23 March, 2020

Macro Research

Weekly update 13/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

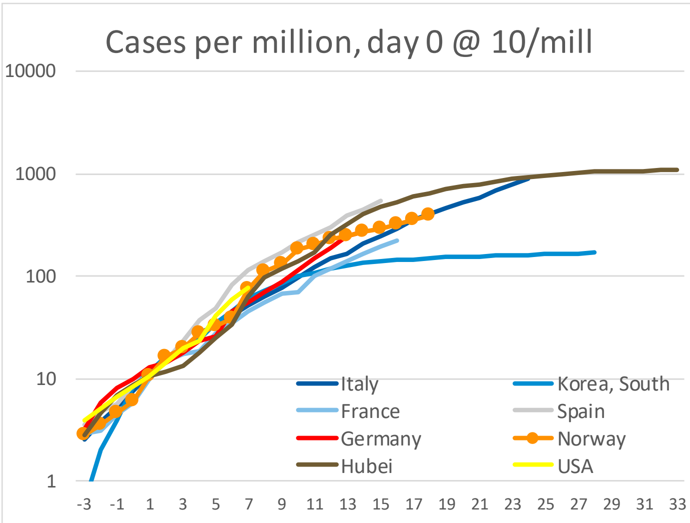
The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

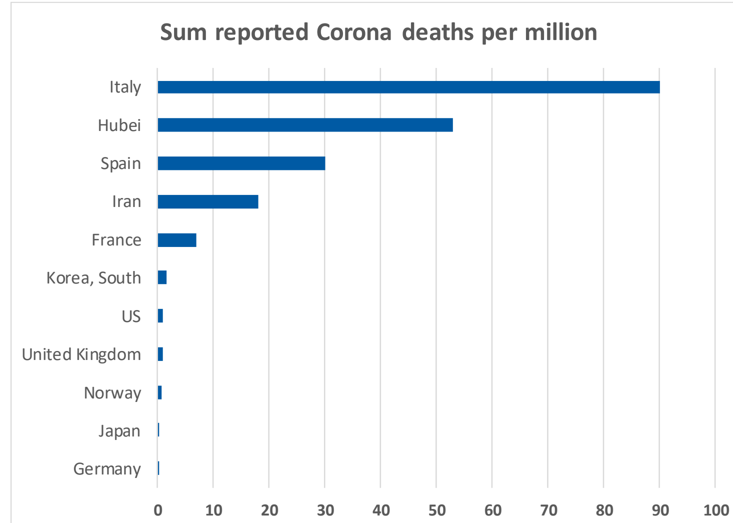
Last week – the main (corona) takes

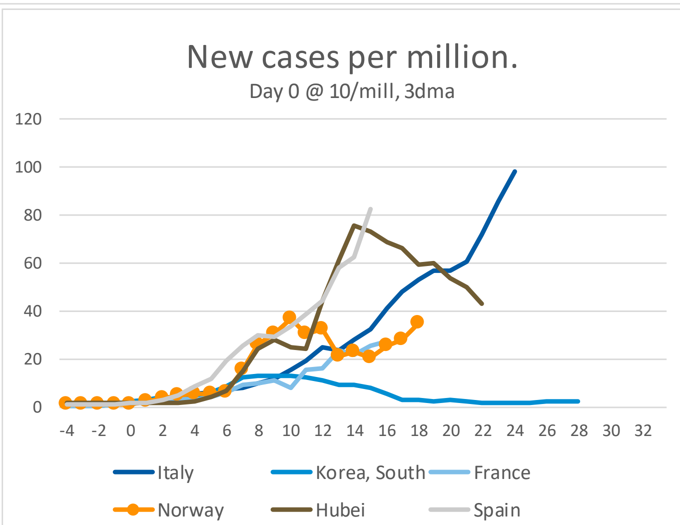
- **The coronavirus** is still spreading fast in more countries and more countries/regions are being 'closed down', including in the US, as California were put in lockdown last week. The total number of cases is now above 300.000 and is still growing at a fast pace in many countries, particularly Italy, Spain and several other European countries. The number of deaths is anyway likely to increase rapidly the coming weeks, from 15.000. More people have now died from the coronavirus in Italy than in China
- **Any good news on the virus?** China, South Korea, Singapore and Taiwan have all brought the virus under control. In some Emerging Markets, the virus is now spreading faster, some are on the Italian trajectory. The implemented restrictions in Europe and the US will eventually result in lower growth of new cases, probably within the next couple of weeks? Social contact have been reduced substantially and will result in a much lower R, the *reproduction rate* of the disease, slowing the spread of the virus
- The list of **measures to mitigate the impacts** of the reduced activity is getting impressive, massive fiscal stimulus packages, gigantic QE and interest rate cuts were announces last week. Stimulus packages are up to 15% of GDP (more on this slide). Norges Bank slashed the interest rate by 75 bps to 0.25%, the lowest level ever, and signals that it might cut further. Moreover, the Bank considers currency interventions
- **The global economy** is no doubt in a recession. Even the (estimated) decline in just the Chinese GDP was sufficient to predict a decline in global GDP in Q1. Now we can add huge production cuts in many other countries, Norway and US included. Q2 will be 'a disaster' Europe & US. Any GDP forecasts are extremely uncertain, all depending on the depth and length of the closedowns now taking place 'everywhere'. Our baseline is -1.5 to -2% y/y in 2020. **Global corporate earnings** will take a hard beating, a 40 – 50% decline seems reasonable
- The early impacts on **labour markets** became apparent last week; in Norway unemployment soared to 9% and may increase rapidly to 20% the coming weeks (when including temporary lay offs), levels we haven't seen since the Great Depression. In the US, jobless claims surged to 281' and will increase at an extreme pace the next weeks
- **The real question is however if/how the economy recovers** when the virus is sufficiently contained, both how much activity it is possible to start up (without igniting new virus outbreaks), and if demand is there
  - The outlook is tilted towards the downside, probably on both fronts, as both mitigation and suppression of the virus may require a low activity level for long (even if there may be goods news on corona treatment the coming weeks). The health of the business sector is also threatened if the virus fight is long lasting
  - On the 'traditional' economic side, the cycle was mature before corona hit; unemployment and profits were too low, and investments too high.
  - However, unprecedented fiscal and monetary stimuli may bolster 'pent up demand' as soon as 'shopping is possible'
- **Markets are still in complete disarray**. The NOK has fallen to a record low level. The decline last week was far too aggressive. Buy!

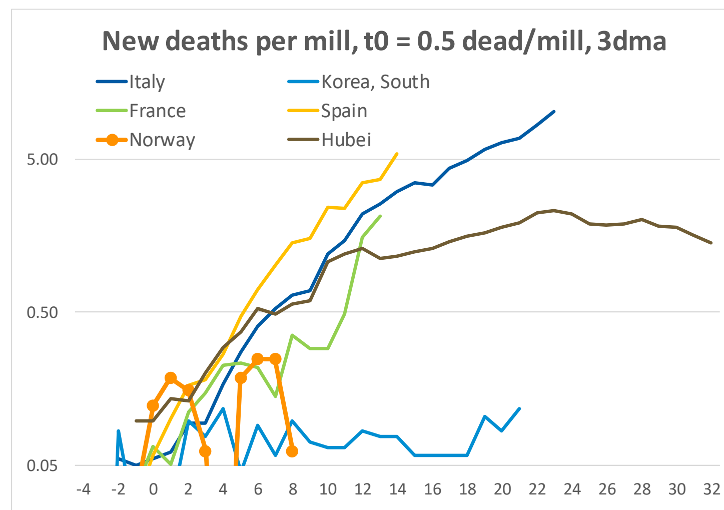
Our best corona charts: When will we see any impact of the Italian lock down?

Or in Norway? The restrictions should soon reduce the number of new infections









The case number are strikingly similar, even if testing methods seem to differ. Sources: Johns Hopkins, SB1 Markets

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R_e (R0 at the start of the epidemic) is our main hope

How many people does each infected person infect?

$$R_e = \beta_e C_e D_e X$$

The reproduction rate=

contagiousness per close contact (β)
x ‘close’ contacts per day (C)
x days of contagiousness (D)
x the share of susceptible persons (X)

- The reproduction rate of Civid-19 is approx 2.5 in a society of ‘normal activity’
- ***What is C (number of ‘close’ contact) now, in comparison to a ‘normal situation’?*** It must be significantly reduced? At least after the closest family members have been infected
- **Thus, Re must be rather low now, given the decline in C**
- We will probably be unable to prevent many more people from being infected, over time (China may have done so, with a strict lockdown). However, we may prevent too many people of being infected in a very short period of time, so that hospitals are not overwhelmed
- To achieve that (barring unknown medical treatment) social contact must be kept at a significantly lower level than normal, unavoidably hampering economic activity substantially albeit probably not as harshly as in some countries down

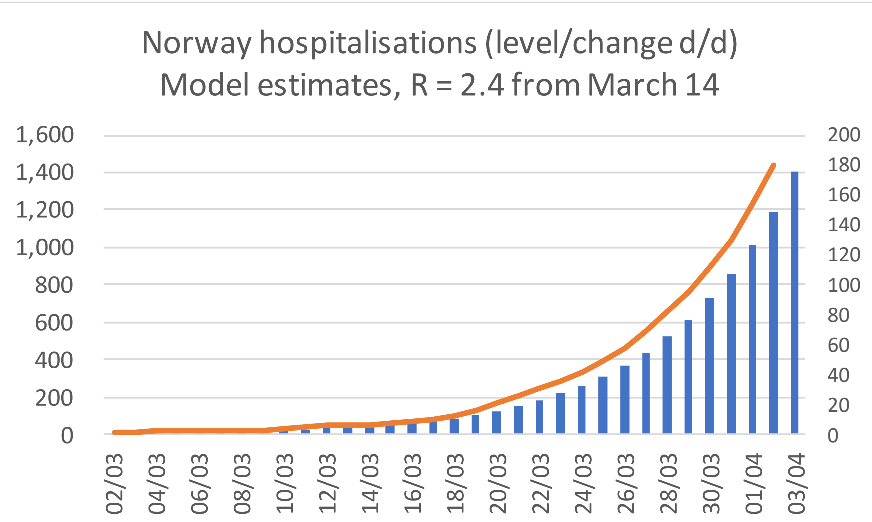
So what?

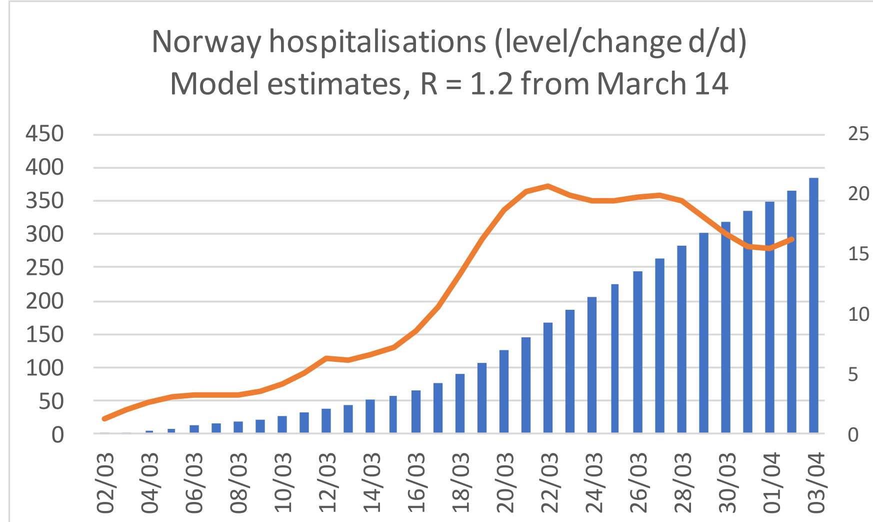
'Flatten the curve'

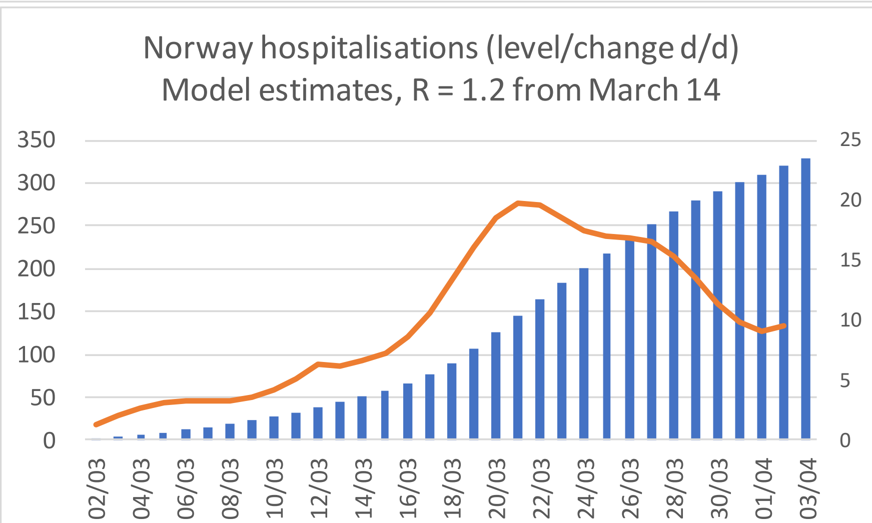
- If C remained at constant, so just X brought R down over time as a proportion of the population is getting immune, 60-80% of the population would be infected
- The death rate of those infected (IFR) is probably approx. 0.5%, worst case up to 1%. (The deaths to confirmed cases rate (CFR) is usually significantly higher as most now infected are not tested, like in Italy)
  - The death rate of the normal flue is approx. 0.1%, way below the Covid-19 rate. In addition, X is low for seasonal influenzas, as most people are immune
- If 60% are infected, and a death rate of 0.5% = 17.000 deadly cases in Norway, half a normal years of deaths. If 80% are infected, and the death rate is 0.9% (Imperical Collage est), up to 40' will perish
- If the outbreak of the virus is slowed, it may be 'manageable', in terms of hospital and ventilator capacity. Most of those who dies from the coronavirus are elderly and sick, who pass away a short amount of time before they otherwise would have done
- **If this occurs over a short period of time, it will be a catastrophe, as the hospitals do not have sufficient capacity to keep those alive, who could have survived. In this case, the death rate would be far above 0.5% (as in Hubei, Italy, and probably soon Spain)**
- If Re falls to 1 (or below), the epidemic will fade out
  - With an Re just above 1, hospitals will probably not be overwhelmed, if not too many have been infected on beforehand
- ***Conclusion: We do not need a full lockdown too fight the coronavirus, we just need some social distancing, which we are now practicing (and probably more than we need to)***
- We will probably need to keep this the social distancing going for months, however, the most strict measures may soon be loosened, such as closed schools, hair dressers etc.
  - More long term impacts in some sectors, like travelling and events. And business travel? We have made some reflections…

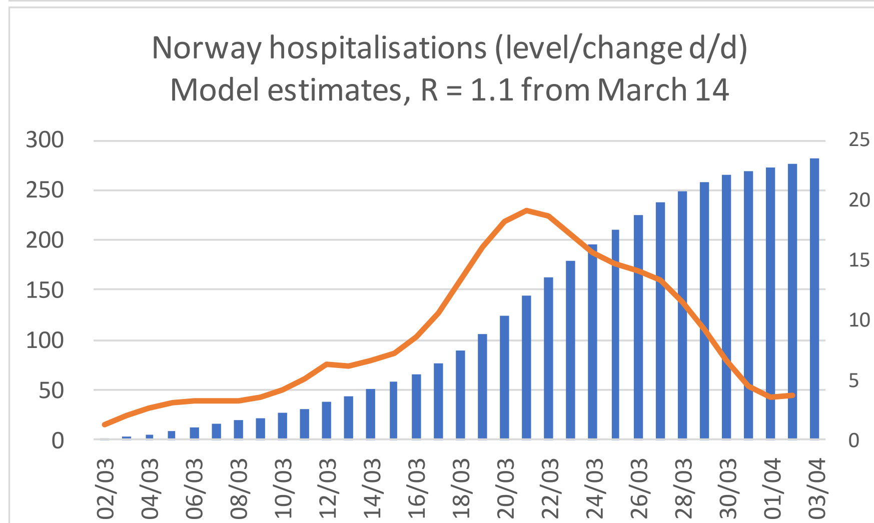
Norway needs an R now at close to 1.1 (to not exceed intensive care capacity)

Before Easter: 1.400 in hospitals – towards Italy. Less than 300: The war is ‘won’. In between…









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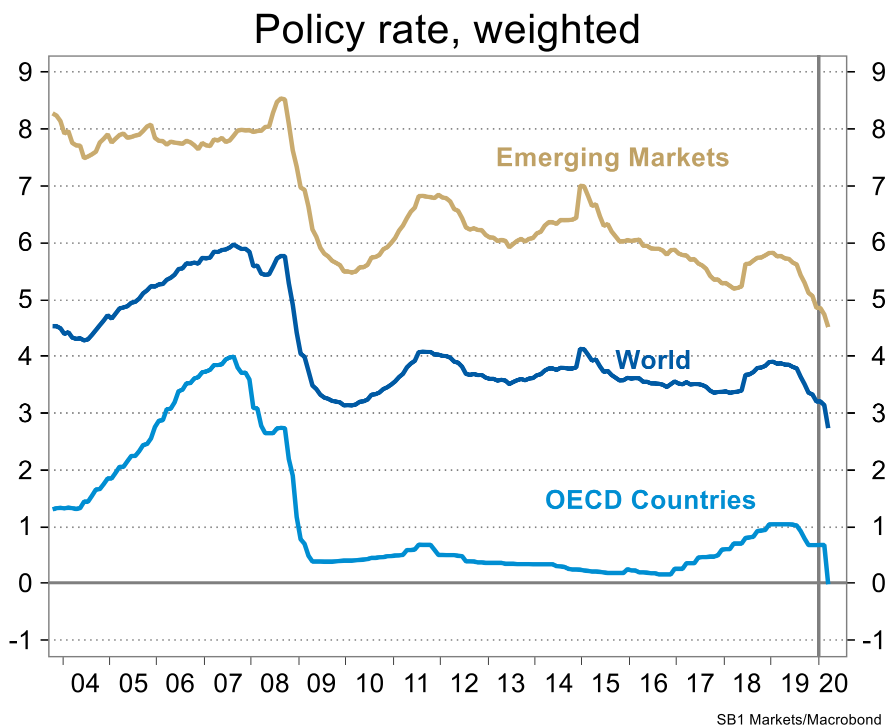
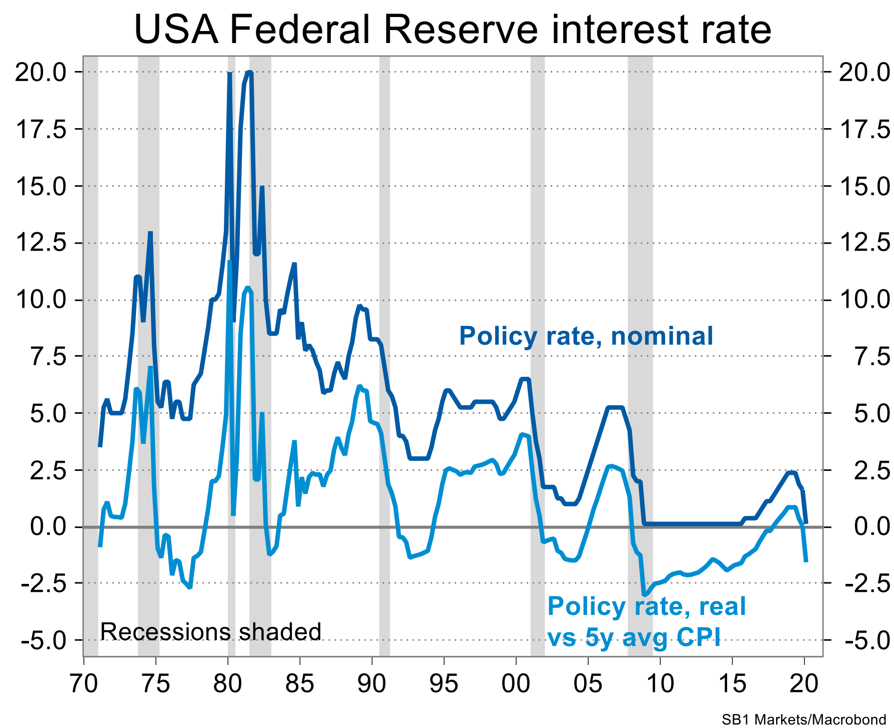
Central banks and governments pledge ‘whatever it takes’

- **US:** FOMC cut its signal rate by 100 bps to zero (0 – 0.25%) two weeks ago and is increasing QE rapidly, equal to 3.5% of GDP. The Congress is debating an enormous USD 2 trillion stimulus package (10% of GDP), including ‘helicopter money’ to US households – but negations at the Capitol Hill broke down late Sunday
- **Eurozone:** The ECB launched a ‘bazooka’ of additional EUR 750 bn in QE last week (on top of the 120 bn announced the prior week), in what is called the *Pandemic Emergency Purchase Programme*. The ECB will purchase both government bonds and corporate bonds, with the aim of keeping liquidity flowing
- **Germany:** Signalled that the ‘zero black’ (balanced budget) policy is abandoned for the time being. A huge liquidity support to the corporate via the state owned KfW bank is decided
- **China:** Reserve requirement cuts for the 7th time since 2018 but interest rates left unchanged last week
- **UK:** BoE has cut the signal rate to 0.1%. A huge stimulus package has been announced, of 15% of GDP! Just one week after a very expansionary budget proposal
- **Sweden:** The Riksbank offers loans to banks and will buy commercial bonds, as well as substantial fiscal stimulus
- **Norway:**
  - » Norges Bank cut the signal rate by another 75 bps Friday, to 0.25%, the lowest level ever. The bank signals willingness to cut further
  - » New lending/guarantee program has been announced: Up to NOK 50 bn (1.7% of GDP) in guarantees for bank lending, mainly to SMEs
  - » The Government has reactivated The Government Bond Fund, administered by Folketrygdfondet. The fund will invest in Norwegian corporate bonds. The initial amount for this program is NOK 50 bn (out of a total market at some NOK 350 bn, a substantial support program)
  - » A fiscal emergency package of NOK 65 bn has been announced, including a generous model for temporary lay offs
  - » The amounts are substantial, and the government is strongly signaling that it would do ‘whatever it takes’. Norway has no fiscal constraints, given the 3 x GDP Oil fund. The funding program equals 1% of the fund’s value
- 21 out of 27 major countries have cut their policy rates. The rest will probably cut soon (if rates are not too low already). Still, the room for maneuver on rates is of course limited, given the low interest rate level

Limited room for lower rates

Rates have been cut in many countries but the potential is limited, from 0.7% in average (in Jan)

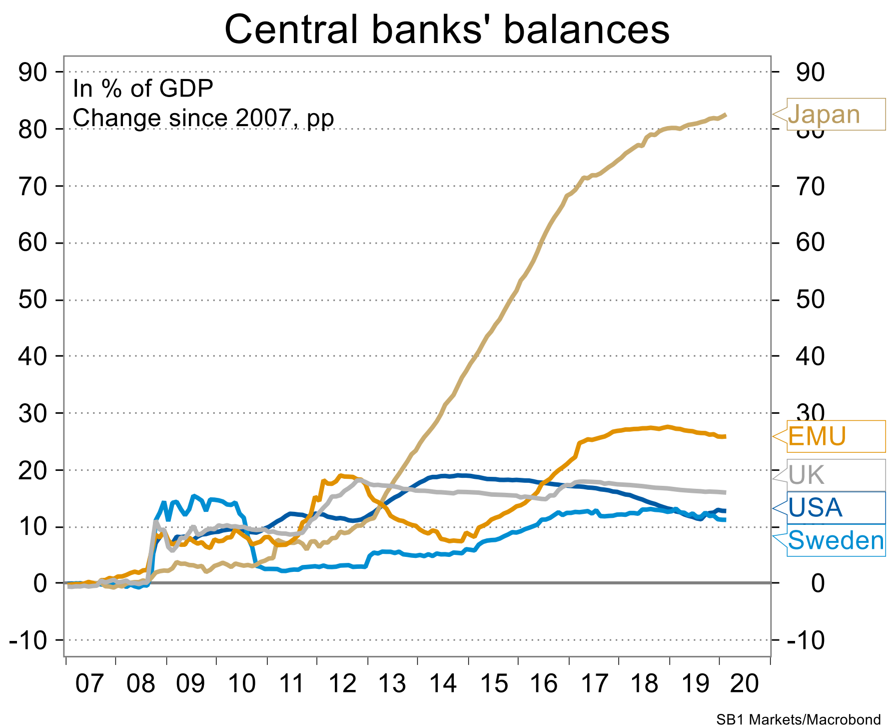


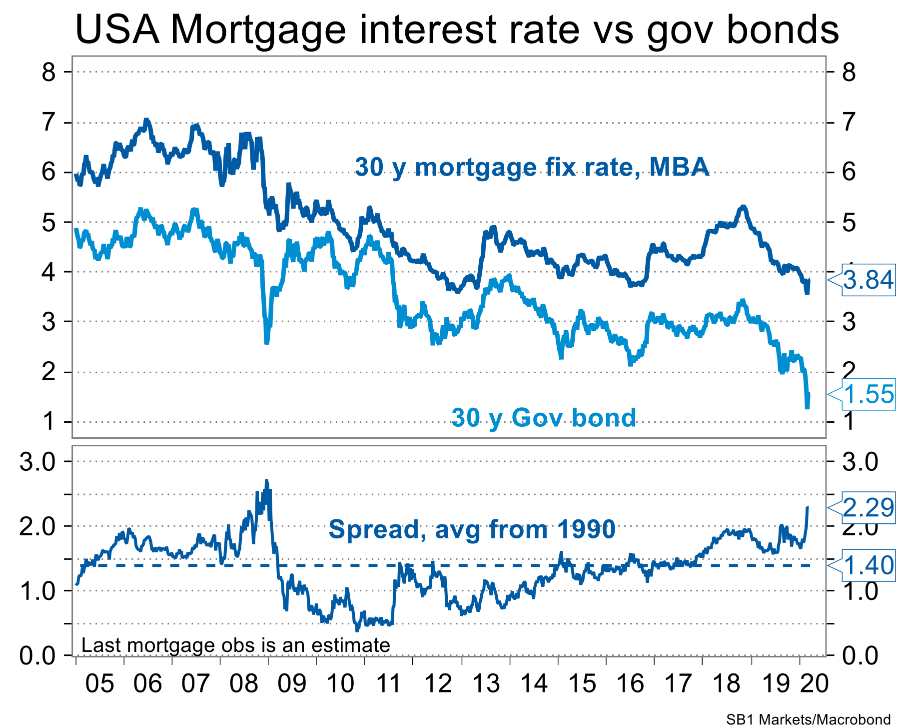


- During economic downturns rates are normally cut by some 4 – 6 pp, lowering the real interest rate to well below zero. Now, the average policy signal rate is at 0.4%. It will probably come down to zero, but that’s more or less all folks
- Even so, monetary policy is not totally impotent, flip to the next page

QE is ramped up aggressively

ECB increased QE by 6% of GDP last week, the Fed has announced QE equal to 3.5% of GDP

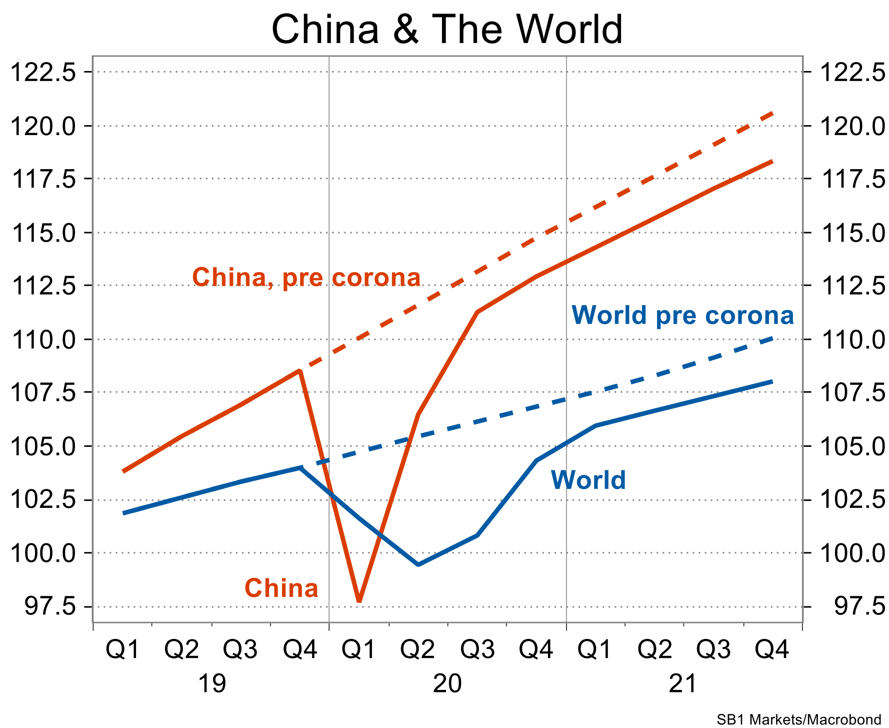


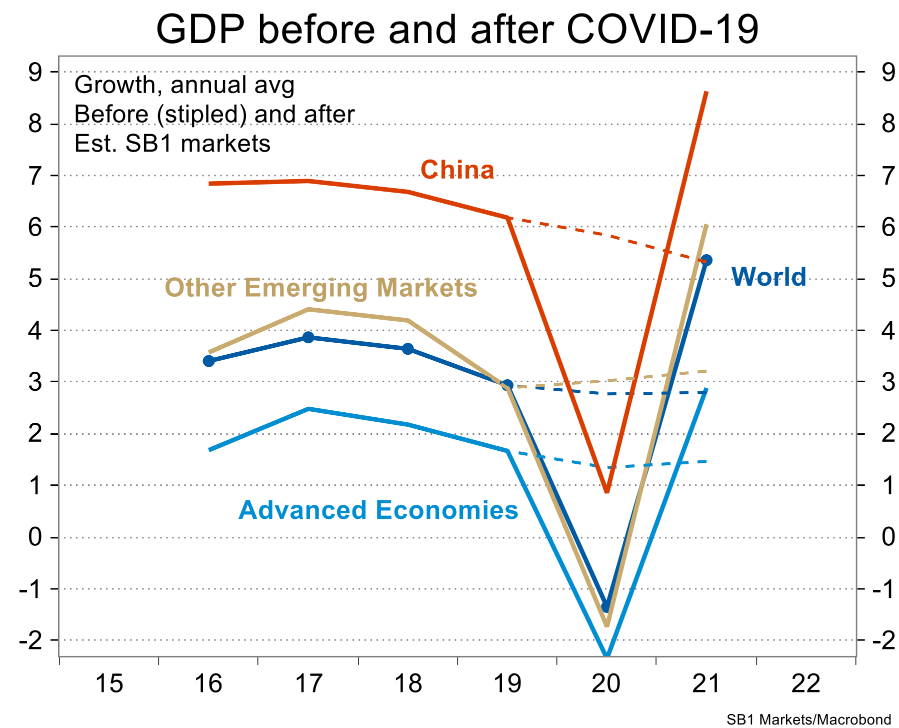


- In the Eurozone: The first corona response of a EUR 120 bn in quantitative easing was not a big deal. However, last week, the ECB wielded the 'bazooka' and announced an emergency purchase programme of EUR 750 bn. The ECB will purchase both government and corporate bonds at least through the end of the year and as long as the corona crisis persists
- The Fed was under hard pressure to start buying mortgage bonds, as the spread to the 30 y gov bond yield had widened substantially. The asset purchases of USD 500 bn in Treasuries and 200 bn in mortgage backed securities equals some 3.5% of GDP

A V is still a possibility but a U is not unlikely (hopefully we avoid an L)

Our baseline scenario is of course not worth the paper it is written on but here we are now





- A narrow V scenario: Covid-19 is contained at a reasonable level after a widespread shutdown in Q1 and Q2, partly in Q3 in latecomers in Emerging markets (x China of course)
- A wider V: Covi-19 requires a slower restart of economies
- A U: Covid-19 takes time to tackle – and in between time economic costs build up, financial stress remains extreme, and a 'normal' recession follows – the a mature global cycle was anyway mature
- A WW? Not war, but several ups and downs the coming months/quarters as the fight against covid-19 is on and off

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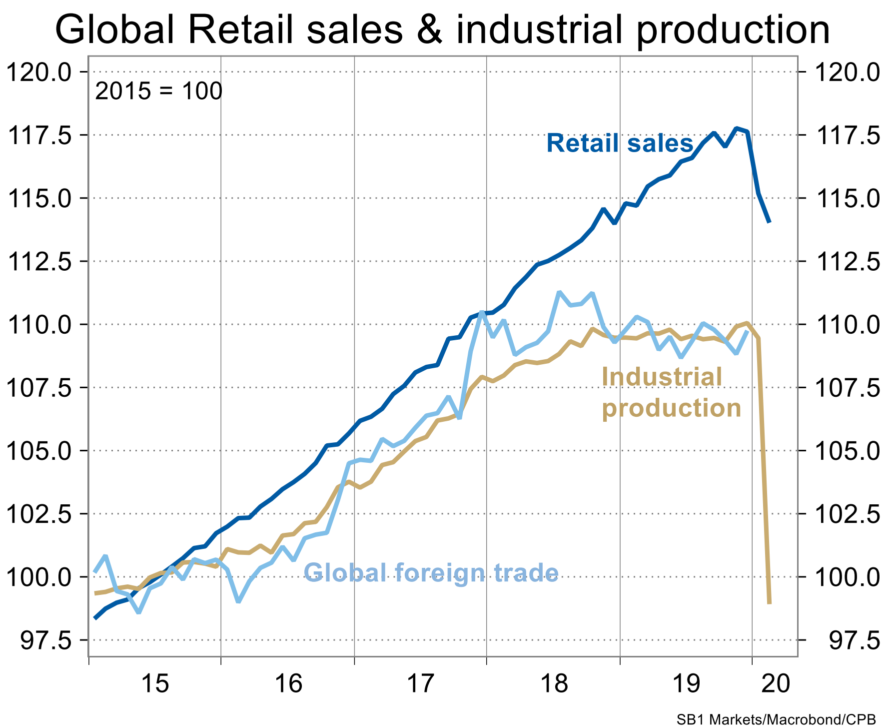
Global retail sales and industrial production set to collapse in Feb/March

Chiefly due to rapid declines in Chinese industrial production and retail sales – and others will follow

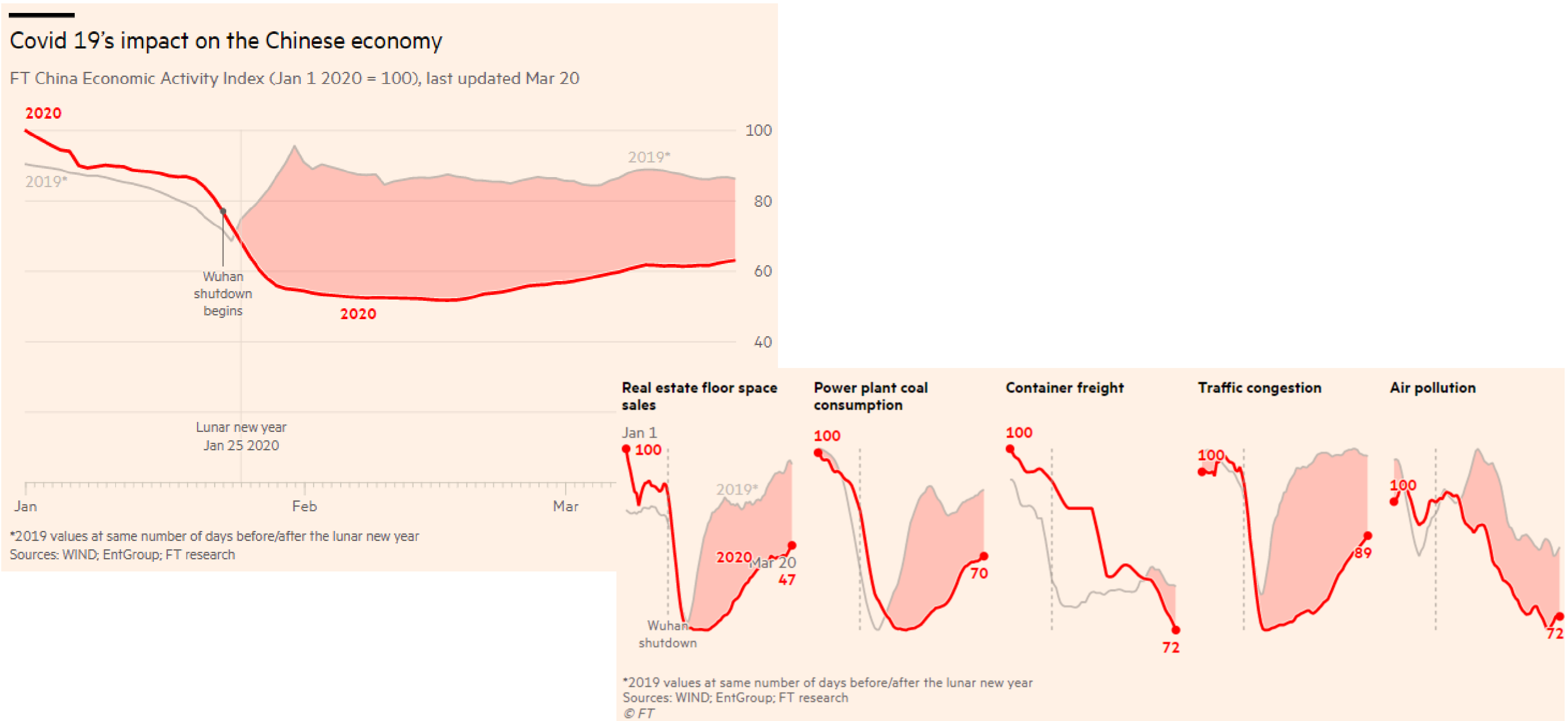


Memo: Keep in mind the different scales at the chart above

- **Global industrial production** fell by 0.5% m/m in January (our estimate). Production will no doubt plunge in February (-10%), due to a collapse in Chinese production (just China and the US have reported so far, we have illustrated the drop at the chart above). In most other countries, production was probably not that heavily distorted by the coronavirus crisis in February – but it will in March. The global manufacturing PMI slipped to 47.2 in February, indicating a rapid decline in global production
- **Retail sales** dropped 2% m/m in January and another 1% in February, according to our very preliminary estimate, chiefly on a steep drop in Chinese sales. No other countries have so far reported Feb data but the decline will be heavy
- **Global foreign trade** rebounded in Dec, up 0.9% m/m with our seasonal adjustment. Covid-19 will no doubt hit global trade hard

The Chinese economy is slowly gaining speed, still far from fully back

Daily activity data signal a recovery in most sectors, barring transport



- Urban public transport is still slow but it is rising slowly, while freight activity (domestically, not international) is almost back to a normal level

Source: Financial times

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Some preliminary estimates: How will businesses be able to keep activity up?

Activity soon down to 75% of normal? GDP down 2% per 'crisis' month

Mainland Norway market based sectors	Value added NOK bn, 2019	in %	Wage cost NOK bn, 201	Crisis prod. level	Change in Value add.	Change in Payroll tax	Change in Temp. lay.	Operating result No crisis	Operating result Crisis	Operating result Diff	Operating result in %
GDP (value added)	**1,853**	**100%**	**1,031**	**76%**	**-439**	**-27**	**-225**	**493**	**313**	**-180**	**-37%**
Primary	68	4%	16	95%	-3	-1	-1	49	46	-3	-6%
Manufacturing	222	12%	159	85%	-33	-5	-18	24	14	-10	-41%
Water, electricity etc	105	6%	29	100%	0	-1	0	42	43	1	2%
Construction	212	11%	149	80%	-42	-4	-22	50	35	-16	-31%
Trade (retail, wholesale)	251	14%	180	50%	-125	-3	-67	50	-2	-52	-104%
Transport (persons, goods)	93	5%	74	60%	-37	-2	-22	7	-8	-15	-207%
Post, info, communication	147	8%	95	90%	-15	-3	-7	27	23	-4	-16%
Hotel & restaurants	48	3%	36	5%	-45	-0	-26	8	-11	-19	-229%
Finance	159	9%	51	90%	-16	-2	-4	98	88	-10	-10%
Real estate, housing	242	13%	19	95%	-12	-1	-1	87	78	-9	-10%
Busines services	243	13%	180	80%	-49	-5	-27	37	21	-16	-43%
Culture, entertainment, arts	64	3%	43	5%	-60	-0	-30	15	-15	-30	-202%

Figures for ' a full year crisis'

Source: SB1 estimates, Macrobond

Figures are not adjusted for changes in cost of goods sold, which balances out, in macro but with different sectoral consequences

Workforce cut by 75% of reduction in sales

Production taxes, subsidies unch in % of sales

- Most of the cuts in activity are not due to public regulations but changed behaviour among households and companies. The consequences are highly uncertain, except for hotels & restaurant, entertainment, and partly transport. Logistic challenges will probably hamper production. A sharp decline in demand for exports will also weight on production.
  - » We have not adjusted for fixed costs as these costs are mainly revenues for other sectors in the economy (like rents, electricity, insurance etc. Cost of goods sold will be reduced by the same amount as sales, at least over time. (Some extra inventory cost will be accumulated - but again, that's other producers revenues, if paid). However, the sectoral differences may be substantial, due to differences in the cost & revenue structure
- If the shutdown drags out, the impact will be larger, due to investment demand, income multiplier impact etc.

