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Macro Research

Weekly update 27/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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Last week – the main takes

- A large majority of US states are reporting an increase in **new Covid-19 cases**, and several states are reporting a very rapid increase. The reason is not more testing but more corona cases following (too early) re-openings. The 'R' reproduction number is close to 1.4 in these states, implying almost a quadrupling per month – which will not go on for long. Some restrictions are reintroduced, more will come, and people will anyway change behaviour. No serious problems elsewhere in the rich part of the world, just some local outbreaks. However, globally, the inflow of **new cases is record high**, driven primarily by Lat Am and India
- **The global PMI** rose and probably more than expected in June but remains below 50, even if all activity indicators turned up in May and have signalled further growth in June. Thus, the PMIs are now lagging actual activity. In fact, the recovery started in mid April, and the global recessions lasted just 3 – 4 weeks. However, positive growth does imply that happy times back as the activity level is still below normal. Japan manufacturers reported the weakest preliminary June PMI, while both European and US PMIs rose more than expected(and national European and regional surveys followed suit). Services more or less closed the gap to manufacturing. Many more PMIs out this week
- **US personal consumption** rose sharply in May, but still recovered just 1/3rd of the loss since February. Household income declined due to lower transfers from the government as most of the corona checks were sent in April. The savings rate is still above 20%, and much demand is pent up! **Mixed existing and new home sales** in May but that's not strange, during a lockdown. **Durable orders** rose more than expected in May but no more than 1/4th of the corona setback was recovered. Still, the downturn was not that harsh and in two Fed regional surveys businesses revised their investment plans upwards (but they still plan to cut). New jobless claims are falling but slower – and exports fell sharply in May too, and more than imports
- Swedish retail sales rose in May, and is higher than before the corona crisis
- **Norwegian retail sales** rose further in May, and are 6% above the pre corona level, total consumption of goods are up 4%. We do not yet have reliable May service consumption data, but services far from recovered fully from the -25% April level. Total consumption in Norway is down some 6%. Consumer confidence rose sharply in June, to an average levels. A housing barometer survey strengthened furthers too, and unemployment is falling further. Still total unemployment is still above 10%, up from 3.5% before corona. Hours worked are down some 8%

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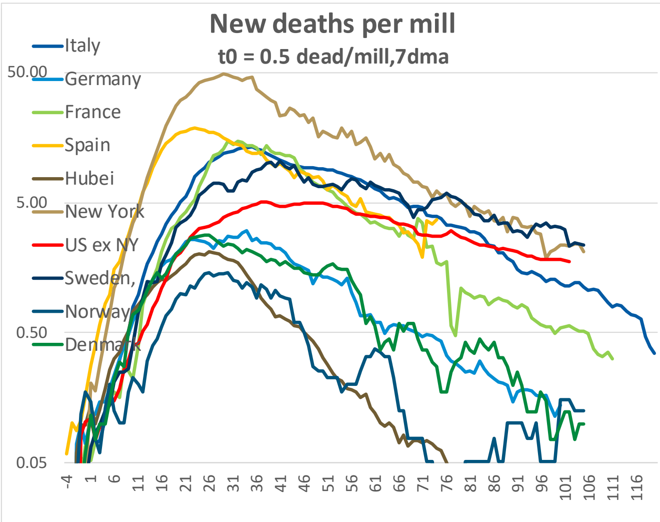
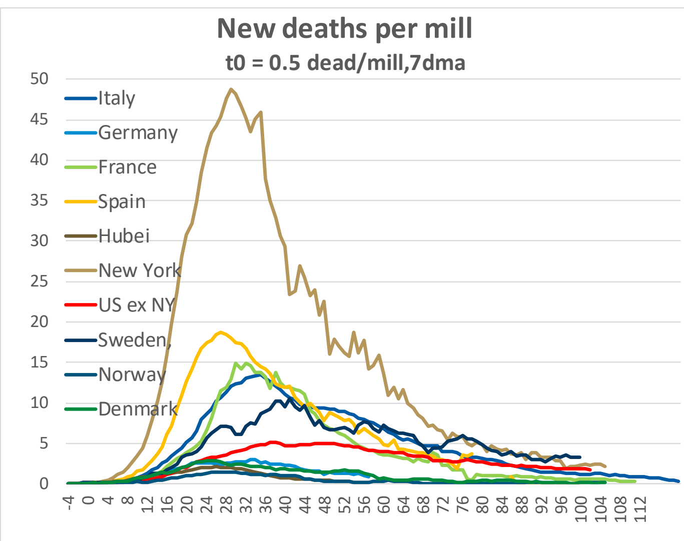
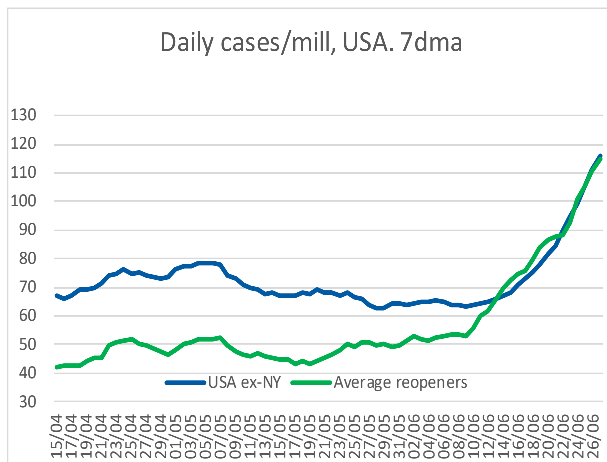
A wide spread acceleration in the US, the early reopeners almost 4x per month!

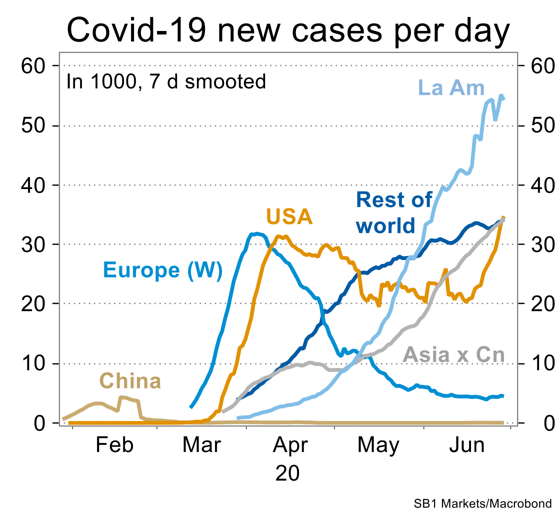
No serious signals of a 2nd wave other places but small, local outbreaks several places, also in Europe





- Almost all US states are now reporting more new cases – and it is not due to increased testing but more cases. Southern/Western early reopeners the reproduction number is close to 1.4, implying almost a quadrupling per month. Given the present level, almost 120 cases per mill (7 d avg, probably at 140 today), this will not go on for many weeks, they will reach NY peak levels in 4 weeks. Hospitalisation is increasing, a death rates will most likely soon turn up. Some restrictions are reintroduced in Texas, other states have paused further easing of restrictions – but the latter is not sufficient. Economic activity will slow, whatever authorities decide, as people will not expose themselves for the risks when hospitals are being filled further 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 barring some few are some local outbreaks. EU is opening up for travel between most countries
- In several Emerging markets the trend is still sharply up. Lat-Am is the epi-centre now – and the global count is record high!



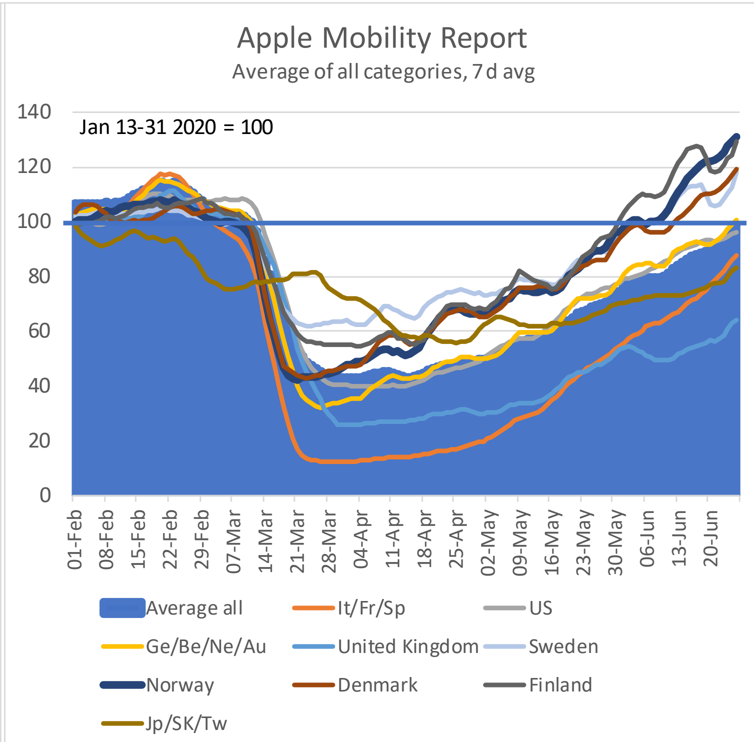


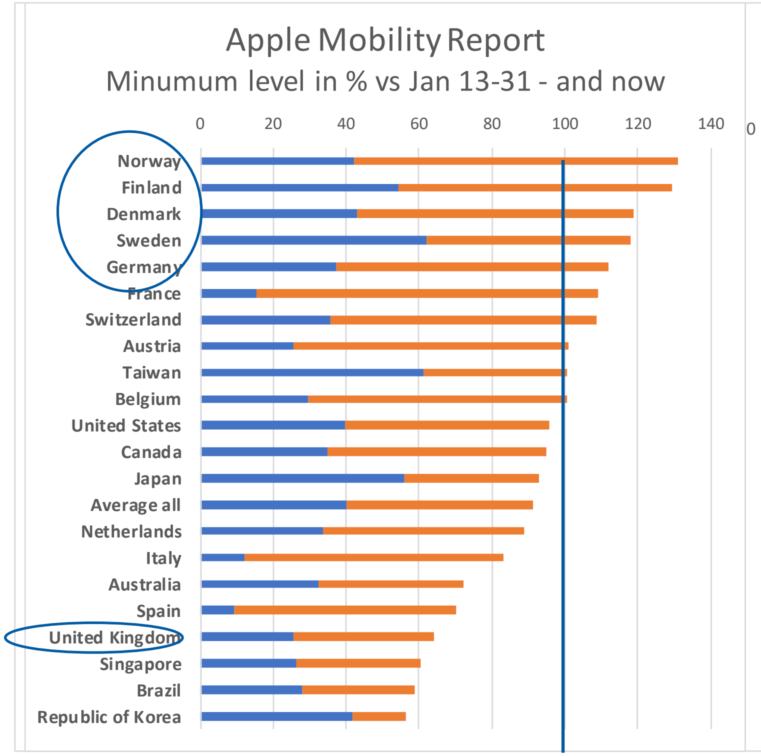
Sources: Johns Hopkins, SB1 Markets. Not all data are fully updated

Covid-19

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

Several countries above a normal level, UK, Spain are still lagging, alongside Brazil and South Korea





- 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.

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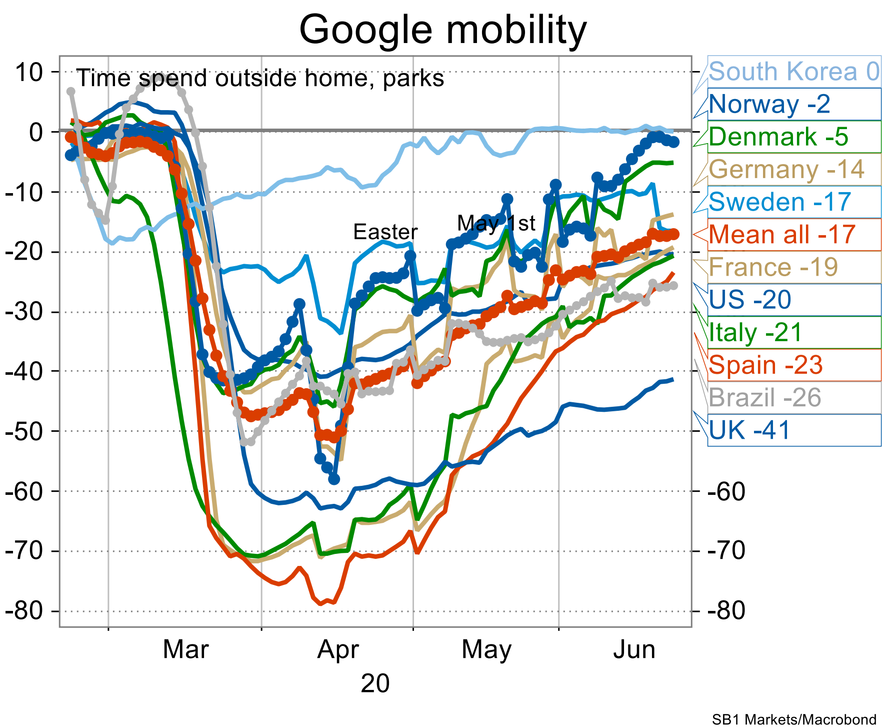
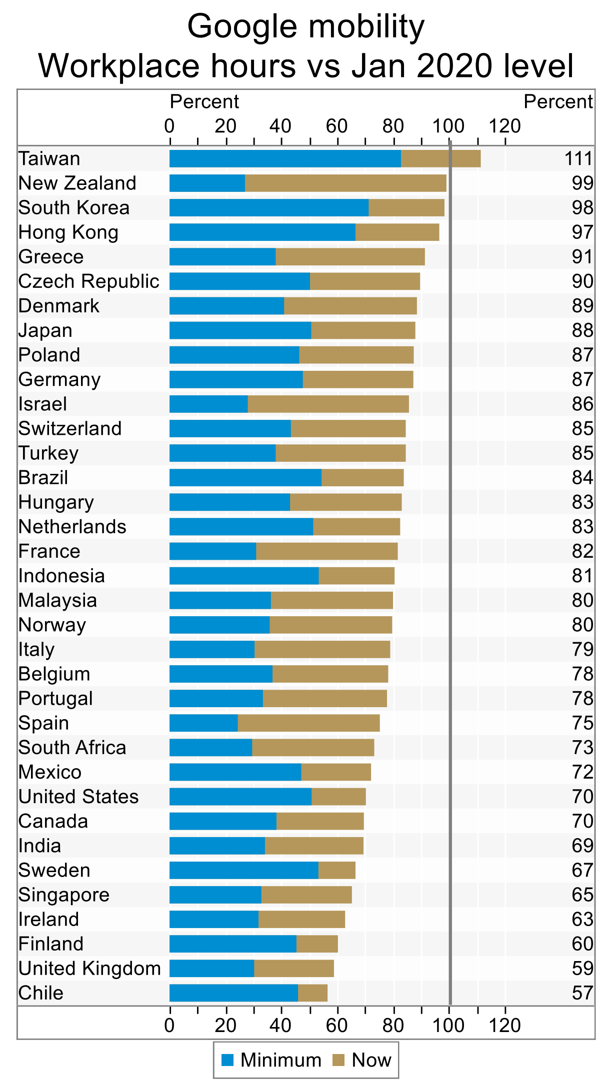
We are spending more time at work

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





- UK is lagging, here too!

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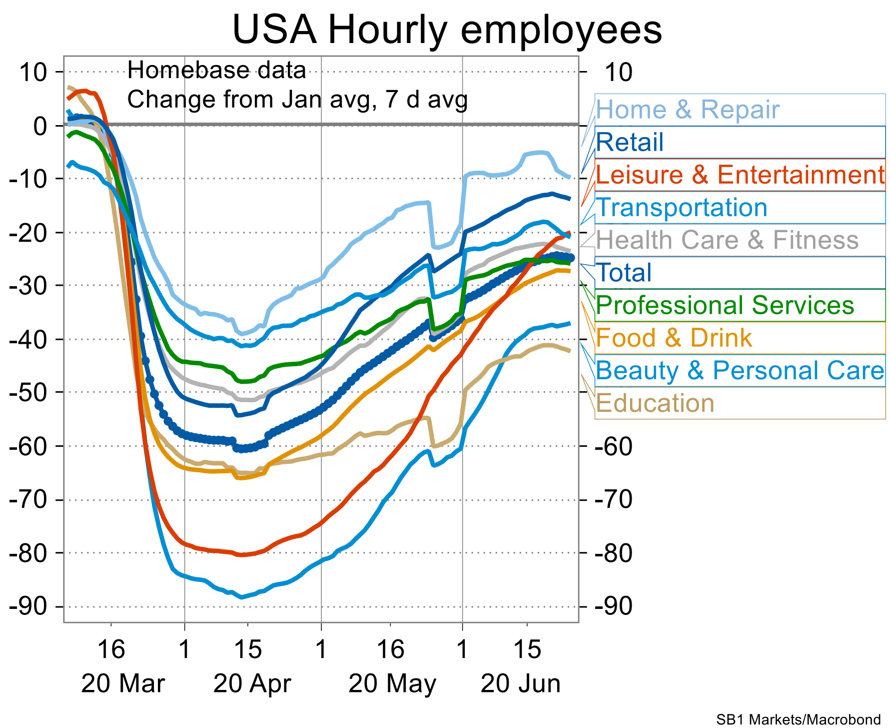
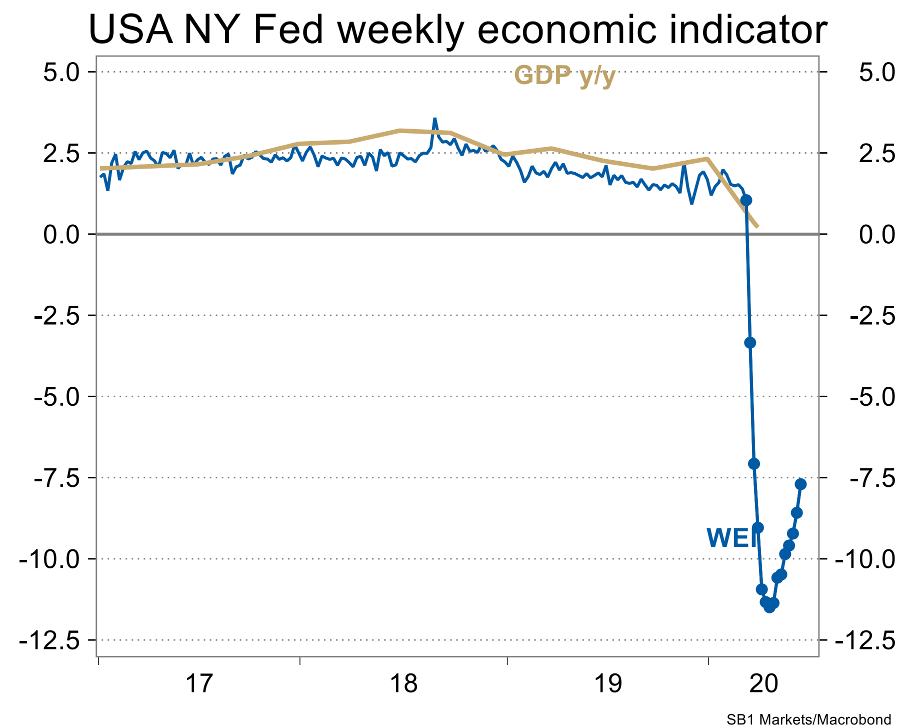
US: Activity is on the way up, employment is on the way up

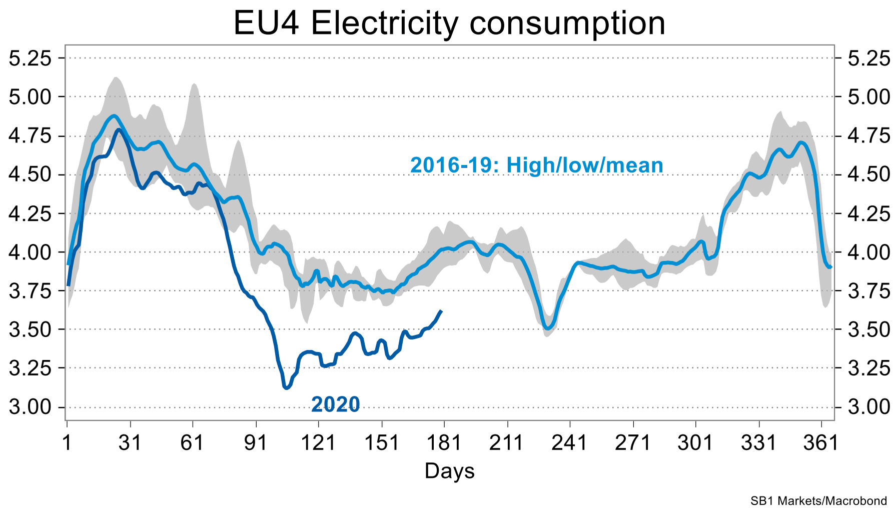
Still, GDP is still down 8%, according to NY Fed's weekly tracker

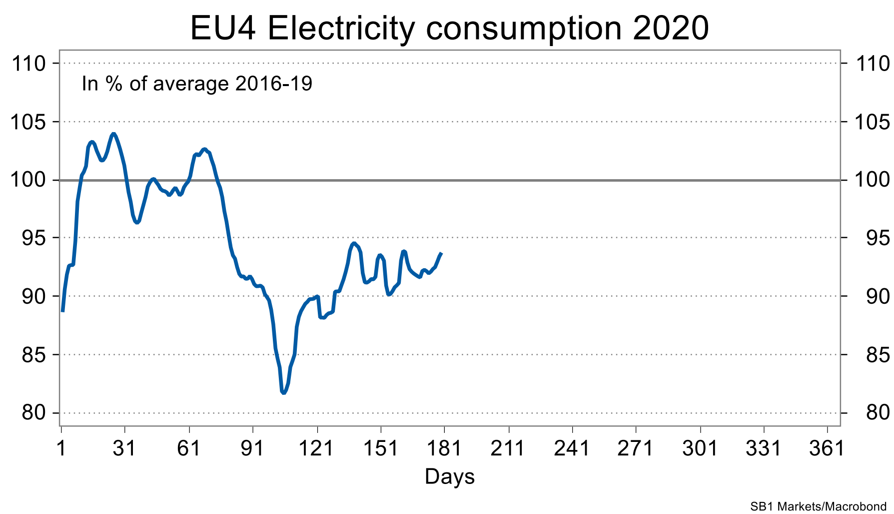


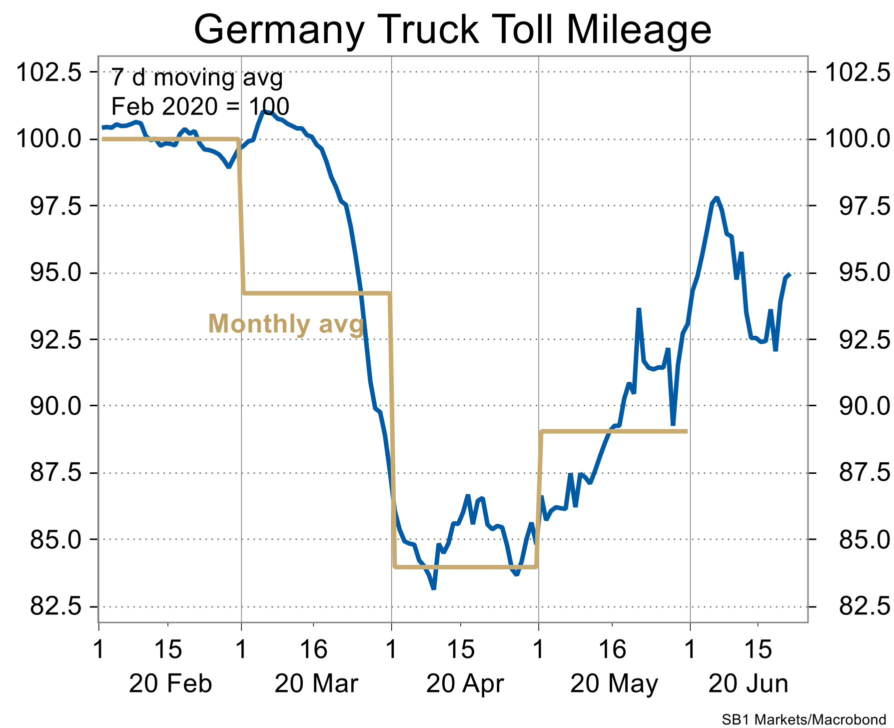


- ... and the recovery at the labour market is probably slowing – and in some states employment may be falling

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

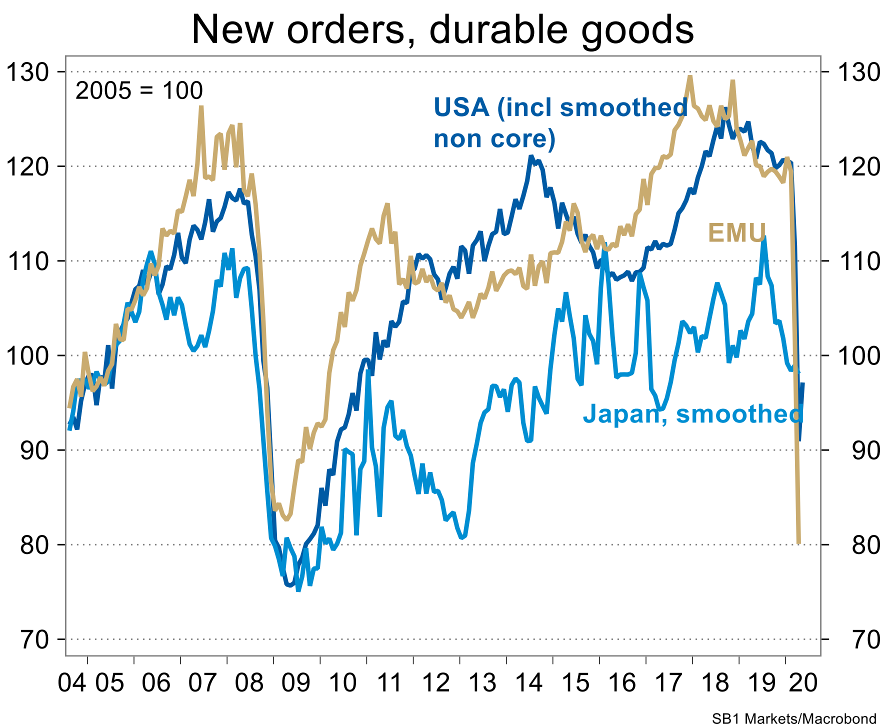


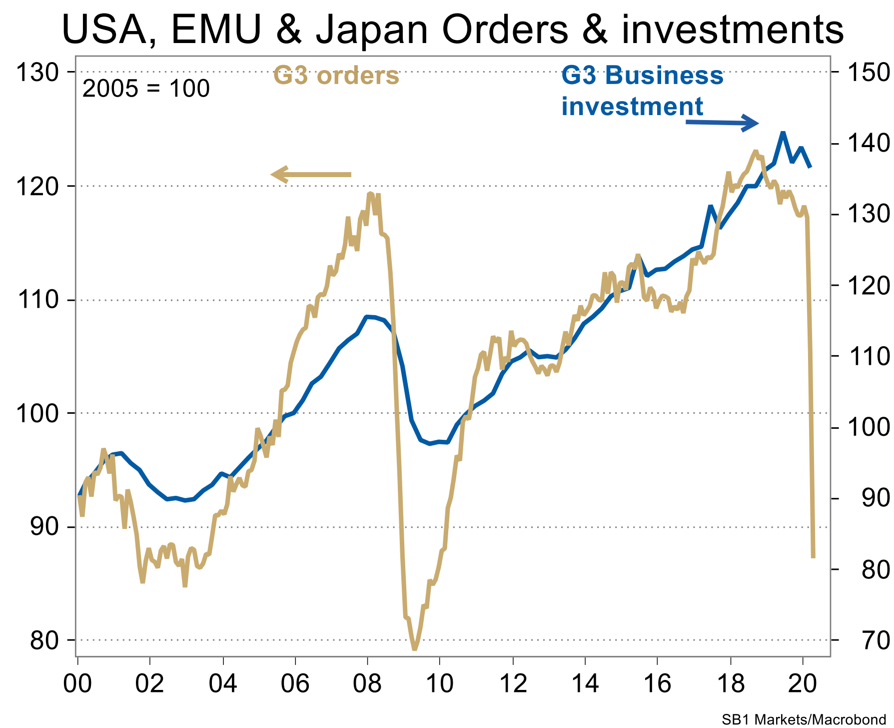




DM manuf. orders has fallen off the cliff – investments will be cut

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

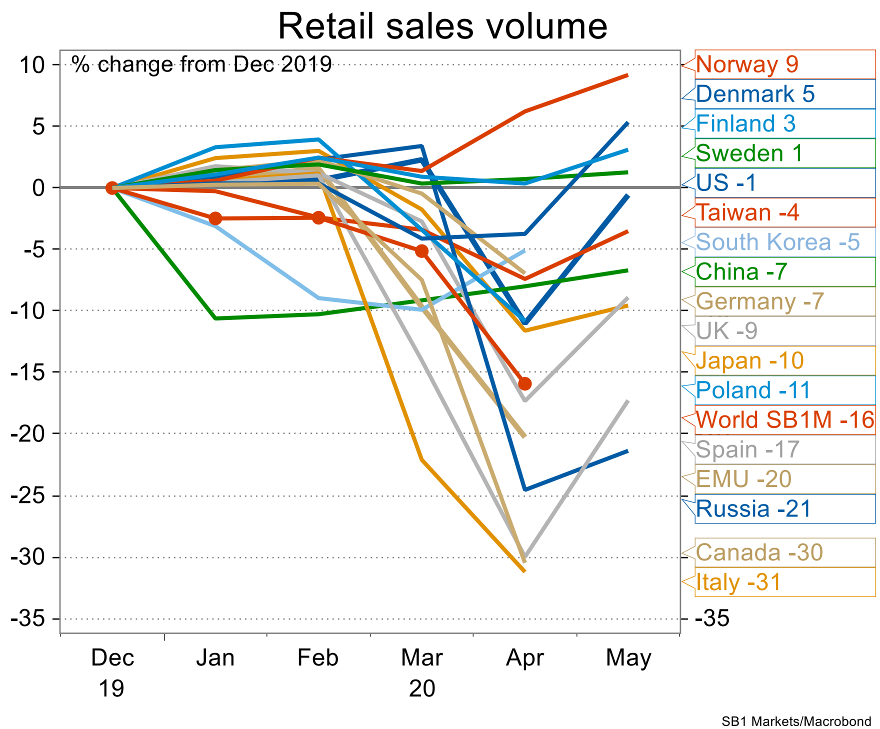


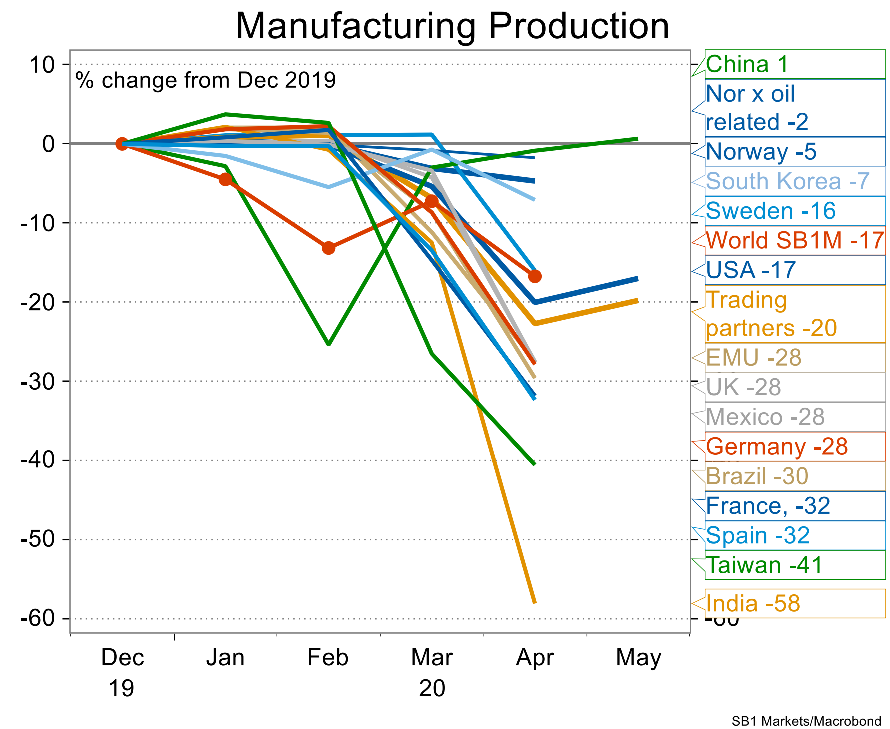


- We expect an initial 'V'-shaped recovery as order inflow level is extreme low level – but we still doubt orders/investments will return to a normal level
- PMI and other momentum indicators will come back in positive territory now (they should have done so in May, as April very likely was the trough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

Retail sales & manufacturing production: April was the bottom

Still huge differences between differen countries





- Retail sales have kept well up in the Nordics (all at the top). Both Denmark, Finland, Sweden and Norway reported growth in May – and sales are above the pre corona level in all 4 countries
- Sales in UK recovered sharply in May, but remains well below the pre corona level (-9%). The same goes for Spain, -17%)
- Manufacturing production in Norway is just marginally down, at least compared to Sweden, US, UK, and the Eurozone (-15 to -30%). Taiwan and India badly hurt, India down 58% in April (From Dec-Feb)

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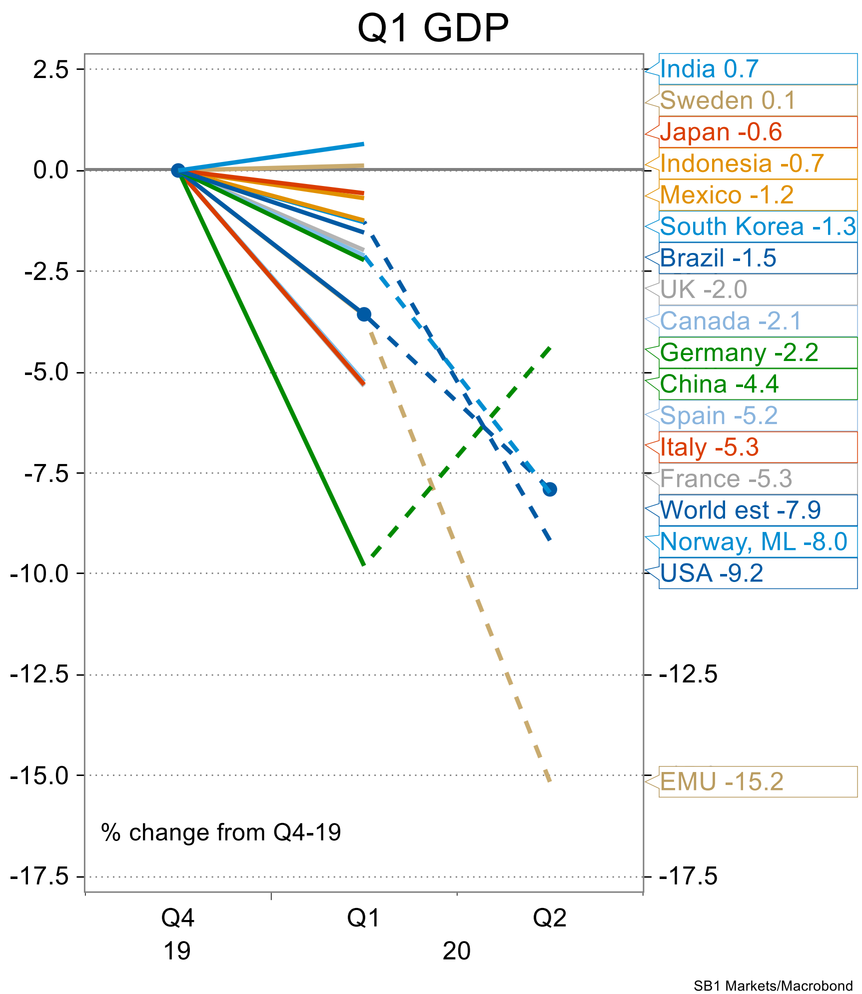
Global GDP fell by 3.7% in Q1. We expect even more in Q2

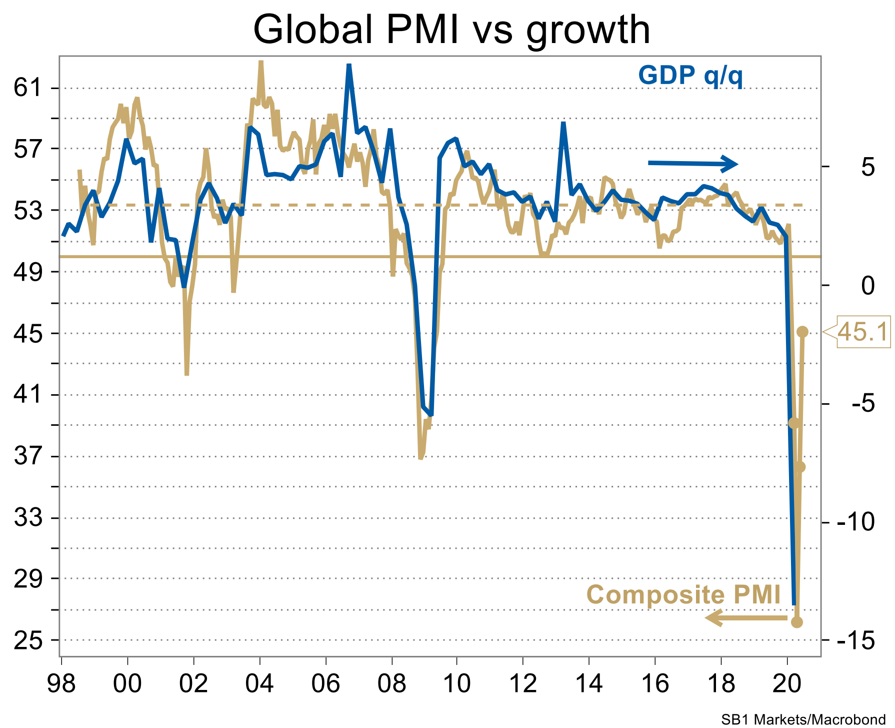
Substantial differences, and not just only depending on when the corona virus hit

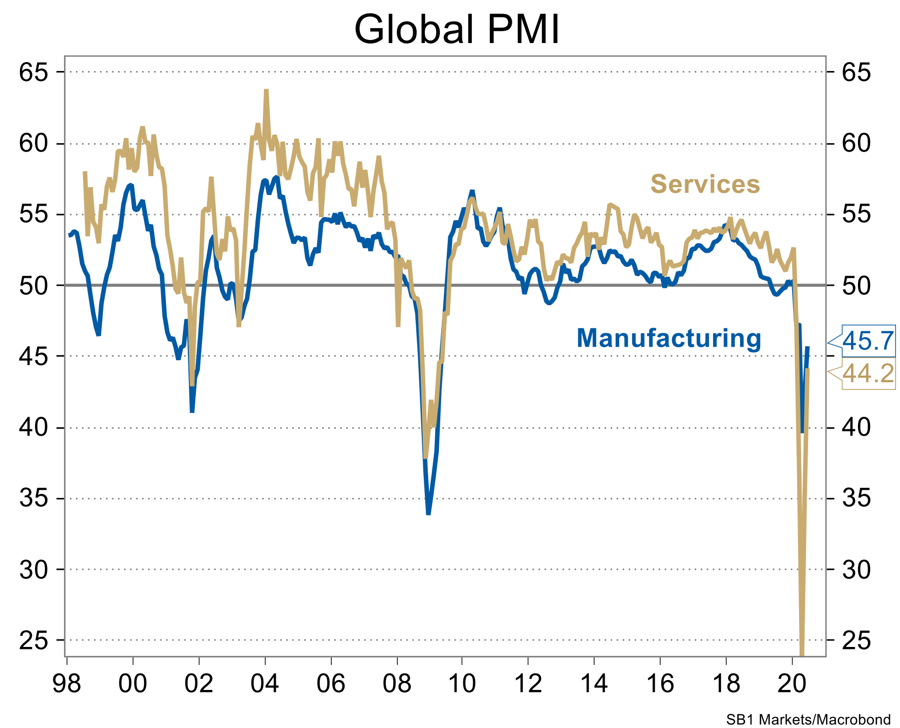


- Global GDP declined by 3.7% in Q1 (up from our first call at -4%), of which almost 2 pp due to China alone
- China should report a positive growth rate in Q2.
- However, not many other will, and global GDP will contract even faster in Q2, we assume 4.5 – 5%
- *All Q2 data are our estimates*

PMIs up in June but still at 45 (our prelim est)

PMIs/ISMs describe the cycles well but are not clever in detecting the first recovery month



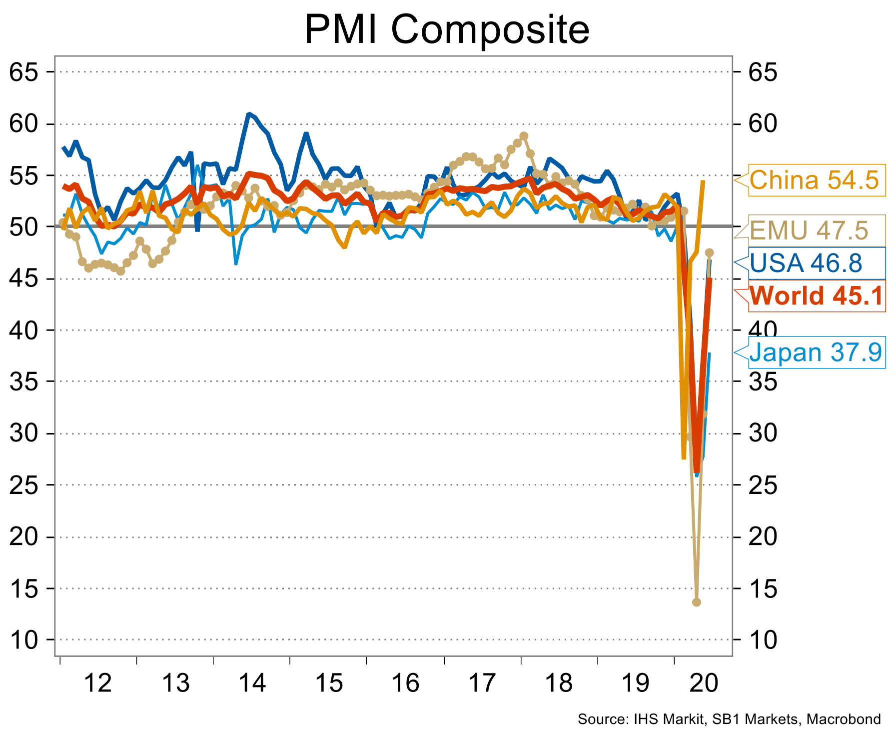


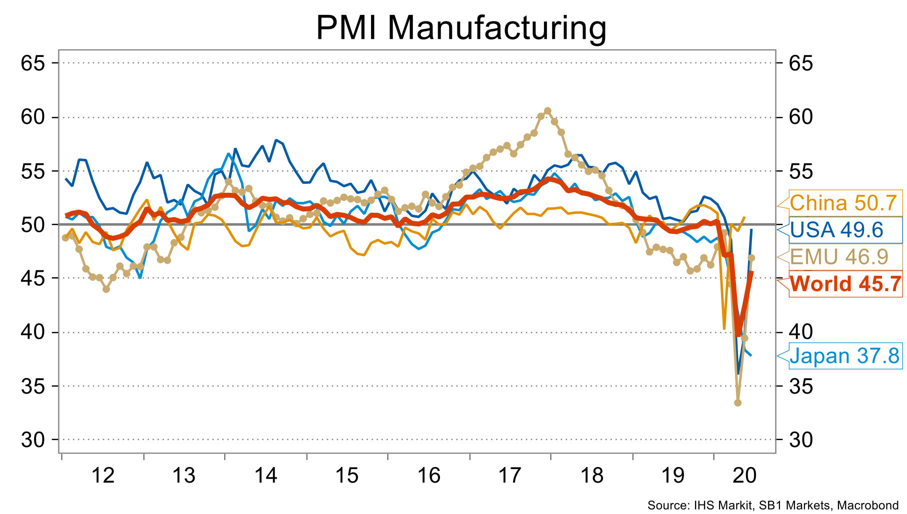
- Global composite PMI probably rose 8 – 9 points to 45 in June, following the 10 p increase in May. An index level at 45 signals a steep decline in production m/m to June from May. The PMI is a diffusion index, measuring change in activity from month to month . When the index is at 45there are 10 pp more companies (like 30% vs. 20%) that are reporting a decline in activity than growth. Usually, that's associated with a decline in production m/m. However, there are two modifications
  - » Companies report the same answer whether the change in small or large, its just up or down. If changes are not evenly distributed, the index will send a wrong signal
  - » More importantly, companies are probably NOT giving a precise answer to the question they are asked: Is June better or worse than May? Rather their answers are influenced by changes over the past months too. So in May, companies are probably referring to what has happened over the previous months too, not just changes m/m in June vs. May. See more next page

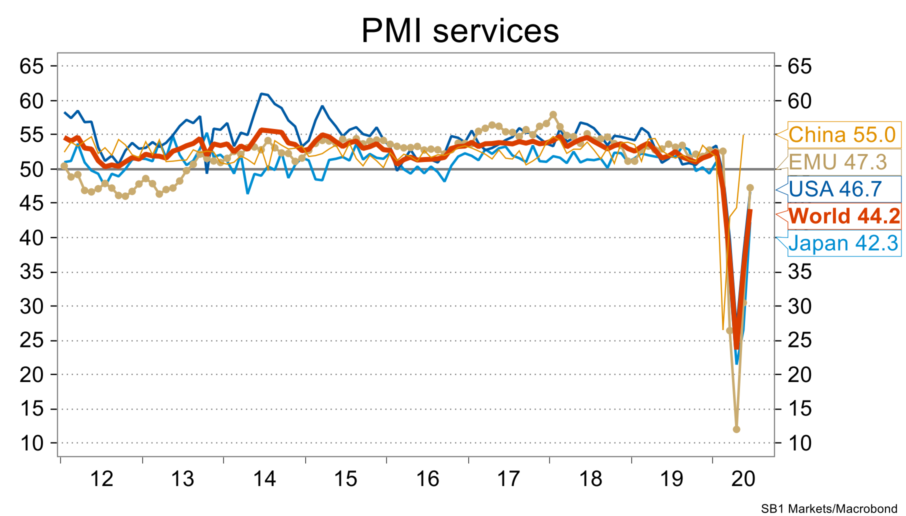
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain

‘V’s everywhere, the recession was the shortest ever

Still, PMIs levels so far reported for June weaker then they should have been. Japan a laggard

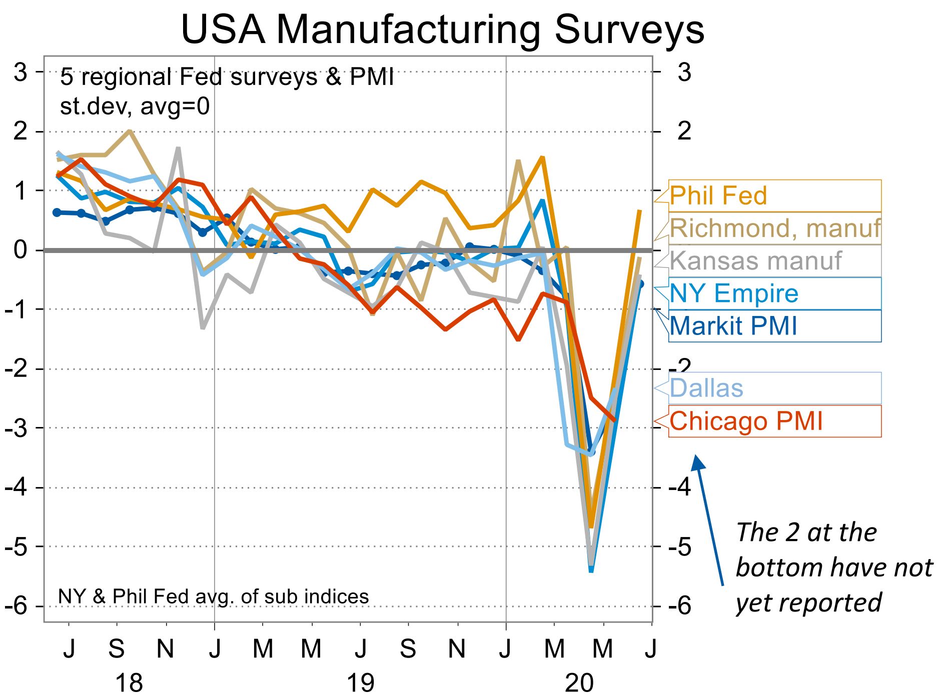


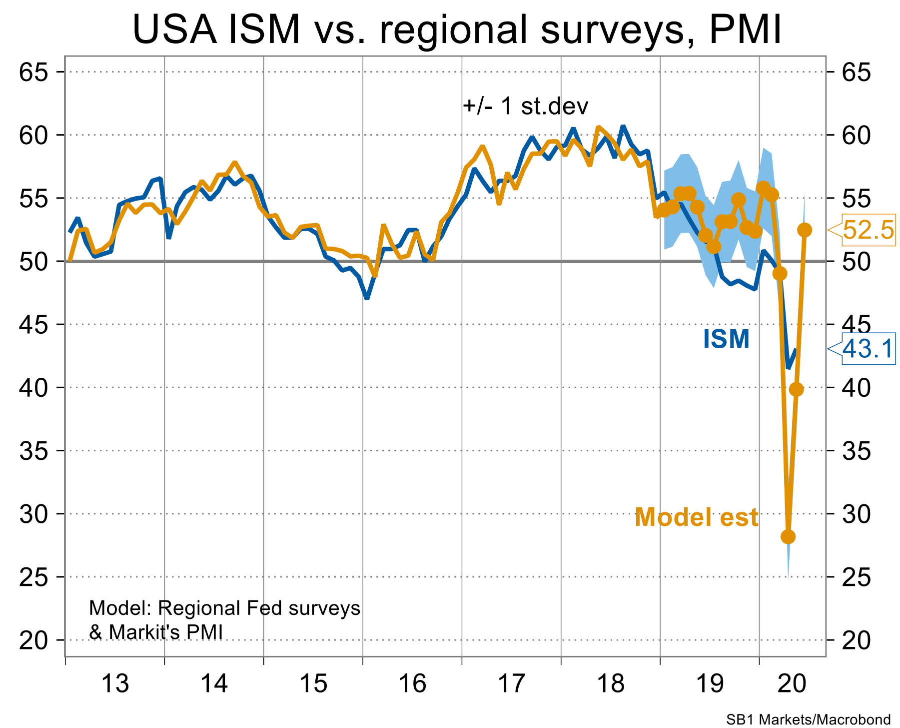




Manufacturing ISM up to well above 50 in June? Most likely

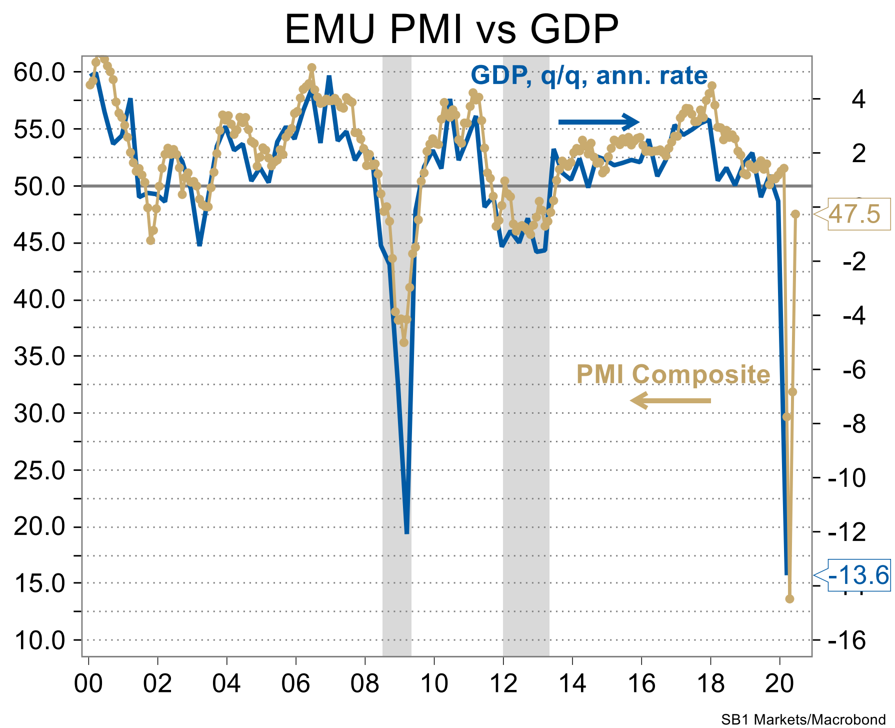
Regional Fed surveys & the PMI signals a sharp recovery in the ISM index

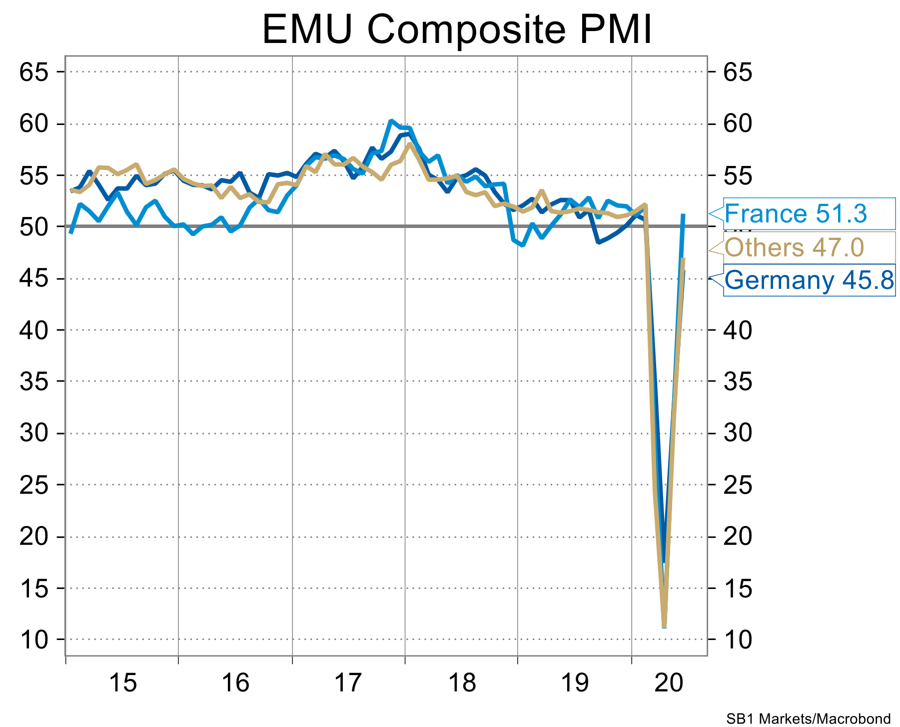




Almost back to 50, far better than expected – should still have been stronger

The composite PMI rose by 17 p to 47.5, expected 42. France to 51, Germany 46, the others to 47

