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Macro Research

Weekly update 44/2019

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The elements on the the page "In this report" are linked
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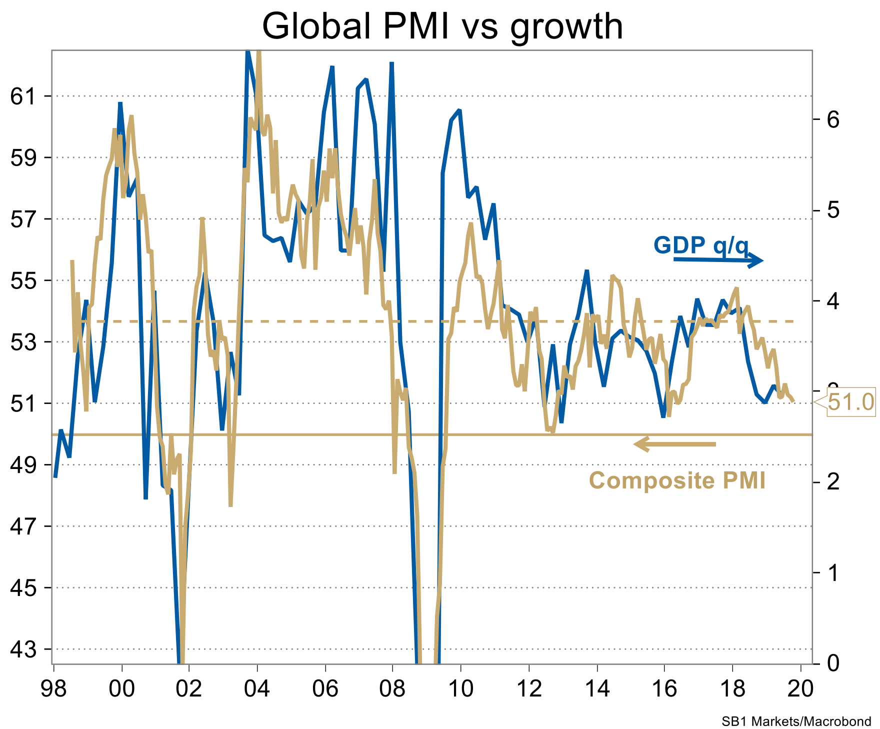
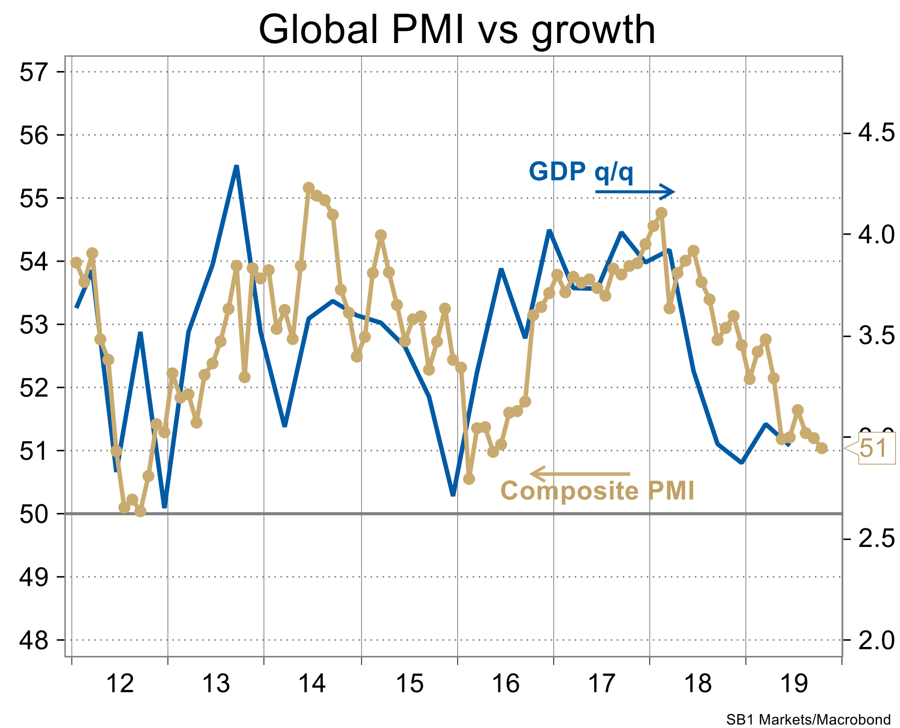
Last week – the main takes

- Some progress is reported in the **US China trade negotiation**, probably enough for pres. Trump, now**. A hard (no deal) Brexit** seems less likely but the divorce date will most likely be postponed to Jan 31 – after the Parliament accepted the principles in Boris Johnson's revised Brexit deal but not his tight time schedule. A new general election in Dec is on the Parliament's table today
- We estimate a 0.2 p decline in the **global PMI** in October, due to a further decline in services. Our estimate may be somewhat too pessimistic, as our model may put too much emphasize on a weak **Japan PMI**. The US PMI (from Markit, that is) improved for the 2nd month, to 51.2, which still points to muted GDP growth. **Eurozone composite PMI** rose just 0.1 p, thus, failed to recover from the Sept drop. The PMI at 50.2 is pointing to a stagnation
- **US home sales** are heading up, although existing home sales cooled somewhat in Sept and new home sales were flat**. Core durable goods orders** have stalled, as have core capital goods orders. Capital goods sales have fallen the past months and were down 3.3% in Q3, suggesting a modest decline in business investments
- **The ECB** did no changes to its monetary policy at Draghi's last meeting, as expected. **Eurozone consumer confidence** fell in October but the level is still rather elevated and does not signal any substantial weakness on the consumer side**. The German Ifo survey** remained weak in October, but the manufacturing order index is less downbeat
- **The Swedish Riksbank** surprised on the 'hawkish' side by sticking to its plan to hike the signal rate (to zero!) in December, but the interest rate path flattened thereafter
- **LFS unemployment** fell 0.1 pp to 3.7% in Aug, as expected. Labour market participation rose once again and is up 0.9 pp the past 3 months. Employment is growing at a solid pace, up 0.6 pp these months. However, the Q3 upturn in participation and employment is most likely exaggerated, as it is partly due to a suspicious spike in youth employment**. SSB's industrial confidence survey** weakened in Q3, suggesting zero growth in manufacturing production, with slowdown in both oil and non-oil related sectors. The survey confirms several other surveys that have signalled slowing growth the coming quarters. **Consumer confidence** fell in Oct, and is trending down. **Housing starts** are climbing, according to the SSB, and decreasing according to the Homebuilders. The gap is partly explained by a temporary rise in student homes building. Softening new home sales anyway do not signal any lasting upswing. **Norges Bank** kept the interest rate unchanged at 1.5% as expected at this 'mid-meeting', and signalled no changes to its policy stance

Global PMI slides slowly down, we estimate a 0.2 p decline in October

The PMI was lower in both 2012 and 16' (one month) but the cycle is more mature now



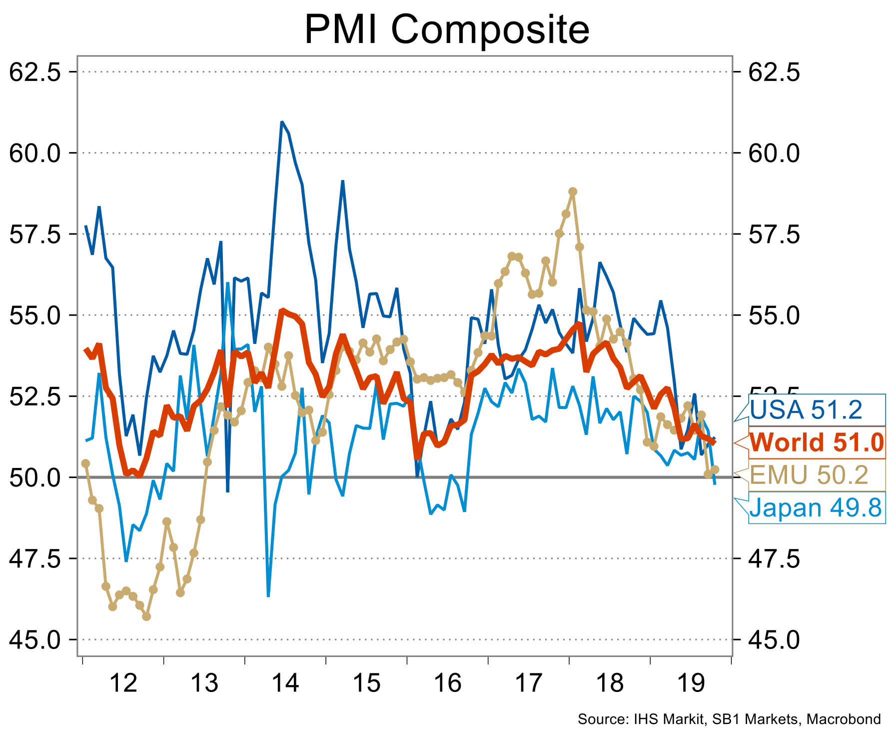


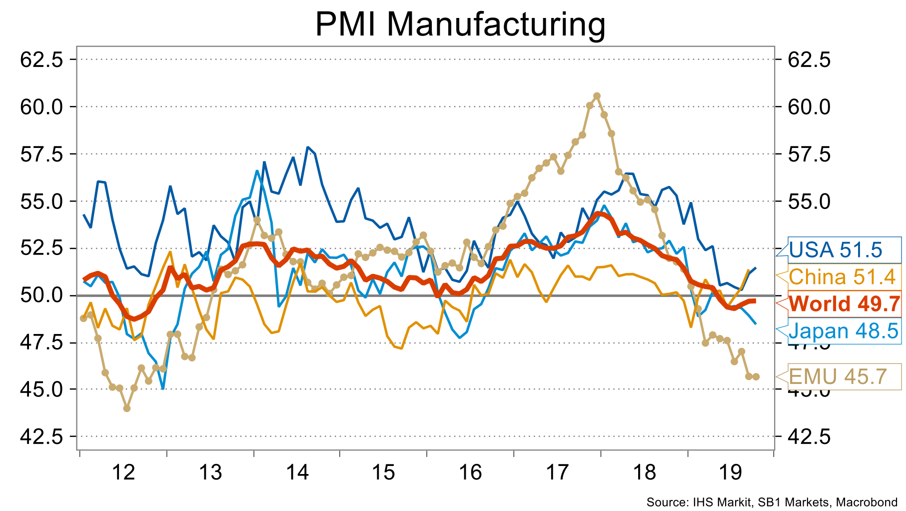
- We estimate a global composite PMI at 51.0 in October, down 0.2 p. The PMI points to a slowdown to just below 3% global GDP growth, vs close to 3.0% in Q2 (our estimate) and just a marginal slowdown from Q3 last year
  - » Our estimate is based on PMIs from the US, EMU and Japan. Japan PMI fell steeply, our estimate may put too much emphasize on this
- The PMI has fallen by 4 points from the Jan '18 local peak, equalling some 1 pp slower global GDP growth (or a 10 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

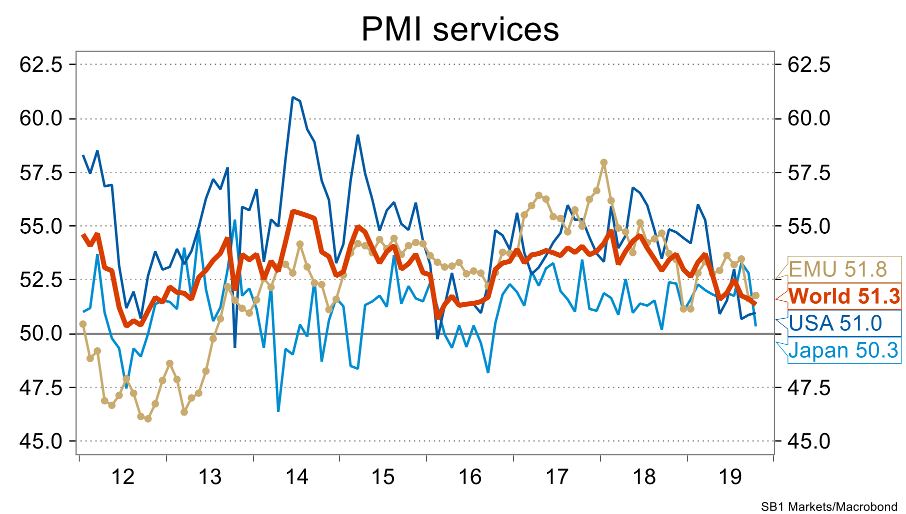
Our estimate is based on the preliminary composite PMIs from EMU, Japan and US,. The estimate is uncertain

Both US and the Eurozone improved slightly in Oct, Japan steeply down

The manufacturing PMI further up but still below 50. Services are still sliding down



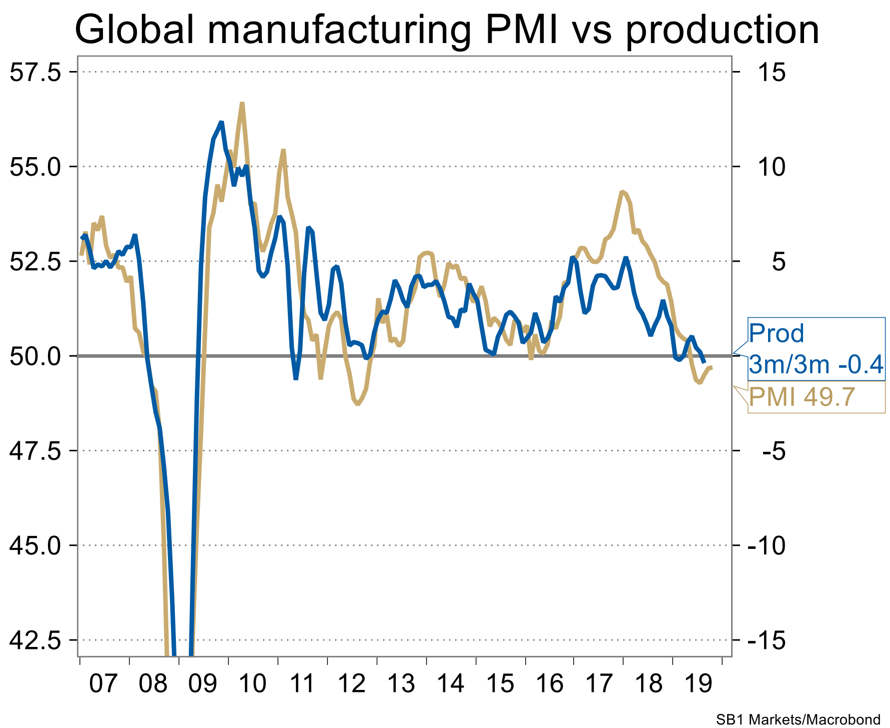




- The Eurozone manufacturing survey is far weaker than most other places. US have stabilized and even turned slightly up recent months, together with China (no Oct data yet), while Japan slides down
- Services are still growing moderately most places but all are slowing, manuf. downturn may be spreading to the broader economy
- Memo:
  - » The last obs for world PMIs are our estimates, based on preliminary data from the US, EMU, Japan
  - » Markit has not yet reported PMIs from China

Global manufacturing PMI has stabilised, but remains below 50

We estimate an unchanged Oct print at 49.7, pointing to a mild contraction in global production



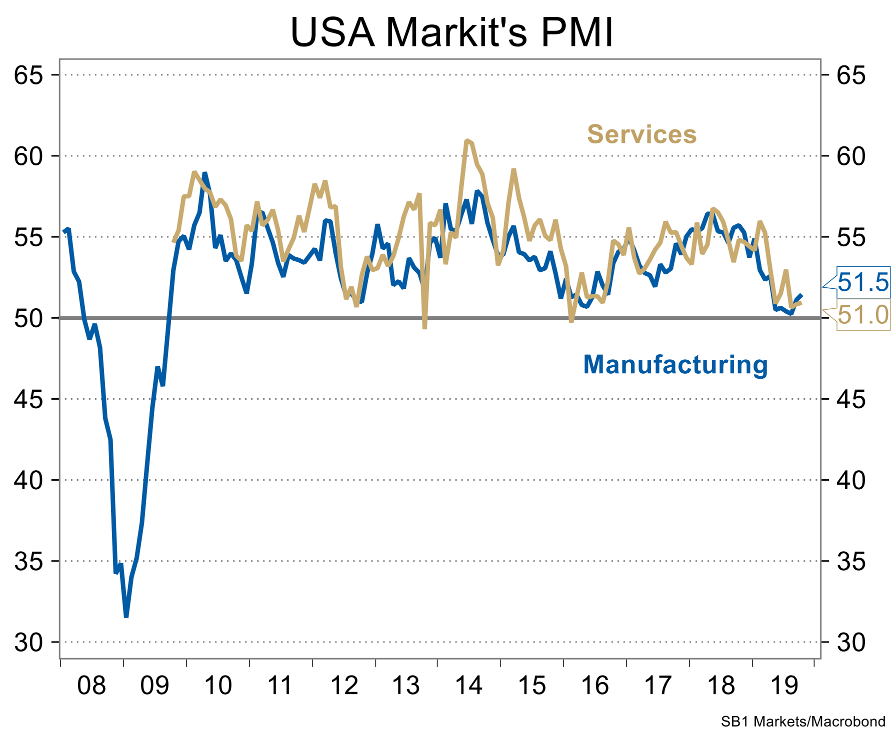
- Signals just a small decline in global manufacturing production, not much steeper than the current -0.4% speed, measured 3m/3m

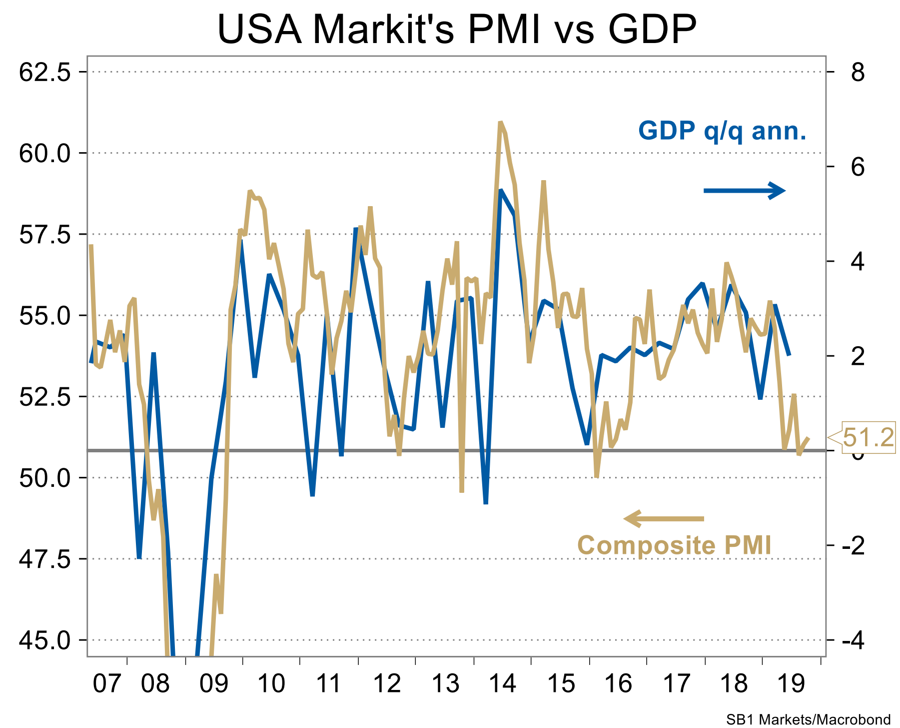
… Still, the PMI has been too upbeat the past two years…

- Memo: the last observation is our estimate on October PMI

Both PMIs improved in October, still pointing to muted growth

The PMIs have stabilized at decent levels, yet, details are rather weak; orders slow, employment falls





- The preliminary composite PMI rose to 51.2, a 0.2 pp increase, slightly stronger than expected. The PMI has stabilized the past 2 months, however, the level is signalling a stagnating US economy
- Manufacturing PMI rose 0.3 p, the second month of increase. The service sector index inched up 0.1 p
  - » Manufacturing orders improved substantially in Oct, to 52.5, a promising sign. On the other hand, service orders are slowing rapidly, suggesting a broader economic slowdown
- The PMI is much more upbeat than the ISM (no Oct data yet), but all surveys are signalling a slowdown

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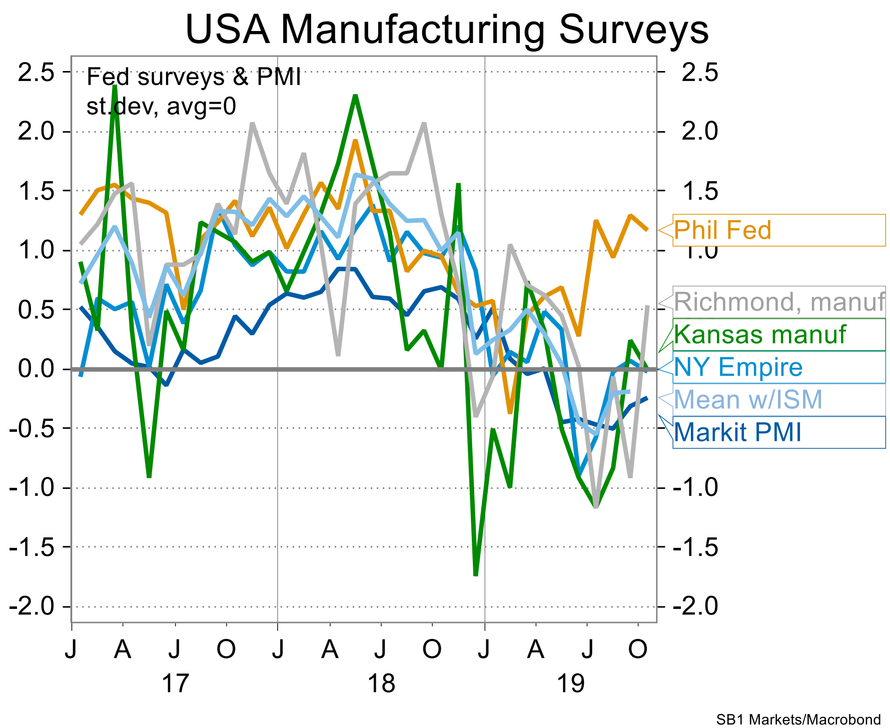
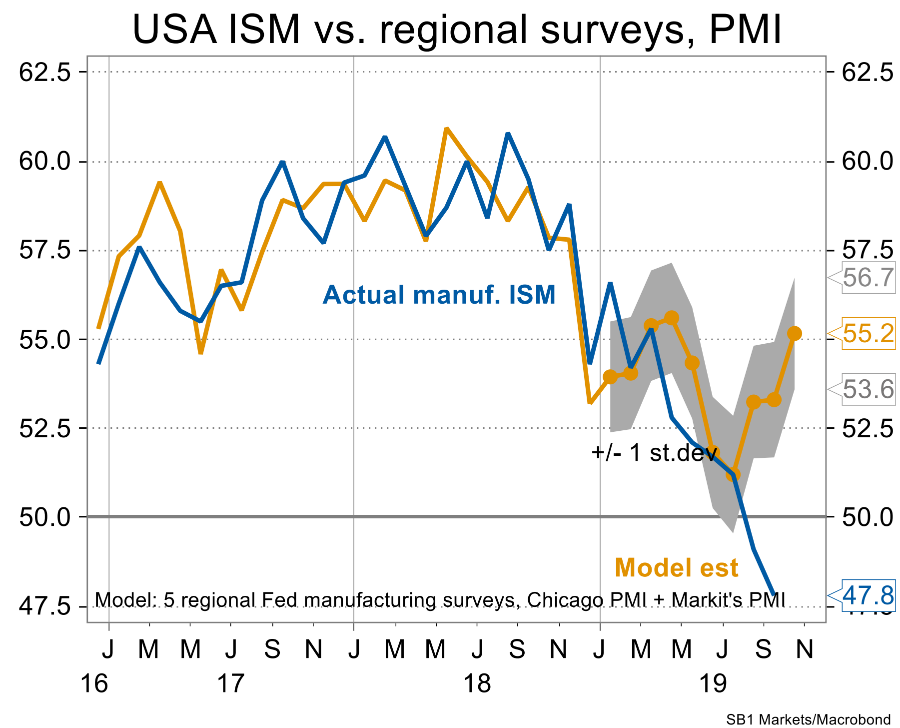
A regional (+PMI) recovery in October (to a 'high' level), ISM to follow suit?

ISM has been far weaker than other surveys recent months – and the others rose further in Oct

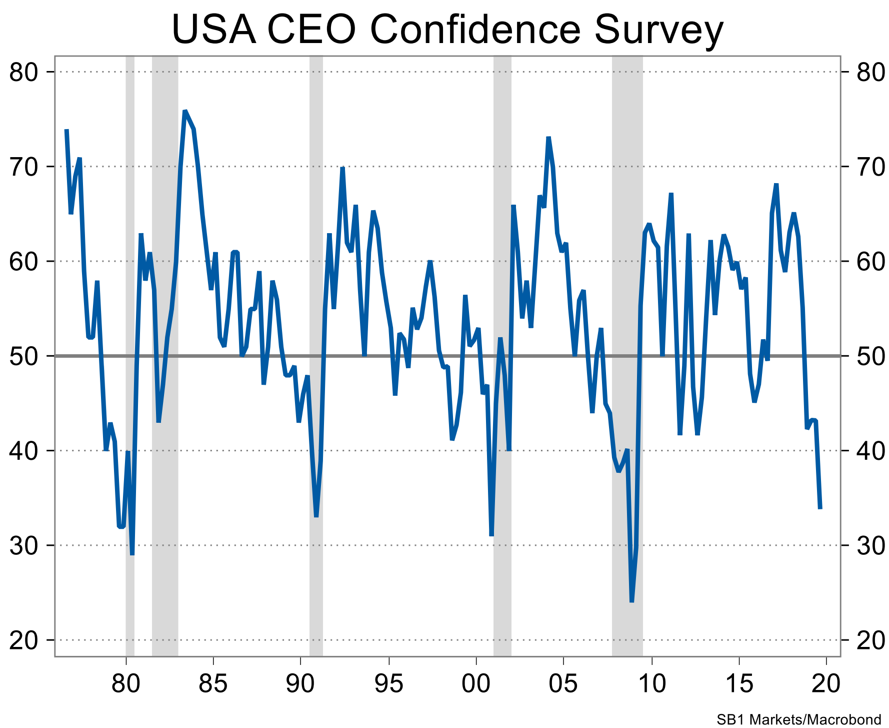


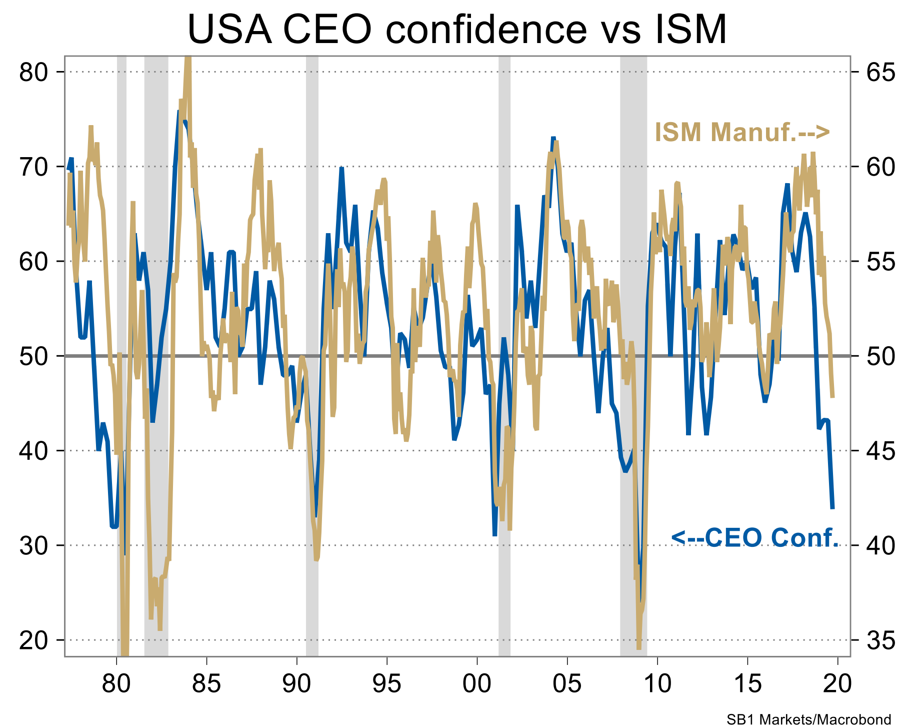


- The Phil Fed index fell marginally from a 'high' level in Oct, as did NY Fed and Kansas Fed's surveys, from close to average levels. However, Richmond Feds index rose sharply, and Markit's PMI rose further. Taken together, our model signals a substantial lift in the ISM – and a level at another planet than the Sept ISM print (55 vs 48).
- We do (of course) not expect the gap to be closed, but an uptick in the ISM seems far more likely than an further decrease

Big bosses are really worried – and more than all others

Conference Boards CEO confidence deep into recession territory. So far, they have not been wrong…

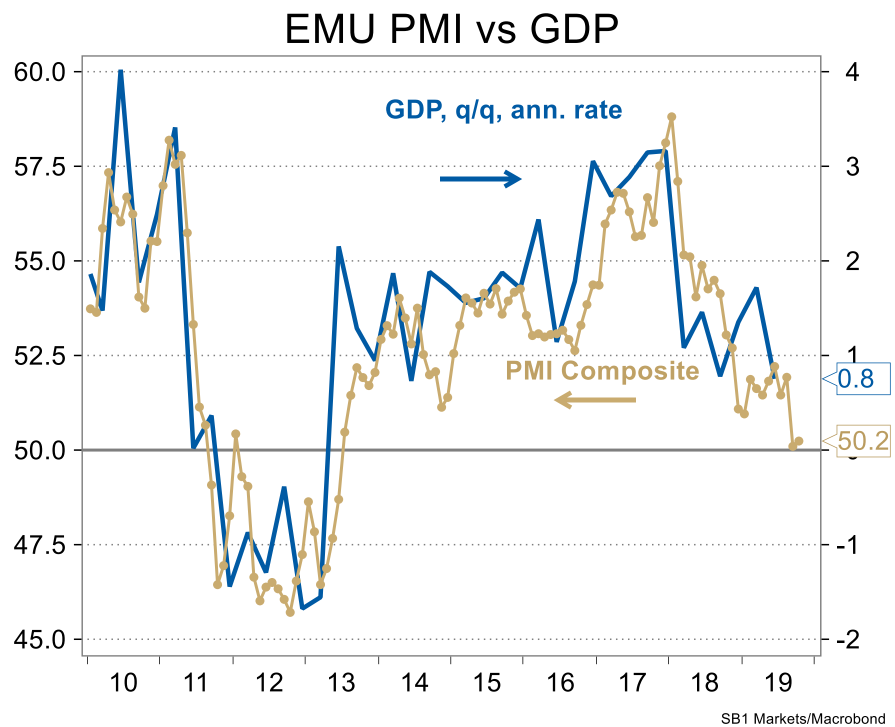


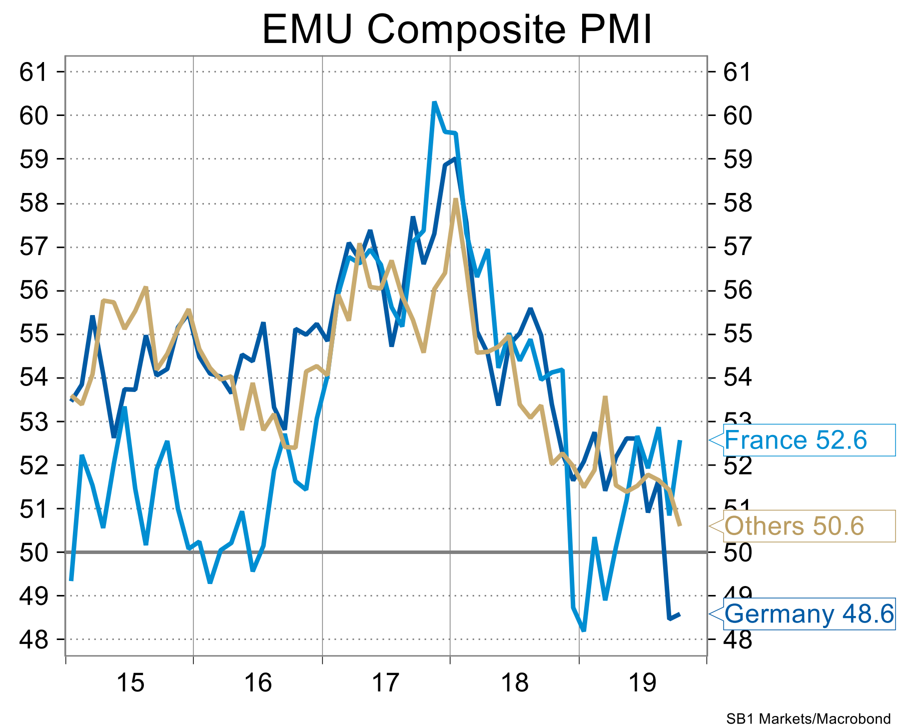


- CEO confidence have fallen far more than most other business surveys, even the weak September ISM manufacturing survey
- We have never before seen CEO confidence at the Q3 level without the US economy entering, or being into a recession

Eurozone PMI up just one inch in Oct, signalling an economy close to stagnation

The composite PMI did not recover from the Sept slip and Germany remains well below 50

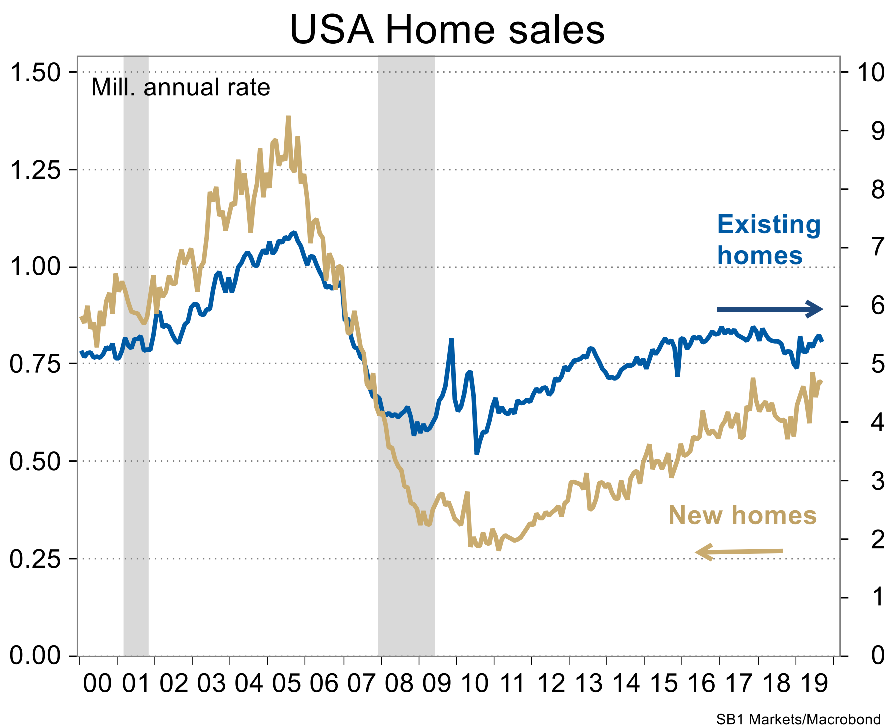


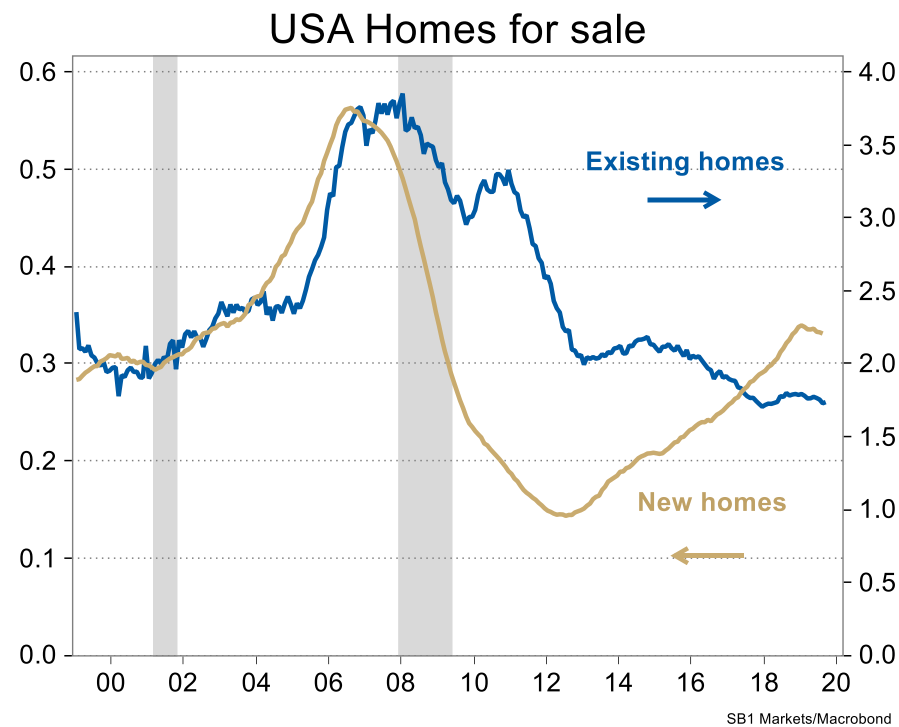


- The preliminary EMU composite PMI rose just 0.1 pp in October after a steep drop in September, a 0.3 pp increase was expected. The level is the weakest since the Euro crisis (barring Sept) and points to muted GDP growth into Q4.
- The German composite PMI rose just 0.1 pp and the level remains weak, at 48.6. France regained most of the Sept loss, thanks to a rebound in services. The implicit estimated average of the other countries declined further
- Manufacturing PMI held steady at disturbingly low 45.7, while services rose just 0.1 p, to 51.8. The service sector is still expanding moderately, yet the Sept/Oct PMIs may indicate that manufacturing weakness is spreading to service sector

New and existing home sales are climbing, reflecting a strong housing market

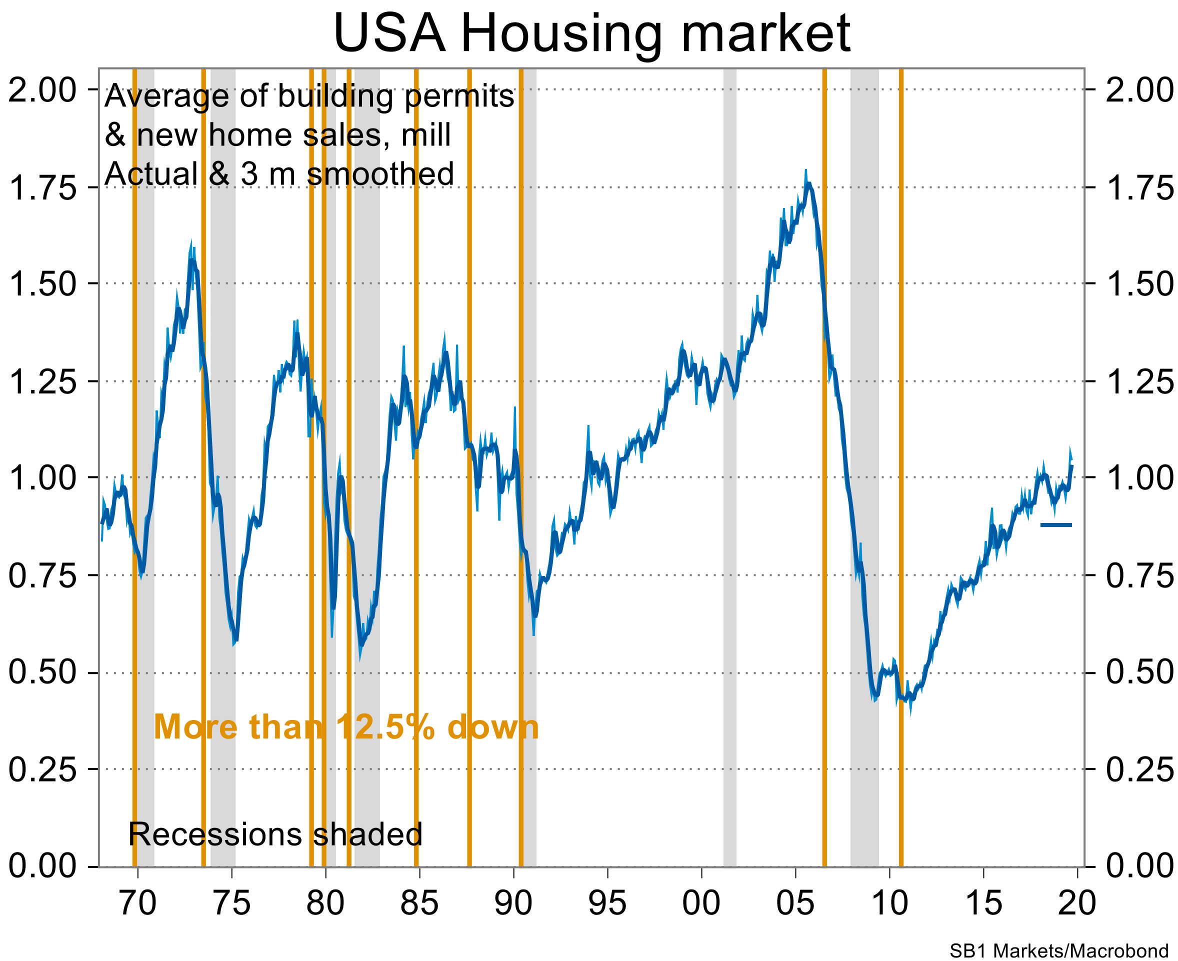
Sales softened somewhat in Sept after a strong August, both new and existing are trending up

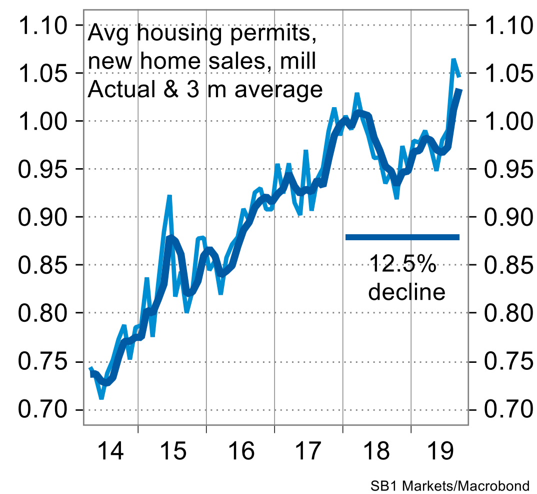




- New home sales fell marginally (0.7% m/m) in Sept after a 6.2% rise in Aug (revised from 7.1%). The annual rate at 701' was 9' weaker than expected, yet sales have anyway been climbing since the local bottom late 2018, to above the 2017 peak
  - » The number of unsold homes is now heading slowly down, both new and existing. Completions are rising, demand must be strengthening
- Existing home sales fell 2.2% m/m in Sept, slightly more than expected. Sales are still heading up and are some 9% higher than at the trough in January. However, pending home sales do not signal a further lift in existing home sales, and price inflation is slow

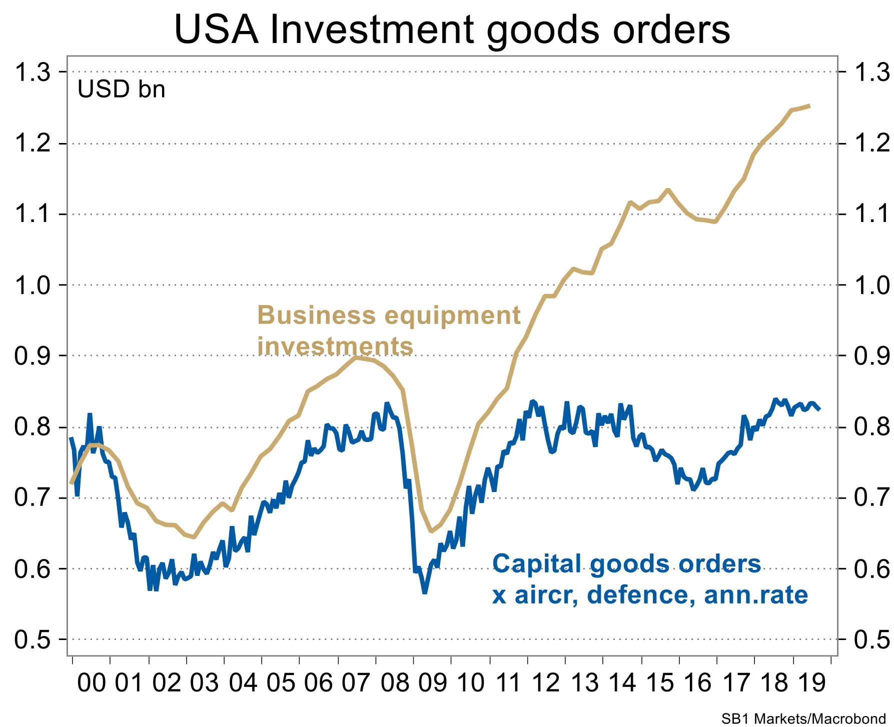
Housing vs recession: Safe, for now (at least in this sector)

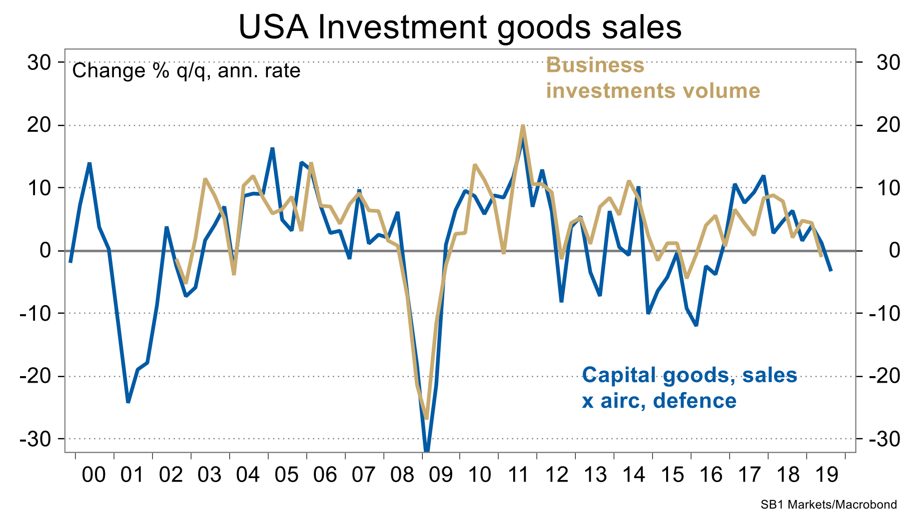


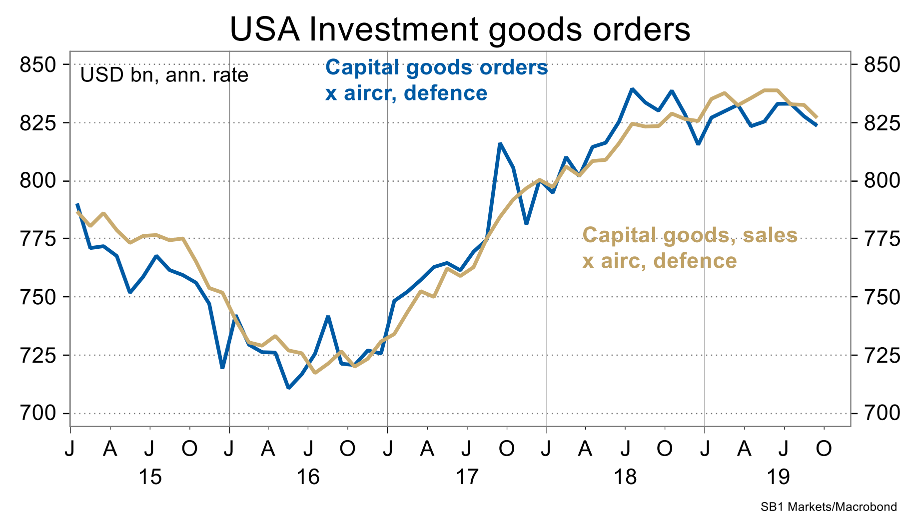


Capital goods sales suggest modestly declining business investments in Q3

Core investment orders edged down in Sept, trending flat. Sales down 3% in Q3



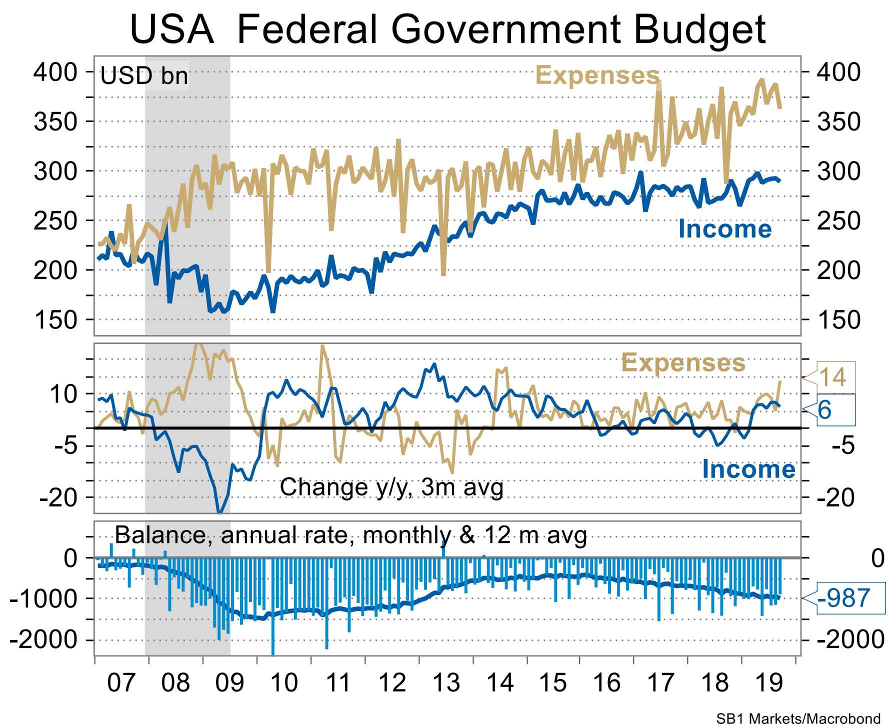


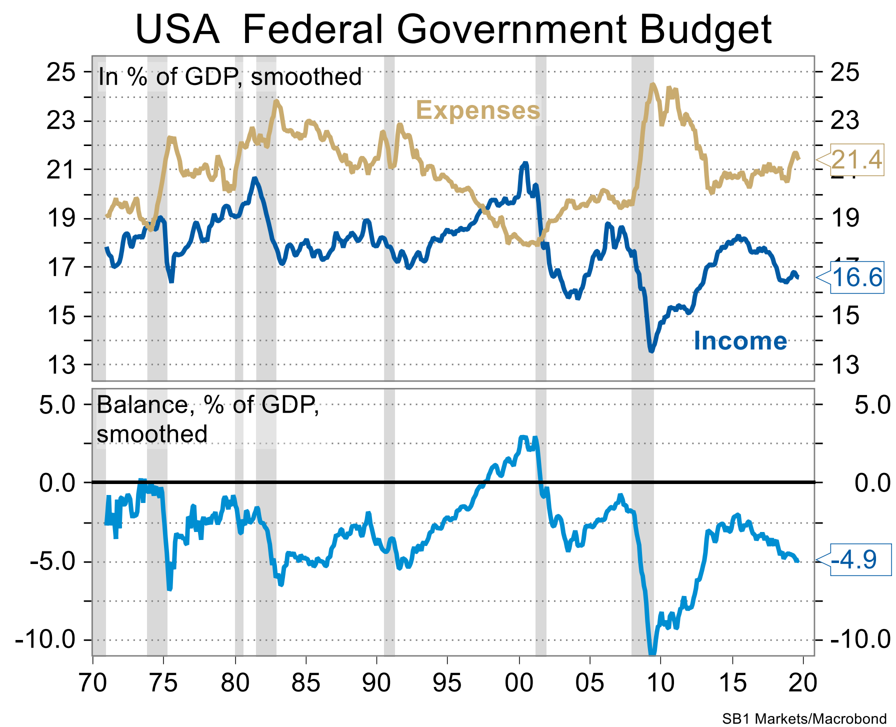


- Investment orders (core) fell by 0.5% m/m in Sept after a 0.6% decline in Aug. Still, orders rose marginally in Q3 (up 0.4% ann.) and the trend the past year is flat
- Sales declined by 0.7% m/m in Sept and 3.3% annualized in Q3. Sales indicate a mild decline in business investments in Q3, somewhat steeper than in Q2 but still no abrupt setback
- Unfortunately, the PMI/ISMs point to softer order inflows

The federal budget deficit is widening

The federal deficit now at 5% of GDP, and the total public sector deficit at 7.1% of GDP in Q2!





- The budget deficit fell to USD 890 bn in annual rate in August (seas. adj), and the 12 m (=fiscal year) was at 987 bn, and it is steadily increasing. Including local government etc, the US was running full employment, peacetime deficit at 7.1% in Q2 (from 6.9% in Q1); totally unprecedented!
- Federal spending is up 14% y/y 3m smoothed, underlying growth some 9% , well above growth in nominal GDP. Income is up 6% y/y (3 m smoothed & underlying)
- In % of GDP federal spending equals 21.5%, way above a normal level past 30 years (except for during recessions). Regrettably, federal income just equals less than 17% of GDP, much lower than normal in a blooming economy – of course because taxes have been cut
- A divided Congress has agreed upon a modest further increase for the deficit in 2019 and 2020, but no more than some 0.2 pp of GDP (extra)

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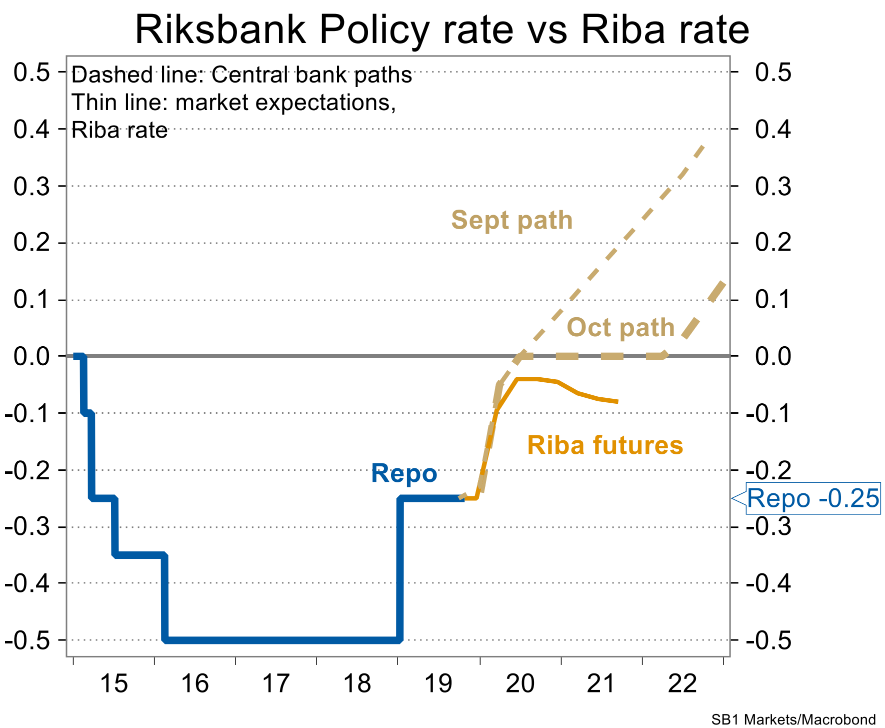
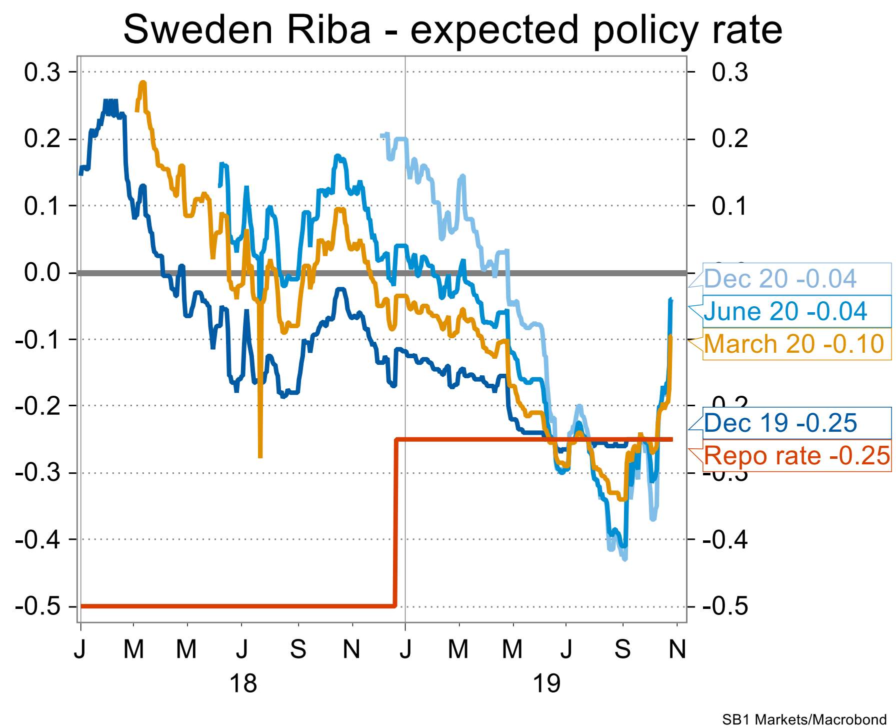
The Riksbank unexpectedly still plans to exit negative rates this year

The bank stuck to its hiking plans, but specified Dec, from Q4/Q1, and lowered the interest rate path

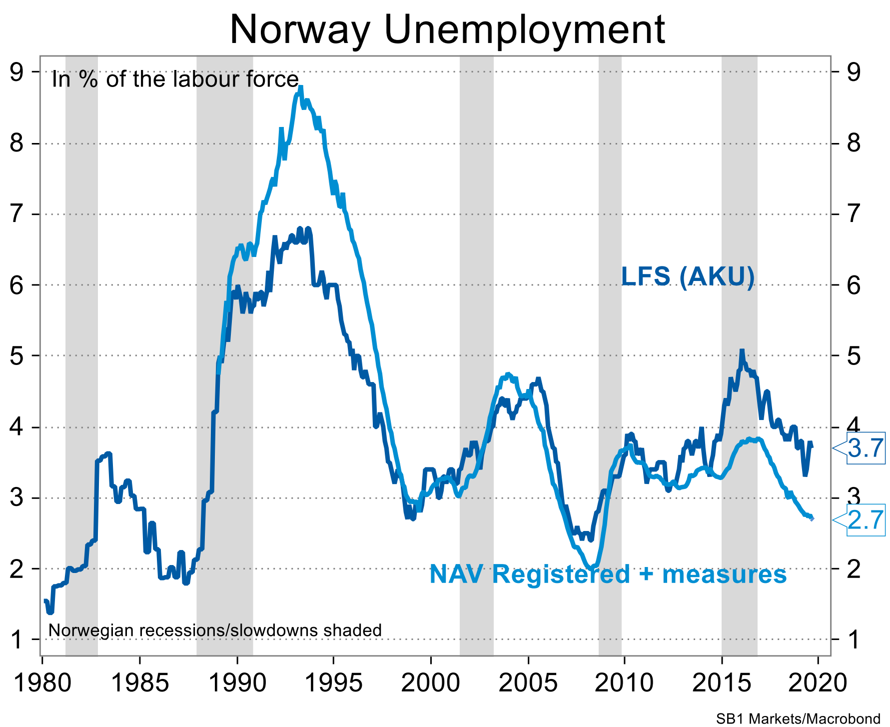


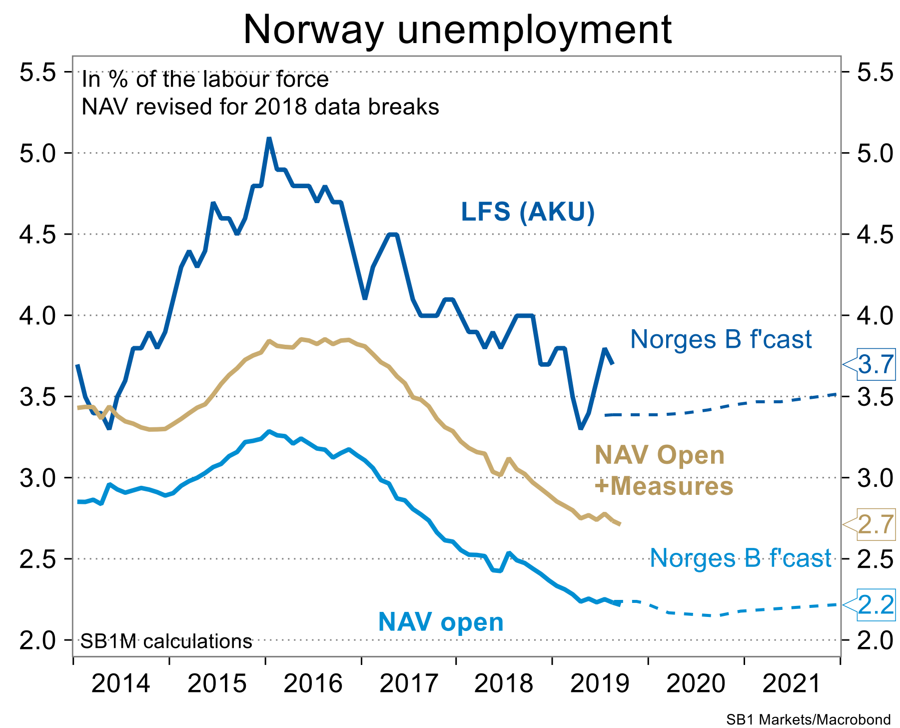


- Markets expected the Riksbank to held the interest rate unchanged at -0.25% but the bank was broadly expected to abandon its plans of hiking in Q4/Q1. Instead, the Riksbank announced that it plans to deliver a 25 bps hike to a zero rate in December. At the same time, from there the interest rate path was flattened, signalling that the interest rate will be kept unchanged until the end of 2021
  - » RIBA futures on the Riksbank rate rose some 8-9 bps on the Riksbank message (and further at Friday, the Dec contract is up 25 bps , and the market and the SEK appreciated. Now, the March RIBA contract (Dec-March period) at -0.10% implies that the market put a 60% probability for a December hike.

