Macro Research

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Weekly update 23/2020

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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" <u>are linked</u>
A top right [K◁] button will bring you back to the content page

Last week – the main takes

- **Corona restrictions** are being eased almost everywhere, so far without any serious new virus outbreaks – and the arrows are still pointing down (implying an reproduction number 'R' below 1). However, some US states are easing even if cases/deaths are still on the way up (as far at they are measuring cases correctly), and there is still uncertain who much activity may be increased before 'R' becomes too high again. And the pandemic has not peaked in Brazil
- **Trump barked (China!) but did not bite**. He revoked Hong Kong's special economic status and 'terminated' the relation with WHO, but did not escalate the trade war with China, which many had feared. Still, few believe the US-China relationship will get better anytime soon. So far, markets have not taken notice of the social unrest in the US following the police murder of a black man
- **The global PMI** probably rose some 7 p to 34 in May. The manufacturing PMI rose 2.8 to 42.4. The US ISM rose to the same level. At these low levels, the PMI/ISMs are formally signalling a sharp reduction in activity in May, from April, as the indices are still far below 50. However, the PMIs/ISMs do usually not recognise the first uptick in production, following downturns. Given many other **short term indicators**, we remain confident activity has moved upwards in most Western countries in May vs. April, <u>at least during May</u>
- **US consumption** fell 13% in April, slightly more than expected, while incomes were boosted by the corona support program – an the savings rate shot up by 20 pp to 33%, the highest ever. Sure, that's due to two special circumstances but most households are probably in shape so they can increase spending as soon as it is 'allowed'. Corporate profits fell sharply in Q1. Housing data were mixed but new home sales kept surprisingly well up in April. Durable orders fell – and business investments will decline in Q2 too, but probably in a measured way. Exports fell sharply, and will contribute to the 'collapse' in GDP in Q2
- **The EU Commission** added €250 bn (2% of GDP) to the €500 pandemic recovery fund proposed by Germany and France the previous week, all funded by common EU debt and repaid mostly by green and other nice taxes. The first 'real' fiscal transfer in the Union, made possible by UK's Brexit? Well, it is not decided yet, but the 'frugal' Northern countries will most likely yield
- **In Norway**, the government presented another corona crisis support package. The non oil deficit will rise by another NOK 5 bn but that's trivial vs the 480 bn (15% of GDP) decided already. Several new measures were introduced but some also removed or tightened up. Were are not sure whether the new measures are as easily reversed as the original crisis measures. **NAV total unemployment** declined for the 6rd week in row, by 17' equalling 0.6% of the labour force, and it is now down by 90' from the peak early April to 355' – or by 3 pp to 12.5%. Open unemployment has fallen to 6.5% from 10.5% at the peak. **Wage income** growth has slowed by 8 pp. Even so, **retail sales** surprised big time at the upside in April, +4.8%, but some retail sectors are still struggling – and services consumption is still far below par, partly due to the collapse in tourist traffic, both domestic and foreign. **Credit growth** slowed further in April. **Mainland exports** may have stabilised but is down 15-20%, an unusual sharply decline, subtracting some 1¼ pp from GDP growth. **Population growth** remains low

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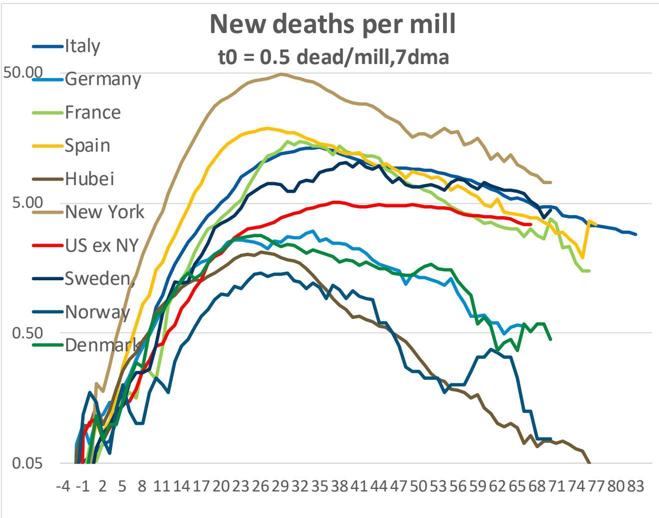
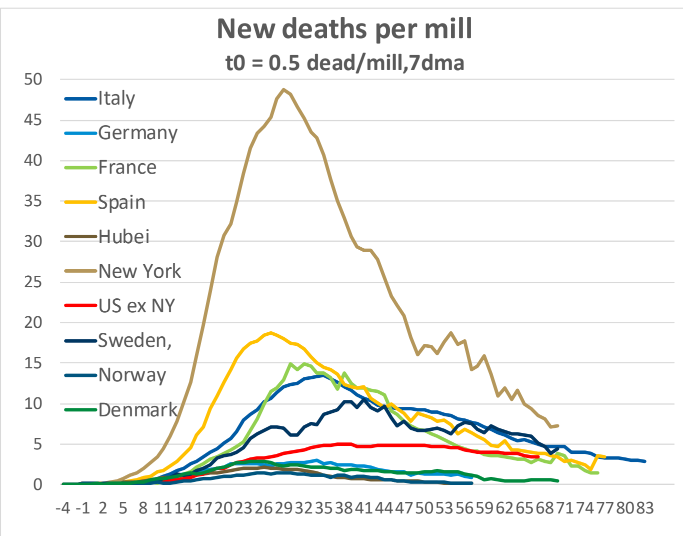
So far, so good – cases/deaths on the way down almost everywhere in DM

No signs of a 2nd wave anywhere but figures are not ensuring in some US states



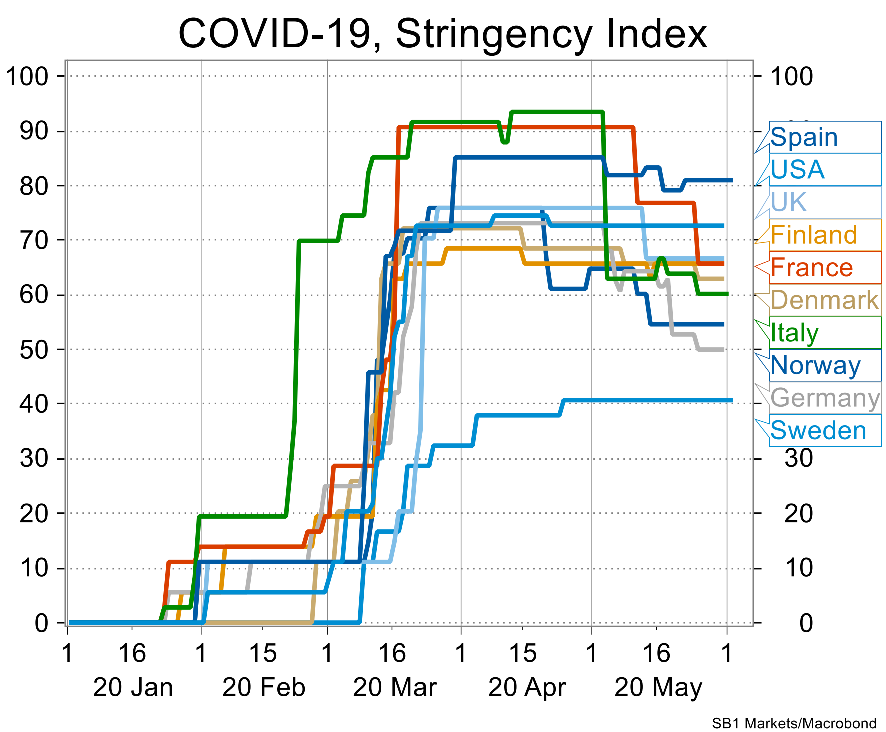


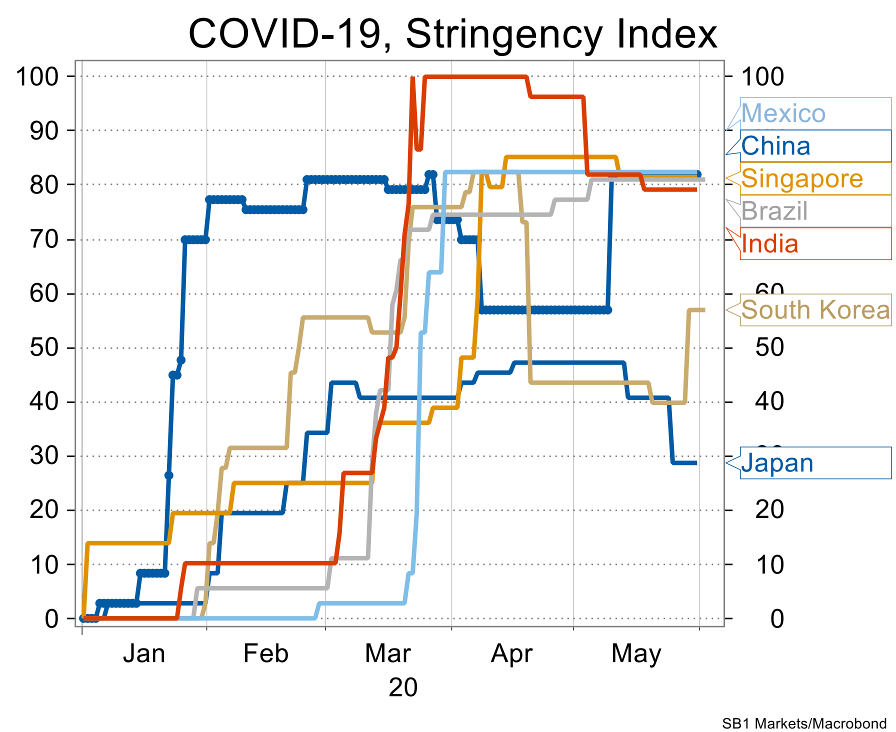
Sources: Johns Hopkins, SB1 Markets. Not all data are fully updated

- Lockdowns have brought the corona virus reproduction number ‘R’ down to below 1 everywhere (at least where lockdowns have been reasonable strict). Even in Sweden and in US ex NY (at least in average) the R<1 - and the number of daily new cases, hospitalisations, and deaths are declining
- Restrictions are eased almost everywhere. So far, we have seen no instances of serious second waves – at least not at a country level. However, some states in the US are now lifting restrictions even if the number of infected/deaths are increasing
  - » Demark eased restrictions a month ago, and Norway shortly thereafter. Still, the number of infections/deaths are on the way down
- The effectiveness of the testing, tracing and tracking system will partly decide how far restriction can be eased, in addition to adherence to social distancing & hygiene norms etc
- There are daily reports on phase 2 testing of vaccines and on medication but any timing is just as uncertain as before

Covid-19 restrictions are eased most places – but not everywhere

The comparison between countries may be uncertain but changes are probably more exact





Source: University of Oxford

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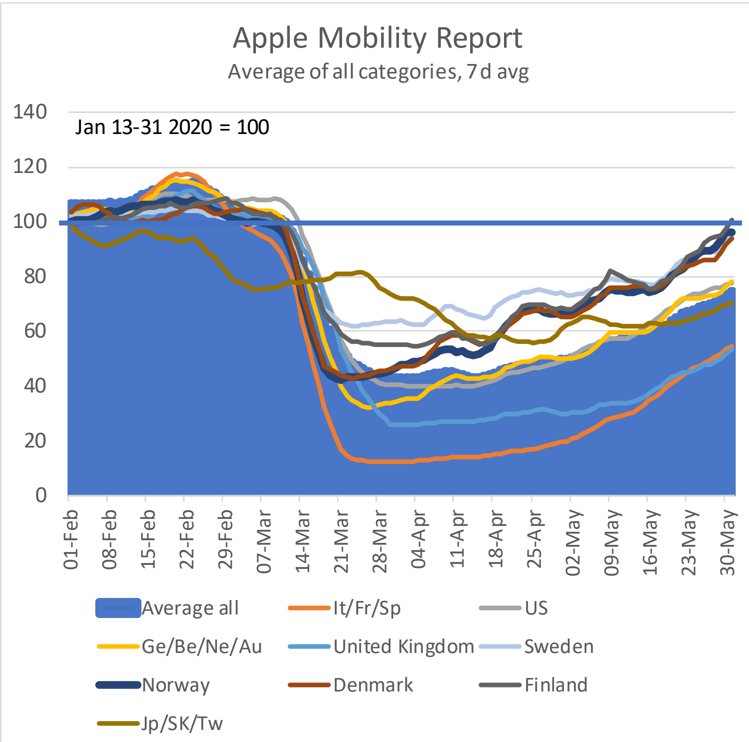
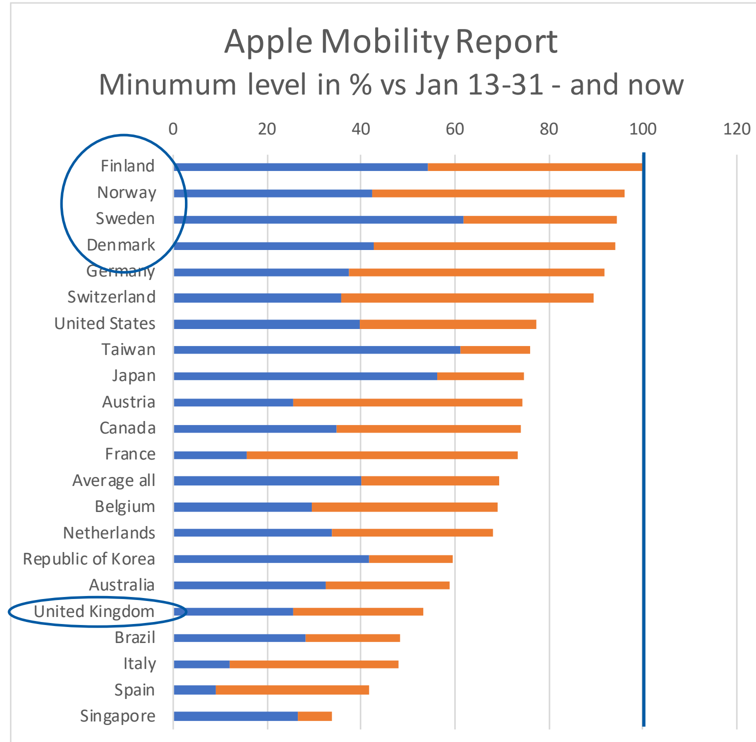
People are moving more around, everywhere; ‘we’ are almost back to normal?

Still, mobility is below normal levels, most places.



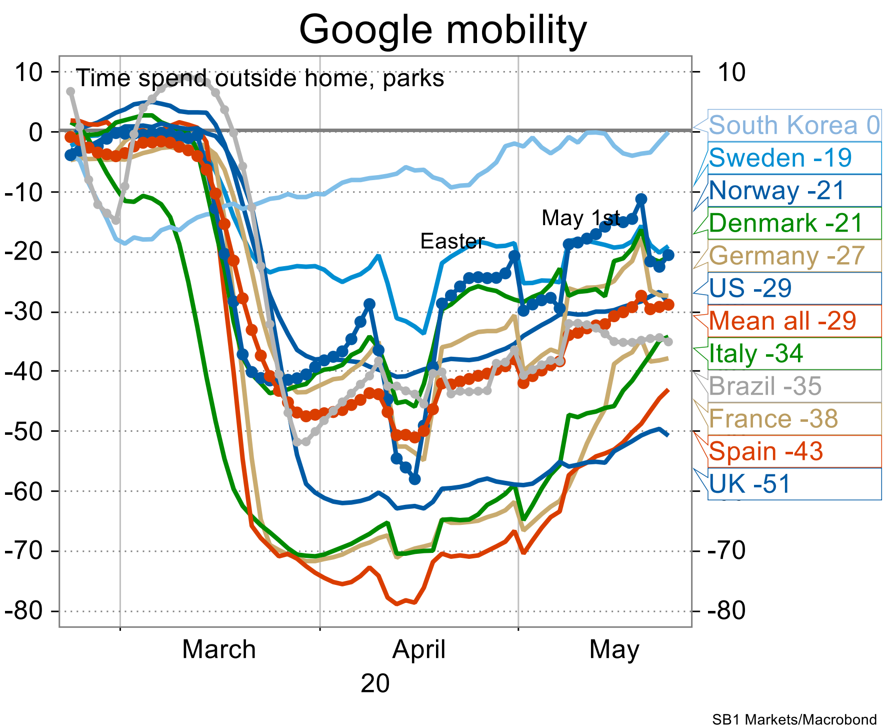


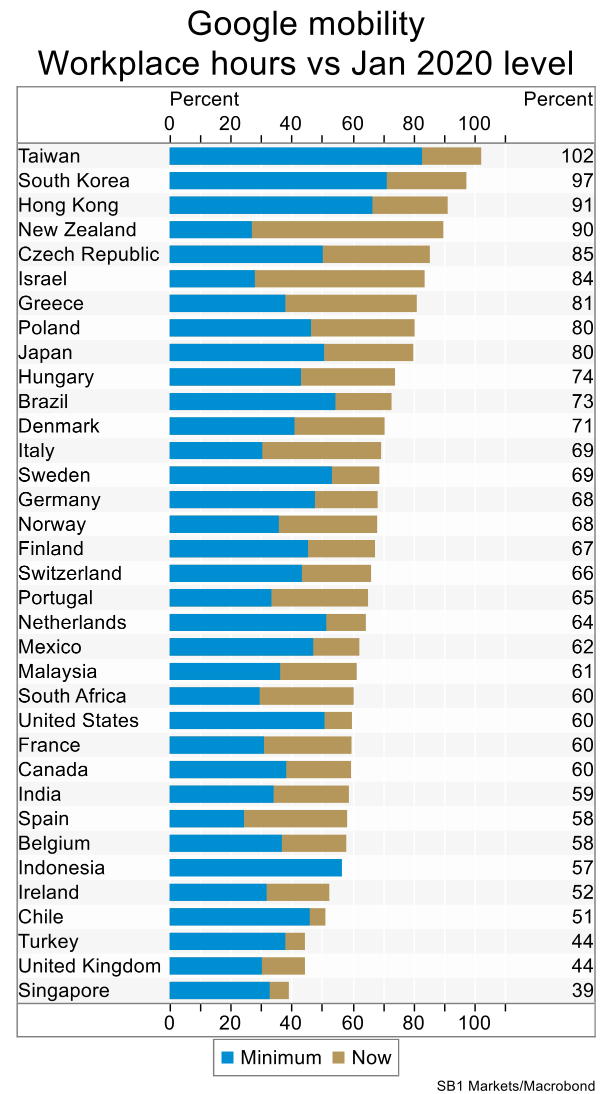
- Map searched in Apple Maps, average of road, walk and public transport searches
- We do not know the seasonality of these data, like if we at the north at the northern hemisphere move more around at this time of the year. It may influence the validity of these data. However, looking at UK vs other Northern counties (Nordic & Germany) does not support this hypnotises as mobility is still low in the UK

Source: Apple Mobility Report. 7 days averages. Data are not seasonally adjusted, we assume mobility normally increases during the spring in the Northern Hemisphere.

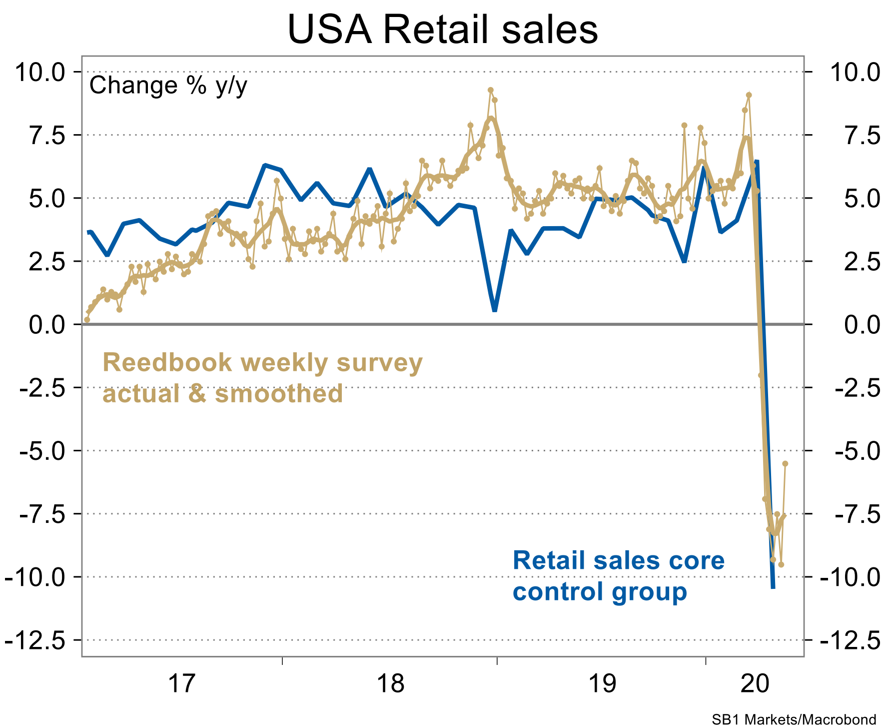
We are spending more time at work

But are still spending much more at home than usual, some of us still working somewhat, hopefully





US retail sales has bottomed



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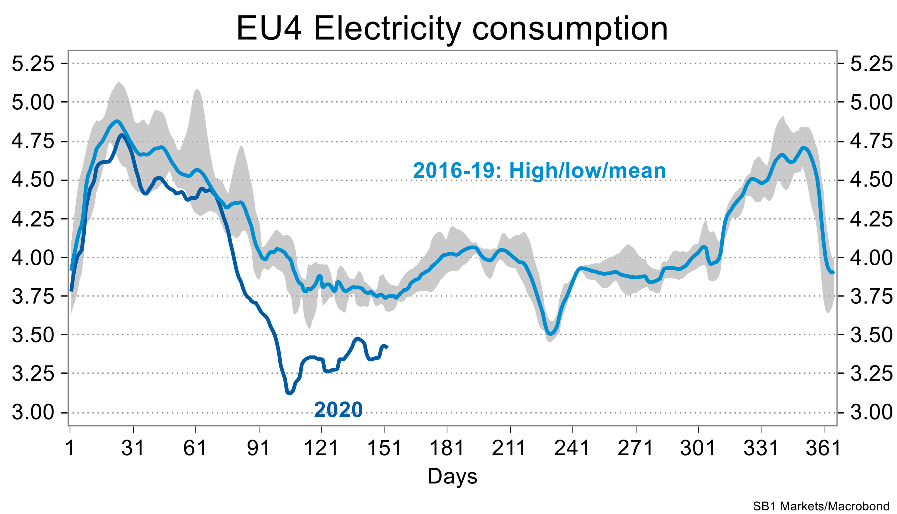
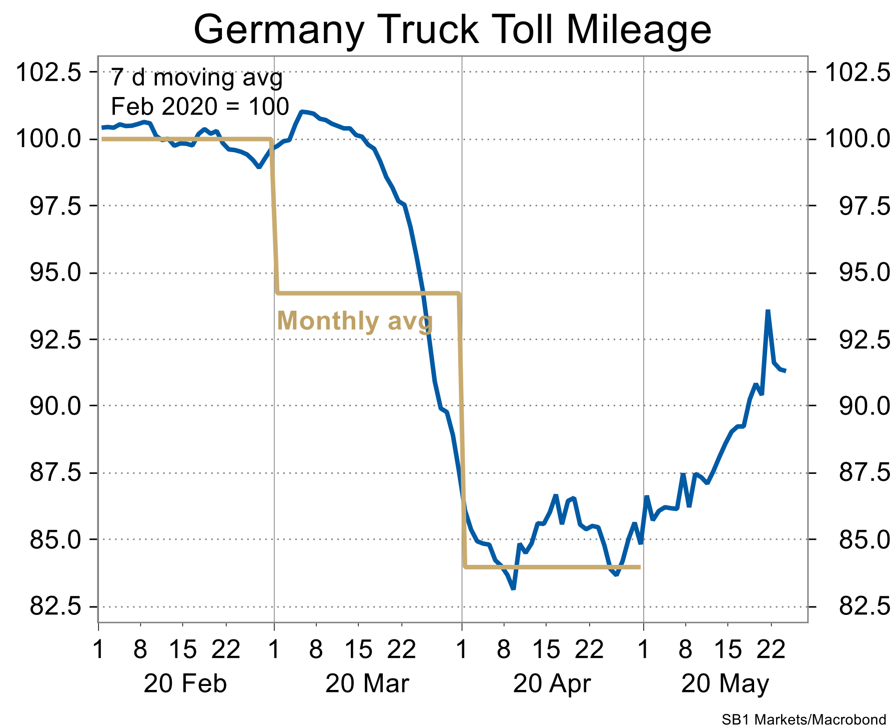
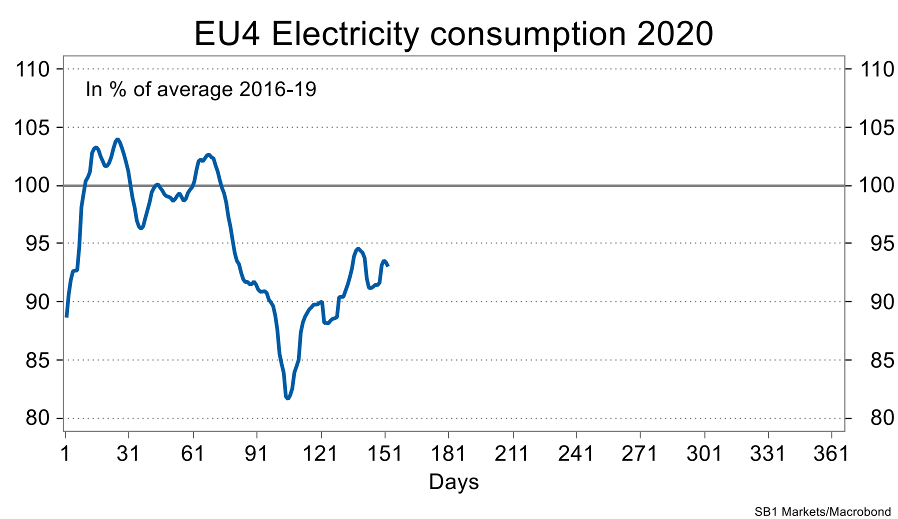
Activity is picking up steam in Europe but still a way to go

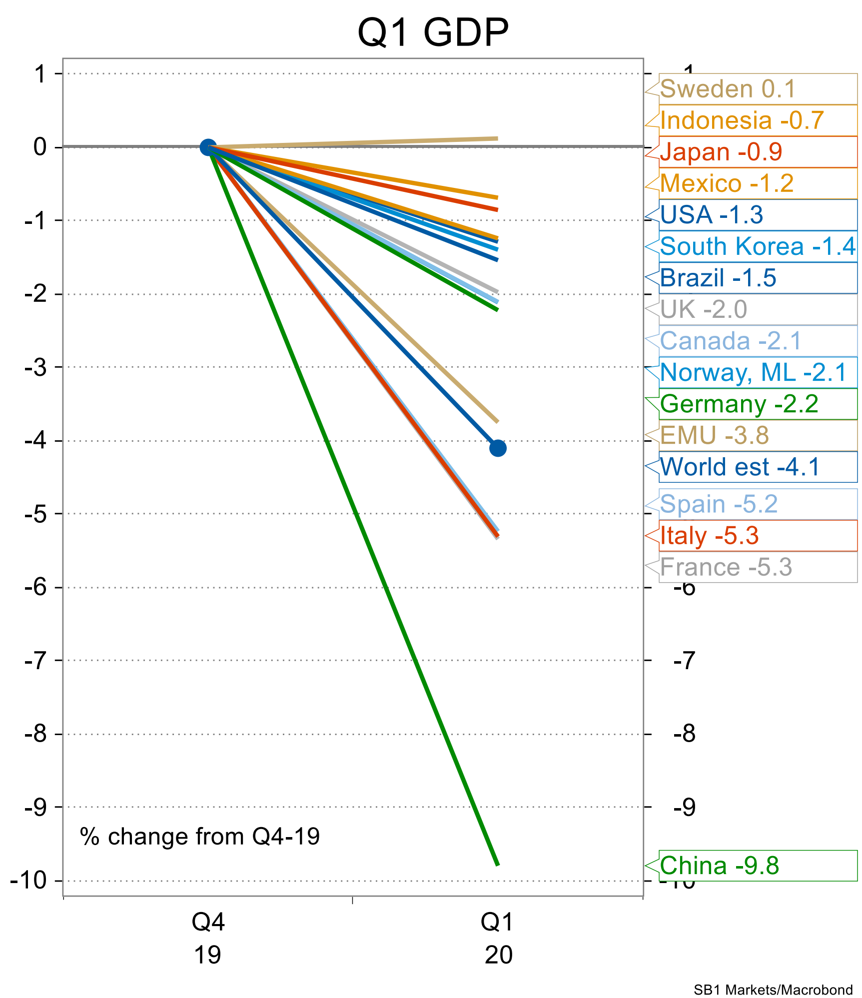






We are getting some numbers – Global GDP down 4% in Q1

Substantial differences, mostly depending on when the corona virus hit

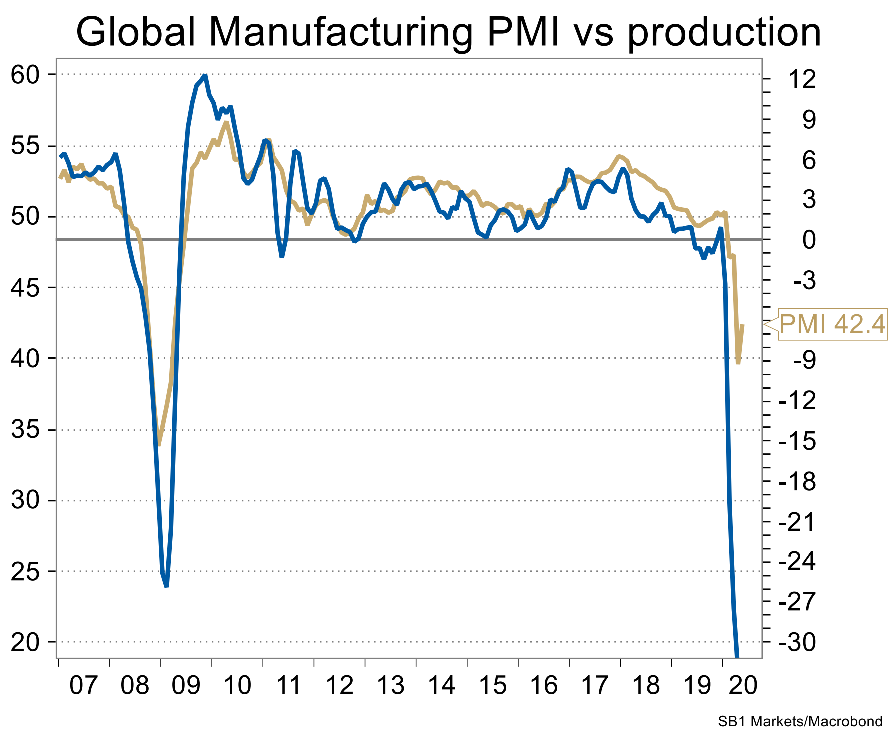


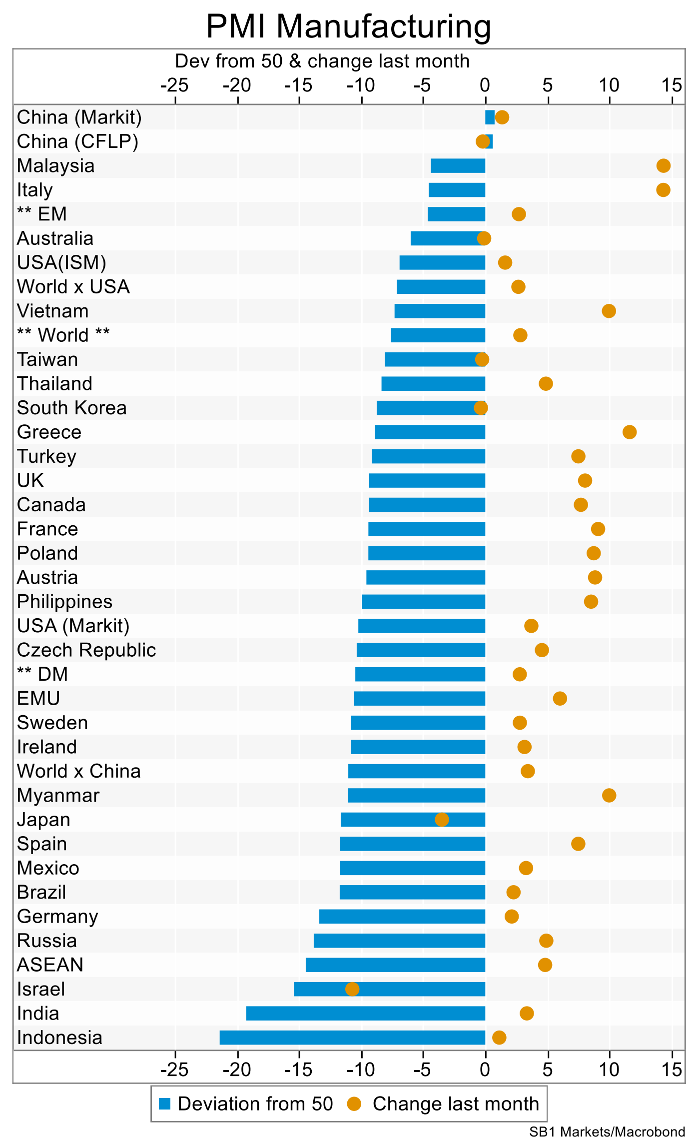
… and when the consequences were taken

- In the US, GDP fell 1.3% in Q1 (*not annualised, like all other figures at this page*)
- In the EMU, GDP fell 3.8%, and probably by as much as 20% through March – and more than that in France, Italy, and Spain were GDP fell by 4.7 – 5.8%
- GDP in Japan fell just 0.9%, though following the 1.8% Q4 VAT increase induced setback
- UK reported a 2% decline
- Sweden revised its Q1 to 0.1% from -0.3% (but the y/y growth rate was weaker than first reported
- Norwegian Mainland GDP fell 2.1% in Q1
- South Korea and Mexico have reported less than 2% decline in their Q1 GDPs
- The Chinese GDP fell by almost 10% in Q1, we expect a 4% recovery in Q2, at least
- We still estimate a 4% decline in global GDP in Q1, of which almost 2 pp due to China alone
- China should report a positive growth rate in Q2. However, not many other will, and global GDP will contract even more in Q2, we now assume a 6% contraction

Manufacturing PMI up almost everywhere in May, all but China still <50

India and Indonesia at the bottom of the league

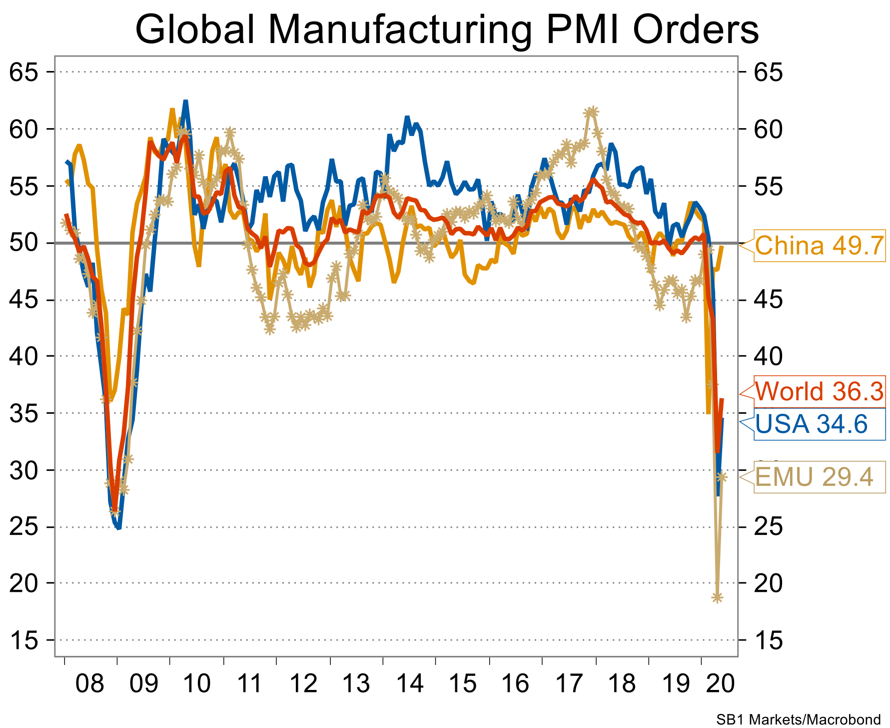


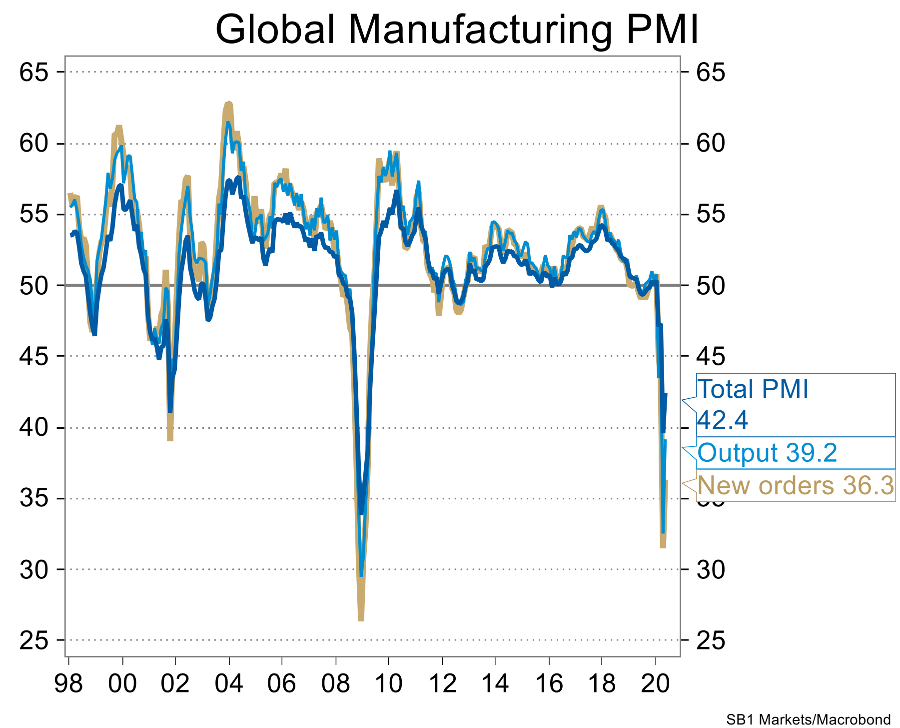


- The global manufacturing PMI rose 2.8 p to 42.4 in May – a level that usually signals a steep contraction in economic activity
  - » A few countries have not yet reported their May data (and they are not included at the chart to the right). Just Japan and Israel has so far reported a further (visible) decline in May
  - » Italy surprised on the upside, with almost a 15 p lift, to 45!
- Just the two Chinese PMIs are above the 50 line
- Emerging markets recovered more than rich countries (DM), and is at a far higher level, though with an important contribution from China
- No important revisions vs. the preliminary data almost two weeks ago

Manufacturing details are weak, orders still tumbling in May

Global manufacturing orders PMI up less than 2 p to 36.3

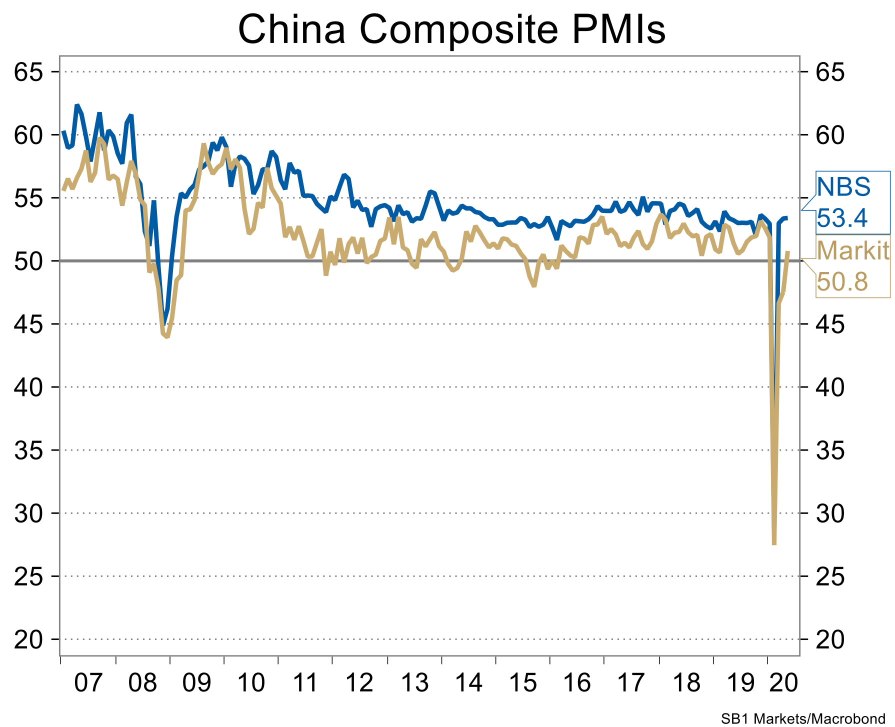


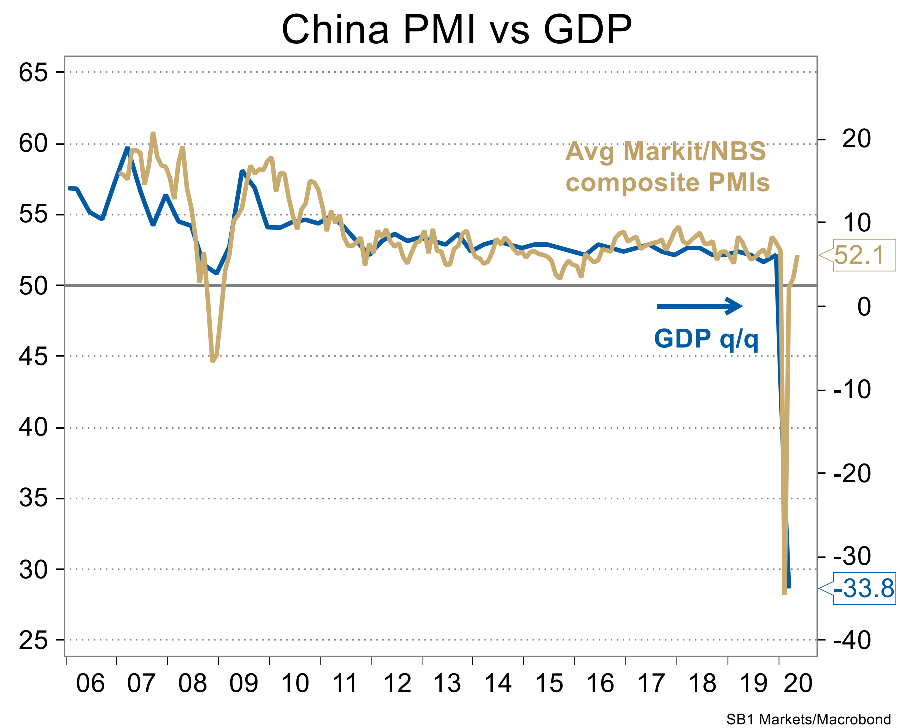


- The manufacturing output PMI is weaker than the headline index, as longer delivery times (due to corona distortions) are lifting the total manufacturing PMI (but less than in the US ISM index

Chinese May PMIs confirm a modest recovery but still a recovery

Both PMIs (probably up but growth to slow to close the output gap. Exports the challenge again

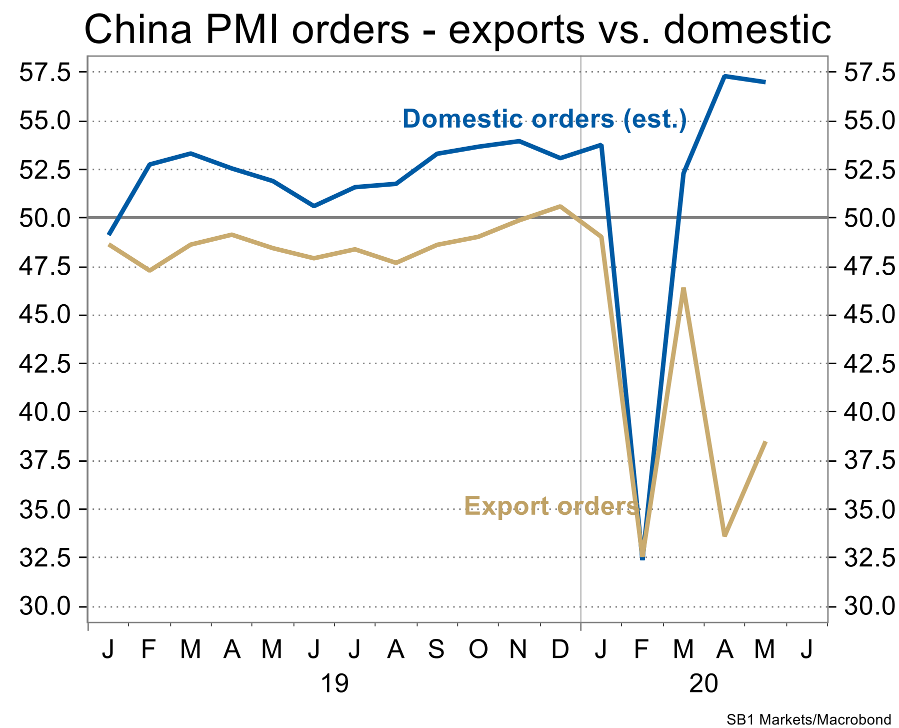




- The NBS' 'official' composite PMI rose marginally in May, manufacturing slowed a tad (but remained above 50), services strengthened more – and the index is back at a normal level, the composite at 53.4
- Markit's manufacturing rose 0.8 p and more than expected to 50.7 (and we assume that the composite index rose to above 50 too)
- Export orders were the weak link in both manufacturing PMIs. Domestic orders is growing at a brisk pace
- The two data sets signal a 5 – 6 growth pace, in line with trend growth before corona. That's too low to close to negative output gap created by the 10% drop in GDP in Q1

Export orders the main drag, again. Domestic orders sharply up in April/May

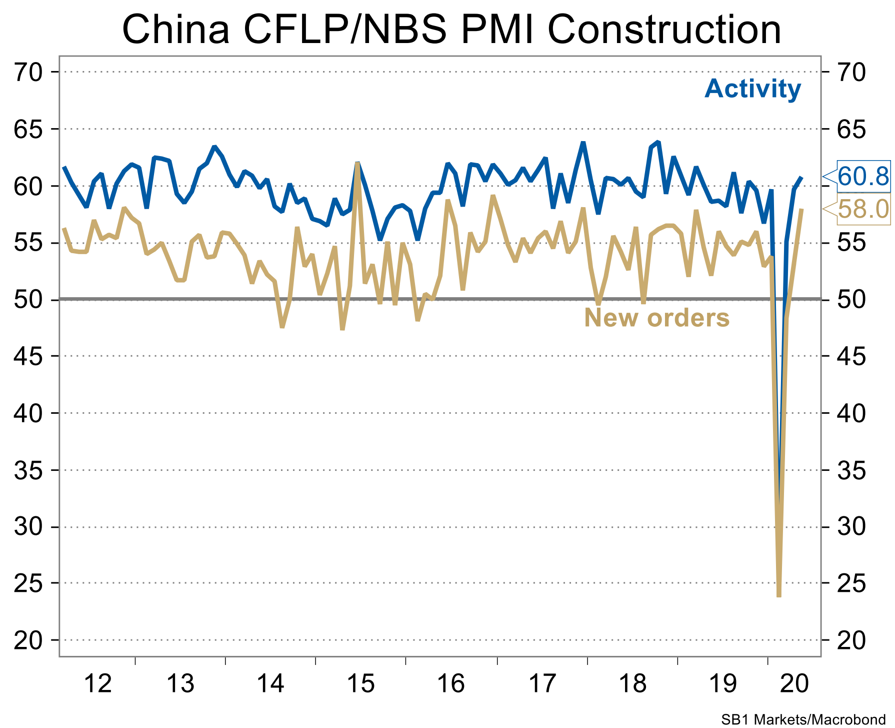
The global spread of Covid-19 in the rest of the world is now slowing the Chinese recovery

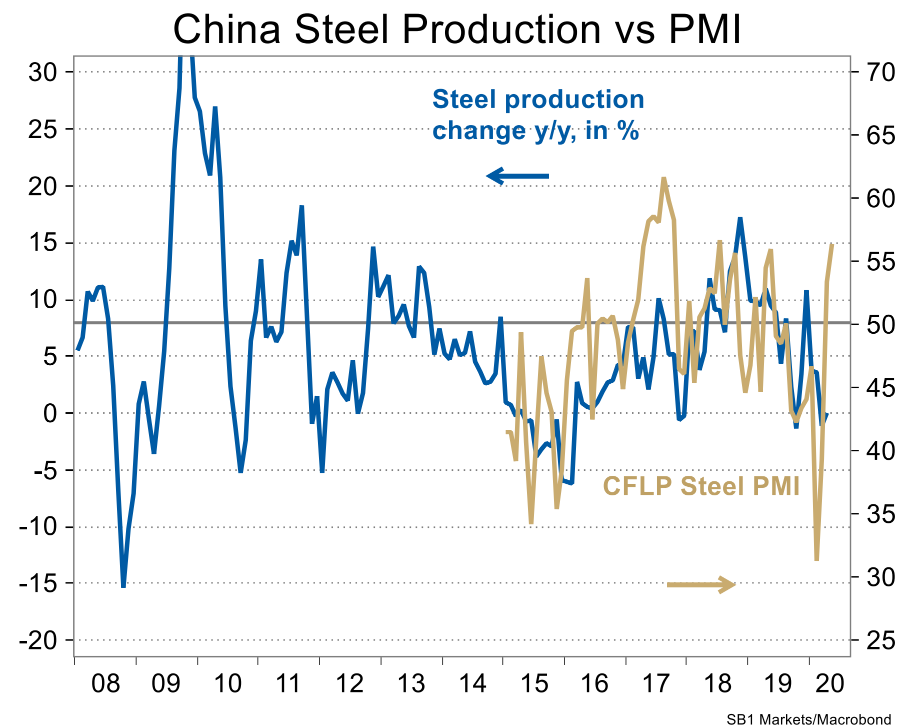


- Export orders are reported sharply down in May, but a tad less than in April
- Total order indices were close to 50, signaling decent growth in domestic orders
  - » At the chart to the right we have made a rough estimate of an domestic order index (which ins not published).

Construction & steel back on track

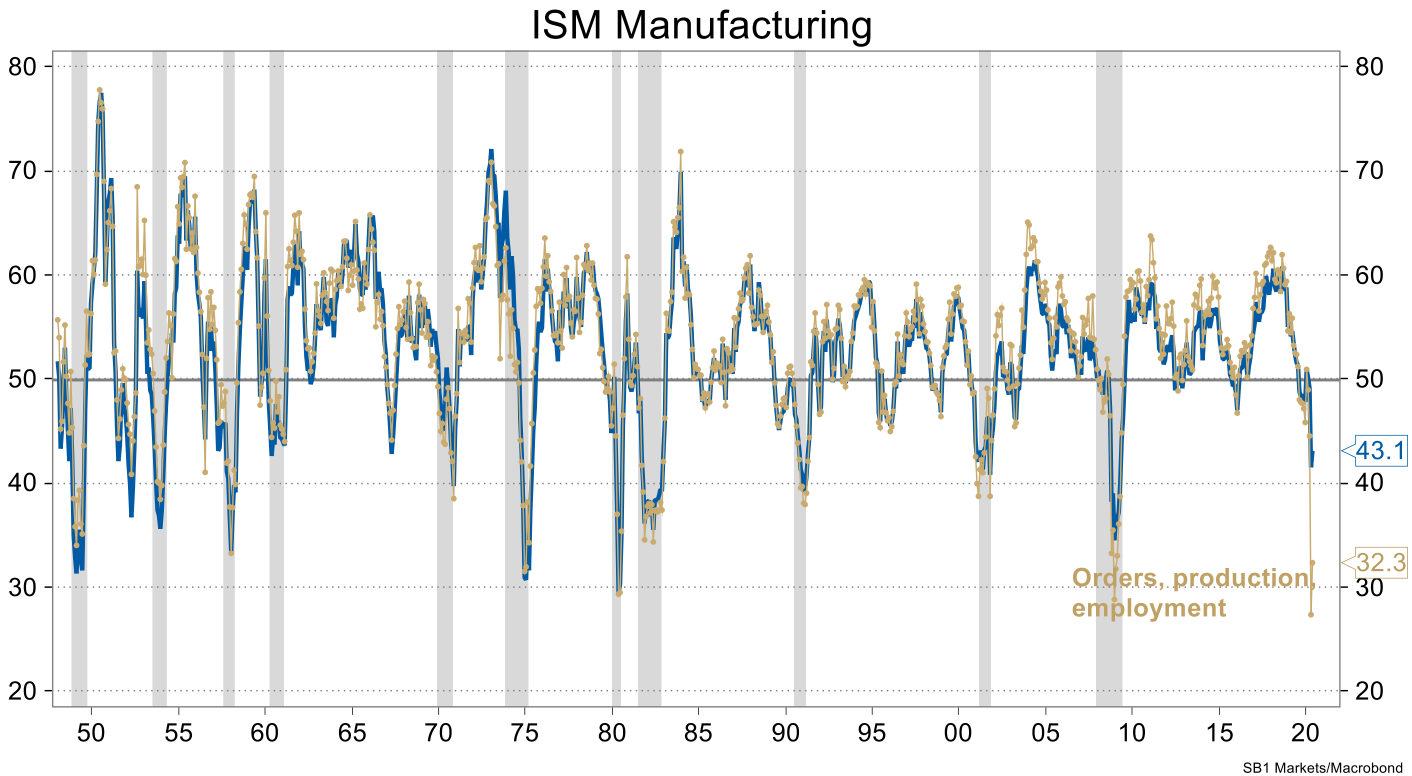
The construction sector PMU rose further in May, to above 50. Steel is recovering too

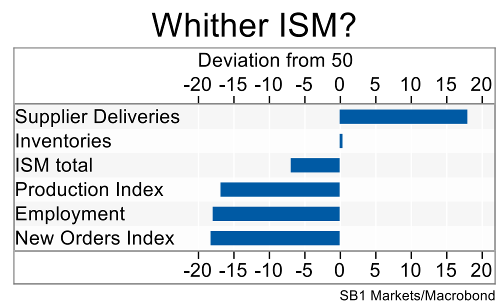




Manufacturing ISM still depressed in May, the ‘real’ index at 32!

The total index up 1.6 p to 43.1, as expected. Activity data still 10 p lower

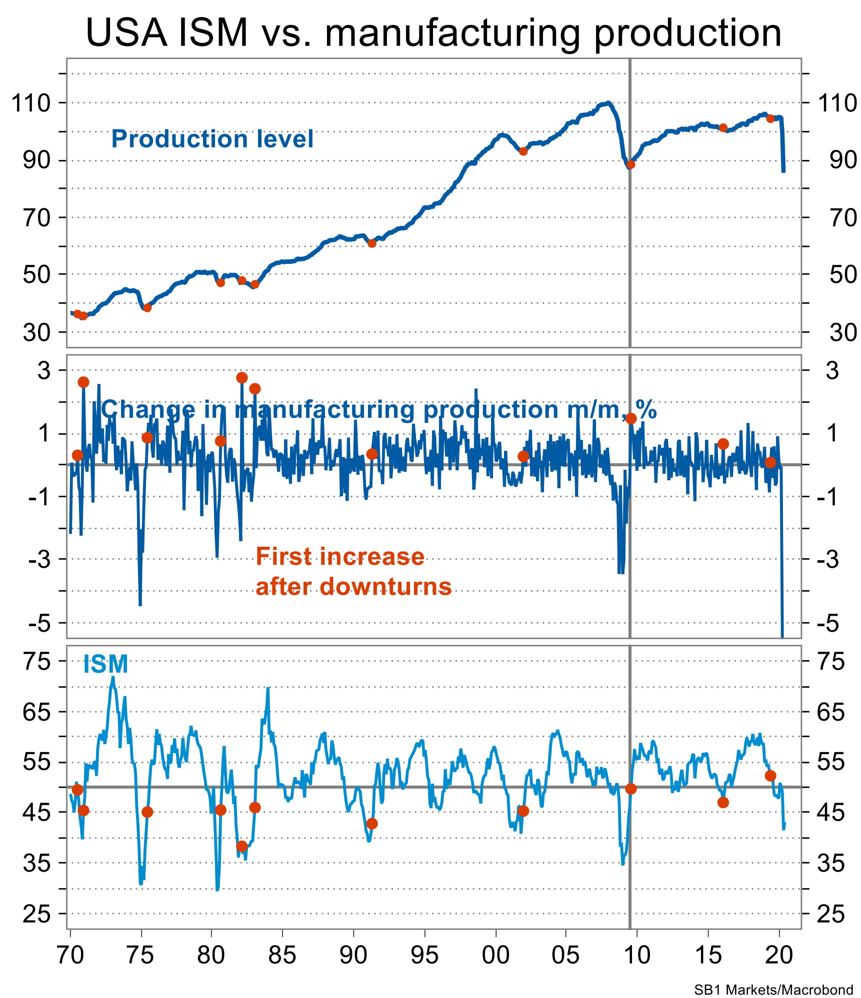




- Due to supply chain interruptions, both due to lack of deliveries from China and internal US challenges during the fight against Covid-19, companies are still reporting lengthening delivery times.
  - Usually that’s a sign of a booming economy, but not so now. If we take out delivery times from the calculation of the headline ISM, and if take out inventories as well – and ‘just’ utilise the new orders, production and employment indices, the avg is at 32, up 5 p from the the lowest level ever
- 6 manufacturing sectors reported growth in May, up from 2 in April. 11 are still on the way down (from 15).
  - Those om the way up: Nonmetallic mineral products, furniture, apparel; food & beverage, paper, and wood
- The bright spot: Manufactures recon their customers have run down their inventories

Normally, the PMIs/ISMs do not spot the first month of a recovery

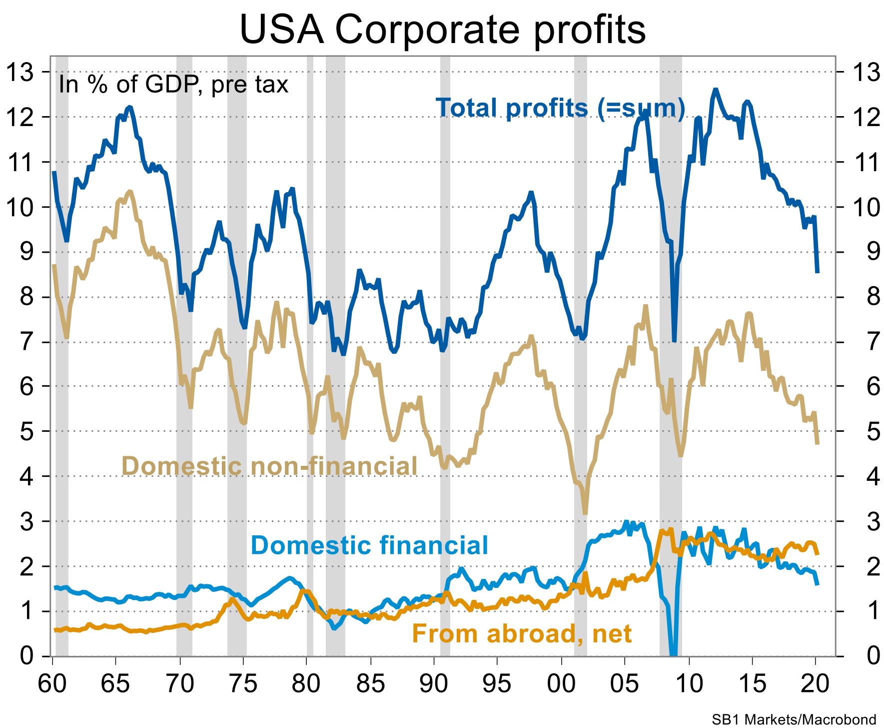
PMIs should climb to above 50 if production grows m/m but they do not



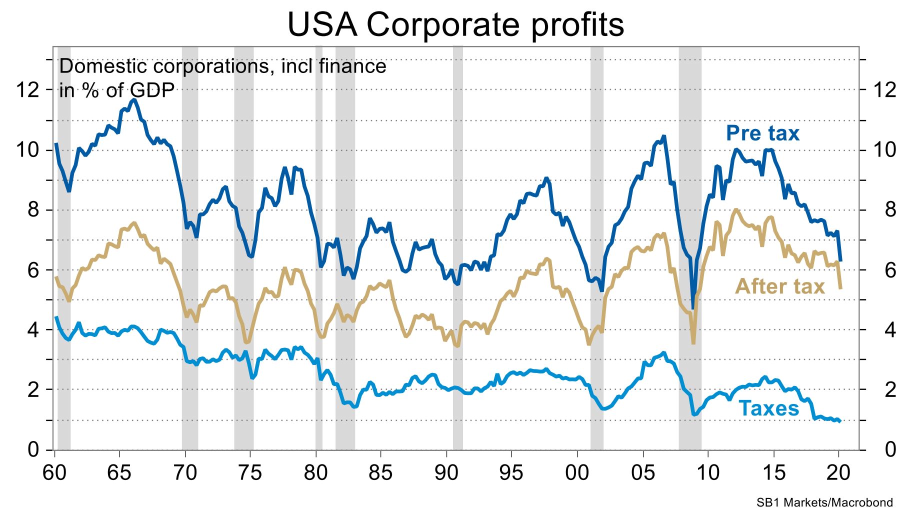
- The ISM (like other PMIs) usually remains below 50 when production increases for the first time after downturns
- Most likely because companies are not answering the survey exact. They are asked about the change in orders, production etc from the previous months but are rather referring to the change in activity over the previous few months (but not y/y changes and not the activity level vs. a 'normal' level)
- Still, the PMIs/ISMs captures the broad cycles very well, and are useful in an analysis of the momentum in the business cycle

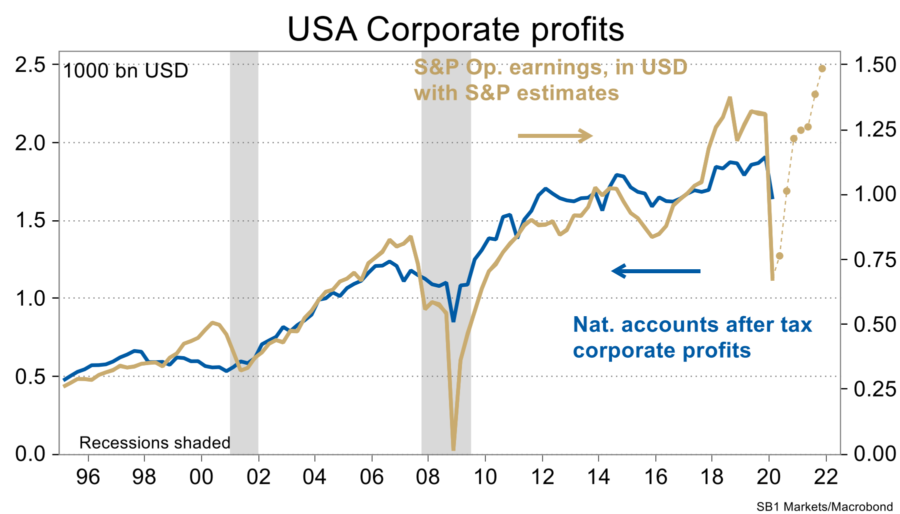
Corporate profits down 14%, the largest decline since -26% in Q4-08

And that was Q1… Profits fell 'everywhere – and are lower than normal, pre tax



- Corporate profits in % of GDP have been heading steeply down since early 2015 (and nobody told you so)
  - » Profits from abroad has kept up – while domestic profits are lower than normal vs. GDP, at least before tax
- The decline in Q1 is the 3rd largest since WWII
- S&P500 operating earnings fell by 50% in Q1, according to S&P. Their analysts expect profits to start recovering in Q2, and to be back on track pretty soon

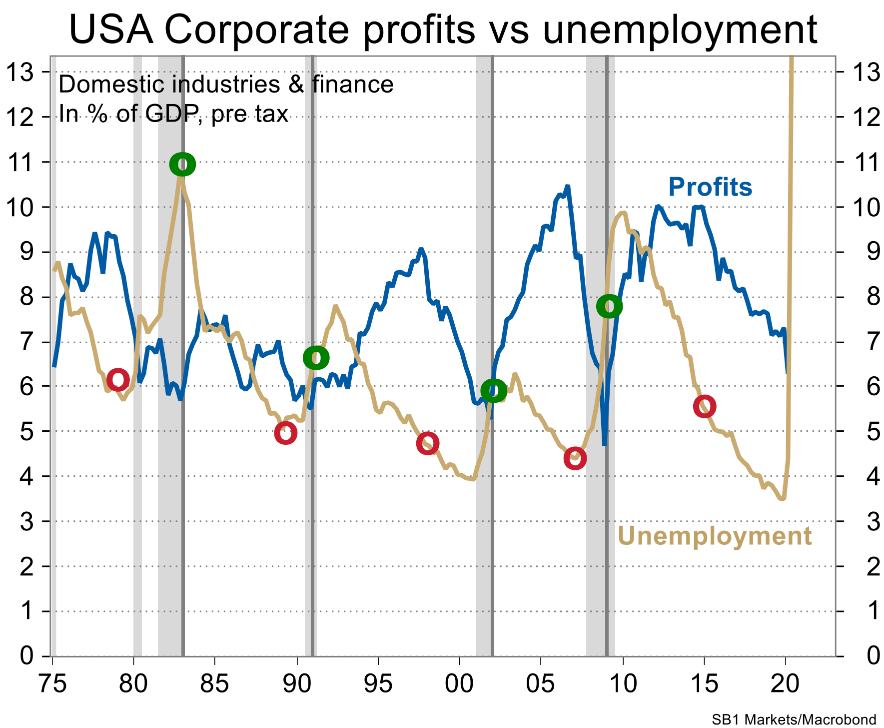


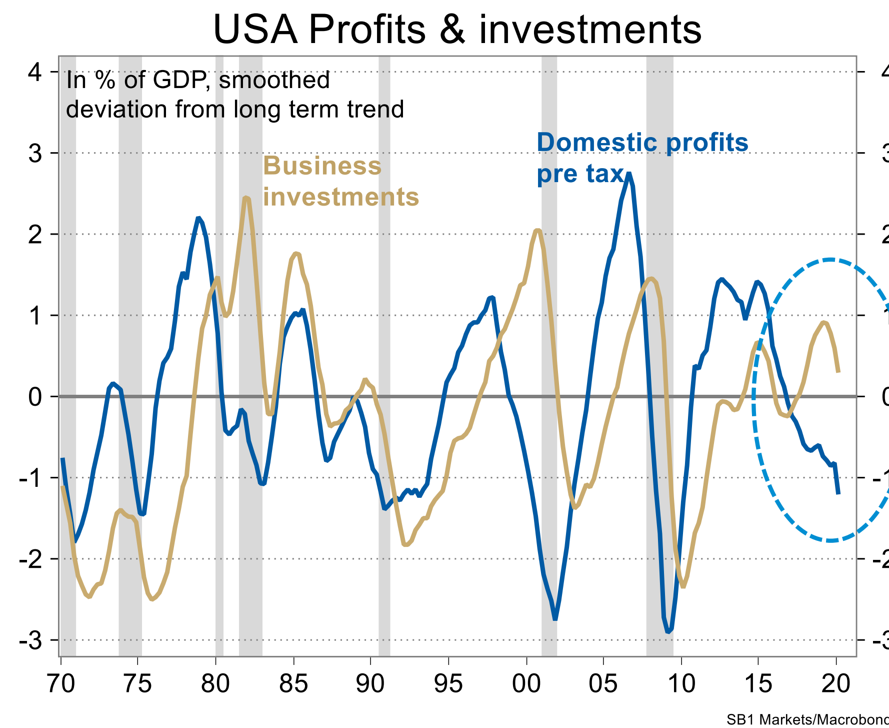


From early 2018 companies have reported higher operating earnings than normal vs. corporate profits as reported in the National accounts. Q1 seems to have been a payback quarter. It happens from time to time (in recessions)

The profit rate starts to decline when unemployment becomes ‘too’ low

The profit cycle turned in 2015, and pre tax profits were low – even before corona





- The profit cycle does not turn up before unemployment has risen sufficiently, during a recessions. Well, now we are there, a 15 – 20% should be enough to take wage inflation sharply down
  - » But we doubt Q1 was the bottom of the profit cycle, even if analysts assumes so
- Business investments are exposed when profits have fallen to a too low level – and now they are falling

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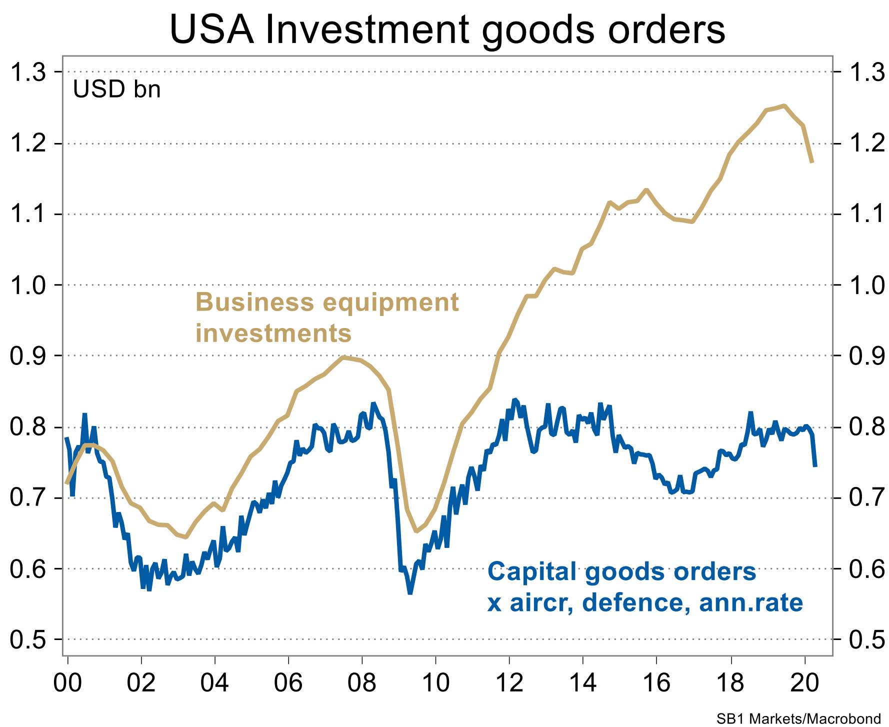
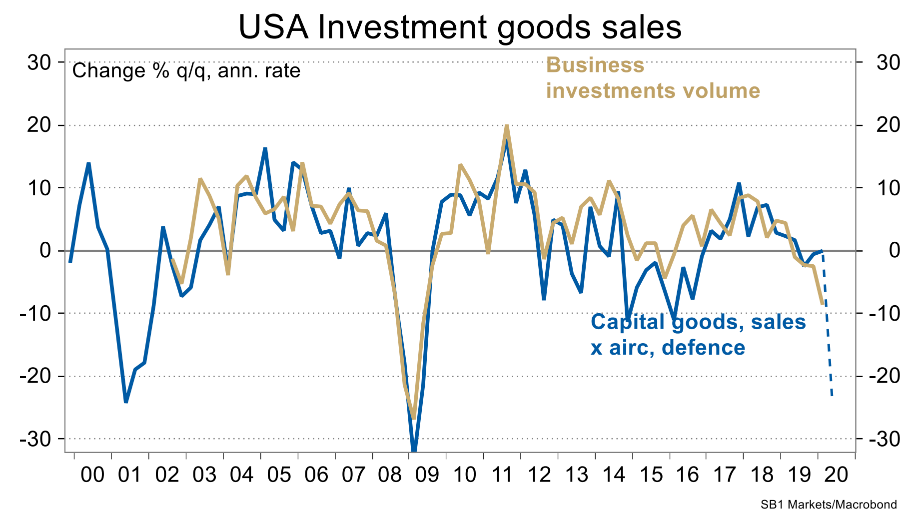
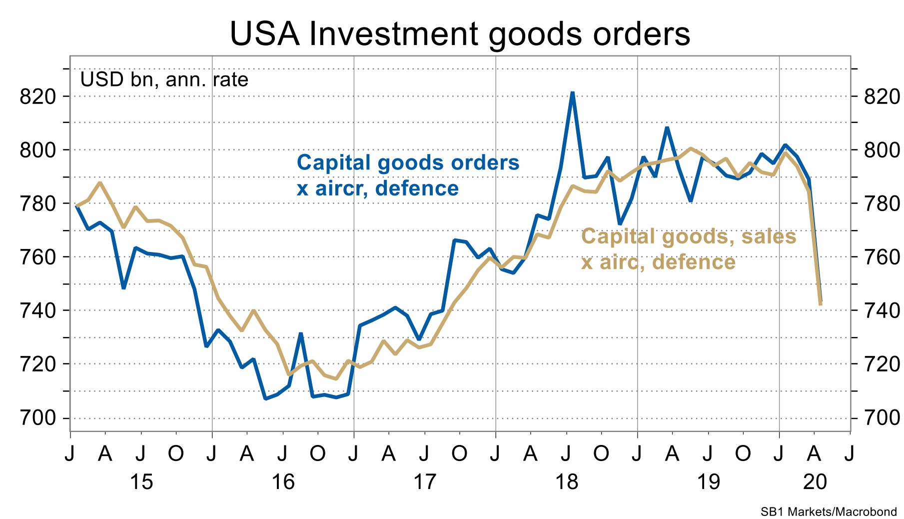
Capital order down but 'just' by 6%, expected -10%

Business investments will no doubt fall sharply in Q2 but probably less than feared



