28 September 2020

Macro Research

Week 40/2020

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The headlines are linked to the relevant section in the report
The elements on the the page "In this report" <u>are linked</u>
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Last week:

- **Corona news:** The number of new daily cases in the US continued to increase last week, following a decline by almost 50%. Hospitalisations and deaths are still low (vs. spring levels) – and the economic costs of turning the curve have been limited, the recovery has not stalled. The no of new cases in Europe is still increasing but at a slower pace. Some restrictions are reinstated but nothing close to the lockdowns back in March/April. Anyway, hospitalisations and deaths are running at low levels, even after a sharp increase in deaths the two last weeks.
  - In Norway, growth in cases has stabilized, and just 112 have been hospitalised since Aug 1, 9 patients have been treated in intensive care (4 in ventilators, no more than 1 at the same time, and none the past 15 days) – and out of almost 6.000 deaths since Aug 1, just 12 are corona related. Judged by these number, the corona virus is not a health challenge anymore. But it could become, of course, if the no of infected rose dramatically (say 20 - 50 times)
- **Global composite PMI** probably ticked down in Sept, we estimate a 0.6 p decline. Services PMI reported a slowdown due to renewed corona concerns and restrictions in Southern Europe. The manufacturing recovery is still picking up speed. EMU was the weakest of the countries/regions reporting this far, as the recovery stalled in Sept
- **US core durable goods orders** fell slightly in August after a strong comeback in June/July and the levels are still above the pre corona level (x aircrafts). Core investment orders signal a brisk recovery in investments in Q3. **Business credit growth** jumped in Q2, due to loan programs and high activity in the corporate bond market. Surprisingly, **household credit growth** fell. Total private sector surplus surged to 24% of GDP, public deficit to 27%! Both **new and existing home sales** further up, confirming a housing market boom. **House prices** (at least existing home prices) are going through the roof. **New jobless claims** steady at 870' last week, still a very high number!
- **The Swedish Riksbank** signalled no changes to its monetary policy, as expected. The bank expects to hold the interest rate at 0% throughout the forecast period (until late 2023) and inflation to remain below 2%
- **Norges Bank** held the interest rate path unchanged in 2021 and raised in marginally in 2022, still signalling the first hike in H2 2022 (opening up for a Q3 hike, from Q4 in the June MPR). Market rates fell slightly, but remains above NoBa's new path The bank made just minor revisions to its f'cast on GDP , the output gap and unemployment, but significant revisions to the demand details. Private consumption is expected to be the main growth engine the coming years. **LFS unemployment** was unchanged at 5.2% in June-August and the uncertain, monthly figure fell to 5.0% in August. Employment is recovering marginally while the LFS reports a steep rise in hours worked. We are not sure to trust these data. The decline in weekly registered unemployment is slowing, unempl. rate at 3.8% last week. **Housing starts** have edged up recent months, according to SSB and the Homebuilders have been reporting a steep rise in sales, suggesting a further increase in starts. The **NOK fell further last week**, and more than the oil price, oil equities or other 'fundamentals' can explain. Our closes f/x friend, the AUD, has fallen sharply too, but less than the NOK

