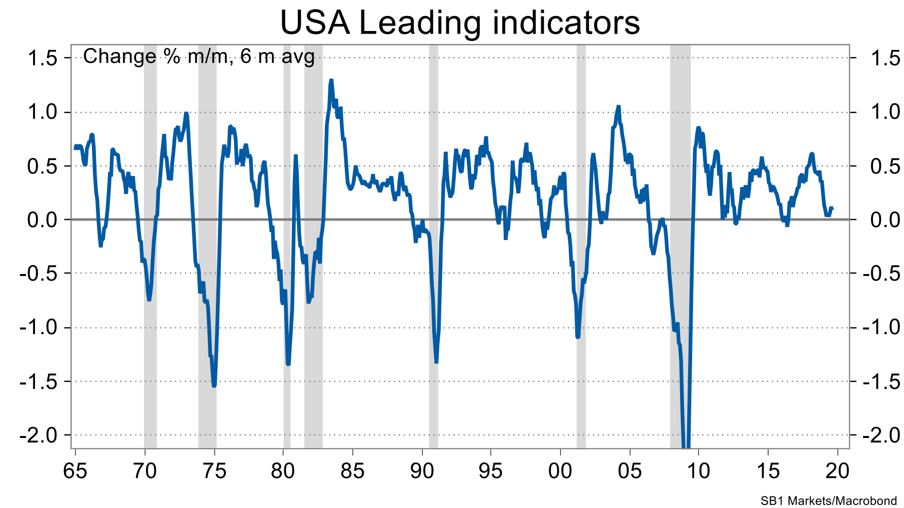


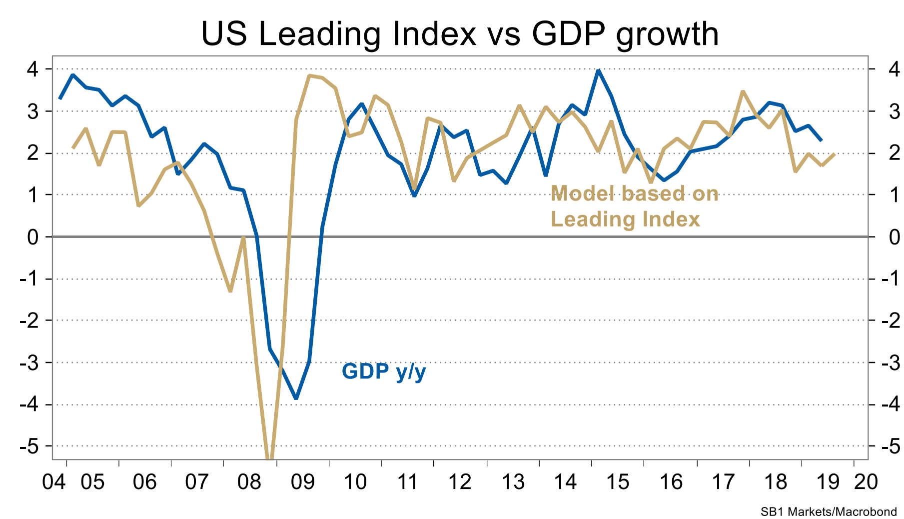
- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

The Leading indicators retreated in August, following July spike

The LEI has indicated a slowdown for a long while but not an abrupt one, points to 2% GDP growth





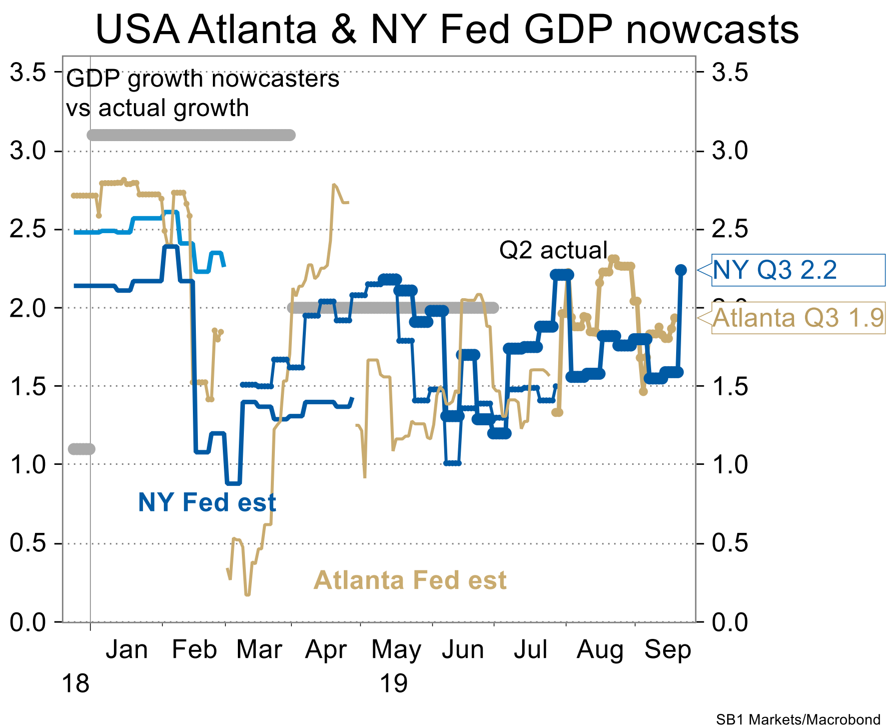


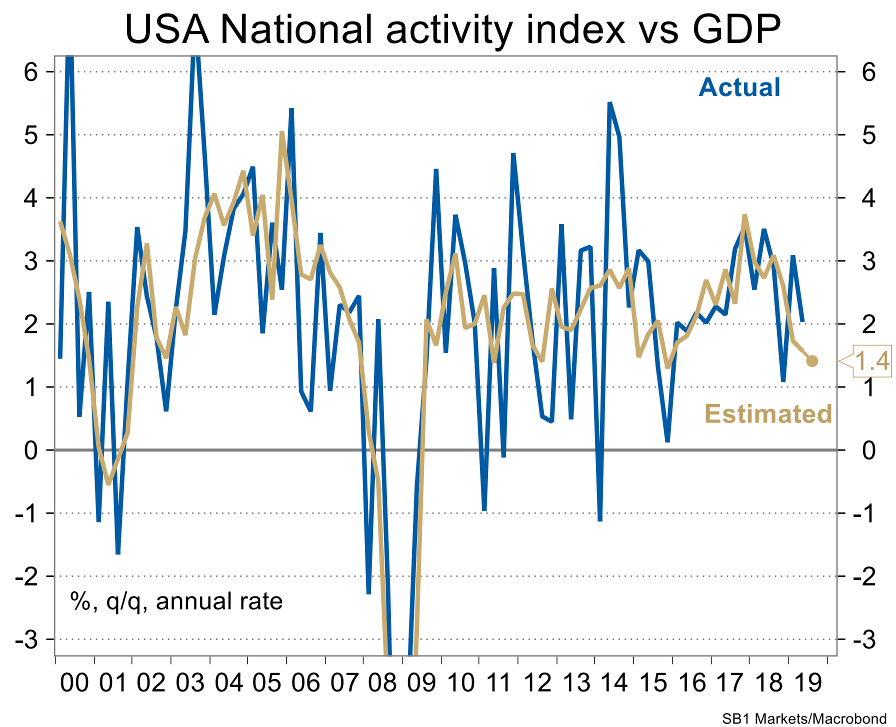
- Conference Board's Leading indicators were flat in August, after a strong July, and the 6m average m/m growth is still up 0.1%
  - » Building permits were the major positive contribution in August, while ISM and stock prices pulled the index down
- Face value, the LEI is signaling a 2% growth rate

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

Nowcasters are revising up Q3 growth estimates

The nowcasters are noting approx. 2% GDP growth in Q3, the National Activity index at 1.4%

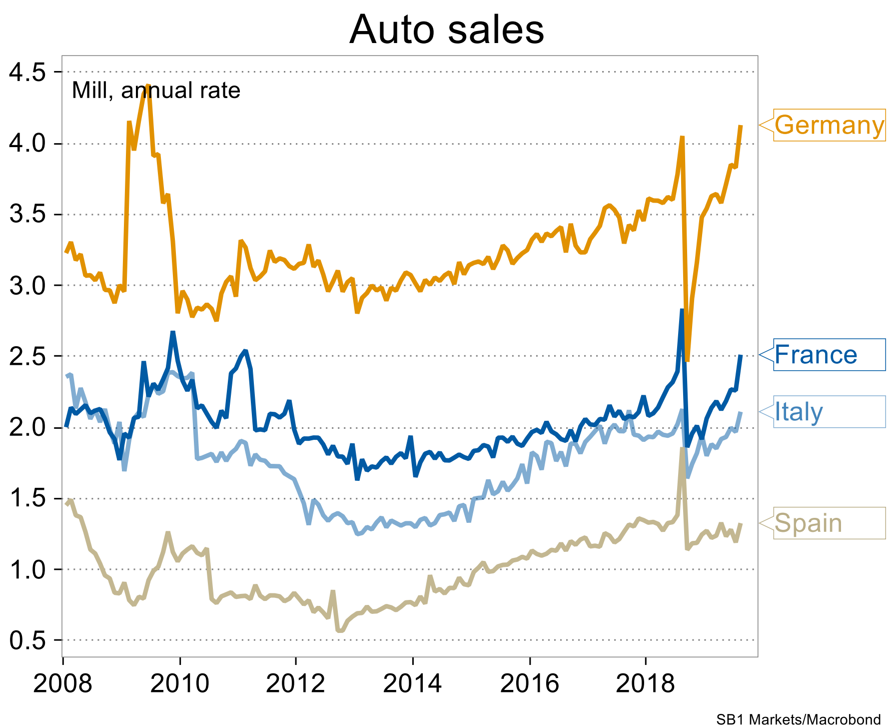


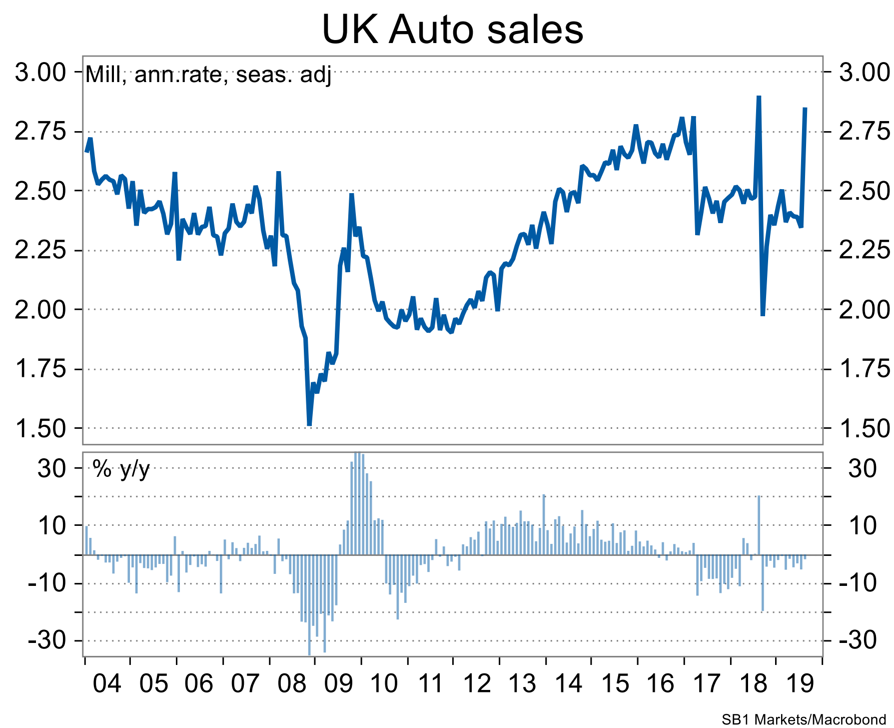


- The jump in NY Feds weekly gauge to 2.2% from 1.6% is due to the lift in manufacturing production and capacity utilisation as well as the jump in housing permits. Atlanta Fed's model is still assuming a 1.9% growth pace

EMU and UK auto sales surged in August, thanks to another emission deadline

.. Unfortunately, the upswing will be reversed, or worse, in September. Just like 1 y ago

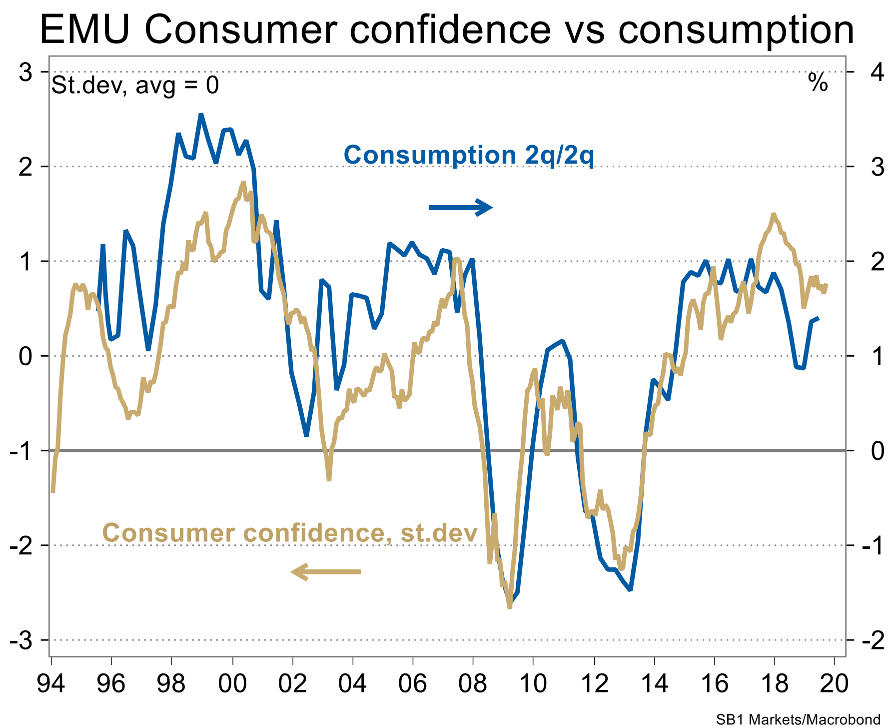


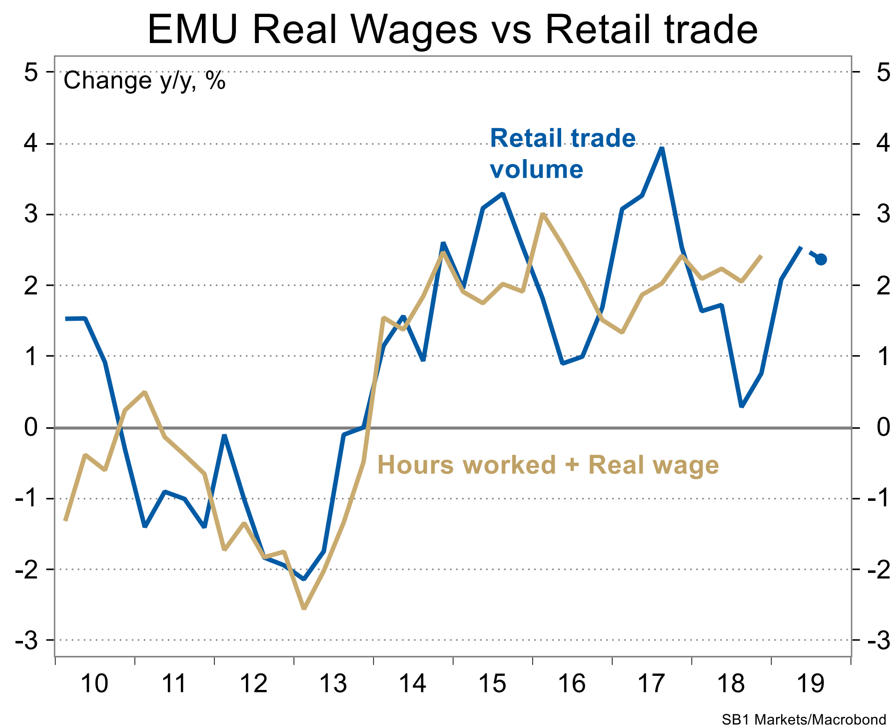


- When the new EU emissions regulations were implemented in September last year, producers were given a one year allowance to sell cars as 'new' vehicles if they failed the emission regulations. Consequently, sellers had to pre-register a huge amount of cars in August, at large discounts
- Due to the steep rise in auto sales in August 2018 (ahead of the implementation of the new emission rules), sales were still down some 8% y/y this month, which the media emphasized, even as the m/m rate is up 10.7% - and sales were extremely high!
- The same story for UK, sales soared in August – and will decline sharply in Sept

Consumer confidence steady, signals sustained moderate consumption growth

.. However, the upside is probably limited



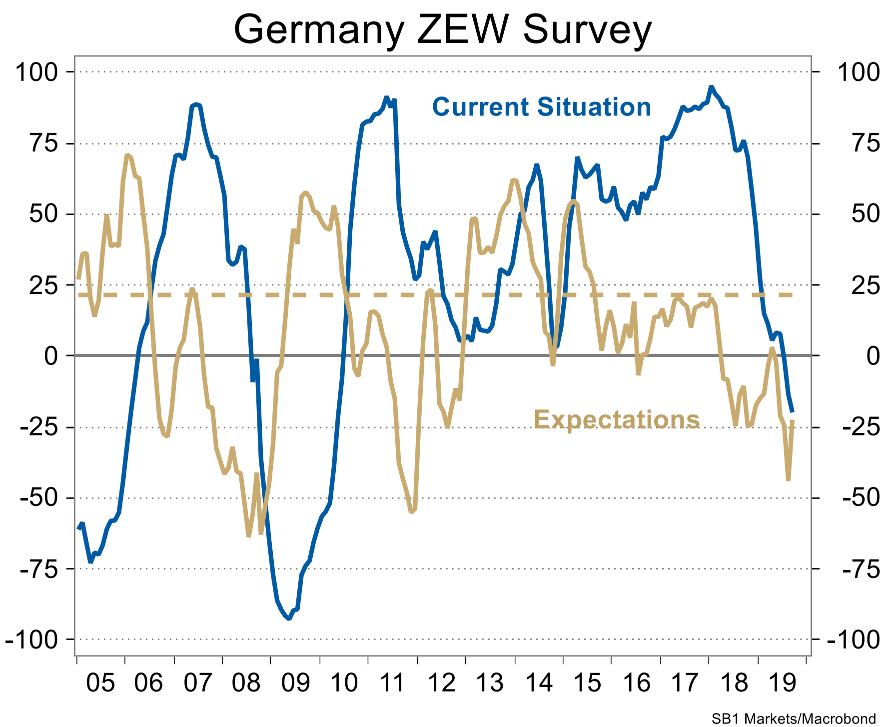


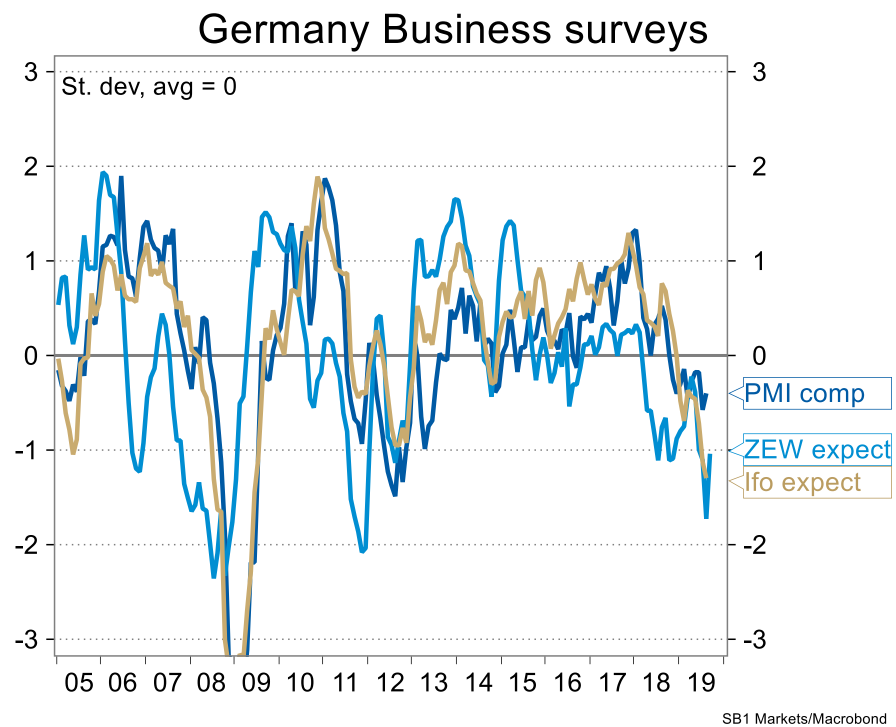
- Consumer confidence improved marginally in September, flat the past 6-7 months and the level is not low
- Real wages + hours worked, a good proxy of total disposable income is expanding approx. at the same speed as sales, suggesting steady growth in consumption

SpareBank 1 MARKETS

ZEW survey expectations rebound on reduced global risks, still far below par

The view of the current situation fell to another 9 year low

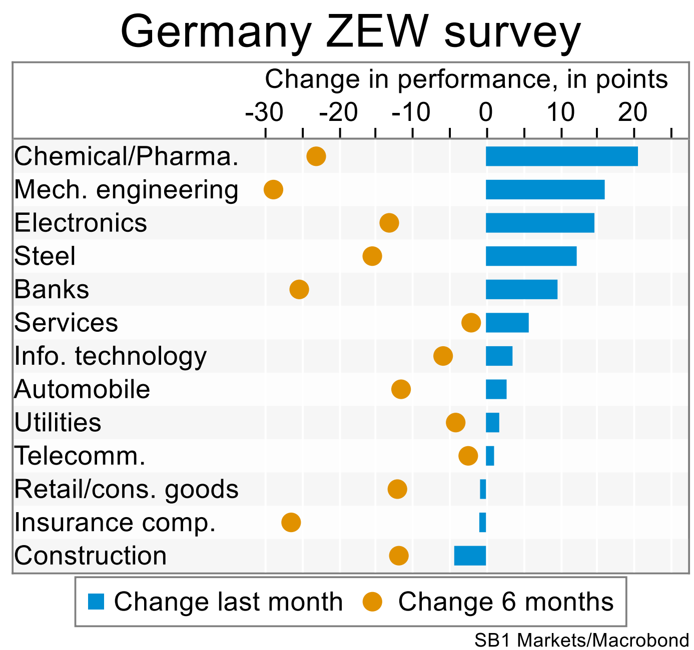




- Subpar domestic data flow, an intensified trade dispute and Brexit turmoil has been darkening the economic outlook. In September, the ZEW survey noted a strong rebound in expectations, reversing the August drop. However, the index is far below an average level. The assessment of the current situation came down to a new 9 year low
  - » The ZEW survey do not point to any swift recovery in the German economy. The economists and analyst which are respondents in this survey noted that less fear of a trade war intensification and hopes of avoiding an hard Brexit brought expectations up. The ZEW is a sentiment survey and not a business survey, as the PMI and Ifo. ZEW is usually leading the Ifo and PMI – however with a rather weak correlation. We prefer the business surveys
- All German surveys are pointing to a bleak outlook, ZEW is in line with Ifo, composite PMI less downbeat (not manuf.)

