17 February, 2020

Macro Research

Weekly update 8/2020

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

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

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

SpareBank 1 MARKETS

Highlights

The world around us

The Norwegian economy

Market charts & comments

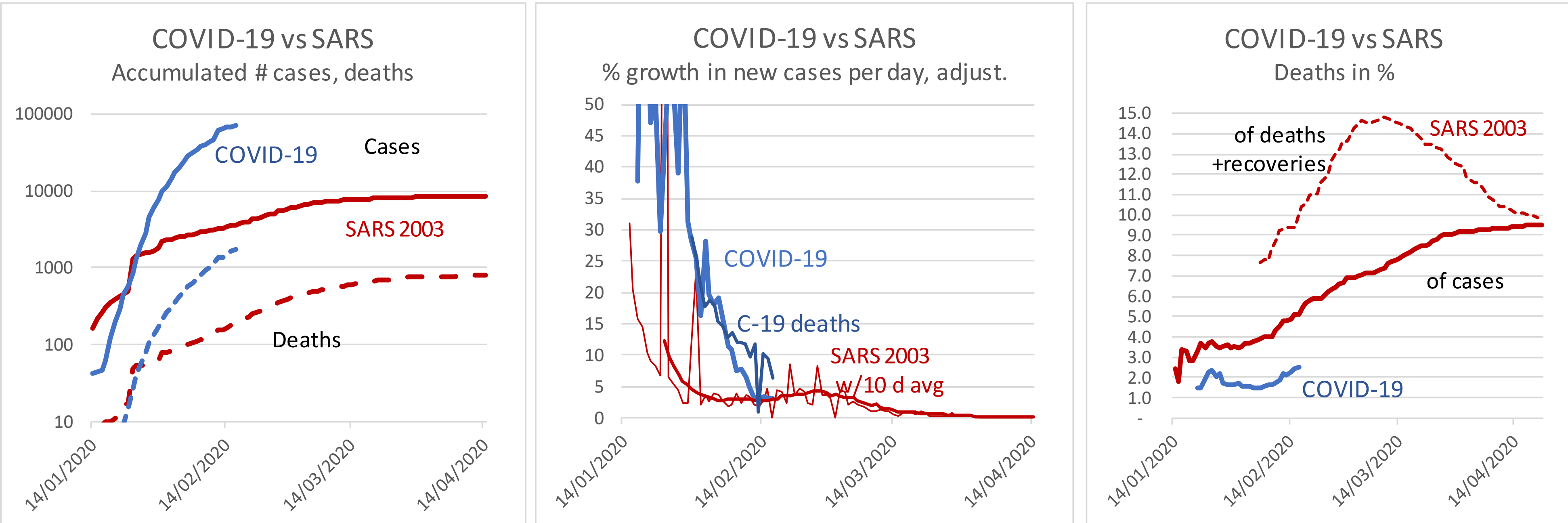
The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right [K] button will bring you back to the content page

Last week – the main takes

- Some confusion on **COVID-19 cases** (coronavirus) last week as China changed the method of diagnosis, causing a one day 13.000 jump in the number of cases. Regardless, underlying growth rates are calming and death rates remain low, but the impacts on Chinese and global GDP growth in Q1 (and, thus, total 2020 growth rates) will no doubt be substantial, we assume at least 1-1.5 pp (both with a substantial downside risk) and 0.25– 0.5 pp resp., taking global corporate earnings growth down 2 – 5%, and interest rates some 30 bps. We still think it is most likely the virus outbreak will come under control, and that economic activity will resume to a normal level in Q2. PBoC cut a signal lending rate by 10 bps this morning
- **Global auto sales** slipped again in January; both DM and EM contributed to the decline. Most DMs are trending down
- **US retail sales** came in below expectations in Jan and Dec was revised down; hence, sales are now close to stagnating! A rapid slowdown from the 9% growth pace 6 months ago. Strange, as **UoM consumer sentiment** climbed to the highest level in 2 years in Feb. **Core CPI inflation** was unchanged at 2.3%, expected down 0.1 pp. Still, inflation is probably peaking now. **Manufacturing production** inched down in January, the trend is no better than flat. The number of **job openings** fell sharply in Dec, may be a sign of weakening demand for labour. However, we do not have many other indications of such, and **small businesses** are still reporting unprecedented difficulties filling vacant positions. **The Federal budget deficit** is trending out, equalling 5.3% of GDP. In his testimony to Congress, **Fed's Powell** confirmed the FOMC's patient stance and gave no hints of interest rate cuts, but highlighted that corona impacts will be monitored closely
- **Eurozone GDP** rose marginally less than first reported, up just 0.2% annualised. Still, **employment growth** surprisingly picked up, indicating a decline in productivity. **Industrial production** plummeted in Dec, down 2.1% on the month and a 5.7% decline in Q4. Manufacturing is no doubt still struggling, however, the Dec data may have been distorted by the timing of Christmas holiday (the decline was unusually broad and steep). **Germany GDP** stagnated in Q4, a marginal increase was expected
- **Japanese GDP** plunged 6.2% q/q annualized in Q4, a substantially larger decline than expected, following the VAT hike
- **Swedish** registered unemployment continues to climb steadily, one tick up to 4.0% in January. **The Riksbank** kept the policy rate on hold at zero, as expected, and signals that is in 'pause mode' at least through 2021
- **Norwegian core CPI inflation** surprisingly spiked to 2.9% y/y, a 1.1 pp jump, far above any f'casts. The monthly growth rate at 1.2% was the highest since the 1980's. Higher inflation on imported goods due to some delayed NOK impacts boosted growth, but prices on domestically produced goods and services surged as well. We expect a reversal to 2.3% in February, but inflation will anyway remain well above Norges Bank's projections, and the Bank will probably have to nudge up its f'cast. **Consumer confidence** picked up in Q1 and consumers are rather upbeat on the personal economy outlook

Coronavirus contagion is slowing down, death rates remain low

Growth slowed to 3% per day, from above 5% one week ago

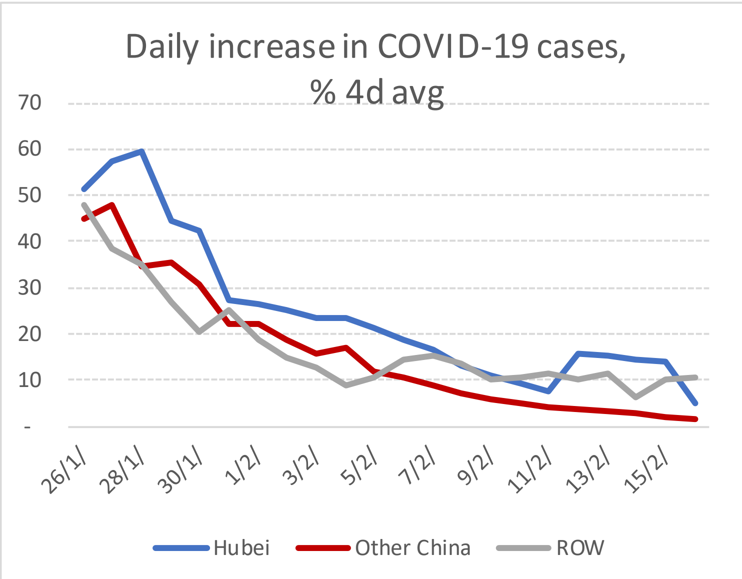


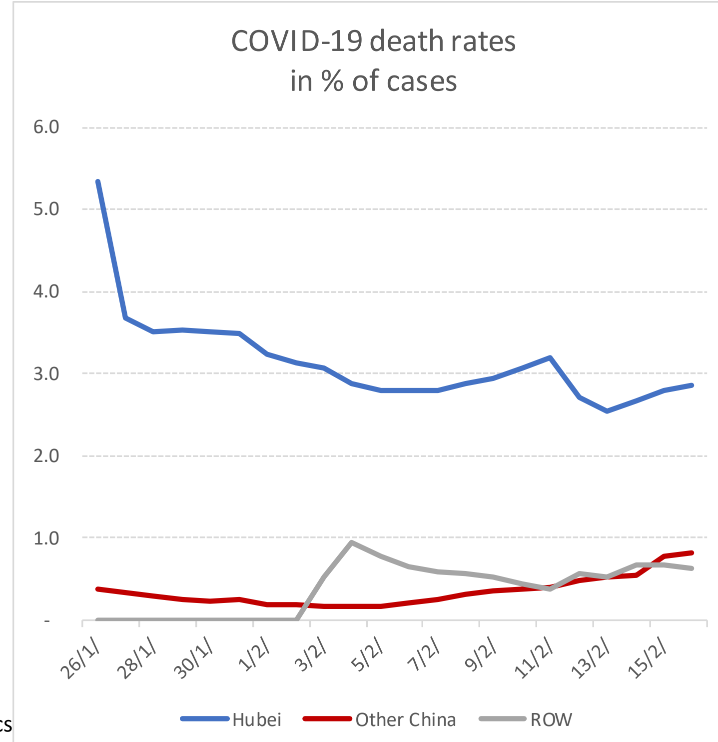
- A change in the methods of diagnosis caused a spike in the number of infected by the COVID-19 virus, by some 13.000. Adjusted for these changes (as shown on the mid and right graphs above), growth has slowed to 3% per day, or 2.100 per day, from above 5% a weak ago. The number of cases has reached 71.000, vs SARS at 8.000
- The number of deaths reached almost 1.800 (vs SARS 800) but death rates remain low, at below 3%, still much lower than for SARS (which reached almost 10%) but the number of deaths is still growing rapidly. In addition, the no of recoveries is still low, at just 15.5%, thus, 82% of those who are declared infected are still sick. Of course, nobody knows for sure the real death rate yet. The best news is that deaths rates are still very low in China outside Hebei, and in the rest of the world

Source: Johns Hopkins University, WHO, SB1M calc. We have adjusted growth in cases and mortality for the change in diagnostic standards introduced Feb 12

The coronavirus is spreading at a slower pace. Death rates still low…

… but still uncertain





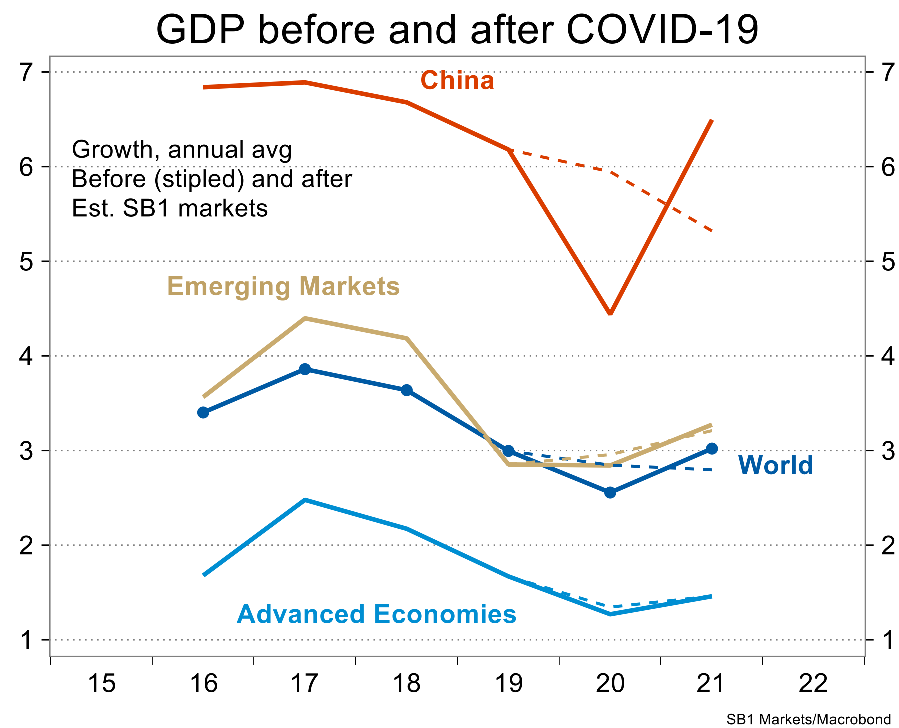
Source: Johns Hopkins University, WHO, SB1M calc. Data not adjusted for change in diagnostics

- The growth rate of new cases is some 2% in China outside the Hubei province, compared to 8% in Hubei, and all growth rates are clearly trending down. Many of the new cases outside China are Chinese tourists abroad
- Death rates are much lower outside the Hubei province, well below 1% of cases, as in other parts of the world, vs 2.5% in Hubei province
- The outbreak is ‘younger’ outside Hubei, but even the deaths/(deaths+recoveries) ratio (deaths vs. all ‘finished’ cases) is dramatically lower outside Hubei, 2% in other China (3.5% in other countries) and 25% in Hubei, but slowing
  - » The latter number is rather alarming but is probably partly due to lack of treatment/care capacity than to the ‘normal’ mortality rate of this virus given best care available

The coronavirus vs. Chinese & global GDP growth

Substantial interruptions in production & demand, probably just in Q1, growth back on track in Q2

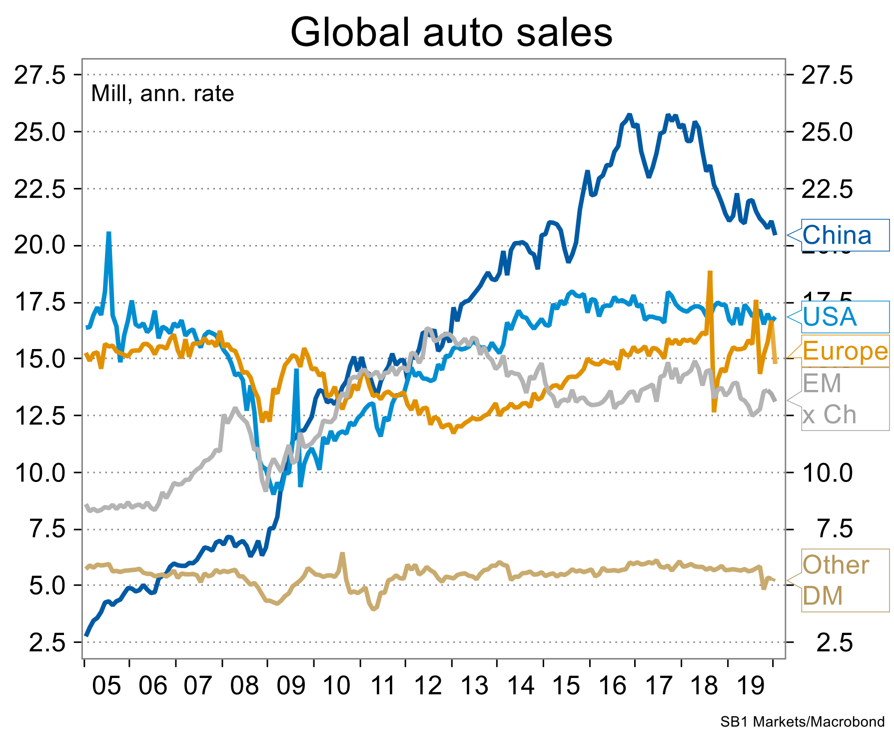
- Our base case is that COVID-19 is brought under control the coming weeks, enabling normal economic activity from Q2.
- A 10 day extended holiday season, travel/transport bans, fear of travelling, just a gradual ramp up of production the previous & coming weeks (both due to measures against COVID-19 spreading further, lack of labour and supply chains challenges) could easily reduce GDP in China by 6 pp in Q1, vs the 'normal' 1.5% growth pace, thus declining 4.5%. An even substantially sharper decline can not be ruled out if activity does not resume sharply this week
  - » A week completely shutdown equals 7% of GDP in a quarter
- GDP in Q2 should marginally overshoot the normal growth path, as some production will be transferred to Q2 from Q1
  - » However most of the production loss in Q1 will not be recovered (typically in services, but also partly in production of goods, as some factories a normally running at a high capacity utilisation and cannot increase production substantially
- A 4.5% decline in GDP in Q2 and just a marginally transfer into Q2 will cut **Chinese GDP growth in 2020 by approx. some 1¼ pp, to 4.5%.** China constitutes almost 20% of global GDP (PPP weighted), and the direct impact on global 2020 GDP is ¼ pp, say to 2.75% growth from originally 3% (approx. consensus, we had slightly below 3% before COVID-19)

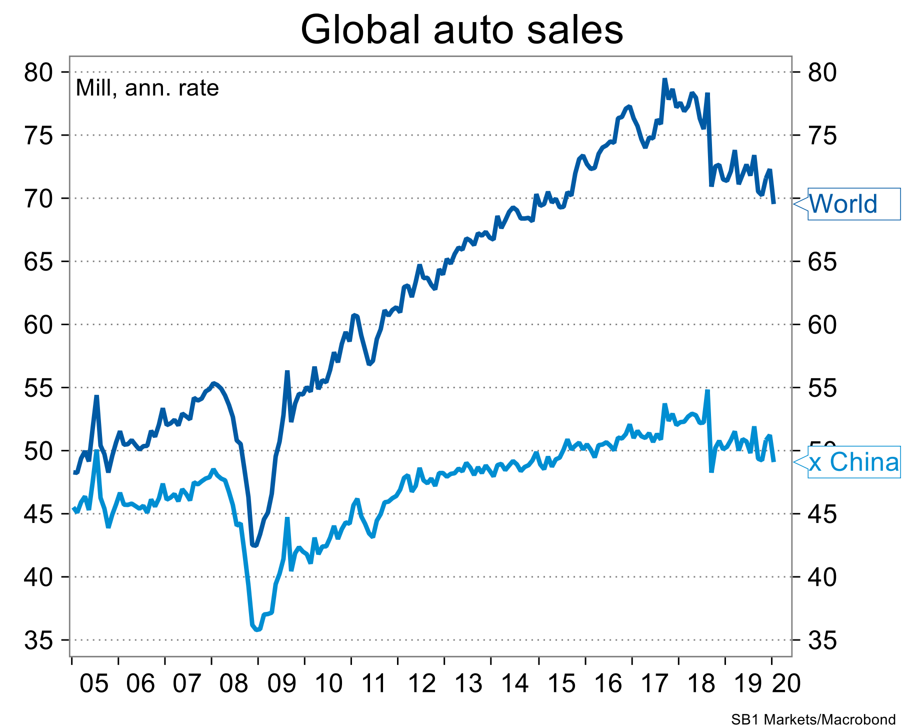


- However, production in other countries/sectors that are closely connected to supply chains where production in China is essential will be somewhat hurt (say in 'obvious sectors like auto/electronic industries, air traffic, tourism ect, and in neighbouring Asian countries), but also other places, and in 'remote' sectors (like the MWC Barcelona congress!). This impact is even more uncertain than the direct impact but will probably be limited compared to the direct impact on global growth due lower growth in China. Even so, we add on a 0.1 pp GDP growth impact from countries other than China
- Adding up, global GDP will contract by some 0.5% in Q1, and **2020 GDP growth will be reduced by some 0.25 – 0.5 pp, to 2½ – 2¾ %, implying 2 – 5% slower growth in global corporate earnings, and some 30 bps lower long term interest rates. And then, a reversal in 2021!**

Auto sales fell broadly in Jan, down 11% from '18 peak – still trending down

Sales are sliding further down in China, US and Japan, EM x China a tad up, EMU probably flattish

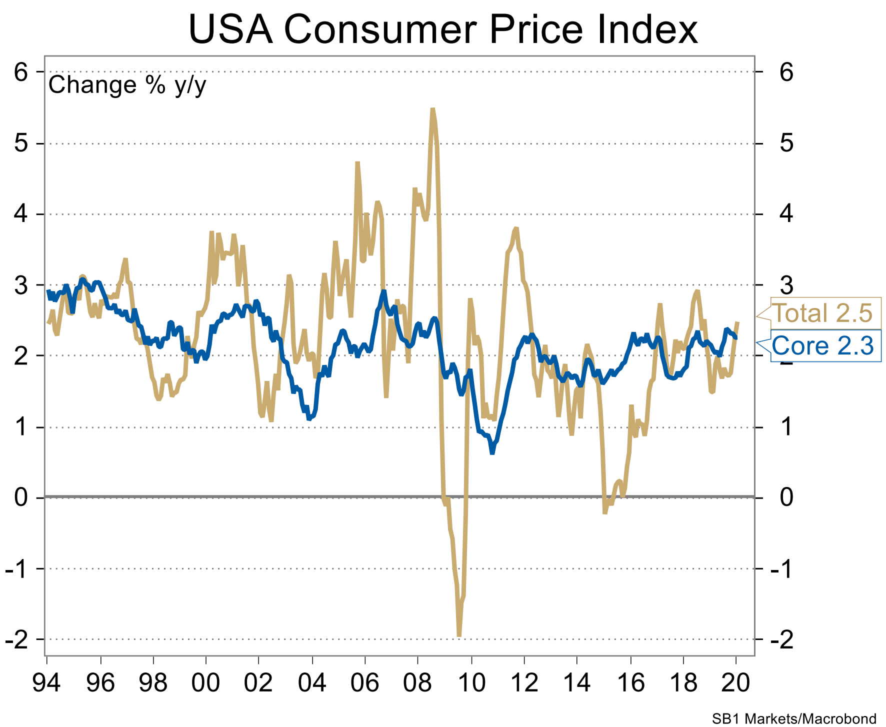


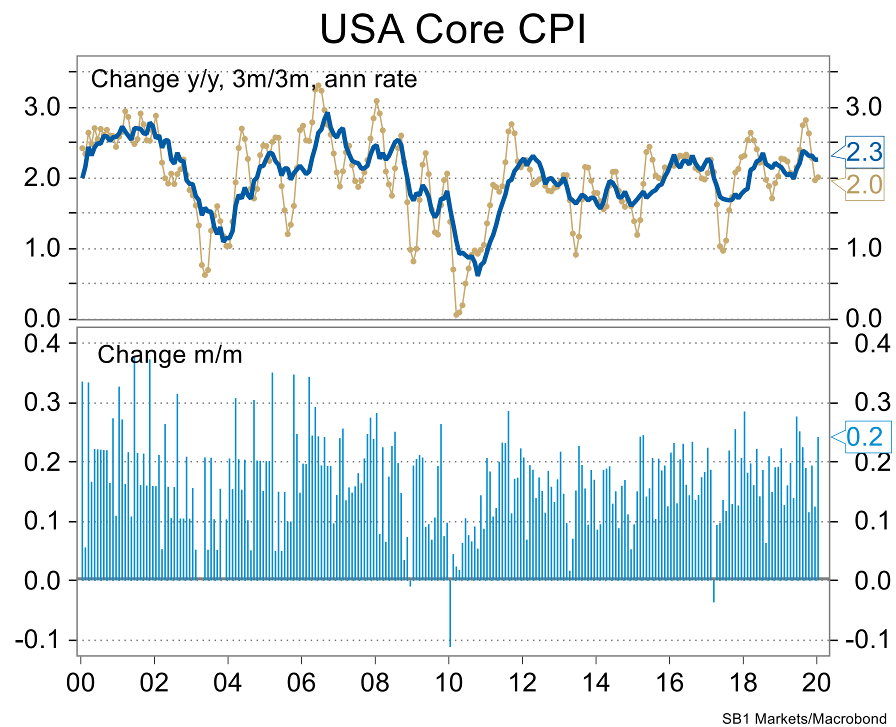


- Global sales fell by 4% m/m in January (our estimate) and are down 2.6% y/y. Sales have fallen 11% from the 2018 peak level
- Sales keep declining in China again after some indications of stabilisation in H1 last year. Sales are down 3% y/y. Sales fell 10% last year following the 4% decline in 2018. The decline in sales in China explains more than half of the reduction in global sales
- Sales in Europe have been zig-zagging due to emission regulations but slipped in January, probably on implementation of new regulations (again). The trend is anyway probably not better than flat. US sales are trending slowly down. Sales in Japan have recovered just partly, after plunging in October, due to the hike in the VAT rate. Sales are lower in the UK as well, as in the Scandics
- Auto sales in EM ex. China fell in January, after a strong recovery in late 2019, due to a pickup in Indian sales. Trend down

Core inflation steady at 2.3% in January, probably at peak

Core CPI rose 0.2% m/m and the annual rate 0.1 pp above f'casts. Total inflation up to 2.5%

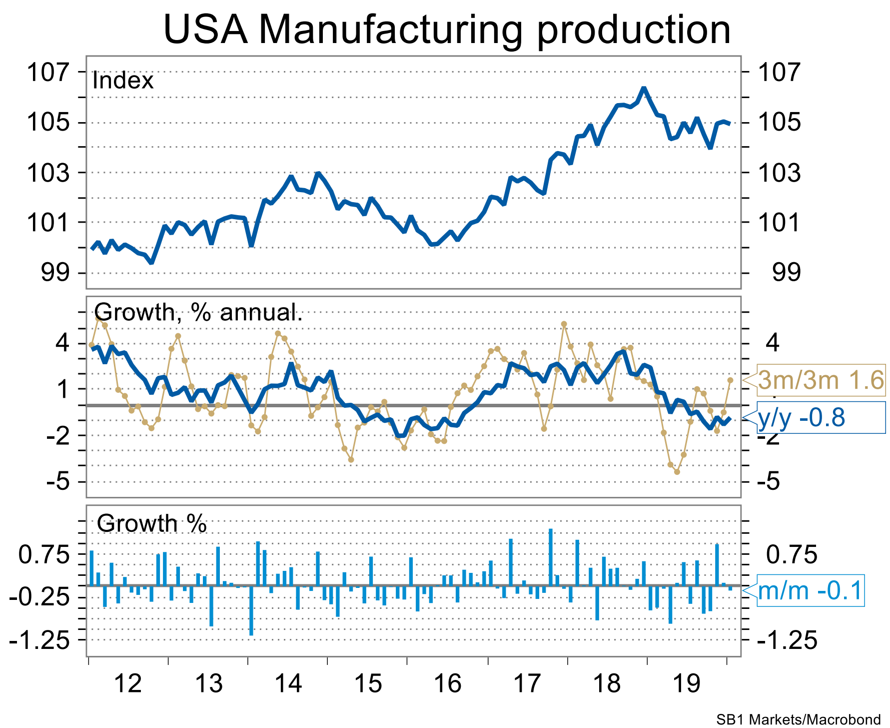


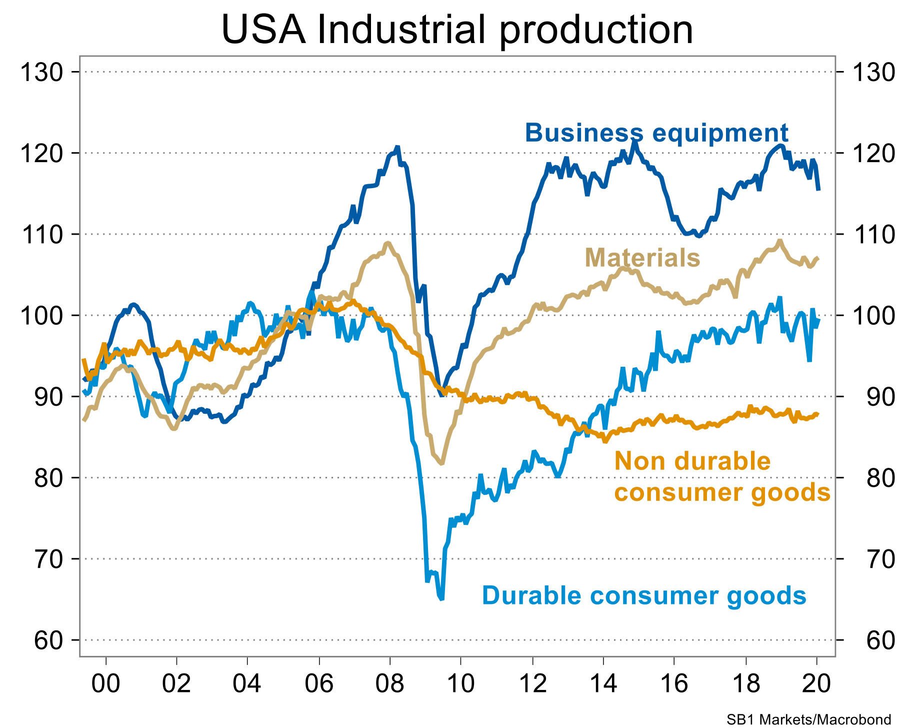


- Core CPI increased by 0.2% m/m, as expected. The annual rate held steady at 2.3%, expected down 2.2%. The underlying speed was steady at 2.0%, and does not indicate much higher annual rates. Moreover, producer prices and inflation models indicate that inflation may be peaking now. But it is not 'too' low, at least according to the core CPI index
  - » Fed preferred price measure, the core PCE (the consumption deflator) is up 'just' 1.6% (in Dec), below Fed's 2% price target
- Headline inflation edged up to 2.5%, a 0.2 pp increase and 0.1 pp above expectations. Prices rose just 0.1% m/m (but they fell marginally in January last year, bringing the annual rate up). Total CPI inflation has been brought up by slowly rising energy prices, the upward pressure is probably easing as energy prices have fallen

Manufacturing production has stabilized, but no signs of upswing

Production ticked down 0.1% in January as expected, trend still no more than flat

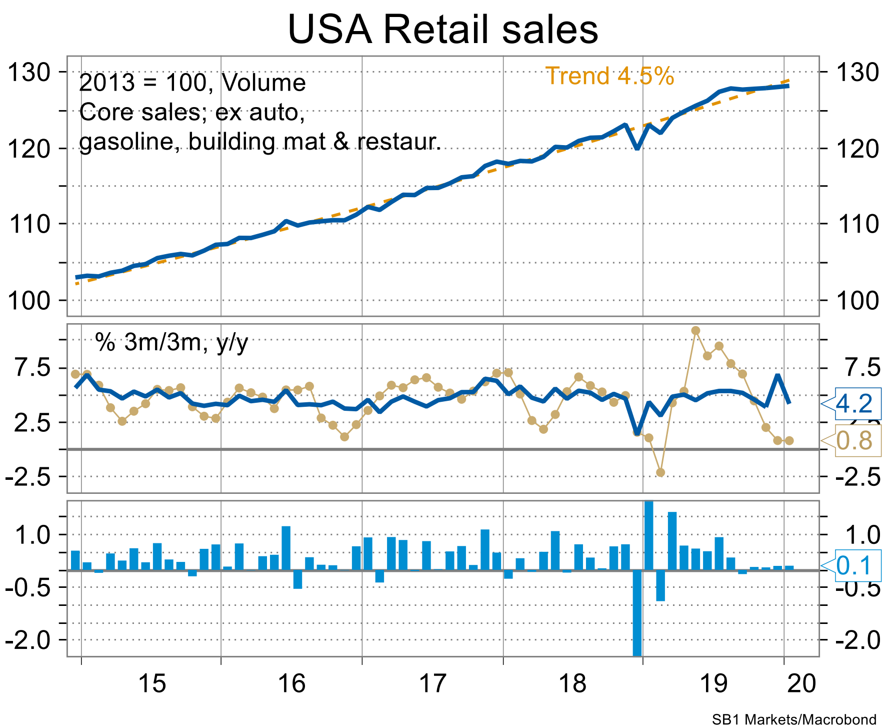


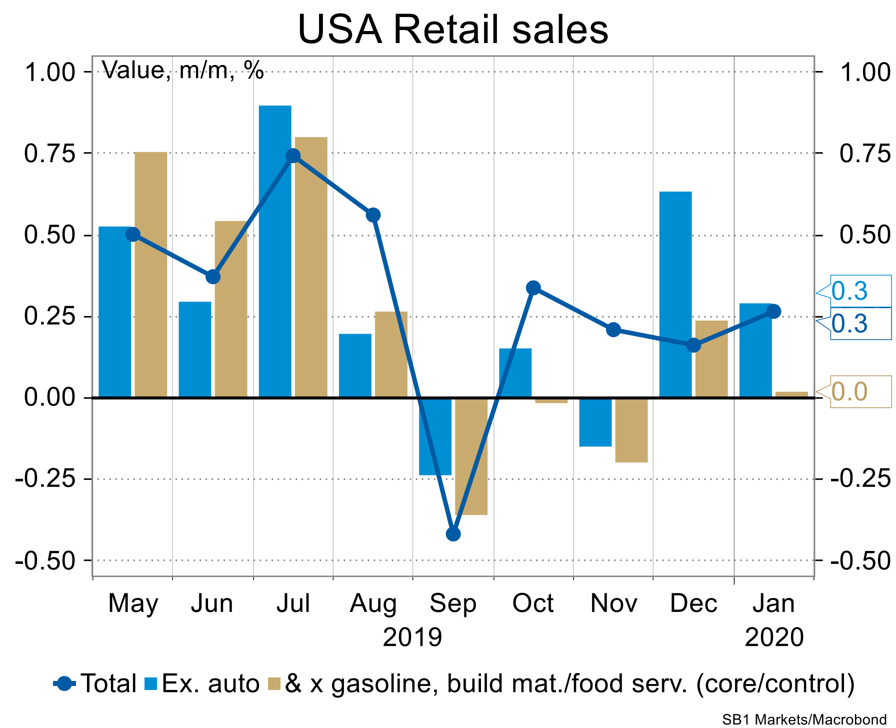


- Manufacturing production fell 0.1% m/m in Jan, in line with expectations. The underlying speed has turned up to 1.6% but the trend is not more than flat, since last spring, and the annual rate is -0.8%
  - » Total industrial production including energy & mining fell 0.3% m/m
  - » Production has slowed in most sectors, most rapidly in business equipment & materials
- Manufacturing surveys have improved but the avg of surveys is still not signalling growth in production

Retail sales have flattened, slow growth into Q1

Core sales stagnated m/m in value terms, and December revised down 0.3 pp, a GDP revision is likely



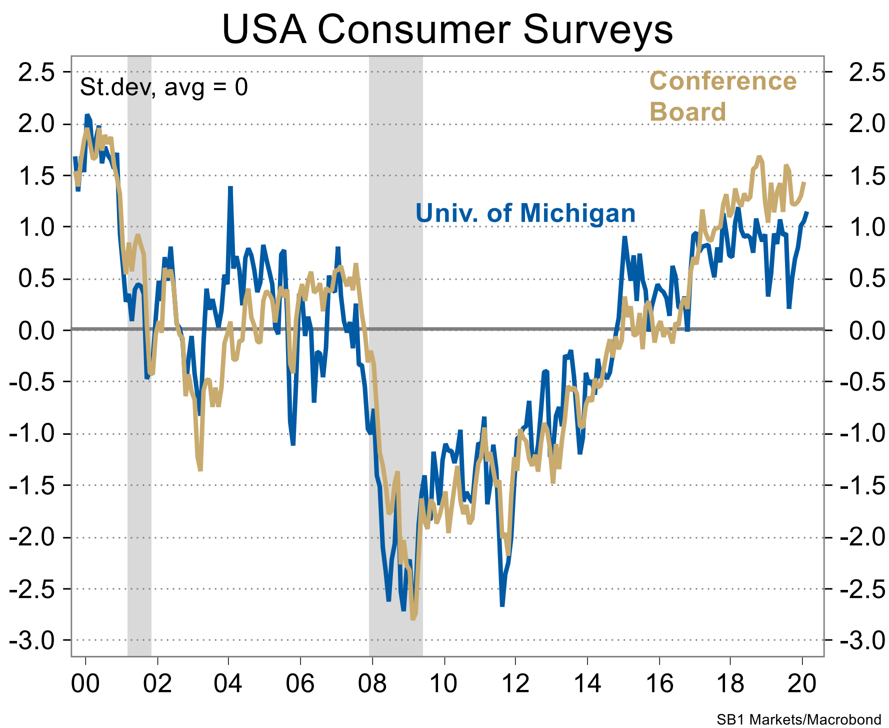


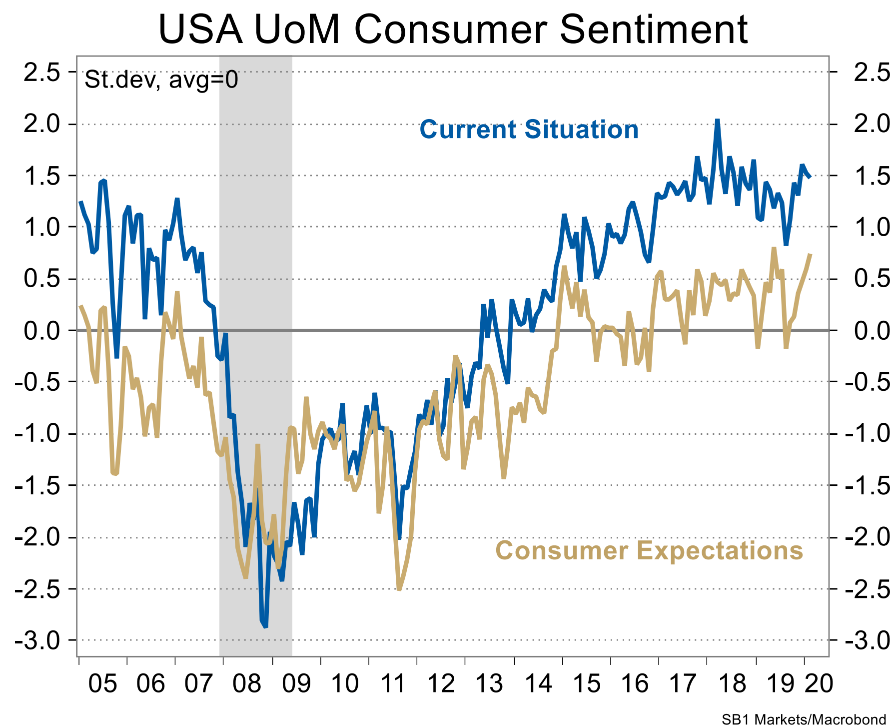
- Core retail sales (ex. auto, gas, building materials & restaurants; control group) failed to expand nominally in December, a 0.3% m/m increase was expected. Moreover, December was revised down by 0.3 pp to a 0.2% speed
  - Total retail sales increased by 0.3% as expected, December revised down by 0.1 pp. Auto sales close to flat in Jan, ex auto sales up 0.3%
- We estimate a 0.1% m/m lift in core sales volume, as we expect a 0.1% decline in retail prices. December core volume sales were revised down by 0.3 pp and prices increased, thus, sales came in 0.6 pp lower than we expected! The underlying speed is close to stagnation, and after the revisions, up just 0.8% in Q4, vs 3% assumed increase. A downward revision of Q4 GDP growth is likely. The annual rate fell back to 4.2%
  - Income growth has slowed somewhat the past year but consumer confidence is strong, do not signal any setback now

SpareBank 1 MARKETS

Univ. of Michigan consumer sentiment another step up in Feb

Consumer confidence rose to the highest level in 2 years, as expectations are climbing

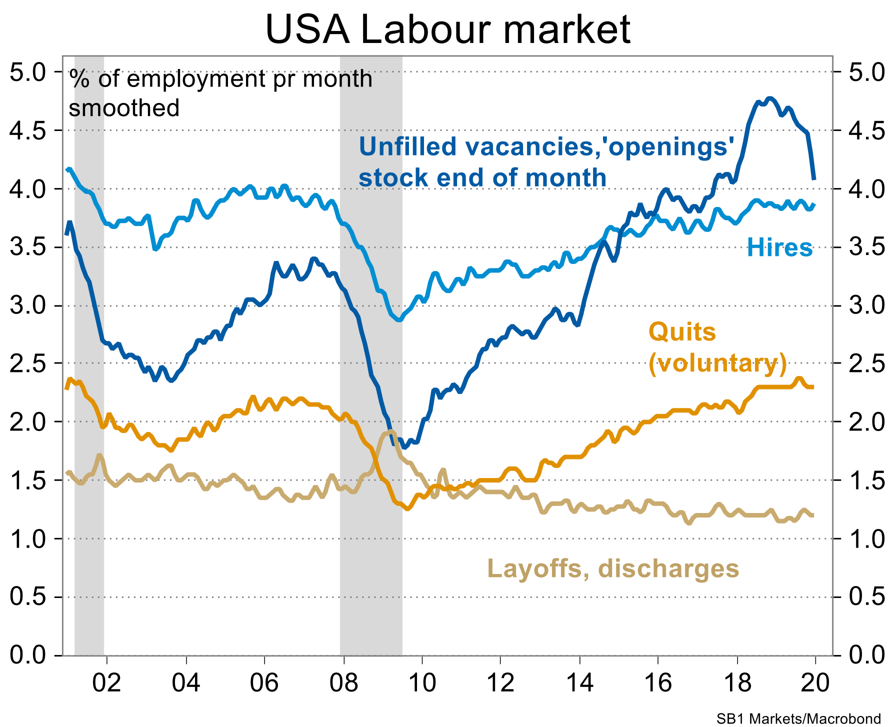


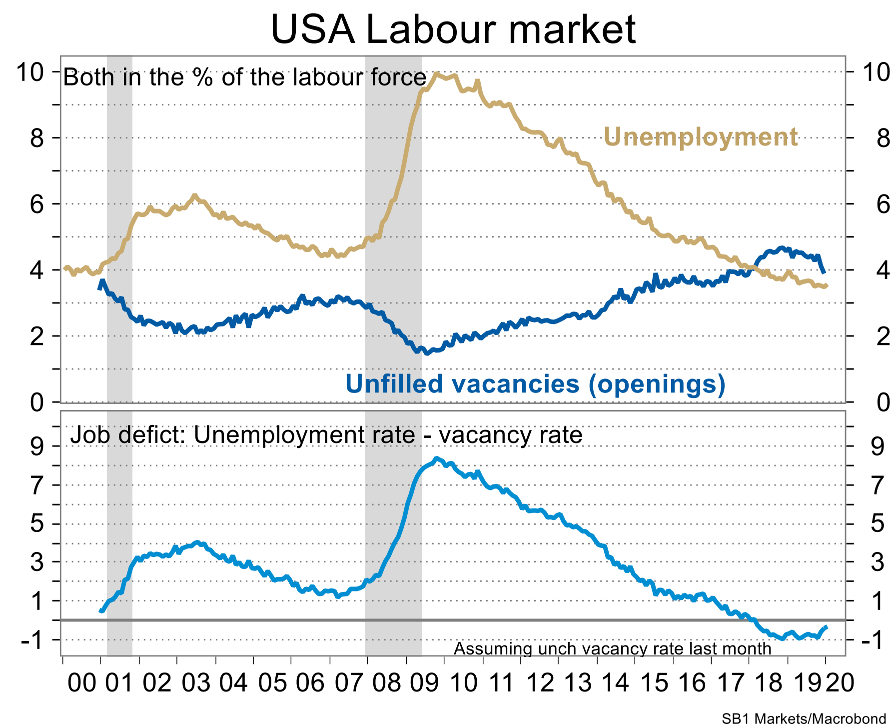


- The total sentiment index edged up to 100.9 in Feb, from 99.8 in Jan, a slight decline was expected
  - » The index is 1.2 st.dev above avg and is back at the 2018 peak levels
  - » Consumer expectations improved once again, the view of the current situation a tad down, both heading up
- Univ. of Michigan's consumer sentiment is marginally weaker then Conference Board’s consumer confidence index, both are upbeat and do not confirm the slowdown in consumption which retail sales data indicate

Unfilled vacancies steeply down, is something brewing??

Still, other indicators do not confirm a slowdown; hires & voluntary quits stable at high levels





- Job openings (unfilled vacancies) have fallen steeply in November and December, to 4.1% of employment, down from 4.7% in the spring (we apply a 2 months smoothing). Could be an early sign of a cooling labour market, the vacancy rate is leading unemployment by approx. 6 months. There are still more unfilled jobs (3.9%) than unemployed (3.6%), in % of the labour force, but the gap is now narrowing. However, other indicators suggest that the labour market is still very tight. To be continued!
  - » Monthly (gross) hiring equals 3.9% of total employment and is not increasing anymore, probably because businesses struggle to attract labour
  - » The number of voluntary quits is rising marginally, at a very high level – as many employees leave for better (paid) jobs
  - » Layoffs are trending marginally down, at very low level. However, it's a lagging indicator

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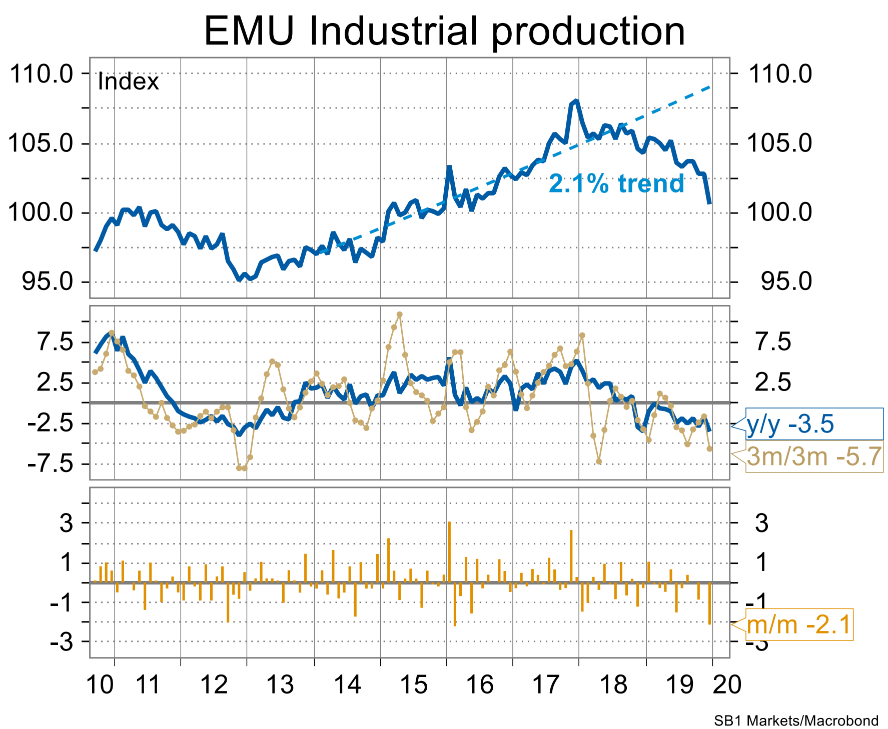
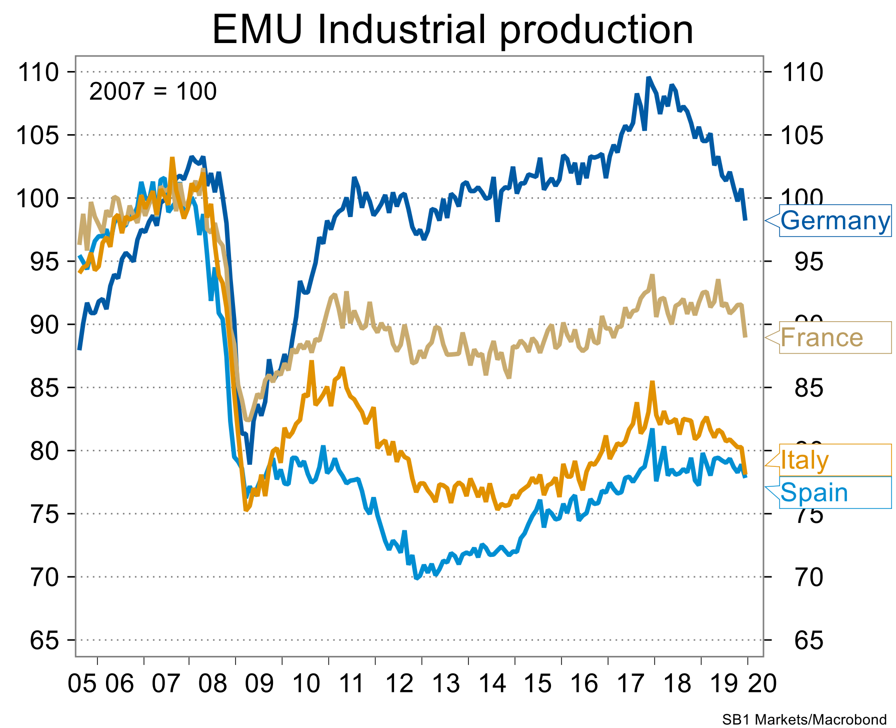
Industrial production plunged in December, despite PMI upturn

Germany, France, Spain and Italy report unusual declines, partly due to a long Christmas holiday?