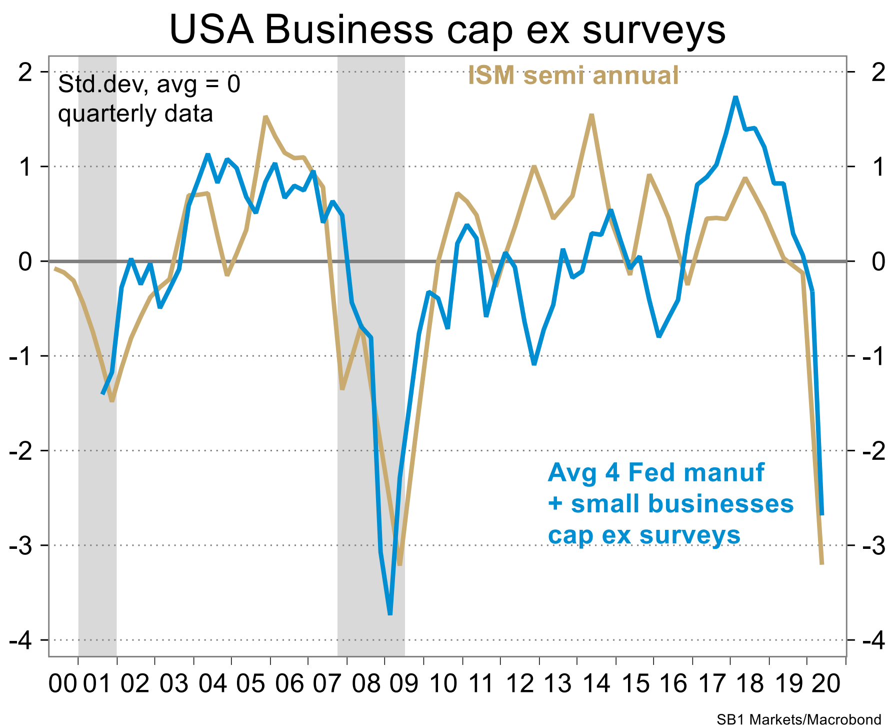


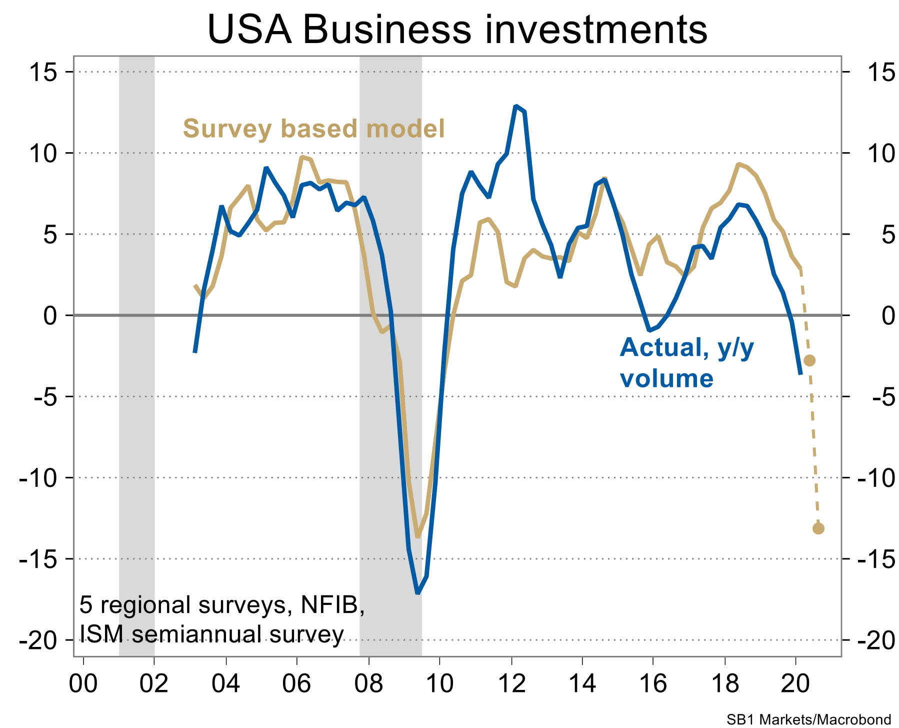


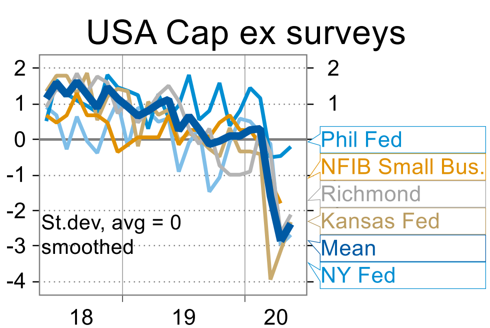
- However: Usually the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year
- Business surveys signal substantial cuts in investments the coming months/quarters

Business are planning aggressive investment cuts

Both manufacturing and services are planning substantial cuts – but not deeper than during the GFC



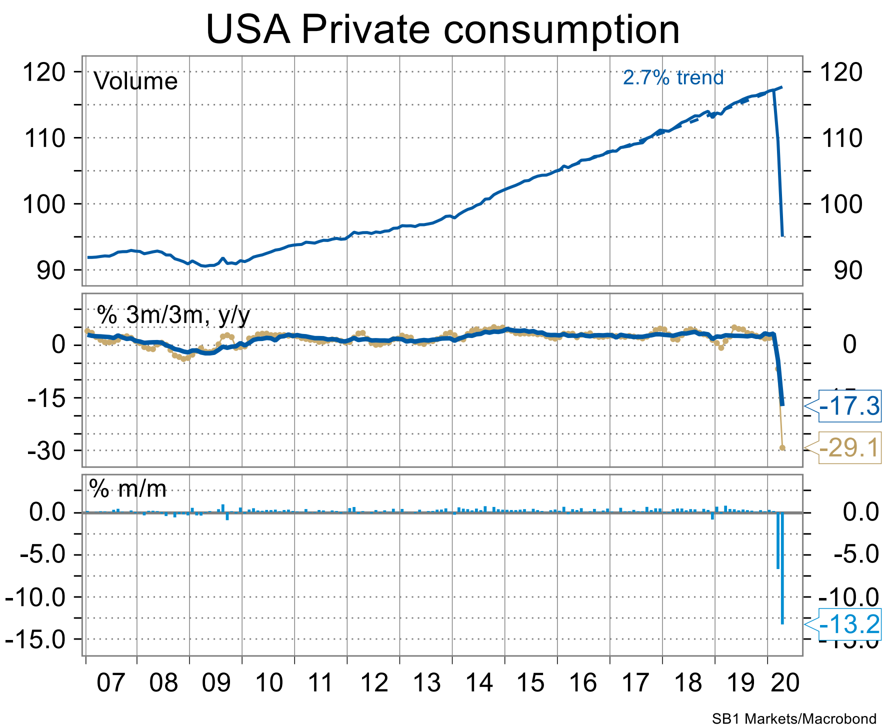


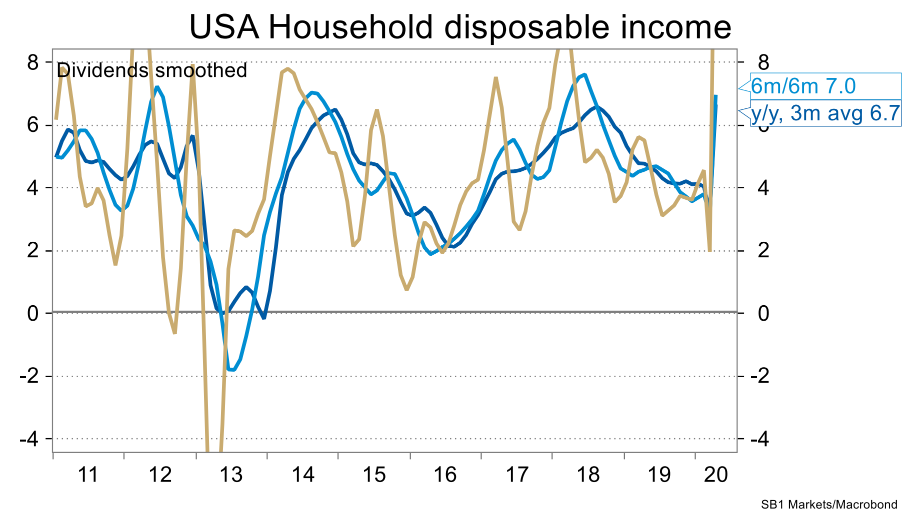


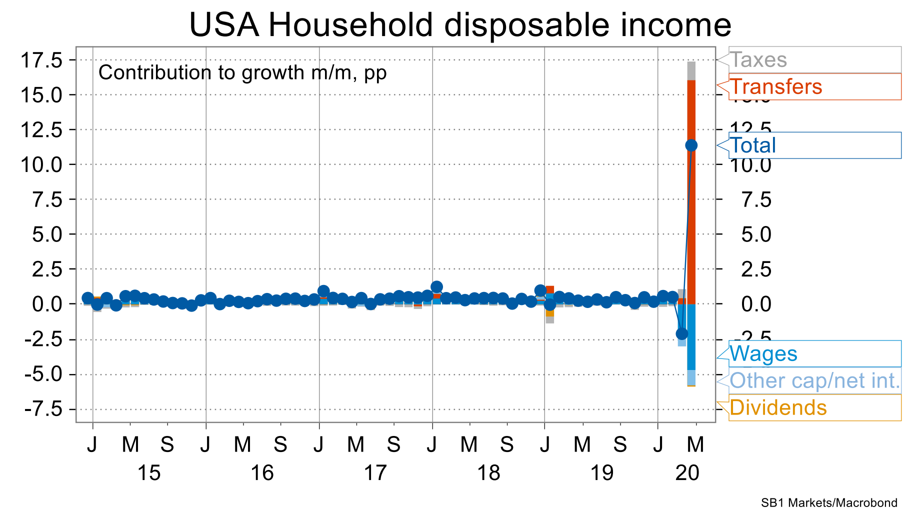
- One small bright spot: So far, the May surveys that are published are <u>slightly up vs. the April level</u> – but in average they still remain very low

Consumption fell 13% in April, is down 19% from Feb! Uncle Sam lifted incomes

A record decline in spending, a record increase in income – and a hilarious increase in savings, to 33%



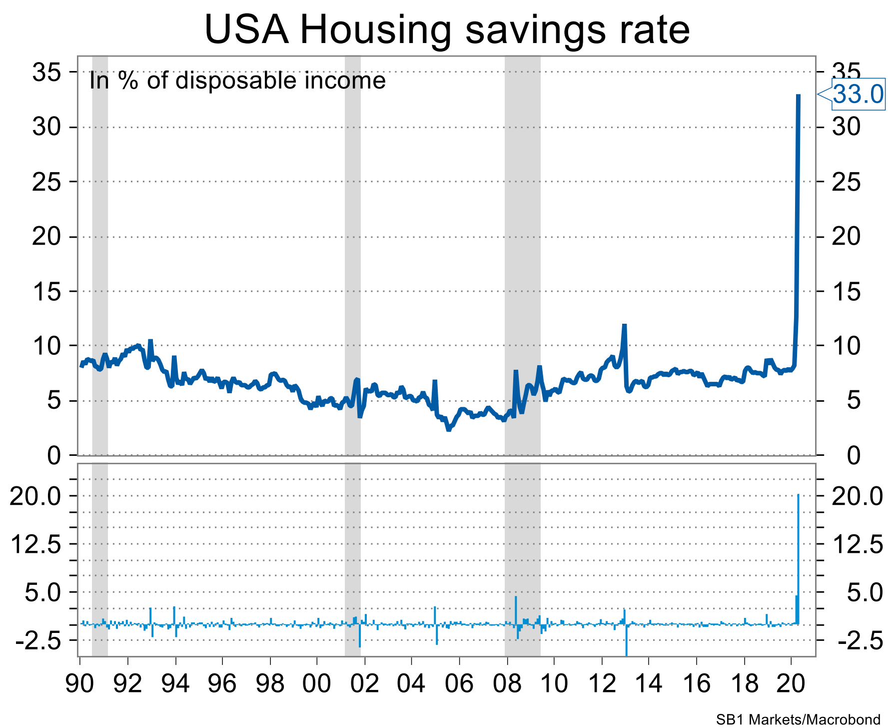


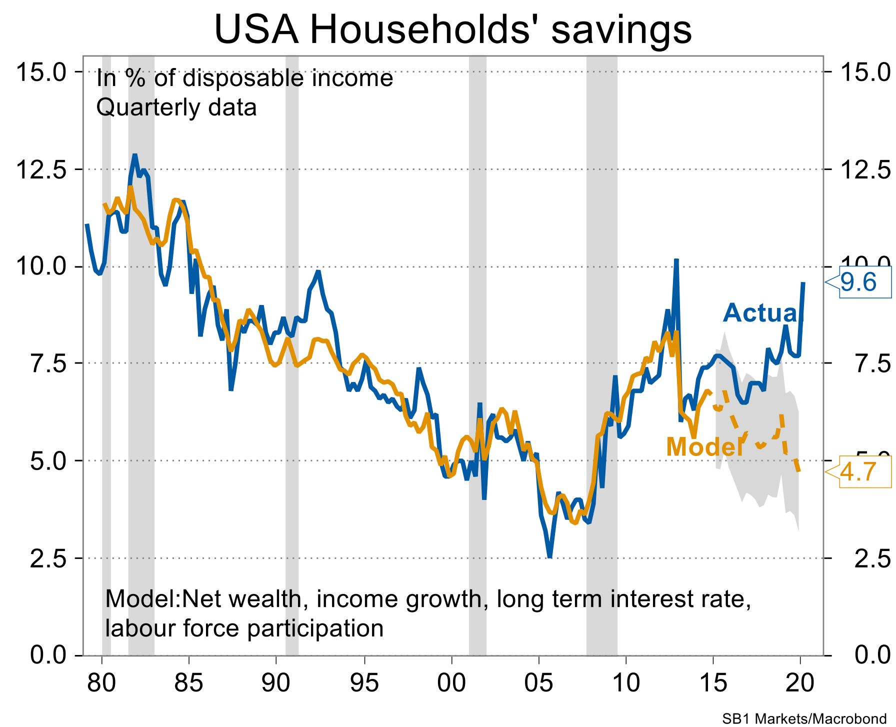


- Total private consumption by fell 13.2% in April, marginally more than expected. Goods and services fell almost at the same speed, services are more down since February
- Due to the booking of tax cuts and transfers to households in the Coronavirus Aid, Relief and Economic Security Act (CARES), household income grew 12.9%
  - Wage income fell 900 bn, tax cuts/transfers equalled 3000 bn, both measured annualised
- Thus, the savings rate shot up, to 33%, from 13% (8% in Feb)

Households savings up 20 pp to 33% in April (and up 25 pp since Feb)

Spending down, government support up – and savings through the roof. In April.





- Distributed over one year, the increase in saving the two past 2 months equals 2%.
- The income support increases the probability for a recovery in spending as soon as the economy opens up

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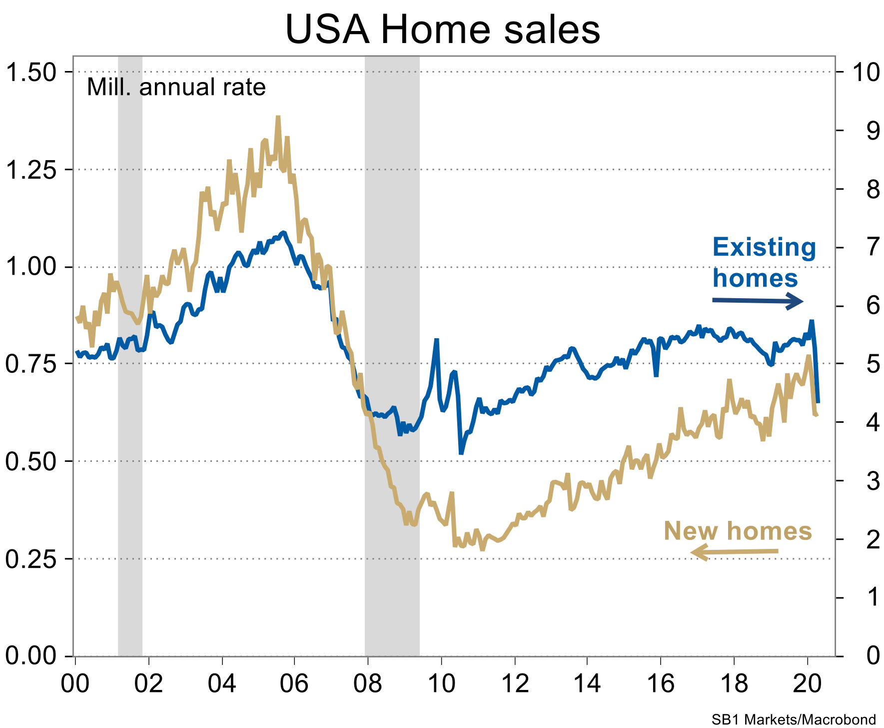
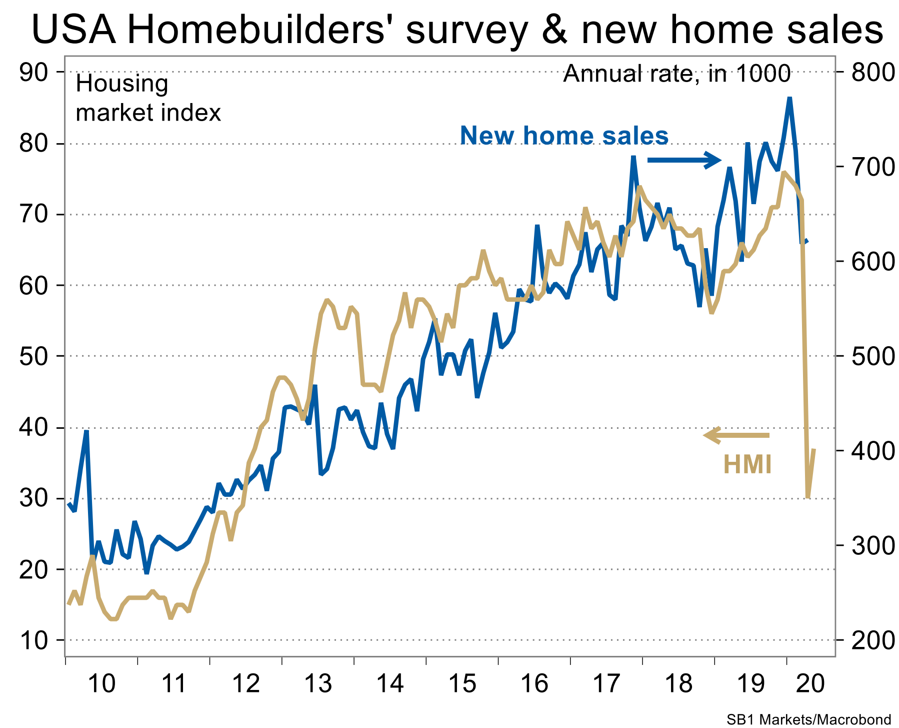
New home sales up 1% in April, was expected down 22%

No crisis?? Sales are down just 13% from Feb. Homebuilders have reported a much steeper decline

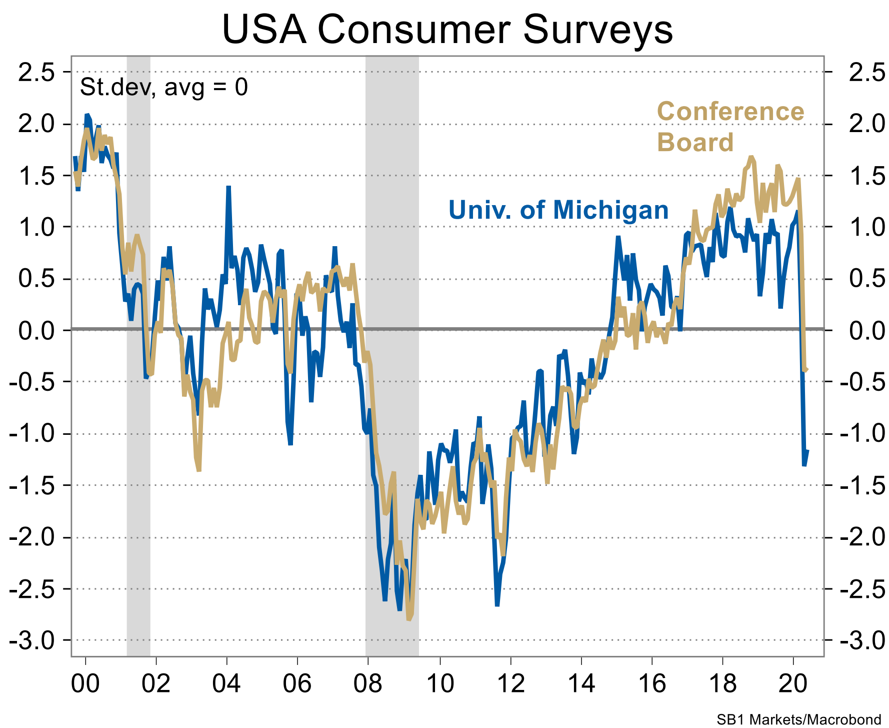


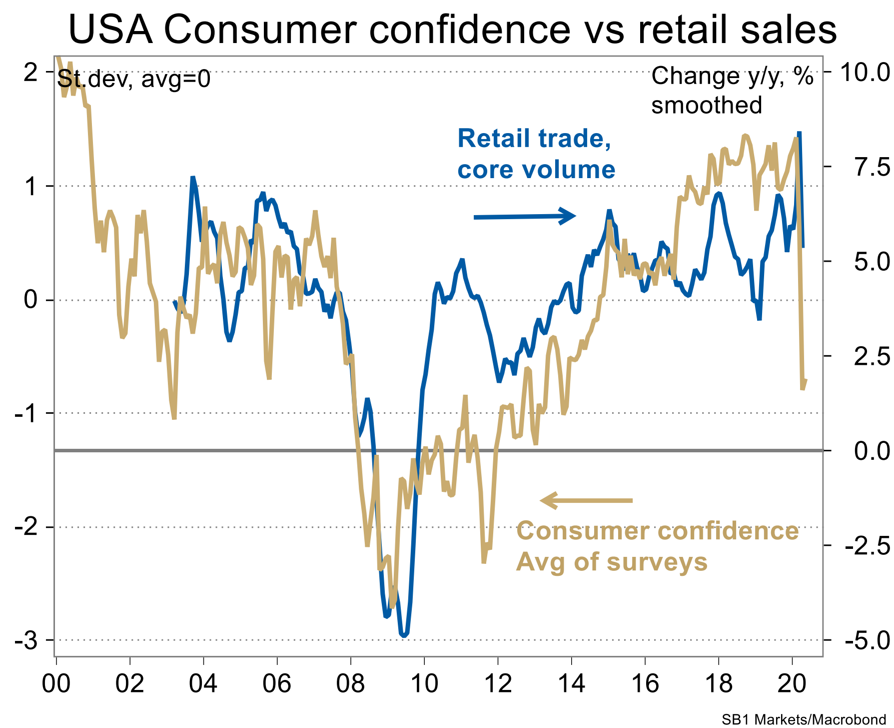


- Following the 12% decline in March, markets had braced themselves for another 20% decline in April, as signalled by the homebuilders index. March sales were revised marginally down – but sales rose in April, to 623, expected 500'!
  - » Lower mortgage rates have probably supported the market but given the lockdown in April, and the shock imposed on the labour market, the outcome is rather surprising

Consumer confidence stabilised in May – and not that low

Confidence is below average but also well above the financial crisis level

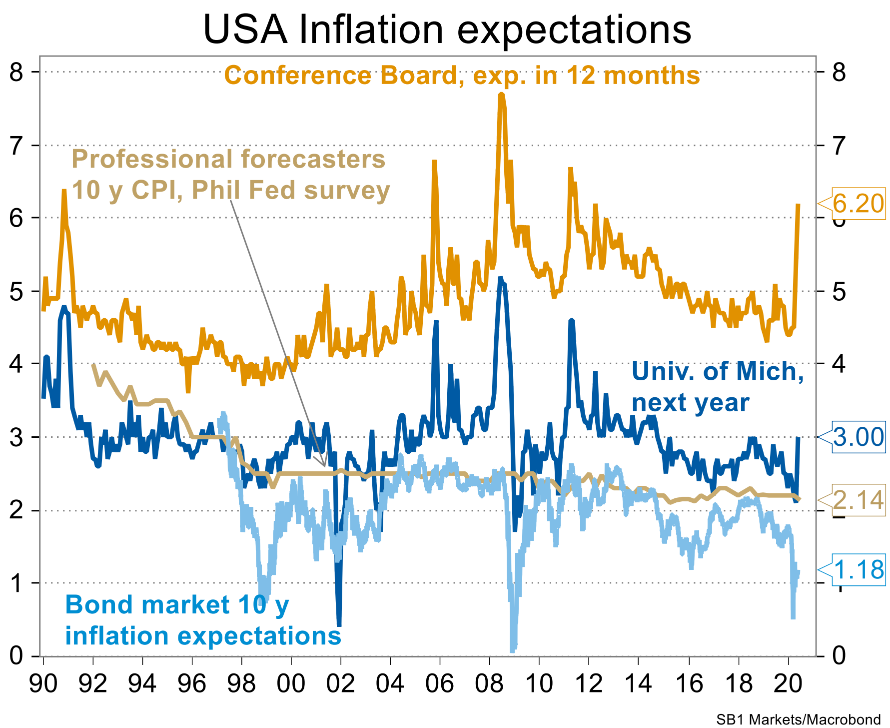


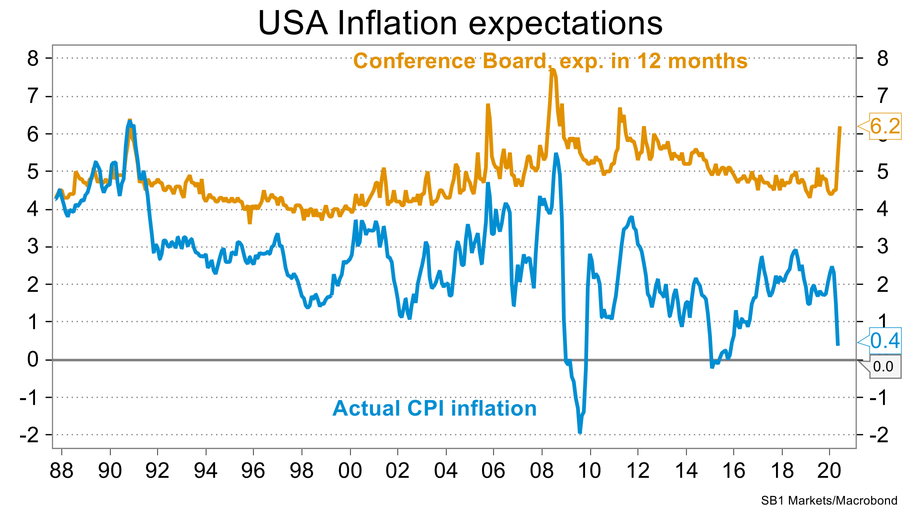


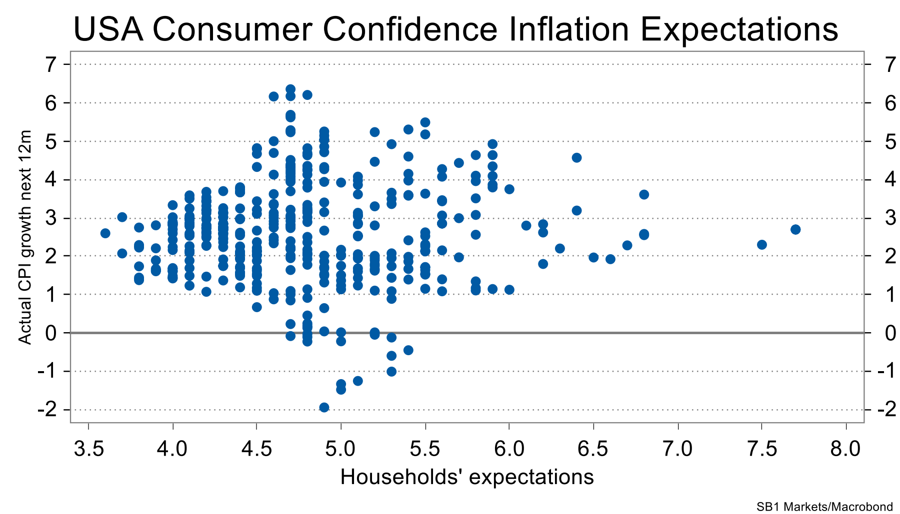
- Conference Board's consumer confidence index is just less than 0.5 st.dev below average. Univ. of Michigans sentiment index is 1.2 st.dev below par. During the financial crisis both indices were at -2.5 st.dev
- Still, these surveys signal just a slow growth in consumption

Inflation around the corner? That's possible. But it is no use asking households

In Conf. Board's survey, households say they expect 6.2% inflation, up from 4.5% two months ago



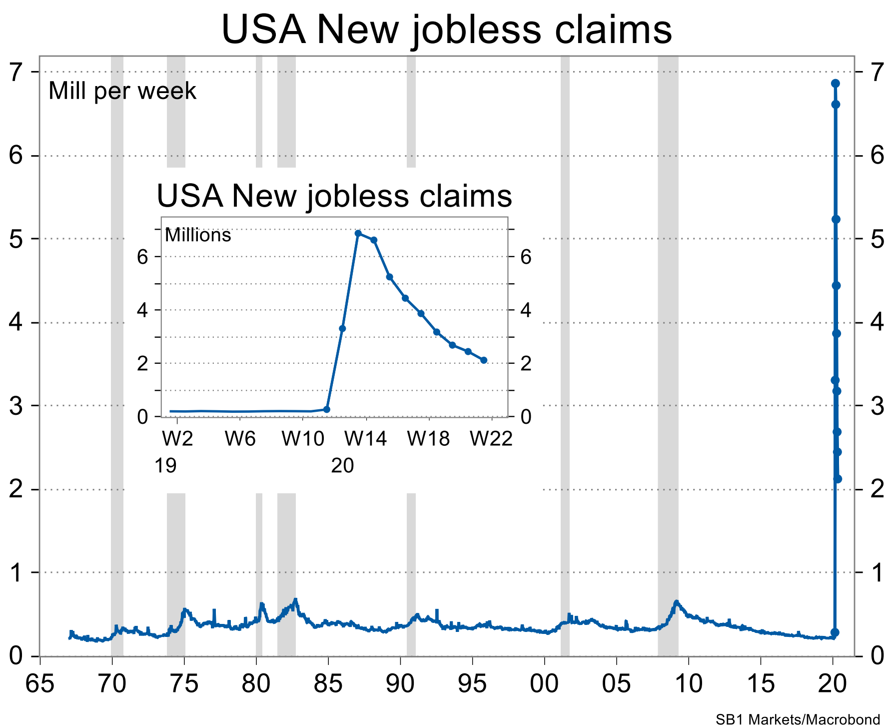


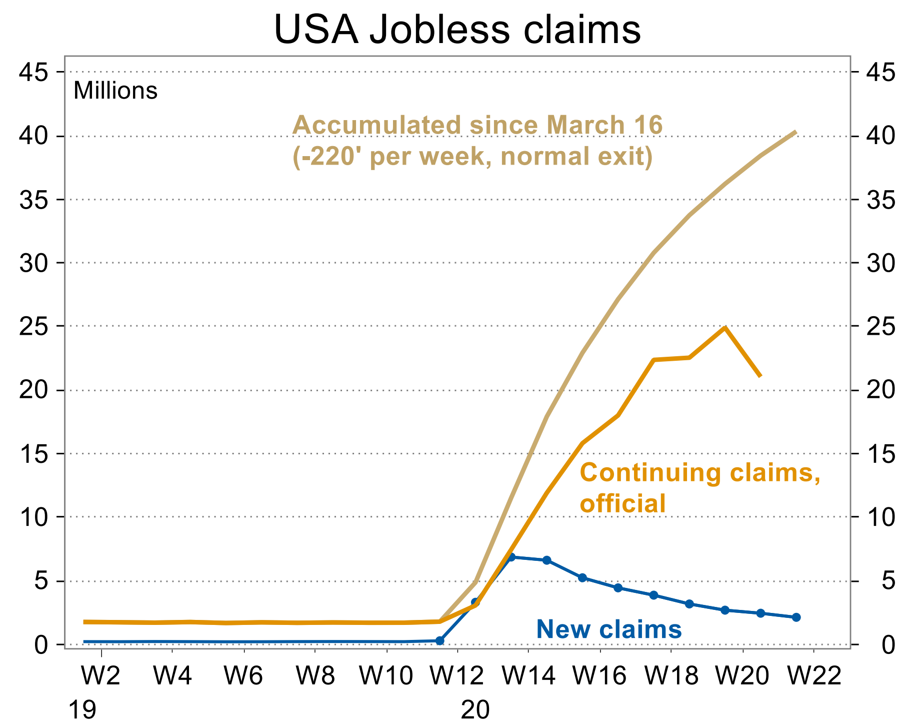


- Household's expectations are at best somewhat adaptive but they are not good forecasters of future inflation

'Just' 2.1 mill new unemployed last week, the sum up 41 mill past 9 weeks

Official claimant count down 3 mill to 21 mill (13%), at least partly due to technicalities

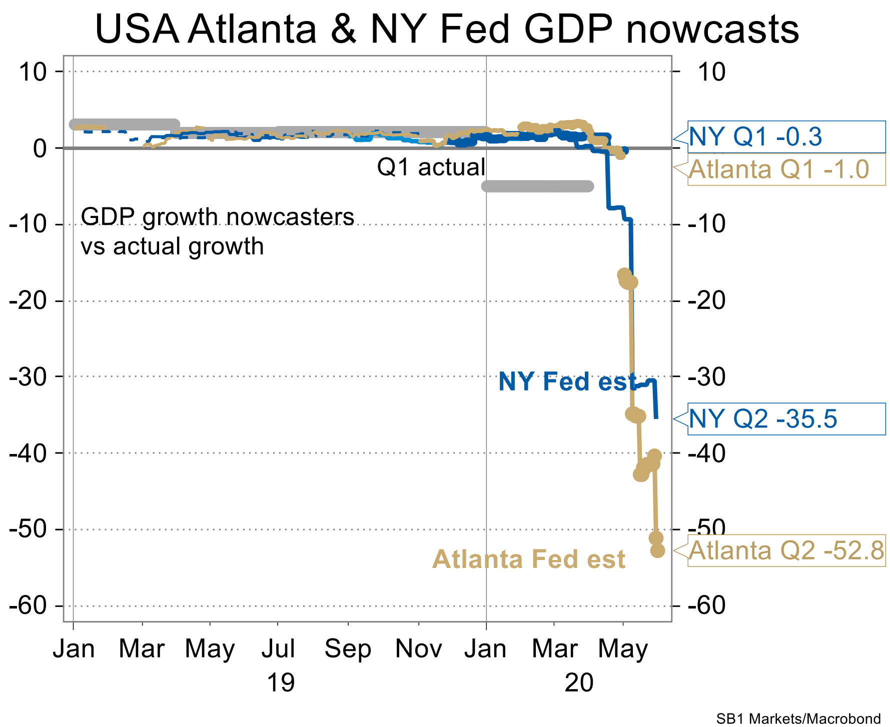


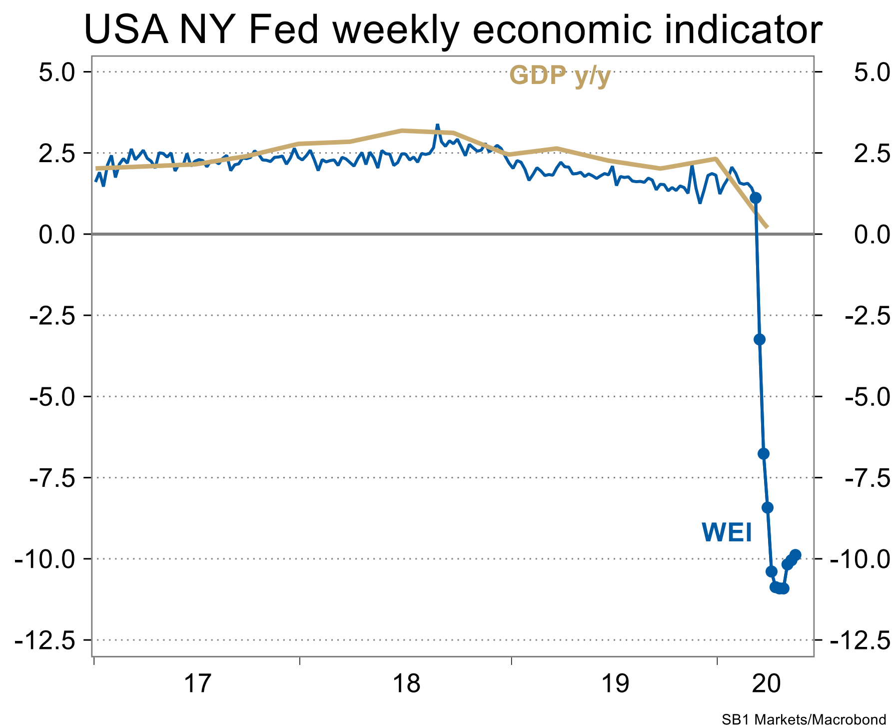


- The inflow is abating, but still 1.6 % of the labour force is entering the labour market offices each week!
- Continued claims fell by 3 mill to 21 mill (13%) the previous week. The decline is partly technical due to the way California publish its data. The accumulated number of new claims since mid March is much higher, at 41 mill. The reason for the discrepancy has at least partly been due to lack of registration at overwhelmed labour market offices. However, now many unemployed are returning to the labour market – and part of the decline the previous week may be for real. Still, we assume the real number of open unemployed is higher than the official number
- For the lowest paid unemployed, the weekly unemployment benefit compensation at USD 600 is higher than their ordinary wage which of course is not the best incentive to return to a job

Nowcasters turned down again, due to the spending, exports 'shocks'

GDP is probably down some 12% from the pre corona level

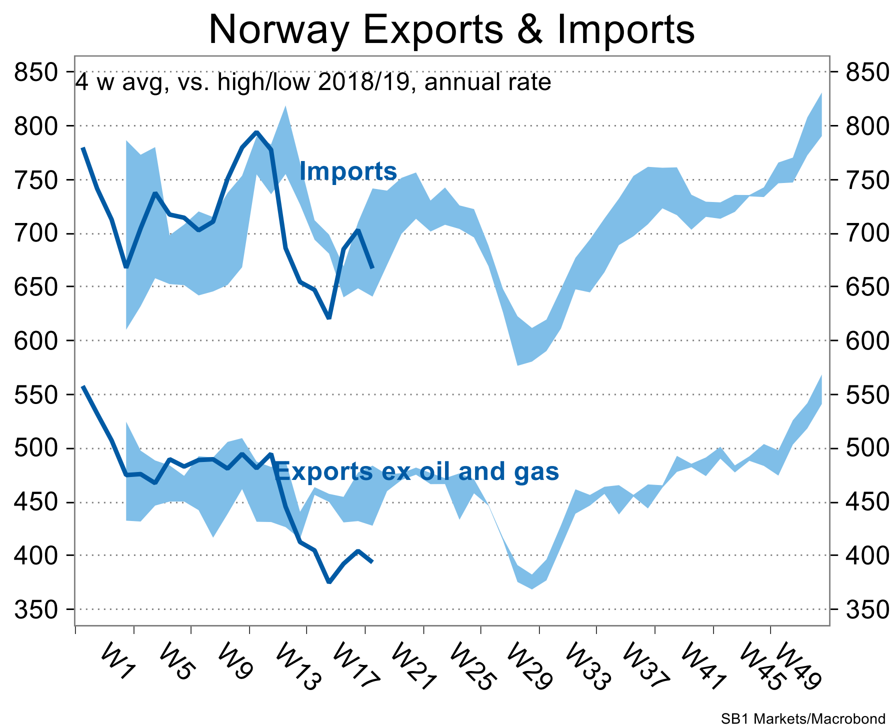


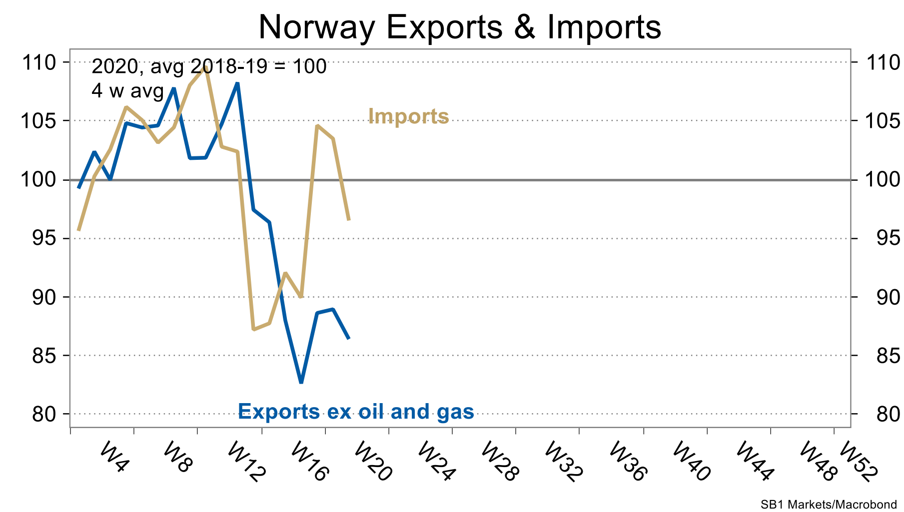


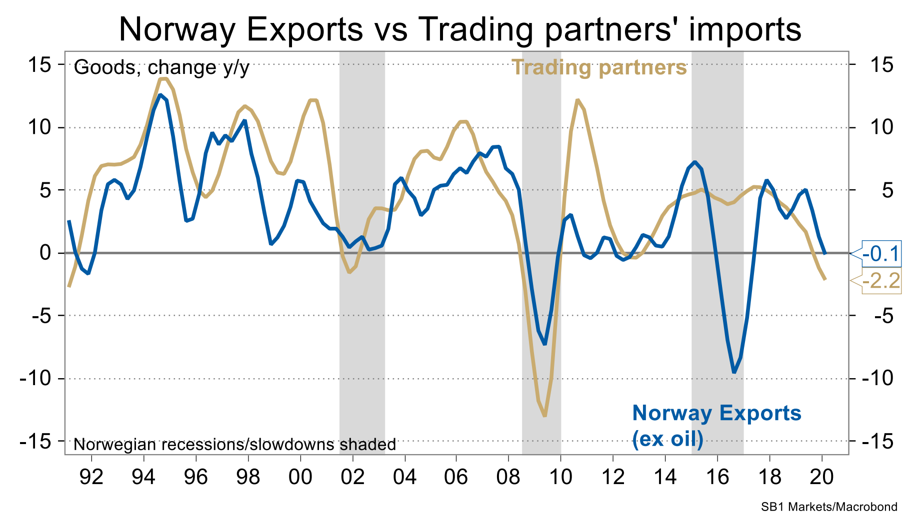
- The 'old' nowcasters from NY & Atlanta Fed report a 35 – 51 % decline q/q, in (absurd) annualised terms – equalling a 10 – 16% decline q/q, not annualised. As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 11 – 17% vs the Q4 level
- The NY Fed's weekly economic indicator reports 10% y/y decline, implying a 11 – 12% decline for the level in early 2020. The deceleration has clearly slowed past two weeks

Mainland exports are struggling, down 15% - 20%. Imports more or less unch.

The production/employment impact from this decline is not yet visible. But it will be, soon







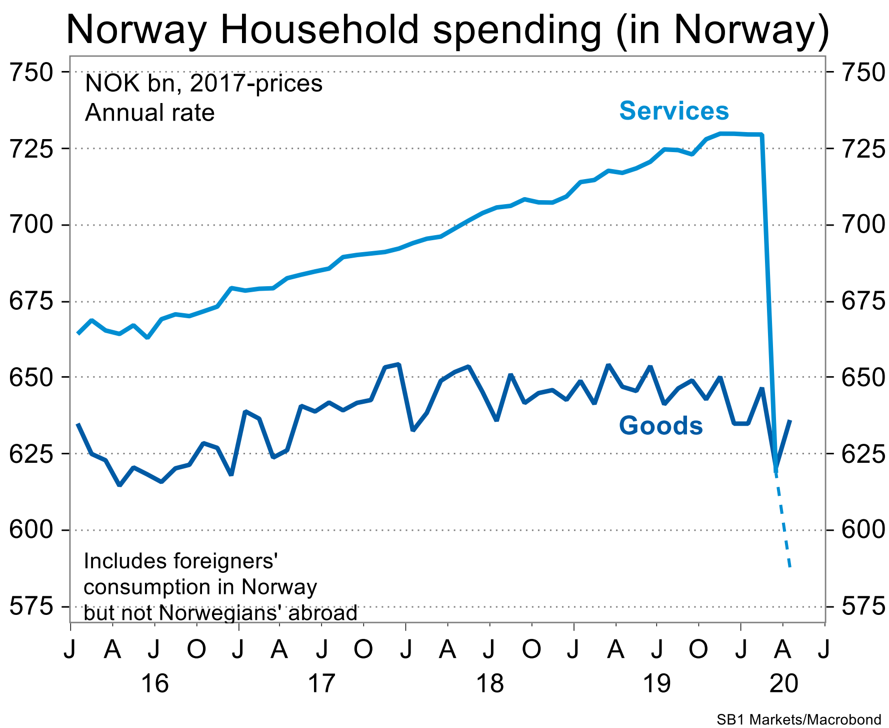
- A 15% decline in exports has just happened once, during the financial crisis. Exports are down
- A 15% decline in exports subtracts 1¼ pp from Mainland GDP growth, even after adjusting for the import content and without adding any income multiplier impacts
- On the positive note: Exports may have stabilised past few weeks

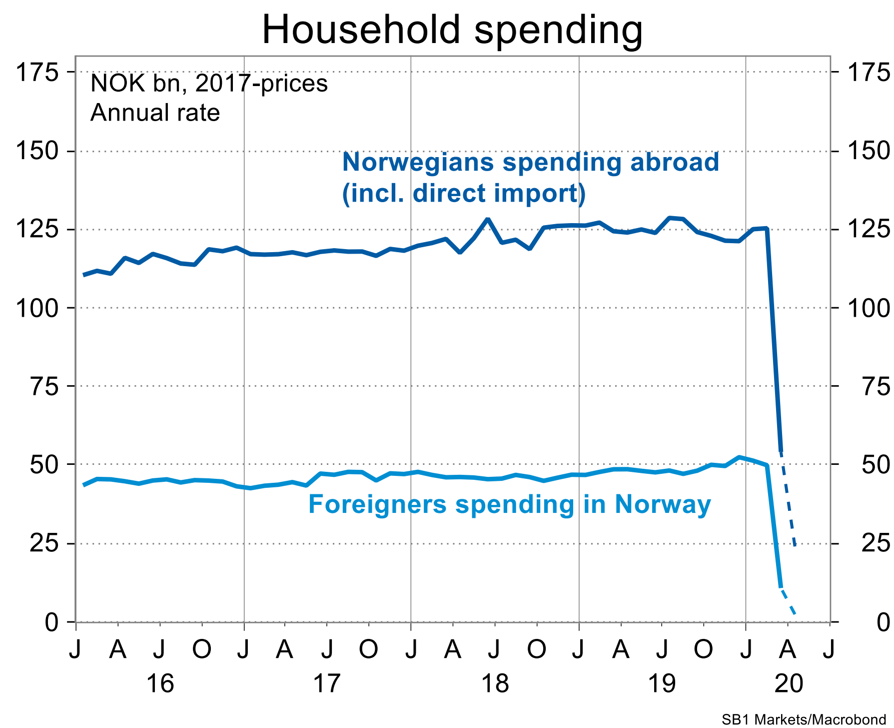
SSB is producing a new weekly foreign trade statistics, data from 2018

SpareBank 1 MARKETS

Consumption of goods has kept up up, service consumption not

Service consumption down 20% (the last 5 pp our April estimate), a 10% drag on total consumption



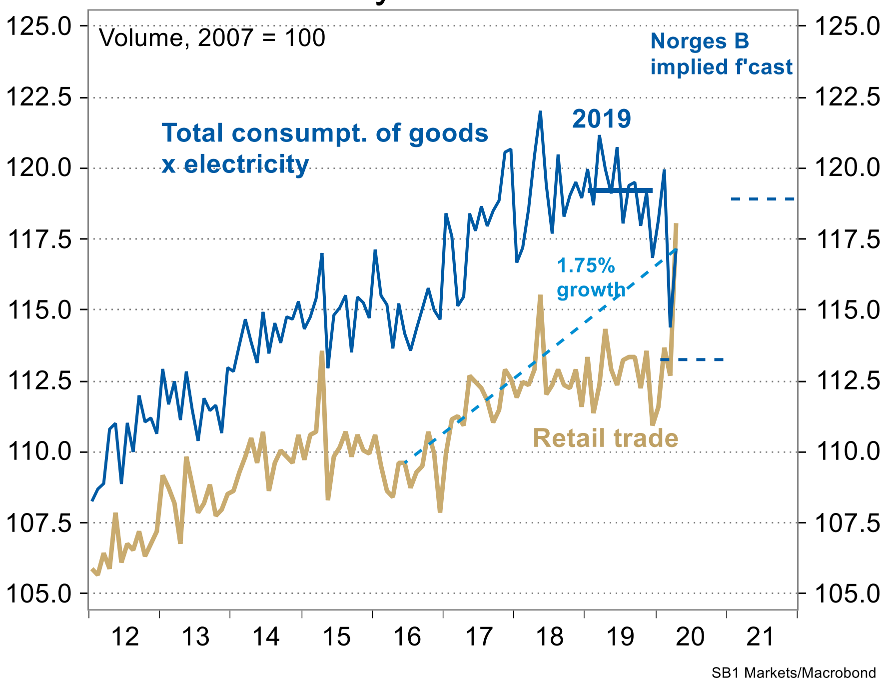


- Service consumption is reduced by approx NOK 125 bn (annual pace) or 20%. Consumption of goods is just slightly down (even if retail sales rose in April, auto & petrol sales are down)
  - » Travel, hotels, restaurants and many more activities were more or less closed down in whole April (but some hopefully gradually recovering through May)
- The employment impact of 1 bn spent on services is some 1.3 x larger than for the same amount spent on goods, primarily due to the lower import share
- Norwegian households have reduced their consumption abroad by some NOK 100 bn (annualised). Foreigners have cut their spending in Norway by almost NOK 50 bn, which explains some ¼ of the decline in service consumption, and they have reduced their consumption of goods by almost NOK 20 bn. Thus, Norwegians have increased their consumption of goods significantly (as consumption of goods is down just some 5 bn (again, at an annual pace)
- In total, private consumption has fallen sharply in March and April, we assume by some 18%, of which 10 pp at home. For Norwegian businesses, the decline is larger, due to reduced demand from foreigners. (Norwegians are spending 2.5 x more abroad than foreigners spend in Norway)

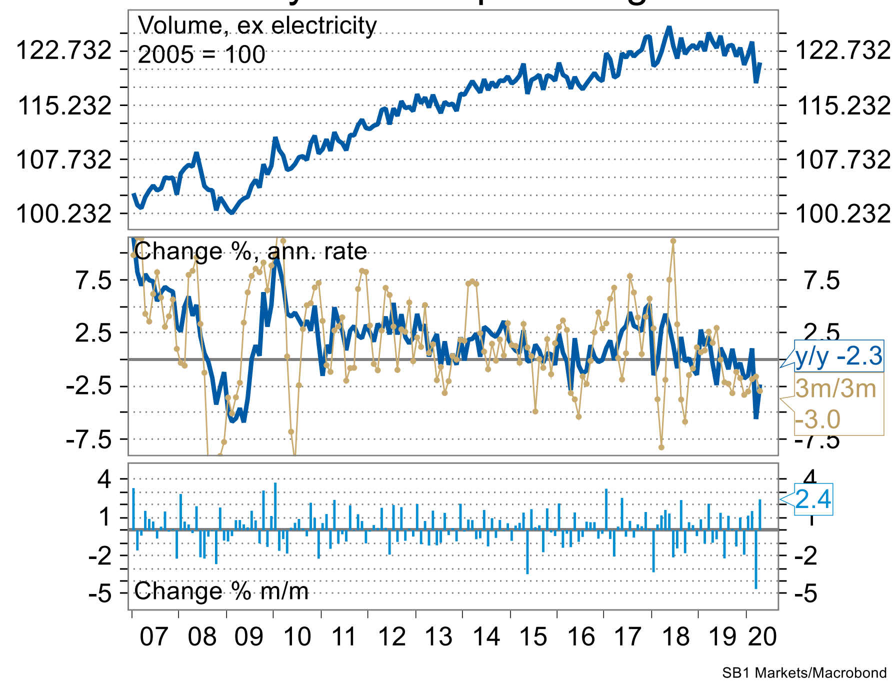
Retail sales: Not even a V, just an Ꮁ, sales sharply up in April!

Sales up 4.8% in April, following a marginal (0.9%) decline in March. Still huge sectoral differences

Norway Retail Trade



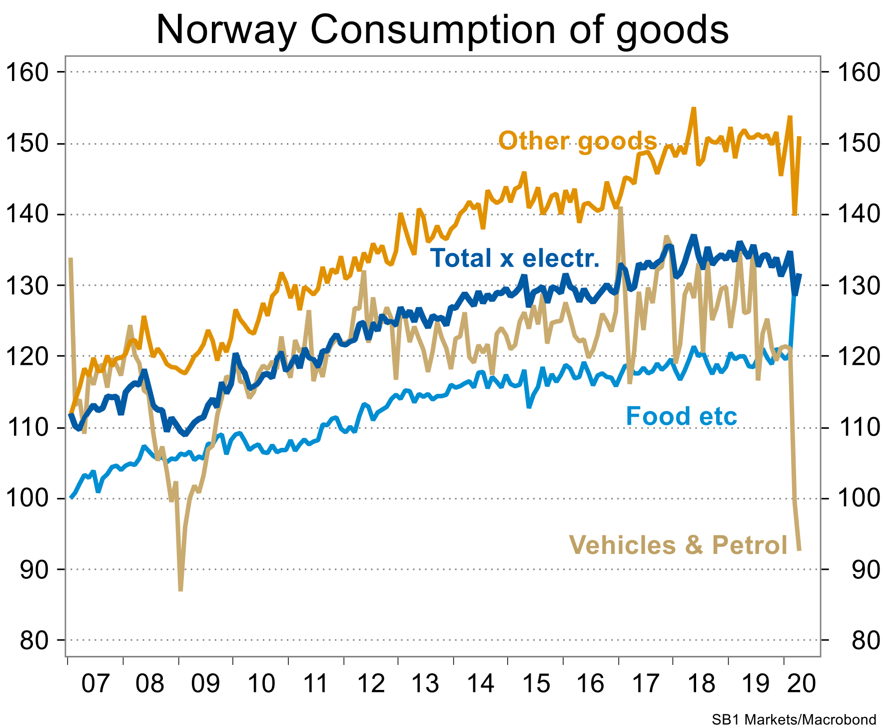
Norway Consumption of goods

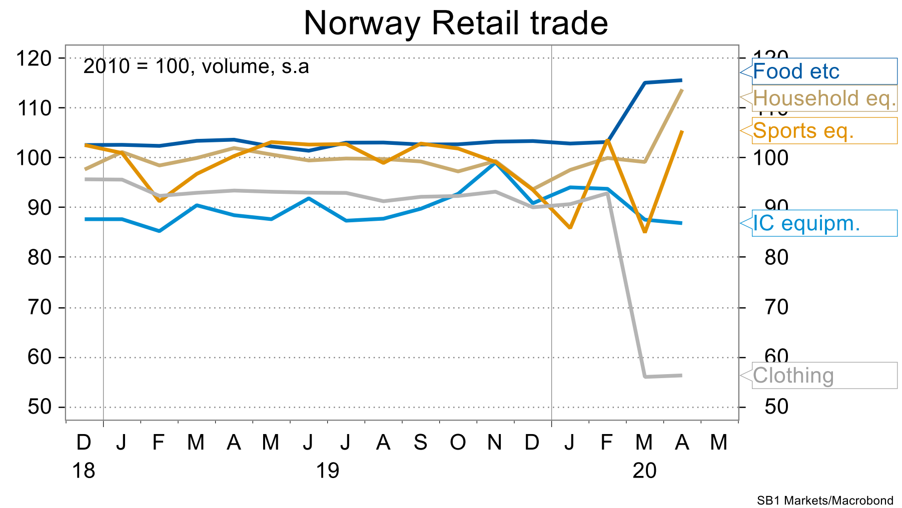


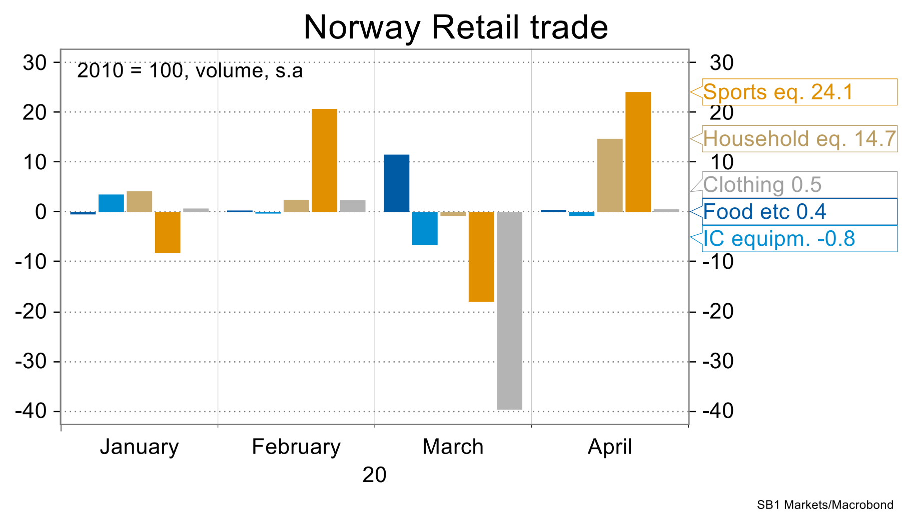
- Retail sales volume (ex auto) rose by 4.8% in April, we expected a similar decline, even if some card transaction data signalled a better outcome. Consensus was better, but still far off, at -1%.
- We have never seen such deviations between different retail sectors. To March/April from Jan/Fed internet sales are up 38%, plants/garden equipment is up 27% (yes, data are seasonally adjusted), food & beverages up 12%. Sport equipment flat, clothing down 40%
- Total consumption of goods rose 'just' 2.4% as auto and gasoline sales fell further in April
- No doubt, less x-border shopping in Sweden, more food sales due to closed restaurants and lack of 'holiday' spending opportunities are reasonable explanations for the hike in retail sales. Service consumption very likely fell further in April (check the previous pages)

In net, food saved the day in the retail sector – others flat, but just in average…

Sport equipment sales extremely volatile since late Q4. 2nd highest level in April



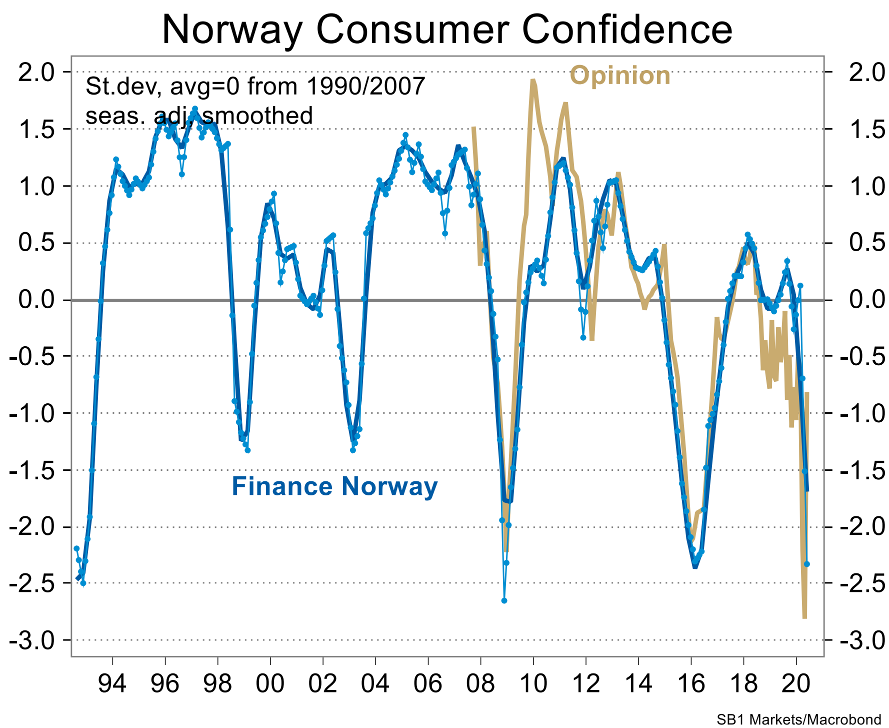


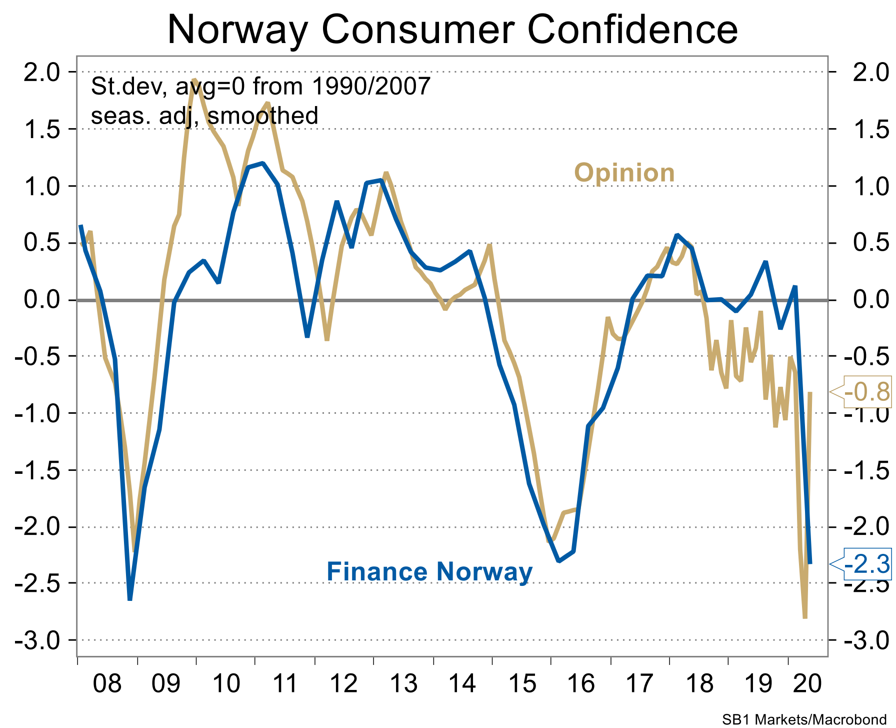


SpareBank 1 MARKETS

Consumer confidence more down than ever in Q2. More up than ever, in May

Finans Norge's quarterly survey down to record low levels. Opinion's CCI up 2 st.dev in May!!



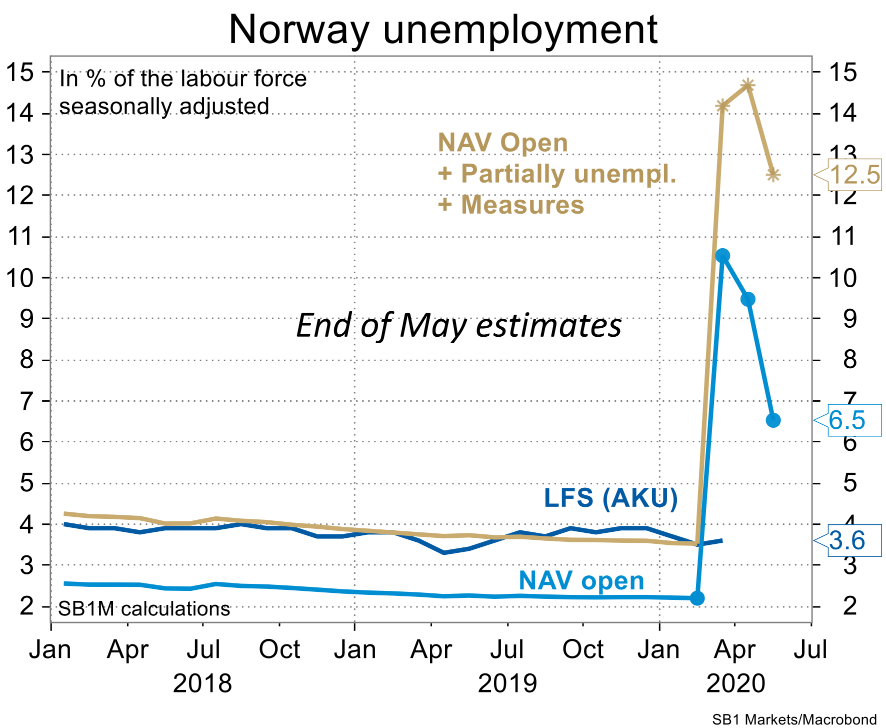


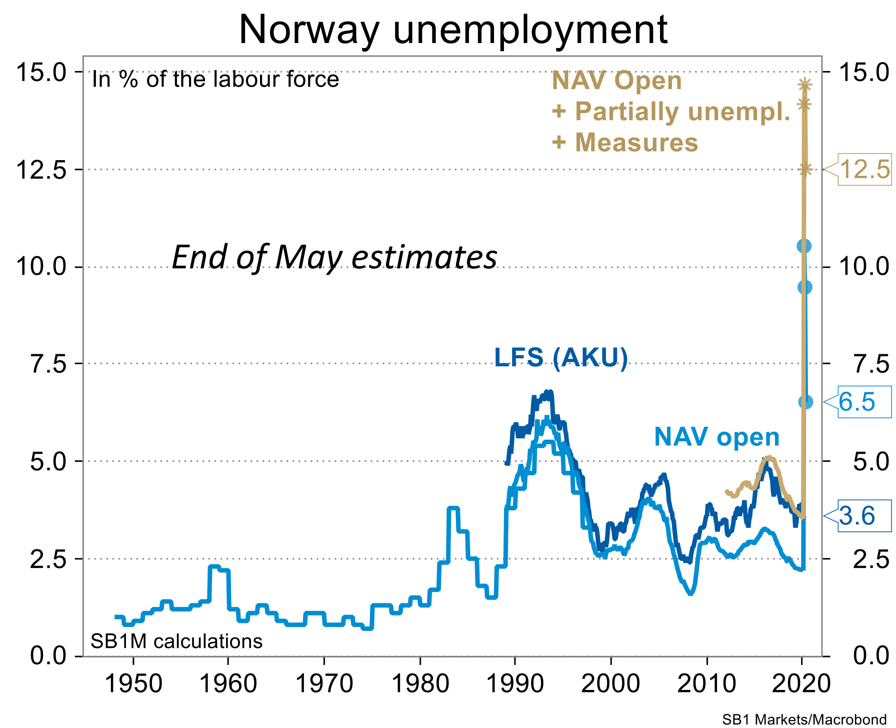
- Finance Norway's Q2 CCI fell to -16 from +15, level equal to previous 'crises' (1993, 2008/9, 2015/16). The index fell more than we assumed
  - Households' assessment own their personal economy fell more than their assessment of the country's economy (measured by standard dev) but it is still above the 2008 level – even if unemployment is far higher now
  - Home buying is becoming ever more popular (just a minor dip in Q2), more want to buy a 2. home or a boat. Savings plans are record high, travel plans record low
- Then on Friday: Opinion's monthly survey rose 2 st.dev, to -0.8 from the record low level at -2.8 in April. The index is still at a rather low level and signals slow growth in consumption but no crisis message is sent!
- What to make of this? Given the development in the housing market, retail sales and the labour market we think Opinon's survey better reflects the mood in May, than Finans Norge's survey. What the mood will be in one years time, that's another ballgame. Anyway we take a look at the details in FN's survey at the two next pages

SpareBank 1 MARKETS

Unemployment sharply down in May, and more to come. For a while. An then?

