28 July, 2020

Macro Research

A late July update 31/2020

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

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

SpareBank 1 MARKETS

Highlights

The world around us

The Norwegian economy

Market charts & comments

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

Last week: A corona flattener but still a challenge. Norwegians shop until…

- **The US Covid-19 case curve has flattened recent days**, as several states have reintroduced restrictions, and people probably have taken social distancing more seriously. The positive/total test ratio has declined too. Hospitalisation and deaths will probably peak pretty soon, before wide parts of the hospital system run into capacity constraints. However, several states are still reporting rapidly increases in new cases, and something will soon have to give. Growth is most likely slowing again.

- The no of new cases is growing in most of the rest of the world, and growth is accelerating in Europe (especially in Spain and Belgium). More good news on vaccines last week but nobody expects huge quanta to be available before early next year, if trials succeed. The bottom line: There are limits to activity and economic growth the coming months and few quarters, even if smart regulations (using masks, abolishing large (drinking) events) most likely will dampen the need for harsher regulations/changes in behaviour

- The good news: Activity has come considerably back during the May – July period. **Global manufacturing production** and **retail sales** rose sharply in June, and short term indicators signal more of the same i July, but probably at a slower pace. The **global PMI** probably finally crossed the 50 line in July. EMU surprised on the upside, US on the downside, according to the preliminary surveys. The US survey may have been influenced by the corona outbreak, and measures taken to contain the virus

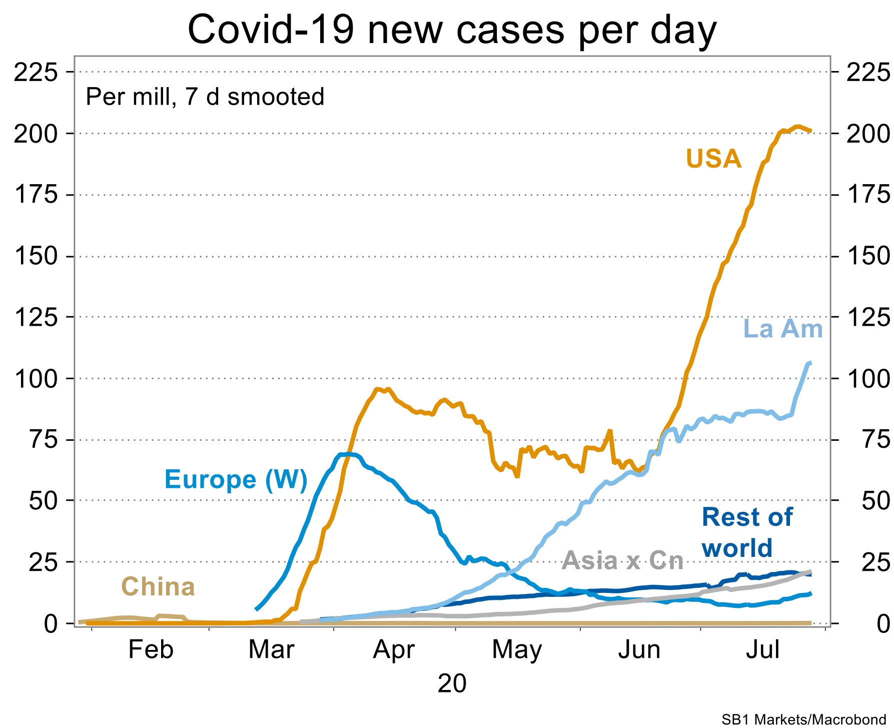
- In the **US, the no of new jobless claims** rose last week, for the first time in 3 months. On the other hand, **durable orders** rose further in June, and just aircraft orders are for good reasons still really bad. **Housing** is still in a recovery mode in June but household confidence is sagging again in July, probably due the corona trouble. A huge extra corona stimulus package is debated at Capitol Hill, perhaps USD 1 trl, or 5% of GDP. The deficit will be 'quite' high. **The USD** has fallen recent weeks but not by that much and it is still on the strong side vs trading partners

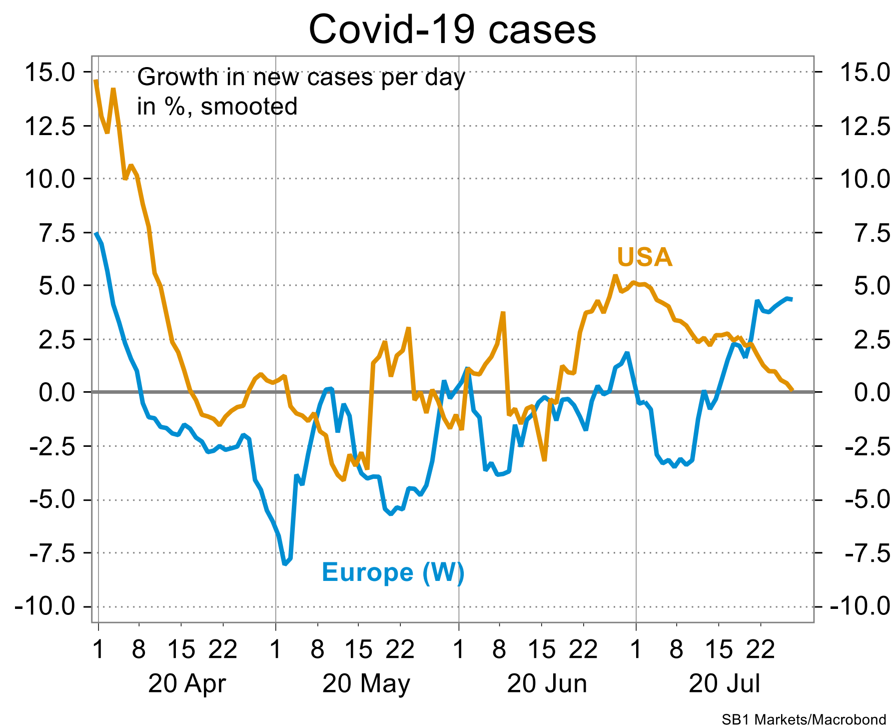
- **No change: Conflicts between China and US, now joined by UK, EMU and Japan** are escalating. The US/China consulate conflict and unusual harsh US talking points do no signal any short term detente. These conflicts may become more serious drag on the world economy

- **Norwegian retail sales** have gone through the roof, up 13% from before corona, as other spending, like services and spending abroad is kept in check. Total consumption is probably still down vs pre corona, at least until July. **SSB's Q2 manufacturing survey** signals a further steep decline in production, albeit not as steep as signalled in the previous survey. **LFS (AKU) unemployment** rose by 0.5 pp to 4.6% in May, most likely as some temporary laid off workers now are counted as unemployed (after 3 months). Hours worked are down 5 – 6%

The US curve has flattened again, at a very high level

Growth in new cases in Europe is accelerating from a low level. Lat-Am sharply up again



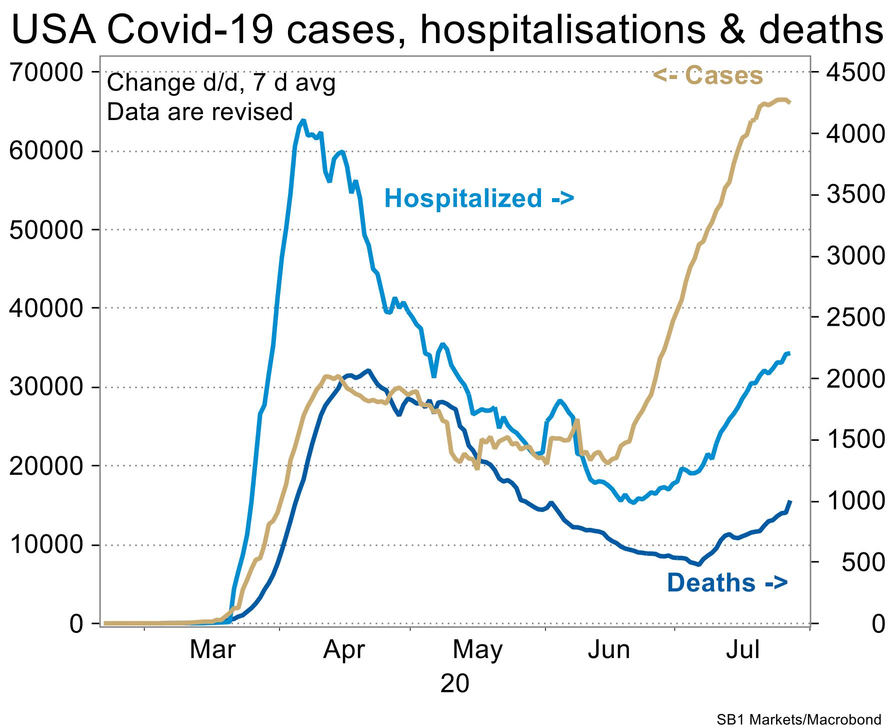


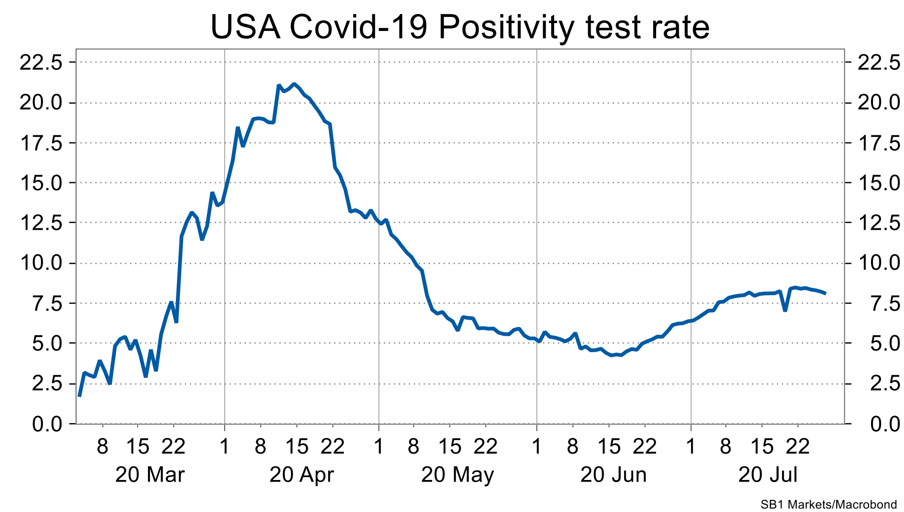
- Some restrictions, and more voluntary social distancing have brought growth down to zero (R=1), from 5% growth per day (R=1.4), one month ago. However, given the high level of cases, a reduction of R to well below 1 is needed
- In Europe, the no of new cases is growing again, at some 4% per day – which is tolerable for a while but not for long
  - » Spain and other countries are imposing restrictions again

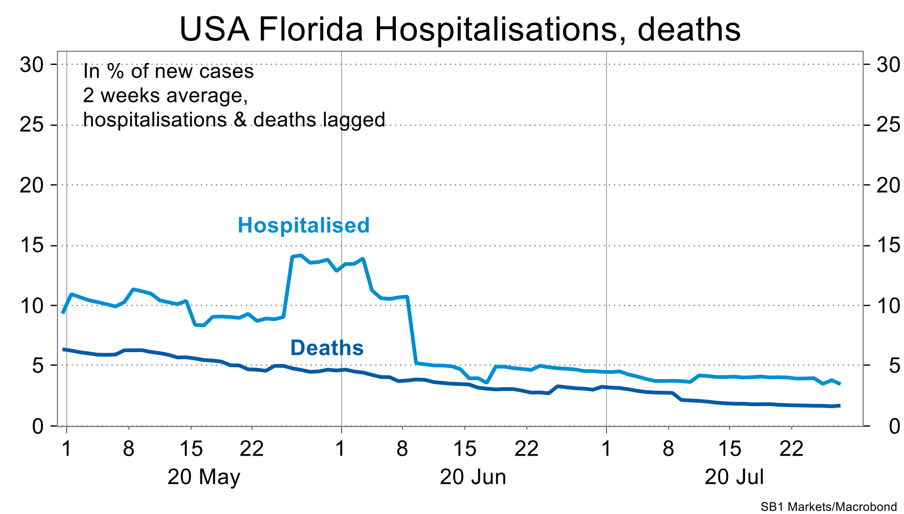
SpareBank 1 MARKETS

USA Cases have flattened, hospitalisations & deaths will very likely follow

The postitiv/total tests rate is declining again, a good sign. As are lower hospit. & death rates





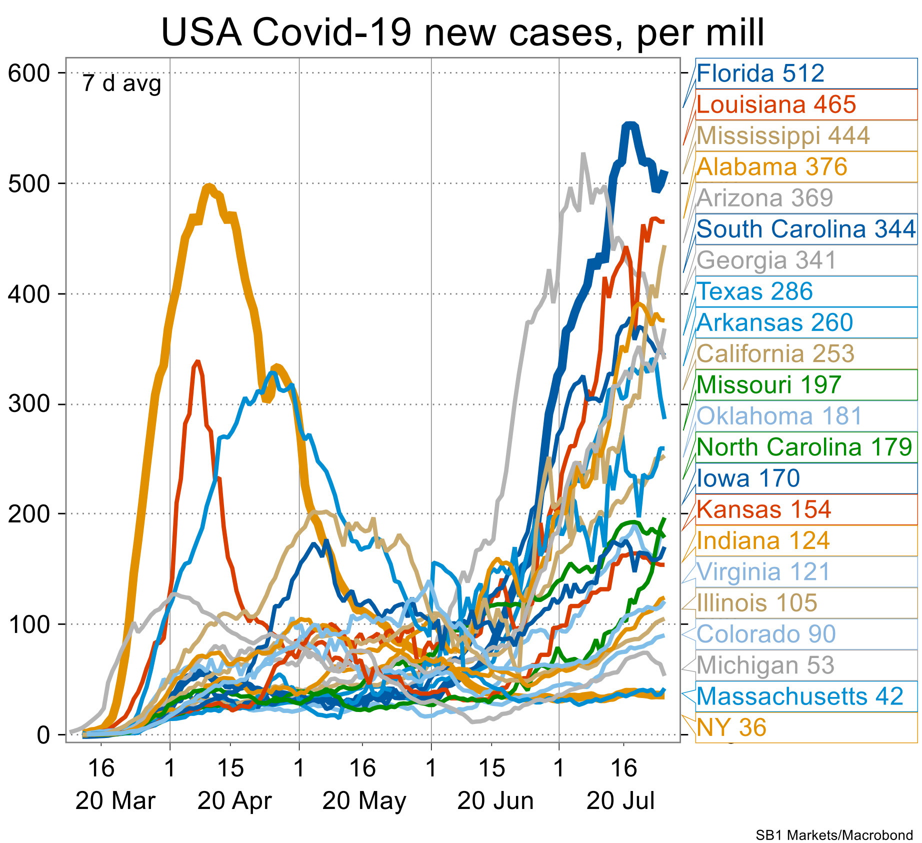


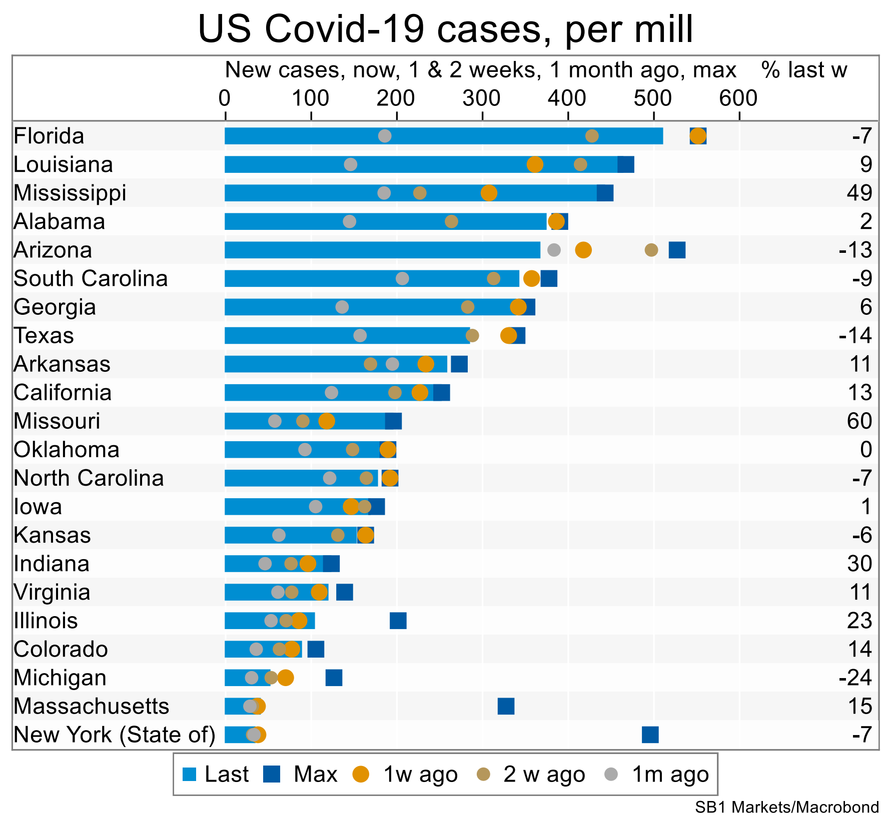
- New cases may not have to come back to very low levels if the need for hospital assistance, and the death rate is sharply reduced
- Still, in some states the trend is still not our friend – something will have to change!

SpareBank 1 MARKETS

Some US states are still accelerating but most have flattened/come down

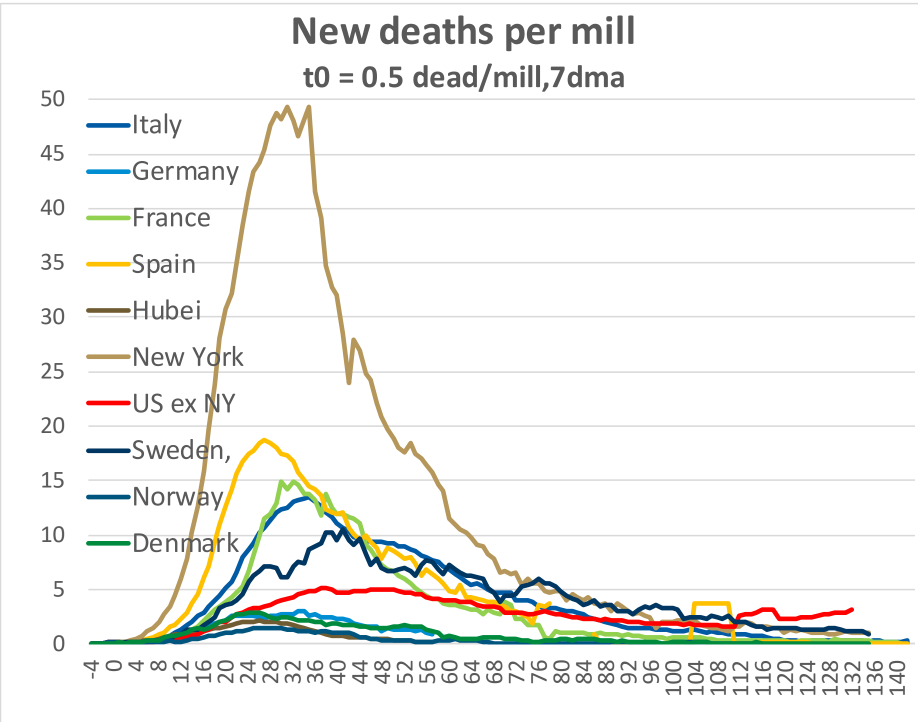
Louisiana, Georgia, California, Missouri are still in the way up. Florida, Texas down from their peaks

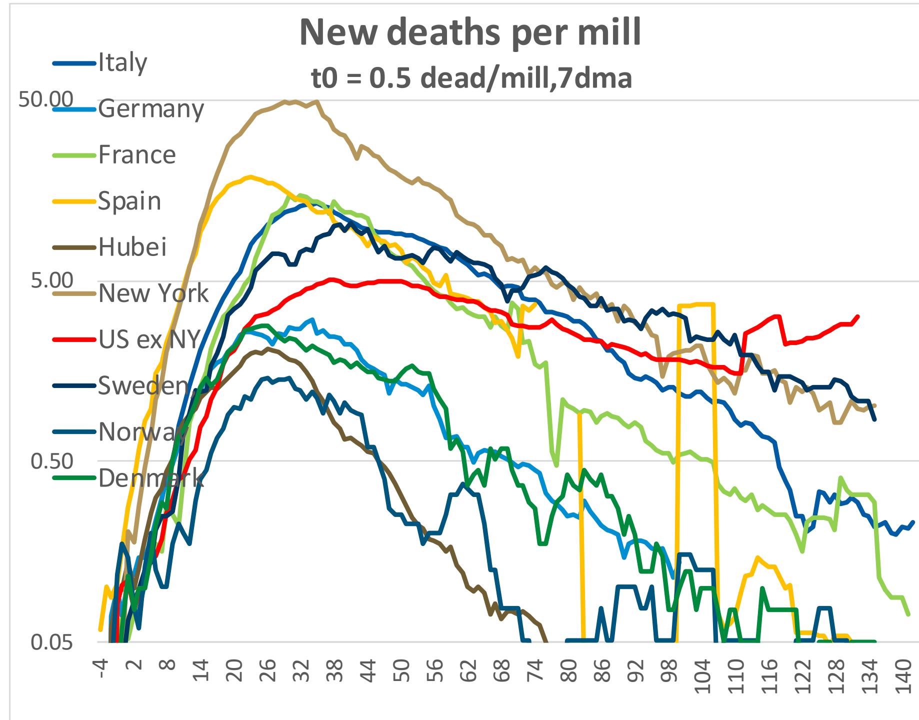




Deaths are on the way up – in the US. But not elsewhere

The no of hospitalisations is on the rise too but not the no of deaths, so far



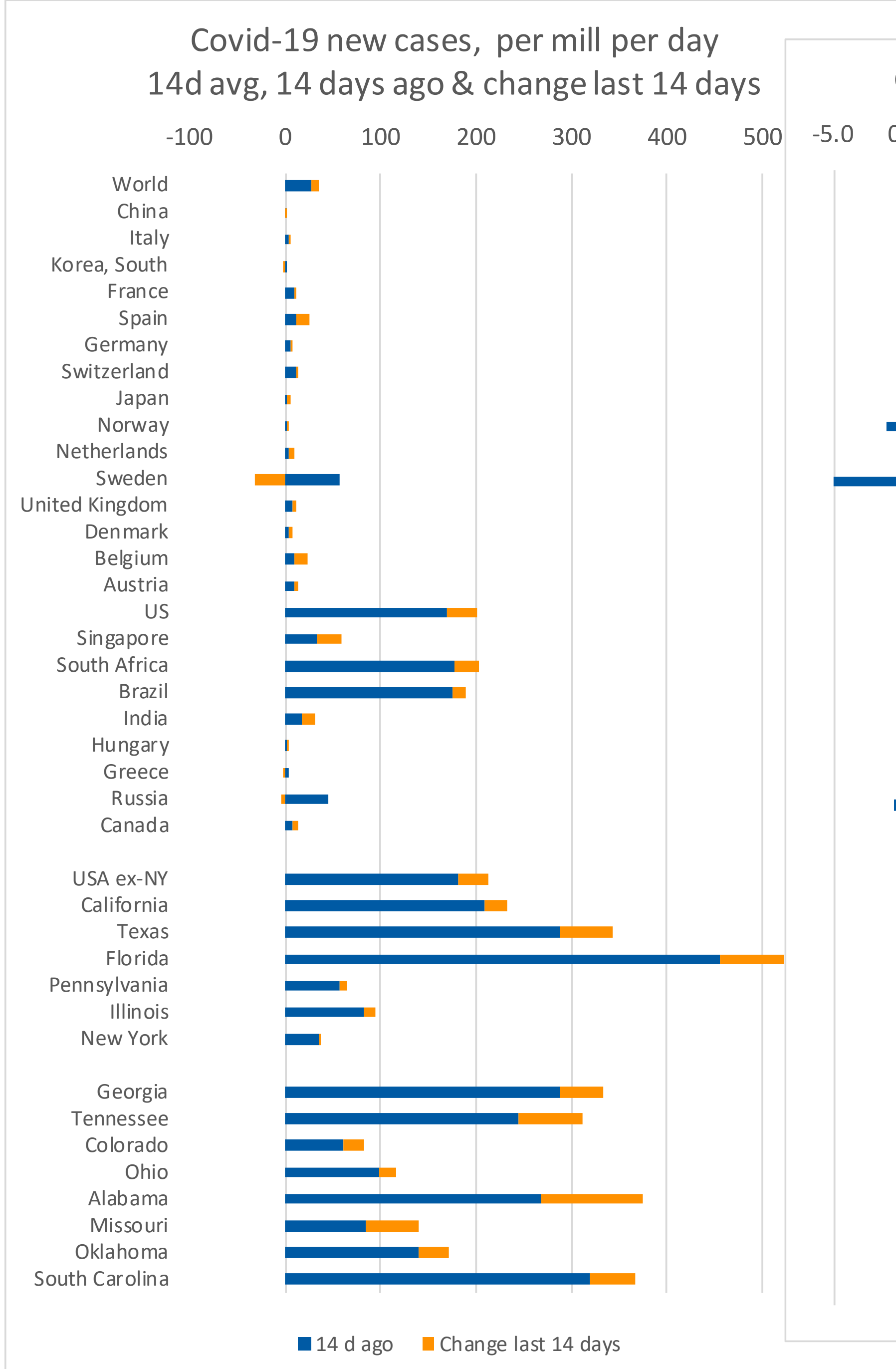


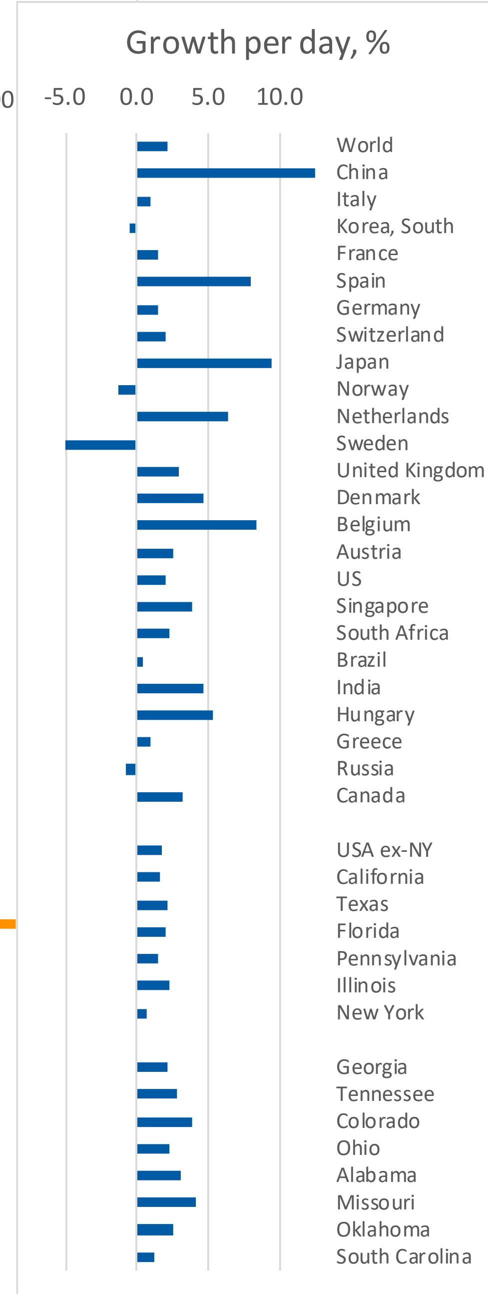
Sources: Johns Hopkins, SB1 Markets

US & the rest: A comparison

Most places, more cases

- Allmost all countries are reporting an increase in no of new, daily cases, which implies R>1 most places
  - » Belgium and Spain have seen the sharpest increase in Europe
- Sweden is an outlier in Europe but the number of cases & deaths are now finally declining sharply
- We do not trust all these data
  - » There are changes in test policies & capacity
  - » Some countries do probably not report properly

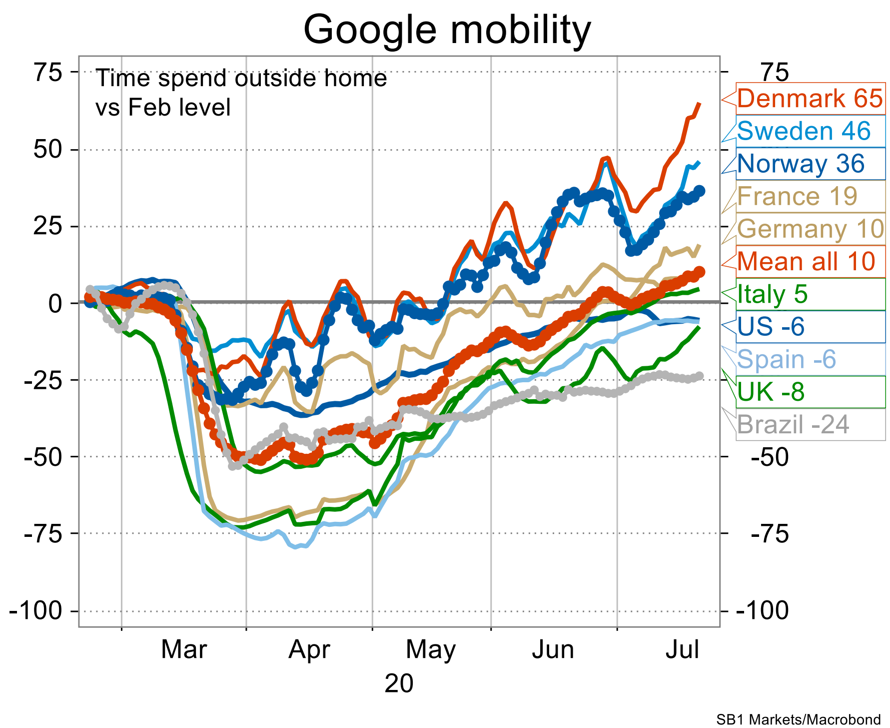


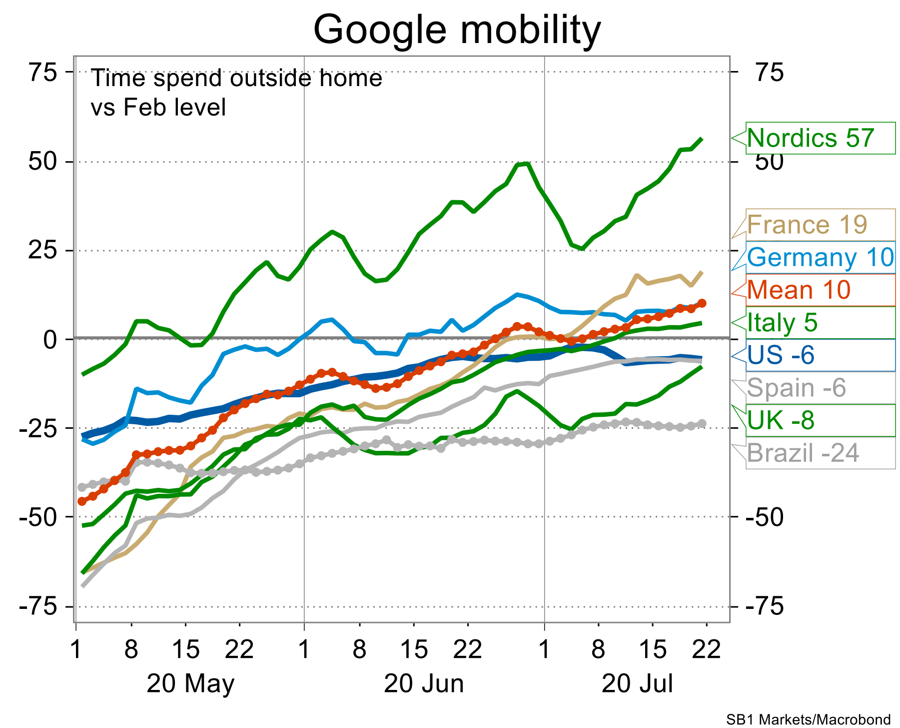


SpareBank 1 MARKETS

Time spent outside home on the way up – except for the US

Data are volatile but the recent flattening/reduction in US may be due to the new corona outbreak

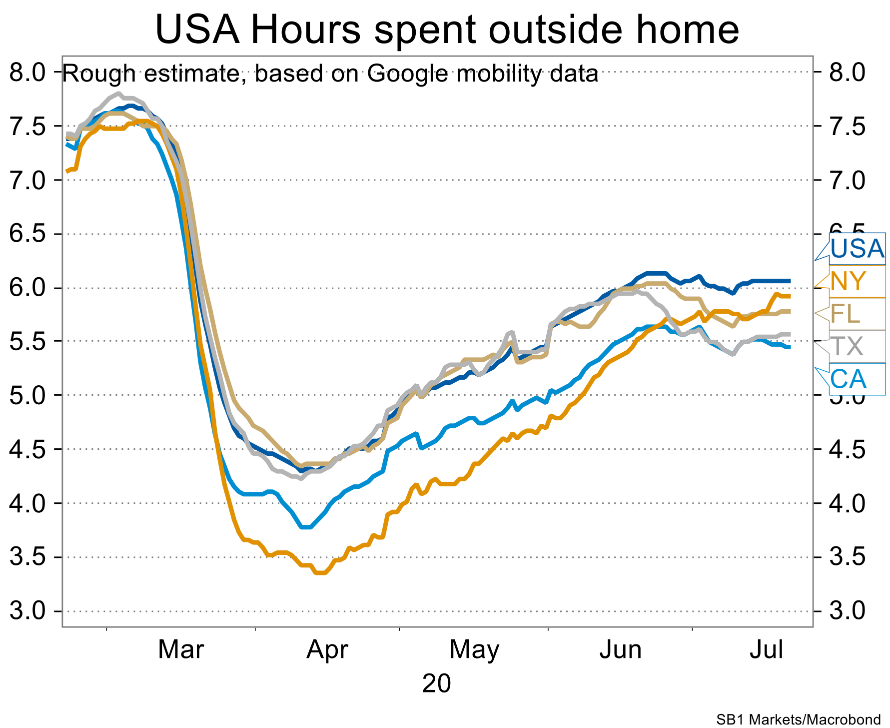


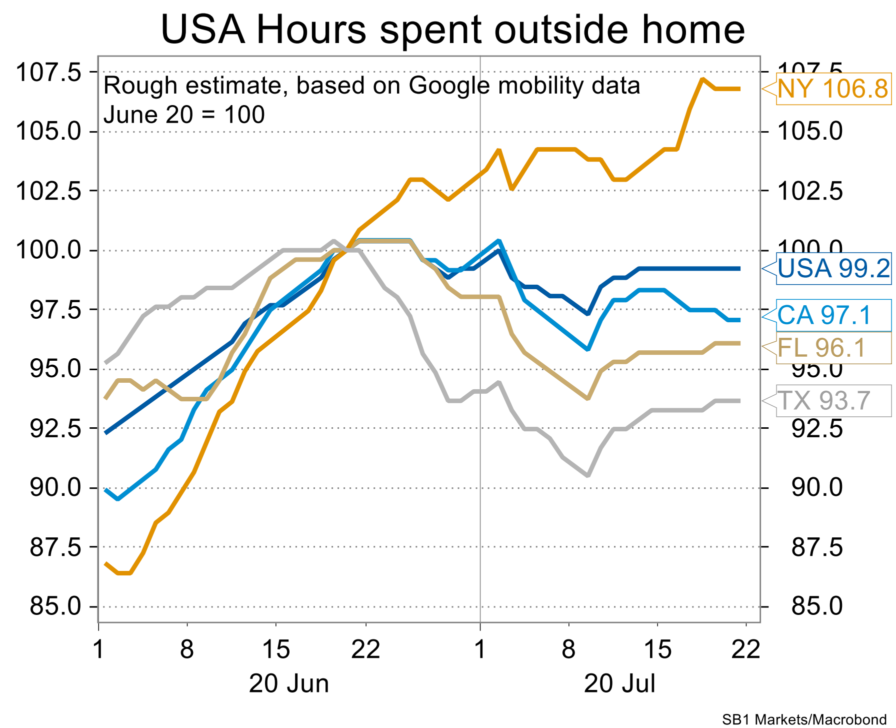


- The Nordics are quite similar, except for the 2 – 3 weeks from mid March where time spent outside home fell less in Sweden than in Denmark and Norway

Since June 20: Hours spent outside home +6% in NY, -4-6% in Florida/Texas

Whatever the authorities decide, the corona situation will influence the economy significantly

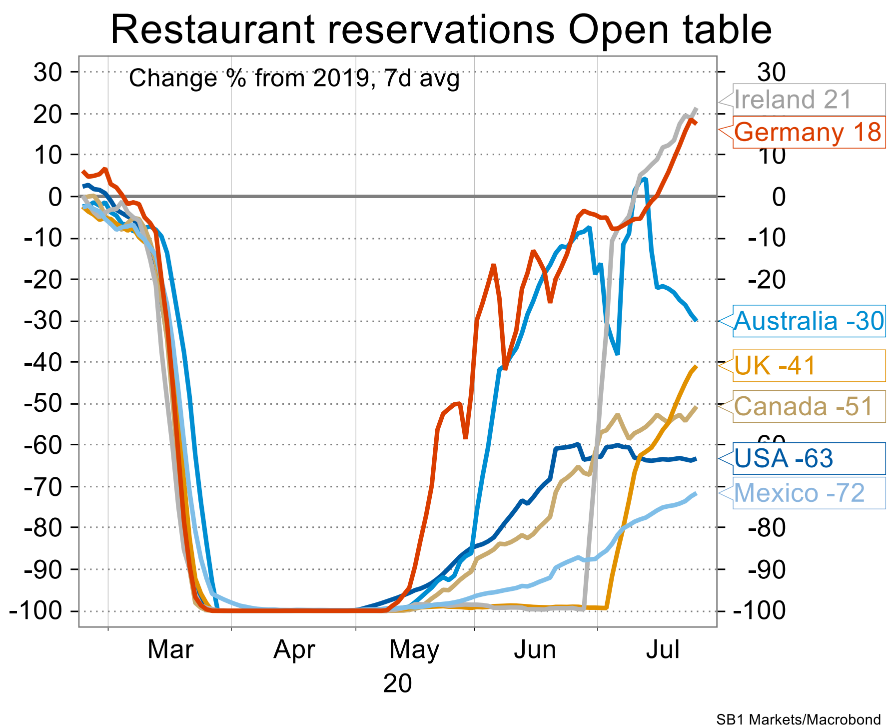


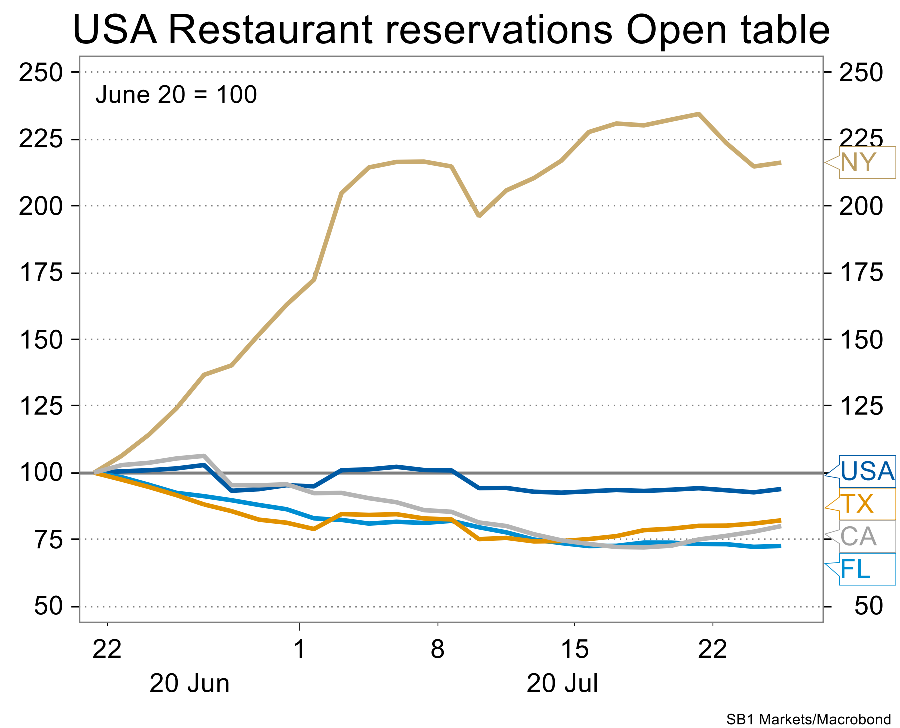


- The differences where people stay is very likely due to the serious corona outbreaks – and people started to adjust behaviour before authorities reimposed restrictions

Restaurants are not open for normal business

… if the corona virus is not brought under control – like in the US now

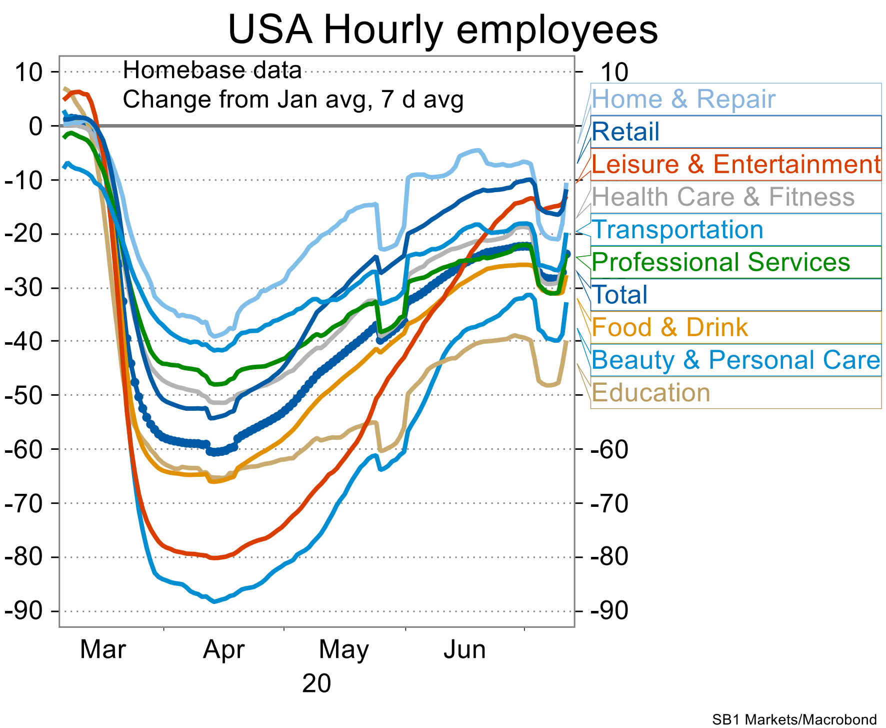


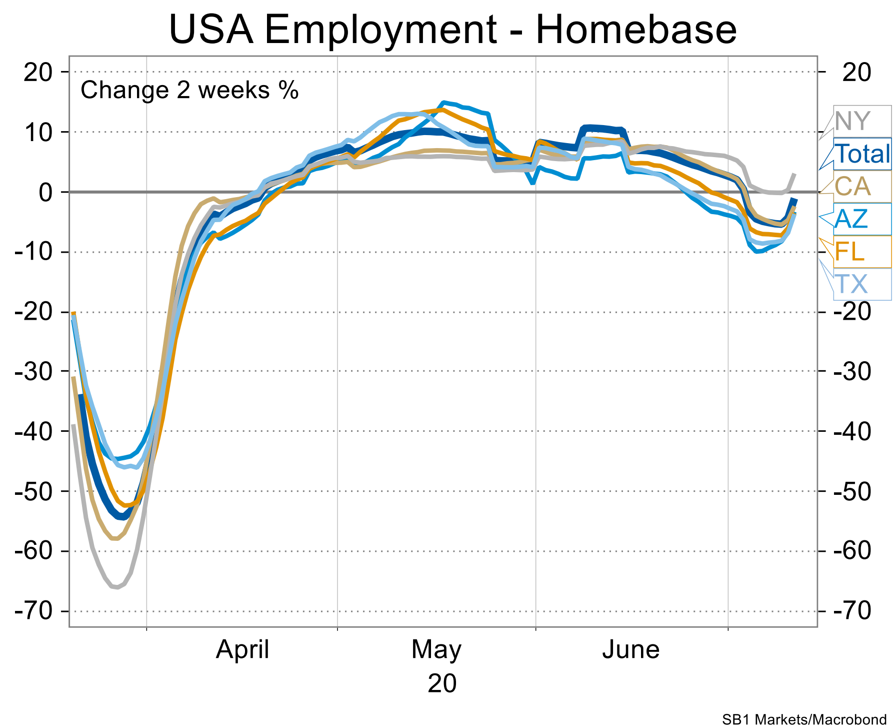


- Again, there are huge differences between US states. NY has been moving sharply up since June 20, more than 100% up. At the other hand, California, Florida and Texas have been moving down, by 25%

US: Some signs of a slower recovery in the US, probably due to corona trouble

Homebase employment data are volatile, and rose last week. Still, over the past weeks, a slowdown