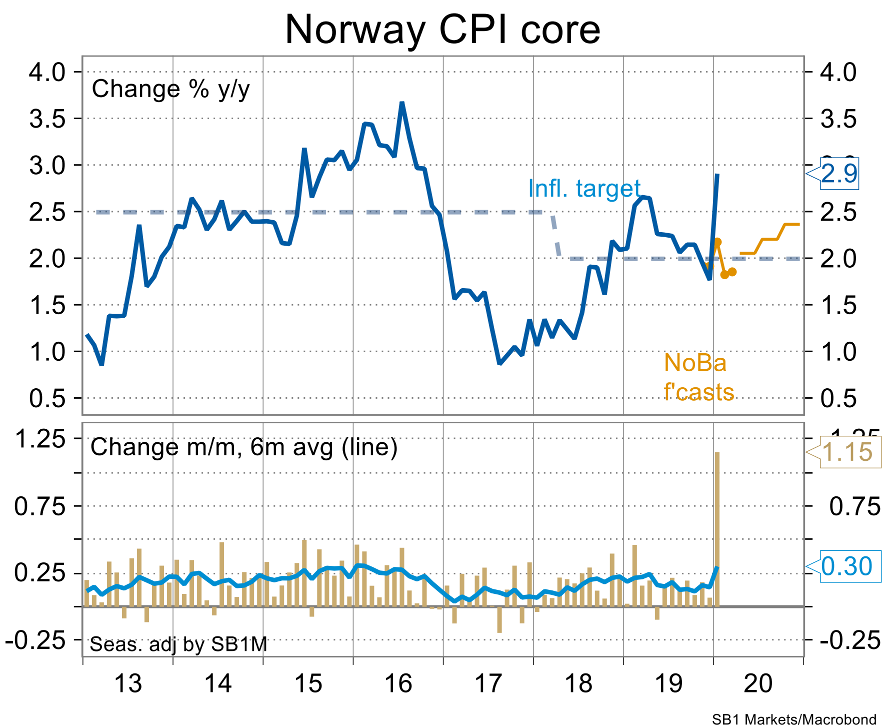




- EMU industrial production (ex construction) slipped 2.1% m/m in Dec, we expected 2.0%. Production in the region is heading steeply down and tumbled 5.7% annualized in Q4. Since mid-2018, production has fallen by 5%
  - » The decline was unusually broad and unusually steep. In Germany, production dropped 2.5%, 2.8% in France, 1.4% in Spain and 2.7% in Italy. The Dec data may have been distorted by the timing of Christmas holidays, as many workers probably took more days off than usual
- The December drop was rather surprising, given that manufacturing PMI and other surveys are signalling that the downward speed is slowing. We expect the contraction to ease the coming months

Core inflation miles above any f'casts in Jan; broadly, and not just NOK impacts

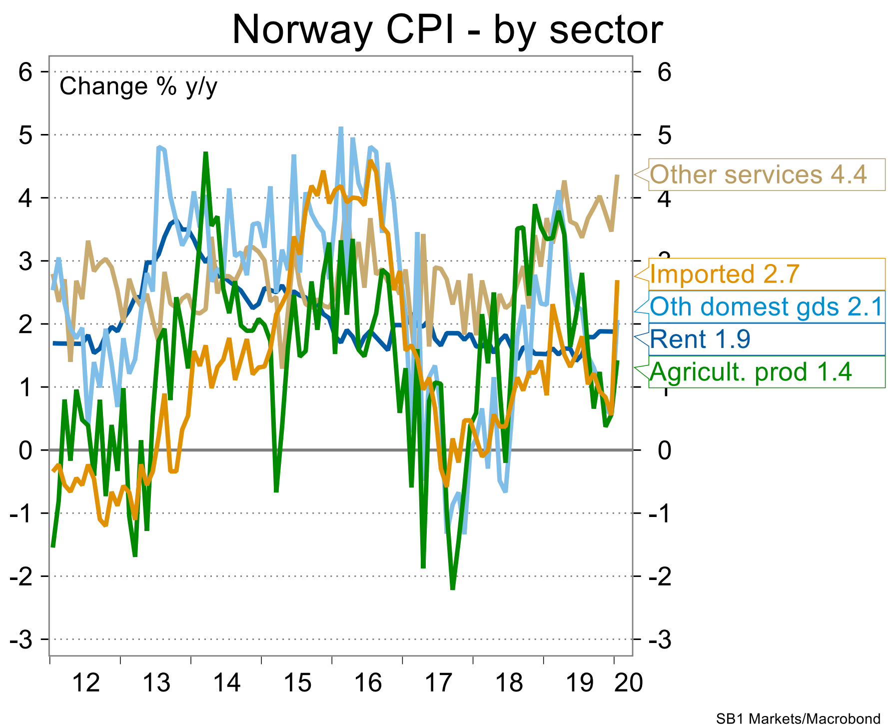
Core CPI soared 1.2% m/m, the fastest speed in more than 30 years, annual rate up 1.1 pp to 2.9%

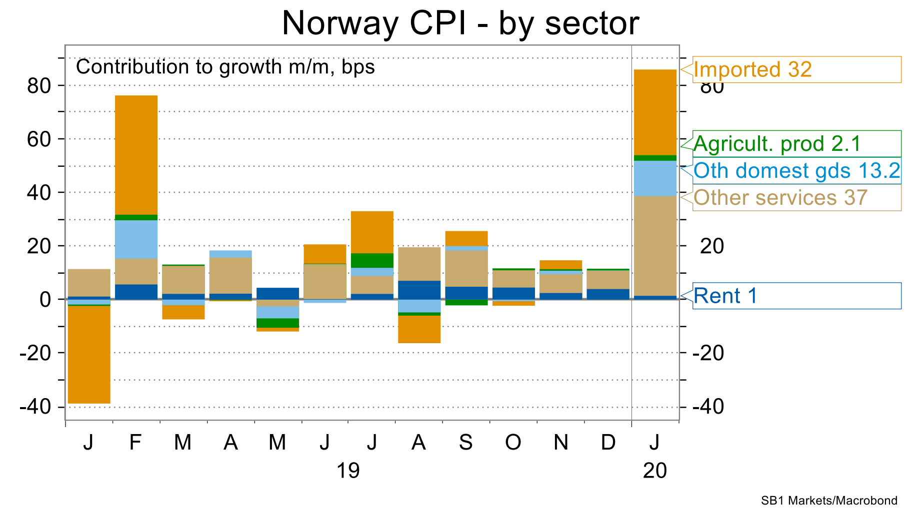


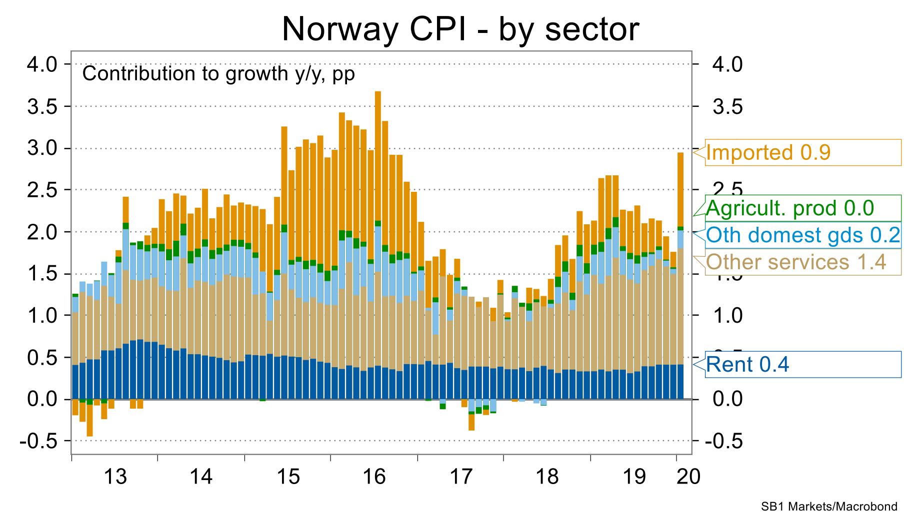
- CPI-ATE (ex. energy and taxes) soared 2.9% y/y in January, up from 1.8% in Dec, and the highest since 2016. We expected 1.9%, consensus 2.0% and Norges Bank 2.2% back in December
  - » CPI-ATE soared 1.2% m/m seasonally adjusted, an absurdly high growth rate, which have not been seen since the 1980s. We expect a substantial reversal the coming months, yet core inflation will most likely remain higher than predicted
  - » A broad upswing; prices on furniture and household equipment, food, culture and airline tickets all rose more than we expected
  - » Imported goods prices rose 0.8% and the annual rate jumped to 2.7% from 0.6% in Dec (we expected 1.6%). There are probably a 'delayed' impacts from past NOK depreciation as importers finally passed on higher prices to the consumer level. However, 'domestic' goods/services rose 1.3% m/m, and contributed to most of the lift in inflation!
  - » No sector reports inflation below the 2% price target!
- Total CPI growth increased to 1.8%, up 0.4 pp. Total inflation is dragged down by electricity prices, which are down 23% y/y
- **Implications**
  - » We doubt that the January surge will be fully reversed the coming months (we expect 2.3% y/y in Feb), and Norges Bank will probably have to nudge up it's inflation f'cast. Moreover, higher inflation than projected will add pressure to the wage negotiations this spring and will increase the probability of a NoBa 2020 hike. However, other factors, such as lower interest rates abroad and a somewhat faster Norwegian growth slowdown than expected will drag the interest rate path down. We highly doubt the bank will deliver a hike this year
    - NOK appreciated some 0.4% vs EUR shortly after the release

Broad price increases, not just imported goods

Domestic goods accelerated too, and services were the major contributor m/m



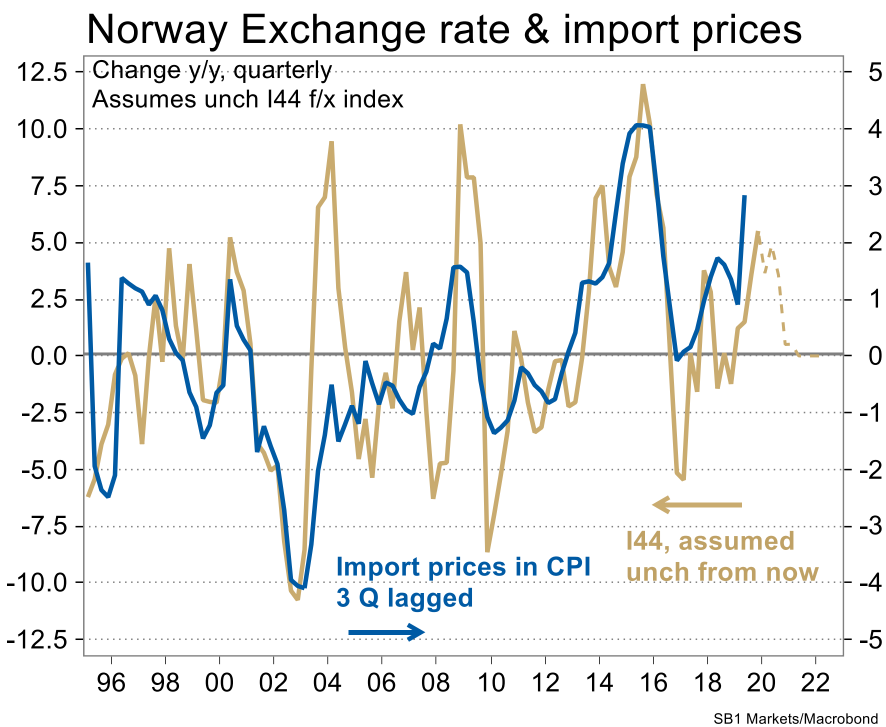


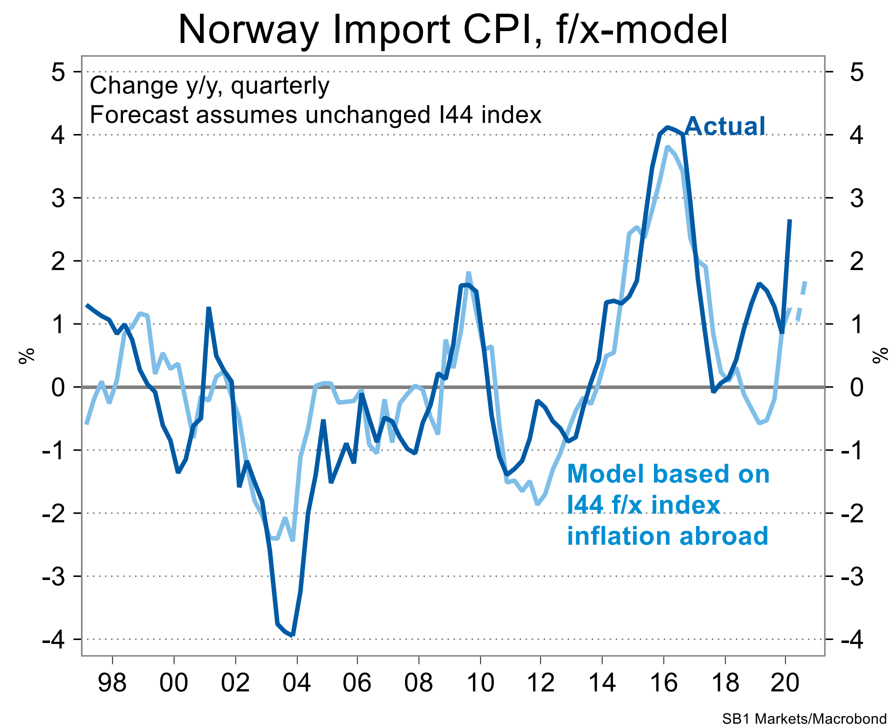


- Imported inflation surged to 2.7%, a 2.1 pp lift. More than half of the increase may be attributed to base effects, while the rest is due to a 0.8% price hike m/m in Jan. Some is probably transitory, while some may be to due to lagged impacts of the NOK depreciation (see the following pages)
- However, domestically produced goods/services prices rose 1.3% m/m, and 3.0% from 2.4% y/y. Services x rent (restaurants, personal care, insurance etc) are up 4.4% y/y, up 0.9 pp from Dec, and the highest growth since 2008. Non-agricultural domestic goods accelerated to a 2.1% pace, from 0.6%, with contribution from many subcomponents. The NOK may have pushed up domestic prices indirectly, through higher input costs.

Imported prices: Limited upside risk vs total inflation

Imported inflation has been a tad higher than our model have suggested – and is too high now

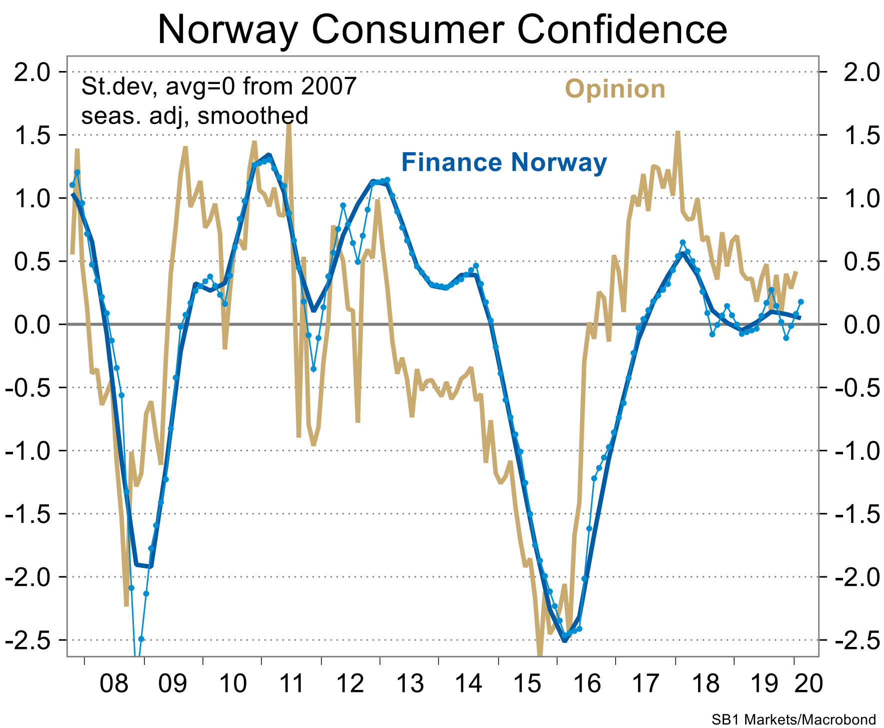


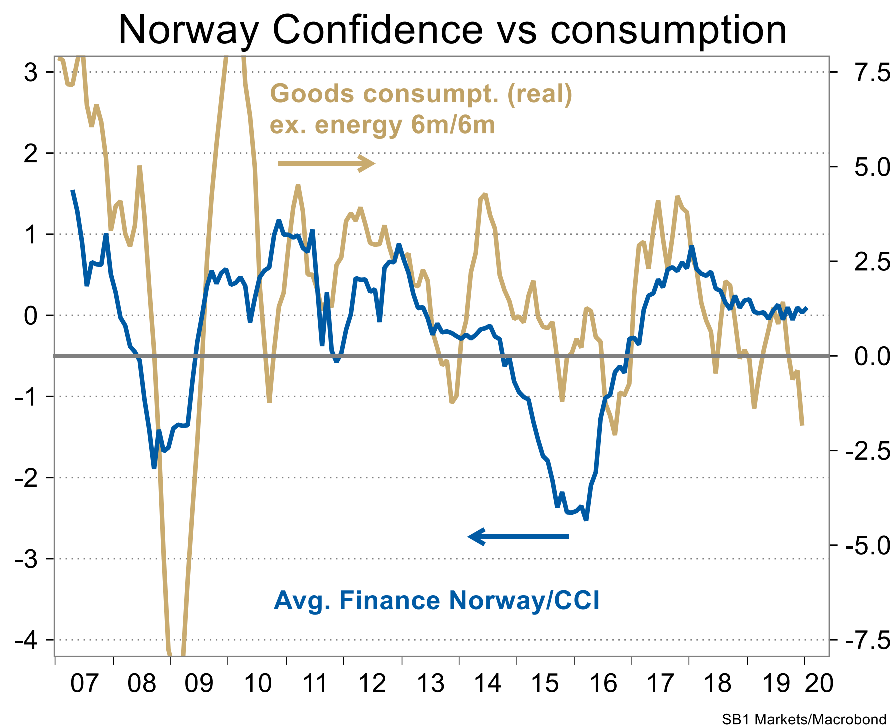


- Importers, particularly in retail sectors, have been reporting substantial difficulties passing on higher prices on imported goods due to the weak NOK on to consumer prices. Soft demand and tough competition are no doubt squeezing margins. Most likely, many businesses have sustained from adjusting prices.
- Even so, imported goods inflation has been a tad higher than signalled by our model (at least until Q4 last year), and it signals lower inflation the coming months than in Jan

Consumer sentiment picked up in Q1, view on the own economy at 5 ½ high

Finance Norway's CCI has stabilized, as Opinion's, do not signal a consumption setback





- Finance Norway's quarterly consumer confidence index rose to 15.8 p in Q1, (seasonally adjusted), up from 12.4 in Q4. (The smoothed index (trend adjusted by the source) came down marginally, to 0.05 st.dev above the avg level since 2007, which was reported in media)
- Confidence in the Norwegian economy improved, probably supported by easing trade tensions, Brexit, and the stock market (until recently) but remains soft. The assessment of the personal economy climbed, consumers note that rising real wages and strong labour markets are boosting confidence
  - » Opinion's monthly CCI has stabilized the past few months, after a steep decline through 2018 and early 2019
- The avg. of the two surveys has stabilised since early 2019, at a decent level, and do not point to an abrupt slowdown in consumption, such as actual consumption/retail data have showed recent months. Any acceleration is unlikely, but a soft recovery should be within reach
  - » Still slower growth in nominal and real income than 'usual', low population growth may explain some of this gap, the 'new normal' is lower than before

The Calendar

In focus: First February PMIs, China interest rate, US housing, Norwegian oil & gas investment survey

Time	Country	Indicator	Period	Forecast	Prior
Monday Feb 17					
08:00	NO	Trade Balance NOK	Jan	--	25.6b
Tuesday Feb 18					
06:00	SW	House Prices, Valuegard			
09:30	SW	Unemployment Rate LFS	Jan	7.0%	6.6%
10:30	UK	Average Weekly Earnings	Dec	3.0%	3.2%
10:30	UK	Unemployment Rate	Dec	3.8%	3.8%
11:00	GE	ZEW Survey Expectations	Feb	20.2	26.7
14:30	US	Empire Manufacturing	Feb	5	4.8
16:00	US	NAHB Housing Market Index	Feb	75	75
Wednesday Feb 19					
00:50	JN	Core Machine Orders MoM	Dec	-8.9%	18.0%
08:00	NO	Unfilled Vacancies, Rate	4Q		2.3%
09:30	SW	CPIF Excl. Energy YoY	Jan	1.9%	1.7%
10:30	UK	CPI Core YoY	Jan	1.5%	1.4%
14:30	US	Building Permits	Jan	1450k	1416k
14:30	US	Housing Starts	Jan	1450k	1608k
14:30	US	PPI Ex Food and Energy MoM	Jan	0.2%	0.1%
20:00	US	FOMC Meeting Minutes	Jan-29		
Thursday Feb 20					
02:30	CH	5-Year Loan Prime Rate	Feb	4.75%	4.80%
02:30	CH	1-Year Loan Prime Rate	Feb	4.05%	4.15%
08:00	NO	Oil & Gas Investments 2020 f'cast	Q1	(186)	183 bn
08:00	NO	Manufacturing Investments, 2020	Q1	-13%	-8%
10:00	NO	Norges Bank Expectations Survey	Q1		
10:30	UK	Retail Sales Core MoM	Jan	0.9%	-0.8%
12:00	UK	CBI Trends Total Orders	Feb	-19	-22
14:30	US	Philadelphia Fed Business Outlook	Feb	10	17
14:30	US	Initial Jobless Claims	Feb-15	212k	205k
16:00	US	Leading Index	Jan	0.4%	-0.3%
16:00	EC	Consumer Confidence	Feb A	-8	-8.1
Friday Feb 21					
00:30	JN	CPI Core YoY	Jan	0.8%	0.9%
01:30	JN	PMI Composite	Feb P	--	50.1
05:30	JN	All Industry Activity Index MoM	Dec	0.3%	0.9%
10:00	EC	Eurozone Composite PMI	Feb P	51	51.3
10:30	UK	Composite PMI	Feb P	52.8	53.3
15:45	US	Markit Composite PMI	Feb P	--	53.3
16:00	US	Existing Home Sales	Jan	5.48m	5.54m

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

- **Preliminary February PMIs**
  - » **Some February PMIs** will probably influence by the coronavirus outbreak, and not just the Chinese surveys. The PMIs may provide signals on the potential short-term growth impacts of the virus but will be rather useless for assessing the underlying growth momentum. US, EMU, UK & Jp will report early Feb data at Friday
- **China**
  - » **The People's Bank of China** is expected to deliver cuts to the lending rates to support the economy amid coronavirus headwinds
- **US**
  - » **Housing starts/permits** are heading steeply up, so is the Homebuilders' confidence index, confirming strong demand for housing. **Existing home sales** are trending up but pending sales dropped surprisingly in Dec and a downturn in actual sales is likely
  - » **Fed meeting minutes** will probably confirm the Fed's patient stance, we do not expect any new signals vs Powell's comments at the press conf.
  - » **Core producer price inflation** is slowing and declining energy prices will most likely drag total PPI inflation down, again
  - » **The leading index** dropped in Dec, the ISM, jobless claims probably lifted the index in January
- **Norway**
  - » Unless the oil companies lift their 2020 investment estimate in **the Q1 oil & gas investment survey** substantially (more than our f'cast), oil investments will not increase in 2020 vs the Q4 level. We doubt the first 2021 estimates will indicate any upturn either. Our f'cast is NOK 186 bn for 2020 (+3 bn from the Nov est, +1% vs. the 2019 outcome but we expect more projects to be added later this year), and 160 bn for the first 2021 est. (+1% vs the first '19 est)
  - » **Manufacturers** will probably nudge up their 2020 investments f'cast but investments will anyway decline steeply vs the 2019 level, as will **power supply** investments, barring unprecedented revisions of f'casts

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle is maturing, in the real economy, markets. The trade conflict has no doubt contributed to the slowdown, especially in the manufacturing sector. Unemployment is low, wage inflation is not low vs. productivity. Most emerging countries (EM) x China are in recovery mode, but have been slowing somewhat too. Some hotspots EMs will get burned, as usual – but there are fewer EM imbalances than normal. The global PMI has turned up. Barring policy mistakes, the global economy is not rigged for a *hard* downturn. Investment rates are not far too high, and there are few debt bubbles this time. **Growth has slowed to 3% from 4%, but has stabilized since Q3 2018. We expect a modest slowdown in 2020, corona will bring Q1 growth down**	Global composite PMI climbs further, to 52.2 in January, adding to signs of a modest growth revival into 2020 (well, before Corona, which no doubt will dampen Q1 growth). Manufacturing is slowly improving and services are growing moderately. PMI points to 3 ¼ to 3 ½ growth
China	Growth has slowed just marginally, and inched up through 2019, we do not expect a collapse in 2020 either, barring the (likely) short term impact of the coronavirus outbreak. Surveys and data are indicating a mild recovery, even without much extra policy stimulus, especially on the fiscal side. Exports to the US is down but total exports not. The invest/GDP ratio is sliding gradually down. Debt growth turned up in '19, and the authorities do not want to push the accelerator, barring longer term impact for the virus outbreak or a serious economic dip for other reasons. **De-escalation of the trade war is fine but the real risks are the high debt level & possible over- investments. + Some virus uncertainty, short term**	Chinese house price inflation is slowly picking up, supported by a (marginally) positive credit impulse. The POBC cut the one year medium term lending rate by 10 bps, to 3.15%
USA	Growth will most likely not accelerate in 2020, from the 2% speed since Q2. Unemployment is low, profits under pressure, and corporate debt is high. Business investments are above trend, and yielded in H2. Households are in a much better shape, the debt burden is sharply reduced, and the savings rate is 'high', but consumption is now slowing. The housing market seems balanced. Just a marginal fiscal stimulus in 2020 but the impact of 3 Fed cuts last year are not yet fully consumed. Price inflation is close to target, and the Fed can focus at the real economy. Recession risk is not overwhelming, short term, and further rate cuts are unlikely, barring a much weaker economy. **Risks: Trump/trade/business investments &debt, not household demand or debt**	Retail sales have almost stagnated the past months, growth is slowing rapidly. Still, consumer sentiment is high and rising. Core CPI inflation unchanged at 2.3%, total inflation ticked up to 2.5%. Manufacturing production has flattened out, no signs of pickup. The number of job openings has turned down
EMU	Growth will remain muted in 2020 but there are few signs of hard landing. The manufacturing downturn may be easing, at least that is what the surveys are indicating. The consumer side has been resilient. The labour market is tight, and labour cost infl. is back to a normal level. Investment ratios are above trend. Credit growth may be flattening out, as corporate demand slows. Household savings are high, still consumption has kept up well. Policy: ECB does not have that much ammunition left, barring a huge QE, and the ECB policy makers are split. Fiscal policy debate has turned, some stimulus possible. **Risks: Trade war, Italy, as always**	GDP growth even softer than first reported, and German GDP stalled in Q4. Surprisingly, employment growth rose. Industrial production plunged in Dec, all four main countries noted steep declines. Some holiday distortions but manufacturing is no doubt struggling.
Norway	Growth has been above trend, will slow substantially in 2020 (and did so in Q4). Unempl. has flattened out. Wage inflation is above 3%. Oil investments have probably peaked. Mainland business inv. are not low, will slow substantially in '20. Housing starts are falling. Core inflation is still close to target (at least until the Dec jump). Growth in households' debt has slowed to close to income growth. **Risks: Debt, housing. A harsh global setback**	Core CPI inflation jumped to 2.9% y/y and 1.2% m/m, an 'absurd' uplift. We expect a partial reversal in February. Consumer confidence improved in Q1, to just above the average level

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

In this report

Global + Auto sales

- Global macro data are beating expectations, lifted by China, the US
- Global industrial production and retail sales probably close to flat in Dec
- Coronavirus contagion is slowing down, death rates remain low
- Auto sales fell broadly in January, down 12% from 2018 peak

China

- House price inflation has been slowing, slightly stronger recently

USA

- Core inflation steady at 2.3% in January, probably at peak
- Manufacturing production stabilized but no signs of upswing
- Retail sales growth is subsiding into Q1
- Univ. of Michigan consumer sentiment another step up in Feb
- Small businesses' optimism steady at a high level, far above PMI/ISM
- Unfilled vacancies steeply down, is something brewing??
- Jobless claims steady at a very low level, no weakness spotted
- Weak retail sales cut into Q1 growth forecasts, 1.4 – 2.4%
- The federal budget deficit stable in Jan but is still trending out

EMU

- Q4 GDP growth even weaker than first reported
- German GDP stagnated in Q4, a tad weaker than expected
- Employment growth gained pace in Q4, indicating a drop in productivity
- Industrial production plunged in December, despite PMI upturn

UK

- GDP stagnated in Q4 as both household and business demand edged down

Japan

- What a VAT hit: GDP down 6.2% in Q4!

Sweden

- Registered unemployment another tick up in January

Norway

- Core inflation miles above any f'casts in Jan, broad and not just NOK impacts
- Imported inflation is accelerating but a partial reversal is likely
- Consumer sentiment picked up in Q1, view on the own economy at 5 ½ high

Highlights

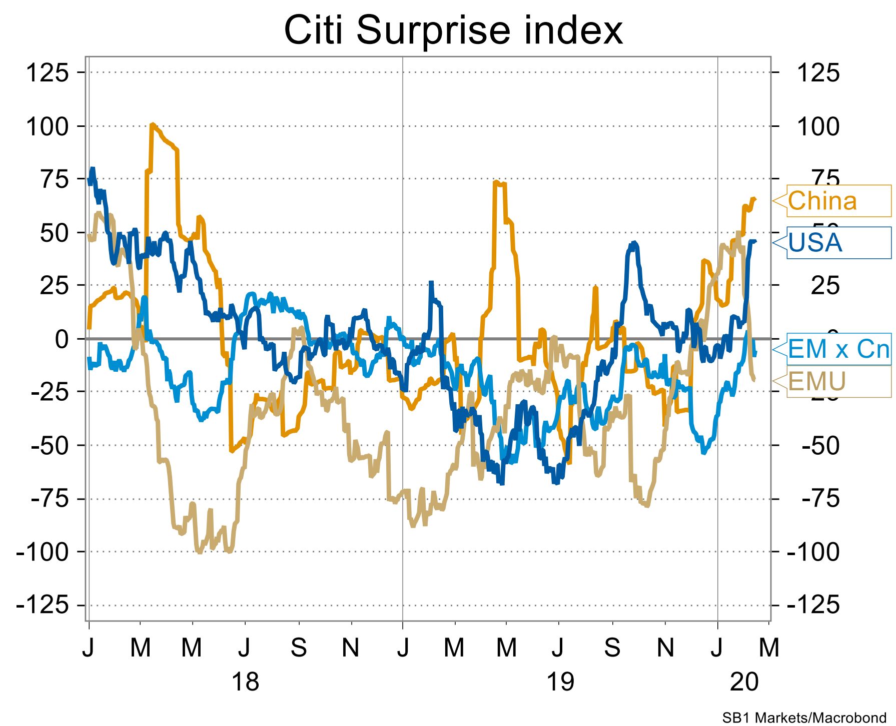
The world around us

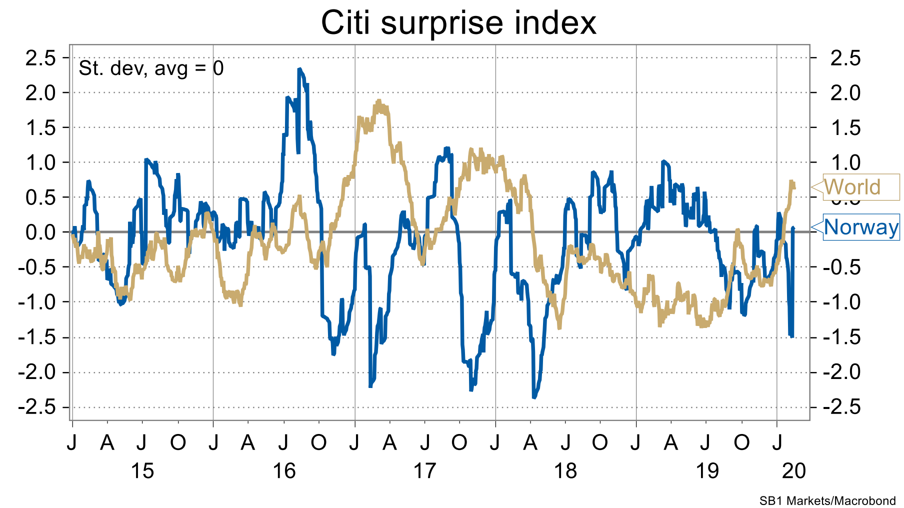
The Norwegian economy

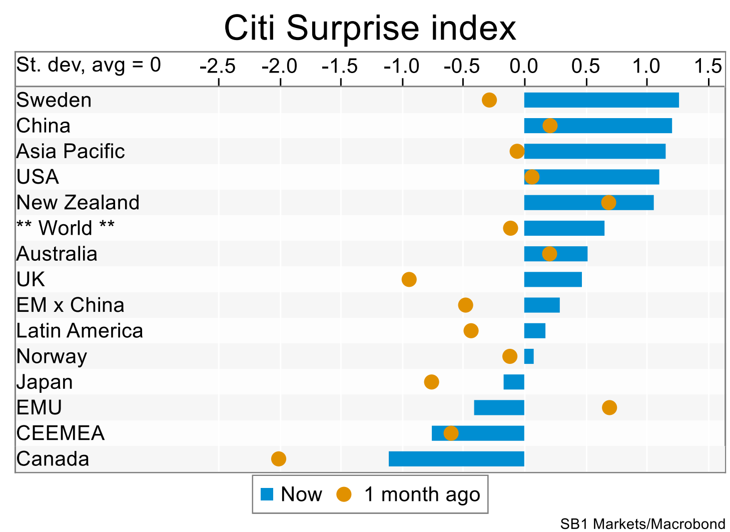
Market charts & comments

Global macro data are beating expectations, lifted by China, the US

News from the EMU are disappointing again – and Norway jumped on the CPI surprise





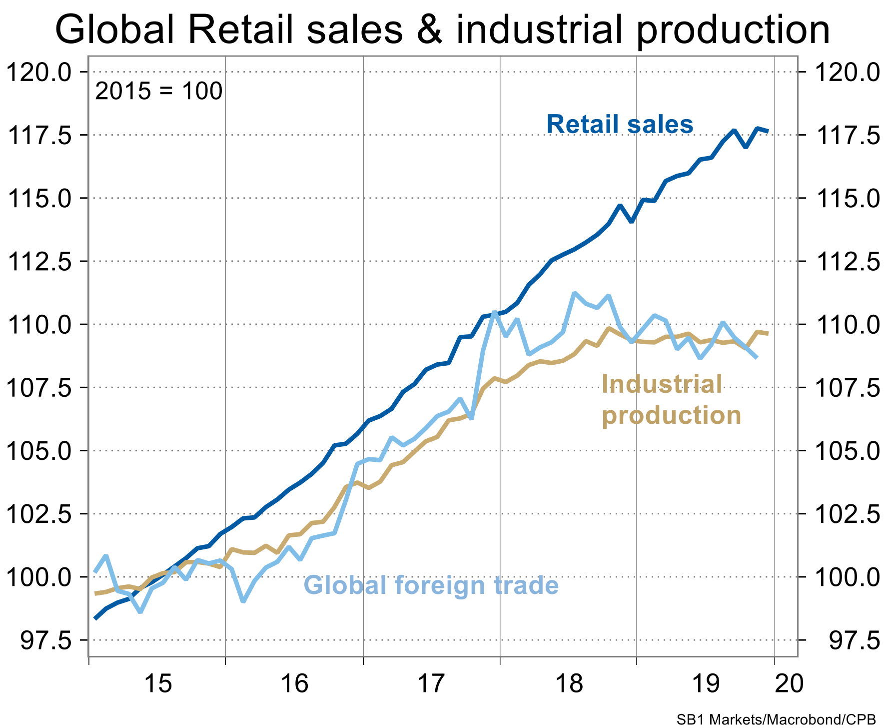


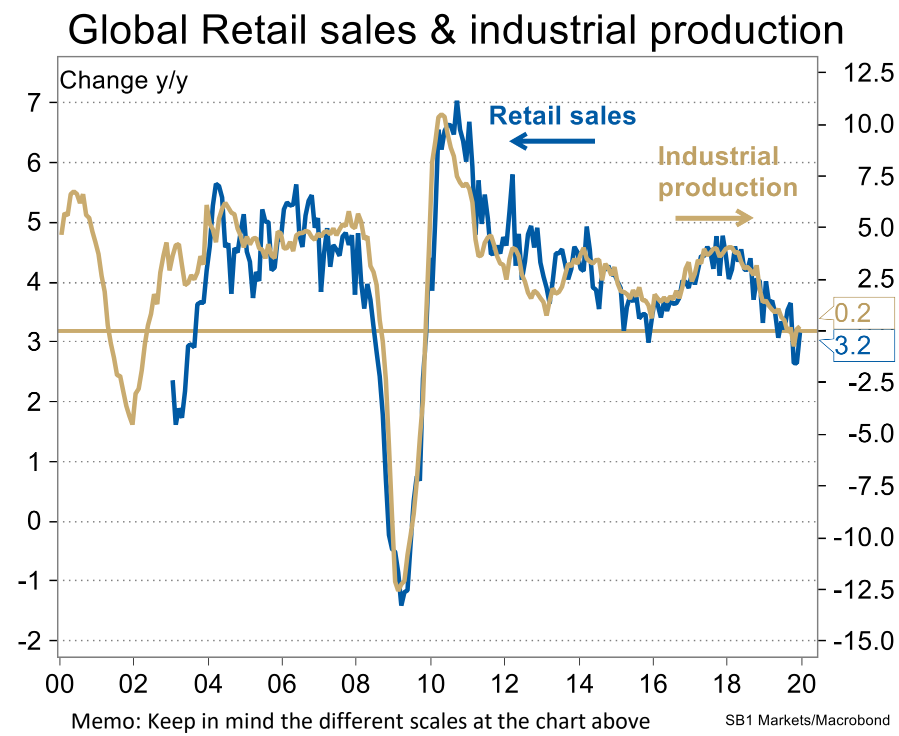
- Global macro data are in sum better than excepted and the global surprise index has climbed since mid-Dec. The current level is the highest since March 2018!
- Stronger than expected Dec/Q4 Chinese data, and most recently inflation, have lifted the Chinese surprise index. Other EM data are now close to neutral vs f'casts
- EMU has disappointed recently, on GDP, manufacturing & and retail sales data
- The US index straight up, with the manufacturing ISM and the labour market report as the major contributors, after hovering around a 'neutral' level since the autumn
- Norwegian data have been weaker than expected – until the surprising inflation jump caused a rapid rebound last week

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

Global industrial production and retail sales probably close to flat in Dec

Global trade has stabilized (as of Nov), industrial production recovering marginally, retail sales stalling



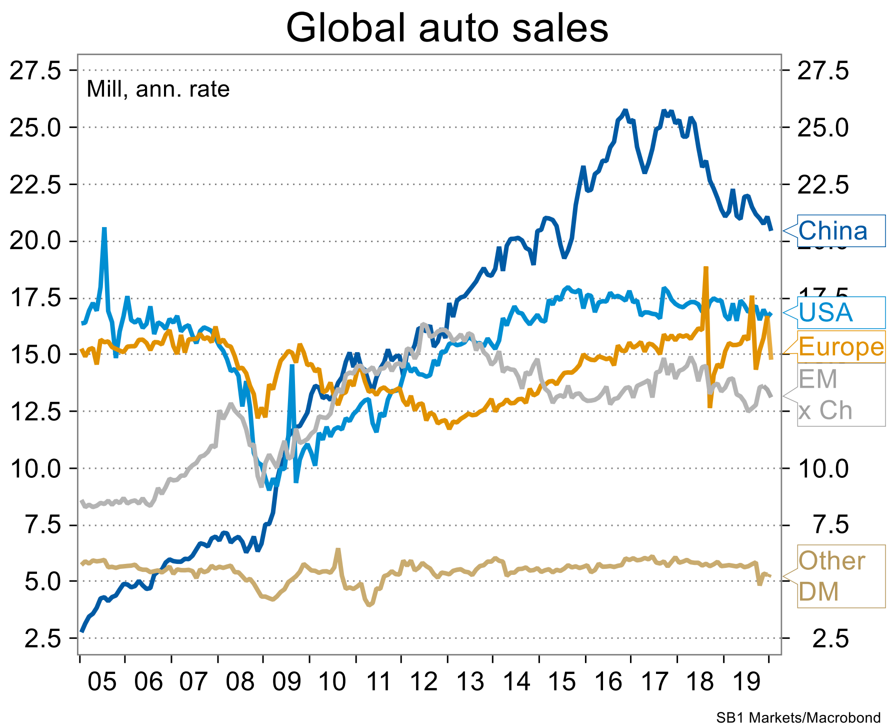


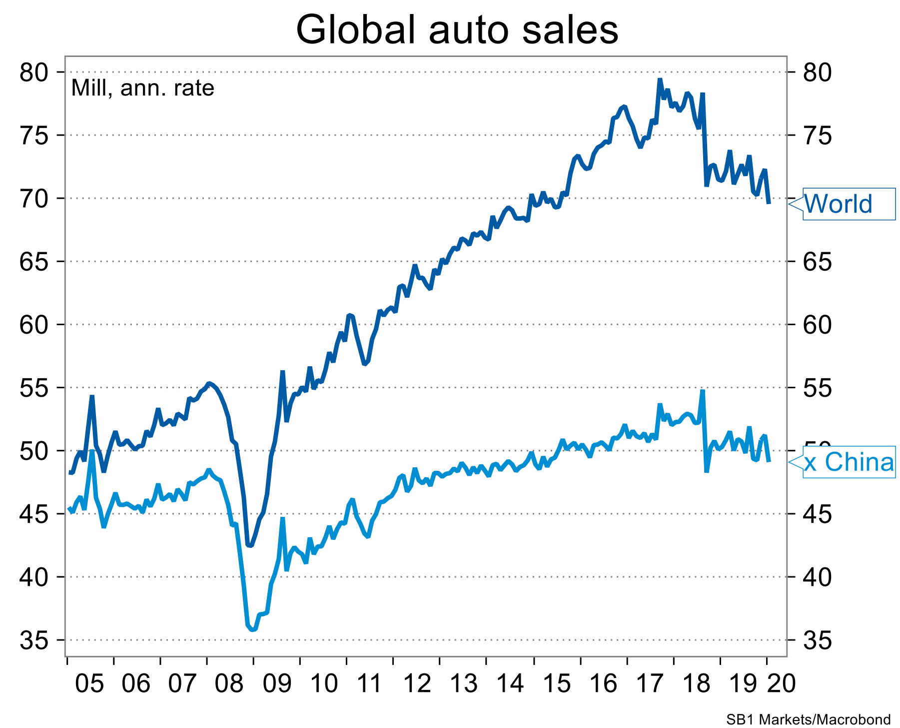
- **Global industrial production** probably inched down 0.1% m/m in December according to our estimate (which has been nudged down, chiefly due to weak EMU data), following a strong Nov. Production is back at the Nov-2018 peak level. The global manuf. PMI has recovered the past 6 months, now signalling a 1% growth pace
- **Retail sales** inched down 0.1% in Dec too (our est), following the 0.7% increase in Nov. The recent volatility is mostly due to the VAT hike in Japan, most other major countries are still heading up, at a slower pace. EMU sales data on the weak side in Dec
- **Global foreign trade** fell another 0.4% m/m in November, with our seasonal adjustment (down 0.6% unadjusted). Trade flows have been sliding slowly down since Q3 2018 and the annual rate is down 1% y/y, as is the (volatile) 3m/3m underlying growth rate

SpareBank 1 MARKETS

Auto sales fell broadly in Jan, down 11% from '18 peak – still trending down

Sales are sliding further down in China, US and Japan, EM x China a tad up, EMU probably flattish

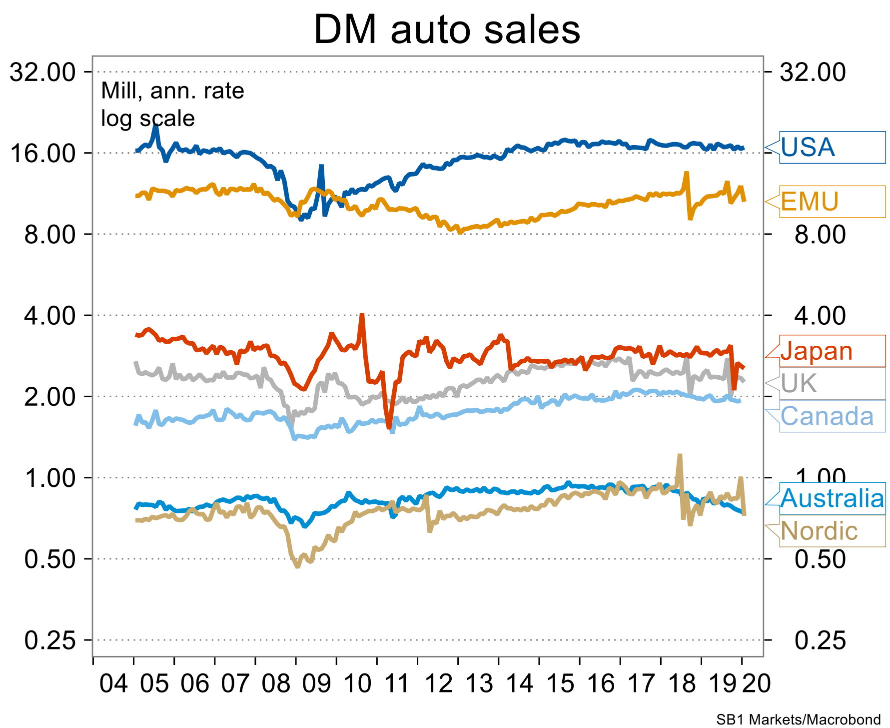


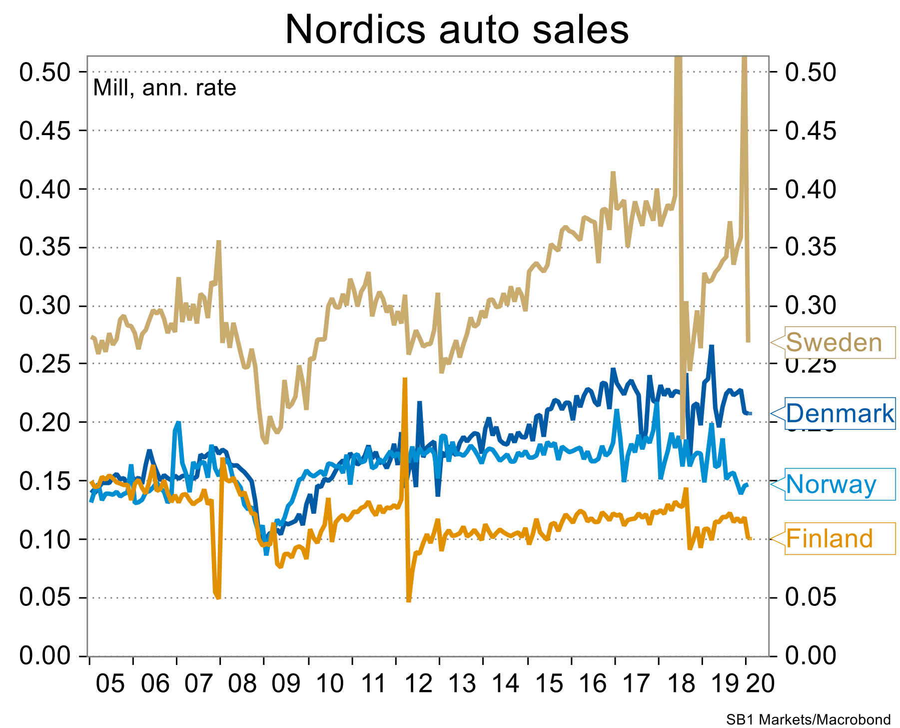


- Global sales fell by 4% m/m in January (our estimate) and are down 2.6% y/y. Sales have fallen 11% from the 2018 peak level
- Sales keep declining in China again after some indications of stabilisation in H1 last year. Sales are down 3% y/y. Sales fell 10% last year following the 4% decline in 2018. The decline in sales in China explains more than half of the reduction in global sales
- Sales in Europe have been zig-zagging due to emission regulations but slipped in January, probably on implementation of new regulations (again). The trend is anyway probably not better than flat. US sales are trending slowly down. Sales in Japan have recovered just partly, after plunging in October, due to the hike in the VAT rate. Sales are lower in the UK as well, as in the Scandics
- Auto sales in EM ex. China fell in January, after a strong recovery in late 2019, due to a pickup in Indian sales. Trend down

Auto sales are sliding down in most Developed Markets

Both the US, EMU, Japan and UK are heading down – and the Nordics

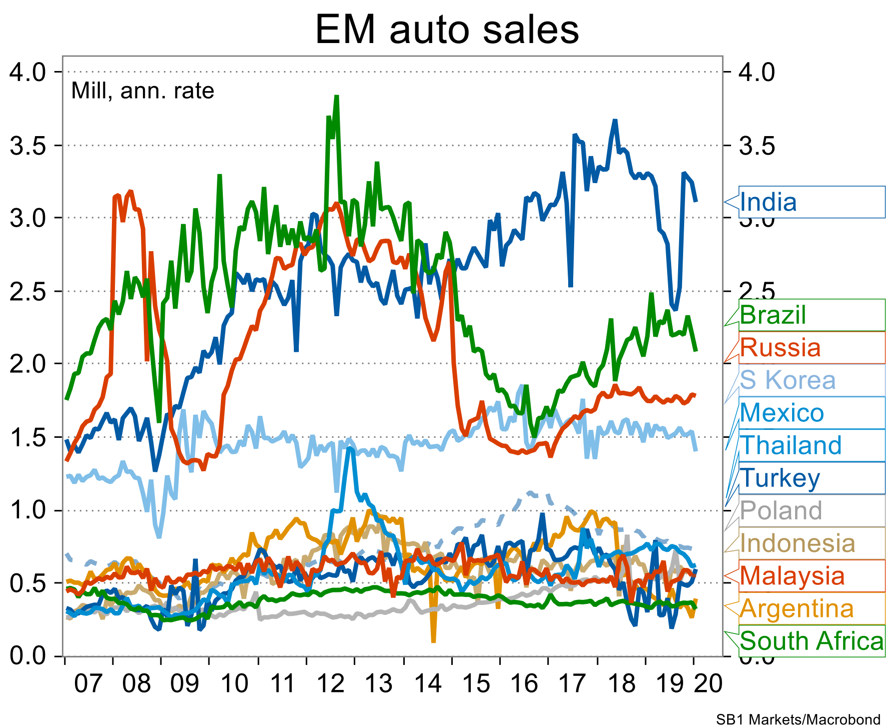


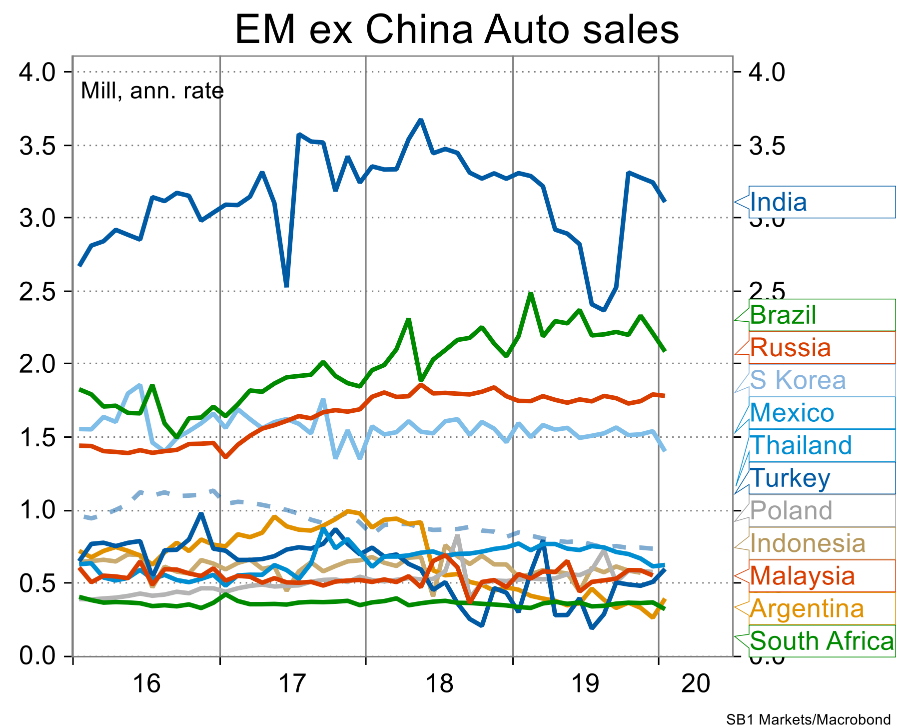


- Swedish auto sales have been hit hard by the new EU regulations, while the trend is uncertain

Indian auto sales just marginally down in Jan, after a strong recovery

EM x China sales probably declined in January but are still heading up since last summer

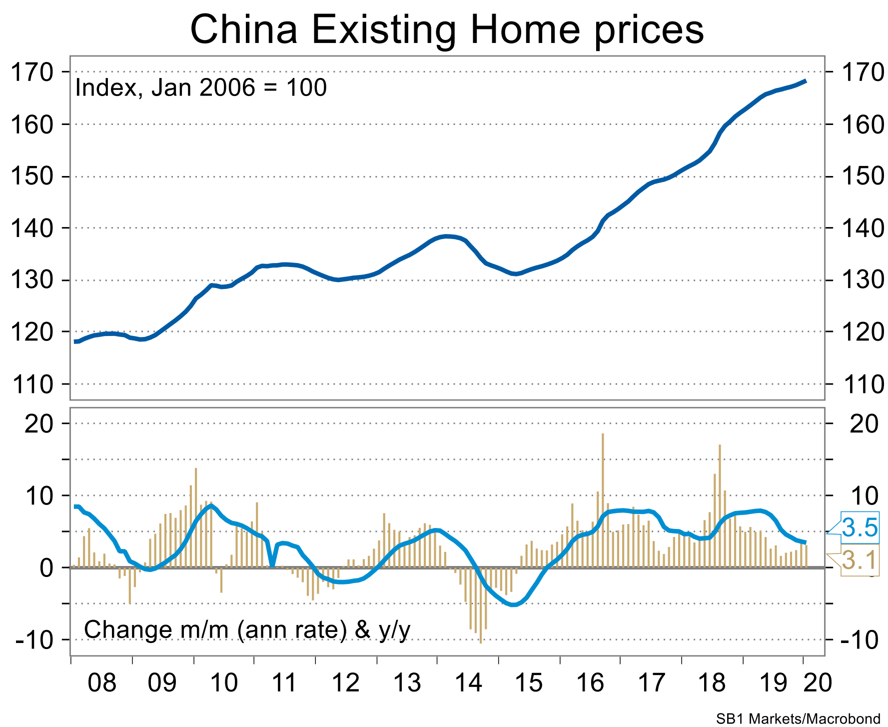


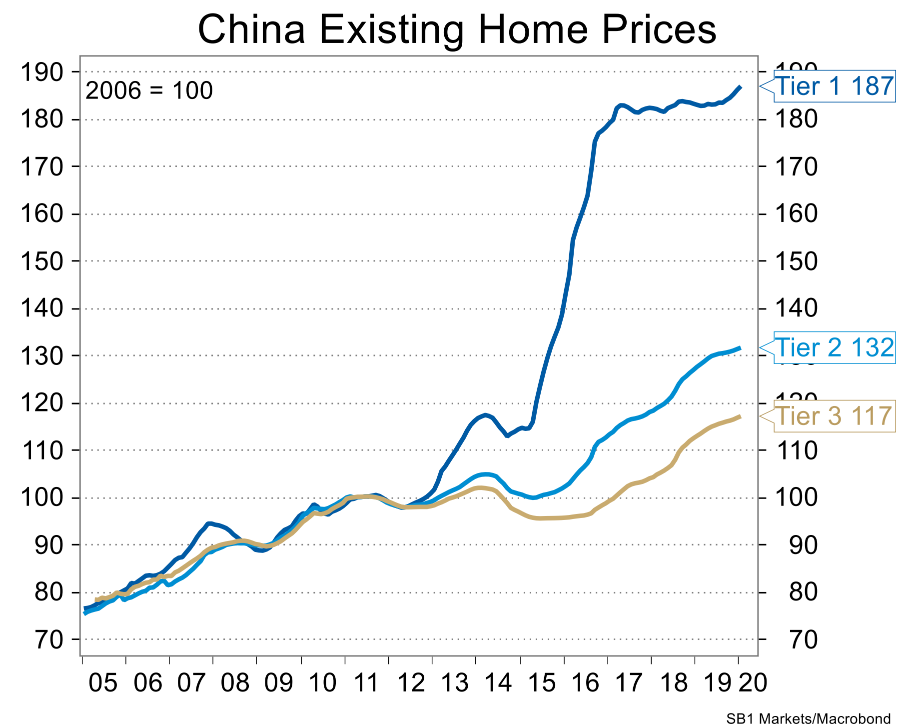


- Indian sales fell sharply until September last year – but recovered swiftly in Q4. Just a small decline in Dec & Jan
- Brazilian sales have turned marginally downwards, after stabilizing in 2018 and most of 2019
- Sales in Russia are still trending slowly down, as in Mexico. Sales fell in South Korea in January, trend probably still flat

