21 June, 2020

Macro Research

Weekly update 26/2020

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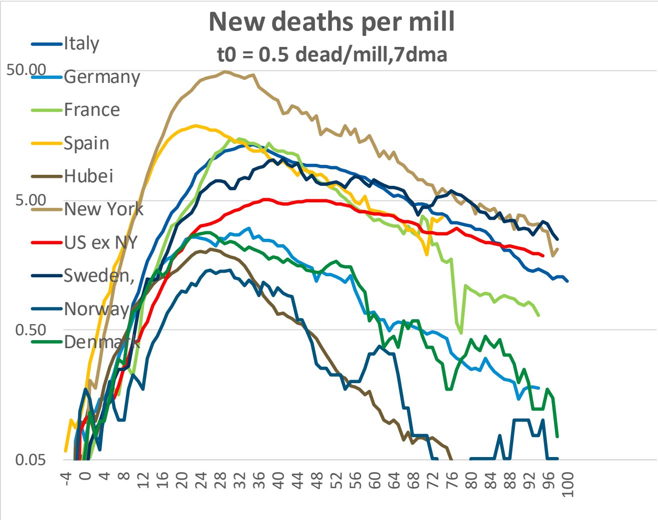
The headlines are linked to the relevant section in the report
The elements on the the page "In this report" are linked
A top right button will bring you back to the content page

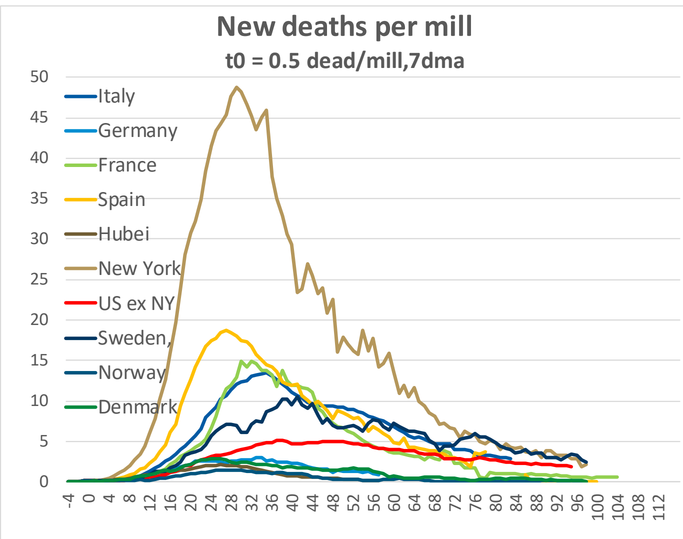
Last week – the main takes

- Several US states are reporting a sharp increase in **new Covid-19 cases**, and the reason is not more testing but more corona cases in several US stated following re-openings. In the early re-openers, the 'R' is at 1.4, implying almost a quadrupling per month… No serious problems elsewhere - in the rich part of the world. However, globally, the inflow of **new cases is record high**, driven primarily by Lat Am and India. The Chinese is buying more US crops, to fulfil their **US trade deal** commitments
- **The Federal Reserve** decided to buy a portfolio of **corporates bonds** in addition to ETFs – at the same time as the corporate bond market is blooming, with spreads at average levels (even if the credit quality is souring). Why use the bazooka now?? **Core retail** sales rose sharply in May, and is almost back to the February level – a sharp 'V'. Restaurants are still down 40% (and clothing 50%). **Housing starts** rose less than expected, and are still 30% below the pre corona trend. **Manufacturing production** also grew less than expected, and remains 17% below the February level. The first June **manufacturing surveys** (NY & Phil Fed) surprise big time at the upside – because expectations were far too low? Companies are reporting growth in June, but the recovery started in May (without companies recognising it in these or other May surveys), and it 'must' have continued in June! Expect some positive June PMI surprises this week ☺
- **The EU leaders** initiated the formal debate on the Pandemic Recovery Fund, the first real common fiscal policy measure in the Union's almost 70 years history. It will take time to reach an agreement but judged by what we have learned about the union, a compromise will be found, and the EU will be reformed
- **In UK, retail sales** recovered sharply in May, even before most shops were opened in the 2. week in June. The levels is still very low, of course. **Unemployment** is increasing, even if the government pays for a large proportion of the employment. **Wage inflation** is collapsing, as elsewhere
- **Sweden house prices** rose sharply in May, and the national price levels is almost back to the February level. In Stockholm, prices are still down 5% - and prices are down in other cities too. Unemployment rose further in May
- **Norges Bank** revised its growth forecasts upwards an lifted the long end of the interest rate path, signalling the first hike in late 2022 and two more in 2023 – <u>six weeks</u> after the (so far) last cut to zero, and a 'promise' of an unchanged rate through 2023. What will the next eight weeks bring? **Mainland exports** fell sharply in May, and will probably remain weak in June too, given the decline in manufacturing activity (and final demand for goods) abroad

US reopeners are reporting (many) more covid cases, pace is 4x more, per month!

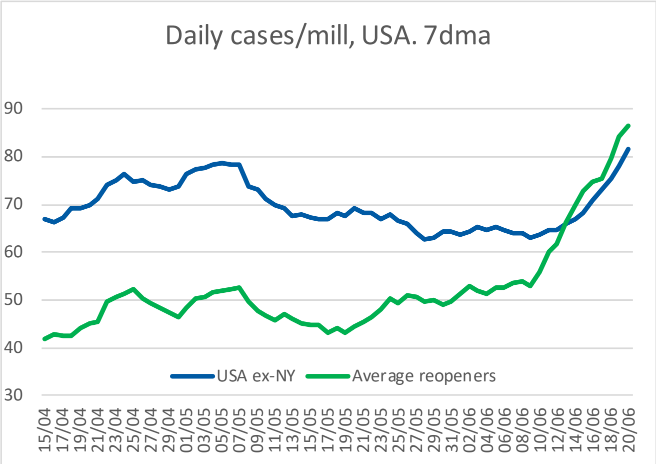
No serious signals of a 2nd wave other places but small, local outbreaks several places





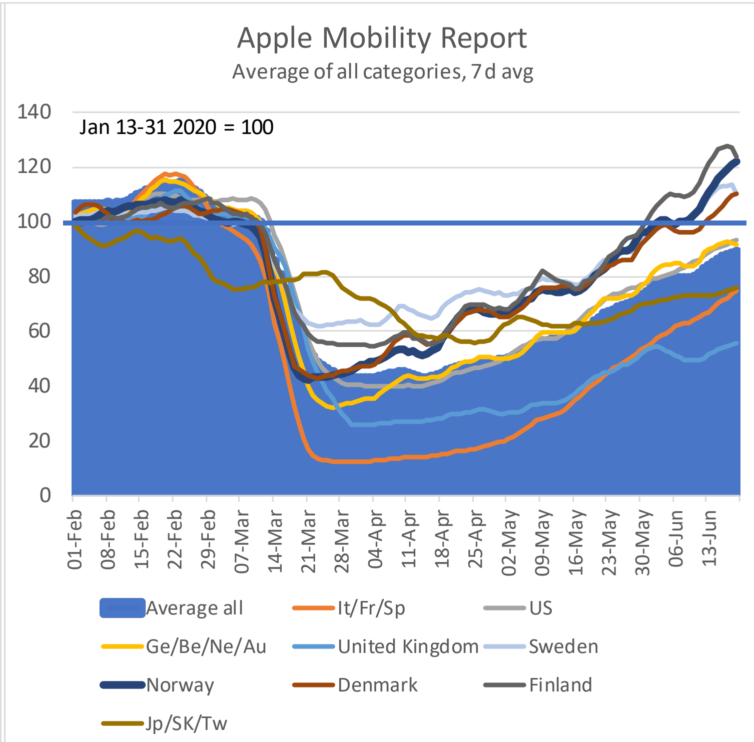
Sources: Johns Hopkins, SB1 Markets. Not all data are fully updated

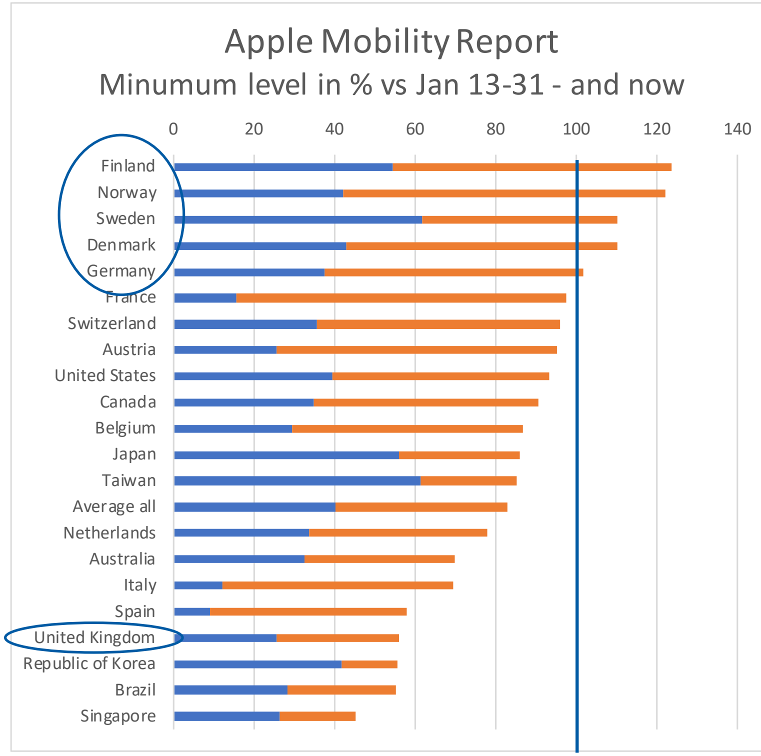
- Several US states are reporting more cases, in South and West were the restrictions were eased first – and in US in total. The R (reproduction figure) for US re-openers is now at almost 1.5, implying a doubling time at 15 days, 4x more in 1 month, and 16x in 2 months. The daily count of new cases is 86/mill among these re-openers. Without any change in policy/behaviour the number will increase to 330/mill in 1m, and 1.300 in two months. (BTW, New York peaked at 504/mill per day, Norway 67, both two weeks after restrictions were imposed). What will happen in these states now? Something will have to give!
  - » One obvious solution: At his half empty Tulsa rally, president Trump Saturday quoted himself 'I said to my people, 'Slow the testing down,'' because as more tests are conducted, more infections are discovered'. It was just a joke, the White House people said afterwards, but nobody laughed…
- Sweden is not convincing either but the no of deaths are still on the way down (and US is too – better treatment is still a possibility!)
- Elsewhere in DM not too much to worry about (at least not yet…)
- In several Emerging markets the trend is still up. Lat-Am is the epi-centre now – and the global count is record high!



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

Still, mobility is below normal levels, most places.



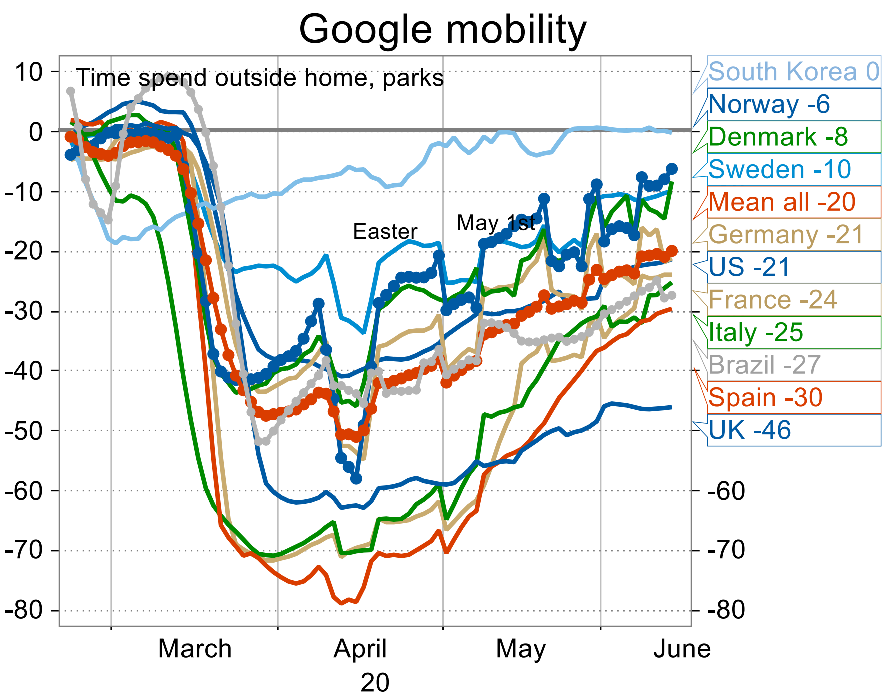


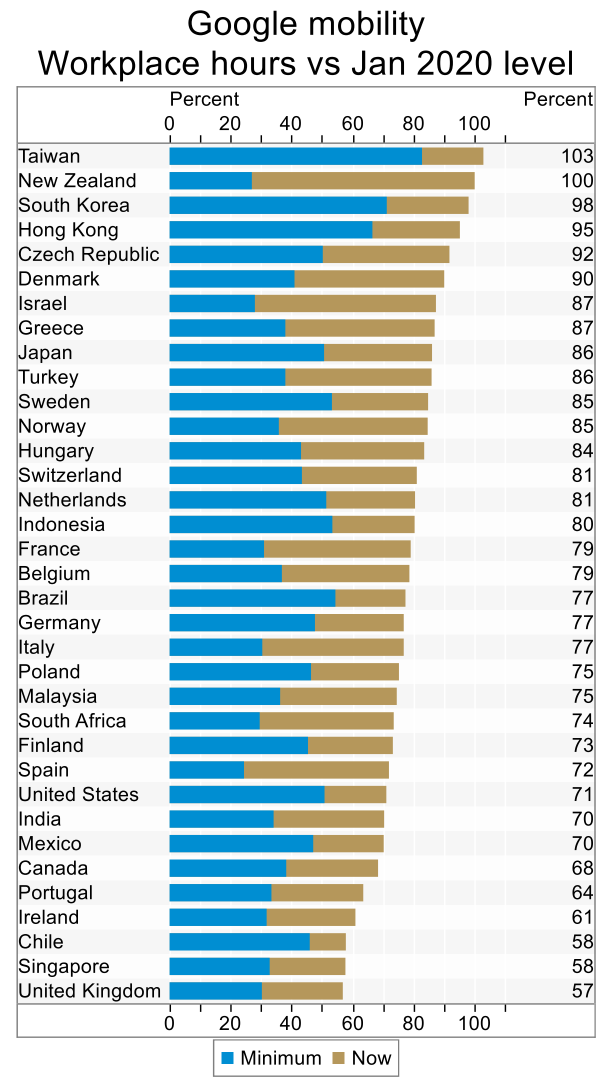
- Map searched in Apple Maps, average of road, walk and public transport searches
- We do not know the seasonality of these data, like if we at the north at the northern hemisphere move more around at this time of the year. It may influence the validity of these data. However, looking at UK vs other 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

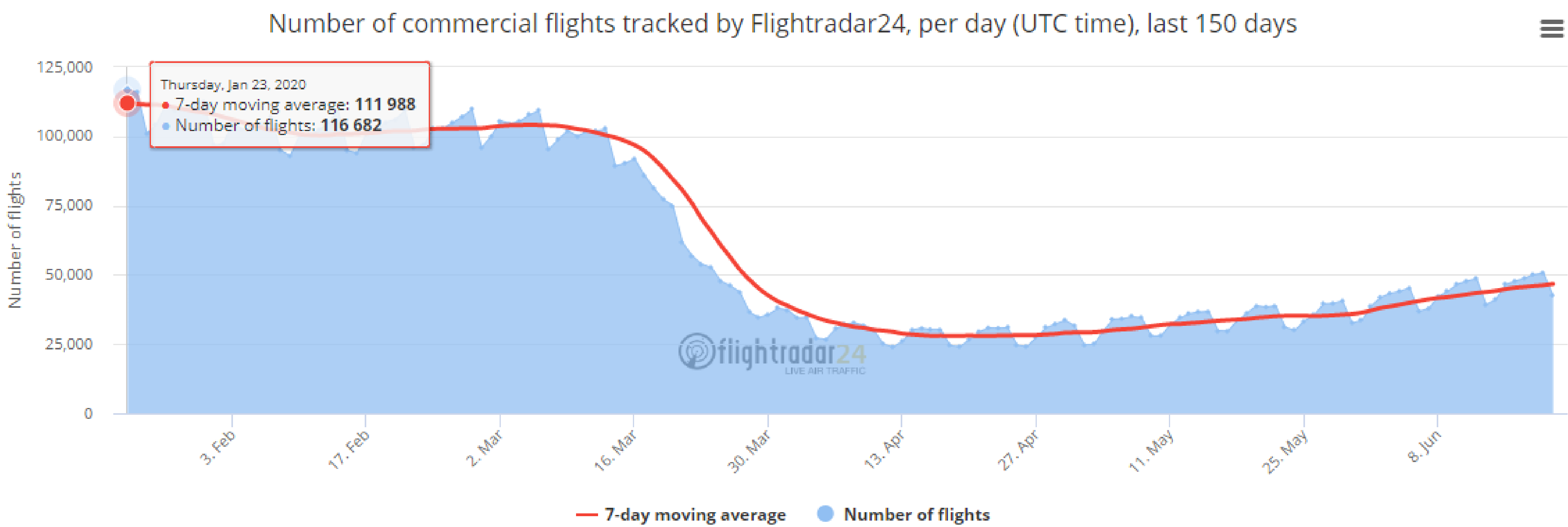




- UK is lagging, here too!

After the crash – airline flights are slowly, slowly on the way up to the sky again

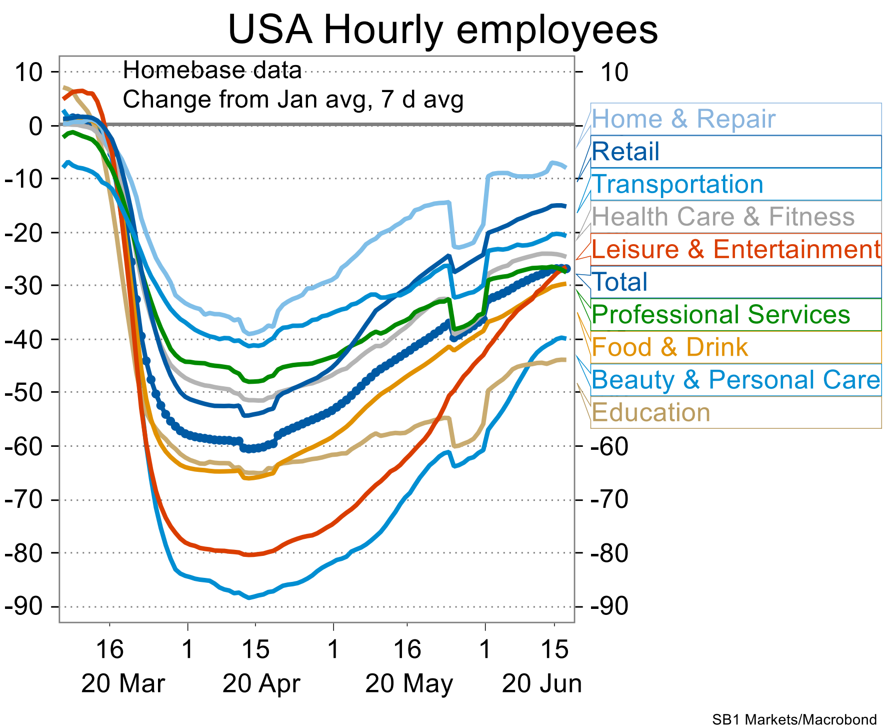
The number of commercial fell 75% to mid April. So far, just 1/5th of the decline in recovered

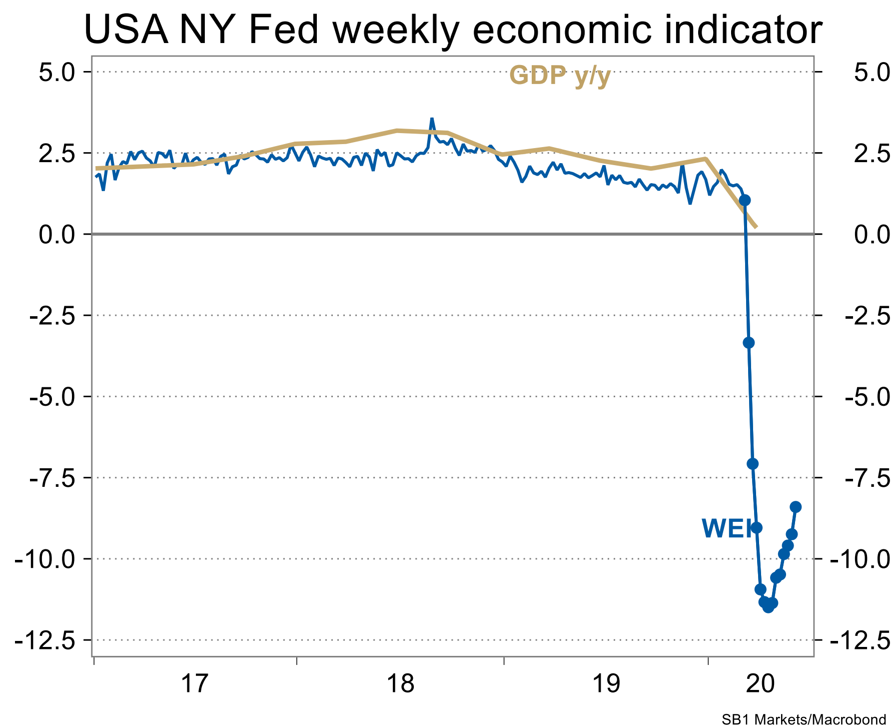


- But sure, it is moving in the right direction, upwards!

US: Activity is on the way up, employment is on the way up

Still, GDP is still down 8%, according to NY Fed's weekly tracker





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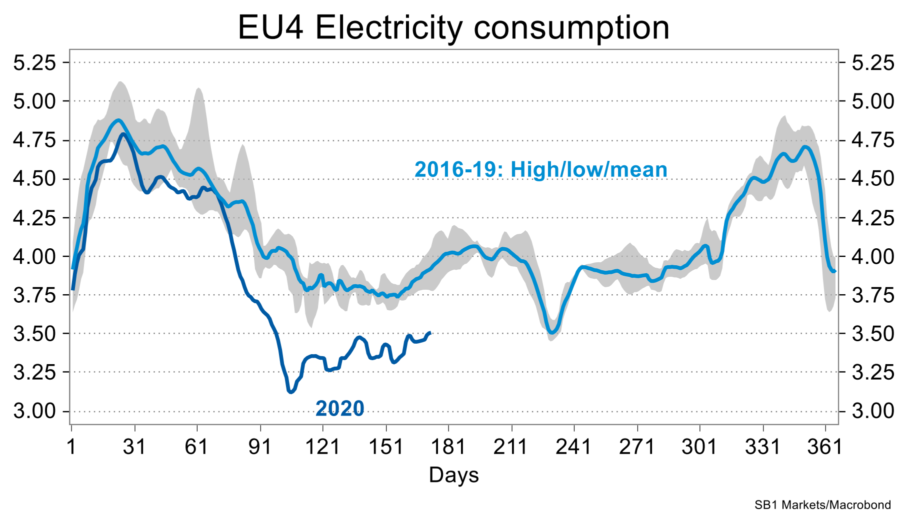
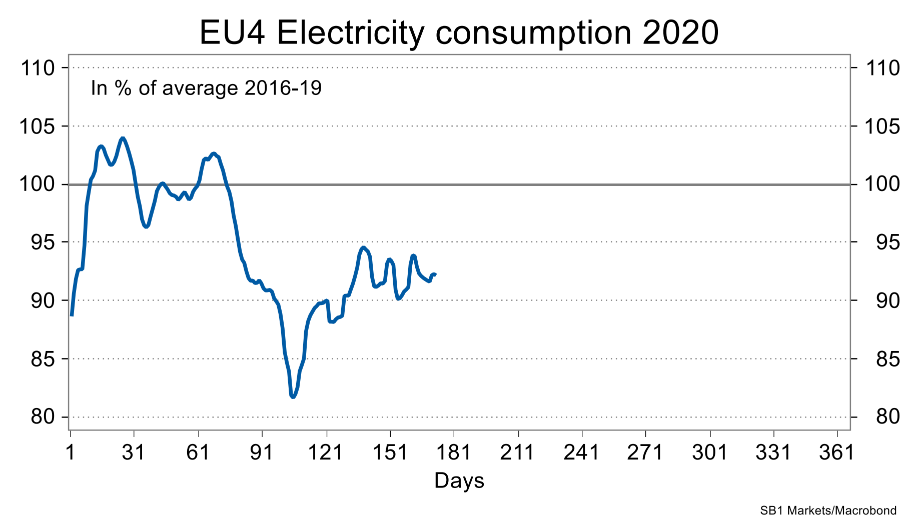
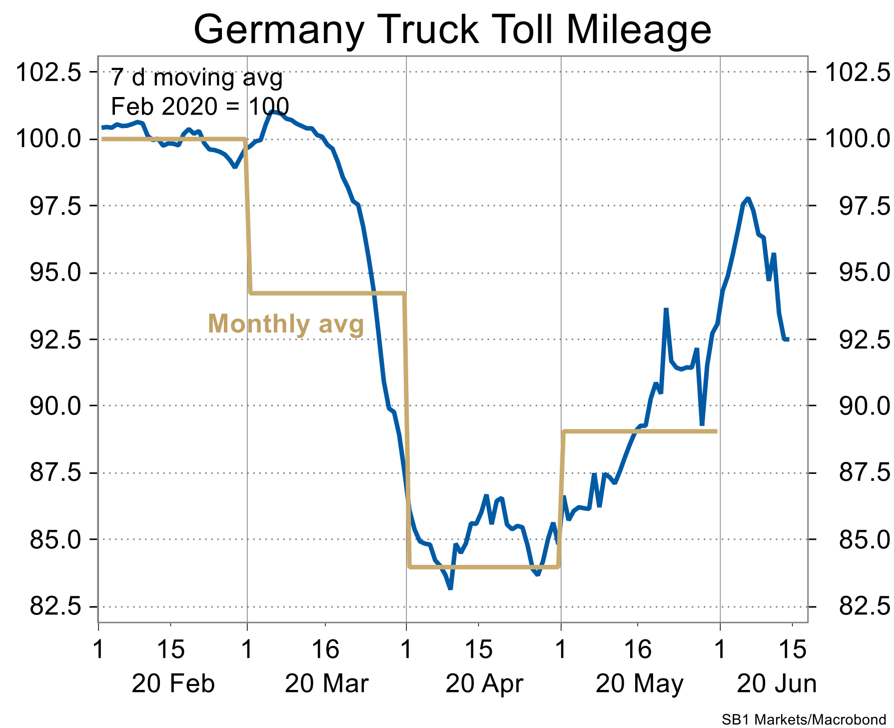
Activity is picking up steam in Europe but still a way to go







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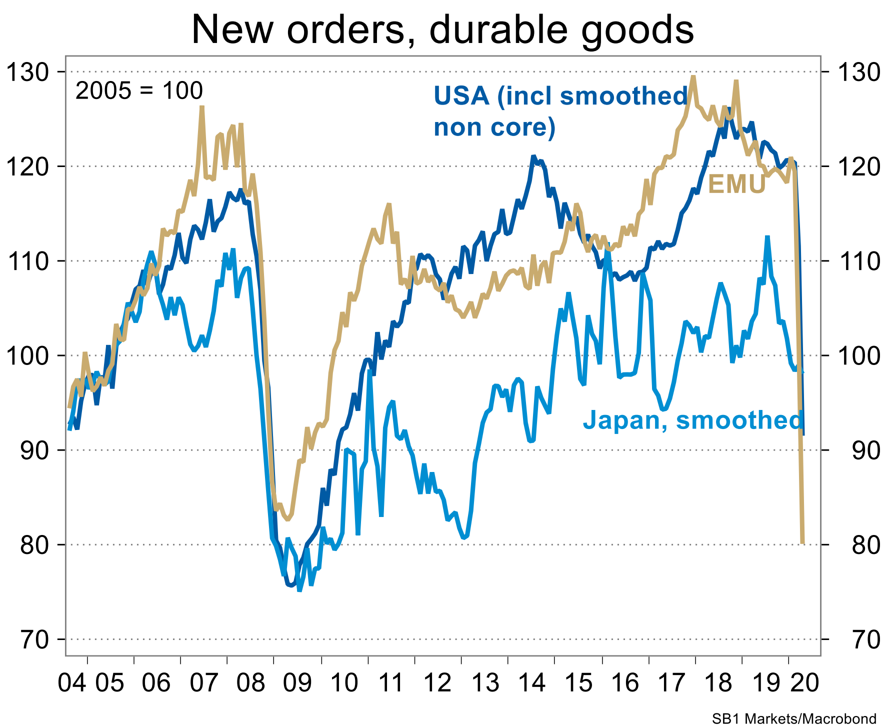
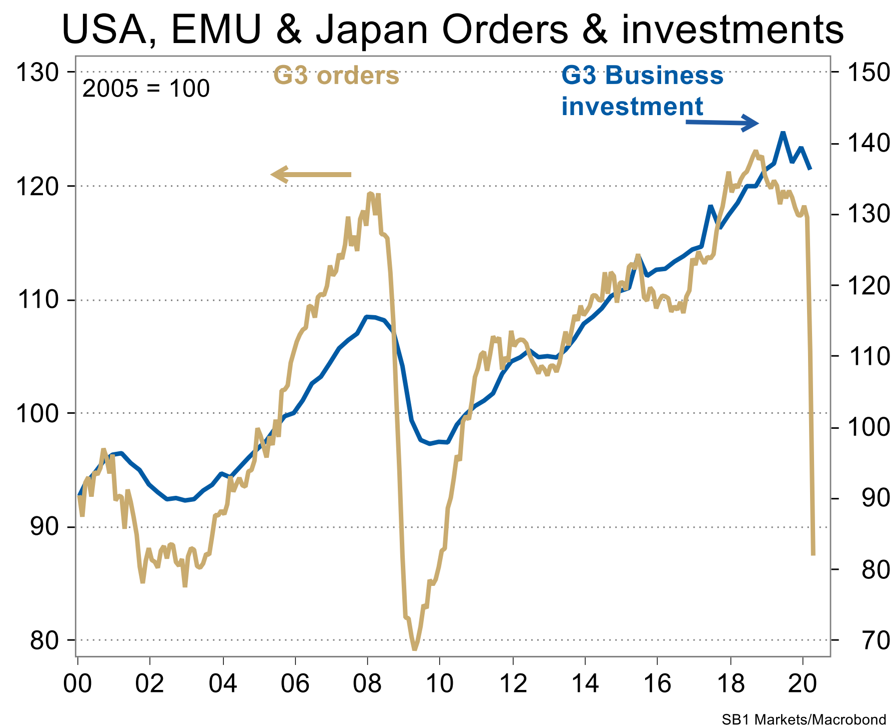
DM manuf. orders has fallen off the cliff – investments will be cut

The downturn started in 2018. Now: For how long will the corp. sector keep cap. ex. down?

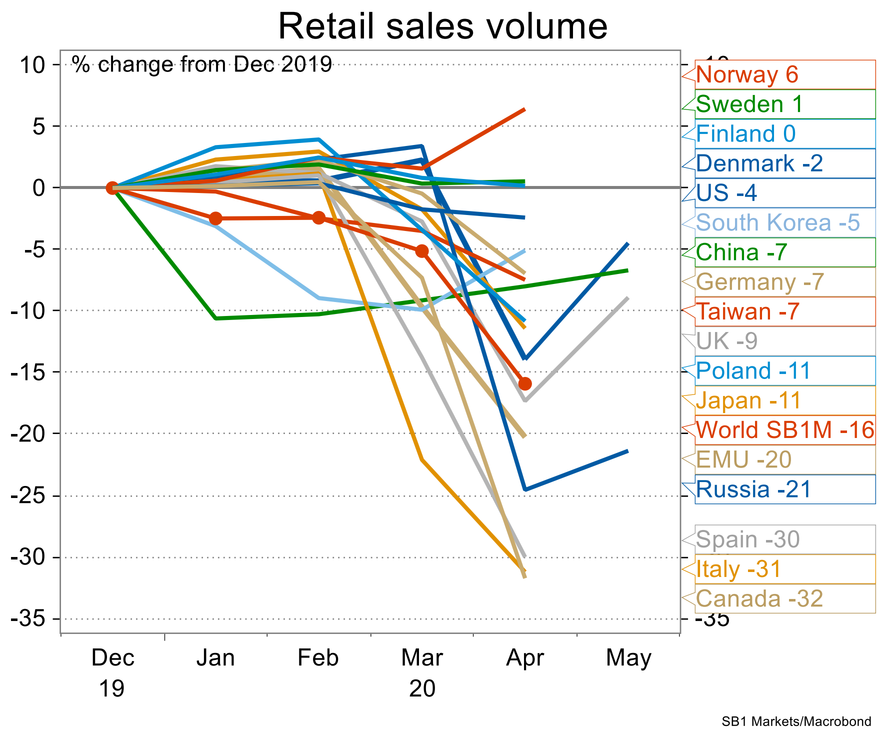


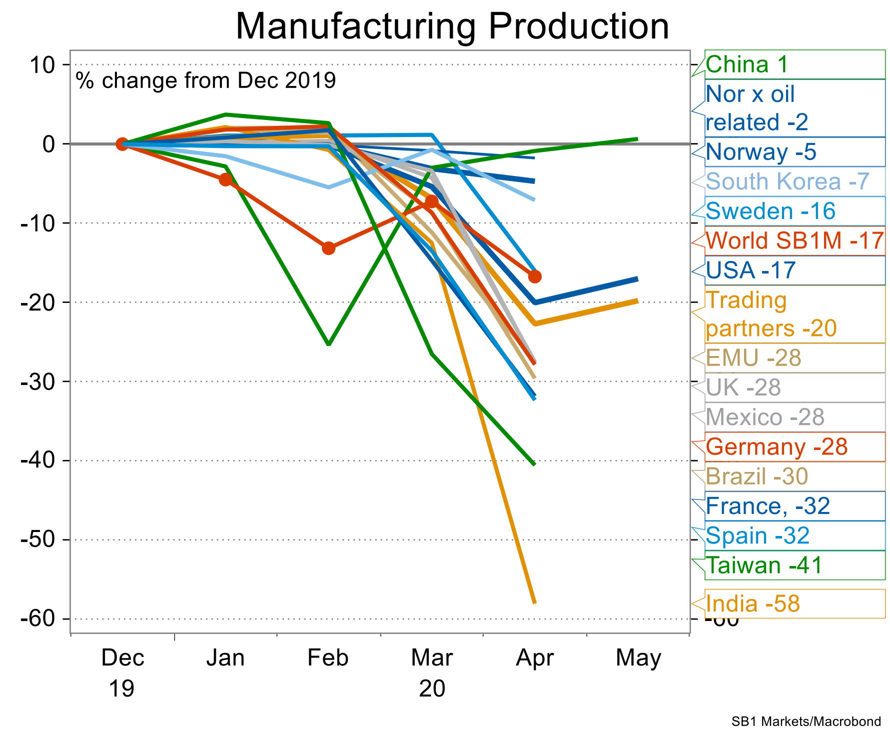


- We expect an initial 'V'-shaped recovery as order inflow level is extreme low level – but we still doubt orders/investments will return to a normal level
- PMI and other momentum indicators will come back in positive territory now (they should have done so in May, as April very likely was the trough of the corona cycle

Retail sales & manufacturing production: Not one story, at all

Huge differences between countries, both on the demand and production side, at least until April

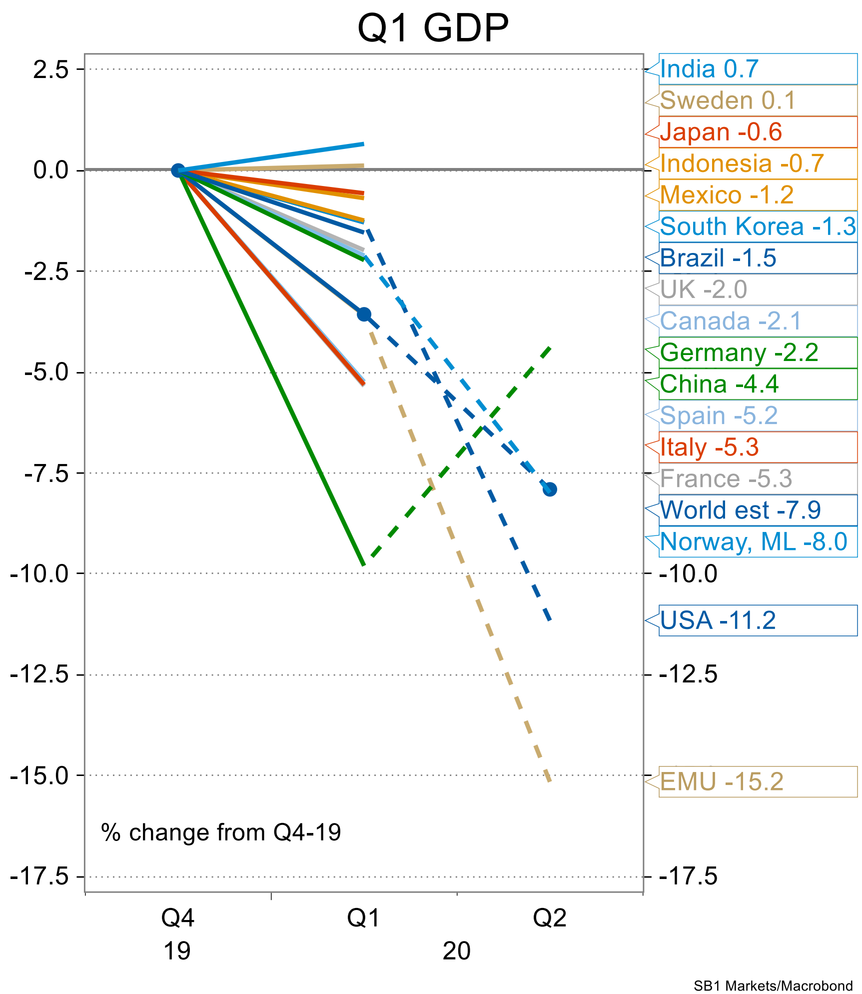




- Retail sales have kept well up in the Nordics (all at the top). Russia, Italy and Spain at the bottom
- Manufacturing production in Norway is just marginally down, at least compared to Sweden, US, UK, and the Eurozone. Taiwan and India badly hurt, India down 58% in April (From Dec-Feb)

Global GDP fell by 3.7% in Q1. We expect even more in Q2

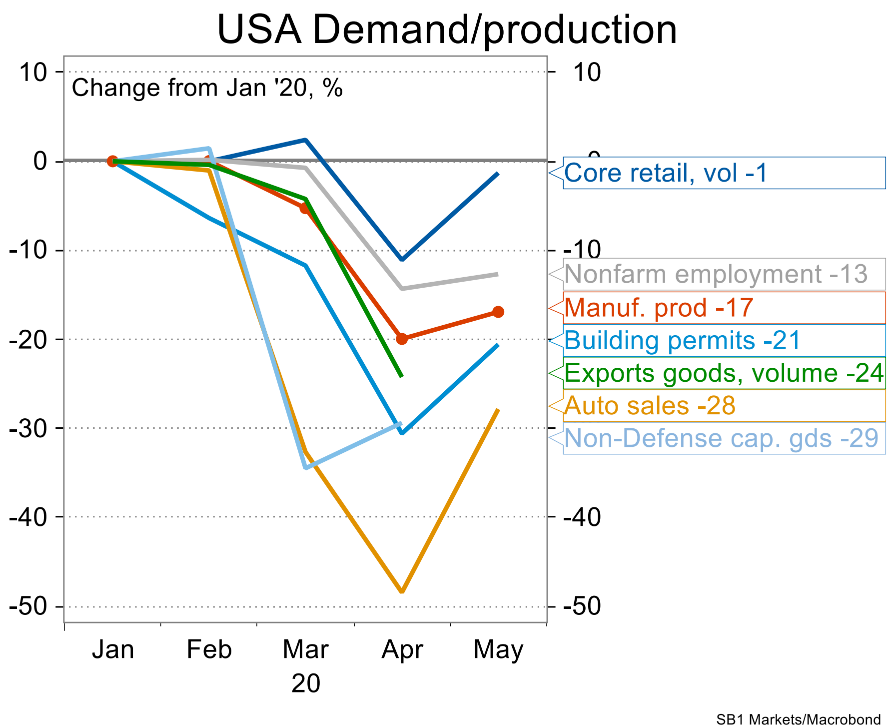
Substantial differences, and not just only depending on <u>when</u> the corona virus hit



- Global GDP declined by 3.7% in Q1 (up from our first call at -4%), 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 faster in Q2, we assume 4.5 – 5%
- *All Q2 data are our estimates*

Core retail sales almost back on track, housing & auto still well below, in May

Exports & capital goods orders sharply down too. Manuf. Prod, employment in the middle



Some different shapes and forms of 'V's

- The bottom was in April
- All main indicators published so far rose in May
- Core retail sales reported the sharpest recovery

Other demand

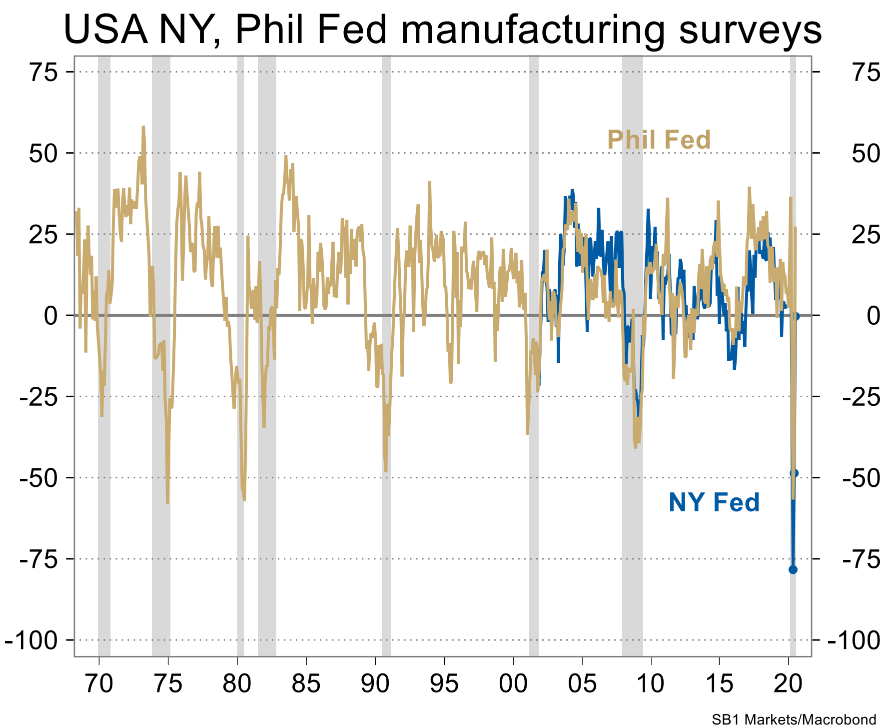
- Non-defence capital orders (including airlines) hgar down 29% (to April)
- Export volumes were down 24% (to April)
- Local government demand is declining due to budget constraints (employment fell in May)

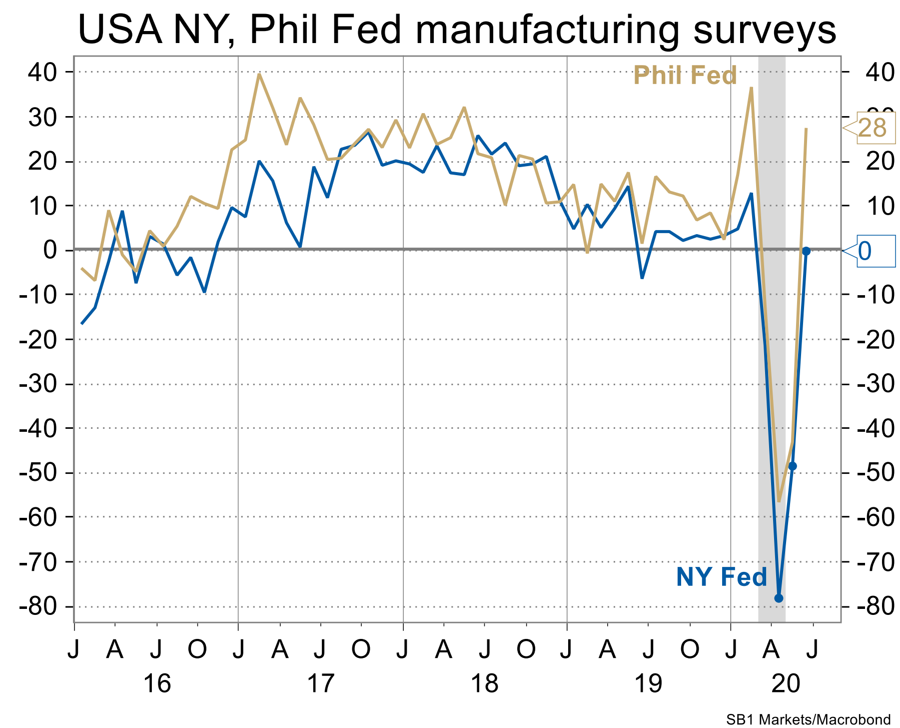
Demand vs production

- Manufacturing production and employment rose We put more emphasis on the demand side than production
  - » If demand recovers, production will follow – after inventories are emptied

NY & Philadelphia Fed manufacturing indices to zero/+28, the recover has started

.. Both much better than expected (-30 % & -25!!). However, they should have been there in May…

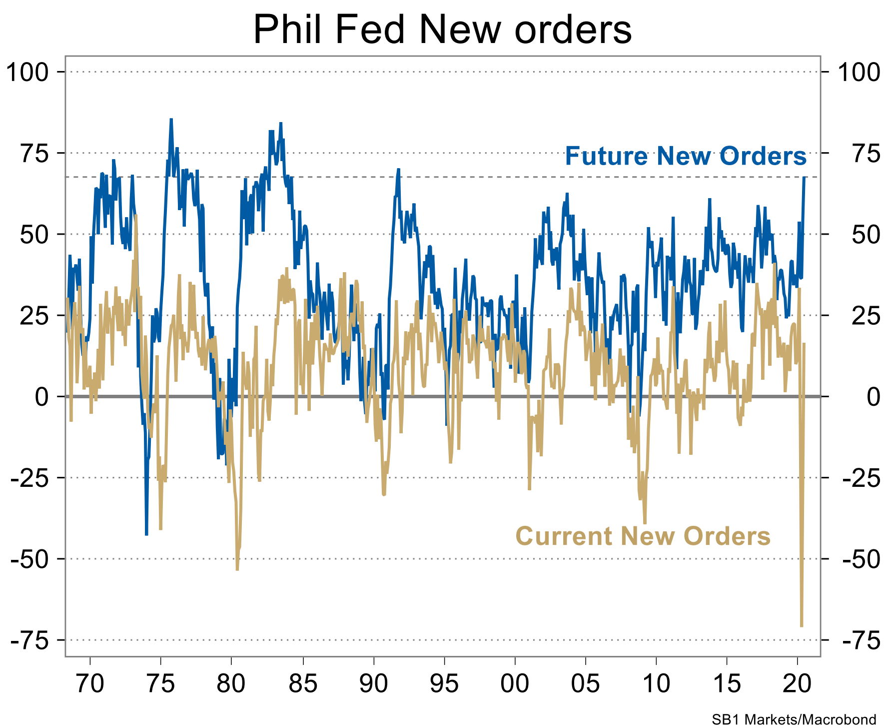


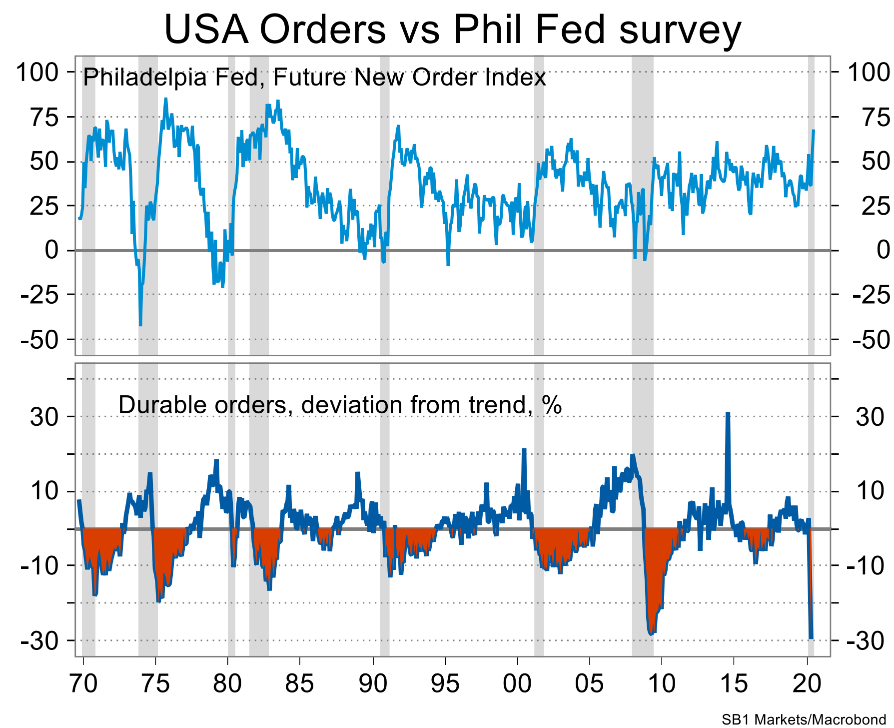


- In April, both indices were at the lowest level ever. They rose in May, and further in June (and extremely better than expected) – <u>and they are now signalling growth in production</u>.
- However, actual production rose in May (at least total US manufacturing production), and these diffusion indices should have been in a positive territory in May – and is should be no surprise that companies reported growth in June. We don't quite understand the consensus forecasts – even if companies are usually smoothing their answers
- **Still, surveys in positive territory is surely good news – the recovery has started!**

Expectations are rocket strong – from a record low bottom…

What does it mean that most companies expect higher orders, when the current level is record low?