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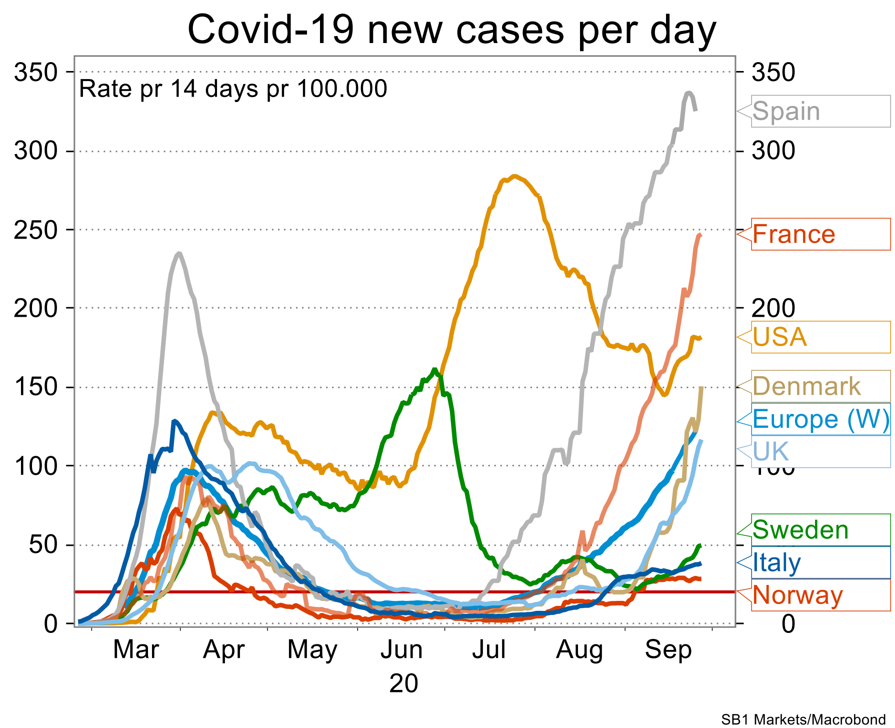
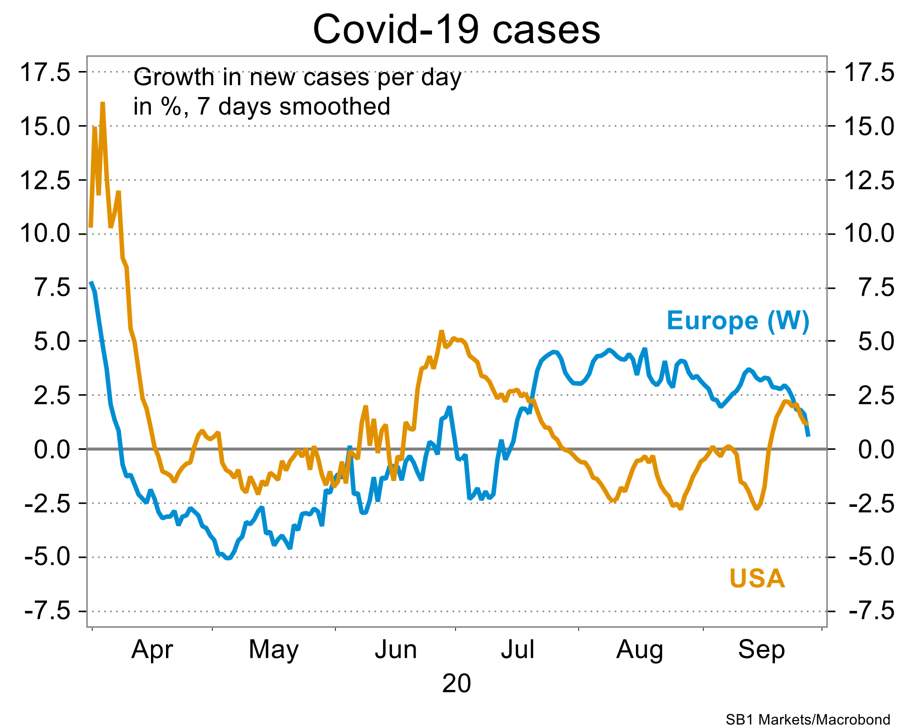
New cases further up in the US, Europe slows a tad but UK, Sweden, Denmark up

The US curve has turned up again. Spain a disaster, UK, Denmark straight up





- **The number of new cases in the US** has been moving down since late July. The number of new cases has turned up again the past two weeks, in several states. No of cases still not higher than in late August and the number of hospitalised patients and the number of deaths are increasing just marginally. These levels are low and trending down. Most likely, the curve will soon tilt down again**. The economic cost of successfully turning the curve in the summer was limited**
- Growth in new cases in **Europe** has slowed somewhat but the 'R' remains above 1. Clearly, more measures are still needed – but the public seems to lose patience several places. The no of hospitalisation & deaths up but remains low, deaths equal <3% of all deaths