House price inflation has been slowing, slightly stronger recently

Price growth down to 3.1% annualised in Jan but has recovered somewhat in H2

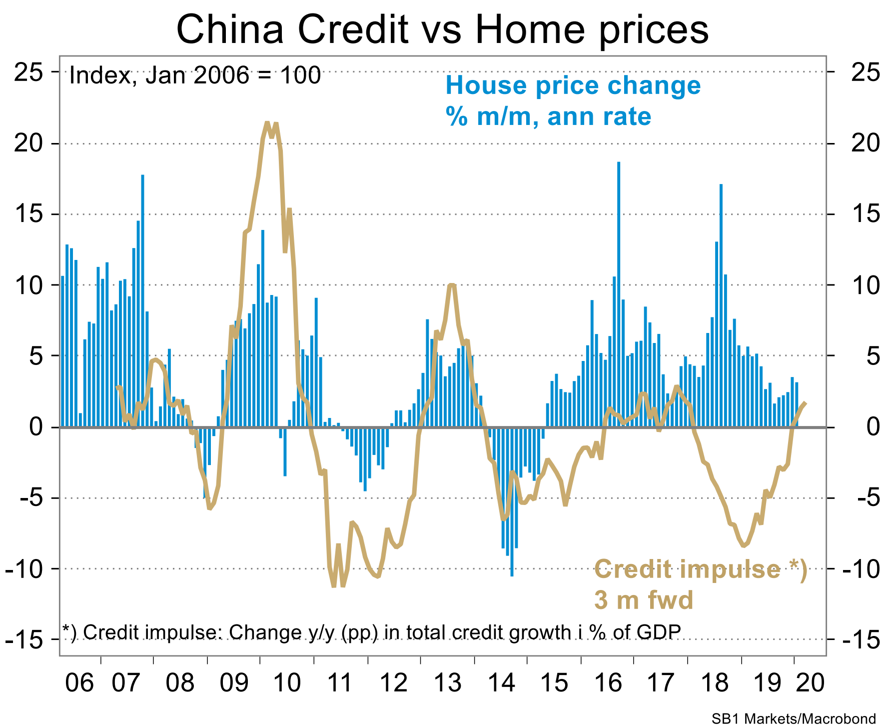


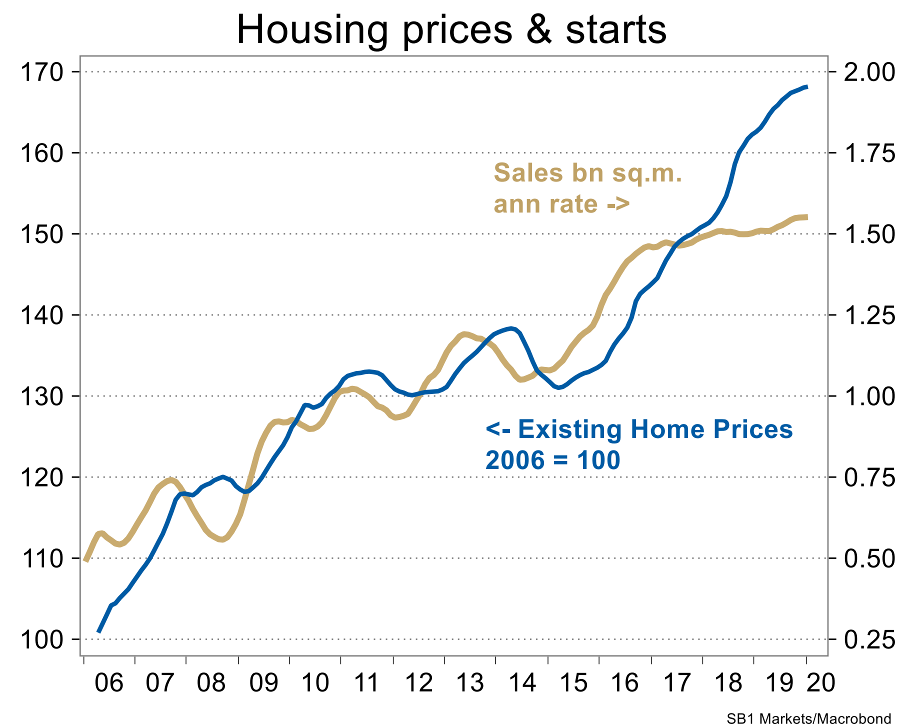


- The annual growth rate fell by 0.1 pp 3.5% in Jan. Prices rose less than 0.3% m/m, or 3.1% in annualised rate, down from 3.5% in Dec (which was the strongest in 7 months. Growth has slowed gradually since mid-2018 until a minor recovery through H2. <u>Home sales have slowed to a trickle during the COVID-19 outbreak, and did not recover last week. Prices may be hit too.</u>
  - » Prices in the four tier 1 cites have accelerated recent months, after remaining flat since early 2017 (following a 60% lift prior 2 years), prices in the 'smaller' cities are still on the way up, but at a slower pace than in early 2019
  - » SouFun reported an uptick to 5.1% in the m/m annualized rate in December, confirming that price growth may have turned up
- The credit (impulse) contraction in 2017 and into 2018 was most likely the main reason for the mild downshift in late 2018. Now, the authorities are stimulating lending – and the credit impulse is turned marginally positive, probably boosting price inflation

Credit impulse slightly positive, should (partially) support house prices

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

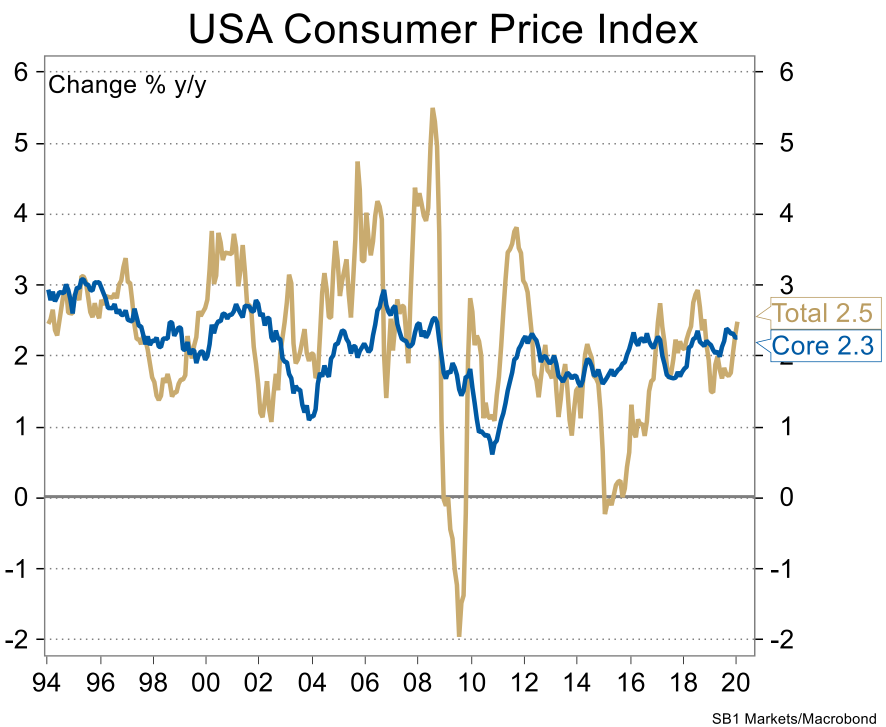


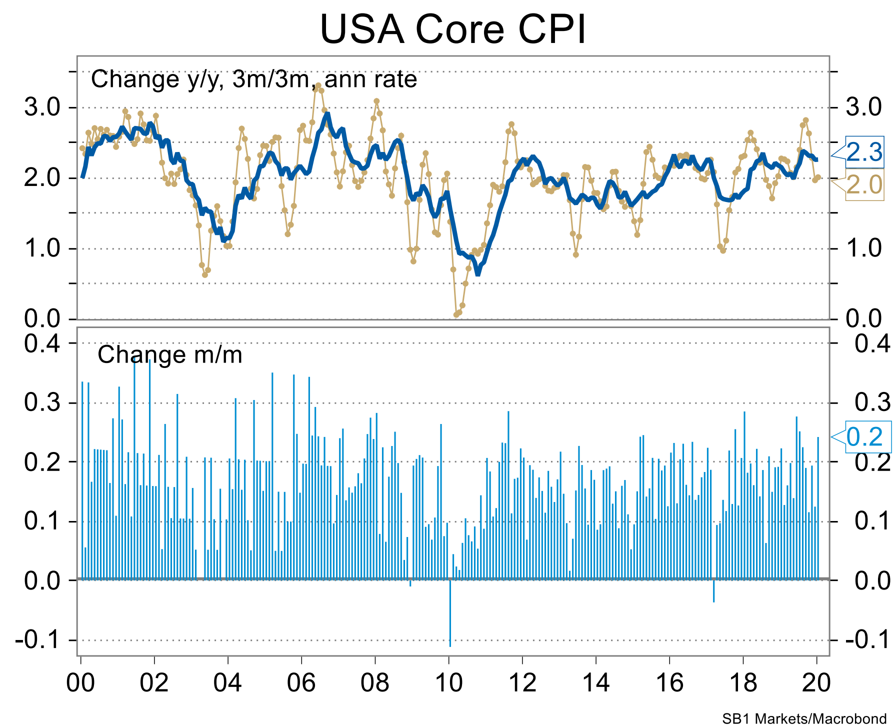


- Through 2018, house prices kept up surprisingly well, given the negative credit impulse
  - » That has been the case with new homes sales too – and sales are still trending slowly up
- Now, the authorities are pushing the credit accelerator – and they may succeed, as many times before, at least the credit impulse have turned marginally positive. At least if we look away from the (hopefully) temporary COVID-19 impacts
- New home sales have been moving upwards until now, normally a sign of higher existing house prices

Core inflation steady at 2.3% in January, probably at peak

Core CPI rose 0.2% m/m and the annual rate 0.1 pp above f'casts. Total inflation up to 2.5%

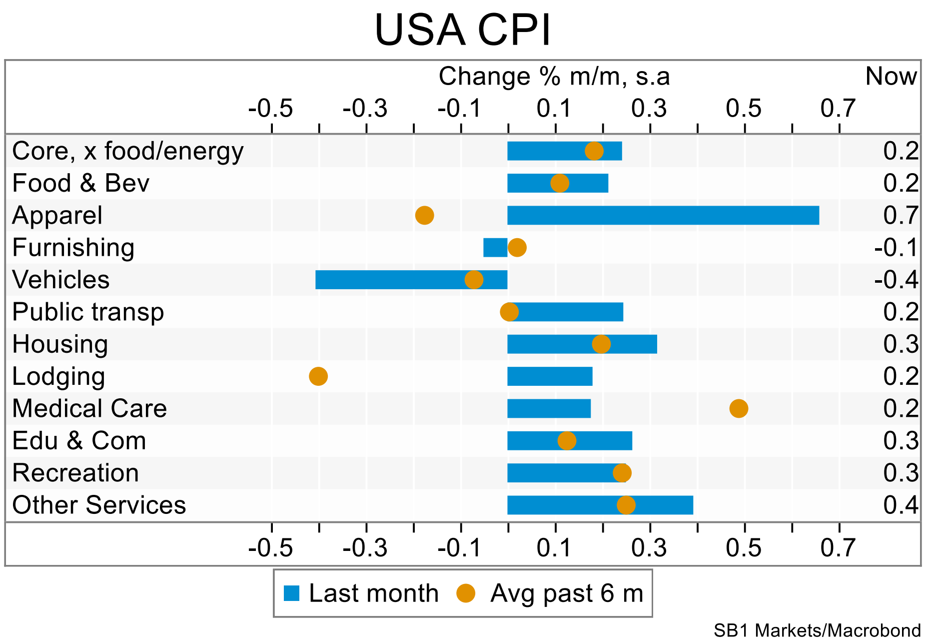


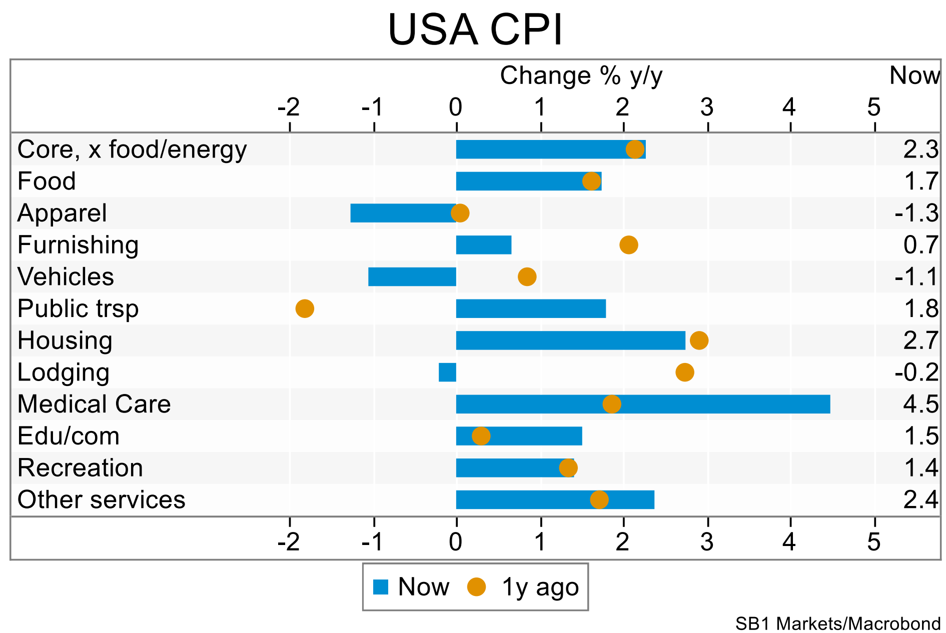


- Core CPI increased by 0.2% m/m, as expected. The annual rate held steady at 2.3%, expected down 2.2%. The underlying speed was steady at 2.0%, and does not indicate much higher annual rates. Moreover, producer prices and inflation models indicate that inflation may be peaking now. But it is not 'too' low, at least according to the core CPI index
  - » Fed preferred price measure, the core PCE (the consumption deflator) is up 'just' 1.6% (in Dec), below Fed's 2% price target
- Headline inflation edged up to 2.5%, a 0.2 pp increase and 0.1 pp above expectations. Prices rose just 0.1% m/m (but they fell marginally in January last year, bringing the annual rate up). Total CPI inflation has been brought up by slowly rising energy prices, the upward pressure is probably easing as energy prices have fallen

Vehicles and apparel prices are pulling annual inflation down

In January, prises rose in most sectors, while vehicles continued to slide down (and furnishing)

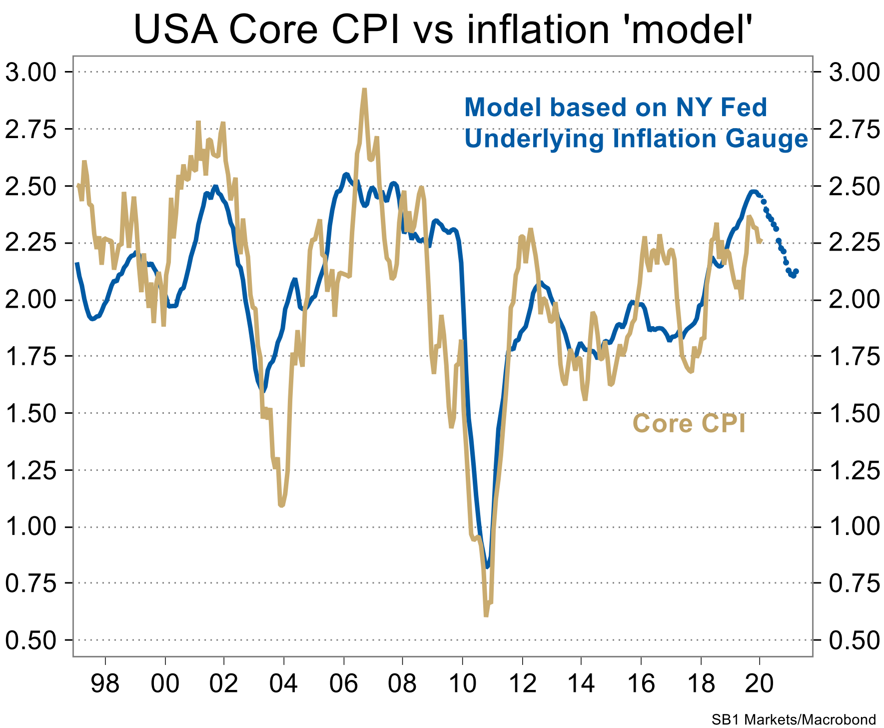


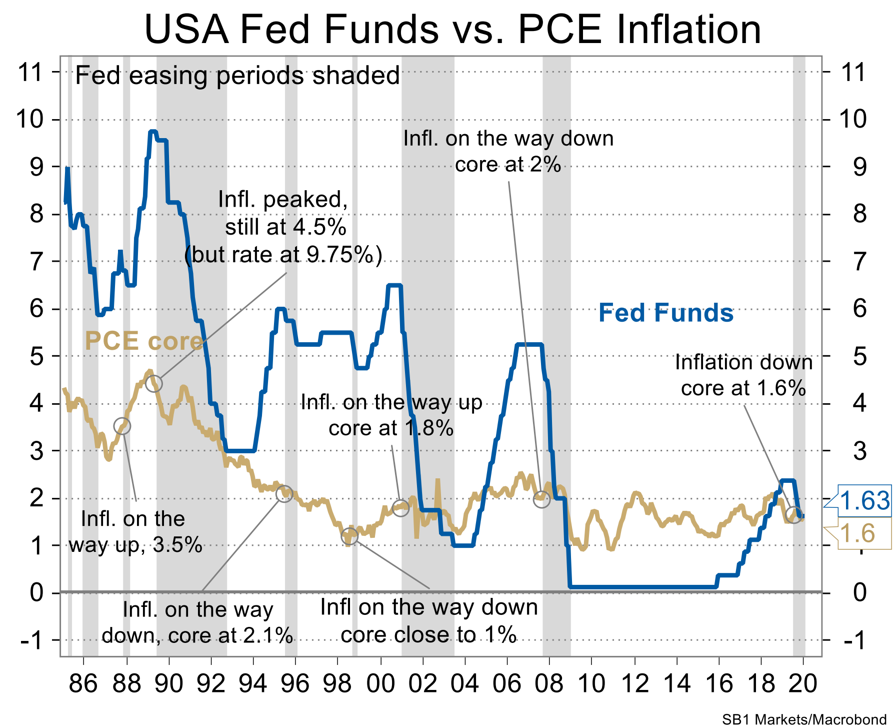


- Prices are increasing faster than one year ago in 4 of 12 sectors, flattish in 4 and slowing or declining in 4 sectors
- Higher prices on medical care and housing (rents & services) are boosting annual inflation

NY Fed's inflation model suggests that inflation is at peak

The model signals 2.5% inflation now – and a slowdown the coming months



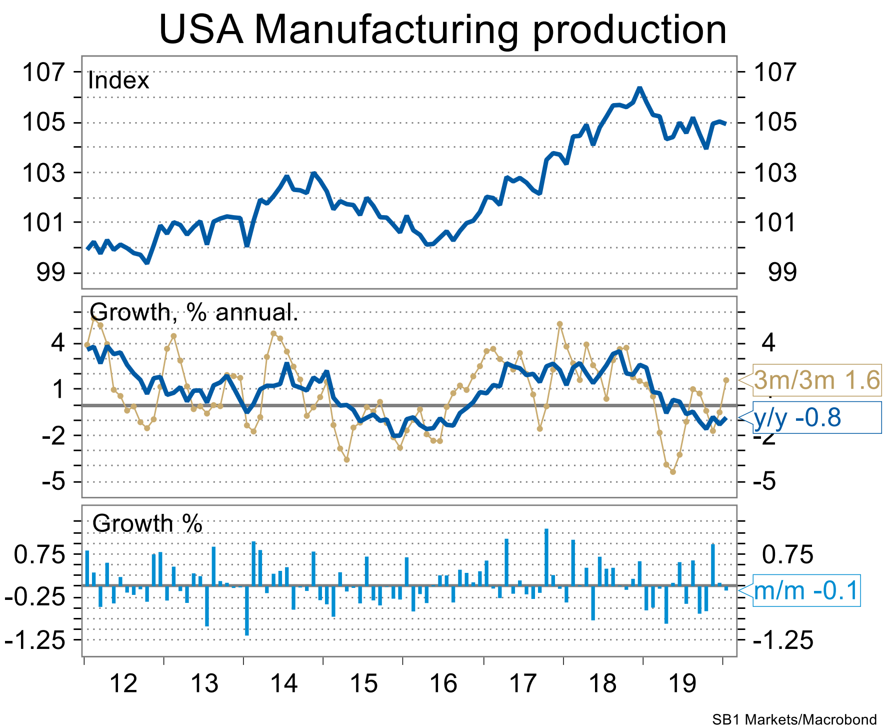


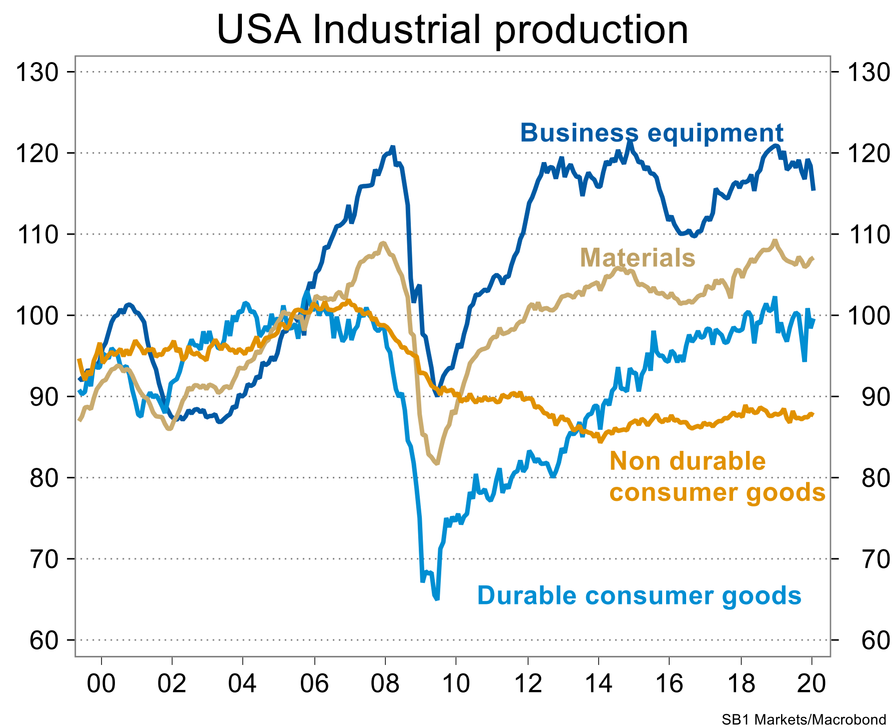
- The NY Fed's Underlying Inflation Gauge model includes a wide range of macroeconomic and financial components in addition to some CPI components. The UIG model leads the actual inflation rate by some 15 – 20 months. The model now signals somewhat lower inflation than it did some months ago, and does no indicate much higher inflation than today
- The personal consumption expenditure price deflator (PCE deflator) is the Fed's preferred inflation measure, not the CPI. The core PCE (ex food, energy) was up 1.6% y/y in Dec, below Feds inflation target at 2%
- Fed's actual rate setting has not been well explained by actual inflation during the past two decades. Wage inflation is a far better indicator. PCE inflation below target has been one of the arguments for interest rate cuts. The economy – taking care of the 'dual mandate', full employment – will anyway decide Feds action from here, more than inflation (as almost always, BTW)

SpareBank 1 MARKETS

Manufacturing production has stabilized, but no signs of upswing

Production ticked down 0.1% in January as expected, trend still no more than flat

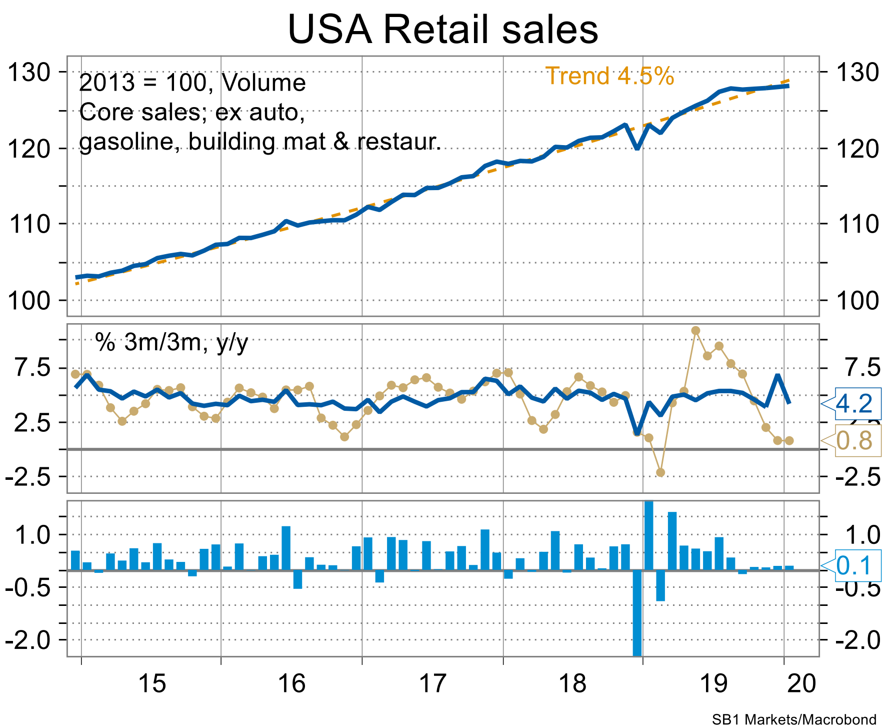


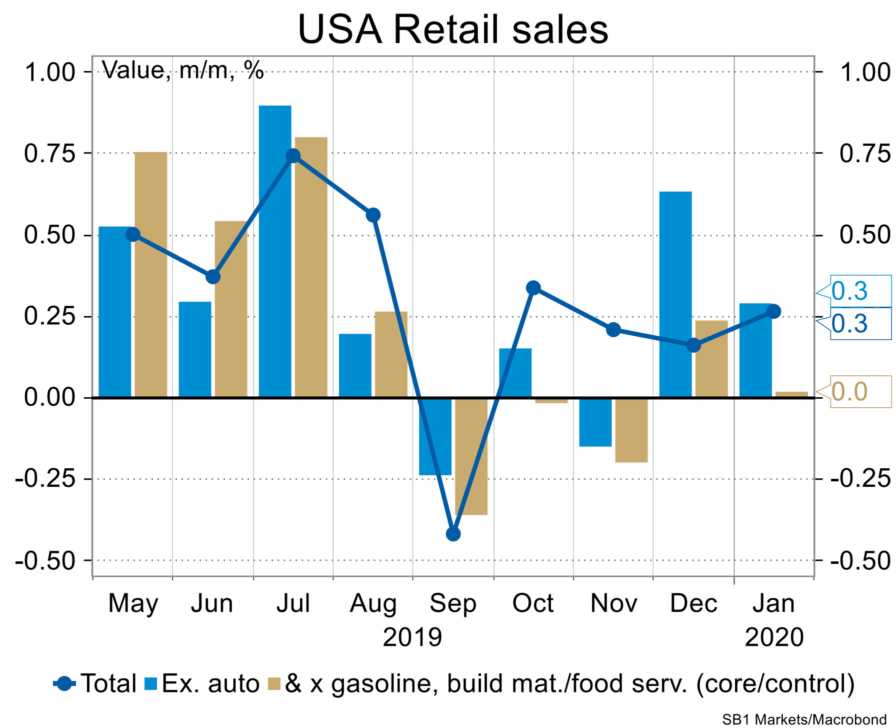


- Manufacturing production fell 0.1% m/m in Jan, in line with expectations. The underlying speed has turned up to 1.6% but the trend is not more than flat, since last spring, and the annual rate is -0.8%
  - » Total industrial production including energy & mining fell 0.3% m/m
  - » Production has slowed in most sectors, most rapidly in business equipment & materials
- Manufacturing surveys have improved but the avg of surveys is still not signalling growth in production

Retail sales have flattened, slow growth into Q1

Core sales stagnated m/m in value terms, and December revised down 0.3 pp, a GDP revision is likely

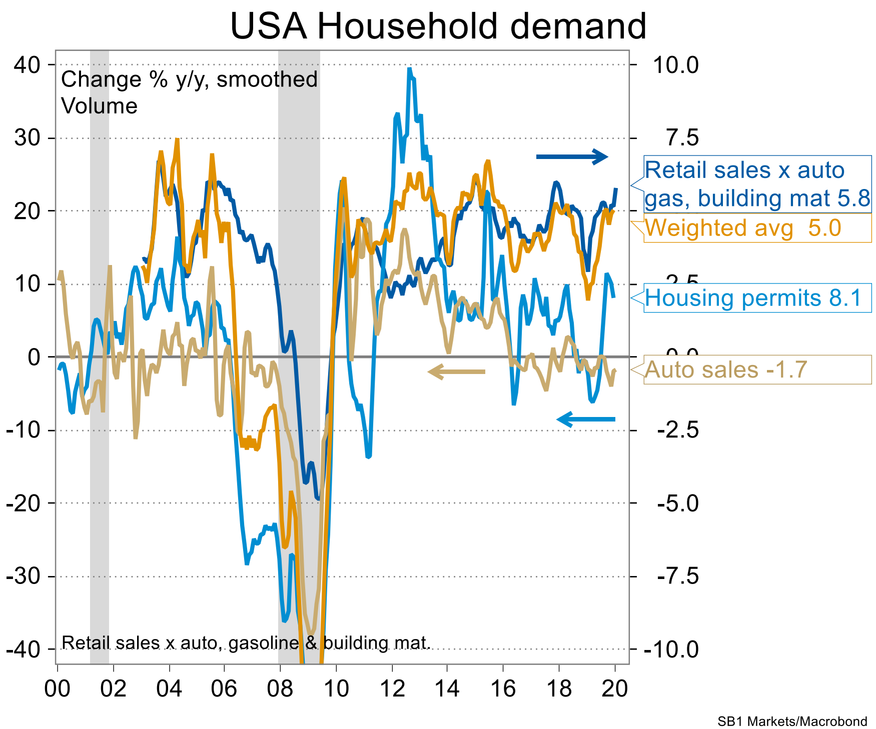


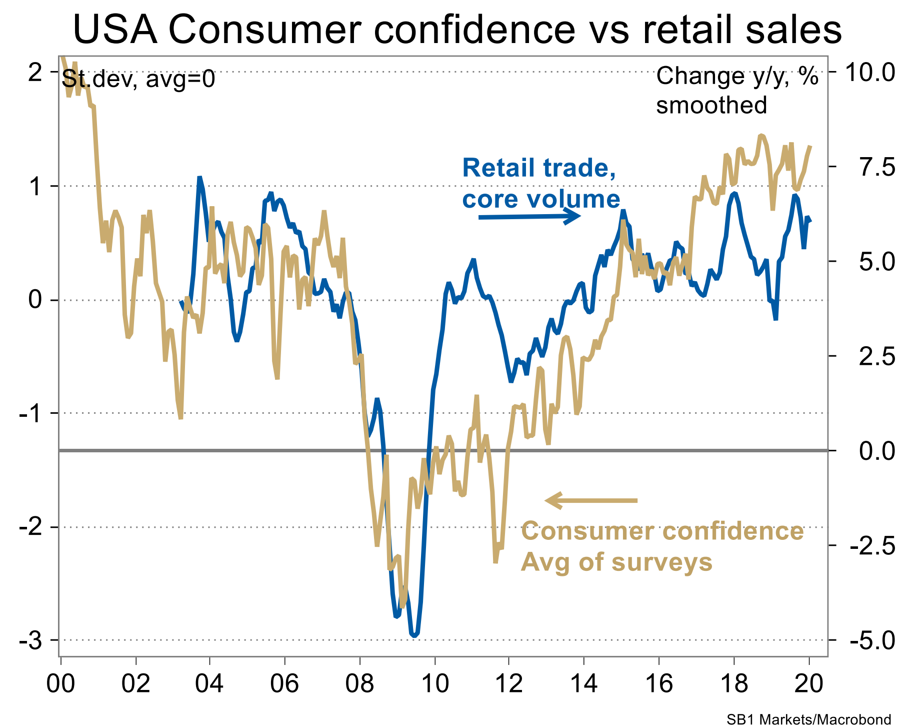


- Core retail sales (ex. auto, gas, building materials & restaurants; control group) failed to expand nominally in December, a 0.3% m/m increase was expected. Moreover, December was revised down by 0.3 pp to a 0.2% speed
  - » Total retail sales increased by 0.3% as expected, December revised down by 0.1 pp. Auto sales close to flat in Jan, ex auto sales up 0.3%
- We estimate a 0.1% m/m lift in core sales volume, as we expect a 0.1% decline in retail prices. December core volume sales were revised down by 0.3 pp and prices increased, thus, sales came in 0.6 pp lower than we expected! The underlying speed is close to stagnation, and after the revisions, up just 0.8% in Q4, vs 3% assumed increase. A downward revision of Q4 GDP growth is likely. The annual rate fell back to 4.2%
  - » Income growth has slowed somewhat the past year but consumer confidence is strong, do not signal any setback now

Household demand still strong, in sum, at peak?

Retail sales up 5.8% y/y (but slowing now), housing has accelerated, auto sales trending slowly down

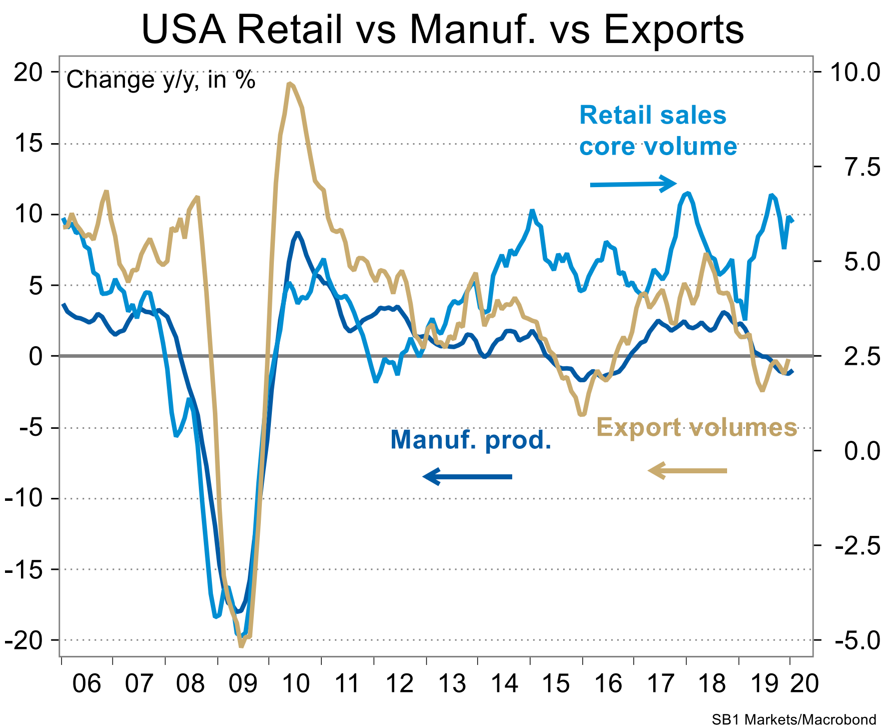


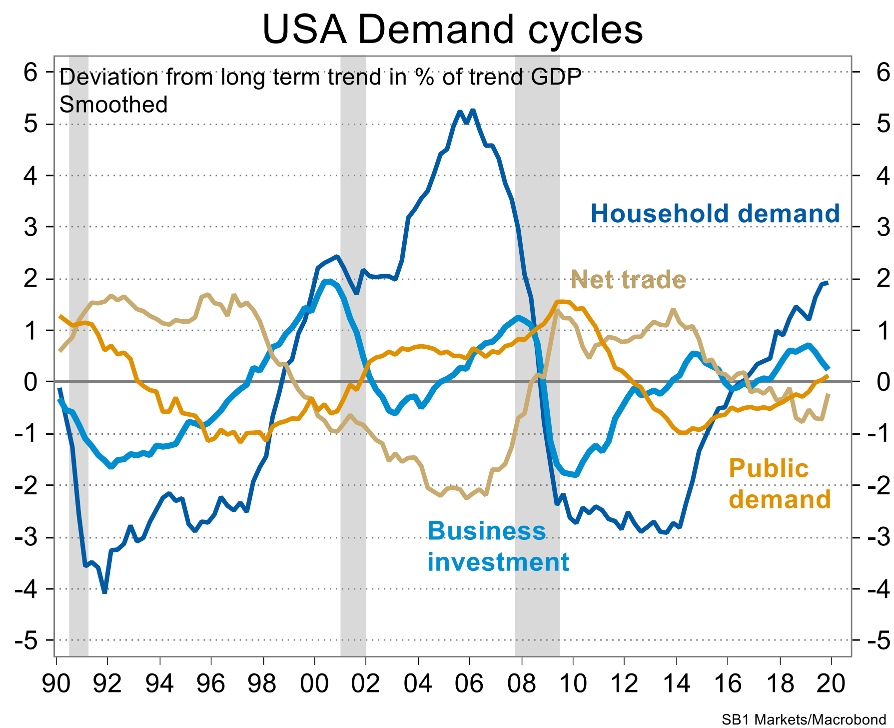


- Consumer confidence, measured by the avg of University of Michigan's and Conference Board's indices. remains at an elevated level. Jobs are extremely easy to get and unemployment is at a 50 y low. Not a signal of slowing consumption
- Still, given that retail sales growth is now slowing, and auto sales are heading slowly down, household demand may now be peaking. The housing market upside is probably not that large, either

Consumer spending has been the pillar of growth – what now?

Consumer demand is calming; and the upside on business invest., exports, gov. demand is limited..

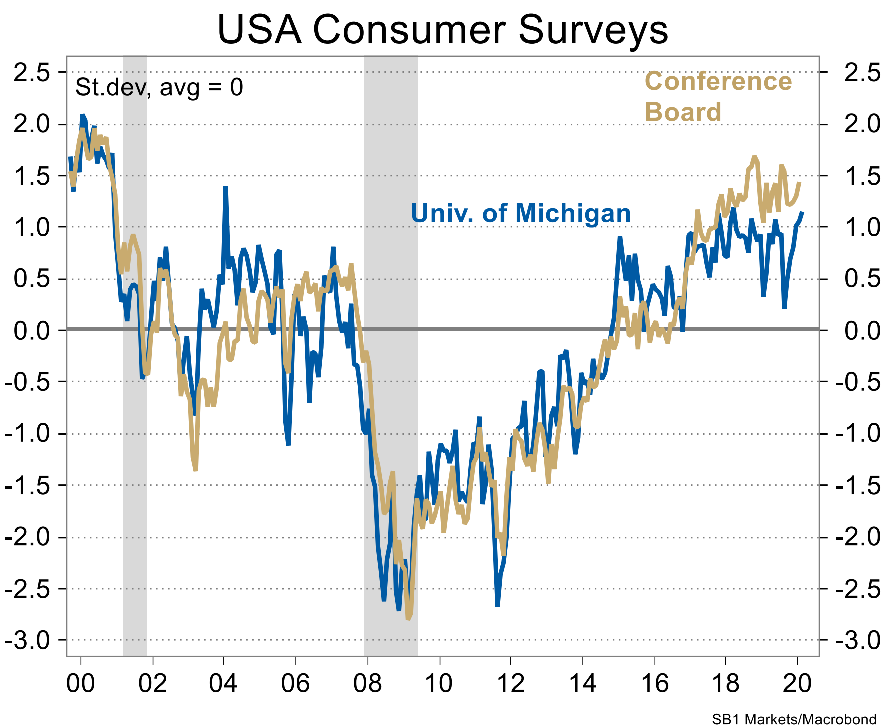


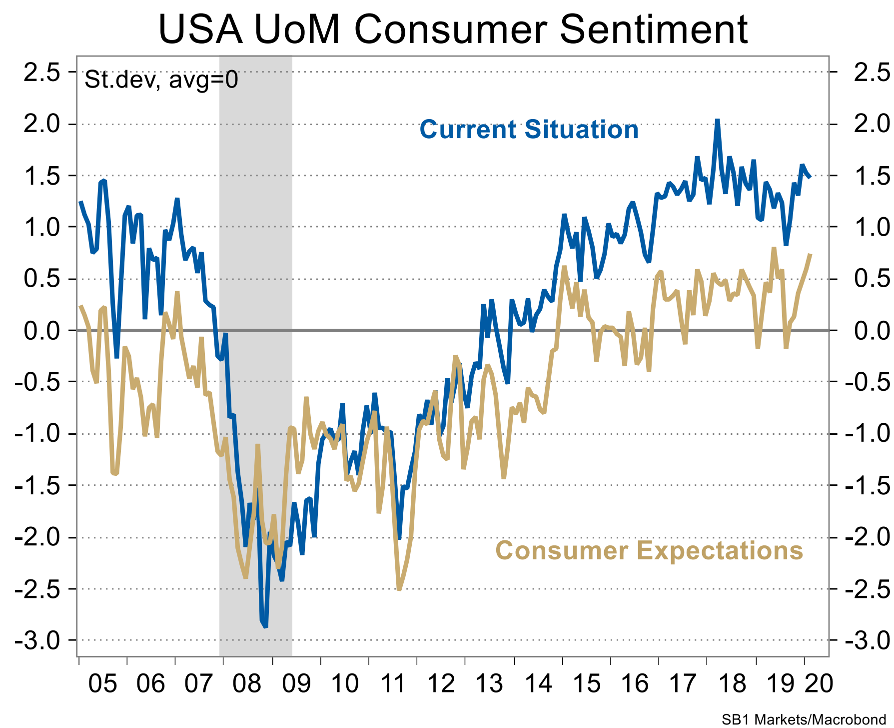


- If not consumption, what could possibly boost growth the coming quarters? We highly doubt any slowdown in consumer demand will be offset by a marked upturn in business investments, as investments are rather elevated and declining profit rates indicate a downturn. Much support from net trade is unlikely as global demand is slowly cooling, and there are still uncertainties regarding trade conflicts. The upside on public demand is no doubt limited, given the unprecedented budget deficit. Thus, the outlook is not very promising?

Univ. of Michigan consumer sentiment another step up in Feb

Consumer confidence rose to the highest level in 2 years, as expectations are climbing

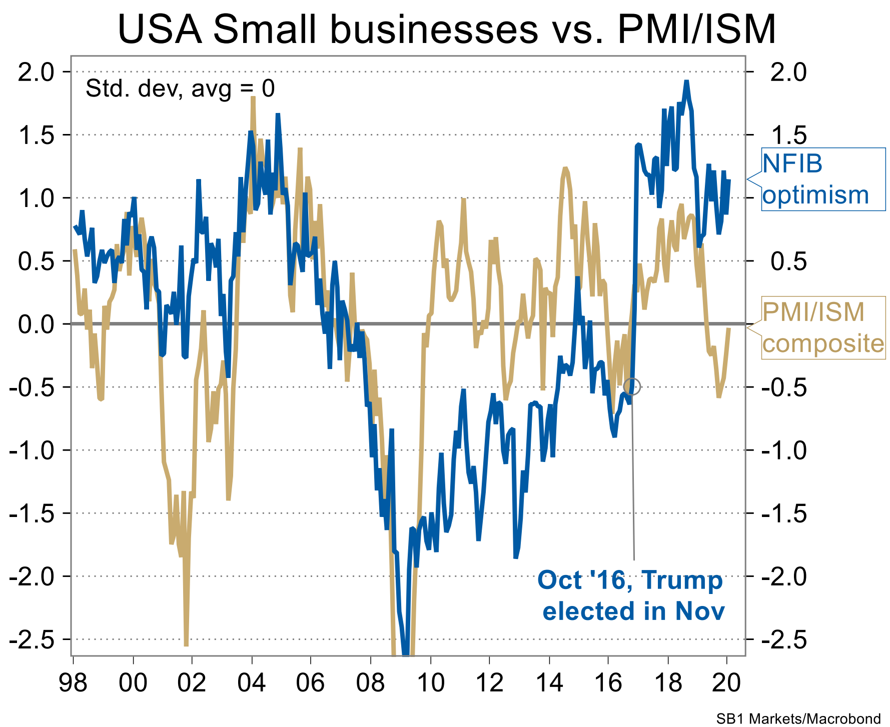


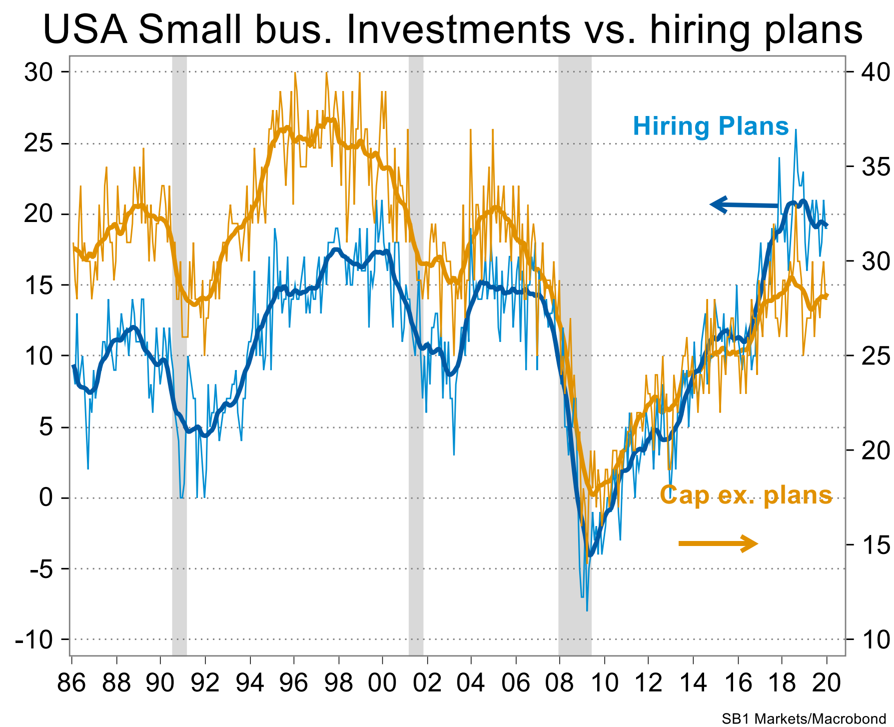


- The total sentiment index edged up to 100.9 in Feb, from 99.8 in Jan, a slight decline was expected
  - » The index is 1.2 st.dev above avg and is back at the 2018 peak levels
  - » Consumer expectations improved once again, the view of the current situation a tad down, both heading up
- Univ. of Michigan's consumer sentiment is marginally weaker then Conference Board's consumer confidence index, both are upbeat and do not confirm the slowdown in consumption which retail sales data indicate

Small businesses’ optimism steady at a high level, far above PMI/ISM

NFIB optimism index edged up in January. Hiring plans still close to record high



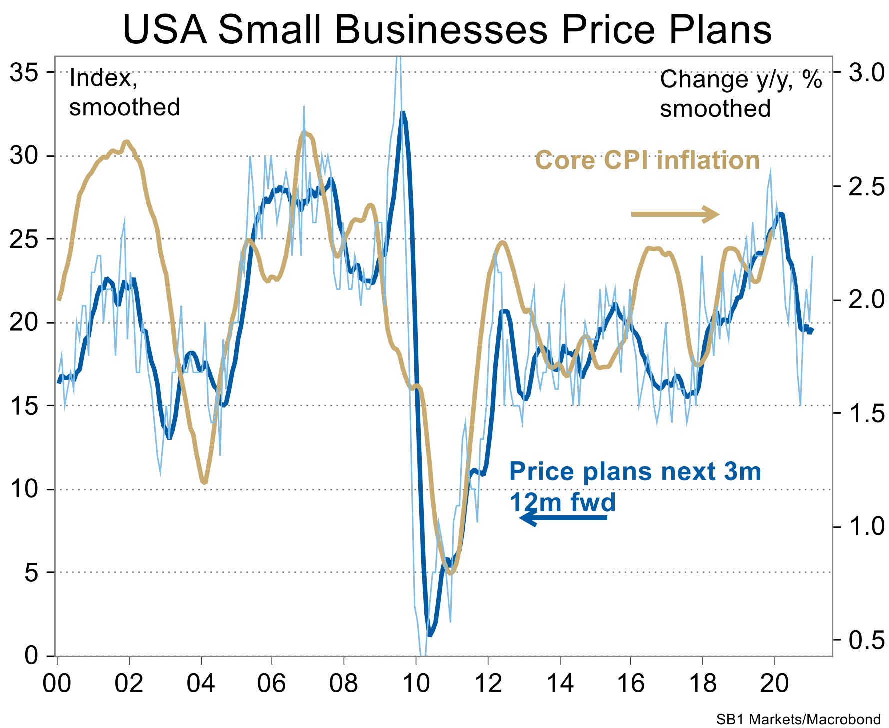


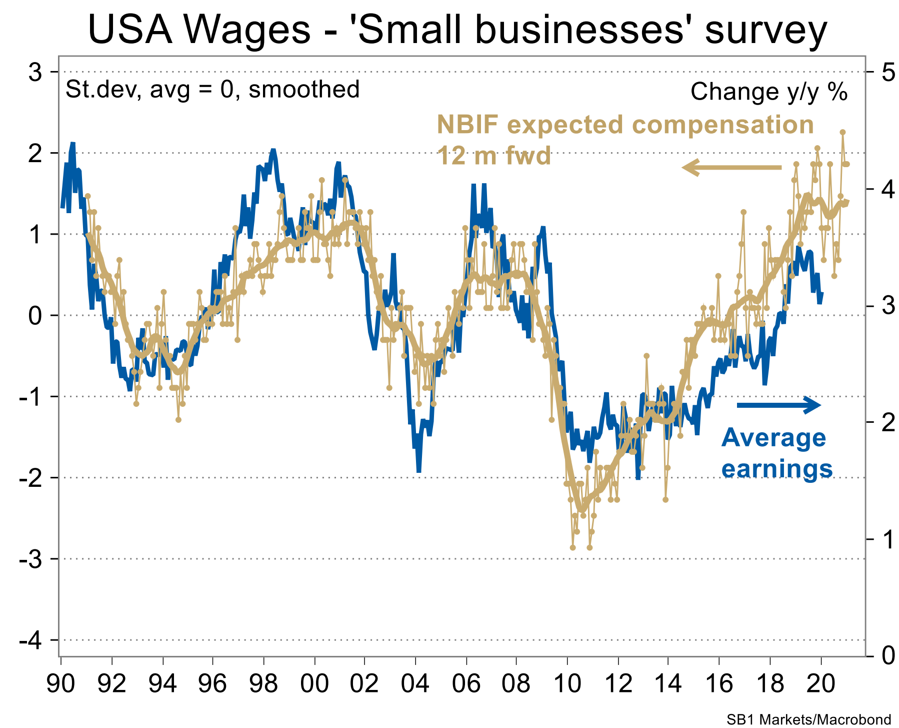
- The NFIB optimism index, measuring small businesses’ expectations on business conditions, ticked up to 104.3 in January, slightly higher than expected. The index has stabilised and even inched up the past year, after dropping in late 2018
  - » The NFIB optimism index is 1.2 st.dev above the average since 1998. The avg of the surveys from the ISM/Markit PMI is close to avg. The difference may be due to the SME’s exposure to the domestic market, while larger companies in PMI/ISM have been more influence by trade war/global uncertainties
- Investment plans were unchanged in January, trending slowly up since early 2019. The level is not high, historically
- Hiring plans have peaked but they are still aggressive, and companies are still not able to fill vacant positions – and they plan record high wage compensation!