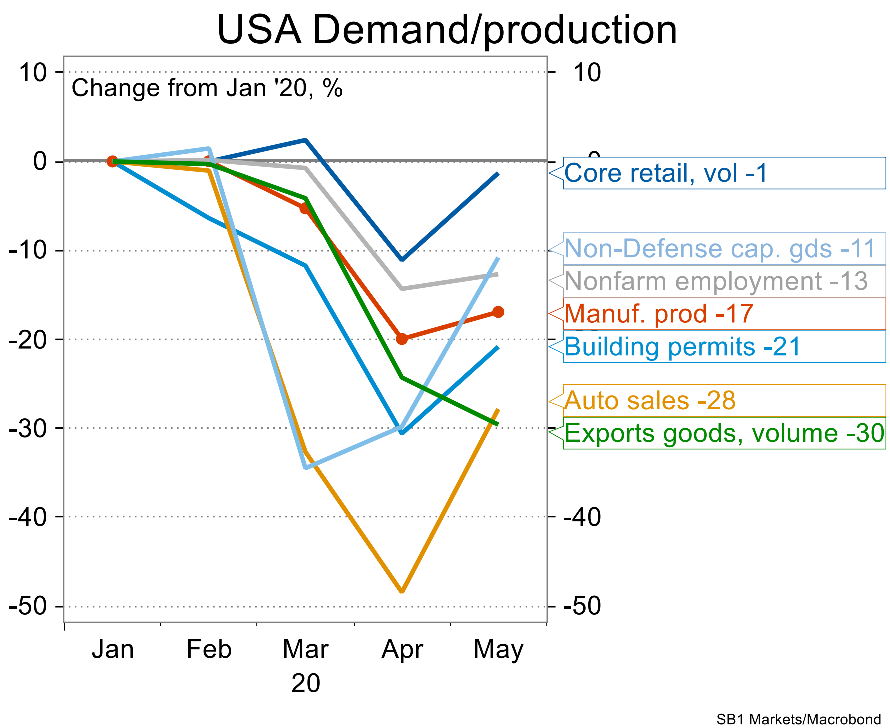




- Formally, the PMIs are signalling a decline in activity in June vs May – which we think is very unlikely

April was the bottom – even if exports fell further in May

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



Some different shapes and forms of 'V's

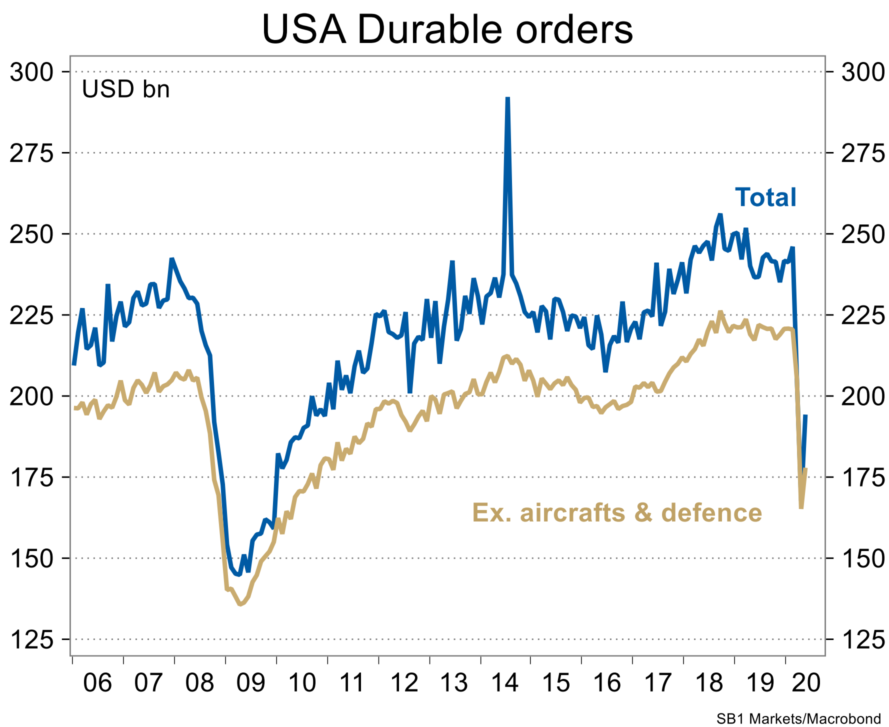
- The bottom was in April
- All main indicators published so far rose in May
- Core retail sales have reported the sharpest recovery while total consumption is still XX % below the pre corona level
- Non-defence capital orders (including airlines) are down 11% following a steep rise in May
- Export volumes fell further in May, and are down 30% (!). Imports have fallen far less
- Local government demand is declining due to budget constraints (employment fell in May)

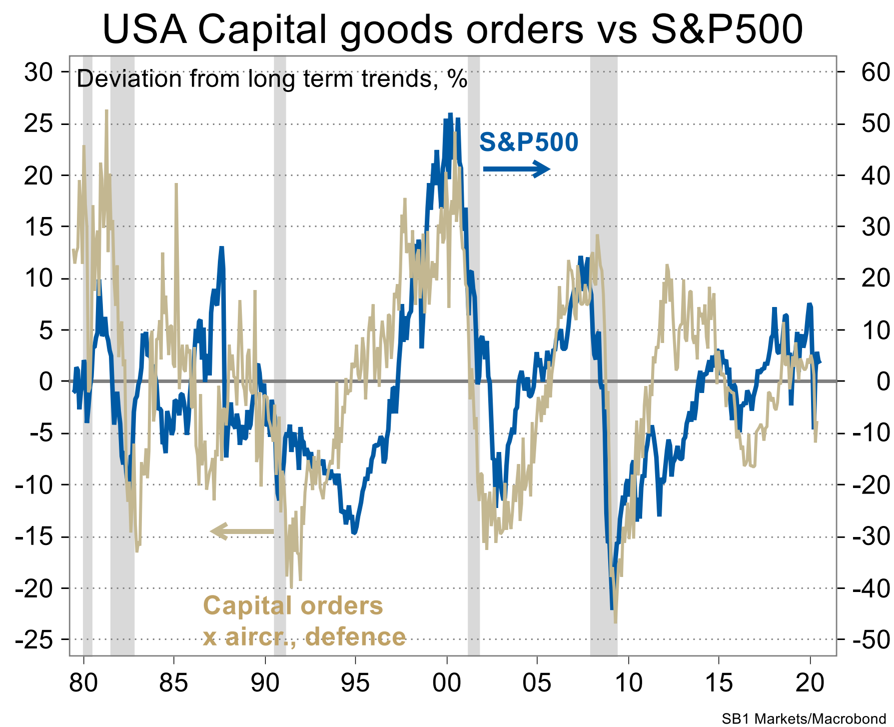
Demand vs production

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

Durable orders up 15% in May, exp. +10%, still just 1/4 of setback recovered

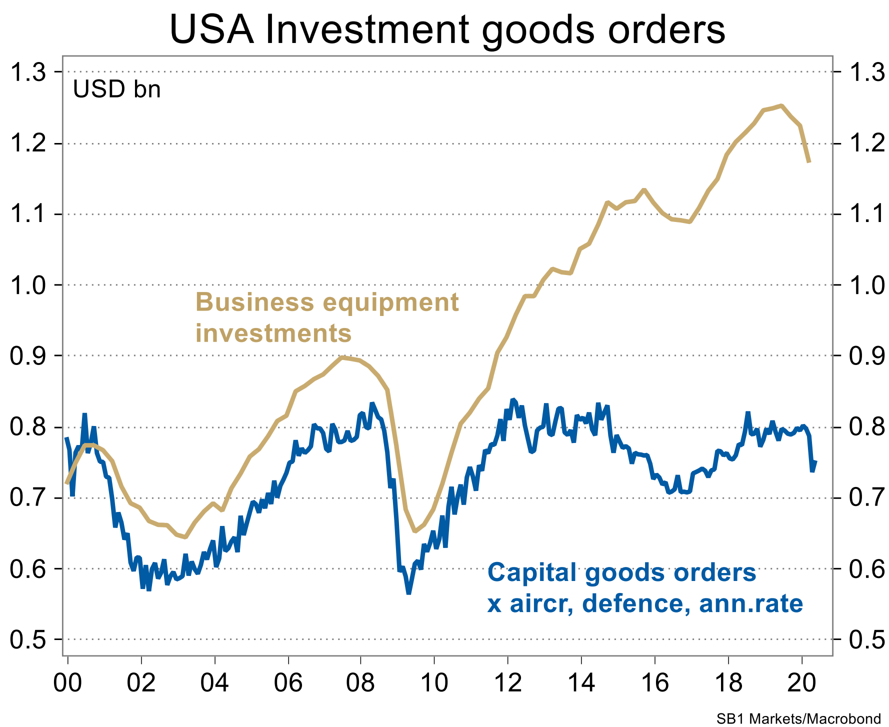
Orders ex. aircraft & defence up 8% but level is still low. Investment goods not that weak!

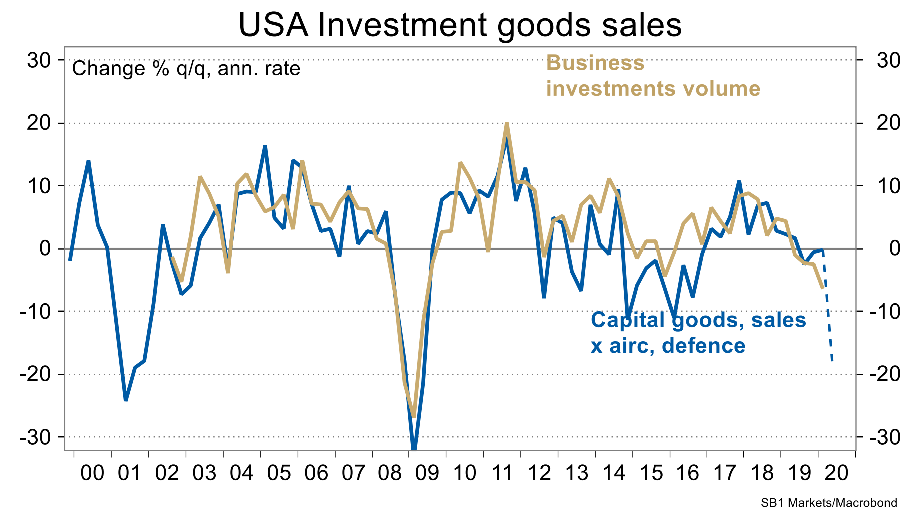


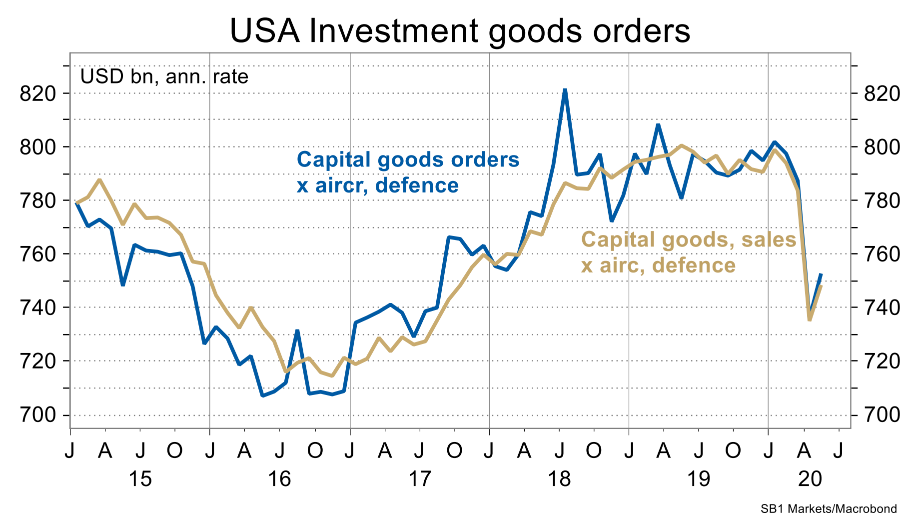


Capital orders +2% after 6% drop. Bus. investments down in Q2, but no drama!

The decline in core investment orders are so far muted. Didn't companies have time to react?



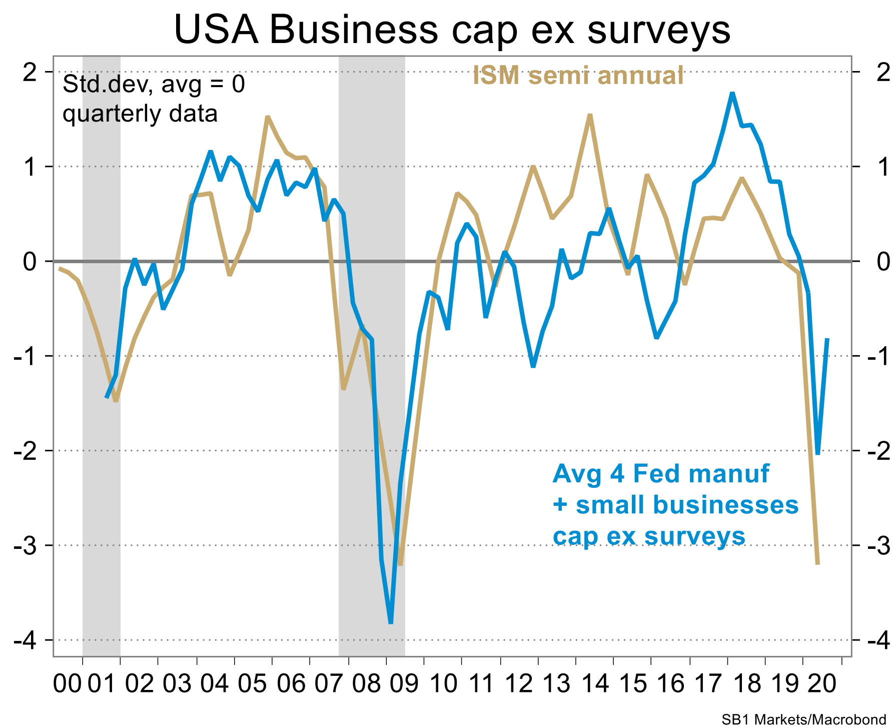


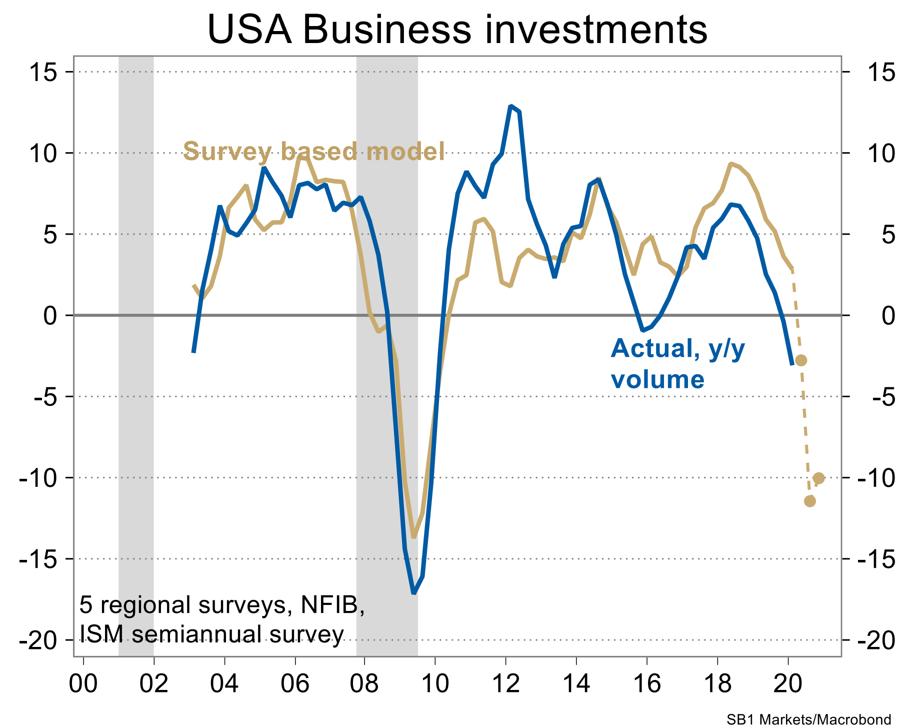


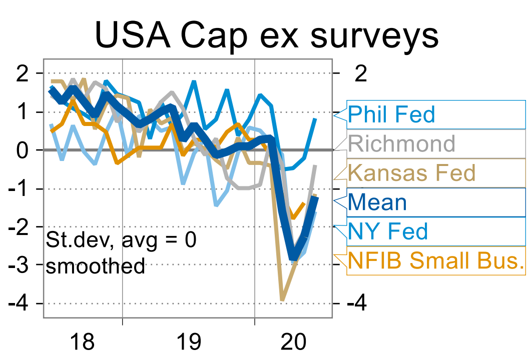
- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
- However: Usually, the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year, or even more
- Business surveys signal cuts in investments the coming months/quarters – but the June surveys were better?

Business were planning aggressive investment cuts. A tad less downbeat now!

Both manufacturing and services are planning cuts – but probably far less than during the GFC





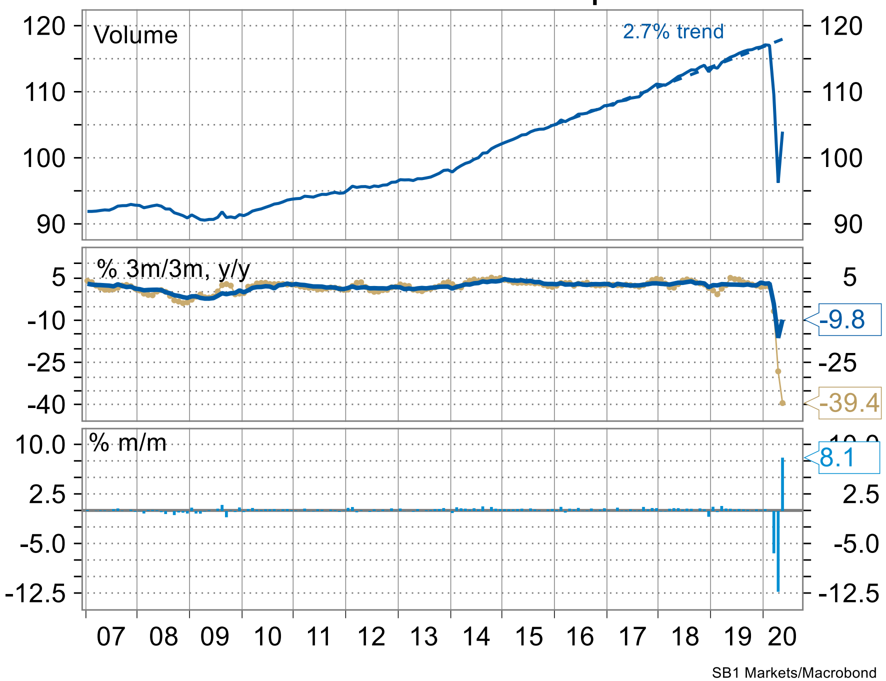


- Some bright spots: Investment plans were revised up in several regional Fed surveys May and even more so in June. They are still below par but are that weak

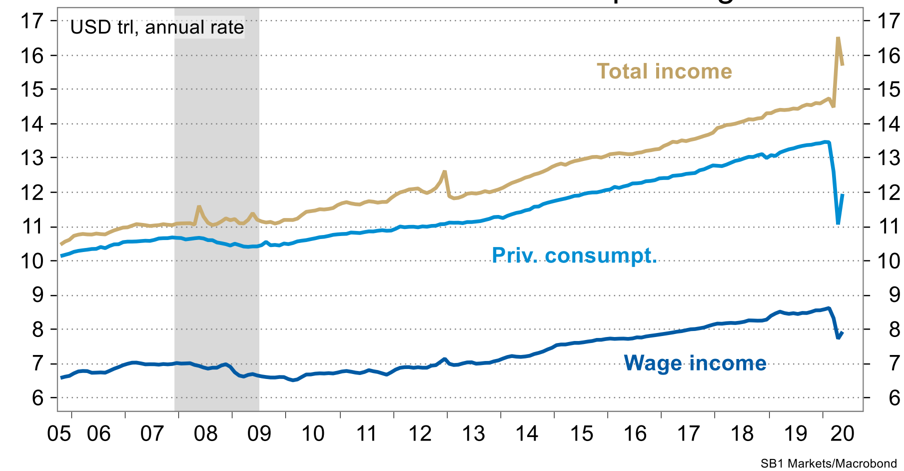
Consumption up 8% in May, just 1/3rd of the setback recovered & 11% below par

Income fell by 5% in May, fewer checks were sent. Savings still high, at 23%

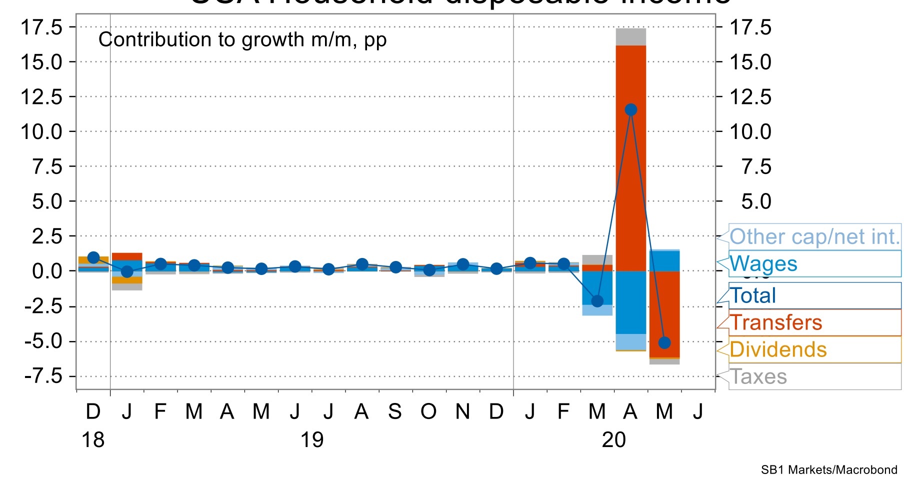
USA Private consumption



USA Household income & spending



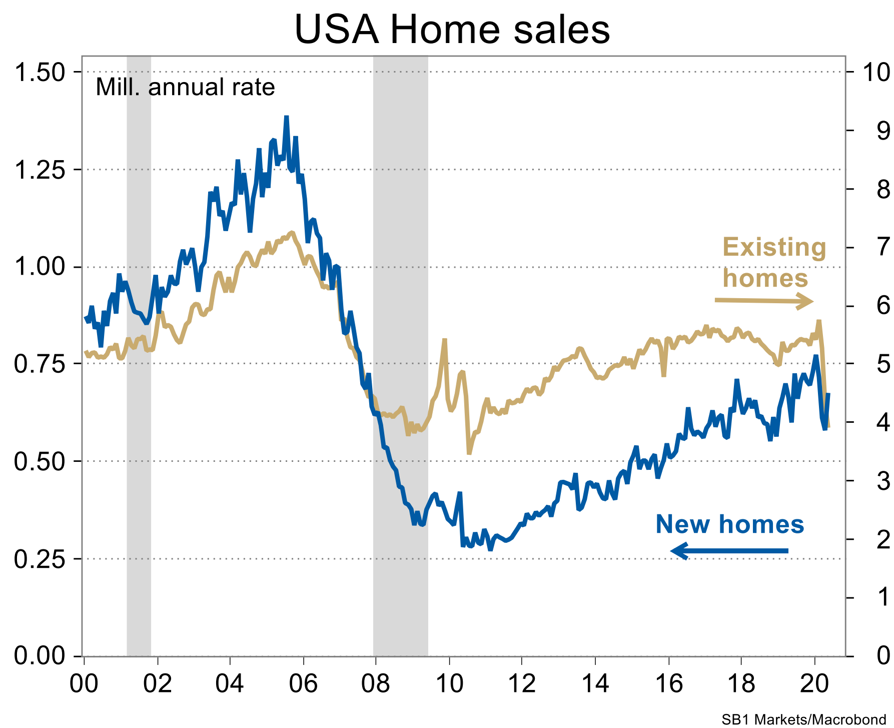
USA Household disposable income

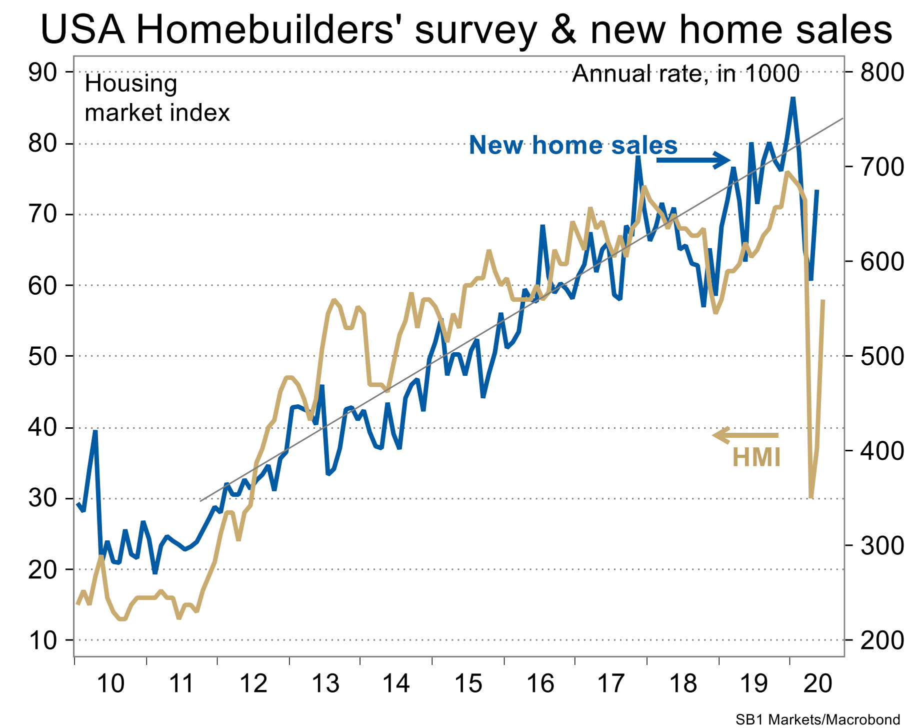


- The increase in spending was marginally lower than expected, while income fell a little less than expected.
- The level of transfers is still some 11% of disp. income higher than normal, both due the direct payments to households (the check from D. Trump), and the survey in unemployment benefits. Wage income grew marginally in May, following a sharp decline in March and April
- The savings rate fell by 10 pp to 23% in May, still very high

Existing home sales marg. down in May but new home sales partly recovered

Existing home sales lower than expected. New home sales stronger, up 16%, still 8% below trend

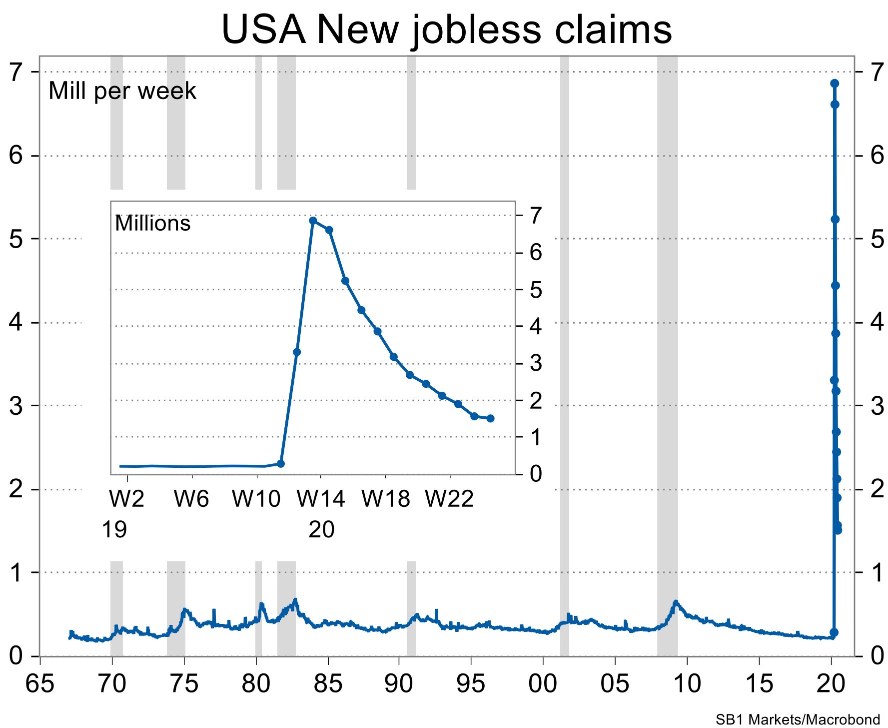


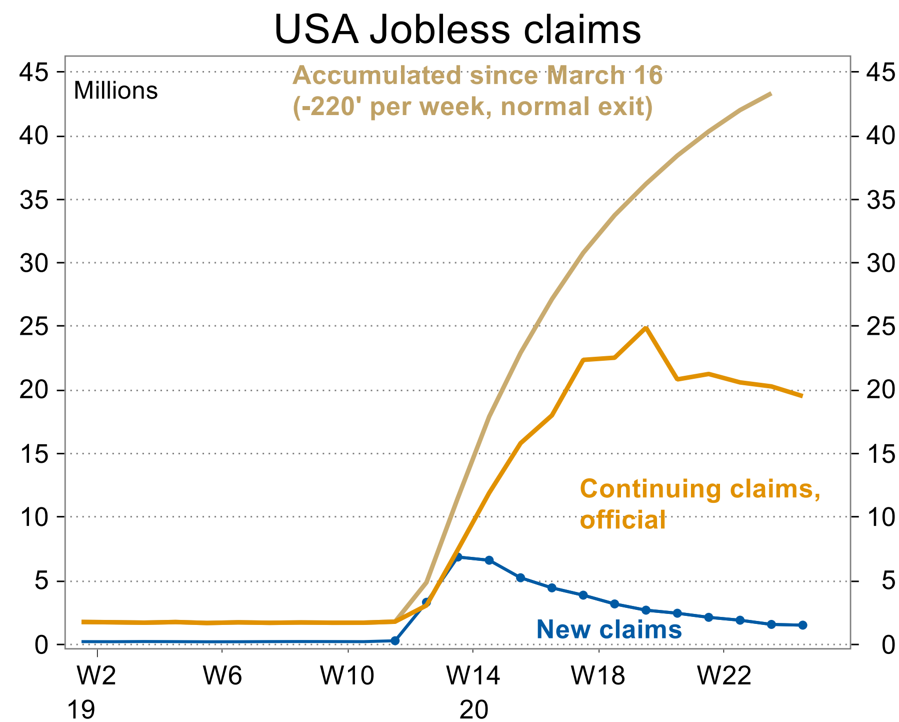


- Slow sales during May (as in April) is not that strange, given the partial lockdowns – and a further decline in existing home transactions is June is likely, given a steep decline in agreed sales (pending sales) during the spring
- Supply of existing homes for sale is sharply down too
- Still, prices fell in May, according to realtors. However, their stats is not adjusted for eventual changes in the mix sales
- New home sales recovered in May but from a sharply downward (-7%) revised April. Total April & May sales were lower than expected. <u>However, the 17% increase to May from April surely supports the 'V' hypothesis – and being just 8% below the old trend in a still partly locked down May is not that bad!</u>

The decline in new jobless claims is slowing, too early…

1.48 mill new jobbless claims, just marginally down from past week, 0.9% of the lab. force, per week

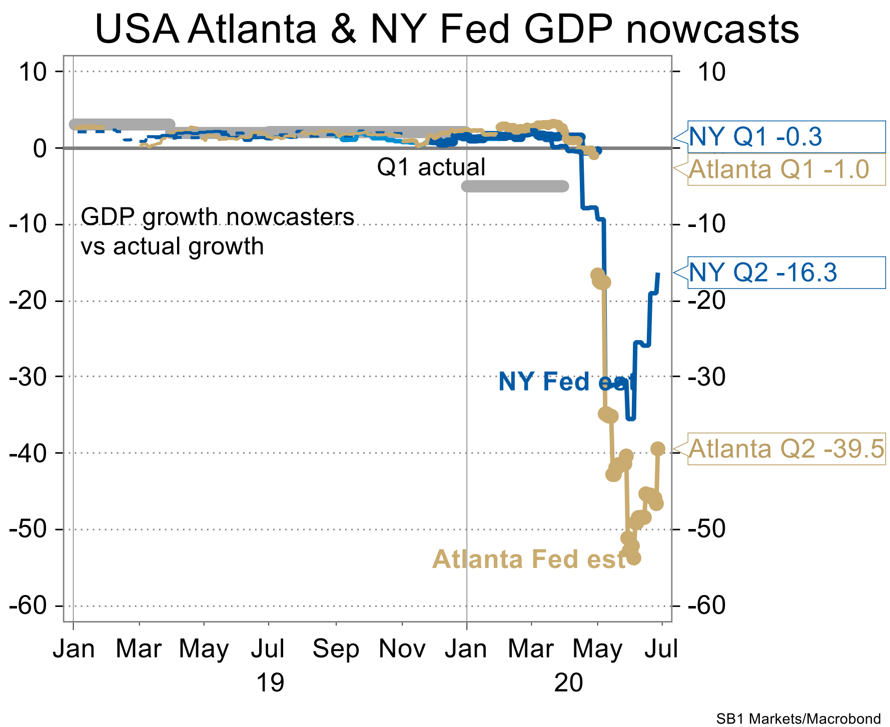


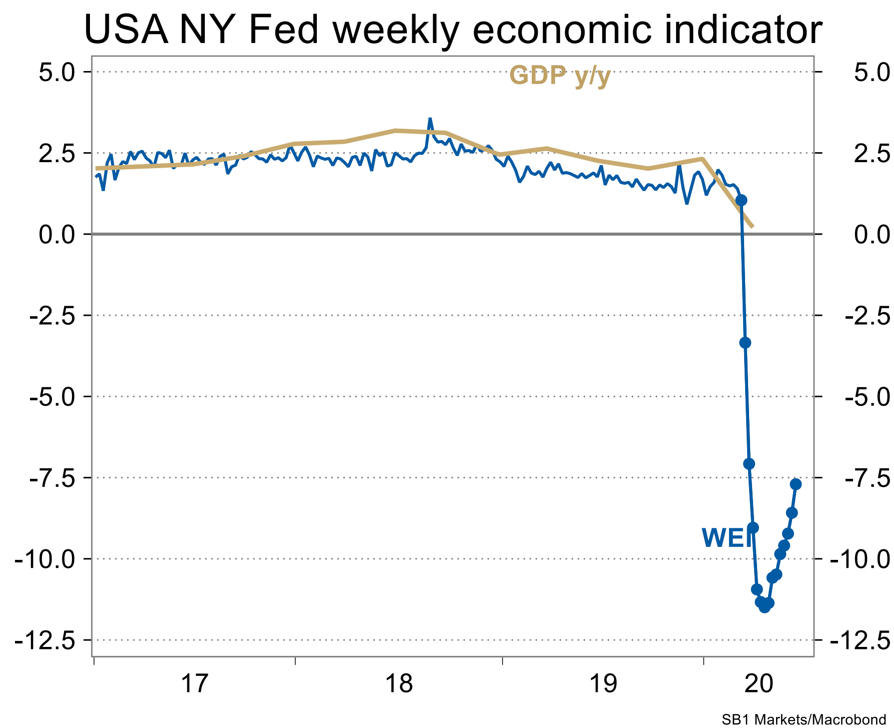


- The inflow is abating, but slower than expected the two previous weeks. Still, almost 1 % of the labour force is entering the labour market offices as newly unemployed each week! The number is really mindboggling
- Luckily, more are leaving (for are they leaving the labour market?): Continued claims fell marginally to just below 20 mill the previous week – and the number is now heading down – but not fast, and still 11.6% of the labour force are on the dole

Nowcasters do still not agree: -16% or -40% (annualised) in Q2?

Recent data have been stronger, and the nowcaster models are lifting their Q2 estimates

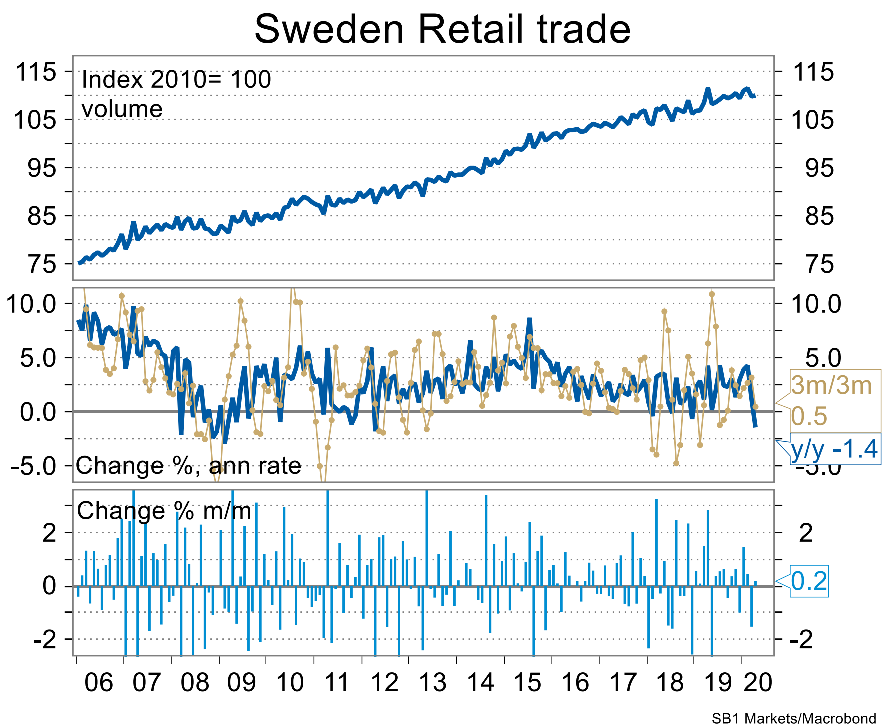


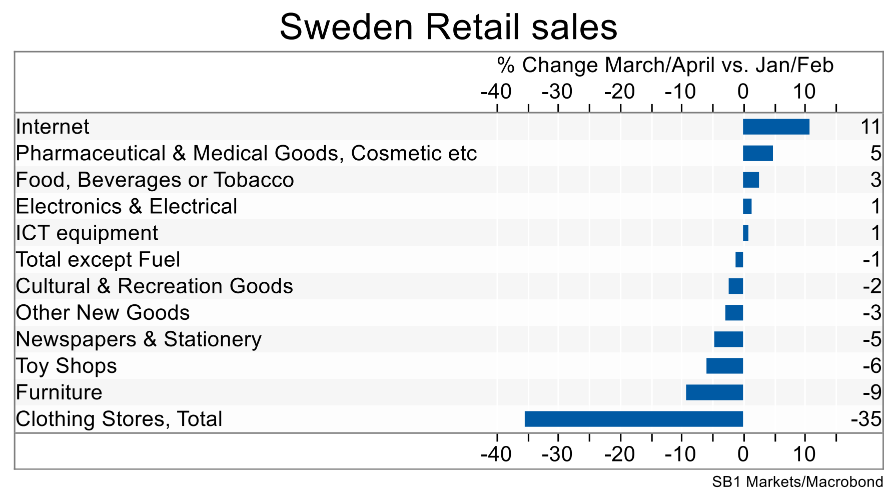


- NY Fed's model reports a 16% decline q/q, annualised, (from -19% last week, -35 at the bottom), equalling a 4% decline not annualised to Q1 from Q1, or some 5.5% y/y
- Atlanta Fed's model reports a 40 % (from -46% last week, and -54% at the bottom), equalling a 12% decline not annualised q/q and more than 13% y/y. We assume something in between, and in line with NY Fed new weekly indicator, which so far in Q2 signals a 9% decline y/y (or somewhat below 8% q/q)
- GDP fell by 1.2% in Q1 (5% annualised), as confirmed by the 2nd revision last week.

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

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

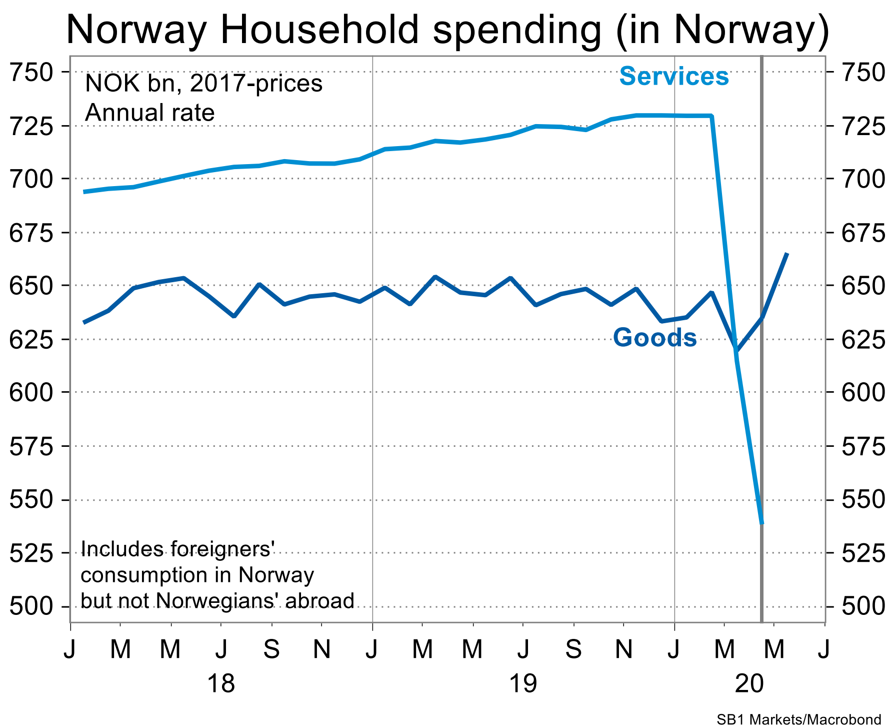




- Huge sectoral differences, however not as wild as in Norway

Consumption of goods up vs pre corona; services (probably) still far below

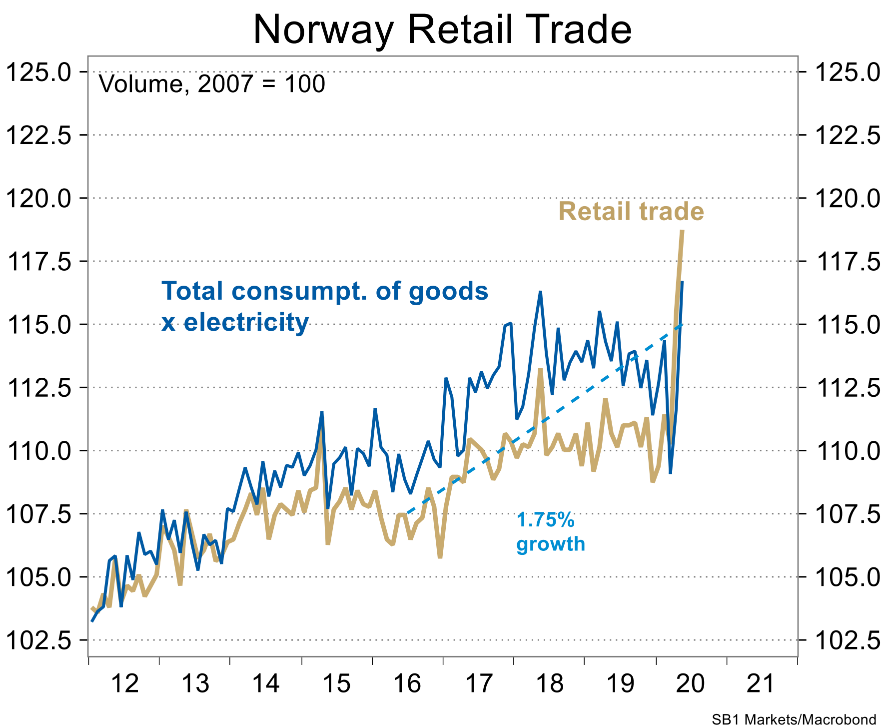
Consumption of goods rose sharply in May, to above the pre corona level. Total consumption still dwn

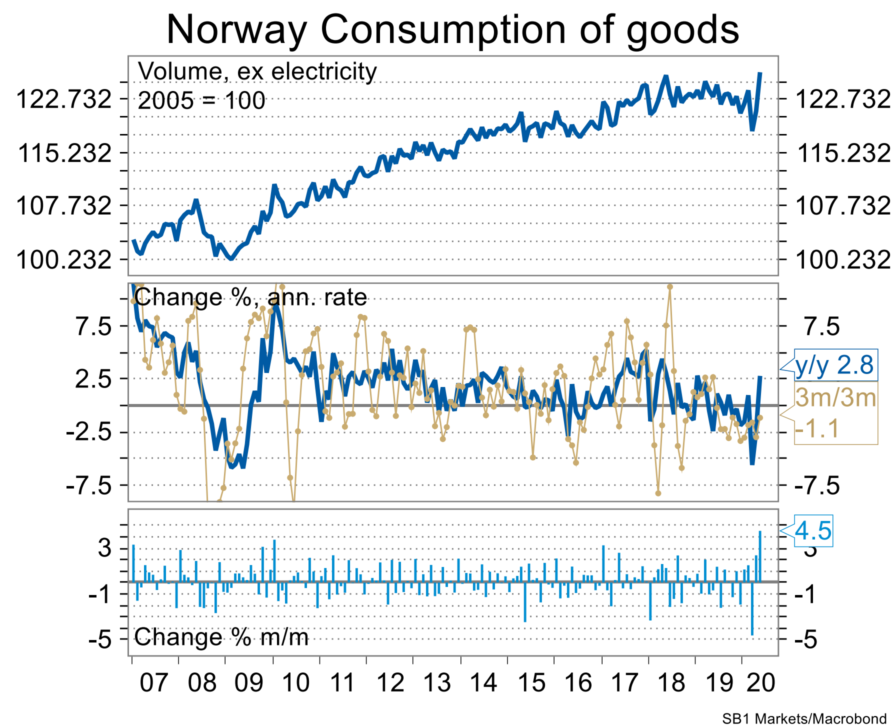


- We do not yet have reliable May consumption data but spending no doubt rose significantly. Still service consumption very likely was far below the pre corona level following the 25% (NOK 125 bn, annual rate) drop to April from February. The decline in service consumption is far larger than the increase in consumption of goods – which reduced the top line for businesses serving consumers in Norway
- Norwegian household’s consumption abroad has fallen by NOK 120 bn (annual rate) to almost zero (equalling 9% of total consumption). This ‘spending capacity’ will no doubt support spending in Norway, now on available goods then services (restaurants & hotels in Norway this summer)
- In sum, Norwegian households’ total consumption has fallen sharply, we estimate -12% to May from Feb, assuming a 15% recovery in services in May. Sales of consumer goods and services are down far less, some 6% - as Norwegians have reduced their spending abroad much more than foreigners have reduced their spending in Norway (NOK 120 bn vs 45 bn)

Retail sales: Not even a V, just an ┘, sales sharply up in April & further in May!

Retail sales up 2.8% in May, following the 4.8% take off in April. Sales in May 6.6% up from February

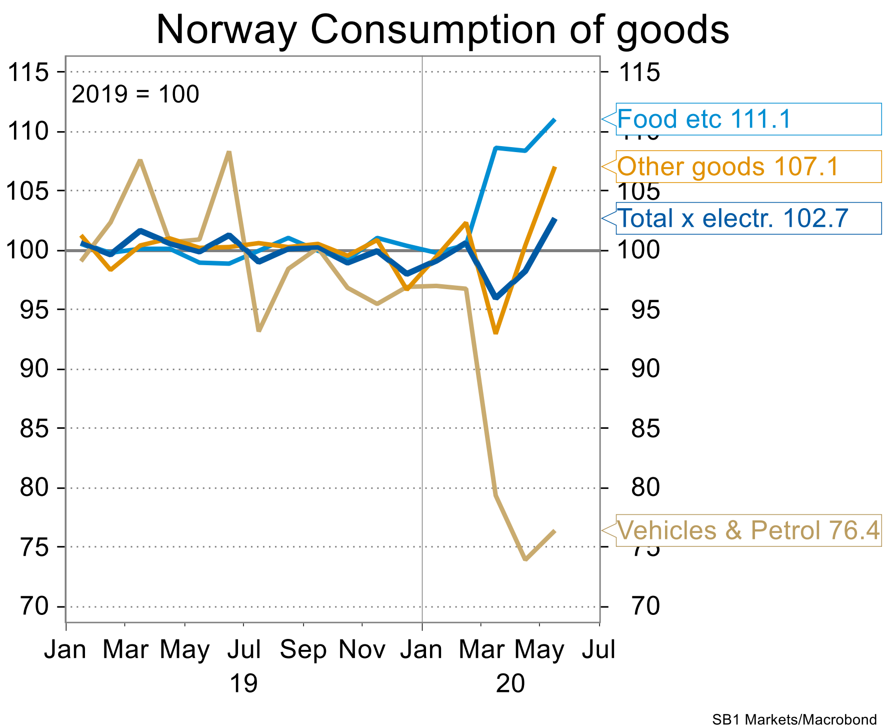


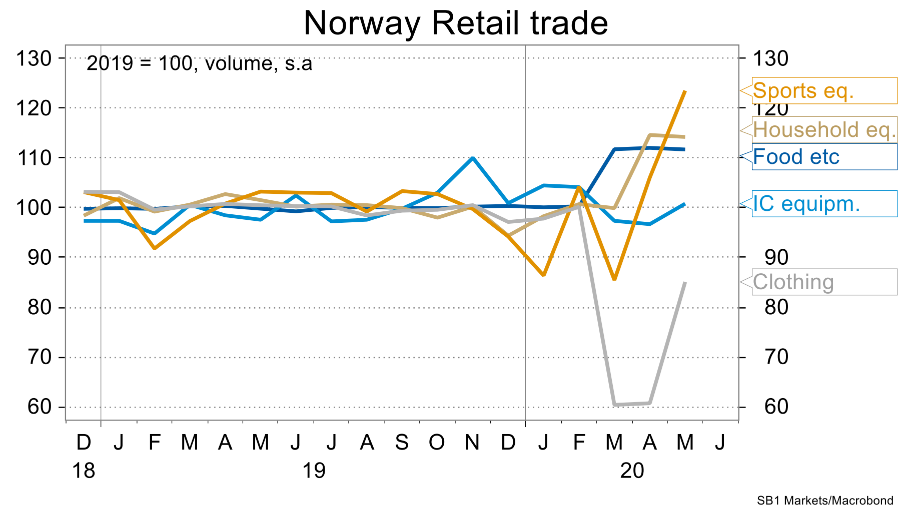


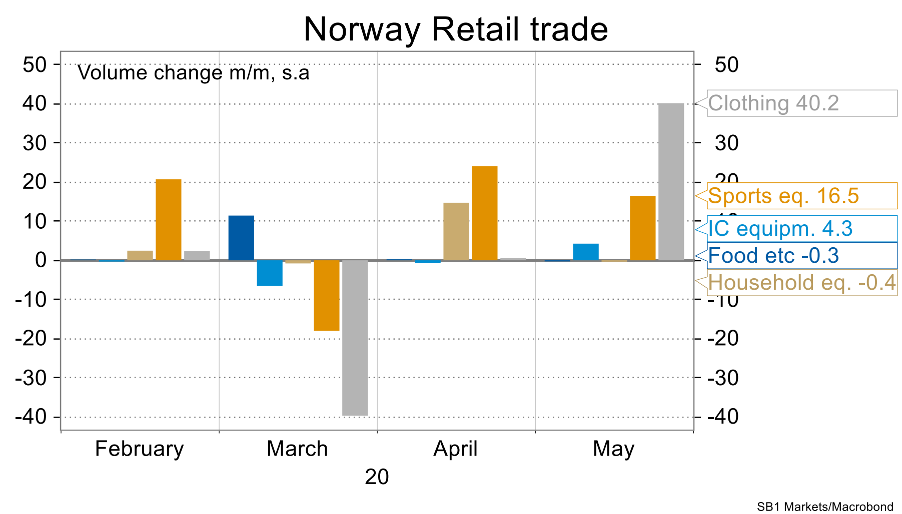
- Retail sales volume (ex auto) rose by 2.8% in May, consensus was 0 to 2%, we expected 2%. But sure, in late March (or in late April or May…) we did not expect +6.6% to May from February!
- The sectoral differences are still huge. Internet sales, garden equipment, hardware/paint and food sales are sharply up, some are still down, like clothing, -15% from February
- Total consumption of goods rose 4.8% (ex electricity) grew by 4.5% in May. Total consumption of goods is some 4% above the pre corona level
  - » If consumption keeps up in June, Q2 is up 3% vs. Q1 and 0.6% vs. Q2 19
- No doubt, less x-border shopping in Sweden, more food sales due to closed restaurants and lack of 'holiday' spending opportunities domestically and abroad are reasonable explanations for the hike in retail sales. Service consumption probably started a recovery in May but remains far below the pre corona level – as is total private consumption

Food & alcohole sales up 10% from Feb, sport equipment +20%

However, clothing still down 15% from February even after a 40% lift to May from April



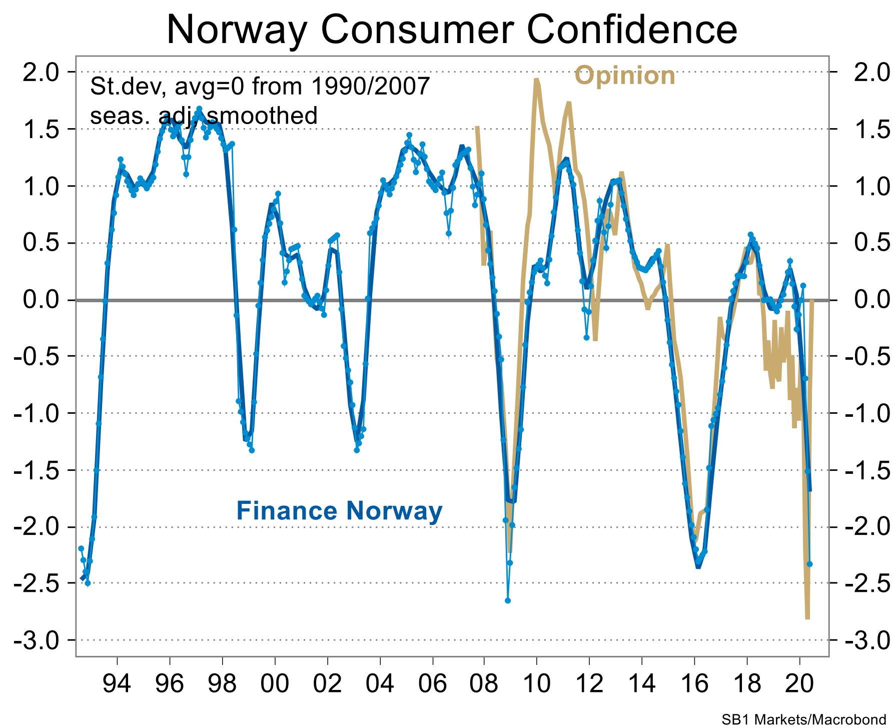


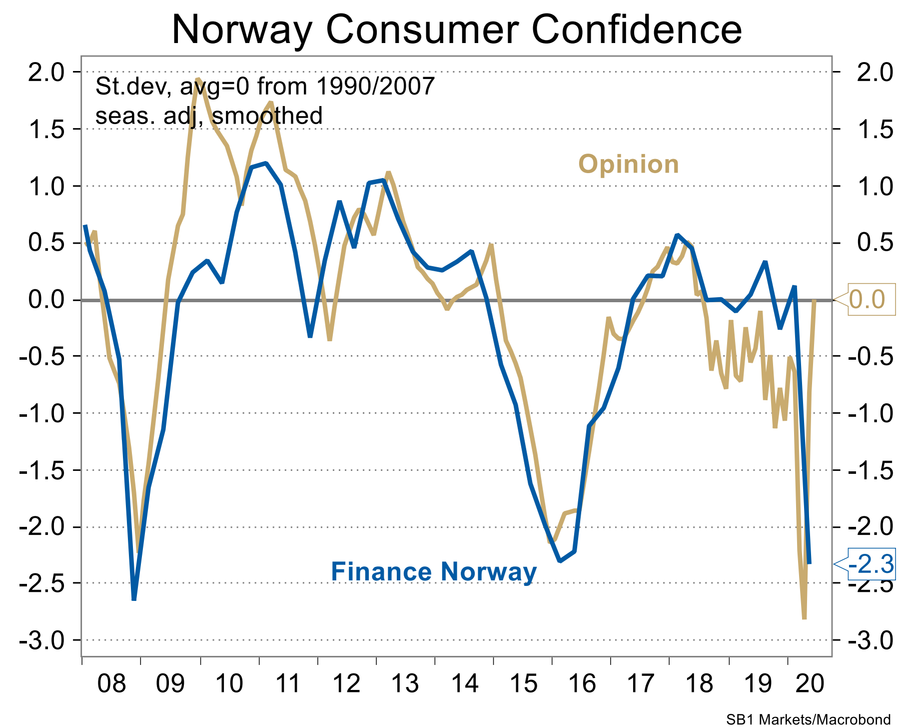


Food etc in total goods consumption includes more categories than in the retail price index)

Consumer confidence back to an average level in June

Opinion's CCI rose ¾ std.dev up to an average level in June, from record low -2¾ in April!