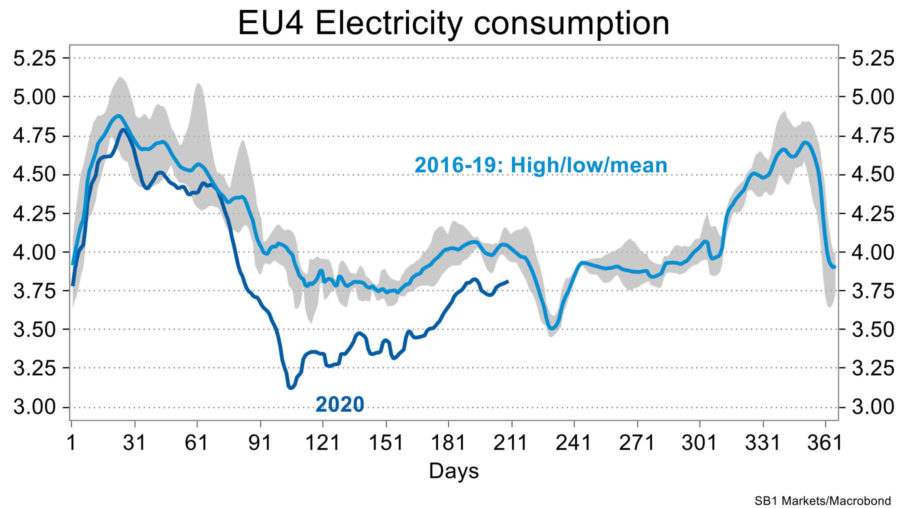


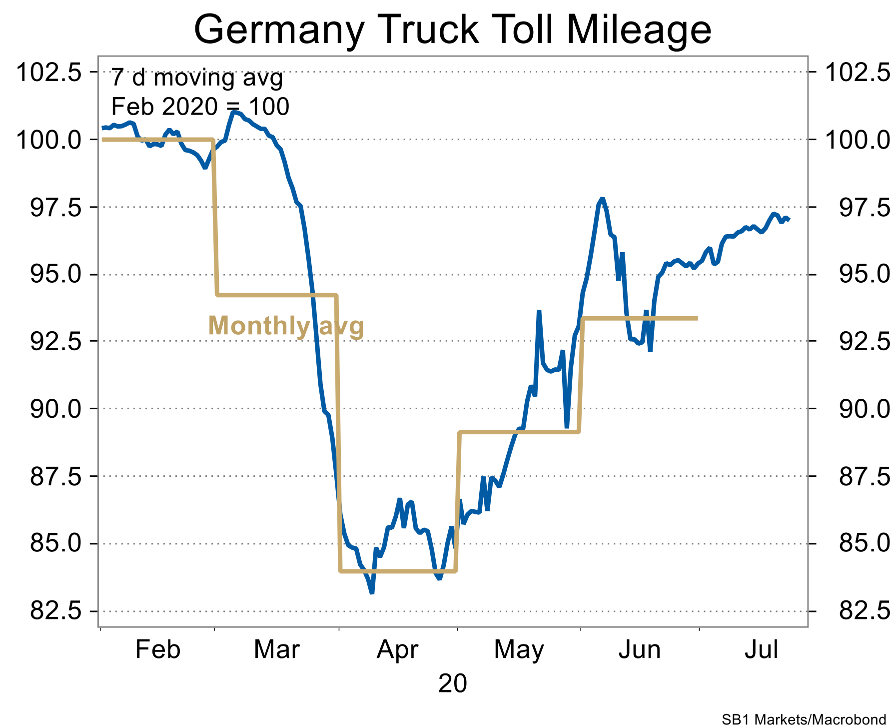


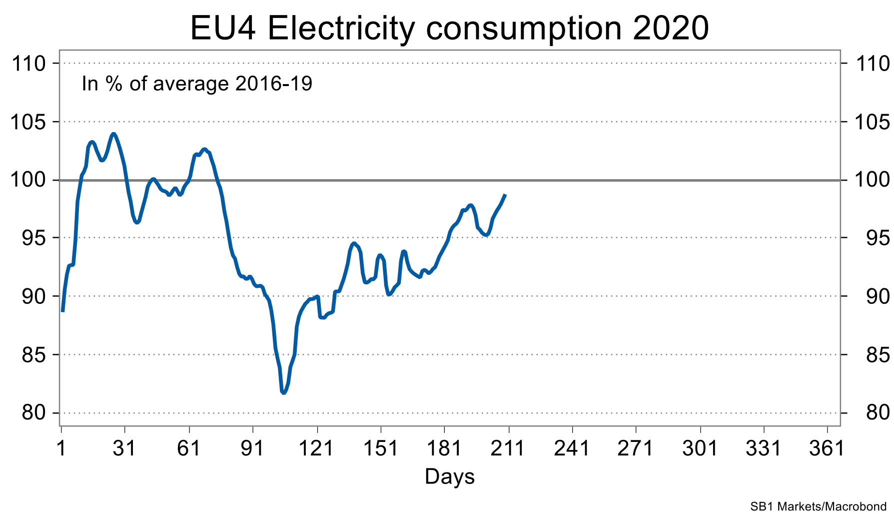
SpareBank 1 MARKETS

Activity is picking up steam in Europe, electricity up to -2%, from -10/-15%

Transport activity in Germany is on the way up, as is no doubt industrial production, in July too



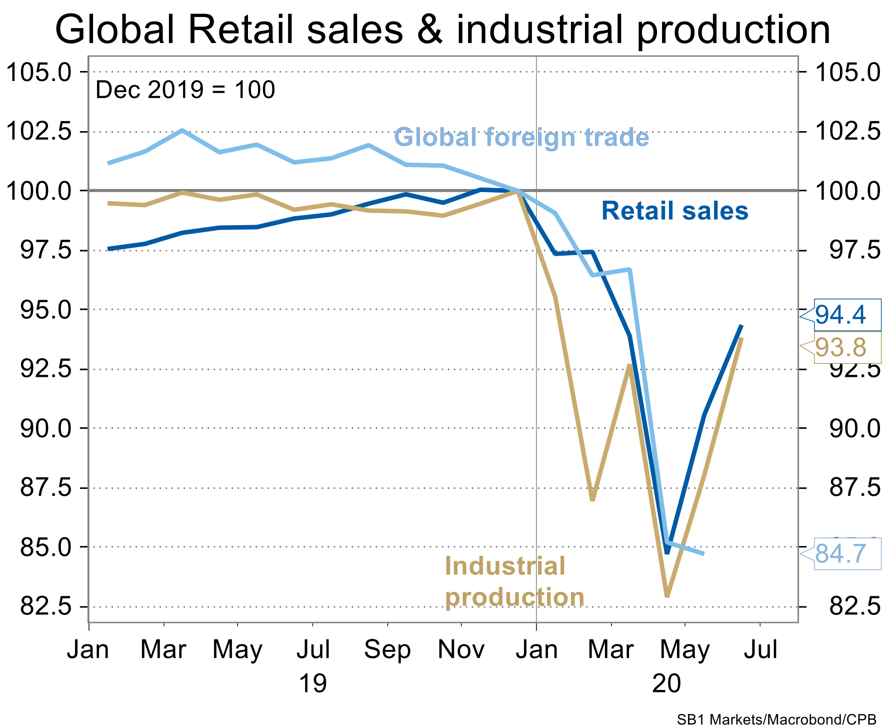


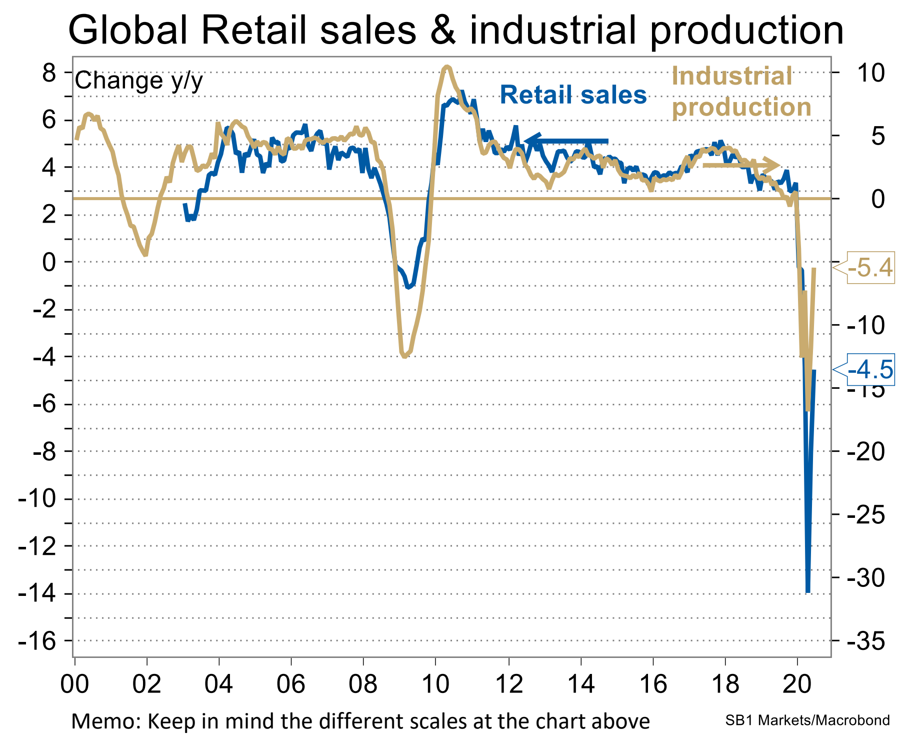


SpareBank 1 MARKETS

Industrial prod, retail sales further up in June, still 6% below pre corona trend

The global economy bottomed in April, following a 15 - 17% drop. Global trade fell further in May



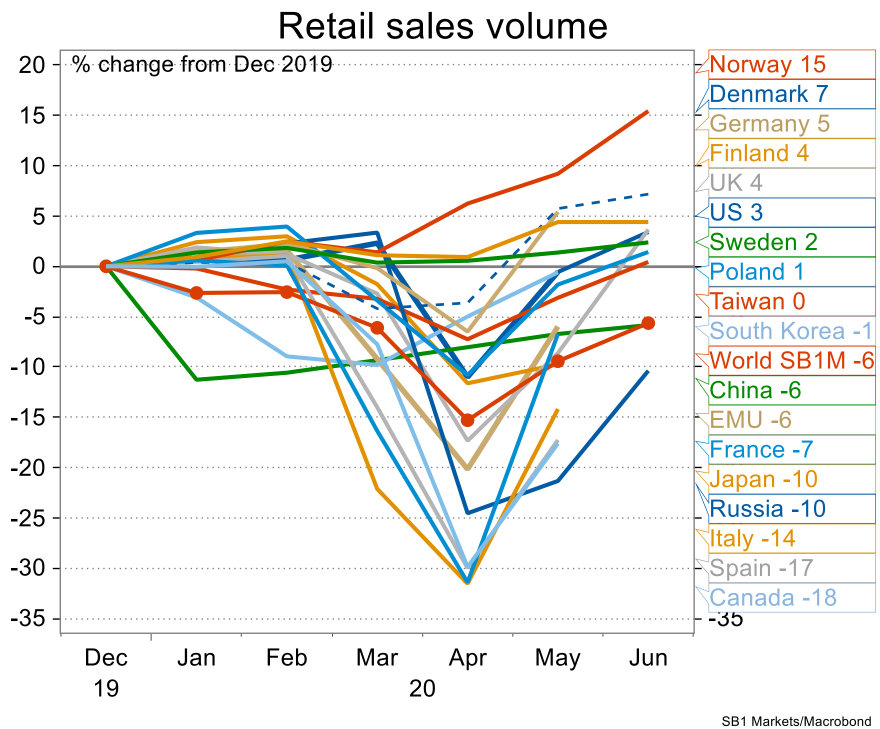


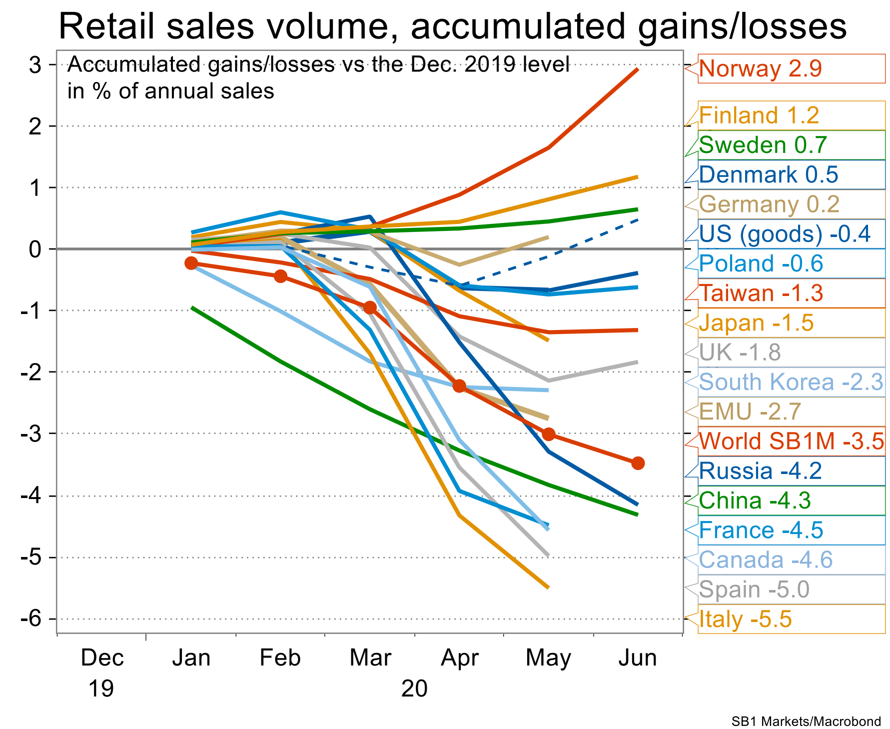
Memo: Keep in mind the different scales at the chart above

- We assume global retail sales probably rose some 4% in June following a 6% lift in May. If so, sales were still 6% below the pre corona level in June. In May, sales rose in all main countries. The June forecast is still quite uncertain
- Industrial production probably rose some 7% m/m in June, vs 6% in May. If so, production still was 6% below the pre corona level. In May, production rose most places but not in South Korea, Japan, Mexico – and not in Norway
- Global foreign trade fell marginally in May, and was 15% below the pre corona level

Retail sales up everywhere in May and probably in June

… and sales are above the pre corona level in many countries, even accumulated

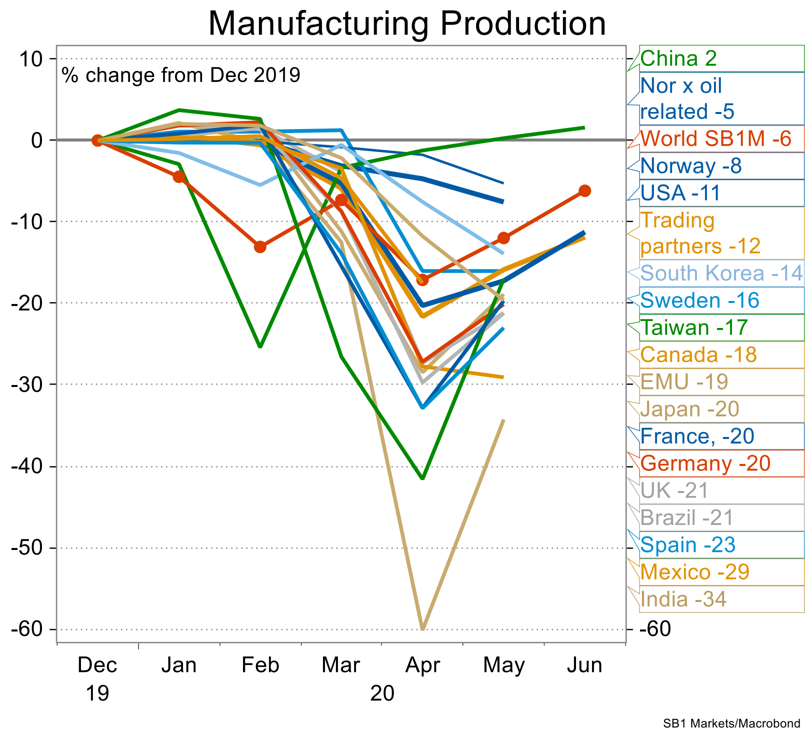


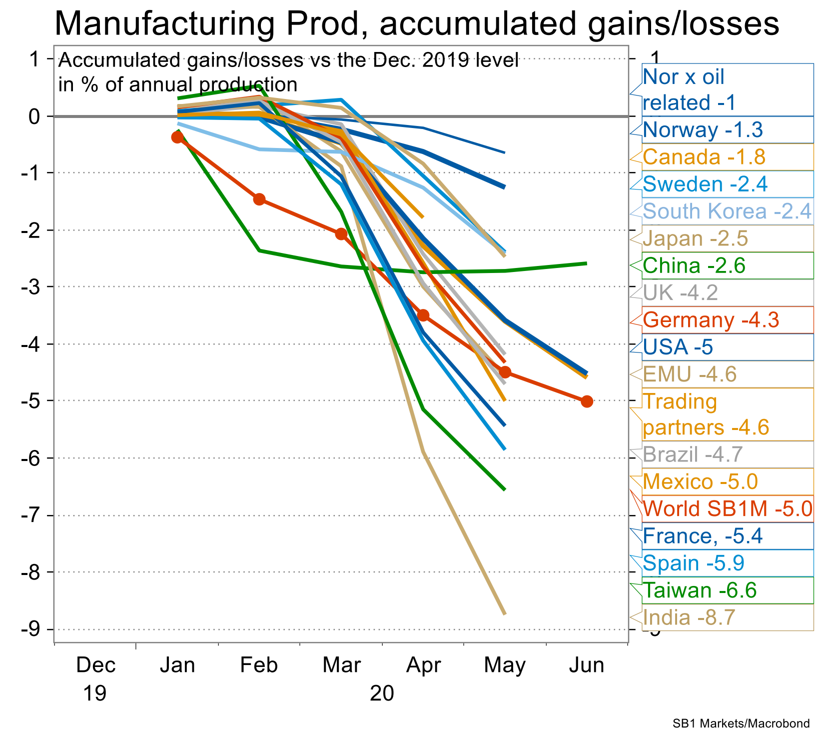


- We assume global retail sales rose more than 4% in June following a 6% lift in May. If so, sales were still 6% below the pre corona level in June. In May, sales rose in all main countries. In June sales have not fallen anywhere, so far. UK (+13%) and Norway (+6%) have surprised on the upside recent days
  - Norway is in the lead, far above any others, measured vs. the Dec 19 level
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 3% above the pre corona level in June but total sales during the first six months of 2020 were still 0.4% below the pre corona level, measured in % of annual sales. *This illustrates the loss of sales during the corona crisis, so far.*
  - Level wise through H1, Norway is in the lead, by a wide margin, joined by Denmark, Finland, and Sweden
- <u>Consumption of services are not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production on the way back, still some 5% of 2020 'is lost'

Production probably rose some 6 - 7% in June, and most likely further in July

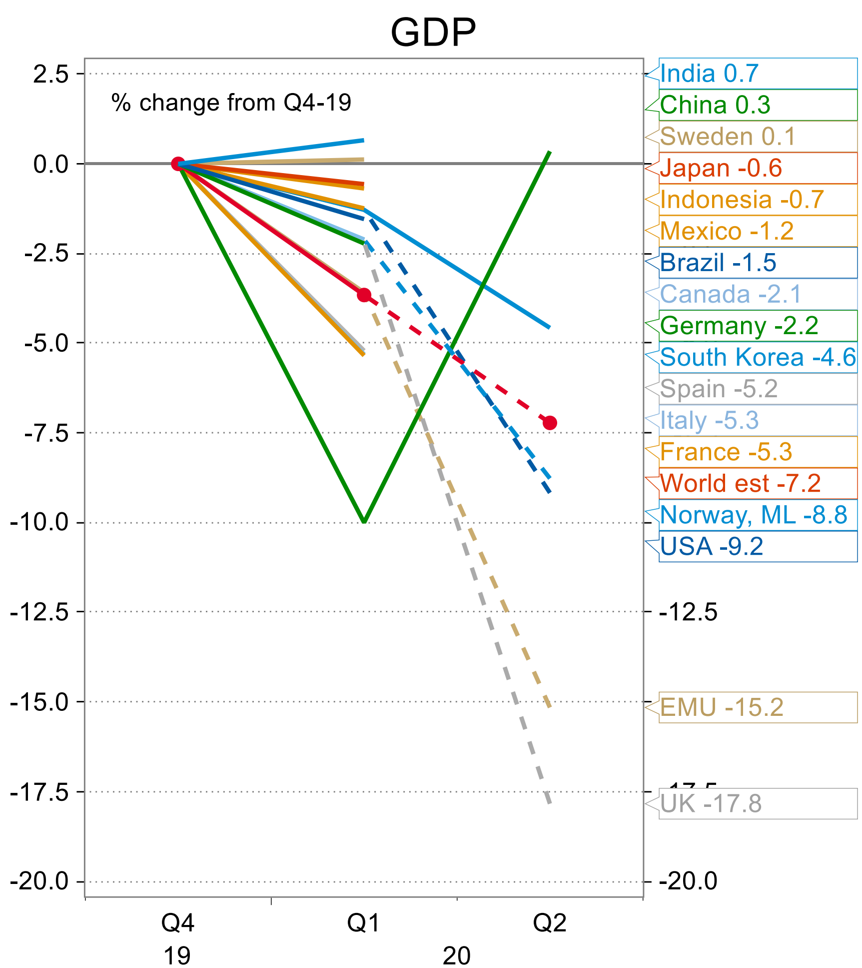




- We estimate an almost 7% m/m increase in manufacturing production in June. Production was still down 6% vs. the Dec level
  - » Compared to the Dec 19 level, China is in the lead (above the Dec level) followed by Norway and the US
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in say US was 11% below the pre corona level in June but total production during the first six months of 2020 was 'just' 5% below the pre corona level, measured in % of annual production. *This illustrates the loss of production during the corona crisis, so far.*
  - » Norway has reported the smallest loss, followed by Sweden and South Korea (Canada has just reported April data so far, comparison irrelevant))
- Service sector production is not included in these retail sales data – and service consumption has fallen sharply, everywhere

Global GDP fell by 3.7% in Q1. We assume a similar contraction in Q2

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

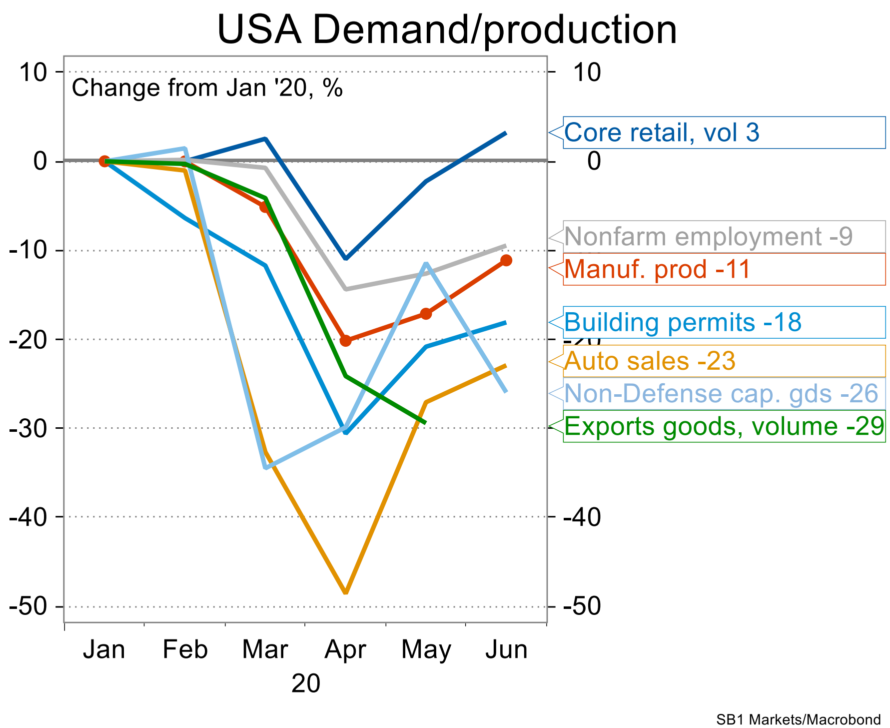


SB1 Markets/Macrobond

- Global GDP declined by 3.7% in Q1, of which almost 2 pp due to China alone
- China has reported a 11.5% growth surge in Q2, bringing the GDP level up to slightly above the Q4 level
- In most other countries, GDP fell sharply in Q2 – and global GDP probably fell by approx the same amount as in Q1, or a tad faster
- If so, global GDP has fallen by 7 – 7.5% from the Q4 2019 level, and it was 8% below the pre corona trend path
  - » US will be down 9%, EMU 15% and UK -18% below Q4-19 levels
- As production and demand recovered through Q2, we estimate that June was some 4 – 5% below the Q4-19 level
- *Our July nowcast is for a further expansion, and a 3 – 4% shortfall vs. the pre corona level and 5 – 6% negative output gap*

On the way back – but not that synchronised

Core retail sales up vs. Jan/Feb but auto sales, housing, exports still down 20 – 30%. Manuf. -11%



Some different shapes and forms of 'V's

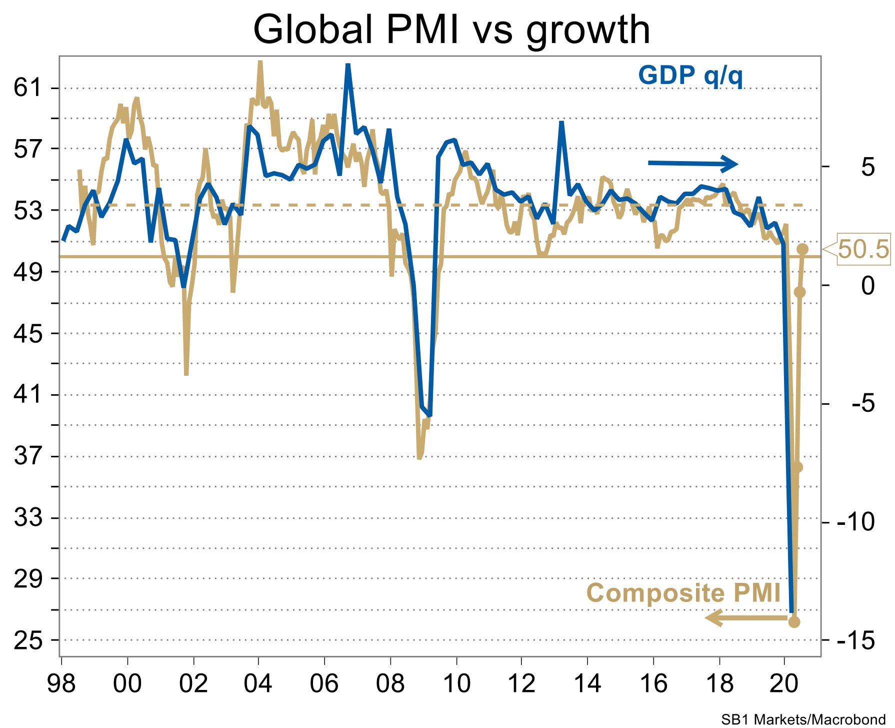
- Barring export volumes, all main indicators rose in May, and most June data published so far are up
- Core retail sales have reported the sharpest recovery, up 3% from Jan/Feb in June, following a 5% lift in June, better than expected
  - » Still total consumption was 11% below the pre corona level in May, and we guess some 5 - 7% below in June – and probably not much less in July as the recovery slowed amid the sharp increase in covid-19 cases. Auto sales and service consumption is still lagging
- Non-defence capital orders (including airlines) are down 26% following a new decline in aircraft orders in June
- Export volumes fell further in May, and are down 29% (!). Imports have fallen far less. June data out this week

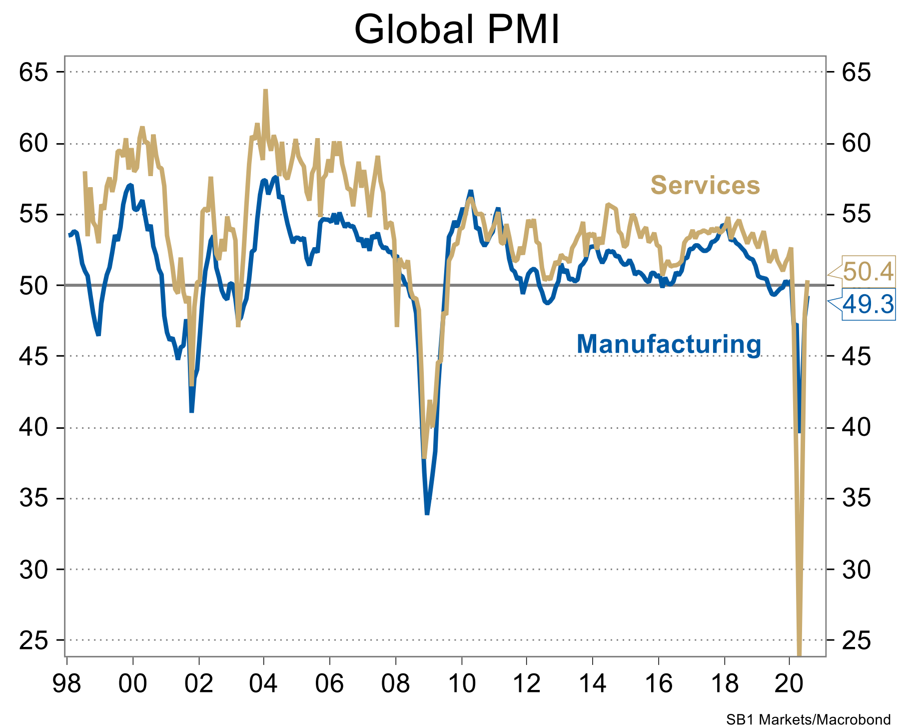
Demand vs production

- Manufacturing production and employment rose in May and June but remains 11% down from Jan, even after a 7.2% m/m lift in June (exp. 5.7%)
- We put more emphasis on the demand side than production
  - » If demand recovers, production will follow – after inventories are emptied

PMIs further up in July, probably to above 50, finally

The global economy started the recovery in May but the PMIS recognised it two months too late





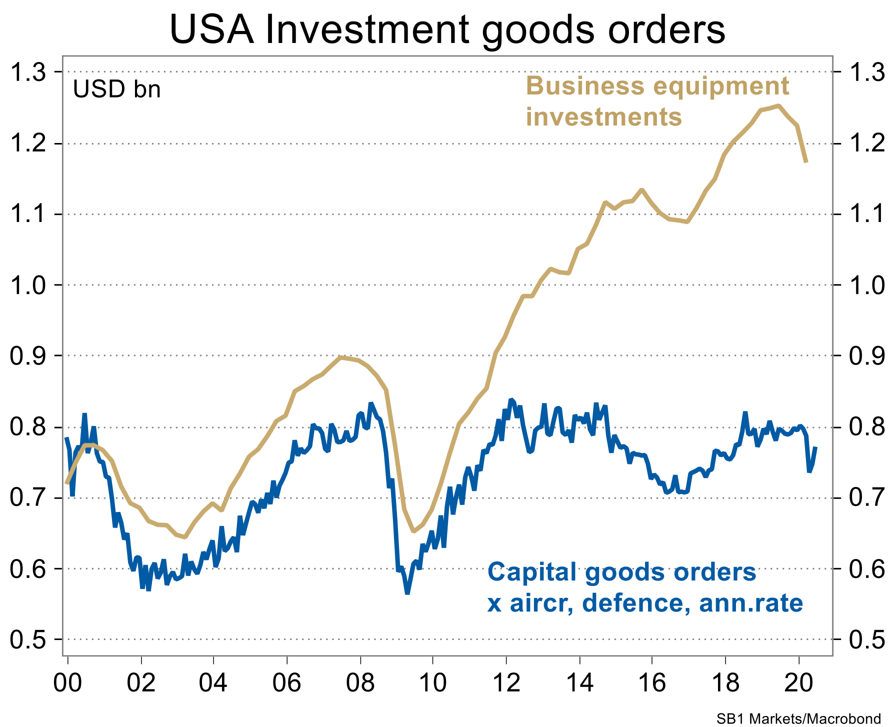
- … which is pretty normal.
- Based on PMIs from the EMU, US, Japan and UK we estimate a 2.5 - 3 p lift in the global composite PMI to just above the 50 line, after being below the past 3 months. The manufacturing PMI probably remained below the 50 line
- EMU surprised at the upside (up to 54.8), while US PMIs rose but less than expected, especially in the service sector, where the PMI remained below 50. Japan is still in the low 40'ies. UK PMI rose to

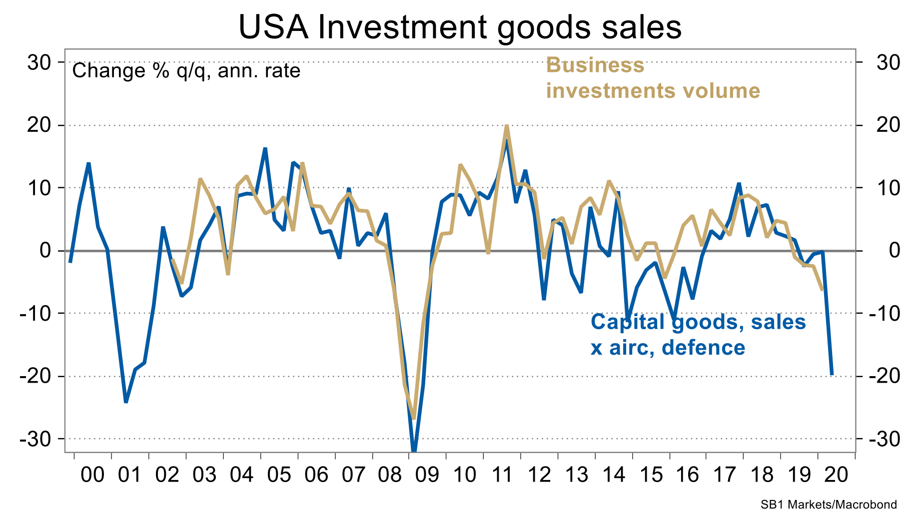
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain

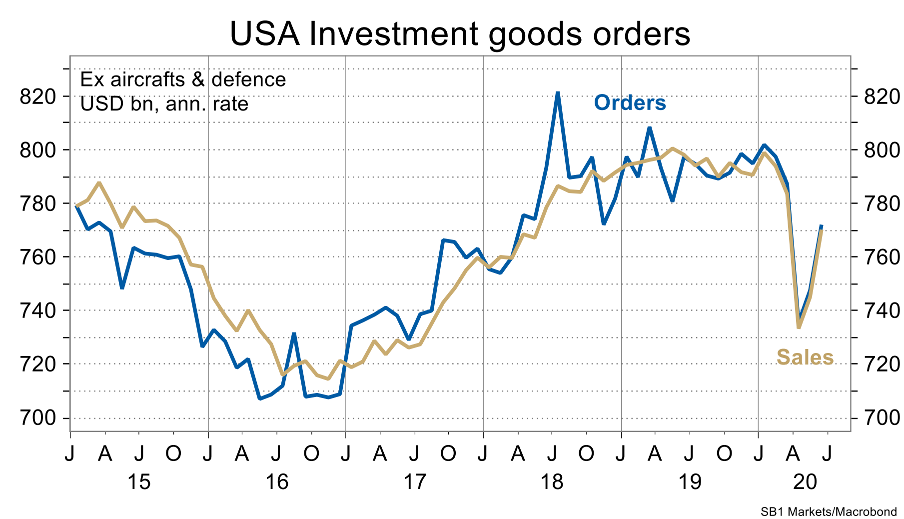
SpareBank 1 MARKETS

Capital orders +3% in June, level just 4% below pre corona

The decline in orders has not been dramatic at all – even if Q2 was among the weakest quarters



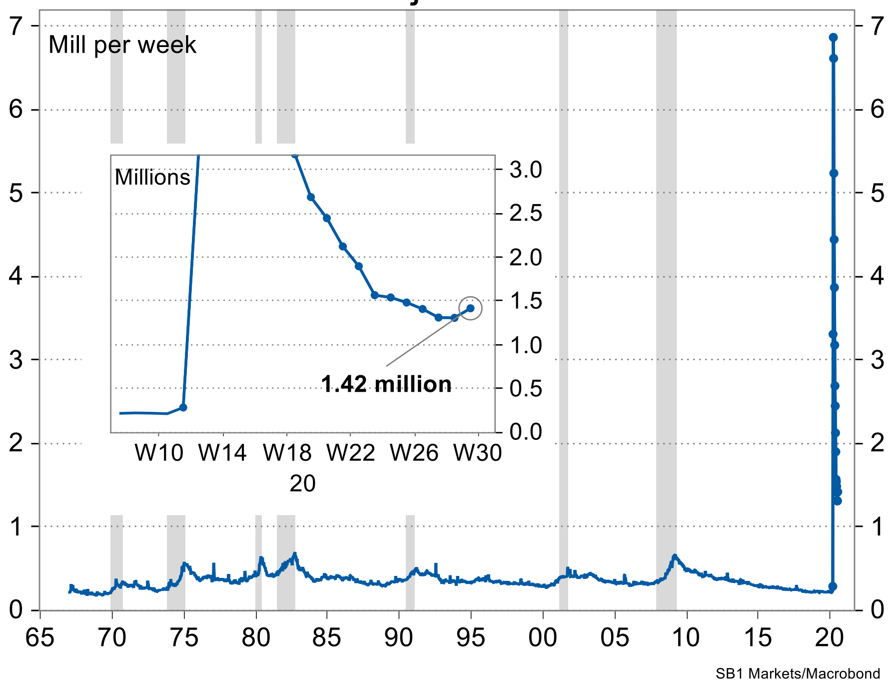


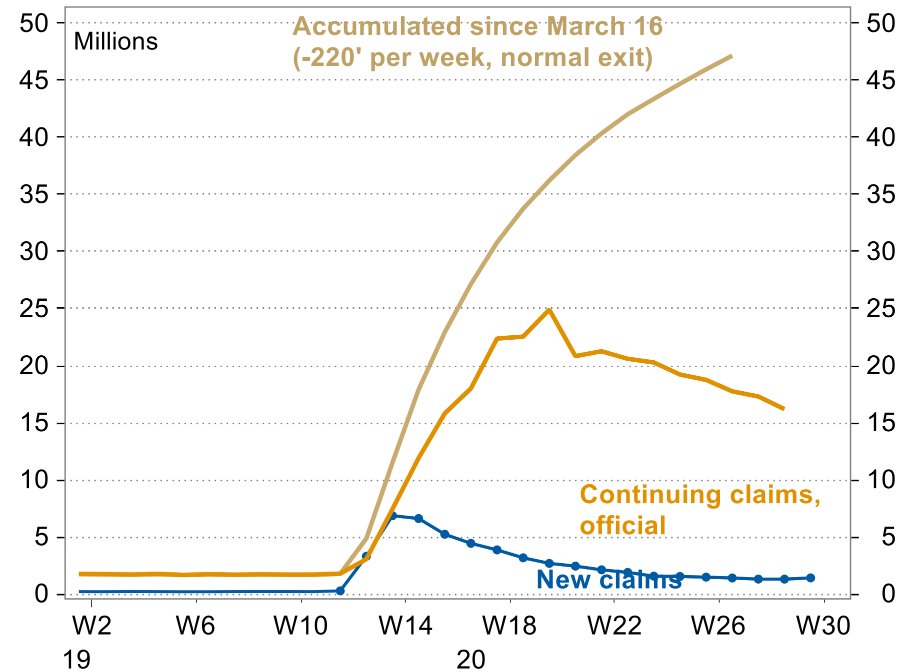


- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
- However: Usually, the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year, or even more
- Business surveys signal cuts in investments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

More new jobless claims last week; the economy is slowing?