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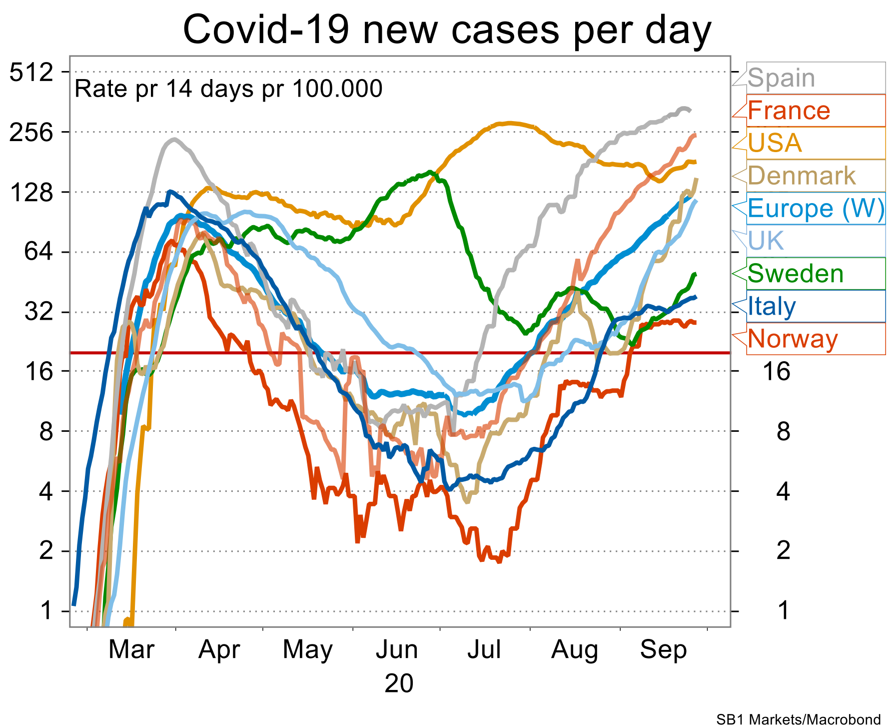
UK, Denmark and Sweden steeply up, Norway stabilized

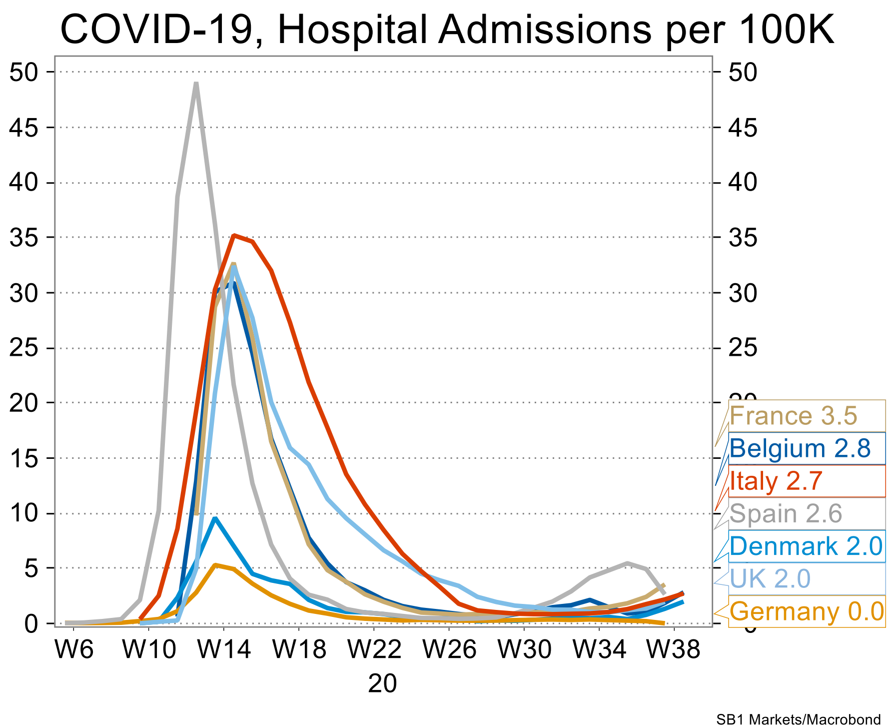
We are all in the 'red zone'. No of new cases in Denmark now higher than March peak, UK close to