Total unemployment fell by more than 2 pp to 12.5% in May. Open 'full time' rate down to 6.5%

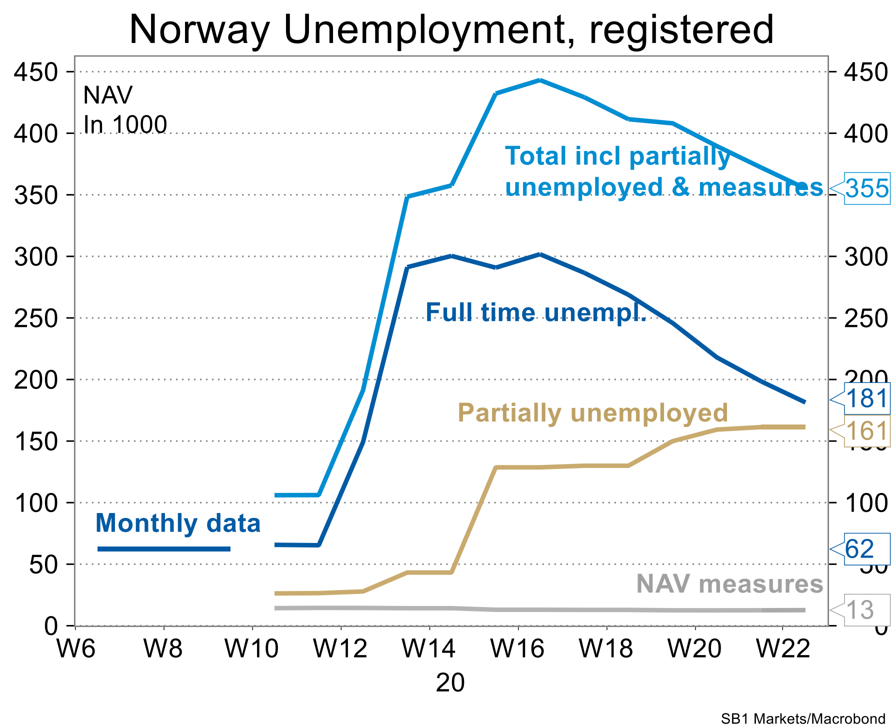


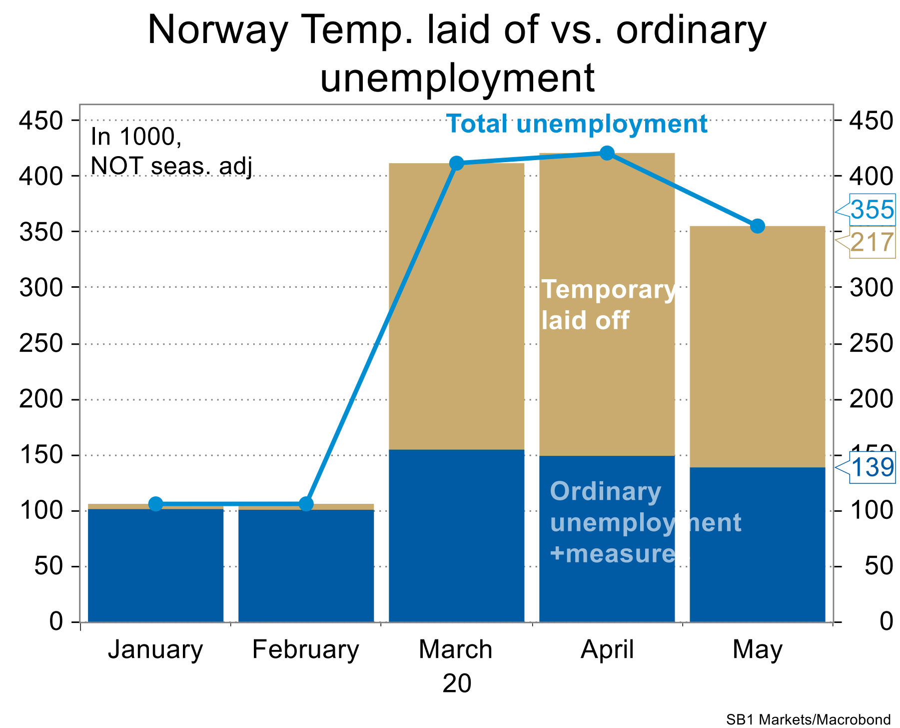


- The reopening of the economy encourages employers to reengage workers, at a pace of more than ¾% of the labour force, per week. The inflow of new jobless claims has slowed to ¼% per week – and the unemployment rate declines by 0.5 pp per week or 2% per month
- The LFS ('AKU') unemployment rose just 0.1% to 3.6% in March (average Feb-Apr)
  - » Those who are furloughed are not counted as unemployed in the LFS before after 3 months
  - » However, hours worked fell in March and wages paid are falling sharply

Total unemployment down by 90’ from the peak in early April

Temporary laid offs equal 60% of total unemployment, the they are now reengaged

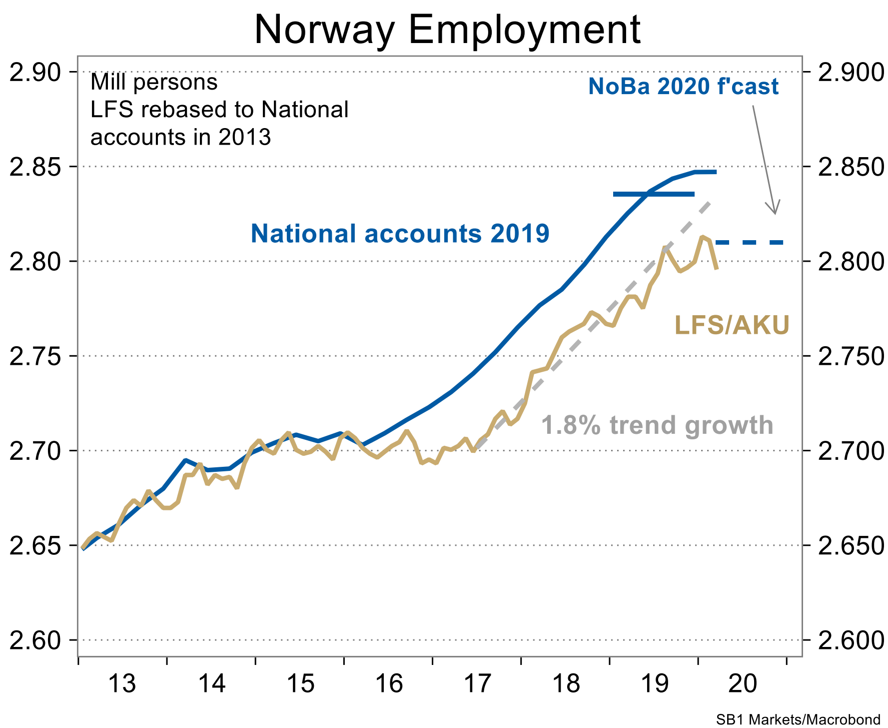


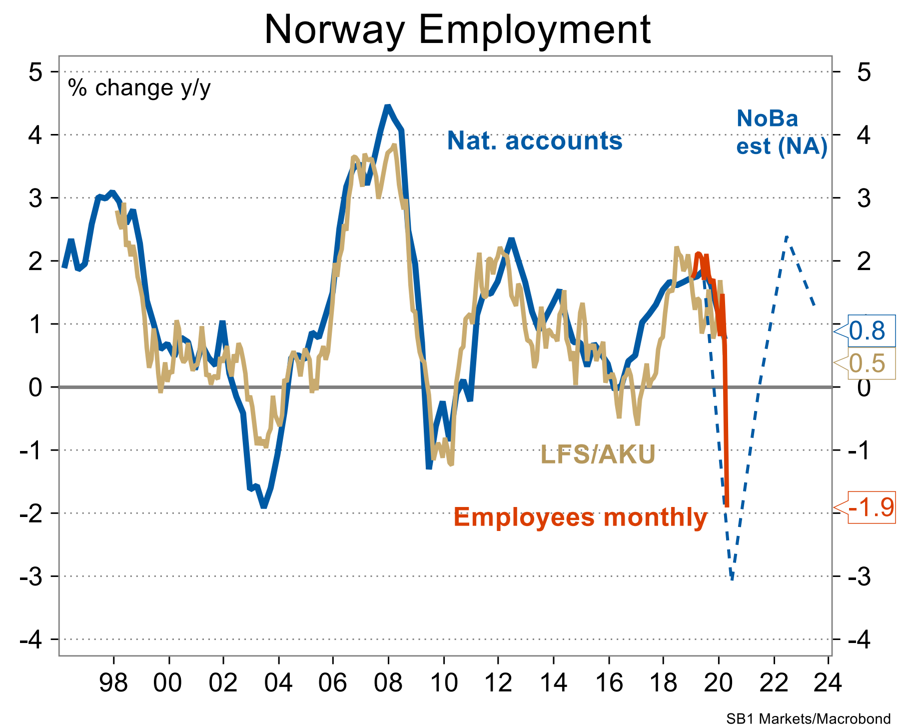


- Temporary laid offs equal 60% of total unemployment. Of the total decline in unemployment in May, 55’ was temporary laid off, 10’ were ‘ordinary’ unemployed
- The number for partially unemployed stabilised last week, following a steady rise

Employment down (even if the furloughed are counted as employed)

LFS employment down past months, still up y/y. However, new monthly stats report a sharp decline

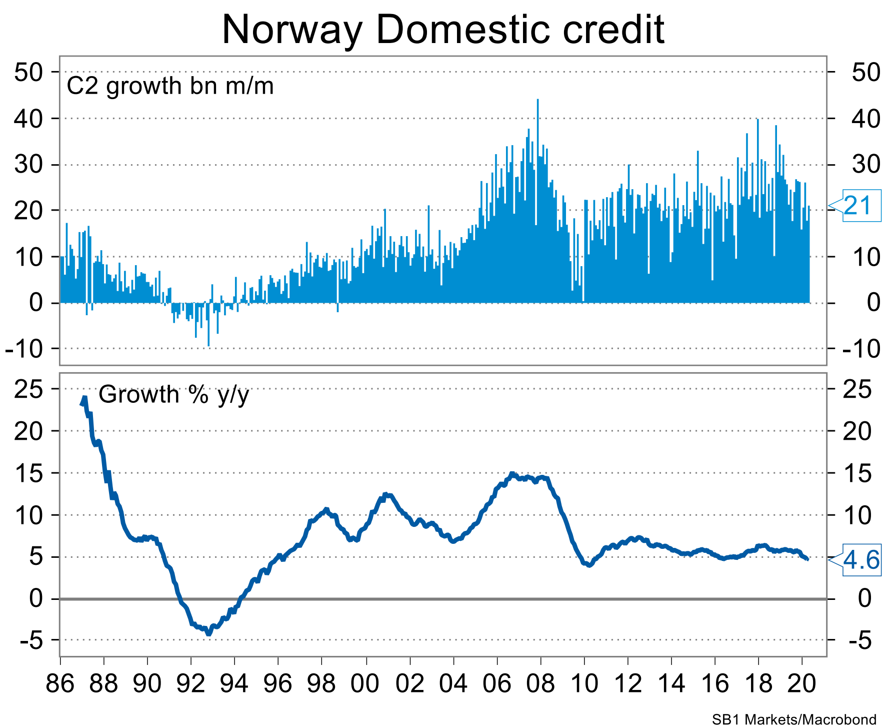


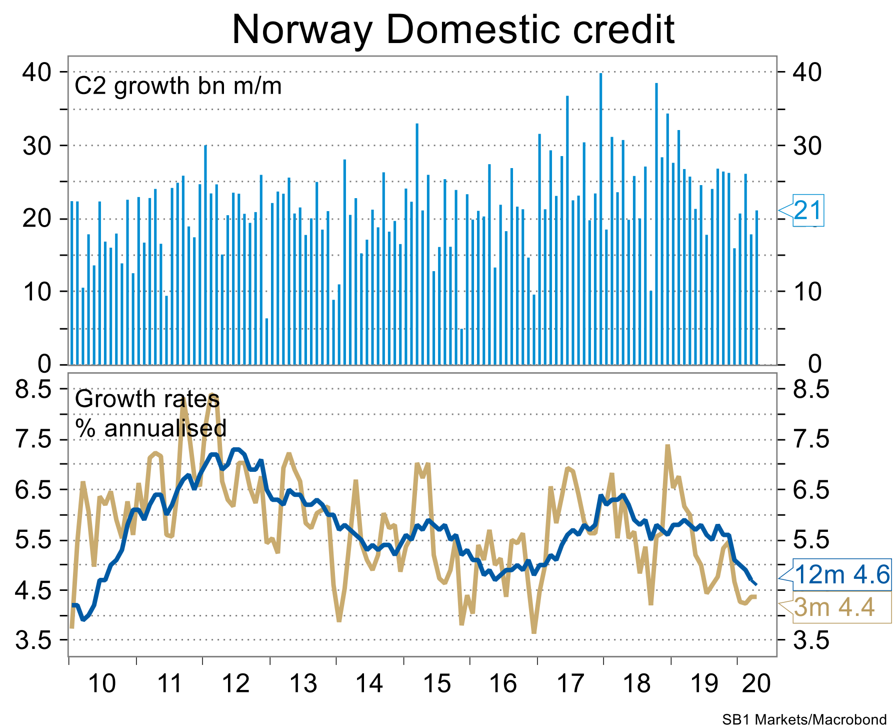


- The LFS/AKU employment fell by 4' to March (avg Feb – Apr) from December (avg Nov/Jan) but is still up 0.5% y/y
  - » In Q1 National accounts reported unch employment from Q4, still up 0.8% y/y
- A new experimental monthly employment statistics from SSB reports a substantial decline y/y in April, by 1.9% in no. of employees (and 2.4% in no. of jobs). Temporary laid off workers are counted as employed in this statistics (at 12% in March and April, from 'zero'
  - » No seasonal adjustment is possible (data are just back to Jan 2018) but given any reasonable assumption, employment has fallen sharply since February. Early 2000, the annual growth rate was somewhat above 1%. There was nothing special with growth rates last spring, signaling stable employment growth in early 2019. Thus, the drop in the annual growth rate to -1.9% from +1.1% signals a 3% decline in employment to April from Jan/Feb!
- Both the LFS and the monthly payroll statistics defines employees that are furloughed (temporary laid off) as employed the first 3 months. The 3% decline in employment is 'for real'

Credit growth is slowly slowing

Total C2 credit growth fell to 4.6% in April, both households and corporates contributed





- Total domestic debt (C2) rose by NOK 21 bn m/m in March, up from 18 in March and below the average over the past year. The annual growth rate 0.1 pp to 4.6%, as we expected. Growth is heading slowly down
- Household credit growth slowed further in April, down 0.1 pp to 4.6%. In the Q1 lending survey banks reported that they expected lower demand for loans from households. Now, demand for credit might get a boost due to the cuts in interest rates – at least until more borrowers recognise that there is a reason why rates are cut.
  - » Credit has been expanding at a slower speed than disposable income the last year. Now income growth will be hurt by the corona crisis, and the debt/income ratio will increase again
- Corporate credit growth has been slowing too, and now to 3.7% y/y in April vs 4% in in March. Banks are reporting higher demand for extending credit lines but a sharp decline in demand for loans to fund investments. We assume that the sum will be negative

SpareBank 1 MARKETS

The Calendar

In focus: Global PMI, US labour market, China exports. Norwegian investments, GDP & house prices

Time	Country	Indicator	Period	Forecast	Prior
Tuesday June 2					
10:00	NO	Manufacturing PMI	May	46 (42)	42
	US	Auto sales	May	10.8m	8.58m
Wednesday June 3					
03:45	CH	Services PMI, Caixin	May	47.3	44.4
08:00	NO	Household savings rate	Q1		
08:30	SW	Swedbank/Silf PMI Services	May	--	39
10:30	UK	Markit/CIPS UK Services PMI	May F	28.0	27.8
10:00	EC	Markit Eurozone Composite PMI	May F	30.5	30.5
11:00	EC	Unemployment Rate	Apr	8.2%	7.4%
14:15	US	ADP Employment Change	May	-9,500k	-20,236k
15:45	US	Markit US Services PMI	May F		36.9
16:00	US	ISM Non-Manufacturing Index	May	44.0	41.8
17:00	WO	Composite PMI	May		
Thursday June 4					
08:00	NO	Investments, oil,gas, 2020/21, bn	Q2	(145/170)	151/185
11:00	EC	Retail Sales MoM	Apr	-15%	-11.20%
11:00	NO	House prices, m/m, sa	May	(1%)	-0.20%
13:45	EC	ECB Deposit Facility Rate	Jun-04	-0.50%	-0.50%
14:30	US	Trade Balance	Apr	-$41.5b	-$44.4b
14:30	US	Initial Jobless Claims	May-30	--	2,123
Friday June 5					
08:00	NO	Manufacturing production	Apr	(-5%)	-3.00%
08:00	NO	GDP Mainland	Apr	(-4%)	-6.90%
14:30	US	Change in Nonfarm Payrolls	May	-8000k	-20537k
14:30	US	Average Weekly Hours All	May	34.3	34.2
14:30	US	Unemployment Rate	May	19.50%	14.70%
14:30	US	Average Hourly Earnings YoY	May	8.90%	7.90%
Monday June 1					
	CH	Exports YoY	May	-6.40%	3.50%
	CH	Imports YoY	May	-5.80%	-14.20%

- **Services/composite PMIs/ISM**
  - The manufacturing PMU rose 2.6 p in May, and the service sector most likely rose even more and we expect the **composite PMI** to expand by some 7-8 p to 34 – still an extreme low levels, signalling a further contraction in activity. We are quite confident the PMIs are too negative vs. growth in May
- **China**
  - **Exports** and industrial production have surprised sharply at the upside in both March and April. Both are back to a pre corona level. Now, exports will be hit by the corona crisis in rest of the world. Imports are still below the pre corona trend but not by that much
- **US**
  - **Employment** fell by 20 mill in April, and another 8 mill is expected in May, a rather pessimistic estimate, we think, even if the survey week is mid-month (and employment fell through April as well). In April, unemployment rose 10 pp to 14.7%, which most likely is underestimating the real unemployment rate sharply. Average wages have exploded, as job losses have been concentrated among the lowest paid (as usual), and hours worked fell, for those on fixed monthly salaries
- **EMU**
  - **ECB** may announce an increase the Pandemic Emergency purchase program (PEPP) to more than € 1000 bn (8 % GDP) from the initial €750 bn. German (Constitutional Court) objections are not observed at the same time as the EU is trying to take a huge step in fiscal cooperation with a €750 bn Pandemic recovery package funded by EU borrowing – a completely new construction. The ECB will not touch its signal policy rates
- **Norway**
  - We expect oil companies investment plans to be revised substantially down, both regarding both '20 and '21. The same goes for the manufacturing sector. Both sectors had signalling substantial cuts before the corona crisis and the decline in the oil price
  - House prices rose sharply through April, and fell by just 0.2% m/m. Most reports from the housing market indicates further increases in May. Interest rates are more important than unemployment. So far.
  - We expect another decline in GDP in April, even in retail sales rose, as other parts of domestic and foreign demand fell. Very likely, April was the (deep) bottom of the corona crisis

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

Our main views

	Main scenario	Recent key data points
Global growth cycle	Before Covid-19 hit, the growth had slowed as the cycle had matured in many ways. The setback in Q1/Q2 due to lockdowns and other measures against the virus attack in Q1/Q2 is unprecedented modern history. The recovery has clearly started in China but the activity level in still well below par. April was most likely the bottom in the rich part of the world, and may EM countries too. We expect a modest recovery in H2 but the uncertainty is still huge, both regarding the virus, further policy responses, and how households and businesses will utilise the room for manoeuvre the virus/authorities may give. Anyway, it will take time to come back to normal (or high) capacity utilisation rates. **Our somewhat optimistic case is a 3% decline in global GDP y/y in 2020 (from +2.8% before corona)**	The global manufacturing PMI recovered some of the April losses in May but the level remains low. Covid-19 cases & deaths still on the way down even as more countries eases restrictions
China	The Covid-19 'killed' the economy in Q1, and activity is just gradually returning to a normal level. Domestic demand is still low, with services as the weak link – and Chinese exports will be hit by the collapse in demand in ROW in April/May. The 2020 annual growth will be closer to -2%, from +6%, even if the activity level increases sharply in H2. Policy risks, both created in the US (trade, technology, 'health' war) and within China itself (like Hong Kong suppression) poses additional treats to growth	Industrial production back at pre corona level but even if both retail sales, investments and service sector production rose in April, all are well below the pre corona path. Credit is flowing faster
USA	The US cycle was mature, before Covid-19 hit. During the lockdowns, activity has collapsed, and GDP will decline by at least 12% to Q2 from Q4. Unemployment has risen sharply, even if companies are encouraged to keep employees at their payrolls. Profits are falling sharply, and now a record high debt level is not an asset for the corporate sector. Most households has strengthened their balance sheet during the crisis, savings have increased sharply **Risks, except for corona impacts: Policy uncertainty/trade/business investments &debt, not household demand or debt. And an unstable political leadership?**	The manufacturing ISM rose in May, but is still weak. Consumption down 13% , and income just as much up- and the savings rate up to 33%. Corp. profits badly hurt in Q1. Durable orders down but investments will mot collapse in Q2. Exports sharply down in April
EMU	Corona has sent the Eurozone into a recession, GDP fell everywhere in Q1 and Q2 will be far worse, in average, especially in the south. Services are hardest hit, especially transport and travel. The policy response is mixed but the new EU fiscal support program is significant and unprecedented – if agreed upon (which we believe). We expect a recovery in H2 but a a substantial negative output gap to remain in 2021, there as elsewhere	The EU Commission supported the German/French proposal of a EU funded relief package for those hit hardest by corona. suggest a common EU pandemic recovery fund. No strong data to be seen, but activity has bottomed
Norway	Growth had been above trend, and it was slowing before the virus hit. Unemployment has skyrocketed, due to temp layoffs but is now falling sharply. However, oil investments will decline through 2020/21, and faster than expected before the oil price setback. Mainland business inv. are not low, and will very likely decline substantially. Exports will decline substantially, at least the coming months. Housing investments are exposed even if the interest rate cuts are igniting the animal spirit again, as usual in Norway, and fiscal policy is very exansionary. Even so, low employment and falling real wages might pose a housing market risk, even in Norway. **Risks, other than corona: Debt, housing. A harsh global setback. We forecast a 6% GDP decline in 2020, and a similar recovery next year, implying a substantial neg. output gap**	Another crisis package, but just NOK 5 bn in et new spending. Unemployment is falling rapidly. Retail sales up & strong but service consumption still below normal. Exports have fallen sharply

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

Highlights

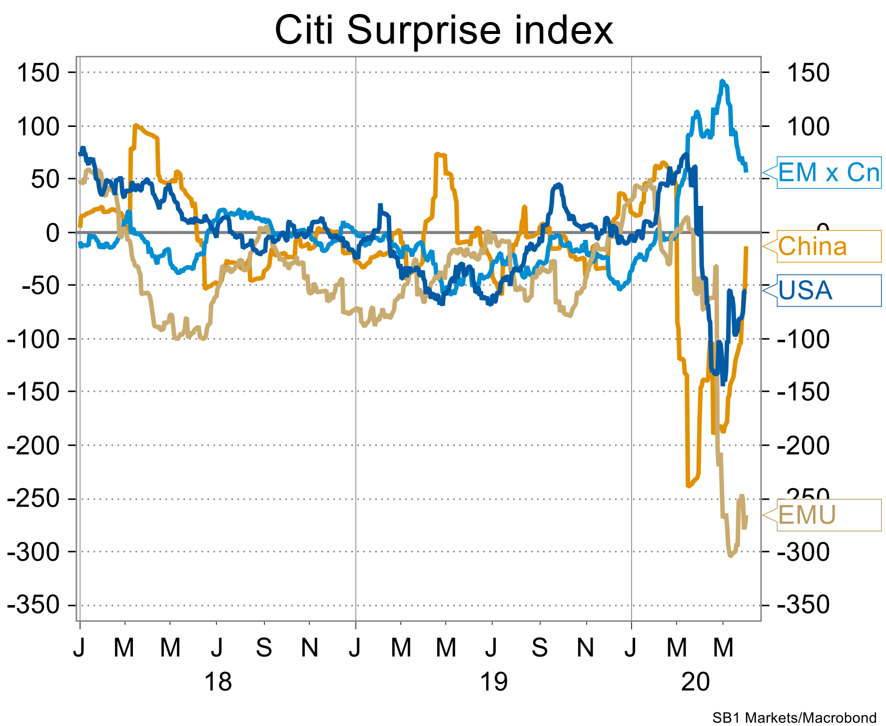
The world around us

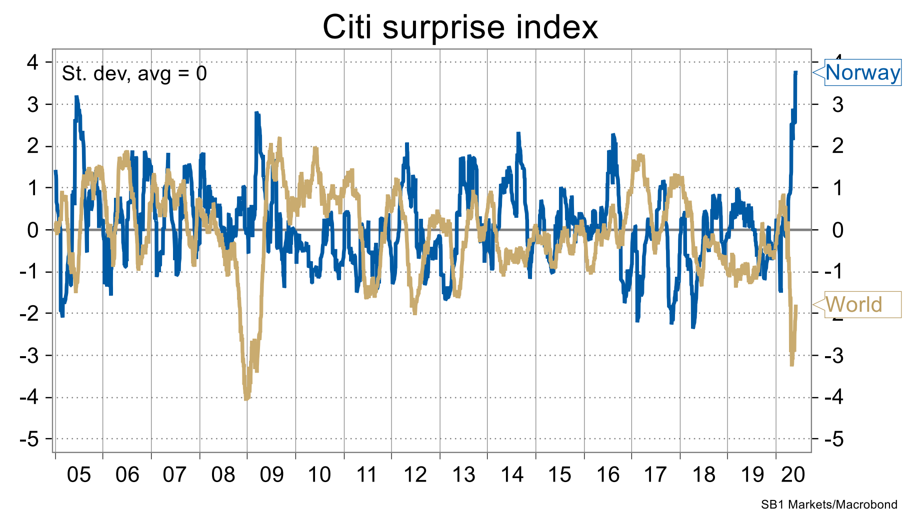
The Norwegian economy

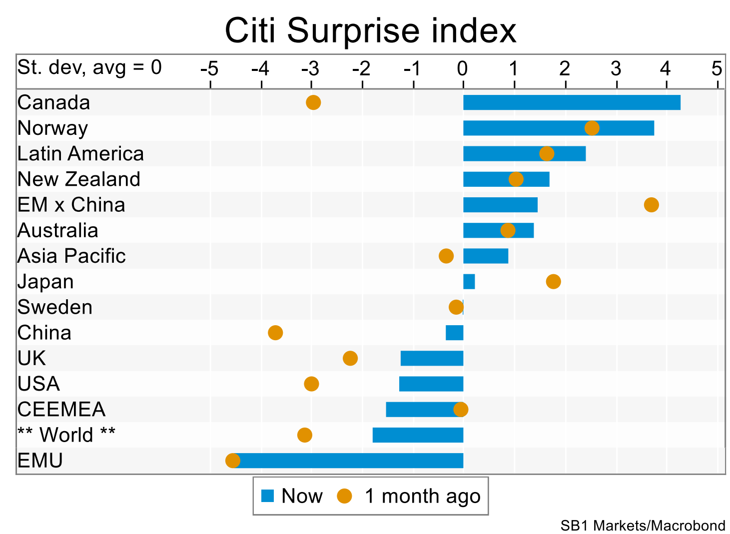
Market charts & comments

Still more surprises on the downside than on the upside

But date are surprising less on the downside recent weeks





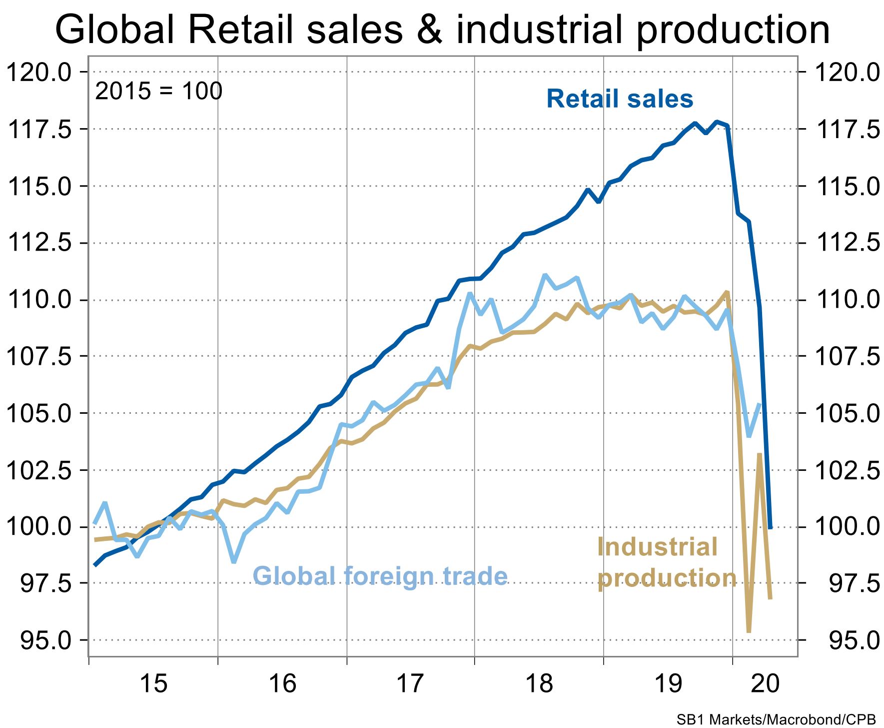


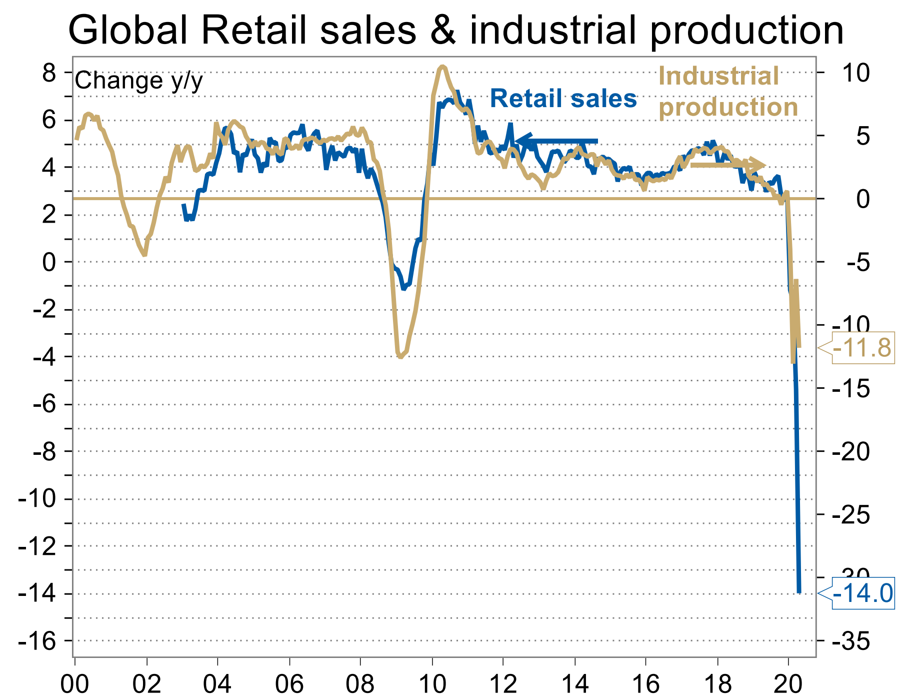
- Since February, the global surprise index has fallen sharply as data are starting to reflect the economic impacts of the corona crisis
- EMU is surprising most on the downside
- Norwegian data are more upbeat vs expectations, for no good reason
- We are not sure why EM x China data have been so much stronger than anticipated

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

Retail sales collapsed in April. Industrial production down too but less

Data still preliminary but retail sales fell off the cliff. Industrial production supported by China



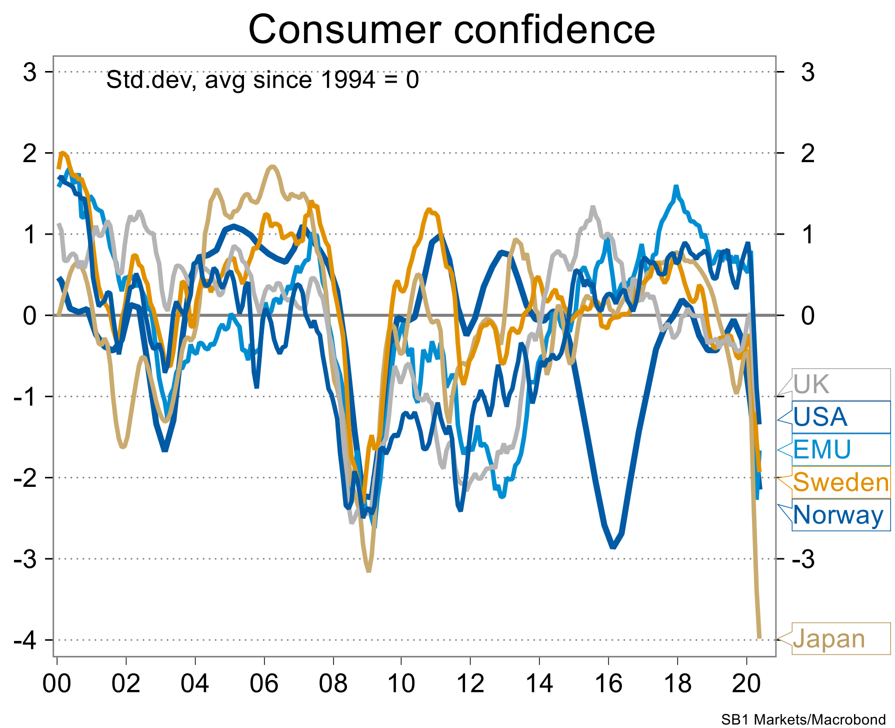


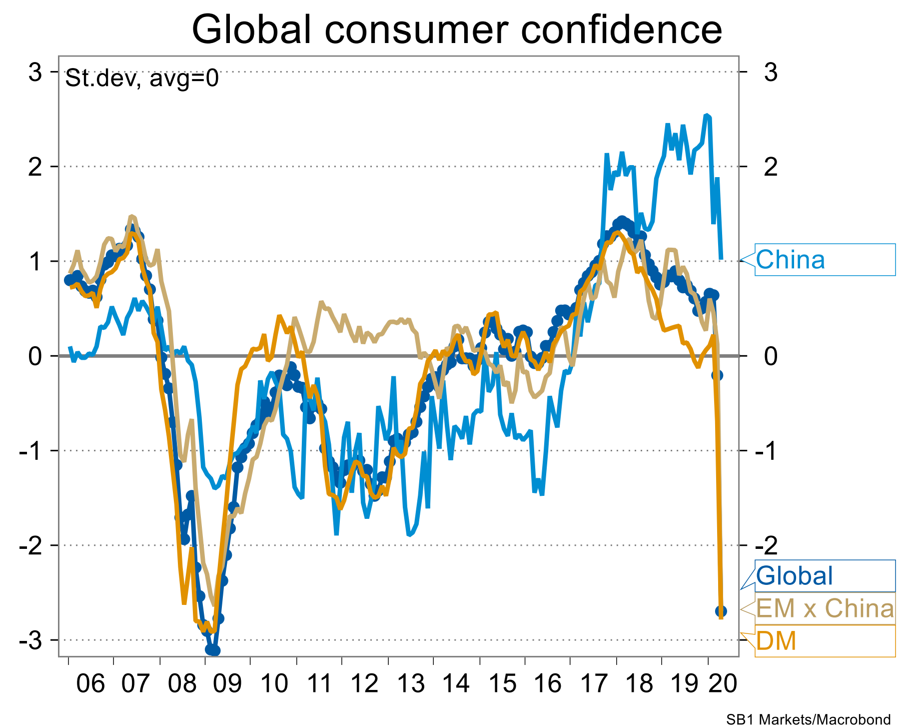
Memo: Keep in mind the different scales at the chart above

- **Global industrial production** probably fell some 6% in April, while retail sales fell even more, we assume 9%. China is contributing at the upside, but that's all on that side
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come…

Consumer confidence sharply down everywhere

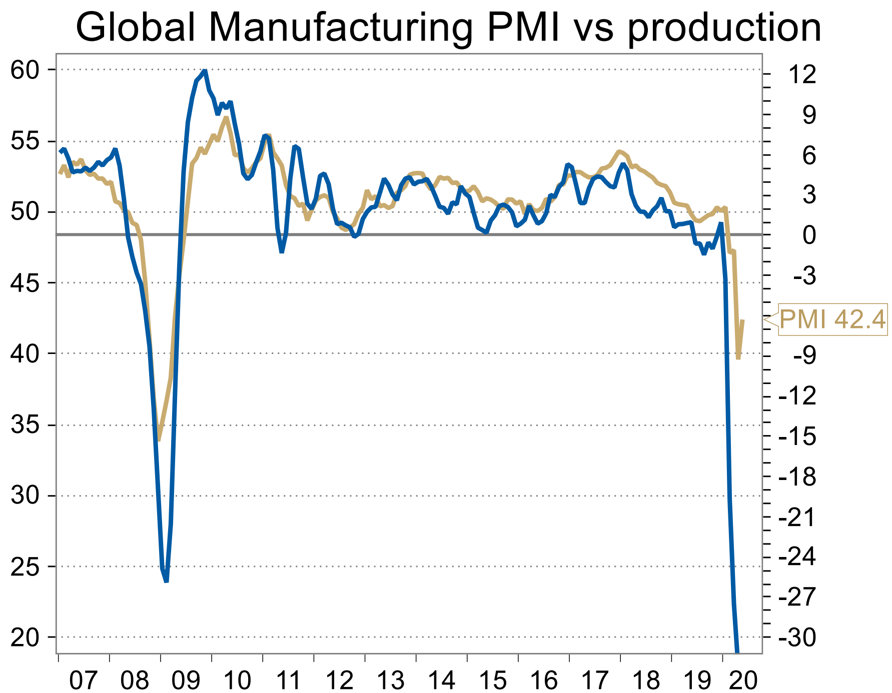
Still data are not disastrous and in average above the 2008 troughs, albeit not in EMU, Norway



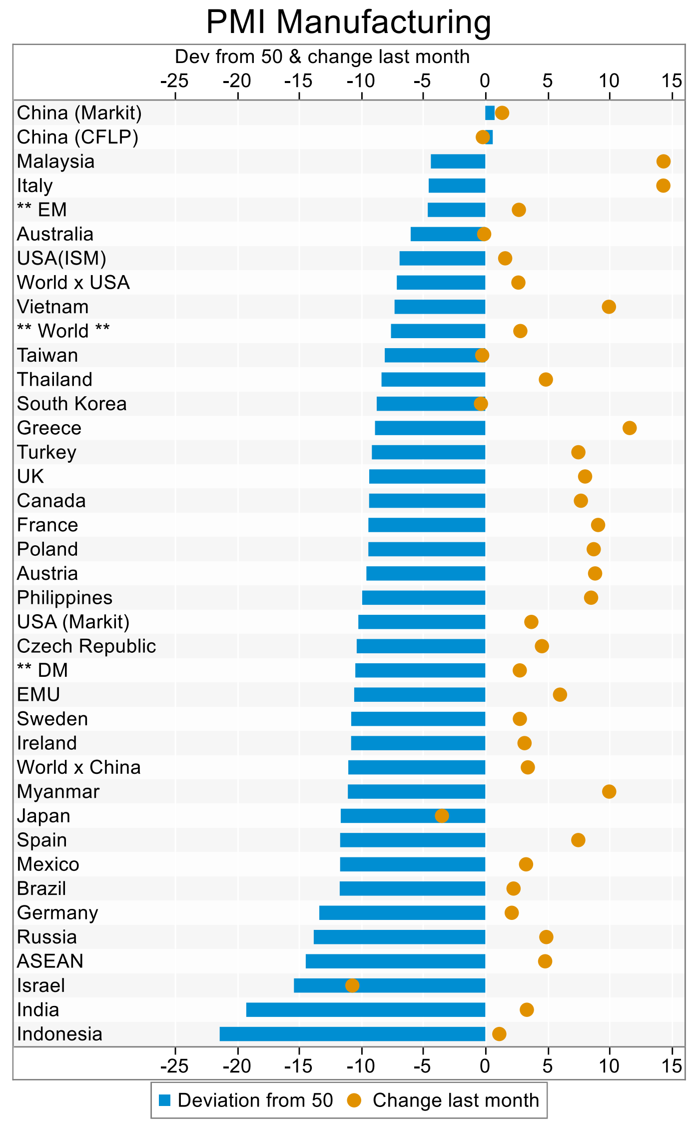


Manufacturing PMI up almost everywhere in May, all but China still <50

India and Indonesia at the bottom of the league



SB1 Markets/Macrobond

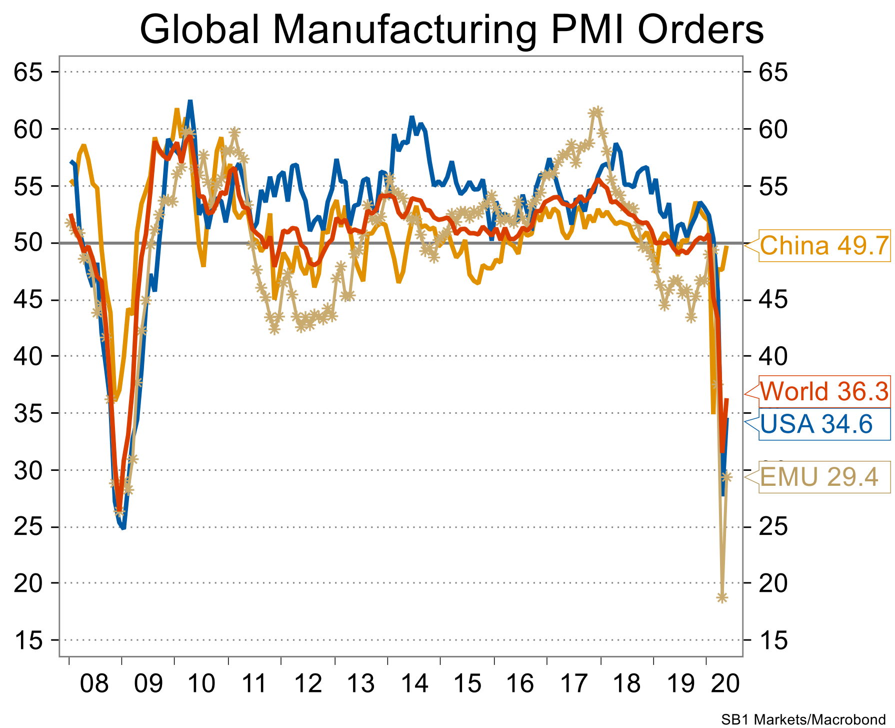


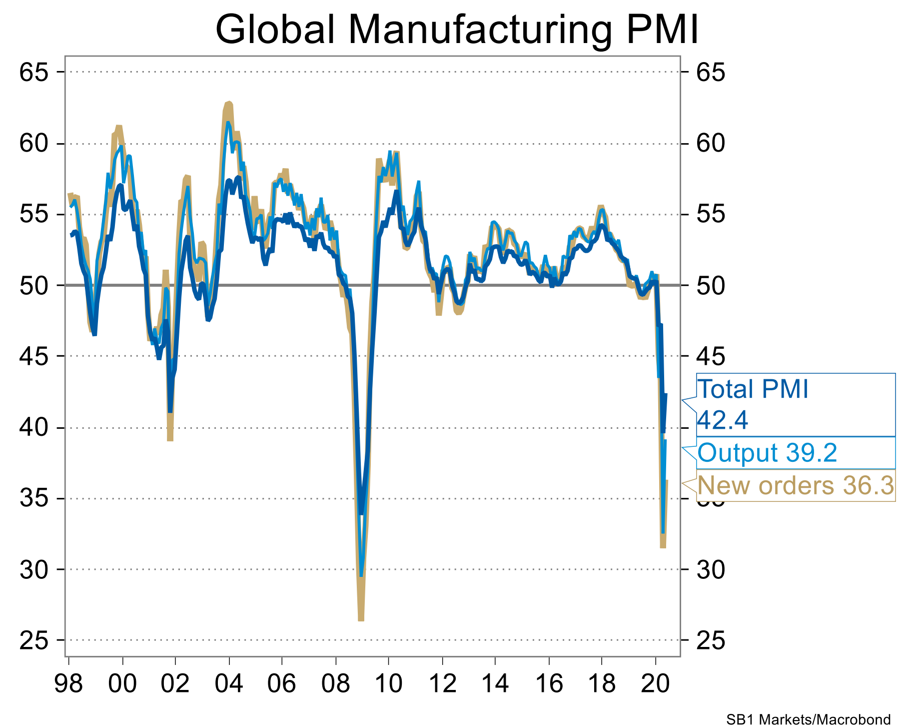
SB1 Markets/Macrobond

- The global manufacturing PMI rose 2.8 p to 42.4 in May – a level that usually signals a steep contraction in economic activity
  - » A few countries have not yet reported their May data (and they are not included at the chart to the right). Just Japan and Israel has so far reported a further (visible) decline in May
  - » Italy surprised on the upside, with almost a 15 p lift, to 45!
- Just the two Chinese PMIs are above the 50 line
- Emerging markets recovered more than rich countries (DM), and is at a far higher level, though with an important contribution from China
- No important revisions vs. the preliminary data almost two weeks ago

Manufacturing details are weak, orders still tumbling in May

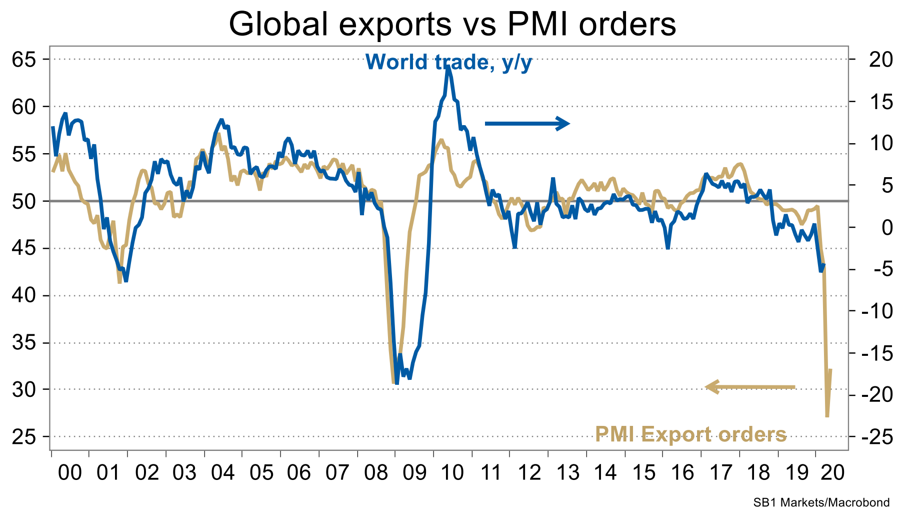
Global manufacturing orders PMI up less than 2 p to 36.3

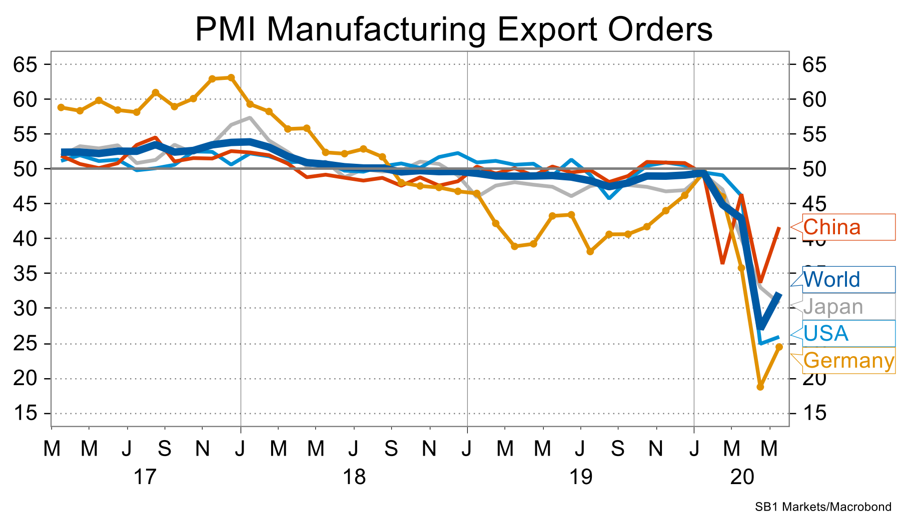




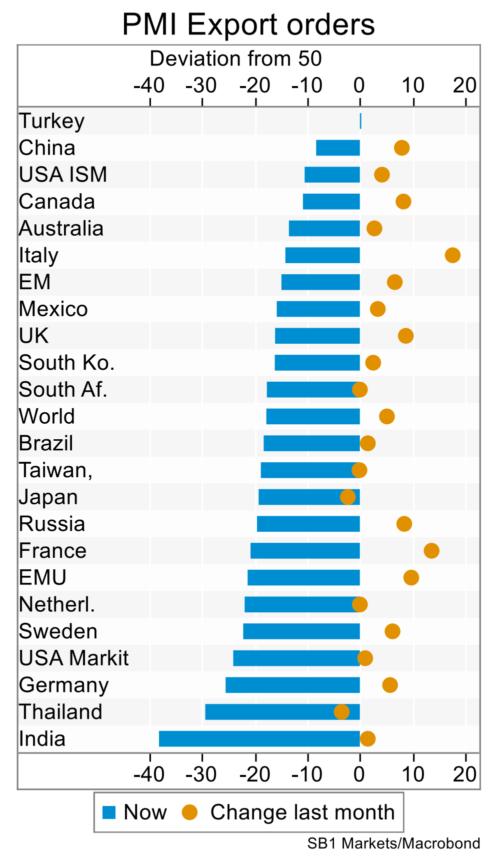
- The manufacturing output PMI is weaker than the headline index, as longer delivery times (due to corona distortions) are lifting the total manufacturing PMI (but less than in the US ISM index

Export order PMIs up everywhere but the level is still low, at 32

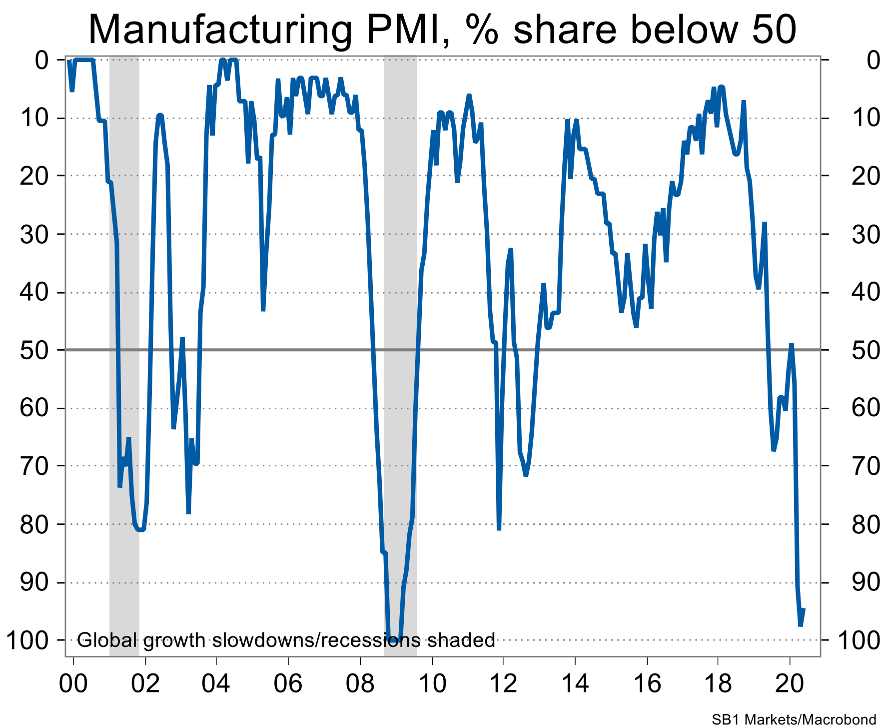


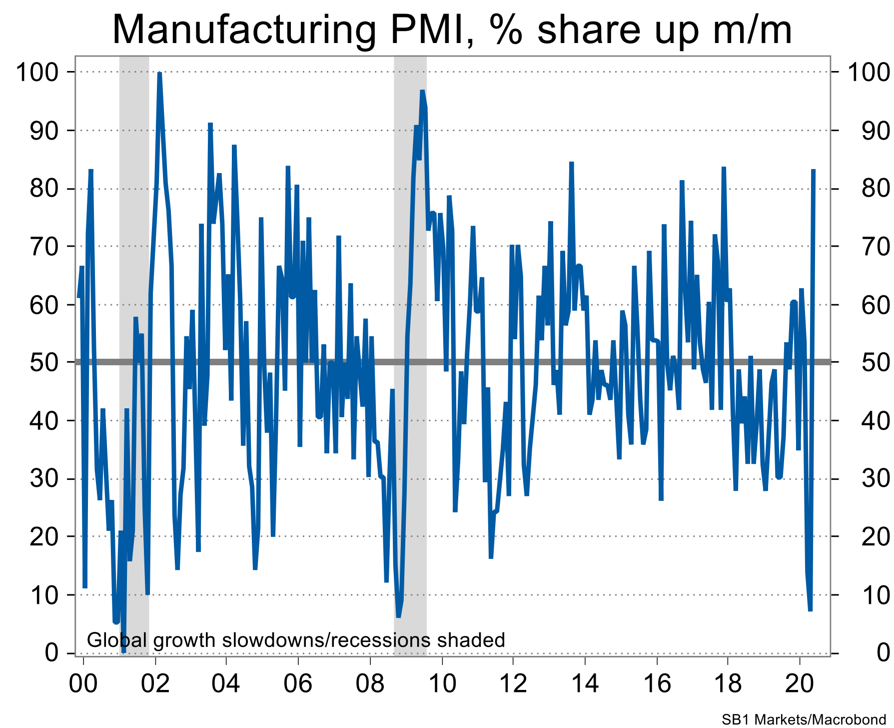


- All countries reported declining export orders in May (indeks <50)
  - » German export orders are still falling rapidly, index at 25!
- Almost all countries reported a slower decline than in April



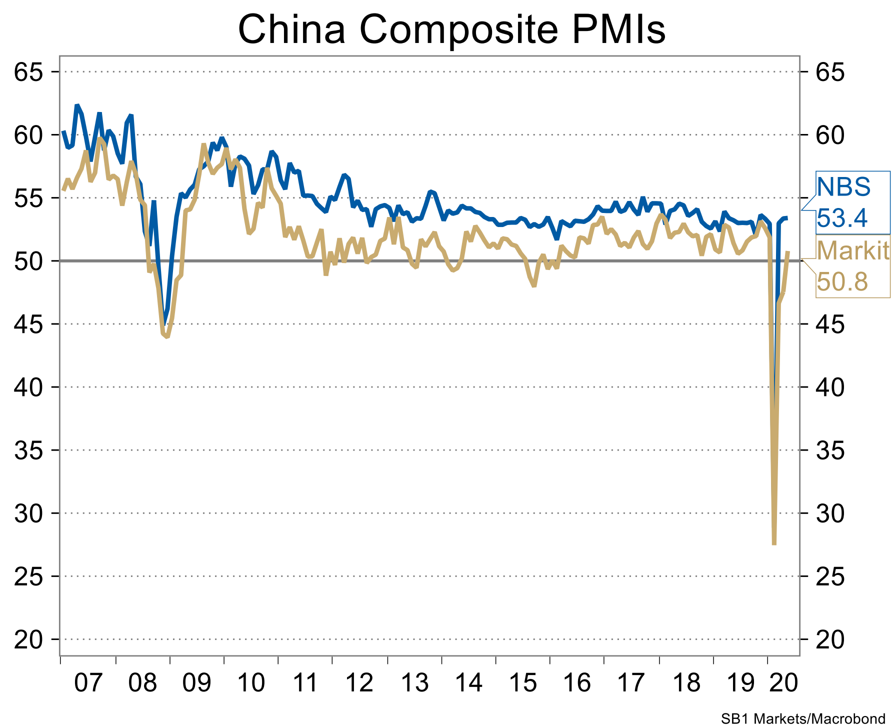
Almost all up in May but almost all still below 50

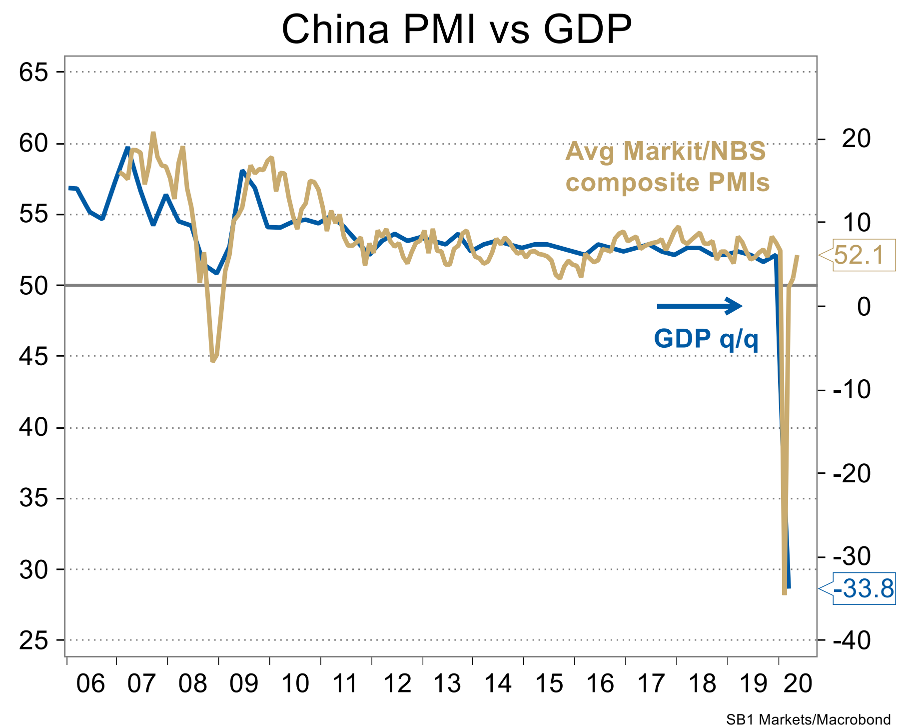




Chinese May PMIs confirm a modest recovery but still a recovery

Both PMIs (probably up but growth to slow to close the output gap. Exports the challenge again

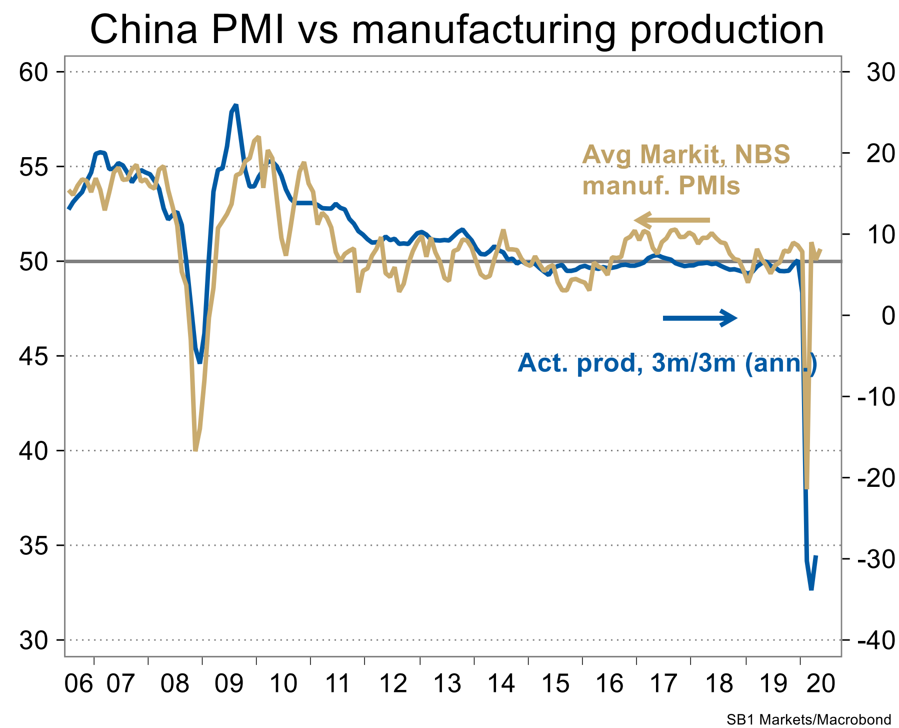




- The NBS' 'official' composite PMI rose marginally in May, manufacturing slowed a tad (but remained above 50), services strengthened more – and the index is back at a normal level, the composite at 53.4
- Markit's manufacturing rose 0.8 p and more than expected to 50.7 (and we assume that the composite index rose to above 50 too)
- Export orders were the weak link in both manufacturing PMIs. Domestic orders is growing at a brisk pace
- The two data sets signal a 5 – 6 growth pace, in line with trend growth before corona. <u>That's too low to close to negative output gap created by the 10% drop in GDP in Q1</u>

One manufacturing PMI up, another more up – and both are slightly above 50

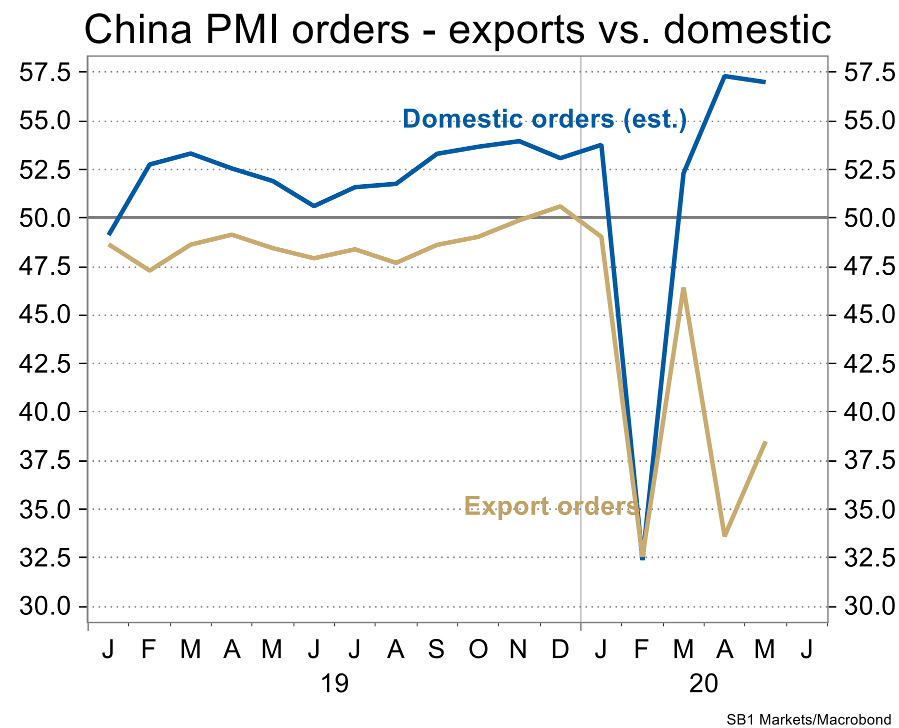
PMIs around 50 does not signal a brisk recovery



- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

Export orders the main drag, again. Domestic orders sharply up in April/May

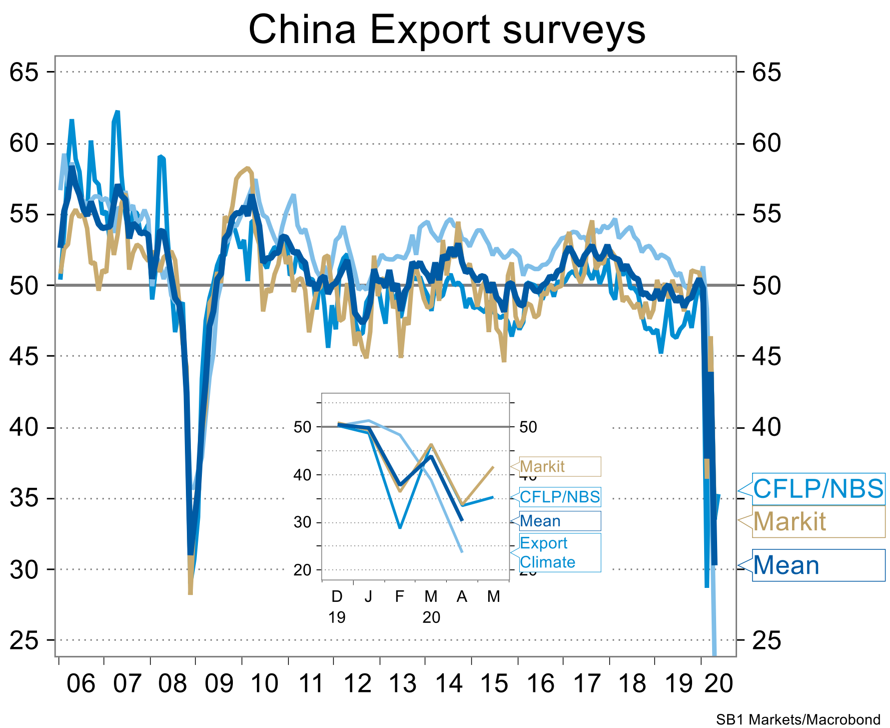
The global spread of Covid-19 in the rest of the world is now slowing the Chinese recovery



- Export orders are reported sharply down in May, but a tad less than in April
- Total order indices were close to 50, signaling decent growth in domestic orders
  - » At the chart to the right we have made a rough estimate of an domestic order index (which ins not published).

Export surveys up but are still at a depressed level. Exports on the way down

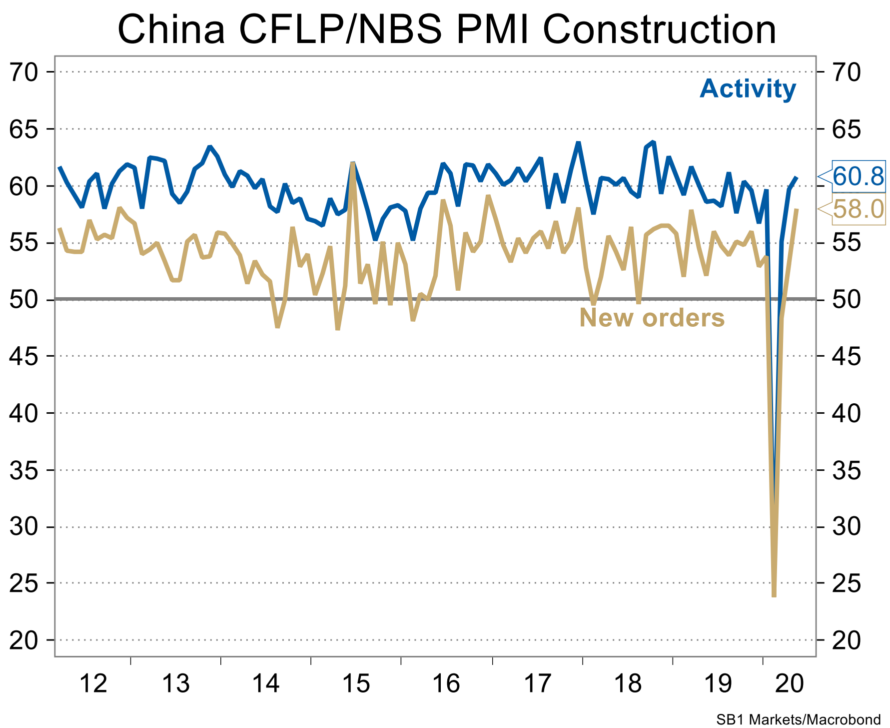
In February, the Chinese Covid-19 lockdowns stopped exports, now it's lockdowns in ROW

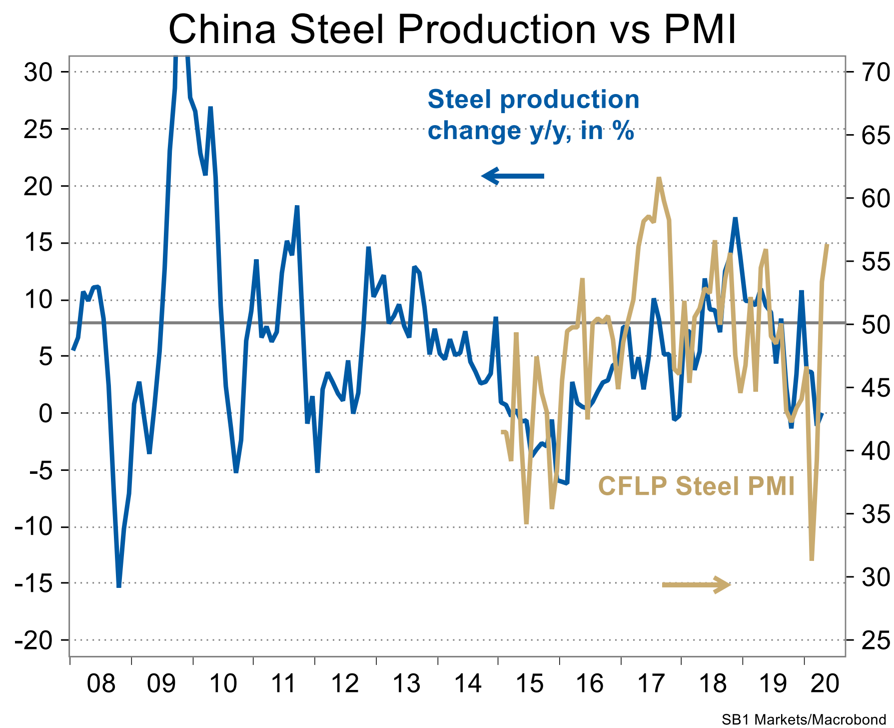


- Actual exports are down y/y measured smoothed due to the 40% drop in exports in February, in March and April exports were close to pre corona levels
- We expect a decline in Chinese exports in May and June

Construction & steel back on track

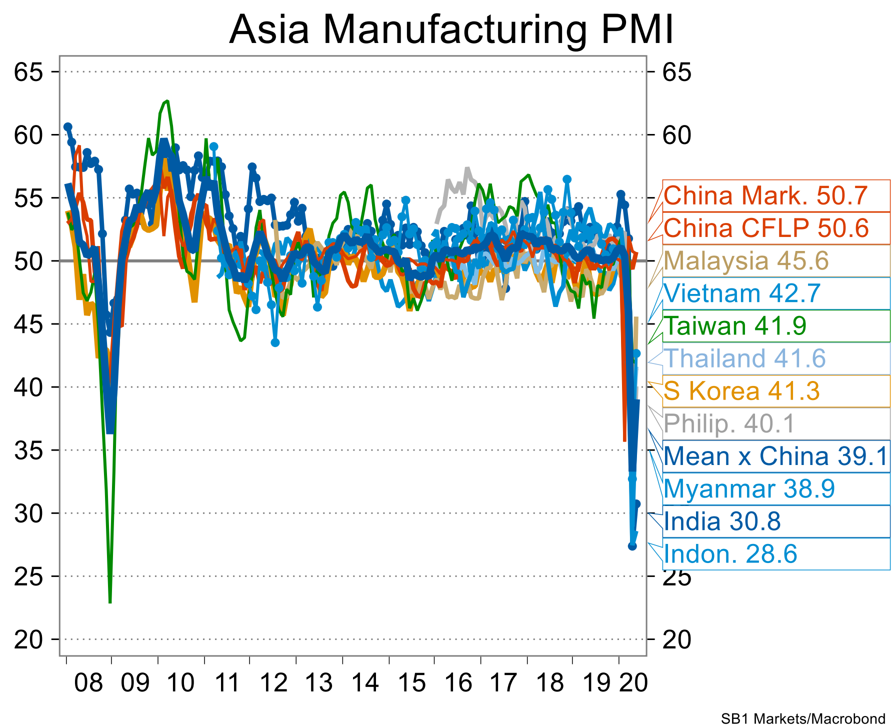
The construction sector PMU rose further in May, to above 50. Steel is recovering too

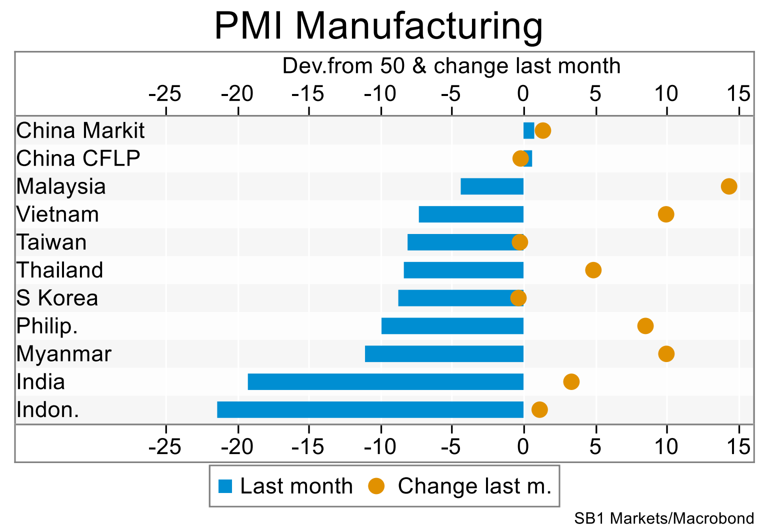


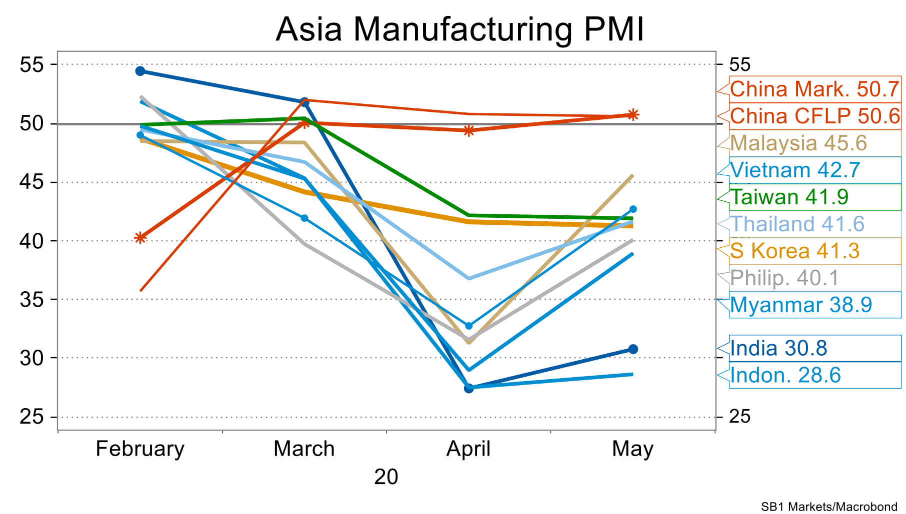


Most Asian PMIs up but Taiwan, S-Korea marginally down

The level are still low, the average around 40. India extremely weak, at 30.8



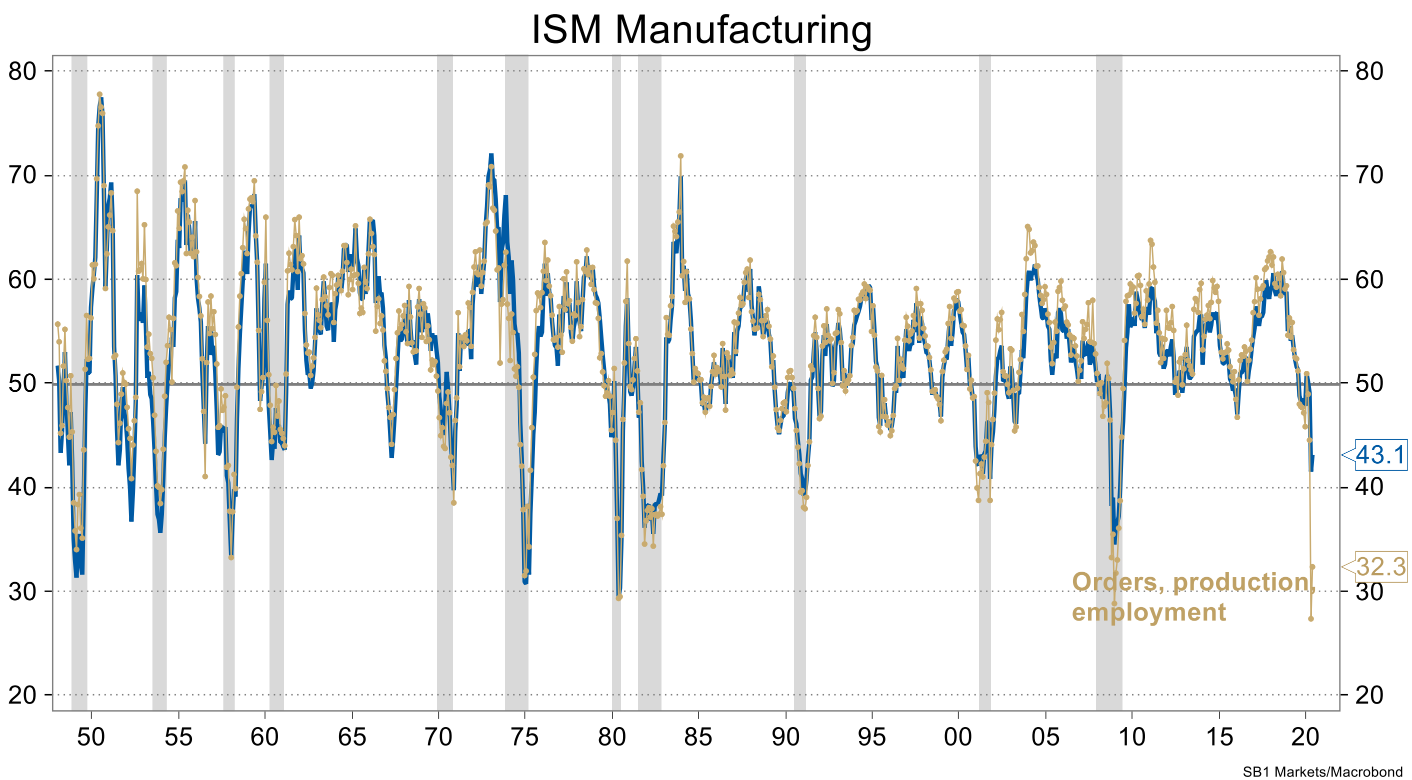


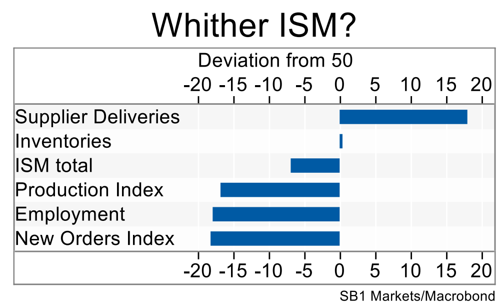


- No country has reported a significant decline in manufacturing PMI (Indonesia has not yet reported
- Export orders are the weakest link
- Asian economies are no doubt hit by Covid-19, all due to decline in exports, some also due to domestic virus challenges

Manufacturing ISM still depressed in May, the ‘real’ index at 32!

The total index up 1.6 p to 43.1, as expected. Activity data still 10 p lower

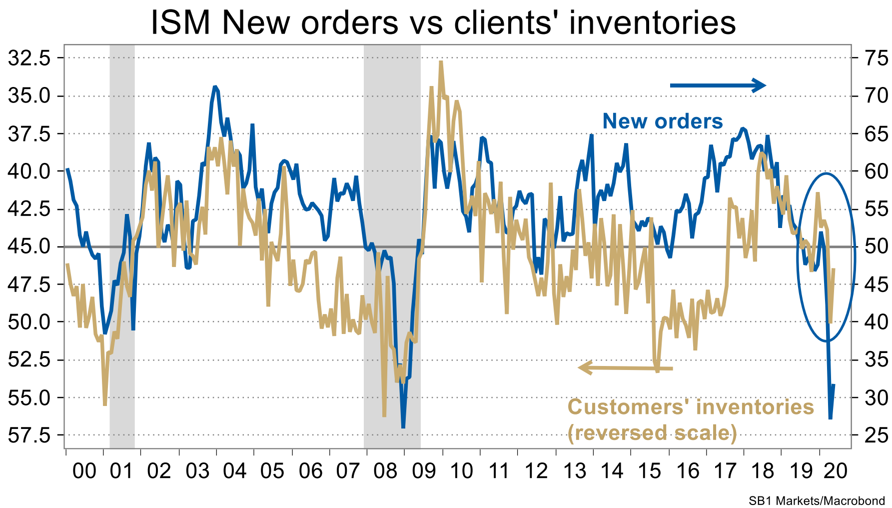


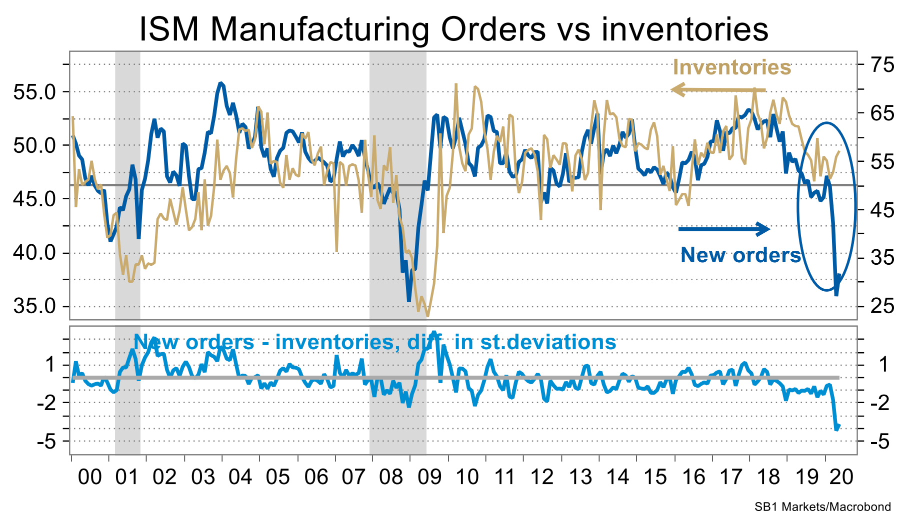


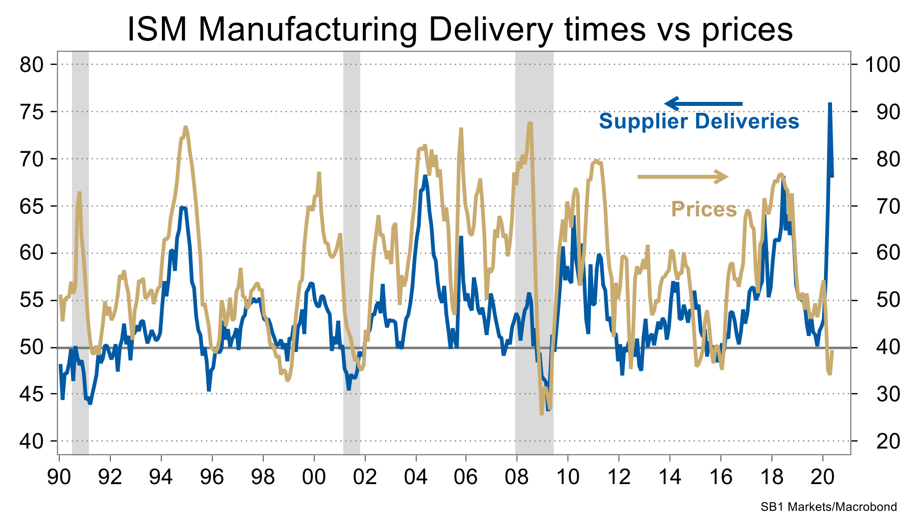
- Due to supply chain interruptions, both due to lack of deliveries from China and internal US challenges during the fight against Covid-19, companies are still reporting lengthening delivery times.
  - » Usually that’s a sign of a booming economy, but not so now. If we take out delivery times from the calculation of the headline ISM, and if take out inventories as well – and ‘just’ utilise the new orders, production and employment indices, the avg is at 32, up 5 p from the the lowest level ever
- 6 manufacturing sectors reported growth in May, up from 2 in April. 11 are still on the way down (from 15).
  - » Those om the way up: Nonmetallic mineral products, furniture, apparel; food & beverage, paper, and wood
- The bright spot: Manufactures recon their customers have run down their inventories

Orders are still contracting a fast pace. Prices too

A bright spot: Customers' inventories are not falling as fast as in April!