1.4 mill new jobbless claims, up 0.1 mill vs. previous week – 0.8% of the labour force…

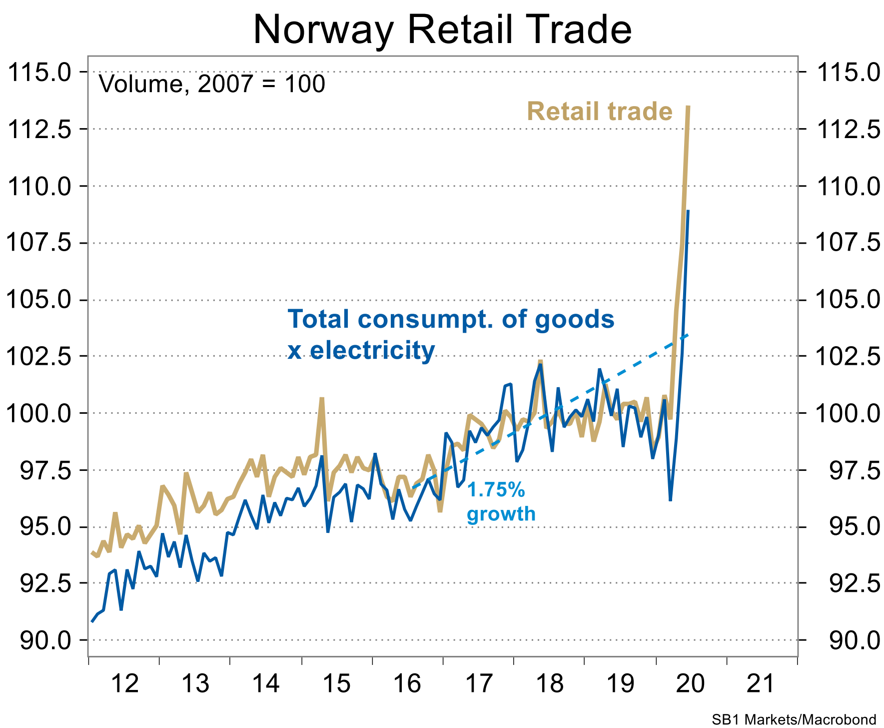


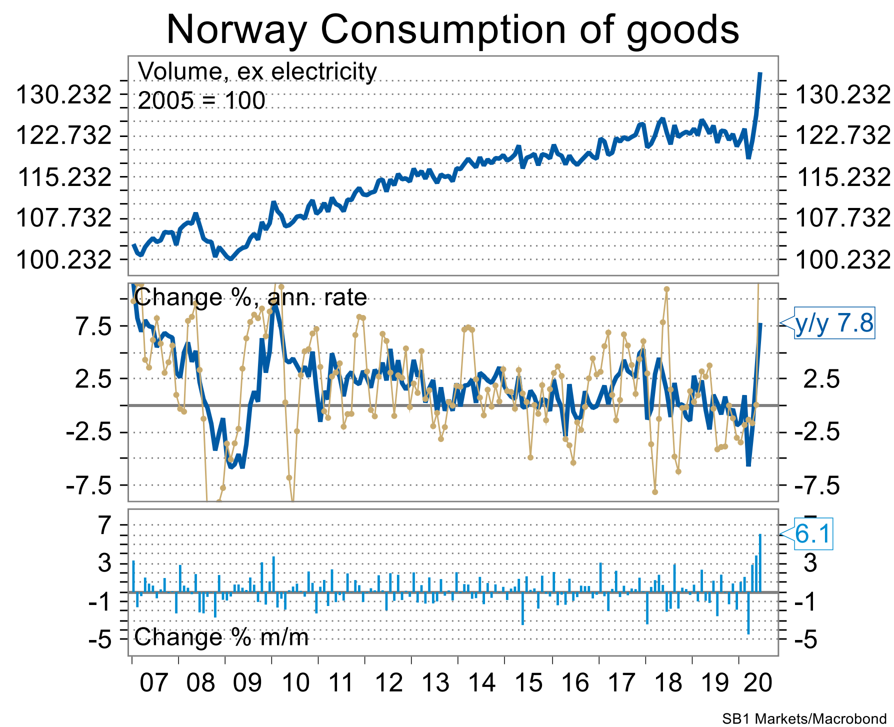


- The inflow has been abating, but slower than expected, and last week the number rose, for the first time in 3 months, most likely due to covid-19 restrictions & changes in household behaviour
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 16 mill. from 25 mill. but – and still almost 10% of the labour force remain on the dole
- As Congress has not prolonged the temporary USD 600 per week extra Federal unemployment support (on top the ordinary state support

Shop until you… Retail sales up 5.7% m/m in June, up 12.6% from February

The biggest lift ever. Total consumption of goods up 5.8% - as money are spent on goods domestically



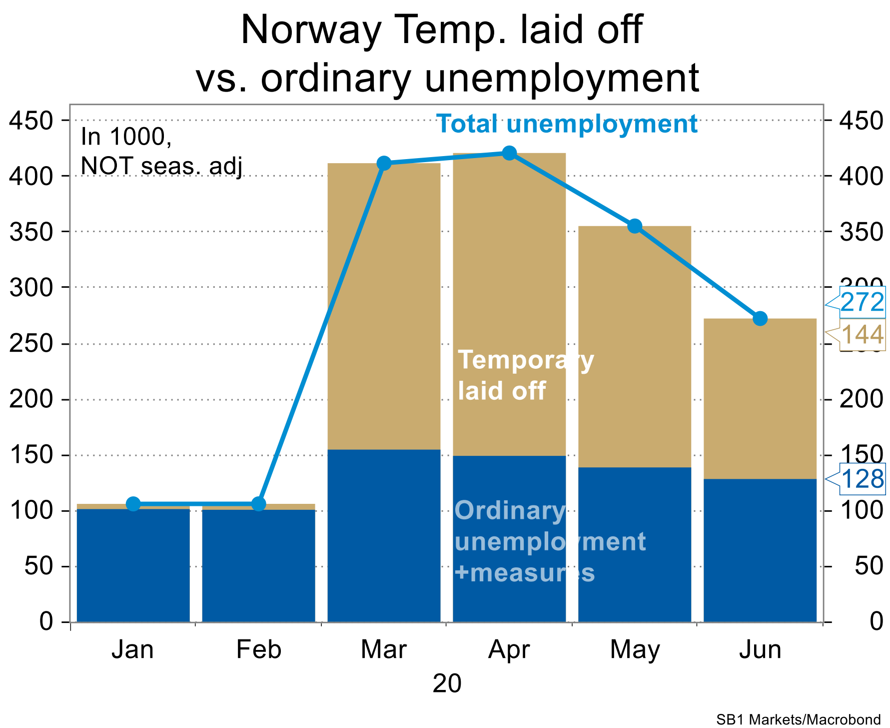


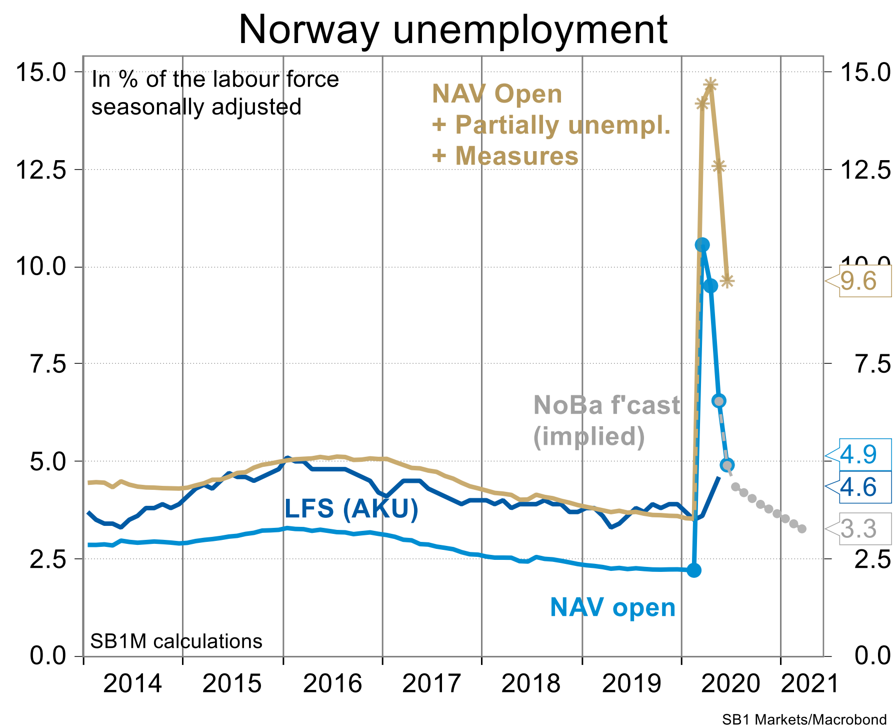
- We guessed sales rose 1.5 – 2% increase following the 2.8% hike in May – but we were far too modest
- Food sales are up 15% vs pre corona. Sport equipment is up 42% - and further up in June. Net sales are strong, but may have peaked. Clothing sales came back to a normal level in June, following 3 really bad months
- Total consumption of goods (x electricity) grew 6.1% in June. 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 less capacity on restaurants and lack of 'holiday' spending opportunities domestically and abroad explain the hike in retail sales. Service consumption started a recovery in May but remained far below the pre corona level – as was total private consumption. We think that conclusion stands in June too

SpareBank 1 MARKETS

LFS unemployment up 0.5 pp to 4.6% in May, as some furloughed are counted

LFS unemployment is up 1.1 pp past 3 months, and is at the highest since 2016; employment -1.9%

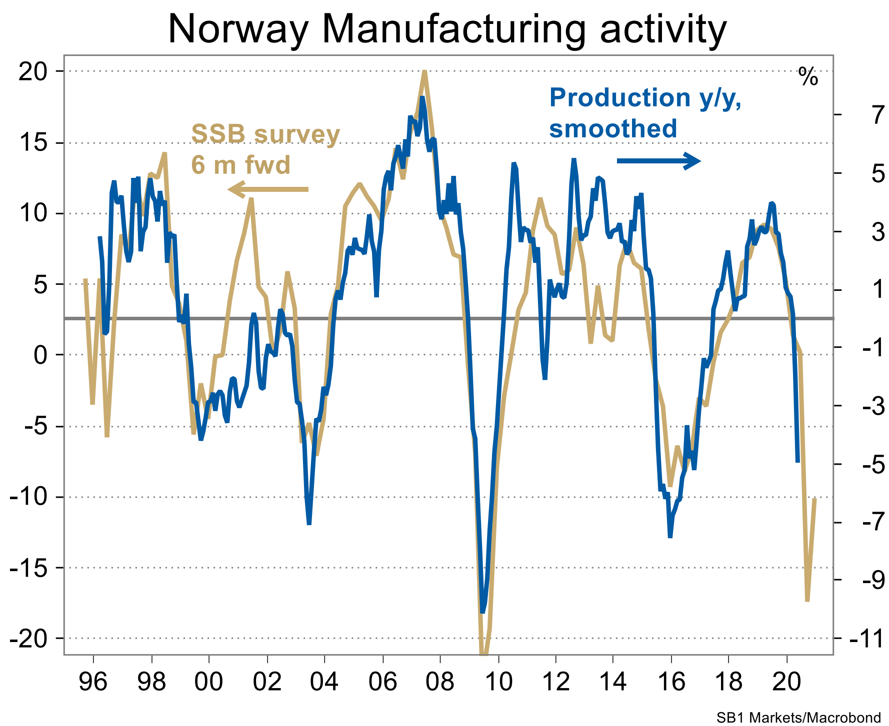


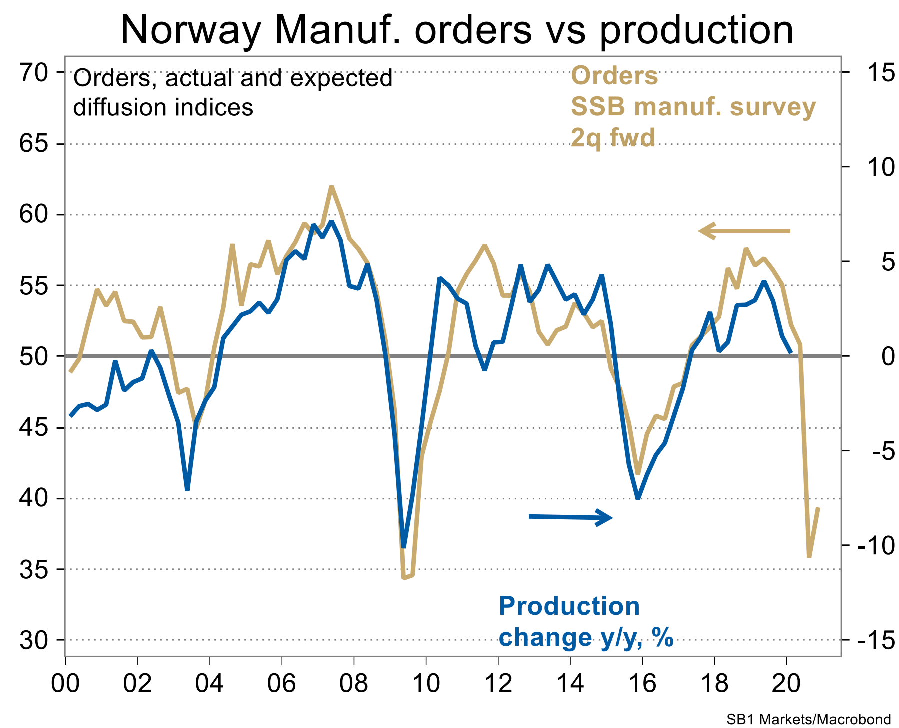


- Temporary furloughed workers are counted as employed the first 3 months of the unemployment period, thereafter as unemployed. Since most were laid off in the second half of March, few of them have so been counted as unemployed in the previous Labour Force Surveys. In May (the April – June avg), some of them have probably entered the ranks of unemployed, and more will probably enter in the June report
- Employment has fallen by 1.9% past 3 months, the largest short term decline since the Norwegian housing and banking crisis in 1990. However, the decline in employment (and even more in the employment rate) is not that large vs. previous downturns
  - » More than 3 pp than normal of the employed are temporary absent from work, (and 5 pp more than normal without any stated reason, like holiday, sickness, no doubt due to temporary lay offs).
  - » Hours worked are down 5 – 6% over just 3 moths, in line with the more than 1 year decline during the financial crisis, reflecting the sharp decline in GDP since early March. Most of the income shortfall for the employees is covered by the temporary enhanced unemployment benefit

SSB's manufacturing survey up in Q2, still signalling a harsh downturn

Not surprisingly, the manufacturers think they are heading for a harsh downturn

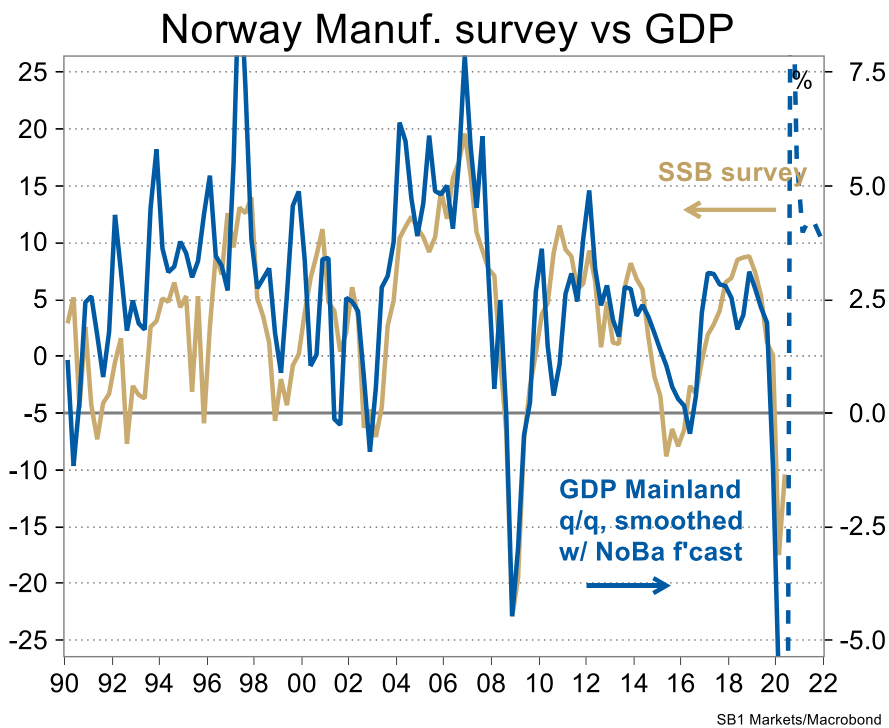


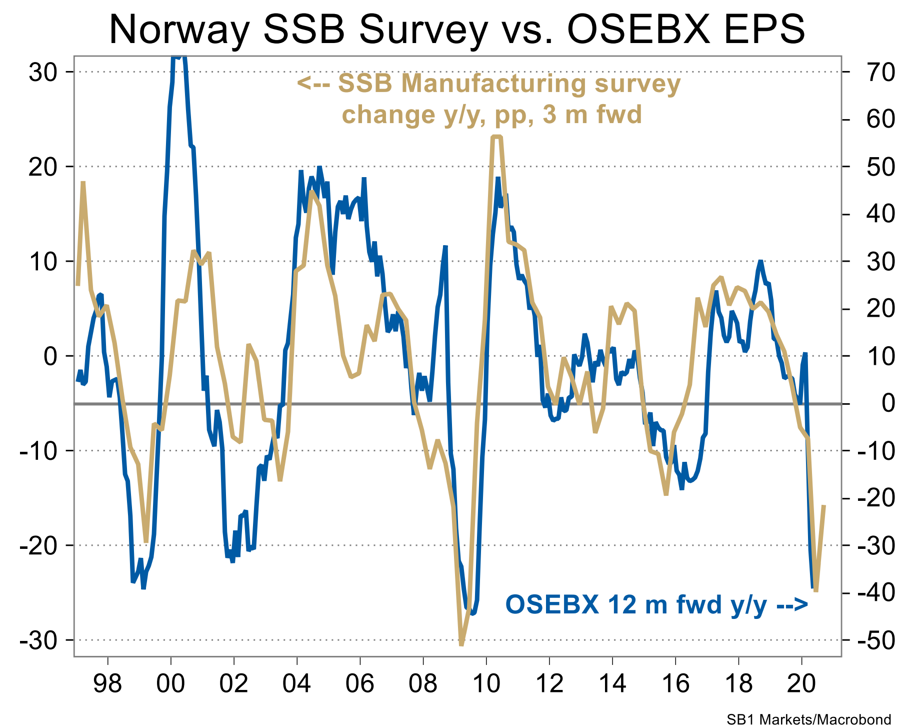


- The composite index in SSB's industrial survey (manuf. index) rose to -10 in Q2, from -17.4 in Q2 (and +0.2 in Q4) The index signals a 5 - 7 % decline in manufacturing production, falling Mainland GDP and OSEBX EPS
- Oil related industries are still reporting a sharp contraction - but several sectors are expecting production to increase, from a low level in Q2, we assume

SSB's manufacturing survey signals GDP & earnings contraction. Surprised?

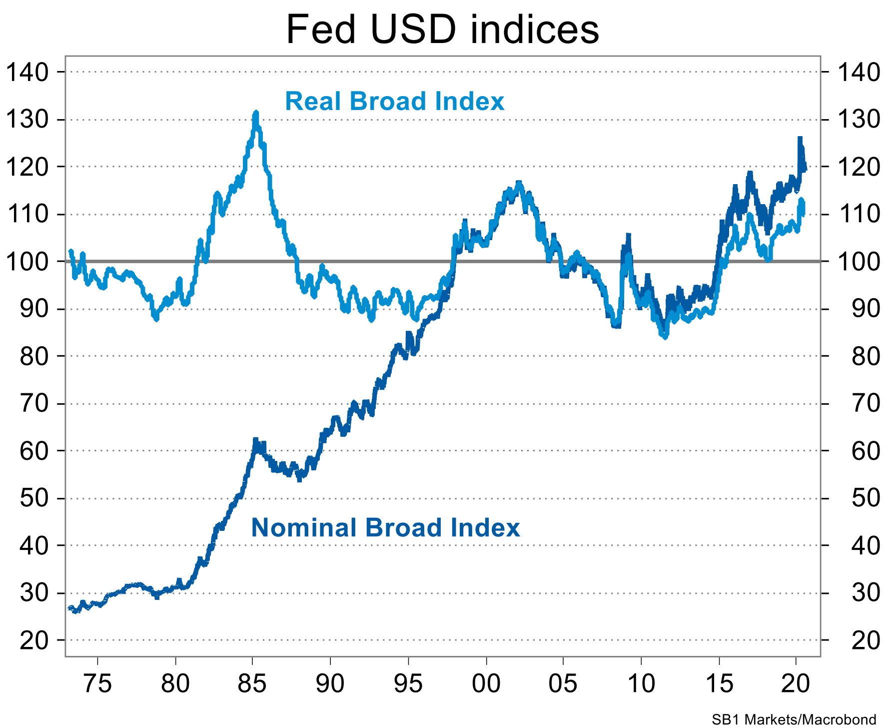
SSB manufacturing survey signals a harsh setback in the Norwegian economy, of course

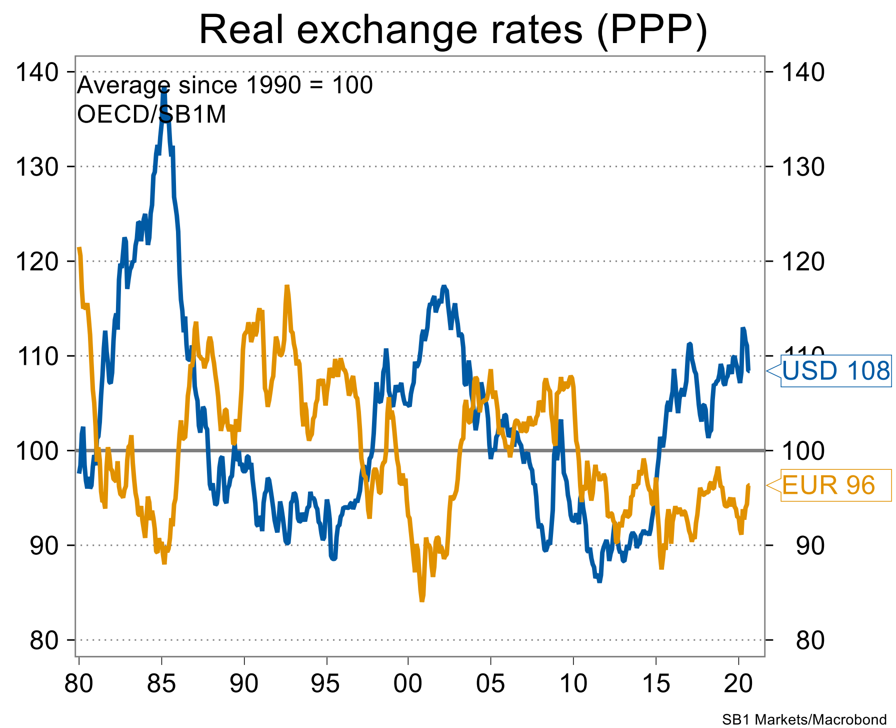




Sure, the USD is down – and it may depreciate much more. But so far, no drama!

The USD is down some few per cent – but is still far above average levels in PPP terms



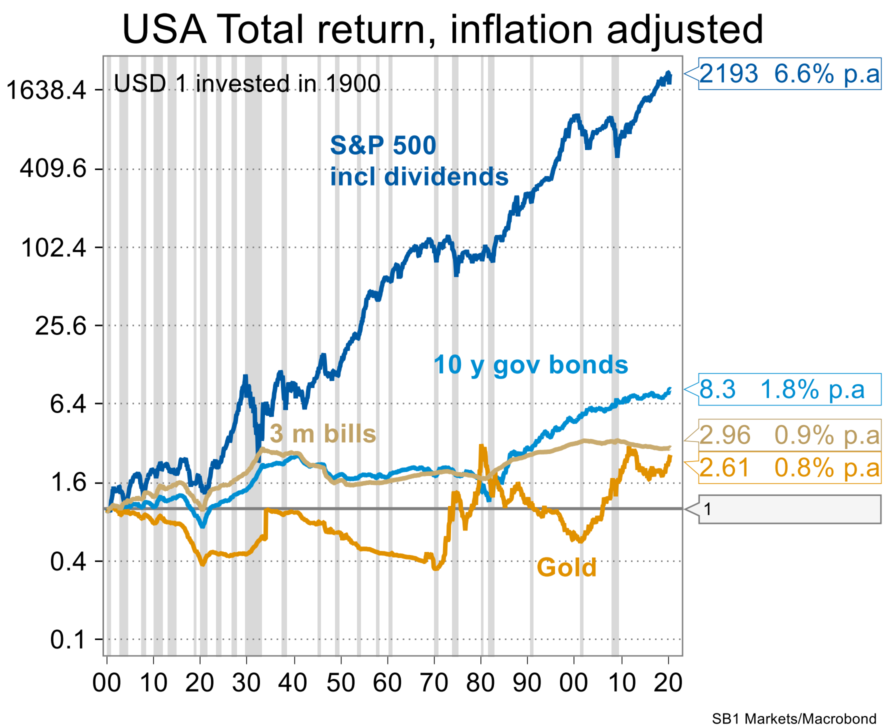


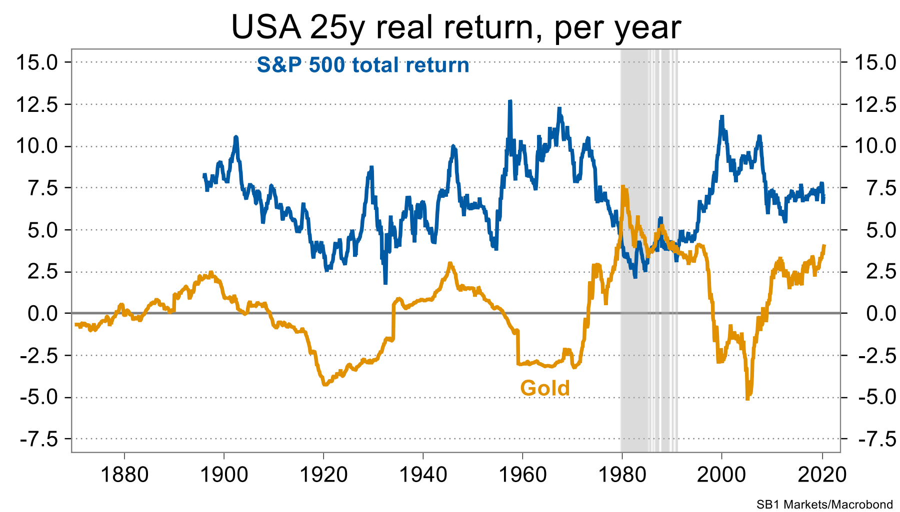
- Corona, slowing growth, social unrest, political turbulence, budget deficits (that will become even larger) & money printing, trade deficits, the US China conflict. You name it, there are always reasons for the USD to decline
- Still, measured by broad indices, the USD remains stronger than in February

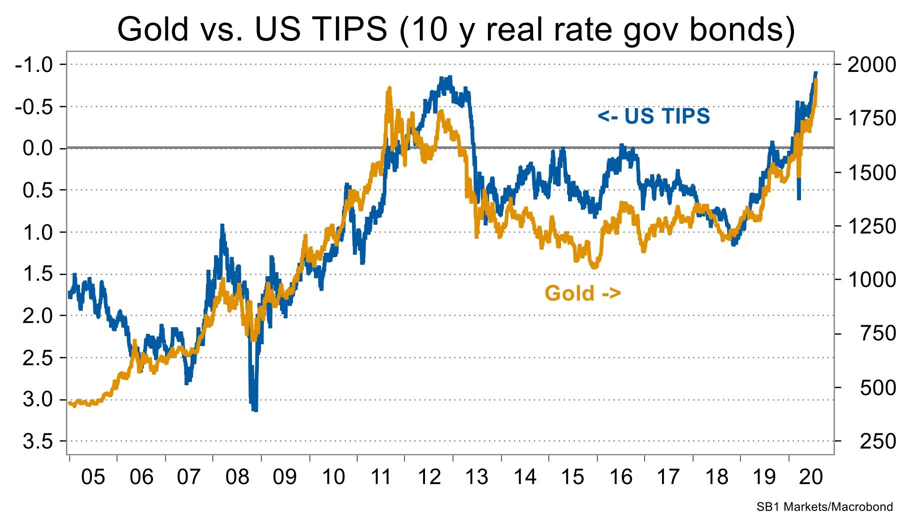
SpareBank 1 MARKETS

For the gold bugs: A long and a short story

Gold has through the history been a really bad (zero yield) investment. However, from time to time…







- Like now, when safe real returns are negative, gold has shined!
- It may well be that real rates will remain low - and gold strong - for a long while. But take care. Long term (and we mean quite long term), gold has normally been a really bad investment, at least compared to equities

The Calendar, week 31

In focus: More July PMIs, US & EMU Q2 GDP US payrolls. EMU June retail sales/production

Time	Cour	Indicator	Period	Forecast	Prior
Wednesday July 29					
09:00	SW	Consumer Confidence	Jul		84
09:00	SW	Manufacturing Confidence s.a.	Jul		89.1
14:30	US	Advance Goods Trade Balance	Jun	-$75.4b	-$74.3b
16:00	US	Pending Home Sales MoM	Jun	15%	44.3%
20:00	US	FOMC Rate Decision	Jul-29	0.00%	0.00%
Thursday July 30					
01:50	JN	Retail Sales MoM	Jun	8%	2.1%
08:00	GE	GDP SA QoQ	2Q P	-9%	-2.2%
11:00	EC	Economic Confidence	Jul	81.1	75.7
11:00	EC	Unemployment Rate	Jun	7.7%	7.4%
14:30	US	Initial Jobless Claims	Jul-25	1430k	1416k
14:30	US	GDP Annualized QoQ + revisions	2Q A	-35.0%	-5.0%
Friday July 31					
01:50	JN	Industrial Production MoM	Jun P		-8.9%
03:00	CH	Composite PMI, NBS	Jul	--	54.2
03:00	CH	Manufacturing PMI, NBS	Jul	50.9	50.9
07:30	FR	GDP QoQ	2Q P		-5.3%
08:00	GE	Retail Sales MoM	Jun	-3.0%	13.9%
08:45	FR	Consumer Spending MoM	Jun	6.8%	36.6%
10:00	NO	Unemployment, NAV	Jul	4.4%(	4.8%
11:00	EC	GDP SA YoY	2Q A	-12.0%	-3.6%
11:00	EC	CPI Core YoY	Jul P	0.8%	0.8%
14:30	US	Real Personal Spending	Jun		8.1%
14:30	US	PCE Core Deflator YoY	Jun		1.0%
14:30	US	Employment Cost Index	2Q	0.6%	0.8%
Monday August 3					
03:45	CH	Markit Manufacturing PMI	Jul	51.3	51.2
08:30	SW	Manufacturing PMI	Jul		47.3
10:00	NO	Manufacturing PMI	Jul	48	48.9
10:00	EC	Manufacturing PMI	Jul F		51.1
15:45	US	Markit, Manufacturing PMI	Jul F		51.3
16:00	US	Manufacturing ISM	Jul	53.6	52.6
16:00	US	Construction Spending MoM	Jun	1.0%	-2.1%
	US	Total Vehicle Sales	Jul	14.00m	13.05m

- **PMI/ISM**
  - Preliminary PMIs signal a further increase in July, finally to above the 50 line. The final data (with many more countries to report) are not that relevant, unless they indicate new weakness – which the below par US services July PMI signalled. The **manufacturing ISM** is expected further up
- **USA**
  - **GDP** contracted at an unprecedented speed in Q2, we will now get the first estimate. A (meaningless) 35% decline in expected, we prefer the non annualised 10% figure. The decline in demand was broad. The **annual revision** is also important, substantial changes are not uncommon
  - A 2 mill increase in **payroll employment** is expected in July, far less than in May and June – which is natural. Still, employment will remain far below the pre corona level – and there are indications that the US recovery is slowing substantially, very likely due to the corona situation
- **EMU**
  - **GDP** is expected down 12% in Q2 (-40% annualised), also unprecedented. Some countries will publish June **retail sales & industrial production**. **CPI inflation & unemployment** on the calendar too
- **Norway**
  - The NAV unemployment rate will no doubt decline further in July but at a slower pace than since mid April. We do not expect the **PMI** to break the 50-line

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

Highlights

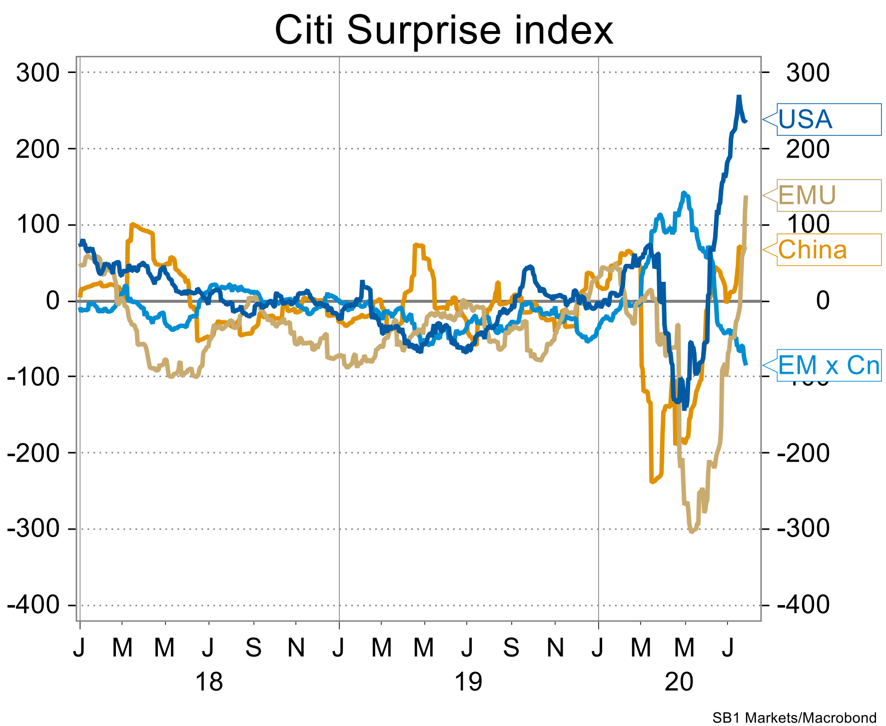
The world around us

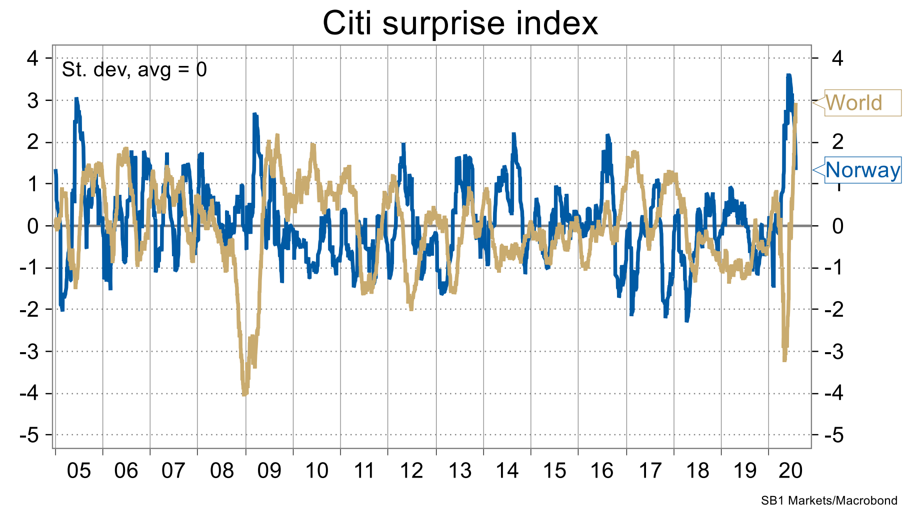
The Norwegian economy

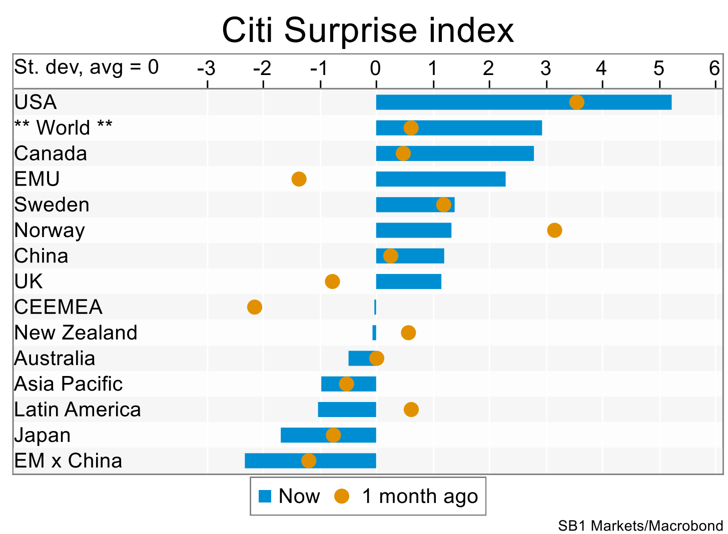
Market charts & comments

Macro data are surprising on the upside in DM, big time

Date from the US has been stronger than expected, but the surprise index is exaggerating





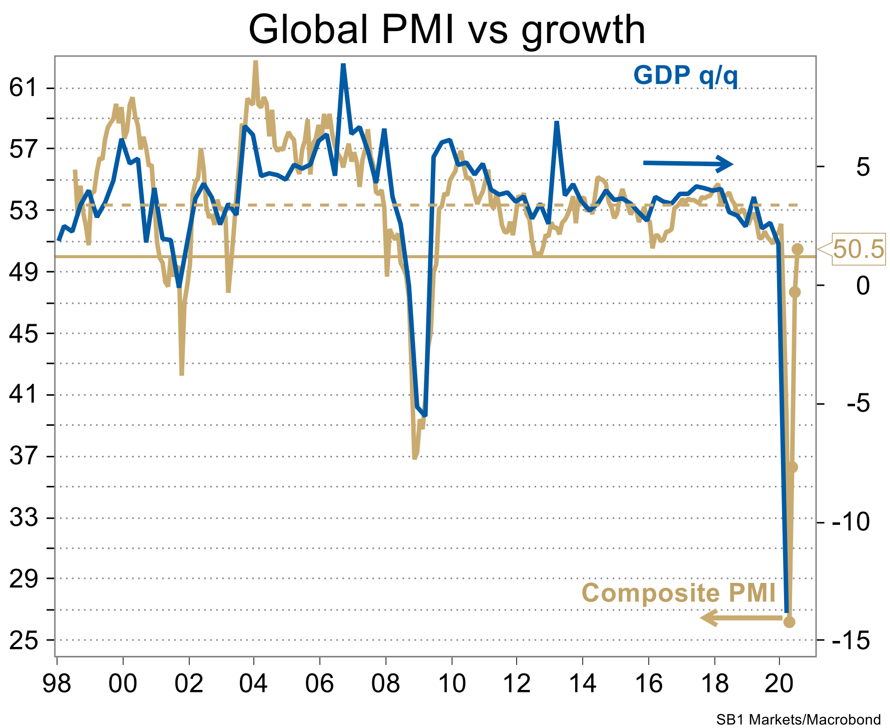


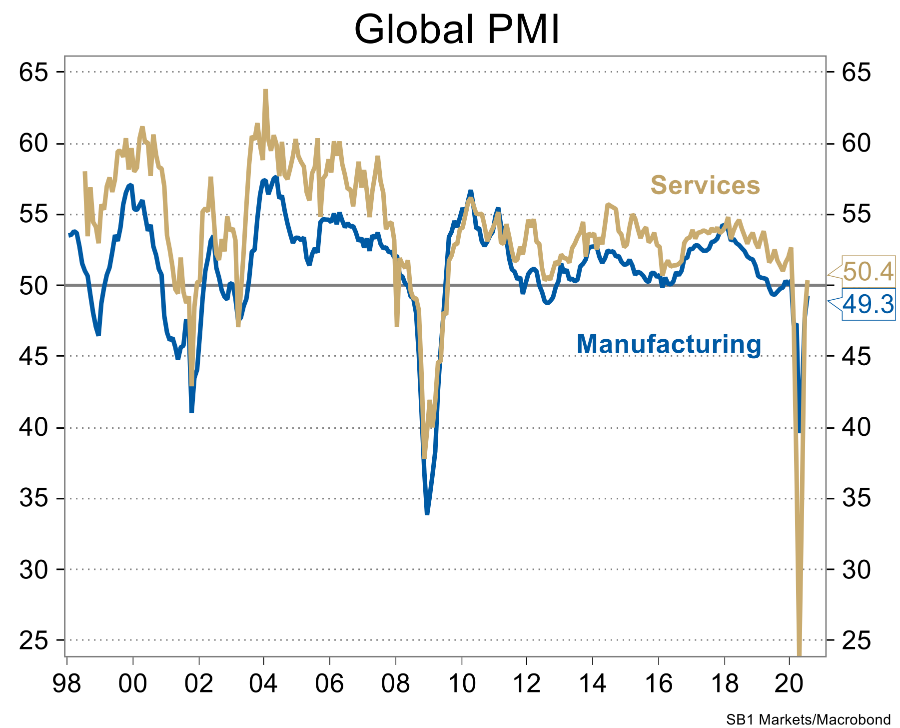
- US is surprising more on the upside than ever before (data from 2003)
- EM is surprising sharply in the upside – the PMIs contibuted
- China in positive territory, EMU has returned to neutral while EM x China surprises more on the downside

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

PMIs further up in July, probably to above 50, finally

The global economy started the recovery in May but the PMIS recognised it two months too late



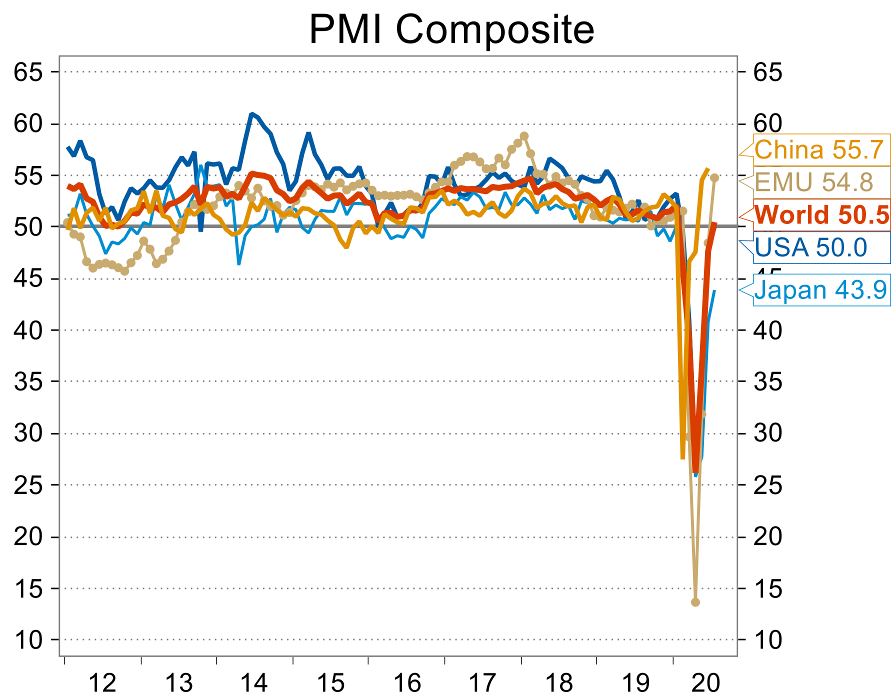


- … which is pretty normal.
- Based on PMIs from the EMU, US, Japan and UK we estimate a 2.5 - 3 p lift in the global composite PMI to just above the 50 line, after being below the past 3 months. The manufacturing PMI probably remained below the 50 line
- EMU surprised at the upside (up to 54.8), while US PMIs rose but less than expected, especially in the service sector, where the PMI remained below 50. Japan is still in the low 40'ies. UK PMI rose to

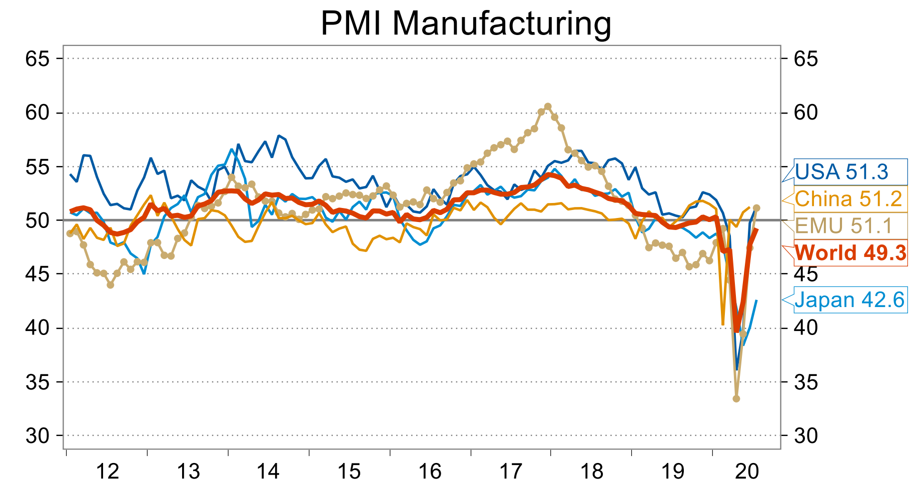
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain

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

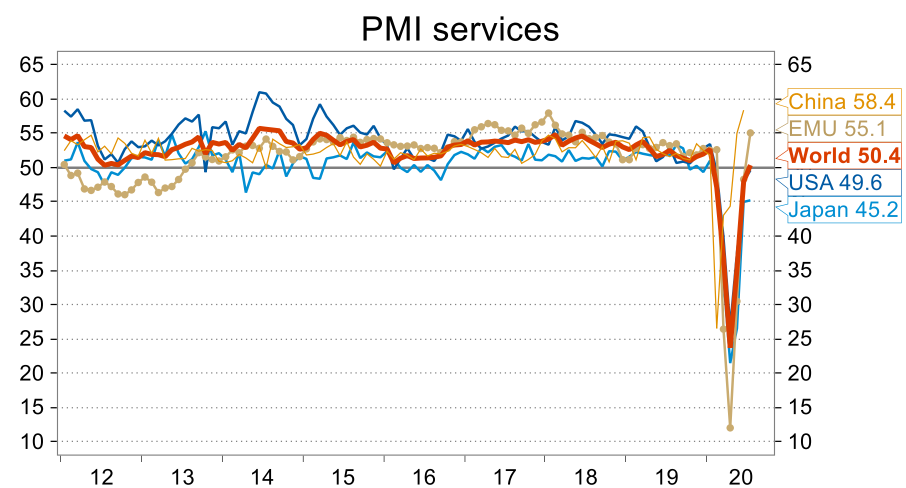
The EMU PMIs rose more than expected, up to 54.8. US weaker than expected, new corona trouble?



