4 August, 2020

Macro Research

Week 32/2020

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Highlights

The world around us

The Norwegian economy

Market charts & comments

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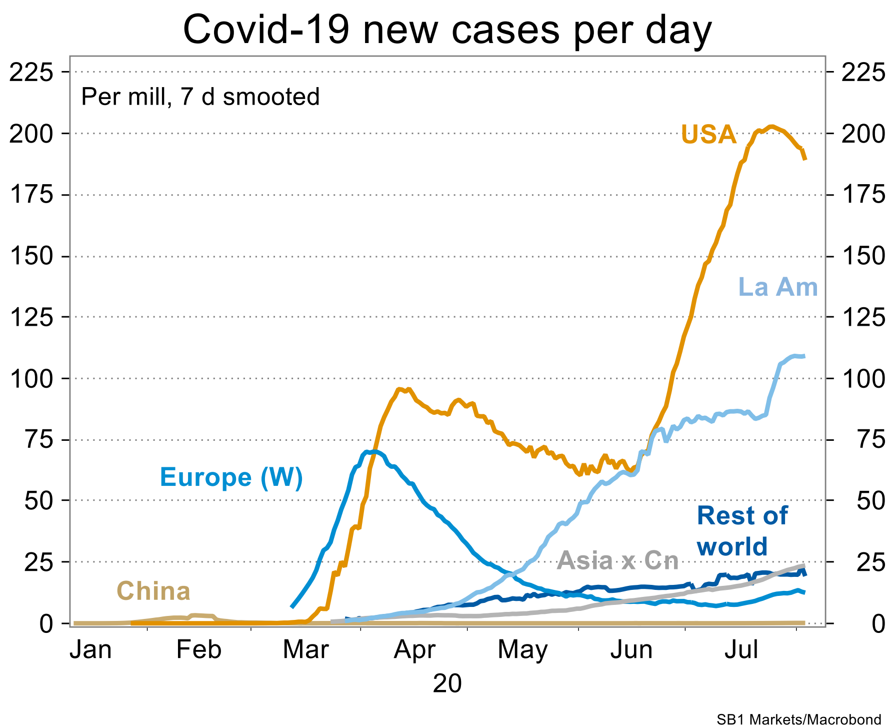
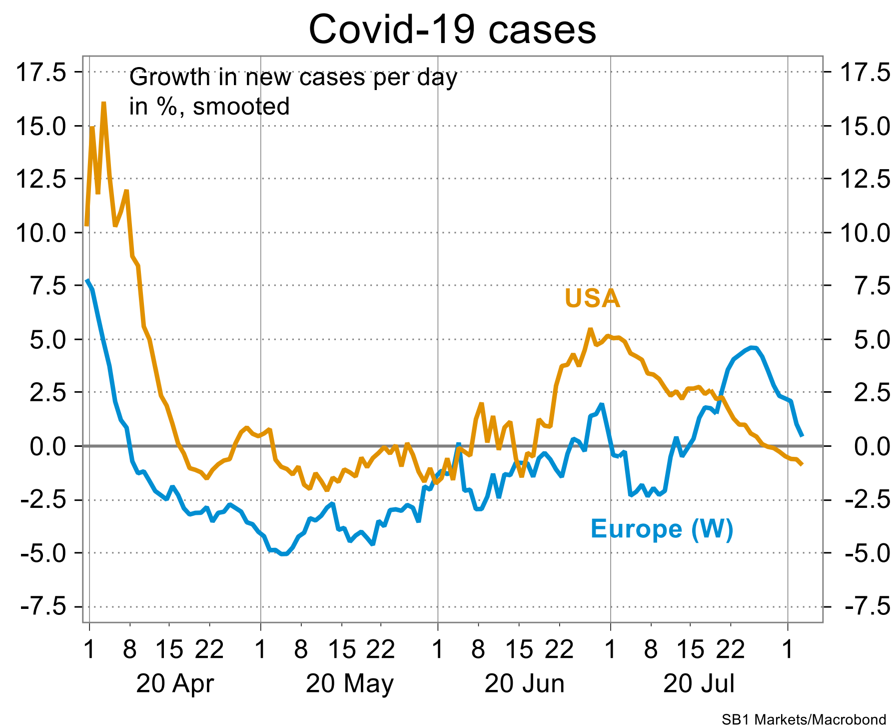
Last week: A corona flattener but still a challenge. Norwegians shop until…

- **The US Covid-19 case curve is clearly pointing down again**, as several states have reintroduced restrictions, and people probably have taken social distancing more seriously. The positive/total test ratio is stable. Hospitalisation and deaths may now be peaking, before wide parts of the hospital system ran into capacity constraints. Economic growth has probably slowed in July but not stalled and new dramatic measures against the virus are probably not needed. Recent days, **growth in new Covid-19 cases has slowed in Europe too**, probably for the same reason as in the US.
- More good news on **vaccines** last week too but few experts expect huge quanta to be available before early next year, if trials succeed. The bottom line: There are still **limits to activity and economic growth** the coming months and few quarters, even if smart regulations (using masks, abolishing large (drinking) events) should 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, albeit probably at a slower pace.
- The **global manufacturing PMI** finally crossed the 50 line in July, and more countries are above than below the 50-line – two months too late (as the production recovery started in May). The Chinese PMIs surprised at the upside, as did the EMU PMIs, while US were mixed, though the manufacturing ISM rose further with more than decent details
- In the **US, GDP** fell by 9.5% in Q2 (-32.9% annualised), spot on expectations, and it was 10.6% below the Q4 level. **Consumption in services** is the main culprit, while consumption of goods are up. **Household incomes** have been strengthened in an incredible way, due to unemployment benefits and the cash support to all, the savings rate was at 19% in June. The economy may still have slowed in July, as the number of **new jobless claims** rose last week too, indicating the new Covid-19 outbreaks is slowing the economy again. Still, auto **sales rose** more than expected in July (but they remain 15% below the pre corona level. The **FOMC** changed nothing now but is hotly debating whether actual inflation and its inflation forecast should trigger the first move up, or just actual inflation. **The USD** has fallen recent weeks but not by that much, and it is still on the strong side vs US' trading partners
- The **EMU GDP** fell 12% in Q2, and it is down 15% vs. the Q4 level – but activity grew sharply in May and June
- **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 détente –but the TikTok 'crisis' may be slowed
- **Norwegian NAV unemployment** fell further in July, especially for among the partly unemployed. Total unemployment fell 1.2 pp to 8.5%, still way above the 3.5% pre corona level at 3.5%. The **wage negotiations** broke down after 2 hours yesterday, and the public mediator will enter the play. We expect a modest outcome (less than 2%), and no big conflict/strike

The US curve has peaked (again), and growth is slowing in Europe (again)





- Some restrictions, and more voluntary social distancing have brought growth in new cases in the US down to below 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 over a longer period is needed
- In Europe, the no of new cases has been growing again too, at almost 5% per day at the peak. However, recent data are better, growth has probably slowed substantially already, to almost zero. An the level is low, at 1/10th compared to the US
  - Spain and some other countries have imposed restrictions again

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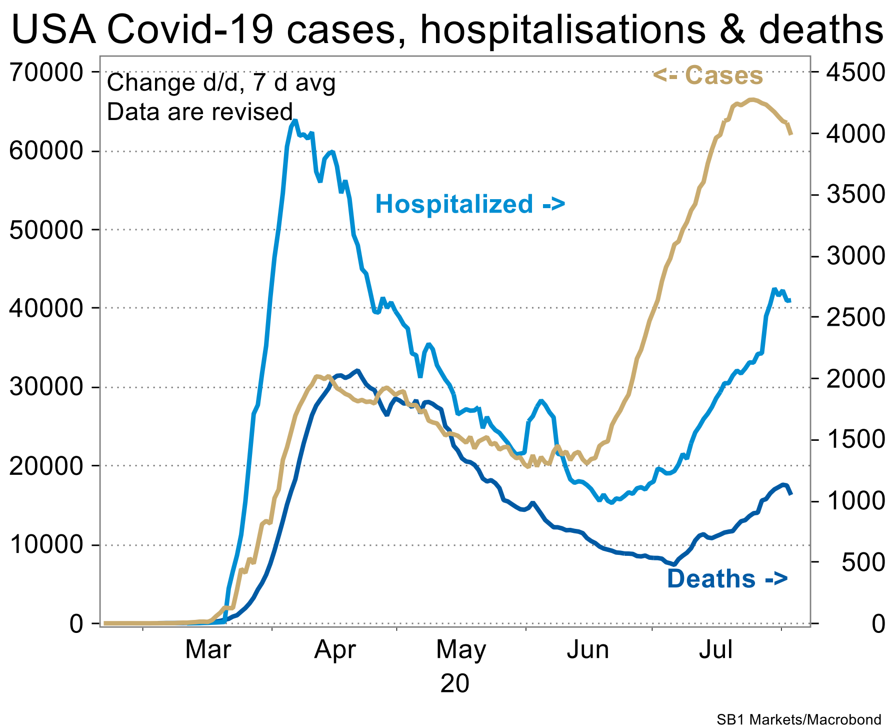
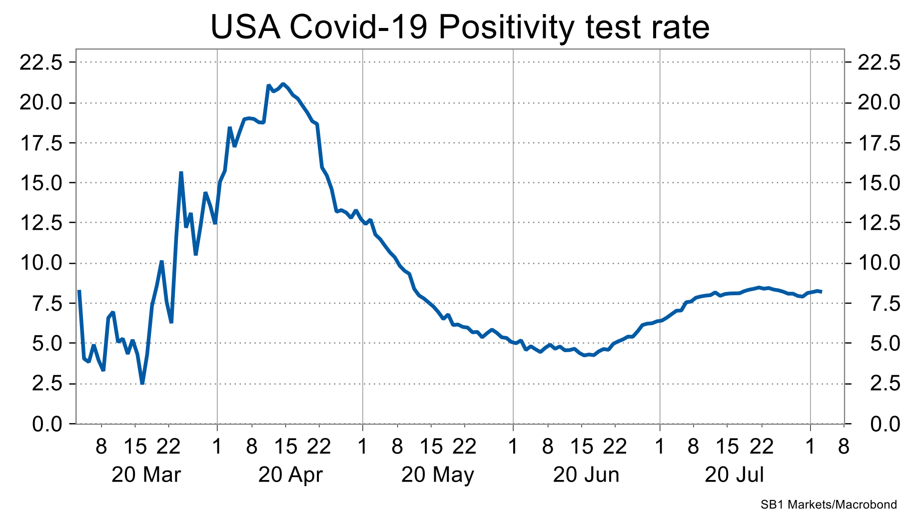
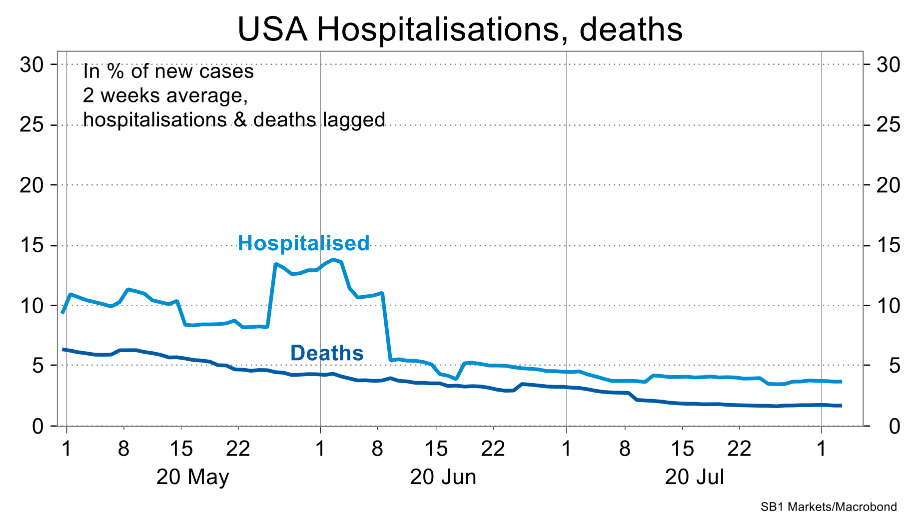
USA Cases have flattened, hospitalisations & deaths will very likely follow

The postitivity rate rose week- but is rather flat recent weeks, a good sign. As are lower hospit. & death rates

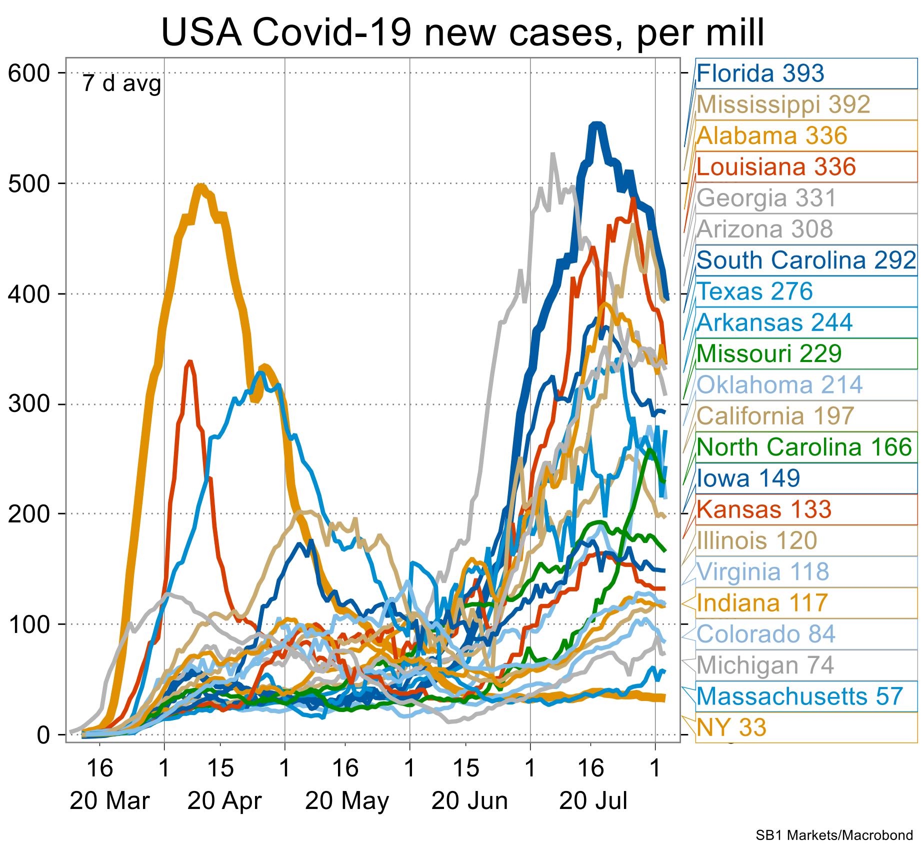


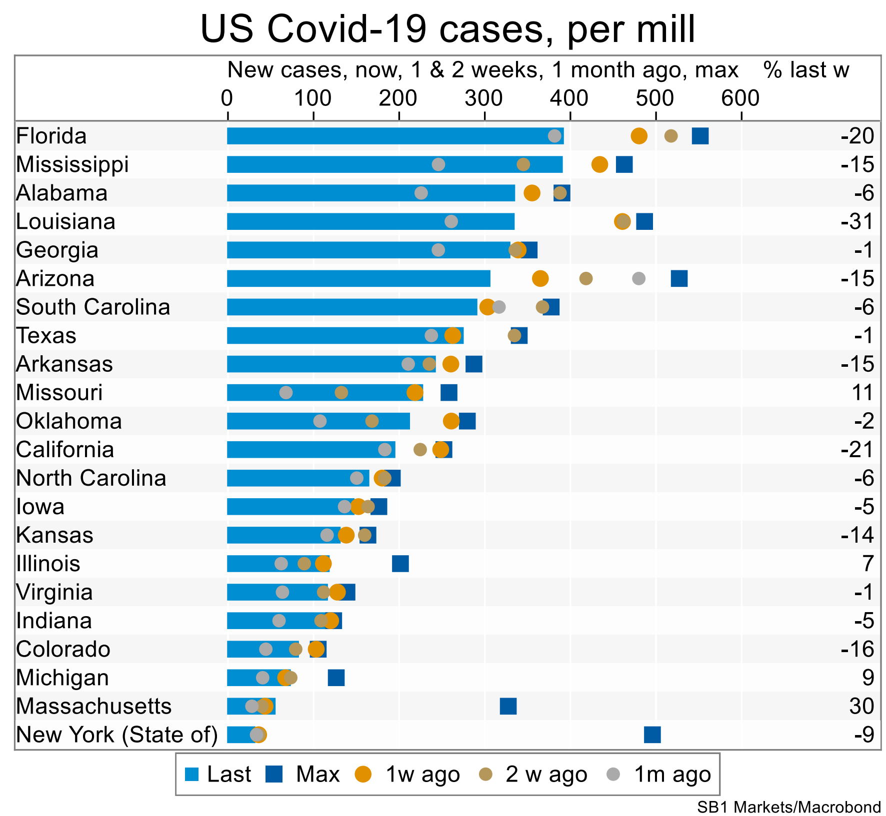




- New cases may not have to come back to very low levels if the need for hospital assistance, and the death rate is sharply reduced
- Still, in some states the trend is still not our friend – something will have to change!

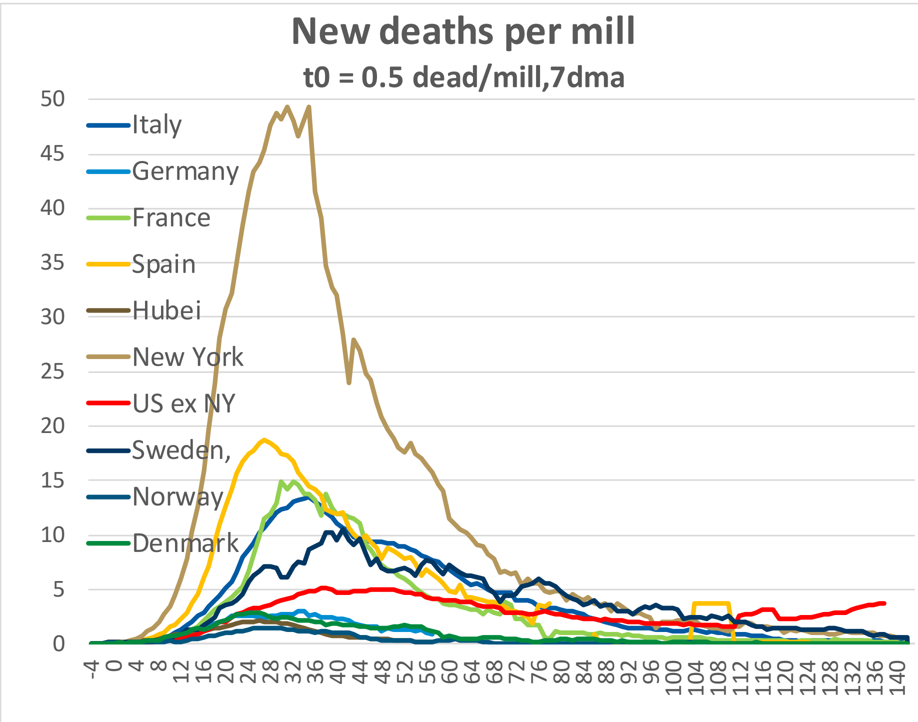
US: New cases are down from peak almost everywhere!

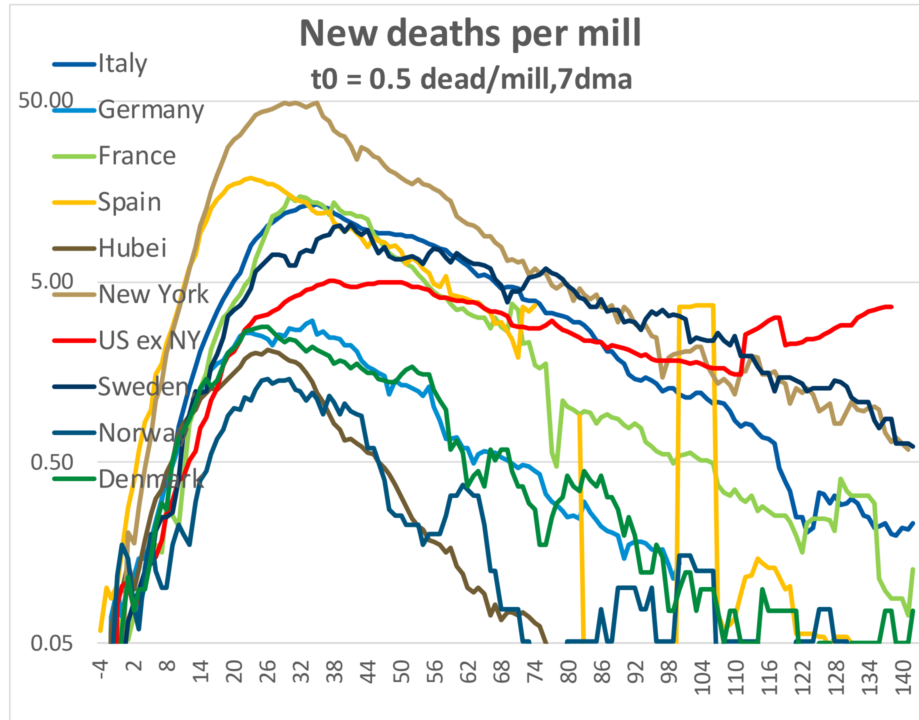




Deaths are on the way up – in the US. But not elsewhere

In the US, both hospitalisations and deaths will soon peak



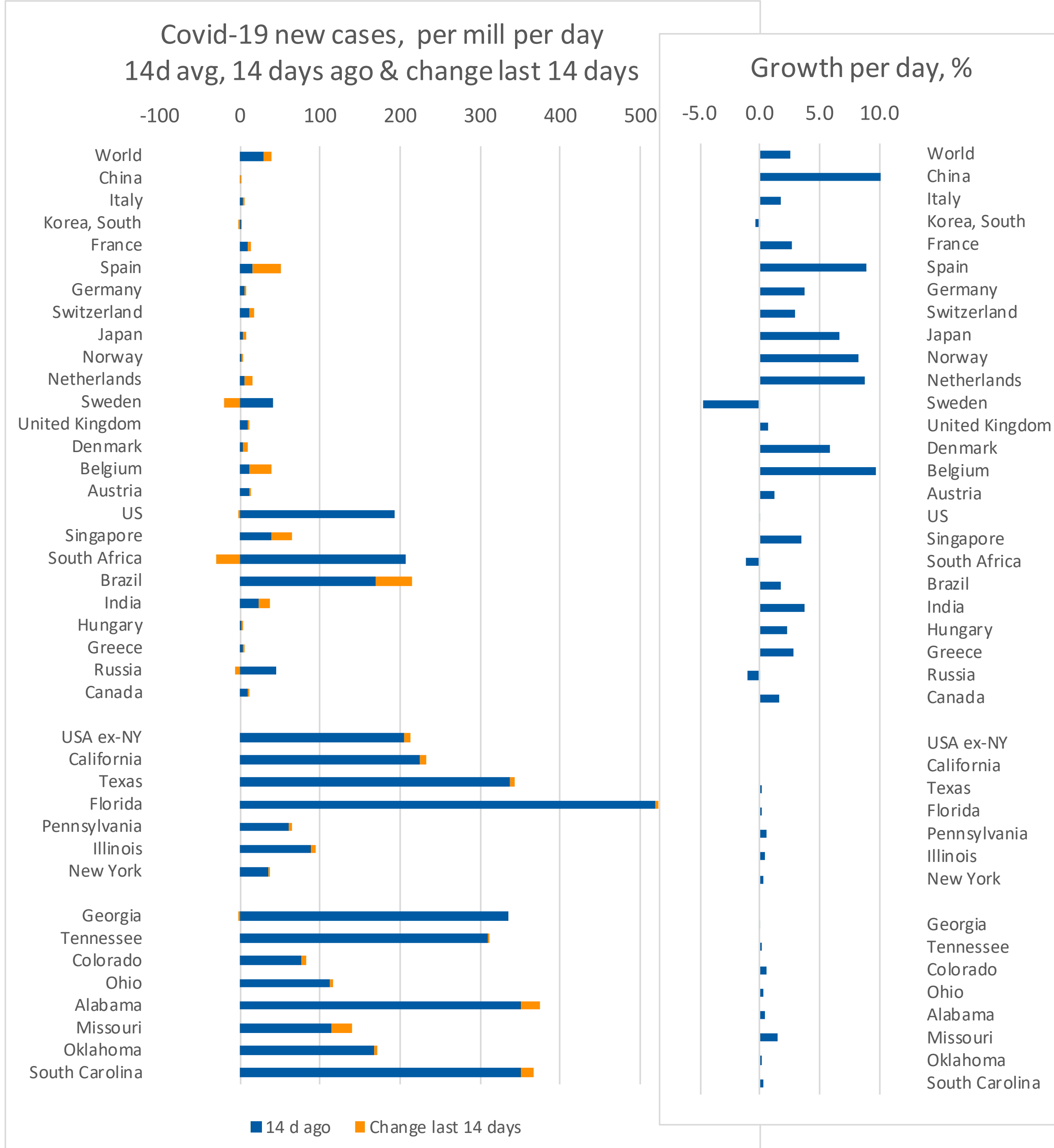


Sources: Johns Hopkins, SB1 Markets

US & the rest: A comparison

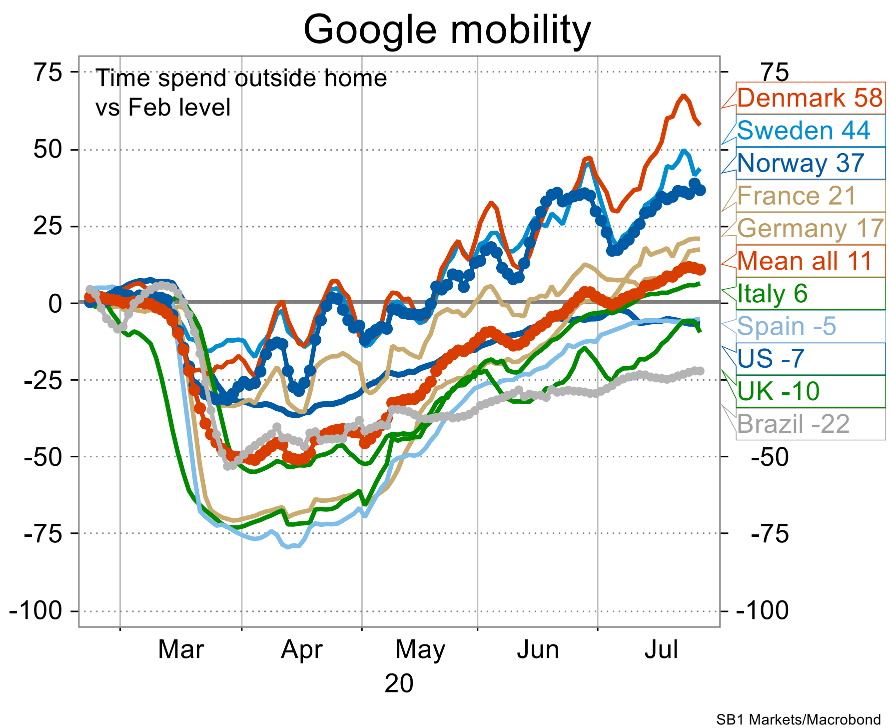
Most places, more cases

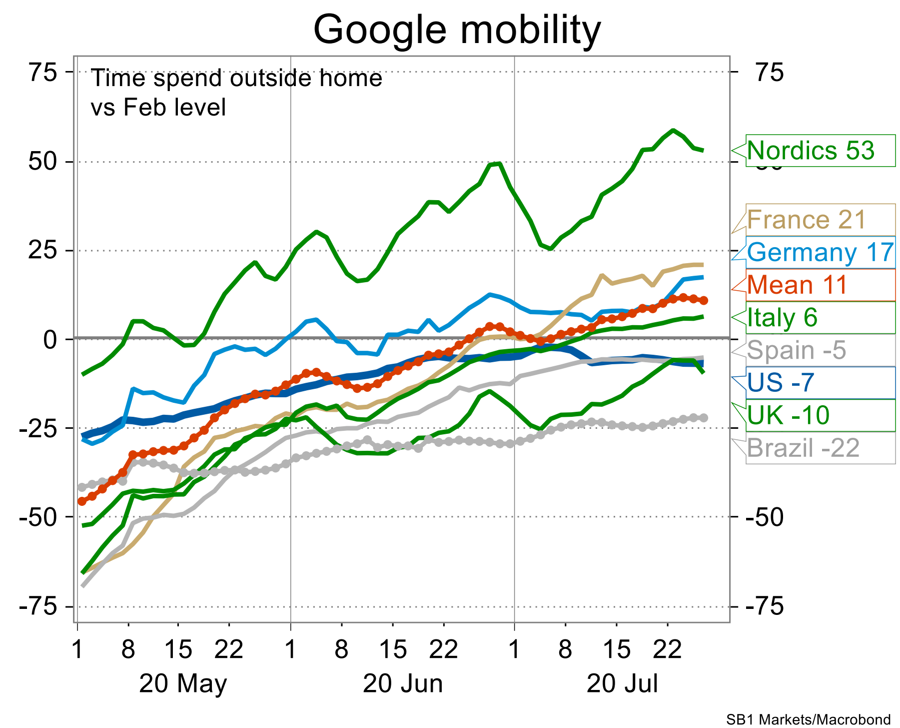
- Allmost all countries are reporting an increase in no of new, daily cases, which implies R>1 most places – measured 14d/14d. (If measured over the past week, more yellow staples at the negative side ☺)
  - » Belgium and Spain have seen the sharpest increase in Europe, now joined by Netherlands
- Sweden is was an outlier in Europe but the number of cases & deaths are now finally declining sharply
- We do not trust all of these data
  - » There are changes in test policies & capacity
  - » Some countries do probably not report properly



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

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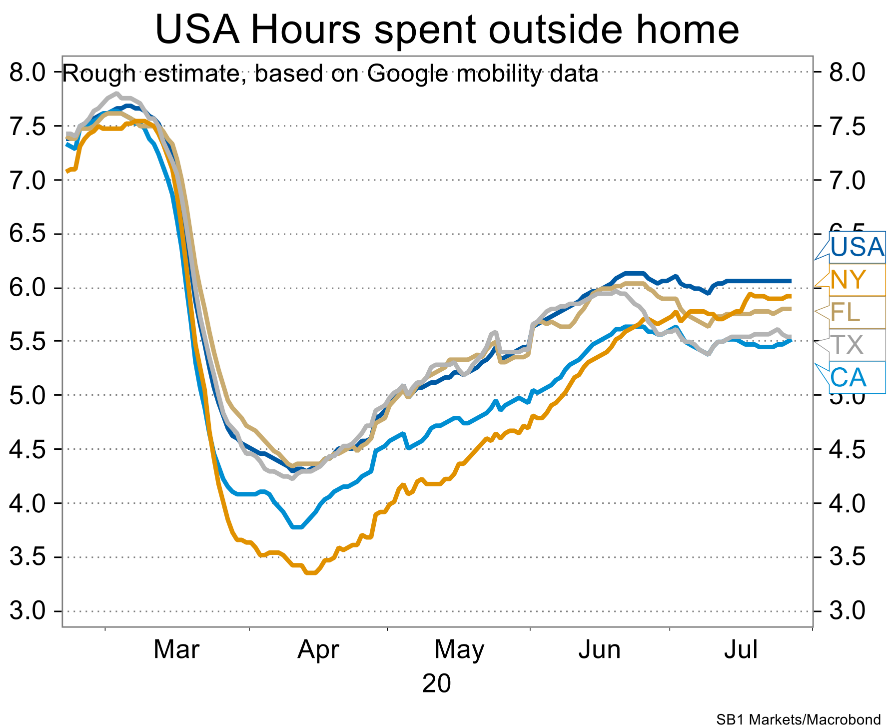
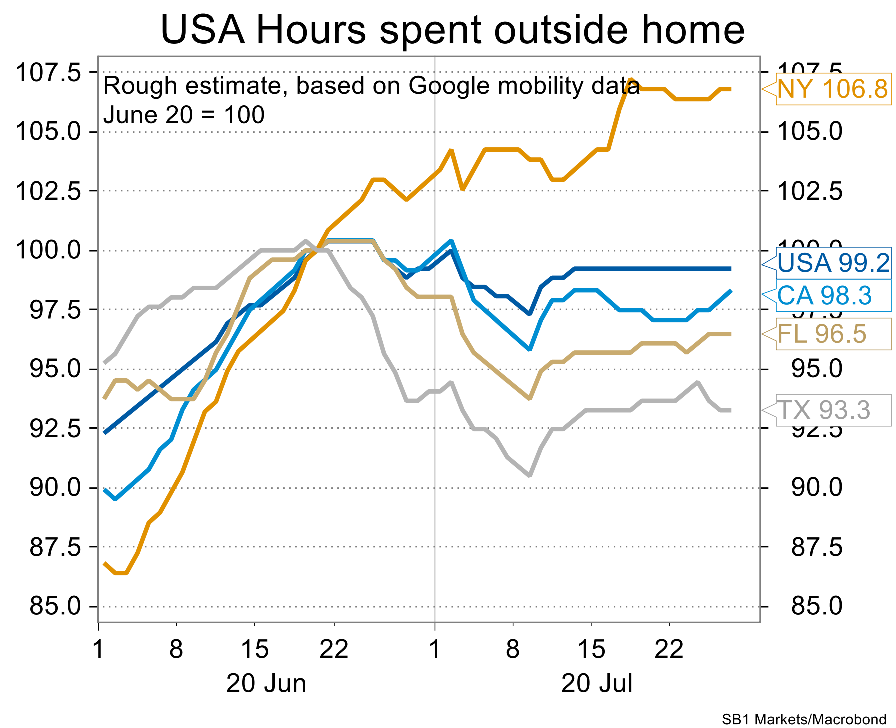
Since June 20: Hours spent outside home +7% in NY, -4-7% in Florida/Texas

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

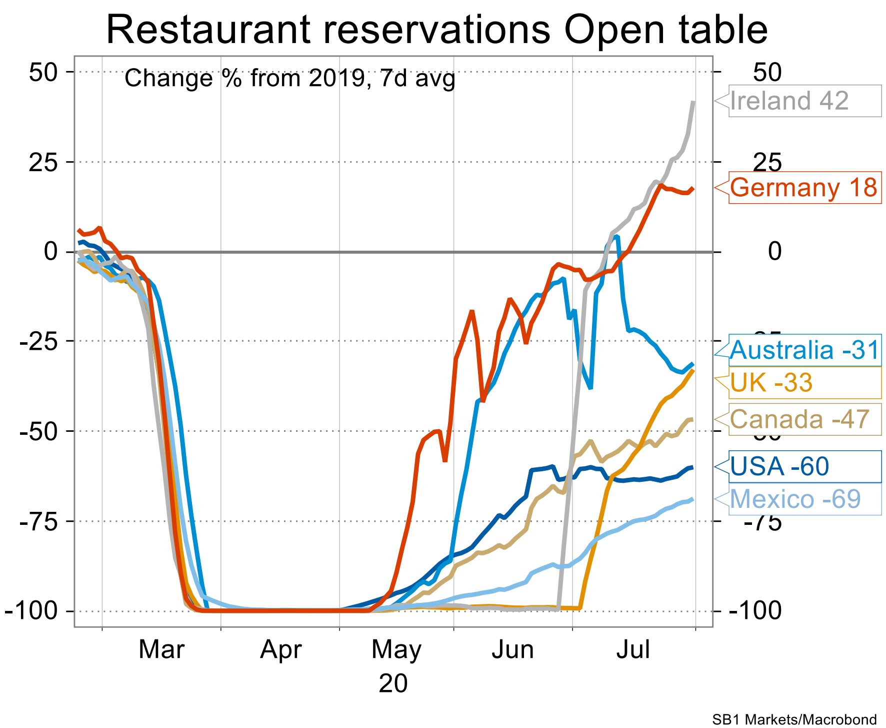


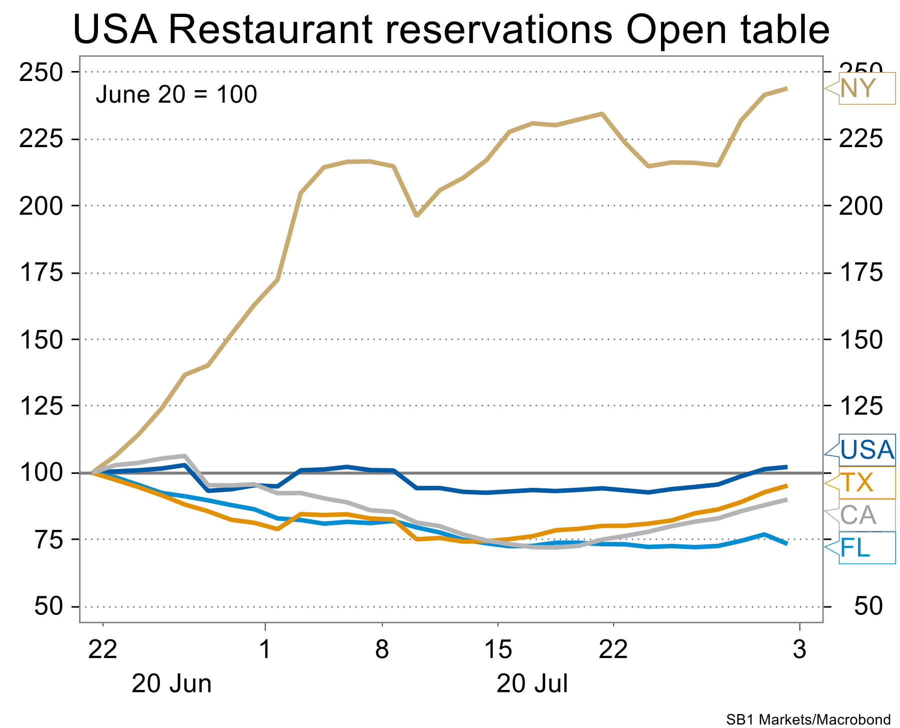


- The differences where people stay is very likely due to the serious corona outbreaks – and people started to adjust behaviour before authorities reimposed restrictions

Restaurants are not open for normal business

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

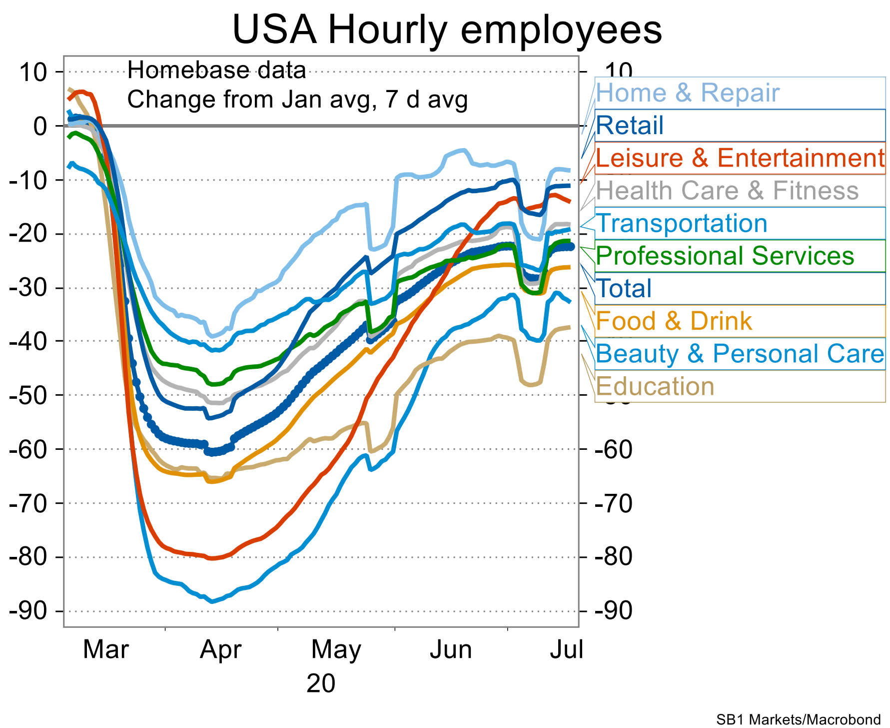


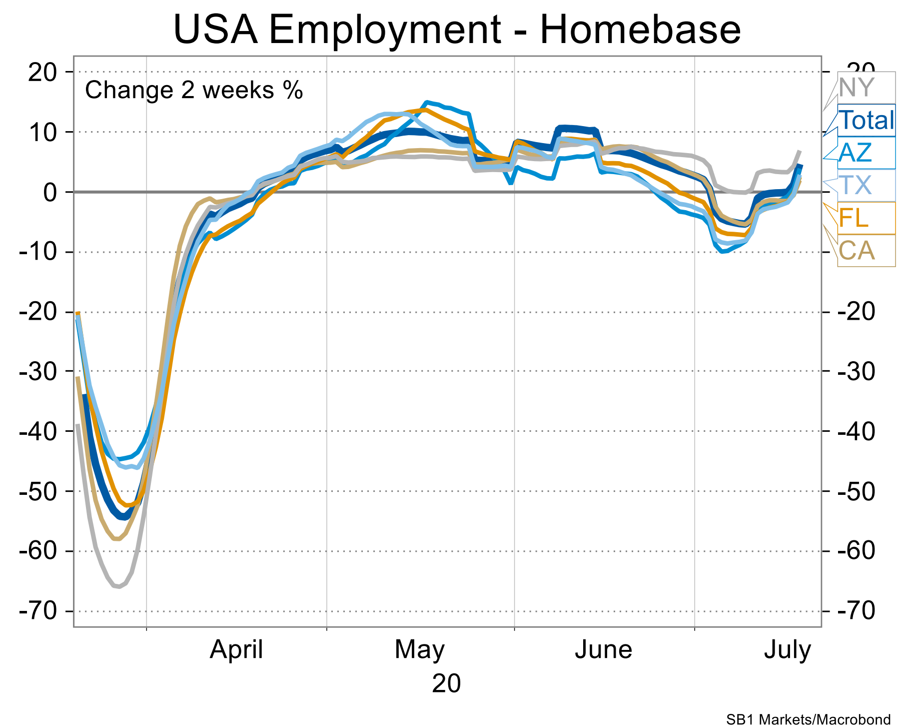


- Again, there are huge differences between US states. NY has been moving sharply up since June 20, more than 100% up. At the other hand, California, Florida and Texas have been moving down, by 25%
- However, last week some US states reported more bookings

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

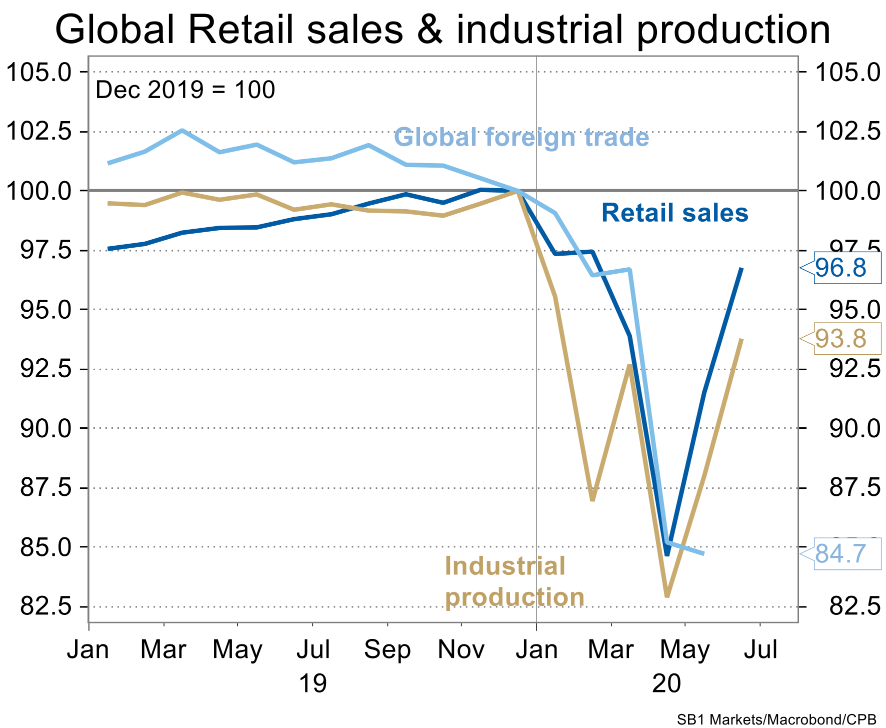
Homebase employment data are volatile, and rose last week. Still, over the past weeks, a slowdown

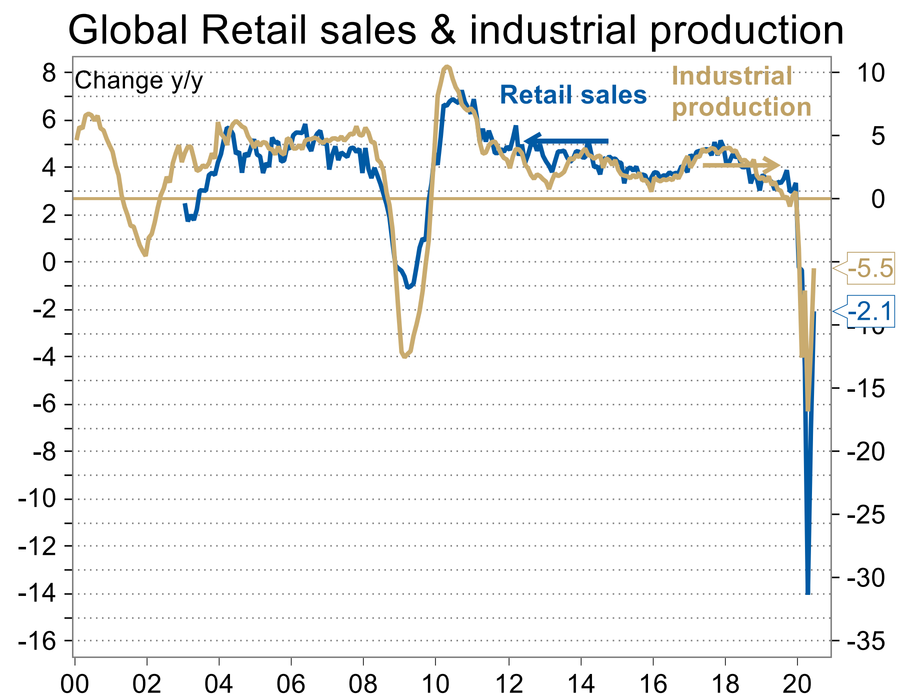




Industrial prod, retail sales further up in June, still 6% below pre corona trend