Broad deterioration among sectors and no rebound in the auto industry

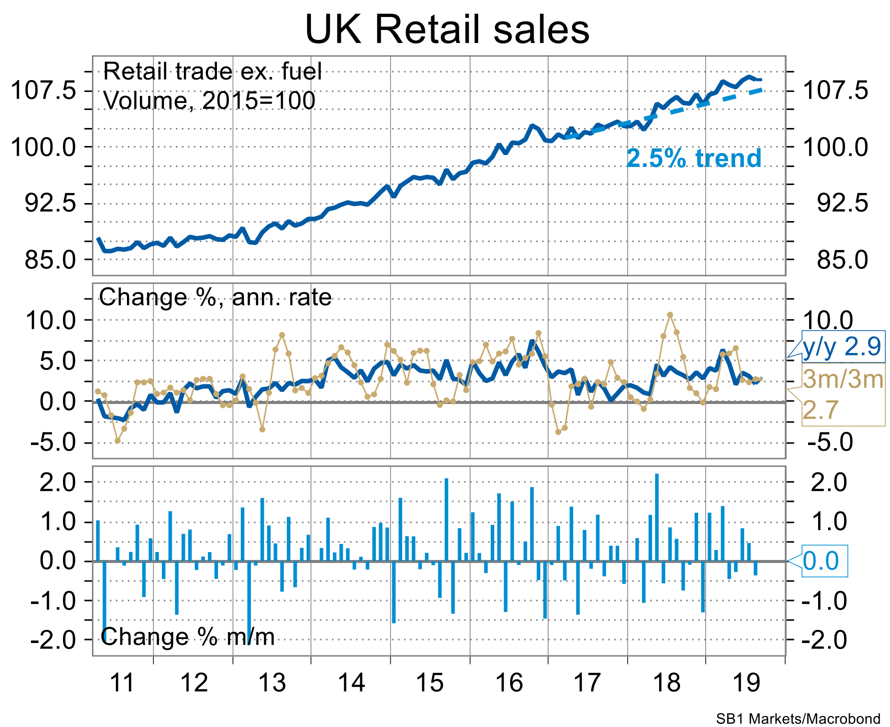
.. according to the analysts in ZEW. But some bright data spots, retail and construction still strong

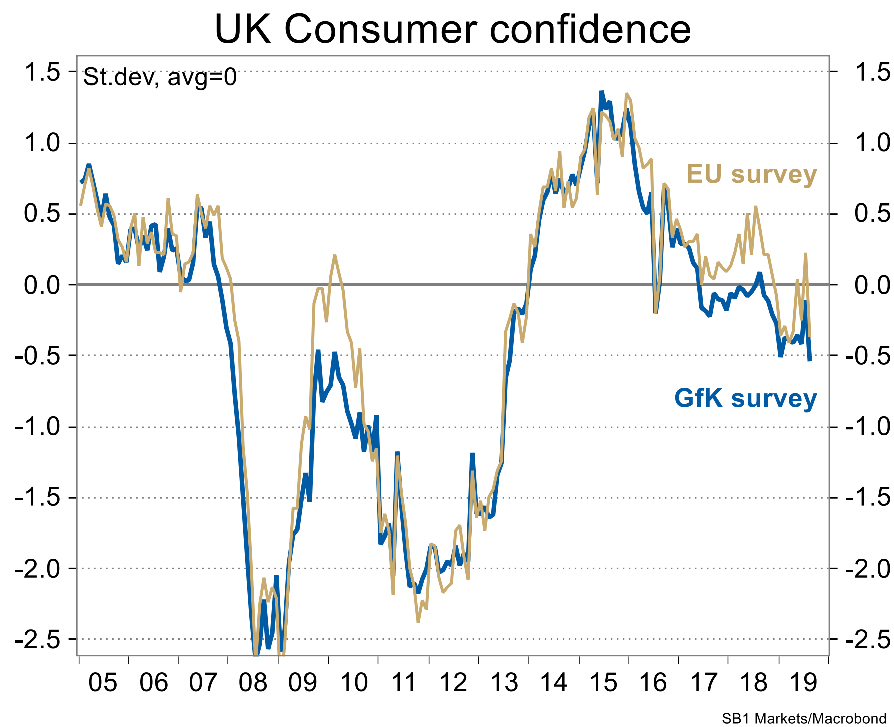


- ZEW: All main sectors have been slowing – with auto & related industries in the lead (all rebounding in September). Construction and utilities are the only sectors in which the respondents are not expecting deteriorating conditions
- Ifo survey (no Sept data): The slowdown has been sharp manufacturing sector, the weakest since the financial crisis. Lately, the service sector has been dragged down, while retail and construction are holding steady

Retail sales growing above trend, Brexit has not suppressed household demand

Sales fell 0.4% m/m in August but underlying growth is decent, at 2.7%. Confidence below par



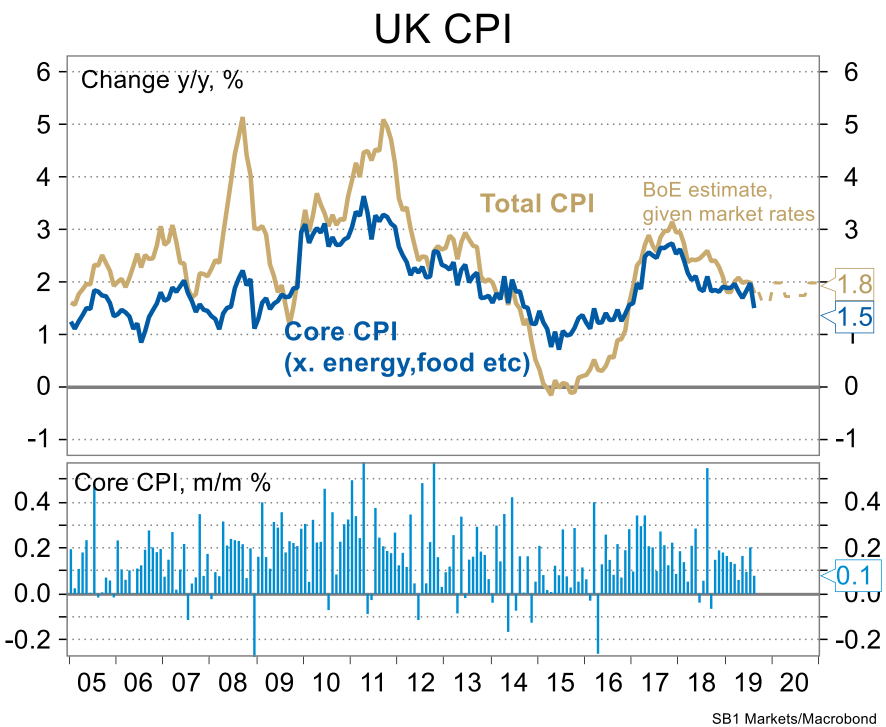


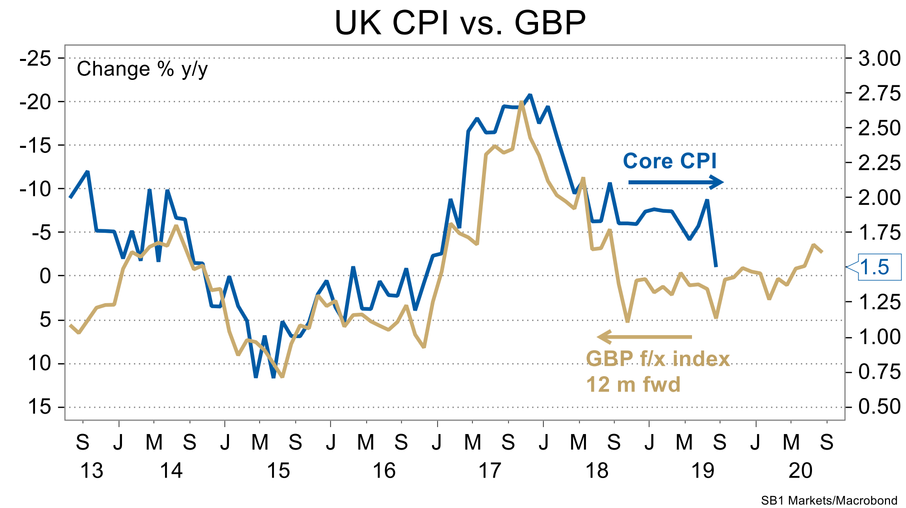
- Sales were marginally weaker than expected in August, Q3 so far is solid and growth is running above the 2.5% trend path from 2017. The best data point from the UK?
- High employment and rising real wages are helpful. However, over the recent years, consumption has also been fuelled by a sharp decline in household savings. Given the drop in savings, the risk is on the downside
- Consumer confidence has trended down since 2016, even if the labour market has been strong. Confidence fell sharply in August, both Brexit debacle and financial markets may explain the drop. The level is still not far below average

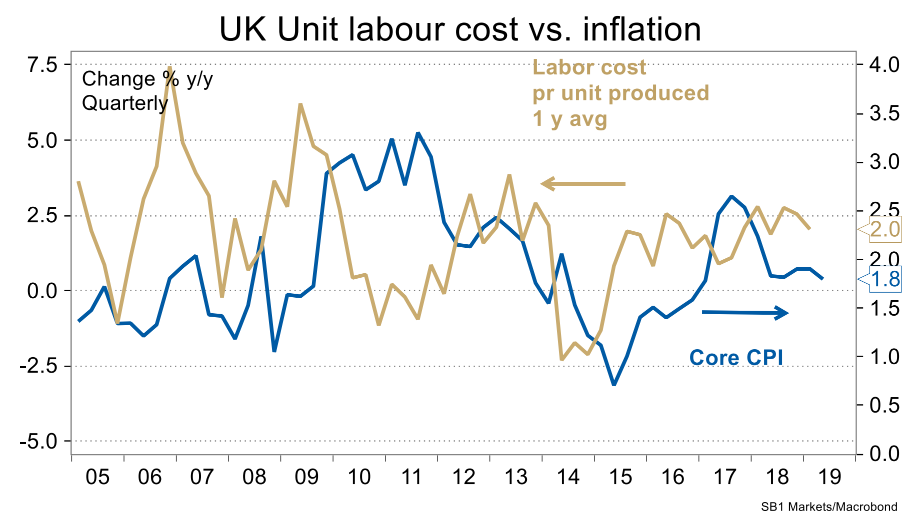
SpareBank 1 MARKETS

Core CPI inflation slipped to 1.5%, due to base effects. Trend probably still flat

GBP impact soon taken out? Core inflation close to target, total inflation at 1.8% in August



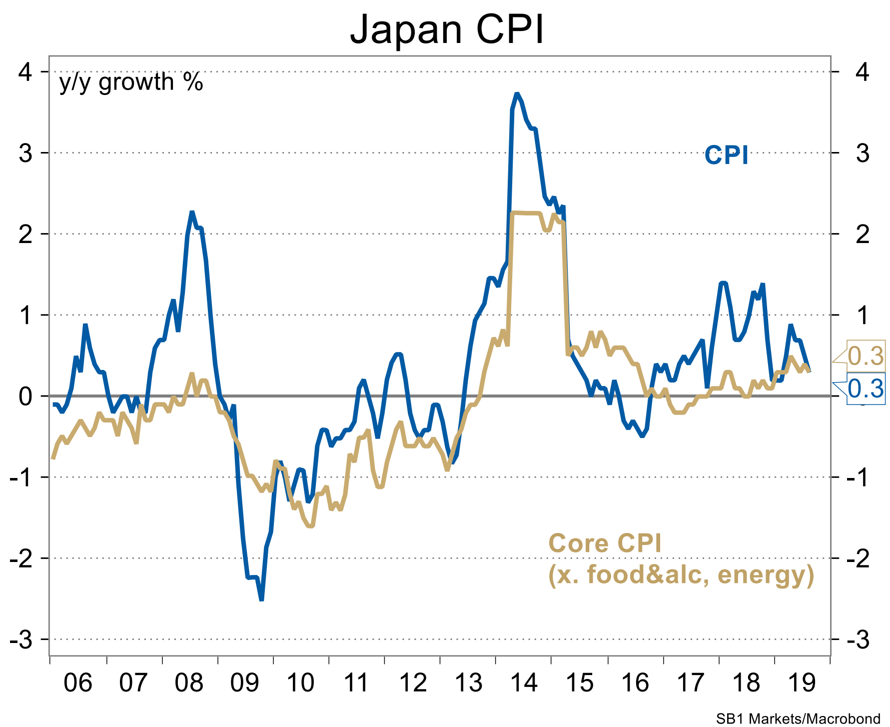


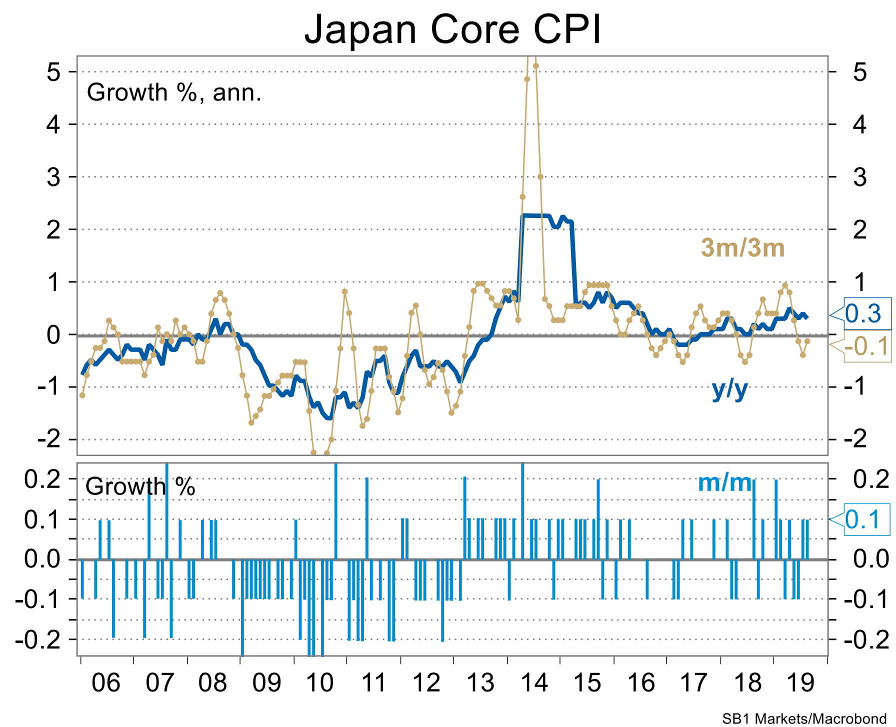


- Core CPI inflation rose just 0.1% m/m in August. The annual rate dropped 0.5 pp, due to a an elevated m/m rate in Aug last year. Core inflation has more or less flattened out, close to BoE's price target. Total inflation ticked down to 1.8%
- Inflation came down through 2018, as the upward pressure from the GBP depreciation in 2016 changed sign. Our simple f/x based model does not indicate much lower inflation. Moreover, domestic costs are not low, and wage inflation has climbed to 4%

Core CPI inflation is turning very slowly up

Core prices were up 0.3% y/y in August, one tick down from July. Total inflation fell to 0.3%

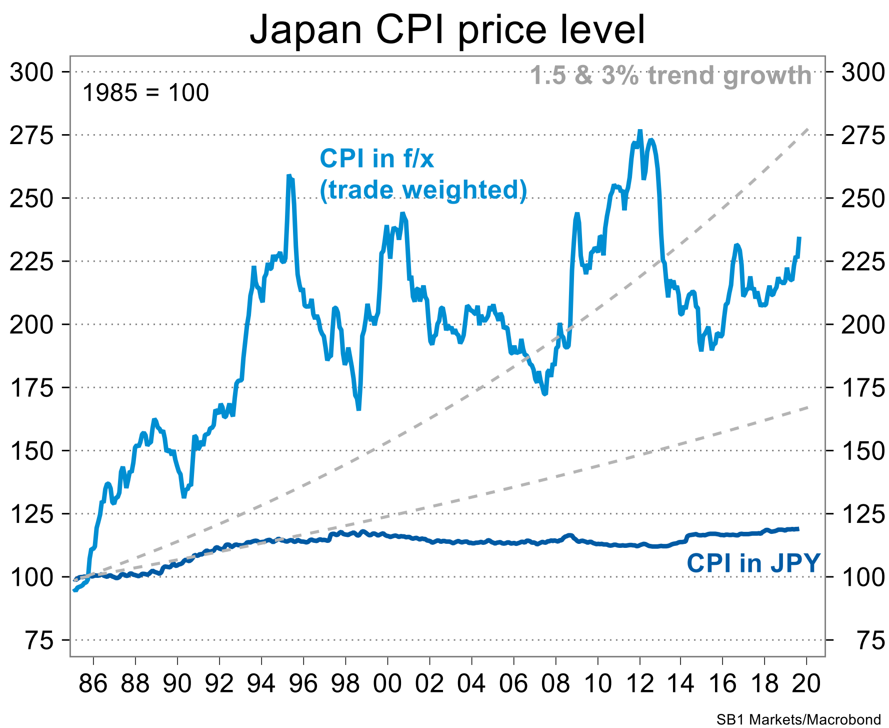


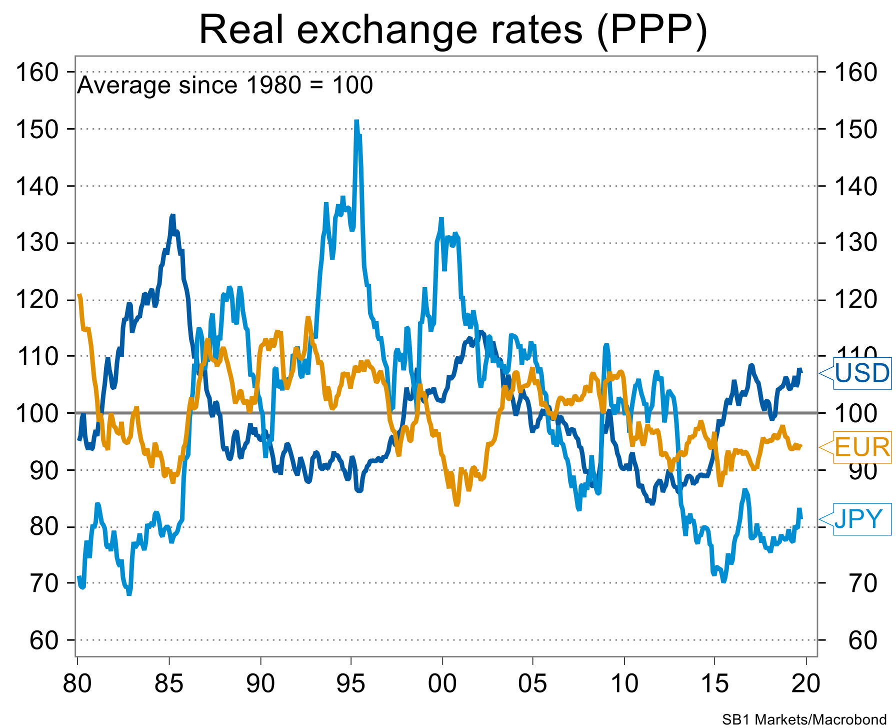


- Total inflation came down to 0.3% y/y. Core inflation is muted but slowly turning up from the bottom
- Wage inflation has fallen steeply this year and does not indicate accelerating price growth

Japanese deflation? Well, not measured in f/x

Is the flat price level in Japan past 25 years at least partly explained by the sharp JPY appreciation?

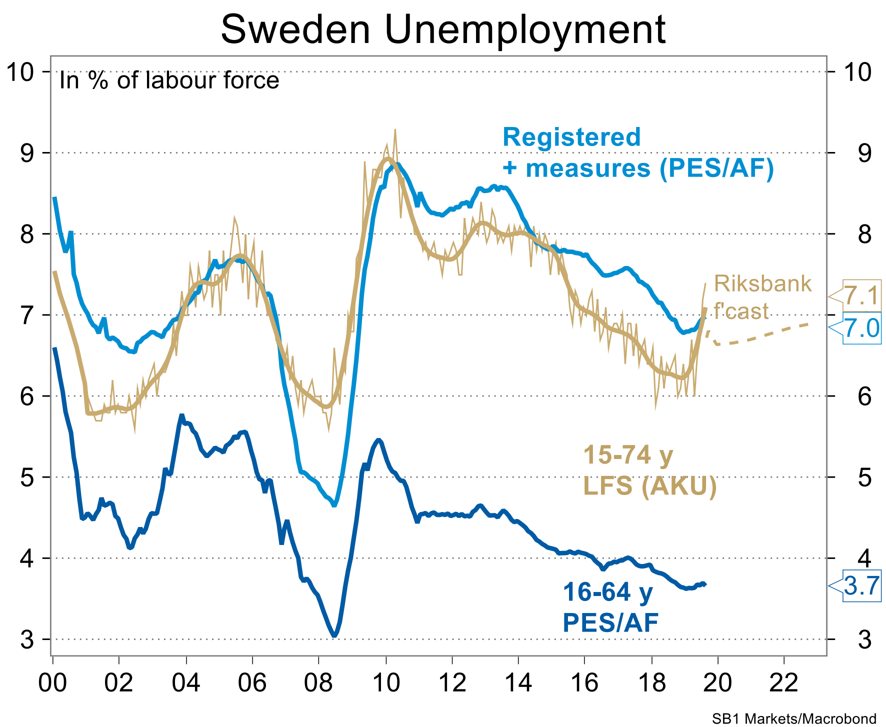


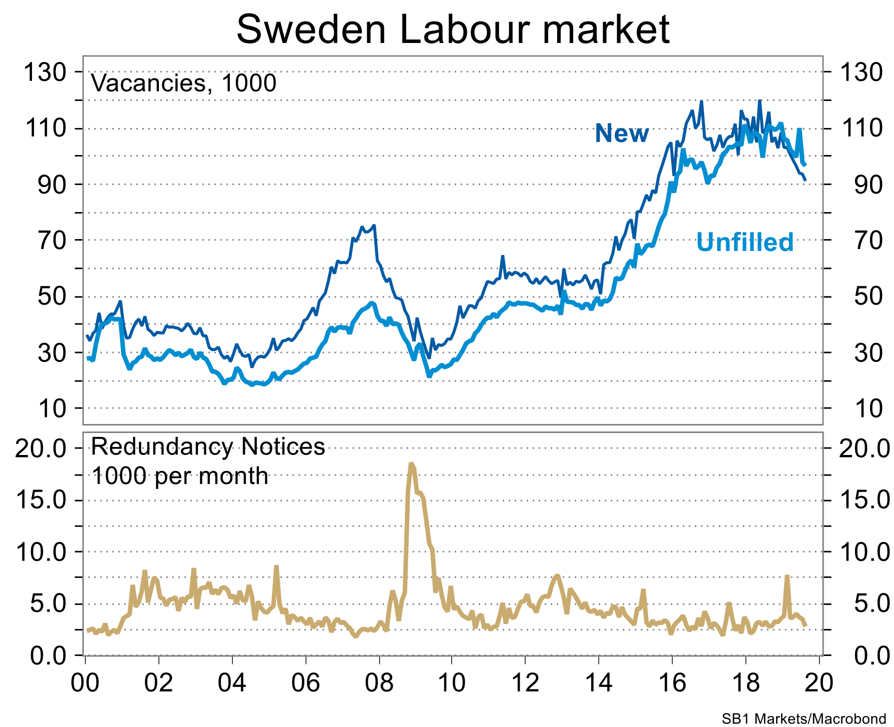


- The Japanese price level is lower than the 40 y average vs its trading partners, by some 15%
- Still, given the appreciation of the JPY until 2012 (with ups and downs), the Japanese wage and price level had to be kept down to prevent a loss of competitiveness

A sharp turnaround; unemployment is rising rapidly, employment falling

LFS unemployment rose to 7.4% in Aug, up 1.4 pp from April, and far above the Riksbank's f'cast