LFS unemployment one tick down in Aug, participation soars (but less than reported?)

Unempl. fell to 3.7% as expected, employment rate up 0.3 pp, participation up 0.2 pp

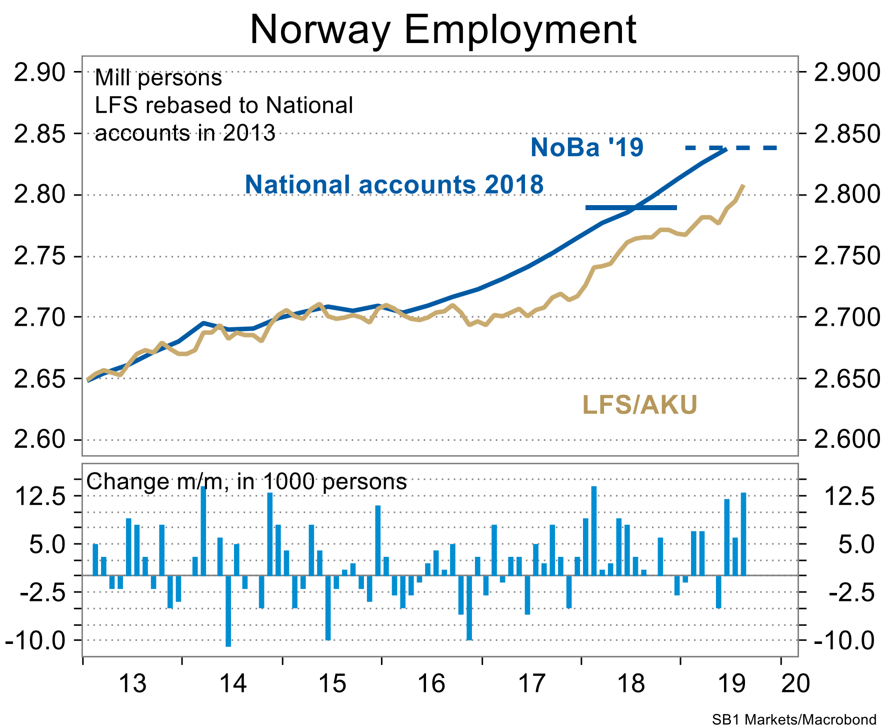


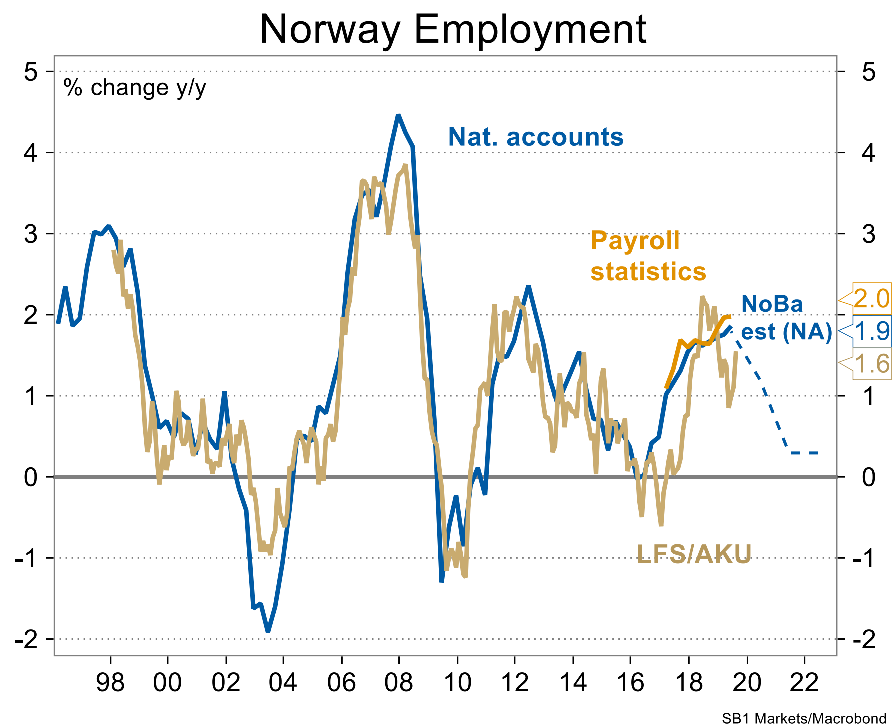


- LFS (AKU) unemployment to 3.7% in Aug (avg Jul-Sep) a 0.1 pp decline, as expected. Unemployment has ticked up since early spring, and is back to the early 2019 level. However, these data are volatile, we assume the trend is still downwards. Norges Bank assumed a 3.4% unemployment rate and expect unemployment to flatten out at this level until late 2020
- The uptick is due to a jump in labour market participation. The participation rate rose 0.2 pp in Aug and is up 0.9 pp the past 3 months! At the same time, employment has been growing strongly, it rose by 13' persons m/m in August, and the empl. rate is up 6 pp. These data indicate that the labour market tightness may be less pronounced than presumed, and the growth potential higher. However, the steep upturn in Q3 is partly due to an unusual jump in empl. among the youngest age groups, which we doubt is correct, check this slide
- NAV unemployment is still heading down, although at a somewhat slower pace. Does not confirm any sudden shift at the labour market

Employment is growing at a solid pace

LFS empl. is up 1.6% y/y, 0.3 pp below the Q2 National Accounts and 0.1 pp below NoBa's f'cast

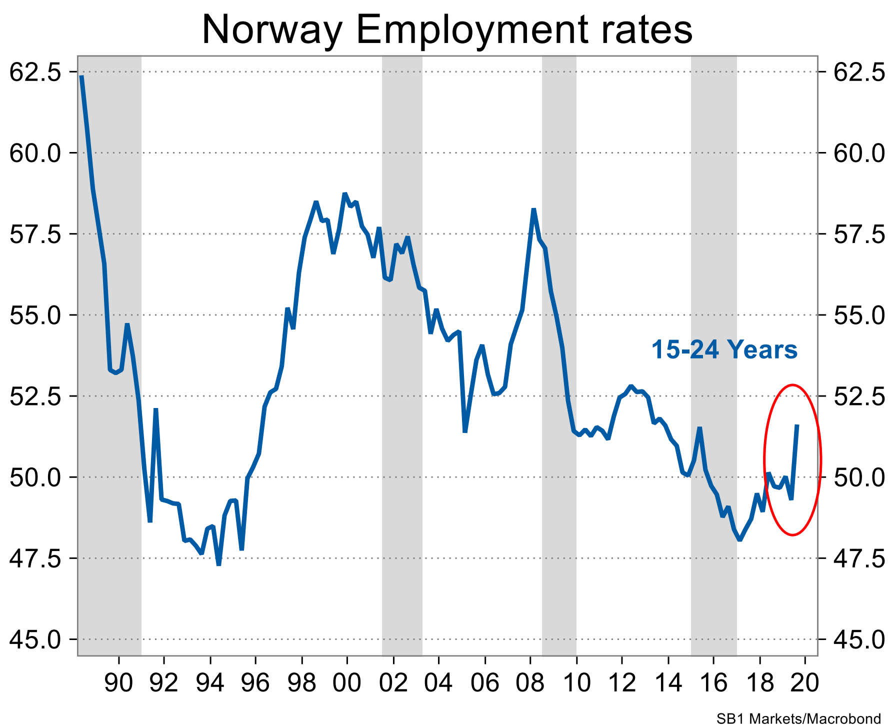


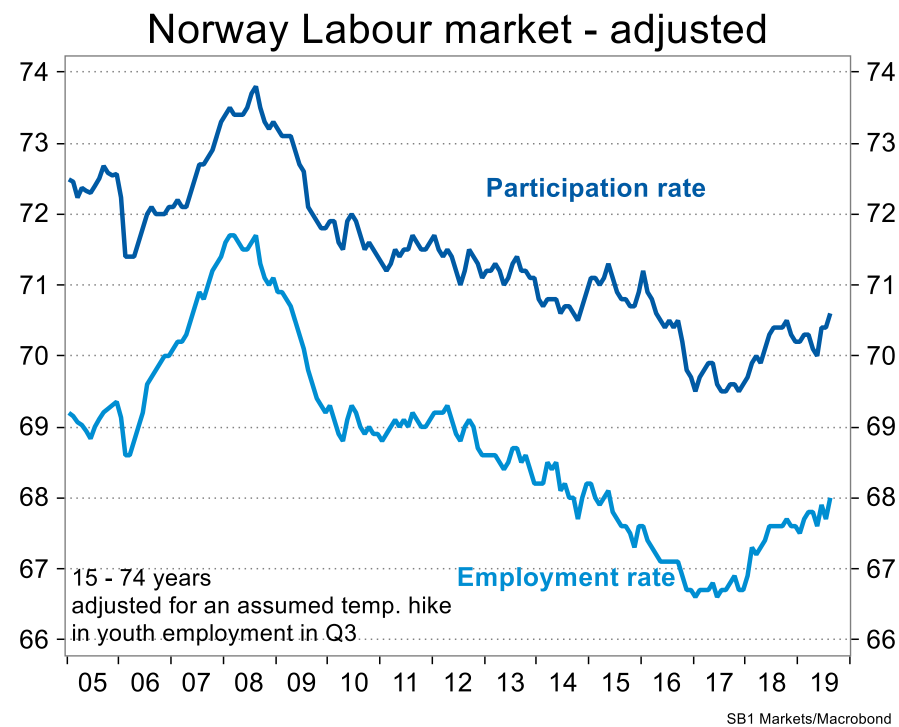


- Employment measured by the LFS accelerated through 2017 and the first half of 2018, to above 2%. The past year, employment has eased somewhat but gained pace in August, too 1.6% y/y
  - » National accounts' employment figures (and the new quarterly register employee statistics) are no doubt more accurate than the LFS survey data. Nat. Acc. is noting stable employment growth the past year, up 1.9% y/y in Q2. Payroll statistics report 2% growth
  - » In the Sept MPR, Norges Bank nudged up its 2019 employment f'cast by 0.1 pp, to 1.8%, and 2020 up to 1.2%
  - » The working age population rose 0.6% q/q y/y in Q3. Thus, a 1.9% (or 1.6%) employment growth is above trend
- We expect a slowdown in employment growth the coming years (as do Norges Bank), mainly due to lack of labour

Our adjusted figures: Participation is slowly increasing

Employment and participation are 0.3 pp lower when adjusting for a suspicious jump in youth empl.

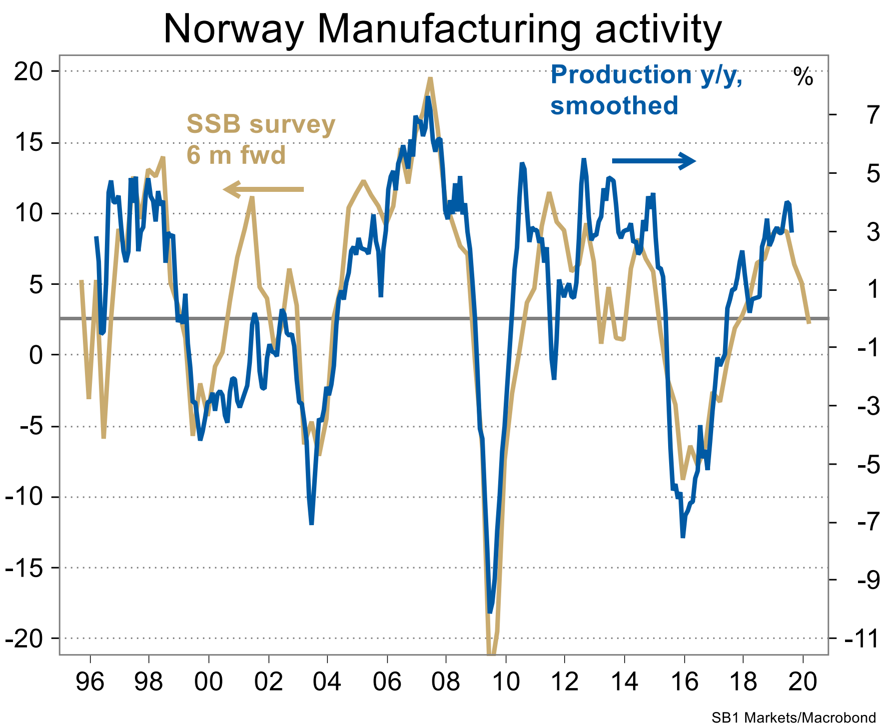


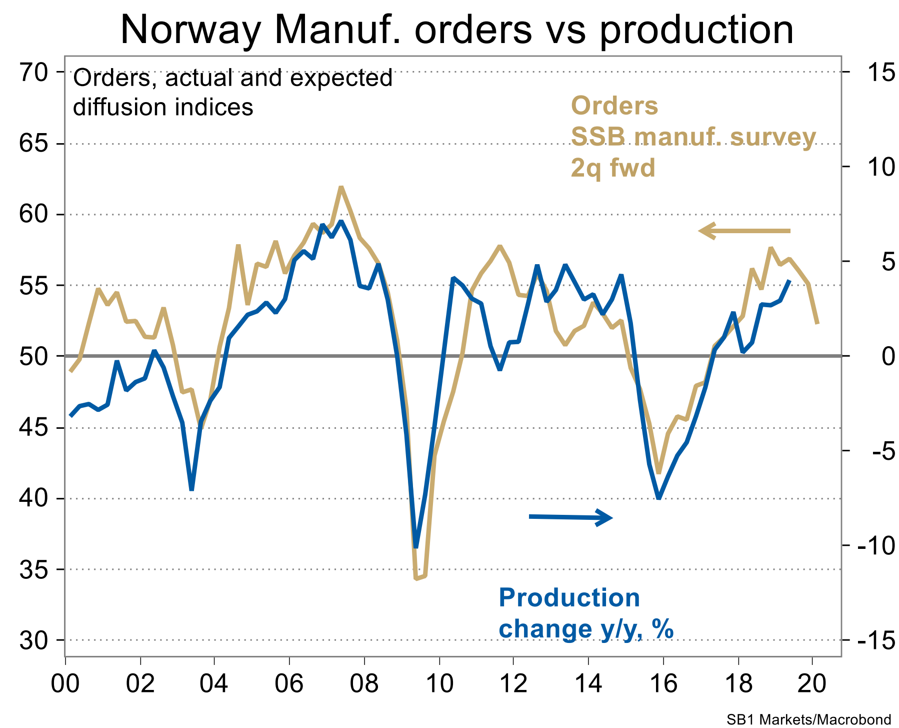


- Check the spike in youth employment at the chart to the left. We have assumed that most of the Q3 jump (from 49.3 to 51.6) will be reversed, as spikes like these are usually technical and later reversed. If this assumption is accurate, the employment rate (and participation, we assume unchanged unemployment) is some 0.3 pp lower than reported – but anyway trending up

SSB's manufacturing confidence falls, signalling zero growth?

Businesses are reporting softer orders, both in oil/non-oil related sectors. Employment plans down

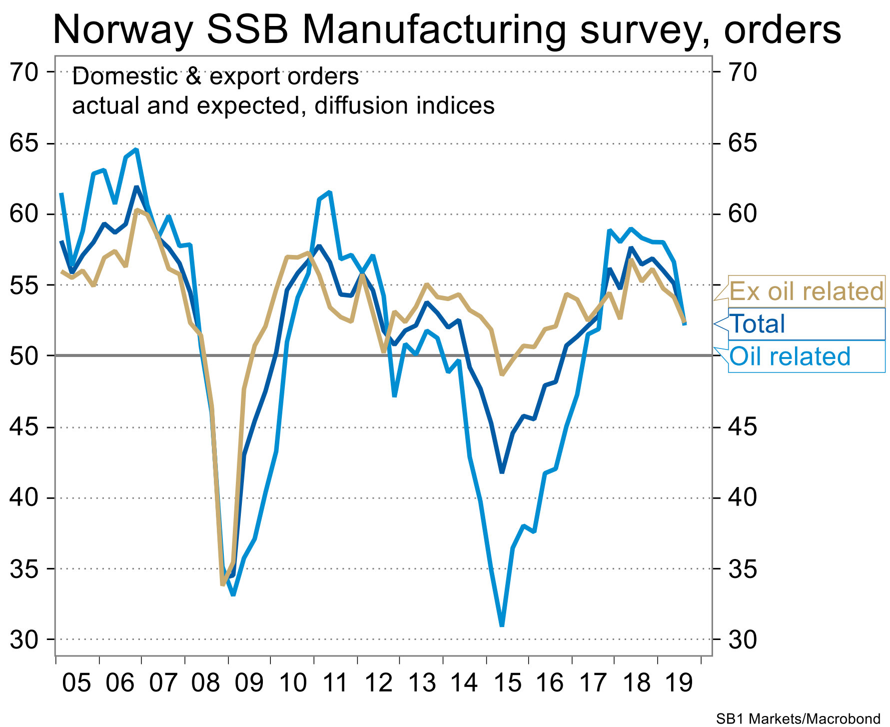


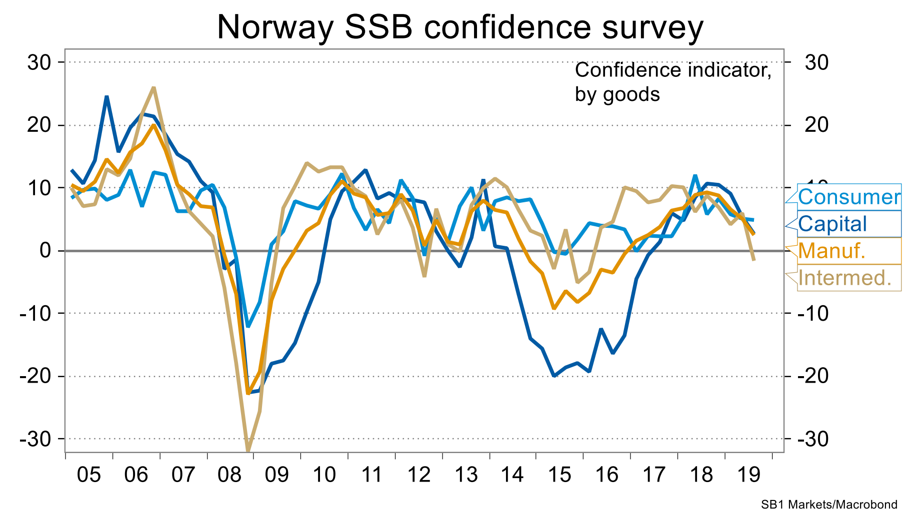


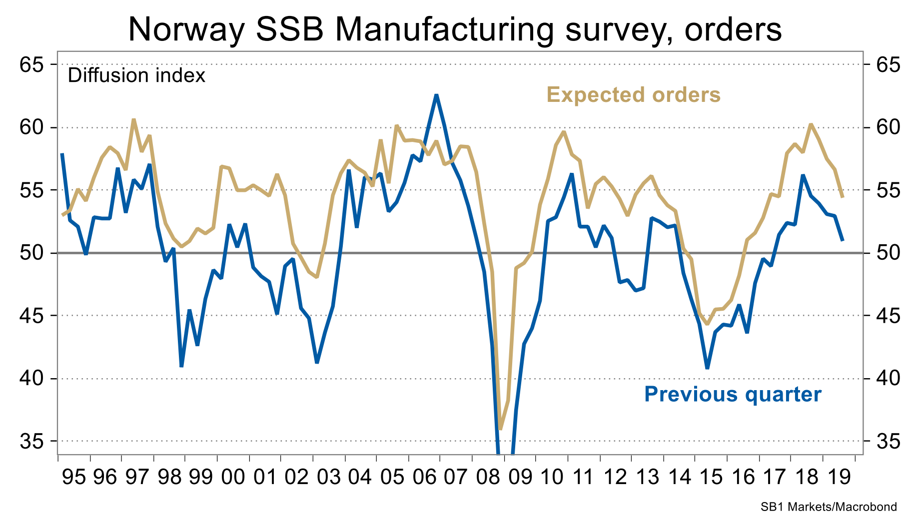
- The composite index in SSB's industrial survey (manuf. index) fell to 2.5 in Q3, from 5.1 in Q2 (revised from 6), the weakest since early 2017, we expected down to 3 (consensus 4)
  - » An index at 2.5 signals no growth in production – in average but with a wide margin of error, the average (signalling trend growth) is 4
- Manufacturing businesses are noting weaker orders in both oil related and non-oil related sectors
- SSB's industrial confidence survey confirms what several other surveys (such as investment surveys, PMI, Norges Bank's Network) have signaled; that growth is peaking now, and will slow the coming quarters

Manufacturing order inflows are softening sharply and broadly

Orders are slowing in both oil and ex oil related sectors, and confidence is weakening in all sectors



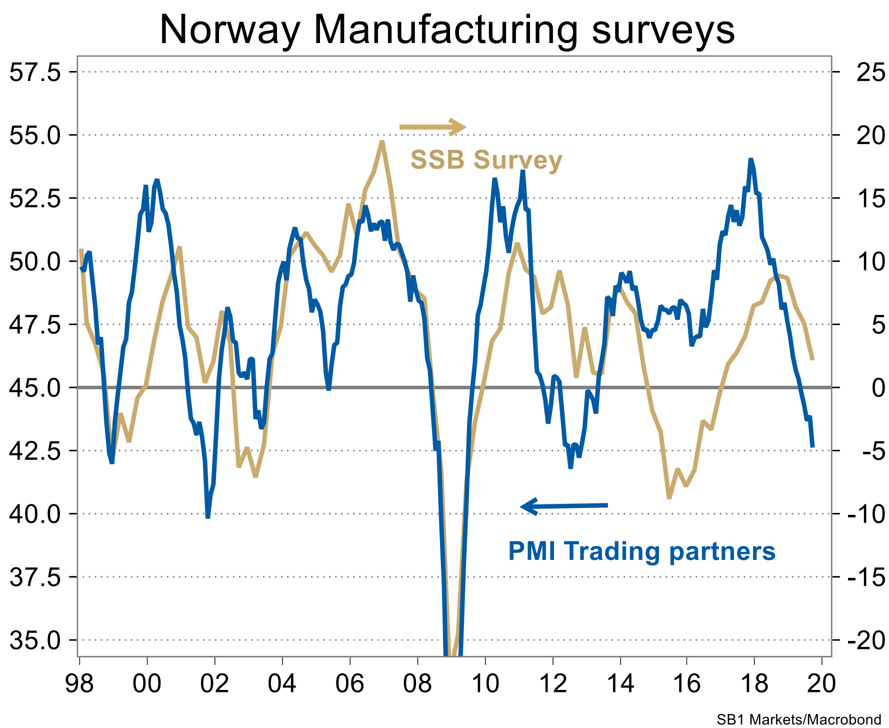


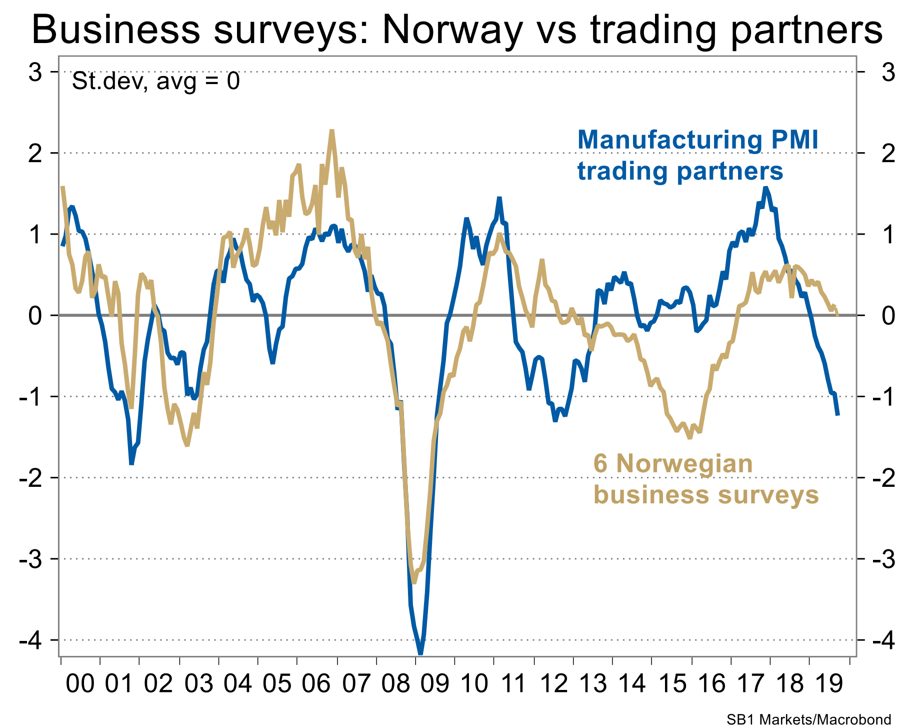


- Both reported and expected orders are still growing but they have slowed substantially recent quarters, from high levels

Norway is following its trading partners down

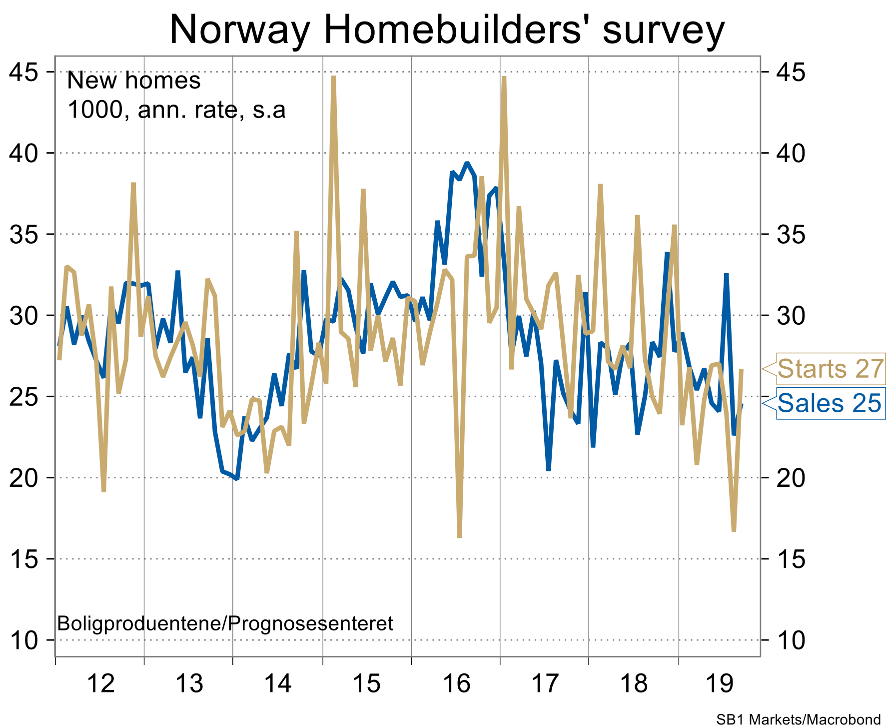
Both SSB's survey and the mean of several surveys are heading down

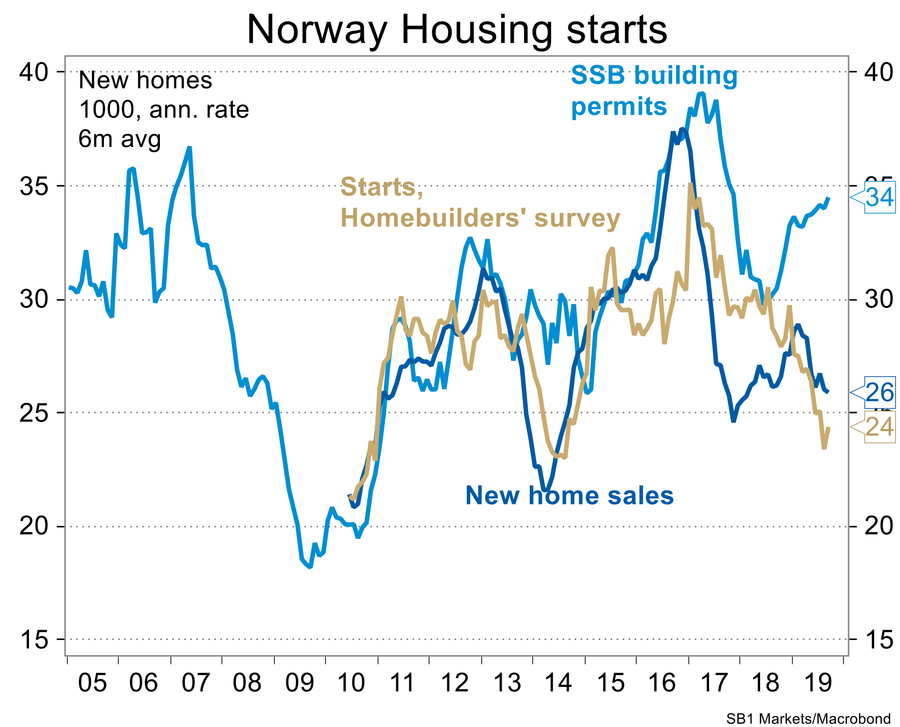




SSB reports a rise in housing starts, Homebuilders note a steep decline

Our assessment is that starts barring student housing have flattened out, at a comfortable level





- SSB reported a marginal uptick in housing starts (building permits) to 33' annually in Sept, from 32' in Aug. The 6m average is at 34' and still heading slowly up, after a market acceleration in late 2018
- The Homebuilders' housing starts bounced back in Sept, yet trending steeply down; the gap to SSB's data is much wider than usual. Student homes, which is only included in the SSB figures, explains some of the deviance. Thus, our take is that ordinary housing starts may have turned down or are flat, at best. Also, new home sales have softened since early 2019 and do not signal higher starts
- Total housing starts (in sq.m) is close to flat and indicate a muted growth in housing investments. The level is not low, although well below the 2016-2017 peak. Starts are above the average since 2000, and approx. at the per capita average (with low population growth and real income growth much below what we have been used too)

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets, and the trade conflict is now doubt a factor behind the recent slowdown, especially in the manufacturing sector. 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 EMs 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. Investment rates are not far too high, few debt bubbles this time. **Still, growth has slowed to 3% from 4%, and we expect a further slowdown to 2.5% in 2020, even if trade conflicts are 'solved'. If ramped up, more downside risk**	We estimate a 0.2 p decline in the global composite PMI in October, due to a further decline in services, manufacturing unchanged (our est.)
China	The governments' stimulus measures may have stabilised the economy, and surveys and data do not point to a hard downturn (rather, a stabilization recent months). 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/world hegemony war will hurt the Chinese economy**	House price inflation is slowing, even as credit growth has turned up. Sept data in sum OK. Q3 GDP rose 6.1% q/q ann, as f'casted, growth is slowing but very slowly.
USA	Growth has slowed, from well above trend. The employment rate is still trending up, and unemployment down, but wage growth is not accelerating. Price 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 but may now be softening (and partly funded by lower, although still high savings). Housing mostly positive. Fiscal stimulus continues 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. **Risks: Trump/trade/business investments**	Manuf. PMI is slowly climbing, in contradiction to ISM. Services slightly up, not upbeat. Both new and existing home sales are heading up, the housing market is no doubt improving. Durable/capital orders are softening but there is no abrupt setback.
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 does not have that much ammunition left, barring a huge QE, and the ECB policy makers are split. 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**	October PMIs remained weak, although France noted an upturn. Consumer confidence is still strong, even as it dropped in October. Even German consumers are rather upbeat. German Ifo still weak
Norway	Growth is still above trend but may soon be peaking. Unempl. is still declining, although at a slower pace. 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 probably slowing. Electr. prices have taken the headline CPI down but core still slightly above target. Credit growth slowing (households) still above income growth, is spite of heavy regulations. **Risks: Debt, housing. A harsh global slowdown**	LFS unemployment has increased, yet we assume the trend is still downwards. SSB's industrial confidence survey fell further, growth is peaking now. Housing starts are probably flattening out/slowly declining

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

The Calendar

In focus: October manuf. PMIs/ISM, Fed to cut? US Q3 GDP, nonfarm payrolls, EMU Q3 GDP

Time	Country	Indicator	Period	Forecast	Prior
Monday Oct 28					
13:30	US	Chicago Fed National Activity Index	Sep	0.05	0.1
13:30	US	Advance Goods Trade Balance	Sep	-$73.5b	-$72.8b
Tuesday Oct 29					
14:00	US	CS 20-City House Prices MoM	Aug	-0.1%	0.0%
15:00	US	Pending Home Sales MoM	Sep	0.5%	1.6%
15:00	US	Conf. Board Consumer Confidence	Oct	127.7	125.1
Wednesday Oct 30					
08:00	NO	Retail Sales MoM	Sep	0.3 (0.2%)	0.00%
11:00	EC	Economic Confidence	Oct	101.1	101.7
13:15	US	ADP Employment Change	Oct	110k	135k
13:30	US	GDP QoQ Annualized	3Q A	1.6%	2.0%
13:30	US	Core PCE QoQ	3Q A	2.2%	1.9%
19:00	US	FOMC Rate Decision	Oct-30	1.5-1.75%	1.75%-2%
Thursday Oct 31					
00:50	JN	Industrial Production MoM	Sep P	0.4%	-1.2%
02:00	CH	Composite PMI, NBS/CFLP	Oct	--	53.1
08:00	NO	Credit Growth YoY	Sep	5.5%(5.7)	5.5%
11:00	EC	Unemployment Rate	Sep	7.4%	7.4%
11:00	EC	GDP QoQ	3Q A	0.1%	0.2%
11:00	EC	CPI Core YoY	Oct P	1.0%	1.0%
12:30	US	Challenger Job Cuts YoY	Oct	--	-24.8%
13:30	US	Employment Cost Index	3Q	0.7%	0.6%
13:30	US	Personal Income	Sep	0.3%	0.4%
13:30	US	Personal Spending	Sep	0.3%	0.1%
13:30	US	PCE Core Deflator YoY	Sep	1.7%	1.8%
13:30	US	Initial Jobless Claims	Oct-26	215k	212k
	JN	BOJ Policy Balance Rate	Oct-31	-0.1%	-0.10%
Friday Nov 1					
00:30	JN	Jobless Rate	Sep	2.2%	2.2%
01:30	JN	Manufacturing PMI	Oct F	--	--
02:45	CH	Manufacturing PMI, Markit/Caixin	Oct	51	51.4
08:30	SW	PMI Manufacturing	Oct	46.8	46.3
09:00	NO	PMI Manufacturing	Oct	50.2 '(50.0)	50.4
10:00	NO	Unemployment Rate, Registered	Oct	2.1%(2.1)	2.2%
10:00	NO	OBOS Oslo Apartment Prices MoM	Oct		1.7%
10:30	UK	PMI Manufacturing	Oct	48.3	48.3
13:30	US	Change in Nonfarm Payrolls	Oct	90k	136k
13:30	US	Unemployment Rate	Oct	3.6%	3.5%
13:30	US	Average Hourly Earnings YoY	Oct	3.0%	2.9%
14:45	US	Markit Manufacturing PMI	Oct F	51.5	51.5
15:00	US	ISM Manufacturing	Oct	49	47.8
	US	Total Vehicle Sales	Oct	17.00m	17.19m

- **October Manufacturing PMIs**
  - » **The global manufacturing PMI** ticked up in both August and September, although still pointing to declining global manufacturing production. The preliminary PMI Oct PMIs signals a flat print
  - » Chinese manuf. PMIs have been improving recent months. The ISM tumbled in Sept, other surveys are less downbeat, and a recovery is likely
- **USA**
  - » The market is expecting another 25 bps **Fed cut** by some 90% probability. We think the likelihood is lower. If Fed cuts, a wait and see approach will be signalled
  - » **GDP growth** most likely slowed in Q3, however, the nowcasters are suggesting just a mild downtick to 1.8-1.9%. Consensus at 1.6%
  - » **Employment growth** is slowly cooling, partly due to supply shortages but also lower demand from some sectors. The labour market may now be at/close to a turning point. We expect m/m wage growth to rebound in Oct, following the marginal Sept decline. Still, the annual rate may remain at 2.9%
  - » **Core PCE deflator** is running lower than usual vs core CPI inflation, at 1.8% vs 2.4%, which one will yield? Short term, our bet is the PCE
- **EMU**
  - » We expect sustained sluggish **GDP growth** in Q3, held up by the consumer sector while manufacturing is contracting
  - » **Unemployment** is still sliding down in almost all countries
- **Norway**
  - » **Registered unemployment** is decreasing but slower. NAV data are more accurate than LFS. We expect total unempl. down by 400 persons
  - » **Household credit growth** is easing marginally but banks are not reporting lower demand or tightening standards
  - » **Retail sales** have improved somewhat the past months – but consumption will most likely be a drag on growth in Q3

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

In this report

Global

- Global macro data somewhat more downbeat, again
- Retail sales, manufacturing production slows; global trade declines
- Global PMI slides slowly down, we estimate a 0.2 p decline in October
- Both US and the Eurozone improved slightly in Oct, Japan steeply down
- US PMIs improved in October, still pointing to muted growth
- Eurozone PMI up just one inch in Oct, signalling an economy close to stagnation

China

- House price inflation is slowing – and credit probably not to blame

USA

- New and existing home sales are climbing, reflecting a strong housing market
- All housing market indicators have turned up
- Durable goods orders are softening but (core) not decreasing
- The budget deficit on the way up but who cares?
- Jobless claims remains very low, no signs of weakness yet
- Nowcasters are signalling close to 2% growth in Q3 as well

EMU

- Consumer confidence down in October but remains far above average
- Ifo expectations remains gloomy, manufacturing dip spreading?

UK

- Manufacturing orders are tumbling, signal a steep decline in production

Sweden

- The Riksbank unexpectedly still plans to exit negative rates this year
- Retail sales keep growing moderately, risks are tilted to the downside

Norway

- LFS unemployment one tick down in Aug, participation soars (but less than reported?)
- Labour market participation & employment spike, July/Aug exaggerated?
- SSB's manufacturing confidence falls, signalling zero growth?
- SSB reports a rise in housing starts, Homebuilders note a steep decline
- Consumer confidence reversed the Sept. uptick, trend clearly down

Highlights

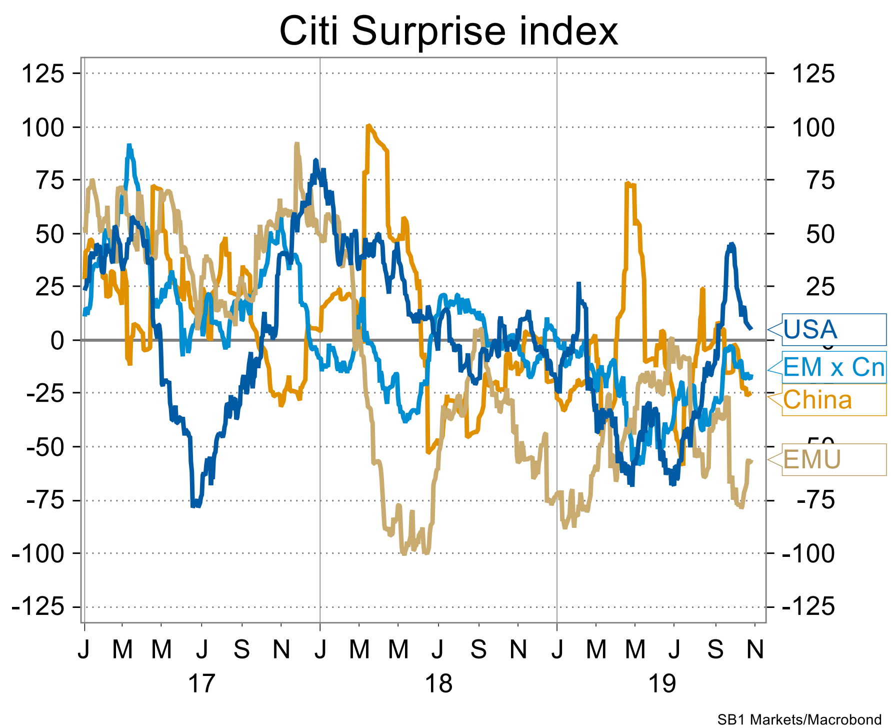
The world around us

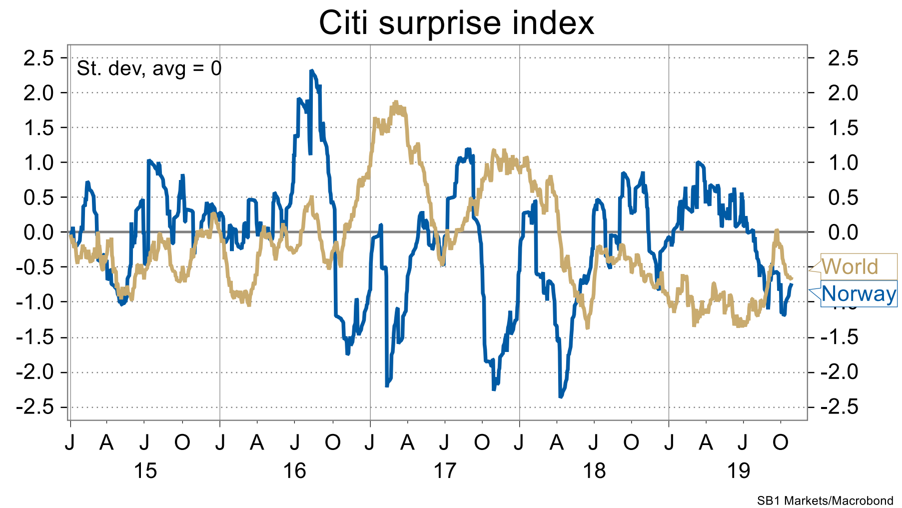
The Norwegian economy

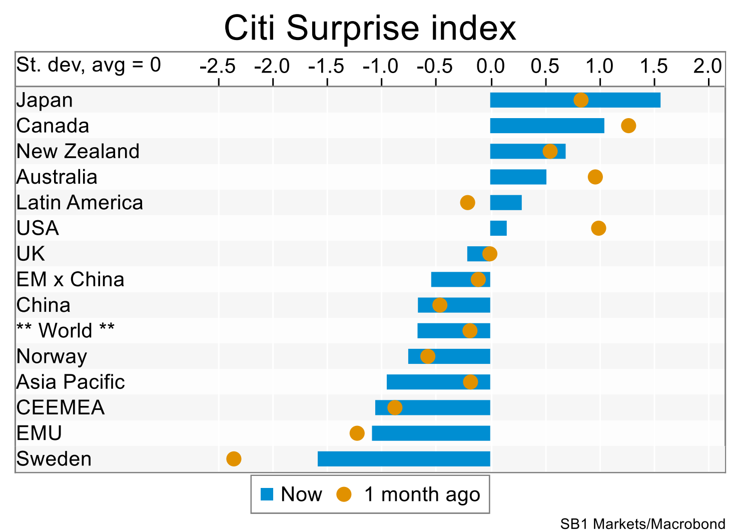
Market charts & comments

Global macro data somewhat more downbeat, again

Less positive news from US, softer China data (but not really) have sent the global index down





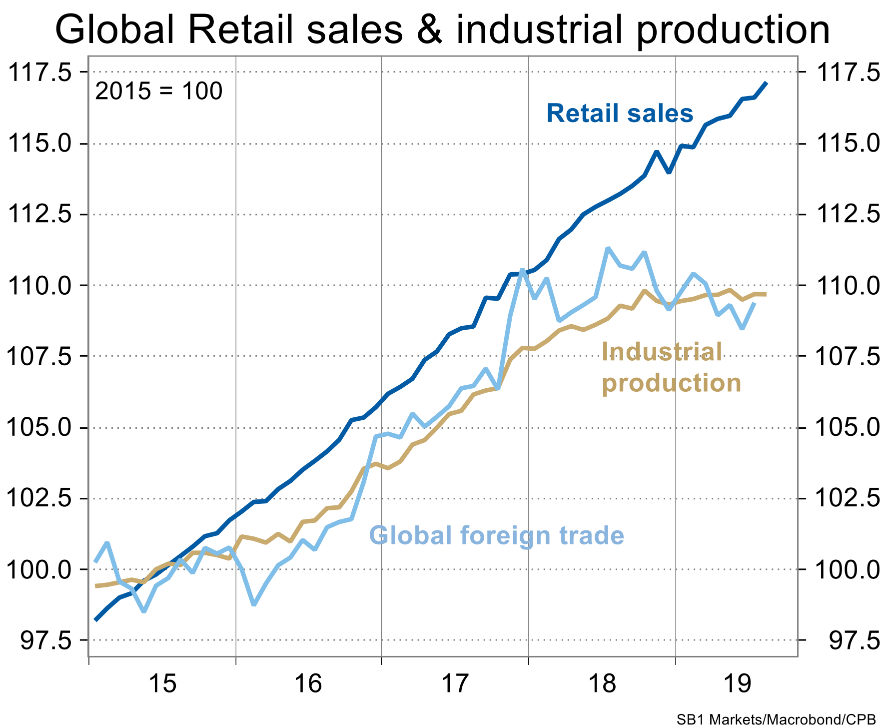


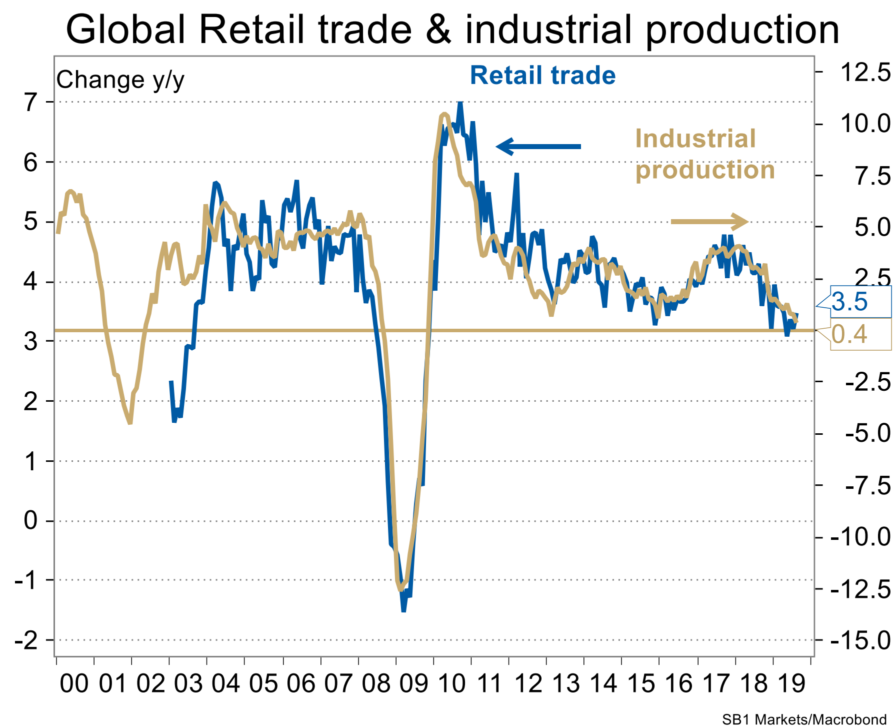
- The global surprise index climbed to a 'neutral' level for the first time this year in mid-Sept. Since then, data have been slightly more disappointing, in sum
- US data flows have been beating expectations the past month, however, much less recently. ISM, retail sales, orders, job openings and PPI inflation have sent the index down
- EMU data have been most disappointing since early 2019, slightly less the past weeks
- China sliding down again, along with other EMs (we did not find Sept data that weak)
- Norwegian data are slightly more disappointing than the world in general

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

Retail sales, manufacturing production slows; global trade declines

Global trade flows rose in July but are no doubt heading down. Manufacturing production stalls

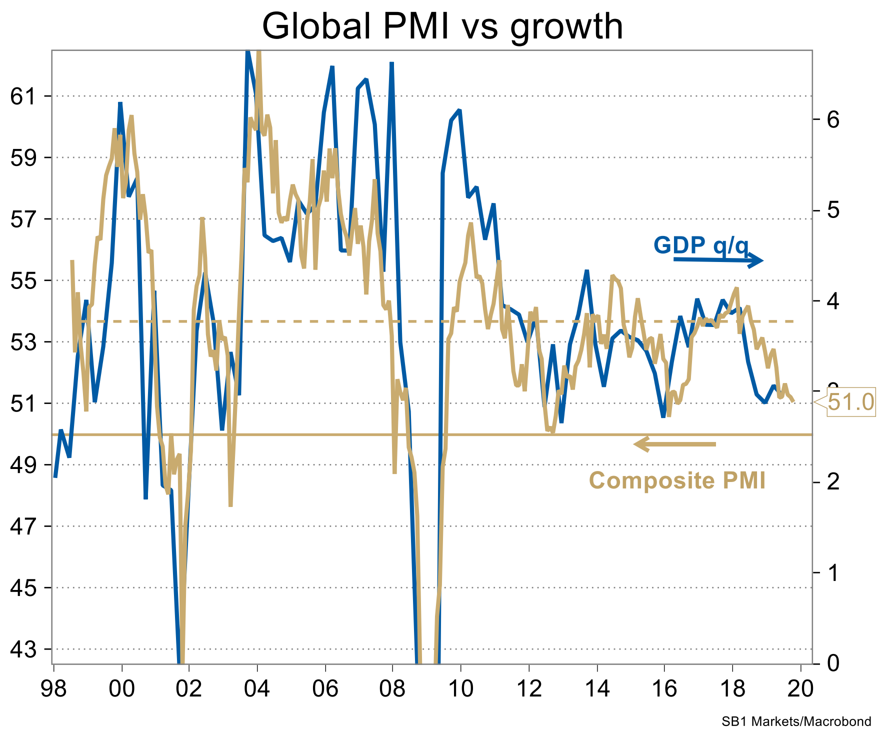


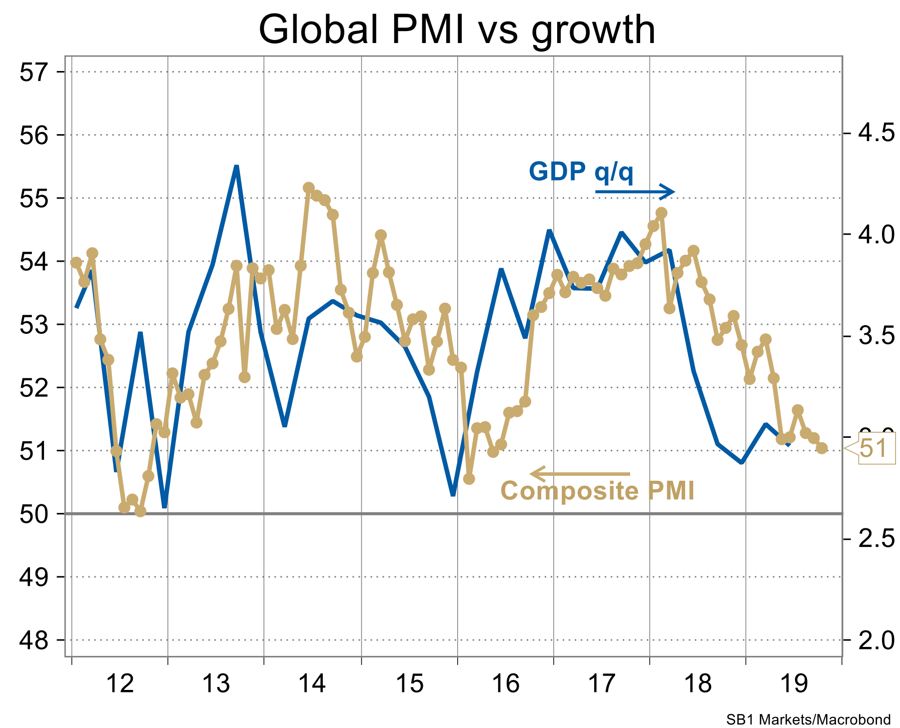


- **Global industrial production** was most likely unchanged% m/m in Aug (our estimate). The overall trend is no better than just marginally upwards, growth has slowed substantially. Global business surveys signal a modest decline
- **Retail sales** increased by 0.5% m/m in August, based on our estimate. 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
- **Global foreign trade** increased by 0.9% m/m in July (with our seasonal adjustment) but the decline in June was more abrupt than previously reported, down 0.8% m/m vs 0.5%. Trade flows are trending down, at a 2% pace since last summer, as trade uncertainties curb demand. The slowdown is rather broad based, Emerging Asia ex China and Lat. Am and Africa are the weakest links in the chain

Global PMI slides slowly down, we estimate a 0.2 p decline in October

The PMI was lower in both 2012 and 16’ (one month) but the cycle is more mature now



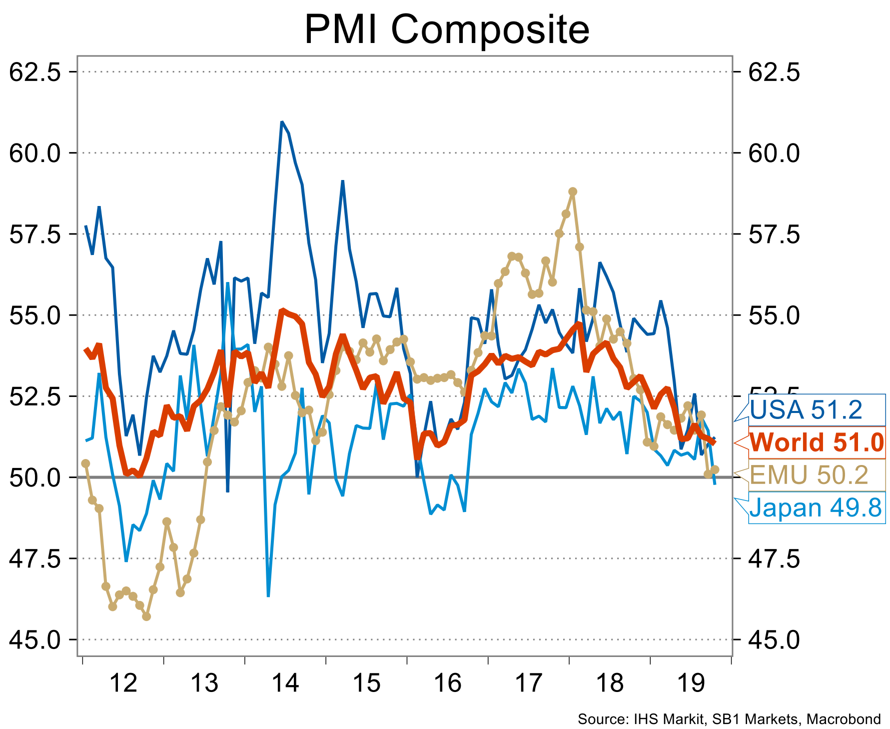


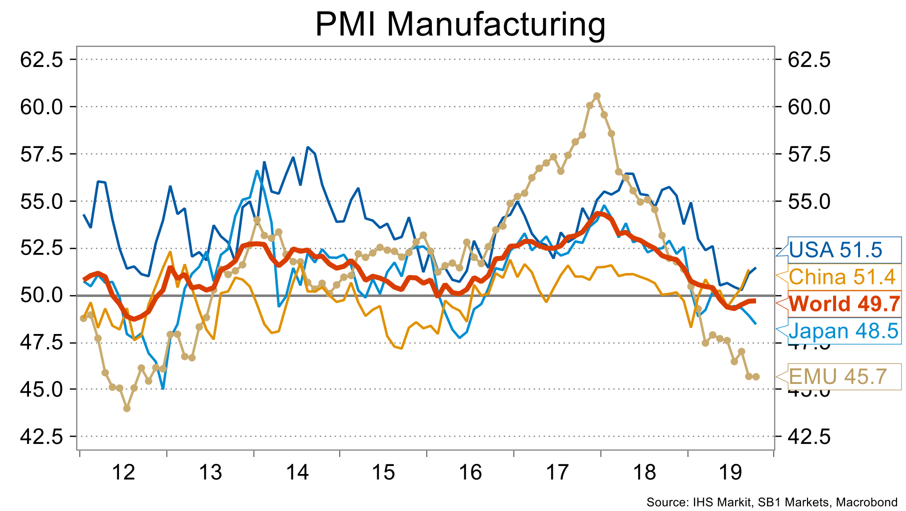
- We estimate a global composite PMI at 51.0 in October, down 0.2 p. The PMI points to a slowdown to just below 3% global GDP growth, vs close to 3.0% in Q2 (our estimate) and just a marginal slowdown from Q3 last year
  - » Our estimate is based on PMIs from the US, EMU and Japan. Japan PMI fell steeply, our estimate may put too much emphasize on this
- The PMI has fallen by 4 points from the Jan ‘18 local peak, equalling some 1 pp slower global GDP growth (or a 10 pp slowdown in global MSCI earnings per share), down to zero –which now has been recognised by analysts

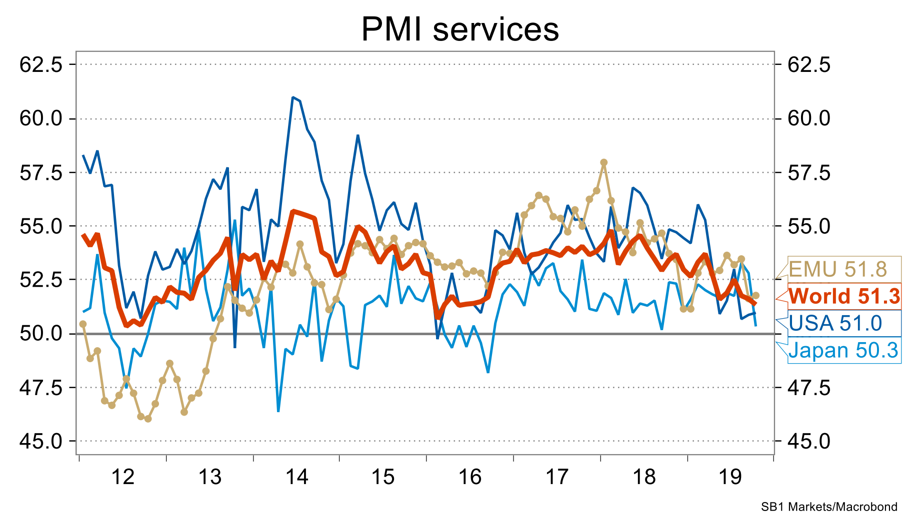
Our estimate is based on the preliminary composite PMIs from EMU, Japan and US,. The estimate is uncertain