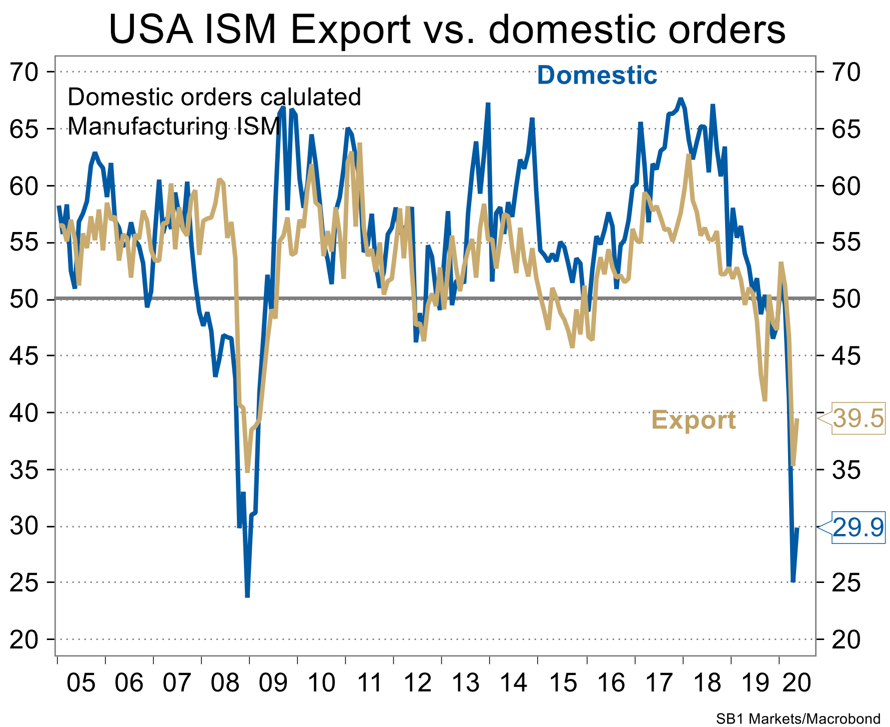


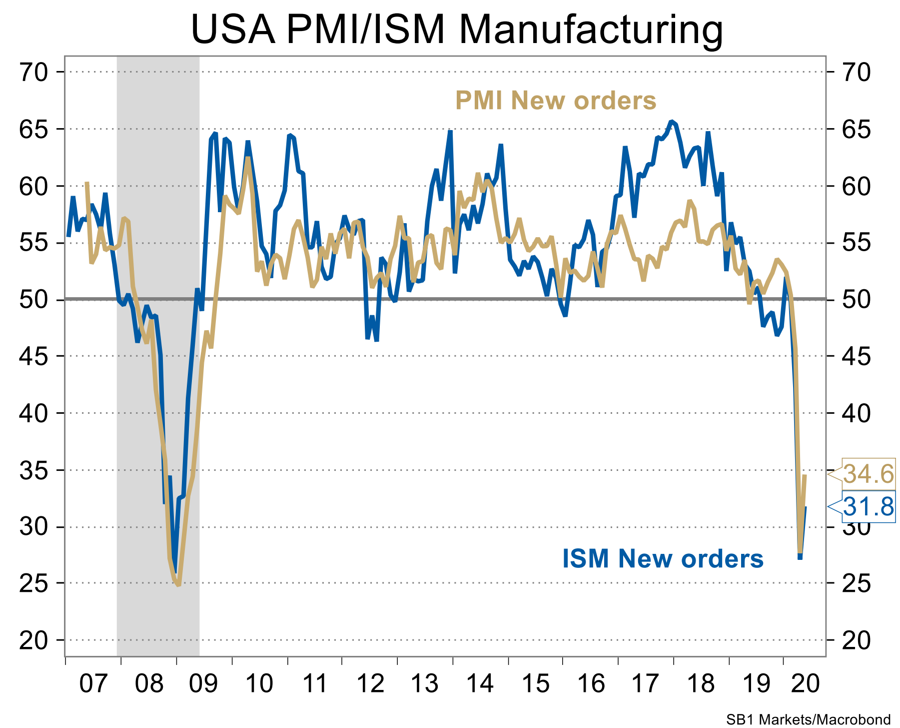




Domestic orders are still even weaker than foreign orders

Domestic orders are still falling at a fast pace, export orders down but non weaker than in 2008/9

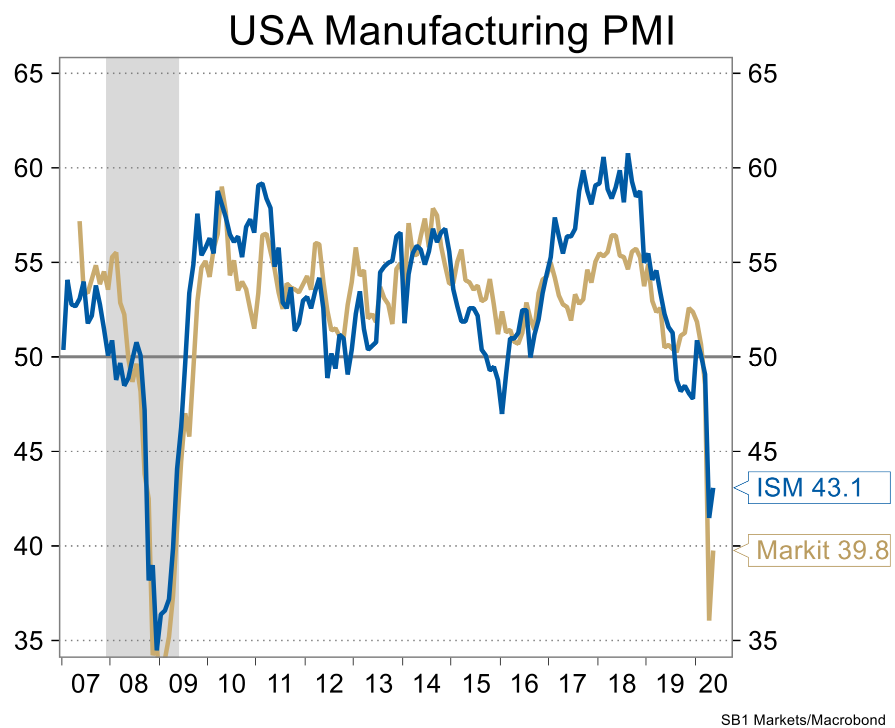


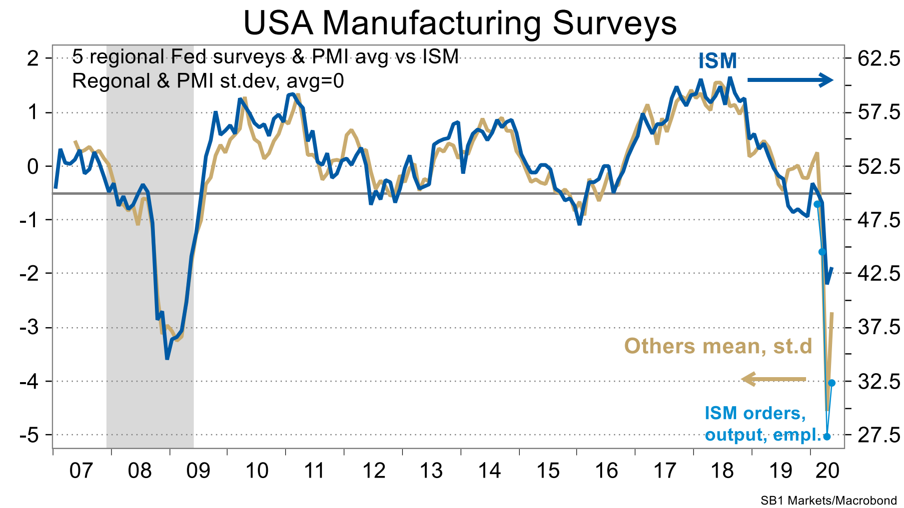


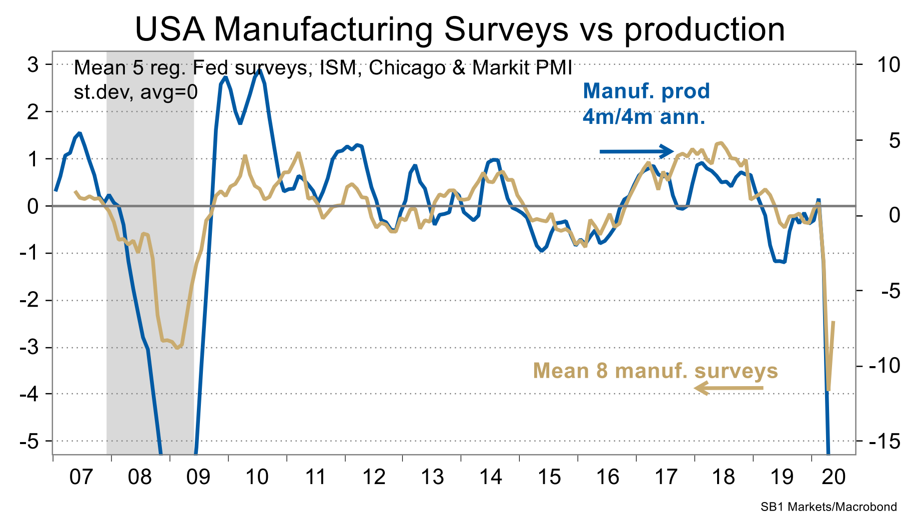
- Both the ISM survey and the PMI are telling the same story on orders

All manufacturing surveys up in May, but all remain at very low levels

We are not so sure that manufacturing production grew in May





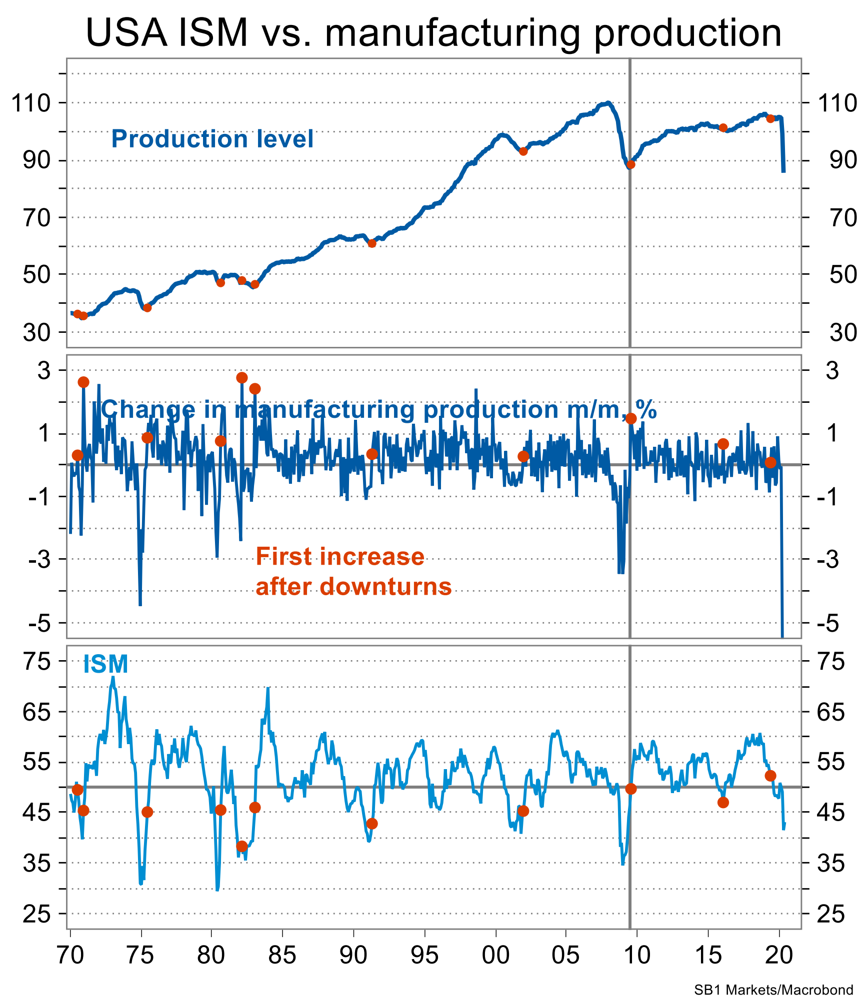


- Markit's manuf. PMI rose 3.7 p to 39.8 in May
- Manufacturing production fell 13.7% in April, and we expected a small recovery in May. We are not so sure anymore – even if these surveys do not usually detect the firs uptick after a setback – check next page

SpareBank 1 MARKETS

Normally, the PMIs/ISMs do not spot the first month of a recovery

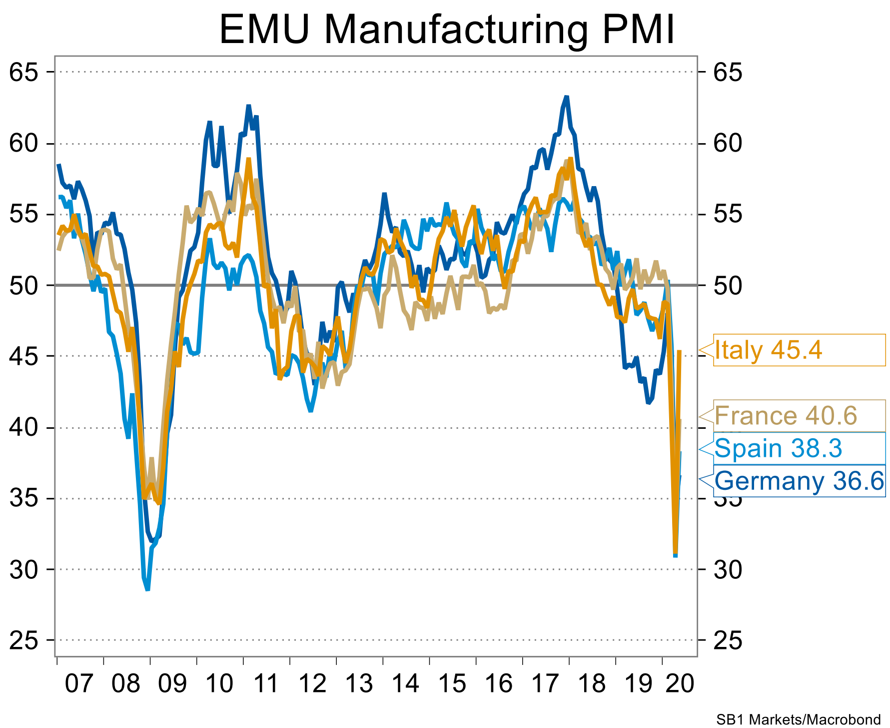
PMIs should climb to above 50 if production grows m/m but they do not

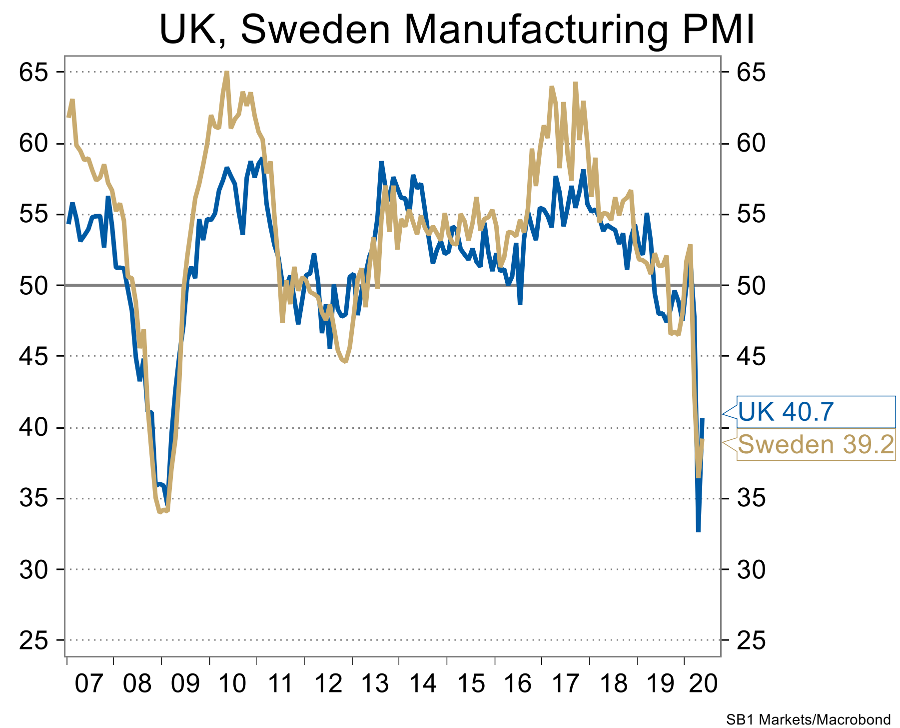


- The ISM (like other PMIs) usually remains below 50 when production increases for the first time after downturns
- Most likely because companies are not answering the survey exact. They are asked about the change in orders, production etc from the previous months but are rather referring to the change in activity over the previous few months (but not y/y changes and not the activity level vs. a 'normal' level)
- Still, the PMIs/ISMs captures the broad cycles very well, and are useful in an analysis of the momentum in the business cycle

Up all over Europe, most in Italy. UK & Sweden both like EMU

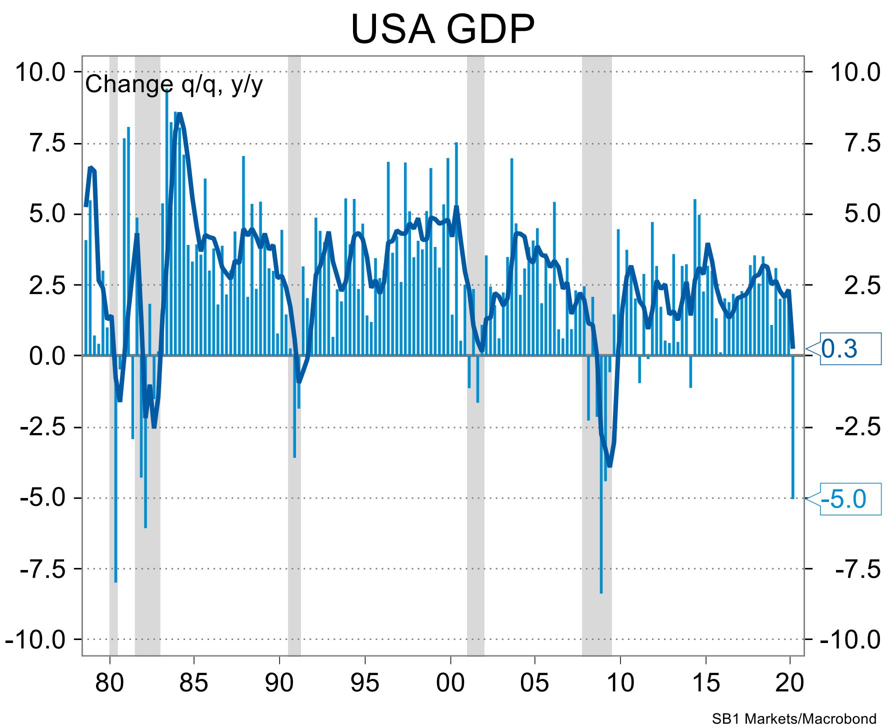
… and the manufacturing PMIs are still close to 40, a low level

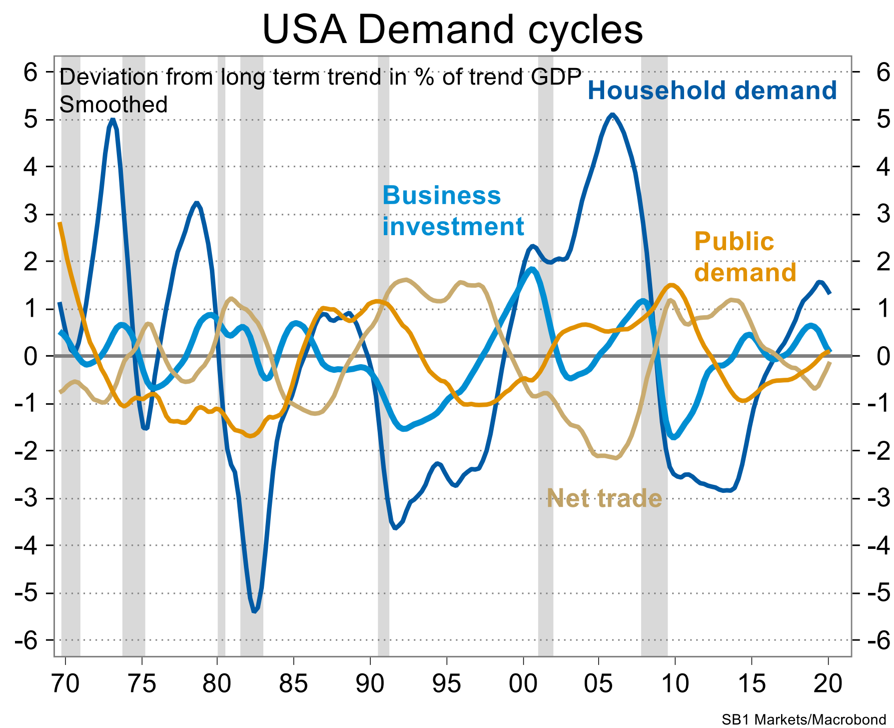




GDP contracted a tad faster in Q1 but net drag just from inventories, good news

Private consumption fell less than first reported

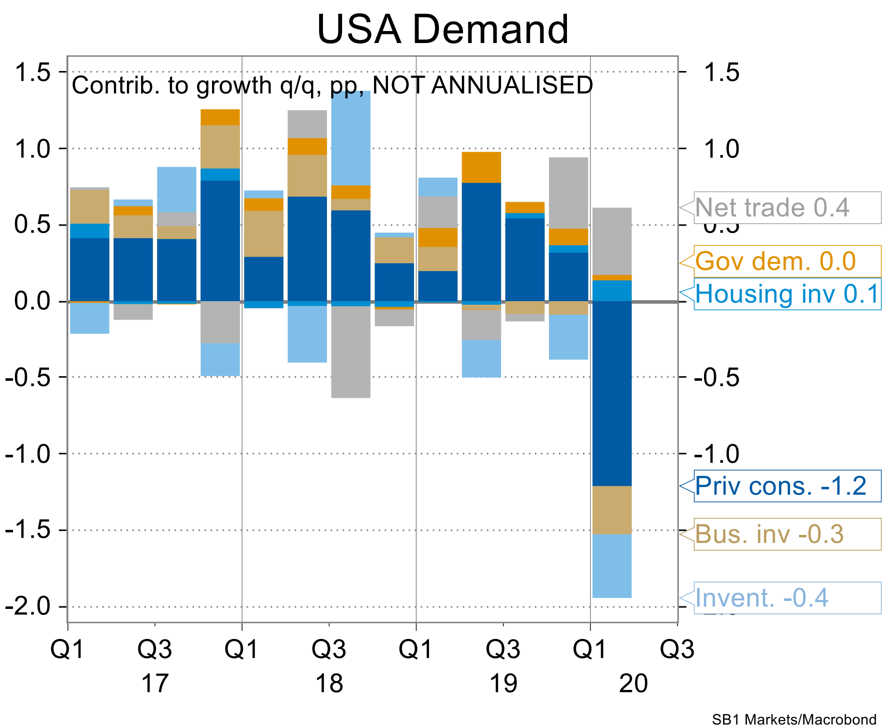


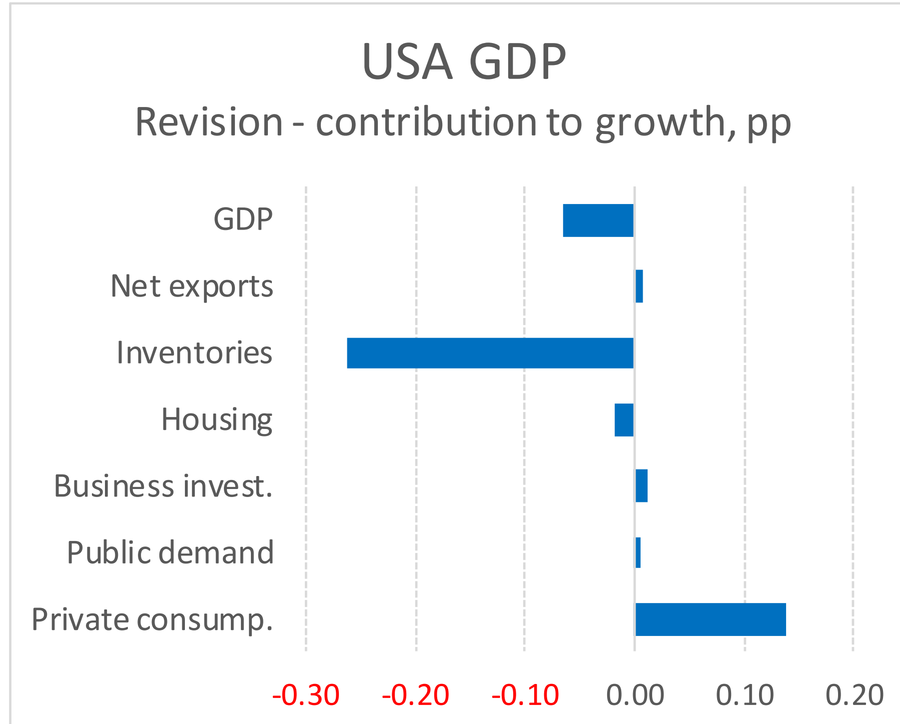


- Domestic private demand fell sharply in Q1, even if just the last two weeks were badly hurt from corona measures/actions
- Business demand has fallen the past 4 quarters – but significantly just in Q1

Private consumption fell less than first reported, inventories contracted faster

A nice mix! Still, consumption fell sharply, deduction 1.2 pp from growth (not annualised, from -1.35)

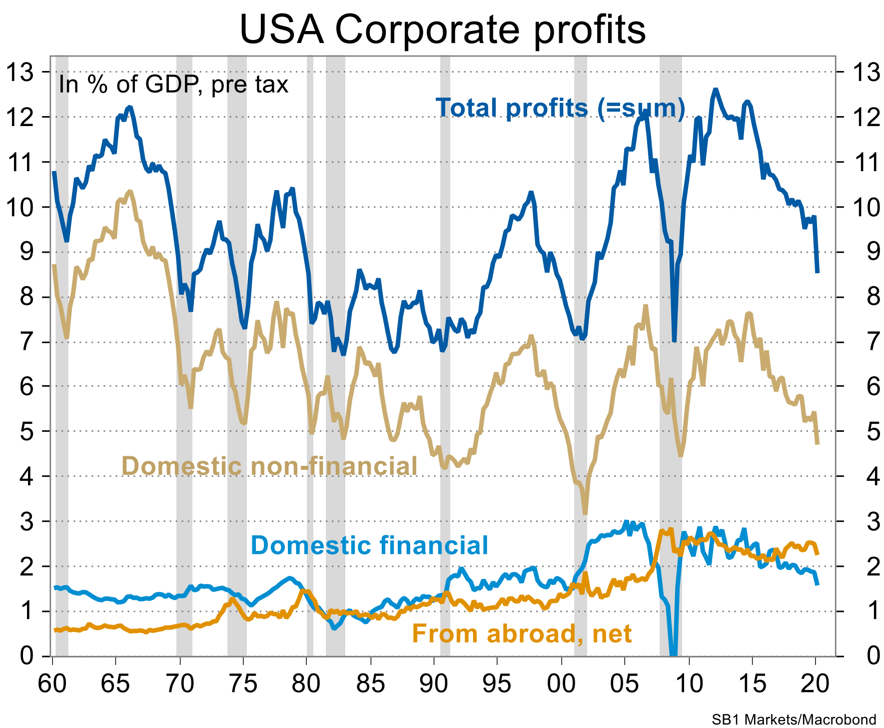


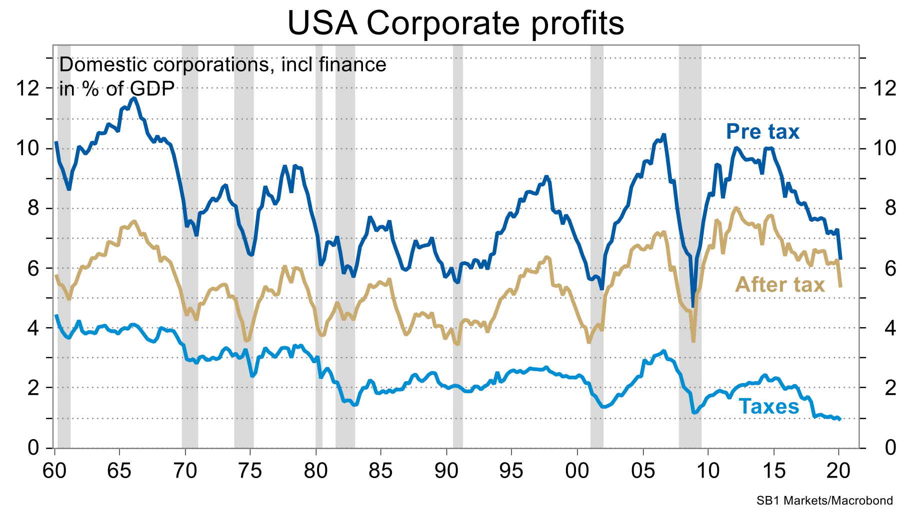


- Small changes in other components

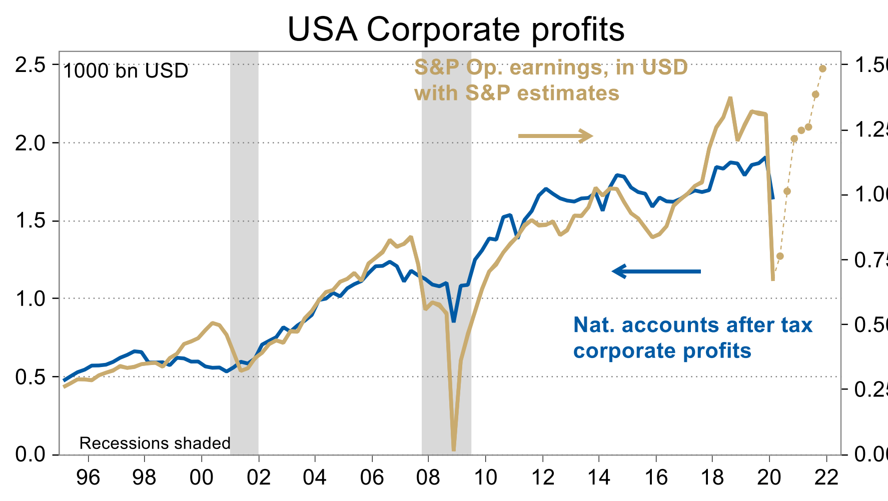
Corporate profits down 14%, the largest decline since -26% in Q4-08

And that was Q1… Profits fell 'everywhere – and are lower than normal, pre tax





- Corporate profits in % of GDP have been heading steeply down since early 2015 (and nobody told you so)
  - » Profits from abroad has kept up – while domestic profits are lower than normal vs. GDP, at least before tax
- The decline in Q1 is the 3rd largest since WWII
- S&P500 operating earnings fell by 50% in Q1, according to S&P. Their analysts expect profits to start recovering in Q2, and to be back on track pretty soon

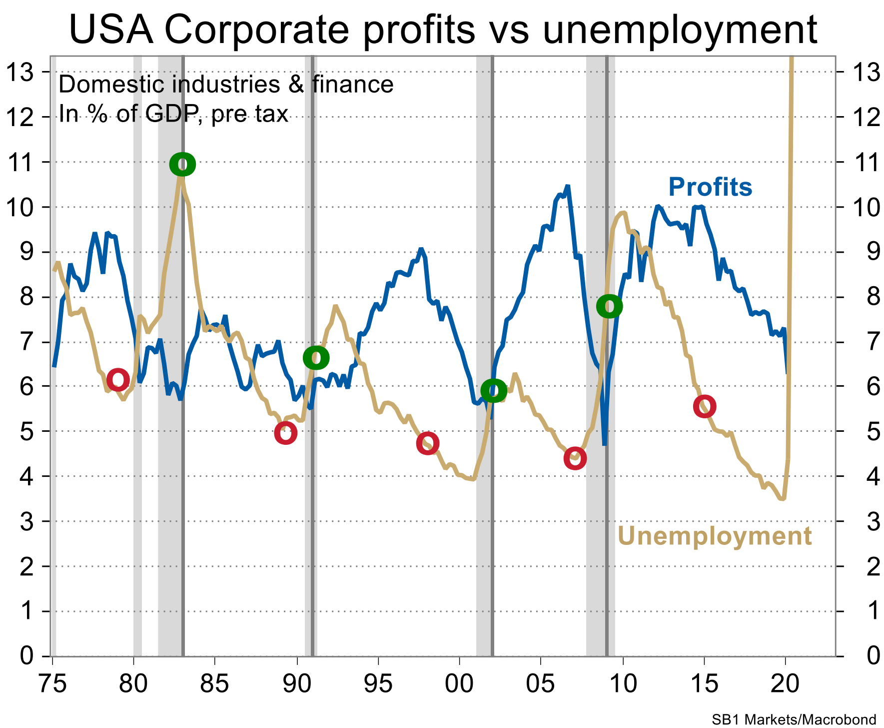


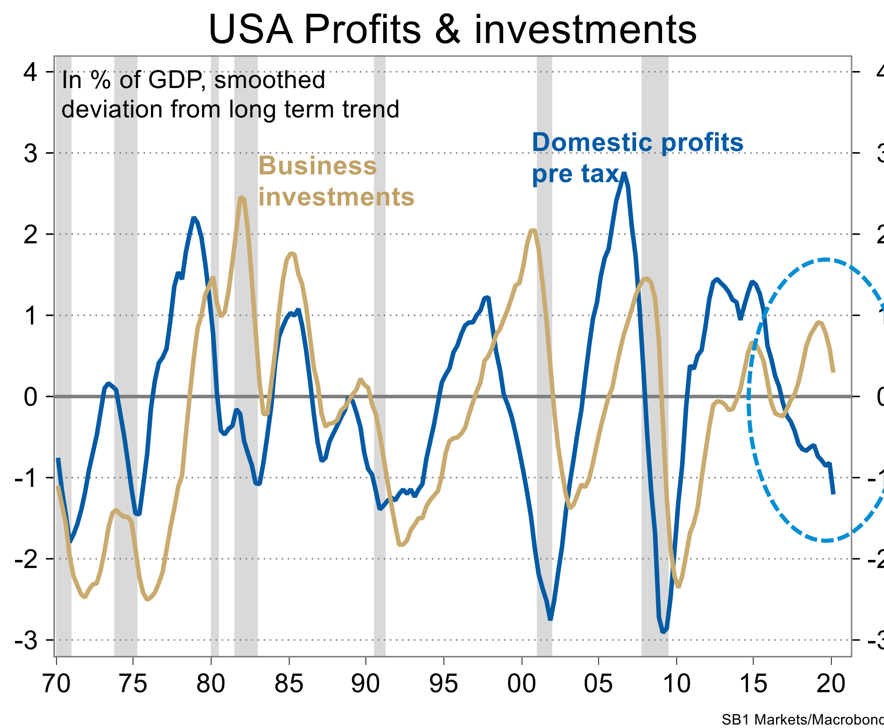
From early 2018 companies have reported higher operating earnings than normal vs. corporate profits as reported in the National accounts. Q1 seems to have been a payback quarter. It happens from time to time (in recessions)

SpareBank 1 MARKETS

The profit rate starts to decline when unemployment becomes 'too' low

The profit cycle turned in 2015, and pre tax profits were low – even before corona



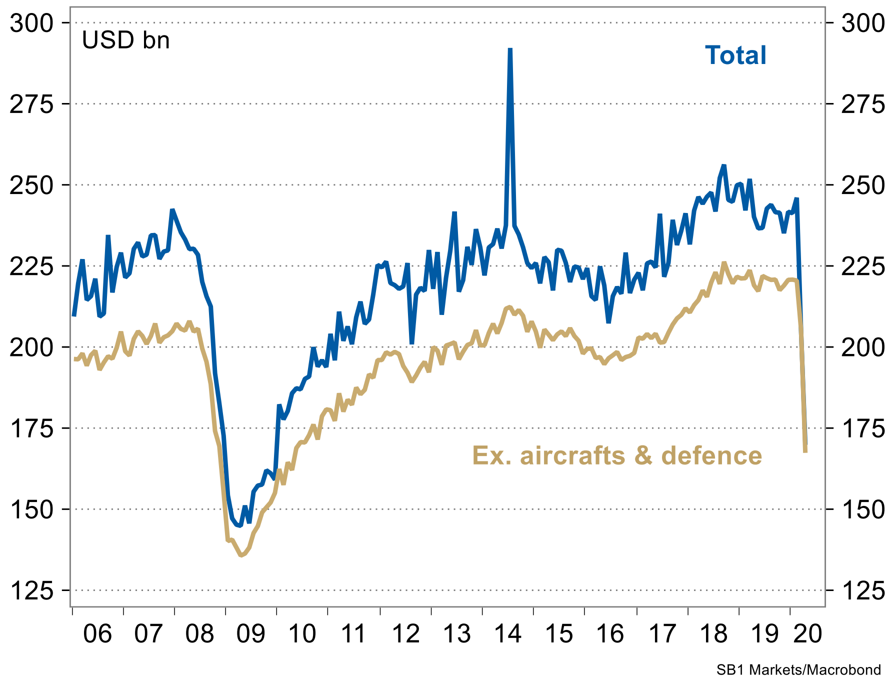


- The profit cycle does not turn up before unemployment has risen sufficiently, during a recessions. Well, now we are there, a 15 – 20% should be enough to take wage inflation sharply down
  - » But we doubt Q1 was the bottom of the profit cycle, even if analysts assumes so
- Business investments are exposed when profits have fallen to a too low level – and now they are falling

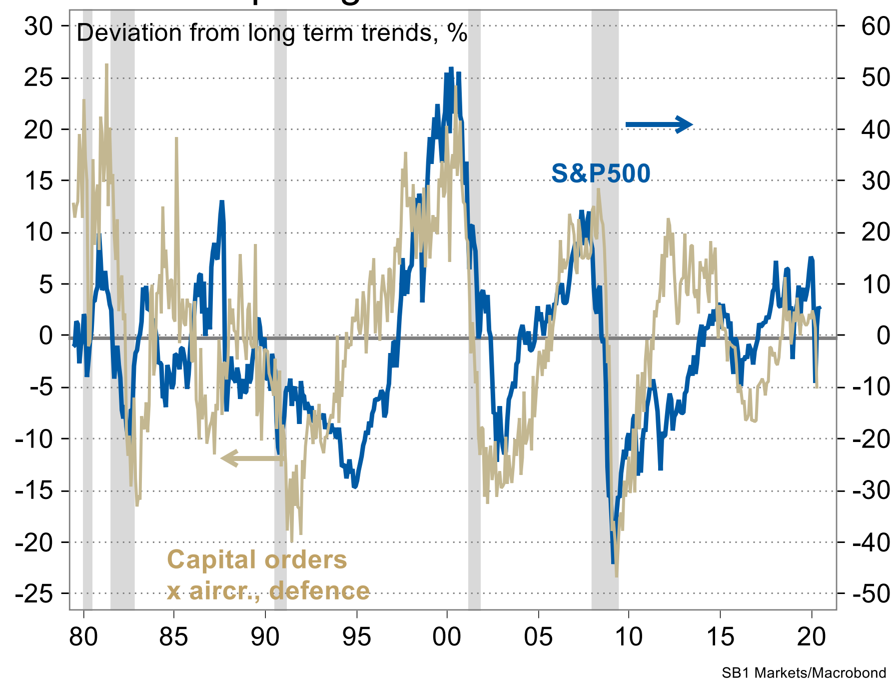
Durable orders down but less than expected, just aircraft/auto really weak

Total orders down 17% but ex transport 'just' 7%. Investment orders down but not out

USA Durable orders



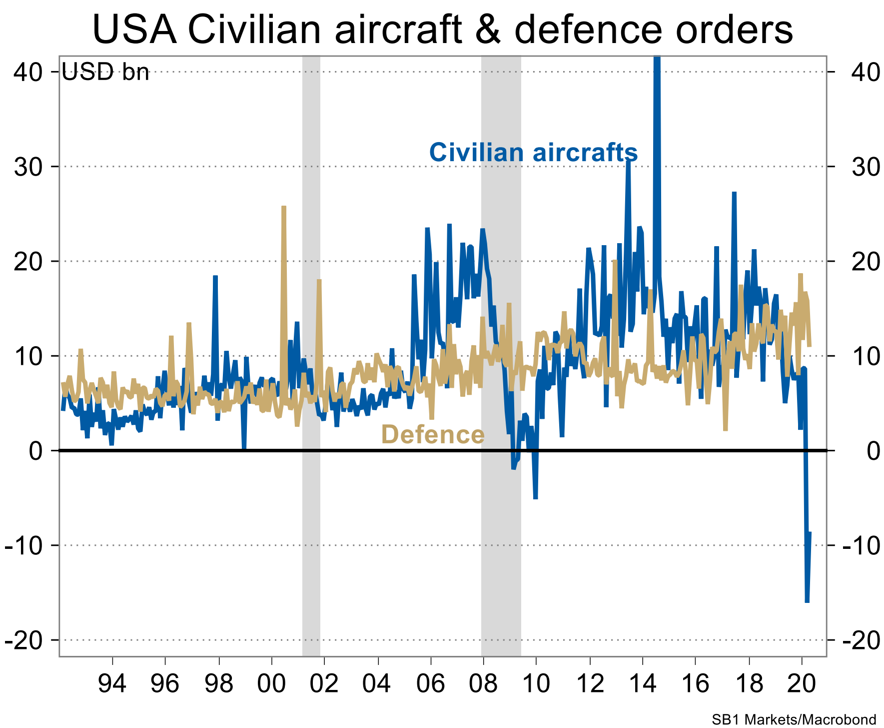
USA Capital goods orders vs S&P500

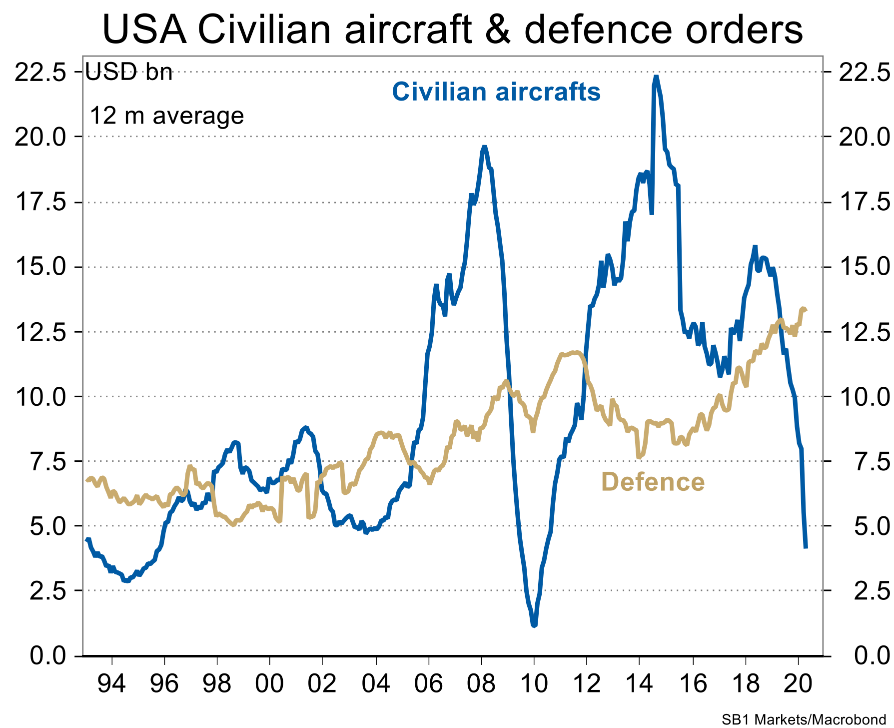


- The decline in total durable orders April was a tad less than feared (18 – 19%)

More Boeing cancellations but less than in March

An unprecedented event – following weak orders for several months (and well before corona)

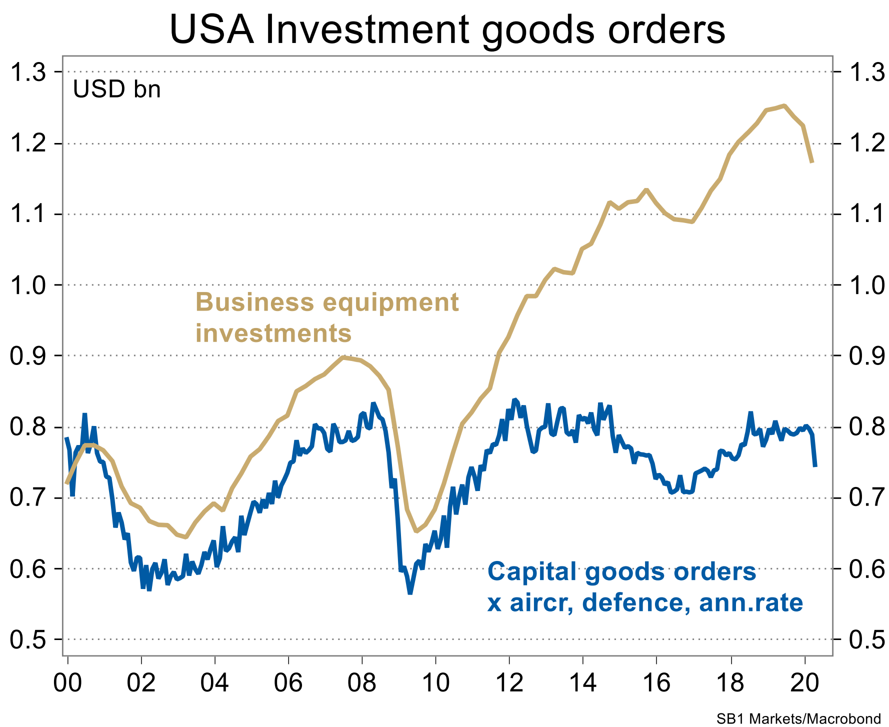


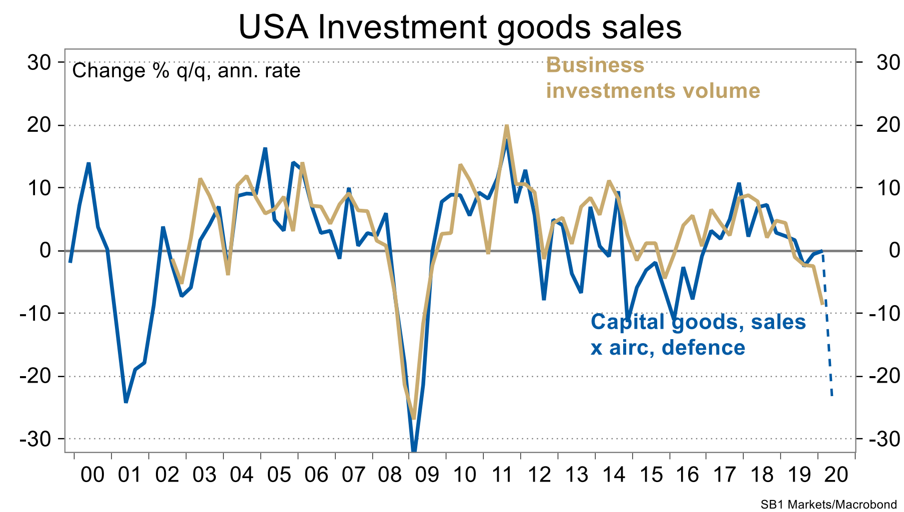


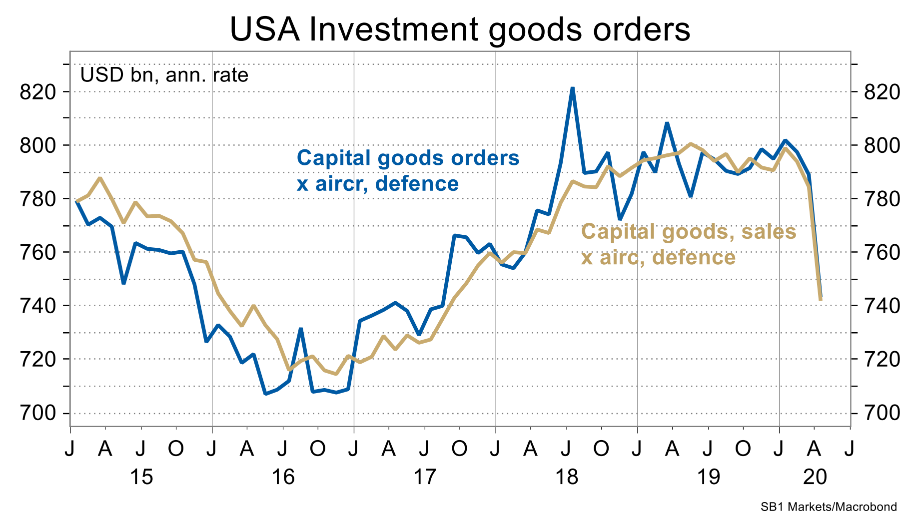
- Still, compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters (it started last spring!) is not surprising at all – even if the USD 25 bn cancellations in March and April was an unprecedented blow

Capital order down but 'just' by 6%, expected -10%

Business investments will no doubt fall sharply in Q2 but probably less than feared



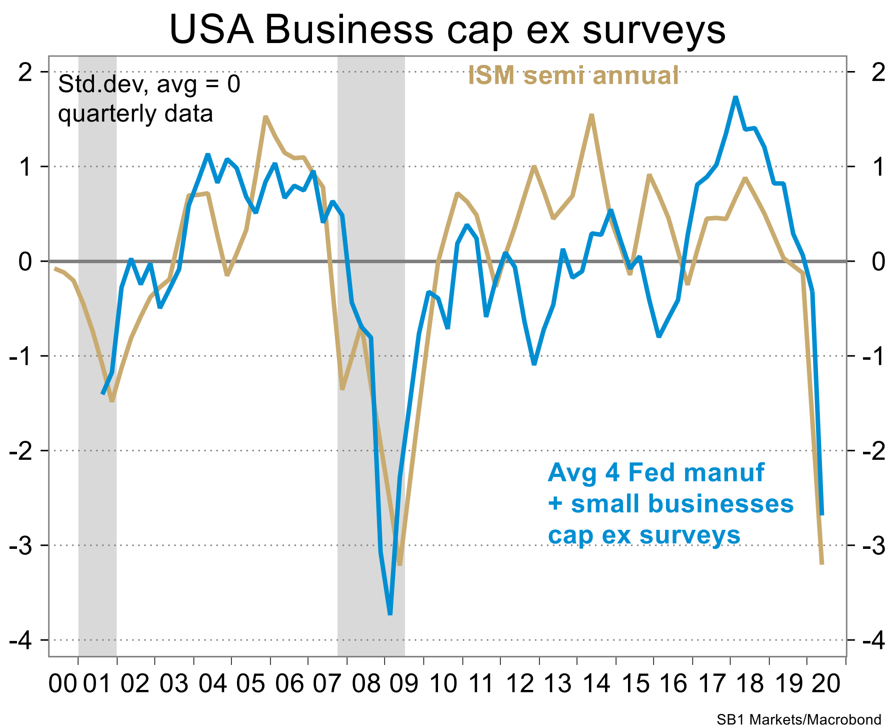


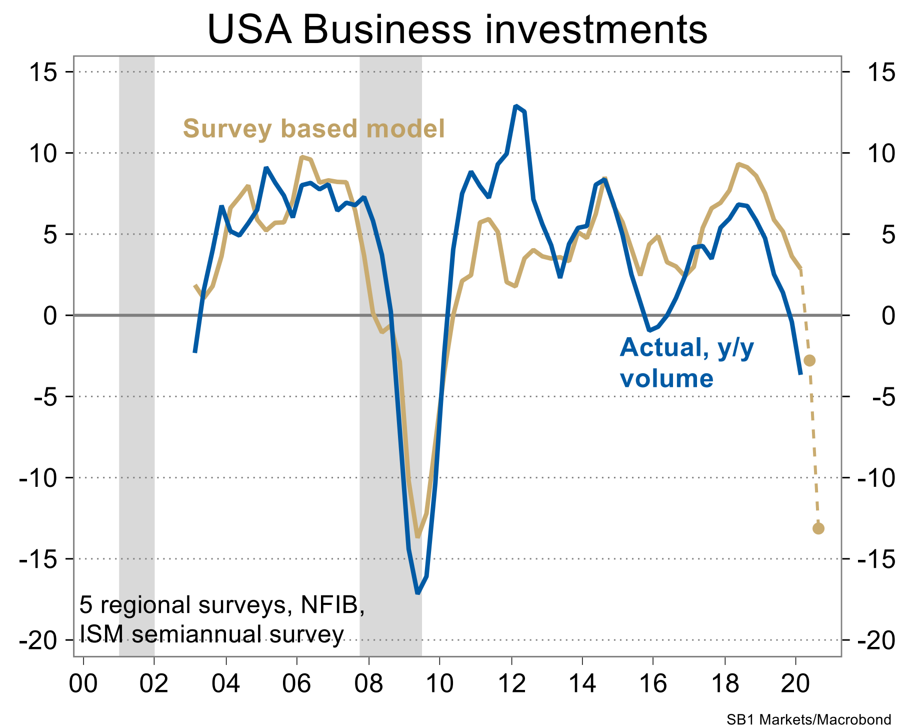


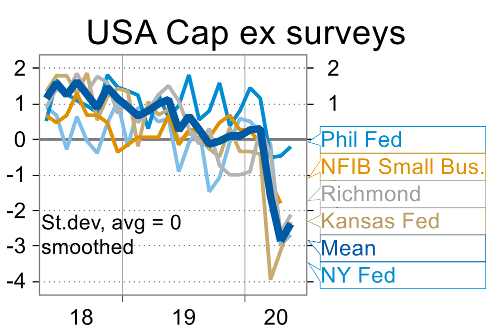
- However: Usually the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year
- Business surveys signal substantial cuts in investments the coming months/quarters

Business are planning aggressive investment cuts

Both manufacturing and services are planning substantial cuts – but not deeper than during the GFC



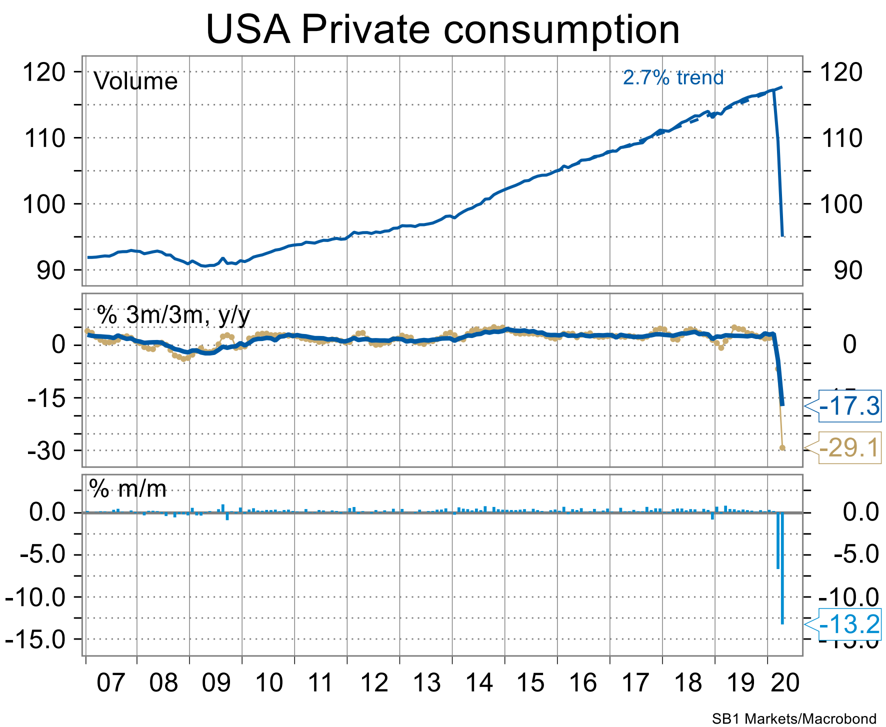


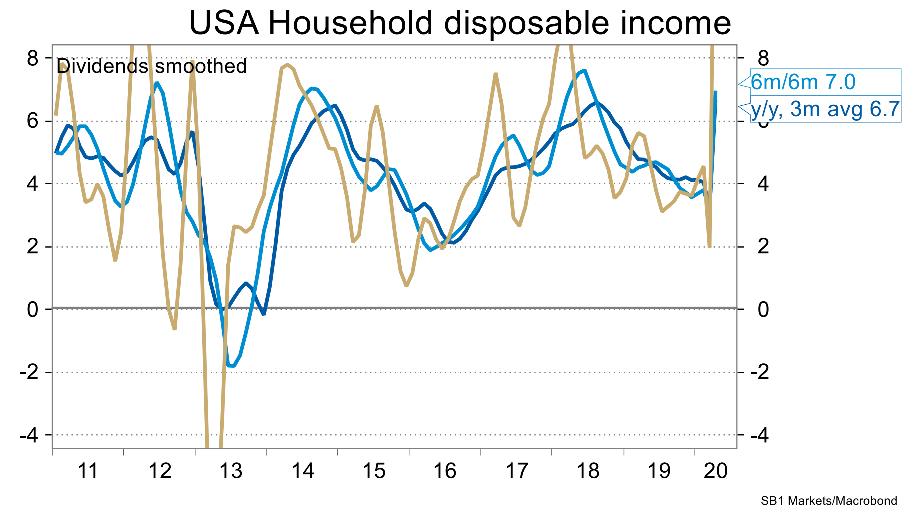


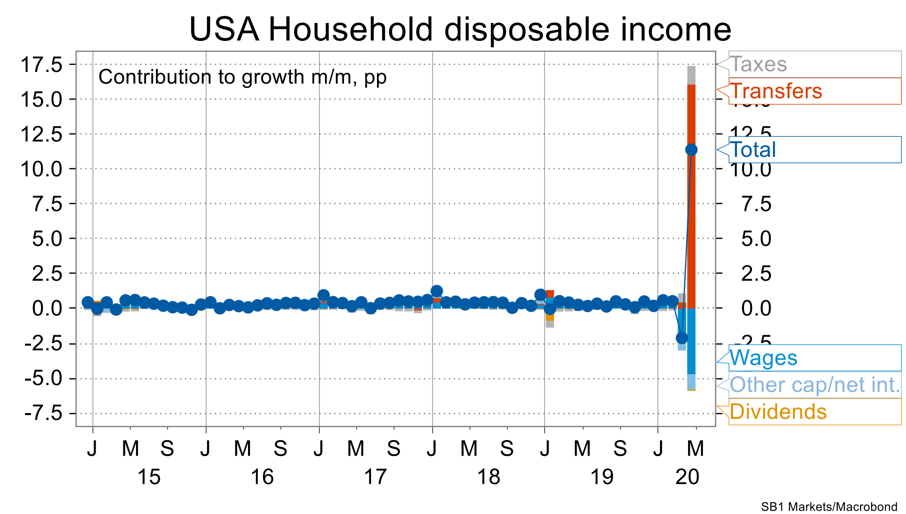
- One small bright spot: So far, the May surveys that are published are slightly up vs. the April level – but in average they still remain very low

Consumption fell 13% in April, is down 19% from Feb! Uncle Sam lifted incomes

A record decline in spending, a record increase in income – and a hilarious increase in savings, to 33%

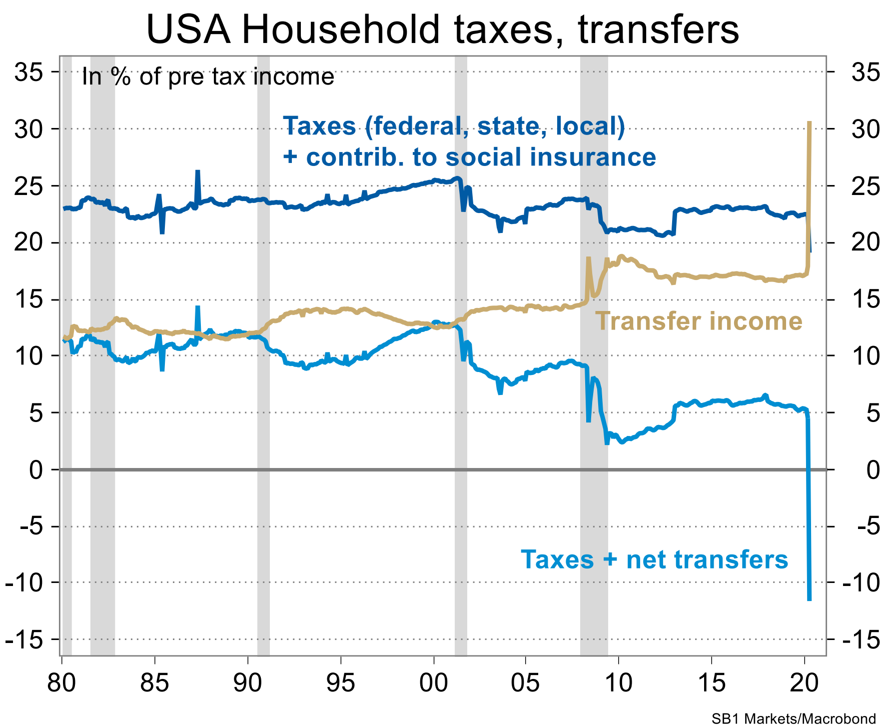


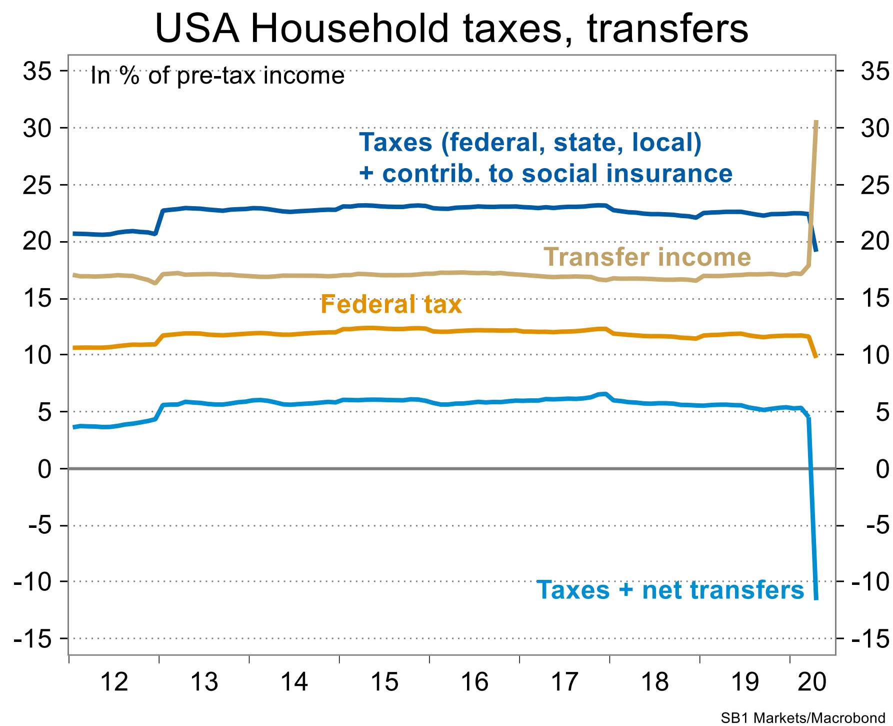




- Total private consumption by fell 13.2% in April, marginally more than expected. Goods and services fell almost at the same speed, services are more down since February
- Due to the booking of tax cuts and transfers to households in the Coronavirus Aid, Relief and Economic Security Act (CARES), household income grew 12.9%
  - » Wage income fell 900 bn, tax cuts/transfers equalled 3000 bn, both measured annualised
- Thus, the savings rate shot up, to 33%, from 13% (8% in Feb)

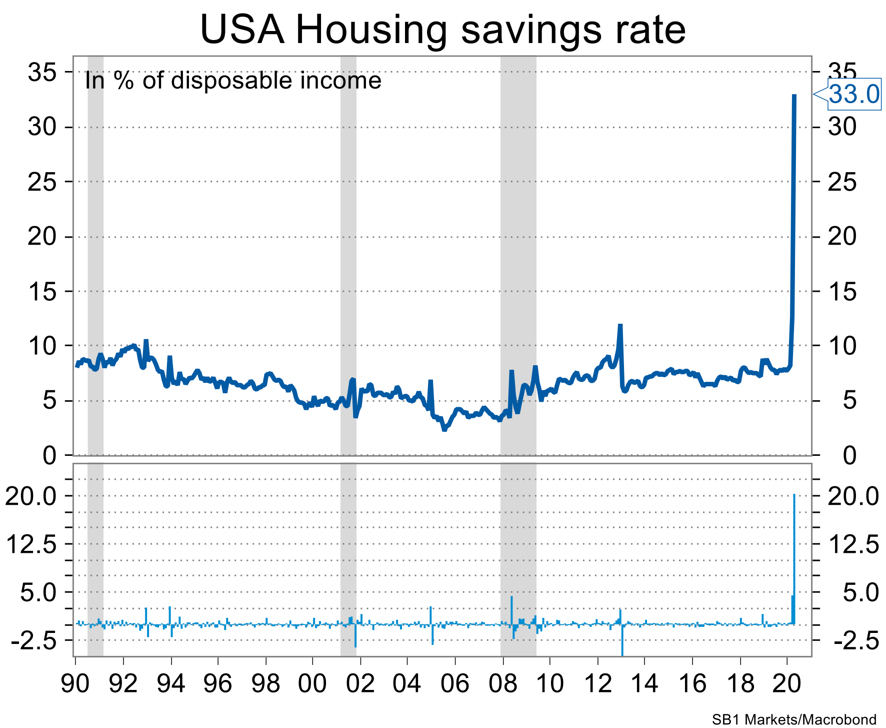
The households received CARES transfers – and some tax cuts

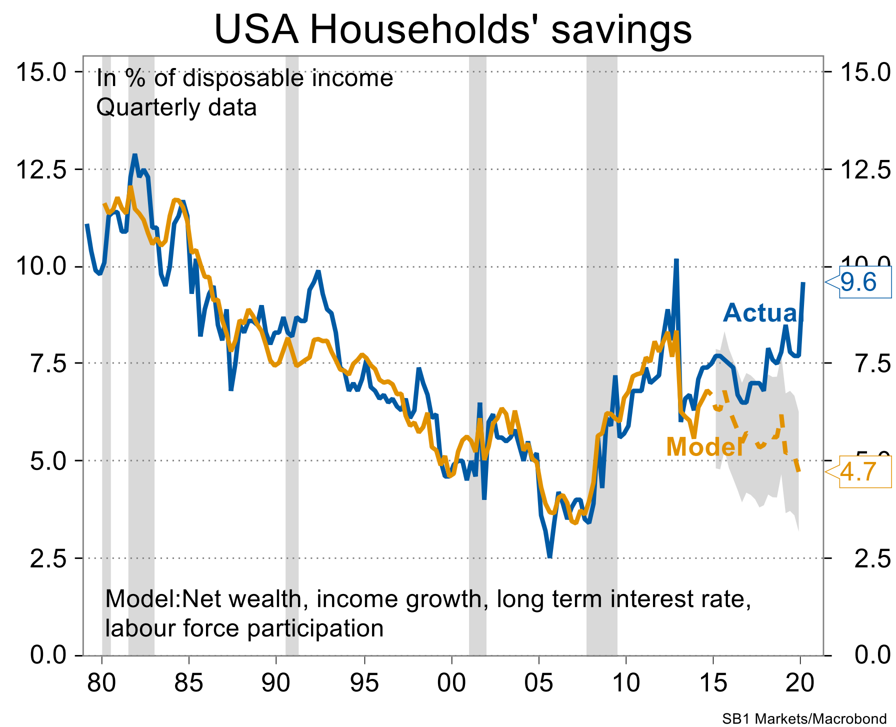




Households savings up 20 pp to 33% in April (and up 25 pp since Feb)

Spending down, government support up – and savings through the roof. In April.

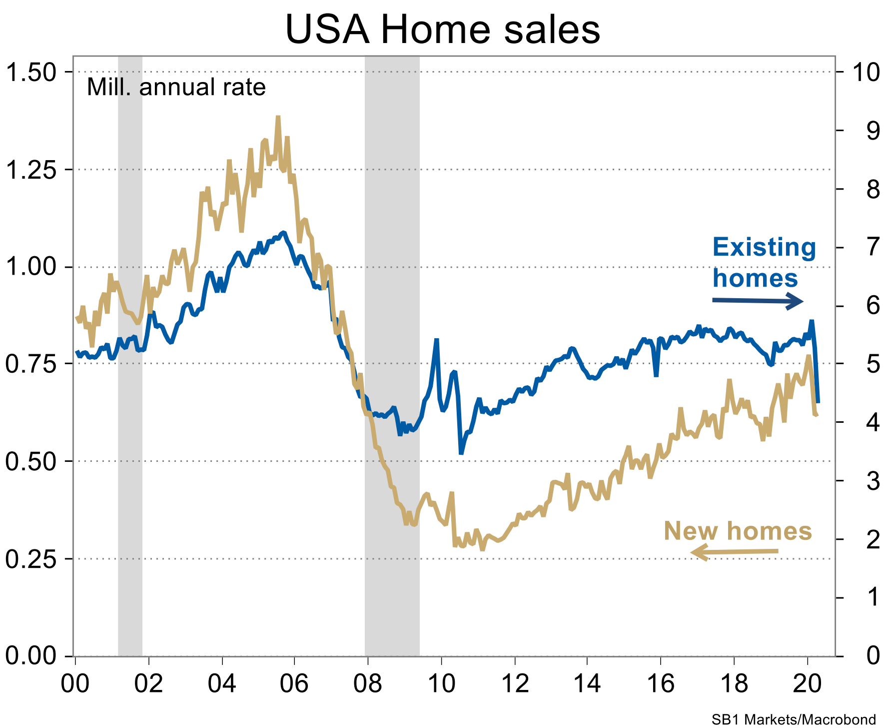


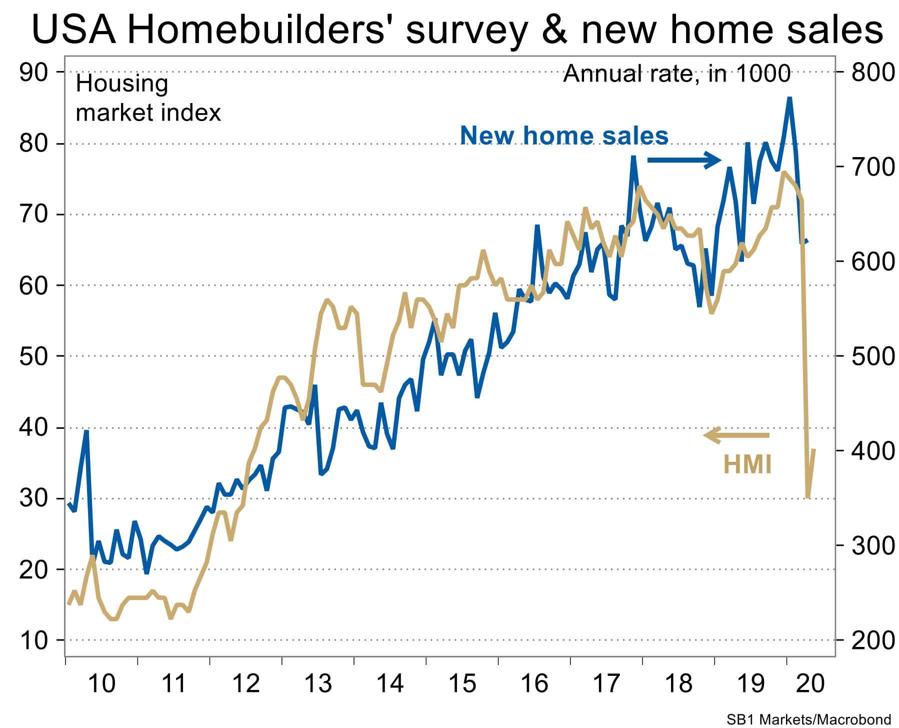


- Distributed over one year, the increase in saving the two past 2 months equals 2%.
- The income support increases the probability for a recovery in spending as soon as the economy opens up

New home sales up 1% in April, was expected down 22%

No crisis?? Sales are down just 13% from Feb. Homebuilders have reported a much steeper decline

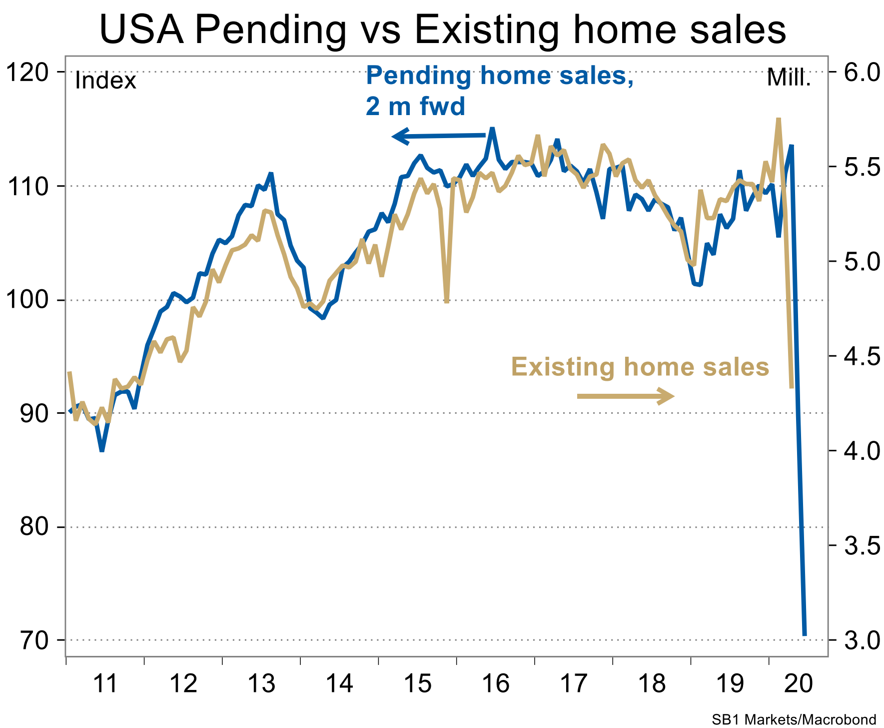




- Following the 12% decline in March, markets had braced themselves for another 20% decline in April, as signalled by the homebuilders index. March sales were revised marginally down – but sales rose in April, to 623, expected 500'!
  - » Lower mortgage rates have probably supported the market but given the lockdown in April, and the shock imposed on the labour market, the outcome is rather surprising

However, few existing home sales agreed in April. Not that surprising

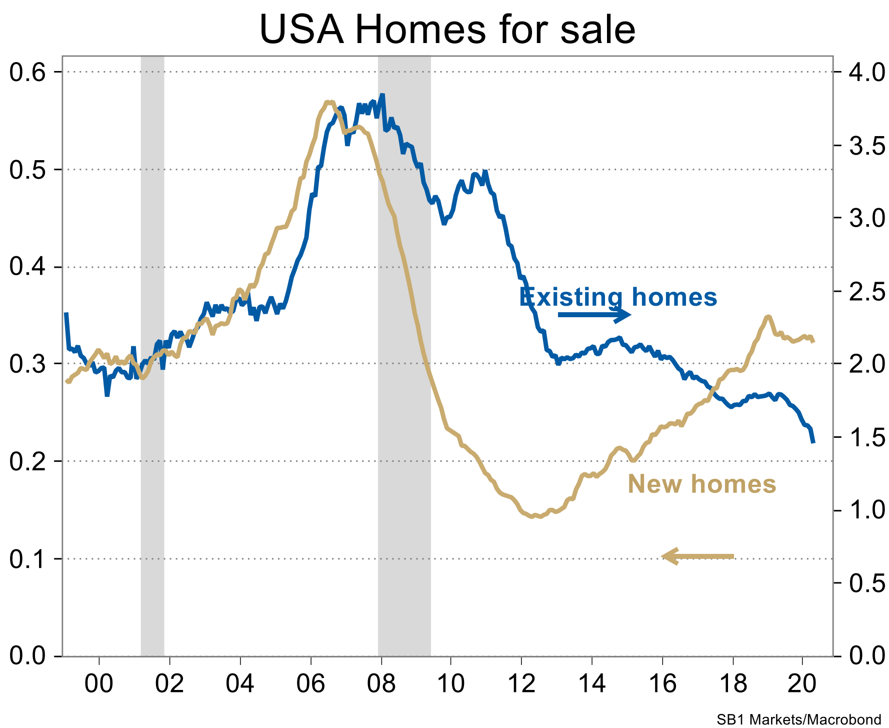
Pending home sales fell 20%, and is down 45% from the peak

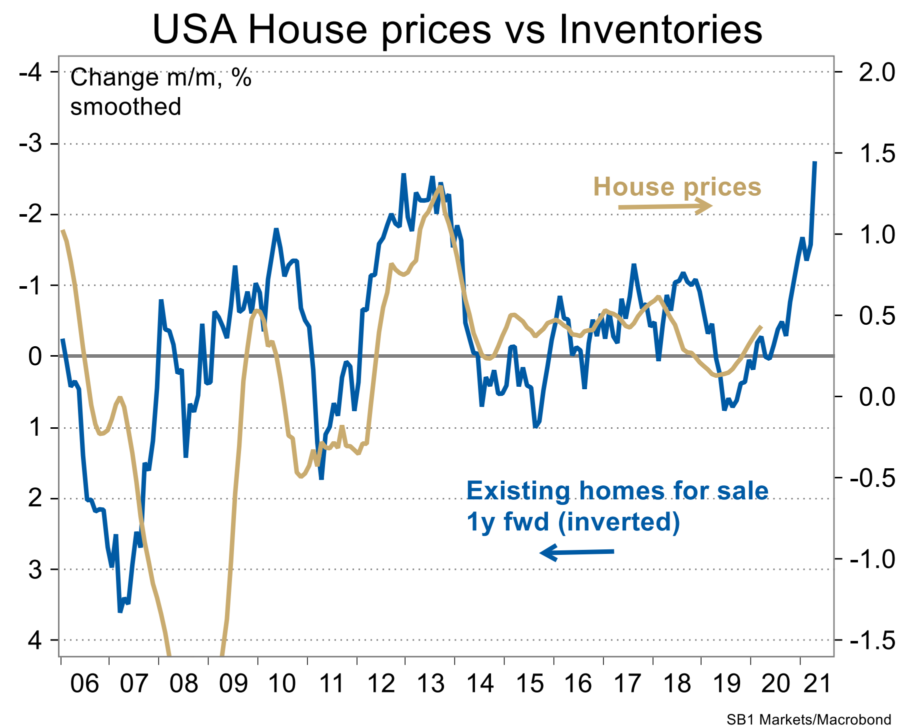


- It’s not easy to figure out why new home sales kept up surprisingly well in April while few existing home sales contracts were signed – as they both fell in March
- A low sales level in April does not imply that the 2nd hand housing market is broken – it is rather impressive that so many home were sold during the lockdown month

The inventories of unsold homes are shrinking, prices on the way up?