Source: IHS Markit, SB1 Markets, Macrobond



Source: IHS Markit, SB1 Markets, Macrobond

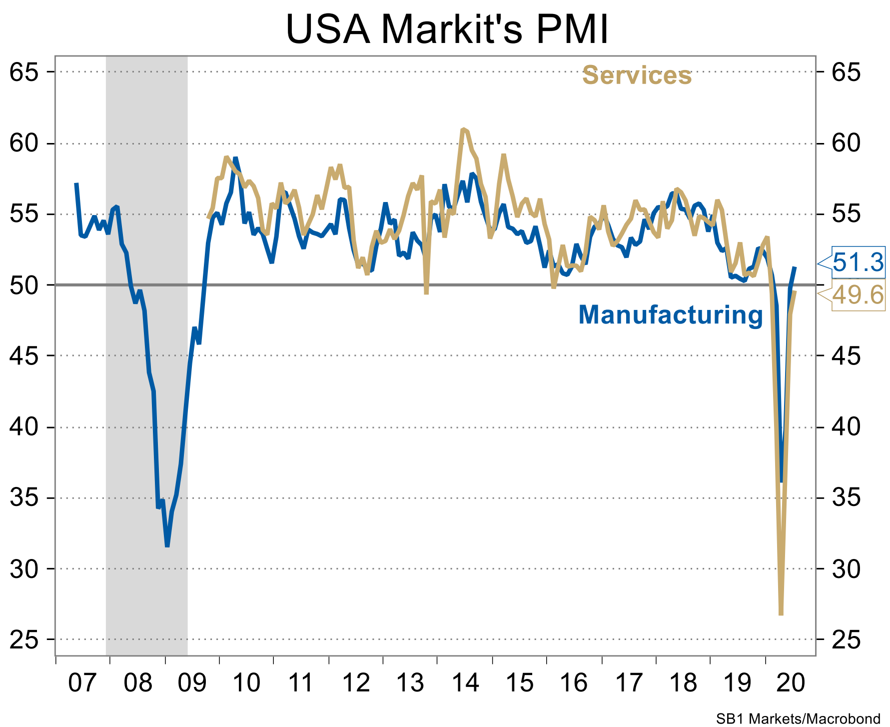


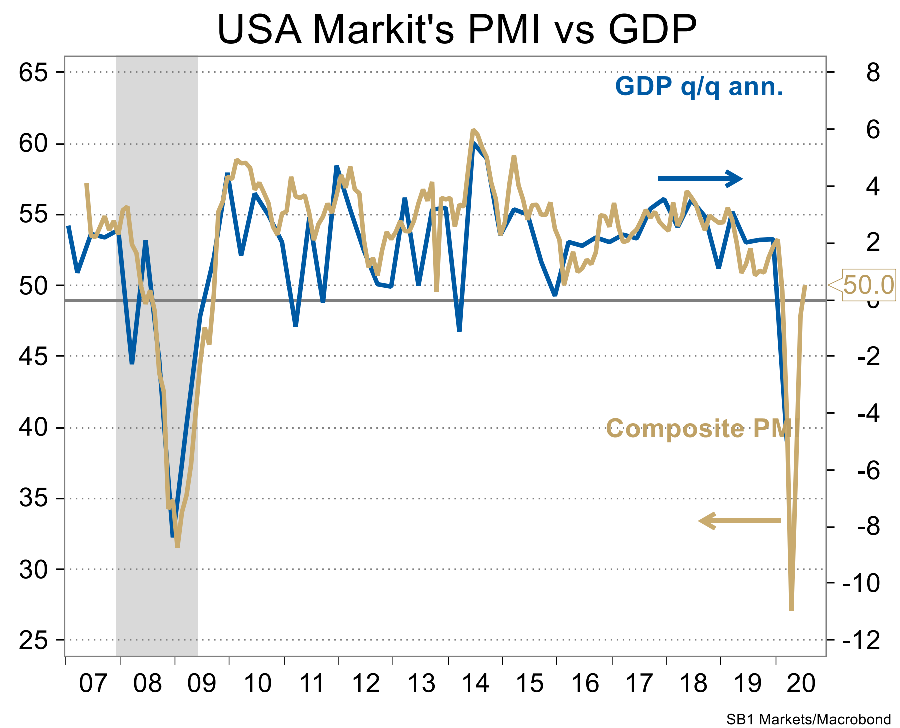
SB1 Markets/Macrobond

- Japan at the bottom of the league

Markit’s PMIs up to the 50 line, services still below

It may be due to the corona trouble, social unrest: Services disappointed in July

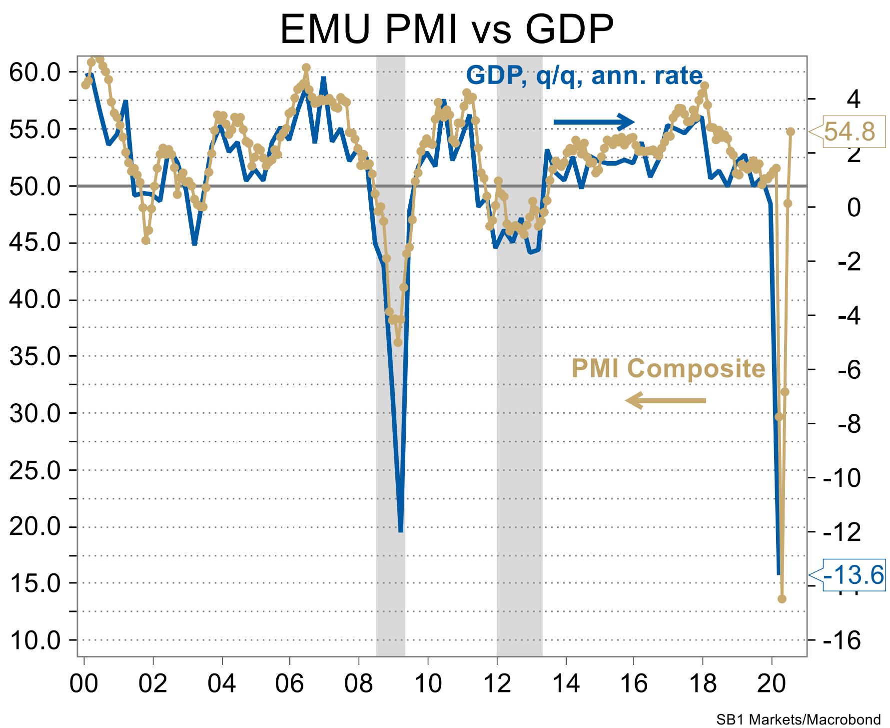


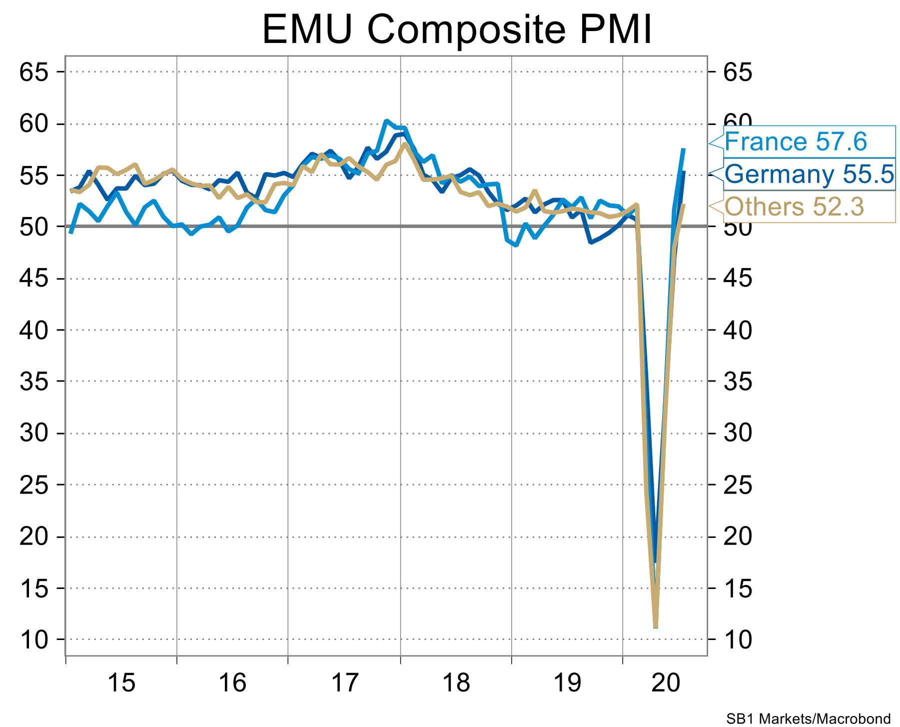


- The manufacturing PMI rose 1.5 p to 51.3 (expected 52), while the service sector index rose 1.6 p to 49.6, expected up to 51
- Manufacturing production, retail sales, restaurant turnover all rose in both May and June – and the PMIs should have been above 50 already
- Still, the muted lift the service sector PMI may indicate something real, that the economy is slowing somewhat amid the fight against corona

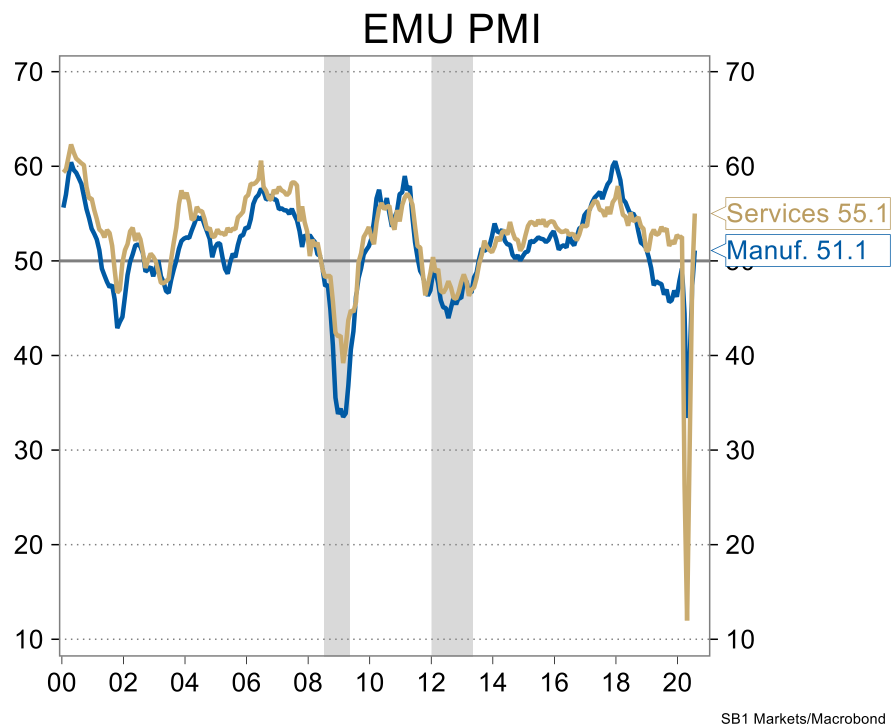
The composite PMI up to 54.8, signalling 3% growth. It *must* be much higher

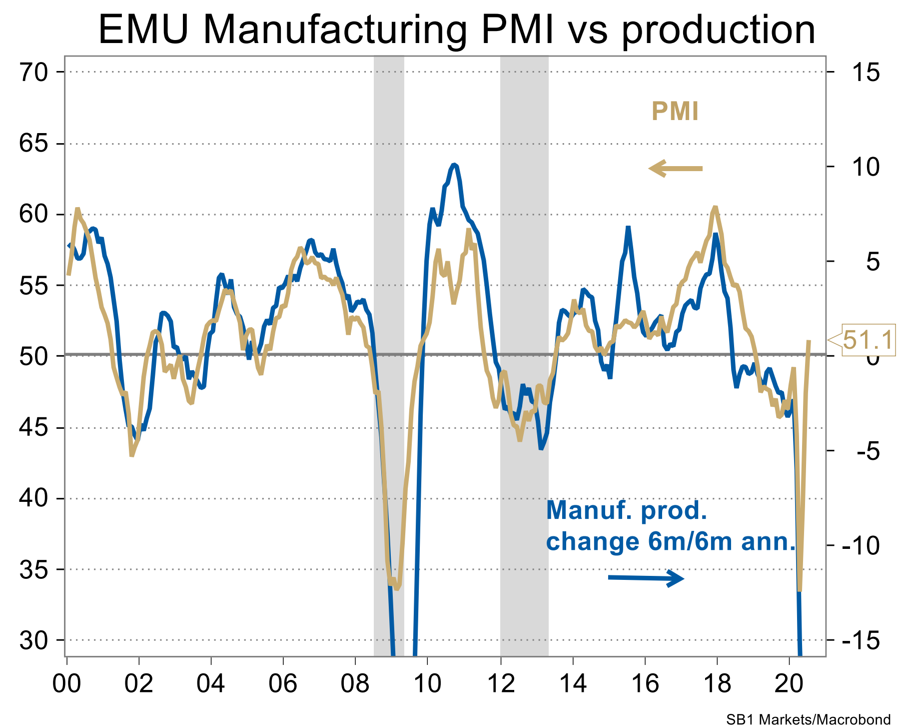
France at the top with 57.6, Germany not that far behind. Spain/Italy in average above 50 too





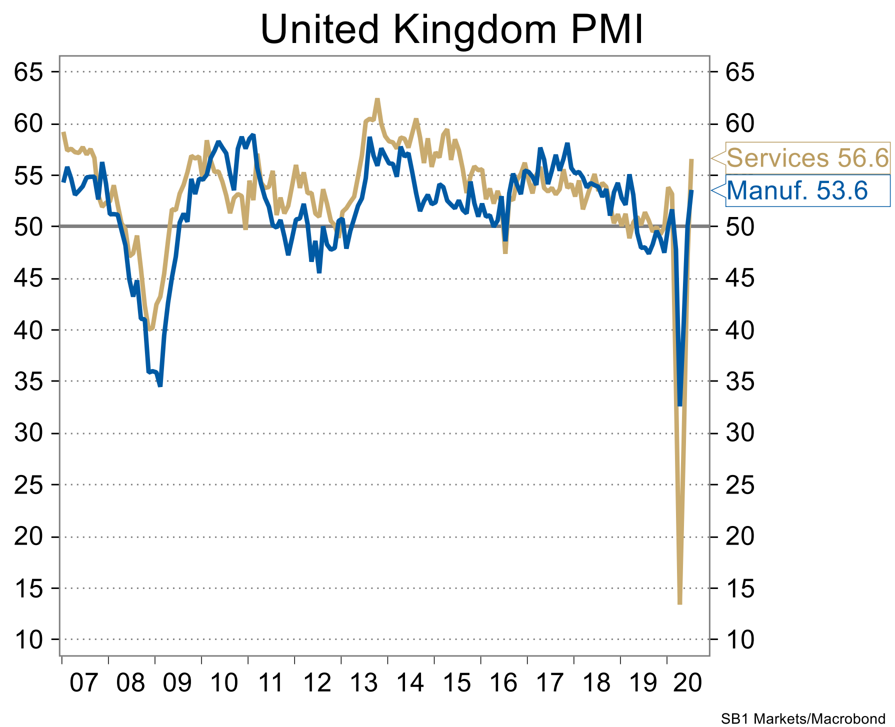
Services in the lead – manufacturing up above 50 too

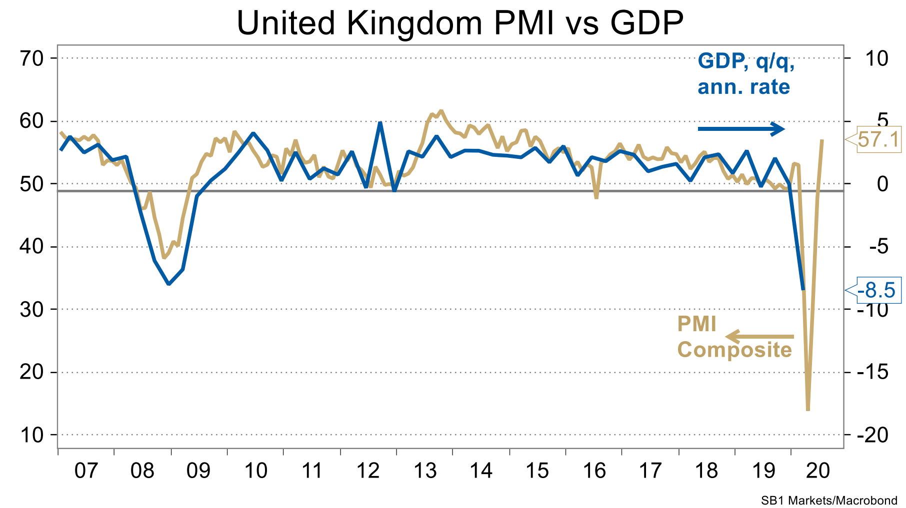


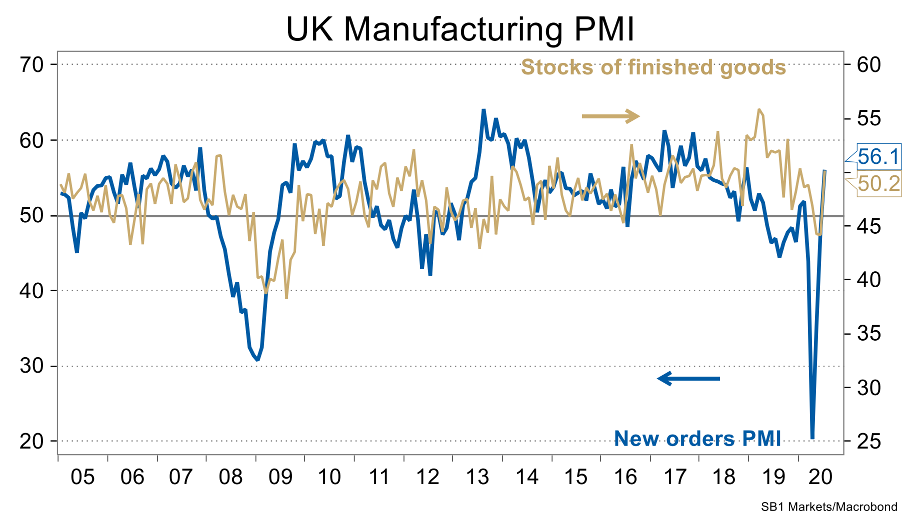


The composite PMI at 57.1. Signal much needed growth, after the lockdown

Both services and manufacturing are finally reporting decent growth

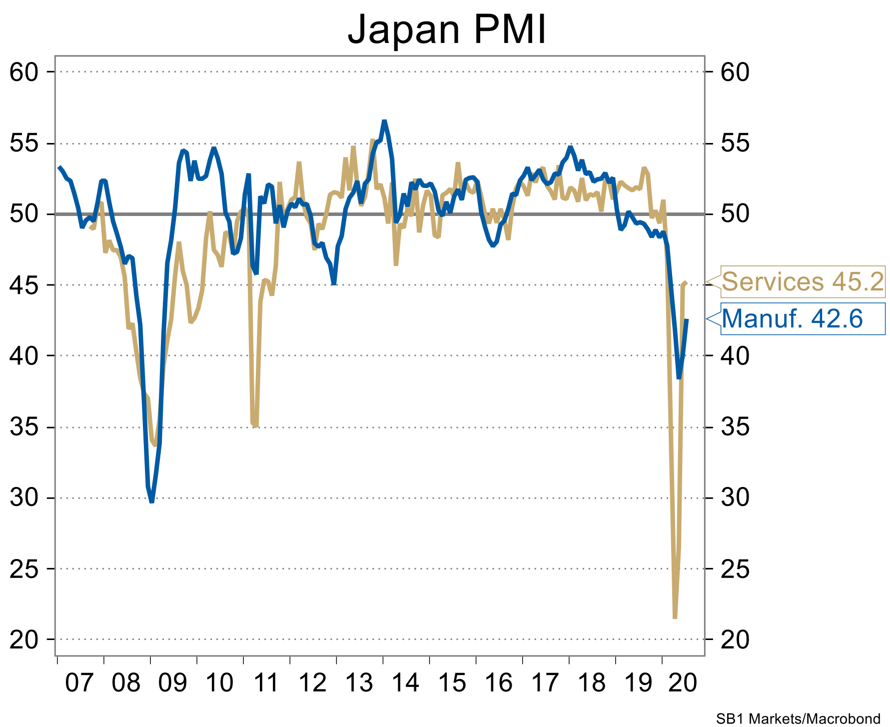


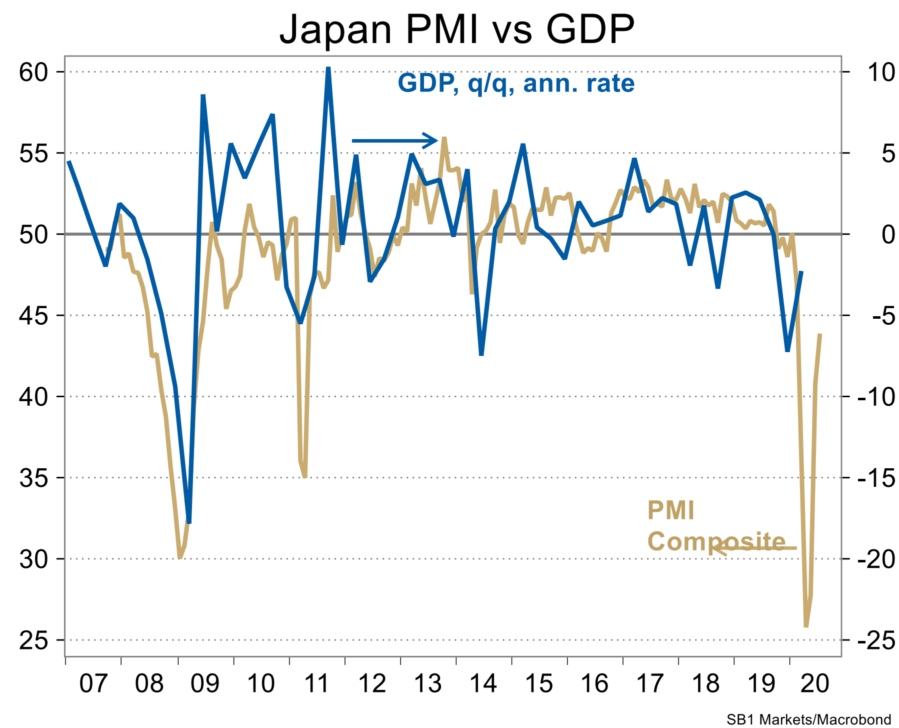




PMI extreme weak in ~~May~~ ~~June~~ July too

Companies are still reporting a rapid de

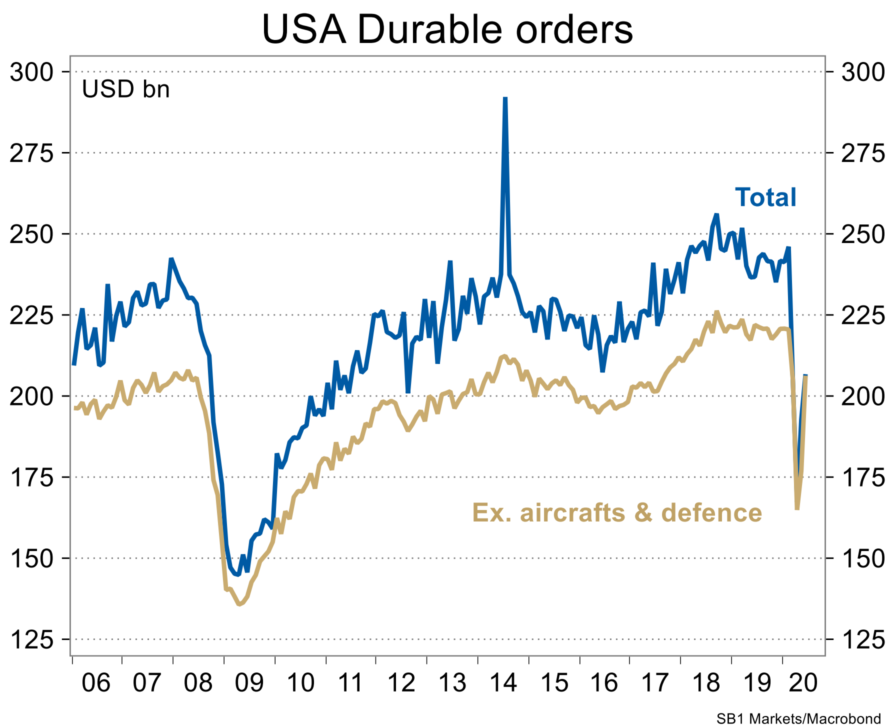


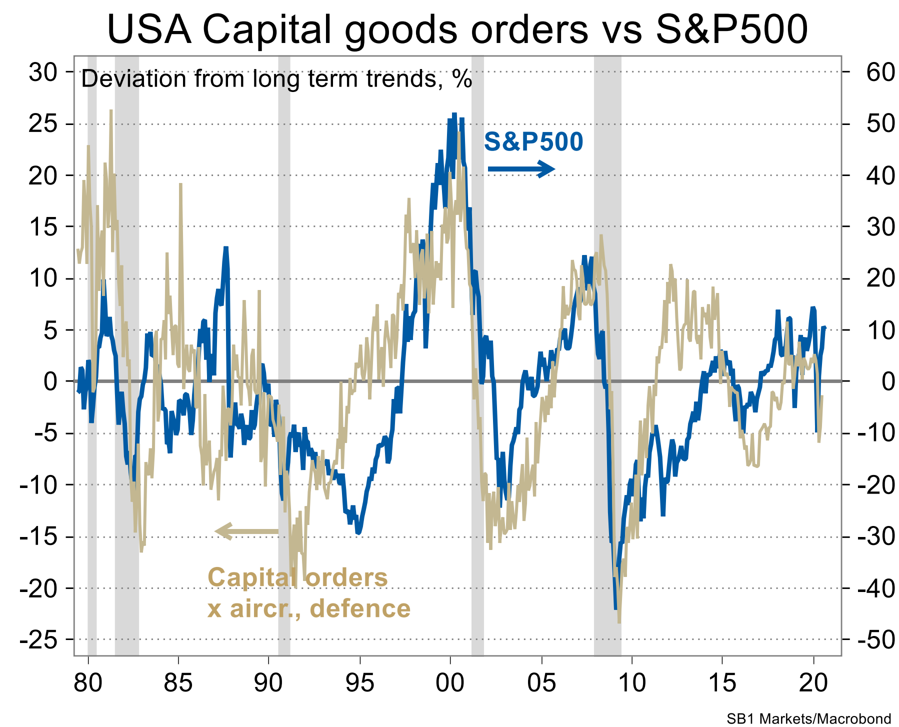


- We expected better Japanese numbers

Durable orders up 7% in June, exp. +5%, still less than ½ of the corone decline rev.

Orders ex. aircraft & defence up 17% and just 6% below pre corona level. Was down 25%

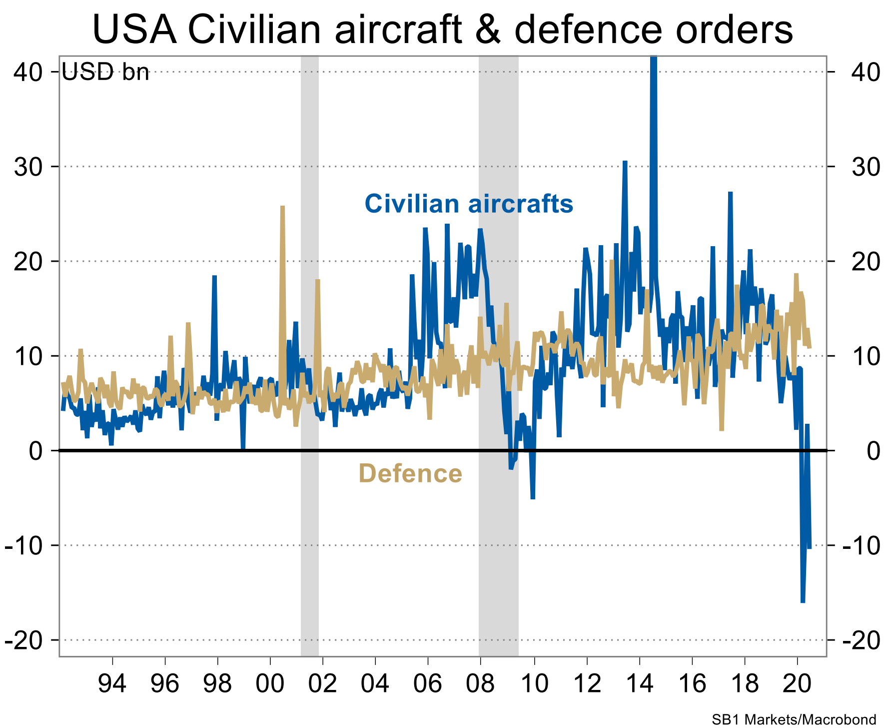


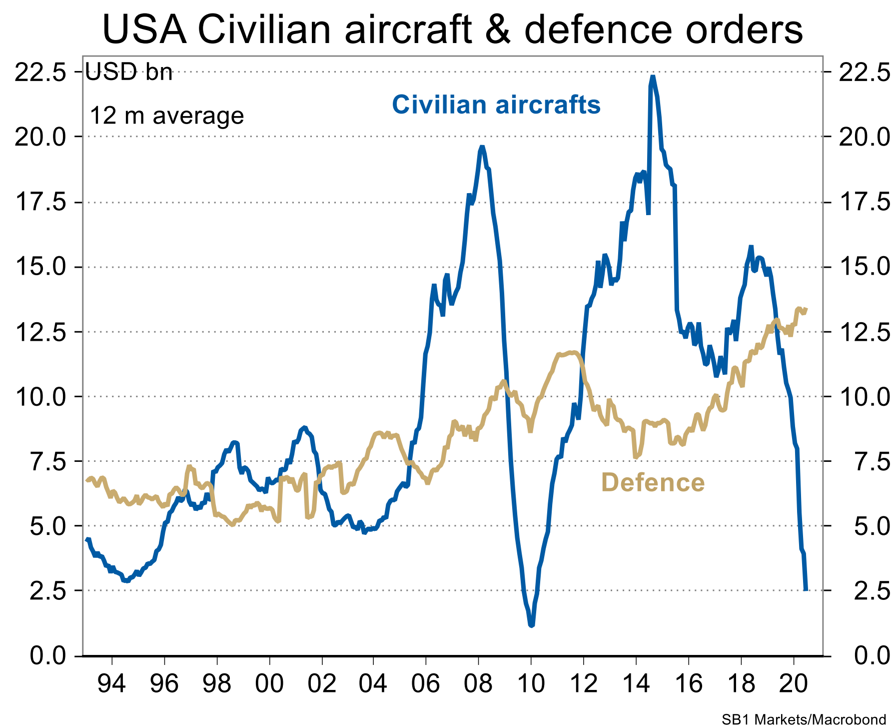


- Airline orders still the main drag, more cancellations than new orders in June
- Investment goods orders sharply down in Q2 but not that weak in June

No more Boeing (net) cancellations

Negative net aircraft orders in in March, April, and again in June

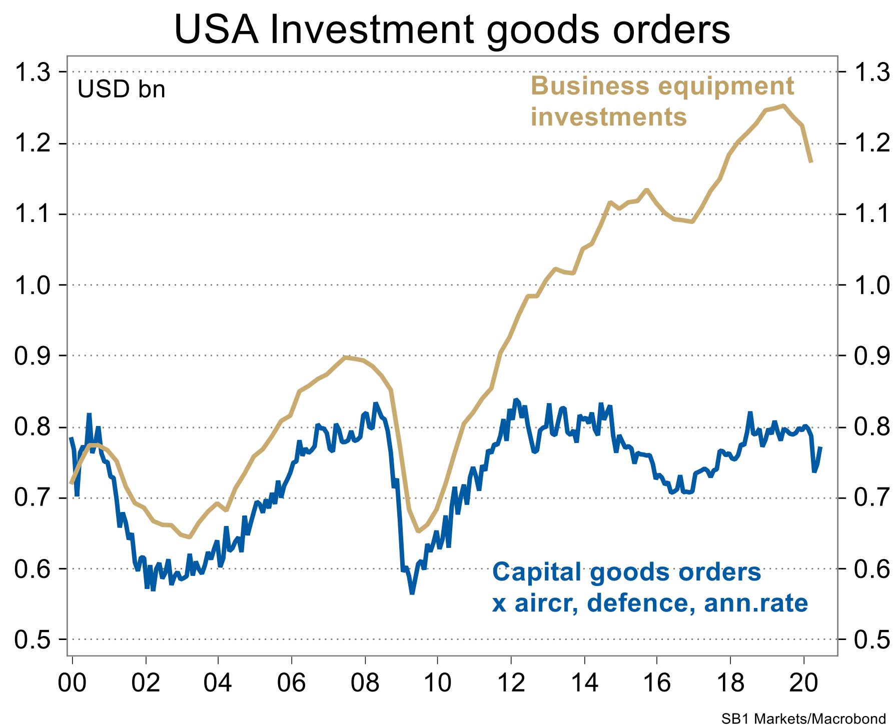


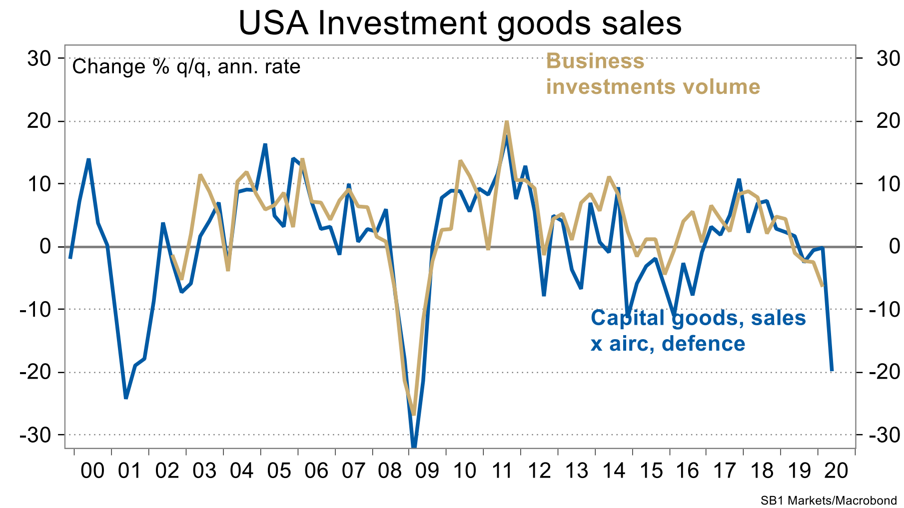


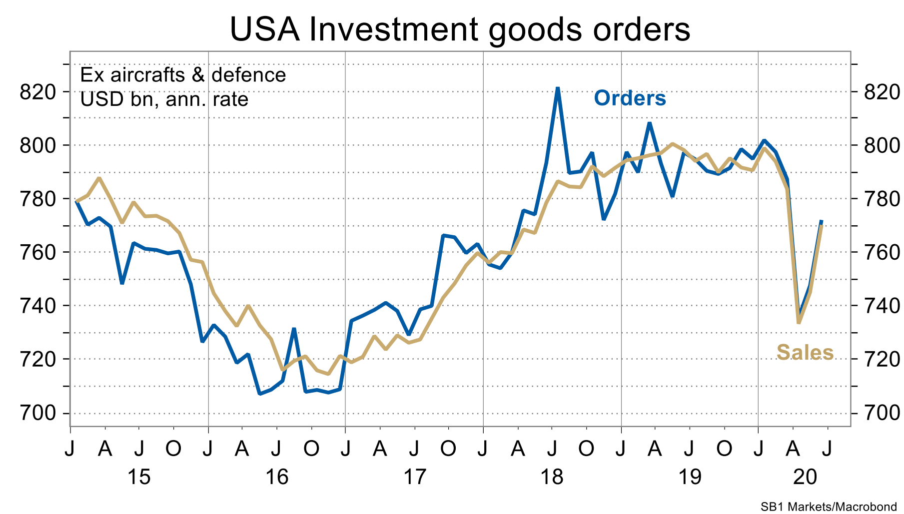
- Still, compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters (it started last spring!) is not surprising at all – even if the USD 35 bn net cancellations in March, April and June was an unprecedented blow

Capital orders +3% in June, level just 4% below pre corona

The decline in orders has not been dramatic at all – even if Q2 was among the weakest quarters



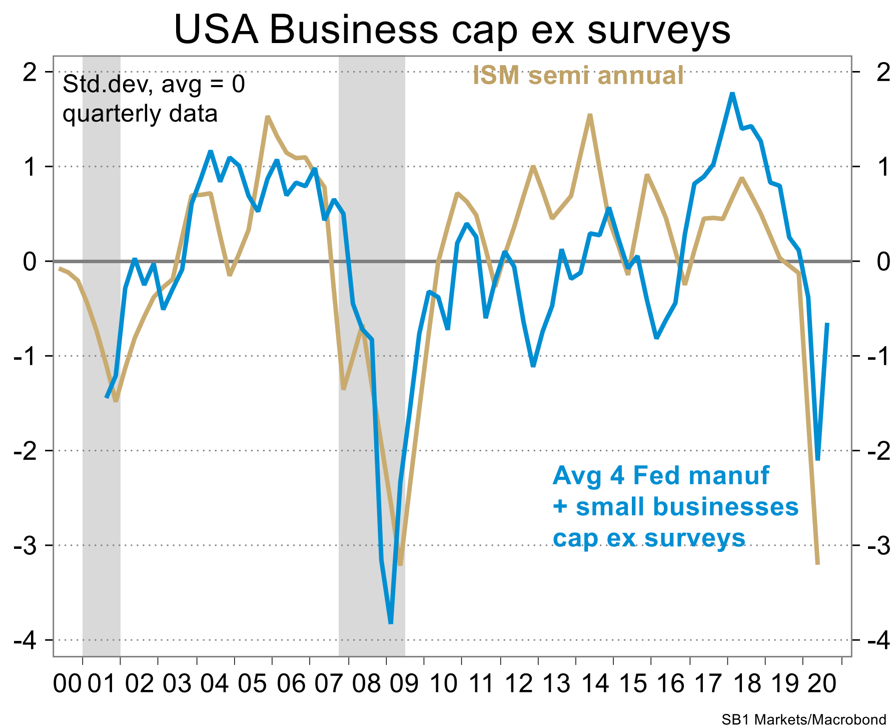


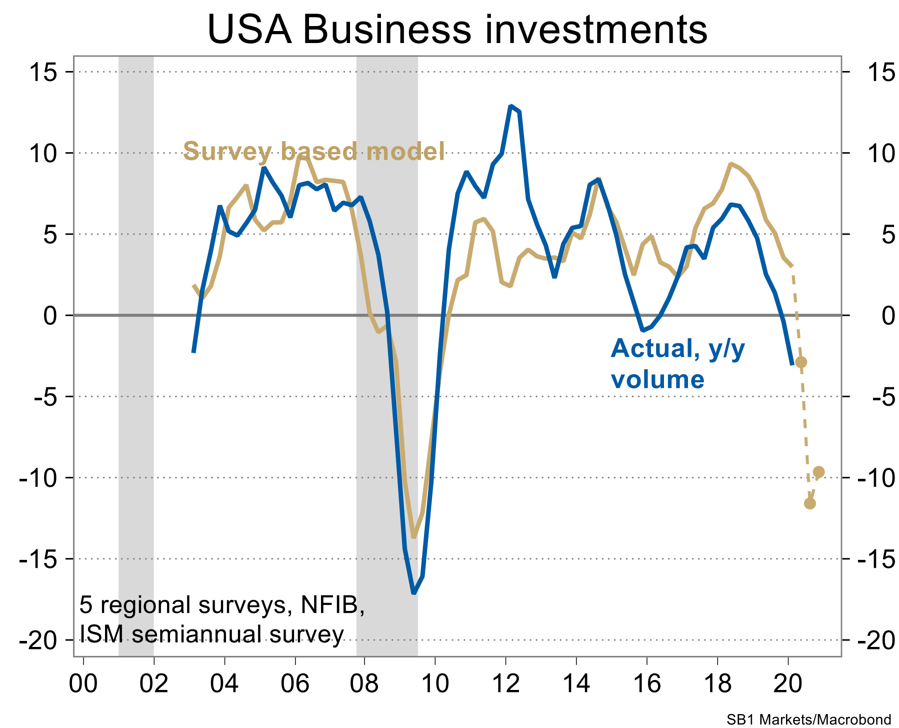


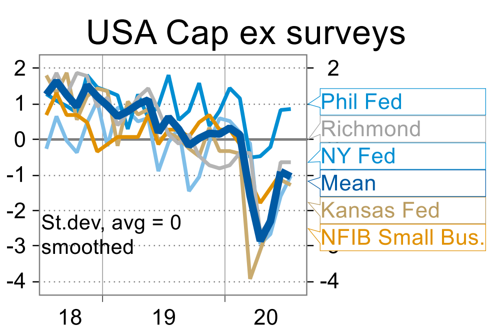
- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
- However: Usually, the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year, or even more
- Business surveys signal cuts in investments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

Business were planning aggressive investment cuts. They are less downbeat now

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



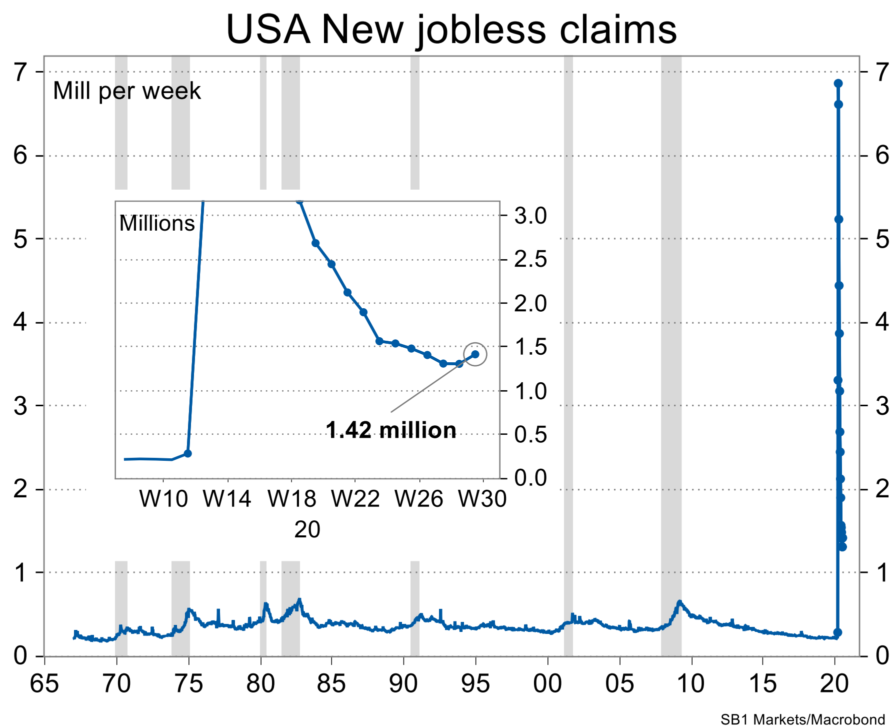


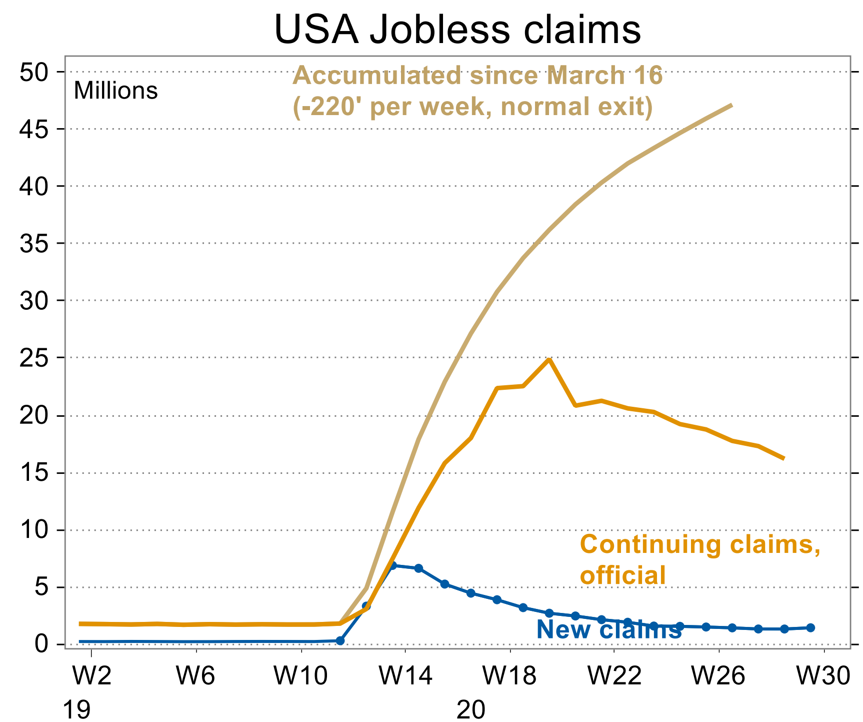


- Some bright spots: Investment plans were revised up in several regional Fed surveys in May-July. They are still below par but are not that weak anymore - and Phil Fed reports above normal investments in the manufacturing sector in that region

More new jobless claims last week; the economy is slowing?