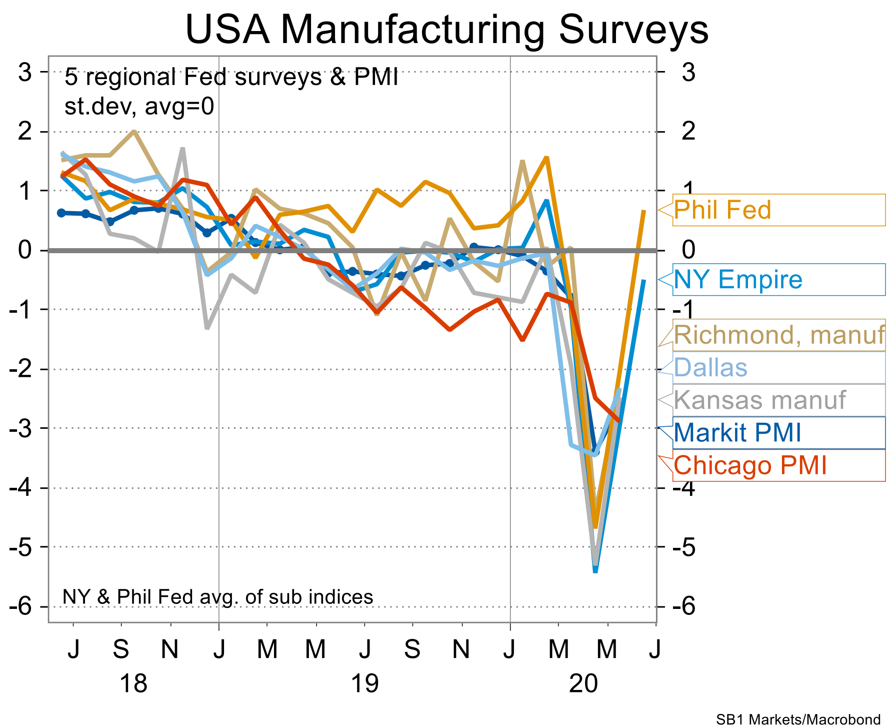


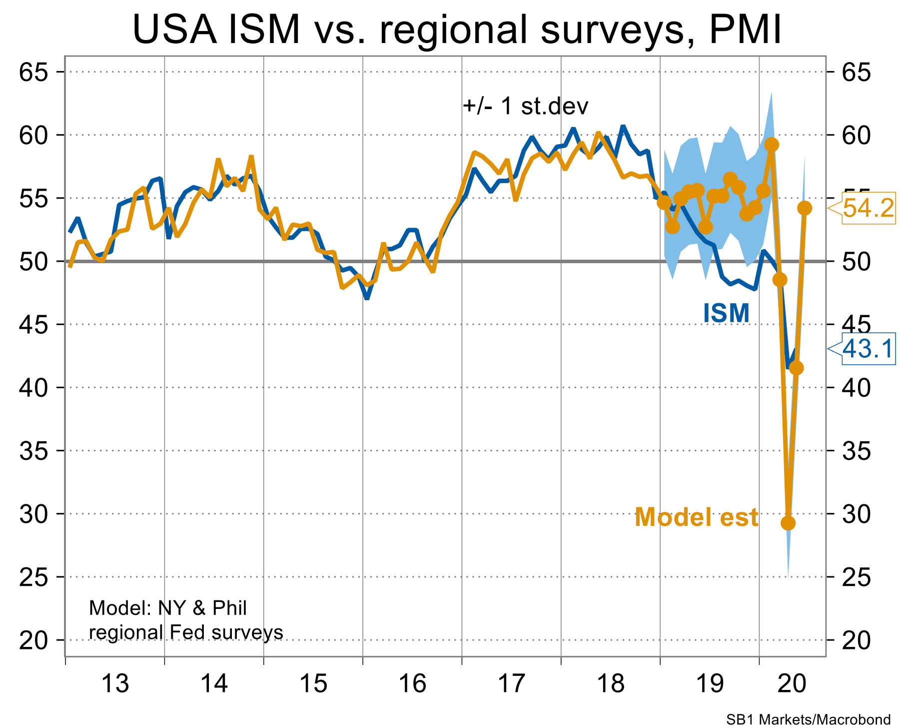


- The future order (and activity level) expectations rose further in June, to the highest level in 20 years!
- The challenge: What order level are the companies expecting in 6 months time?? No doubt, far above the present level but not necessarily a high level – but not necessarily a high level? Check the recoveries above – it has always taken years to come back to a normal level, after expectations shot up! However, this recovery may of course turn out to be different, just as the downturn was *(at the chart, all periods below trend are painted red)*

Manufacturing ISM up to above 50 in June? Should have been there in May

The two early Fed manufacturing surveys signals an ISM well above 50

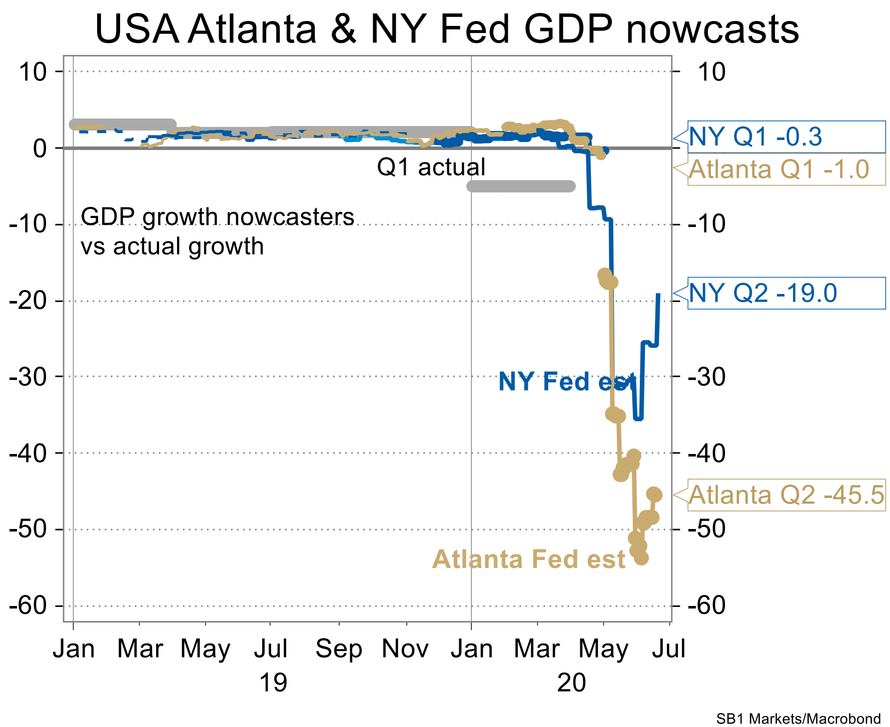


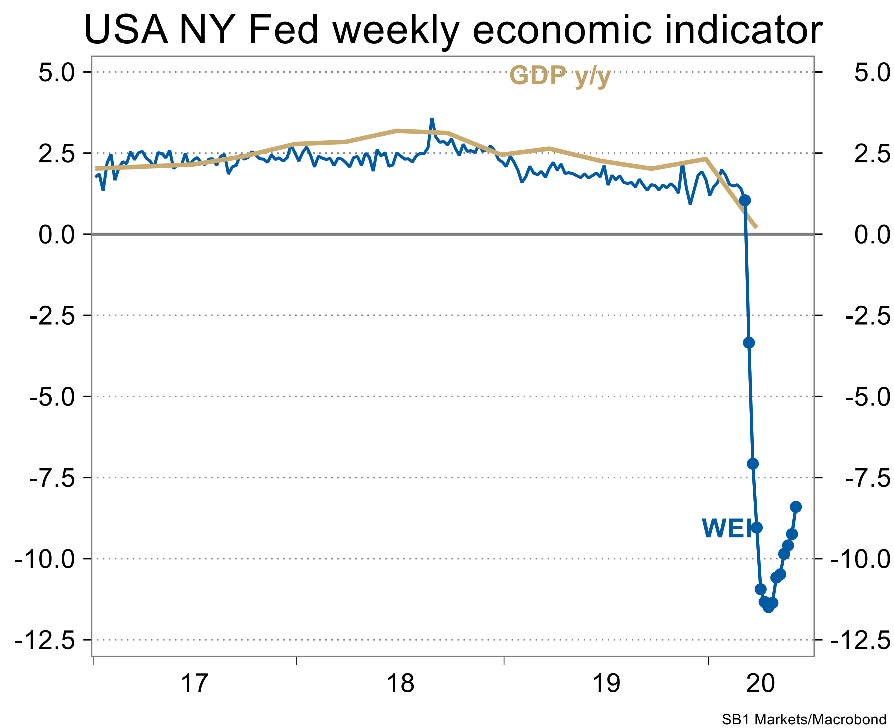


* Production rose in May, even if

Nowcasters do not agree: -25% or -50% (annualised) in Q2?

A more relevant figure: A 10% decline in the GDP level seems likely

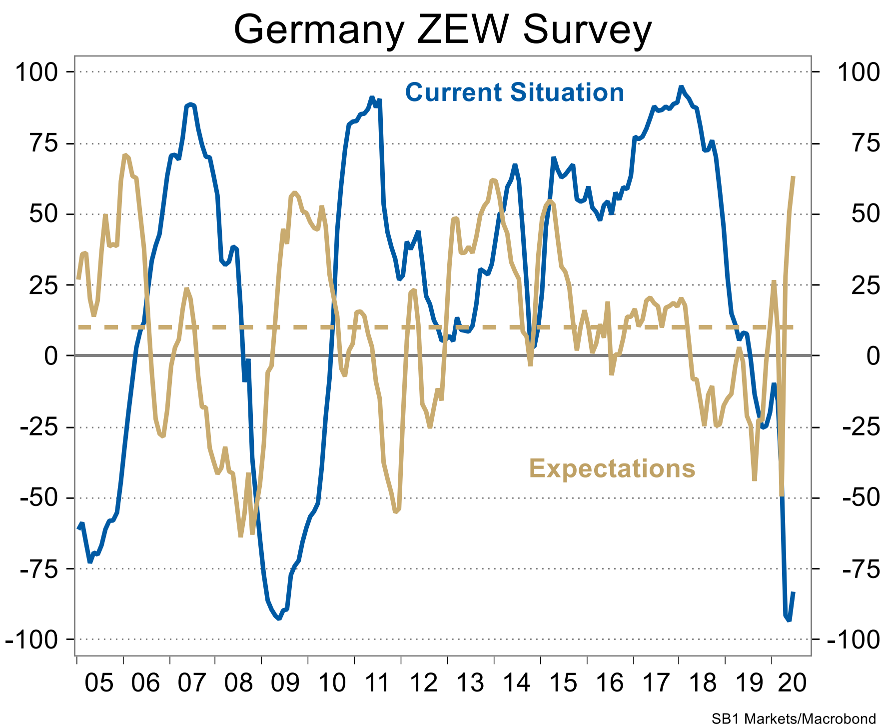


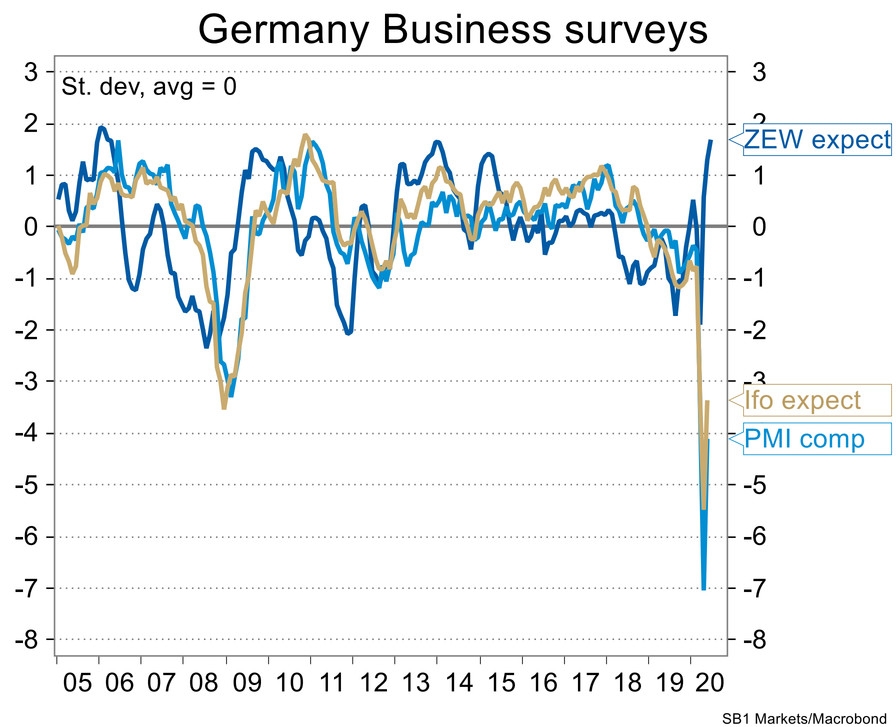


- The 'old' nowcasters from NY & Atlanta Fed report a 19 to 46 % decline q/q, in (absurd) annualised terms – equalling a 5 – 15% decline q/q, not annualised – the gap between the two is extremely wide
  - » As GDP fell by 1.2% in Q1
- The NY Fed's weekly economic indicator reports a 8%+ y/y decline, implying a 10% decline from the level in early 2020. The deceleration has clearly slowed past weeks – but the activity level remains low

ZEW's expectations the best in 14 years! From the worst current position in 11 y

The expectation component in the ZEW survey rose further in June, and slightly more than expected



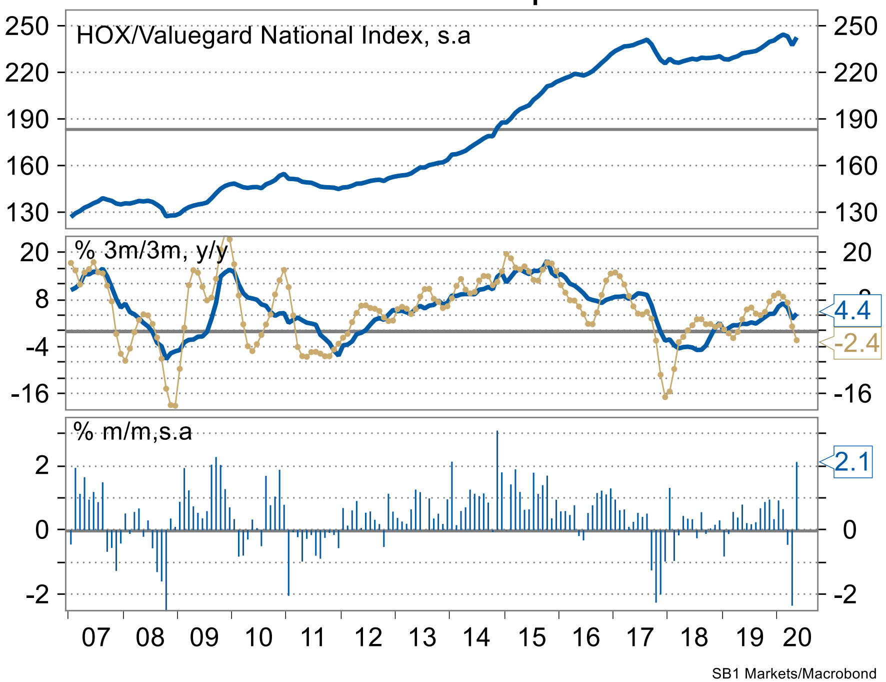


- The current situation is close to the bottom level during the financial crisis – but not worse either.
- As the basis for expectations is the current situation, it is not strange that expectations now are strong (which was the case in 2009 too)
- ZEW is a sentiment survey among economists and investors, and not a business survey, as the PMI and Ifo. We usually prefer the business surveys as coinciding indicators – but the ZEW index is often somewhat leading. We expect business surveys to recover sharply the coming months

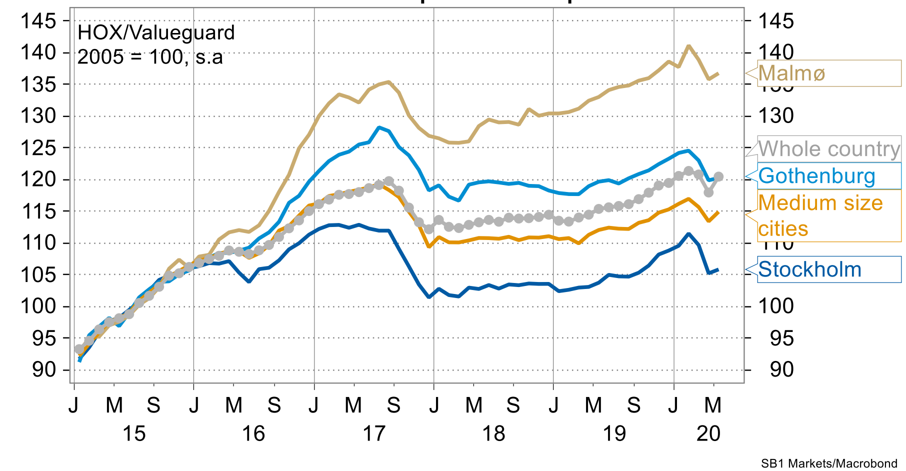
House prices up in May, house prices outside towns almost back to Feb level

National prices rose 2.1% in May, reversing most of the March/April decline. Stockholm still down 5%

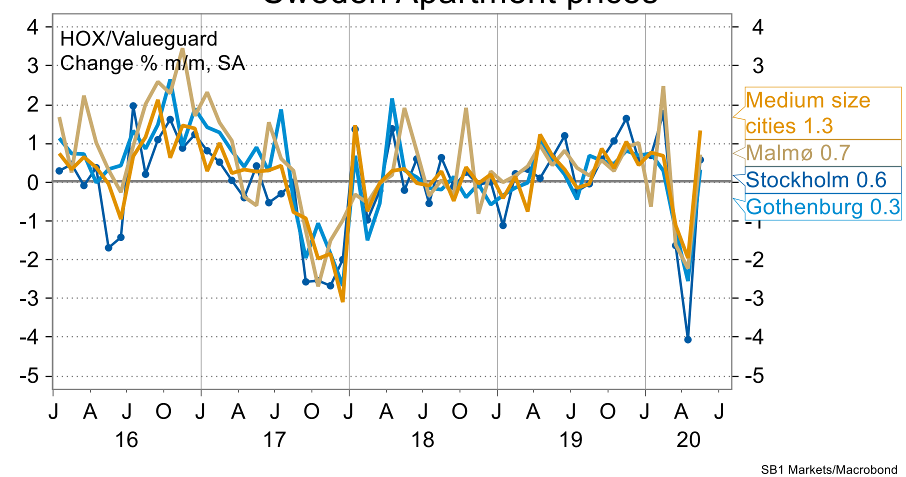
Sweden Home prices



Sweden Apartment prices



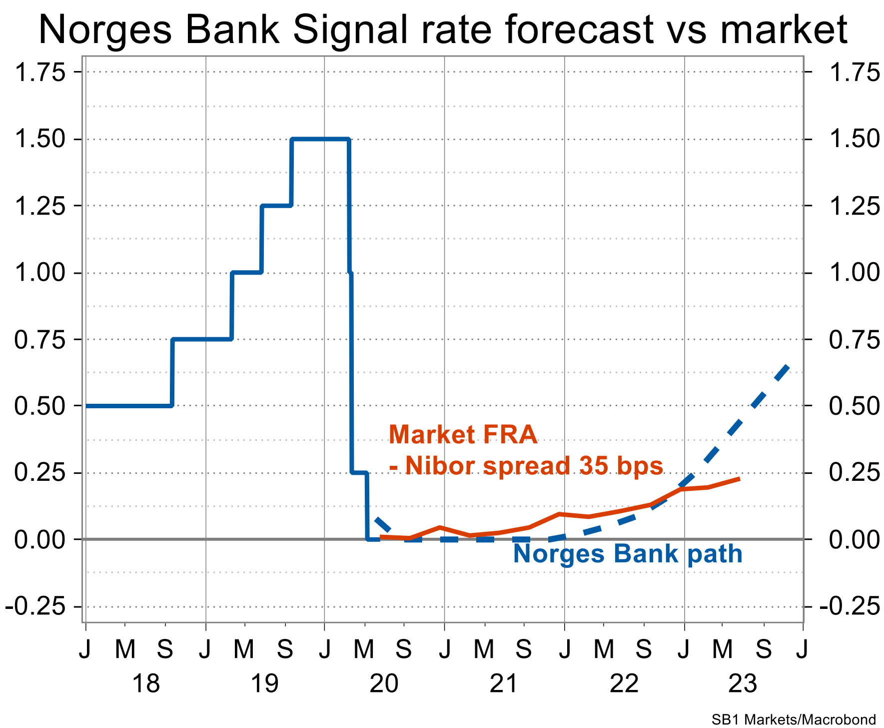
Sweden Apartment prices



- National prices rose 2.1% in May, the highest monthly increase in more than 5 years. The decline in April was revised to 2.2%, from previously reported -0.9%. Prices are just down 0.7% from Feb
- House prices rose 2.8% m/m in May and prices are up 0.9% from Feb
- Flats rose 1.3% m/m in May, and are down 3.5% from February. Stockholm apartment prices are down 5% from February, even after a 0.6% lift in May
- The national nominal price level is marginally above the 2017 peak level, whereas real prices are significantly lower than at that peak. Stockholm apartment prices are down almost 7%, in nominal terms

NoBa revises up growth, house prices, NOK, and the interest rate path

NoBa is now thinking about start hiking in late 2022 – and up to 0.75% by end of 2023



The pre meeting FRA curve

- Norges Bank revised it estimate for the activity level is revised up by approx 2%. The unemployment rate is revised down by 1 pp (2020/21 avg). House prices are revised sharply up, the 2021 level by almost 10%
- Wage inflation is revised up, but is assumed to remain low. CPI inflation in 2020 is revised up but downwards the following years – and is expected to fall below the 2% target
- As a consequence, Norges Bank lifted the interest rate path, as we thought the Bank should do given the positive signals from the economy (including the labour and housing market). However, our base case was not that the Bank would be prepared to announce it now. The first hike is signalled in Q4 2022, and the bank has pencilled two more hikes to 0.75% by the end of 2023. 6 weeks ago, the path was stuck at zero through 2023. And the bank stresses, the uncertainty is of course huge!
- Ahead of the decision, the FRA market priced in an interest hike in Q4 2022 (we have revised our NIBOR NoBa depo spread to 35 from 25).
- *Following the announcement FRA-rates rose up to 9 bps, and by up to another 3 bps at Friday flip to the next page ☺*

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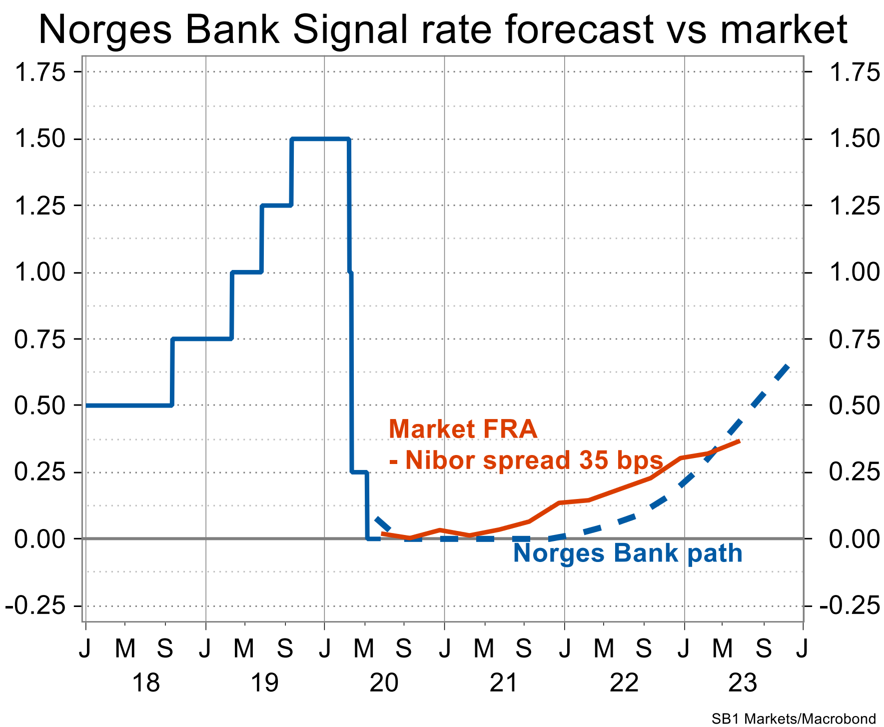
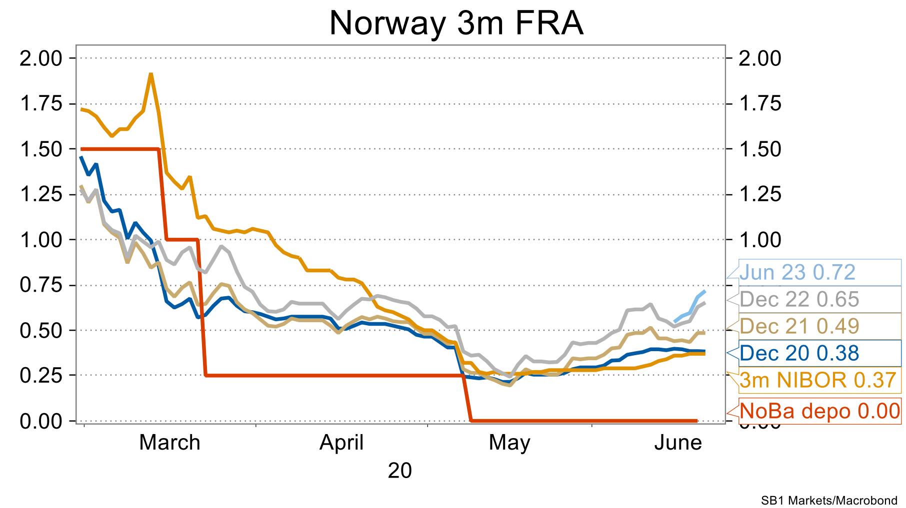
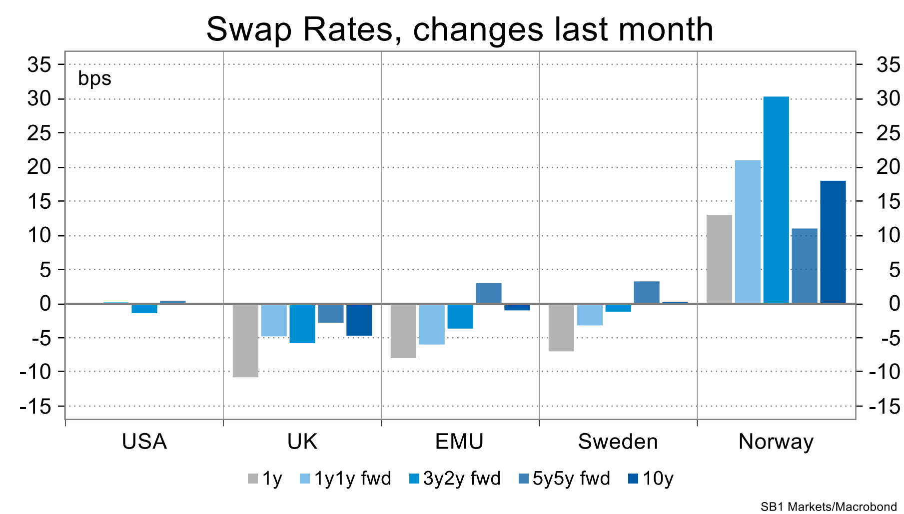
FRAs are up by up to 40 bps since mid May – and NoBa lifted the path by 65 bps

Last month, the Norwegian yield curve have shifted upwards – while curves abroad have not



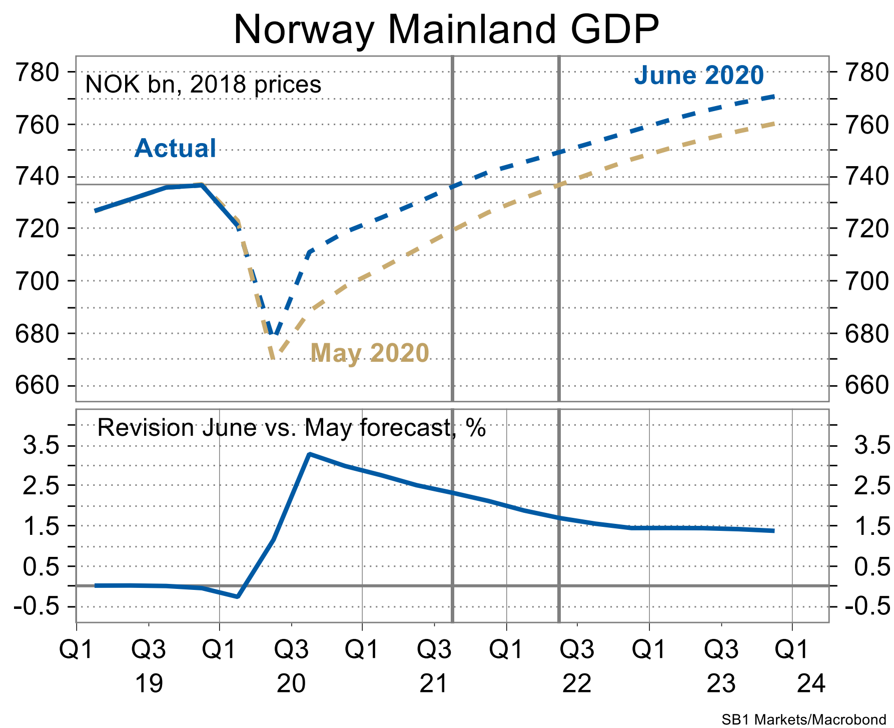
The post meeting FRA curve

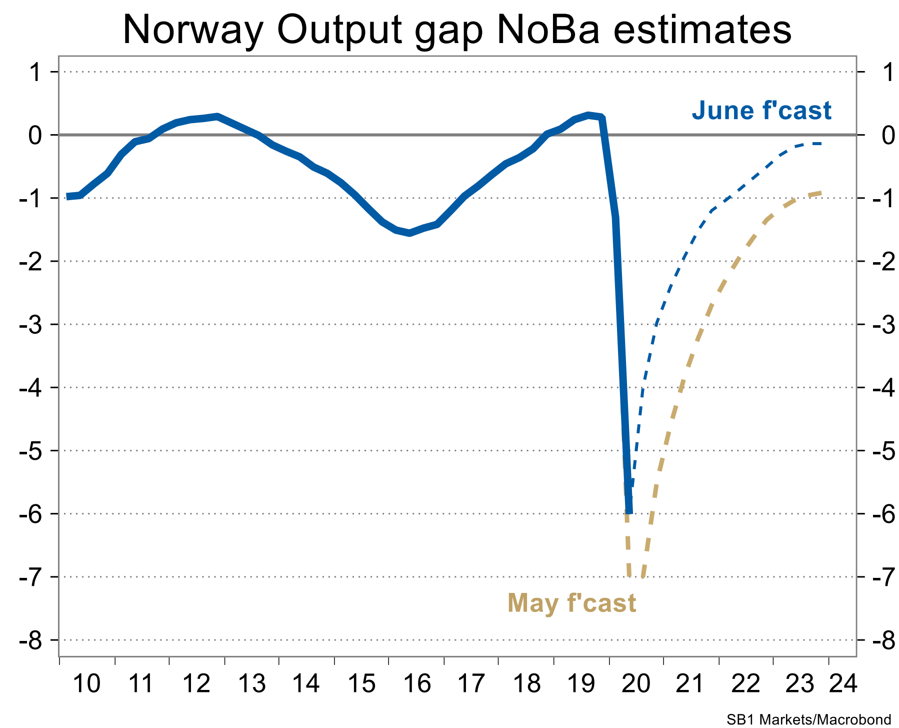




Q3 2020 GDP estimate revised up by 3.4% - and the GDP path by approx 2 pp

The decline in Mainland GDP is revised down to -3.5% from -5.2, 2021 revised up to 3.7% from 3%

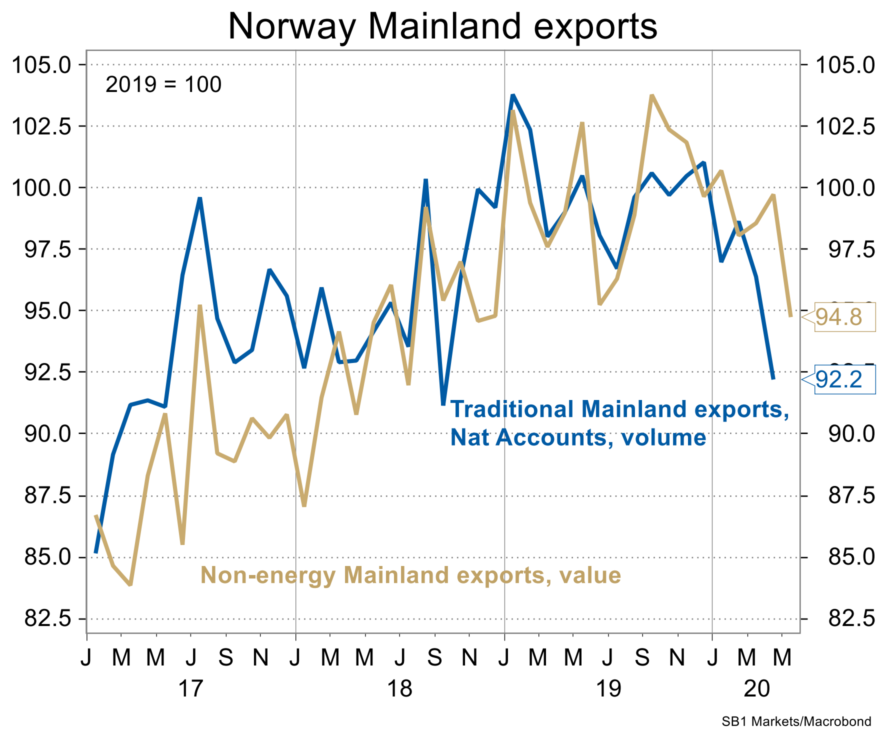


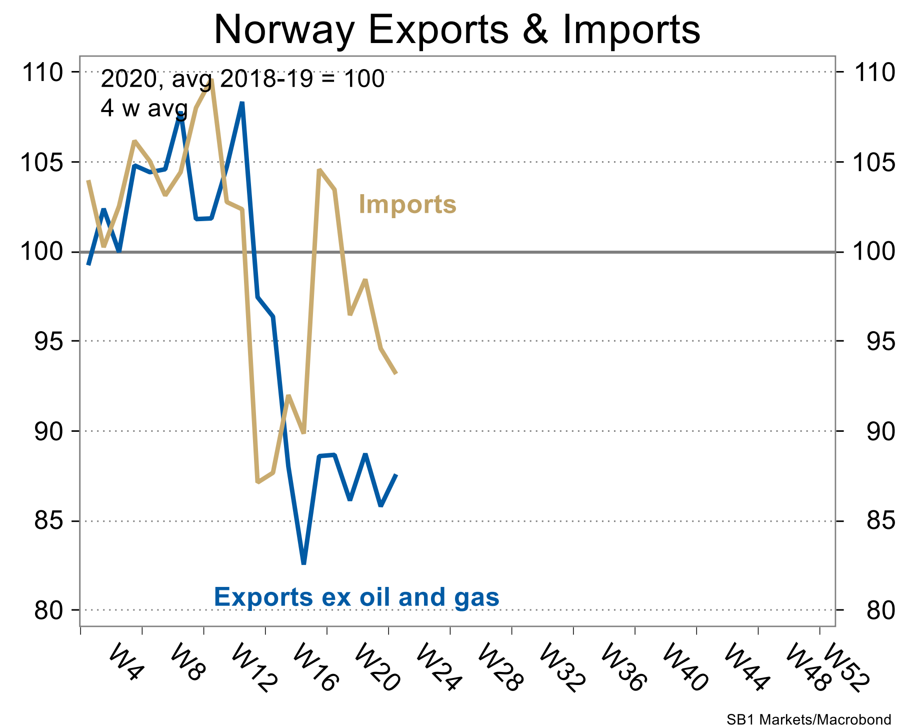


- Private consumption will decline less than assumed in 2020 and still recover even more next year, in sum +3.9%
- Oil investments are expected to decline by 10 pp less than assumed in May, still down 18% from 2019 trough 2022
- Unemployment will decline substantially faster assumed in May, the 2020 average by 1.3 pp to 5%, and 2021 by 0.6 p to 3,2%
- 2020 house prices are revised up to +2.7% from -1.8%, and 2021 to +4% from -5%, in sum a 9.5% change!
- The NOK I44 index is revised up by 4 – 8%!