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



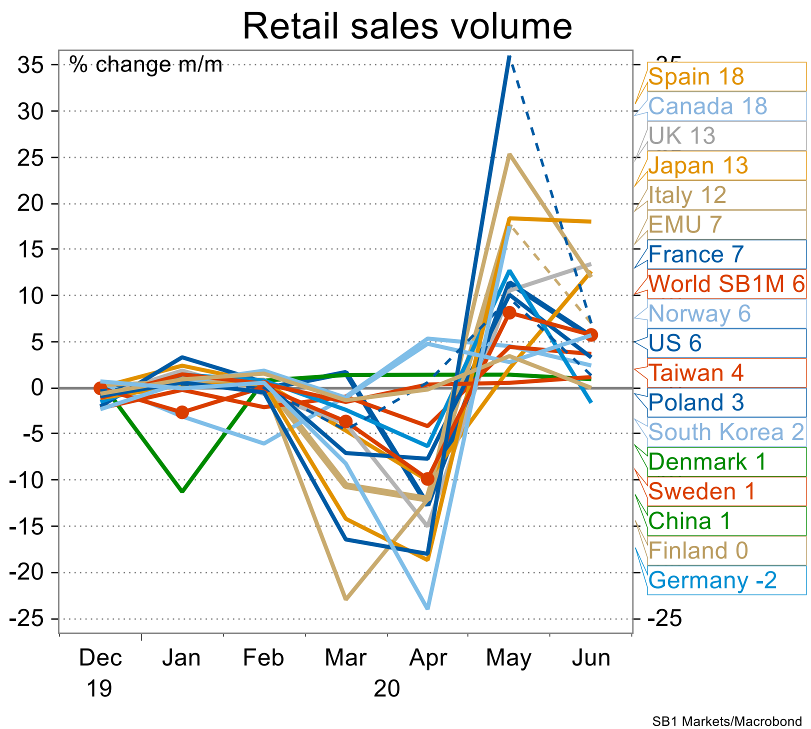


Memo: Keep in mind the different scales at the chart above

- We assume global retail sales probably rose some close to 6% in June as in May. If so, sales were still 6% below the pre corona level in June. In May, sales rose in all main countries, and almost in all that so far has reported in June
- Industrial production probably rose some 7% m/m in June, vs 6% in May. If so, production was still 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 almost everywhere in June, in sum 6%

Just Germany has reported a small decline (from a high level) in May, Spain up 18% in June



- Sales rose far more in June than we first assumed

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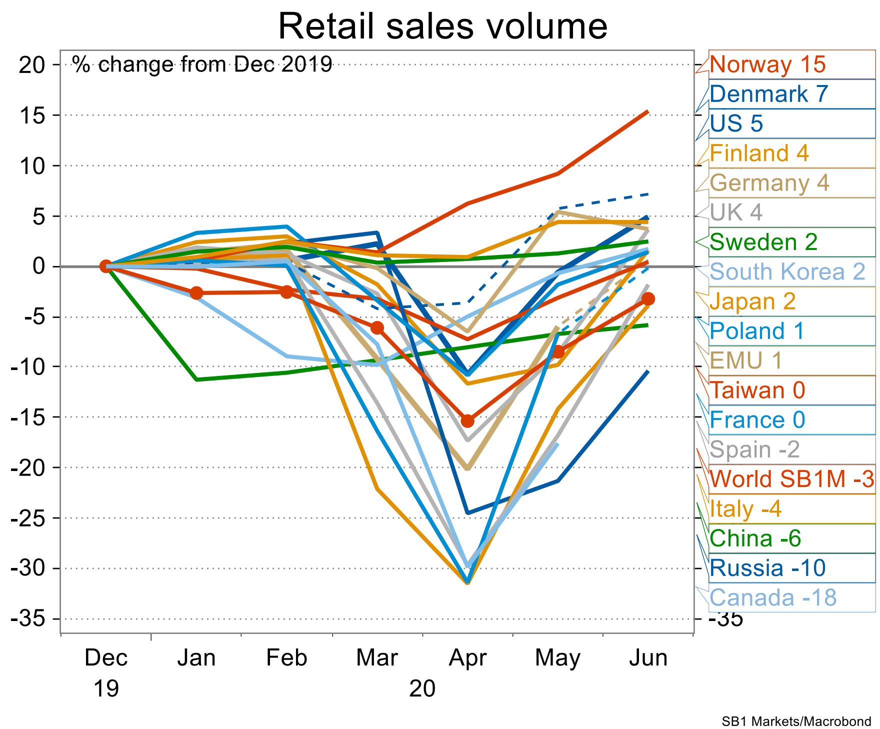
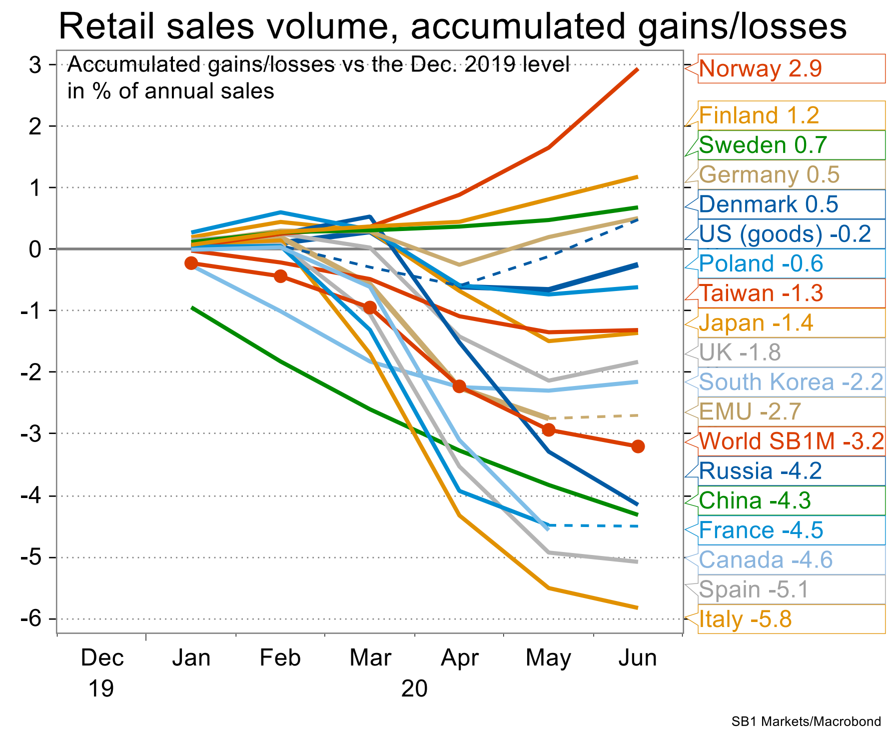
Retail sales are on the way back to pre corona levels

… sales are above the pre corona level in many countries, even accumulated during the 'crisis'





- We assume global retail sales rose more than 6% in June, as in May. If so, sales were still 3% below the pre corona level in June. In May, sales rose in all main countries. 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 5% above the pre corona level in June but total sales during the first six months of 2020 were still 0.2% 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 – and Germany
- <u>Consumption of services are not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

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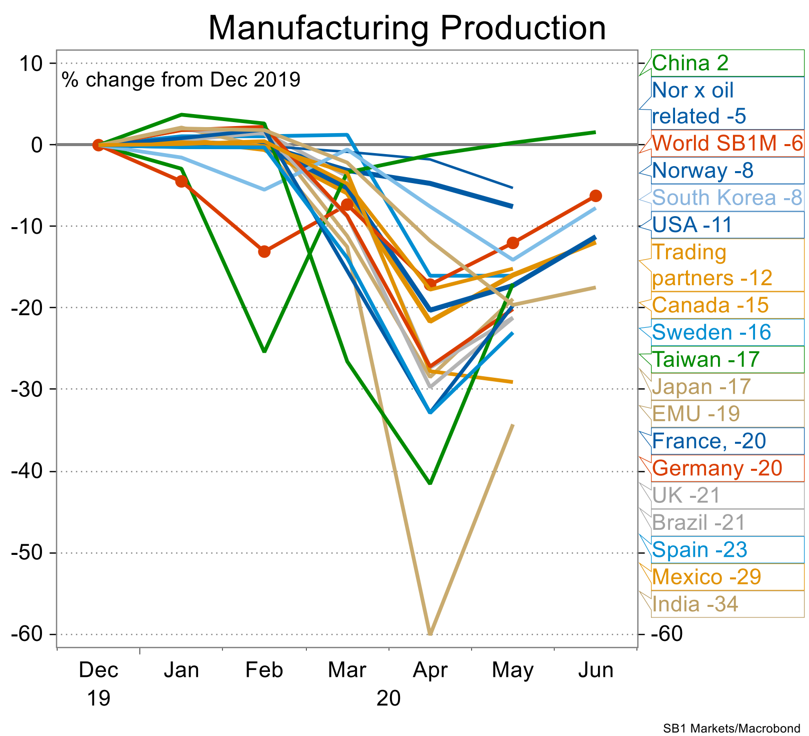
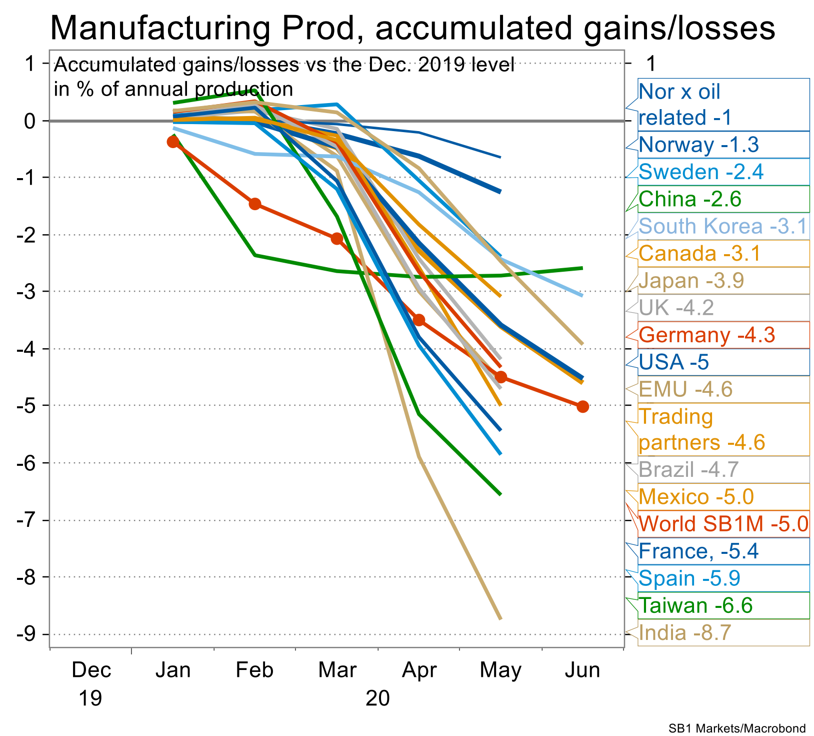
Manufacturing production on the way back, still some 5% of 2020 ‘is lost’

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

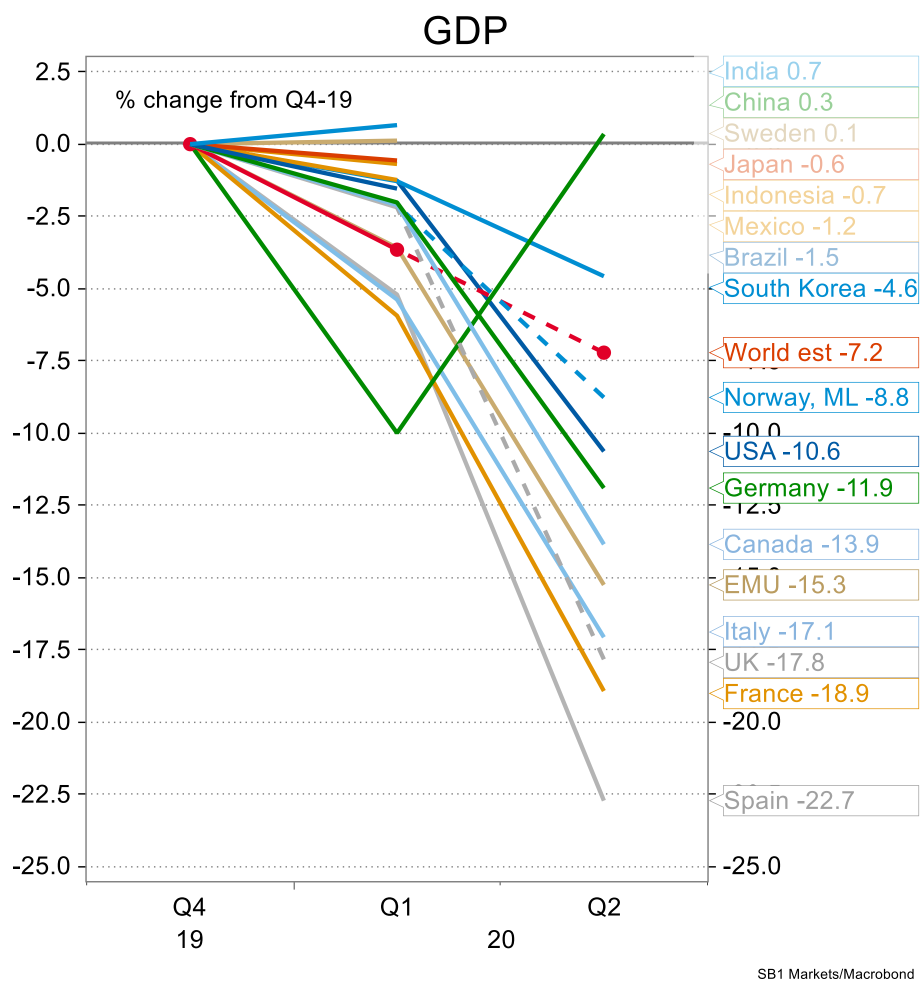




- We estimate an almost 7% m/m increase in manufacturing production in June. Production was still down 6% vs. the Dec level
  - » Compared to the Dec 19 level, China is in the lead (above the Dec level) followed by Norway and the US
- The chart to the right presents the accumulated gains/losses vs. the 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

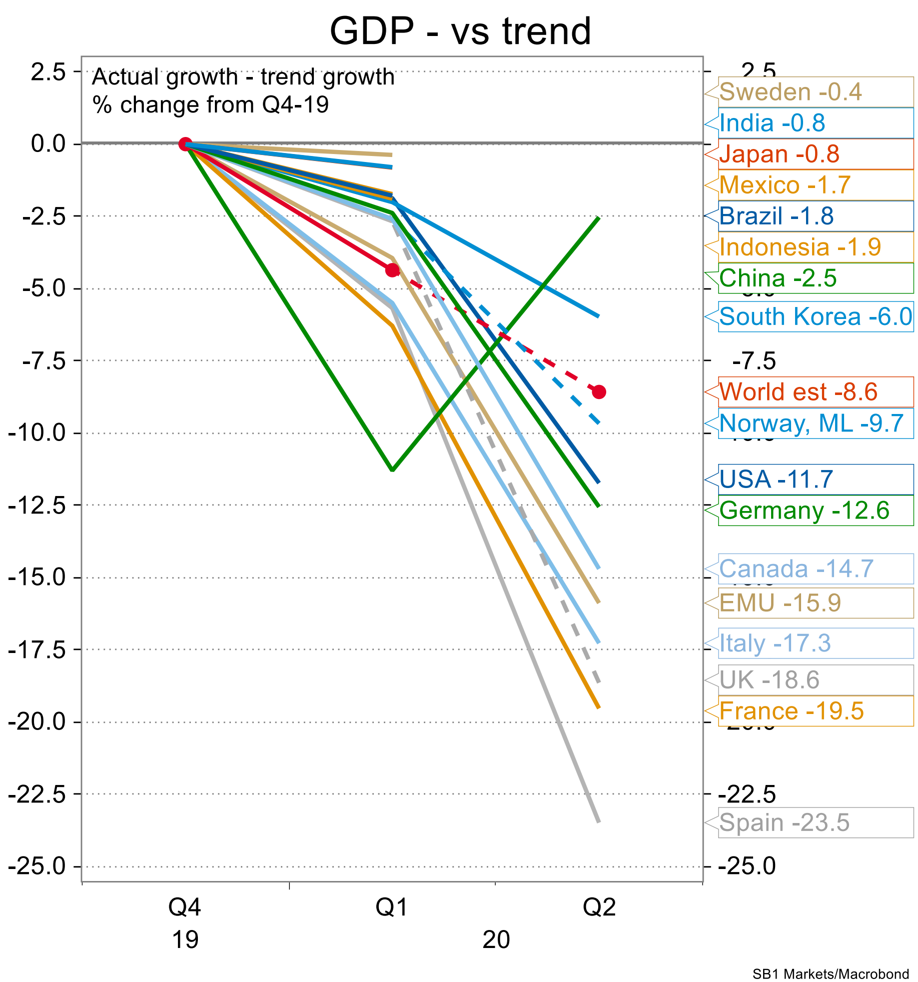
Substantial differences, and not just only depending on when the corona virus hit



- 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 (all?) 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 8.5% below the pre corona trend path (see chart next page)
  - » US and Germany is down 11% from Q4, Spain 23%...
  - » South Korea just down 4.6%
  - » All 7 countries at the top of the chart has NOT reported Q2 data! Norway & UK + the world are our f'casts
- 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 2 – 4% shortfall vs. the pre corona level and 5 – 6% negative output gap*

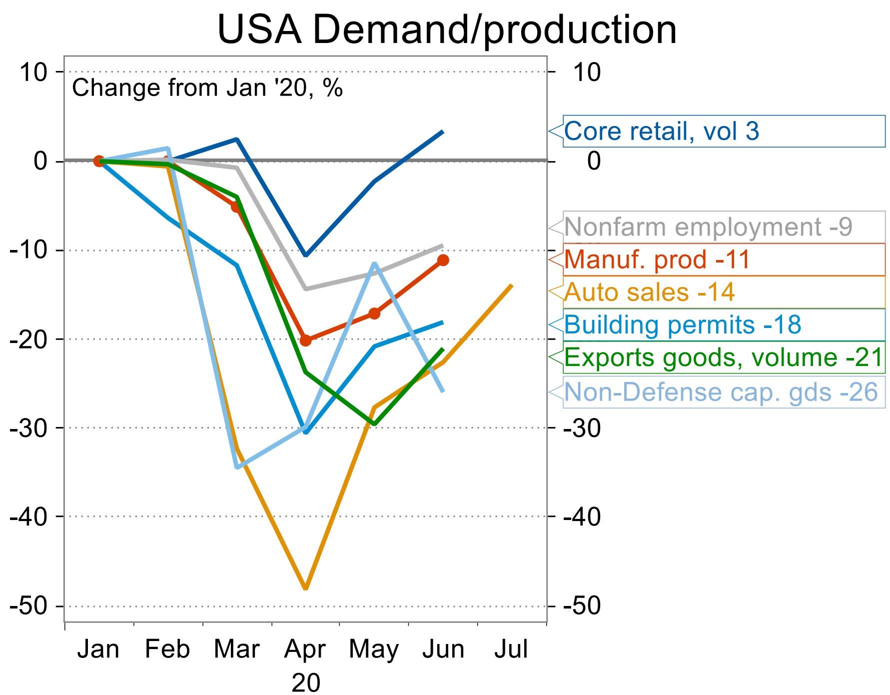
Global GDP a tad weaker vs pre corona growth trends, China still 2.5% below

The world some 8.5% below pre corona trend in Q2



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%



SB1 Markets/Macrobond

Some different shapes and forms of 'V's

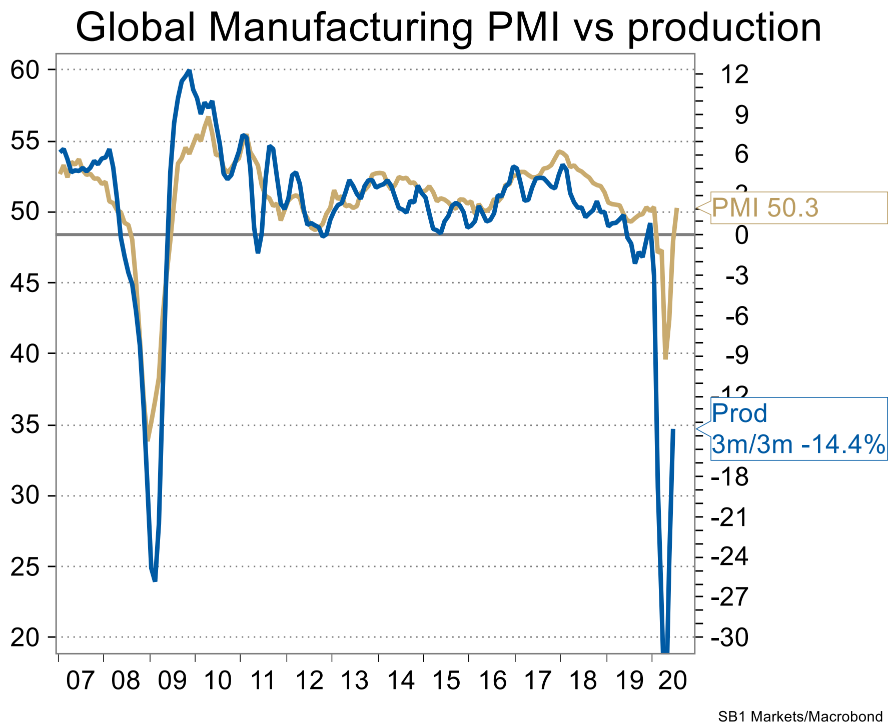
- Barring export volumes, all main indicators rose in May, and most June data published so far are up
- Core retail sales have reported the sharpest recovery, up 3% from Jan/Feb in June, following a 5% lift in June, better than expected
  - » Still total consumption was 7% below the pre corona level in June – and probably not somewhat less in July even as the recovery probably 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 finally turned up in June

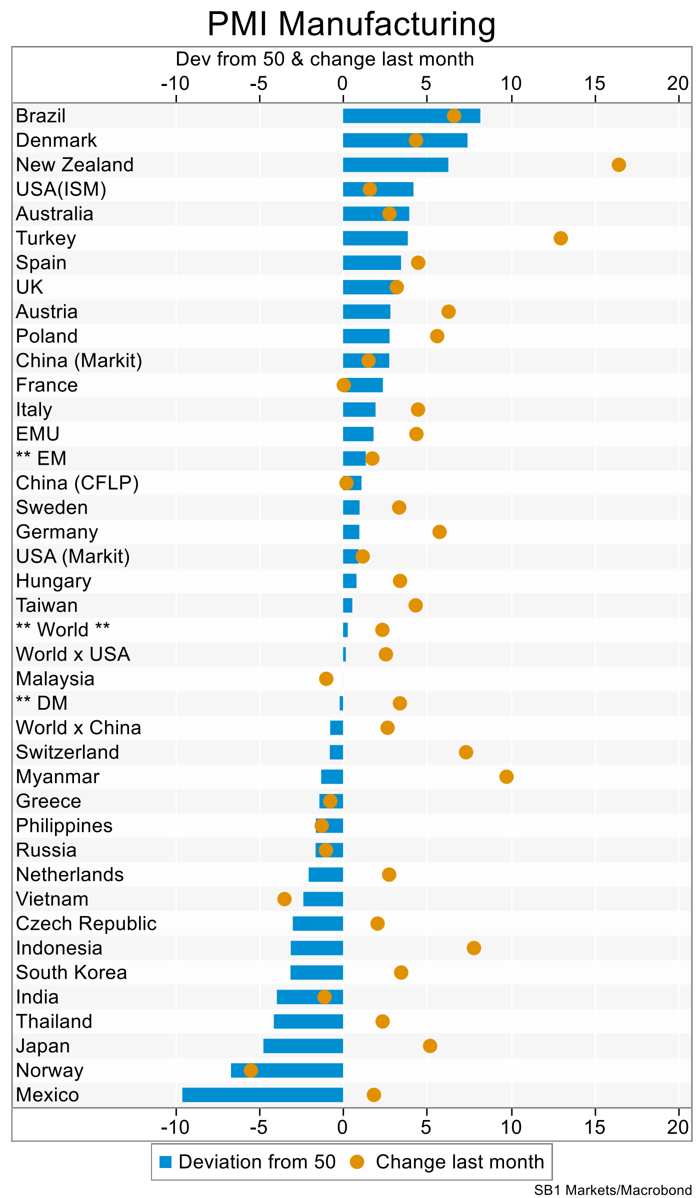
Demand vs production

- Manufacturing production and employment rose in May and June but both remains 9 – 11 % down from before corona
- We put more emphasis on the demand side than production
  - » If demand recovers, production will follow – after inventories are emptied

Manufacturing PMI finally up to above the 50-line

More countries





- The global manufacturing PMI rose 2.3 p to 50.3 in July, almost 1 p better than we assumed, based on the preliminary indices
  - » 32 countries/regions reported growth, 7 a decline
  - » A majority of the countries are reporting PMIs above the 50 line, 2 months ago just China was above
- Emerging markets recovered more than rich countries (DM), and is at a higher level. Brazil in the lead, Mexico at the bottom, followed by Norway

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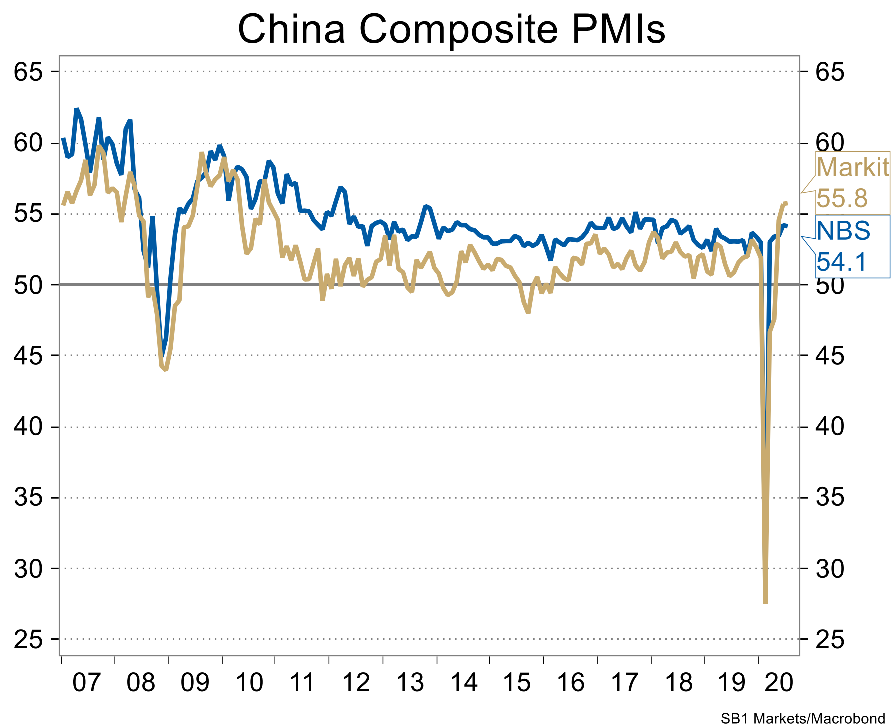
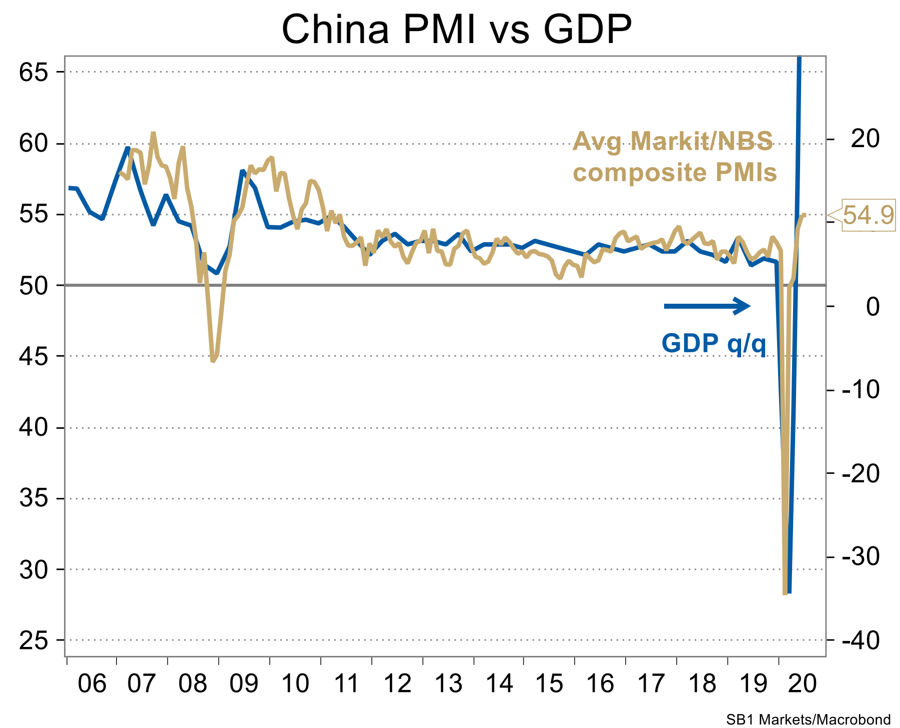
Chinese July PMIs better than expected, signals growth above trend

In average, the best PMIs since 2011, following the sharp GDP recovery in Q2

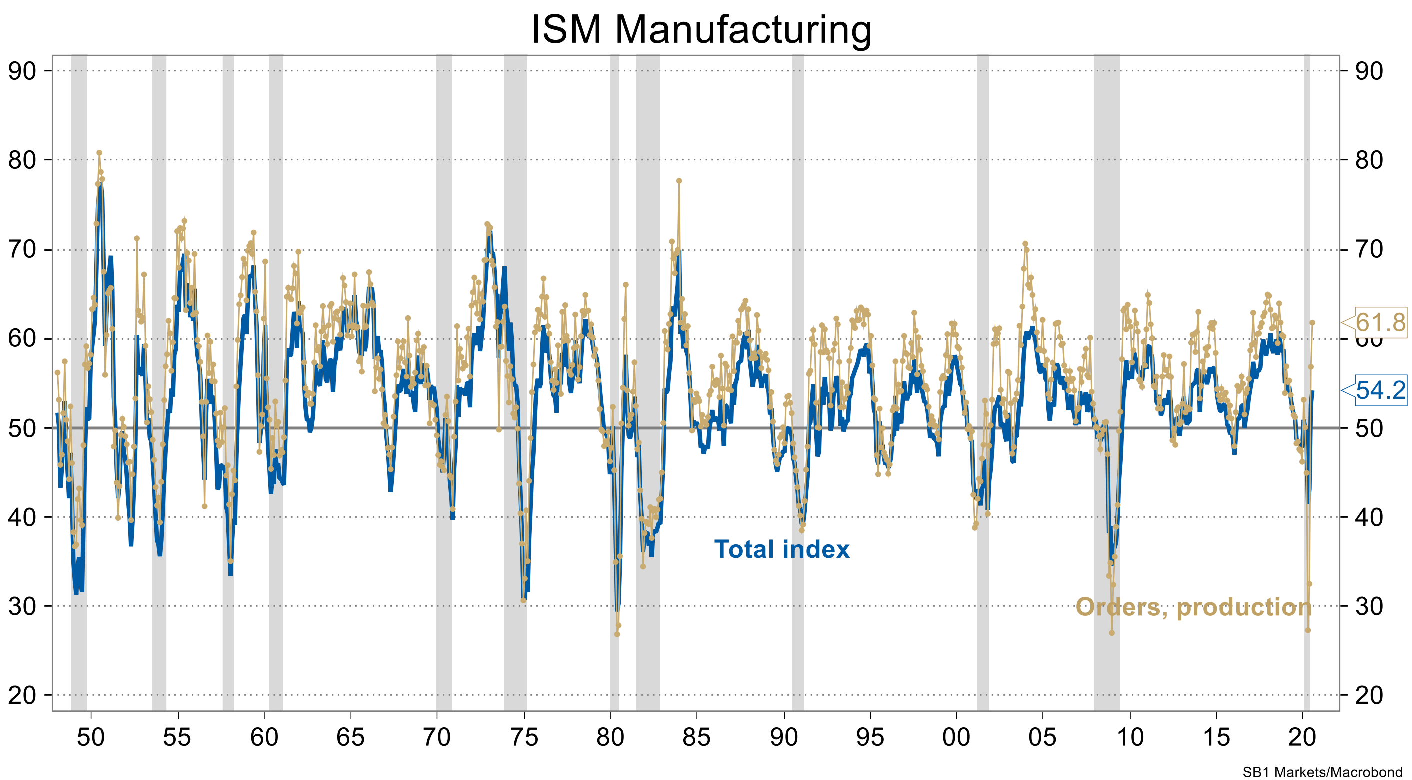


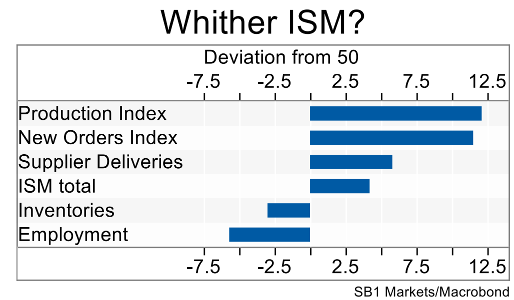


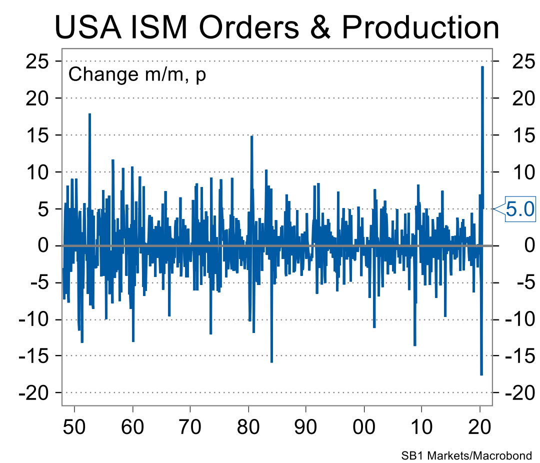
- The NBS' 'official' composite PMI fell 0.1 p to 54.1 in July. The manufacturing index rose marginally, the service sector index fell just as marginally
- Markit's manufacturing PMI rose 1.5 p to 52.8, expected up just 0.1 p. We do not have the service sector PMI but assume a small decline, given the 3.4 p surge to 58.4 in June. If so, the composite PMI was close to flat in July
- In sum, these to PMI data sets confirm a continued recovery in the Chinese economy, and growth above trend in Q3 too – which is needed to close the 2 – 3% negative output gap

The manufacturing PMI further up in July, inventories to be refilled

The total index up 1.8 p to 54.2. Orders/production even better, + p to 61.8. Still, further empl. cuts



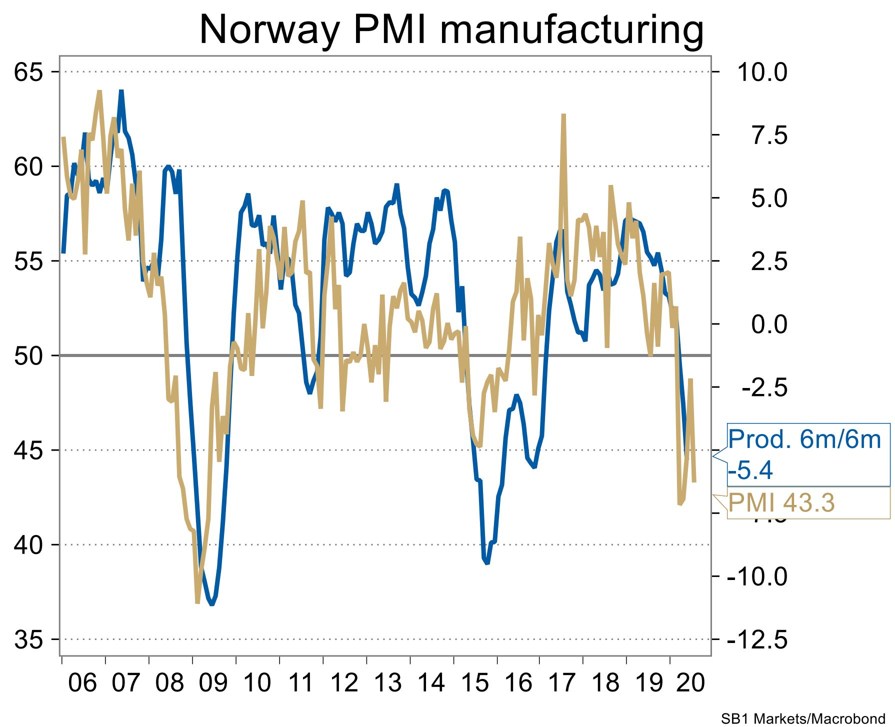


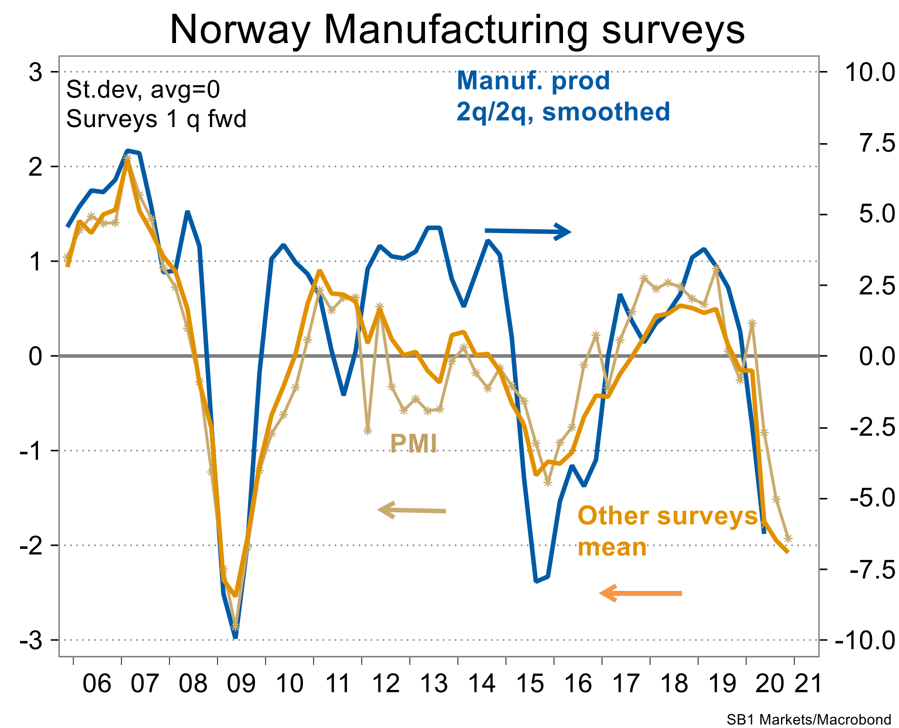


- Demand growth may be slowing but manufacturing production no doubt grew further in July, partly because inventories have been draw down in the retail sector. Employment the only weak link – companies are reporting further cuts
- 13 manufacturing sectors reported growth in July, as in June. 3 (4 in June 11 in May) sectors are still on the way down
  - » Those om the way down: Transportation Equipment; Fabricated Metal Products; and Machinery
- The bright spot: Manufactures are reporting that their customers have run down their inventories – they will have to restock

The volatile PMI down 5.5 p to 43.3 in July – weak but in line with other surveys

We do not put too much emphasis on signal months, the 'strong' June may have been the outlier

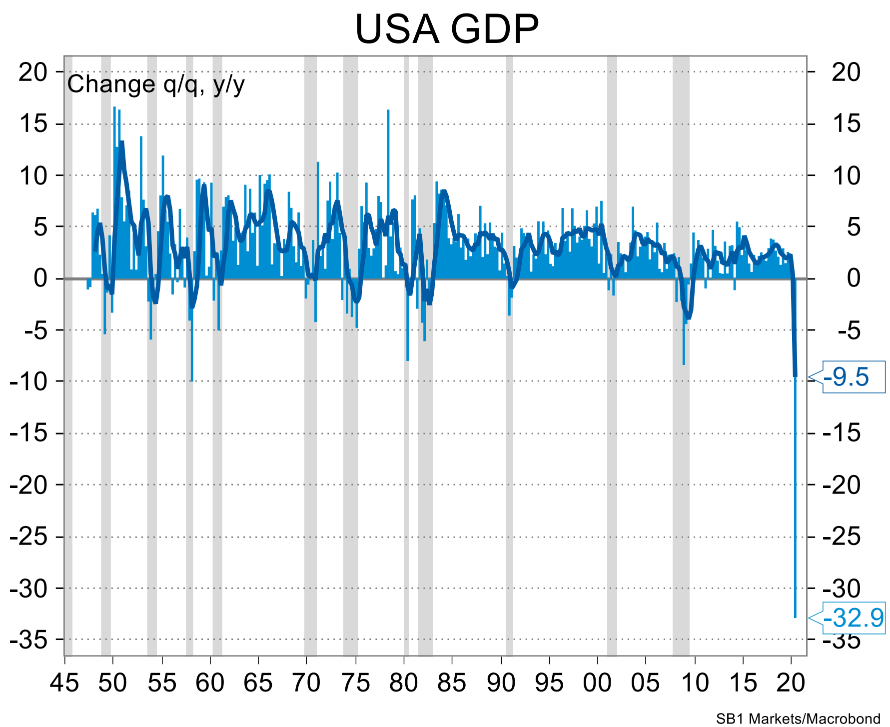




- Other surveys are signalling a substantial decline in manufacturing production

GDP down 9.5% (or 32.9% in US terms…) in Q2. That was the bottom

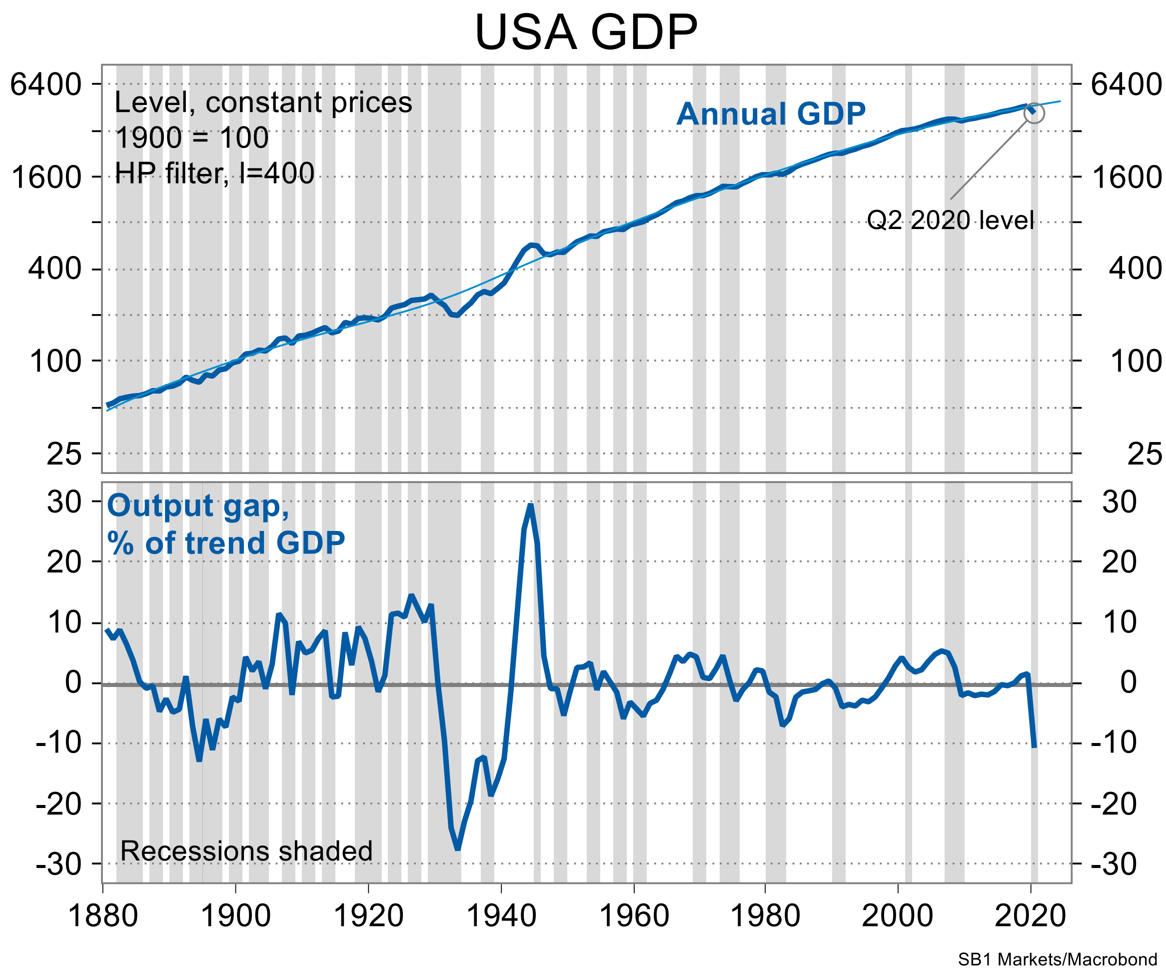
Private consumption the big drag – even if personal income rose sharply



- GDP fell by 32.9% in Q2 in annualised terms, slightly less than expected. The 'actual' decline was 9.5% following the 1.2% (5%) setback in Q1
  - » From Q4, GDP is now by 10.6%, and it's down 9.5% from Q2 last year, in line with NY Fed's weekly GDP indicator
- The decline in GDP in H1 is the largest ever, with quarterly data since 1947.
- The annual revision did not change the economic history in any noteworthy way

The steepest decline during just a few months, but not the toughest, so far

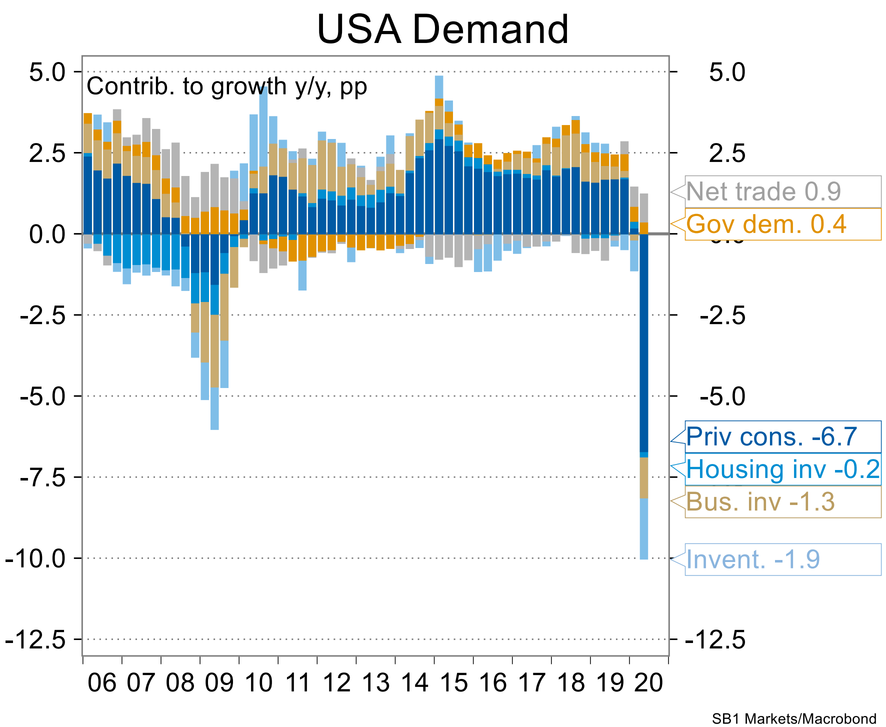
During the 30-ies GDP fell by 26%, now its down 10.6%. The output gap change 40%, vs. 12% now