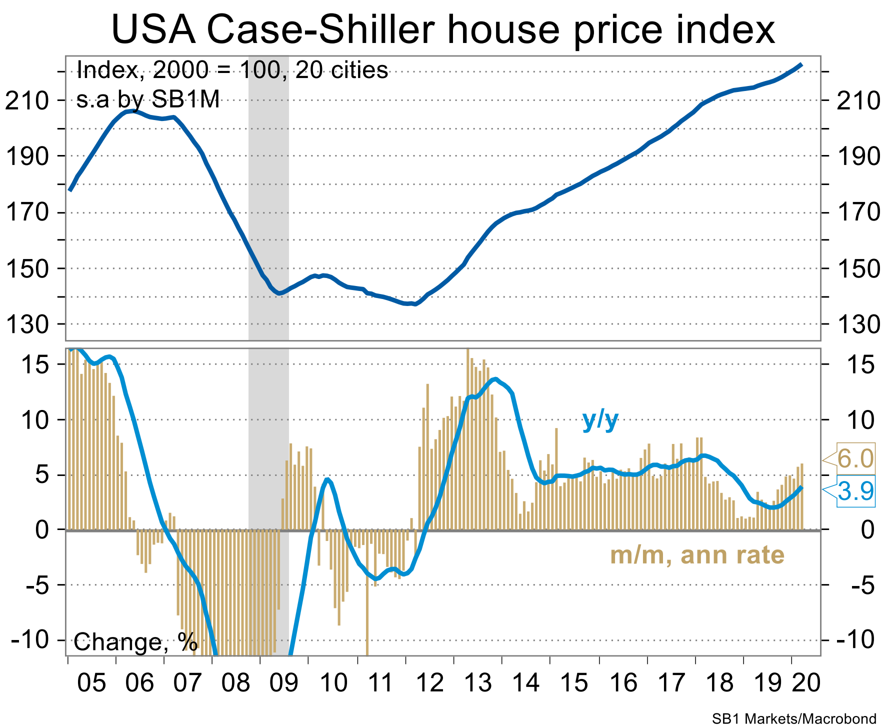
The inventory of new unsold homes slightly down, even if sales are down 13%

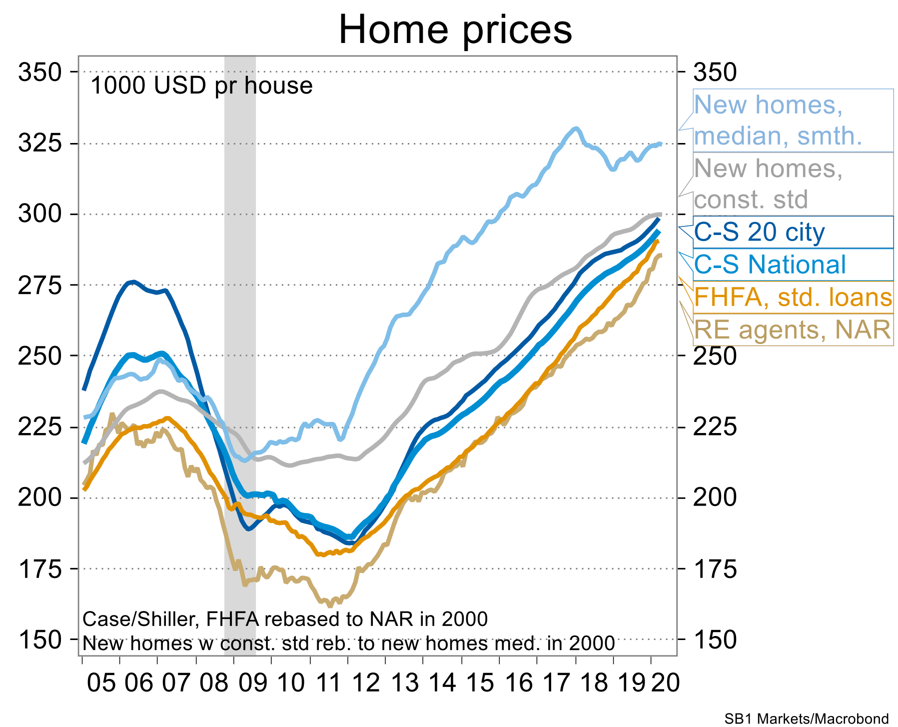




Case Shiller house price inflation is accelerating

It was until March, at least. Prices rose 0.5% m/m, a 6% annualised pace. Up 3.9% y/y

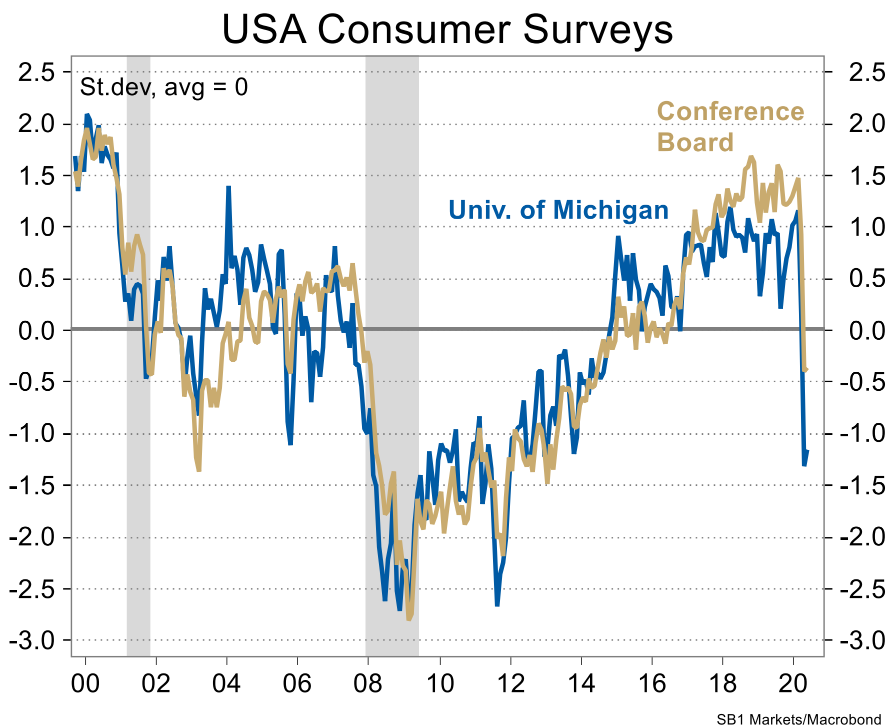


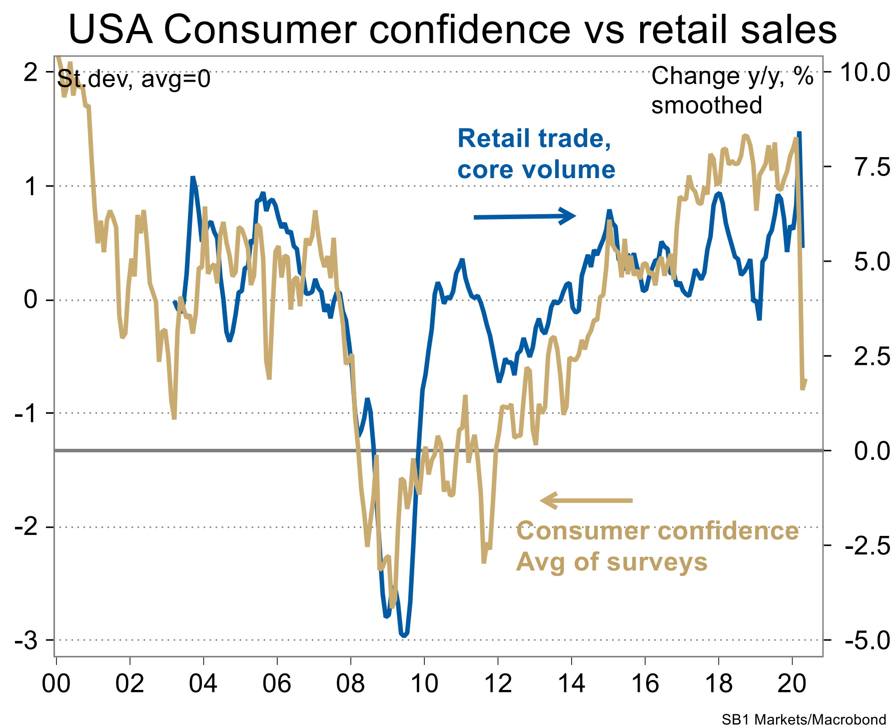


- The index measures prices a 3 month average so the lockdown in 2. half of March – with transactions agreed before that – probably had limited impact. However, the trend before the corona shock was anyway strong. Realtors reported close to unchanged prices in April but there a few signs of weakness in the housing market
- The CS 20 city (nominal) avg is 7% above the 2006-peak level – but well below in real terms

Consumer confidence stabilised in May – and not that low

Confidence is below average but also well above the financial crisis level

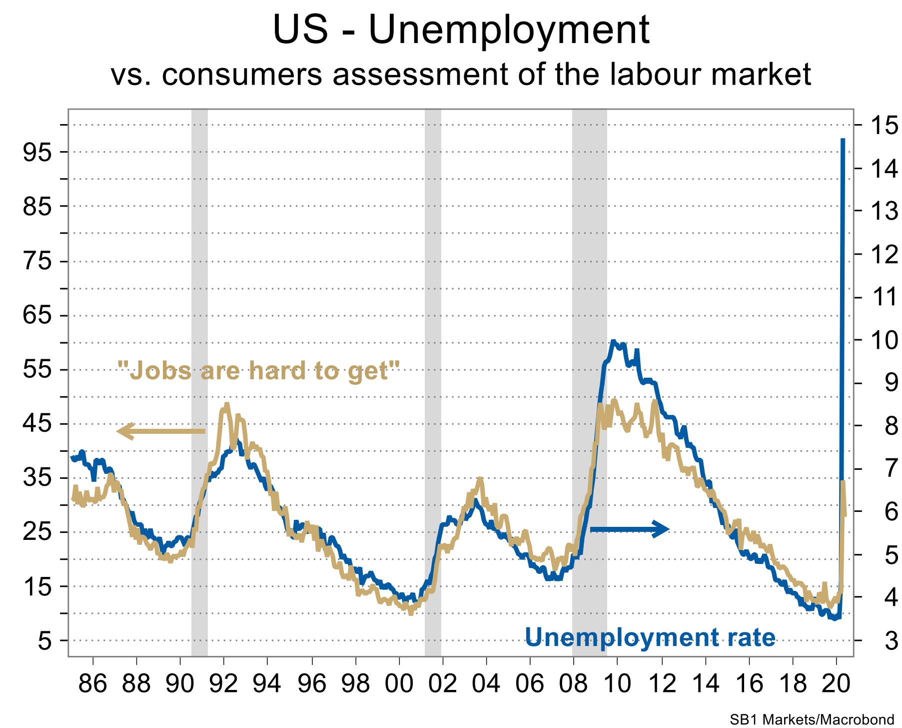


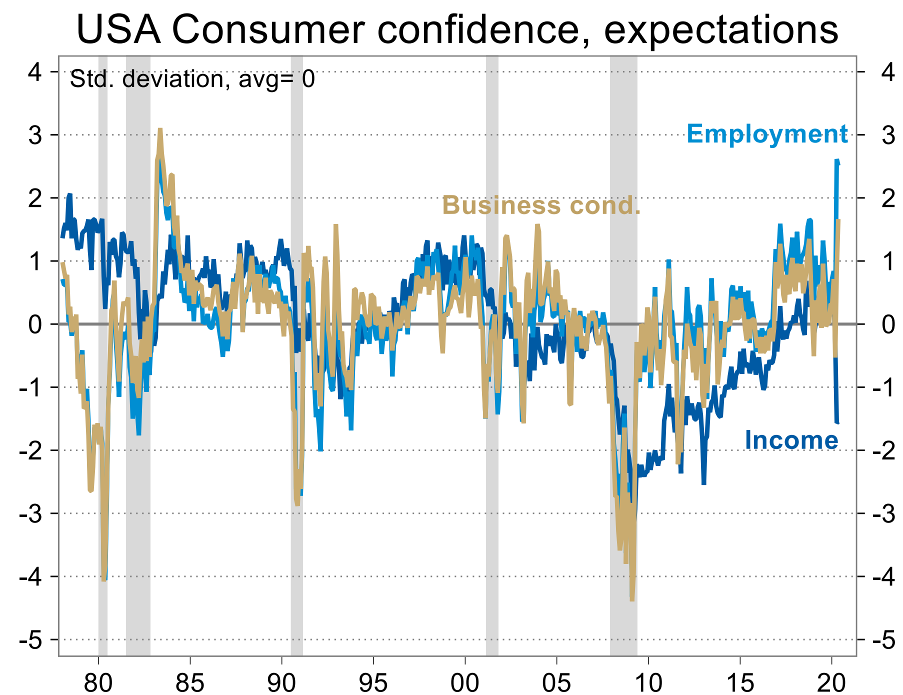


- Conference Board's consumer confidence index is just less than 0.5 st.dev below average. Univ. of Michigans sentiment index is 1.2 st.dev below par. During the financial crisis both indices were at -2.5 st.dev
- Still, these surveys signal just a slow growth in consumption

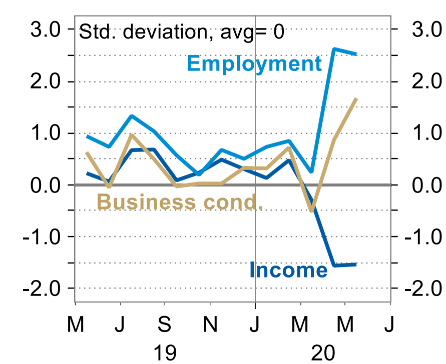
Jobs are harder to get. As if the unemployment rate was 6%...

And households expect the labour market to strengthen



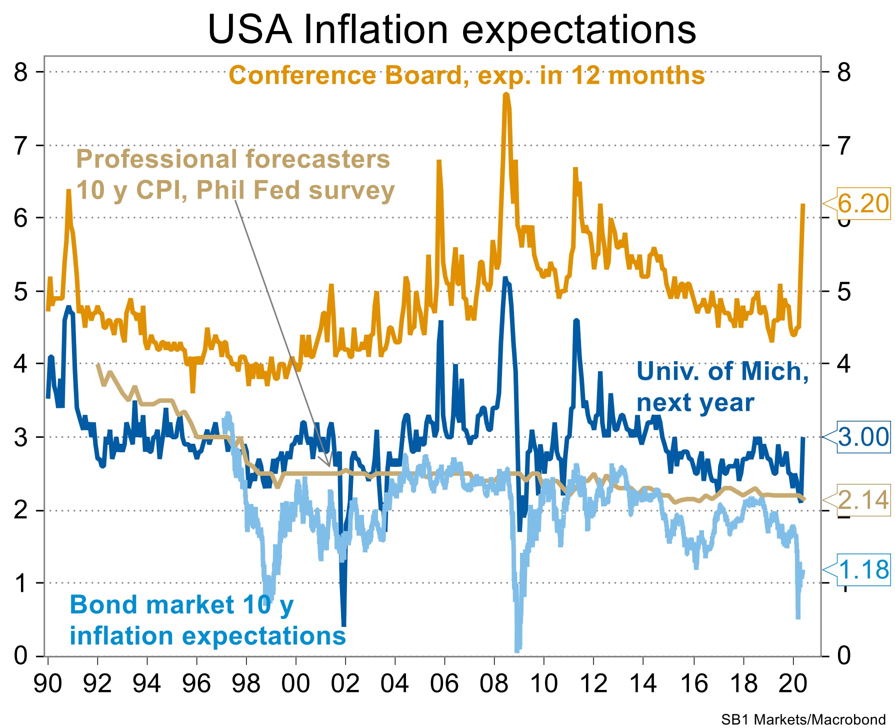


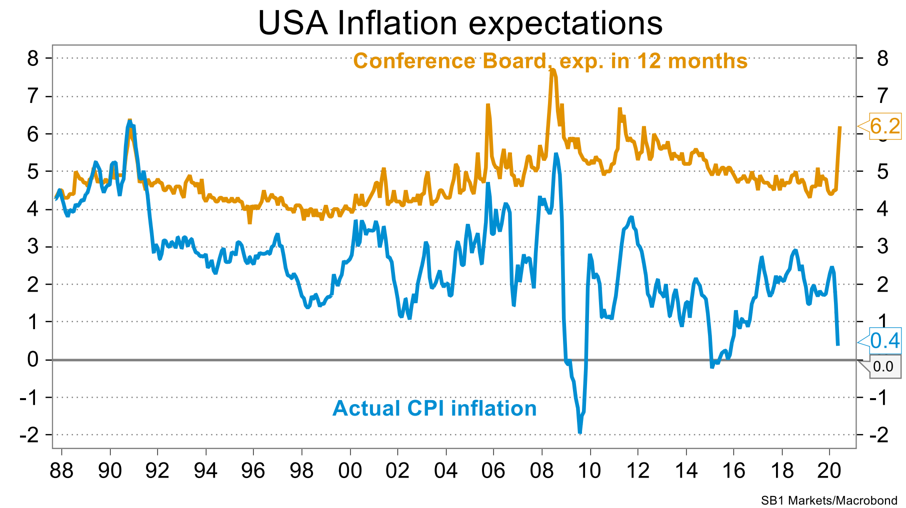
- Expectations driven up by employment and business outlook, not own income
- A strange mix, but households may assume that the corona 'depression' will not last too long



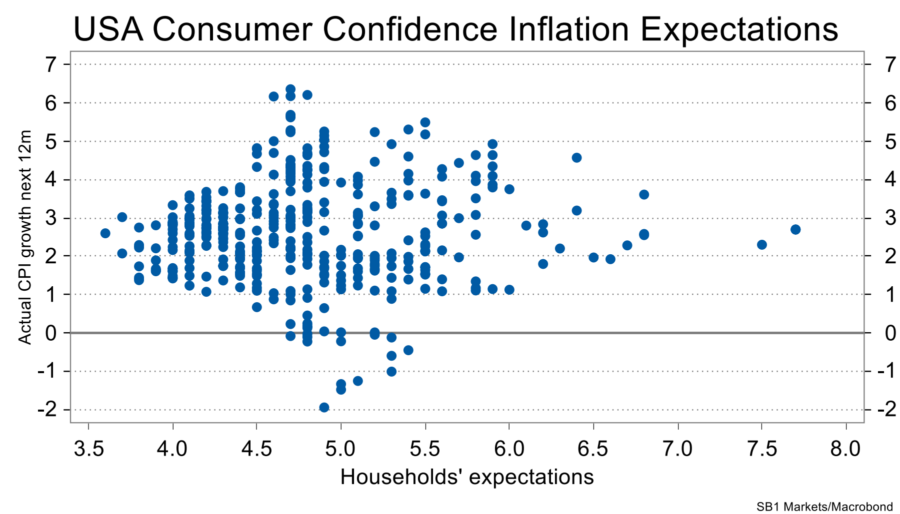
Inflation around the corner? That's possible. But it is no use asking households

In Conf. Board's survey, households say they expect 6.2% inflation, up from 4.5% two months ago



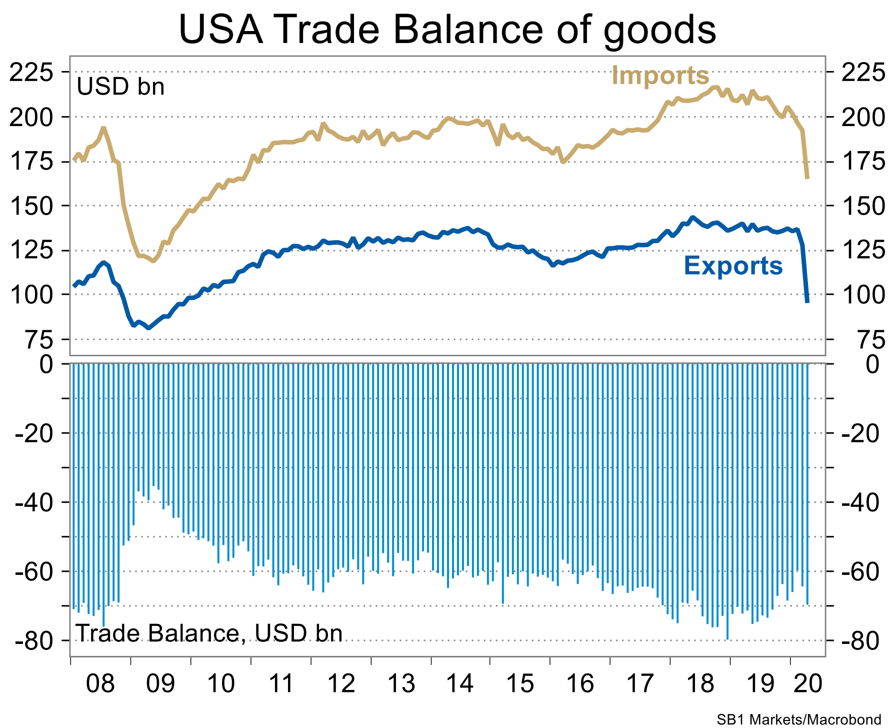


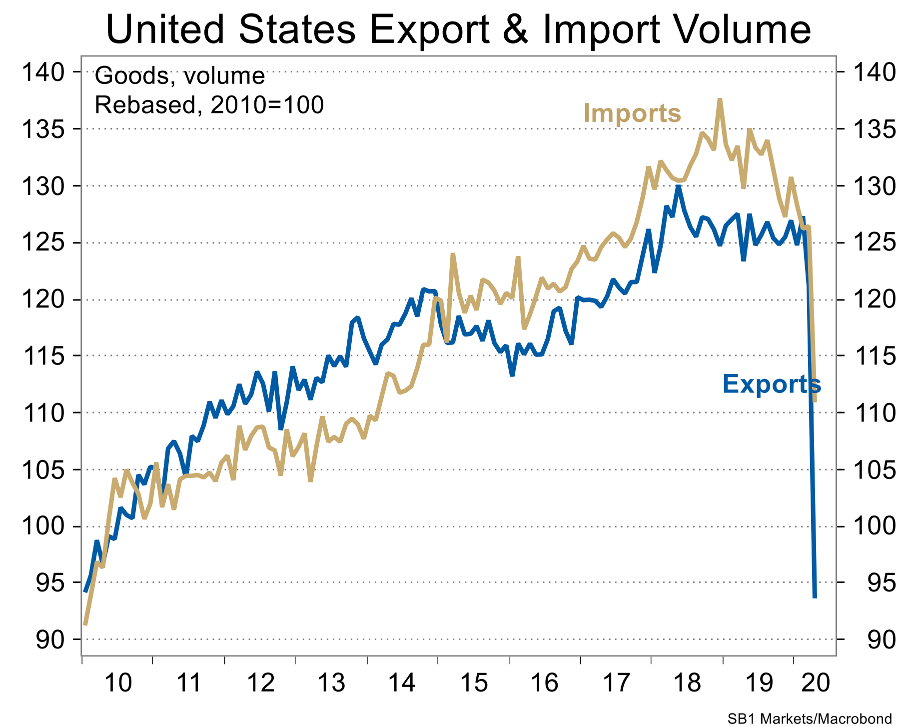
- Household's expectations are at best somewhat adaptive but they are not good forecasters of future inflation



Exports down 23% in April, imports ‘just’ 12% - and the deficit widened

Both imports and exports fell in March, by 2 and 7% resp. The trade deficit widened somewhat





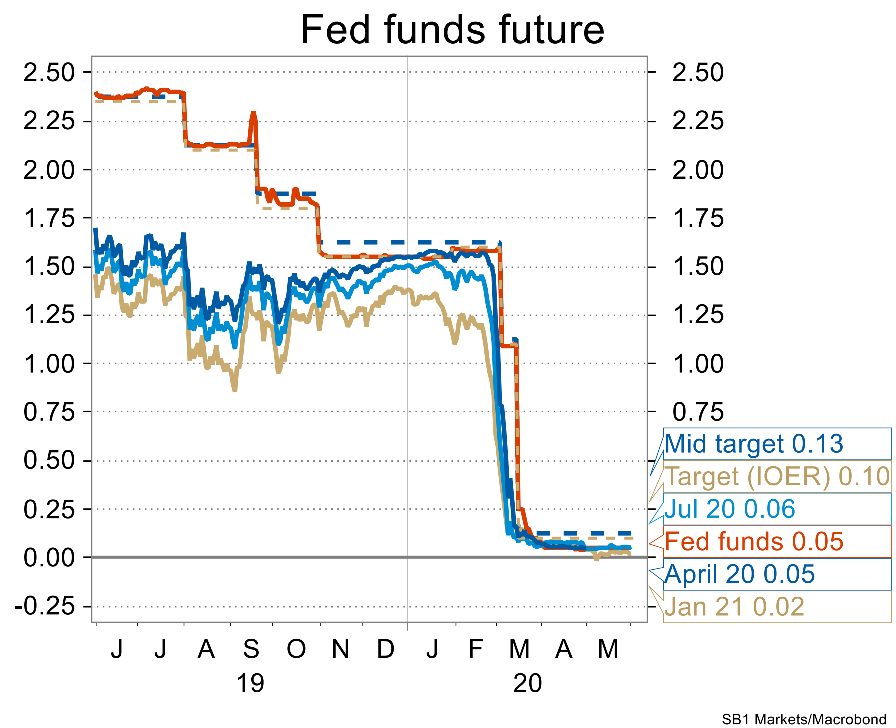
- The overall trade deficit in goods widened by USD 6 bn to 70 bn in April, according to advanced figures, due to an unprecedented decline in exports. Imports fell as well, but less

SpareBank 1 MARKETS

Beige book: Economic activity is declining everywhere, and sharply in most

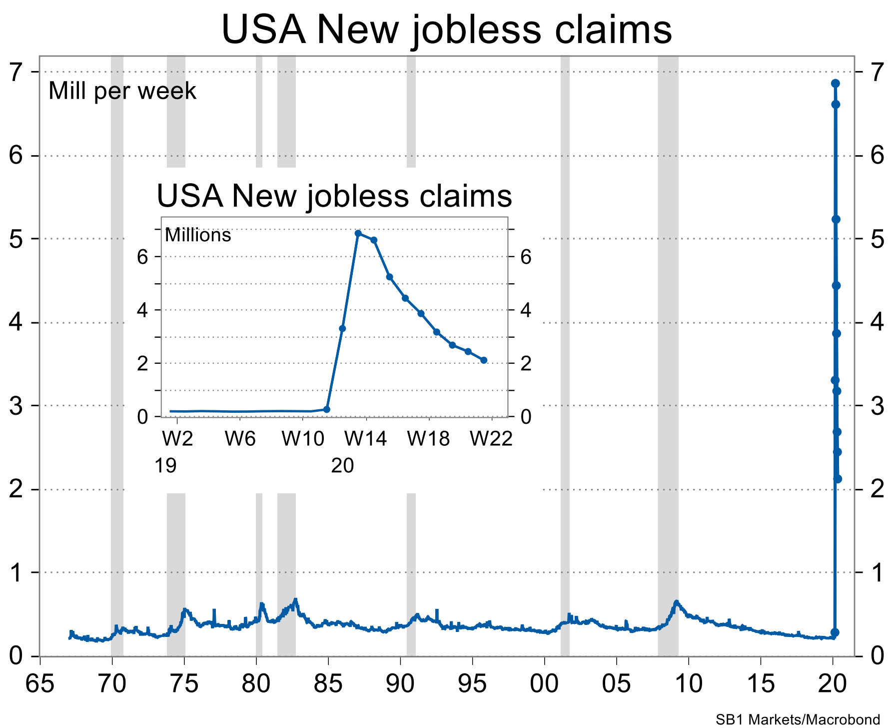
If anything, the Beige book a tad darker than we expected

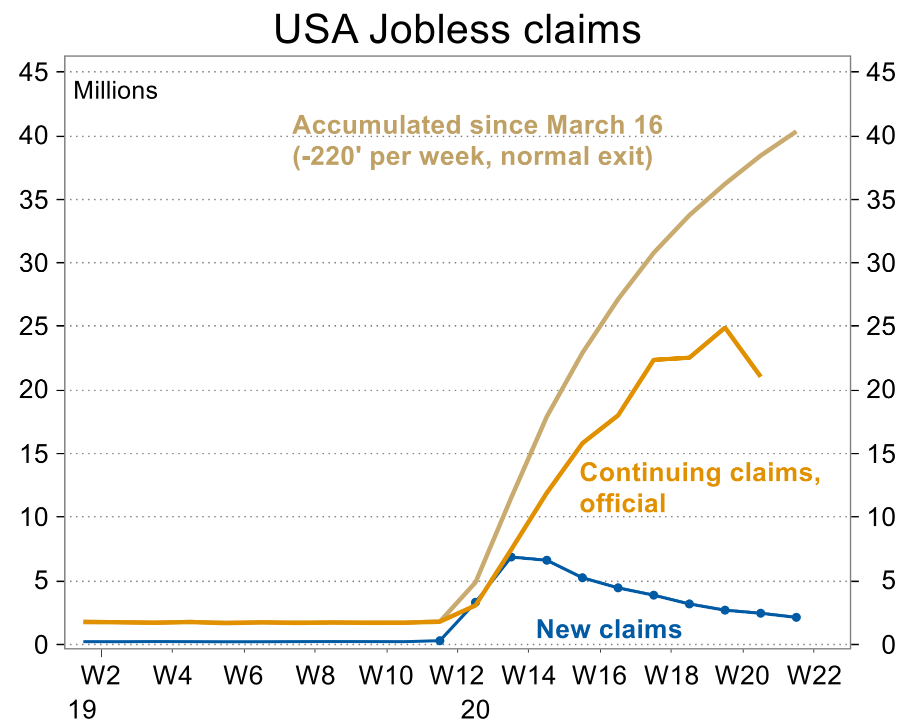
- Not may signs of the bottom of the cycle, barring higher auto sales in some regions recently
- Leisure and hospitality closed down in the survey period (up to May 18), most retail establishments too
- Broad declines in manufacturing activity, especially auto, aerospace, and energy-related plants
- Fed's district banks reported plunging residential sales (even if actual new home sales stabilised in April)
- Construction activity also declined
- Commercial real estate reports missing rent payments
- Oil production sharply down
- Employment continued to decrease. Wage pressure is easing, in general – as are price pressures, due to weak demand
- The outlook remained highly uncertain even if many business contacts expressed hope that overall activity would pick-up as businesses reopened,
- **The Federal reserve has cut the interest rate to close to zero, and will probably not go below. Instead, the bank has supported the marked with unprecedented amounts of liquidity – which financial markets have embraced vigorously**



'Just' 2.1 mill new unemployed last week, the sum up 41 mill past 9 weeks

Official claimant count down 3 mill to 21 mill (13%), at least partly due to technicalities





- The inflow is abating, but still 1.6 % of the labour force is entering the labour market offices each week!
- Continued claims fell by 3 mill to 21 mill (13%) the previous week. The decline is partly technical due to the way California publish its data. The accumulated number of new claims since mid March is much higher, at 41 mill. The reason for the discrepancy has at least partly been due to lack of registration at overwhelmed labour market offices. However, now many unemployed are returning to the labour market – and part of the decline the previous week may be for real. Still, we assume the real number of open unemployed is higher than the official number
- For the lowest paid unemployed, the weekly unemployment benefit compensation at USD 600 is higher than their ordinary wage which of course is not the best incentive to return to a job

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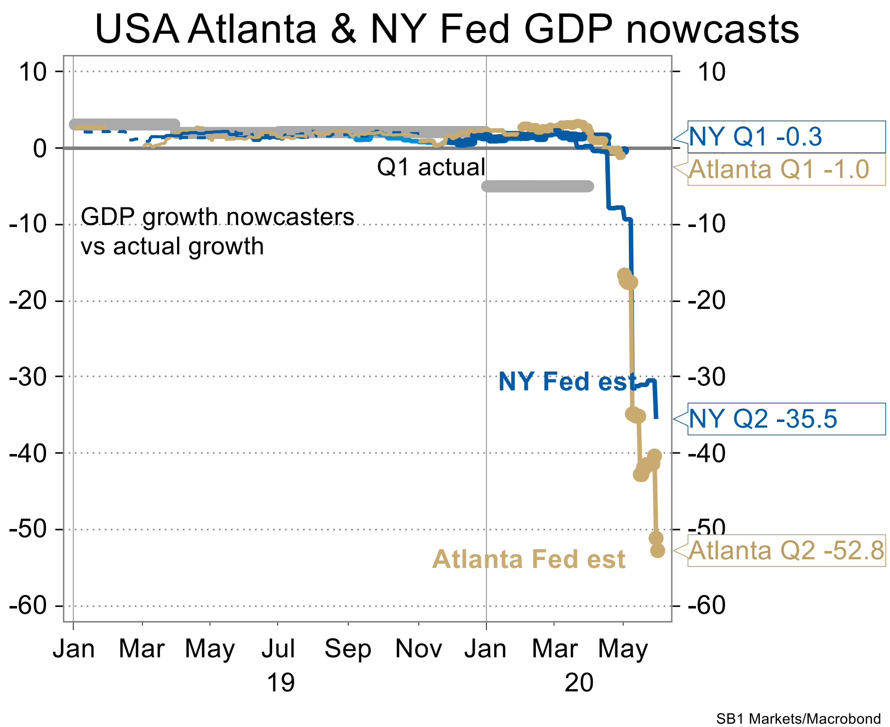
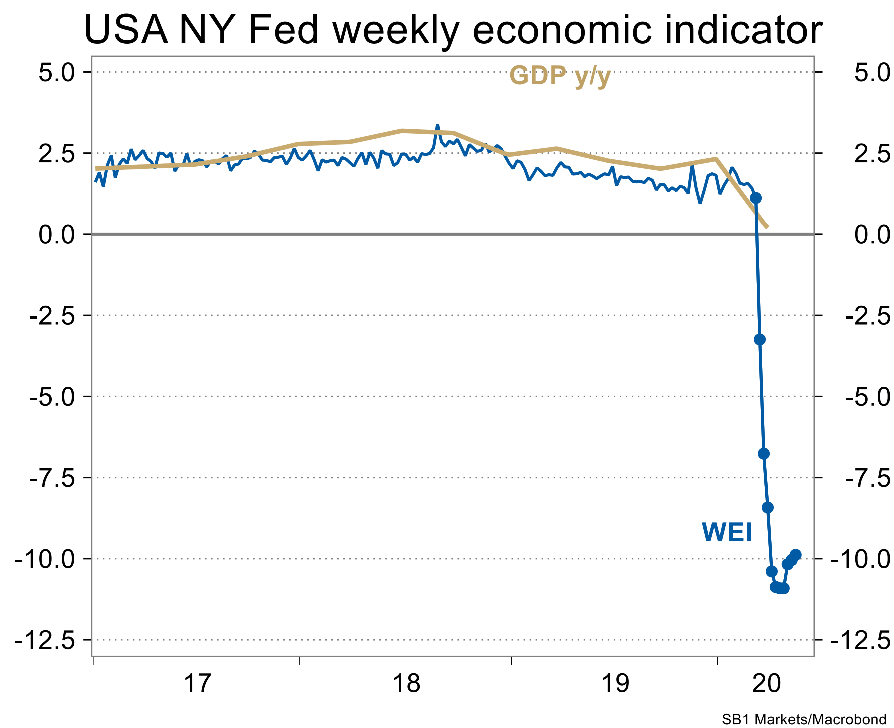
Nowcasters turned down again, due to the spending, exports ‘shocks’

GDP is probably down some 12% from the pre corona level



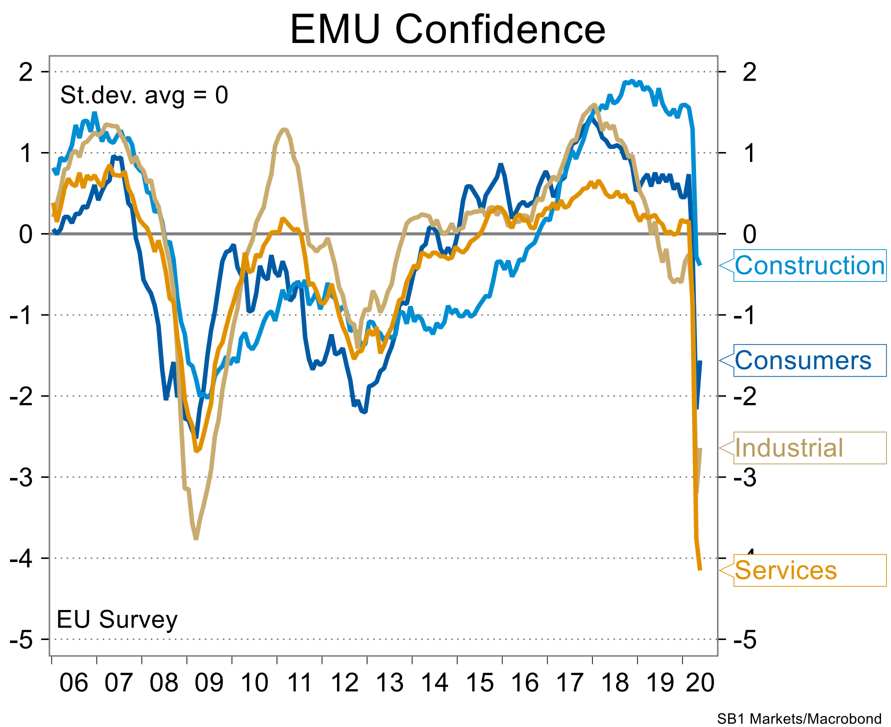


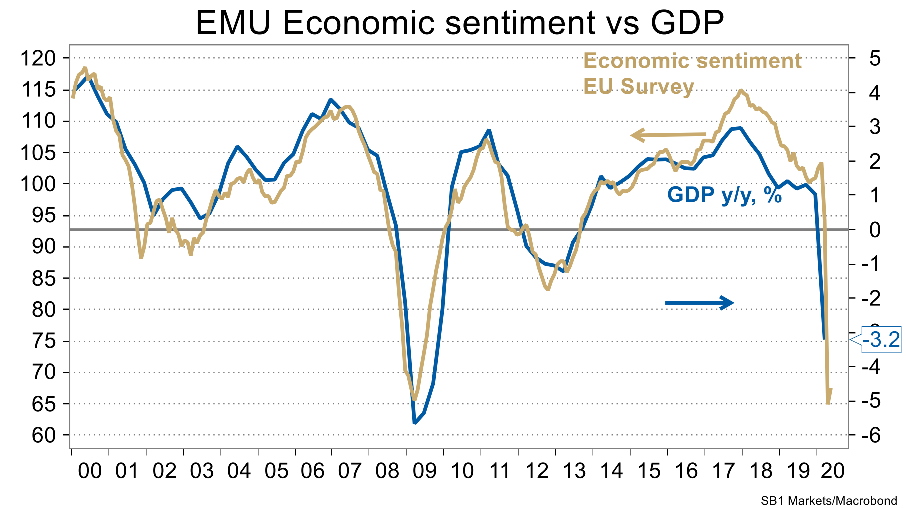
- The ‘old’ nowcasters from NY & Atlanta Fed report a 35 – 51 % decline q/q, in (absurd) annualised terms – equalling a 10 – 16% decline q/q, not annualised. As GDP fell by 1.2% in Q1, Q2 GDP is signalled down 11 – 17% vs the Q4 level
- The NY Fed’s weekly economic indicator reports 10% y/y decline, implying a 11 – 12% decline for the level in early 2020. The deceleration has clearly slowed past two weeks

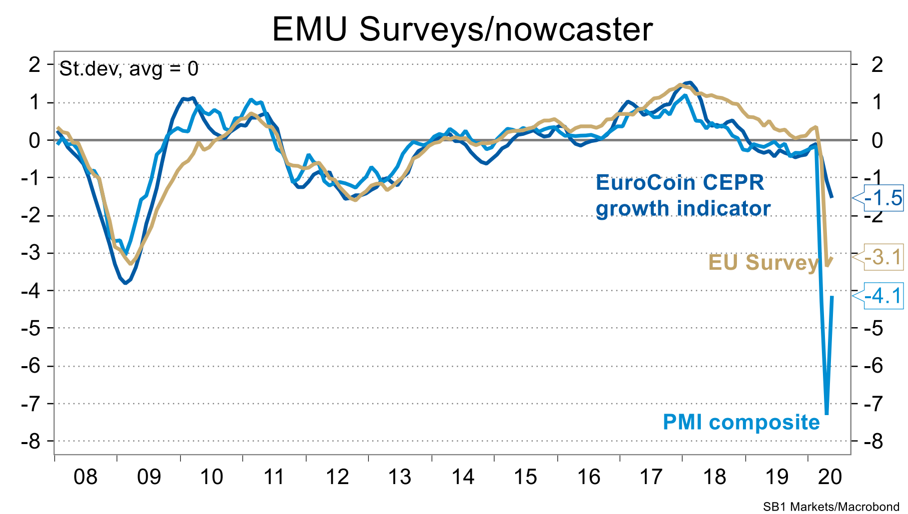
SpareBank 1 MARKETS

EU economic sentiment up in May but still far below par – and services down

Services confidence fell further in May, industry & consumers still pessimistic but a tad less





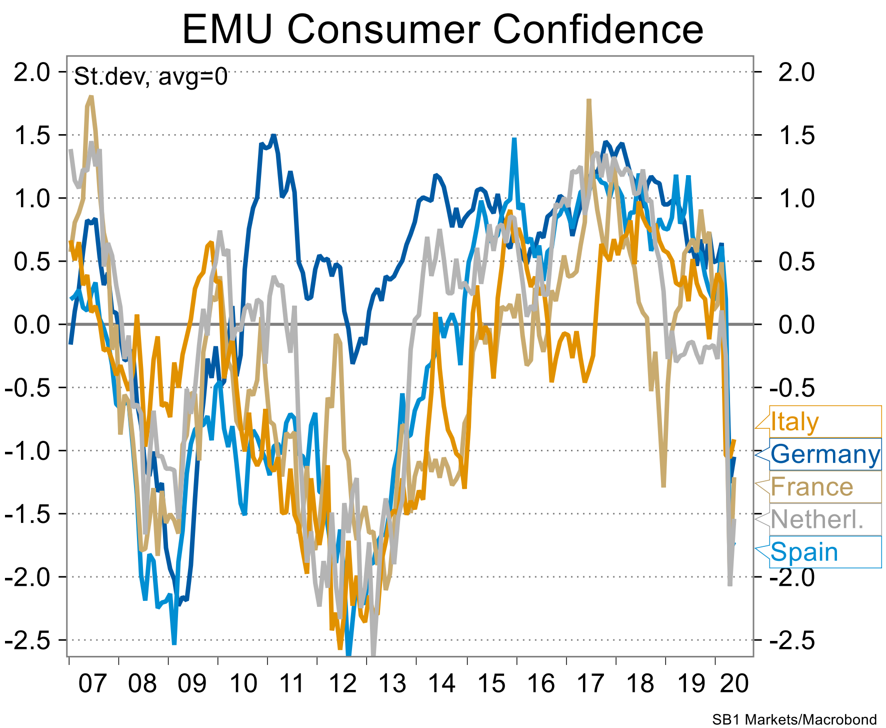


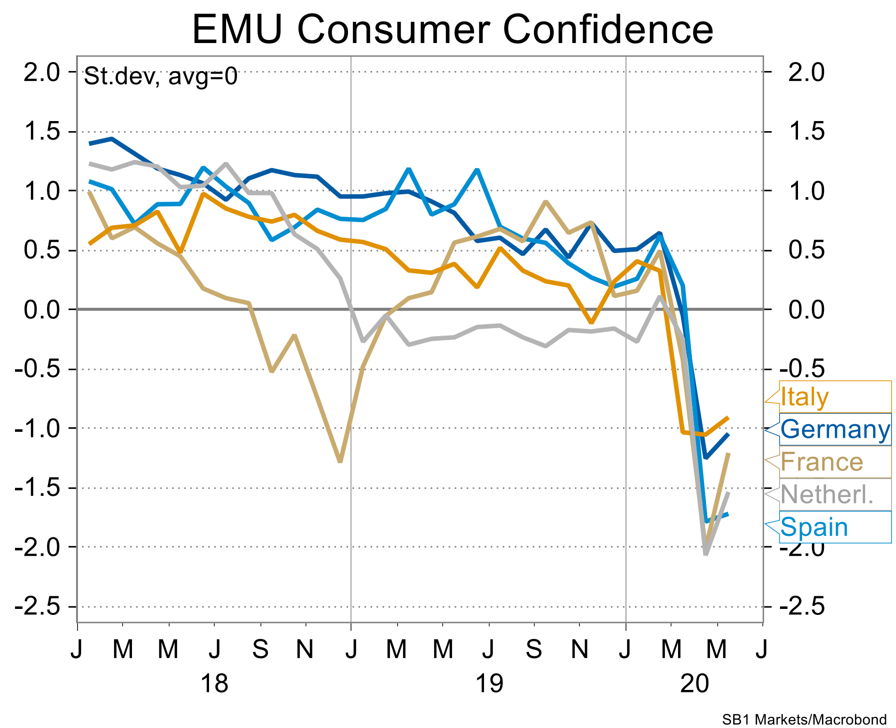
- The EU survey signals 5% decline in GDP. If it only that's the outcome

SpareBank 1 MARKETS

Consumer confidence up, still not impressive… *But the Euro crisis was worse!*

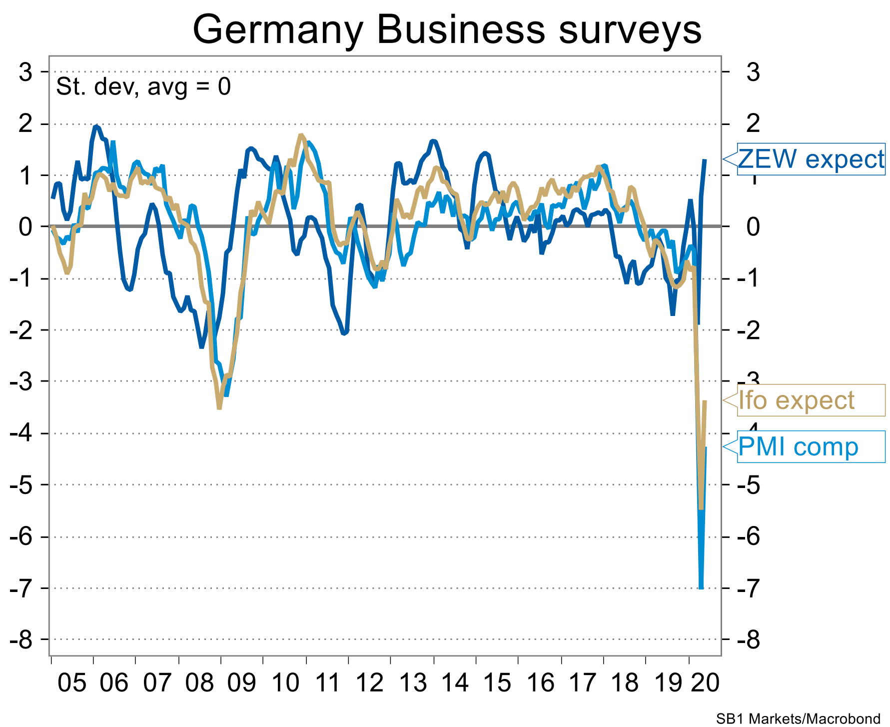
We expected a stronger recovery in May, after lockdowns were eased

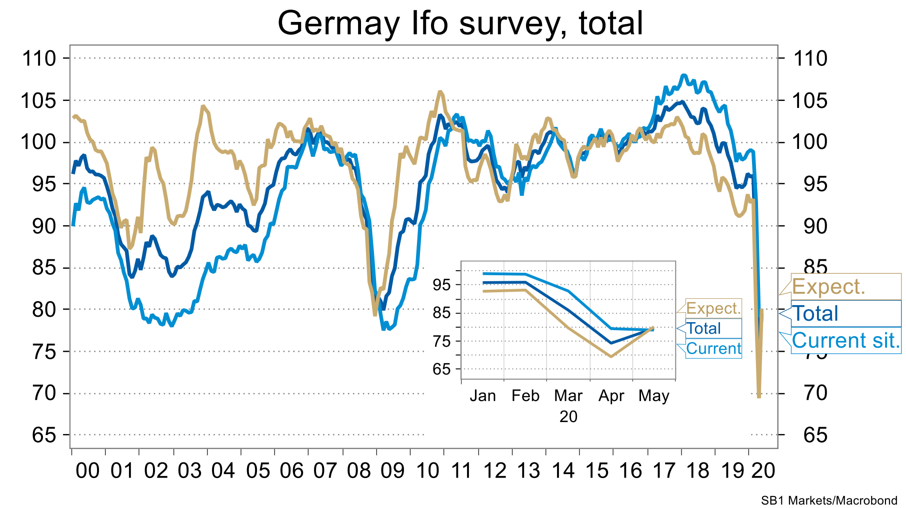


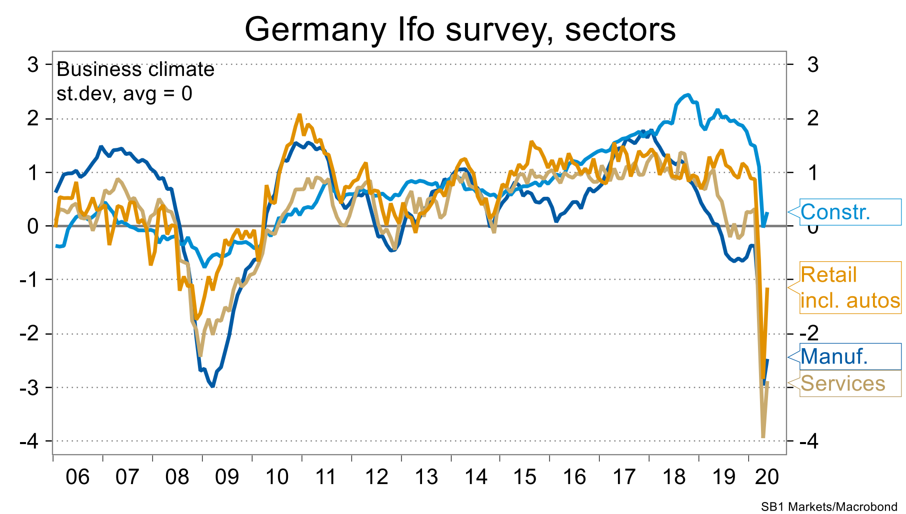


Ifo expectations up, and more than expected but still very low

Expectations up 10 p (2 st.dev!) to 80, still 3 st.dev below par!



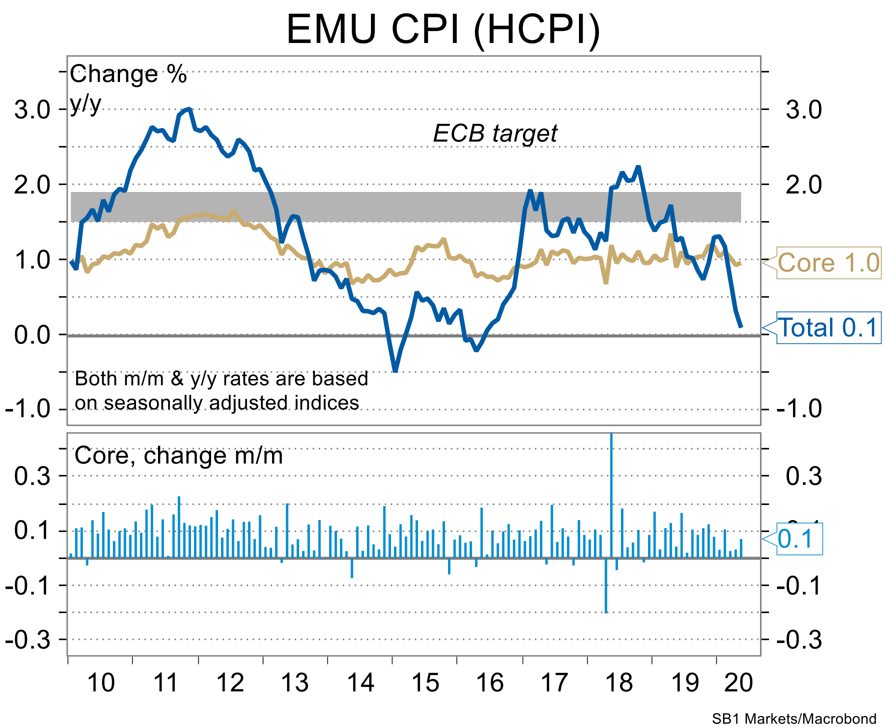


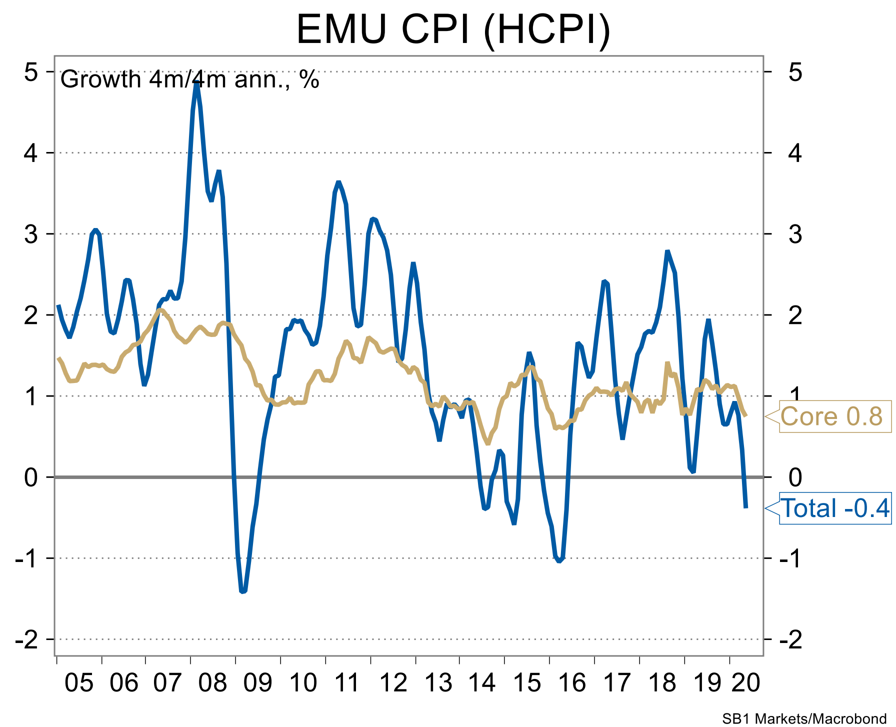


- The assessment of current situation fell marginally
- All sectors reported an uptick in May, retail the most. Construction is still above average. Services remain at the bottom
- The Ifo index is close correlated to the PMI survey. The ZEW survey among analysts and investors has turned sharply up – and is now well above par!

SpareBank 1 MARKETS

Headline CPI down to 0.1% y/y, core stable at 1%. ECB can to whatever it takes

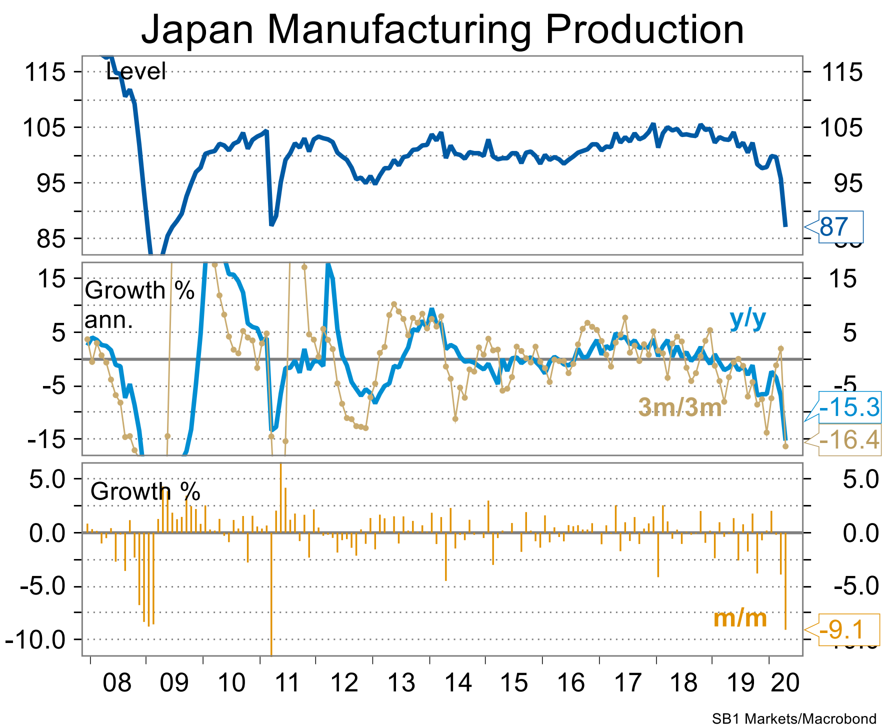


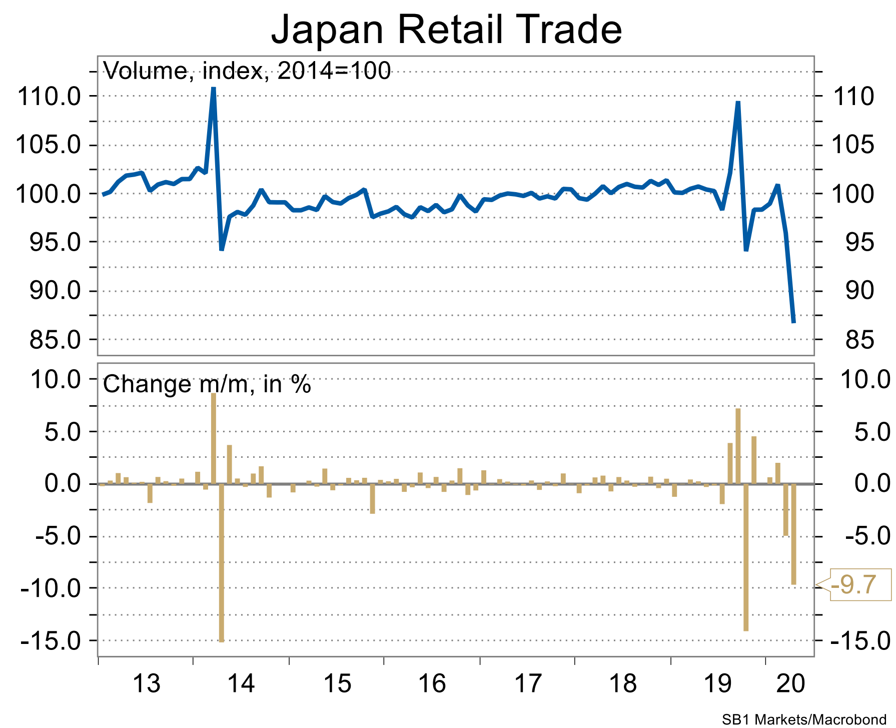


- Energy prices take the total CPI down. Good news for European households

Manufacturing down 9% in Apr (and -3% in Mar), retail sales by 10% (-5% in Mar)

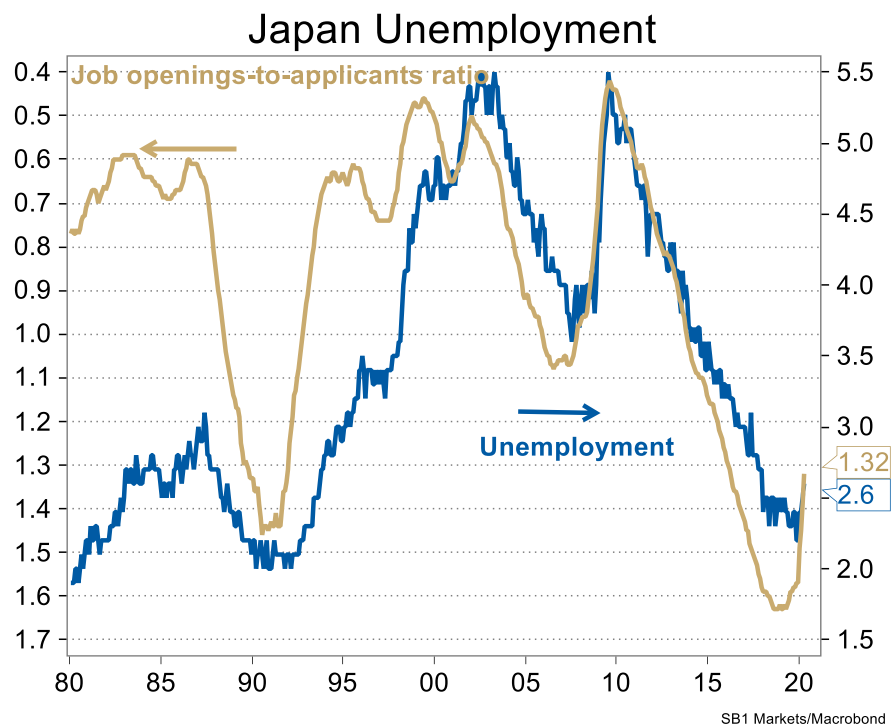
Both 3% below expect. Was April the bottom? Most likely, even if May surveys are still very weak

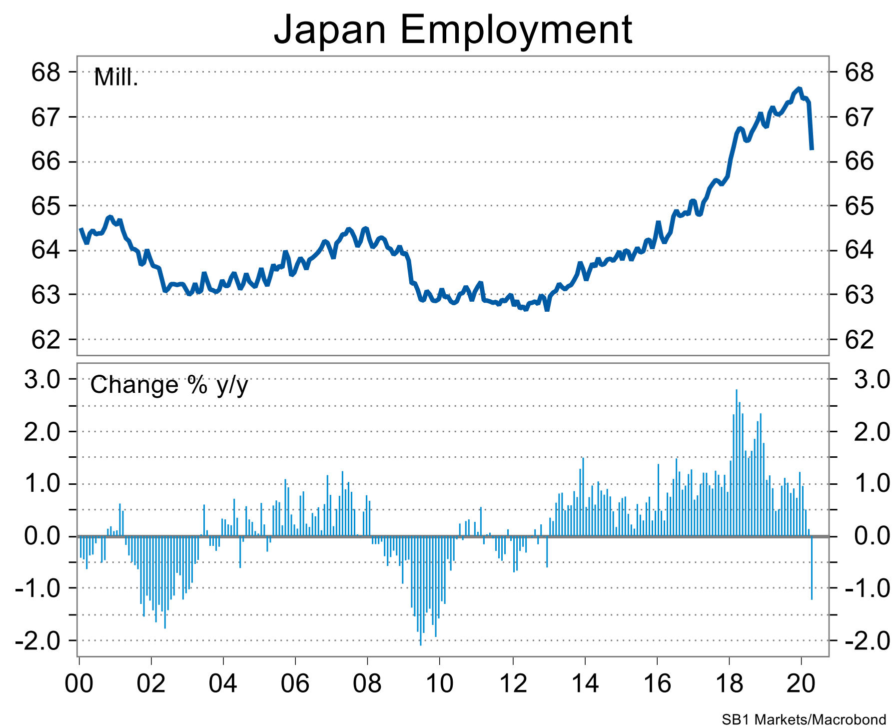




Employment down 1.6% i April, unemployment just slightly up

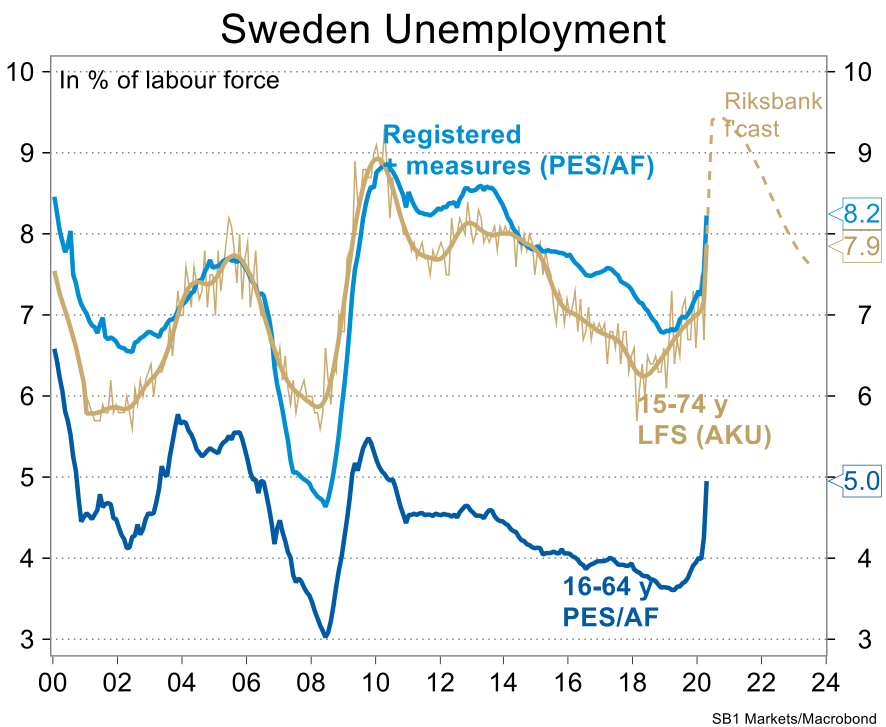
Unemployment just up 0.2 pp to 2.6%, as the labour force shrank

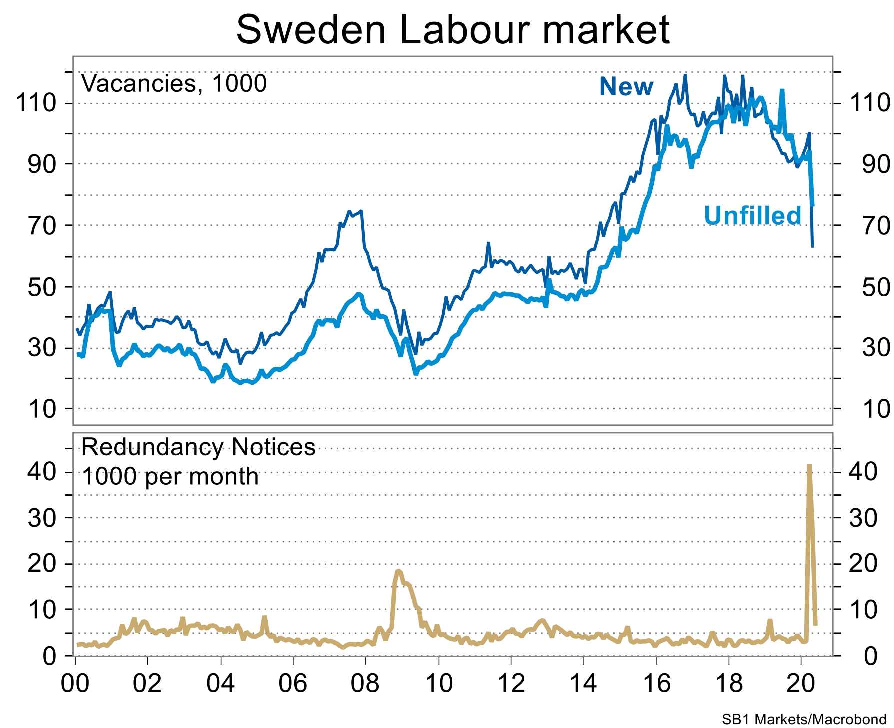




LFS unemployment up almost 1 pp too, now at 7.9%

Both open & LFS ('AKU') unemployment up, but not dramatic. Employment weaker, down 2%

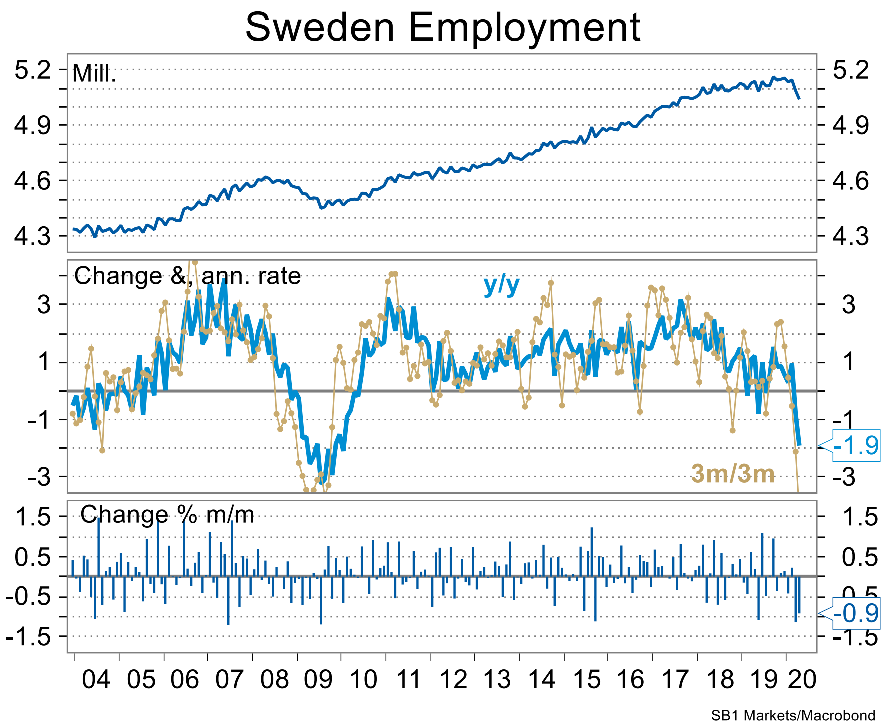


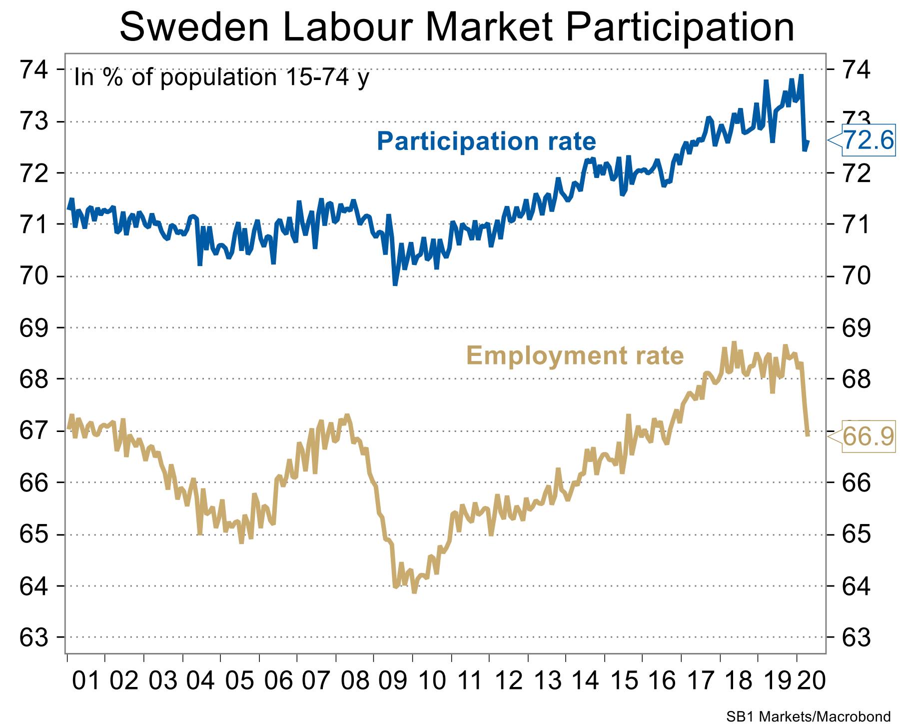


- The number of new vacancies fell by more than 35% in April but remained well above previous low levels

Employment down 2% in March/April (before including the

A sharp drop in the participation rate has dampened the increase in unemployment

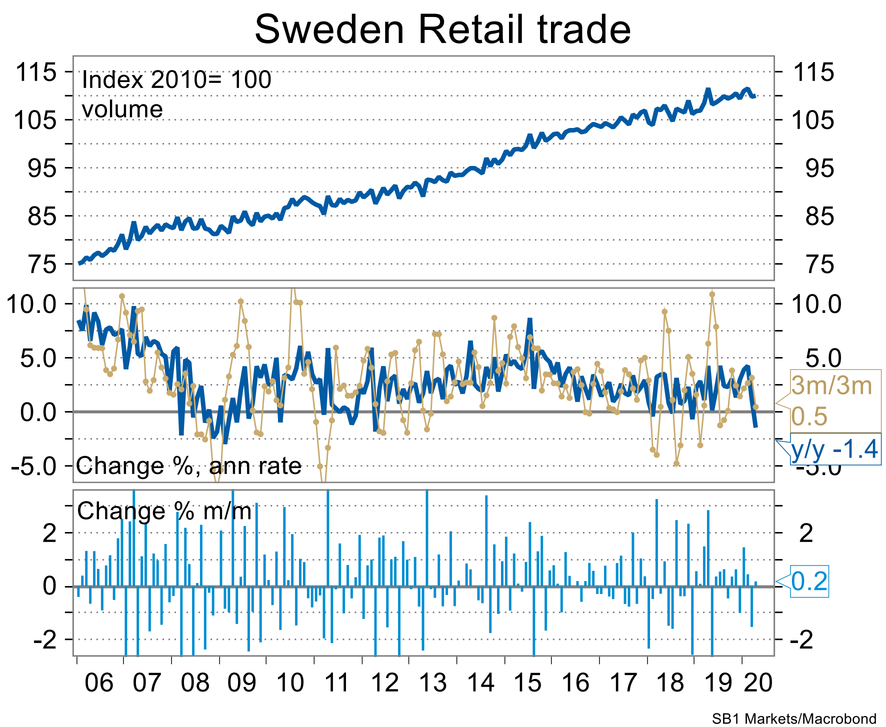


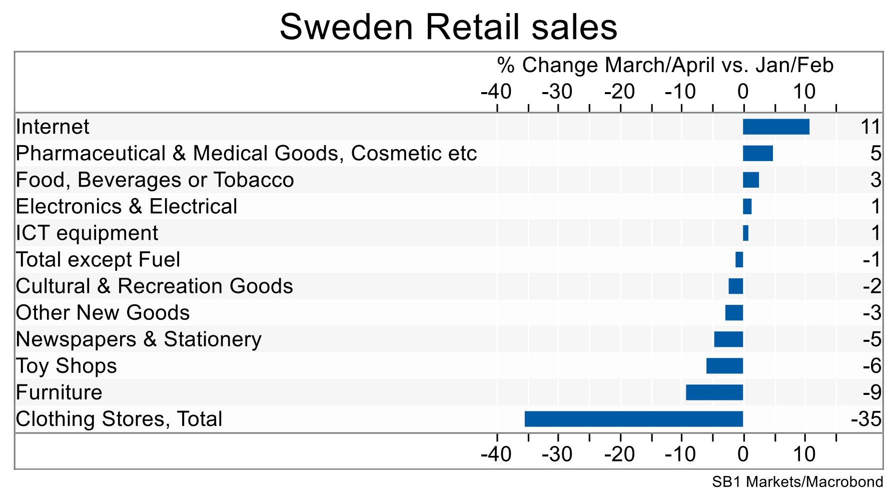


- Employment fell by 1.1% m/m in March and by 0.9% in April. The employment rate is down 1.4 pp over these two months, an unusual drop
- The labour market participation rate fell 1.5 pp, the second largest decline ever. So something happened at the Swedish labour market in March & April

No retail drama, sales up 0.2% in April, just marginally below trend

No goods consumption corona shock (but services are hit, there too)

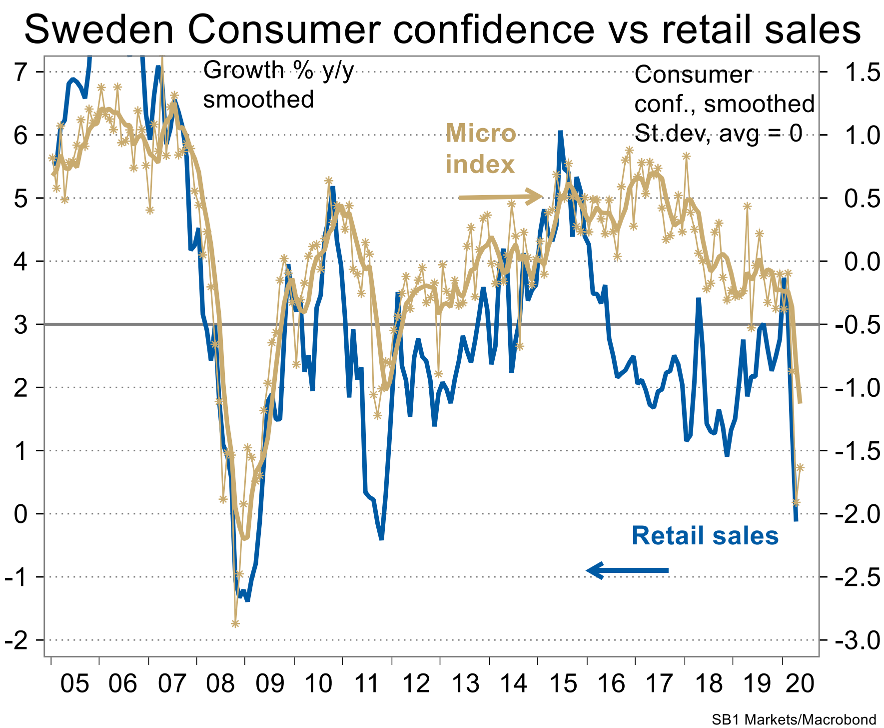


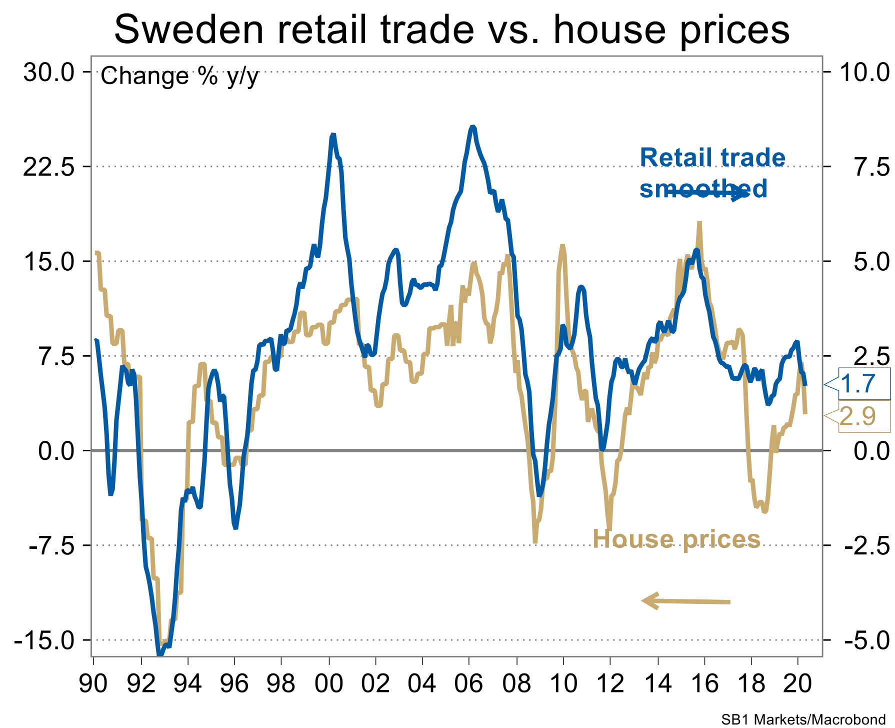


- Huge sectoral differences, but not as wild as in Norway
- Check Swedish and Norwegian hotel data here

Consumer confidence just marginally up in May – and the level is quite low

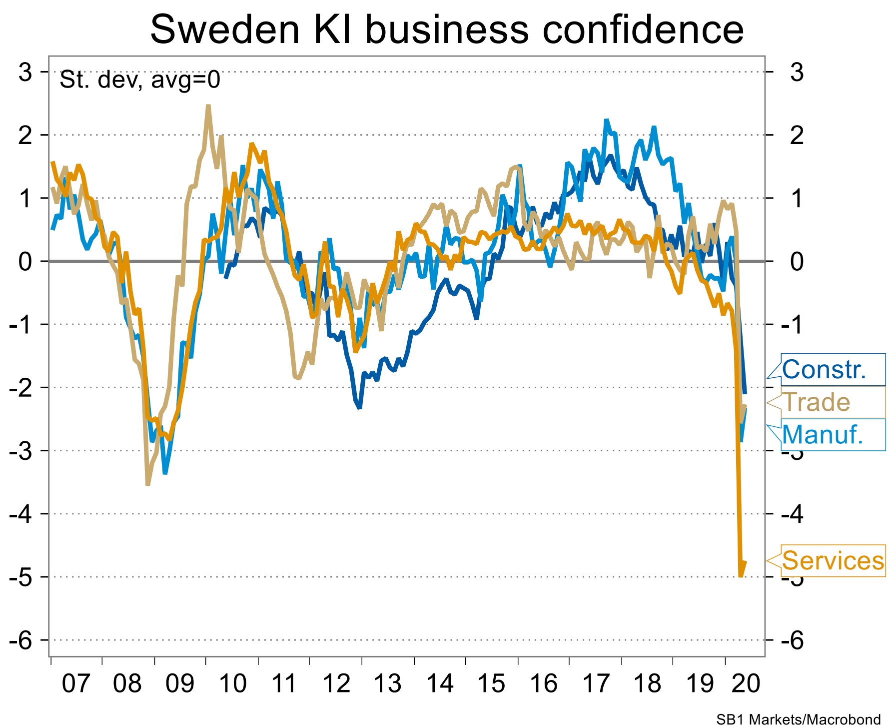
House prices have fallen too (but they are still up y/y), normally not supportive for consumption

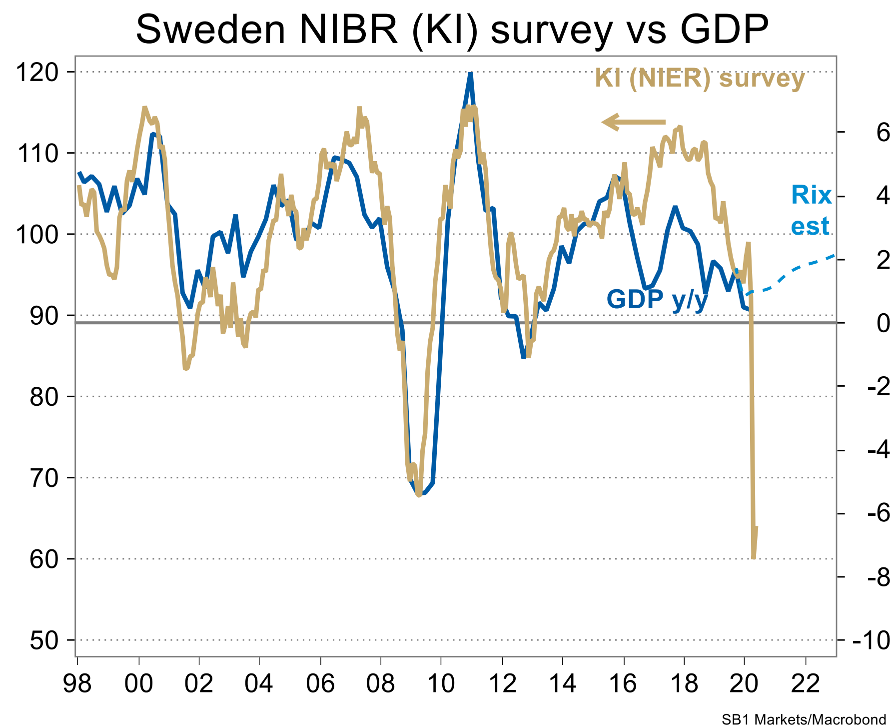




KI business survey confirms a broad setback in the Swedish economy, GDP -7%?