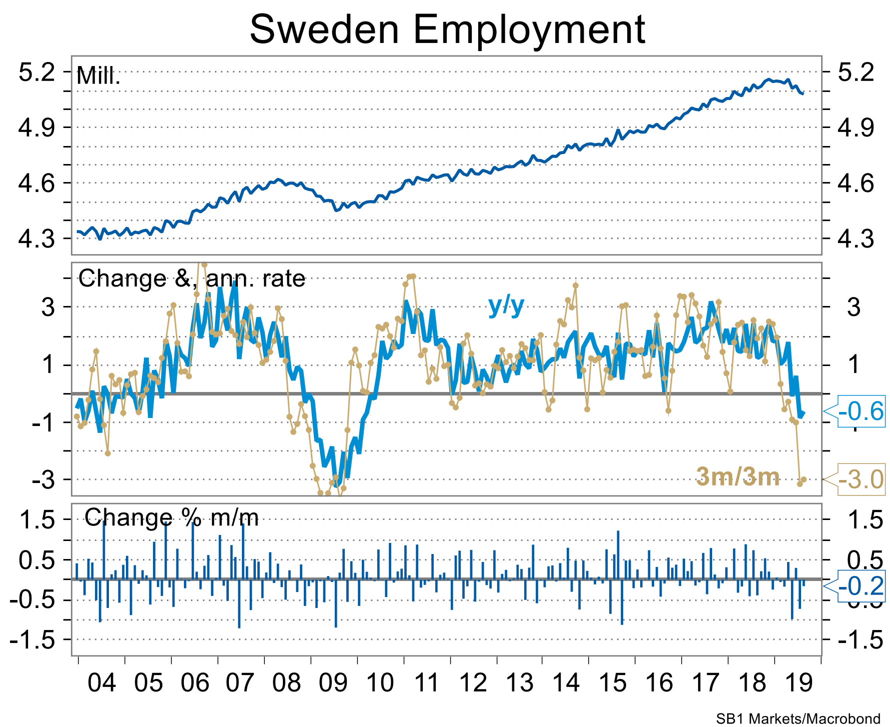


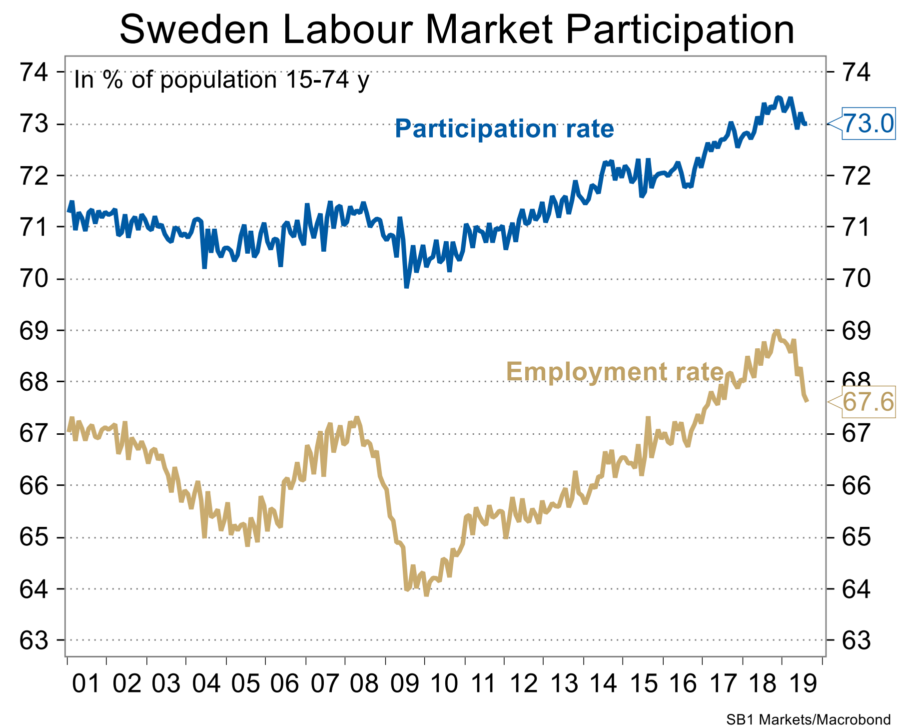


- LFS unempl. rate spiked to 7.4% in Aug (avg July-Sept), the 4th straight month of increase, to the highest level in 4 years. The even more smoothed rate, which we prefer, ticked up to 7.1%, up from 6.3% in early 2019
- Employment is declining rapidly, and now even the annual rate has turned negative, to -0.6%, while the speed of decline now is 3%, just as steep as during the financial crisis! Moreover, the downswing recent months is broad among sectors. Something must be brewing – with a policy rate at -0.25%... An argument for shifting the focus to fiscal policy?
- The PES/AF registered unemployment rate has turned slightly up recent months too, confirming a less tight labour market
  - The number of unfilled vacancies inched down in Aug, as did new vacancies continued downwards. Both levels are still very high. On the other hand, the number of redundancies fell in Aug and is trending flat

Employment is slowing rapidly

Employment rates are falling sharply, and faster than participation recently, bringing unempl. up

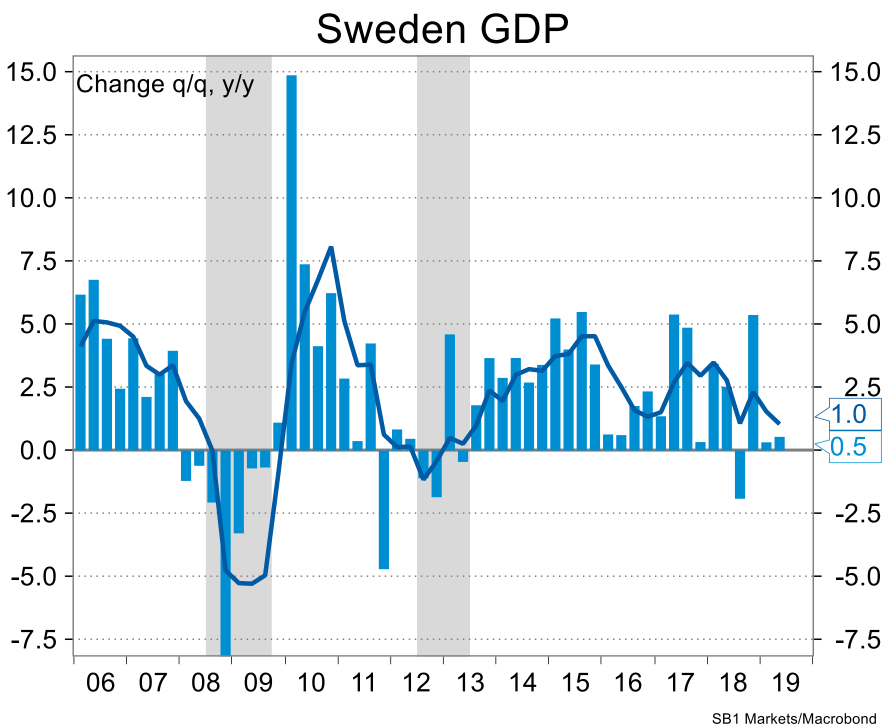


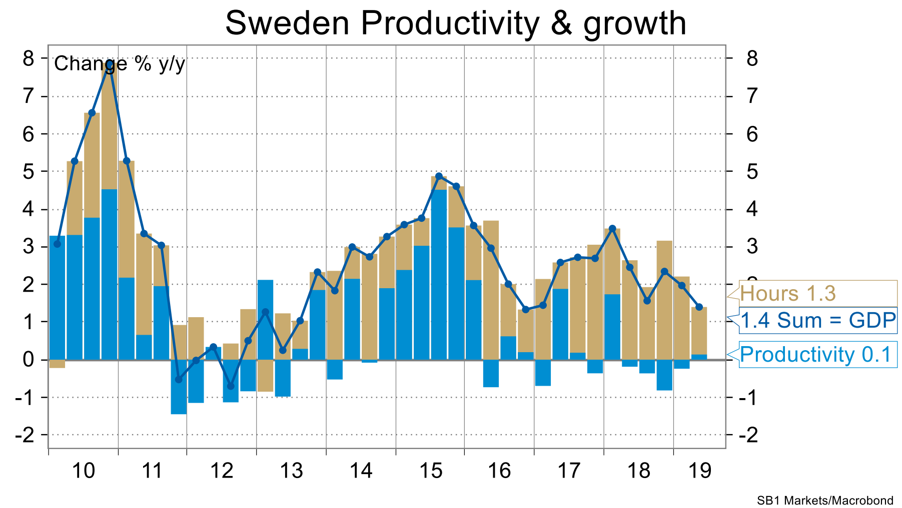


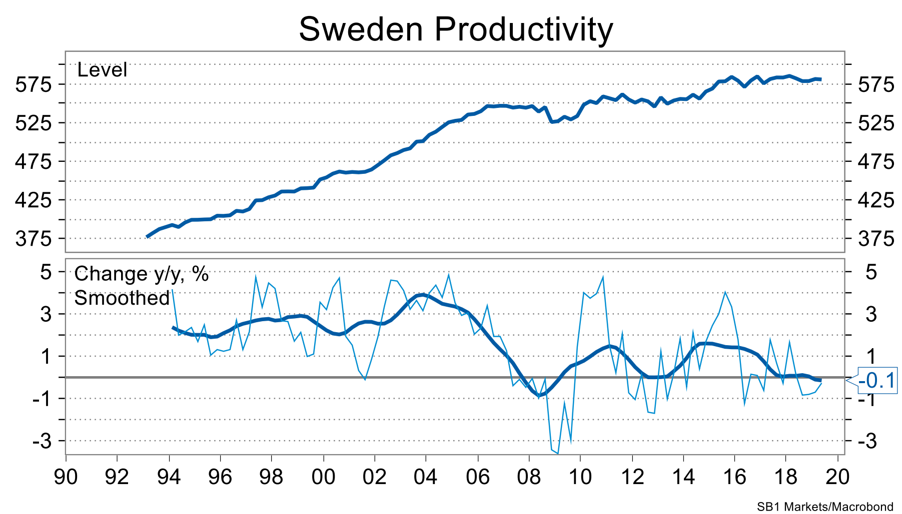
- Employment fell 0.2% in August, following a steeper decline in July and the annual rate is -0.6%. However, the speed of decline recent months is much higher, at 3%, the sharpest (and in practice, the first) decline since 2008!
  - » The employment rate has dropped 1.4 pp since late 2018, huge contraction (albeit from a high level)
- Labour market participation is retreating too, but less than the employment rate, thus, unemployment has nudged up

GDP growth weaker than previously reported, adding to signs of slowdown

GDP better than reported in Q2 but the history revised down, annual rate down to 1%, from 1.4%





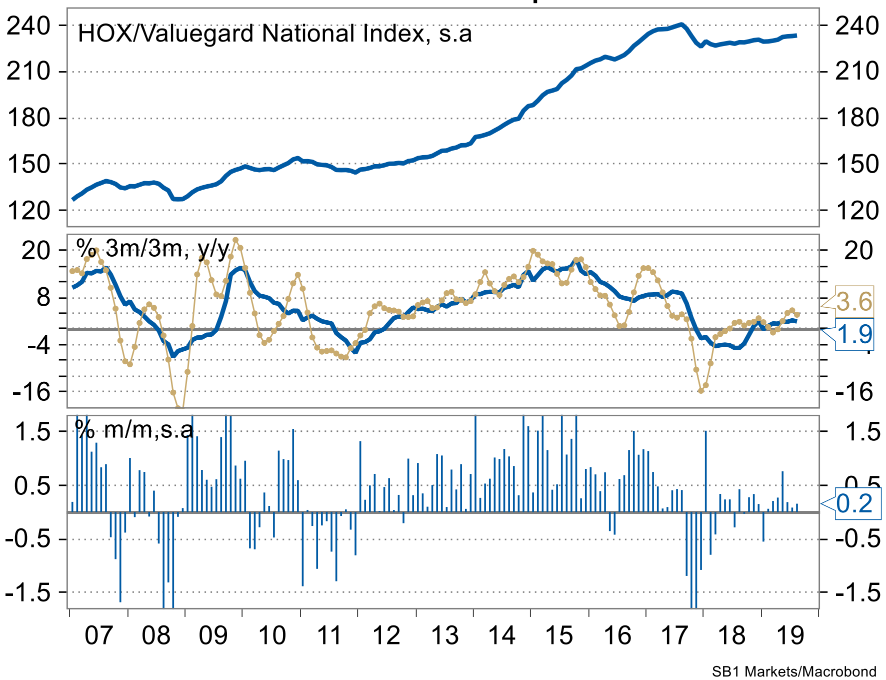


- GDP rose 0.5% q/q annualised vs the -0.3% first reported. However, Q1 was revised down substantially, from above 2% to a 0.3% rate! The annual growth rate was revised down 0.4 pp, to 1%
  - » The GDP revision serves as evidence of a steeper growth setback than assumed, mirrored by a weaker labour market
- Productivity has totally disappeared, limited growth potential!

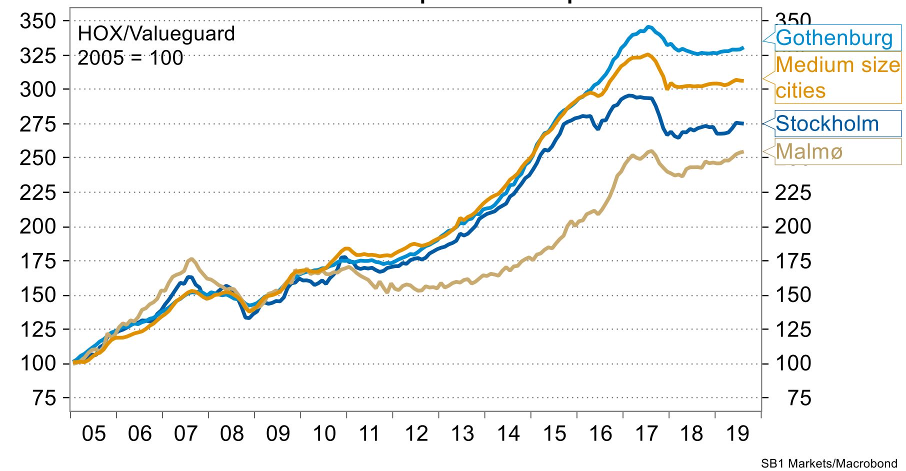
House prices are trending modestly up

Prices rose 0.2% m/m in August, underlying growth at 3.6%, boosted by rising Malmø price growth

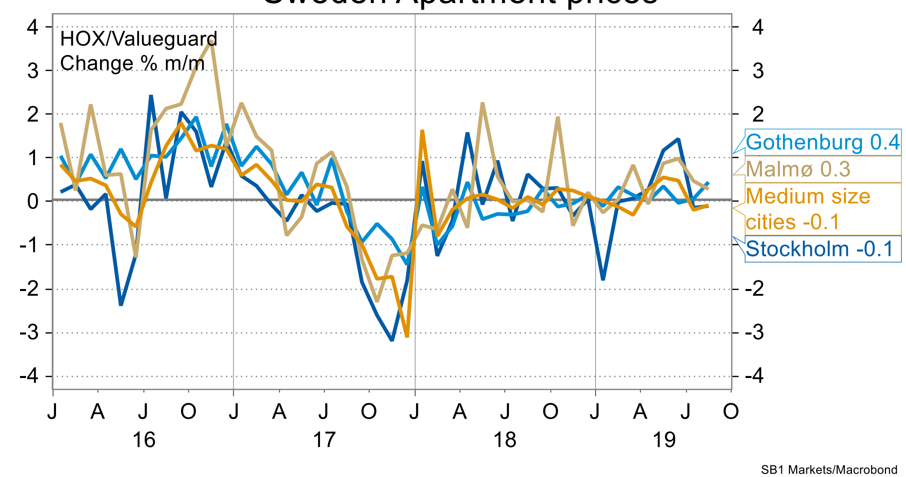
Sweden Home prices



Sweden Apartment prices



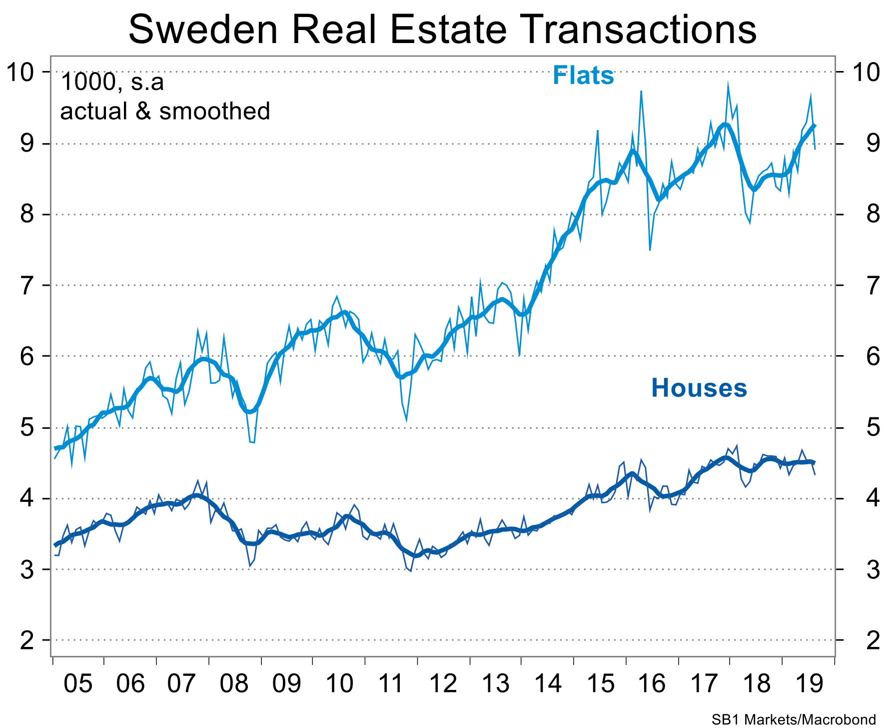
Sweden Apartment prices

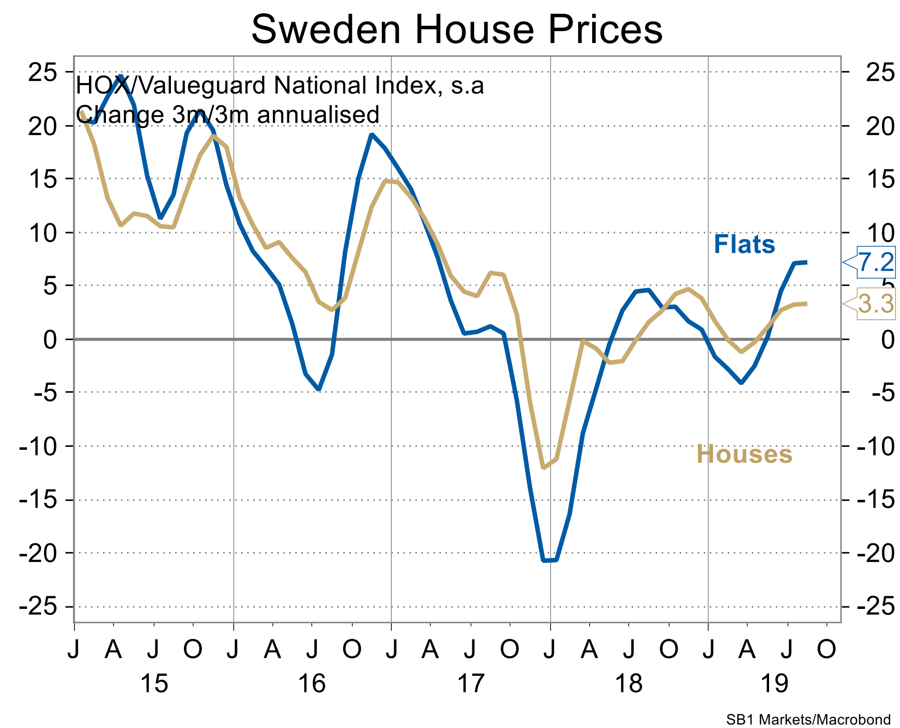


- Home prices rose 0.2% m/m seas. adj. in August (1.7% not adjusted). Prices are up 3.6% 3m/3m, and 1.9% y/y and are still lower than before the late 2017 setback. Real prices are significantly lower than in 2017
  - » Apartment prices are trending up in all major cities, highest growth in Malmø recent months, followed by Stockholm
- The number of transactions is trending up, at least for flats. The housing market is back on track?

Apartment sales are accelerating, houses more or less flat

Demand must be strong, number of transactions back at 2017 peak

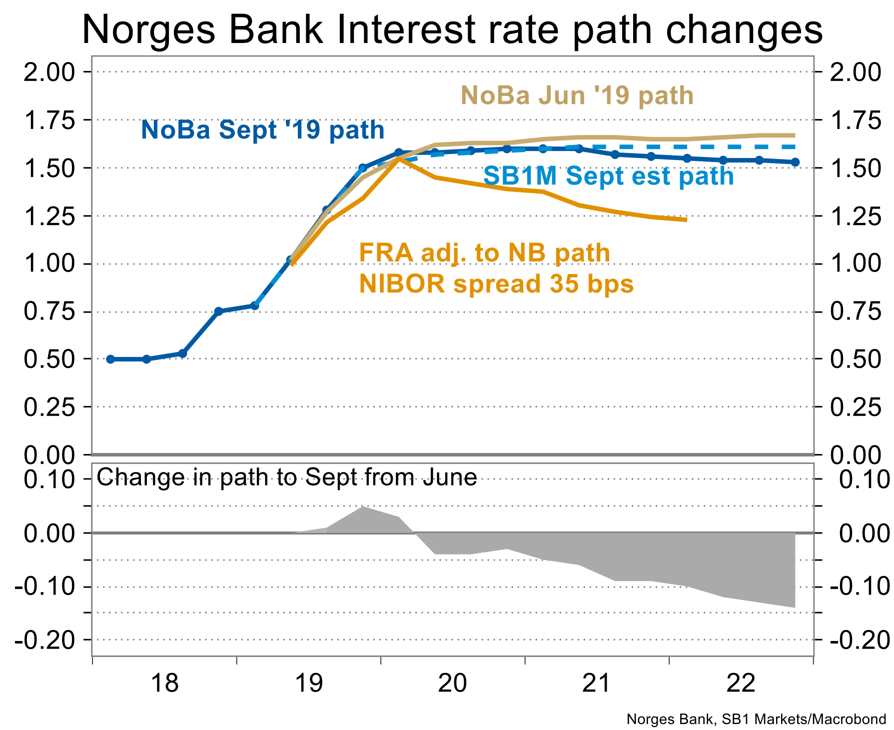




Norges Bank walks alone – rightfully, we think

NoBa delivered the 25 bps hike as we expected and nudged down the path, 40% prob. of a 2020 hike

- **Norges Bank delivered the 4th interest rate hike, to 1.50%, as we expected (but not everyone!)**
- The Bank stuck to its June plan and raised the deposit rate to 1.5%. Some 50% of economists expected a hike (and the rest unchanged), while market rates implied a much lower probability, the 3m NIBOR was 1.62% the prior day
- The interest rate path was lowered by 4 bps in 2020 and 14 bps in 2022, we expected -7 bps. The path implies that the interest rate will most likely remain unchanged, but there is still some 40% probability of another hike in 2020
  - » Global factors; a softer growth outlook and lower interest rates were the major drag on the interest rate path in the long end. Slightly weaker domestic inflation than expected and signs of a less tight labour market than presumed, as well as a 'judgement' component reflecting rising uncertainties pulled the path down
  - » Just the very weak NOK contributed on the upside and the Bank now assumes a persistent NOK weakness in the years ahead
- **Our view:** We judge Norges Bank's assessment to be appropriate. The decline in interest rates globally should not prevent NoBa from hiking when other factors indicate so – particularly as the NOK is unusually weak



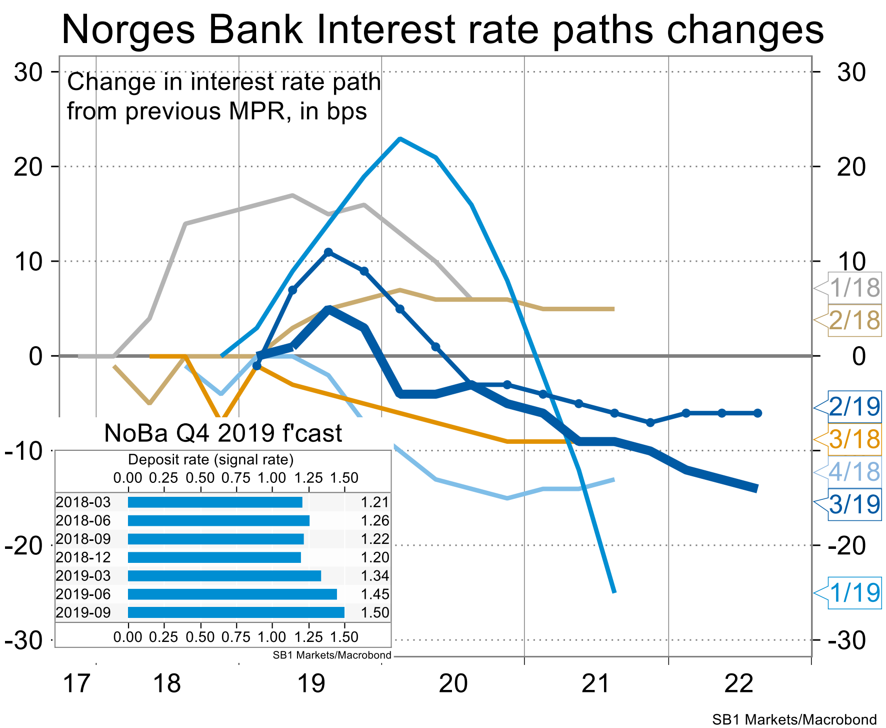
Market implications

- Markets were caught by surprise, but the 3m NIBOR rose less than we assumed, by 14 bps to 1.76%. We doubt the NIBOR spread will stay at 26 bps (and it is close to record low the 1m NIBOR! The Dec 3m FRA rose 5 bps to 1.90%, implies a 40 bps spread (given zero probability of another hike in Dec, which must be accurate). How come? We expect the NIBOR spread to widen the coming days/weeks (both 3m NIBOR and the Dec FRA rose further Friday but the difference between the two rose marginally)
- The NOK initially strengthened but later depreciated and closed down 0.4% (vs EUR) on Thursday! (And it fell sharply Friday)