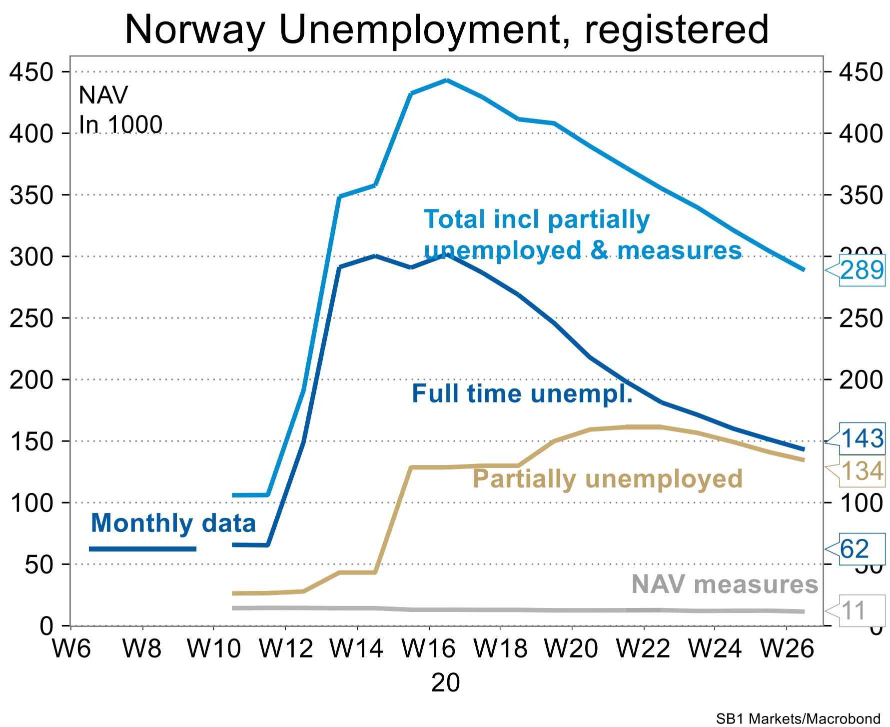


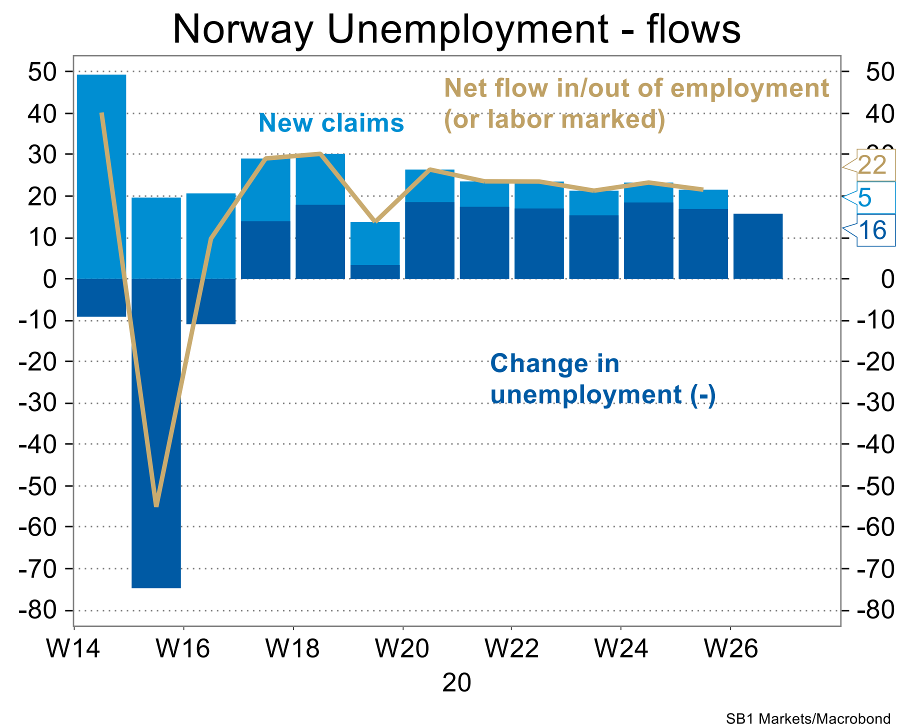


- Households are not worried at all, which is the same message as from consumption of goods, and the housing market

Total unemployment down another 16' last week, -0.6 pp to 10.2%

Full time unemployment down to 5.1%. Almost ½ of the rise in unemployment is reversed





- 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: More PMIs, US labour market. Norwegian house prices & credit

Time	Country	Indicator	Period	Forecast	Prior
Monday June 29					
08:00	NO	Employment, wages	May		
09:30	SW	Trade Balance	May	--	7.6b
11:00	EC	Economic Confidence	Jun	80.3	67.5
14:00	GE	CPI YoY	Jun P	0.006	0.006
14:00	GE	CPI YoY	Jun P	0.006	0.006
Tuesday June 30					
01:30	JN	Jobless Rate	May	2.80%	2.60%
01:50	JN	Industrial Production MoM	May P	-5.70%	-9.80%
03:00	CH	Composite PMI	Jun	--	53.4
03:00	CH	Manufacturing PMI	Jun	50.5	50.6
08:00	NO	Credit Indicator C2, YoY	May	--	4.60%
08:45	FR	Consumer Spending MoM	May	30.00%	-20.20%
10:00	NO	Norges Bank Daily FX Purchases	Jul	--	-2300m
11:00	EC	CPI Core YoY	Jun P	0.8%	0.9%
15:00	US	S&P CoreLogic CS 20-City MoM SA	Apr	0.50%	0.47%
16:00	US	Conf. Board Consumer Confidence	Jun	90	86.6
Wednesday July 1					
01:50	JN	Tankan Large Mfg Outlook	2Q	-24	-11
02:30	JN	Manufacturing PMI	Jun F	--	37.8
08:00	GE	Retail Sales MoM	May	3.5%	-5.3%
08:30	SW	Manufacturing PMI	Jun	--	39.2
09:30	SW	Riksbank Interest Rate	Jul-01	0.0%	0.0%
10:00	NO	Manufacturing PMI	Jun	--	45.9
10:00	EC	Markit Eurozone Manufacturing	Jun F	46.9	46.9
14:15	US	ADP Employment Change	Jun	3000k	-2760k
16:00	US	Construction Spending MoM	May	1.00%	-2.90%
16:00	US	ISM Manufacturing	Jun	49	43.1
17:00	WO	Manufacturing PMI	Jun		
20:00	US	FOMC Meeting Minutes	Jun-10	--	--
	US	Vehicle Sales	Jun	13.00m	12.21m
Thursday July 2					
11:00	EC	Unemployment Rate	May	7.70%	7.30%
14:30	US	Trade Balance	May	-$52.0b	-$49.4b
14:30	US	Change in Nonfarm Payrolls	Jun	3000k	2509k
14:30	US	Unemployment Rate	Jun	12.50%	13.30%
14:30	US	Average Hourly Earnings YoY	Jun	5.50%	6.70%
14:30	US	Initial Jobless Claims	week		1480k
Friday July 3					
03:45	CH	Composite PMI	Jun	--	54.5
03:45	CH	Services PMI	Jun	53.3	55
08:30	SW	Services PMI	Jun	--	40.9
10:00	EC	Composite PMI	Jun F	47.5	47.5
10:00	NO	Unemployment Rate, NAV	Jun	4.90%	6.40%
11:00	NO	House prices	June	(1%)	1.40%
Monday July 6					
03:45	CH	Caixin China PMI Composite	Jun	--	54.5
03:45	CH	Caixin China PMI Services	Jun	53.3	55

- **PMIs/ISM**
  - The preliminary PMIs rose more than expected but almost all are still below the 50 line, formally signalling a further decline in activity in June vs May. As we have noted the previous weeks these surveys are normally not able to spot the first lift in activity after a downturn. More data out last week confirmed that the bottom (in developed markets) was in April, and all short term indicators suggest that the recovery continued in June. The PMIs/ISM should have recovered to above the 50 line in May. Most likely, it will not happen before July or August. Anyway we expect a >3 p lift in the **global manufacturing PMI** to 46 – and the US **ISM** could climb to above 50. The Chinese PMI will probably confirm the moderate recovery taking place there (from the trough in February)
- **US**
  - The **labour market** surprised on the upside in May, big time. Expectations for June seem reasonable, for a another substantial but increase in employment and a further decline in the unemployment rate – but it will still expected at 12.5%. **Auto sales** are expected up, but to remain well below the pre corona level
- **EMU**
  - **More countries will report May retail sales. Unemployment** has not yet started to climb as furloughed are not yet counted and many countries are paying companies to keep employees on the payrolls. **Inflation** is heading down
- **Norway**
  - We expect **house prices** to climb further in June, though not as fast as in May. **Credit growth** has slowed, and we expect more of the same in May – but are not so sure the household deleveraging will continue. Open **unemployment** should fall below 5%, total, including partially unemployed below 10%, down from above 10 and 15% at peak

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%**	The preliminary PMIs rose further in May but almost all remained below 50, even if actual activity no doubt is growing
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?**	Private consumption rose in May, while housing data were mixed. New manufacturing orders up too, but. All activity indicators are well below pre corona levels
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**	PMI and national business surveys recovered in May but remains (too) low
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**	Retail sales further up in May and total consumption of goods rose to above the pre corona level (even if auto sales remained well below). Consumer confidence up to an average level in June

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

Highlights

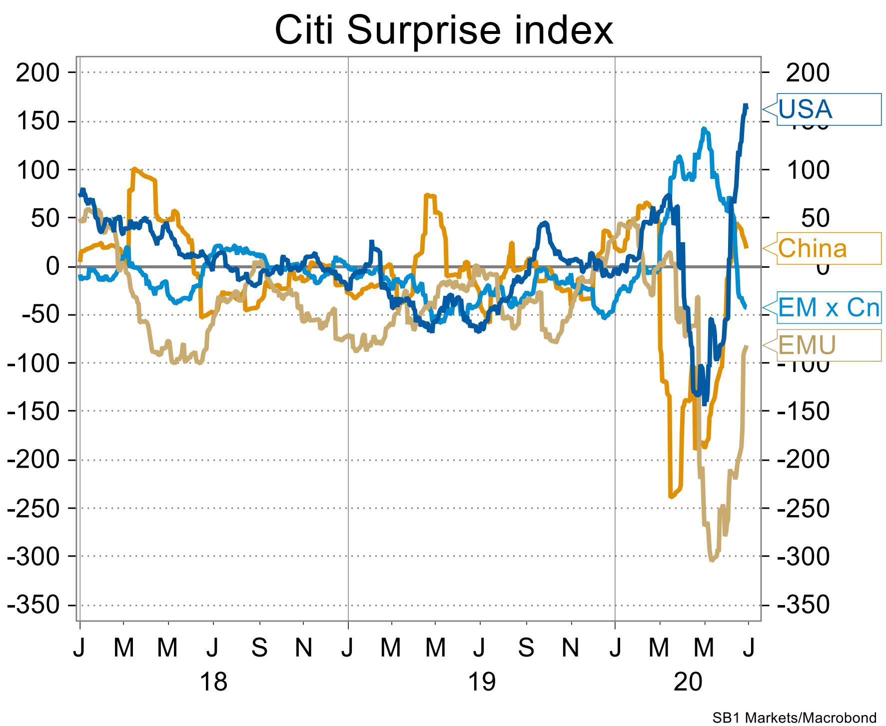
The world around us

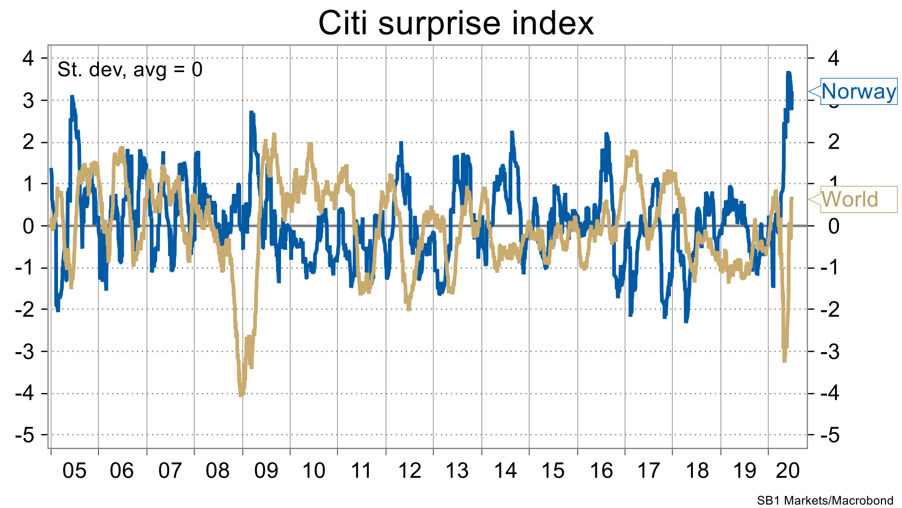
The Norwegian economy

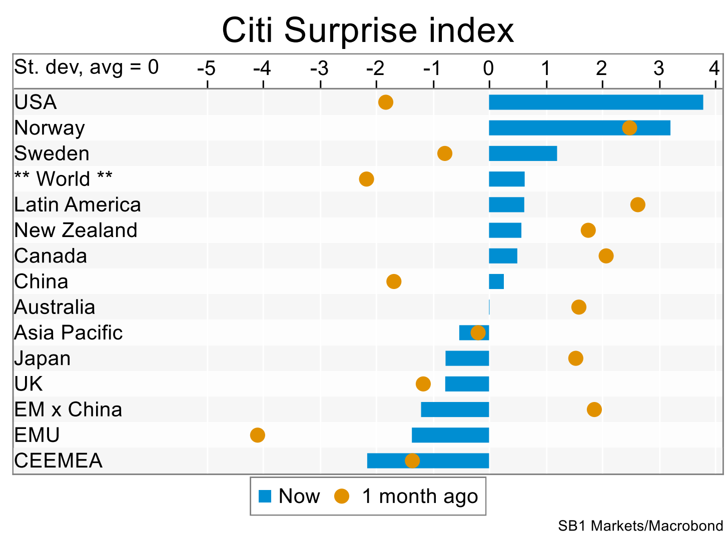
Market charts & comments

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

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







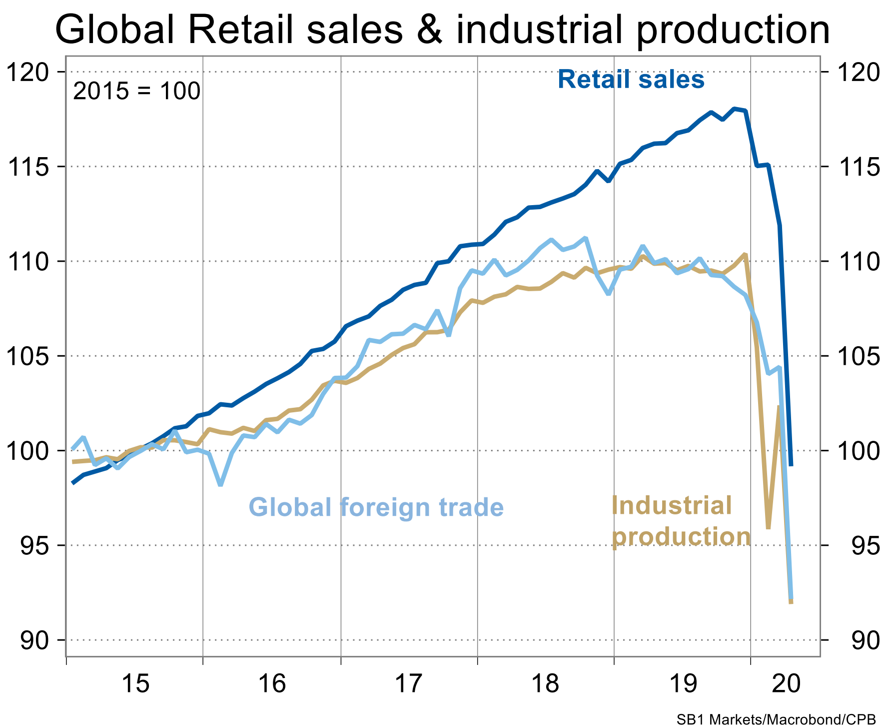
- The global surprise index is above an average level
- US is surprising more on the upside than ever before (data from 2003)
- Norwegian data have not surprised more at the upside, ever
- EMU is surprising most on the downside, as in EM ex China

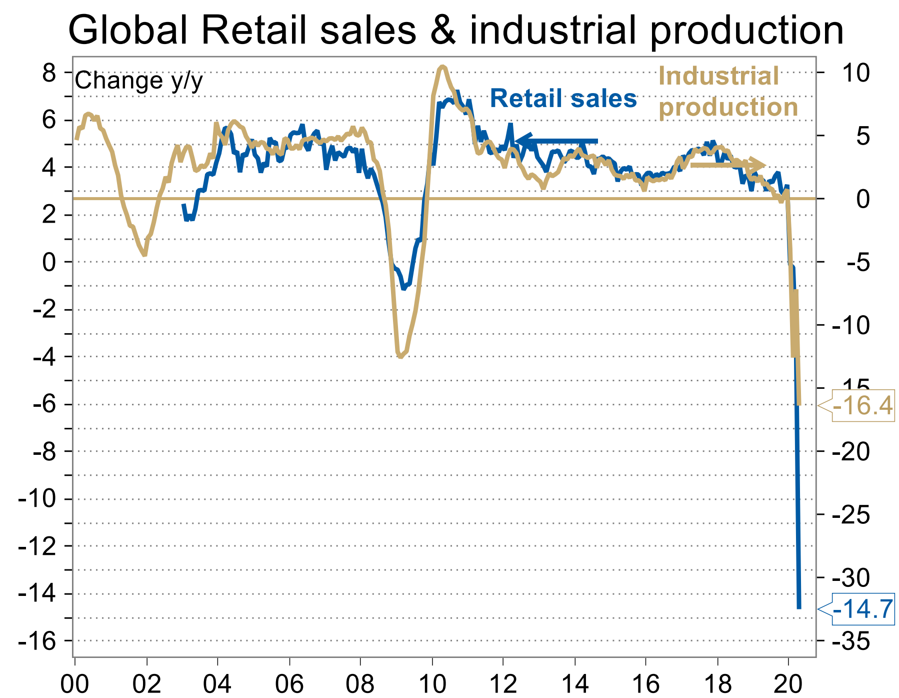
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

SpareBank 1 MARKETS

April 2020 was not the best of months. It was the worst

Industrial production, retail sales and global trade fell 10 – 12, and will recover in May



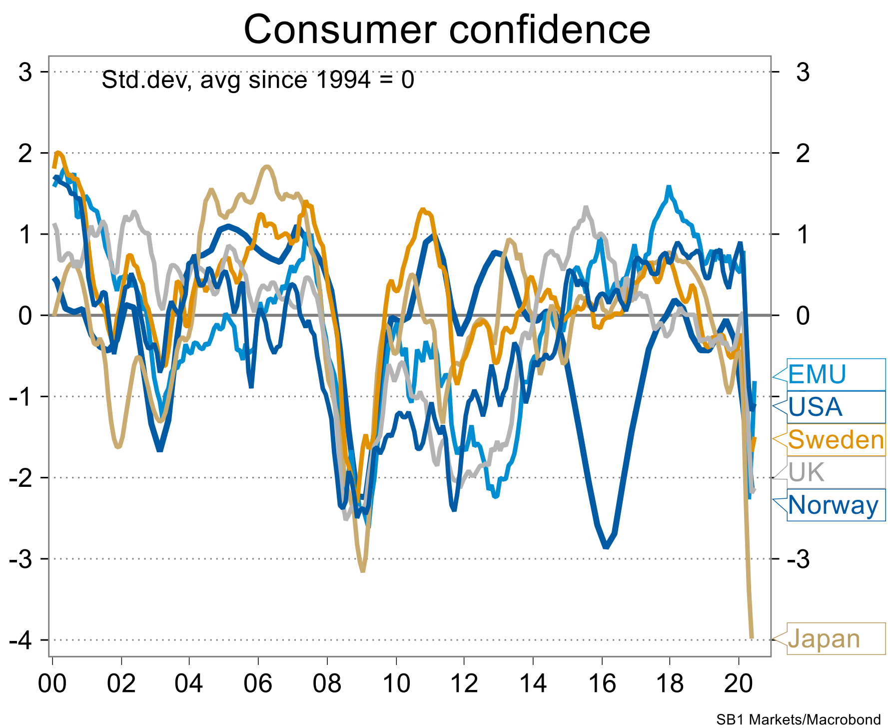


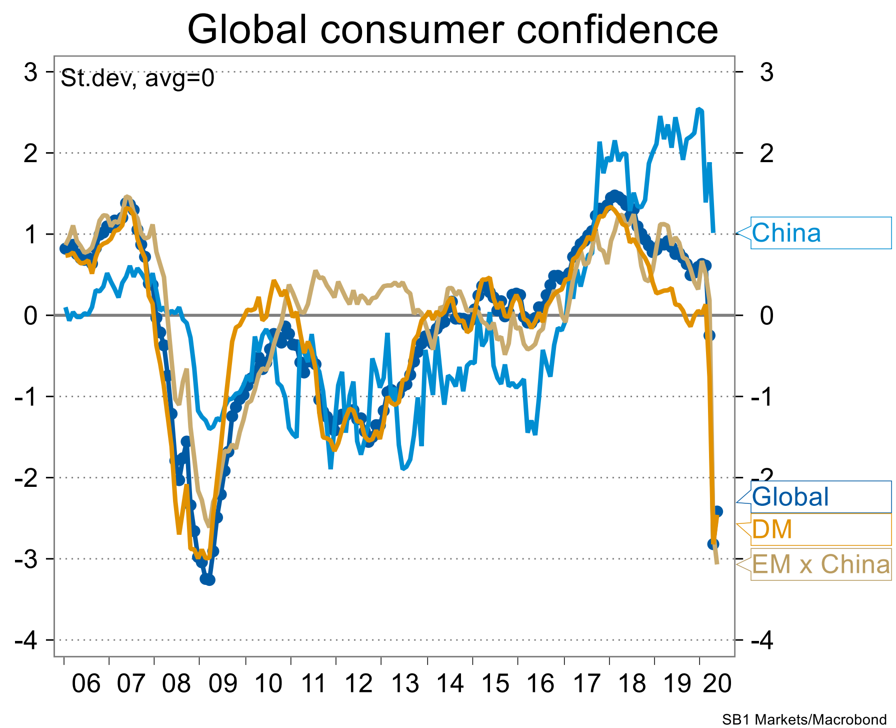
Memo: Keep in mind the different scales at the chart above

- **Global industrial production** probably fell some 10% in April, like **retail sales**, and **global foreign trade** in goods
- **Global foreign trade** fell by 1.5% in January and another 4% in February. Much more to come…

Consumer confidence sharply is recovering

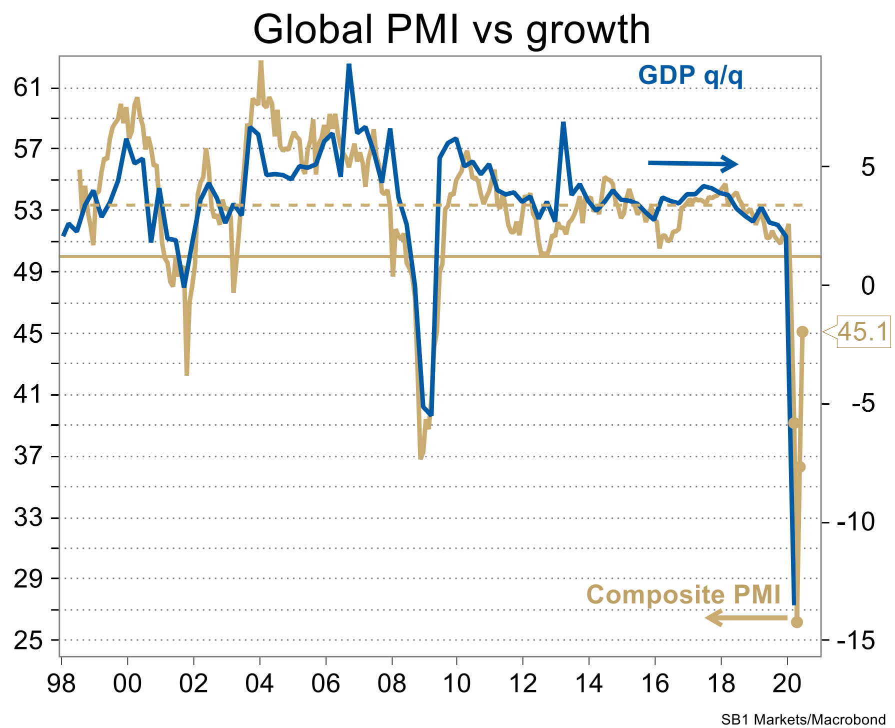
Confidence never fall too deep (most places)

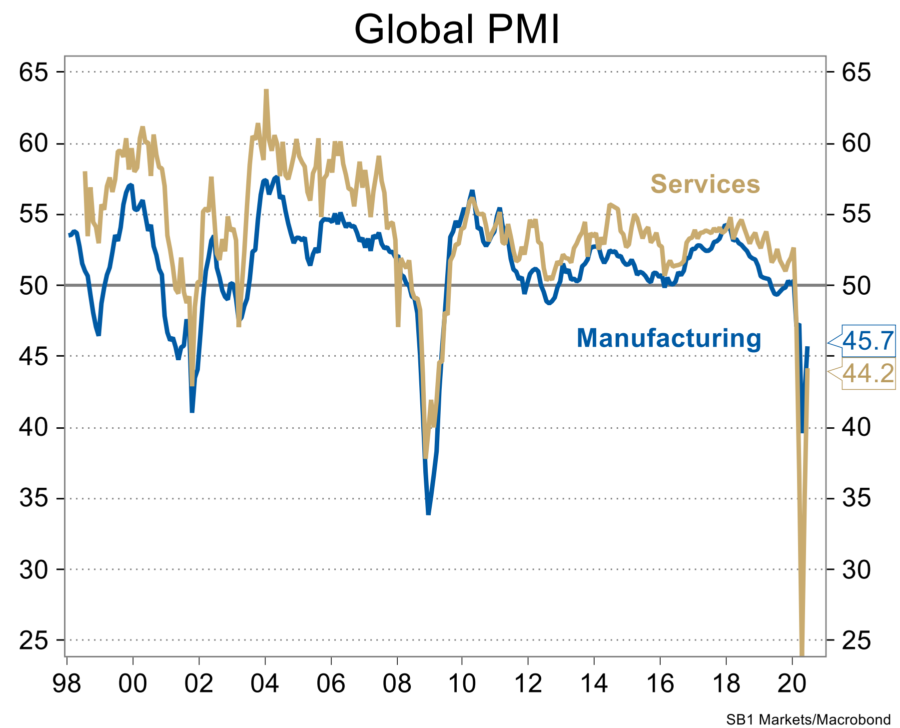




PMIs up in June but still at 45 (our prelim est)

PMIs/ISMs describe the cycles well but are not clever in detecting the first recovery month



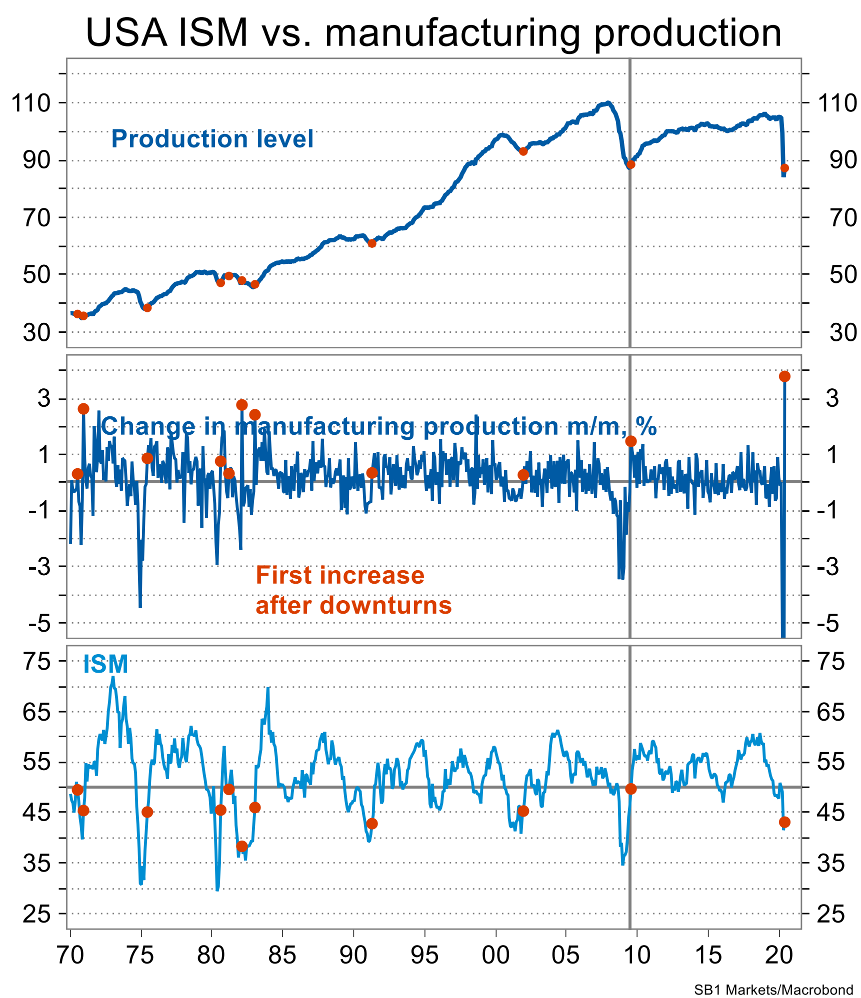


- Global composite PMI probably rose 8 – 9 points to 45 in June, following the 10 p increase in May. An index level at 45 signals a steep decline in production m/m to June from May. The PMI is a diffusion index, measuring change in activity from month to month . When the index is at 45there are 10 pp more companies (like 30% vs. 20%) that are reporting a decline in activity than growth. Usually, that's associated with a decline in production m/m. However, there are two modifications
  - » Companies report the same answer whether the change in small or large, its just up or down. If changes are not evenly distributed, the index will send a wrong signal
  - » More importantly, companies are probably NOT giving a precise answer to the question they are asked: Is June better or worse than May? Rather their answers are influenced by changes over the past months too. So in May, companies are probably referring to what has happened over the previous months too, not just changes m/m in June vs. May. See more next page

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

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

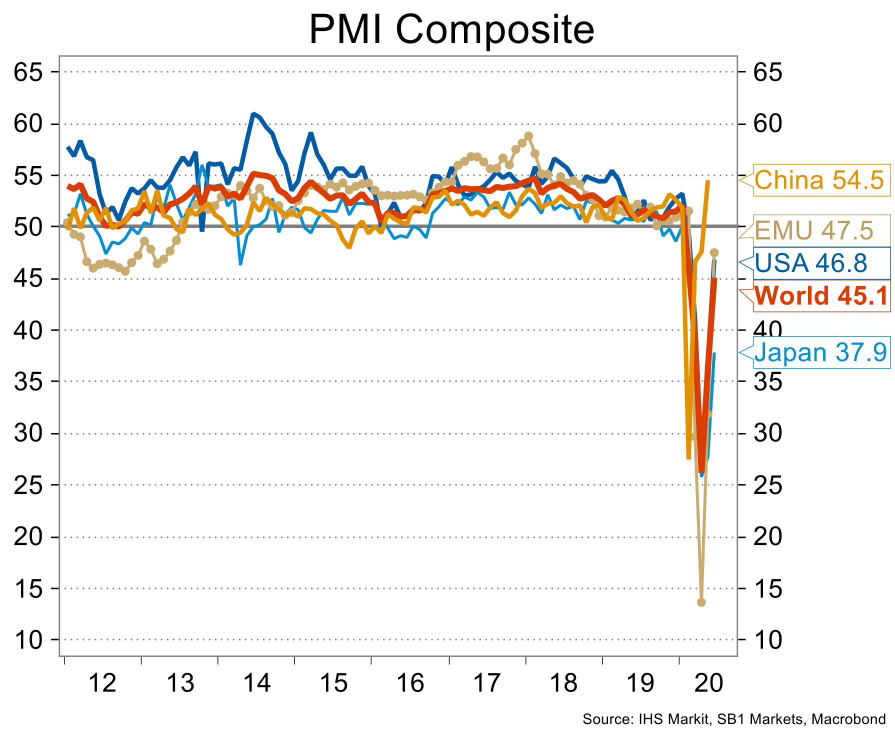
PMIs should climb to above 50 if production grows m/m but they do not

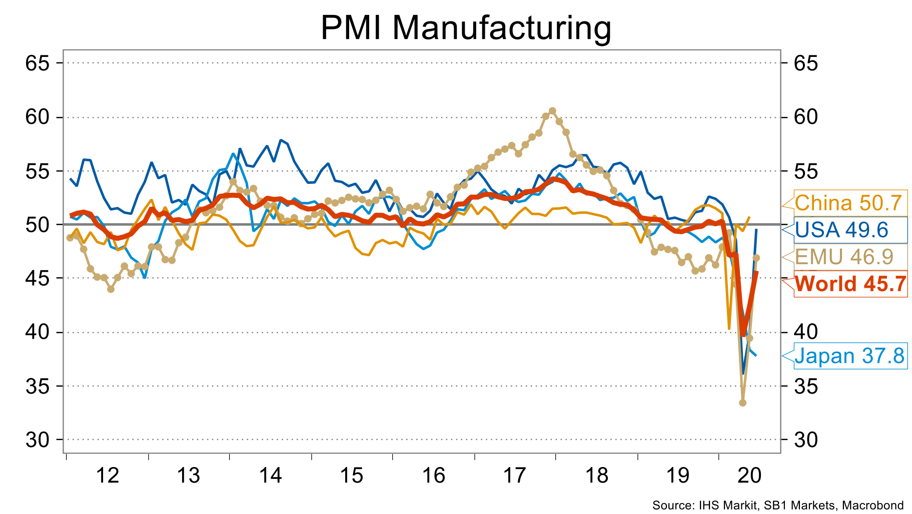


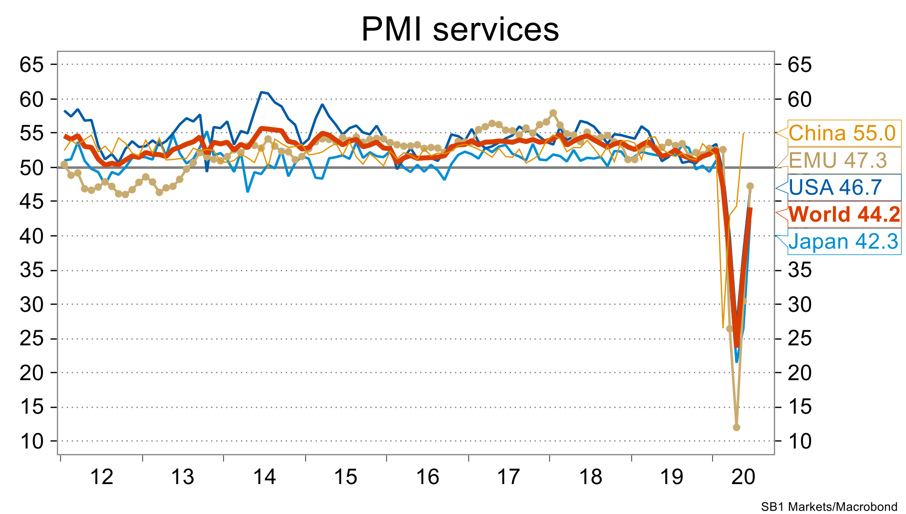
- The ISM (like other PMIs) usually remains below 50 when production increases for the first time after downturns
- Most likely because companies are not answering the survey exact. They are asked about the change in orders, production etc from the previous months but are rather referring to the change in activity 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

‘V’s everywhere, the recession was the shortest ever

Still, PMIs levels so far reported for June weaker then they should have been. Japan a laggard

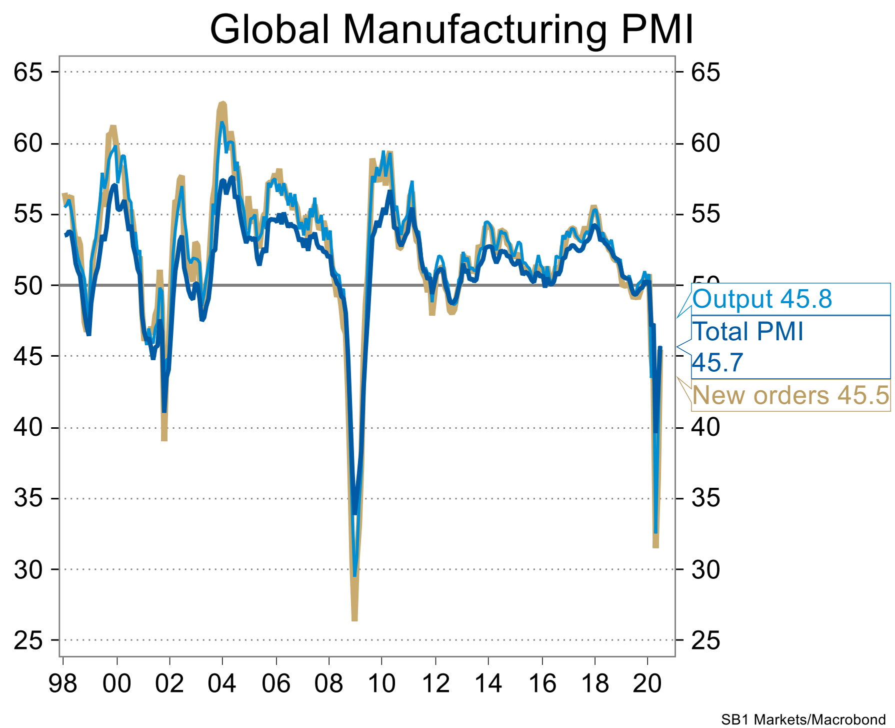


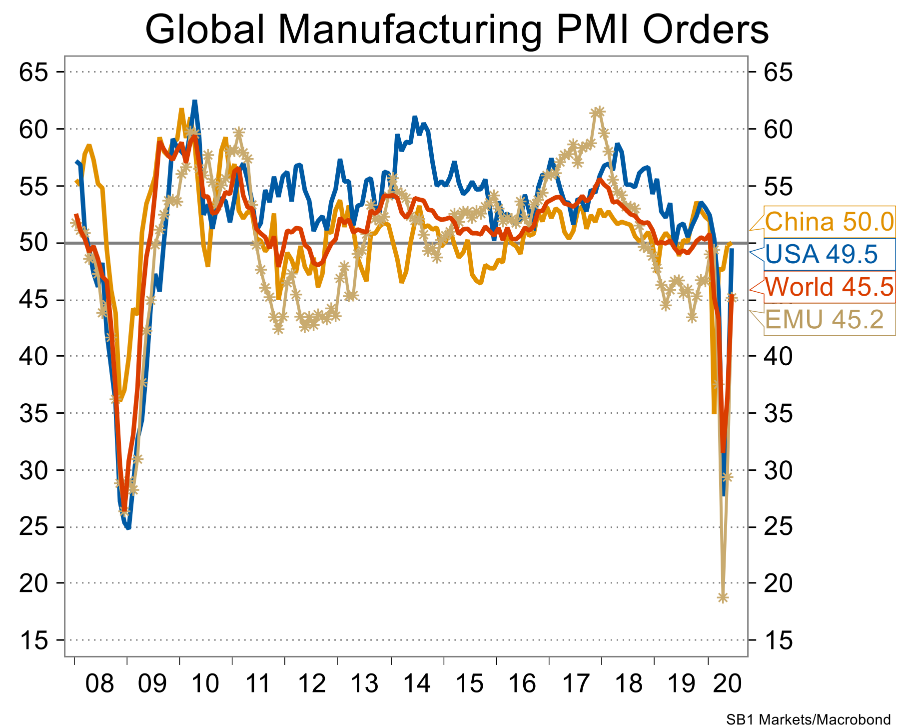




Manufacturing details are getting better, still not strong. Orders below 50 too

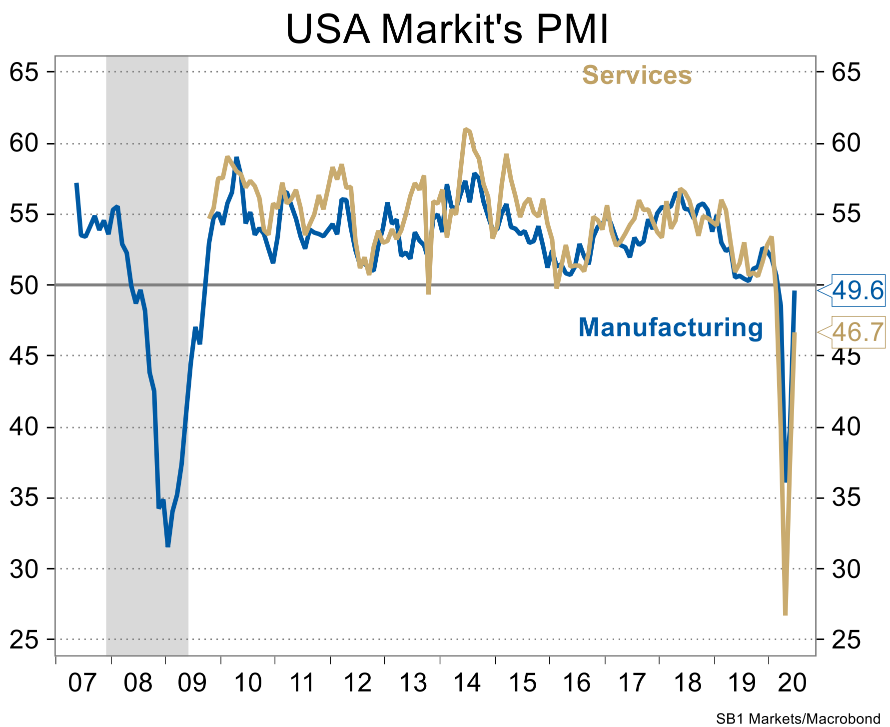
Output, orders and the total index have converged, as usual

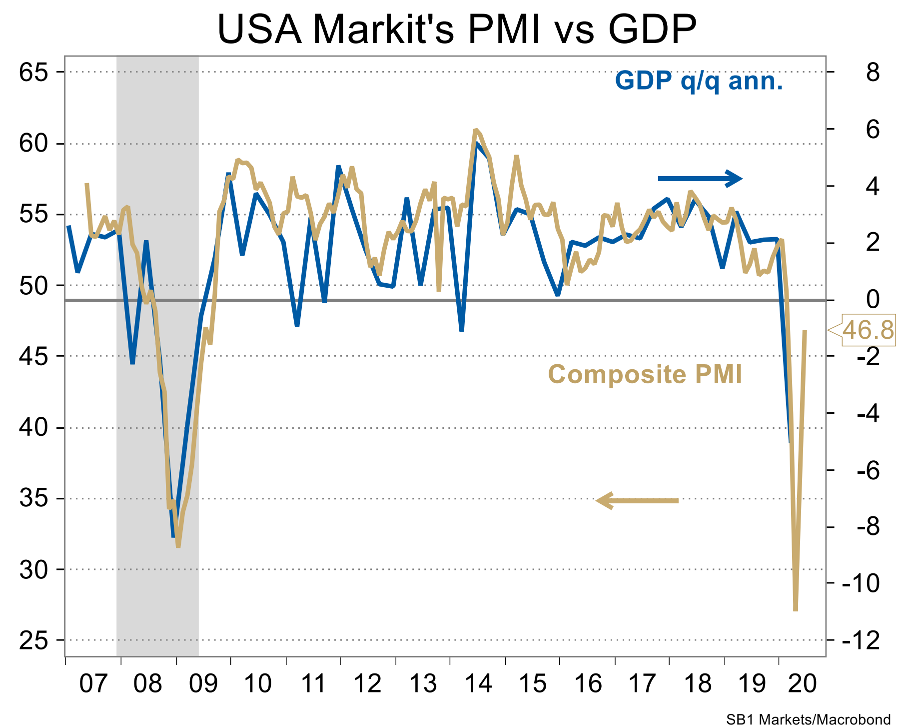




Markit's PMIs up, still below the 50 line

The composite index up 10 p to 46.8 in June, signalling a(n unlikely) contraction to June from May

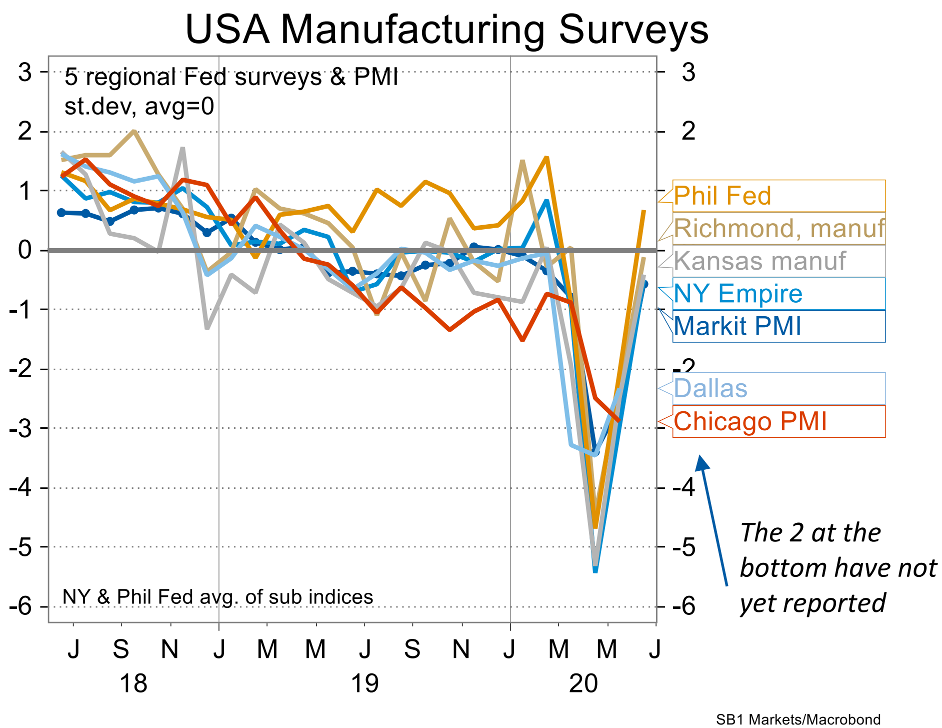


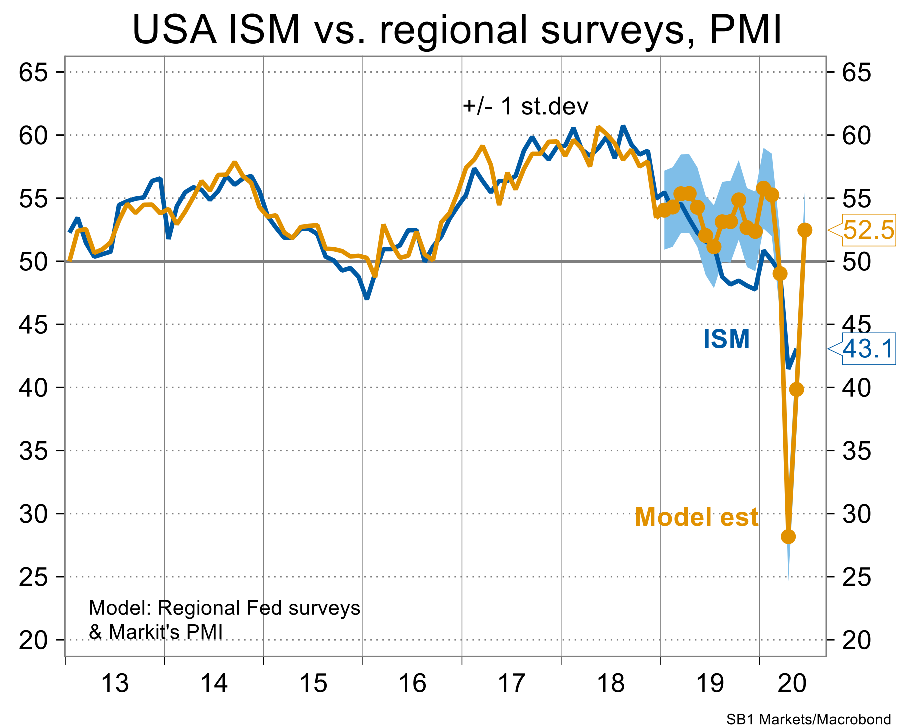


- The manufacturing PMI rose to 49.6, while the service sector index rose to 47.7
- Manufacturing production, retail sales, restaurant turnover all rose to May from April, even if the PMIs were down in the 30'ies, signalling a hard downturn in the economy
- We have no reason to assume that economic activity fell to June from May, as the surveys are "wrong"
- Still, there are two important messages: It's getting better but companies are not reporting 'booming times'

Manufacturing ISM up to well above 50 in June? Most likely

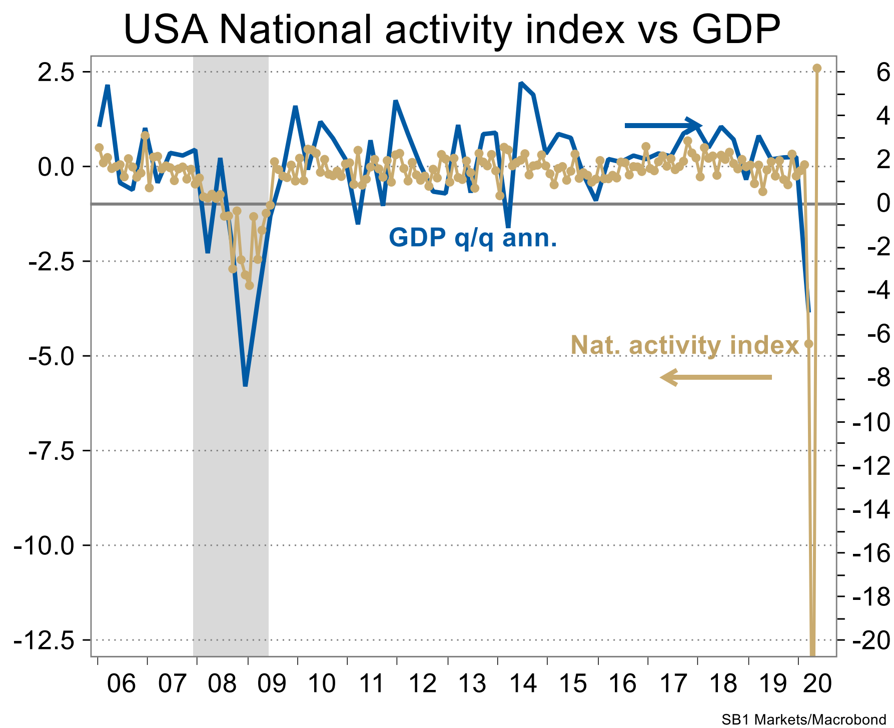
Regional Fed surveys & the PMI signals a sharp recovery in the ISM index