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How badly may the Norwegian economy be hurt? Here are some guesstimates

The Mainland business sector will not go bankrupt, The Government shoulders the main cost

- We assume that production in the private sector is now reduced by approx 1/4th (*Check our sector guestimates next page)*
- The valued added loss equals approx NOK 500 bn at an annual basis or NOK 40 bn per month (total production/sales loss is larger, but input goods and services must be deducted in order to prevent double counting). With these assumptions, market based GDP will decline by 2% per month. The same goes by and large for the public sector (hospitals and care institutions are more than fully operating, education not). So GDP will no doubt decline substantially in 2020, even if the virus is contained after just some few weeks
- Businesses can lay off employees temporary, and pass the bill over to the government. If companies utilise this generous lay off mechanism by 75% (some slack is unavoidable but should be more reduced the longer the stoppage lasts), the wage will be reduced by NOK 225 bn annualised, or by NOK 20 bn per month . In addition, employers' contribution to social security is cut by 4 pp for two months (supporting business by NOK 24 bn/2 bn per month)
- Thus, the net loss for the corporate sector is less than NOK 200 bn, equalling ½ of an ordinary annual result – or approx NOK 15 bn pr month. **The wage relief is essential for the corporate sector as the government shoulders the cost for those temporary laid off. In addition there a discussion on more support measures for businesses hit by the corona production halt**
- The booked equity in Mainland Norwegian companies equals some NOK 6.000 bn by end of 2019. Thus – again given our very uncertain assumptions – the Norwegian business sector will not be wiped out due to some few weeks' (or even months) loss of production (*some figures next page*)
- We have not included the oil and gas sector in these calculations. Production will most likely be kept up
- The low oil prices will make more than a dent in the sectors revenues and results, and in the Government's take – which imply a lower gross transfers to the oil fund (but not more than that). No impact the Government's spending capacity this year and almost not visible next year
- Oil investments are already on the way down, and will no doubt decline faster, if the oil price remains low. However, the short term impact is limited

No problems for most employees. And the Government can stand it too

Households

- Wage earners will be reasonably well compensated by 100% (vs the ordinary wage income), up from the ordinary 62%
- Self employed will be able to apply for a temporary compensation mechanism
- Even of money market and bond spreads have widened, interest rate on mortgages will be cut, in the end to below 2% the coming weeks/months
- Spending will be curbed coming weeks/months, savings will be increased and households balance sheet will be strengthened
- On the other hand, wage increases will be cut significantly vs original expectations, to well below 3%, still clearly above inflation

The Government

- The budget will take most of the cost of the loss of production, mainly due to a liberal compensation for temporary laid of employees. In addition, the employers' contribution pensions are cut by 4 pp. We estimate the cost to NOK 20 – 25 bn per month
- The NOK 100 bn liquidity support package will most likely incur some losses, but the losses should not be astronomical, if the virus stoppage is not extended to more sectors or remain for many months
- Mainland tax revenues will be reduced but mainly just from the corporate sector (households will be quite well compensated)
- The pre oil deficit at the budget will increase substantially, most likely to above the spending rule guideline (at 3% of the Oil fund's value), at NOK 285 bn, vs the budget estimate at NOK 243 bn.
- If the total cost runs up to NOK 100 bn, it would equal 1% for the Oil fund's value. We think it is worth it if it reduces the risk for a long term crisis, after the virus fight is won
- Due to the decline in oil prices, the public sector oil revenues will be reduced
  - » The only consequence is just that the gross transfer to the Oil fund will be lower than assumed. That's the smallest of all problems for any government these day

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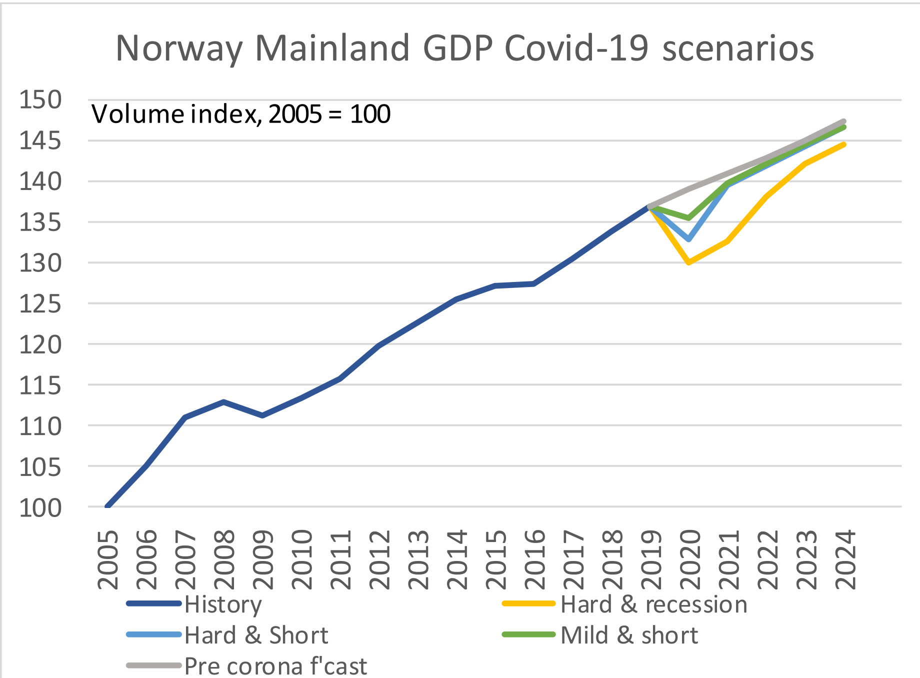
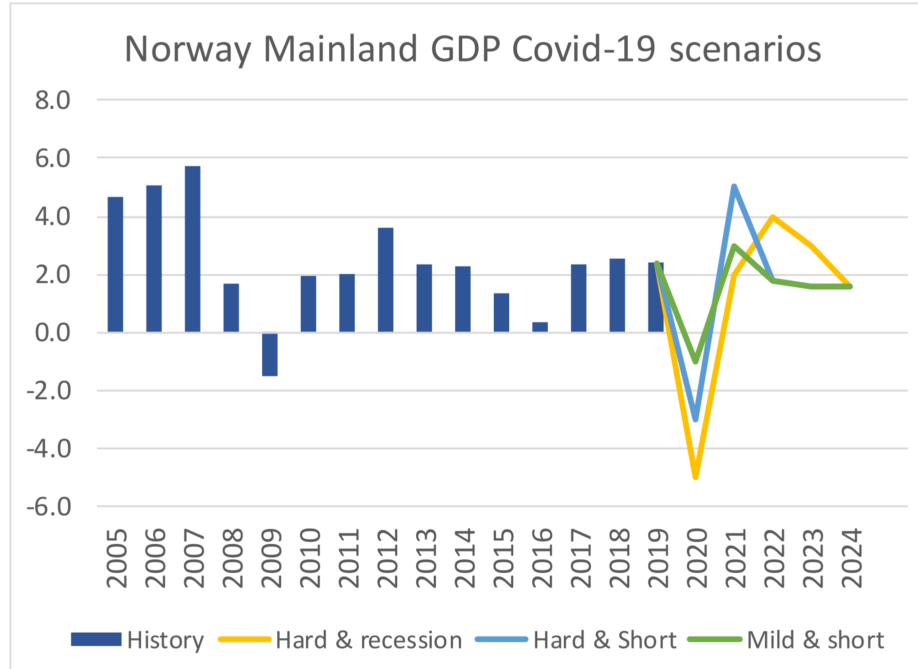
The setback will be substantial, even if the present ‘shutdown” is short lived





Source: SB1 estimates, Macrobond

- Three Covoid-19 scenarios: A Shallow or a deep V, or a wider U (we do not want to think about an L). The wider
- The government assumed 1% decline in GDP in the proposal to the Parliament at Friday, from a 2.5% f’cast last October. Our baseline estimate is -3% to -4% (from a pre corona f’cast at 1.6%). However the uncertainty is huge – we think –5% to -1% covers most of the likely outcomes

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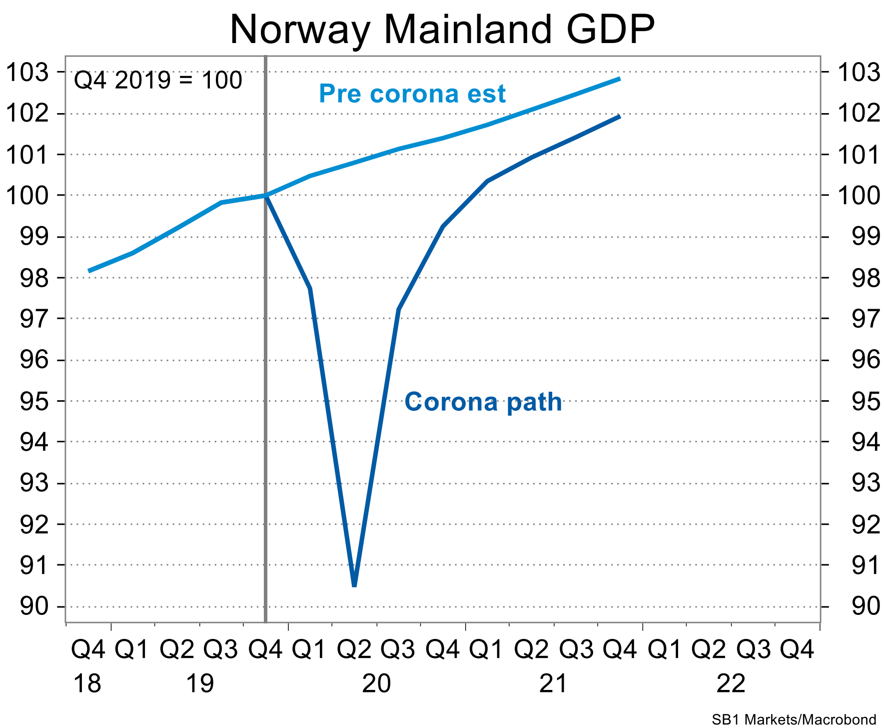
Norway: A harsh setback in Q2, a recovery from Q3 – a V-shaped crisis



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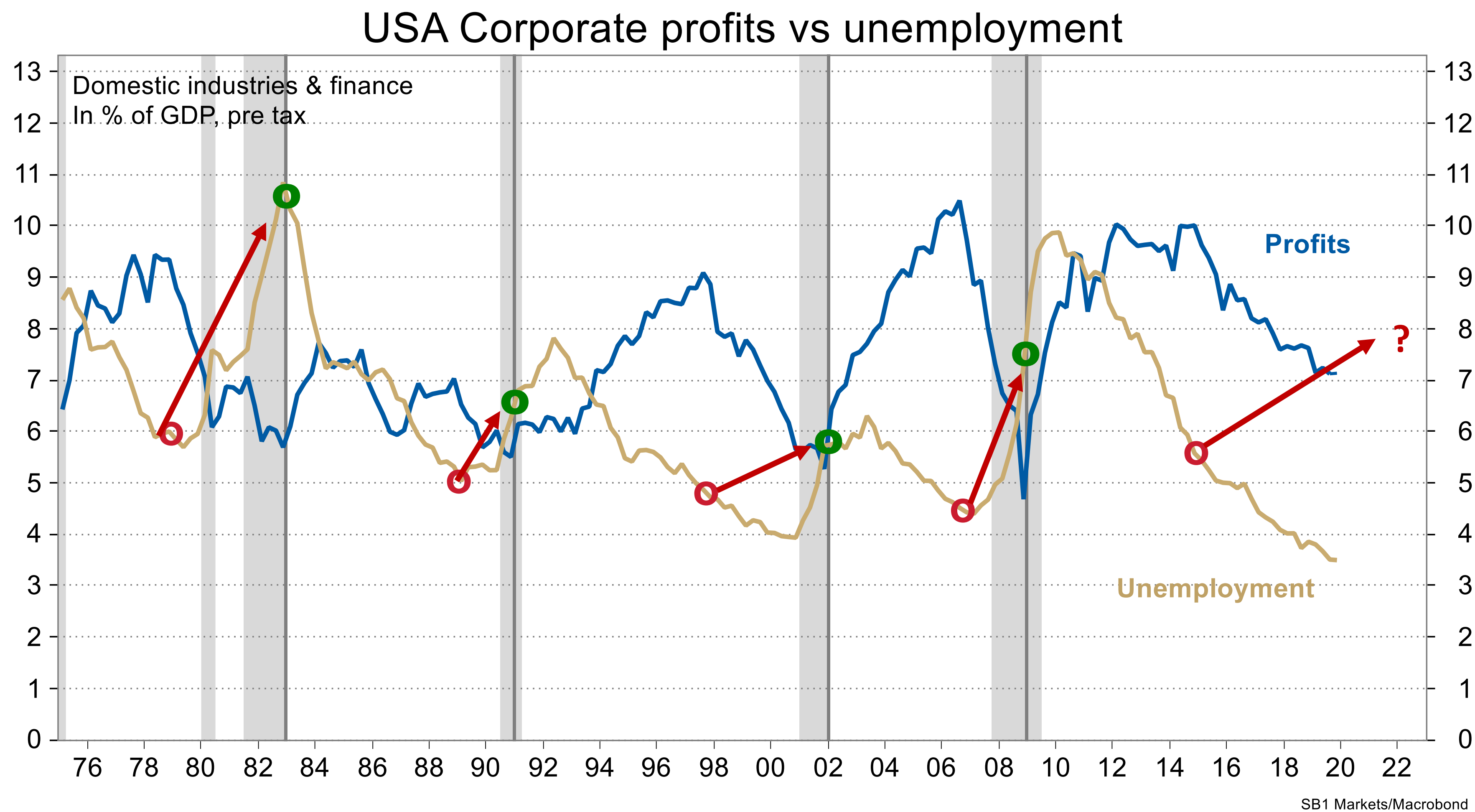
When will profits turn up? Usually after a recession, with much higher unempl.

Are the corporates f…. anyway (at least for a while)?



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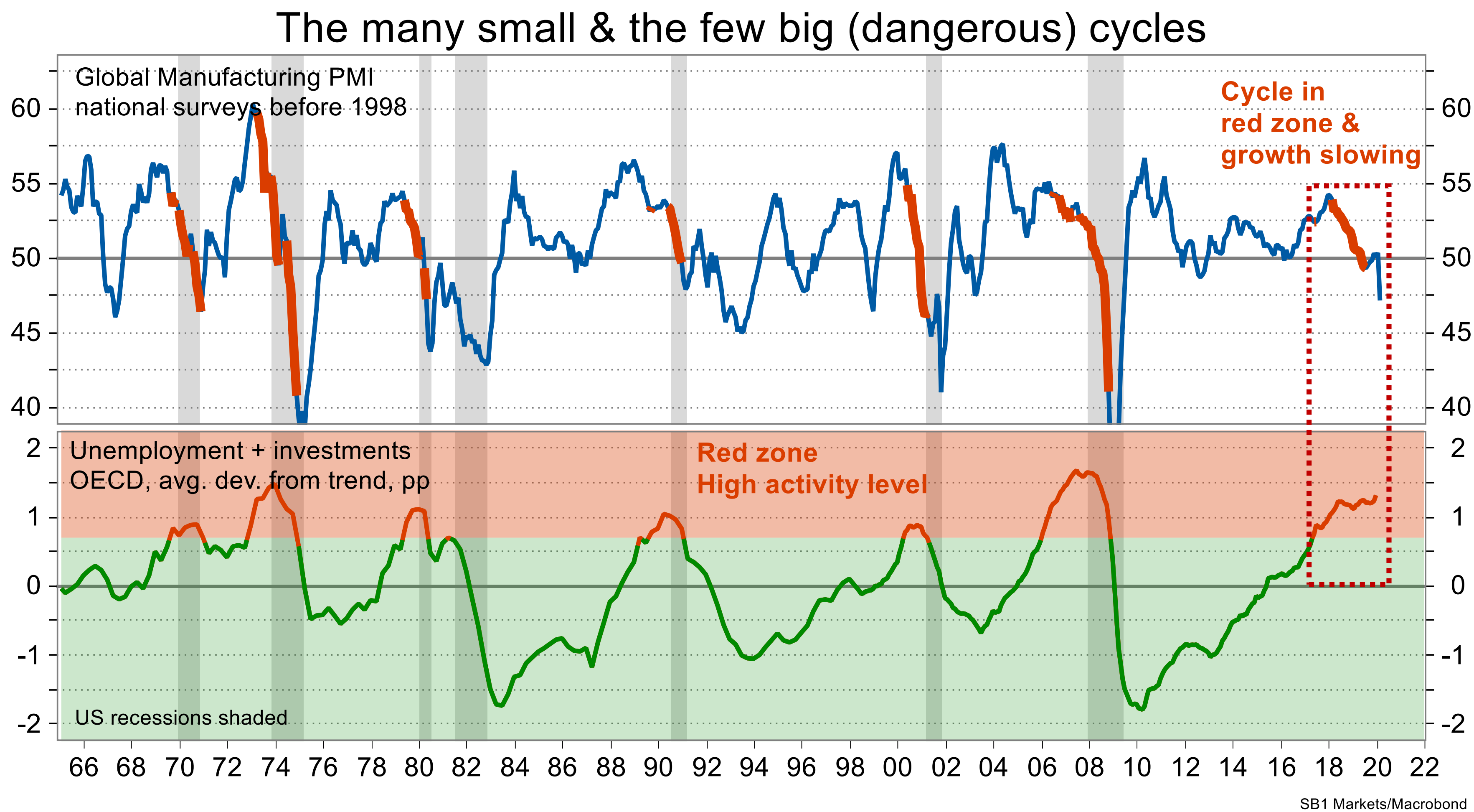
DANGER: A high activity level and a growth slowdown

Like now



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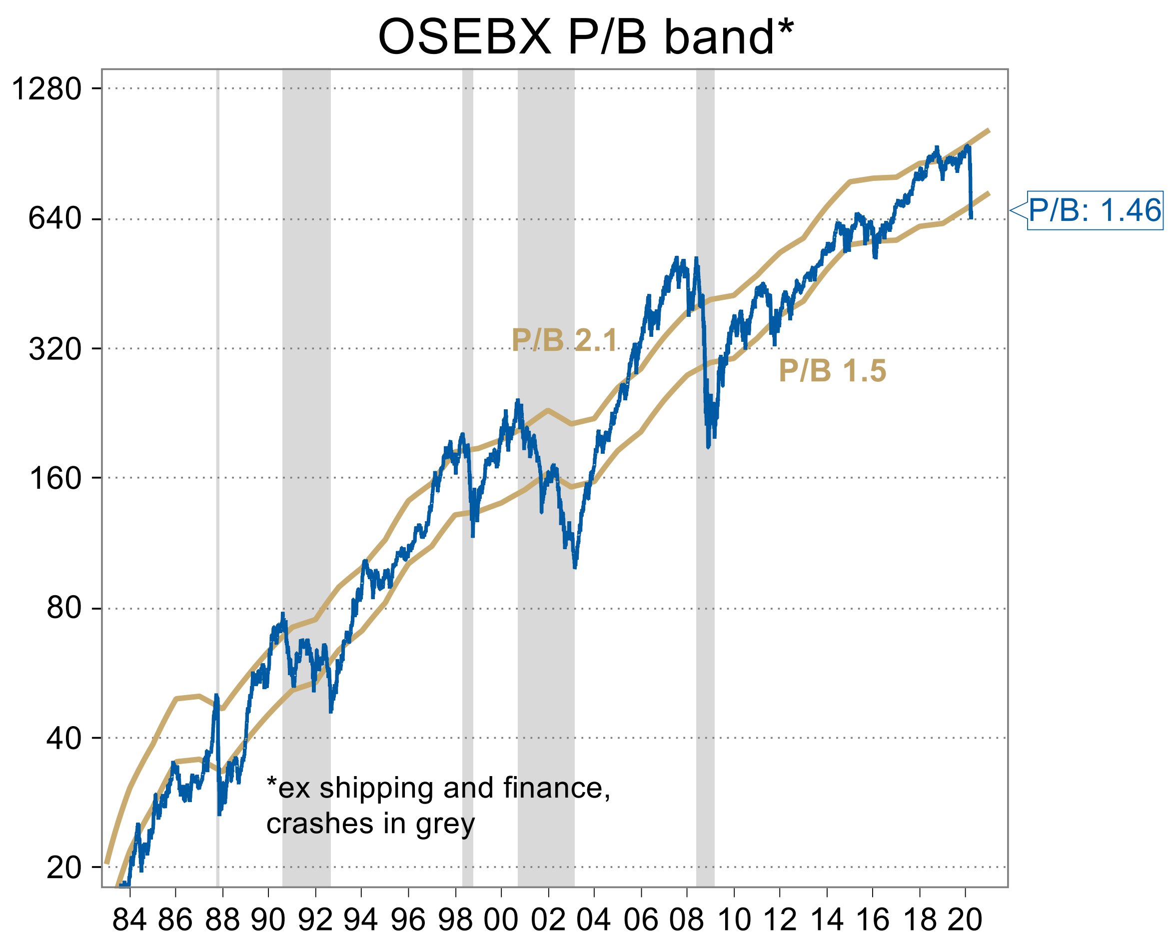
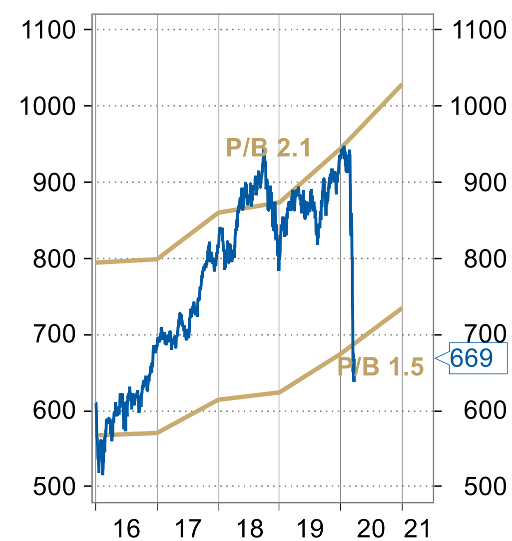
Oslo Stock Exchange: Was expensive. Ain't really cheap yet

But if you have a medium term horizon…



Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.



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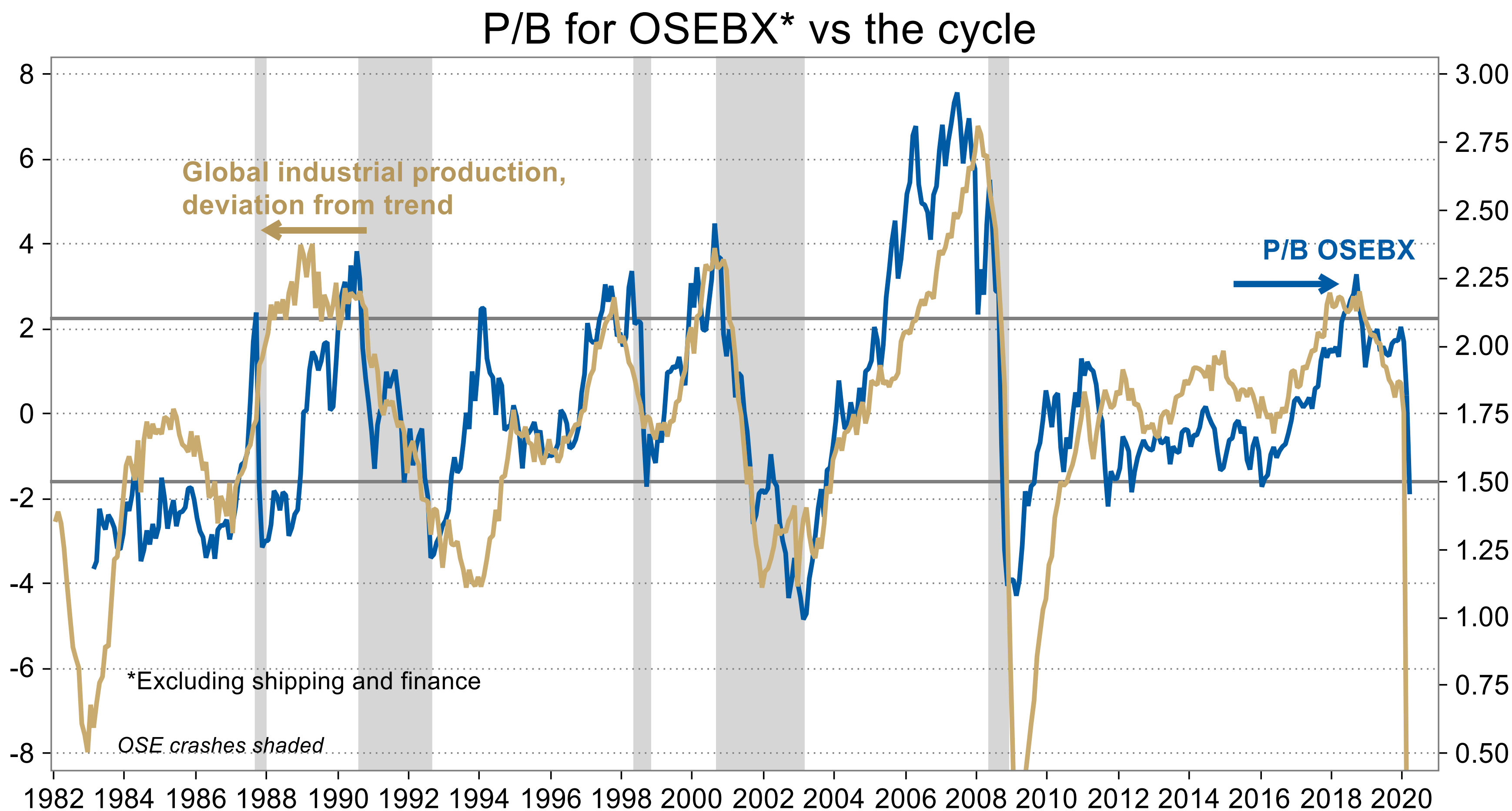
The economy & the stock market: Some very common cycles



Source: Oslo Børs, Vital, Bloomberg, SB1 Markets, Macrobond.

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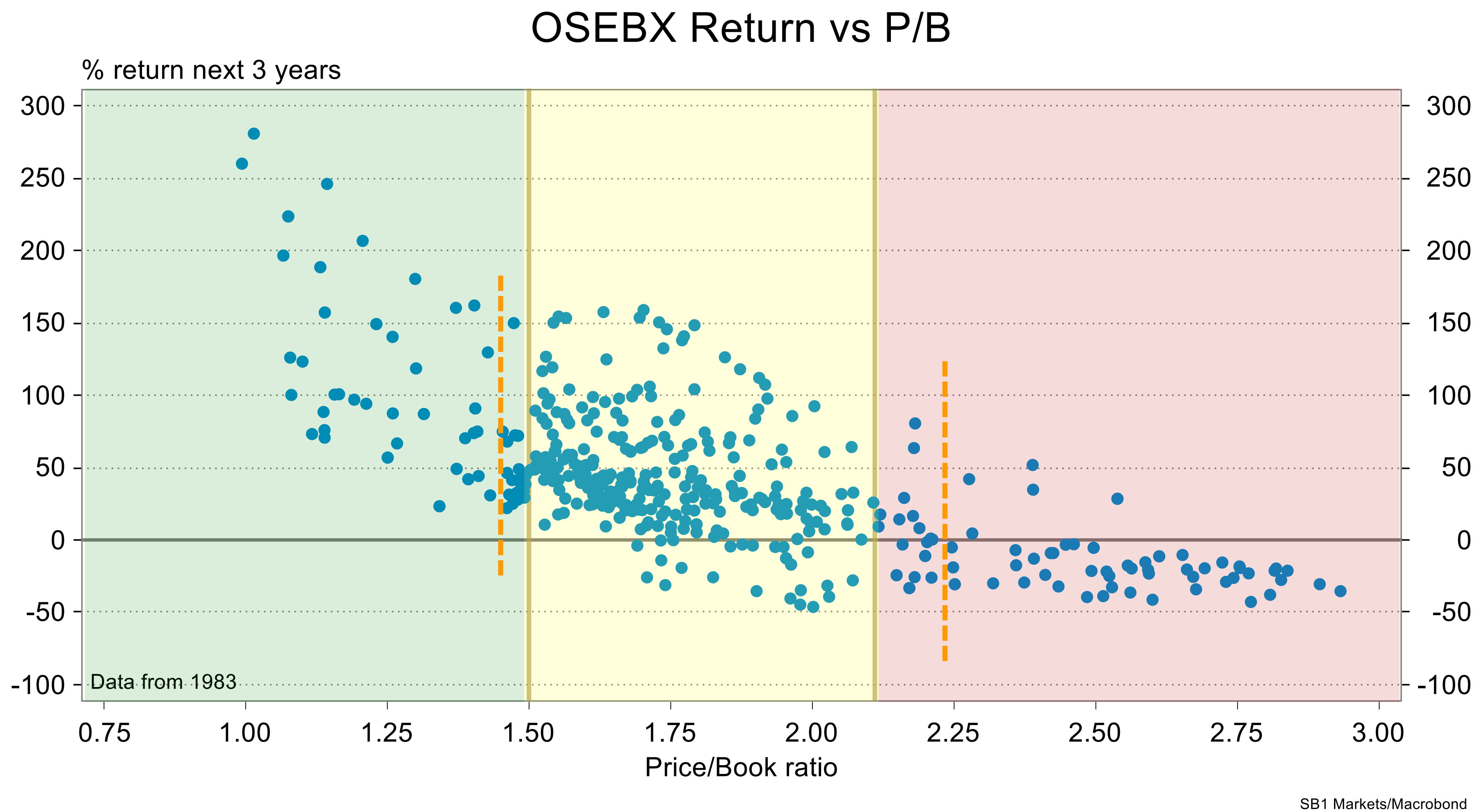
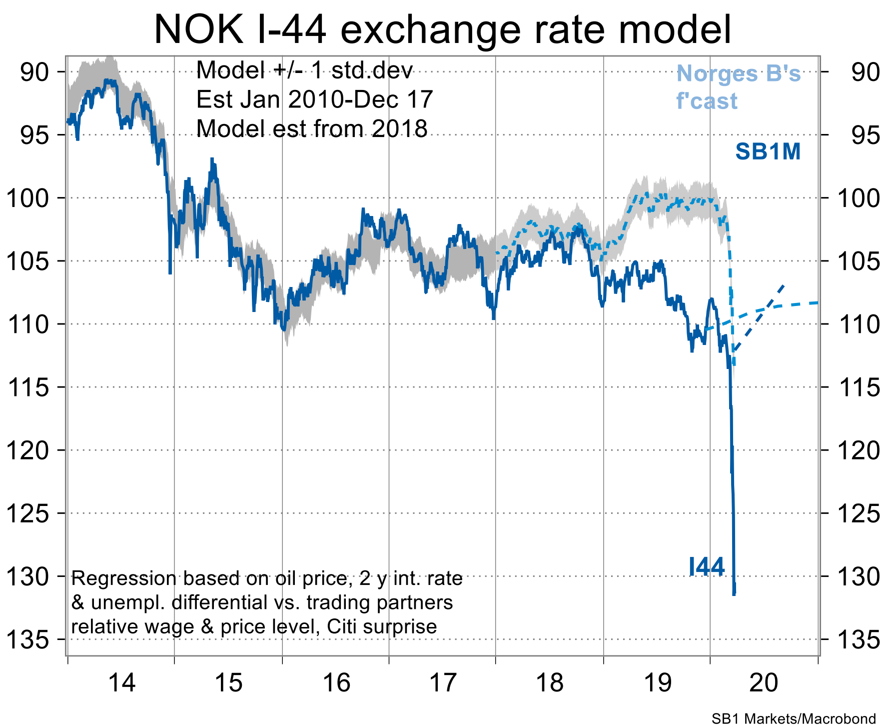
The basic trick when investing: Buy cheap!

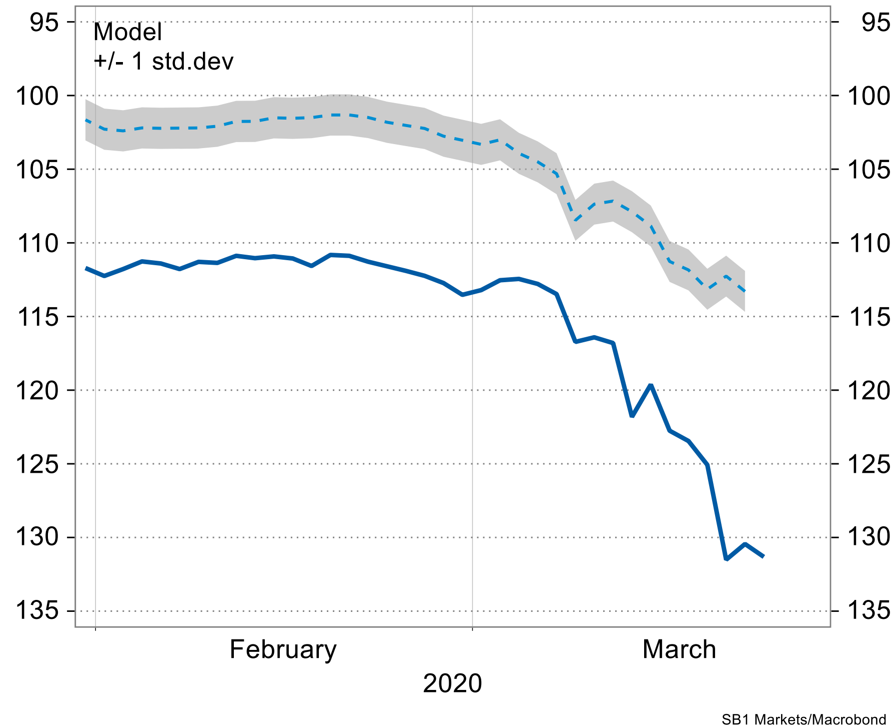


Source: SB1 Markets, Macrobond.

NOK is in 'free fall', down another 9% last week. Marg. down Monday morning

NOK dropped 9% last week, to a new ATL, the deviation to our 'old' model is 19% - record high





- The NOK collapsed during the second half of last week without any assistance from the usual suspects:
  - » Not the oil price
  - » Not energy equity prices
  - » Not (enough) from the interest rate spread
  - » Not our supercycle friends' currencies, even not the AUD!
  - » In addition: Norway is not harder hit by the corona crisis than others (and we have more financial resources to fight it, economically. The relative cost level is lower than ever – even if we still have a 3 x GDP Oil fund
- So what the h... happened Wednesday and Thursday – and this morning? A sort of market breakdown? We think so. We have no idea where the bottom is but this must be a buying opportunity, big time – it you have some months' horizon

SpareBank 1 MARKETS

The Calendar

In focus: The first March PMIs from the US, EMU, UK and Japan, consumer confidence

Time	Country	Indicator	Period	Forecast	Prior
Monday Mar 23					
08:00	NO	Housing Starts	Feb		27'
10:00	NO	Norges Bank Lending Survey	Q1		
13:30	US	Chicago Fed Nat Activity Index	Feb	--	-0.25
16:00	EC	Consumer Confidence	Mar A	-13.6	-6.6
Tuesday Mar 24					
01:30	JN	PMI Manufacturing	Mar P	--	47.8
01:30	JN	PMI Composite	Mar P	--	47
10:00	EC	Manufacturing PMI	Mar P	40	49.2
10:00	EC	Services PMI	Mar P	40	52.6
10:00	EC	Composite PMI	Mar P	38.9	51.6
10:30	UK	PMI Manufacturing	Mar P	45	51.7
10:30	UK	Services PMI	Mar P	45	53.2
10:30	UK	Composite PMI	Mar P	45.6	53
12:00	UK	CBI Trends Total Orders	Mar	-38	-18
14:45	US	Markit Manufacturing PMI	Mar P	45	50.7
14:45	US	Markit Services PMI	Mar P	44	49.4
14:45	US	Markit Composite PMI	Mar P	--	49.6
15:00	US	New Home Sales	Feb	750k	764k
Wednesday Mar 25					
08:00	NO	Unemployment Rate LFS	Jan	3.9%	3.9%
10:00	GE	IFO Expectations	Mar	--	93.4
10:30	UK	CPI Core YoY	Feb	--	1.60%
13:30	US	Durable Goods Orders	Feb P	-1.0%	-0.2%
13:30	US	Capital Goods Orders Core	Feb P	-0.4%	1.1%
Thursday Mar 26					
09:00	SW	Economic Tendency Survey	Mar	--	99.1
09:00	SW	Consumer Confidence	Mar	--	98.5
10:30	UK	Retail Sales Core MoM	Feb	-0.2%	1.60%
13:00	UK	Bank of England Bank Rate	Mar-26	0.1%	0.1%
13:30	US	Advance Goods Trade Balance	Feb	-$64.5b	-$65.5b
13:30	US	GDP QoQ Annualized	4Q T	2.1%	2.1%
13:30	US	Initial Jobless Claims	Mar-21	750k	281k
Friday Mar 27					
08:00	NO	Retail Sales MoM	Feb	--	0.5%
09:30	SW	Retail Sales MoM	Feb	--	0.9%
13:30	US	Personal Income	Feb	0.4%	0.6%
13:30	US	Personal Spending	Feb	0.3%	0.2%
13:30	US	PCE Core Deflator YoY	Feb	1.8%	1.6%
15:00	US	U. of Mich. Consumer Sentiment	Mar F	93.3	95.9

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

- **Preliminary global PMIs**
  - » The **flash PMIs**, collecting data from the US, Eurozone, UK and Japan in the first half of March, will reveal more on the impacts of the coronavirus, although the fuller impact will be visible in the final March surveys – and the coming month's data... PMIs down to 35-40 are to be expected, and the Eurozone may be hit harder than the US, as lockdowns were implemented earlier
- **US**
  - » **UoM final March consumer sentiment** is likely to drop as more Covid-19 cases are reported and businesses are being closed down
  - » **New jobless claims** sparked to 281' in the week ending March 14 and are expected to note an extreme increase the coming weeks
  - » **Durable goods orders** may have fallen modestly in February, the ISM/PMI order indices edged down but do not signal any rapid decline (yet)
  - » **Private consumption** most likely weakened in February and the coronavirus will no doubt slash consumer demand the coming months
- **Eurozone**
  - » **Consumer confidence** is expected to have dropped in March, from a high level
  - » **The German Ifo business survey** did not note any corona impacts in February but is likely to fall steeply in March and expectations will be slashed
- **Norway**
  - » **Norges Bank Q1 lending survey** is always an important data point, however the reports were probably collected through the three weeks up until March 13 or 16. Thus, these data are already 'old', as financial conditions and probably lending demand are changing rapidly
  - » **Retail sales** have been sagging the past few months and the outlook is extremely grim, here too
  - » **LFS unemployment** in the period Dec-Feb will not mirror any corona impacts

Our main views

	Main scenario	Recent key data points
Global growth cycle	The cycle was maturing, and growth has been slowing for almost 2 years. The trade conflict no doubt contributed. Unemployment is low, wage inflation is not low vs. productivity. Investment are not low anymore. 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 had turned up until the coronavirus shock, which knocked the Chinese PMIs down. The virus will now hurt the world economy badly. A temporary setback in Q1 (primarily China) and partly in Q2 (other countries) which was our main case is now far too optimistic. **Global growth will fall into a recession (GDP growth below 2%). Growth has slowed to 3% from 4%, our baseline is now -1.5 to -2% y/y in 2020 (from 2.8% before corona), the uncertainties are extreme**	Barring China, the impacts of the coronavirus and lockdowns are not yet evident in much macro data, but it will soon be, wait for the March PMIs this week. Global composite PMI plunged to 46.1 in Feb, a 6.1 p drop, and the weakest level since the FC
China	Growth had slowed just marginally, and inched up through 2019. Now, all bets are off, as Covid-19 has 'killed' the economy in Q1, we assume by 10% q/q, resulting in a -6% y/y growth, from +6% in Q4 . As the outbreak is now coming under control, we expect a substantial recovery in Q2, but not fully up to the Q4 2019 level. The annual growth will be closer to 2%, from 6%, even if the activity level returns to the original growth path during H2. Before corona, we expected a 'controlled' slowdown, as over the previous years. There may be other downside risks now, if more companies should decide to reduce the supply chain risk vs China. **We expect more policy measures to ensure a recovery in during 2020**	Chinese industrial production, investments and retail sales fell like a rock in February, and more steeply than expected (well, in line with our guesstimates). Ind.prod. and investments both dropped 27% m/m, retail down 14% in Jan/Feb
USA	Before Covid-19 hit, we thought growth would must likely not accelerate in '20, from the 2% speed in '19. Unemployment is low but will now rise rapidly, as in other countries. Profits are under pressure, corporate debt is high. Business investments are above trend, now yielding. Households' debt burden is sharply reduced, and the savings rate is 'high', but consumption is now slowing. The housing market is booming, and may get some support from the collapse in interest rates but corona may hamper activity Price inflation close to target. The Fed has cut to zero, the stock marked has fallen sharply – and the economy can easily enter a recession. **Risks, except for corona impacts: Policy uncertainty/trade/business investments &debt, not household demand or debt**	More fiscal stimulus is underway, a package USD 2000 bn (10% of GDP)is under consid.. The first March manuf. surveys indicate a heavy corona impact already in early to mid March. Jobless claims sparked to 281', a and will soar the coming weeks. Retail sales slowly cooling (in Feb), housing booming
EMU	Corona will no doubt slow the Eurozone economy substantially. We expect a sizeable impact in Q1 mostly in Italy and Spain, and more in other countries in Q2. Before corona, the manufacturing downturn was easing and the consumer side had 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 much ammunition left, particularly after a huge ramp up of QE. Fiscal policy debate has turned, stimulus is like. **Italy is in recession, and the risk is increasing elsewhere**	ECB adds stimulus, close to 10% of GDP in liquidity support. The German ZEW sentiment survey slipped on concerns of corona and financial markets. Eurozone wage inflation slowed to 2.0% in Q4
Norway	Growth has been above trend, 2020 will be slashed by the corona shutdown. Unempl. has flattened out and will increase at an extreme speed this spring, when temporary laid offs are added. Oil investments will decline through 2020. Mainland business inv. are not low, will slow substantially. Housing starts are falling. Growth in households' debt has slowed to close to income growth. **Risks, other than corona: Debt, housing. A harsh global setback**	Norges Bank cut to 0.25% and communicated willingness to cut more – and is considering NOK purchases. Unemployment is soaring to levels we have never seen before, up to 8% just last week

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

- Our best corona charts: When will we see any impact of the Italian lock down?
- Central banks and governments pledge 'whatever it takes'
- How badly may the Norwegian economy be hurt? Here are some guesstimates
- When will profits turn up? Usually after a recession, with much higher unempl.
- Global macro data flows are heading down – and it's just the beginning
- Global retail sales and industrial production set to collapse in Feb/March

USA

- Manufacturing production steady in February
- Both first March manufacturing surveys steeply down amid corona crisis
- Retail sales slowing but on trend, (pre corona)
- Housing is booming, highest starts & permits since 2007 (in February)
- Homebuilders' confidence another tick down
- Existing home sales spiked to the highest level since 2007 in Feb
- Unfilled vacancies heading down from peak
- Corona will slash the labour market; jobless claims sparked to a 2 ½ year high
- The current account deficit shrank in Q4 as the trade deficit declined
- The Leading indicators signalled above 2% growth in February
- Nowcasters mixed, signals 1.6 to 3.1% growth in Q1

China

- The Chinese economy is gaining speed, still not fully back
- China held interest rate unchanged, a 5 bps cut was expected

EMU

- Wage inflation has probably peaked for now
- German ZEW survey down the drain, both on current situation and expectations

UK

- Unemployment flattens out – employment still growing at a solid pace
- Wage inflation is cooling, down to a 3.1% speed, still a rather high level…

Sweden

- House price inflation is accelerating

Japan

- Core CPI inflation down to 0.2%, headline +0.5%, where is the VAT impact??