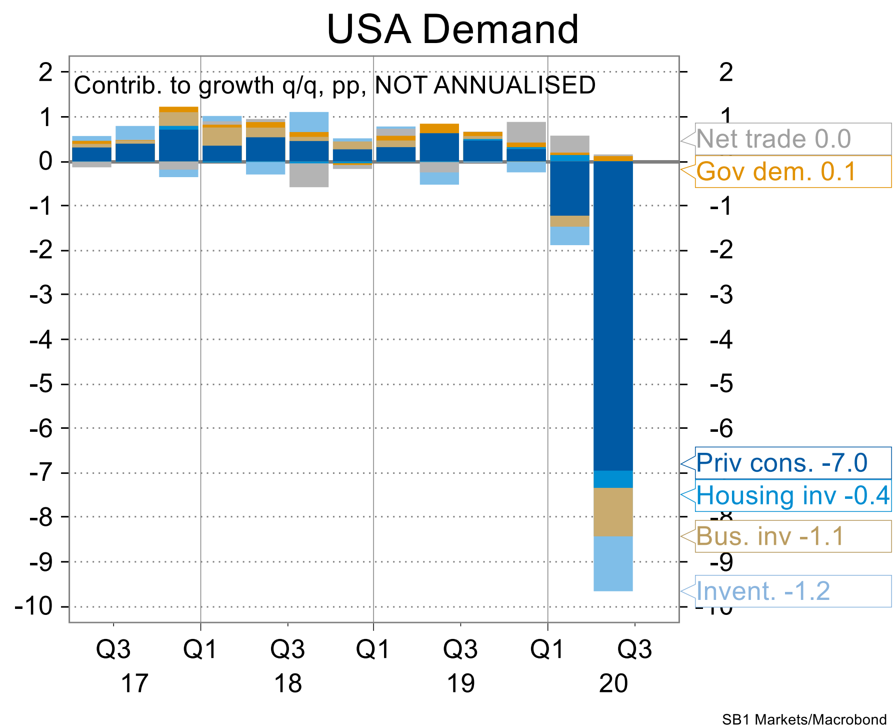


- On the chart, we have assumed 2020 equal to the Q2 level for illustrative purposes. This assumption is way to pessimistic unless the economy collapse completely the coming months
- Even so, the 2020 is not the worst we have ever seen
- The total loss due to the corona crisis/recession is not just dependent on the depth of the recession but also how long time it's take to get back to normal capacity utilisation. Of course, that's not known today but we haven't seen any forecast implying anything close to the losses of production that incurred during the depression in the 30'ies

Private consumption the main culprit in H1 but business investments down too

Inventories were run down too, as production fell even more than demand

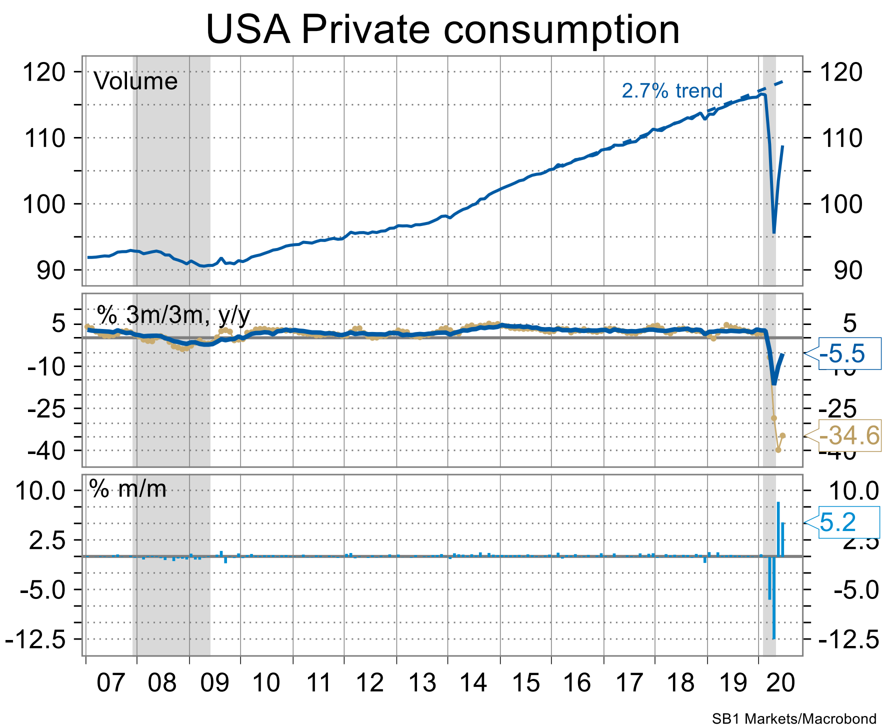


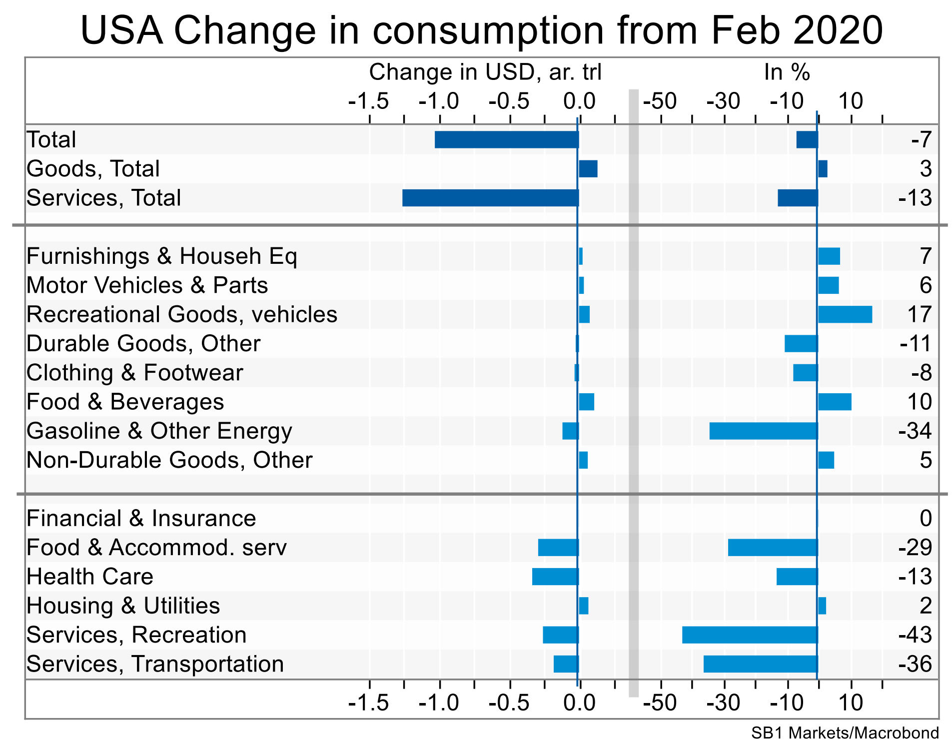


- Private consumption fell marginally more than GDP, even in household income rose sharply (see more below in this report)
- Housing investments fell more than GDP, while business investments fell marginally slower – but both were down sharply
- Government demand rose marginally in Q2
- Both exports and imports fell sharply, and exports more than imports - but the net impact on growth was neutral
- Inventories were run down at a very unusual pace, we assume mostly because retail sales was strong, while production was kept down due to corona measures

Consumption up 5% in June, more than 1/2 of the setback recovered

Still 8% below trend. Income fell by 1.4%, fewer corona checks were sent. Savings still high, at 19%

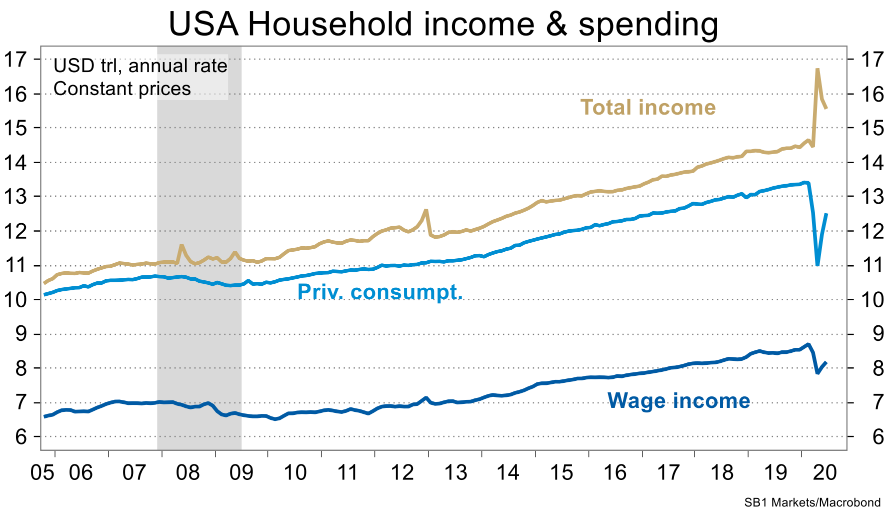


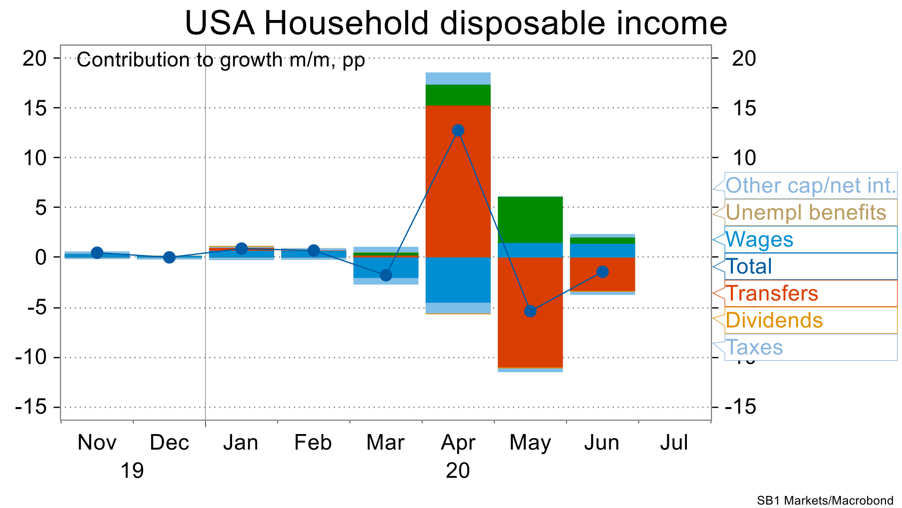


- The increase in spending was marginally higher than expected, while incomes fell a little less than expected
- All sorts of consumption rose in June – but the overall consumption level is still 7% below the Feb level (and 8% below trend)
  - » Consumption of goods is now 3% above the Feb level, driven by food & beverages (at home), recreational vehicles (!), while gasoline is sharpy down
  - » Consumption of services are down 13% due to health care (!), restaurants/hotels, recreational services, transport. Most of these sectors will probably not return to normal activity the coming months
- In June, consumption was 6.1% above the Q2 average. If spending flattens from here (which is far too pessimistic, even if there are 'some' regional Covid-19 challenges), higher consumption will lift Q3 GDP by 4.3% (18% annualised)

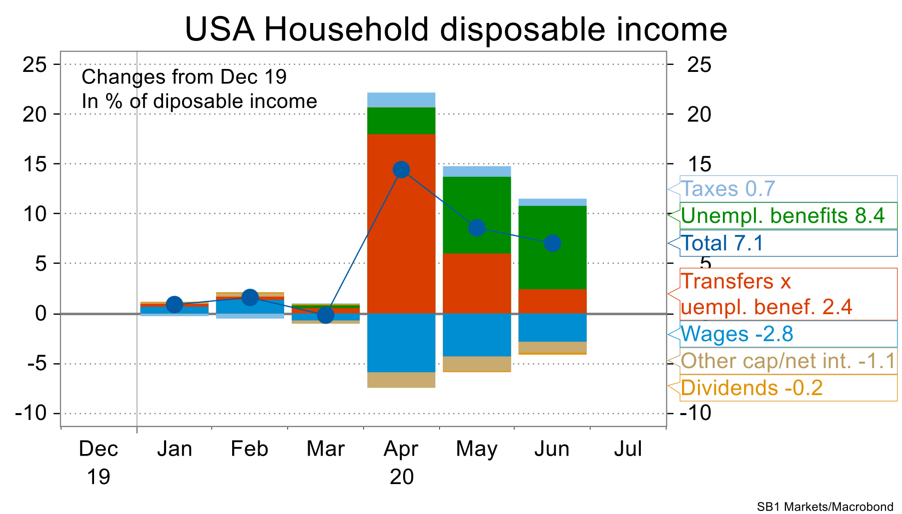
Income is sharply boosted by government transfers, now mostly unempl. benefits

Income fell by 1.4% in June as few corona checks were sent - but transfers are still lifting inc. by 11%!!



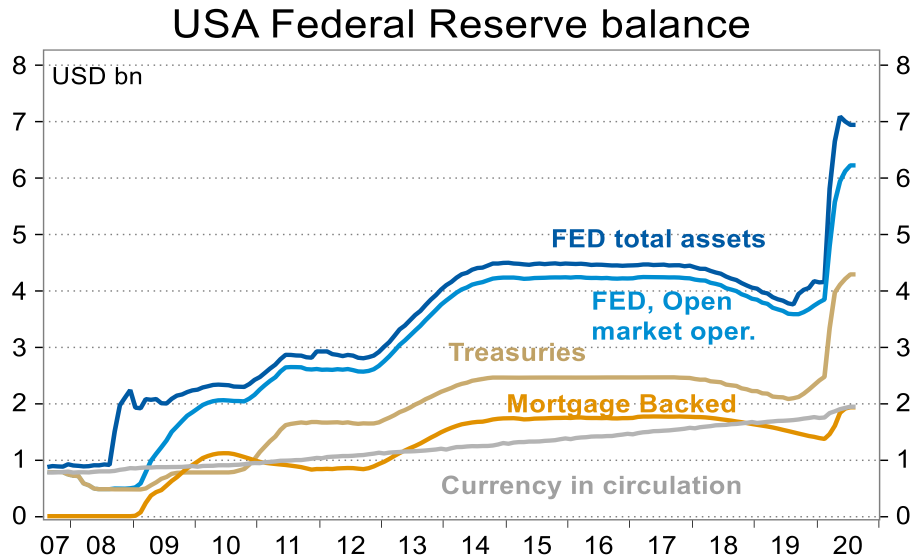


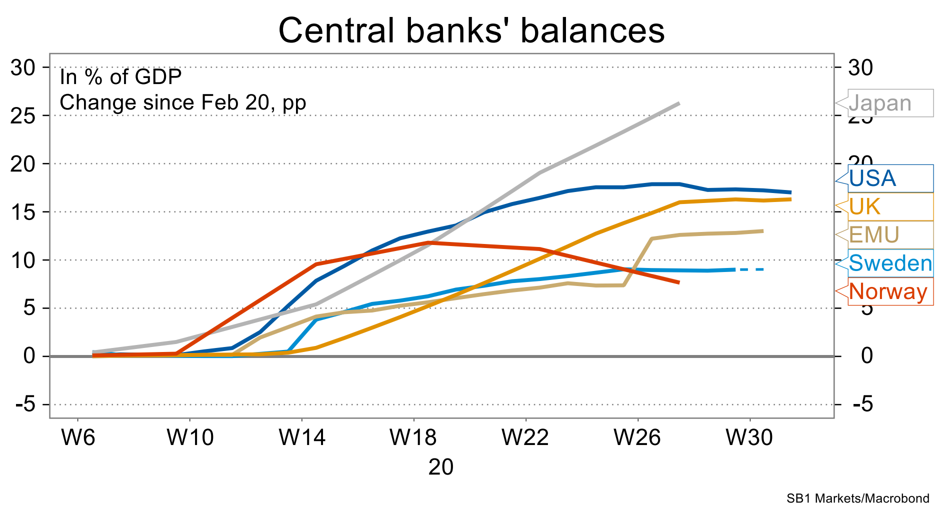
- Changes in household income have been dramatic as they – in aggregate – have been overcompensated, big time
- Overall household income is up 7% from December 19
  - » Wage incomes are down 4%, equalling 2.8% of disposable income
    - Other market based incomes are down equalling 1.3% of disp income
  - » Unemployment benefits are up equalling 8.4% of disp income, 3x more than the cut in wage incomes (partly due to delayed payments)
  - » Other transfers are up equalling 2.4% of disp income. At the peak in April, transfers equalled 17% of the Dec 19 monthly income!!
  - » **Government transfers equal in sum still close to 11%, far more than the reduction in wages and other market based income**
    - Even if not an extra dime is distributed from here, 2020 household income are boosted by 4% of income (3% of GDP) by these transfers
- Another huge support package, both cash transfers to all and a continued extra unemployment benfit is now hotly debated in the Congress, and will most likely be agreed upon



FOMC: We are stand by – will support the economy as long as needed

But no new measures or yield curve control or 'actual inflation target' decided (now)





- The mantra was unchanged: '*The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time*'
- The Fed is worried that Covid-19 may continue to create problems in the US economy, and the Powell noted signs of regional slowdown due to the outbreaks recently
- The FOMC expects the balance sheet expansion to continue at least the current pace
  - » What is the current pace? Well, it depends. The balance sheet has not increased since early June, at least not formally (the Fed is engaged in several off balance sheet mechanisms too, like the programs for supporting the corporate credit market…)
  - » Several credit support programs were prolonged, and broadened but new initiatives were not announced
- The Fed did not signal that actual inflation or employment must be in line with long term target before determining future policy adjustments, but said as before that *the Committee will assess realized and expected economic conditions.* Some had expected that *'and expected'* would be removed from the statement, which would have been a major policy change! The Fed can still act on its forecasts!
- **However, the debate runs hot within the FOMC, and a policy shift is possible. The FOMC may promise not to hike before actual inflation is established at 2% or above**
- There were no signals on yield curve control (YCC) or fixing of longer dated Gov bonds in order to strengthen forward guidance

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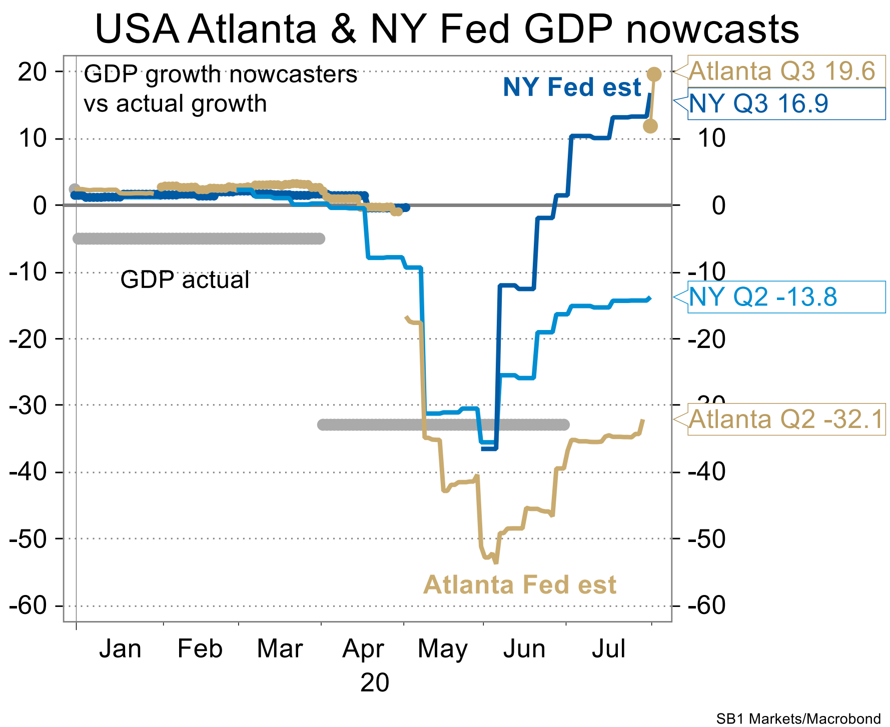
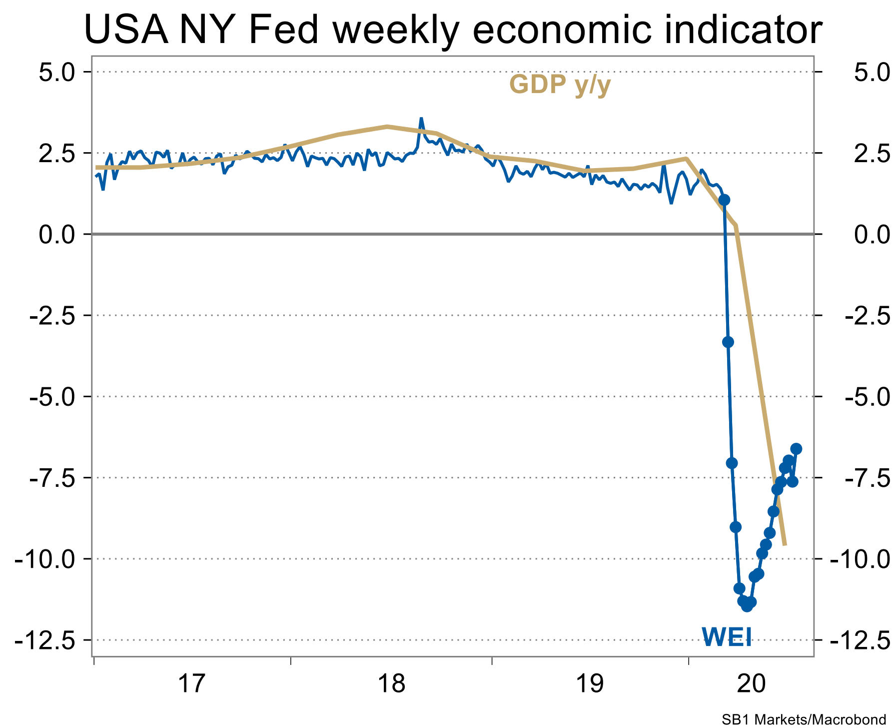
Nowcasters are looking upwards in Q3, of course. But still far less than the Q2 loss

Atlanta Fed & NY Feds weekly models were correct in Q2, NY's ordinary forecaster was off the mark

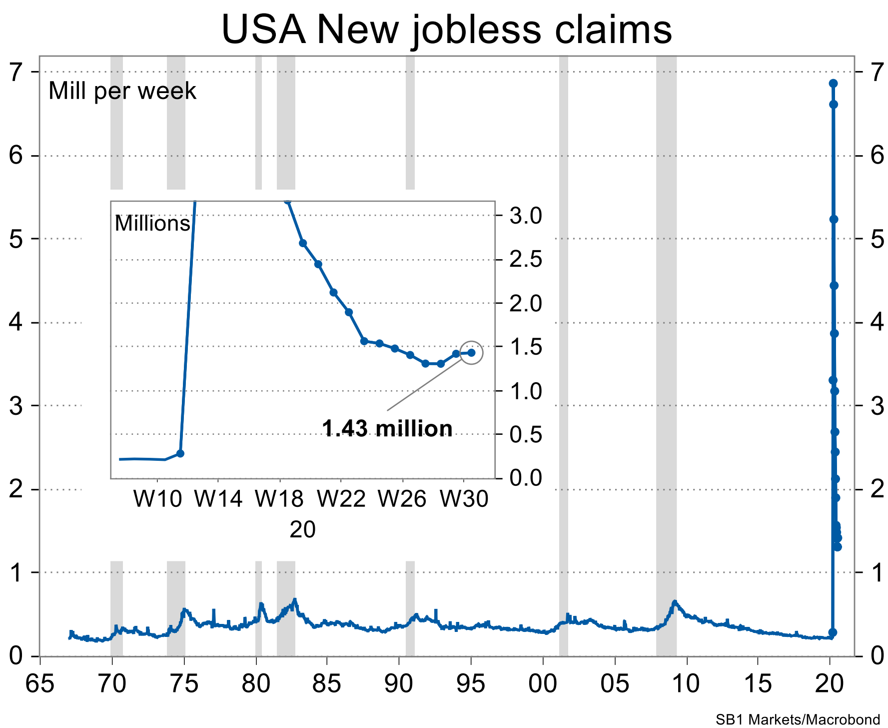


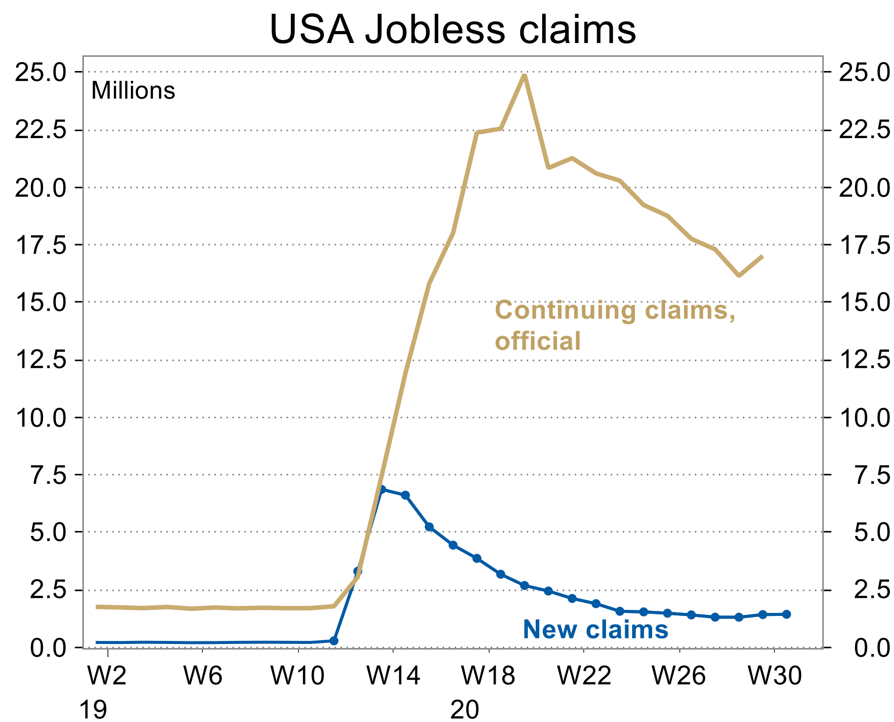


- We still do not have many Q3 data – and the nowcasters' forecast are still very uncertain - and they don't even get it right after the quarter is done. So for what they are worth, the nowcasters reports 14 – 20% growth in Q3 (annual rate)
  - » NY Fed's weekly model signal a 7% decline y/y, equalling a 16% (less than 4% not annualised) growth pace q/q in Q3. We really hope growth will turn out to be better than that
  - » We expect Q3 growth to be far stronger. Even without any further growth in consumption form the June level (which is rather unlikely), consumption alone will lift Q3 GDP by 18% (4%, not annualised), a more realistic growth contribution is 28% (6%)
- GDP fell 33.9% (annualised, 9.5% not annualised) in Q2, spot on Atlanta Fed's model estimate. NY Fed's model reported a 13.8% (annualised) decline

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

1.43 mill new jobbless claims, up 12' vs. previous week – 0.8% of the labour force…

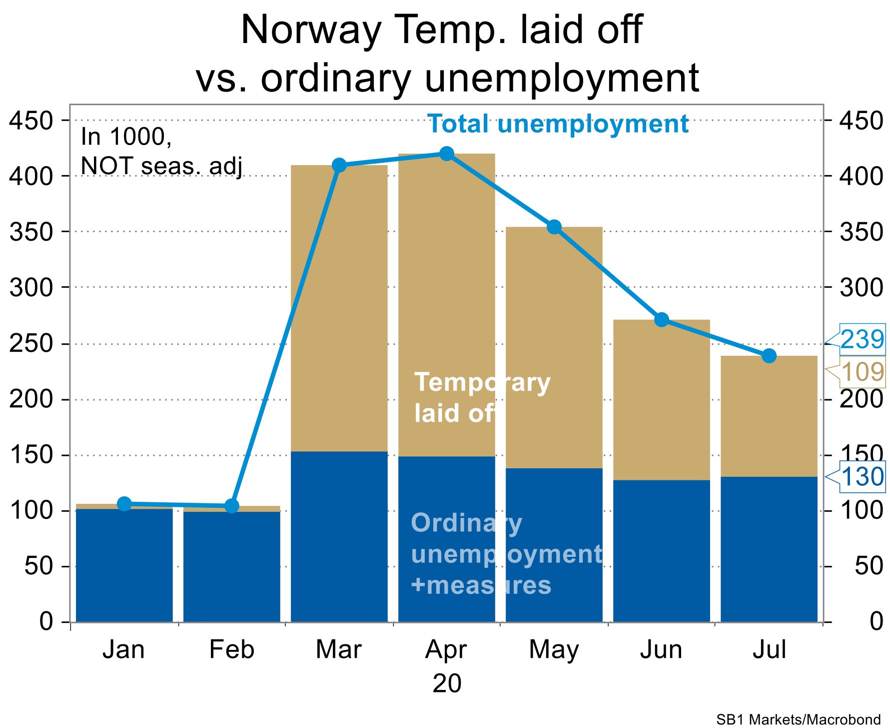


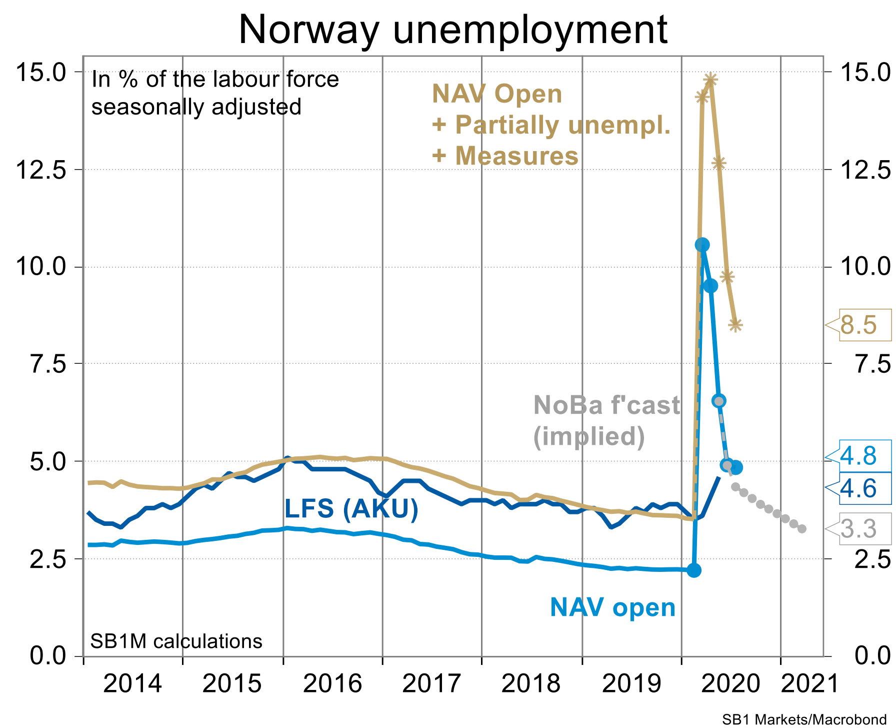


- The inflow of new jobless benefit seekers has been abating since April, but recently much slower than expected - and during the two past weeks the flow has increased again. The inflow is incredible high, equalling 0.8% of the labour force per week, more than 5 times more than in goods times and twice as much as during harsh recessions
- The previous week, the number of continued claims rose too, confirming renewed problems at the labour market
- Congress has not yet agreed upon if/how to prolong the temporary USD 600 per week extra Federal unemployment support (on top the ordinary state support). The last payment was distributed last week

NAV unemployment further down but slower

Ordinary unemployment down 0.1 pp to 4.8%, grand total -1.2 pp to still very high 8.5%





- Actual open, full time (ordinary) unemployment rose marginally – but fell, seasonally adjusted
- The number of partially unemployed persons fell further – and the grand total, including measures fell by 1.2 to 8.5%, seasonally adjusted
- Norges Bank expects a further decline in ordinary the coming months, down to 3.3% in Q1 2021
- The LFS unemployment rate rose by 0.5 pp to 4.6% in May (average Apri-June)

The Calendar, week 32

In focus: More July PMIs, US payrolls, China foreign trade, EMU retail sales, Norw. house prices

Time	Cour	Indicator	Period	Forecast	Prior
Tuesday August 4					
Wednesday August 5					
03:45	CH	Markit PMI Services	Jul	58	58.4
08:30	SW	PMI Services	Jul		49.2
09:30	SW	Industrial Orders MoM	Jun		4.50%
09:30	SW	GDP Indicator SA QoQ	2Q	-8.0%	-0.3%
10:00	EC	Markit Eurozone Composite PMI	Jul F		54.8
11:00	NO	House prices, MoM	Jul	(1.2%)	1.0%
11:00	EC	Retail Sales MoM	Jun	6.0%	17.8%
14:15	US	ADP Employment Change	Jul	1200k	2369k
14:30	US	Trade Balance	Jun	-50.2b	-$54.6b
15:45	US	Markit US Services PMI	Jul F	49.6	49.6
16:00	US	ISM Services	Jul	55	57.1
17:00	Wo	PMI composite	Jul	50.7	47.7
Thursday August 6					
08:00	GE	Factory Orders MoM	Jun	10.0%	10.4%
08:00	UK	Bank of England Bank Rate	Aug-06	0.10%	0.10%
10:00	NO	Norges Bank 2Q Survey of Bank			
13:00	UK	Bank of England Bank Rate	Aug-06	--	0.1%
14:30	US	Initial Jobless Claims	Aug-01	1400k	1434k
Friday August 7					
	CH	Exports YoY	Jul	-1.5%	0.5%
	CH	Imports YoY	Jul	0.8%	2.7%
08:00	GE	Industrial Production SA MoM	Jun	8.0%	7.8%
08:00	NO	Ind Prod Manufacturing MoM	Jun	(1.5)	-3.0%
08:00	NO	Credit Indicator Growth YoY	Jun	(4.5)	4.6%
08:45	FR	Manufacturing Production MoM	Jun	13.0%	22.0%
14:30	US	Change in Nonfarm Payrolls	Jul	1510k	4800k
14:30	US	Unemployment Rate	Jul	10.5%	11.1%
14:30	US	Average Hourly Earnings YoY	Jul	4.2%	5.0%

- **PMI/ISM**
  - » The lift in global manufacturing PMI, and preliminary services PMIs signal an increase in the global composite up to above 50. However, production has been on the way up since May – the PMIs have been lagging
- **USA**
  - » A 1.5 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**
  - » **Retail sales** is expected up by 6% in June, while the first June national **industrial production** should report a sharp increase
- **Norway**
  - » **House prices** probably rose sharply in July too, according to market reports. The cut in interest rates worked (too??) well. **Credit growth** (C2) has so far been heading down but we expect household borrowing to pick up some steam soon. **NoBa's lending survey** will shed more light on the credit market. We expect **manufacturing production** to recover some of the sharp May loss

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

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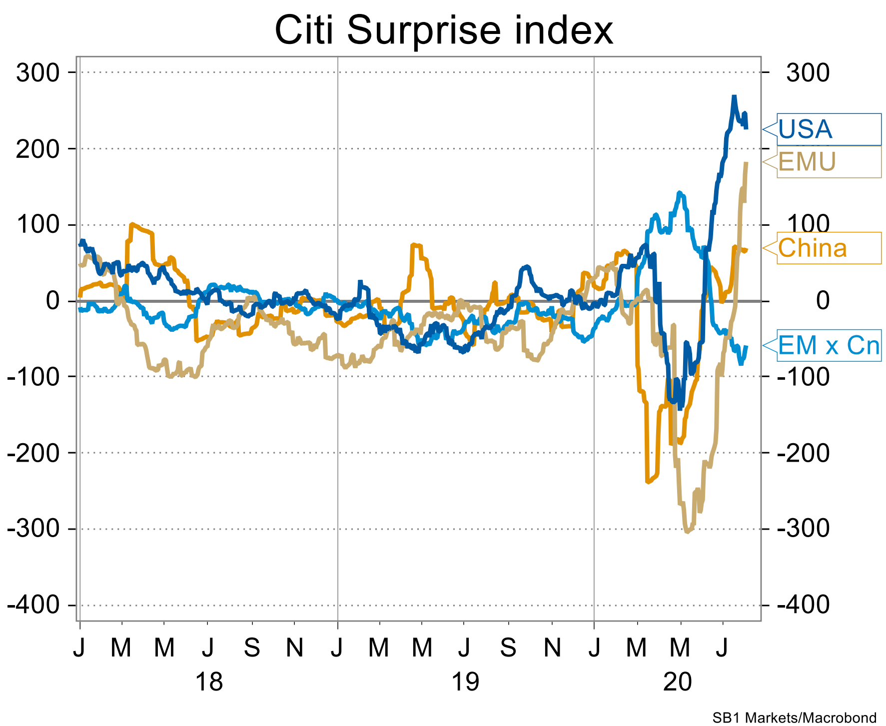
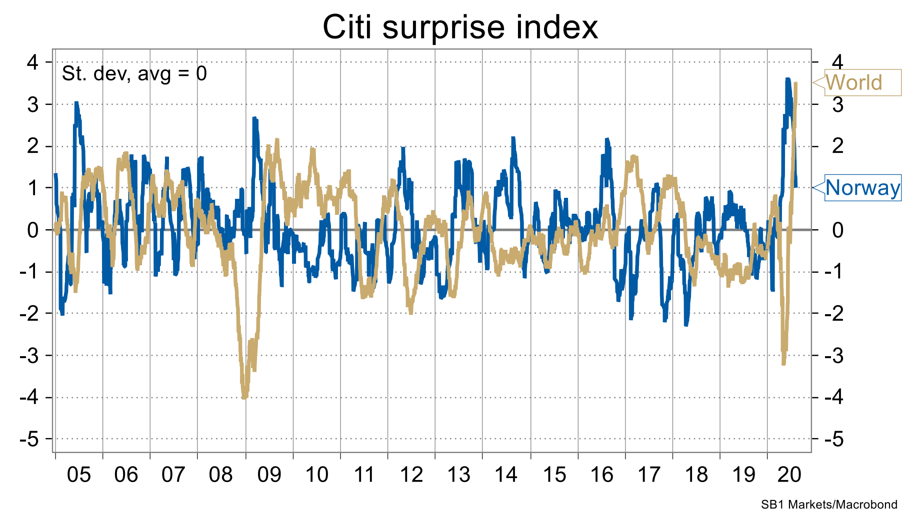
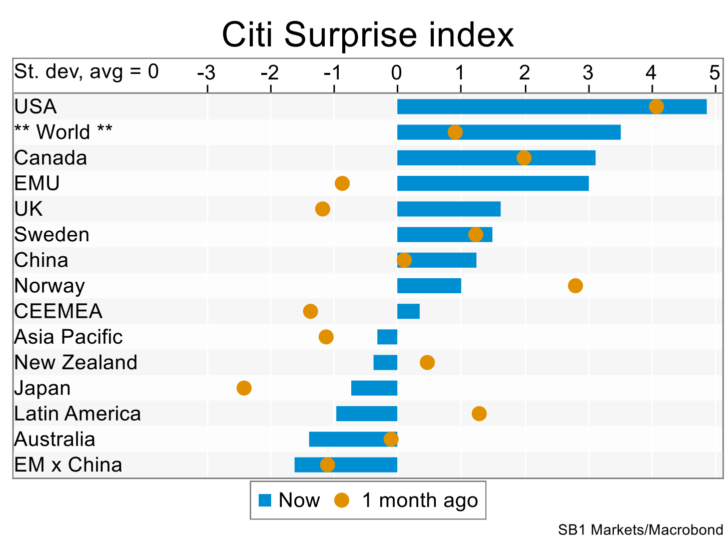
Macro data are surprising on the upside in DM, big time

Both US and the EMU – as well as China is suprising on the upside. The global surprise record high





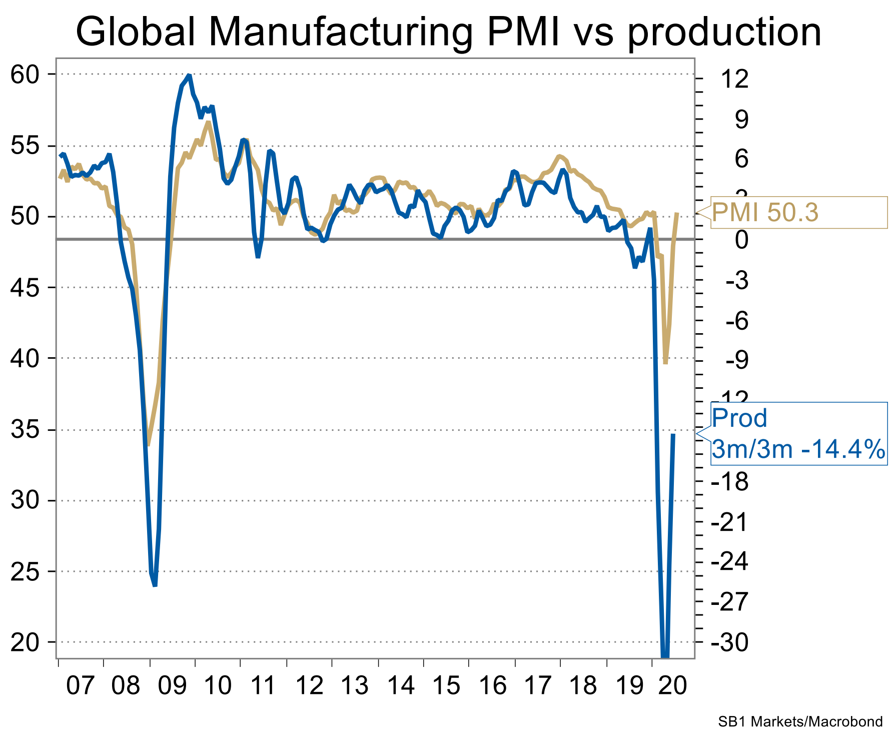


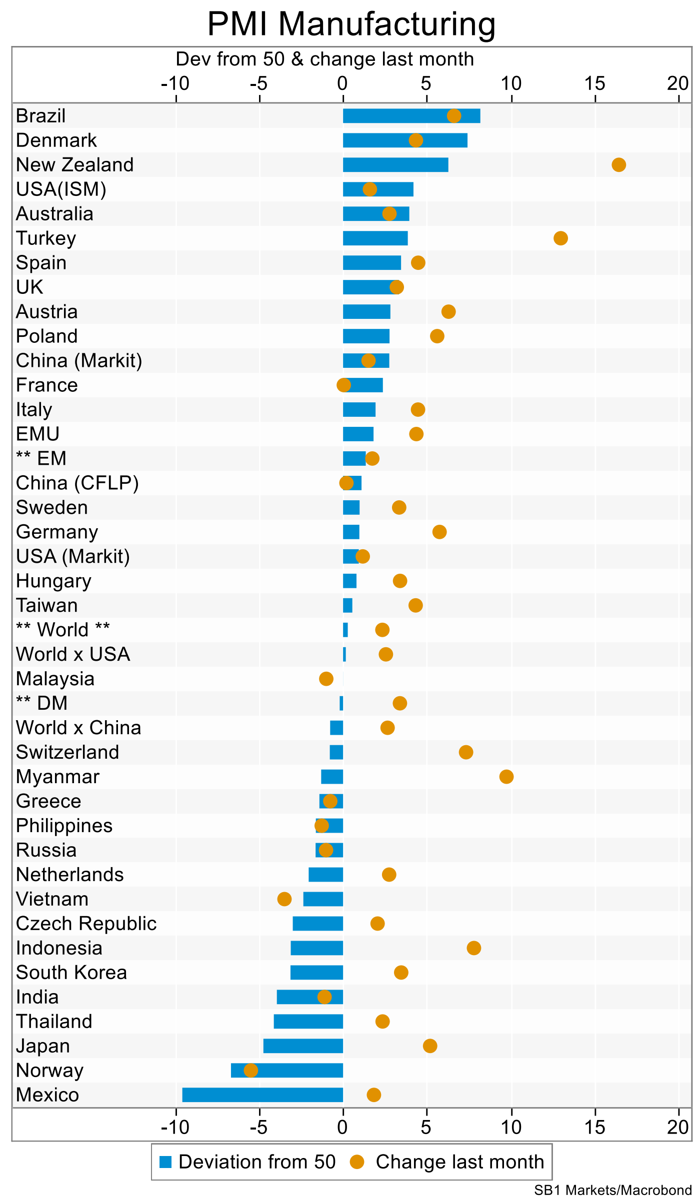
- Both the US & EMU are surprising more on the upside than ever before (data from 2003)
- China in positive territory too
- Other EMs are reporting weaker data than expected
- Norway has been surprising on the upside too – big time – but less two past weeks

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

Manufacturing PMI finally up to above the 50-line

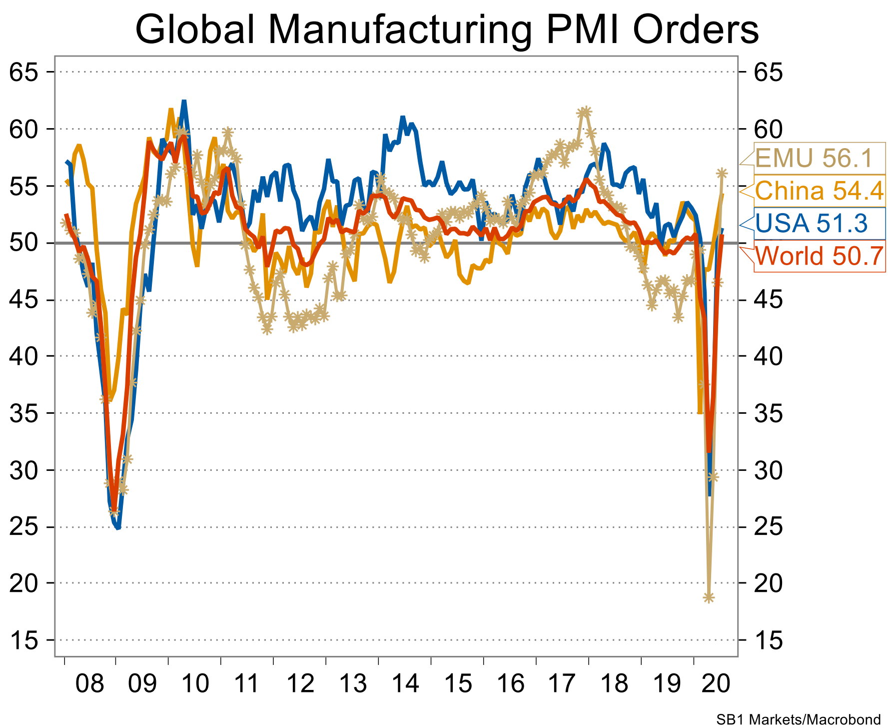
More countries

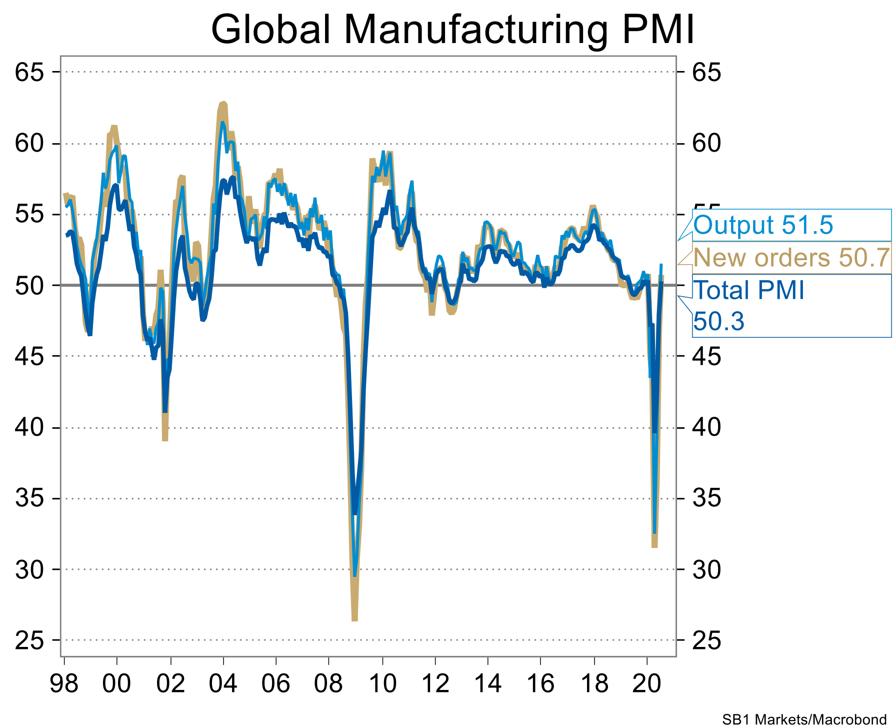




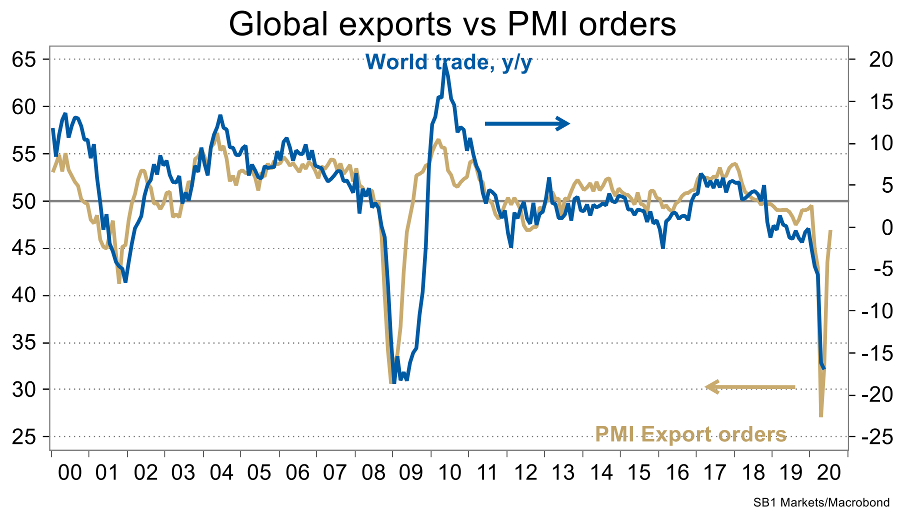
- The global manufacturing PMI rose 2.3 p to 50.3 in July, almost 1 p better than we assumed, based on the preliminary indices
  - » 32 countries/regions reported growth, 7 a decline
  - » A majority of the countries are reporting PMIs above the 50 line, 2 months ago just China was above
- Emerging markets recovered more than rich countries (DM), and is at a higher level. Brazil in the lead, Mexico at the bottom, followed by Norway