Monthly National Accounts have reported an 8% decline in Mainl. export volume

... until April. Most likely another decline in May

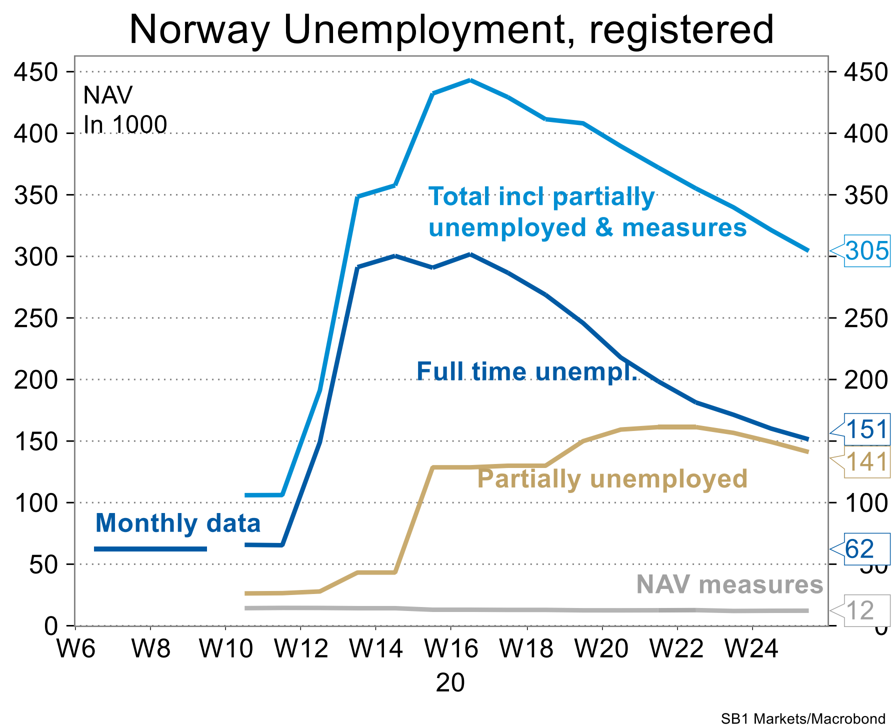


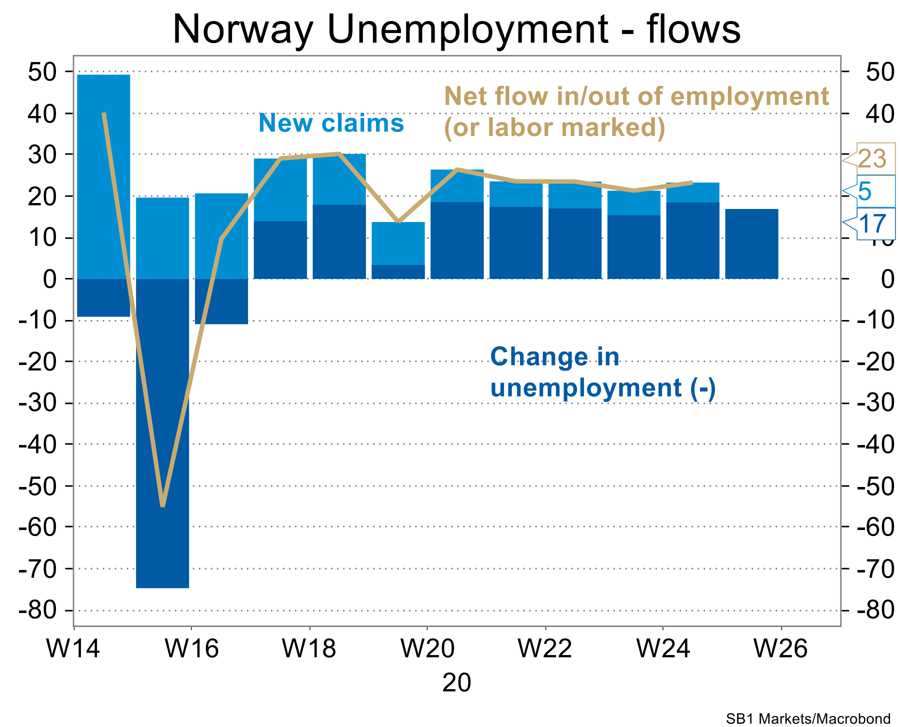


- Weekly Mainland trade statistics report a 12 -13% decline in exports vs. the average of 2018/19 levels (and 2019 was well above 2018 – however energy products are included, both gas an electricity, and data are not directly comparable to 'traditional or non-energy Mainland exports)

Total unemployment down another 17’ last week, -0.6 pp to 10.8%

Full time unemployment down to 5.4%





- Unemployment has fallen by 138’ to 305’ since mid April, or by 4.9% of the labour force
- The inflow of new jobless claims has slowed to 5’ per week. That’s still higher than normal but all the extras are temporary laid off persons
- Temporary laid offs equal 60% of total unemployment, and all of the decline in unemployment is due to fewer temps, not a decline in ordinary unemployment

The Calendar

In focus: PMIs, US orders. Norwegian retail sales

Time	Country	Indicator	Period	Forecast	Prior
Monday June 22					
08:00	NO	Housing starts	May		
12:00	UK	CBI Trends Total Orders	Jun	-50	-62
14:30	US	Chicago Fed Nat Activity Index	May		-16.74
16:00	EC	Consumer Confidence	Jun A	-15	-18.8
16:00	US	Existing Home Sales	May	4.09m	4.33m
Tuesday June 23					
02:30	JN	Manufacturing PMI	Jun P		38.4
09:15	FR	Manufacturing PMI	Jun P	46	40.6
09:15	FR	Composite PMI	Jun P	47	32.1
09:30	GE	Manufacturing PMI	Jun P	42.3	36.6
09:30	GE	Composite PMI	Jun P	44.3	32.3
10:00	EC	Manufacturing PMI	Jun P	44.8	39.4
10:00	EC	Composite PMI	Jun P	42	31.9
10:30	UK	Manufacturing PMI	Jun P	45	40.7
10:00	NO	Unemployment, total, NAV	week	(288k)	305k
15:45	US	Manufacturing PMI	Jun P	50.8	39.8
15:45	US	Services PMI	Jun P	48	37.5
16:00	US	New Home Sales	May	635k	623k
Wednesday June 24					
08:00	NO	Unemployment Rate AKU	Apr	3.8'(3.8)	3.60%
09:00	SW	Consumer Confidence	Jun		77.3
09:00	SW	Manufacturing Confidence s.a.	Jun		76.8
10:00	GE	IFO Expectations	Jun	86.6	80.1
Thursday June 25					
14:30	US	Durable Goods Orders	May P	10.9%	-17.7%
14:30	US	Cap Goods Orders Nondef Ex Air	May P	1.50%	-6.10%
14:30	US	GDP QoQ, revision	1Q T	-5.00%	-5.00%
14:30	US	Initial Jobless Claims	week	1.350k	1.508k
Friday June 26					
08:00	NO	Retail Sales W/Auto Fuel MoM	May	-0.5 (2)	4.80%
09:30	SW	Retail Sales MoM	May	0	0.20%
14:30	US	Personal Income	May	6.0%	10.5%
14:30	US	Personal Spending	May	8.8%	-13.6%
14:30	US	PCE Core Deflator MoM	May	0.0%	-0.4%

- **PMI**
  - » The PMIs recovered in May but far less than they ‘should’ have. They remained far below the 50 line while we are confident that most places production, both in manuf. & services rose to May from April. If activity increases, these diffusion indices should have been above the 50 line, at least of changes in activity is not too unevenly distributed between the companies. However, the PMI/ISMs have usually not been able to detect the first lift in activity after at recession/downturns, we guess because respondents do not just evaluate the last month vs. the previous but rather the actual change ‘recent months’. BTW these in surveys respondents are not asked about their sentiment or expectations but just, did actual activity (orders, production, employment etc) increase or decrease last month. Most PMI should increase to above 50 in June. If they don’t, they are just ‘wrong’ ☺. Both NY and Phil Fed surveys surprised at the upside in June, signalling PMI/ISM well above 50!
- **US**
  - » **Total durable orders** fell sharply in April and are expected up in May. If just Boeing stop reporting negative orders (cancellations), a huge lift! We are not that sure about ‘core’ capital orders. **Private consumption** should increase substantially in May, as signalled by retail & auto sales. Service consumption is still lagging. **Personal income** will fall sharply, less checks from D. Trump in May – and the savings rate will collapse, from a record 30%+ figure in April
- **EMU**
  - » The German Ifo and other national business EMU surveys should recover substantially in June. Consumer confidence is expected further up in June – but to remain well below avg
- **Norway**
  - » **Retail sales** surprised on the upside in April, as households transferred foreign spending and spending on services to (some) retail sectors. Given strong card transactions data we expect a further increase in June (however, take care, these transaction data are not seasonally adjusted, and do not include credit card/foreigners’ consumption. **The LFS (AKU) survey** has not yet almost seen no corona impact barring a steep decline in hour worked. Some broader weaknesses to be expected in the March-May (April) survey

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

Our main views

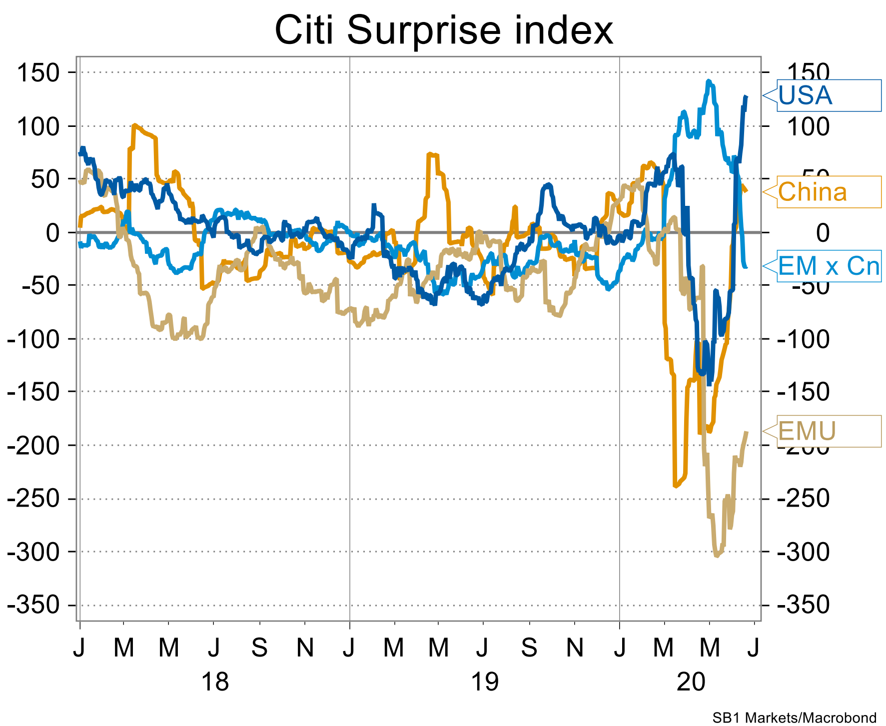
	Main scenario	Recent key data points
Global growth cycle	Before Covid-19 hit, the growth had slowed as the cycle had matured in many ways. The setback in Q1/Q2 due to lockdowns and other measures against the virus is unprecedented modern history. The recovery started in China in March and in May in developed markets but the activity level in still well below par. We expect a further 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 optimistic case is a 3% decline in global GDP y/y in 2020 (from +2.8% before corona), our baseline case is -4%**	Global auto sales rose in May but sales x China remains far below normal
China	The Covid-19 'killed' the economy in Q1 but the economy is gradually returning to a normal level. Domestic demand is still well below par – 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	The recovery continues, May data OK, even it they were below expectations. Inflation is slowing rapidly
USA	The US cycle was mature, before Covid-19 hit. During the lockdowns, activity has collapsed, and GDP will decline by at least 11% 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. **However, April was the trough, and all May data confirmed that the recovery has started. Risks, except for corona impacts: Policy uncertainty/trade/business investments &debt, not household demand or debt. And an unstable political leadership?**	Retail sales recovered in May. Housing starts & manuf. Production rose too, but less than expected and remains 30 & 17% below par. The first June manuf. surveys confirm that the recovery is underway
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 substantial negative output gap to remain in 2021, there as elsewhere**	
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 too. Housing investments are exposed even if the interest rate cuts have ignited the animal spirit again, as usual, and fiscal policy is very expansionary. 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 4% GDP decline in 2020, and a similar recovery next year, implying a substantial neg. output gap**	Norges Bank lifted its forecasts and the interest rate path – and signals 3 hikes before end of 2023 (from none). Unemployment is still declining rapidly, will end up below 10% end of June. Exports are not impressive, and weak measured in f/x

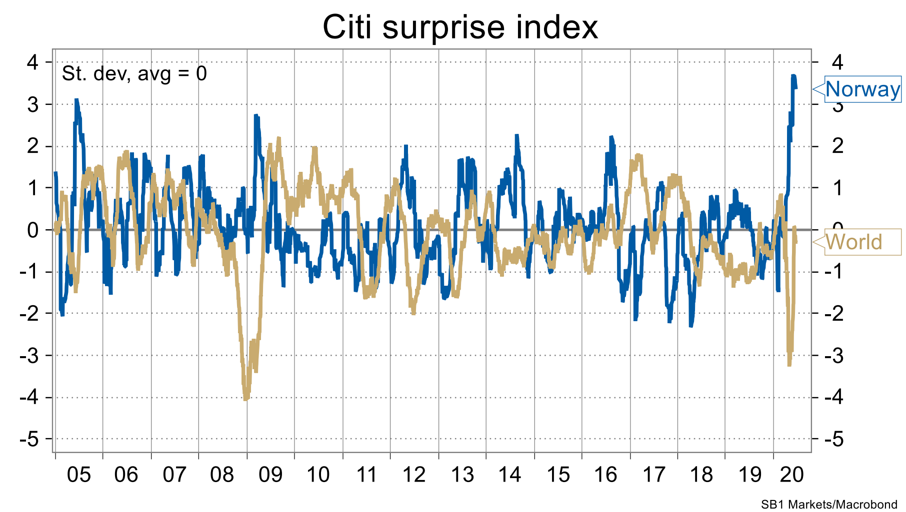
Colour codes: Green=more to go. Yellow=the cycle is maturing, close to peak. Orange=at peak, downside risk. Red=Recession level

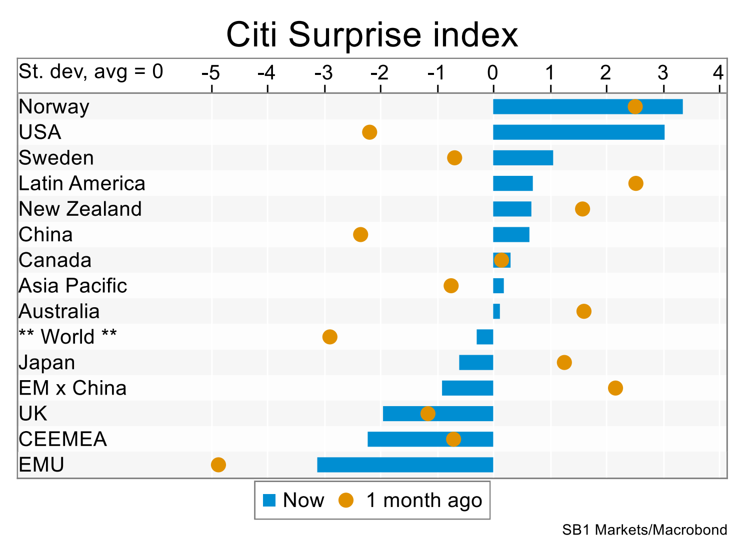
SpareBank 1 MARKETS

Now, the surprises are the upside! At least outside Europe

News from US (and Norway) are the best ever (must be vs. downbeat expectations)





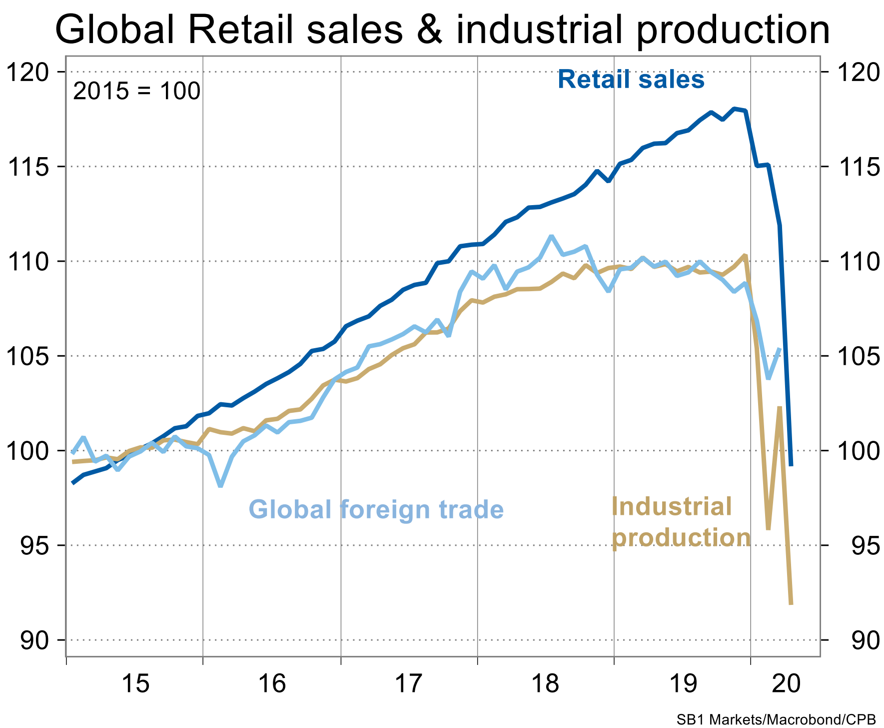


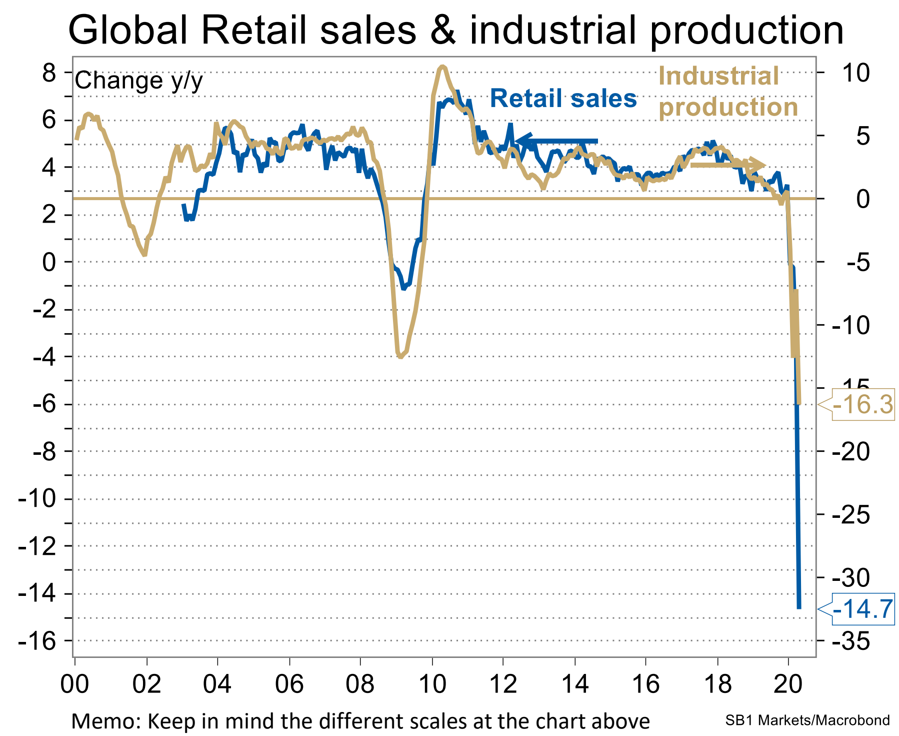
- The global surprise index is close to an average level
- US is surprising more on the upside than ever before (data from 2003)
- Norwegian data have not surprised more at the upside, ever
- EMU is surprising most on the downside, as in EM ex China

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

Both are down some 15% y/y – a good proxy of the decline in economic activity

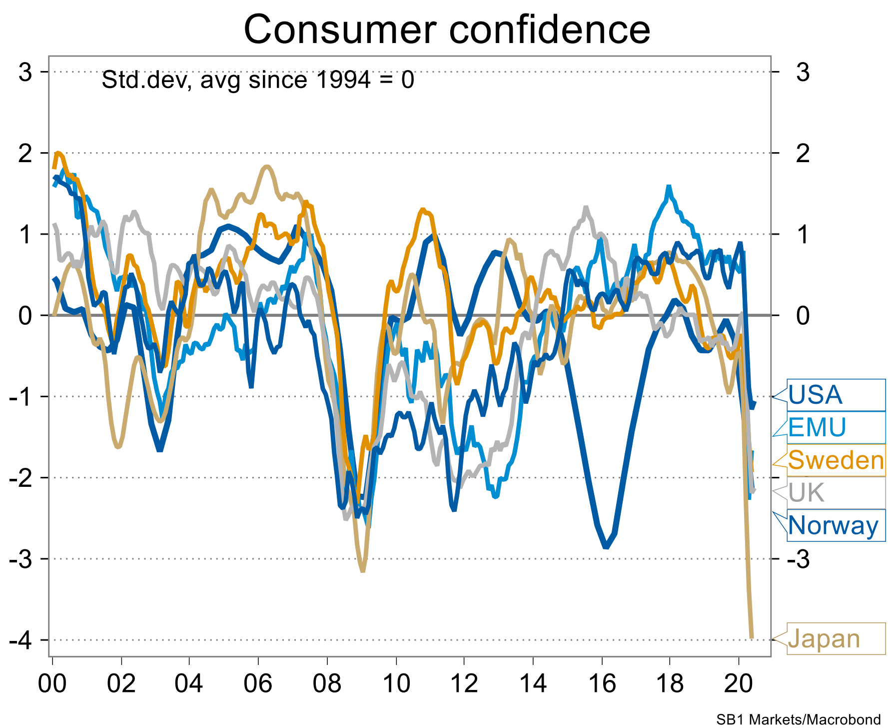


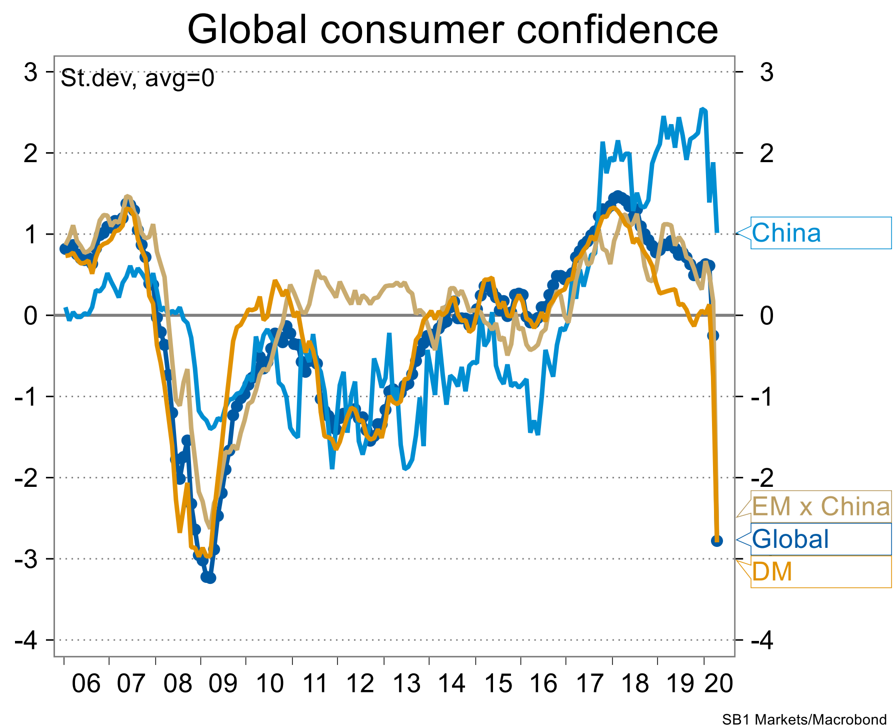


- **Global industrial production** probably fell some 8 - 9% in April, like retail sales. India reported an extreme decline in production last week, lowering our global estimate significantly. China is contributing at the upside, but that's all on that side. We expect production to increase but not by that much, in May – but more in June
- **Global retail trade** probably fell 11% in April. Both are down some 15% y/y
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come…

Consumer confidence sharply down everywhere

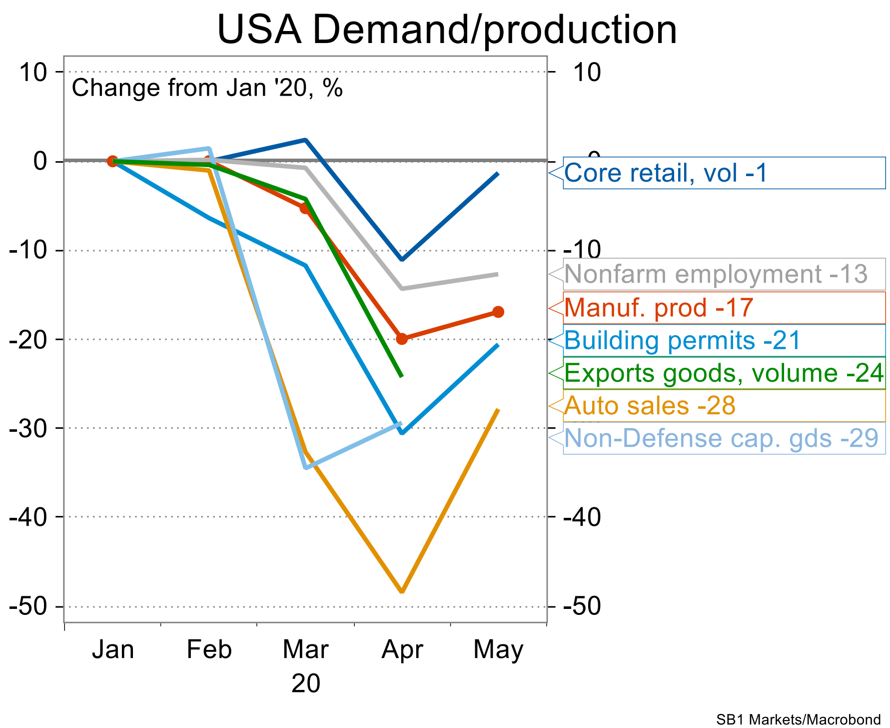
Still data are not disastrous and in average not worse than during the financial crisis





Core retail sales almost back on track, housing & auto still well below, in May

Exports & capital goods orders sharply down too. Manuf. Prod, employment in the middle



Some different shapes and forms of 'V's

- The bottom was in April
- All main indicators published so far rose in May
- Core retail sales reported the sharpest recovery

Other demand

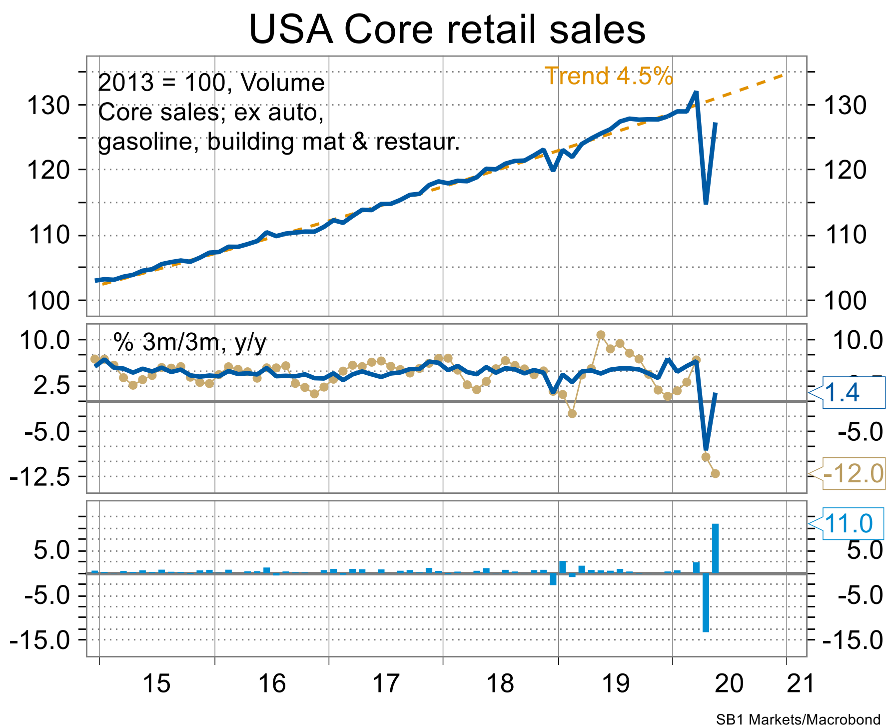
- Non-defence capital orders (including airlines) hgar down 29% (to April)
- Export volumes were down 24% (to April)
- Local government demand is declining due to budget constraints (employment fell in May)

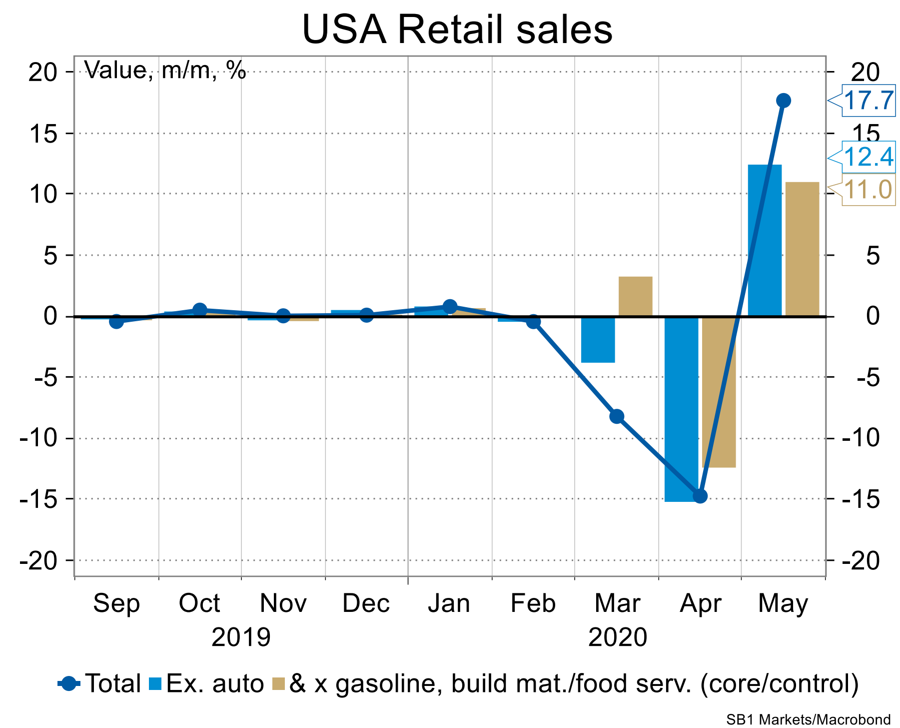
Demand vs production

- Manufacturing production and employment rose We put more emphasis on the demand side than production
  - » If demand recovers, production will follow – after inventories are emptied

Retail sales up 17.7% in May, still down 8% from Jan – but core sales far stronger

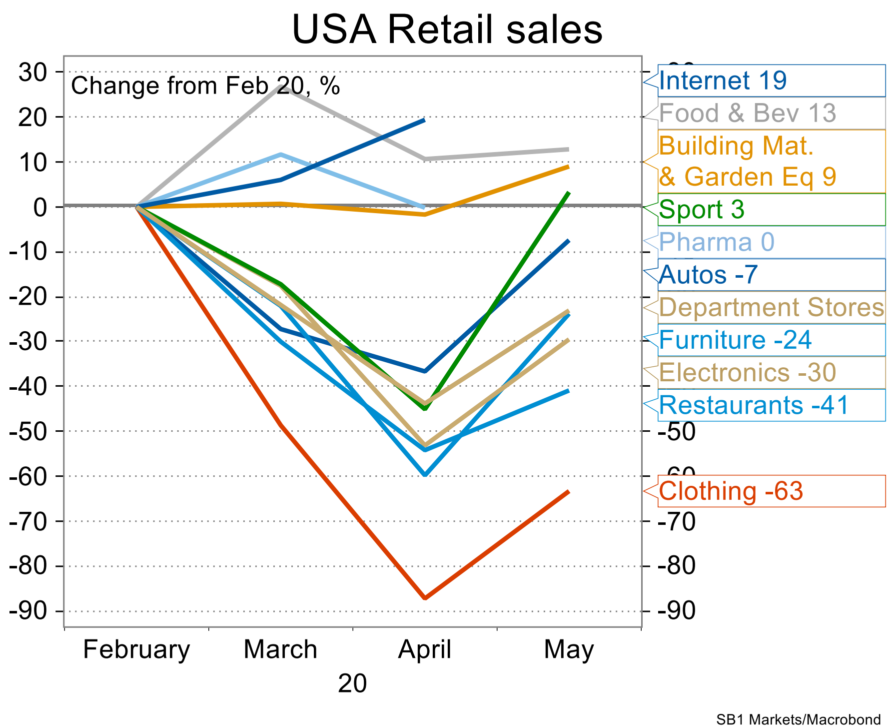
Core sales of goods just 3% below pre corona trend. But restaurants down 40% y/y, clothing 63%





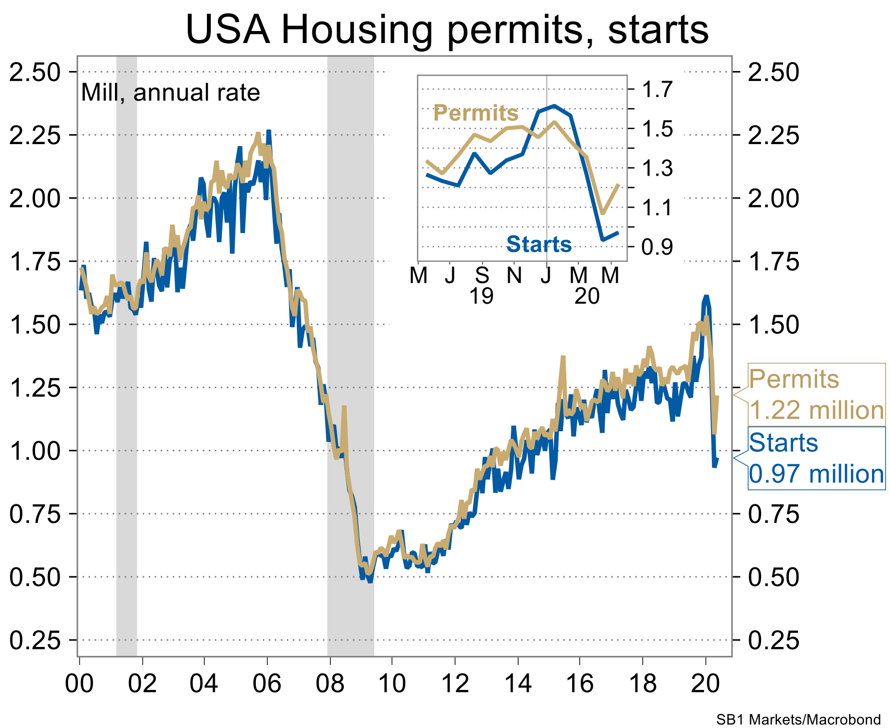
- Sales rose much more than expected, and the decline in April was not as harsh as previously reported
- There are still incredible differences between different sectors, check next page!

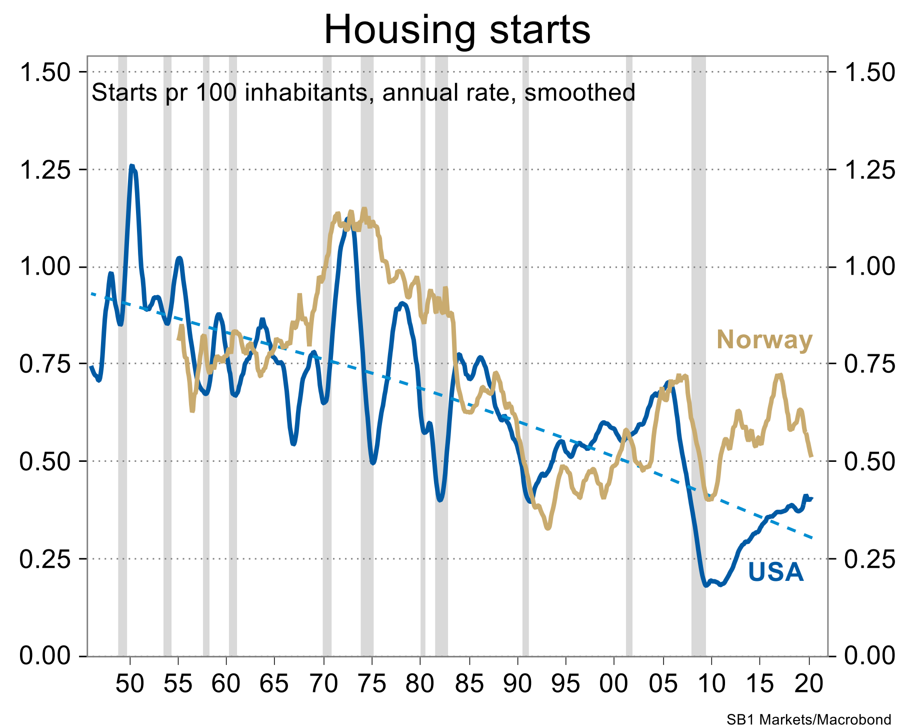
Still unprecedented deviations between retail sectors but all up in May



Housing starts up but less than expected in May. Permits stronger

Excuse: Lockdowns not fully unlocked. Starts up 974’ from 934’ expected up to 1.100 (from 891)

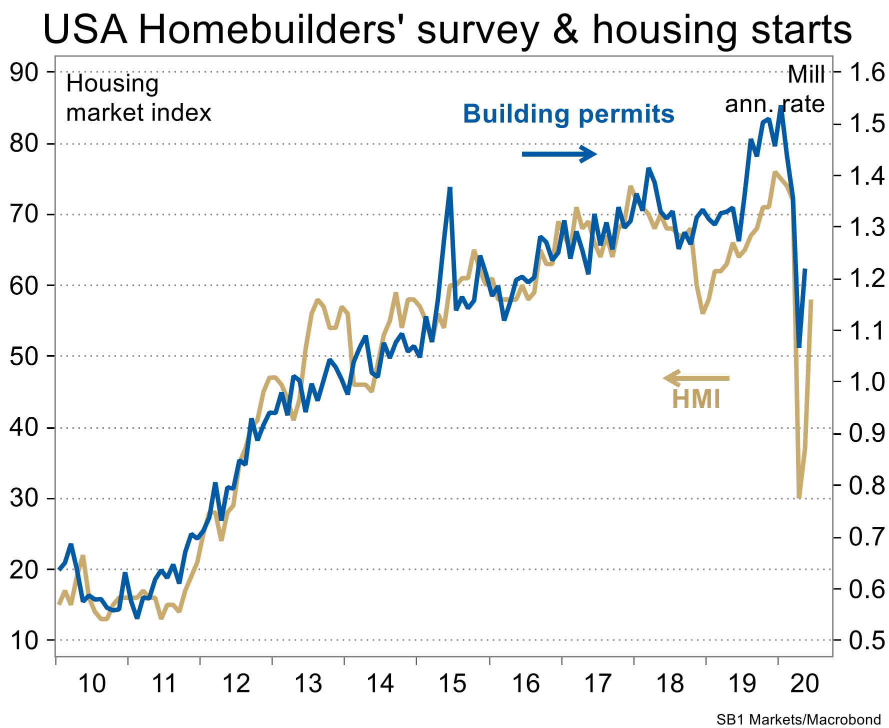


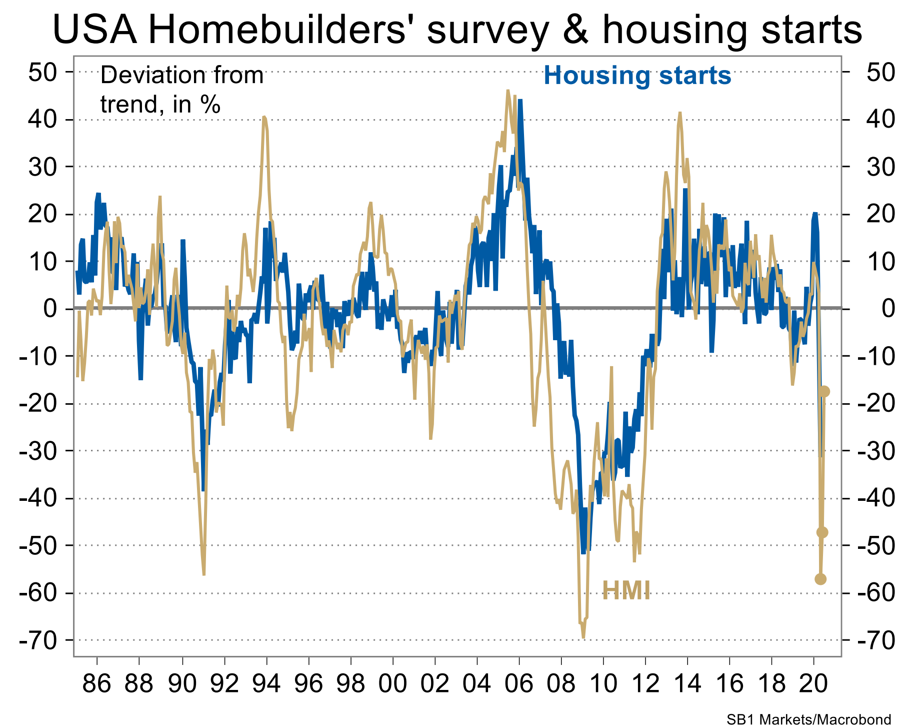


- Housing starts are down 47% from the pre corona level – but that level was ‘too high’. A 30% decline vs. the pre corona trend is a more appropriate description
- Building permits rose 14% to 1.22 mill (expected 1.260), a more reliable figure than the more volatile starts. Permits are down 18% from the January local peak but are just some 13% vs a reasonable trend, pre corona
- Data are still difficult to interpret, due to the short term impact of the lockdowns
- Homebuilders index rose in June but not signal any brisk recovery (a level 20% the pre corona trend, check next page)

Homebuilders index up in June but still signals housing starts below par

The HMI rose sharply in June, to 58 from 37, expected up to 43-45. Still not a bull signal



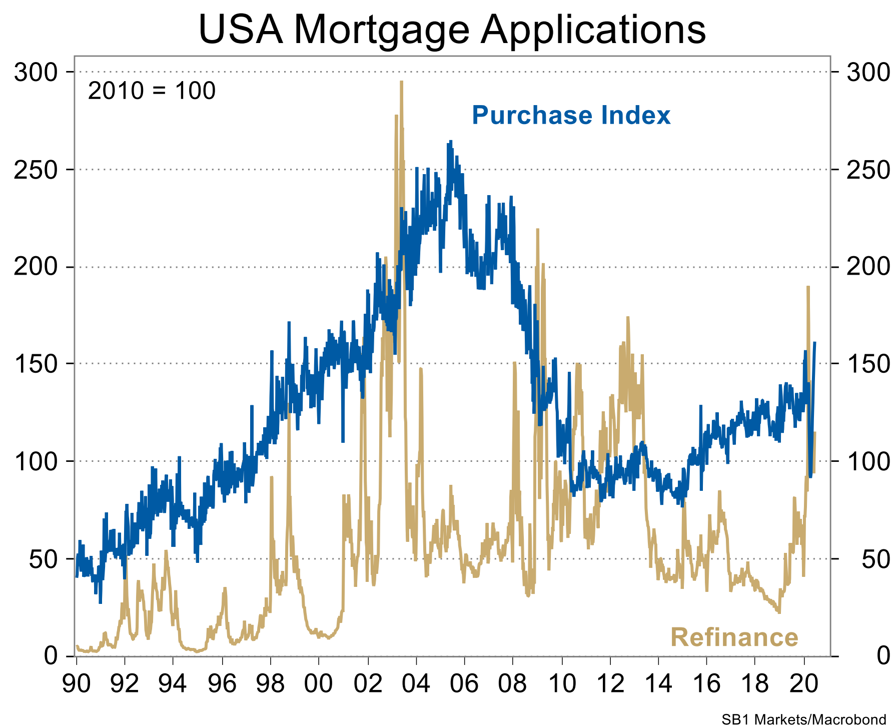


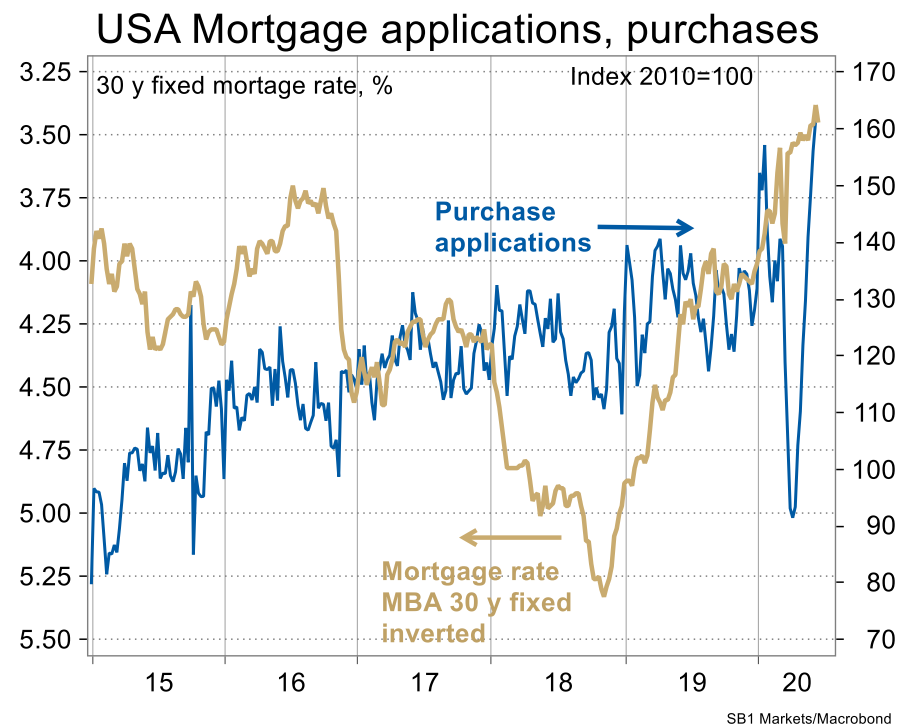
- The HMI is not a PMI, of course ☺, and it correlates better to the housing start level than to growth in the sector.
- At the current level, the Housing Market Index

HMI is a based on a sentiment survey of US homebuilders, in which the respondents rate housing market conditions at the present time and the next six months. The index ranges from 0 to 100. The index is closer correlated to the activity level, than to the growth rate, and does not have a 50 growth/decline waterline.