SpareBank 1 MARKETS

Norges Bank is slowly turning more cautious – in the long end

NoBa lowered the 2020 path by 4 bps, thus, reducing the probability of another hike to 40%



Interest rate paths

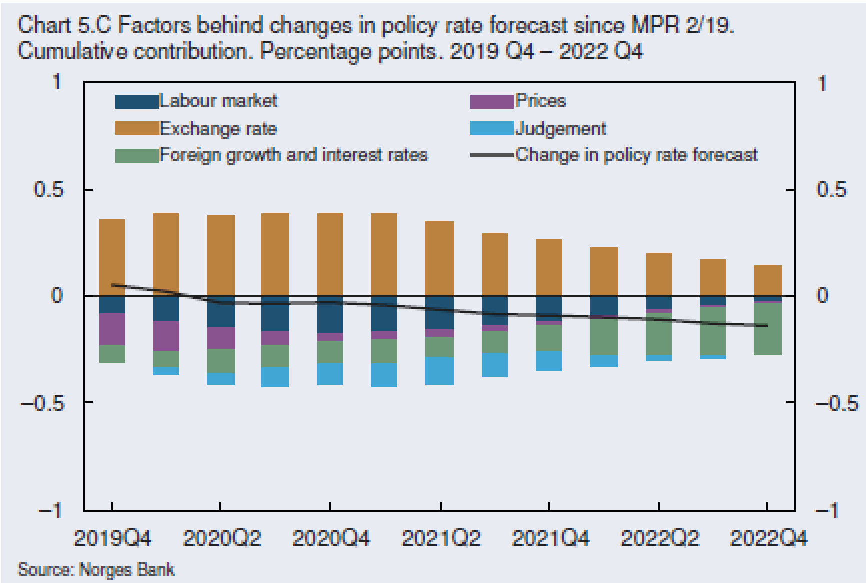
	Path 2-19	Path 3-19	Change	SB1M est	Fair FRA @IMM, NoBa	FRA before meet	NoBa - FRA
Q3 19	1.27	**1.28**	**0.01**	1.27			
Q4 19	1.45	**1.50**	**0.05**	1.50	1.92	1.85	0.07
Q1 20	1.55	**1.58**	**0.03**	1.53	1.93	1.77	0.17
Q2 20	1.62	**1.58**	**-0.04**	1.57	1.94	1.75	0.19
Q3 20	1.63	**1.59**	**-0.04**	1.58	1.95	1.73	0.22
Q4 20	1.63	**1.60**	**-0.03**	1.59	1.95	1.74	0.22
Q1 21	1.65	**1.60**	**-0.05**	1.60	1.95	1.67	0.29
Q2 21	1.66	**1.60**	**-0.06**	1.61	1.92	1.65	0.28
Q3 21	1.66	**1.57**	**-0.09**	1.61	1.91	1.61	0.30
Q4 21	1.65	**1.56**	**-0.09**	1.61	1.90	1.61	0.30
Q1 22	1.65	**1.55**	**-0.10**	1.61	1.89	1.57	0.33
Q2 22	1.66	**1.54**	**-0.12**	1.61	1.89	1.55	0.34
Q3 22	1.67	**1.54**	**-0.13**	1.61	1.88		
Q4 22	1.67	**1.53**	**-0.14**	1.61	1.88		
		1.53					

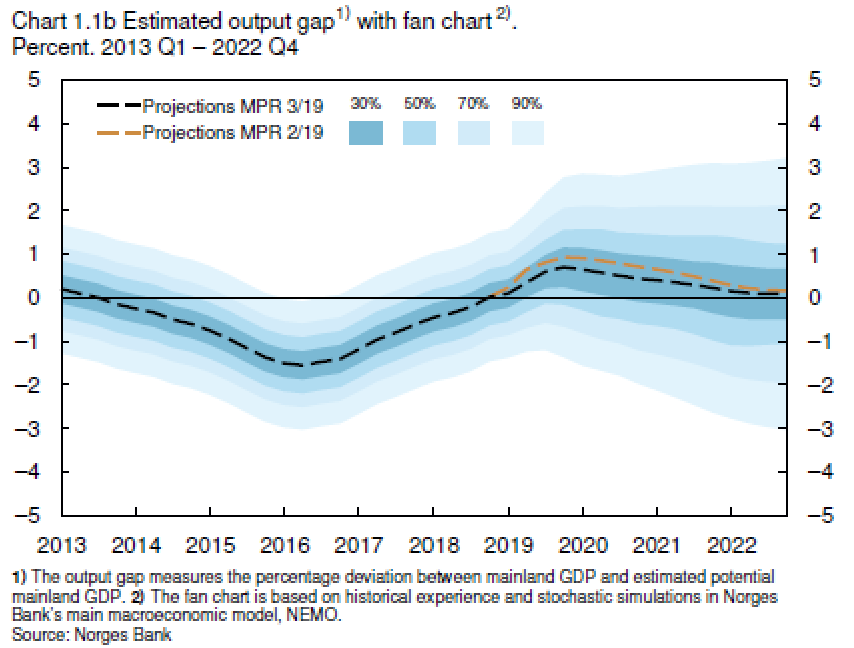
Source: Norges Bank/Macrobond

- Norges Bank lowered the interest rate path by up to 4 bps in 2020, 9 bs in 2021 and 14 bps in 2022. The path implies that the deposit rate will most likely remain unchanged throughout the forecast period, but there is still a substantial probability of a 2020 hike, some 40%. The 2022 rate at 1.53% does no imply any probability of a cut, as some argued in advance of the meeting
- The Bank has gradually nudged up the Q4 2019 f'cast through 2018 and in 2019. The Sept projection at 1.50%, up from 1.45% in June, is the highest so far. The 2020 and 2021 f'casts, on the other hand, have been revised down in the past 5 MPRs
- The short end of the FRA-curve rose somewhat but still points sharply down from the peak in Dec 19. Check more here

Just the NOK lifted the interest rate path, by close to 40 bps (!)

Global factors, a somewhat less tight labour market, inflation and uncertainties lowered the path

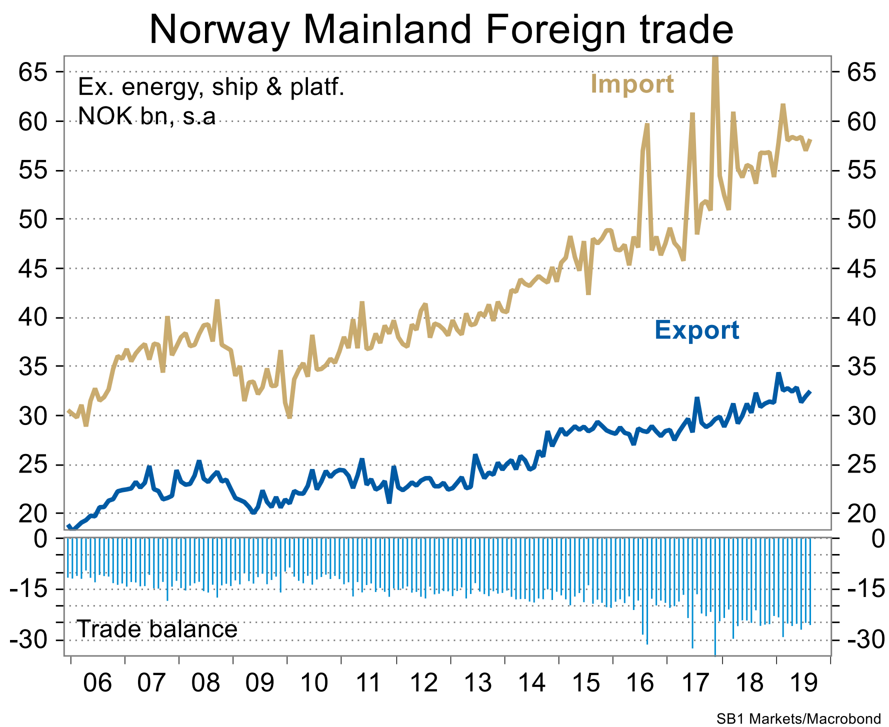


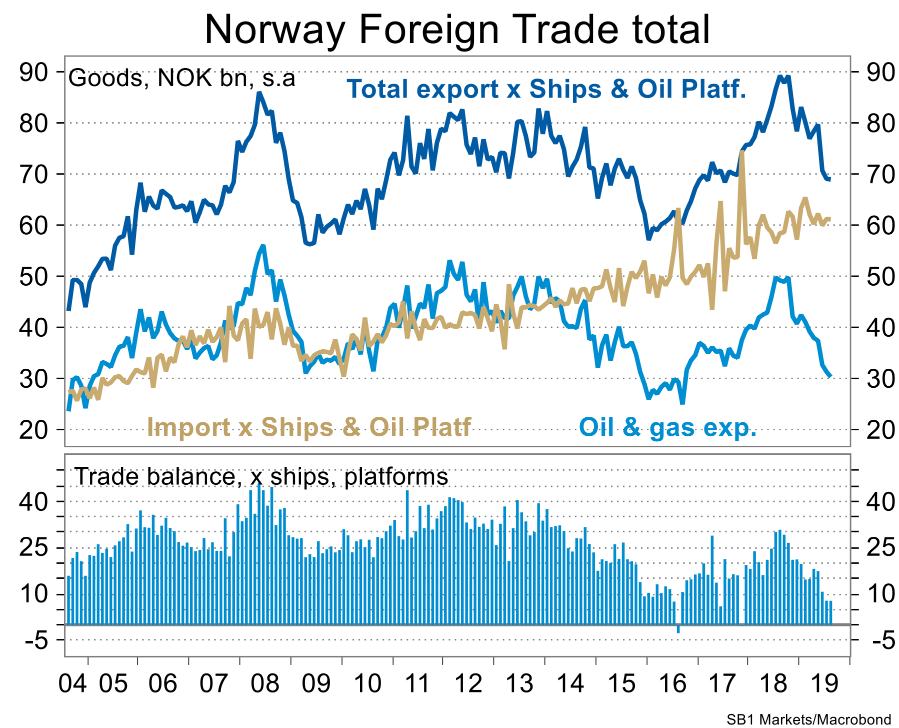


- Factors reducing the path: In the long end, primarily slowing growth among trading partners and lower interest rates. In the short term, slightly softer domestic core inflation than f'casted and a less tight labour market than anticipated lowered the path. Labour shortages are modest, in spite strong employment growth; may reflect lower capacity utilization than projected. In addition, the 'judgement' component, mirroring risks of a weaker global outlook (trade war) pulls the path down
  - » The output gap f'cast is lowered by 0.3 pp in '19 and '20, while GDP growth is held unchanged (and nudged up by 0.1 pp in '19). On the investment side, 2020 oil investments are nudged up to 2.5% (our f'cast is 4%), while Mainl. Business investment f'casts are reduced. The Bank expects NAV unemployment to flatten out, 0.1 pp upward adjustment
- Factors lifting the path: Just the NOK.. The bank assumes a permanently weaker NOK, by 3.5 pp in 2019-2022
- NoBa assumes a 40 bps Nibor spread from October an onwards. The 3m NIBOR now implies a 26 bps spread, while the Dec FRA is indicating a 40 bps spread! Most likely, the NIBOR will climb the coming days, we have no reason to expect a reduction of the spread (from 30 bps in June, and the OIS-LIBOR is increasing)

Exports and imports rose in Aug, both heading up at a moderate pace

Mainland trade deficit widened marginally in August, trending flat. Petroleum exports down

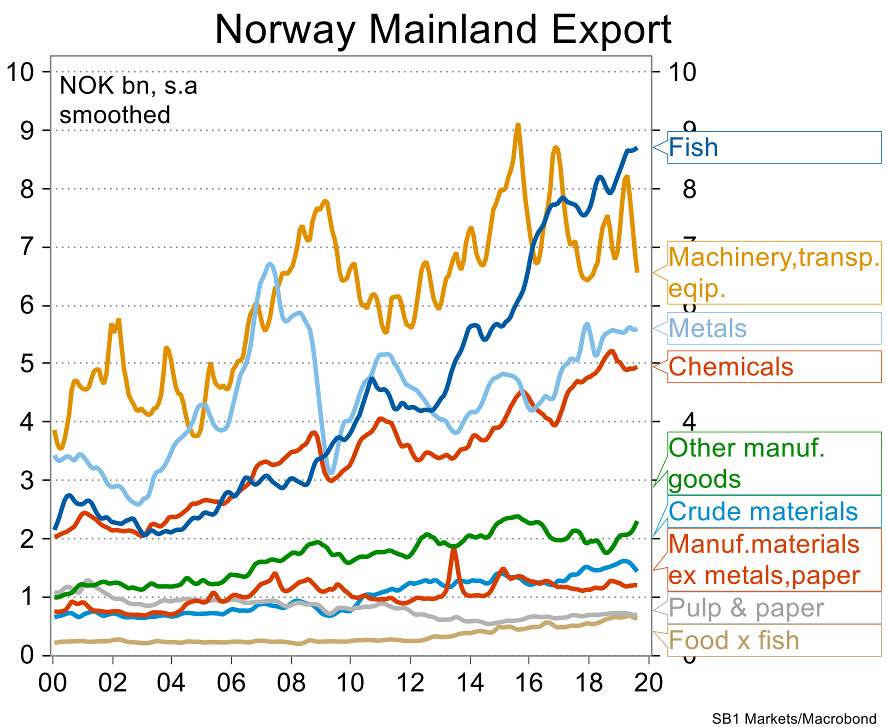


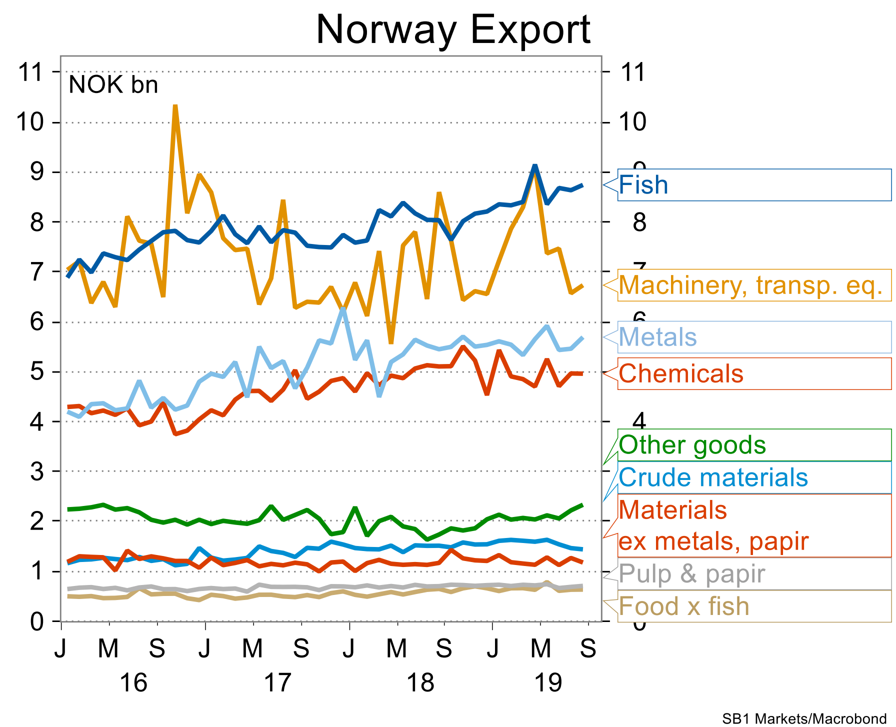


- The Mainland (non energy) trade deficit widened marginally to 26 bn in Aug. The deficit has been more or less stable since early 2018, following a significant widening the previous 7 years – and the long term trend is flat, at best
  - » Imports have flattened recent months but are up 4% y/y in value (smoothed), primarily due to soaring imports of machinery & equipment and vehicles
  - » Mainland exports have improved the two past months, helped by the weak NOK? Exports are trending slowly up and the y/y rate is in fact stronger than for imports (5%). Machinery and fishing contribute on the upside
- The overall trade surplus (incl oil & gas, ex ships & platforms) was flat at NOK 7 bn from 10 bn in August. Oil/gas exports have fallen sharply due to reduced volumes. The total trade surplus now equals some 3% of total GDP, from 6% the prior months

Exports of fish, metals, machinery and other manuf. goods picked up in Aug

Fish exports are trending steeply up, most others heading slowly upwards. Machinery flattening?

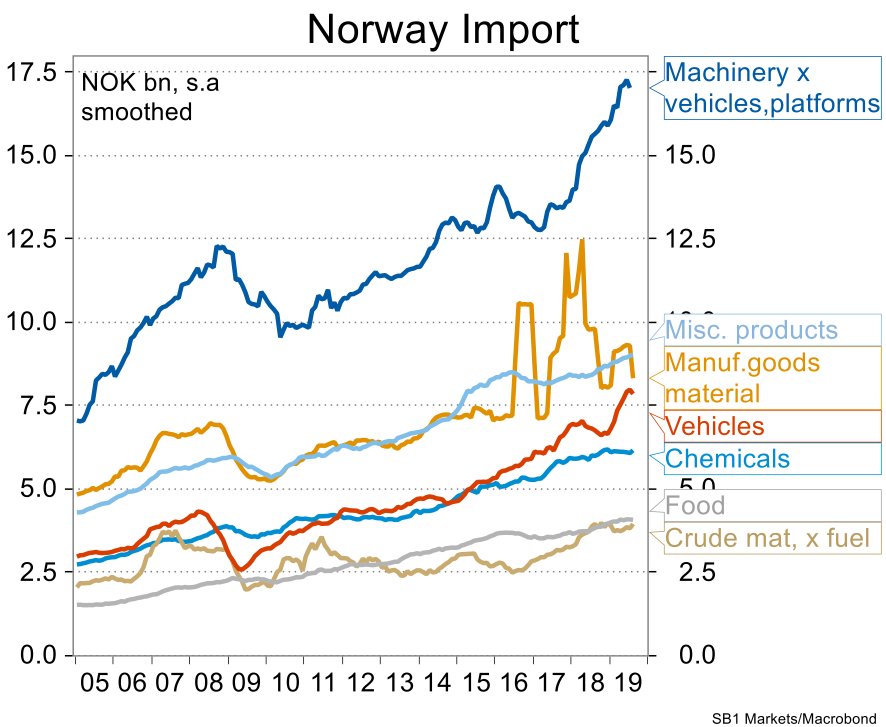


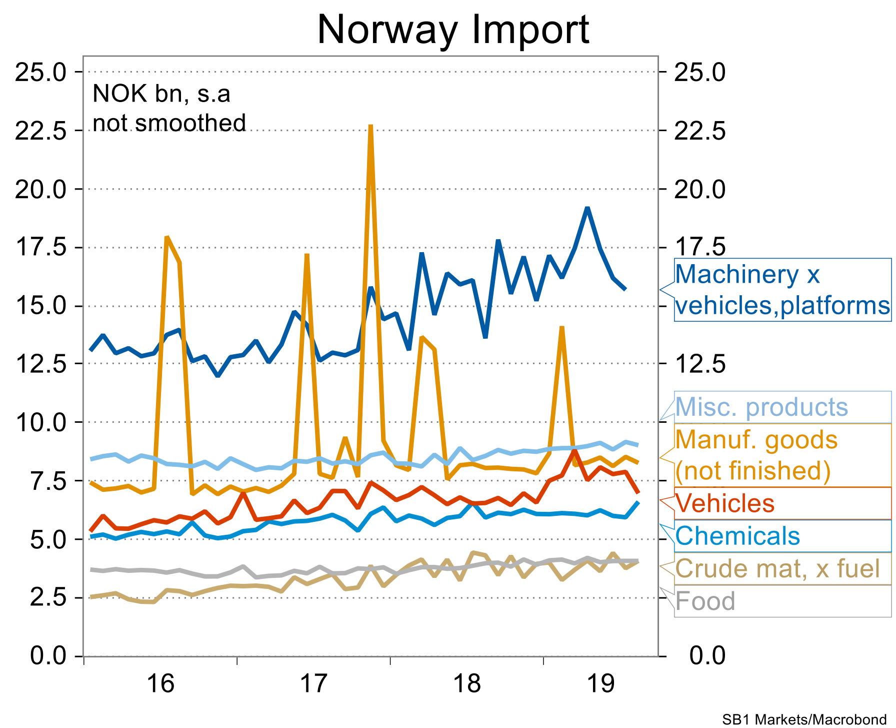


- Fish exports have been soaring both in value and volume recent years
- Exports of machinery and transport equipment (probably related to oil activities abroad) accelerated during the spring and has been decreasing since. Exports are well below the 2015 and 2016 peaks

Imports of machinery equipment and vehicles have been soaring

Imports of most goods are trending up. Vehicles lifted by huge imports of 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 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 soared in H1. Partly due to rising imports of electric cars, particularly the new Tesla in March, and electric busses. Imports of vehicles equal some 12% of total goods imports (in value)