Norway

- Norges Bank nudged down the policy rate to 0.25%, unsurprisingly
- Unemployment is soaring, to the highest levels we have seen
- Mainland exports and imports slowing recent months

Highlights

The world around us

The Norwegian economy

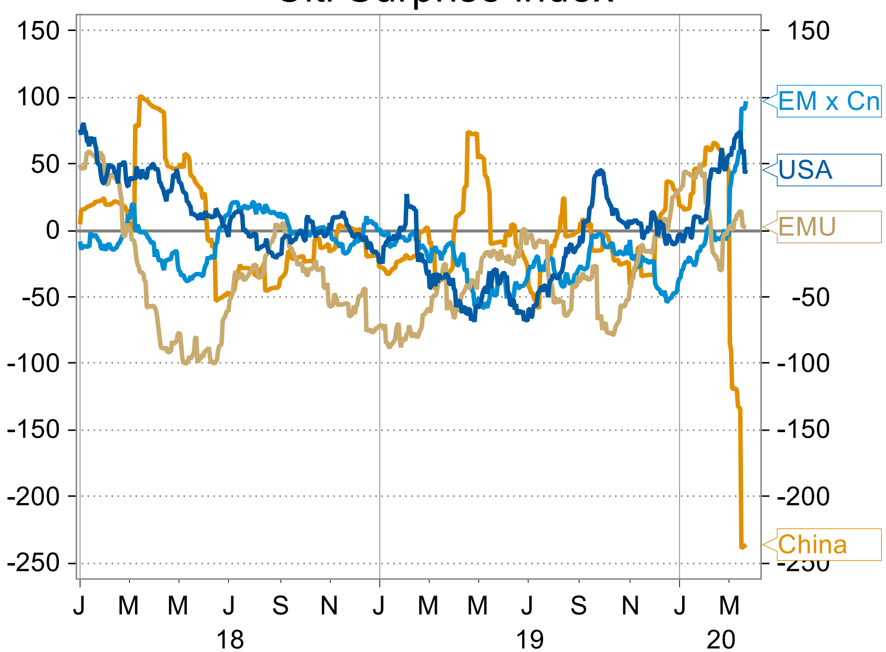
Market charts & comments

SpareBank 1 MARKETS

Global macro data flows are heading down – and it's just the beginning

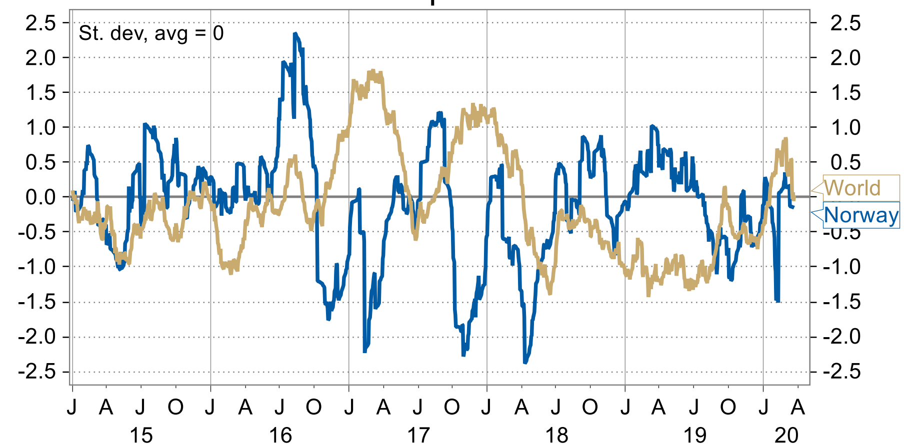
World surprise index dragged down by China, US and Eurozone data slowly turning more negative

Citi Surprise index



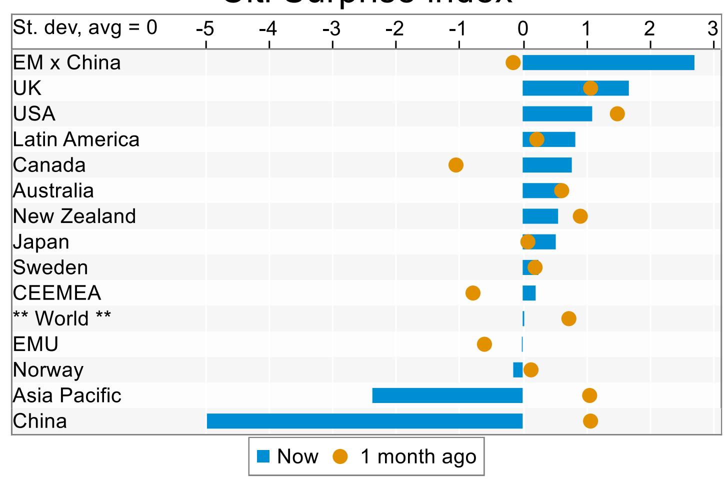
SB1 Markets/Macrobond

Citi surprise index



SB1 Markets/Macrobond

Citi Surprise index



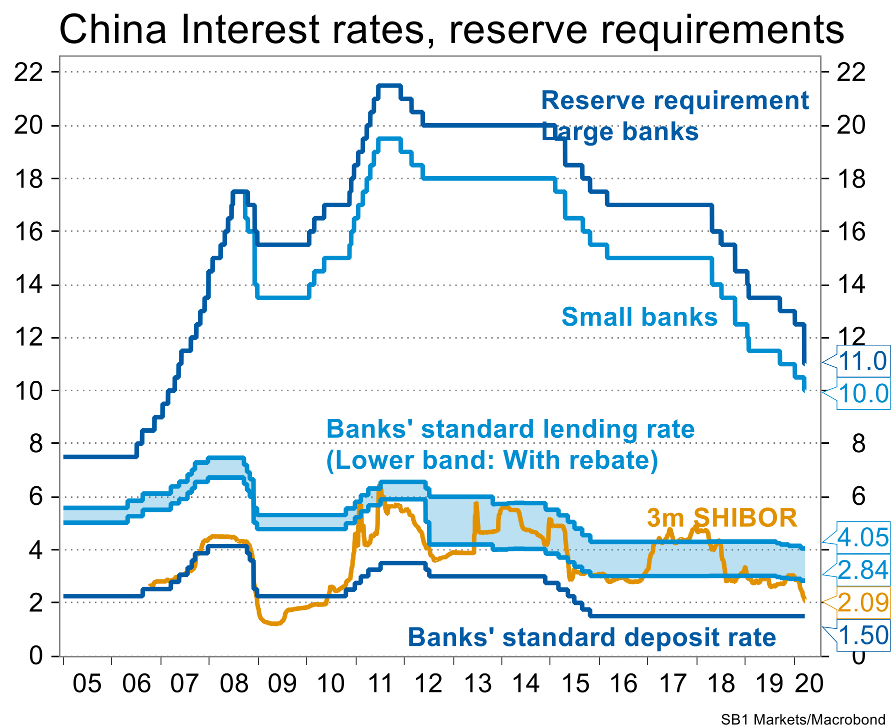
SB1 Markets/Macrobond

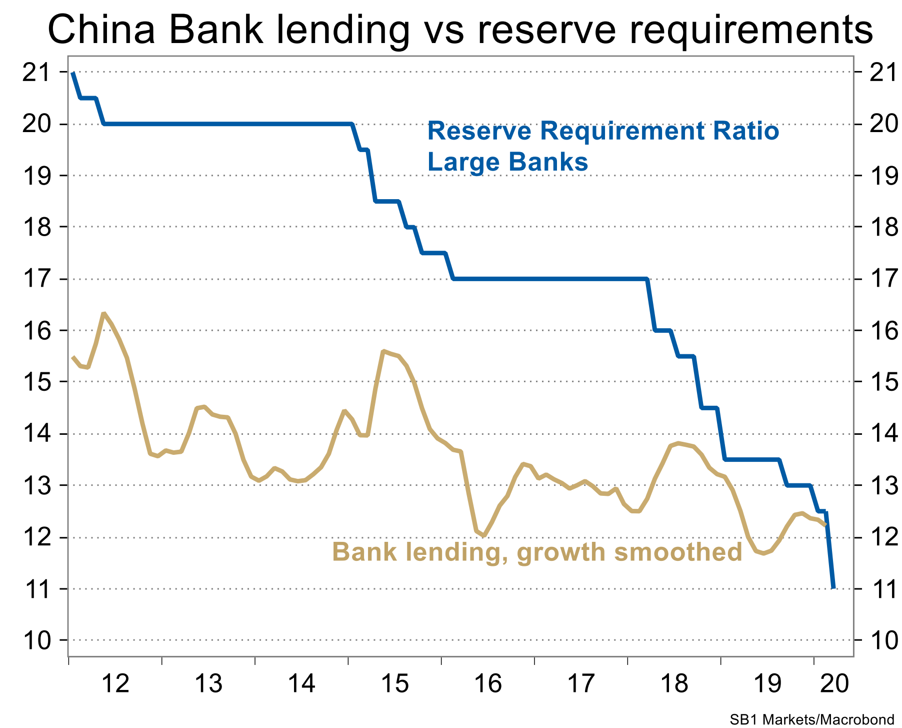
- Global macro data have in sum been better than excepted since early January. Last week, the index fell back to a 'neutral' level. The steep (corona) drop in the Chinese PMIs and more rapid declines in retail sales, industrial production and investments have sent the global index down. Global macro data flows will no doubt be heavily impacted by the virus outbreak the coming weeks and months, as more February/March data are published
- The EMU x China index is now the most upbeat!
- Norwegian data are marginally downbeat vs expectations

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

China held interest rates unchanged, a 5 bps cut was expected

The PBoC is slowly turning more expansionary but did not cut rates as expected last week

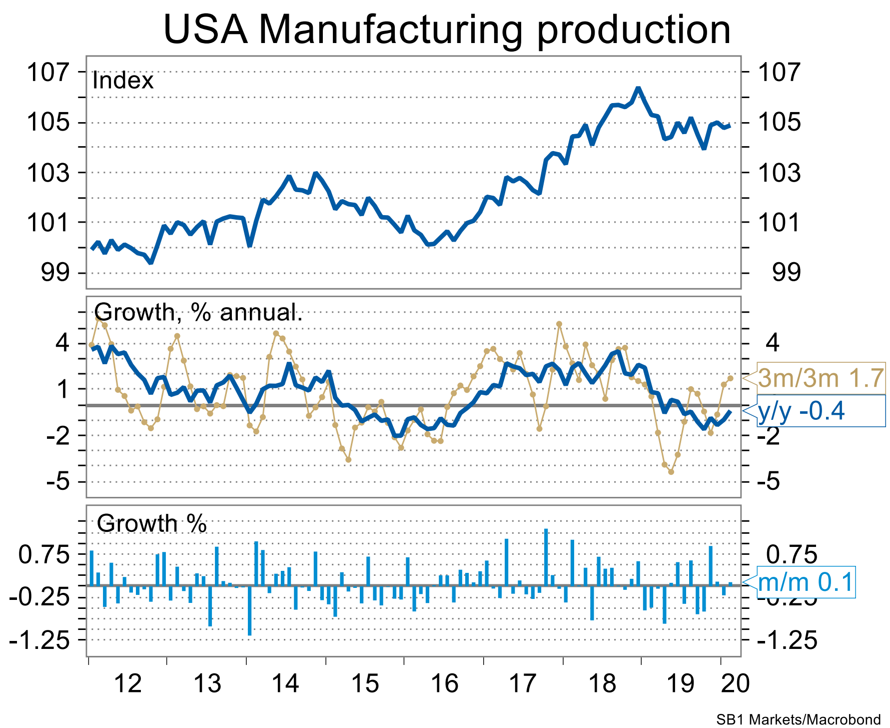


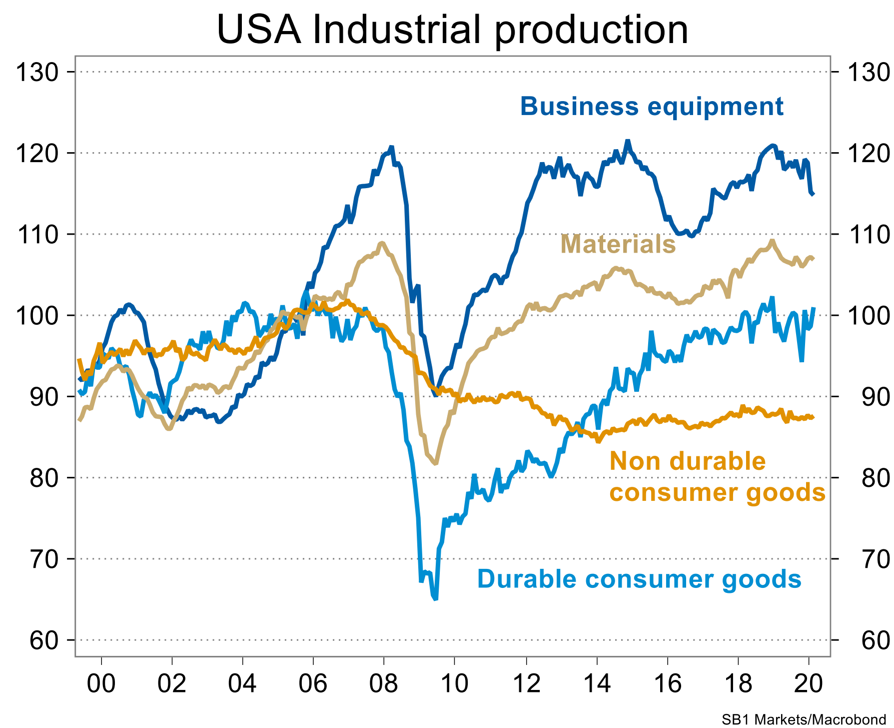


- Two weeks ago, the PBoC cut the banks' reserve requirements for the 2nd time this year (and the 7th since 2018). The cut is to release USD 79 bn in cash, to help offset the growth disruptions from the coronavirus outbreak
- In February, the PBoC cut the benchmark rate, the 1 year loan prime rate, by 10 bps, to 4.05%. The 5 year loan rate was lowered by 5 bps, to 4.75% last Monday, a medium term lending rate was cut 10 bps
- The authorities may roll out more monetary easing as well as securing liquidity in the banking system and by encoring banks to support cash constrained companies with liquidity too (which they are already doing). However, the PBoC will have to balance the need for short term stimulus with it's long term challenges of an elevated growth in debt

Manufacturing production steady in February

Production rose 0.1% in Feb, underlying growth has gained pace but the trend no more than flat

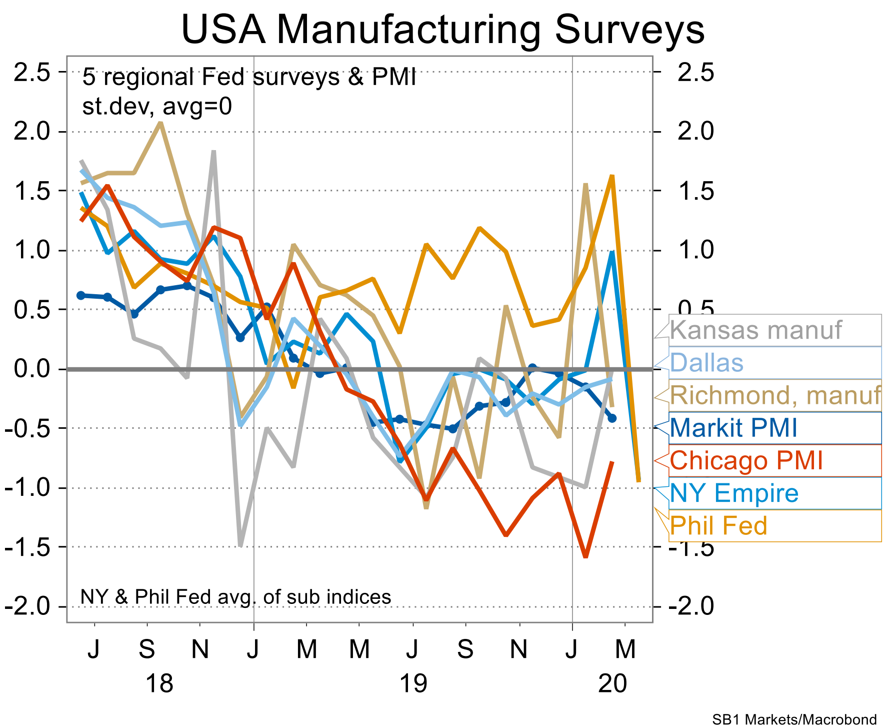


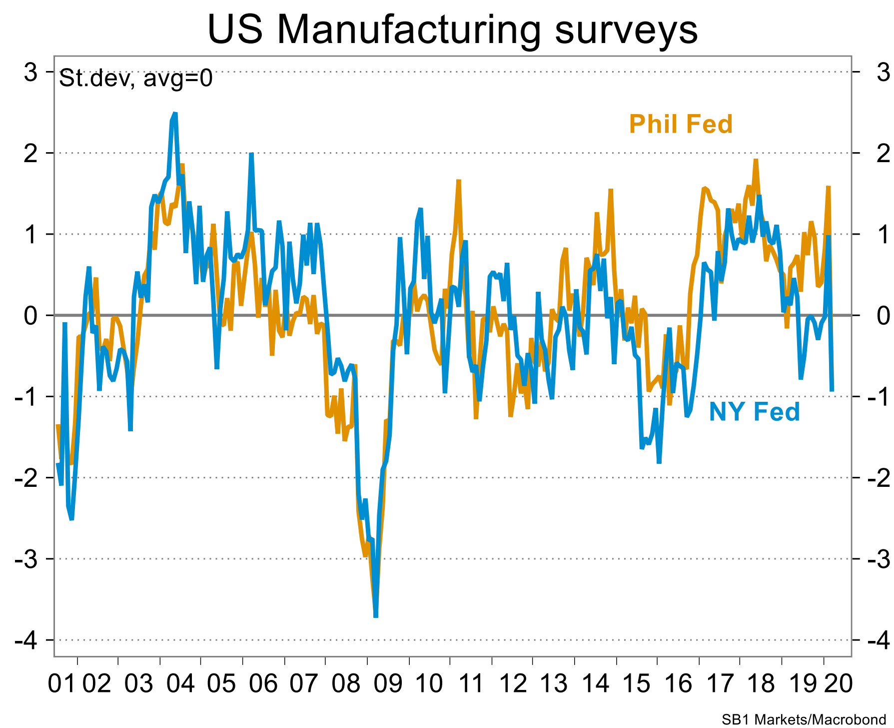


- Manufacturing production increased by 0.1% m/m in February. The underlying speed has turned up to 1.7% and the decline in the annual rate eased to 0.4%. However, the trend is not more than flat since last spring
  - » Total industrial production including energy & mining, increased by 0.5%
  - » Production has slowed in most sectors, most rapidly in business equipment & materials
- Both NY and Phil Fed manufacturing surveys plummeted in March, signalling a gloomy outlook the coming months

Both first March manufacturing surveys steeply down amid corona crisis

NY Fed Empire index plunged 2 st.dev. and Phil Fed 2.5 st.dev, the largest drops on record

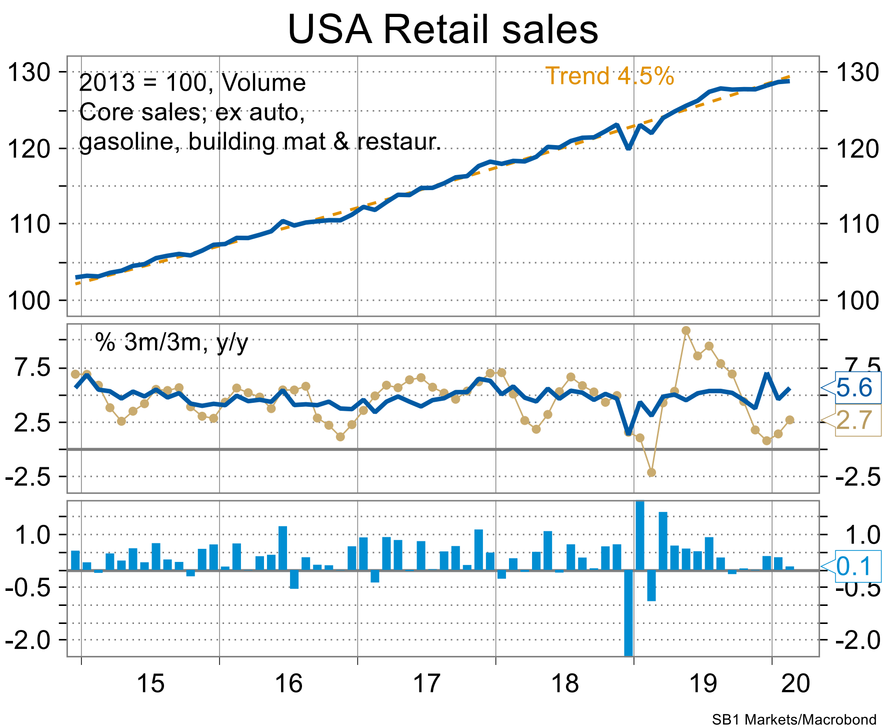


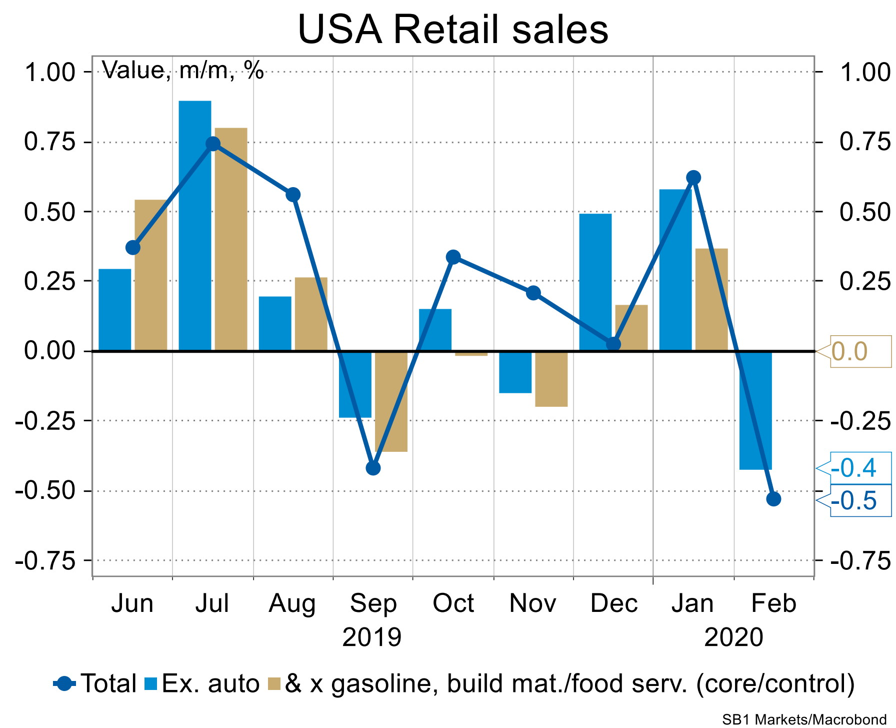


- NY Fed's manufacturing survey slipped 2 st.dev. in March, the steepest decline since October 2001. Phil Fed's index fell even more, by 2.5 st.dev., the largest decline ever noted. Both came in far below expectations
  - » Most components came down and order indices fell rapidly in March
- These surveys signal that the manufacturing PMI (from Markits) and the ISM will plunge in March. Markit's PMI is to be published on Tuesday

Retail sales are slowing but still on trend (pre corona)

Core sales fell 0.4% in value in Feb but Jan revised up. We estimate a 2.7% underlying volume growth

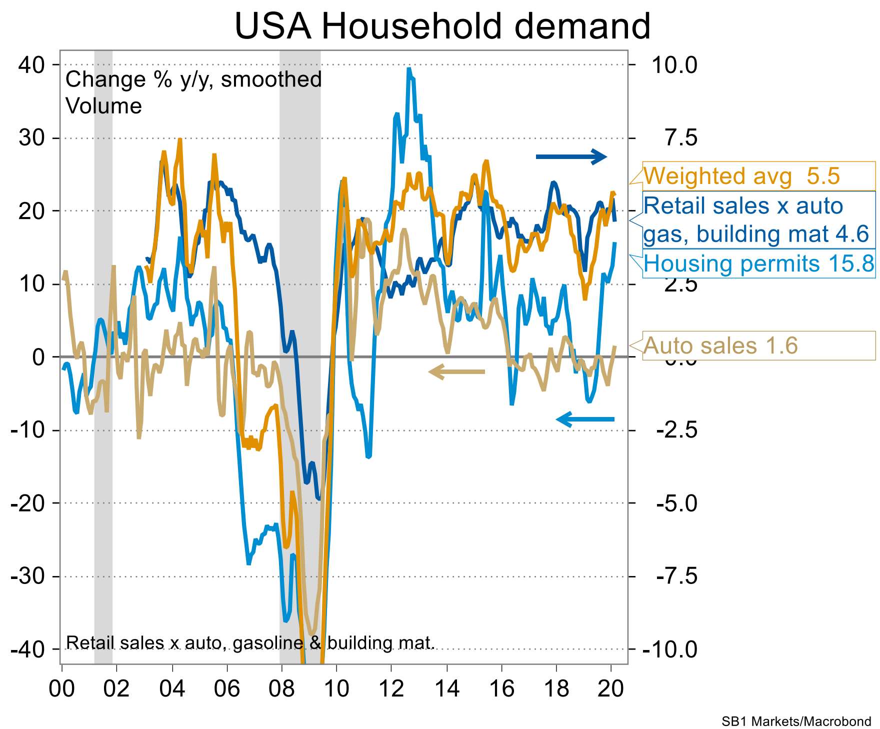


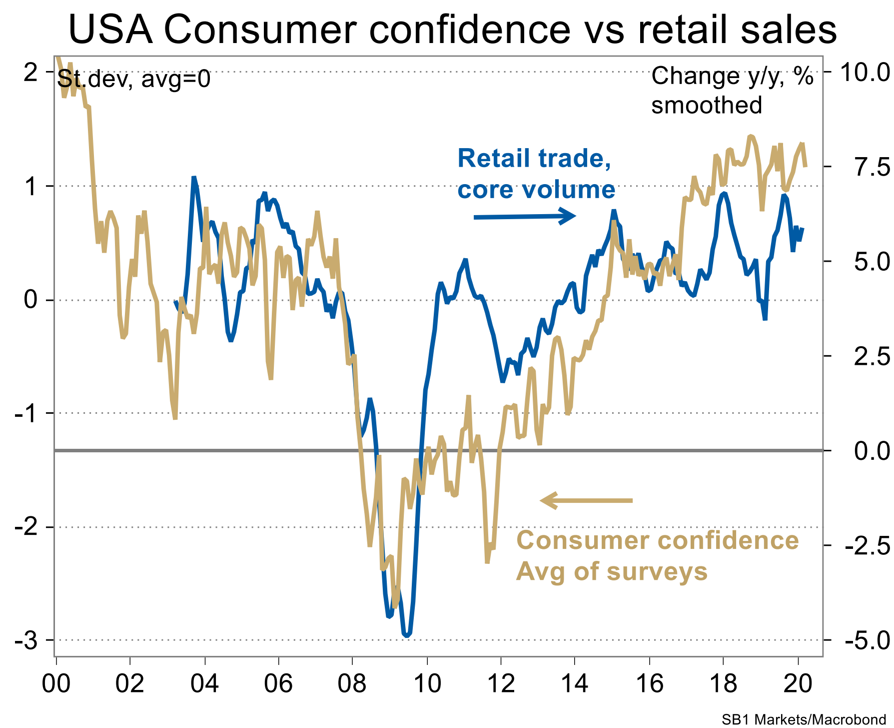


- Core retail sales (ex. auto, gas, building materials & restaurants; control group) dropped 0.4% m/m in February, 0.8 pp weaker than expected. January was revised up by 0.4 pp, hence, the avg pace of the two first months of 2020 is zero growth
  - » Total retail sales increased by 0.3% as expected, 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 in Feb, as we expect a 0.1% decline in retail prices. If so, the underlying speed has picked up somewhat, to 2.7%, not an abrupt slowdown. The annual rate is still elevated, at 5.6%
- Consumption will most likely be heavily impacted by Covid-19 the coming month(s). UoM consumer sentiment fell in early March but just modestly, the final March report will be more useful

Household demand has been strong, what now?

Retail sales and auto sales will suffer amid corona crisis – housing too, in some time?



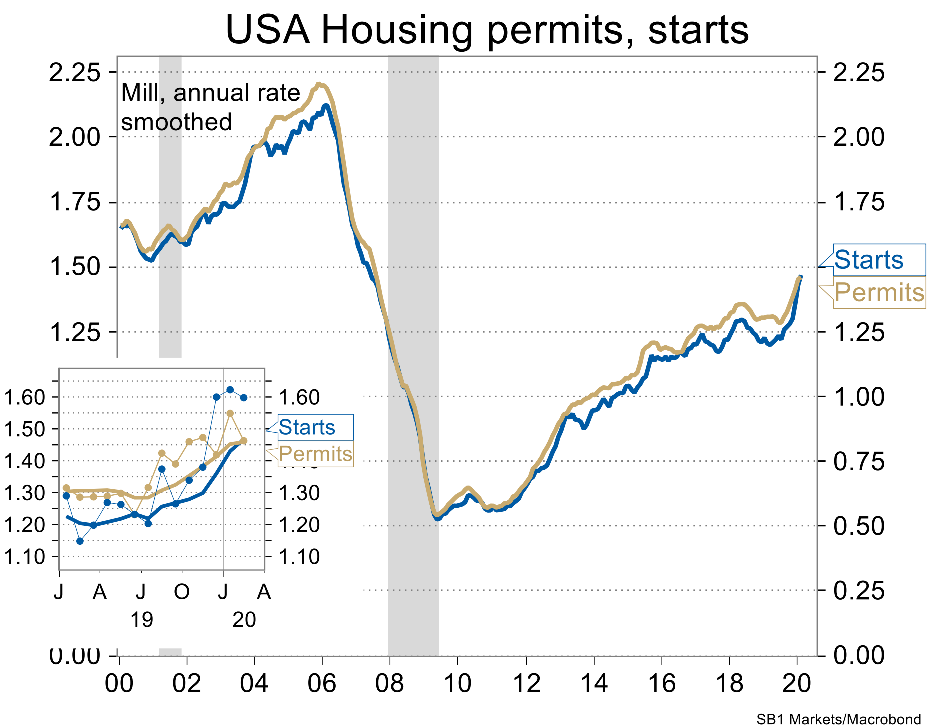


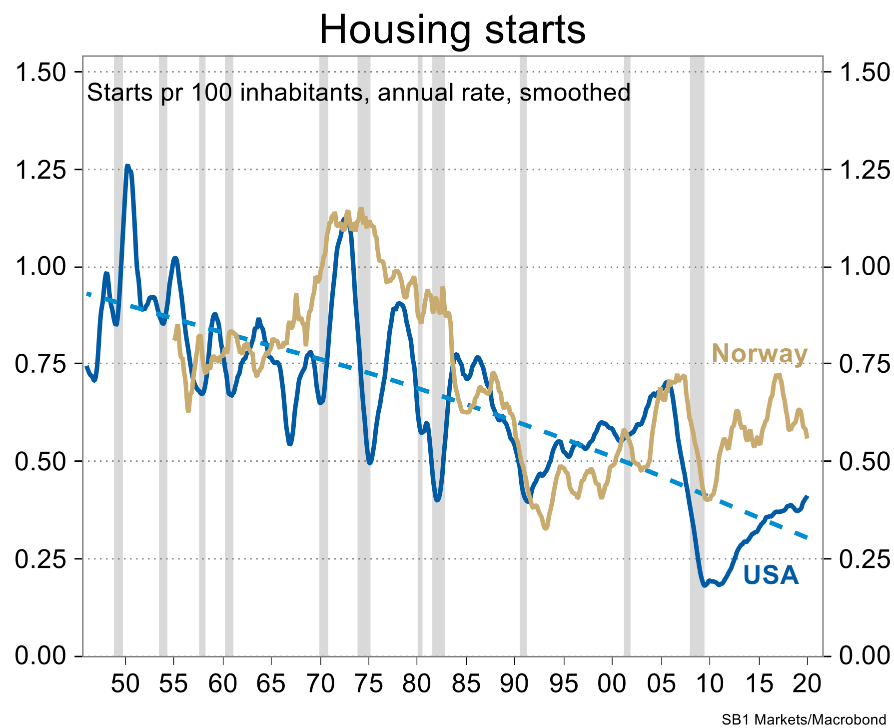
- The first March consumer confidence survey (from UoM) weakened moderately – but only included data in early March

SpareBank 1 MARKETS

Housing was booming ahead of the corona crisis

Both starts & permits down in Feb, but trending steeply up

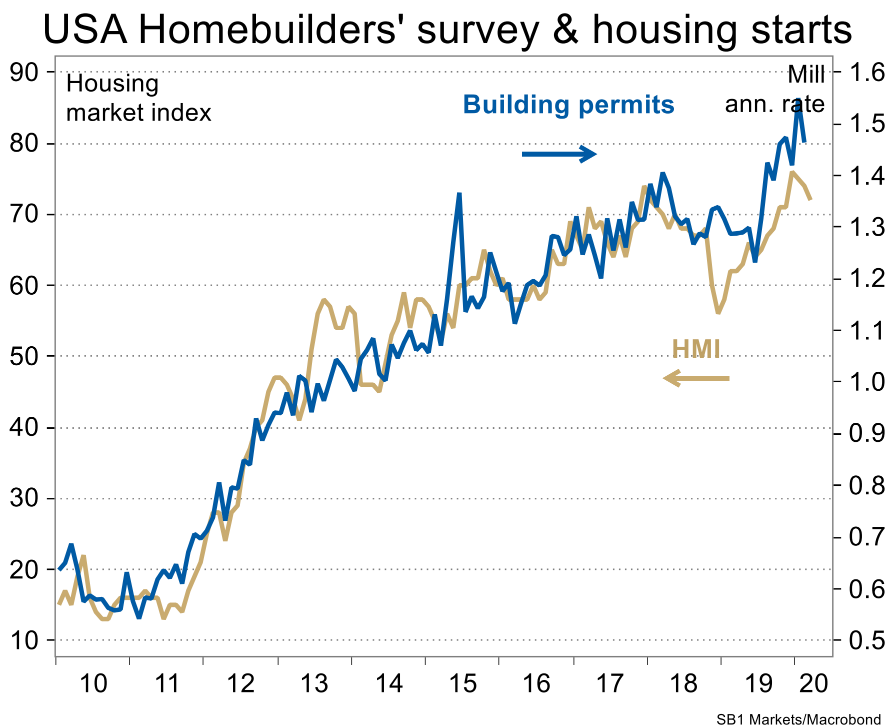


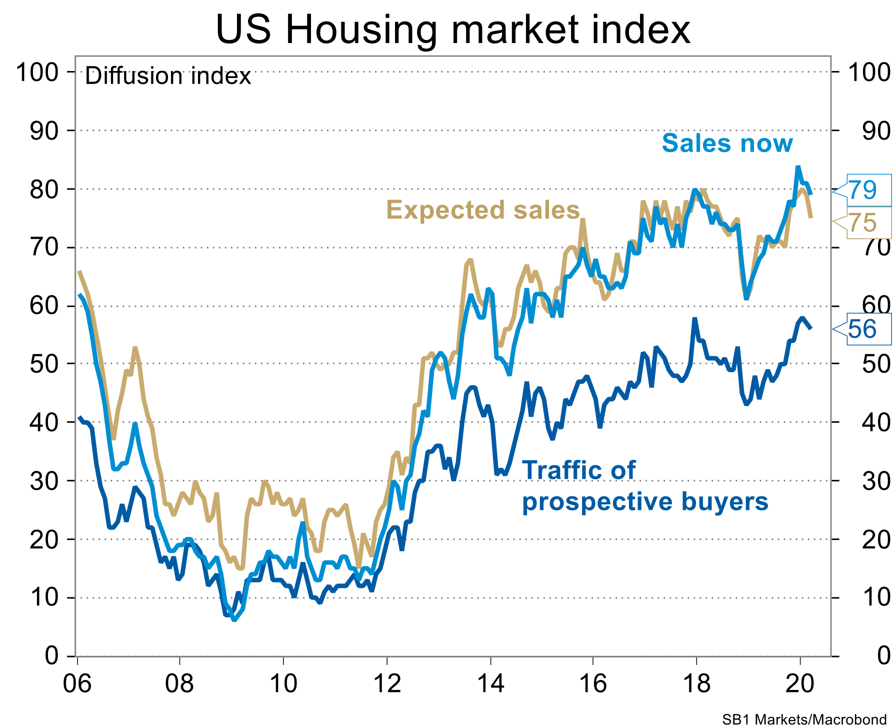


- Housing starts fell by 1.5% m/m in February, but the level came in above expectations, as January was revised up. Starts are trending steeply up and the smoothed rate is the highest since 2007
- Housing permits fell 5.6% in Feb after soaring 9% in Jan. The level is the highest since early 2007 and the smoothed rate is up 13% from the local bottom in mid-2019 and 7% above the 2018 peak. Permits usually are less volatile than actual starts, thus, a more useful gauge of the activity in the sector than actual starts
- Housing starts/permits reflect thriving demand for housing, boosted by low mortgage rates and an overall strong economy. The Homebuilders' index indicates a modest slowdown in early March, as the coronavirus caused supply chain disruptions. Activity will now be hampered by the virus outbreak, of course. The level of starts is not very high, historically, and the downside is anyway modest compared to 2006-2009

Homebuilders' confidence another tick down in March

HMI is still at a high level but now suggests somewhat lower housing starts/permits



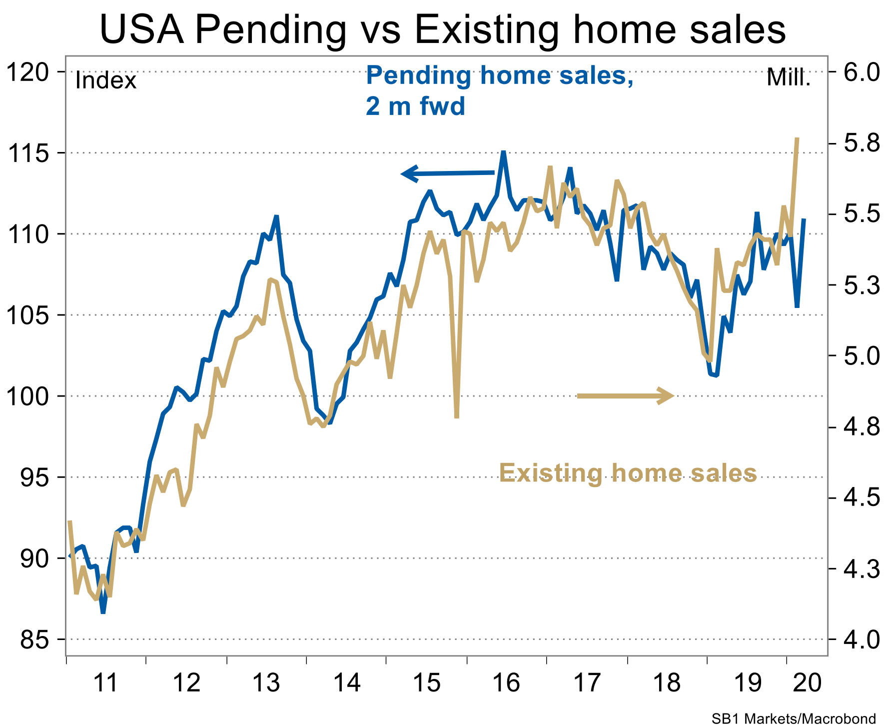


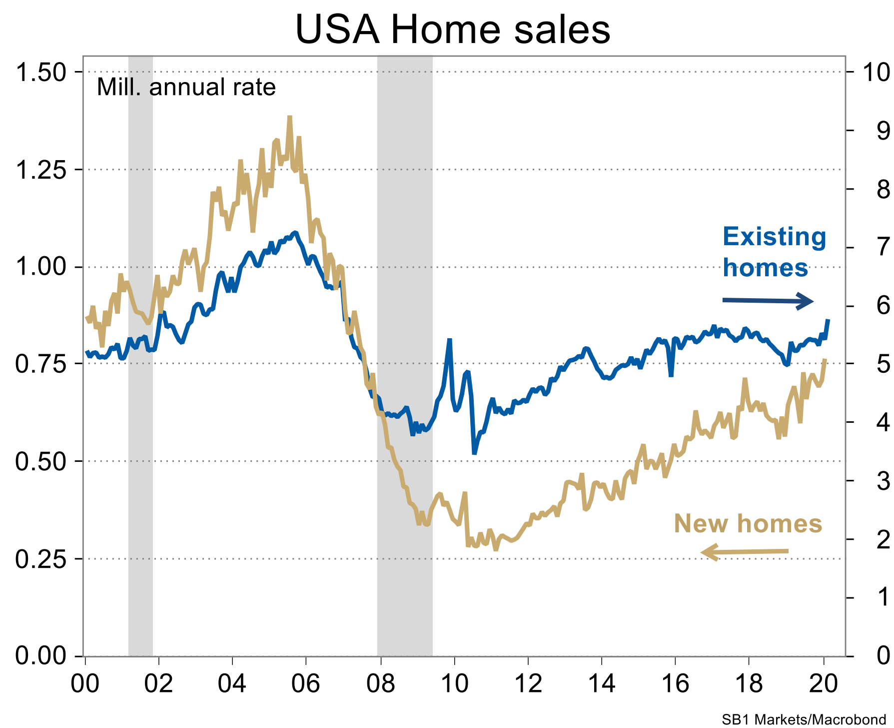
- The housing market index (HMI) ticked down two points in March, to 72, the 2nd month of a slight decline. The NAHB reports that half of the responses were collected before March 4, thus, before any substantial economic impacts of the coronavirus in the US became visible in the US, and before financial markets tumbled. Even at this time, 21% of respondents noted supply chain disruptions due to the coronavirus (in other countries). A substantial decline is therefore expected the coming month
  - » All three indices fell, expected sales fell the most as uncertainties stemming from the coronavirus reduced sentiment
- Building permits/starts have been soaring, however, given the short term correlation, the HMI now signals a downturn/stabilization in starts. Historically, the index has been leading both permits and starts by approx one year – limited upside on permits!

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

Existing home sales spiked to the highest level since 2007 in Feb

Sales soared 6.5% m/m – downside risk!