Mortgage applications take off – with record low mortgage rates

Applications fell sharply during the first phase of the corona crisis, then a sharp 'V' recovery

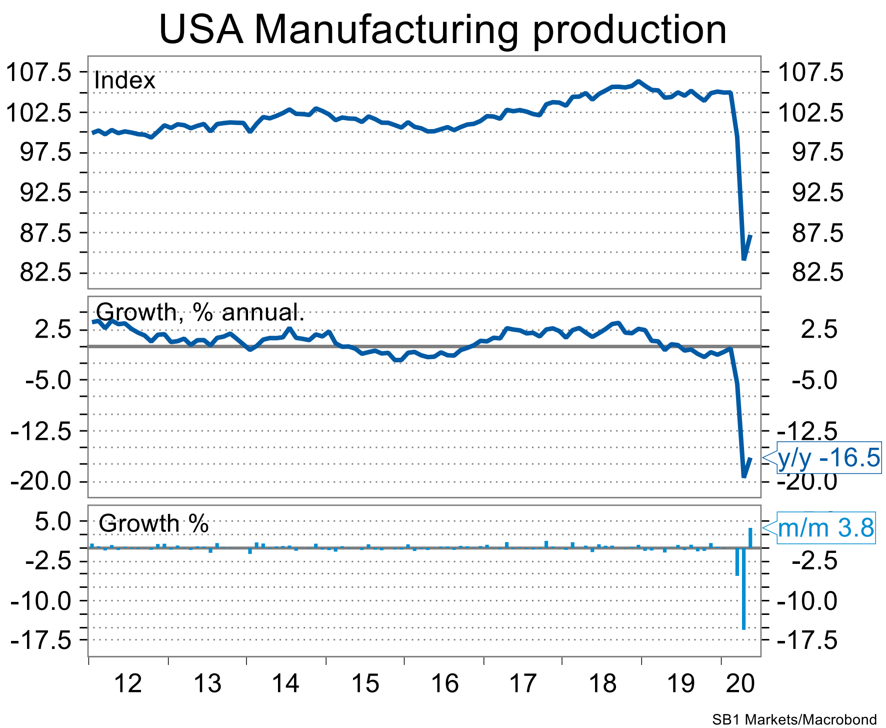


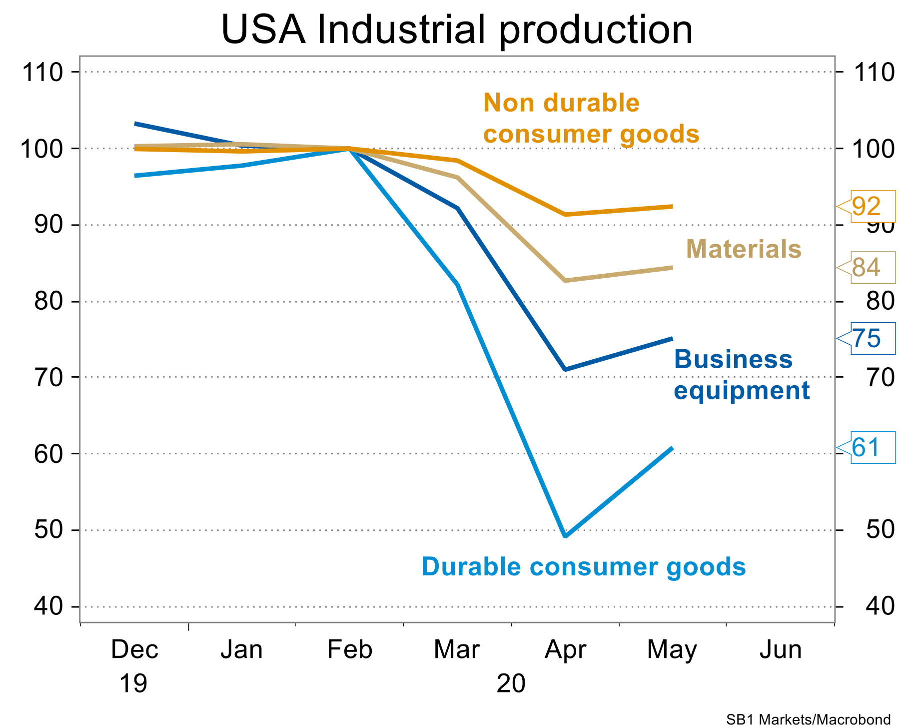


- No doubt, low mortgage rates (30 y fixed rate below 3.5%...) stimulates demand
- Disclaimer: Demand for new mortgages has not been a reliable leading indicator for the housing market. Still, the spike in demand for new mortgages cannot be a sign of weakness

Manufacturing production up 3.8% in May, still down 17% from February

It is probably the first part of the right side of a ‘V’, but is wasn’t that impressive, expected +5.9%

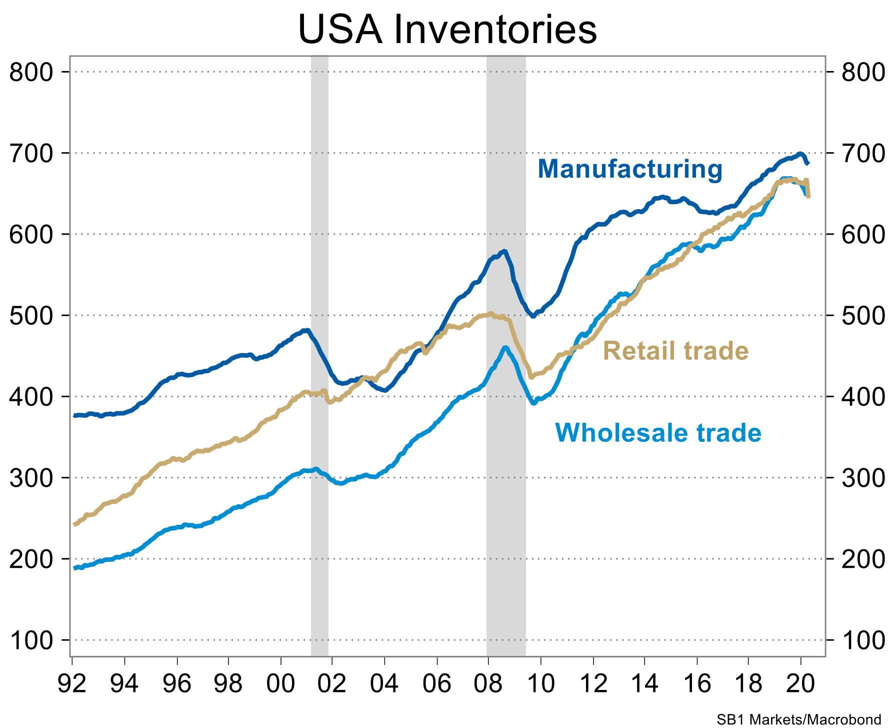


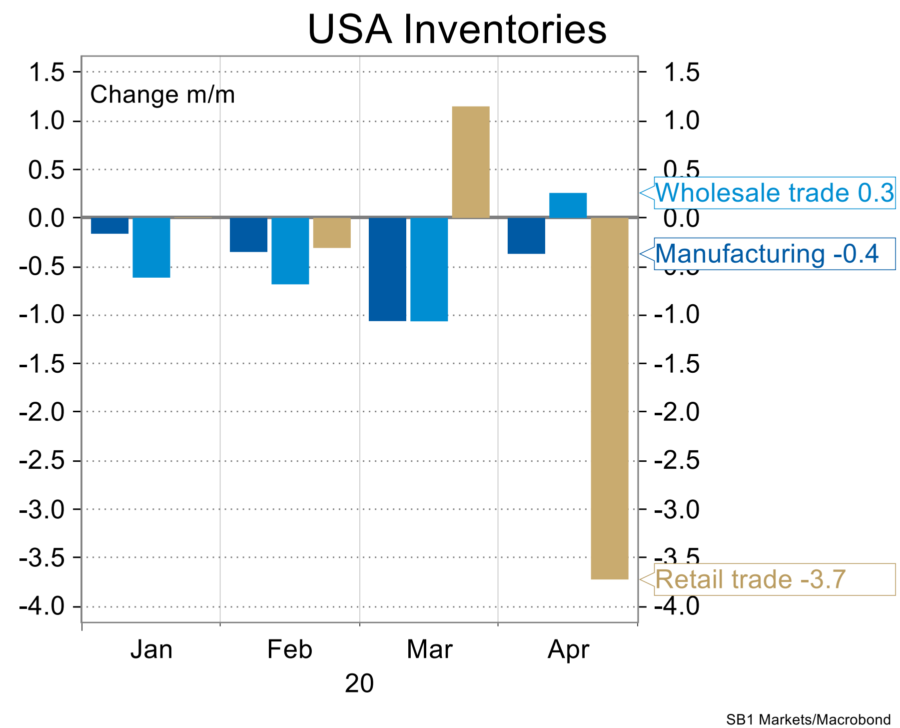


- Total industrial production (including energy) grew 1.4%, expected 3% - and decline in April was revised 1.3 pp down to -12.5%
- All ‘main’ manufacturing sectors contributed to the increase in production in May – durable consumer goods up 38% (including auto production which rose 1,480.8% (!!)- though following a 98.5% decline in March/April. Auto production is still down 75% y/y. However, as auto sales recovered sharply in May – and were ‘just’ 30% below a normal level – and sales very likely will climb further in June, the inventory must be sharply reduced – and production will have to ramped up sharply in June as well. But another 1,500% is very unlikely ☺. In general production is now too low vs. demand
- Non durable consumer goods (food, clothing etc) is down ‘just’ 8% from February, as food production has more or less been kept up (though with some problems in meat processing)
- Business equipment production is down 25% from February, signalling a sharp reduction in business investments in Q2

No inventory buildup even in April – and in May demand rose sharply

… which is good news – as demand recovers, production must up too

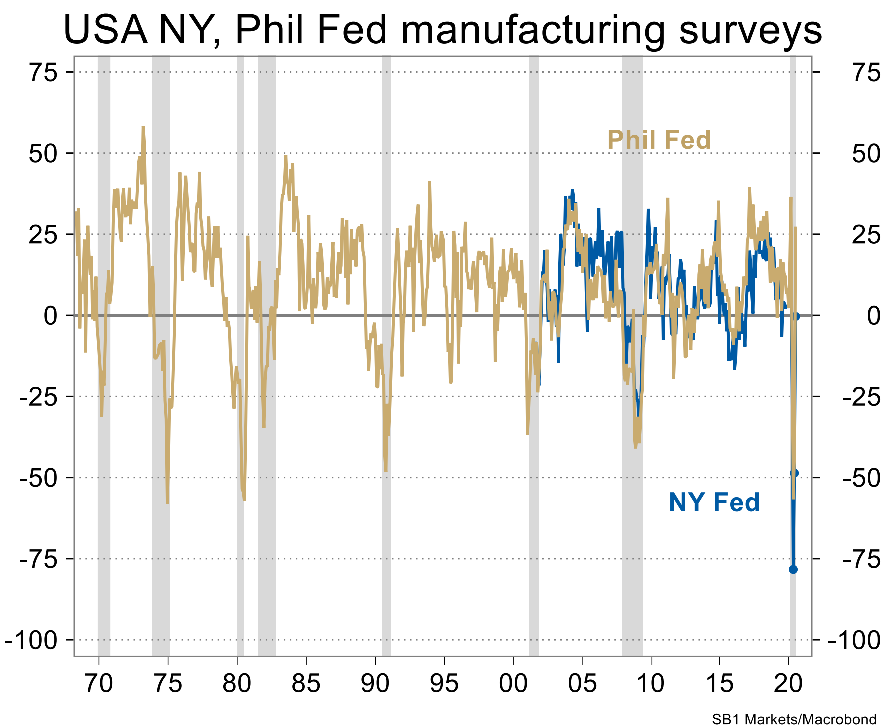


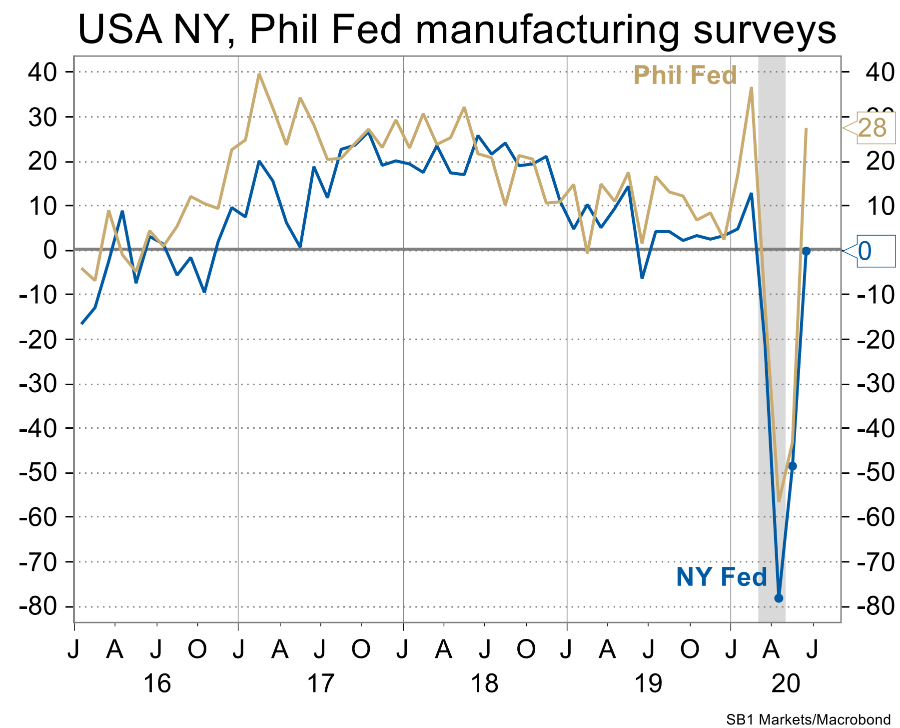


- In April, retail trade inventories fell sharply, even if sales were extreme low – deliveries to the shops were even lower

NY & Philadelphia Fed manufacturing indices to zero/+28, the recover has started

.. Both much better than expected (-30 % & -25!!). However, they should have been there in May…

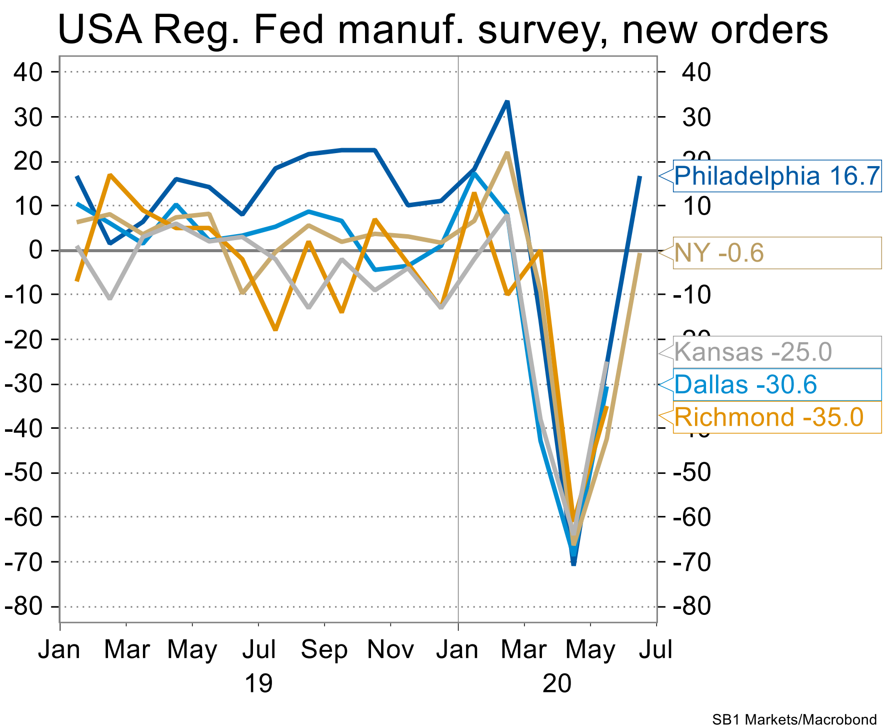


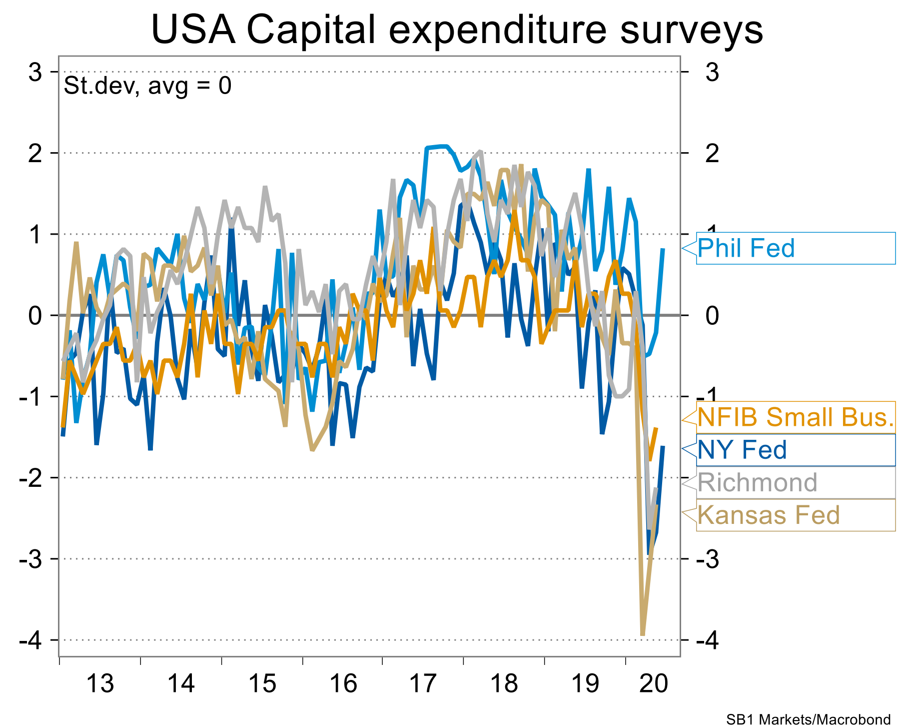


- In April, both indices were at the lowest level ever. They rose in May, and further in June (and extremely better than expected) – <u>and they are now signalling growth in production</u>.
- However, actual production rose in May (at least total US manufacturing production), and these diffusion indices should have been in a positive territory in May – and is should be no surprise that companies reported growth in June. We don't quite understand the consensus forecasts – even if companies are usually smoothing their answers
- **Still, surveys in positive territory is surely good news – the recovery has started!**

Orders recovering, partly also investment (plans)

NY & Phil Fed surveys report stabilising/increasing orders. NY investment plans still low



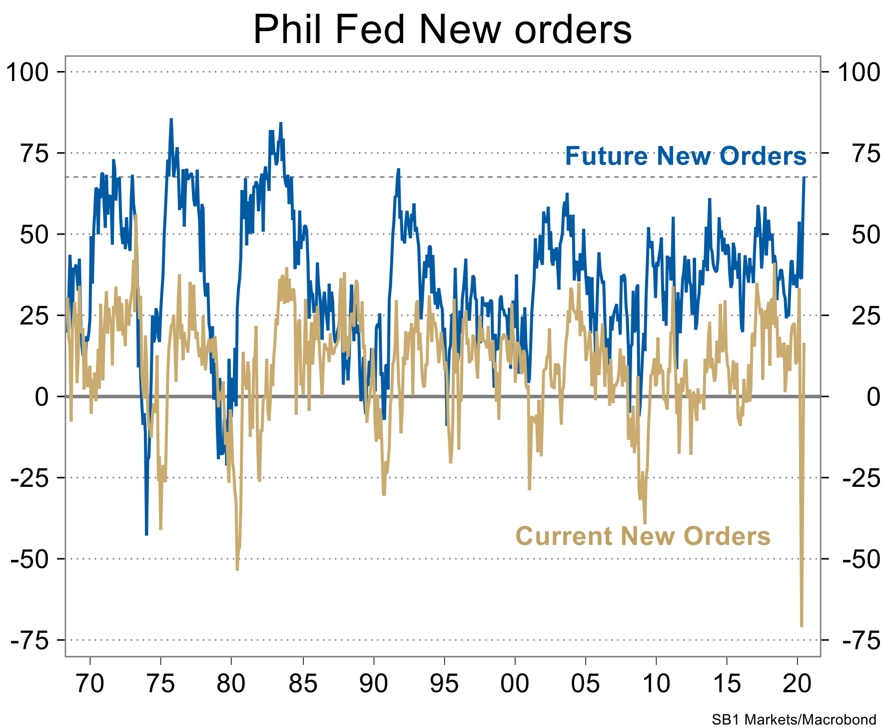


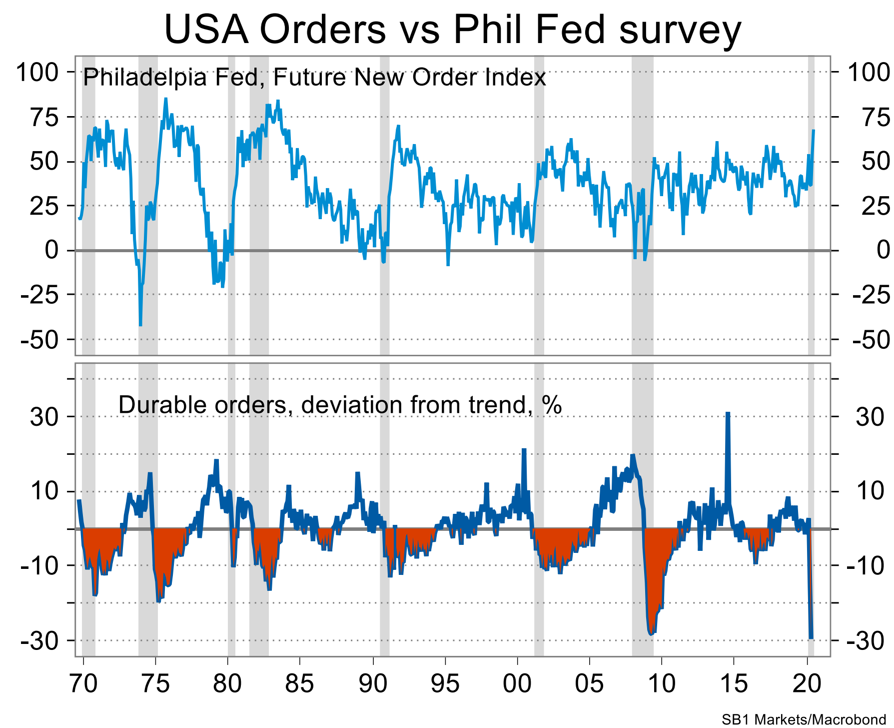
- … and Phil Fed investments plans were lifted into positive territory – but they have been ‘too high’ for a while

SpareBank 1 MARKETS

Expectations are rocket strong – from a record low bottom…

What does it mean that most companies expect higher orders, when the current level is record low?

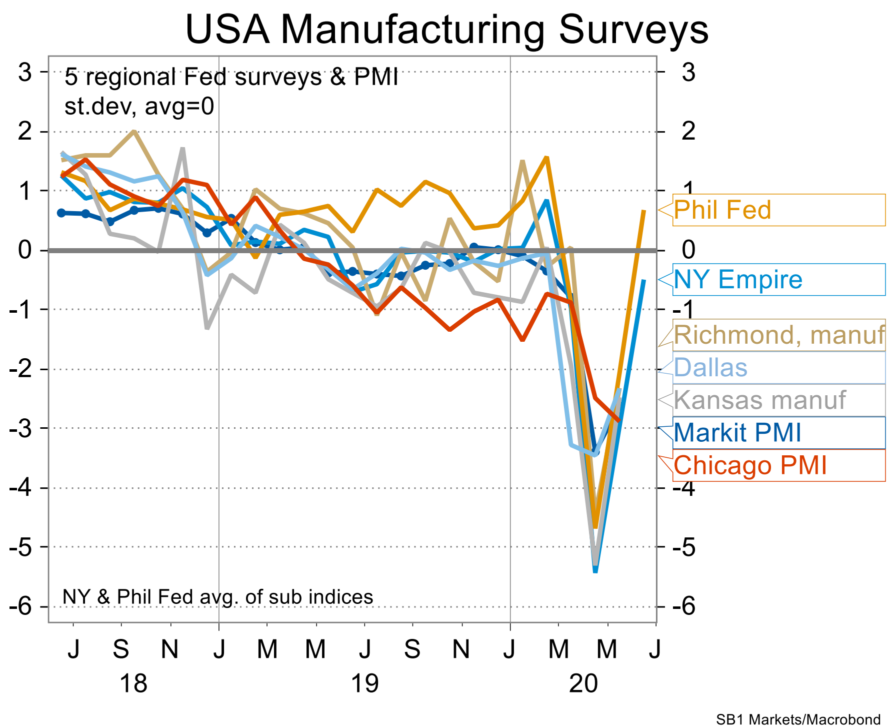


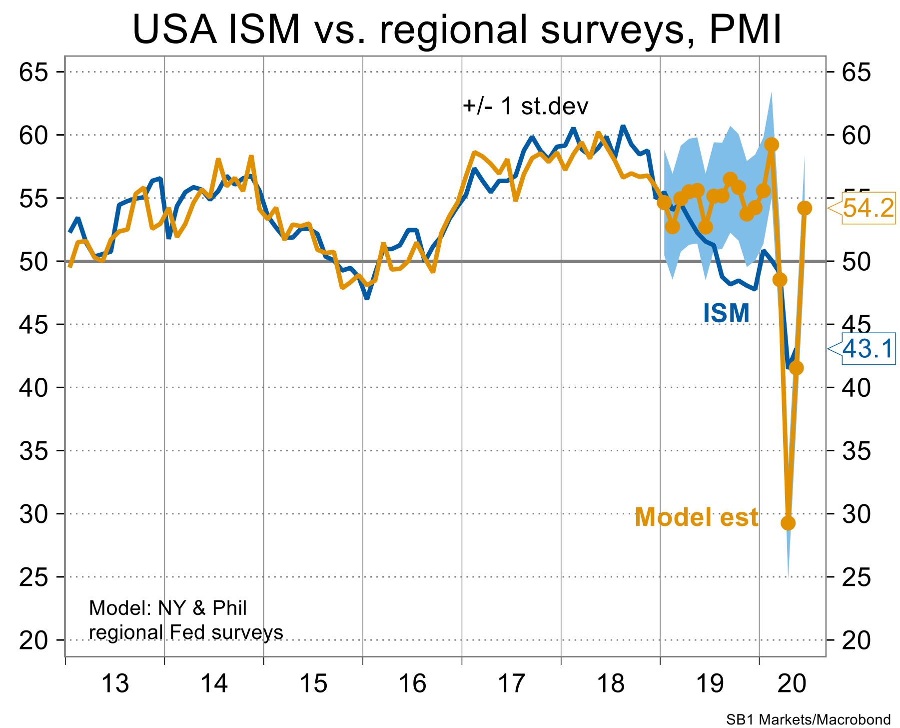


- The future order (and activity level) expectations rose further in June, to the highest level in 20 years!
- The challenge: What order level are the companies expecting in 6 months time?? No doubt, far above the present level but not necessarily a high level – but not necessarily a high level? Check the recoveries above – it has always taken years to come back to a normal level, after expectations shot up! However, this recovery may of course turn out to be different, just as the downturn was *(at the chart, all periods below trend are painted red)*

Manufacturing ISM up to above 50 in June? Should have been there in May

The two early Fed manufacturing surveys signals an ISM well above 50

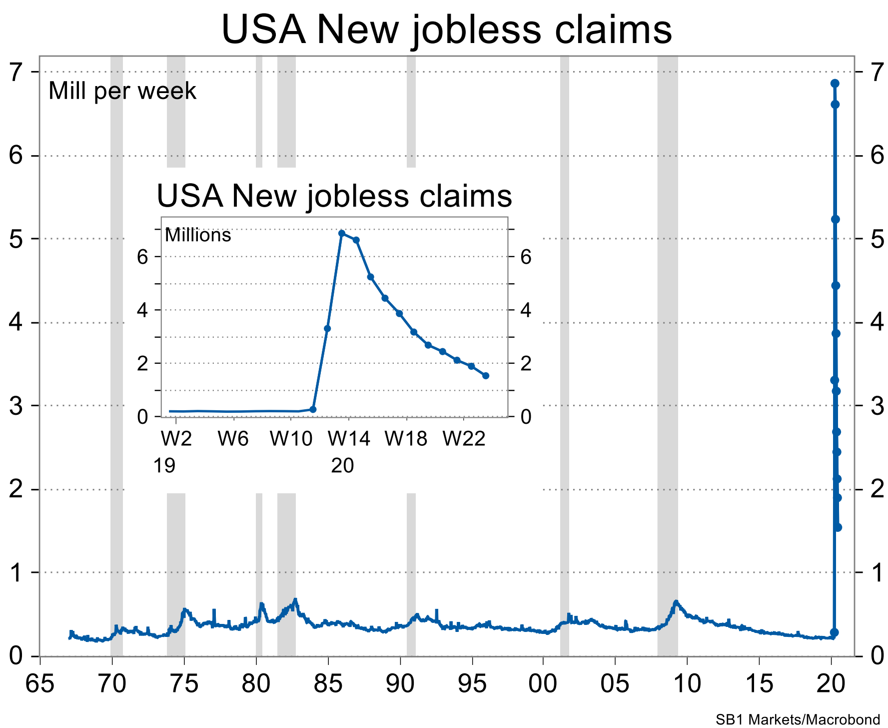


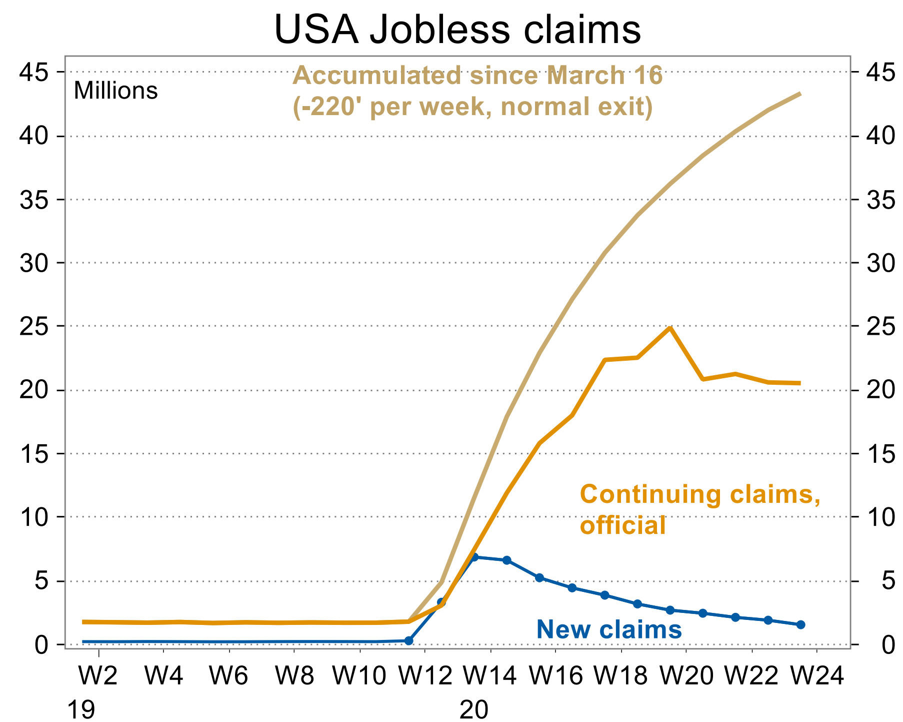


* Production rose in May, even if

'Just' 1.5 mill new unemployed last week, the sum up 46 mill past 11 weeks

But many of the temporary laid off has returned to their jobs, continued claims at 'just' 20 mill

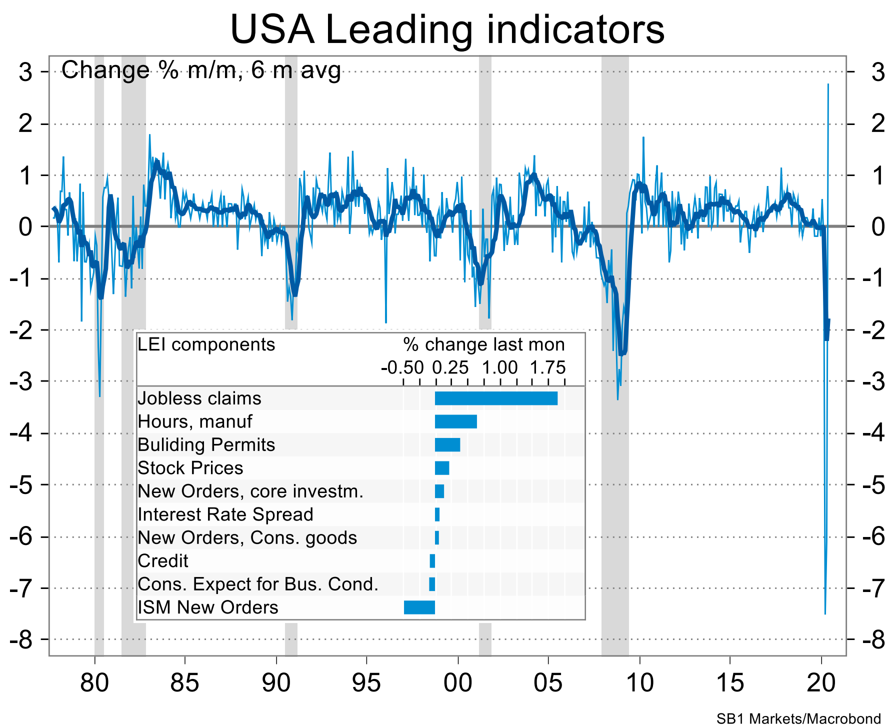


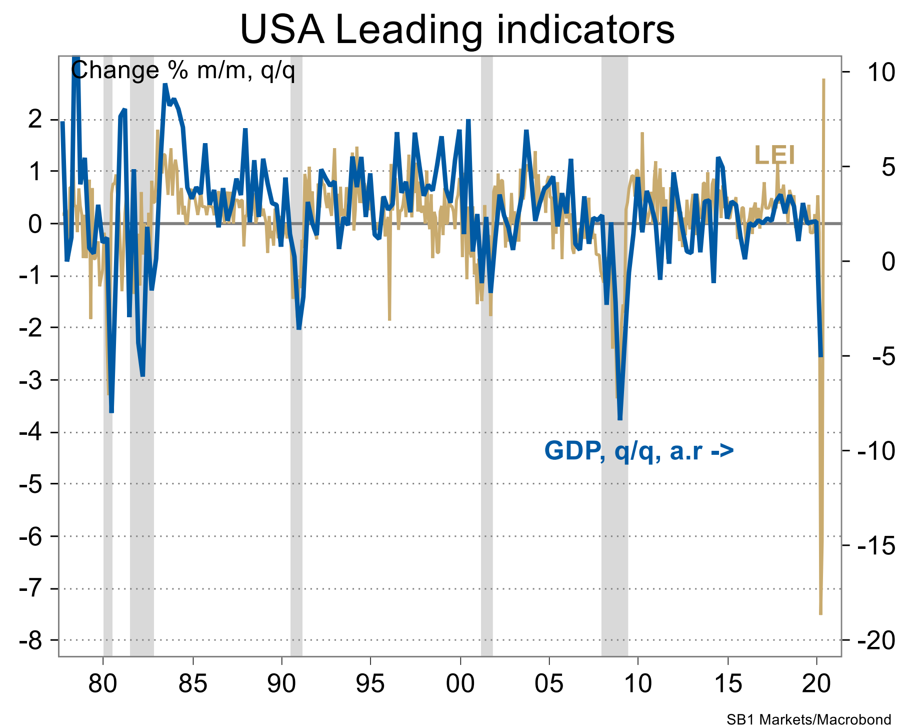


- The inflow is abating, but still almost 1 % of the labour force is entering the labour market offices <u>each week</u>!
- <u>Continued</u> claims fell marginally to 21 (12.7%) the previous week – and the number has been heading down recent weeks – just as the official unemployment number in the May report headed down

Leading indicators the best ever in May. From the worst ever in March & April

ISM new orders on the downside, other components not

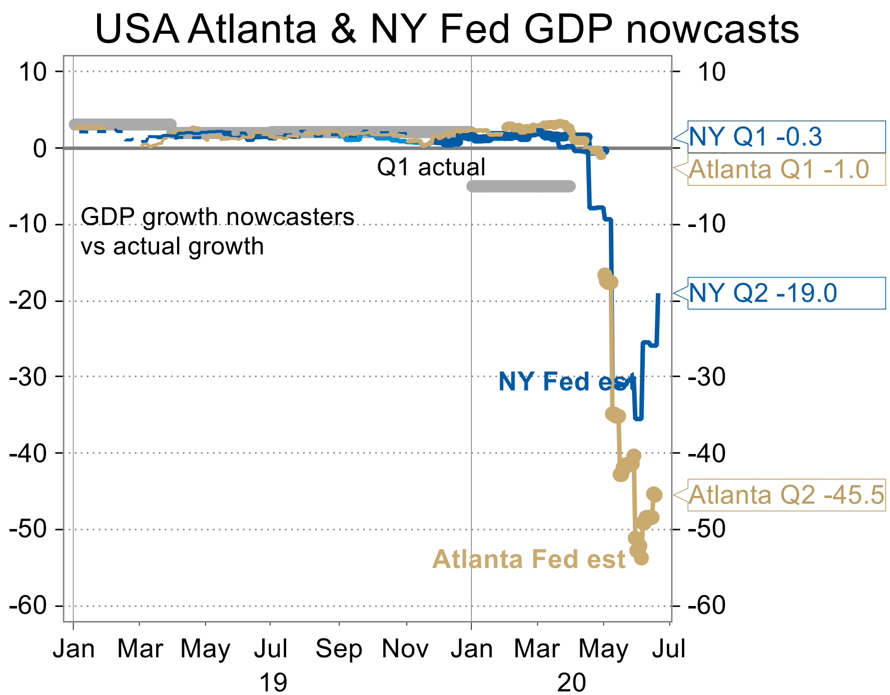




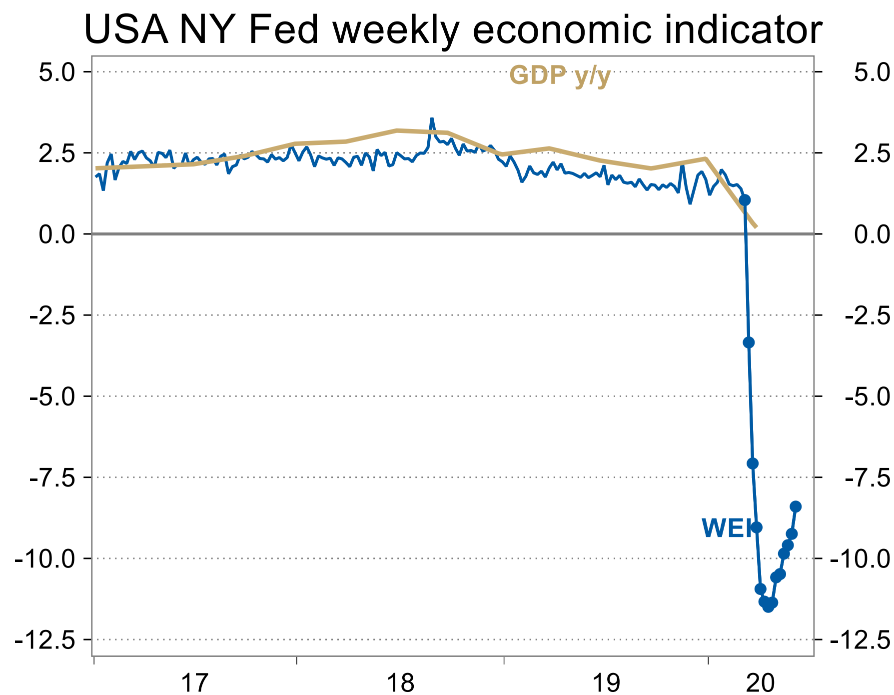
Conference Board's Leading Index (LEI) is a composite index based on ten already published leading indicators that are judged to be leading the overall cycle

Nowcasters do not agree: -25% or -50% (annualised) in Q2?