Both US and the Eurozone improved slightly in Oct, Japan steeply down

The manufacturing PMI further up but still below 50. Services are still sliding down



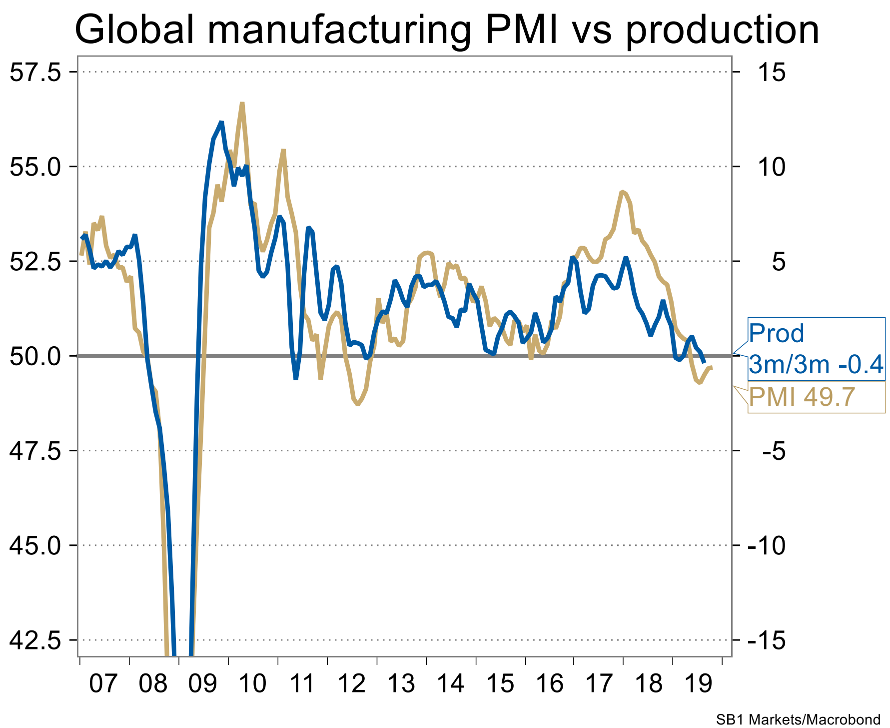




- The Eurozone manufacturing survey is far weaker than most other places. US have stabilized and even turned slightly up recent months, together with China (no Oct data yet), while Japan slides down
- Services are still growing moderately most places but all are slowing, manuf. downturn may be spreading to the broader economy
- Memo:
  - » The last obs for world PMIs are our estimates, based on preliminary data from the US, EMU, Japan
  - » Markit has not yet reported PMIs from China

Global manufacturing PMI has stabilised, but remains below 50

We estimate an unchanged Oct print at 49.7, pointing to a mild contraction in global production



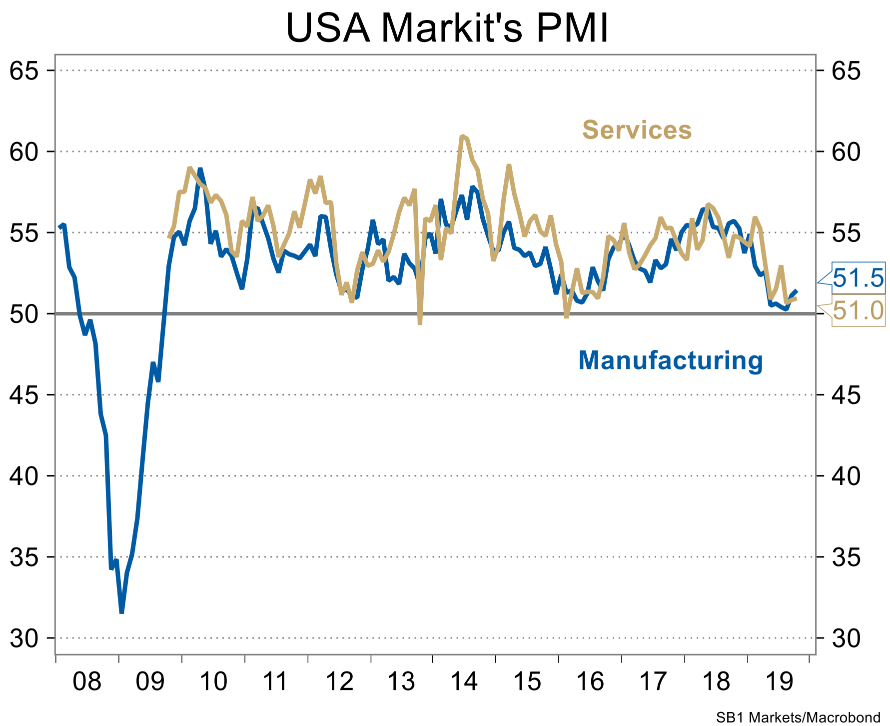
- Signals just a small decline in global manufacturing production, not much steeper than the current -0.4% speed, measured 3m/3m

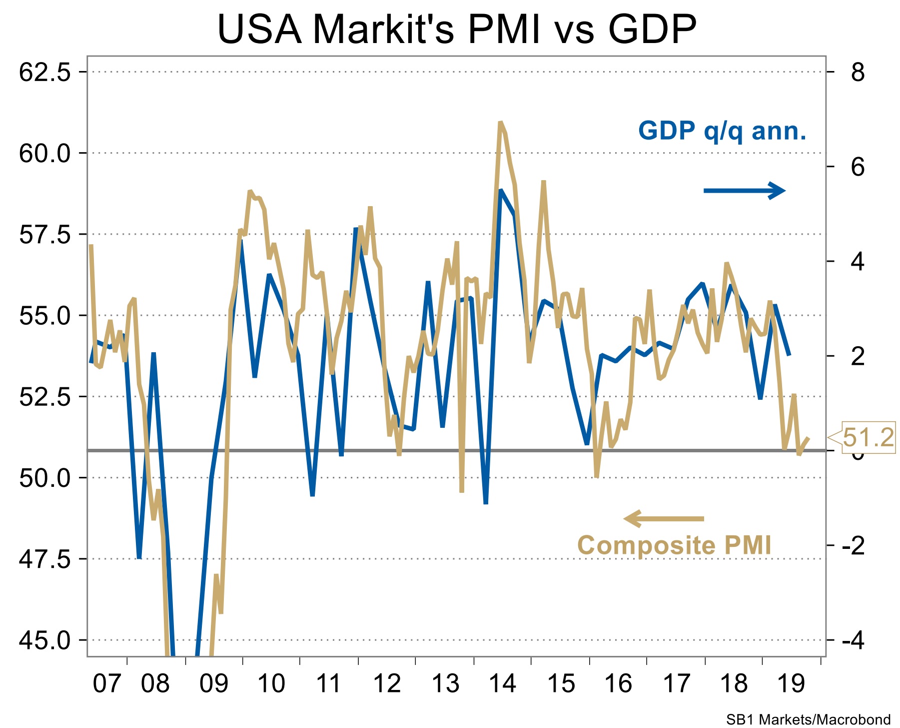
… Still, the PMI has been too upbeat the past two years…

- Memo: the last observation is our estimate on October PMI

Both PMIs improved in October, still pointing to muted growth

The PMIs have stabilized at decent levels, yet, details are rather weak; orders slow, employment falls



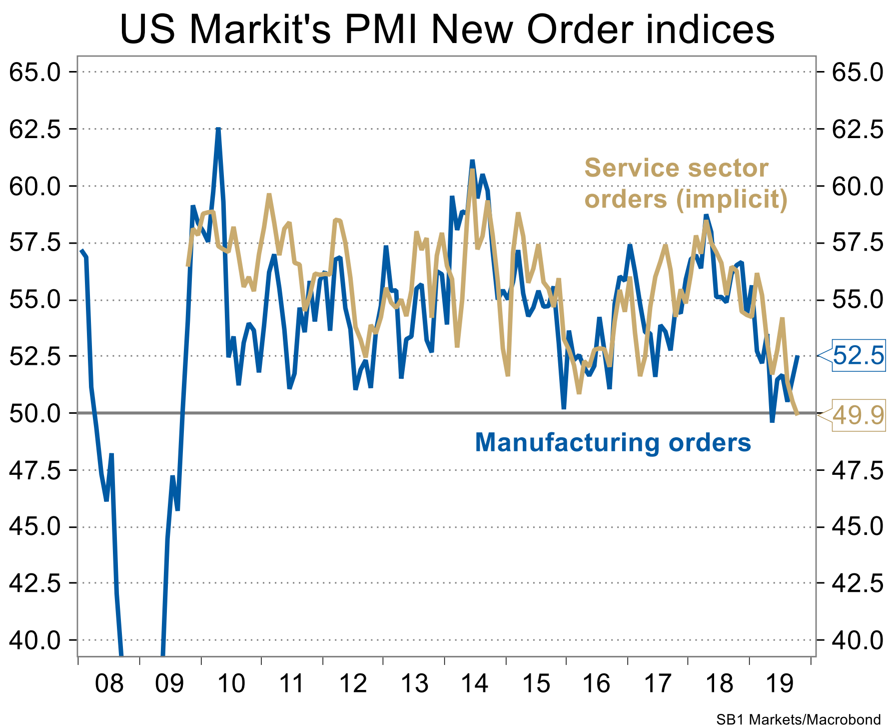


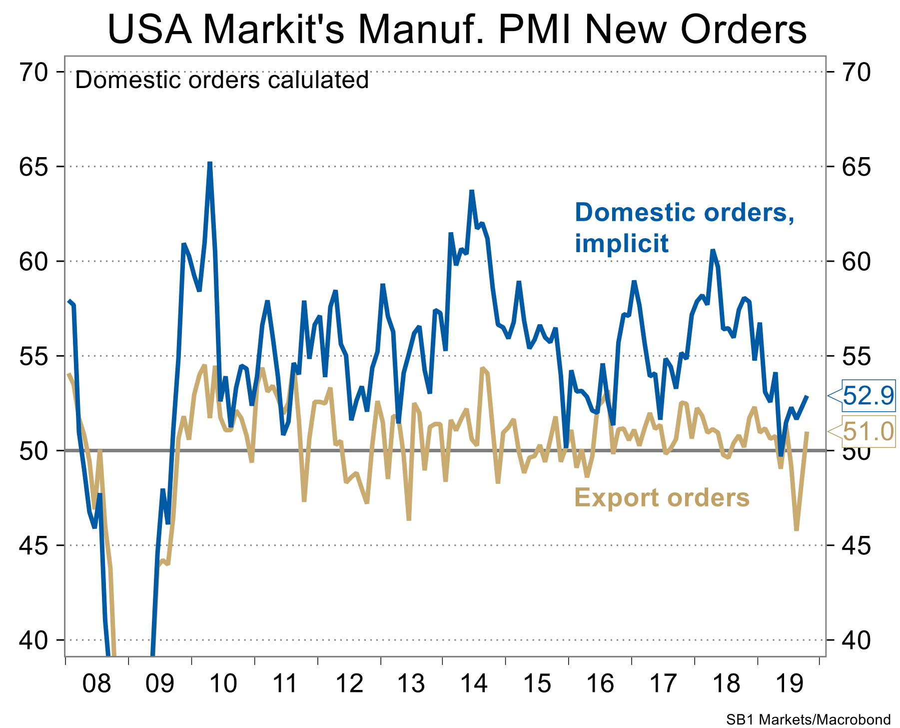
- The preliminary composite PMI rose to 51.2, a 0.2 pp increase, slightly stronger than expected. The PMI has stabilized the past 2 months, however, the level is signalling a stagnating US economy
- Manufacturing PMI rose 0.3 p, the second month of increase. The service sector index inched up 0.1 p
  - » Manufacturing orders improved substantially in Oct, to 52.5, a promising sign. On the other hand, service orders are slowing rapidly, suggesting a broader economic slowdown
- The PMI is much more upbeat than the ISM (no Oct data yet), but all surveys are signalling a slowdown

SpareBank 1 MARKETS

Manufacturing orders surprisingly pick up, while services orders are stalling

Export manuf. orders are rebounding, and domestic manuf. orders are growing moderately

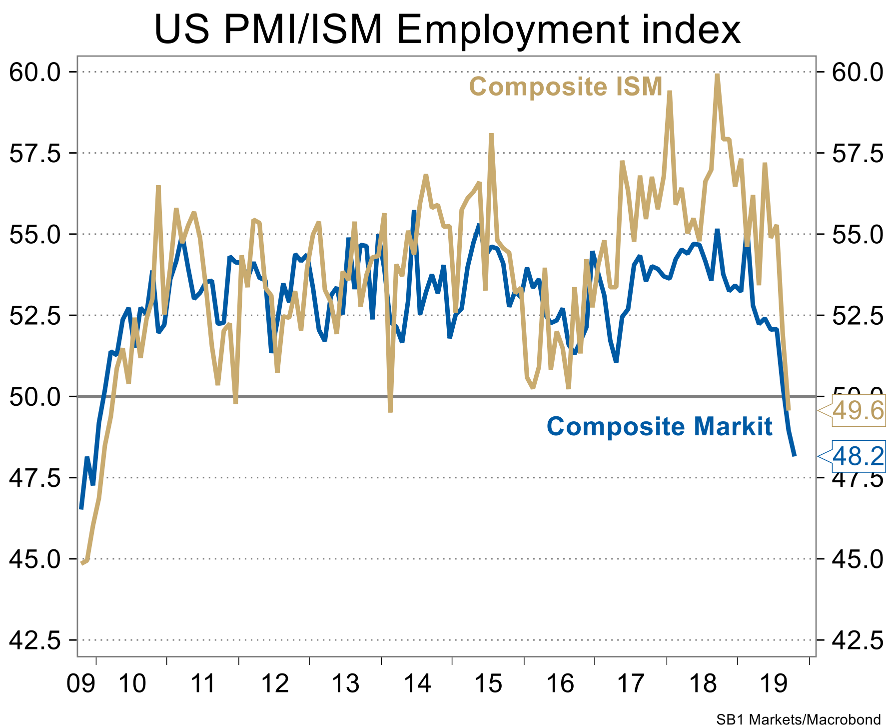


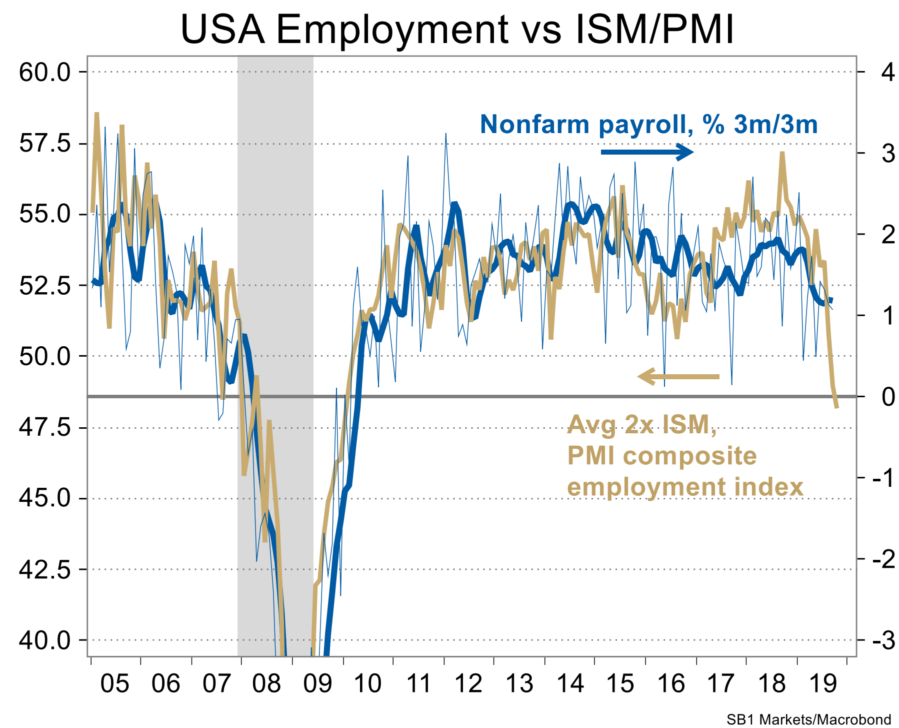


- Over the past year, the downswing in domestic orders have been more abrupt than that of export orders. Hence, the slowdown in the US economy cannot primarily be directly attributed to waning global demand

PMI Employment index drops, pointing to zero employment growth

Businesses are reporting declining employment, weakest PMI employment index since 2009



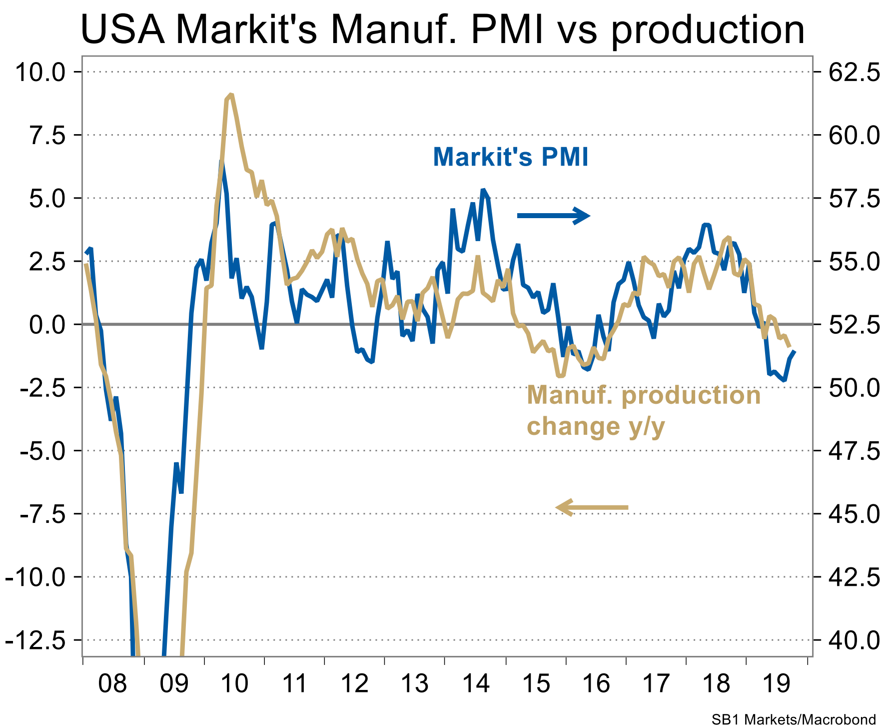


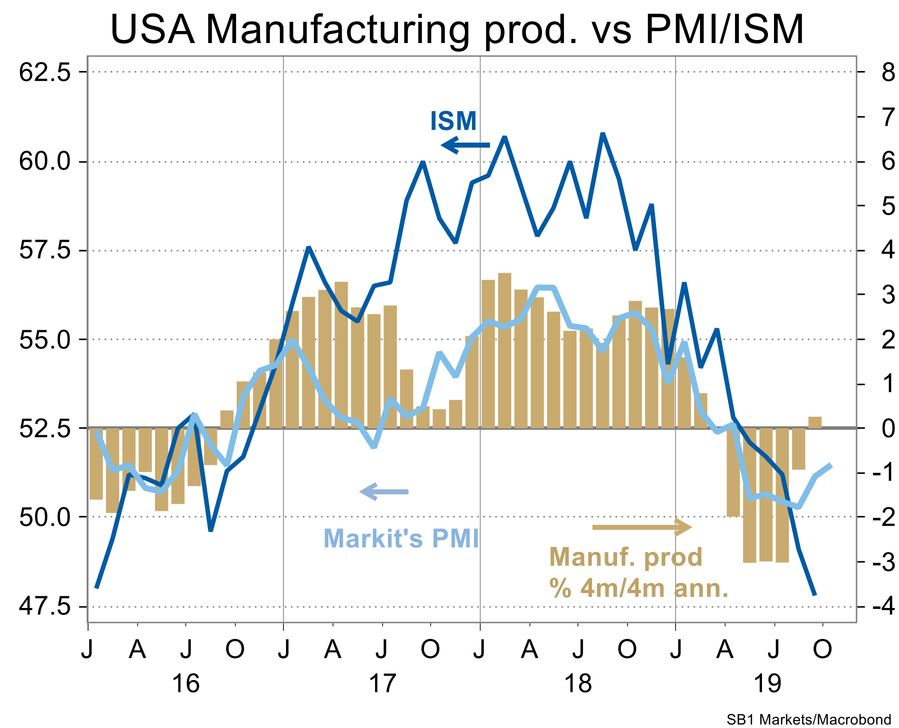
- The composite PMI employment index (chart to the right) dropped to 48.2 in Oct, a 0.8 p drop and the third straight month of a steep decline. No doubt a disturbing report, and probably the weakest labour market data point at hand
- At the chart above, we have assumed an equivalent decline in the ISM in Sept, may be too pessimistic

SpareBank 1 MARKETS

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

Now, both are signaling contracting production but Markit is less downbeat than the ISM



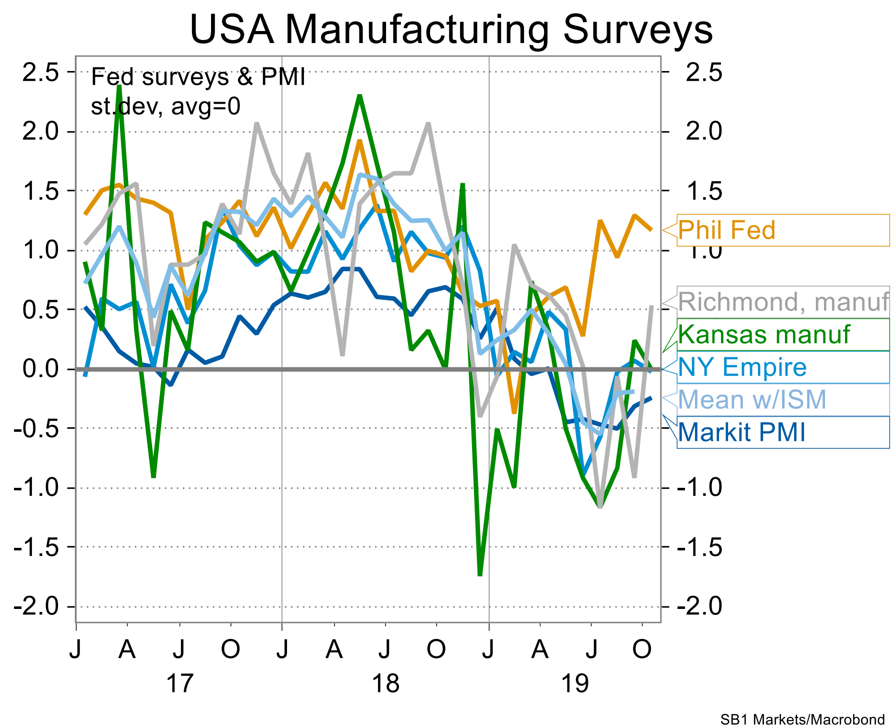


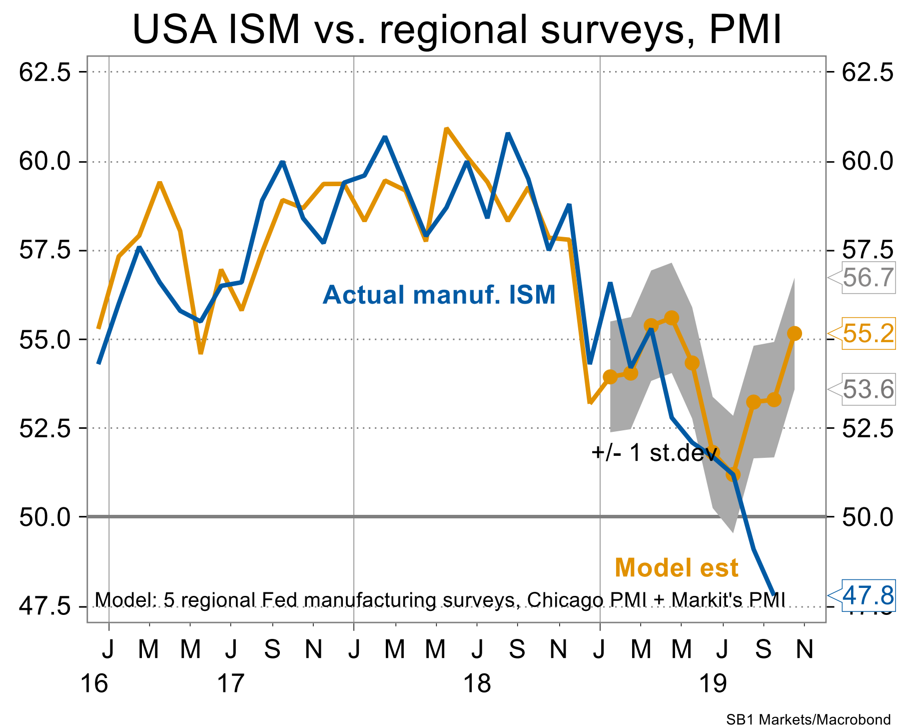
- Over the past years, Markit's PMI has been more closely correlated to actual manufacturing production than the ISM
  - » The PMI just reaches back to 2007, thus, the ISM a more 'reliable' recession indicator
- ISM has not reported Oct data yet, check more on the next page

SpareBank 1 MARKETS

A regional (+PMI) recovery in October (to a 'high' level), ISM to follow suit?

ISM has been far weaker than other surveys recent months – and the others rose further in Oct

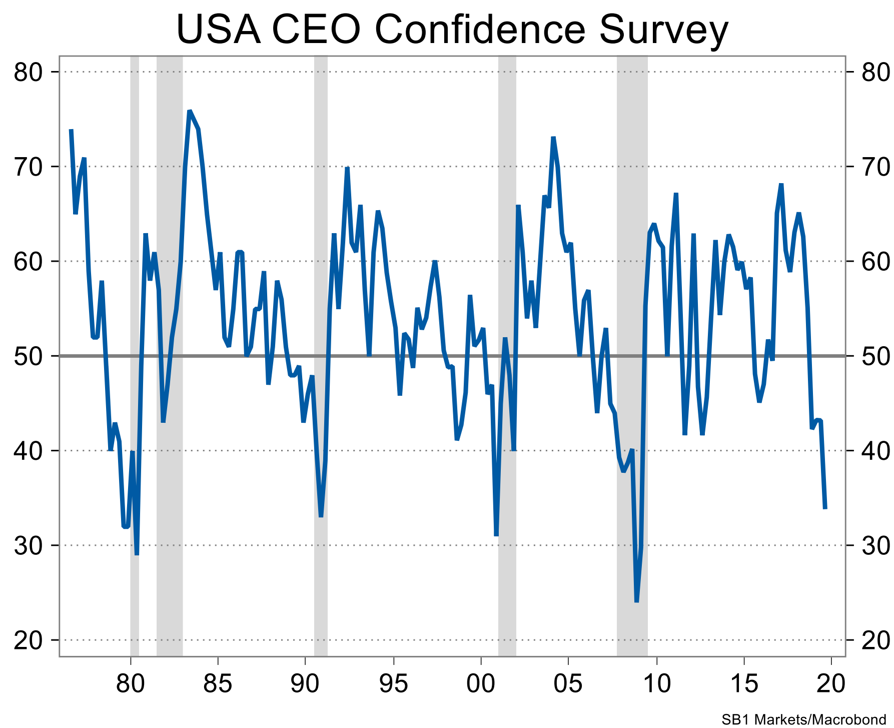


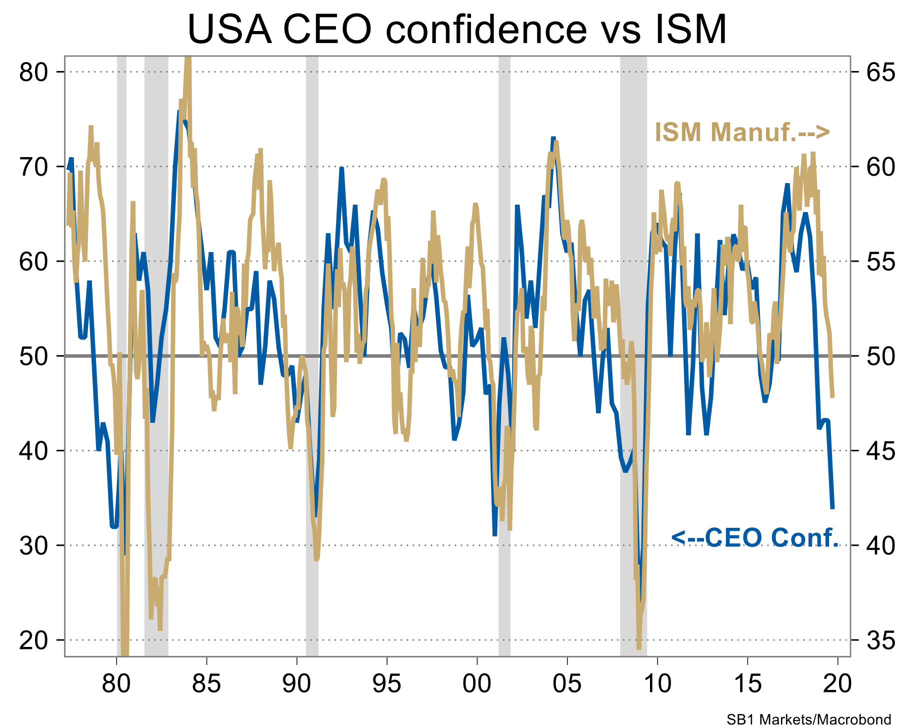


- The Phil Fed index fell marginally from a 'high' level in Oct, as did NY Fed and Kansas Fed's surveys, from close to average levels. However, Richmond Feds index rose sharply, and Markit's PMI rose further. Taken together, our model signals a substantial lift in the ISM – and a level at another planet than the Sept ISM print (55 vs 48).
- We do (of course) not expect the gap to be closed, but an uptick in the ISM seems far more likely than an further decrease

Big bosses are really worried – and more than all others

Conference Boards CEO confidence deep into recession territory. So far, they have not been wrong…

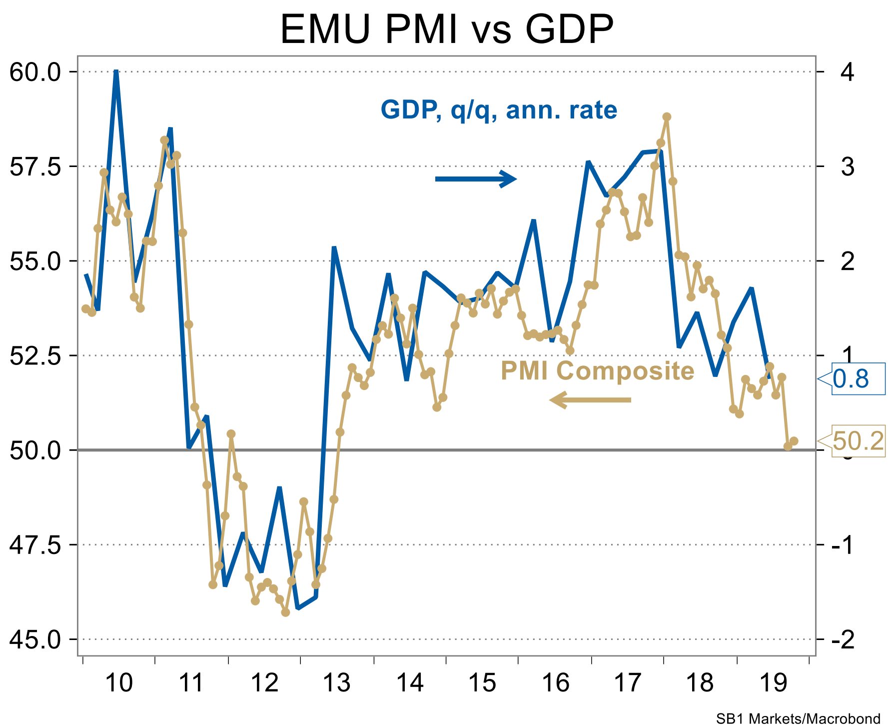


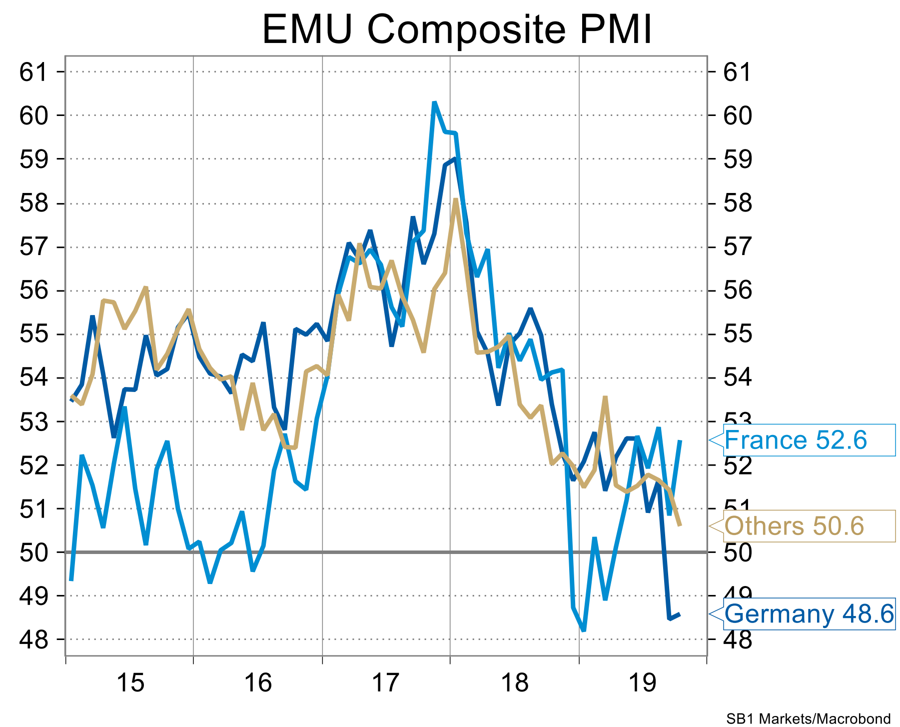


- CEO confidence have fallen far more than most other business surveys, even the weak September ISM manufacturing survey
- We have never before seen CEO confidence at the Q3 level without the US economy entering, or being into a recession

Eurozone PMI up just one inch in Oct, signalling an economy close to stagnation

The composite PMI did not recover from the Sept slip and Germany remains well below 50

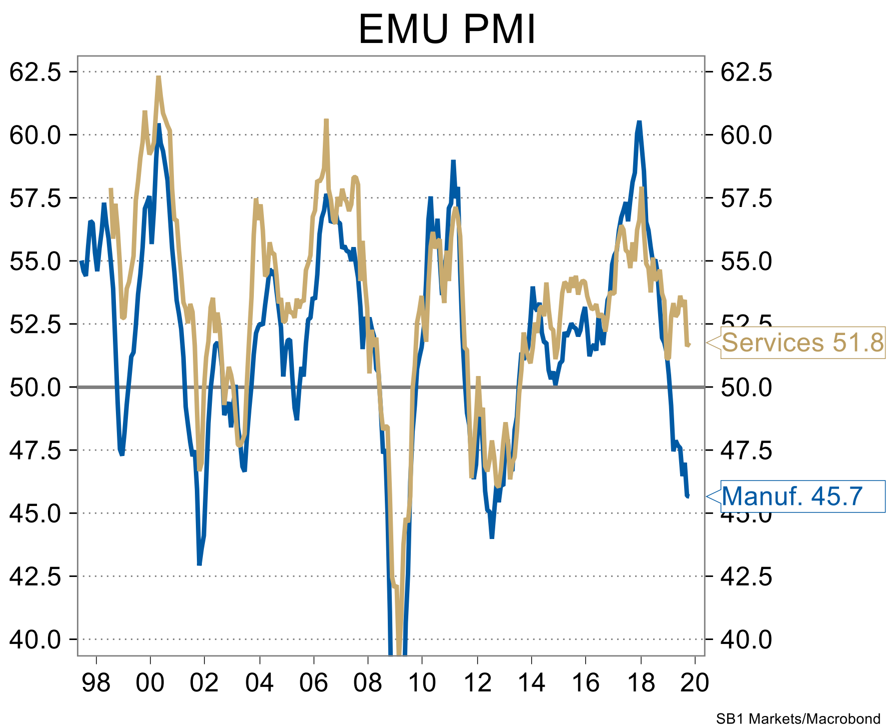


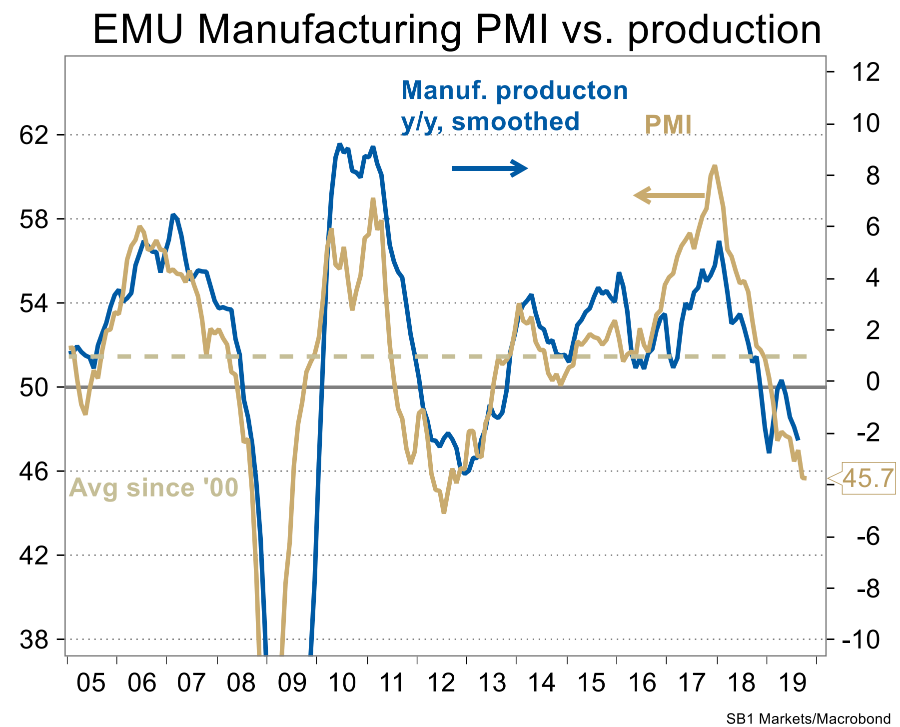


- The preliminary EMU composite PMI rose just 0.1 pp in October after a steep drop in September, a 0.3 pp increase was expected. The level is the weakest since the Euro crisis (barring Sept) and points to muted GDP growth into Q4.
- The German composite PMI rose just 0.1 pp and the level remains weak, at 48.6. France regained most of the Sept loss, thanks to a rebound in services. The implicit estimated average of the other countries declined further
- Manufacturing PMI held steady at disturbingly low 45.7, while services rose just 0.1 p, to 51.8. The service sector is still expanding moderately, yet the Sept/Oct PMIs may indicate that manufacturing weakness is spreading to service sector

Manufacturing PMI still points to a deeper contraction, services slowing?

The service index is not yet weak and the Oct stabilization is comforting, but still..

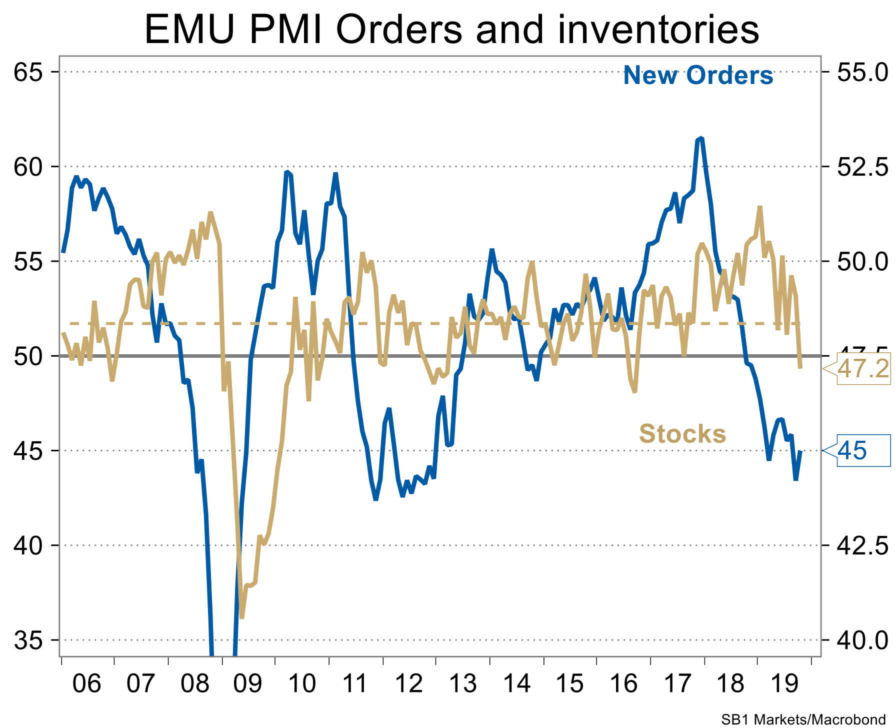




- Manufacturing PMI held steady at 45.7 in Oct, points to at least some 3% y/y decline in production
- The services PMI stabilized at a decent level in Oct. The level is not weak and is still reflecting decent growth in the service sector. Still, the steep drop in September may be signaling that the manufacturing dip is infecting service sectors (and consumer confidence fell in October too)

Inventories have been reduced; the most promising PMI data point

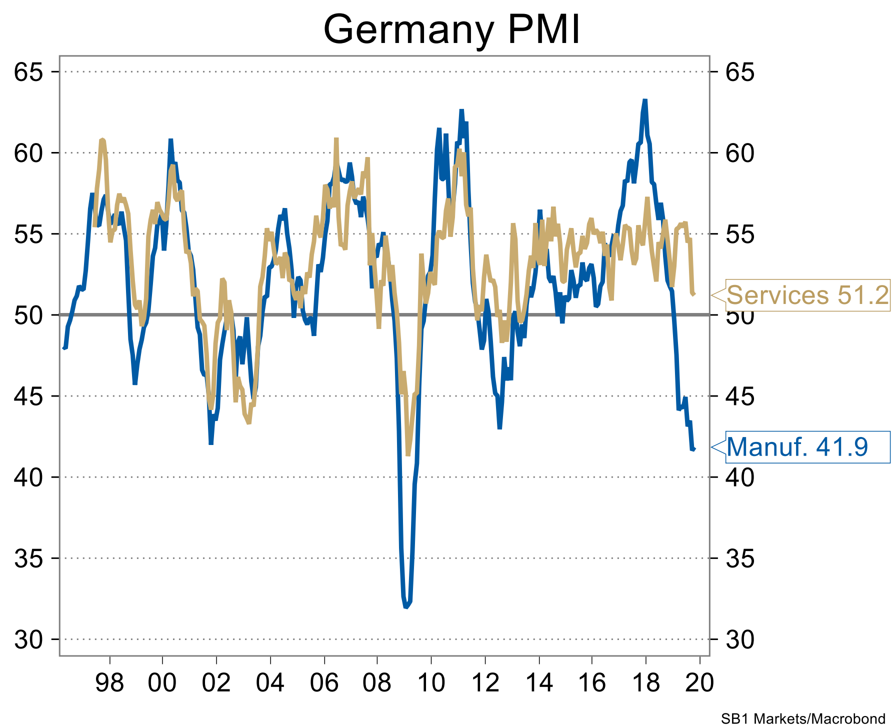
New orders are still falling steeply but the inventory adjustment has finally started?

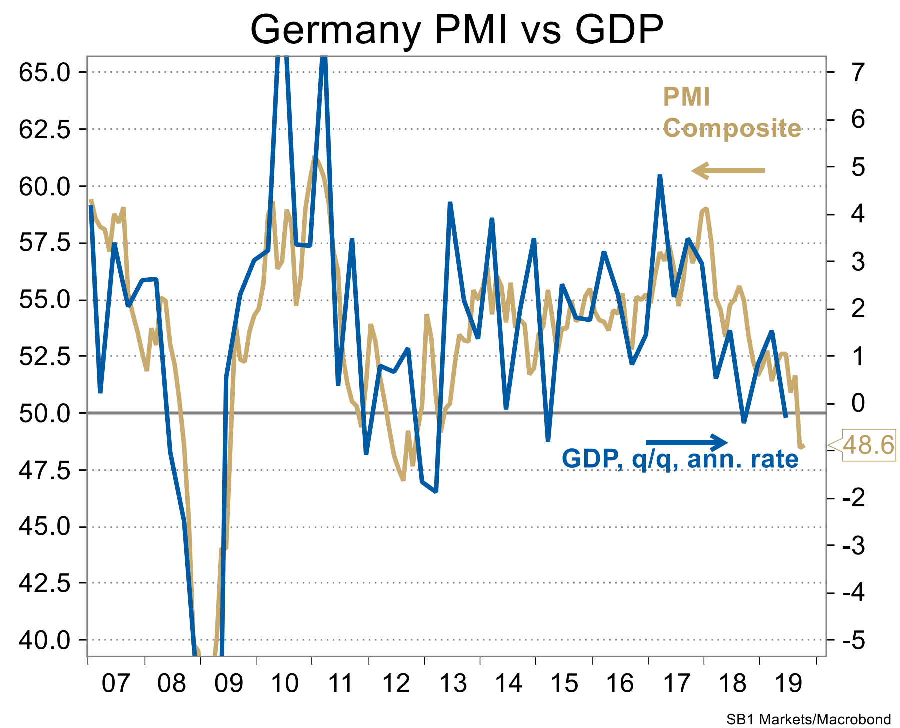


- The decline in total orders eased somewhat in October, the index bounced back to 45.0. Businesses are still reporting the steepest decline in manufacturing orders since the Euro crisis in 2012-2013
- The inventories of finished goods index dropped 1.9 p in October, to the lowest level in 3 years. The level is now signalling a moderate drawdown of inventories, signalling that the inventory adjustment cycle may be underway

Manufacturing contraction remains fierce, service sector may be caving in?

Manuf. rose marginally, services a tad down. Composite PMI indicates a decline in GDP

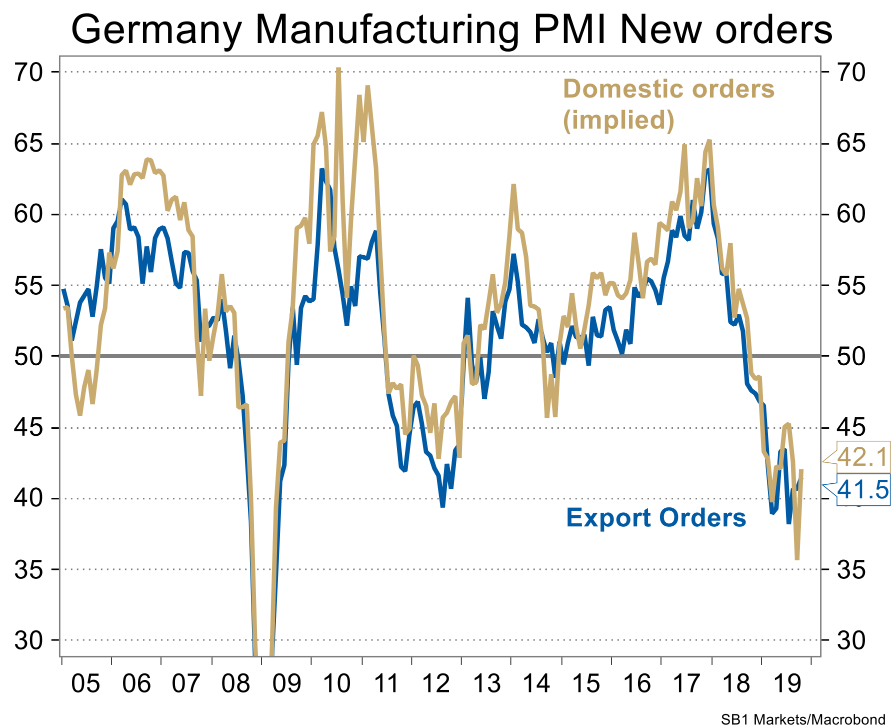


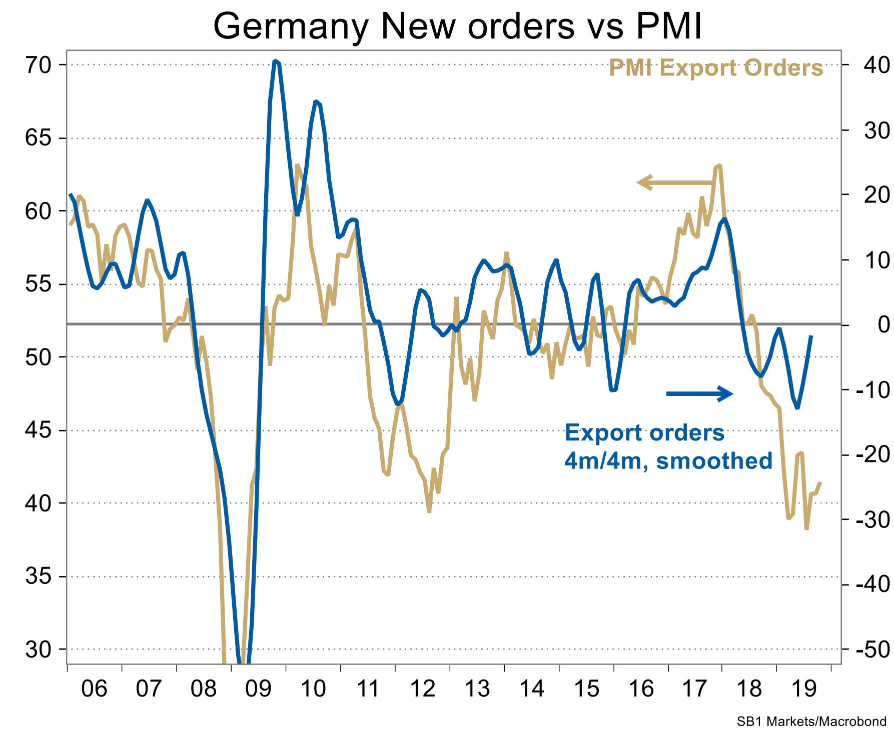


- The manufacturing PMI inched up just 0.2 p in October, the level at 41.9 is the weakest since the financial crisis, mirroring a steep downturn in German manufacturing activity
- The services PMI fell 0.2 p this month, after a steep decline in Sept. The index at 51.2 points to modest growth, however, the direction recent months may indicate that the manufacturing downturn is spreading

Businesses report steep declines in both export and domestic orders

Domestic demand is weak, even with a rebound in Oct, the problem is not just foreign

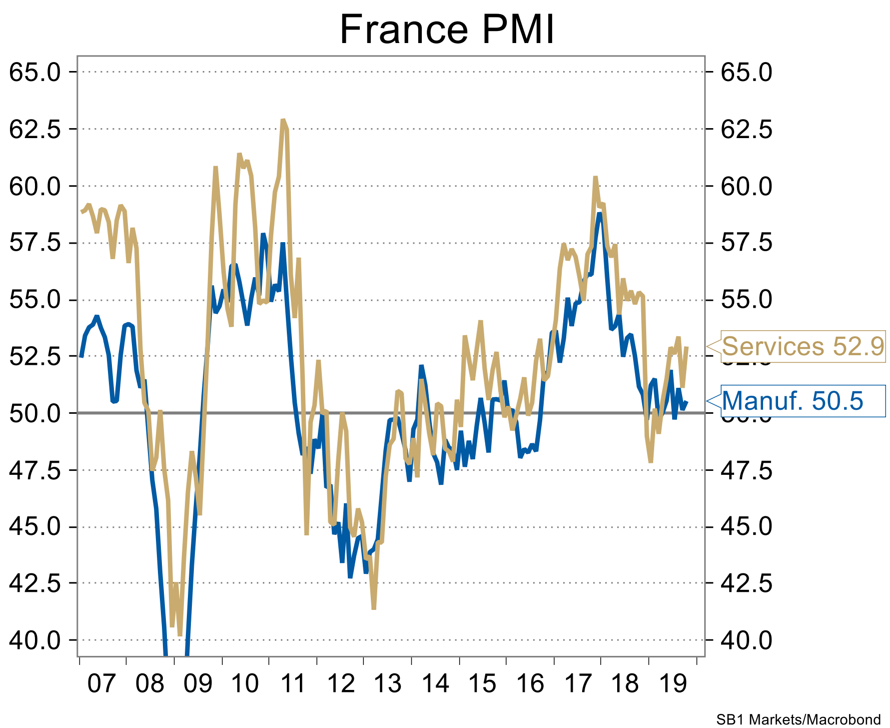


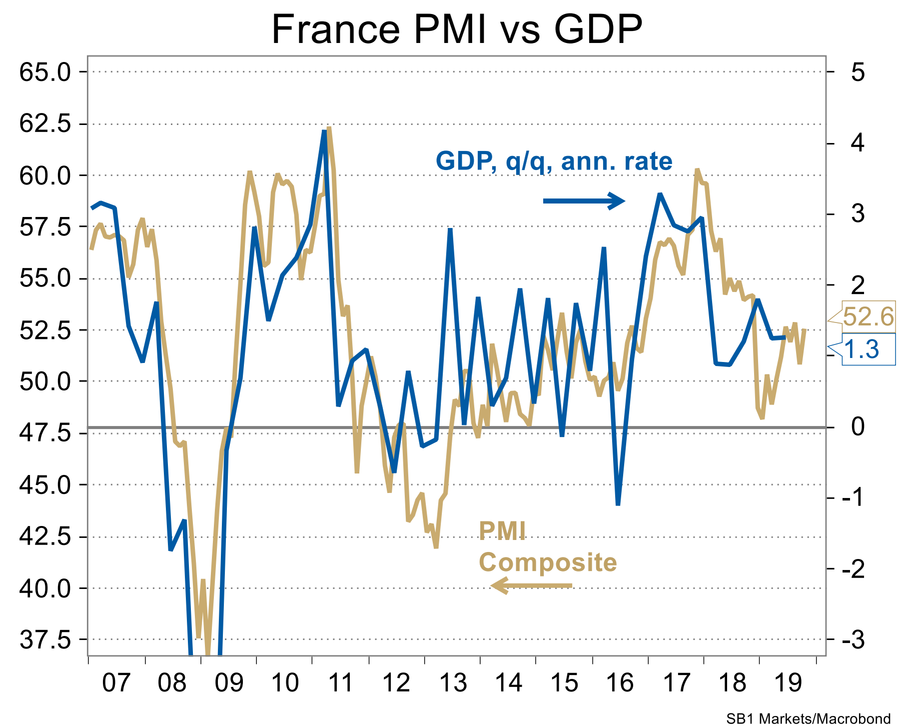


- Export orders are signaling a steep decline in actual export order. Actual orders have fallen but much less than the PMI indicates, substantial downside risk
- The most plausible explanation of the German slowdown may be a mix of a maturing German manufacturing cycle, trouble in the auto industry and global uncertainties stemming from the trade war and Brexit influencing domestic demand. German domestic demand is usually closely correlated to global demand

Both PMIs improved in Oct, composite still points some 1.5% growth

Services PMI bounced back, manufacturing a tad better, and much stronger than in Germany

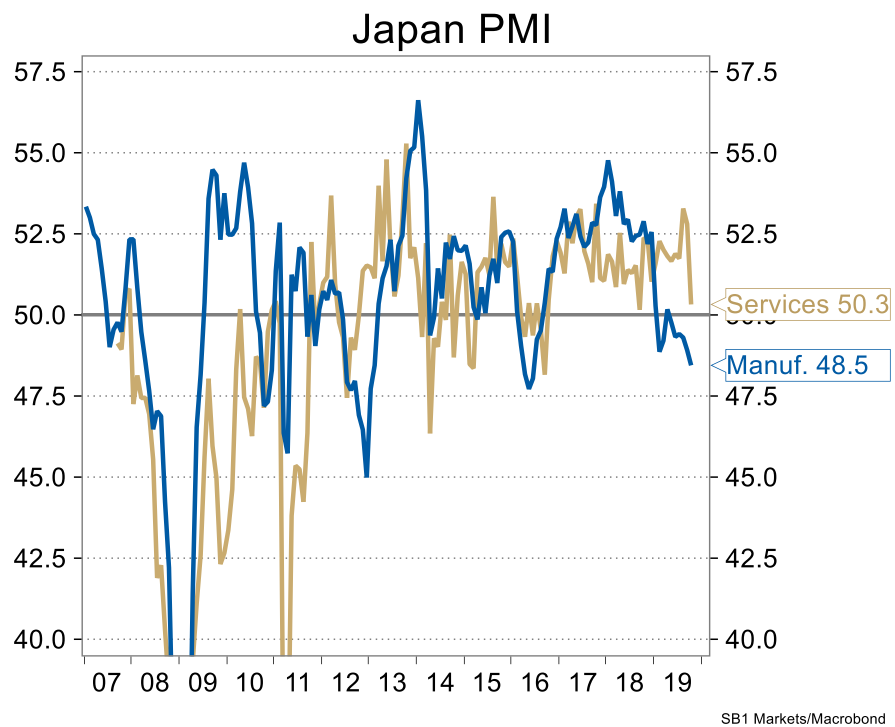


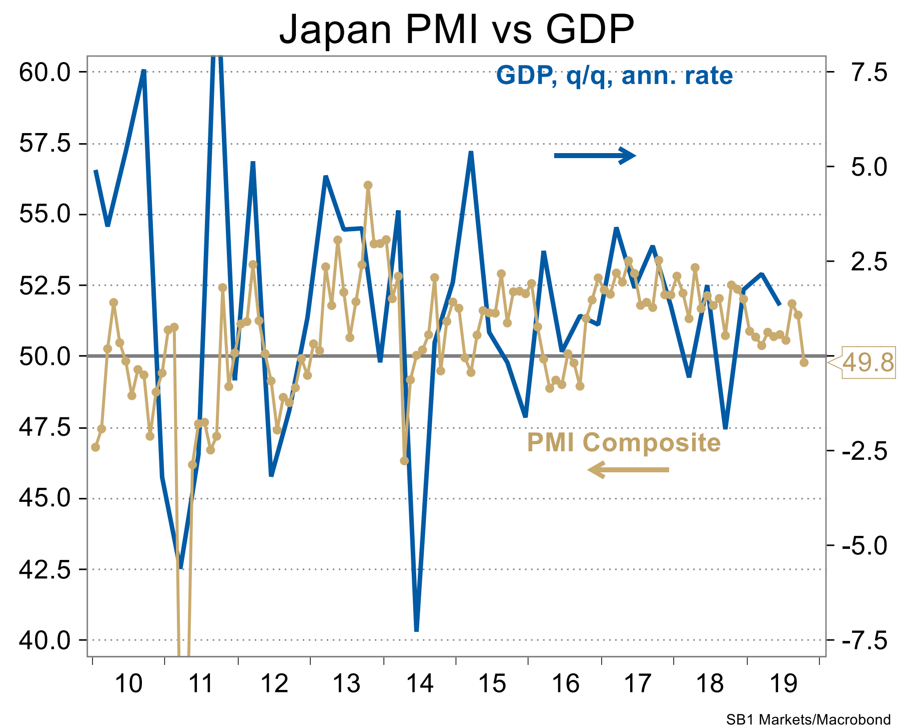


- Services reported improved conditions in October, the PMI rose 1.8 p, reflecting moderate growth
- The manufacturing PMI ticked up 0.4 p and has stabilized just above the 50-line recent months, holding up much better than the other ‘major’ Eurozone countries
- The composite PMI at 52.6 is suggesting more or less steady GDP growth, at just above 1%

Services PMI plunged, manufacturing further down

Manufacturers report a deteriorating decline, composite PMI suggests a stagnation