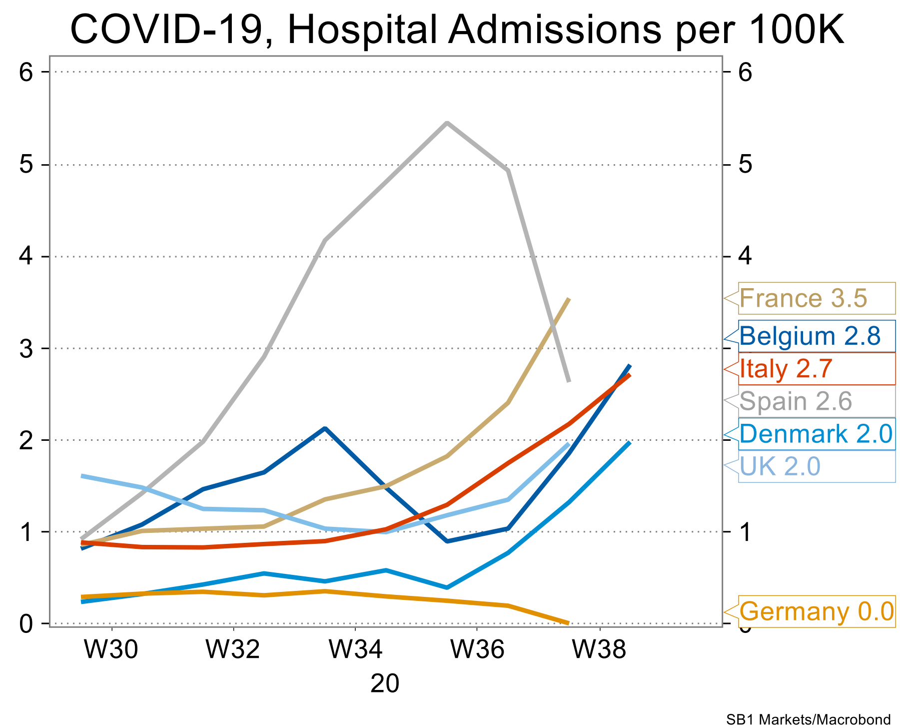


- Demark has announced some new restrictions, like Norway. Last week, the UK announced new restrictions as well
  - » Sure, the real number of infected is far below the March/April level, due to large increases in testing everywhere
- The no of new cases has stabilized in Norway the past three weeks. New has risen more than 10x from the July trough, but is lower than in most other European countries

Corona is not a health problem, at least not yet, still very few hospitalisations

But sure, it was a huge challenge back in March & April & it may become a challenge again