SpareBank 1 MARKETS

Price plans are on the way up again, and wage growth plans still record high

The survey does not signal higher consumer inflation – but higher wage inflation?

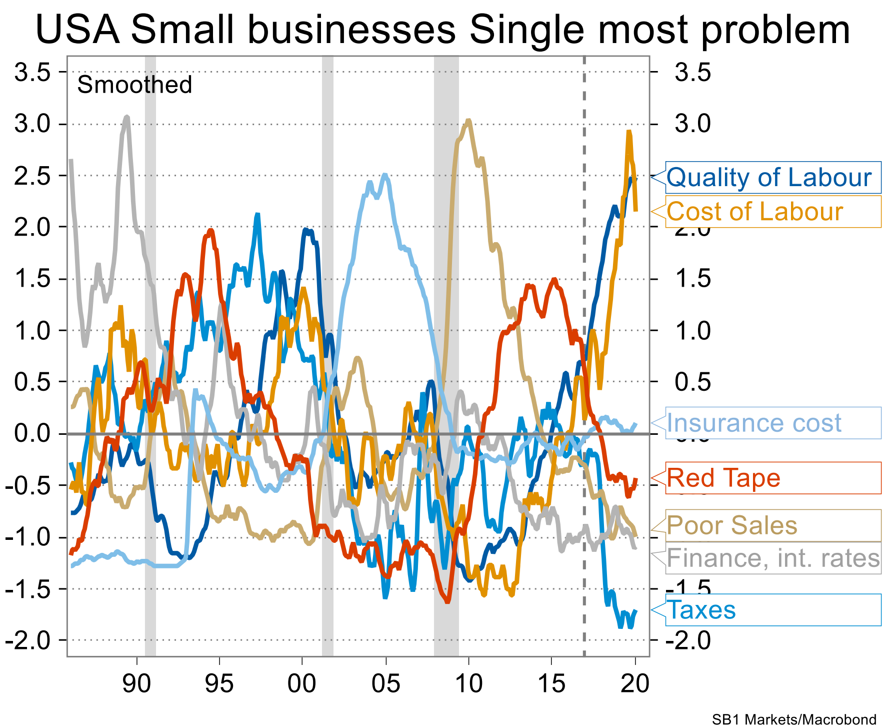


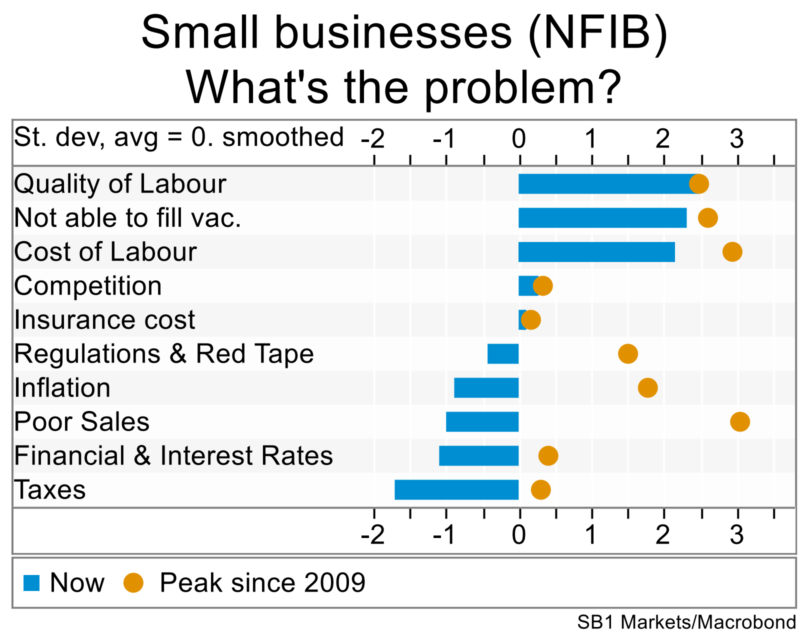


- 24% of small businesses reported that they are planning to hike prices in the January survey, up from 16% in September – but down from 29% one year ago. The smoothed share has fallen steeply, suggesting that core consumer inflation has peaked. Demand must have slowed, even as optimism has stabilized
- Businesses are still reporting record aggressive plans to raise compensation, although trending flat over the past year. Hence, the survey does not confirm the slowdown in actual wage growth which has taken place over the past months, but it is probably not signaling any acceleration either

What's the problem? Quality, supply of labour, but cost of labour less so

Fewer SMEs are noting cost and availability of labour, early signs of a calming labour market?

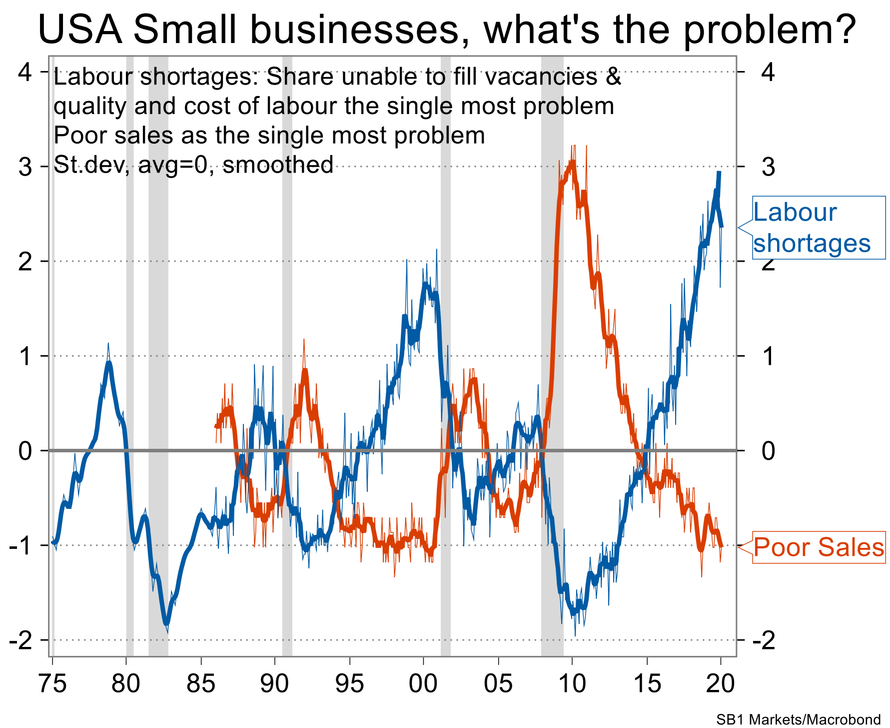


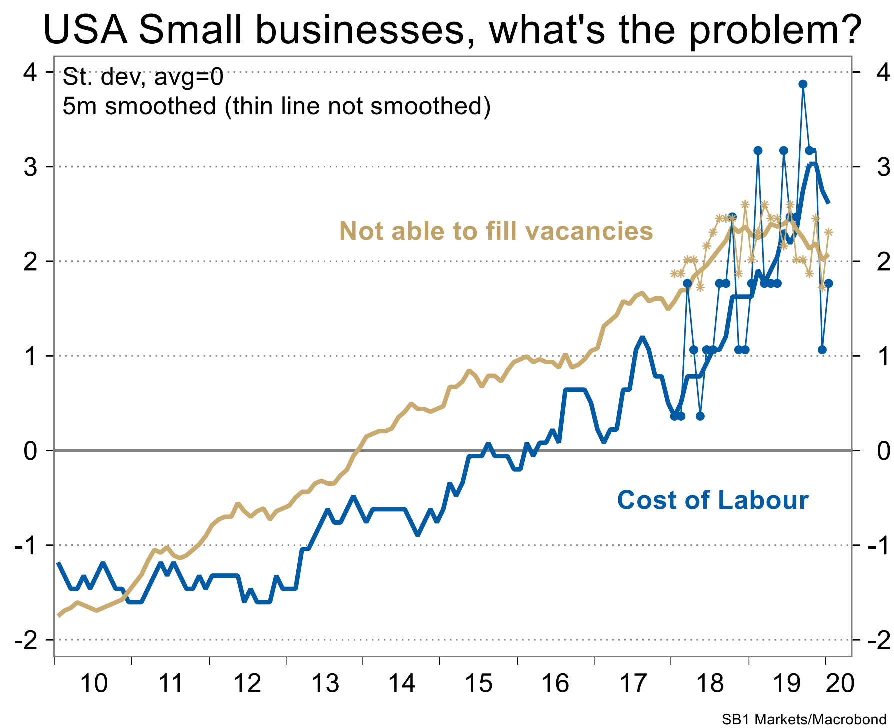


- Unusually few are complaining about finance/interest rates and about taxes, following last year's tax cuts
- Sales are not the problem either, almost 20 year since so few stated sales as the most important problem
- The share of businesses that have been noting problems with tight labour markets have been record high the past year; both the ability to fill vacancies', cost of labour and quality of labour have been reported as huge problems. However, in the past couple of months, fewer businesses reported cost of and 'not able to fill vacancies' as a problem, an early sign of weaker demand? Quality of labour remains record high

‘Cost of labour’ on the way down, an early signal?

Labour market tightness still close to record high, but the cost of labour down in Dec/Jan

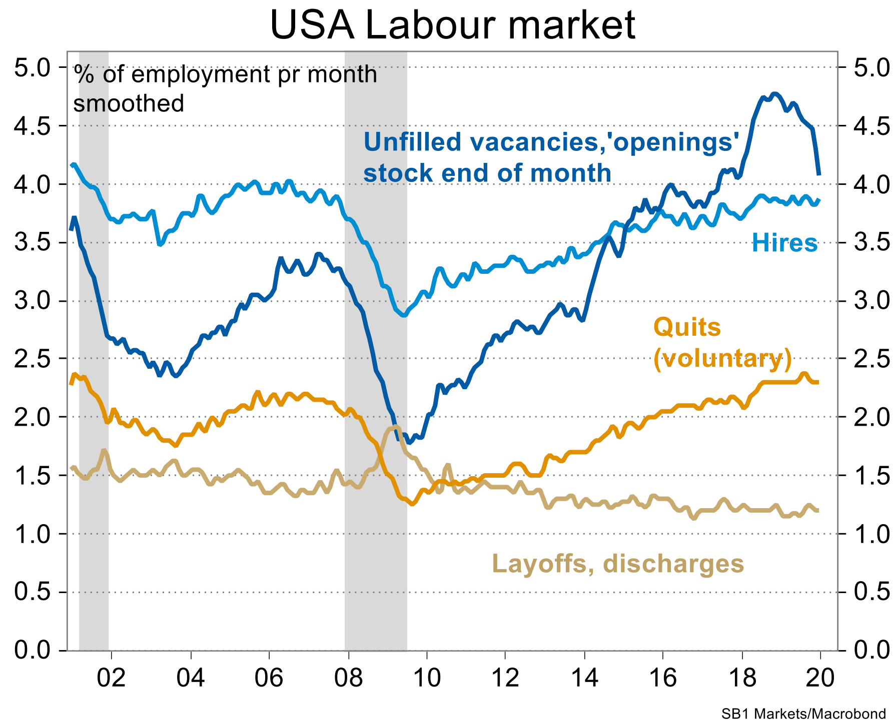


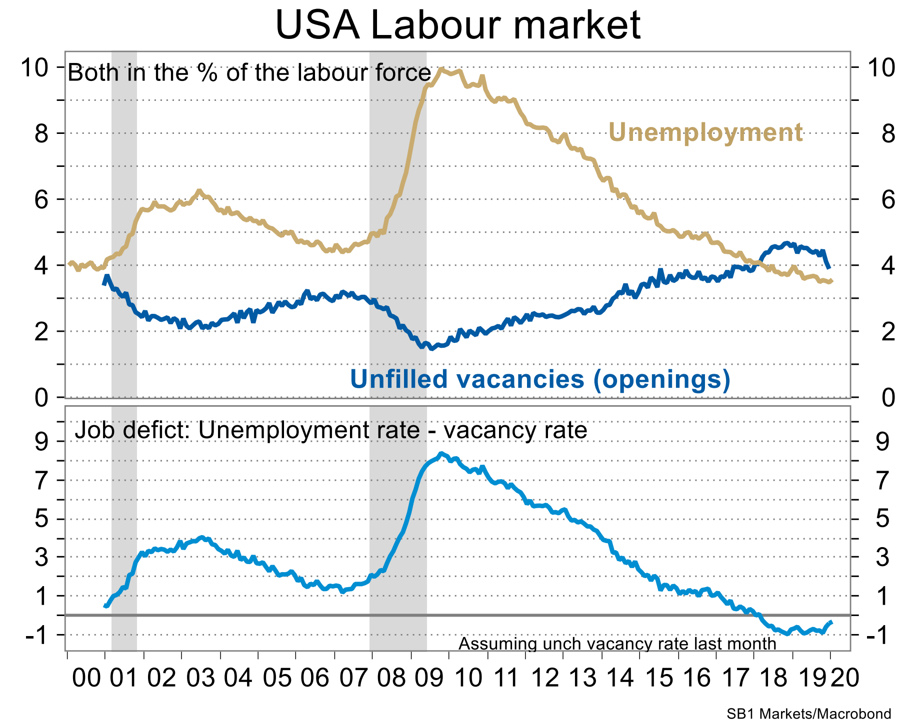


- The share which reported ‘cost of labour’ as the chief problem has dropped the past two months, and availability of labour seems to be less of a problem, on the margin. However, the ‘quality of labour’ index remains elevated
- The share of businesses noting ‘cost of labour’ as the nr. 1 problem is usually leading actual wage growth, but the correlation is not impressive

Unfilled vacancies steeply down, is something brewing??

Still, other indicators do not confirm a slowdown; hires & voluntary quits stable at high levels

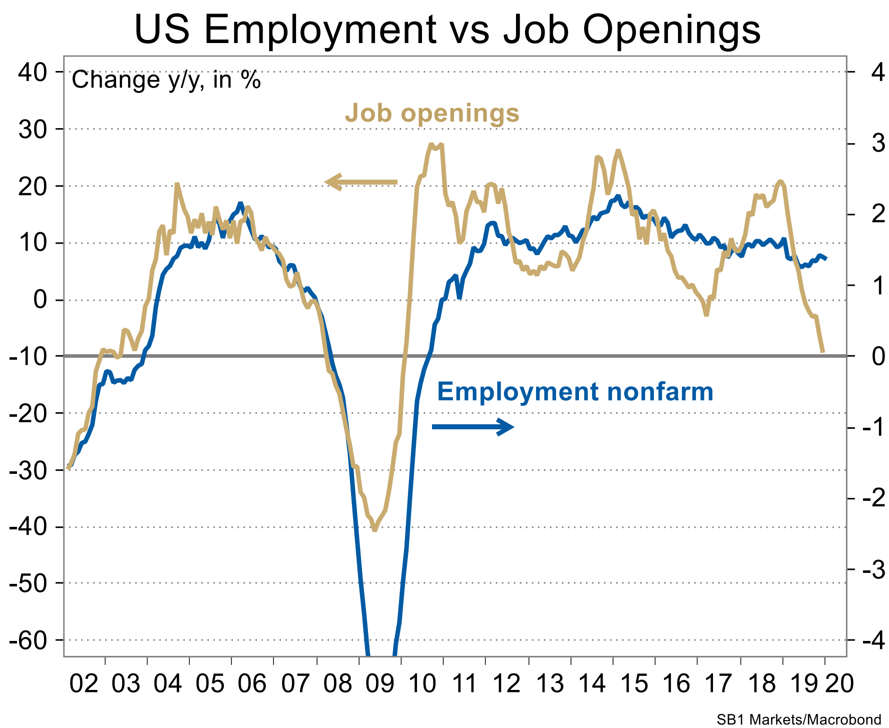


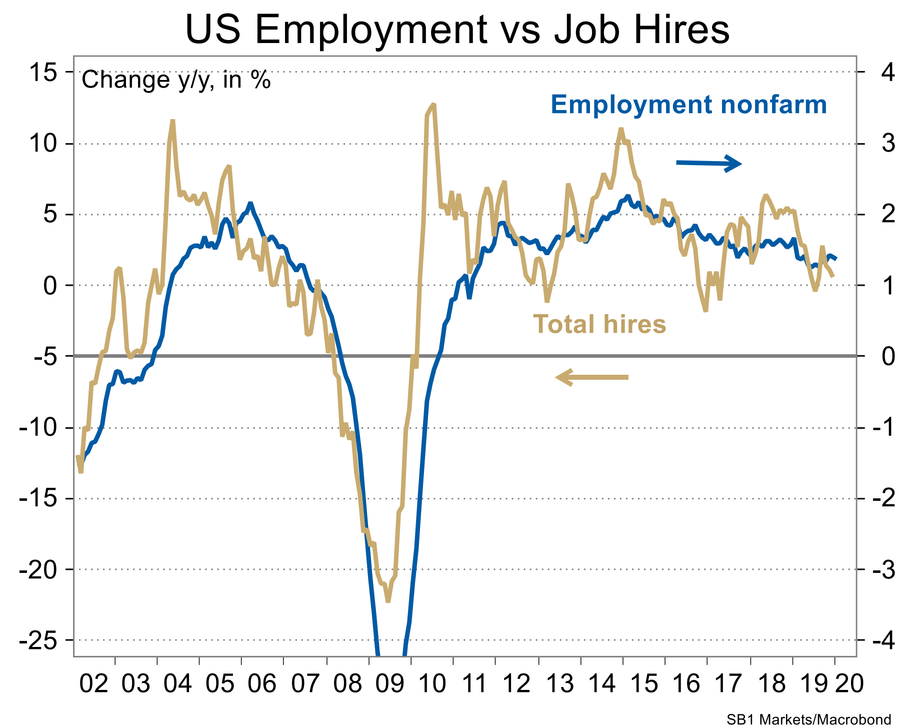


- Job openings (unfilled vacancies) have fallen steeply in November and December, to 4.1% of employment, down from 4.7% in the spring (we apply a 2 months smoothing). Could be an early sign of a cooling labour market, the vacancy rate is leading unemployment by approx. 6 months. There are still more unfilled jobs (3.9%) than unemployed (3.6%), in % of the labour force, but the gap is now narrowing. However, other indicators suggest that the labour market is still very tight. To be continued!
  - » Monthly (gross) hiring equals 3.9% of total employment and is not increasing anymore, probably because businesses struggle to attract labour
  - » The number of voluntary quits is rising marginally, at a very high level – as many employees leave for better (paid) jobs
  - » Layoffs are trending marginally down, at very low level. However, it's a lagging indicator

Declining job openings suggest a setback but hires do not confirm so

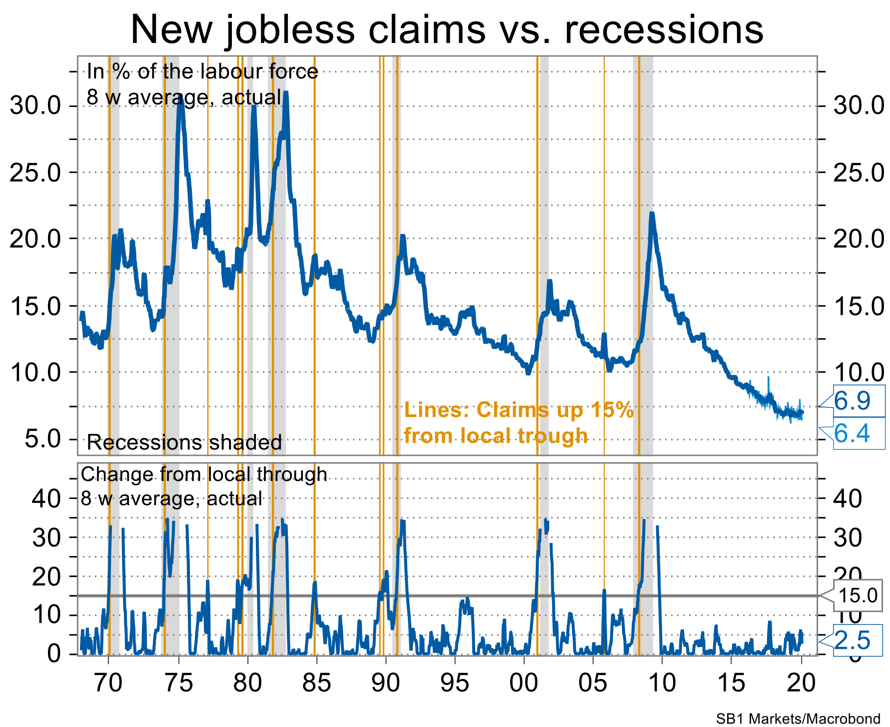
Growth in job hires has stalled, probably due to lack of labour supply, not weak demand

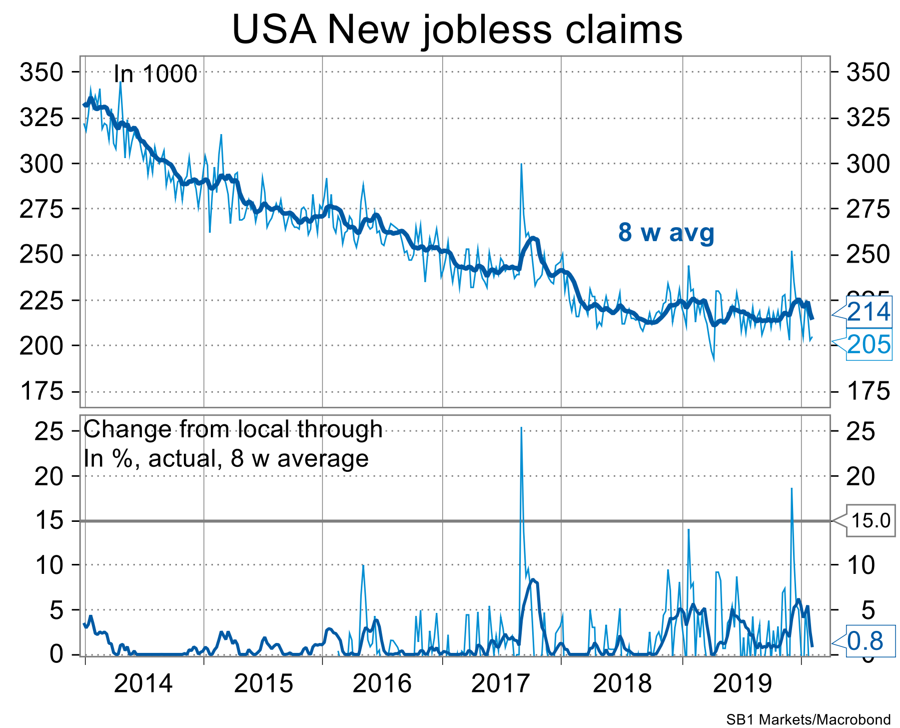




Jobless claims steady at a very low level, no weakness spotted

Claims inched up to 205' last week and the 8 w average is sliding down again

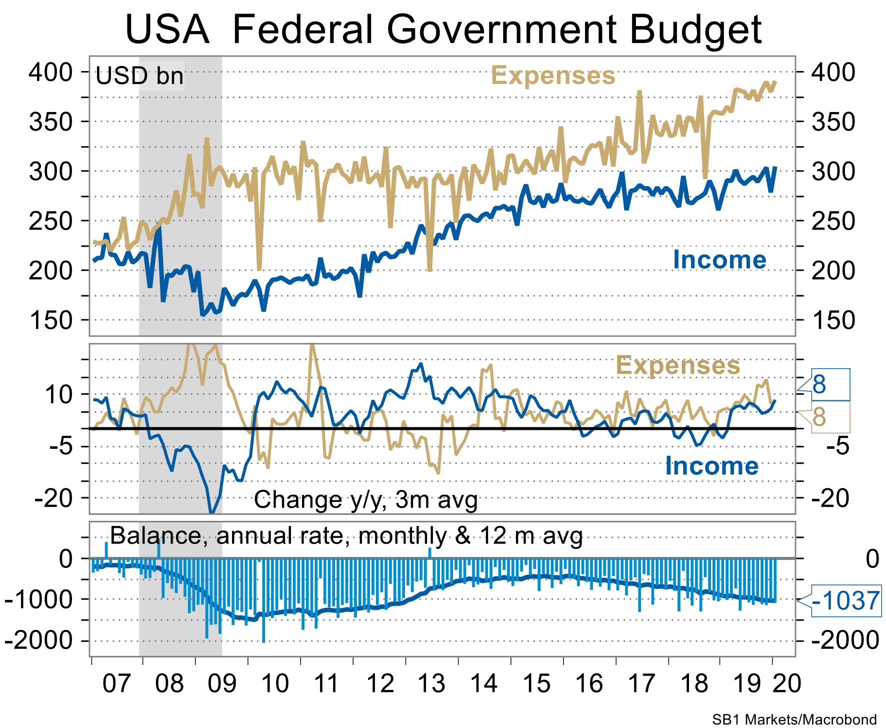


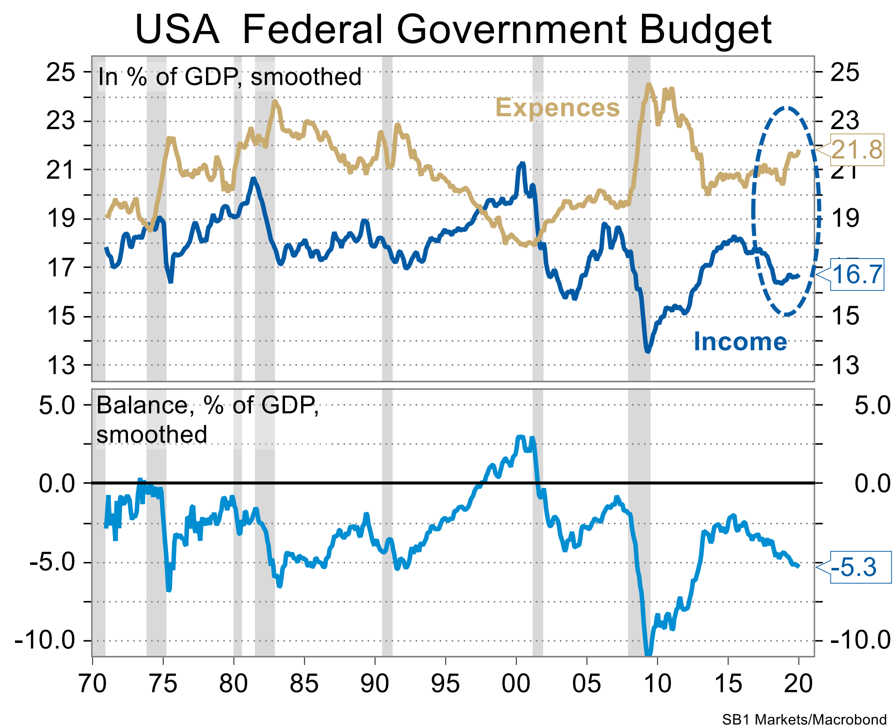


- Jobless claims have fallen down to very low levels again, after a temporary upturn in December. In Dec, jobless claims were distorted by a later than usual Thanksgiving holiday. Since then, claims have fallen down to a very low level again, confirming that the upswing was not based on any underlying weakness
- 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, not much reason to worry now?

The federal budget deficit stable in Jan but is still trending out

The federal deficit has widened to 5.3% of GDP, and the total public sector deficit at >7.5% of GDP!

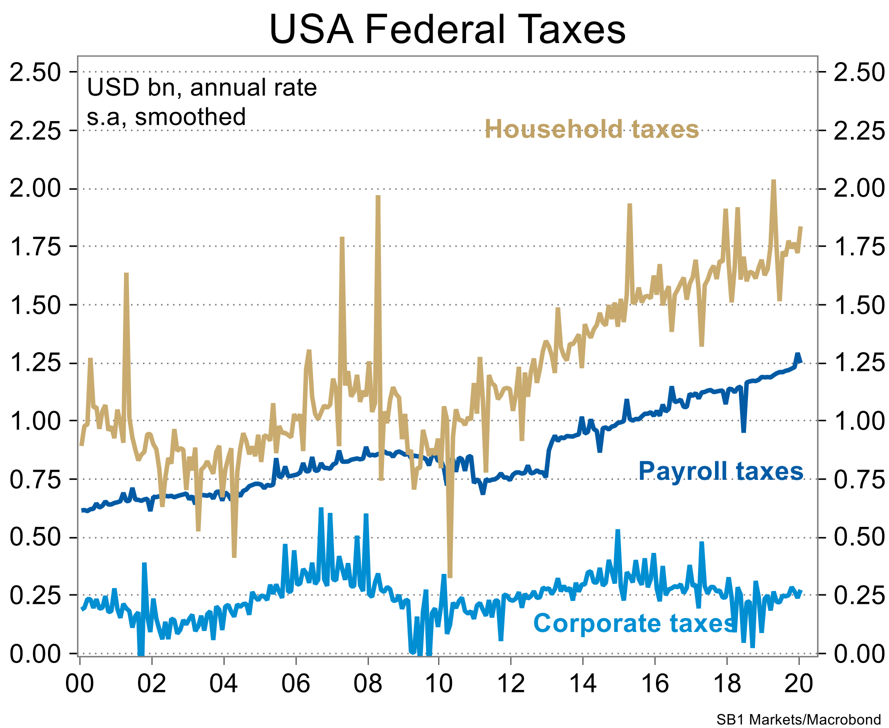


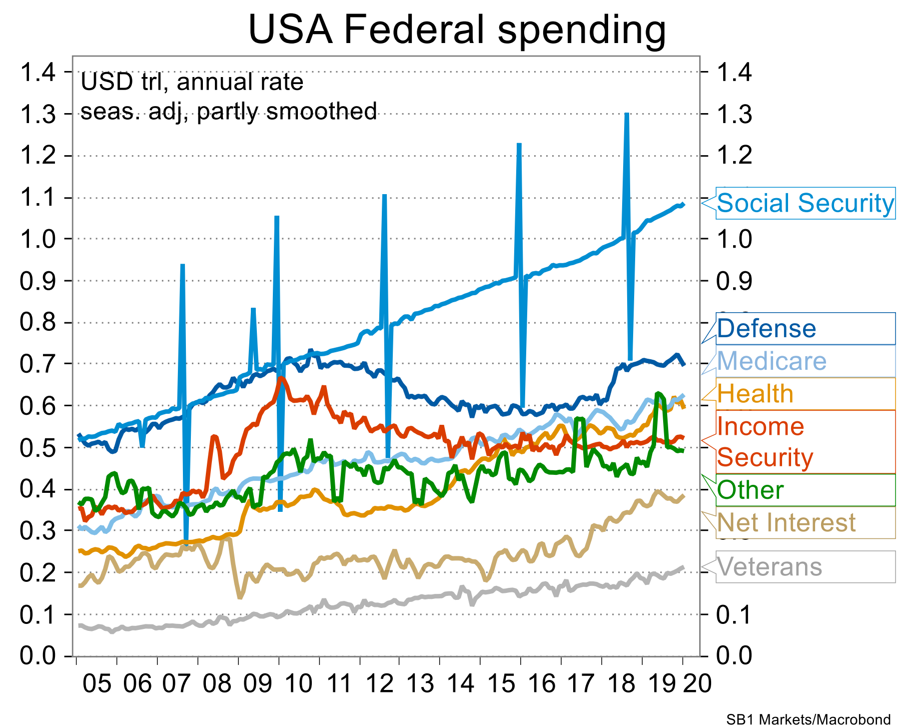


- The budget deficit rose marginally to USD 1.085 bn (seas. adj) in Jan, while the 12 m avg rose to 1.036 bn, rising steadily from USD 400 bn since 2016. The deficit equals 5.3% of GDP. Including local government etc, the US ran a full employment, peacetime deficit at above 7.4% in Q3, totally unprecedented!
  - Both federal spending and outlays are up 8% y/y (3 m smoothed) but underlying growth in expenditures are well above growth in receipts
- In % of GDP, federal spending equals 21.8%, way above a normal level (except for during recessions). Regrettably, federal income equals just 16.7% of GDP, much lower than normal in a blooming economy – of course because taxes have been cut
  - The 2020 budget is marginally expansionary and the deficit will not increase much from here
- President Trump has proposed a new budget with long term huge cuts in expenditures (outside defence) and to balance the budget 2030 but the likelihood for that to pass Congress is zero. The upcoming budget year's deficit is forecasted slightly lower than the present deficit

Corporate taxes zigzag upwards but remain low

More money spent on… everything?

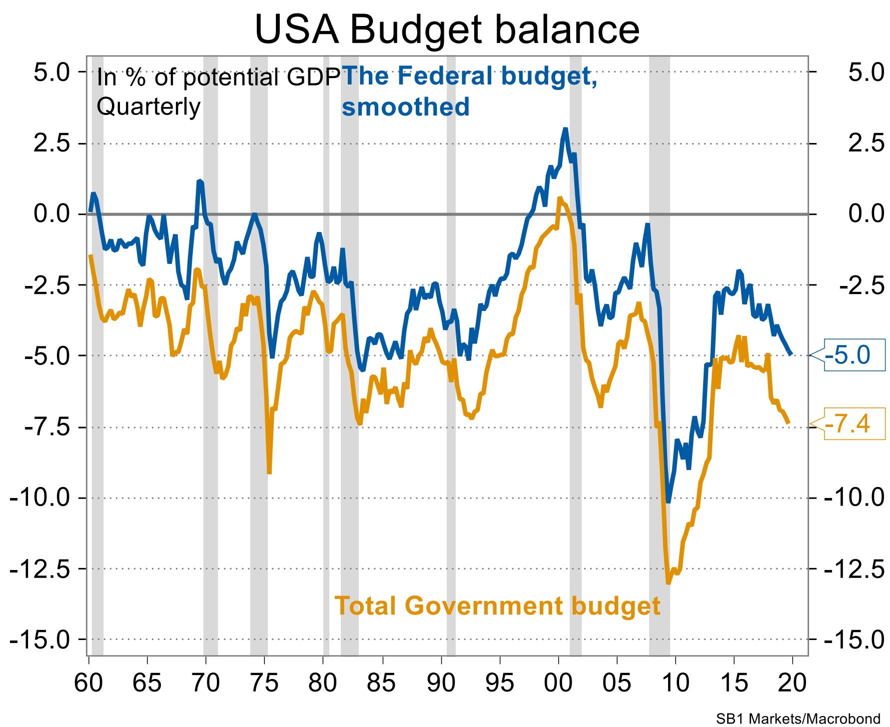


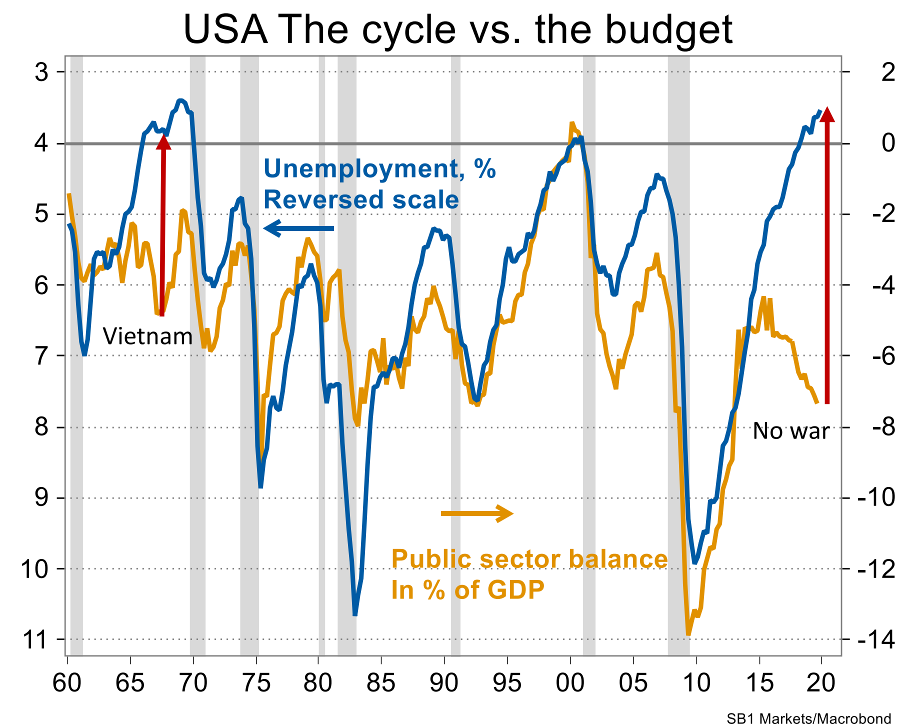


- Spending on defence, health, medicare and net interest payments (even as interest rates are rather low…) have all been accelerated the past couple of years

The public sector deficit widened to 7.4% of GDP in Q3

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



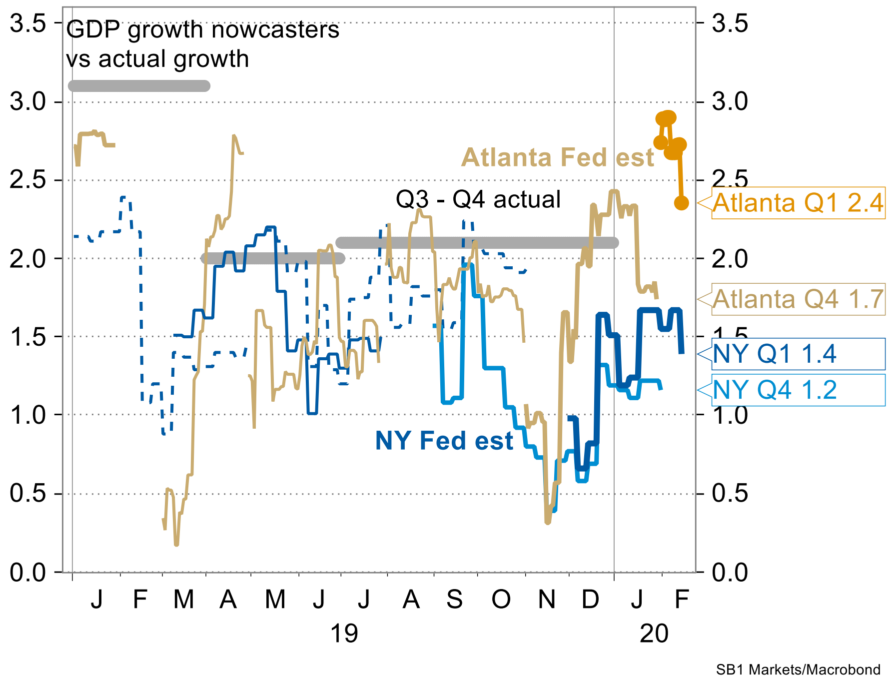


- The deficit has never been anywhere close to the present level in peace time when unemployment is as low as now
  - » We have not seen anything like this in other countries either (except Greece in 2007, partly Japan)
  - » The deficit at 5% was large vs the unemployment rate in 1967 too, when the Vietnam war was fought. Now, the 'gap' vs the unemployment rate is twice as large as in 1967m without war. BTW, after 1967, 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*

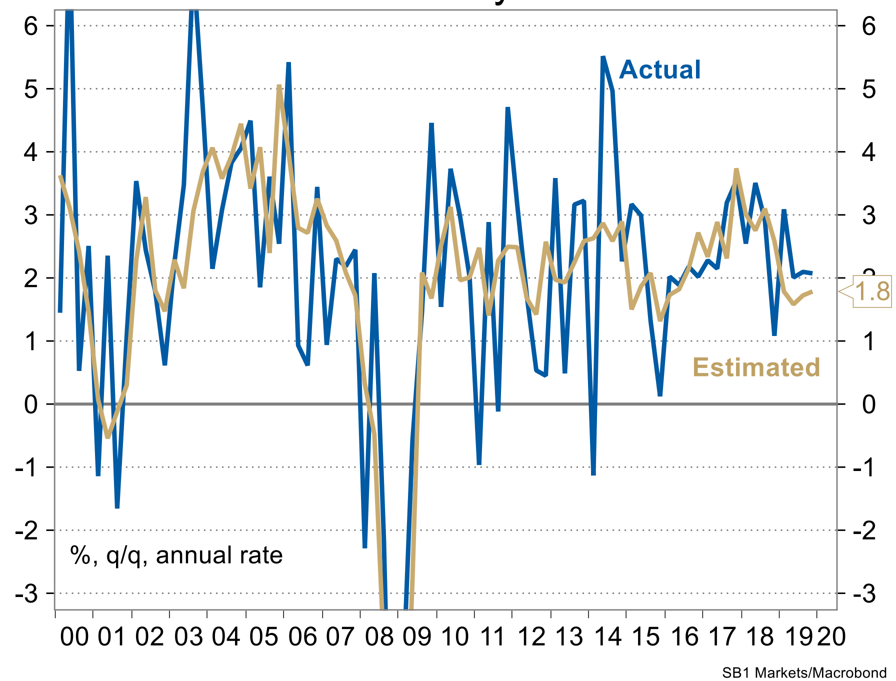
Weak retail sales cut into Q1 growth forecasts, 1.4 – 2.4%

Nowcasters still signal higher growth than they did in Q4

USA Atlanta & NY Fed GDP nowcasts



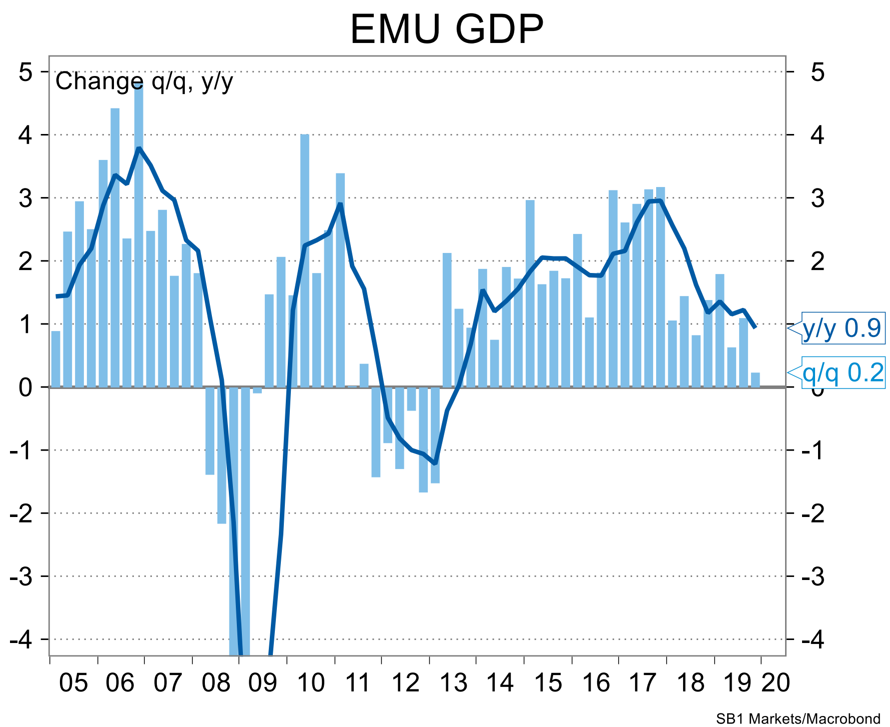
USA National activity index vs GDP

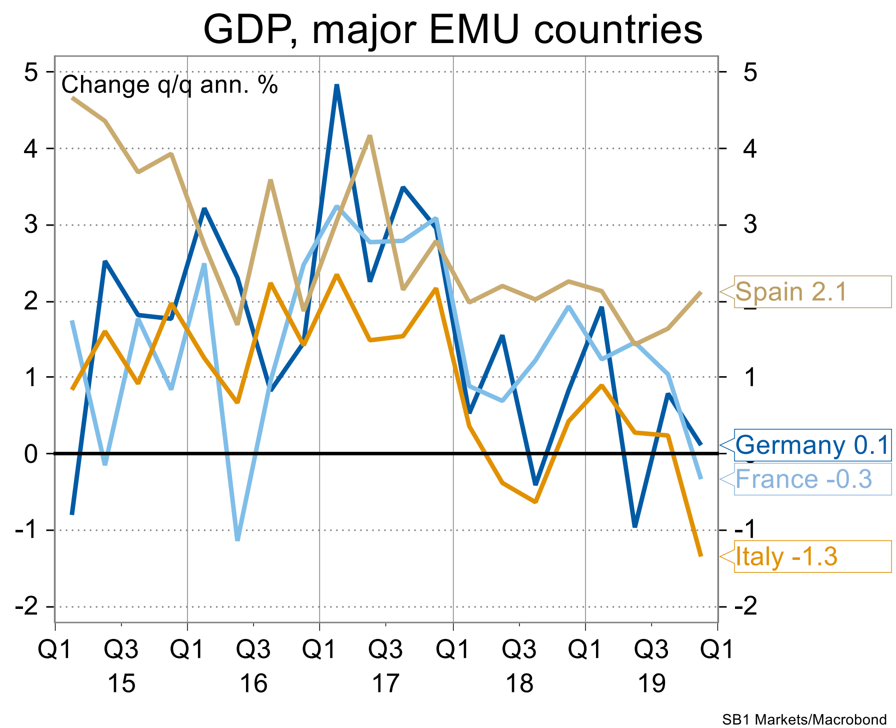


- The National Activity Index signalled a 1.8% growth rate in Q4, vs reported GDP growth at 2.1%

Q4 GDP growth even weaker than first reported

GDP revised down marginally, annualized rate at 0.2% vs 0.4% first reported, due to Germany

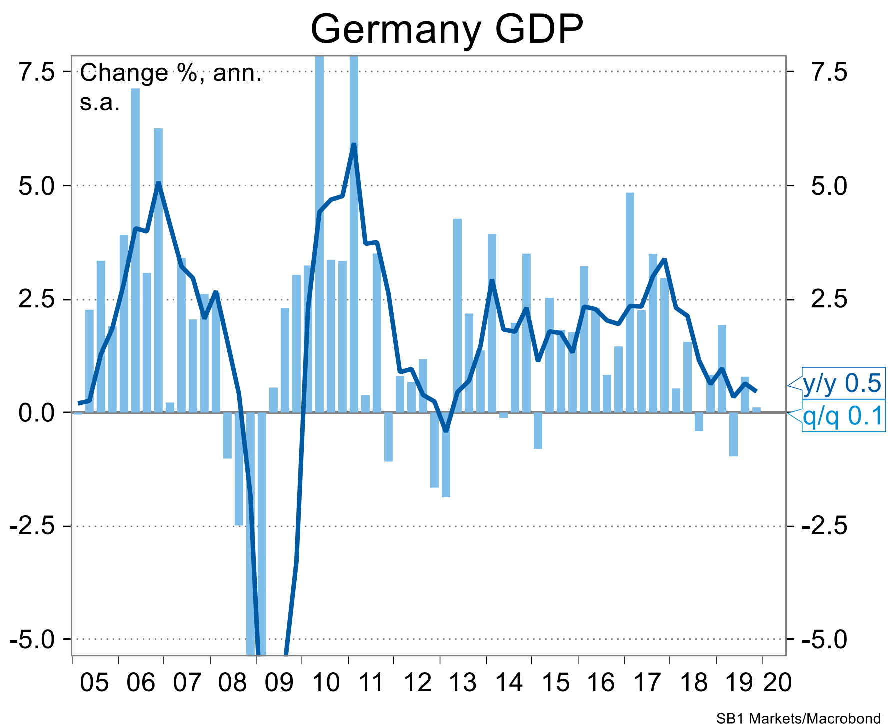


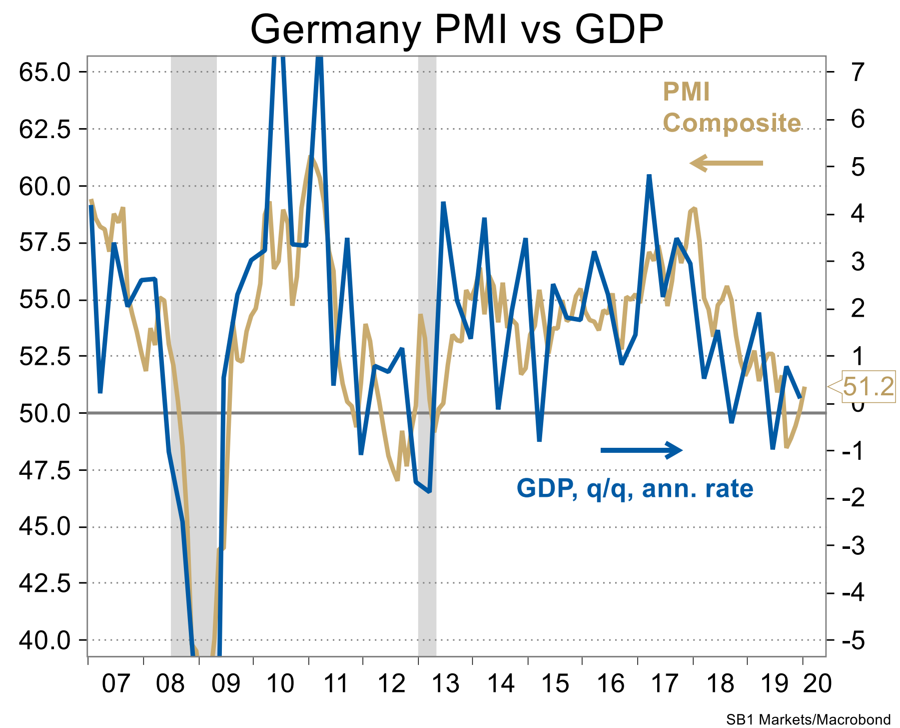


- GDP rose marginally less than first reported (but unchanged at the first decimal, not annualised), at just 0.2%, annualized, from 0.4%. The annual rate was nudged down to 0.9% in Q4, from 1.0%, the softest pace since the 2011-2013 euro crisis
  - » No demand details are published yet, we assume that private consumption rose modestly while business investments declined
- Germany reported just a 0.1% annualized speed, marginally weaker than expected. No revisions of the other major countries; France reported a 0.3% decline, Spain accelerated to 2.1% while Italy reported the steepest decline since 2013
- The Eurozone PMIs have turned up, suggesting a modest growth pickup into 2020 pointing to a stabilization in late 2019

GDP stagnated in Q4, a tad weaker than expected

German GDP was unchanged q/q (but tweaked out 0.1% annualised), ending 2019 on a weak note