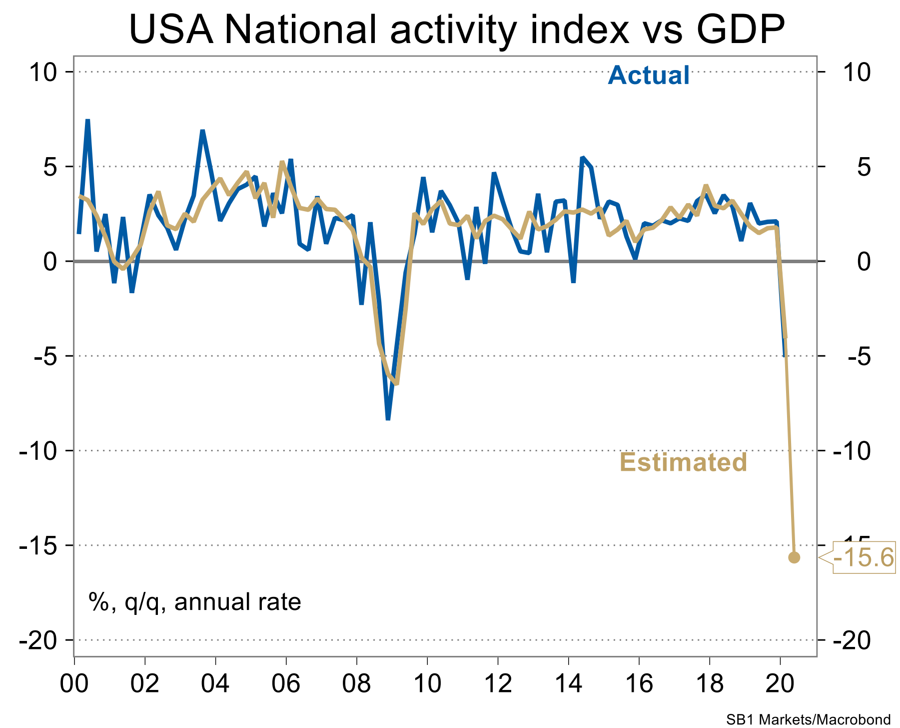




The National activity index sharply up in May, as it should

The index weights together some 80 indicators, and may be a better gauge of activity than GDP





- Still, Q2 is lost, the decline in GDP will be large – the activity index signals -16% (equal a 4.3% drop, not annualised)

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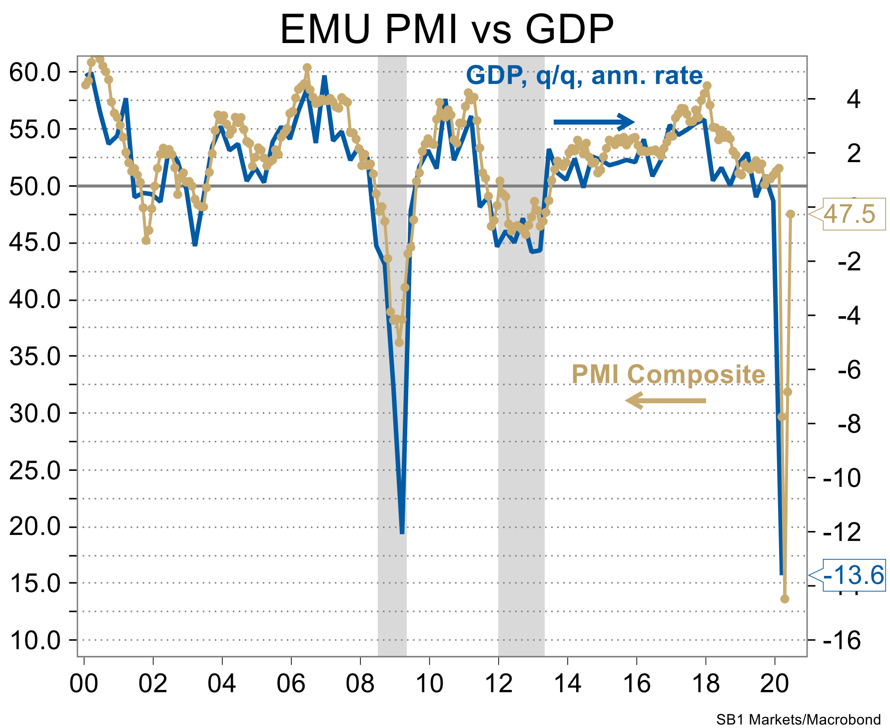
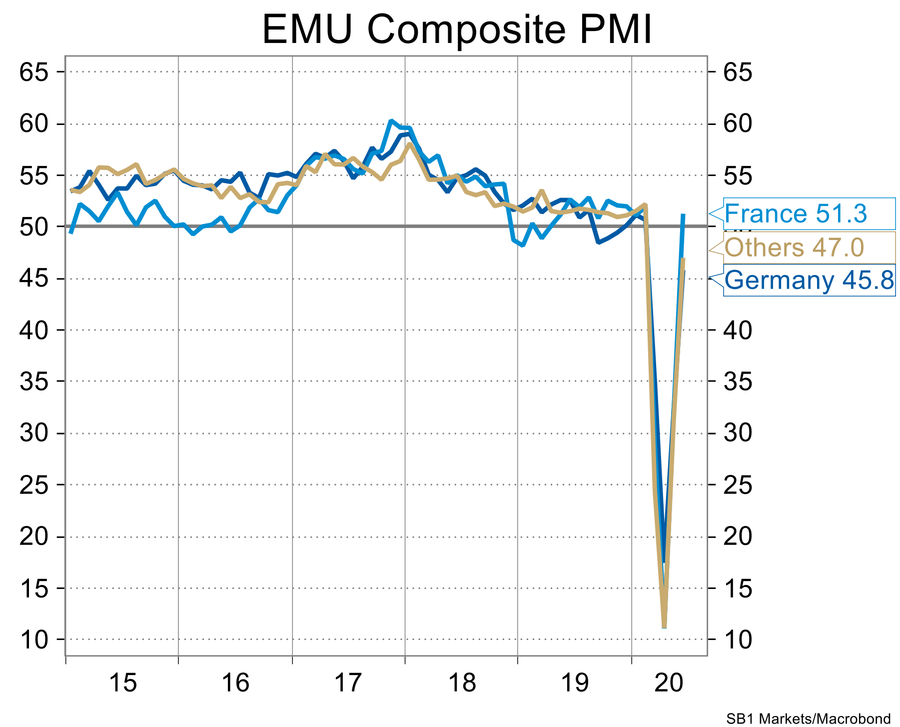
Almost back to 50, far better than expected – should still have been stronger

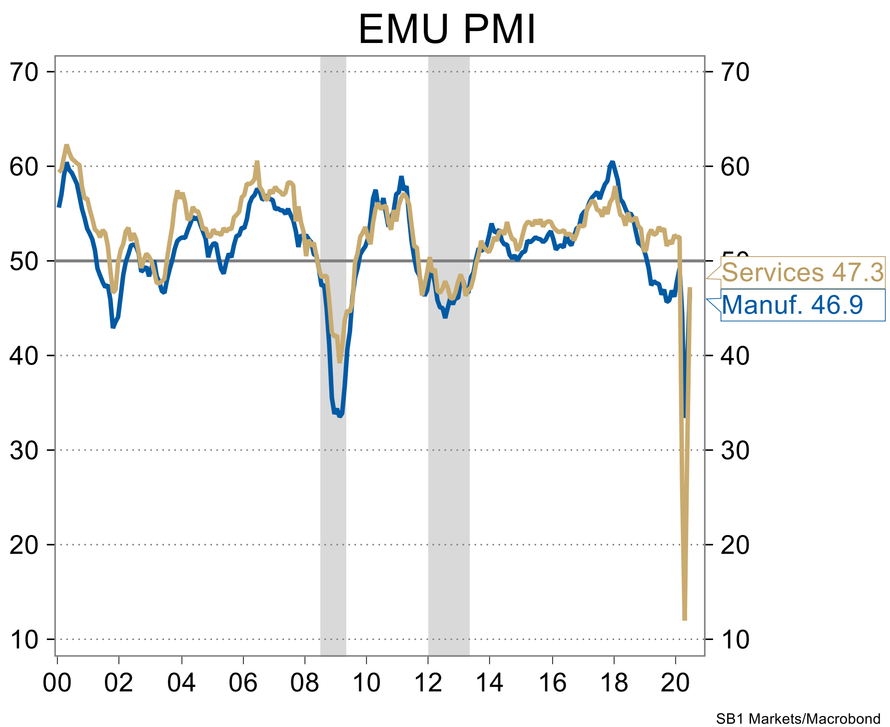
The composite PMI rose by 17 p to 47.5, expected 42. France to 51, Germany 46, the others to 47

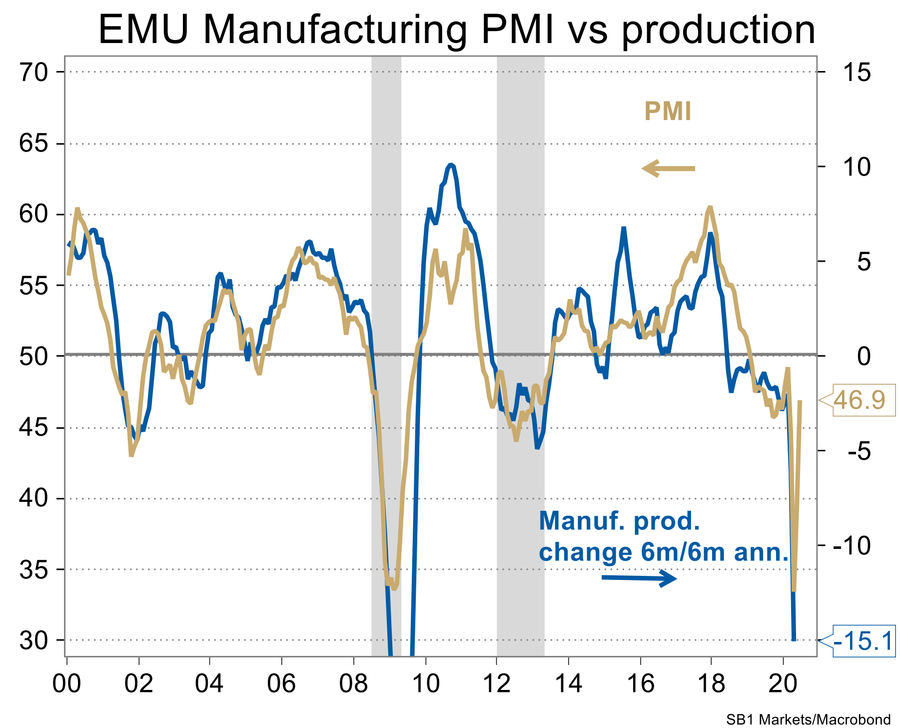




- Formally, the PMIs are signalling a decline in activity in June vs May – which we think is very unlikely

Both manufacturing and services up to 47

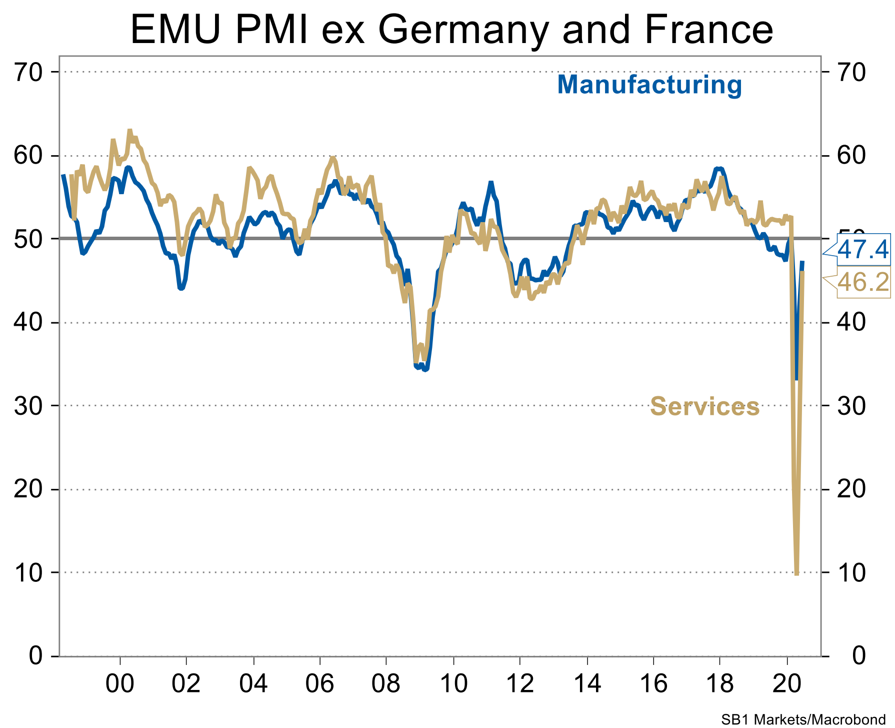


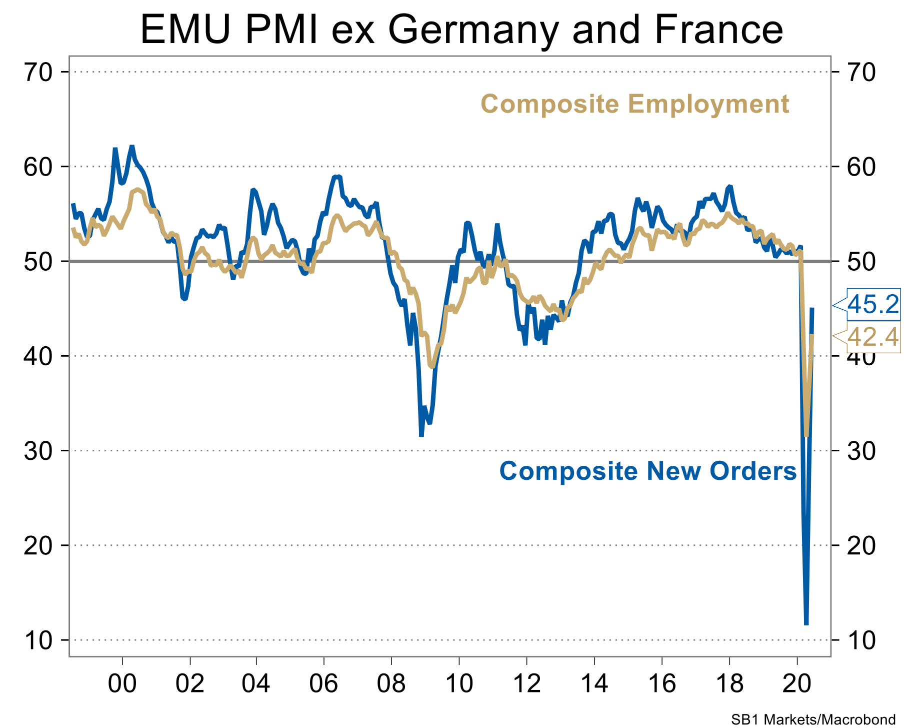


- The activity level in Europe was extremely low in April. We assume activity expanded in May, even with PMIs down in the 30'ies and the growth continued in June. The level is still no doubt far below normal

June PMIs up in EMU ex. Germany & France (read Italy & Spain)

... but levels still below 50

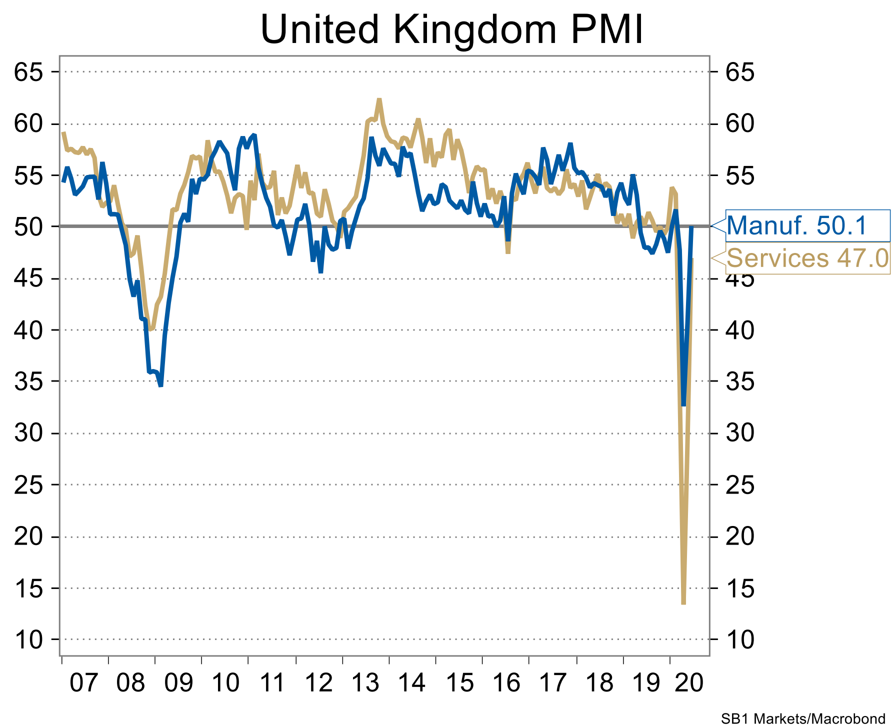


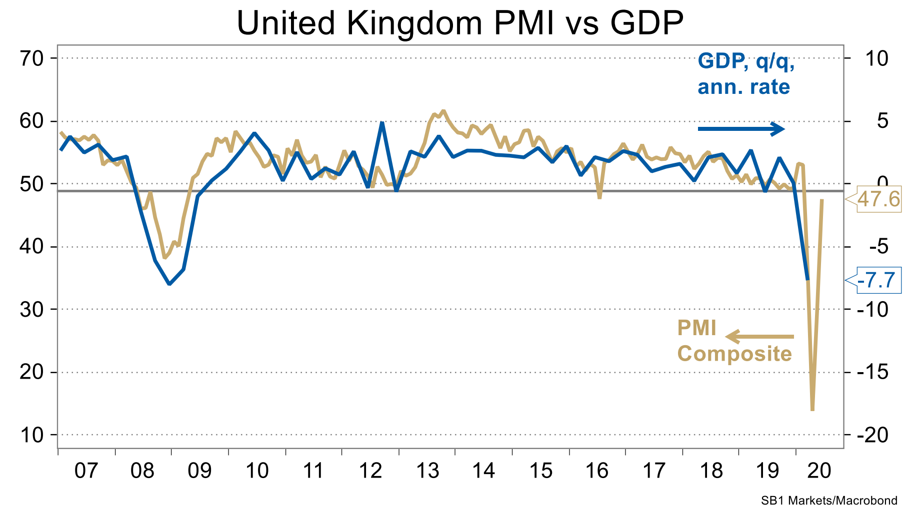


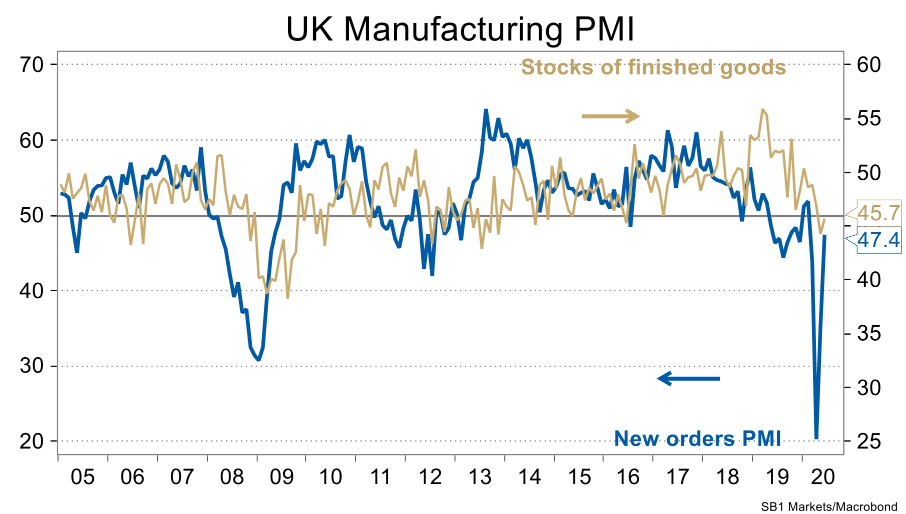
- Preliminary PMIs are only published for total Eurozone, Germany and Spain, and we can calculate the implicit average of the others ☺

The manufacturing PMI to 50.1 in June – we think production will increase 'more'

The manuf. Index rose from 40.7. Services up 18 p to 47, are signalling a further contract.



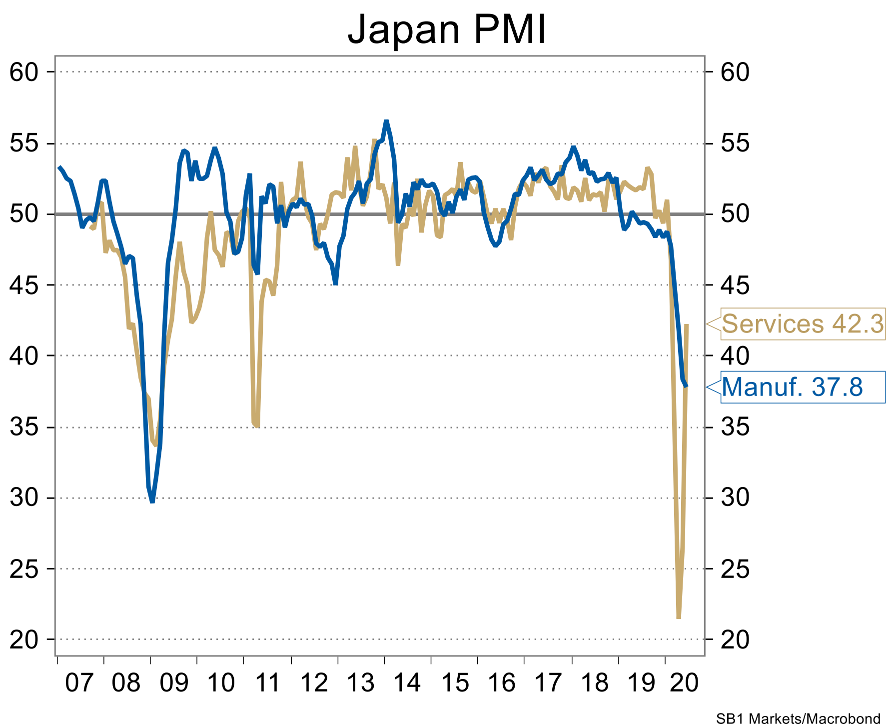


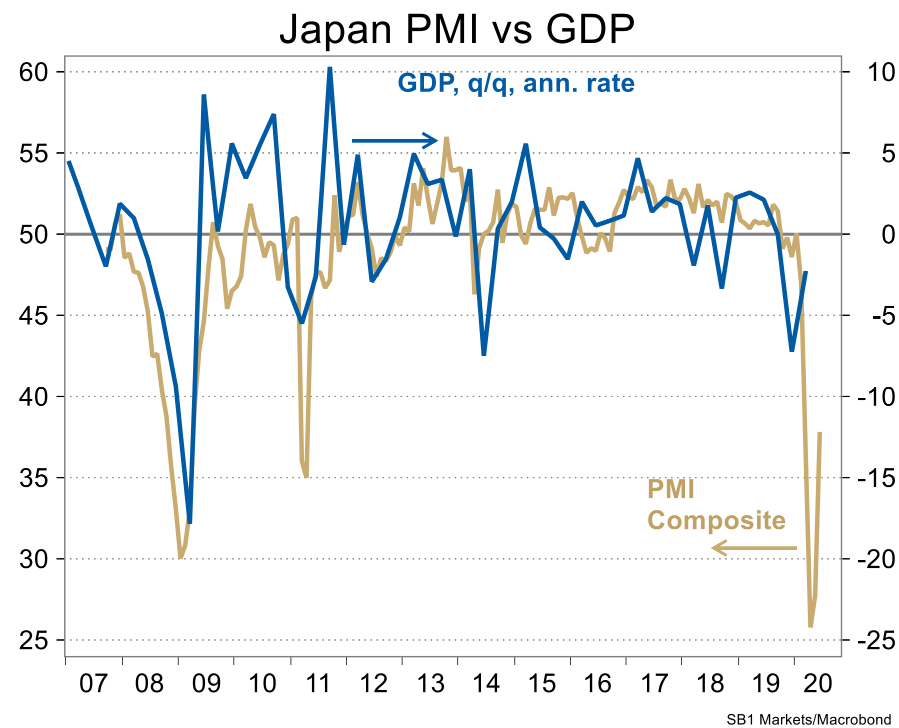


- We are quite sure UK companies are reporting too low activity in June vs May– as they very likely did in May (retail sales rose sharply, electricity production recovered etc) – the PMIs should have been above 50 already in May

PMI extreme weak in ~~May~~ June too

Manufacturing reports an even faster decline – services just a slower slowdown. A -10% GDP pace?

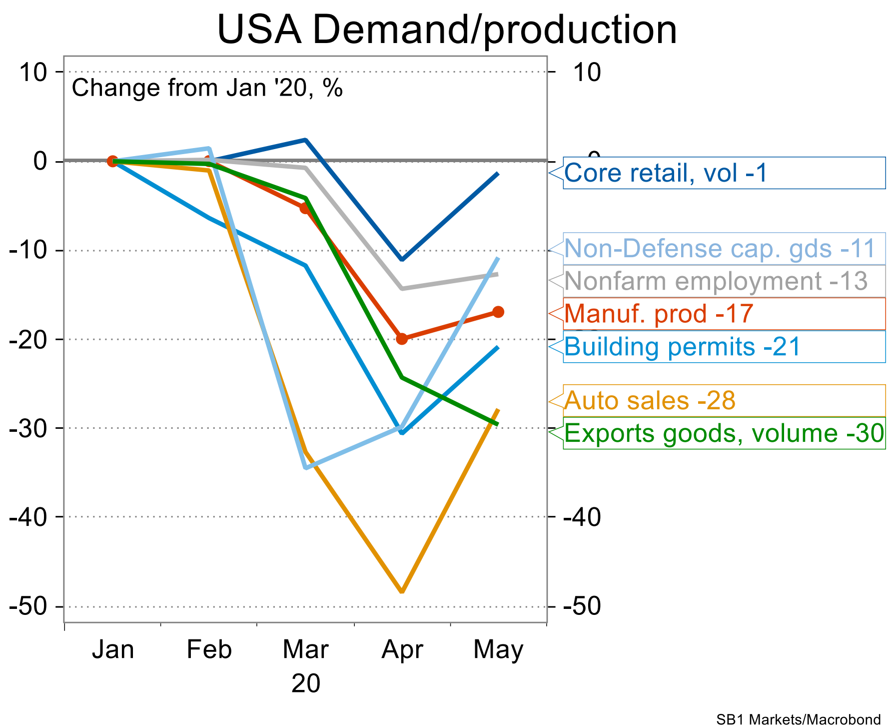




- We expected better Japanese numbers

April was the bottom – even if exports fell further in May

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



Some different shapes and forms of 'V's

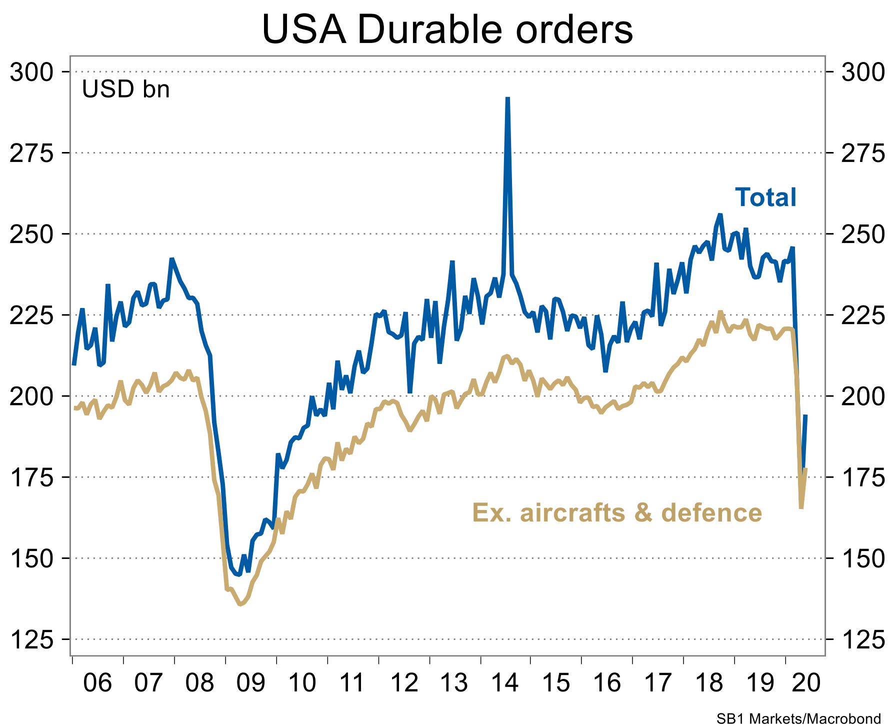
- The bottom was in April
- All main indicators published so far rose in May
- Core retail sales have reported the sharpest recovery while total consumption is still XX % below the pre corona level
- Non-defence capital orders (including airlines) are down 11% following a steep rise in May
- Export volumes fell further in May, and are down 30% (!). Imports have fallen far less
- Local government demand is declining due to budget constraints (employment fell in May)

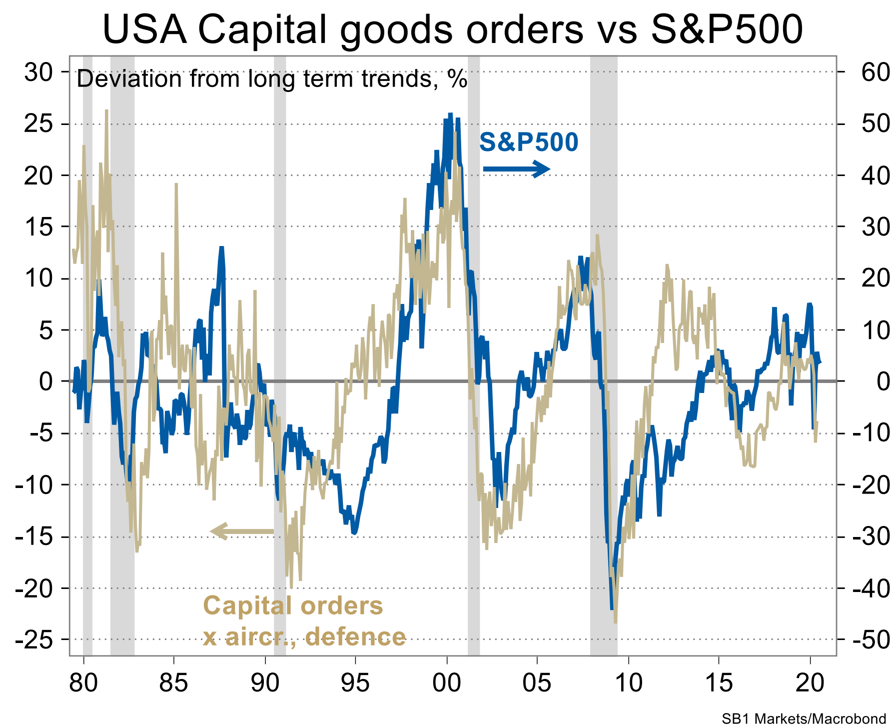
Demand vs production

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

Durable orders up 15% in May, exp. +10%, still just 1/4 of setback recovered

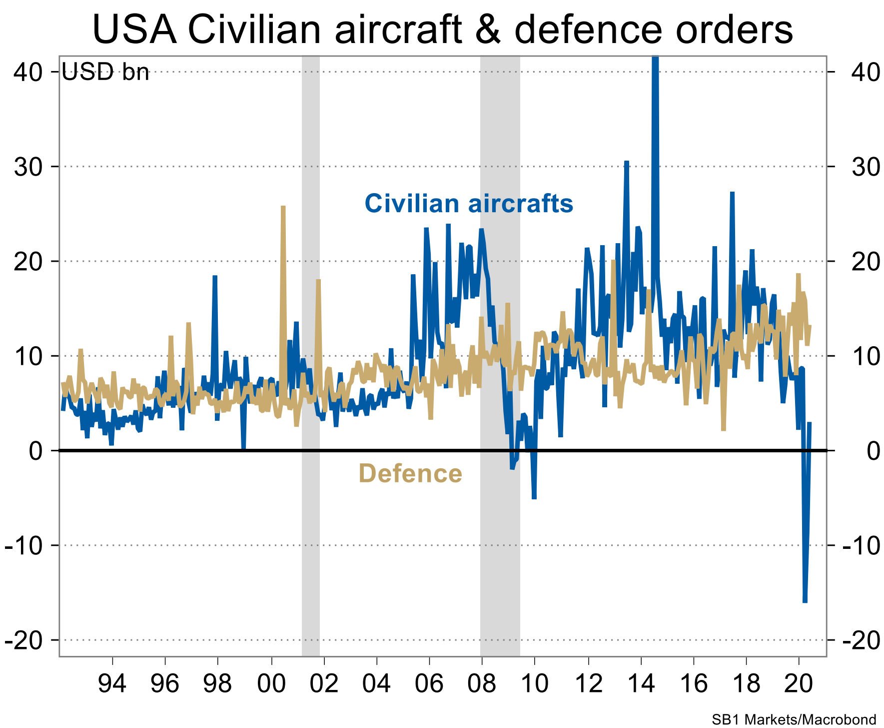
Orders ex. aircraft & defence up 8% but level is still low. Investment goods not that weak!

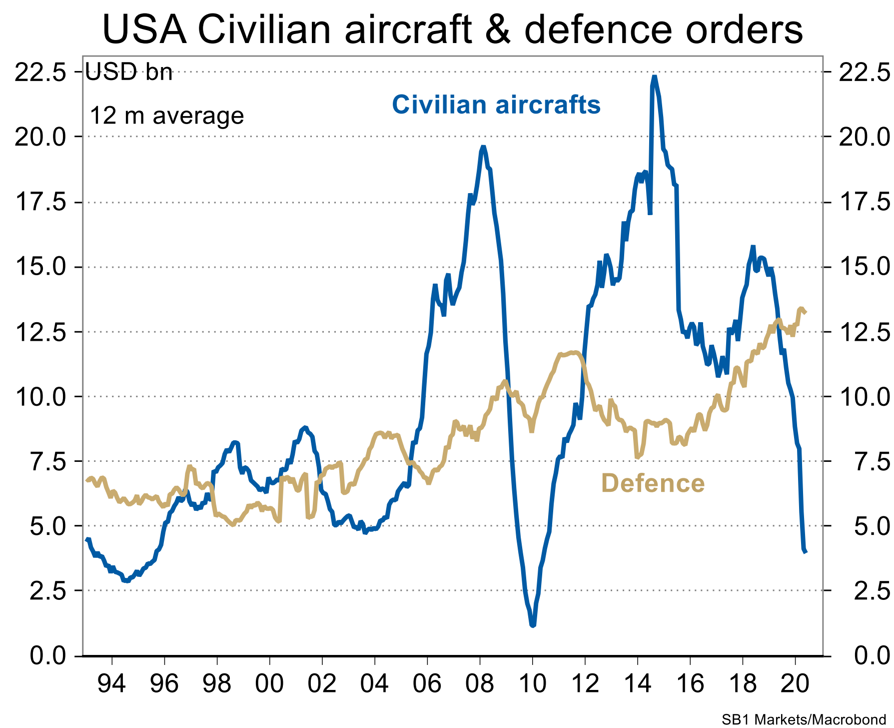




No more Boeing (net) cancellations

During March and April, order cancellations were much larger than new orders (which were few)

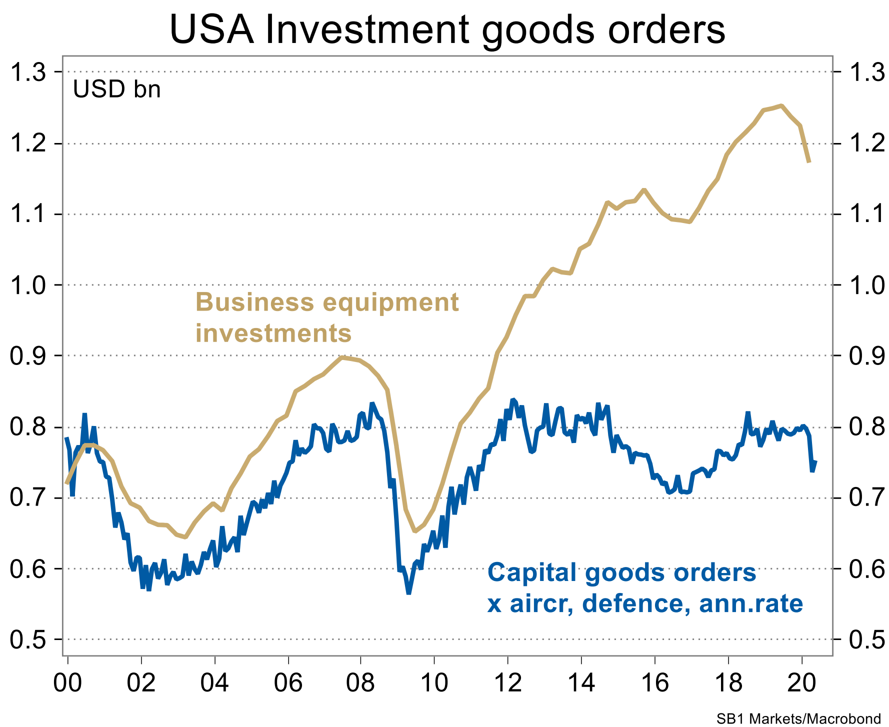


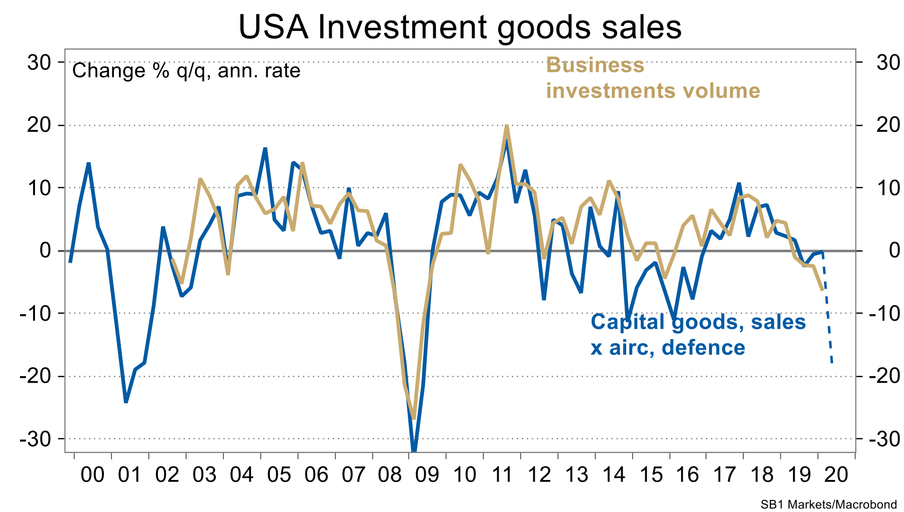


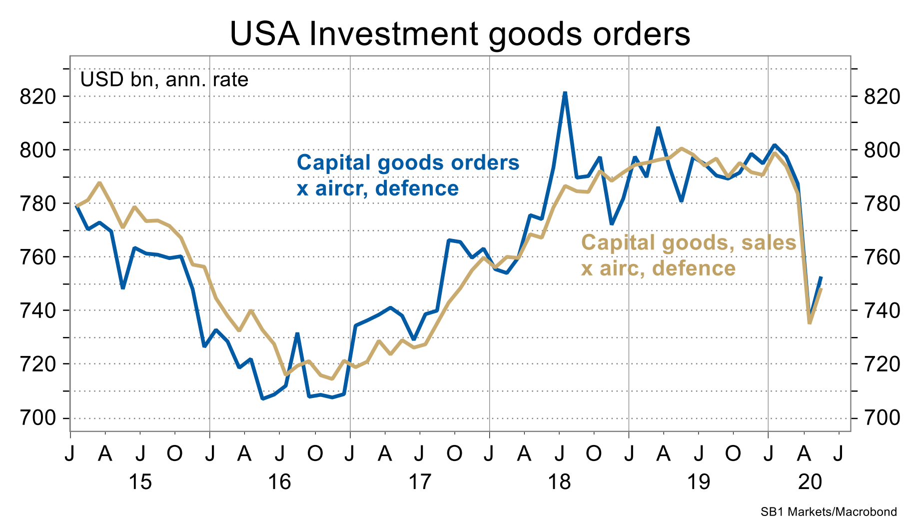
- Still, compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters (it started last spring!) is not surprising at all – even if the USD 25 bn net cancellations in March and April was an unprecedented blow

Capital orders +2% after 6% drop. Bus. investments down in Q2, but no drama!

The decline in core investment orders are so far muted. Didn't companies have time to react?



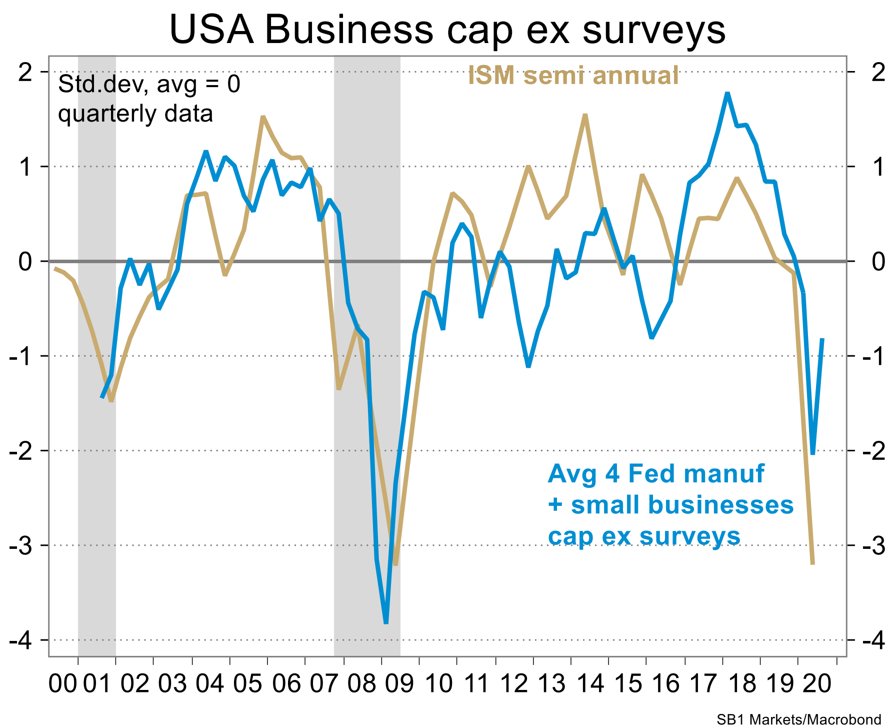


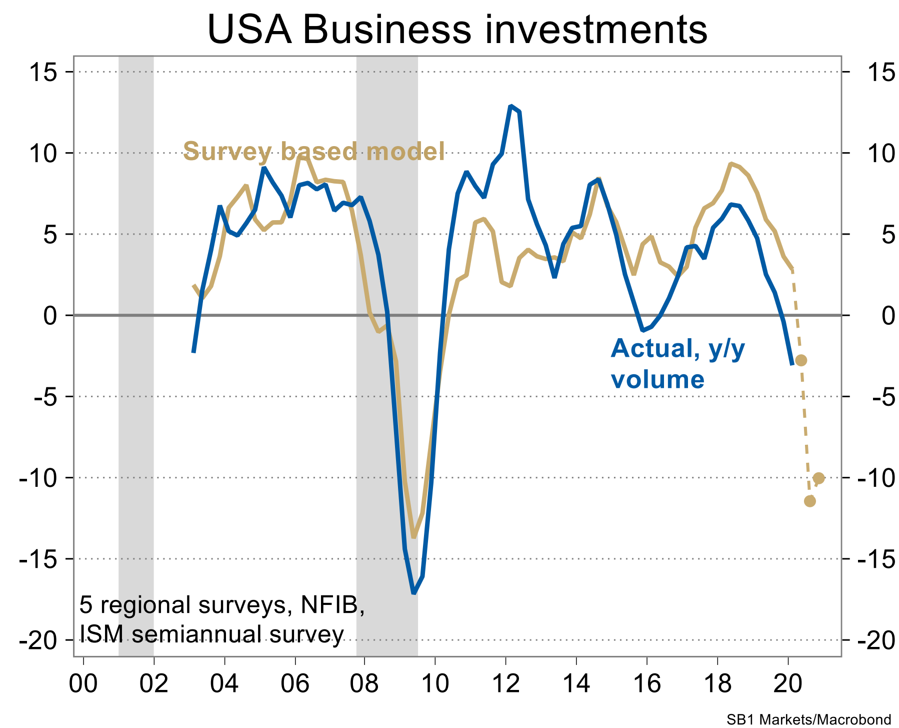


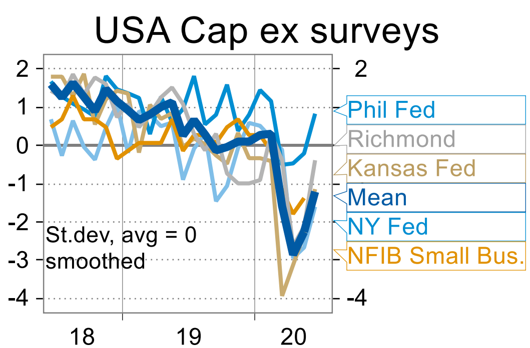
- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
- However: Usually, the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year, or even more
- Business surveys signal cuts in investments the coming months/quarters – but the June surveys were better?

Business were planning aggressive investment cuts. A tad less downbeat now!

Both manufacturing and services are planning cuts – but probably far less than during the GFC





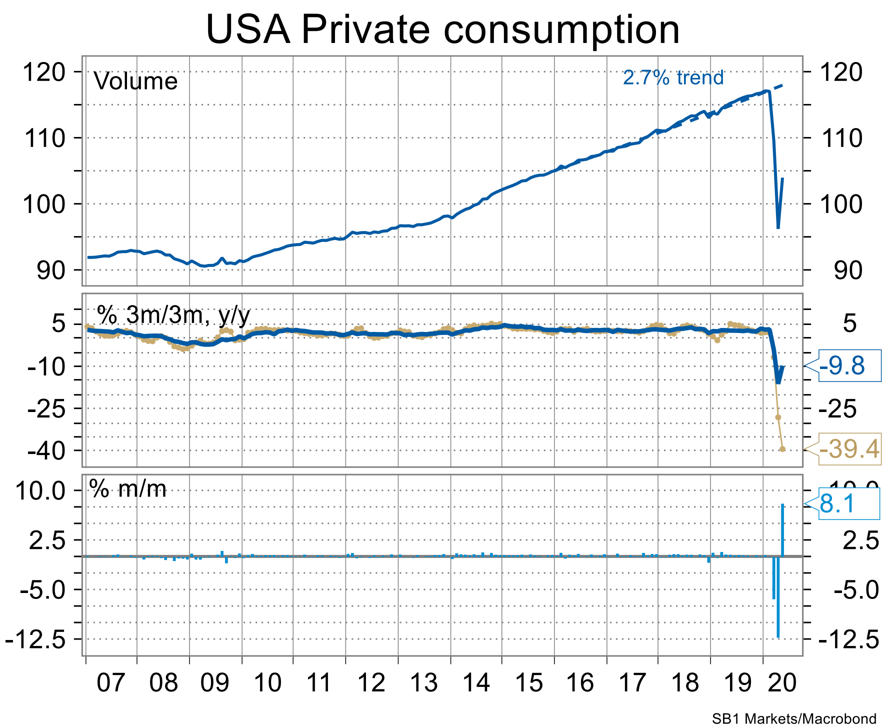


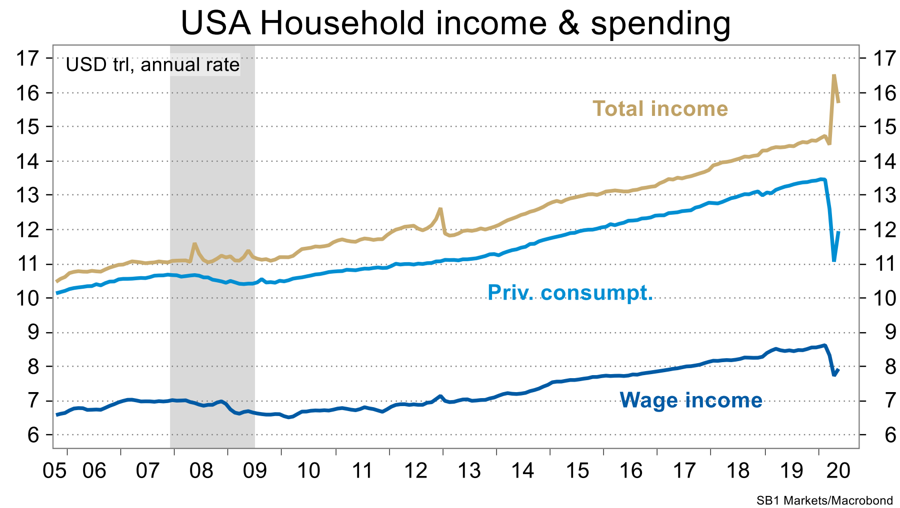
- Some bright spots: Investment plans were revised up in several regional Fed surveys May and even more so in June. They are still below par but are that weak

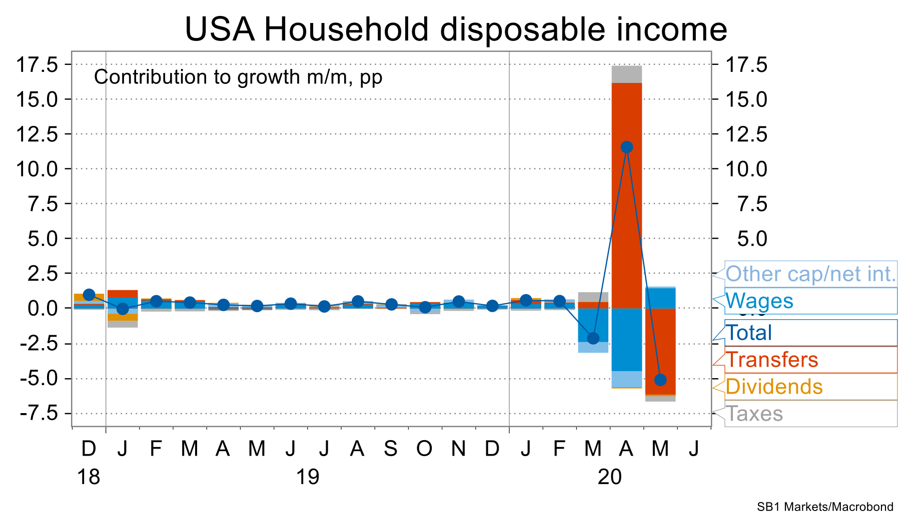
USA

Consumption up 8% in May, just 1/3rd of the setback recovered & 11% below par

Income fell by 5% in May, fewer checks were sent. Savings still high, at 23%

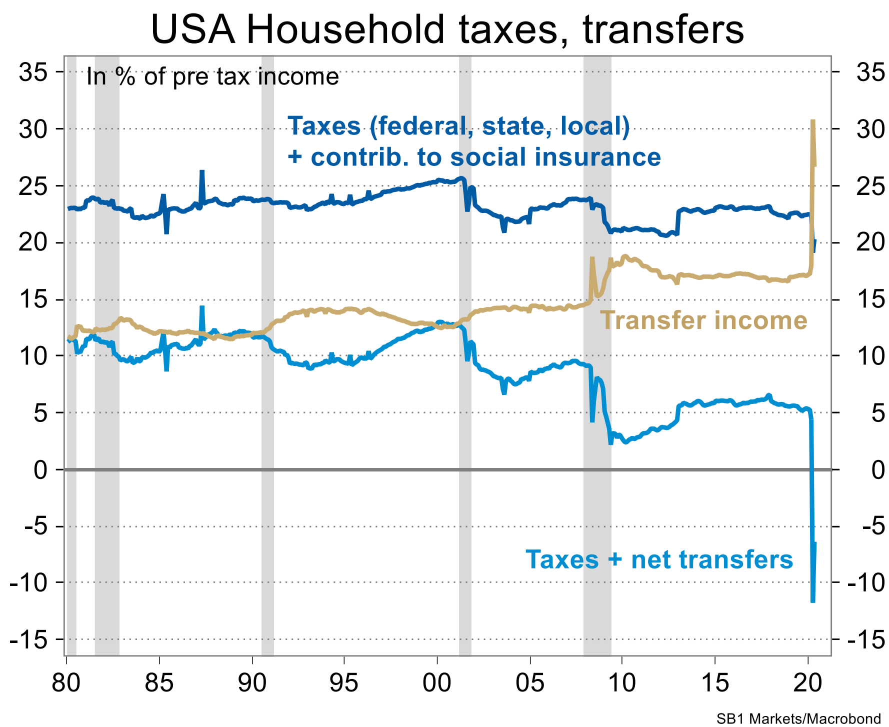


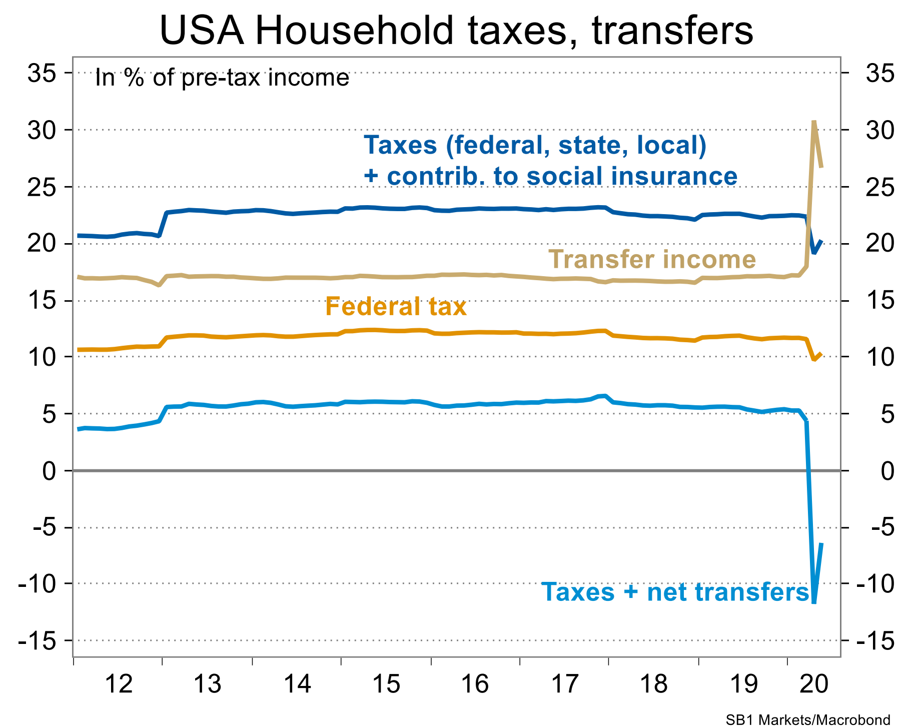




- The increase in spending was marginally lower than expected, while income fell a little less than expected.
- The level of transfers is still some 11% of disp. income higher than normal, both due the direct payments to households (the check from D. Trump), and the survey in unemployment benefits. Wage income grew marginally in May, following a sharp decline in March and April
- The savings rate fell by 10 pp to 23% in May, still very high

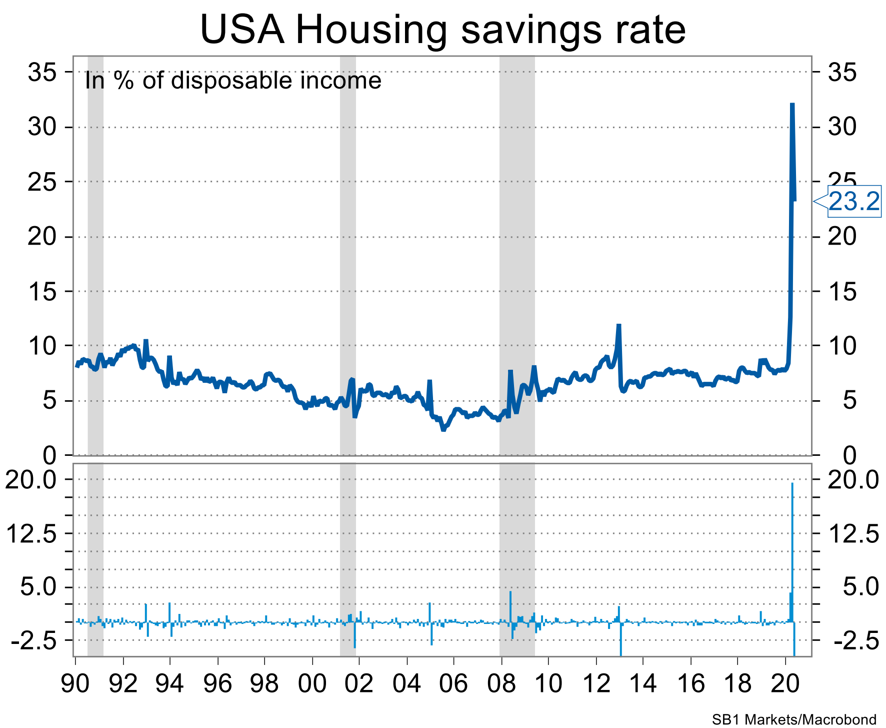
The households received CARES Act transfers – and some tax cuts

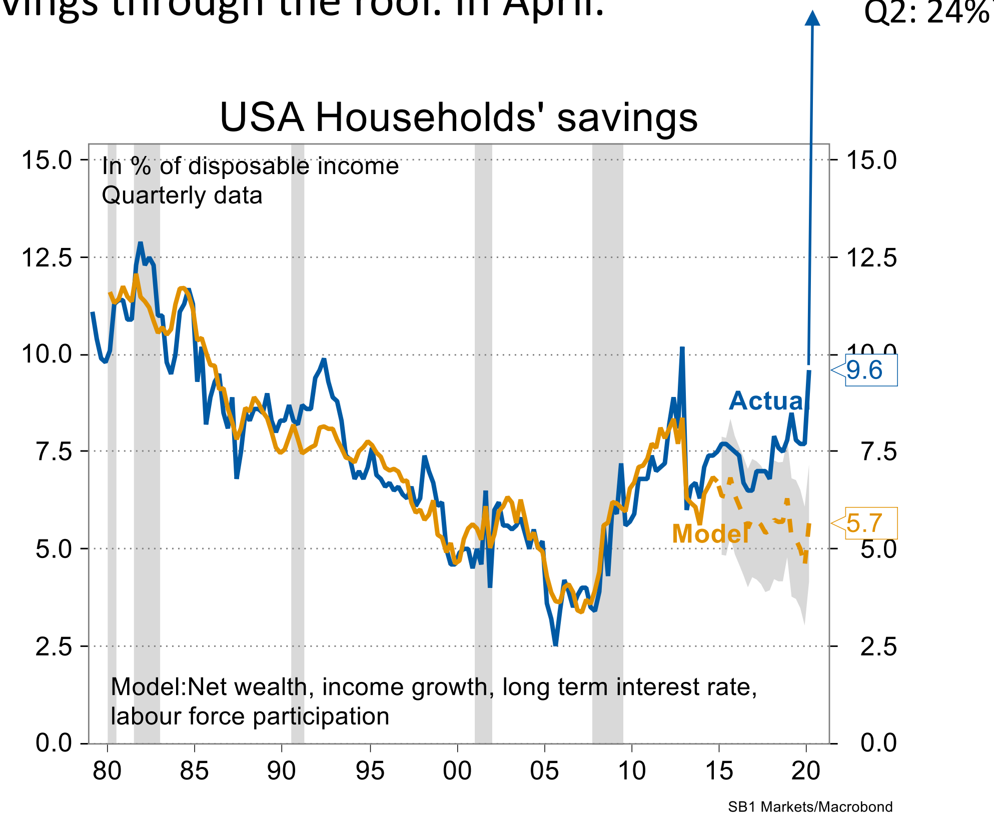




Households savings down to 23%, still an incredible high number!