1.4 mill new jobbless claims, up 0.1 mill vs. previous week – 0.8% of the labour force…

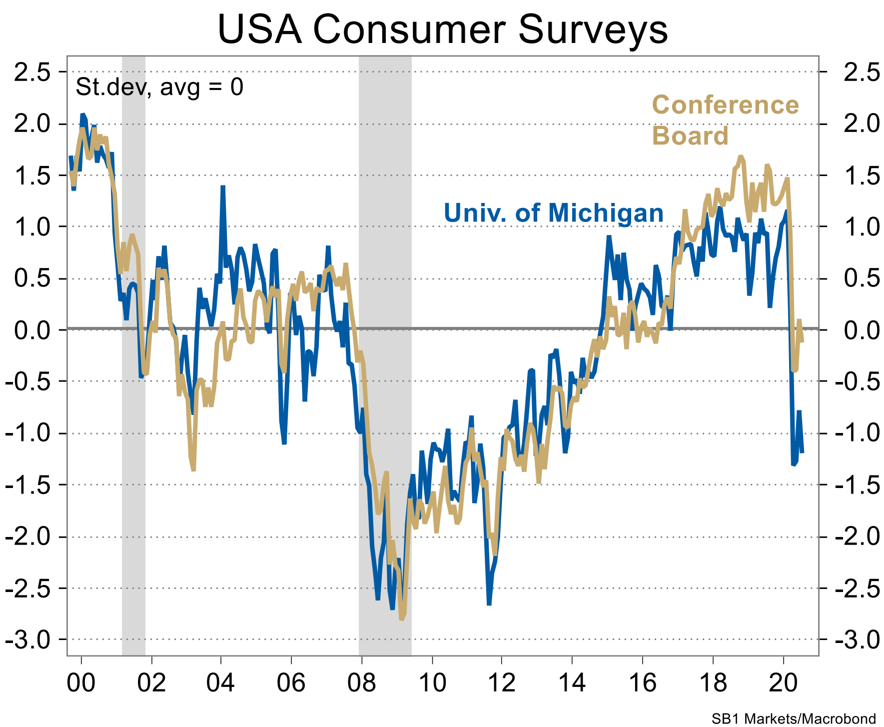




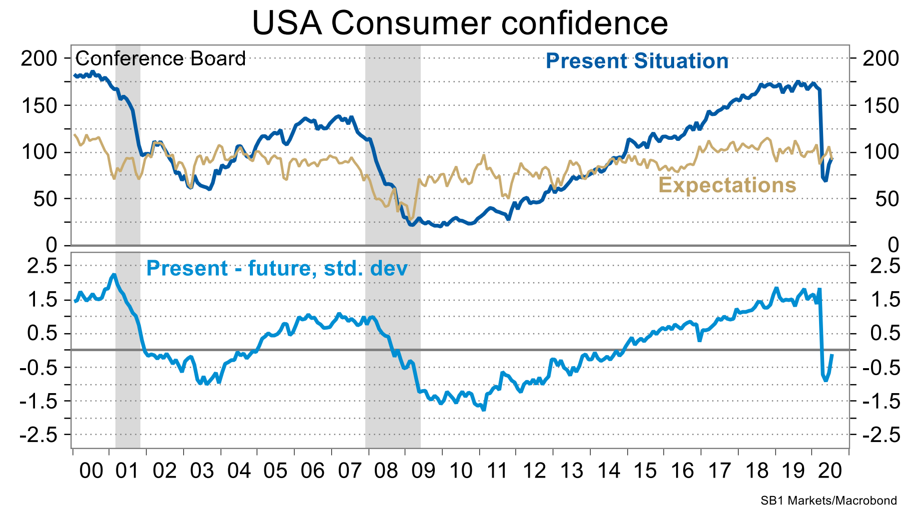
- The inflow has been abating, but slower than expected, and last week the number rose, for the first time in 3 months, most likely due to covid-19 restrictions & changes in household behaviour
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 16 mill. from 25 mill. but – and still almost 10% of the labour force remain on the dole
- As Congress has not prolonged the temporary USD 600 per week extra Federal unemployment support (on top the ordinary state support

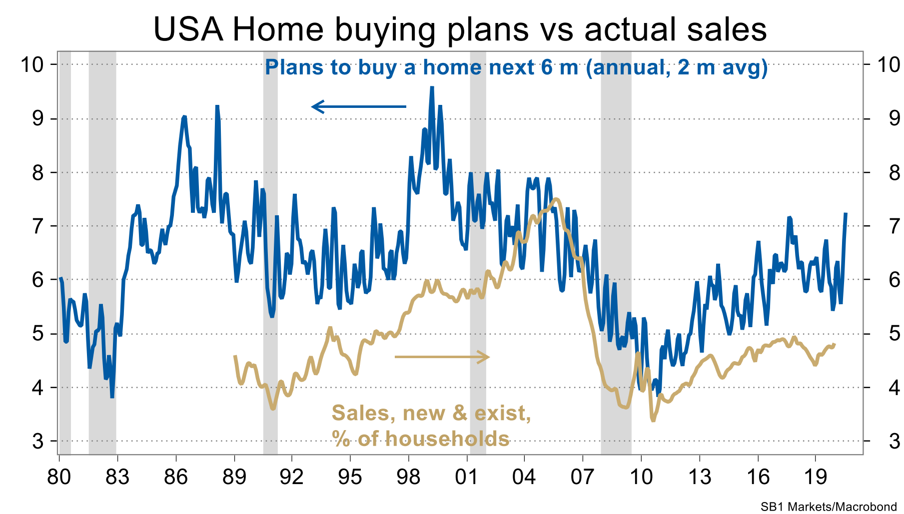
Households not that sure in July, consumer confidence slightly down

Univ. of Mich sentiment fell almost down to the April level, Conference Board down, but less so



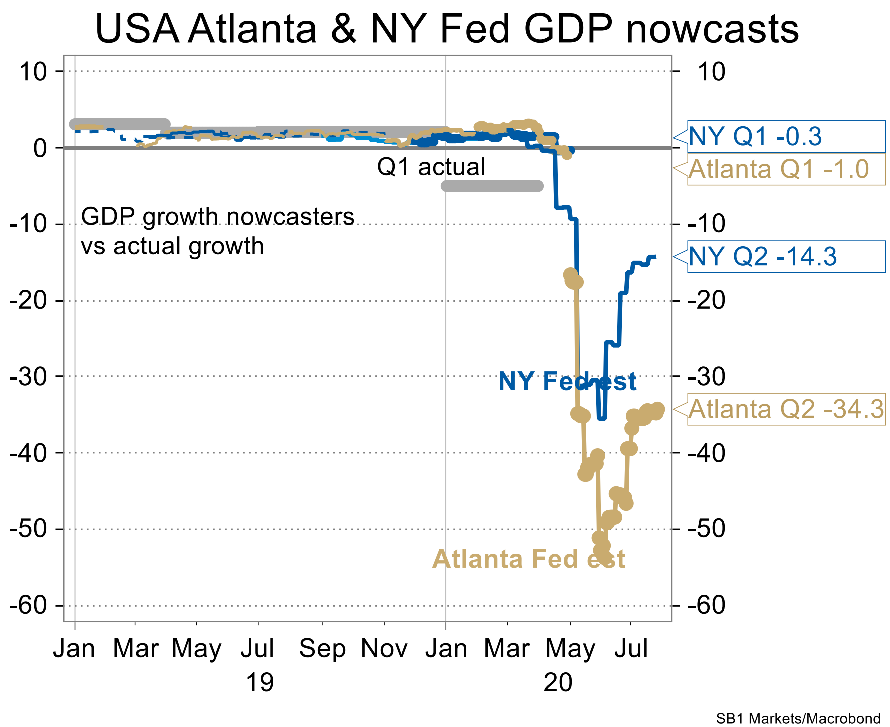
- In Conference Board's survey, expectations fell – but they have been surprisingly stable through the corona crisis. Households are reporting aggressive plans for buying a house, and jobs are not hard to get at all, they say

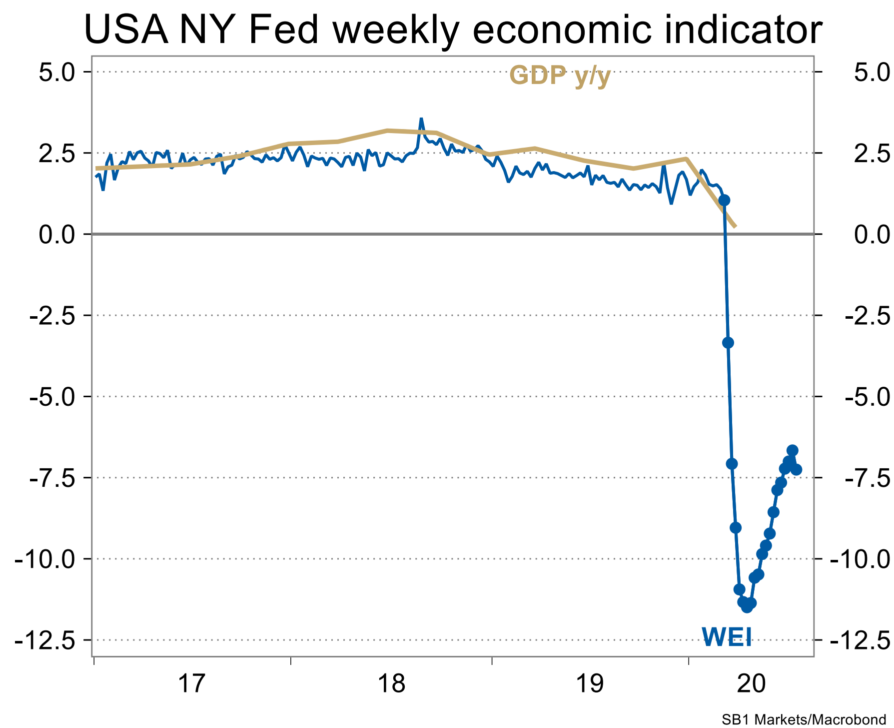




Nowcasters do still not agree: -14% or -35% (ann. rate) in Q2?

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

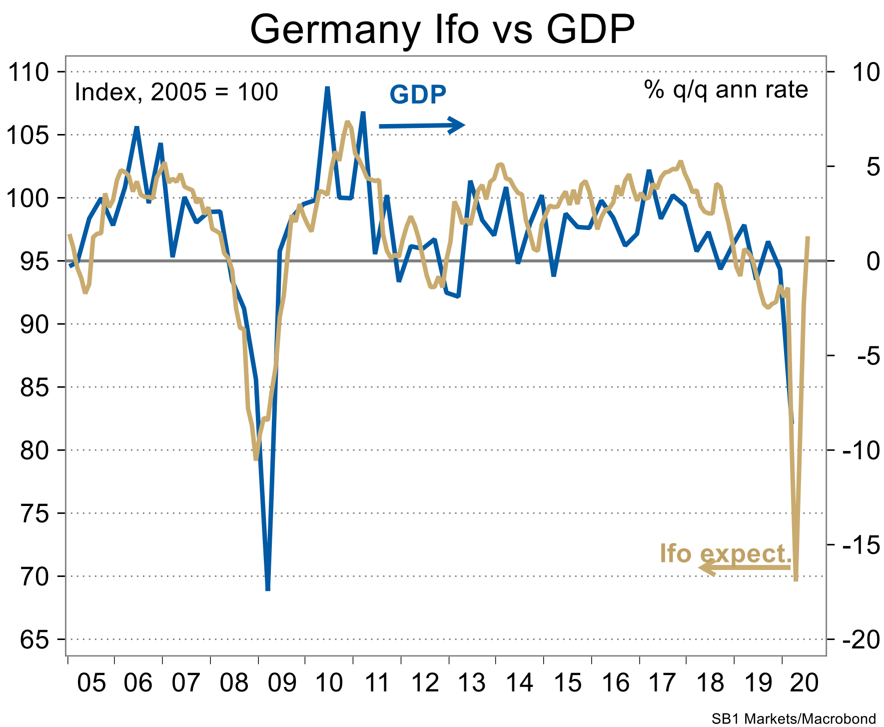


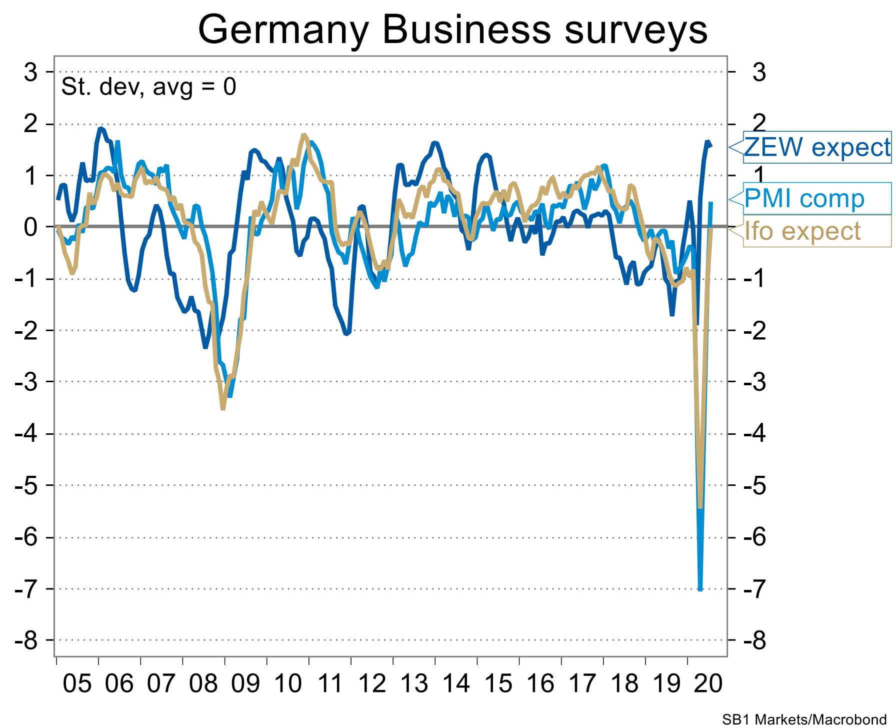


- NY Fed's model reports a 14% decline q/q, annualised, (from -35% at the bottom), equalling a 4% decline not annualised to Q2 from Q1, or some 5.5% y/y
- Atlanta Fed's model reports a 34 % (from -40% two weeks ago, and -54% at the bottom), equalling a 10% decline not annualised q/q and more than 11% 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) (but a smaller decline i July, of course)
- Consensus is for a 10% decline (35% annualised), we think the risk is at the upside

The German surveys suggest a (modest) German recovery

Business expectations in the Ifo survey rose sharply in July, to above average





- Other business surveys has recovered to above average levels in May – July period
- Given the sharp decline in activity in (early) Q2, there is no surprise that business are now reporting

Highlights

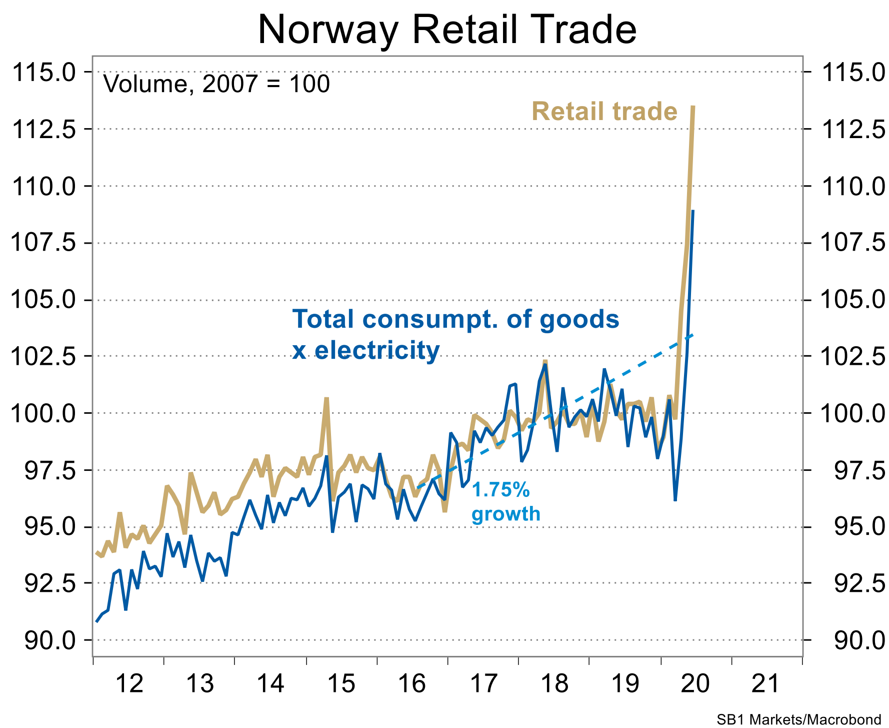
The world around us

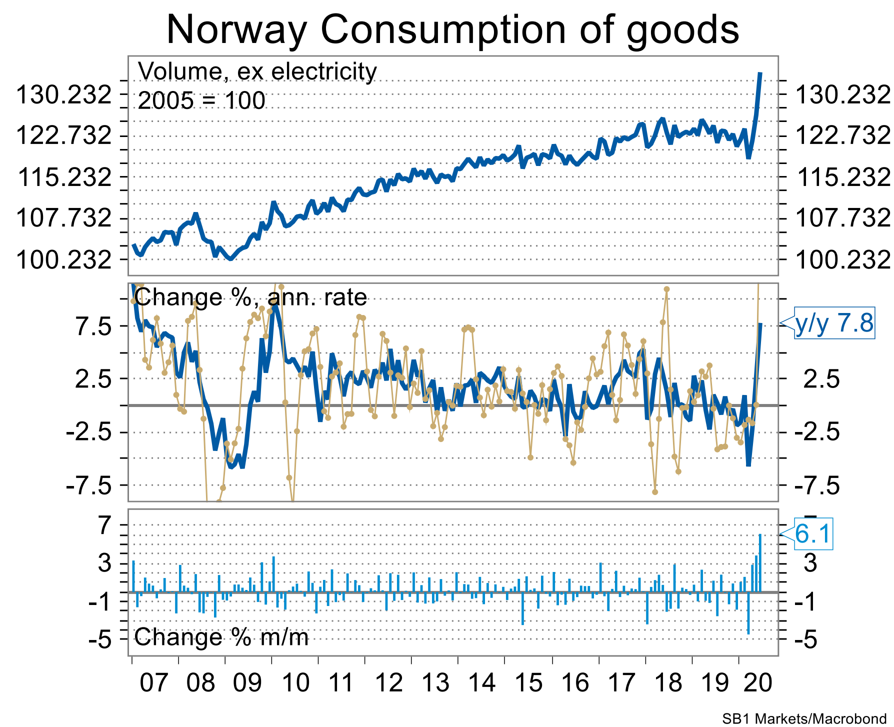
The Norwegian economy

Market charts & comments

Shop until you… Retail sales up 5.7% m/m in June, up 12.6% from February

The biggest lift ever. Total consumption of goods up 5.8% - as money are spent on goods domestically

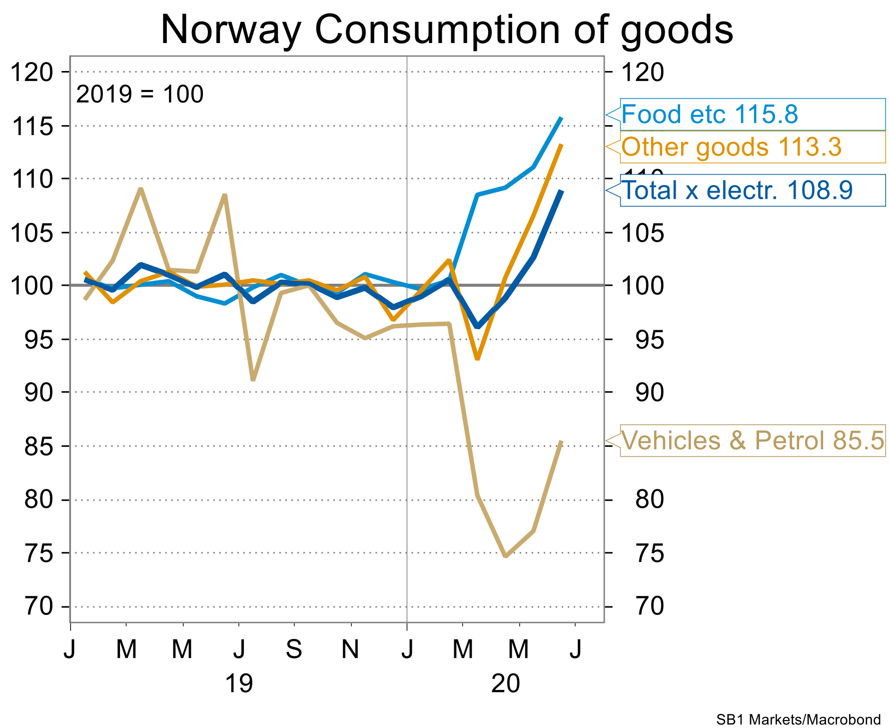


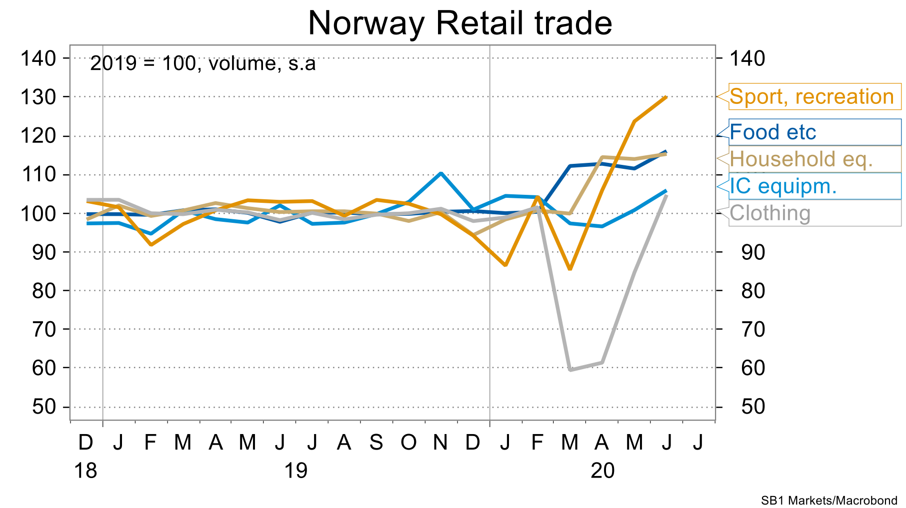


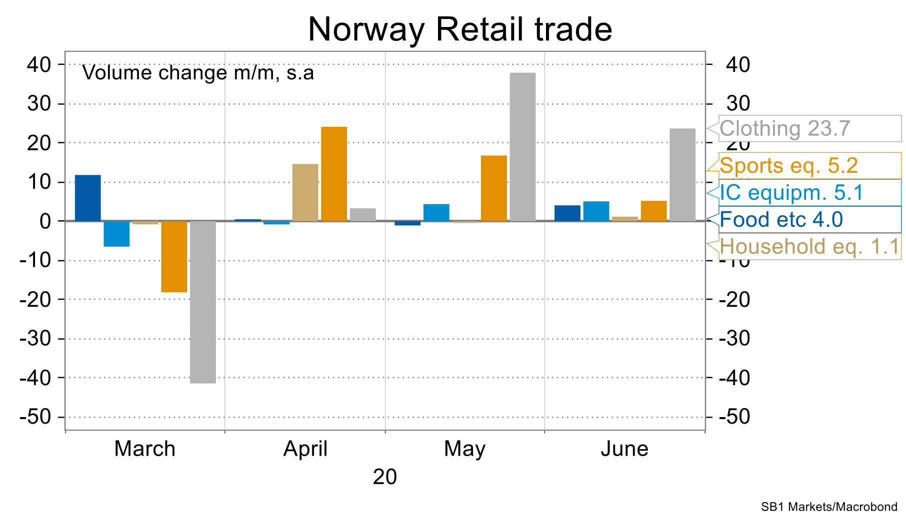
- We guessed sales rose 1.5 – 2% increase following the 2.8% hike in May – but we were far too modest
- Food sales are up 15% vs pre corona. Sport equipment is up 42% - and further up in June. Net sales are strong, but may have peaked. Clothing sales came back to a normal level in June, following 3 really bad months
- Total consumption of goods (x electricity) grew 6.1% in June. Total consumption of goods is some 4% above the pre corona level, up 5% in Q2
- No doubt, less x-border shopping in Sweden, more food sales due to less capacity on restaurants and lack of 'holiday' spending opportunities domestically and abroad explain the hike in retail sales. Service consumption started a recovery in May but remained far below the pre corona level – as was total private consumption. We think that conclusion stands in June too

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



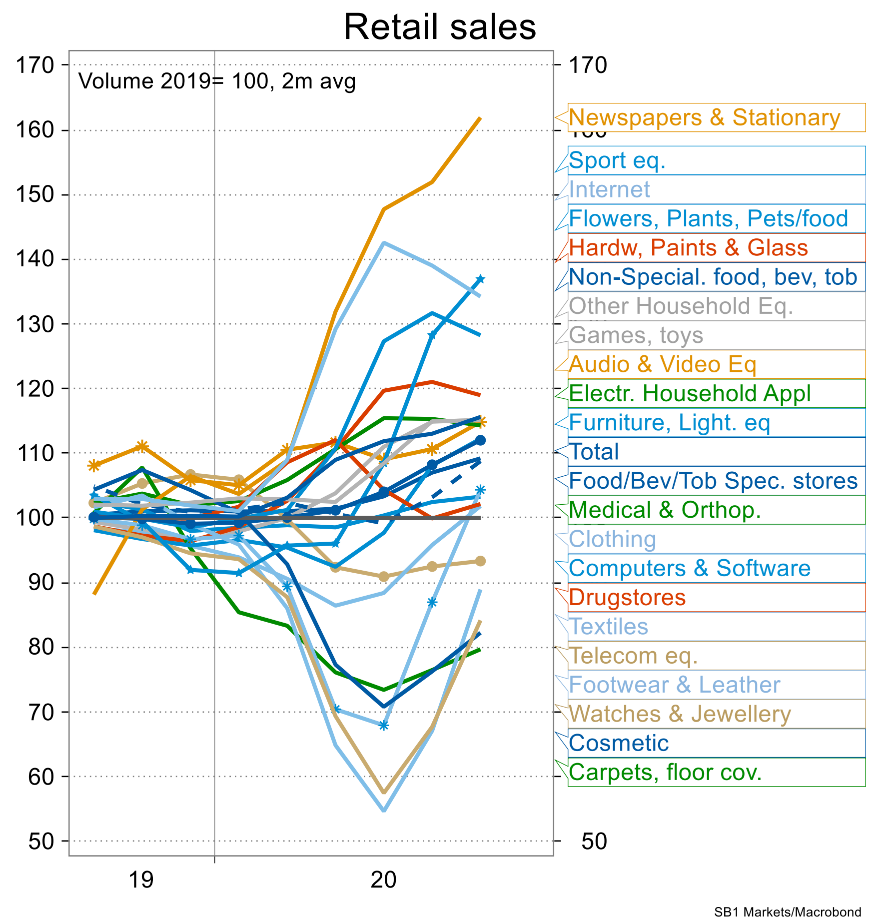




Food etc in total goods consumption includes more categories than in the retail price index)

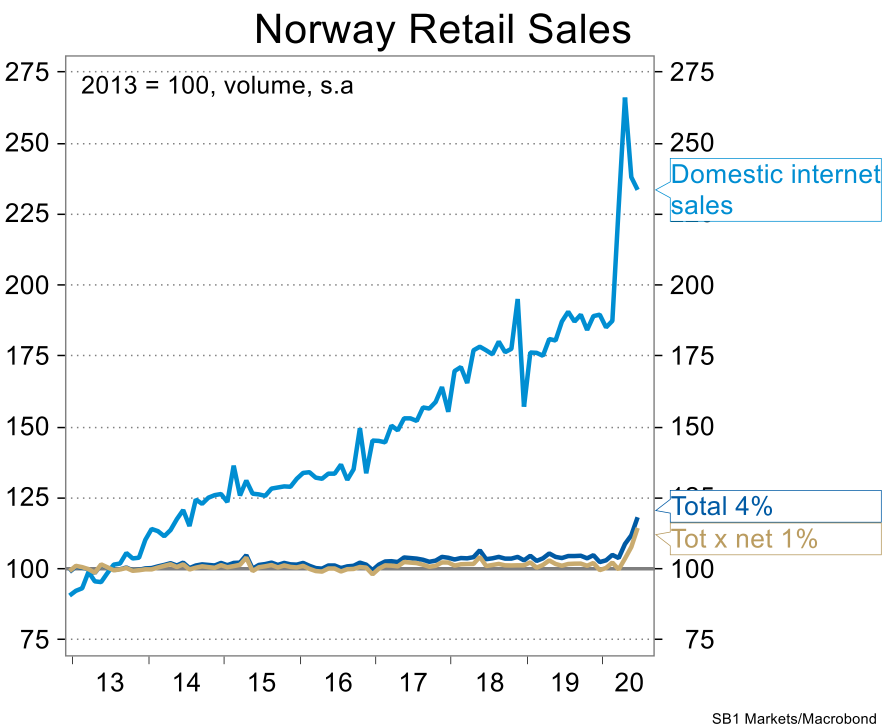
Some wild months – probably towards more normal times the coming months

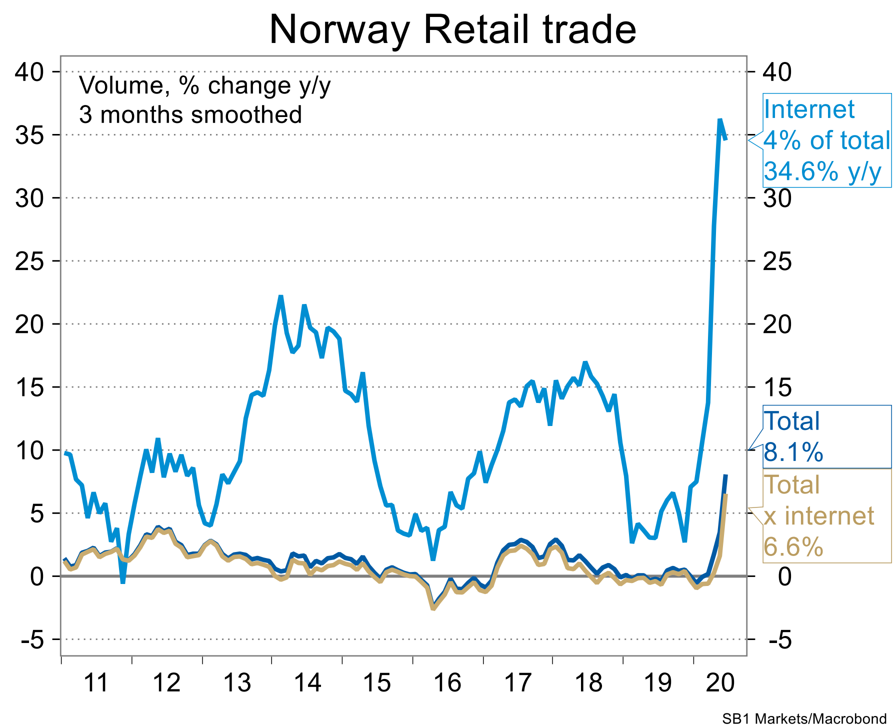
Spending on services and gradually also abroad will dampen retail trade demand in Norway



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

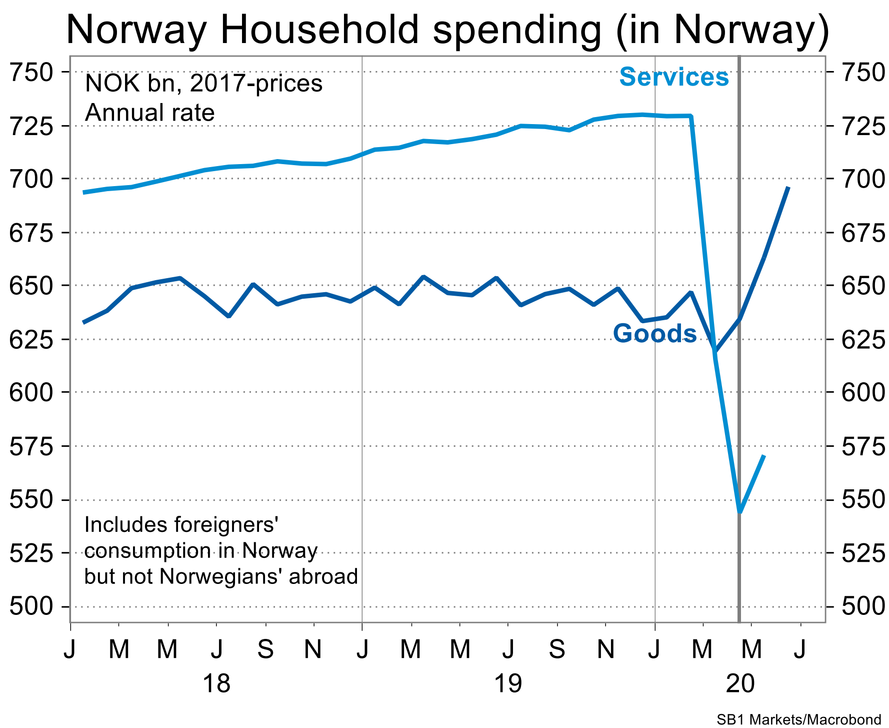
Domestic net sales have captured more than half of the growth in total retail sales





Goods consumption through the roof, services no – at least until July

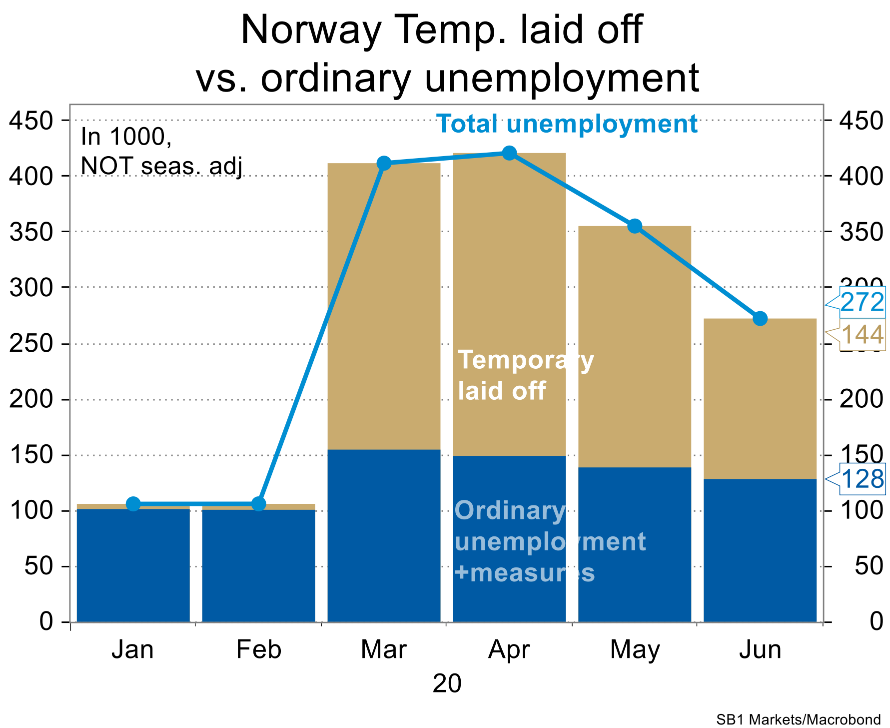
Consumption of goods rose sharply in May, to above the pre corona level. Total consumption still dwn

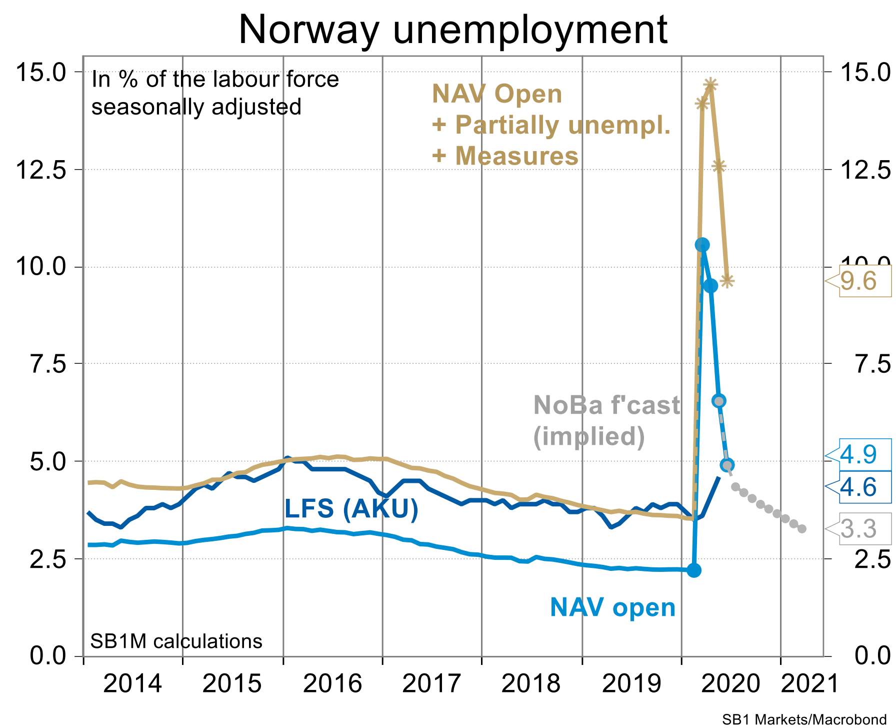


- We have less service consumption data. The May National accounts reported just a minor increase vs. April. No doubt service consumption rose sharply in June and further in July, and it may be that total household spending in Norway is back at the pre corona level in July
- Norwegian household's consumption abroad has fallen by NOK 120 bn (annual rate) to almost zero (a setback 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)
- Norwegian households' consumption was far below a normal level in May, and we assume so in June and July, given no spending abroad

LFS unemployment up 0.5 pp to 4.6% in May, as some furloughed are counted

LFS unemployment is up 1.1 pp past 3 months, and is at the highest since 2016; employment -1.9%

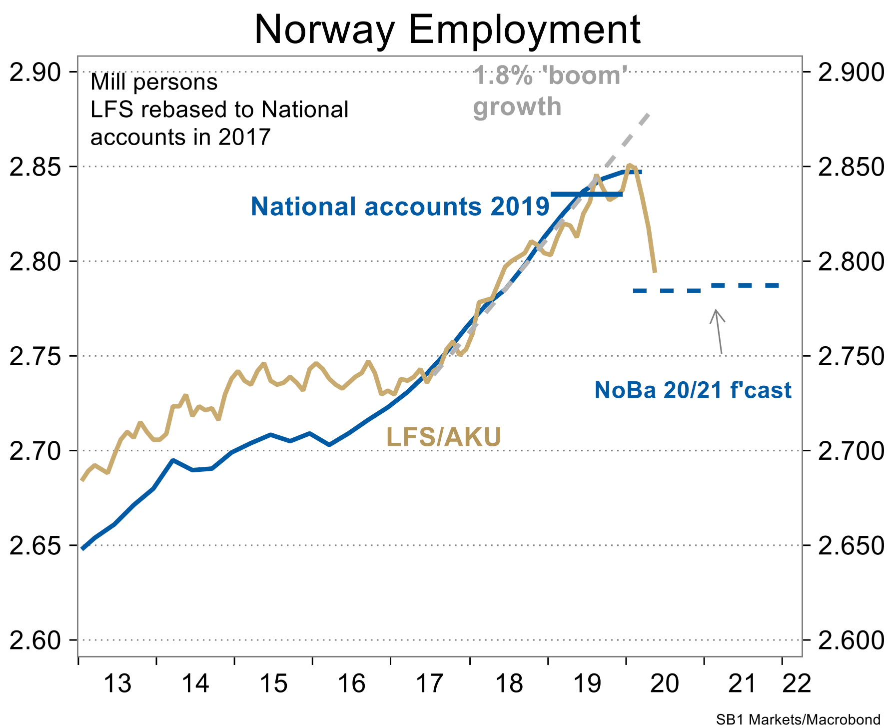


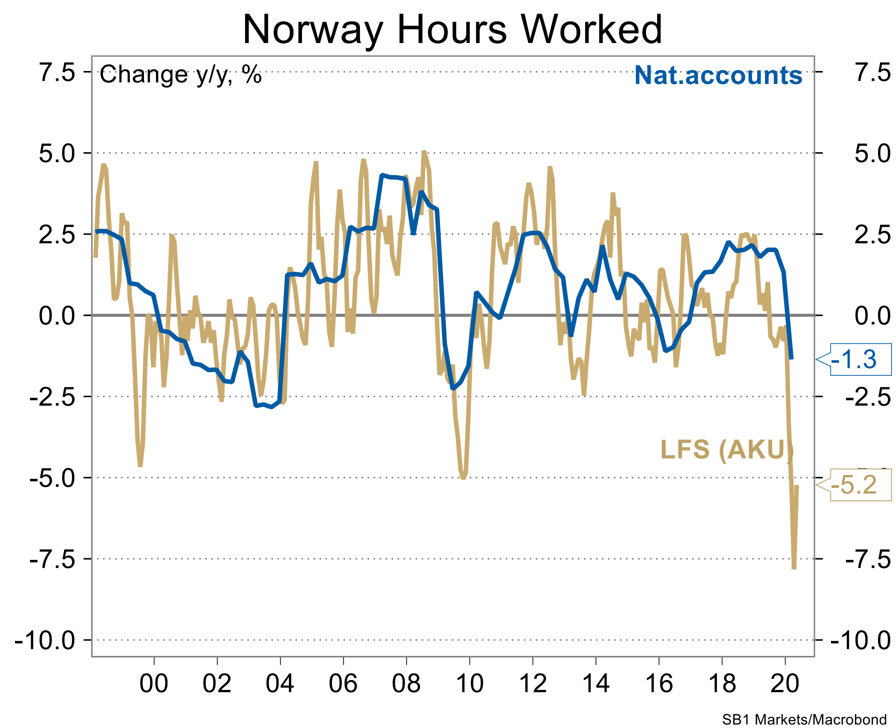


- Temporary furloughed workers are counted as employed the first 3 months of the unemployment period, thereafter as unemployed. Since most were laid off in the second half of March, few of them have so been counted as unemployed in the previous Labour Force Surveys. In May (the April – June avg), some of them have probably entered the ranks of unemployed, and more will probably enter in the June report
- Employment has fallen by 1.9% past 3 months, the largest short term decline since the Norwegian housing and banking crisis in 1990. However, the decline in employment (and even more in the employment rate) is not that large vs. previous downturns
  - » More than 3 pp than normal of the employed are temporary absent from work, (and 5 pp more than normal without any stated reason, like holiday, sickness, no doubt due to temporary lay offs).
  - » Hours worked are down 5 – 6% over just 3 moths, in line with the more than 1 year decline during the financial crisis, reflecting the sharp decline in GDP since early March. Most of the income shortfall for the employees is covered by the temporary enhanced unemployment benefit

Employment down (even if most furloughed are still counted as employed)

LFS employment down 1.9% since Feb, level soon down to NoBa's expected 2020 average

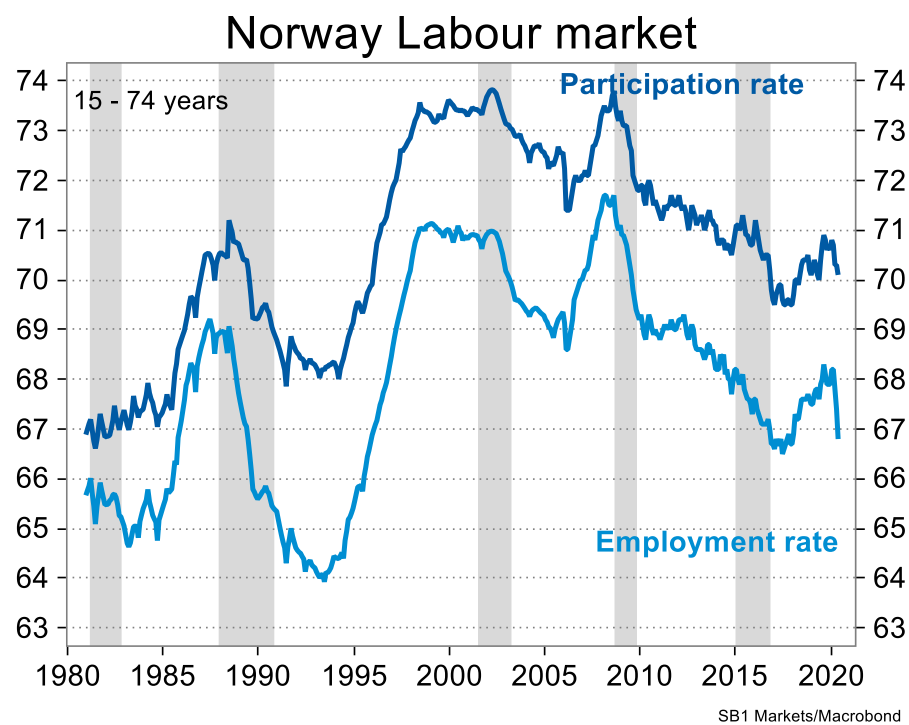


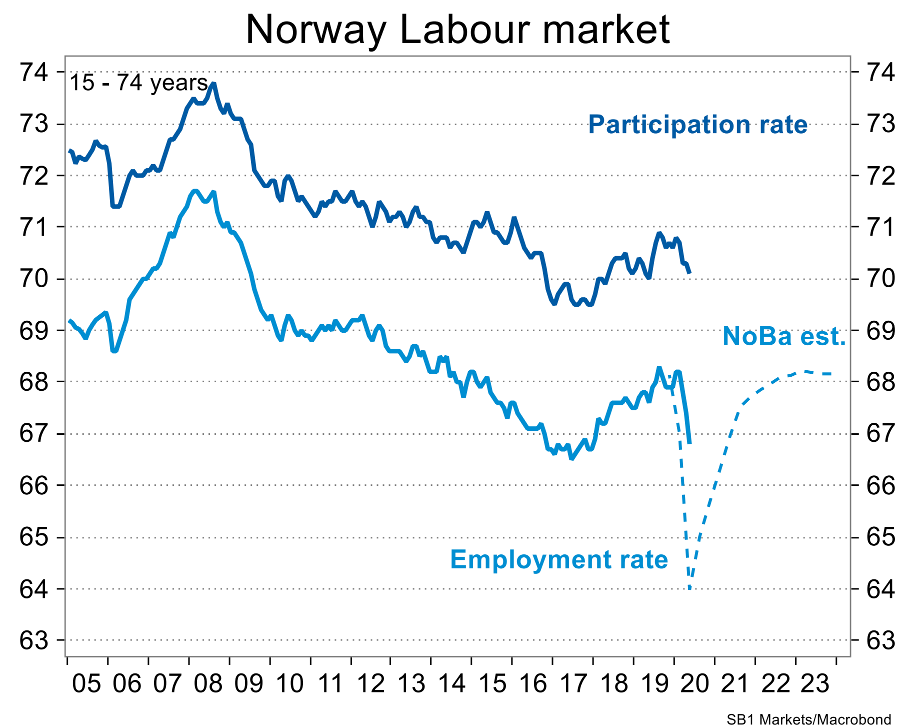


- The LFS/AKU employment fell by 53' to May (avg Mar-May) from Feb (avg Jan-March), and is down 0.7% y/y. 3 pp of the employed are absent from work (but still counted as employed).
- No surprise, total hours worked are down some 5 – 6% during the spring
- The experimental monthly employee statistics reports a 3% decline y/y in May, implying a 4% drop from early 2020