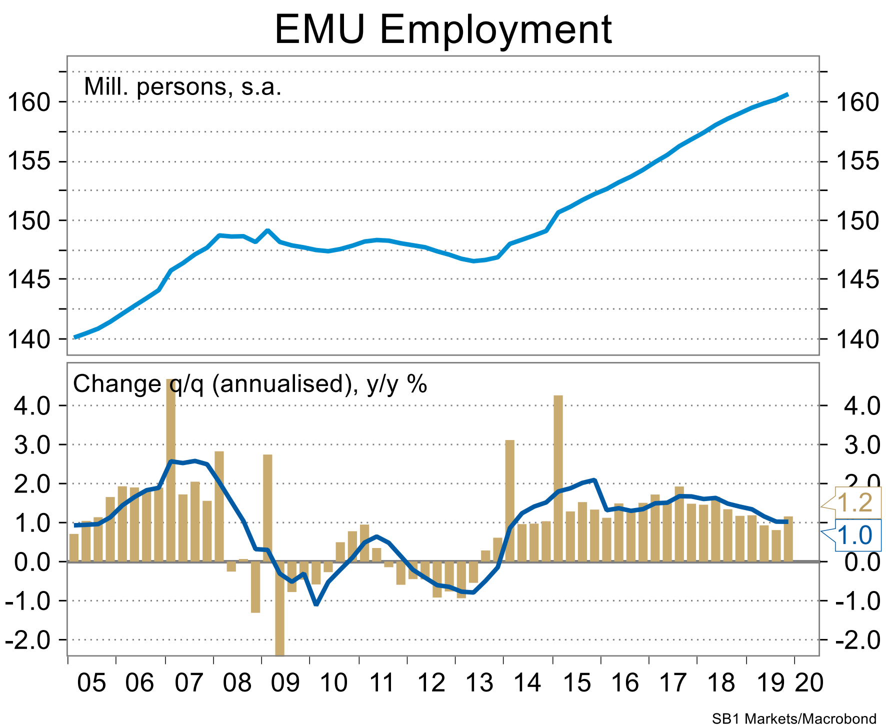


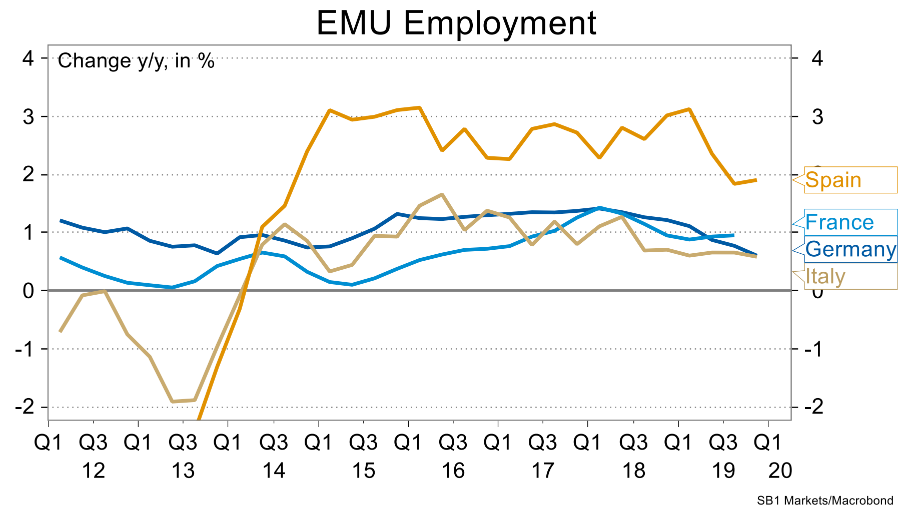
- GDP did not expand in the 4th quarter, expected up 0.1% q/q
- More details on the demand components will be published later this month. The Statistics Office report a marked slowdown in private consumption, a decline in business investments (but higher investments in construction offset some of the weakness in machinery and manufacturing). Net exports were negative, as imports increased and exports fell modestly
- PMIs have edged up from the bottom and may signal a soft recovery into 2020

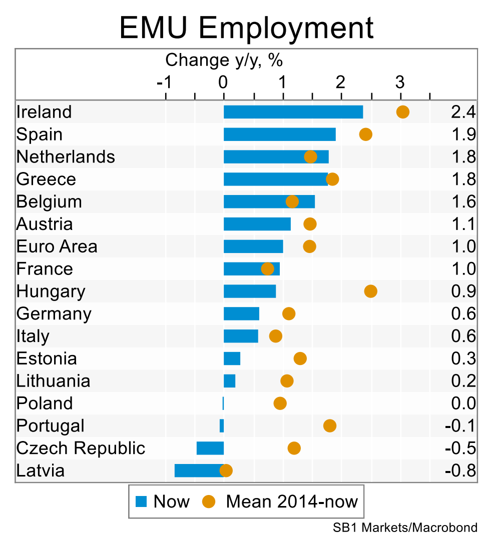
SpareBank 1 MARKETS

Employment growth gained pace in Q4, indicating a drop in productivity

Employment rose 1.2% q/q annualized, after two quarters of slowdown





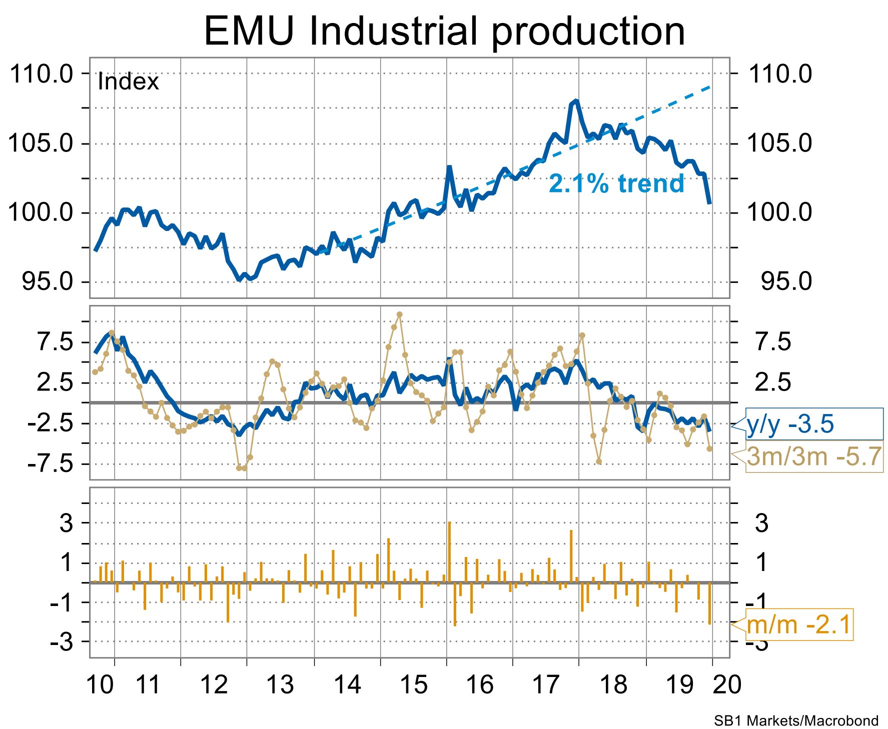


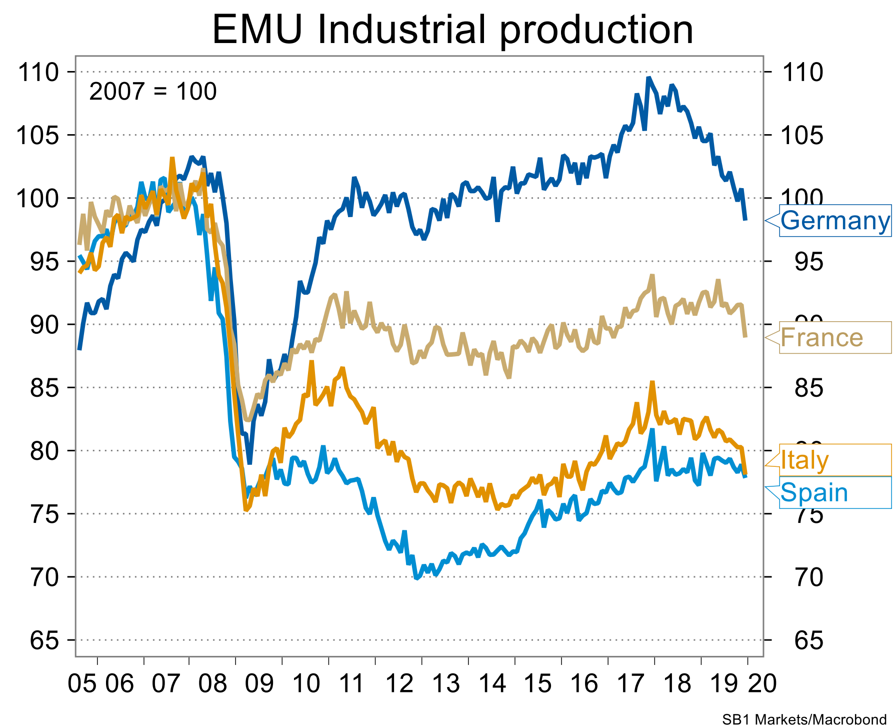
- Employment growth has been slowing along with GDP growth this since mid-2018. Thus, the uptick to a 0.3% speed (1.2% annualized) was rather surprising, and indicates that productivity fell in Q4 (but hours worked not yet published)
- Employment accelerated in Spain (the quarterly rate) and marginally in Germany, while Italy noted another decline. 13 of 17 countries have slowed compared to the average since 2014
- Employment growth is above population growth

SpareBank 1 MARKETS

Industrial production plunged in December, despite PMI upturn

Germany, France, Spain and Italy report unusual declines, partly due to a long Christmas holiday?

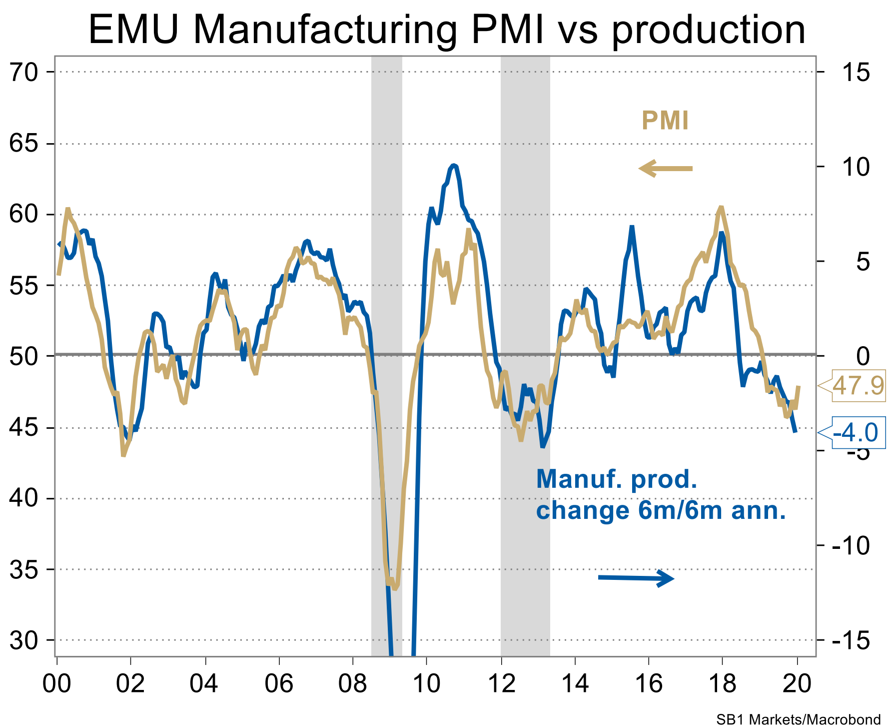


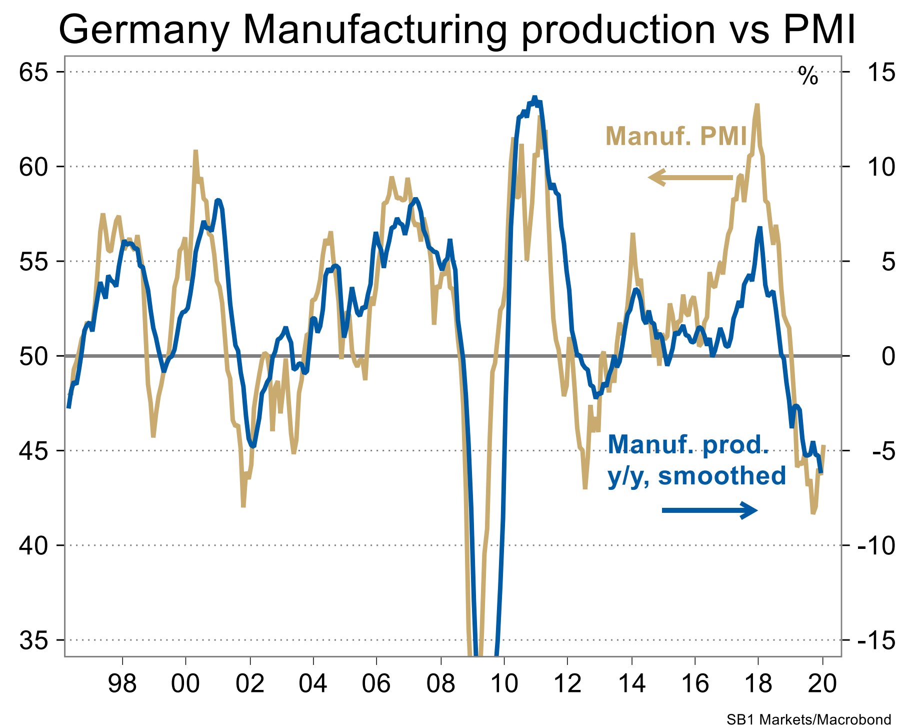


- EMU industrial production (ex construction) slipped 2.1% m/m in Dec, we expected 2.0%. Production in the region is heading steeply down and tumbled 5.7% annualized in Q4. Since mid-2018, production has fallen by 5%
  - » The decline was unusually broad and unusually steep. In Germany, production dropped 2.5%, 2.8% in France, 1.4% in Spain and 2.7% in Italy. The Dec data may have been distorted by the timing of Christmas holidays, as many workers probably took more days off than usual
- The December drop was rather surprising, given that manufacturing PMI and other surveys are signalling that the downward speed is slowing. We expect the contraction to ease the coming months

Manufacturing PMIs have turned up, signalling a moderating contraction

Yet, the outlook is far from bright, according to manufacturers, PMI still signals a decline

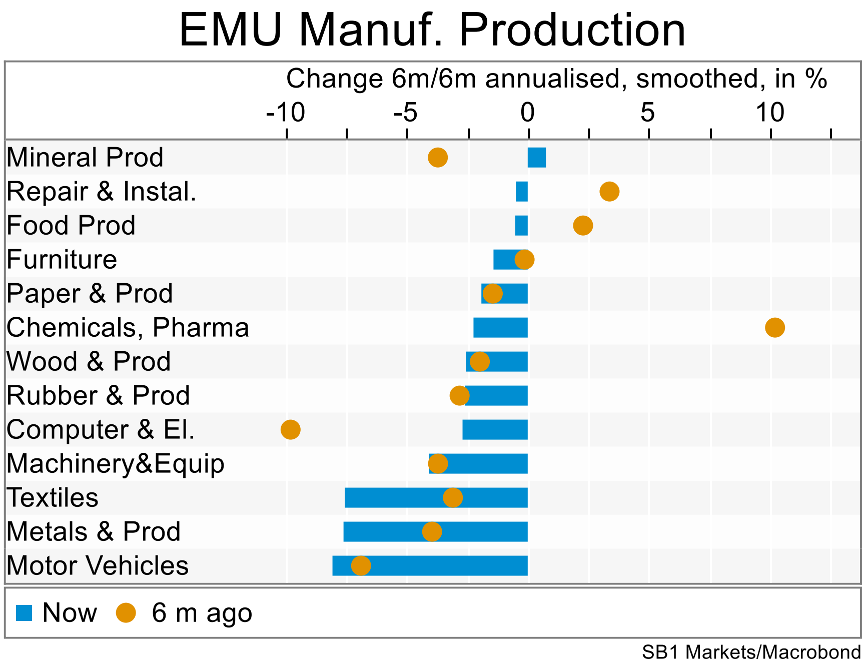


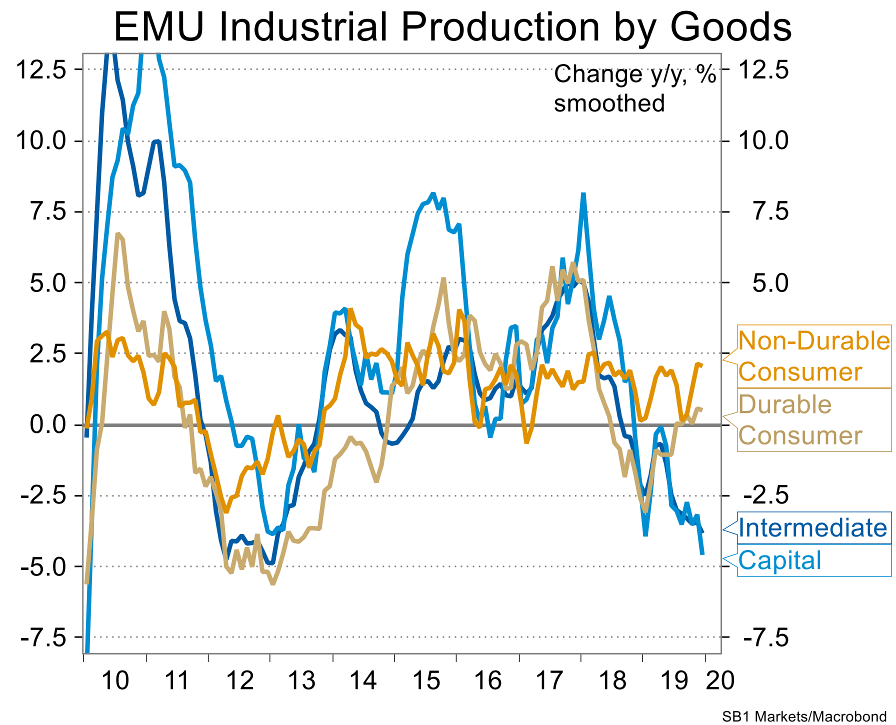


- The German manufacturing PMI has turned up to 45.3 in January, from 41.7 at the bottom in Sept

A broad downturn among manufacturers, just 1 of 13 sectors are growing

Autos, metals are still struggling the most among manufacturers. Consumer goods are holding up



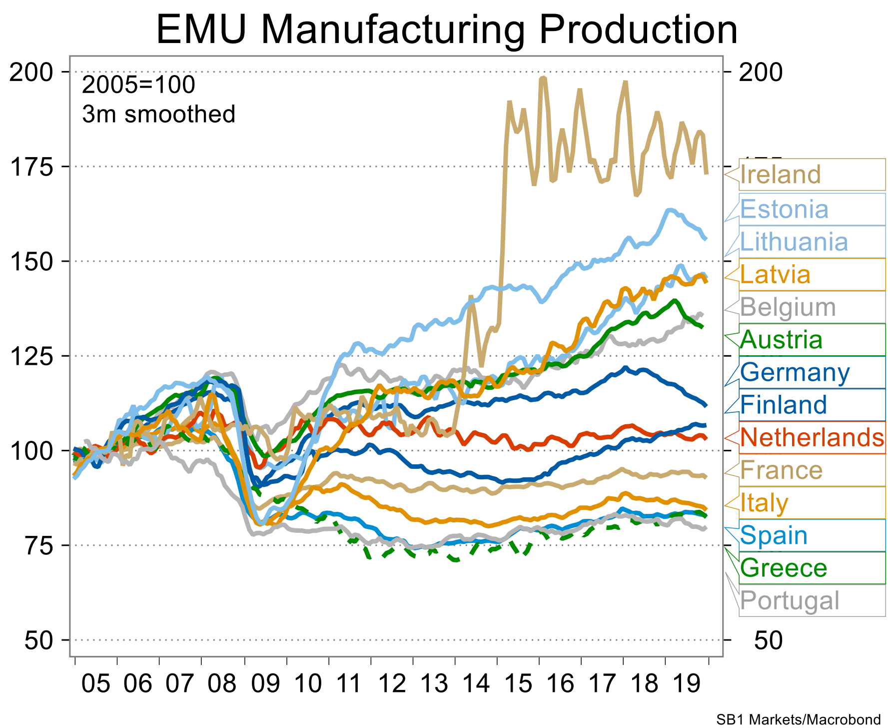


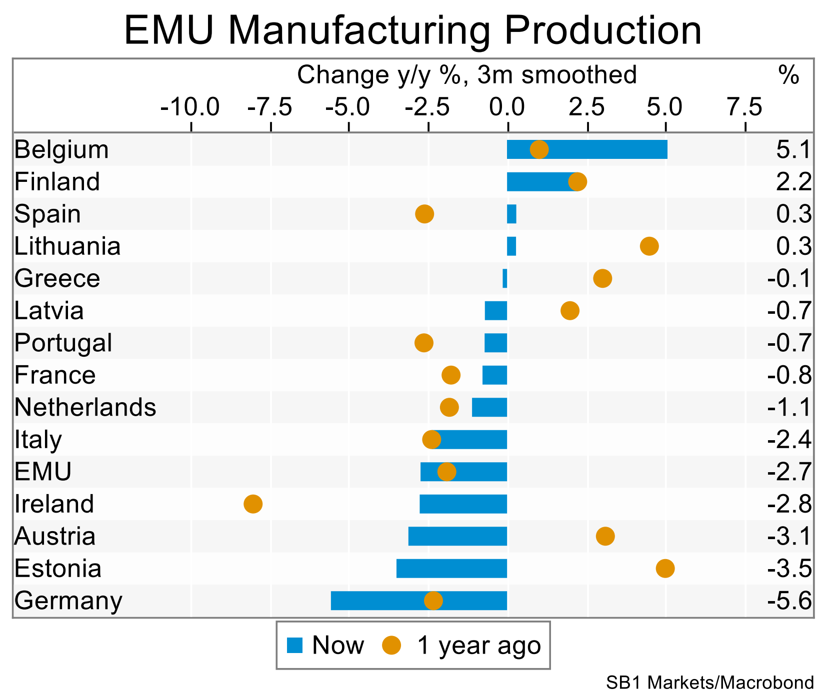
- In December, just 1 of 13 manufacturing sectors were expanding (measured 6m/6m)
- Of the 12 sectors which are reporting decreasing production, the downturn is accelerating in 8 sectors
- All the typical 'cyclical' manufacturing sectors are declining, led by autos and metals
- Production of non-durable consumer goods are increasing moderately and faster recently, and durable consumer goods are rising marginally. Probably because household demand is holding up much better than business investments

SpareBank 1 MARKETS

Production is declining in most of the 'main' EMU countries

Production is expanding in just Belgium and Finland, while Spain, Lithuania, Greece have stalled



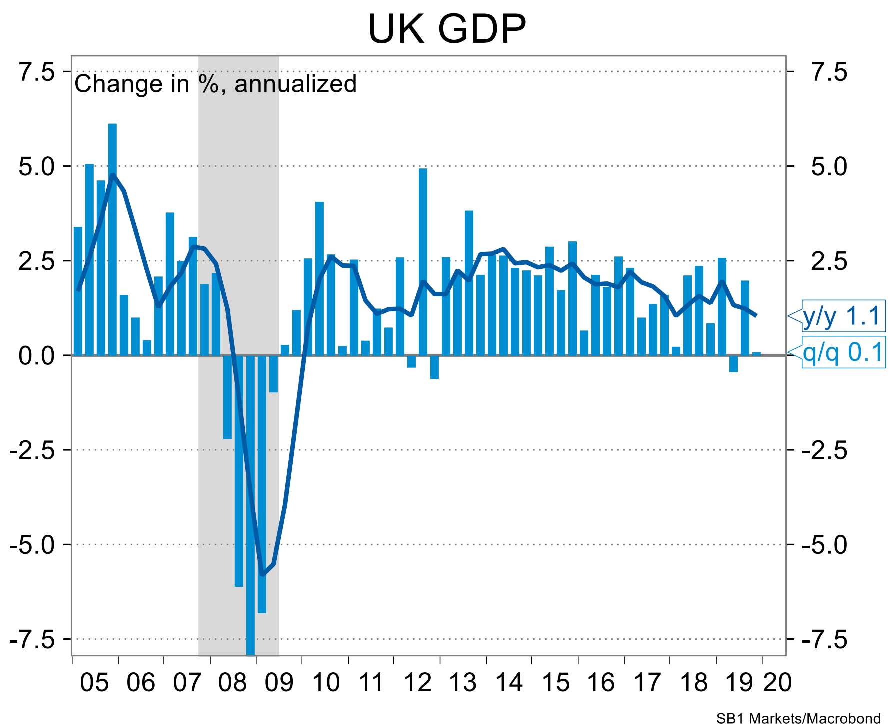


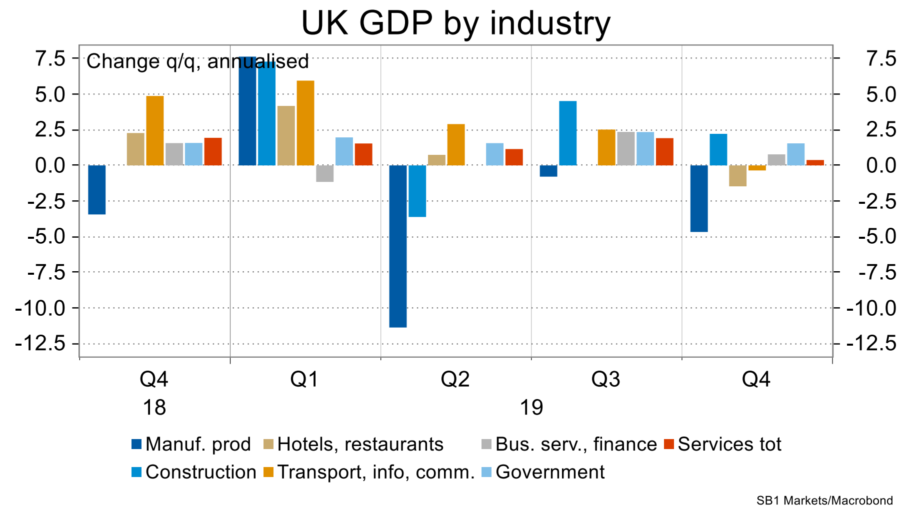
- Production is growing y/y in 2 of 14 countries, flattening in 3 and declining in the other 9. Belgium and Finland are now at the top, while most Eastern European countries have slowed substantially the past months
- Germany is reporting a far steeper decline than the other; however, both Estonia, Austria and Ireland (far too volatile= are declining rather sharply too

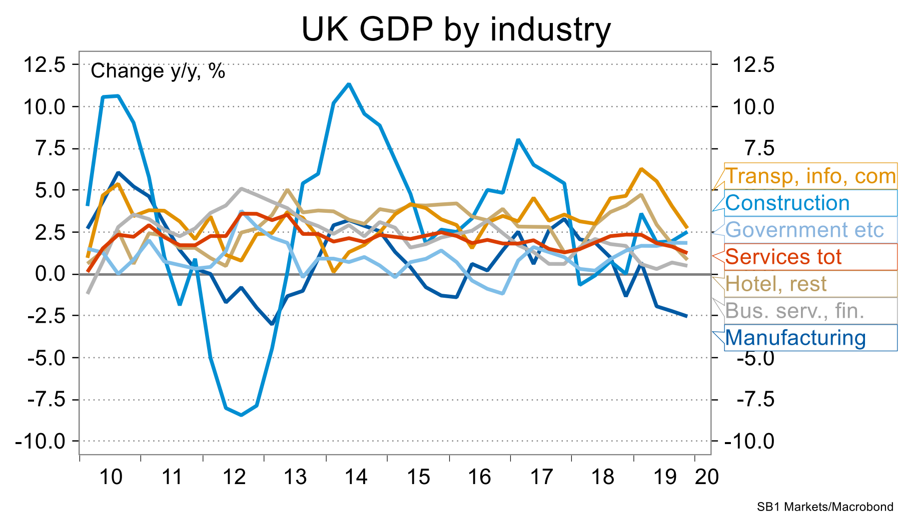
SpareBank 1 MARKETS

GDP stagnated in Q4 as both household and business demand edged down

GDP was unchanged q/q, as expected, but surveys suggest a rebound in Q1



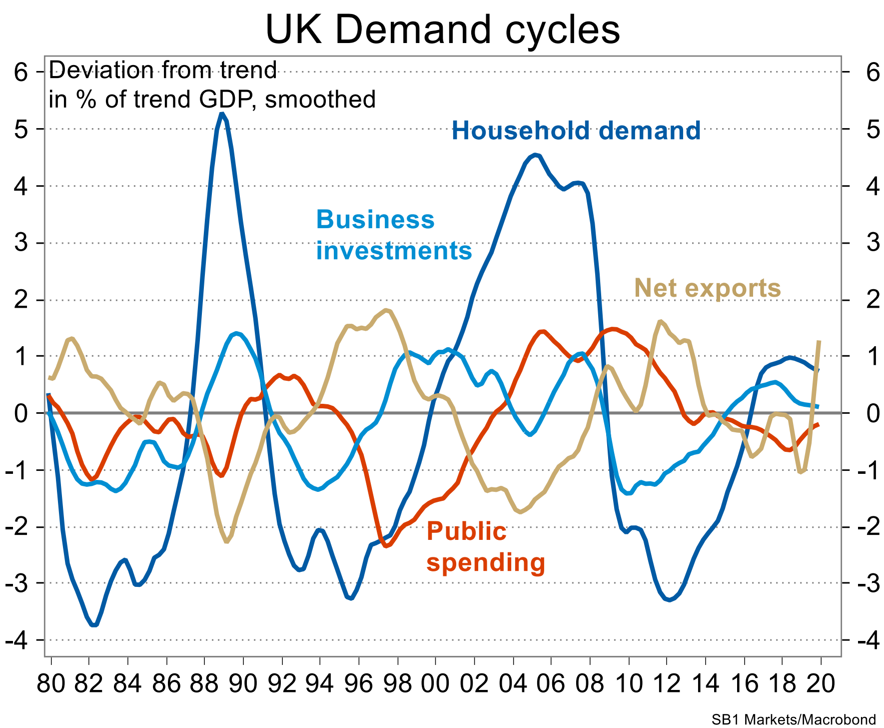


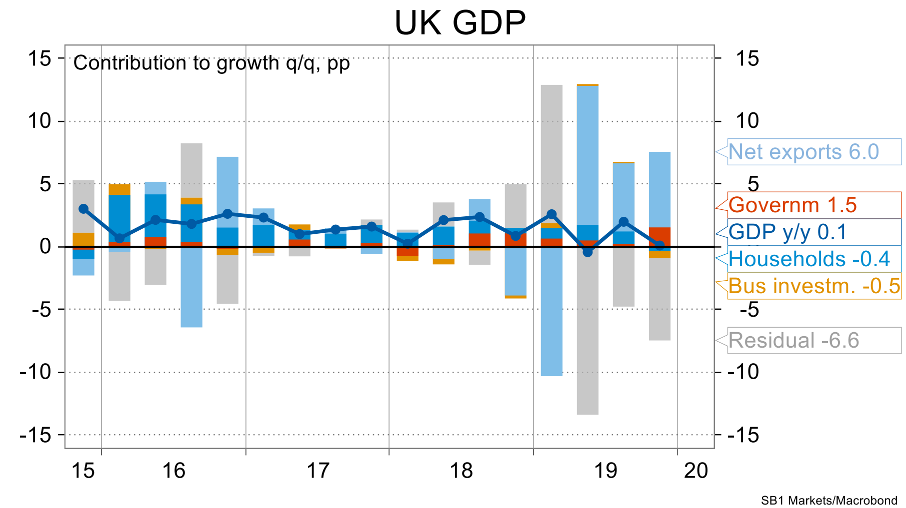


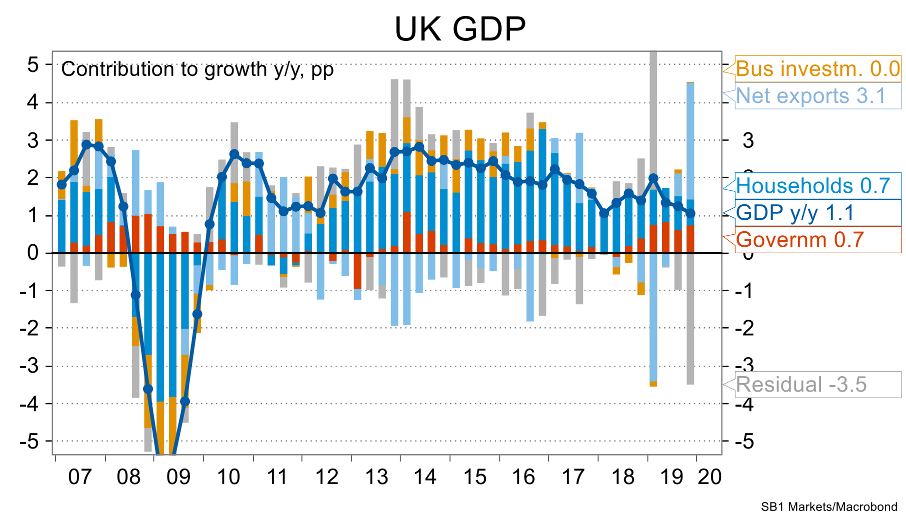
- GDP failed to increase in Q4, zero growth q/q (and 0.1% annualized), and the annual rate slowed to 1.1%
- From the production side; Activity dropped in manufacturing, while construction and government were the major growth contributors
- More on the demand side on the next slide

Household demand slows, business investments stall, just public boosting growth

Businesses have been struggling with inventory build ups, which are now being reversed



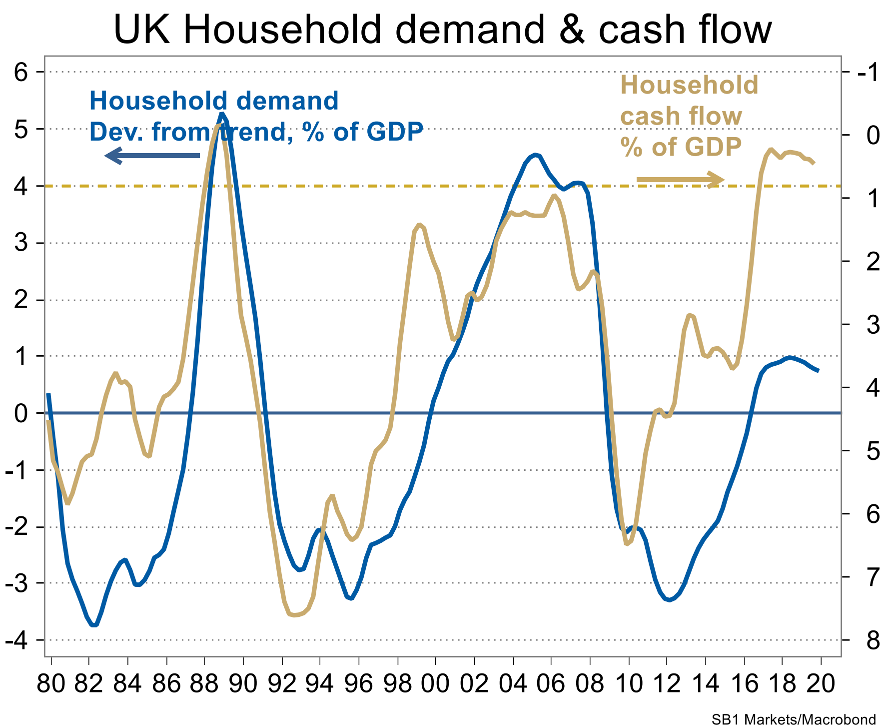


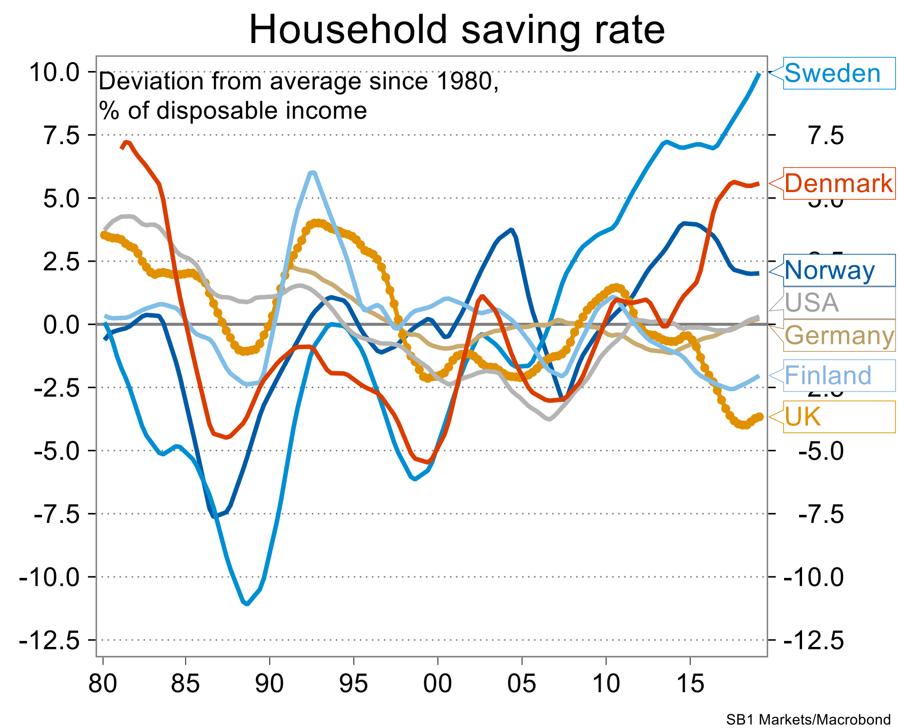


- The decline in the 'residual' indicates that stockpiling was being reduced further in Q4 (the 2nd derivative of the inventory), a lift in Q4/Q1, as businesses built up stocks ahead of the original March Brexit deadline. Exports increased in Q4, while imports fell marginally
- Household demand dragged GDP growth marginally down. Households have increased spending faster than normal but it does not look like a wild boom, from the spending side. ***However, check the savings rate, next slide***
- Businesses investments fell modestly in Q4 and the contribution to annual GDP has vanished. Exports rose strongly while imports fell marginally. And public demand is accelerating, pushing up GDP growth up by 1.5pp!

Households are not saving anymore, without any huge demand boom…

The UK saving trend is bad, savings have fallen sharply recent years



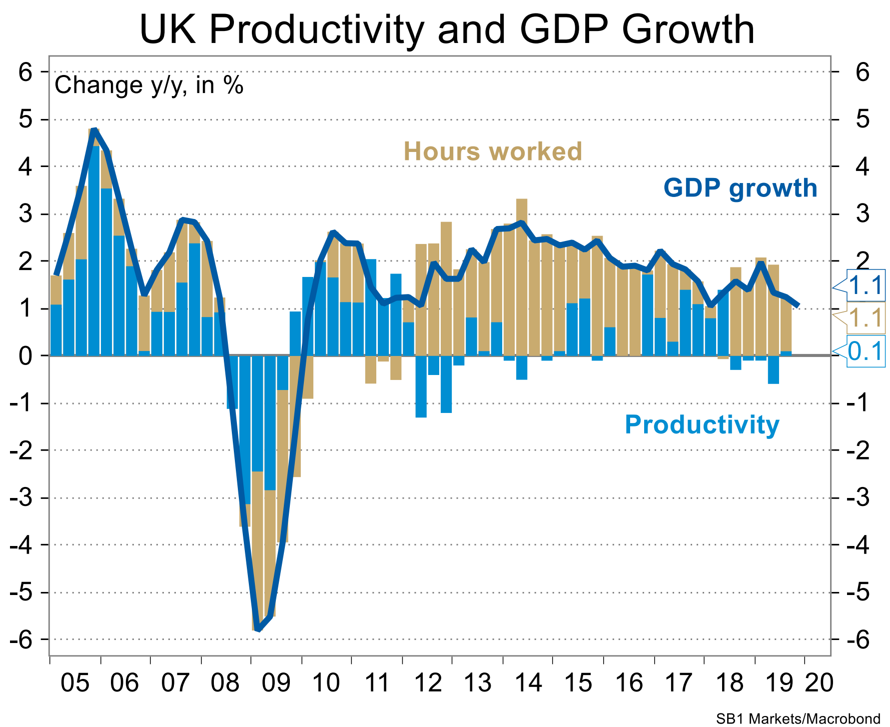


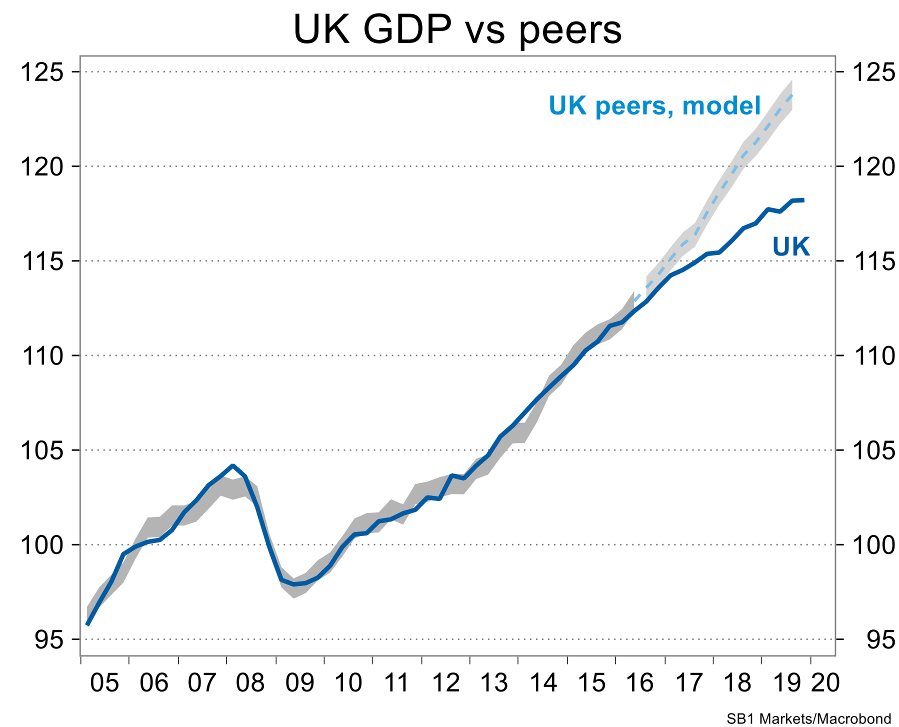
A rather scary picture, both short and long term. Short term: A substantial risk for a savings shock, sending the UK into recession

- The savings rate dropped to 5% in 2017 from 10% in 2015. Since then, savings have edged somewhat up but it is still way below a normal (at least an average) level. The Brits have compensated slow real income growth by cutting savings in order to keep consumption up – which have 'saved' the British economy, demand wise, recent years
- The household sector's cash flow is the weakest since 1988, this time without any huge spending boom, just a small one. This illustrates the much slower income generation capacity in the UK economy, due to very low productivity growth. Employment growth has been decent, and the employment ratio is record high but that has still not been enough to fund spending

No growth in productivity since mid-2018

Productivity growth has vanished (like in several other places) and hours worked slowed to 1.1%



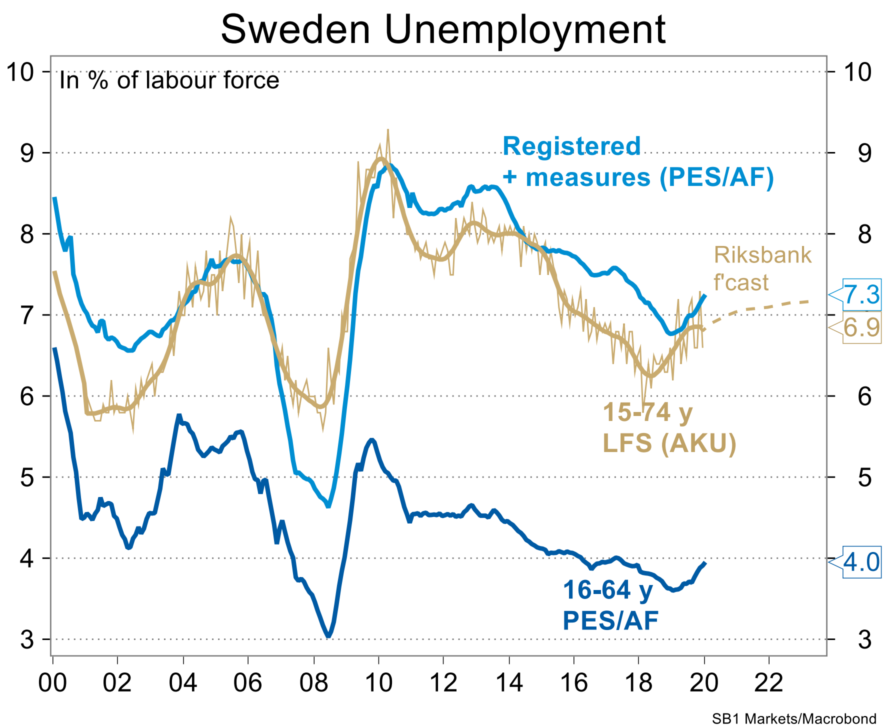


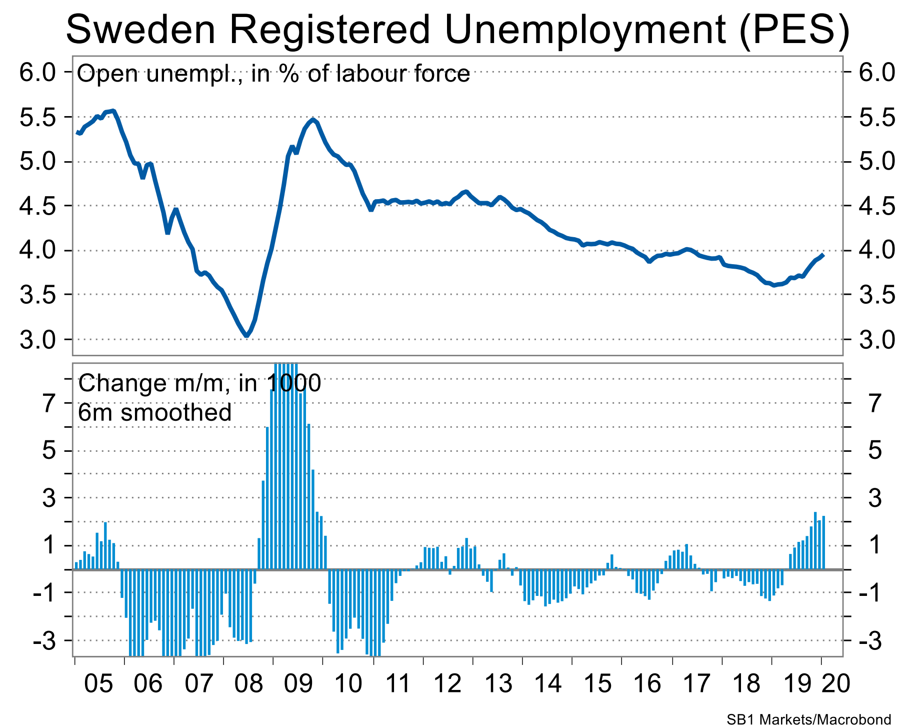
- Since the 2016 Brexit referendum: UK is sagging, GDP some 5% weaker vs UK peers. It may be a coincidence, it may not
  - » The regression model is based on GDP growth in the US, Spain, Hungary and Denmark, which used to be closely correlated to UK growth. Might be a spurious correlation but growth has been slower since 2016, compared to other countries as well

SpareBank 1 MARKETS

Registered unemployment another tick up in January; growth is below trend

Registered unemployment (PES) rose to 4% (7.3% incl. measures), up 0.4 pp from one year ago

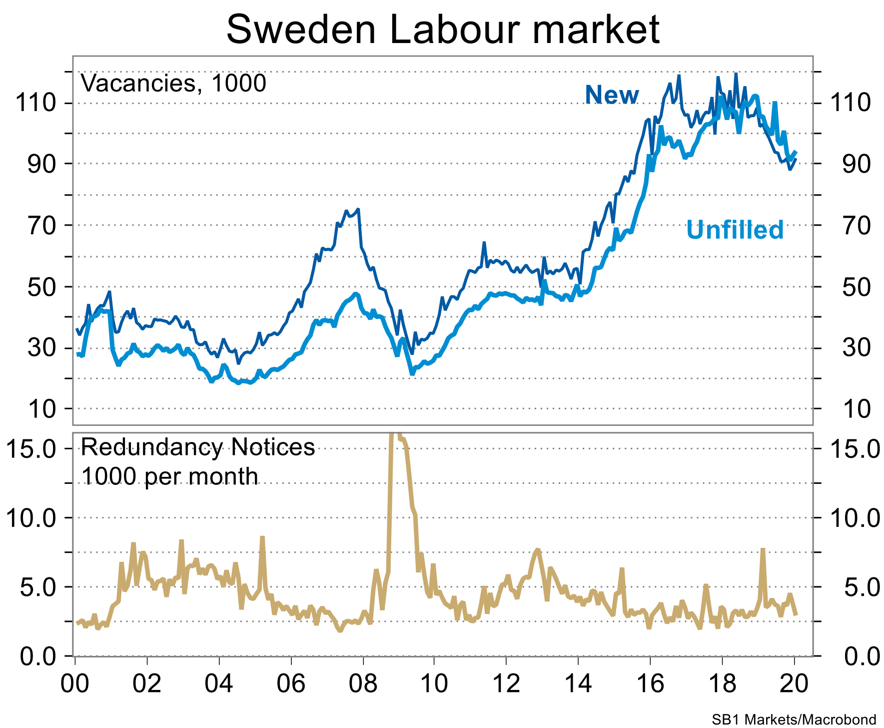


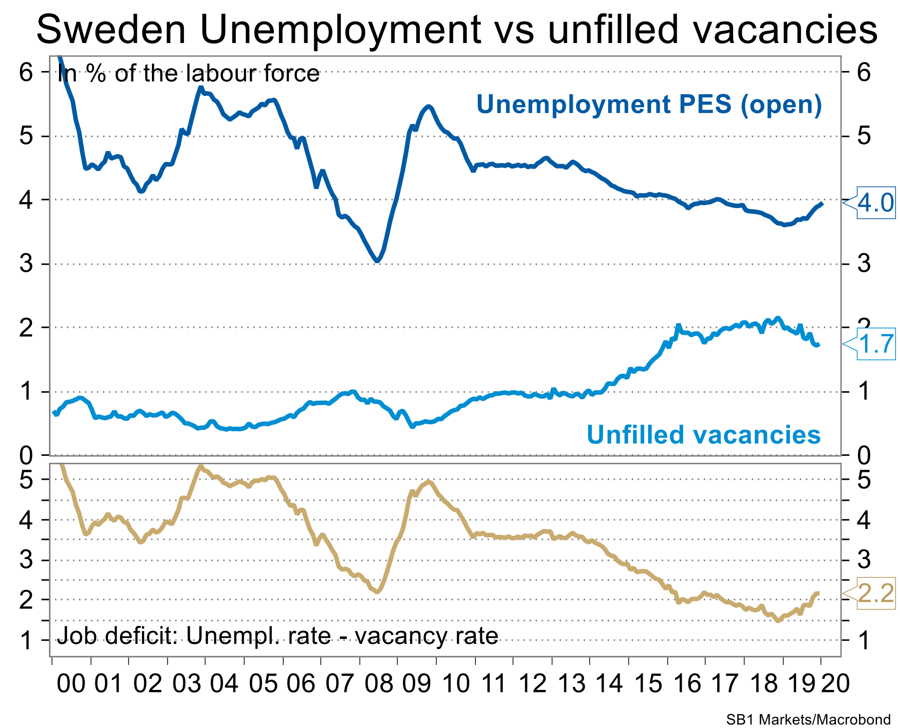


- The PES/AF registered unemployment rate (far less volatile than LFS data) ticked up 0.1 pp in January, to 4.0% (and to 7.3% incl. labour market measures). Unemployment is heading slowly, steadily up, and has increased by 0.4 pp since January 2019
  - » LFS unemployment has increased by 0.6 pp since last spring (measured by the smoothed rate). The unadjusted, volatile rate spiked 3 ½ year high in Oct
- Both new and unfilled vacancies have been sliding down since mid-2018, confirming a cooling labour market
- <u>The good news;</u> Employment is still increasing, albeit at a substantially slower pace. Labour market participation is increasing faster, bringing unemployment up. We would have been much more concerned if employment was declining

Unfilled vacancies down from peak as the labour market softens

Demand for labour must be sagging, unfilled vacancies have turned down from a very high level

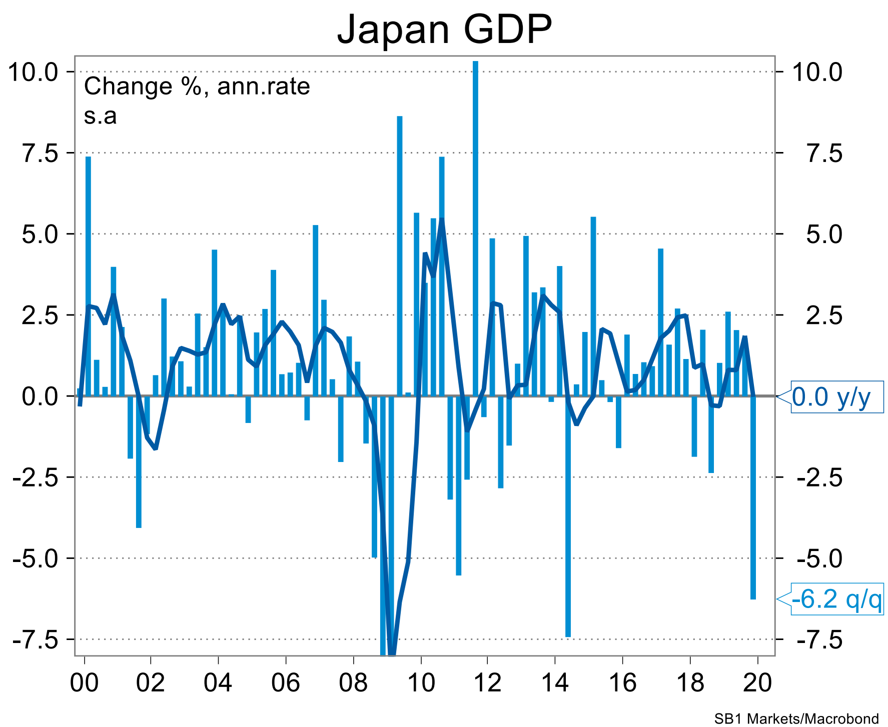


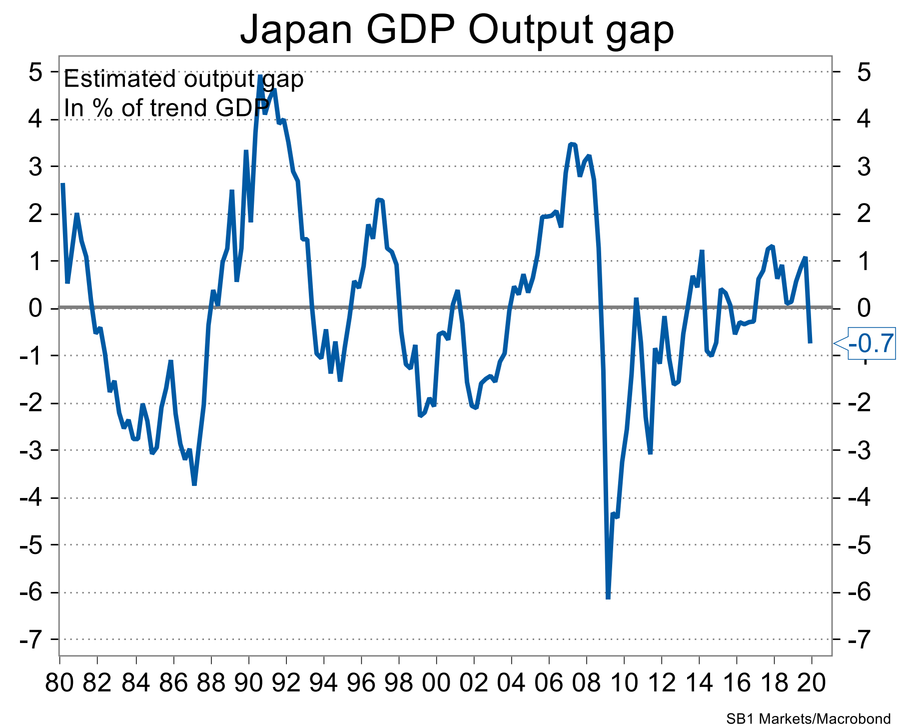


- The unfilled vacancy rate (in % of the labour force) peaked at just above 2% in late 2018, the highest level on record
- Even as the unfilled vacancy rate was rather low given the unemployment rate, the unemployment-vacancy gap was the lowest on record in 2018. Now, the gap is widening, suggesting a less tight labour market

What a VAT hit: GDP down 6.2% in Q4!