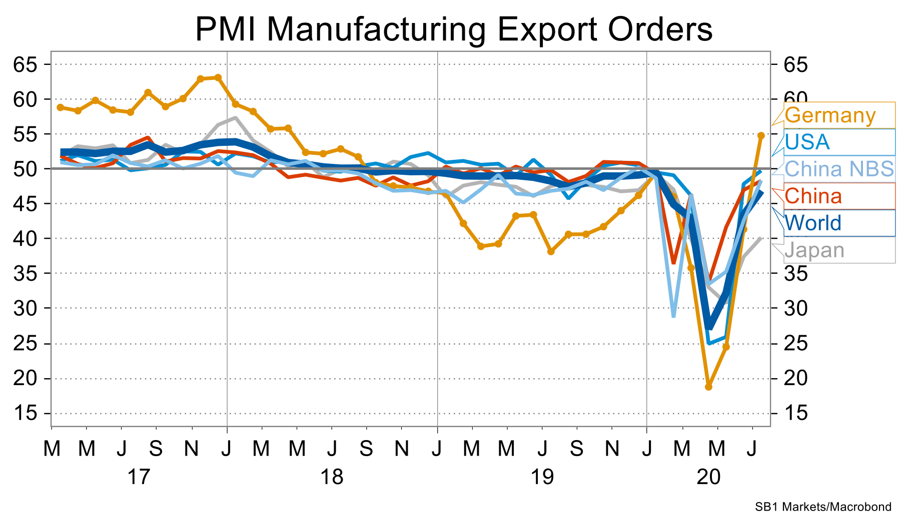
Manufacturing PMI signals growth in major countries/regions



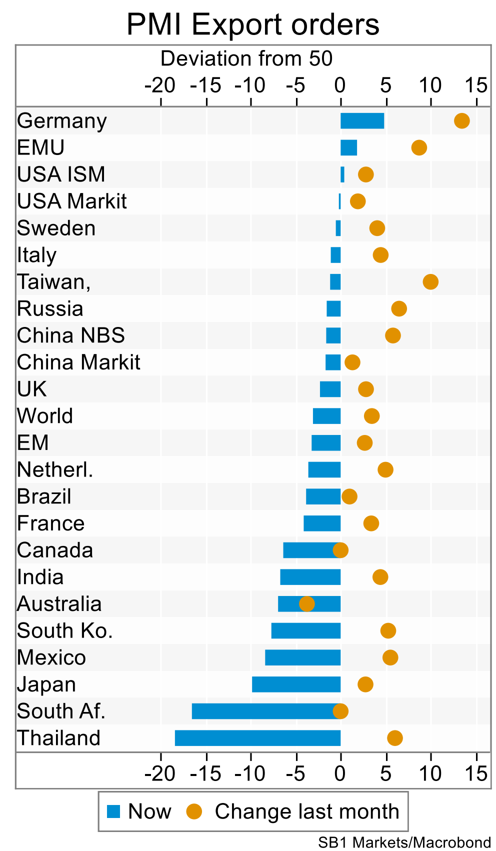


Export order PMIs further up but are still lagging overall order inflow



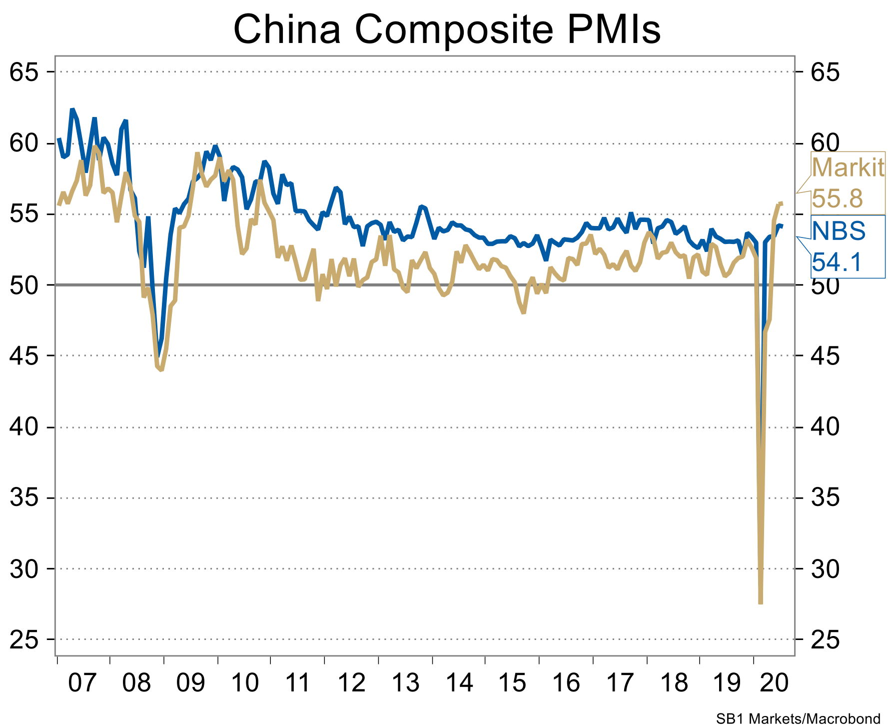


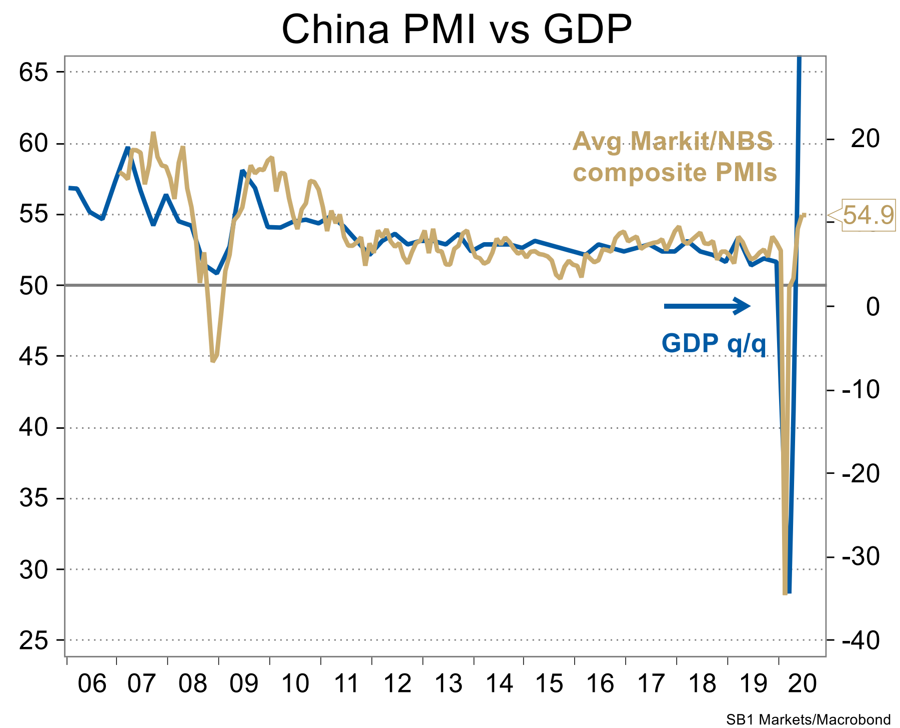
- Most countries are still reporting declining export orders in July (indeks <50)
  - » Germany has moved to the top of the list, from the bottom in April/May!



Chinese July PMIs better than expected, signals growth above trend

In average, the best PMIs since 2011, following the sharp GDP recovery in Q2



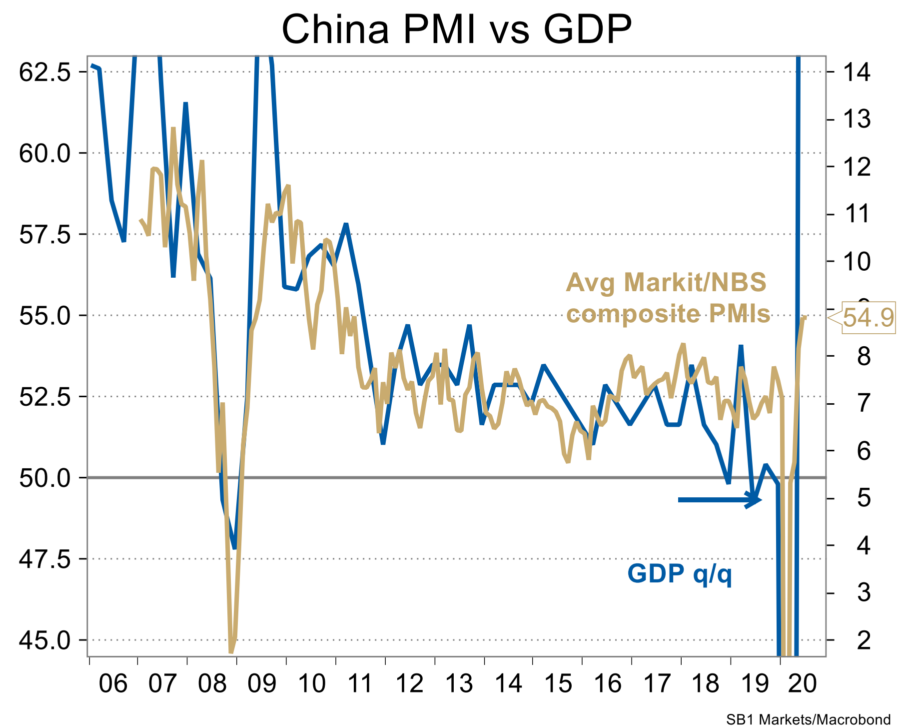


- The NBS' 'official' composite PMI fell 0.1 p to 54.1 in July. The manufacturing index rose marginally, the service sector index fell just as marginally
- Markit's manufacturing PMI rose 1.5 p to 52.8, expected up just 0.1 p. We do not have the service sector PMI but assume a small decline, given the 3.4 p surge to 58.4 in June. If so, the composite PMI was close to flat in July
- In sum, these to PMI data sets confirm a continued recovery in the Chinese economy, and growth above trend in Q3 too – which is needed to close the 2 – 3% negative output gap

… a closer look, at 'normal' times: The PMIs are signalling 8 - 10 % growth

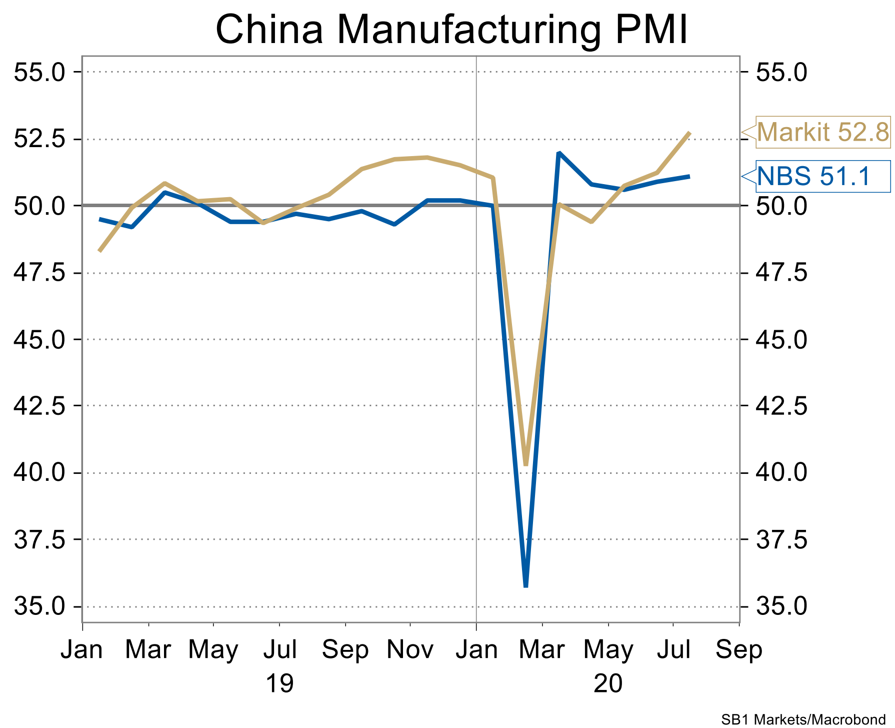
GDP rose 11.5% in Q2, far more than the PMI surveys signalled – and more than expected

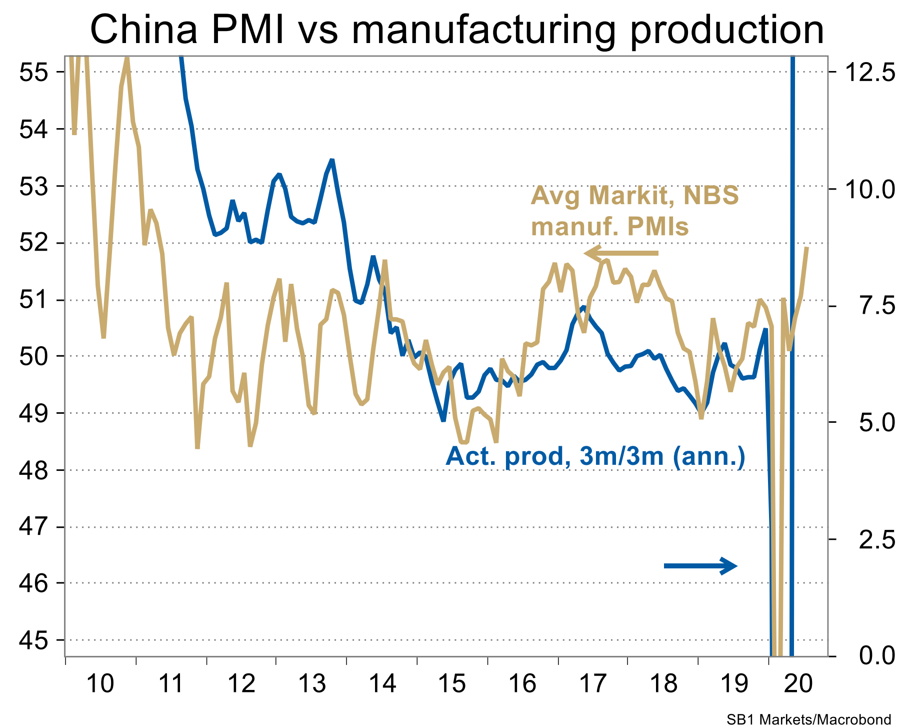
- We do not put too much emphasis on the PMIs for finetuning our GDP forecasts but strong PMIs do signal a continued recovery in Q3



Both manufacturing PMIs up in June, signalling growth above trend

The PMIs are in average at the best level since 2011

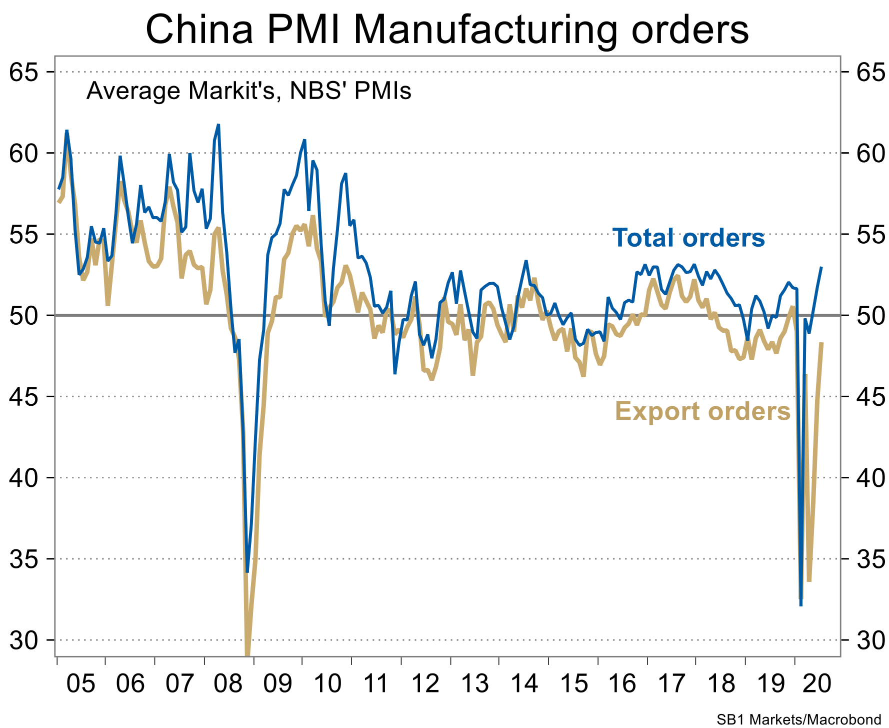


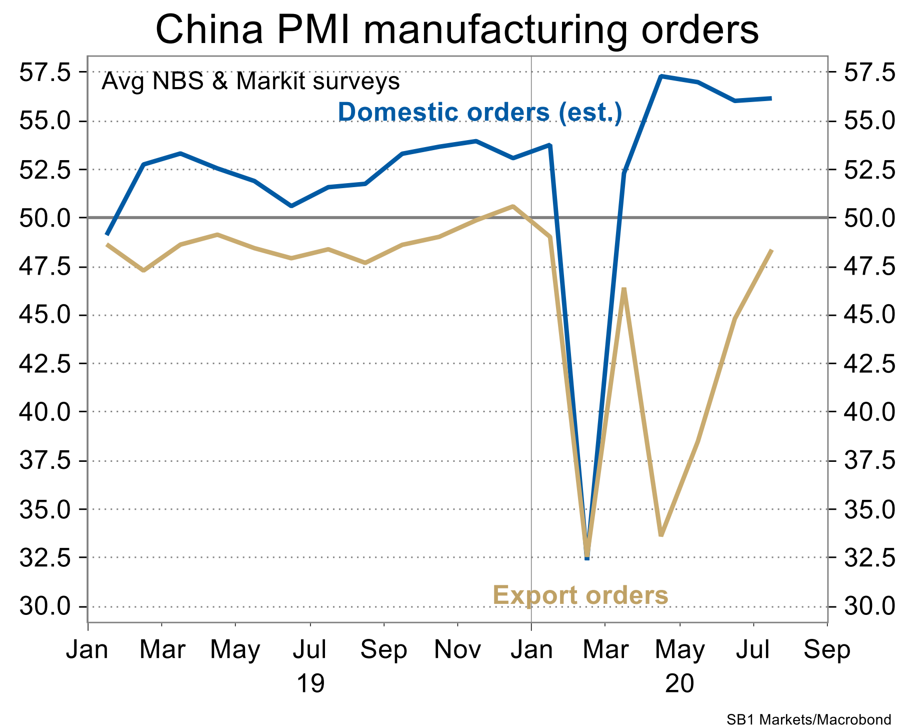


- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

Export orders still a drag but less so in July

Total and domestic orders are growing at a brisk pace, export orders have almost stabilised

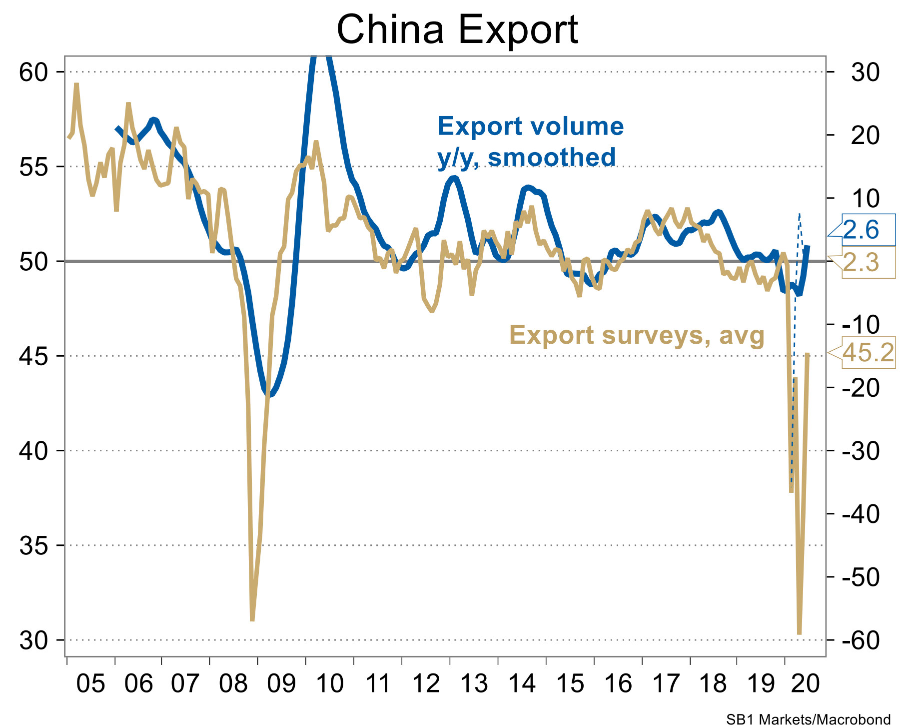




- Export orders are reported further down in June but at a slower pace (the PMIs up, still below 50)
- Domestic orders are growing at a brisk pace, however at tad slower in May and June than in April
- The total order indices are well above 50
  - » At the chart to the right we have made a rough estimate of an domestic order index (which ins not published).

Export surveys up but are still at a depressed level. Actual exports not

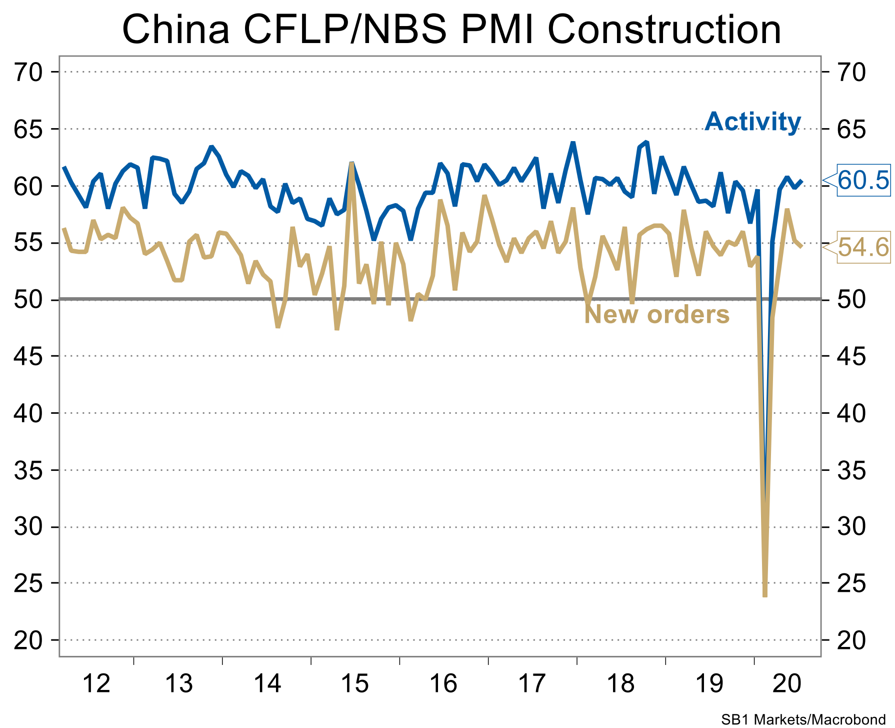
In February, the Chinese Covid-19 lockdowns stopped exports, now it's lockdowns in ROW

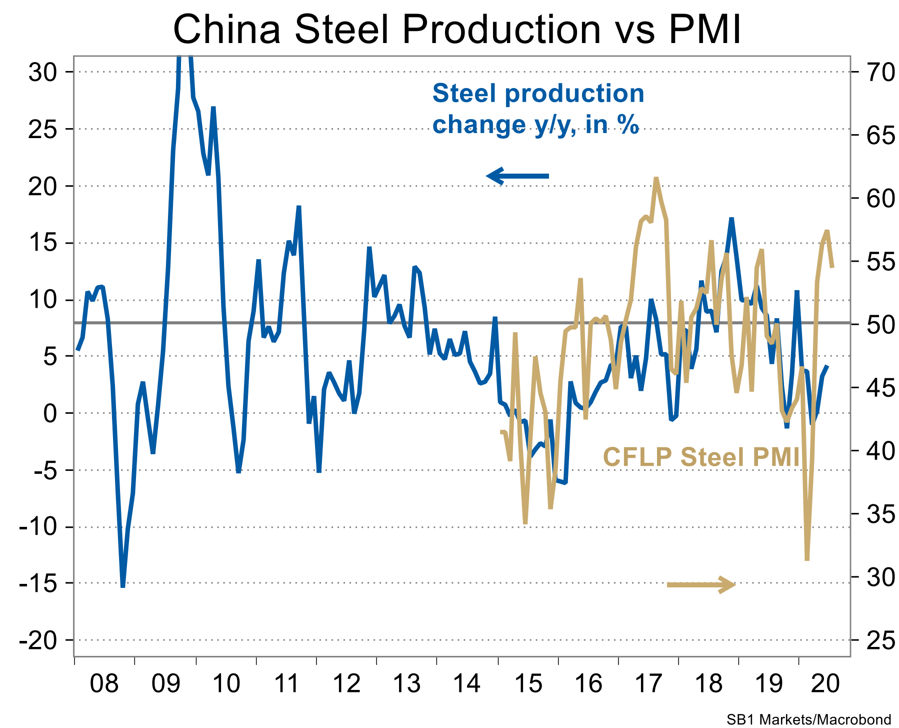


- Actual exports are slightly down y/y measured smoothed due to the 40% drop in exports in February. In April and May exports were close to pre corona levels
- We expect a decline in Chinese exports in May and June

Construction & steel back on track, signaling growth above trend

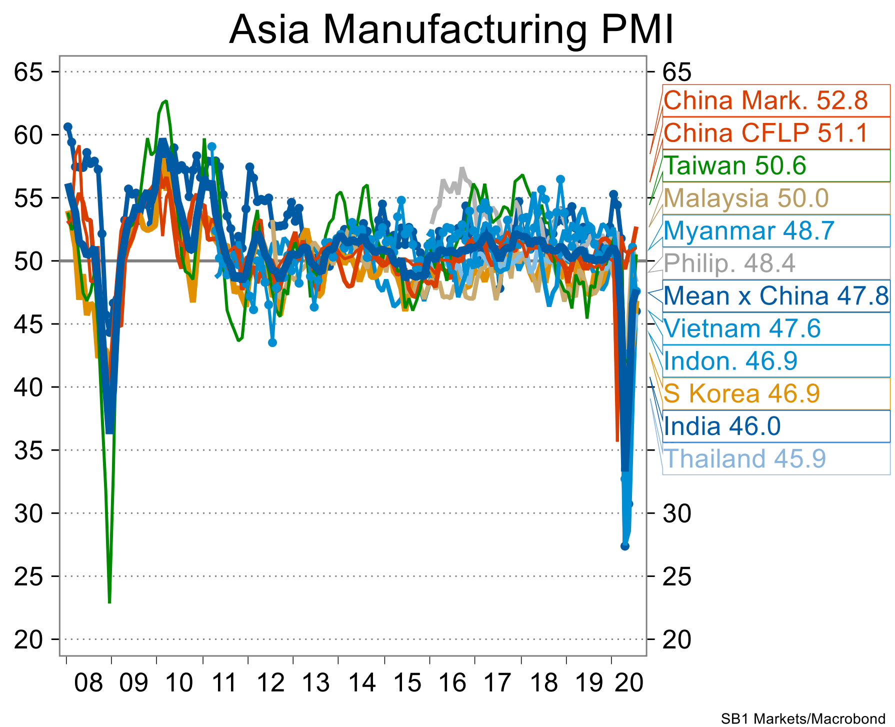
The construction sector PMU rose slightly in July, steel marginally down – but both are at high levels

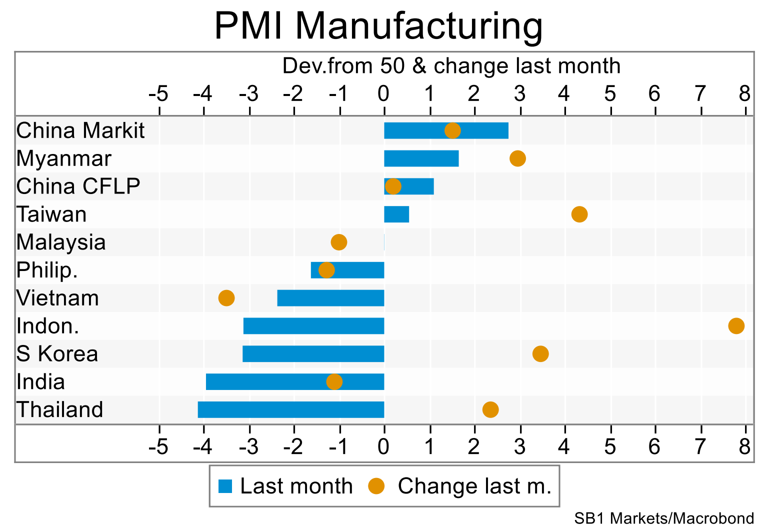


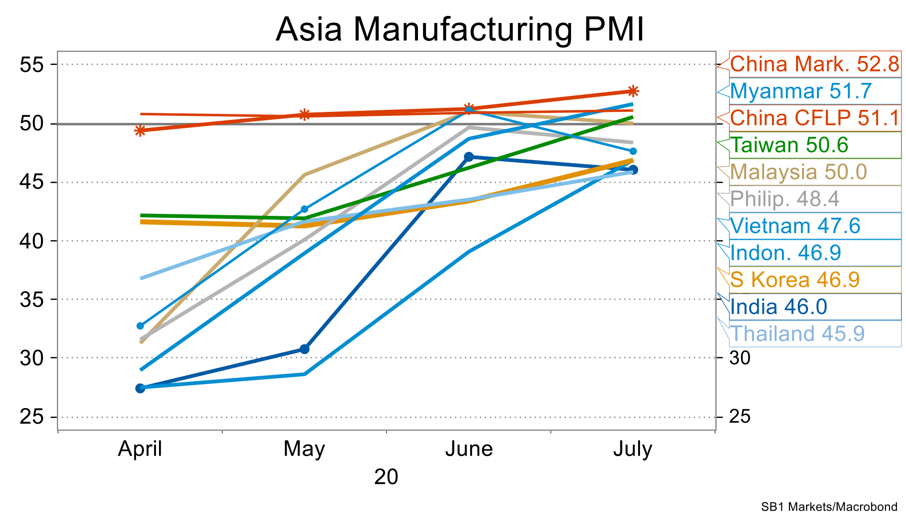


Mixed Asian July PMIs, 4 down, 7 up – 7 below 50, just 3 above

South Korean manufacturers continues to report a decline but less steep. India slowed further in July

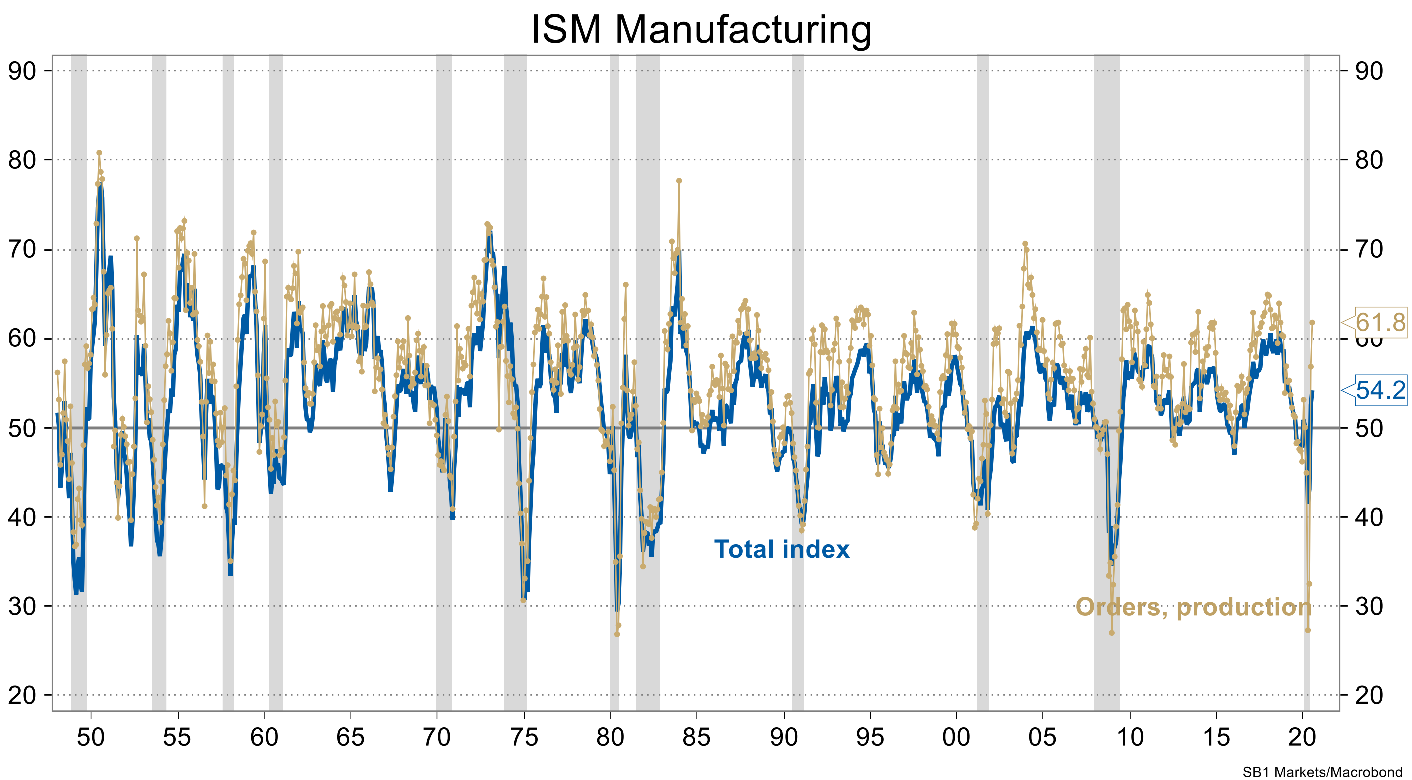


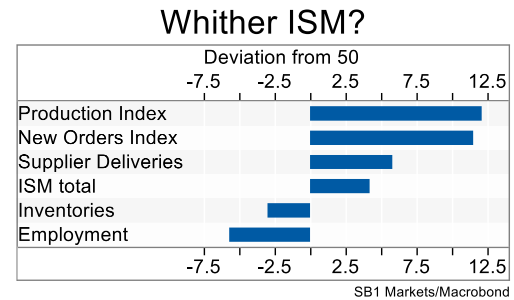


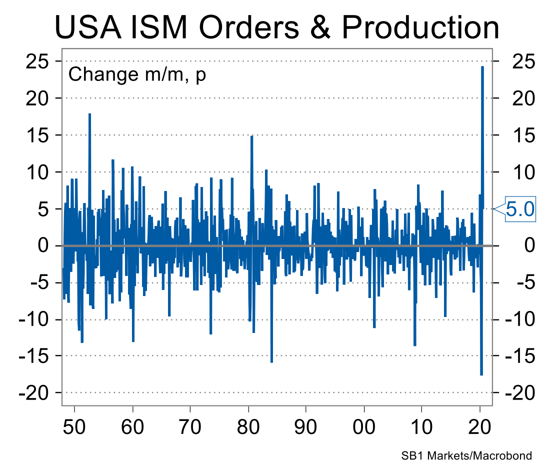


The manufacturing PMI further up in July, inventories to be refilled

The total index up 1.8 p to 54.2. Orders/production even better, + p to 61.8. Still, further empl. cuts







- Demand growth may be slowing but manufacturing production no doubt grew further in July, partly because inventories have been draw down in the retail sector. Employment the only weak link – companies are reporting further cuts
- 13 manufacturing sectors reported growth in July, as in June. 3 (4 in June 11 in May) sectors are still on the way down
  - » Those om the way down: Transportation Equipment; Fabricated Metal Products; and Machinery
- The bright spot: Manufactures are reporting that their customers have run down their inventories – they will have to restock

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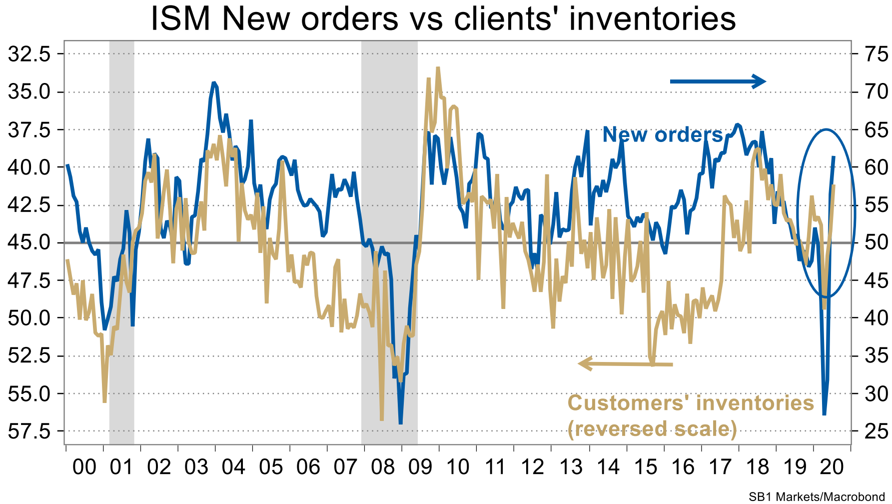
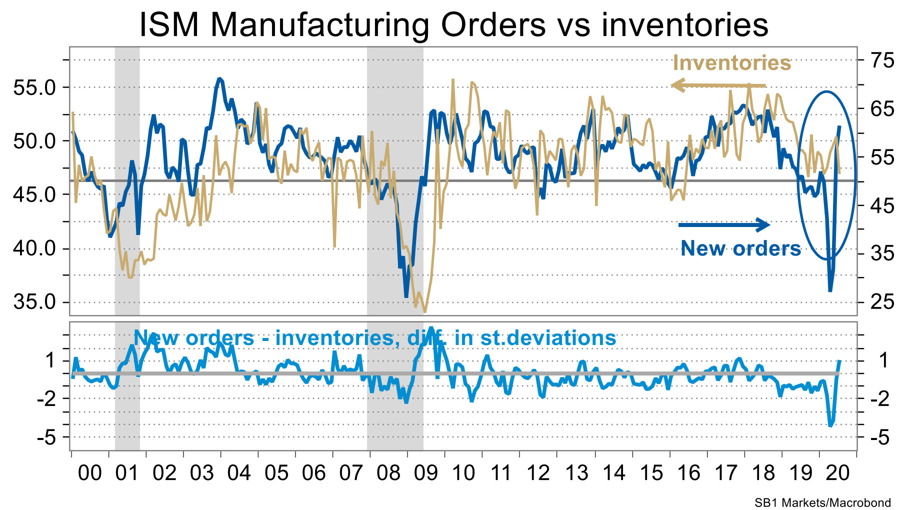
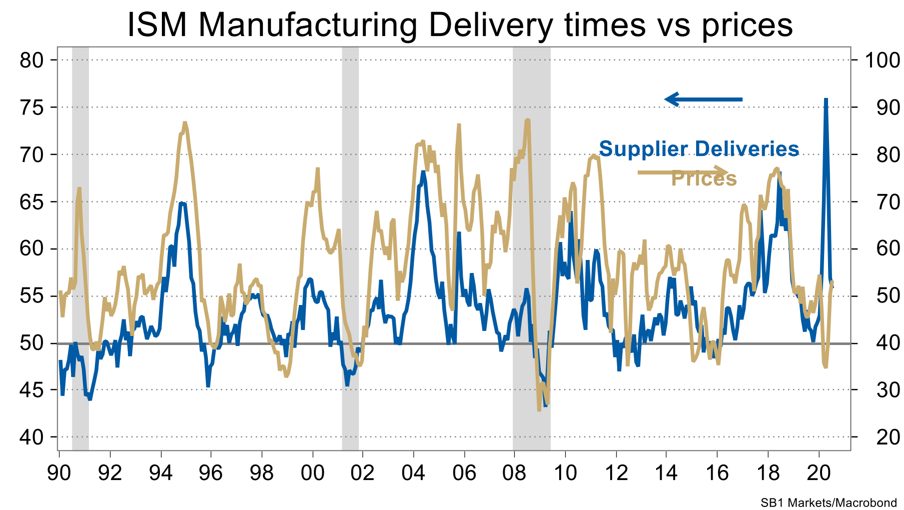
New orders up, less delivery challenges (supply chains intact?) – and prices up

Customers' inventories down, good news. Own inventories down too. A strong report!