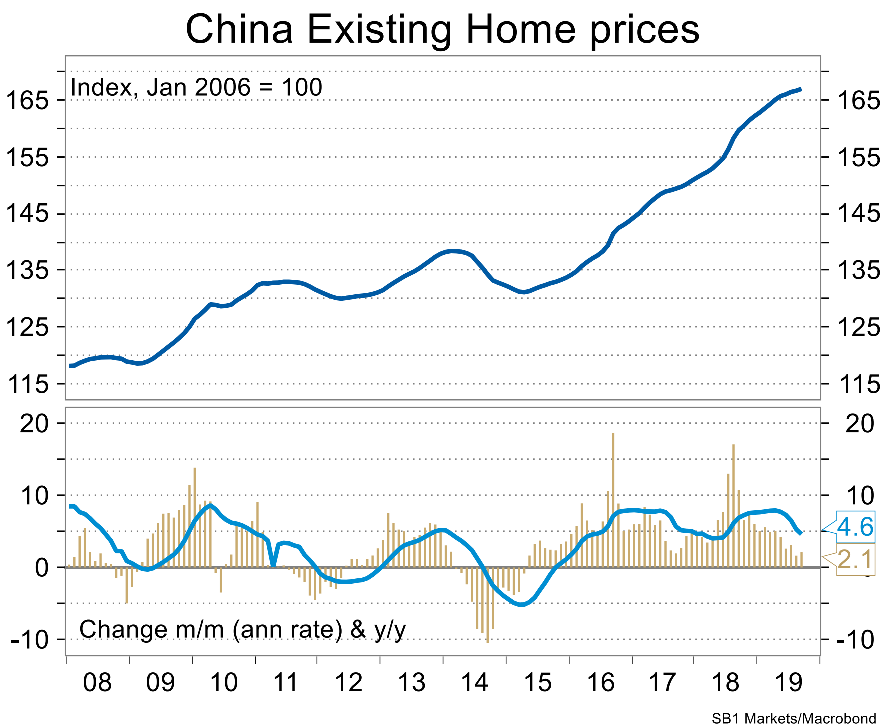


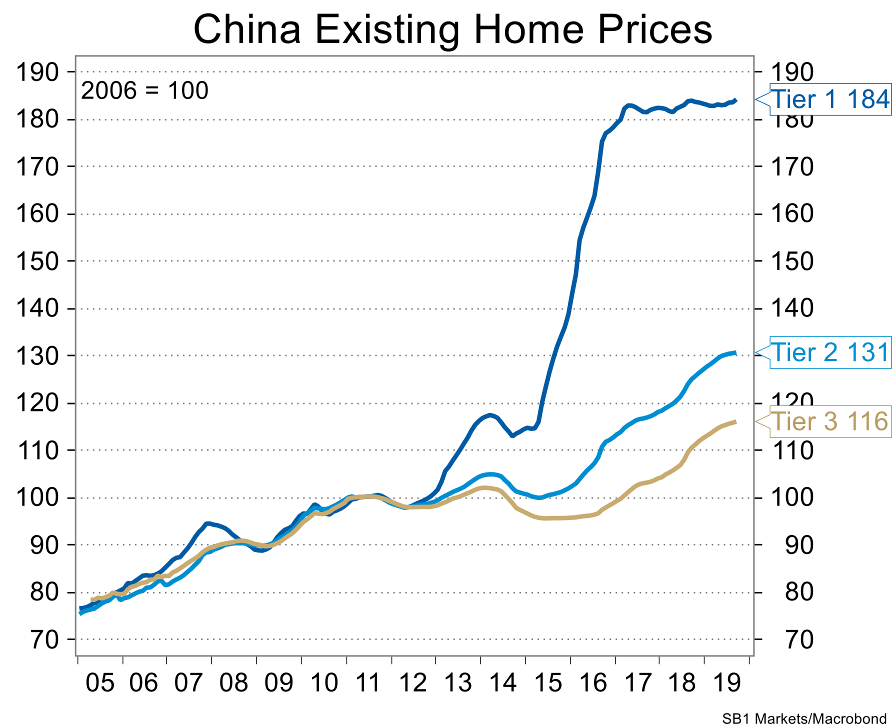


- Composite PMI dropped to 49.8, a 1.7 p decline, pointing to muted GDP growth (vs 1.3% in Q2). The services PMI slipped 2.5 p to just marginally in growth territory, after an upswing in the summer
- Other Japanese surveys have softened but are in average not signalling any steeper slowdown than in 2016, 2012 or 2011

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

Price growth ticked up to 2.1% annualised in Sept, still slow vs above 10% one year ago

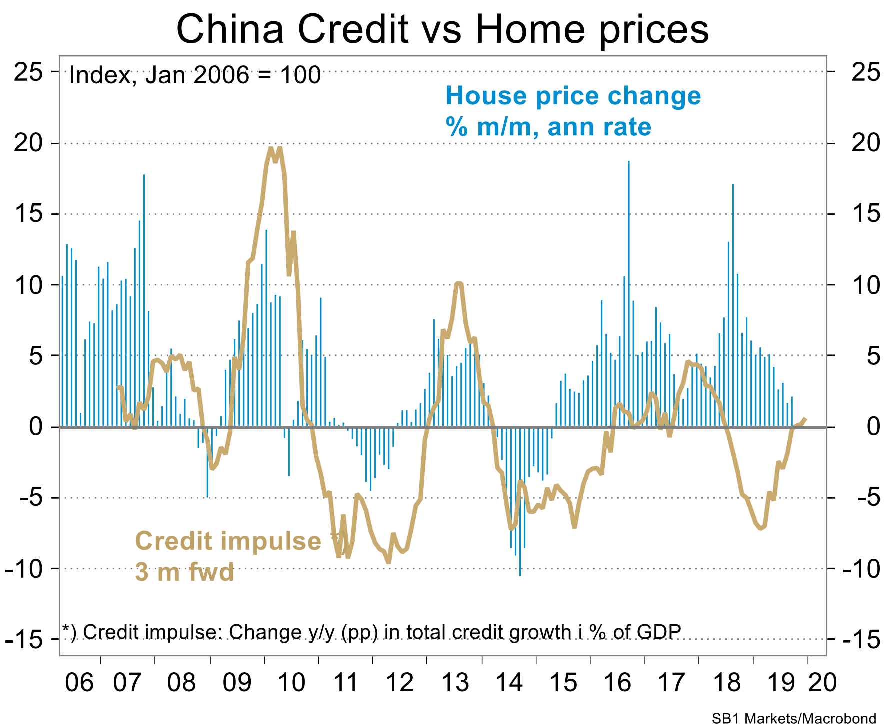


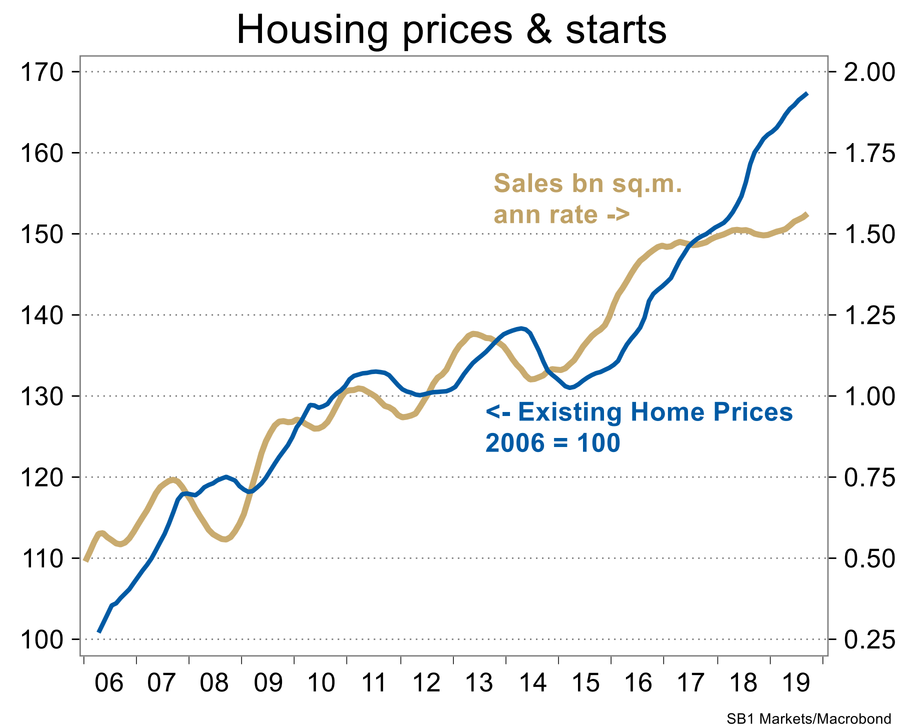


- The annual growth rate came down to 4.6% in September, down 0.7 pp from the prior month. Monthly price inflation was up 0.2%, 2.1% annualised, up from 1.6% in Aug. Growth has been slowing gradually but steady since last summer, this was partly 'announced' a long time ago due to high monthly growth 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 a slowdown in the m/m rate to 3.8% in September, 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 cannot be attributed, as the authorities are stimulating lending – and the credit impulse is turned marginally positive

Credit impulse back to neutral, should not be a drag on house prices

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

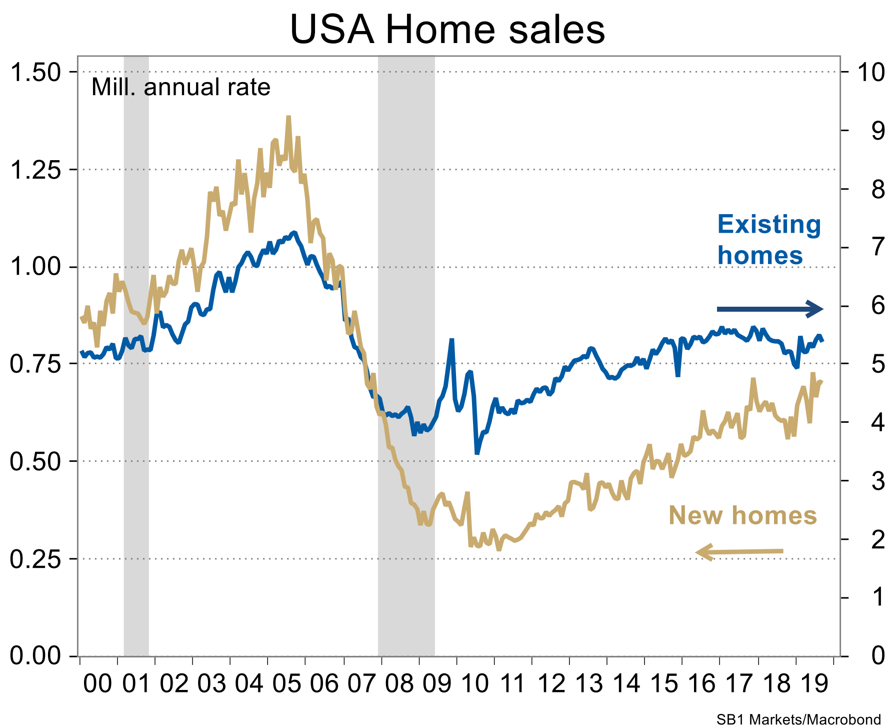


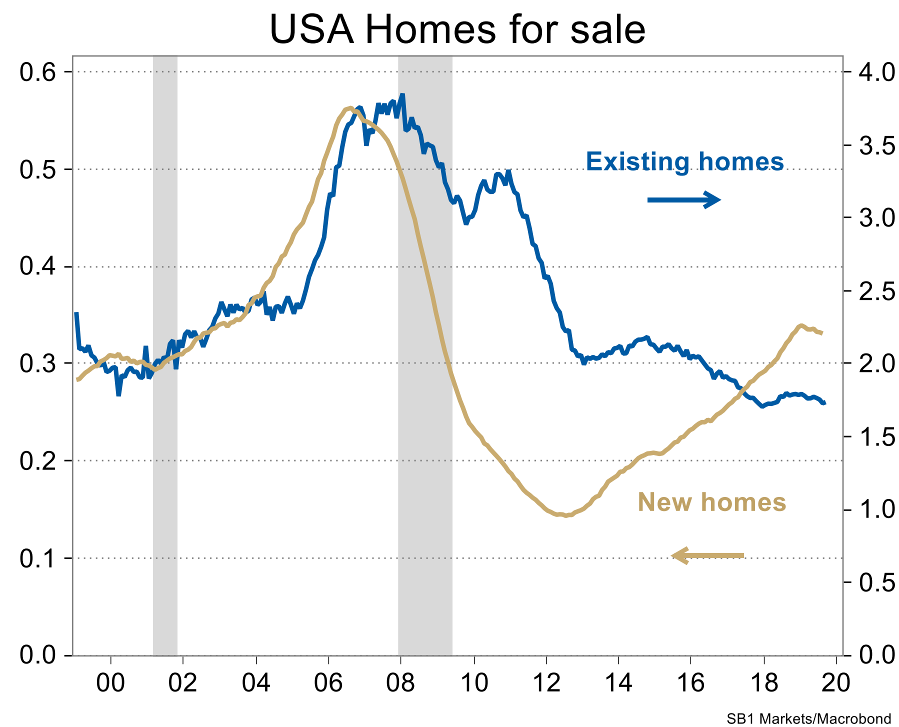


- Through 2018, house prices kept up surprisingly well, given the negative credit impulse
  - » That has been the case with new homes sales too – and sales are still trending slowly up
- Now, the authorities are pushing the credit accelerator – and they may succeed, as many times before, at least the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

New and existing home sales are climbing, reflecting a strong housing market

Sales softened somewhat in Sept after a strong August, both new and existing are trending up

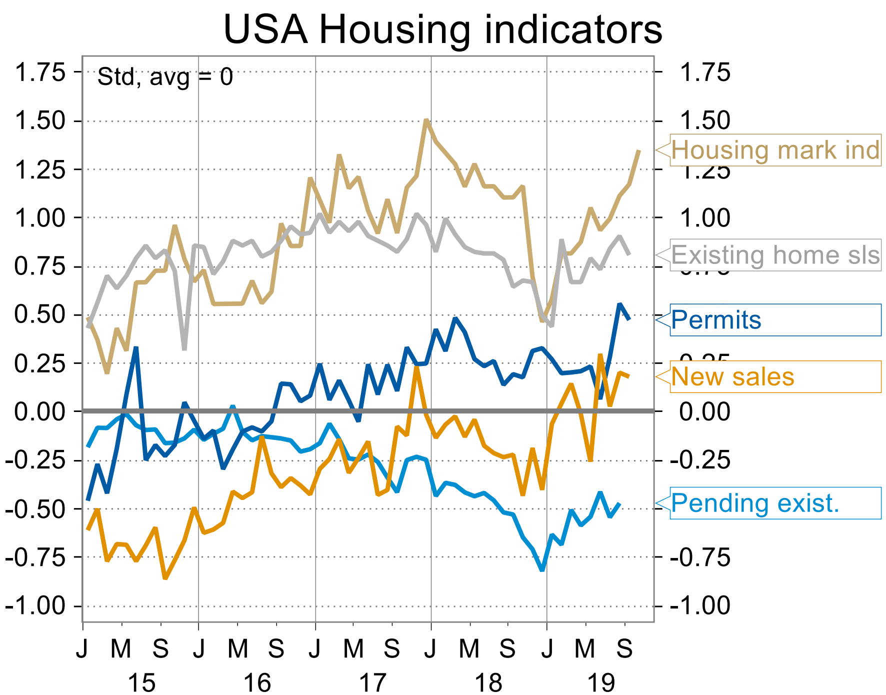




- New home sales fell marginally (0.7% m/m) in Sept after a 6.2% rise in Aug (revised from 7.1%). The annual rate at 701’ was 9’ weaker than expected, yet sales have anyway been climbing since the local bottom late 2018, to above the 2017 peak
  - » The number of unsold homes is now heading slowly down, both new and existing. Completions are rising, demand must be strengthening
- Existing home sales fell 2.2% m/m in Sept, slightly more than expected. Sales are still heading up and are some 9% higher than at the trough in January. However, pending home sales do not signal a further lift in existing home sales, and price inflation is slow

All housing market indicators have turned up

Home sales, housing starts/permits and confidence among the homebuilders are all climbing

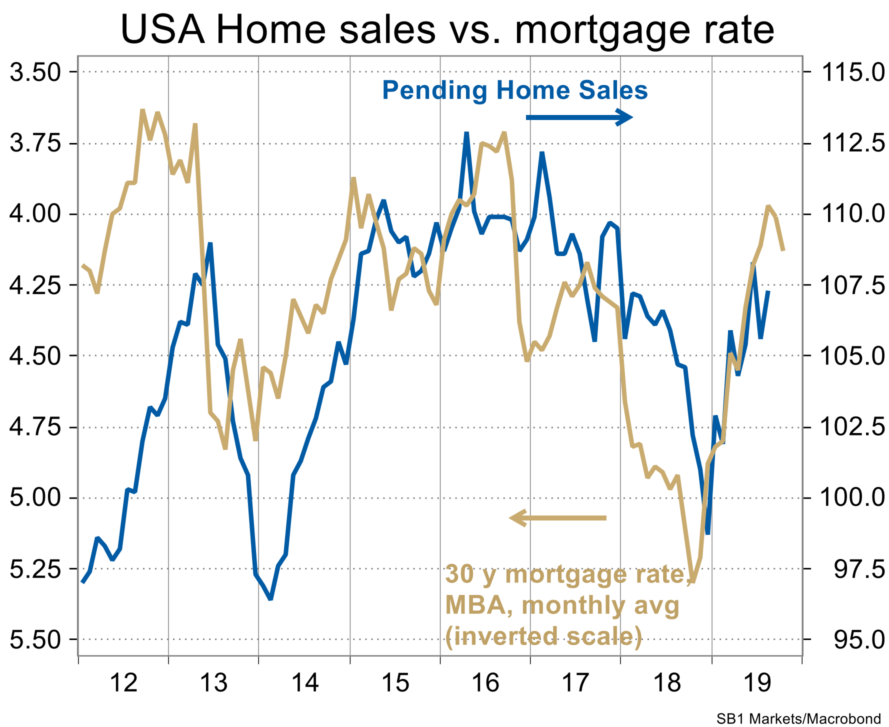


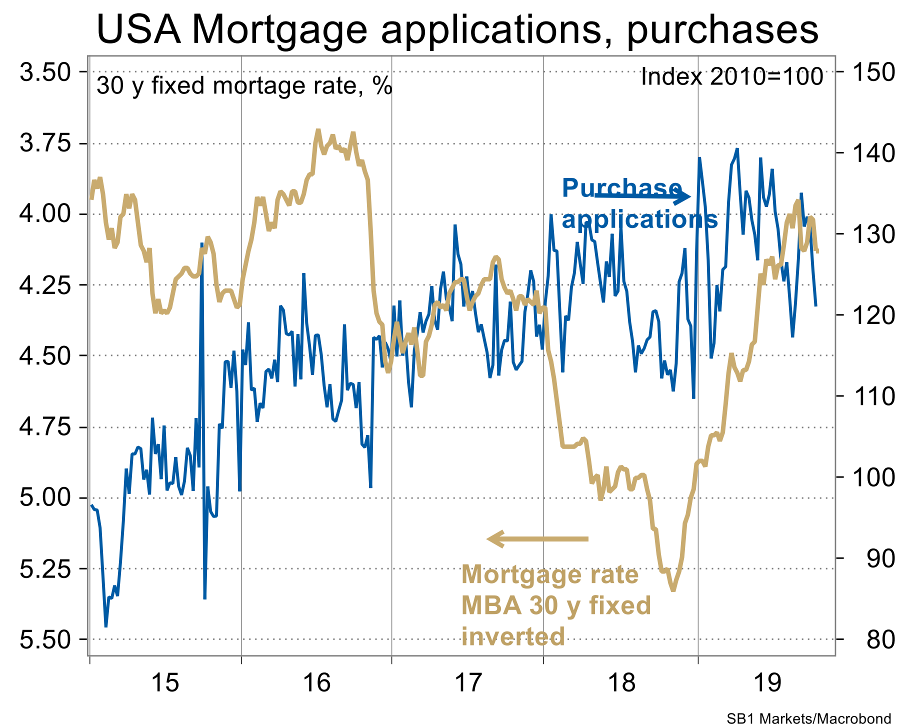
SB1 Markets/Macrobond

- The most sluggish housing market indicator at hand is house prices, which have slowed marginally recent months. All other housing market indicators point to a lift in demand, no doubt supported by rapidly declining mortgage rates

Mortgage application heading down, in spite interest rate drop

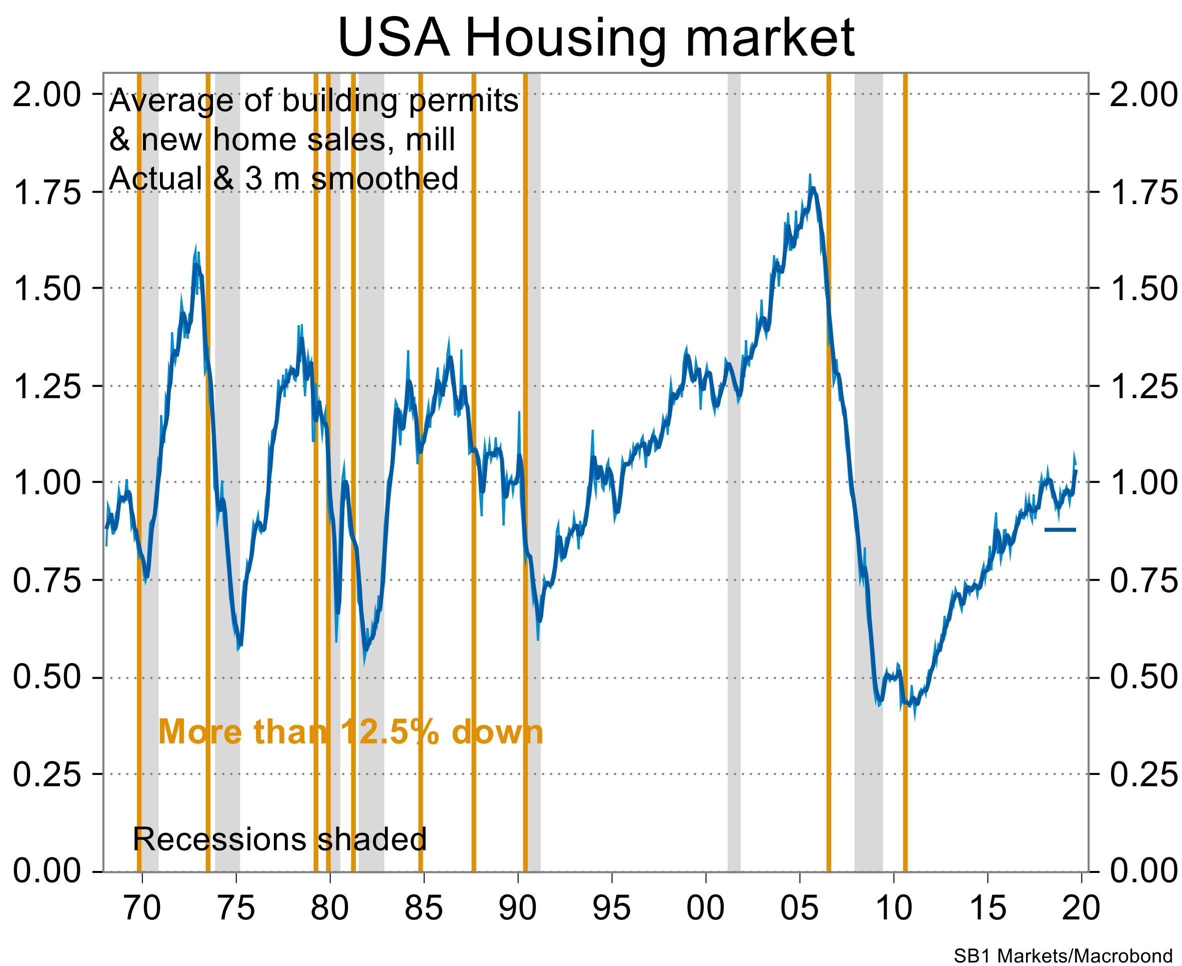
Still, other housing demand indicators are not confirming a slowdown

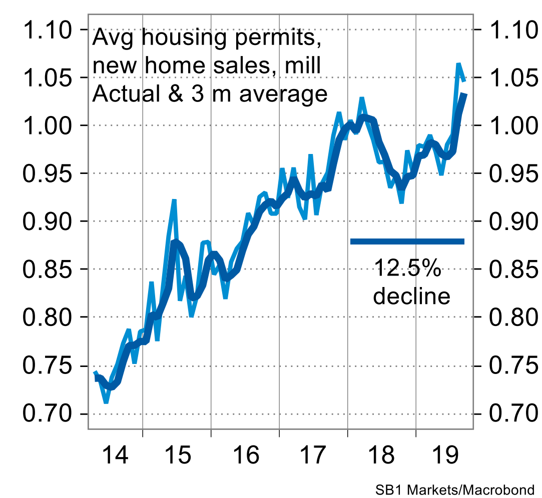




- Purchase applications have fallen somewhat since the summer, strange given the declining mortgage rates (which have increase marginally lately)
- Disclaimer: Demand for new mortgages has <u>not</u> been a reliable leading indicator for the housing market

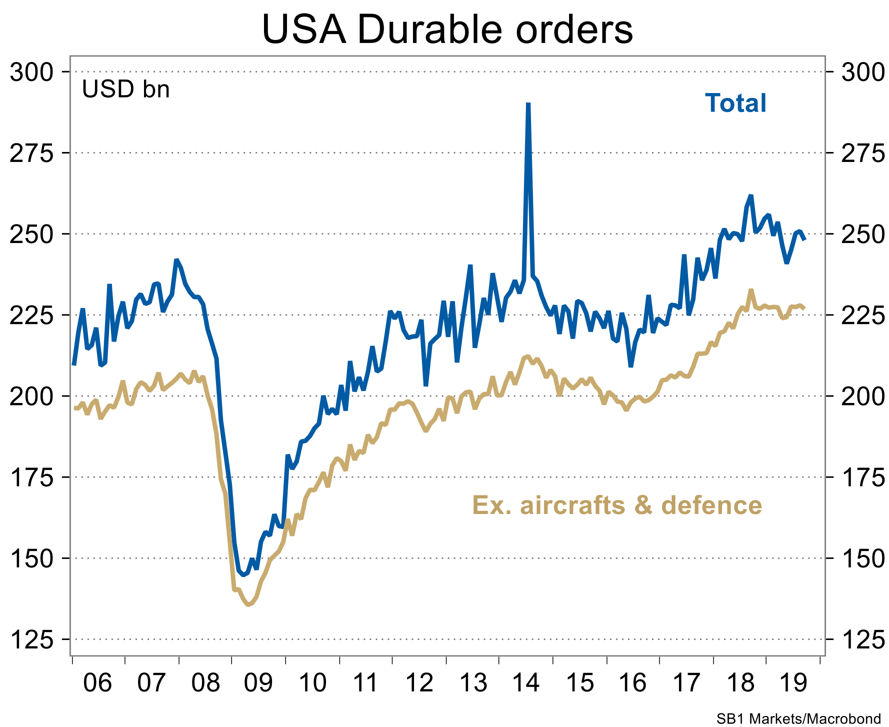
Housing vs recession: Safe, for now (at least in this sector)

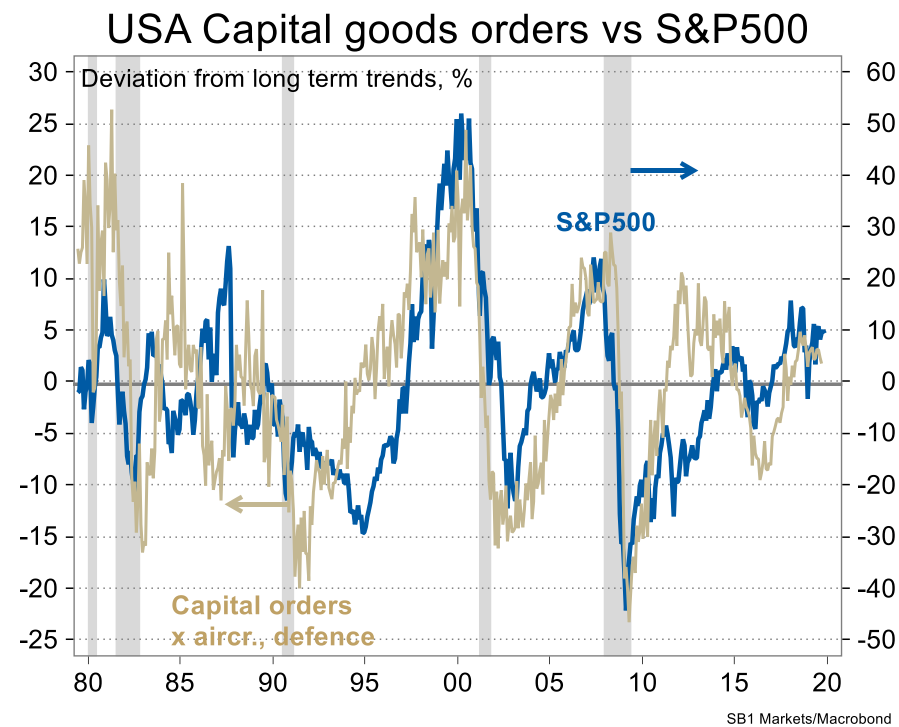




Durable goods orders are softening but (core) not decreasing

Core durable & investment orders weakened in Sept – no abrupt investment setback signalled yet

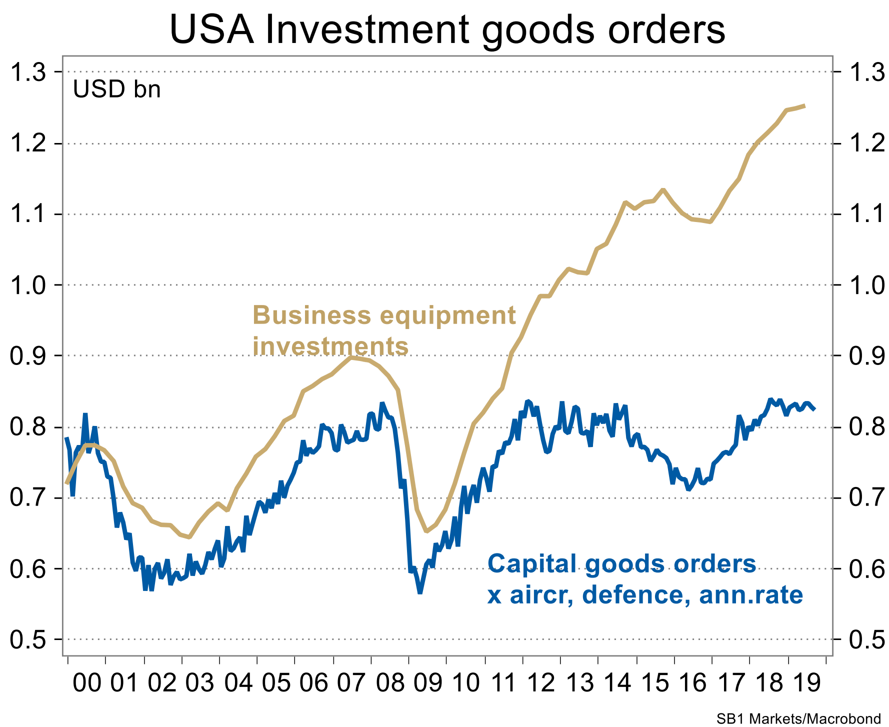


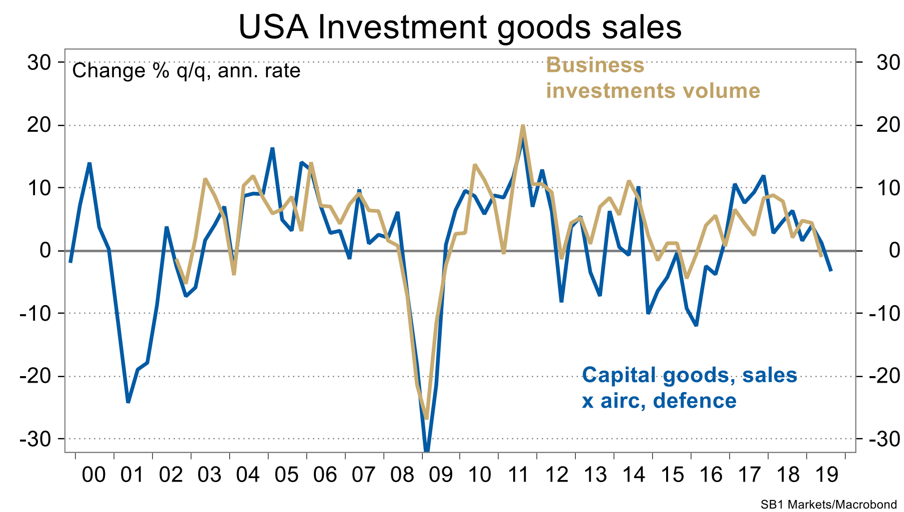


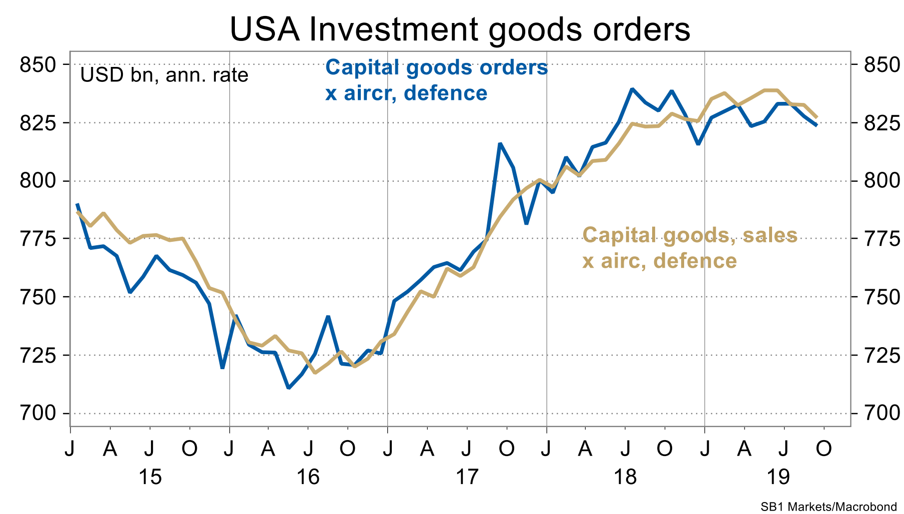
- Total durable orders fell by 1.1% m/m in Sept and have been sliding down for a year (with some Boeing aircraft trouble in May/June)
- Core orders (ex aircrafts and defence) edged down 0.5% in Sept and have stagnated since last summer, probably dampened by trade war related uncertainties. Still, core orders were up 2.8% annualized in Q3 and there are no signs of any setback
- Core capital orders fell in Sept and were flat in Q3. Capital goods sales were slightly weaker and decreased by 3.3% annualized in Q3, pointing to a slightly steeper downturn in business investments in Q3 than the marginal decline in Q2
  - Deviations in businesses' core capital orders are quite well correlated to the stock market. Slower order inflows indicate a limited upside on the stock market (barring some 'suckers' rallies)

Capital goods sales suggest modestly declining business investments in Q3

Core investment orders edged down in Sept, trending flat. Sales down 3% in Q3



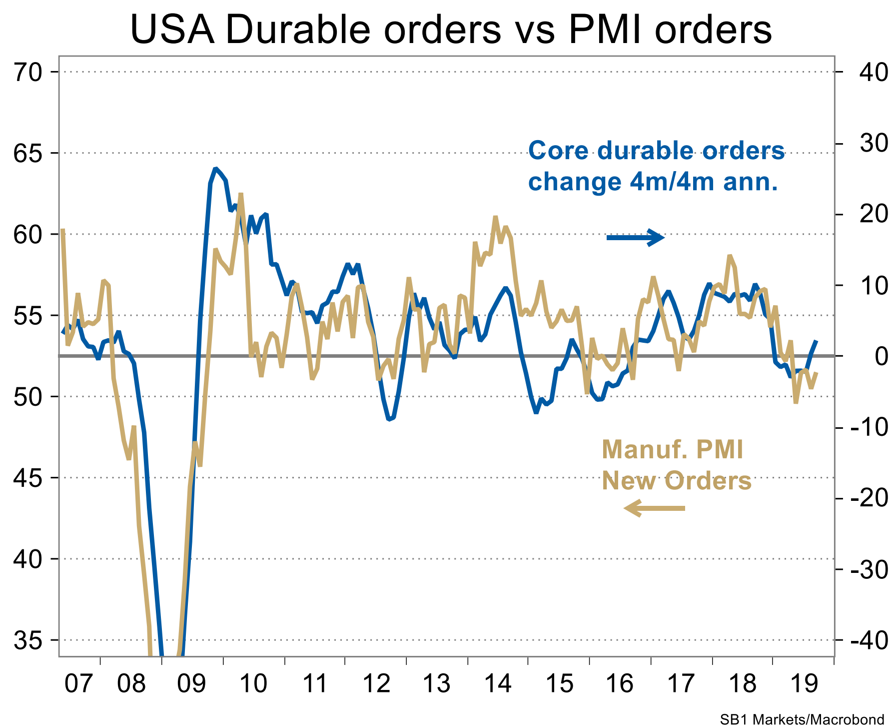


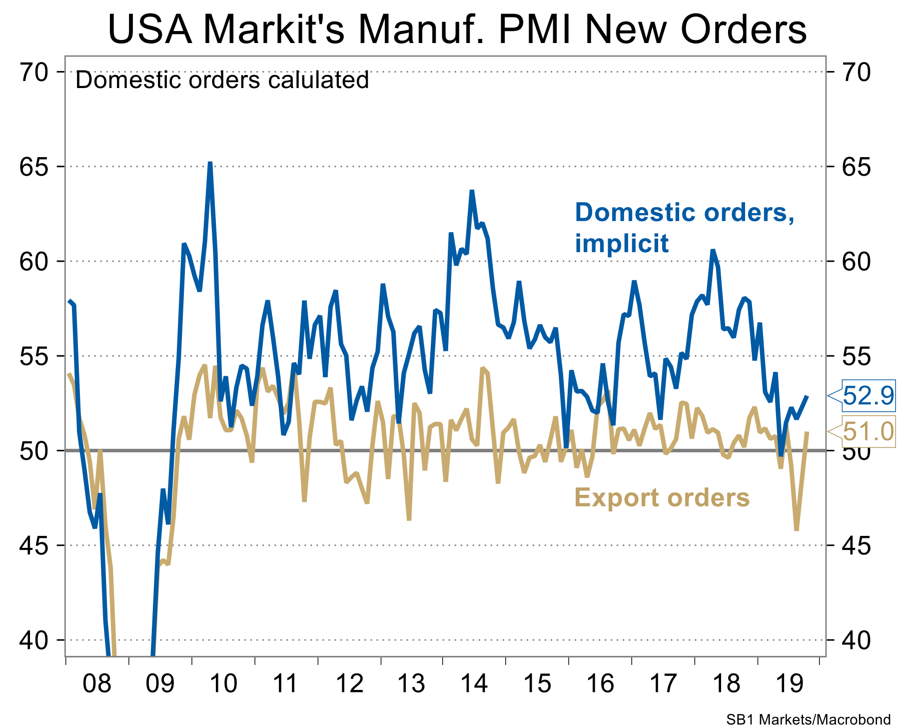


- Investment orders (core) fell by 0.5% m/m in Sept after a 0.6% decline in Aug. Still, orders rose marginally in Q3 (up 0.4% ann.) and the trend the past year is flat
- Sales declined by 0.7% m/m in Sept and 3.3% annualized in Q3. Sales indicate a mild decline in business investments in Q3, somewhat steeper than in Q2 but still <u>no abrupt setback</u>
- Unfortunately, the PMI/ISMs point to softer order inflows

PMIs are not promising, signal weaker order inflows

The downturn has been driven by weaker domestic demand, until exports slipped in August

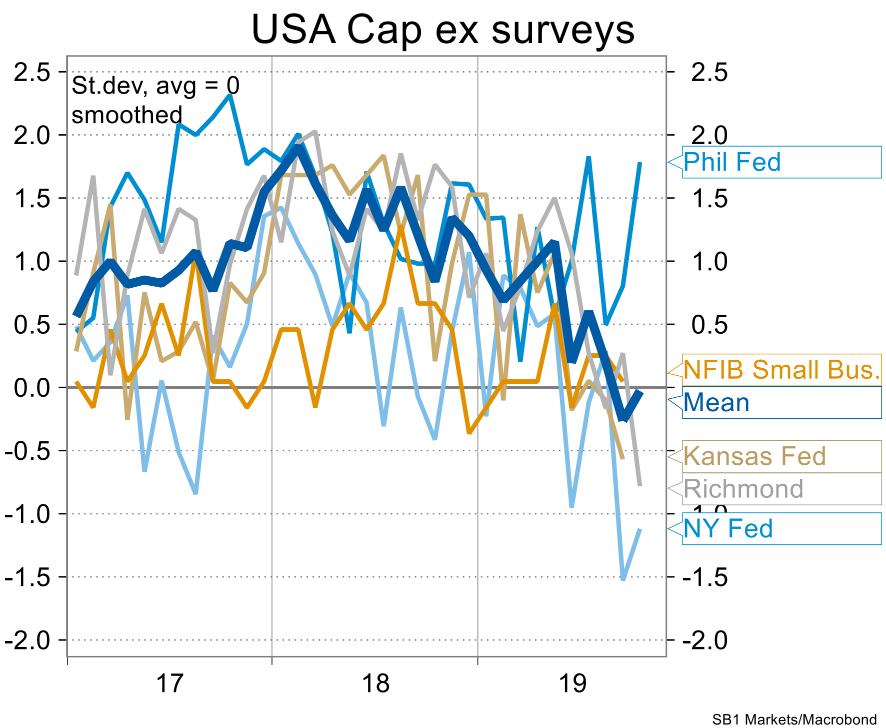


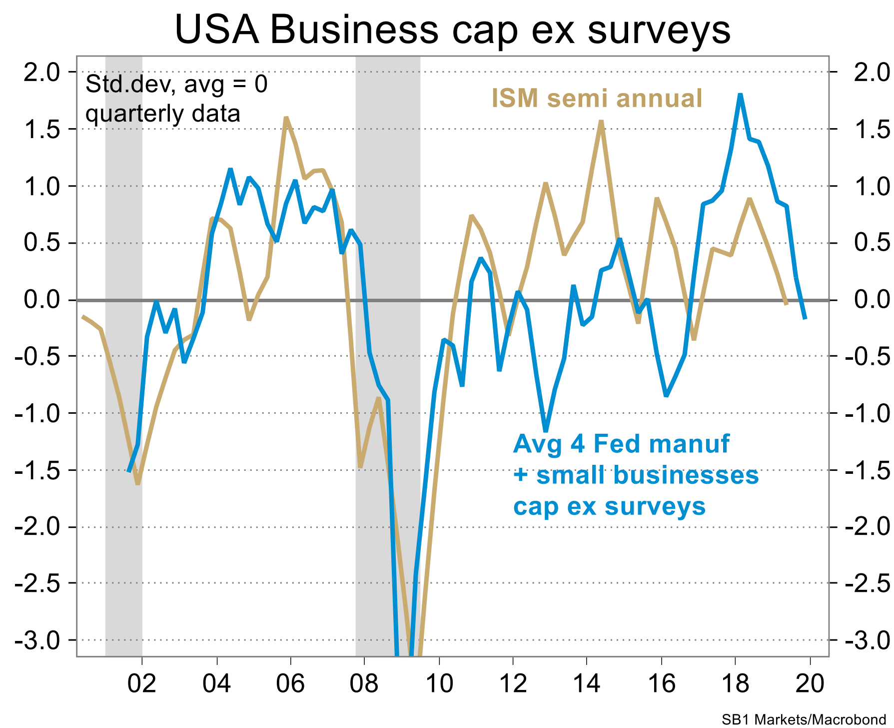


- The manufacturing PMI index is telling the same story as Markit's PMI (but is less precise)

Investment surveys are pointing down, still not very weak

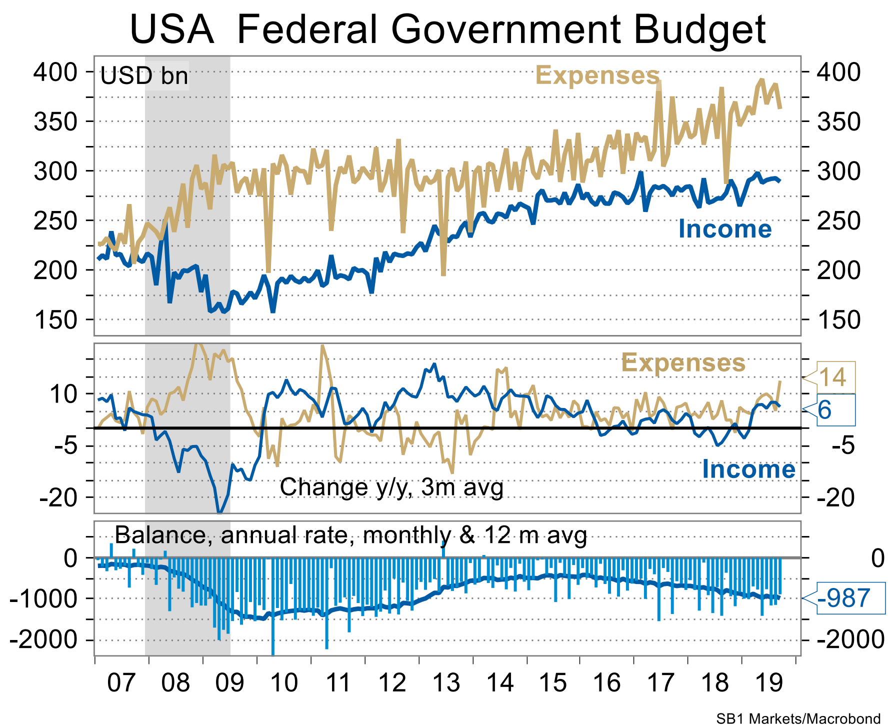
Surveys are not yet signaling falling investments, just growth below trend

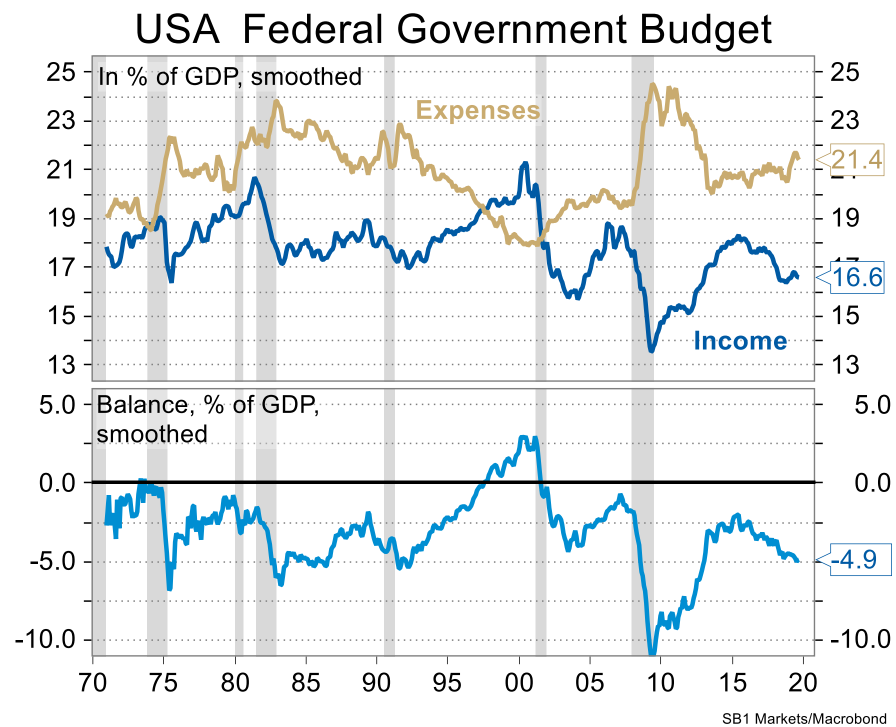




The federal budget deficit is widening

The federal deficit now at 5% of GDP, and the total public sector deficit at 7.1% of GDP in Q2!

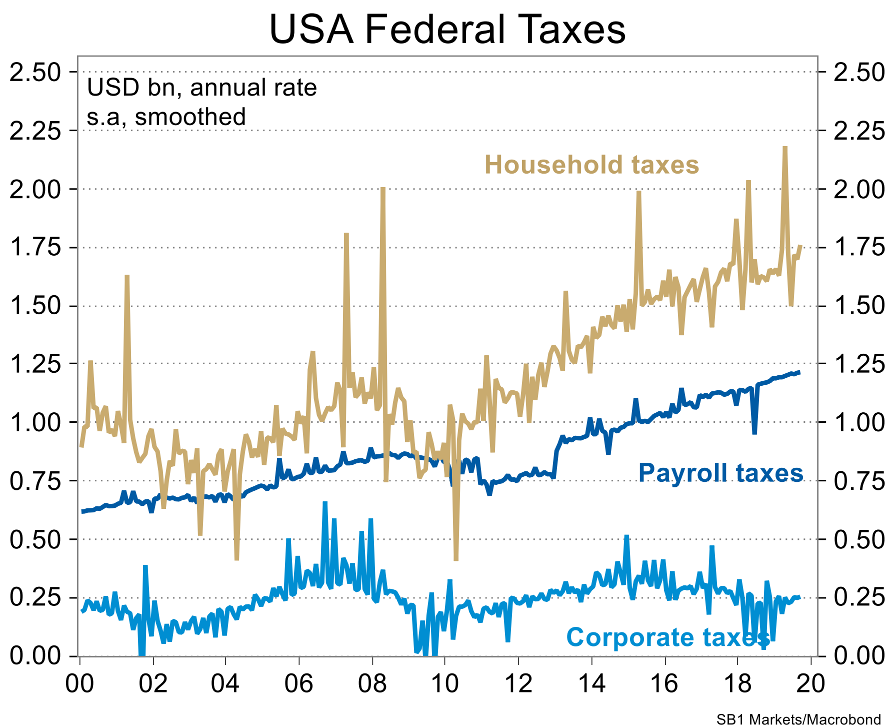


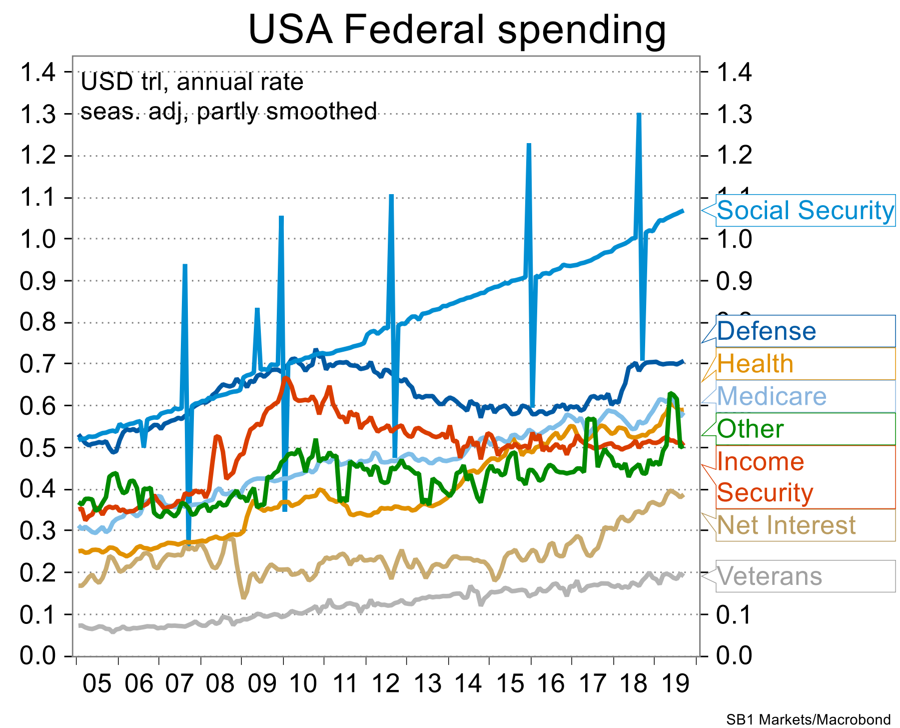


- The budget deficit fell to USD 890 bn in annual rate in August (seas. adj), and the 12 m (=fiscal year) was at 987 bn, and it is steadily increasing. Including local government etc, the US was running full employment, peacetime deficit at 7.1% in Q2 (from 6.9% in Q1); totally unprecedented!
- Federal spending is up 14% y/y 3m smoothed, underlying growth some 9% , well above growth in nominal GDP. Income is up 6% y/y (3 m smoothed & underlying)
- In % of GDP federal spending equals 21.5%, way above a normal level past 30 years (except for during recessions). Regrettably, federal income just equals less than 17% of GDP, much lower than normal in a blooming economy – of course because taxes have been cut
- A divided Congress has agreed upon a modest further increase for the deficit in 2019 and 2020, but no more than some 0.2 pp of GDP (extra)

Corporate taxes zigzag upwards but remain low, household taxes growing slower

More money spent on… everything?

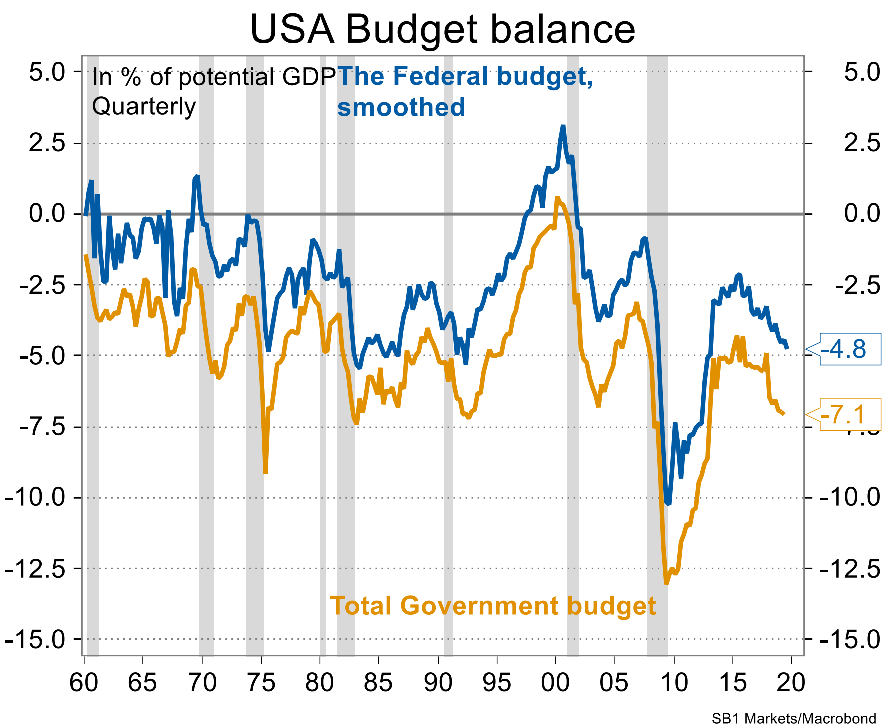


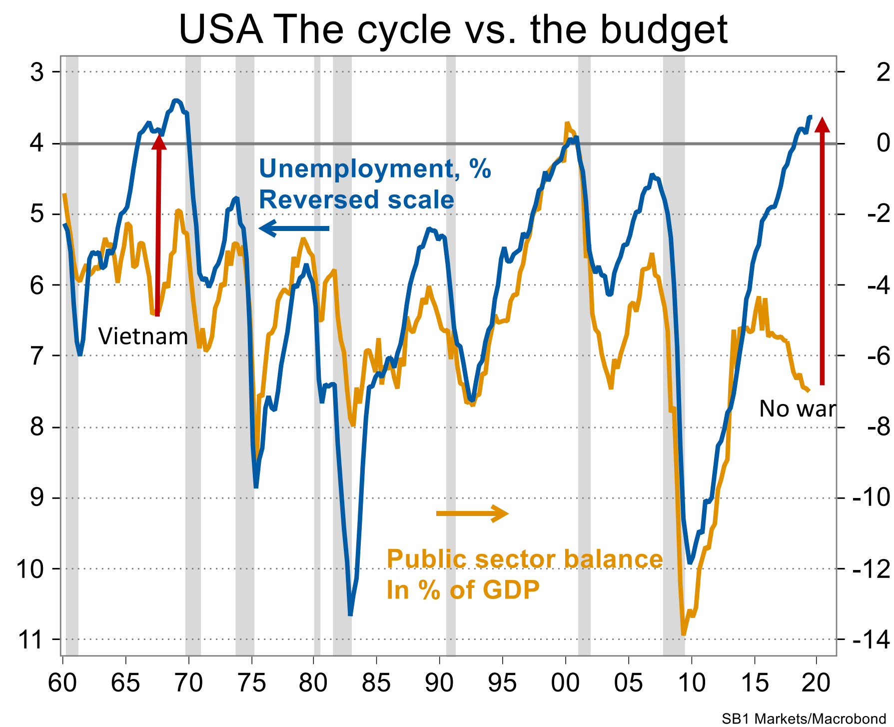


- The biggest spending changes the past year: medicare, health, net interest payments (highest ever, even if interest rates are rather low…

The public sector deficit up to 7.1% of GDP in Q2

With an unemployment rate below 4%! We have NEVER seen something like this before

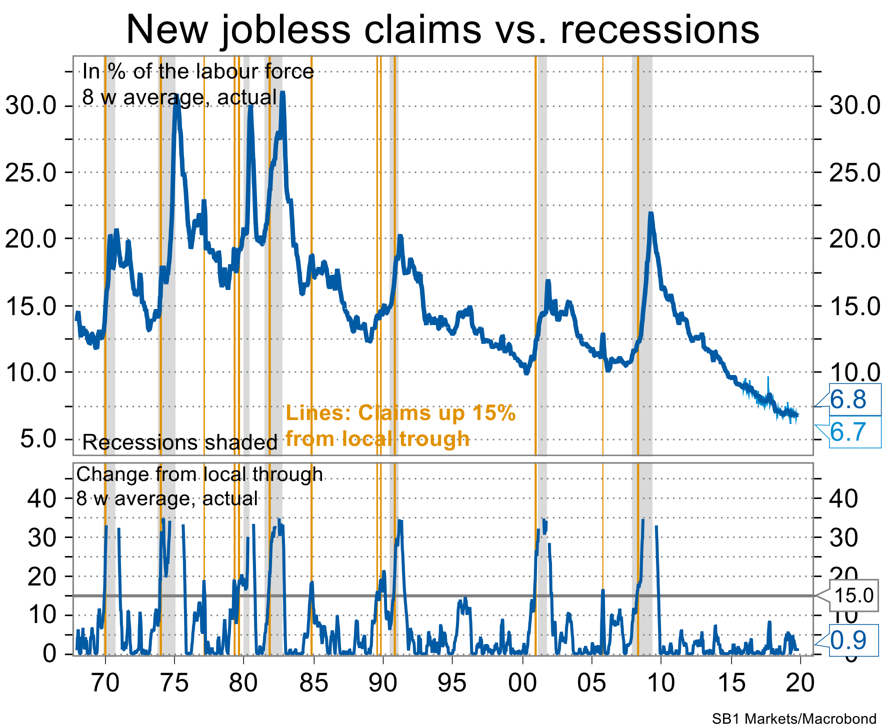


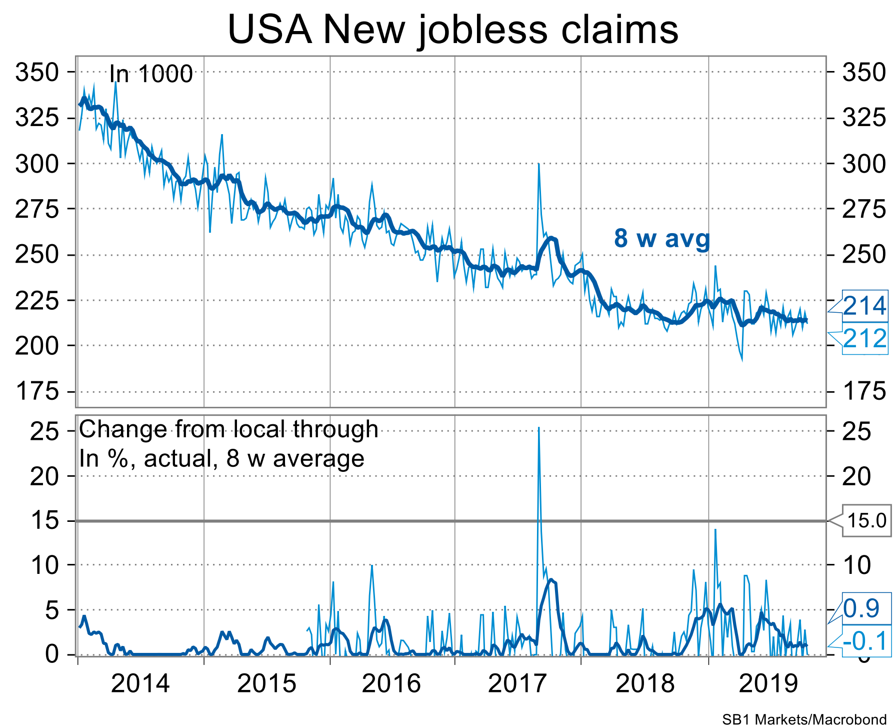


- The deficit has never been anywhere close to the present level in peace time when unemployment is as low as now – and it will most likely become even worse as all of the tax cuts and increased expenditures kick in
  - » We have not seen anything like this in the US or elsewhere before (except Greece in 2007, partly Japan)
  - » The deficit at 5% was large vs the unemployment rate in 1967 too, when the Vietnam war was fought. Btw, afterwards, inflation and a lot of other problems turned up
- *The total public sector deficit is larger than the Federal Government's, as local gov. & social security are included*

Jobless claims remains very low, no signs of weakness yet

Jobless claims fell to 212' last week, the 8 w average is very low, at 214'

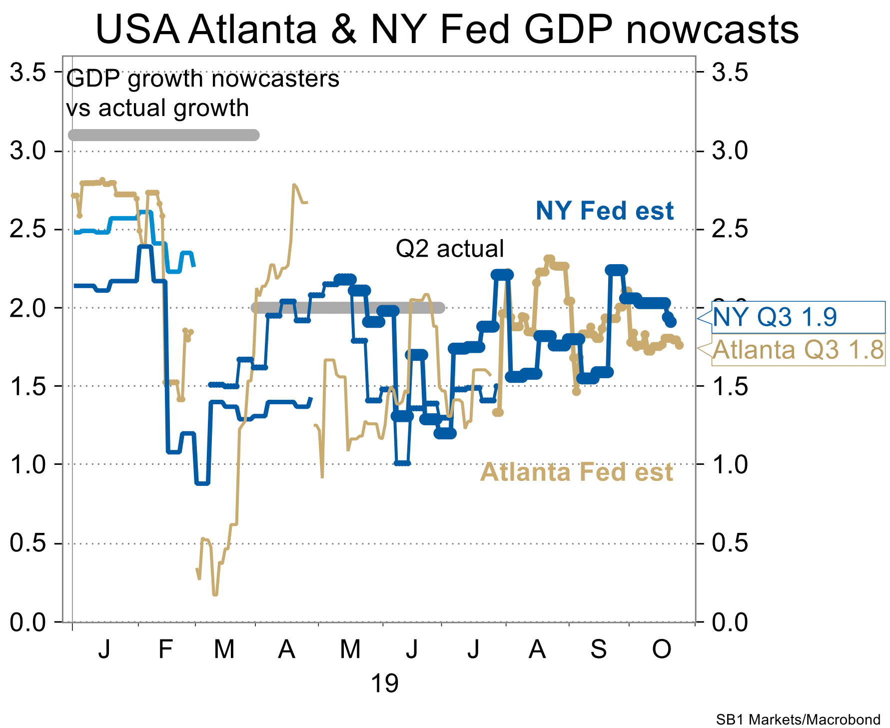


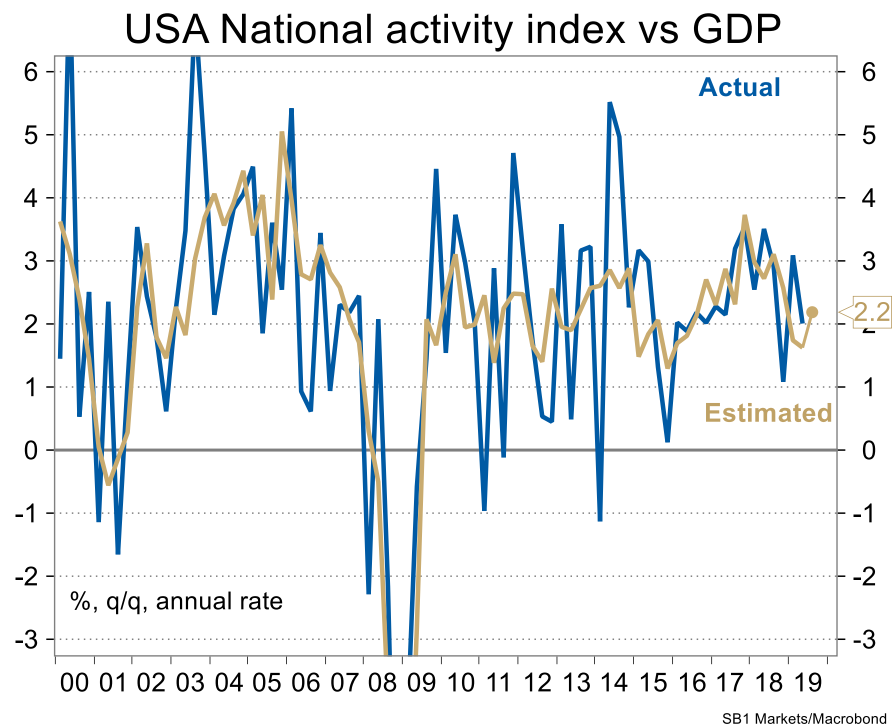


- A more than 15% increase in jobless claims (measured by the 8 week avg) is usually a good indication of a recession, and a yellow 'recession' warning line is to be drawn, check the chart to the left. So, no reason to worry now?