Highlights

The world around us

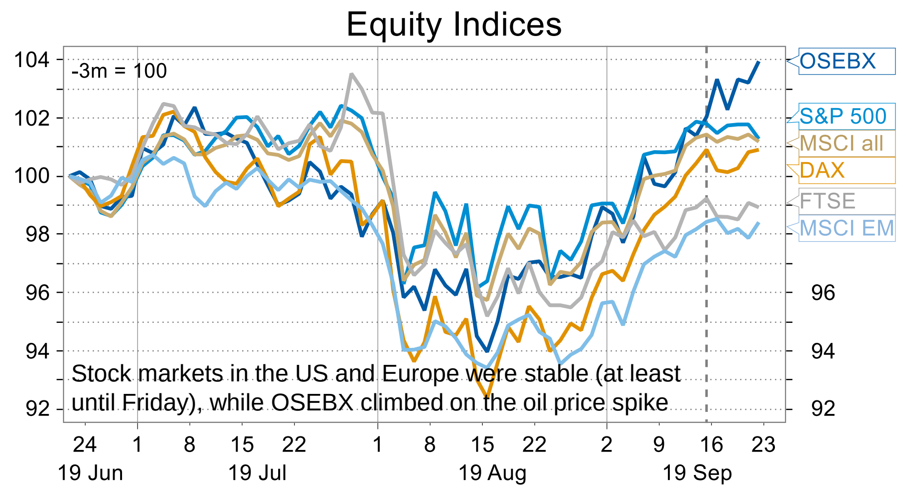
The Norwegian economy

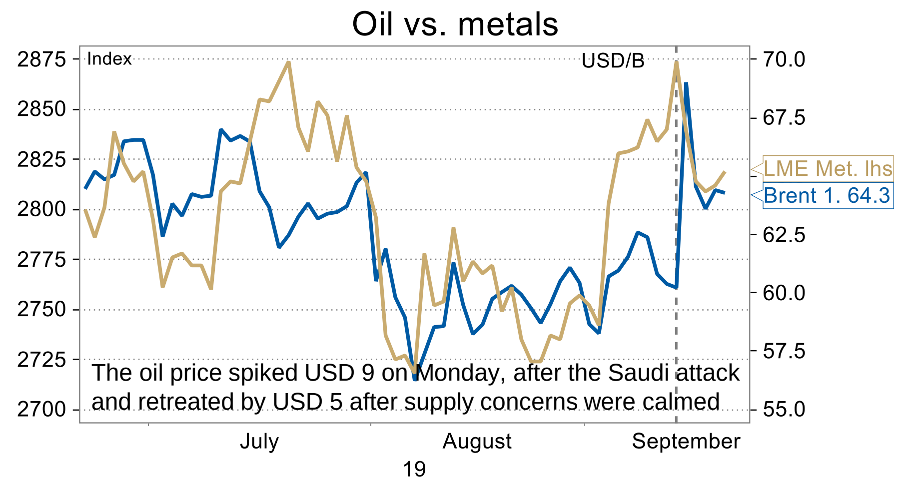
Market charts & comments

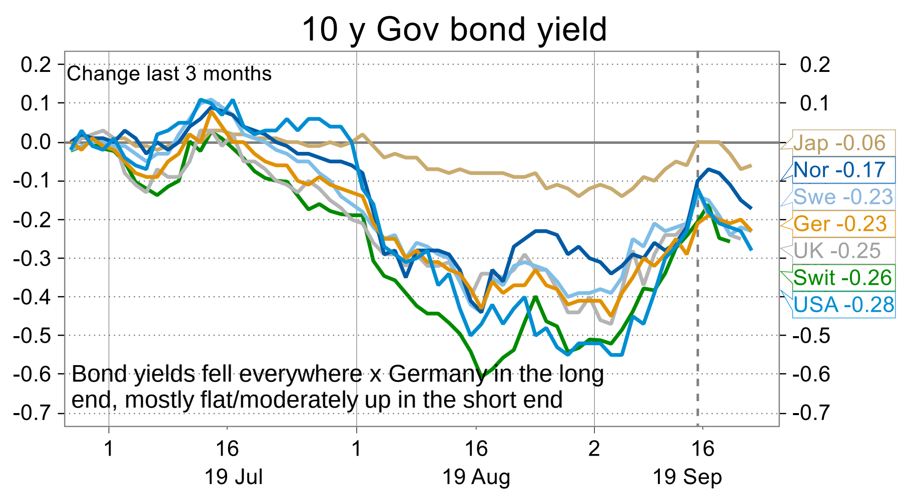
SpareBank 1 MARKETS

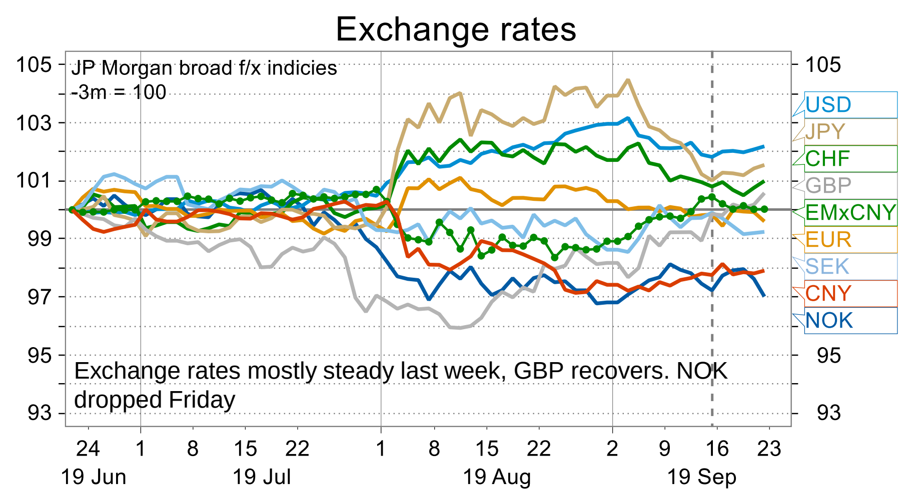
Stock markets steady amid oil turbulence, Fed, trade concerns. Yields retreating

Bond yields fell all over in the long end of the curve. The oil price reversed half of the Monday surge



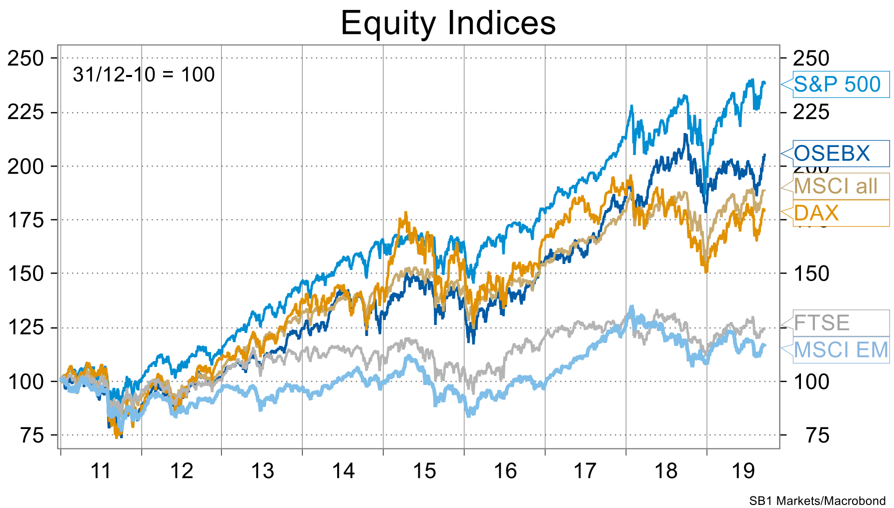


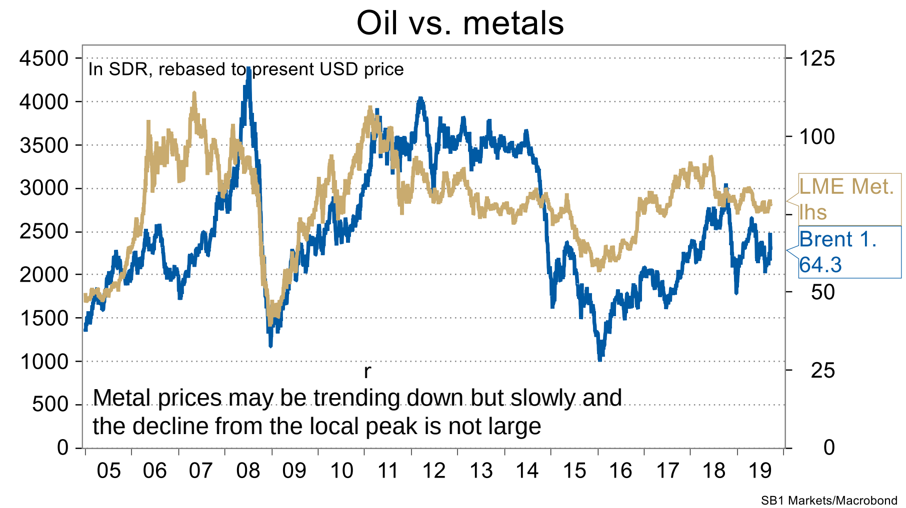


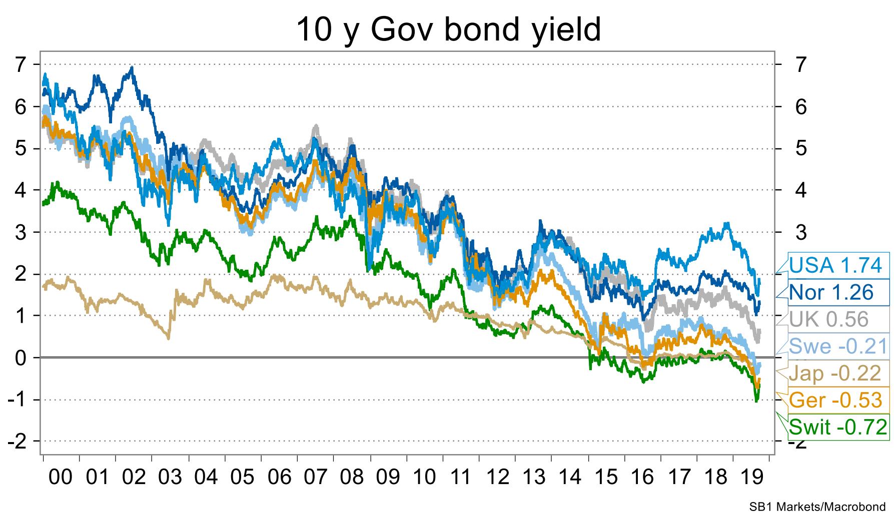


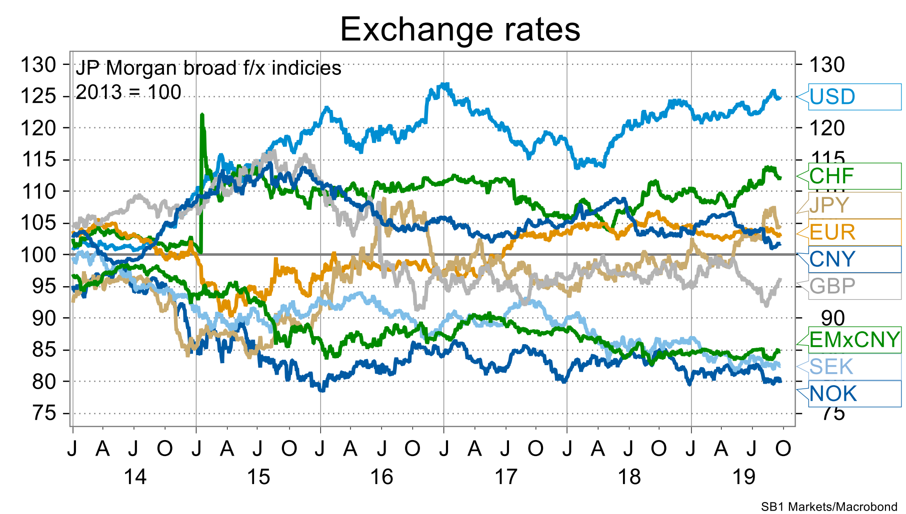
In the long run: Bond yields still close to ATLs, US stock markets close to ATH

The trade war rules. And then some economic data. Volatility is probably here to stay





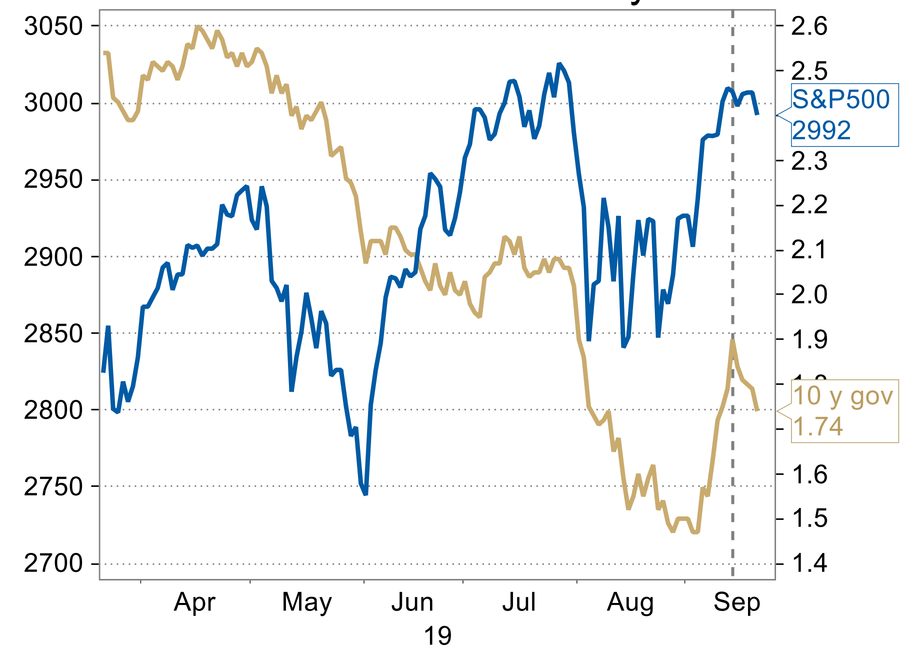




US: Bond yields are retreating again, 10 y down 16 bps on the week

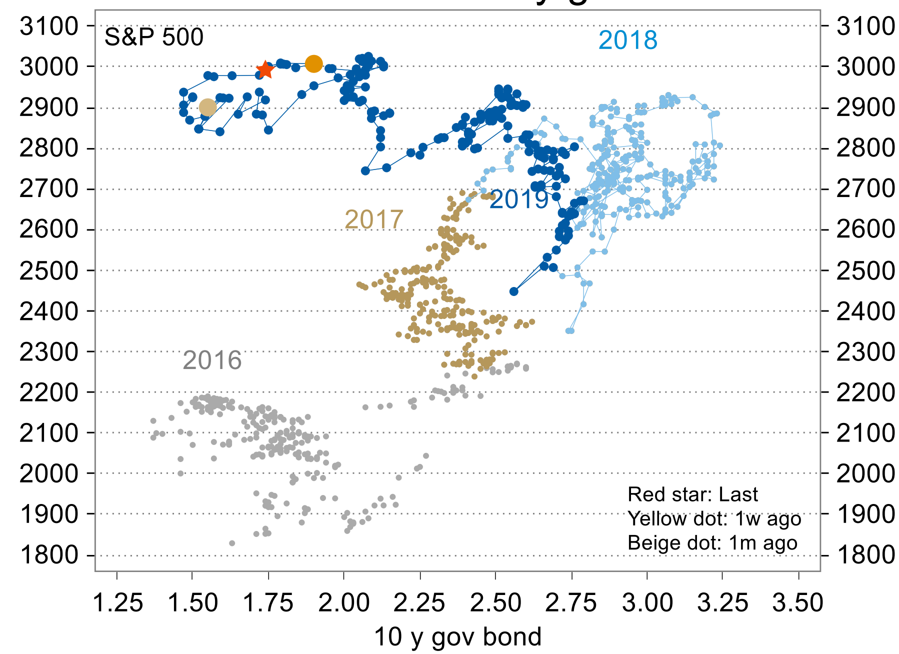
Stock markets fell Friday as the outlook of a US China trade deal darkened (again)

USA S&P 500 vs. bond yields



SB1 Markets/Macrobond

S&P 500 vs US 10 y gov bond

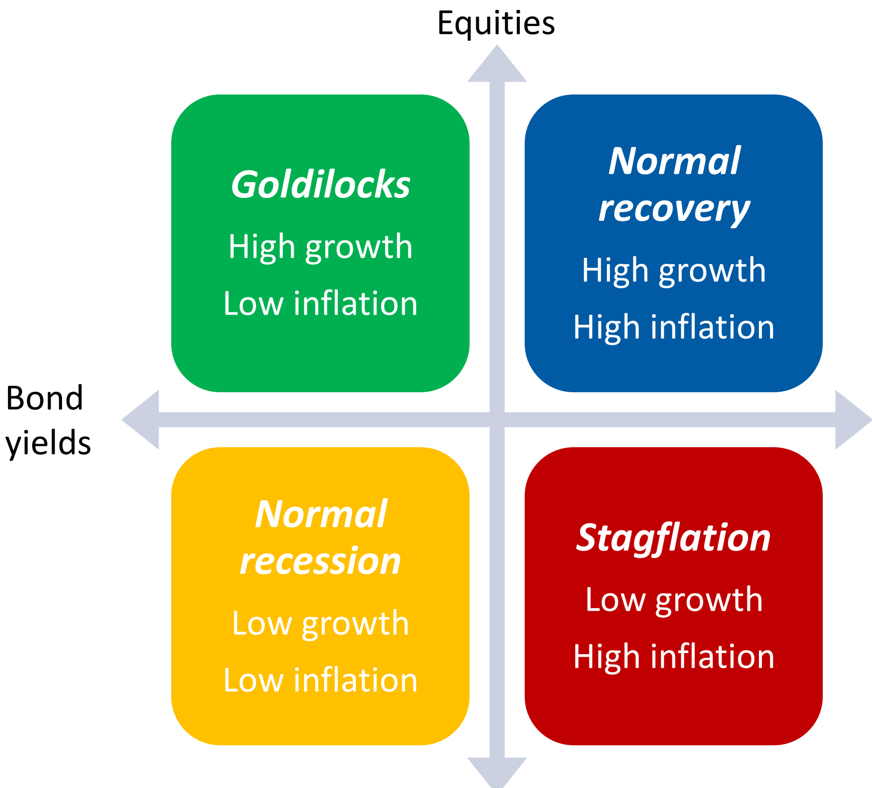


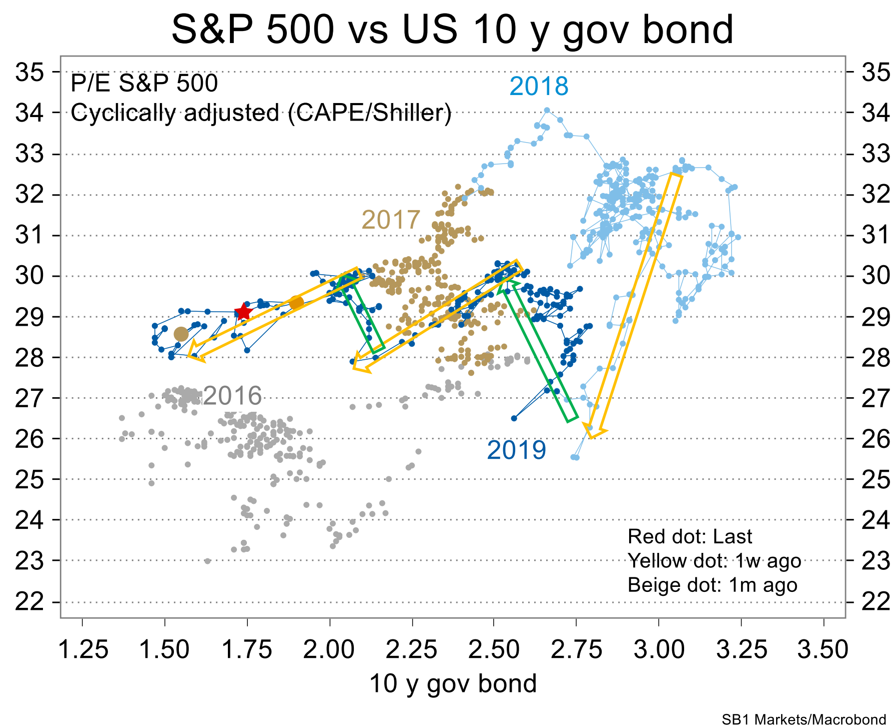
SB1 Markets/Macrobond

- Stock markets fell Monday following the Saudi drone attack but stabilized shortly after. On Friday, concerns of the China/US trade war once again rattles markets on news that the Chinese agriculture delegation in Washington cancelled a visit to a US farm. This came after Trump noted he is feeling no pressure to reach a deal before the presidential elections and said he did not want a partial deal with China (he also named China a ‘threat to the world’). No stock market response to the Fed meeting, even as the dot plot was less dovish than many expected
- Bond yields dropped 6 bps on Monday, putting an halt on swift upturn the prior days. The decline in the 10 y nominal bond yield was driven by growth fears (the real rate fell) , in spite a soaring oil price which could have sent inflation expectations up. On Friday, trade war concerns sent yields down another 5 bps
- For more on the relation between stocks and bonds, check next page

US markets are moving towards the normal recovery corner

The mood has changed the past month, even as the ‘recovery’ paused last week

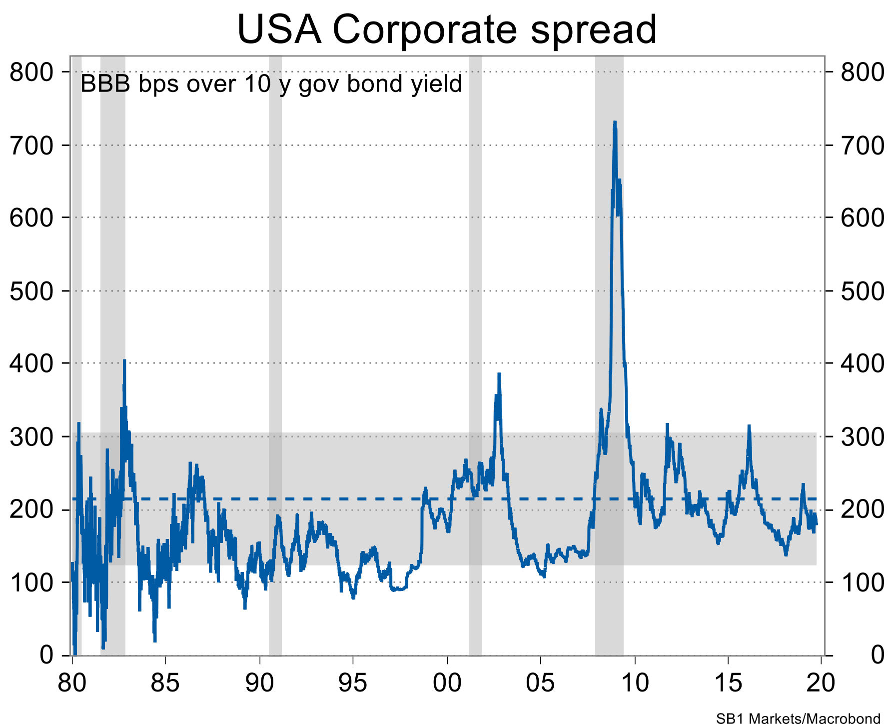


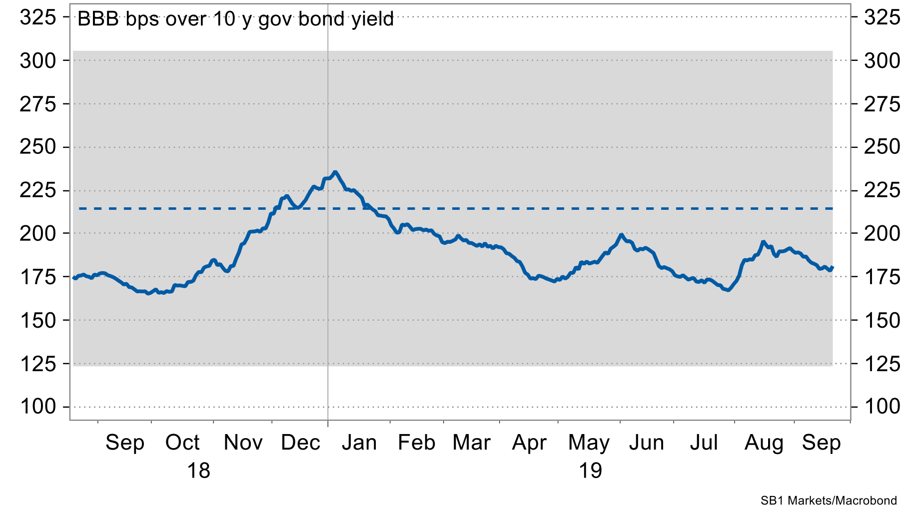


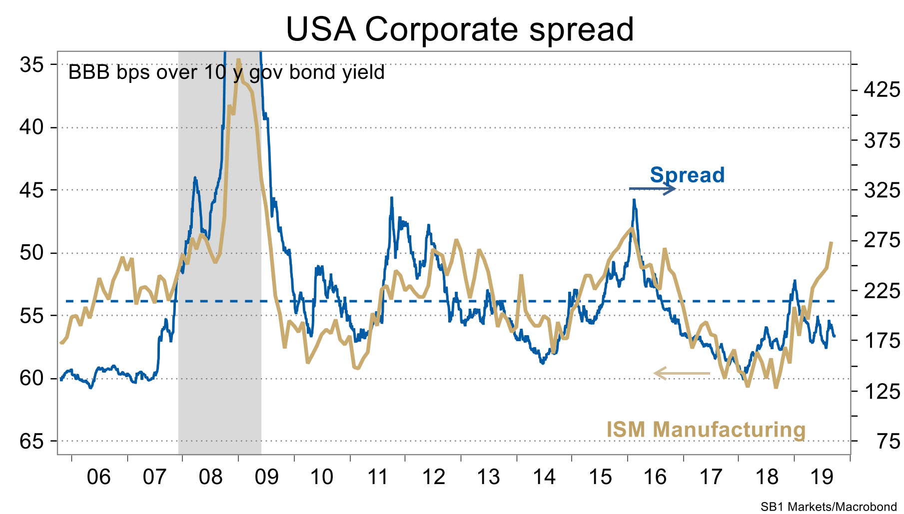
- In July, the market fluctuated mostly along the normal recession/normal recovery axis
- In August, markets moved towards the recession corner following the bad trade policy news. In September, until last week, both markets have been recovering, on hopes of a trade war de-escalation and some upbeat US macro data. Last week, S&P was flat while bond yields fell
- We do not think a long term Goldilocks scenario is likely. If yields decline substantially form here, it will be due to really weak economic news, which will not be good news for the equity markets. We are not that worried for the ‘Stagflation’ corner either; a take off in inflation will happen only if central banks make serious policy mistakes, over time. Trump wants the Fed to do just that but we doubt he will succeed. So, the normal recession/recovery axis is the most likely – and now we are heading towards the recession corner