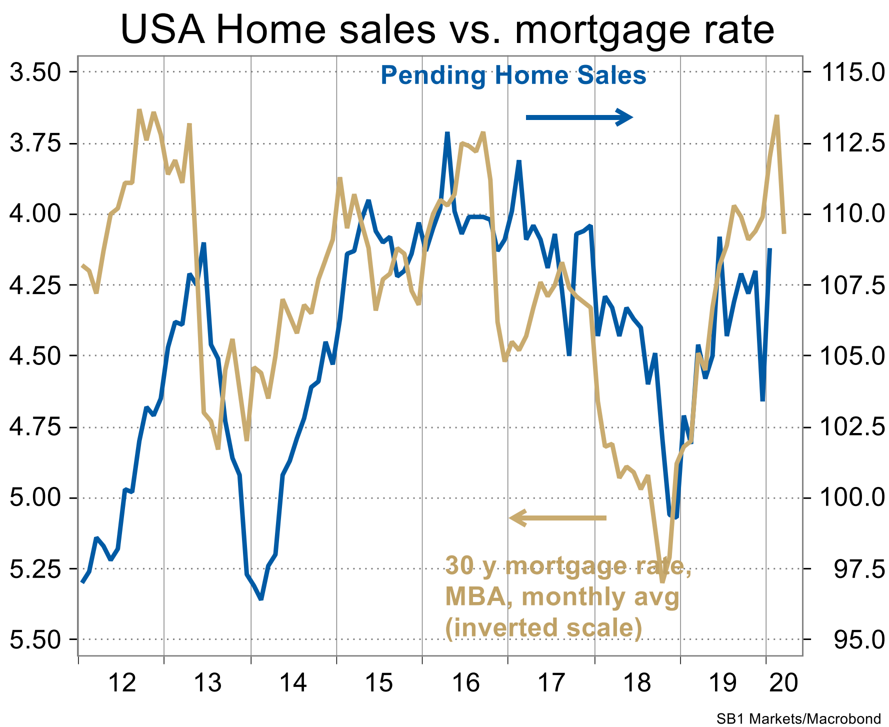


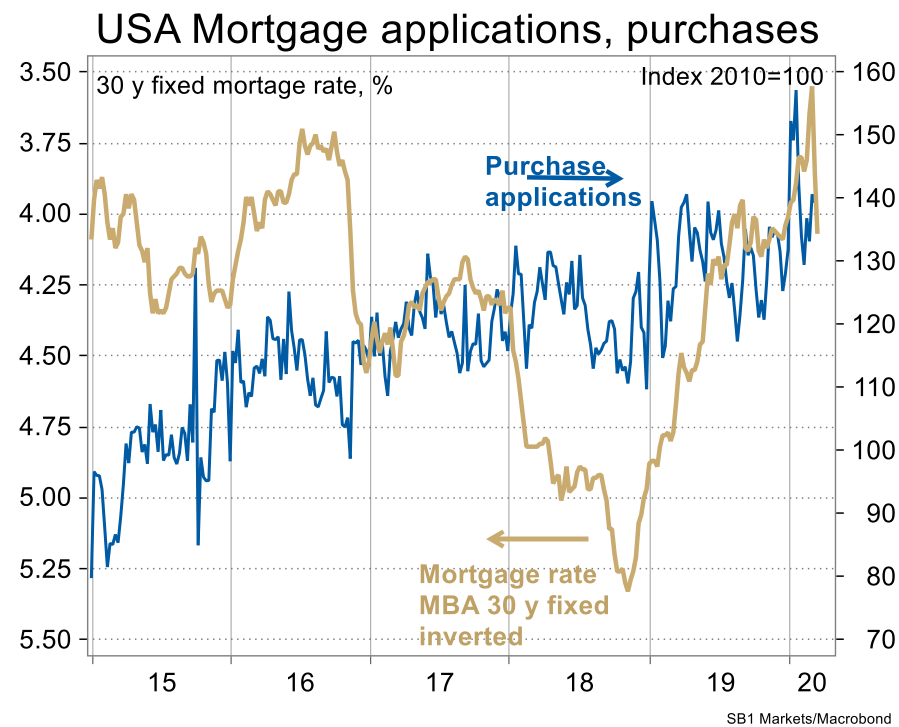


- Existing home sales soared to 5.8 mill (annual rate), miles above expectations. The level is the highest since 2007
  - Pending (existing) home sales, which are usually leading actual sales, do not confirm such a rapid increase. Moreover, the coronavirus outbreak and lockdowns will no doubt hamper demand the coming months
- Housing market data have been very upbeat, the past few months, supported by low mortgage rates. The coming months, housing market activity is expected to be reduced as viewings are likely to dry up

Mortgage applications still at a high level

Most other housing demand indicators mirror a solid expansion, for now

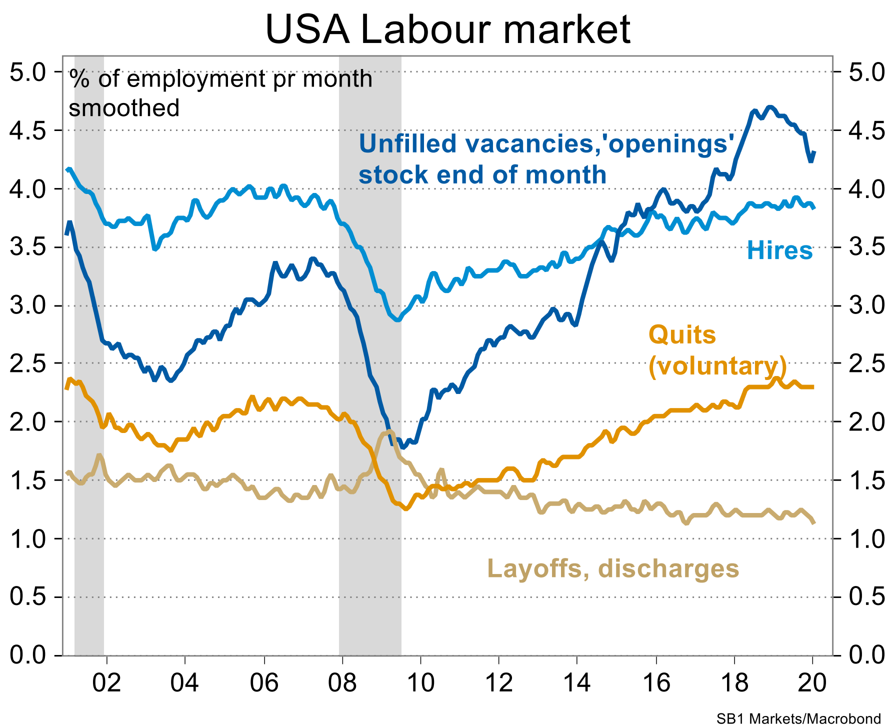


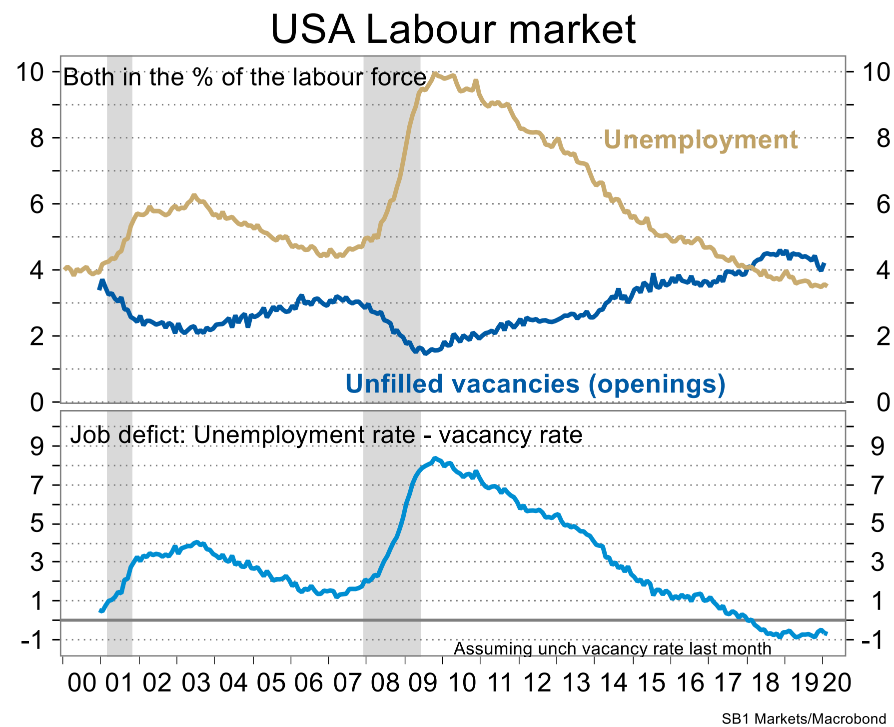


- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market

Unfilled vacancies rebounding in January but heading down from peak

Labour market indicators do not signal much weakness; hires & voluntary quits stable at high level

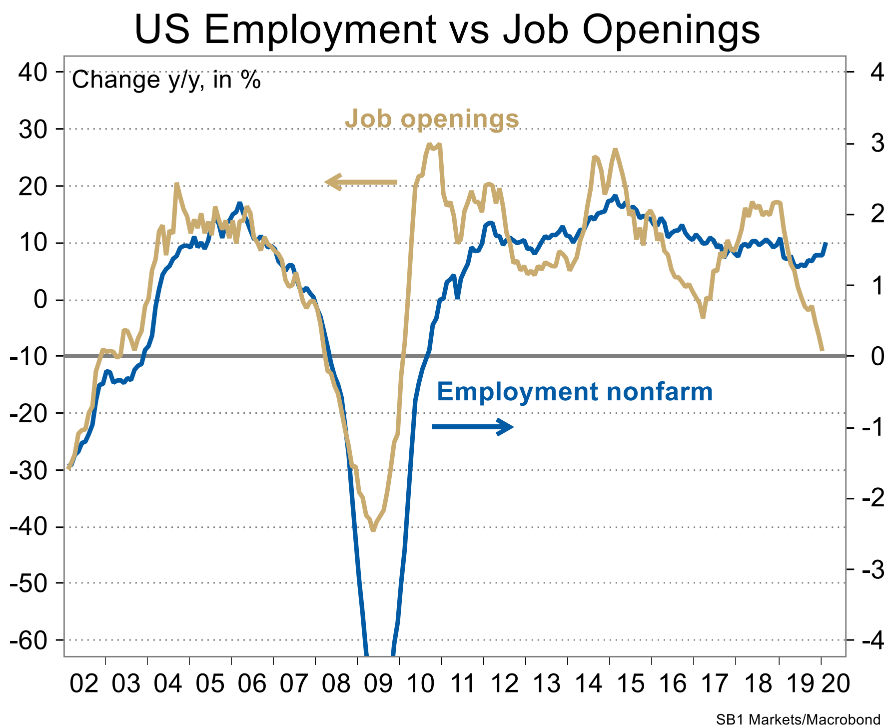


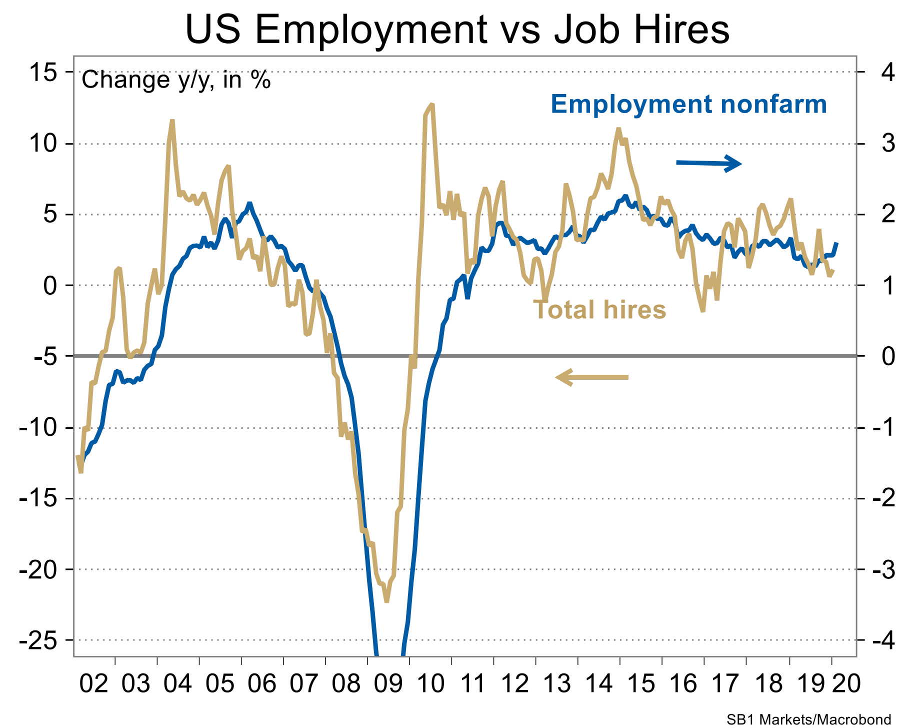


- Job openings (unfilled vacancies) fell steeply in November and December but edged up in January, to 4.3% of employment. Job openings have fallen from 4.7% last spring (we apply a 2 months smoothing). Could be an early sign of a cooling labour market, the vacancy rate is leading unemployment by approx. 6 months. However, there are still more unfilled jobs (4.2%) than unemployed (3.5%), in % of the labour force, and other indicators suggest that the labour market is still very tight.
  - Monthly (gross) hiring equals 3.8% of total employment and is not increasing anymore, probably because businesses struggle to attract labour
  - The number of voluntary quits has flattened out, 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

Dropping job openings suggests a setback in employment, hires do not

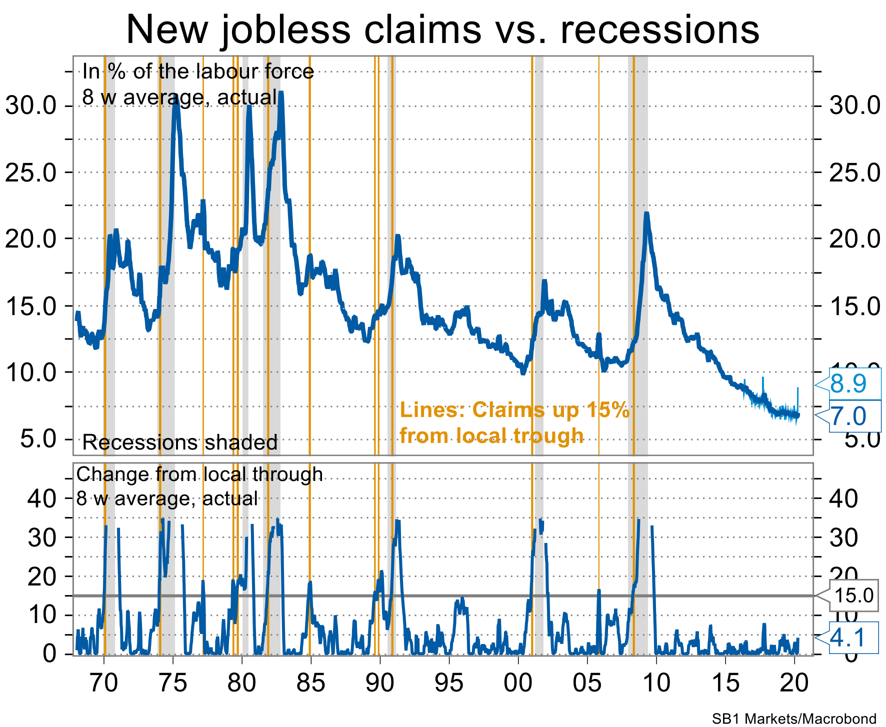
Growth in job hires has stalled, probably due to lack of labour supply, not weak demand

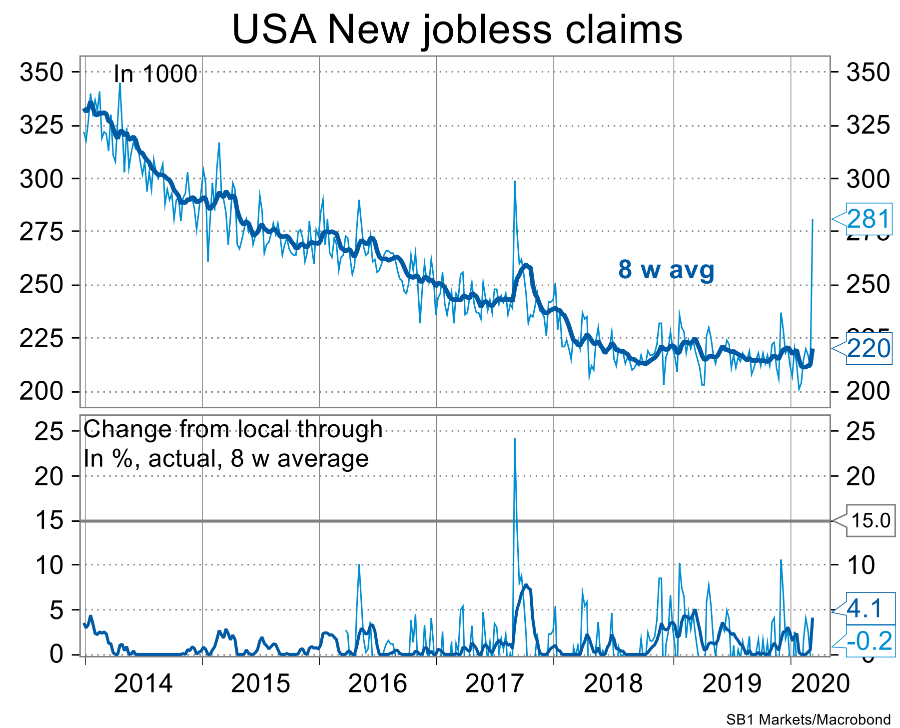




Corona will slash the labour market; jobless claims sparked to a 2 ½ year high

New claims jumped to 281’ last week, from 211’, no doubt due to Covid-19. MUCH more to come!!

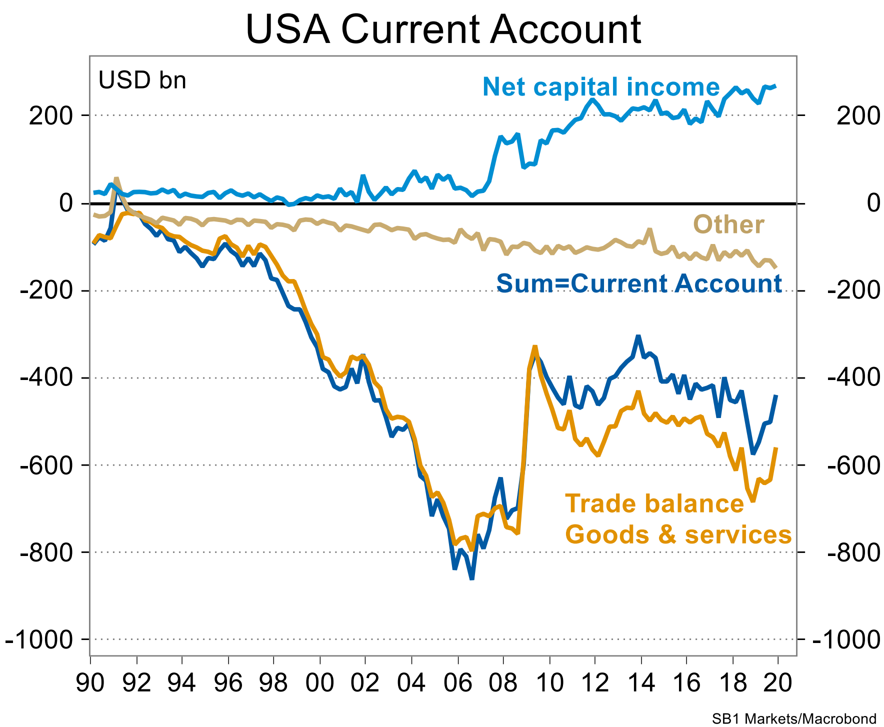


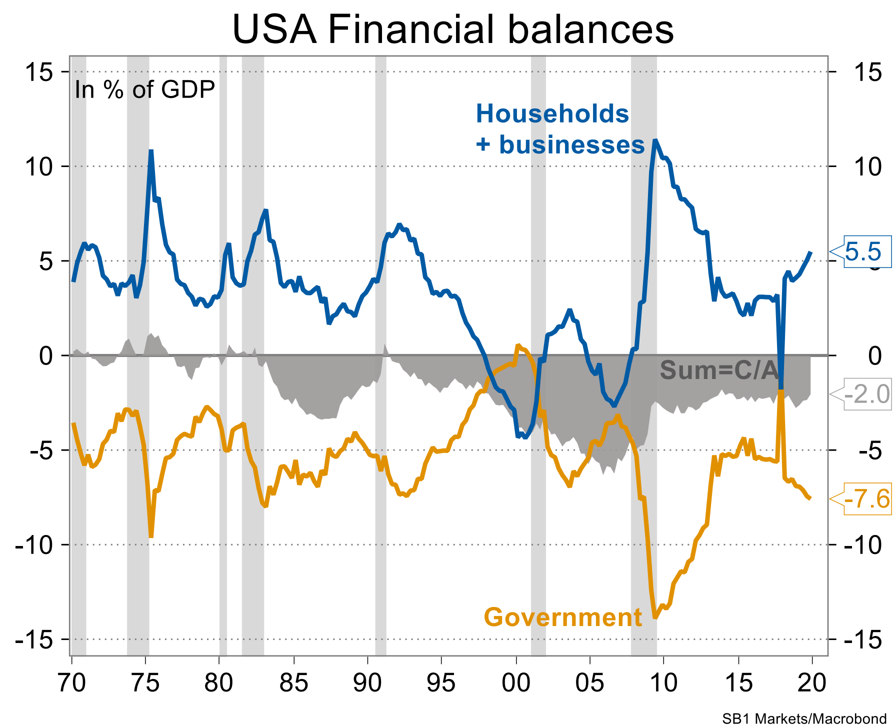


- Jobless claims sparked to 281’ last week (ending March 14), from 211’ the prior week and from an 8 w average at 213’. Claims surged across the US and states cited rising layoffs due to Covid-19, particularly in service sectors
  - » Barring a one time spike in 2017, claims are back at the early 2015 level, in just one week. And it will no doubt get much worse the coming months as more businesses are closing down
- 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 soon to be drawn, check the chart to the left as the rate will rise rapidly the coming weeks. The US economy will contract in the last days of Q1, and will contract substantially to Q2 from Q1

The current account deficit shrank in Q4 as the trade deficit declined

The C/A deficit is not that large (2% of GDP) as the private sector runs a 5.5% surplus; public is -7.6%!

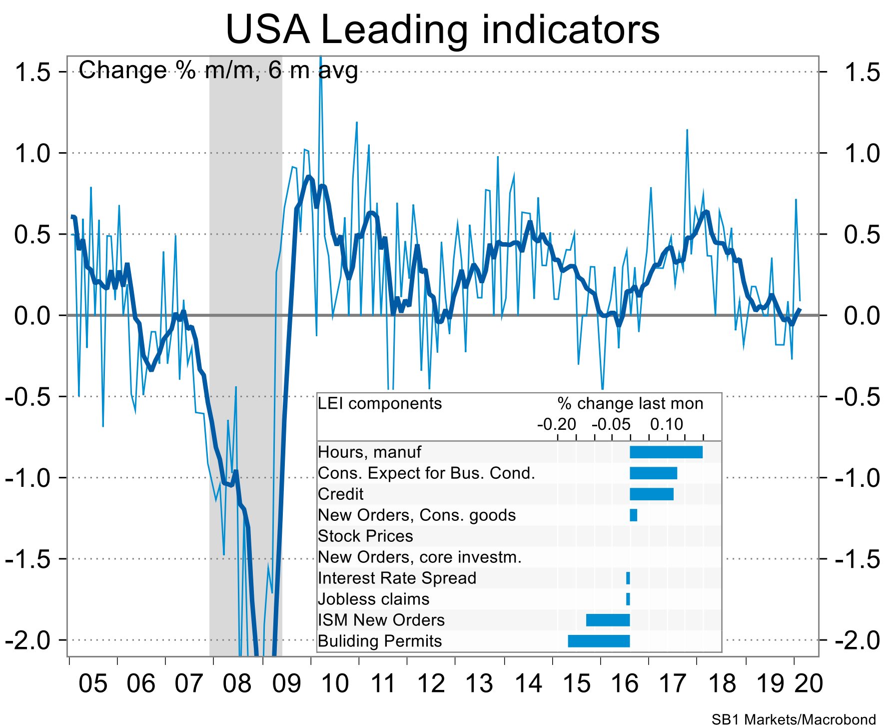


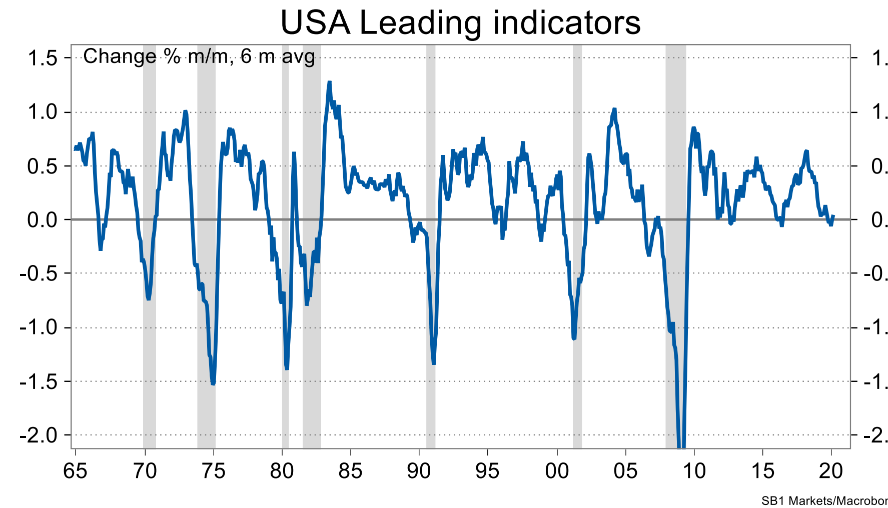


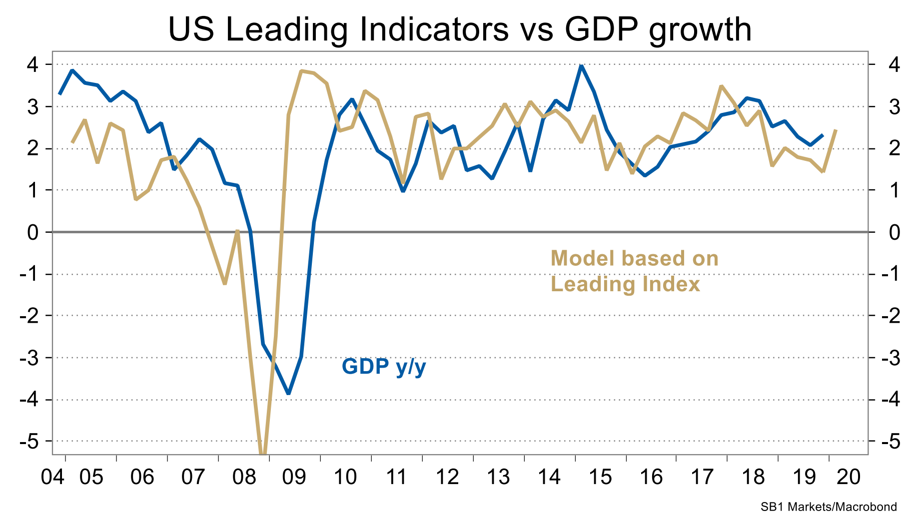
- The US government is running a huge cash deficit, equalling 7.6% of GDP in Q4, up 0.2 pp from Q3. The deficit was just above 4% of GDP in 2015!
  - » The ups/downs in private sector/public sector balance in Q1 2018 at the chart are due to the tax reform accounting
- The private sector surplus widened to 5.5%, a 0.4 pp uptick. The surplus has been heading up since 2015, as tax cuts are not fully spent. However, it is still much lower than a few years ago
- The private sector cash surplus is the best argument for not fearing a hard US recession. Recessions are usually caused by higher household and corporate cash savings (=spending falls faster than incomes). The downside risk is now limited, as the cash surplus is well above normal levels. In addition, we very much doubt the public sector will cut the deficit in an uncontrollable fashion, creating a negative demand shock

The Leading indicators signalled above 2% growth in February

The LEI fell in Feb, after a surprising spark in Jan, will no doubt drop as corona impacts materialize





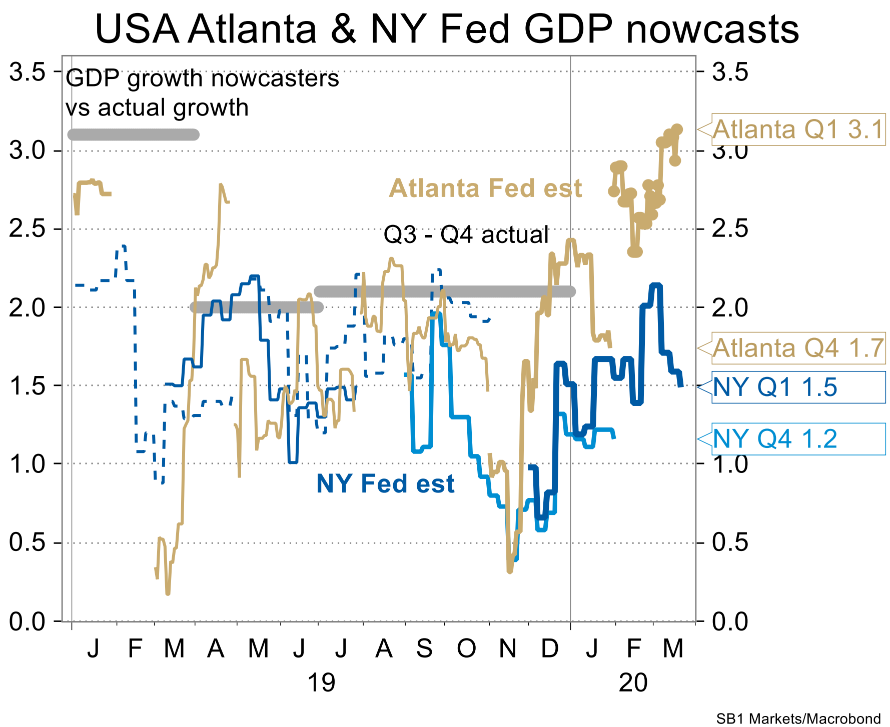


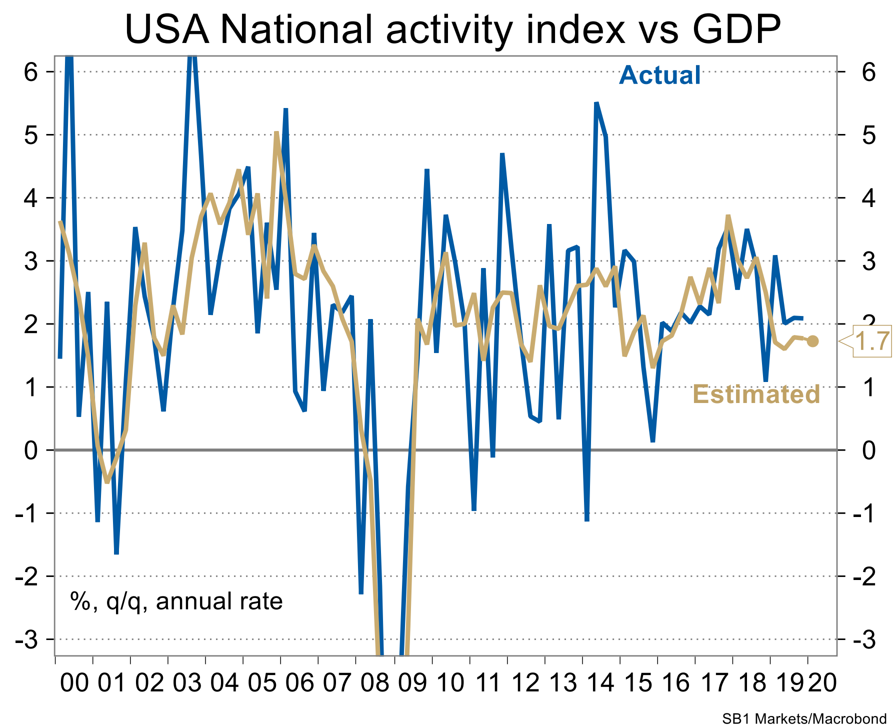
- Conference Board's Leading indicators signals 2.4-2.5% GDP growth in Q1, however, it will plunge when more March data (thus, Covid-19 impacts) are included
  - » Jobless claims, stock markets, credit, interest rate spread and consumer confidence and new orders are all likely to send the index down the next months

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

Nowcasters mixed, signal 1.5 to 3.1% growth in Q1. Before March is counted

NY Fed's model says 1.6% growth, Atlanta 3.1%, National activity index signals 1.7% growth in Q1

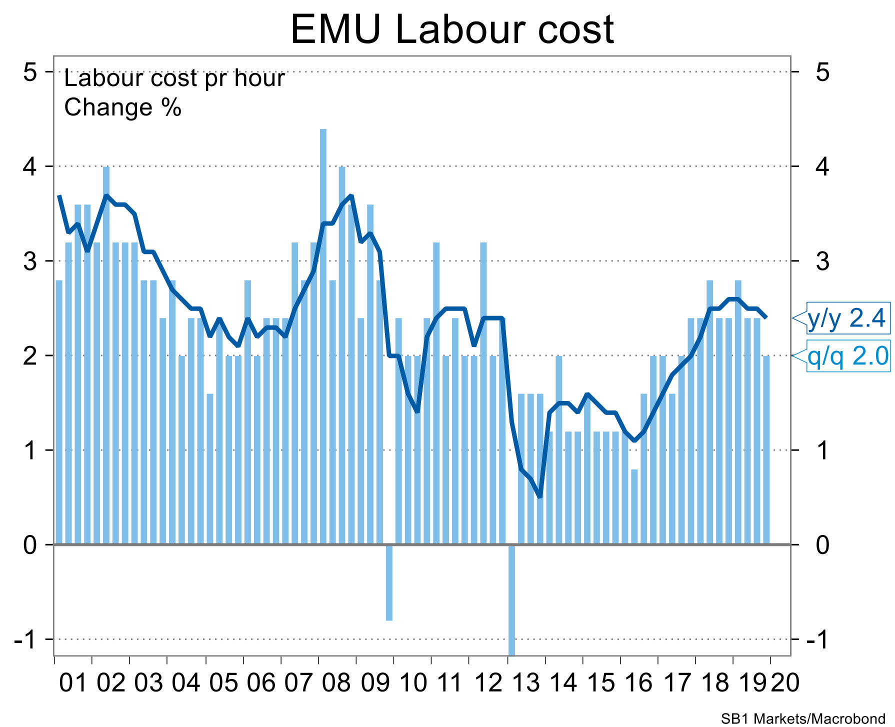


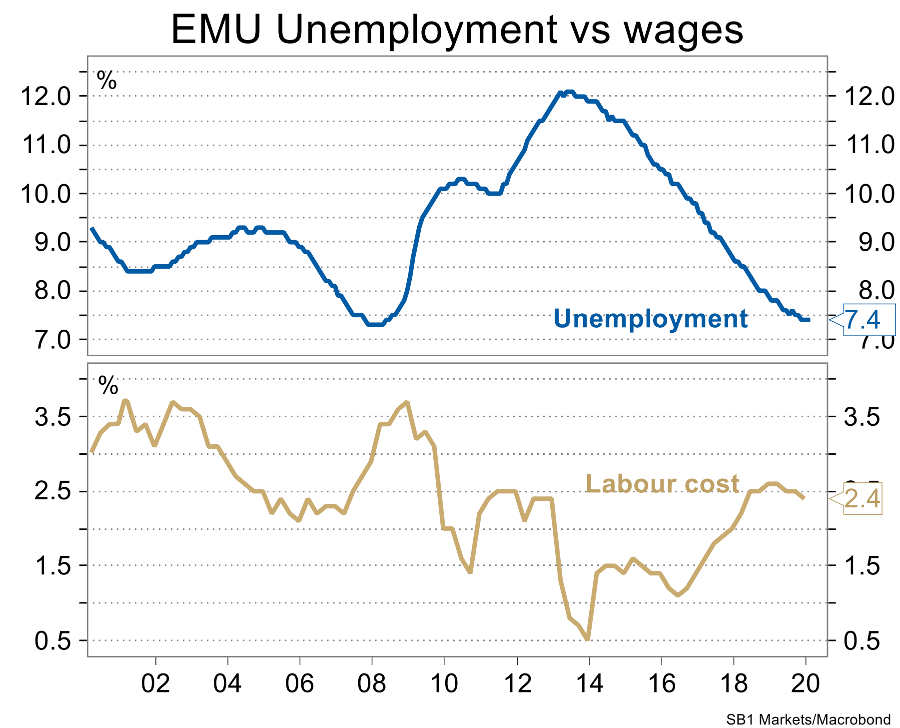


- The National Activity Index improved marginally in January, signalling 1.7% GDP growth into Q1, slightly lower than the reported GDP growth at 2.1% in Q4
- *None of these nowcasters have yet incorporated any data eventually impacted by the Covid-19 outbreak*

Wage inflation has probably peaked for now

Labour costs rose 2.0% q/q in Q4, a 0.4 pp slowdown from Q3





- Wage inflation eased to 2.0% q/q annualized, from 2.4% in Q3/Q2. The annual rate inched down to 2.4%, slowly turning down from the 2.6% local top in Q1 2019
  - » Unemployment has flattened out at a low level and employment growth is slowly cooling
- Stalling or decreasing wage inflation is not an argument for higher CPI inflation. On the other hand, a 2.4% pace is not low and should have translate into higher inflation. And unit labour costs are not low, thus, business profits are exposed

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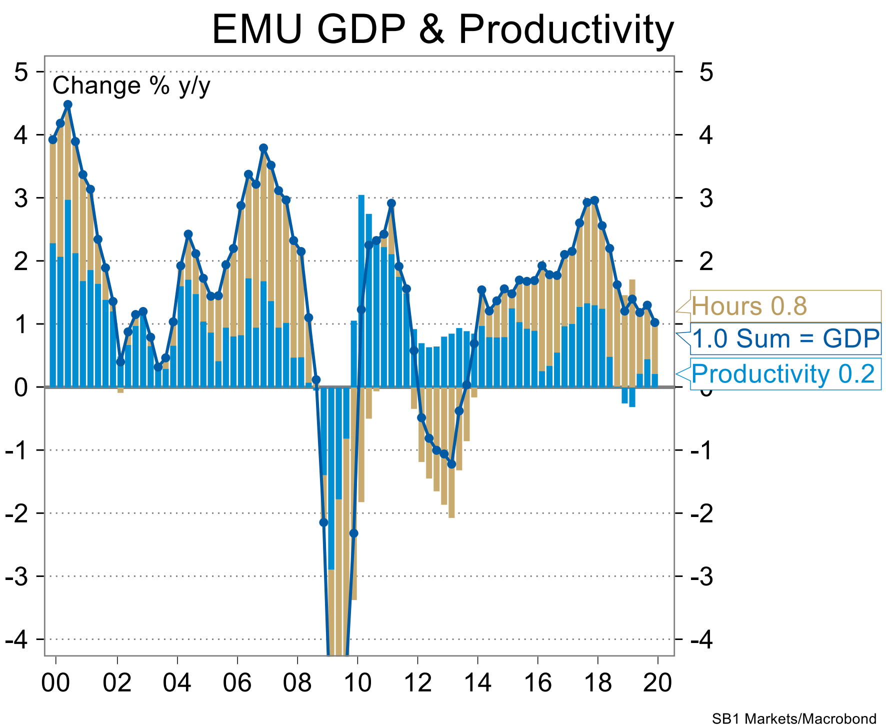
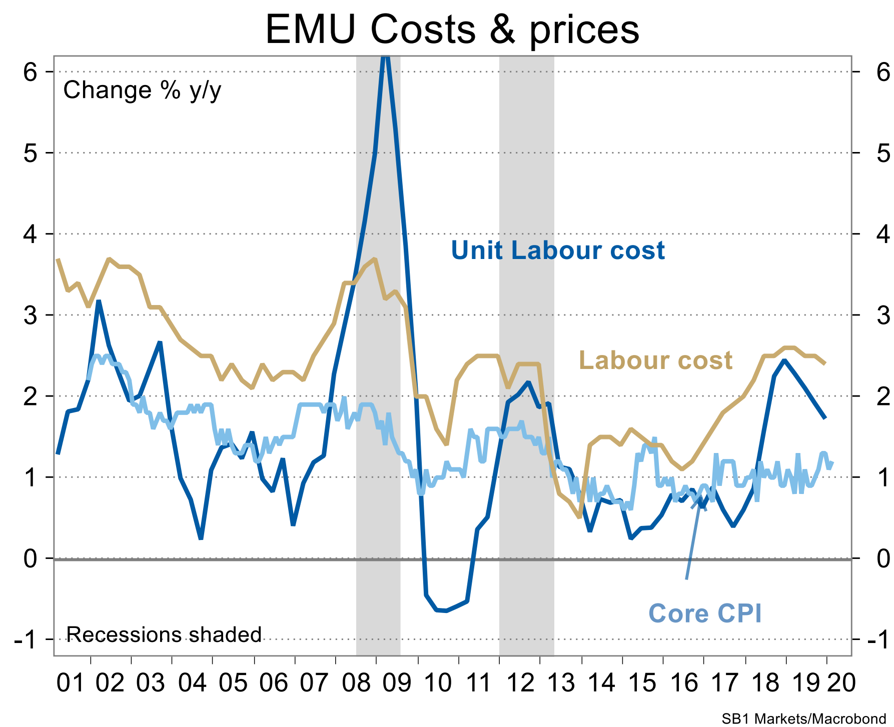
Unit labour cost inflation was ‘too high’, now slowing

Productivity growth is still muted at 0.2% y/y in Q4 – but at least not declining anymore

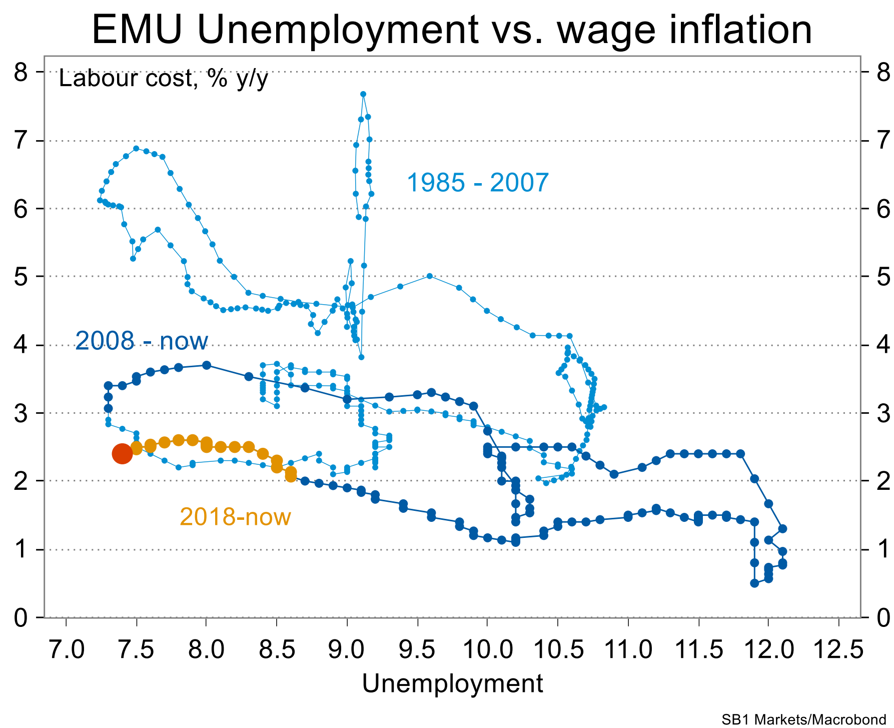




- Total economy productivity rose 0.2% y/y in Q4, down from 0.4% in Q3. Productivity growth is very low, the 1 year average growth rate is just 0.1%, far below normal. Hours worked up 0.8% - and GDP 1.0% in Q4
- Unit labour cost inflation (wage costs per unit) has slowed the pas year as labour cost inflation is stalling and productivity has picked up somewhat, from a decline in 2018. In the total economy, Unit Labour Cost is up 1.7% y/y, still much higher than over the previous 4 years (the 2.4% hourly labour cost inflation refers to the business sector, not the total economy). Unit labour cost inflation is above CPI price inflation (at 1.2%) and business profits are under pressure
- Unit labour cost inflation is above ECB’s CPI inflation target at close to but below 2%, while price inflation remains well below. The impacts of the coronavirus outbreak is anyway what matters now, not underlying price growth