Nowcasters are signalling close to 2% growth in Q3 as well

The nowcasters are noting 1.8-1.9% GDP growth in Q3, the National Activity index at 2.2%



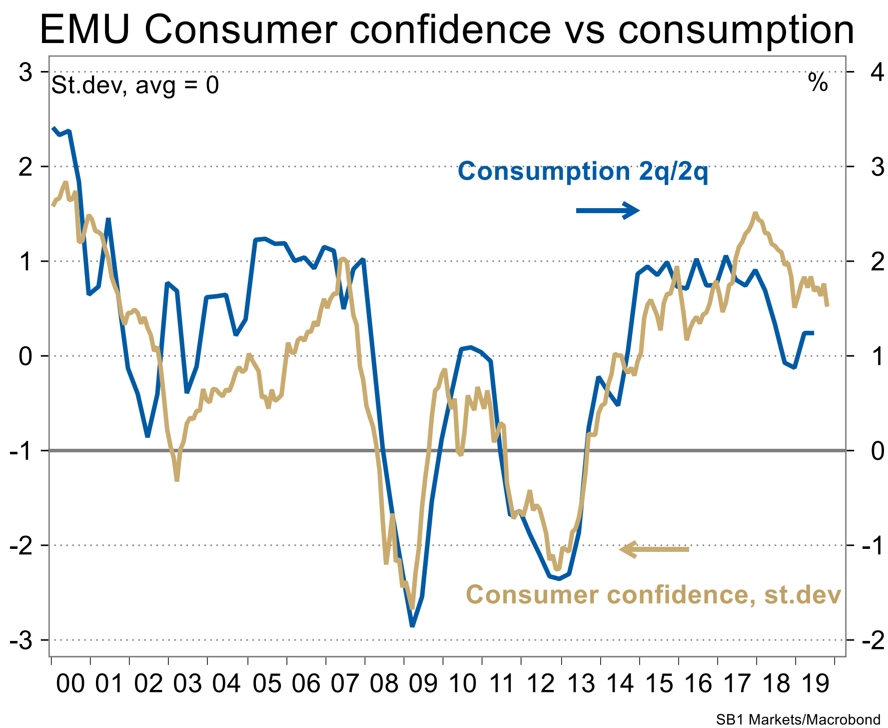


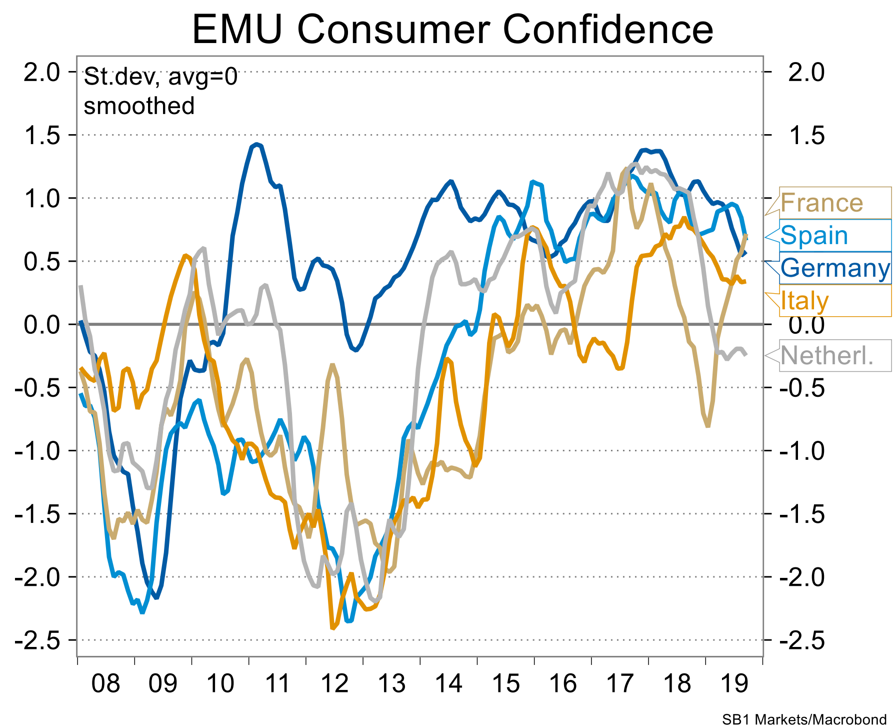
- The NY Feds weekly gauge marginally down to 1.9% last week, Atlanta at 1.8%. The National index points to 2.2% GDP growth in Q3, from 1.6% last month (and 2.0% reported GDP growth in Q2)

SpareBank 1 MARKETS

Consumer confidence down in October but remains far above average

Consumer confidence still signals decent growth in consumption, even in Germany

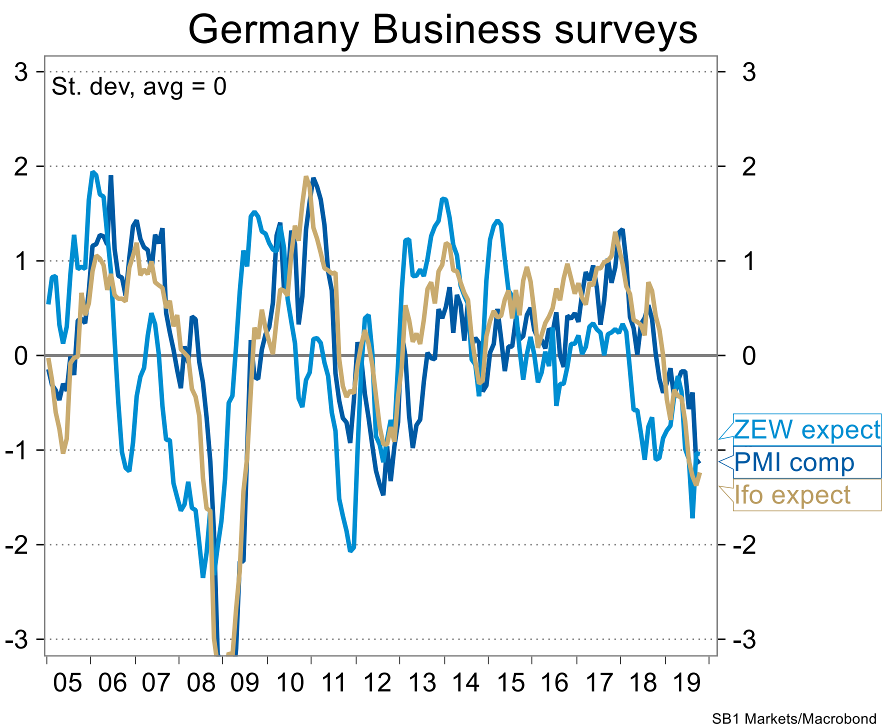


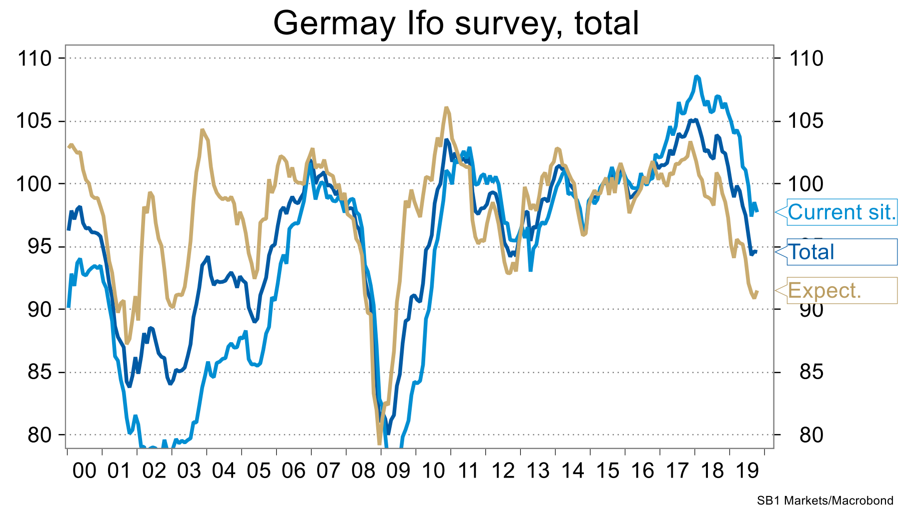


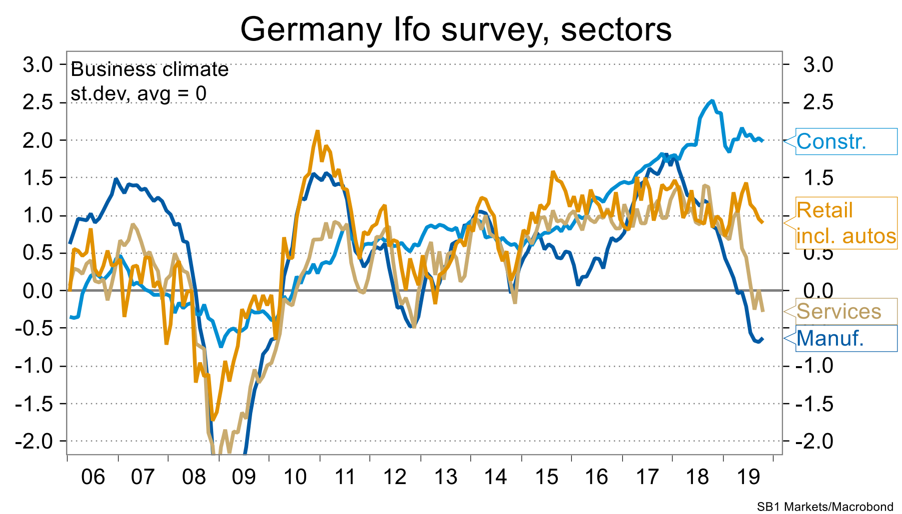
- Consumer confidence fell more than expected in October, the largest m/m decline this year. The CCI has anyway stabilized at a solid level this year, after a rapid decline through 2018. Still, the Oct decline may be a warning sign
  - » Confidence is softening in Germany, Italy and Spain, however none of these are weak. The solid German CCI is quite surprising given sluggish growth and a steep manufacturing downturn. The CCI confirms that the household sector remains resilient, as retail sales and credit have been indicating. In France, confidence rebounded strongly when the protests subsided in early '19. Netherlands is struggling the most. (No Oct country data)
  - » Real wages + hours worked, a good proxy of total disposable income is expanding approx. at the same speed as sales and do not signal weaker consumption either

Ifo expectations remains gloomy, manufacturing slump spreading?

Expectations rose marginally in Oct while the view of the current situation inched down



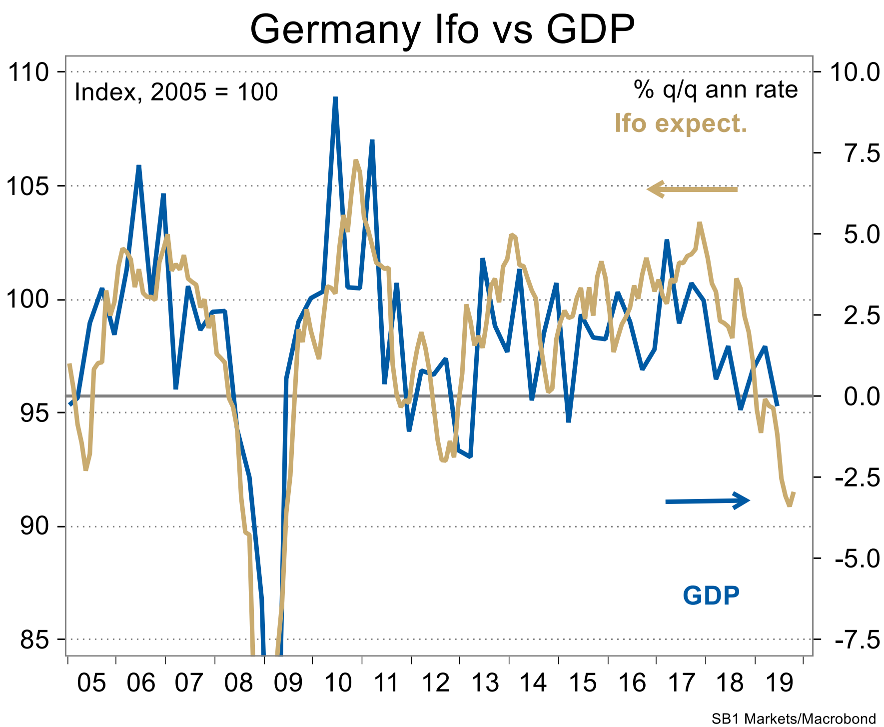




- Businesses view of the current situation has stabilised the past 3 months, after falling steeply the past year. Expectations recovered just marginally in Oct and remain weak – as the PMI and ZEW
- The downturn is no doubt driven by a deep contraction in the manufacturing sector, however, the service sector is reporting stalling activity too. Retail slides down, but the level is still strong and construction even more upbeat, indicating that important parts of domestic demand remain solid

Is Germany on the brink of a recession? Well, the surveys say so

However, the surveys were too downbeat vs actual GDP growth in both Q1 and Q2

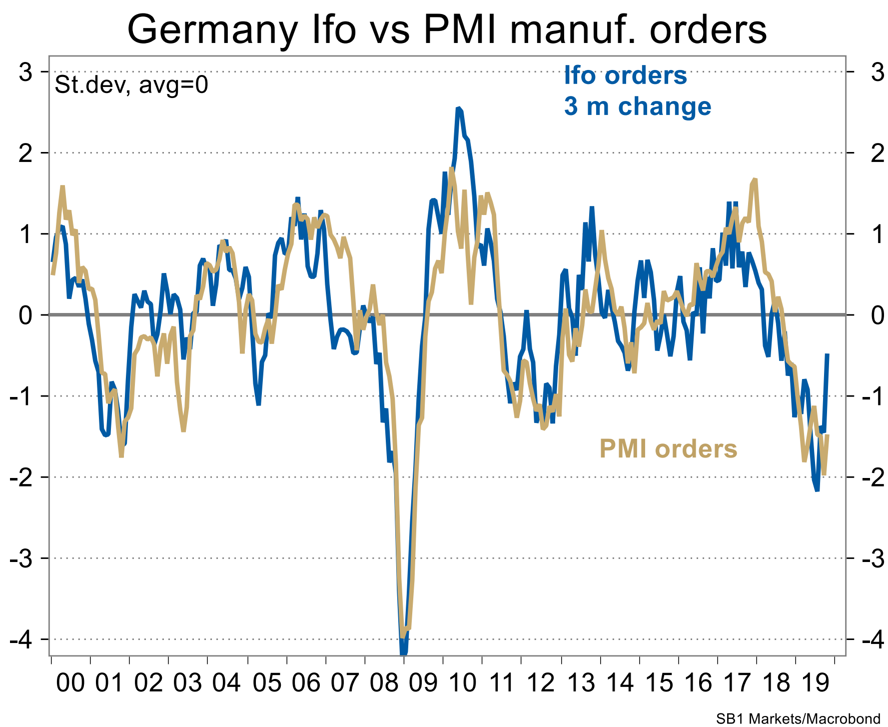


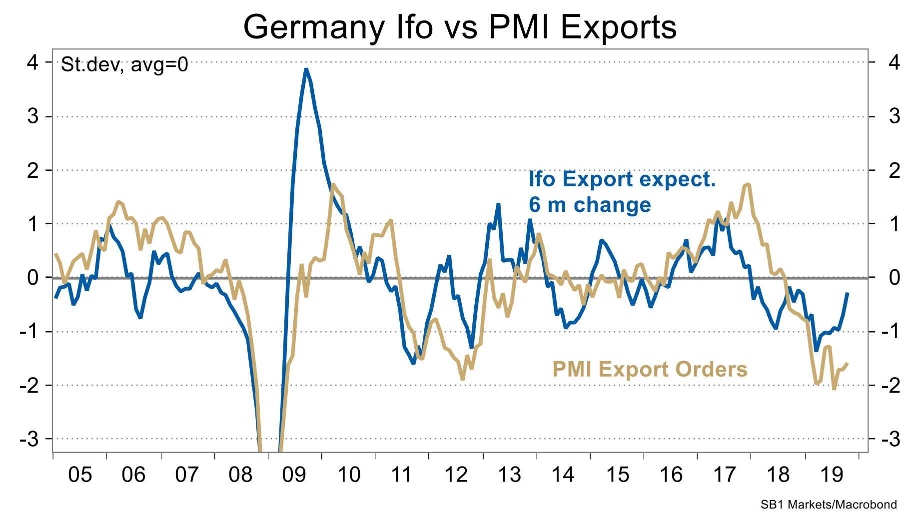
.. And the correlation is anyway not very strong, short term

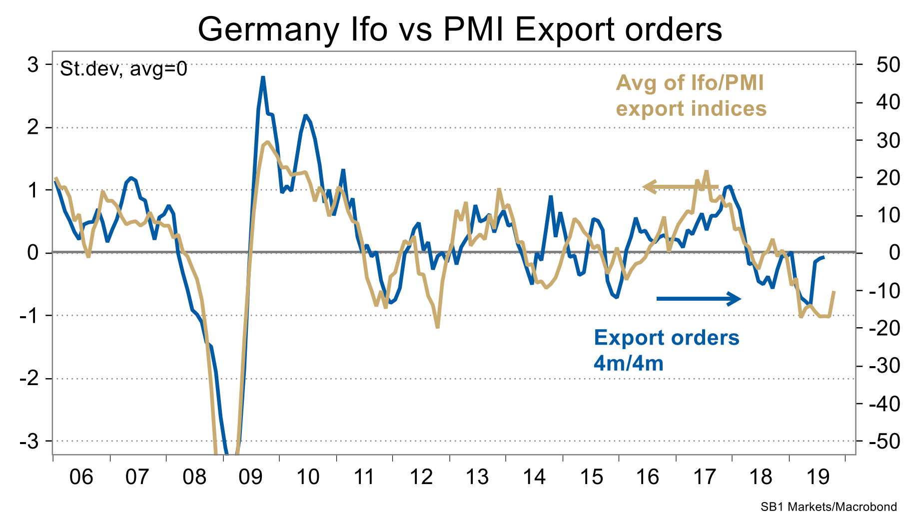
- Both Ifo expectations, the composite PMI and the ZEW survey are indicating decreasing activity. The avg of surveys signals some 4% decline in GDP, probably too pessimistic but anyways reflecting a gloomy outlook!

Order inflows are falling steeply, Ifo orders showing signs of recovery?

The avg of PMI and underlying growth in Ifo export orders still signals weaker exports



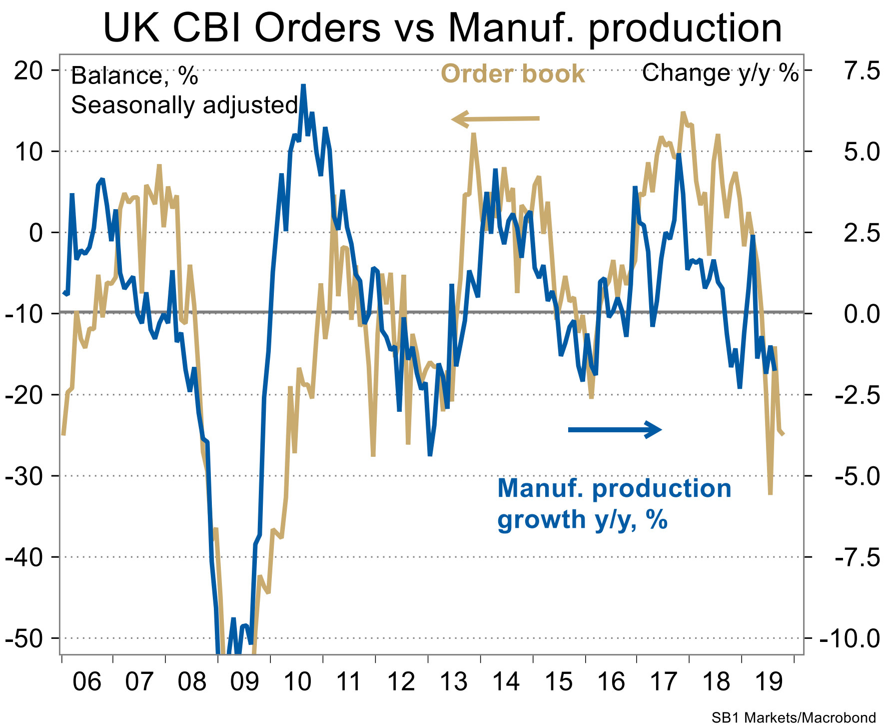


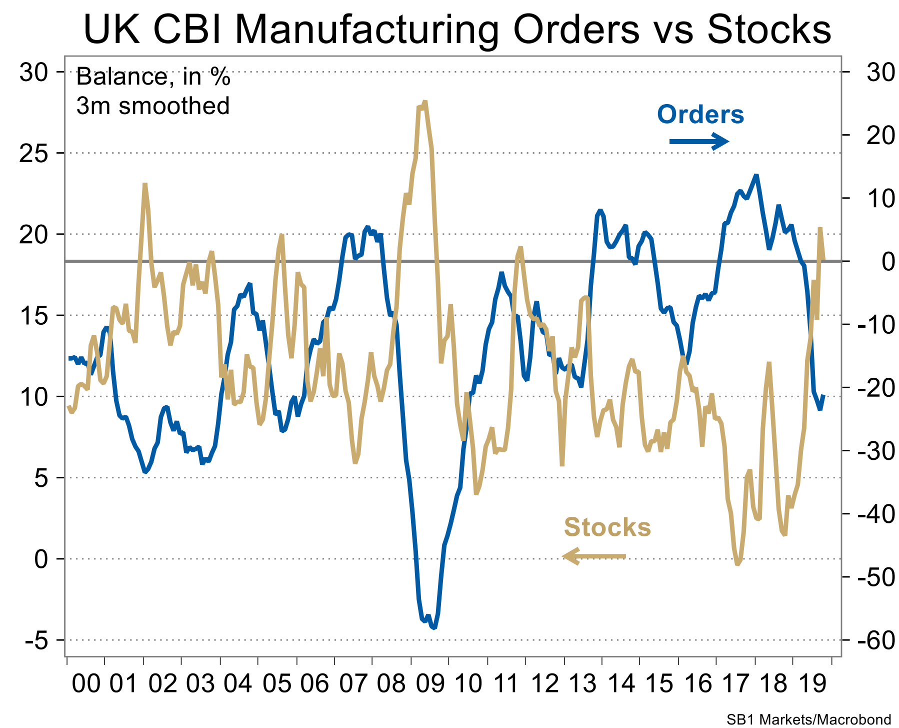


- The level of the Ifo order index is far above the PMI. However, the change in Ifo (here a 3 m change), is closely correlated to – but usually leading – PMI orders. Now, both are reporting a decline in order inflows, although the Ifo recovered somewhat in Oct. Both domestic and foreign demand is weak
- An avg of Ifo/PMI points to a steep decline in export orders, even as both surveys have stabilized/improved recent month

Manufacturing orders are tumbling, signal a steep decline in production

UK businesses are struggling with a huge inventory build up and will have to continue cutting orders

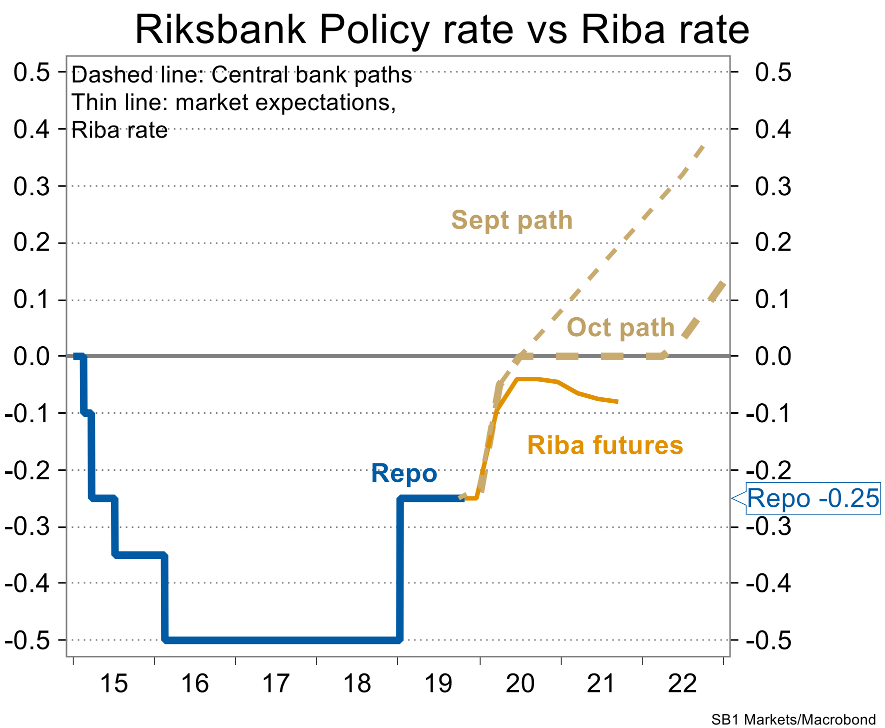


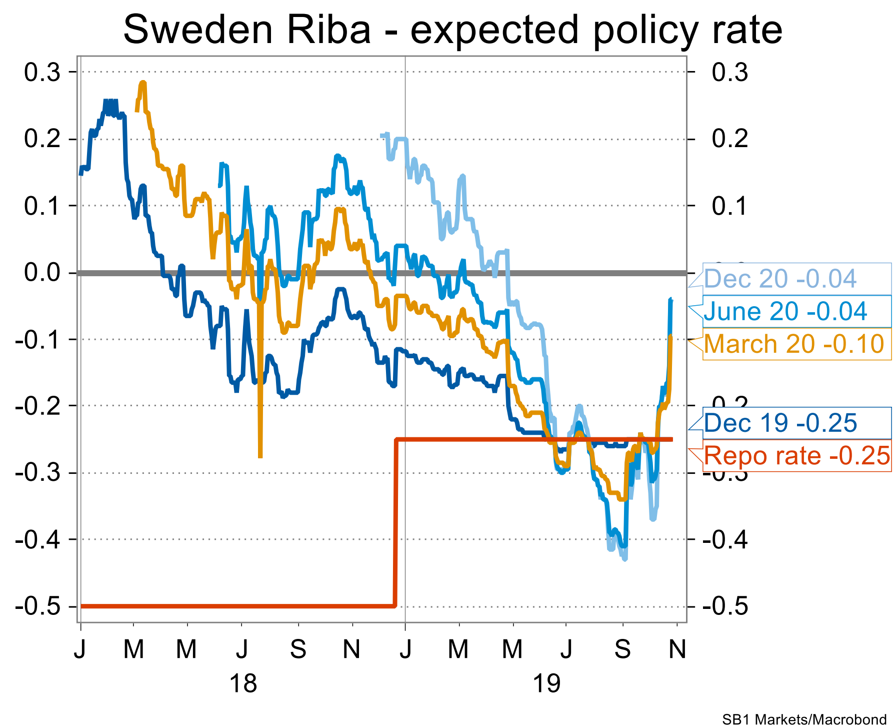


- The CBI order book index dropped to -37 in Oct, much weaker than expected and a 9 p decline from Sept. Our seasonally adjusted figure fell just marginally to -25. Businesses are reporting the steepest drop in manufacturing orders since a few months in 2011 and before that, 2009. Orders suggest an accelerating decline in production (now falling by 1.8% y/y)
  - » In the spring, demand was kept up by emergency stockpiling ahead of the original Brexit deadline. Since then, businesses have reducing new orders significantly. According to the CBI, inventories are still being built up quite rapidly, at one point they will have to be trimmed!
  - » Both domestic and export orders are falling, indicating that the downturn is driven by both domestic struggles and global uncertainties

The Riksbank unexpectedly still plans to exit negative rates this year

The bank stuck to its hiking plans, but specified Dec, from Q4/Q1, and lowered the interest rate path

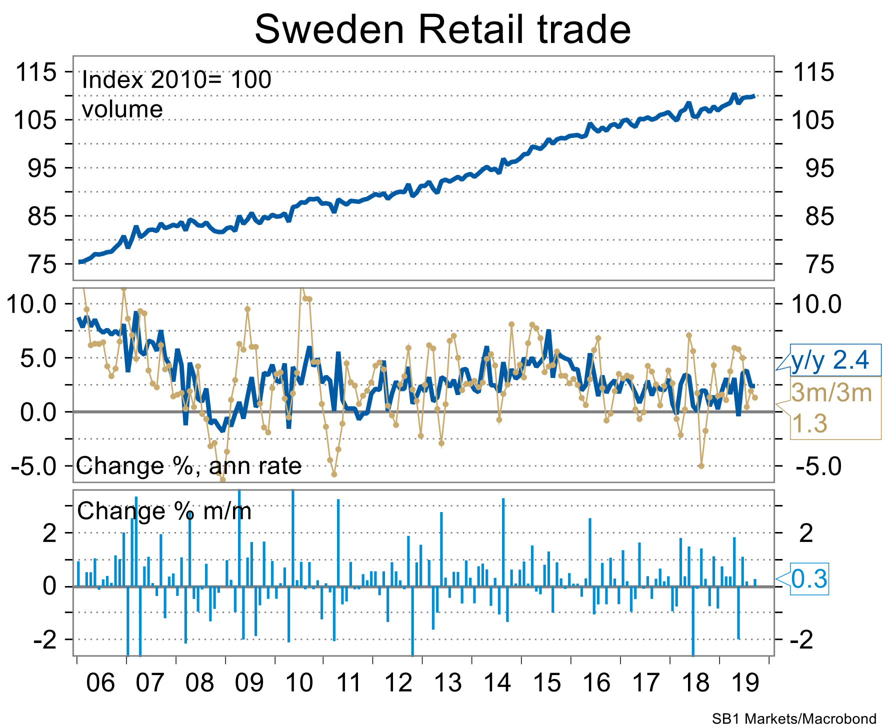




- Markets expected the Riksbank to held the interest rate unchanged at -0.25% but the bank was broadly expected to abandon its plans of hiking in Q4/Q1. Instead, the Riksbank announced that it plans to deliver a 25 bps hike to a zero rate in December. At the same time, from there the interest rate path was flattened, signalling that the interest rate will be kept unchanged until the end of 2021
  - » RIBA futures on the Riksbank rate rose some 8-9 bps on the Riksbank message (and further at Friday, the Dec contract is up 25 bps , and the market and the SEK appreciated. Now, the March RIBA contract (Dec-March period) at -0.10% implies that the market put a 60% probability for a December hike.

Retail sales keep growing moderately, risks are tilted to the downside

Sales rose 0.3% in Sept and were up 1.3% in Q3



- Retail sales volume rose 0.3% m/m in Sept. In Q3, sales were up 1.3% annualized, thus, the GDP contribution will be more modest than in Q2. Still, the trend growth since 2015 is intact. Growth is stronger than in Norway, strange…
- Given the recent slowdown in the Swedish economy, with declining employment (although less abrupt than reported) and sagging consumer confidence, the consumption outlook is not upbeat

Highlights

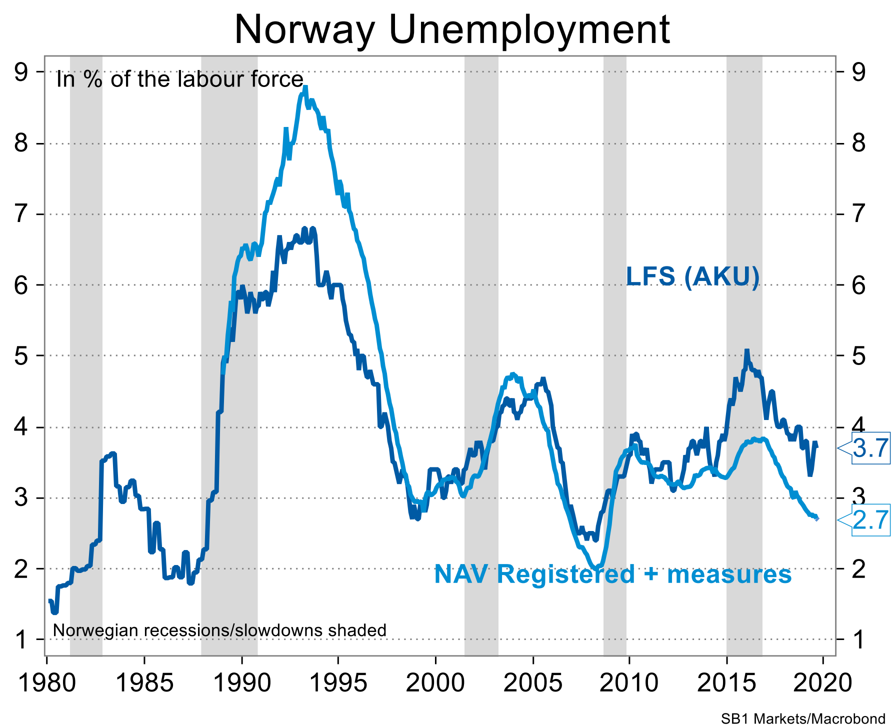
The world around us

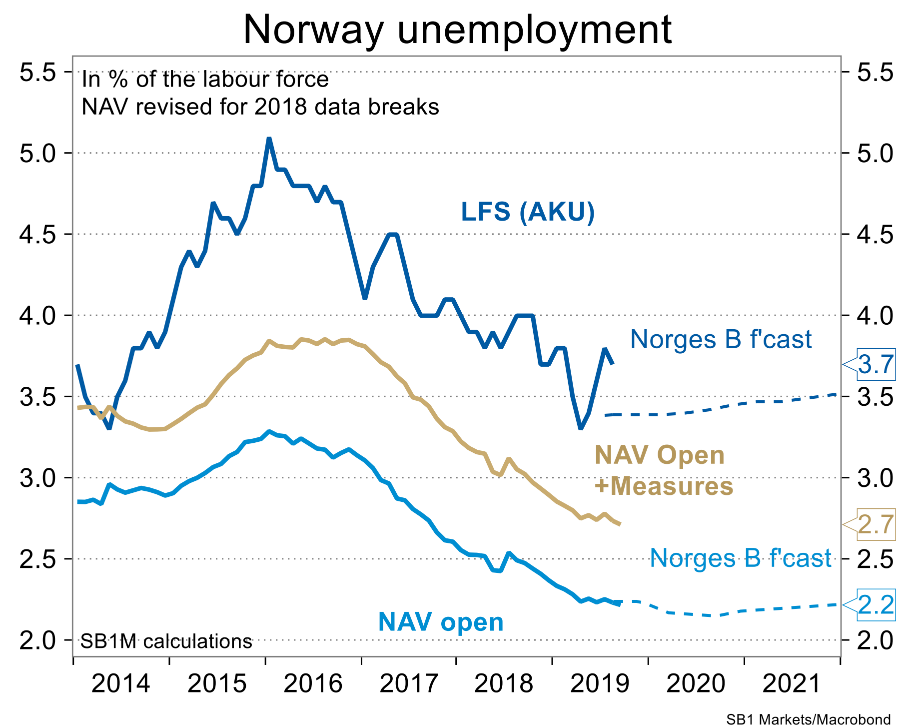
The Norwegian economy

Market charts & comments

LFS unemployment one tick down in Aug, participation soars (but less than reported?)

Unempl. fell to 3.7% as expected, employment rate up 0.3 pp, participation up 0.2 pp

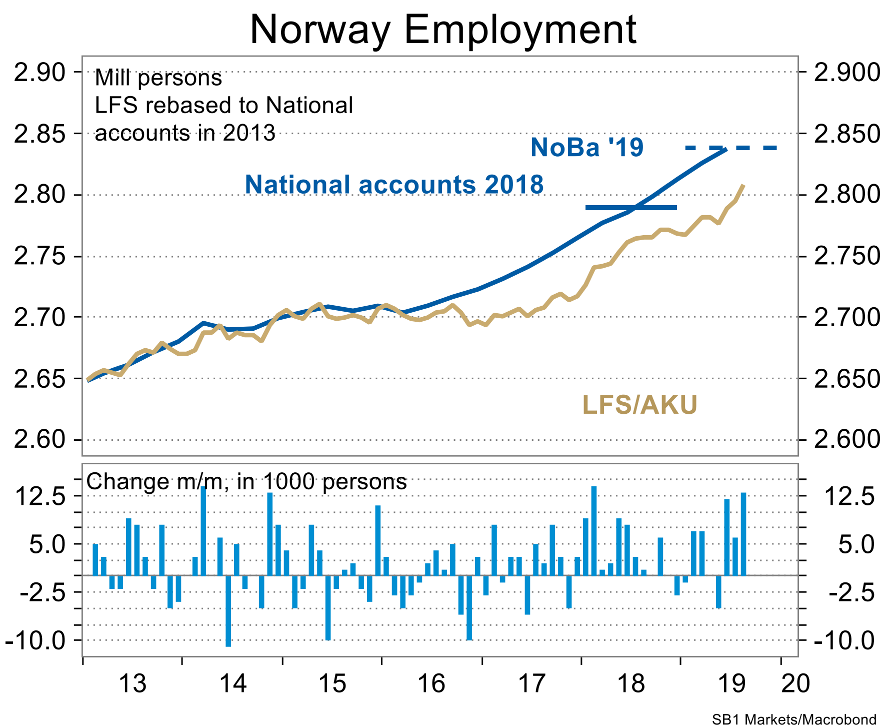


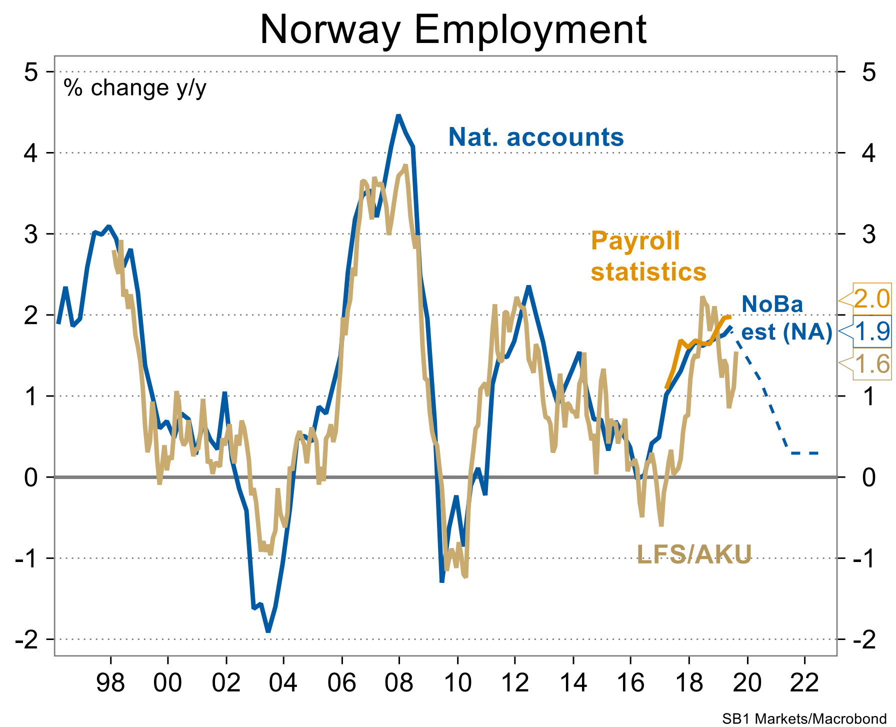


- LFS (AKU) unemployment to 3.7% in Aug (avg Jul-Sep) a 0.1 pp decline, as expected. Unemployment has ticked up since early spring, and is back to the early 2019 level. However, these data are volatile, we assume the trend is still downwards. Norges Bank assumed a 3.4% unemployment rate and expect unemployment to flatten out at this level until late 2020
- The uptick is due to a jump in labour market participation. The participation rate rose 0.2 pp in Aug and is up 0.9 pp the past 3 months! At the same time, employment has been growing strongly, it rose by 13' persons m/m in August, and the empl. rate is up 6 pp. These data indicate that the labour market tightness may be less pronounced than presumed, and the growth potential higher. However, the steep upturn in Q3 is partly due to an unusual jump in empl. among the youngest age groups, which we doubt is correct, check this slide
- NAV unemployment is still heading down, although at a somewhat slower pace. Does not confirm any sudden shift at the labour market

Employment is growing at a solid pace

LFS empl. is up 1.6% y/y, 0.3 pp below the Q2 National Accounts and 0.1 pp below NoBa's f'cast

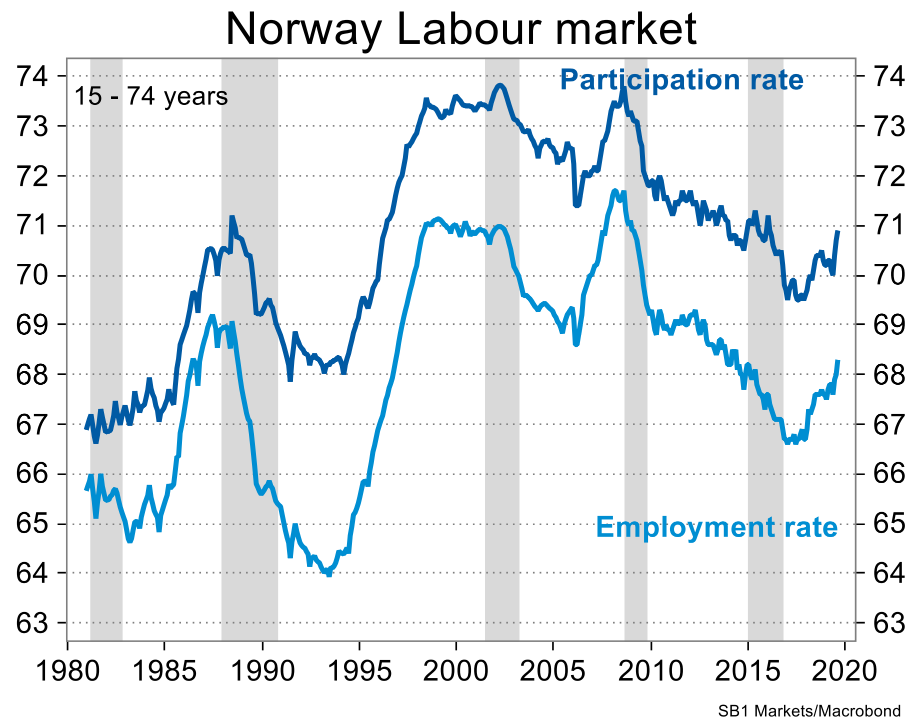


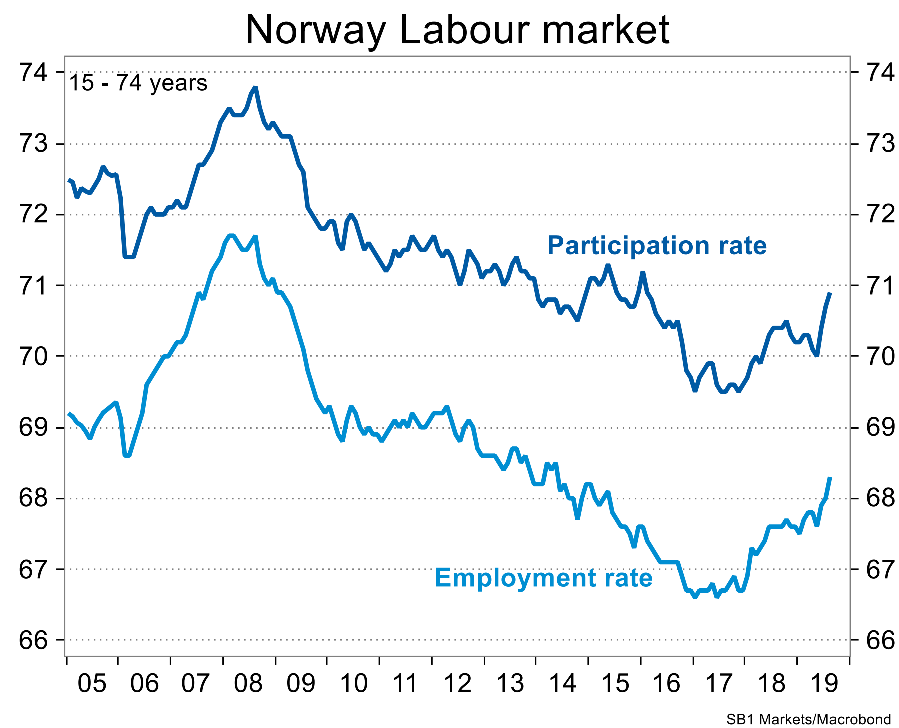


- Employment measured by the LFS accelerated through 2017 and the first half of 2018, to above 2%. The past year, employment has eased somewhat but gained pace in August, too 1.6% y/y
  - » National accounts' employment figures (and the new quarterly register employee statistics) are no doubt more accurate than the LFS survey data. Nat. Acc. is noting stable employment growth the past year, up 1.9% y/y in Q2. Payroll statistics report 2% growth
  - » In the Sept MPR, Norges Bank nudged up its 2019 employment f'cast by 0.1 pp, to 1.8%, and 2020 up to 1.2%
  - » The working age population rose 0.6% q/q y/y in Q3. Thus, a 1.9% (or 1.6%) employment growth is above trend
- We expect a slowdown in employment growth the coming years (as do Norges Bank), mainly due to lack of labour

Labour market participation & employment spike, July/Aug exaggerated?

Participation has increased by 0.9 pp the past 3 months, employment up 0.6 pp





- The long term downturn in the participation rate and employment bottomed in 2017 and both were growing strongly through 2018, up some 1 p. Participation retreated in early 2019 but has been soaring the past 3 months, to 70.9% in August. We doubt this strong trend will be sustained, but the upturn is anyway an important sign
  - » We are not sure why supply would suddenly respond now, as demand has been strong for quite a while. Moreover, the upswing is partly due to an irregular jump in employment among the 15-24 age group, we estimate both rates to be some 0.3 pp 'too' high now
- The employment rate is increasing swiftly too, up to 68.3% in Aug. As long as employment is rising at a moderate pace, we are not worried about any sustained labour market softness

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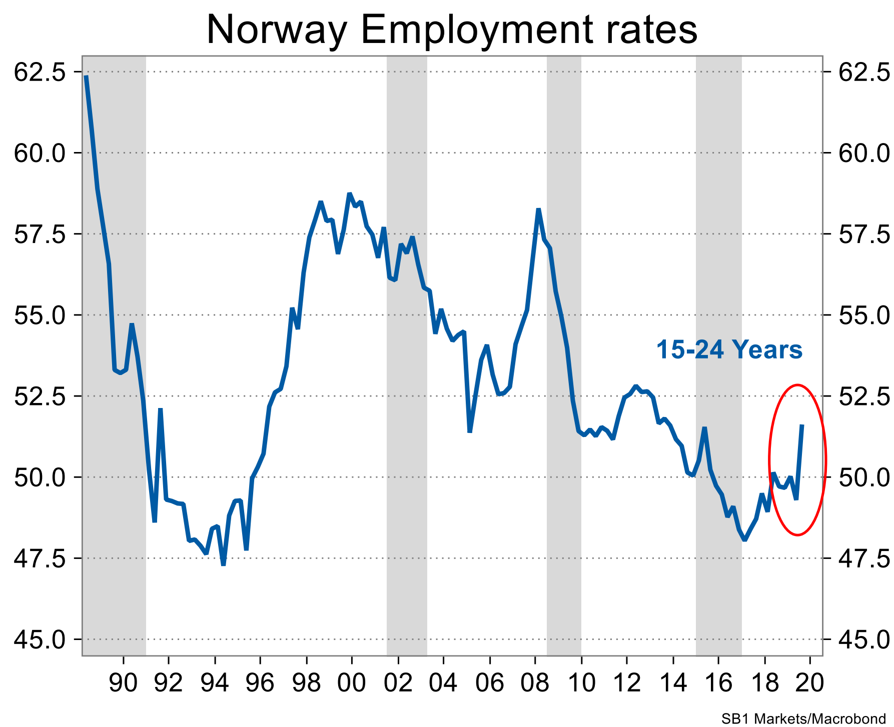
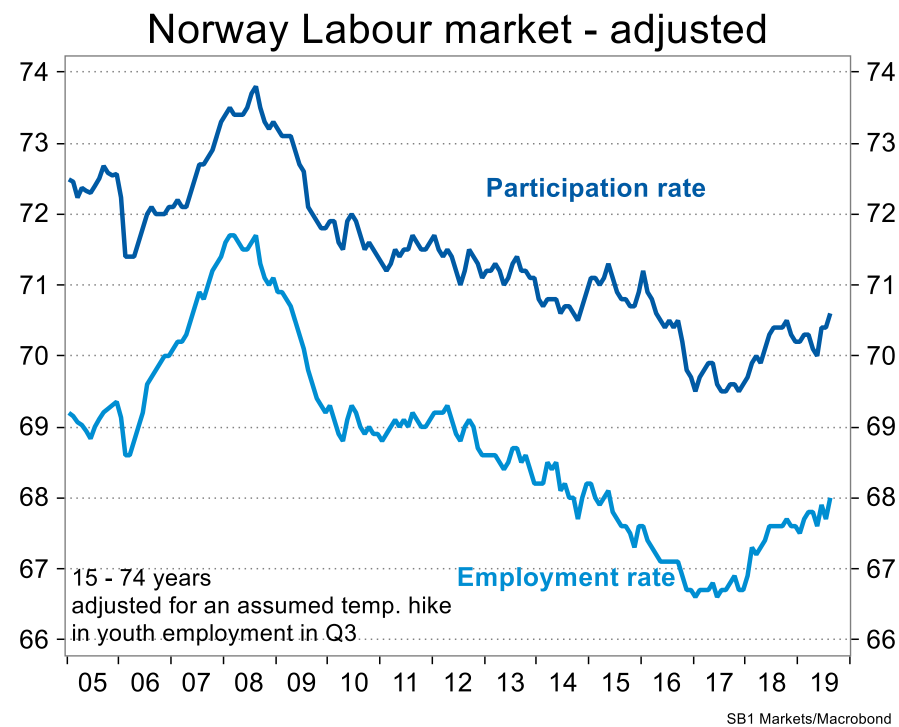
Our adjusted figures: Participation is slowly increasing

Employment and participation are 0.3 pp lower when adjusting for a suspicious jump in youth empl.