Employment rates sharply down, participation down too

Still, the corona impact is rather modest - but more to come the next months

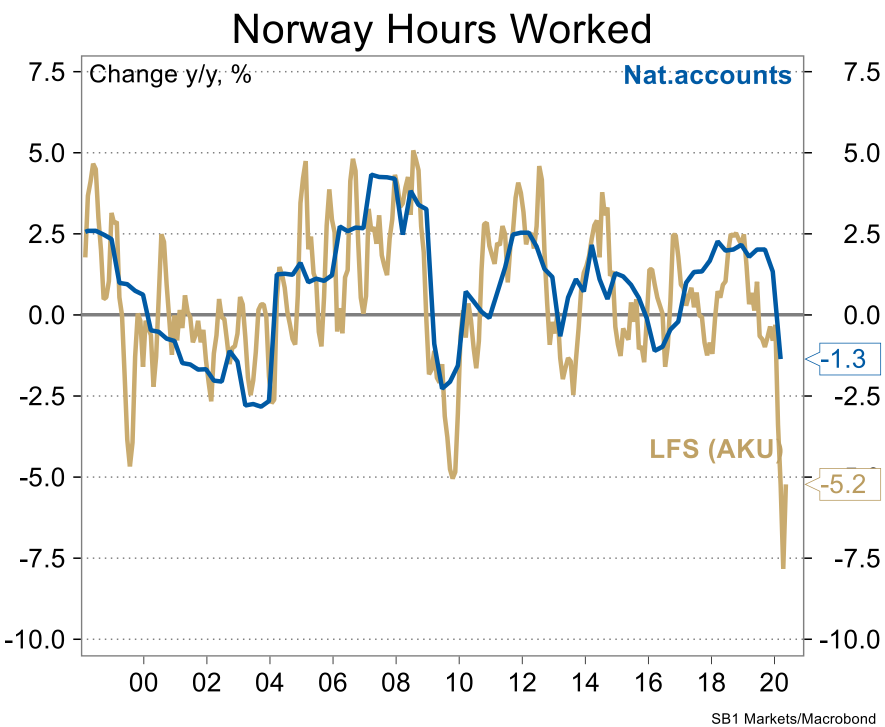


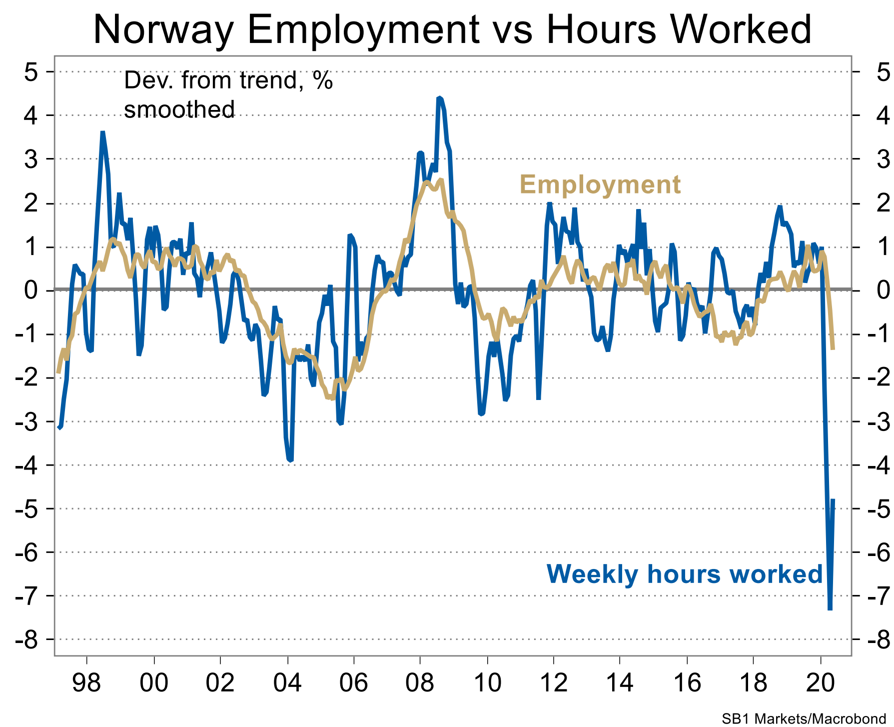


- In the June report, NoBa forecasted a decline in the Q2 participation rate, measured by National Account employment data, not the LFS survey data, at 3 pp (to 64.4%, the main scenario). The LFS survey reported a 1.4 pp decline. The Nat. accounts will be reported in August. We think the risk on the upside vs. NoBa's -3 pp forecast
- The participation rate has fallen by 0.6 pp since Feb but was still 0.1 pp higher than in May last year

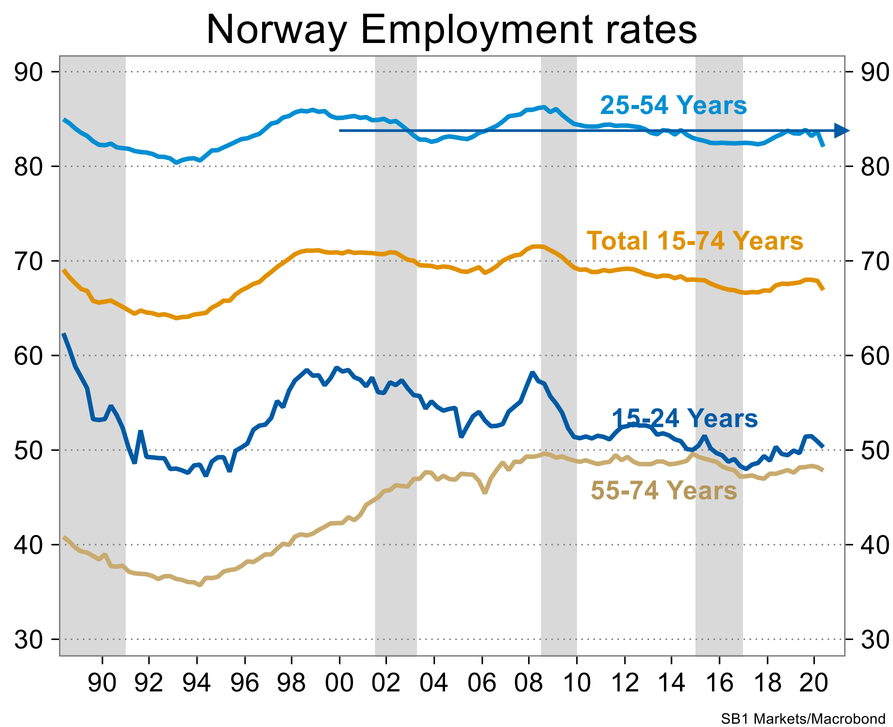
Hours worked sharply down in Q2 – the sharpest decrease ever

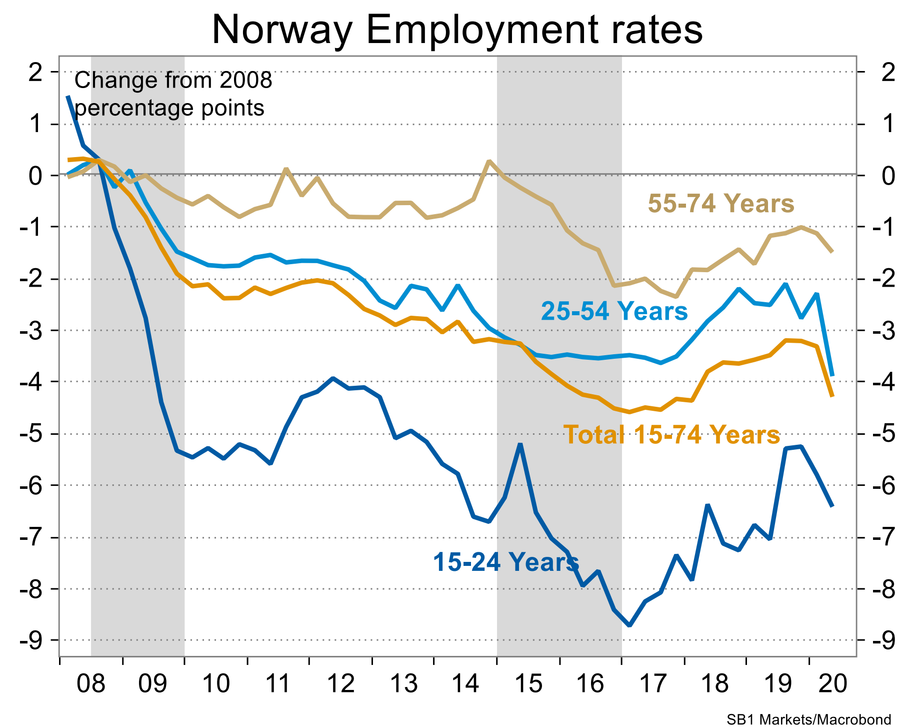
... amid the sharpest decline in Mainland GDP ever





Employment rates down among all age groups, the 25-54 group hardest hit

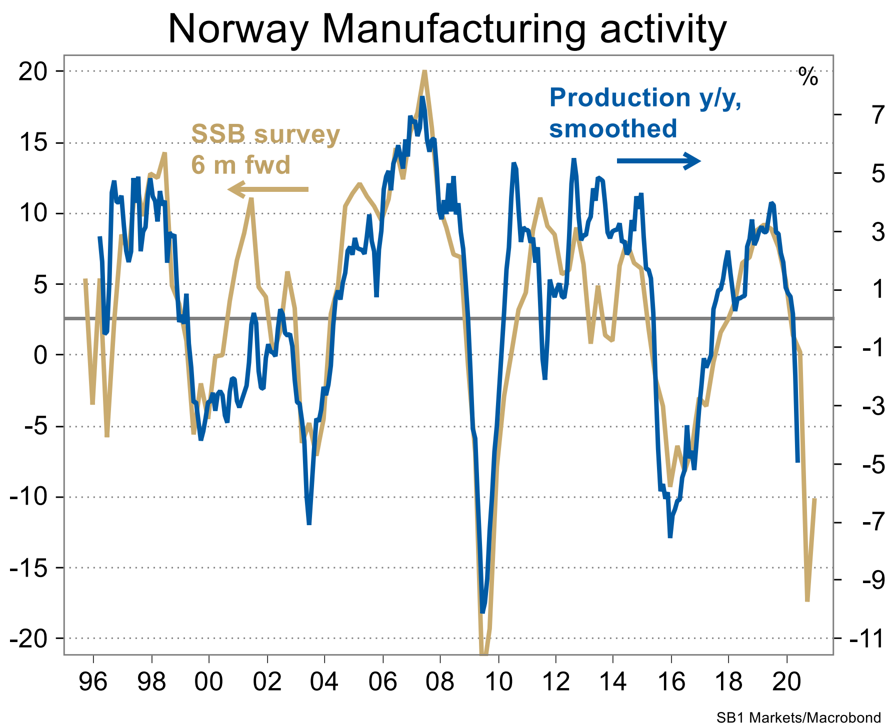


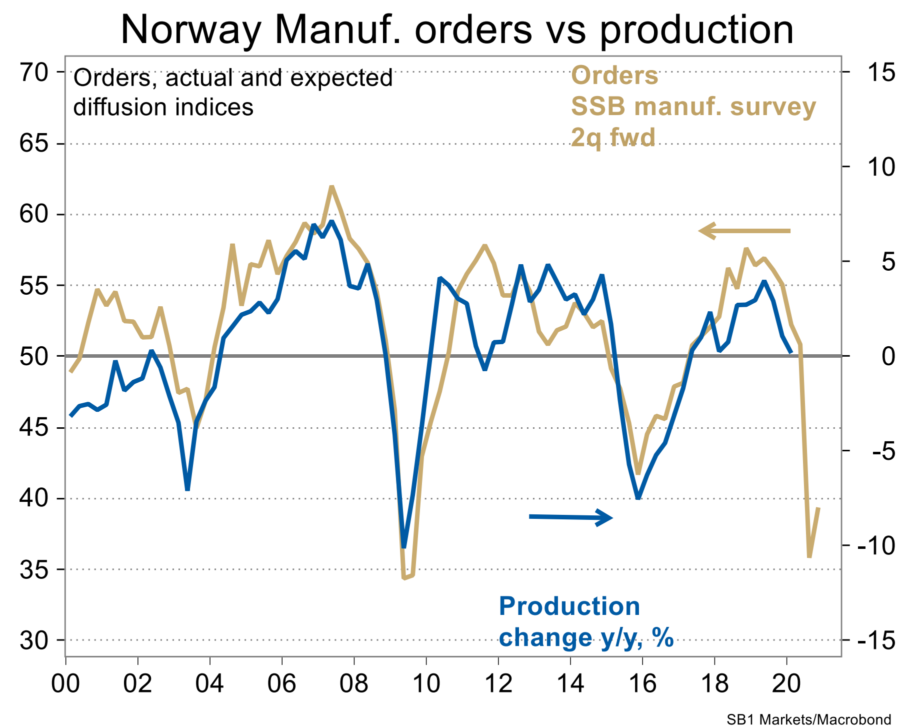


- The <u>regional differences</u> in employment rates are not signficant

SSB's manufacturing survey up in Q2, still signalling a harsh downturn

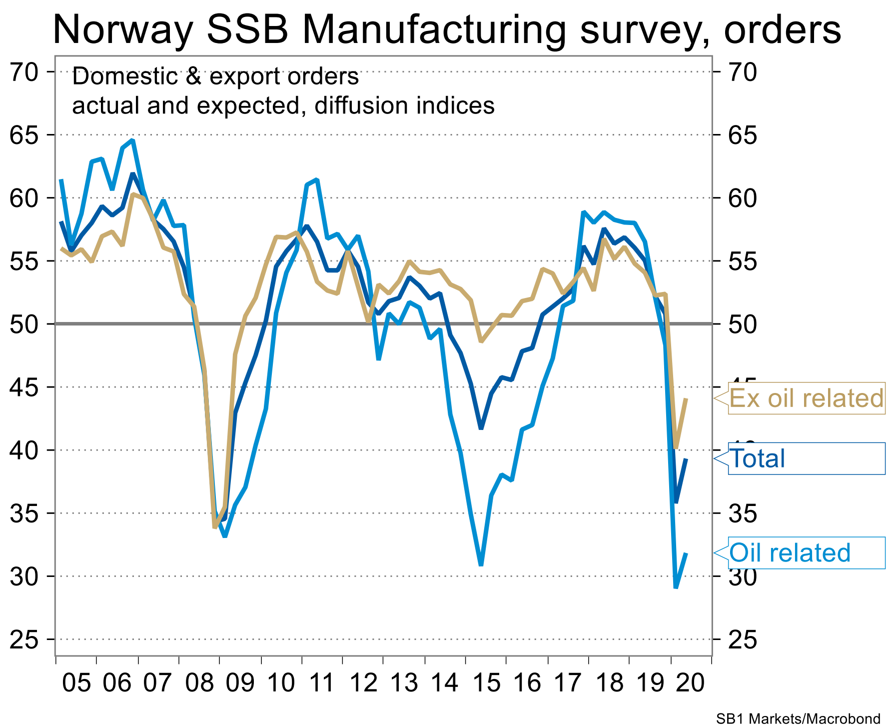
Not surprisingly, the manufacturers think they are heading for a harsh downturn

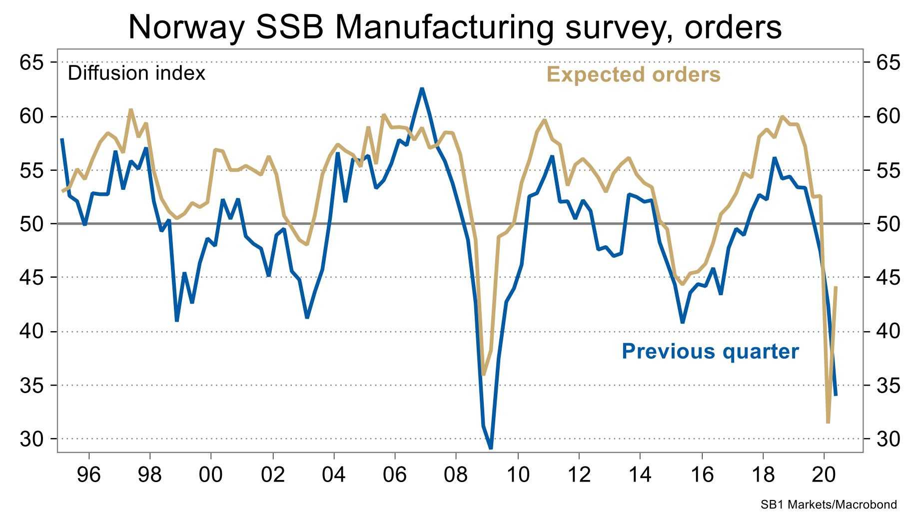


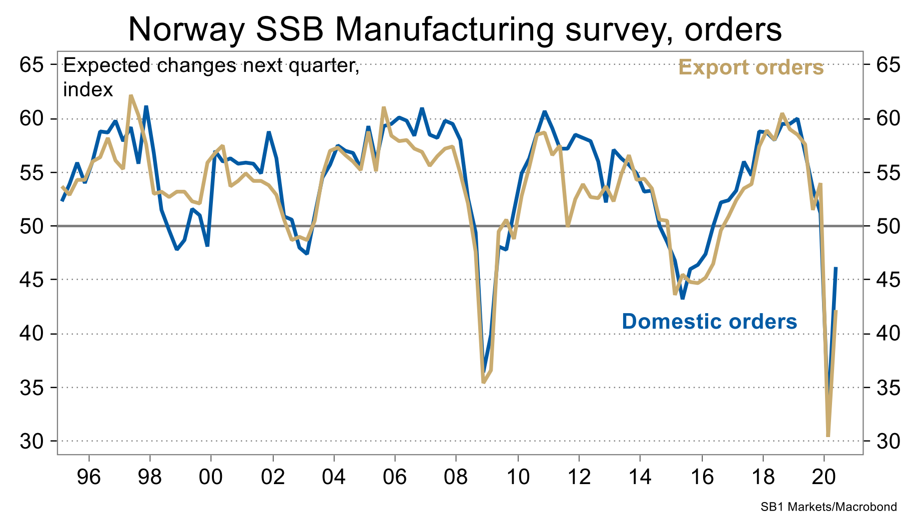


- The composite index in SSB's industrial survey (manuf. index) rose to -10 in Q2, from -17.4 in Q2 (and +0.2 in Q4) The index signals a 5 - 7 % decline in manufacturing production, falling Mainland GDP and OSEBX EPS
- Oil related industries are still reporting a sharp contraction - but several sectors are expecting production to increase, from a low level in Q2, we assume

Ordres are still falling rapidly – but the expectations recovered somewhat

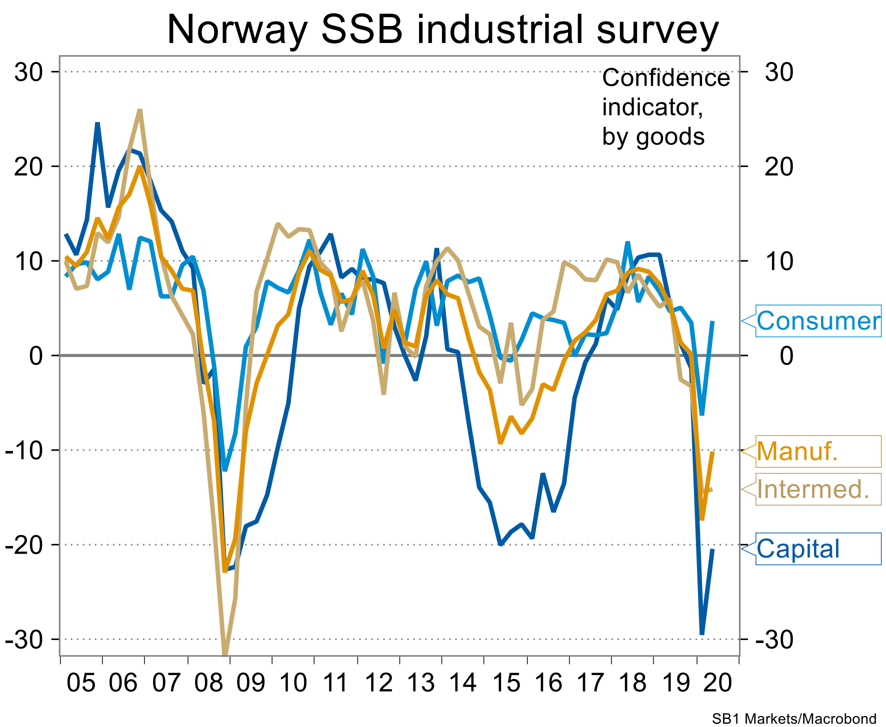


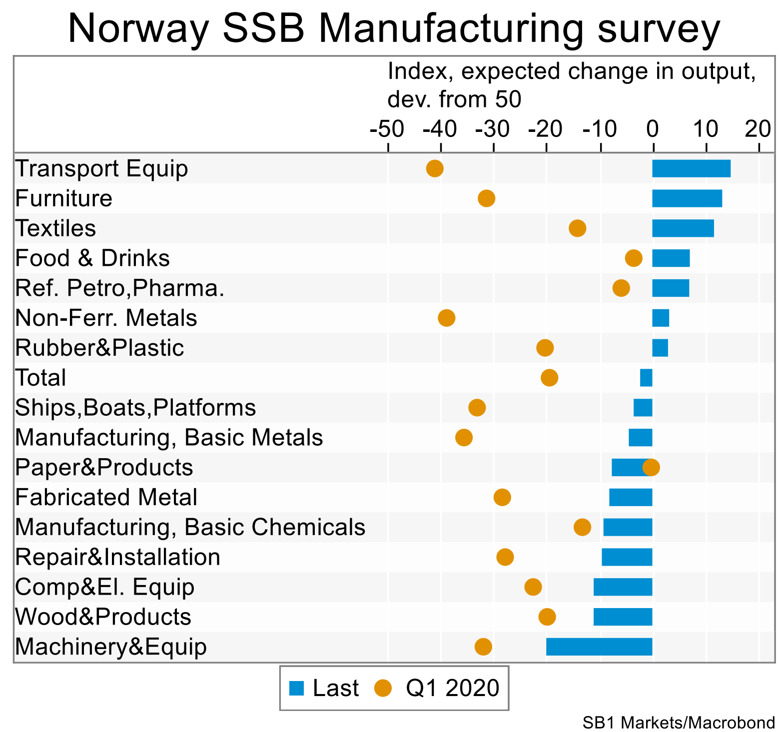




Capital goods the weakest link (much oil related)

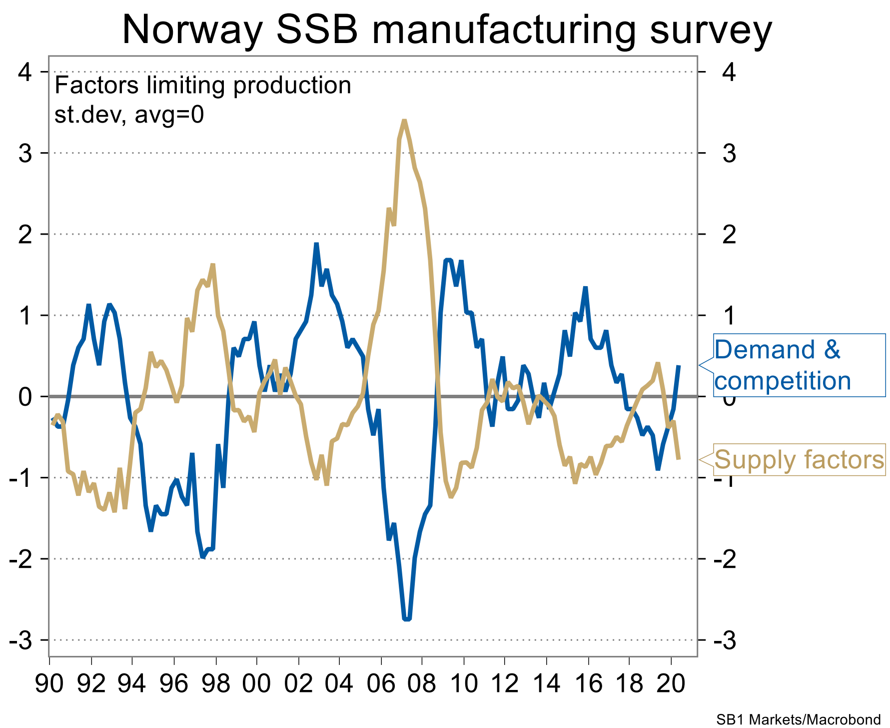
The downturn in oil/capital goods started in Q4

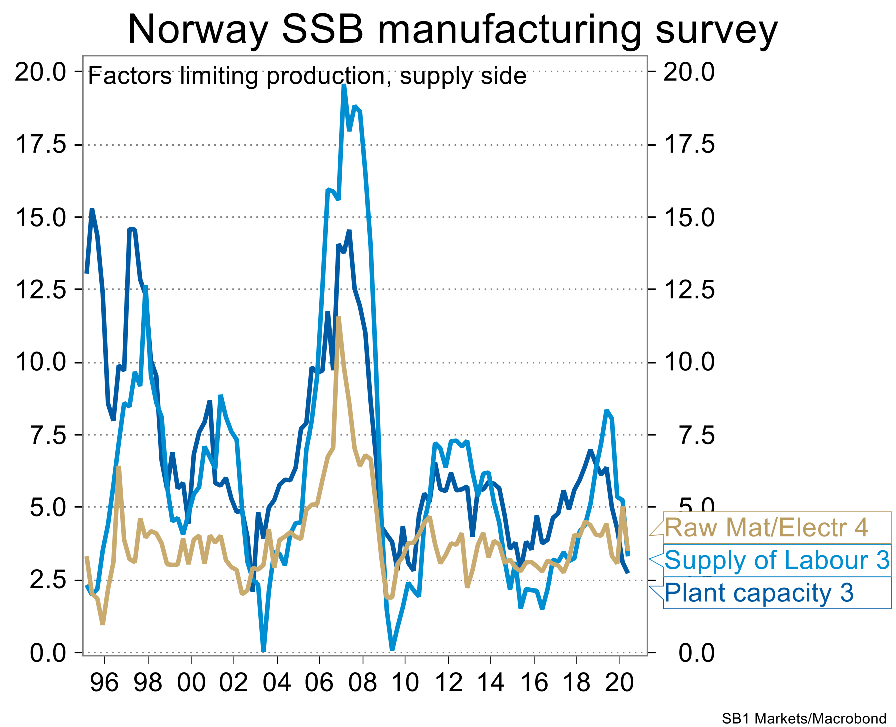




Manufacturers report less tight labour market – and softer demand

The share of businesses reporting labour shortages dropped further in Q2, no surprise



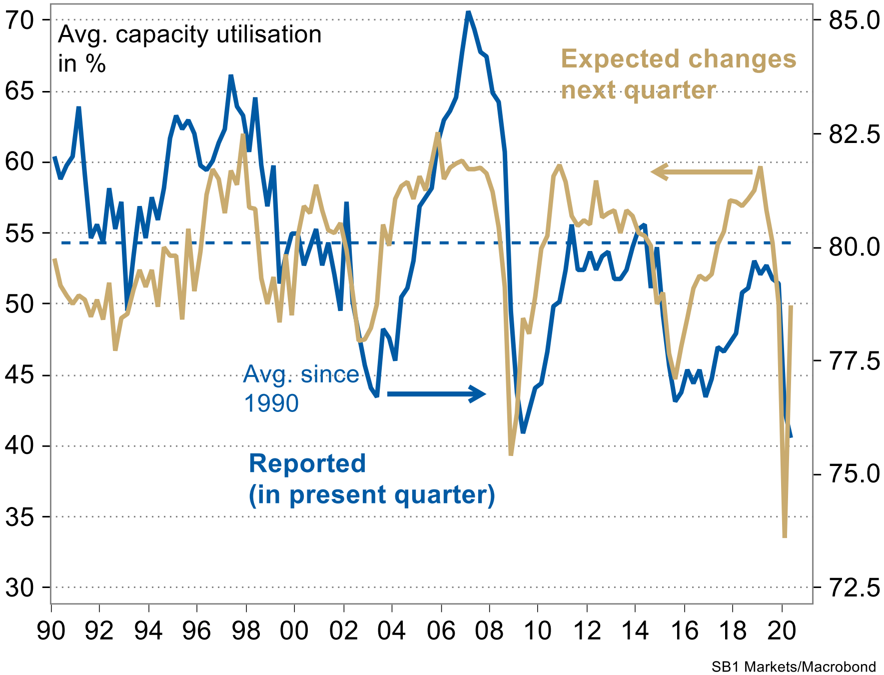


- The share of companies reporting lack of labour is well below average, but far from record low
- Plant capacity constraints are falling too, to well below an average level
- Raw materials are not any problem either (supply chains are not destroyed)
- More (but still fewer than normal) companies reported lack of demand/too much competition as a constraint in Q2

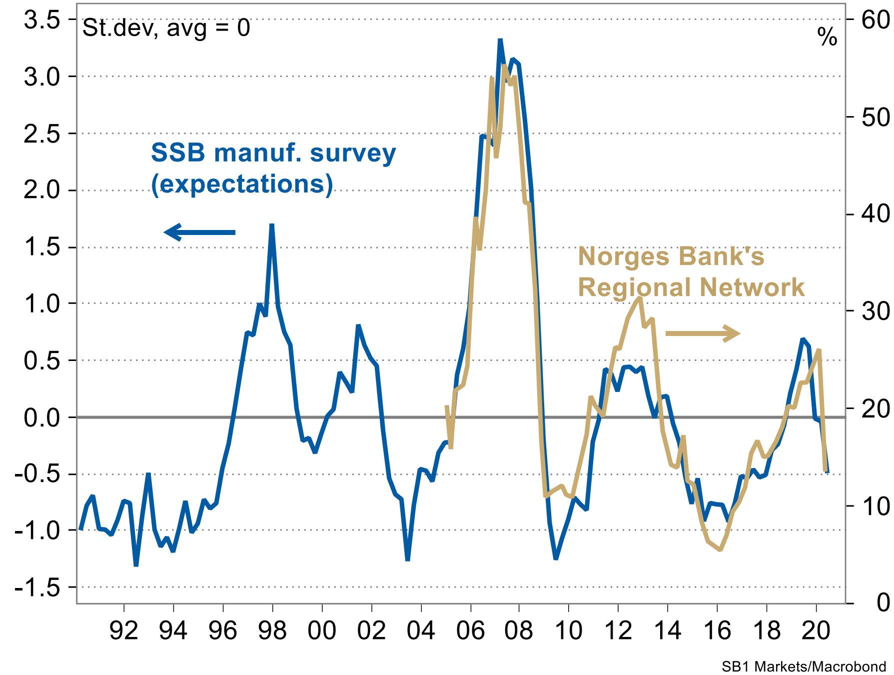
Reported capacity utilisation sharply down, expectations stabilised

Actual capacity util. in Q2 the lowest on record – but is not expected further down

Norway SSB Manuf. survey, capacity utilisation



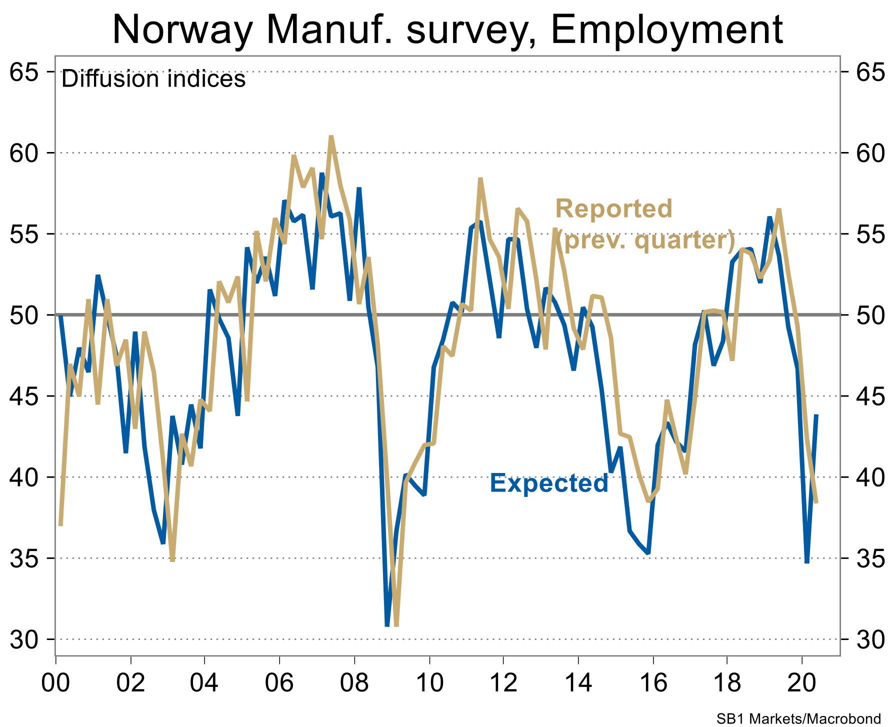
Norway Labour shortages

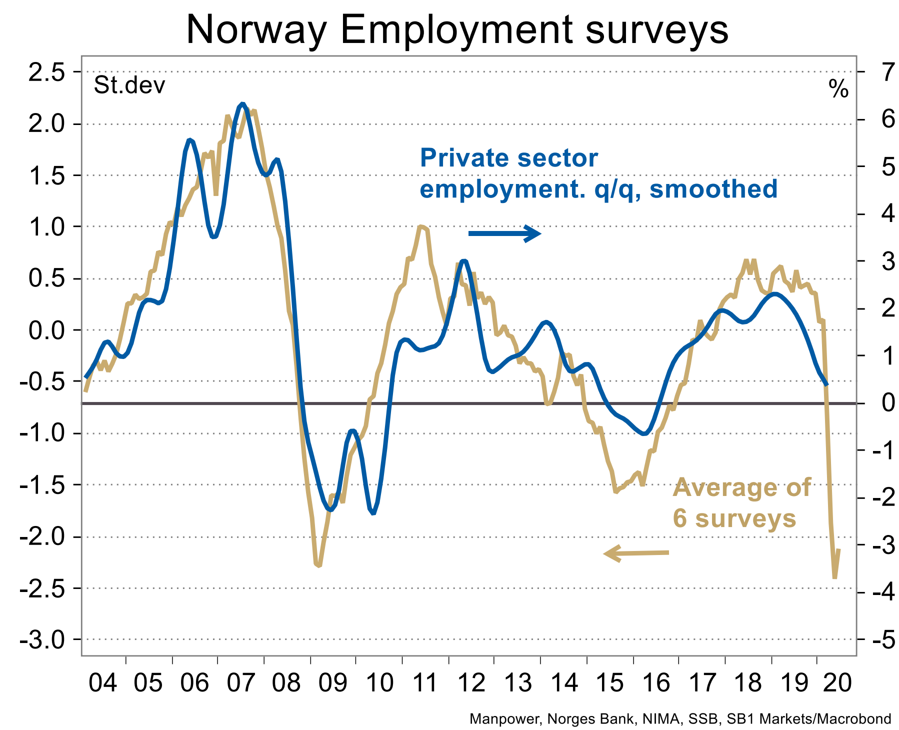


- An expectation index at 50 formally signals a stable utilisation in Q3 but in reality is signals an increase

SpareBank 1 MARKETS

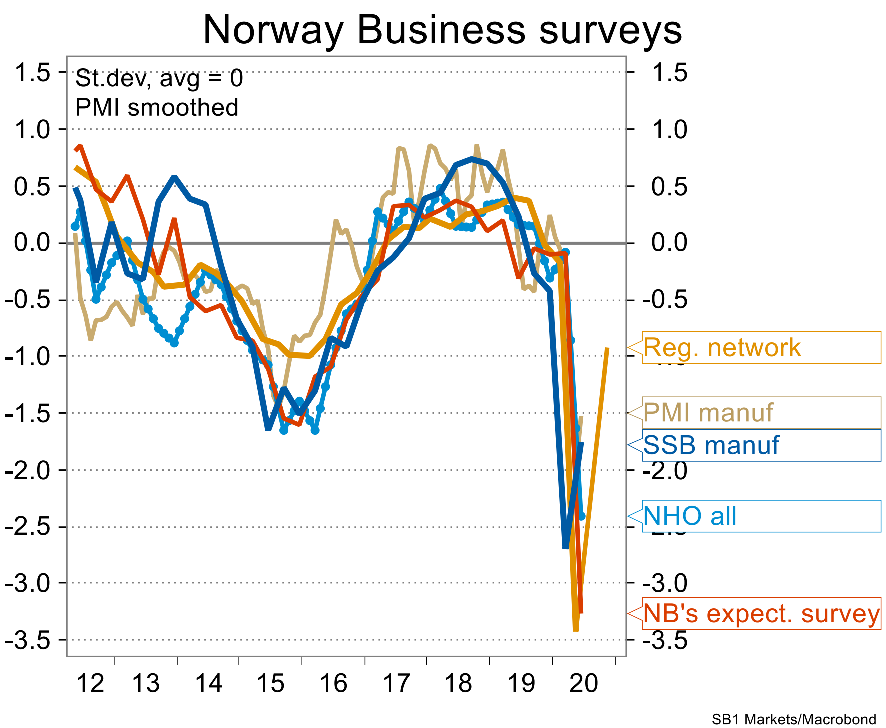
Manufacturers are reporting sharp employment cuts

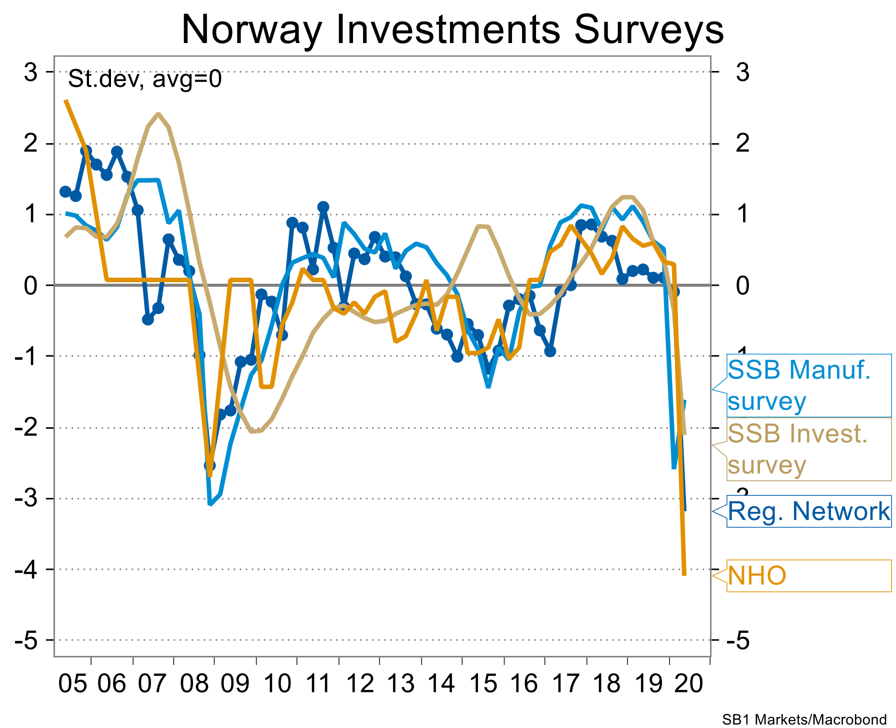




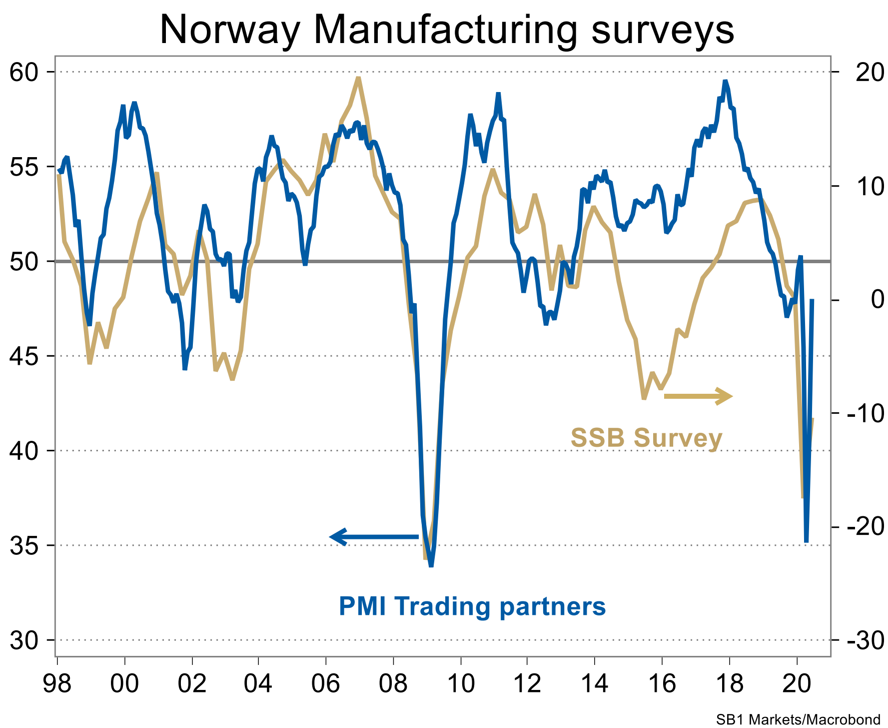
Surveys: The bottom was in Q2 but the level is still low

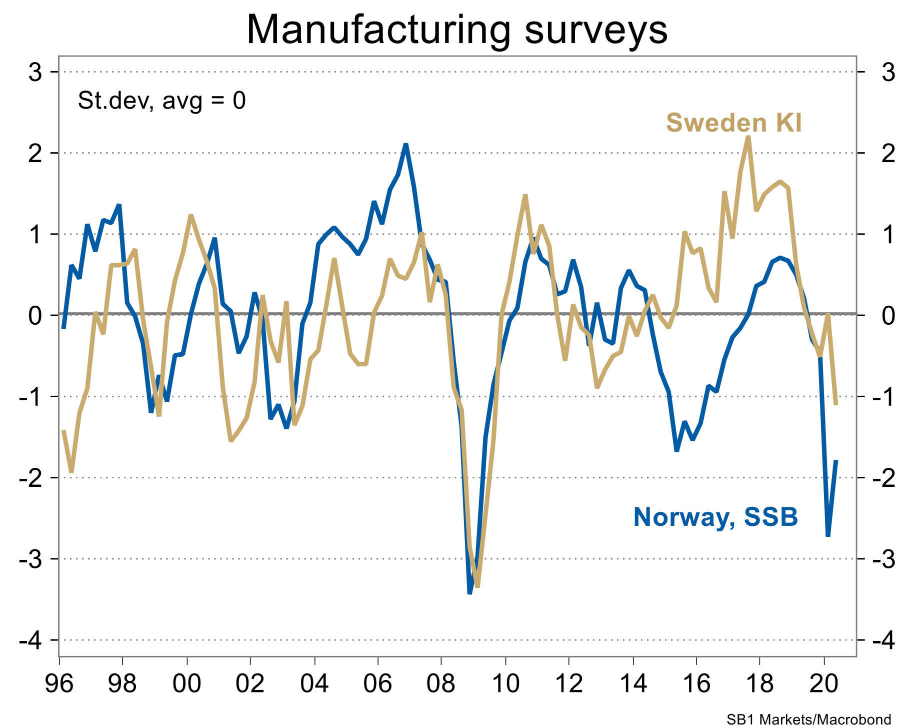
Investments in the manufacturing sector were on the way to be cut sharply, even before corona





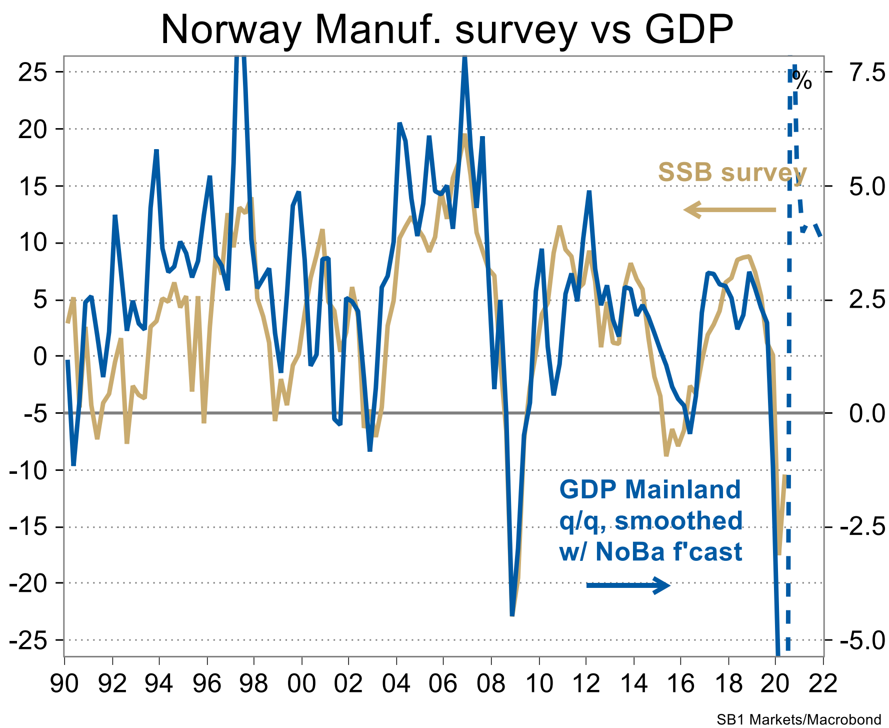
Norway is following its trading partners down, as usual

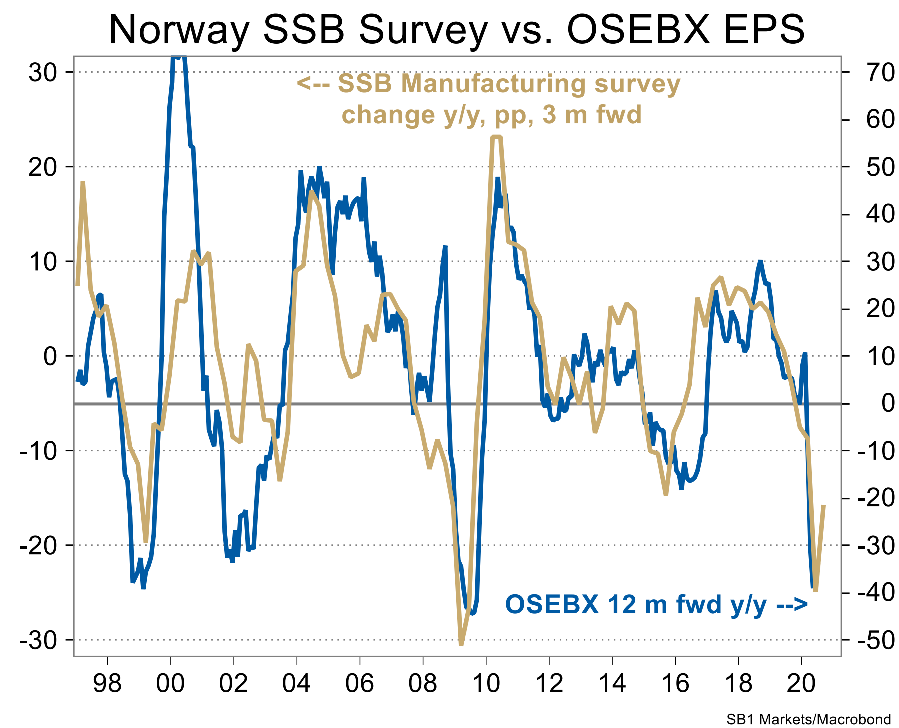




SSB's manufacturing survey signals GDP & earnings contraction. Surprised?