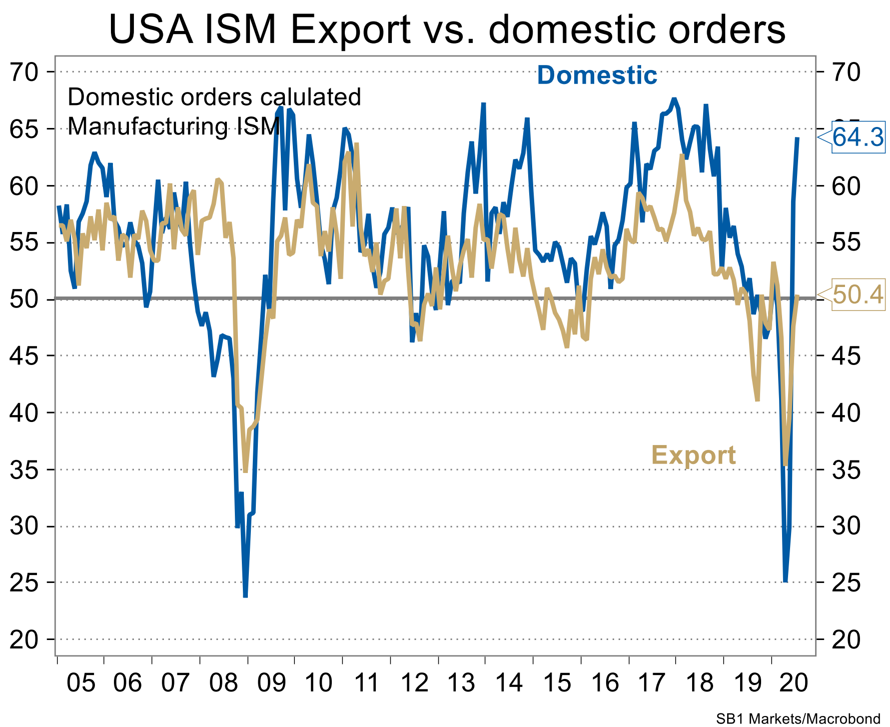


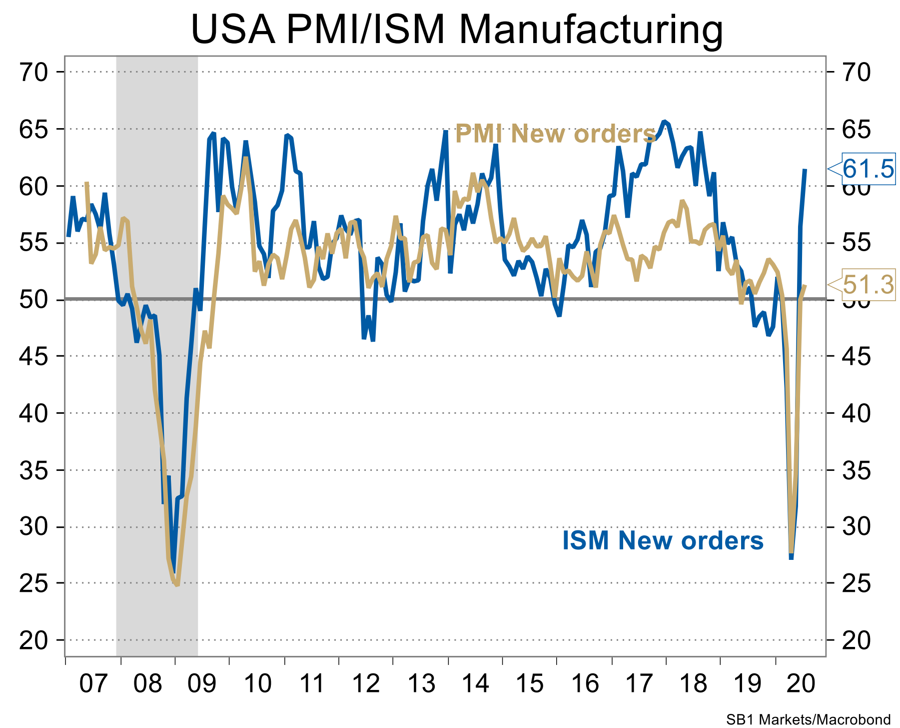


SpareBank 1 MARKETS

Domestic orders sharply up, still no growth in exports (but no further decline)

Markit's PMI is reporting a much slower growth in orders, the index is at just 51.3 vs ISM at 61.5





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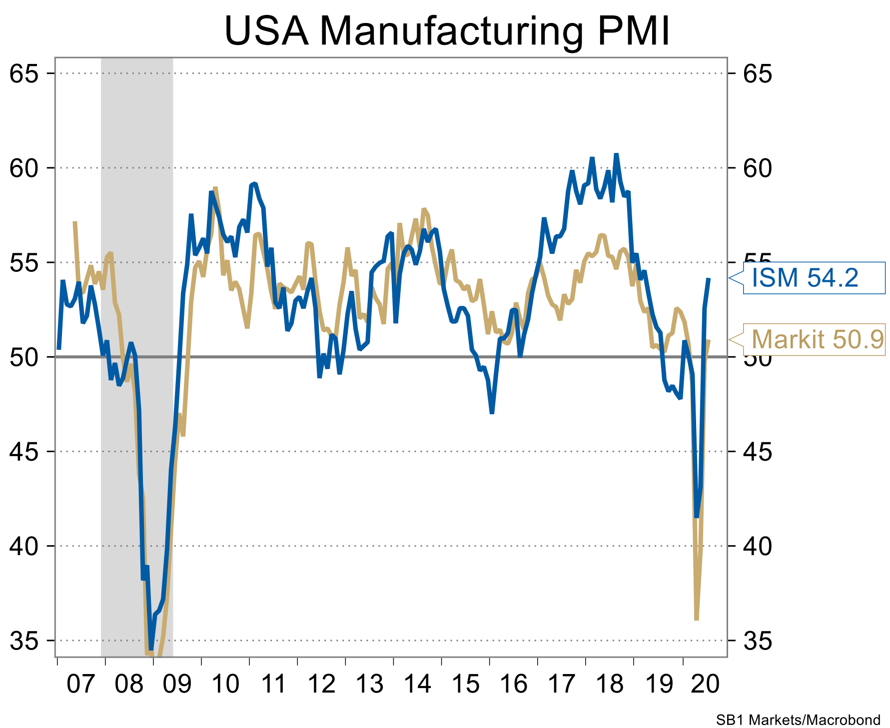
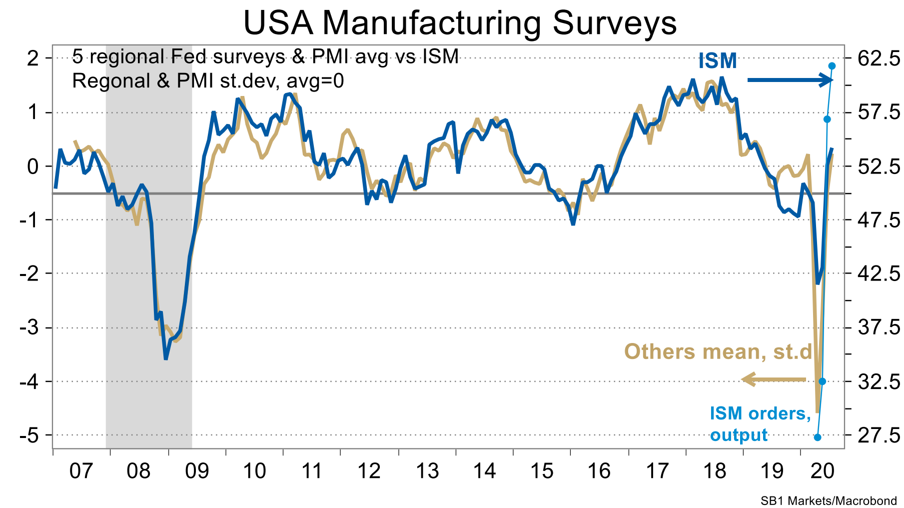
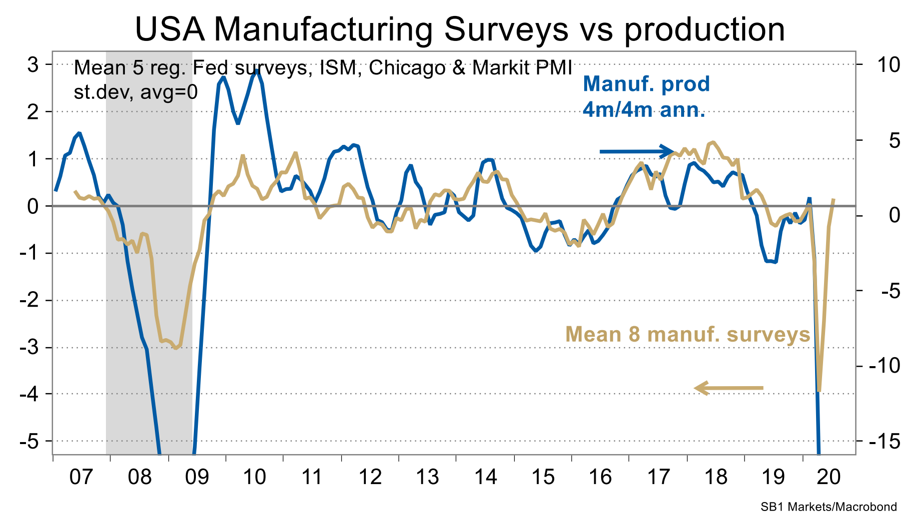
All manufacturing surveys up in July, the average up to an average level

Not that impressive, we expect growth well above an average pave



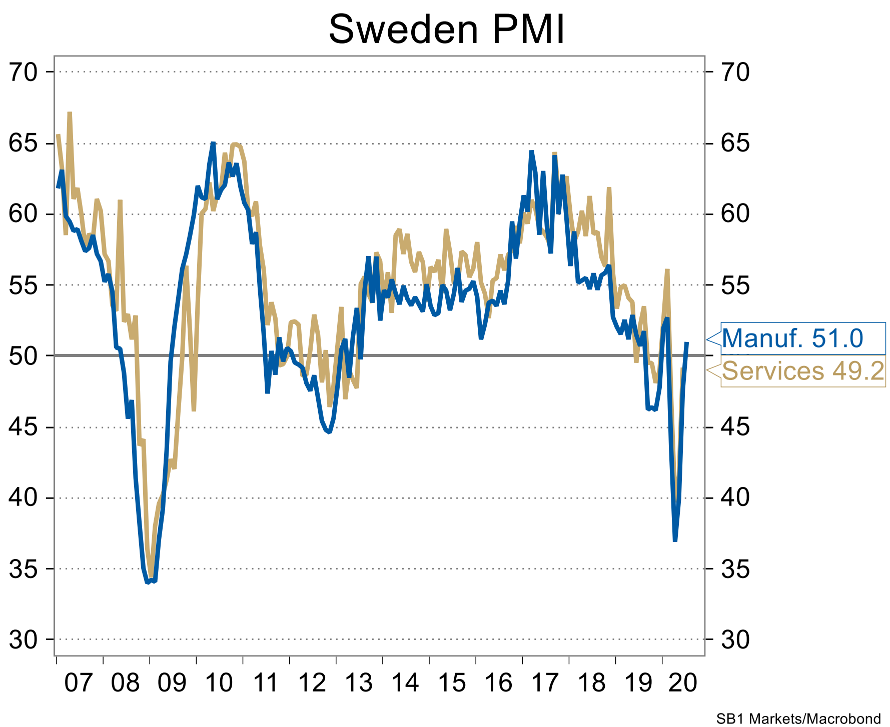


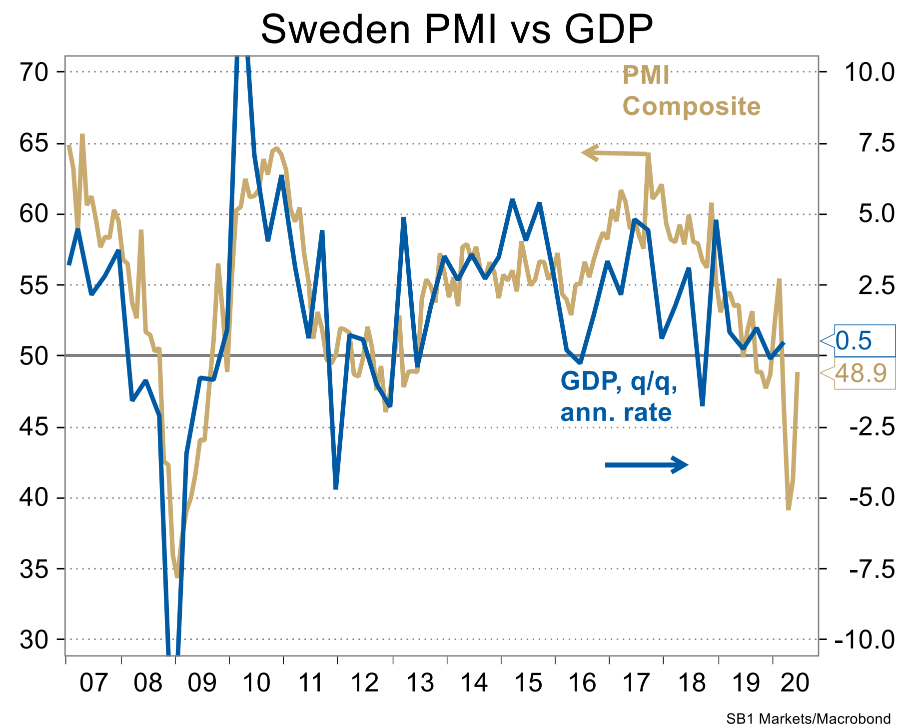


- Actual manufacturing production rose further in June
- Production remained 11% below the pre corona level
- We expect a continued growth in July

The PMIs still below 50 but productivity probably on the way, here too

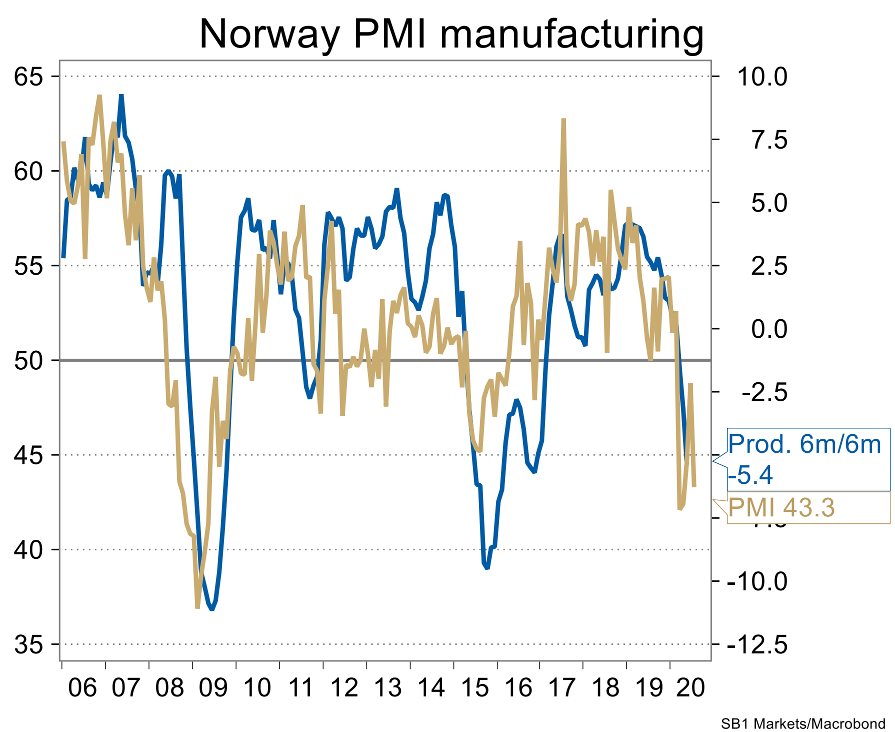
The PMI is signalling a moderate decline in GDP in June – which seems unlikely

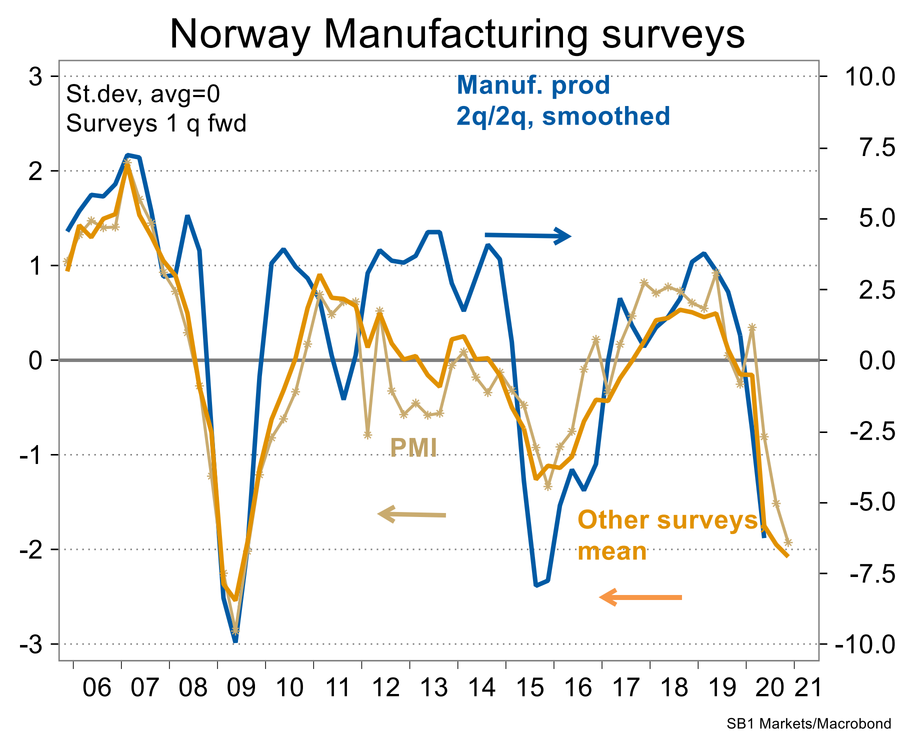




The volatile PMI down 5.5 p to 43.3 in July – weak but in line with other surveys

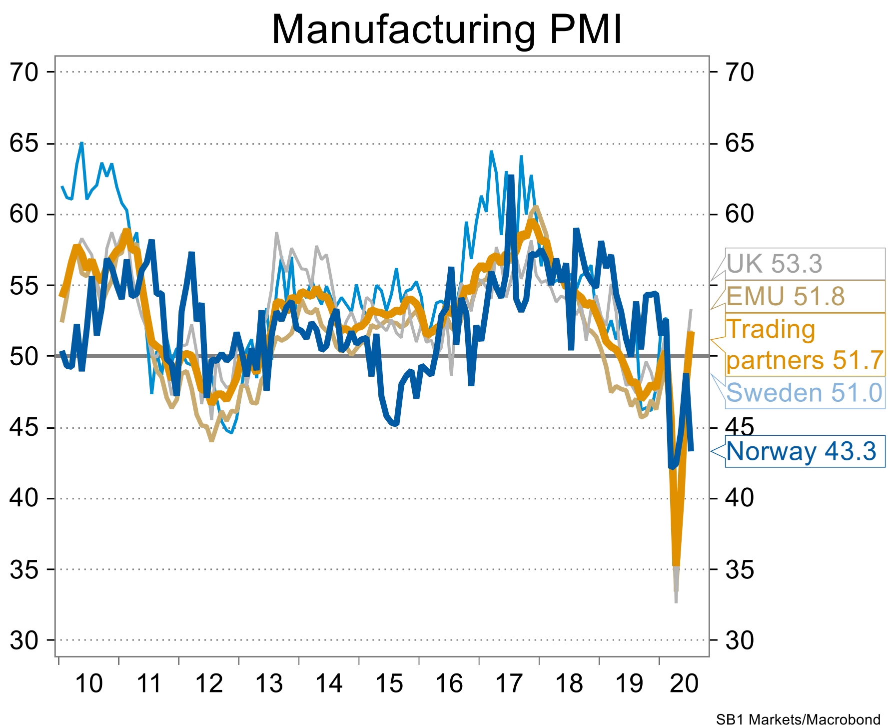
We do not put too much emphasis on signal months, the 'strong' June may have been the outlier

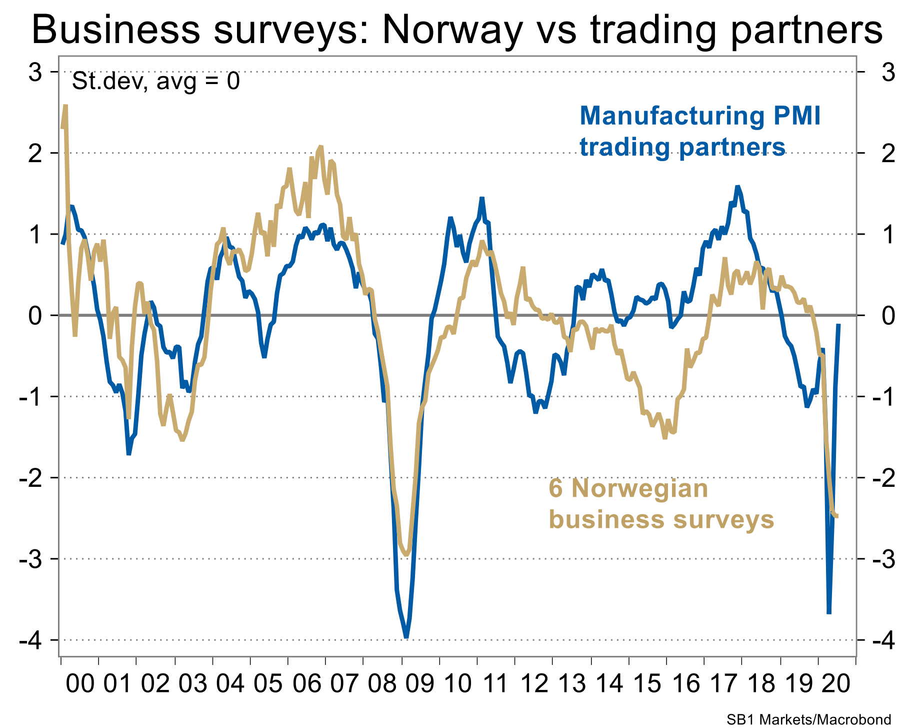




- Other surveys are signalling a substantial decline in manufacturing production

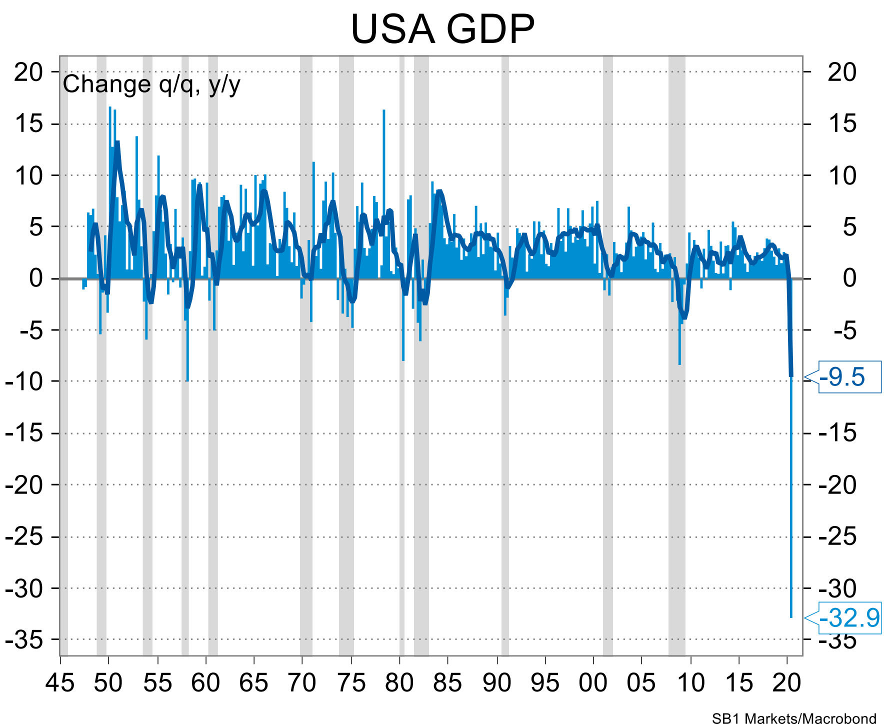
Norwegian manufacturers fared better during the sprint but weaker now?





GDP down 9.5% (or 32.9% in US terms…) in Q2. That was the bottom

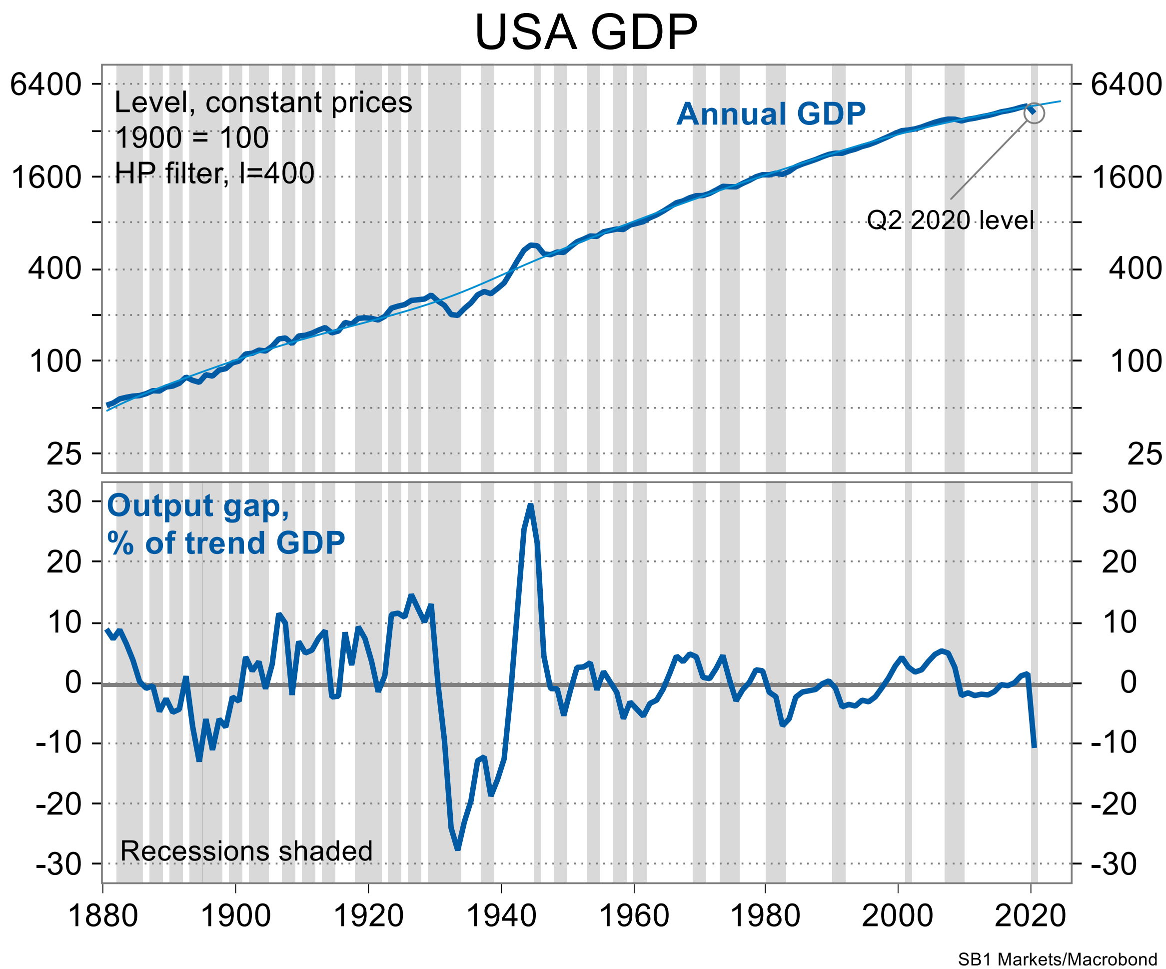
Private consumption the big drag – even if personal income rose sharply



- GDP fell by 32.9% in Q2 in annualised terms, slightly less than expected. The 'actual' decline was 9.5% following the 1.2% (5%) setback in Q1
  - » From Q4, GDP is now by 10.6%, and it's down 9.5% from Q2 last year, in line with NY Fed's weekly GDP indicator
- The decline in GDP in H1 is the largest ever, with quarterly data since 1947.
- The annual revision did not change the economic history in any noteworthy way

The steepest decline during just a few months, but not the toughest, so far

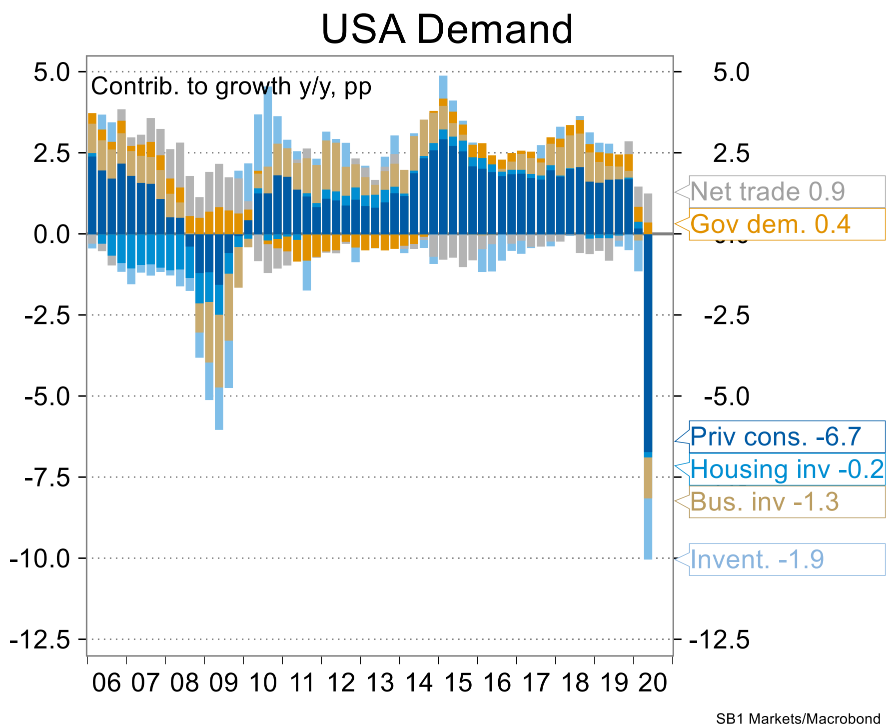
During the 30-ies GDP fell by 26%, now its down 10.6%. The output gap change 40%, vs. 12% now

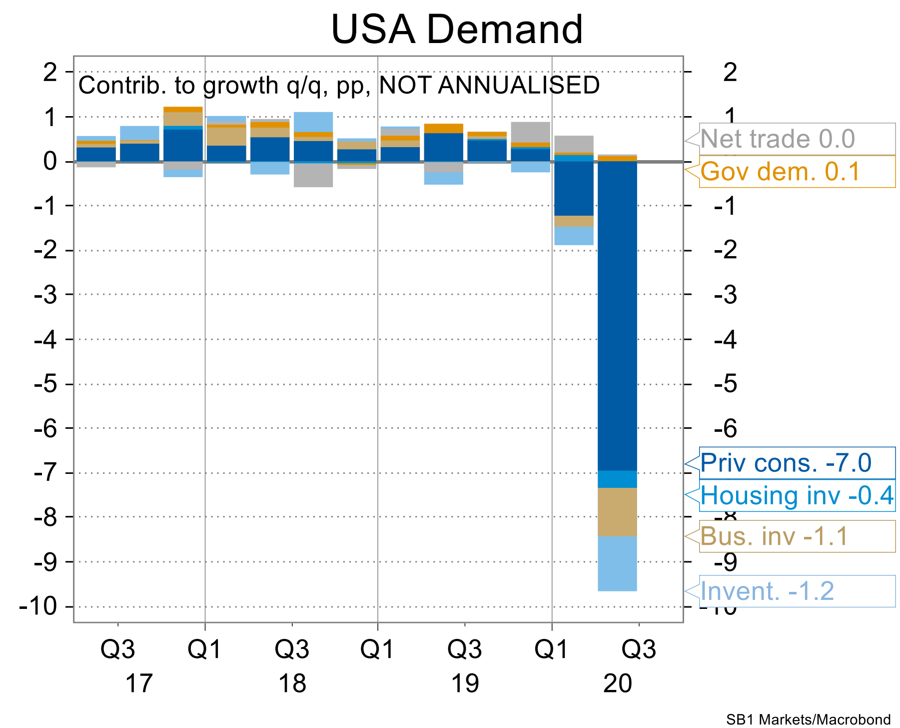


- On the chart, we have assumed 2020 equal to the Q2 level for illustrative purposes. This assumption is way to pessimistic unless the economy collapse completely the coming months
- Even so, the 2020 is not the worst we have ever seen
- The total loss due to the corona crisis/recession is not just dependent on the depth of the recession but also how long time it takes to get back to normal capacity utilisation.
  - » Of course, that's not known today but we haven't seen any forecast implying anything close to the losses of production that incurred during the depression in the 30'ies

Private consumption the main culprit in H1 but business investments down too

Inventories were run down too, as production fell even more than demand

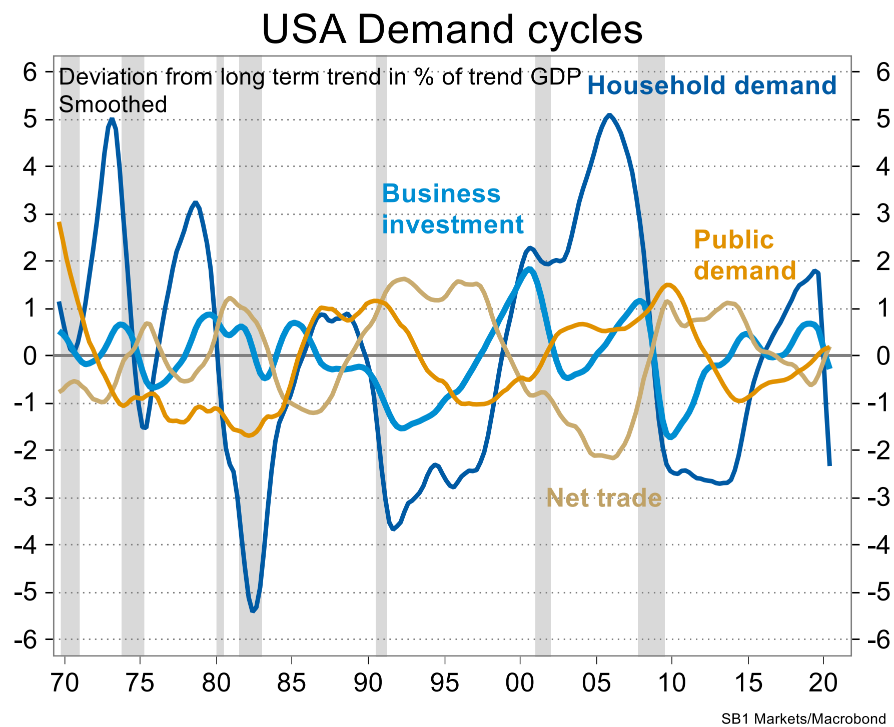


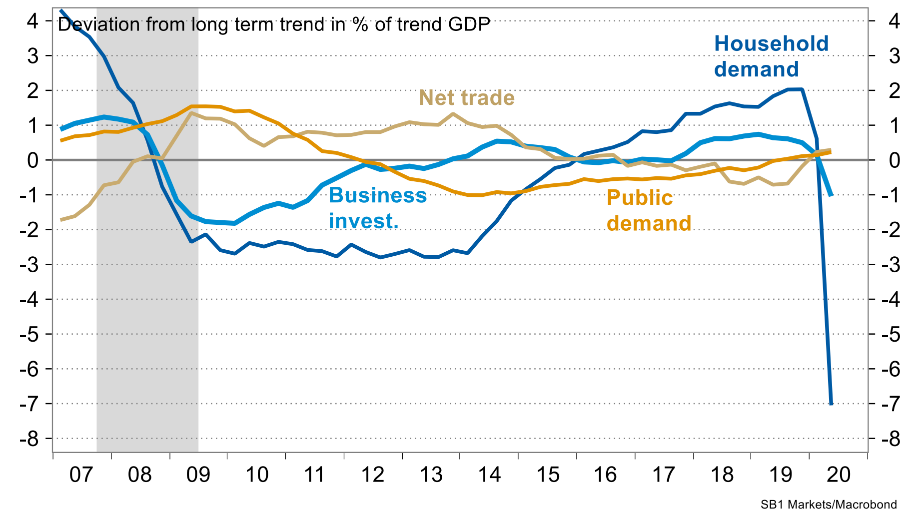


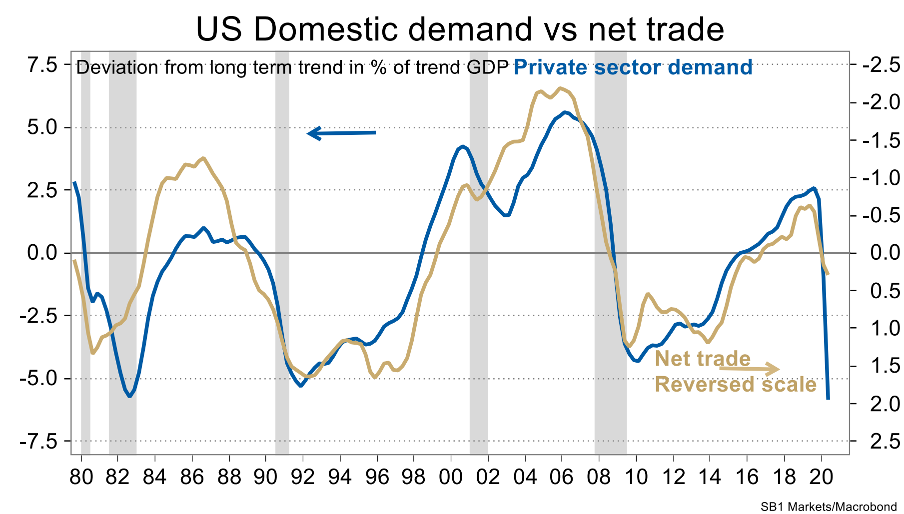
- Private consumption fell marginally more than GDP, even in household income rose sharply (see more below in this report)
- Housing investments fell more than GDP, while business investments fell marginally slower – but both were down sharply
- Government demand rose marginally in Q2
- Both exports and imports fell sharply, and exports more than imports - but the net impact on growth was neutral
- Inventories were run down at a very unusual pace, we assume mostly because retail sales was strong, while production was kept down due to corona measures

Households have been the main demand force, no more. Businesses also down

Public demand the only + component in Q2



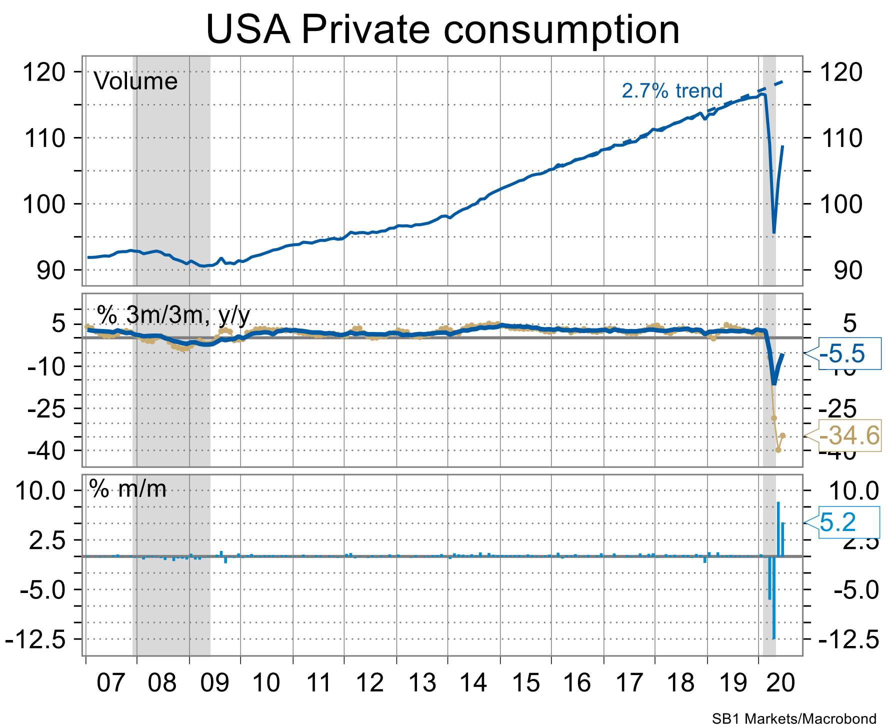


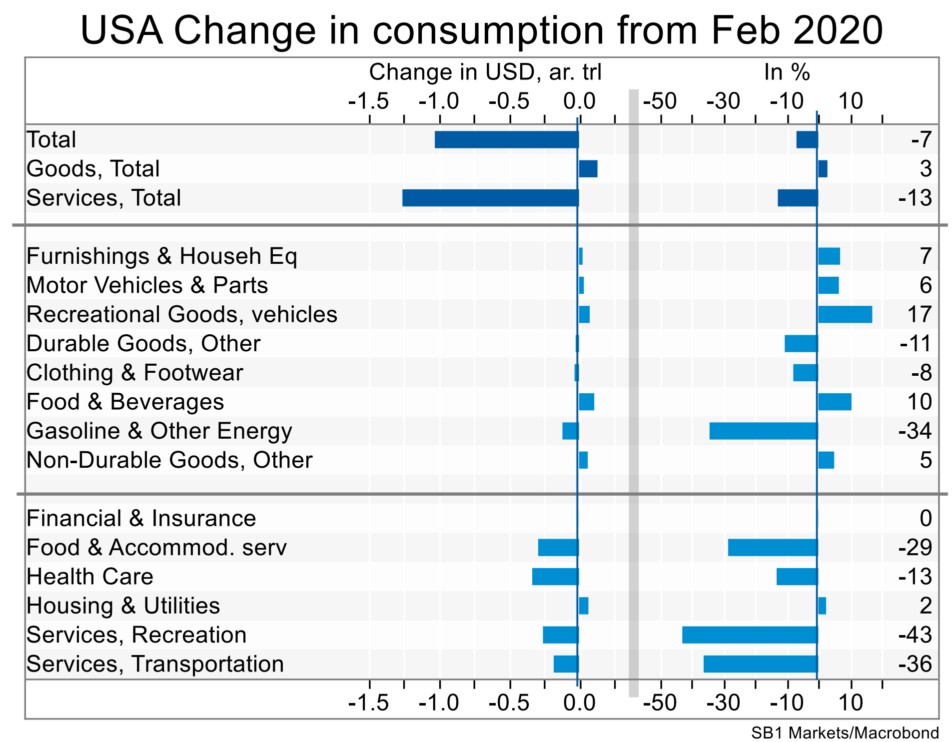


SpareBank 1 MARKETS

Consumption up 5% in June, more than 1/2 of the setback recovered

Still 8% below trend. Income fell by 1.4%, fewer corona checks were sent. Savings still high, at 19%

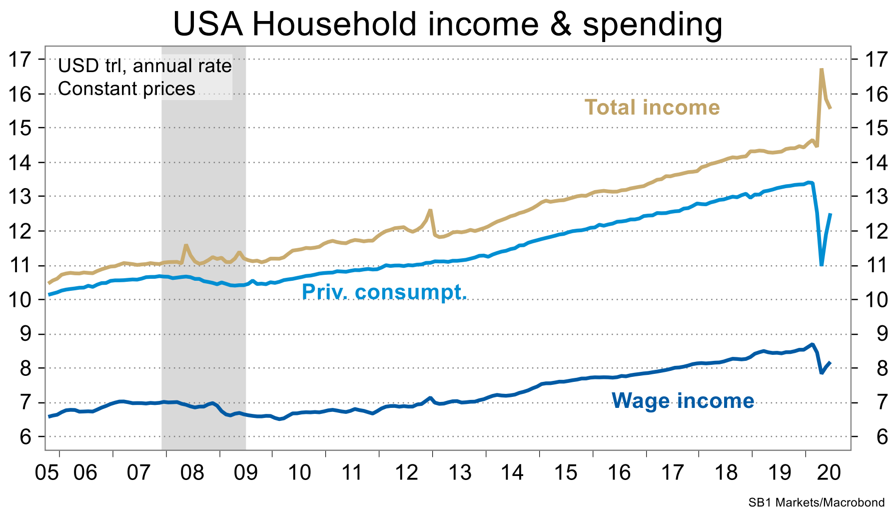


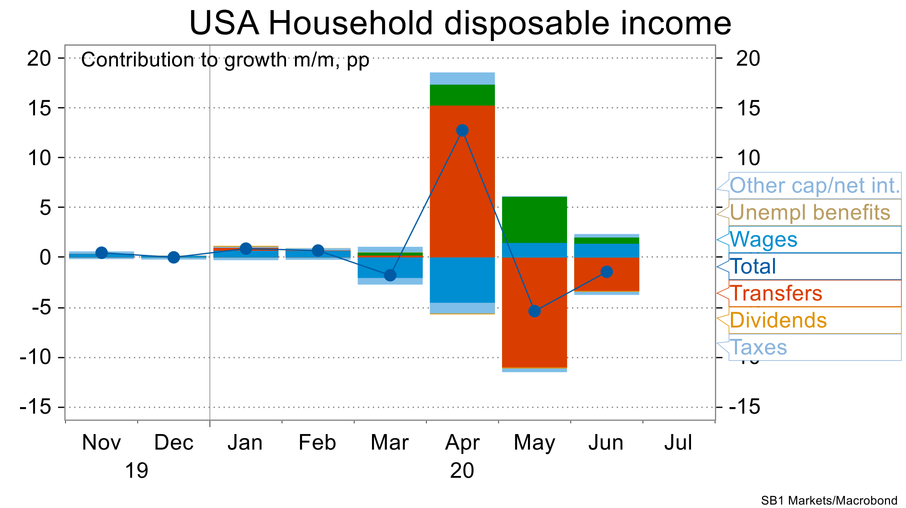


- The increase in spending was marginally higher than expected, while incomes fell a little less than expected
- All sorts of consumption rose in June – but the overall consumption level is still 7% below the Feb level (and 8% below trend)
  - » Consumption of goods is now 3% above the Feb level, driven by food & beverages (at home), recreational vehicles (!), while gasoline is sharpy down
  - » Consumption of services are down 13% due to health care (!), restaurants/hotels, recreational services, transport. Most of these sectors will probably not return to normal activity the coming months
- In June, consumption was 6.1% above the Q2 average. If spending flattens from here (which is far too pessimistic, even if there are 'some' regional Covid-19 challenges), higher consumption will lift Q3 GDP by 4.3% (18% annualised)

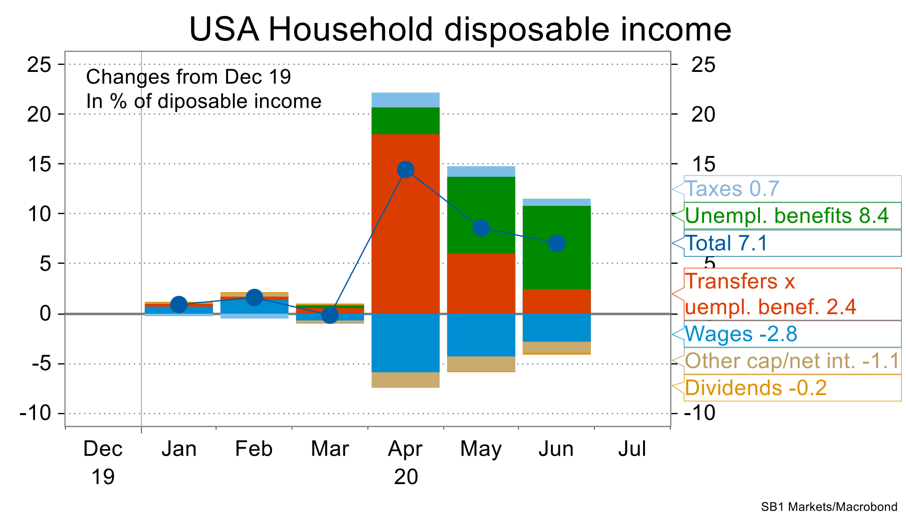
Income is sharply boosted by government transfers, now mostly unempl. benefits

Income fell by 1.4% in June as few corona checks were sent - but transfers are still lifting inc. by 11%!!