GDP fell by 1.6% q/q in Q4, as both consumption and business investments collapsed





- Japanese GDP data are notoriously volatile and often substantially revised. This time, the Q4 GDP growth rate was substantially weaker than expected, -1.6% (-6.2vs. -1%. The decline was expected due to a substantial decline in private consumption, (hopefully) due to the 2 pp hike in the VAT rate in October
- However, business investments fell sharply too, which they did not last the VAT rate was hiked

Highlights

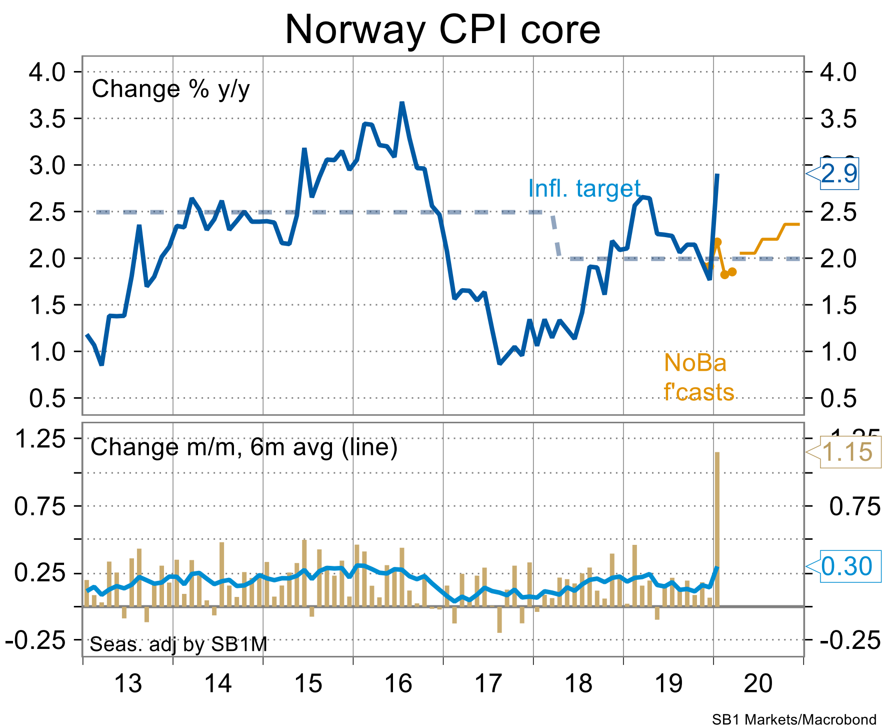
The world around us

The Norwegian economy

Market charts & comments

Core inflation miles above any f'casts in Jan; broadly, and not just NOK impacts

Core CPI soared 1.2% m/m, the fastest speed in more than 30 years, annual rate up 1.1 pp to 2.9%



- CPI-ATE (ex. energy and taxes) soared 2.9% y/y in January, up from 1.8% in Dec, and the highest since 2016. We expected 1.9%, consensus 2.0% and Norges Bank 2.2% back in December
  - » CPI-ATE soared 1.2% m/m seasonally adjusted, an absurdly high growth rate, which have not been seen since the 1980s. We expect a substantial reversal the coming months, yet core inflation will most likely remain higher than predicted
  - » A broad upswing; prices on furniture and household equipment, food, culture and airline tickets all rose more than we expected
  - » Imported goods prices rose 0.8% and the annual rate jumped to 2.7% from 0.6% in Dec (we expected 1.6%). There are probably a 'delayed' impacts from past NOK depreciation as importers finally passed on higher prices to the consumer level. However, 'domestic' goods/services rose 1.3% m/m, and contributed to most of the lift in inflation!
  - » No sector reports inflation below the 2% price target!
- Total CPI growth increased to 1.8%, up 0.4 pp. Total inflation is dragged down by electricity prices, which are down 23% y/y
- **Implications**
  - » We doubt that the January surge will be fully reversed the coming months (we expect 2.3% y/y in Feb), and Norges Bank will probably have to nudge up it's inflation f'cast. Moreover, higher inflation than projected will add pressure to the wage negotiations this spring and will increase the probability of a NoBa 2020 hike. However, other factors, such as lower interest rates abroad and a somewhat faster Norwegian growth slowdown than expected will drag the interest rate path down. We highly doubt the bank will deliver a hike this year
    - NOK appreciated some 0.4% vs EUR shortly after the release

Furnishing, food & drinks and recreation were the major growth surprises

Headline inflation was dragged down by a 23% annual decline in energy prices

		Change m/m, seas. adj			Change y/y			Contribution, pp		
Jan-20	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.5	1.2	0.1	1.1	0.3	2.1	0.7	0.16	0.26	0.14
Alcohol, tobacco	3.9	0.4	0.2	0.1	2.6	3.0	2.8	0.01	0.12	0.01
Clothing, footwear	4.9	0.9	0.1	0.8	0.6	4.2	3.3	0.04	0.20	0.04
Housing x. energy	20.1	-0.0	0.2	-0.2	2.0	2.0	2.2	-0.00	0.40	-0.03
Furnishing	6.6	3.5	0.3	3.2	1.8	6.5	3.3	0.23	0.43	0.21
Health	3.2	0.4	0.3	0.1	3.0	3.7	3.4	0.01	0.12	0.00
Transp. ex. gas, airl. tick	12.0	0.3	0.1	0.2	1.7	2.7	2.2	0.04	0.32	0.02
Airline tickets	1.2	6.1	1.0	5.1	3.0	7.7	0.7	0.07	0.09	0.06
Communication	2.2	0.3	0.3	-0.0	6.2	6.2	6.2	0.01	0.14	-0.00
Recreation, culture	11.9	1.0	0.2	0.8	1.9	2.7	1.6	0.12	0.32	0.10
Education	0.5	-	-	-	3.5	3.5	3.5		0.02	0.00
Restaurants, hotels	6.2	0.1	0.2	-0.1	2.3	2.0	2.1	0.01	0.12	-0.01
Other	8.8	1.2	0.2	1.1	1.6	2.7	1.7	0.11	0.24	0.09
CPI-ATE	94	**1.2**	**0.2**	1.0	**1.8**	**2.9**	**1.9**			
Norges Bank est.			*0.3*	*0.7*	***1.9***	***2.2***				
Imported	33	0.8	0.1	0.7	0.6	2.7	1.6	0.27	0.88	0.22
Domestic	61	1.3	0.2	1.1	2.4	3.0	2.2	0.81	1.85	0.70
Energy, housing	4	-9.9	-7.0	-2.9	-10.1	-22.7	-19.3	-0.38	-0.88	-0.11
Energy, transport	4	2.4	0.0	2.4	2.4	6.0	3.5	0.08	0.21	0.08
CPI Total	101	**0.4**	**-0.1**	0.5	**1.4**	**1.8**	**1.2**	0.36	1.85	0.50
Change m/m based on seasonally adjusted data										
Sum of parts does not necessarily add up to totals										
Norges Bank m/m s.a. estimate is implied, calc by SB1M										

- Food/beverages prices rose much more than f'casted, lifted m/m inflation by 0.16 pp. Will probably increase far less in Feb than the 0.8% recorded in Feb '18
- Clothing and footwear prices increased, we expected a decline. Last year, these prices rose 3.2% in Feb following a 2.6% decline in Jan. This year's 0.9% lift, will be followed by a limited rise in Feb
- Furnishing soared 3.5% m/m, a 0.23 pp contribution on monthly inflation! Last year's 0.9% Feb lift will not be repeated this year but we doubt prices will be cut
- Recreation and culture goods/services prices increased much faster than we projected

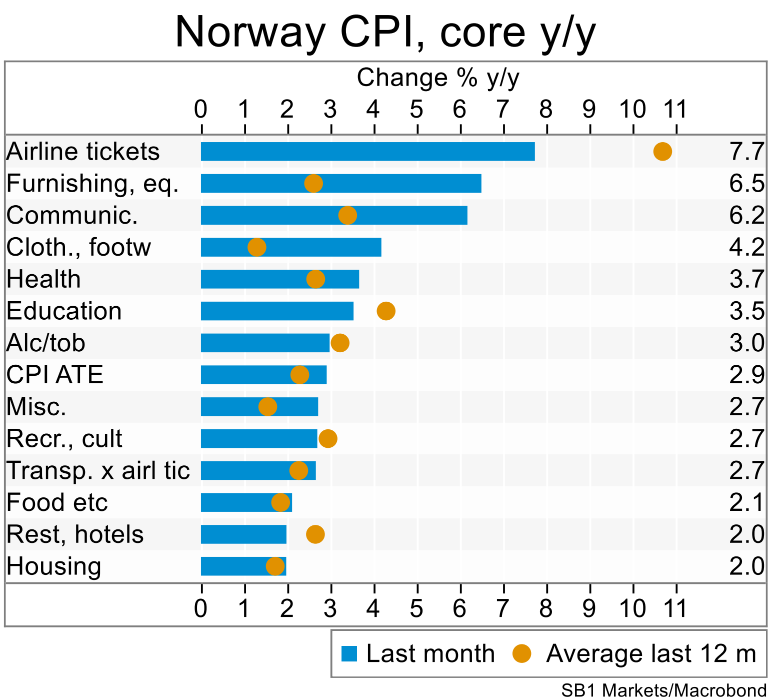
Non of the main sectors are reporting annual inflation below 2% (the inflation target)

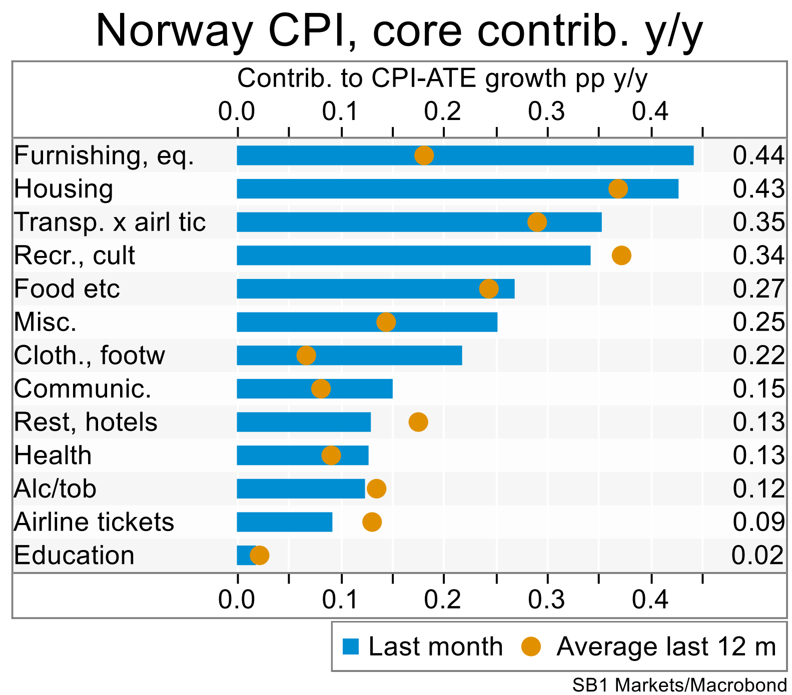
- **CPI-ATE up 2.9% y/y, 1 pp above our f'cast and 0.7 pp above Norges Bank's**
- Imported prices increased 0.8% m/m and contributed 0.3 pp m/m to the 1.2% lift. Domestic prices rose 1.3% and contributed by 0.8 pp m/m
- Electricity prices fell steeply in January and are falling by 23% y/y, offsetting some of the January increase on total inflation
- Total inflation accelerated to 1.8%, 0.6 pp above our f'cast

Monthly changes are seasonally adjusted by SB1 Markets. The weighted sum of the components does not necessarily sum exactly up to the total. Norges Bank m/m s.a. estimate is implied, calculated by us. Sources: SSB, Norges Bank, SB1 Markets calculations

Housing and furnishing are boosting core annual inflation

Price growth accelerated in 8 of 13 sectors in January, none is below 2%, y/y

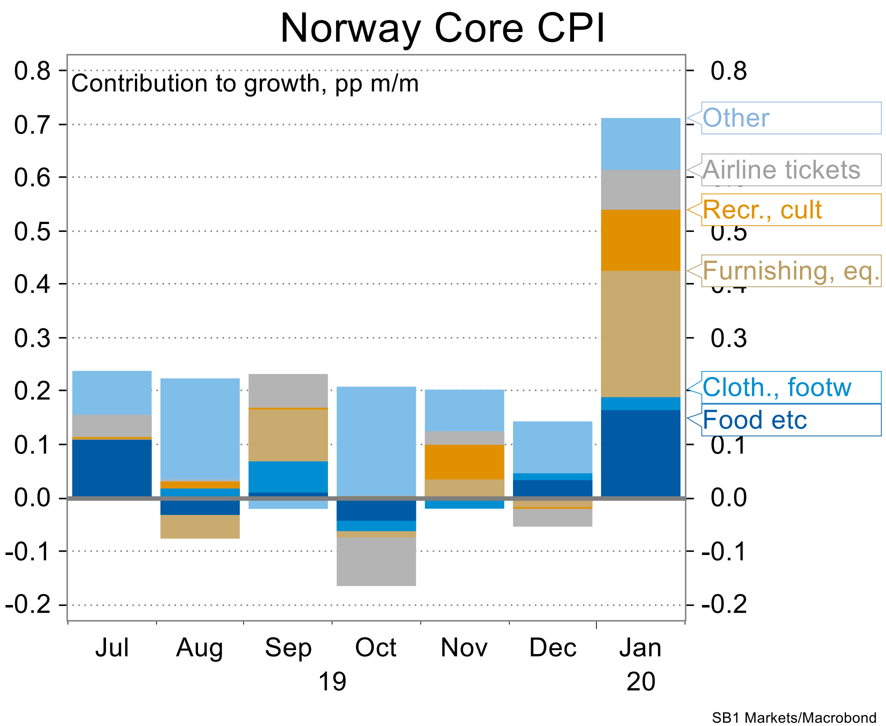


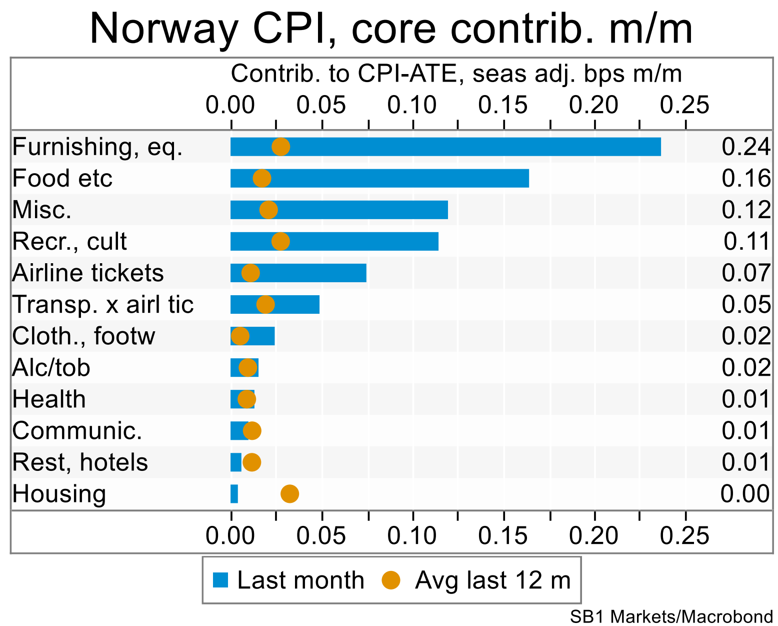


- Furnishing/household equipment prices and housing (mostly rent) are contributing 0.4 pp each to core annual inflation, a much larger contribution than the avg the past year

Monthly prices growth above last year's average in 8 of 12 sectors in Jan

Furnishing made the largest contribution, followed by food, recreation and airline ticket prices

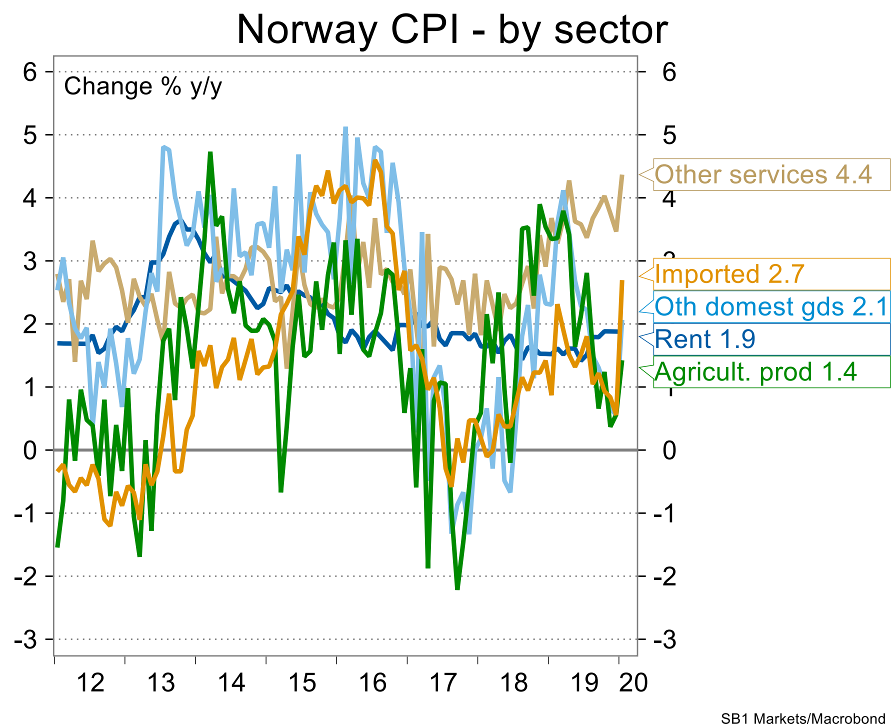


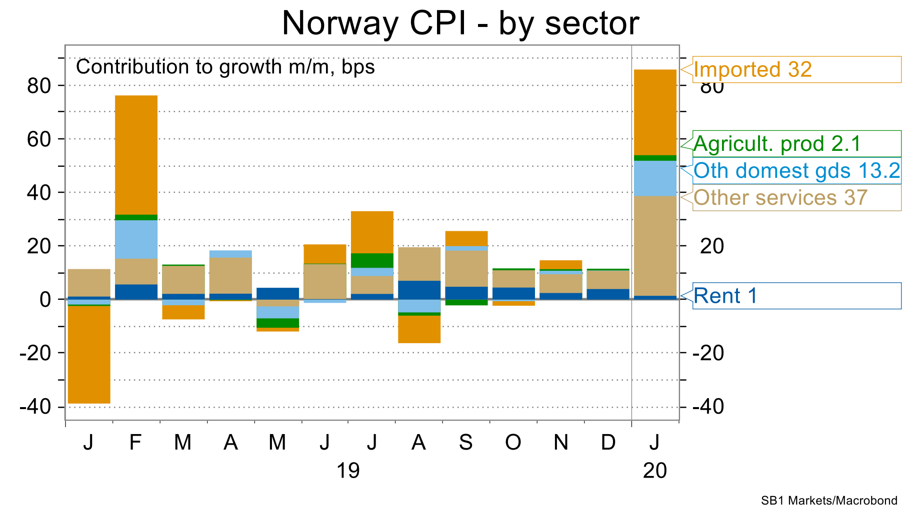


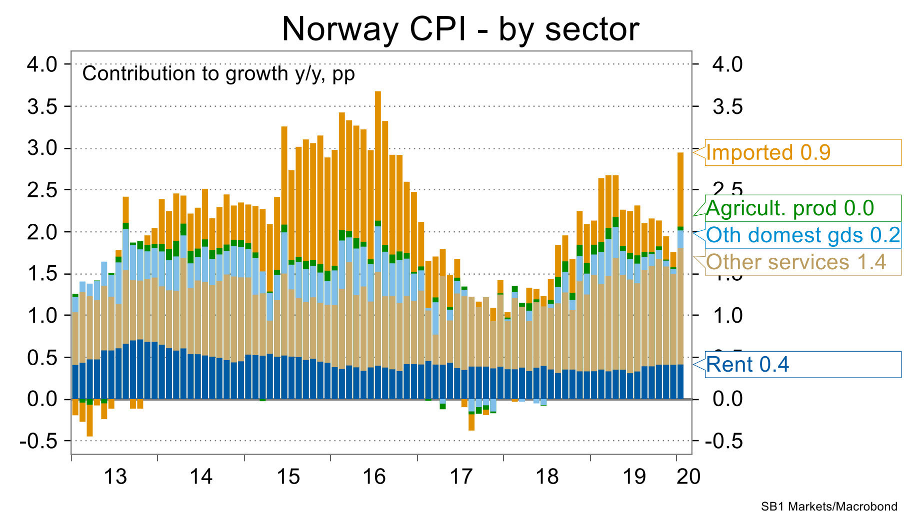
- Furnishing and household equipment prices soared 3.6% m/m (seas. adjusted), the largest monthly increase on record (since 2000)
  - » Those prices rose even before seasonal adjustment in January, normally prices declines some 2.5 – 3% during the sales period. Last year prices – like they normally do - rose sharply (3.8%) in February (and by 0.9% seasonally adjusted). Next month we do not expect nominal price cuts, but a substantial decline seasonally adjusted – and measured y/y, to some 3.5 – 4%, from 6.5% in January

Broad price increases, not just imported goods

Domestic goods accelerated too, and services were the major contributor m/m



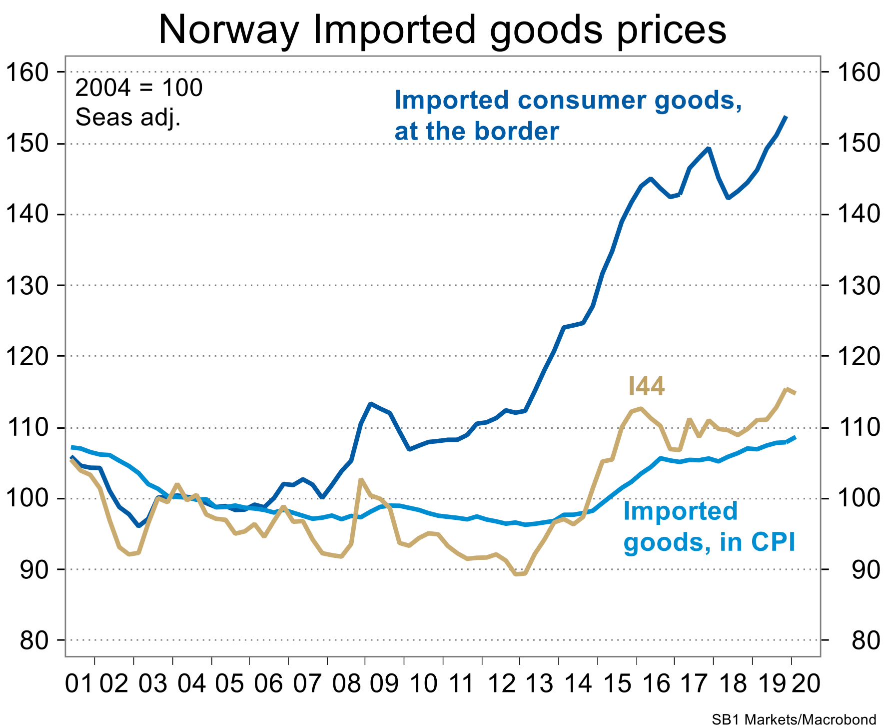


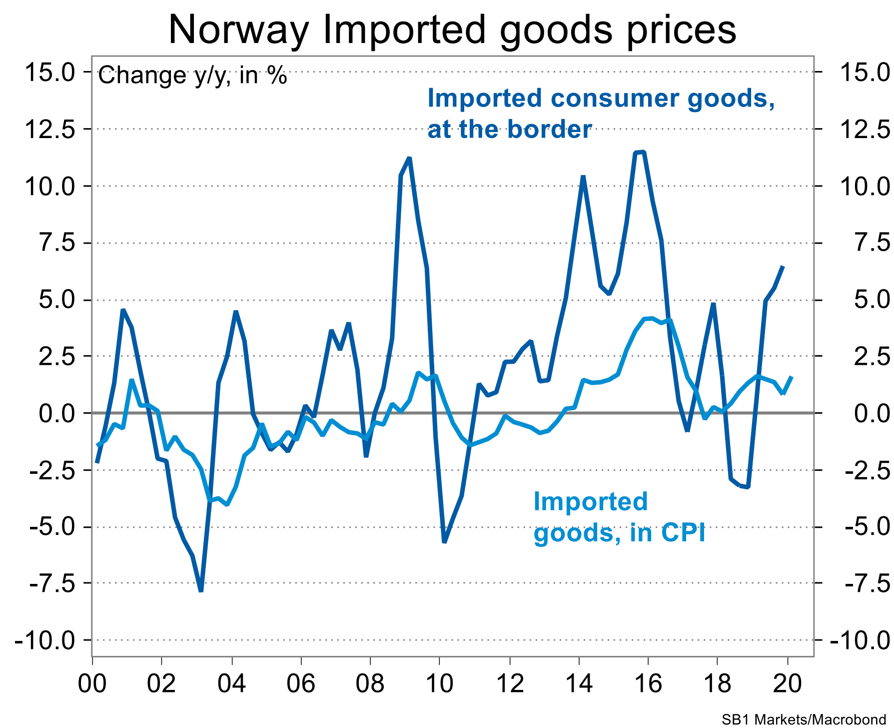


- Imported inflation surged to 2.7%, a 2.1 pp lift. More than half of the increase may be attributed to base effects, while the rest is due to a 0.8% price hike m/m in Jan. Some is probably transitory, while some may be to due to lagged impacts of the NOK depreciation (see the following pages)
- However, domestically produced goods/services prices rose 1.3% m/m, and 3.0% from 2.4% y/y. Services x rent (restaurants, personal care, insurance etc) are up 4.4% y/y, up 0.9 pp from Dec, and the highest growth since 2008. Non-agricultural domestic goods accelerated to a 2.1% pace, from 0.6%, with contribution from many subcomponents. The NOK may have pushed up domestic prices indirectly, through higher input costs.

At-the-border prices on consumer goods are surging

Consumer price growth on imported goods still moderate, importers' margins are under pressure

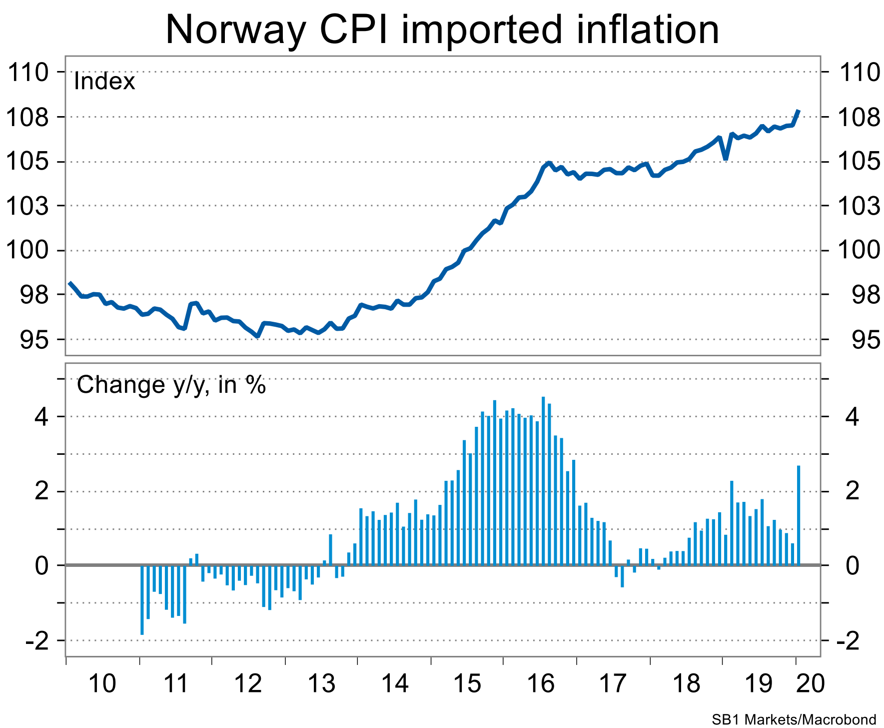


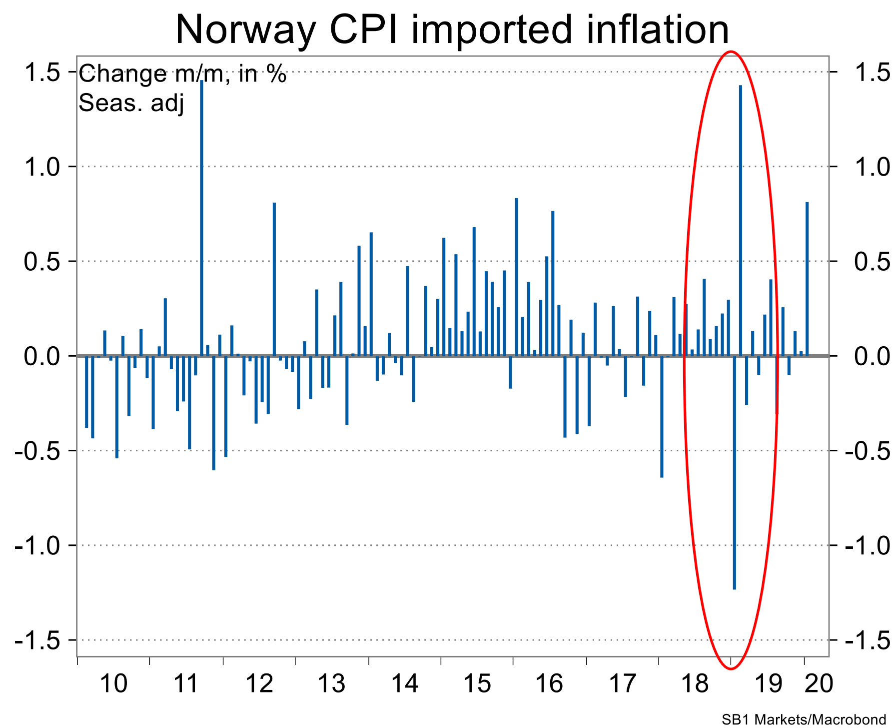


- The increase in SSB's price index for imported goods at the border probably overstates price increases substantially (at least compared to the way prices are calculated at the CPI level). There are no adjustment for quality changes
- Our model for imported goods prices in the CPI does not signal any risk for high inflation going forward
- Still, importers/sellers of imported goods have felt the squeeze, and the price lift in January is at most likely at least partly due to a need to cover higher costs for imported goods

Imported inflation is accelerating but a partial reversal is likely

Annual imported inflation will most likely slow in Feb, possibly deducting 0.3-0.4 pp on core inflation

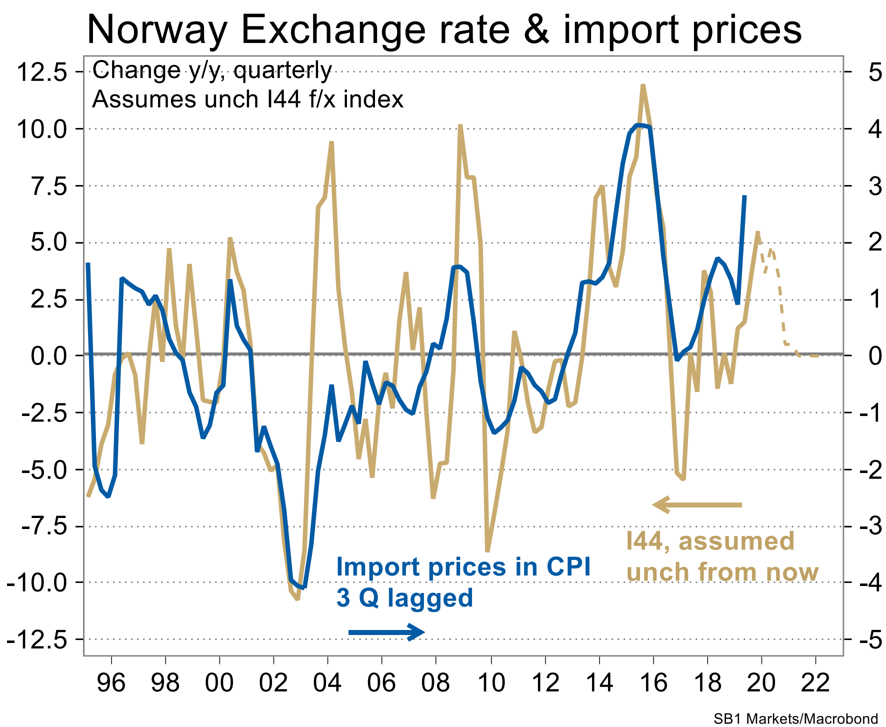


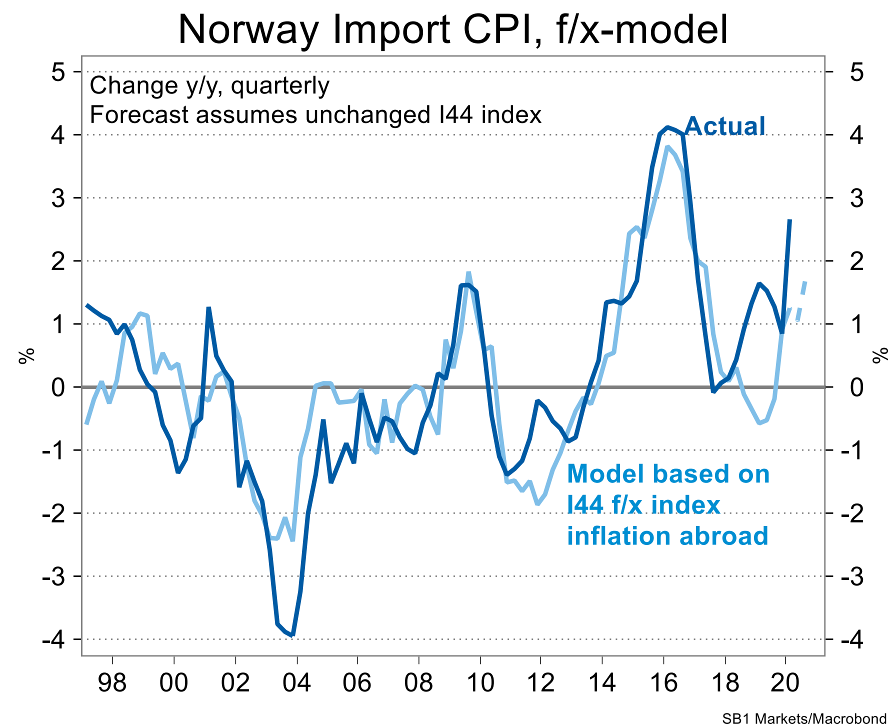


- The 0.8% m/m rise is the highest since 2016, is at least partly due to the NOK depreciation during the autumn.
- Nonetheless, some 1.3 pp of the 2.1 pp rise in annual inflation is due to base effects, as import prices dropped 1.2% m/m in January last year, and soared the following month. Thus, a partial reversal in February is likely. We estimate a 0.3-0.4 pp reversal on core annual inflation due to these base effects

Imported prices: Limited upside risk vs total inflation

Imported inflation has been a tad higher than our model have suggested – and is too high now





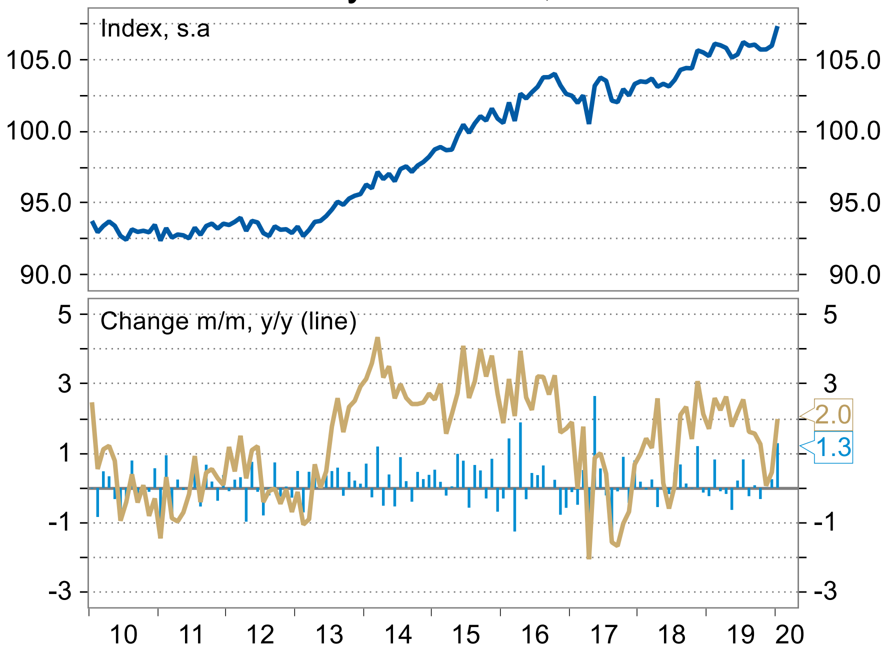
- Importers, particularly in retail sectors, have been reporting substantial difficulties passing on higher prices on imported goods due to the weak NOK on to consumer prices. Soft demand and tough competition are no doubt squeezing margins. Most likely, many businesses have sustained from adjusting prices.
- Even so, imported goods inflation has been a tad higher than signalled by our model (at least until Q4 last year), and it signals lower inflation the coming months than in Jan

SpareBank 1 MARKETS

Food prices pick up speed, a broad uplift in January

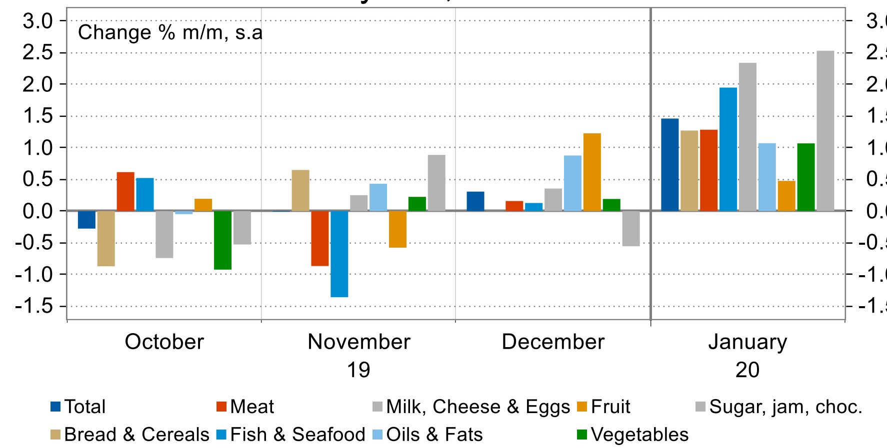
Prices soared 1.3% m/m and the annual rate rose to 2.0%, weak NOK probably part of the story

Norway core CPI, Food



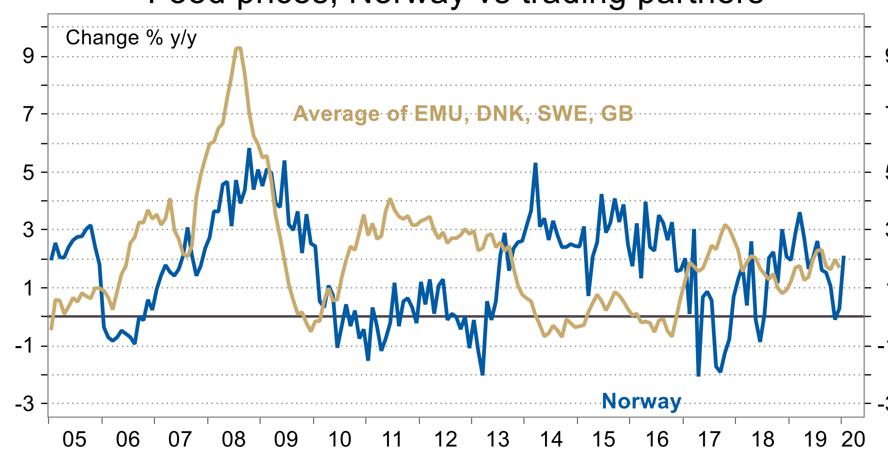
SB1 Markets/Macrobond

Norway CPI, Food details



SB1 Markets/Macrobond

Food prices, Norway vs trading partners

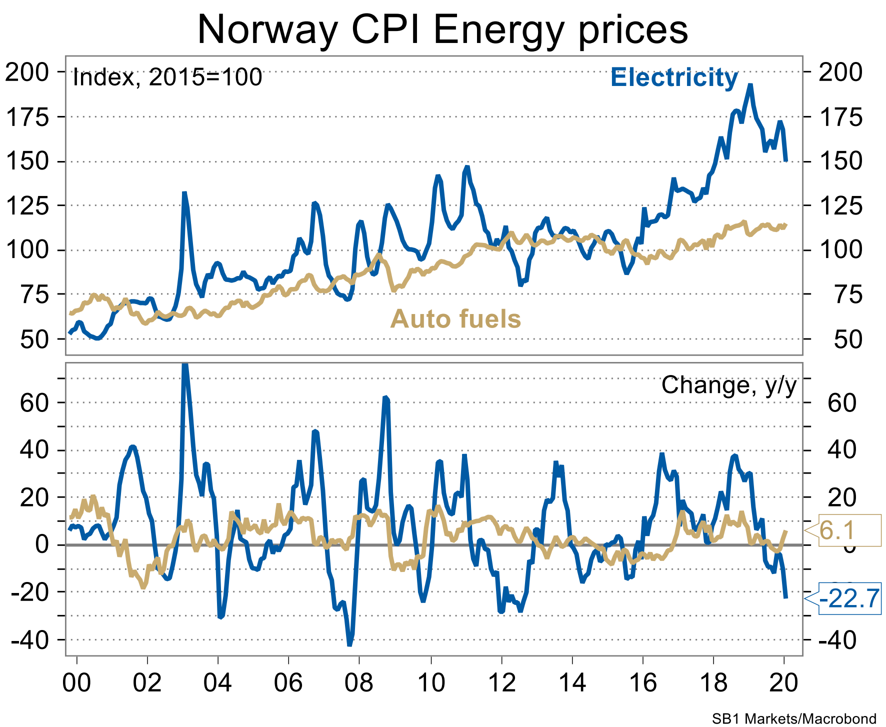


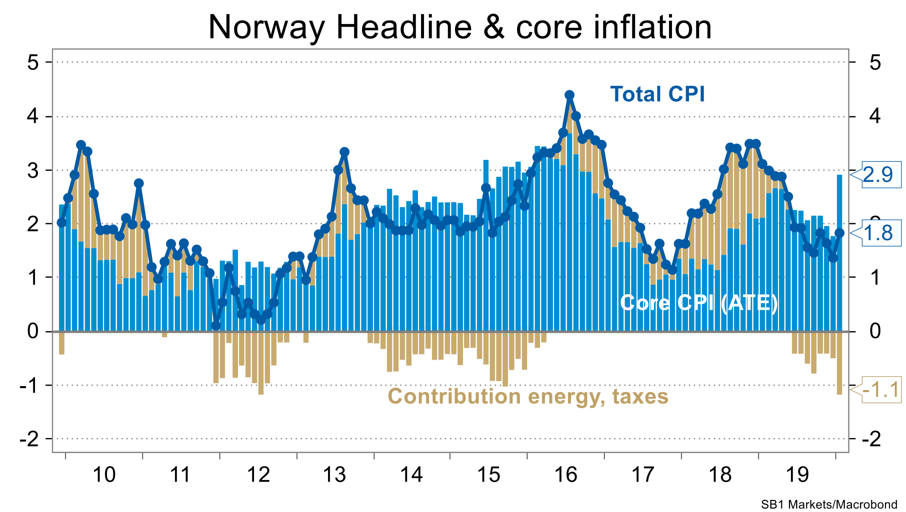
SB1 Markets/Macrobond

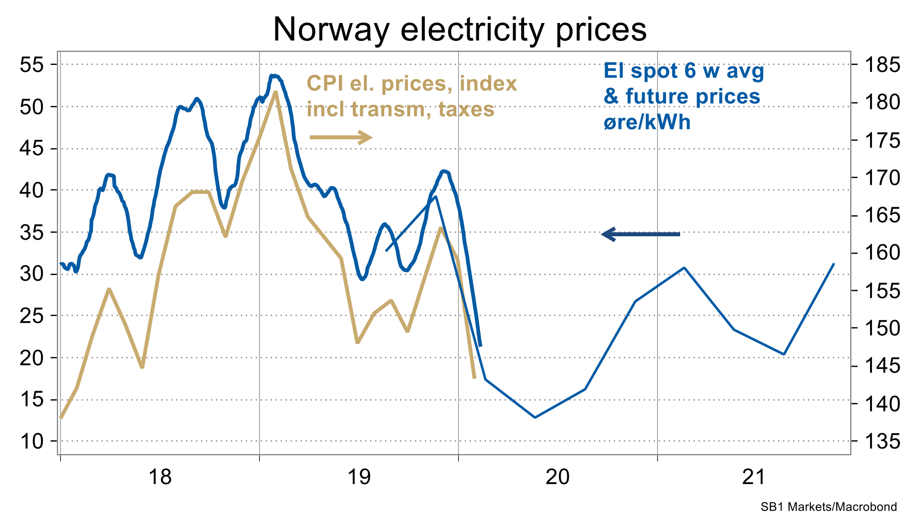
- Prices jumped in January after stalling the past year. Prices increased in all food sectors, reflecting larger price adjustments than usual from January 1st
  - » Sugar and chocolates were nudged up the most, followed by milk&cheese and seafood
  - » It is likely that the impact of negotiated price increases that usually are agreed upon in February will we counterweighted by a correction of the unusual price increases in January
- Food prices are now increasing at the same pace as in our neighbouring countries

Electricity prices are tumbling, bringing total inflation down

Electricity prices are deducting 1.1 pp of total inflation and will probably not recover any time soon