SSB manufacturing survey signals a harsh setback in the Norwegian economy, of course





Highlights

The world around us

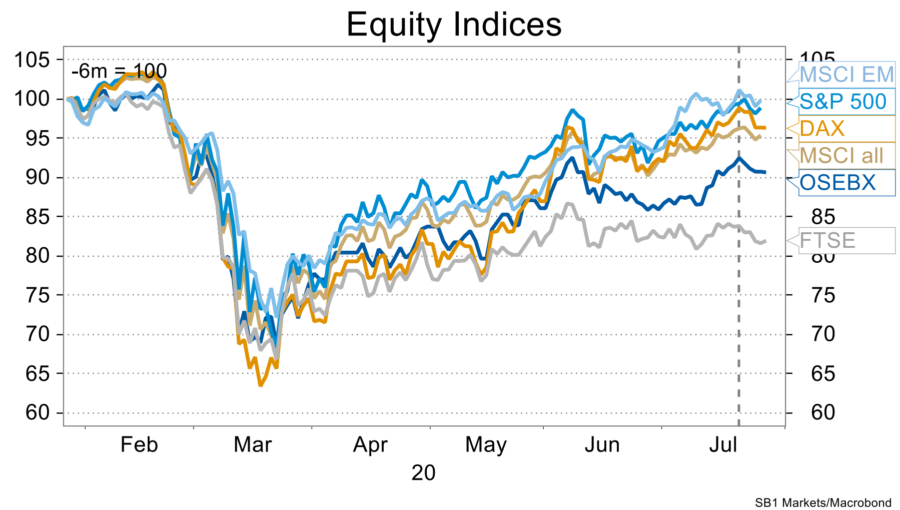
The Norwegian economy

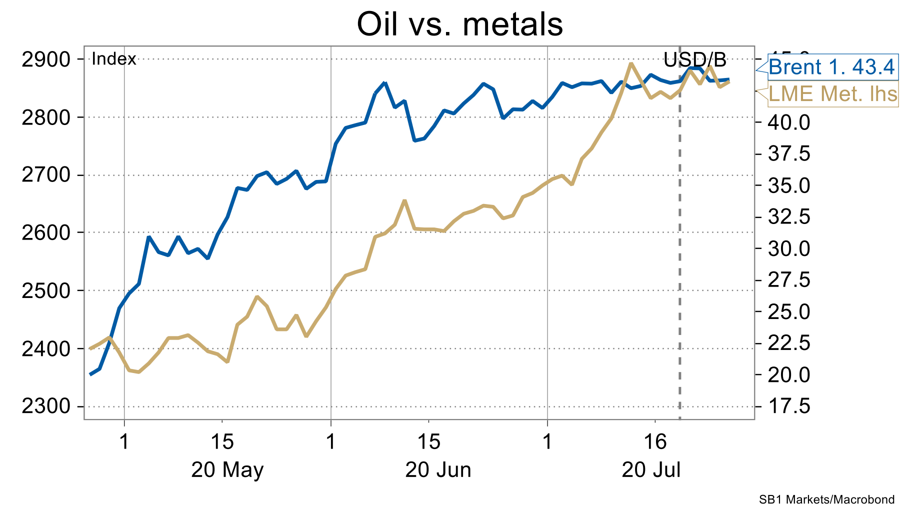
Market charts & comments

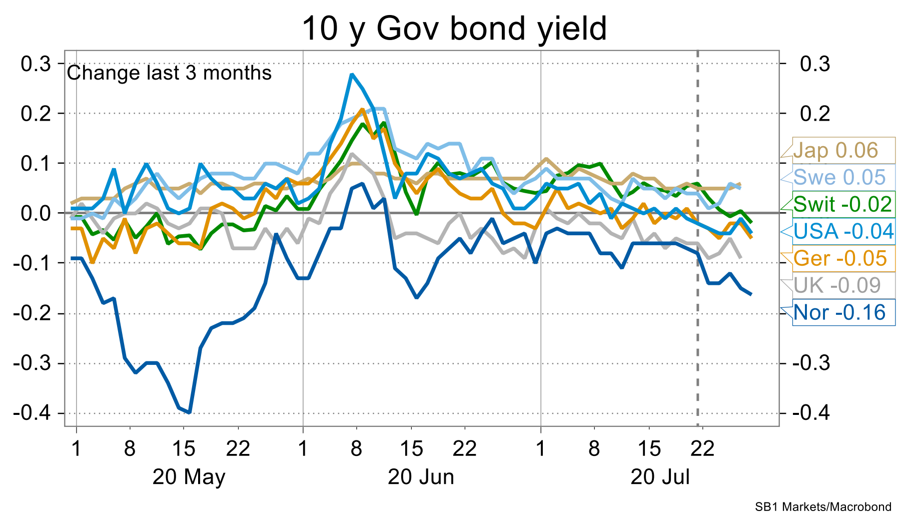
SpareBank 1 MARKETS

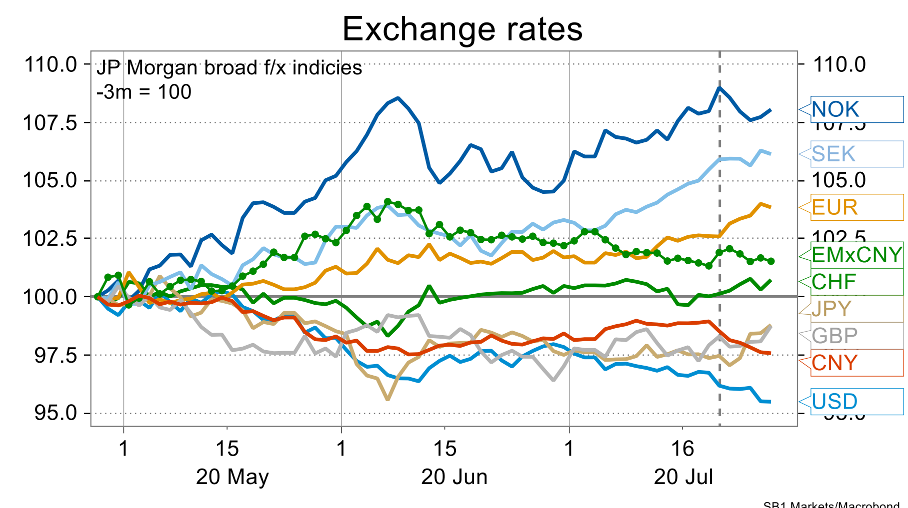
Most stock markets slightly down, yields still sliding down. Oil, metals flat

USD is depreciating further, but no drama yet. NOK (& SEK, EUR) has appreciated in July









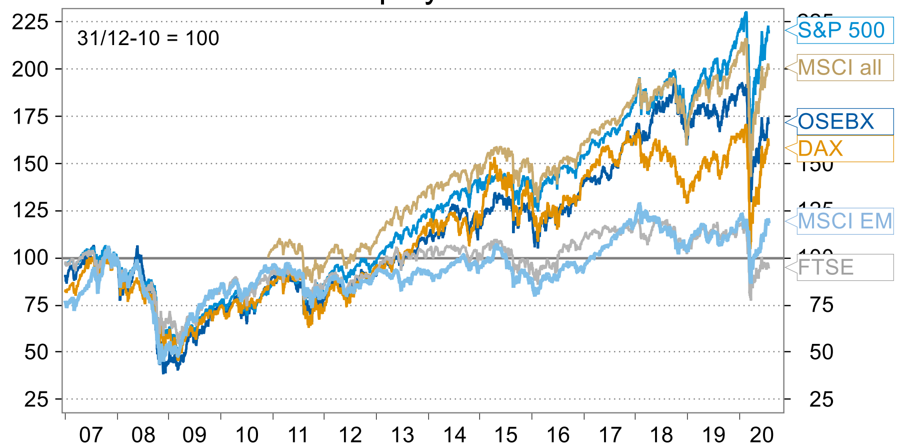
The USD has been the laggard since mid May. NOK, SEK is recovering – and joined by the EUR last week.

SpareBank 1 MARKETS

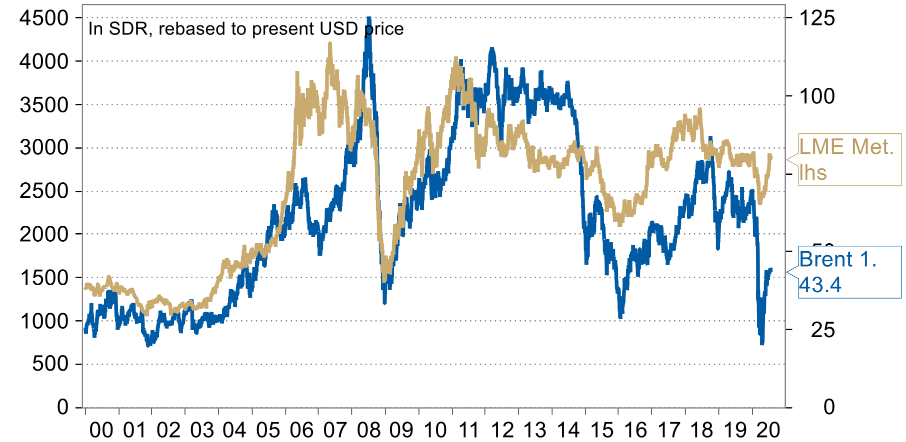
In the long run: Stock markets are looking like a 'V'

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

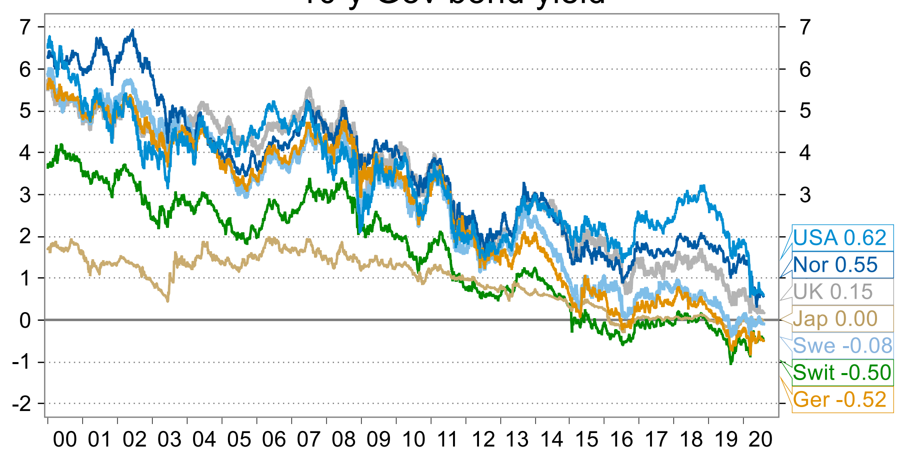
Equity Indices



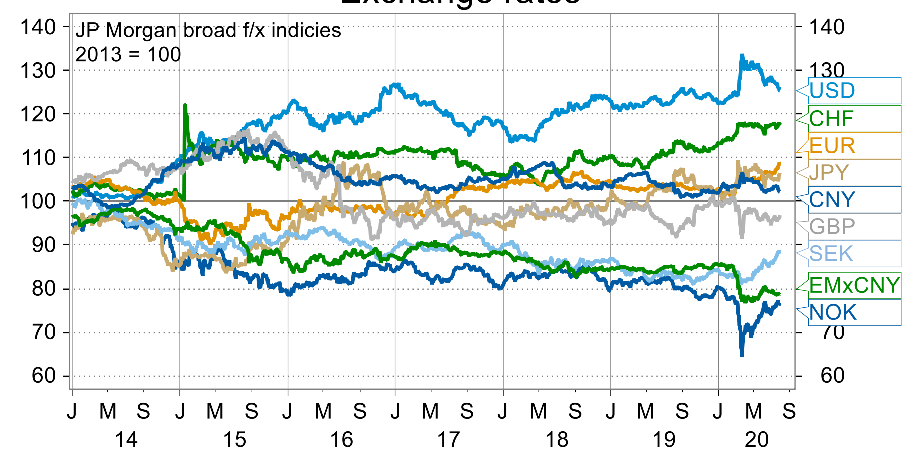
Oil vs. metals



10 y Gov bond yield



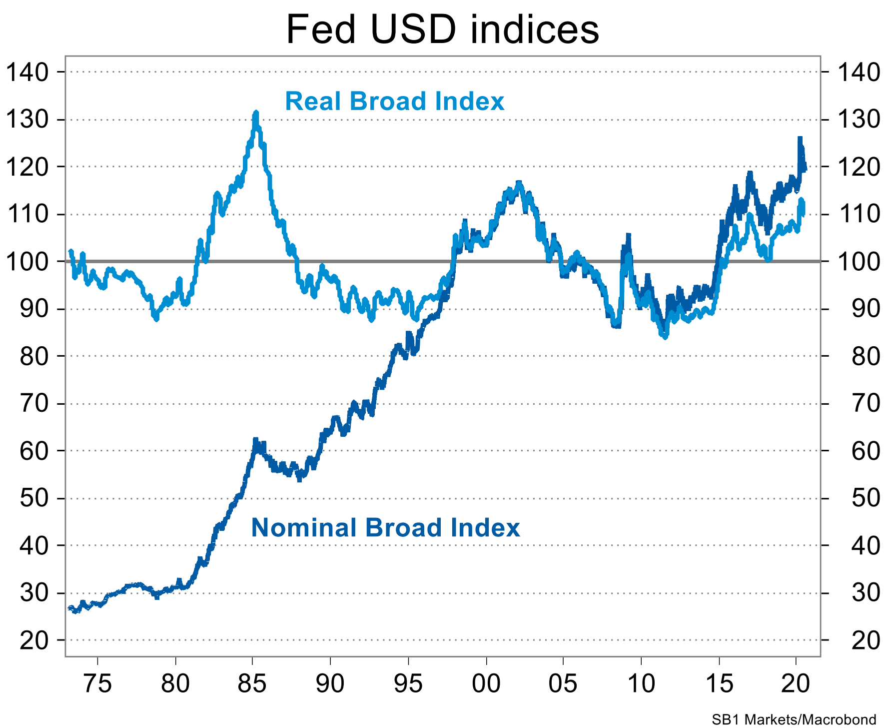
Exchange rates

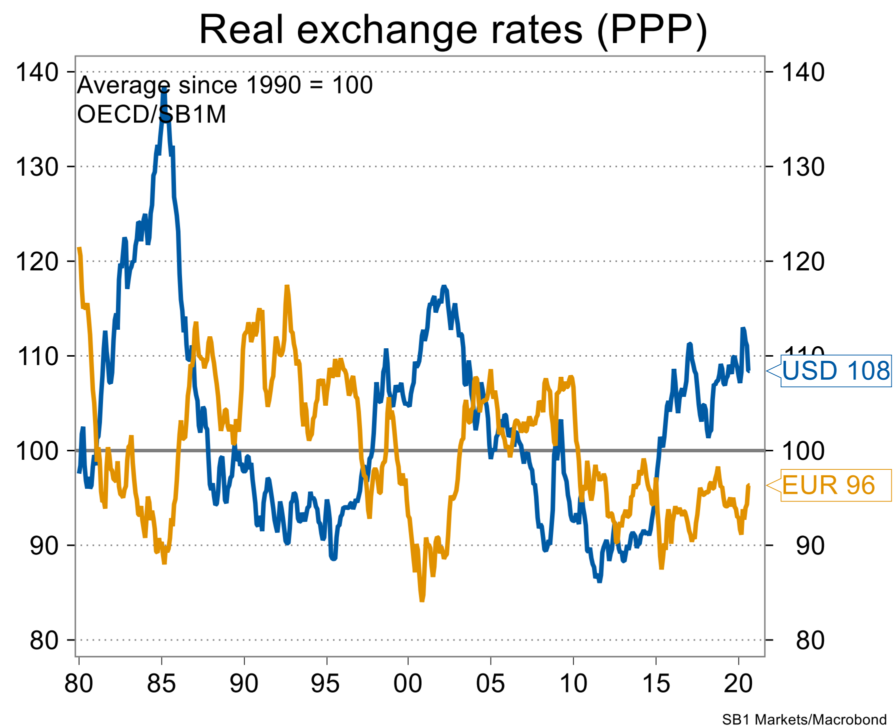


The USD is down still stronger than in February – and over the previous years (measured by broad f/x indices

Sure, the USD is down – and it may depreciate much more. But so far, no drama!

The USD is down some few per cent – but is still far above average levels in PPP terms

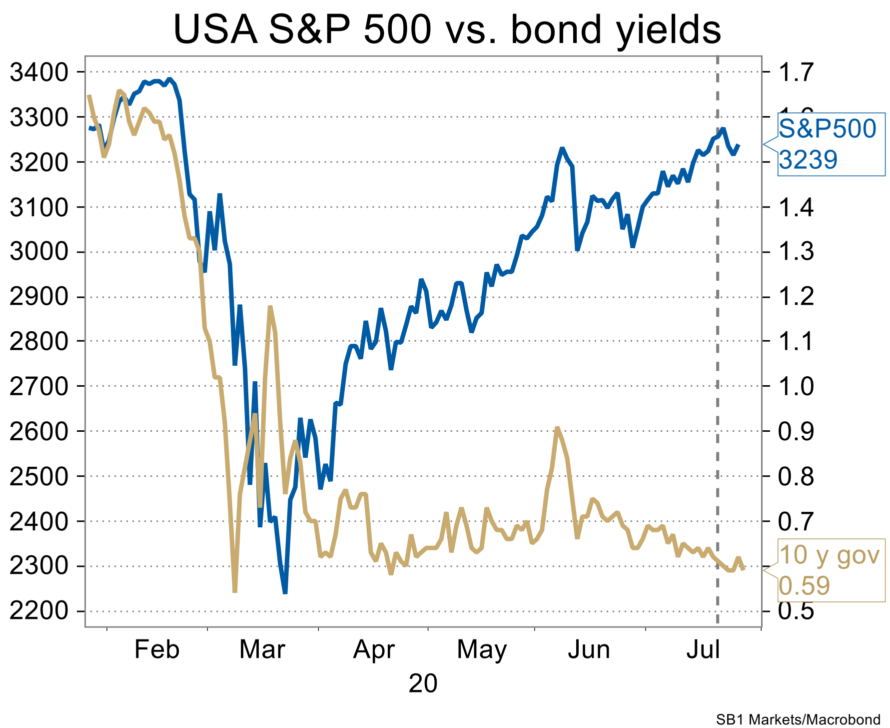


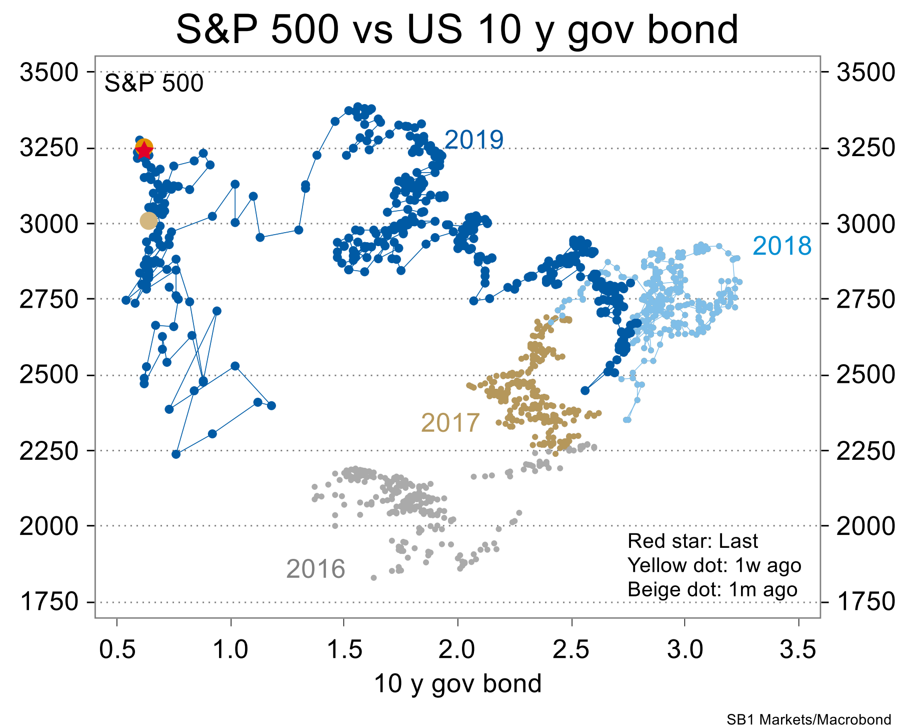


- Corona, slowing growth, social unrest, political turbulence, budget deficits (that will become even larger) & money printing, trade deficits, the US China conflict. You name it, there are always reasons for the USD to decline
- Still, measured by broad indices, the USD remains stronger than in February

Stocks up, bond yields unchanged over the past 5 trading days

The 10 y gov bond yield at 0.62%, close to the March ATL. Equities are not far below ATH

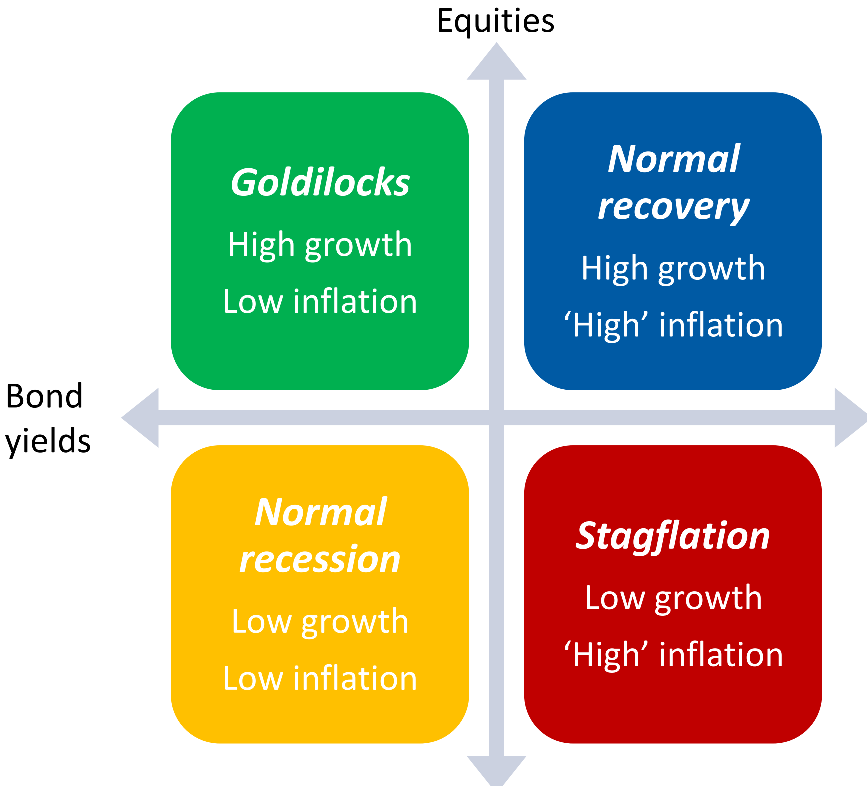


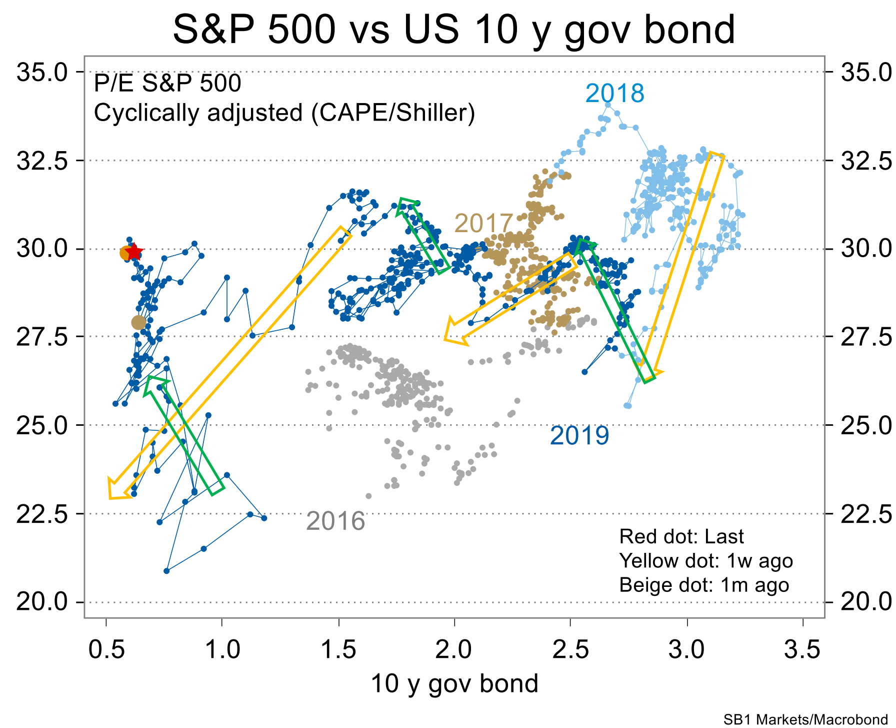


SpareBank 1 MARKETS

In July, so far: Corona take off or not, towards the goldilocks scenario

… data have been on the strong side – as has the corona virus, at least in the US



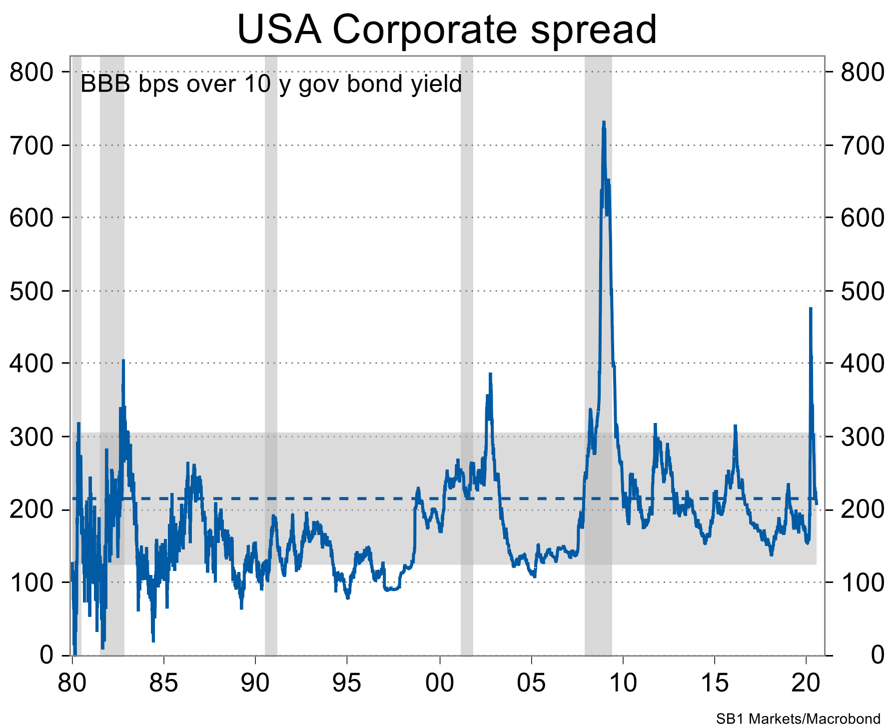


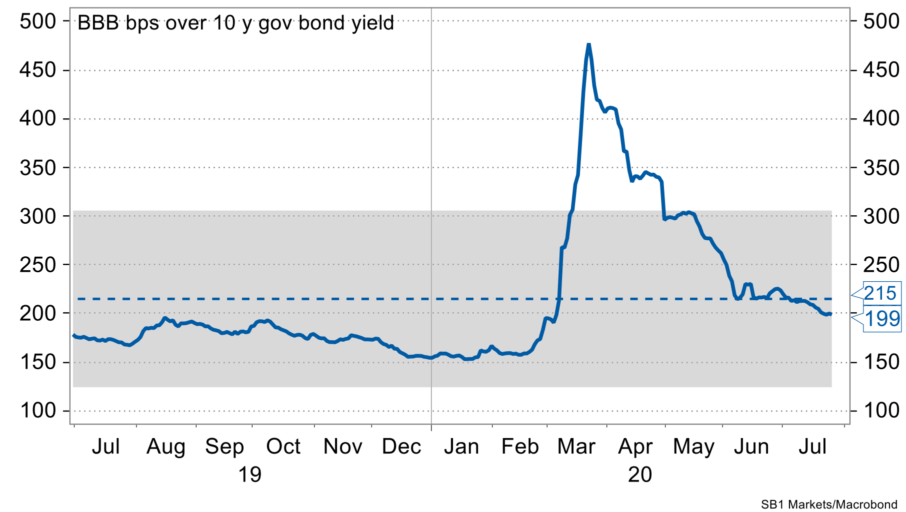
- For most of 2019, markets were zig-zagging along with news on the trade war, most of the time along the 'normal recession/recovery' axis. In mid-January, coronavirus outbreak sent markets steeply down, towards the 'normal recession' corner. The downturn accelerated in March as the Covid-19 pandemic 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

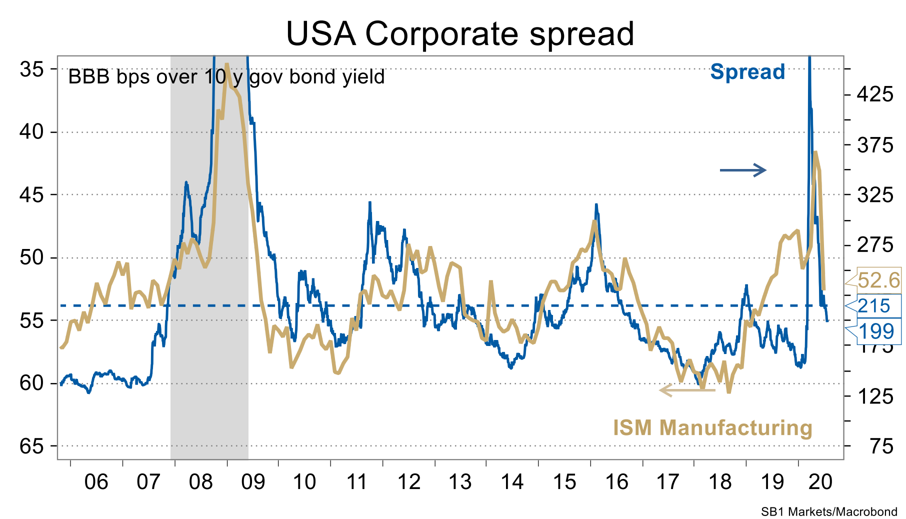
SpareBank 1 MARKETS

Corporate spreads are still drifting down – and are now below average

… supported by hopes of a ‘V’ shaped recovery





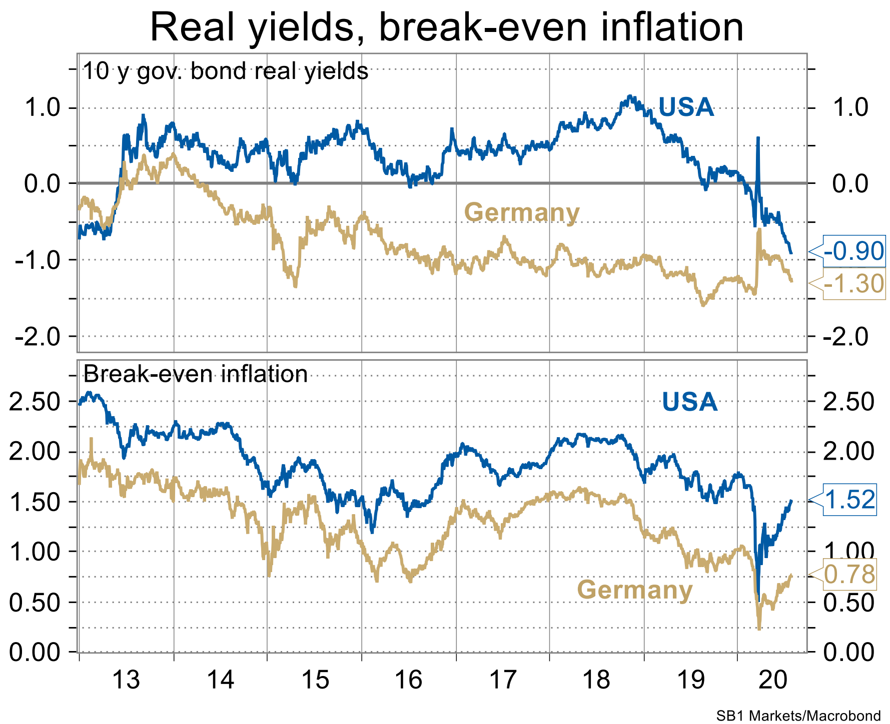


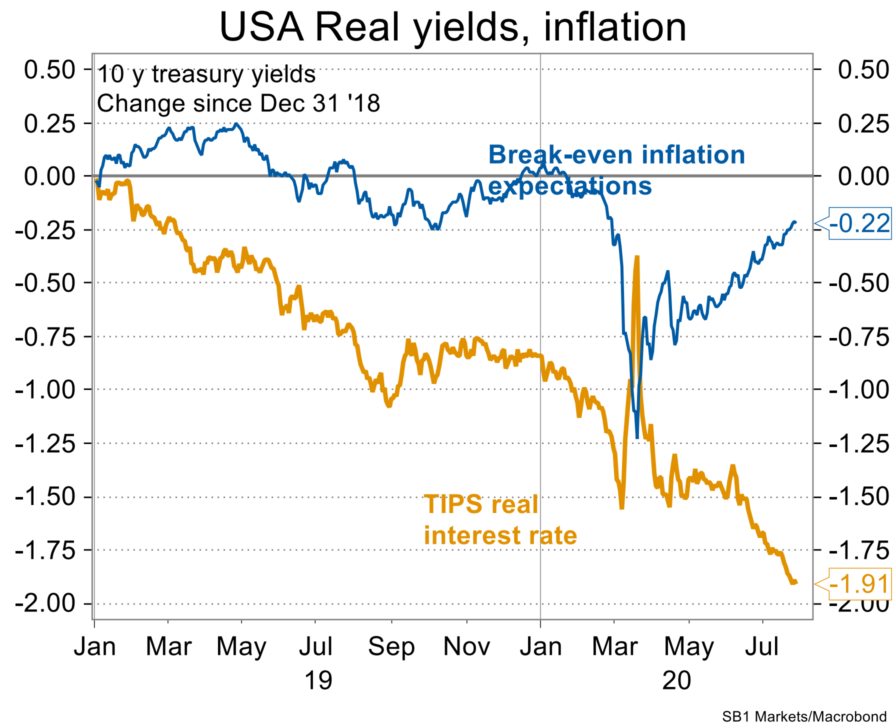
- However, is the credit risk at an average level now??

SpareBank 1 MARKETS

Inflation expectations are drifting up but still not high

Real rates are drifting lower

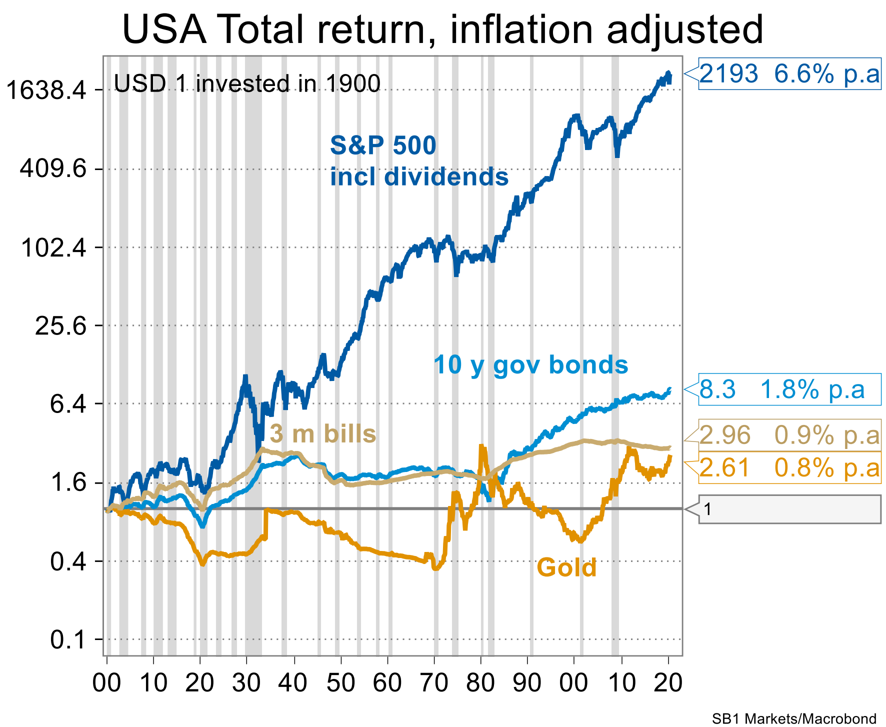


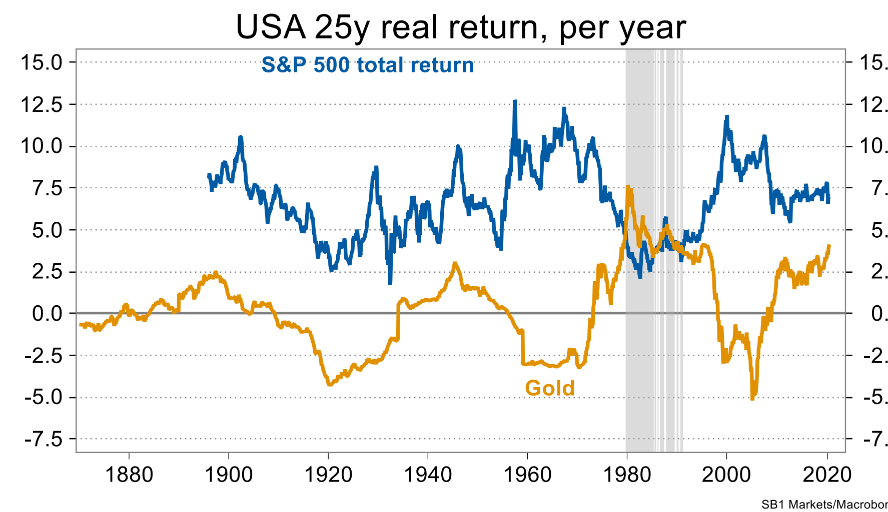


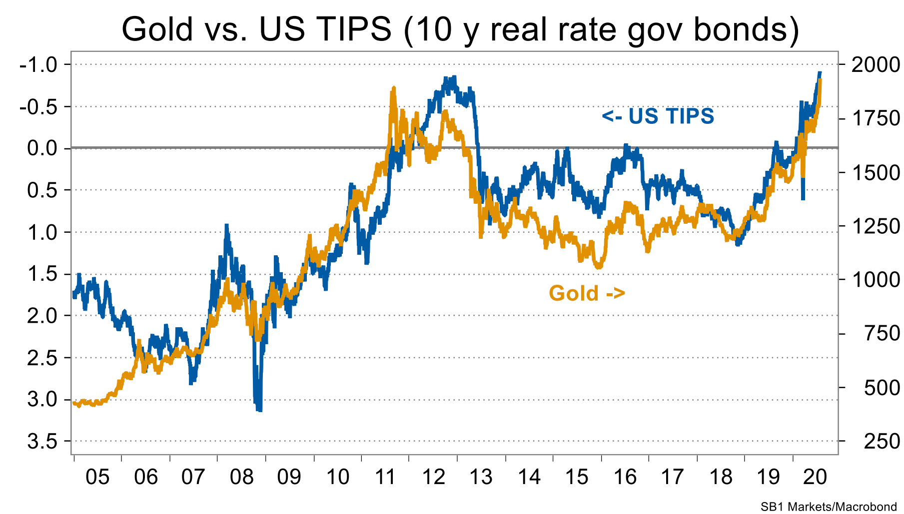
- Real interest rates are falling further – more in the US than in Germany. US 10 y real rate at -0.84% is close to ATL at -0.87% in 2012. In between time, it has been above +1%

For the gold bugs: A long and a short story

Gold has through the history been a really bad (zero yield) investment. However, from time to time…

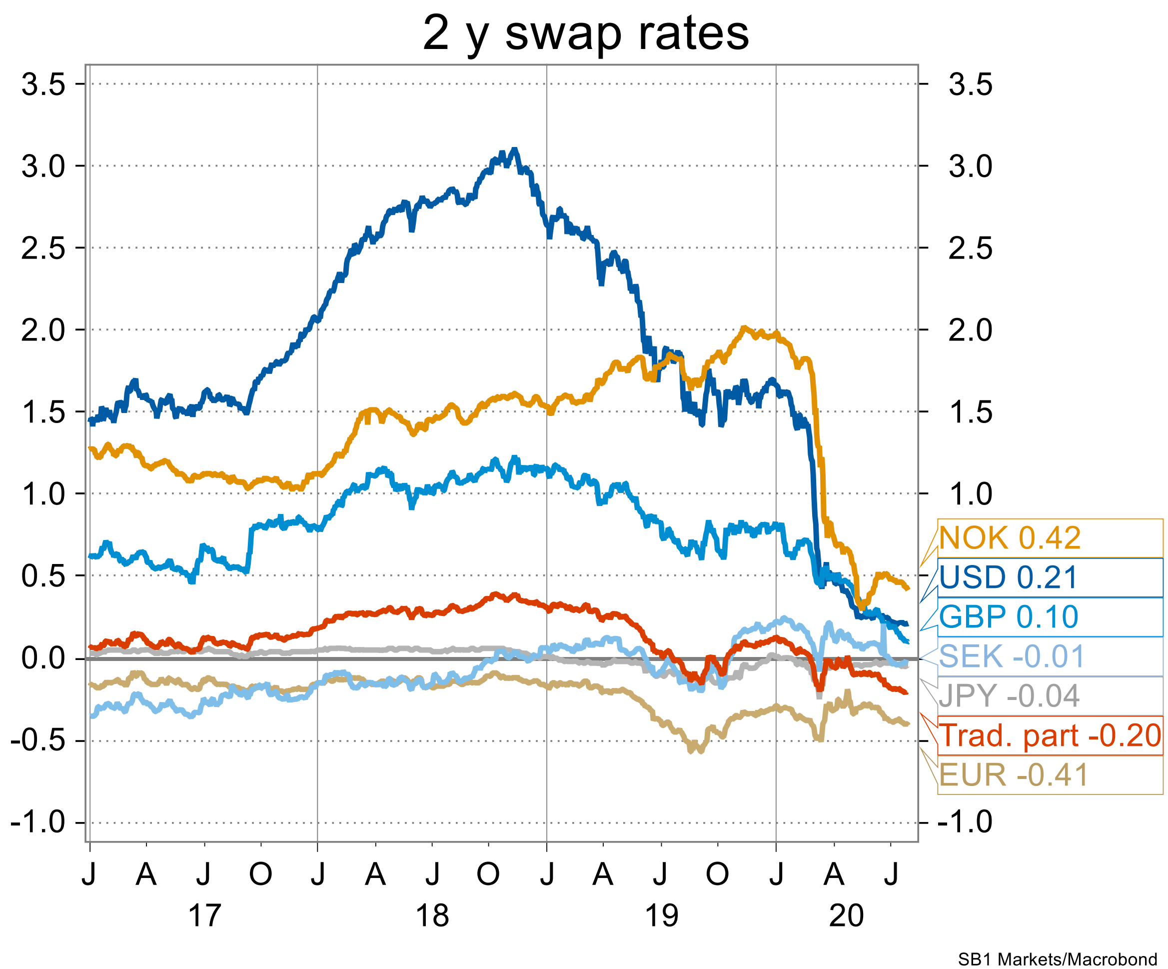


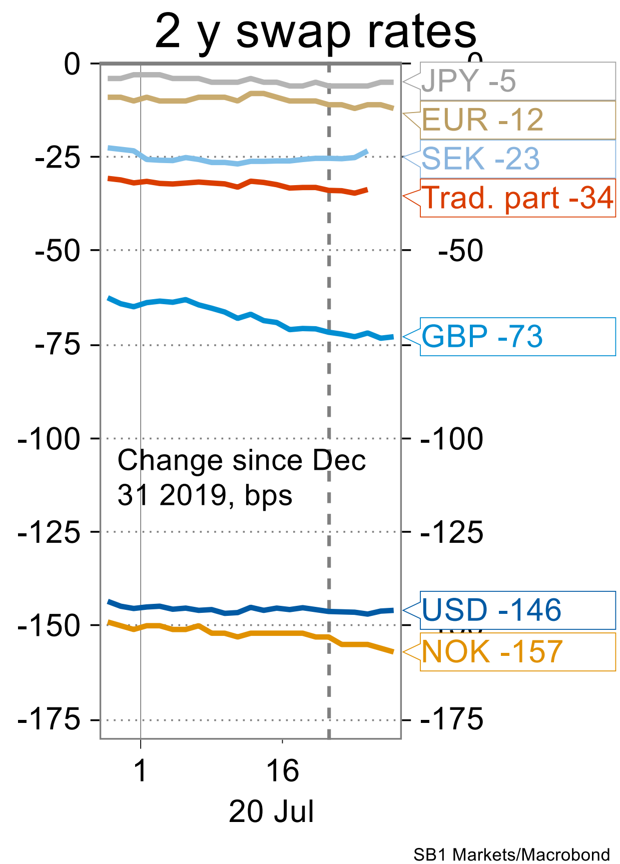




- Like now, when safe real returns are negative, gold has shined!
- It may well be that real rates will remain low - and gold strong - for a long while. But take care. Long term (and we mean quite long term), gold has normally been a really bad investment, at least compared to equities