A more relevant figure: A 10% decline in the GDP level seems likely



SB1 Markets/Macrobond

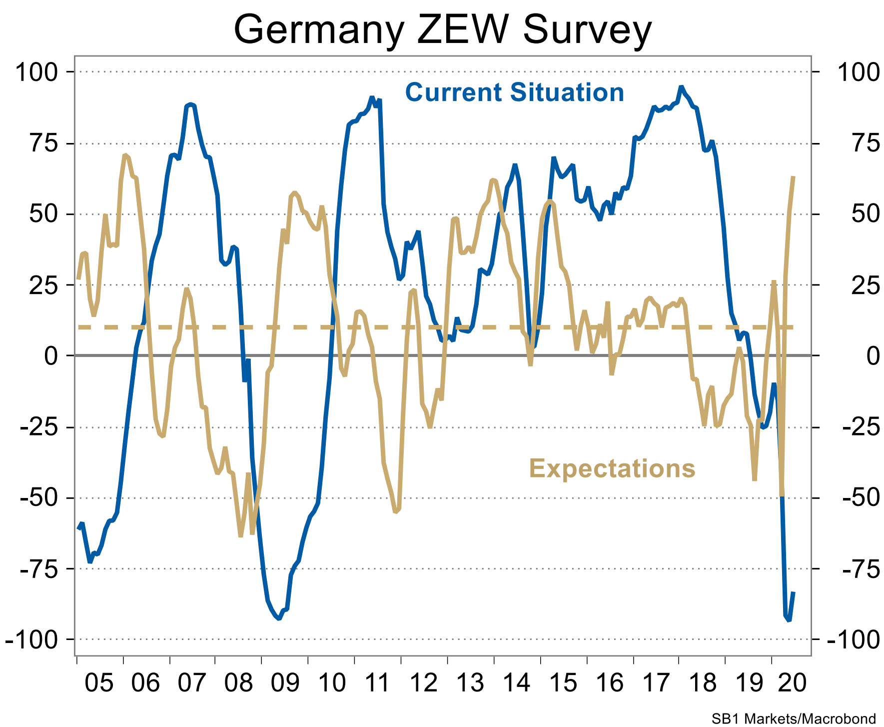


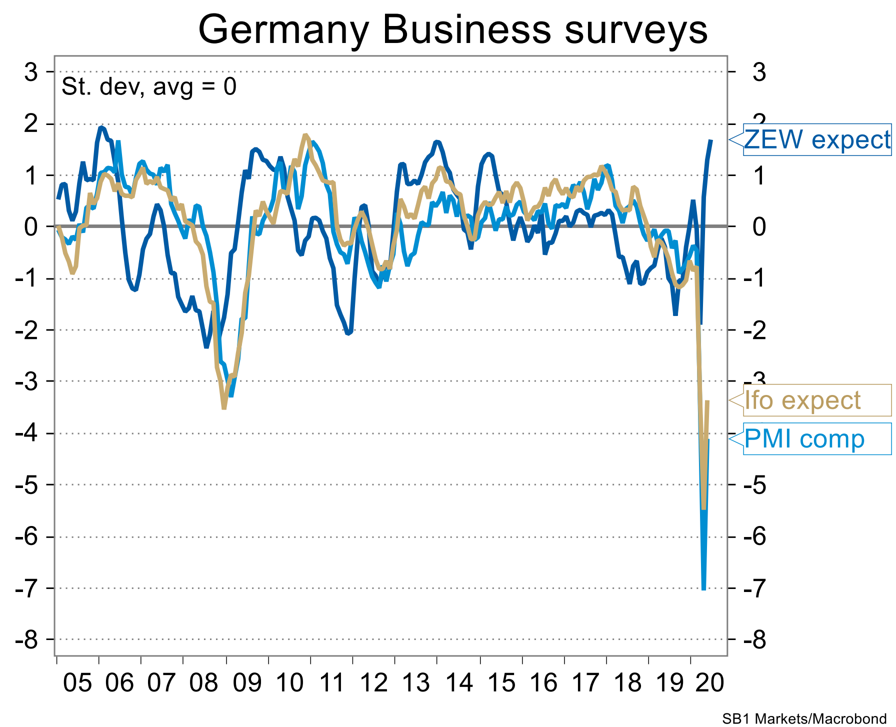
SB1 Markets/Macrobond

- The 'old' nowcasters from NY & Atlanta Fed report a 19 to 46 % decline q/q, in (absurd) annualised terms – equalling a 5 – 15% decline q/q, not annualised – the gap between the two is extremely wide
  - » As GDP fell by 1.2% in Q1
- The NY Fed's weekly economic indicator reports a 8%+ y/y decline, implying a 10% decline from the level in early 2020. The deceleration has clearly slowed past weeks – but the activity level remains low

ZEW's expectations the best in 14 years! From the worst current position in 11 y

The expectation component in the ZEW survey rose further in June, and slightly more than expected

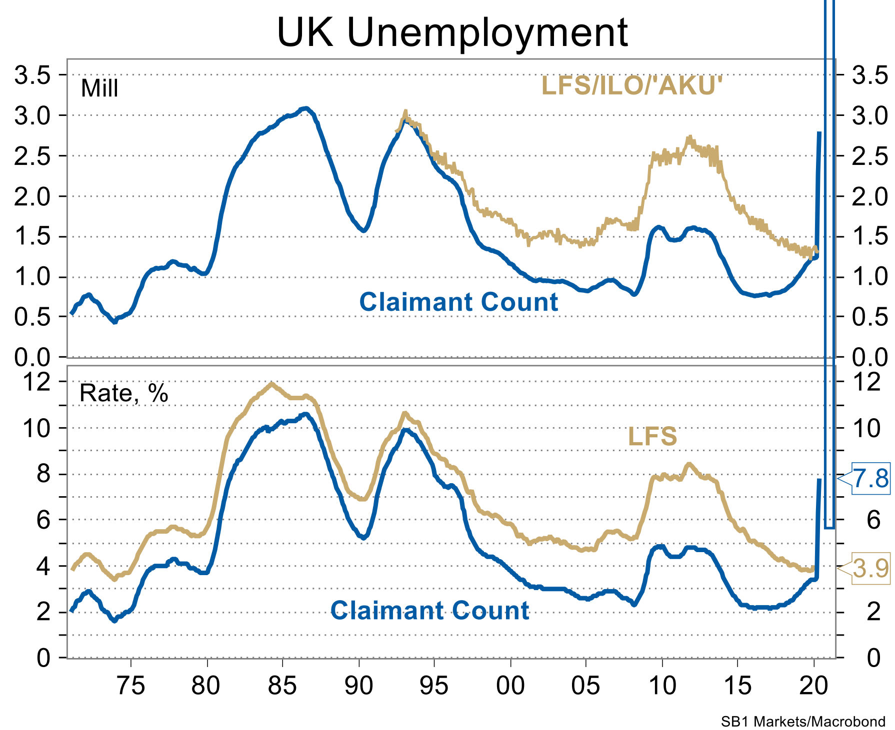


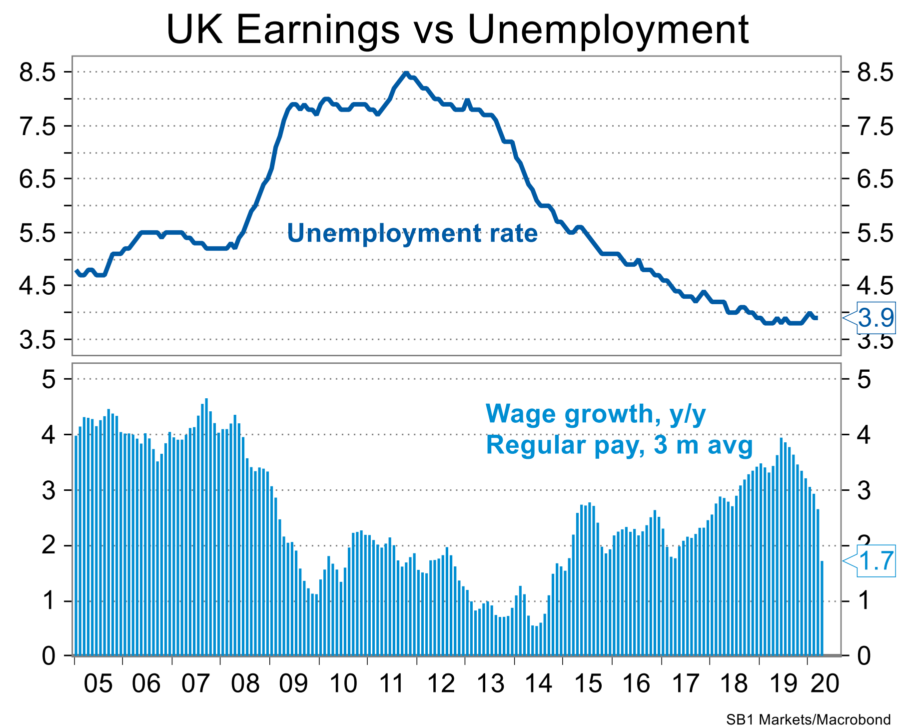


- The current situation is close to the bottom level during the financial crisis – but not worse either.
- As the basis for expectations is the current situation, it is not strange that expectations now are strong (which was the case in 2009 too)
- ZEW is a sentiment survey among economists and investors, and not a business survey, as the PMI and Ifo. We usually prefer the business surveys as coinciding indicators – but the ZEW index is often somewhat leading. We expect business surveys to recover sharply the coming months

Unemployment climbs further up in May, up to 7.8%. Wage infl. 1.7%, was 4%

Open unemployment up mill to 2.8 mill. But 10 mill. employed are paid by the Government…

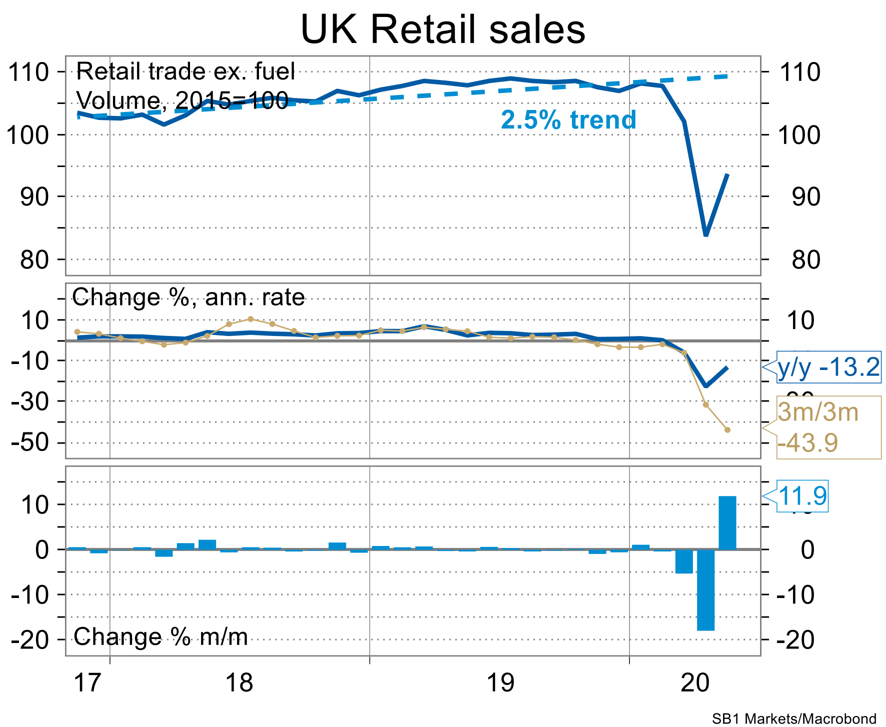


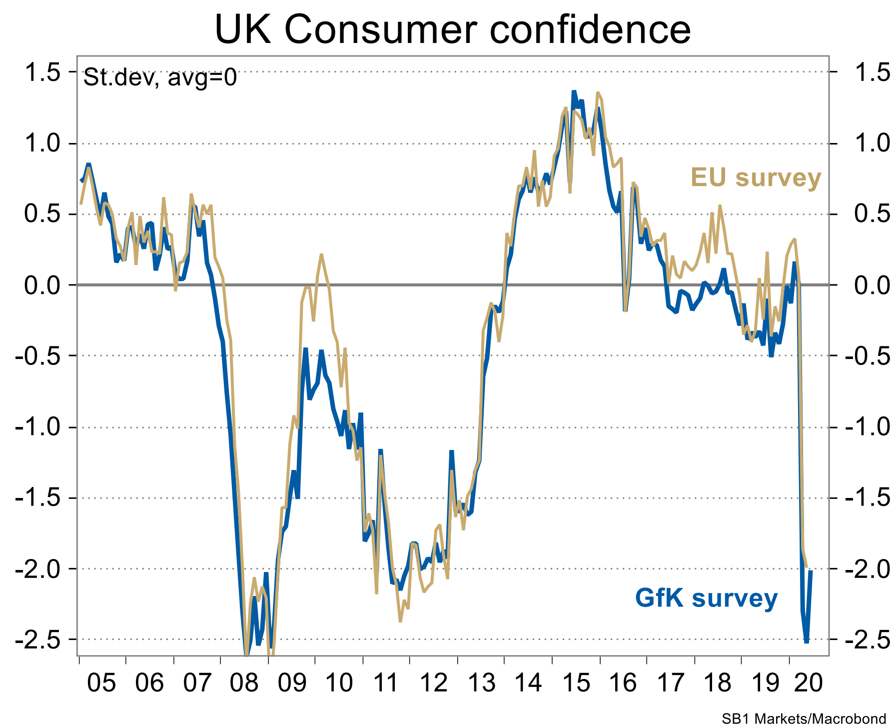


- In UK, the government has subsidised 7.5 employees and 2.5 mill self employed who are furloughed, in sum 10 mill - equalling 29% (!) of the labour force. These furloughed are still counted as employed, and not as unemployed
- The labour force survey has not yet reported any increase in unemployment at all
- Wage inflation is slowing steadily, now down 1 pp to 1.7%, from the peak at 4%. The cost inflation problem i solved.

Retail sales up 12% in May, still 13% down from Feb – during the lockdown

UK has been more locked down more than the most but some shopping has still taken place



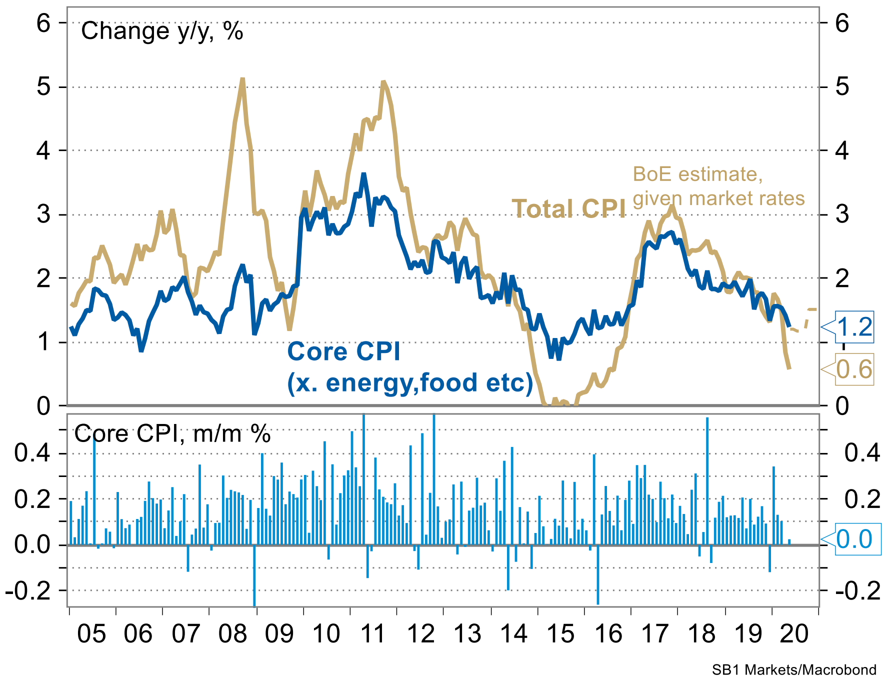


- Many non-essential shops
- Food sales are up 7% from February (as restaurants were closed), while clothing is still down 50%

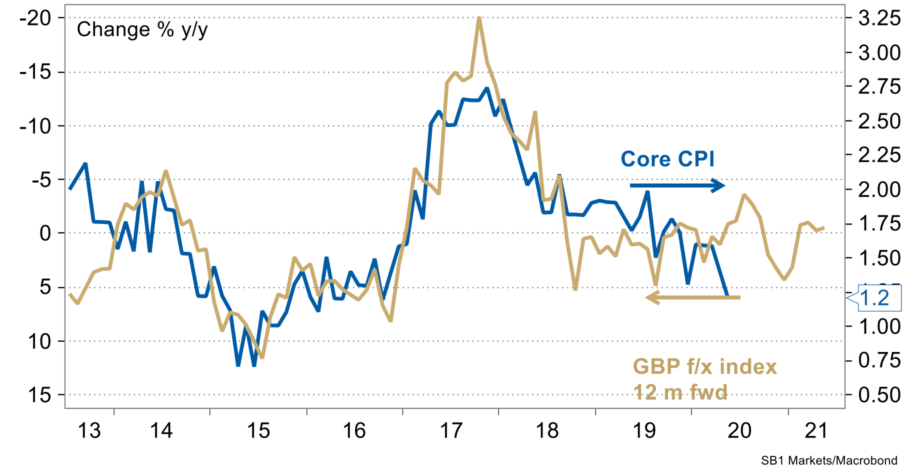
No inflation treat: Core CPI inflation further down, 1.2%. Total CPI down to 0.6%

Core CPI unch m/m in May. Cost inflation has probably peaked while some f/x impact possibel

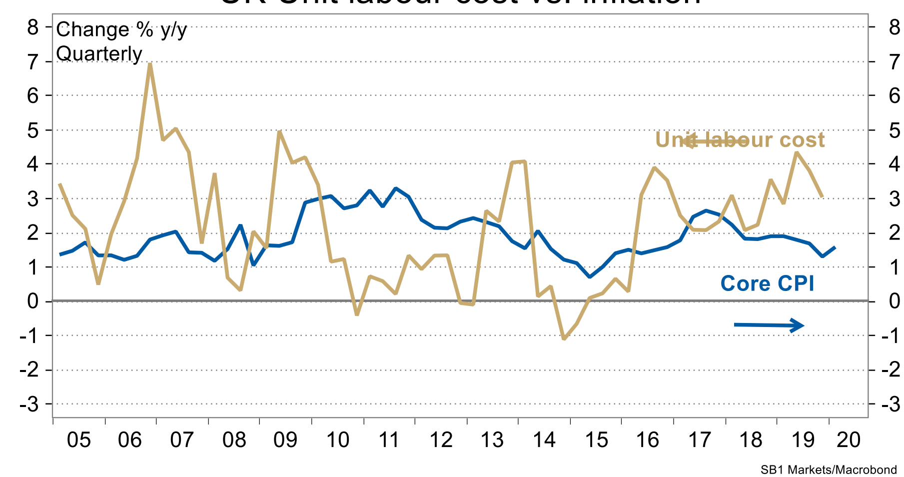
UK CPI



UK CPI vs. GBP



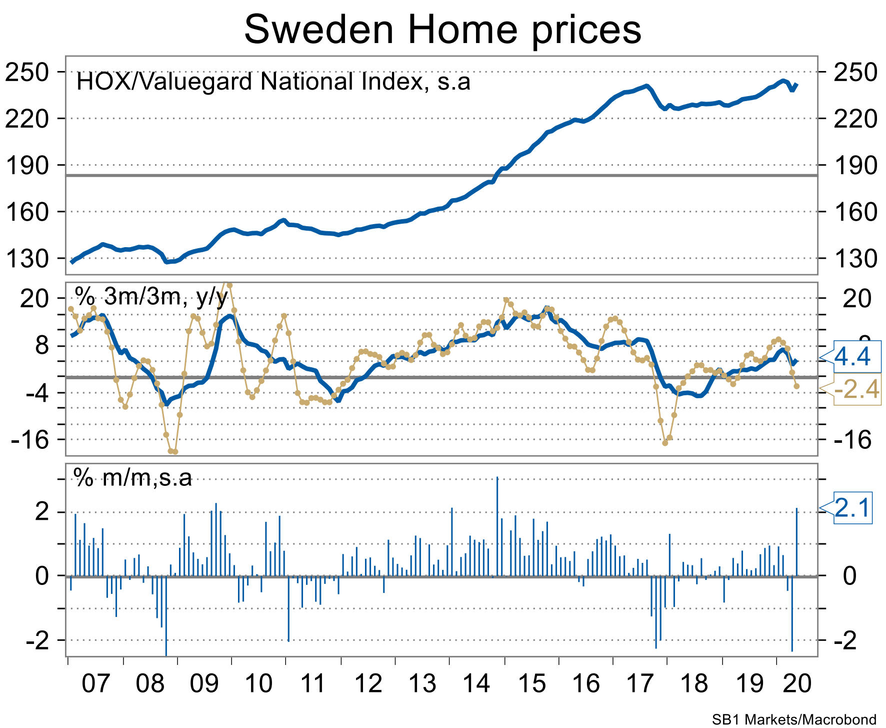
UK Unit labour cost vs. inflation

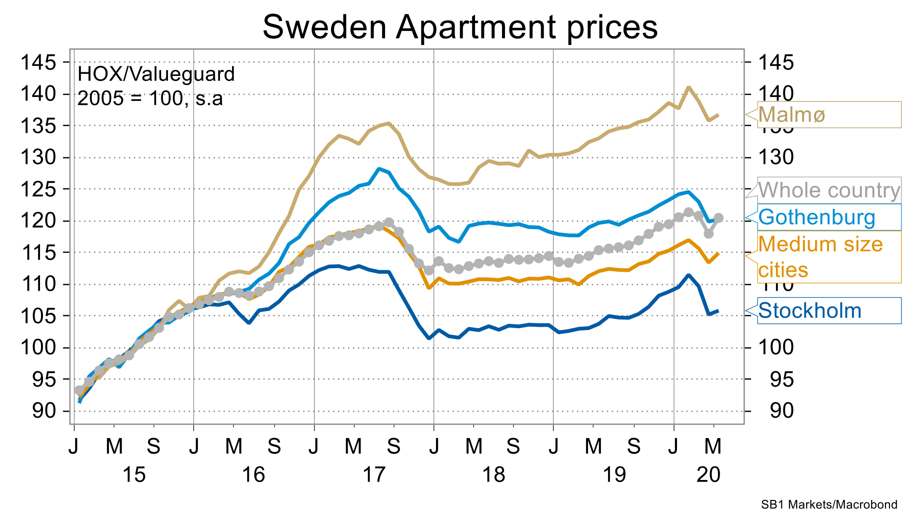


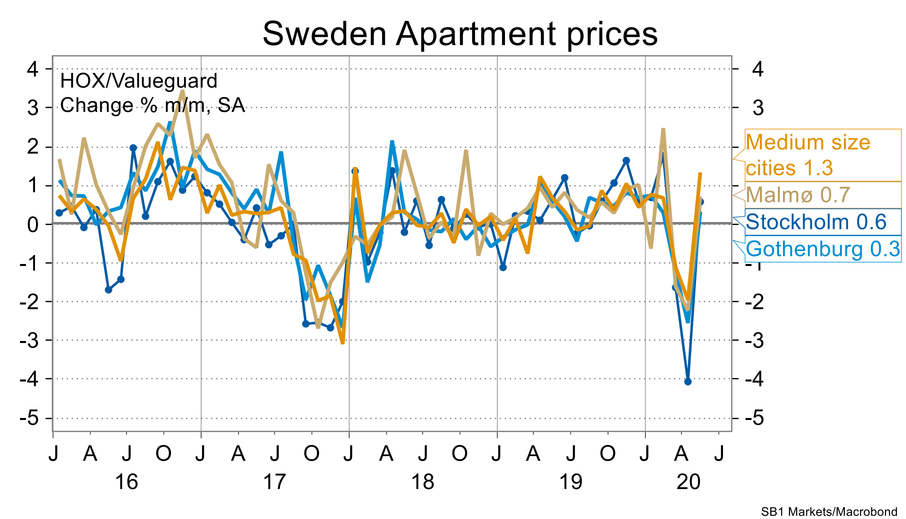
- The ongoing slowdown in the UK economy will keep core inflation low the coming quarters

House prices up in May, house prices outside towns almost back to Feb level

National prices rose 2.1% in May, reversing most of the March/April decline. Stockholm still down 5%







- National prices rose 2.1% in May, the highest monthly increase in more than 5 years. The decline in April was revised to 2.2%, from previously reported -0.9%. Prices are just down 0.7% from Feb
- House prices rose 2.8% m/m in May and prices are up 0.9% from Feb
- Flats rose 1.3% m/m in May, and are down 3.5% from February. Stockholm apartment prices are down 5% from February, even after a 0.6% lift in May
- The national nominal price level is marginally above the 2017 peak level, whereas real prices are significantly lower than at that peak. Stockholm apartment prices are down almost 7%, in nominal terms

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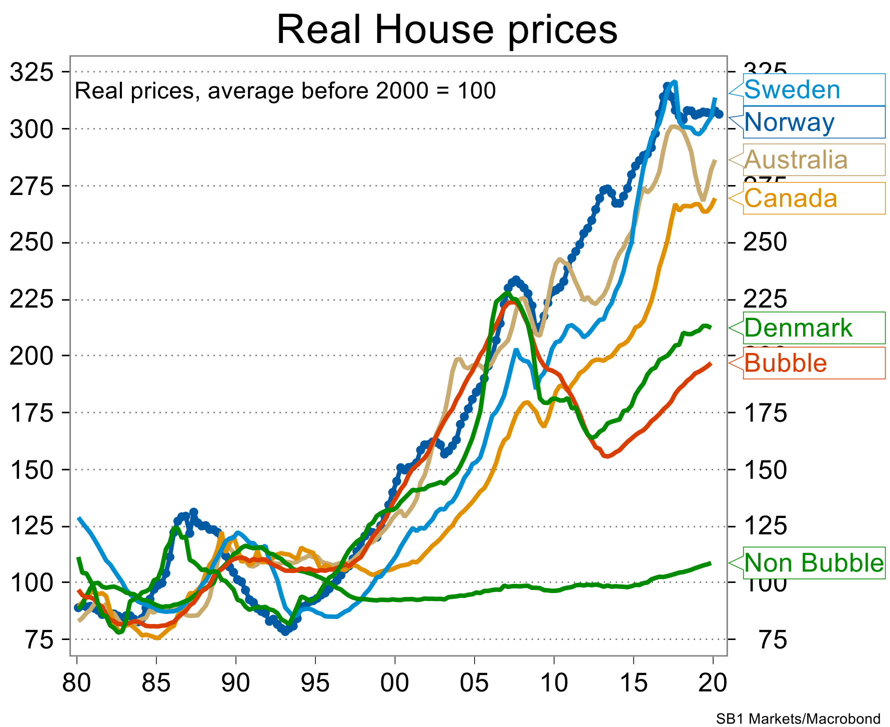
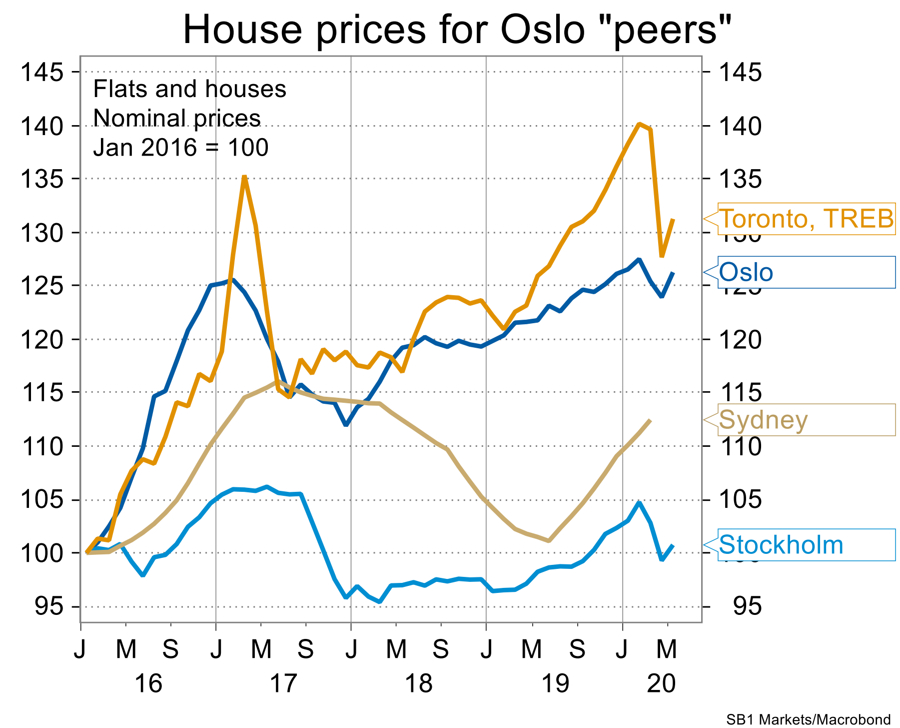
Supercycle home prices are not the winners anymore?

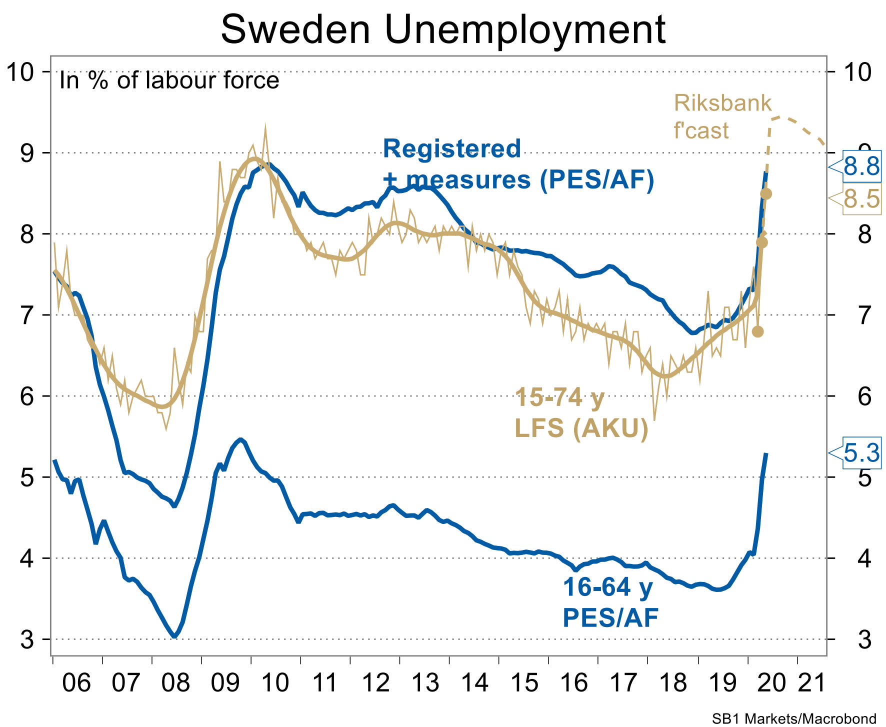
Toronto & Stockholm prices down. Oslo too, but not much (and will pass by Feb in June?)

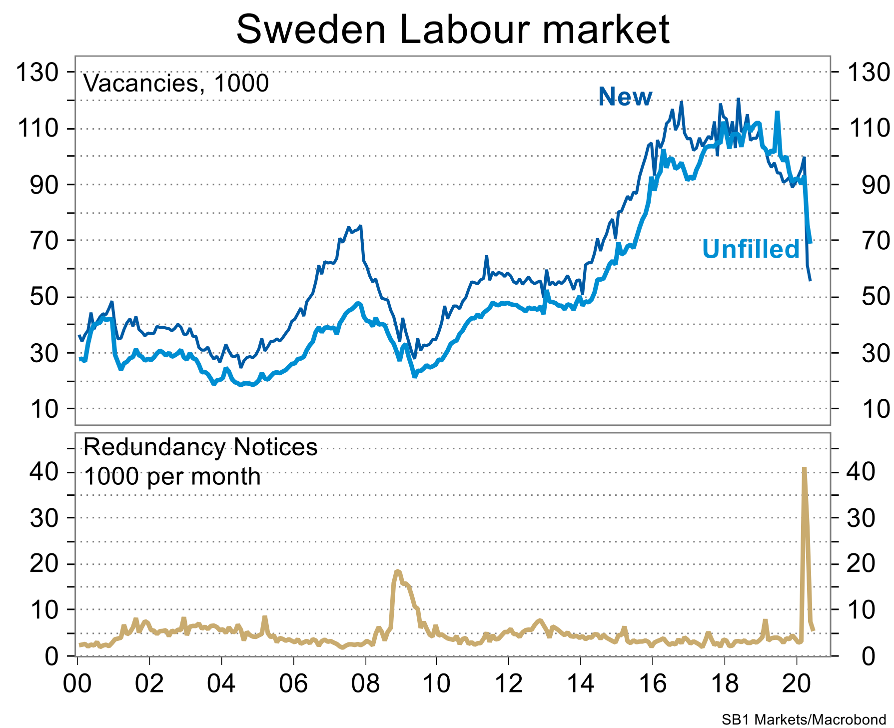




LFS Unemployment up 0.6 pp to 8.5%, as expected, and in line with Rix' forecast

Employment down 1.8% from Feb, unemployment up 1.2 – 1.5%. But hours worked down 6%





- The labour marked has no doubt taken a hit during the corona crises, and employment has fallen sharply – and hours worked even more, check next page. The downturn started well before the corona crisis hit
- The number of new vacancies has fallen more than 40% but is still not a low level

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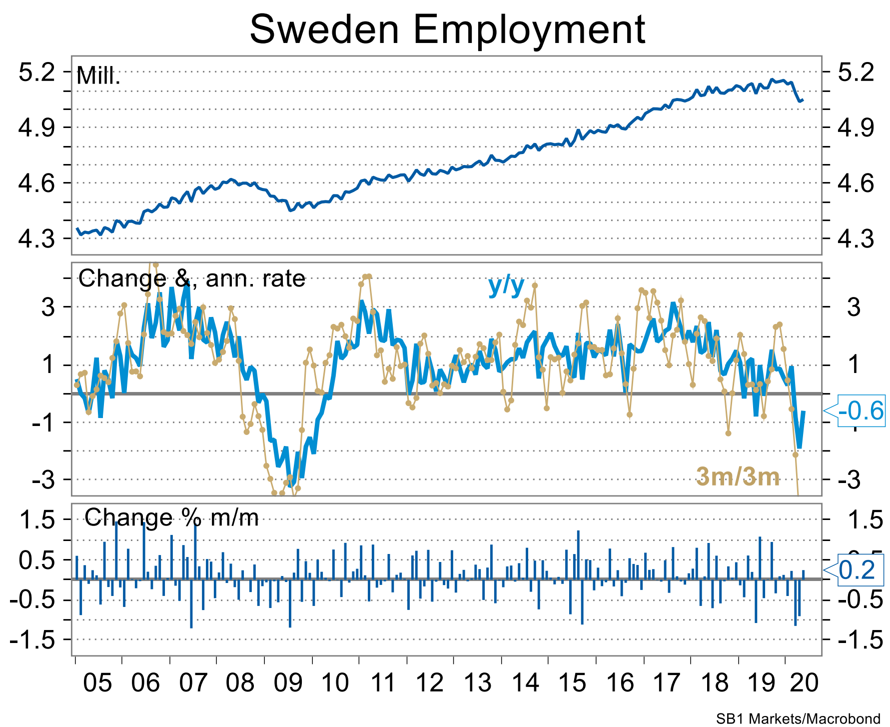
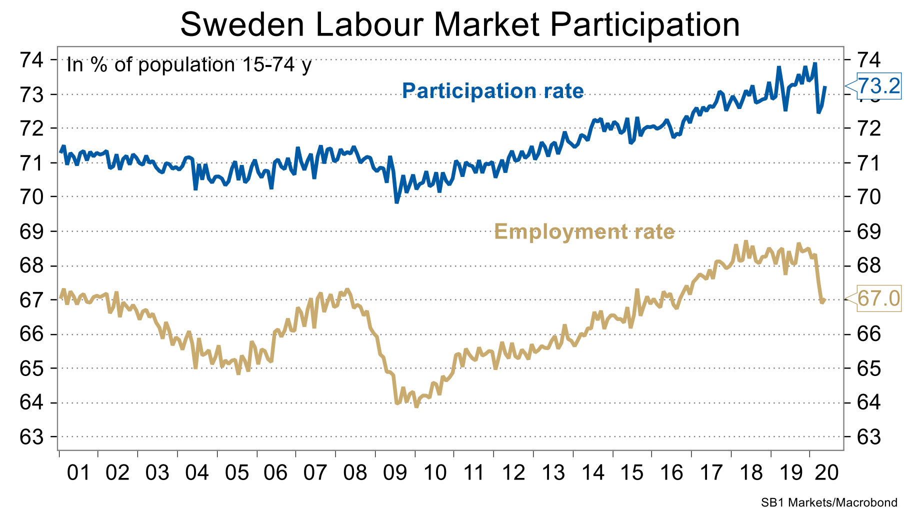
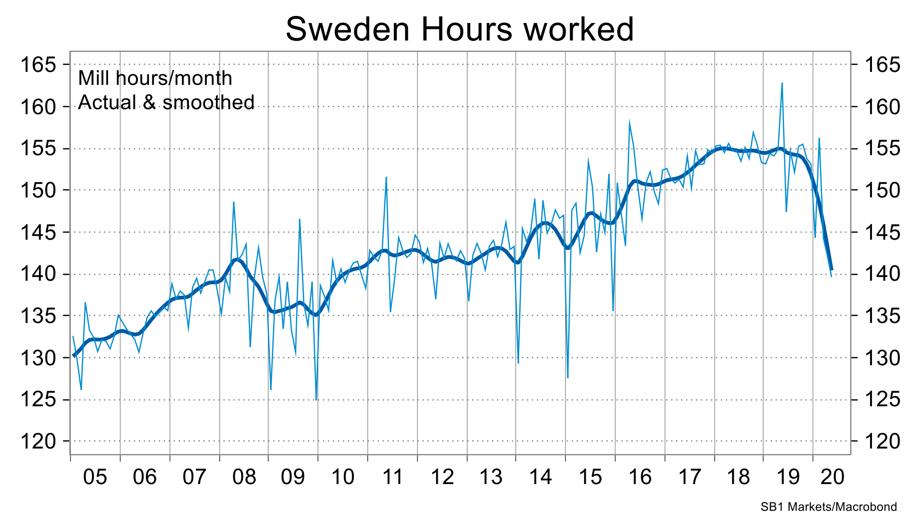
Employment down 2%, hours worked 6% since early '20 (and -10% vs 18/19)

Some corona impacts – and some others too?







- Employment rose marginally in May but has fallen almost 2% from Febuary
- Labour market participation is sharply down too, has dampened the impact on measured unemployment
- Hours worked has fallen sharply as employers have not laid off workers during the corona crisis. However, the decline stared well before Covid-19 as growth in Swedish economy slowed

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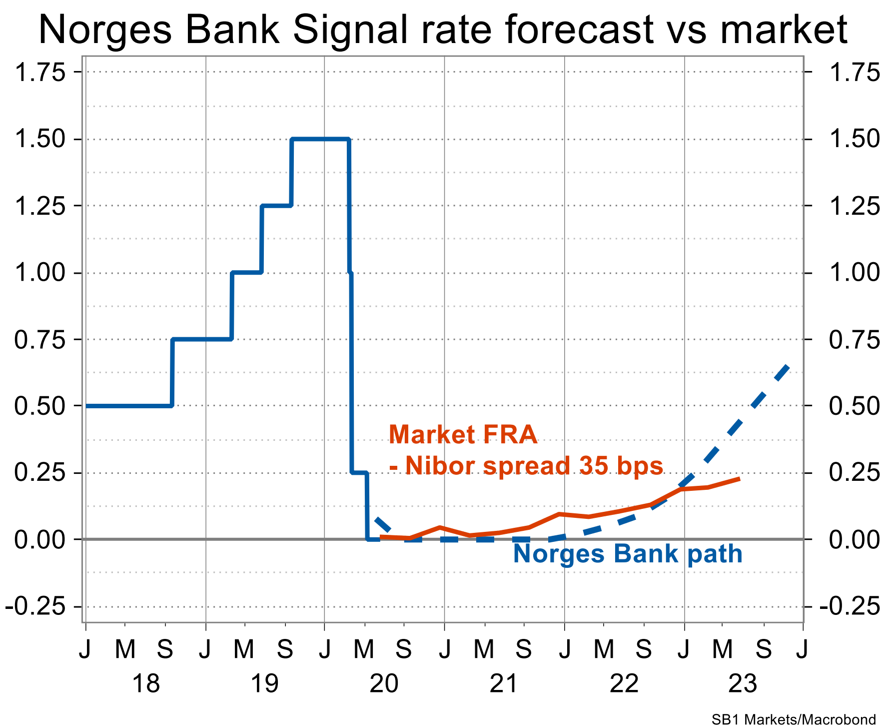
NoBa revises up growth, house prices, NOK, and the interest rate path

NoBa is now thinking about start hiking in late 2022 – and up to 0.75% by end of 2023

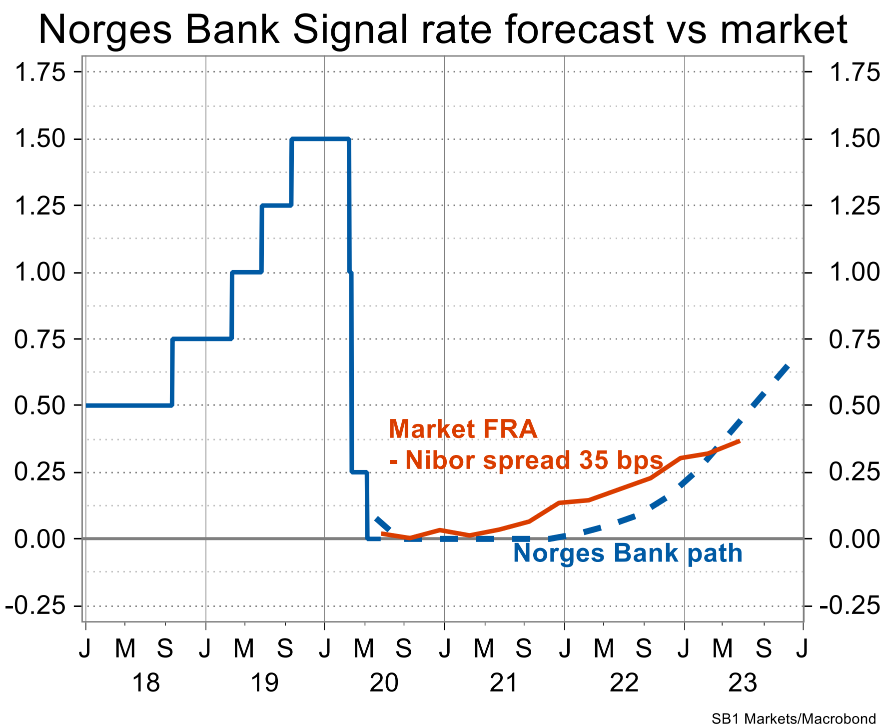


The pre meeting FRA curve

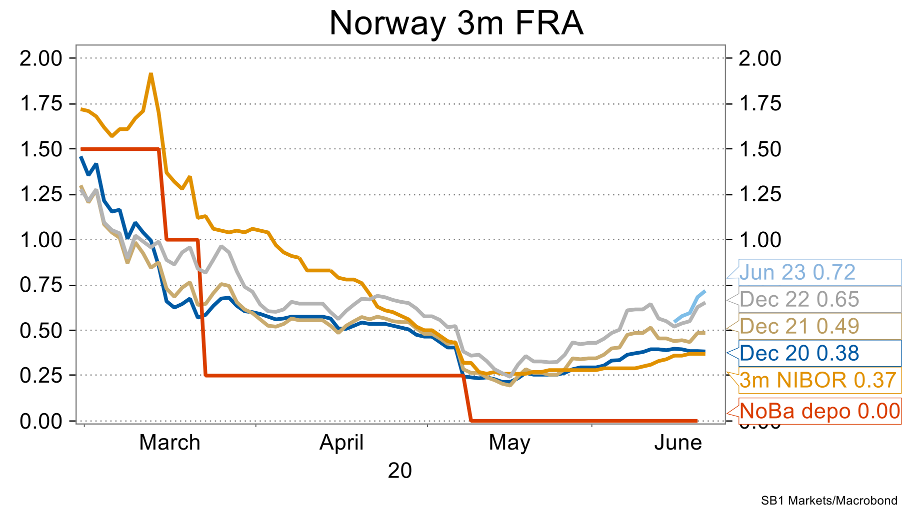
- Norges Bank revised it estimate for the activity level is revised up by approx 2%. The unemployment rate is revised down by 1 pp (2020/21 avg). House prices are revised sharply up, the 2021 level by almost 10%
- Wage inflation is revised up, but is assumed to remain low. CPI inflation in 2020 is revised up but downwards the following years – and is expected to fall below the 2% target
- As a consequence, Norges Bank lifted the interest rate path, as we thought the Bank should do given the positive signals from the economy (including the labour and housing market). However, our base case was not that the Bank would be prepared to announce it now. The first hike is signalled in Q4 2022, and the bank has pencilled two more hikes to 0.75% by the end of 2023. 6 weeks ago, the path was stuck at zero through 2023. And the bank stresses, the uncertainty is of course huge!
- Ahead of the decision, the FRA market priced in an interest hike in Q4 2022 (we have revised our NIBOR NoBa depo spread to 35 from 25).
- *Following the announcement FRA-rates rose up to 9 bps, and by up to another 3 bps at Friday flip to the next page ☺*