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

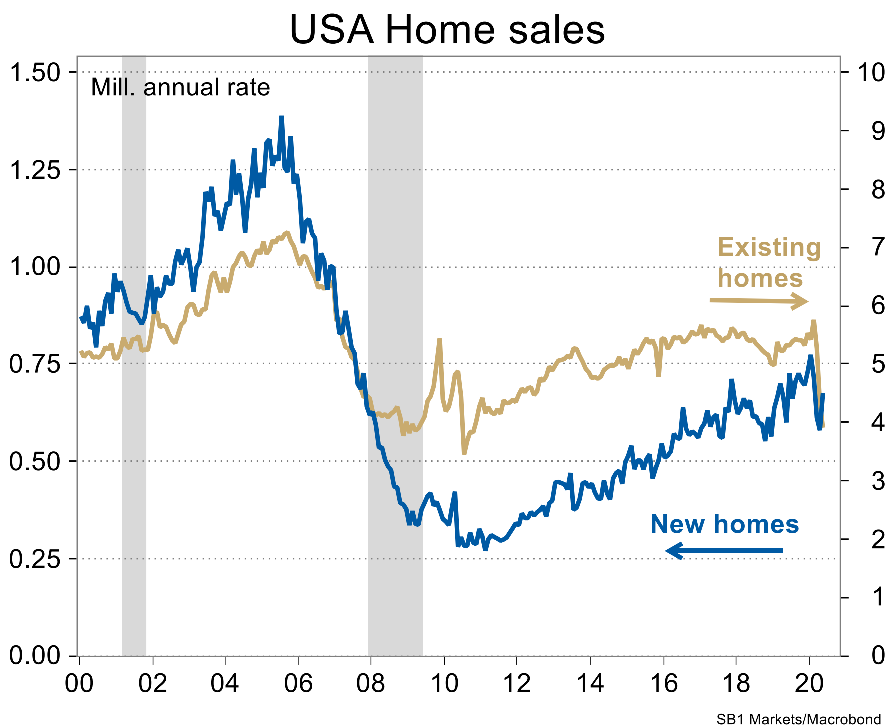


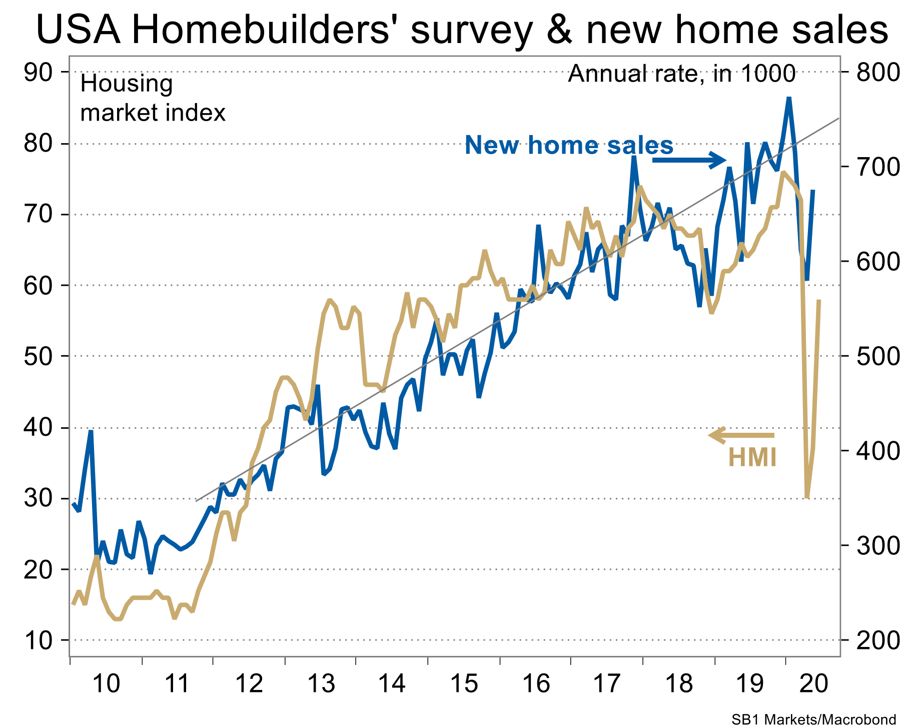


- Distributed over one year, the increase in saving the two past 3 months equals almost 4%!
- The income support increases the probability for a recovery in spending as soon as the economy opens up

Existing home sales marg. down in May but new home sales partly recovered

Existing home sales lower than expected. New home sales stronger, up 16%, still 8% below trend

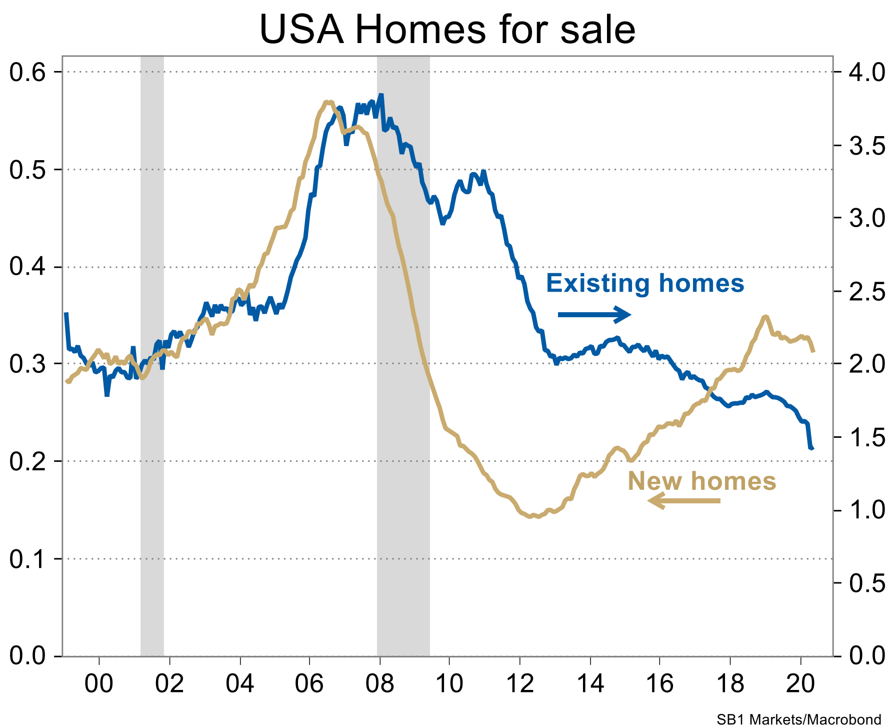


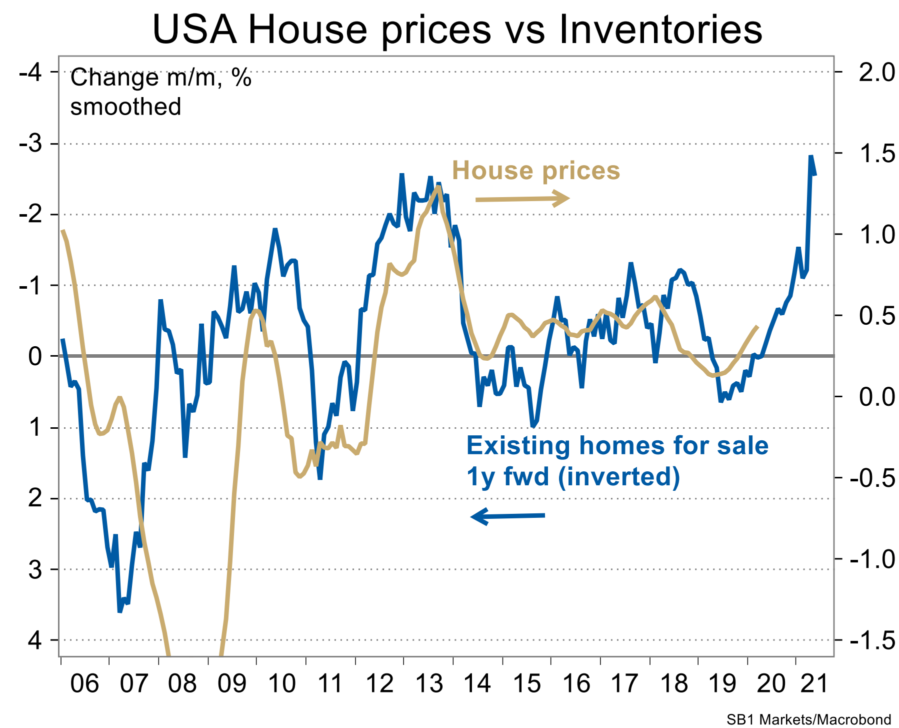


- Slow sales during May (as in April) is not that strange, given the partial lockdowns – and a further decline in existing home transactions is June is likely, given a steep decline in agreed sales (pending sales) during the spring
- Supply of existing homes for sale is sharply down too
- Still, prices fell in May, according to realtors. However, their stats is not adjusted for eventual changes in the mix sales
- New home sales recovered in May but from a sharply downward (-7%) revised April. Total April & May sales were lower than expected. <u>However, the 17% increase to May from April surely supports the 'V' hypothesis – and being just 8% below the old trend in a still partly locked down May is not that bad!</u>

The inventories of unsold homes was shrinking before corona, sharply down now

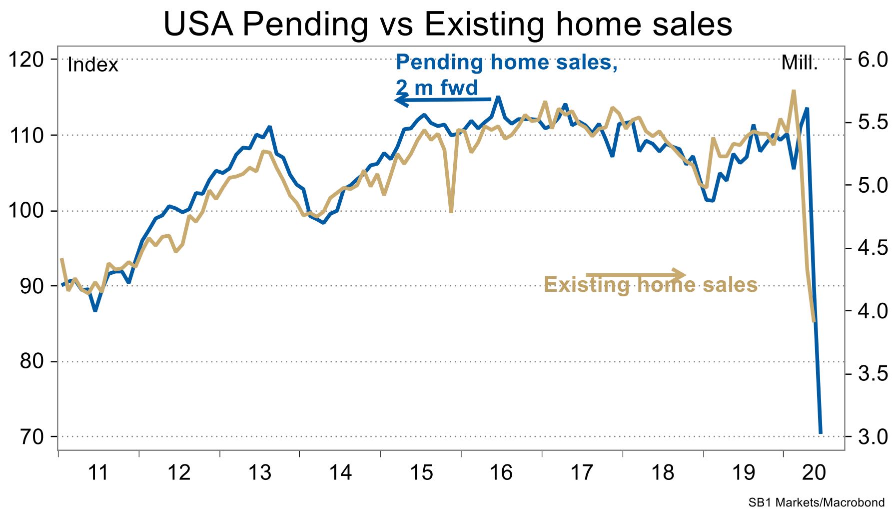
The inventory of new unsold homes slightly down, even if sales have been low March - May

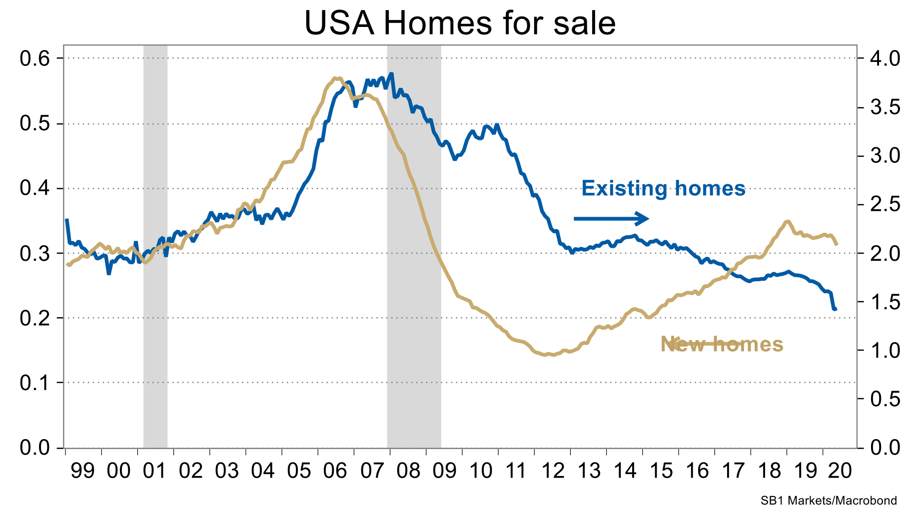


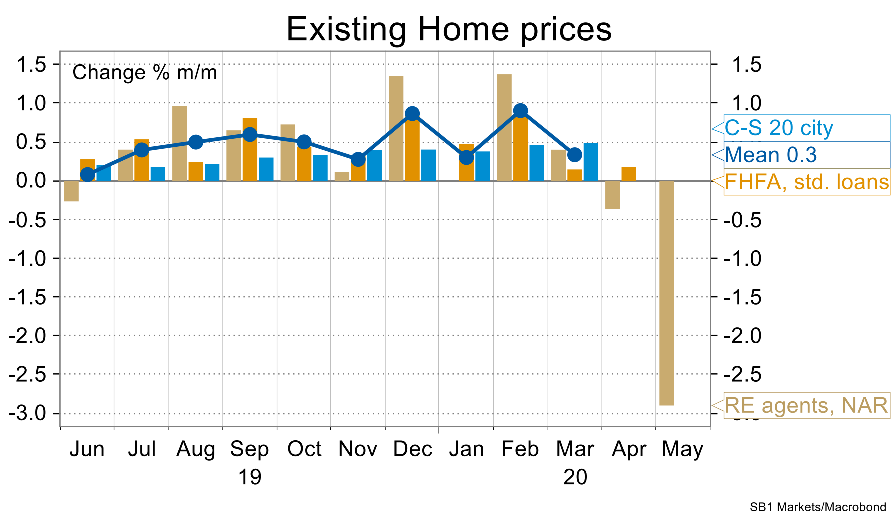


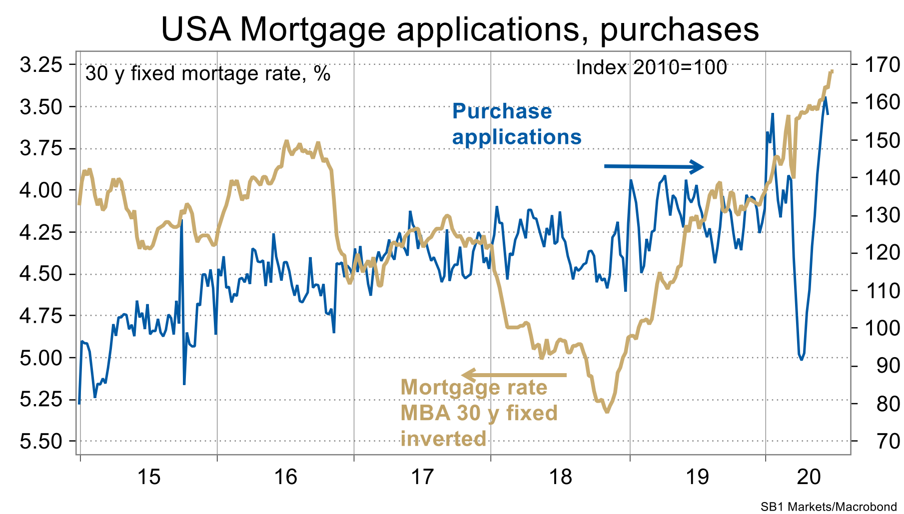
Pending sales down during lockdowns but strong demand for new mortgages

However: Realtors report lower prices in May, influenced by a 'weaker' sales mix, not a real decline?



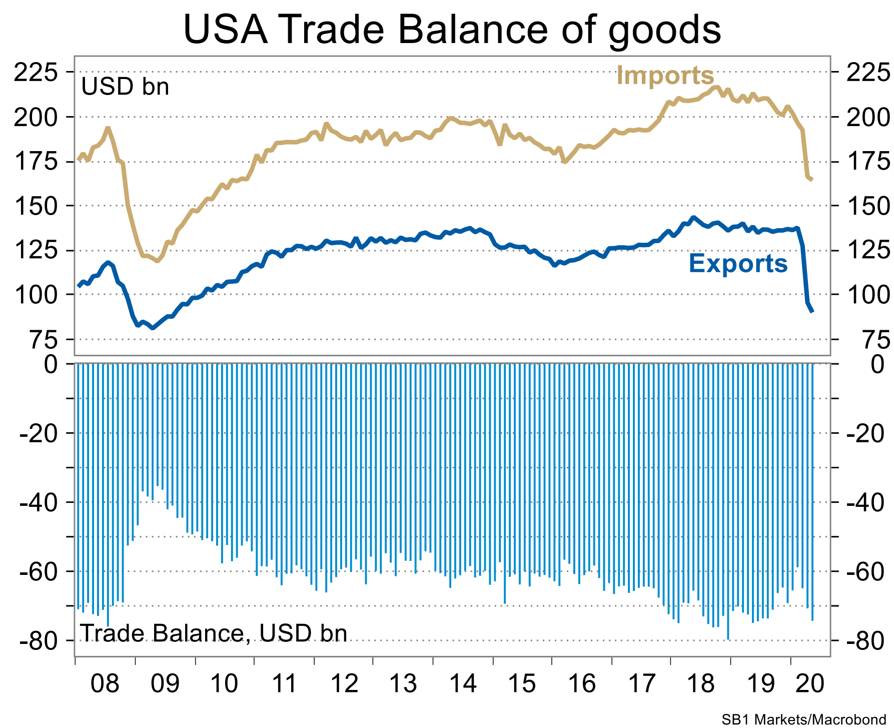


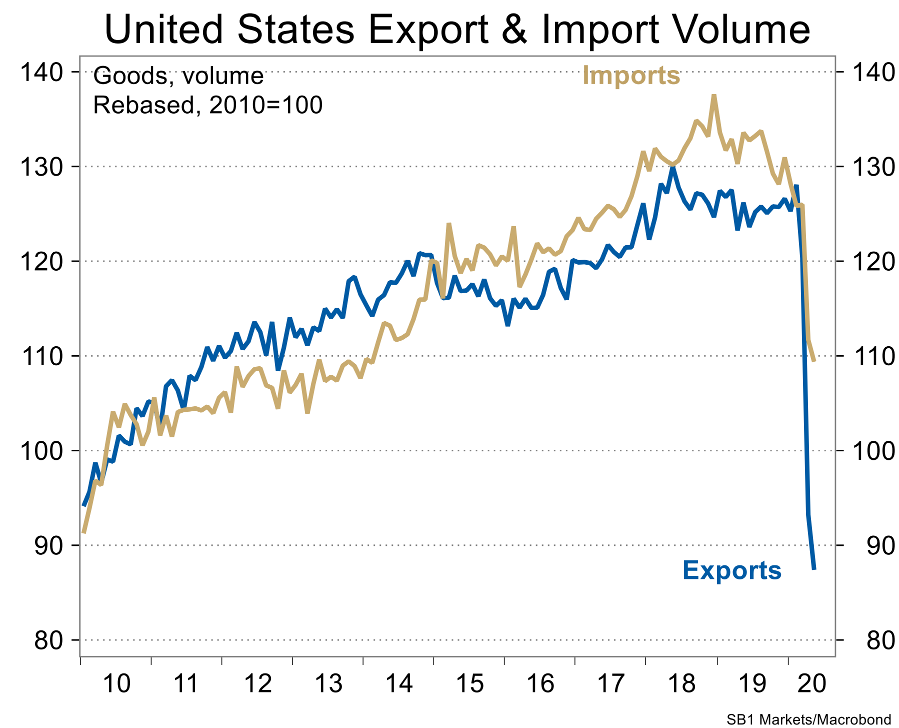




Exports further down in May, imports too – but less so

Export volumes down 30% from Feb, imports 'just' 12%

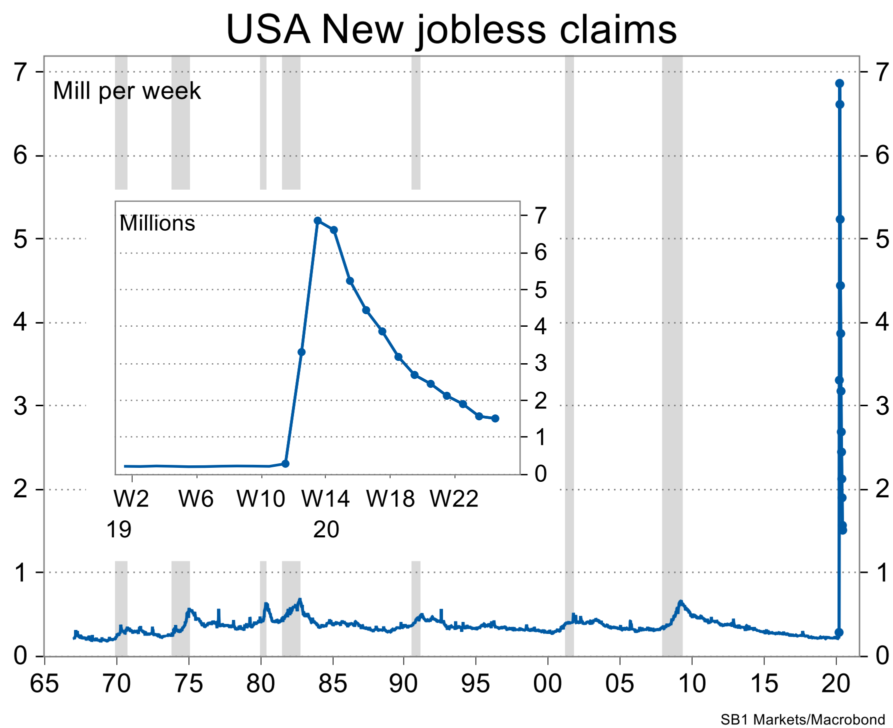


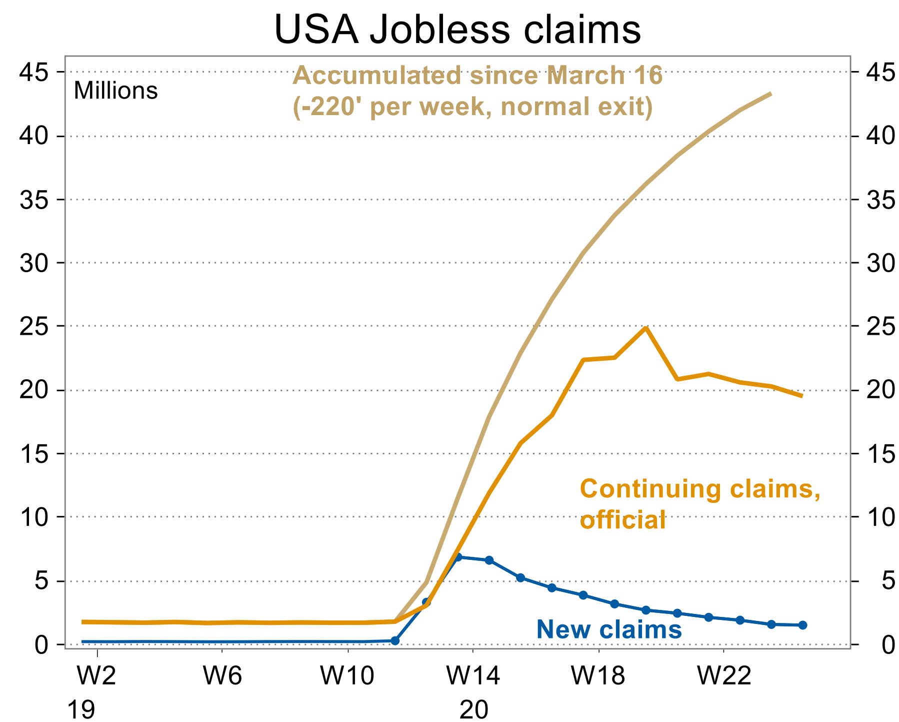


- These are the preliminary trade figures (no services included)
- Net trade will be a substantial drag on GDP growth in Q2

The decline in new jobless claims is slowing, too early…

1.48 mill new jobbless claims, just marginally down from past week, 0.9% of the lab. force, per week

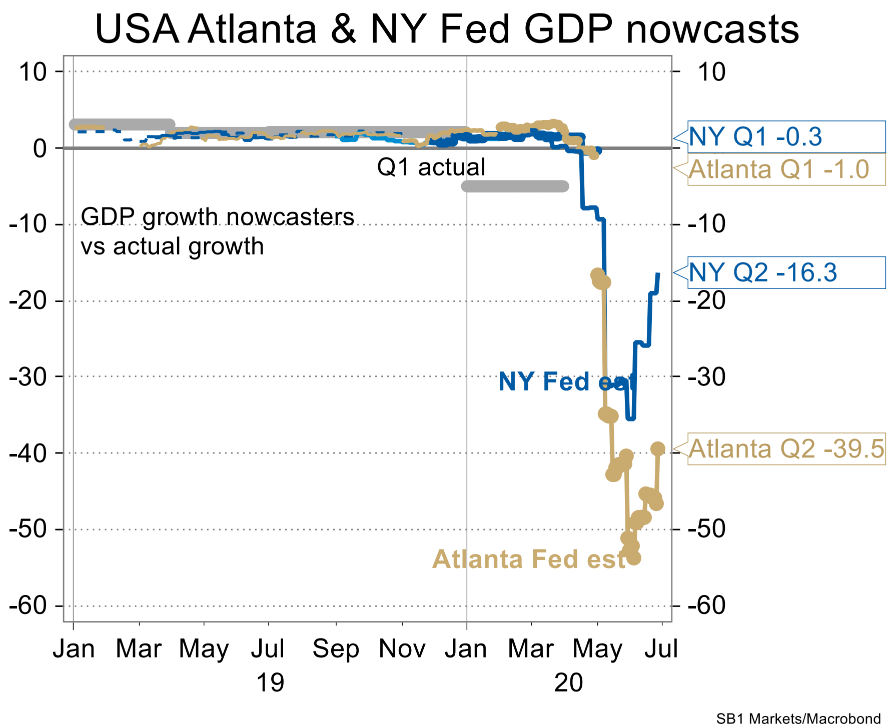


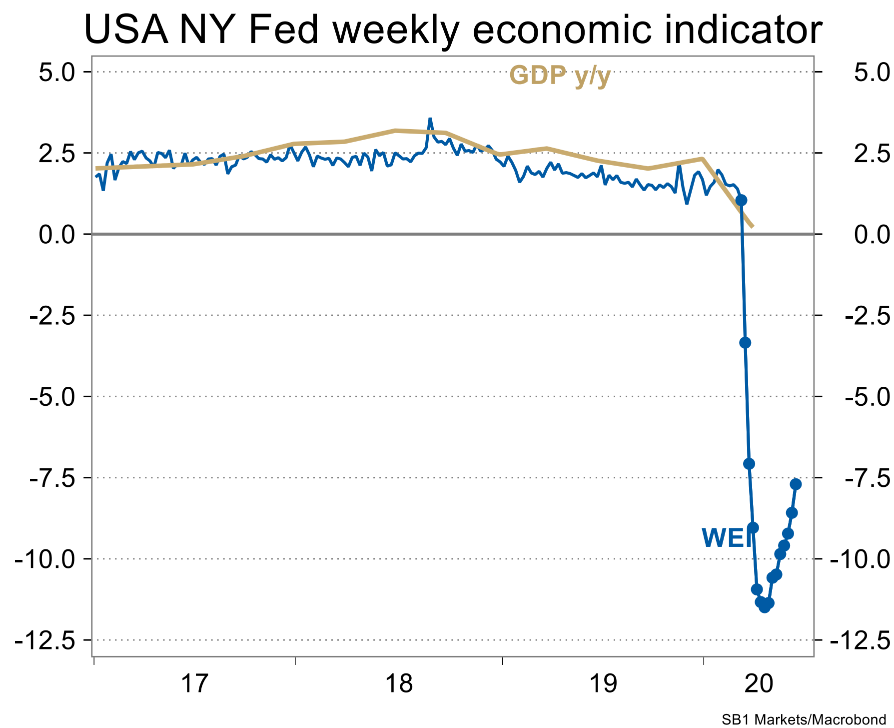


- The inflow is abating, but slower than expected the two previous weeks. Still, almost 1 % of the labour force is entering the labour market offices as newly unemployed each week! The number is really mindboggling
- Luckily, more are leaving (for are they leaving the labour market?): Continued claims fell marginally to just below 20 mill the previous week – and the number is now heading down – but not fast, and still 11.6% of the labour force are on the dole

Nowcasters do still not agree: -16% or -40% (annualised) in Q2?

Recent data have been stronger, and the nowcaster models are lifting their Q2 estimates



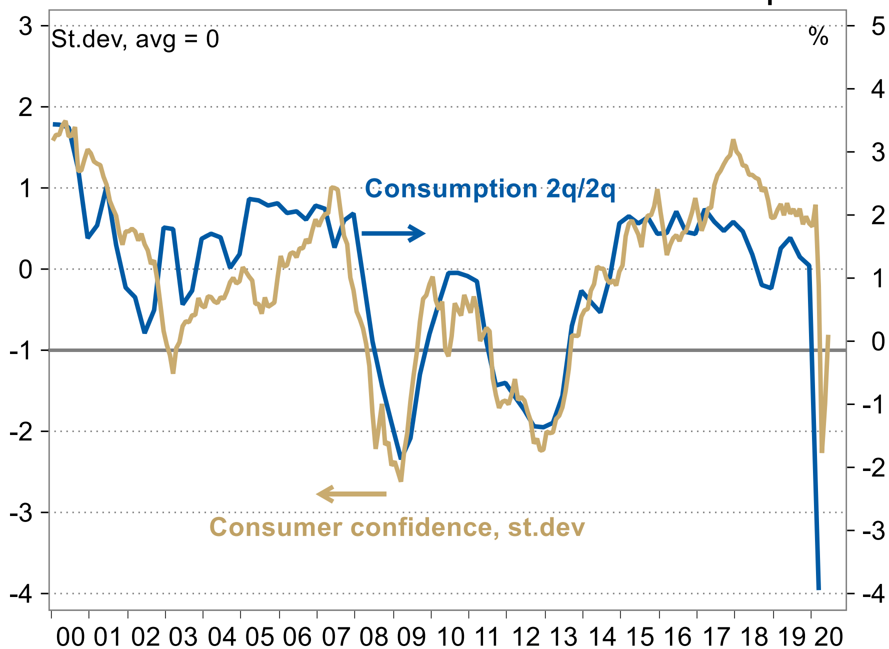


- NY Fed's model reports a 16% decline q/q, annualised, (from -19% last week, -35 at the bottom), equalling a 4% decline not annualised to Q1 from Q1, or some 5.5% y/y
- Atlanta Fed's model reports a 40 % (from -46% last week, and -54% at the bottom), equalling a 12% decline not annualised q/q and more than 13% y/y. We assume something in between, and in line with NY Fed new weekly indicator, which so far in Q2 signals a 9% decline y/y (or somewhat below 8% q/q)
- GDP fell by 1.2% in Q1 (5% annualised), as confirmed by the 2nd revision last week.

Consumer sentiment further up in in June, still below par

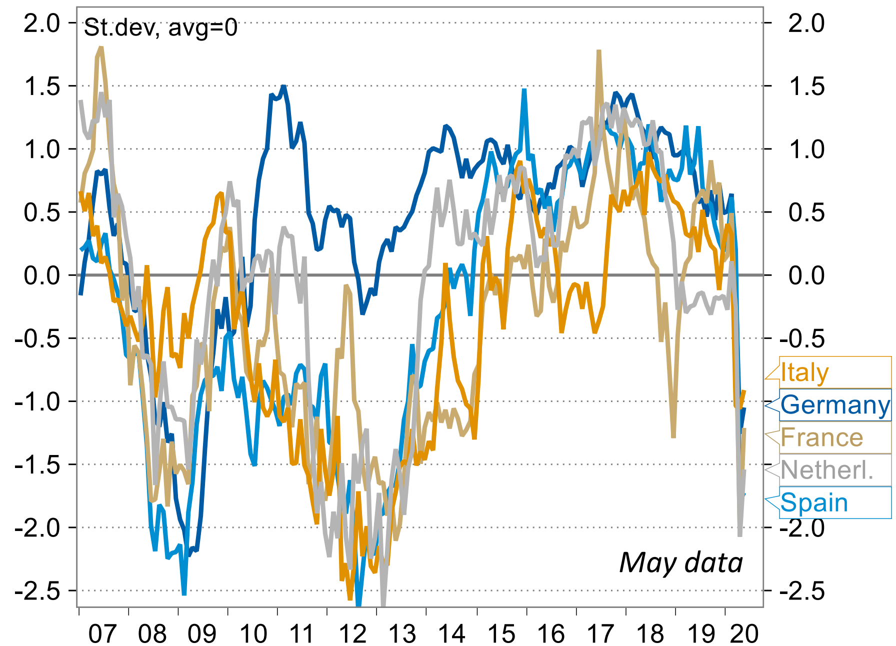
The CCI signals muted consumption growth

EMU Consumer confidence vs consumption



SB1 Markets/Macrobond

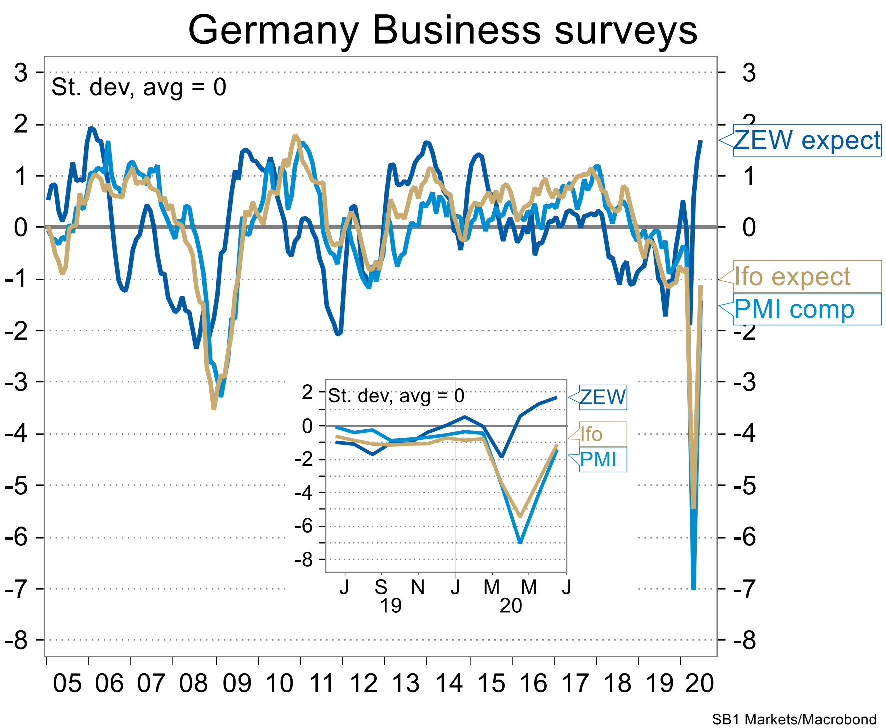
EMU Consumer Confidence

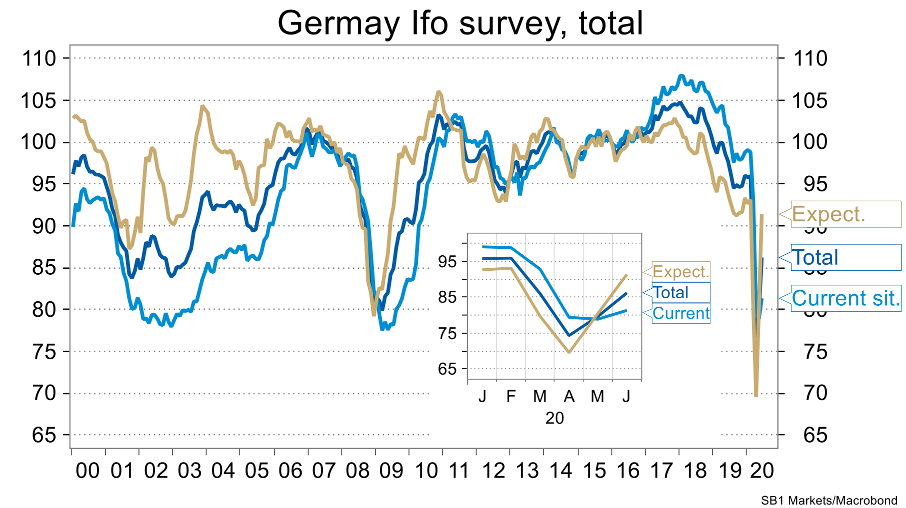


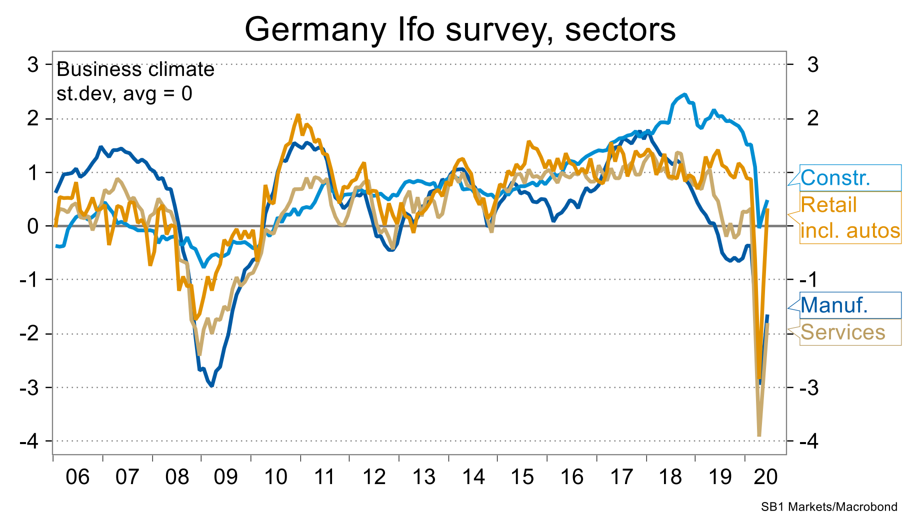
SB1 Markets/Macrobond

Ifo more up than ever, but still below par – not a signal of strong growth

Expectations up another 2 std.dev in May, the PMI even more



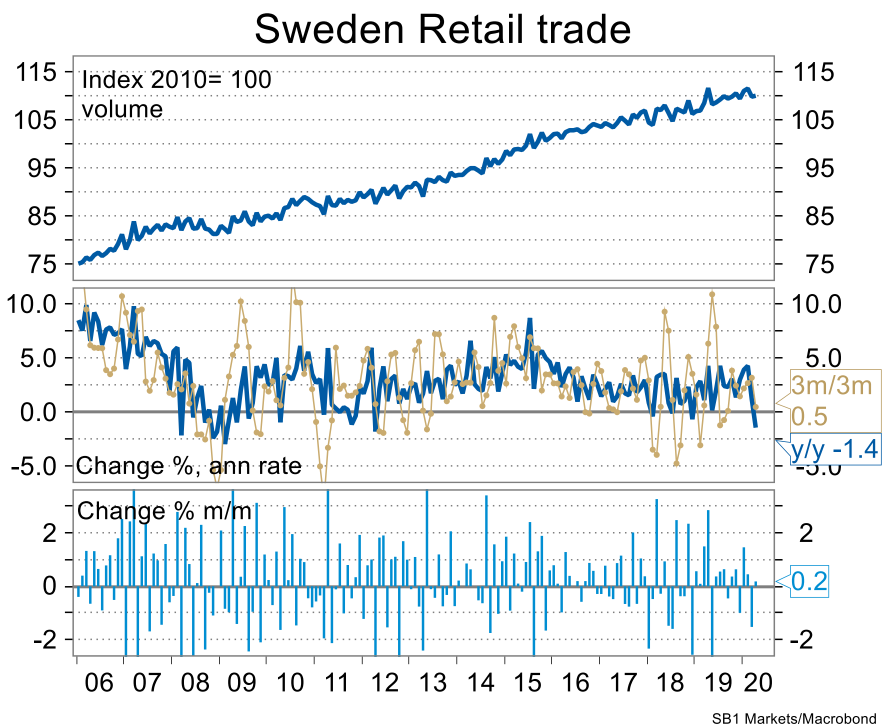


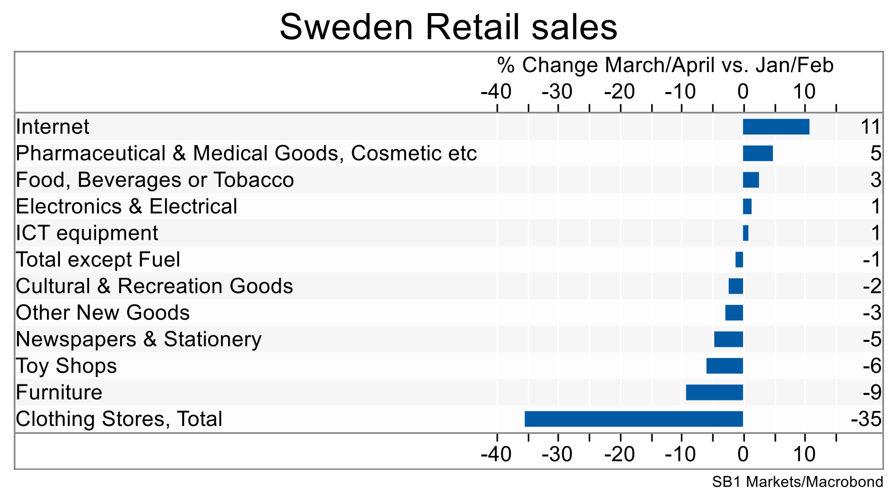


- Ifo expectations rose more than expected, while the increase in companies assessment of the current situation was less than expected.
- All sectors reported an uptick in June, retail trade the most – up to above average. Construction is above too. Manufacturing and services remain are both far below an average level
- The Ifo index (current assessment + expectations) is closely correlated to the PMI (current assessment) survey. The ZEW expectation survey among analysts and investors has turned sharply up – and is now well above par! In average, the surveys signal growth in the German economy – which no doubt grew in both May and June

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

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



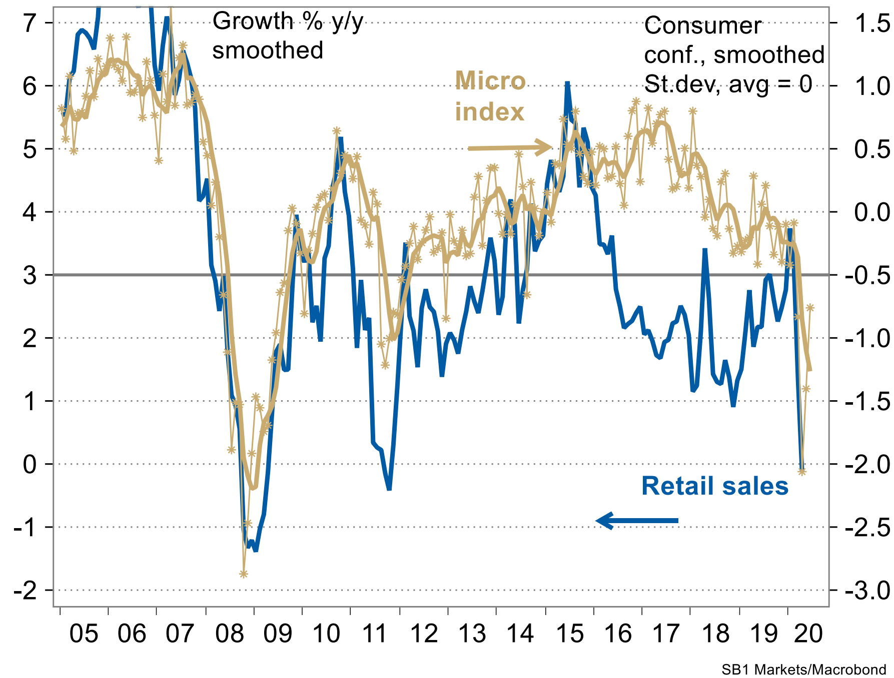


- Huge sectoral differences, however not as wild as in Norway

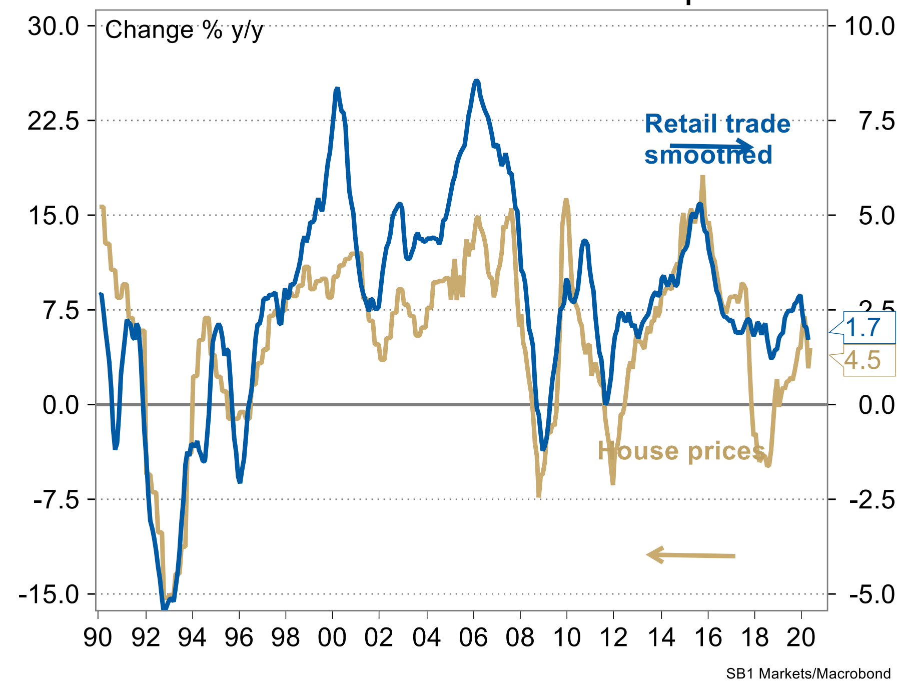
Consumer confidence further up in June, still below average

House prices mixed since February but still up y/y. In sum: No corona setback, no take off either