Construction confidence further down, and just small upticks in manufacturing, services, trade





- Sweden has been the odd man out vs. official lockdown decisions but the economy has anyway slowed sharply, and mostly due to a sharp decline in services – a 4 st.dev drop down -5 st.dev, a new all time low in April. The composite index signals a 7% decline in GDP, more or less in line with most other European countries, lockdown or not
- In Q1, GDP rose 0.1% y/y, revised up from -0.3%. The annual growth rate was revised marginally down

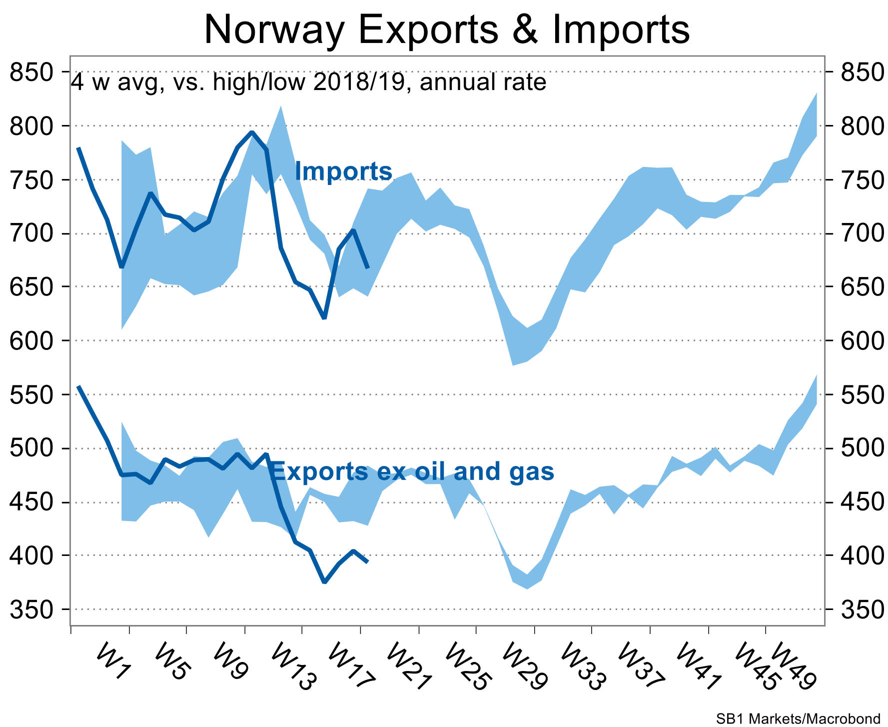
Manufacturing in Norway vs. Sweden: Spot the difference!

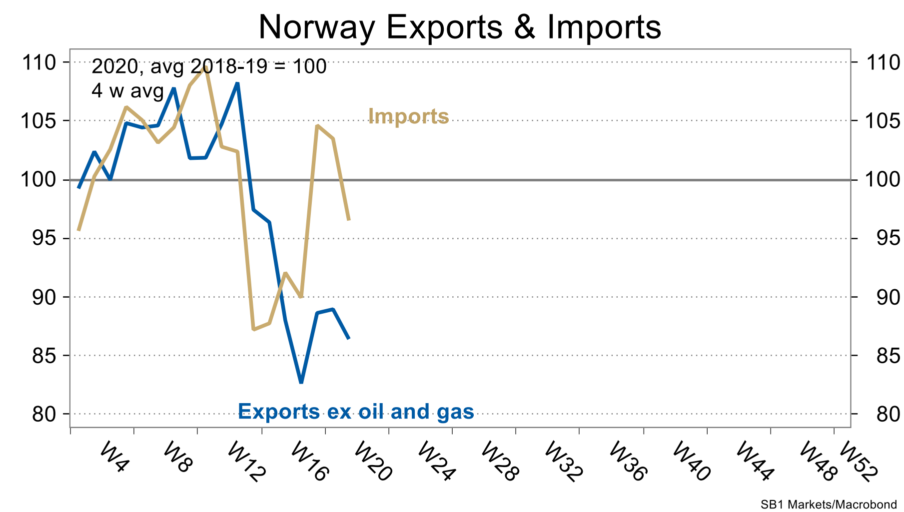
KI's and SSB's manufacturing surveys are telling the same story

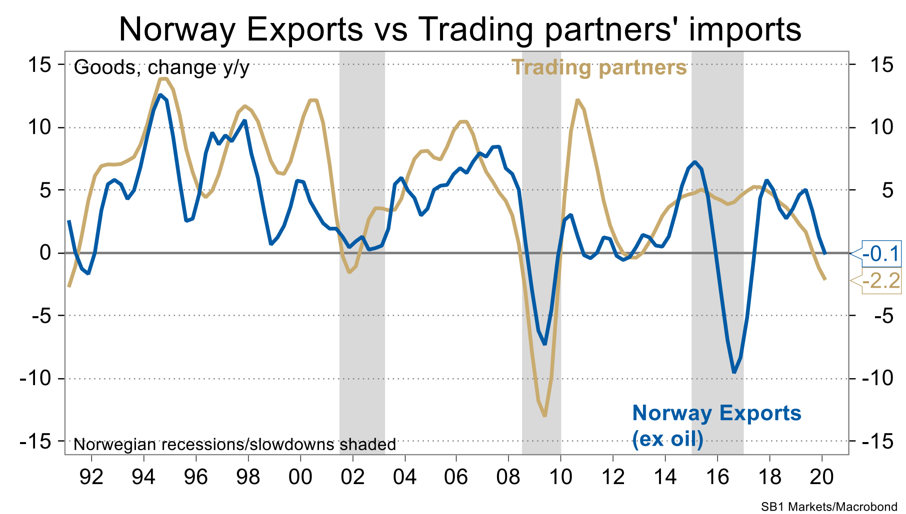
- The authorities' approach to the corona virus threat has been quite different in the two countries, even if Norway did not implement a total lockdown. Still, the manufacturers are reporting the same setback in Sweden as in Norway, we assume both due to supply chain challenges, and lack of domestic and foreign demand
  - » The expected downturn in oil investments creates an extra challenge for the Norwegian manufacturing sector
- We do not yet have goods service sector surveys in Norway but we doubt they are much worse than the -5 st.dev below average in the Swedish survey

Mainland exports are struggling, down 15% - 20%. Imports more or less unch.

The production/employment impact from this decline is not yet visible. But it will be, soon





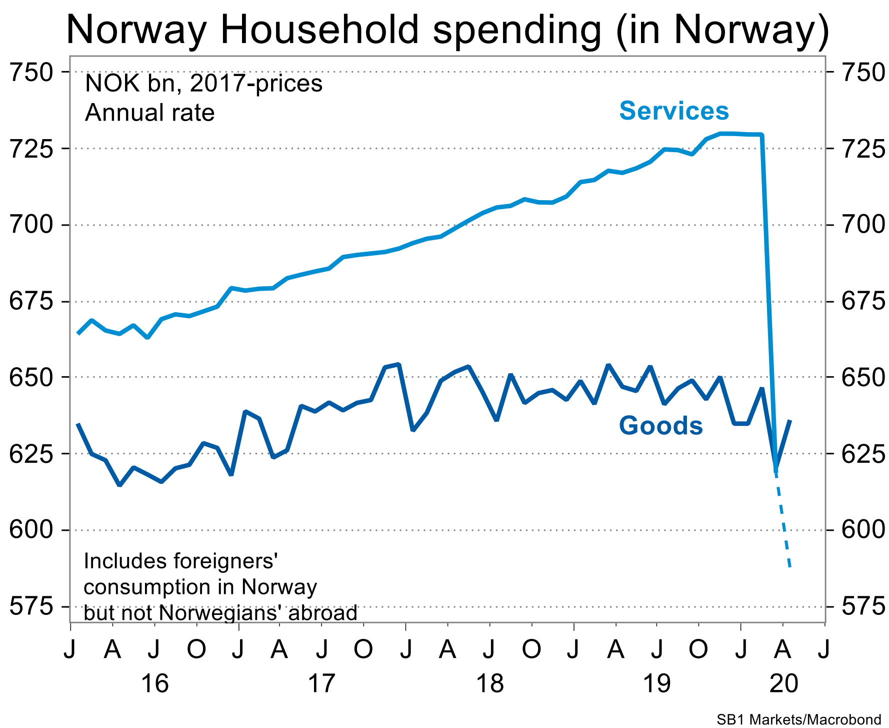


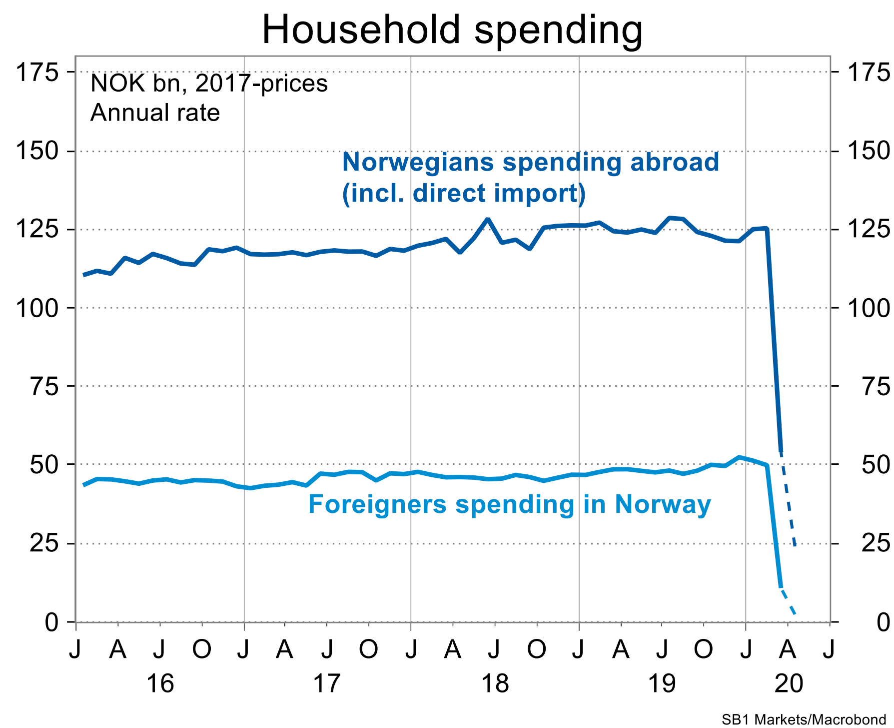
- A 15% decline in exports has just happened once, during the financial crisis. Exports are down
- A 15% decline in exports subtracts 1¼ pp from Mainland GDP growth, even after adjusting for the import content and without adding any income multiplier impacts
- On the positive note: Exports may have stabilised past few weeks

SSB is producing a new weekly foreign trade statistics, data from 2018

Consumption of goods has kept up up, service consumption not

Service consumption down 20% (the last 5 pp our April estimate), a 10% drag on total consumption





- Service consumption is reduced by approx NOK 125 bn (annual pace) or 20%. Consumption of goods is just slightly down (even if retail sales rose in April, auto & petrol sales are down)
  - Travel, hotels, restaurants and many more activities were more or less closed down in whole April (but some hopefully gradually recovering through May)
- The employment impact of 1 bn spent on services is some 1.3 x larger than for the same amount spent on goods, primarily due to the lower import share
- Norwegian households have reduced their consumption abroad by some NOK 100 bn (annualised). Foreigners have cut their spending in Norway by almost NOK 50 bn, which explains some ¼ of the decline in service consumption, and they have reduced their consumption of goods by almost NOK 20 bn. Thus, Norwegians have increased their consumption of goods significantly (as consumption of goods is down just some 5 bn (again, at an annual pace)
- In total, private consumption has fallen sharply in March and April, we assume by some 18%, of which 10 pp at home. For Norwegian businesses, the decline is larger, due to reduced demand from foreigners. (Norwegians are spending 2.5 x more abroad than foreigners spend in Norway)

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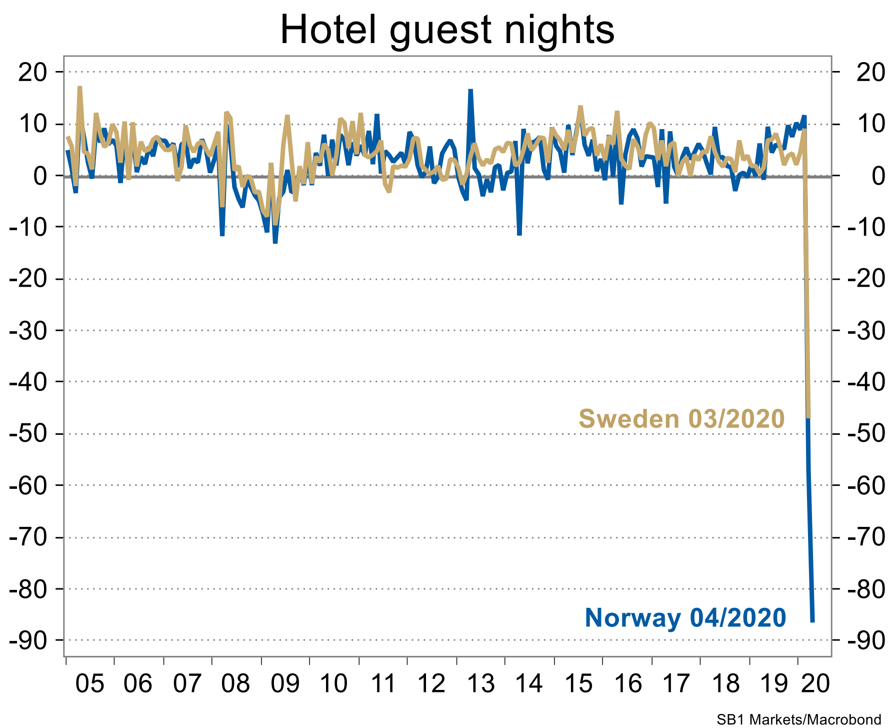
Hotels lost some guest in March and April

In March, no big difference between Norway and Sweden (-57 vs -47% y/y). Norway -87% in April



- Sweden has still to report April data. They were probably not much better

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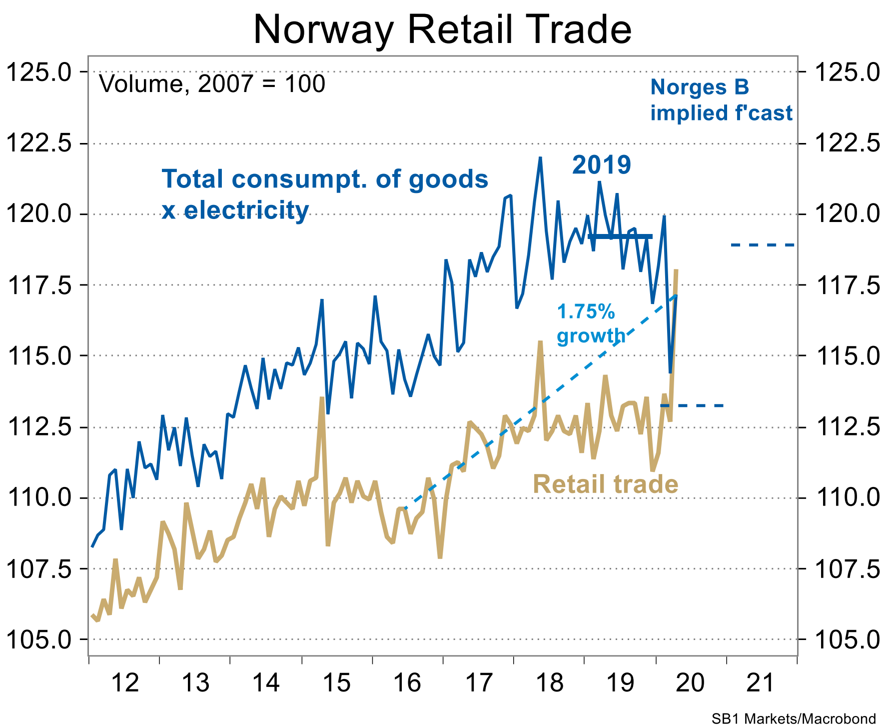
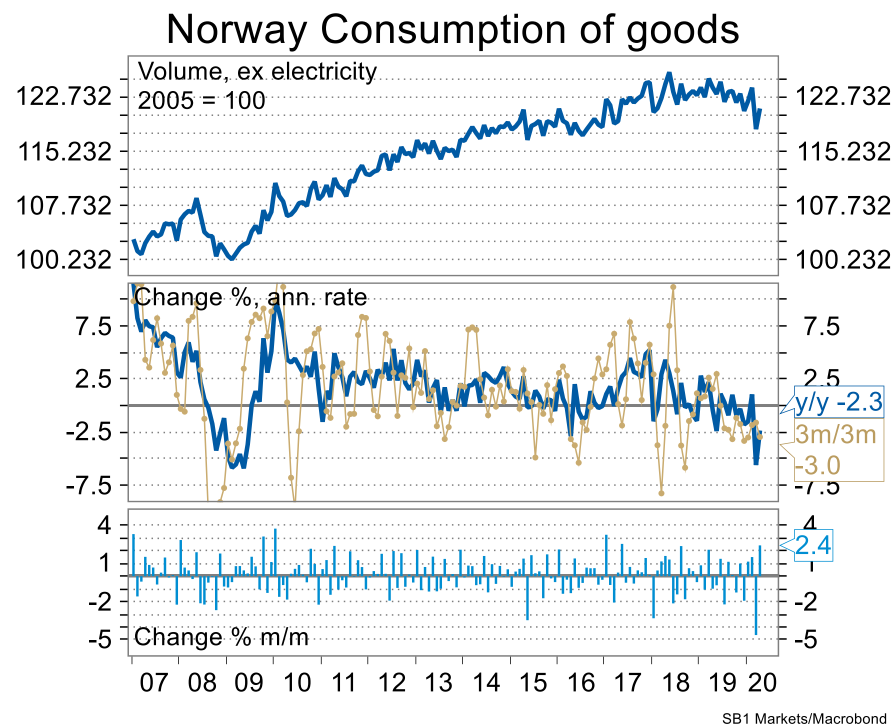
Retail sales: Not even a V, just an J, sales sharply up in April!

Sales up 4.8% in April, following a marginal (0.9%) decline in March. Still huge sectoral differences





- Retail sales volume (ex auto) rose by 4.8% in April, we expected a similar decline, even if some card transaction data signalled a better outcome. Consensus was better, but still far off, at -1%.
- We have never seen such deviations between different retail sectors. To March/April from Jan/Fed internet sales are up 38%, plants/garden equipment is up 27% (yes, data are seasonally adjusted), food & beverages up 12%. Sport equipment flat, clothing down 40%
- Total consumption of goods rose 'just' 2.4% as auto and gasoline sales fell further in April
- No doubt, less x-border shopping in Sweden, more food sales due to closed restaurants and lack of 'holiday' spending opportunities are reasonable explanations for the hike in retail sales. Service consumption very likely fell further in April (check the previous pages)

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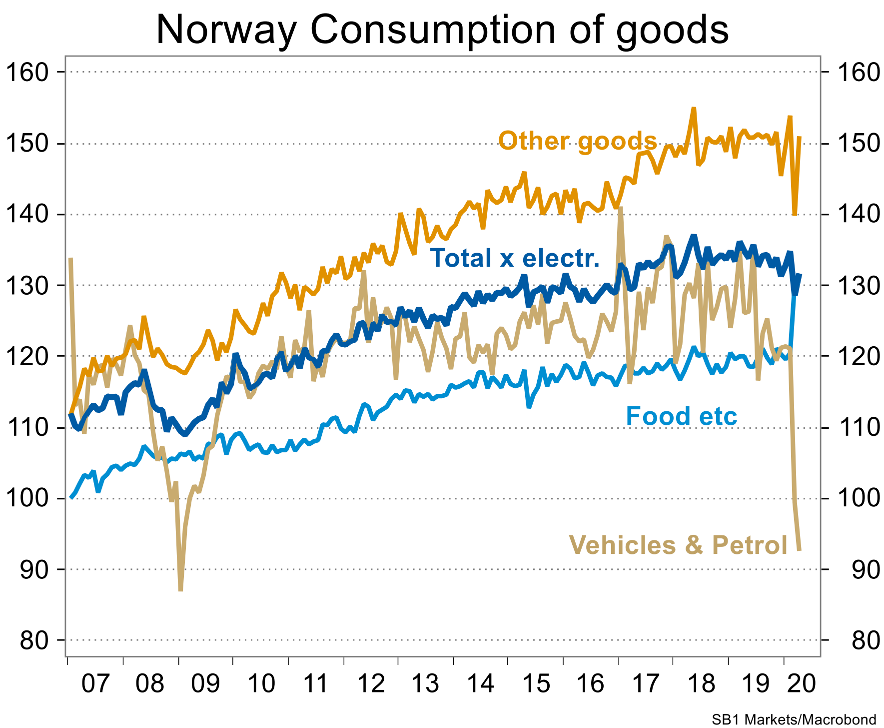
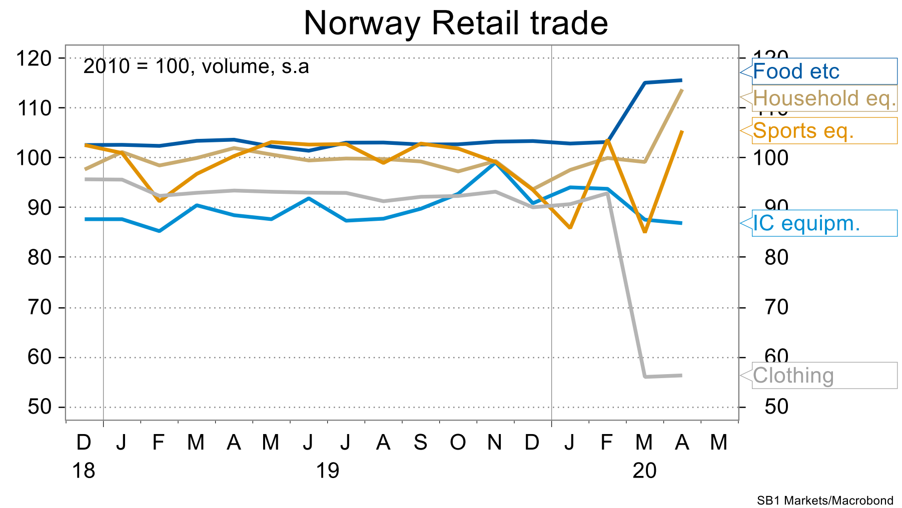
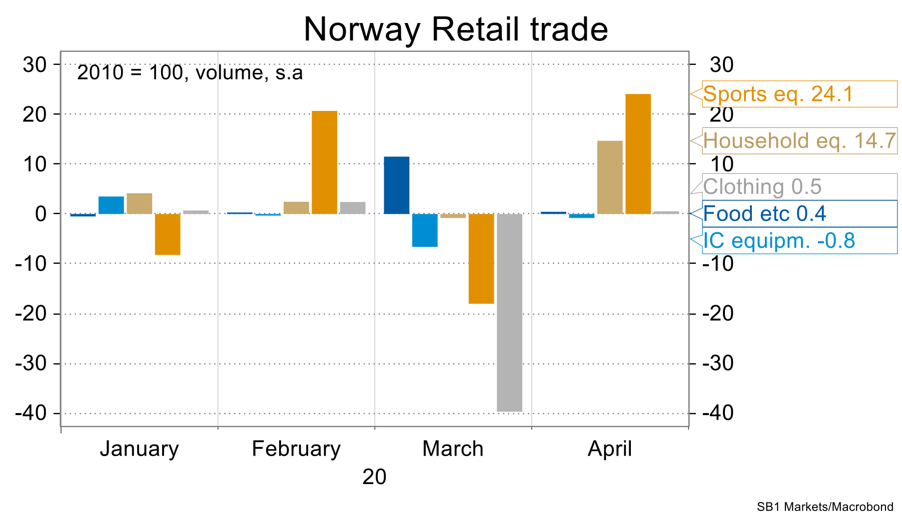
In net, food saved the day in the retail sector – others flat, but just in average…

Sport equipment sales extremely volatile since late Q4. 2nd highest level in April



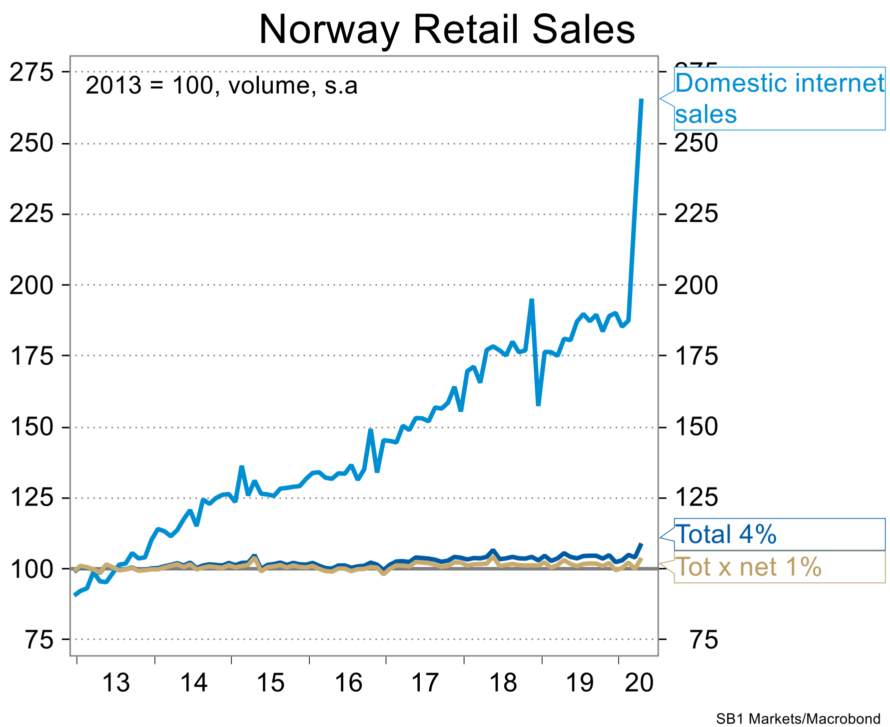


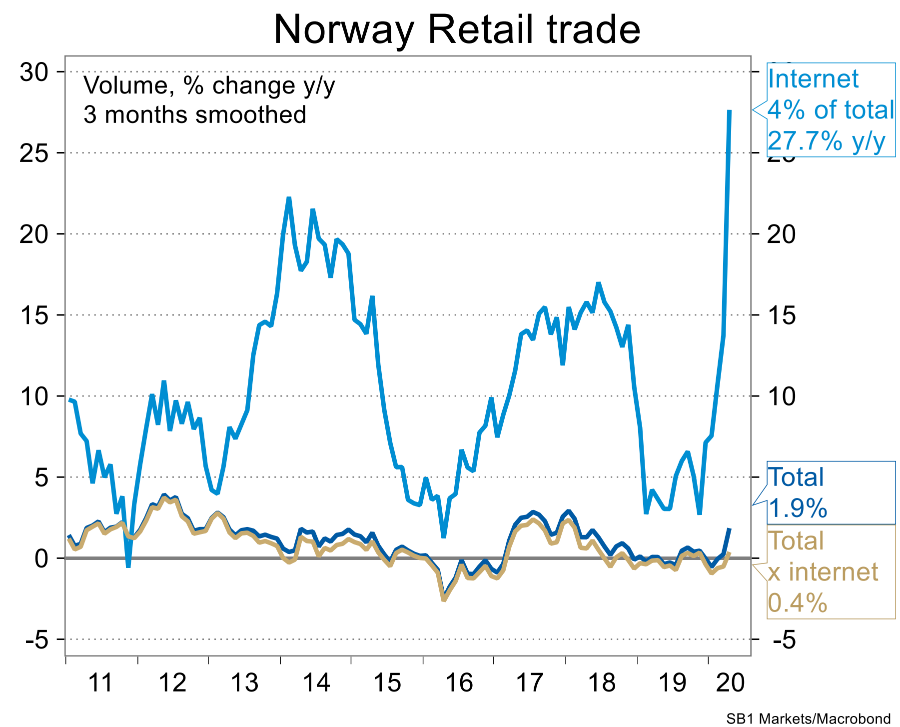


Two wild months! Internet + 34%, clothing/footware down 40-45%

Internet sales (domestic) came back in March & April

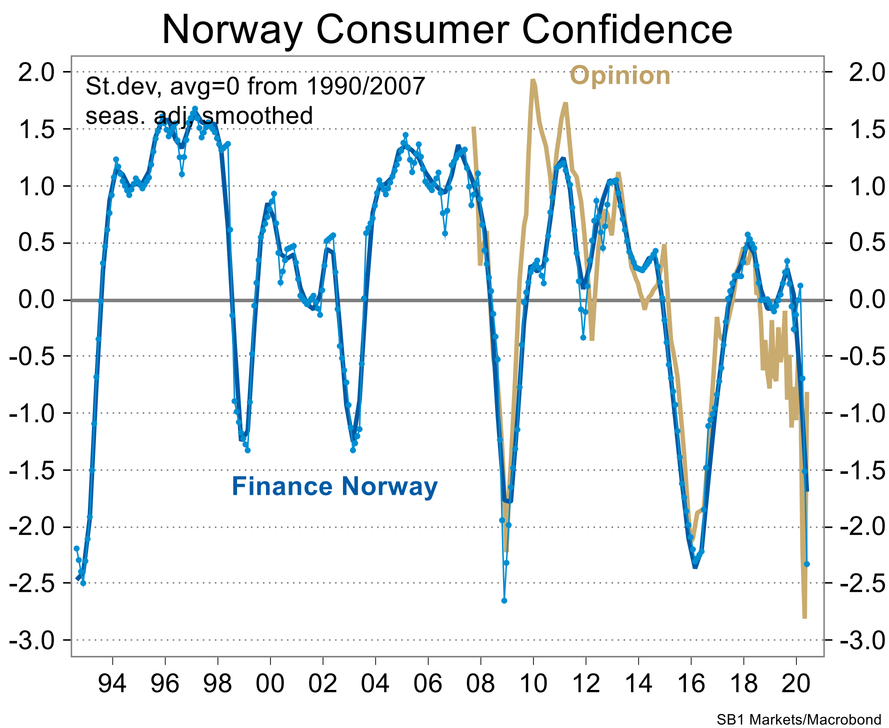
Not that much left for others, not over time either. Domestic net outlets have captured 1.5 pp of 1.9% growth!

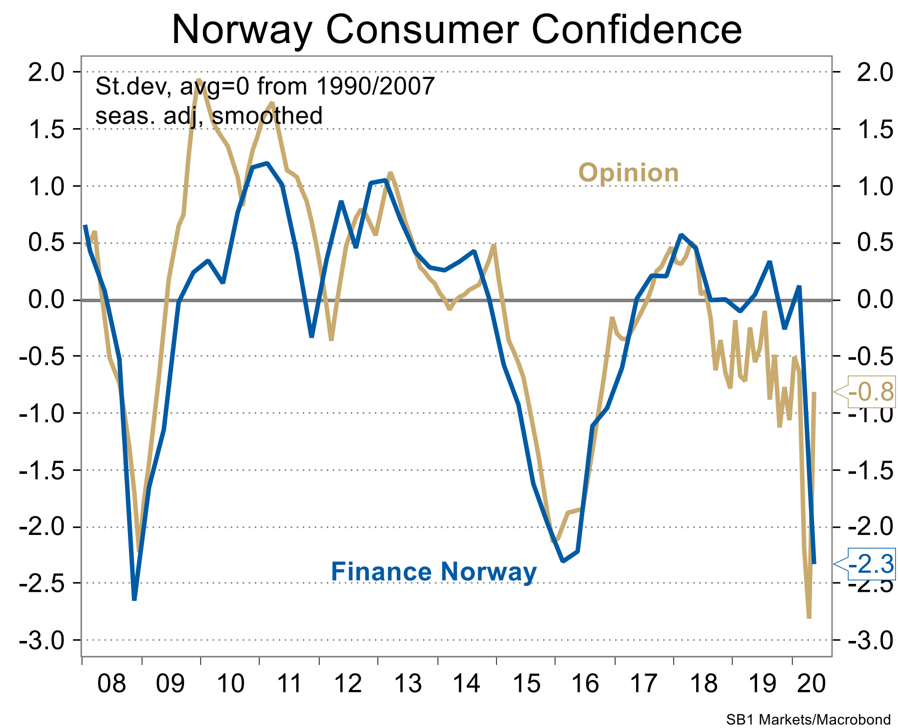




Consumer confidence more down than ever in Q2. More up than ever, in May

Finans Norge’s quarterly survey down to record low levels. Opinion’s CCI up 2 st.dev in May!!

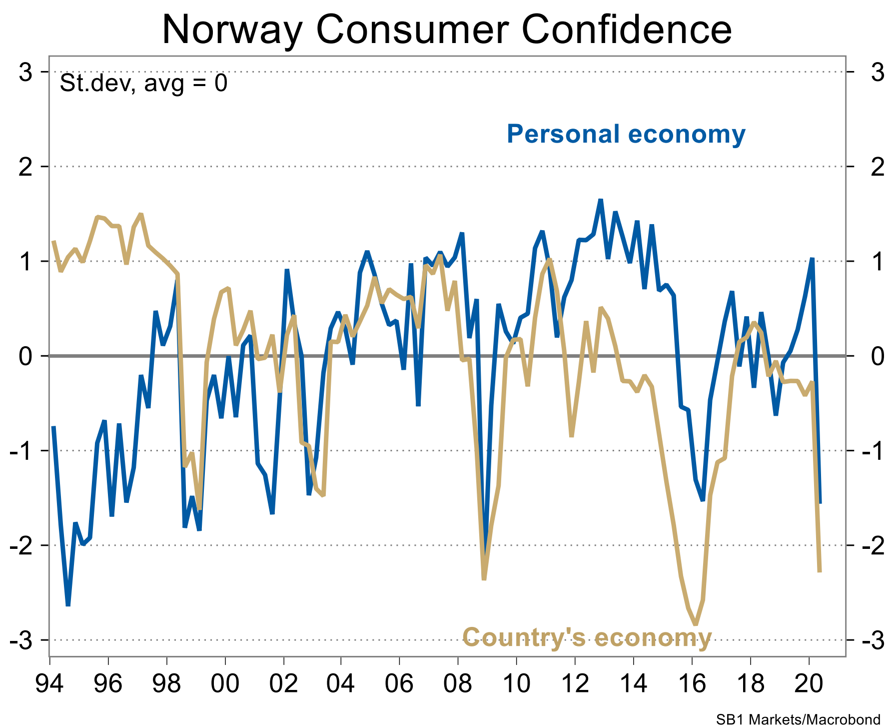


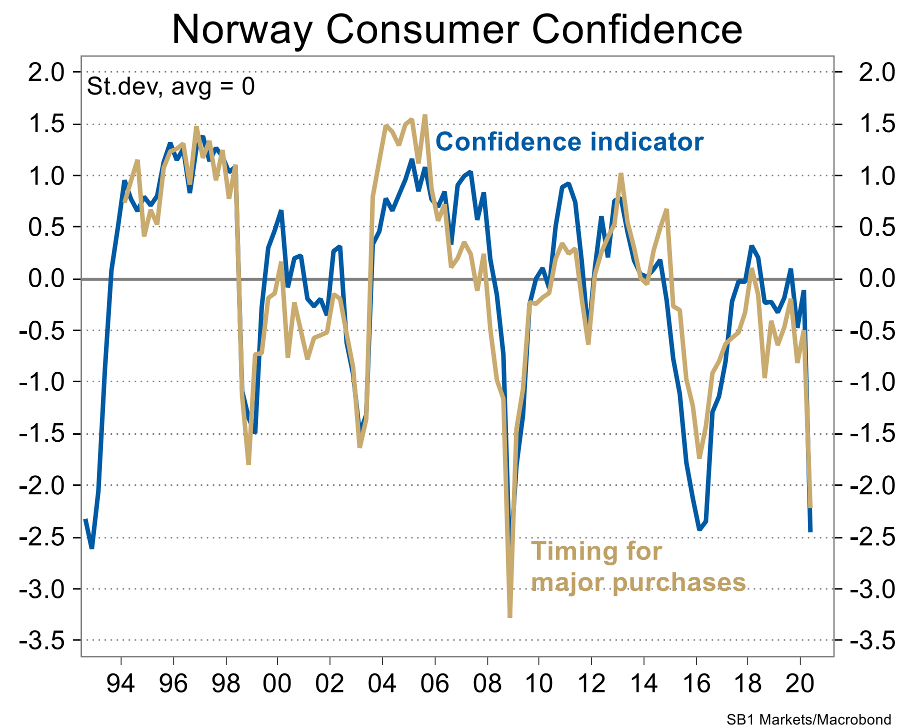


- Finance Norway’s Q2 CCI fell to -16 from +15, level equal to previous ‘crises’ (1993, 2008/9, 2015/16). The index fell more than we assumed
  - » Households’ assessment own their personal economy fell more than their assessment of the country’s economy (measured by standard dev) but it is still above the 2008 level – even if unemployment is far higher now
  - » Home buying is becoming ever more popular (just a minor dip in Q2), more want to buy a 2. home or a boat. Savings plans are record high, travel plans record low
- Then on Friday: Opinion’s monthly survey rose 2 st.dev, to -0.8 from the record low level at -2.8 in April. The index is still at a rather low level and signals slow growth in consumption but no crisis message is sent!
- What to make of this? Given the development in the housing market, retail sales and the labour market we think Opinon’s survey better reflects the mood in May, than Finans Norge’s survey. What the mood will be in one years time, that’s another ballgame. Anyway we take a look at the details in FN’s survey at the two next pages

A much larger turnaround in households view of own economy, than the nation's

A 2 st.dev + decline in the assessment of the personal economy, 2nd larges setback, lowest since '08

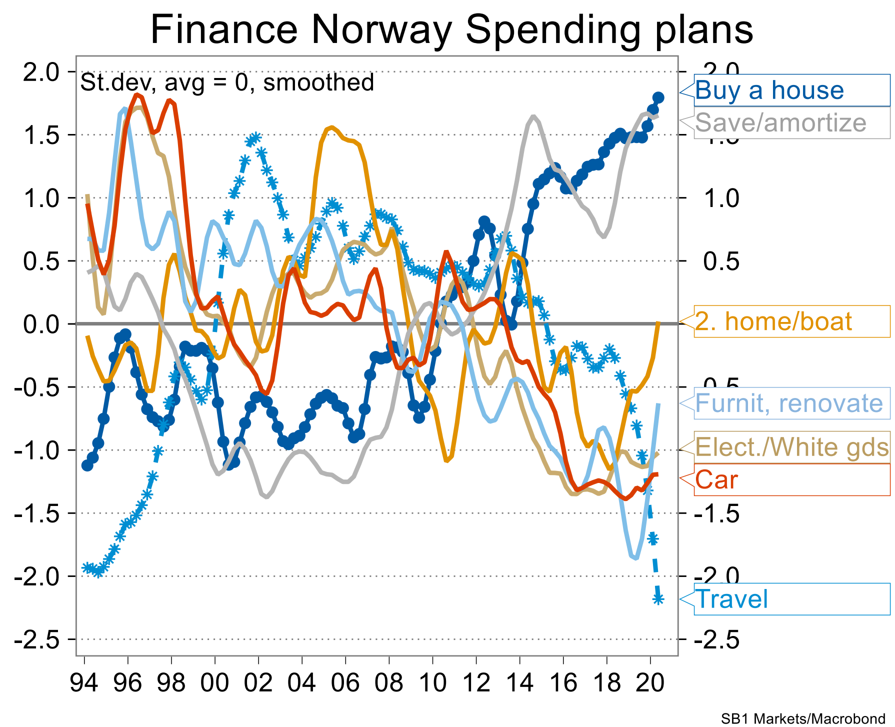


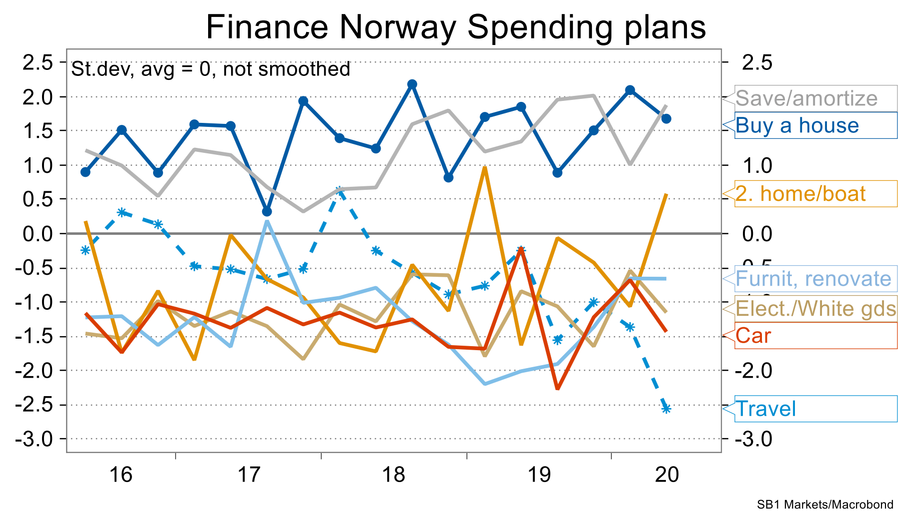


- Households' expectations for their personal economy fell more than ever in one quarter
- Their assessment of the country's economy economic outlook fell less and is not that low (but the past year was worse than ever, following a larger decline than ever (on the charts above the average of the two indices are shown)
- Household do not think this is the time for big ticket purchases

When in trouble, buy house, or a 2. home (and save more)! But travel less

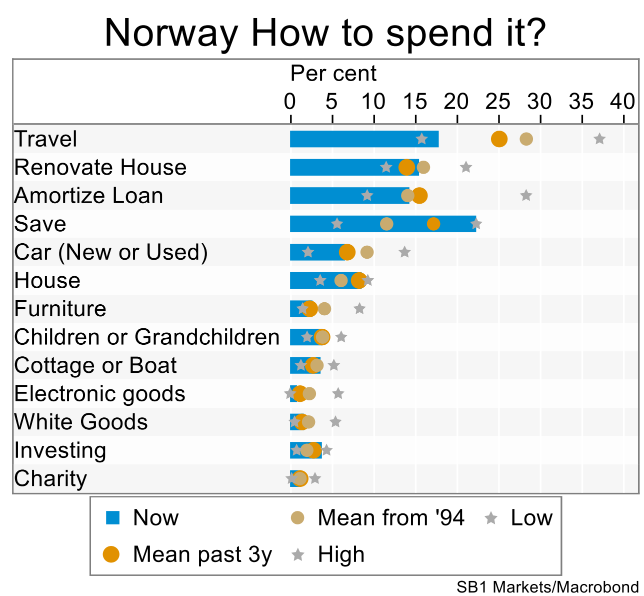
Unsurprisingly travel plans fell sharply in Q2, but the trend is down anyway





If you had more money, how would you spend (or save) the extra money?

- Save more and travel more is still the most popular, but travel more has never been less popular – and savings never more popular. Buying a 2. home or a boat has recovered to an average level recent quarters
- House buying has been trending up 'forever', but the index fell marginally in Q2



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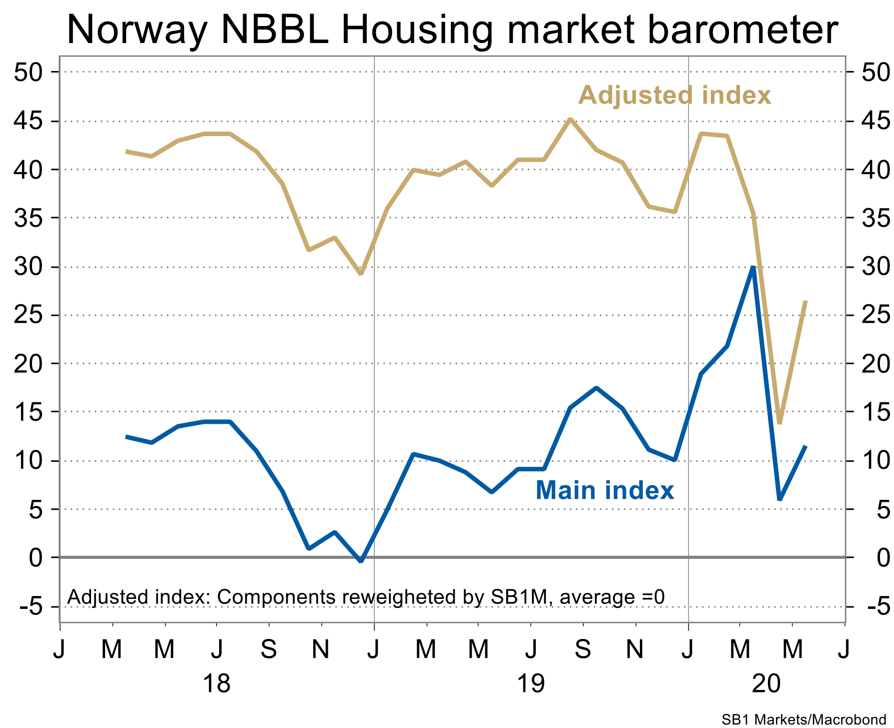
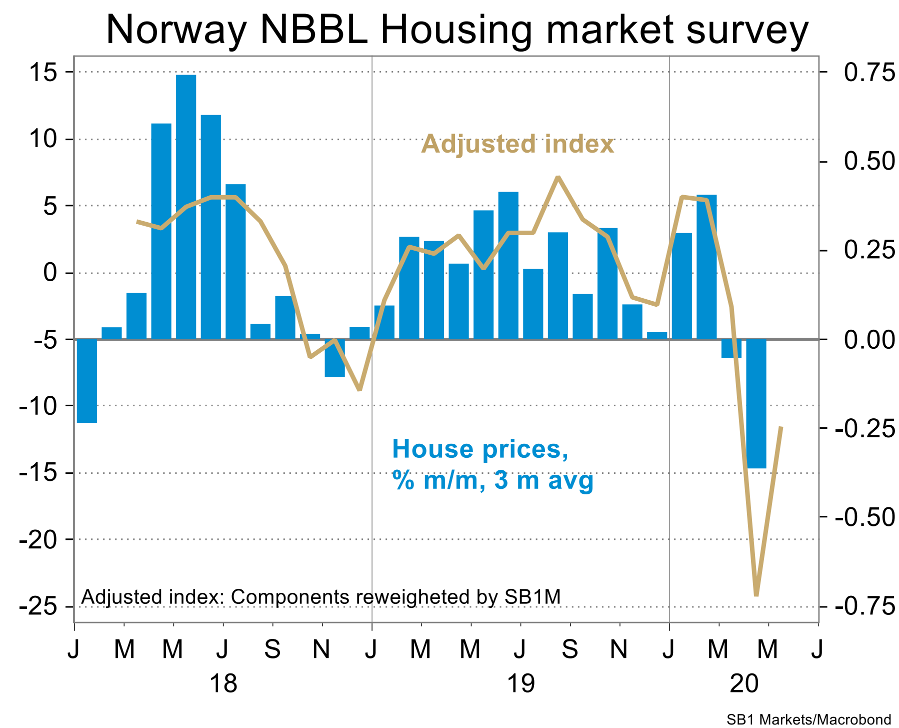
House price sentiment better in May – at a normal level (or lower)

Just as many expect higher as lower house prices the coming year, outlook was negative in April

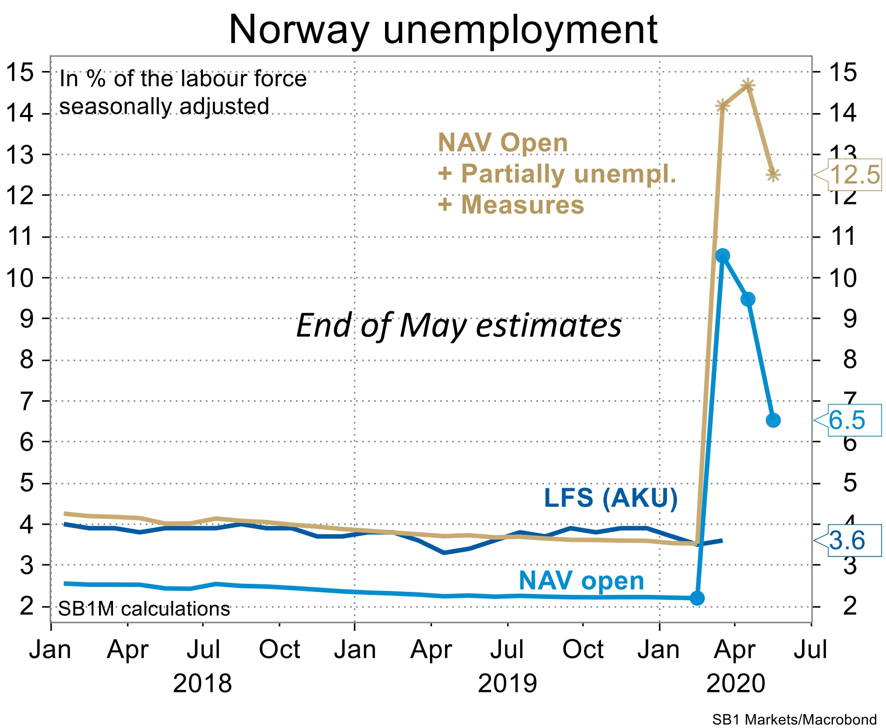


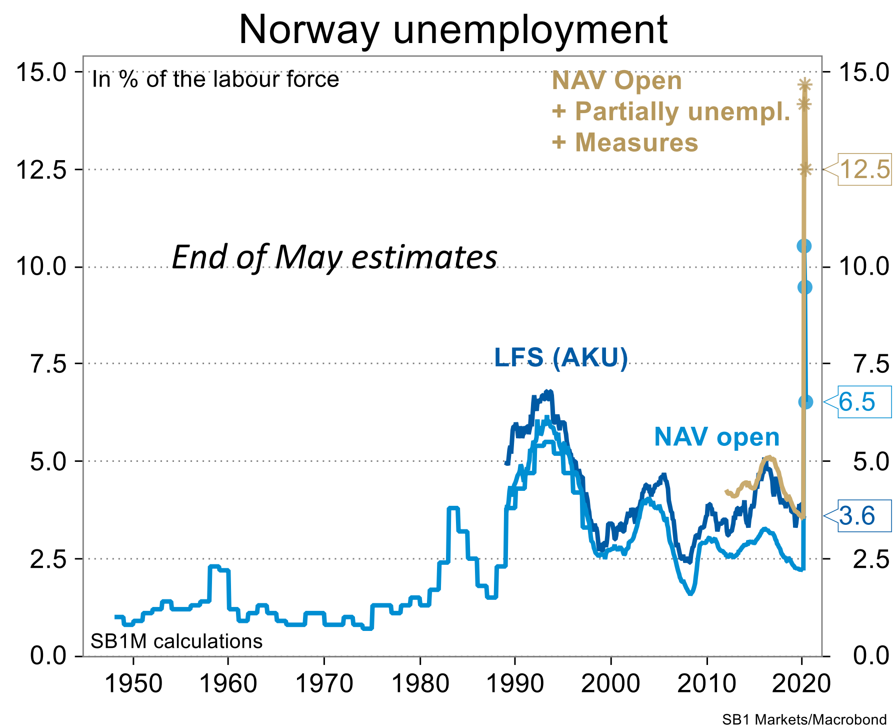


- Since the index was established in March 2018, at large majority of respondents have expected house prices to rise the coming year
  - In April, the balance came down to -25, from +50 in February and 14 in March. In May, the net was close to zero (+2%)
- The total housing market barometer, which in addition to price expectations also includes rate expectations as well as job security outlook, rose to 12 in May from the record low level at 6 in Apr, In Feb the main index was at 30, all time high. At 12, the index is at normal level
- We have recalibrated the components in the survey in order to better capture the underlying data – which implies a larger weight on the job outlook. The alternative index yield an index well below par in May – still up from April
- The NBBL survey is still too young to calibrate vs price changes but we have given it a chance at the chart to the right

Unemployment sharply down in May, and more to come. For a while. An then?

Total unemployment fell by more than 2 pp to 12.5% in May. Open ‘full time’ rate down to 6.5%

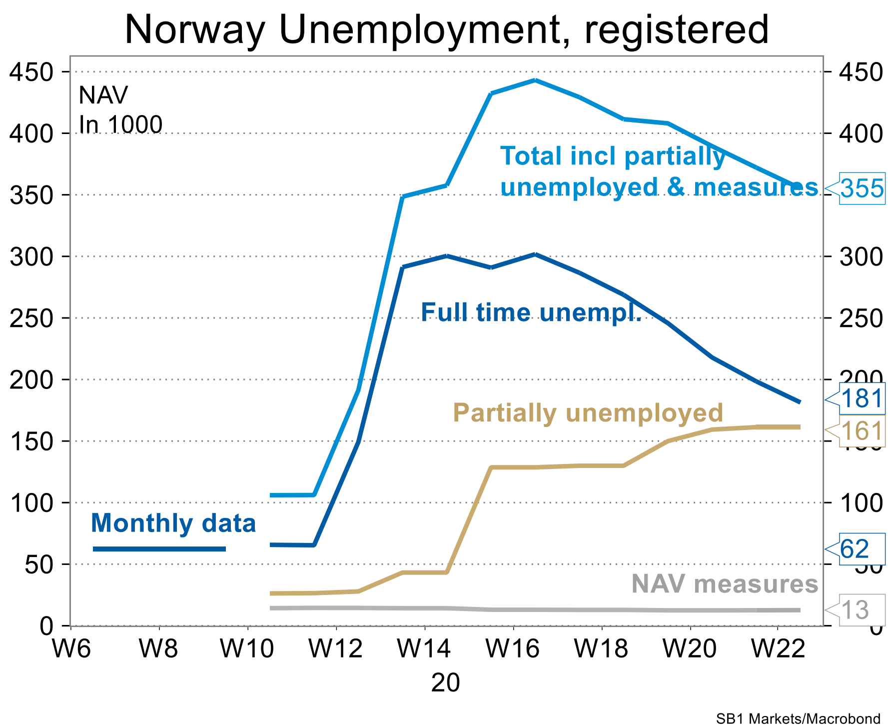


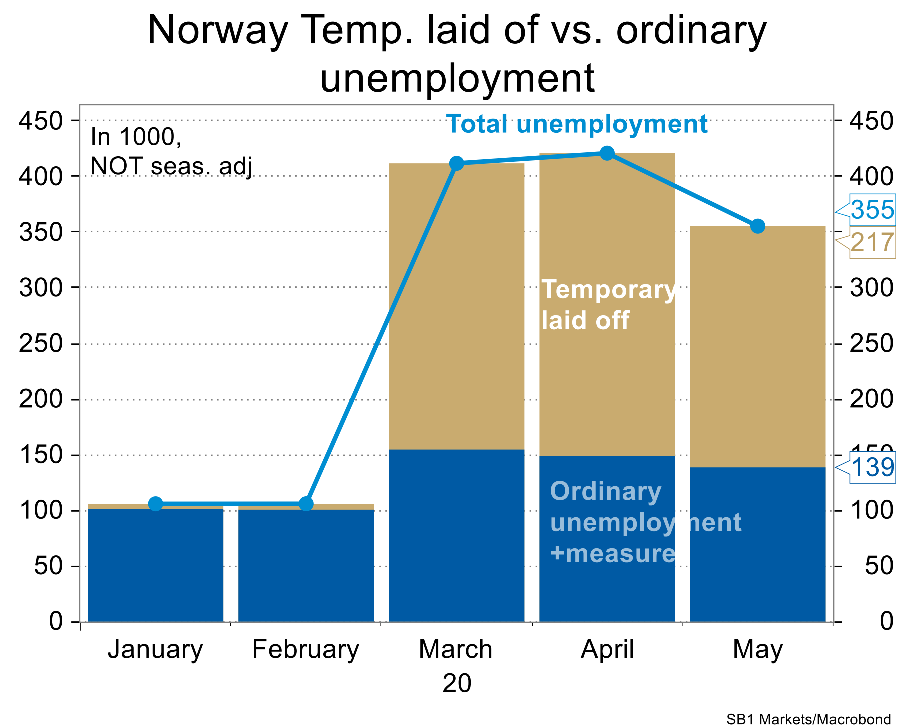


- The reopening of the economy encourages employers to reengage workers, at a pace of more than ¾% of the labour force, per week. The inflow of new jobless claims has slowed to ¼% per week – and the unemployment rate declines by 0.5 pp per week or 2% per month
- The LFS (‘AKU’) unemployment rose just 0.1% to 3.6% in March (average Feb-Apr)
  - » Those who are furloughed are not counted as unemployed in the LFS before after 3 months
  - » However, hours worked fell in March and wages paid are falling sharply

Total unemployment down by 90’ from the peak in early April

Temporary laid offs equal 60% of total unemployment, the they are now reengaged

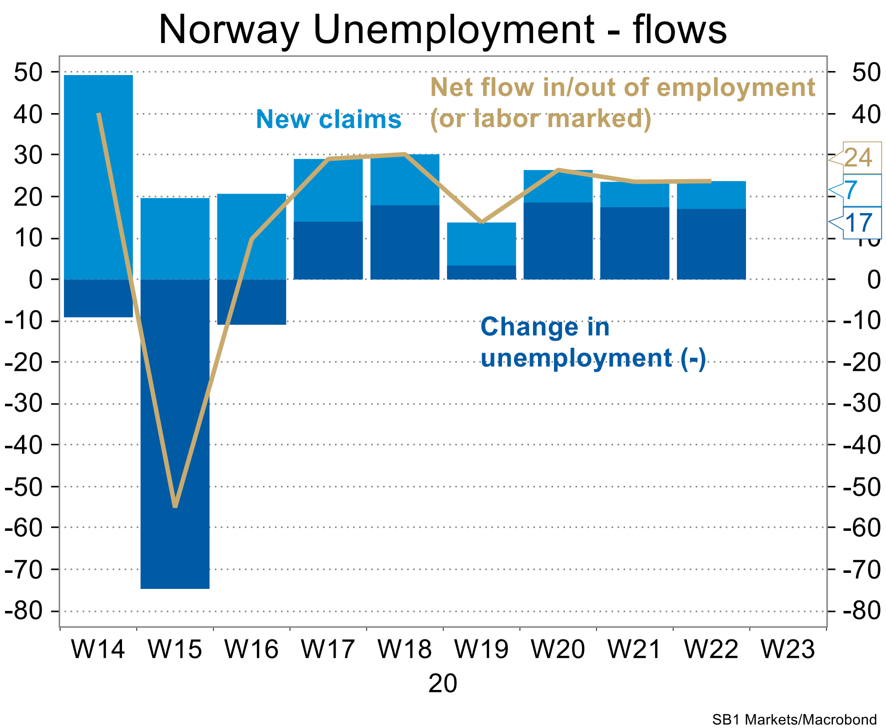


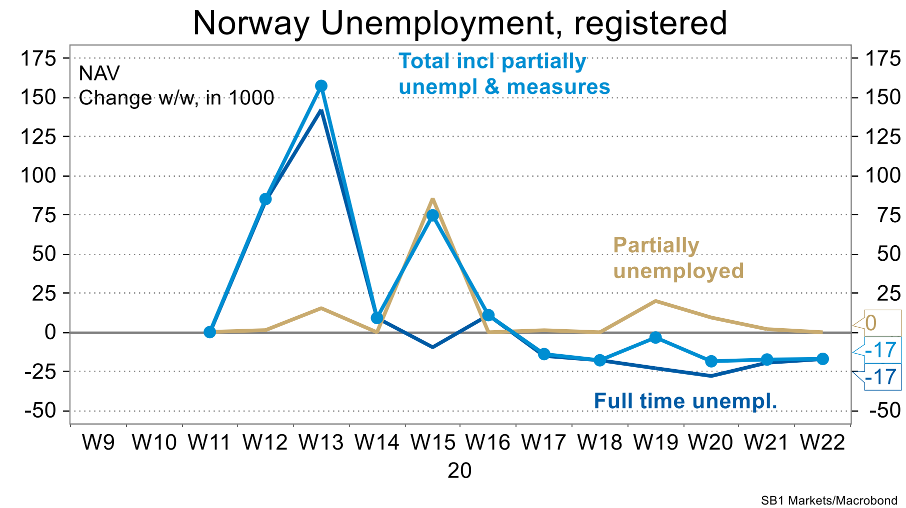


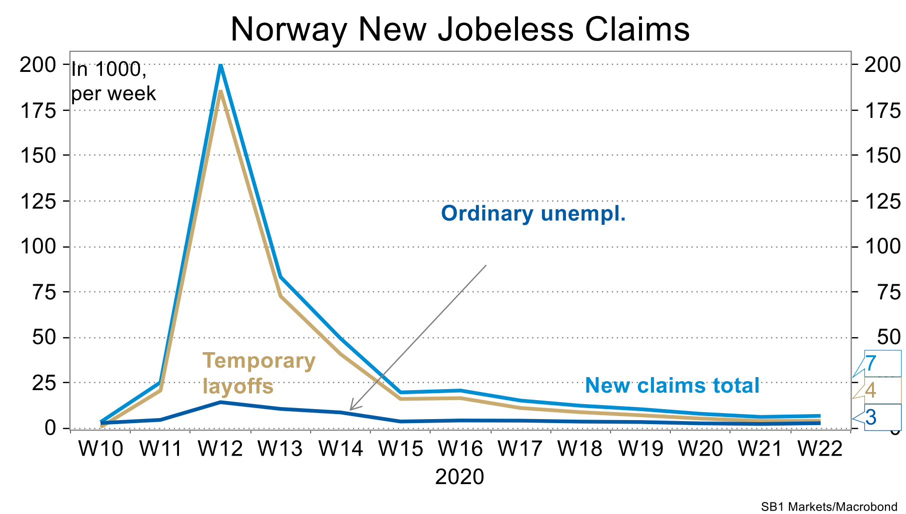
- Temporary laid offs equal 60% of total unemployment. Of the total decline in unemployment in May, 55’ was temporary laid off, 10’ were ‘ordinary’ unemployed
- The number for partially unemployed stabilised last week, following a steady rise

Unemployment flows: 24’ back to work last week (too)

Unemployment fell for the 6th week in row. The inflow has slowed substantially



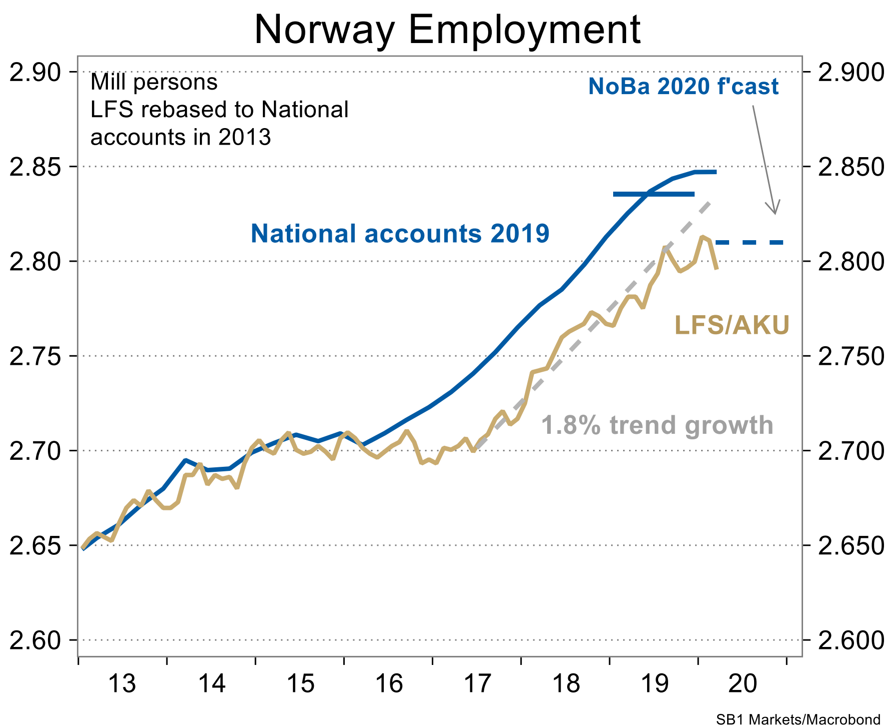


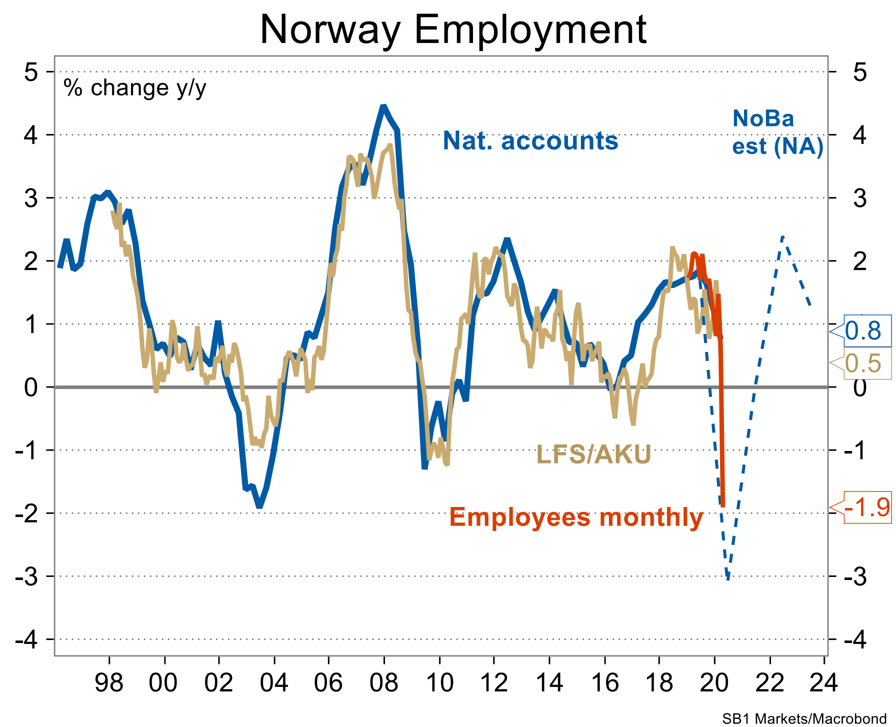


- Total & full time unemployment fell by 17’ last week, and at the same pace as over the previous weeks
- The inflow of new jobless claims is on the way down too, to some 7’ last week, apporx 50/50 between temporary/ordinary unemployed
- Thus, 24’ unemployed were reengaged last week (or left the labour marked). That’s approx the same number as during the previous weeks. This pace equals 0.8% of the labour force, PER WEEK ☺

Employment down (even if the furloughed are counted as employed)

LFS employment down past months, still up y/y. However, new monthly stats report a sharp decline





- The LFS/AKU employment fell by 4' to March (avg Feb – Apr) from December (avg Nov/Jan) but is still up 0.5% y/y
  - » In Q1 National accounts reported unch employment from Q4, still up 0.8% y/y
- A new experimental monthly employment statistics from SSB reports a substantial decline y/y in April, by 1.9% in no. of employees (and 2.4% in no. of jobs). Temporary laid off workers are counted as employed in this statistics (at 12% in March and April, from 'zero'
  - » No seasonal adjustment is possible (data are just back to Jan 2018) but given any reasonable assumption, employment has fallen sharply since February. Early 2000, the annual growth rate was somewhat above 1%. There was nothing special with growth rates last spring, signaling stable employment growth in early 2019. Thus, the drop in the annual growth rate to -1.9% from +1.1% signals a 3% decline in employment to April from Jan/Feb!
- Both the LFS and the monthly payroll statistics defines employees that are furloughed (temporary laid off) as employed the first 3 months. The 3% decline in employment is 'for real'

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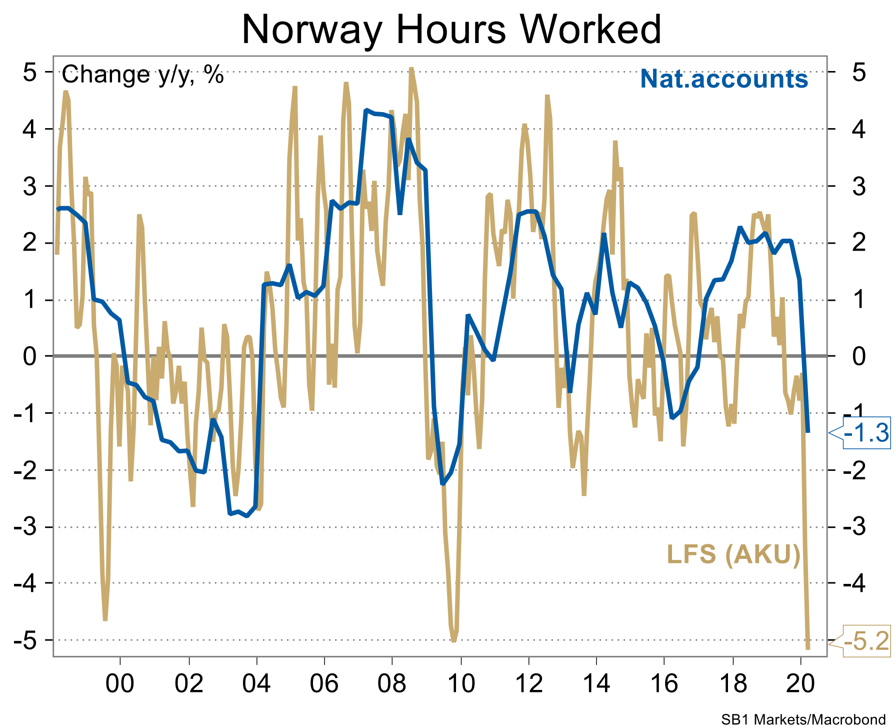
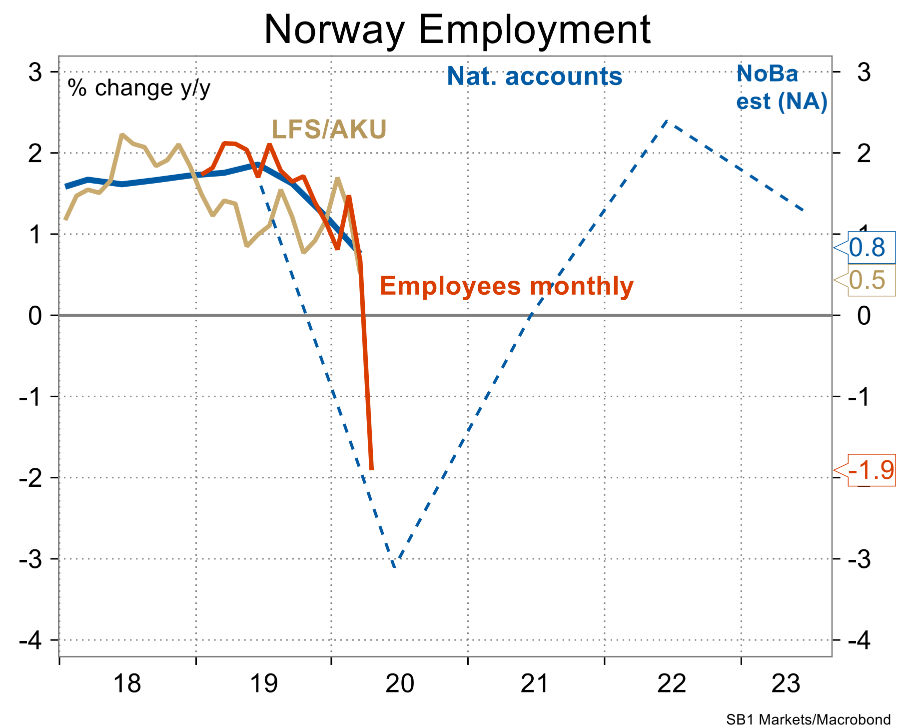
Hours worked, average wages down – and total wage income is falling sharply

Hours worked down 5% y/y in Feb/April (and by 10% in mid March-April?), wage growth -8pp!