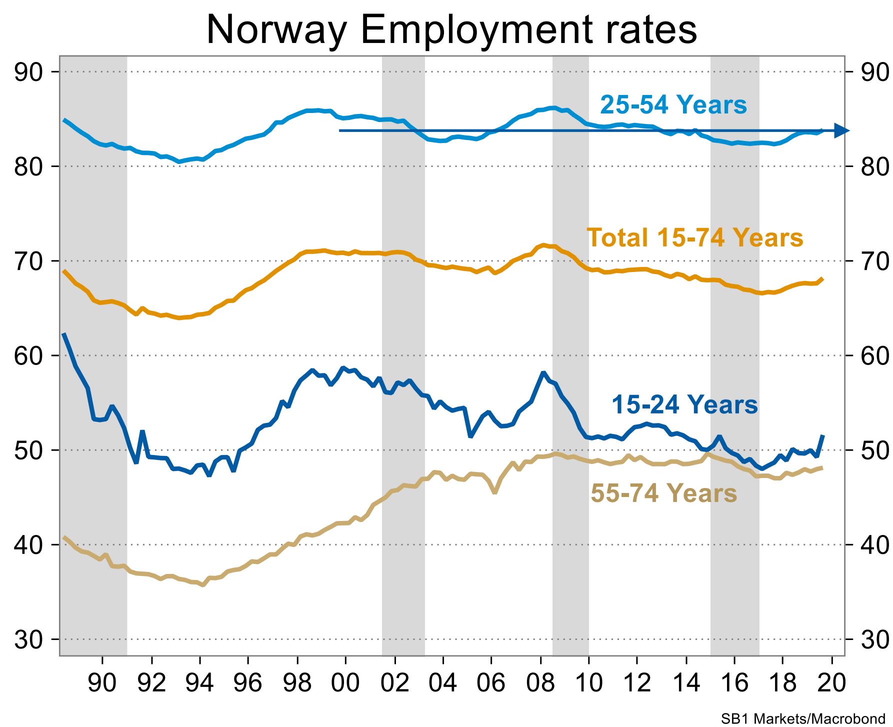


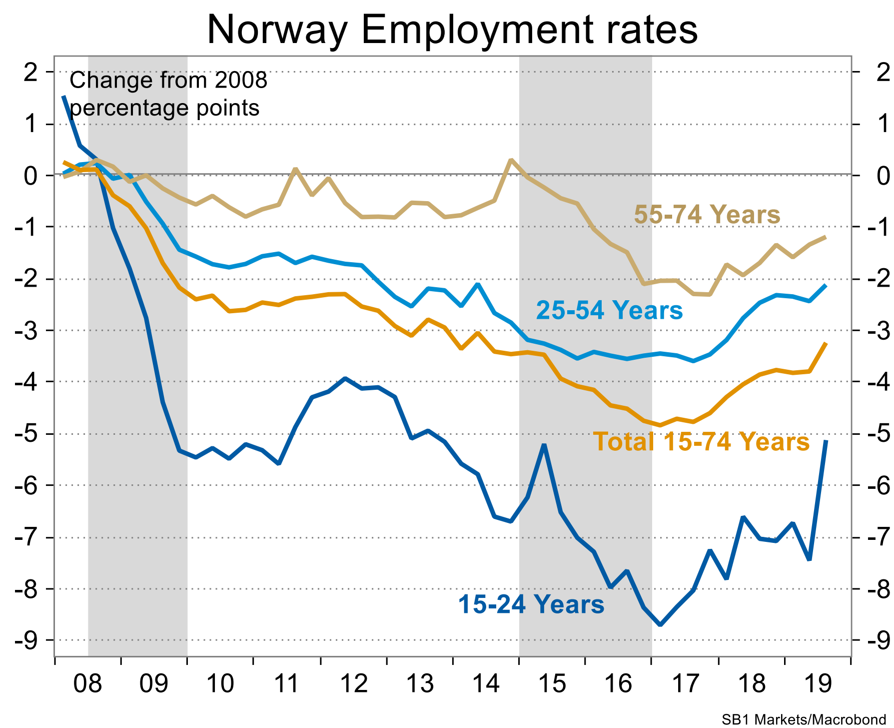


- Check the spike in youth employment at the chart to the left. We have assumed that most of the Q3 jump (from 49.3 to 51.6) will be reversed, as spikes like these are usually technical and later reversed. If this assumption is accurate, the employment rate (and participation, we assume unchanged unemployment) is some 0.3 pp lower than reported – but anyway trending up

Employment rates up among all groups

Still, probably an outlier among the young

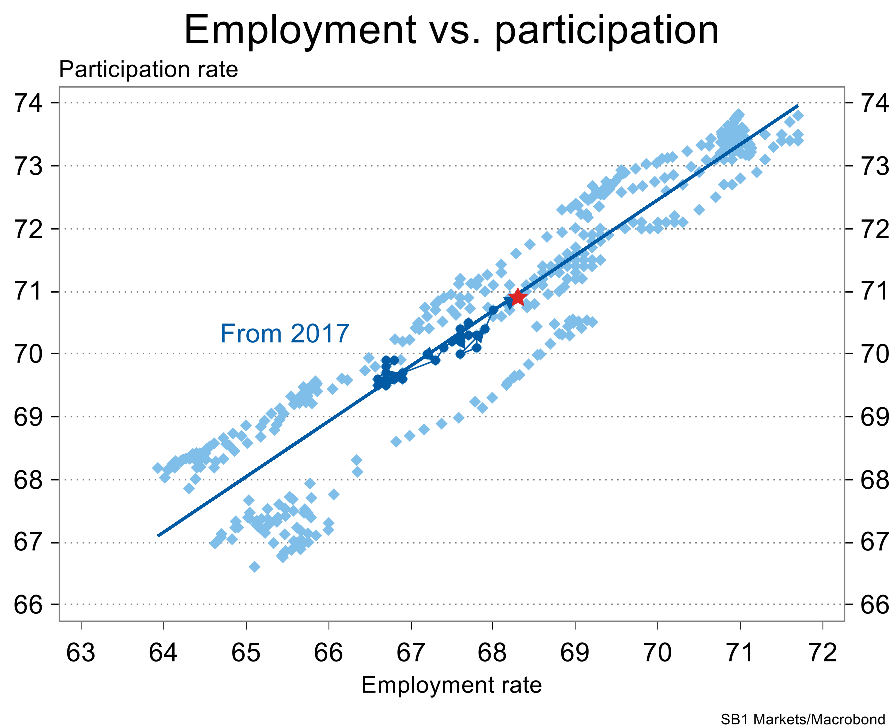


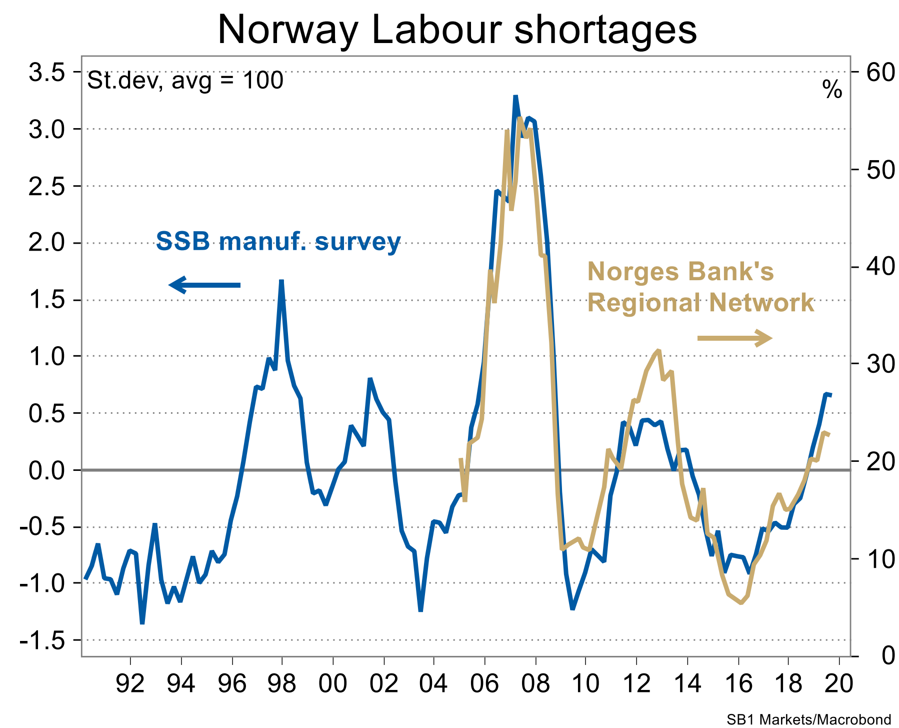


- Employment in the core 25 – 54y group is below the 2008 peak. Still, the level has been trending up the past two years and the level be at a mid-cycle level, like in 2005/06
- Employment in the 55y + group is slowly rising, following the decline during the 2015/16 slowdown. Unemployment in the 'young' sub group, 55 – 64y kept up during the slowdown, and is not increasing now

Participation was lower than usual vs employment – but not recent months

Participation is now at a normal' level given the current employment rate

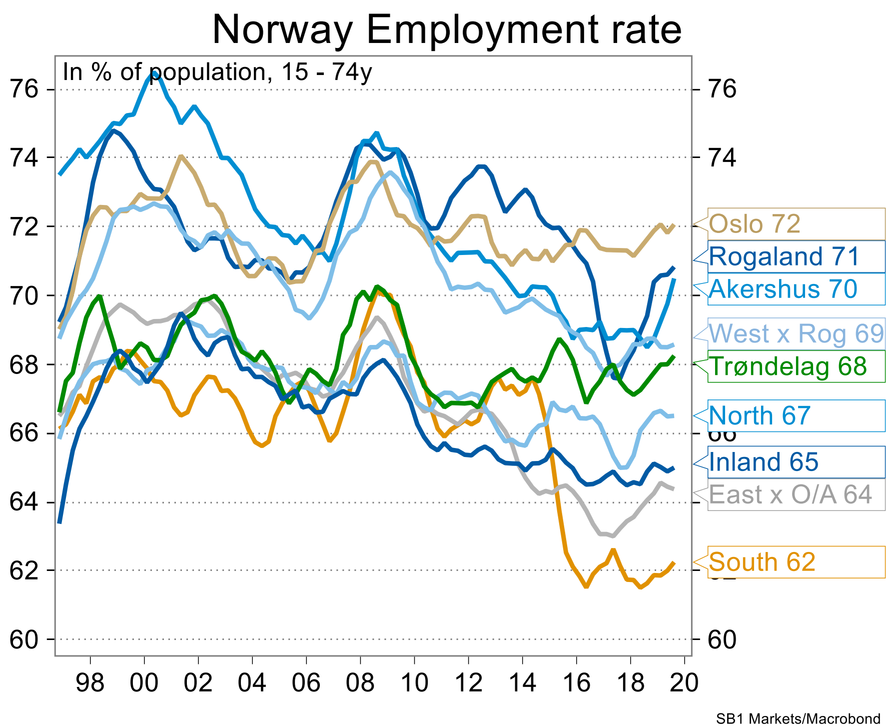


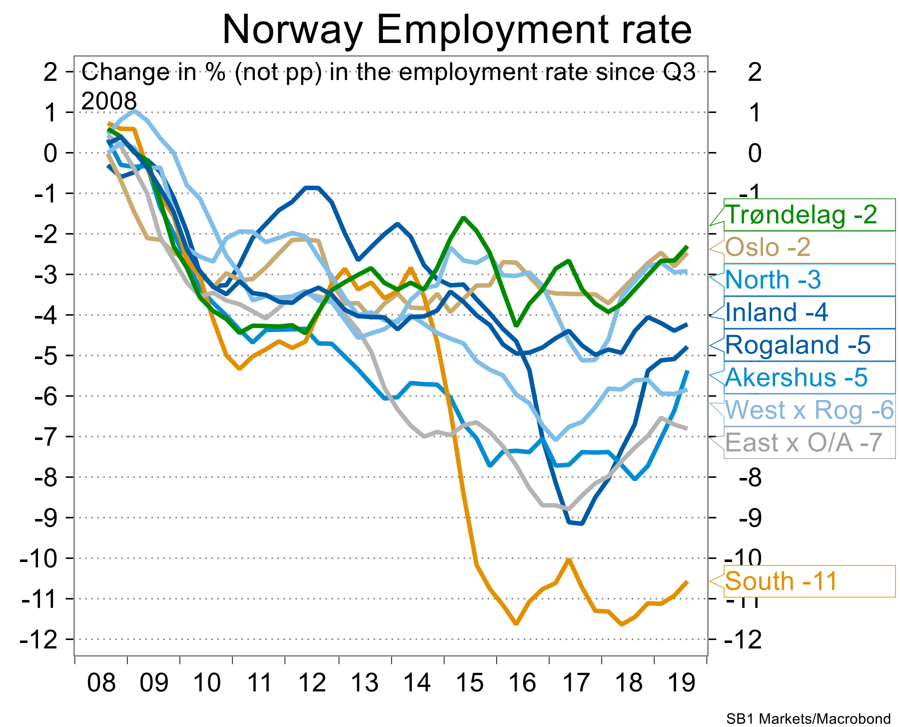


- The Norwegian unemployment rate is quite stable compared to changes in the employment rate – because the participation rate usually is quite responsive to the chances of getting a job; the employment rate. Flexible labour immigration from the EU has also contributed to keep the Norwegian unemployment rate stable
  - » In average since 1980, the labour force participation changes almost 0.9 x the change in the employment rate. Recent years, the response has been somewhat less, say 0.75. However, recent months, the participation rate has followed employment up
- Both Norges Bank's Network and the SSB manufacturing surveys noted an unchanged level of labour shortages in Q3. Both are reporting labour shortages above avg, but still low vs the level of unempl., and do not indicate a very tight labour market

Employment rates are increasing in most regions, steepest up in Akershus

Rogaland is recovering, and most others are turning slowly up? Just Oslo and Inland flat

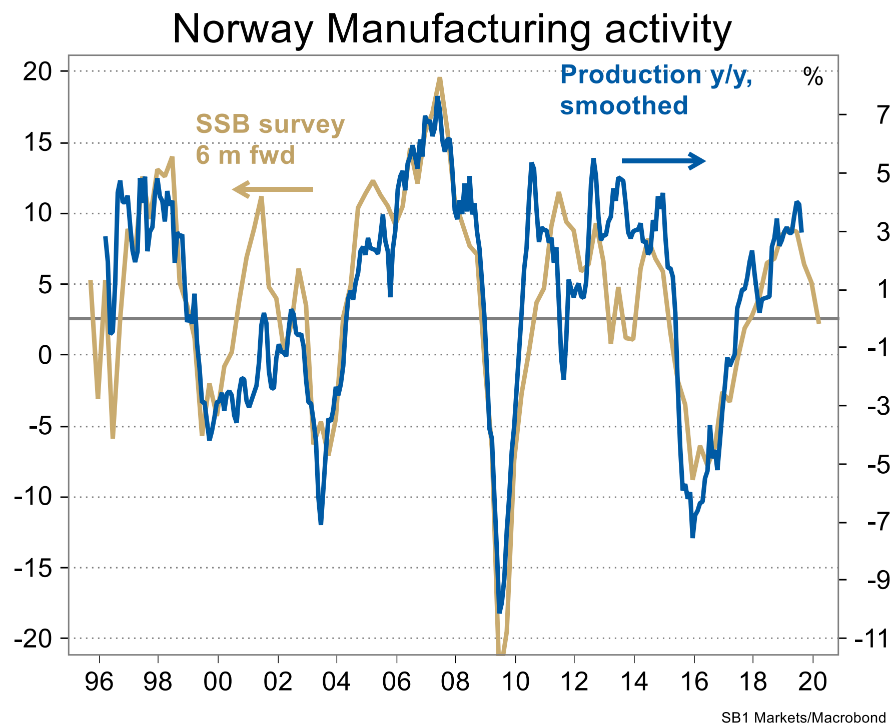


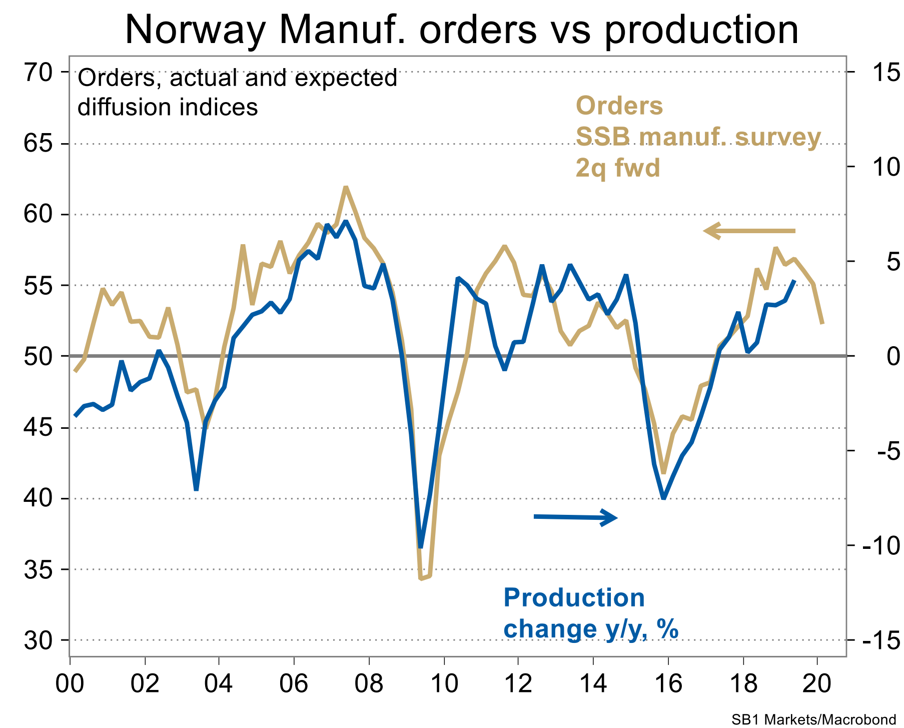


- Employment rates are still below the pre-2008 peak level in all regions. The decline in Akershus recent years has been rather remarkable – albeit not as bad as in Agder (South), in which the employment rate is down by 11% (!!) from 2008
- The LFS might have exaggerated the prior declines in the employment rates (nationally and in regions) but there was no doubt a disturbingly weak development in some parts of the labour market from 2015-2017
- *Disclaimer: The quarterly data are very volatile, data are smoothed in the charts above*

SSB's manufacturing confidence falls, signalling zero growth?

Businesses are reporting softer orders, both in oil/non-oil related sectors. Employment plans down

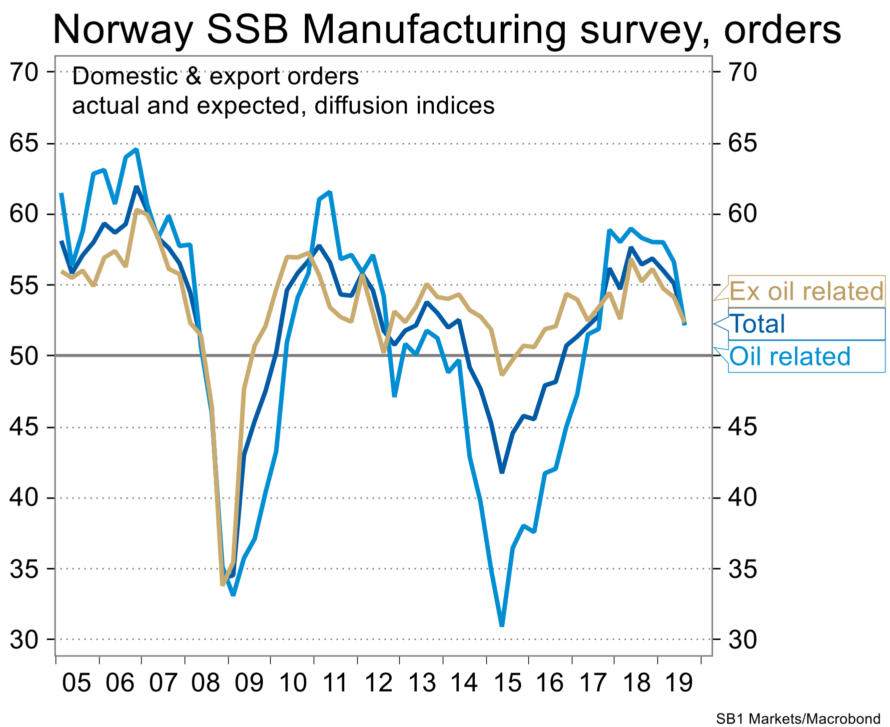


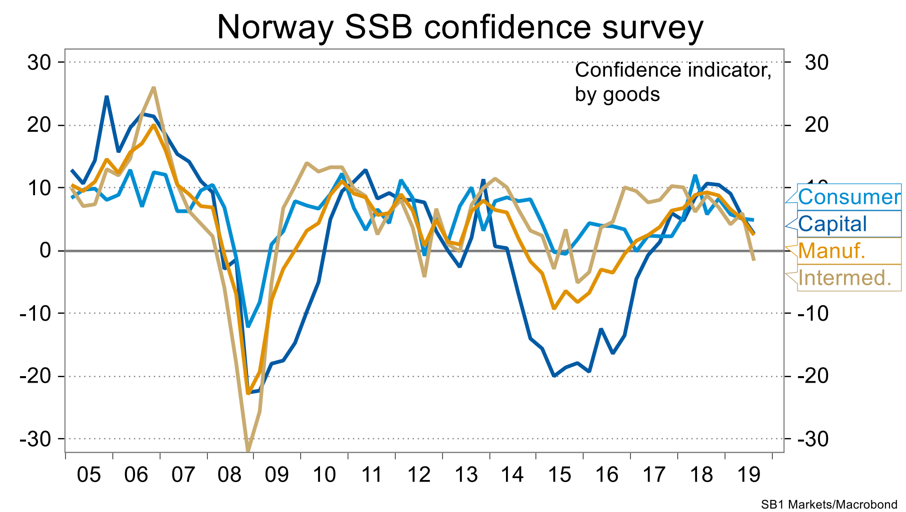


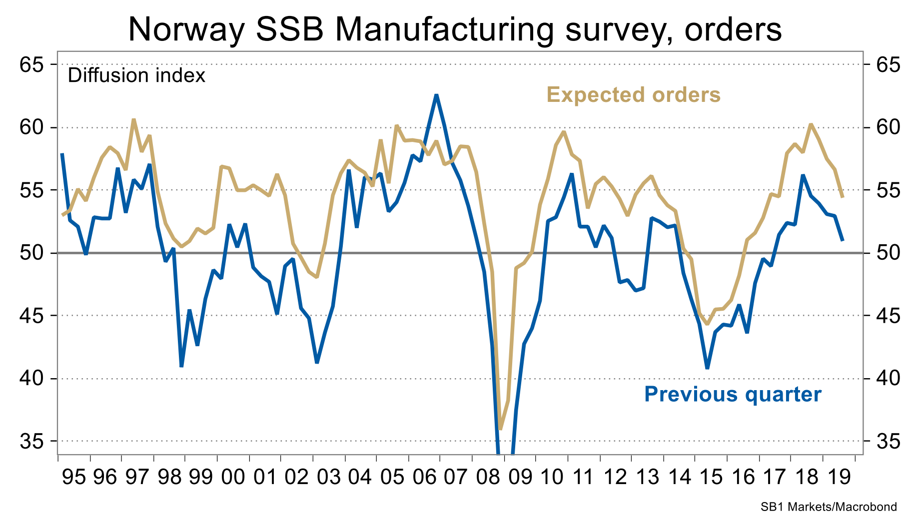
- The composite index in SSB's industrial survey (manuf. index) fell to 2.5 in Q3, from 5.1 in Q2 (revised from 6), the weakest since early 2017, we expected down to 3 (consensus 4)
  - » An index at 2.5 signals no growth in production – in average but with a wide margin of error, the average (signalling trend growth) is 4
- Manufacturing businesses are noting weaker orders in both oil related and non-oil related sectors
- SSB's industrial confidence survey confirms what several other surveys (such as investment surveys, PMI, Norges Bank's Network) have signaled; that growth is peaking now, and will slow the coming quarters

Manufacturing order inflows are softening sharply and broadly

Orders are slowing in both oil and ex oil related sectors, and confidence is weakening in all sectors



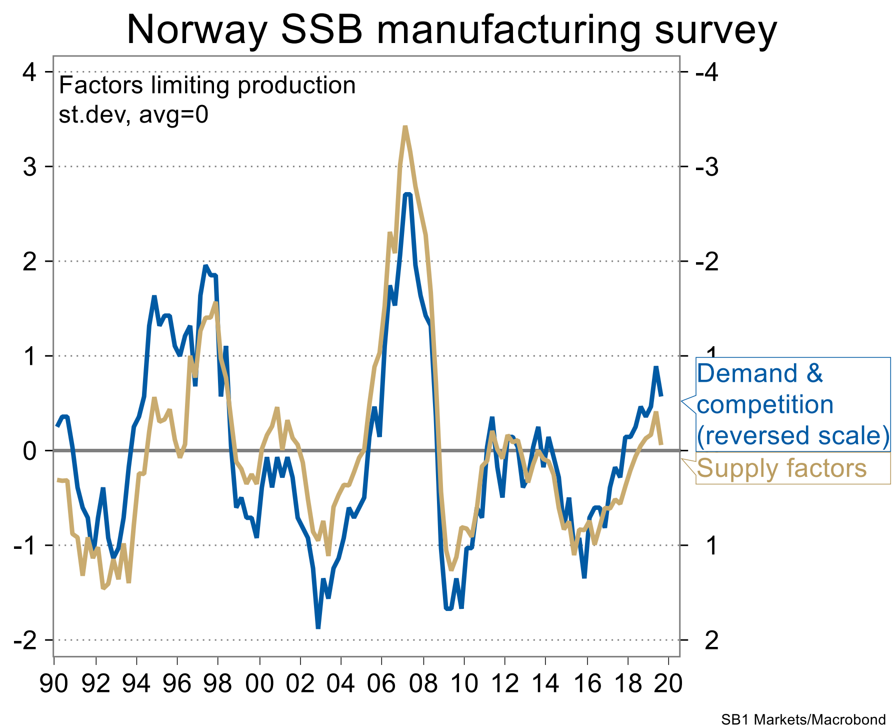


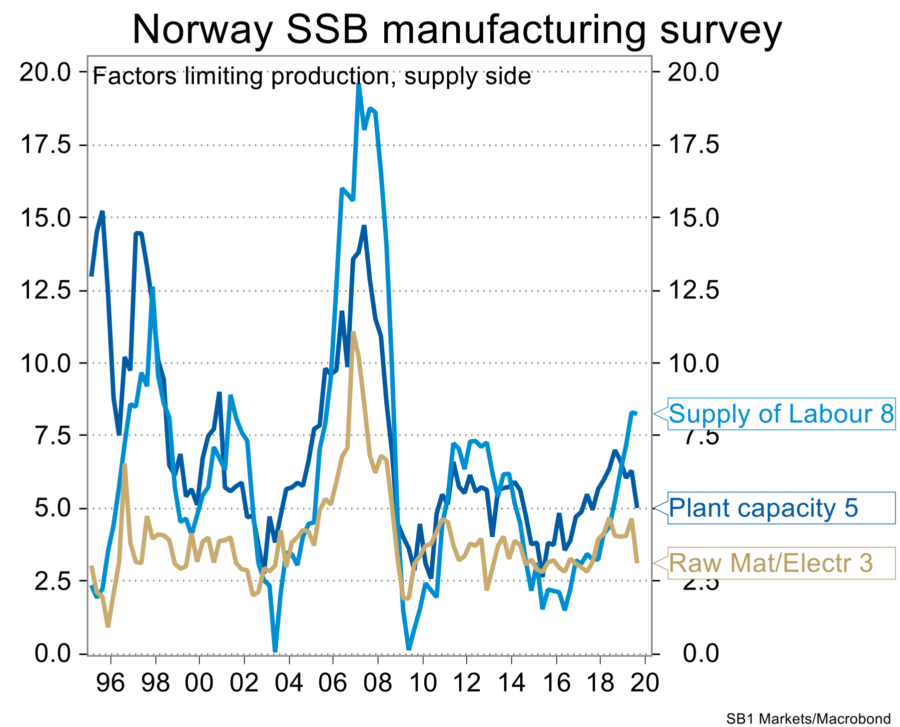


- Both reported and expected orders are still growing but they have slowed substantially recent quarters, from high levels

No further labour market tightening – and demand weaker but not weak

The share of businesses reporting labour shortages flat in Q3, at a quite high level





- The share of companies reporting lack of labour is not that high (8%) but still clearly above normal level, *check next page*
- Plant capacity constraints fell in Q3, to below an average level
- Raw materials are not any problem
- More companies reported lack of demand/too much competition as a constraint but still fewer than normal

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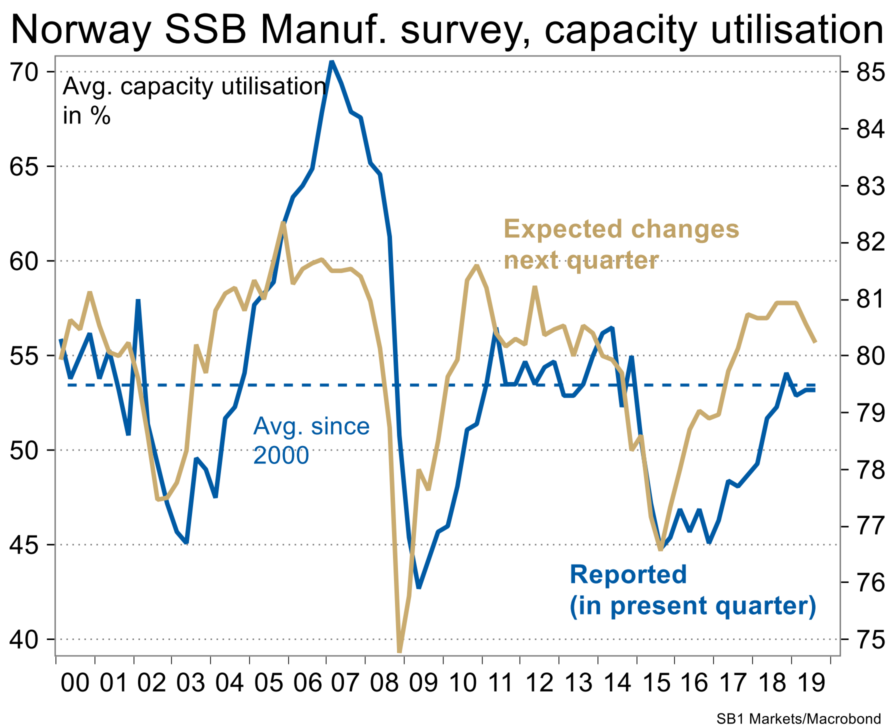
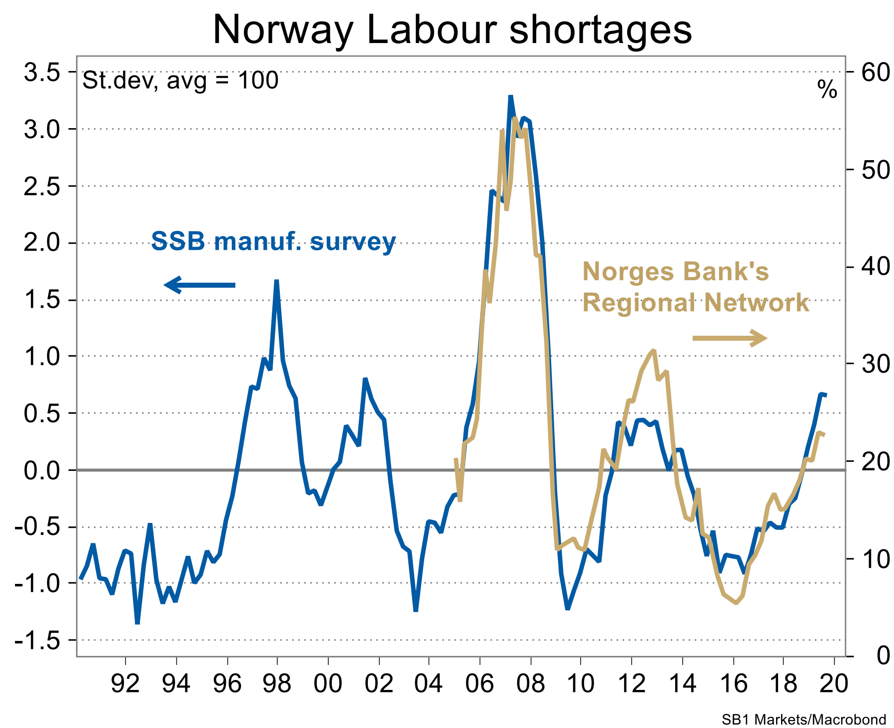
Reported capacity utilisation flat in Q3 but expectations are falling

Expected capacity utilisation peaked in Q1, while reported capacity utilisation has flattened

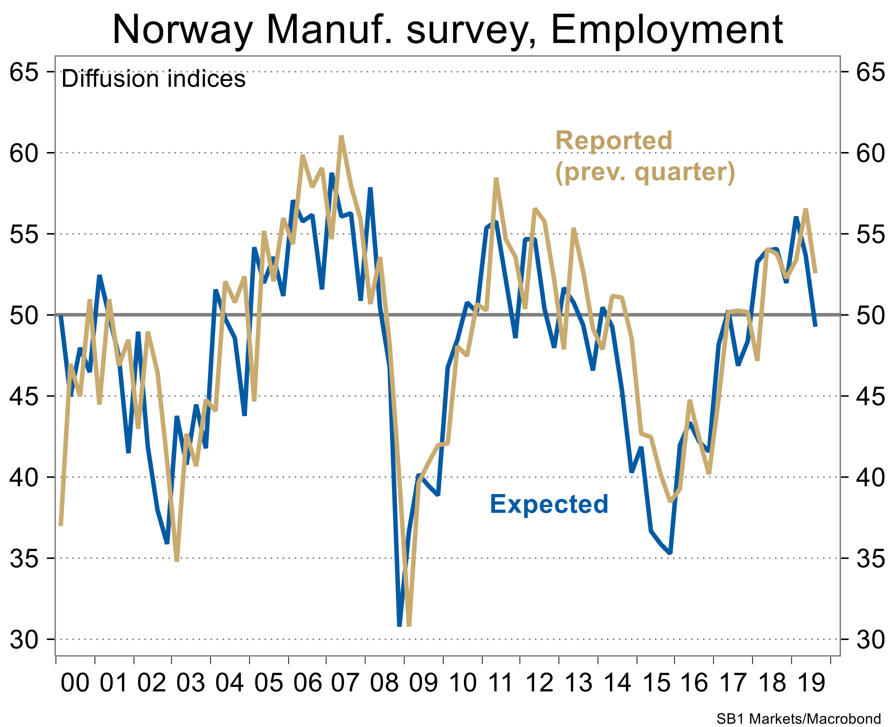


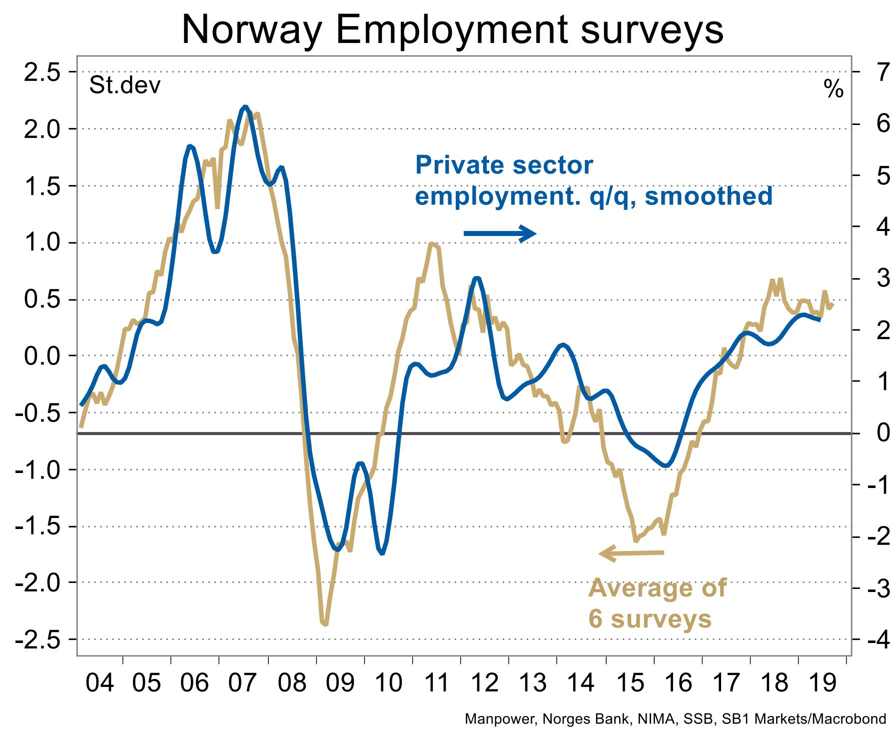


- Both the SSB manufacturing survey and Norges Banks' Regional Network have been reporting increasing labour shortages – and more than normal but no further tightening in Q3. SSB's survey is reporting a tighter labour market than the Regional Network (the whole economy)

Businesses are expecting stalling employment growth

Still, the avg of employment surveys points to steady employment growth at above 2%

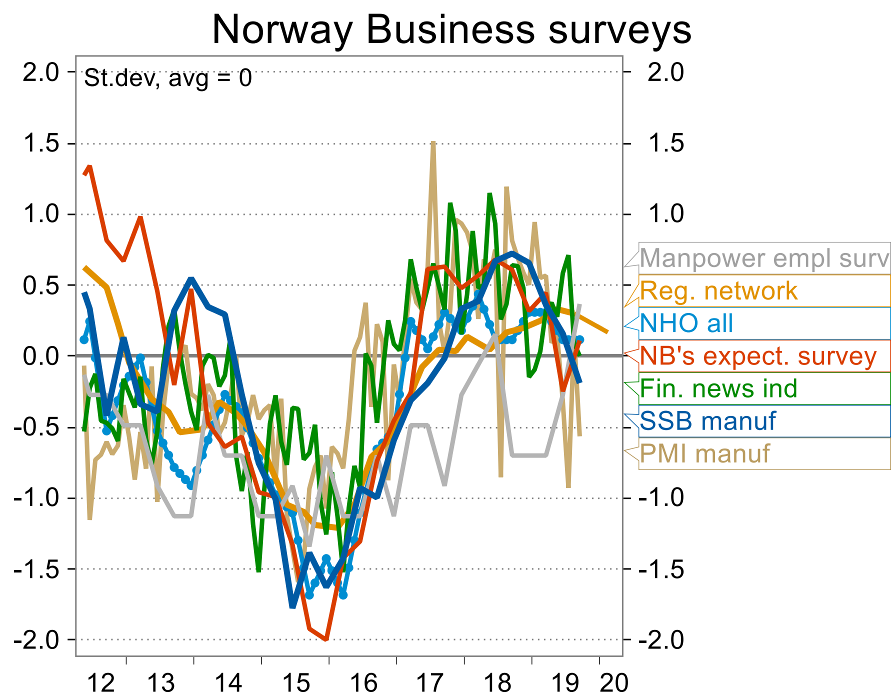


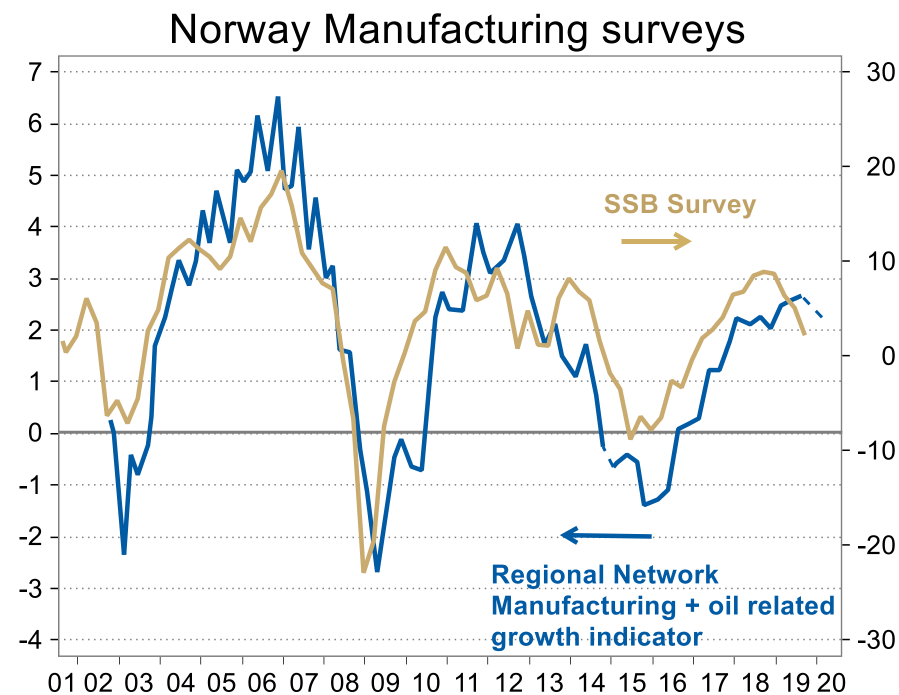


- Manufacturing businesses reported a slight increase in employment growth, the level has been more or less flat since 2018. They expect a slowdown in Q4, yet the index is still above its long term average level
- Other employment surveys are in sum more upbeat than SSBs survey

All business surveys are turning downwards, growth is probably peaking now

The majority (4 out of 6) are still above average, reporting growth above trend

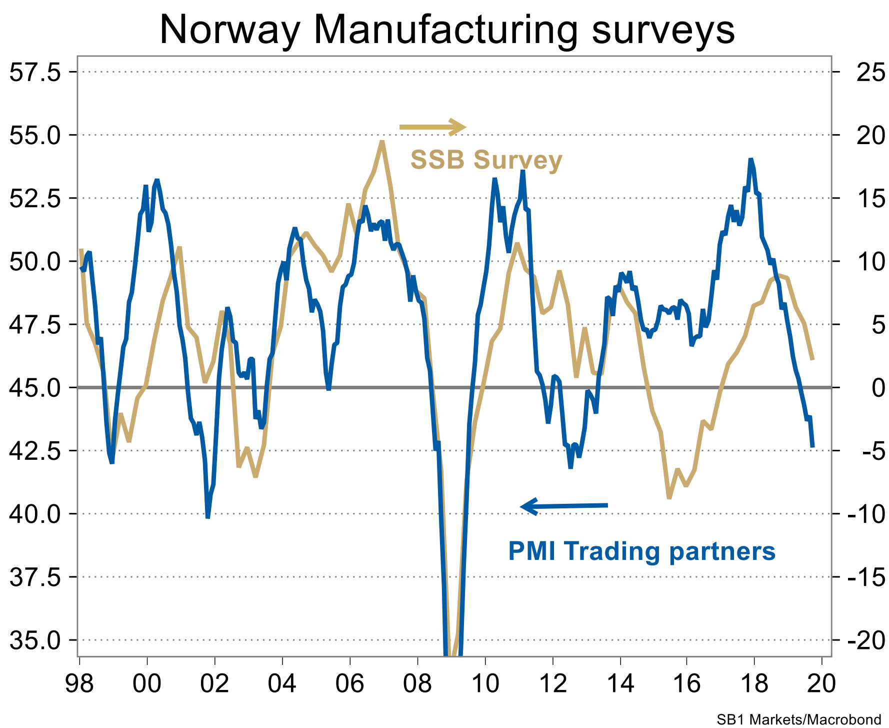


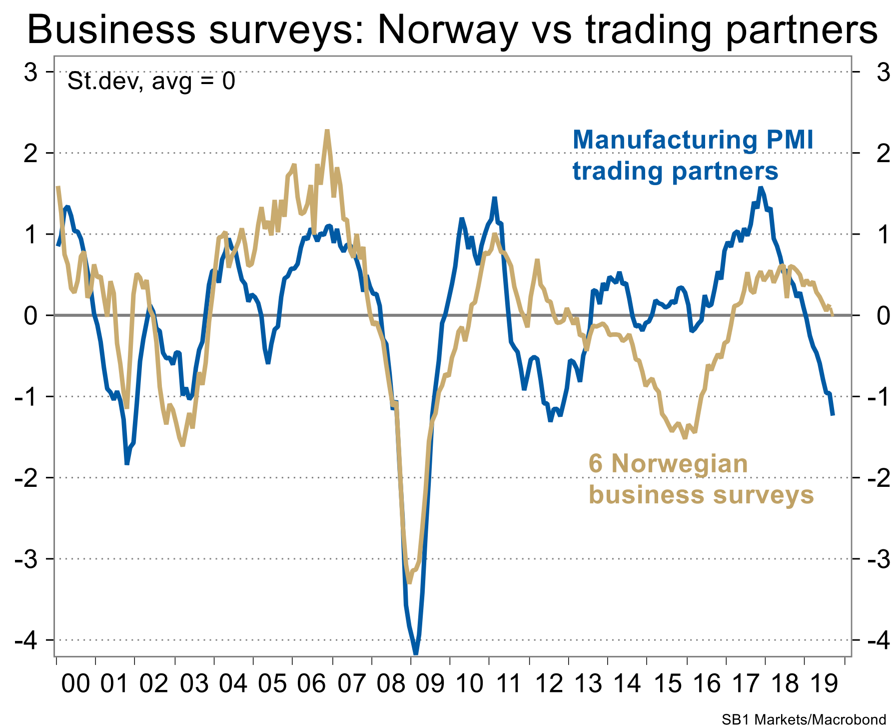


- The Network is the only survey reporting stronger growth in Q3, however, businesses are expecting a modest slowdown the coming quarters

Norway is following its trading partners down

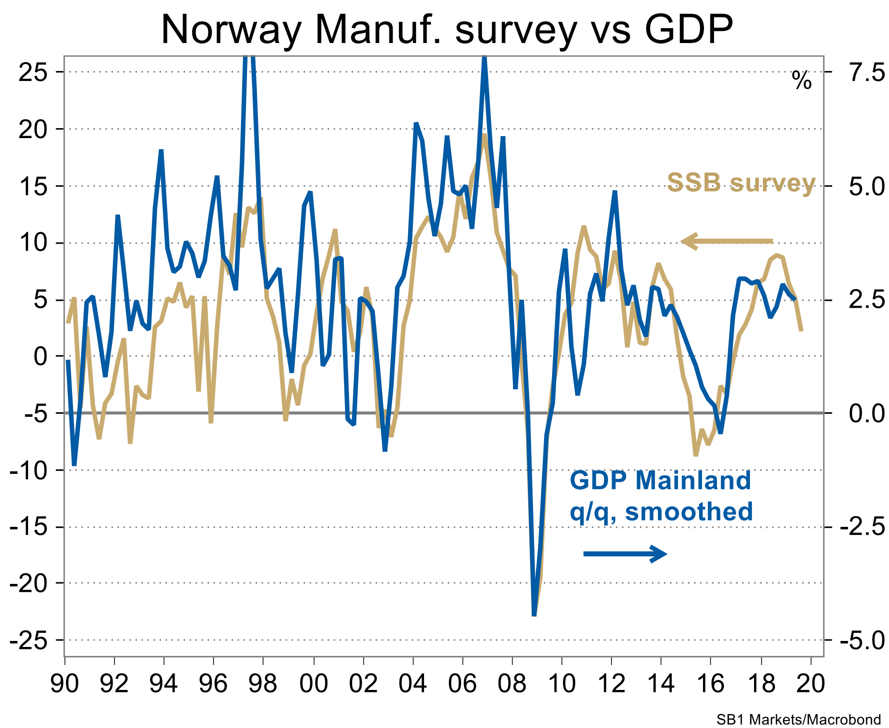
Both SSB's survey and the mean of several surveys are heading down

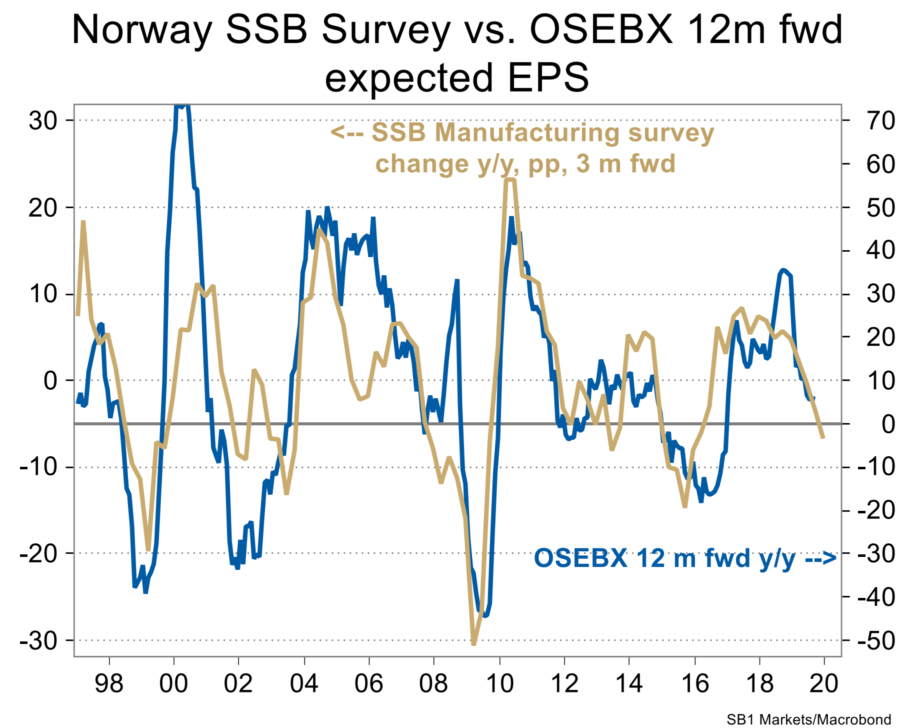




Below 2% GDP growth and declining OSEBX earnings?

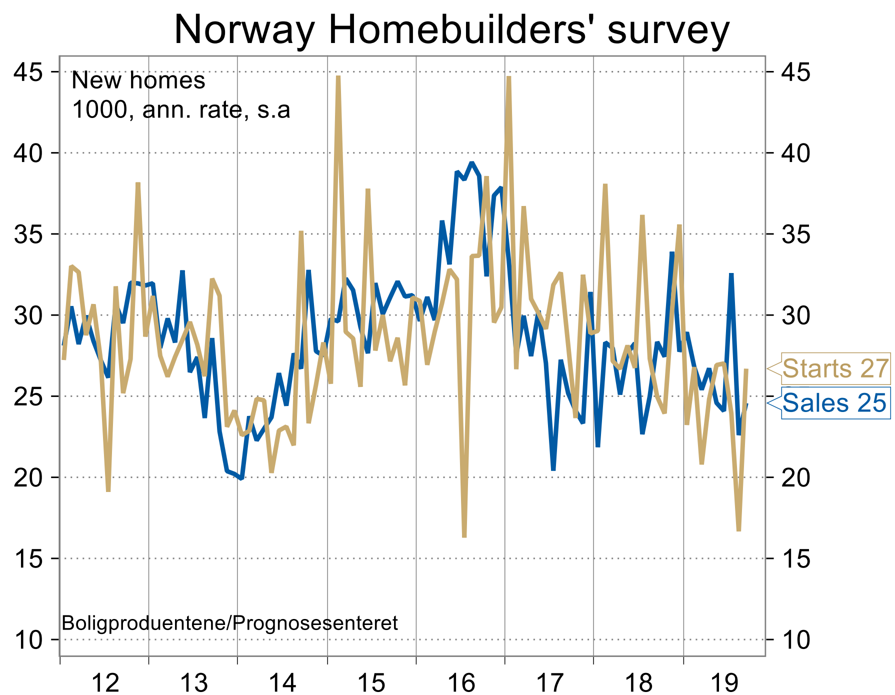
Well, so says SSB manufacturing survey – but the correlations are just good, not perfect



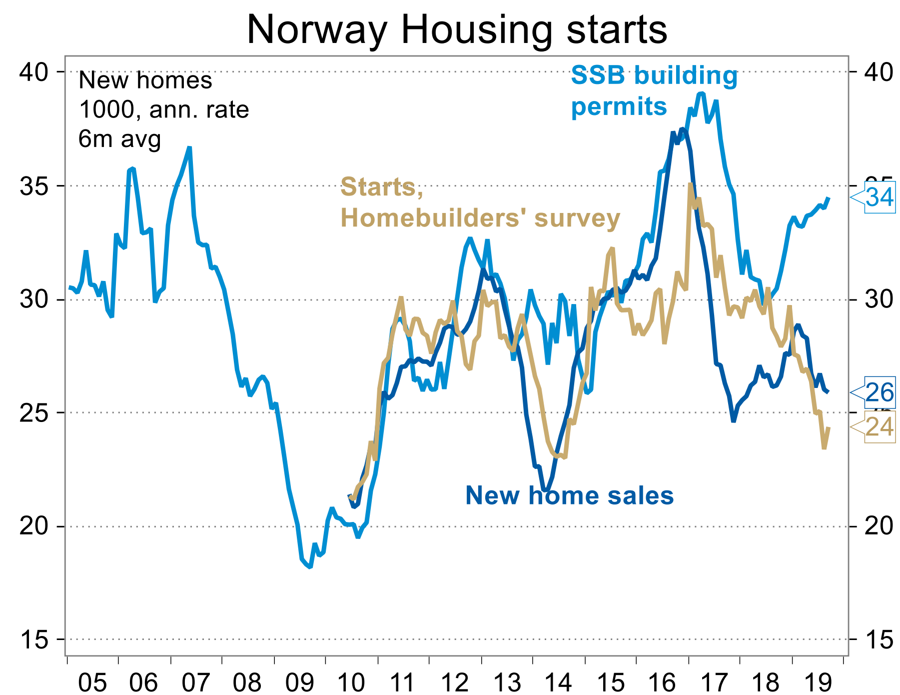


SSB reports a rise in housing starts, Homebuilders note a steep decline

Our assessment is that starts barring student housing have flattened out, at a comfortable level



SB1 Markets/Macrobond

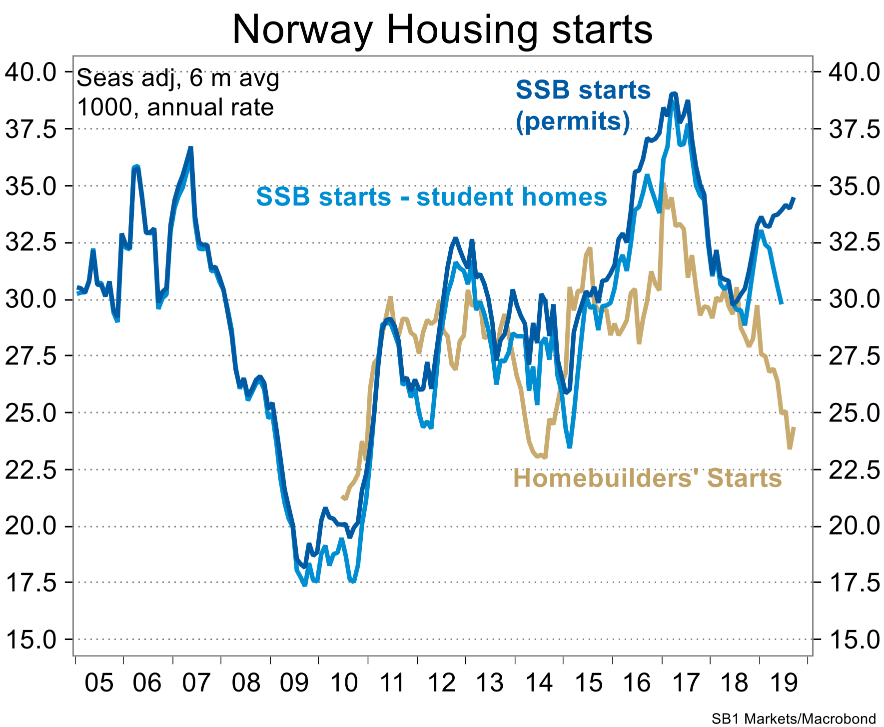


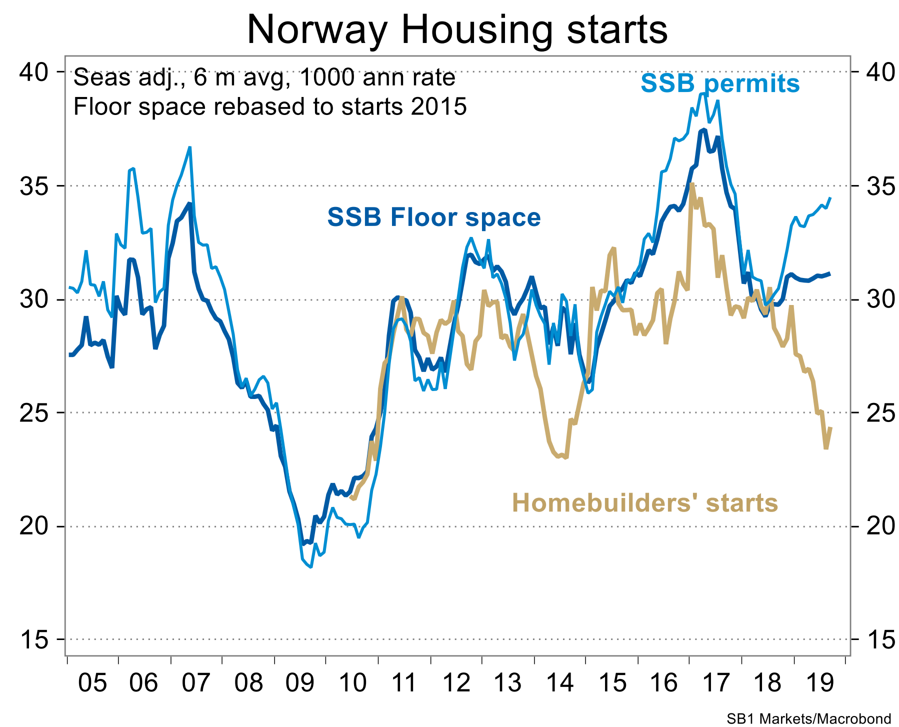
SB1 Markets/Macrobond

- SSB reported a marginal uptick in housing starts (building permits) to 33' annually in Sept, from 32' in Aug. The 6m average is at 34' and still heading slowly up, after a market acceleration in late 2018
- The Homebuilders' housing starts bounced back in Sept, yet trending steeply down; the gap to SSB's data is much wider than usual. Student homes, which is only included in the SSB figures, explains some of the deviance. Thus, our take is that ordinary housing starts may have turned down or are flat, at best. Also, new home sales have softened since early 2019 and do not signal higher starts
- Total housing starts (in sq.m) is close to flat and indicate a muted growth in housing investments. The level is not low, although well below the 2016-2017 peak. Starts are above the average since 2000, and approx. at the per capita average (with low population growth and real income growth much below what we have been used too)

Barring student housing, housing starts have most likely flattened out

… Although the downturn is much steeper according to the Homebuilders than SSB

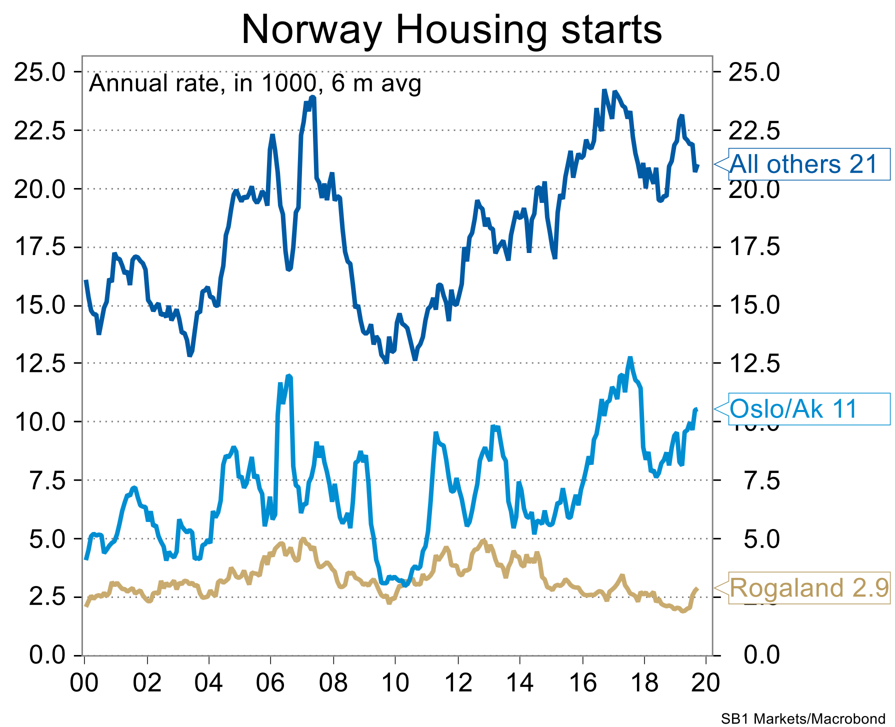


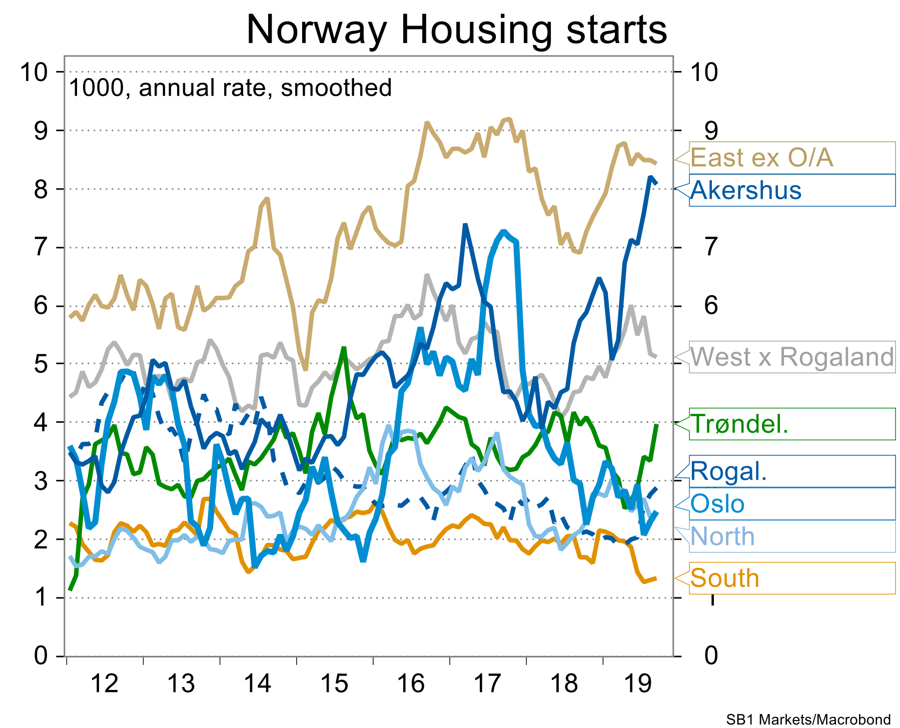


- In Q2, student housing, which is only included in SSB's statistics, explained more than half the gap. Student home construction equalled 4' in annual rate in H1, no doubt a temporary hike. In addition, student homes are smaller than other homes, and the contribution to construction activity and to housing supply is less than for other housing (some 1/3rd per unit we guess)
  - » Measured by total sq.m., starts have not increase by much recent quarters according to SSB – but it has not fallen either!
- If Homebuilders' data were representative, it would have substantial impact on the assessment of the Norwegian economy. Norges Bank's regional network did not report any weakening in the construction sector in Q3, and supply constraints were more important than demand challenges
- Still, we cannot disregard data from the homebuilders either, and they are supported by other reports of slower new home sales.