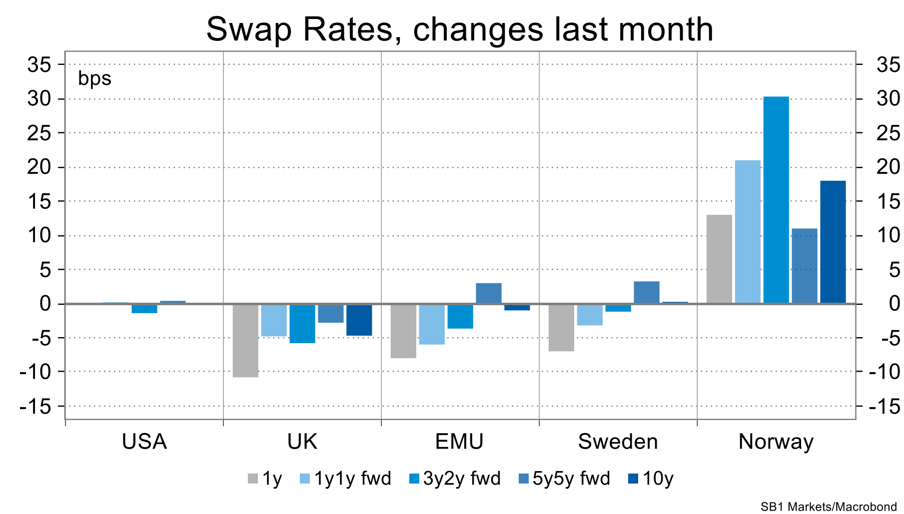
FRAs are up by up to 40 bps since mid May – and NoBa lifted the path by 65 bps

Last month, the Norwegian yield curve have shifted upwards – while curves abroad have not



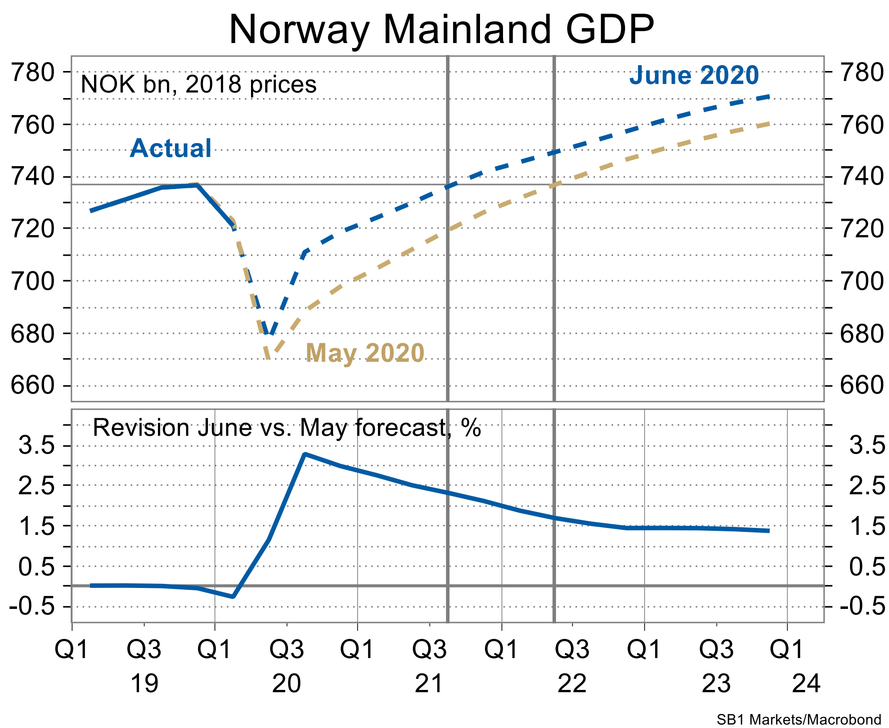
The post meeting FRA curve

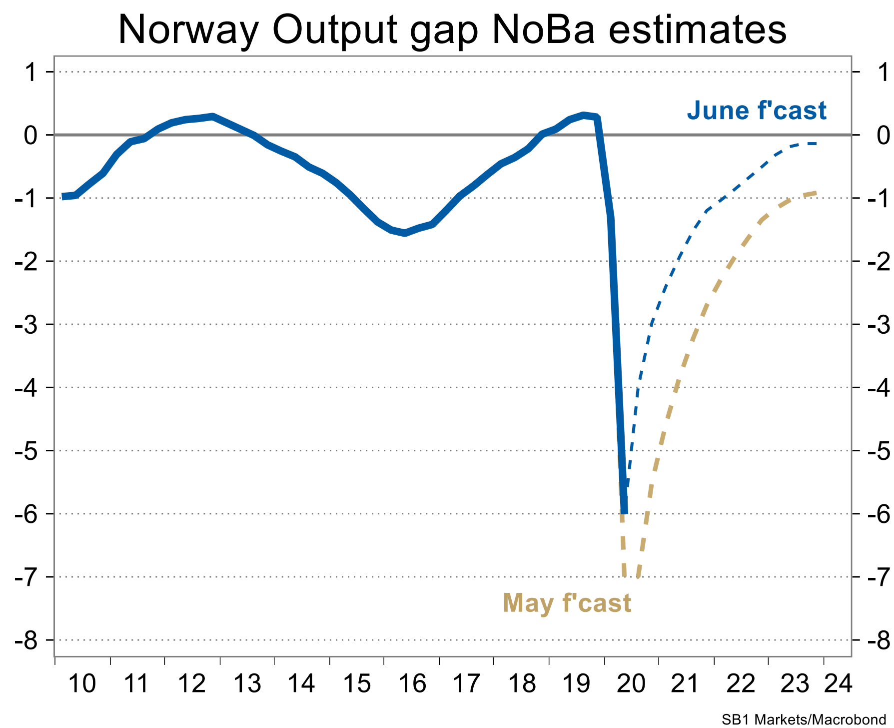




Q3 2020 GDP estimate revised up by 3.4% - and the GDP path by approx 2 pp

The decline in Mainland GDP is revised down to -3.5% from -5.2, 2021 revised up to 3.7% from 3%

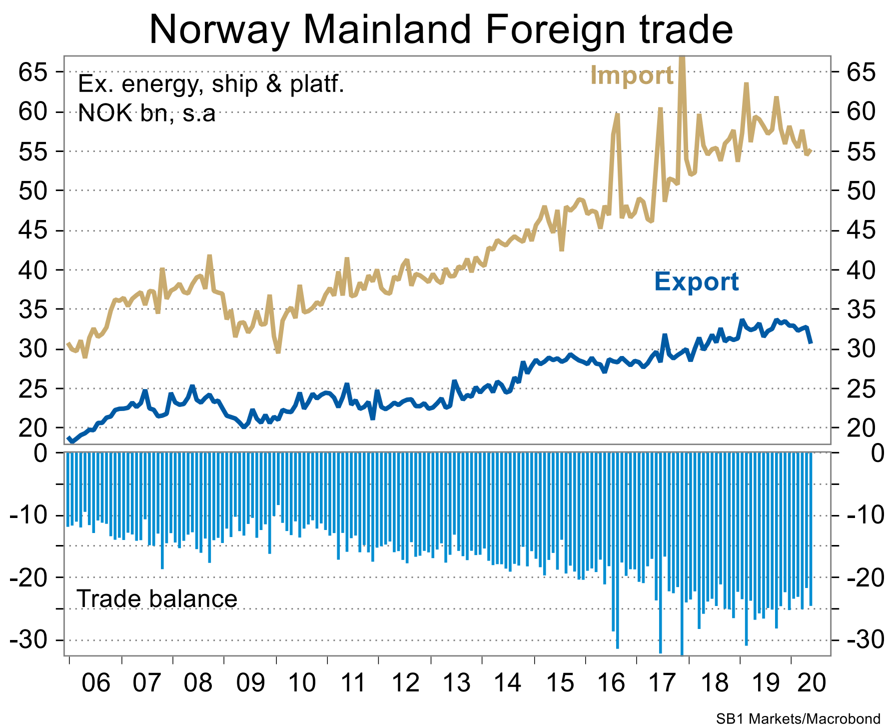


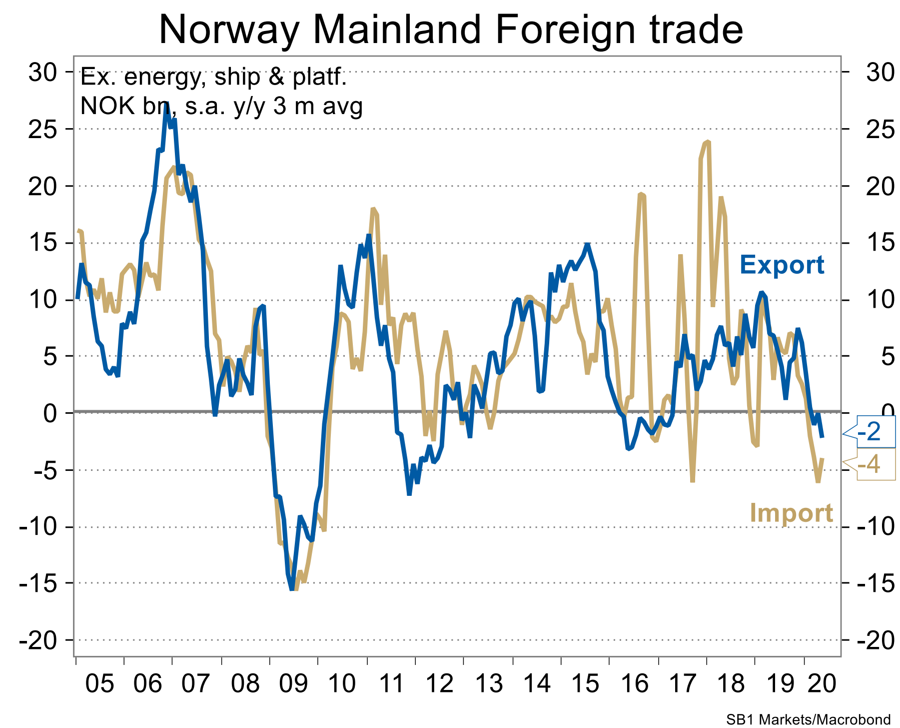


- Private consumption will decline less than assumed in 2020 and still recover even more next year, in sum +3.9%
- Oil investments are expected to decline by 10 pp less than assumed in May, still down 18% from 2019 trough 2022
- Unemployment will decline substantially faster assumed in May, the 2020 average by 1.3 pp to 5%, and 2021 by 0.6 p to 3,2%
- 2020 house prices are revised up to +2.7% from -1.8%, and 2021 to +4% from -5%, in sum a 9.5% change!
- The NOK I44 index is revised up by 4 – 8%!

Mainland exports and imports down, not out. At least not in a weak NOK

Exports down 6% m/m in May, and just 4% vs pre corona. Imports more dwn y/y, less pre corona

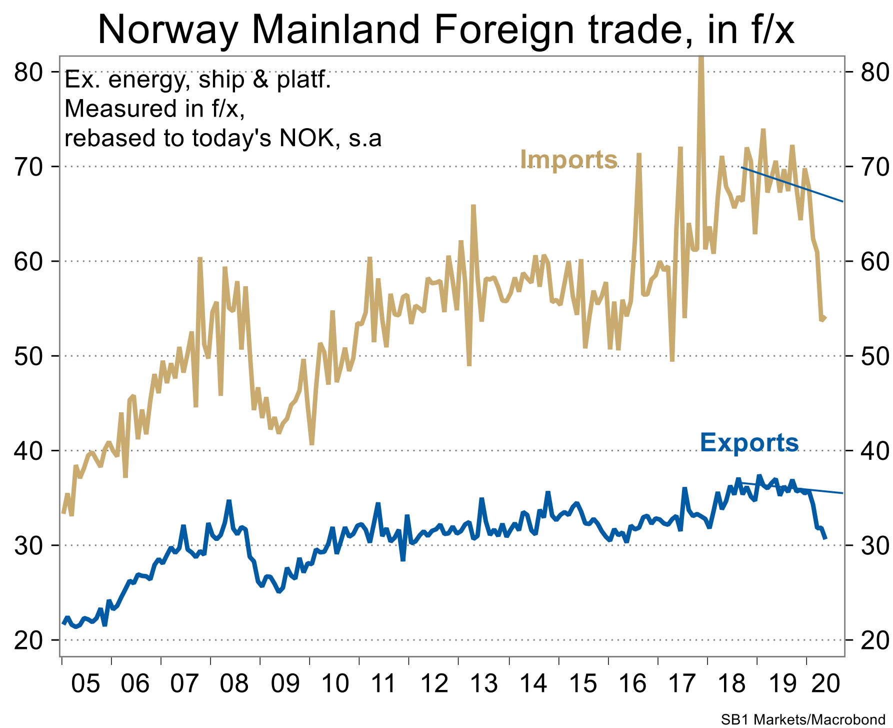


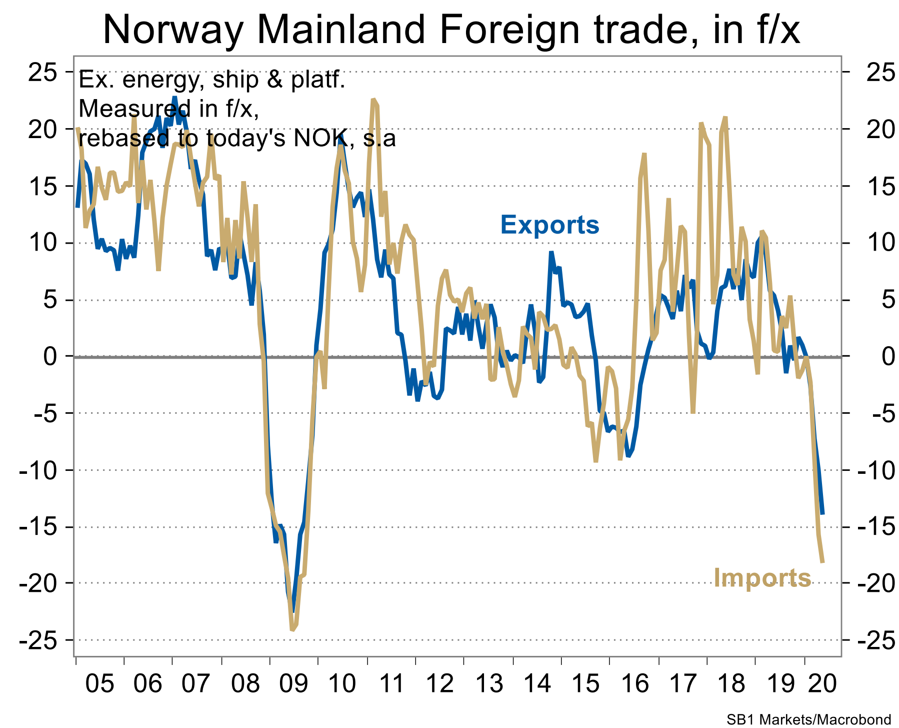


- The Mainland (non energy) trade deficit rose to NOK 3 bn to NOK 24 bn in May. The deficit has been declining somewhat the past year, due to lower imports
  - » Imports (in value) rose marginally in May but have been trending down since mid 2019 – but is not far below the level pre corona – no corona chock
  - » Mainland exports fell by 6% in May, the first visible corona impact. Exports have been trending slowly down
- The overall trade surplus (incl oil & gas, ex ships & platforms) was stable at NOK 6 bn in May. The decline in oil and gas prices this spring has reduced the surplus sharply

… in f/x, both exports and imports have fallen sharply

The NOK depreciation has lifted trade values in NOK. Imports down 20%, exports -13%!

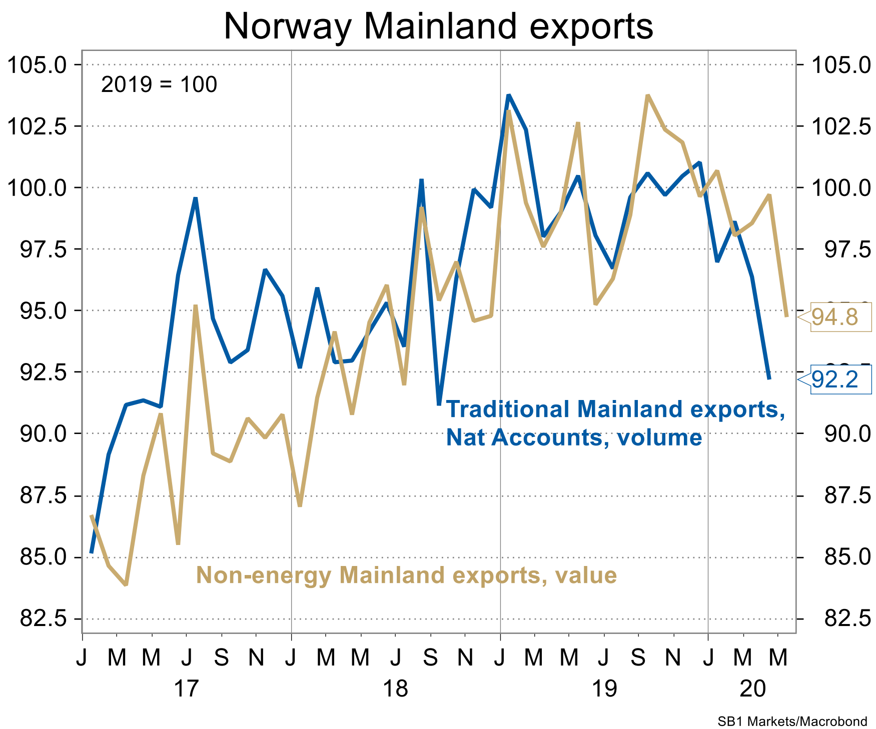


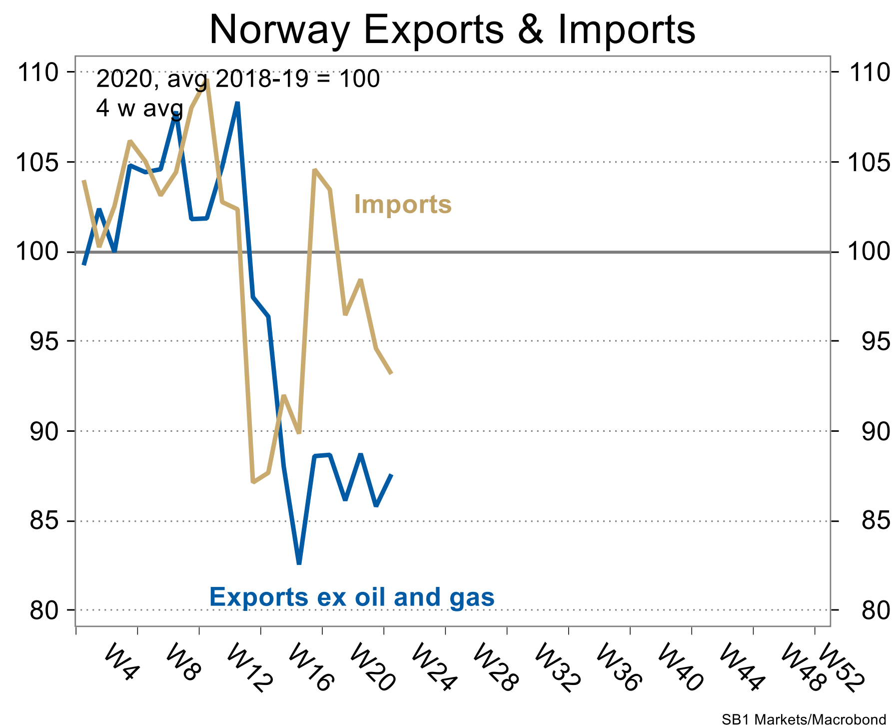


- At the chart to the left, trade values are rebased to today’s NOK I-44 index – vs the actual NOK data to the right

Monthly National Accounts have reported an 8% decline in Mainl. export volume

... until April. Most likely another decline in May

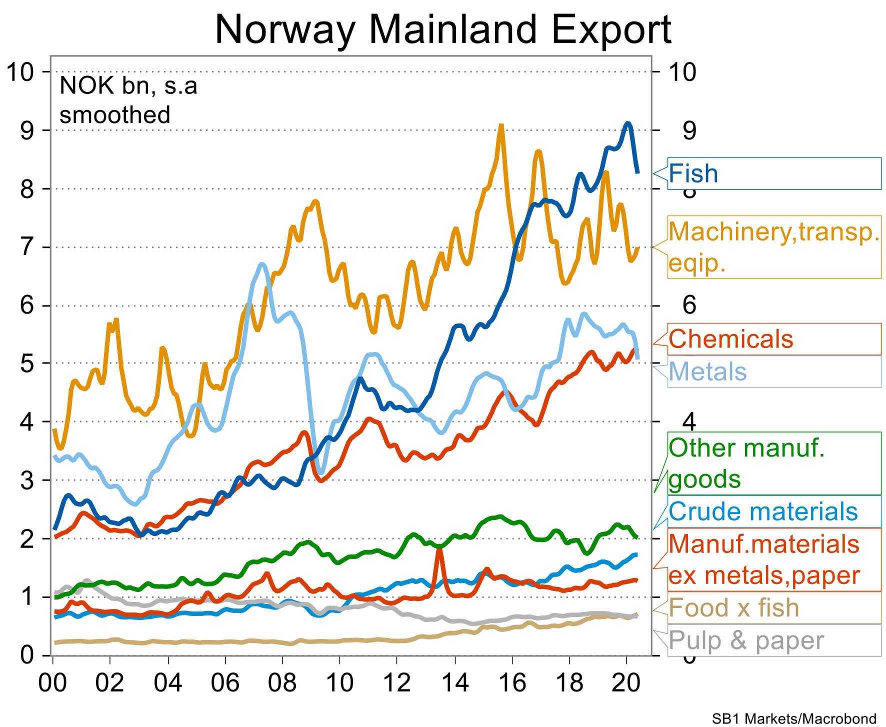


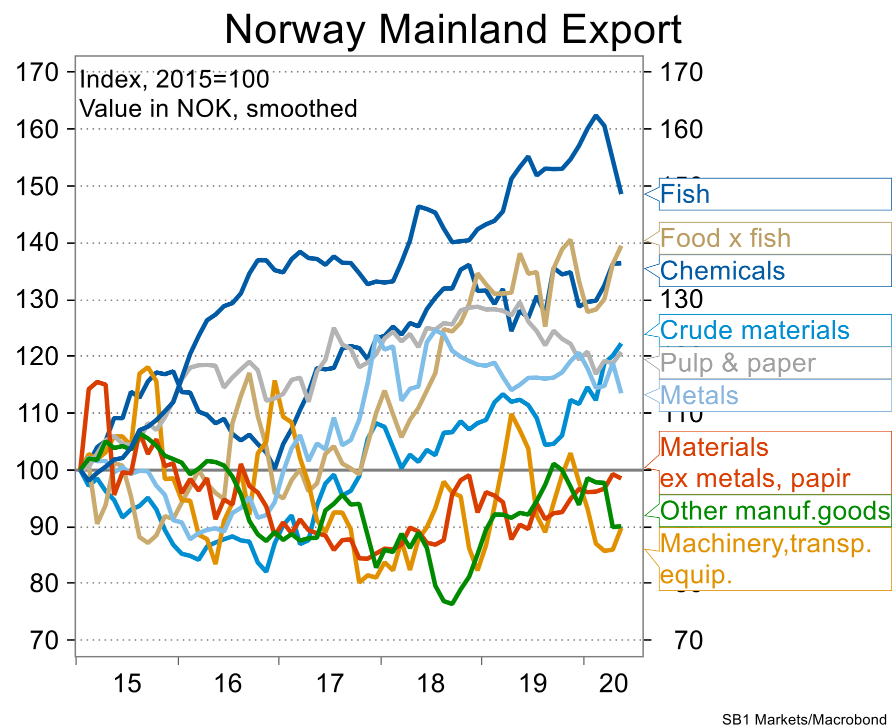


- Weekly Mainland trade statistics report a 12 -13% decline in exports vs. the average of 2018/19 levels (and 2019 was well above 2018 – however energy products are included, both gas an electricity, and data are not directly comparable to ‘traditional or non-energy Mainland exports)

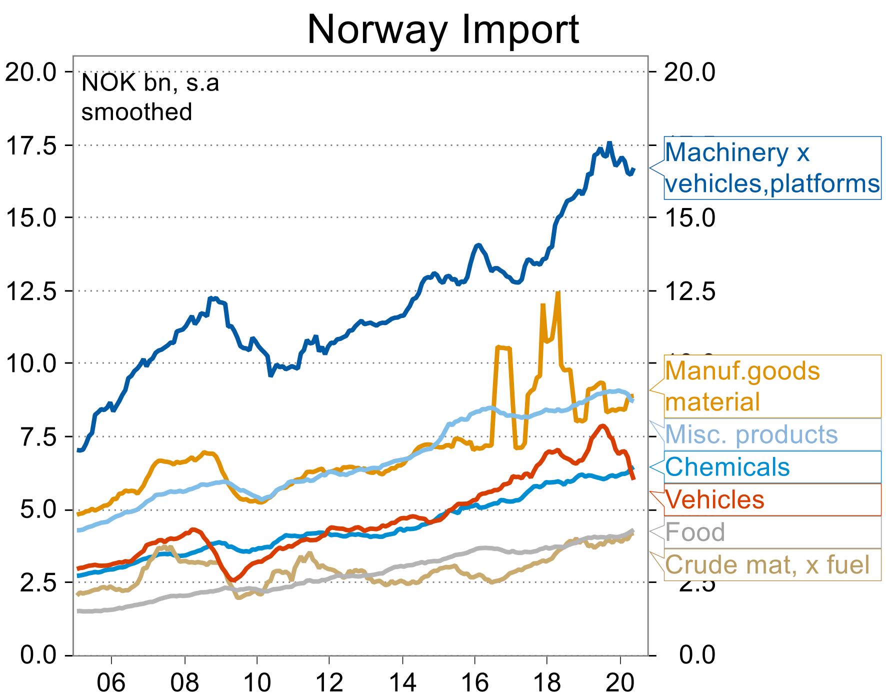
Lower fish, machinery & metals export, other sectors still OK

No dramatic corona shock, yet

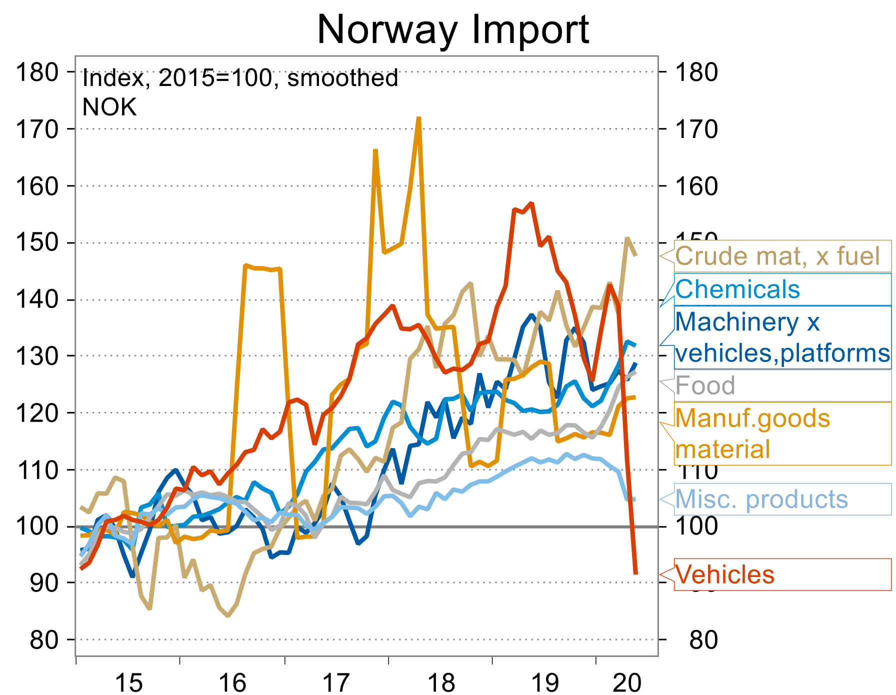




Auto imports sharply down, machinery somewhat – others not



SB1 Markets/Macrobond



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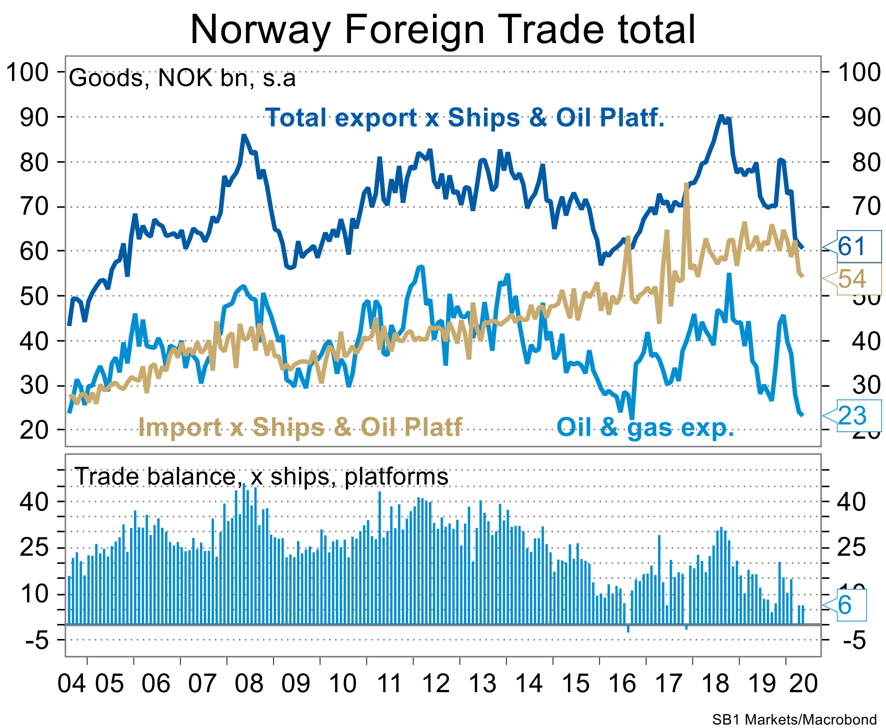
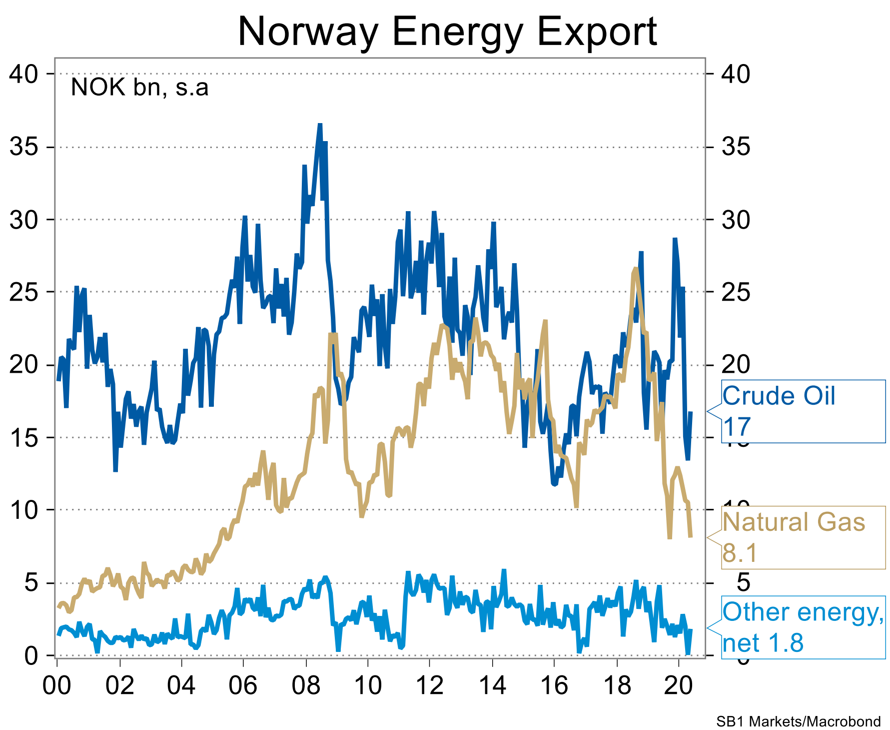
A small surplus at the trade balance

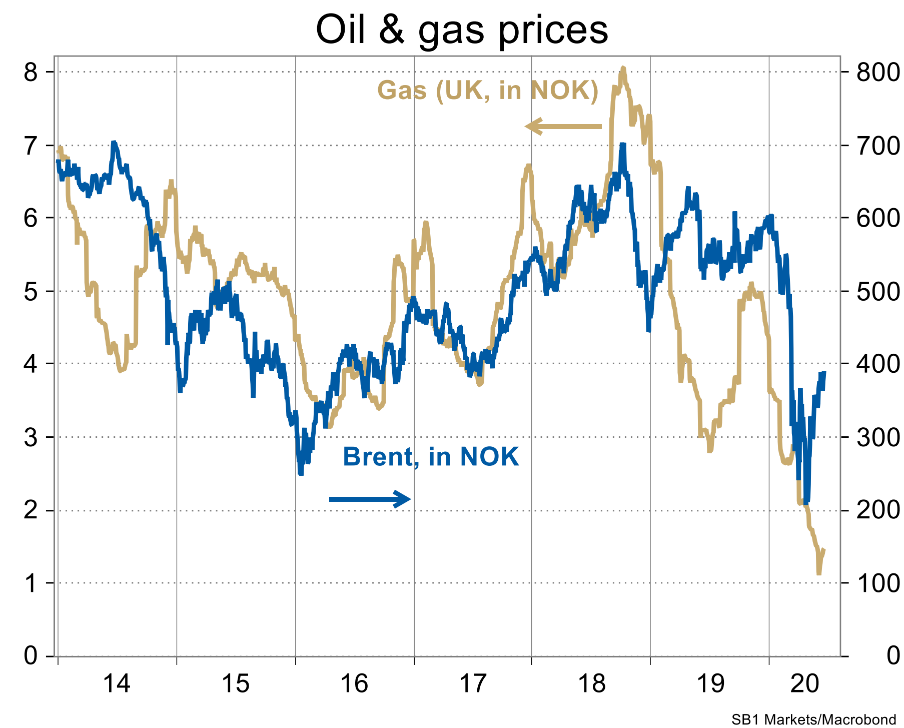


- The overall trade surplus (incl oil & gas, ex ships & platforms) was stable at NOK 6 bn in May. The decline in oil and gas prices this spring has reduced the surplus sharply

Oil exports recovered marginally in May, gas exports not

Petroleum exports badly hurt from the oil & gas price collapse. June will be better, at least for oil

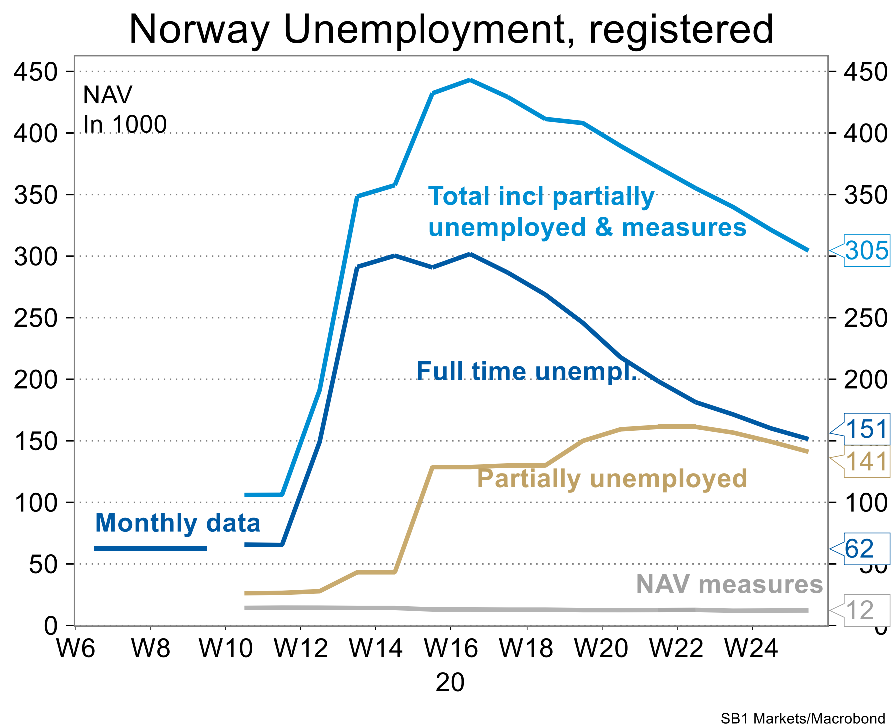


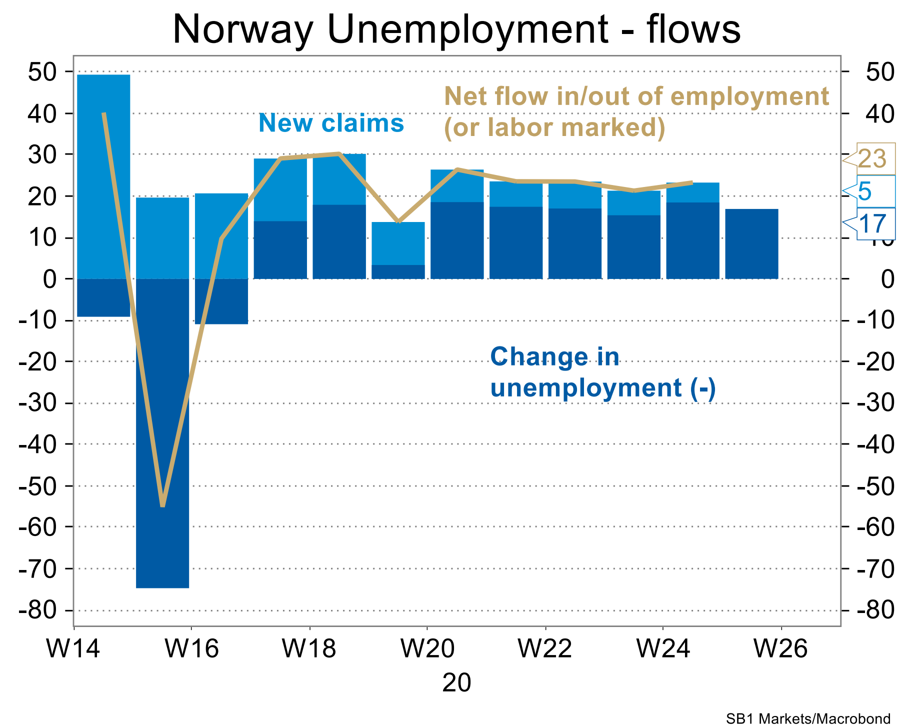


- **Crude oil** exports (in NOK bn) up to NOK 17 in May from 14 in April (and down from 25 pre corona)
- **Gas** export values fell further in May, to NOK 8 bn from 11 in April. Gas prices are down over 80% from the 2018 peak – and have not followed the oil price up since late April

Total unemployment down another 17’ last week, -0.6 pp to 10.8%

Full time unemployment down to 5.4%





- Unemployment has fallen by 138’ to 305’ since mid April, or by 4.9% of the labour force
- The inflow of new jobless claims has slowed to 5’ per week. That’s still higher than normal but all the extras are temporary laid off persons
- Temporary laid offs equal 60% of total unemployment, and all of the decline in unemployment is due to fewer temps, not a decline in ordinary unemployment

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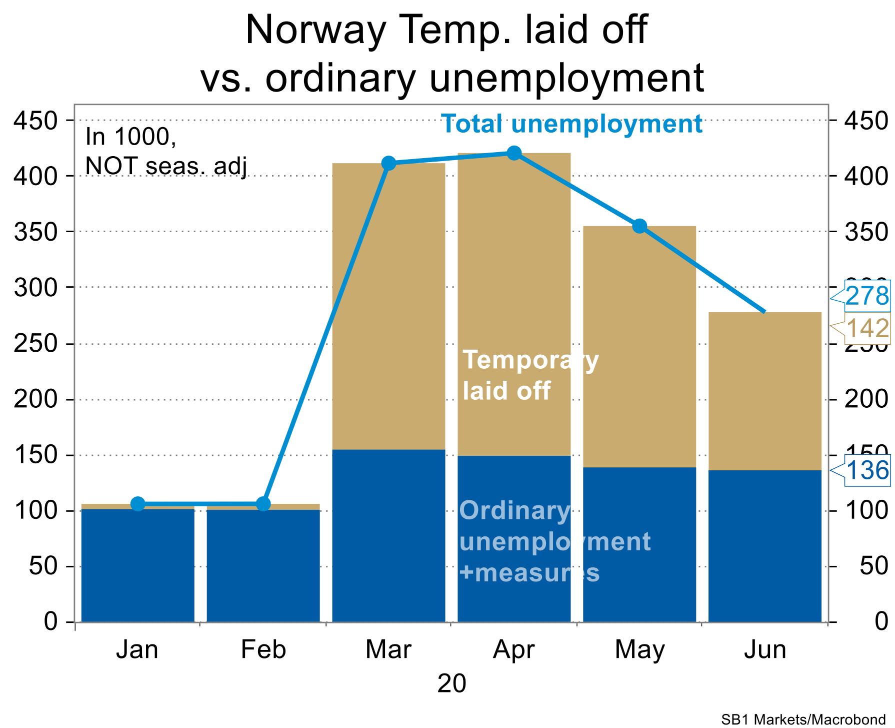
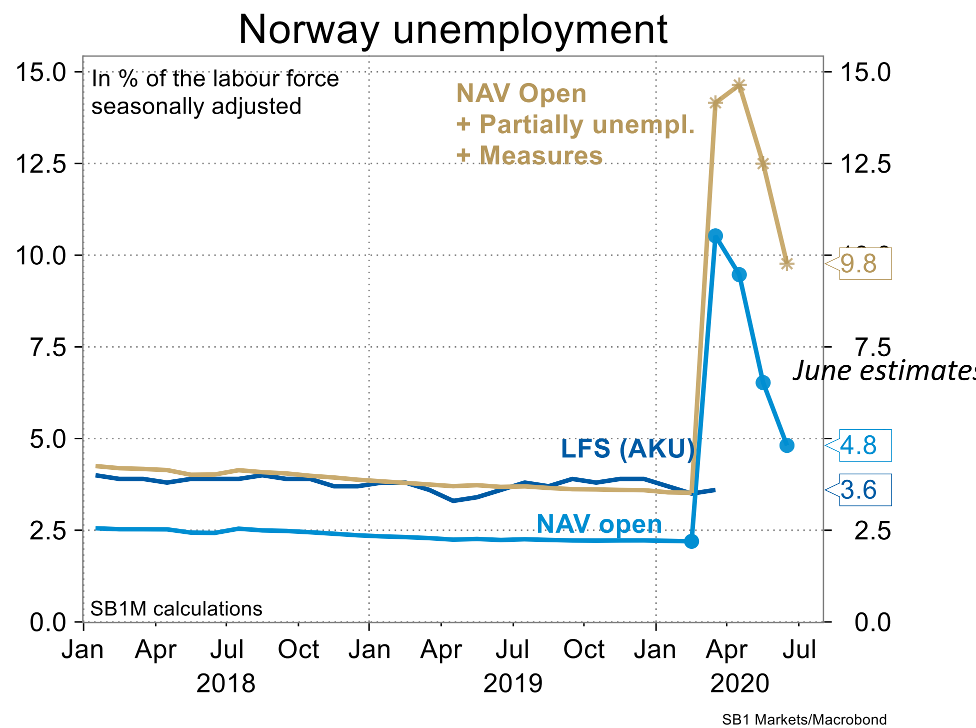
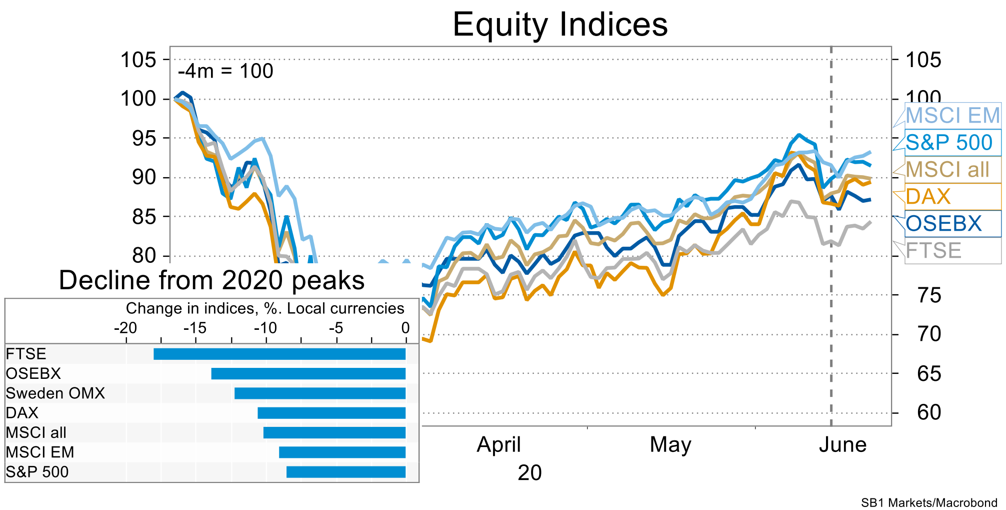
Unemployment rapidly on the way down, still well above normal levels