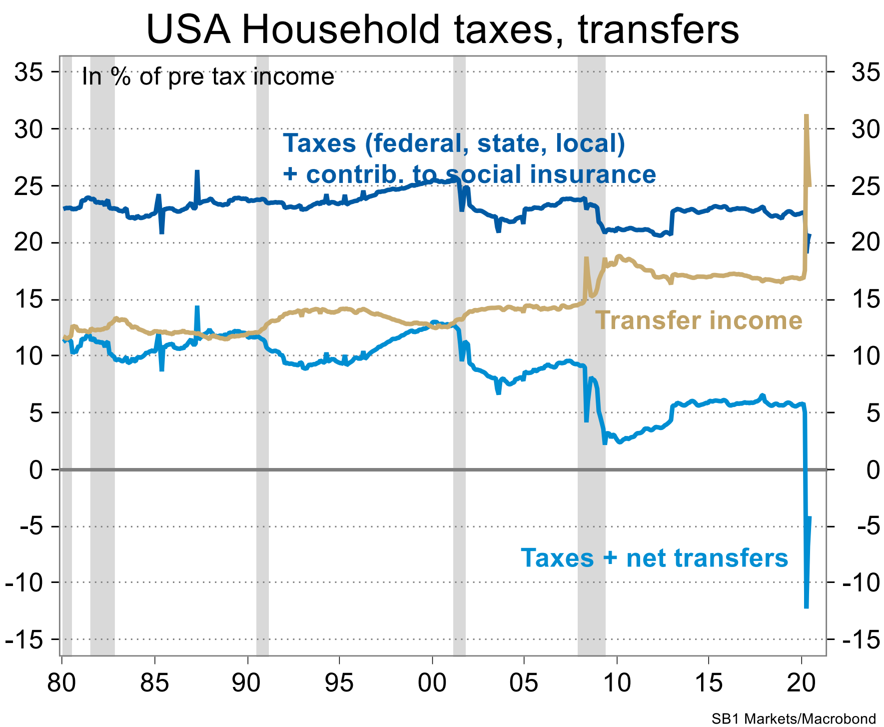


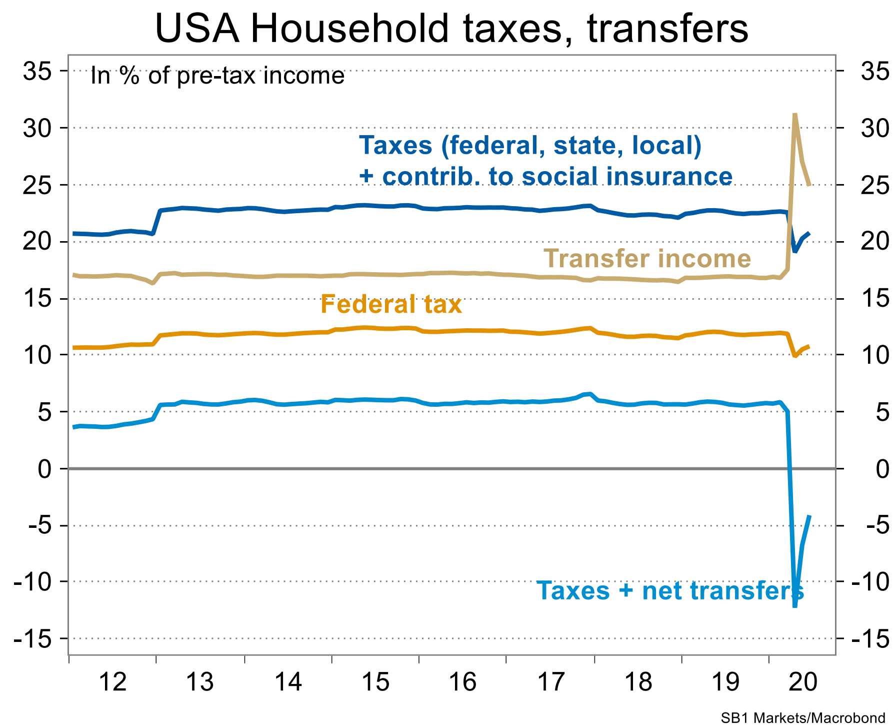


- Changes in household income have been dramatic as they – in aggregate – have been overcompensated, big time
- Overall household income is up 7% from December 19
  - » Wage incomes are down 4%, equalling 2.8% of disposable income
    - Other market based incomes are down equalling 1.3% of disp income
  - » Unemployment benefits are up equalling 8.4% of disp income, 3x more than the cut in wage incomes (partly due to delayed payments)
  - » Other transfers are up equalling 2.4% of disp income. At the peak in April, transfers equalled 17% of the Dec 19 monthly income!!
  - » **Government transfers equal in sum still close to 11%, far more than the reduction in wages and other market based income**
    - Even if not an extra dime is distributed from here, 2020 household income are boosted by 4% of income (3% of GDP) by these transfers
- Another huge support package, both cash transfers to all and a continued extra unemployment benfit is now hotly debated in the Congress, and will most likely be agreed upon



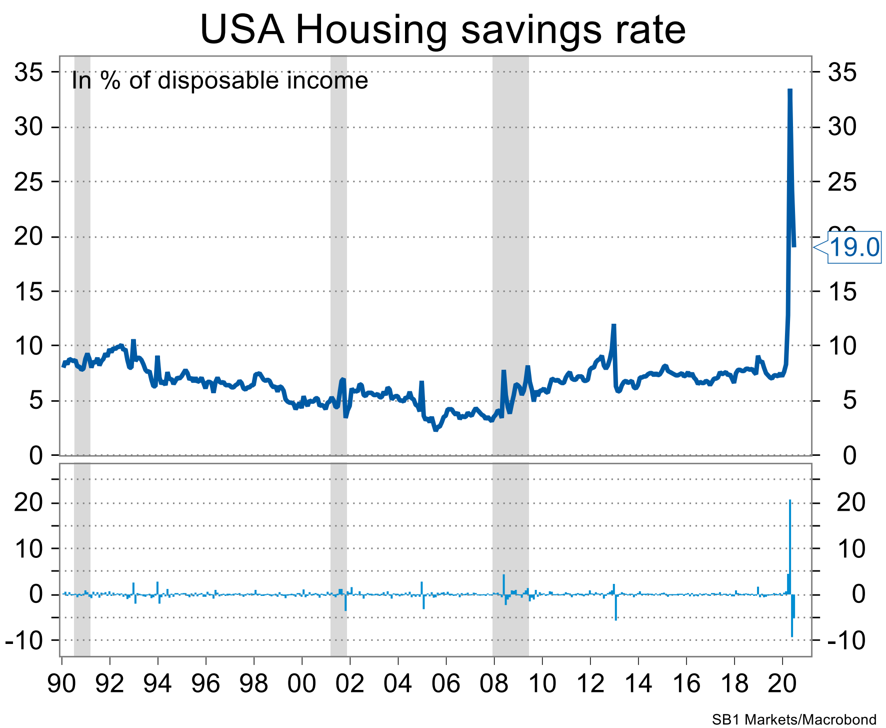
Transfers up, taxes down

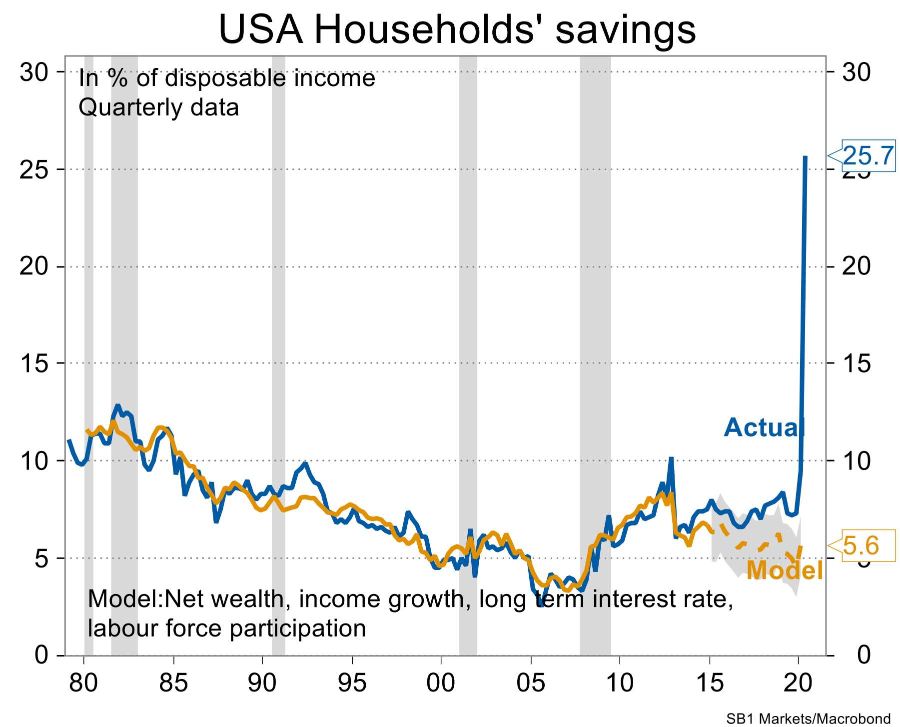




Households savings down to 19% in June, still an incredible high number!

Since Feb: Spending down, government support up much more than market revenues have fallen



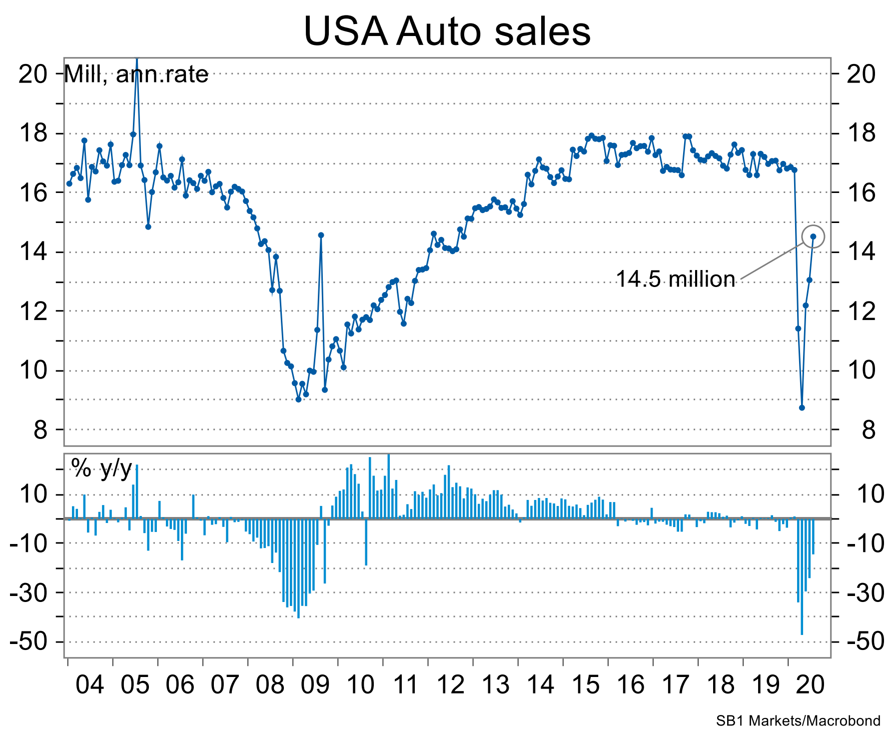


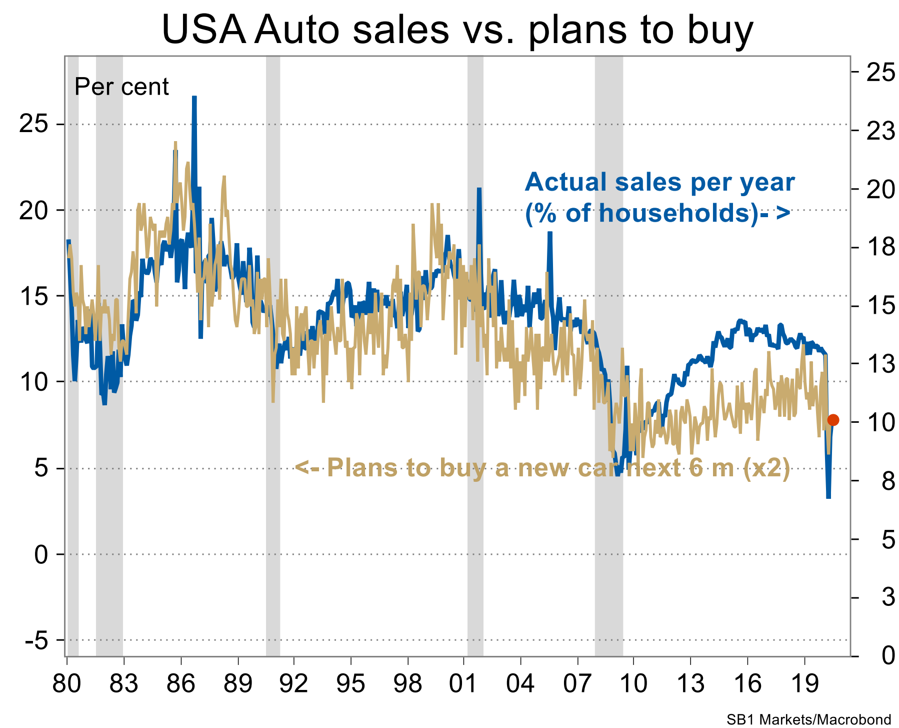
- Distributed over one year, the increase in savings in Q2 from Q1 equals almost 5% - as much of the extra government transfers have not spent but saved (in aggregate)
- The incredible strong income support increases the probability for a full recovery in spending (or even an overshooting) as soon as virus allows – which is not the case now

SpareBank 1 MARKETS

July auto sales further up in July, still 15% below the pre corona level

Sales up 14.5 mill from 13.1, 0.5 mill more than exp – still 2.5 mill below the 17 mill 'normal' level

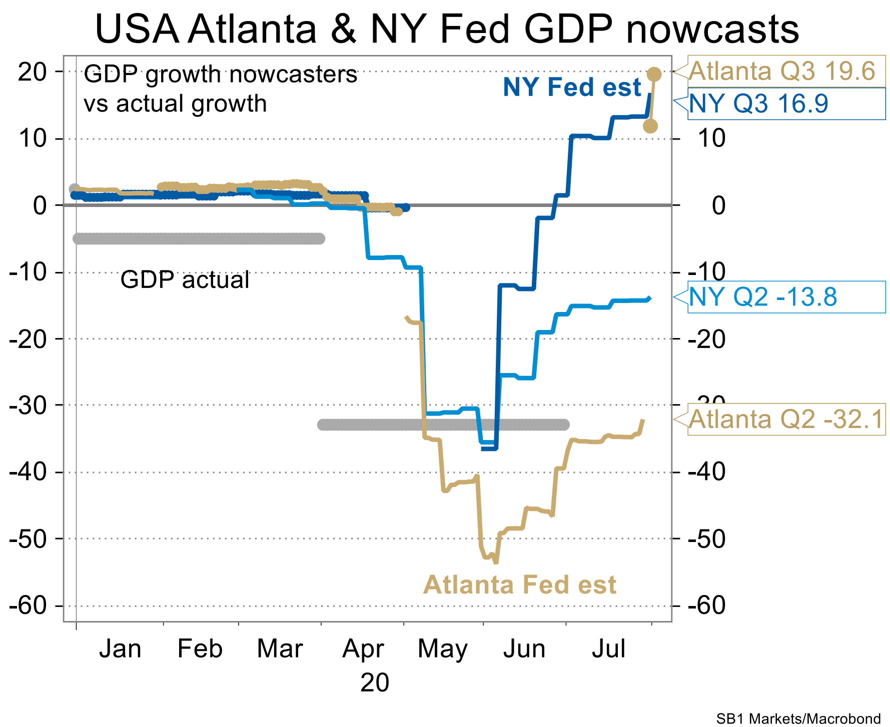


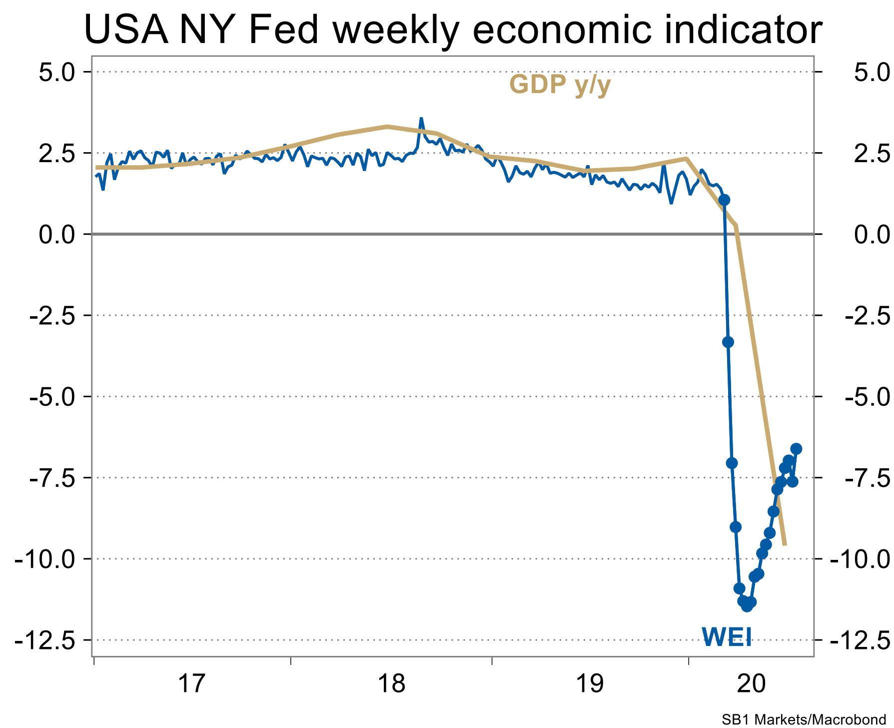


- Sales have recovered most of the almost 50% Covid-19 setback – but remained below a normal level in July
- It is impossible to gauge the 'underlying' strength of auto demand. In the July consumer confidence survey, households reported below par car buying plans – but still better than in May & June surveys

Nowcasters are looking upwards in Q3, of course. But still far less than the Q2 loss

Atlanta Fed's & NY Fed's weekly models were correct in Q2, NY's ordinary forecaster was off the mark



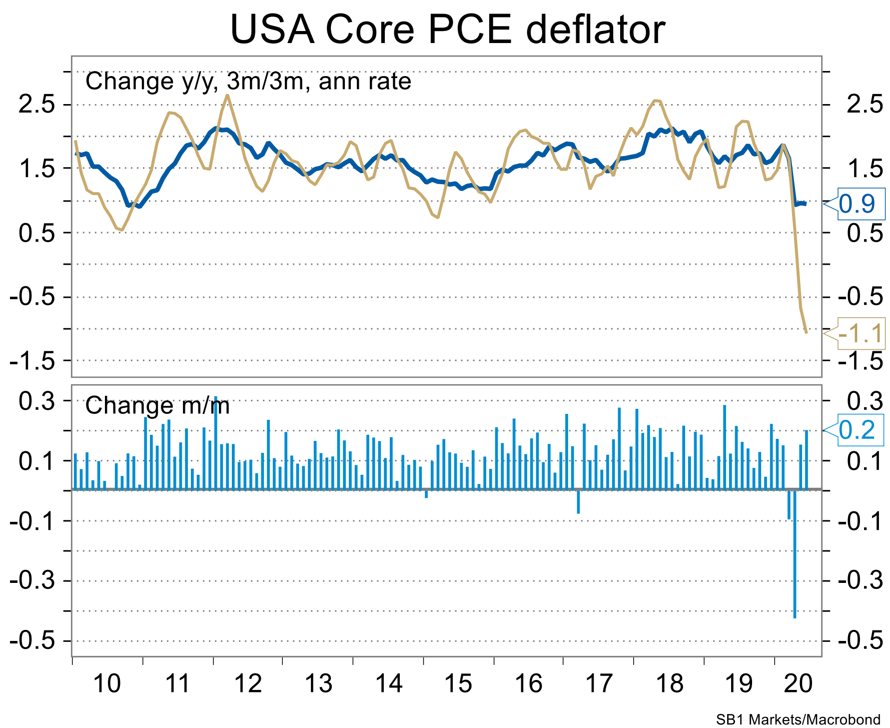


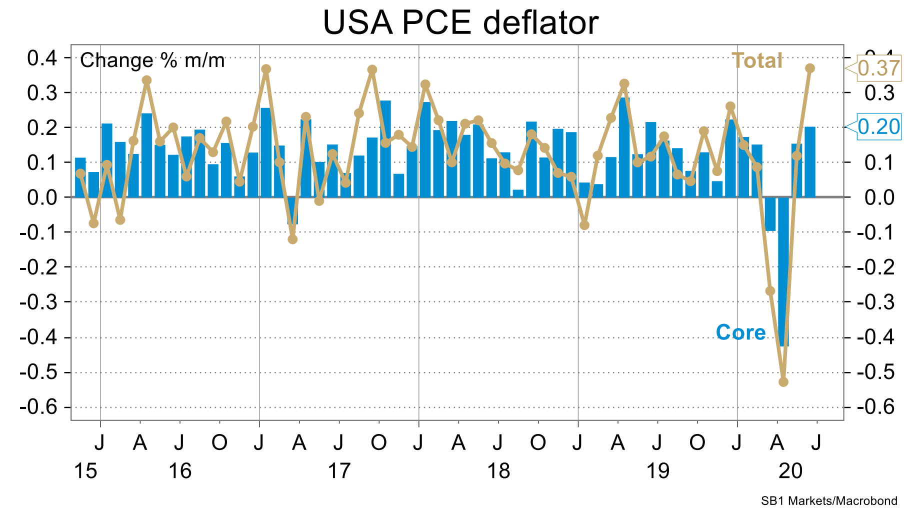
- We still do not have many Q3 data – and the nowcasters' forecast are still very uncertain - and they don't even get it right after the quarter is done. So for what they are worth, the nowcasters reports 14 – 20% growth in Q3 (annual rate)
  - » NY Fed's weekly model signal a 7% decline y/y, equalling a 16% (less than 4% not annualised) growth pace q/q in Q3. We really hope growth will turn out to be better than that
  - » We expect Q3 growth to be far stronger. Even without any further growth in consumption form the June level (which is rather unlikely), consumption alone will lift Q3 GDP by 18% (4%, not annualised), a more realistic growth contribution is 28% (6%)
- GDP fell 32.9% (annualised, 9.5% not annualised) in Q2, spot on Atlanta Fed's model estimate. NY Fed's model reported a 13.8% (annualised) decline

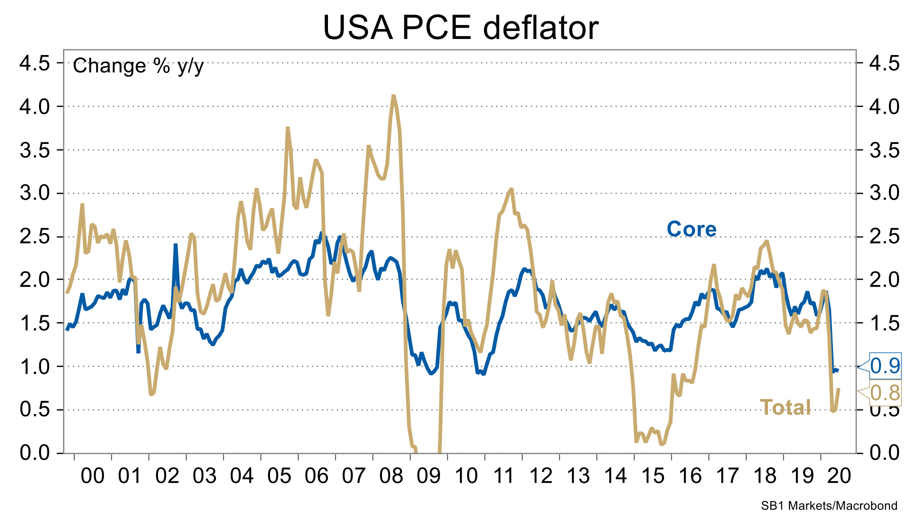
SpareBank 1 MARKETS

Core PCE inflation unch at 0.9% y/y in June but ‘normal’ inflation past 2 months

Core PCE deflator up 0.2% in June. In March/April the price level fell 0.5%





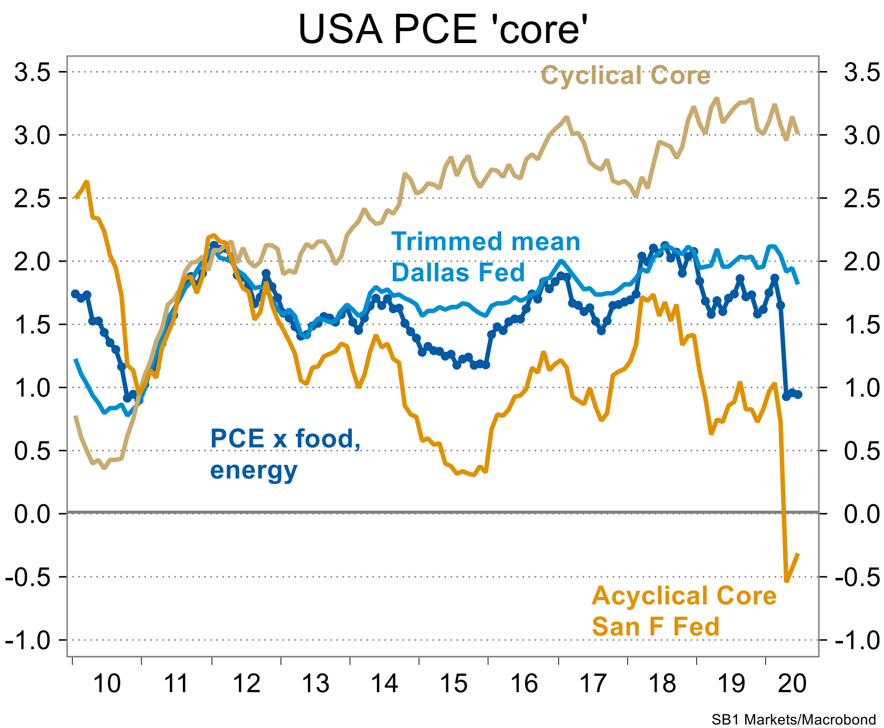


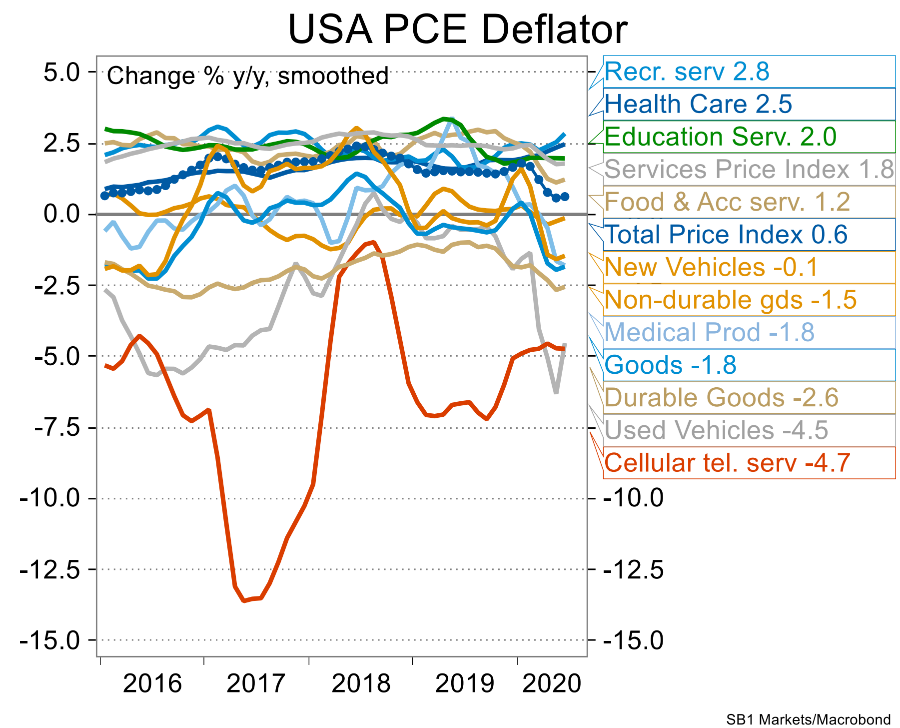
- The core price deflator rose by 0.2% in June, as expected
- Core PCE is 1.1 pp below Fed’s symmetric 2% price target, and the lowest since 2010
- Total PCE accelerated by 0.3 pp to 0.8% y/y in June, due to higher energy prices
- Low inflation is supportive for household real income

SpareBank 1 MARKETS

Cyclical core PCE inflation at 3% - the acyclical index at -0.7%

Growth has slowed/flattened in several sectors but the trimmed mean is still at 1.8%

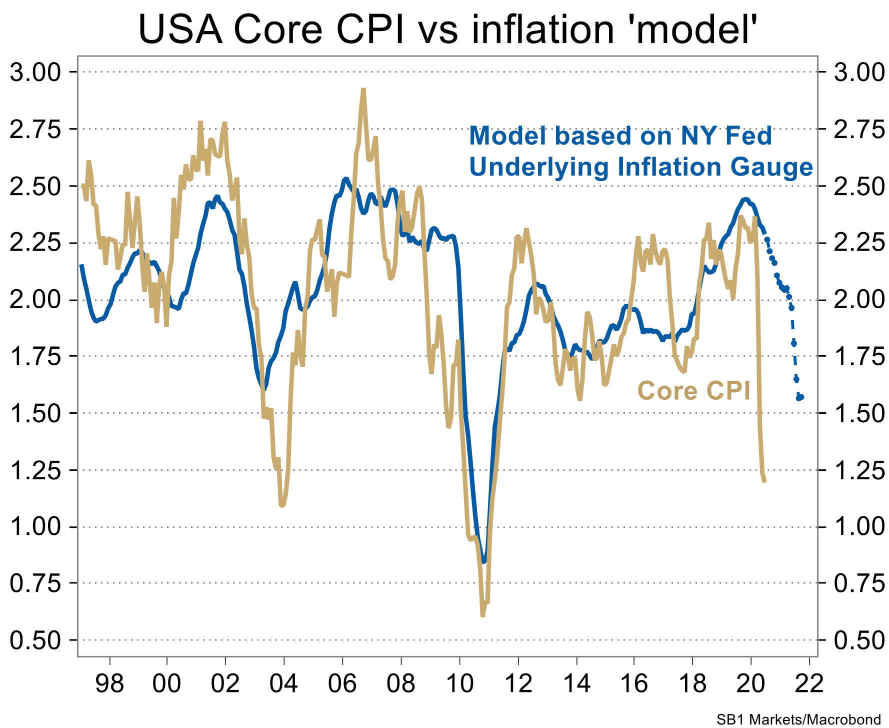


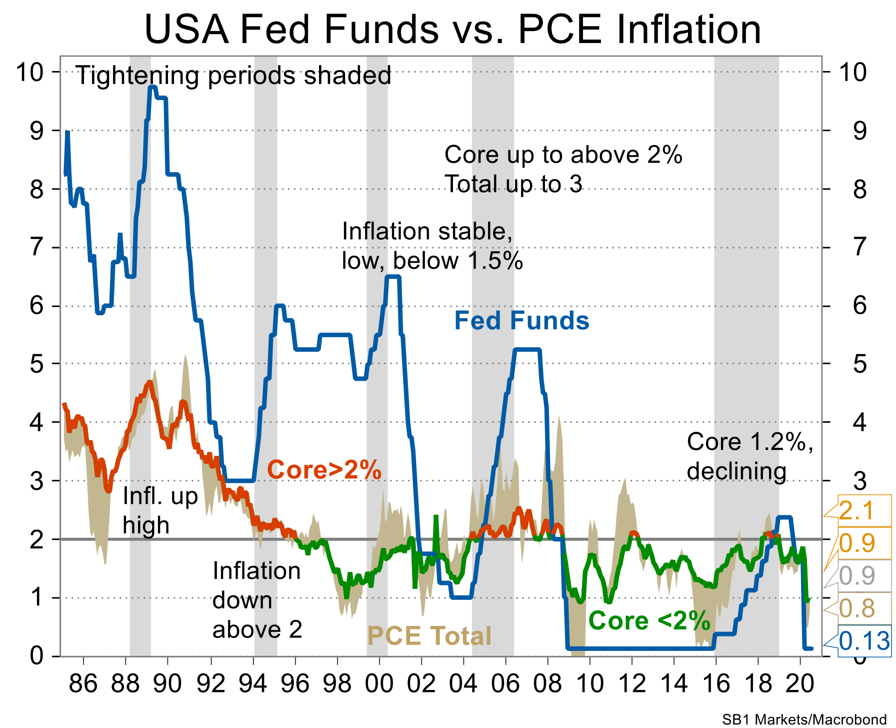


- 2. hand autos and cellular telephone services prices are falling sharply

NY Fed's inflation model does not signal lower inflation – but not up to 2%

And then there is no reason for the Fed to hike anytime soon?

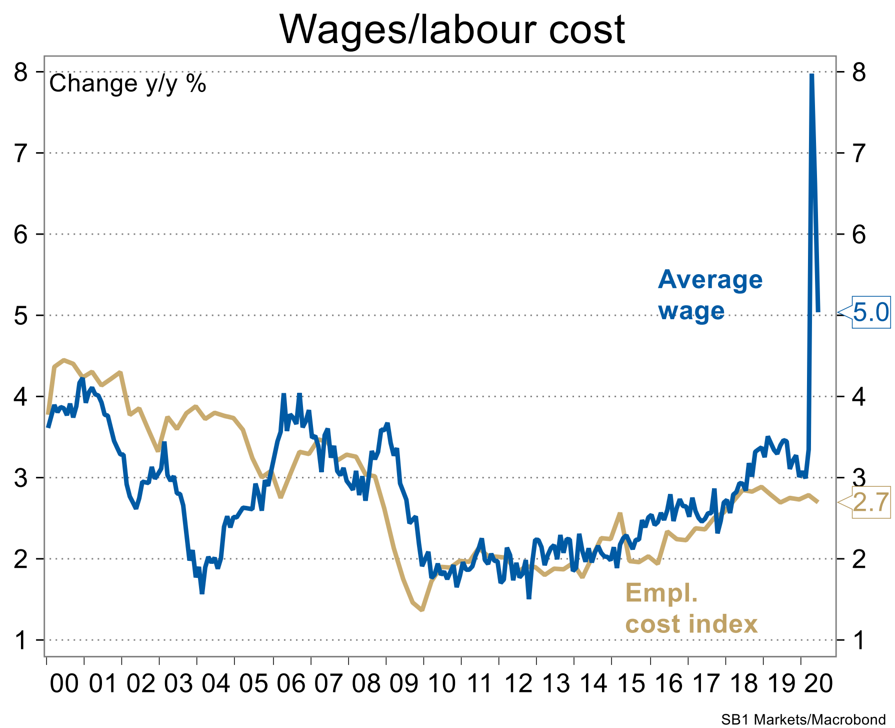




- The NY Fed's Underlying Inflation Gauge model includes a wide range of macroeconomic and financial components in addition to some CPI components. The UIG model leads the actual inflation rate by some 15 – 20 months. The model now signals 1.6% inflation
  - » The personal consumption expenditure price deflator (PCE deflator) is the Fed's preferred inflation measure, not the CPI. The core PCE (ex food, energy) was up 0.9% y/y in May and June, below Feds inflation target at 2%
- **How should the Fed respond to inflation?** The FOMC members are now probably debating whether the bank should wait until actual inflation is at or above 2% before interest rates are lifted – it should not be sufficient with a inflation forecast at or above 2%. At the start of the past 5 tightening cycles, inflation has been at or above 2% 3 times, and below 2 times (in 1999 – the Nasdaq bubble, and in 2015 (the lift from zero interest rate)
- Fed's actual rate setting has not been well explained by actual inflation during the past two decades. Wage inflation has been a better indicator (and a more important indicator – more on that in later reports)

Employment cost are not accelerating, of course

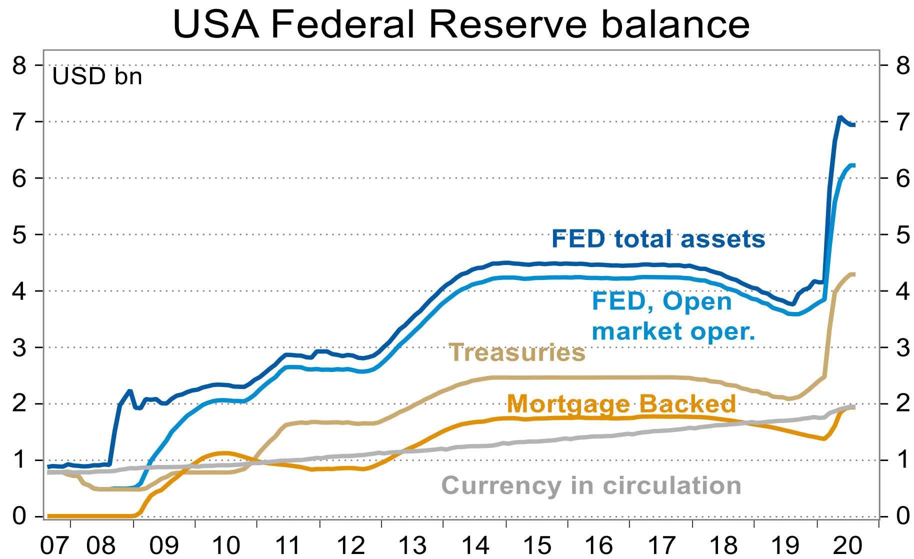
The Employment Cost Index rose 2% q/q in Q2, way below the increase in average wages

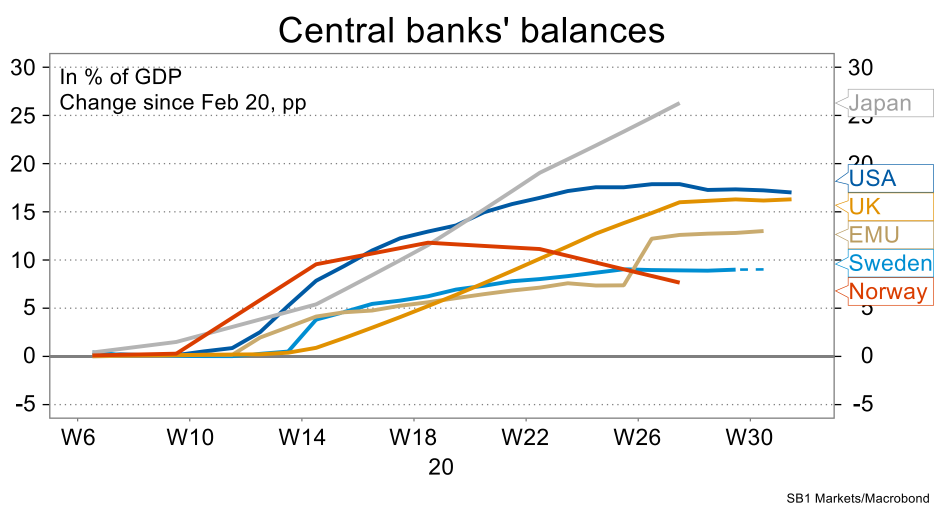


- … because this statistics is adjusted for changes in the mix of labour
  - » The Covid-19 recession has been especially tough for the lower paid – and the average wage for the remaining employees has risen sharply
- Over the past year, the employment costs are up 2.7% - and it is now trending marginally down

FOMC: We are stand by – will support the economy as long as needed

But no new measures or yield curve control or 'actual inflation target' decided (now)

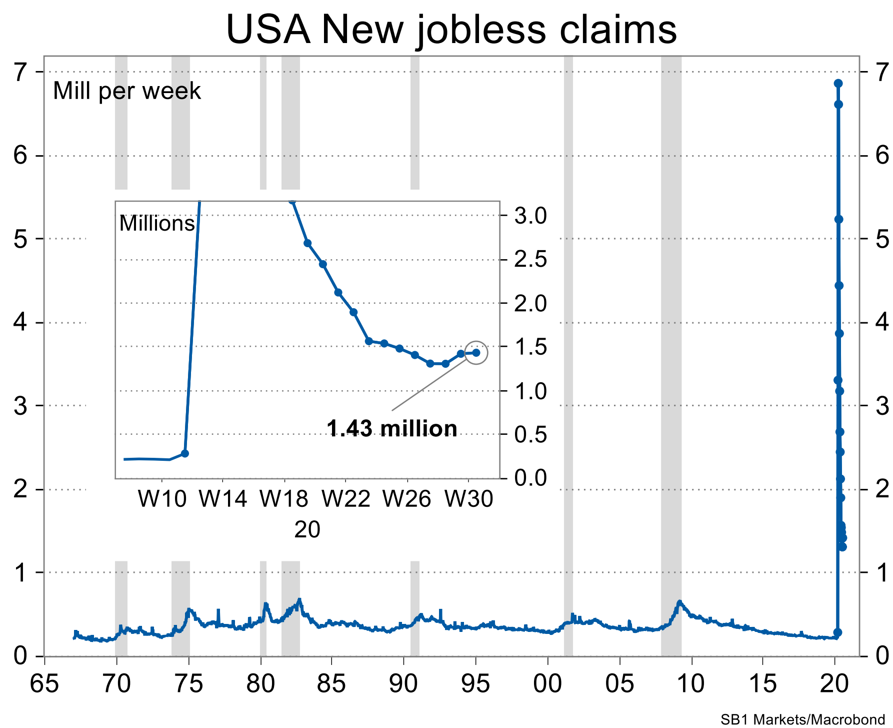


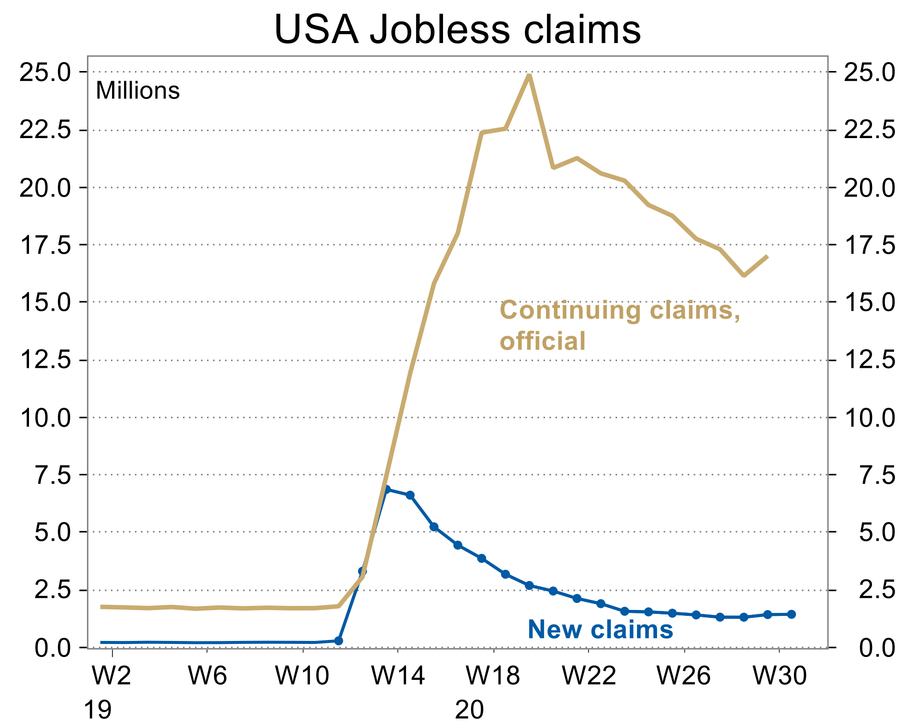


- The mantra was unchanged: '*The Federal Reserve is committed to using its full range of tools to support the U.S. economy in this challenging time'*
- The Fed is worried that Covid-19 may continue to create problems in the US economy, and the Powell noted signs of regional slowdown due to the outbreaks recently
- The FOMC expects the balance sheet expansion to continue <u>at least the current pace</u>
  - » What is the current pace? Well, it depends. The balance sheet has not increased since early June, at least not formally (the Fed is engaged in several off balance sheet mechanisms too, like the programs for supporting the corporate credit market…)
  - » Several credit support programs were prolonged, and broadened but new initiatives were not announced
- The Fed did not signal that <u>actual</u> inflation or employment must be in line with long term target before determining future policy adjustments, but said as before that *the Committee will assess realized <u>and expected</u> economic conditions.* Some had expected that *'and expected'* would be removed from the statement, which would have been a major policy change! <u>The Fed can still act on its forecasts!</u>
- **<u>However, the debate runs hot within the FOMC, and a policy shift is possible. The FOMC may promise not to hike before actual inflation is established at 2% or above</u>**
- There were no signals on yield curve control (YCC) or fixing of longer dated Gov bonds in order to strengthen forward guidance

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

1.43 mill new jobbless claims, up 12’ vs. previous week – 0.8% of the labour force…



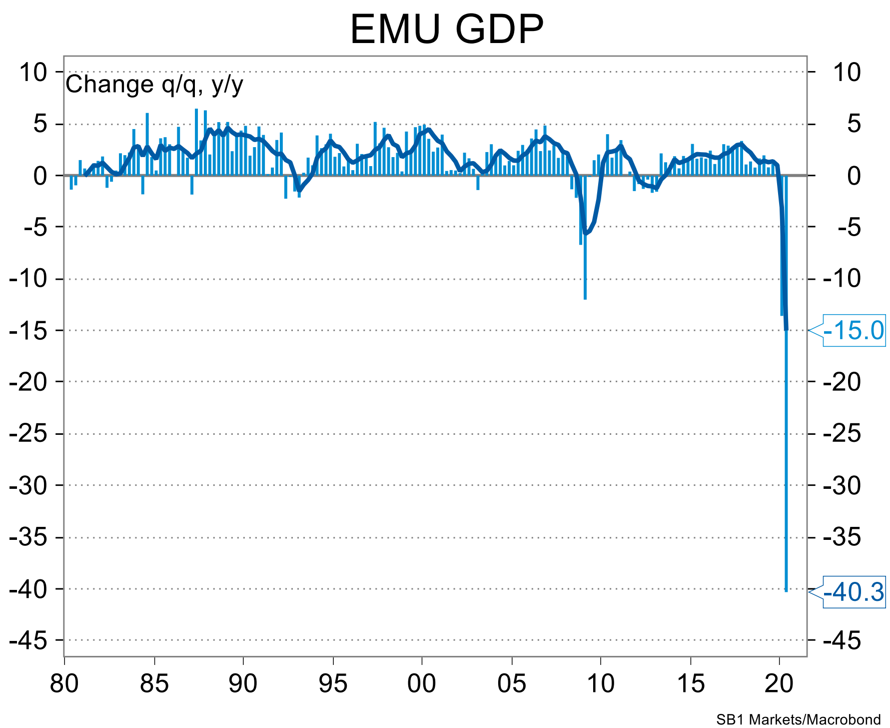


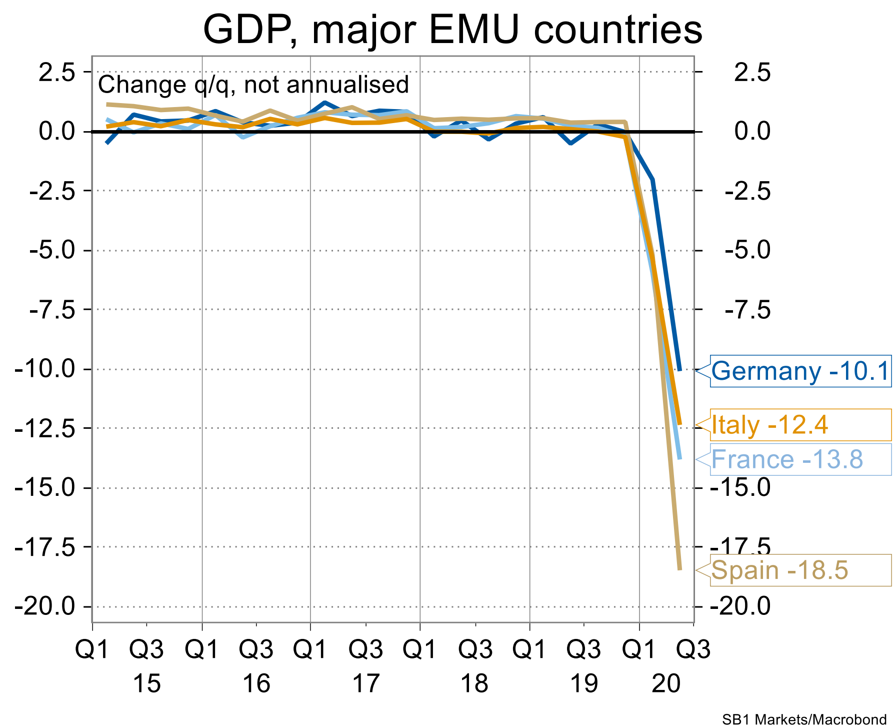
- The inflow of new jobless benefit seekers has been abating since April, but recently much slower than expected - and during the two past weeks the flow has increased again. The inflow is incredible high, equalling 0.8% of the labour force per week, more than 5 times more than in goods times and twice as much as during harsh recessions
- The previous week, the number of continued claims rose too, confirming renewed problems at the labour market
- Congress has not yet agreed upon if/how to prolong the temporary USD 600 per week extra Federal unemployment support (on top the ordinary state support). The last payment was distributed last week

SpareBank 1 MARKETS

GDP down 12.1 % in Q2 (of for fun, -40.3% annualised), -15% from Q4

The fight agaist Covid-19 brought the big 4 down from 10.1% (Germany) to 18.5% (Spain)

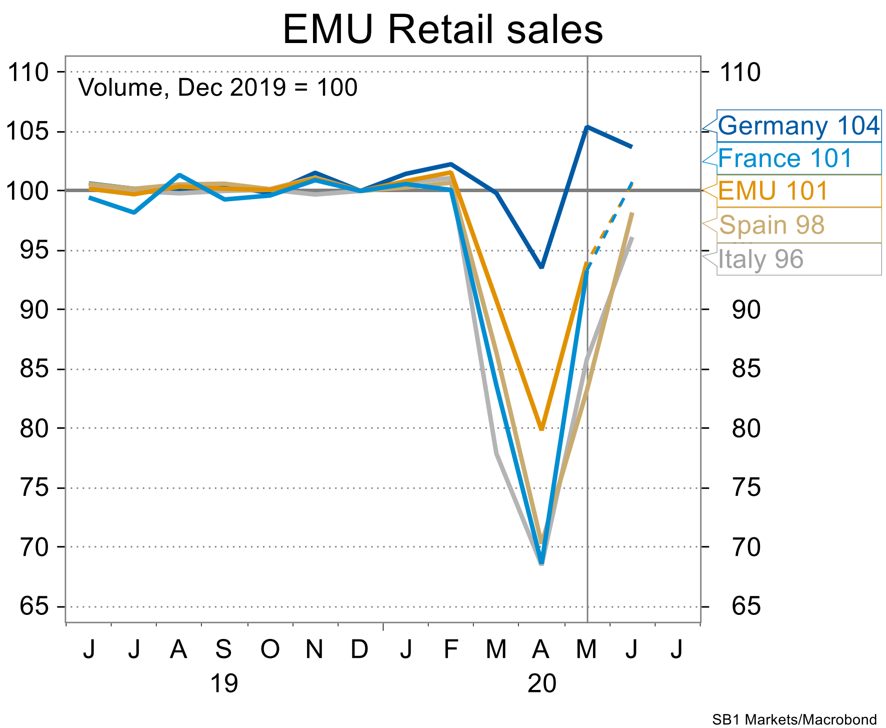




- GDP in the Eurozone fell by 12.0% (not annualized) in Q2, of course total unprecedented. Spain took the hardest hit, as expected, in Q2 and in H1 in total (check here)
- We have demand details for just some few countries, private consumption is the main culprit, as eveyhere
- The PMIs and all other surveys now signal growth – and Q3 will be the best quarter, ever ☺

Retail sales down from a high level in Germany, up elsewhere. EMU above Feb!