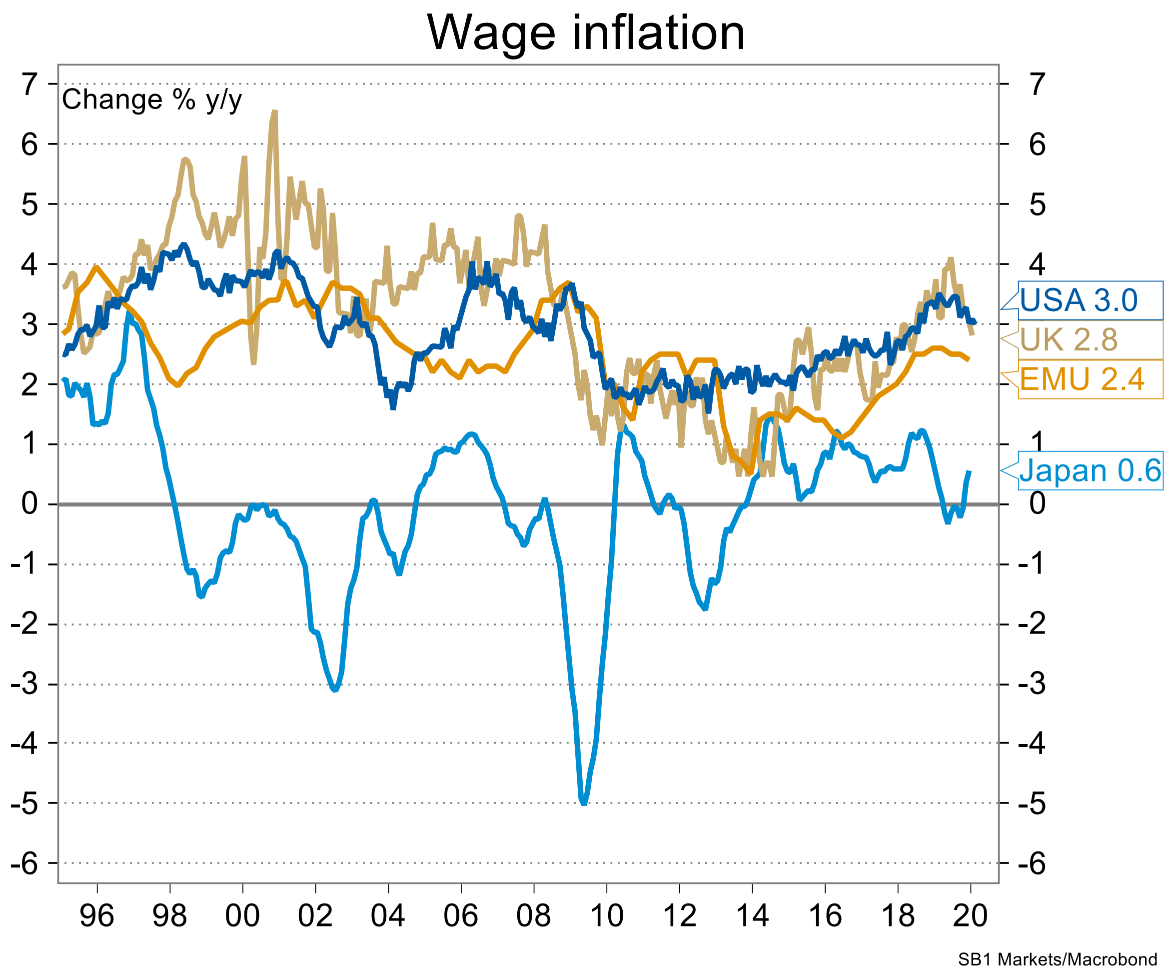
The Phillips curve is not completely dead

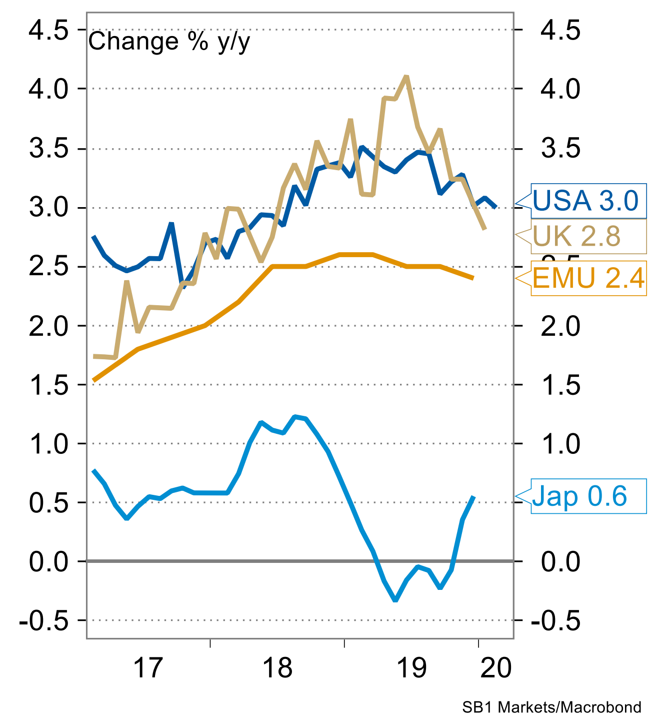
… At least now since 2008. Since 2018, however, it has been rather flat



Wage inflation has been decreasing the past year

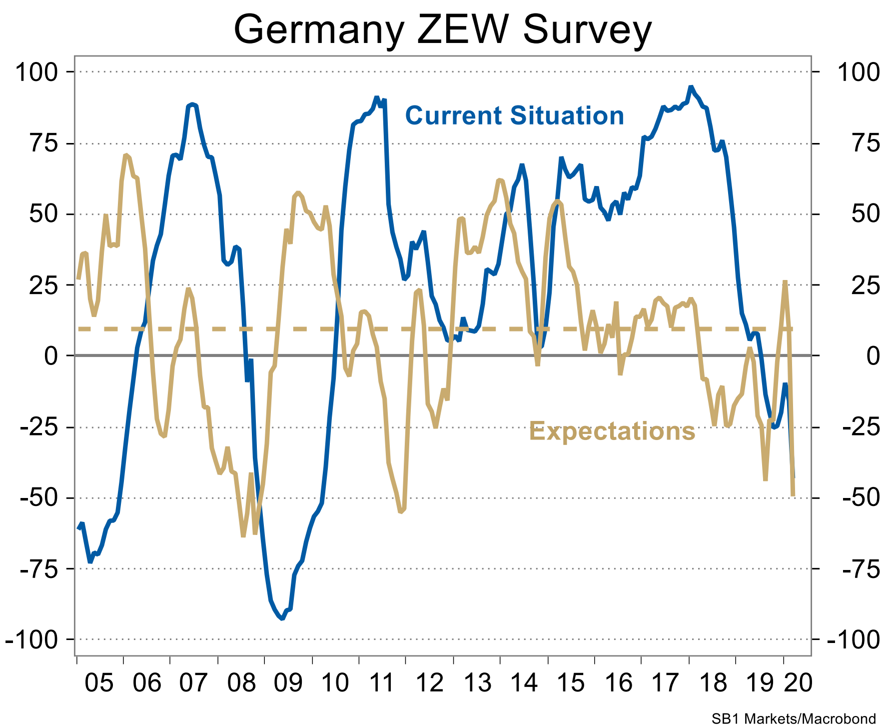
Productivity growth is slow everywhere and cost inflation is not low

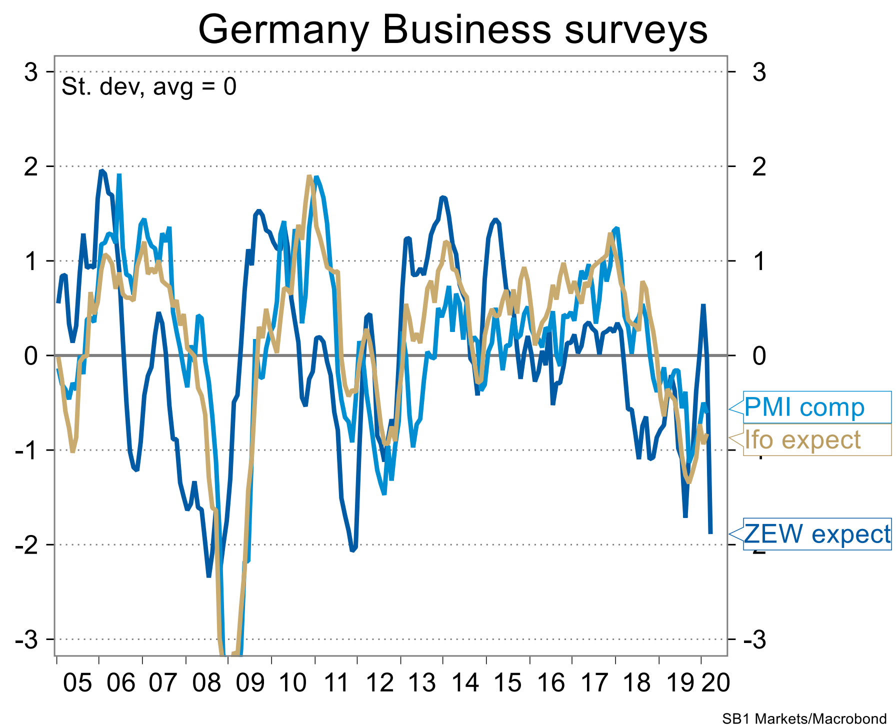




ZEW survey down the drain, both on current situation and expectations

Expectations fell to the lowest level since the 2011 euro crisis amid Covid-19 distortions

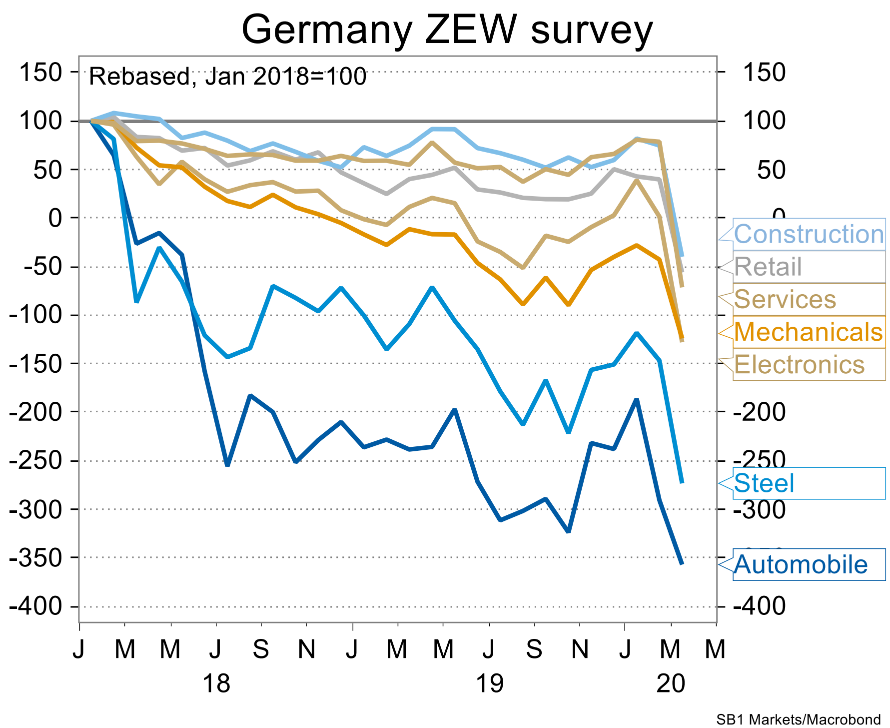


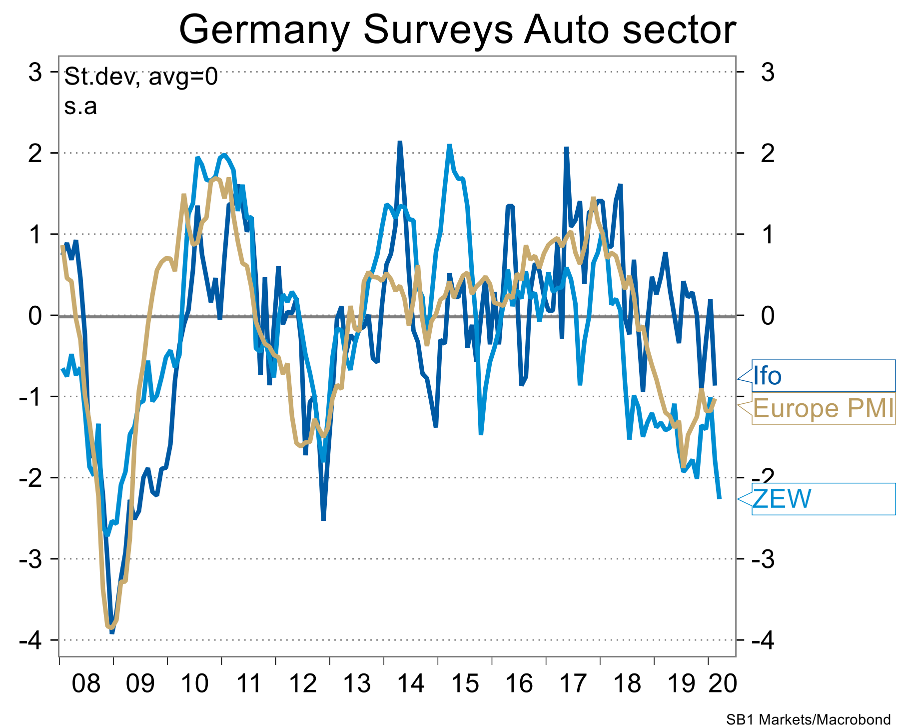


- In March, fears of the impacts of the coronavirus and the turmoil in financial markets sent both expectations and the view of the current situation steeply down
- ZEW is a sentiment survey among economists and investors, and not a business survey, as the PMI and Ifo. Hence, the steep downturn of the index was no surprise. ZEW has been too upbeat vs PMI/Ifo the past couple of months and the correlation to actual economic growth is weaker than the two other surveys. We prefer the business surveys, March data from these will be crucial

ZEW: A broad downturn among sectors

All surveys report a steep decline in auto sectors



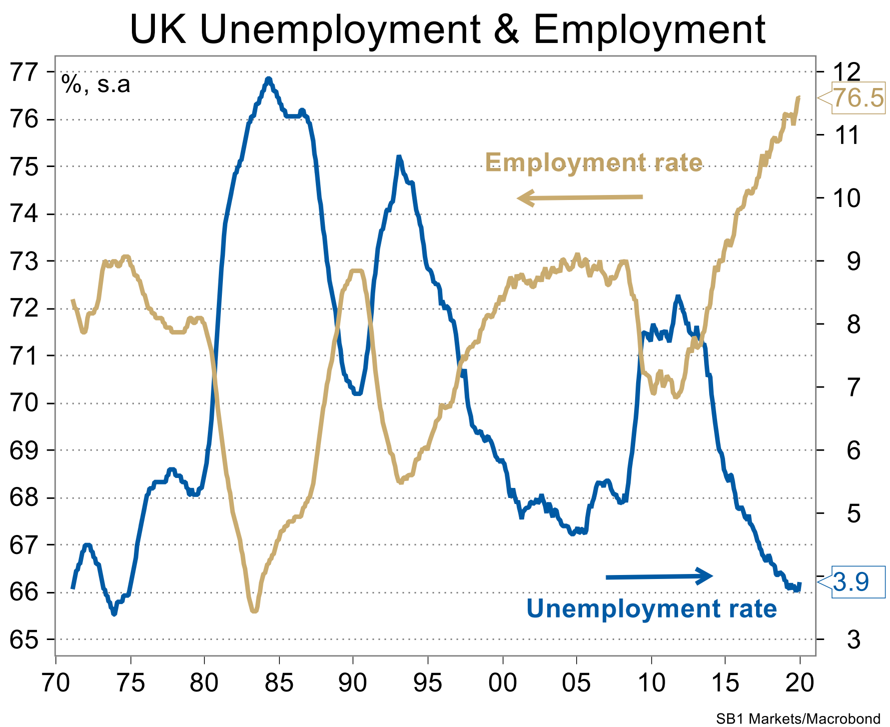


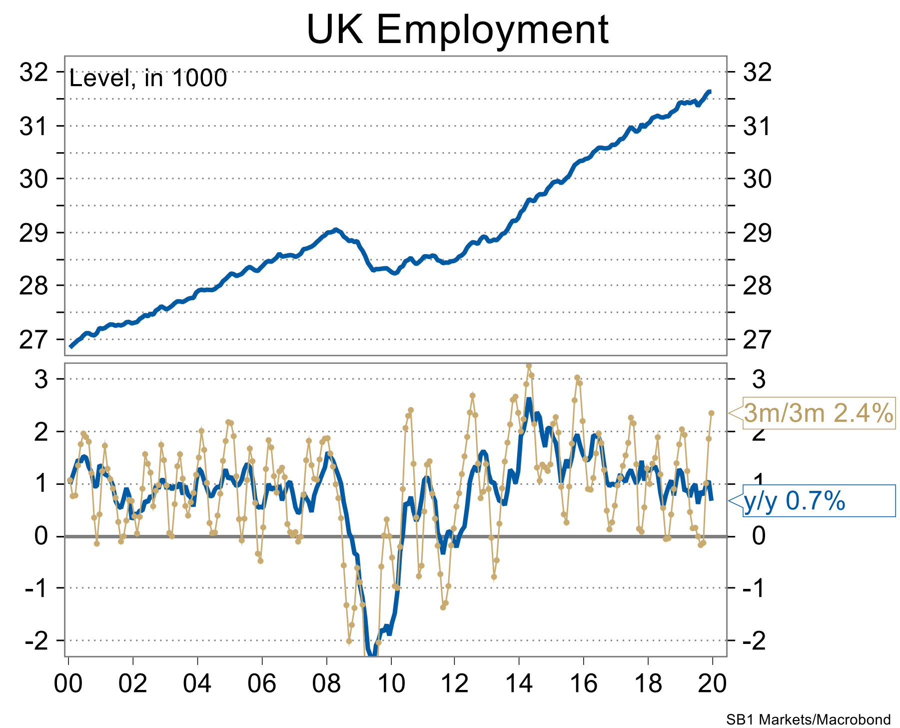
- Expectations on the auto sector were probably hit hard by concerns of weaker demand for exports, due to corona

SpareBank 1 MARKETS

Unemployment flattens out – employment still growing at a solid pace

Unemployment ticked up to 3.9% in Jan, employment rate flat at 76.5%, after a steep rise

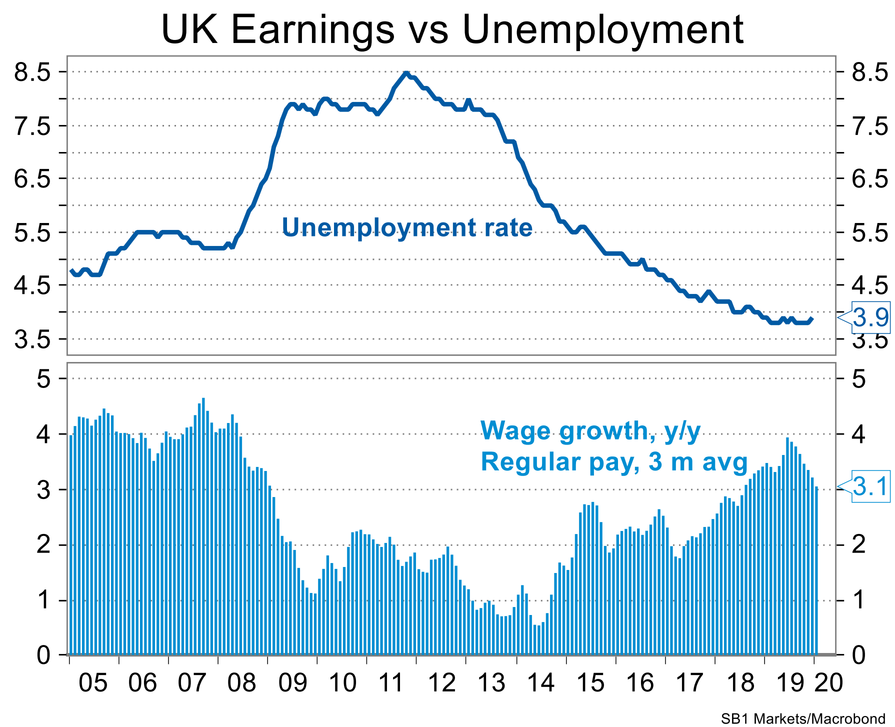


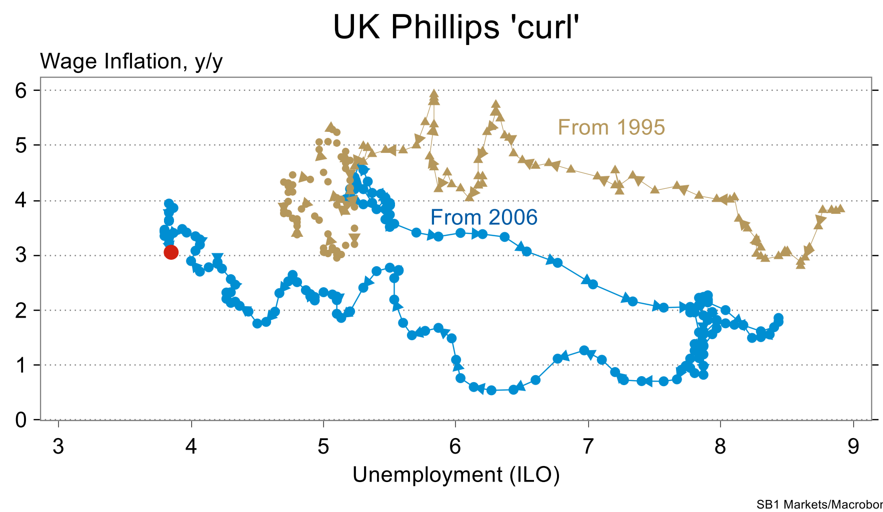


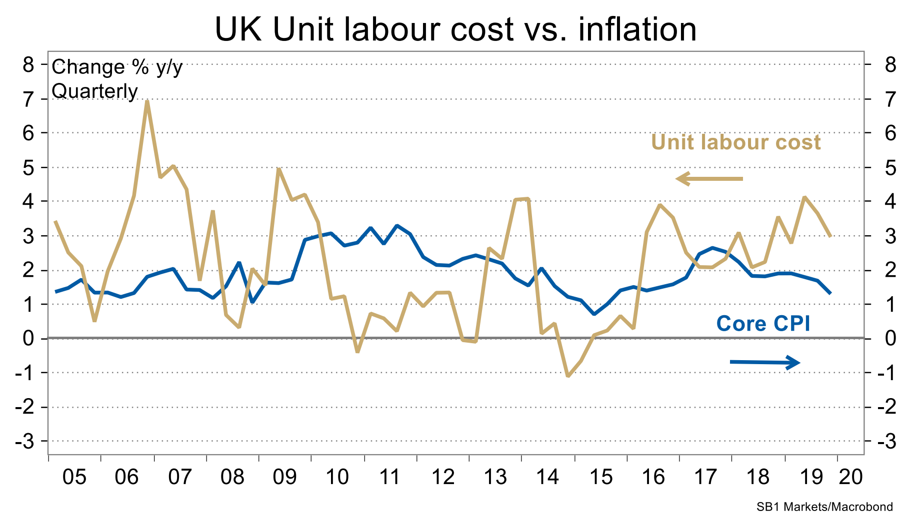
- Unemployment (LFS/ILO) increased to 3.9% in Jan (avg Dec-Feb). Unemployment has been flattening out over the past year, at the lowest level since 1974
- The employment rate was unchanged at 76.5%. Underlying growth in employment has picked up to a 2.4% pace, the highest since 2016, a reassuring sign. Annual rate at 0.7%, steady for the past 3 years
- The vacancy ratio has fallen to 2.5% (in Q4), down marginally from the 2018 peak. Announced redundancies remain low
- These data signal that the labour market is tight. Yet, wage growth is slowing, check the next slide

Wage inflation is cooling, down to a 3.1% speed, still a rather high level…

.. without any growth in productivity, cost inflation at 3%...



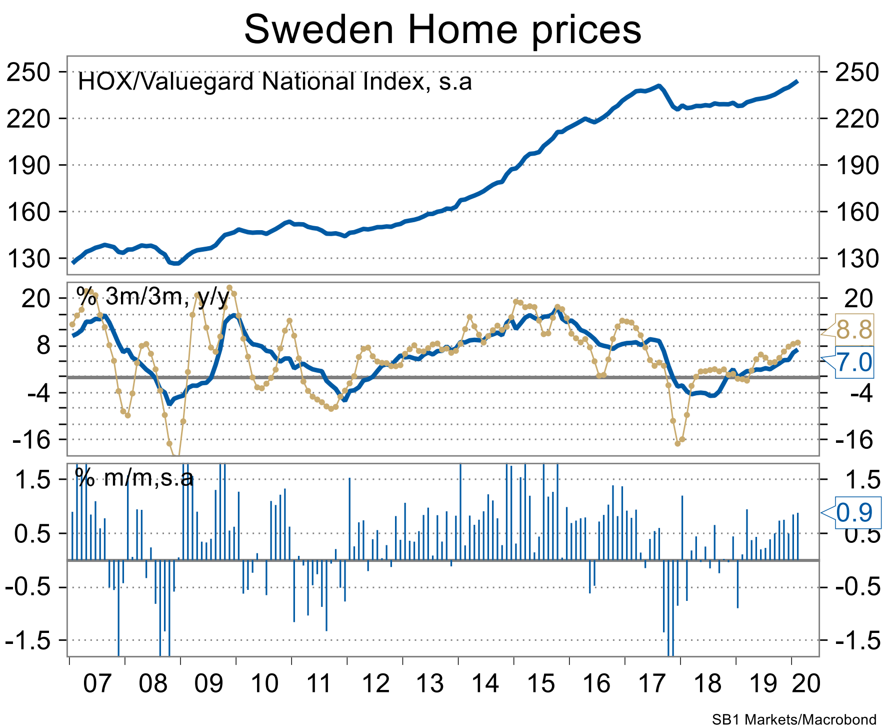


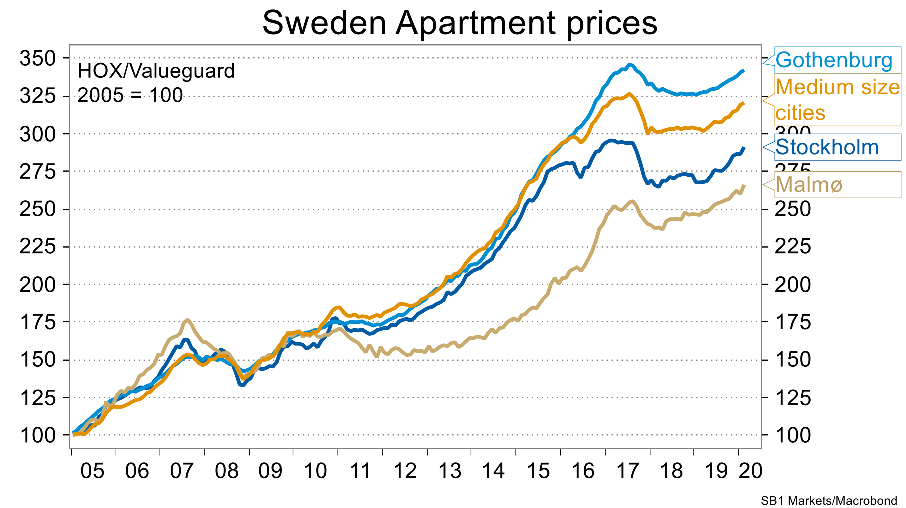


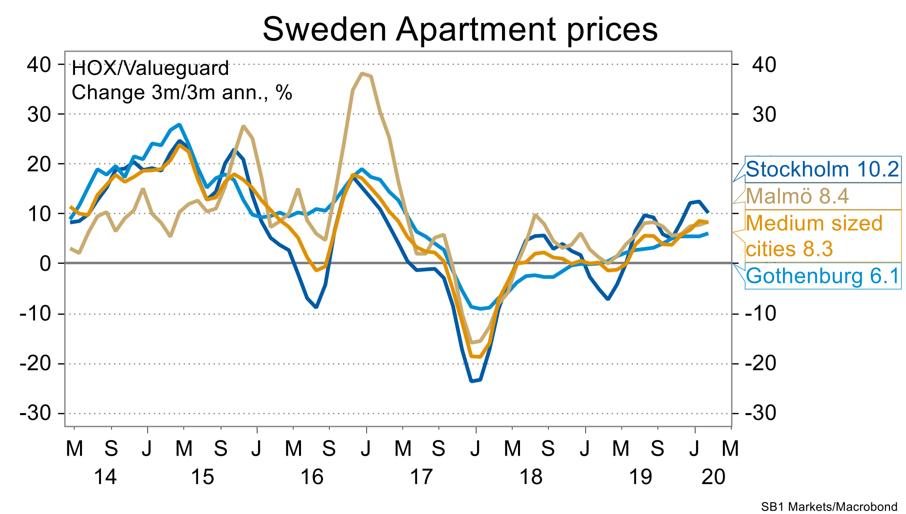
- Wage growth (regular pay) fell to 2.8% y/y in Jan, a slowdown from 4% in mid-2019. The smoothed rate fell to 3.1%, the 7rd month of deceleration
- Still, it is too early to proclaim the death of the Phillips curve, just check the chart to the right. And with UK productivity growth at or close to zero, unit labour cost inflation is now running at 3%. <u>Cost pressures are building up and profits are under pressure, regardless of the retreat in the nominal wage growth</u>

House price inflation was accelerating (before corona)

Prices rose fast in February as well, up 0.9% m/m, and underlying growth is soaring, up to 9%



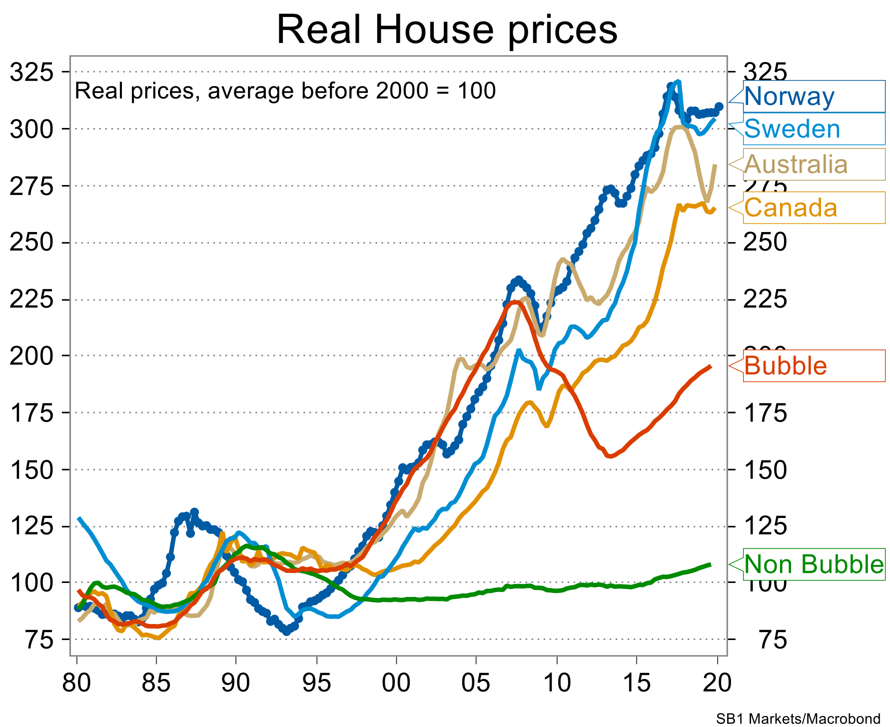


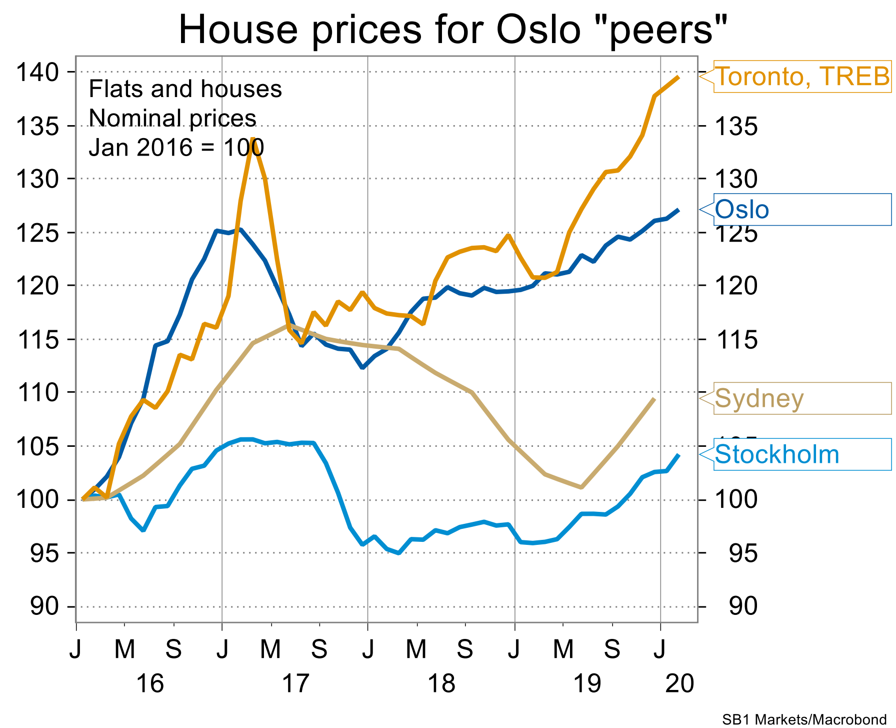


- House prices rose 0.9% m/m seasonally adjusted in February, after an equal increase in Jan. The price level is now marginally above the 2017 peak level, whereas real prices are still significantly lower than at that peak
  - » Stockholm prices are increasing the most, followed by Malmø
- The number of transactions is heading up, demand must be strong. Given several signs of slowdown in the Swedish economy and the corona crisis, limited upside on the housing market

Supercycle home prices on the way up again (for now)

Following weakness in 2017/18, prices are now climbing. Real prices still well below peak

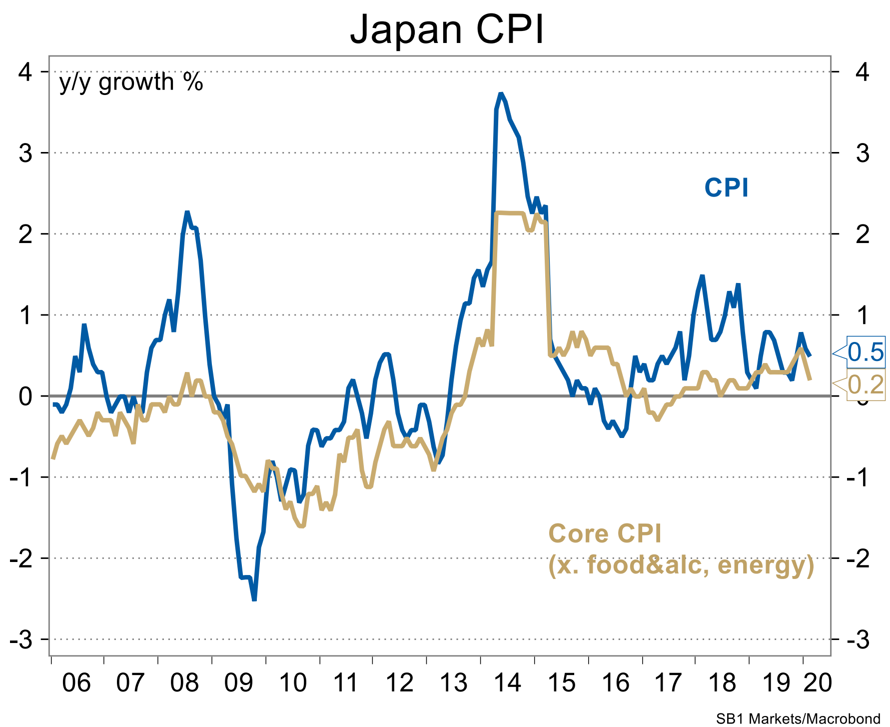


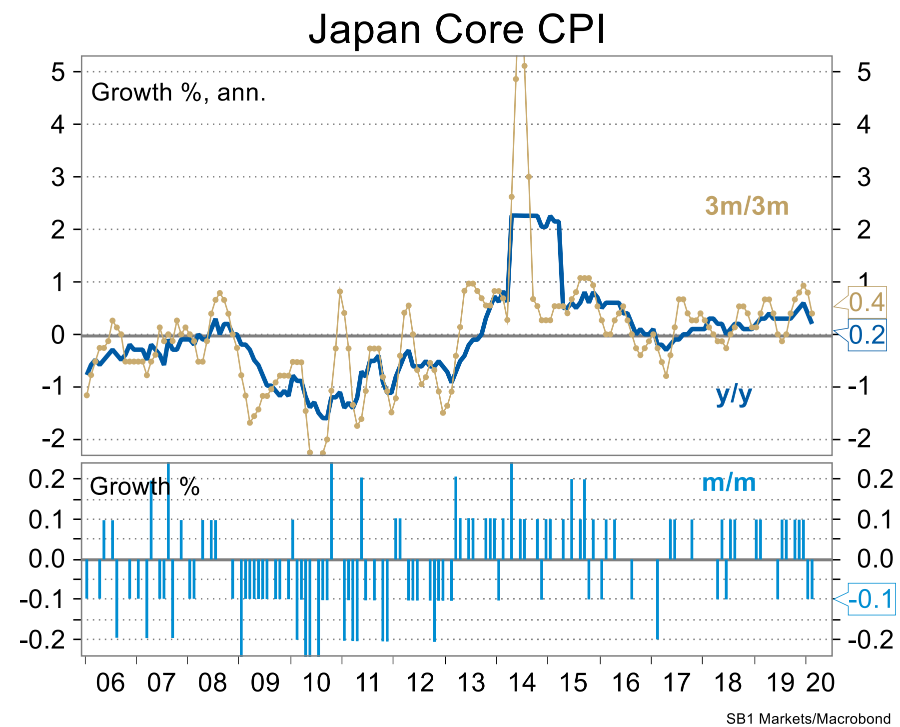


- Price growth have picked up among the supercycle guys the past months. Oslo and Stockholm prices are increasing, Toronto soaring, and Sydney has sharply gained pace since last summer (interest rates have been cut, and lending standards eased)
  - » Still, household credit growth is slowing in all these countries, and unemployment rates have flattened out (and unemployment is increasing in Sweden and Australia), the upside on the housing market must be limited
  - » New housing market/debt regulations (foreigner buying restrictions, LTV/LTI/mandatory amortisation) – and in Canada higher interest rates – probably created ‘some turbulence’ in 2017 and 2018, prices slowed or decline in all countries
- **The corona crisis is likely to hamper demand and drag prices down in the short term**, but the impacts are uncertain. Activity in the housing market will no doubt be reduced, both sales and the number of new listed homes will decline rapidly

Core CPI inflation down to 0.2%, headline +0.5%, where is the VAT impact?