Sweden Consumer confidence vs retail sales

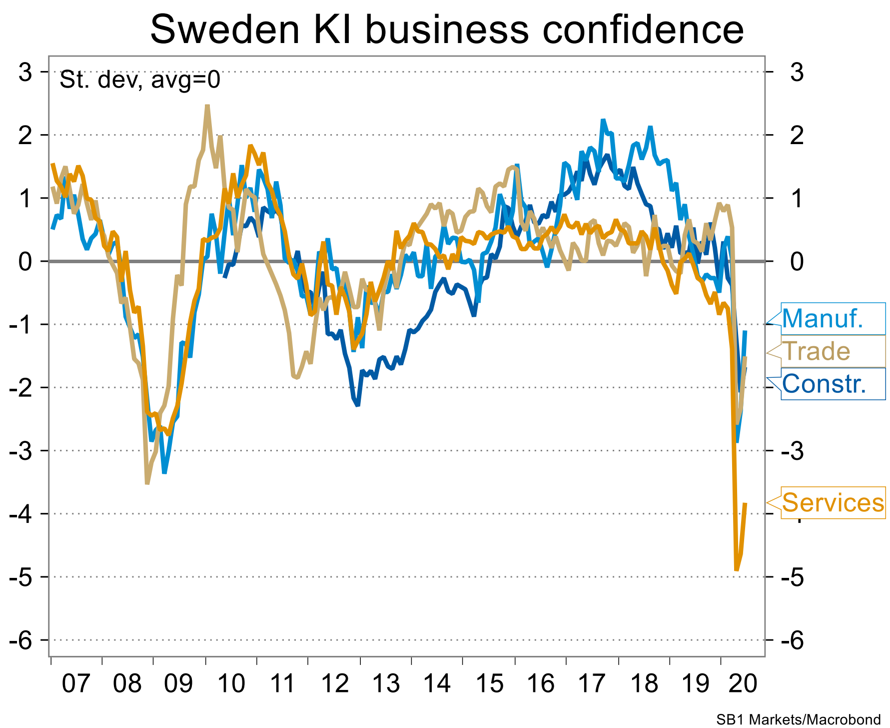


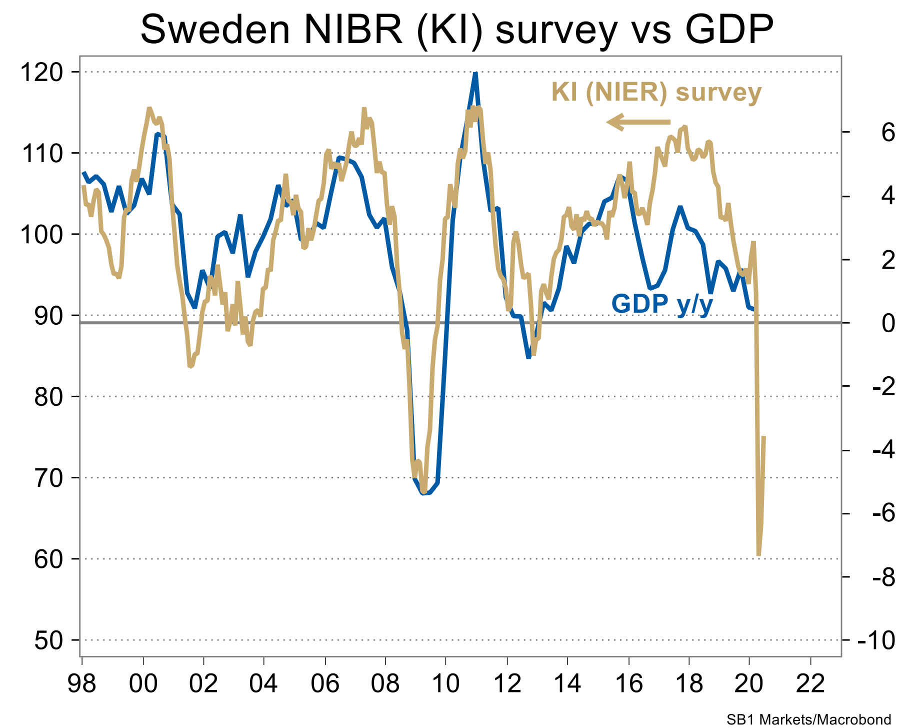
Sweden retail trade vs. house prices



KI business survey suspiciously weak in June, signals a further harsh contraction

All sectors up but all still way below a normal level – services the main drag





- Sweden has been the odd man out vs. official lockdown decisions but the economy has still slowed sharply, and mostly due to a sharp decline in services – and now a lacklustre recovery in June
- The composite index signals a 4% decline in GDP
- In Q1, GDP rose 0.1% y/y, revised up from -0.3% - but in Q2 GDP will decline sharply

Highlights

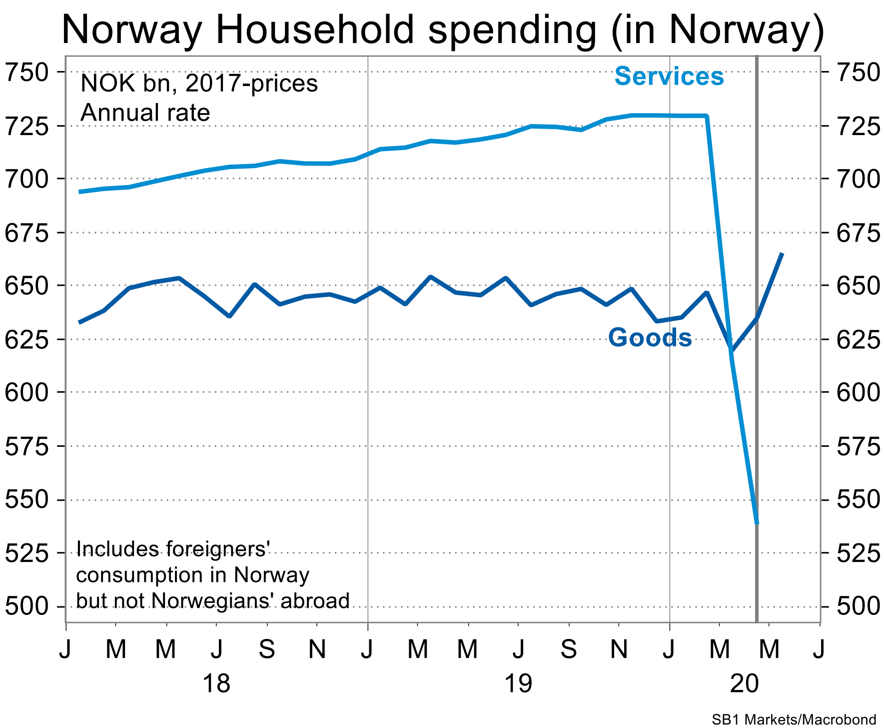
The world around us

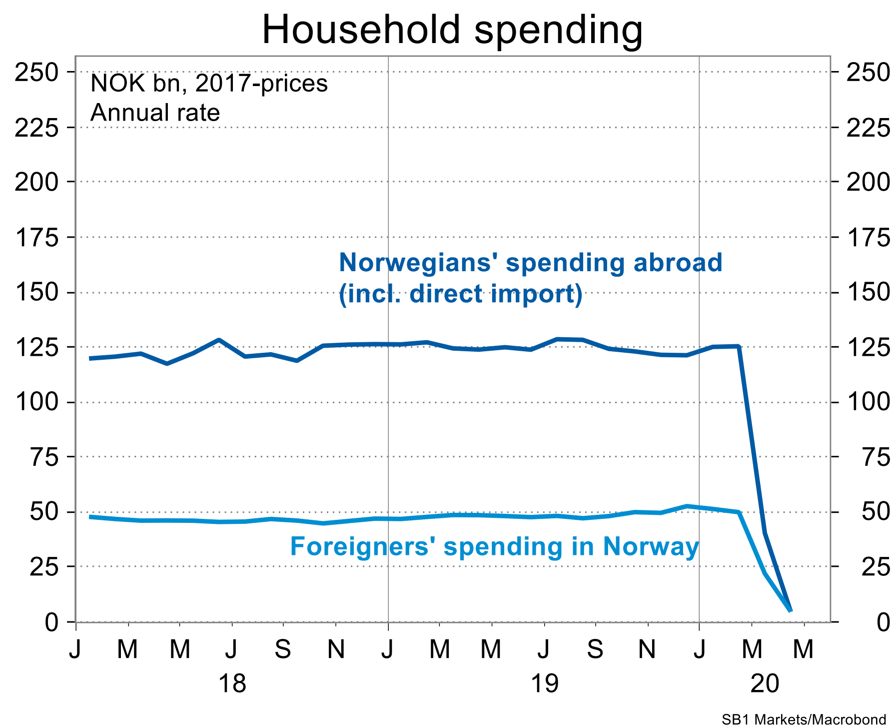
The Norwegian economy

Market charts & comments

Consumption of goods up vs pre corona; services (probably) still far below

Consumption of goods rose sharply in May, to above the pre corona level. Total consumption still dwn

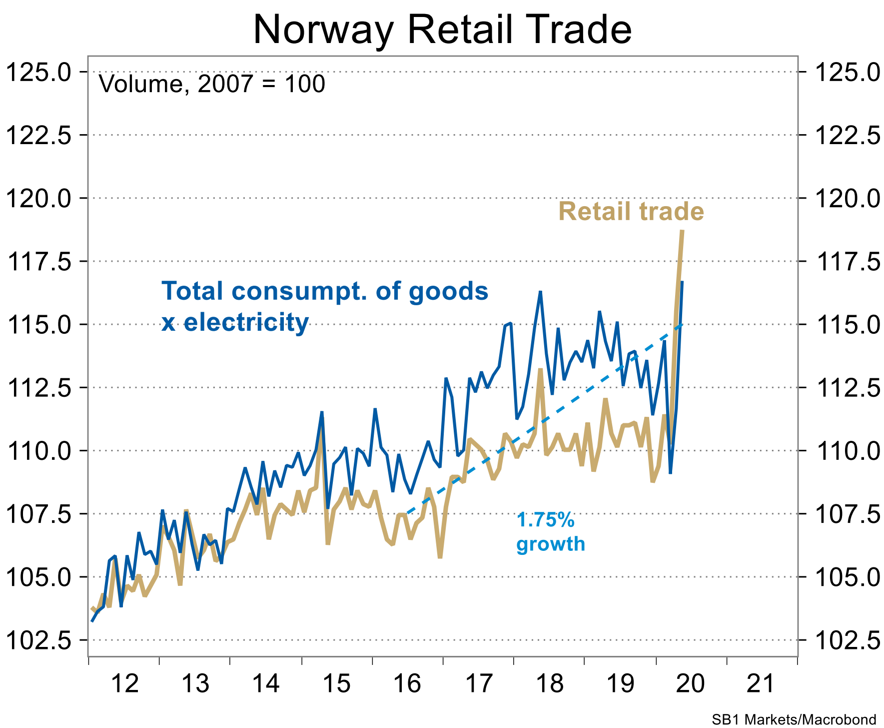


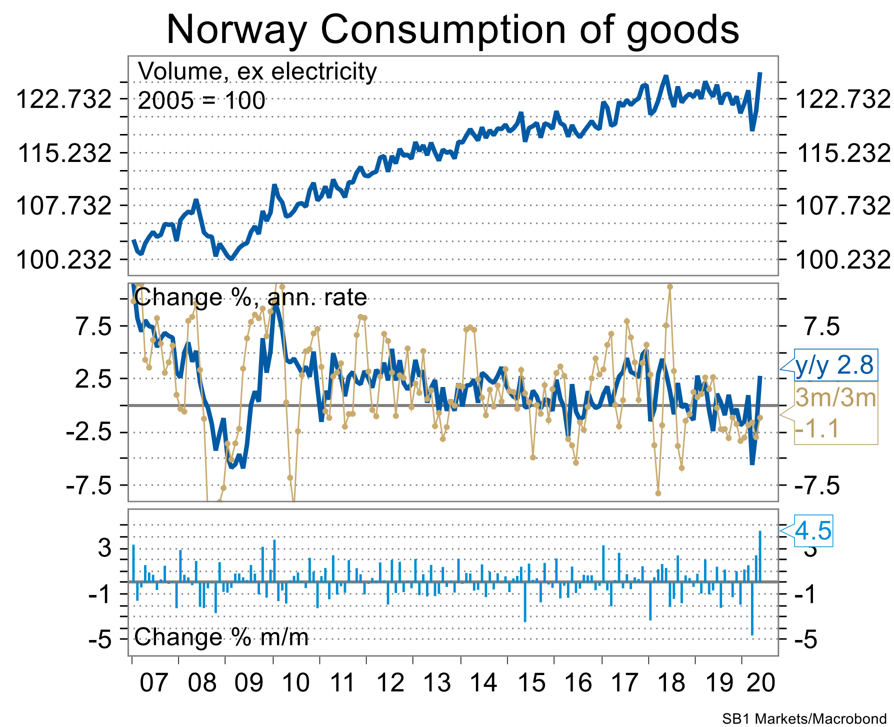


- We do not yet have reliable May consumption data but spending no doubt rose significantly. Still service consumption very likely was far below the pre corona level following the 25% (NOK 125 bn, annual rate) drop to April from February. The decline in service consumption is far larger than the increase in consumption of goods – which reduced the top line for businesses serving consumers in Norway
- Norwegian household's consumption abroad has fallen by NOK 120 bn (annual rate) to almost zero (equalling 9% of total consumption). This 'spending capacity' will no doubt support spending in Norway, now on available goods then services (restaurants & hotels in Norway this summer)
- In sum, Norwegian households' total consumption has fallen sharply, we estimate -12% to May from Feb, assuming a 15% recovery in services in May. Sales of consumer goods and services are down far less, some 6% - as Norwegians have reduced their spending abroad much more than foreigners have reduced their spending in Norway (NOK 120 bn vs 45 bn)

Retail sales: Not even a V, just an ⅃, sales sharply up in April & further in May!

Retail sales up 2.8% in May, following the 4.8% take off in April. Sales in May 6.6% up from February

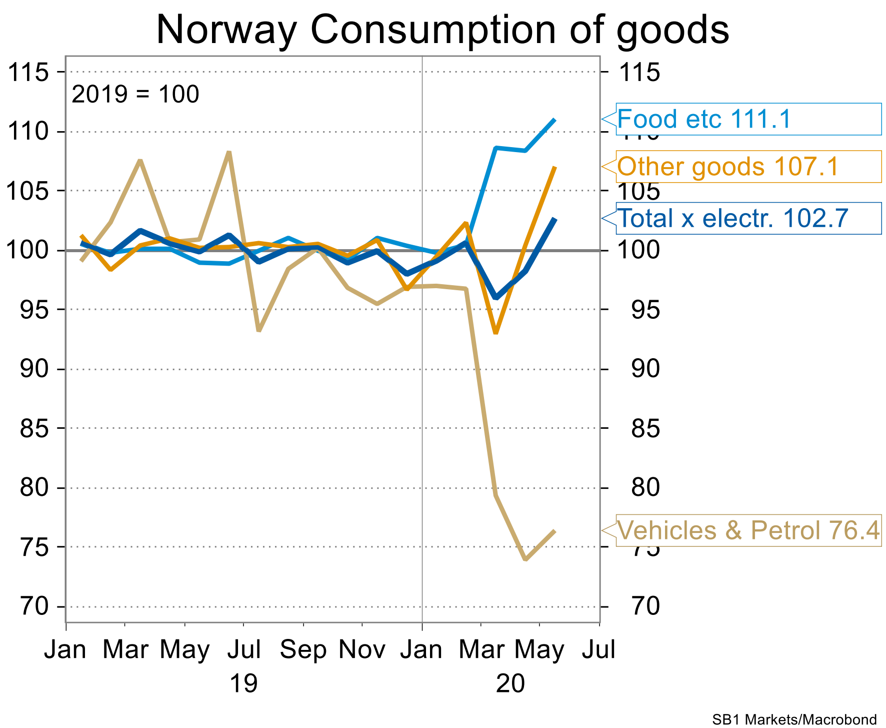


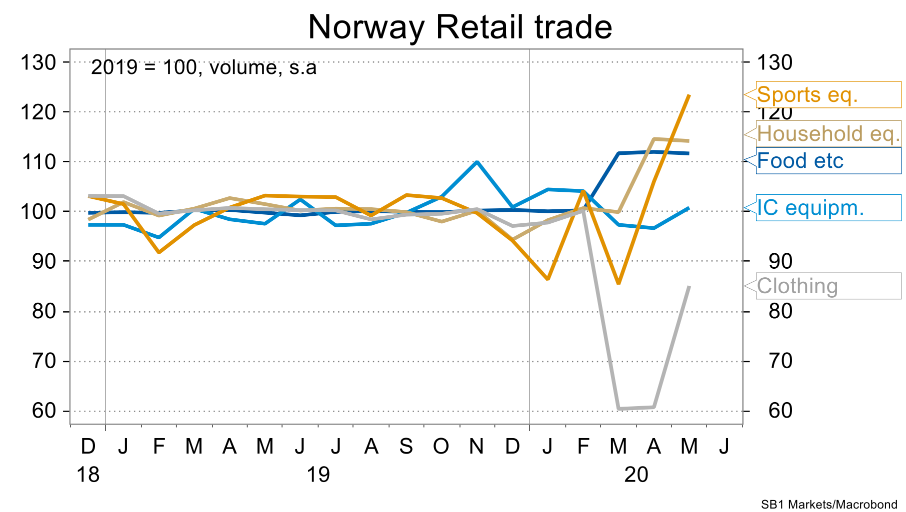


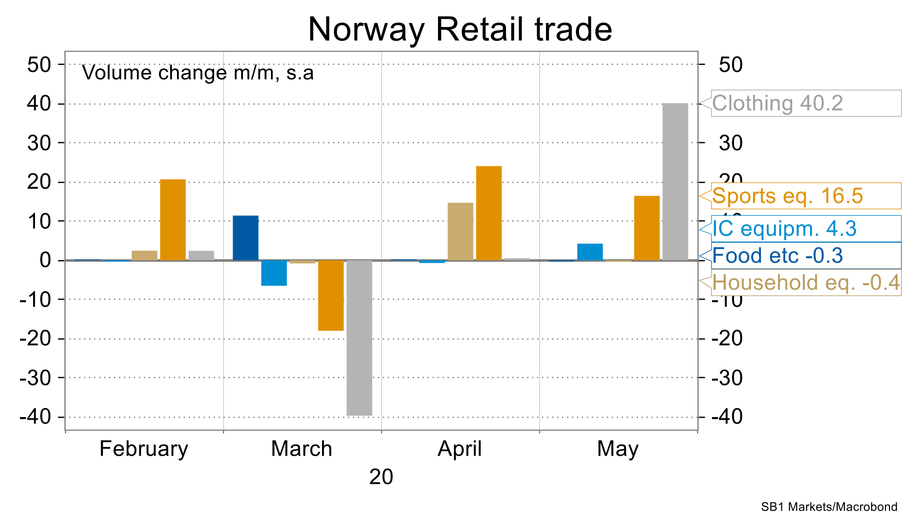
- Retail sales volume (ex auto) rose by 2.8% in May, consensus was 0 to 2%, we expected 2%. But sure, in late March (or in late April or May…) we did not expect +6.6% to May from February!
- The sectoral differences are still huge. Internet sales, garden equipment, hardware/paint and food sales are sharply up, some are still down, like clothing, -15% from February
- Total consumption of goods rose 4.8% (ex electricity) grew by 4.5% in May. Total consumption of goods is some 4% above the pre corona level
  - » If consumption keeps up in June, Q2 is up 3% vs. Q1 and 0.6% vs. Q2 19
- No doubt, less x-border shopping in Sweden, more food sales due to closed restaurants and lack of 'holiday' spending opportunities domestically and abroad are reasonable explanations for the hike in retail sales. Service consumption probably started a recovery in May but remains far below the pre corona level – as is total private consumption

Food & alcohole sales up 10% from Feb, sport equipment +20%

However, clothing still down 15% from February even after a 40% lift to May from April



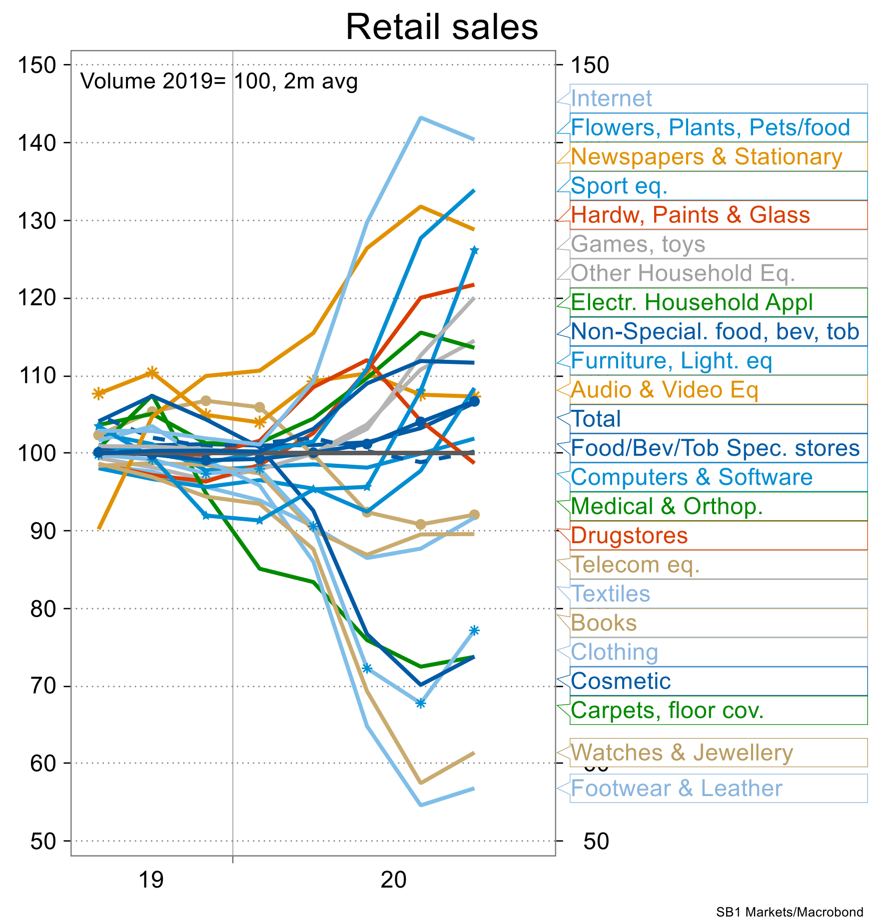




Food etc in total goods consumption includes more categories than in the retail price index)

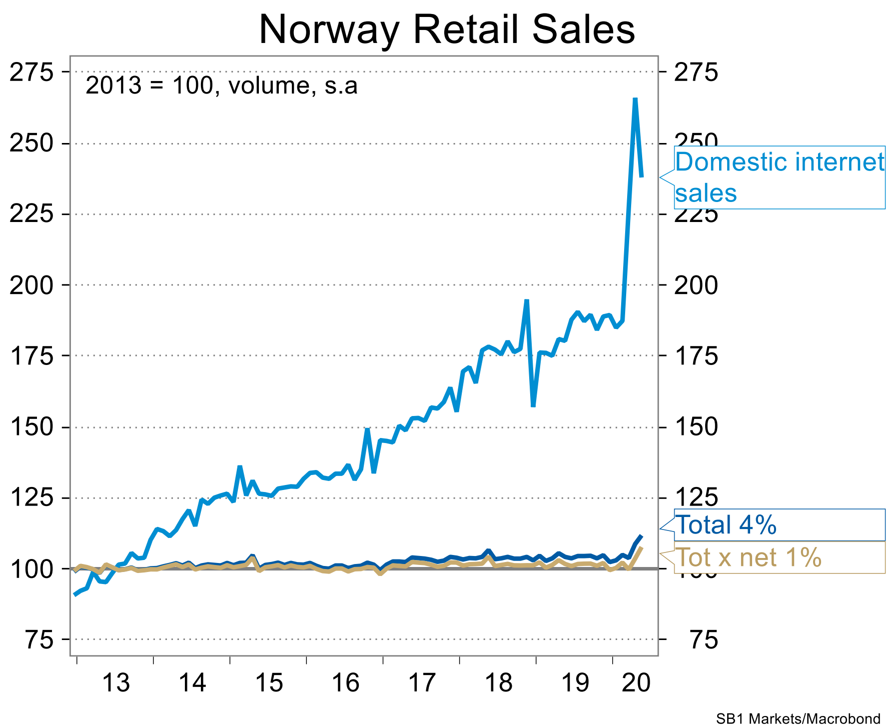
Some wild months – probably towards more normal times the coming months

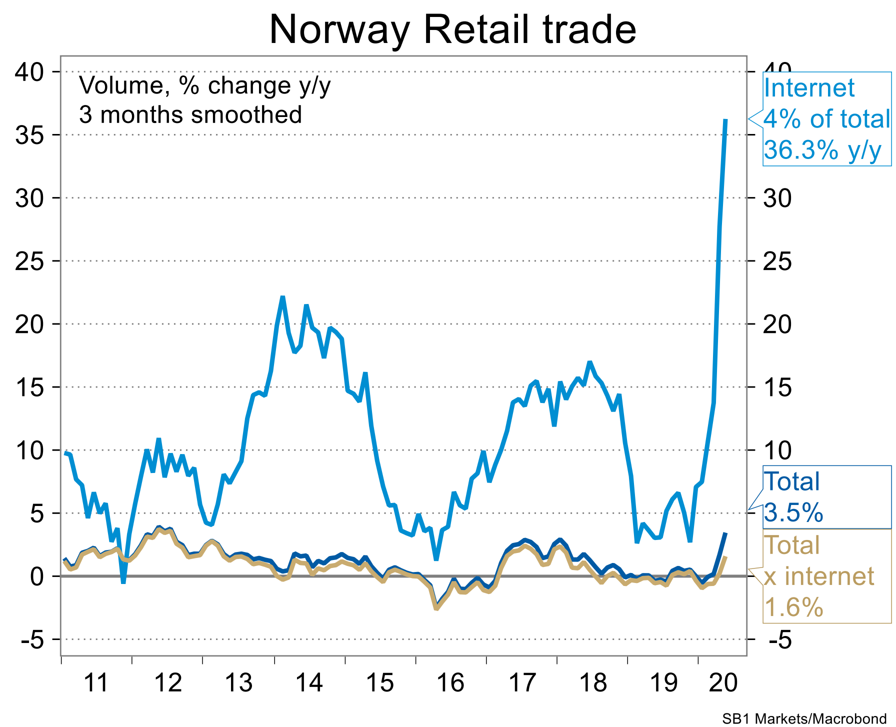
Spending on services and gradually also abroad will dampen retail trade demand in Norway



Internet sales (domestic) slightly down in May - following a 25% rise

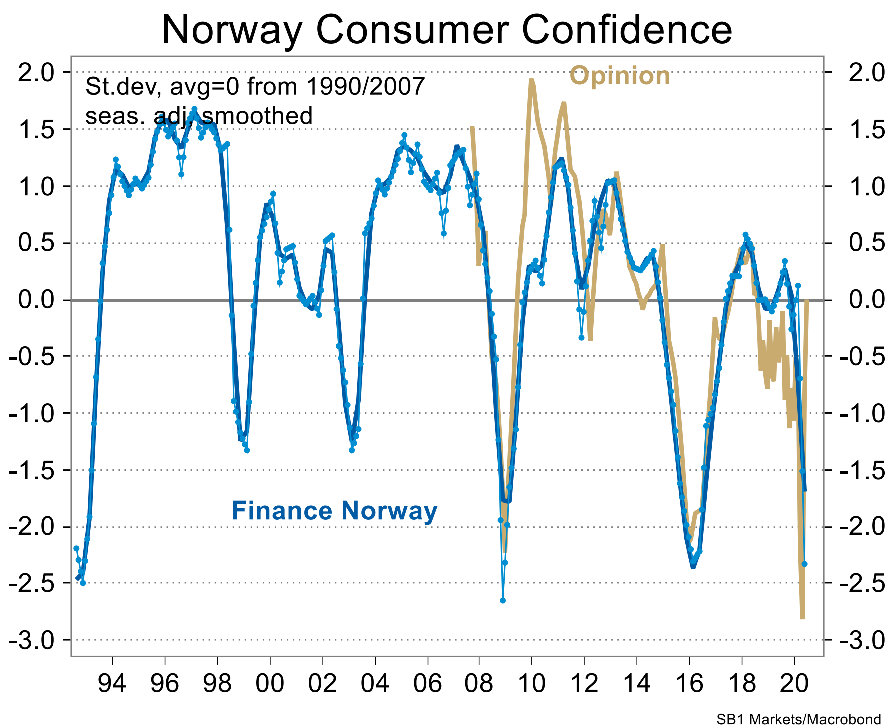
Domestic net sales have captured more than half of the growth in total retail sales

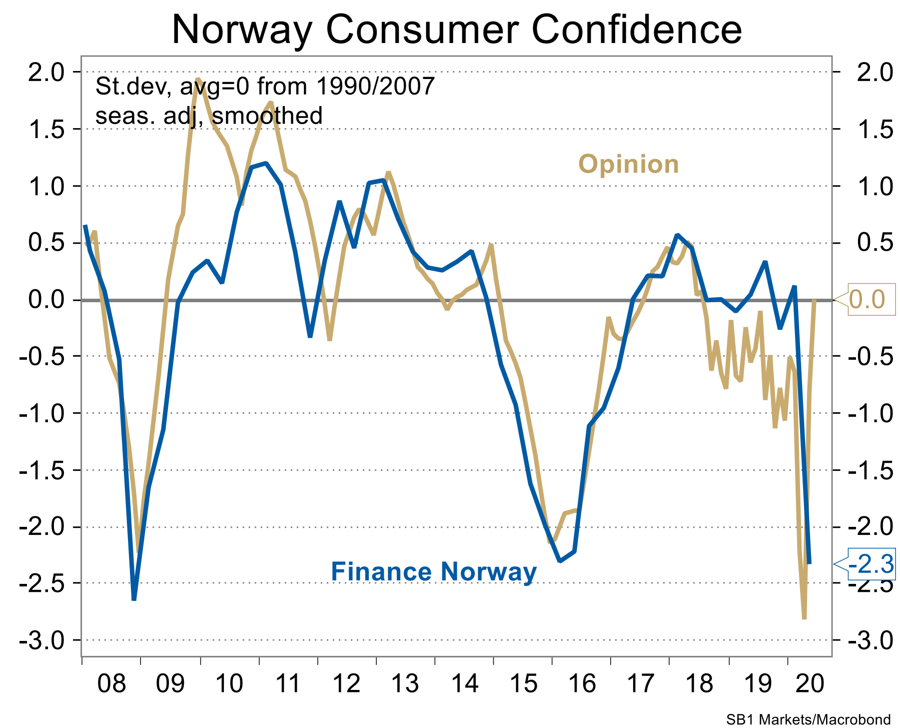




Consumer confidence back to an average level in June

Opinion's CCI rose ¾ std.dev up to an average level in June, from record low -2¾ in April!



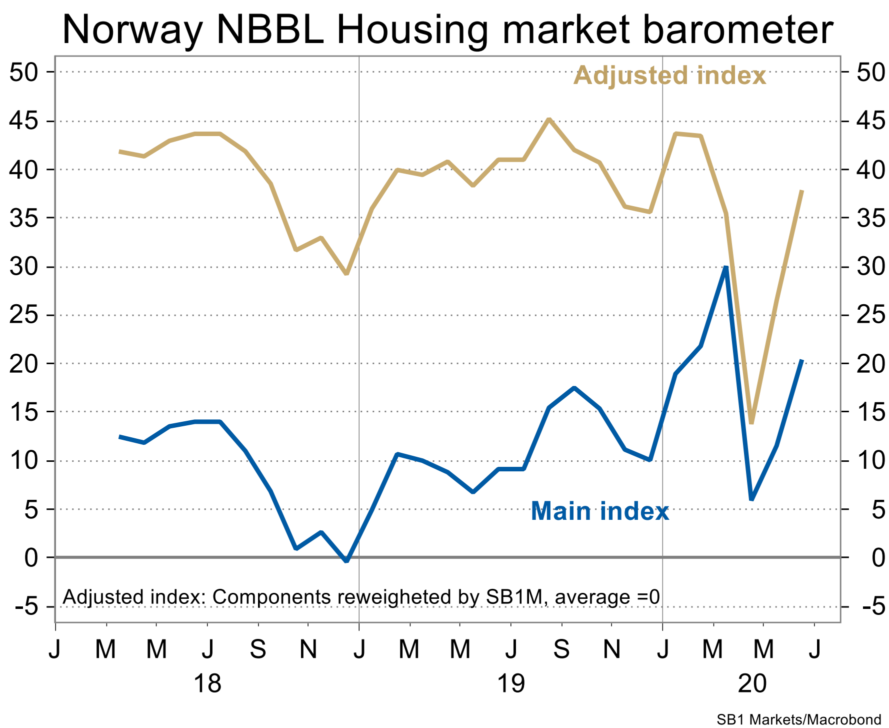


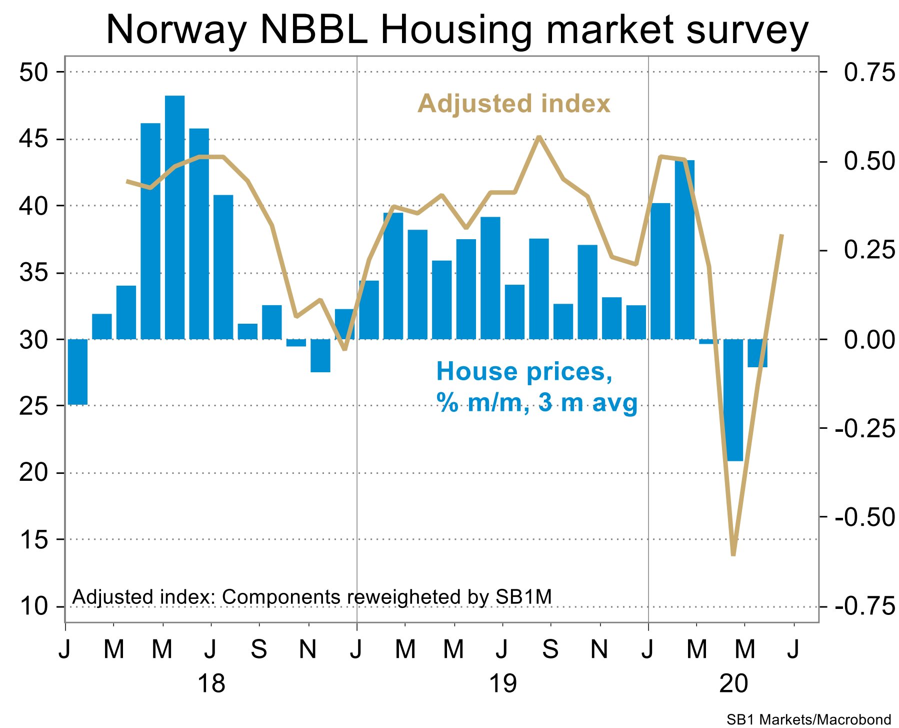
- Households are not worried at all, which is the same message as from consumption of goods, and the housing market

SpareBank 1 MARKETS

House price sentiment further up in June – prices to follow?

NBBL's index sharply up in June. Prices are expected up. No more worries for the labour market



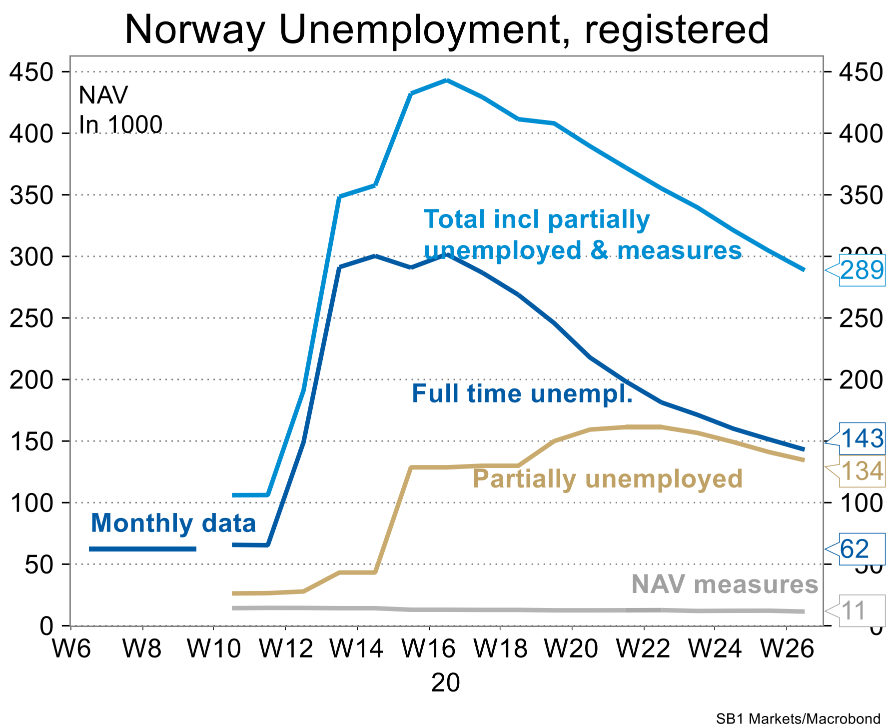


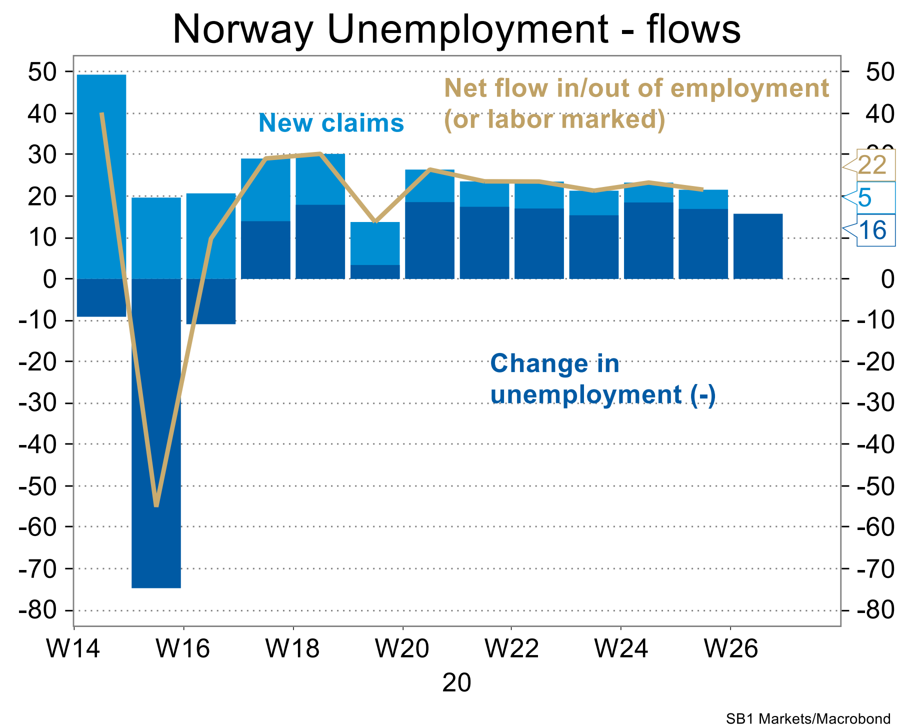
- Since the index was established in March 2018, a large majority of respondents have expected house prices to rise the coming year
  - » In April, the price expectation balance came down to -25%, from +50 in February and 14 in March. In May, the net balance rose sharply, to +2 – and in June the balance rose to +30%, not far below an average level!
- The total housing market barometer, which in addition to price expectations also includes interest rate expectations as well as job security outlook, rose to 20 in June, from 12 in May and 6 in April. In February, the index was at 30, all time high. At 20, the index is at the 2nd level 'ever' (since early 2018), and well above average
- 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 at an average level in June. Households are just marginally less optimistic on jobs than normal
  - » 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

SpareBank 1 MARKETS

Total unemployment down another 16’ last week, -0.6 pp to 10.2%

Full time unemployment down to 5.1%. Almost ½ of the rise in unemployment is reversed

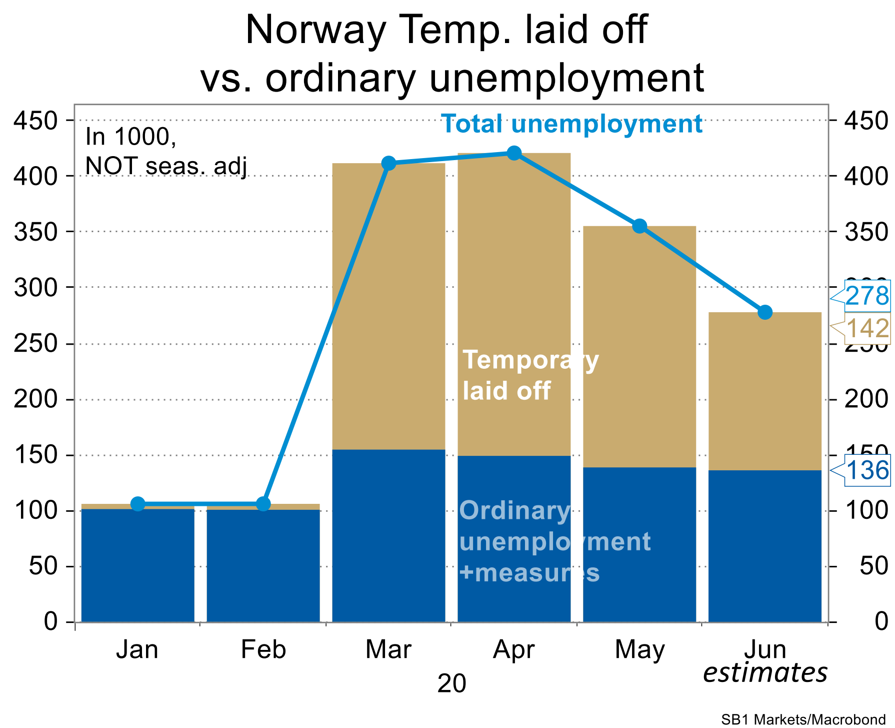


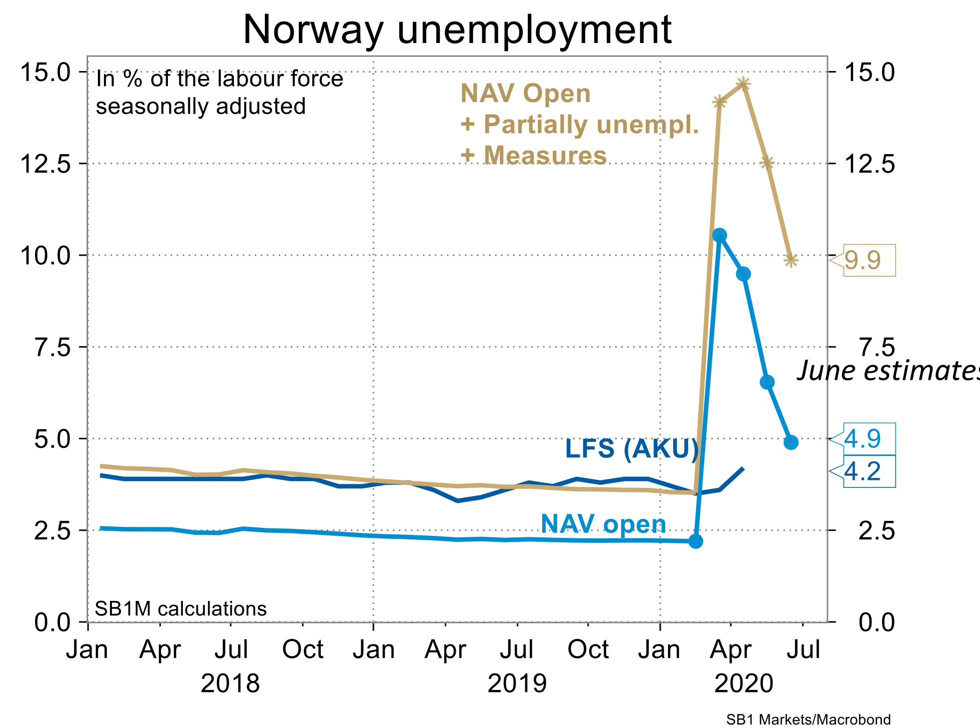


- Unemployment has fallen by 138’ to 305’ since mid April, or by 4.9% of the labour force
- The inflow of new jobless claims has slowed to 5’ per week. That’s still higher than normal but all the extras are temporary laid off persons
- Temporary laid offs equal 60% of total unemployment, and all of the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

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

LFS (AKU) unemployment rose 0.6 p to 4.2 in April (March – May). *Does not include temp. laid offs*

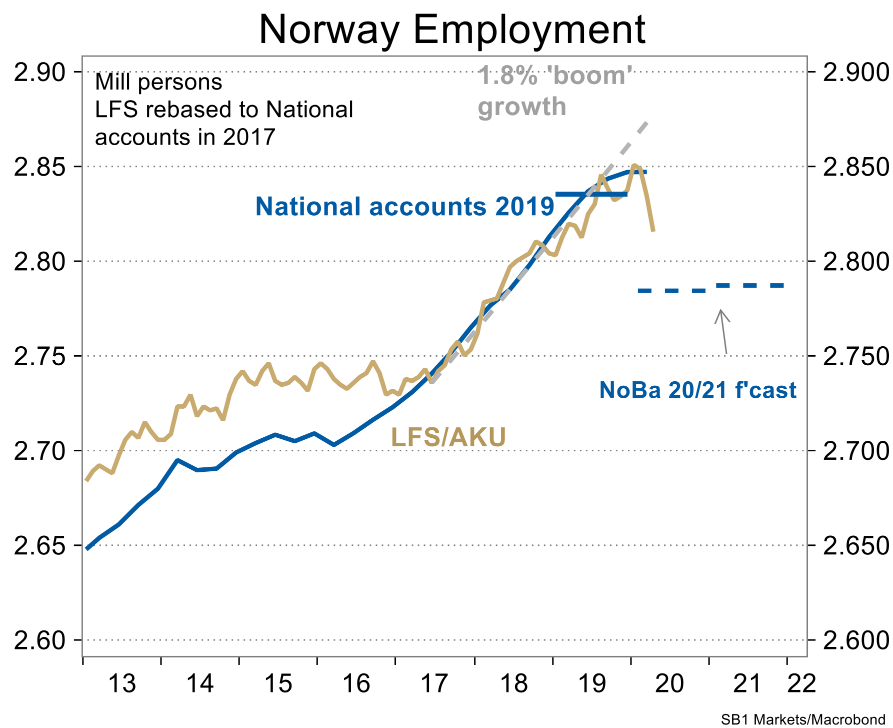


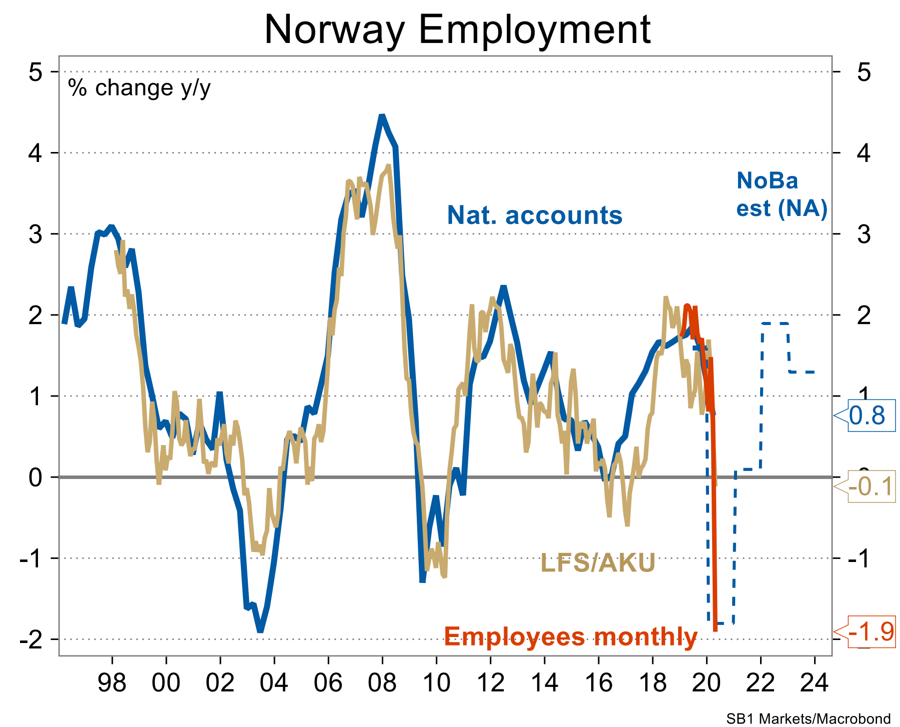


- The LFS unemployment rate was expected up to 3.8%, from 3.6%. Temporary furloughed workers are counted as employed the first 3 months of the unemployment period. Since most were laid off in the second half of March, they are still not unemployed. The coming month the unemployment rate will increase as far from all of the temporary laid off employees have returned to work

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

LFS employment fell by 34’ to Mar-May from Dec-Feb, or by 1.2%. Hours worked down 8%

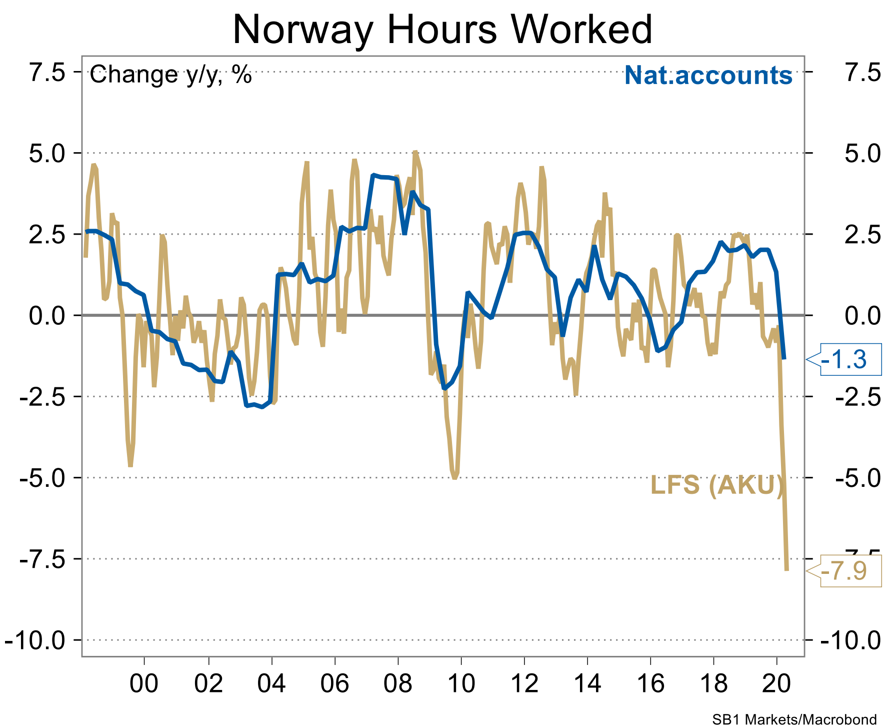




- The LFS/AKU employment fell by 34’ to April (avg Mar-May) from Jan (avg Dec-Feb), and is down 0.1%% y/y. Temporary laid off workers are counted as employed the first 3 months of the furlough period. Thus the ‘corona impact’ will be much larger the coming months, both vs employment and LFS measured unemployment
- Hours worked is down almost 8% y/y, and reflects the ‘reality’ in the economy far better
- The experimental monthly employee statistics (May data) was not published at Friday. In April, it reported a 3% decline from the start of the year (our calculation)

Hours worked sharply down – and total wage income is falling sharply

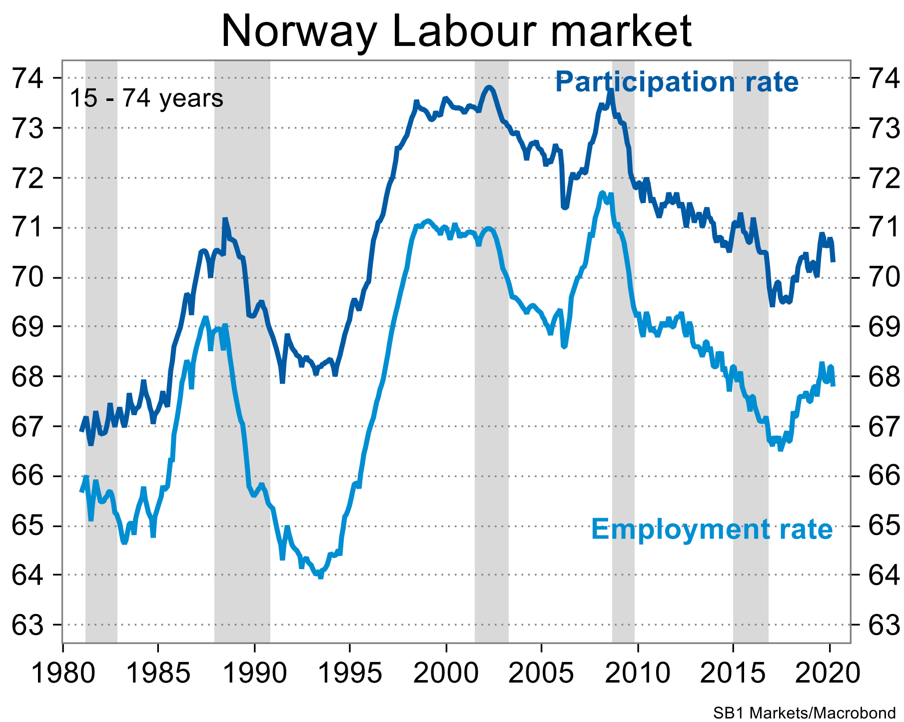
Hours worked down 8% in Mar-May (y/y, and vs. Dec/Feb)

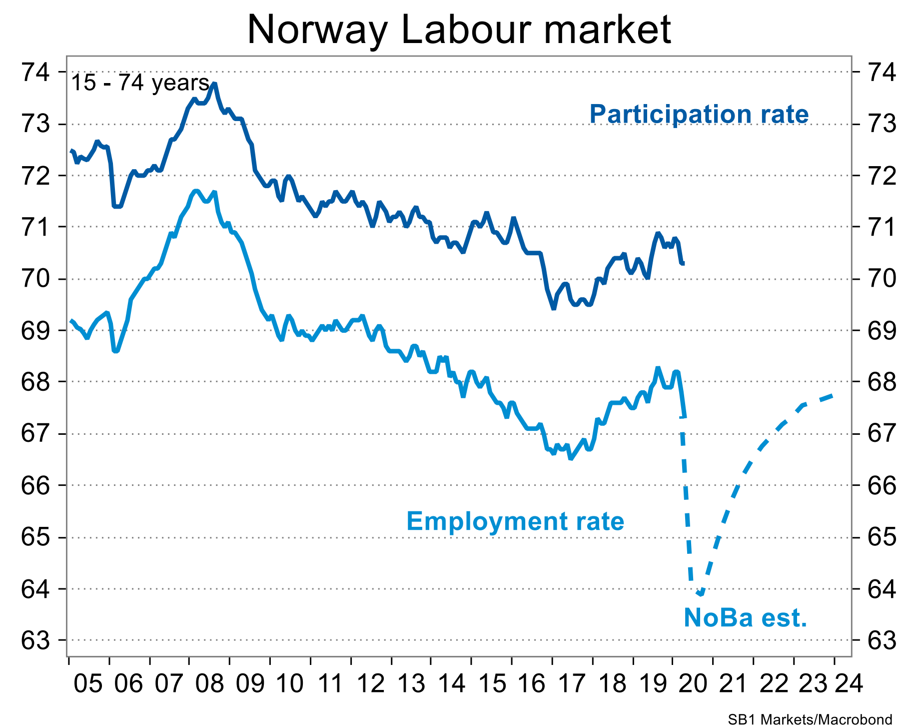


- Hours worked per person and in total ell sharply in April (March-May avg) as those furloughed from mid March are counted as employed but without any hours worked
- We do not have May wage data but wage income has fallen substantially – though partially compensated by unemployment benefits from the Government. The compensation ratio is rather low after the first 20 days