Credit spreads are far 'too' low – if the ISM is anywhere close to the ball

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

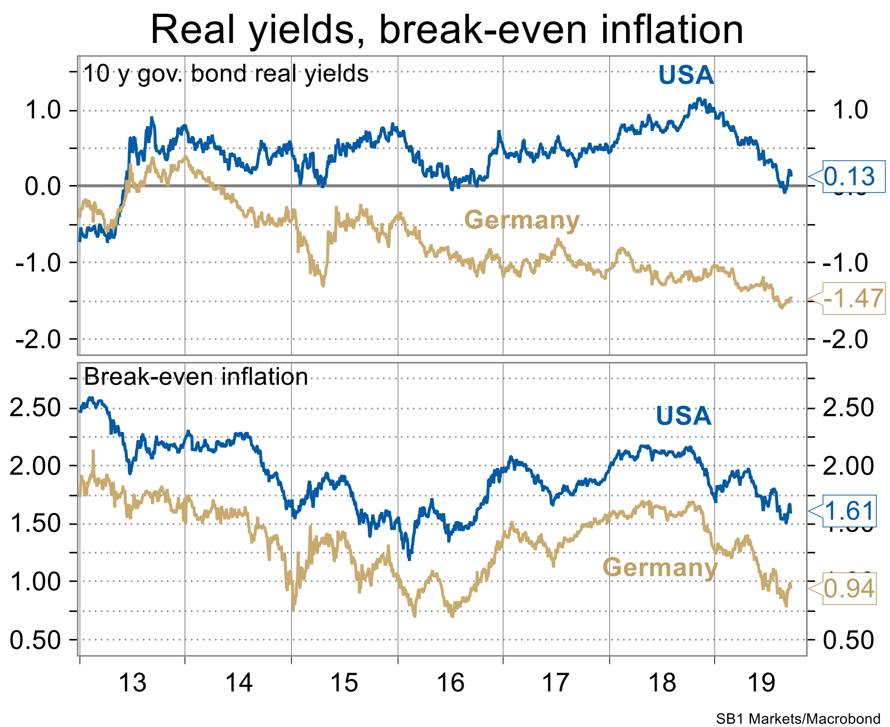


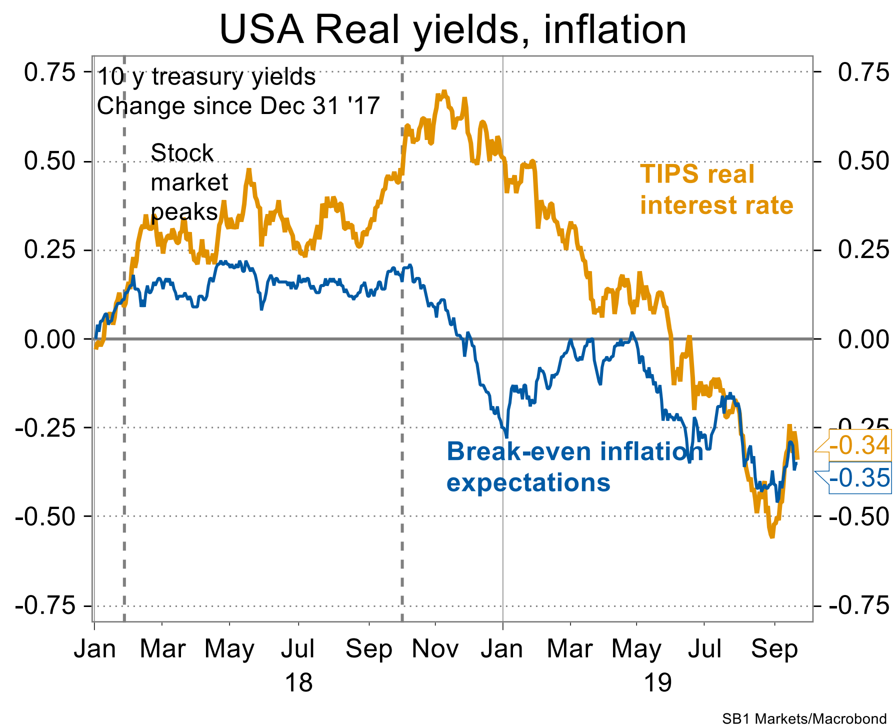




Both real rates and inflation expectations have been recovering recent weeks

US inflation expectations retreated on the Fed, while real rates ticked up (due to the flat dot plot)

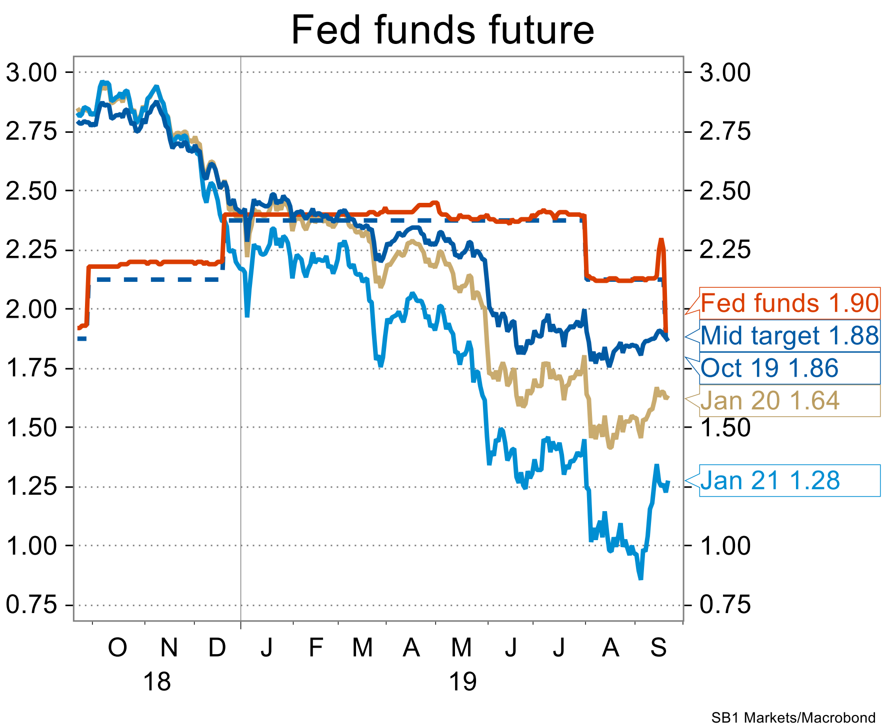


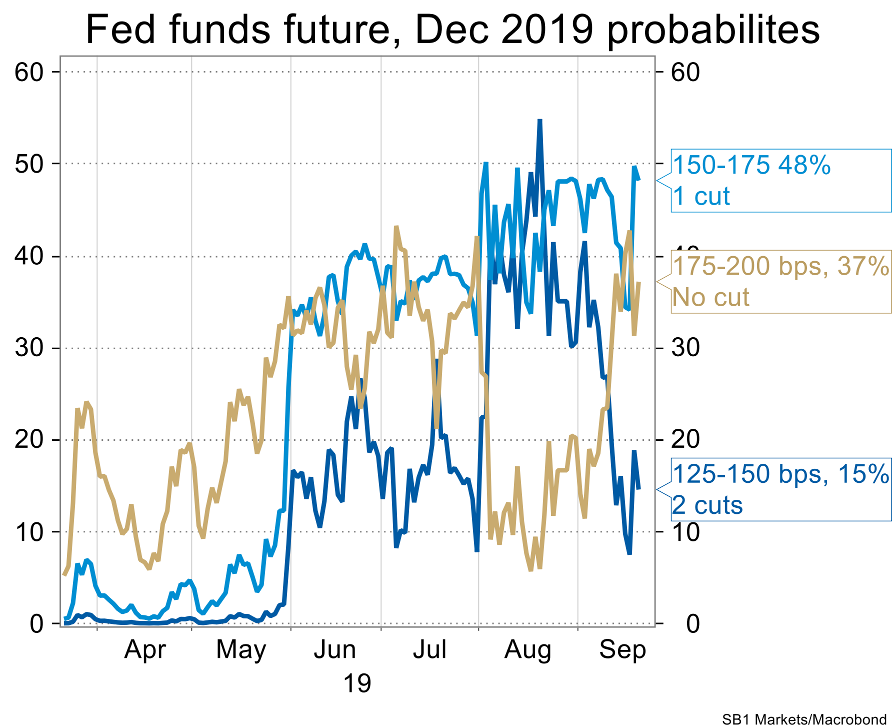


- Both real rates and break even inflation have been heading steeply down this year, in US and Germany. So far in September, both elements have been recovering, even in Germany
- German real rates have inched up to -1.47%, which is still ridiculously low. Inflation expectations at 0.94% does not seem that far off, although far below the ECB's price target at close to 2%
- US inflation expectations fell to 1.61% last week, down 6 bps, in spite the soaring oil price. The real rate came down on the oil attack (growth concerns, we assume) and further on renewed trade war concerns. The real rate closed at 0.13%, down 10 bps w/w

Fed fund futures steady after Fed – another 2019 cut is still expected

The cut was largely expected, and market expectations are not repricing on the new dot plot

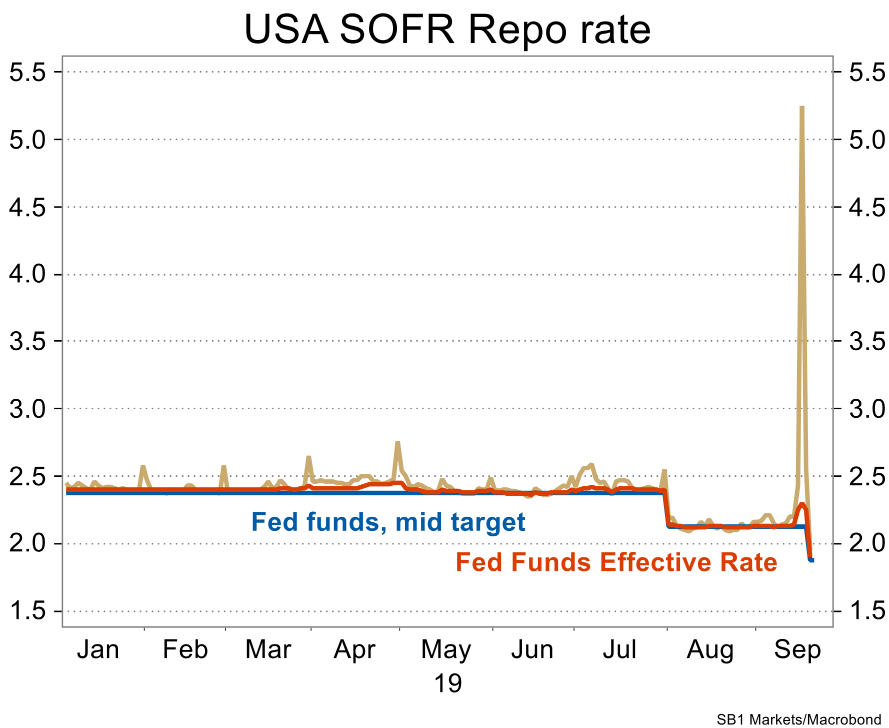


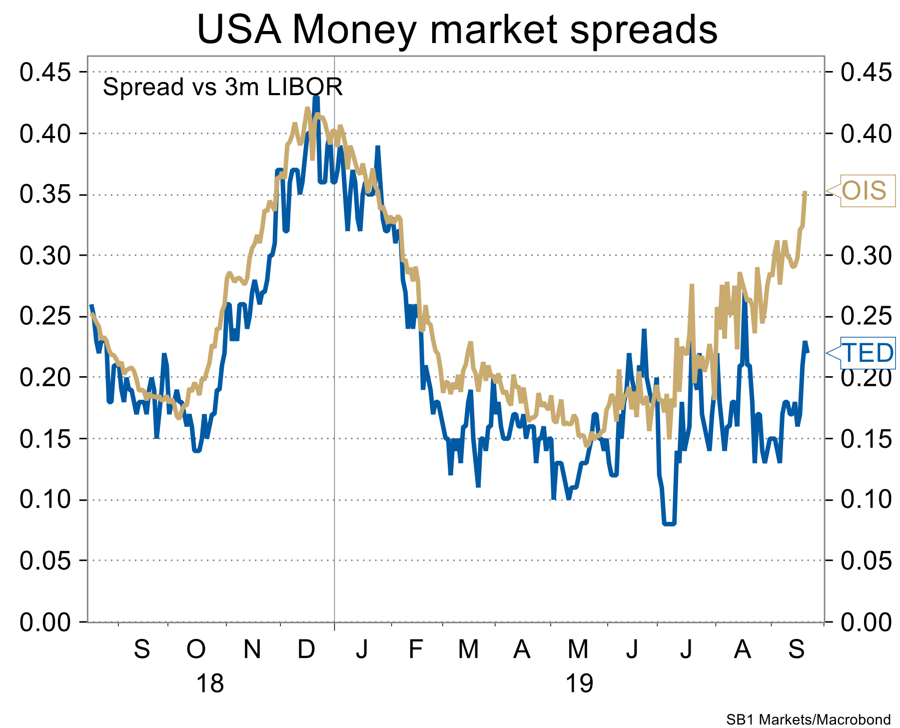


- More on the Fed meeting on this slide
- The FRAs were largely unchanged on the Fed announcement, as a cut was priced by a 80-90 probability
- The market obviously does not believe in Fed's dot plot and is still expecting another cut in December by more than a 60% probability (and 15% of a 50 bps cut, down form 50% in mid August). 2-3 cuts are expected by the end of '20
- US growth is slowing but it is still above or at trend. PCE inflation is not far below the target. Yes, there are clouds at the horizon but it is still not raining. The USD is stronger than normal but not by that much. The economy does not AT ALL justify interest rate cuts..

The repo market went belly up -.-

Banks ran out of treasuries as collateral for repo funding in Federal Reserve, and rates soared



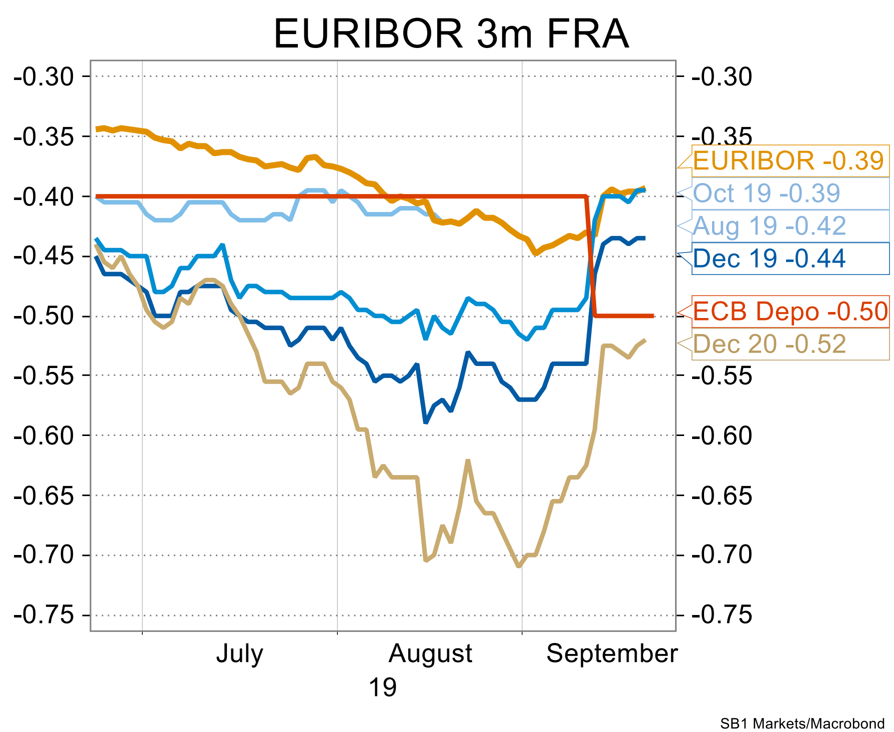


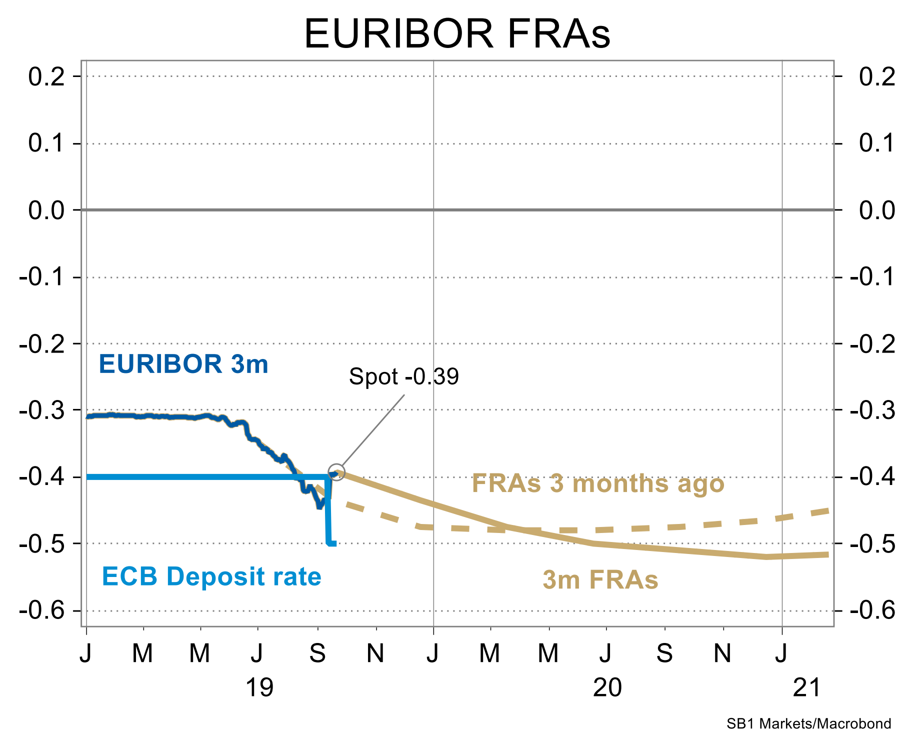
- The Federal Reserve had to support the market with huge amounts or liquidity the whole week, and the SOFR repo rate finally came down to a normal level at the end of the week (was above 10% intraday earlier in the week) . The effective Fed funds clearing rate rose somewhat too, but normalised Friday (at close to the mid target rate)
  - » Large tax payments contributed to the liquidity squeeze. Banks may have to little holdings of bonds that can be used as collateral for overnight loans in the Federal Reserve
- No serious problems for other bank funding, even if both the LIBOR –OIS spread, and the TED spread (3m LIBOR-treasury bill) widened somewhat – and the trend for the LIBOIR-OIS is clearly upwards (which makes a very low NIBOR-NoBa deposit strange)

SpareBank 1 MARKETS

The EUR curve climbs, still 20 - 30% probability of another 2019 cut?

FRAs were largely unchanged last week, after a step rise in the first half of September

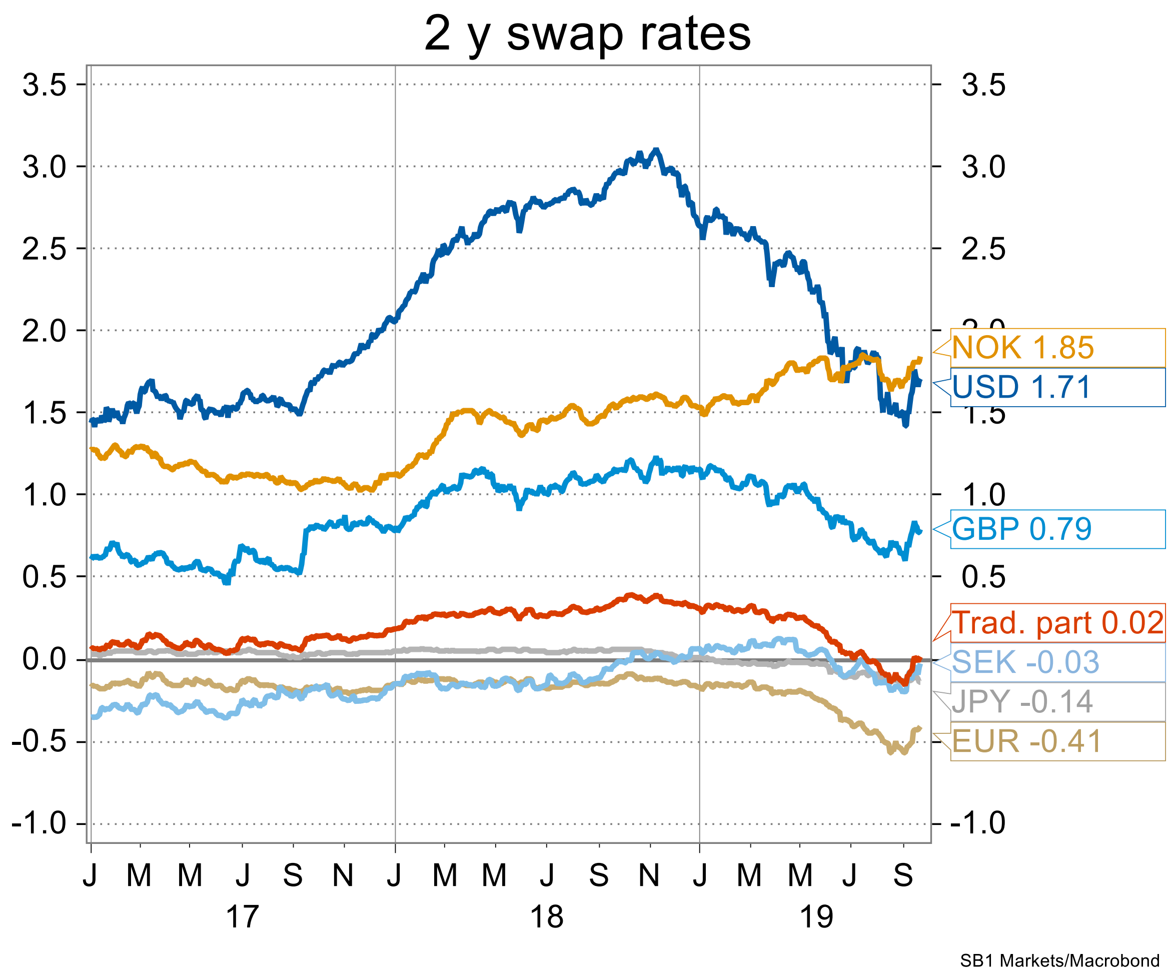


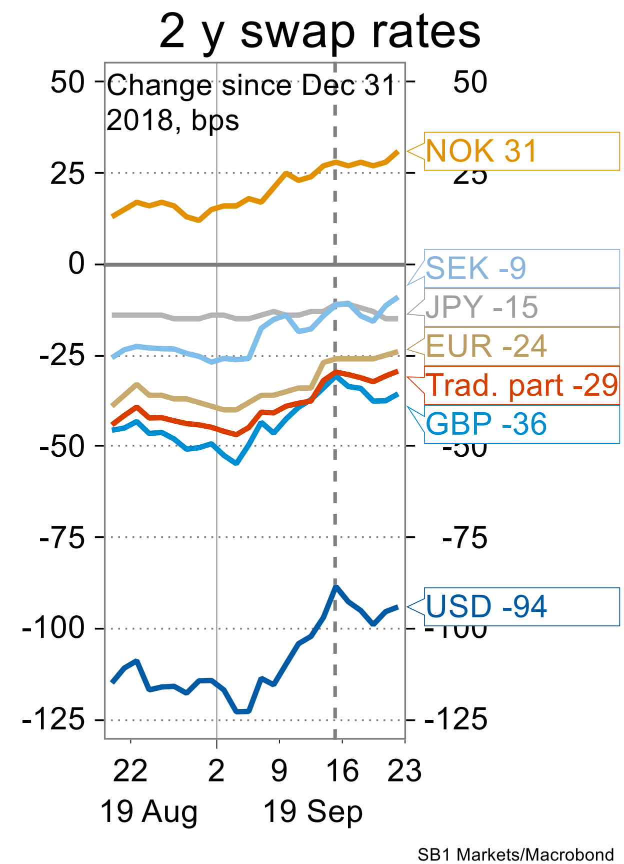


- FRAs soared after the ECB meeting on Sept 12. The **ECB** delivered a sweeping stimulus package; the deposit rate was cut 10 bps to -0.5% (some 50% exp. 20 bps), the bond buying program was reintroduced by a smaller than expected EUR 20 bn per month but without any fixed time limit. Measures to smooth bank lending were announced; changes to the TLTRO and a two tier system in which parts of banks excess liquidity will be excluded from negative interest rates
- The Fra curve has climbed ‘sharply’ over the past 3 weeks, and is pricing in a low probability for another cut this year. A 10 bps cut is fully priced in next year

Short term rates mostly flat last week, 2 y NOK swap up just 3 bps on NoBa

Trade war easing has driven short term rates up the past month. USD down, not on the Fed?