Starts are soaring in Akershus, declining in Oslo, South

Starts have increased more in other parts of Norway than Oslo/Akershus but may now be shifting

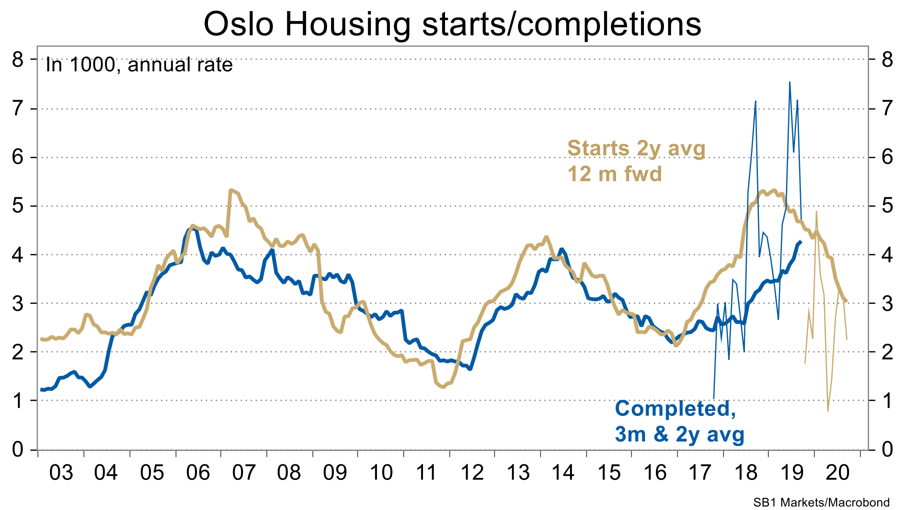


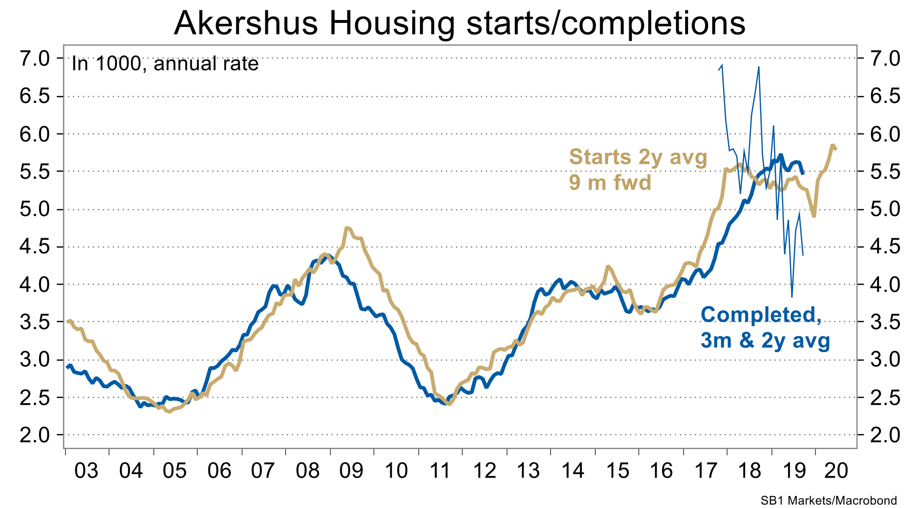


- Housing starts ex. Oslo and Akershus soared in 2018 and have slowed this year. The level is higher than 'normal' the past 20 years
  - » The upturn has been driven by a steep rise in East x Oslo/Akershus and West x Rogaland. Now, West x Rogaland has slowed somewhat and East is flattening, and the South and North are not thriving either. But Rogaland may now be picking up?
- In Akershus, building is accelerating, to above the 2017 peak level. The recent upswing is partly explained by a steep rise in student homes (close to 20% of all new Akershus dwellings in Q2). In Oslo, starts fell much more than in Akershus in late 2017-2018 and have been heading down recently, the level miles below peak as the builders are coping with a mild supply overhang

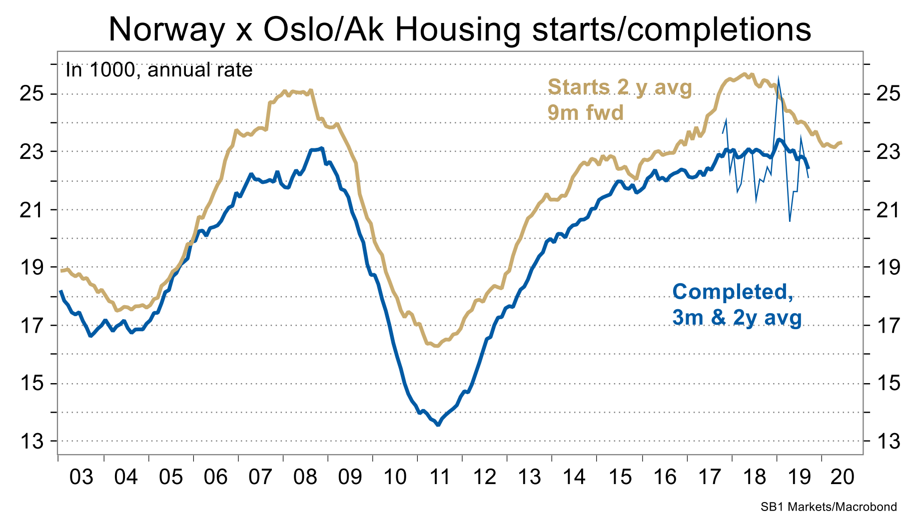
Housing completions close to peak but will remain high for some time

Oslo supply is soaring, will remain high. Akershus may have peaked temporary, others more perman.



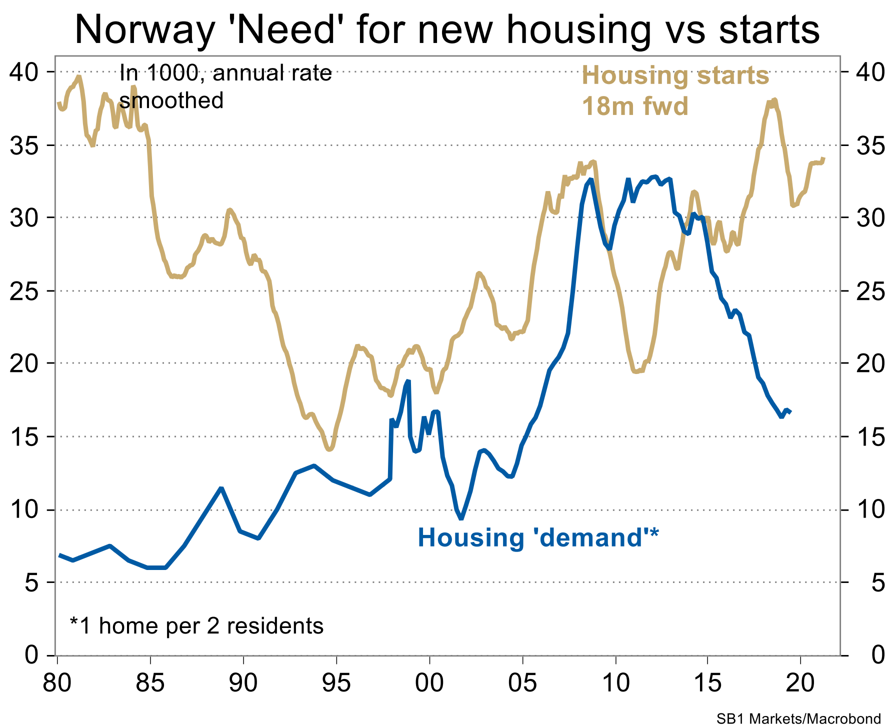


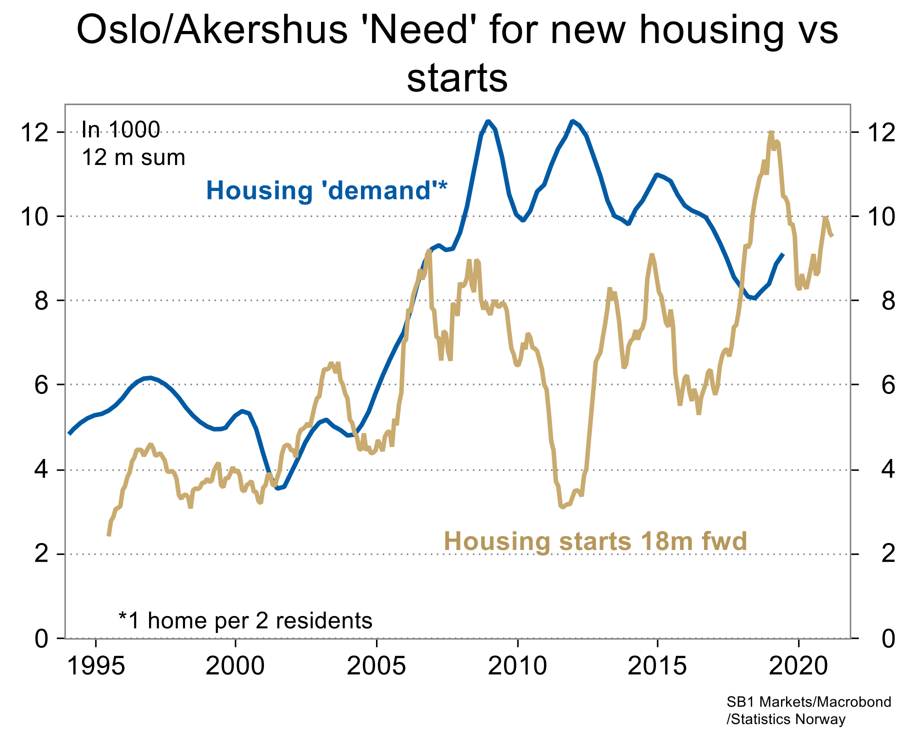
- The number of completed homes in Oslo is rising steeply and it will remain higher than 'normal' (past 10 years) for some time
  - » Completions will most likely remain above a 4' annual rate for a while
- In Akershus, supply upswing is probably behind us, and the recent hike in starts is probably at least partly due to student homes (details out soon)
- In the rest of the country, the upside is not large but supply will remain high the coming months
- Usually, some of the permits are not utilised and the supply of new homes is lower than the permits indicate



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

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

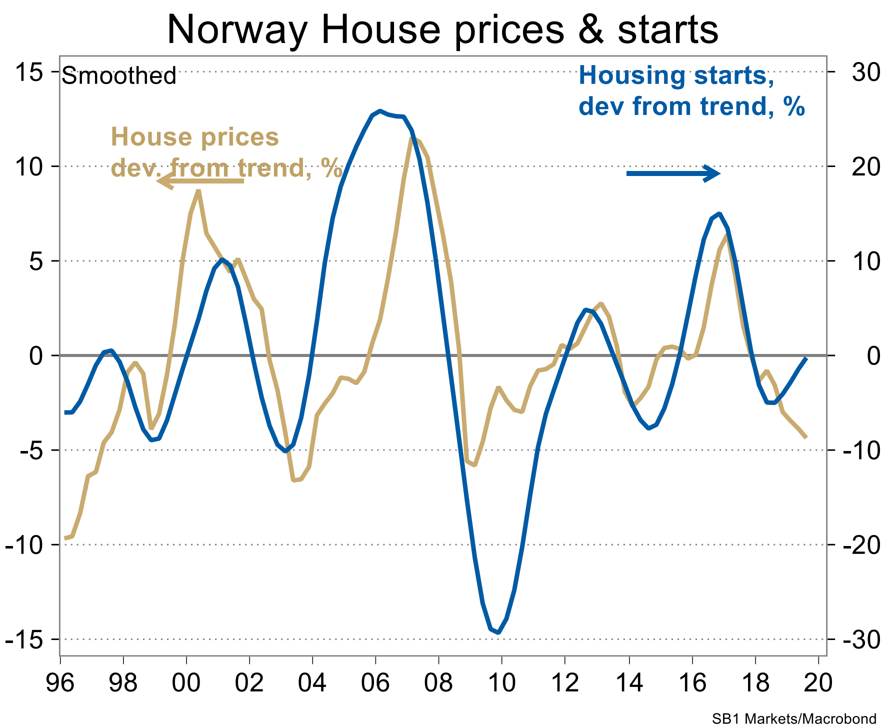


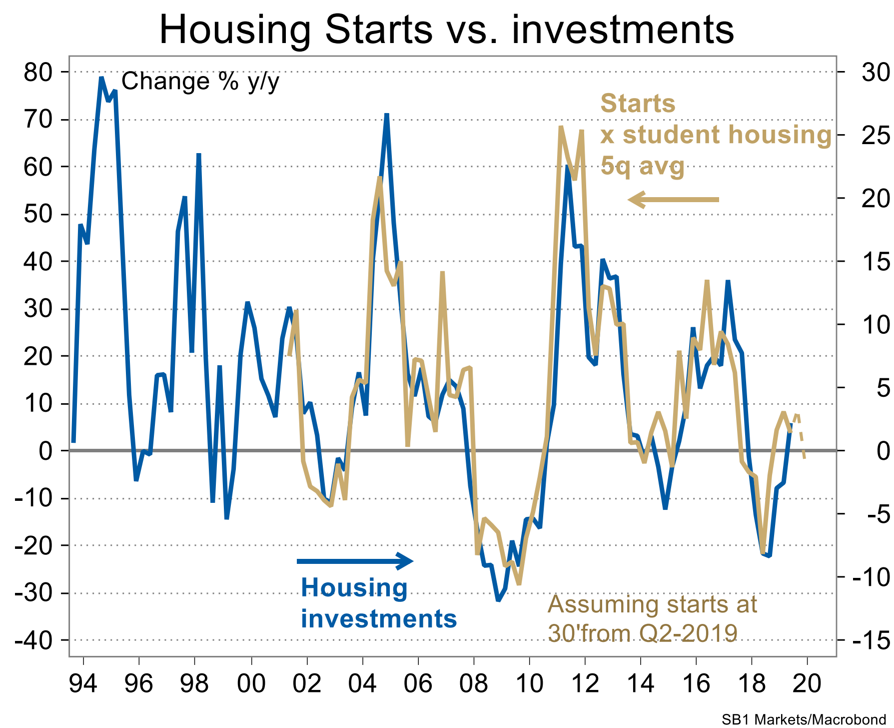


- More new homes than people have been the norm in periods with high domestic migration, which is not the case now

Soft house prices indicate lower housing starts – and muted investments?

Housing investments have turned up but the upside is not large, given the level of starts (x student)

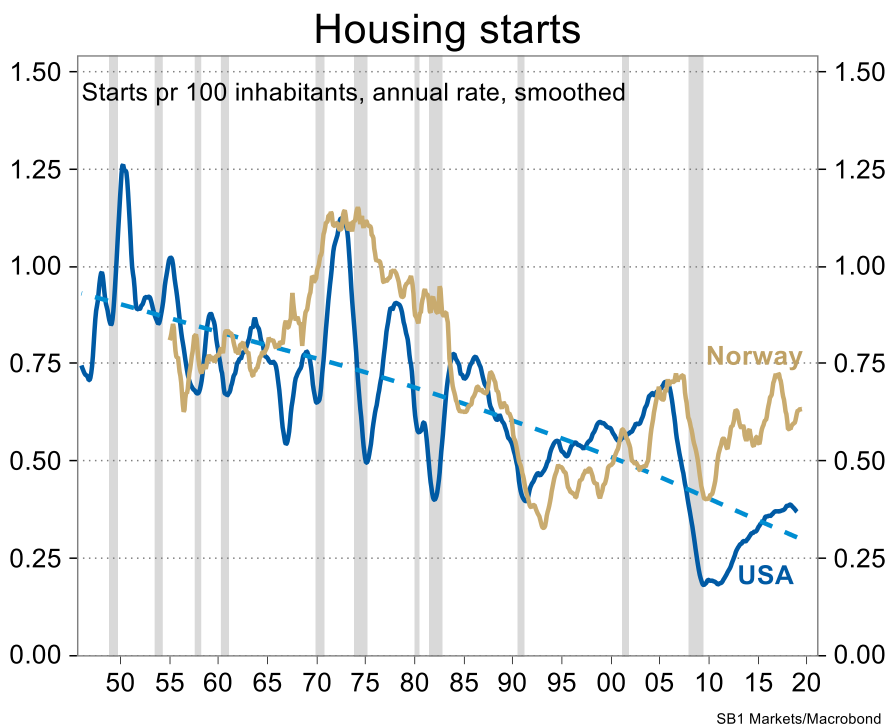


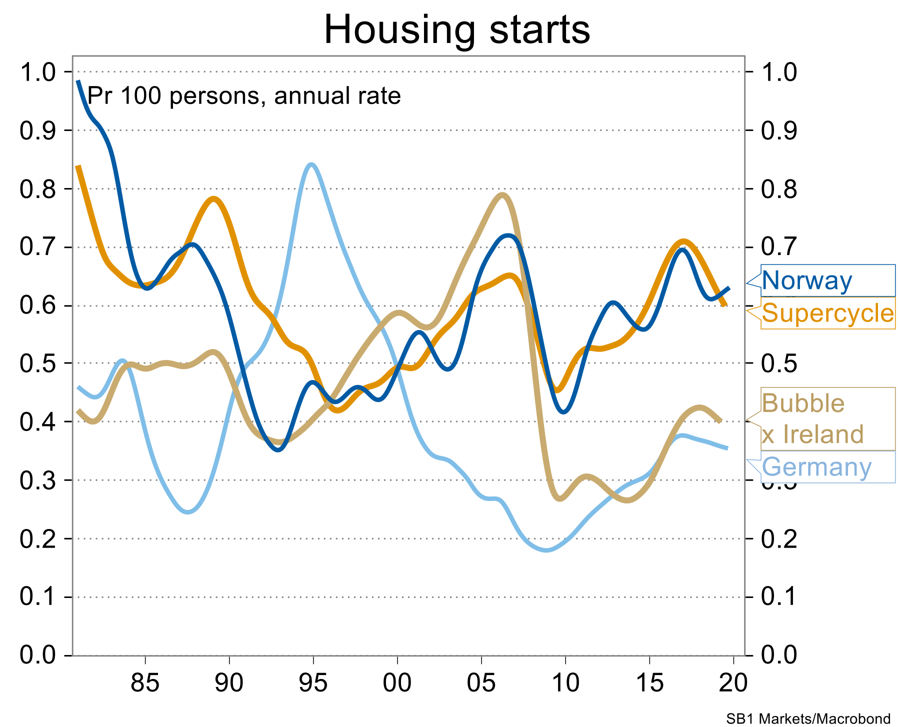


- Housing investments rose by 2.2% y/y in Q2
- In the Sept MPR, Norges Bank nudged up its forecast on 2019 housing investments to 0.9% (up 0.6 pp). Given the level of total starts, this estimate is on the soft side. However, conducting student housing, which is contributing very modestly to investments, points to muted growth (the answer is probably somewhere in between)

Home building is still quite high vs. other countries

Except from the other ‘supercycle’ countries, in which starts have been 2 x higher than in other DM

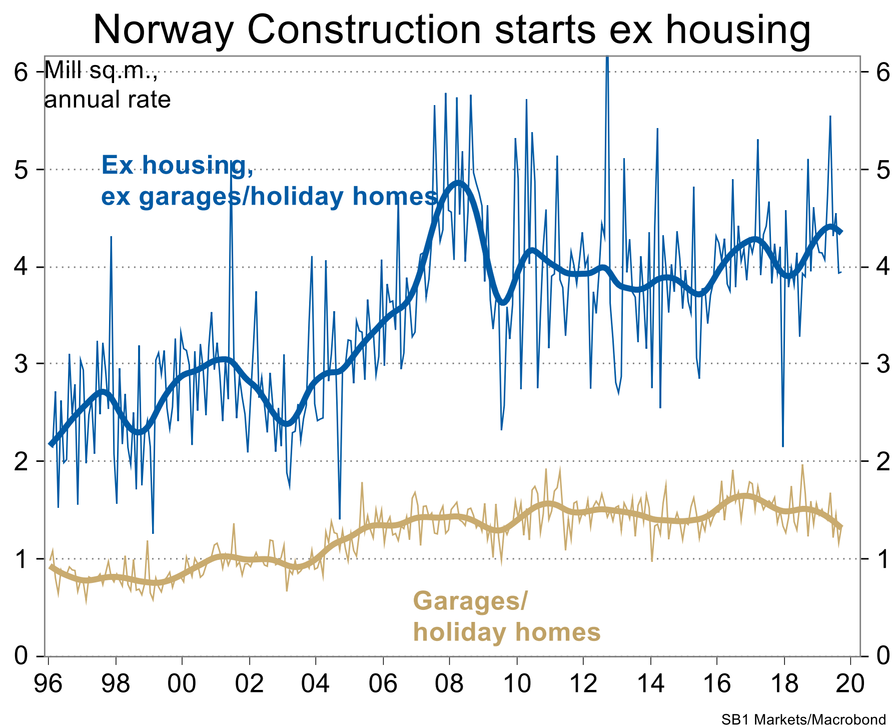


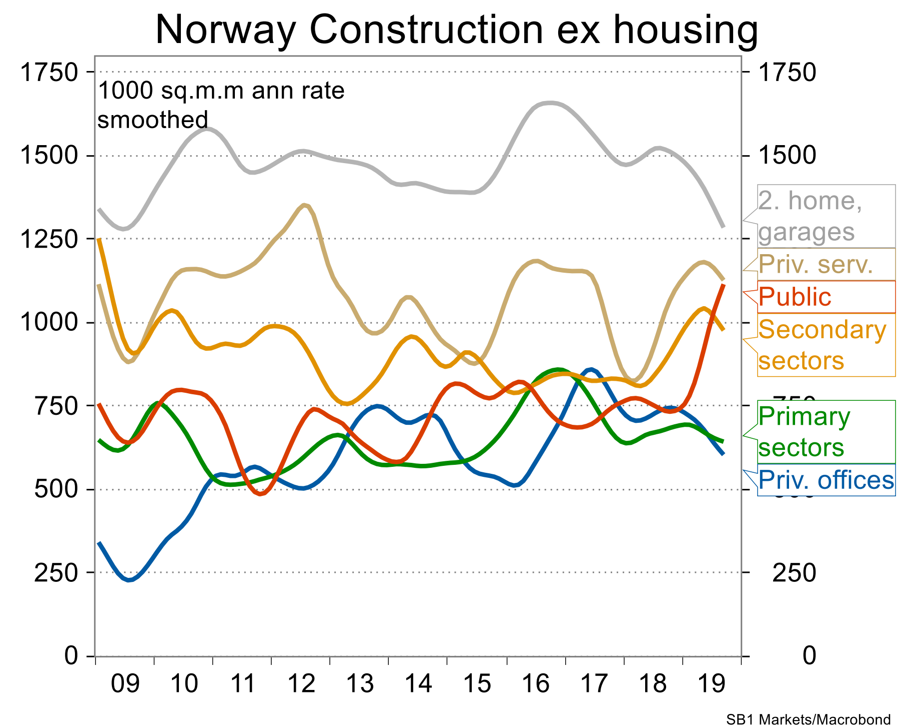


- The cycles among the supercyclicals (Australia, Canada, Norway, Sweden) have been quite closely correlated the past decades. Starts have fallen in both AUS and SWE and has flattened during the past 2 years (and in Norway before the recent uptick)
- House price and debt inflation are higher and rental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

Construction ex. housing at the highest level since 2008, peaking now?

Business construction has increased rapidly the past year, while cabins/garages are retreating



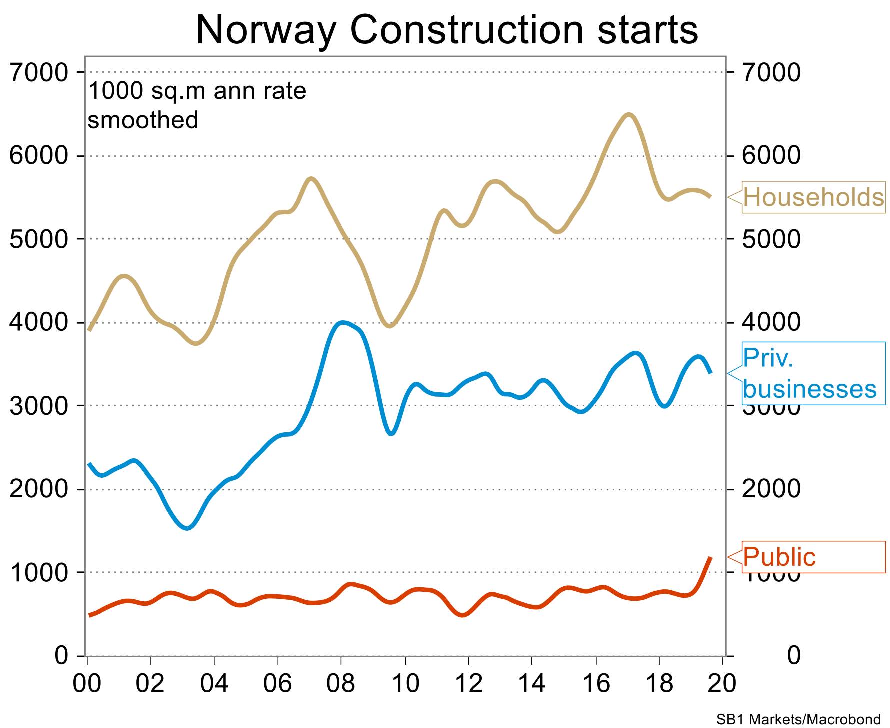


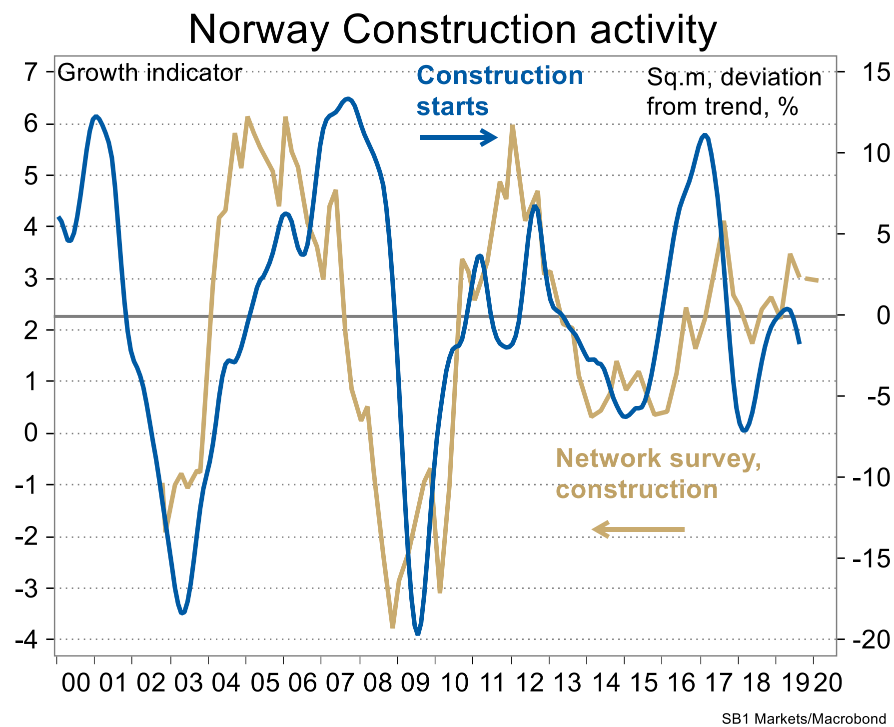
- Construction ex housing, garages/cabins is increasing rapidly and is higher than the 2016 level
  - » The upswing has been driven partly by the secondary (industry) sector, which is now retreating. The investment survey signals a sharp decrease in construction in manufacturing, and in power supply. Mixed in private services, following a lift trough 2018, the sum slightly down
  - » Public sector construction starts were very high in July (and some more in September) as the new hospital in Stavanger was included . The upswing in trade is probably turning down, which is not surprising given the weakness in retail sales (particularly physical sales). Construction of private offices are retreating
- Construction starts of cabins/garages are heading slowly down and the level is the lowest since 2009

SpareBank 1 MARKETS

Regional Network expects construction growth slightly above trend

Total construction has been lifted by business constr., which now may have peaked. Public up





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

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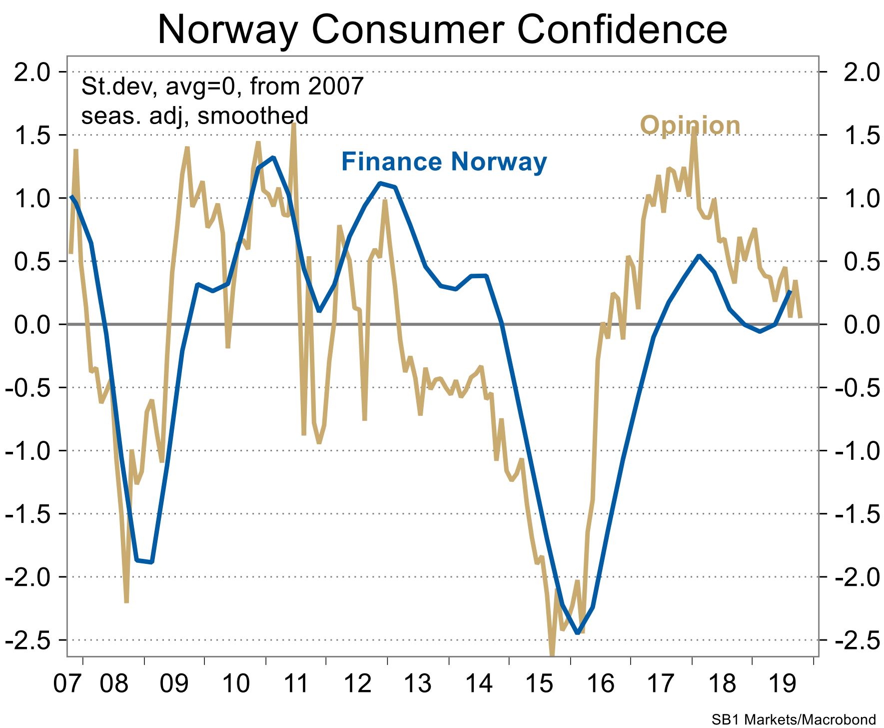
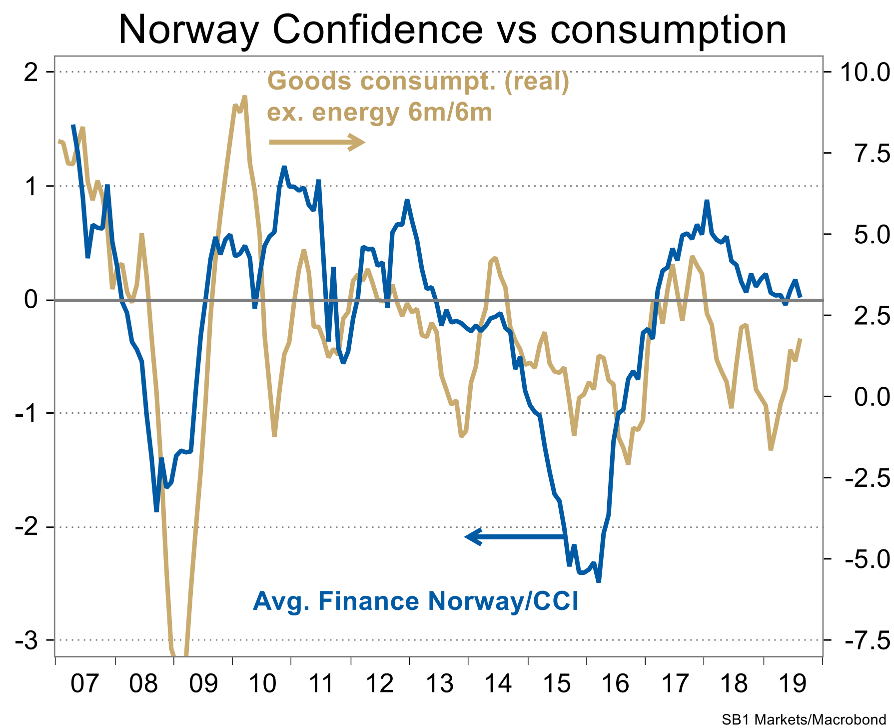
Consumer confidence back down to the Aug level in Oct, trend clearly down

Opinion's CCI fell in Oct but just reversing the Sept hike. Level at average, trend steady down





- Opinion's monthly Consumer Confidence Index fell by 0.2 st.dev in Oct (to -4.7 from -3.0, seasonally adjusted, the range for the index has been +7 to 20, avg at -5), and the uptick in Sep was fully reversed. While monthly data are somewhat volatile, the trend is no doubt downwards
  - » In August, Finance Norway reported as 0.2 st.dev lift in its consumer conf. index in Q3, and there is not at trend down in this index – but the level is approx the same Opinion's survey, close to average
- Growth in consumption of goods has been far softer than indicated by the sentiment surveys (and the correlation is anyway not that strong). Slow growth in nominal and even more in real income, and low population growth may explain some of this gap, the 'new normal' is lower than before

SpareBank 1 MARKETS

Highlights

The world around us

The Norwegian economy

Market charts & comments

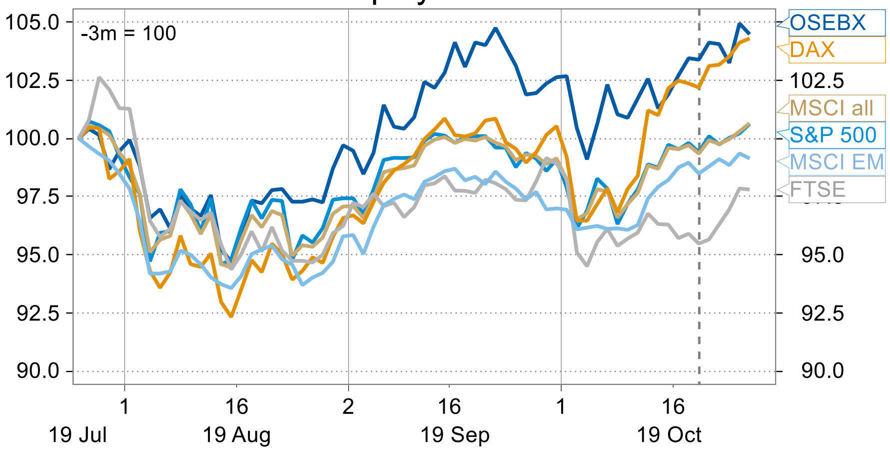
Markets

SpareBank 1 MARKETS

Here we go again! Stock markets, raw materials up, bond yields just marginally

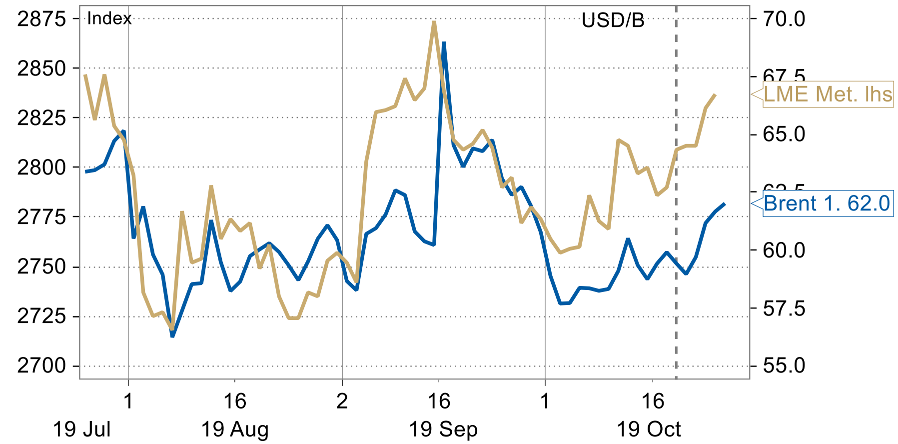
S&P & OSEBX back at Sept peak levels, bond yields still slightly below. UK rates, GBP down, SEK up

Equity Indices



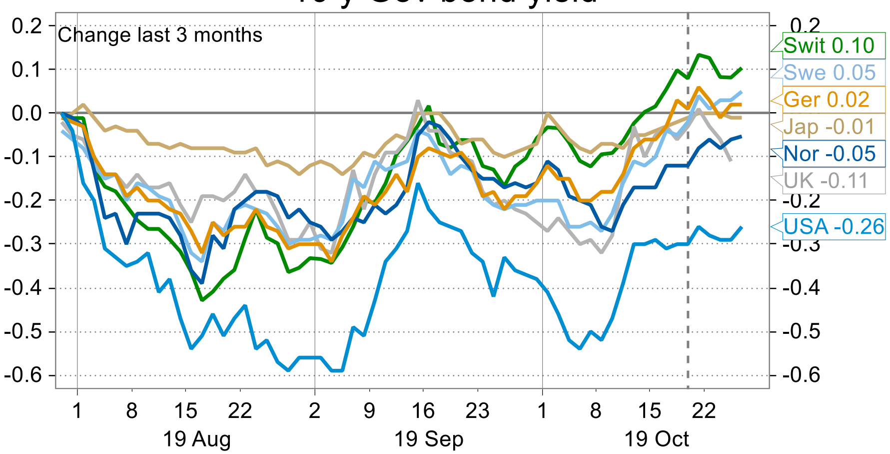
Stock markets have climbed through October, helped by easing trade war fears (marginally, at least), Brexit, Q3 company reports

Oil vs. metals



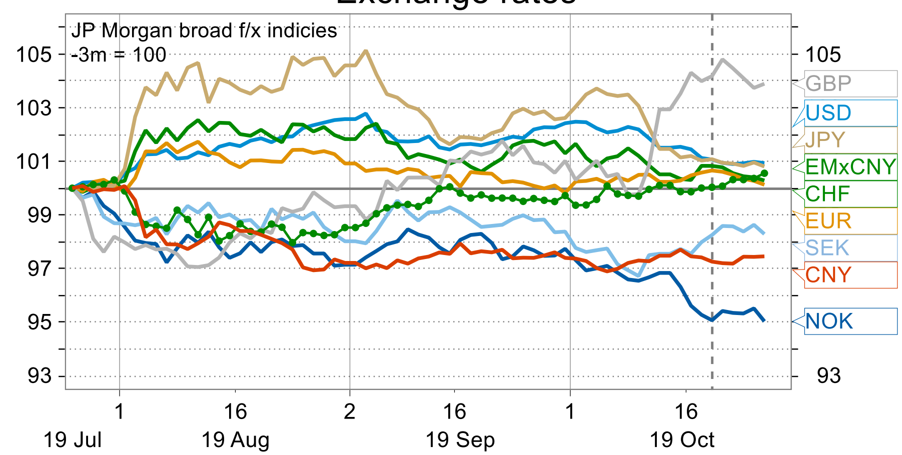
Brent oil price and metal prices increased last week but are well below mid-Sept levels

10 y Gov bond yield



Bond yields just marginally up in the US last week, flat in Germany, NOK yields climbs while UK bond yields fell on the Brexit delay

Exchange rates



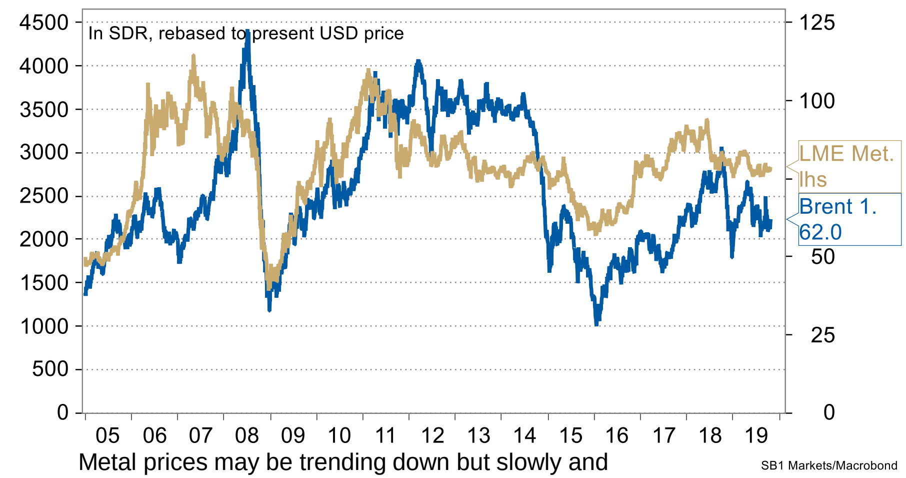
GBP down from peak, SEK recovered somewhat, NOK stabilized

In the long run: Bond yields close to ATLs, US stock markets very close to ATHs

Oil, metals are trending slowly down. The trade war rules. And then some economic data

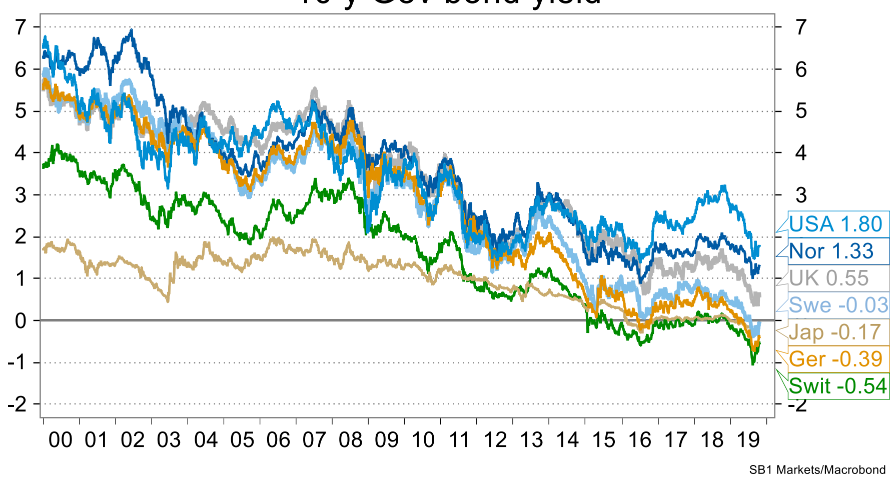
Equity Indices

Oil vs. metals

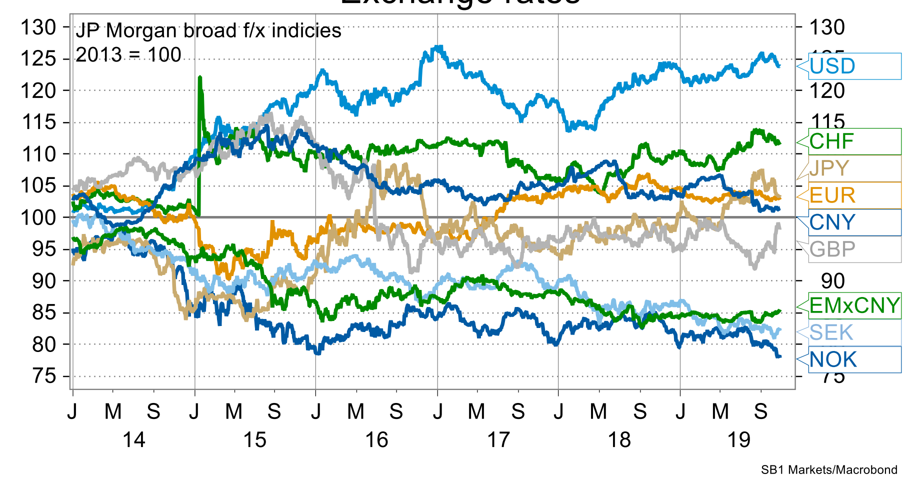


Metal prices may be trending down but slowly and the decline from the local peak is not large

10 y Gov bond yield

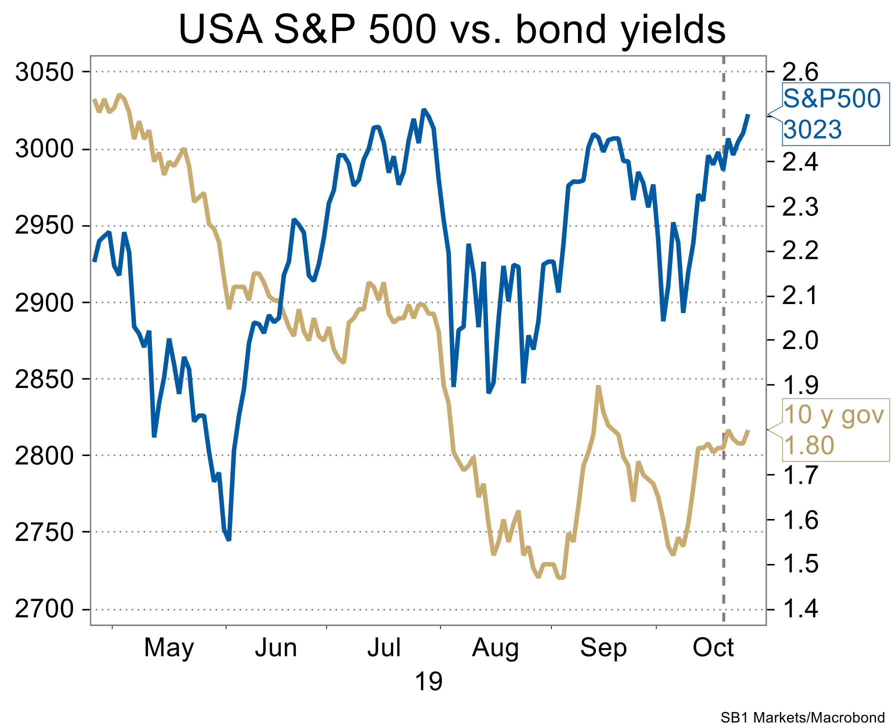


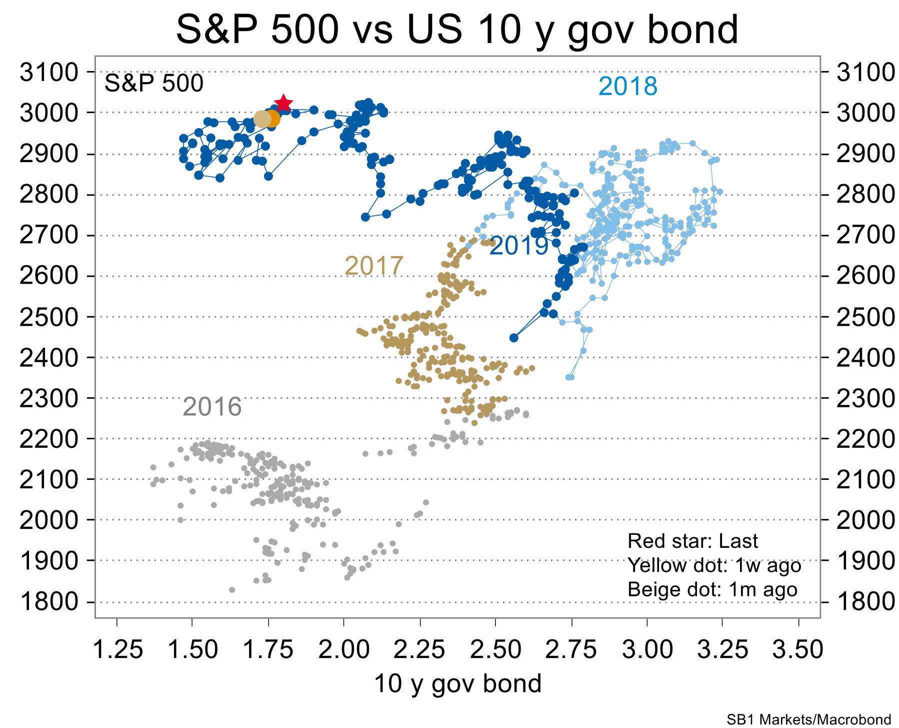
Exchange rates



US: Stocks markets are recovering S&P touched ATH, bond yields just marg. up

S&P rose 1.2% last week, while the 10 y gov yield inched up just 4 bps

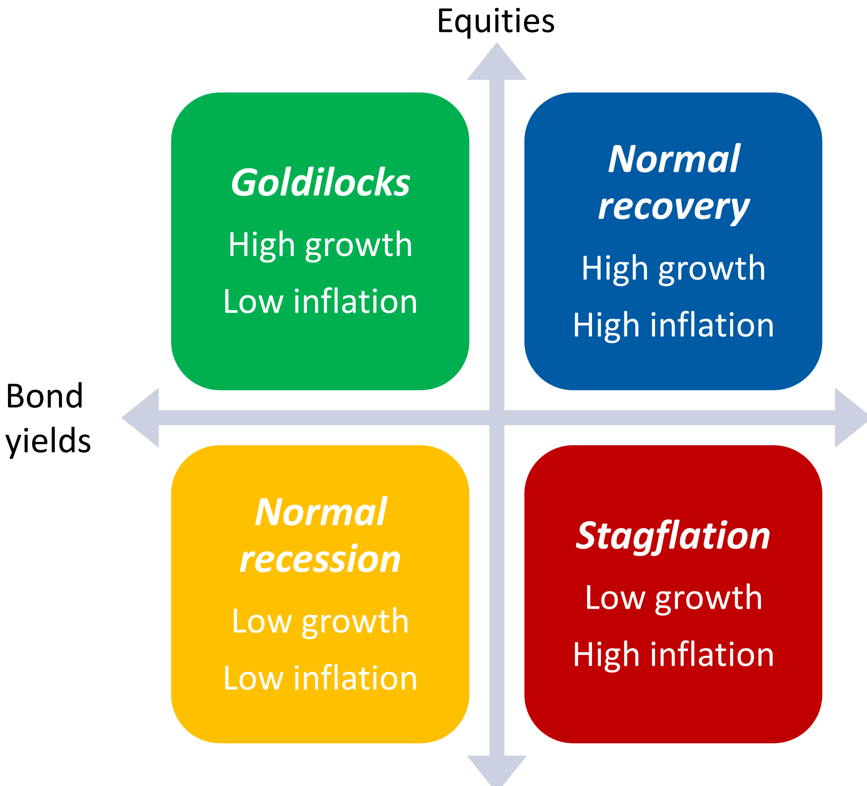


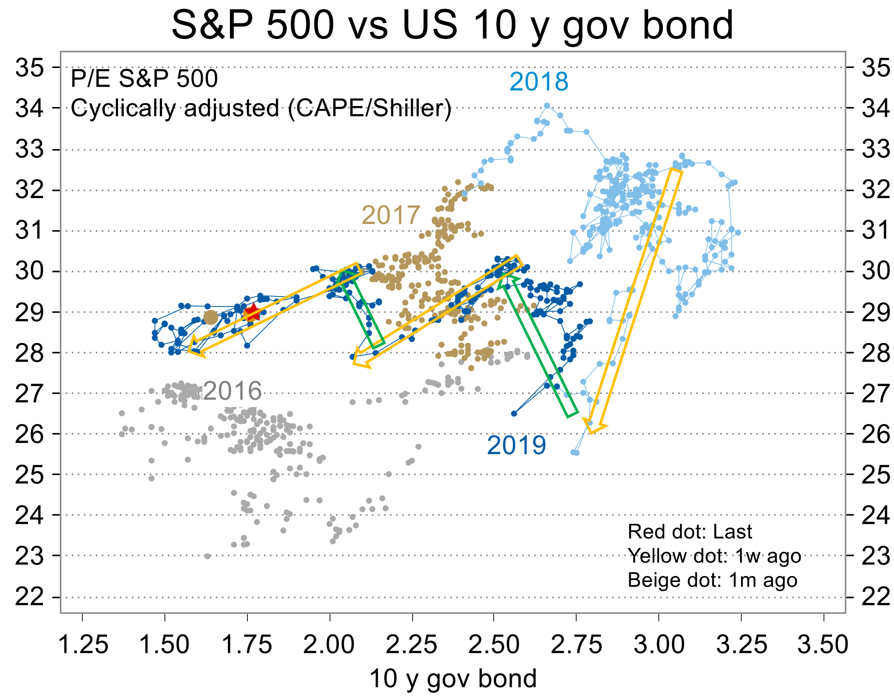


- Stock markets (measured by the S&P) have climbed some 5% since early October, while the 10 y bond yield is up 25 bps over the same period. Bond yields have almost flattened out the past two weeks, while equities are rising
- No substantial market reactions to US macro data last week, although the PMI came inn above expectations

US markets move away from the recession corner

Stocks/bonds are slowly recovering, although bonds have been flat the past two weeks





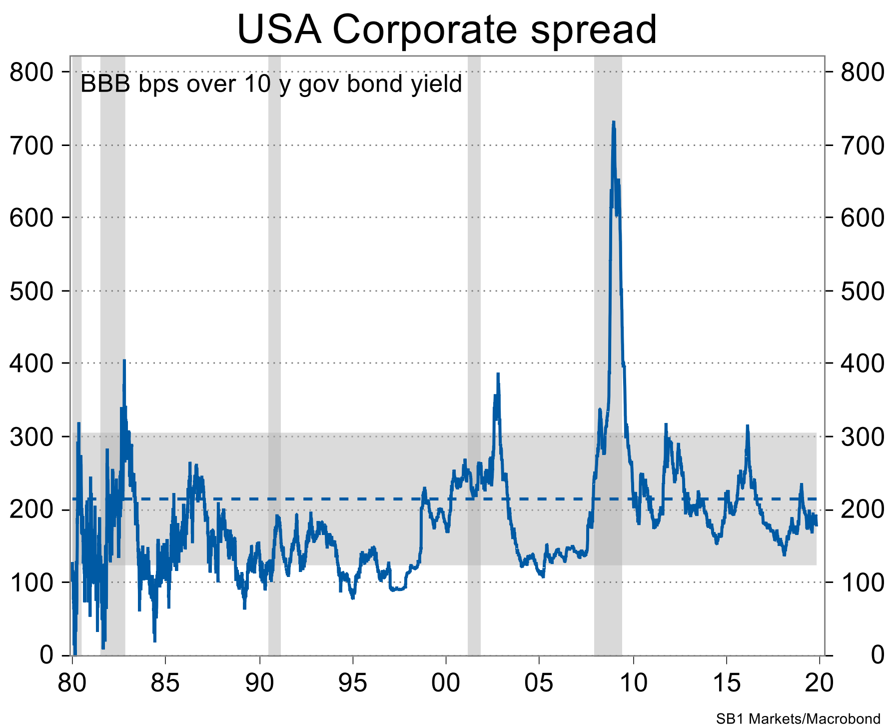
SB1 Markets/Macrobond

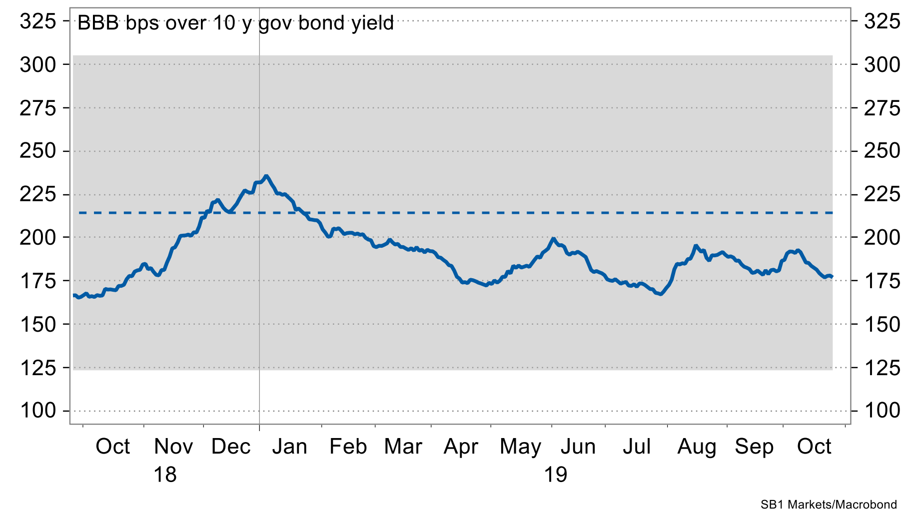
- Recent months, markets have been zig-zagging along with developments/news on the trade war. In August, markets moved towards the recession corner following the bad trade policy news. In early September, both markets were recovering, on hopes of a trade war de-escalation and some upbeat US macro data. In October, trade news have been positive, and market recovered early in the month, again – out of the recession corner. Smaller movements the past 2 weeks – in the recovery direction
- We do not think a long term Goldilocks scenario is likely. Should yield 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

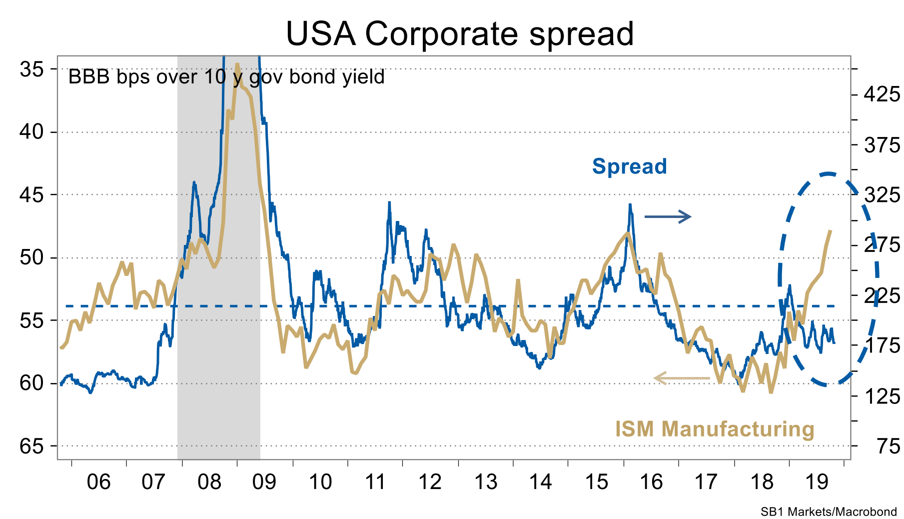
SpareBank 1 MARKETS

Credit spreads are below an average level, far too low?