Labour market participation & employment rates down

NoBa expects a steep downturn the coming months, might be too pessimistic, short term

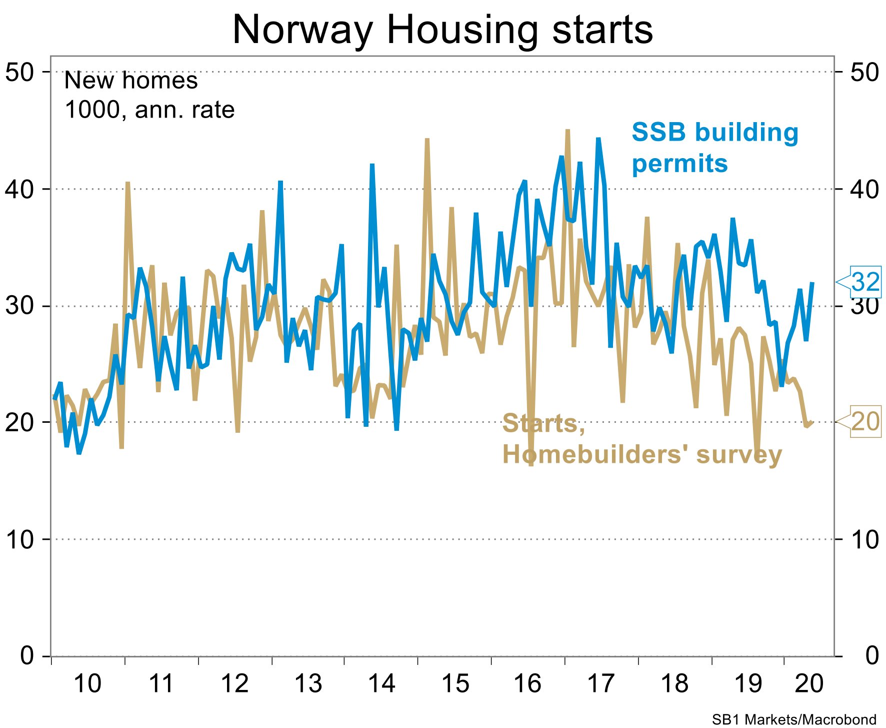


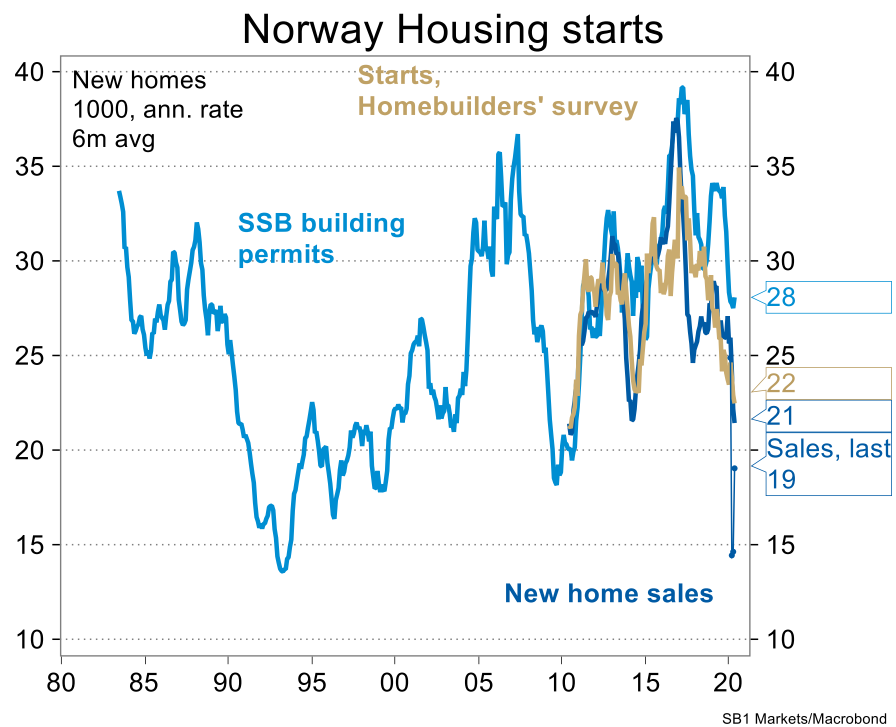


- NoBa assumes a 7% decline in the employment rate to Q3 from Q4 last year (a 4.6 pp decline), implying a cut in employment at almost 8%. That seems somewhat aggressive. Total unemployment is up by 6.5% but it is declining by more then 2 pp per month. Sure, employment will drop substantially as those still furloughed will be counted as unemployed but probably less than NoBa assumed in mid June.
  - » In addition, the Government is now under hard pressure from businesses and unions to prolong the furloughing period by at least 3 months
- A slowdown in business investments (both on- and offshore) as well as likely lower activity in tourism may create longer term labour market challenges

SSB housing building permits still strong, while homebuilders report a slowdown

SSB permits have been surprisingly strong recent months

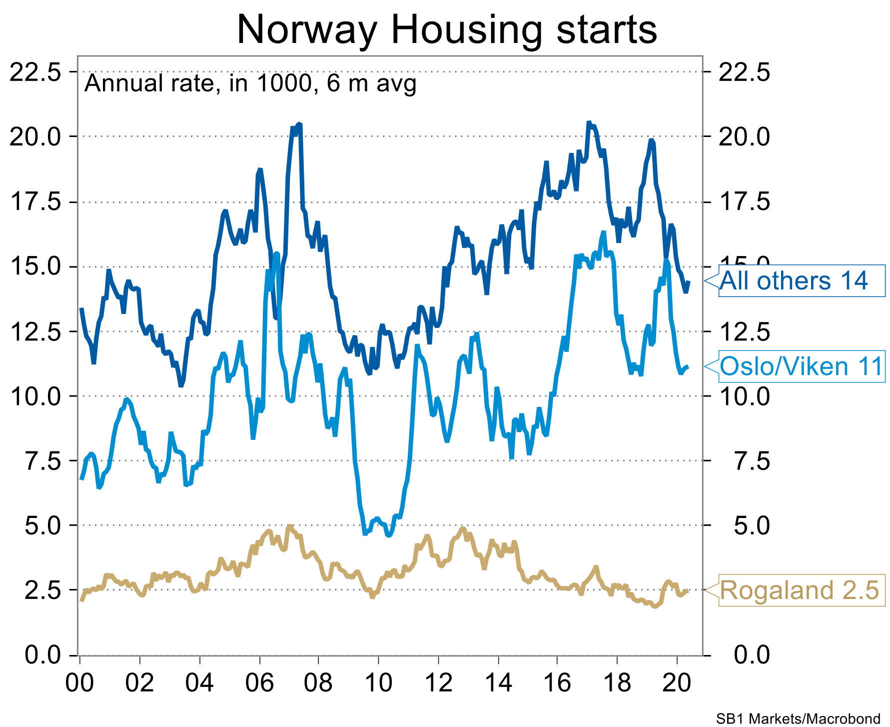


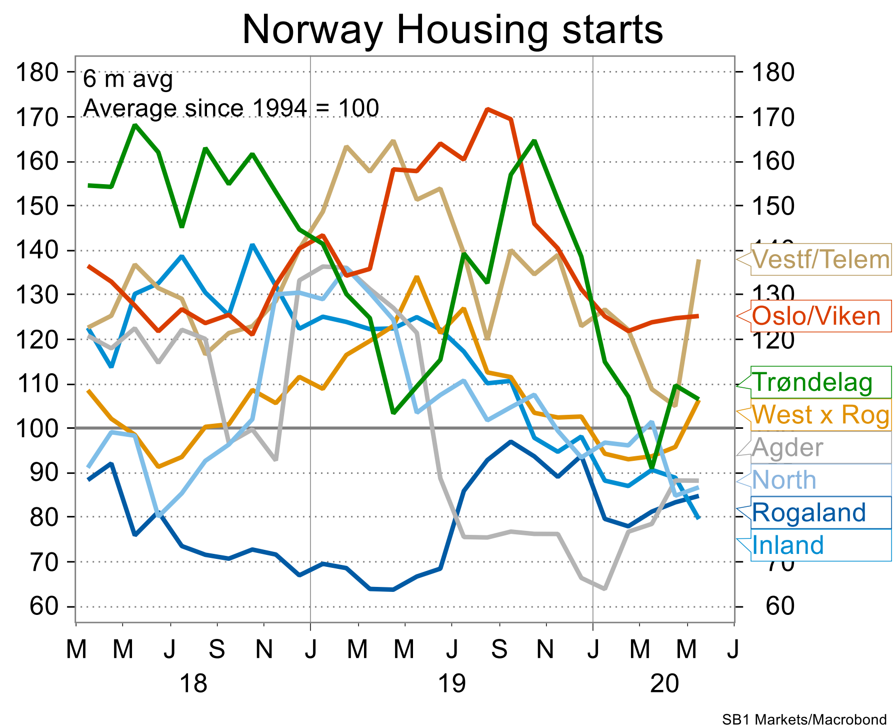


- SSB reported housing starts (building permits) inched up to 31’ in May. A 6m smoothed rate is at 28’ – and has just stabilised (starts were low in Dec/Jan). (There are no unusual reporting issues in the production of the SSB statistics)
- Homebuilders are reporting a 20’ pace in Many – and 22’ smoothed. The May discrepancy at 12’ is 4x larger than the average discrepancy between the two data sets. Student and nursing homes are not included in the Homebuilder’s stats.
- New home sales, reported by the Homebuilders, have fallen sharply past three months, during the corona crisis – still the 6 m avg is at 21’, and sales rose to 19’ in May

Starts have been trending down most places - now stabilising

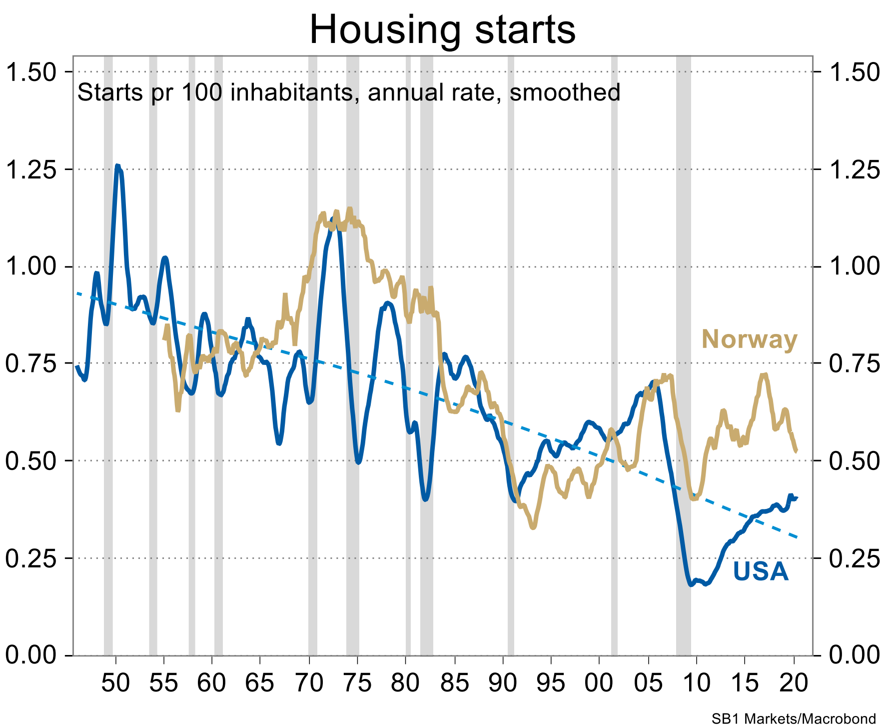
Inland, North still trending down. Rogaland remains below long term average. Agder, Vestf/T up now

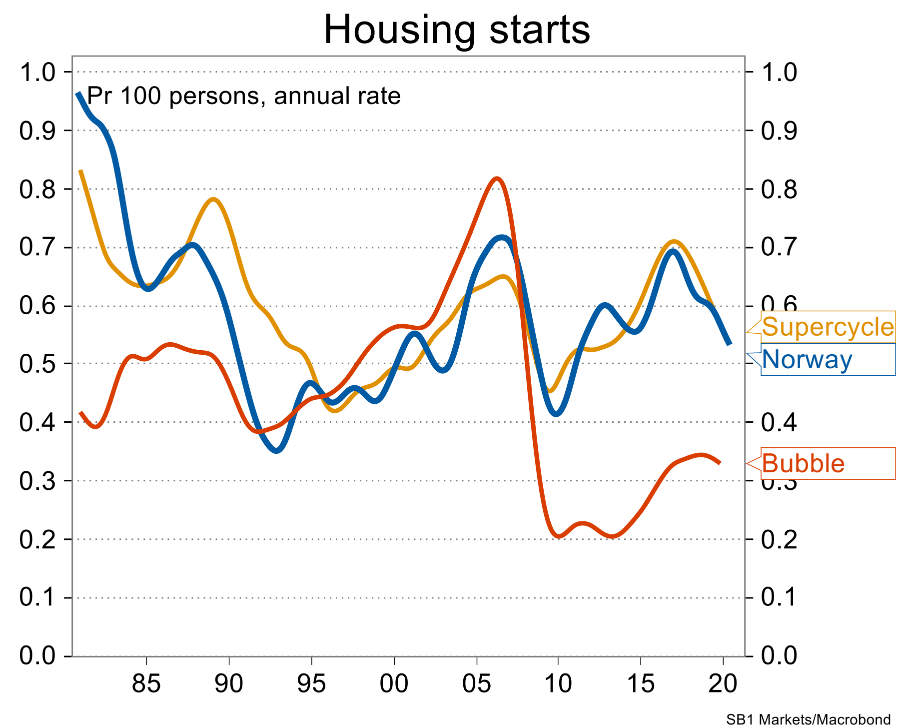




Home building has been very high vs. other countries

Norwegian housing starts are in line with other 'supercycles' and are still higher than in other DM





- The cycles among the supercyclicals (Australia, Canada, Norway, Sweden) have been quite closely correlated the past decades. Starts are falling in Australia, Sweden and Norway, and more modestly in Canada
- House prices and debt inflation are higher and rental yields are lower in these supercycle countries than other DMs. Because interest rates were cut to more or less the same level as in countries that actually needed a strong monetary stimulus?

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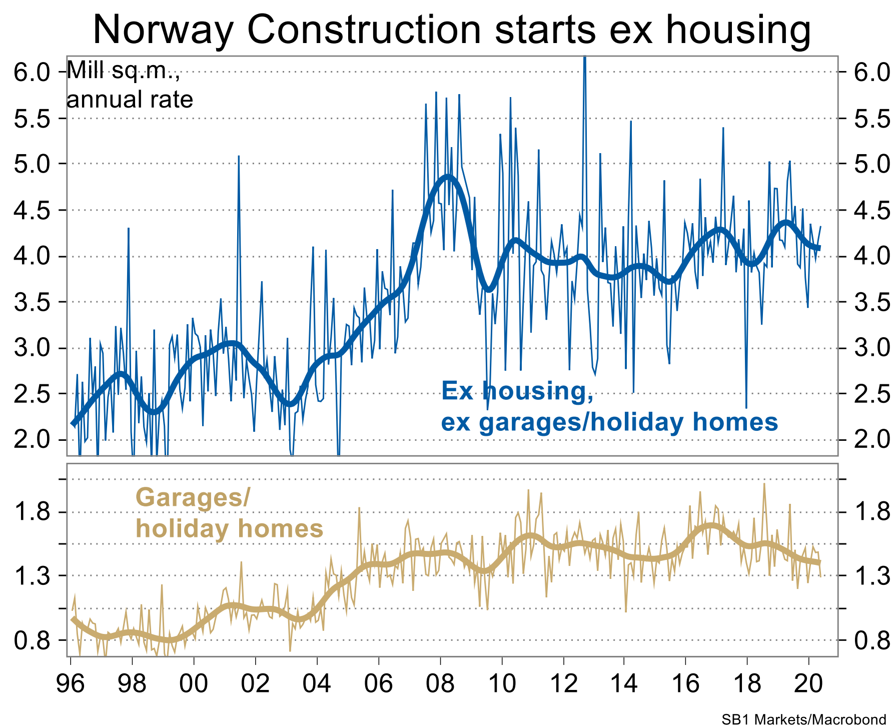
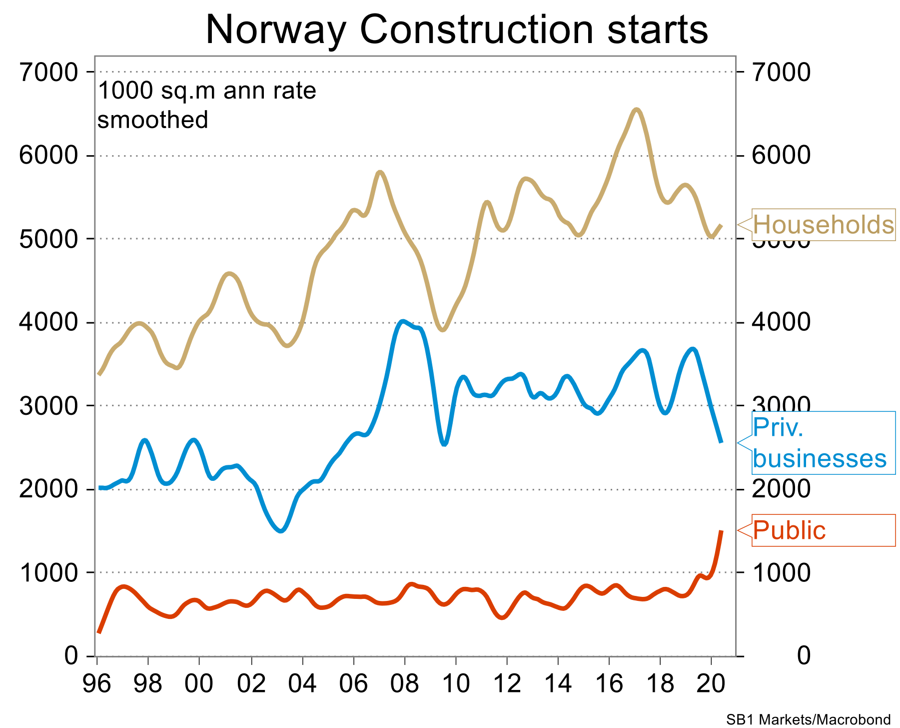
Private businesses are slowing sharply. Public more (a health building in Viken)

Business construction down from 2019 local peak and garages/2nd homes/cabins are trending down

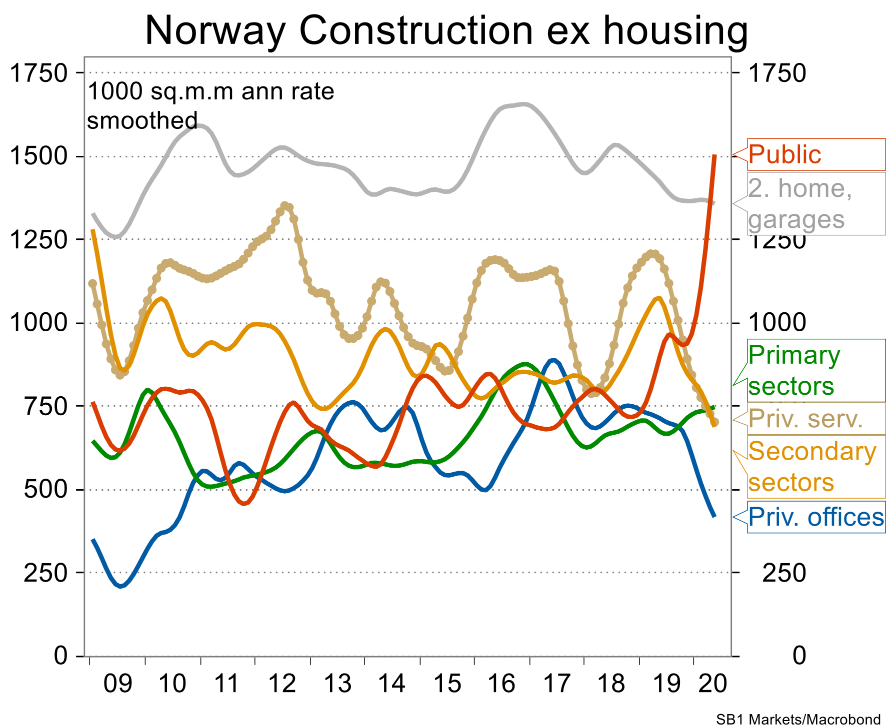


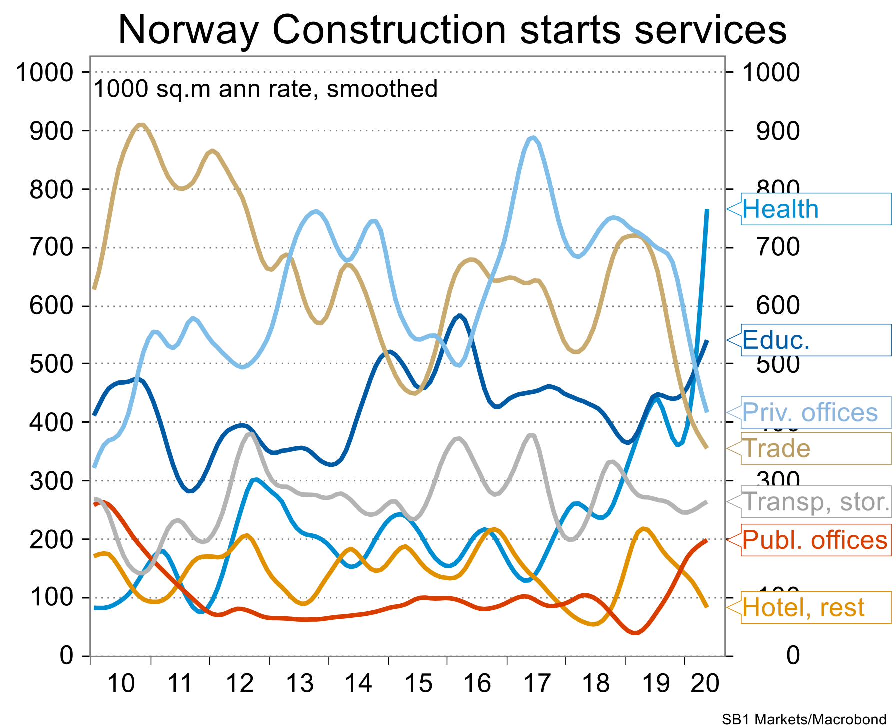


- Public sector construction starts were lifted in May due to a new health sector project in Viken. Recent months, education and public sector offices have contributed too
- Construction starts of cabins/garages are heading slowly down and the level is the lowest since 2009

Retailers other private sector construction sharply down

Most likely, much private sector construction will be slow the coming months

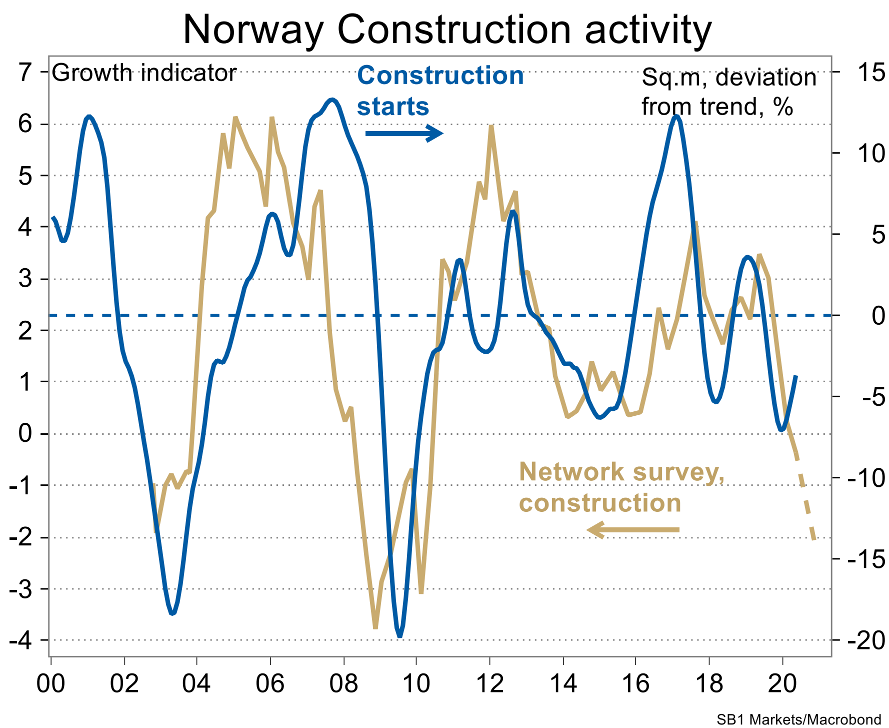




Public on the chart to the left: Construction starts in public administration, education and health

Regional Network signals a sharp decline in construction activity

Construction has turned down within housing, businesses –and supported by the public sector



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

Highlights

The world around us

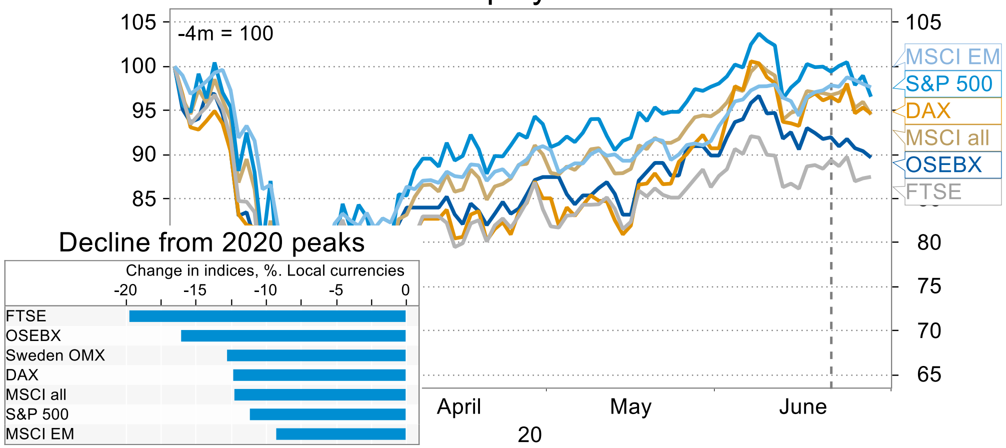
The Norwegian economy

Market charts & comments

Most stock markets down, as was yields, oil last week. Metals still strong

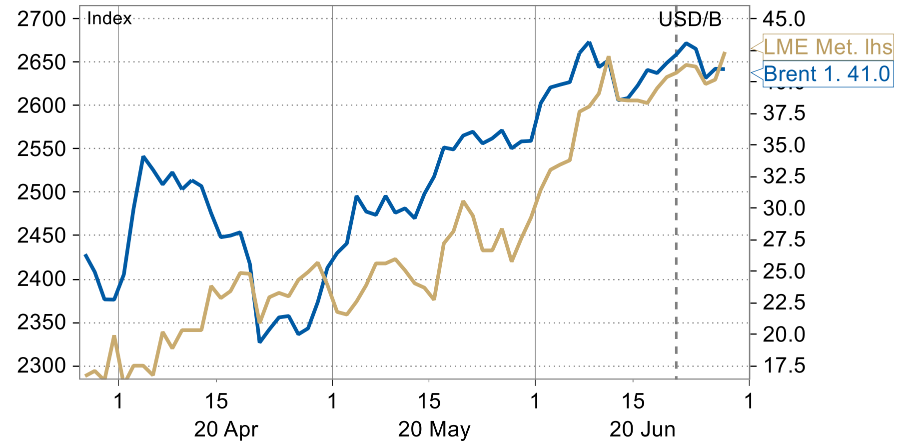
EM currencies are trending down again, as is the NOK. The US marginally up

Equity Indices



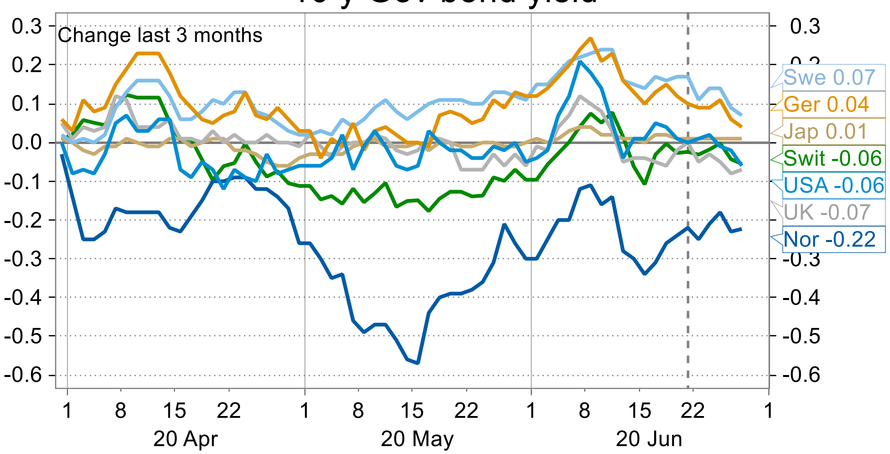
SB1 Markets/Macrobond

Oil vs. metals



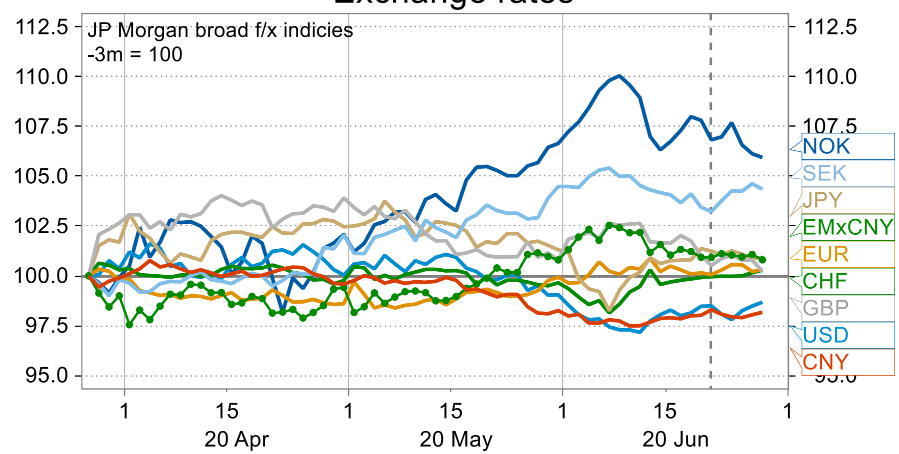
SB1 Markets/Macrobond

10 y Gov bond yield



SB1 Markets/Macrobond

Exchange rates

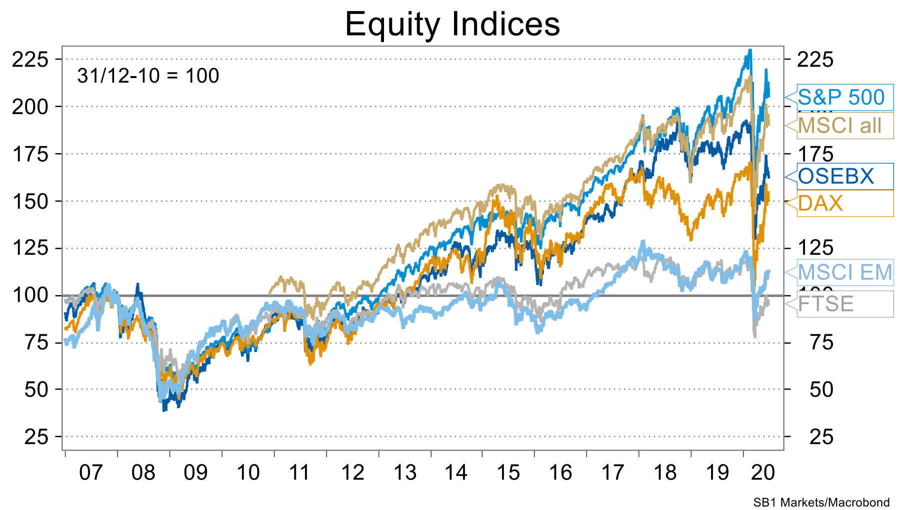


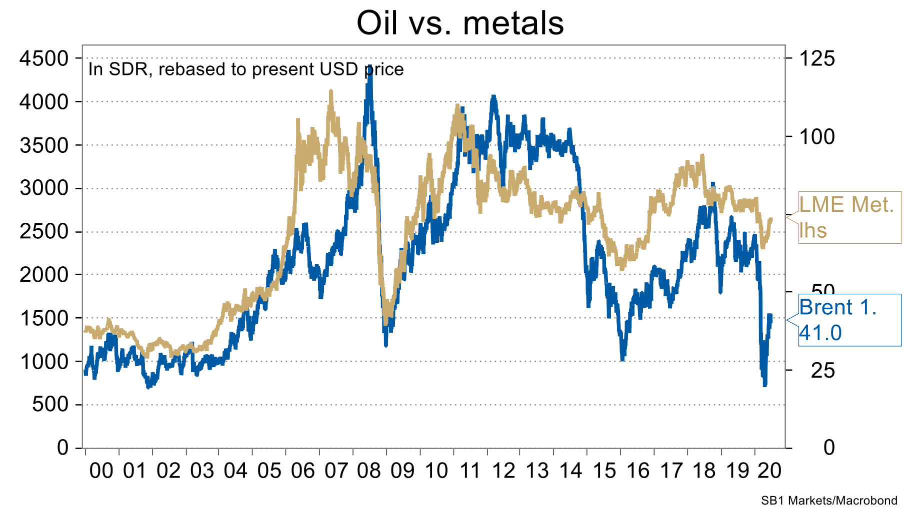
SB1 Markets/Macrobond

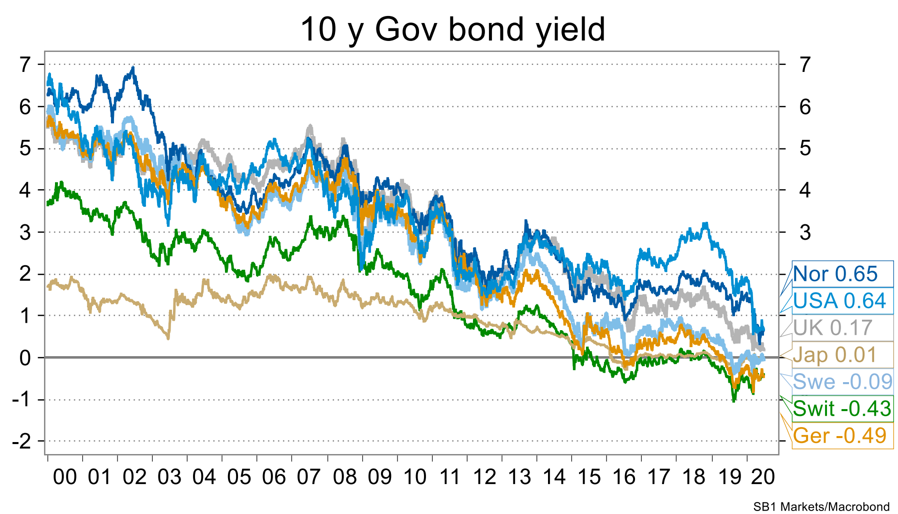
EUR, NOK & EM x China f/x on the way up. USD & CNY on the way down

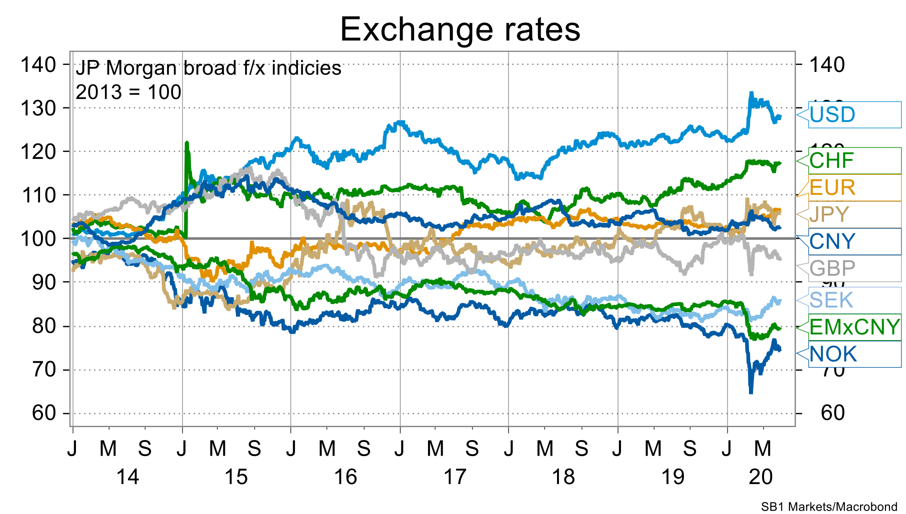
In the long run: Stock markets are looking like a 'V'

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









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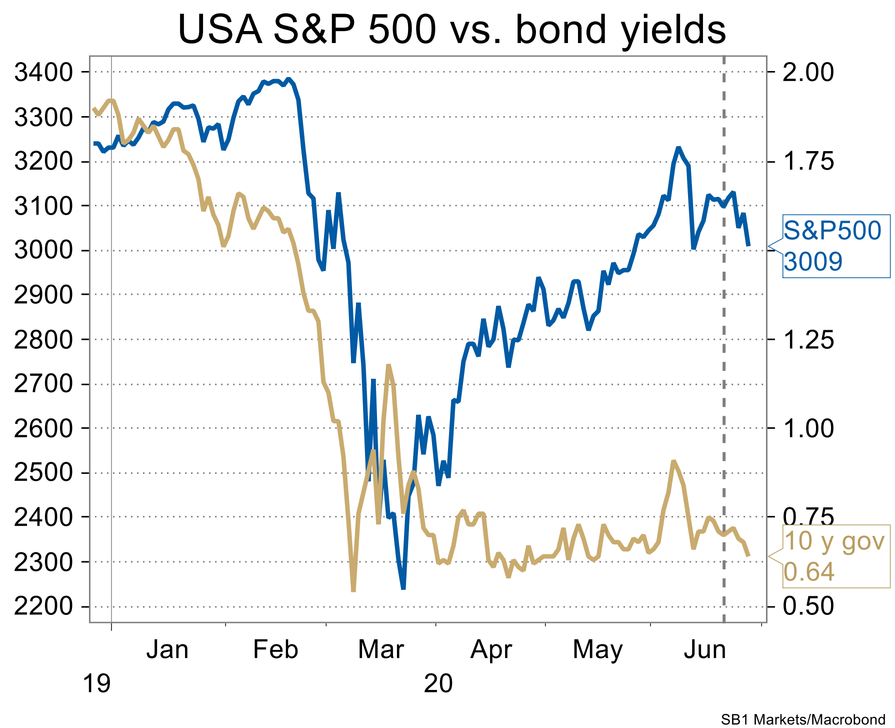
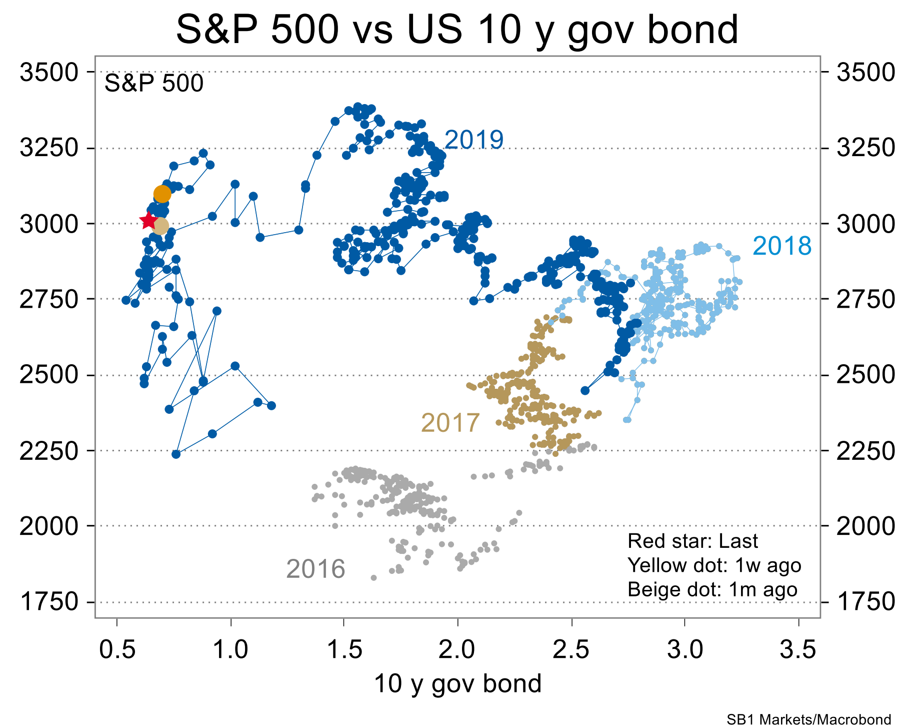
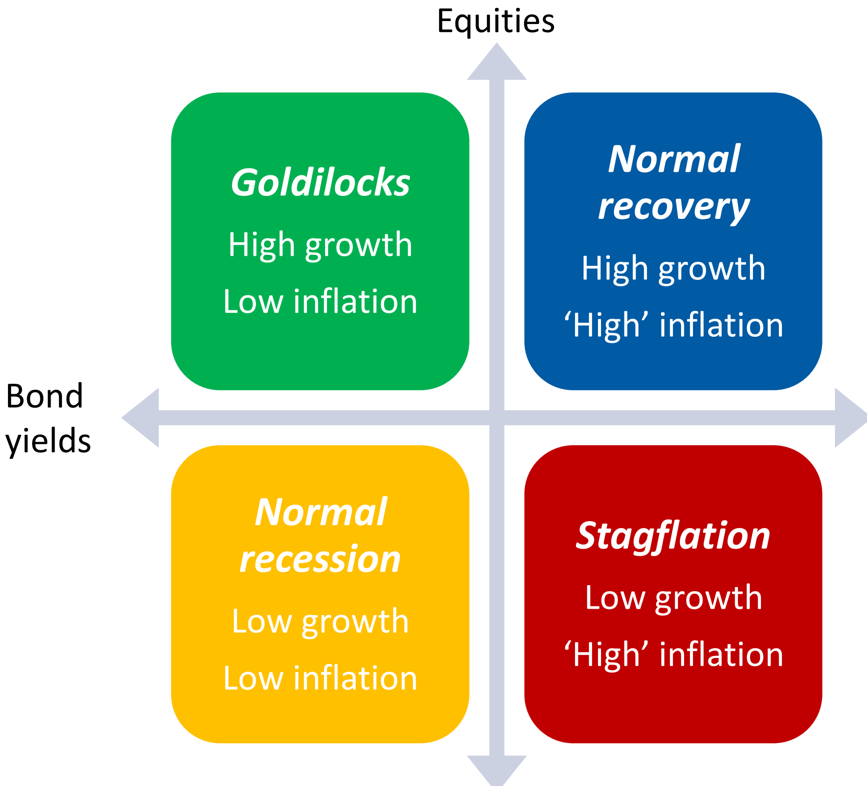
Corona uncertainty: S&P down 2.9%, yields down too

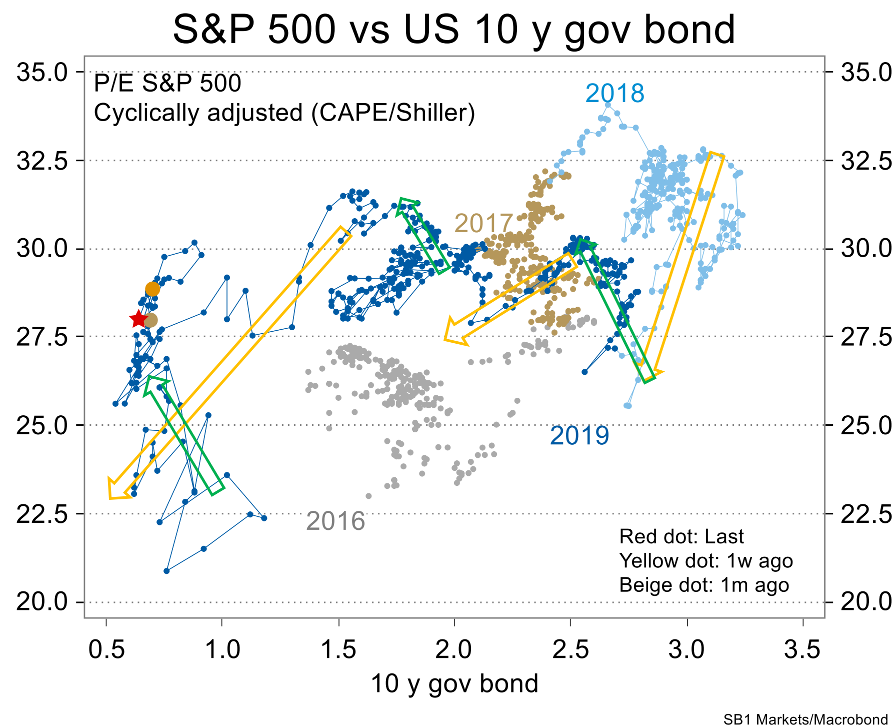




Last week: Towards the recession corner, at least partly due to US corona trouble

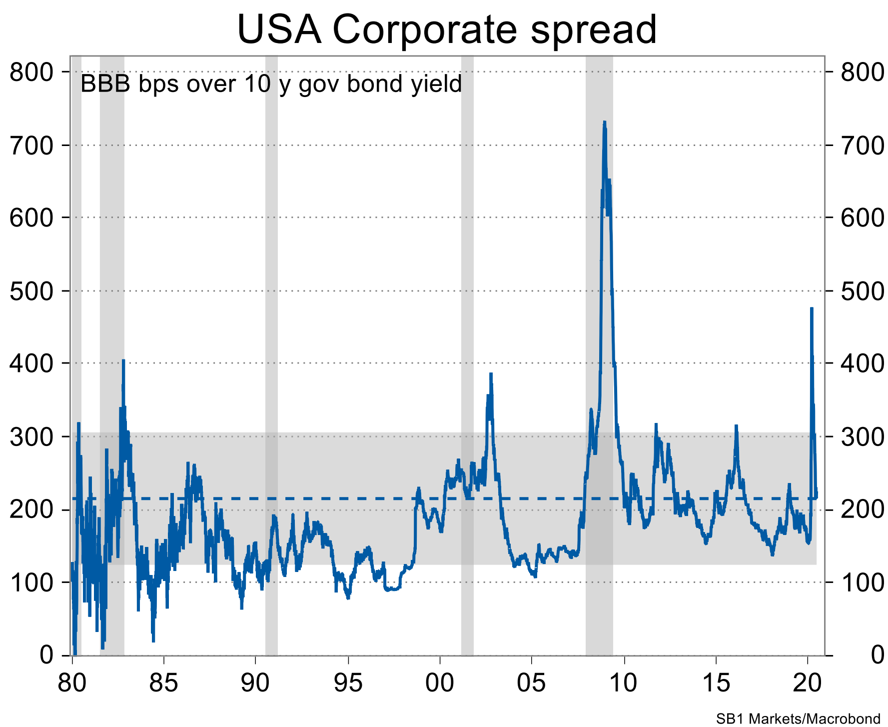
… while ‘ordinary’ growth signals were positive

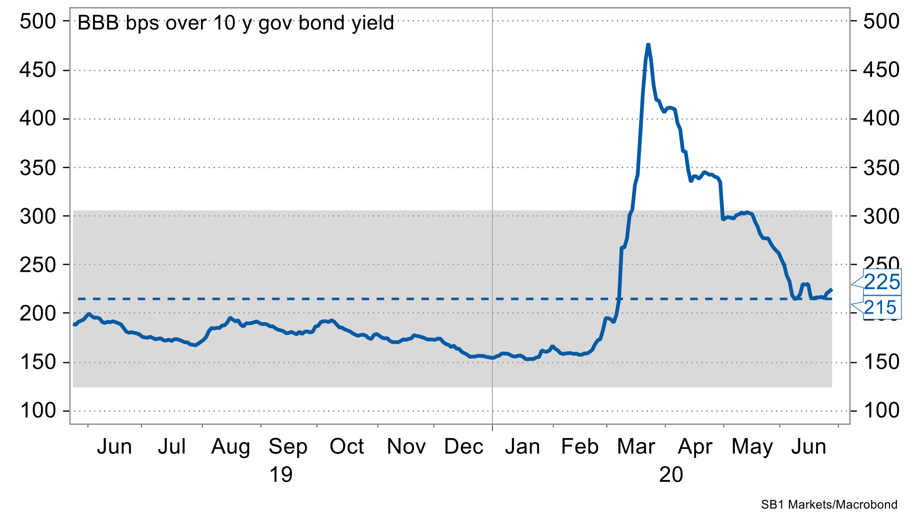


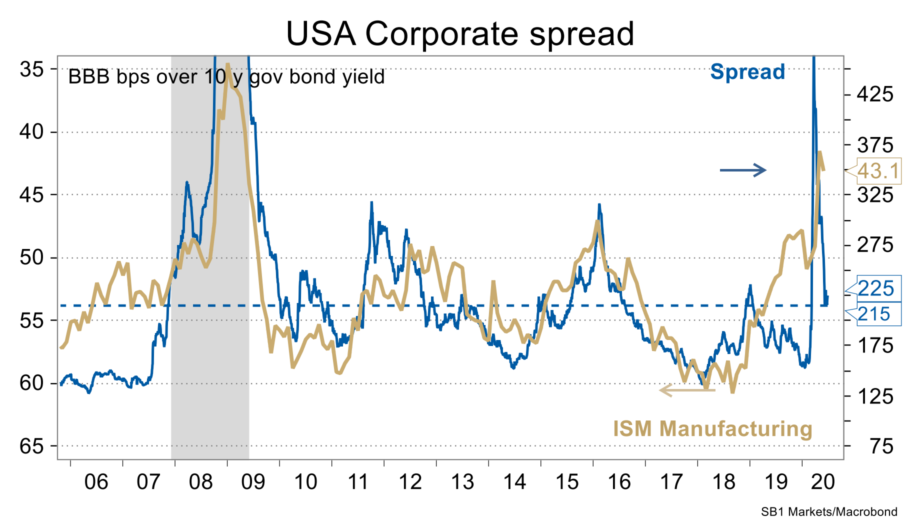


- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the ‘normal recession/recovery’ axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the ‘normal recession’ corner. The downturn accelerated in March as the Covid-19 pandemic 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 combined with ‘V’ shaped recovery data have contributed to the change in mood; risk markets has strengthened – while yields have been kept low due to enormous QE programs in US but also among other central banks. Lately, equity markets have been losing some steam

Corporate spreads marginally up, still close to an average level



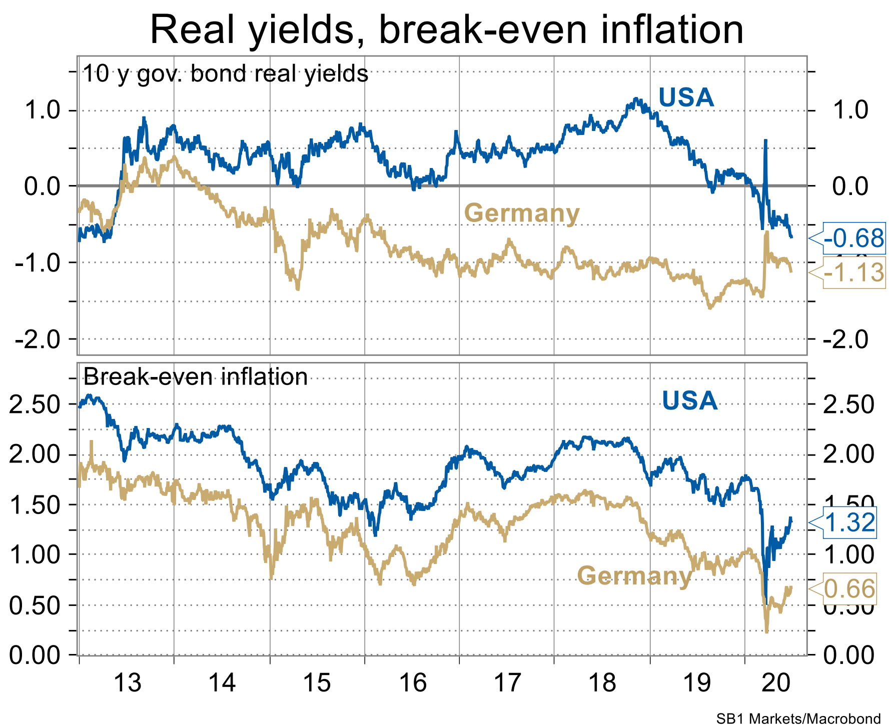


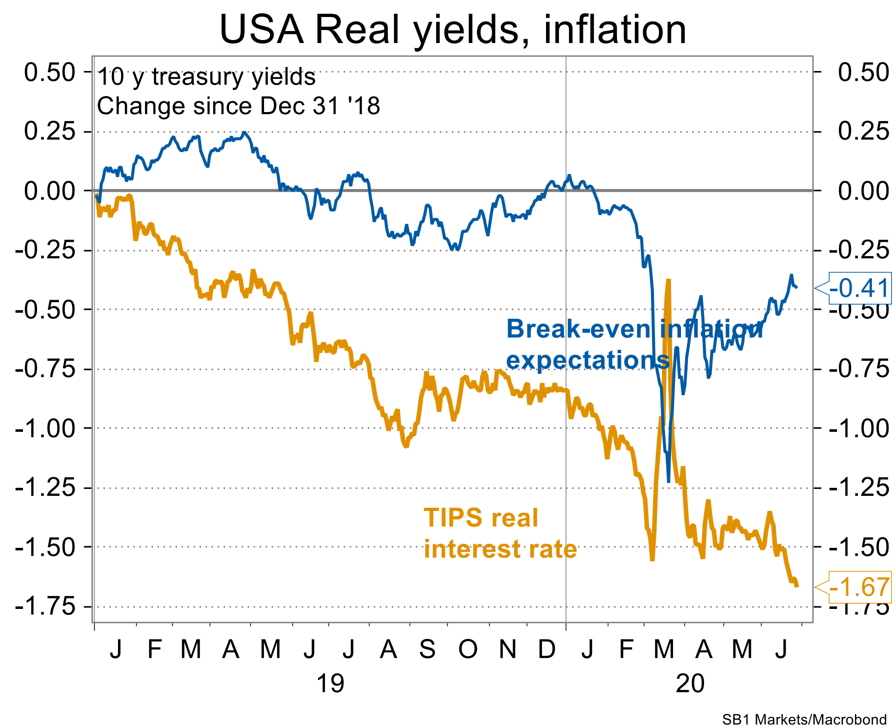


- Is the credit risk at an average level now??