No visible impact from the consumer tax hike vs the 2.0 pp increase in 2014





- Total inflation slowed to 0.5% y/y in February and core inflation ticked down to 0.2%, a 0.2 pp decline
- The price impact from the hike in consumer taxes from 8% to 10% in October has been muted. We find this strange, as inflation soared following the last VAT increase, in 2014. Some have been reporting that weak consumer demand is keeping companies from passing the increased VAT on to consumers. We highly doubt that businesses are able to continue to do that
- Wage inflation has fallen steeply this year and does not indicate accelerating price growth

Highlights

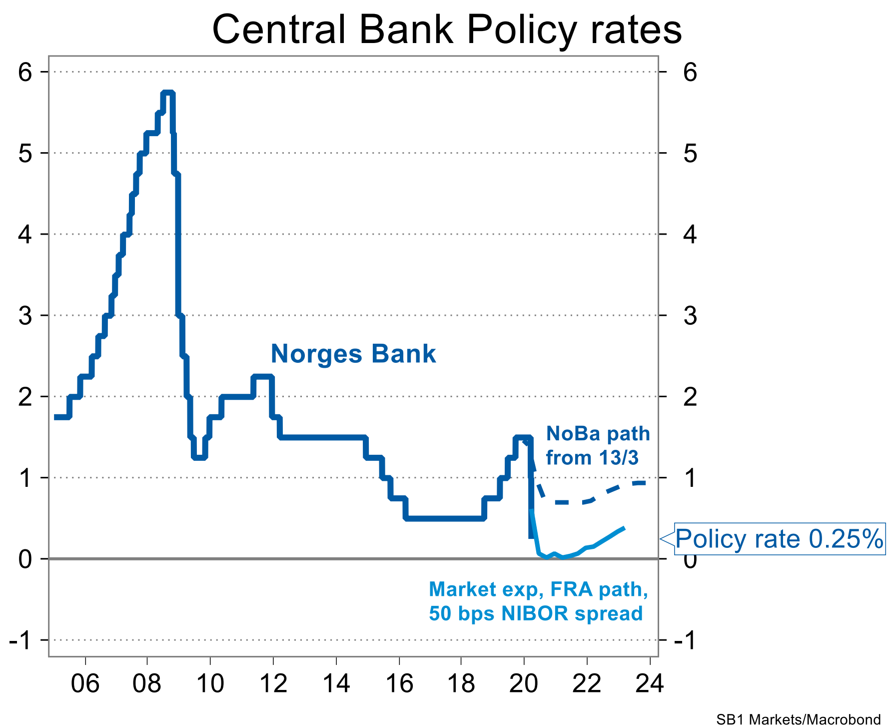
The world around us

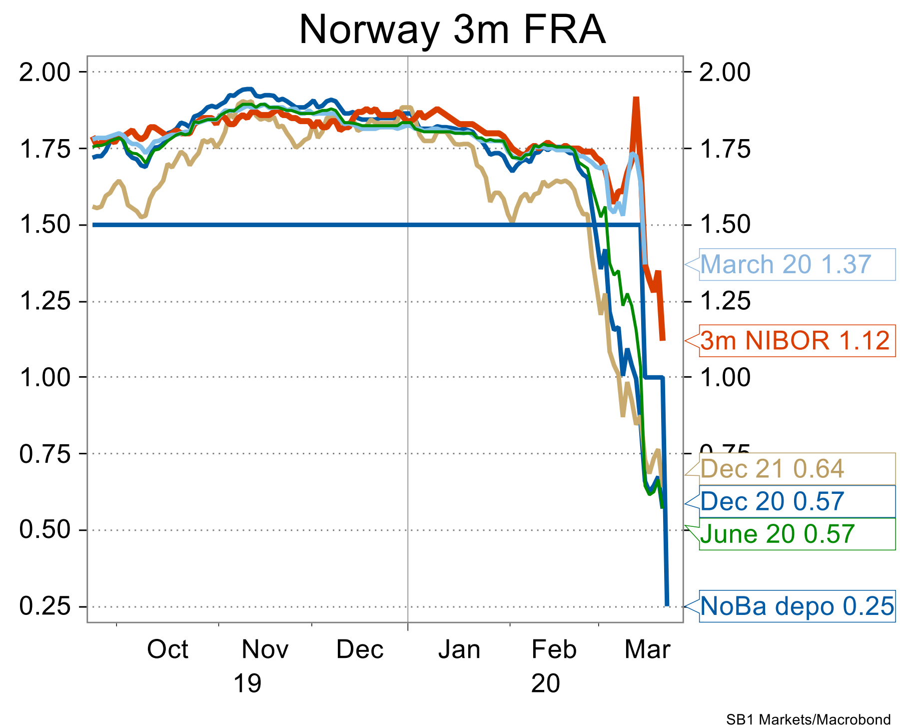
The Norwegian economy

Market charts & comments

Norges Bank cut the policy rate to 0.25%, unsurprisingly

The Bank delivered another emergency cut Friday, down 75 bps and signals it might cut more

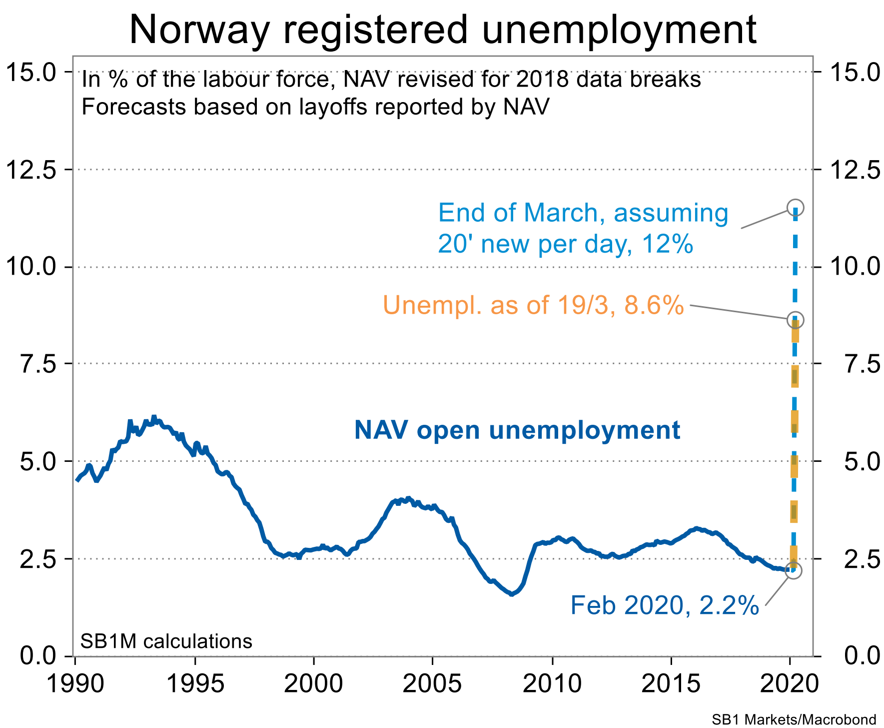




- Norges Bank delivered the 2nd cut at Friday, to by 75 bps to 0.25%, the lowest level ever. The as widely expected
  - » No interest rate path or forecasts were published at this emergency meeting. The Bank signaled willingness to cut further. A cut to zero may be necessary over the coming weeks and a negative interest rate is probably not off the table
- Other monetary stimulus measures were introduced last week; the Bank offers additional F-loans with an interest rate close to the deposit rate with maturities of up to 1 year. Moreover, the Bank is considering intervening in the currency market to support the NOK
- Money market spreads have widened by some 50 bps, alongside the spike in LIBOR-OIS spread in the US (money market spreads are up everywhere). In addition, the long term funding spread for banks are up by 150 bps past two weeks

Unemployment is soaring, to the highest levels we have seen since the 30'ies

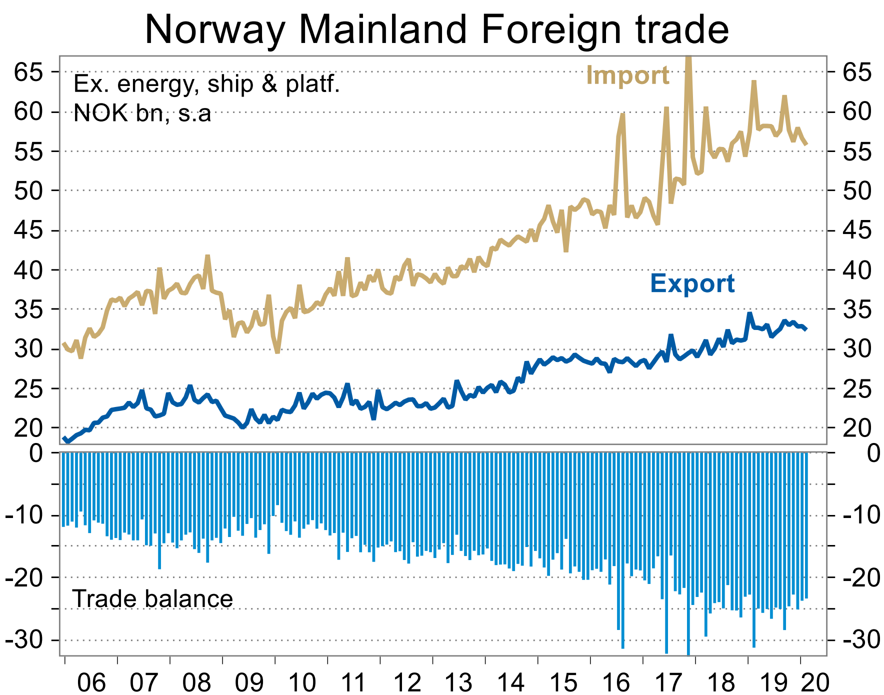
.. Chiefly due to temporary layoffs, but 'ordinary' unemployed is increasing as well

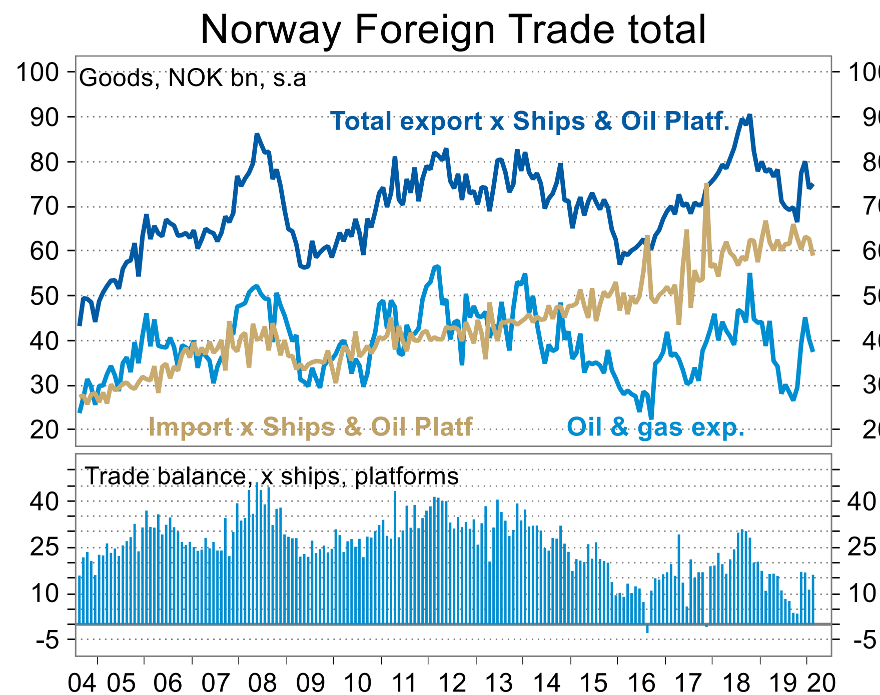


- NAV is now reporting daily labour market data in order to keep track on the impacts of the coronavirus 'lockdown'
- Since March 9, 187.000 persons have applied for unemployment support, of which 92% due to temporary layoffs, now being fully compensated by the Government (up from a 62% regular compensation rate) – it is now 'cheap' for employers to let the Gov pay the wage bill
- A the above chart, we have illustrated the potential rise in registered unemployment in end of March, if the number of new registrations at 20' per day (vs 27' in avg since Friday March 12). Thus, an unemployment rate above 20% is likely within a short period of time
- We expect unemployment to increase sharply through April as well

Mainland exports and imports slowing recent months

The Mainl. trade deficit is shrinking marginally. Oil exports (in value) down in Feb, will drop in March

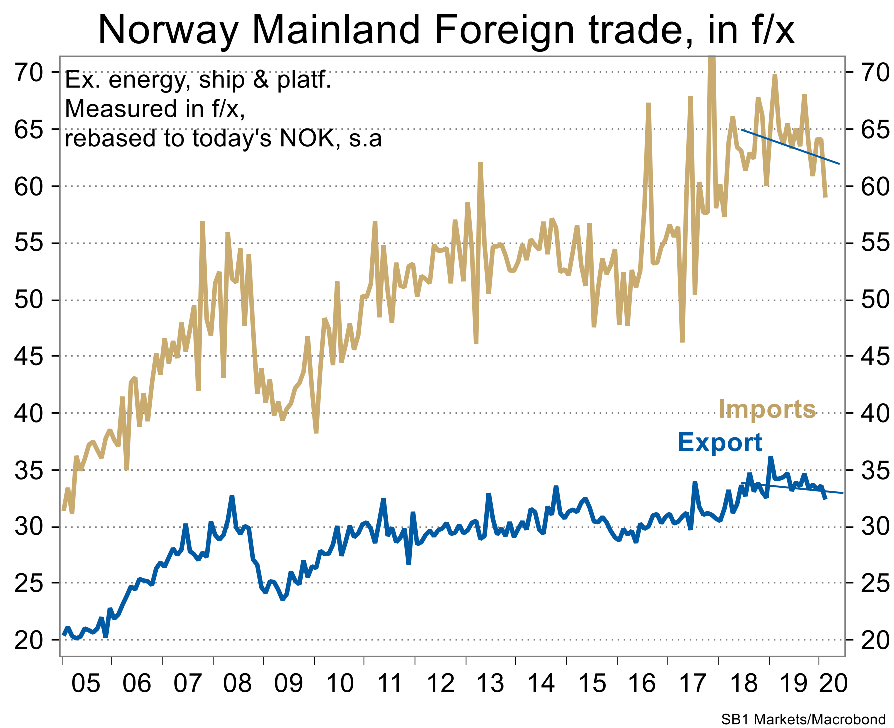


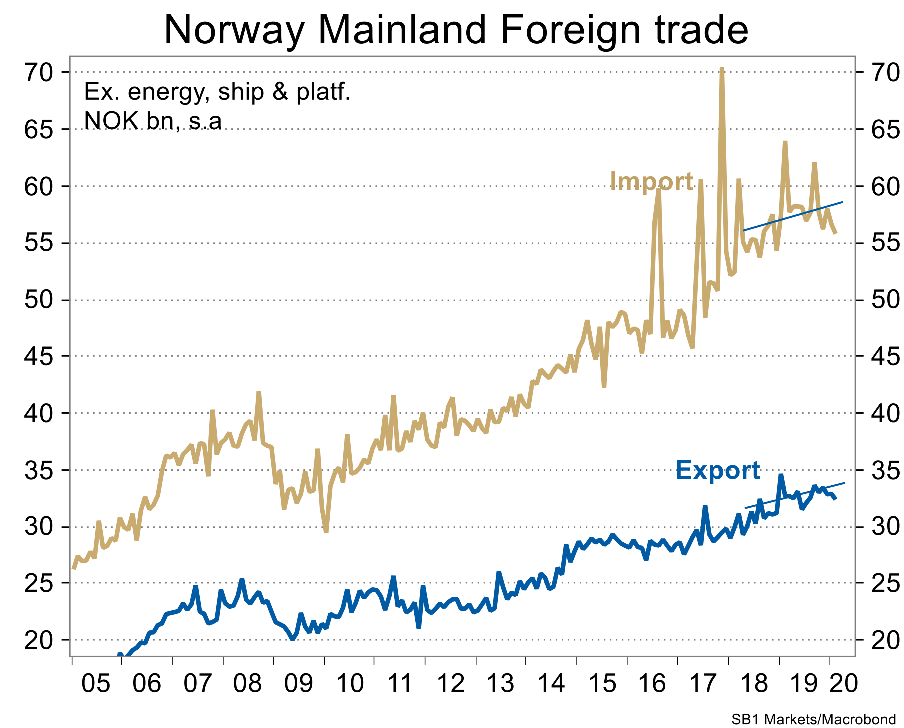


- The Mainland (non energy) trade deficit shrank marginally to NOK 23.4 bn in February. The deficit has been declining somewhat the past year, due to lower imports. The longer term trend is anyway a widening deficit
  - » Imports (in value) fell by 1.5% m/m in February. Monthly imports are volatile, due to some large projects, but are now trending down after soaring the prior two years. Imports are up 0.5% y/y (smoothed)
  - » Mainland exports increased by 0.1% m/m. Exports are trending up and have slowed less than imports the past months, still up 3.7% y/y (smoothed). The weak NOK is supporting export businesses (and much more the coming months), however, there has not been any take off in export values
- The overall trade surplus (incl oil & gas, ex ships & platforms) widened to NOK 16.1 bn. Export values will fall steeply in March due to the oil price plunge. Recent years, the total trade surplus has equalled approx. 6% of total GDP

… in f/x, both exports and imports are heading down

The NOK depreciation has lifted trade values in NOK

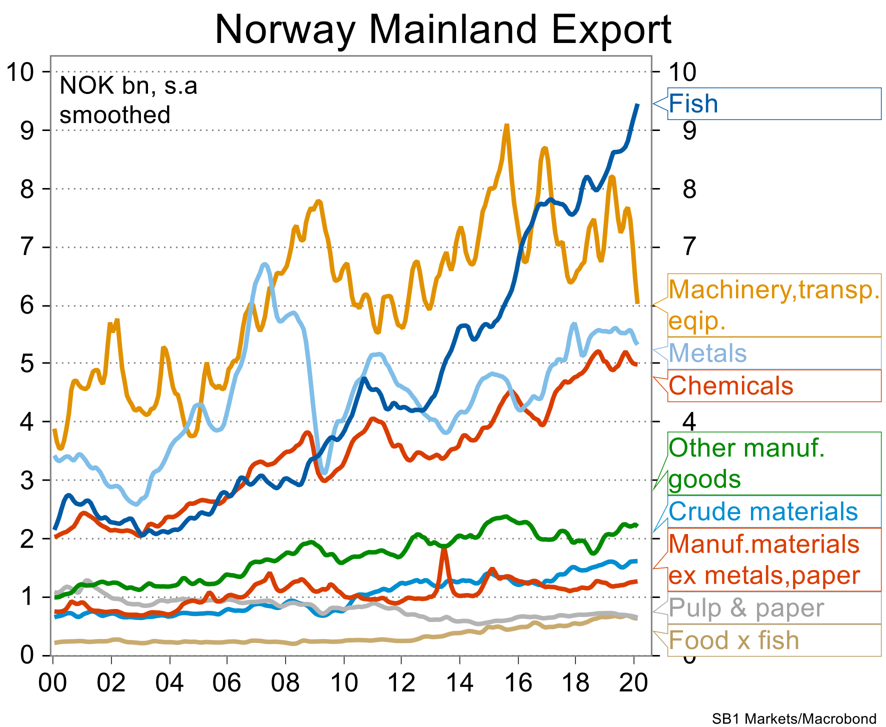


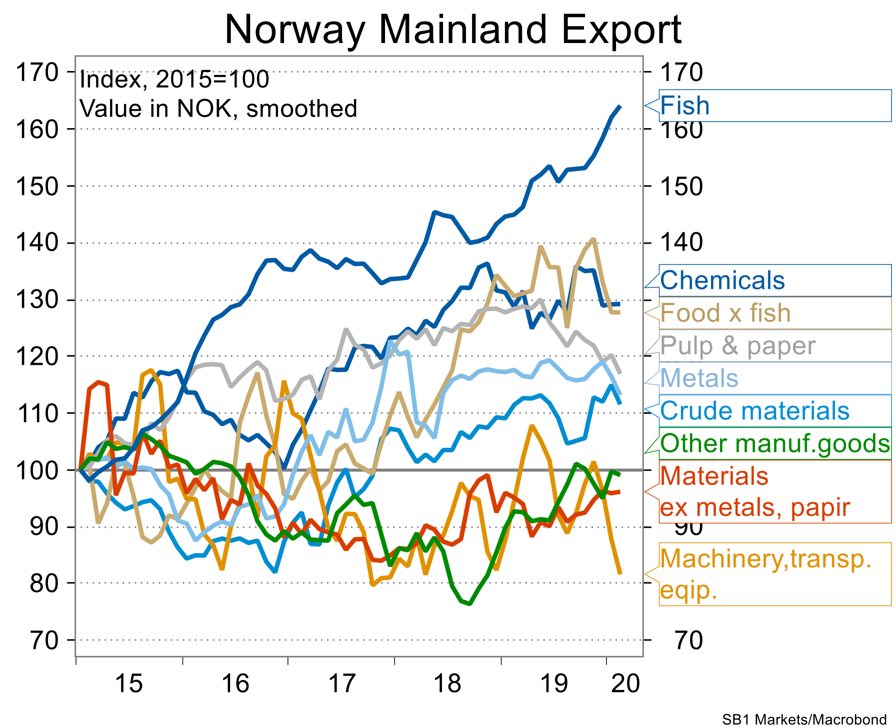


- At the chart to the left, trade values are rebased to today's NOK I-44 index

Exports of fish are soaring, machinery & transport down

Except from fish and manufacturing goods, most other sectors have been slowing





- Fish exports have been soaring both in value and volume recent years. Exports of fish to China fell in February due to Covid-19 and the subsequent shutdown, yet overall fish exports rose, as China equals just some 5% of total fish exports
- Exports of machinery and transport equipment (of which much is related to oil activities abroad) have fallen rapidly the past months, these are highly volatile. Exports of chemicals, metals and food x fish have flattened out the past year. Crude materials picking up. Manufacturing materials ex metals & paper are heading slowly up

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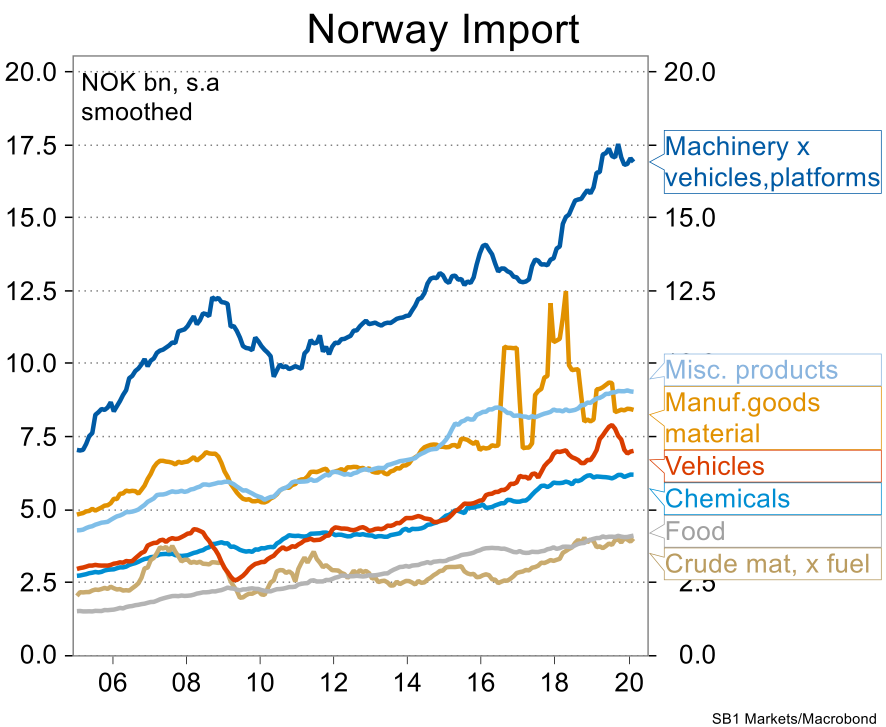
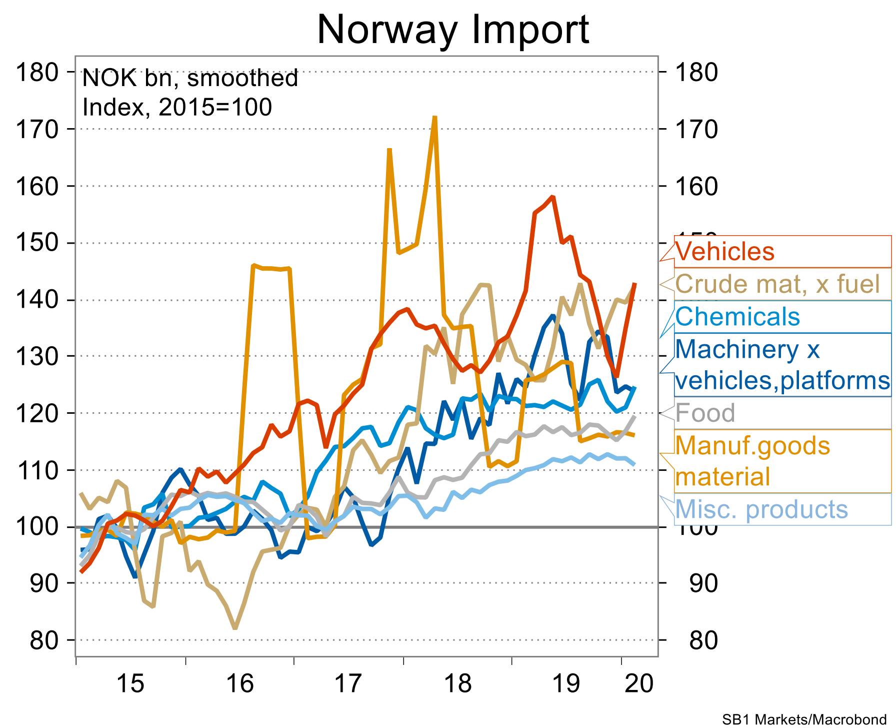
Imports of machinery equipment probably at peak, most others are stalling

Imports of vehicles up since Dec, suggesting a slight recovery in auto sales?

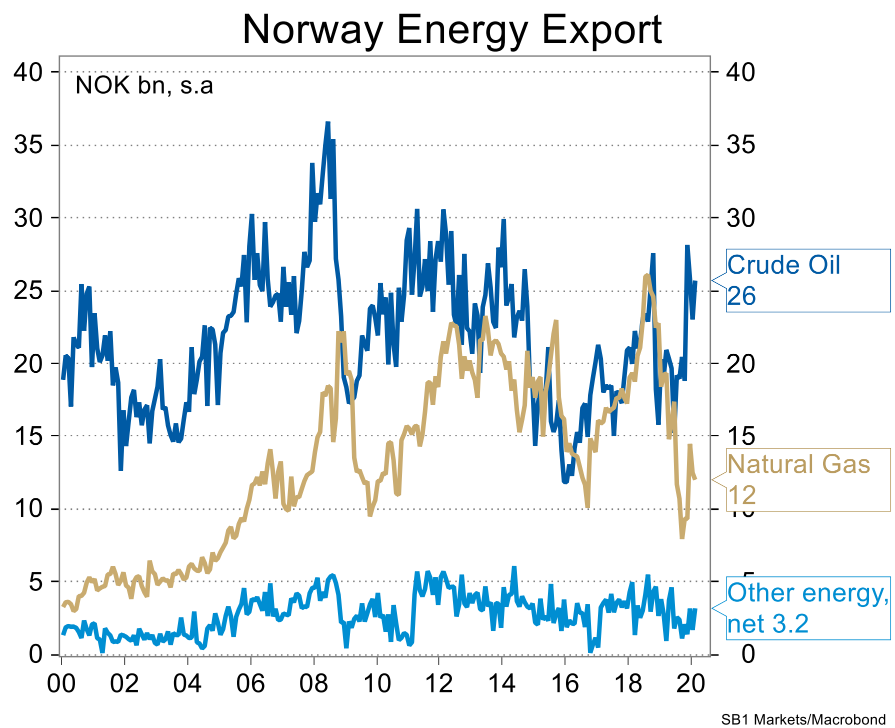


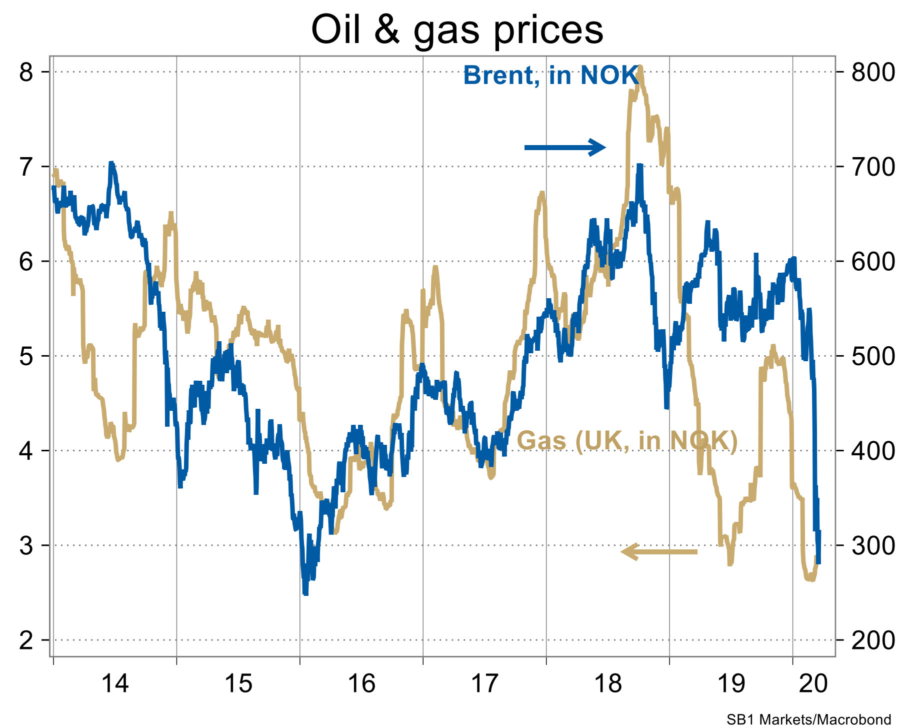


- Imports of crude materials are still expanding. Manufacturing materials have slowed the past couple of years but may now be trending up, these data are ridiculously volatile, due to some massive transactions of oil platforms, wind mills and combat airplanes
- Most other sectors have slowed or flattened out
- Vehicle imports slowed rapidly in H2 2019, along with auto sales. Since December, imports have picked up, both in tons and in NOK. A signal of a recovery in auto sales, which have slowed rapidly since last summer? Unfortunately, imports are not leading on sales, and it might as well be due to a larger share of electrical cars (which are heavier, and more expensive)

Oil exports have been surging, Sverdrup on stream. Gas exports recovered too

Oil exports will plunge in March and onwards, in value terms (perhaps even in volume terms too)





- **Crude oil** exports (in NOK bn) rose to NOK 26 bn in February. Exports have been soaring since late autumn, due to the start up of production at the Sverdrup field. Oil exports are up 35% y/y, smoothed, in value terms (no February volume data)
- **Gas** export values came down to NOK 12 bn, following a steep decline last summer/autumn, as gas prices fell rapidly, and are still down 35% y/y (smoothed)

Highlights

The world around us

The Norwegian economy

Market charts & comments

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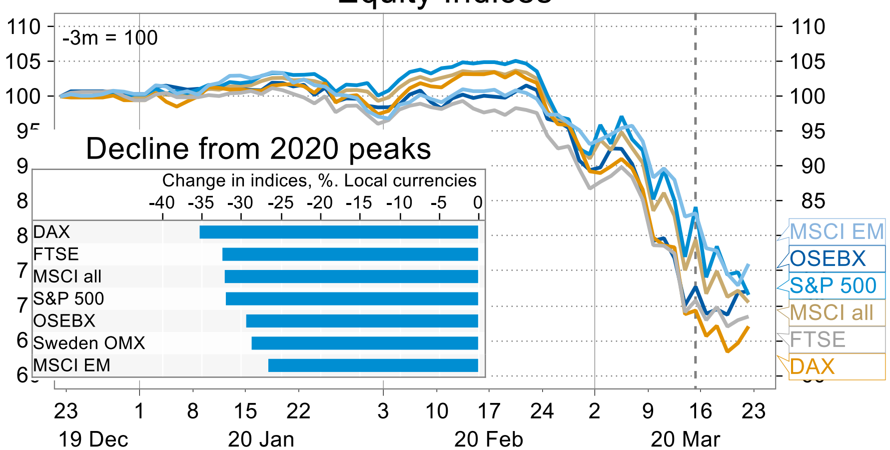
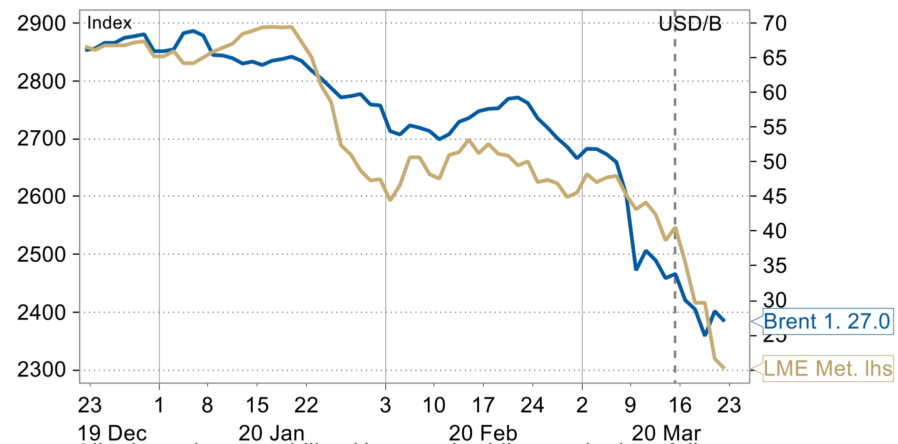
We are zig-zagging downwards; at least stock markets, raw materials, NOK

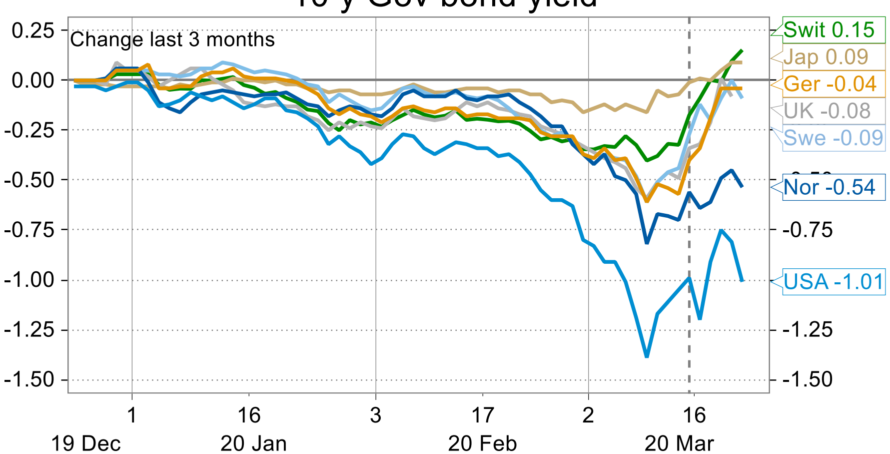
Volatility is extreme. S&P500 down 15%, OSEBX just 1% (in NOK that is). NOK collapsed, without reason



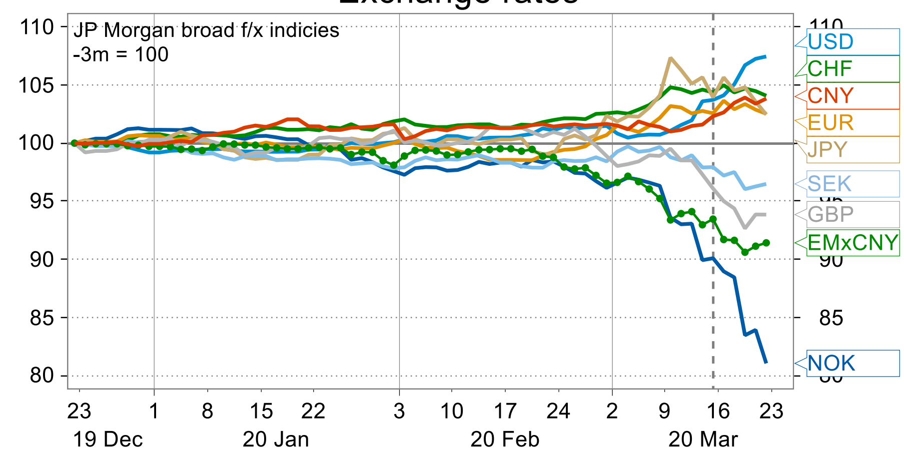
Stock markets continued to fall steeply last week, with huge volatility. S&P noted the sharpest drop since '87 at Thursday



Oil prices almost stabilised last week while metal prices fell



Bond yields gained ground last week following the 'collapse', most likely not due do changes in the economic outlook but due to it forced liquidations among leveraged investors. Short term no big problem, but long term it is- However rates are still very low

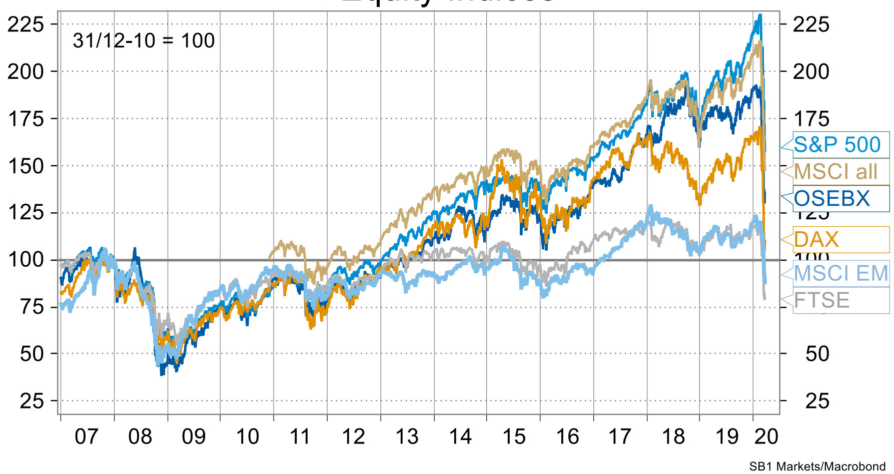


USD climbs and the CNY improves. EUR sharply down as corona spread. GBP weak too. As is EM x China. NOK ATL

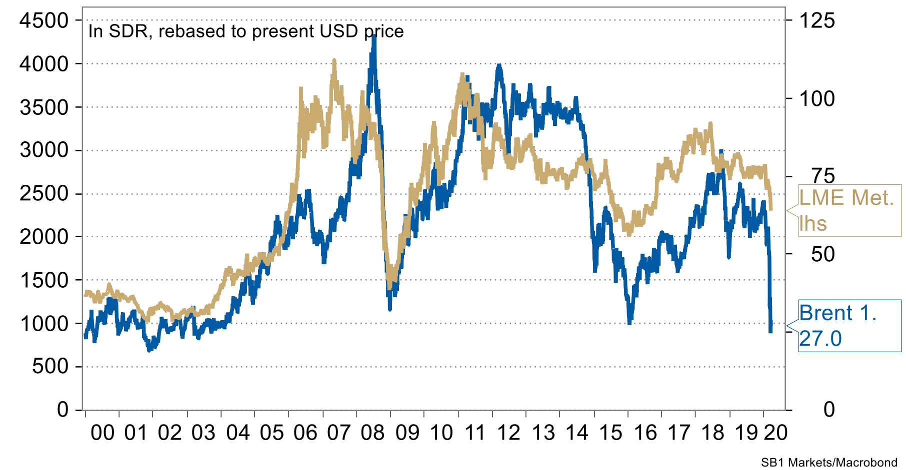
In the long run: Stocks have entered bear market

Stock markets down 25-35% and bond yields are at/close to ATLs. Oil lowest since 2004. Metals better

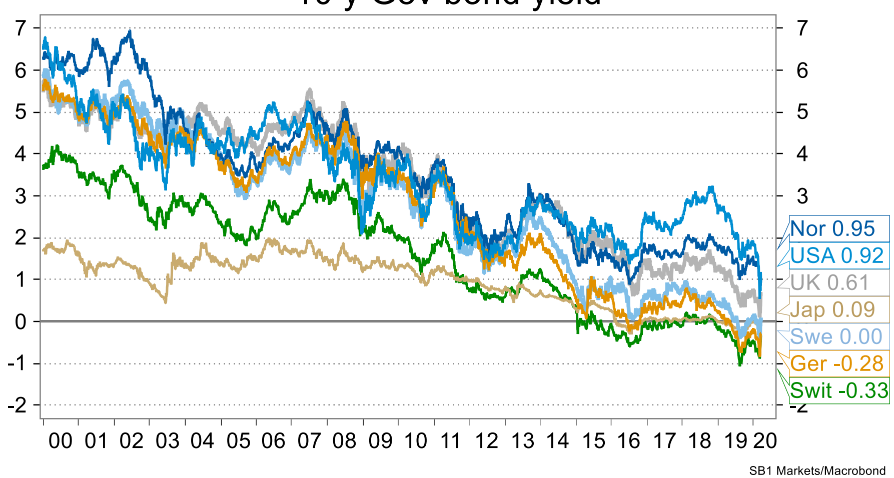
Equity Indices



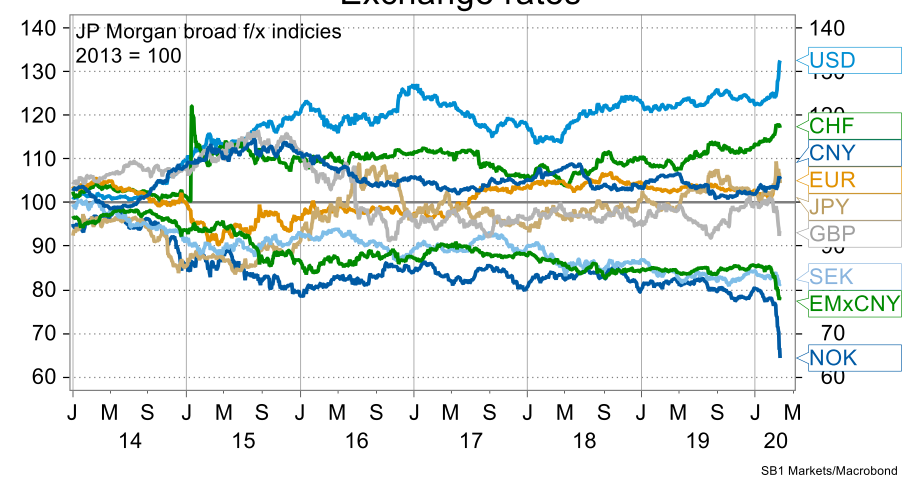
Oil vs. metals



10 y Gov bond yield

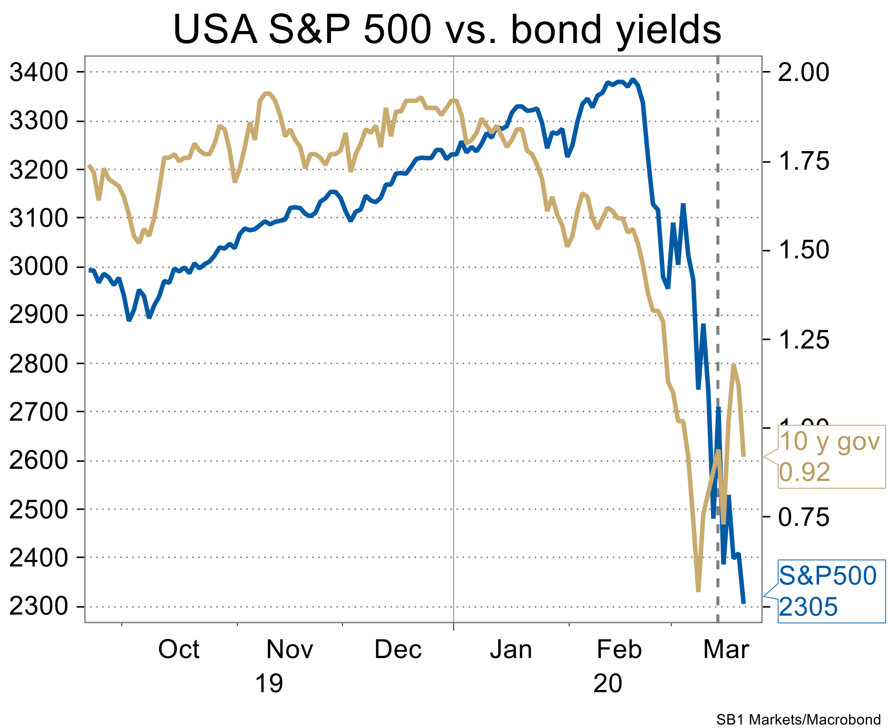


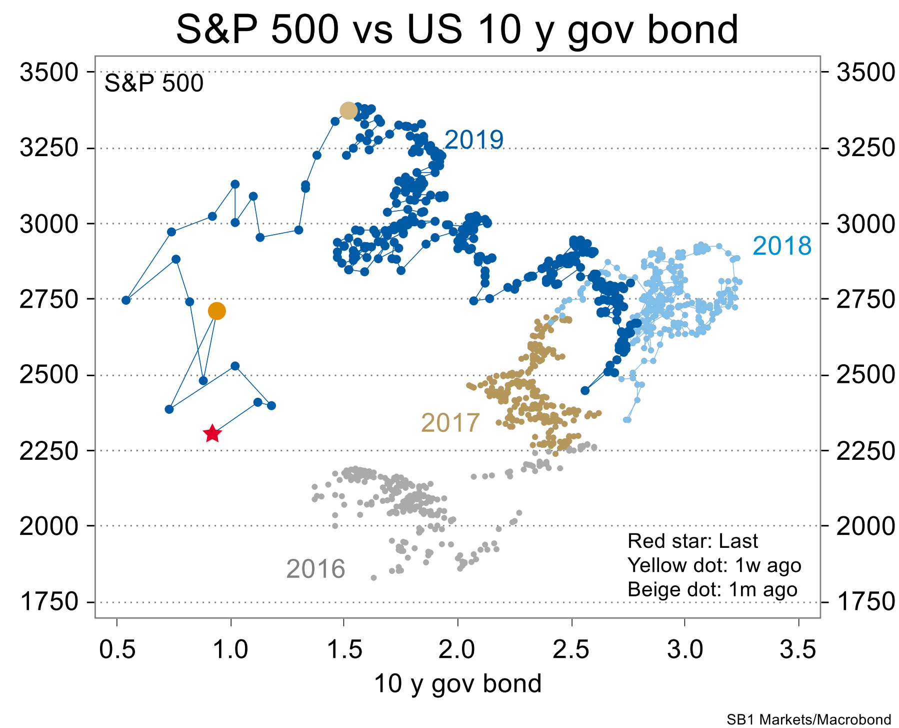
Exchange rates



US stocks are heading straight down, bond yields up due to need of liquidity?