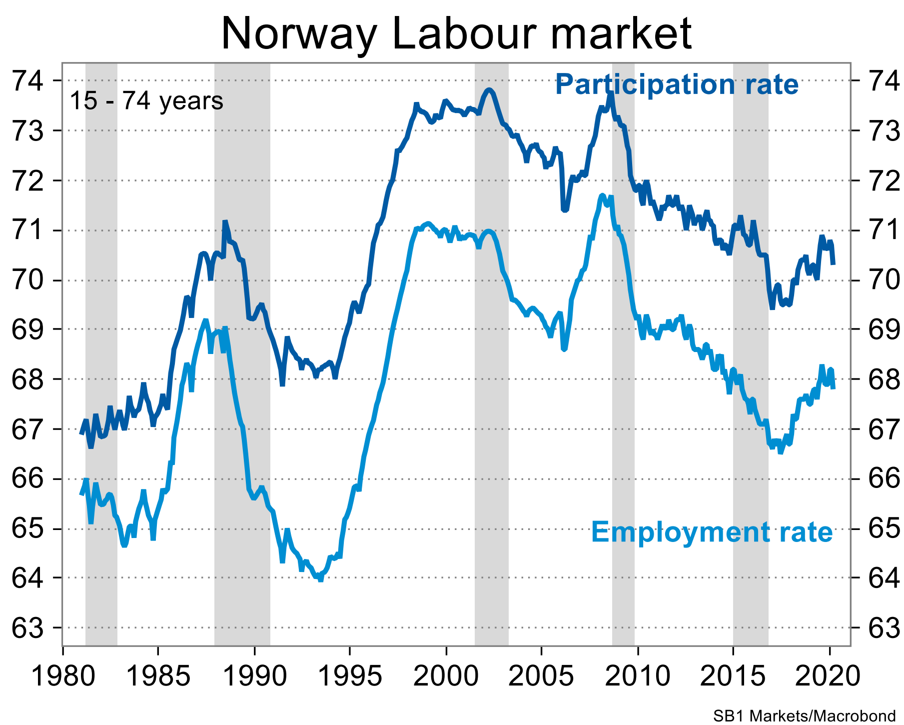


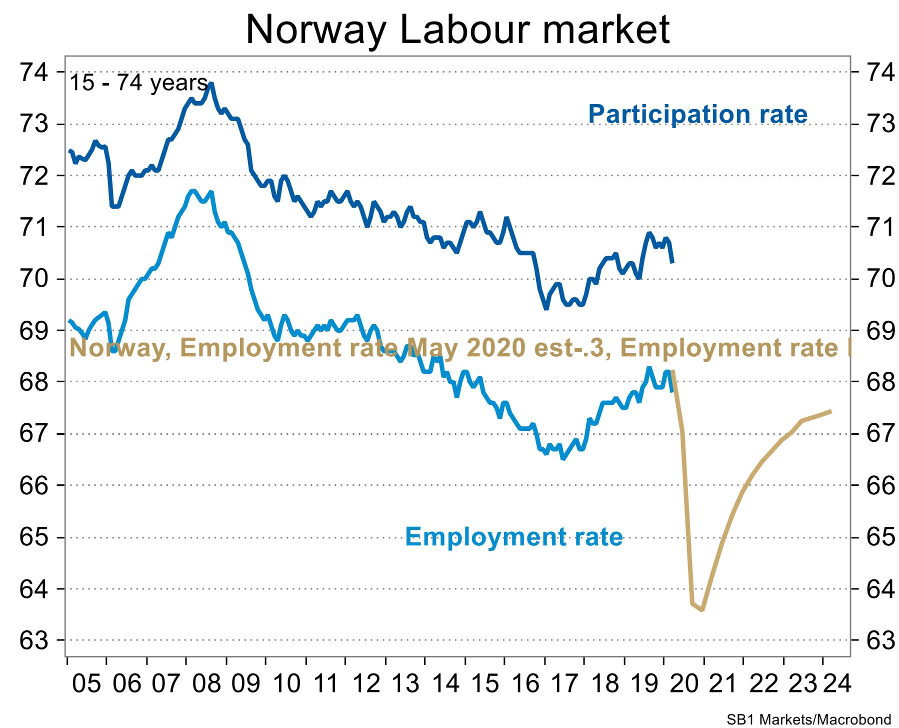


- Hours worked in total and per person fell sharply in March (Feb/April) as those furloughed from mid March are counted as employed but without any hours worked. A 10% decline in 2nd half of March and April seems reasonable
- The average wage per employed was 0.1% y/y in April, down from close to 4% at the start of the year
- Thus, the growth in total wage income has fallen to -3% in April from +5% at the start of the year, a 8 pp decline. The employees not receiving wages are to a large extend compensated as they are receiving rather generous unemployment benefits from the Government

Labour market participation & employment rates down

The decline is still moderate. If participation not had fallen

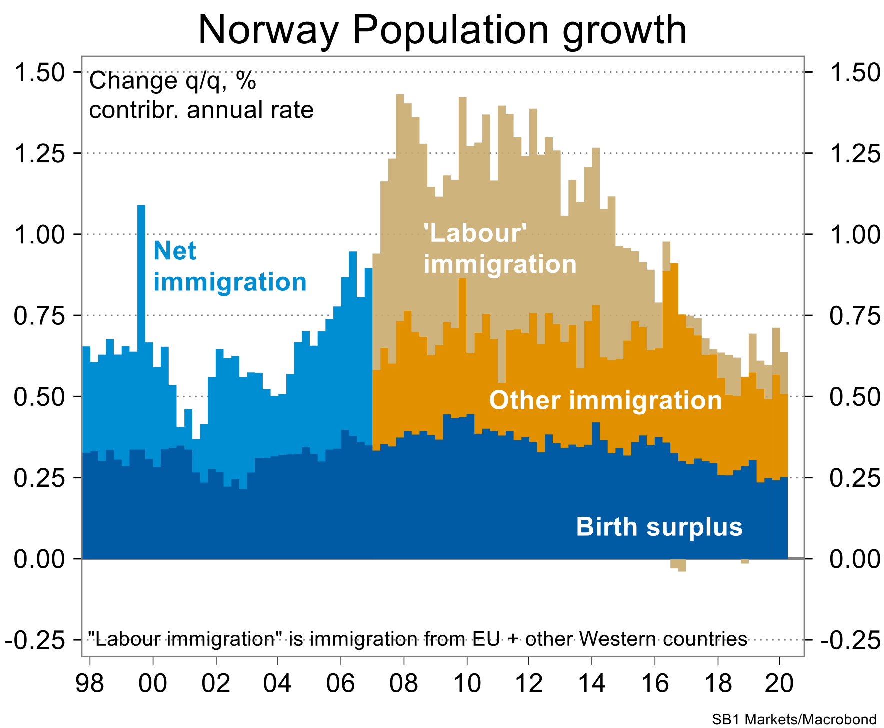


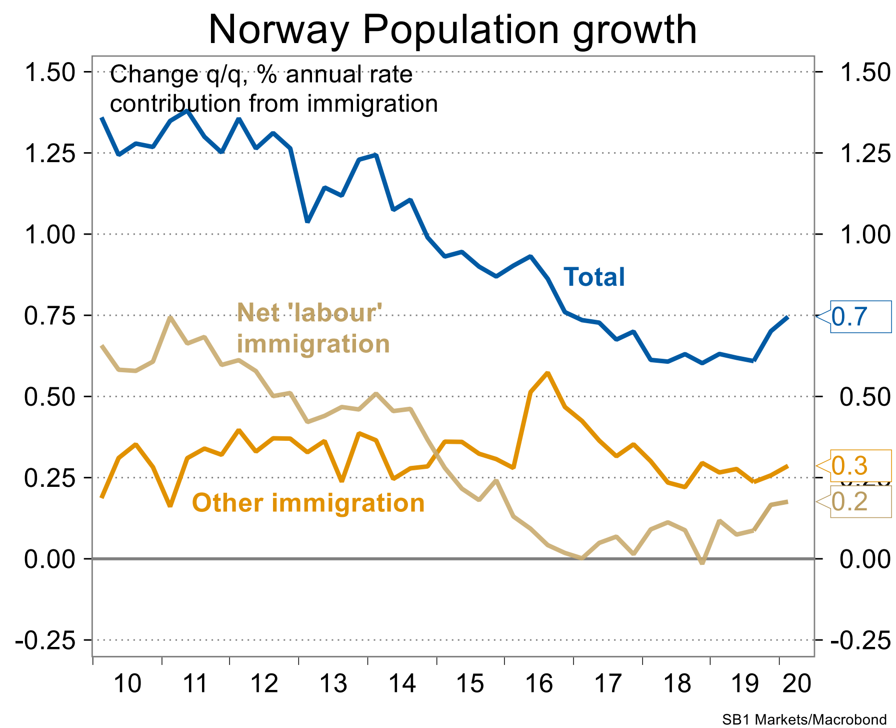


- The long term downturn in the participation and employment rates bottomed in 2017 and have turned up since. Through most of 2019, the participation rate climbed speedily, suggesting labour supply was responding to strong demand. However, late summer 2019, participation has retreated, not an indication of available capacity!
- The employment rate has turned down along with participation since August last year

Population growth have bottomed out, but remains low

Population growth has accelerated to 0.7% from 0.6% - but ‘used’ to be 1.2%

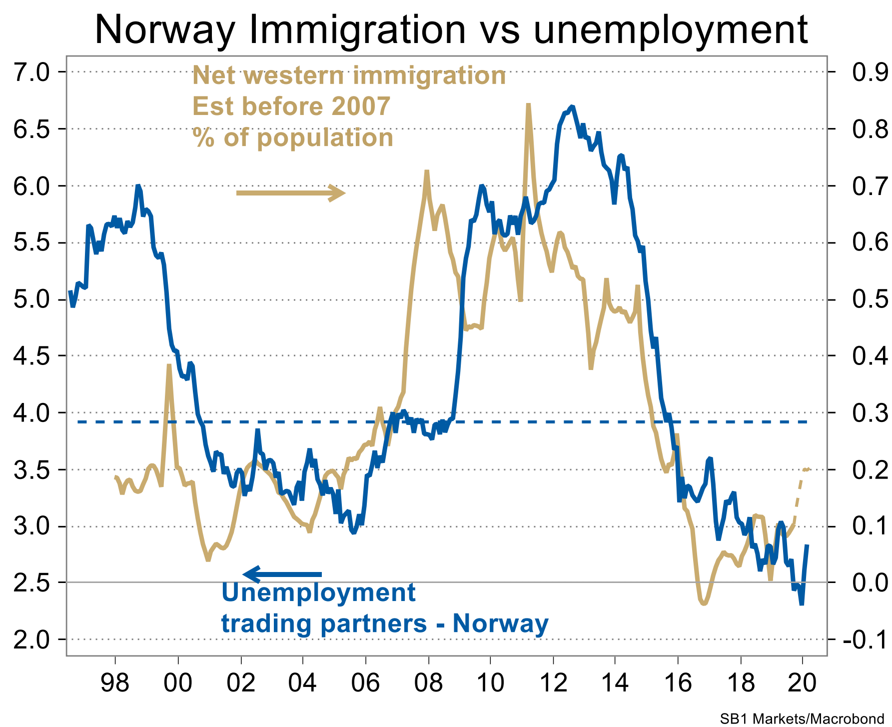


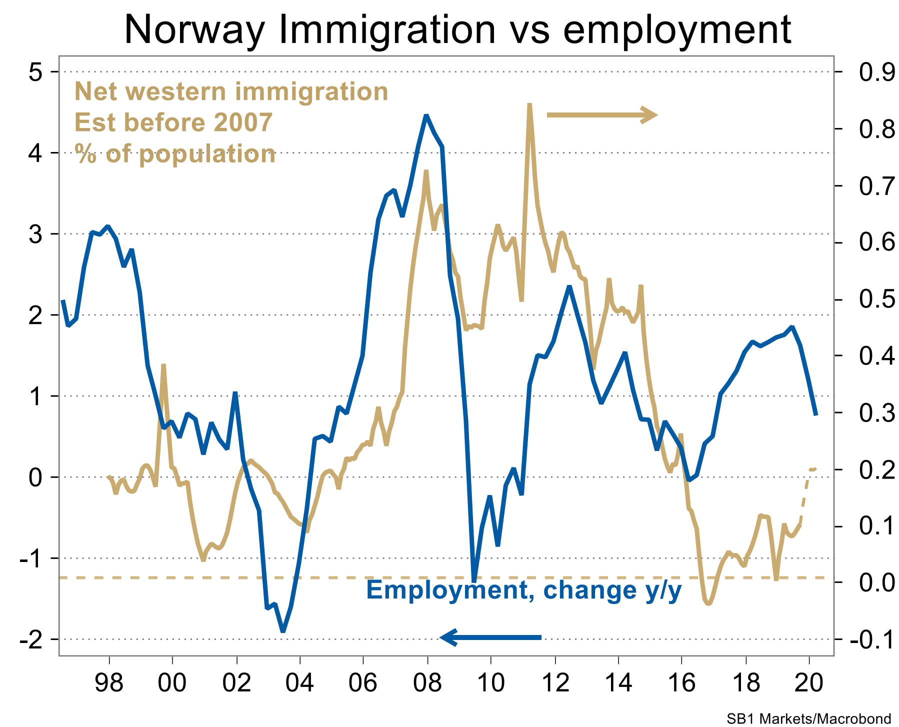


- Total population rose by 40’ persons y/y in Q1, a modest uptick from Q4. Growth was a tad higher in both Q4 and Q1, than over the past two year
  - » We have adjusted the figures for a change in methods of registration of emigration in both Q4 and Q1
  - » Western ‘labour’ net immigration has recovered marginally since the bottom of the oil ‘crisis’ – even if the NOK is weak and labour market has been strong among our neighbour countries. Most likely net Western immigration will slow (or turn negative) in Q2 due to Covid-19
  - » Non-western immigration has turned up marginally too, flattening out since mid-2018. We expect lower numbers in Q2
  - » The net birth surplus is trending down, due to a lower number of births (and not more deaths)

Labour immigration is mostly a cyclical phenomenon

Relative Norwegian unemployment (& employment) one of several elements

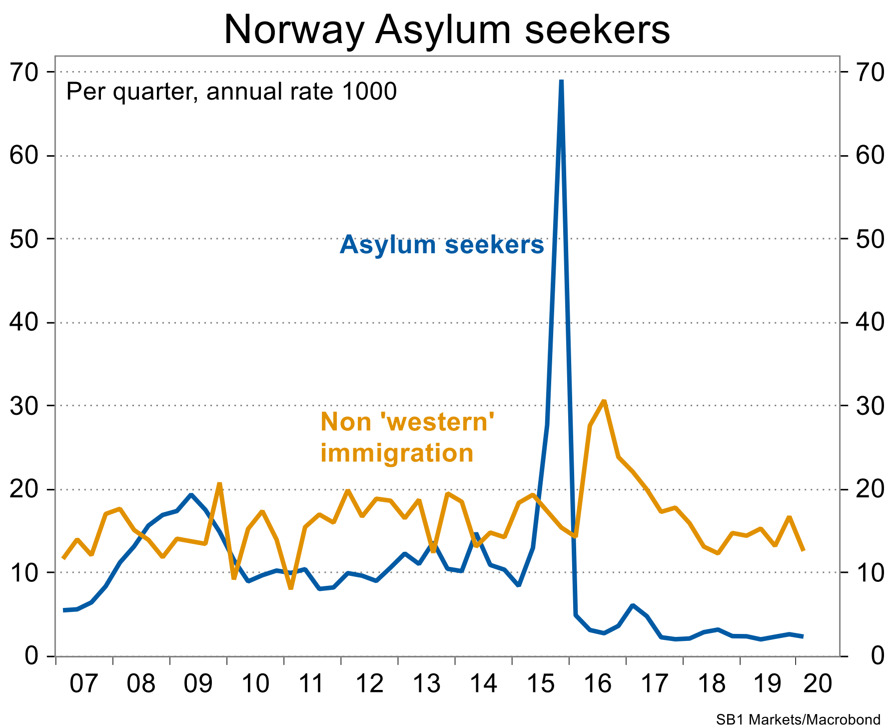


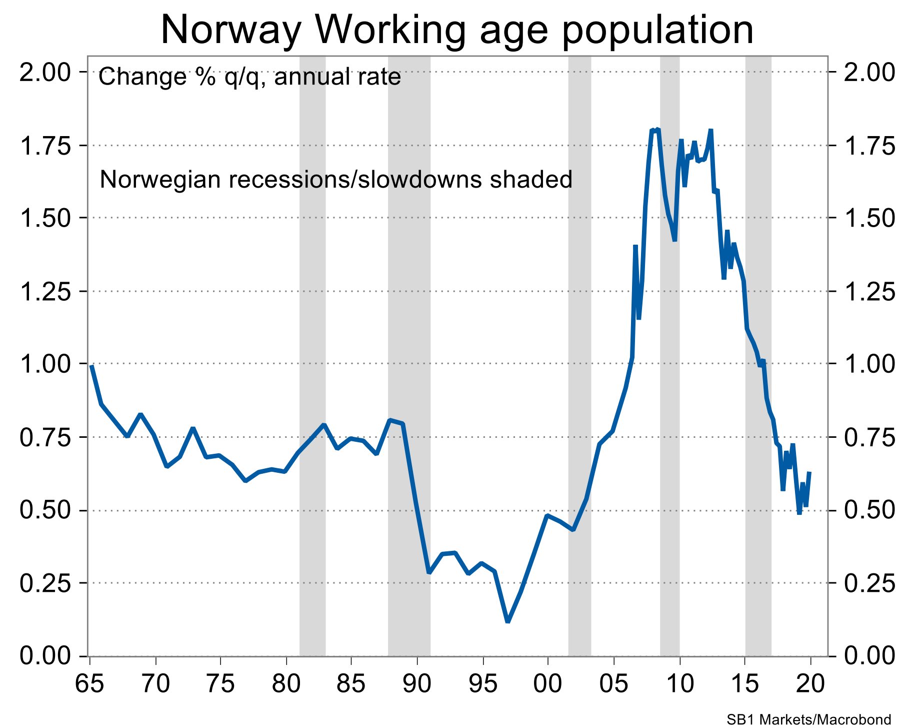


- Growth in labour immigration (in percent of the population) ticked up in Q4 (adjusted for changed methods of registration for emigration), trending modestly up from the 2016 bottom. Labour immigration fell sharply in 2011-2016
- Unemployment in Norway has been higher than ‘normal‘ vs unemployment among our trading partners the past years. This partly explains the slowdown in western immigration since 2014. Relative unemployment does not point to any upswing in labour immigration – and the Norwegian labour market is softening now (but so are many trading partners)
- Employment is growing moderately, suggesting higher immigration. Yet, the correlation to employment is not that strong

Non-western immigration back to normal. Working age population grows by 0.6%

Growth in non-western immigration is close to the avg rate, asylum seeks well below

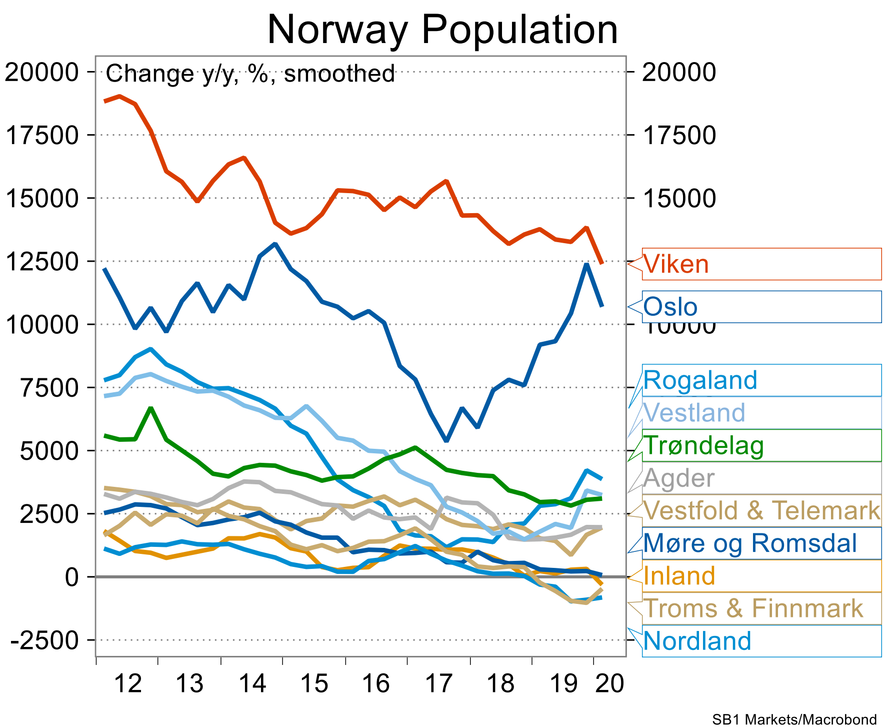


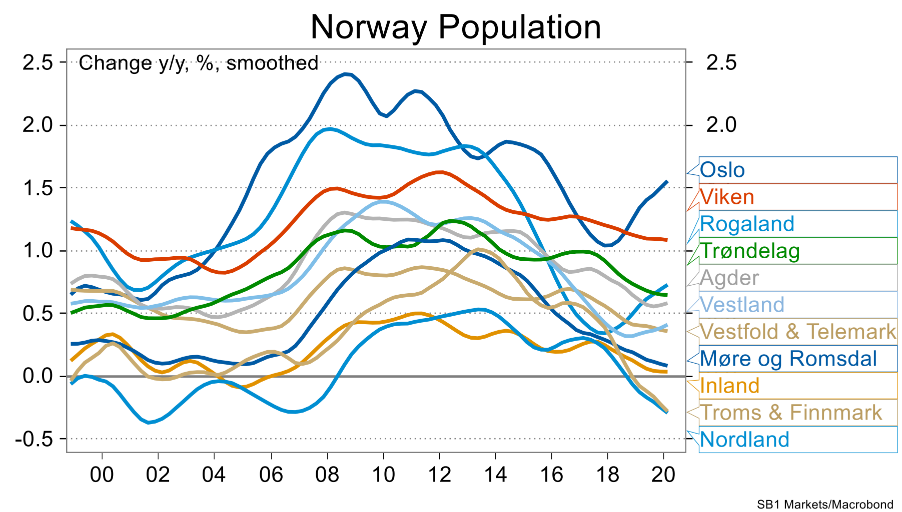


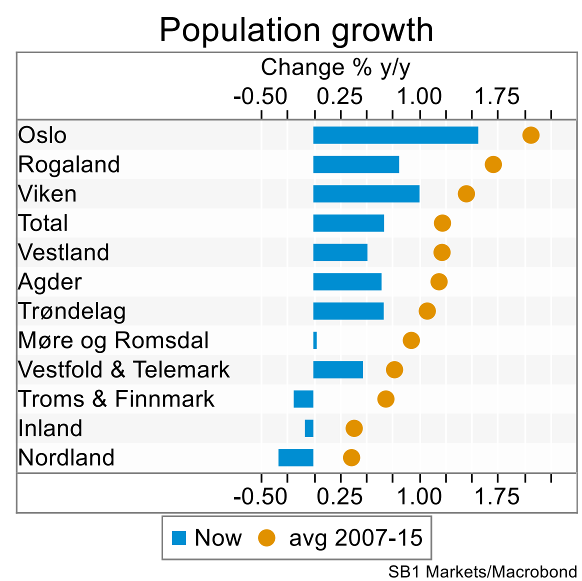
- Growth in non-western immigration is back to ‘normal’, following the ‘Syrian’ surge in 2016. The past year, non-western immigration has been expanding steadily, by approx. 15’ per quarter
  - » The inflow of asylum seekers have stabilised at a low level, well below ½ of the ‘normal’ level. Signals a continued ‘low’ non-western immigration the coming quarters
- Growth in the working age population rose marginally in Q1, to 0.6%, a much lower level than normal recent years

Population growth soars in Oslo, turned up in Rogaland, Viken slowly down

Population is declining in the North, Inland. Elsewhere, growth in slowing

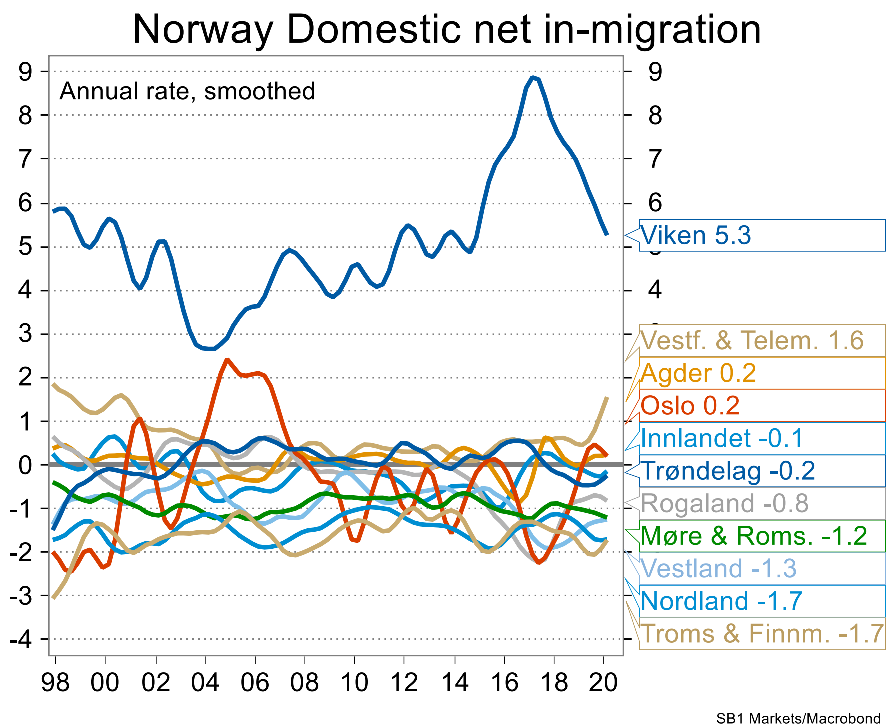


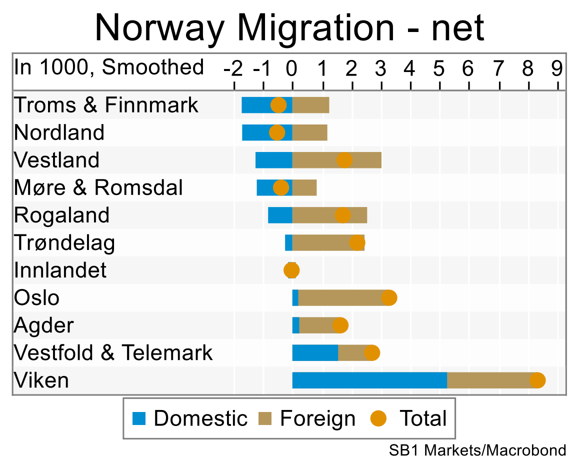




Domestic migration: From North, Mid and West to East & South

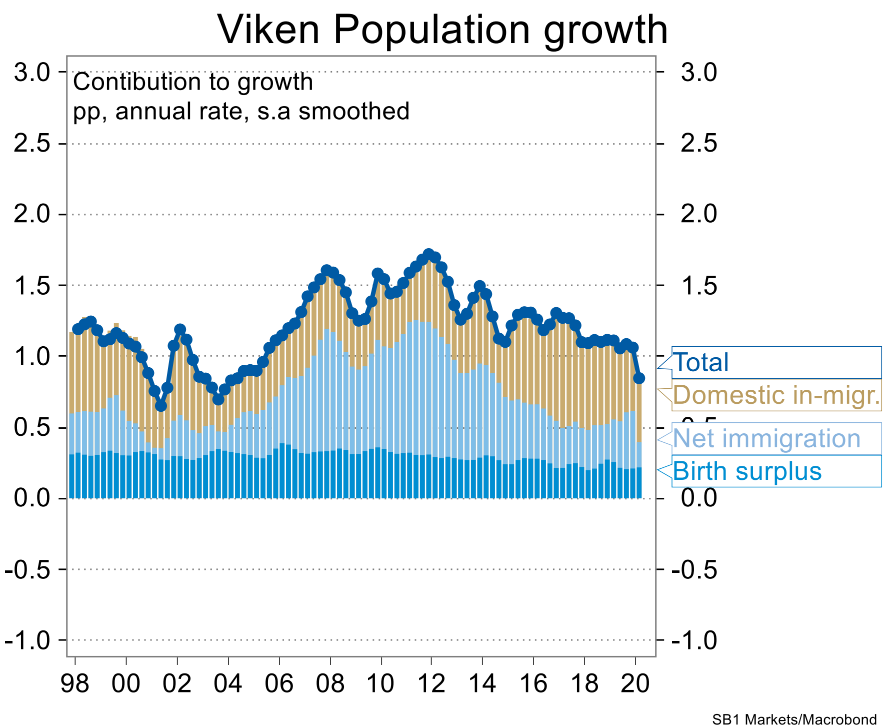
Viken the big magnet (Akershus used to take the most of it). Mid & West saved by foreign immigration

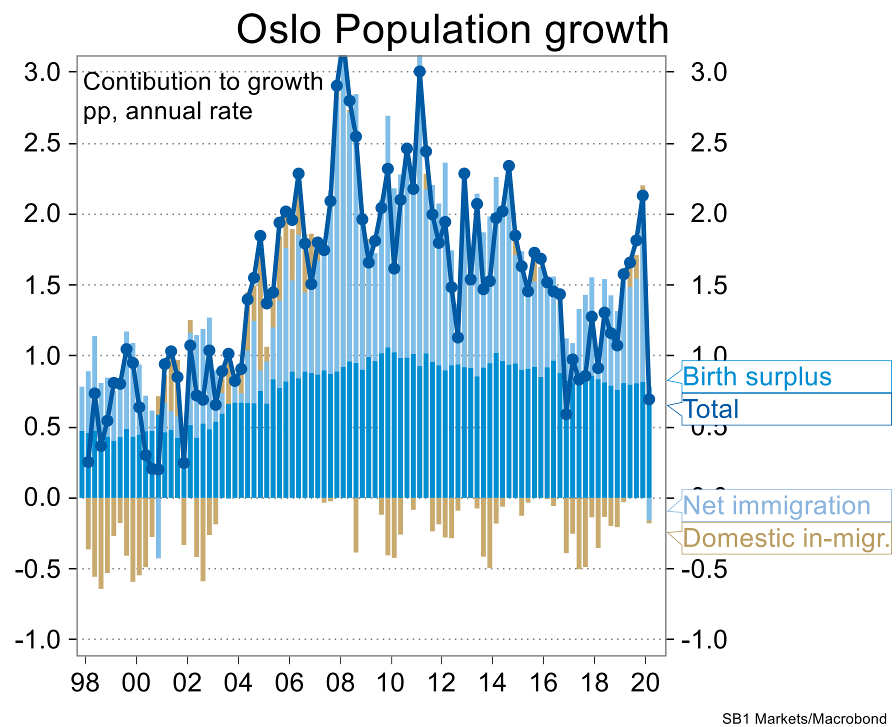




Oslo population growth straight up, Akershus sliding slowly down

Population growth in Akershus has been kept up by a very high domestic in-migration

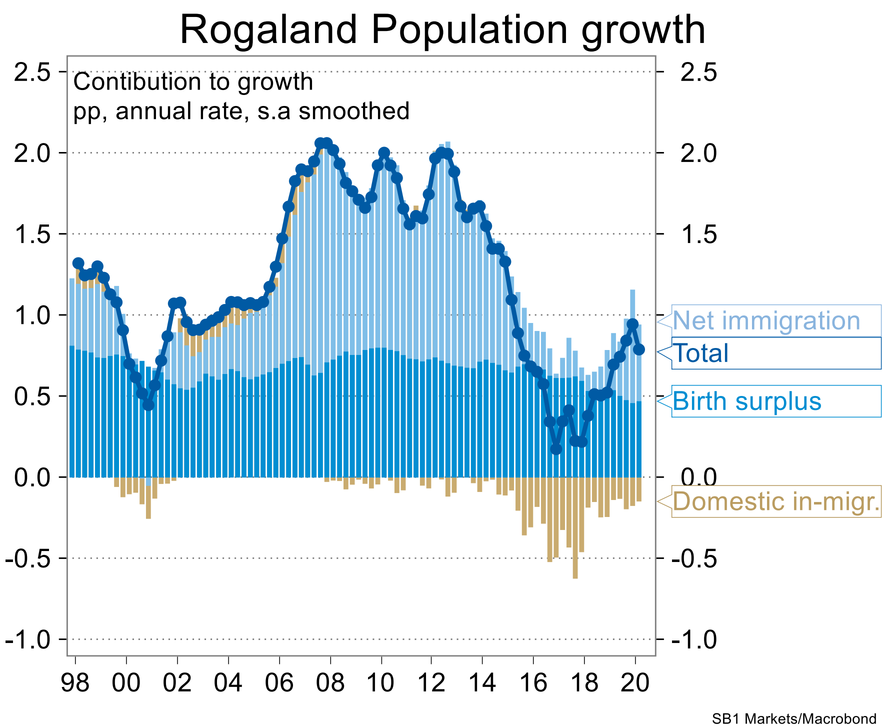


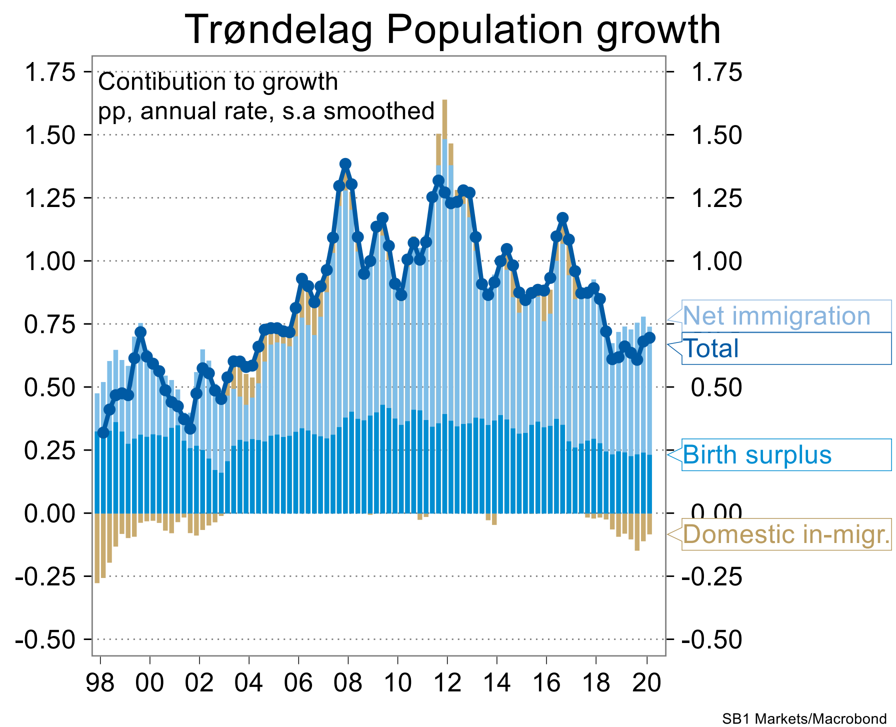


… While people have been out-migrating from Oslo to other parts of the country (as usual, but nobody knows it!!). However, the past three quarters, domestic in-migration in Oslo has turned positive, for the first time since 2006 (barring a small plus in 2016)

A mild (oil) recovery in Rogaland; growth in Trøndelag has slowed

Population is growing faster in Rogaland but well below previous peaks

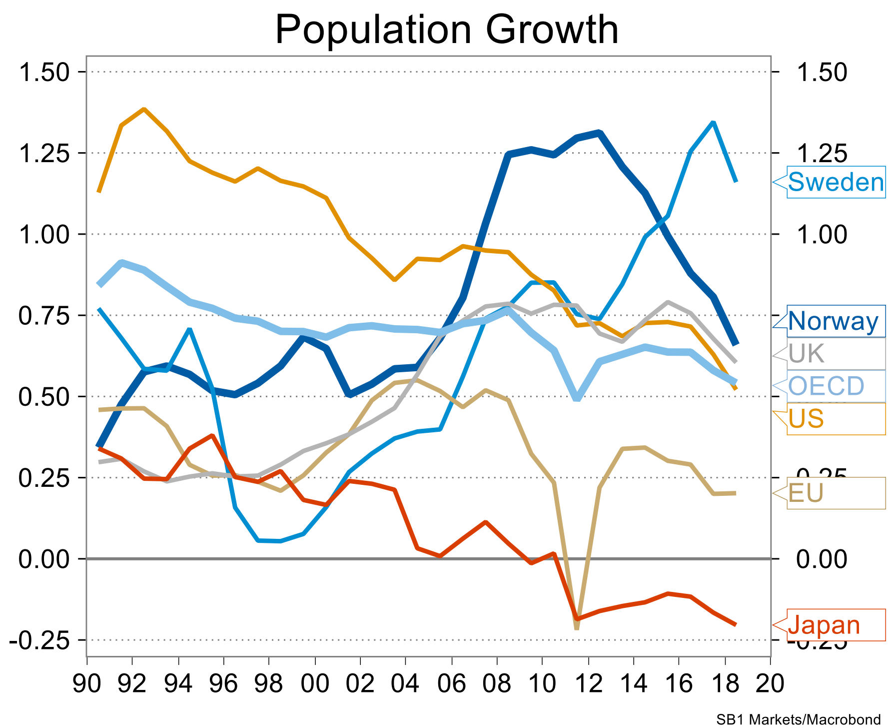


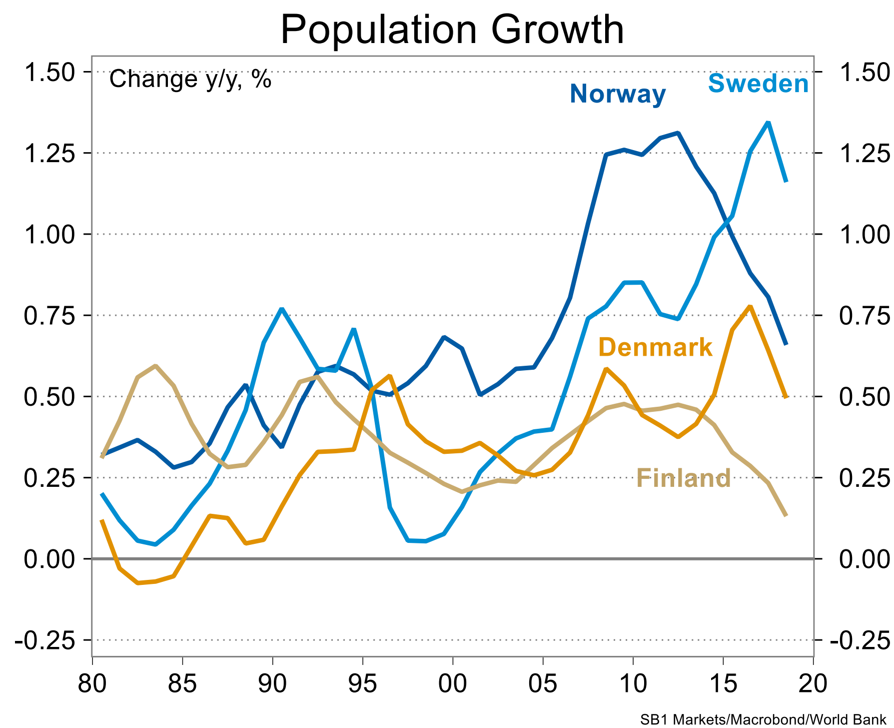


- Total population growth in Rogaland accelerated to 1.2% q/q in Q4, partly due to a change in methods, however, growth has been climbing since 2016. Domestic in-migration is still declining, but less than in 2016-2018
- Population growth in Trøndelag has been edging down since 2016, to some 0.6-0.7% q/q. Domestic in-migration has turned negative

Population growth has slowed more rapidly than in Norway than other DM

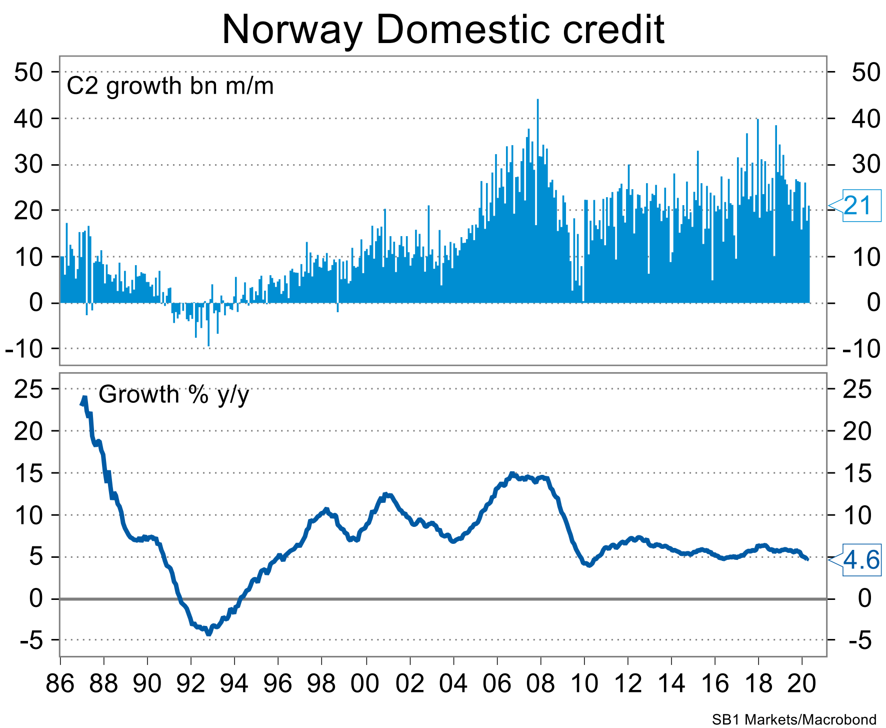
.. Particularly compared to Sweden, where immigration is still high

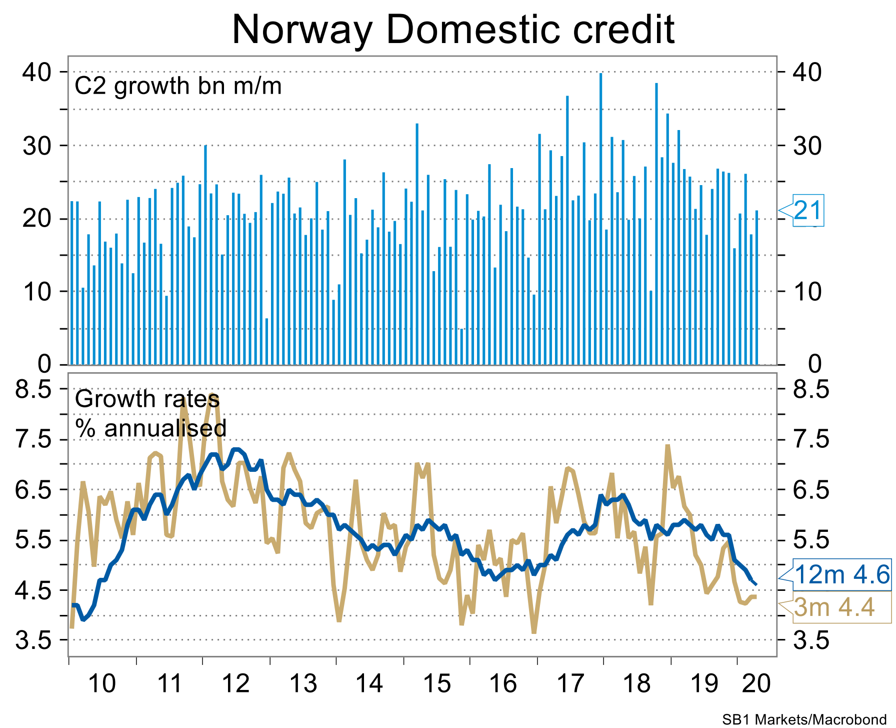




Credit growth is slowly slowing

Total C2 credit growth fell to 4.6% in April, both households and corporates contributed

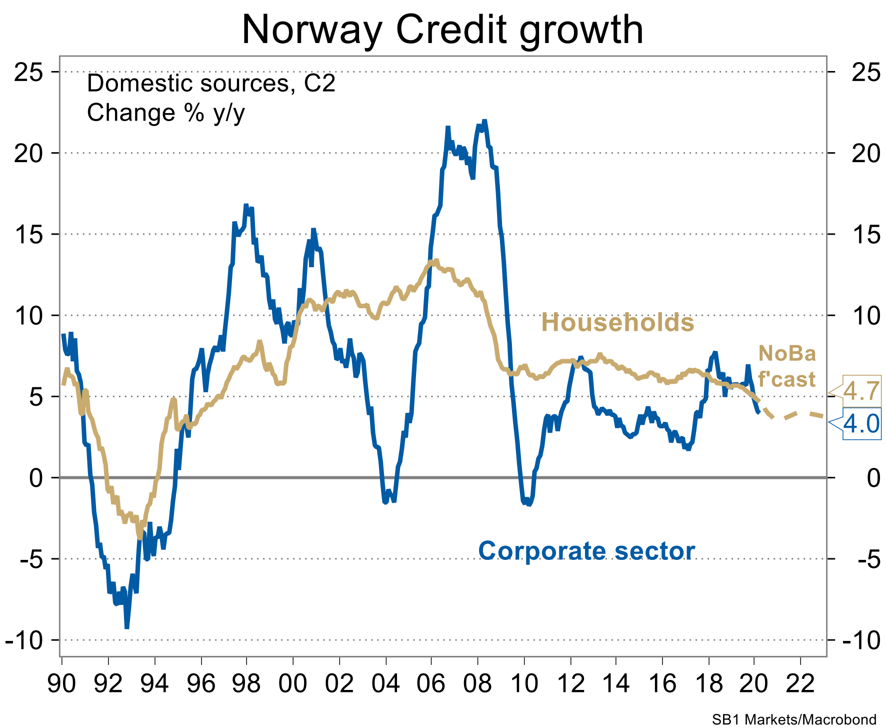


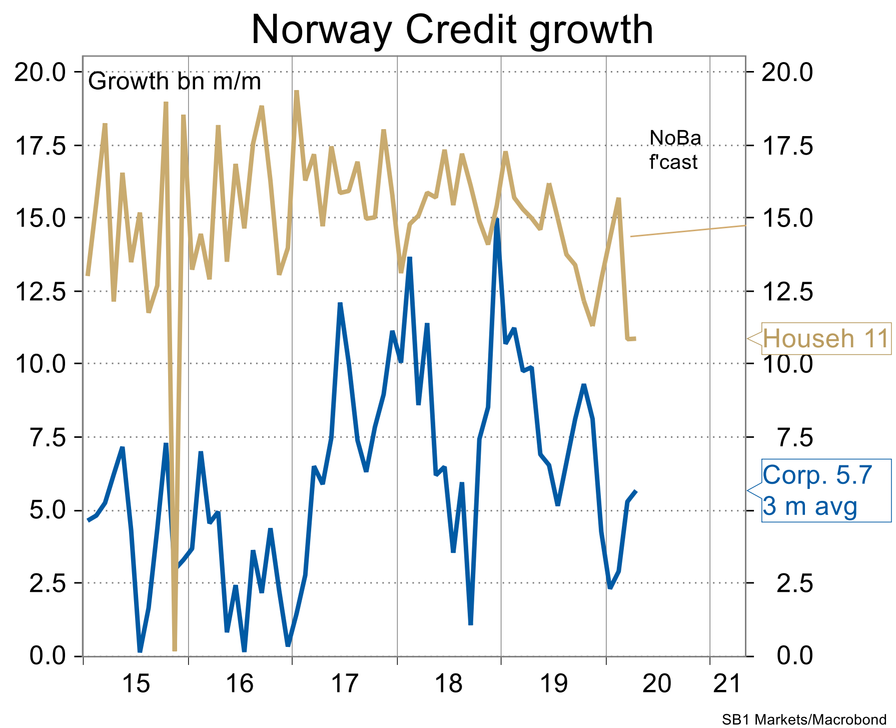


- Total domestic debt (C2) rose by NOK 21 bn m/m in March, up from 18 in March and below the average over the past year. The annual growth rate 0.1 pp to 4.6%, as we expected. Growth is heading slowly down
- Household credit growth slowed further in April, down 0.1 pp to 4.6%. In the Q1 lending survey banks reported that they expected lower demand for loans from households. Now, demand for credit might get a boost due to the cuts in interest rates – at least until more borrowers recognise that there is a reason why rates are cut.
  - Credit has been expanding at a slower speed than disposable income the last year. Now income growth will be hurt by the corona crisis, and the debt/income ratio will increase again
- Corporate credit growth has been slowing too, and now to 3.7% y/y in April vs 4% in in March. Banks are reporting higher demand for extending credit lines but a sharp decline in demand for loans to fund investments. We assume that the sum will be negative

Households credit growth at 23 y low – but corporates slowing the most recently

The ‘Covid-19 recession’ will most likely slow corporate credit growth





- Households’ credit increased by NOK 11 bn m/m both March and April, clearly below a ‘normal’ level. Growth has been slowing since 2015, and more in 2019
- Corporate credit (in C2, domestic lending) rose by NOK 4 bn in April, and growth has been lower than usual the past 4 – 5 months. At the chart above, we have added a 3m smoothing, these data are volatile. Annual rate down to 4%, well below the long term avg

Highlights

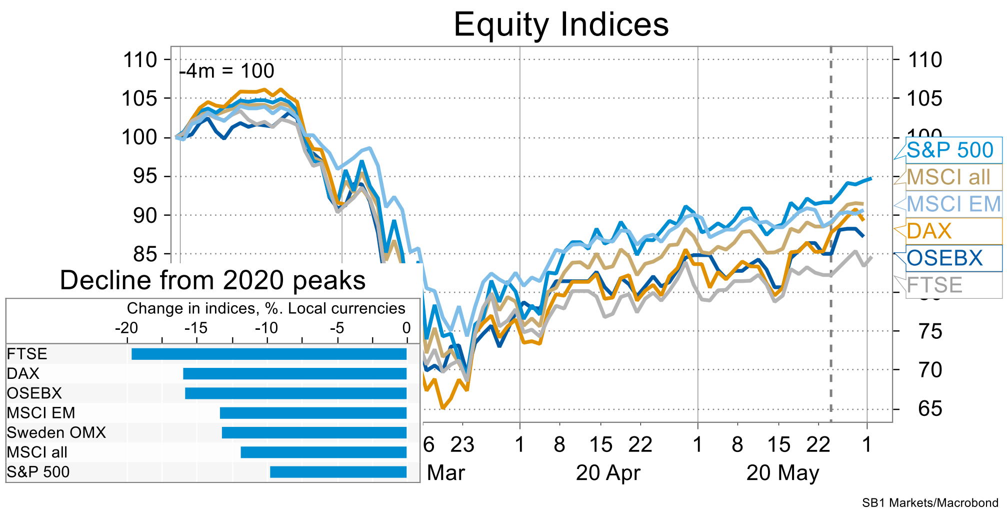
The world around us

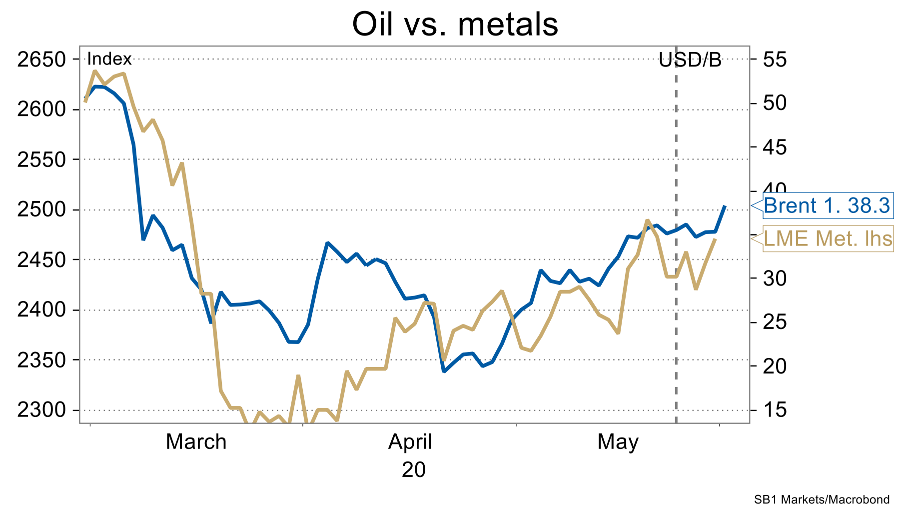
The Norwegian economy

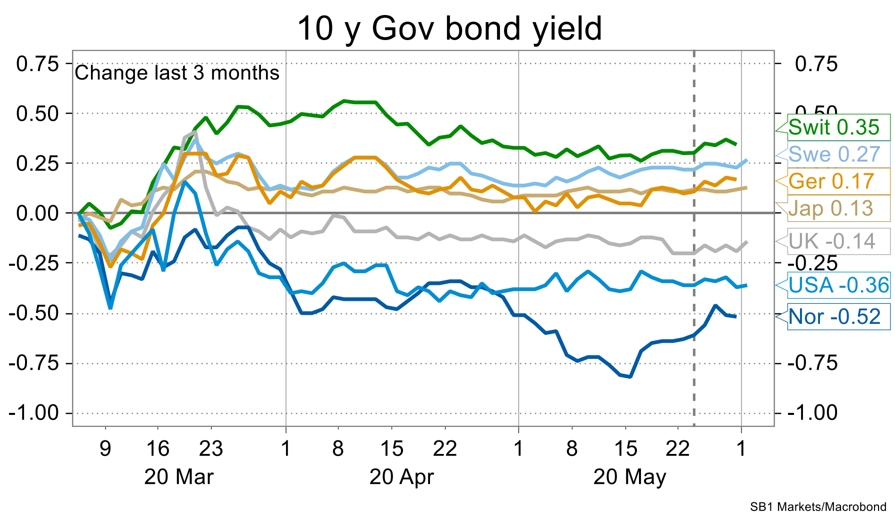
Market charts & comments

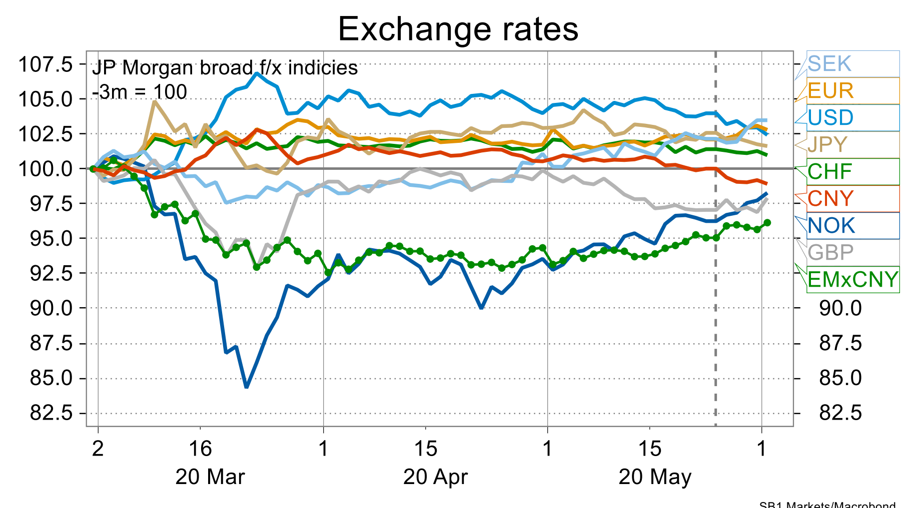
Stock markets up together with oil & metals + the NOK

The oil price is approaching USD 40/b!





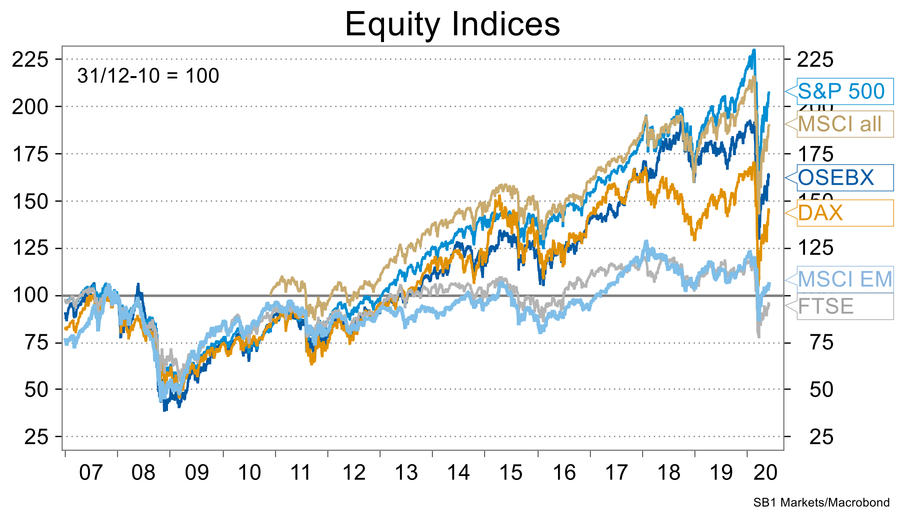


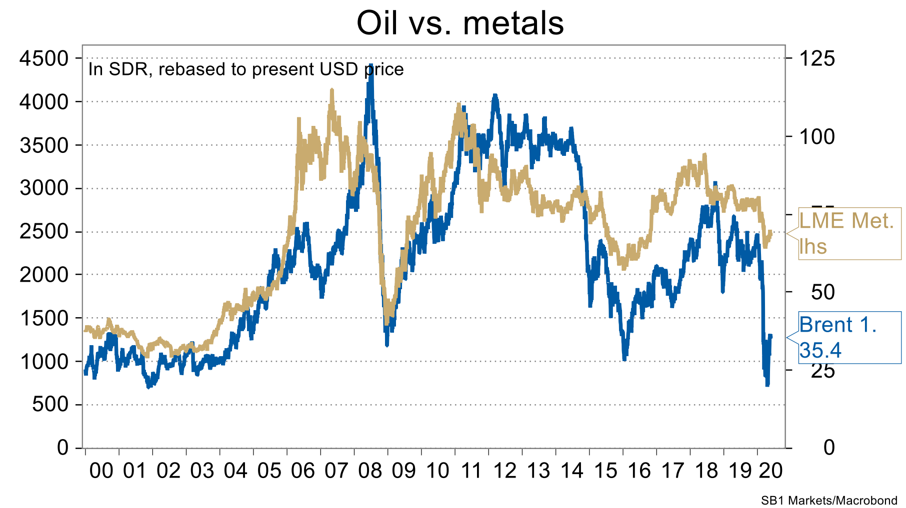


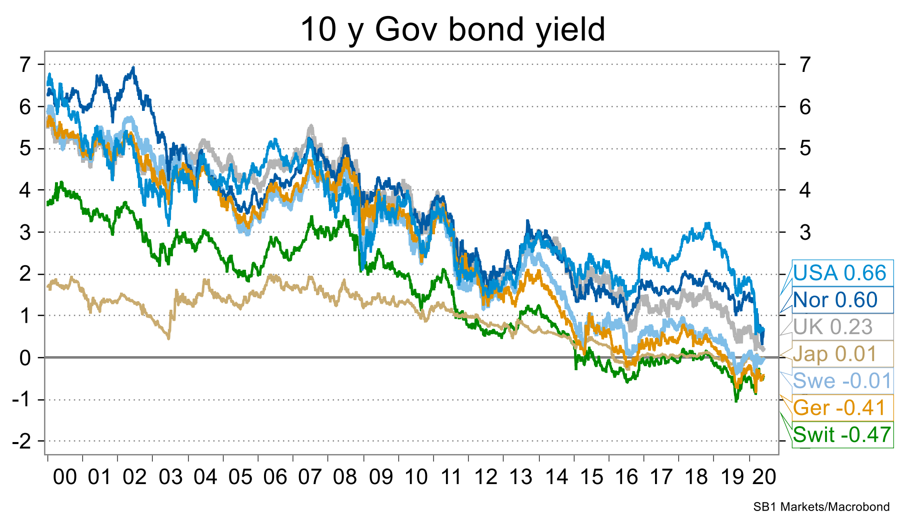
EUR, NOK & EM x China f/x on the way up. USD & CNY on the way down

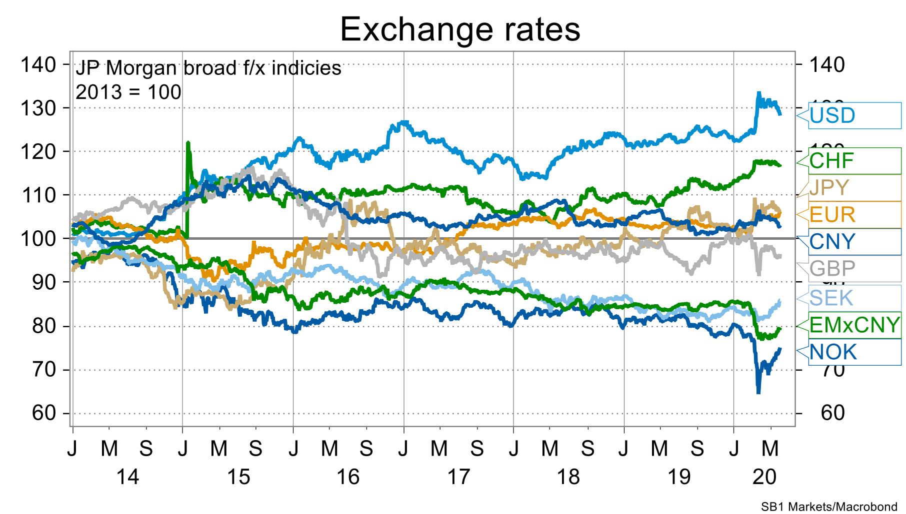
In the long run: Stock markets are looking like a 'V'

… because investors are looking for a 'V'-shaped corona recovery?

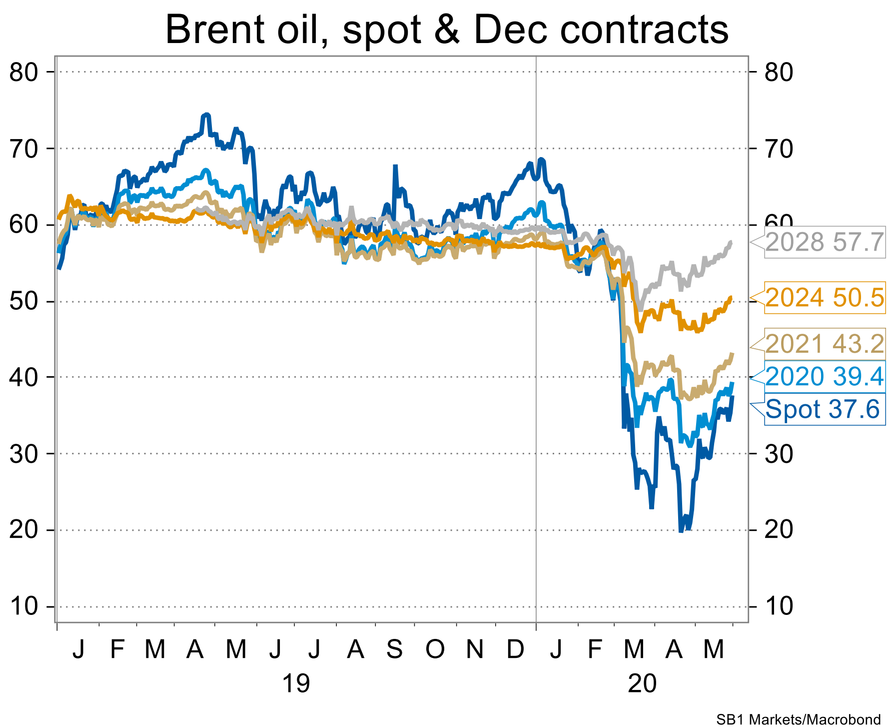


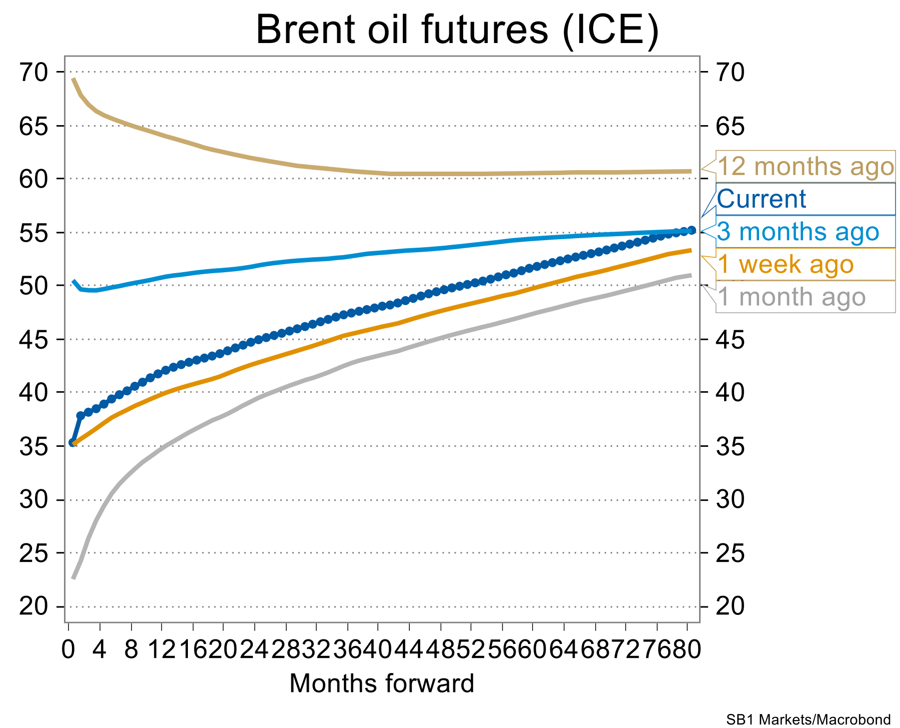






Oil prices: Recovering, all over the curve



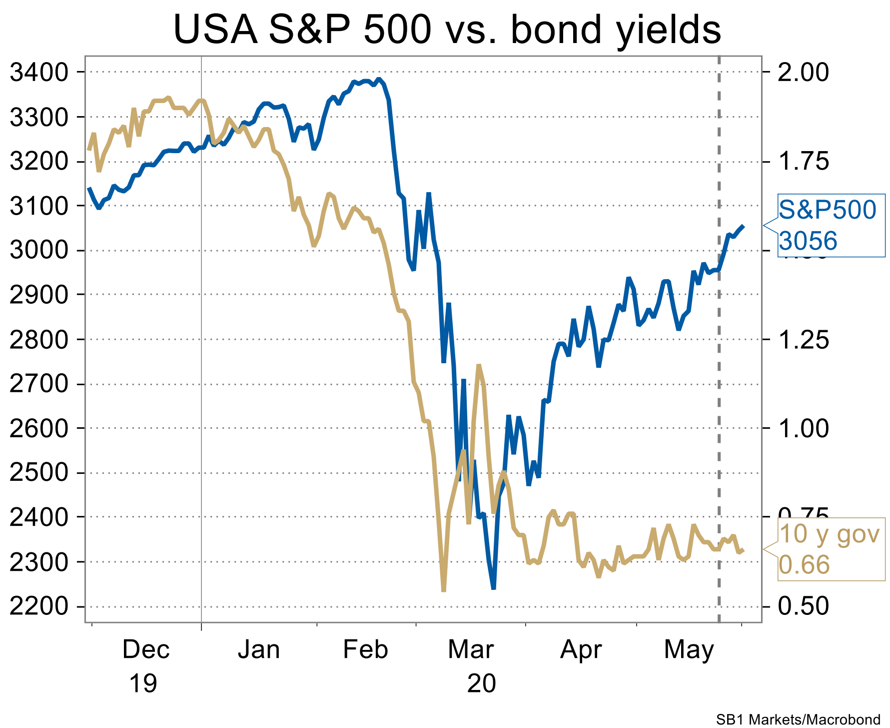


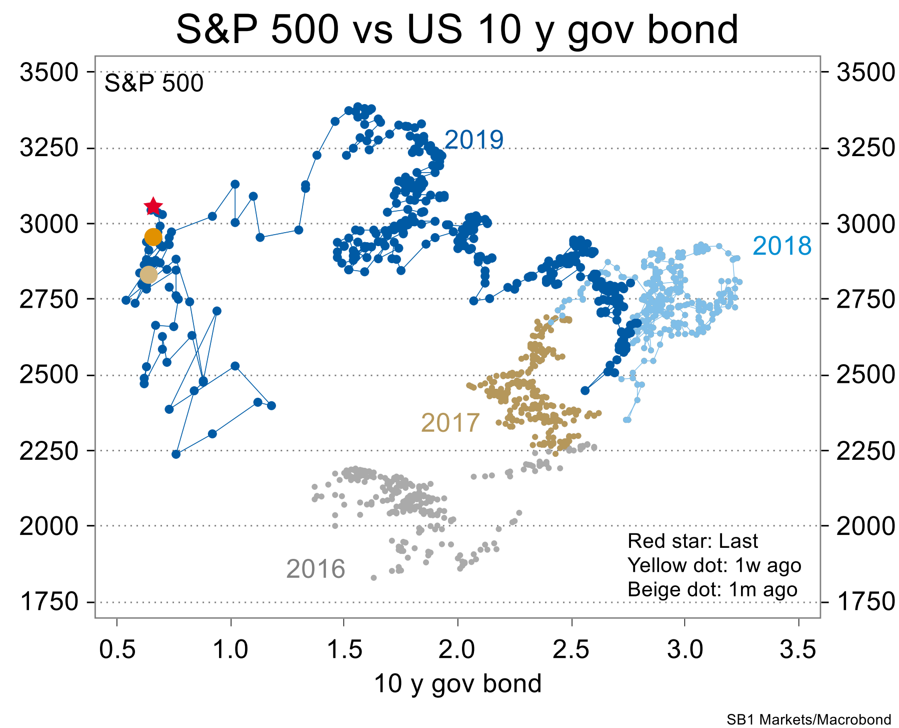
Markets take some bets

- Is demand picking up again?
- Will Saudi, Russia be willing to really cut to get prices somewhat up?
- Will shale oil production decline sharply at the current prices?