Inflation expectations drifting up but are still low. Real rates are sagging

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





- Real interest rates are falling further – more in the US than in Germany

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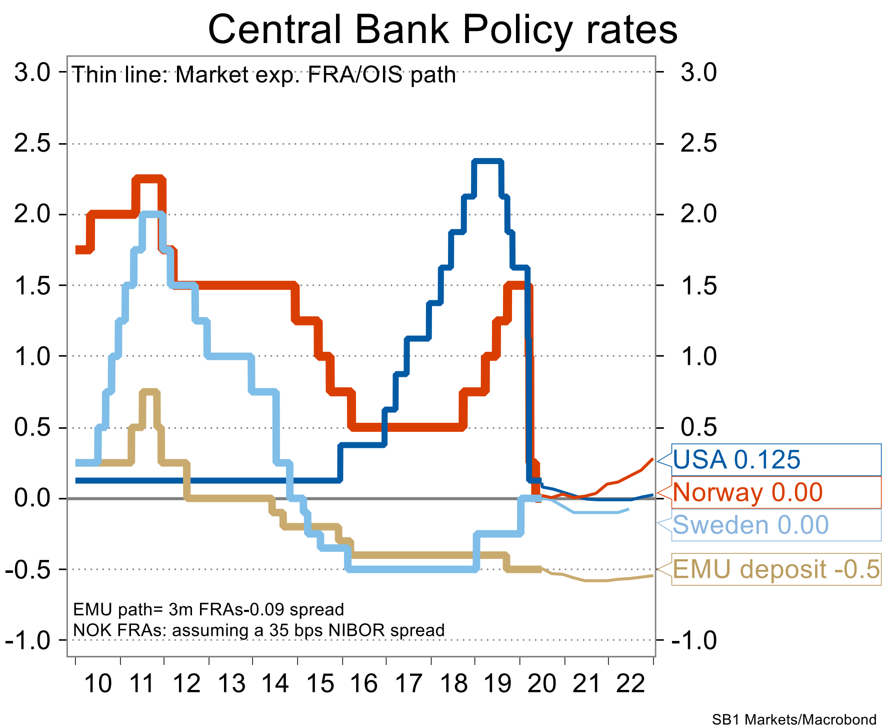
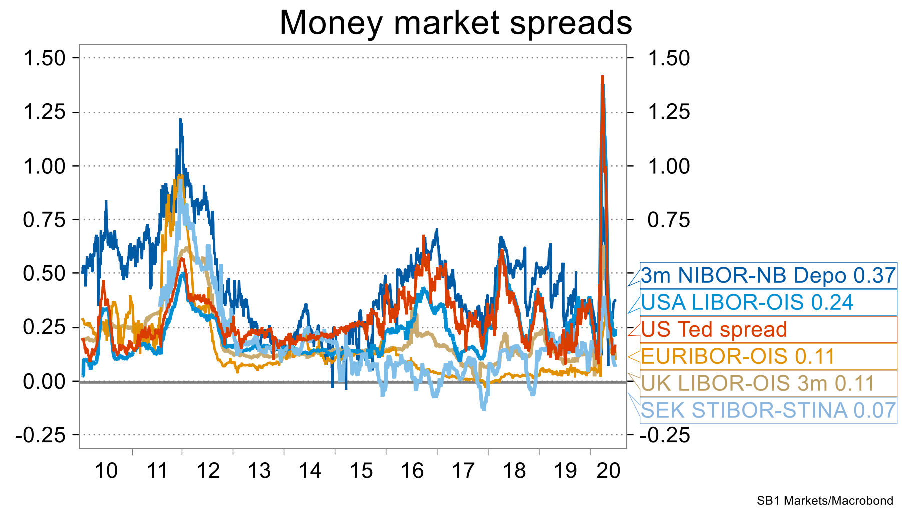
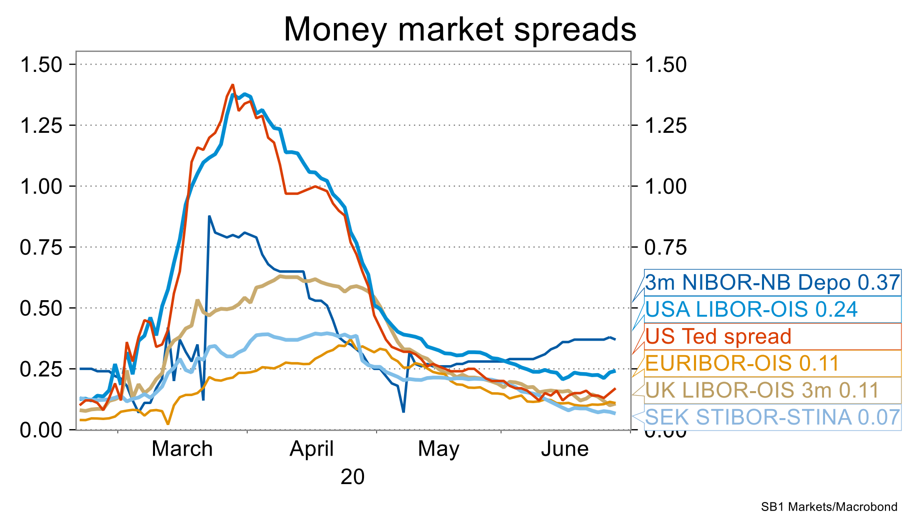
NoBa the first bank to signal higher rates – in 2½ years time, that is

Still, NoBa was the first

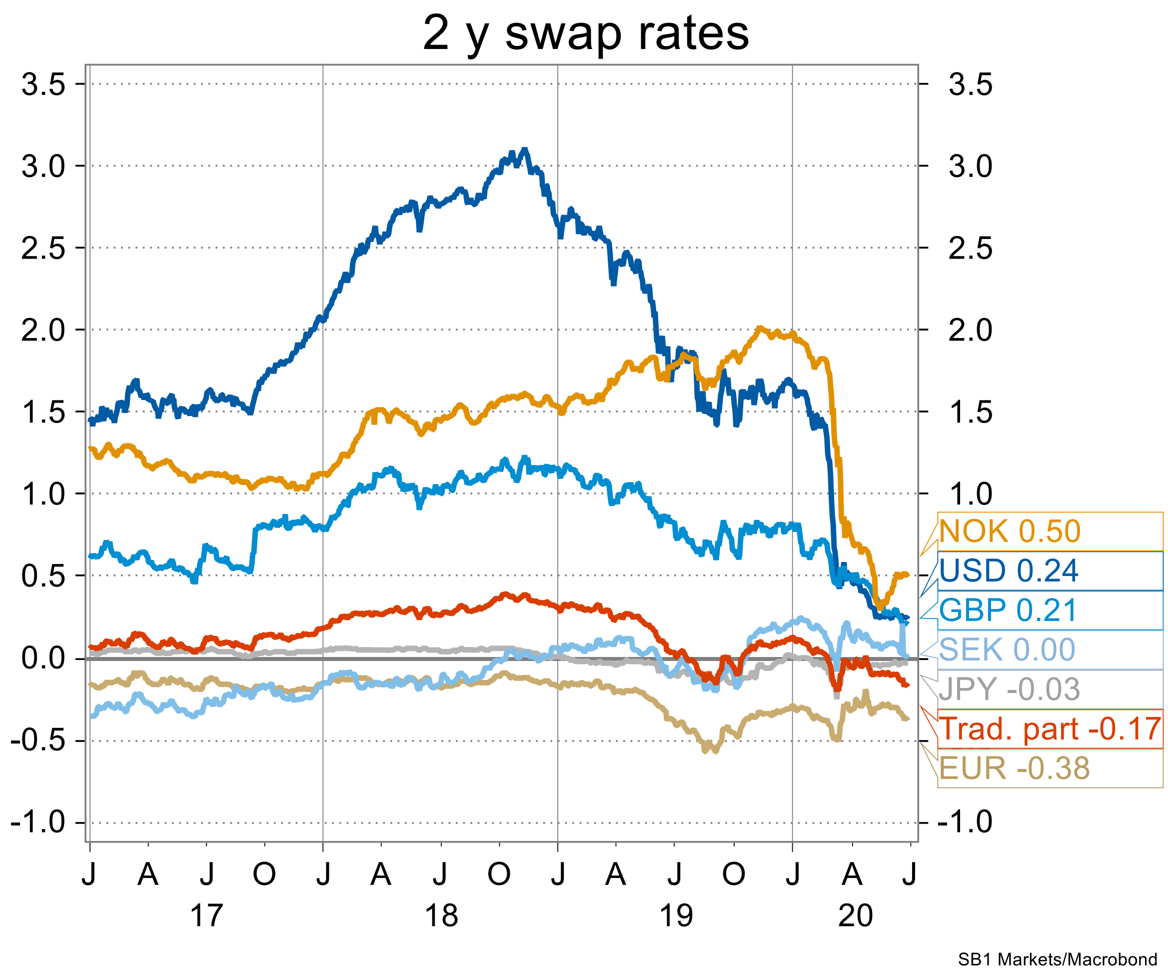


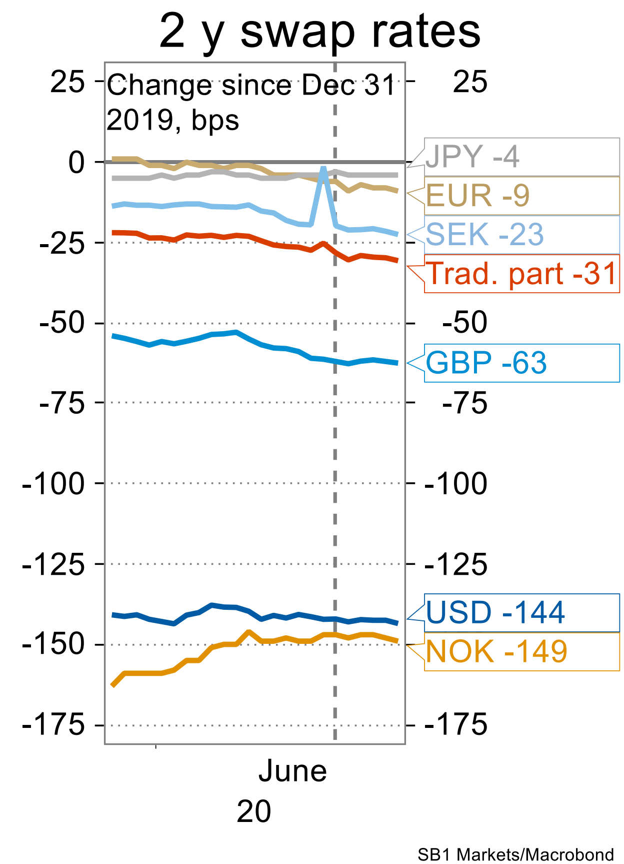




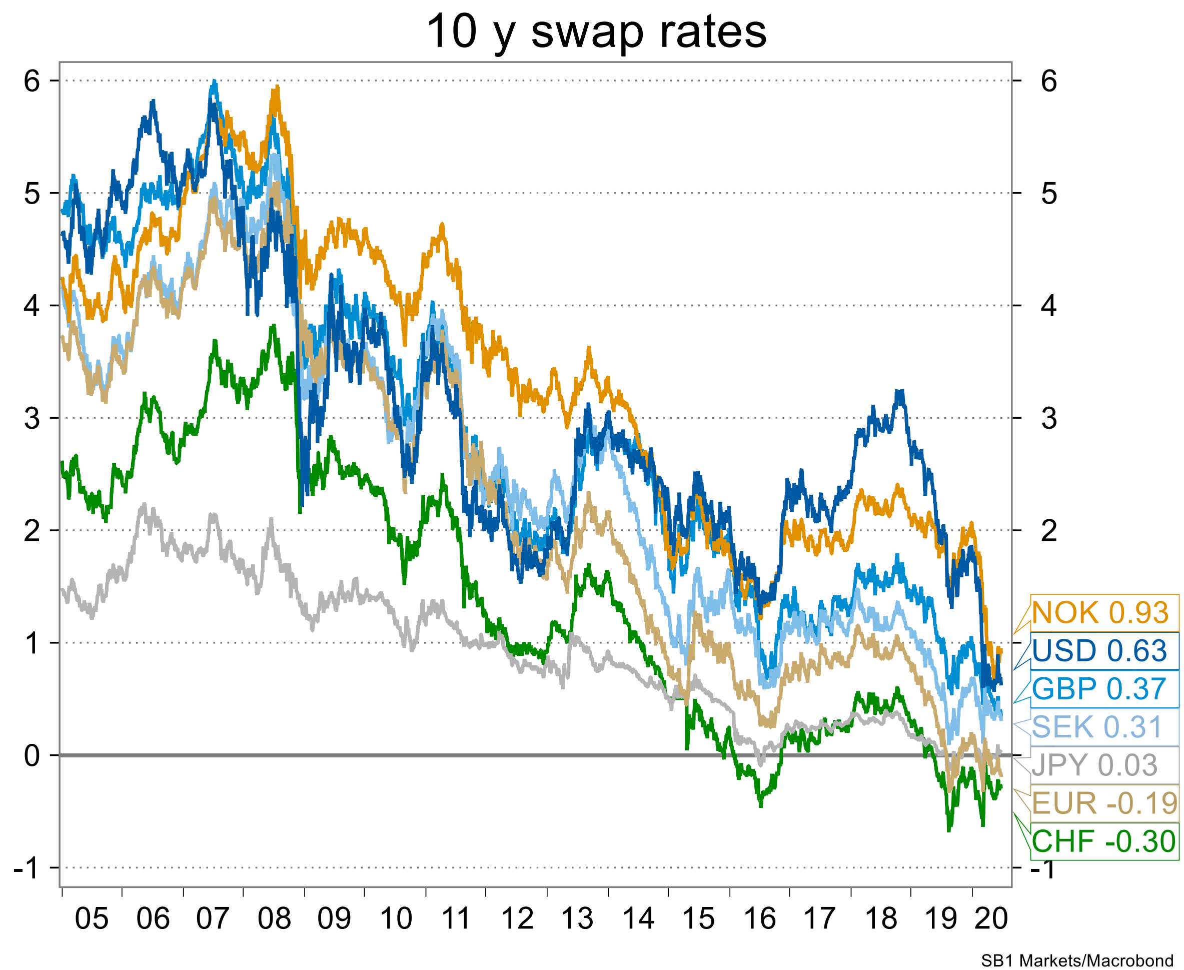
2 y swap rates

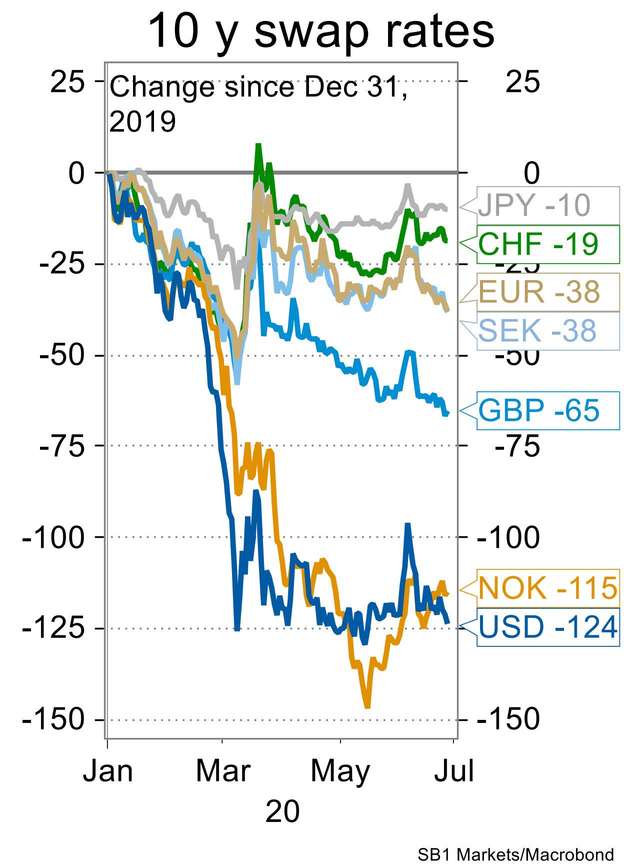
Down abroad, less so in Norway



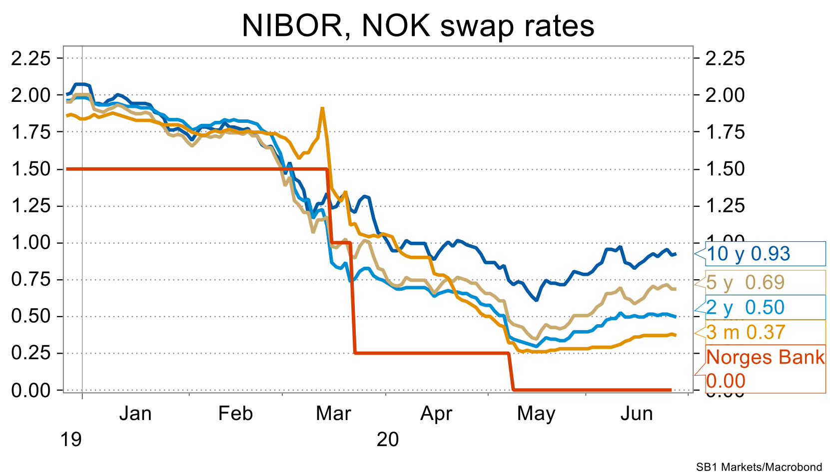


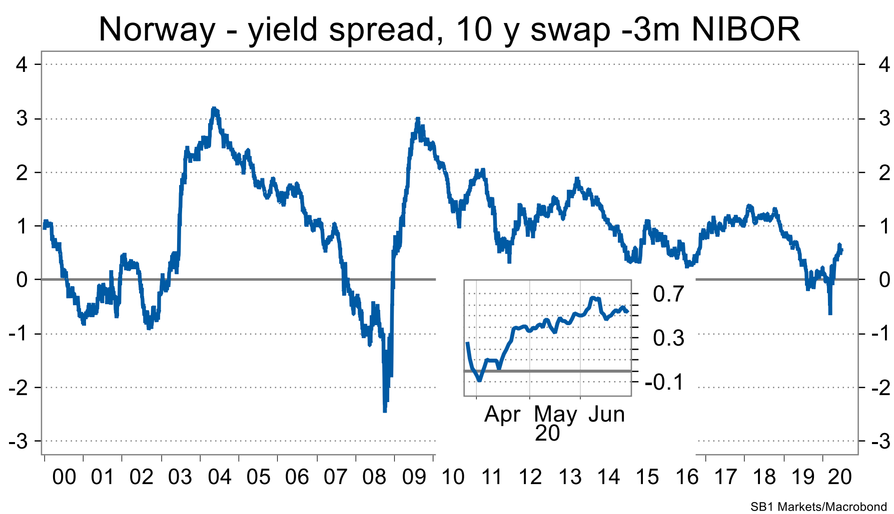
Down most places – but not in Norway

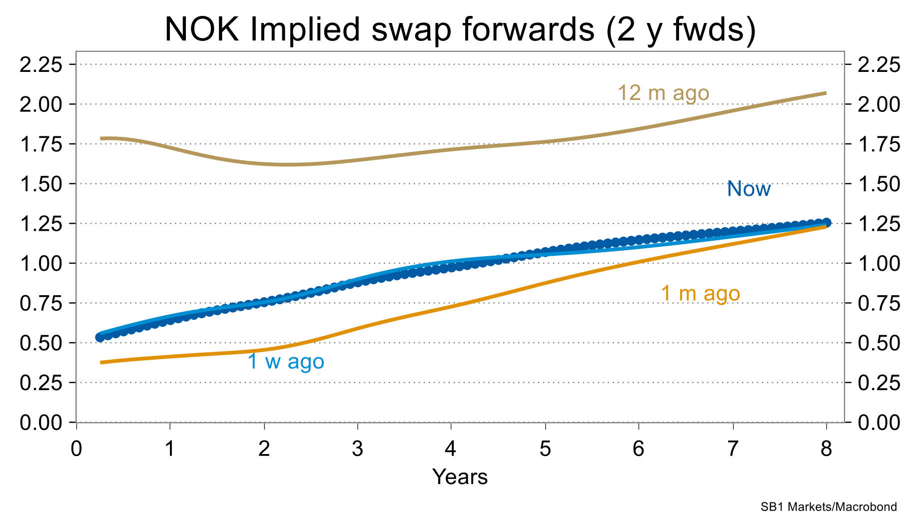




Norwegian swap yields flattish last week



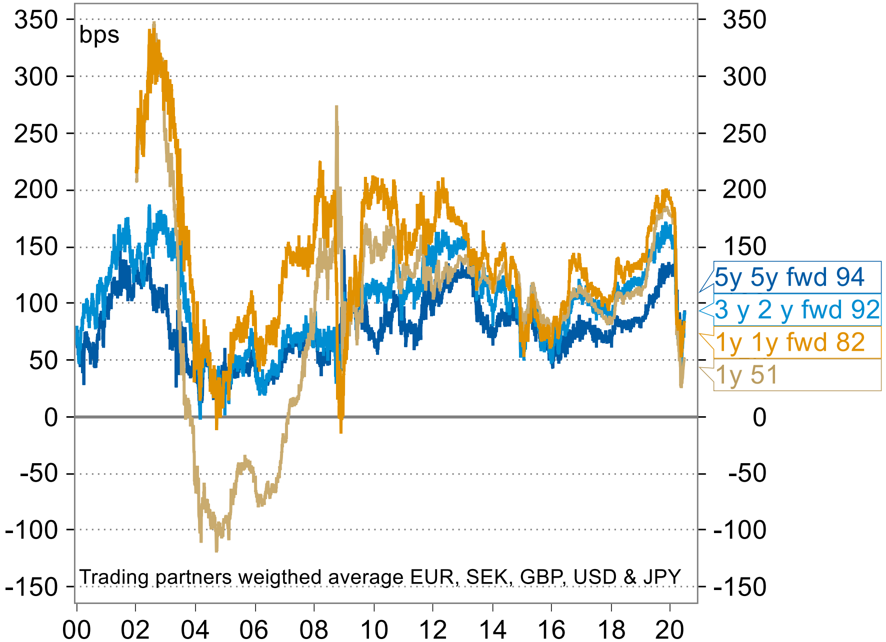




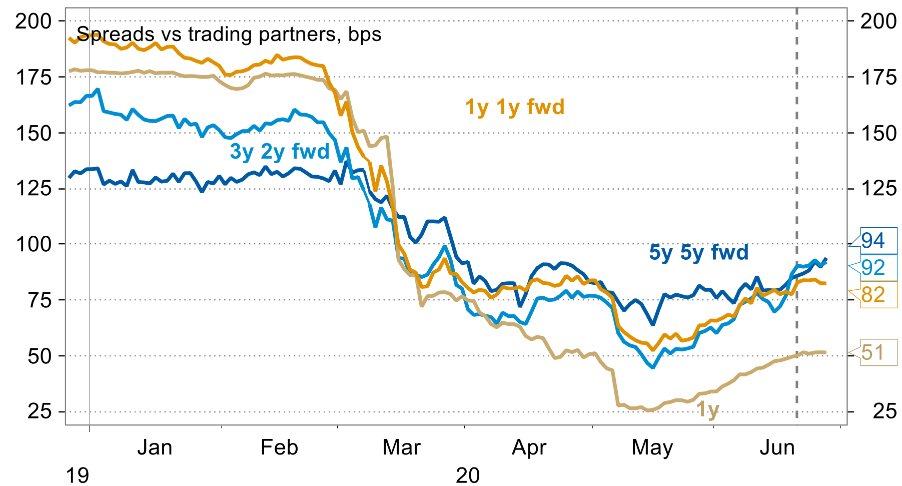
Foreign yields down, Norwegian yields (almost) not

The spread has been widening since mid May

Norway vs trading partners, impl swap spreads

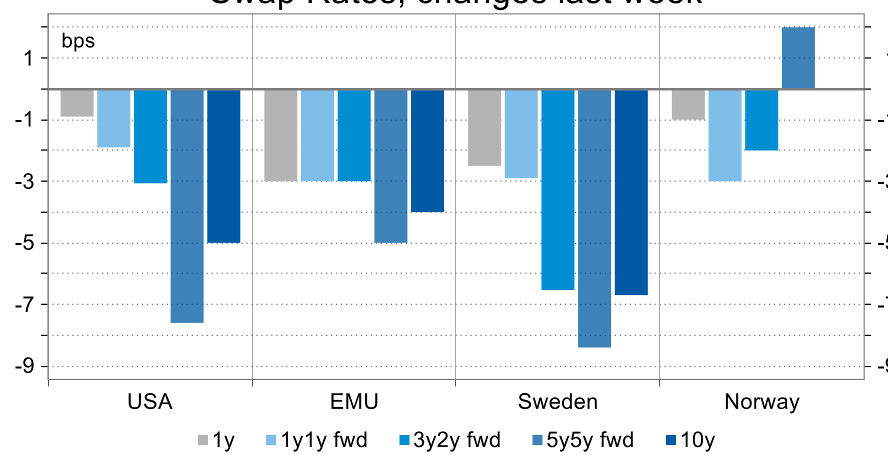


SB1 Markets/Macrobond



SB1 Markets/Macrobond

Swap Rates, changes last week



SB1 Markets/Macrobond

- 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 more than 25 bps
- We are still neutral vs. the spread

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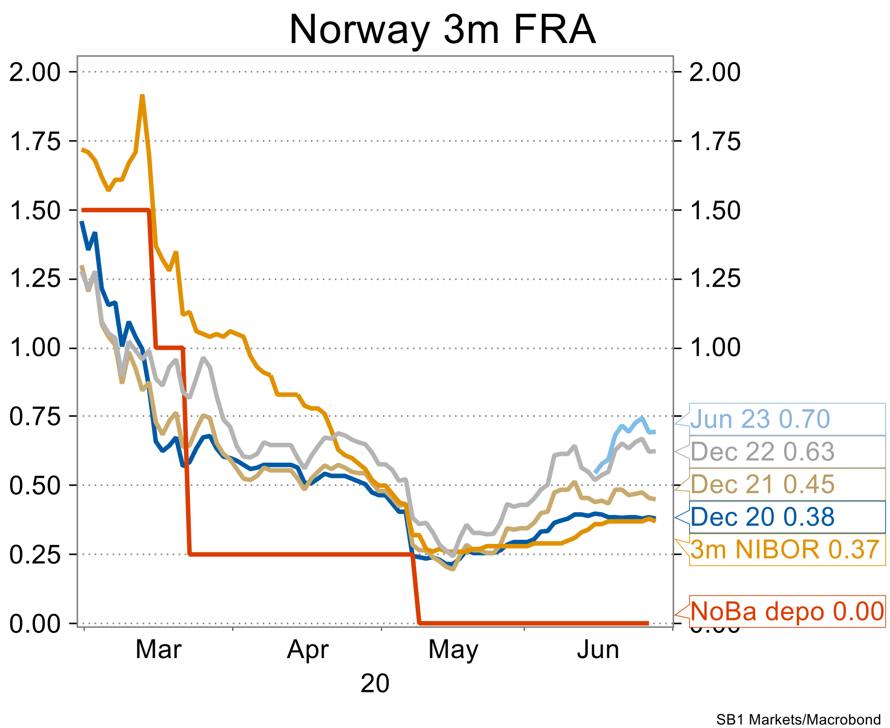
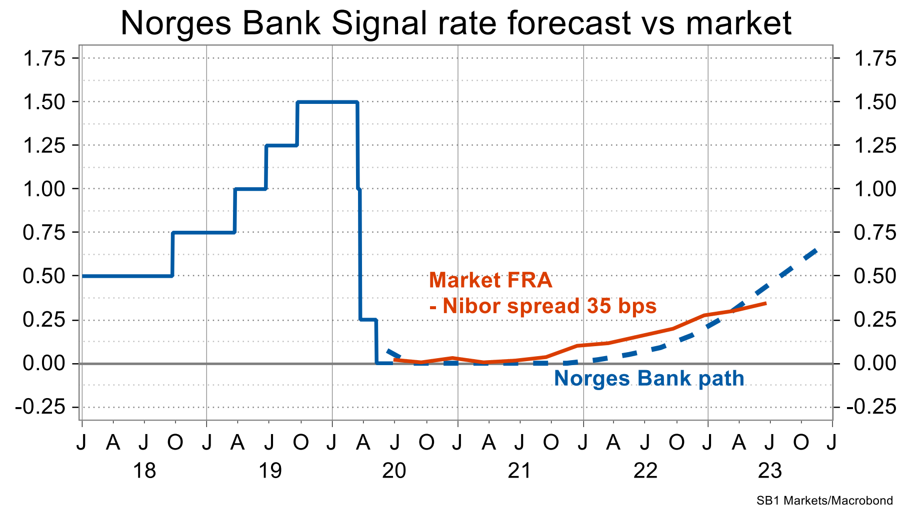
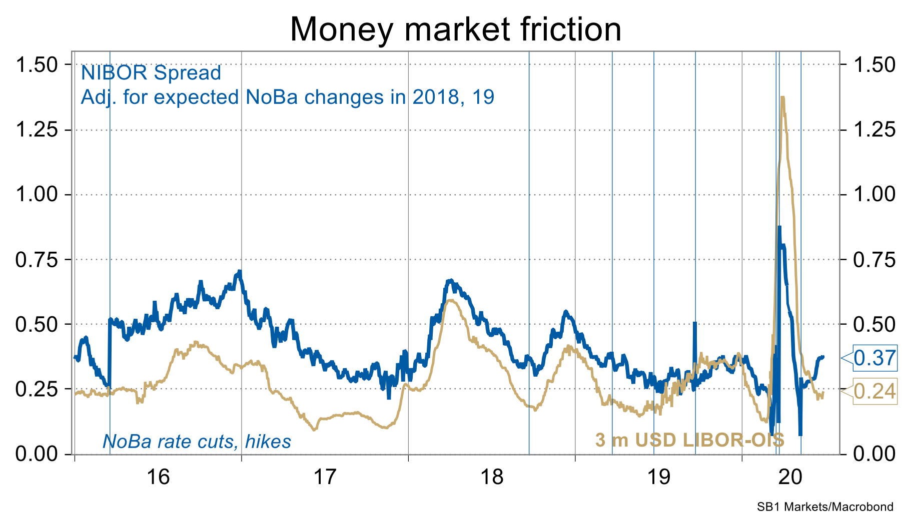
The 3 m NIBOR has stabilised at 0.37%, longer dated FRAs marginally down

.. Following the lifted assisted by a ‘hawkish’ Norges Bank

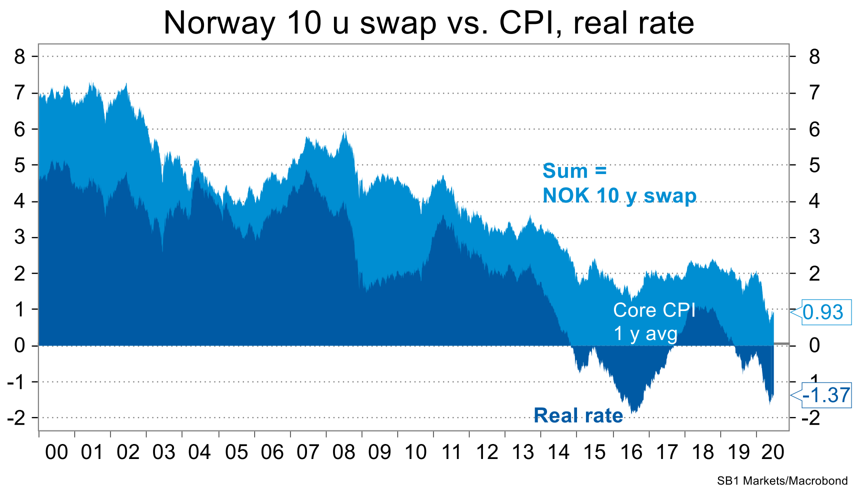




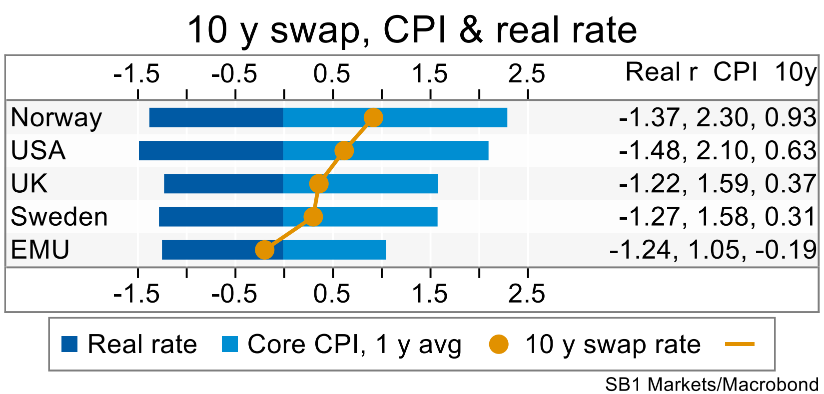


The FRAs are pricing in a 50% probability for late 2021 hike and a first hike in Q4 2022 is fully priced in. A lift in late 2022 is just like Norges Bank signalled last week

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, 1.5 (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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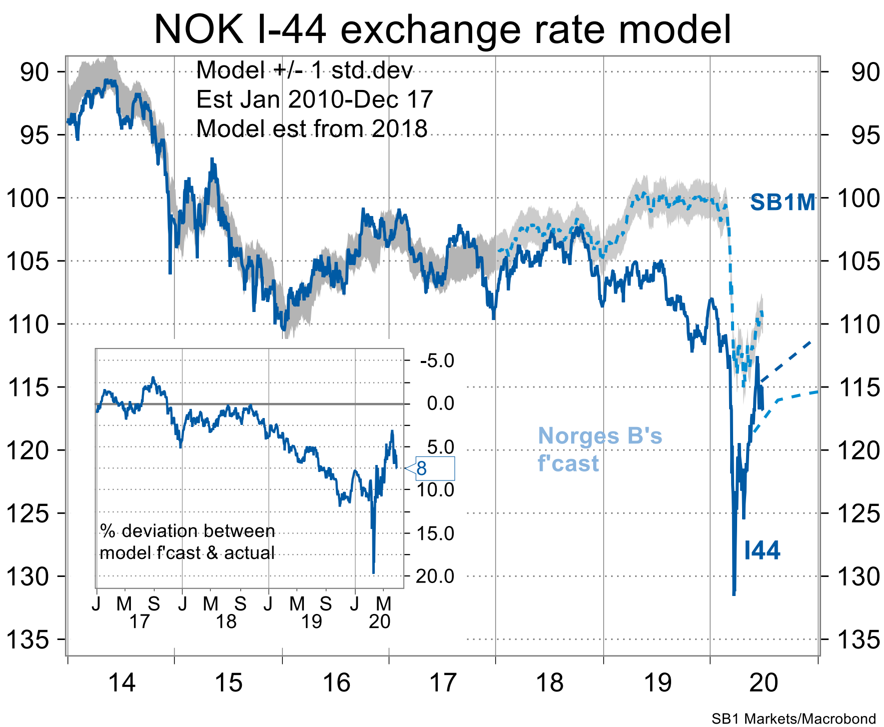
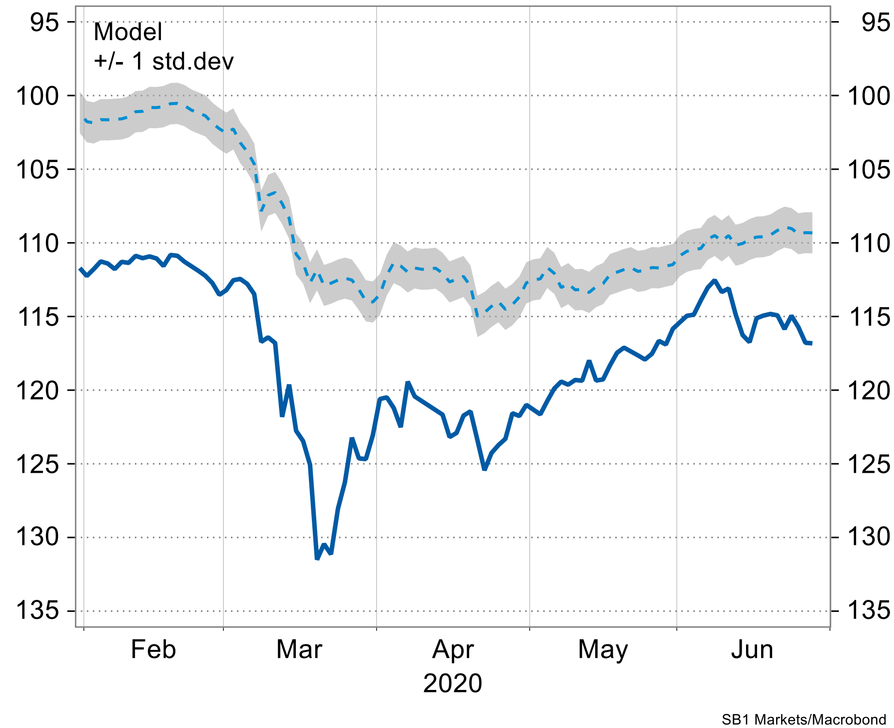
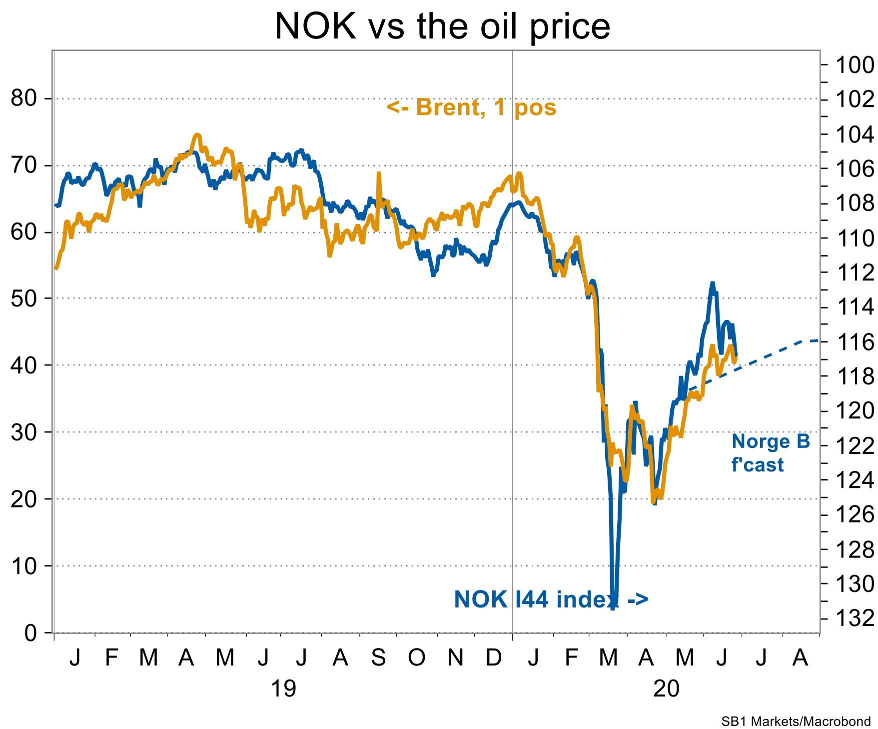
The NOK down last week

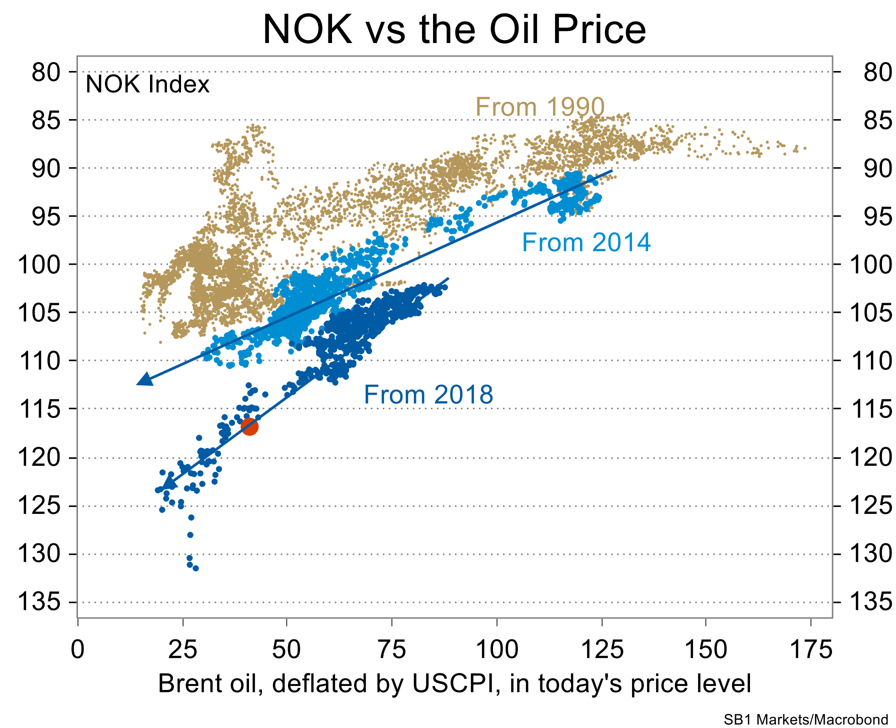
The NOK down 1.6%, our model said unchanged





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 it is still correlated to the changes in the oil price like it used to be

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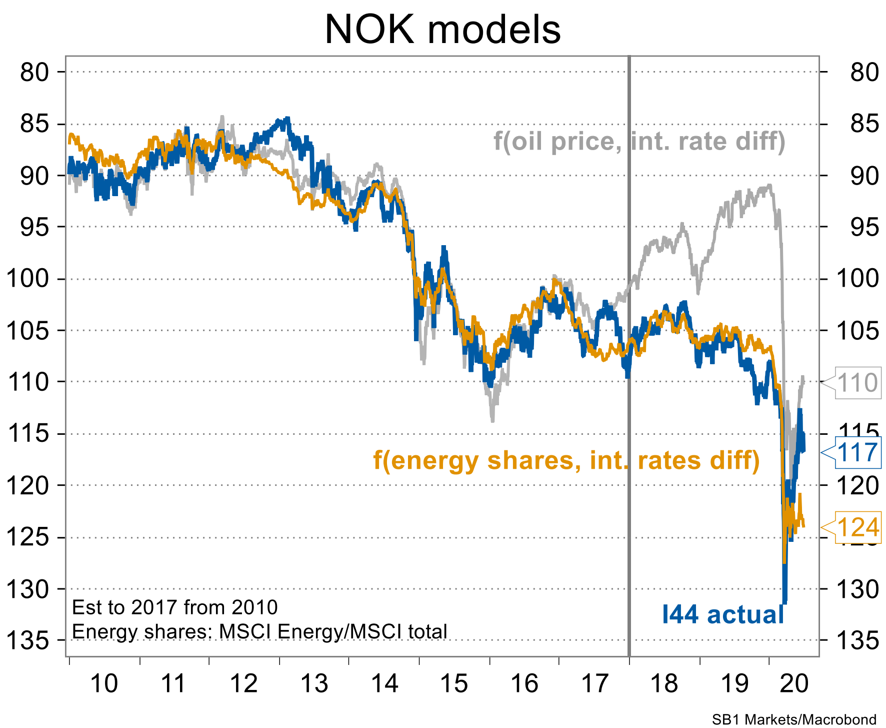
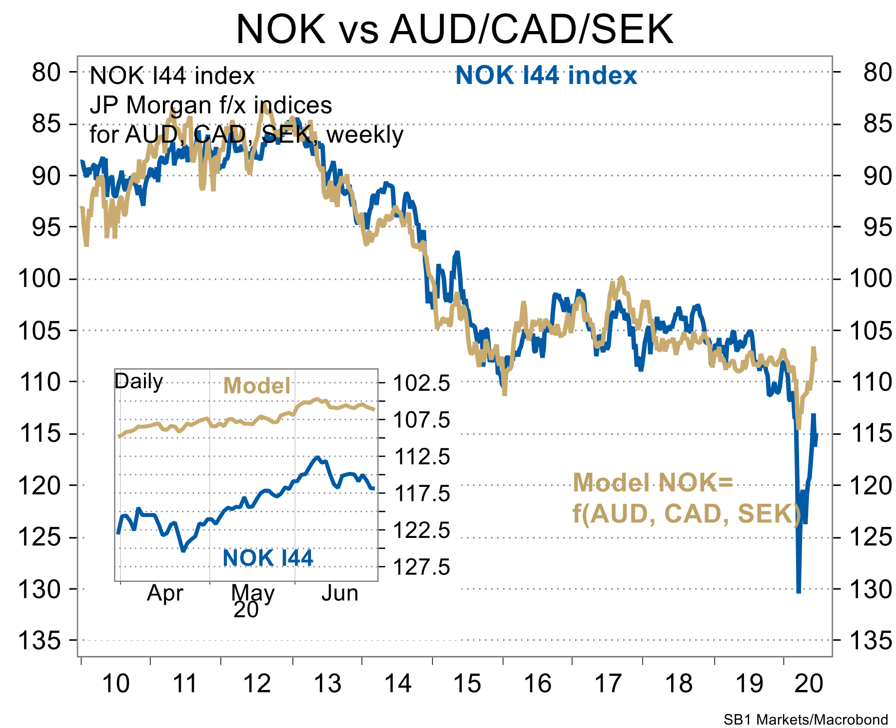
NOK 'stronger' than oil companies but weaker than the other supercyclicals

NOK is some 10% too weak vs the 'supercycle' model but 6% 'stronger than oil companies

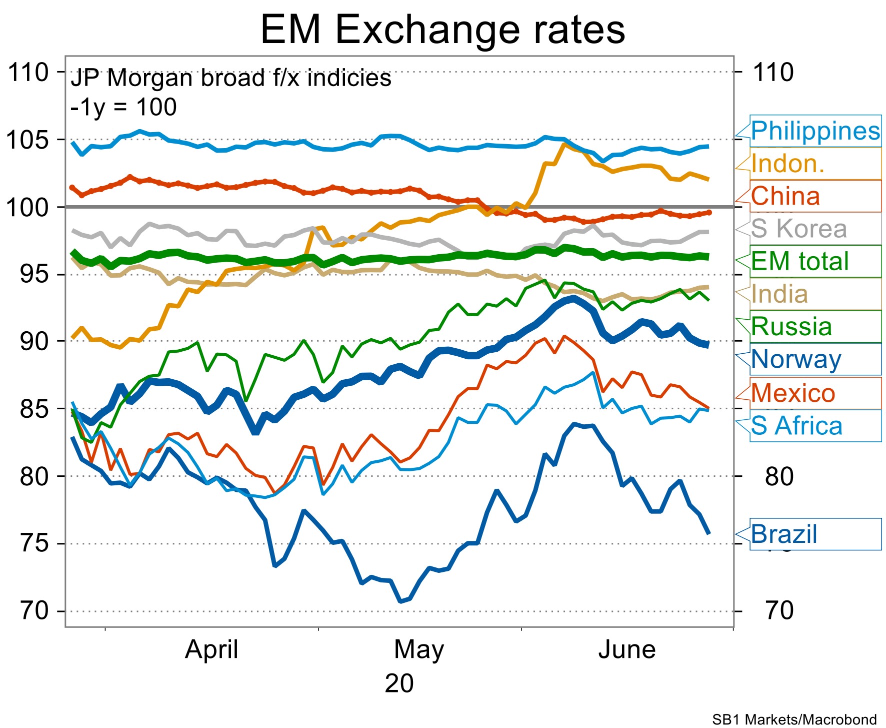


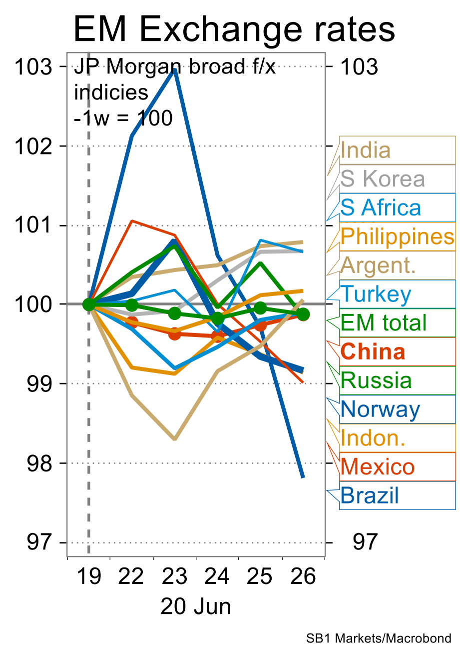


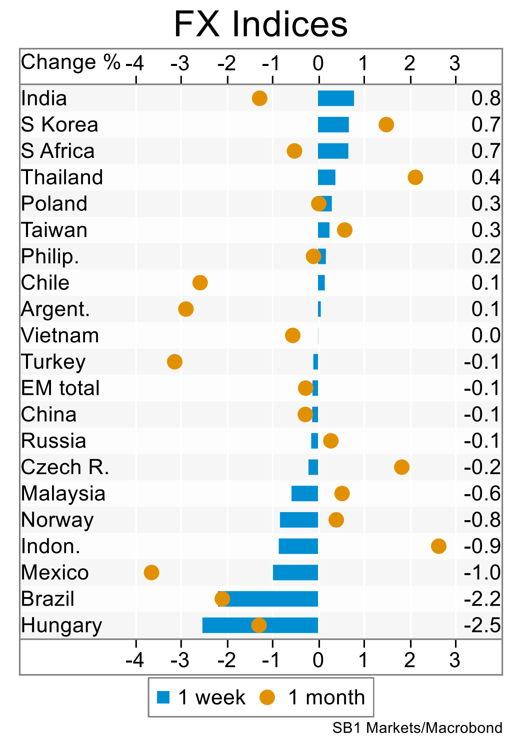
- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to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

Several other EM f/x countries too – and the EM universe in average







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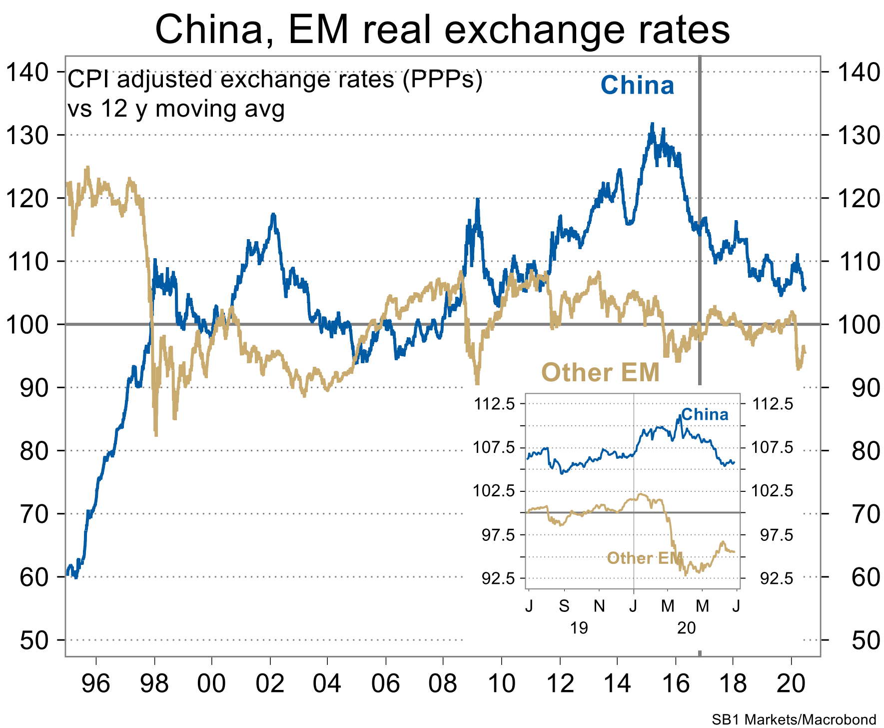
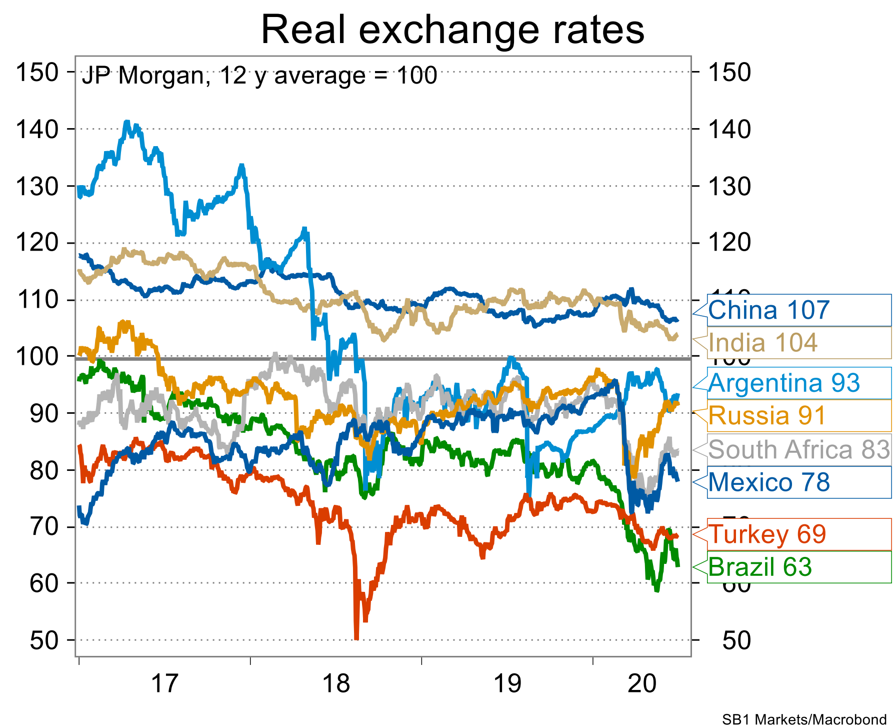
EM currencies are slipping again but are still well above the March troughs

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





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