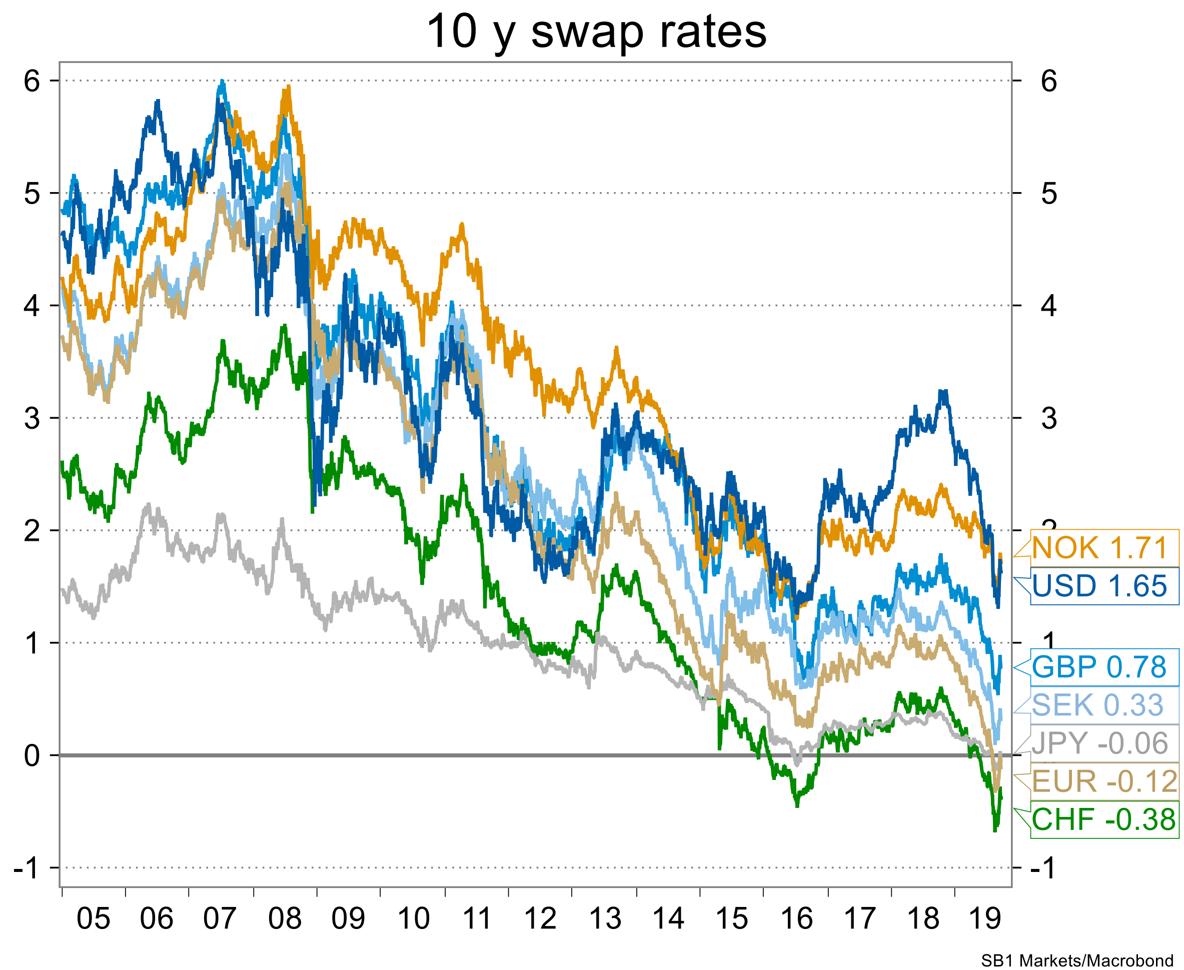


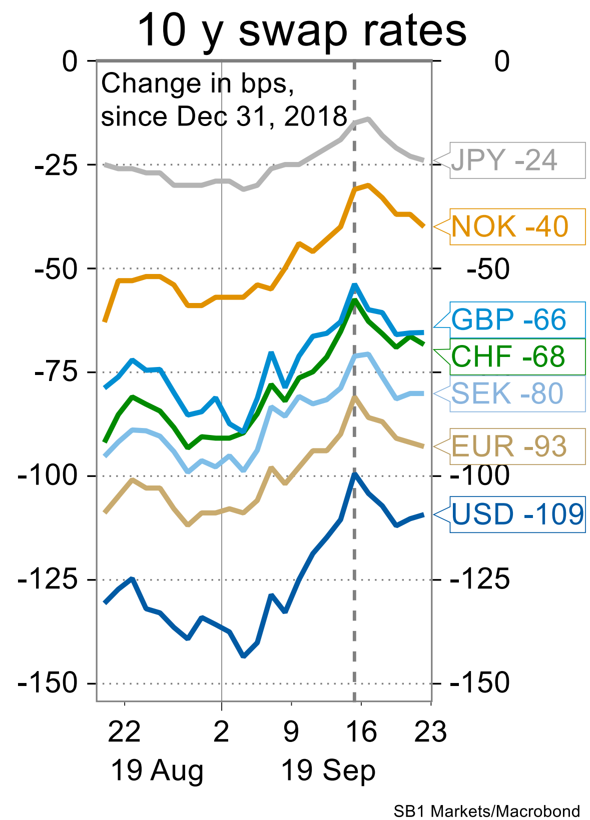


SpareBank 1 MARKETS

Long term swap rates fell all over, oil attack spiked fears of global growth

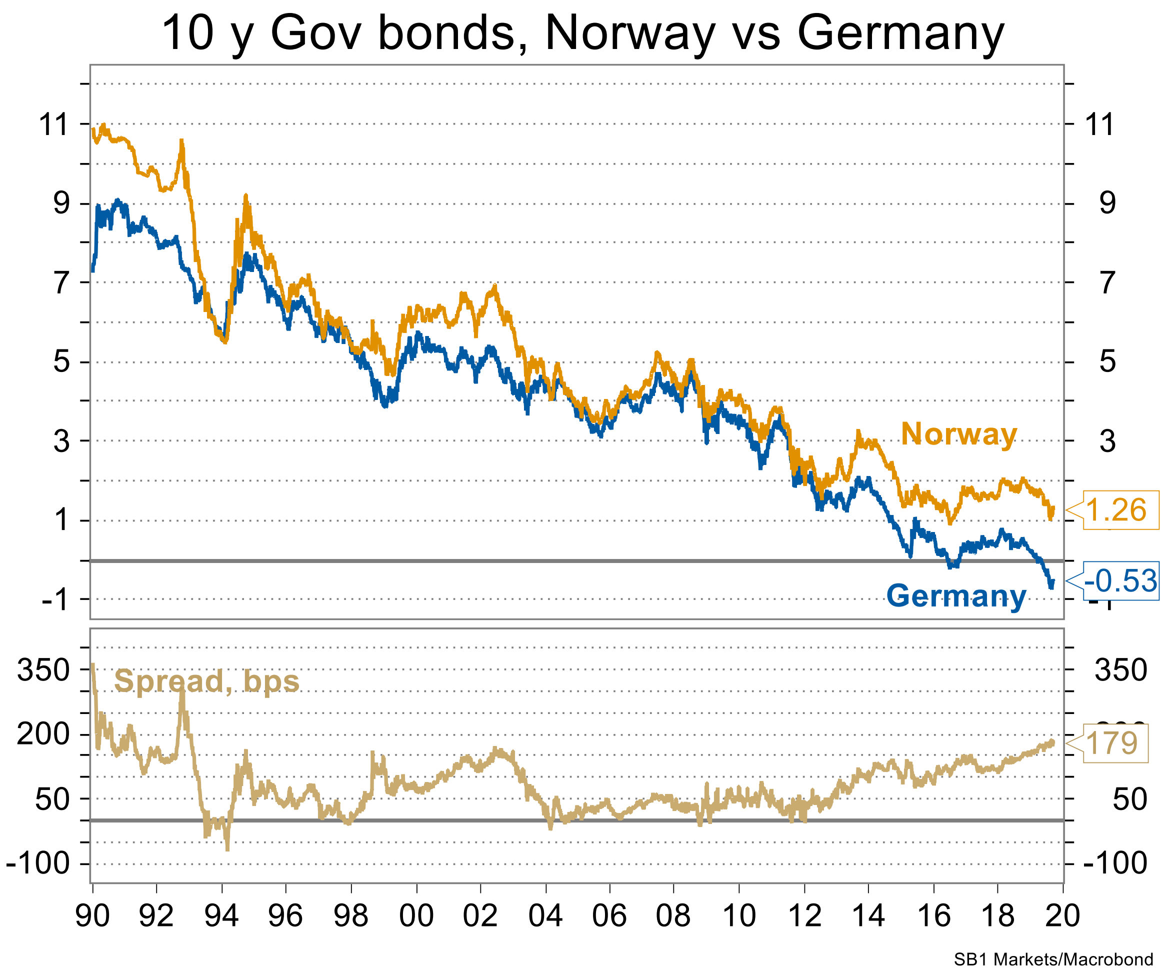
Long term swap rates have recently been recovering everywhere, until last week

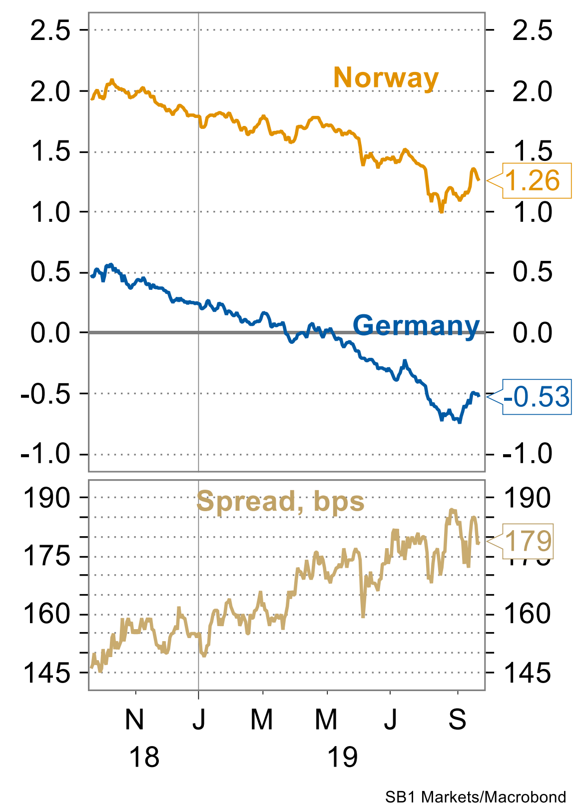




The Norway/German 10 y gov spread down from the peak

The spread at 1.79% still unusually elevated

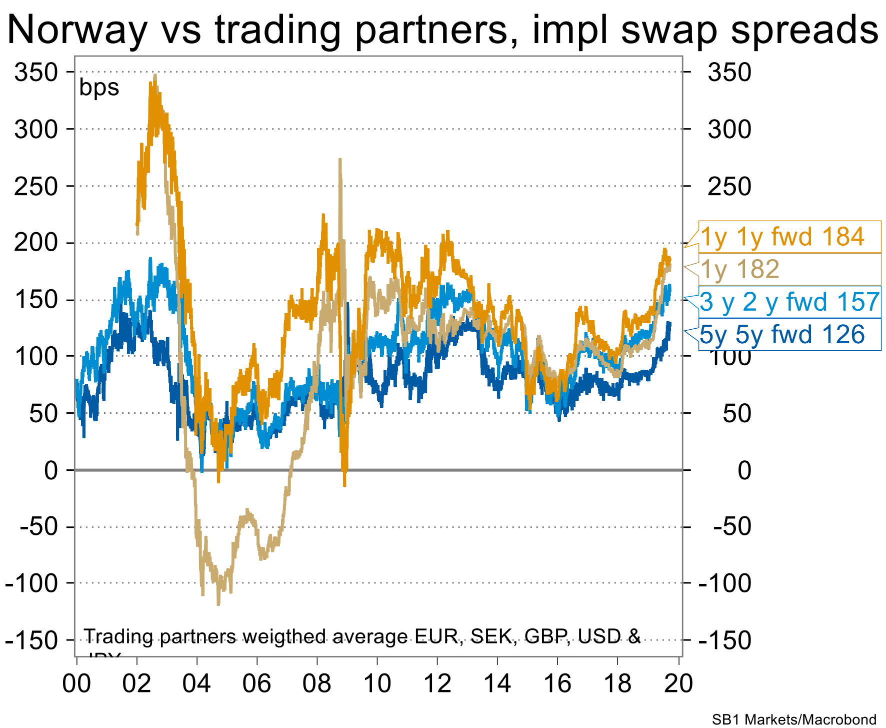


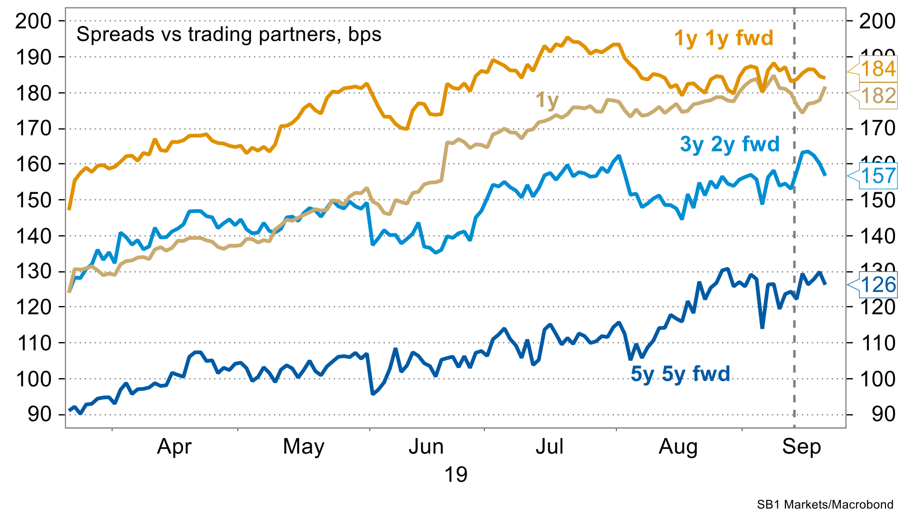


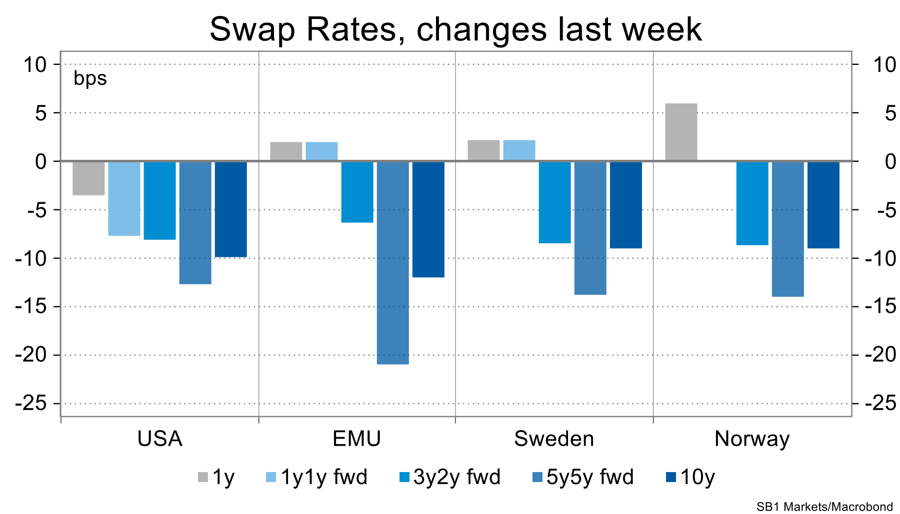
SpareBank 1 MARKETS

NoBa pushed the int. rate spread vs. trading partners up last week, OK. But…

Spreads in the long end of the curve remain stubbornly high, and widened further last week





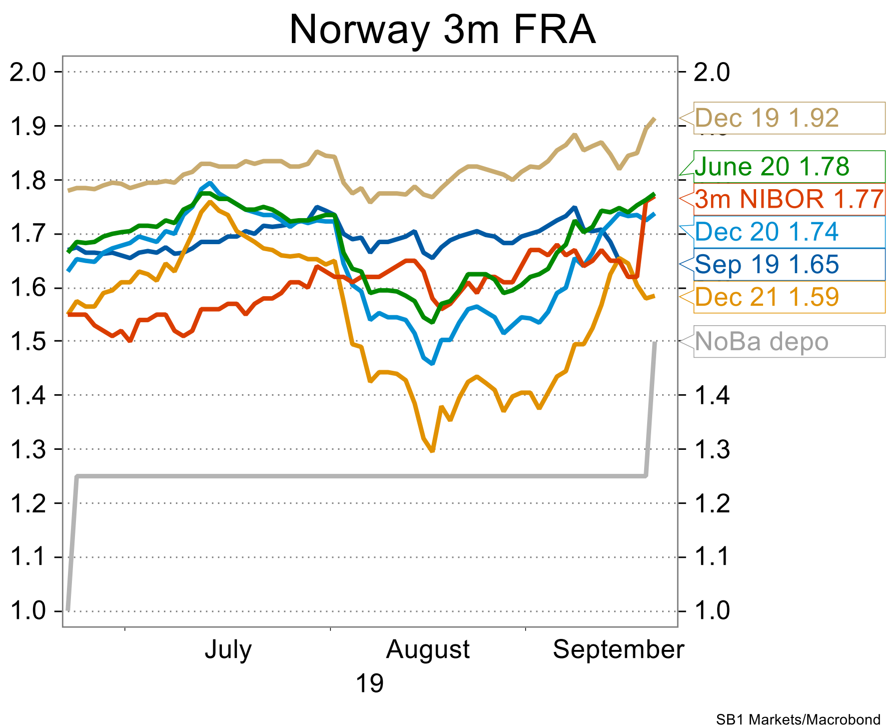


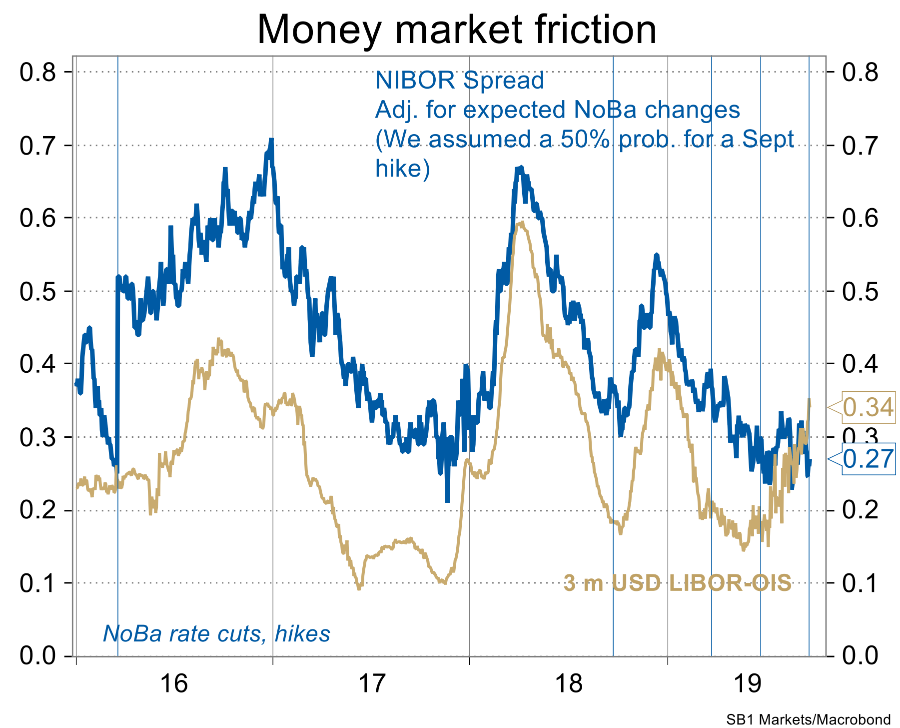
- Swap spreads between NOK rates and our trading partners have been widening rapidly this year. The past weeks, the spreads have flattened out – but the long end, and the very short end), came up last week
- While the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March. It must be 'too' high?

SpareBank 1 MARKETS

Markets were surprised by the NoBa hike, the NIBOR must still be too low

Dec 20 contract rose 'just' 5 bps, a hike was partly priced. NIBOR up 15 bps, spread just at 27 bps?