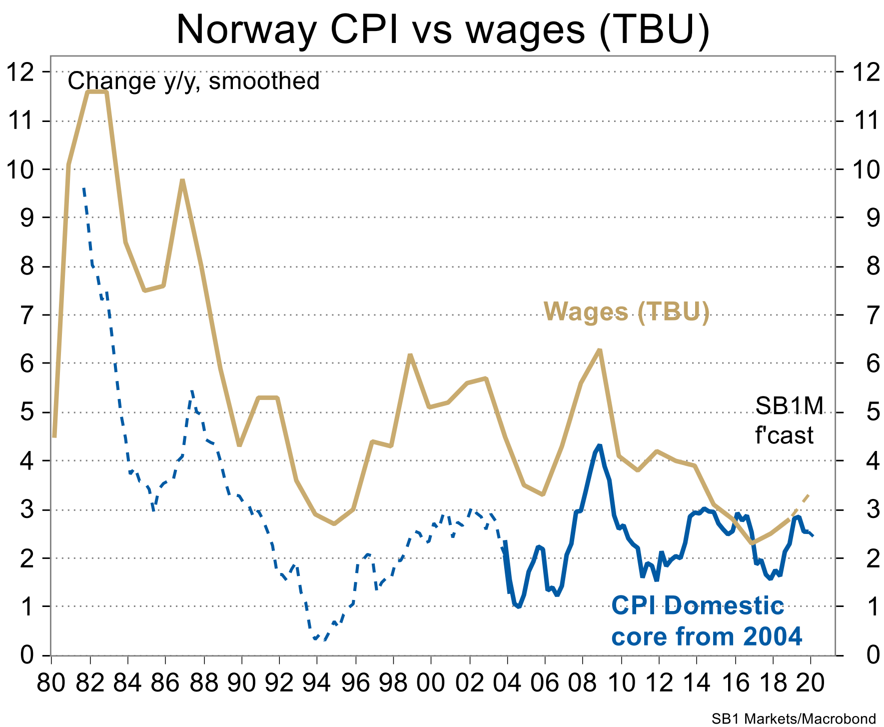


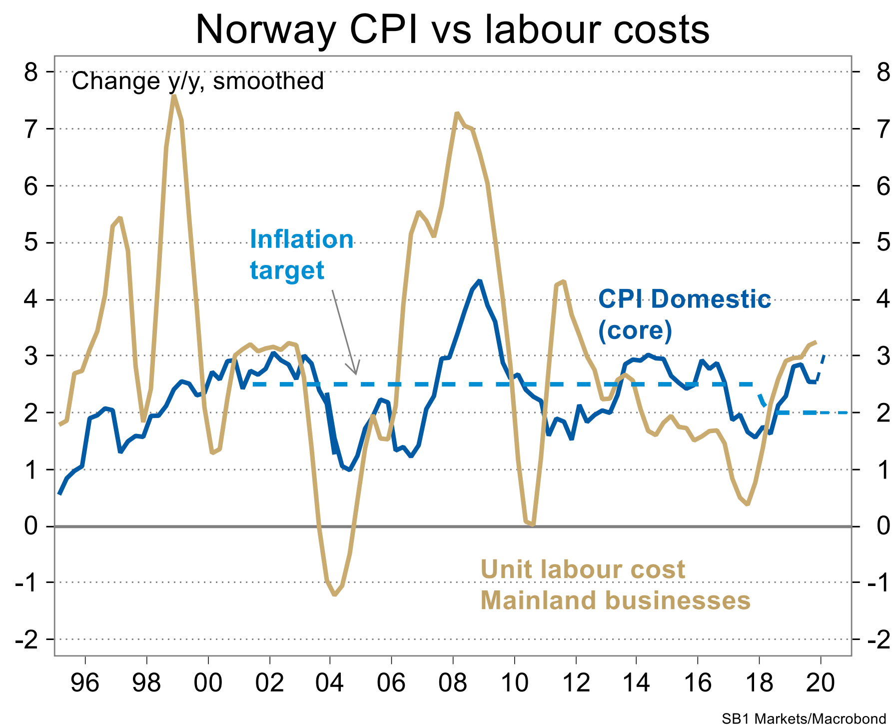
- In 2017/18 the surge in electricity prices lifted the headline CPI, reducing real disposable income significantly. This effect was put in reverse in 2019, as electricity prices fell sharply. Prices rose (as usual) during the autumn, but are now falling steeply, down 23% y/y! (much rain/snow, mild weather)
  - » The forward prices have fallen too, signalling a further downside drag on overall CPI inflation (but not larger than today)
- Auto fuel prices are lifting total inflation modestly

SpareBank 1 MARKETS

Domestic costs: Wage inflation is increasing, cost inflation above infl. target

Wage inflation has turned up. Unit labour cost up 3.4% y/y in Q4 (smoothed)

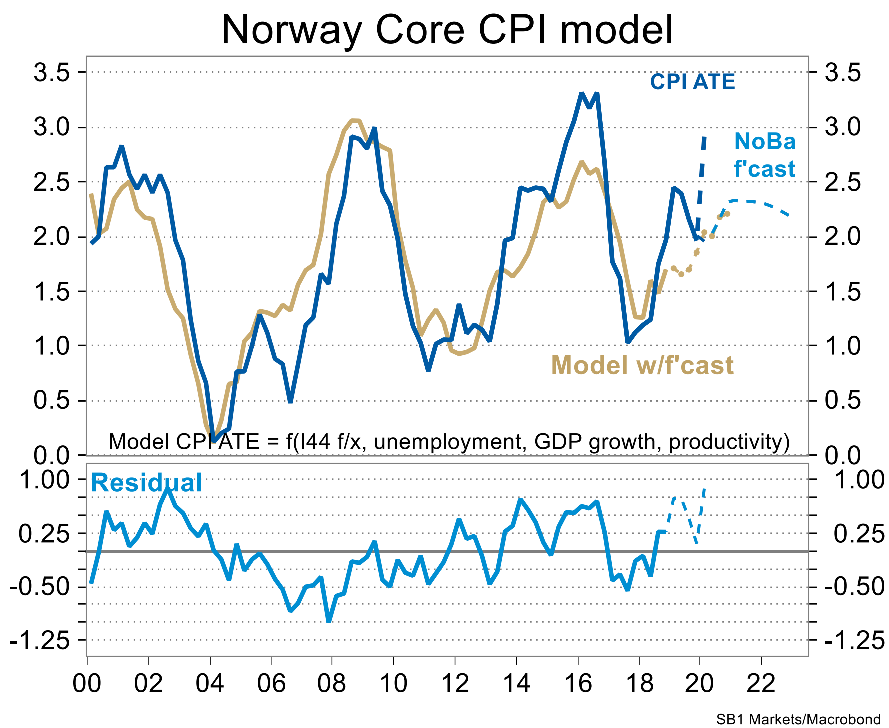




- Wage inflation is increasing and is now approaching 3%, will probably edge up to 3.2% in 2019
- Productivity growth remains meagre, just 0.2% y/y in Q4
- (Underlying) Unit labour costs inflation is rising, to 3.4% y/y in Q4 (smoothed), from below 1% in 2017

The outlook: Core CPI inflation far above our model forecast

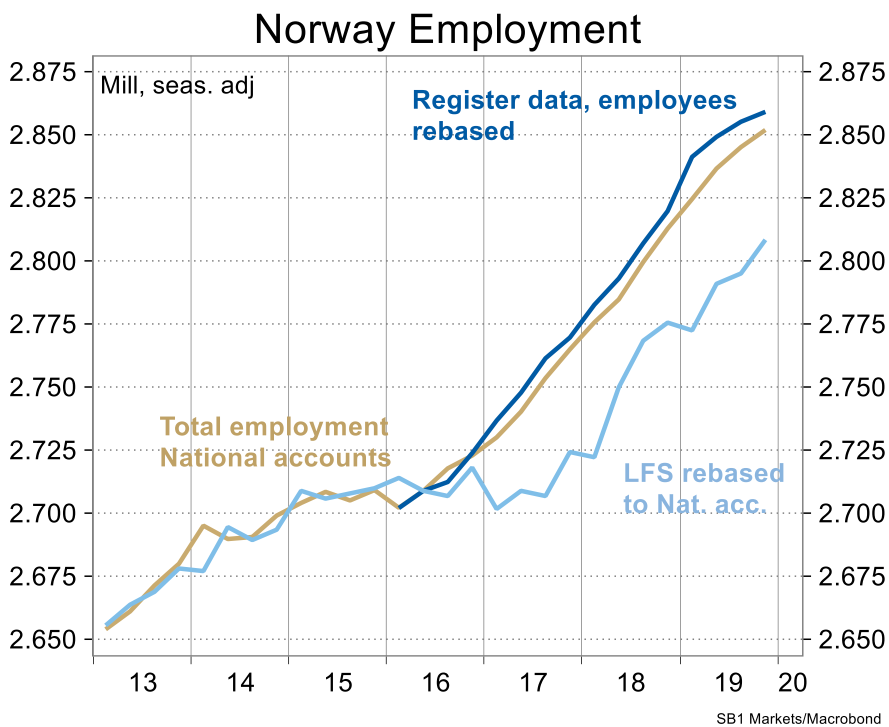
The model suggests 2.0% in Q1 vs the jump to 2.9% in January, and a pick up to 2.2% by late 2020

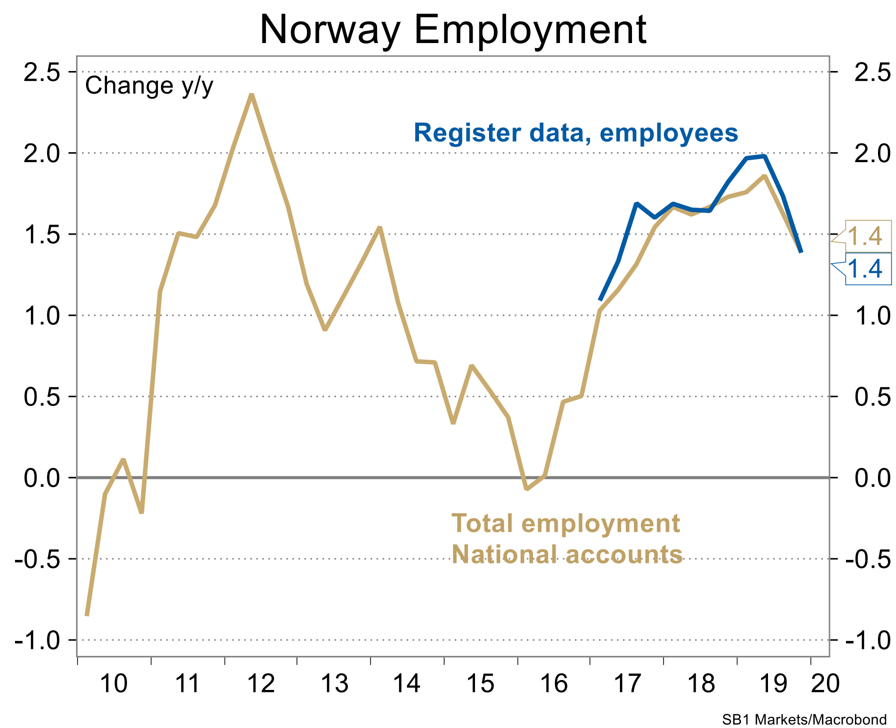


- Core CPI growth slowed to 2.0% in Q4, just 0.1 pp below the model f'cast. The jump to 2.9% in January is far steeper than the model suggested for Q1 (or later). We expect a partial reversal the coming months, and even if actual inflation is set to outpace the inflation f'cast in H1, the model f'cast of a 2.5% by late 2020 may not be that far off
- The model includes the GDP output gap and NOK I44 index
- Norges Bank expects core CPI to be running at 2.2% in 2020 (December Monetary Policy report), down from 2.3% in 2019. An upward revision in March is possible

Register data confirm slower employment growth

The number of employees rose 1.4% y/y in Q4, down from 1.8% in Q3. Total employment up 0.9%?



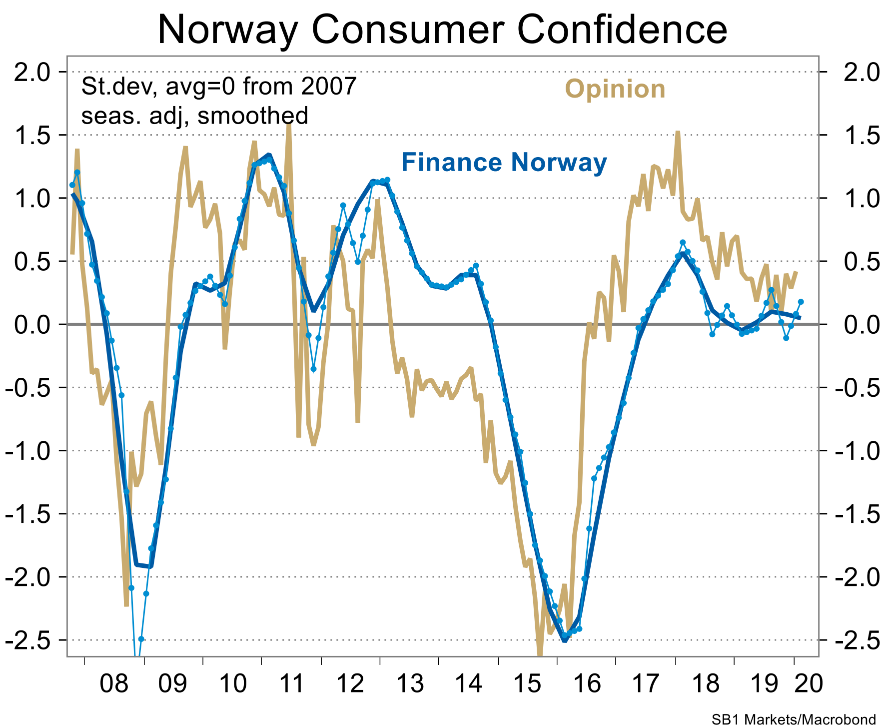


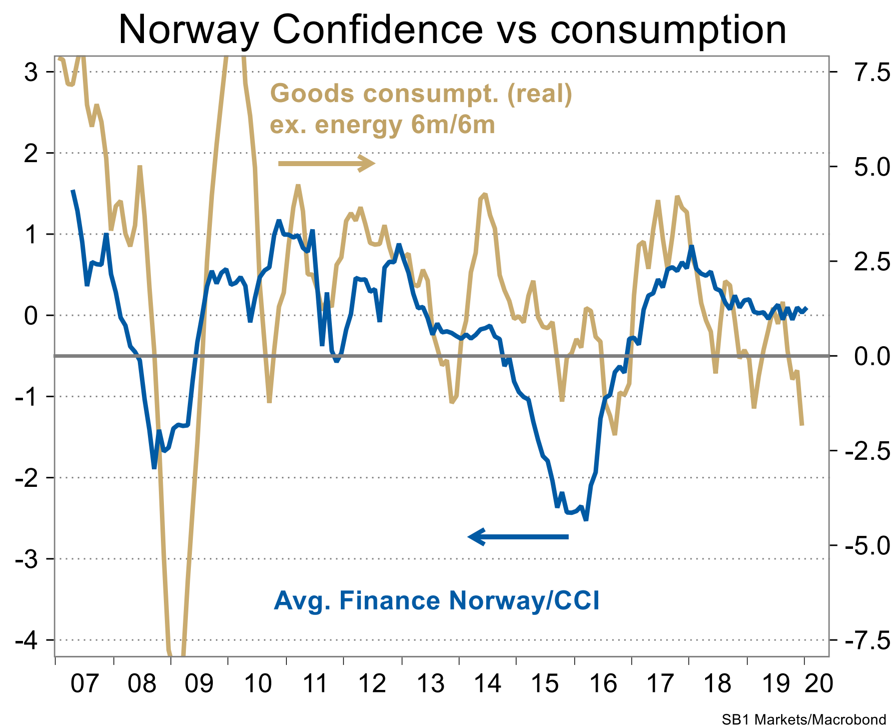
- The register data history is too short to make a decent seasonal adjustment, we present a preliminary estimate above
  - These quarterly employment data are based on the new register based on 'a-ordningen', covering all businesses paying wages or social contributions. The national accounts' employment data are now heavily based on this data source. The register data have been running somewhat higher than total employment measured by the Nat. Acc.
- The annual register based statistics for total employment (including self employed) reports a 0.9% growth y/y in Q4, down from 2% in 2018 (and 1.3% in 2017). This stats is somewhat volatile but confirms a slowdown in employment growth
- The LFS (survey) employment data are more volatile than other measures. LFS has reported slower employment growth past three quarters

SpareBank 1 MARKETS

Consumer sentiment picked up in Q1, view on the own economy at 5 ½ high

Finance Norway's CCI has stabilized, as Opinion's, do not signal a consumption setback





- Finance Norway's quarterly consumer confidence index rose to 15.8 p in Q1, (seasonally adjusted), up from 12.4 in Q4. (The smoothed index (trend adjusted by the source) came down marginally, to 0.05 st.dev above the avg level since 2007, which was reported in media)
- Confidence in the Norwegian economy improved, probably supported by easing trade tensions, Brexit, and the stock market (until recently) but remains soft. The assessment of the personal economy climbed, consumers note that rising real wages and strong labour markets are boosting confidence
  - » Opinion's monthly CCI has stabilized the past few months, after a steep decline through 2018 and early 2019
- The avg. of the two surveys has stabilised since early 2019, at a decent level, and do not point to an abrupt slowdown in consumption, such as actual consumption/retail data have showed recent months. Any acceleration is unlikely, but a soft recovery should be within reach
  - » Still slower growth in nominal and real income than 'usual', low population growth may explain some of this gap, the 'new normal' is lower than before

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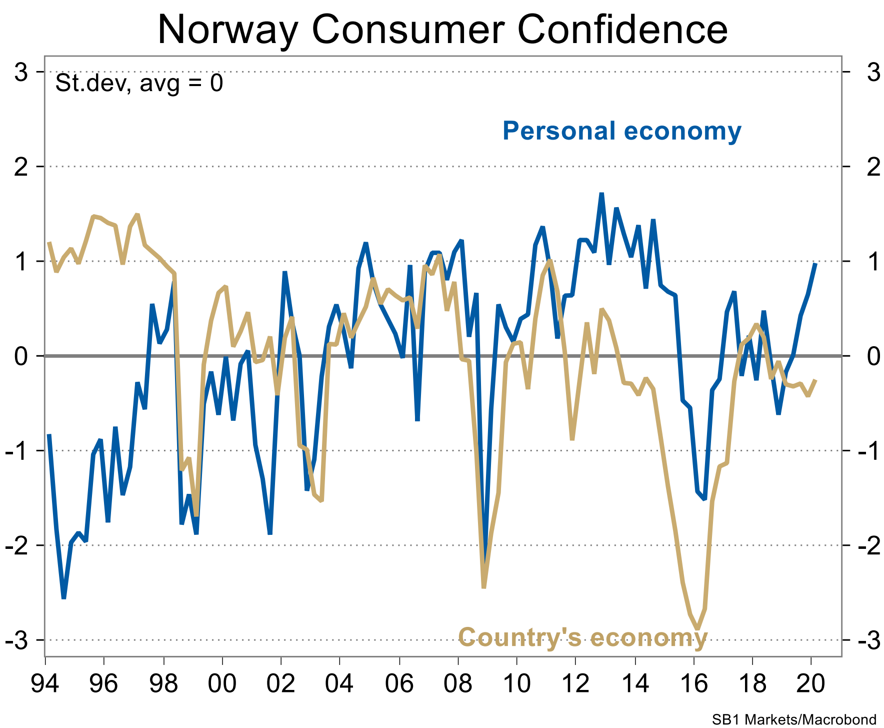
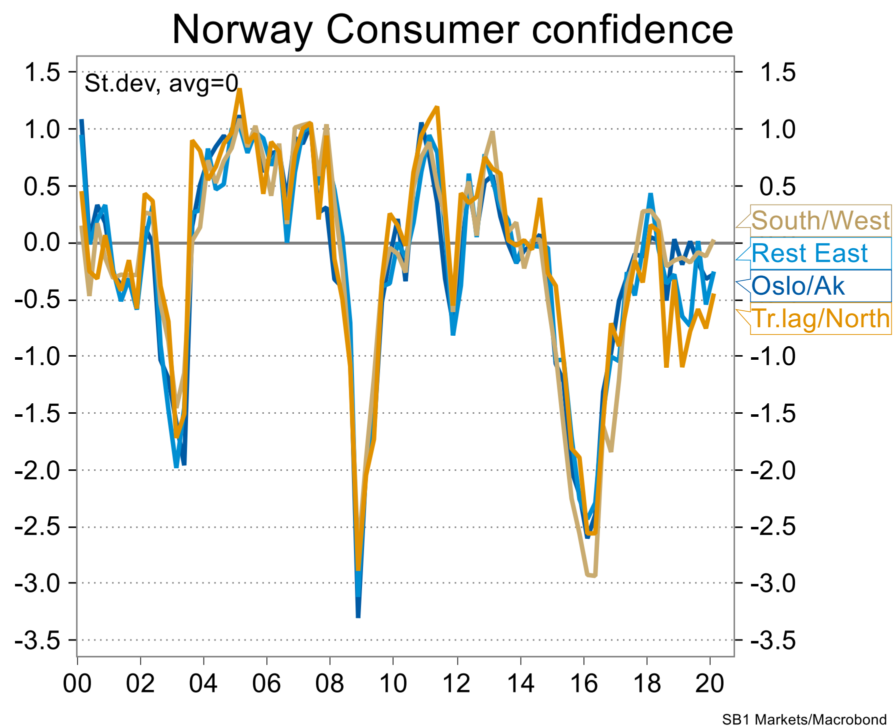
Consumers are more upbeat on their personal economy, macro still weak

Assessment of own economy at the highest since 2014, fuelled by real wages/labour market

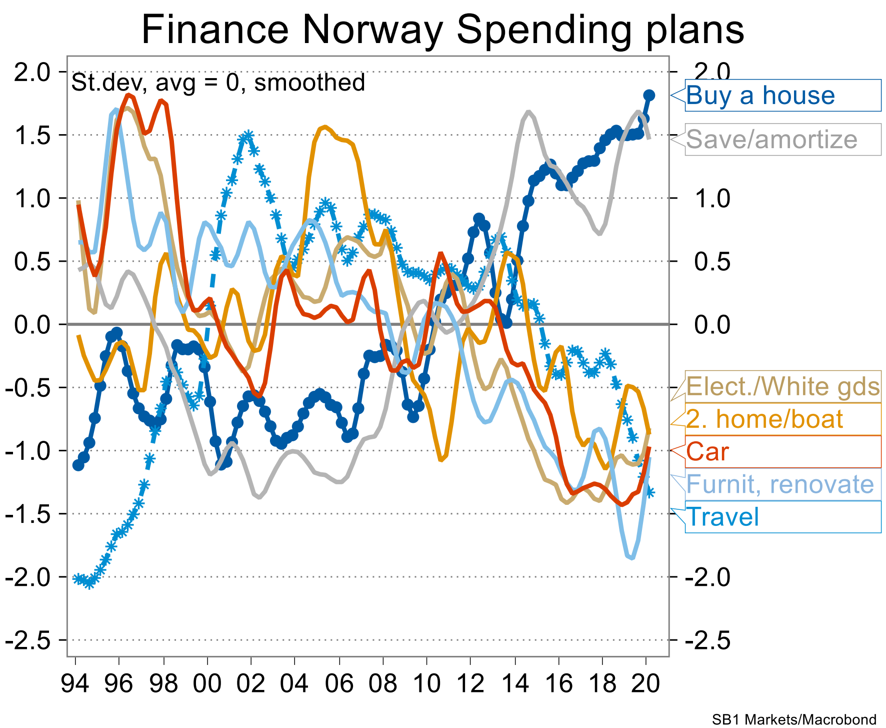


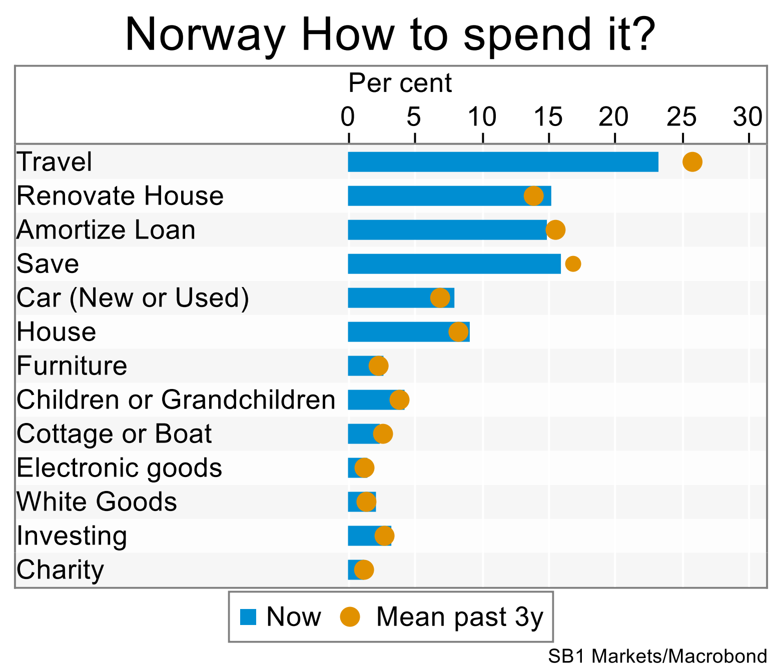


- Confidence in the Norwegian economy improved in Q1, as concerns about global trade and the US/China trade war eased, as well as Brexit uncertainties. However, the level remains rather weak, below the average level
- The view of the personal economy rose for the 5th quarter in a row, to the highest level since 2014
- Confidence improved in all regions in Q1, the least in Oslo/Akershus. South&West are the most upbeat, North the least

House purchase plans are rising again, and a tad fewer plans to save

Fewer, but still many, are planning to save, and house purchase plans are back in 1st place

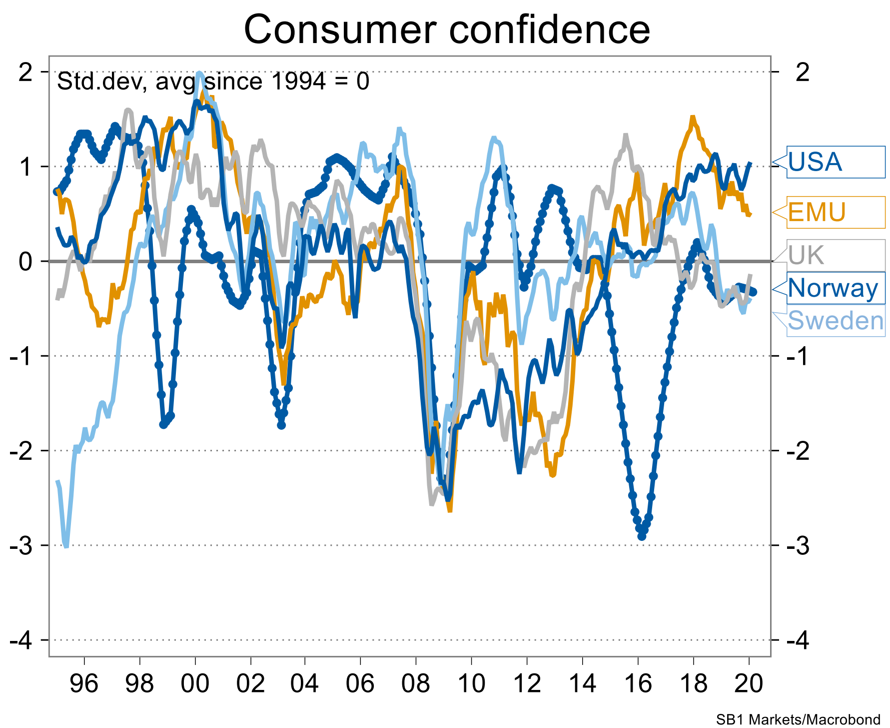


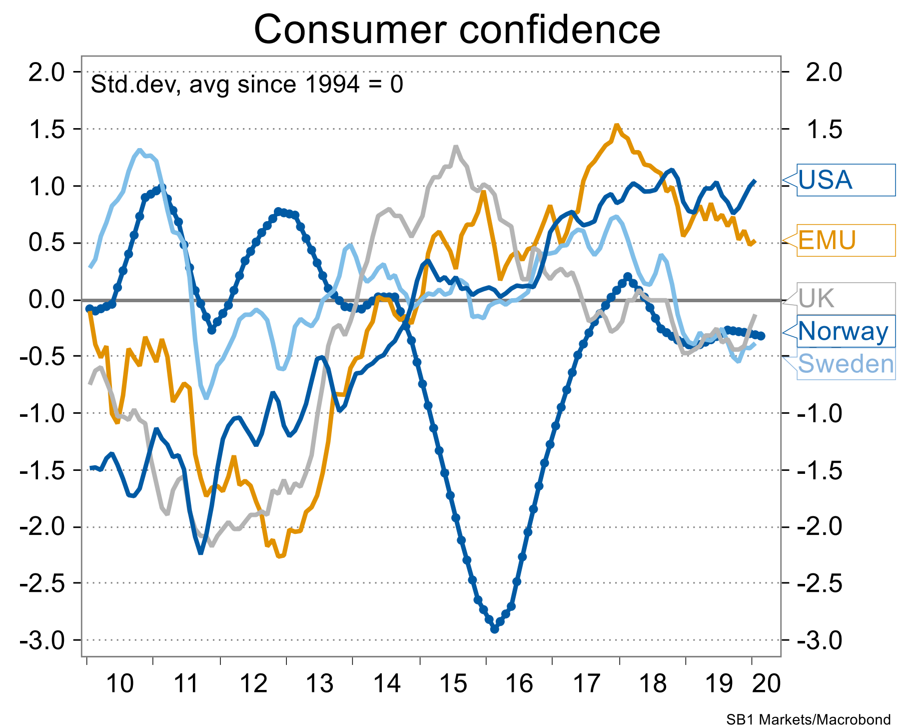


- Saving plans have been soaring, at least until Q1. The interest rate hikes have probably affected consumer patterns, however, savings/amortize plans have trended up since 2017, before Norges Bank started raising rates, thus, there must be another underlying cause. Demographic factors and rising focus on individual pension savings probably key reasons
- The share who plans to buy a house is increasing again, to the highest level on record!
- Plans for purchases of furniture/renovation, electronics/white goods, and cars have turned up, but are still much lower than usual. And travel plans are slipping, lowest since late 1990's. Focus on environmental issues a contributor??

Little mirror on the wall… No, the Norwegians are not among the most optimistic

At least not vs what is usually reported. US, EMU, even UK are more upbeat than the Nordics





- (Well, the Chinese are even more optimistic, according to the NBS survey, at least that was the case until January…)
- Consumer confidence in Norway is in line with levels in Sweden & UK

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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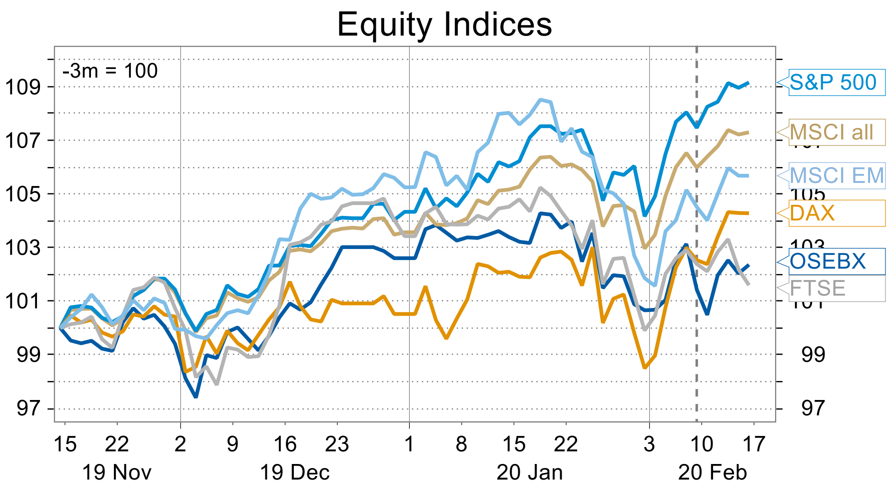
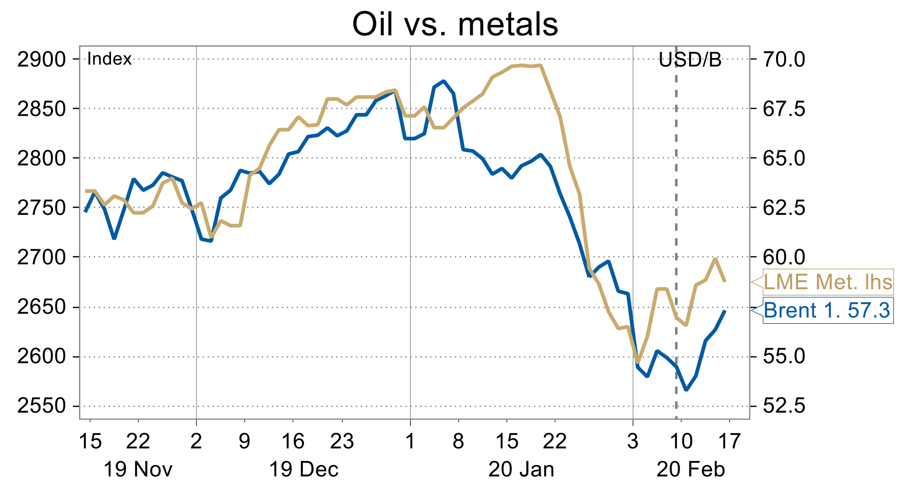
(Most) stock markets are climbing, bond yields tell a different story

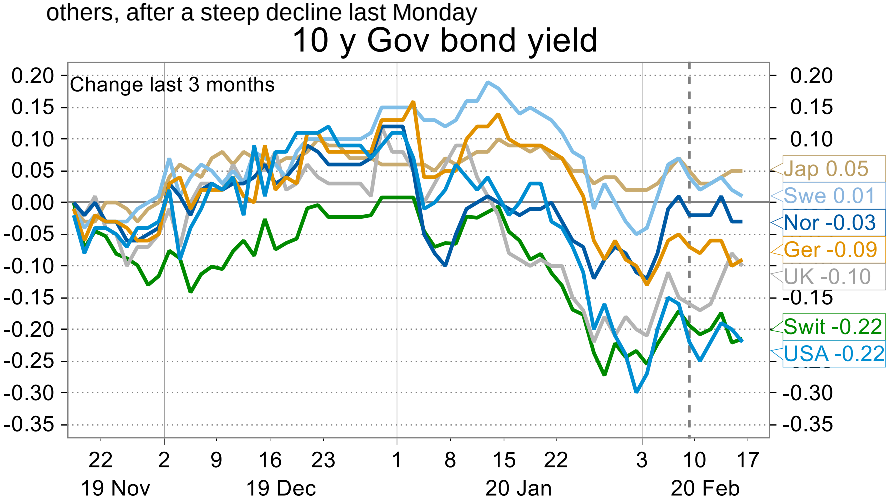
Equity markets & oil price shook off a spike in reported corona cases, bond markets less upbeat. GBP up



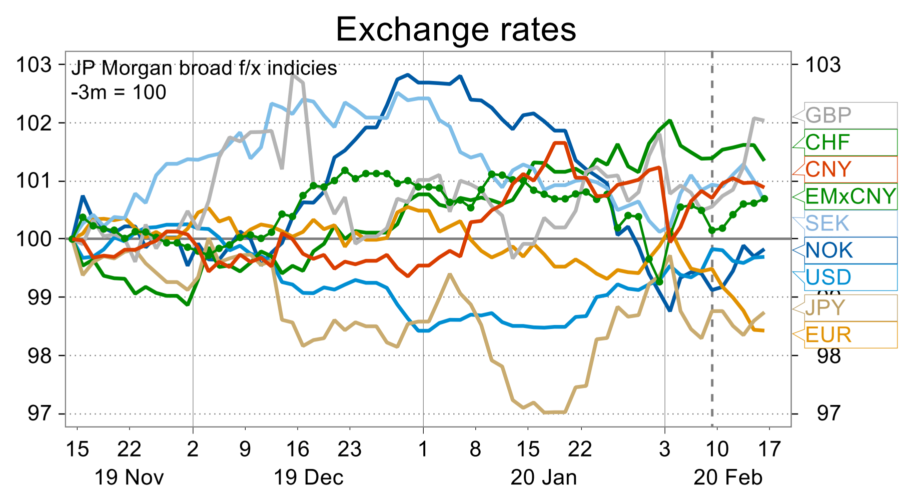
Stock markets continued to recover last week, OSEBX up less than others, after a steep decline last Monday



Oil & metal prices regain ground after the steep January decline



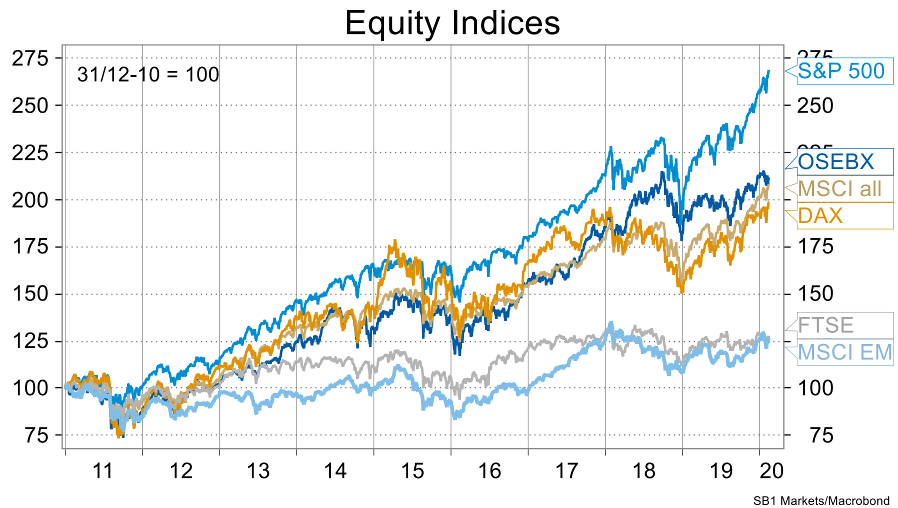
Bond yields were flat or slightly down last week, expect from UK, which soared after the announced cabinet reshuffle. Bond yields are well below the levels before the corona outbreak started rattle markets

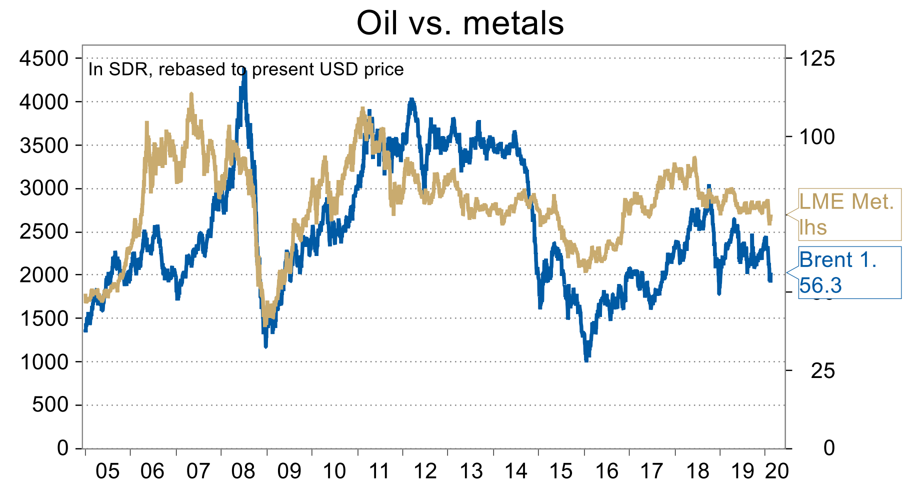


USD continues to strengthen, CNY recovers. EUR steeply down, on weak macro data. GBP appreciates rapidly on the Chancellor replacement, as markets expect a shift to more fiscal stimulus

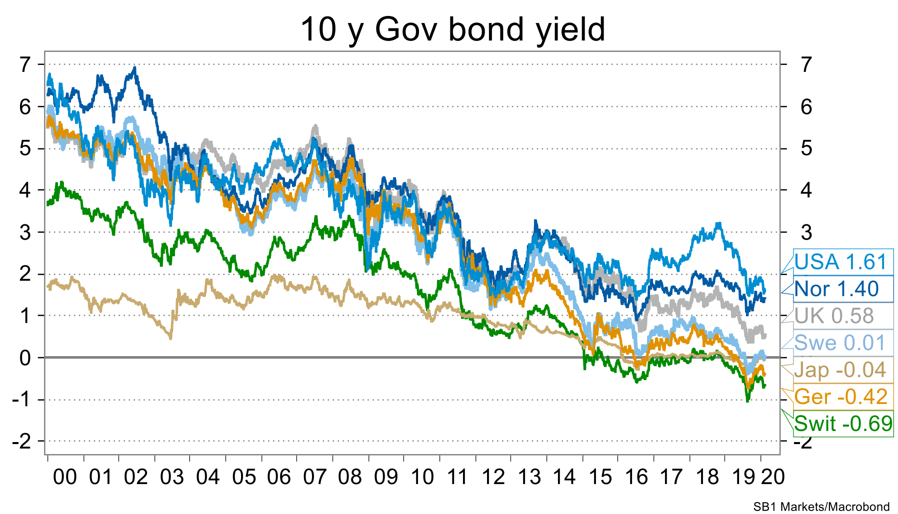
In the long run: The coronavirus setback not visible from distance

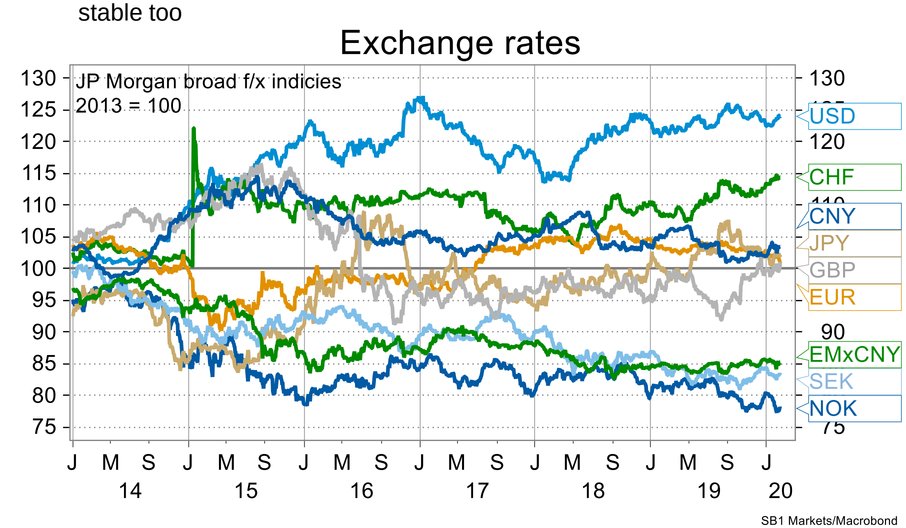
At least not at stock markets. However, metals & and oil prices are down





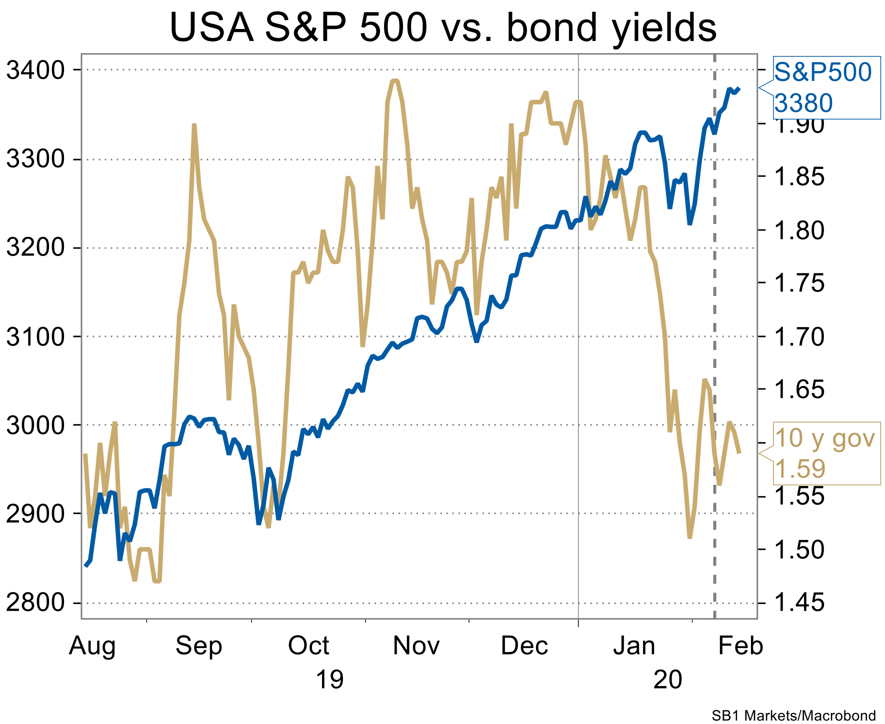
Metal prices close to flat recent months. Oil prices are quite stable too

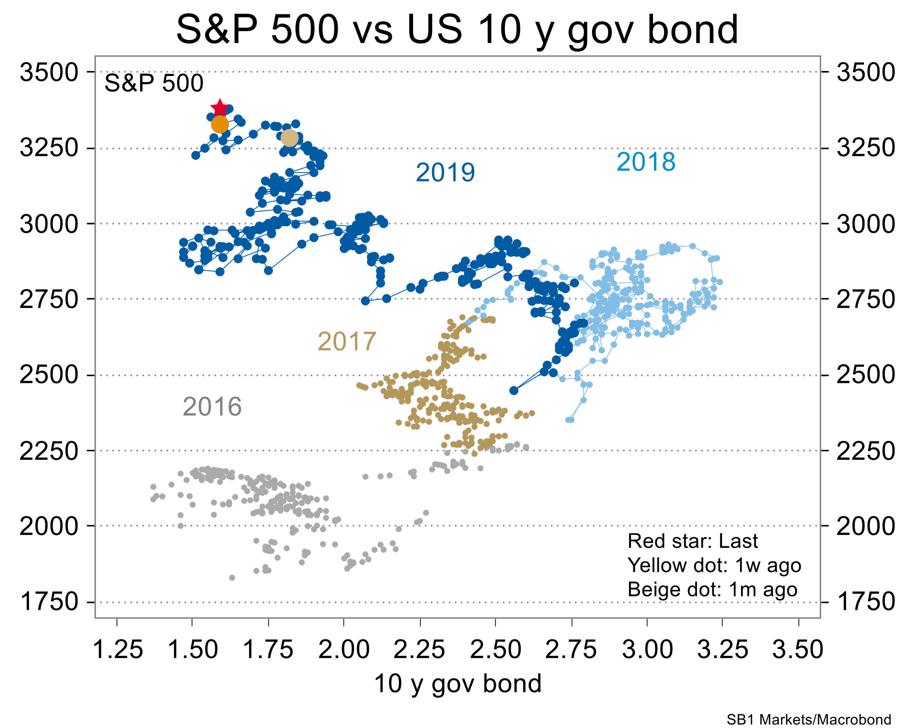




Diverging US markets; stocks up 4% this year, bond yields down 31 bps

S&P rose 1.6% last week, to new ATHs, while the 10y gov was unchanged

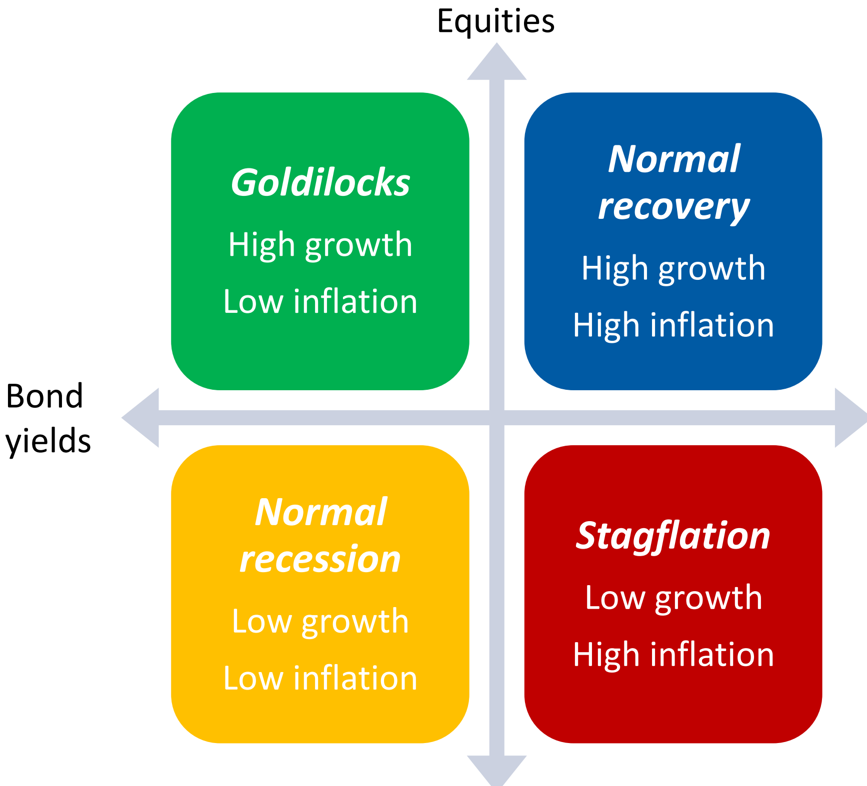


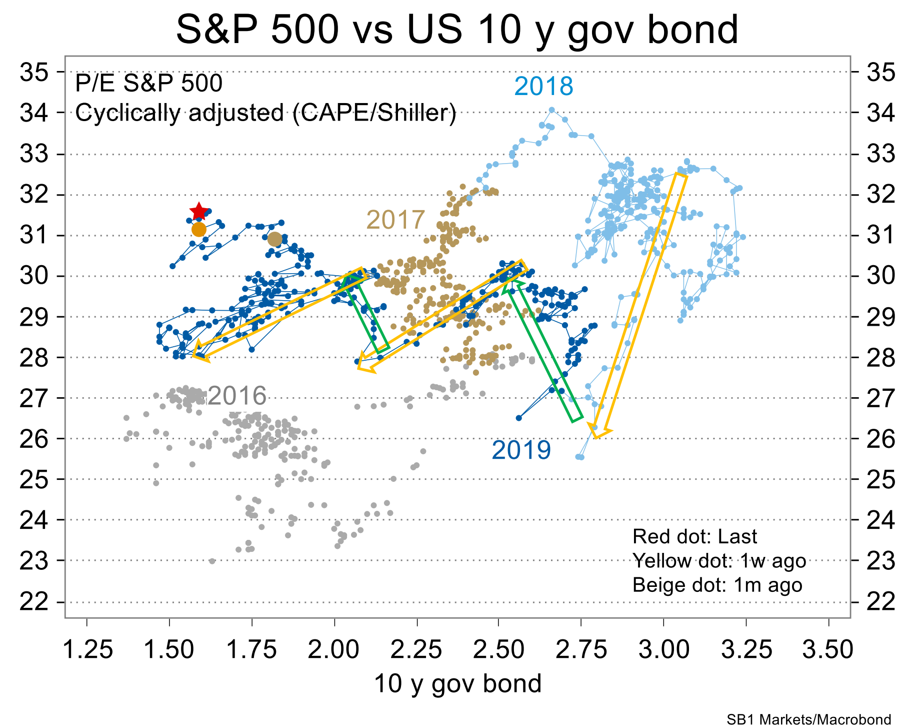


- A tale of two stories; Stock markets have shook off coronavirus concerns, and even a spike in the number of reported cases last week did not reduce sentiment. In contradiction, bond yields have failed to recover, and are still 26 bps below the January peak level, before the coronavirus hit. Both the inflation expectations component and the real rate fell through January, on fears of a global growth setback and the steep oil price decline

Markets are moving in the Goldilocks' direction, we doubt it will last for long

If the bond market story materializes (growth slows rapidly) stocks will eventually turn down





- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The past weeks, stocks have been soaring while bond yields remain low.
- We do not think a long term Goldilocks scenario is likely. Should yields decline from here, it will be due to weak economic news, which will not be good news for the equity markets. And if growth is picking up, as stock markets are pricing, bond yields will increase. We are not worried for the 'Stagflation' corner either; a take off in inflation without strong growth seems unlikely. Thus, the normal recession/recovery axis is the most likely– growth will be the main driver for both markets, not inflation