S&P tumbled another 15%, while 10 y gov bond yields inched down just 2 bps, and is up 40 bps

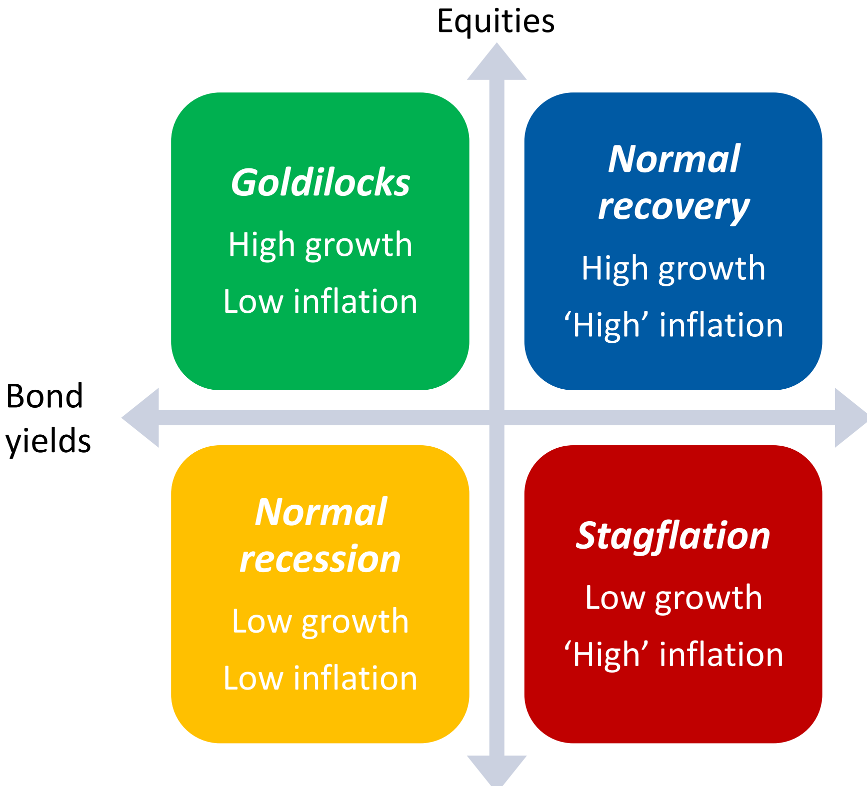


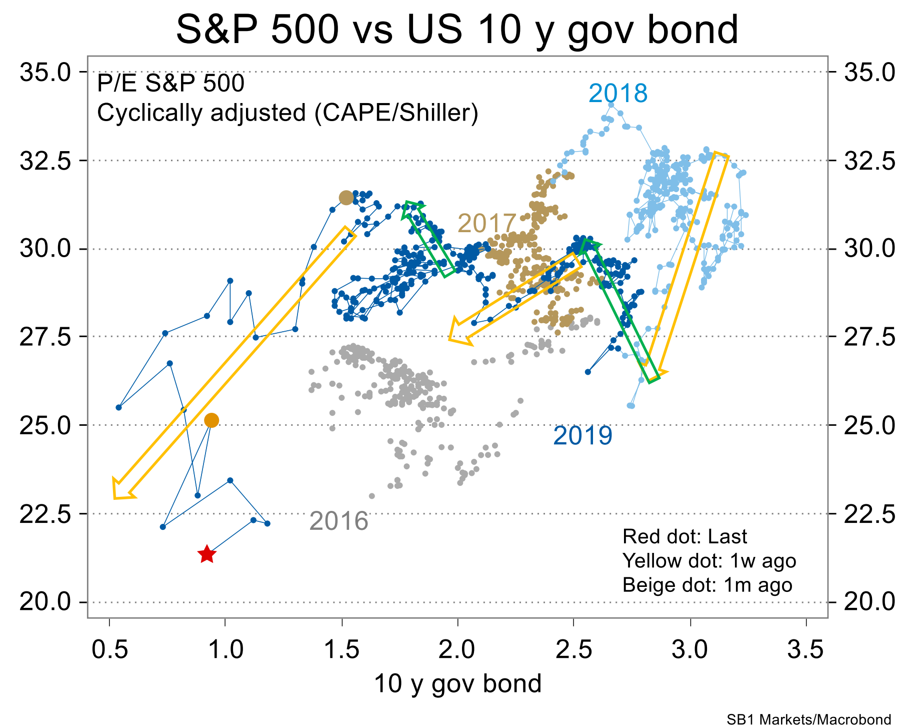


- No hope in sight? Equities falling like a stone
- The 10 y gov bond yields rose sharply the previous week and stabilised last week. An extreme expansionary fiscal policy may explain the shift but it is more likely due to need of liquidity among investors who have to honour margin calls etc.
- If continued, the Fed will probably take control over the curve (YCC), like Japan has done fore a while and Australia did last week. We guess the Fed will not jump to this conclusion before other measures are exhausted

Markets straight on the way to the recession corner (with a twist of stagflation)

The smell of stagflation is probably not for real, as the rise in bond yields is due to liquidity needs

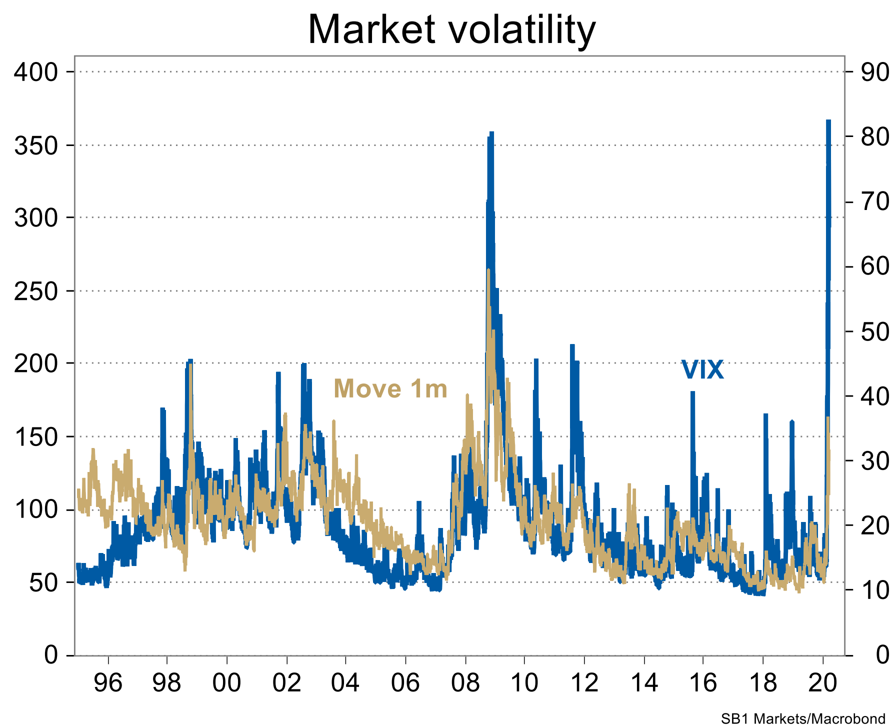


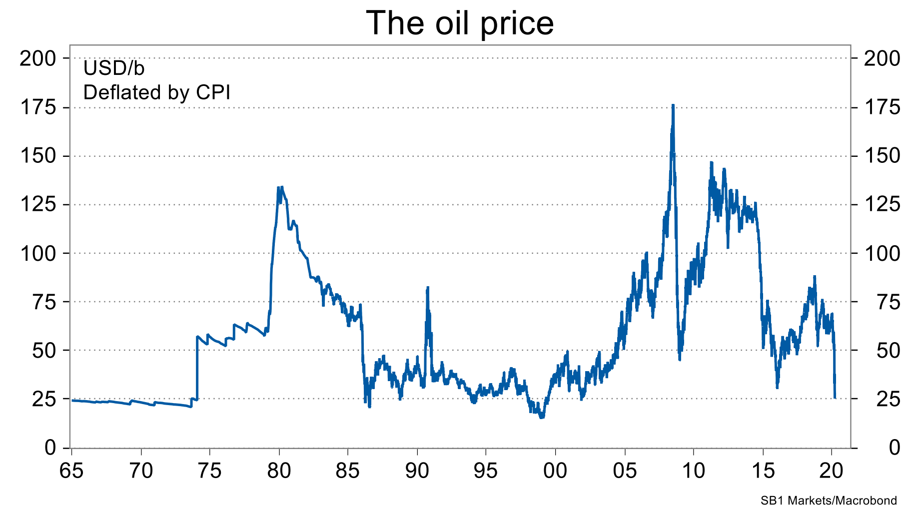


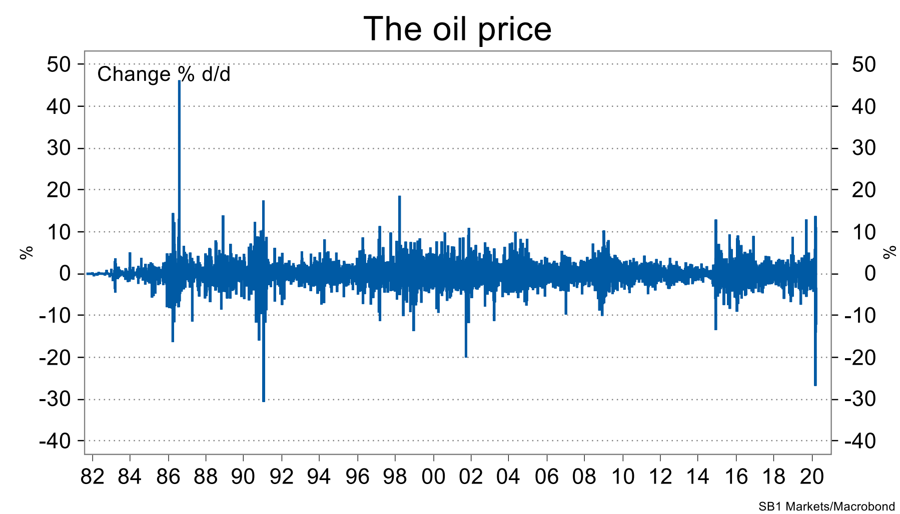
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn has accelerated the past three weeks as Covid-19 spread rapidly outside China. Last week, bond yields turned up while stocks stumbled, we doubt this will last
- We expect markets to move closer to the recession corner the coming weeks, should the coronavirus not calm down substantially. Bond yields are very low and the downside is limited, unless the world economy should move into a severe recession (which it might)

Volatility is back. In fact the highest ever. For a good reason

VIX at the highest level ever, Move highest since 2009 – and they will remain high for some time







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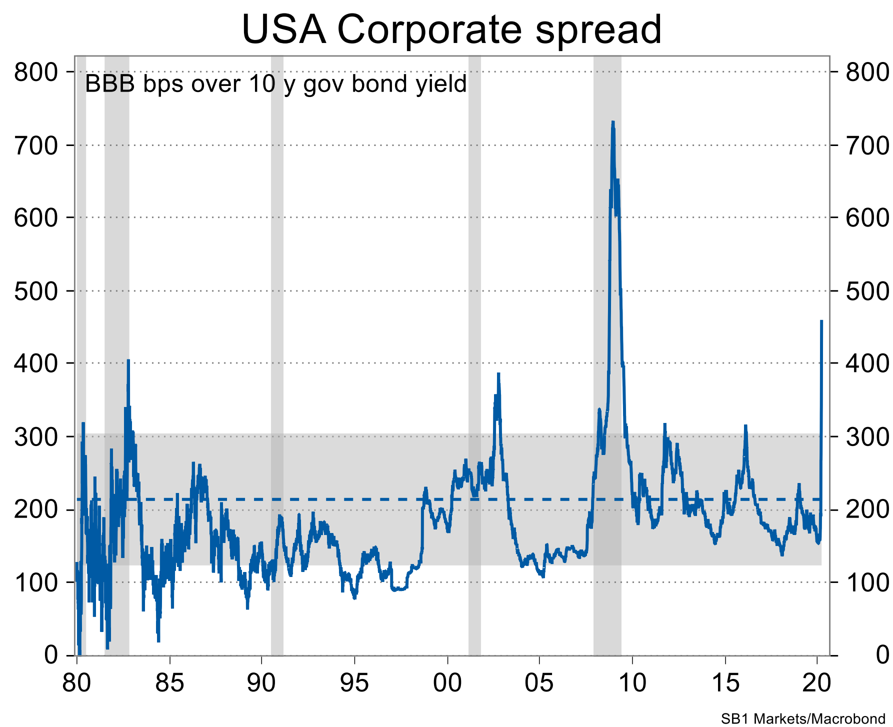
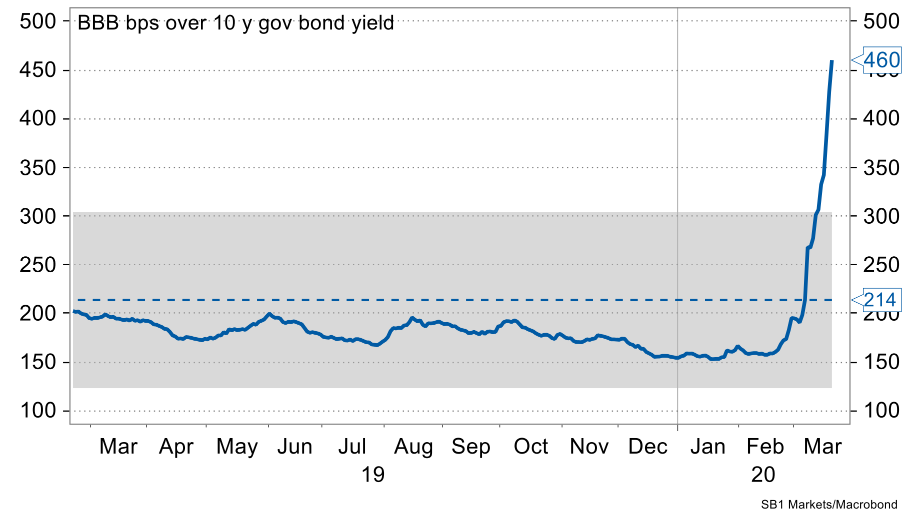
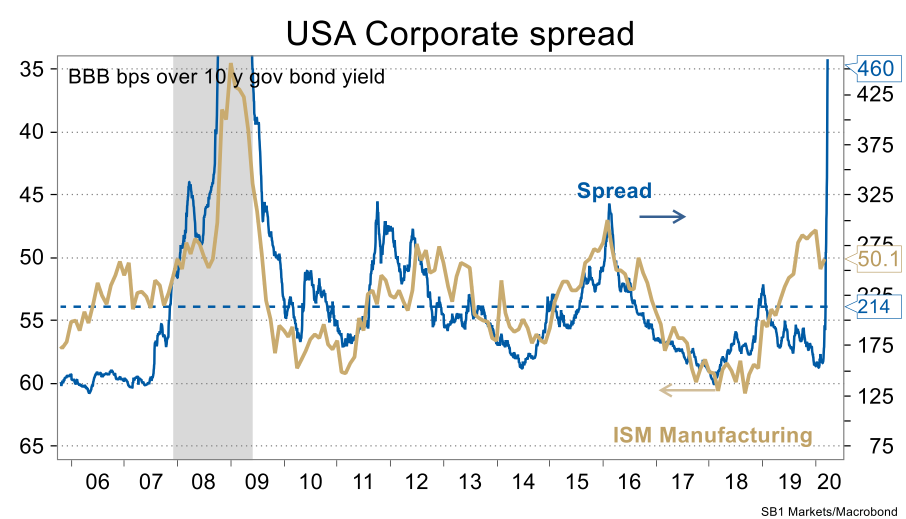
Credit spreads are soaring, and are at one stage attractive…

A very deep recession is now priced in

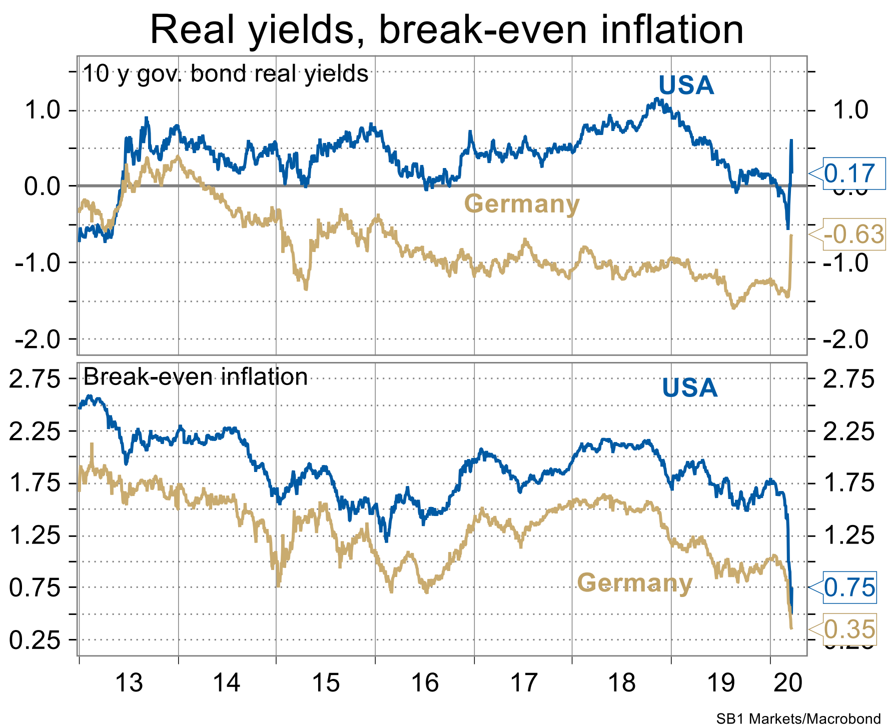


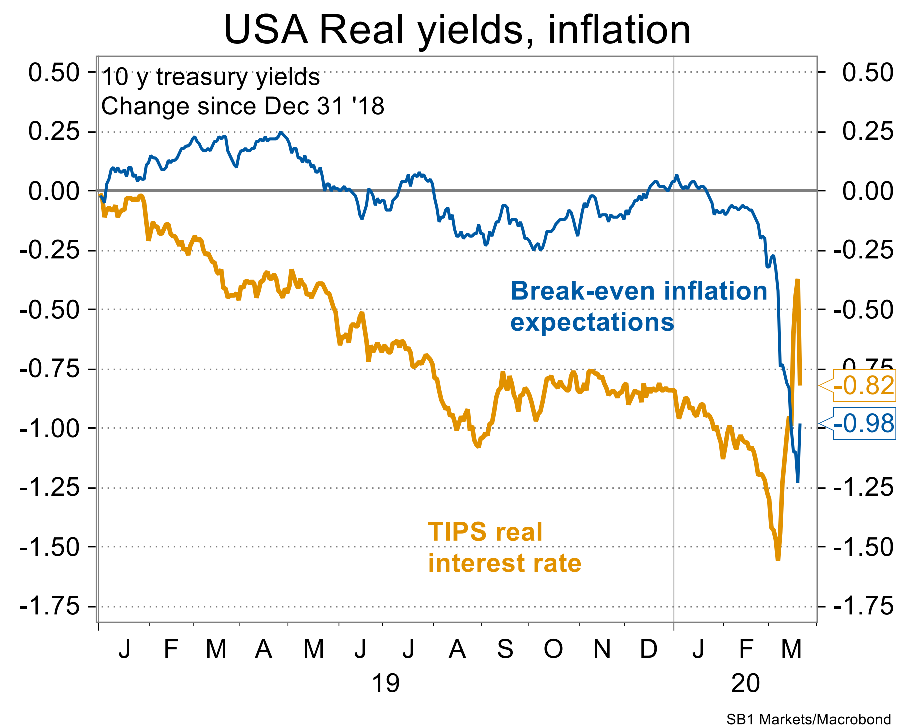




Bond markets are dislocated, most likely due to liquidity squeezes

US real rates up 100+ bps inflation expectation down – probably just market 'noise

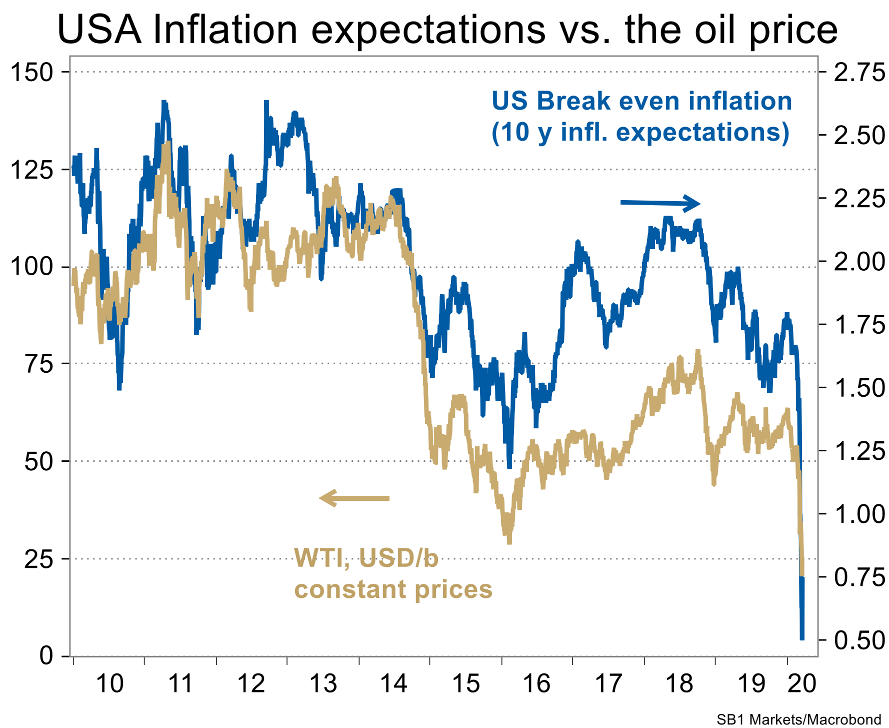


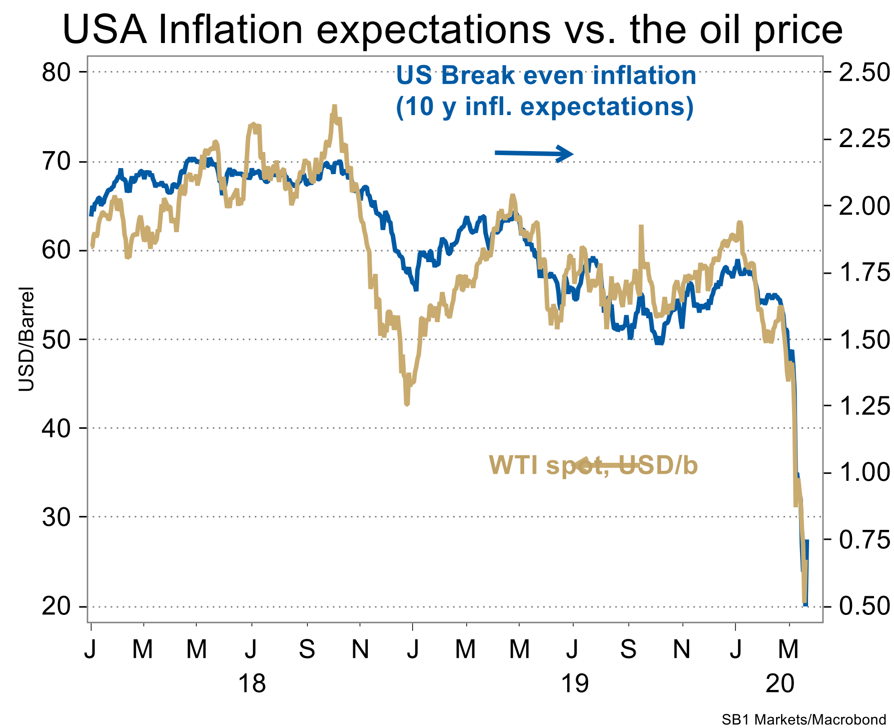


- US real rates continued steeply up last week, back 0.17% (from -0.5& at the bottom). The German real rate climbed 60 bps too, to -0.63%. There may be some impact of the huge fiscal stimulus now on offer everywhere but there is most likely more forced sellers that need cash for other purposes.
- Inflation expectations have 'collapsing', once again in tandem with the on the oil price drop. US inflation expectations are at the lowest level since the financial crisis, Germany the lowest on record

Inflation expectations closely correlated to the oil price

That seem to be the case now as well





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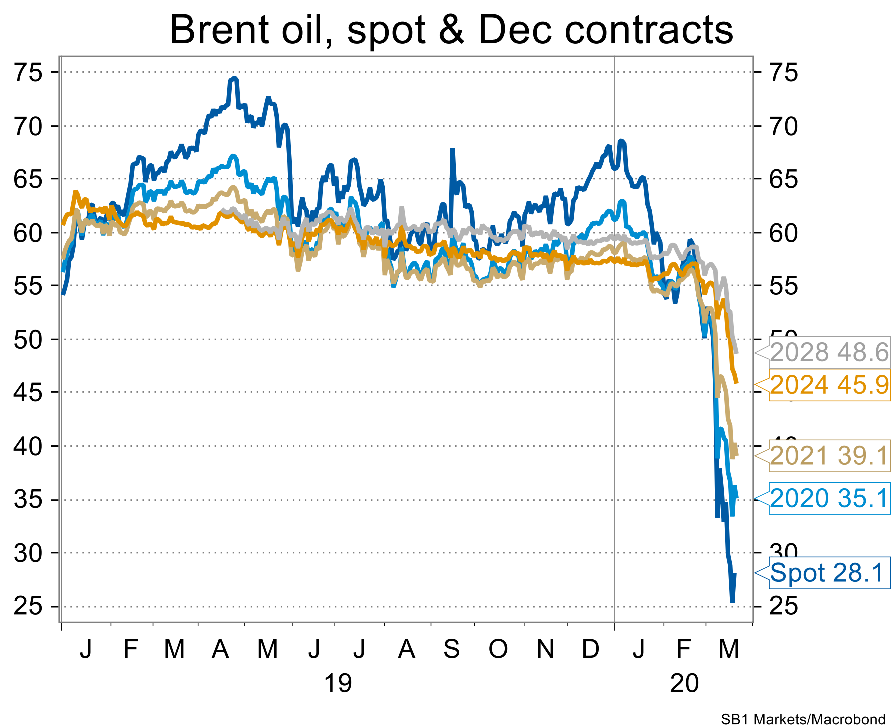
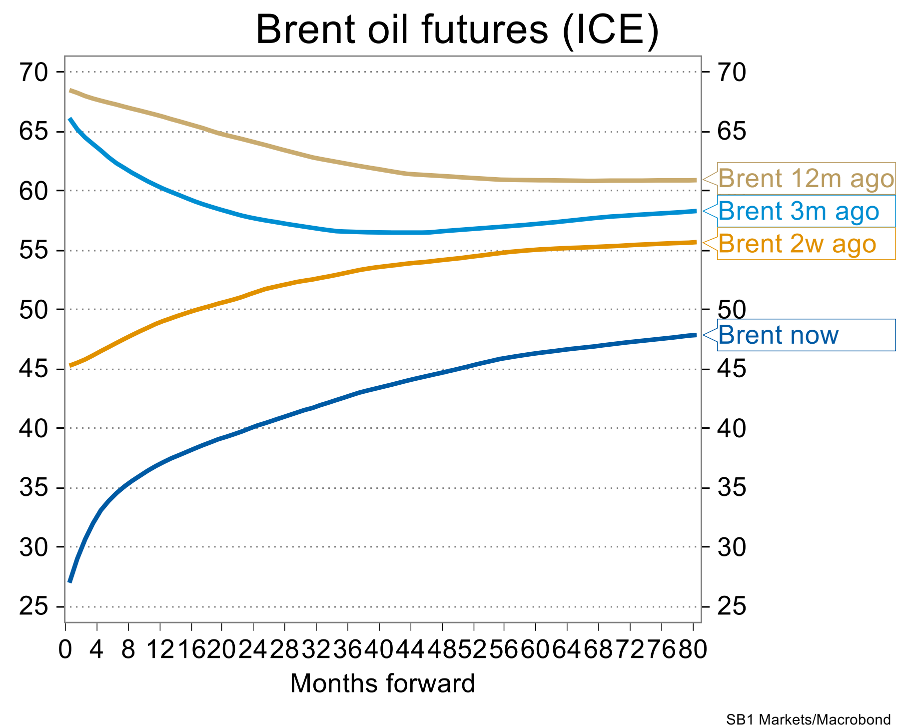
Oil prices: Longer dated contracts are now sliding down as well

The long end of the curve (80 mnd fwd) down 8 USD/b vs 18/b in the short end since before 'the war'

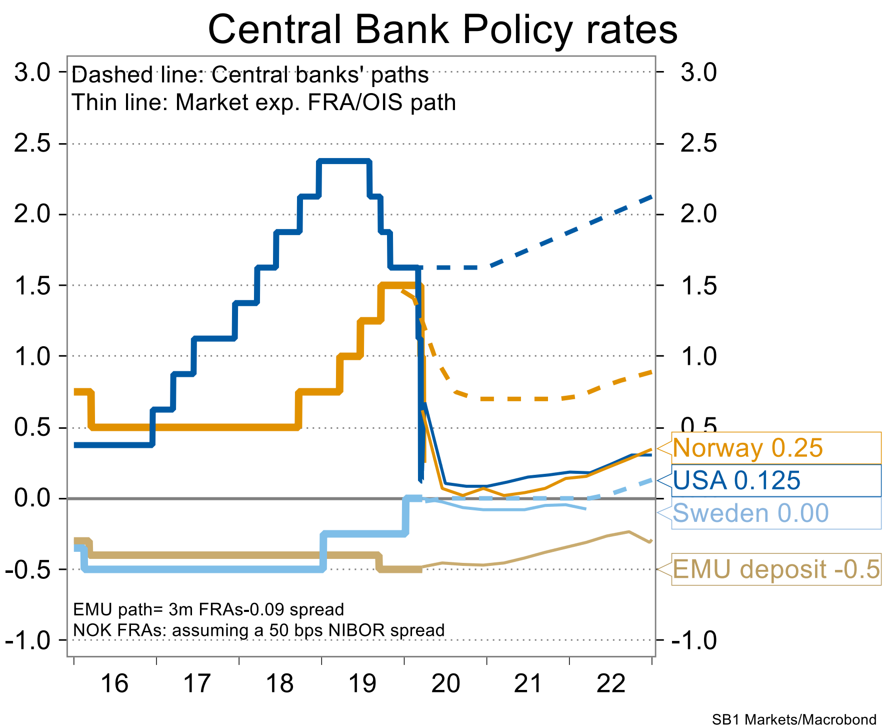


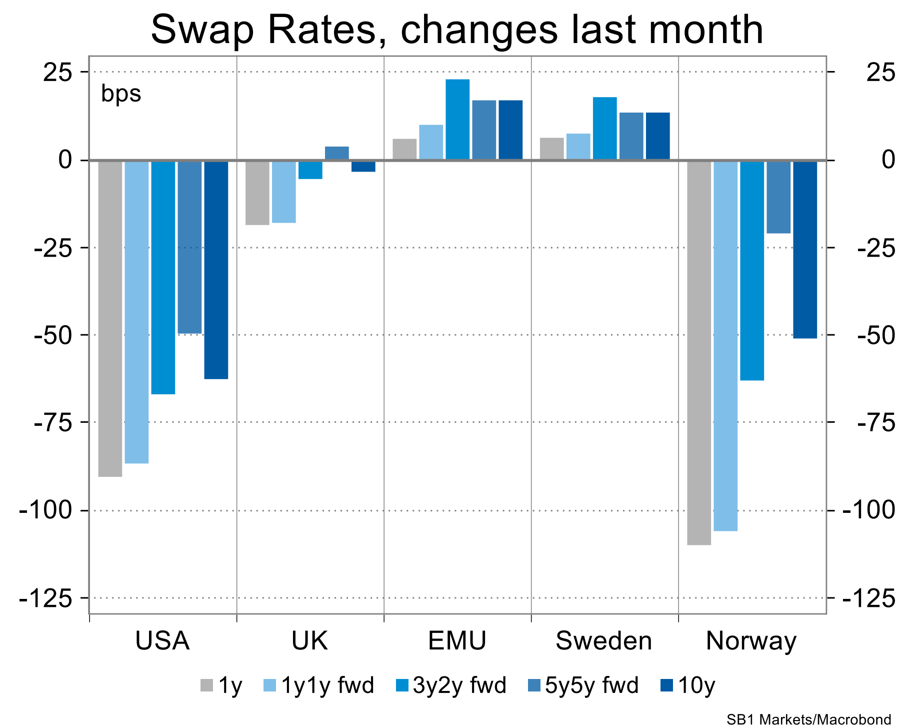


- The first part of the price decline as the coronavirus spread was understandable and due to a decline in expected demand from China and thereafter elsewhere
- The decline since SA started the price war vs. Russia (or both of them vs. US shale) two weeks ago is probably mostly due to the supply shock but demand estimates are collapsing as well, in line with the recognition of widespread reduction in activity in many countries in the Western part of the world – and more countries in other parts of the world may follow

Interest rate expectations are slashed – but swap rates in Europa were up last week

Fed, Bank of England and Norges Bank have delivered emergency cuts – the ECB kept rates on hold





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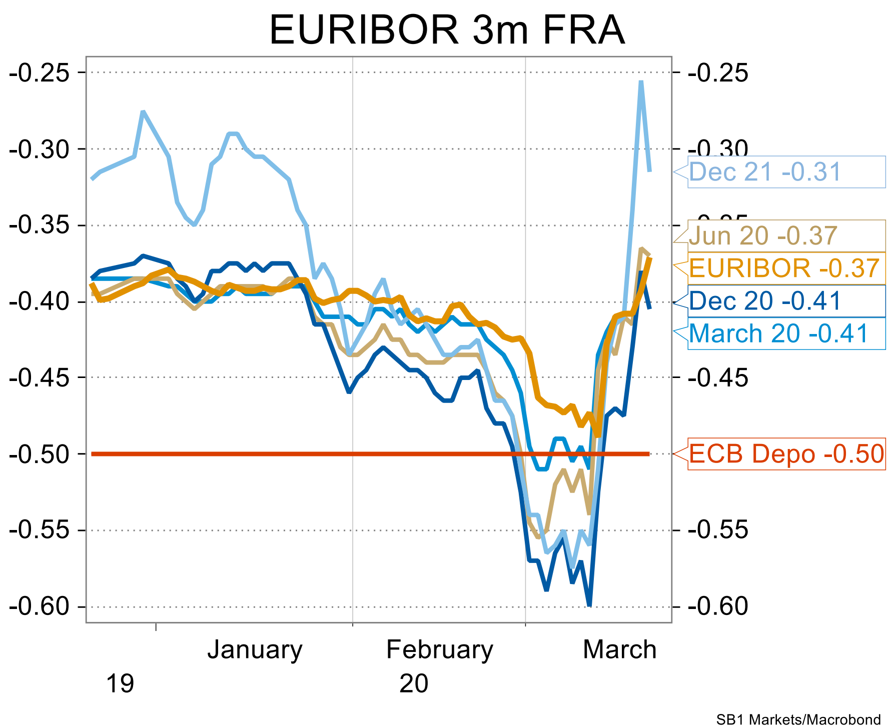
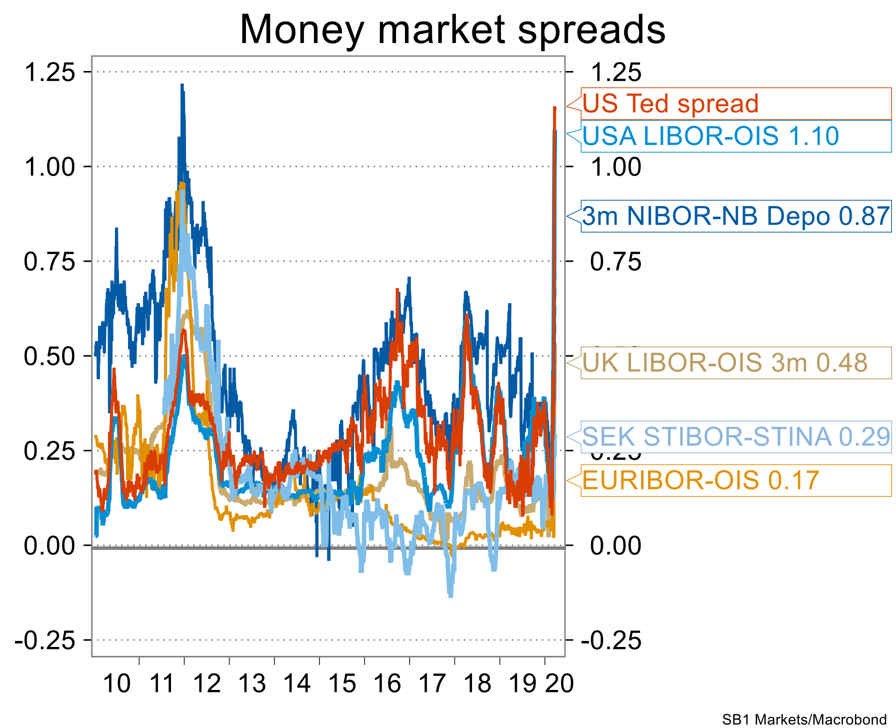
EURIBOR FRAs dislocated as spreads widen everywhere

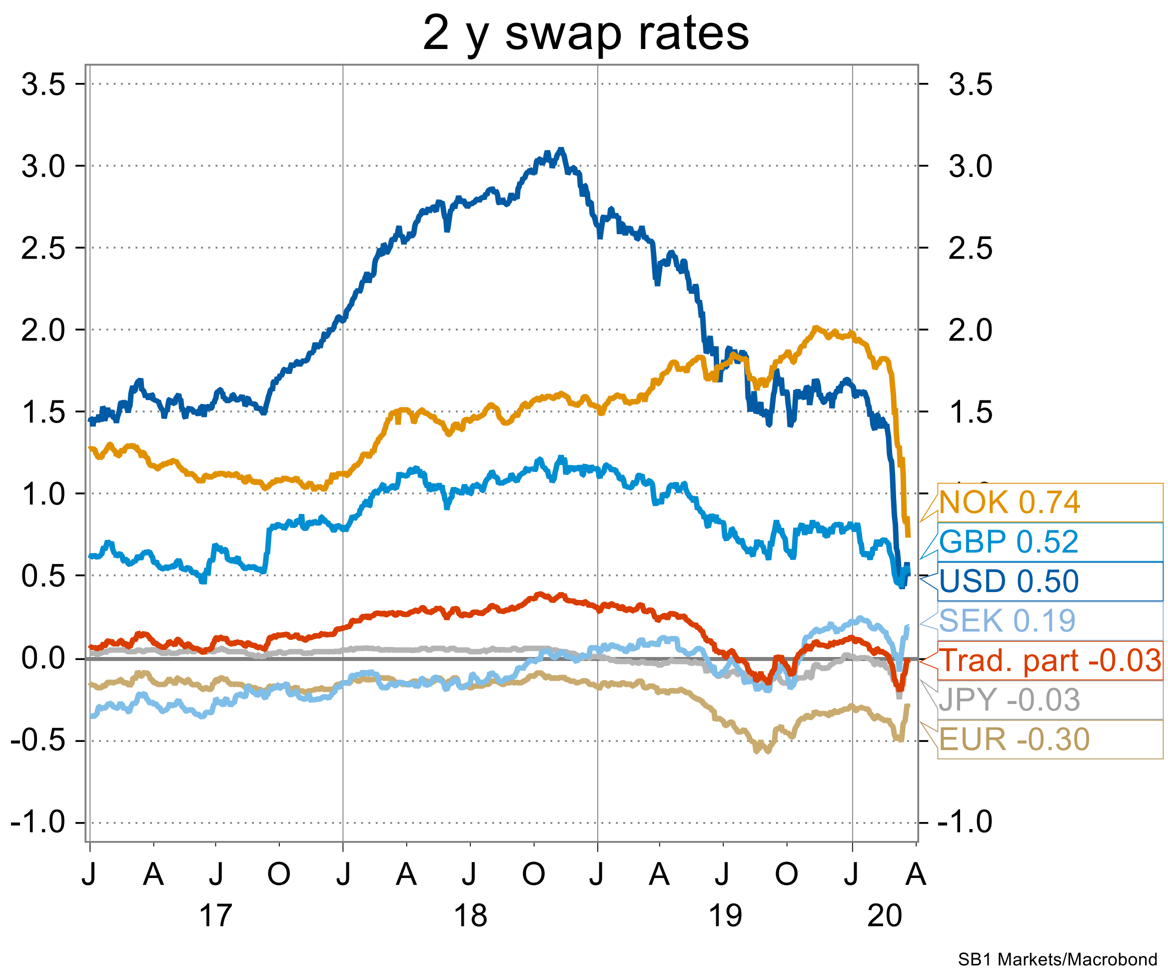
The previous week, markets were surprised by Fed not cutting but recent rise due to spread widening