SpareBank 1 MARKETS

Bond yields flattish, equities on the recovery path again





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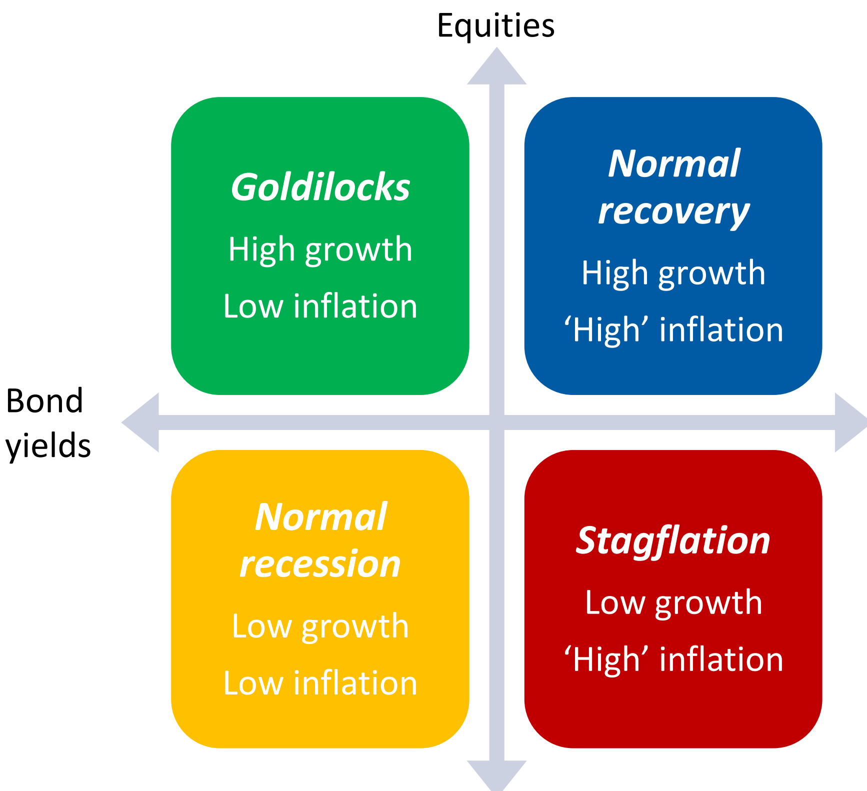
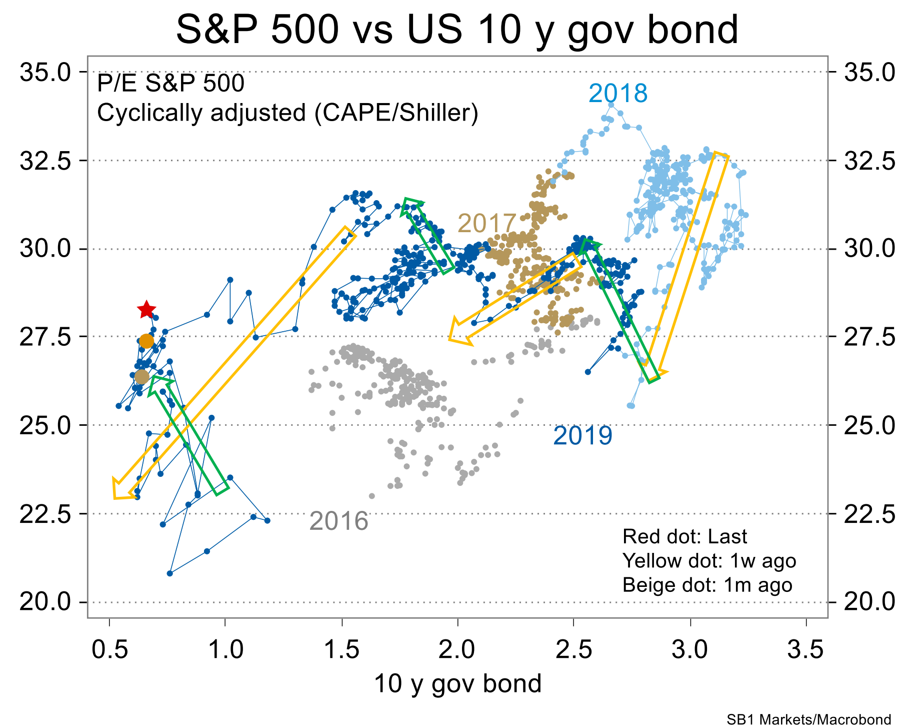
No clear direction past month; stocks, bonds quite stable

Economies are opening up, the central banks are pumping hard but risk had priced the good news?



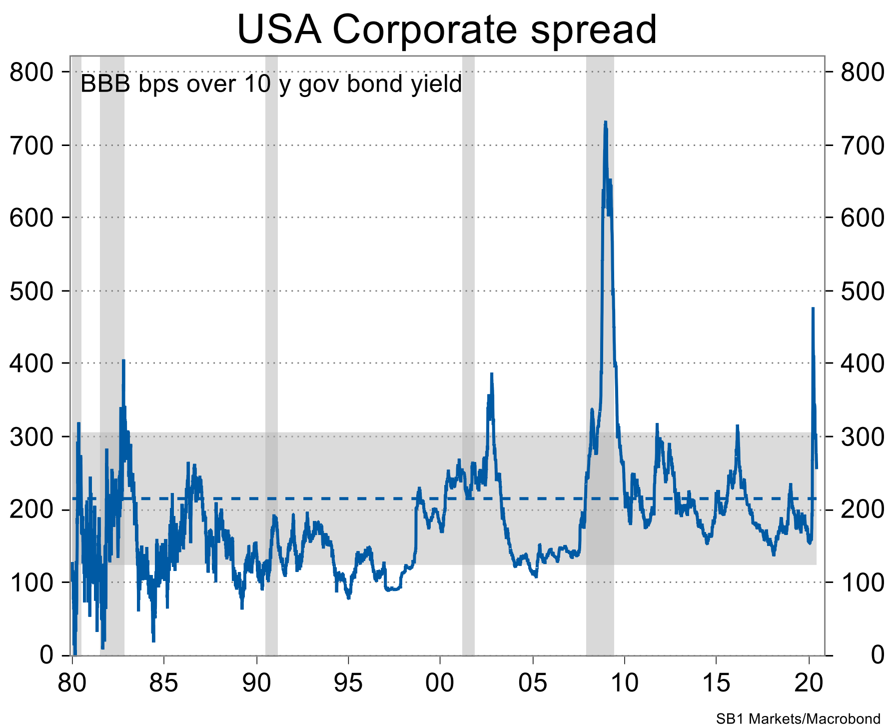


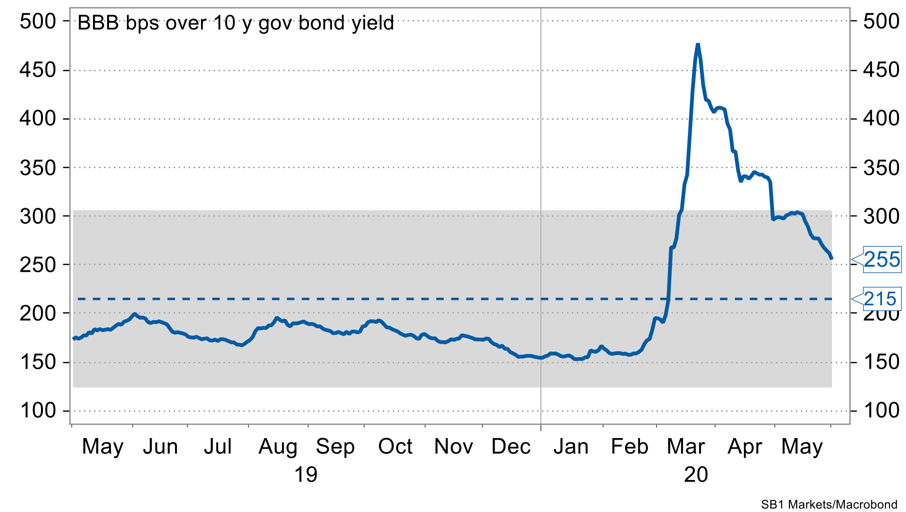
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic spreading and countries have been initiating lockdowns
- The draconic policy measures from Mid March and the decline in corona case/death rates/the opening up hopes have contributed to the change in mood; risk markets strengthened – while yields have been kept low due to enormous QE programs in US but also among other central banks.

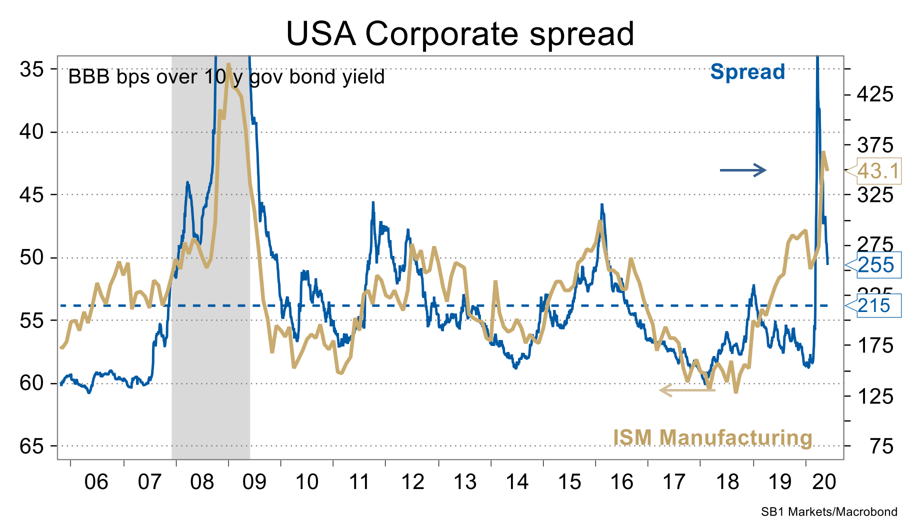
SpareBank 1 MARKETS

Corporate spreads are narrowing further. Not that far down to an average level

The US BBB spread has fallen by more than 200 bps, and is just 40 bps above the 215 bp average!



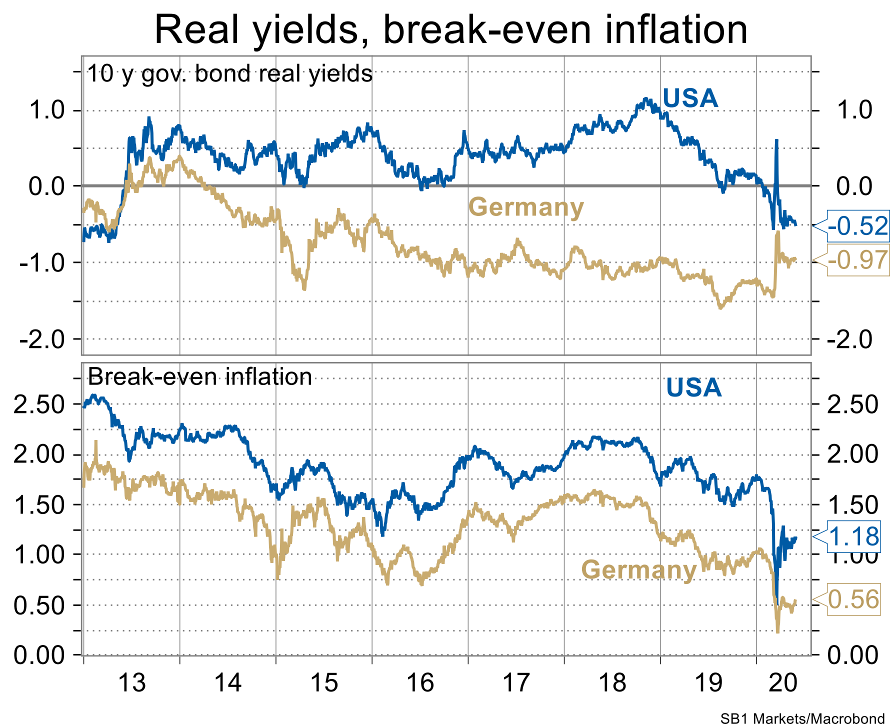


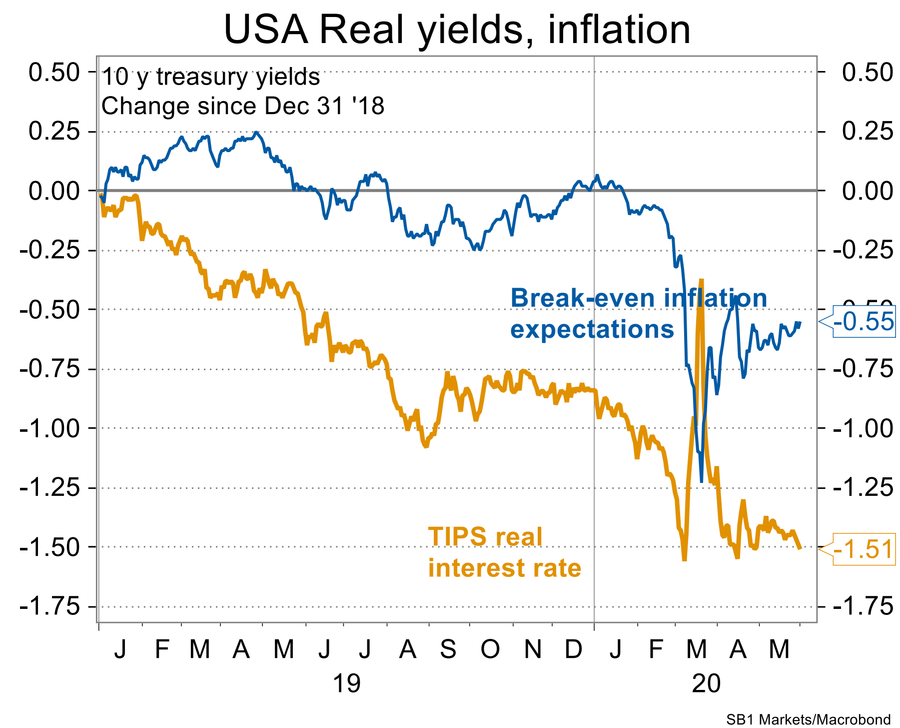


- Is the credit risk just marginally above an average level??

No inflation on the horizon, even if money are printed

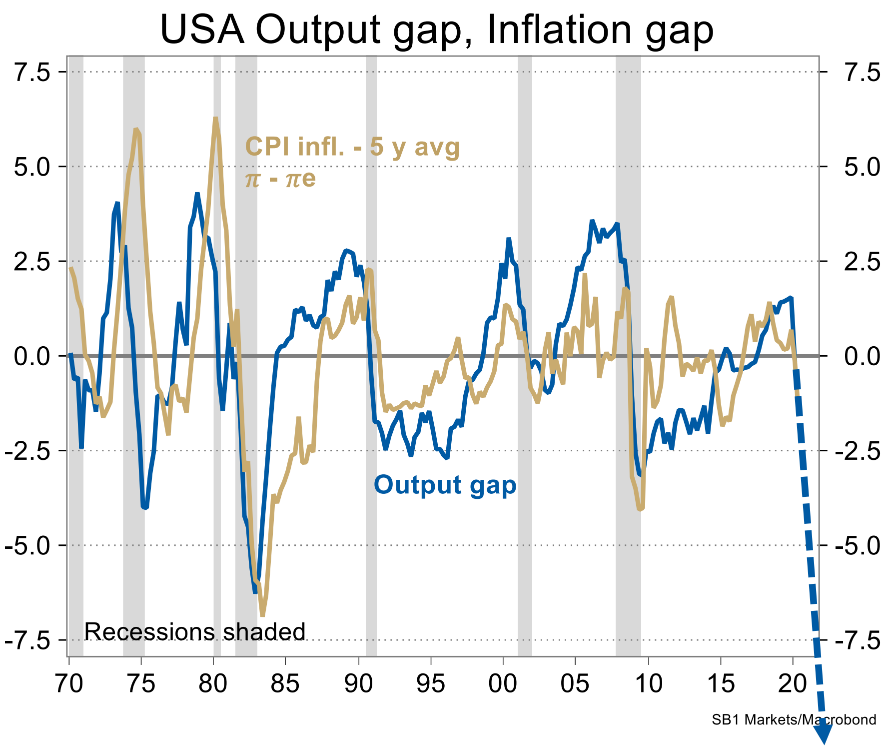
Because the output gap is much more important, at least short to medium term

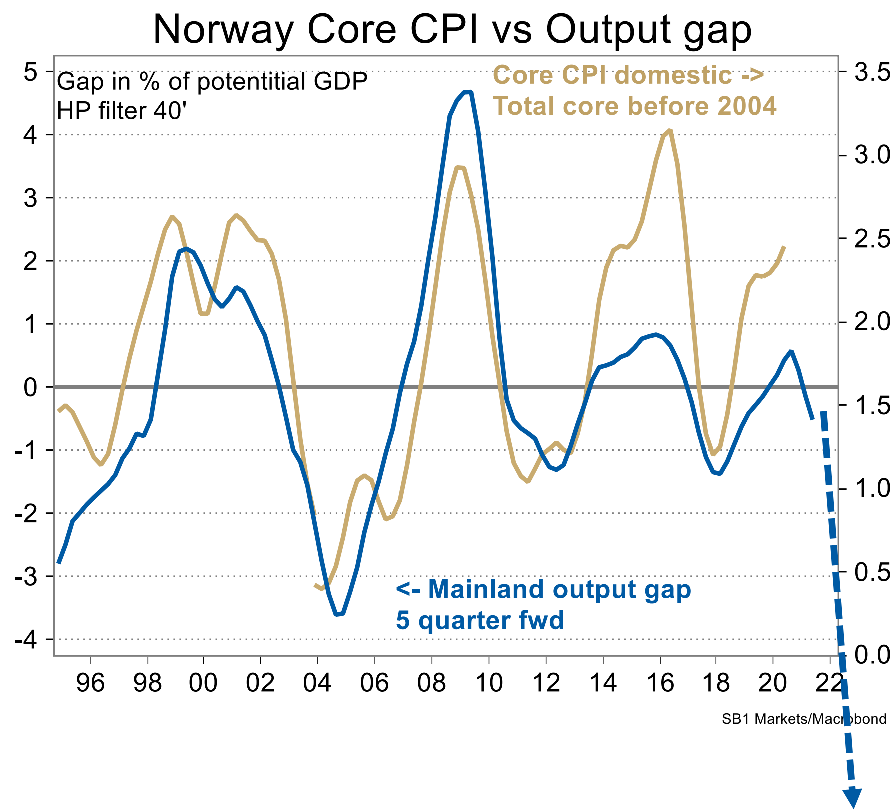




What decides inflation? Not money or debt – but the cycle. Phillips is not dead

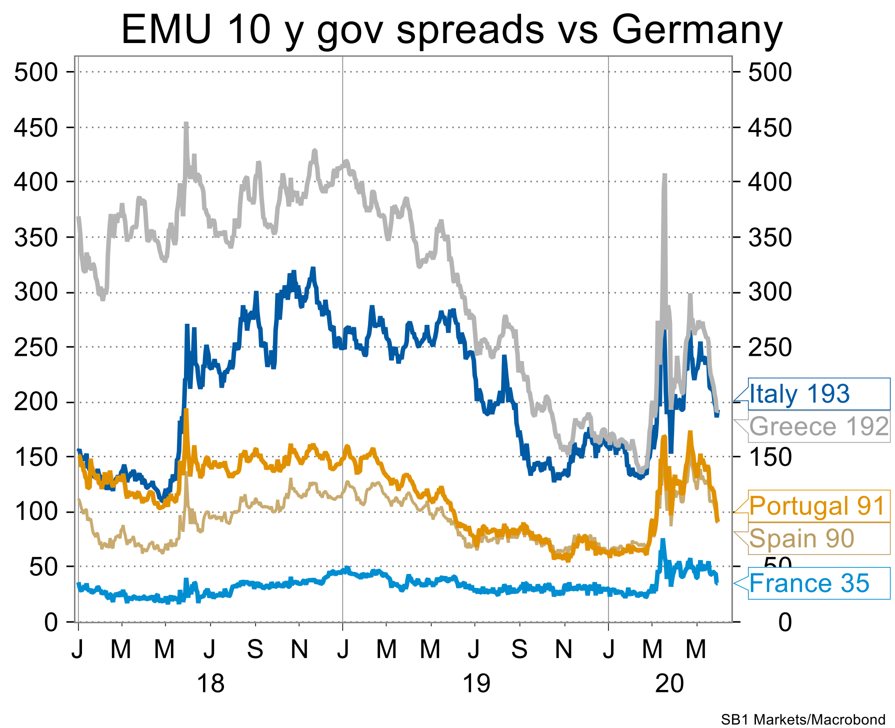
Inflation will not take of when the economy is weak

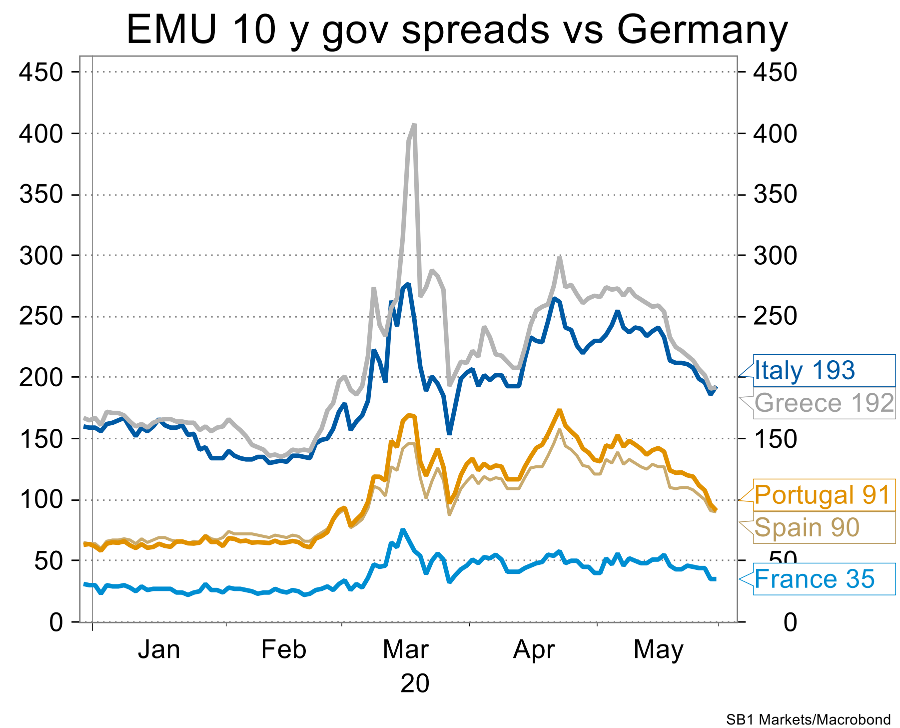




The EU Commision supported at French/German €500 recovery fund

... And added €250 bn in a lending scheme. Most likely, the Northern frugal 4, and E. Europe will yield

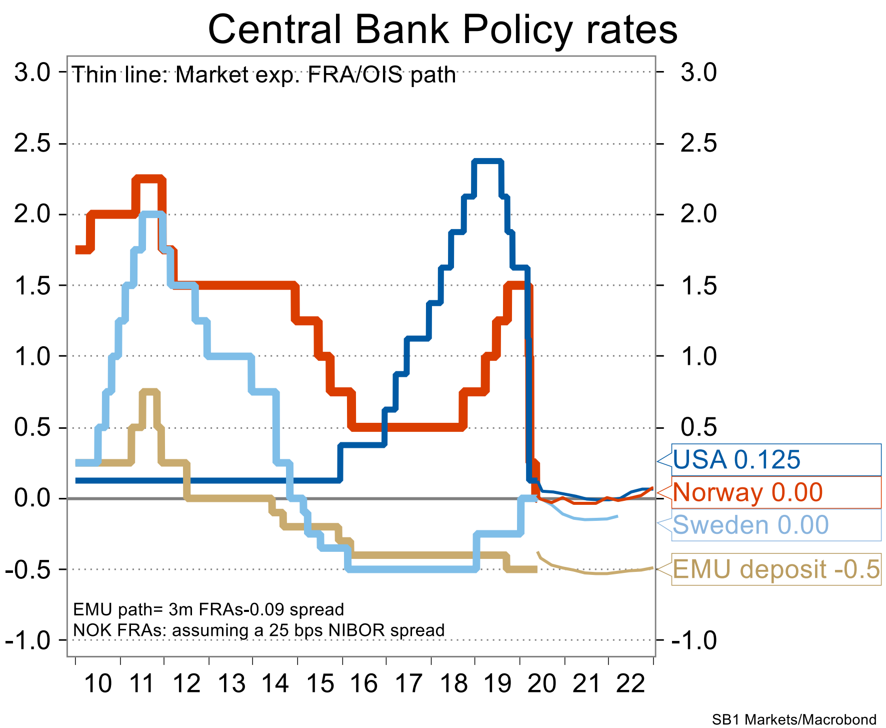


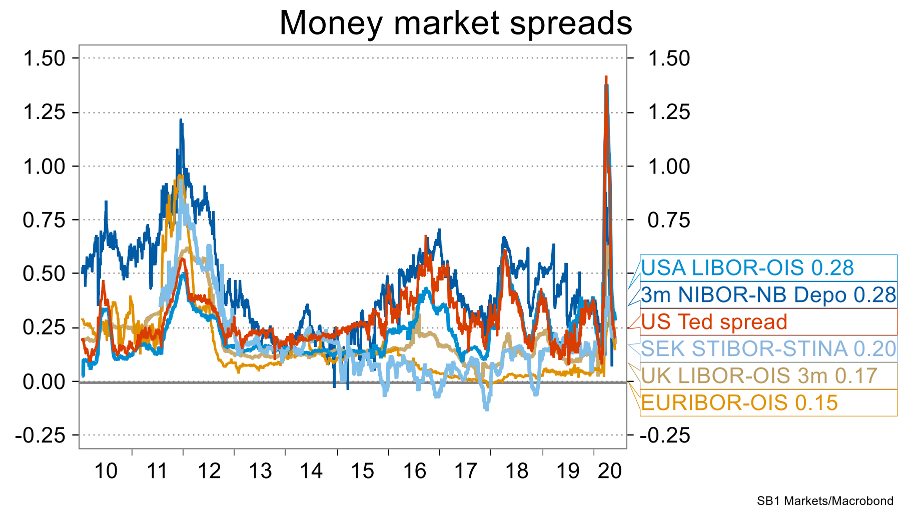


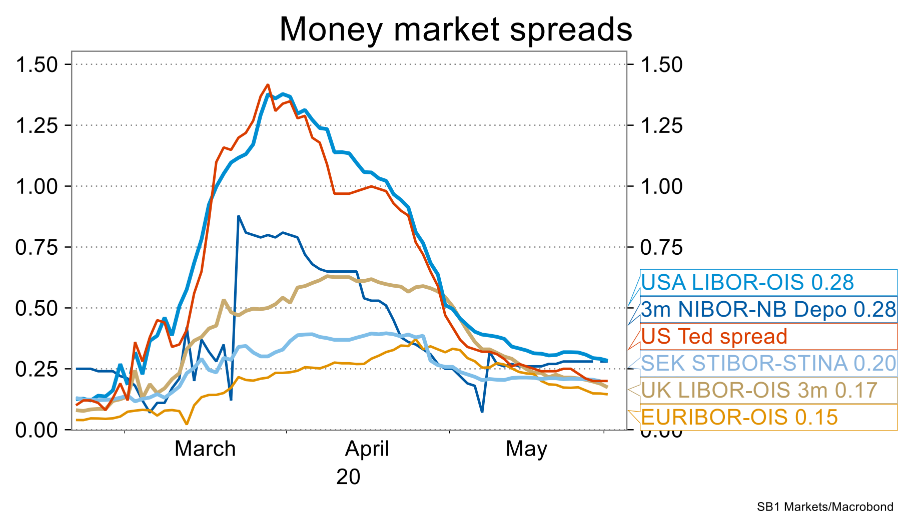
- If decided, the corona recovery fund will be a brand new EU construction. The fund will be backed by borrowing by the entire EU block – and the debt will be served and repaid by the European Union. This mutual borrowing is an invention. The south will receive the most of the money as grants. The commission suggested several EU level green taxes to pay for the extra borrowing – and added several green projects as well as a guarantee scheme for €250 bn in corona crisis lending. This might be the first serious step towards some sort of fiscal integration.
- Some Northern European (frugal) countries are sceptical: Are their money going to spent in the South? The answer is probably yes. Most likely, in the end they will accept the German/French proposal. The alternative, another deep European crisis is not more attractive. And for the sceptical East European countries, if they do not accept the support for the South now, they will lose their EU support tomorrow…
- Government bond spread within the Euro area narrowed further last week, no doubt due to the new EU political intiatives

Central bank rates on hold, money market spreads are still narrowing

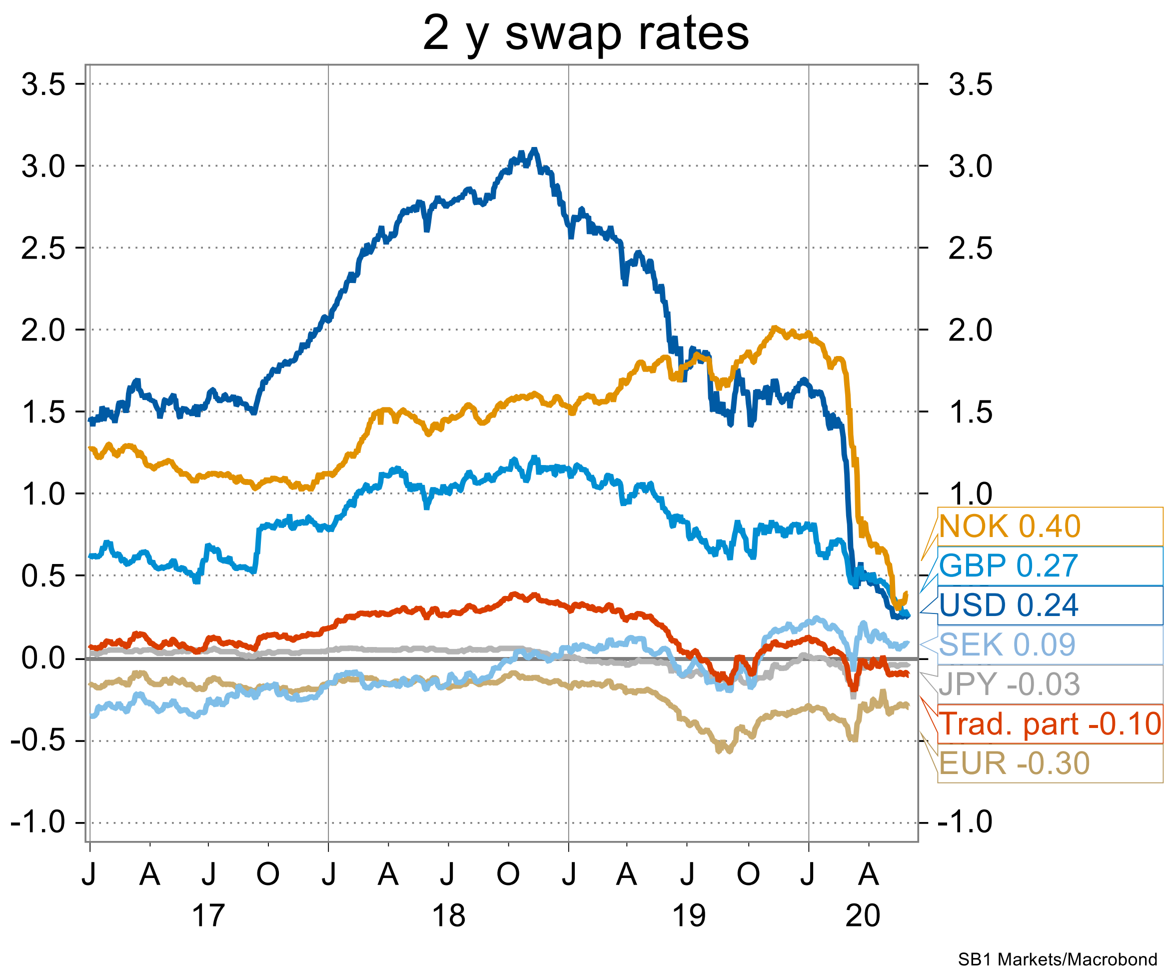
The NIBOR spread has stabilised at a low level

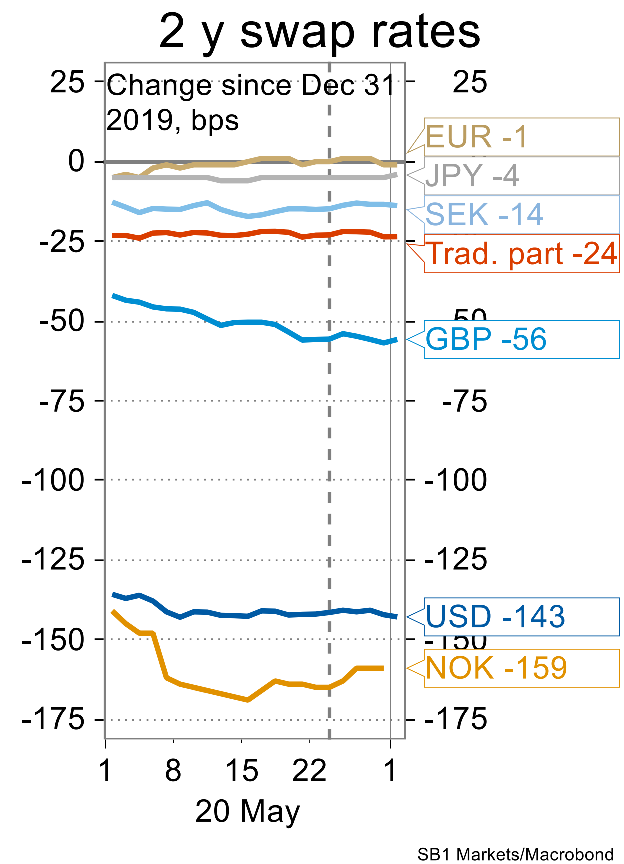






NOK short term rates up, the others not





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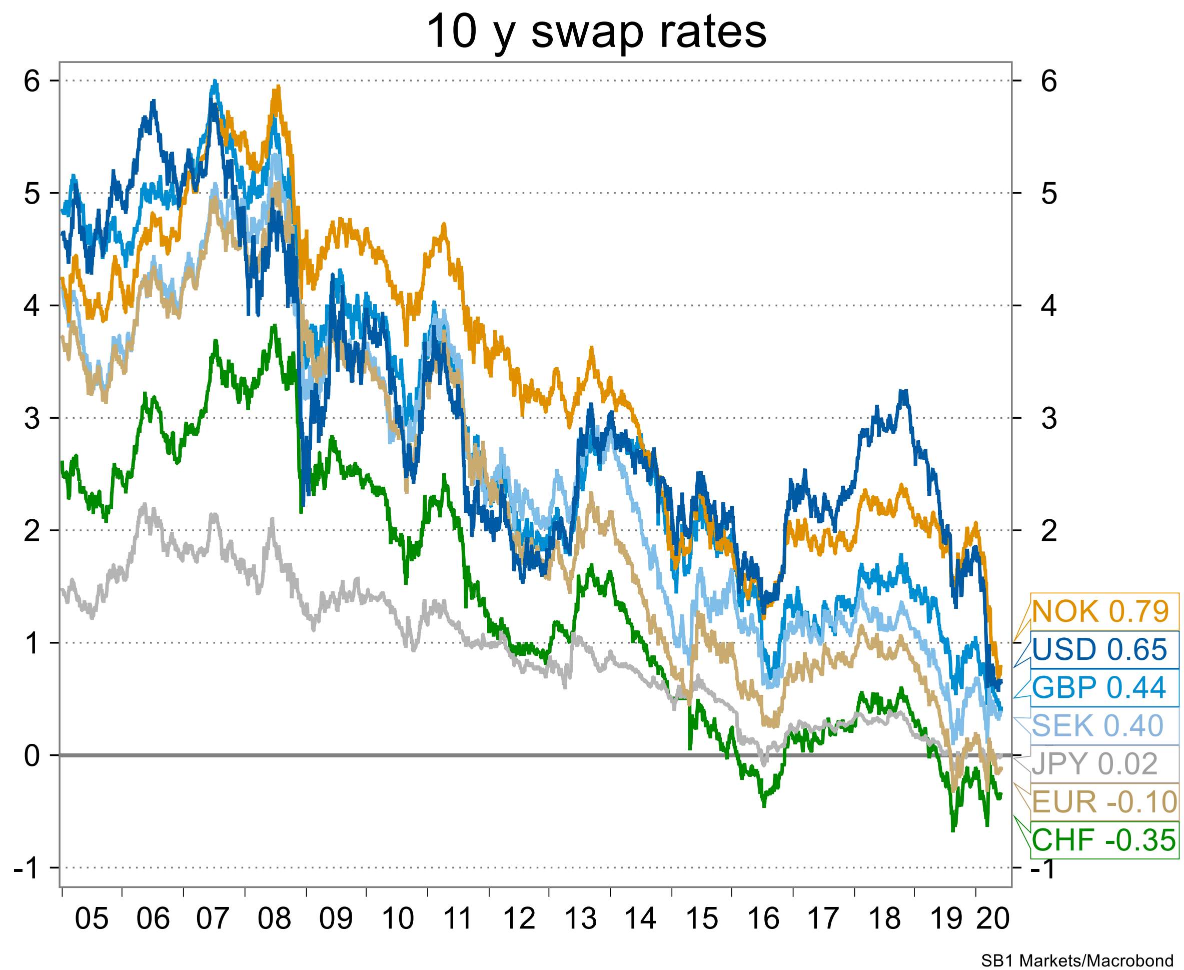
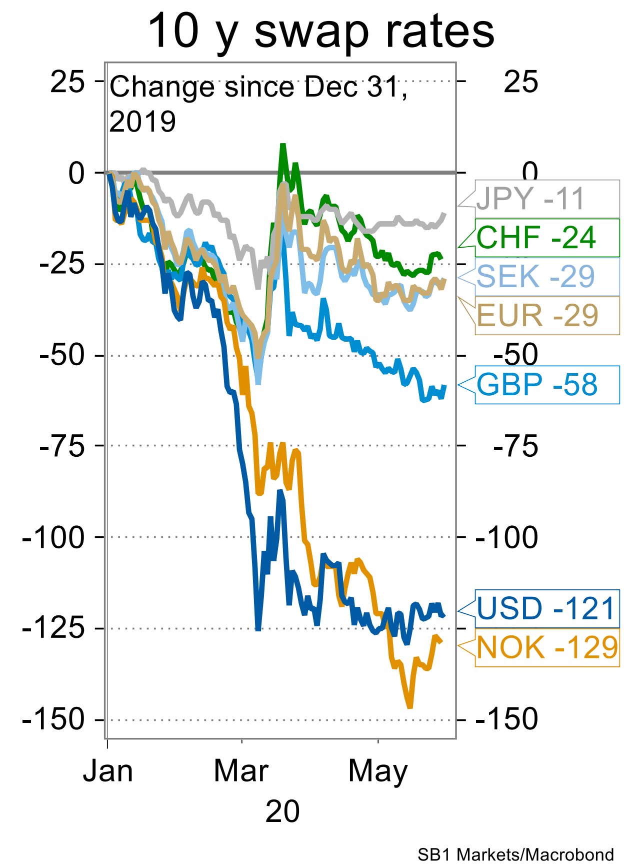
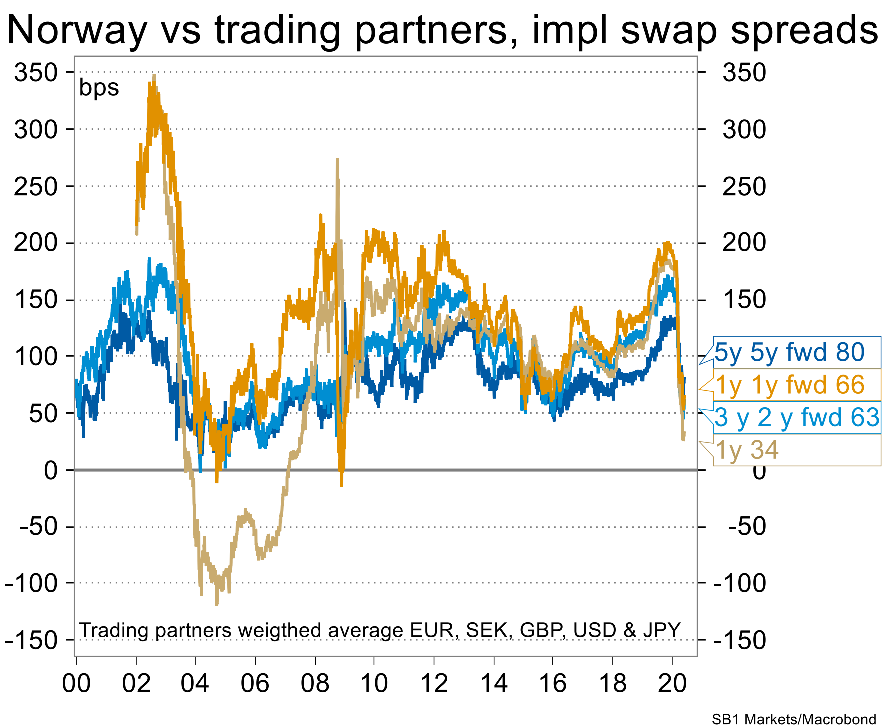
UK swaps down, others not

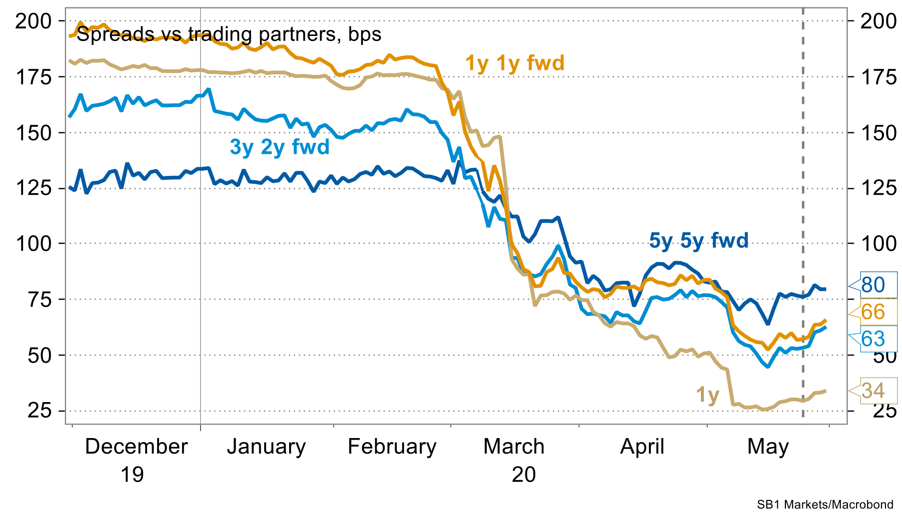


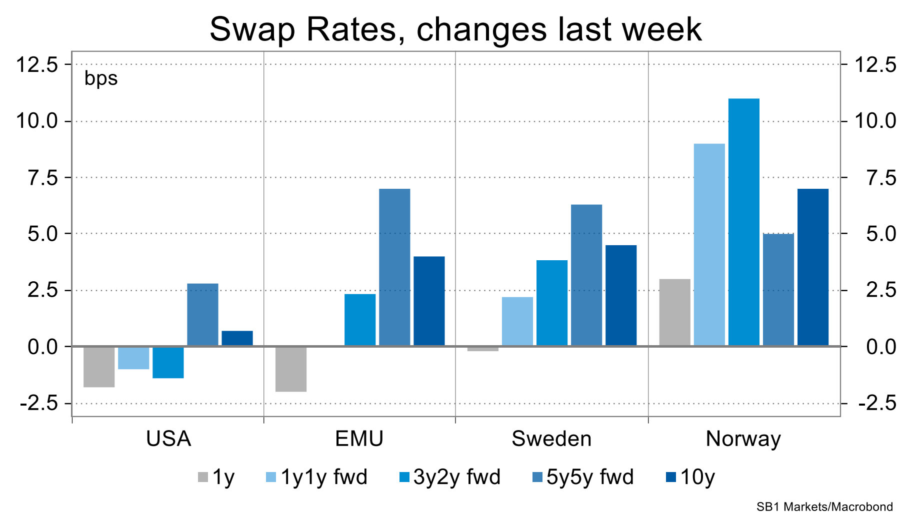


NOK swap rates & spreads vs trading partners up last week

Spreads are not too low but the risk is much more balanced than 3 months ago



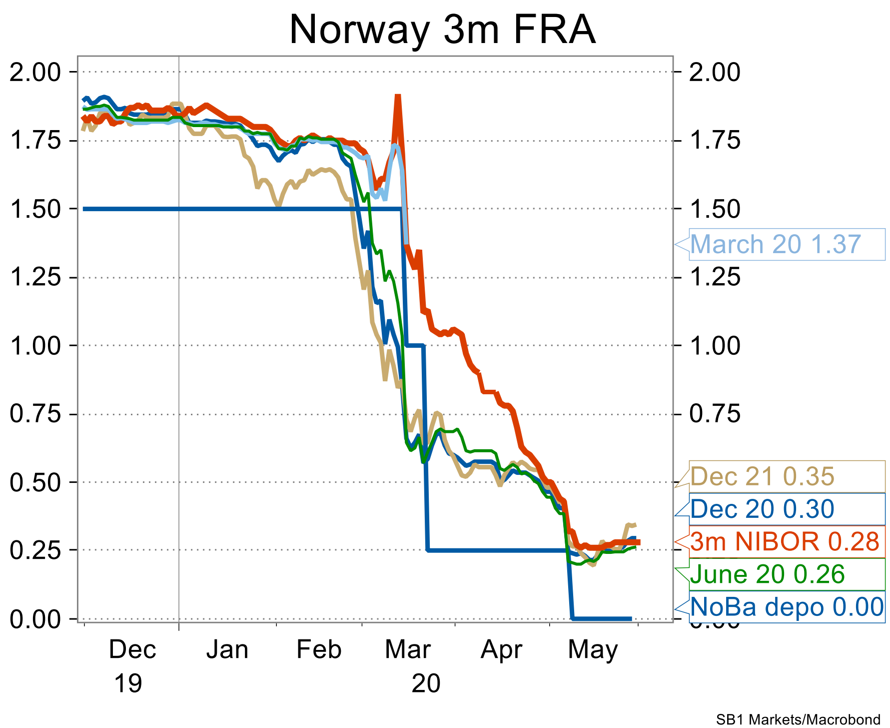


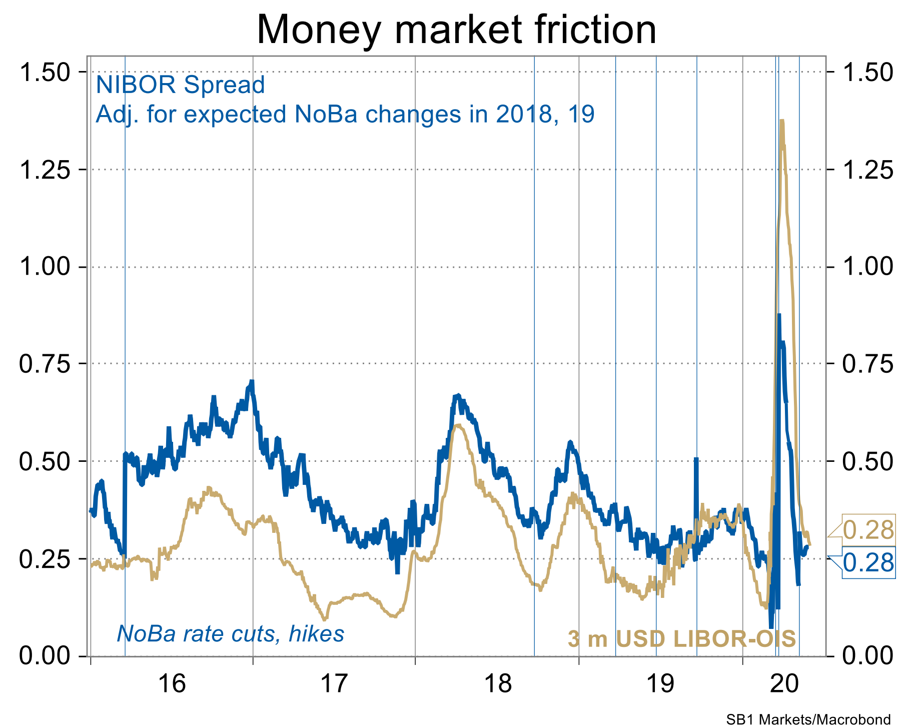


- Spreads vs. trading partners have fallen by some 125 bsp since early 2020
- We think the current level is far more correct than where we came from. Still, spreads are not too low but no reason to make a bet for a further contraction

Interest rates are…. moving upwards!

Just marginally of course. But the FRAs are clearly up from the bottom in mid May





- The market is pricing in any change in the NoBa signal rate – it's the NIBOR spread that has stabilised at lower level than normal
- The LIBOR-OIS spread in the US has narrowed too, and could easily narrow further

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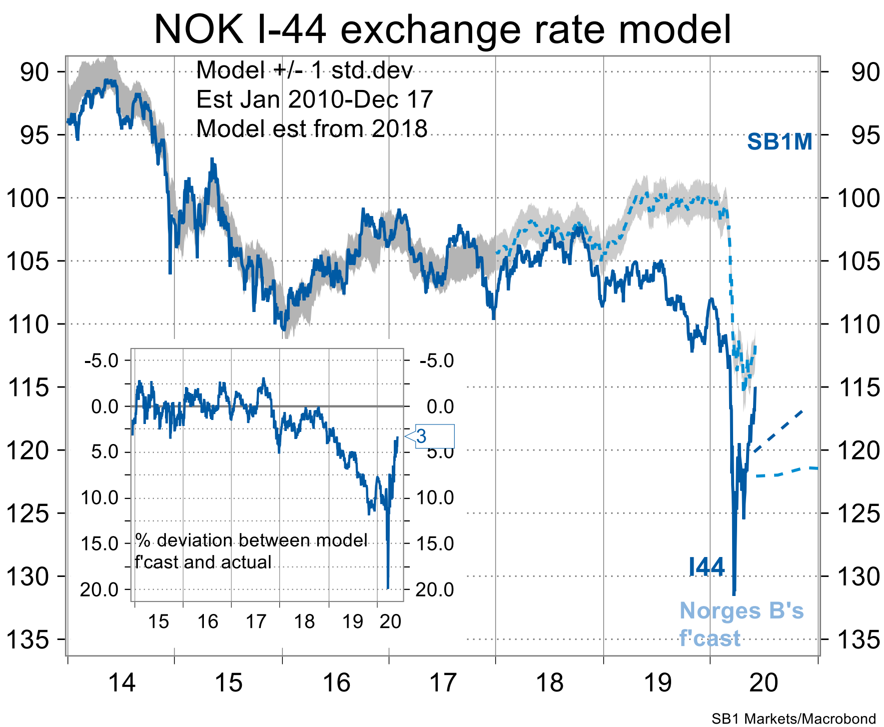
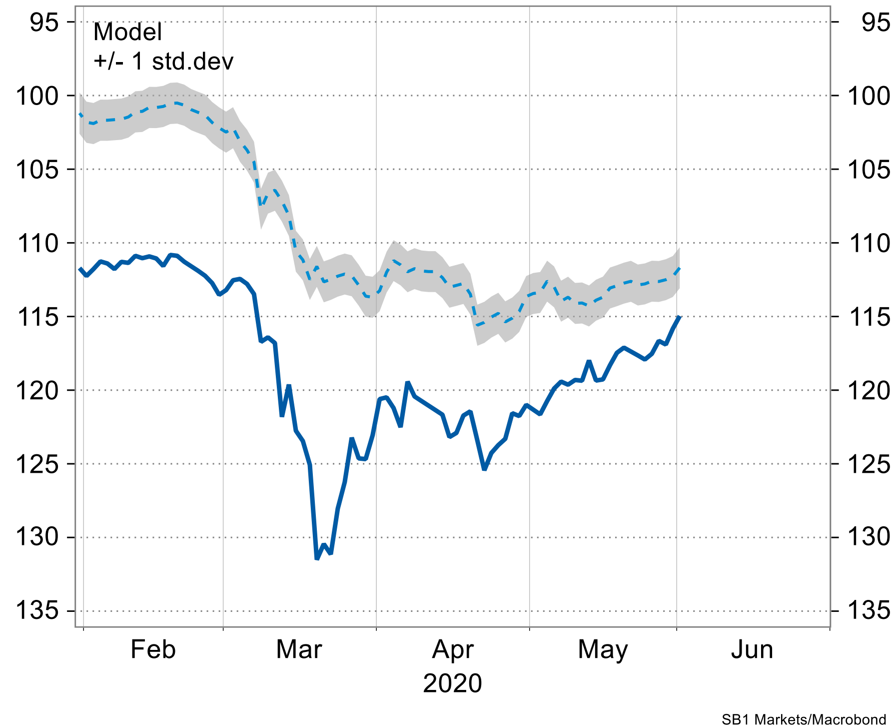
NOK is drifting upwards, and more than out trad model explains

The gap vs our old model at 'just' 3% is the lowest since last spring

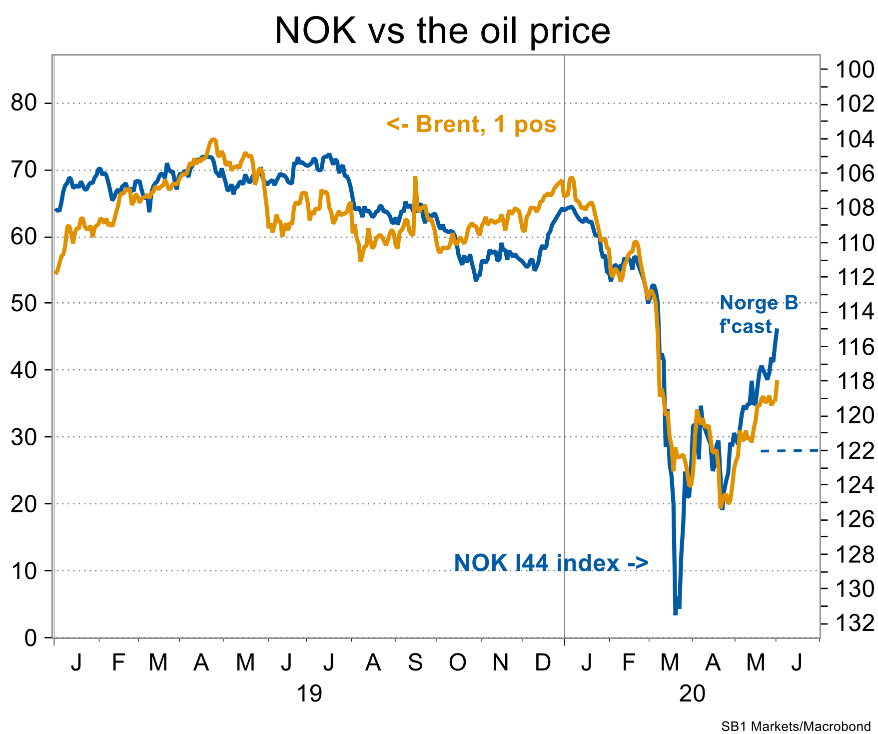


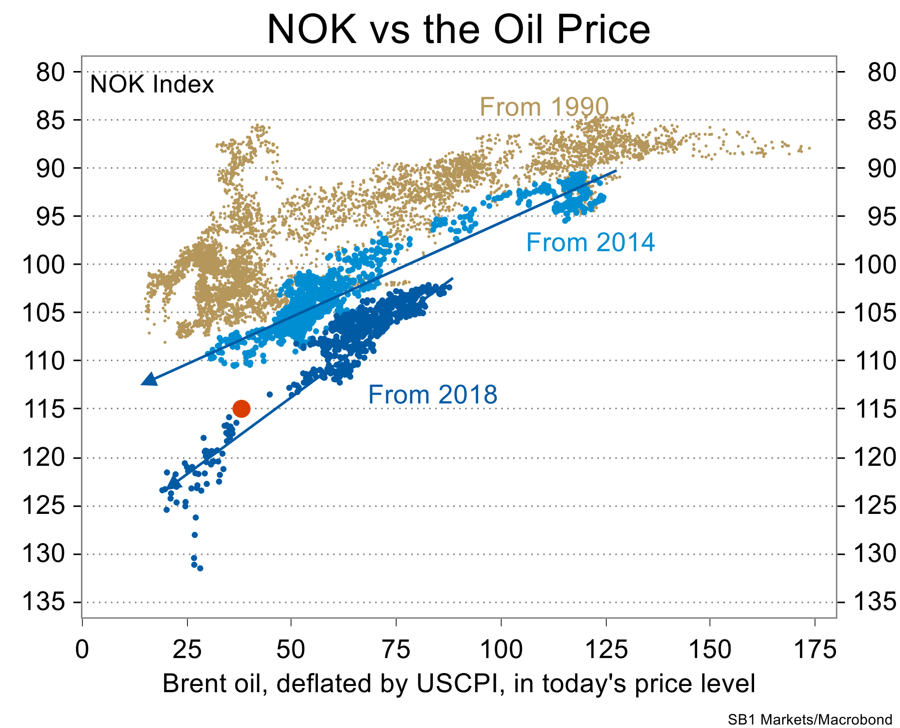


- NOK rose 1.5% last week, more than the 0.5 pp signalled by our old NOK model, and further yesterday – and the gap narrowed further
- Norges Bank is now buying more NOK against f/x from the Oil Fund in order to supply the Government with cash. There might be a positive NOK impact but that has not been the case historically – it correlation is the opposite. NOK demand increases when the oil price is low (and oil companies demand less NOK to pay taxes), and when non oil budget deficit is high because the Mainland economy is weak. *Check the charts three pages out in this report!*

SpareBank 1 MARKETS

The NOK somewhat stronger than the oil price?

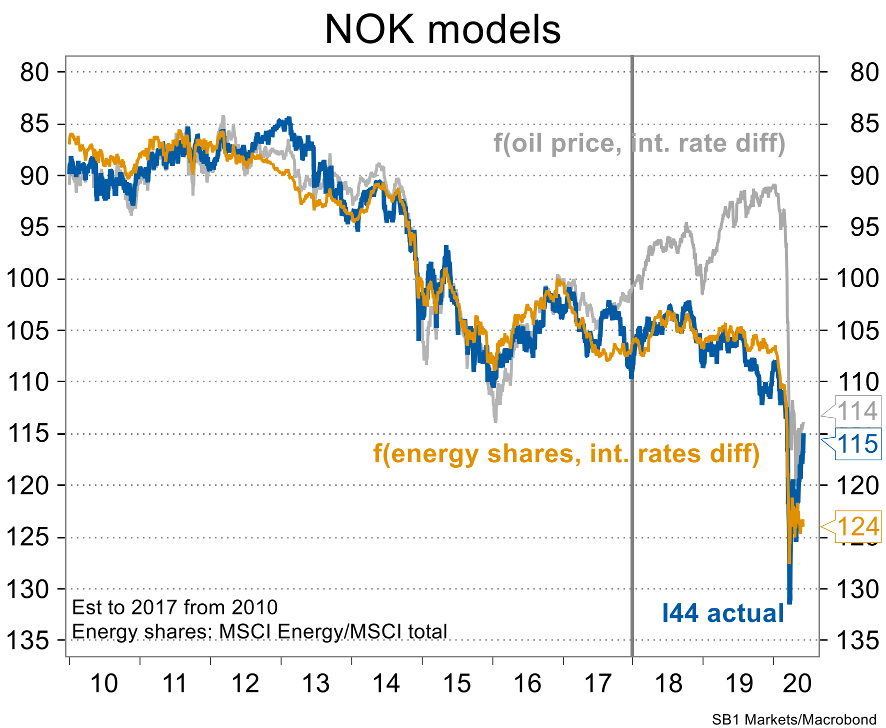


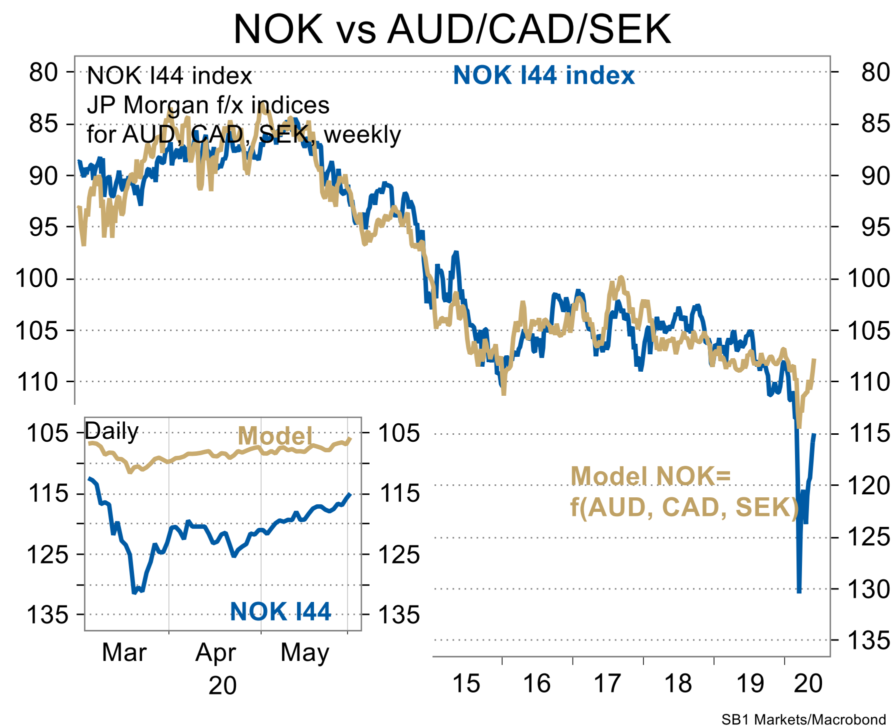


- The NOK has been much weaker vs the oil price than normal the past few years but <u>it is still correlated to the changes in the oil price like it used to be</u>

NOK 'stronger' than oil companies, narrowed the spread to 'supercycle' countries

NOK is 8% too weak vs the 'supercycle' model but 8% 'stronger than oil companies'

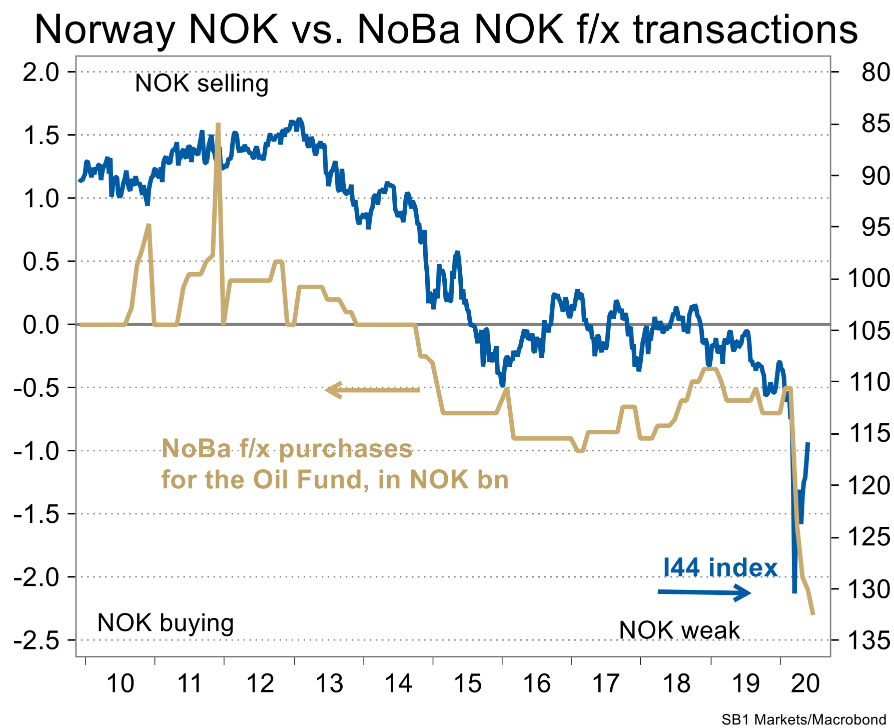


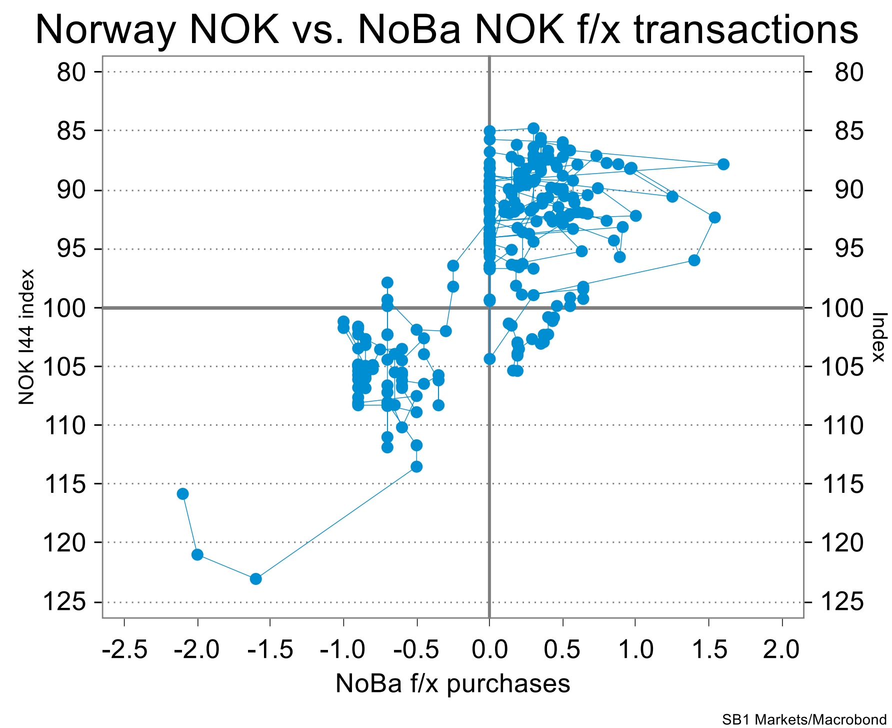


- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
- The NOK is now 5% 'too strong' vs the oil price model. Thus, one argument in favour of a stronger NOK is wiped out, if energy stocks prices are not priced too cheap now

Norges Bank is selling f/x from the Oil Fund, buying NOK for the Government

… and then the NOK appreciates? Well, that has not used to be the case. It is rather the opposite



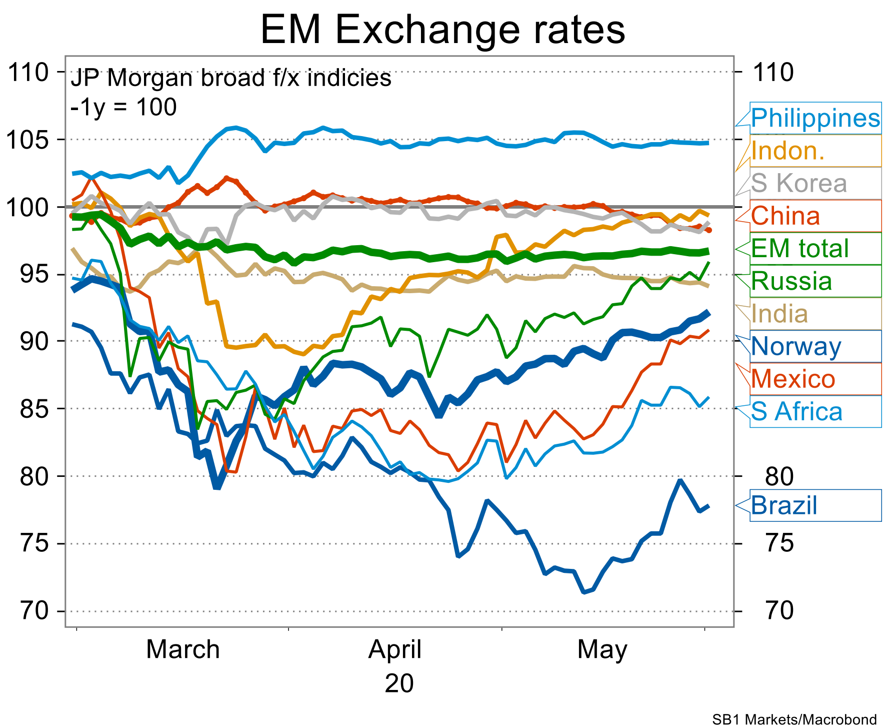


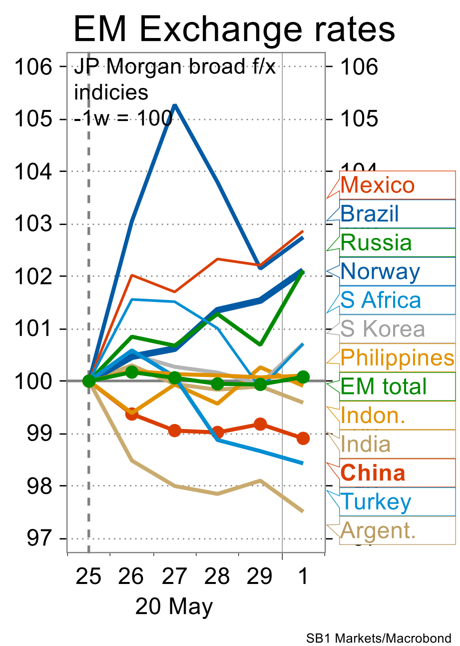
- The correlation do doubt has the wrong sign vs. the popular opinion on the matter. Why? Simply because not everything is equal when NoBa has to buy NOK in the market to fund the government vs. when NoBa has to buy f/x for the Government
- The need for NOK (or f/x) equals the ex oil government budget deficit minus the government's oil revenues (net of revenues to the State's Direct Financial Interest (SDFI ('SDØE'/Petoro) which are in f/x, and transferred directly to the fund). The demand for NOK increases (like now) when
  - » The oil price and government oil revenues are low (like now). The oil companies pay less taxes (which must be paid in NOK) and has a lower demand for NOK while the government has a higher demand (for a given non oil budget deficit). But a low oil price in anyway NOK negative, for many reasons
  - » When the business cycle is weak, and the fiscal policy is expansionary (like now)
  - » which typically is not when the NOK will appreciate (at least if not expansionary fiscal policy will be counterweighted by tighter monetary policy)
- Thus, we do not think a low oil price and a large non oil budget deficit will support the NOK, just as it has NOT been the case before either

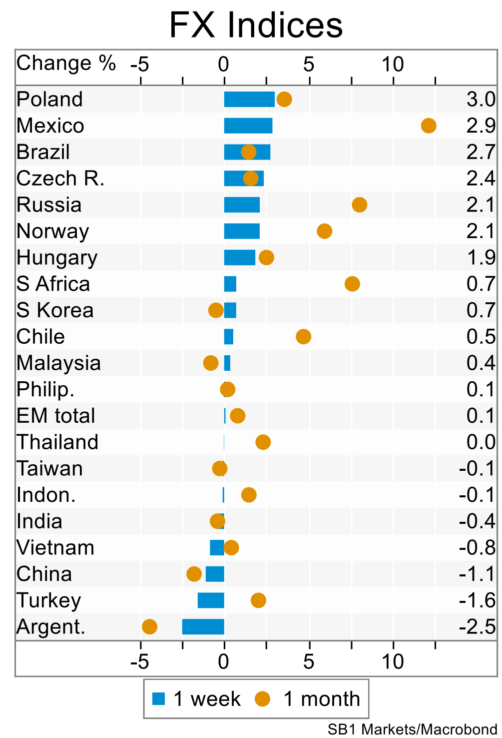
SpareBank 1 MARKETS

The EM f/x universe flat last week (but up ex China)

The Chinese CNY is sliding down; trade war, tech war, a health war – and a new Hong Kong 'war'?

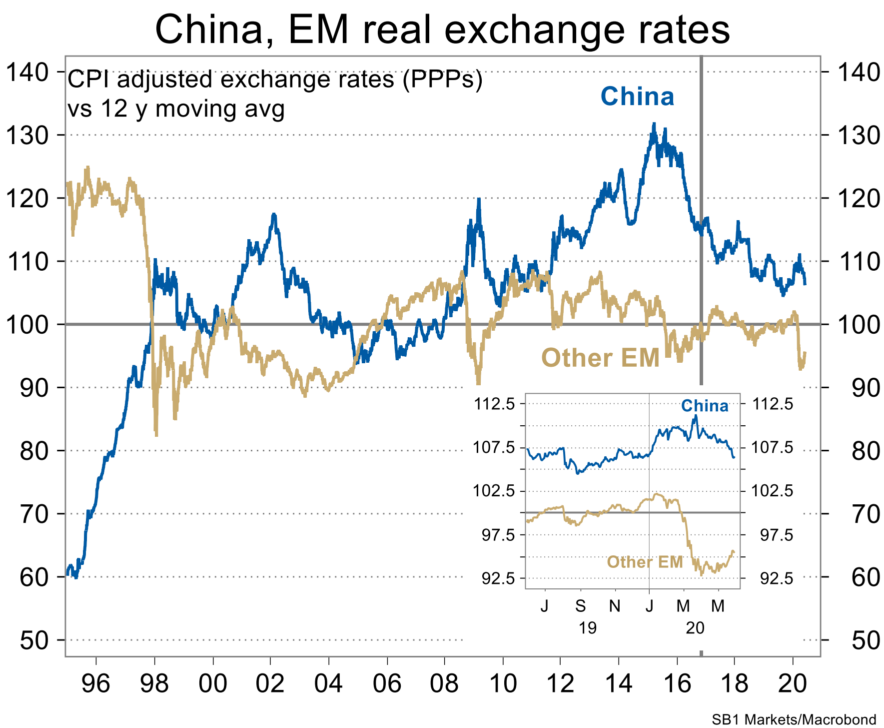


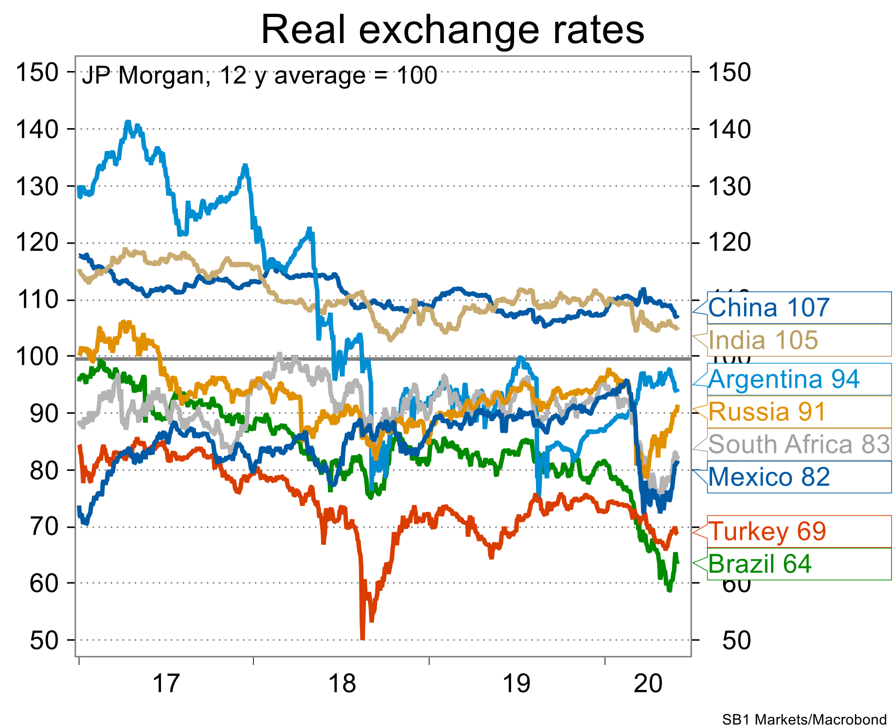




EM currencies are recovering from a not too dramatic depreciation

A 7% drop was not that dramatic, at least not given all stories about reversal of capital inflows





- Now, more EM currencies are strengthening. The CNY is slowly slidning downwards

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