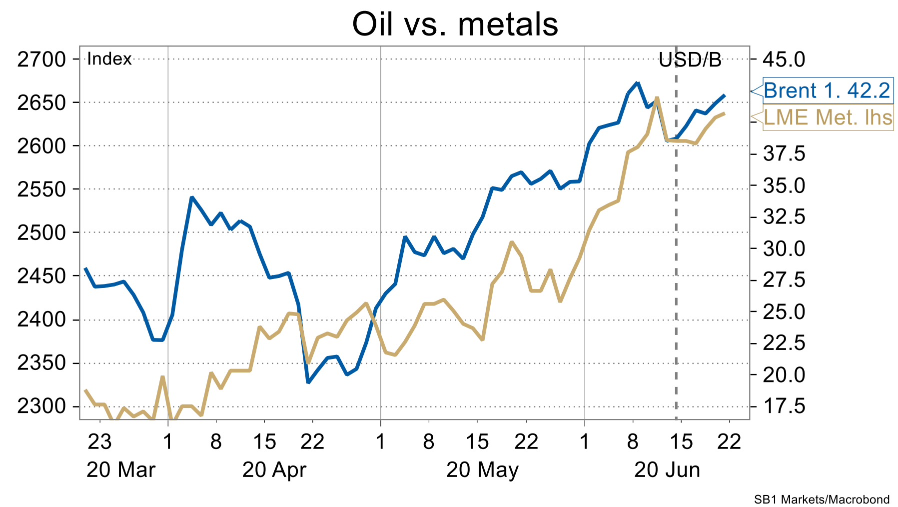


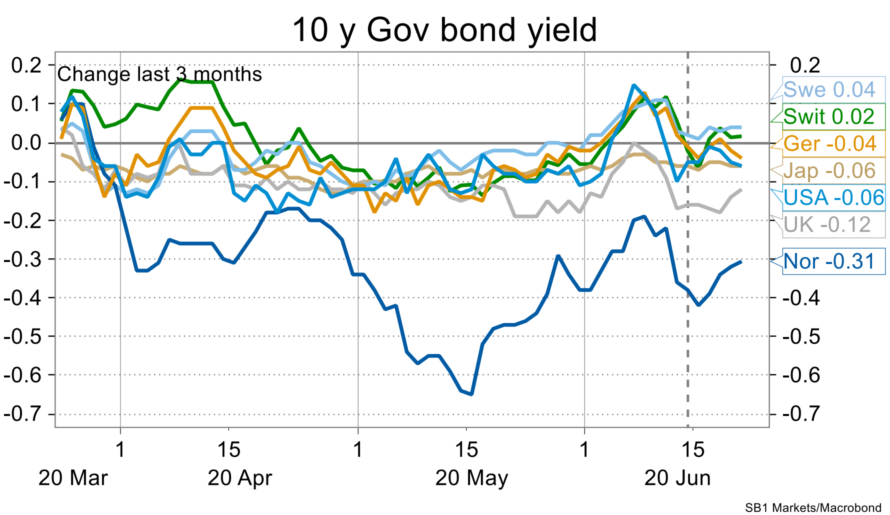


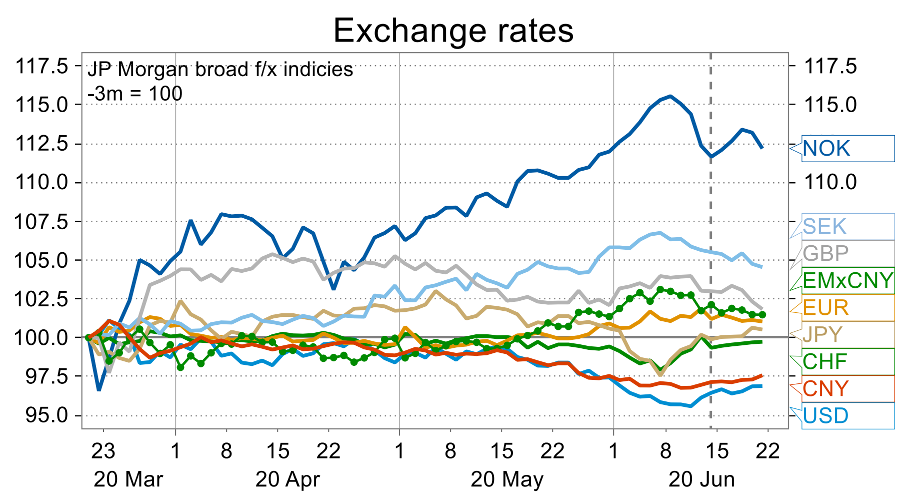
Most stock markets up; metal & oil is trending up too. Yields still flattish

The USD recovered some of the previous weeks' losses, GBP down too







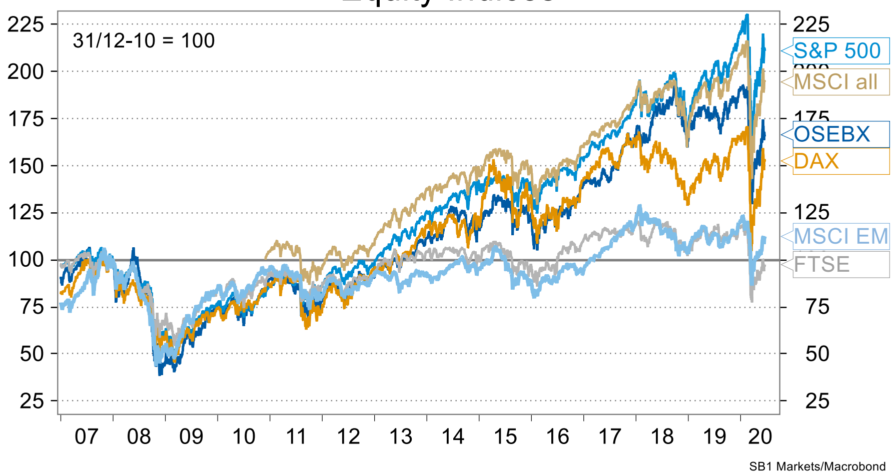


EUR, NOK & EM x China f/x on the way up. USD & CNY on the way down

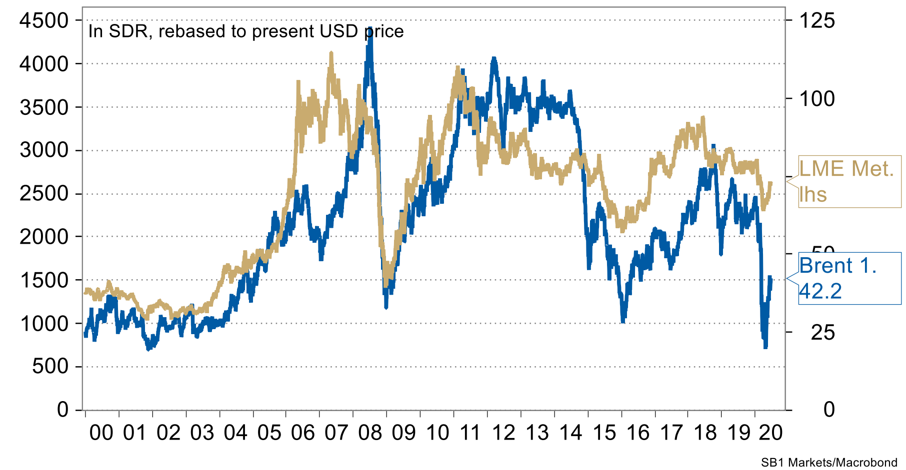
In the long run: Stock markets are looking like a 'V'

… because investors are looking for a 'V'-shaped corona recovery? Oil, metals up too

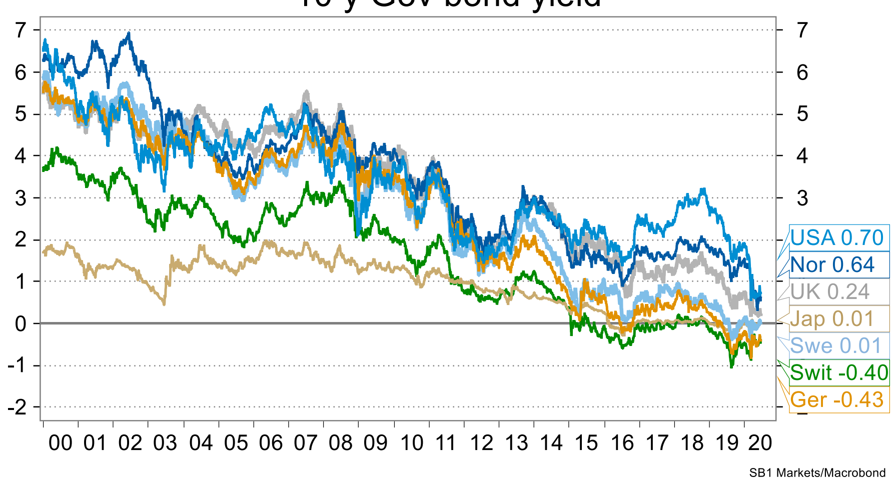
Equity Indices



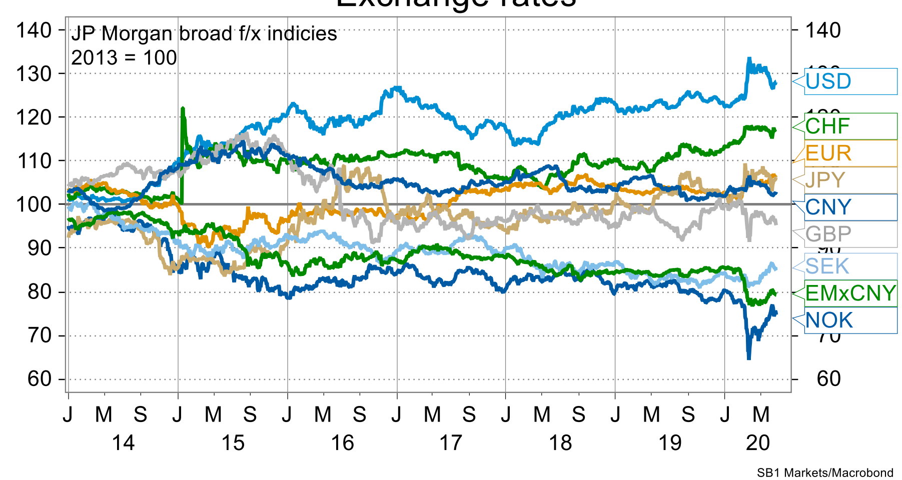
Oil vs. metals



10 y Gov bond yield



Exchange rates



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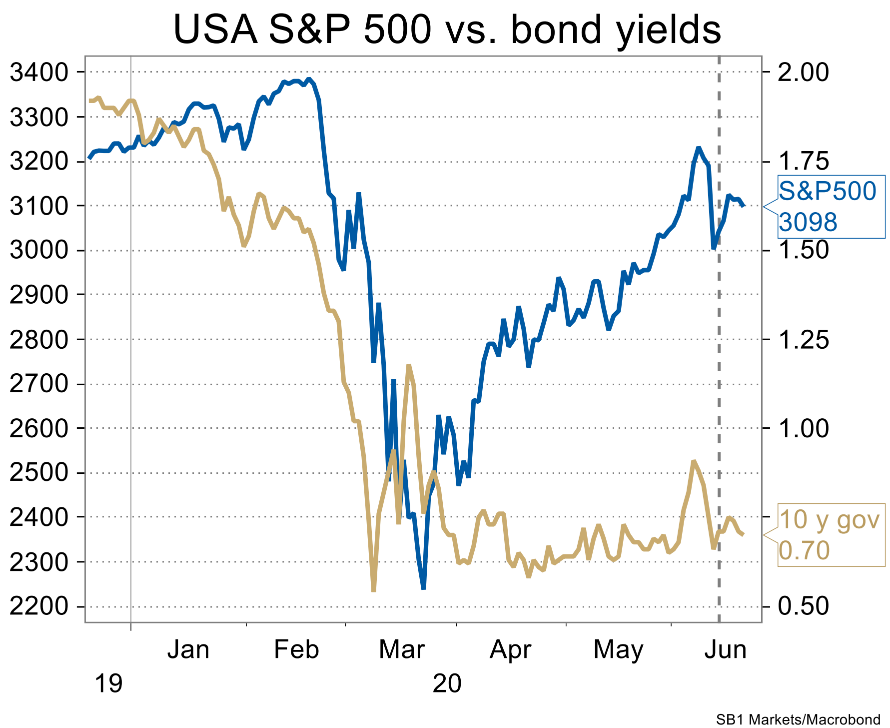
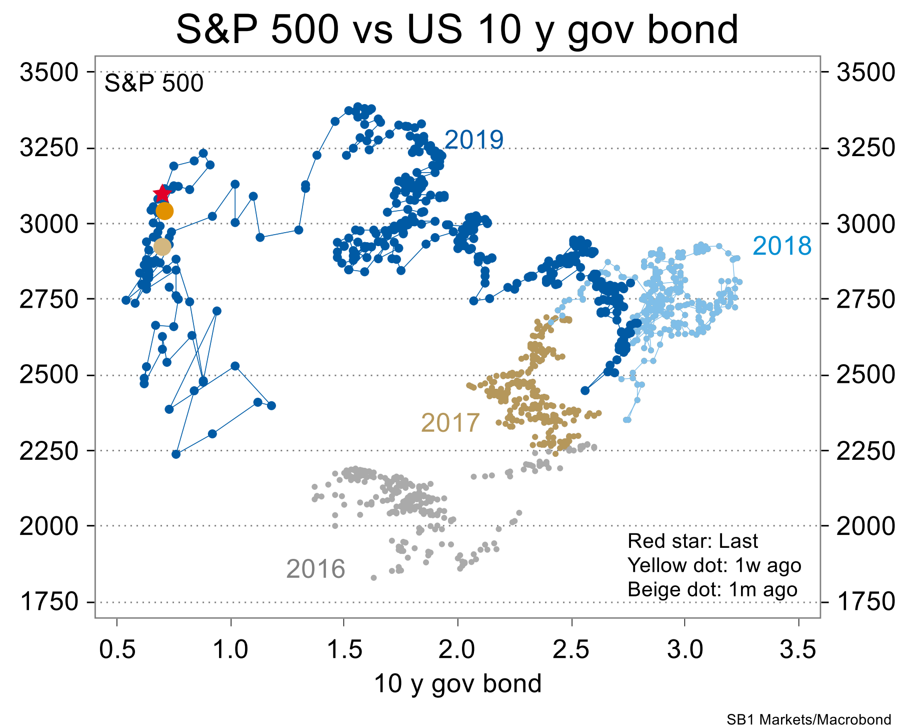
S&P up 1.8%, the 10 y bond yield stabilised following the previous 20 bps decline

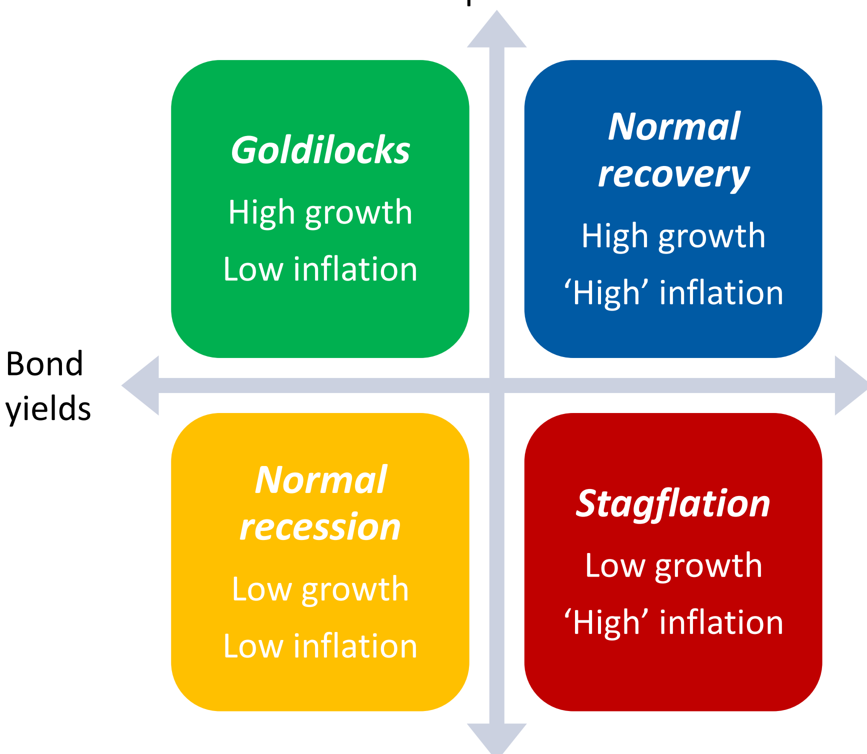
However, volatility has increased

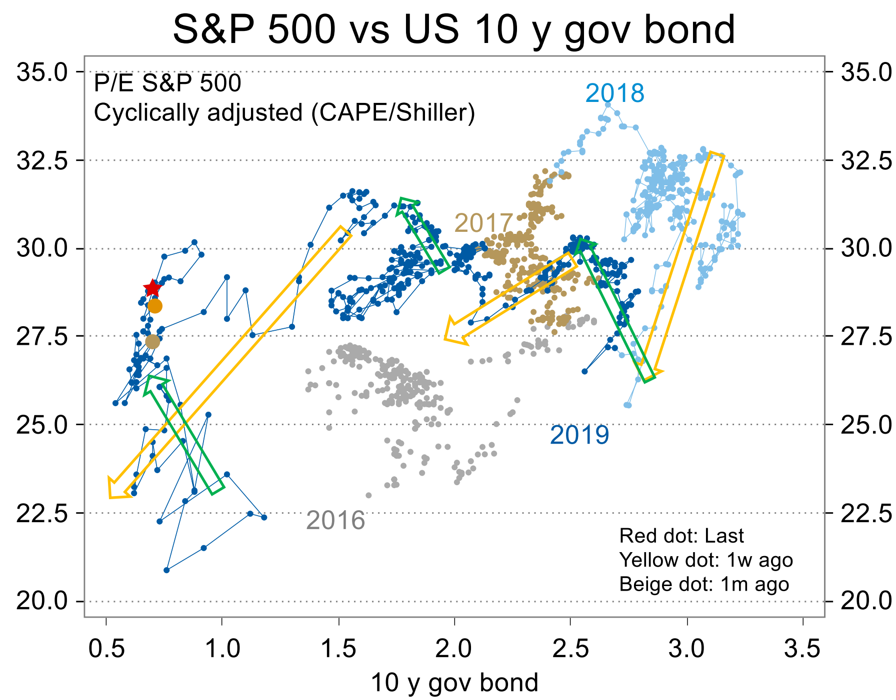




Last week: Stocks slightly up, yields unch. Stocks up 5% last month

... as growth signals have been quite positive. However, the corona virus still around



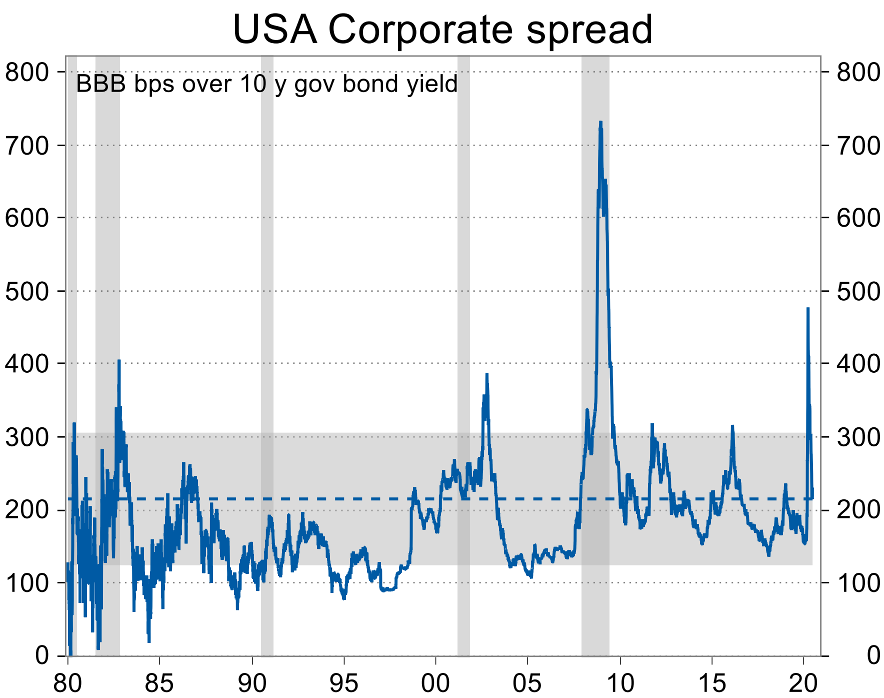


SB1 Markets/Macrobond

- 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.

Corporate spreads are (almost) back to average levels!

And then Federal Reserve decided to start buying individual corporate bonds! Do they know something?



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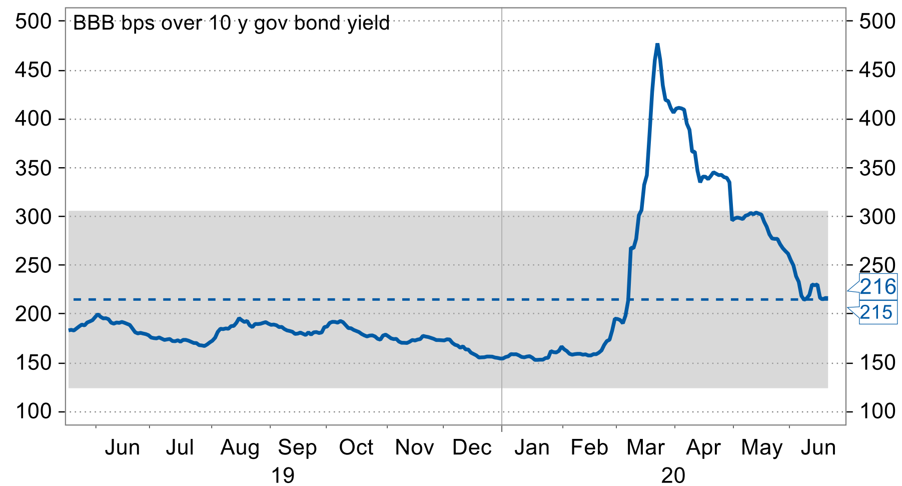

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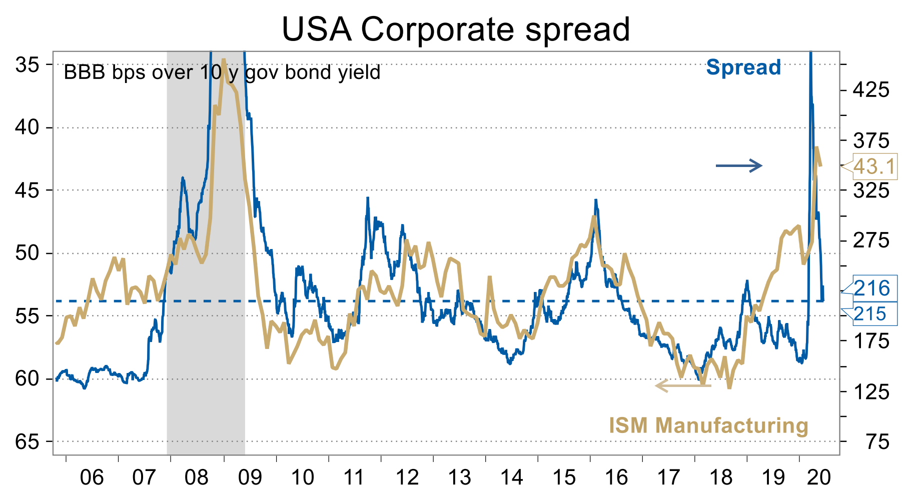

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- Is the credit risk at an average level now??

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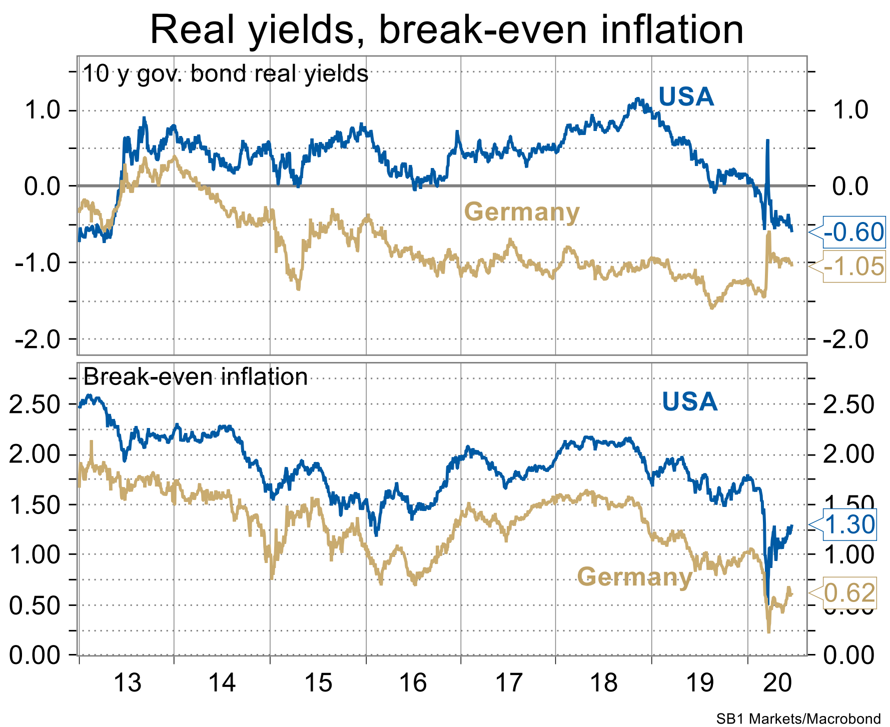
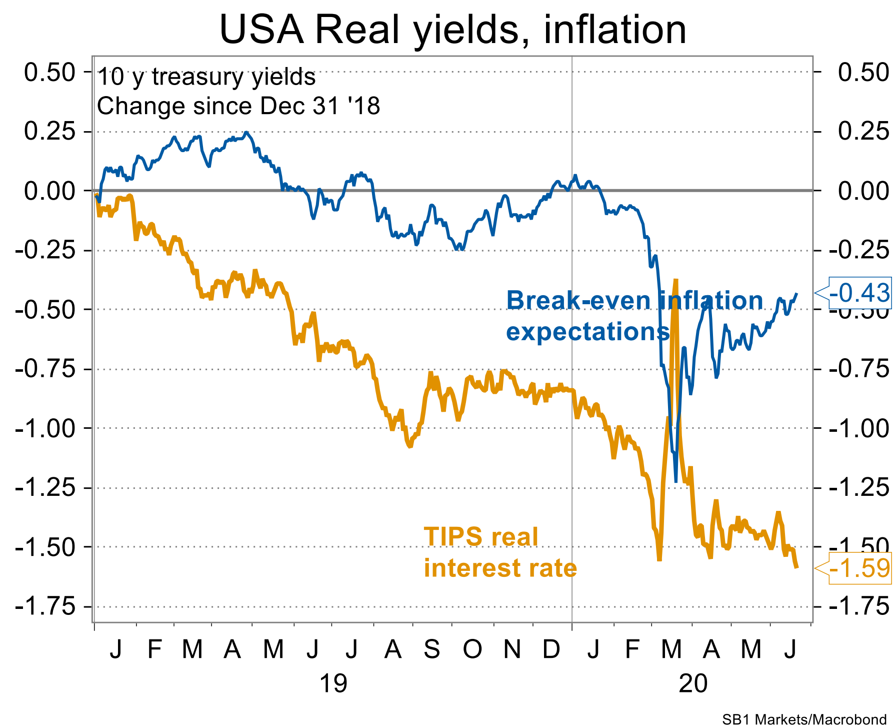
Inflation expectations drifting up but are still very low

No inflation angst, 10 y expectation 0.6% in Germany, 1.3% in the US

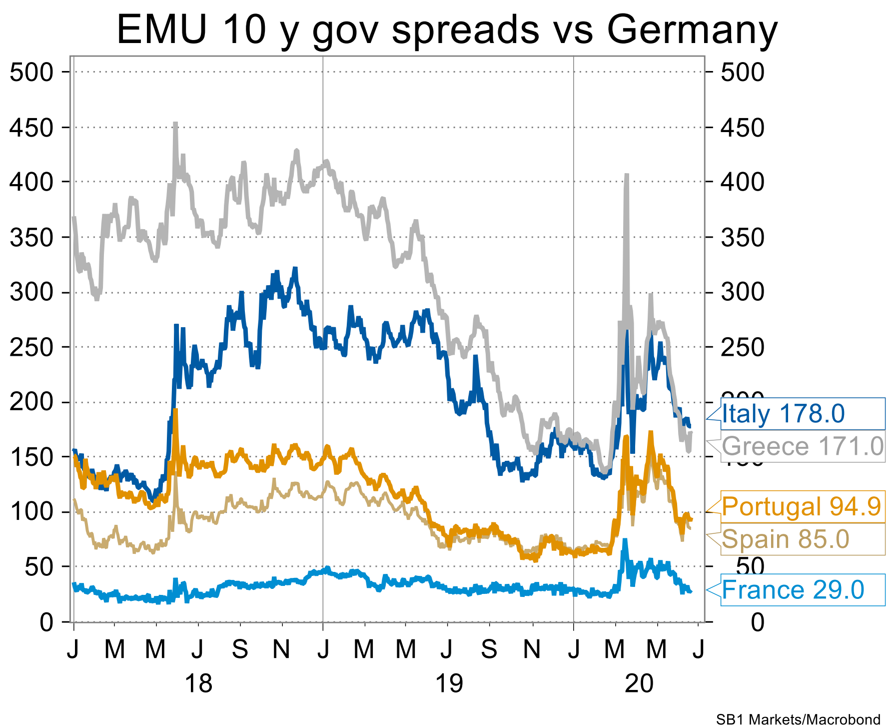


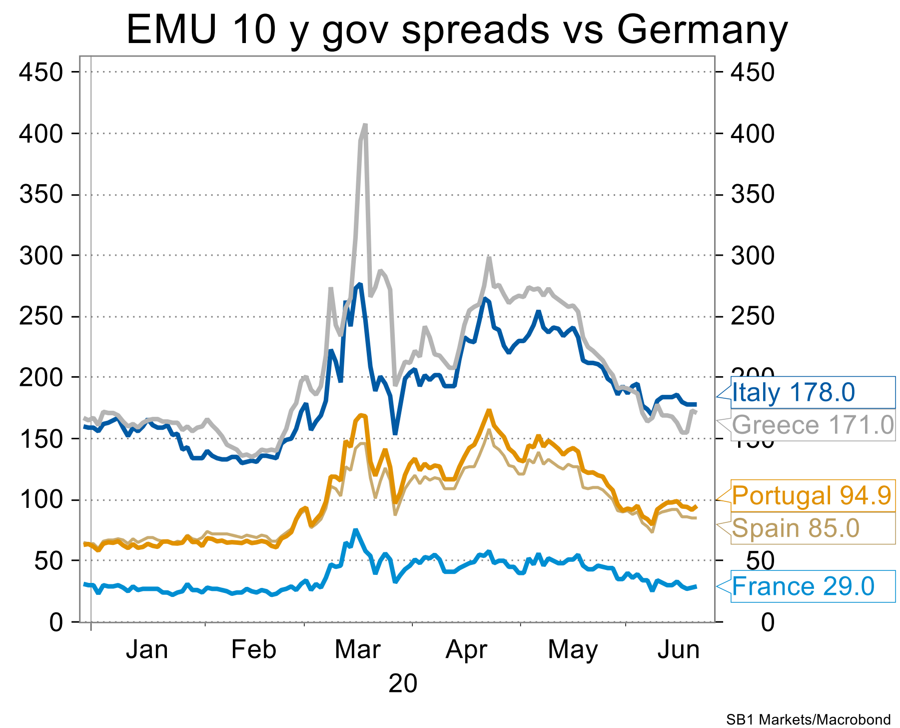


- Real interest rates are very low too

The EU has started to discuss the fiscal support package…

And most likely Germany and France will succeed vs. the ‘frugal north’

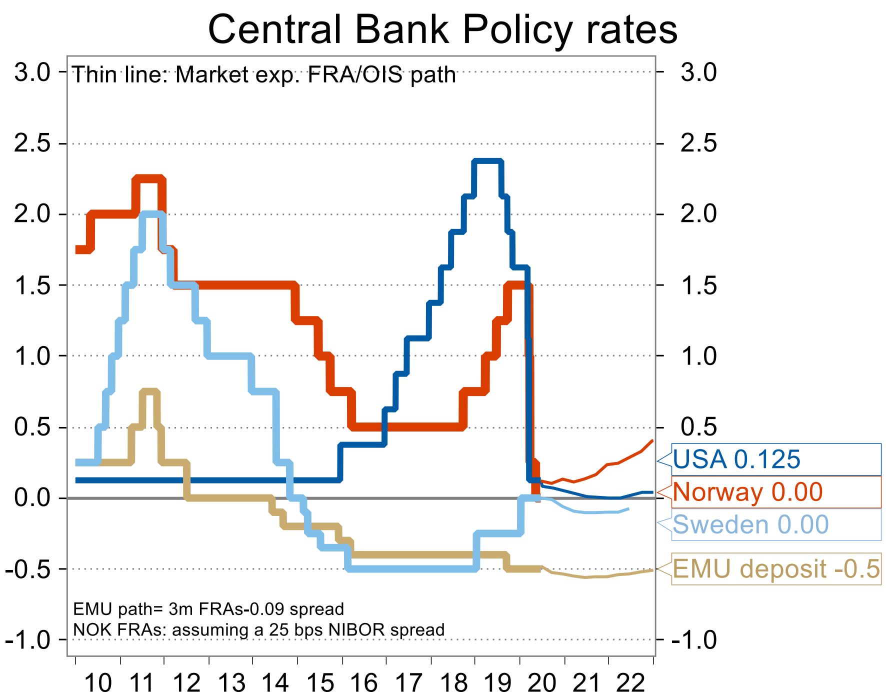




- Spreads within the Euro zone is still trending down. If EU does not agree upon the rescue package, spreads will no doubt widen sharply – even if the ESB could step up its QE programs

NoBa the first bank to signal higher rates – in 2½ years time, that is

Still, NoBa was the first



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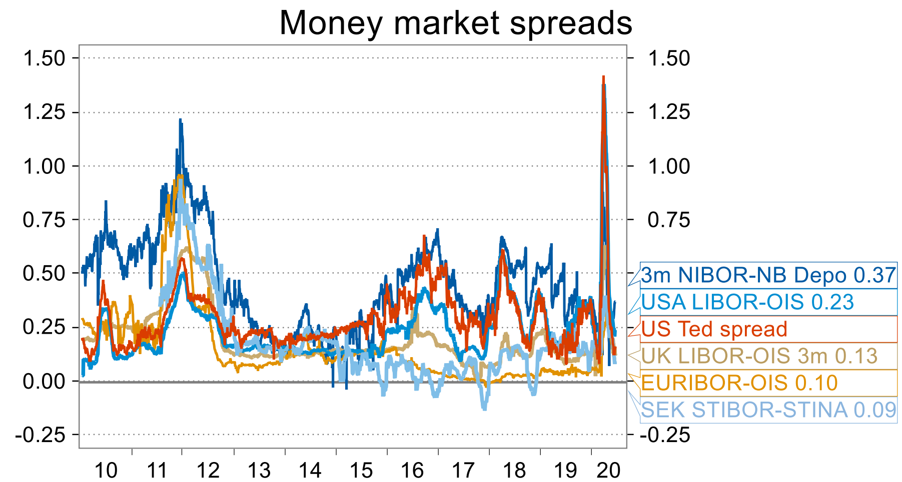

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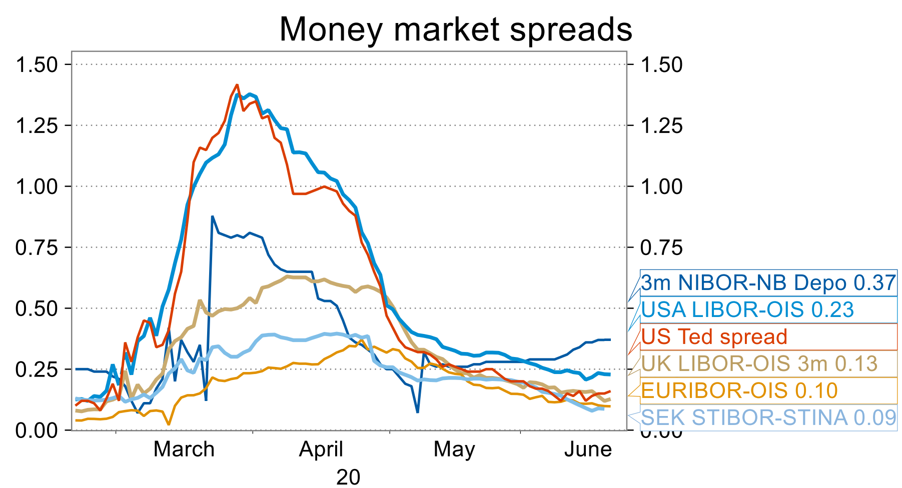

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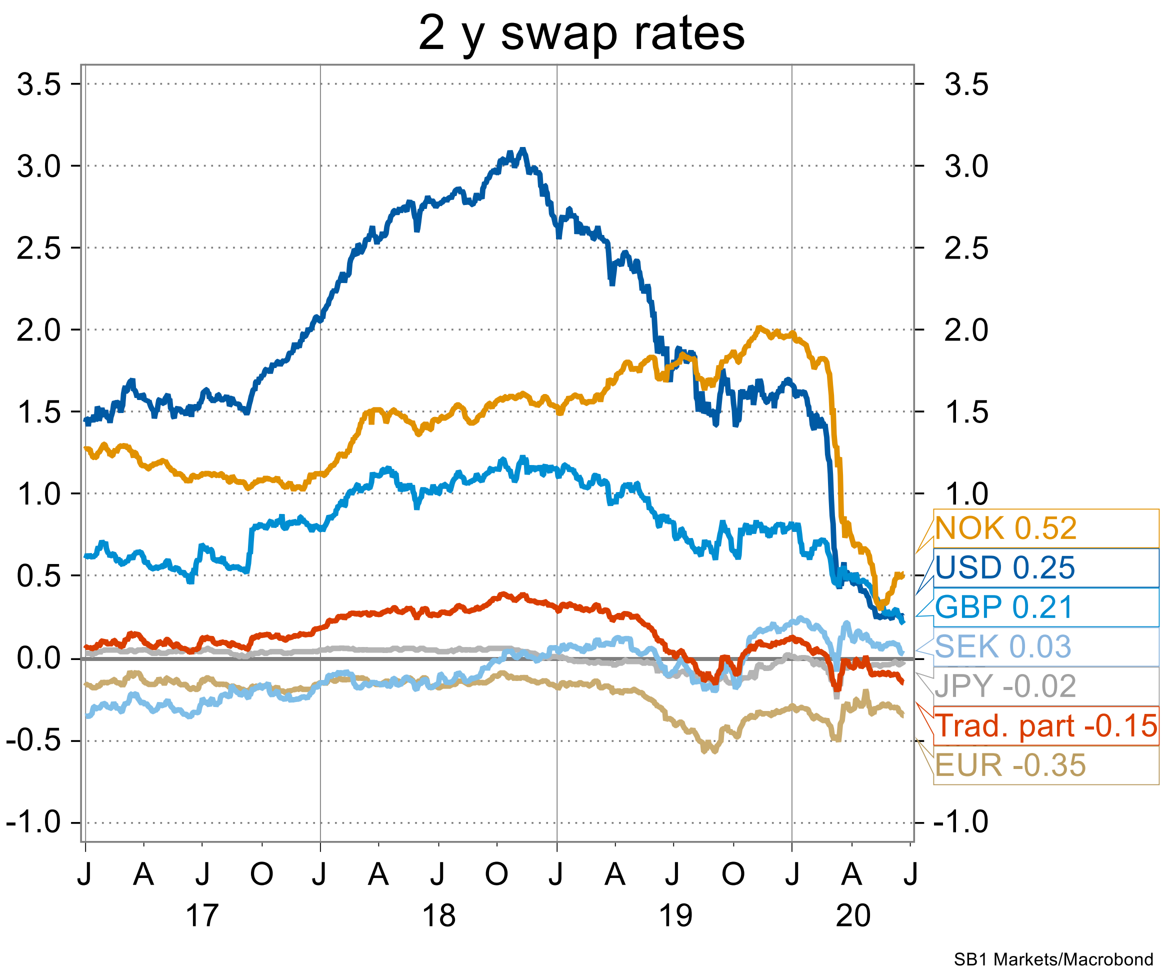
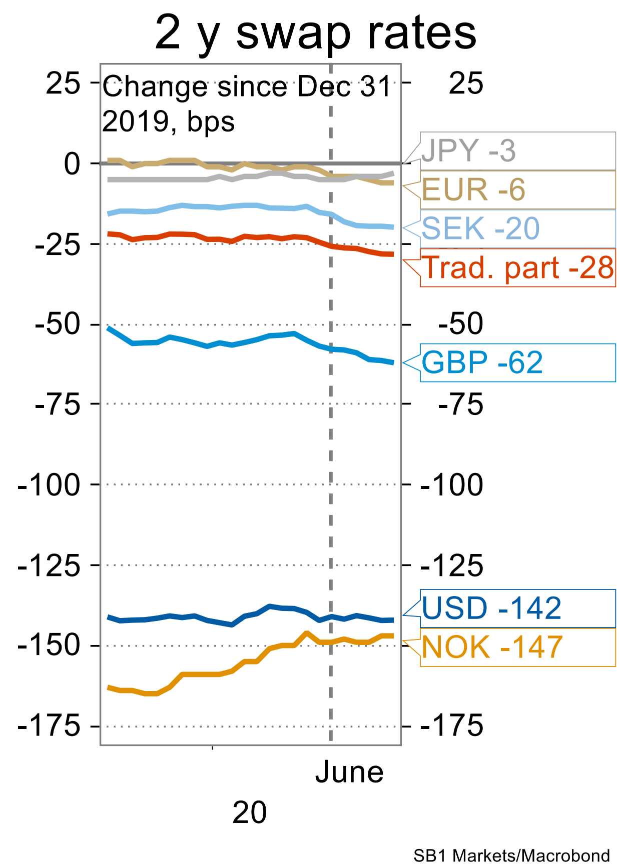
Down abroad, not in Norway