Short term rates are still trending down but just slowly

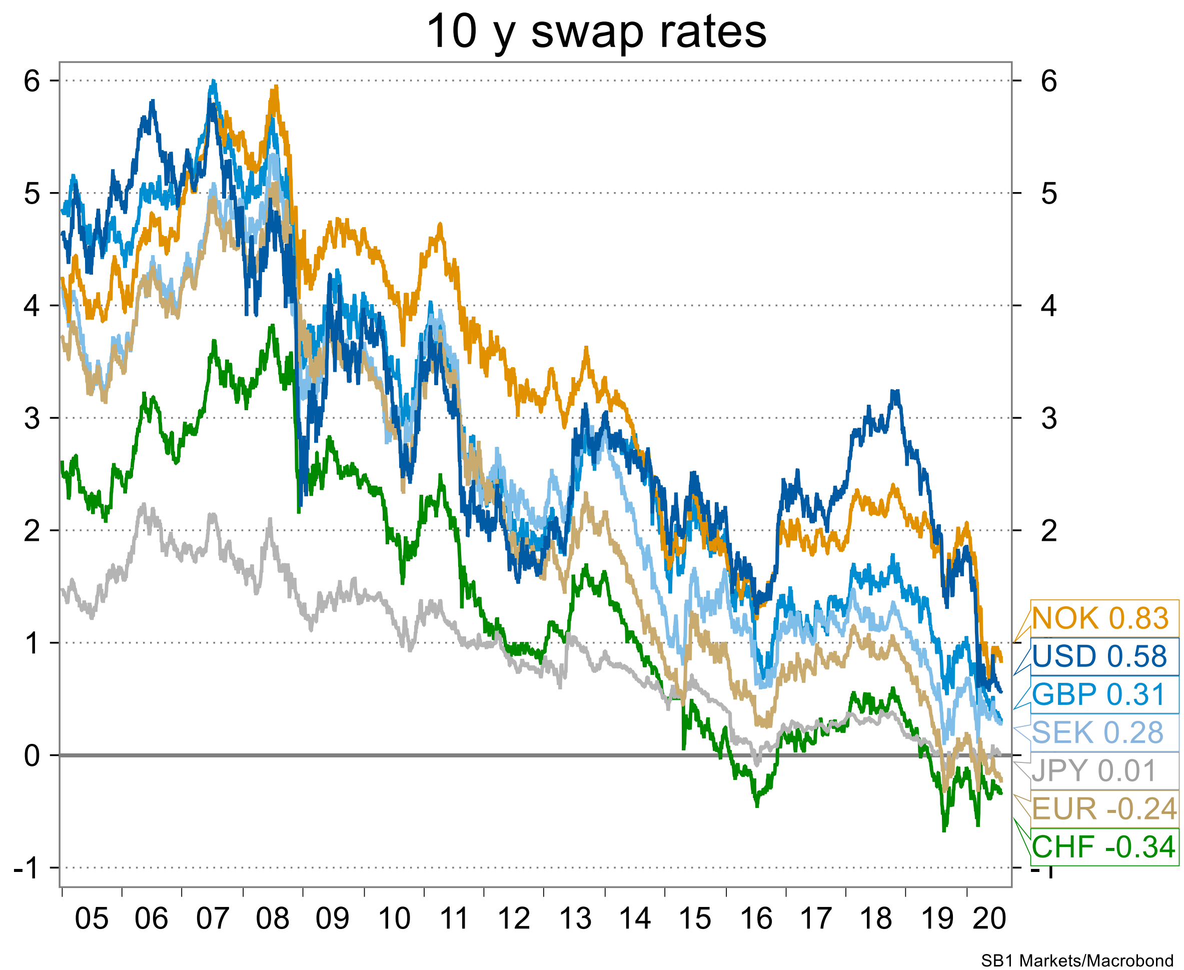


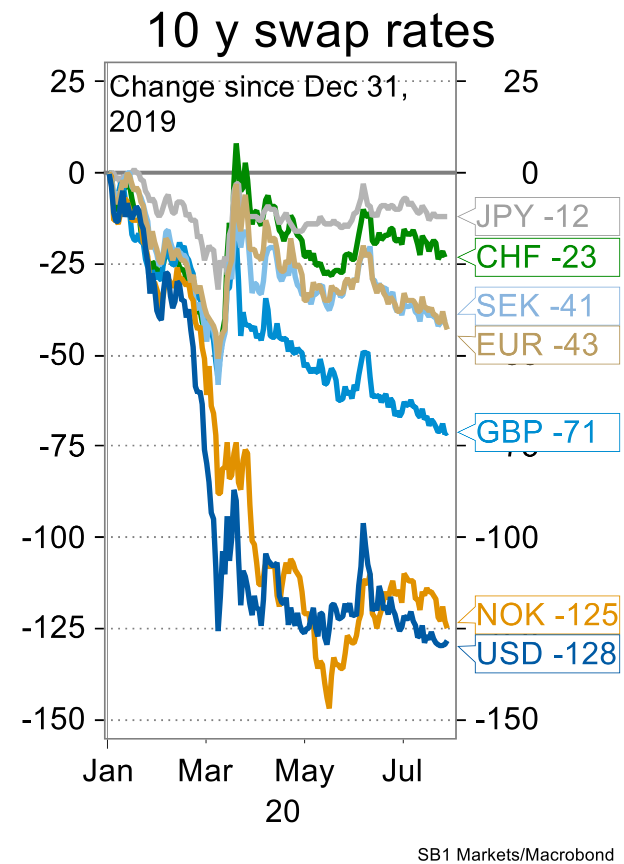


SpareBank 1 MARKETS

Slightly down last week, everywhere

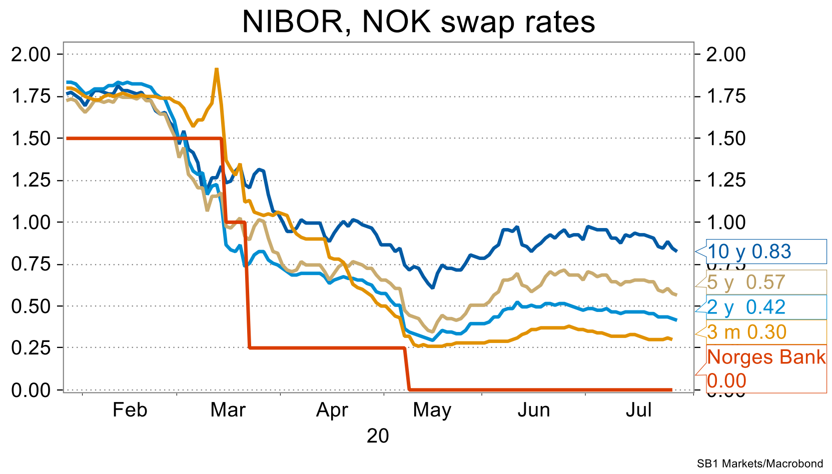
... and most in Norway

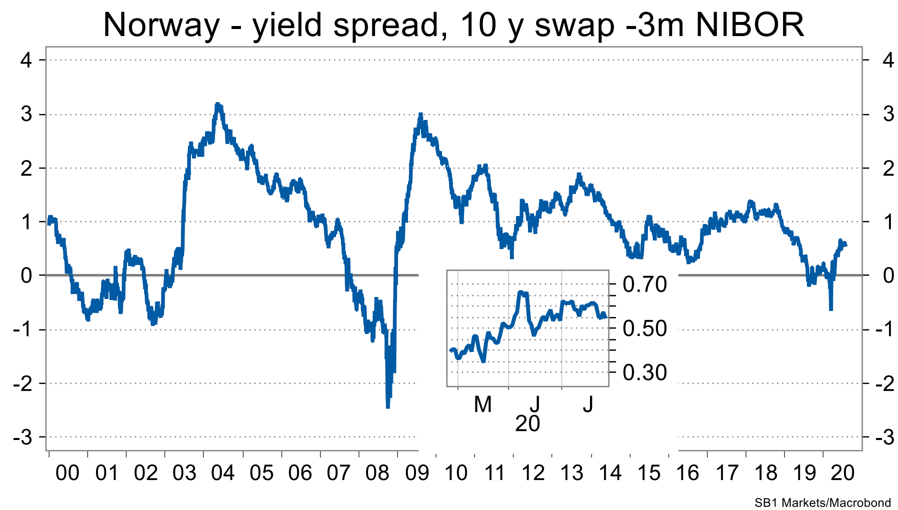


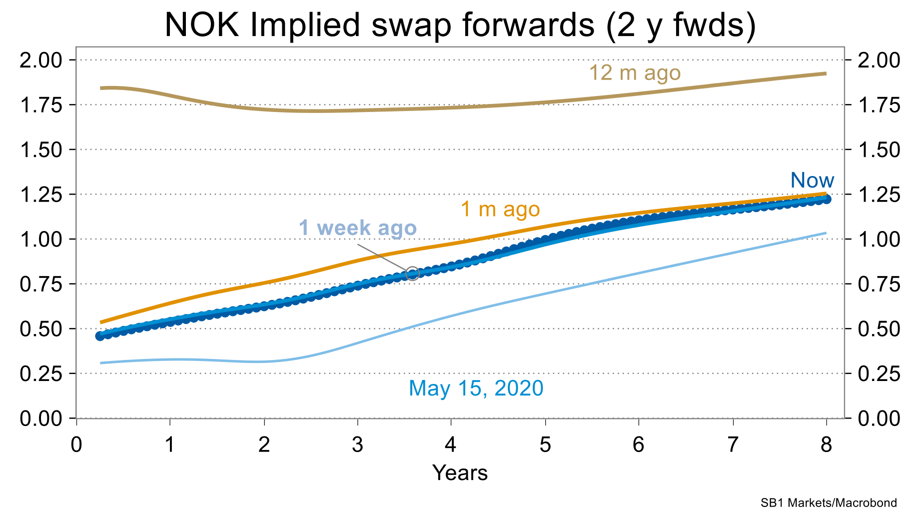


SpareBank 1 MARKETS

Stable swap rates in July



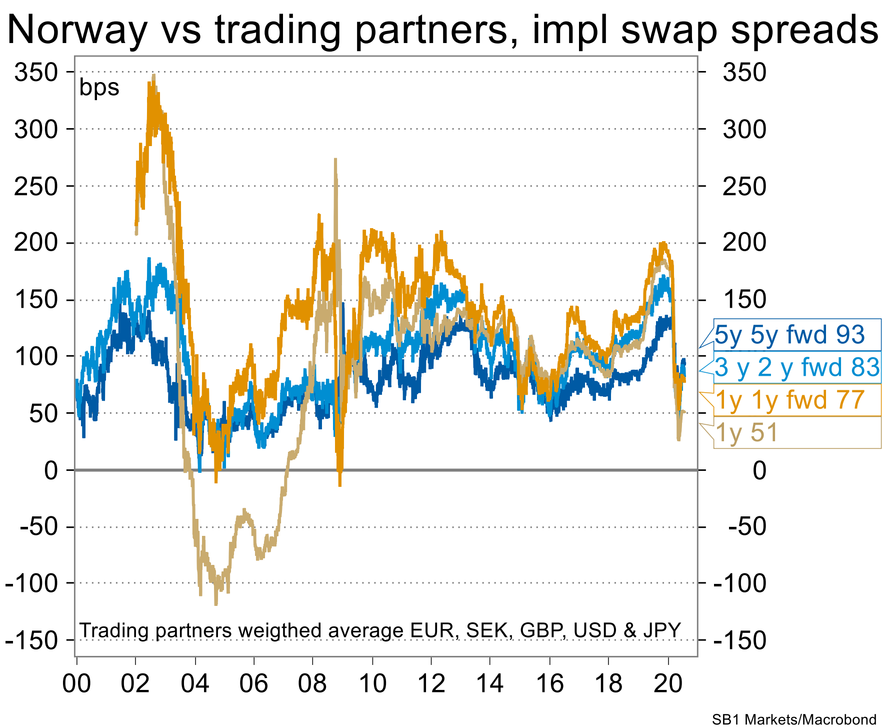


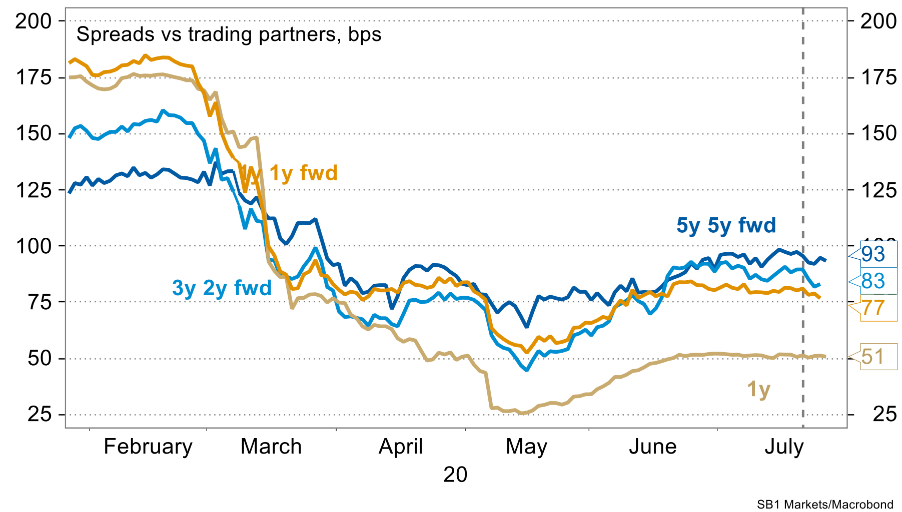


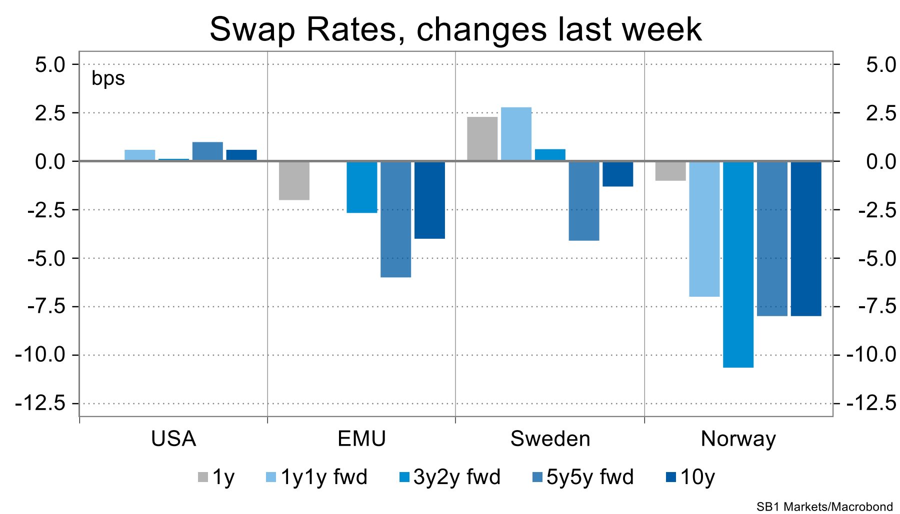
SpareBank 1 MARKETS

A minor spread narrowing vs trading partners

The spread has been widening since mid May but not further since mid/late June



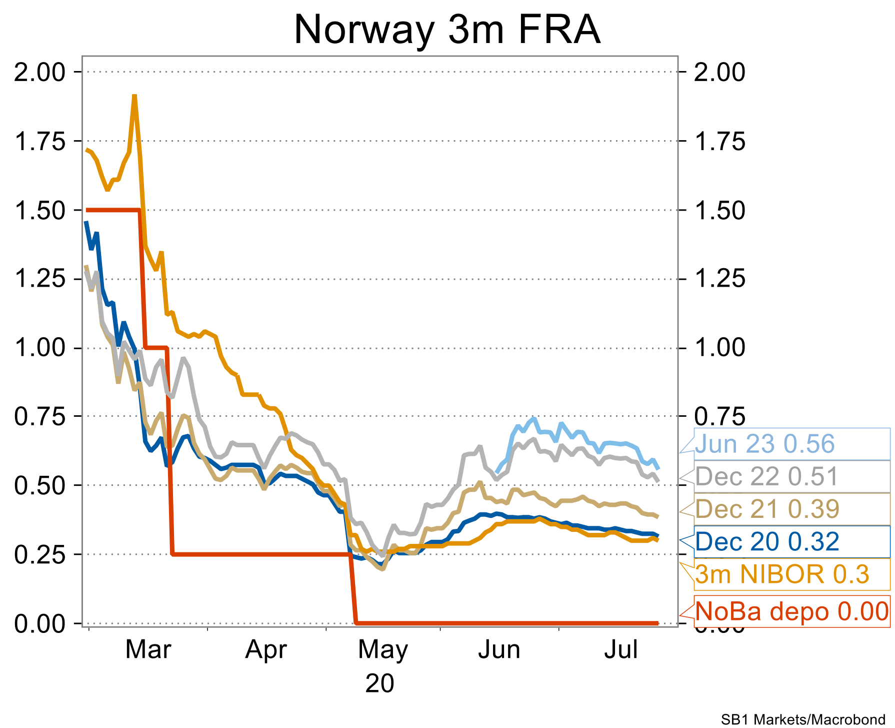


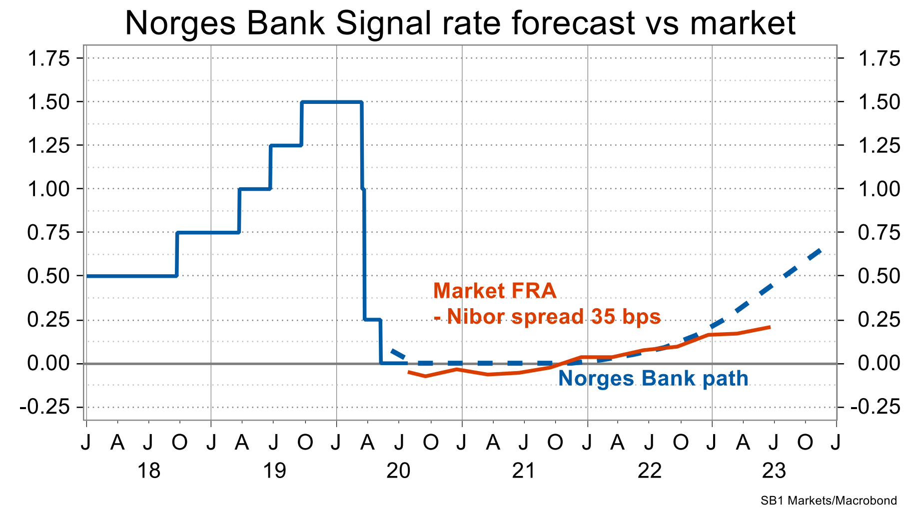


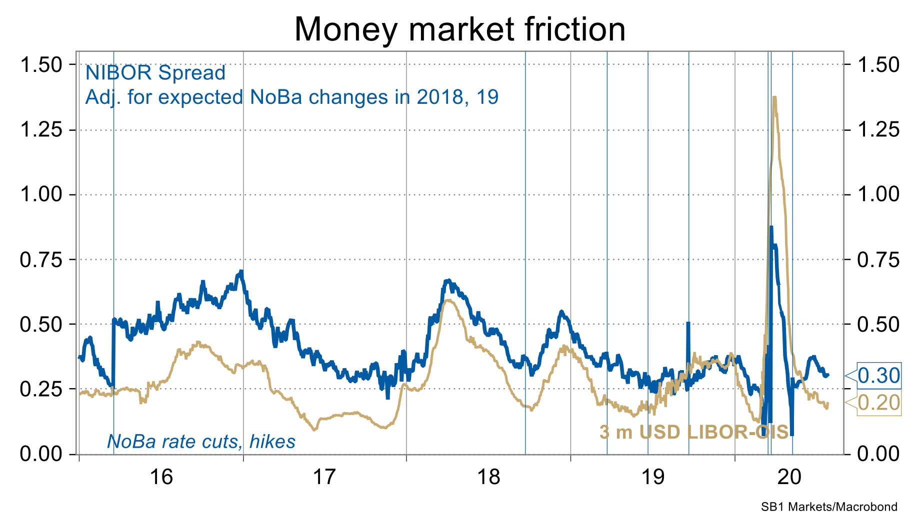
- Spreads vs. trading partners fell some 125 bps to mid May from late February – from a too high level. Since mid May, spreads have widened by 25 – 50 bps
- We are still neutral vs. the spread

The 3 m NIBOR softly down after end of Q1, now at 0.30%

FRAs are sliding slowly down too – and not due to weak Norwegian data…

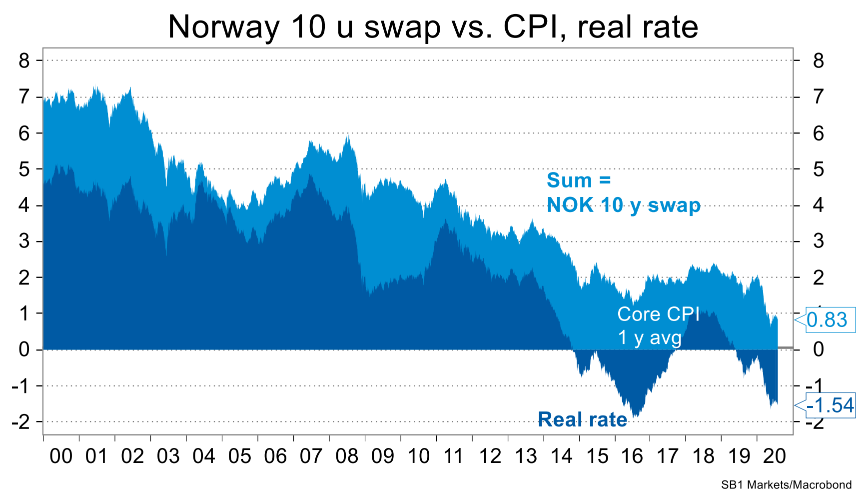




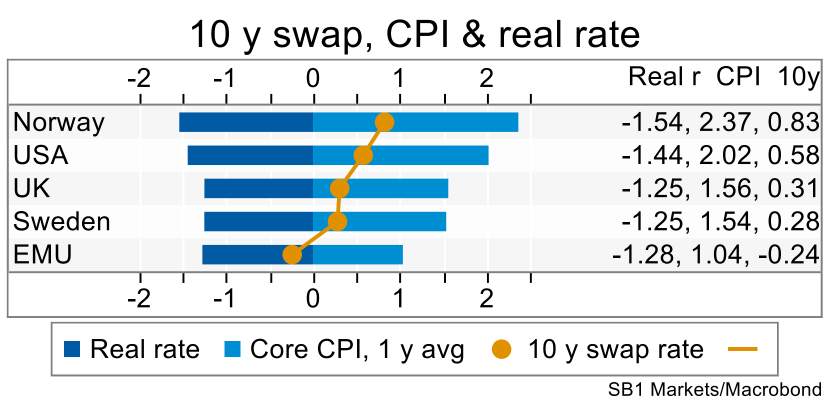


The FRAs market has shifted the first likely hike to Q4 2022 from Q4 2021 recent weeks

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



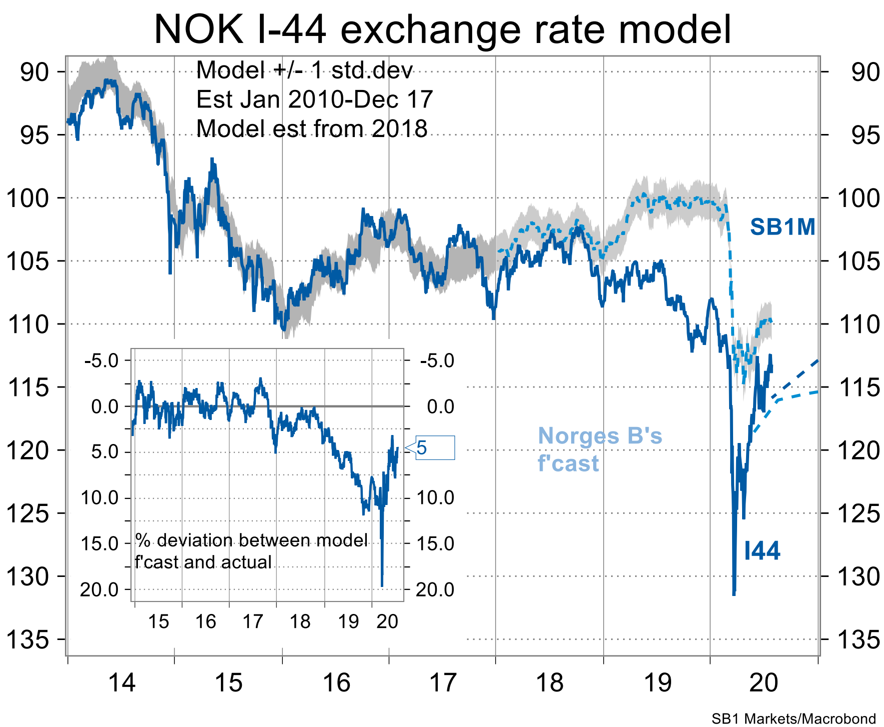
- NOK 10 y nominal rates down more than 1 pp since January
- Real rates are well below -1%, based on actual core annual inflation (smoothed 12 m)

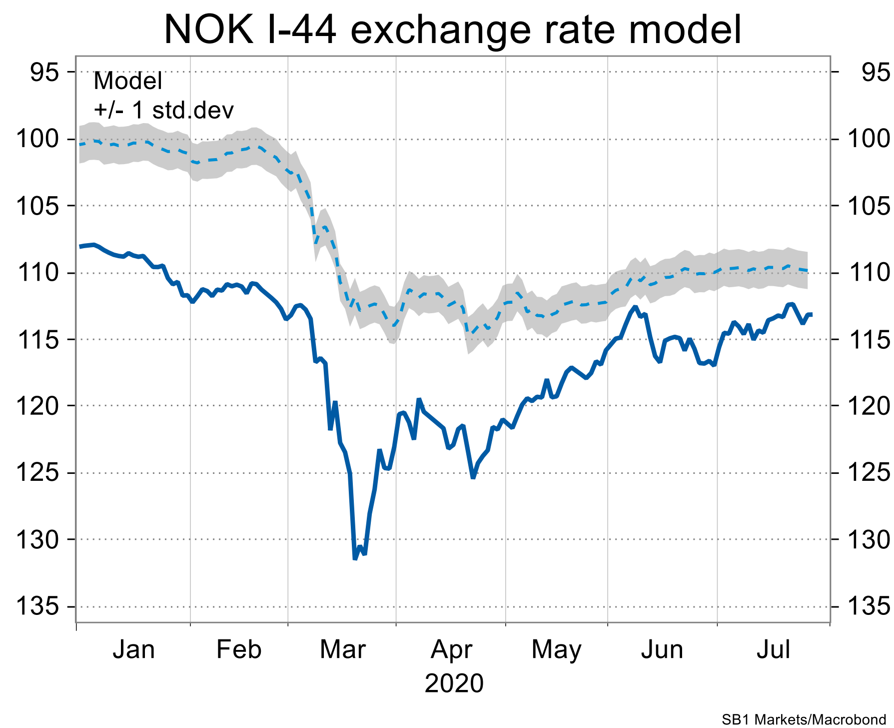


NOK real rates among the lowest

- Inflation among Norway and our main trading partners varies between 1.0 to 2.4% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US and Norway at the top, by a wide margin
- Real rates are quite similar among our trading partners, in the range -1.2% (EMU) to -1.4 to -1.5 (Norway & US), vs the 10 y swap rates
- *Thus: Inflation differentials explain most of the differentials in long term swap rates*

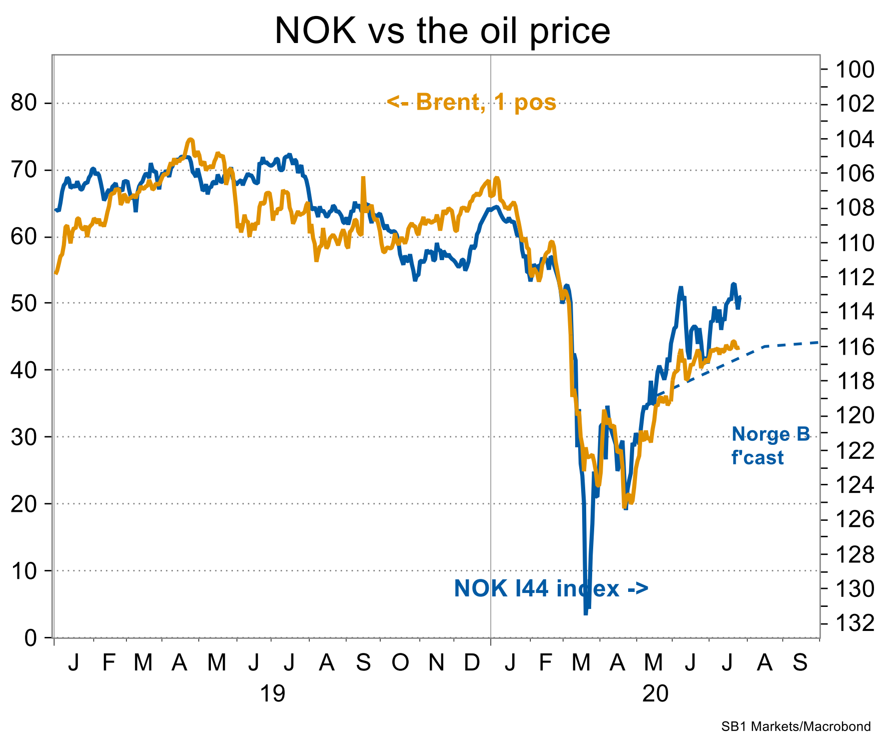
The NOK has been trending up but not further past few days. Less risk appetite?

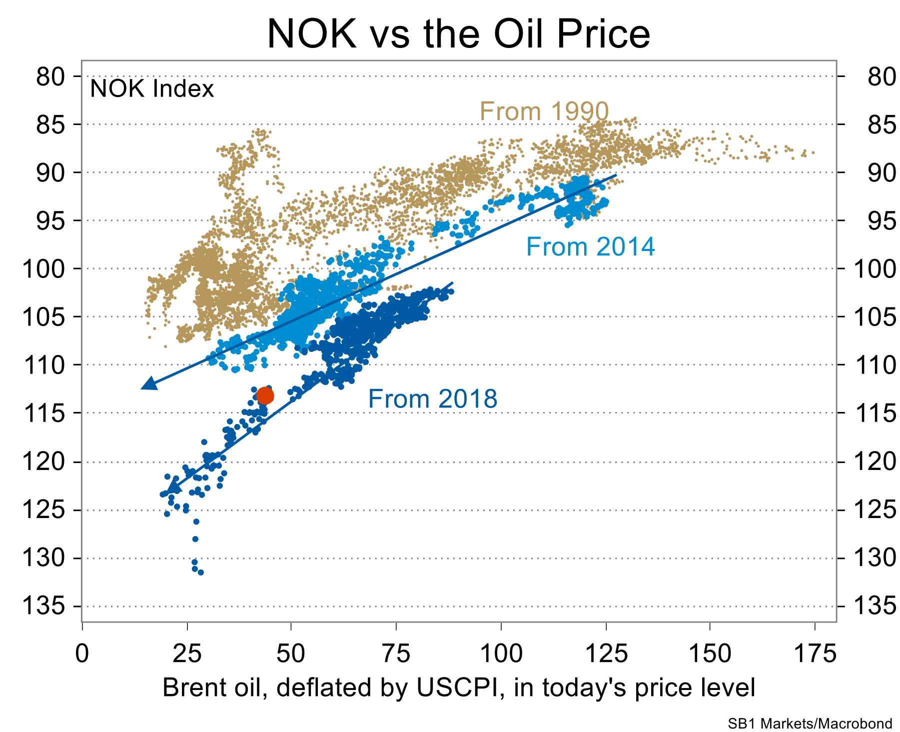




SpareBank 1 MARKETS

The NOK “stronger” than the oil price

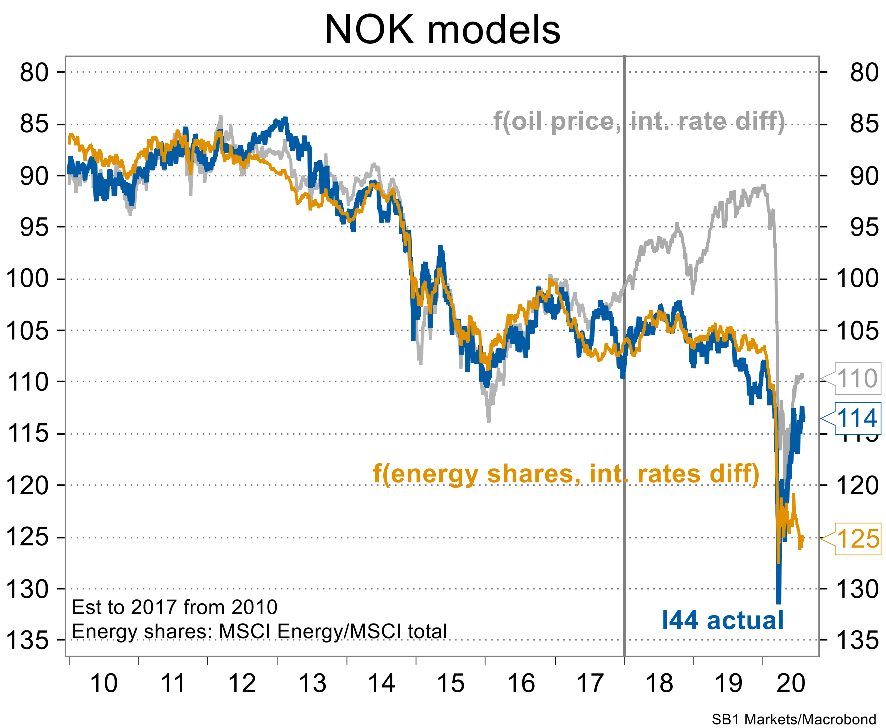


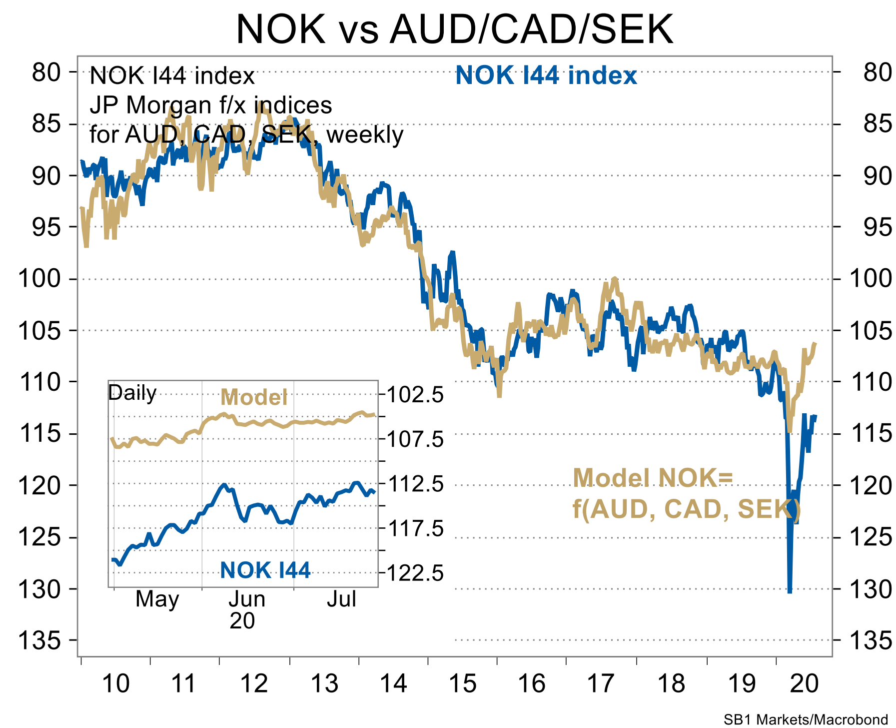


- The NOK has been much weaker vs the oil price than normal the past few years but it is still correlated to the *changes* in the oil price like it used to be. Now the NOK is on the strong side vs the oil price

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

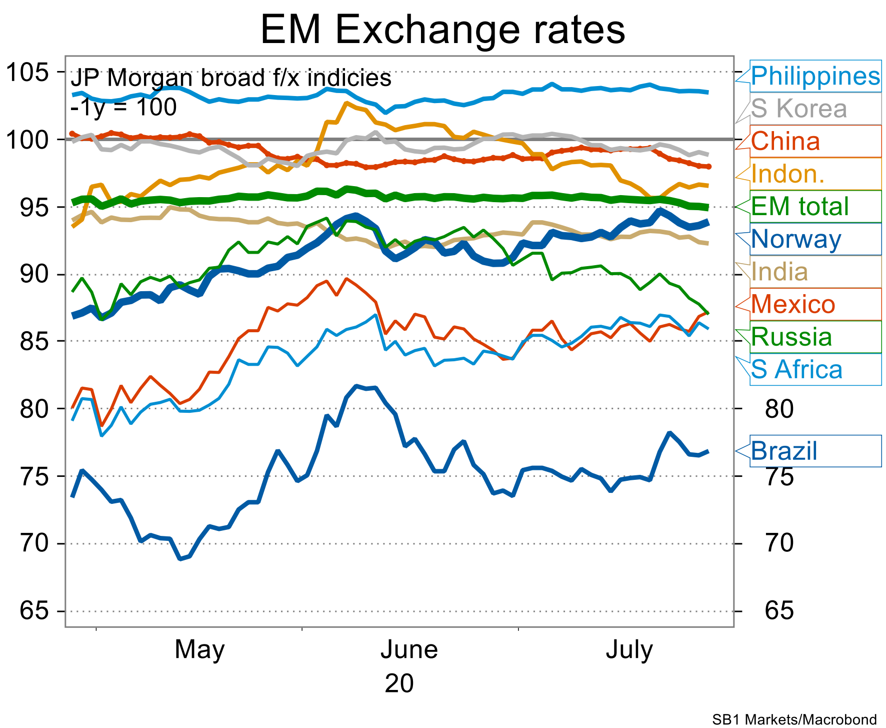
NOK is some 7% too weak vs the 'supercycle' model but 10% 'stronger' than oil companies

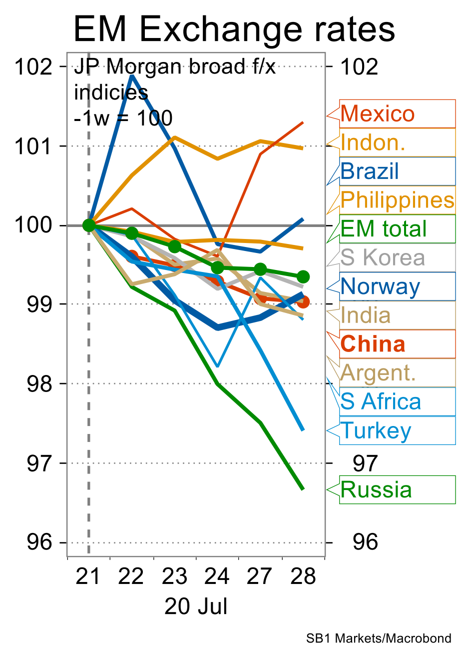


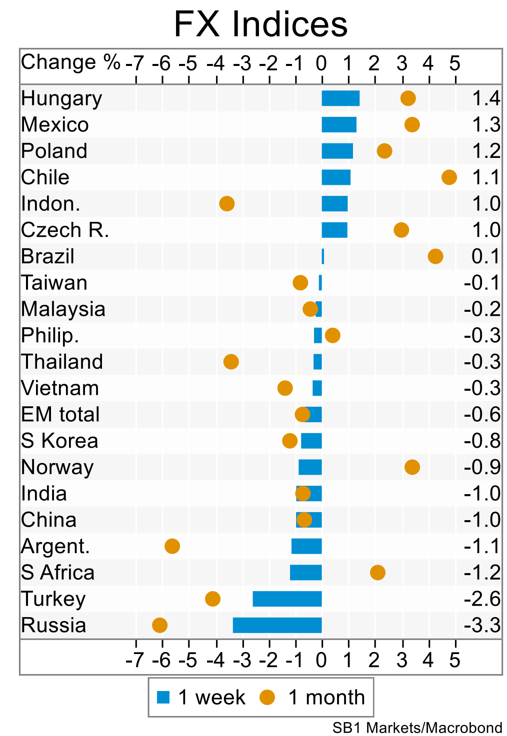


- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to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

EM currencies mixed, in sum down last week







DISCLAIMER

DISCLAIMER

SpareBank 1 Markets AS ("SB1 Markets")

This report originates from SB1 Markets' research department. SB1 Markets is a limited liability company subject to the supervision of The Financial Supervisory Authority of Norway (Finanstilsynet). SB1 Markets complies with the standards issued by the Norwegian Securities Dealers Association (VPFF) and the Norwegian Society of Financial Analysts.

No investment recommendation

Any views and opinions relating to securities mentioned in this report should be interpreted as general market commentary, and not as investment recommendations within the meaning of section 3-10 of the Norwegian Securities Trading Act.

No personal recommendation

The information contained in this publication is general and should not be construed as a personal recommendation within the meaning of the Norwegian Securities Trading Act, section 2-3 (4). It does not provide individually tailored investment advice regarding a particular financial situation, investment experience, risk profile or preferences of the persons who may receive this report. For tailored investment advice regarding stocks mentioned in this publication, please consult our brokerage desk or your individual investment advisor.

Research for the purposes of unbundling

This report is deemed to constitute a minor non-monetary benefit for the purposes of the inducement rules under MiFID II. The report is publicly available on our website (no log-in required).

Conflicts of interest

SB1 Markets, affiliates and staff may perform services for, solicit business from, hold long or short positions in, or otherwise be interested in the investments (including derivatives) in any stock mentioned in this publication. To mitigate possible conflicts of interest and counter the abuse of confidential information and insider knowledge, SB1 Markets has set up effective information barriers between divisions in possession of material, non-public information and other divisions of the firm. Our research team is well versed in the handling of confidential information and unpublished research material, contact with other divisions, and restrictions on personal account dealing. The views expressed in this report accurately reflect the analyst's personal views about the companies and the securities that are subject of the report, and no part of the research analyst's compensation is related to the specific recommendations or views expressed in this report.

Accuracy of sources

All opinions and statements in this publication are, regardless of source, given in good faith, and may only be valid as of the stated date of this publication and may be subject to change without notice. SB1 Markets has taken all reasonable steps to ensure that the information contained in this report is true and not misleading. Notwithstanding such efforts, we make no guarantee as to its accuracy or completeness.

Risk information

Return on investments is inherently exposed to risks. The value of an investment position may both rise and fall during the investment period. If the return on investments is positive at one time, there is no guarantee that it will remain such in future. In certain cases, losses may exceed the sum of the original investment.

Limitation of liability

Any use of information contained in this report is at your own individual risk. SB1 Markets assumes no liability for any losses caused by relaying on the information contained in this report, including investment decision taken on the basis of this report.

Limitation on distribution

This publication is not intended for, and must not be distributed to, individuals or entities in jurisdictions where such distribution is unlawful.