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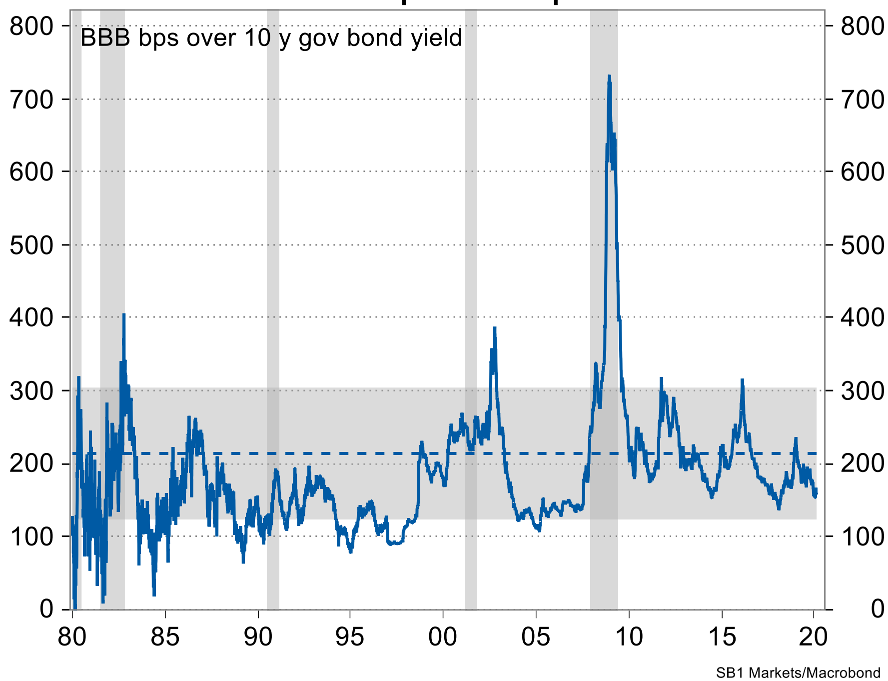
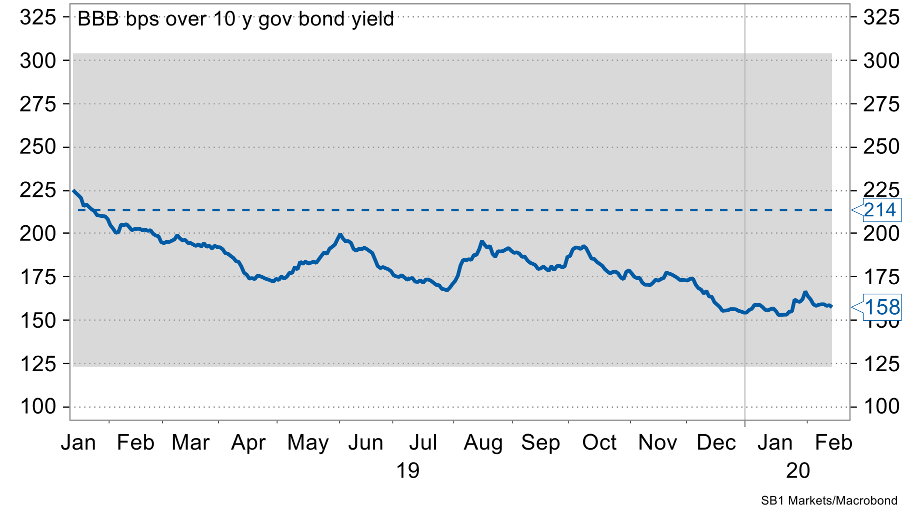
Credit spreads up but are still very low, well below an average level

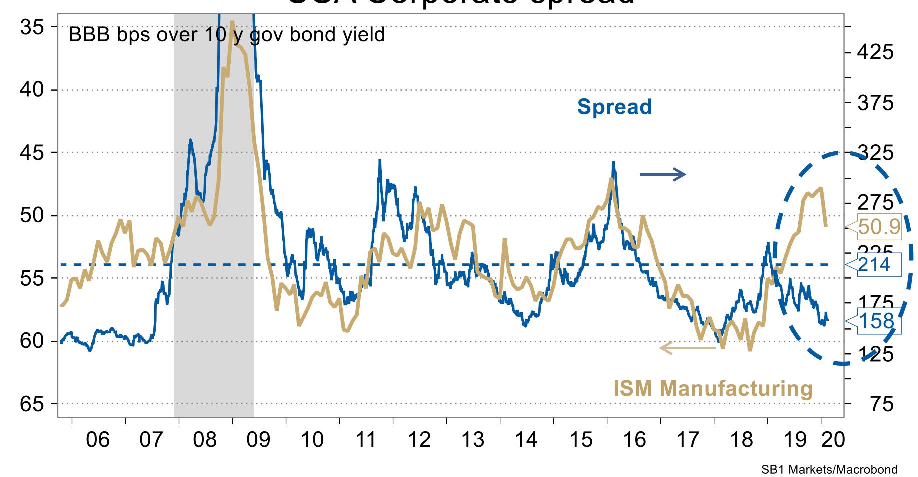
Spreads are too low *if growth is slowing as surveys have been indicating*

USA Corporate spread



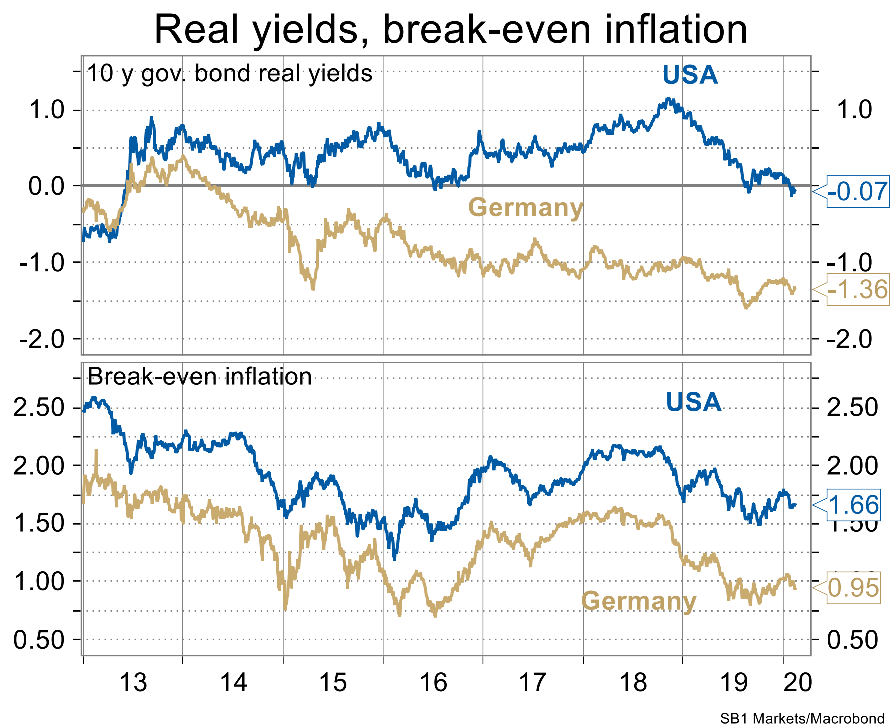


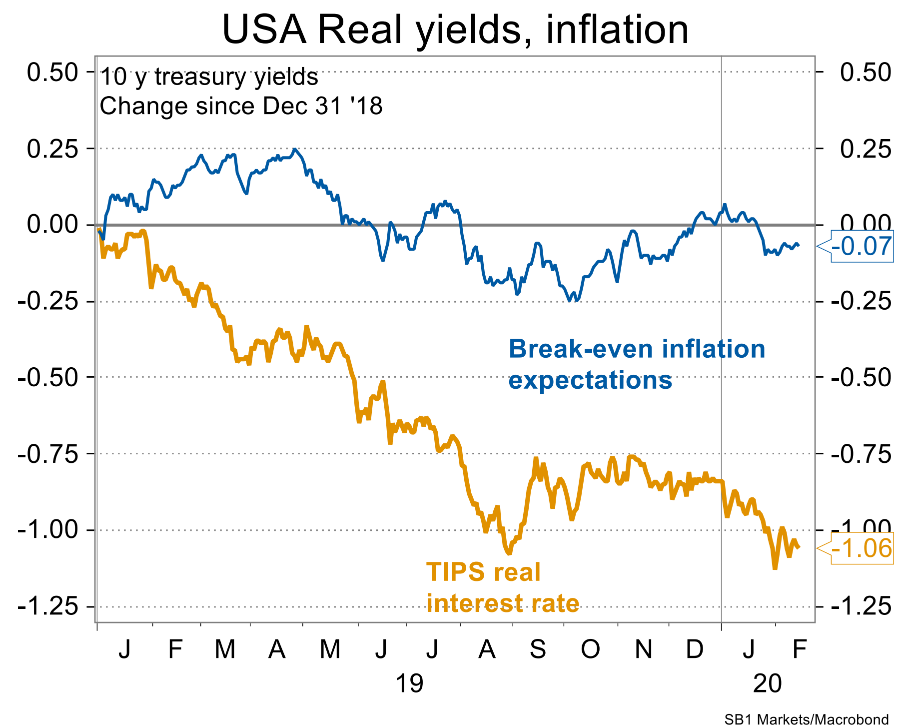
USA Corporate spread



Real rates and inflation expectations heading down, stabilized in Feb

The past months, German inflation expectations have fallen the most





- Lower oil prices have sent inflation expectations steeply down since early January, and real rates have fallen on growth concerns (corona infested), in both US and Germany
  - The past two weeks, US real rates have inched up marginally. The level -0.06% is very low. Inflation expectations at 1.67% are not that far off
  - The 10 y German real rate increased has turned up slowly, to -1.35%, which is still ridiculously low. Inflation expectations have turned down again, to 0.93%, far below the ECB's price target at close to 2%, and lower than actual core inflation the past couple of years

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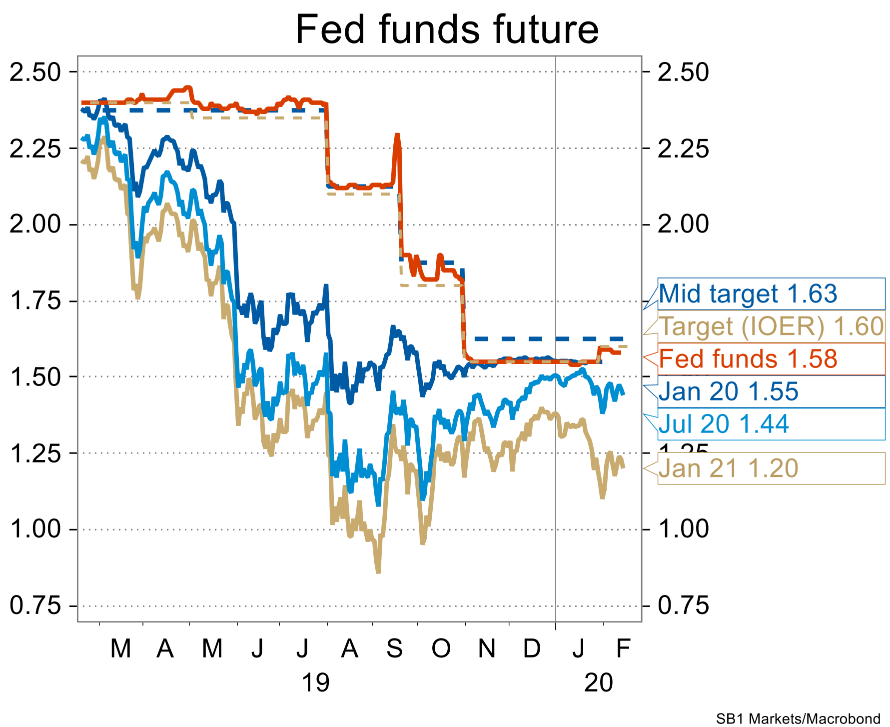
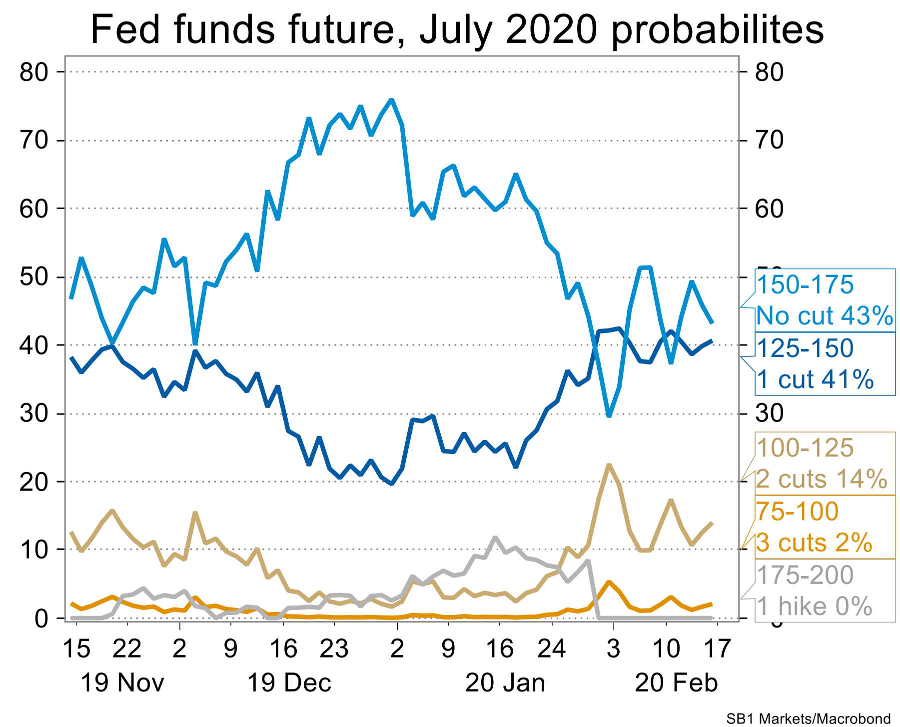
Fed cut expectations have calmed, still 57% for one or more cuts before July

Fed fund futures have stabilized but are still well below the level before the coronavirus outbreak





- Fed Funds futures dropped through January at coronavirus fears rattled financial markets. The past two weeks, futures have edged up, reducing the probability of at least one interest rate cut by July to 57%, from 70% at the peak in January. Markets are fully pricing a cut by the end of the year, and a high probability of a second cut (of 25 bps)
- The actual Fed funds (daily clearing) rate is close to the target IOER (rate on bank's excess reserves at the Fed), which the Fed raised to 1.6% (from 1.55% in January)

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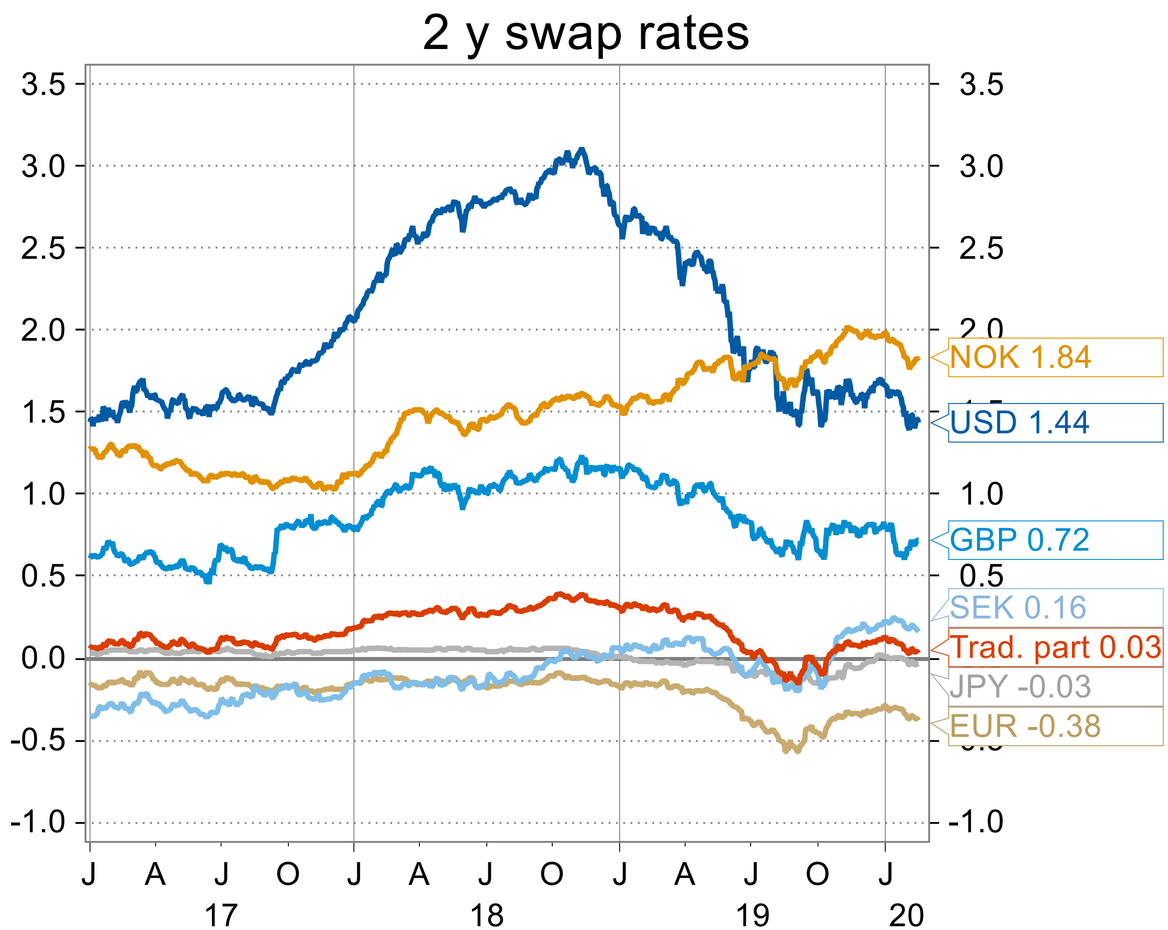
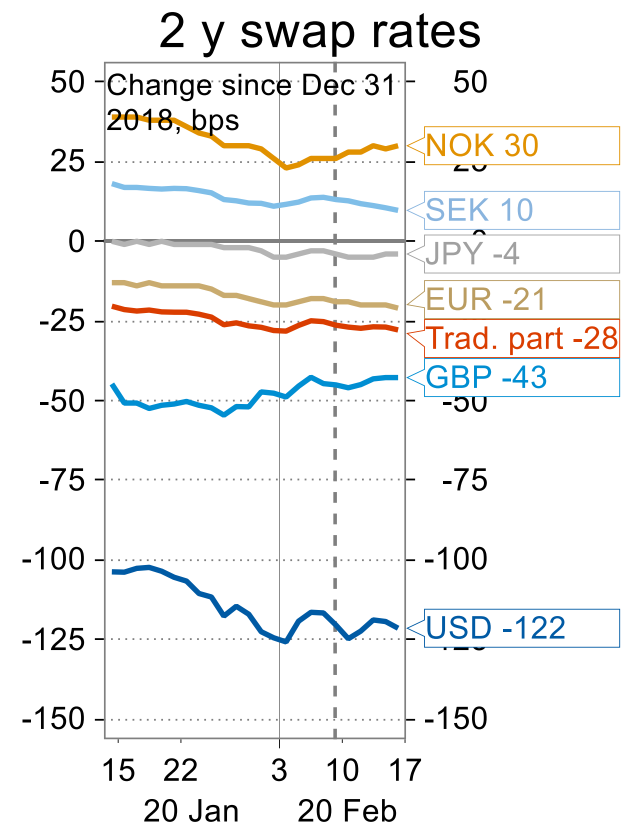
Short term rates heading slowly down, stabilized in February

2 year swap rates have inched up in the US, UK and Norway this month, EUR flat



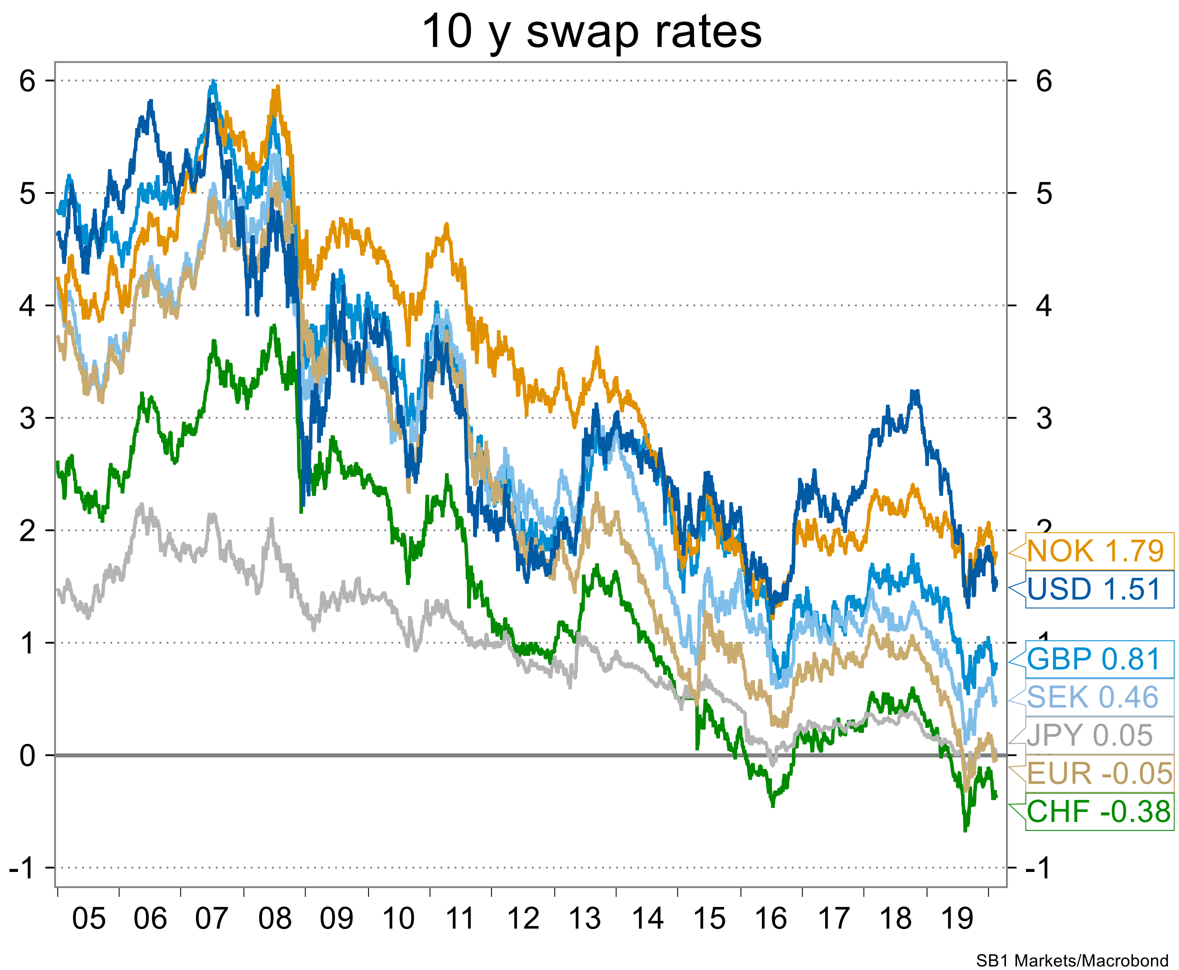
SB1 Markets/Macrobond

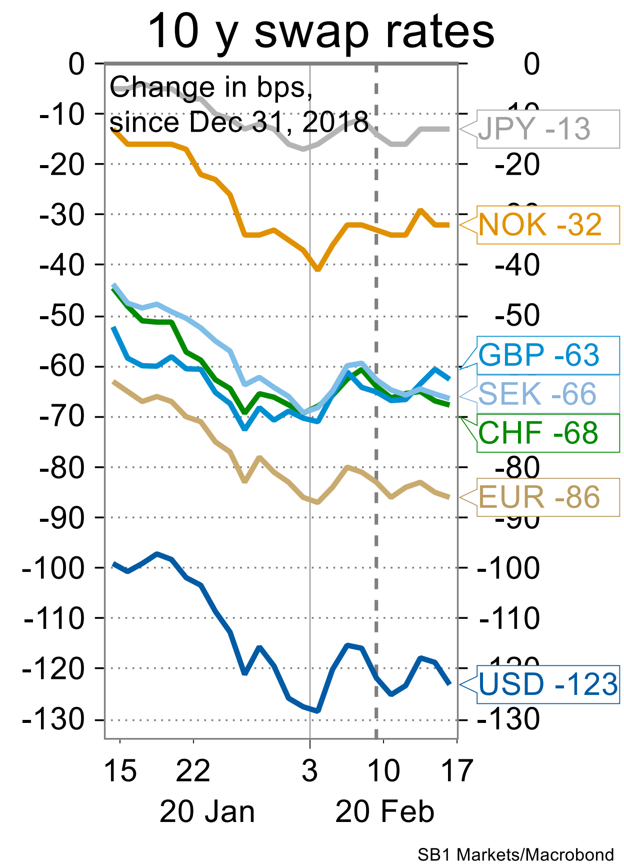


SB1 Markets/Macrobond

Long term swap rates are very low, marginally down last week

Swap rates marginally up from the late January bottom everywhere, EUR the least

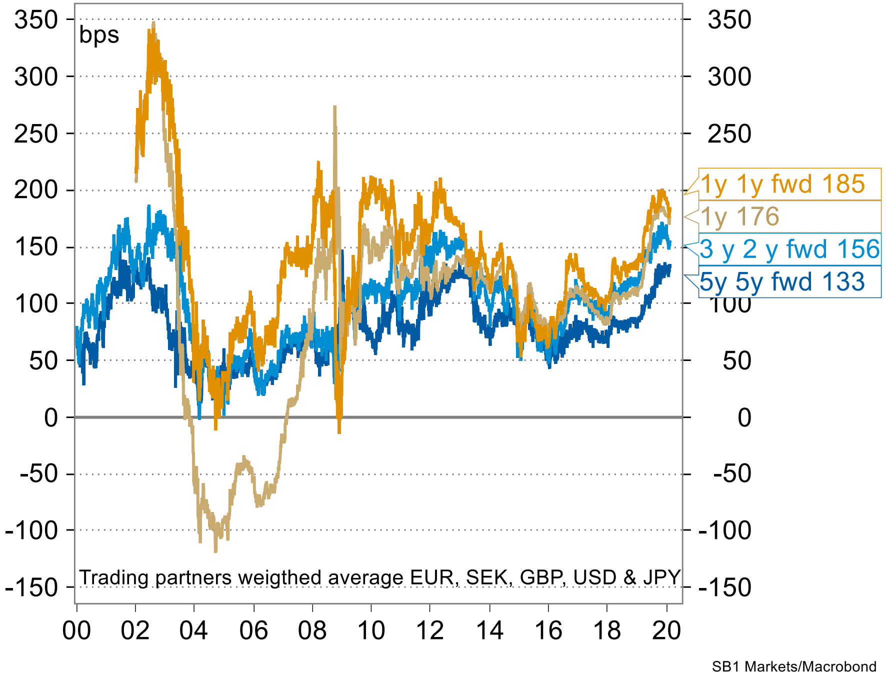


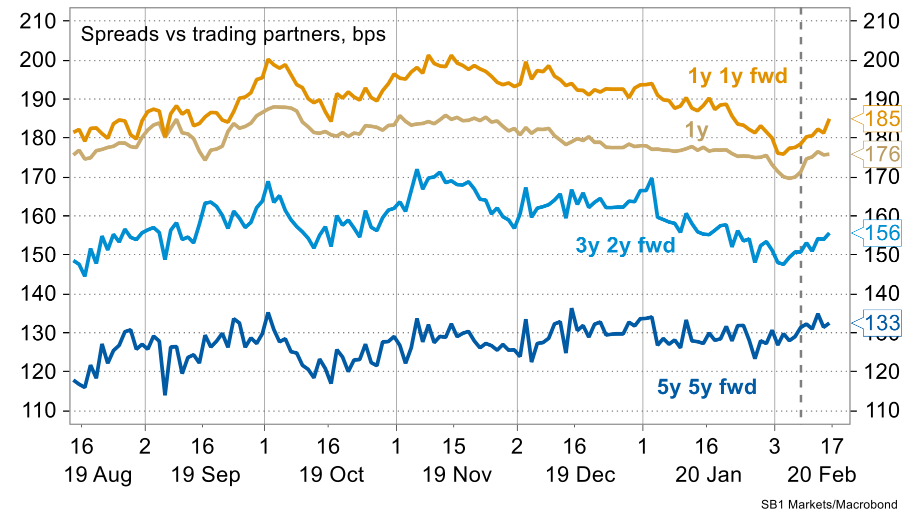


Swap spreads vs trading partners are trending in but widened again last week

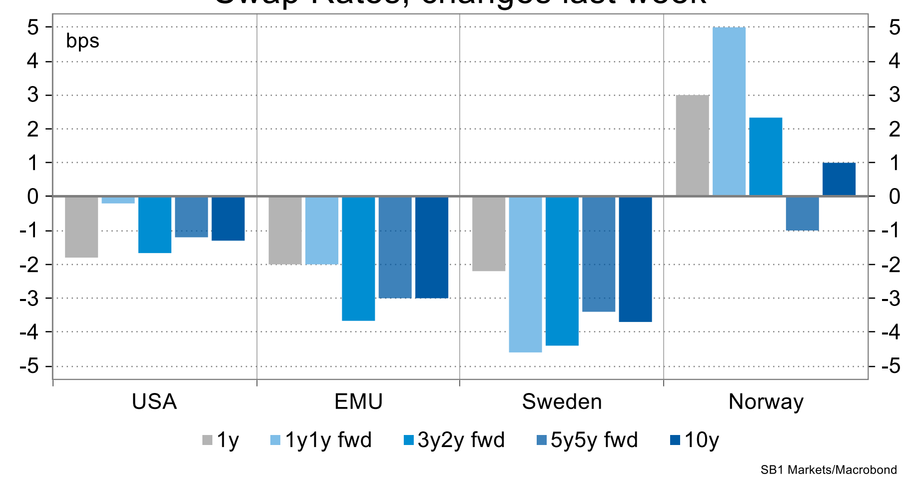
Short term spreads have been shrinking since Nov. This months, NOK rates held up better than others

Norway vs trading partners, impl swap spreads





Swap Rates, changes last week



- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve. Since November, spreads have been trending in on the short end of the curve, spreads are down 20 bps. At the long end of the curve, the spreads have flattened out. The past two weeks, spreads have widened all along the curve, as swap rates fell among trading partners. **The super-high Norwegian CPI probably explains the spread increase**
- While the short term spread has bee well explained, we have been surprised by the wide spread in the long end of the curve. A 5y 5y fwd spread at 131 bps is still too wide, long term

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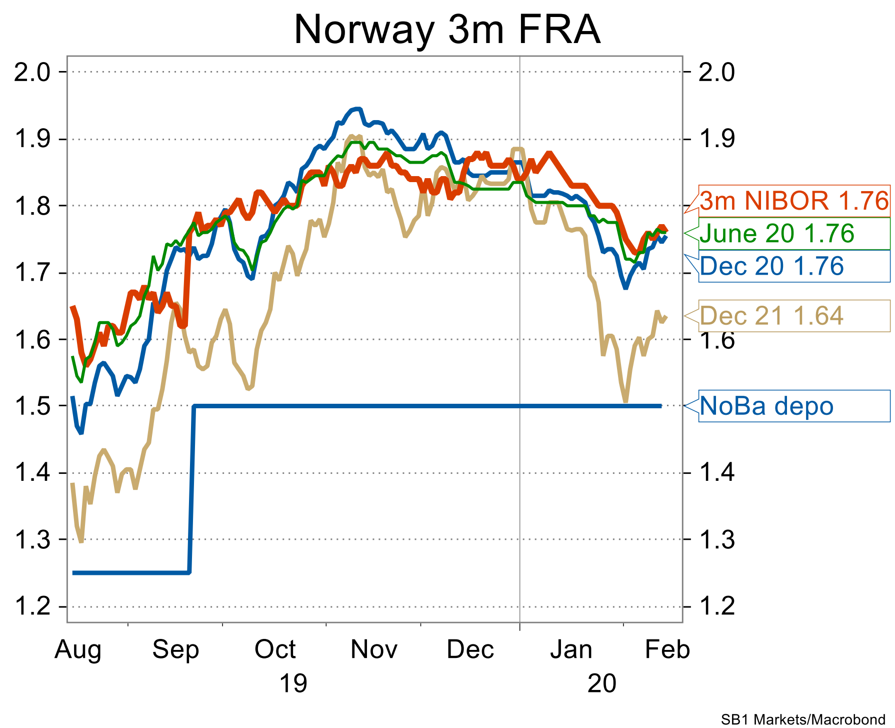
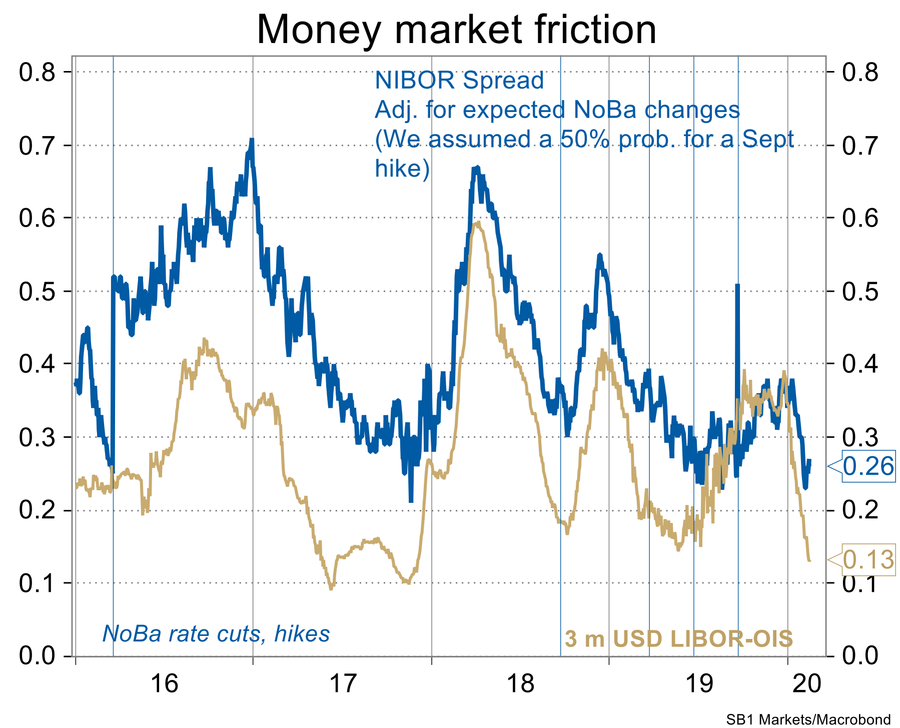
FRAs gain ground, 2020 cut expectations have almost vanished

Markets expectations of a 2020 NoBa cut are subdued, and just some 50% probability of a 2021 cut

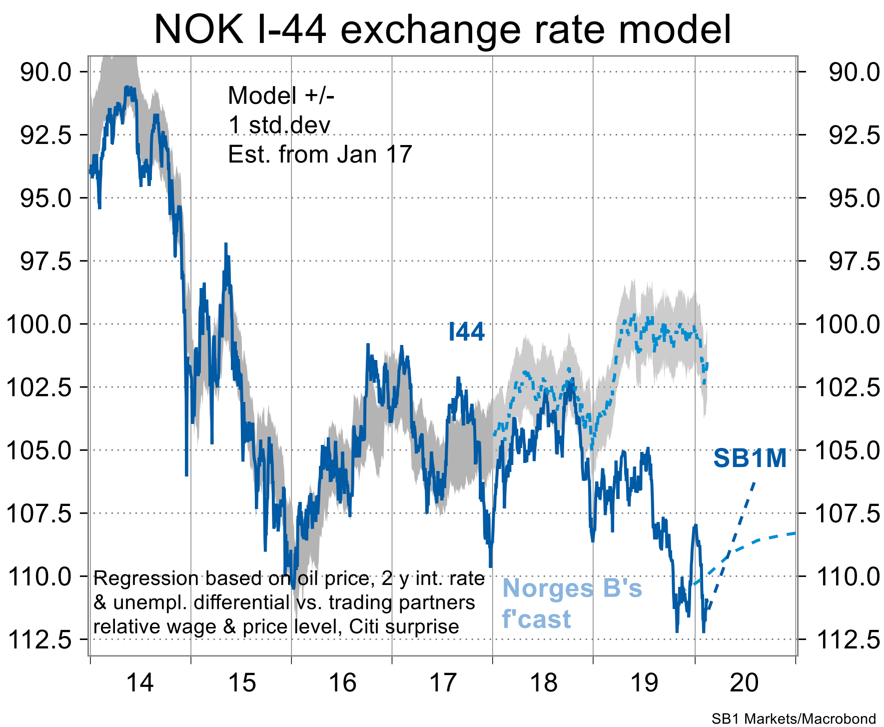


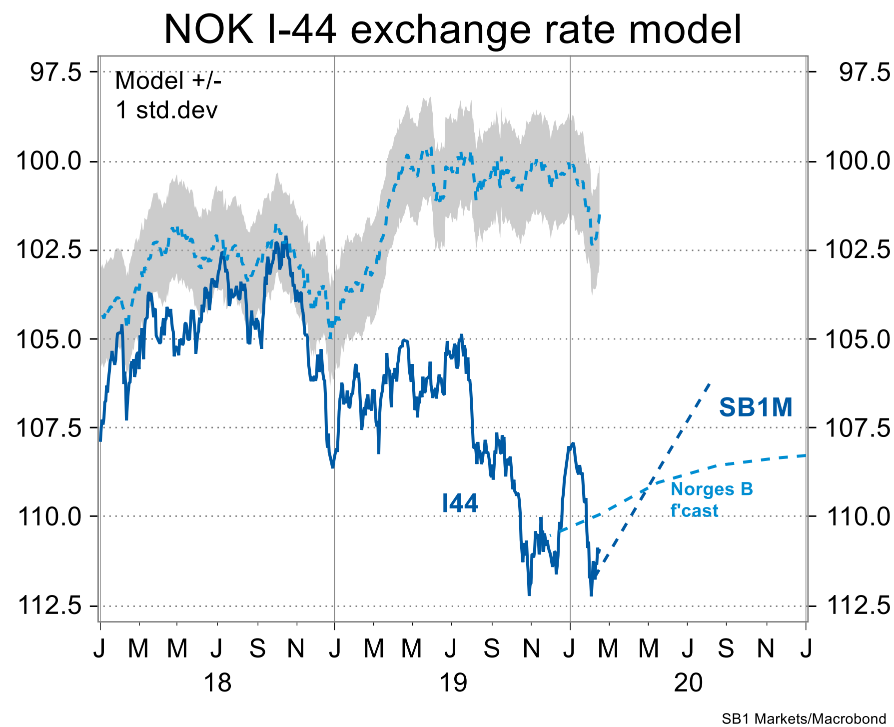


- The 3m NIBOR rose 1 bps last week, to 1.76%, after a 15 bps decline from the local peak in early January
  - » The 3 m NIBOR implies a 26 bps spread vs the signal rate given no cut expectations the coming 3 m, well below Norges Bank's f'cast of 35 bps. We doubt cut expectations can explain much of the decline, the spread has narrowed, like in the US. The US 3m LIBOR-OIS has turned steeply down, -3 bps to to 13 bps last week, from almost 40 before New Year's eve
- Longer dated NOK FRAs rates are recovering. The FRA curve is still tilted downwards, we assume primarily due to increased expectations of an interest rate cut, not a collapse in NIBOR spread expectations. Markets expectations of a 2020 cut have been reduced to some 20% probability (assuming a spread just below 30 bps), and to approx. 50% probability of a 2021 cut

NOK slowly recovering from the January 'collapse'

NOK appreciated some 0.8% last, and the old, oil dependent model explains the most (0.7 pp)

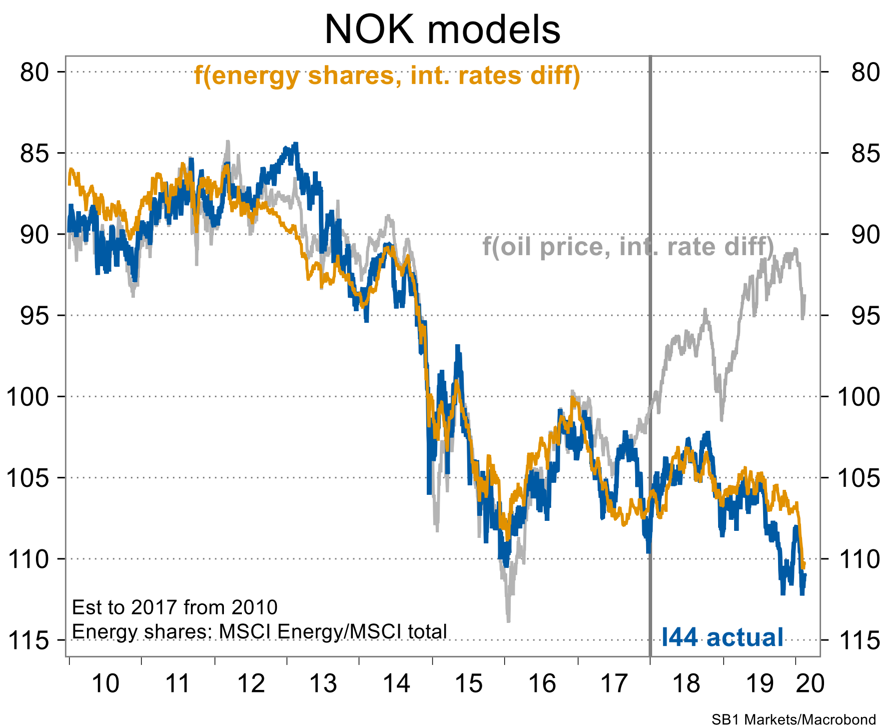


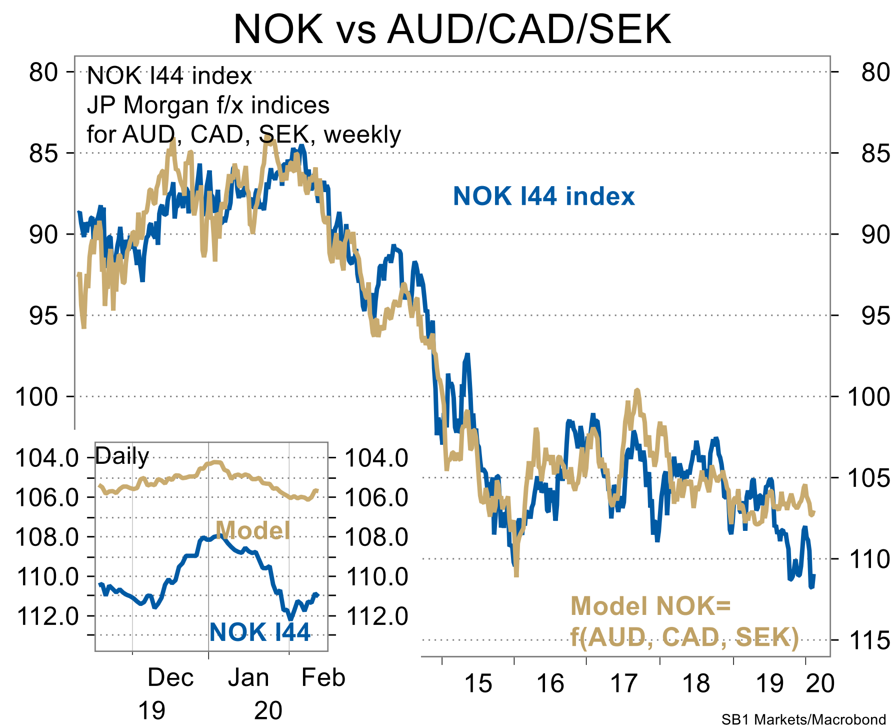


- In January and early February, NOK depreciated rapidly, by almost 4% from the 'peak' in early January, and down to the weakest level ever (I44). The past two weeks, NOK has been recovering modestly, with the oil price
- The gap between the our 'old', standard model estimate and the actual I44 index is still close to record wide, at 9%
- Both our 'new' models, based on the other super cyclical currencies (AUD, CAD, SEK) or energy (oil) equities explain the NOK much better than our standard model, check next page. Both alternative models have inched up the past weeks
- We stick to our **buy NOK** recommendation

NOK is weak vs other supercyclicals – but the gap to energy shares almost closed

NOK is 4% too weak vs the 'supercycle' model just 0.7% below the oil stock price model





- Our NOK model based on pricing of oil companies has 'explained' the weak NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to NOK.
  - » The oil company share model slipped along with the NOK since early January, and the NOK rose more than the model last week
  - » Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook. NOK has depreciated more than CAD and SEK, but equally to AUD the past months, check the next slide. All have stabilized/turned up the past 2 weeks

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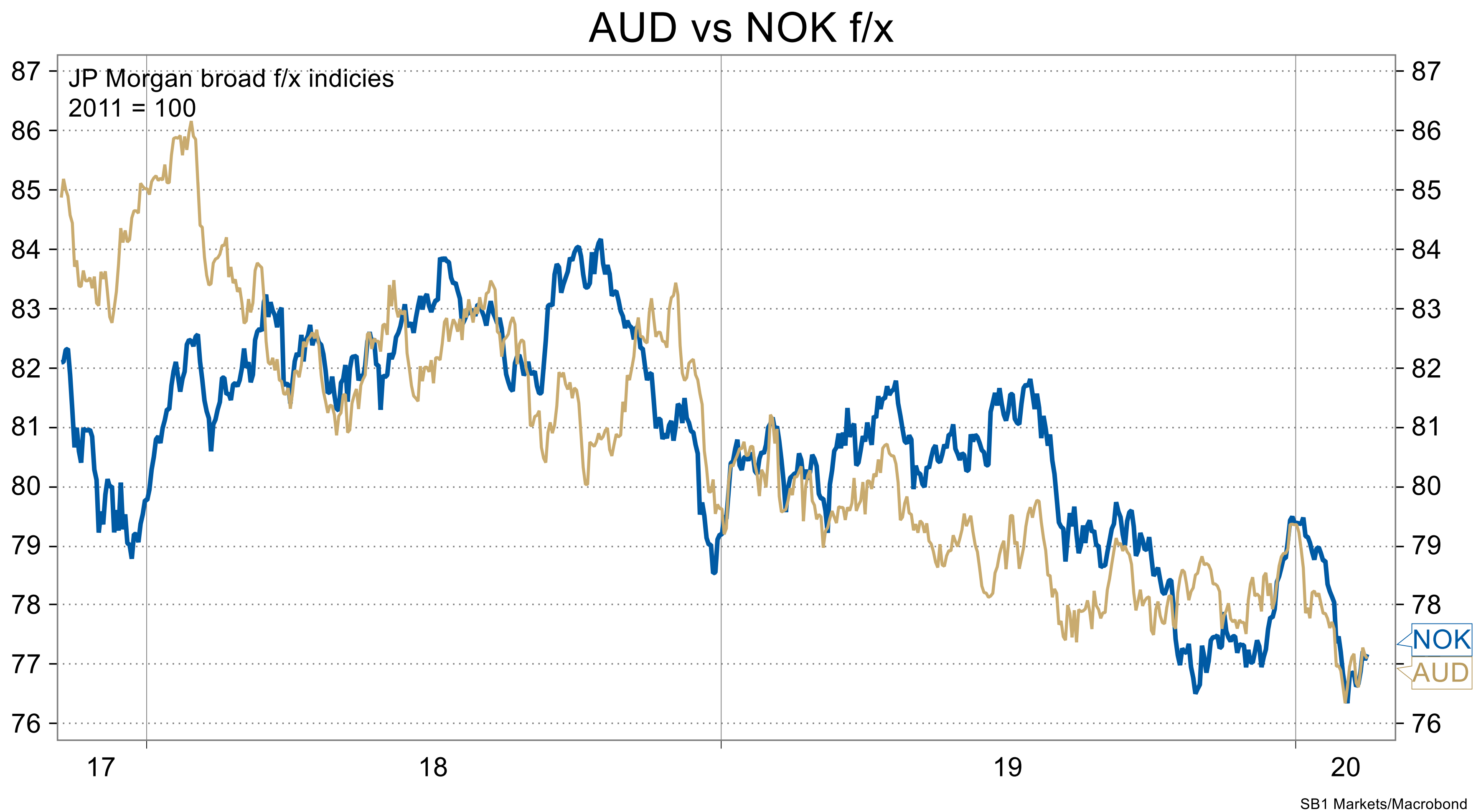
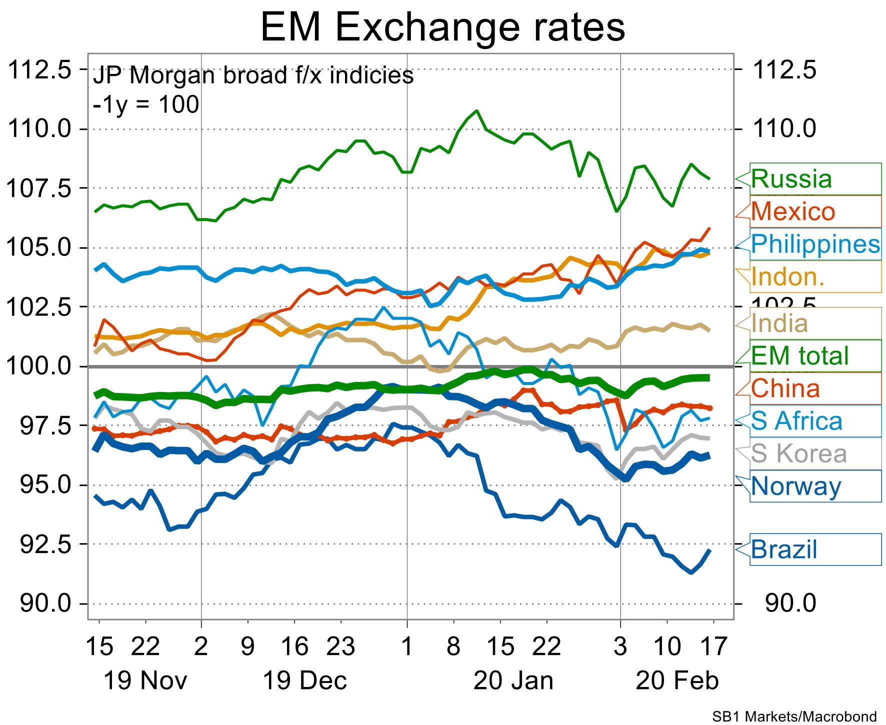
Down Under or Up North; NOK and AUD stabilized, after almost 4% decline

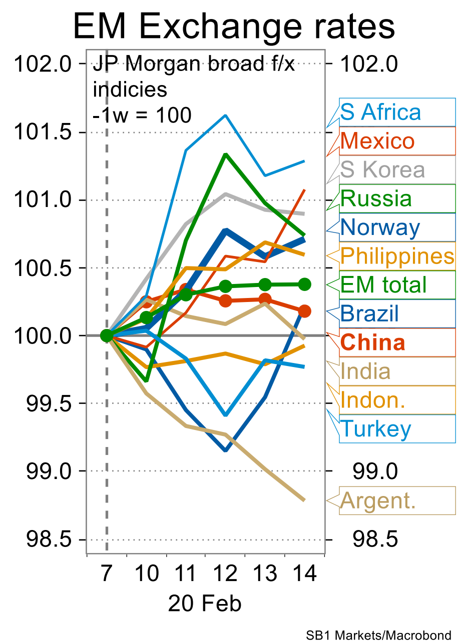
Both are sensitive to expectations of Chinese and global demand, recently slashed by the coronavirus

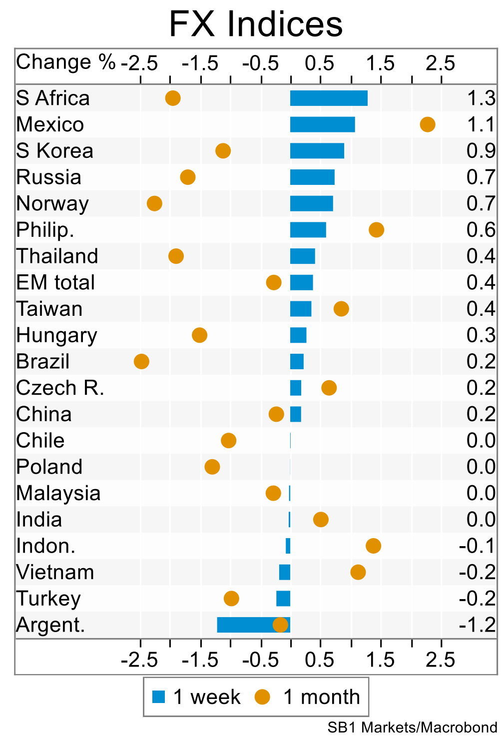


EM currencies slowly recover, along with the CNY

CNY is slowly strengthening, in spite spike in reported cases, but still lower than before corona







- Most EM currencies stabilised during the autumn, as trade war de-escalation and signs of a recovery in the global manufacturing sector supported sentiment. In January, EM currencies weakened along with fears of the global and growth impacts of the coronavirus. The past two weeks, EM currencies turned up along with risk markets, on easing fears of a severe global setback due to the coronavirus

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