German sales fell less than expected, the others recovered at brisk pace



- Sales in EMU probably rose by 7% in June, and are now 1% above the pre corona level!
- Sales in Germay fell 2% but are still 4% above the Dec 2019 level, France is 1% above
  - » France has not yet reported retail sales but consumption of goods rose further, and retail sales rose at the same pace
- Spain and Italy is 2 and 4% below, following 18% and 12% lifts to June from April

Highlights

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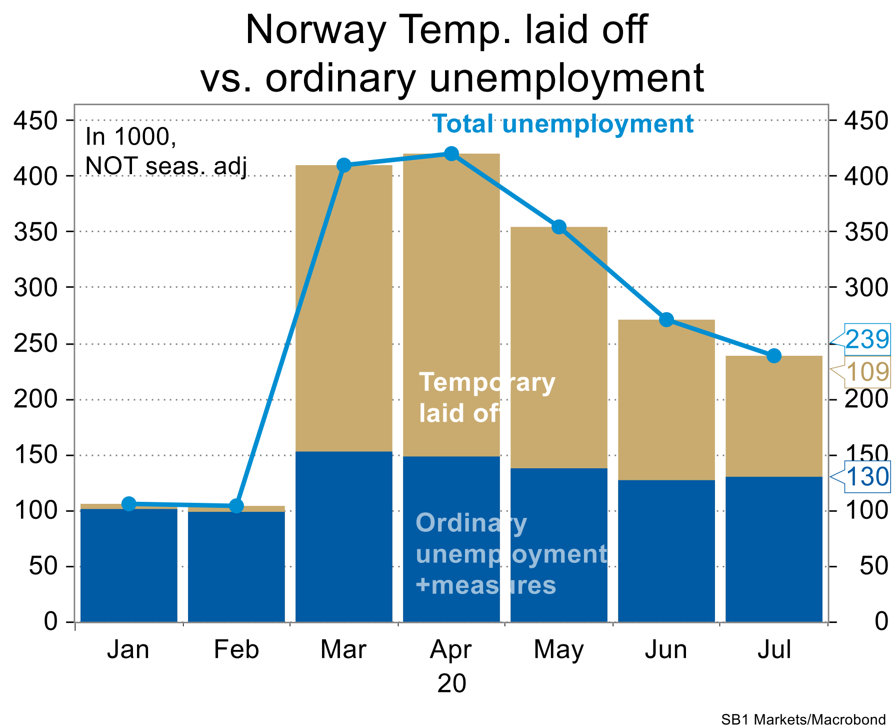
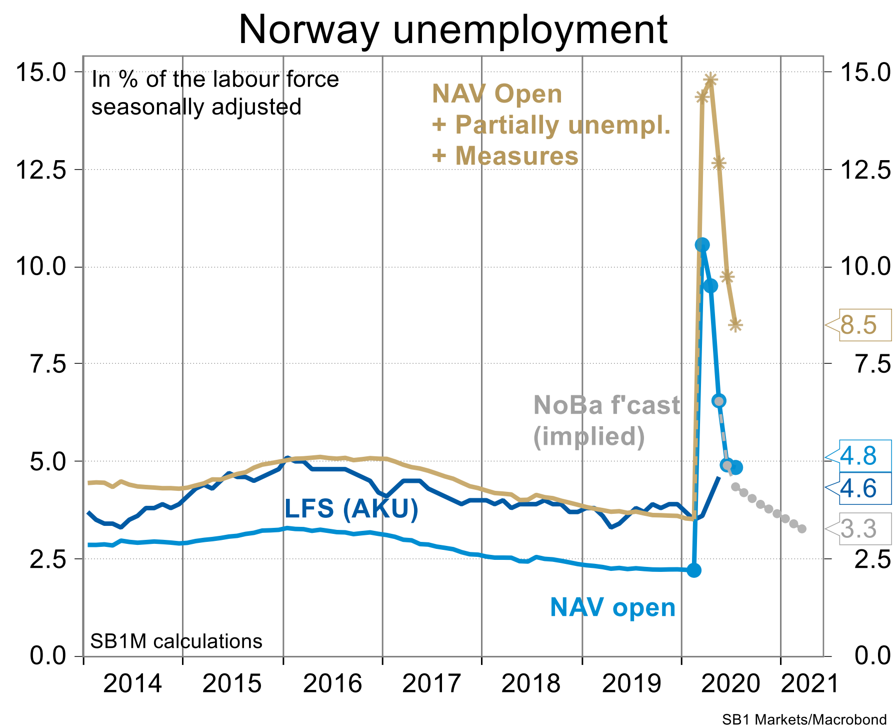
NAV unemployment further down but slower

Ordinary unemployment down 0.1 pp to 4.8%, grand total -1.2 pp to still very high 8.5%





- Actual open, full time (ordinary) unemployment rose marginally – but fell, seasonally adjusted
- The number of partially unemployed persons fell further – and the grand total, including measures fell by 1.2 to 8.5%, seasonally adjusted
- Norges Bank expects a further decline in ordinary the coming months, down to 3.3% in Q1 2021
- The LFS unemployment rate rose by 0.5 pp to 4.6% in May (average Apri-June)

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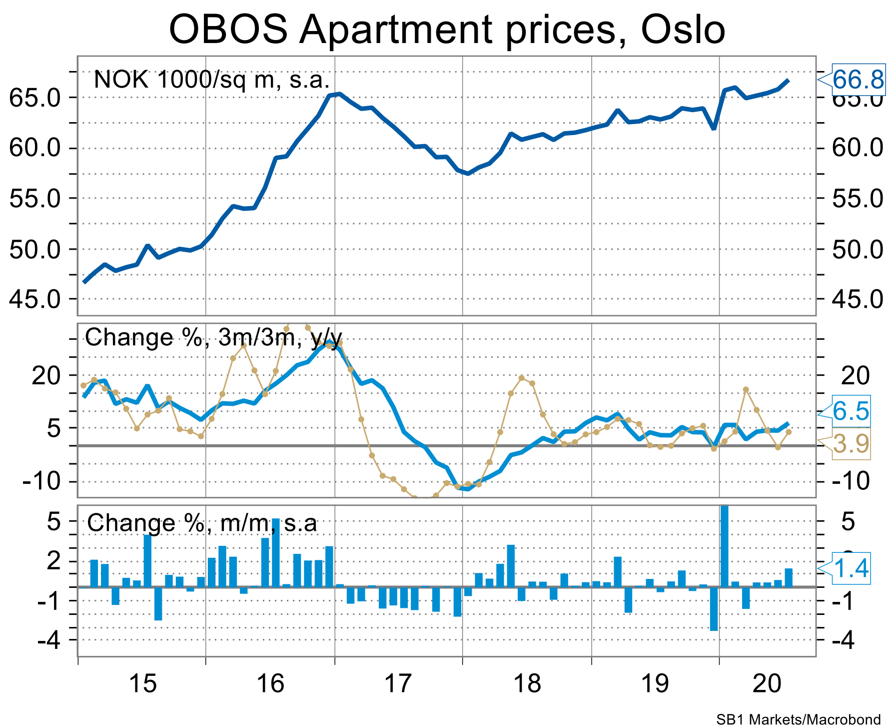
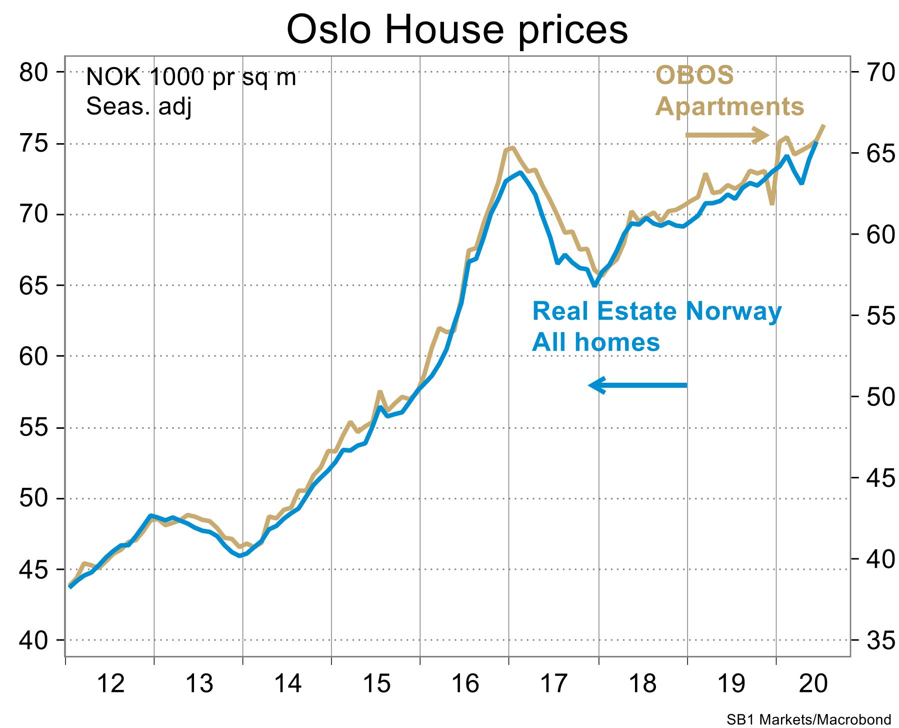
Ahead of the national house price report: Oslo OBOS prices sharply up in July

Co-op prices up 1.4% (seasonally adjusted), may signal strong prices for other homes as well





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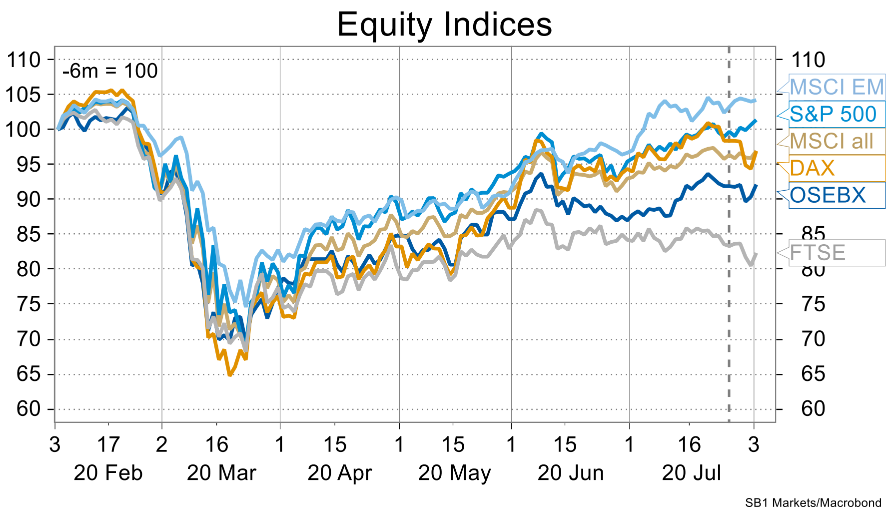
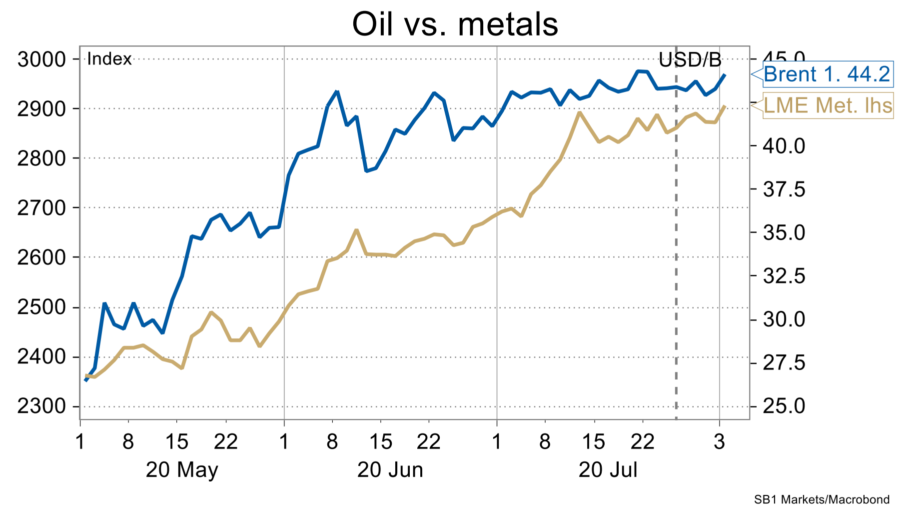
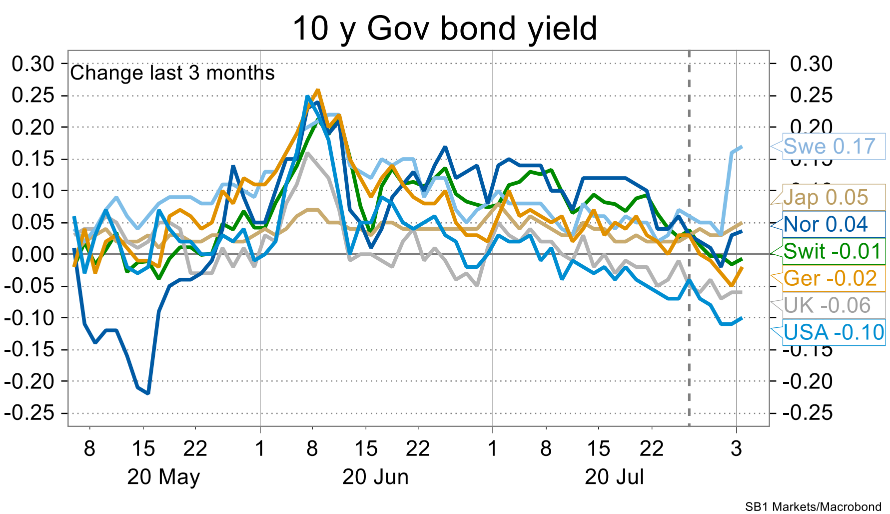
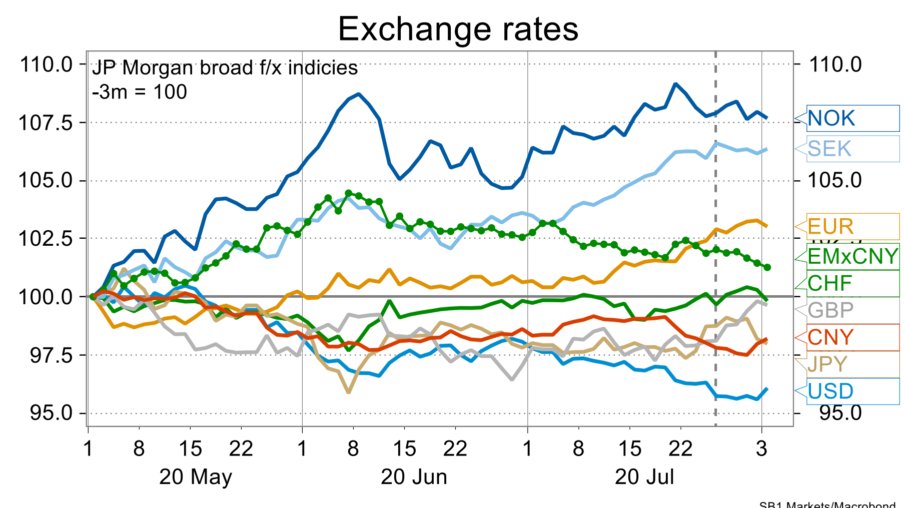
Most stock markets mixed, yields still sliding down. Oil, metals flat

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 has recovered – and joined by the EUR last week.

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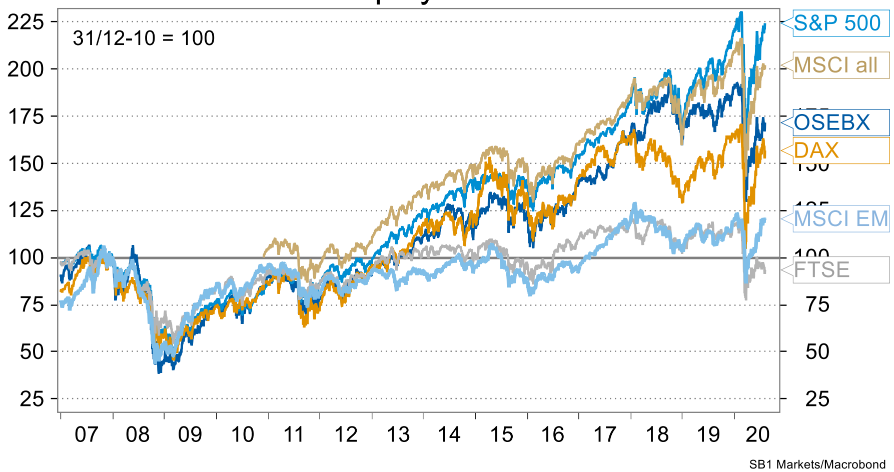
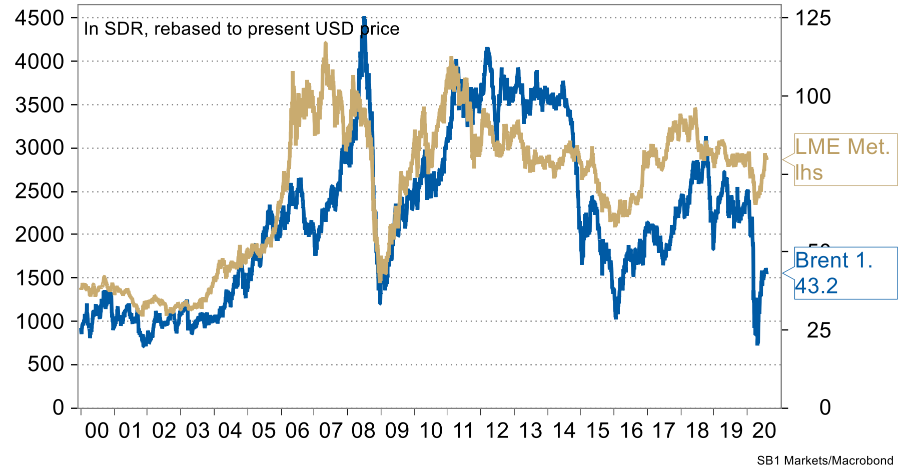
In the long run: Stock markets are looking like a 'V'

… because investors are looking for a 'V'-shaped corona recovery? Oil, metals up too. Bond yields not

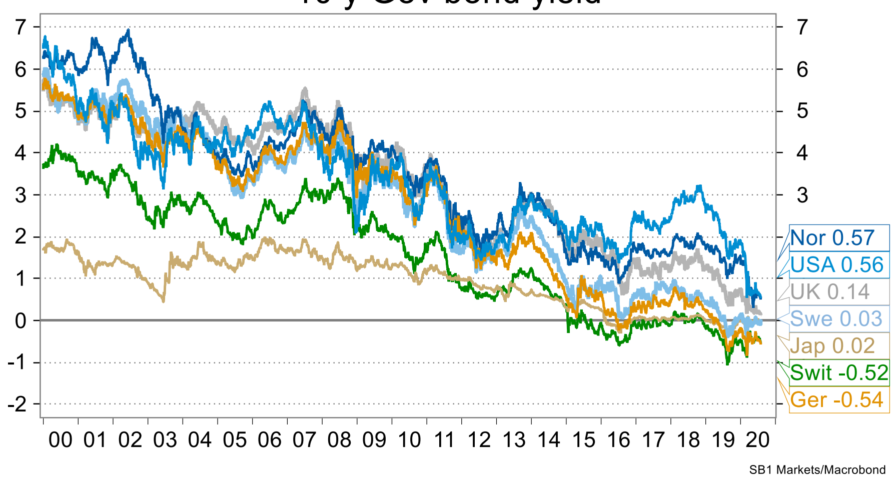
Equity Indices



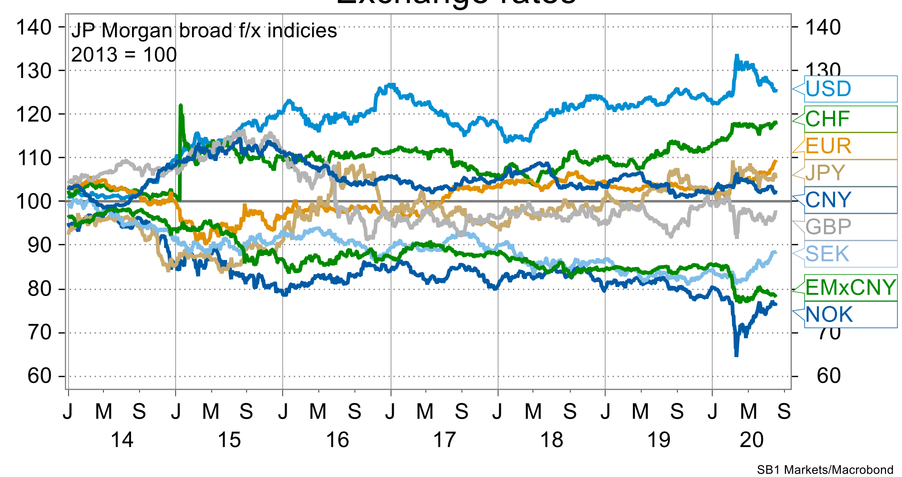
Oil vs. metals



10 y Gov bond yield



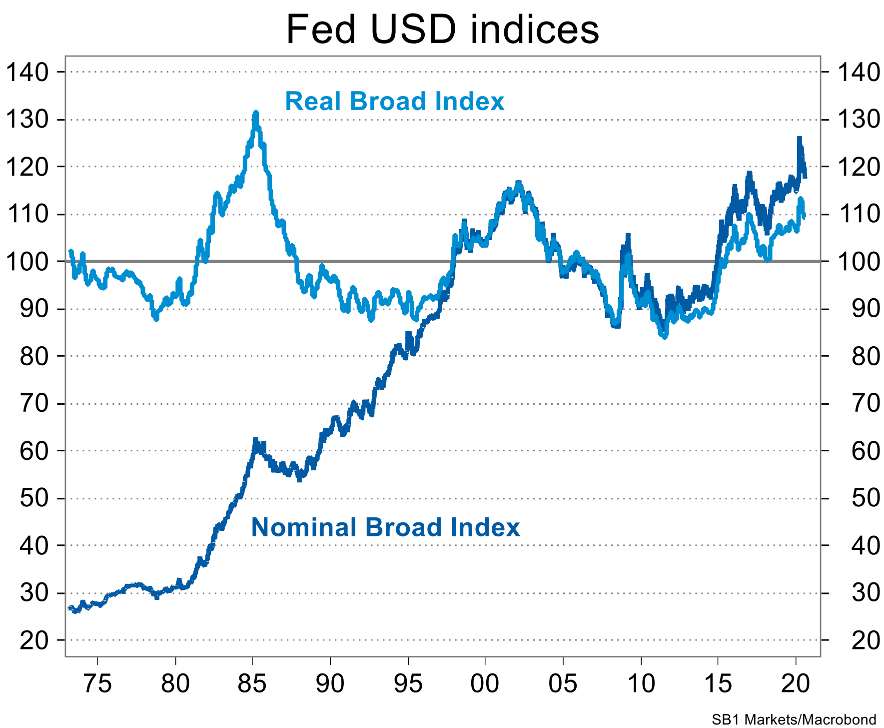
Exchange rates

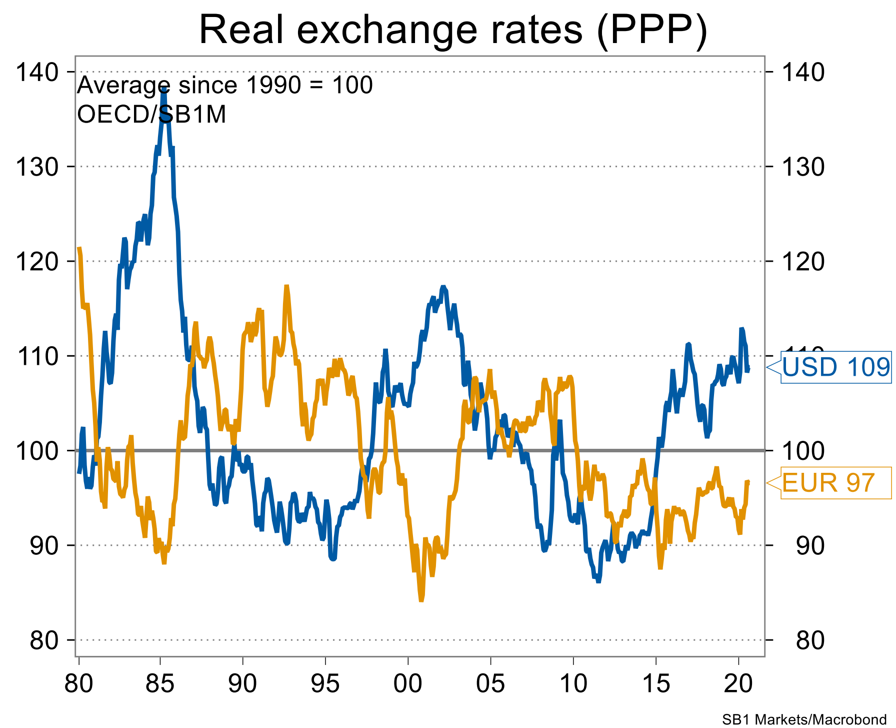


The USD is down but still stronger than in February – and over the previous years (measured by broad f/x indices

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

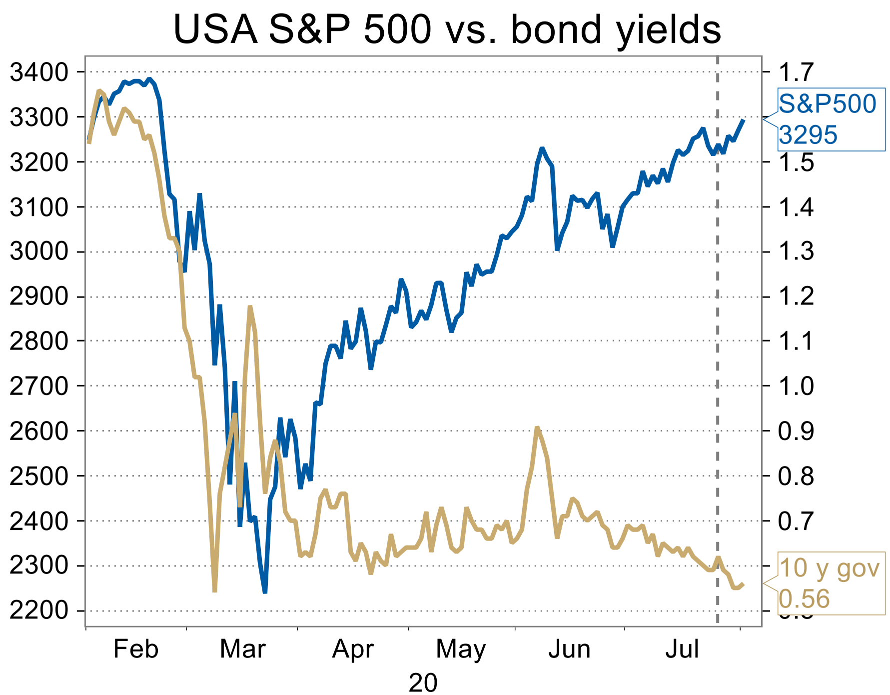




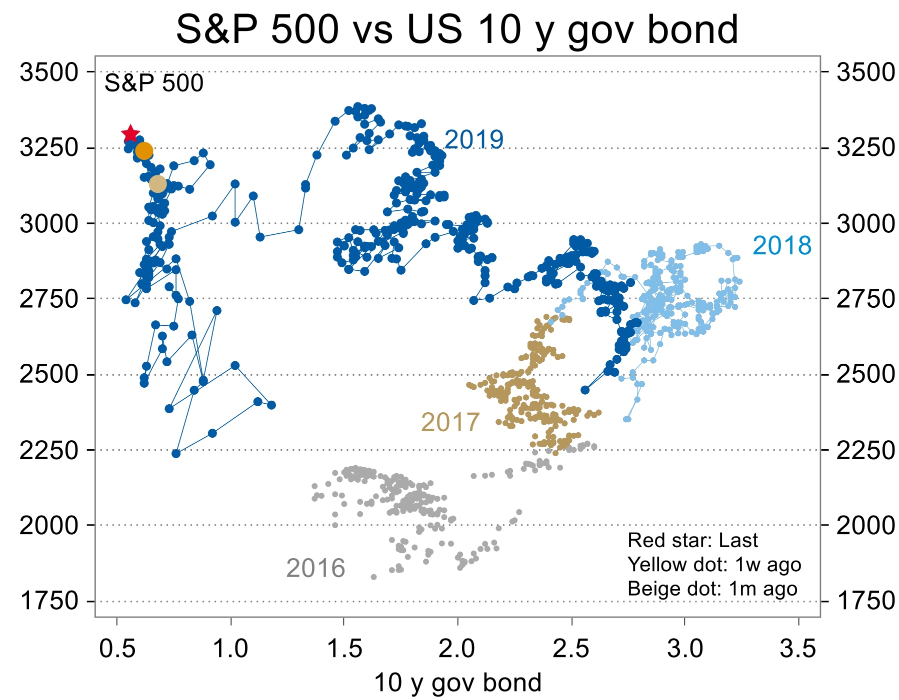
- Corona, slowing growth, social unrest, political turbulence, budget deficits (that will become even larger) & money printing, trade deficits, the US China conflict. You name it, there are always reasons for the USD to decline
- Still, measured by broad indices, the USD remains stronger than in February

US equities not far below ATH – now highest since February

The 10 y gov bond yield down to all time low, at 0.55% (Thursday/Friday, 0.56 at Monday)



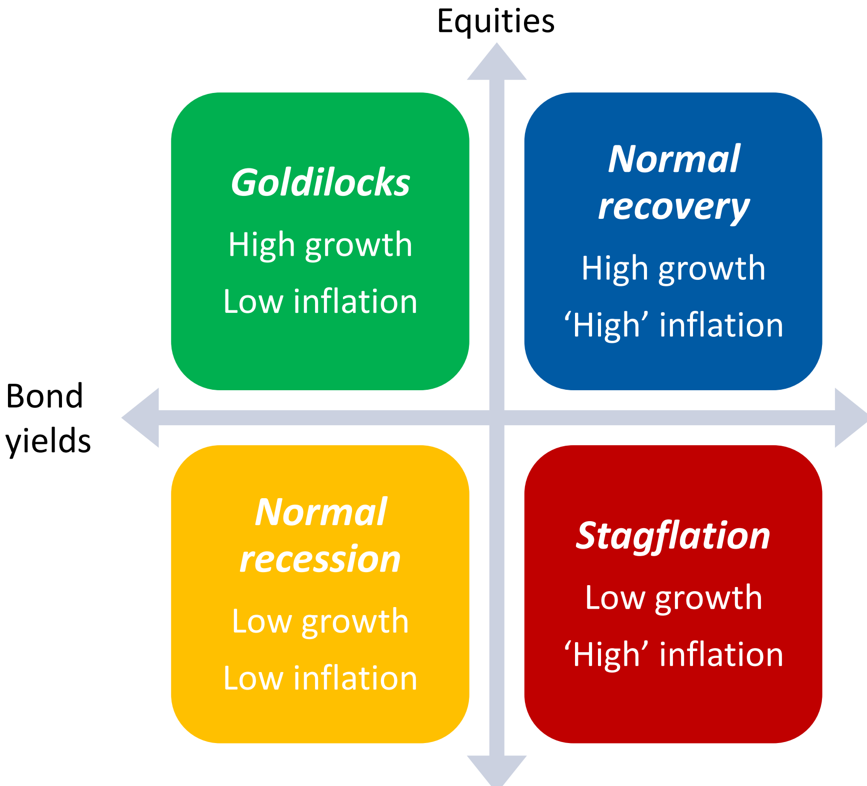
SB1 Markets/Macrobond

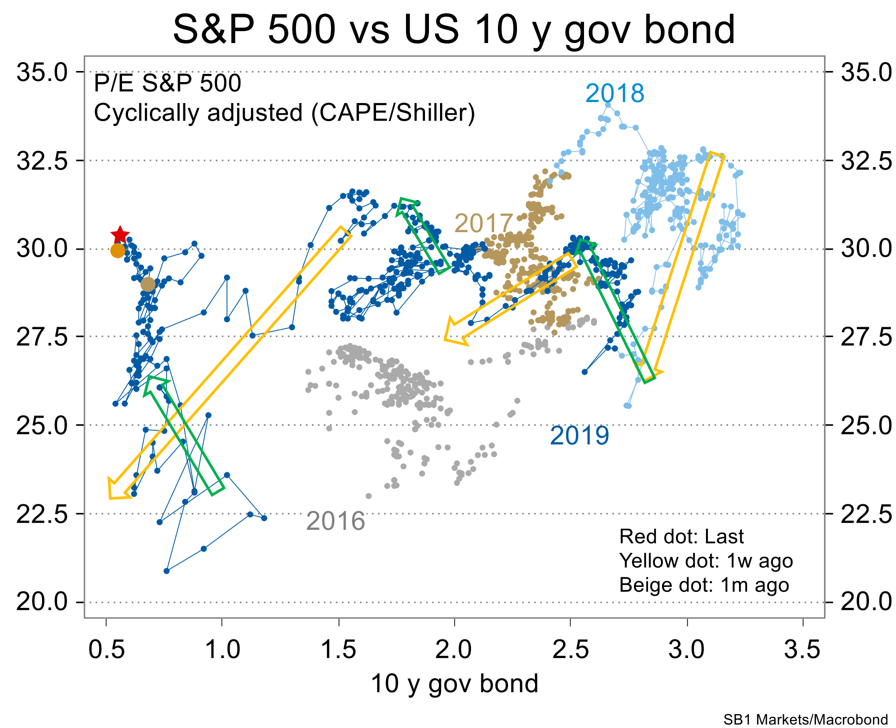


SB1 Markets/Macrobond

In July : 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

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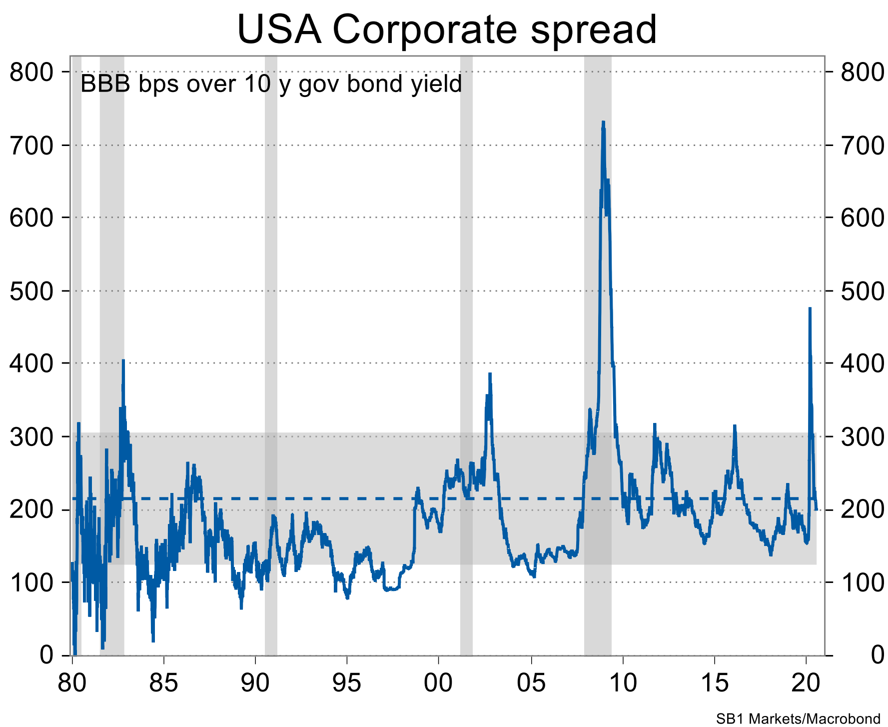
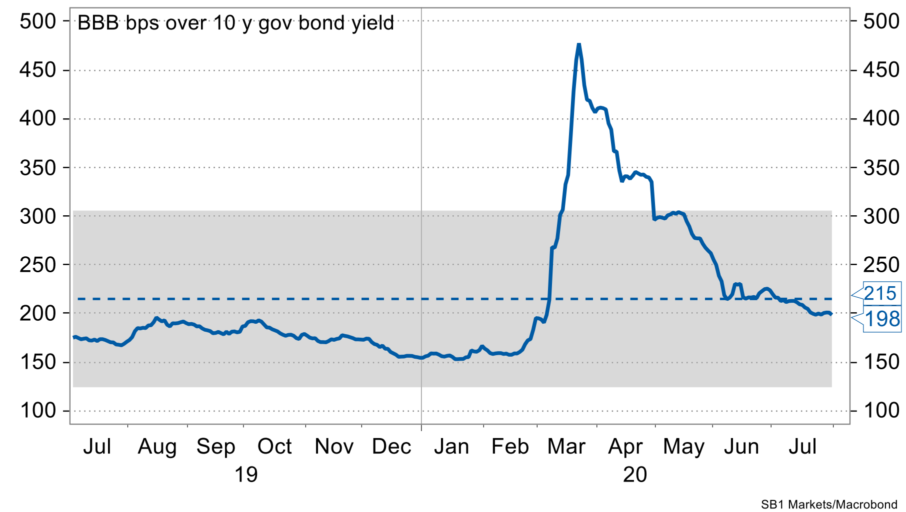
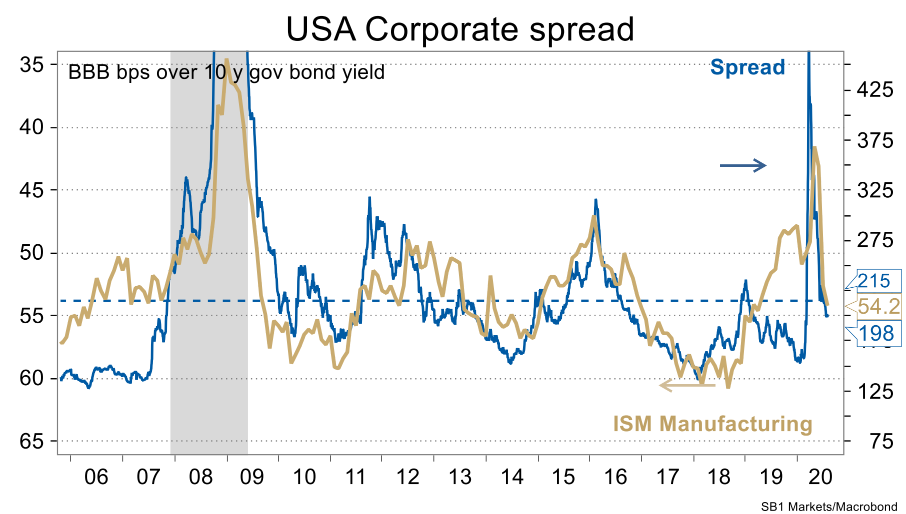
Corporate spreads are still drifting down – and are now below average

… supported by hopes of a 'V' shaped recovery



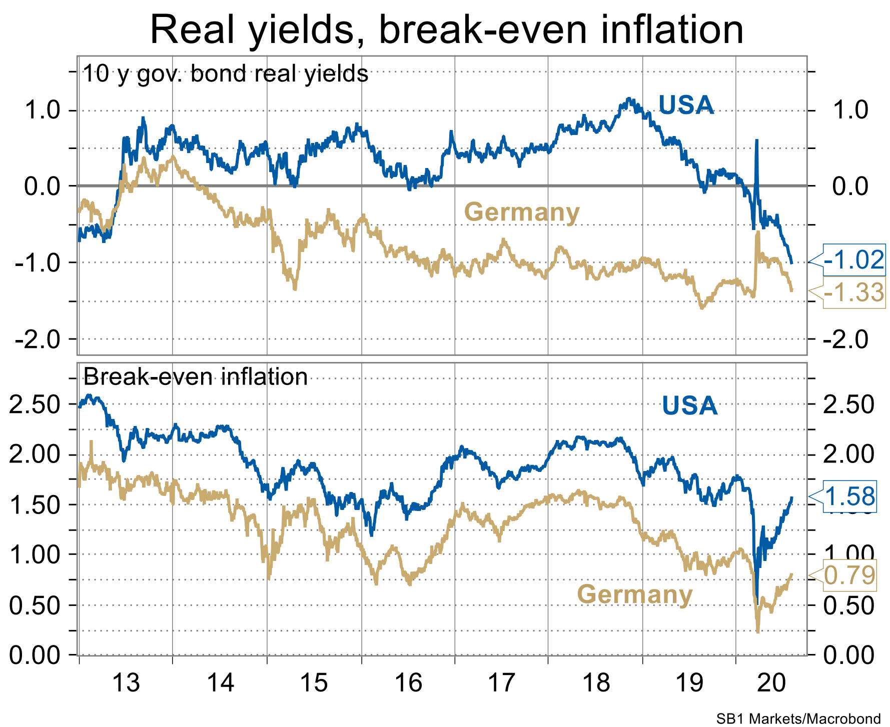


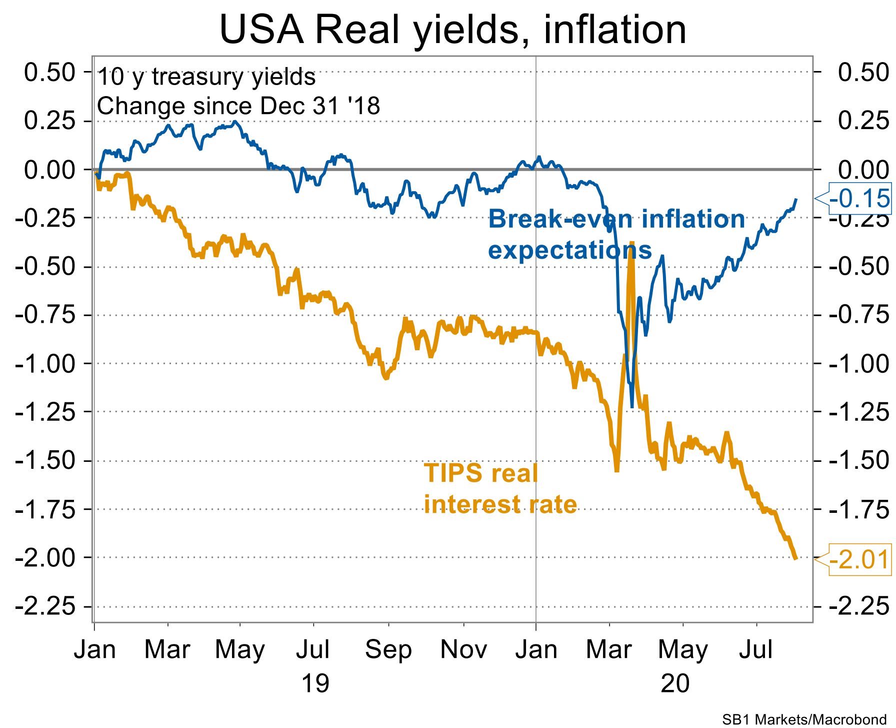


- However, is the credit risk at an average level now??