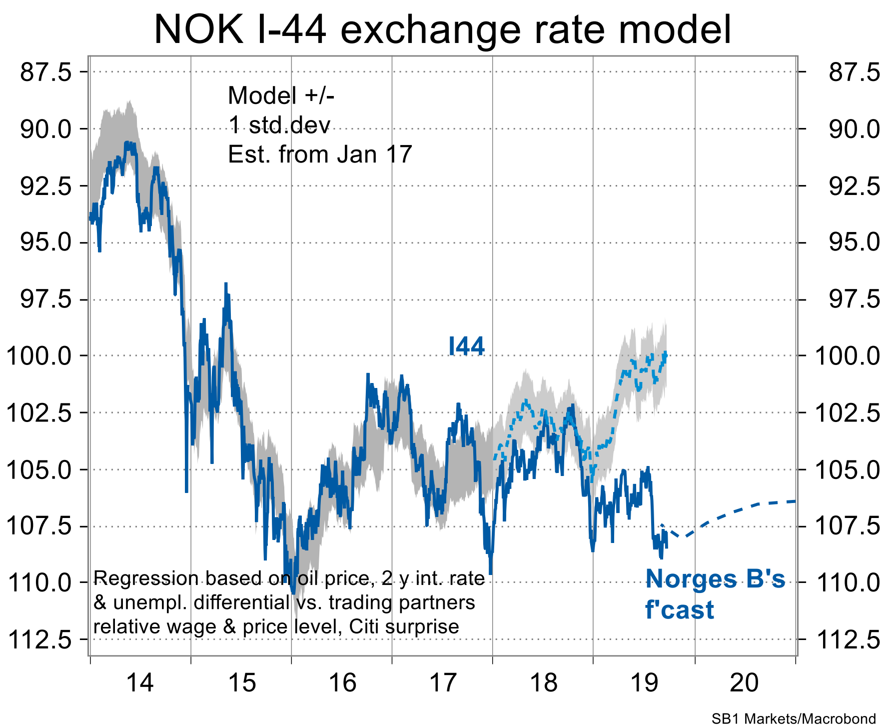


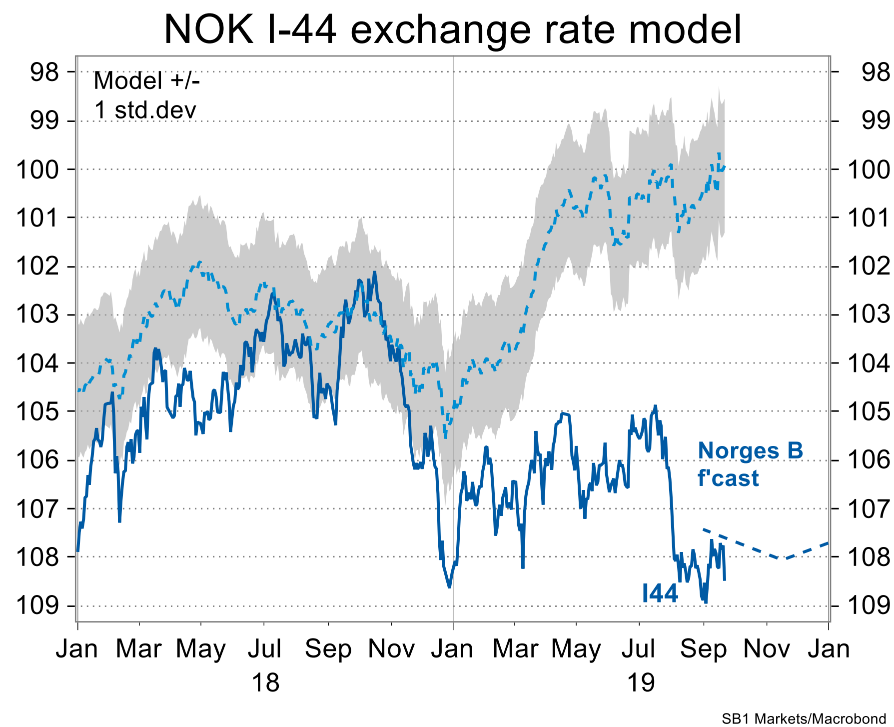


- We assumed that the Sept contract which closed two days before the NoBa meeting implied some 30% probability of a hike (20-40% to be more accurate), as we estimated a 30-35 bps NIBOR spread
- The NIBOR jumped 14 bps 1.76% (and to 1.77% at Friday) following the NoBa announcement, thus confirming that a hike was not expected. However, the NIBOR increase was more modest than we expected; now implying just a 27 bps money market spread, vs 30 bps in June. Seems strange, the US Libor-OIS spread has widened sharply, now at 35 bps. Moreover, the Dec '19 contract - which rose 5 bps after the announcement (and 2 more at Friday)- implies a 42 bps spread, assuming zero probability of another hike (which is reasonably). We expect the NIBOR to adjust further the coming days/weeks as the 27 bps NIBOR spread seems to be too low. Norges Bank assumed a 40 bps spread, and expected the 3 m NIBOR to climb to 1.90%! DNB decided to hike its mortgage rate by 25 bps at Friday (the normal lag, other will follow suit)
- After Dec '19, the FRA curve is inverted. The Dec '21 FRAs fell 3 bps on Thursday, the market is expecting a cut by the end of 2021

Norges Bank hiked, NOK up... 0.07%. And then down 0.7% (and more)

NOK weakened last week, in spite a higher oil price and a (somewhat) surprising NoBa hike



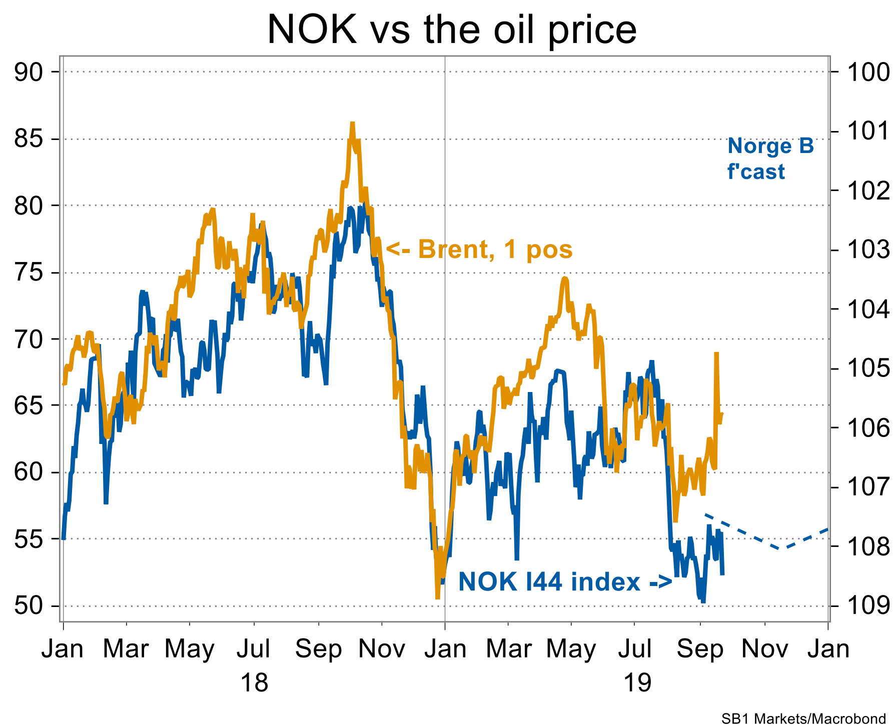


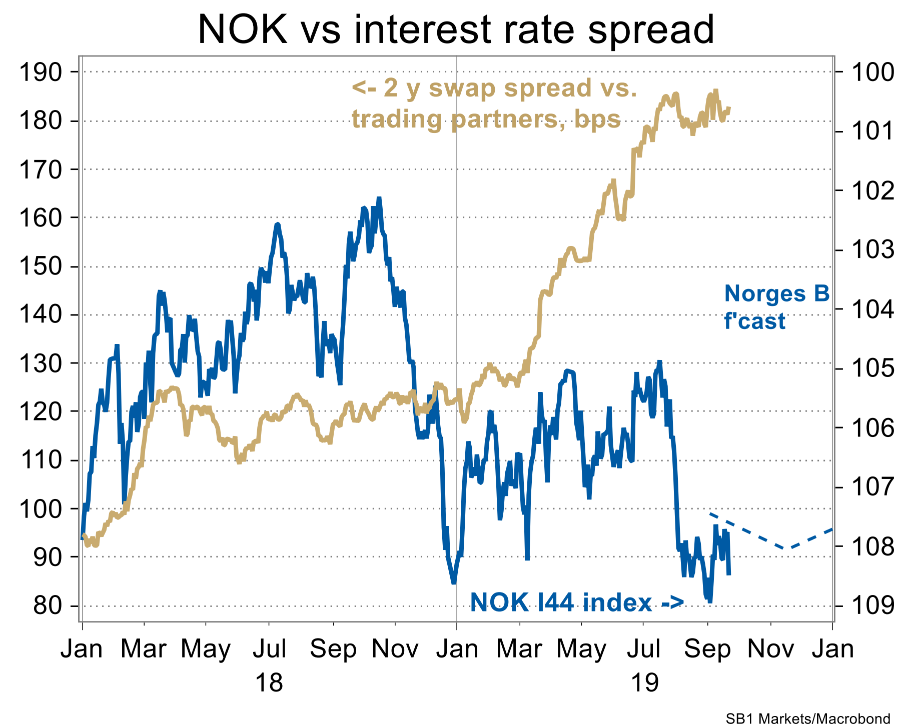
- NOK depreciated 0.3% last week, the model indicated +0.6% (due to oil price, interest rate spreads). The gap to the model is wide, at 8.6%! (The NOK depreciated further Friday evening, by another 0.5% from the 'close' of NoBa's I44 calculation)
  - » One reason for the muted NOK response to the NoBa hike, may be that the Bank at the same time lowered the path for NOK substantially, and said it had given up applying the old model (as we have been tempted to do, too). In addition, the NOK interest rate curve was not pushed up by NoBa's decision, except for the very short end, the 2y swap rate differential vs trading partners just rose 1 bps last week
- Even our super-cycle f/x model does not fully explained the NOK weakness since mid July. Last week, most supercycles weakened
  - » We have tested our models with global risk etc., without success
- Long term, we stick to our long term **buy NOK** recommendation

SpareBank 1 MARKETS

The NOK is weak vs. oil & the interest rate spread

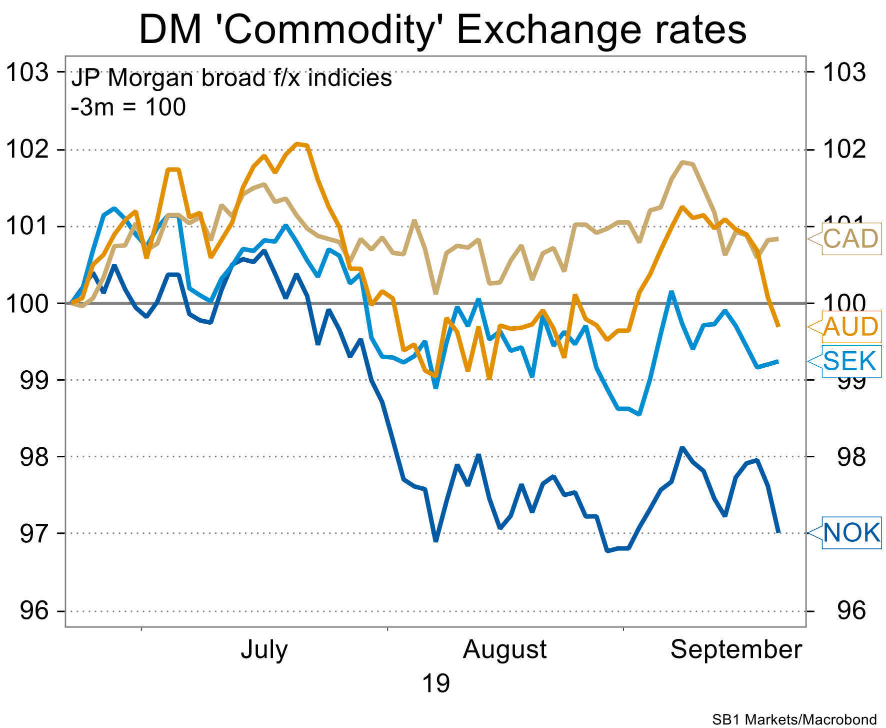
The oil ‘shock’ early last week did not impress NOK traders. Neither did NoBa’s 4th hike in this cycle

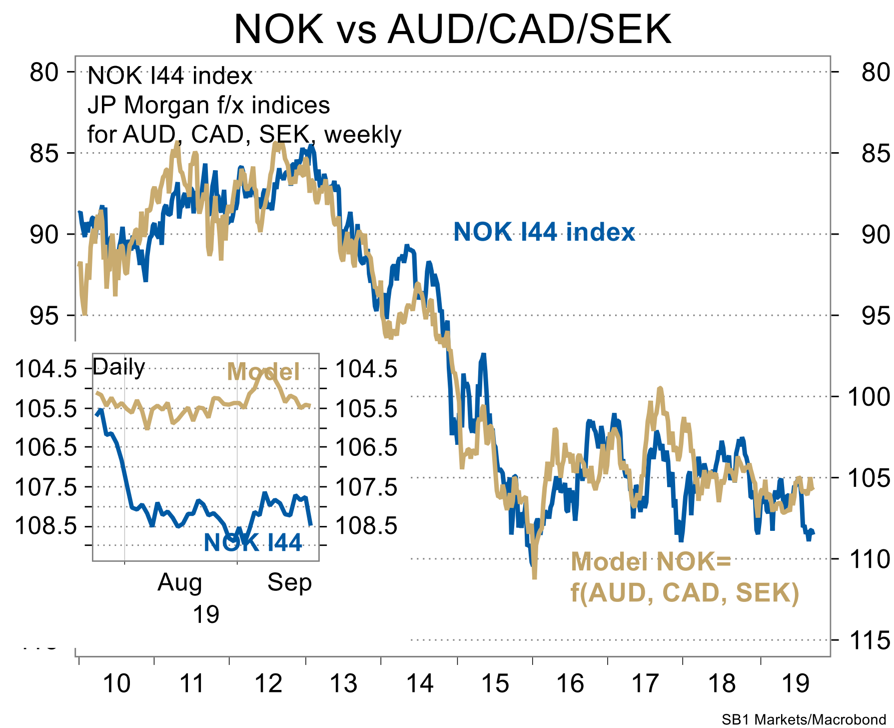




All 'supercyclicals' down last week, the 'gap' to NOK still 3%

AUD and SEK both suffered on weak labour market data, boosting bets of an Australian cut in Oct

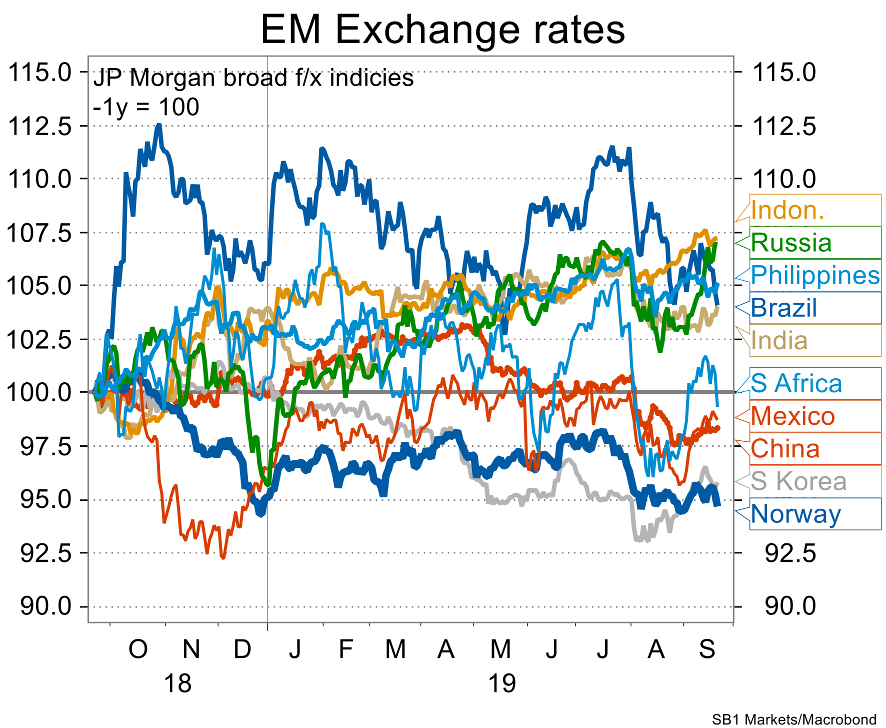


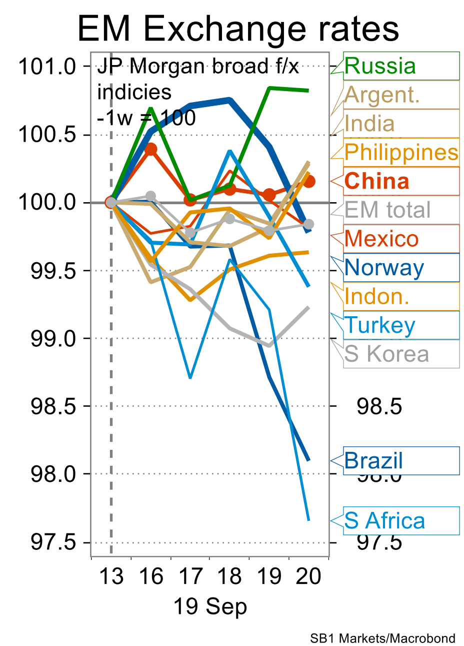


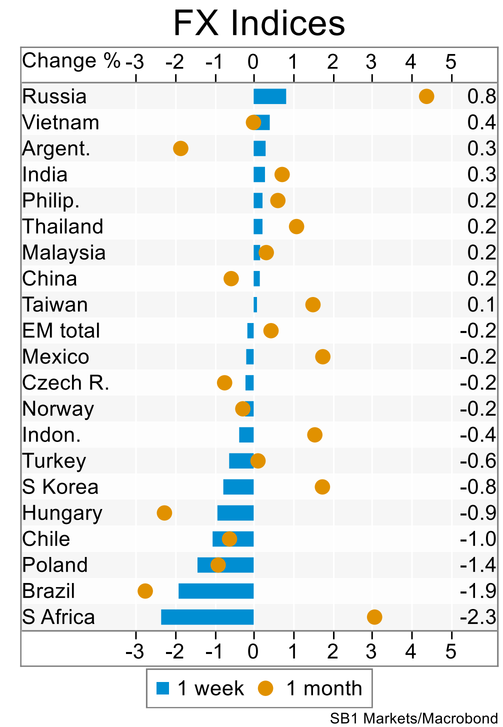
- While the NOK is falling, even if Norges Bank is hiking, and hiking ☺. So there must be something else going on here...
- Together, the other supercyclicals cannot 'explain' the recent NOK setback. The NOK has lost 3% vs. the supercycle f/x model estimate since mid July. The discrepancy is not unusual but not something that happens that often either
  - » Our model is tilted towards the link between NOK and CAD, more than towards AUD or SEK (even if AUD works pretty good). Since July, the CAD has appreciated (even accounting for the recent decline), while AUD & SEK has depreciated but less than the NOK

EM f/x: Mostly down last week, still up on the month

Most EM currencies have appreciated the past month, helped by trade war de-escalation





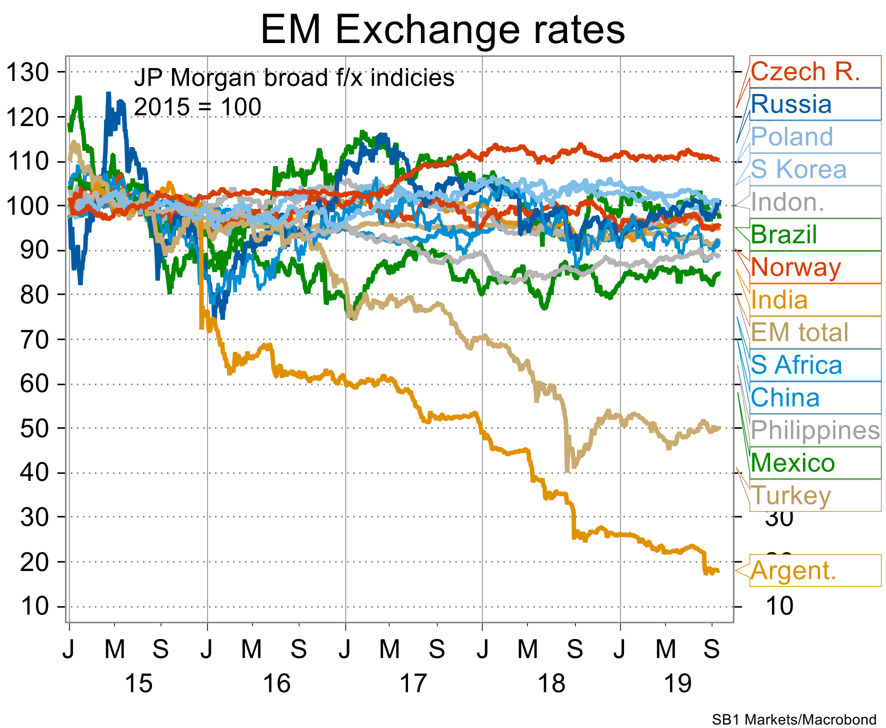


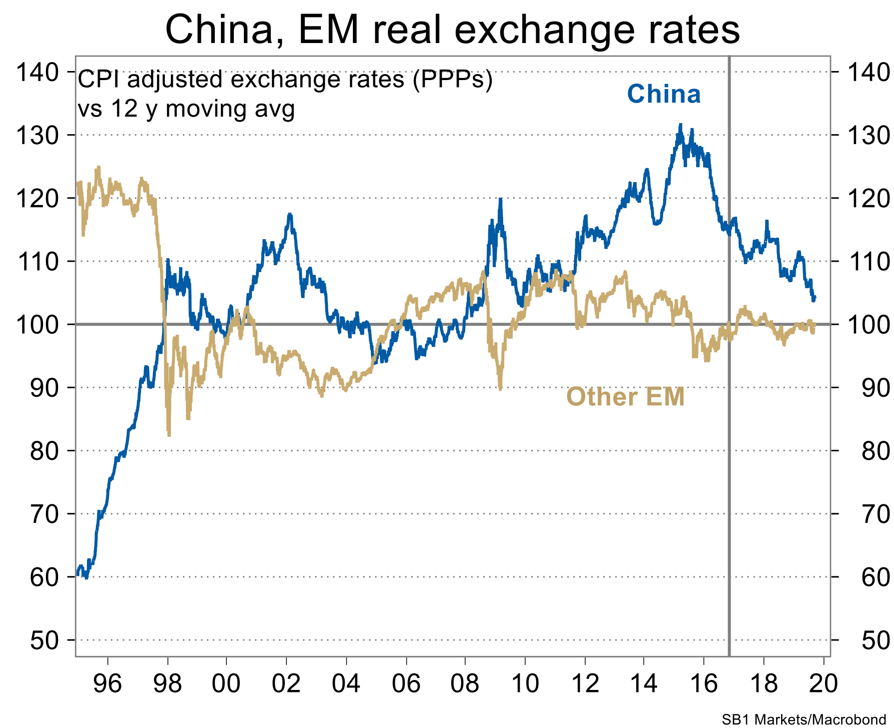
- A majority of EM currencies fell last week, with Russia and China as some of the exeptions
- Most EM currencies have recovered after falling in early August. Because trade war and growth anxiety have been easing, of course
- Argentina struggles, but the peso has stabilised as the government imposed capital controls and proposed (another) debt re-scheduling plan

SpareBank 1 MARKETS

EM f/x, a long term view: Not that exciting, now

With a (normal) couple of notable exceptions, EM currencies have been unusual stable recent years





- The real CNY exchange rate was (too) strong in 2015/16, most likely contributing to the slowdown in the Chinese economy. China had a huge surplus at the current account 10 years ago (10%+). Now, the C/A is close to balance; goods are still in surplus, countered by a deficit at the service balance. The CNY real exchange rate has fallen by 10% since 2015 (of which 3% since early 2019) but is still 5% above its 12 y average (the chart above shows the difference vs. a 12 y average)
- Other EM currencies have in average been quite stable the recent years, even if some have run into problems, like always. Argentina and Turkey struggled last year, and Argentina once more now, for good reasons. The lira is down 50%, Argentina 82% (from 2015)

DISCLAIMER

DISCLAIMER

SpareBank 1 Markets AS ("SB1 Markets")

This report originates from SB1 Markets' research department. SB1 Markets is a limited liability company subject to the supervision of The Financial Supervisory Authority of Norway (Finanstilsynet). SB1 Markets complies with the standards issued by the Norwegian Securities Dealers Association (VPFF) and the Norwegian Society of Financial Analysts.

No investment recommendation

Any views and opinions relating to securities mentioned in this report should be interpreted as general market commentary, and not as investment recommendations within the meaning of section 3-10 of the Norwegian Securities Trading Act.

No personal recommendation

The information contained in this publication is general and should not be construed as a personal recommendation within the meaning of the Norwegian Securities Trading Act, section 2-3 (4). It does not provide individually tailored investment advice regarding a particular financial situation, investment experience, risk profile or preferences of the persons who may receive this report. For tailored investment advice regarding stocks mentioned in this publication, please consult our brokerage desk or your individual investment advisor.

Research for the purposes of unbundling

This report is deemed to constitute a minor non-monetary benefit for the purposes of the inducement rules under MiFID II. The report is publicly available on our website (no log-in required).

Conflicts of interest

SB1 Markets, affiliates and staff may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) in any stock mentioned in this publication. To mitigate possible conflicts of interest and counter the abuse of confidential information and insider knowledge, SB1 Markets has set up effective information barriers between divisions in possession of material, non-public information and other divisions of the firm. Our research team is well versed in the handling of confidential information and unpublished research material, contact with other divisions, and restrictions on personal account dealing. The views expressed in this report accurately reflect the analyst's personal views about the companies and the securities that are subject of the report, and no part of the research analyst's compensation is related to the specific recommendations or views expressed in this report.

Accuracy of sources

All opinions and statements in this publication are, regardless of source, given in good faith, and may only be valid as of the stated date of this publication and may be subject to change without notice. SB1 Markets has taken all reasonable steps to ensure that the information contained in this report is true and not misleading. Notwithstanding such efforts, we make no guarantee as to its accuracy or completeness.

Risk information

Return on investments is inherently exposed to risks. The value of an investment position may both rise and fall during the investment period. If the return on investments is positive at one time, there is no guarantee that it will remain such in future. In certain cases, losses may exceed the sum of the original investment.

Limitation of liability

Any use of information contained in this report is at your own individual risk. SB1 Markets assumes no liability for any losses caused by relaying on the information contained in this report, including investment decision taken on the basis of this report.

Limitation on distribution

This publication is not intended for, and must not be distributed to, individuals or entities in jurisdictions where such distribution is unlawful.