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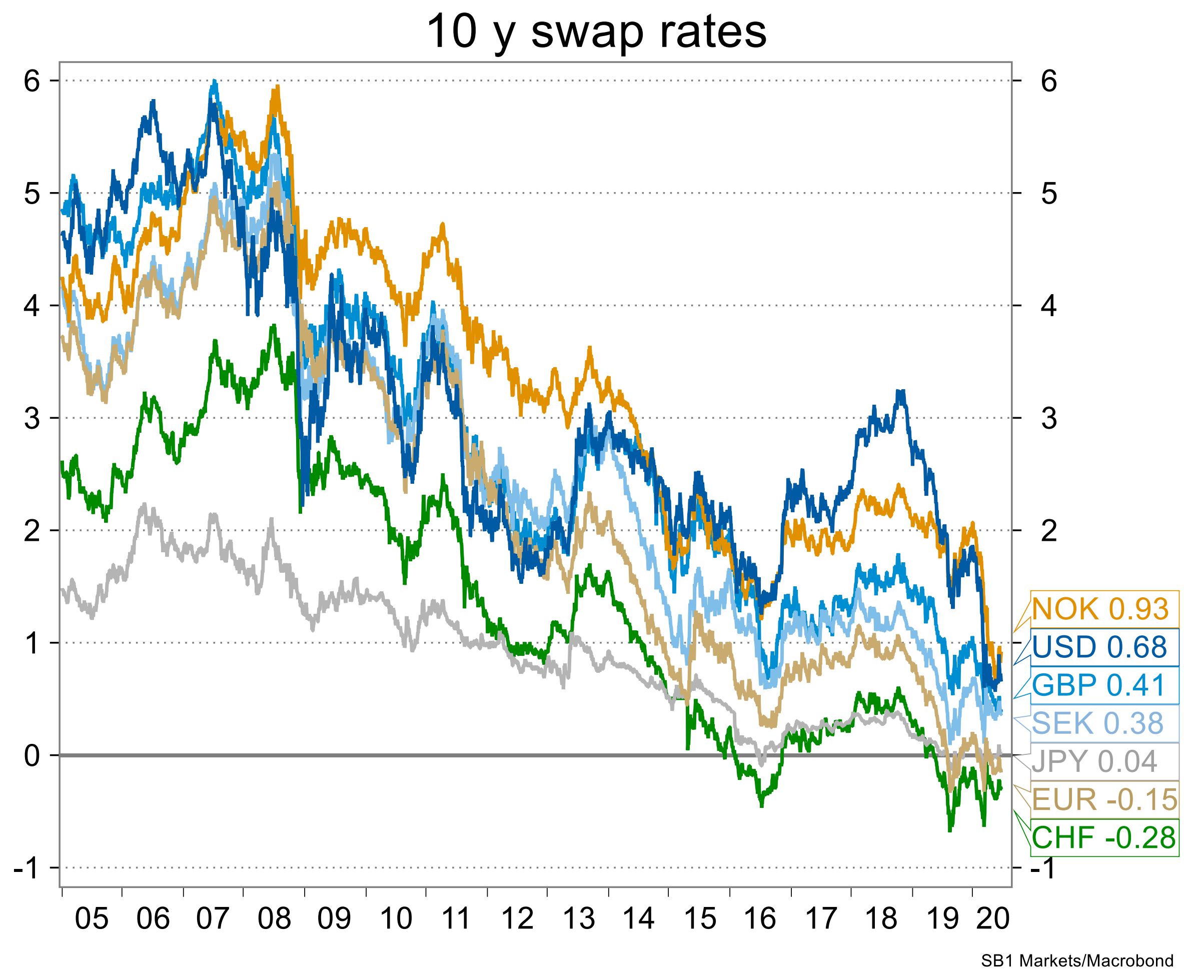
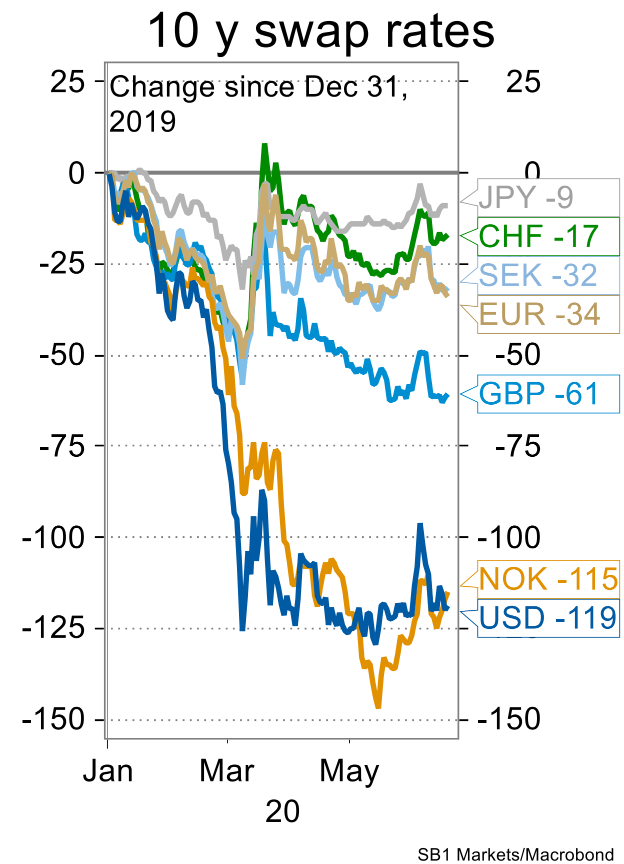
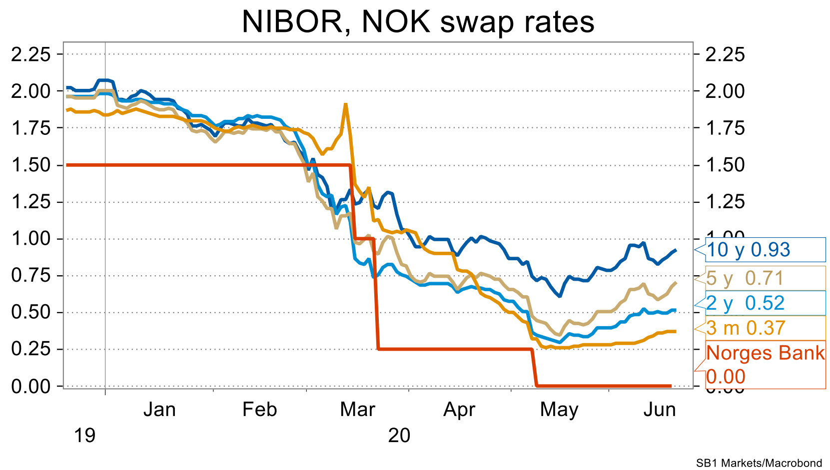
Down most places – but not in Norway

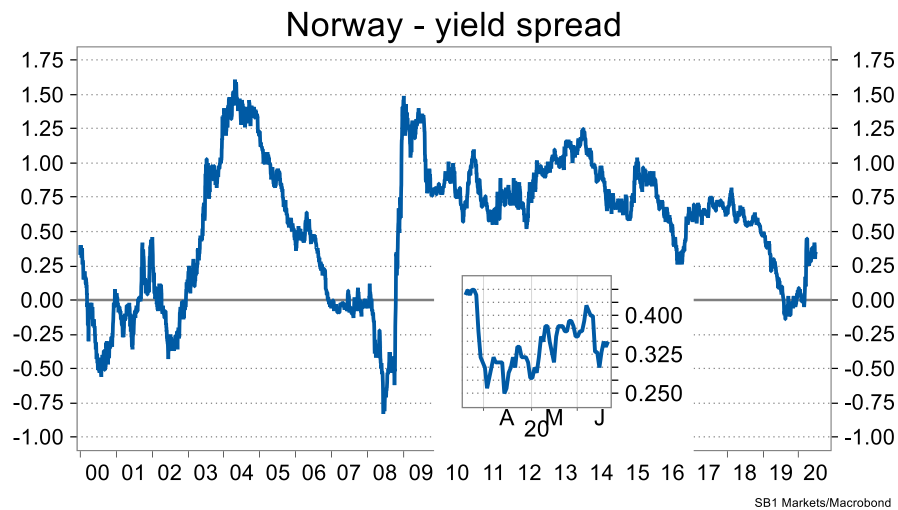


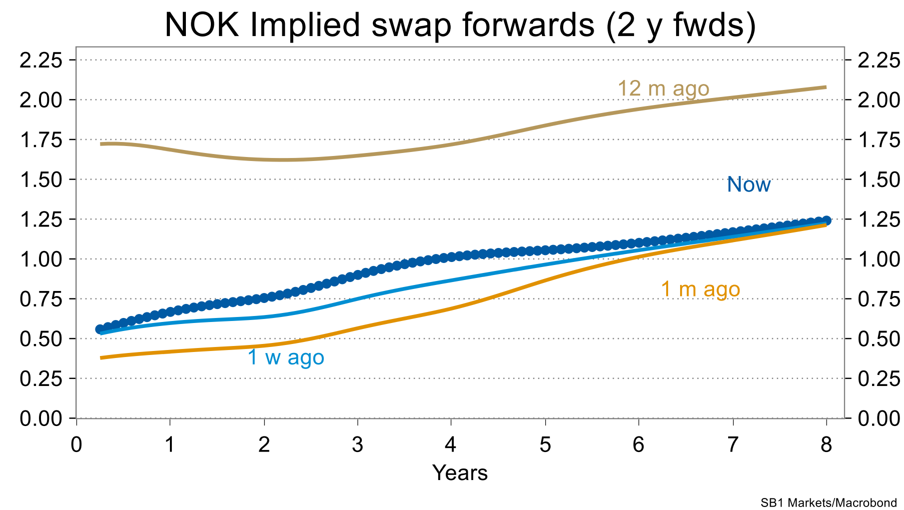


Norges Bank lifted the mid segment of the yield curve

The very short end, and the long end flat



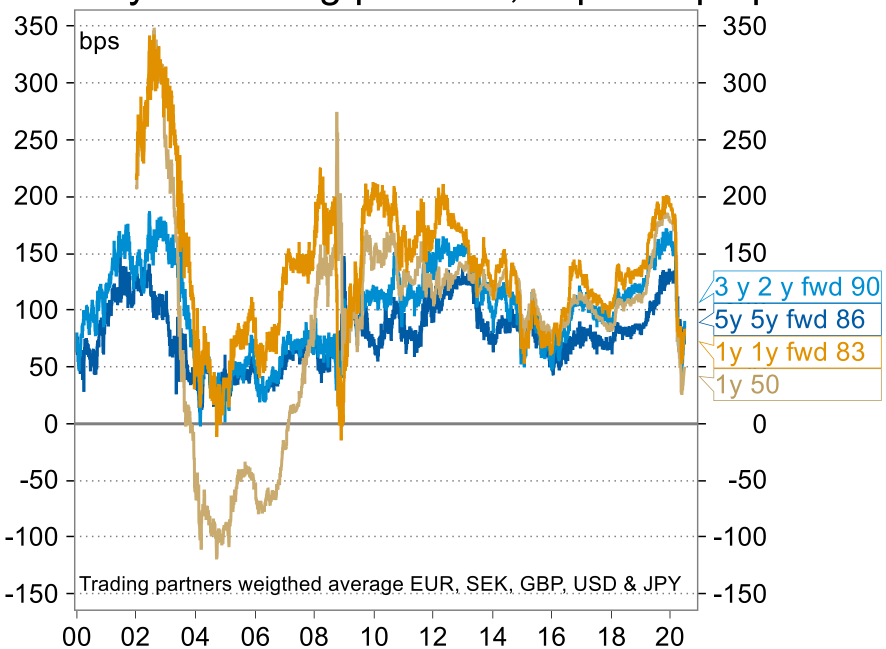




Norwegian yields up, others not

The spread has been widening since mid May

Norway vs trading partners, impl swap spreads



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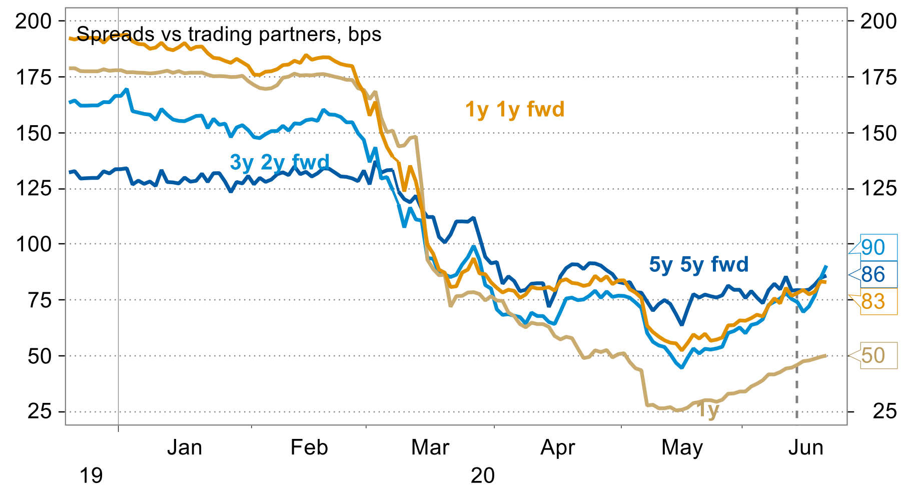

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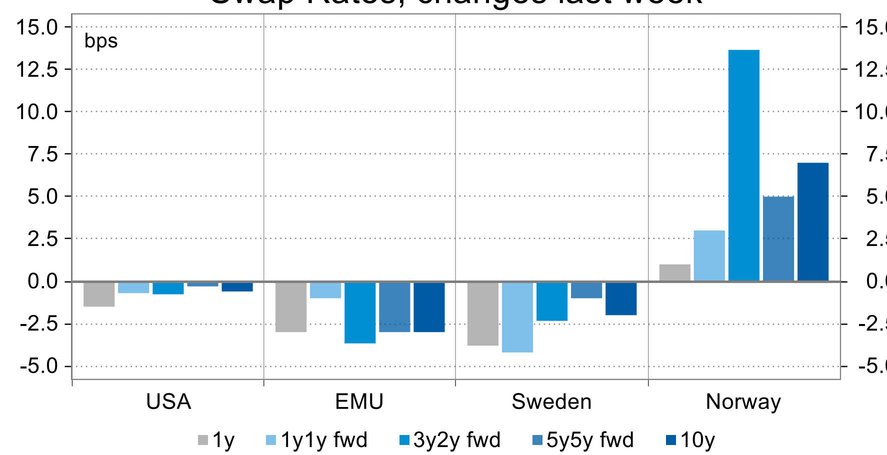
Swap Rates, changes last week



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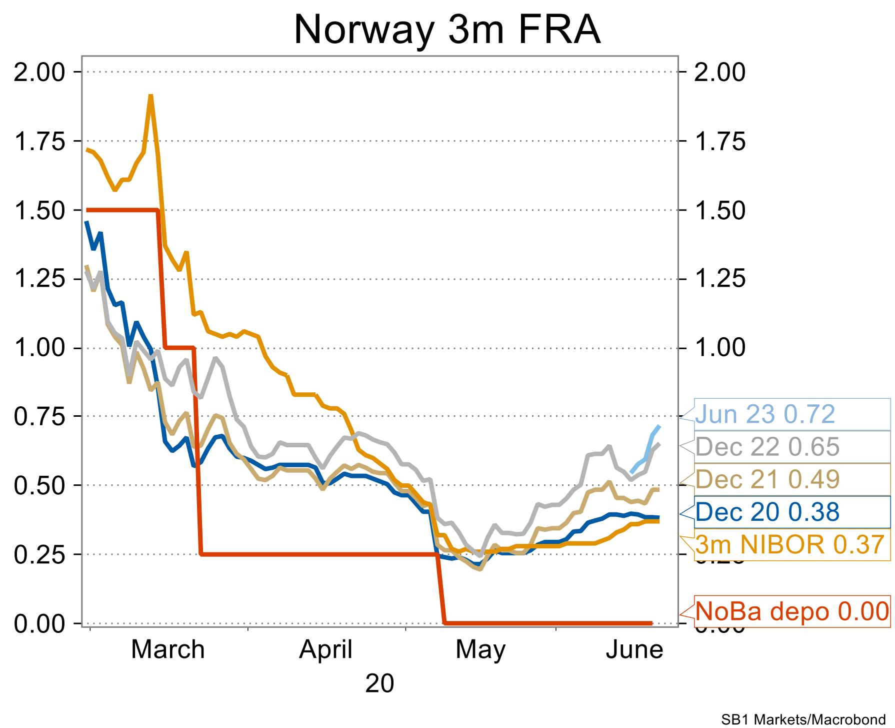
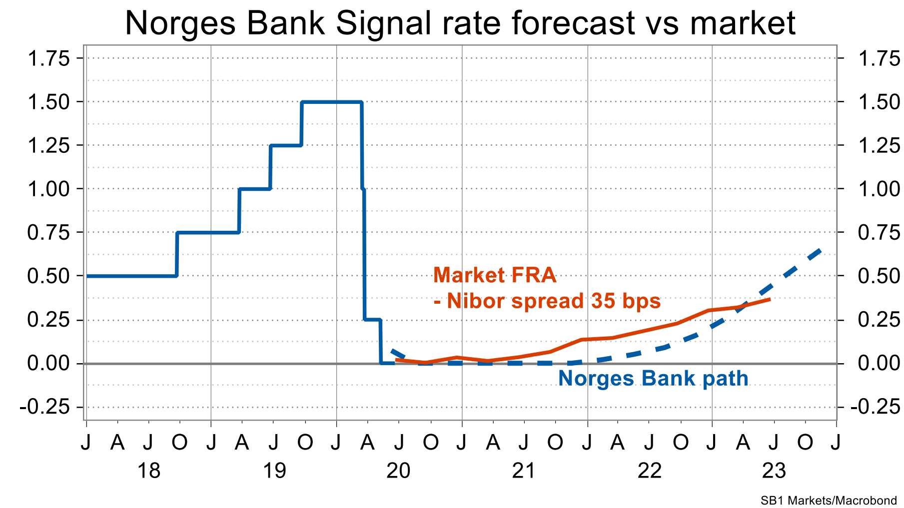
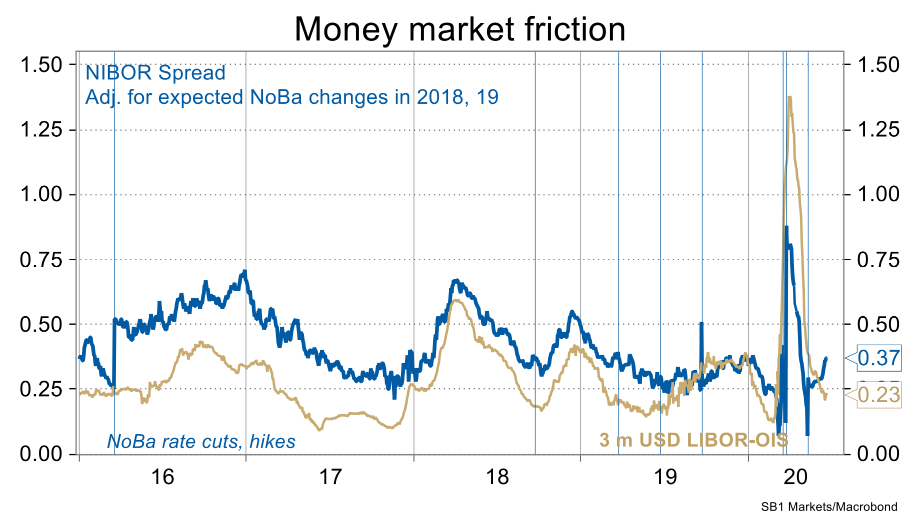
- Spreads vs. trading partners fell some 125 bsp to mid May from late February – from a too high level. Since mid May, spreads have widened some 25 bps (or slightly more)
- We are still neutral vs. the spread

The 3 m NIBOR 3 bps up to 0.37% due to a spread widening

While longer dated FRAs more than 10 bps on a 'hawkish' Norges Bank

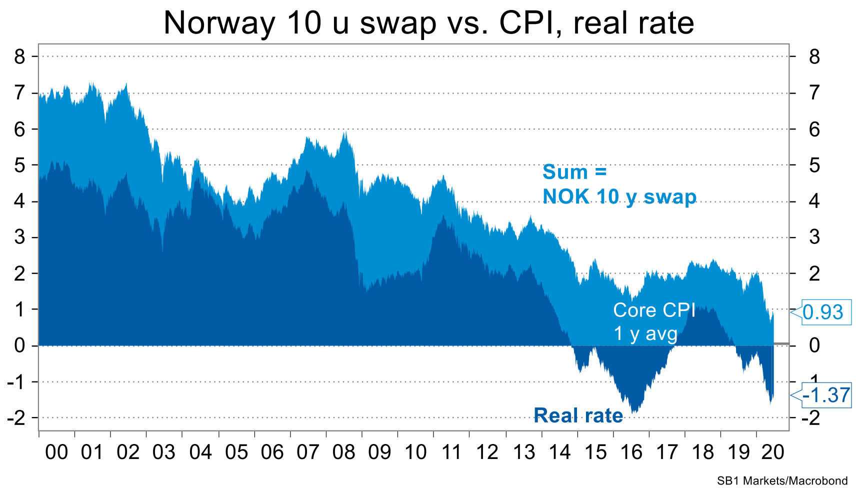




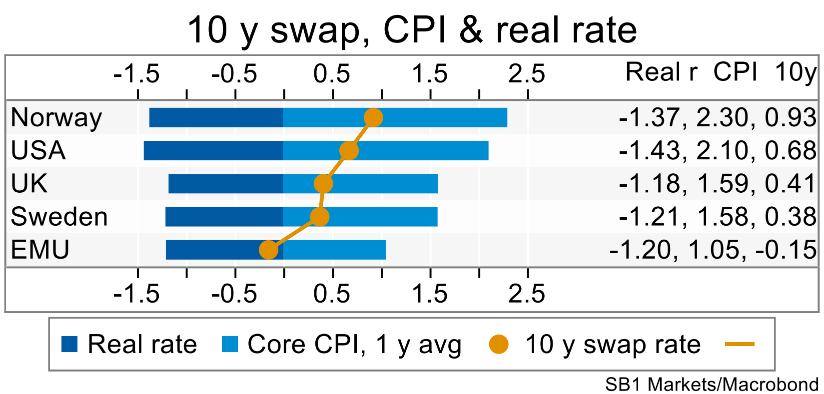


The FRAs are pricing in a 50% probability for late 2021 hike and a first hike in Q4 is fully priced in. A lift in late 2022 is just like Norges Bank signalled last week

Negative (actual) real interest rates everywhere – NOK & USD at the bottom



- NOK 10 y nominal rates down more than 1 pp since January
- Real rates are well below -1%, based on actual core annual inflation (smoothed 12 m)



NOK real rates among the lowest

- Inflation among Norway and our main trading partners varies between 1.1 to 2.3% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US and Norway at the top
- Real rates are quite similar among our trading partners, in the range -1.2% (EMU) to -1.4 (Norway & US), vs the 10 y swap rates
- *Thus: Inflation differentials explain most of the differentials in long term swap rates*

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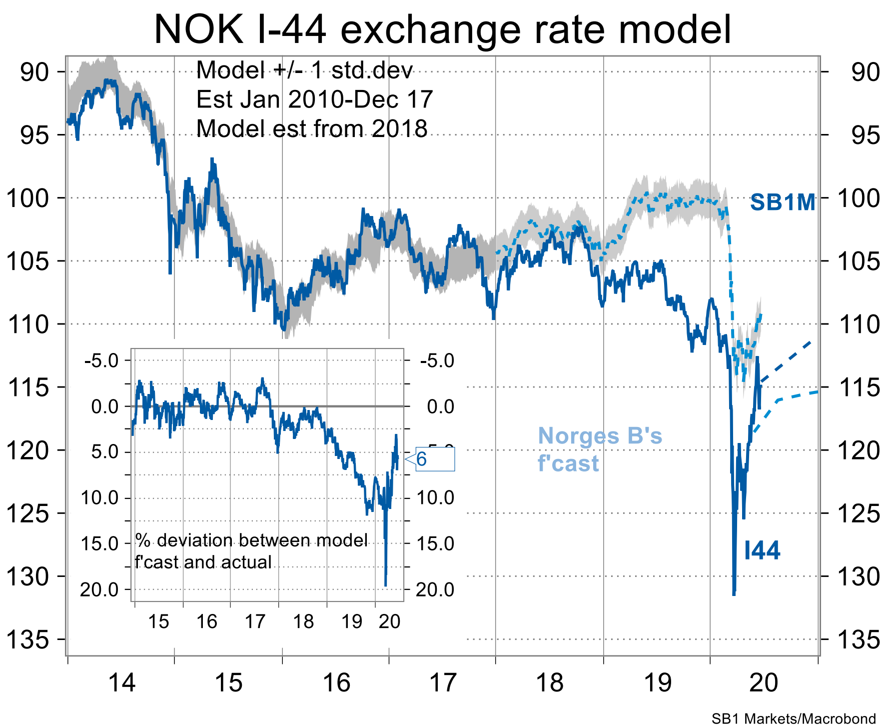
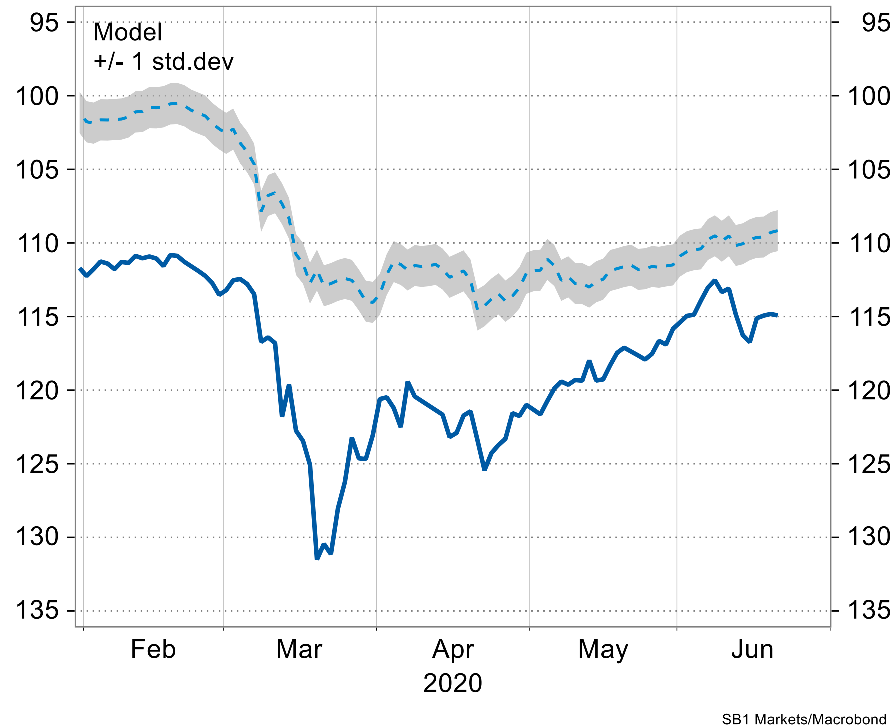
The NOK marginally up last week – alongside a higher oil price

The NOK up some 1%, in line with the model estimate – and still 6% below the model estimate level





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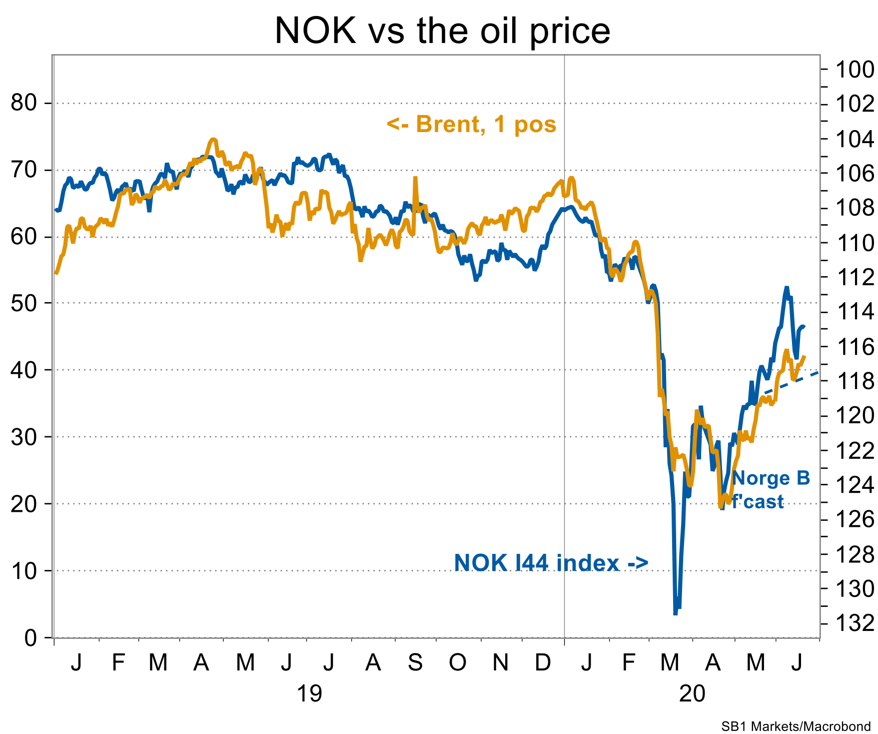
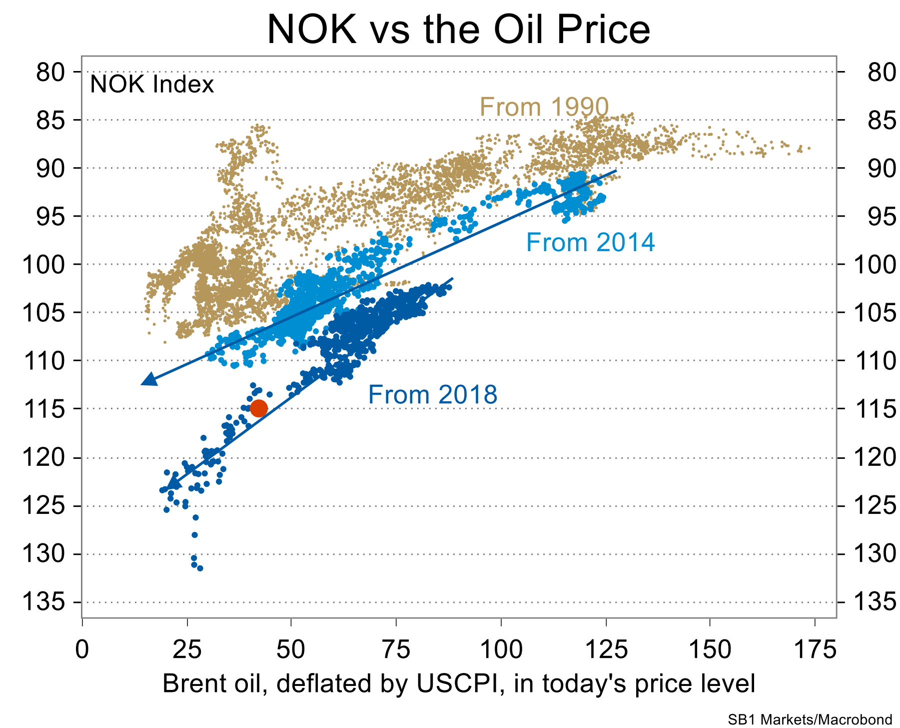
The NOK close to neutral vs the oil price – vs the post 2018 relationship





- 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>

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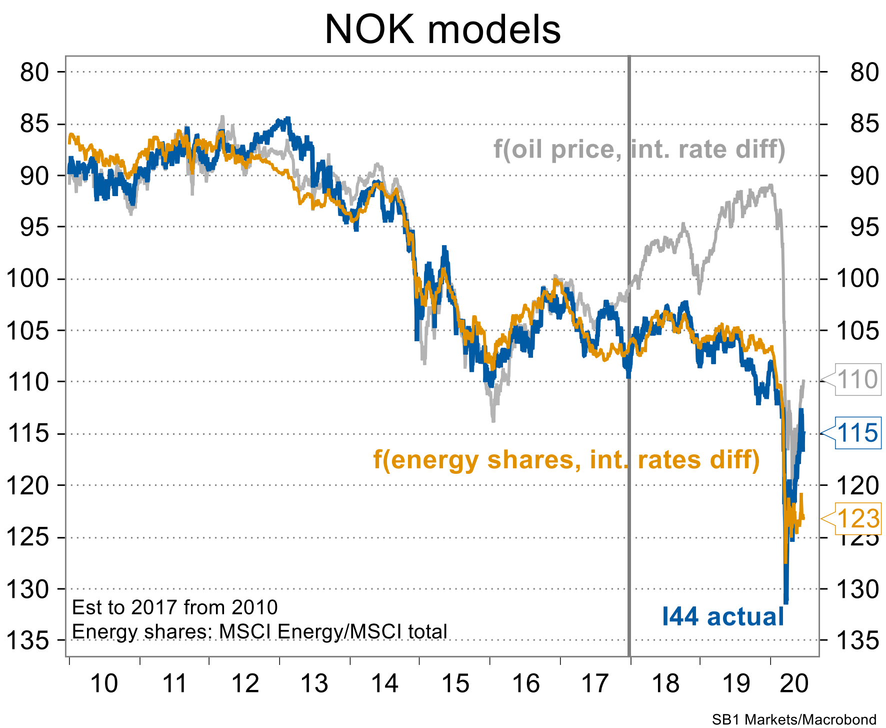
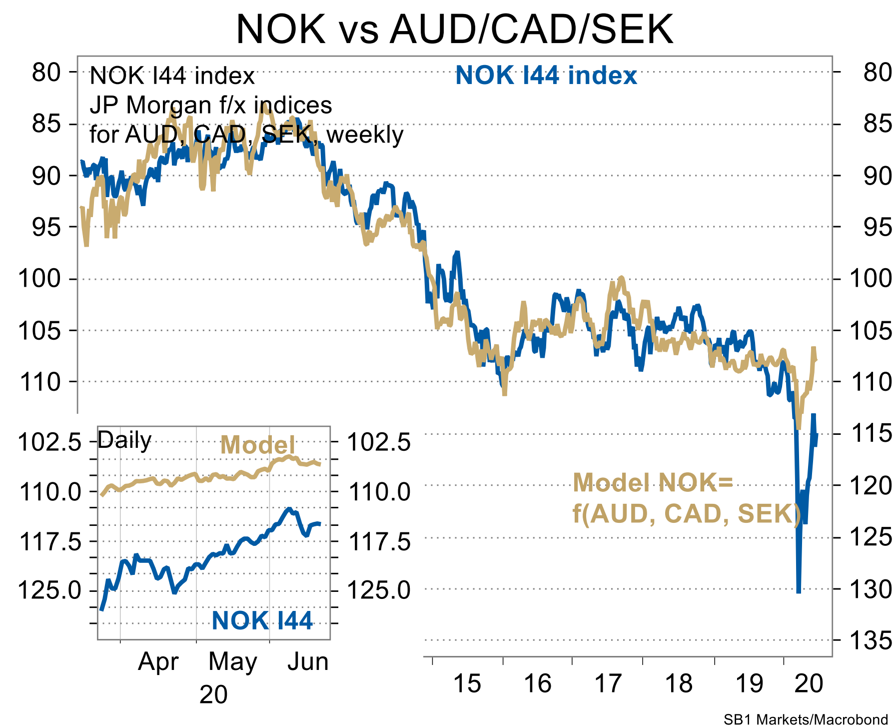
NOK 'stronger' than oil companies but weaker than the other supercyclicals

NOK is some 8% too weak vs the 'supercycle' model but 7% 'stronger than oil companies

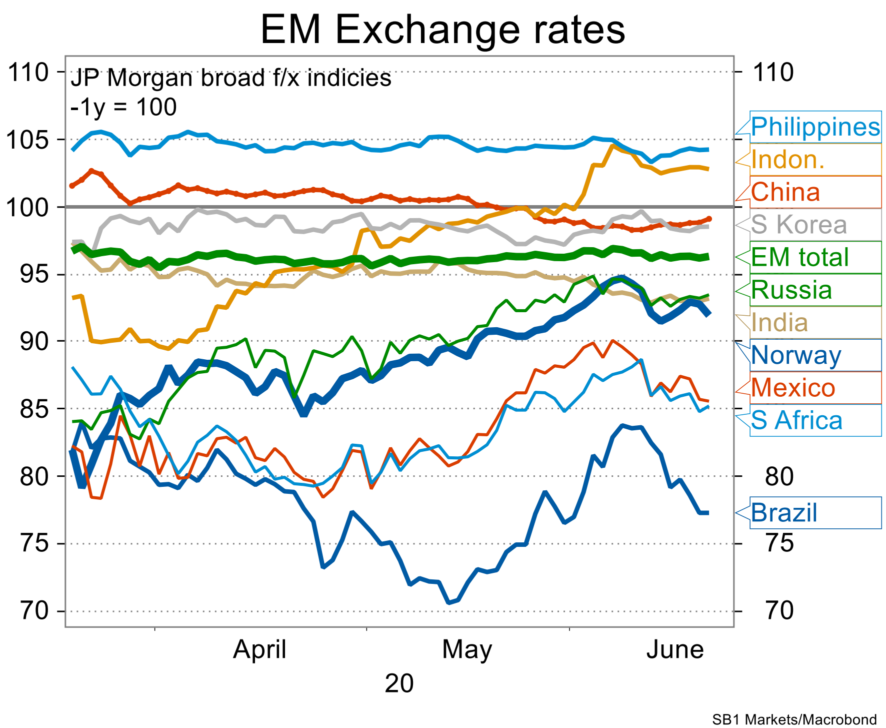


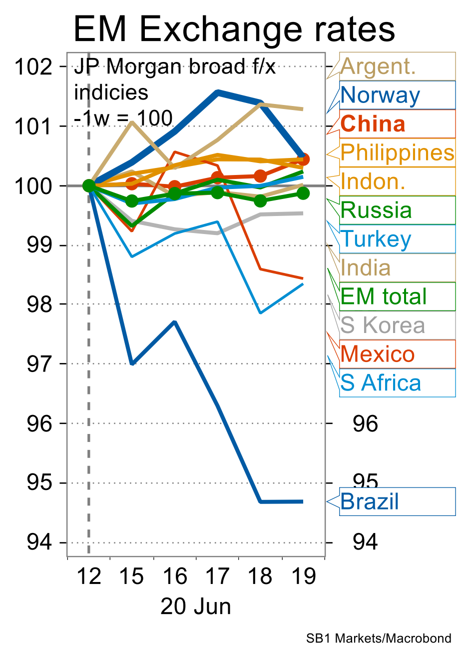


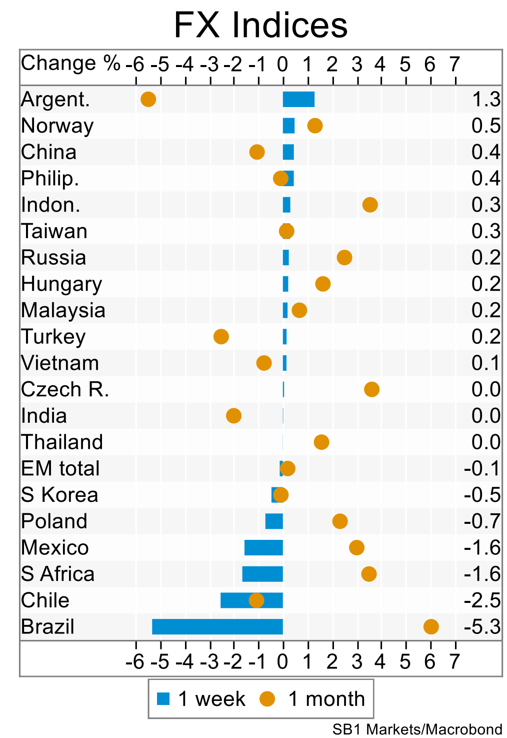
- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to 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

The Brazilian real sharply down again, the Chinese yuan slightly stronger

In sum, EM currencies have been stable since March

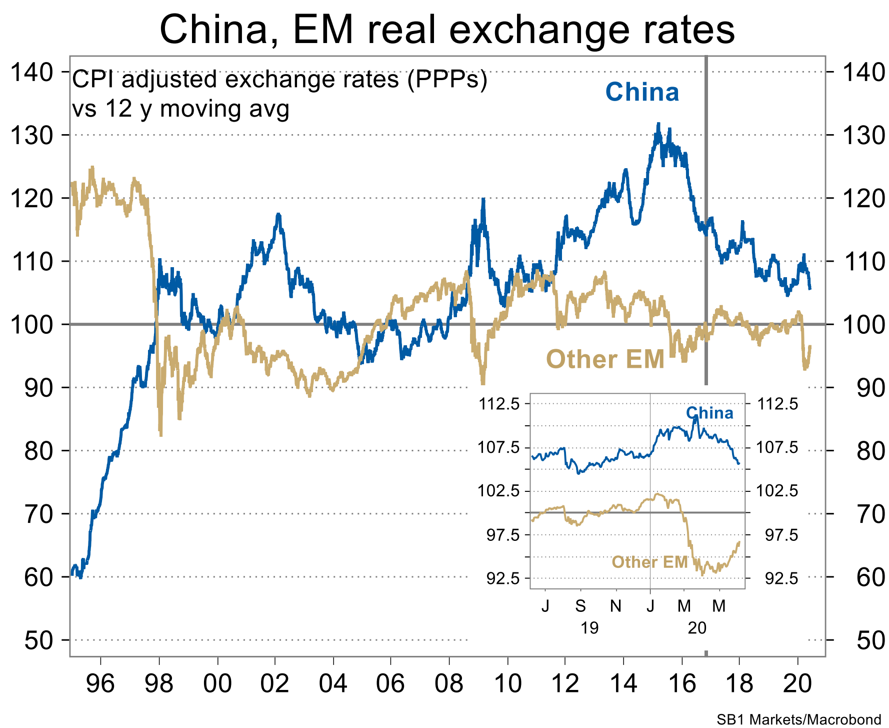


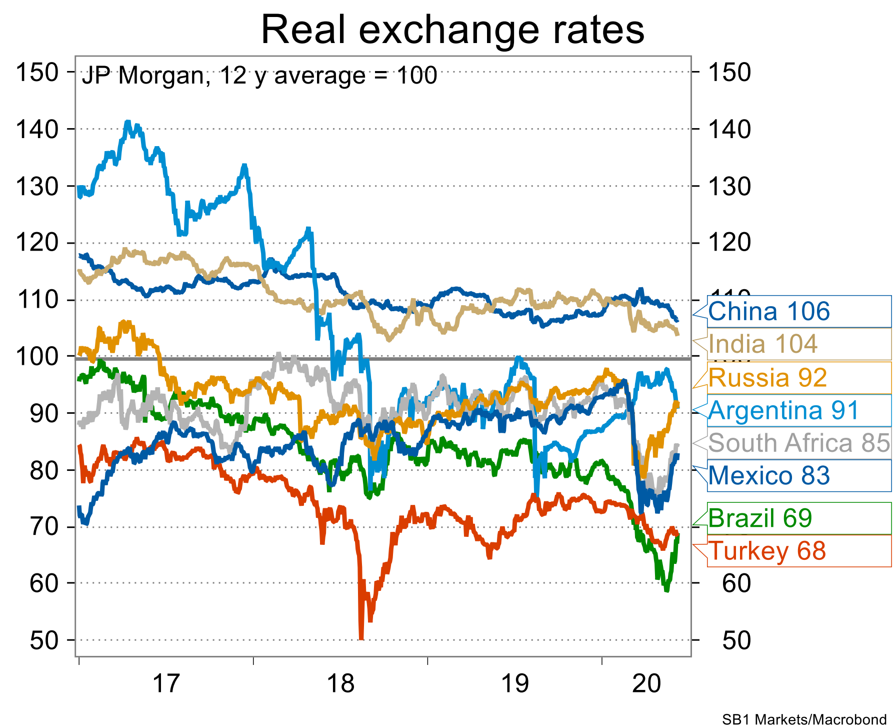




EM currencies are recovering from a not too dramatic depreciation

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 depreciating

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