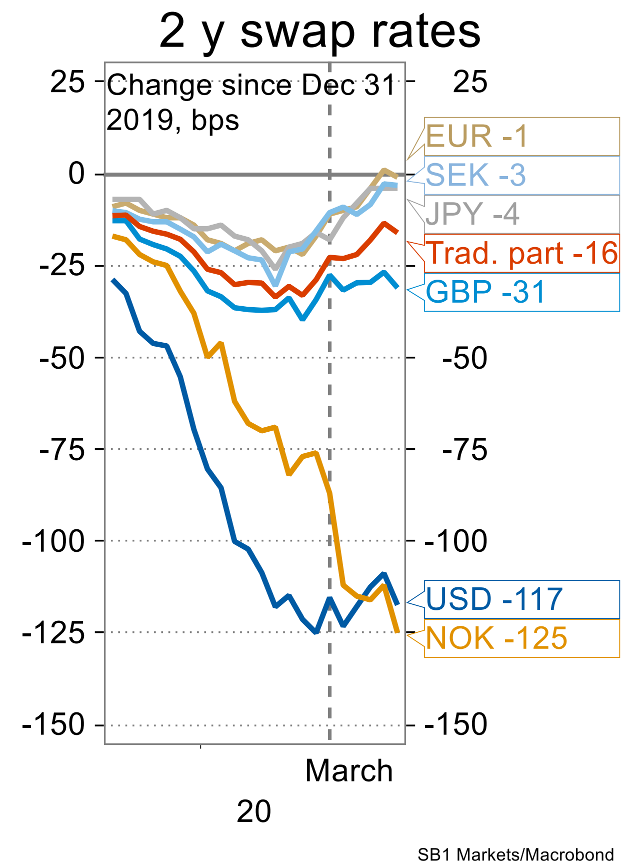




- Money market spread have widened everywhere albeit no by that much in the EMU

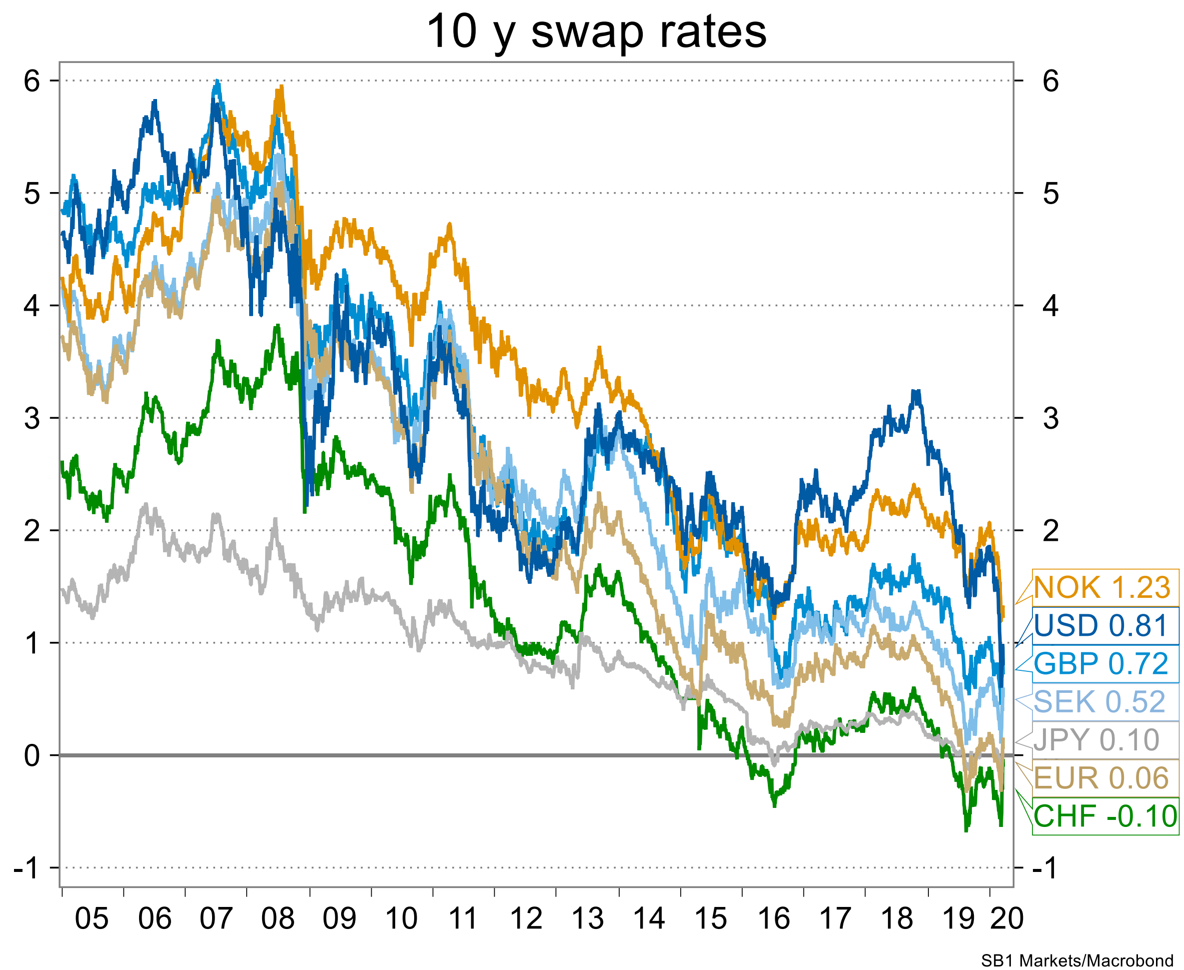
Just NOK short term rates down last week

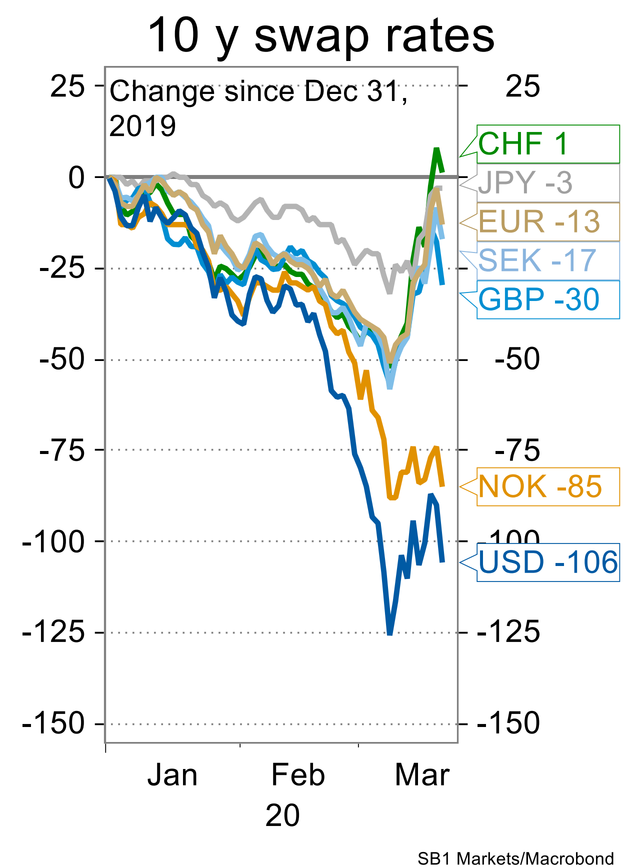




Long term swap rates turn, we doubt to expansionary corona fiscal measures

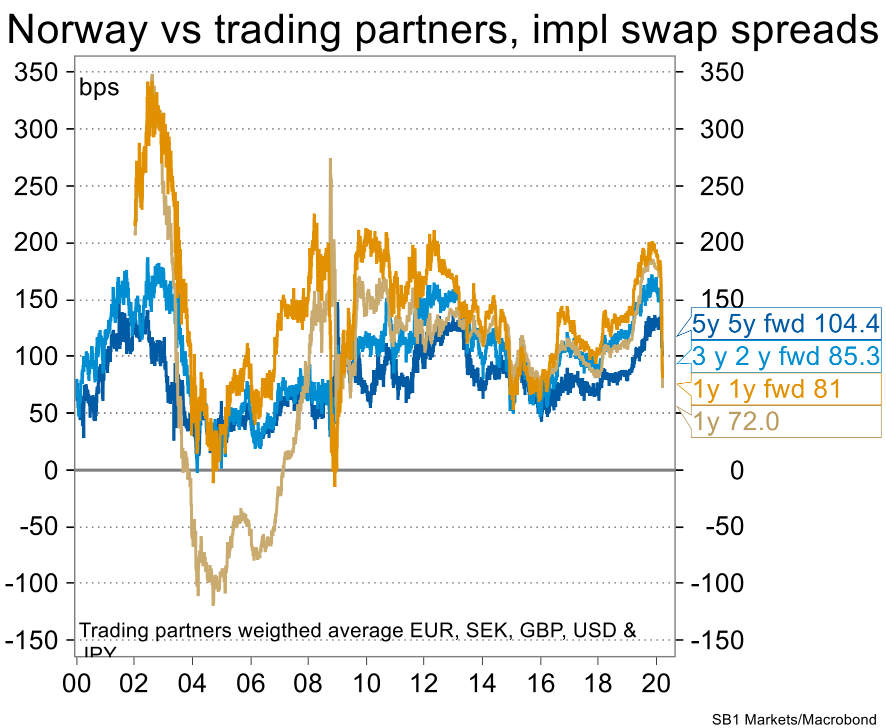
Or is another dislocation of markets – investors in need of cash had to sell gov. bonds?

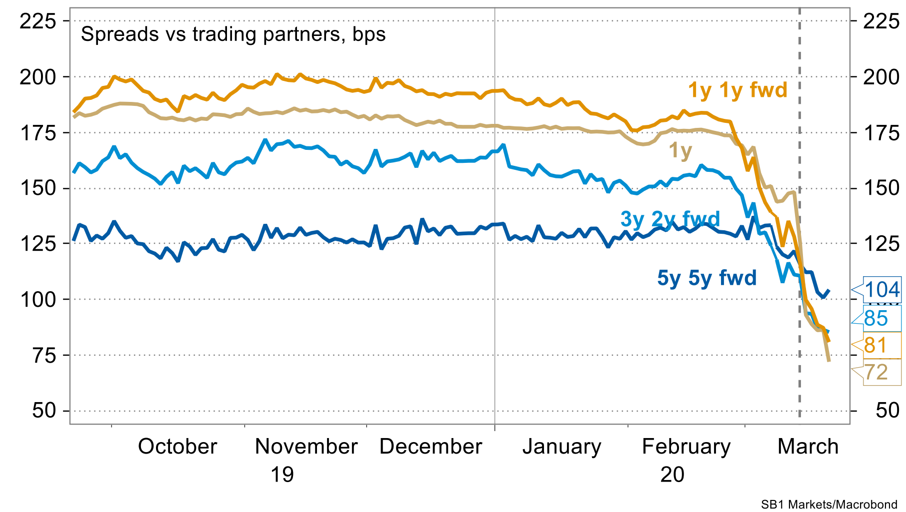


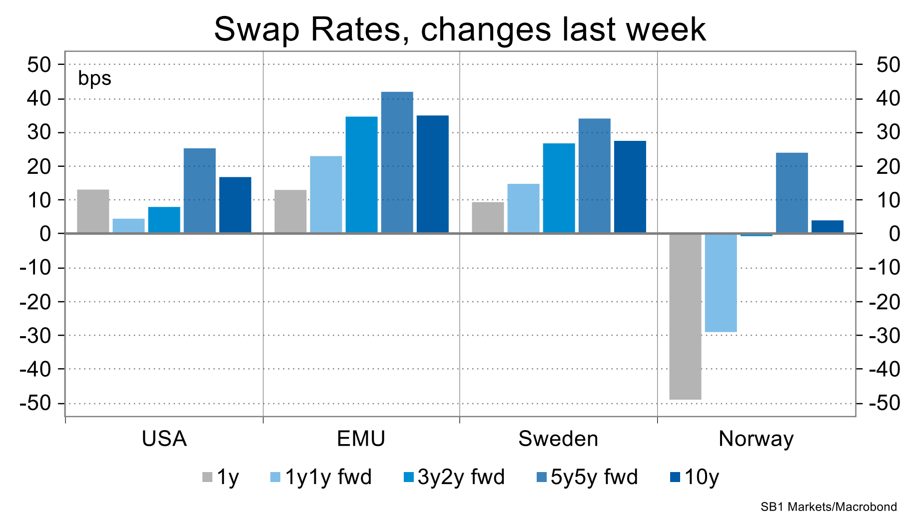


NOK swap rates are rapidly approaching swap rates abroad

NOK short term rates have fallen much more than among our trading partners



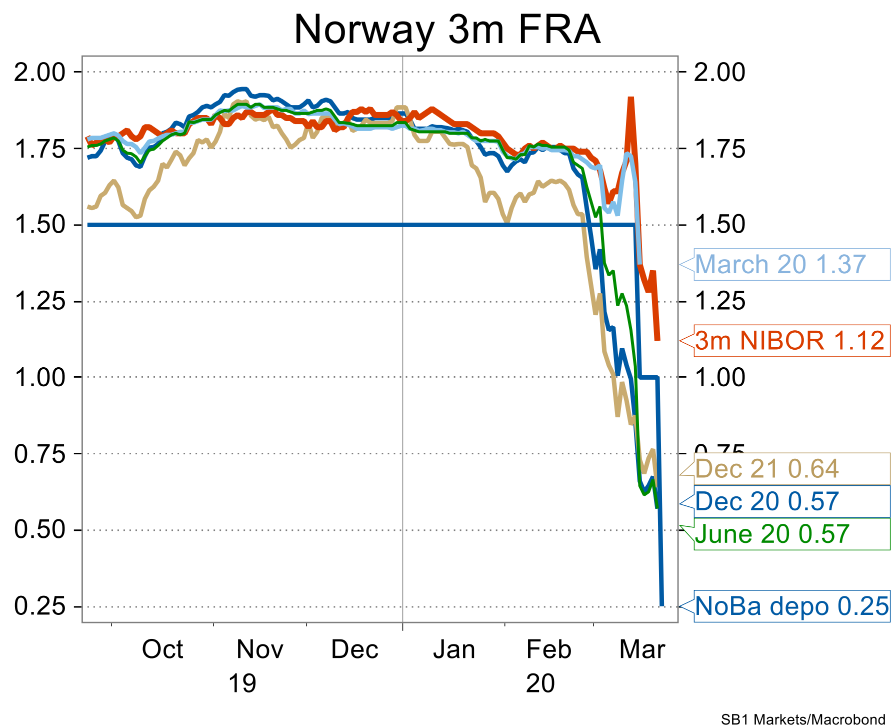


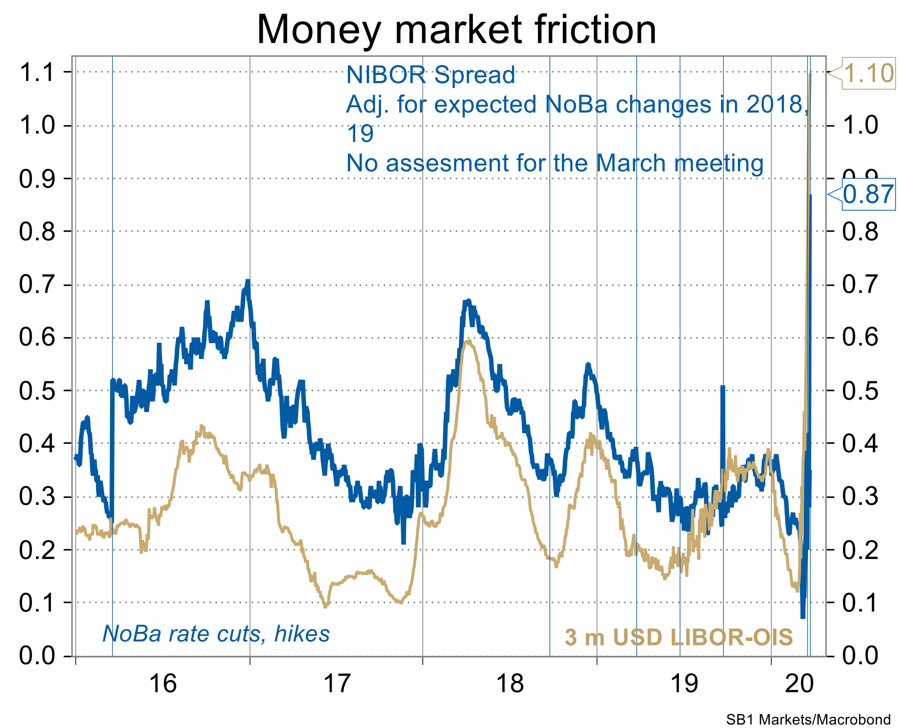


- Swap spreads between NOK rates and our trading partners widened rapidly in most of 2019, all over the curve, and thee are now falling sharply
- Still, they are not that low. Probably more to go

Norges Bank finally delivered the expected cut Friday, now at record low 0.25%

Still, FRA rates fell some bps. FRAs are probably pricing in some probability for a cut to zero

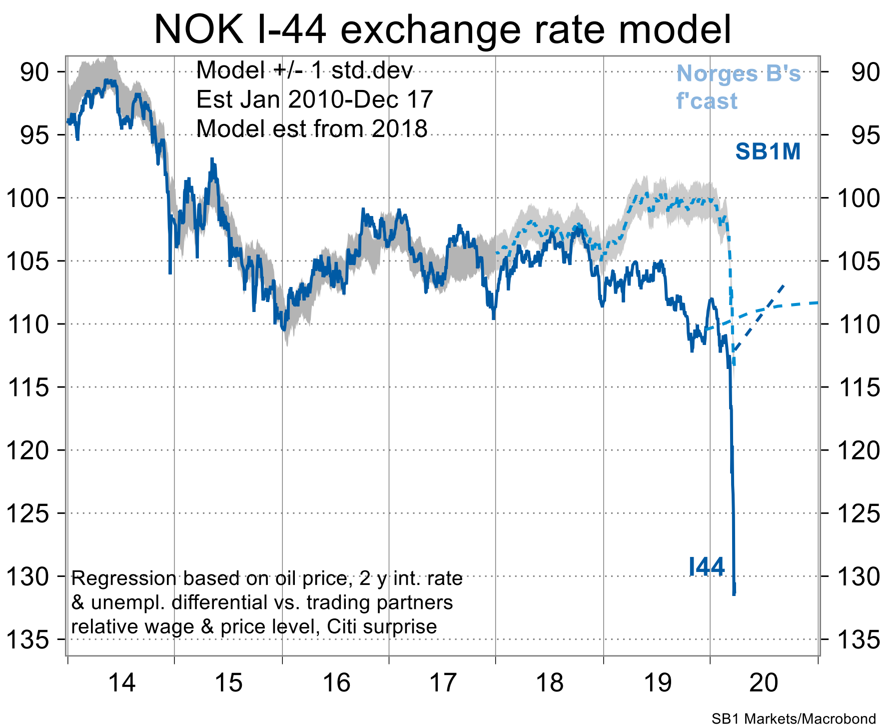


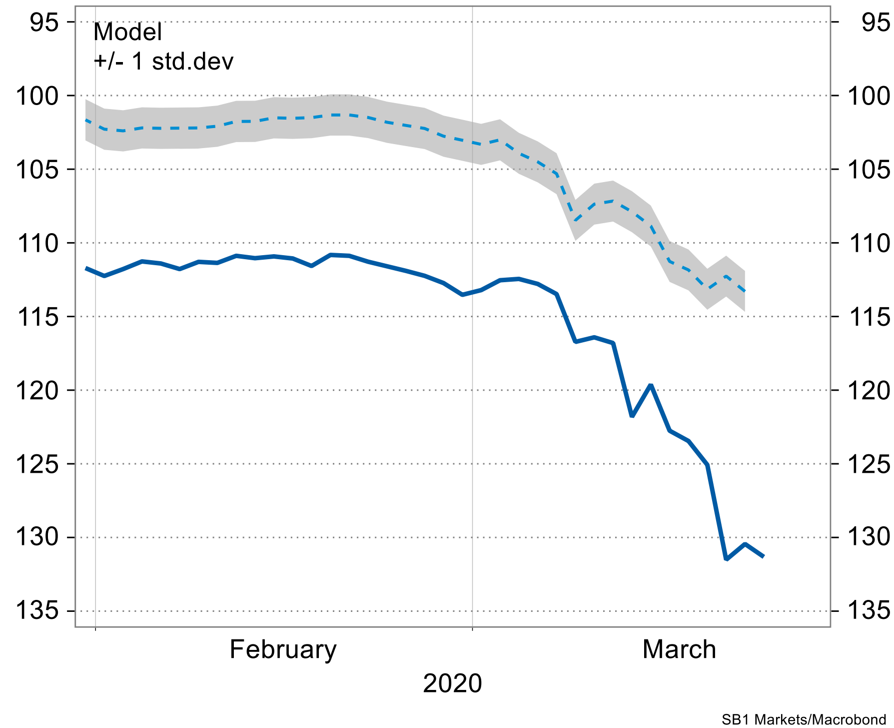


- The 3 NIBOR still above 1% - because money market spreads are high – as in the US. It seems unlikely that the LIBOR based NIBOR can escape the wide LIBOR-OIS spread
- The market is expecting a spread narrowing the coming months, as in the US
- The 3 m NIBOR has just fallen 70 bps, even if Norges Bank has cut the signal rate buy 125 bps, the spread is up 50 bps
- For longer term funding, the spread is up by 150 bps to 200 bps! Then it is not that easy to cut lending rates as the public expect

NOK is in 'free fall', down another 9% last week. Marg. down Monday morning

NOK dropped 9% last week, to a new ATL, the deviation to our 'old' model is 19% - record high





- The NOK collapsed during the second half of last week without any assistance from the usual suspects:
  - » Not the oil price
  - » Not energy equity prices
  - » Not (enough) from the interest rate spread
  - » Not our supercycle friends' currencies, even not the AUD!
  - » In addition: Norway is not harder hit by the corona crisis than others (and we have more financial resources to fight it, economically. The relative cost level is lower than ever – even if we still have a 3 x GDP Oil fund
- So what the h... happened Wednesday and Thursday – and this morning? A sort of market breakdown? We think so. We have no idea where the bottom is but this must be a buying opportunity, big time – it you have some months' horizon

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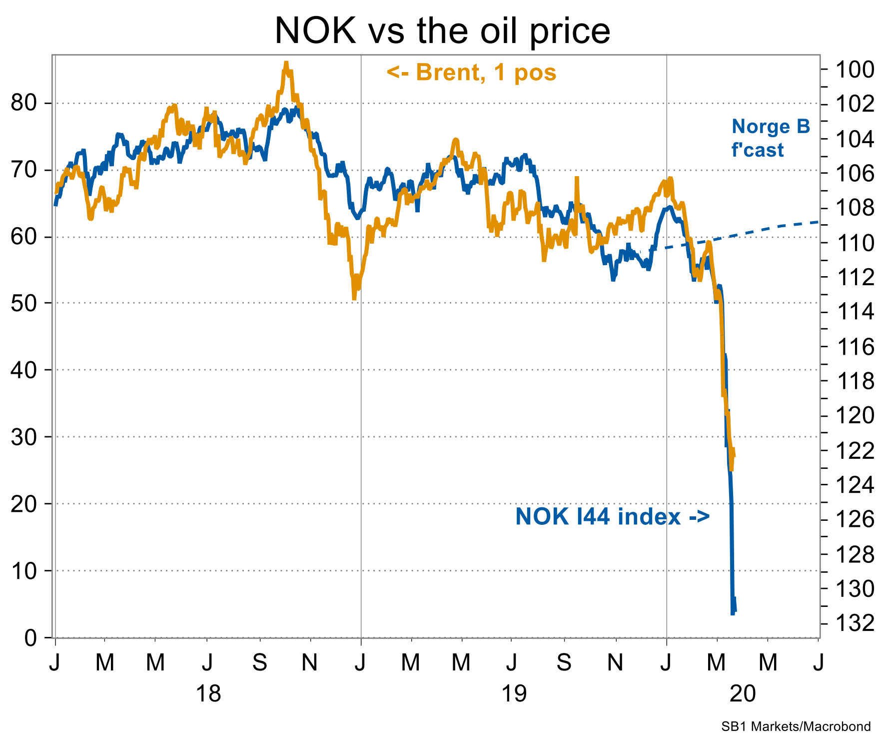
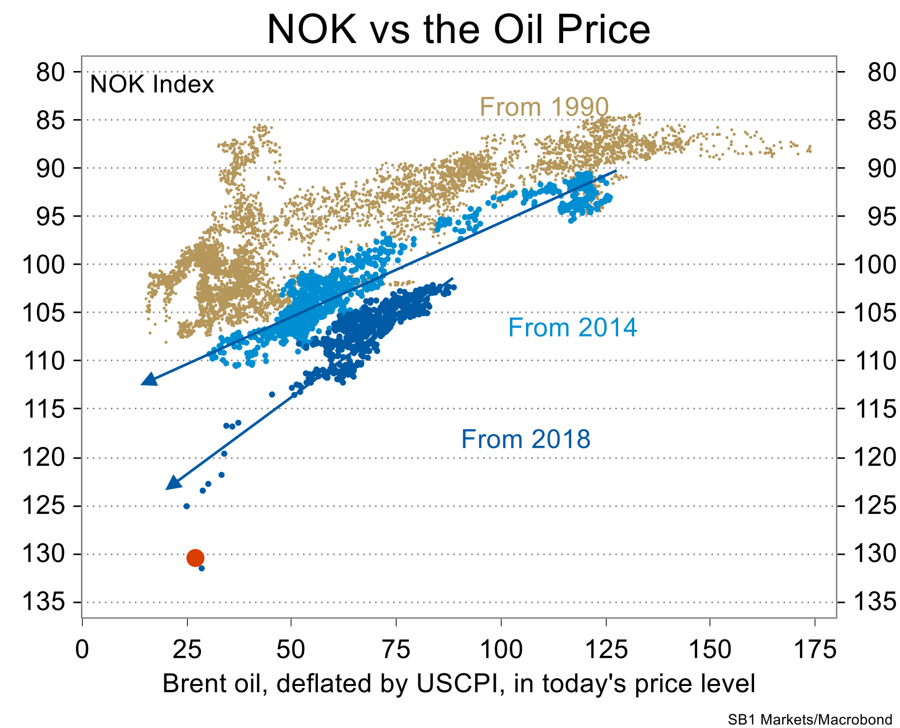
Oil & NOK sharply down – at a lower NOK level than usual

NOK depreciated 'more' than the oil price last week

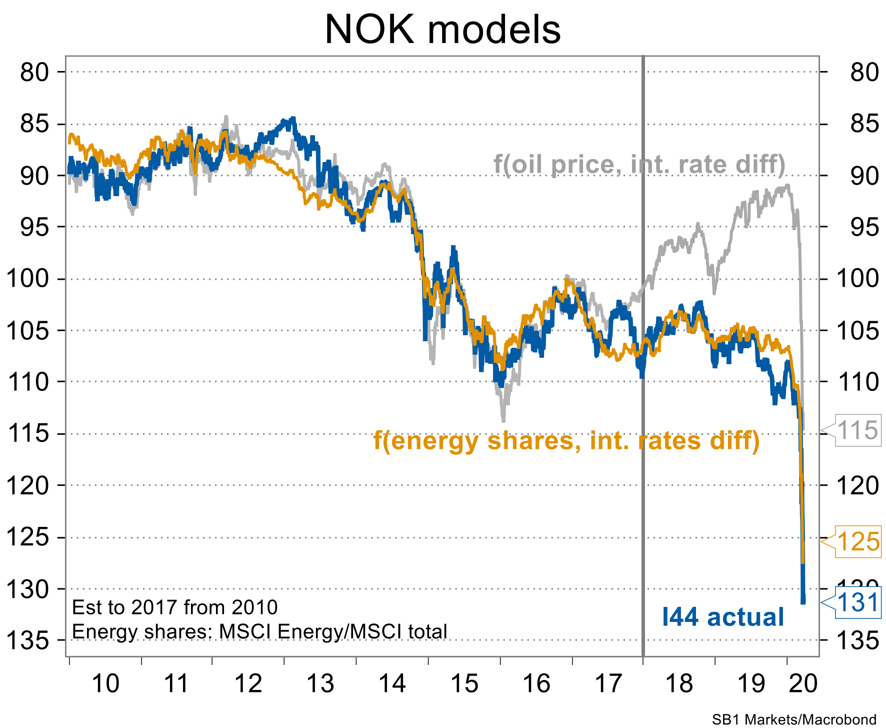


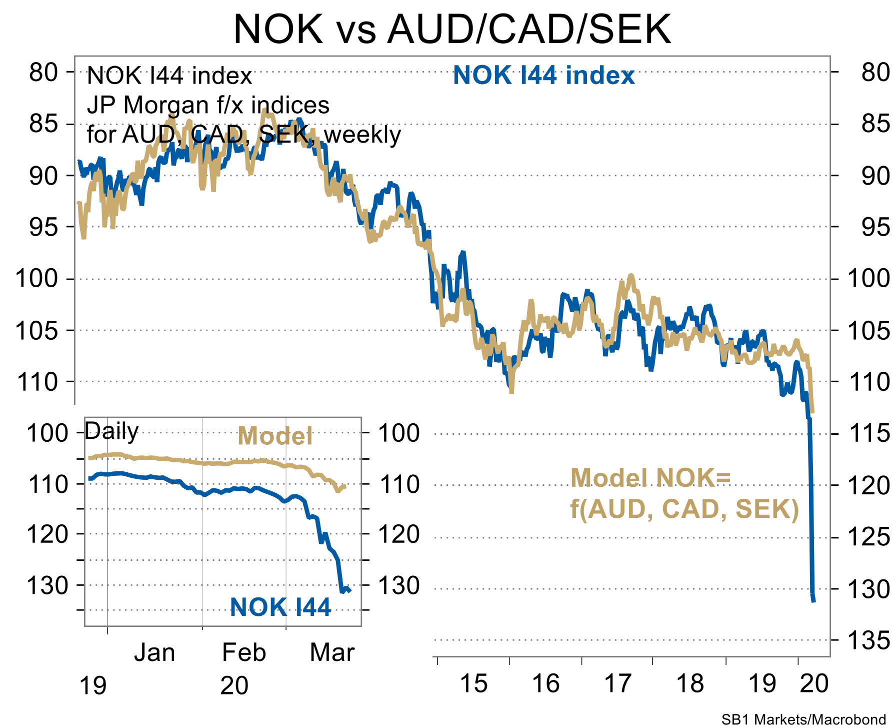


- The NOK has been much weaker vs the oil price than normal the past few years but it is still correlated to the changes in the oil price like it used to be

No model can explain the huge NOK depreciation Wednesday & Thursday

NOK is 8% too weak vs the ‘supercycle’ model but 1.4% above the oil stock price model

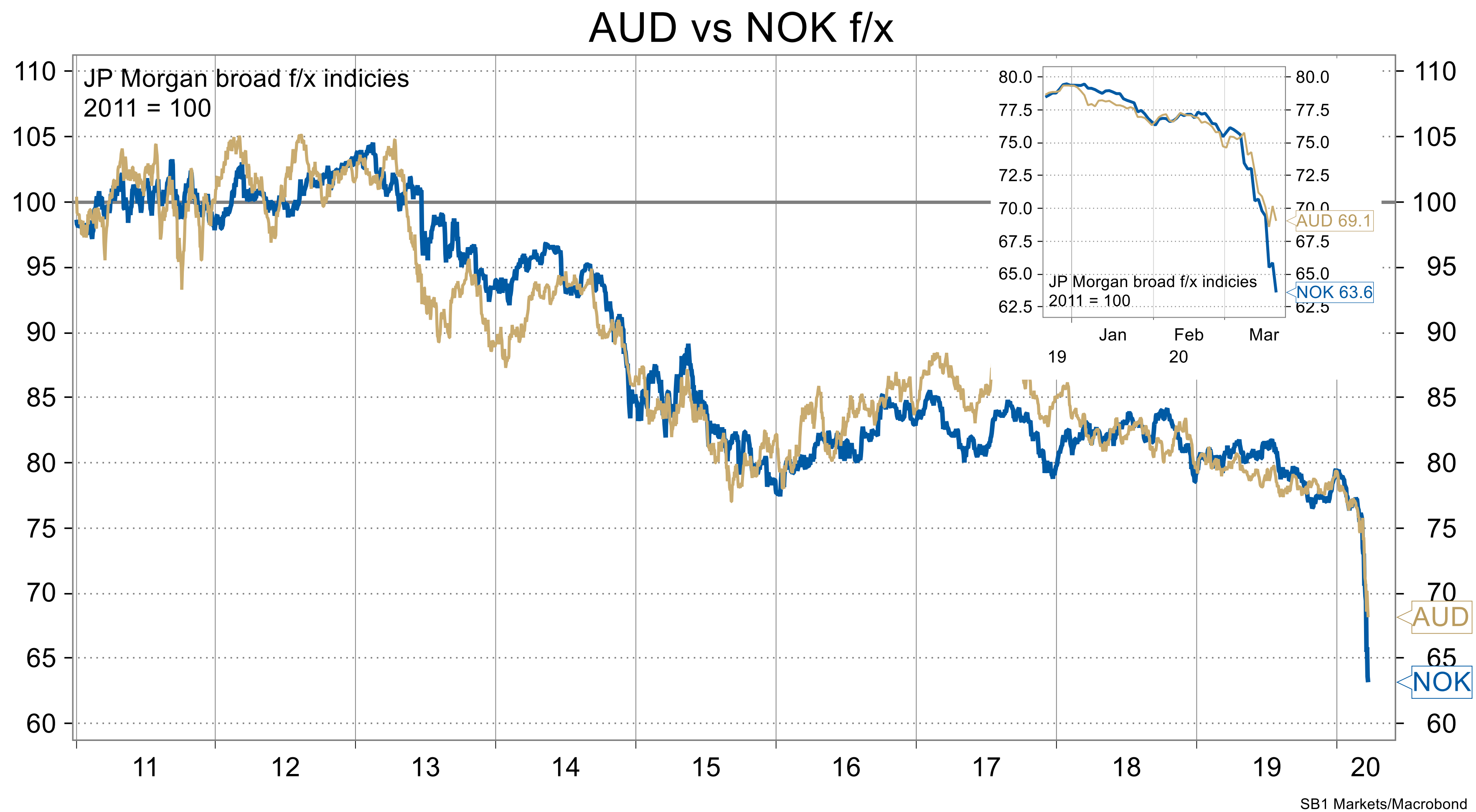




- Our NOK model based on pricing of oil companies has ‘explained’ the NOK much better than our traditional model since 2017, as have our ‘supercycle’ currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to NOK
  - » The oil company share has model slipped along with the NOK since early January, and tumbled the past week, as the oil price drop sent oil company stock prices rapidly down. The NOK is now marginally ‘too strong’ vs the oil price model
  - » Both AUD and CAD are sensitive to oil/energy prices and – together with the SEK – global growth outlook. The past week, the NOK depreciated much more than the SEK and CAD, but equal to AUD

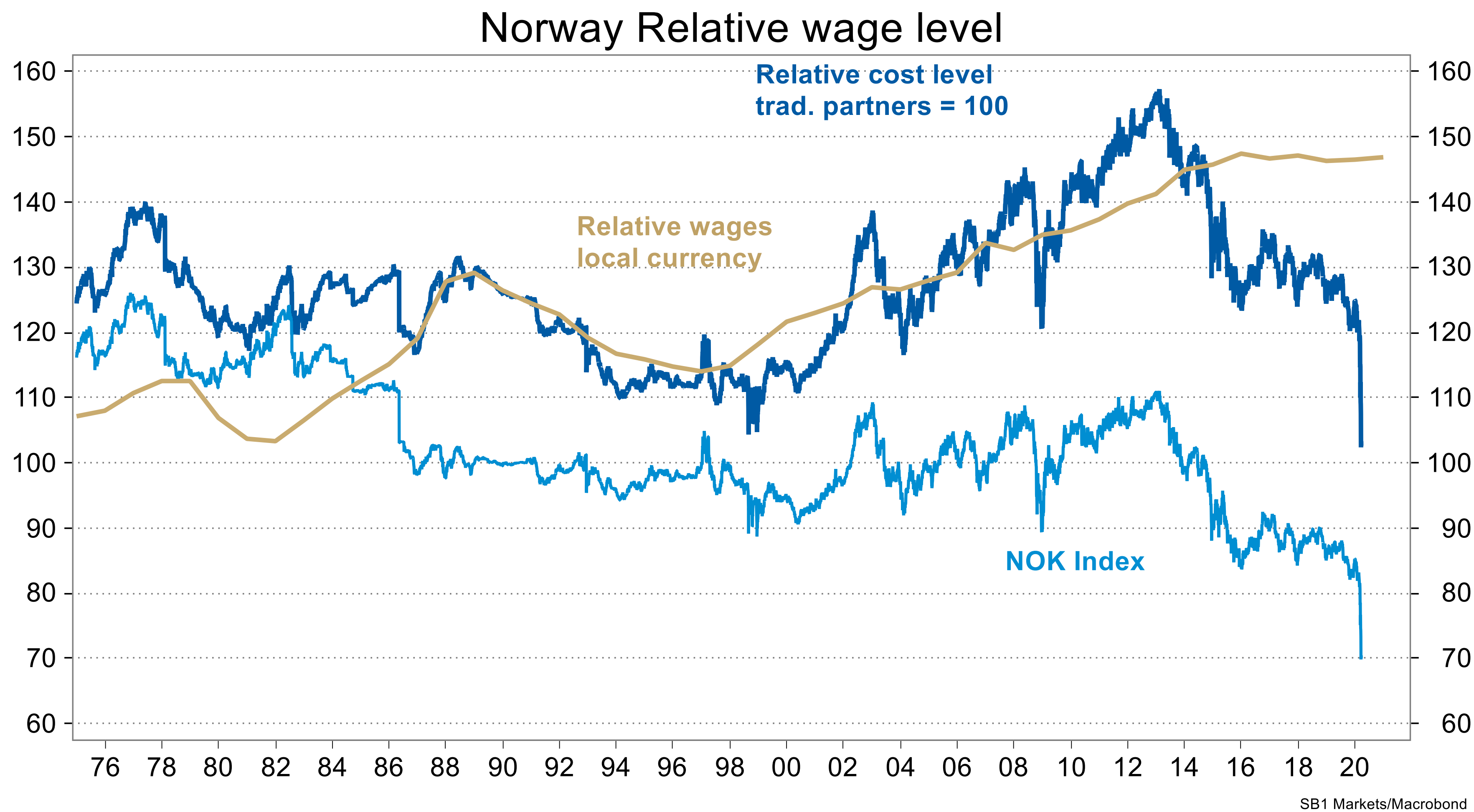
No more friends left: No sympathy from the Aussie dollar anymore

Now, the NOK is really alone, and record low



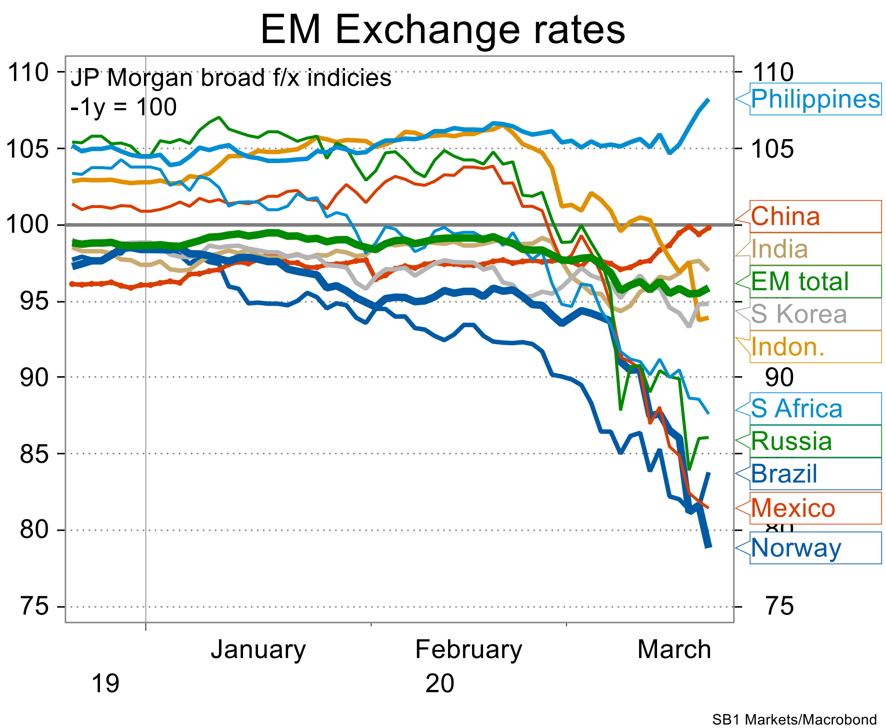
Get the fundamentals right: The Norwegian cost level has never been lower

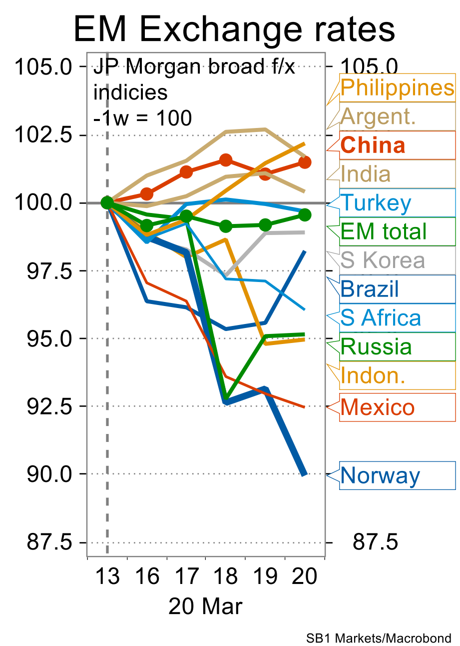
Even if the Oil fund can fund 1/4th of Mainland imports (if the real return remains at 3%, long term)

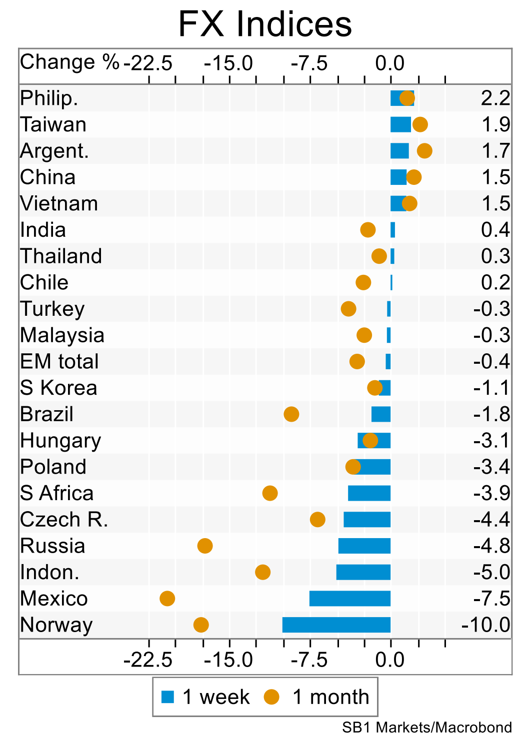


Emerging market f/x rates all over the place, but most are down

CNY is slowly climbing, Mexico, Indonesia and Russia straight down. But none as bad as the NOK!







- Most EM (Emerging Markets) currencies have depreciated substantially on the coronavirus outbreak; Russia, Brazil, Mexico and South Africa the most
- Norway an outlier at the downside last week

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