Inflation expectations are drifting up but still not high. Record low US real rates

Real rates are drifting SHARPLY lower –markets are discounting very expansionary monetary policy





- Real interest rates are falling further – more in the US than in Germany. US 10 y real rate at -1.02, ATL

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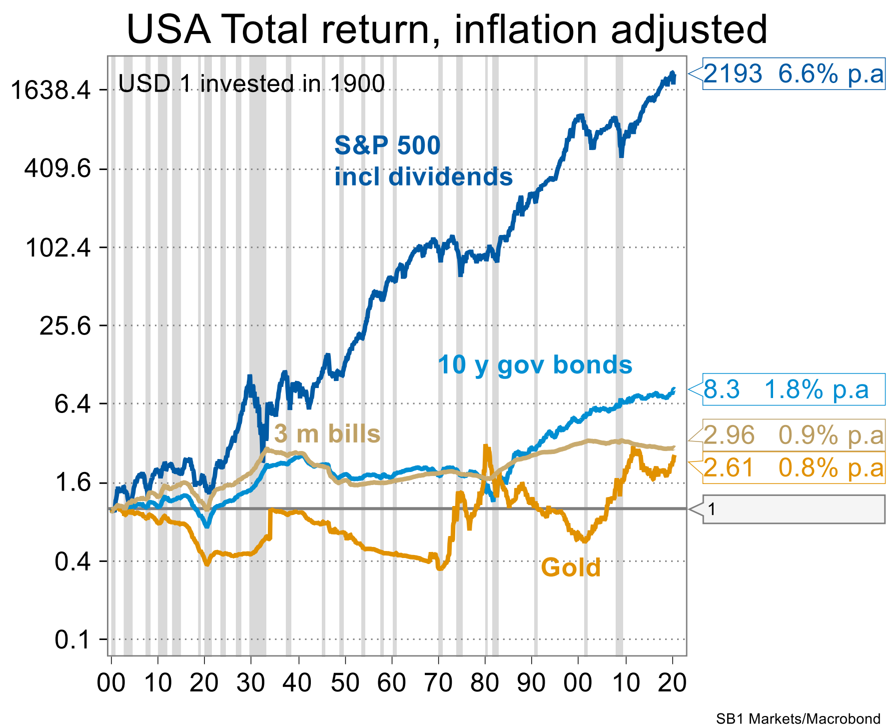
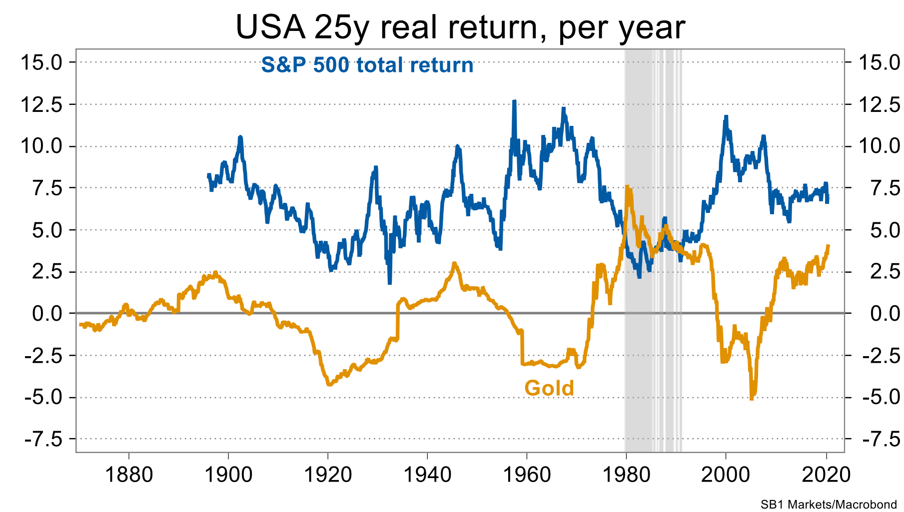
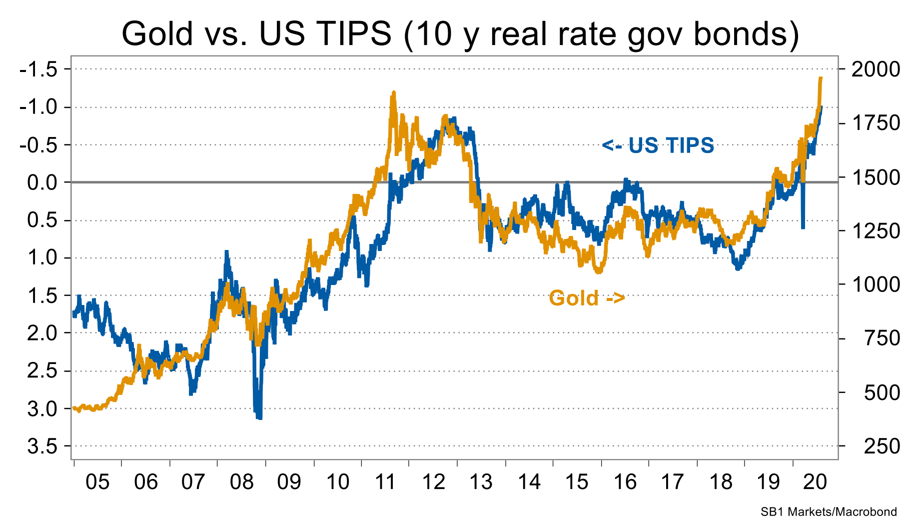
For the gold bugs: A long and a short story

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

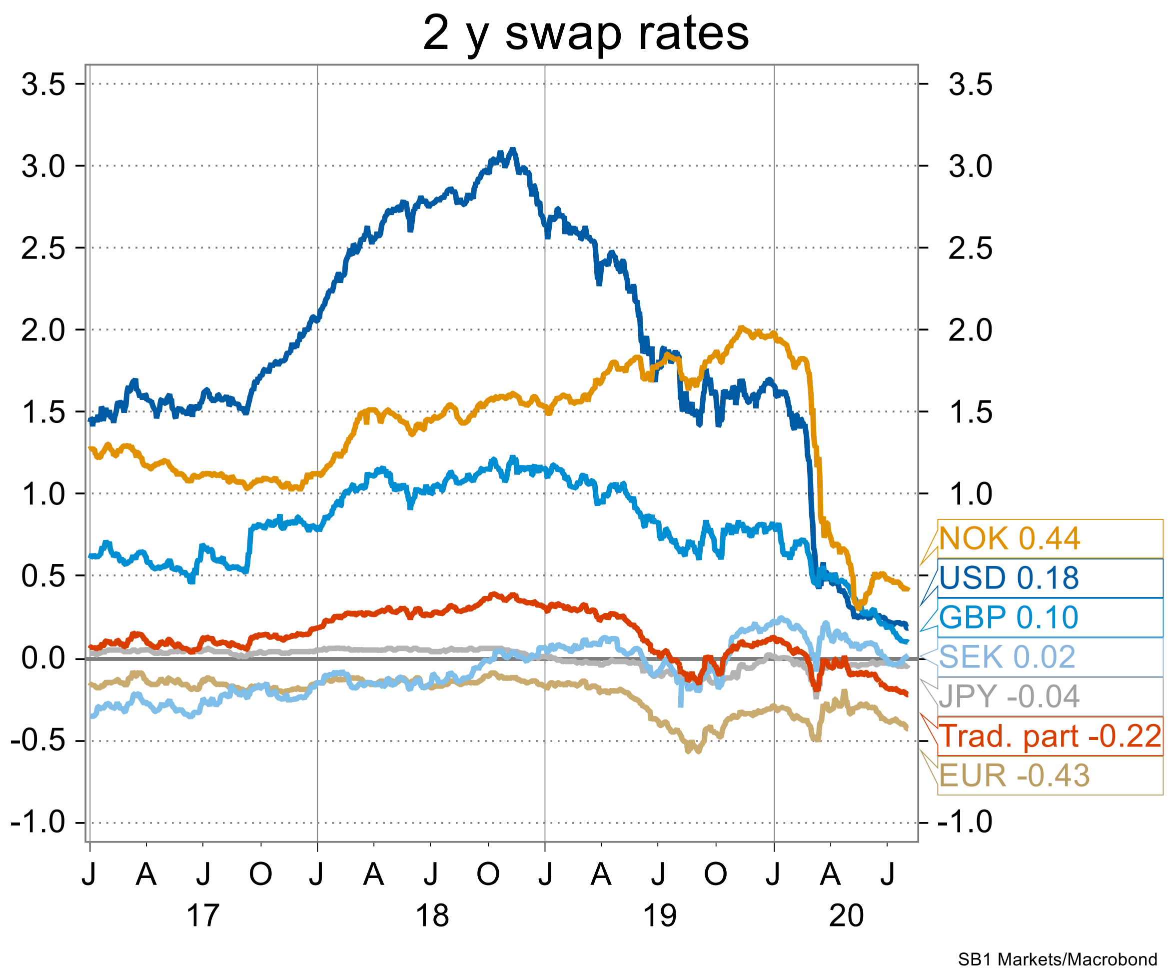


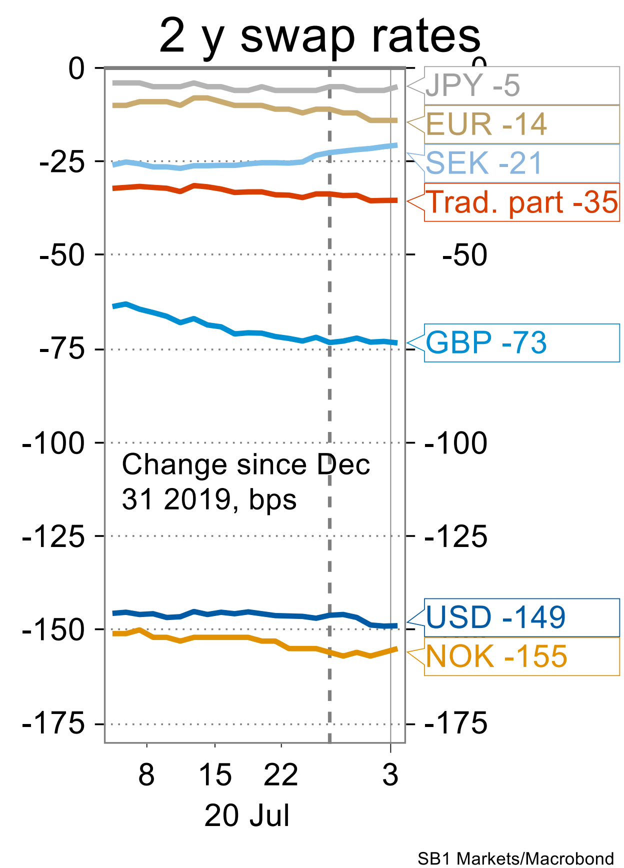




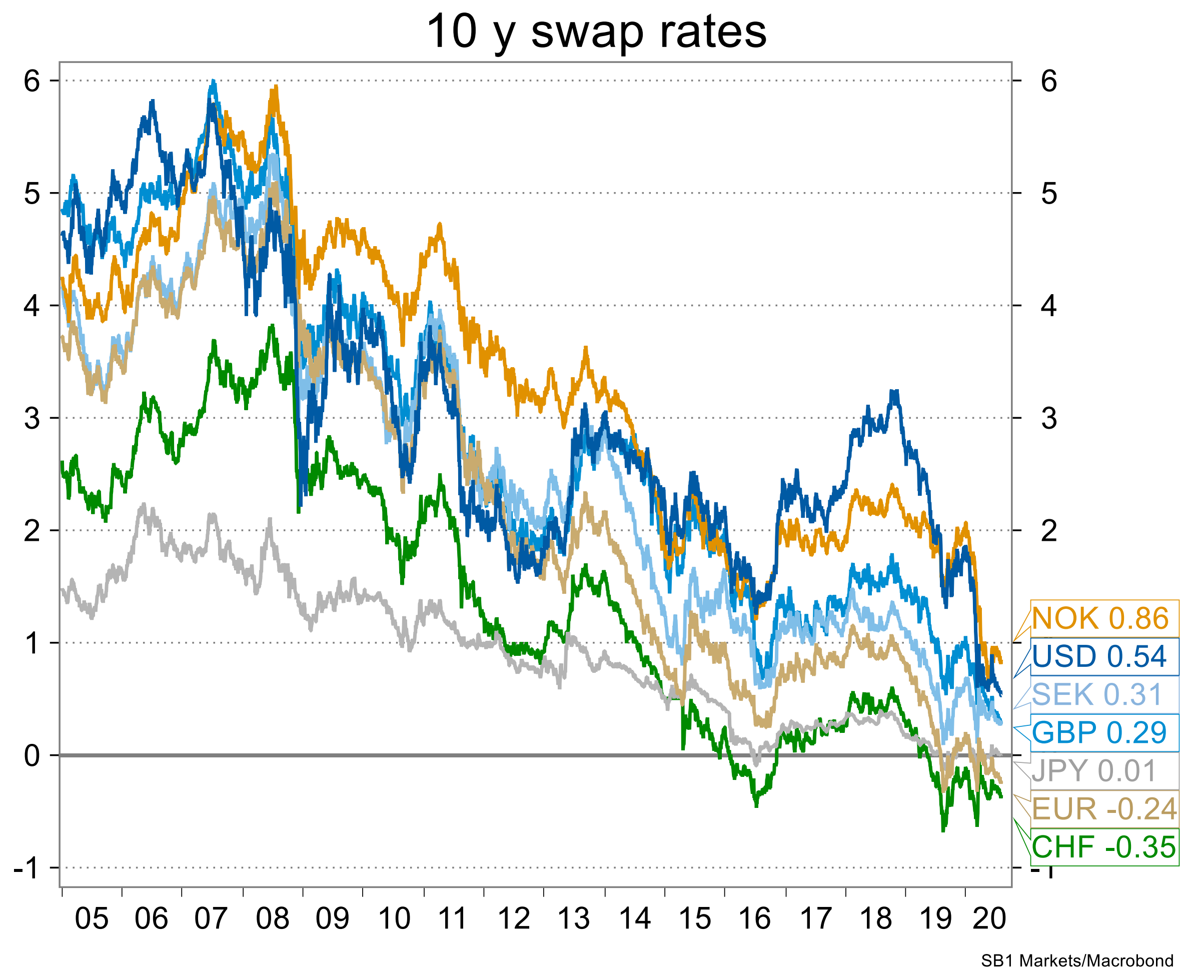
- Like now, when safe real returns are negative, gold has shined!
- It may well be that real rates will remain low - and gold strong - for a long while. But take care. Long term (and we mean quite long term), gold has normally been a really bad investment, at least compared to equities

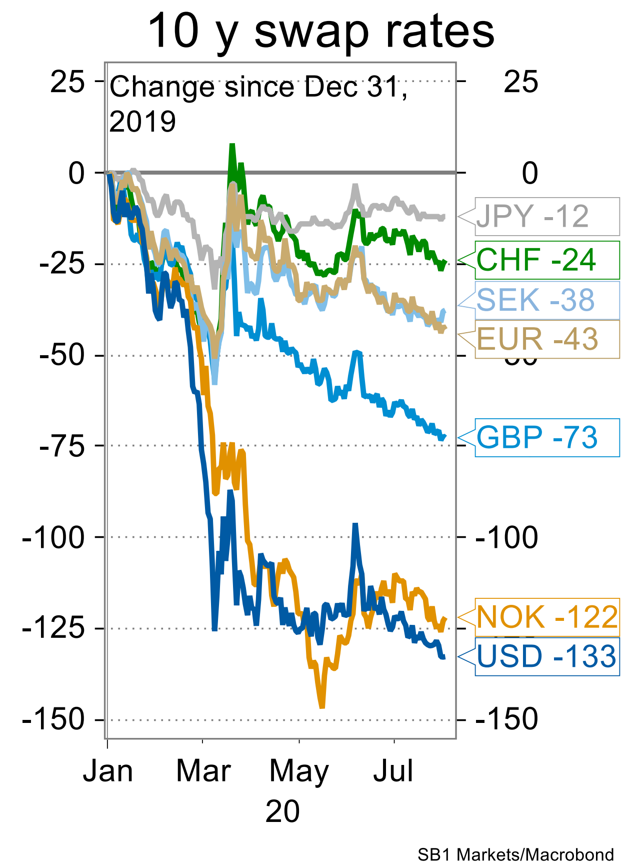
Short term rates are still trending down but just slowly



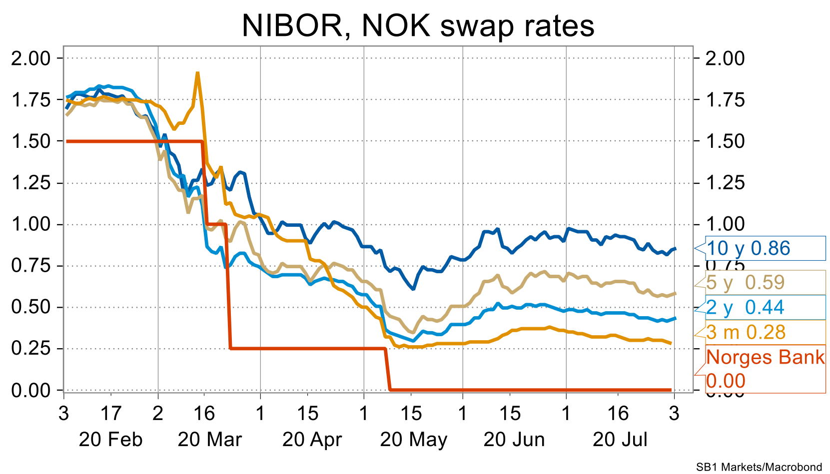


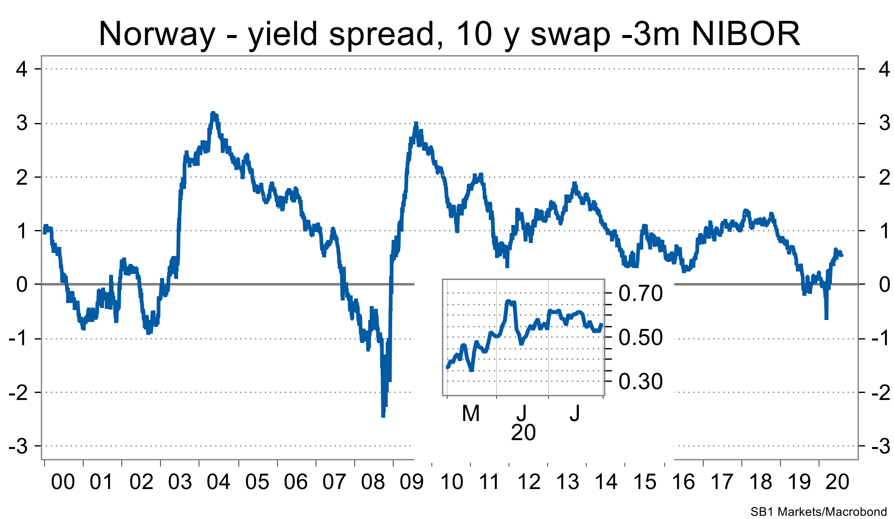
Slightly down last week, everywhere (x Sweden & Japan)

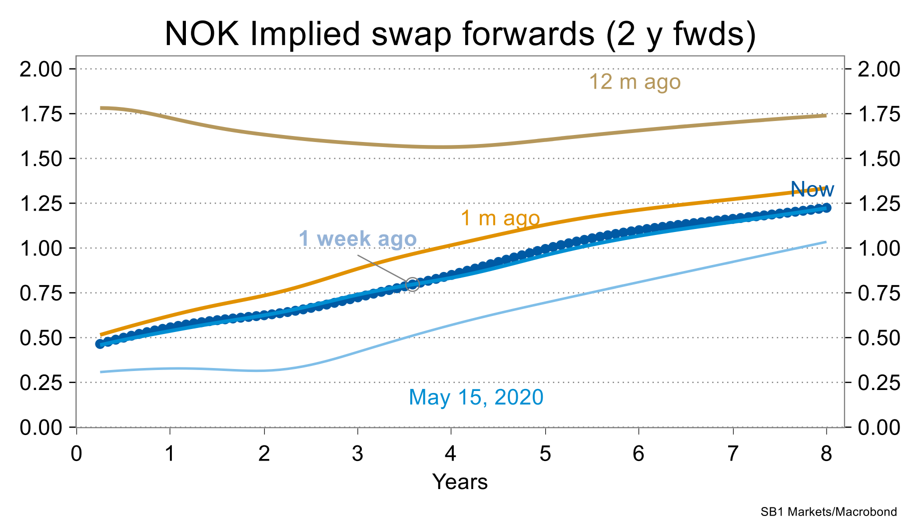




Stable swap rates in July

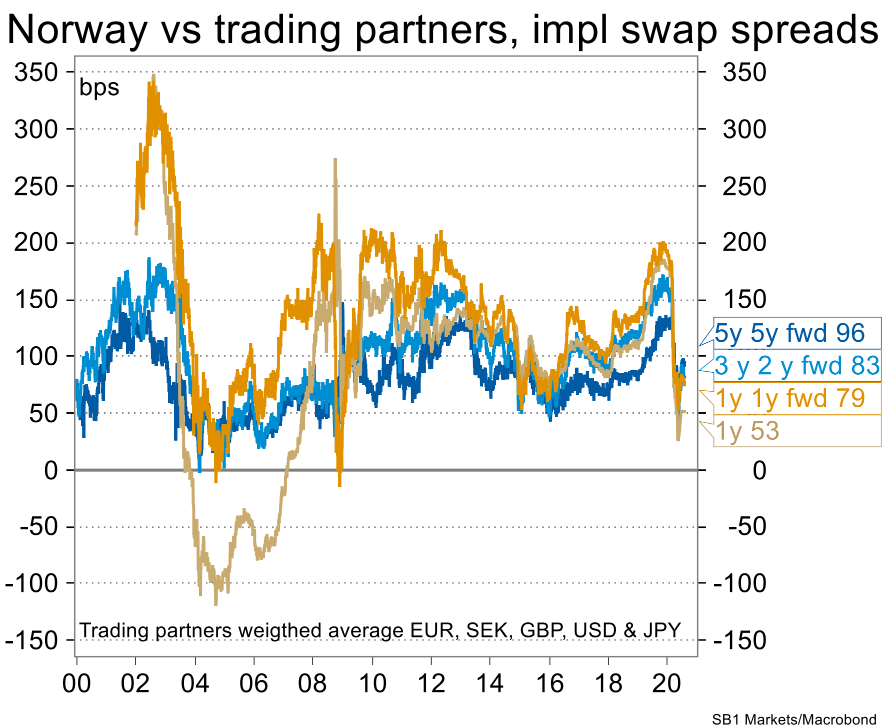


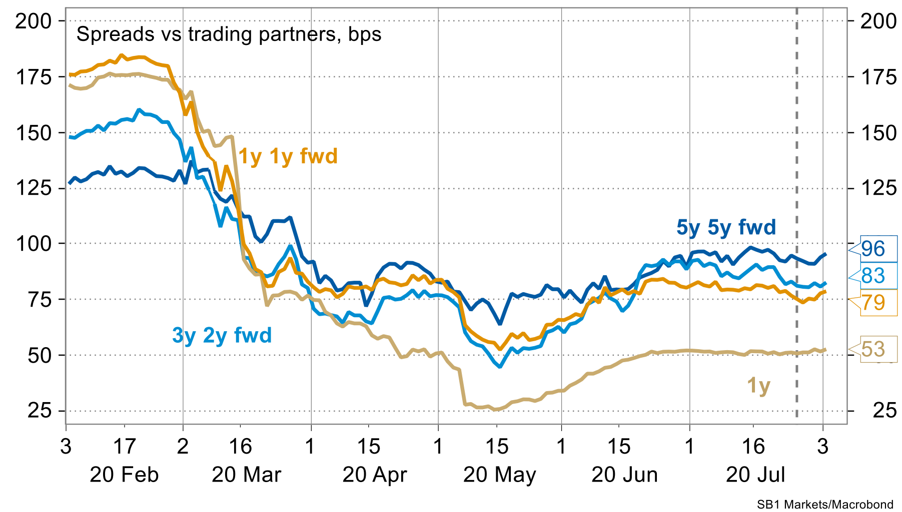


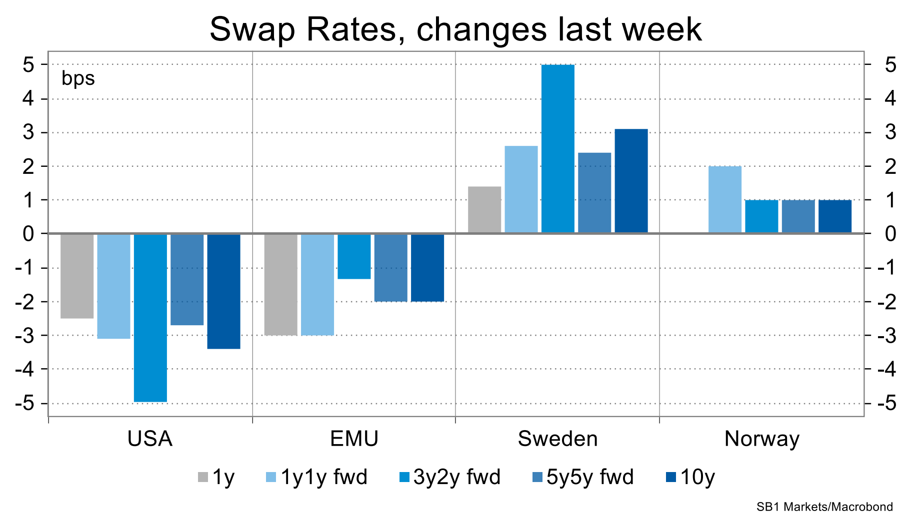


Flat swap spreads vs our trading partners

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



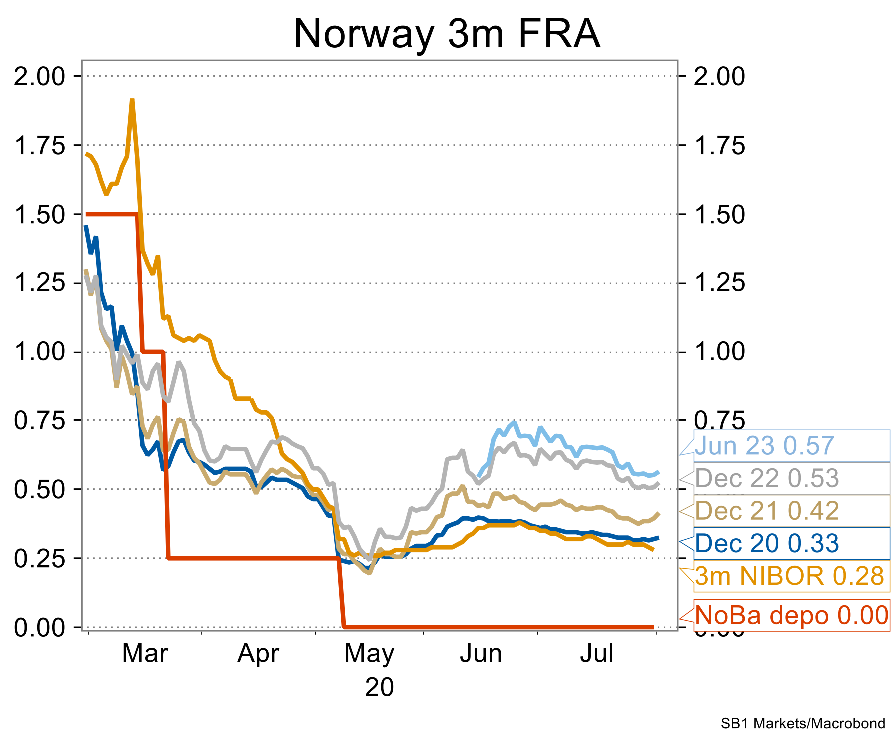


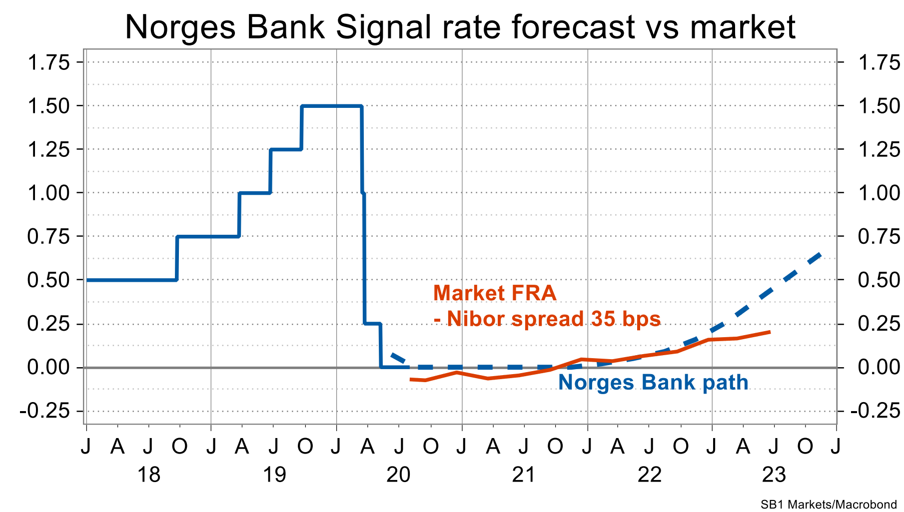


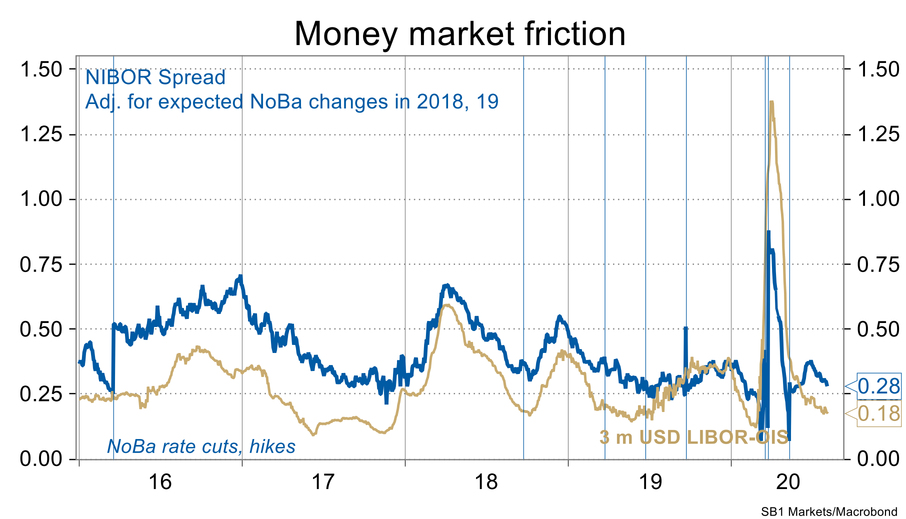
- Spreads vs. trading partners fell some 125 bps to mid May from late February – from a too high level. Since mid May, spreads have widened by 25 – 50 bps
- We are still neutral vs. the spread

The 3 m NIBOR softly down after end of Q1, now at 0.28%

FRAs have been sliding slowly down too – but not further last week

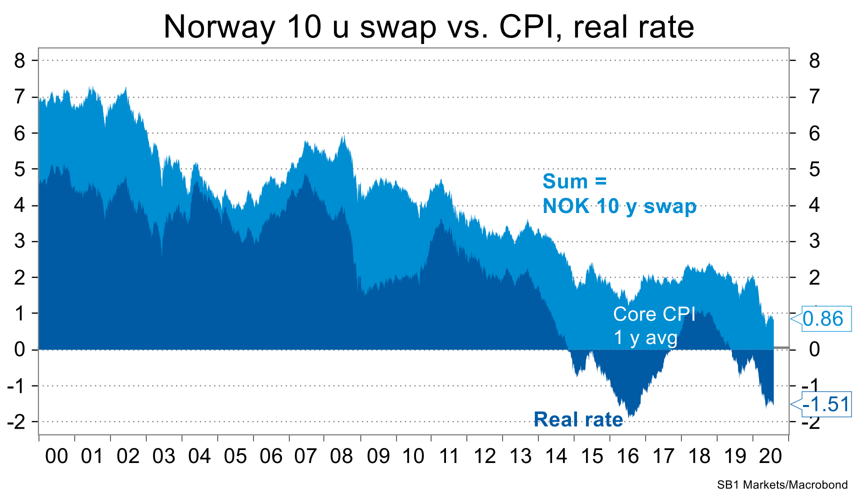




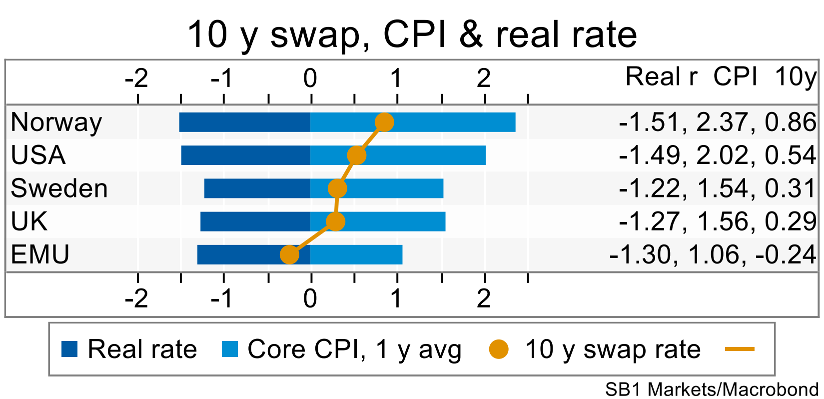


The FRAs market has shifted the first likely hike to Q4 2022 from Q4 2021 recent weeks

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)

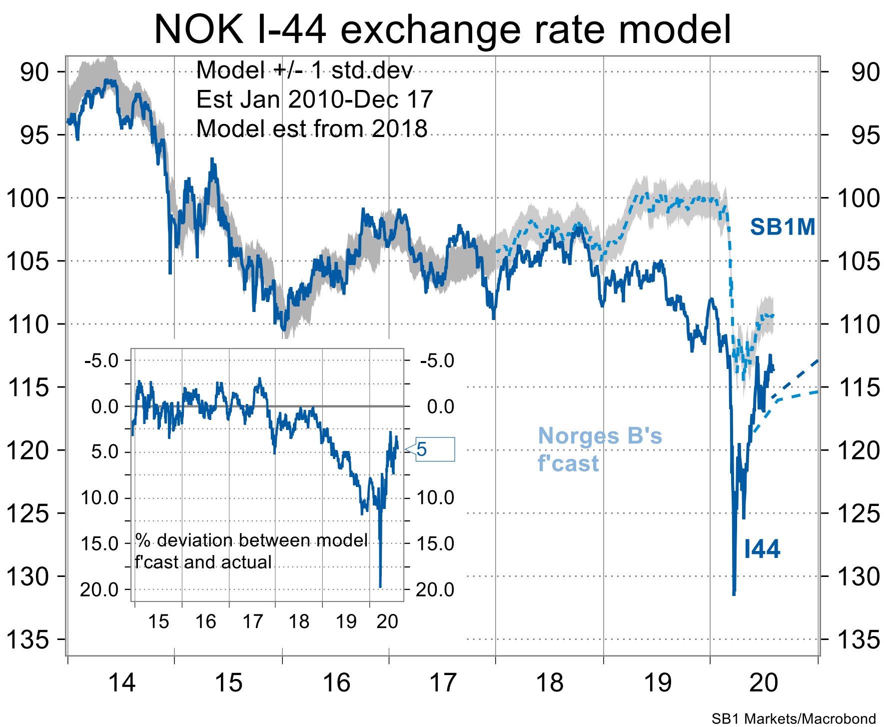


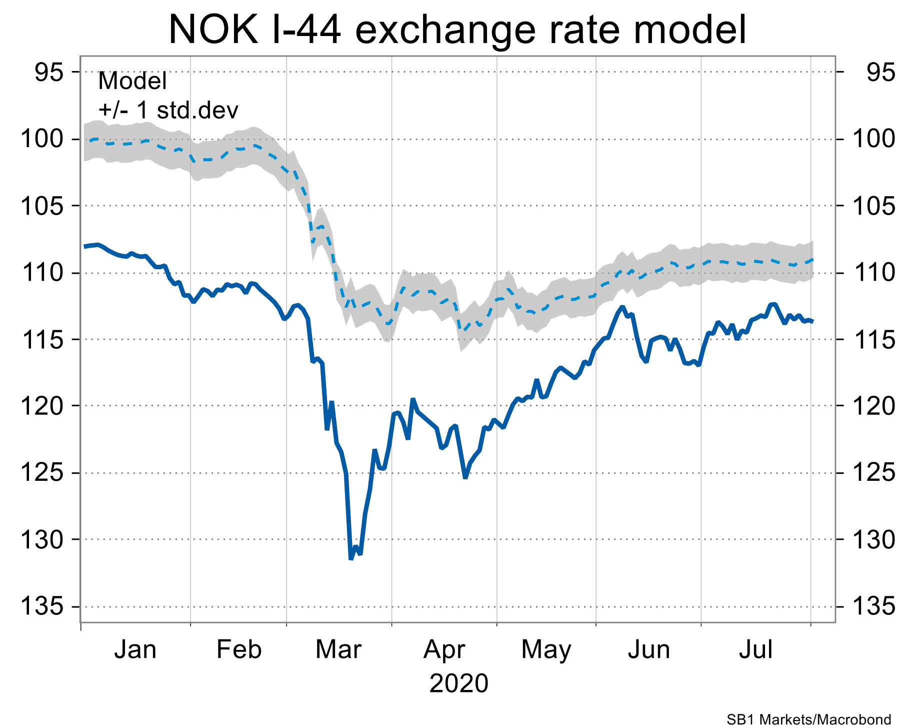
NOK real rates among the lowest

- 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 marginally down, basically flat since early June

As our traditionally model has signalled





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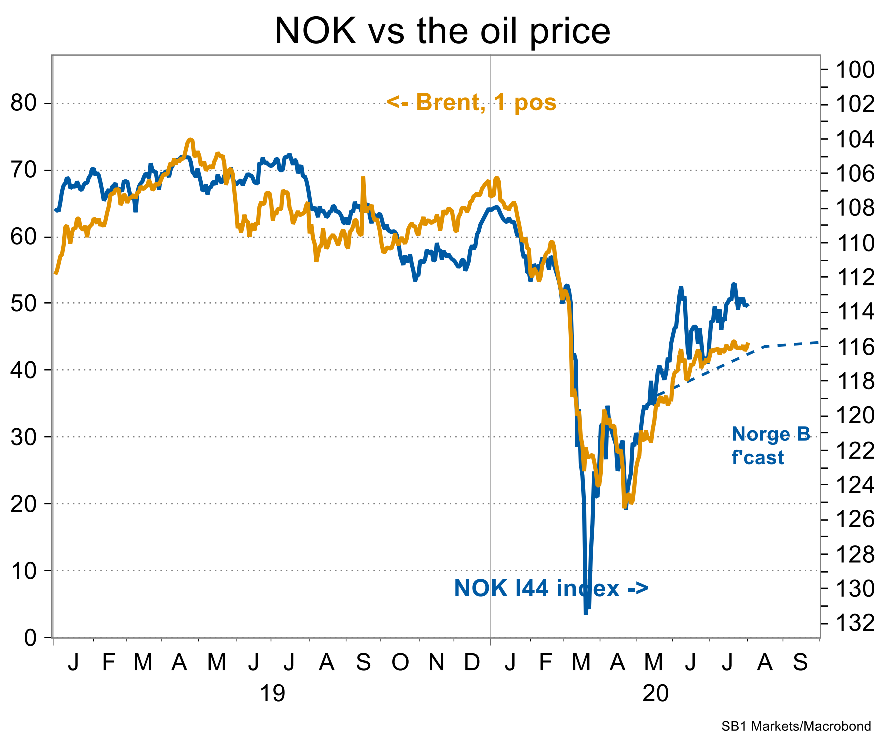
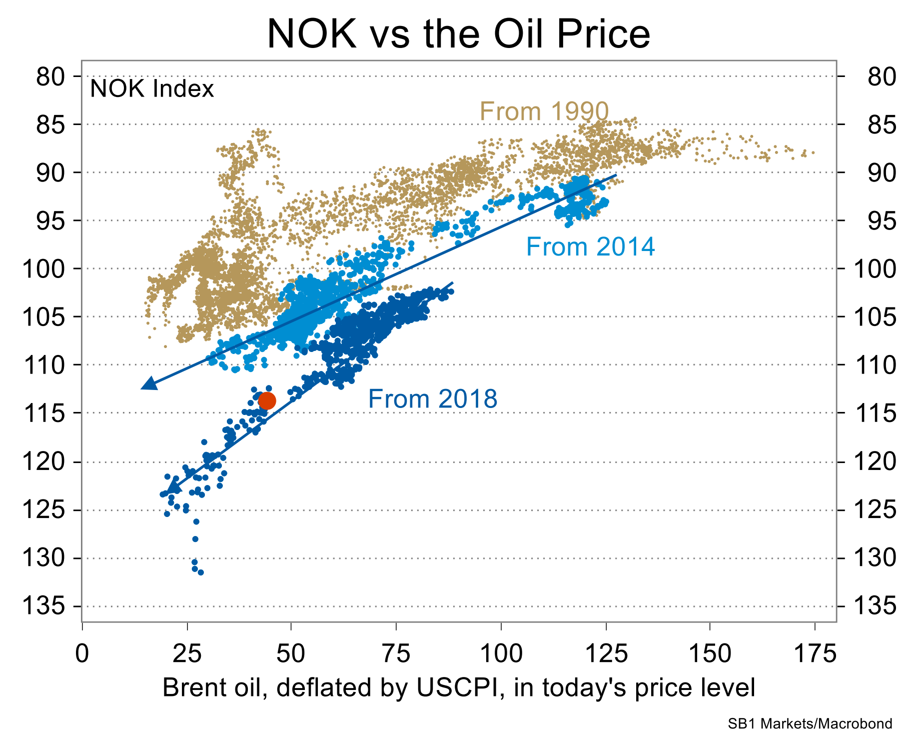
The NOK “stronger” than the oil price





- 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

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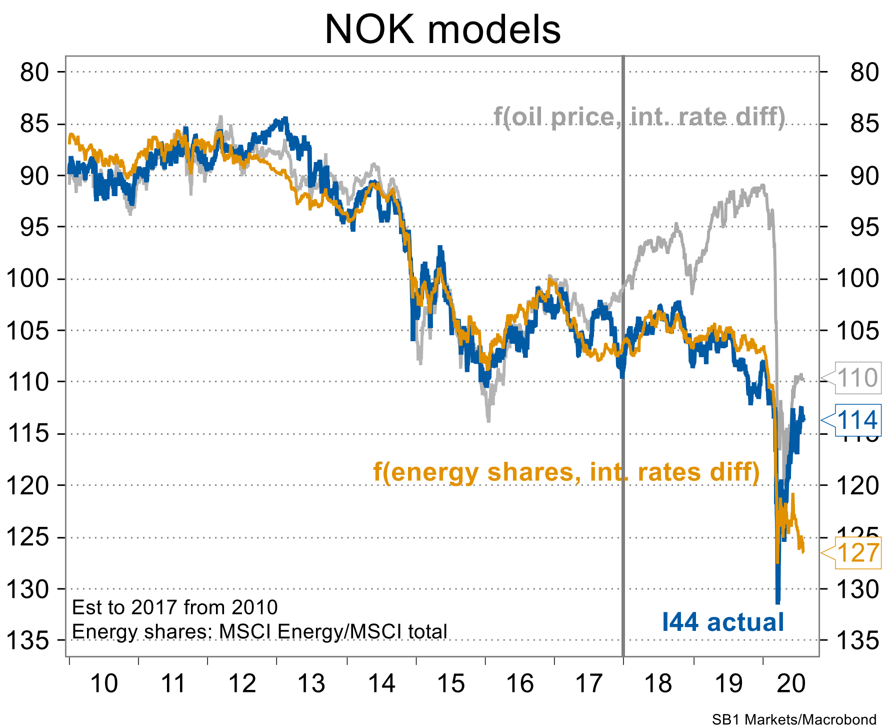
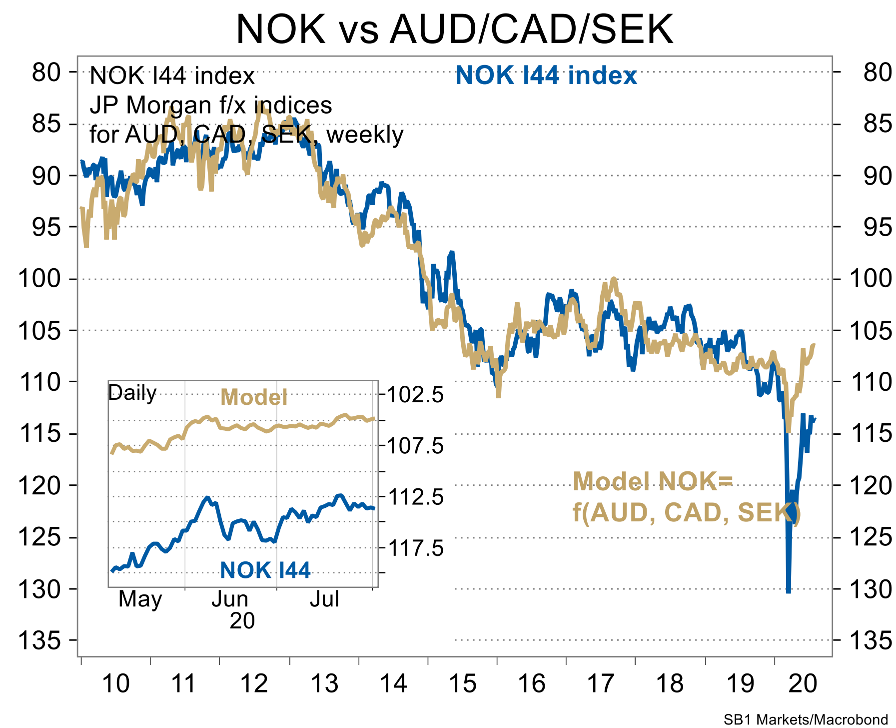
NOK 'stronger' than oil companies but weaker than the other supercyclicals

NOK is some 8% too weak vs the 'supercycle' model but 10% 'stronger' than oil companies

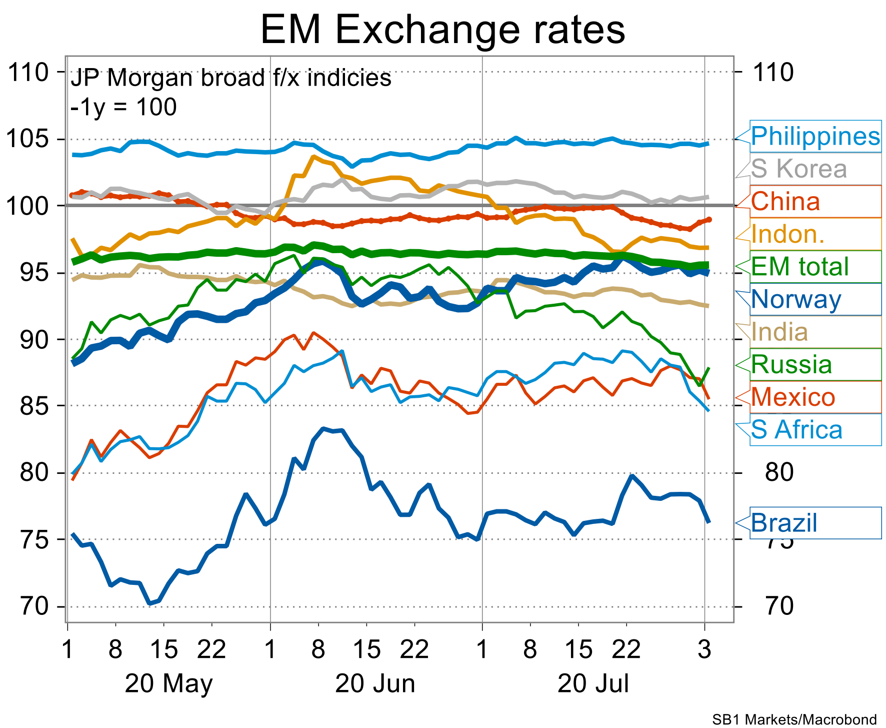


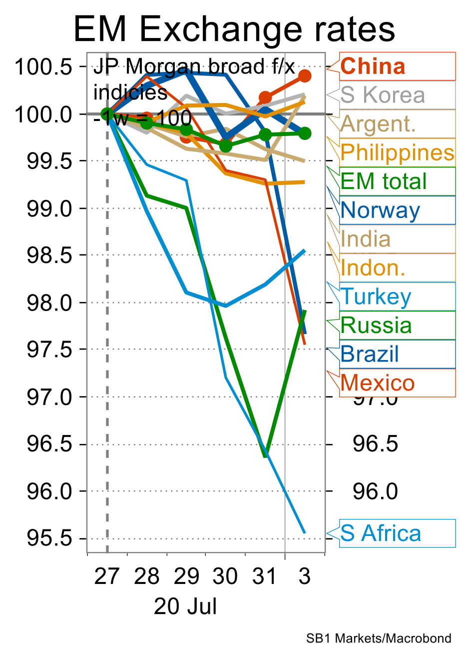


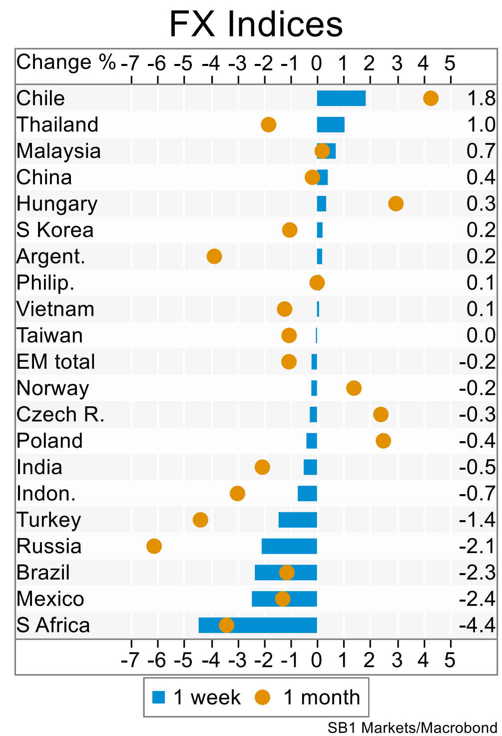
- Our NOK model based on pricing of oil companies has 'explained' the NOK much better than our traditional model since 2017, as have our 'supercycle' currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
- The NOK is now 10% 'too strong' vs the oil price model. Thus, one argument in favour of a stronger NOK is wiped out

EM f/x market volatile, in sum down last week (and month)

Russia, Brazil, Mexico, S Africa 2 – 4% down – but China up, 0.4%, after two weak weeks







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