Spreads are <u>far too low</u> if the ISM is correct; that is, <u>*if growth is slowing*</u>



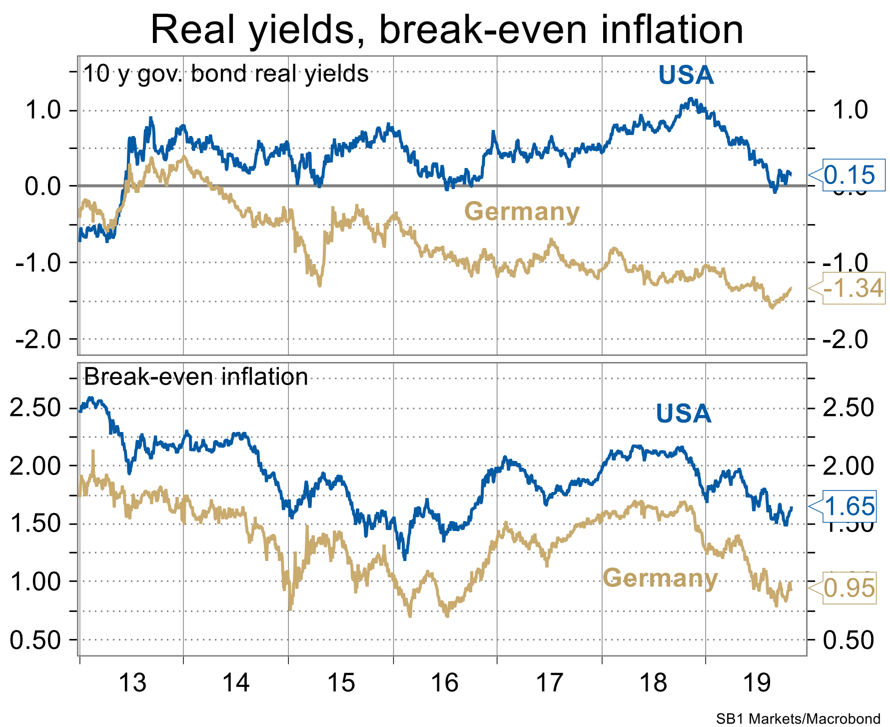


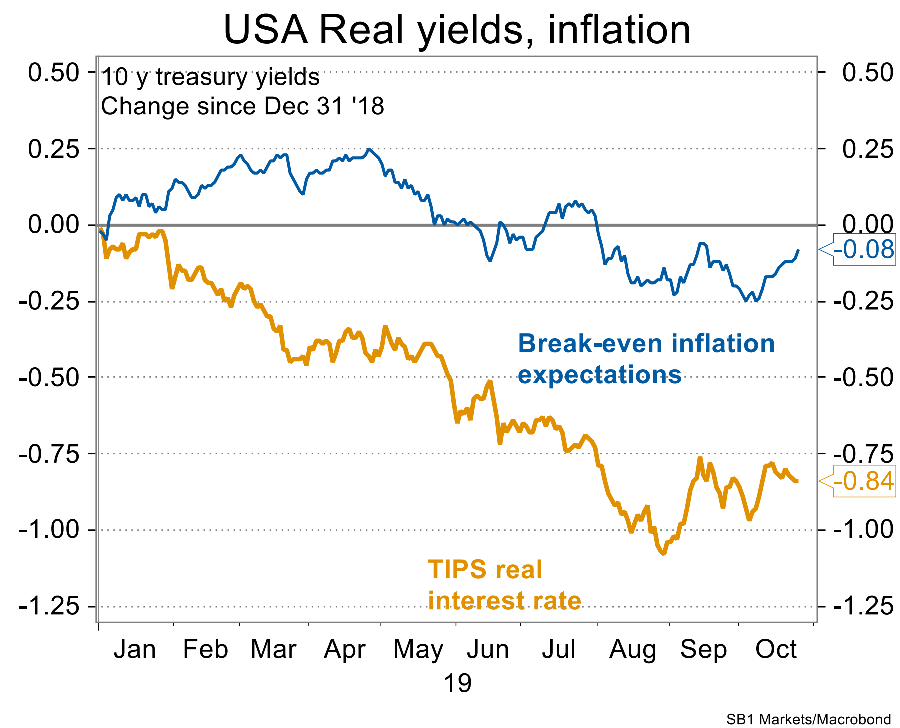


SpareBank 1 MARKETS

US real rates are slowly turning up, inflation expectations follow

US real rates fell marginally last week, inflation up. German real rates are climbing

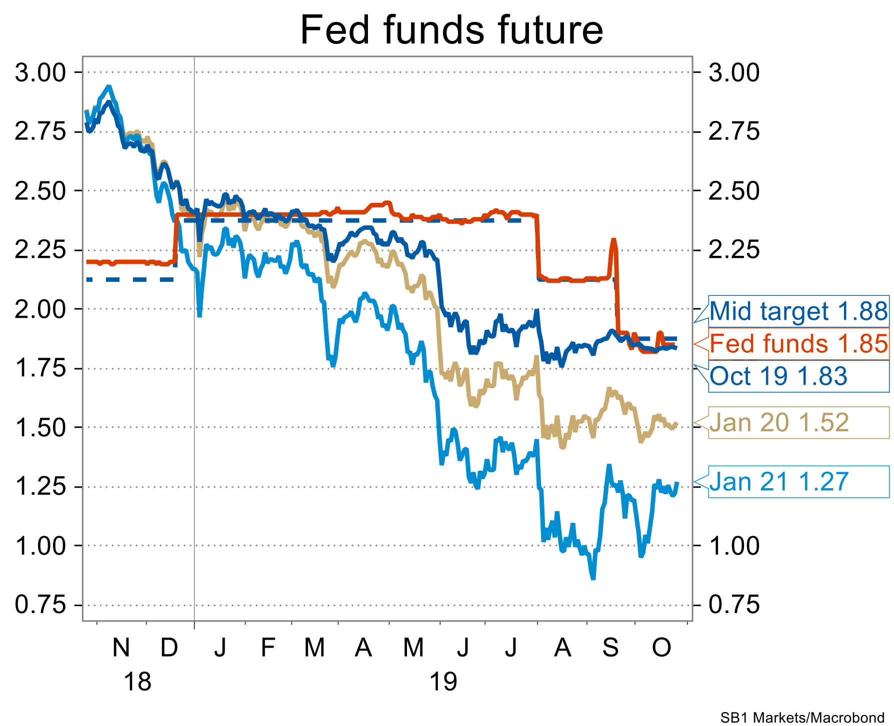


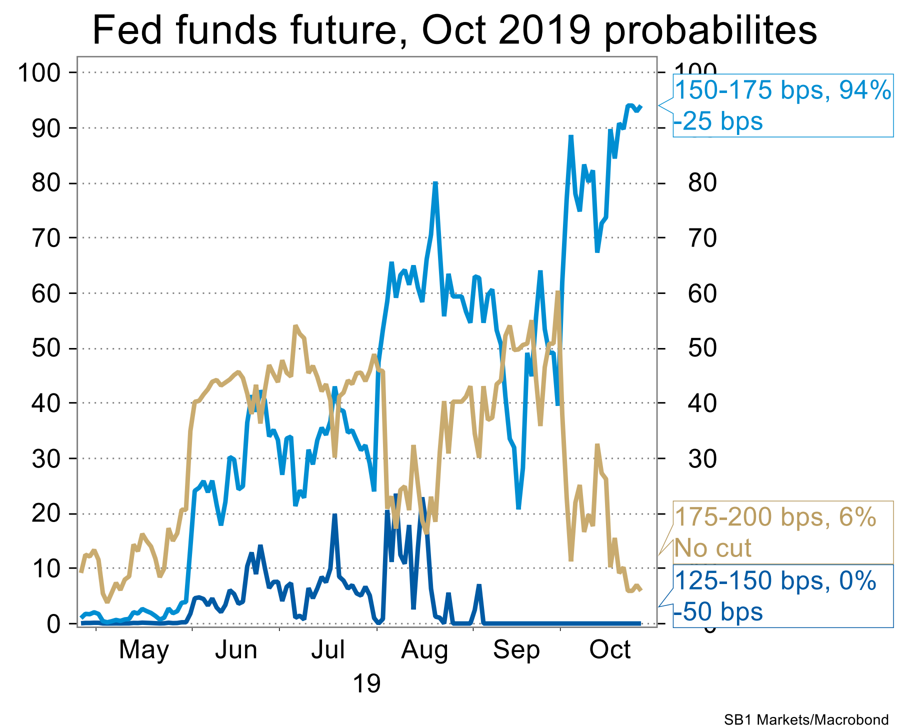


- Both real rates and break even inflation have been heading steeply down this year, in US and Germany. Since early Sept, real rates have recovered much better than inflation expectations, probably primarily due to hopes of a trade war solution
  - » The past two weeks, US real rates have inched down while inflation expectations improved. In Germany real rates are slowly edging up
- German real rates bottomed out at 1.6% in late August, and have increased to -1.34%, still very low. Inflation expectations at 0.95% does not seem that far off, although far below the ECB's price target at close to 2%
- US 10y inflation expectations ticked up to 1.65% last week, the real rate marginally down, to 0.15%

Fed fund futures steady, above 90% probability for the 3rd cut this week

We find the probability to be lower than this, some 50% seems more likely

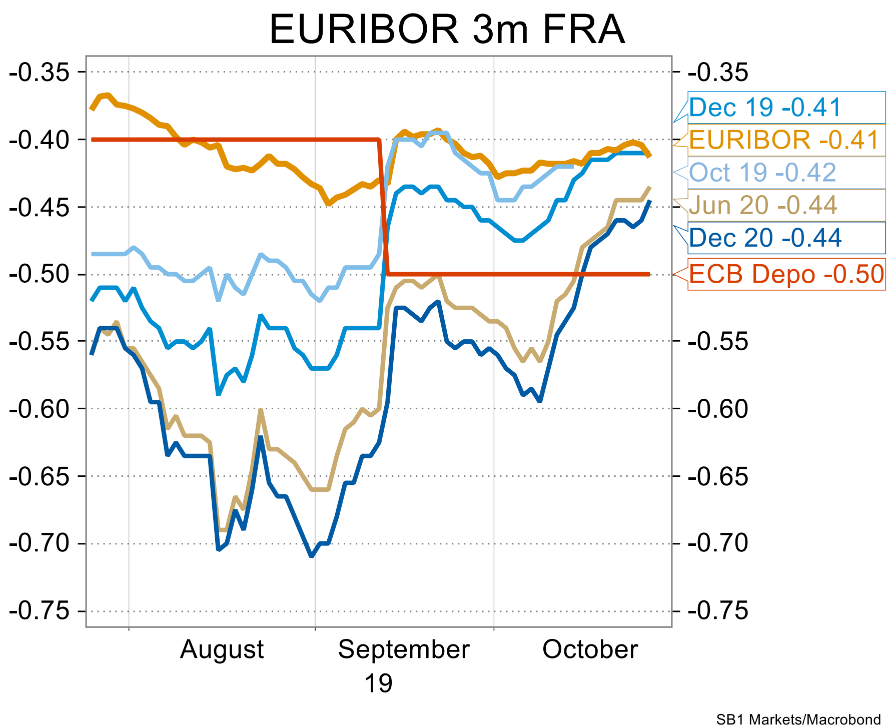


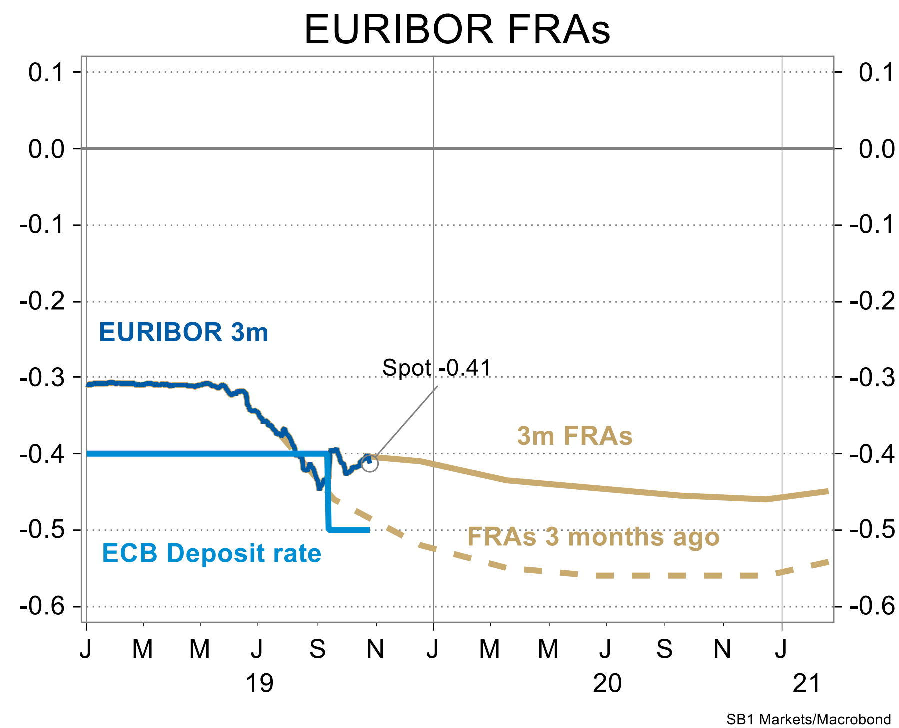


- The probability of a 25 bps Fed cut at the Oct 30 meeting is elevated and rose to 94% last week. The Jan '20 contract implies a 25% probability of a 4th cut in Dec, given an Oct cut. The bottom of the Fed Funds future curve is at 1.26%, 60 bps below the current rate. So if Fed cuts this week, 'just' 1 ½ more cuts are expected.
- US growth is slowing but has been above trend until now, the employment rate is still increasing. PCE inflation is not far below the target. Yes, some 'soft' data are deteriorating but 'hard' data are not yet that weak. And the USD is stronger than normal but not by that much. The economy does not justify another interest rate cut in October, in our view (and a few of the FOMC members'). Still, a cut is probably likely (but the probability is well below 90%, in our view)

EUR FRAs climb, expectations of another 2019 cut have vanished

FRAs have been recovering all over the curve, fuelled by Brexit news and the US/China trade war

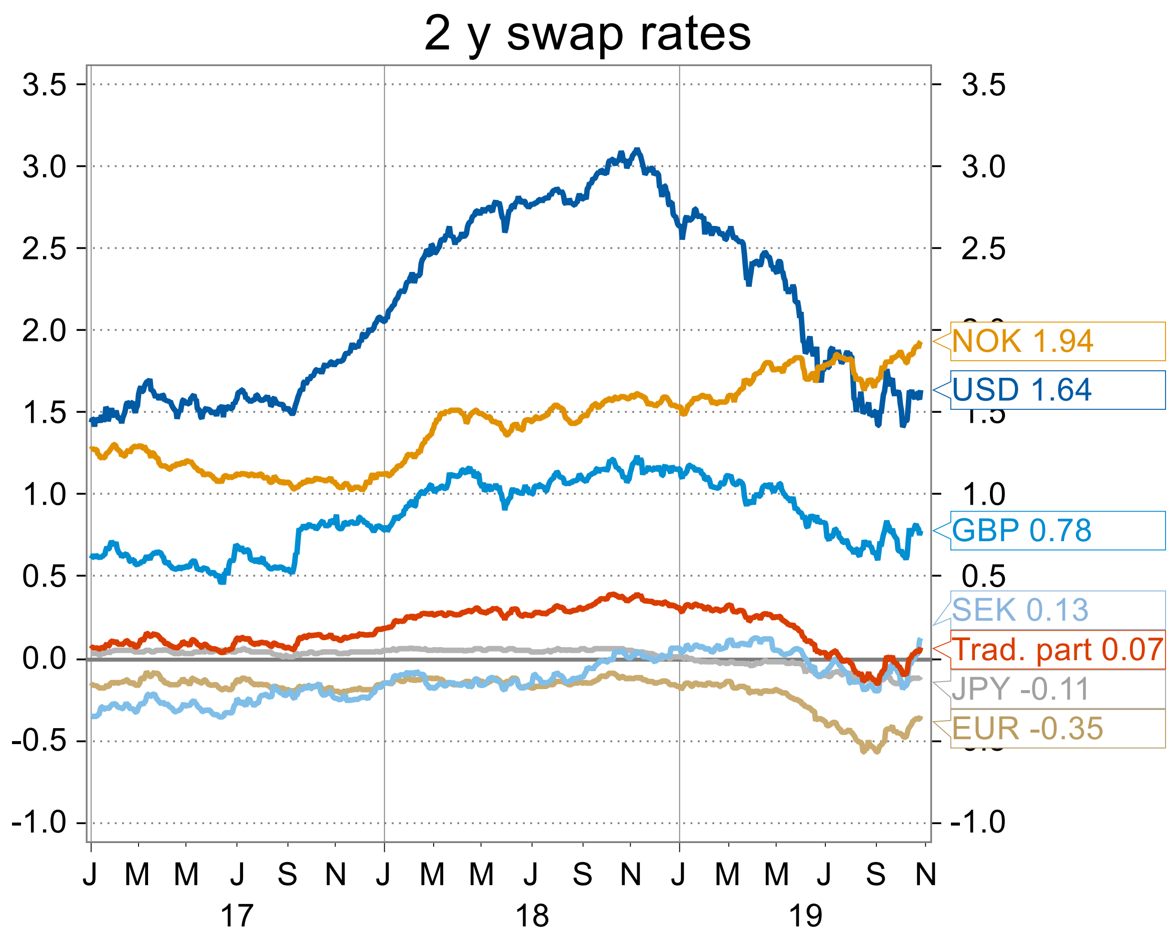




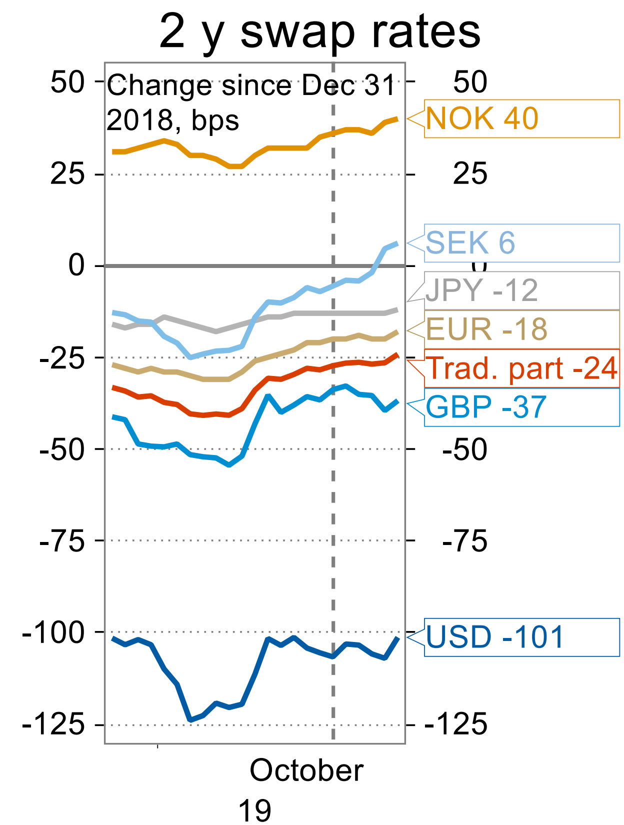
- Weak macro data sent EUR FRAs down in late Sept/early Oct. Since then, the FRA rates have turned up all over the curve. Positive news from the US/China trade talks turned the mood, even as the partial trade deal was narrow. Hopes of a soft Brexit has contributed as well – and a highly divided ECB
- The ECB made no changes to its monetary policy at the meeting last Thursday, as broadly expected. Christine Lagarde will inherit a split ECB when she become the governor Nov 1.

Short term rates up are slowly turning up, just GBP down last week

Short term rates are recovering everywhere. The Riksbank sent SEK rates up Thursday



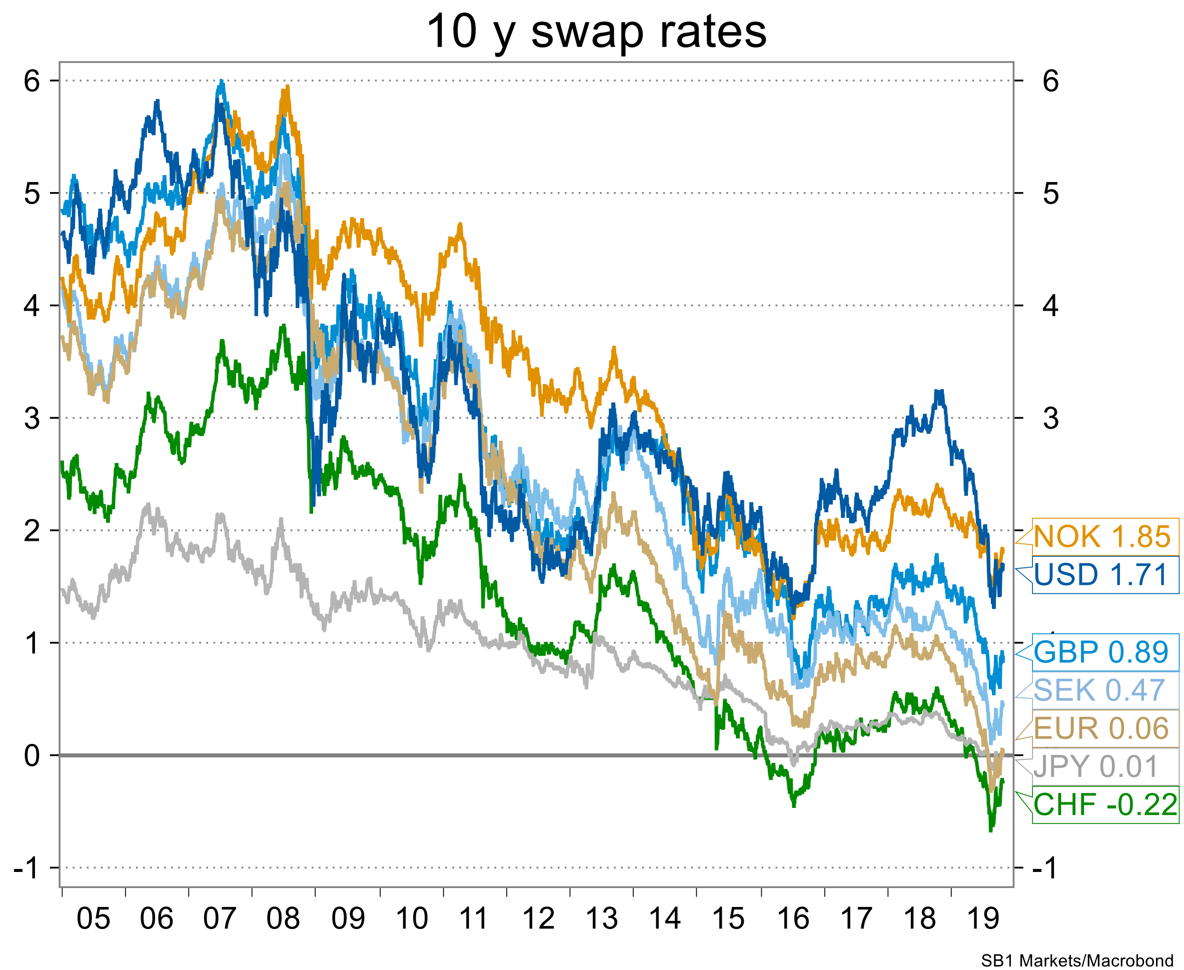
SB1 Markets/Macrobond

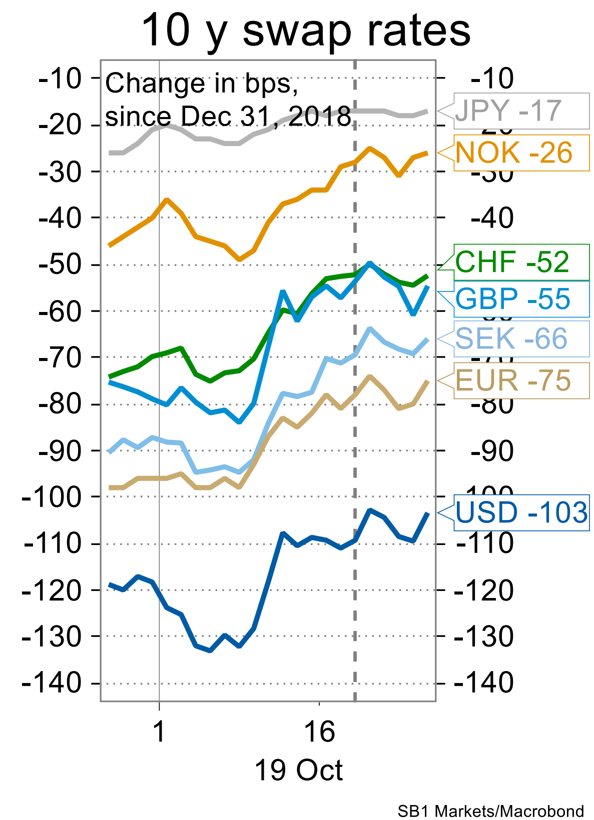


SB1 Markets/Macrobond

Long term swap rates up from the bottom, flat last week (and GBP down)

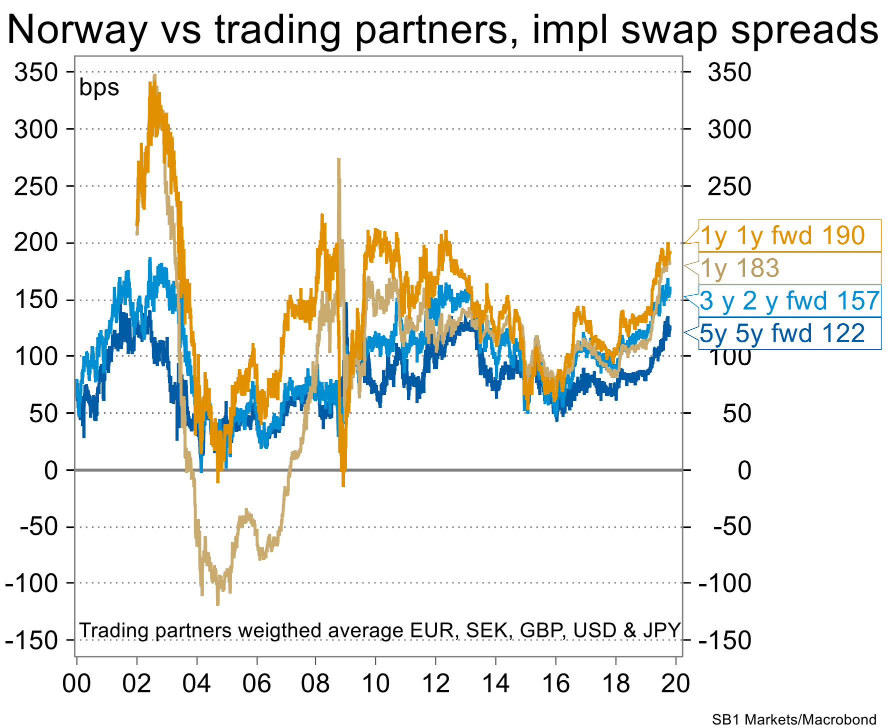
All swap rates have turned up, US 10 y swap rate is up 29 bps from Oct 4th

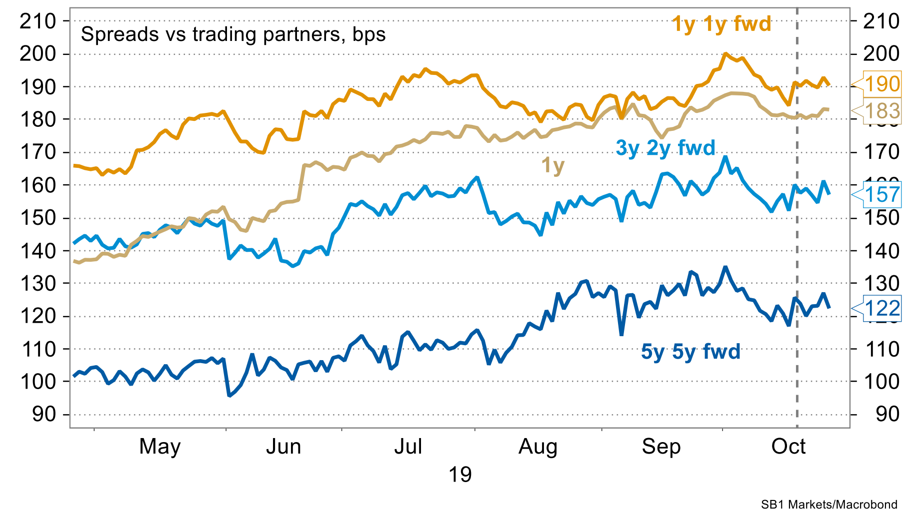


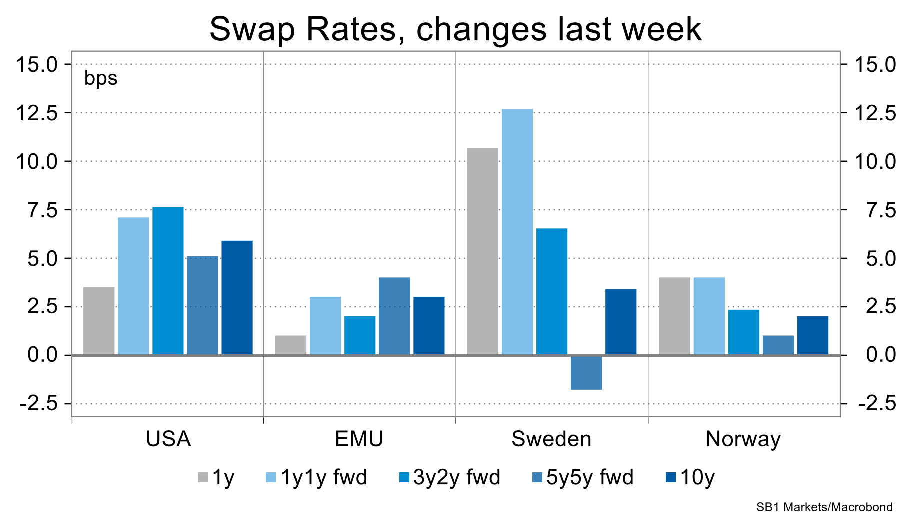


Swap rates marginally more up abroad than here

Swap rates rose just marginally last week (x SEK), NOK rates somewhat more





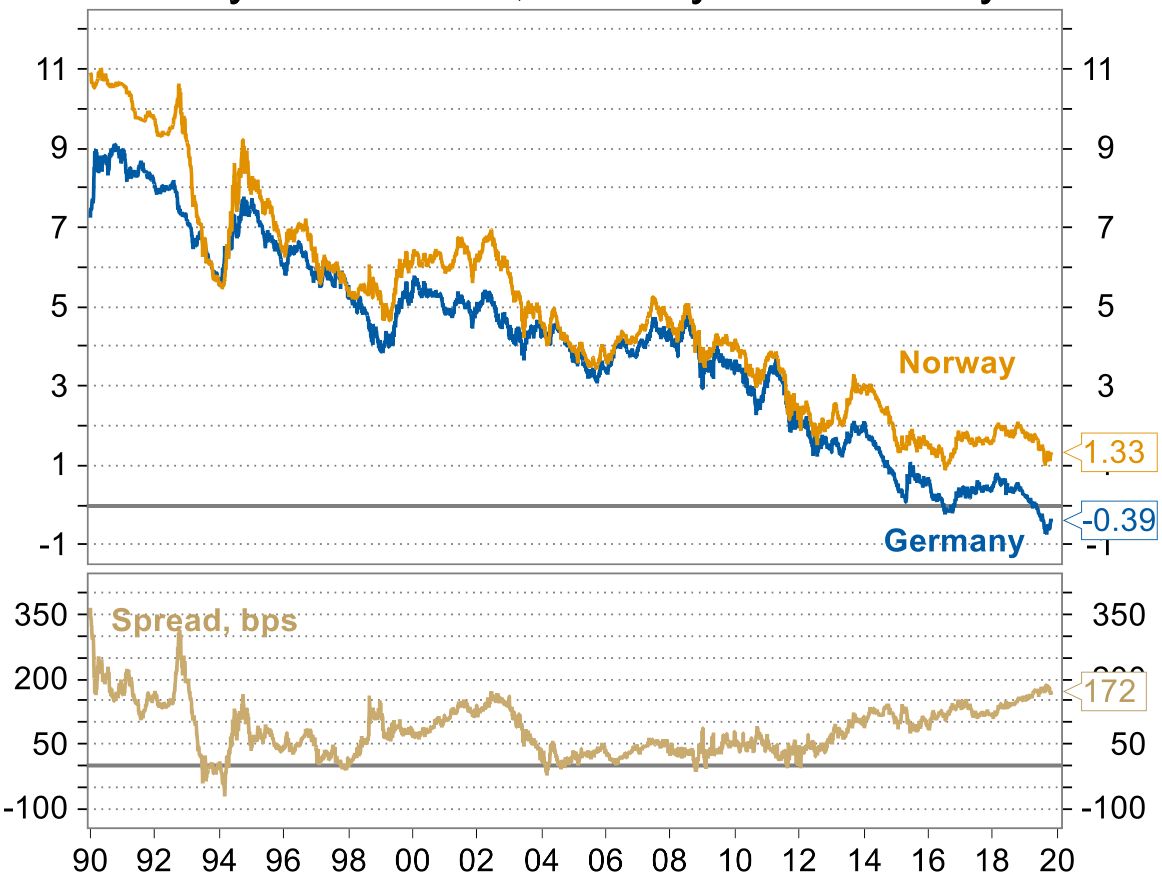


- Swap spreads between NOK rates and our trading partners have been widening rapidly this year, all over the curve. This month, spreads have 'finally' caved in
- While the short term spread is well explained, we have been surprised by the wide spread in the long end of the curve of the since March. <u>It must be 'too' high, still?</u>

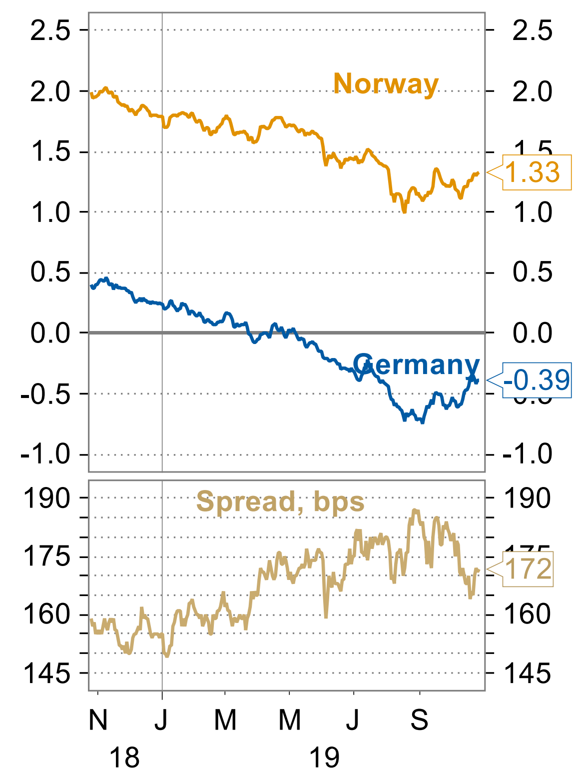
The Norway/German 10 y gov spread was narrowing, widened last week

The spread at 1.72% is still unusually elevated, but it was 15 bps higher in late Sept

10 y Gov bonds, Norway vs Germany



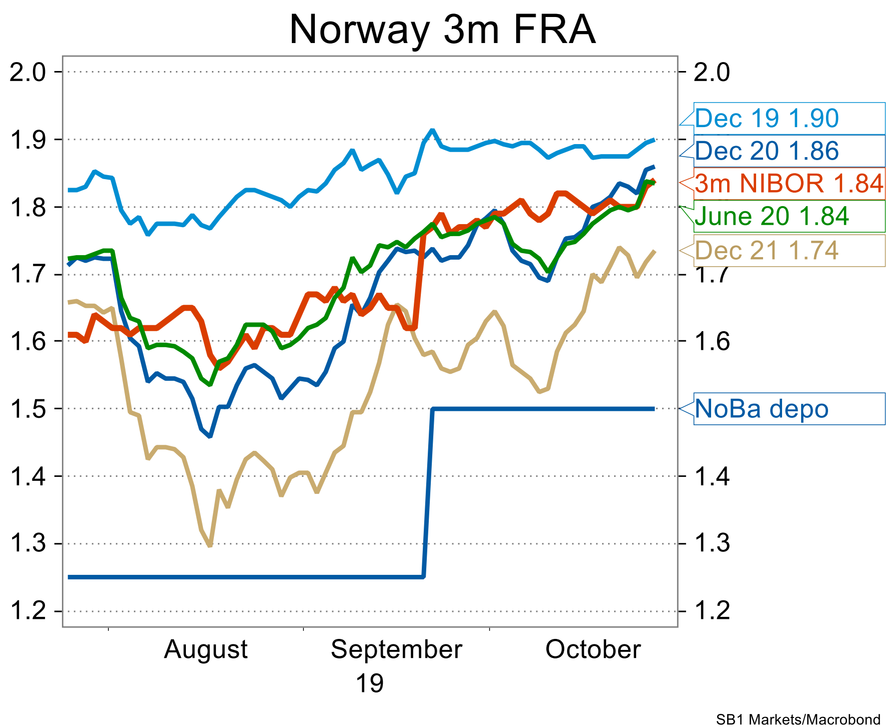
SB1 Markets/Macrobond

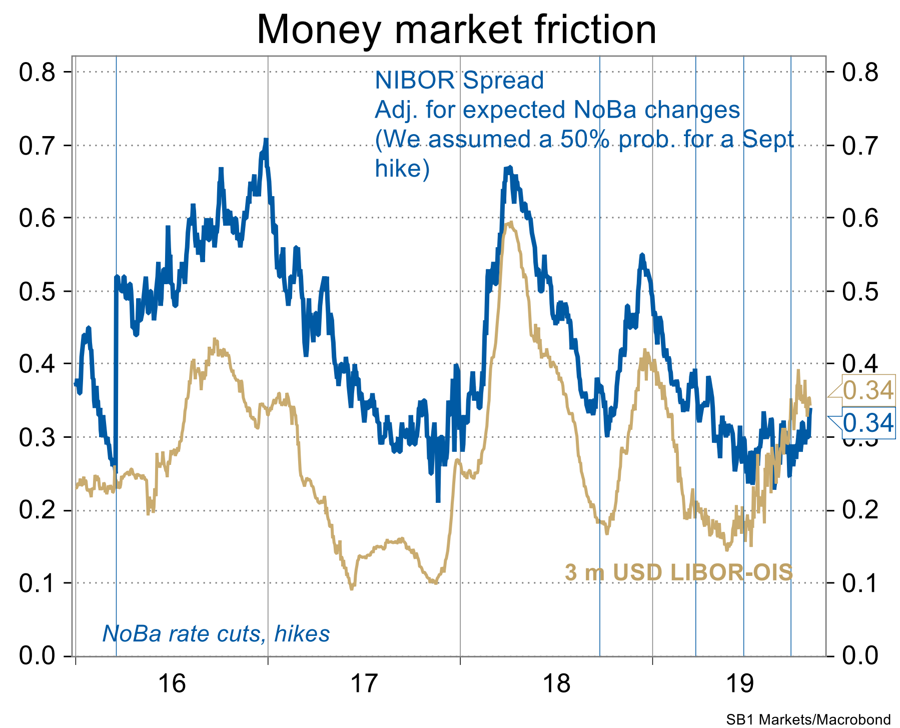


SB1 Markets/Macrobond

The 3 m NIBOR ticked up to 1.84%, on the way up to 1.90%

Dec 20 contract rose to 1.90%, implying a higher spread (and zero hike probability, we assume)

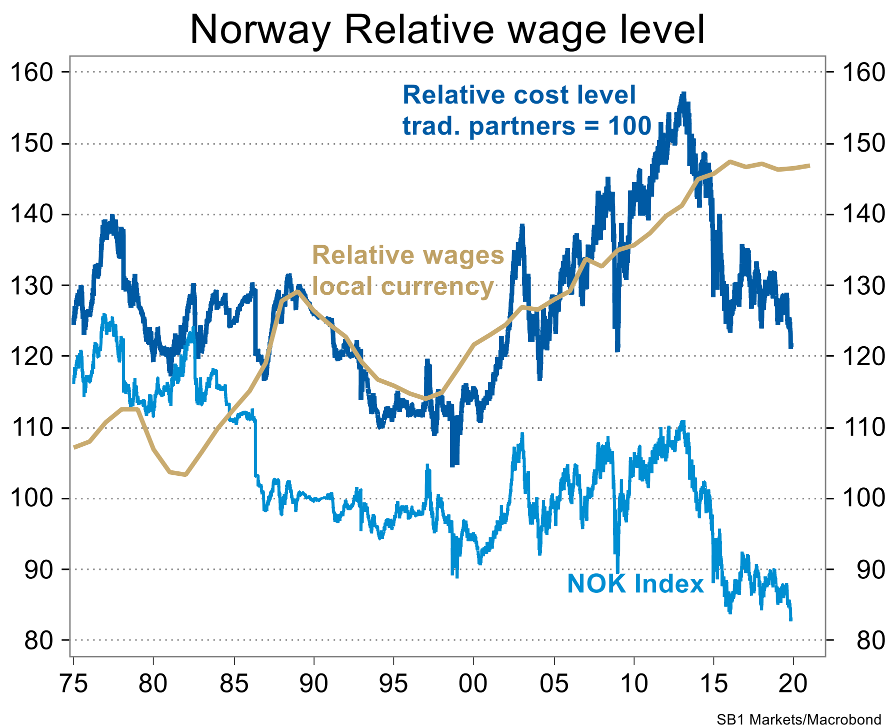


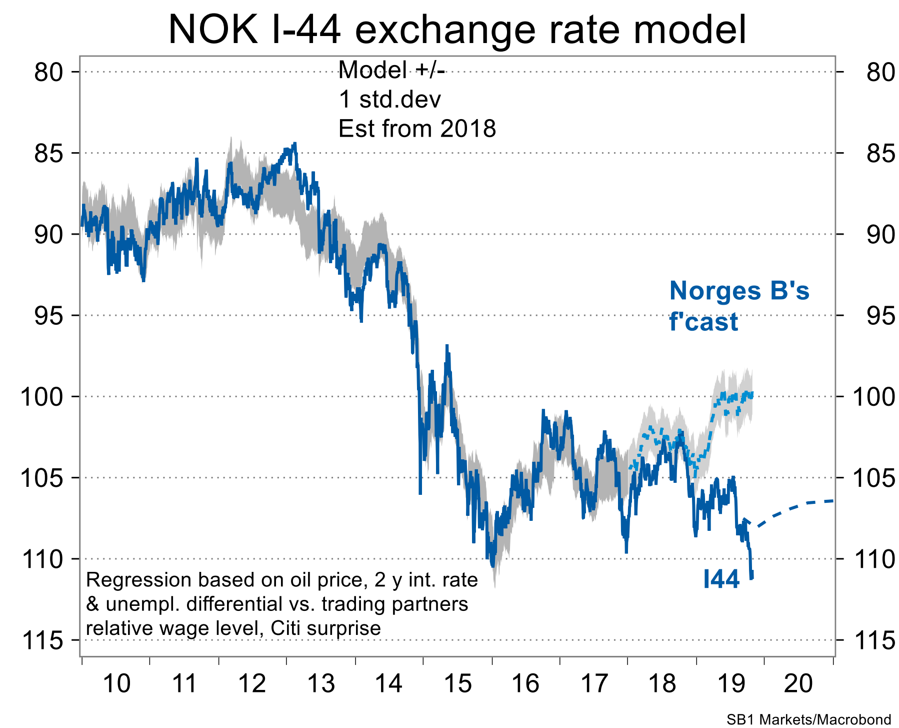


- The NIBOR – NoBa deposit spread widened 4 bps last week, to 34 bps. Our take is that the spread is still somewhat too narrow. The Dec 3 m FRA trades at 1.90% (implying a 40 bps spread), and in the US the LIBOR-OIS spread is 34. Historically, the NIBOR spread has been wider than the LIBOR-OIS spread. Norges Bank assumed a 40 bps NIBOR spread in the MPR.
  - » The Dec spread may be influenced by expectations of a year end liquidity squeeze – which has happened before. The FRA-curve peaks in Dec '19, and there are smaller local peaks in the next Dec FRAs as well. We expect the 3m NIBOR to drift further upwards the coming weeks
- Longer dated FRAs are climbing. The FRA curve is still inverted after Dec '19. The market is pricing some 50% probability of at cut by the end of 2021

The weakest nominal NOK, ever!

Adjusted for the wage level, the NOK is well below the average from before year 2000, -23% from top

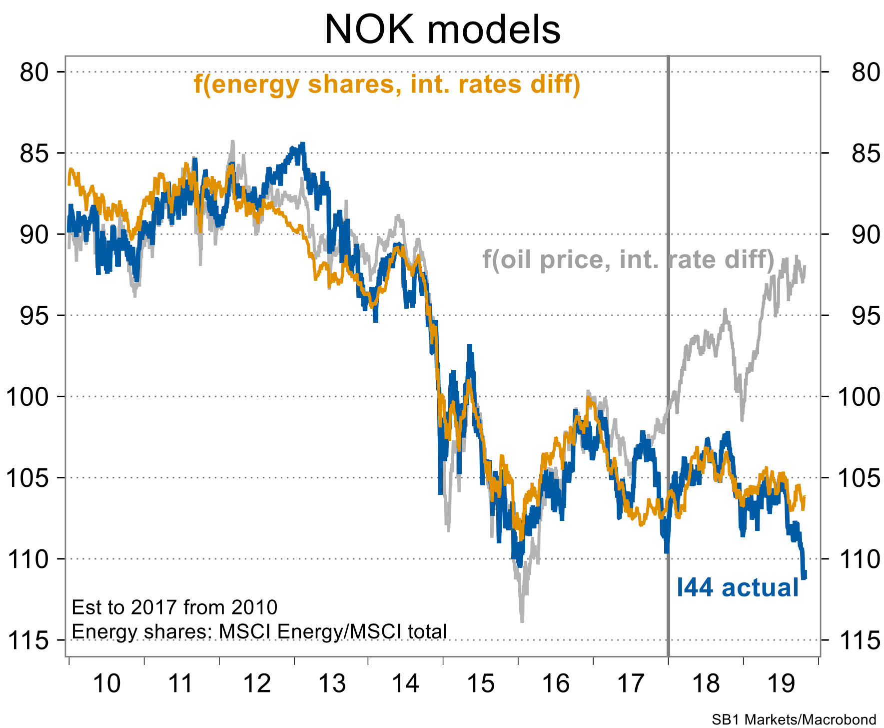


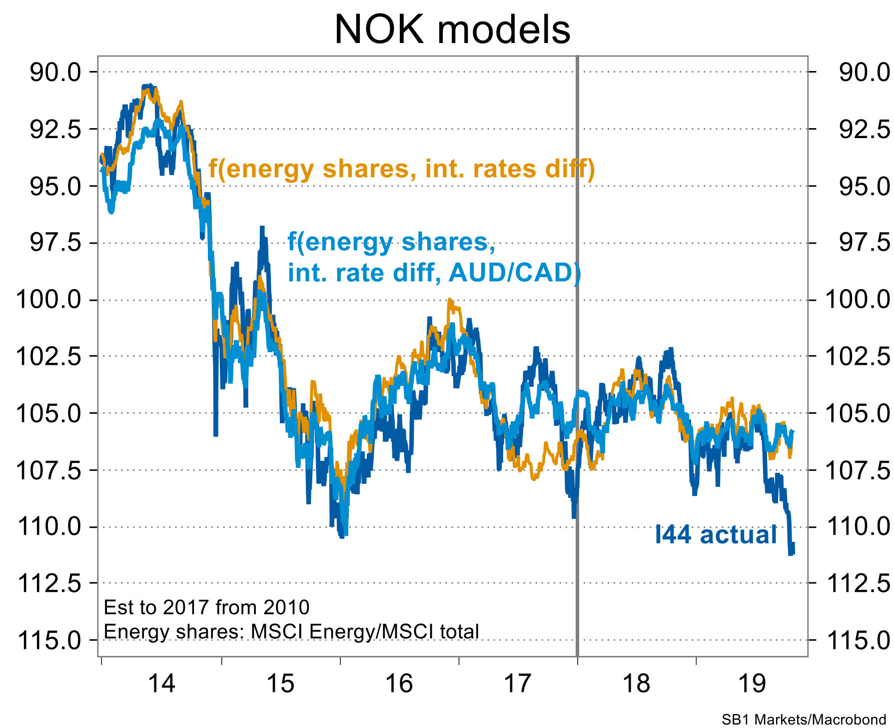


- Compared to the pre-2000 period, Norway has established a 3 x GDP Oil fund. The expected capital income from the fund can now cover (finance) ¼ of Norway's imports. Thus, Mainland exports do not have to pay for all of our imports, as before. The cost level has to be adjusted upwards (so that we can enjoy the benefits of the fund's return). The present cost level is probably too low
- Our old behavioural model does not seem to work any more, NOK is 11% below the model's forecast. Any explanations? We repeat the model we introduced last week, flip to the next page

NOK hit by the green wave, like the oil industry?

Our old short term behavioural f/x model has not worked well past two years. Why? The green shift?



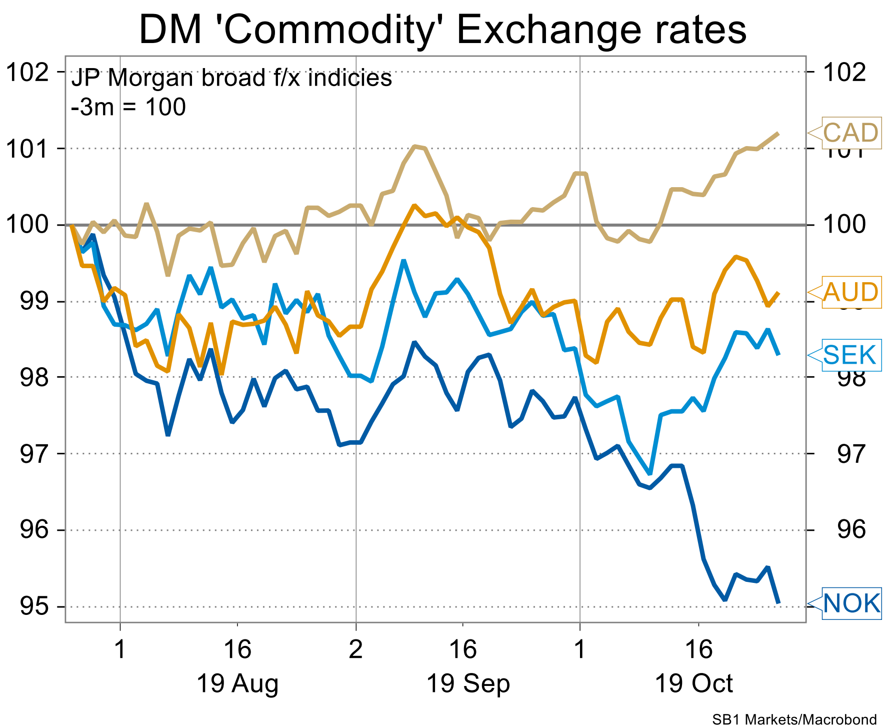


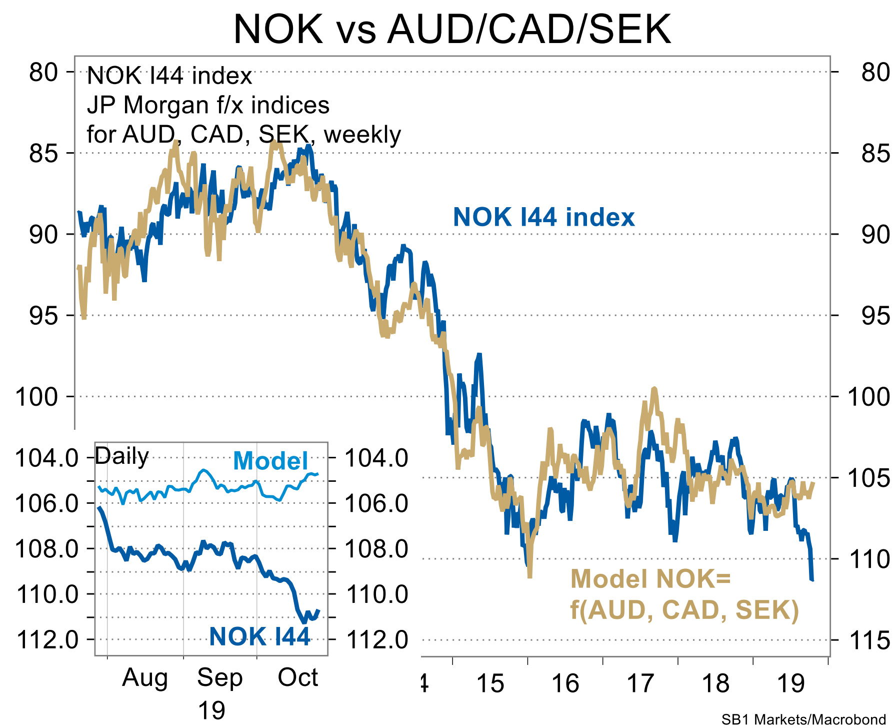
- The first step: We have swapped the oil price with the market's pricing of oil assets, measured by the relative return for energy shares vs the total market in the NOK f/x model. Until 2017 it did not matter which 'oil' variable we applied, the two explained the NOK equally well. When forecasting the NOK, by using the model parameters estimated 2010 – 2017 (including the 2y interest swap rate spread vs. trading partners), the deviation is startling. The energy share price model explains the actual NOK way better than the oil price model. The residual is 4%, compared to the 20% gap vs. a simple oil price model. The market judges the Norwegian economy as it judges oil companies, and has lost the long term confidence in both. And not because of greenwashing, but out of real concerns for the future for oil/gas producers. We think the market puts too much weight on the oil sector's importance on the oil sector, but that's another debate. *Check next page for energy companies vs. the oil price*

- If we include AUD and CAD in the model, the forecast model works even better. Both Australia and Canada are energy net exporters (Aust. coal, Canada oil/gas). Their energy exports equals some 5% of their GDPs vs 12-15% for Norway. Even a NOK model with just AUD and CAD (and SEK, but just to please our neighbours) as explanatory variables, works far better over the past 2 years than the oil price/int. rate differential model
  - However, both the model with the relative return of energy shares and the one including AUD and CAD fail to explain the NOK weakness since late July. NOK is 4% too weak

NOK is drifting down vs the other supercyclicals too

NOK has lost more than 3% vs. our supercyclical friends past two weeks

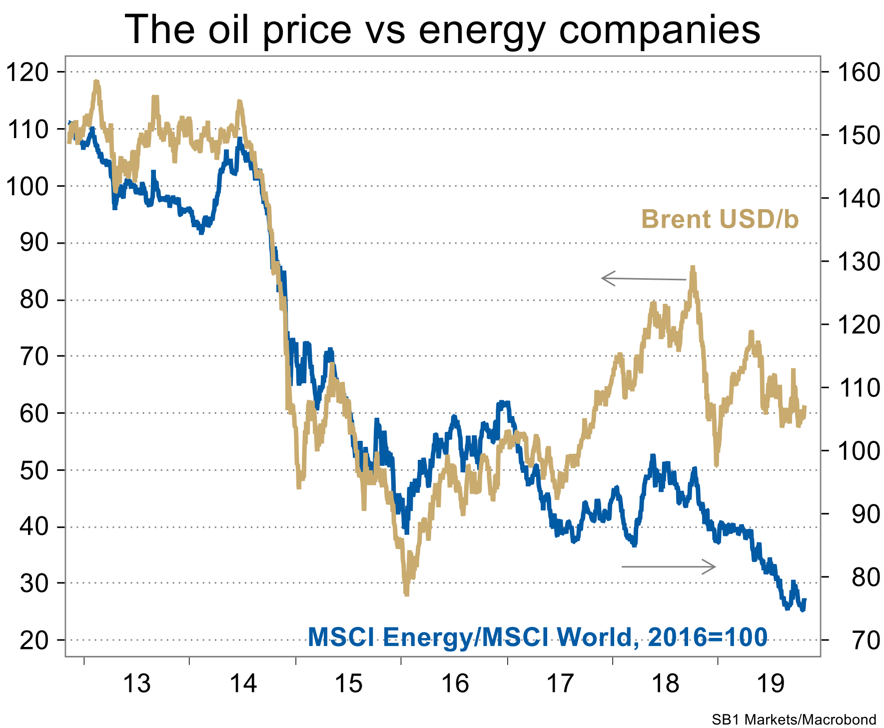


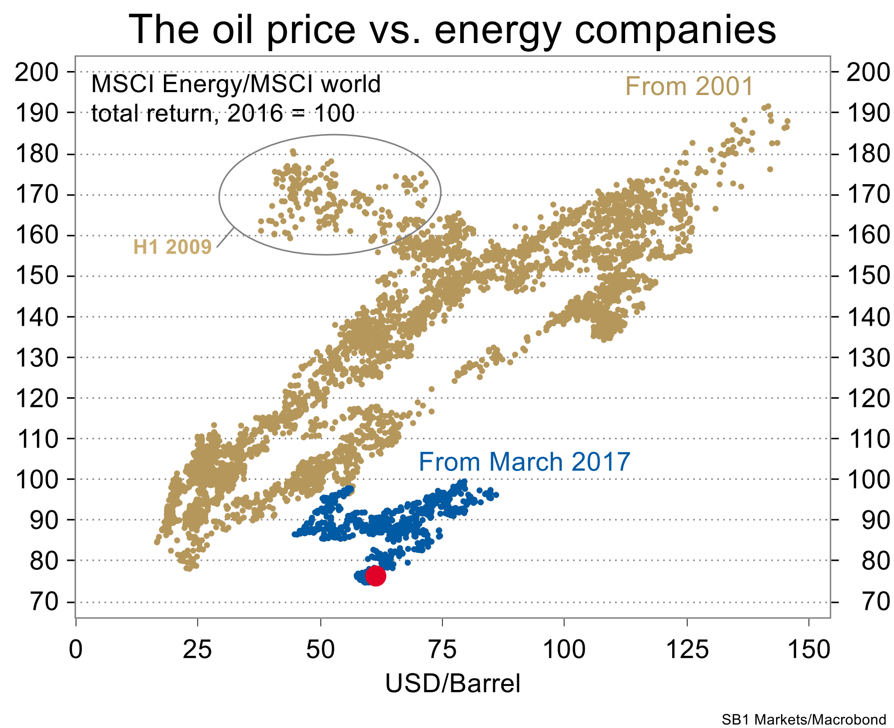


- The supercycle currencies are all sensitive to oil/energy prices (check the previous slide) and global growth outlook. The pas weeks, both CAD, AUD and SEK have recovered, probably fueled by hopes of Brexit solution, and a (slight) de-escalation of the US/China trade war. Unlike our peers, the NOK has tumbled in October
- Together, the other supercyclicals cannot 'explain' the NOK setback recent weeks. The NOK has lost 6% vs. the supercycle f/x model estimate since mid July. The discrepancy is not unprecedented but its now unusual large

ESG: Oil companies have fallen out of favour – and are cheap vs. the oil price

The relative pricing of oil companies have been quite closely correlated to the oil price





- They still are, but just after a shift down in the pricing of oil companies vs. the oil price during 2017 and '18, down approx 30% vs rest of the stock market

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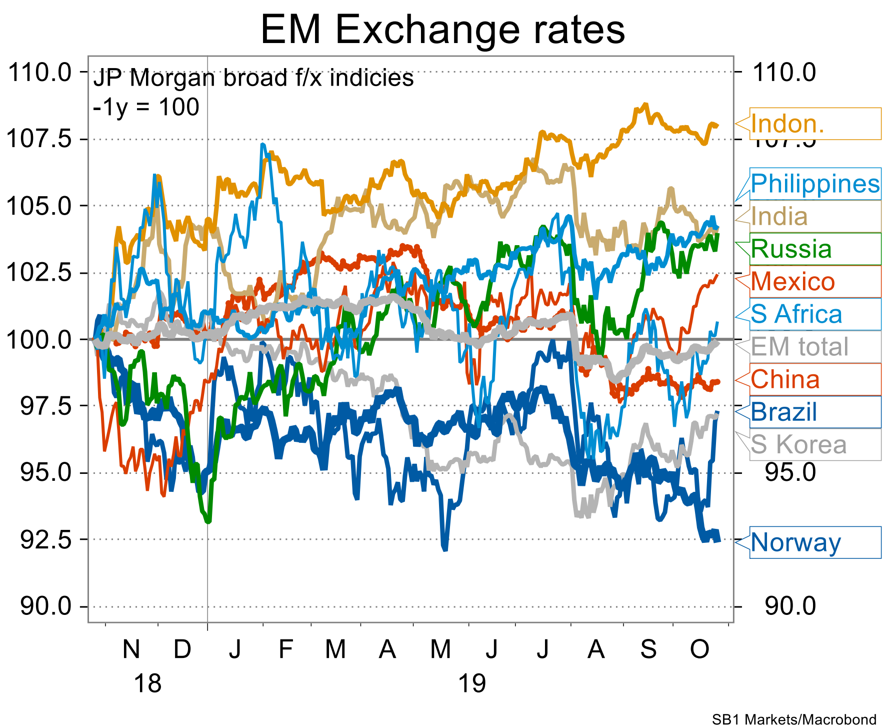
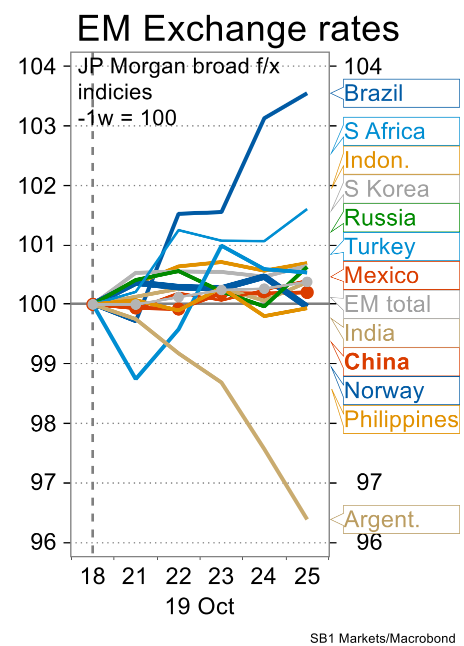
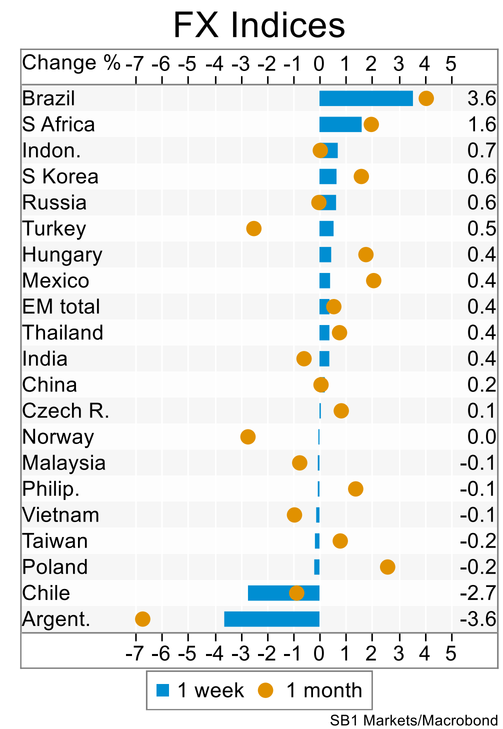
EM f/x mostly appreciating

Most EM currencies have been stable the past month, x Turkey, Argentina (and the non-EM NOK)







- Most EM currencies have stabilized/recovered in Sept/Oct. Trade war de-escalation probably the best explanation
- BTW, if we take out the Argentinian peso, the NOK has fallen substantially more than any of the (other) 18 main EM currencies we are following the past month, and the past year!!

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