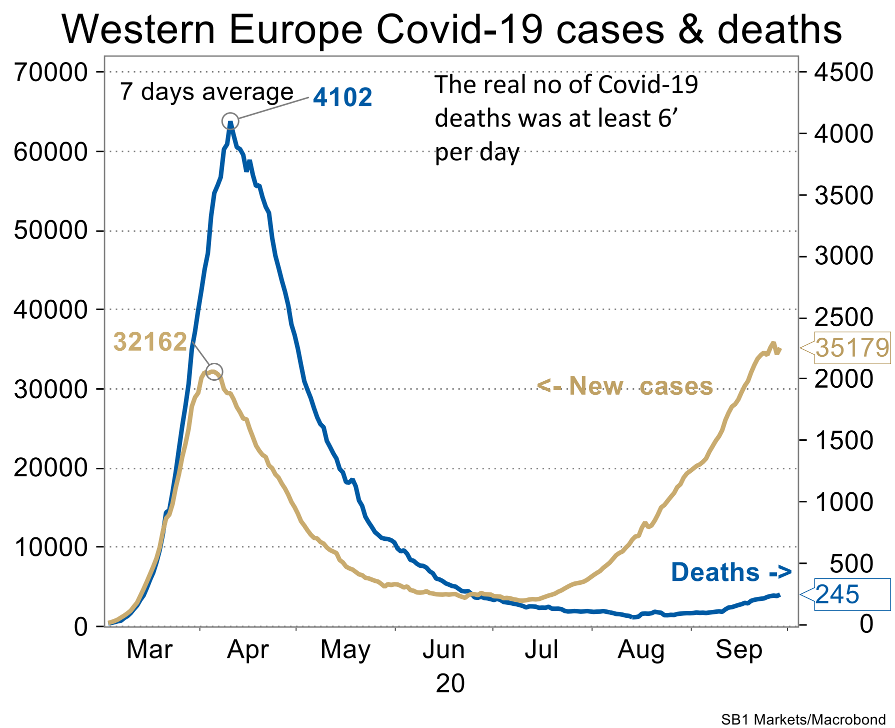


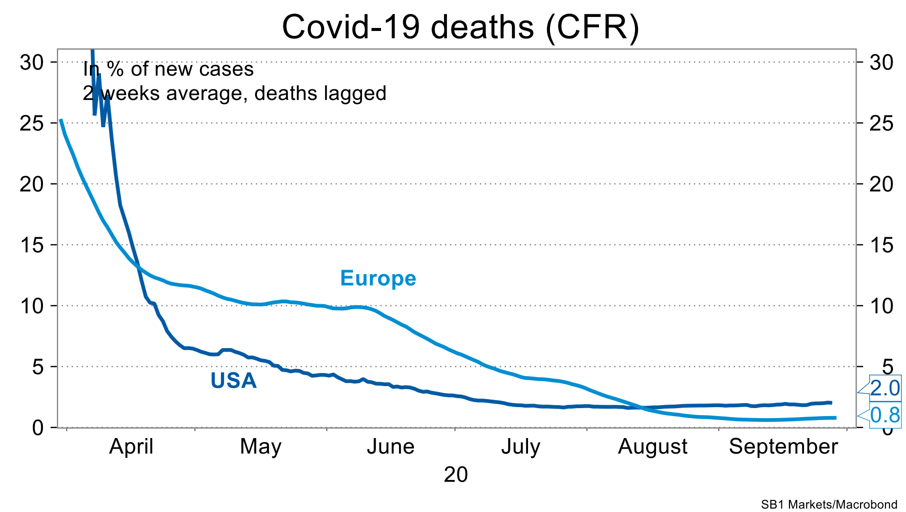


- However, now hospital admissions are running at very low levels, at least the national averages – and we are still far away from running into serious problems. If the virus is allowed to spread at a high rate for a while, it could become a serious problem again
- The last data point may be preliminary

More Covid deaths in Europe but still few, just 2.5% of total deaths

The CFR at 0.8% - from 10 – 20% during the spring, but more deaths the past two weeks





- The number of deaths in Europe has increased sharply since early Sept, to 245 per day from below 100
  - » The number was highest in Spain, followed by France and UK (all up more than 2 x)
- Still, Covid-19 deaths equal <3% of the daily number of the 9.000 deaths per day in Western Europe. Do not forget: That was not the case in early April, the no of death was 70% higher than normal due to Covid-19 (40% of all deaths were Covid-19 related)

- The test regime is far more rigorous now than during the spring, where the real no of infected was many times higher than the no of positive tests. The 'real' death rate was miles below 25% at the peak. However, it seems unlikely that the death rate back then was far less than 1% as the health system was overwhelmed with patients
  - » The present number of deaths is not visible in overall death stats in any European country
- In addition, the number of hospitalisations is a small fraction compared with the levels during the spring and hospitals can return to their normal activities
- We assume that over the coming weeks, the number of really sick patients, and corona related deaths will become the main gauge of the corona crisis (as it was during the spring), and the focus at number of new case number will diminish

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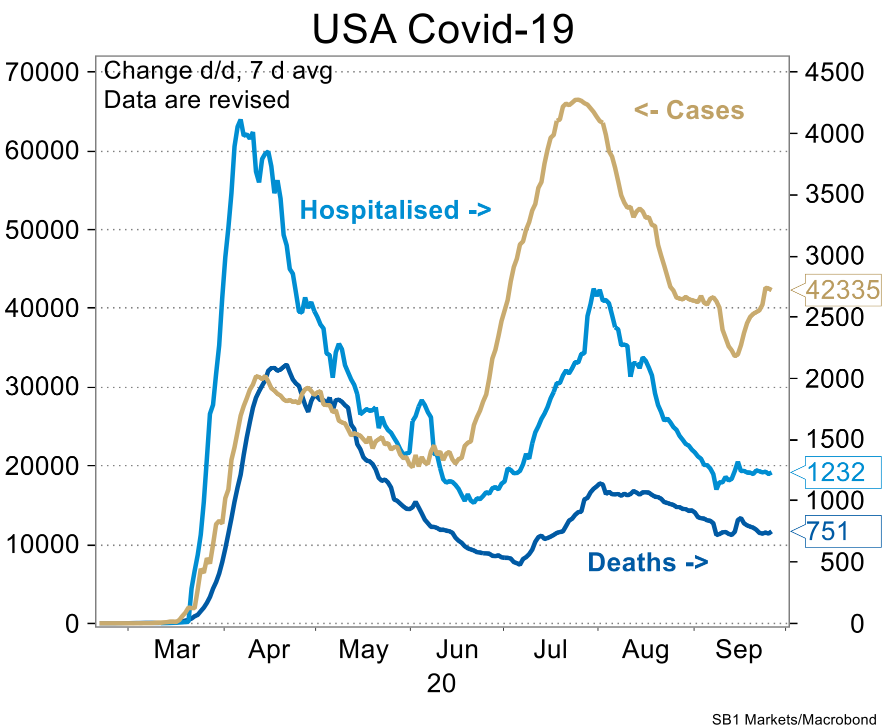
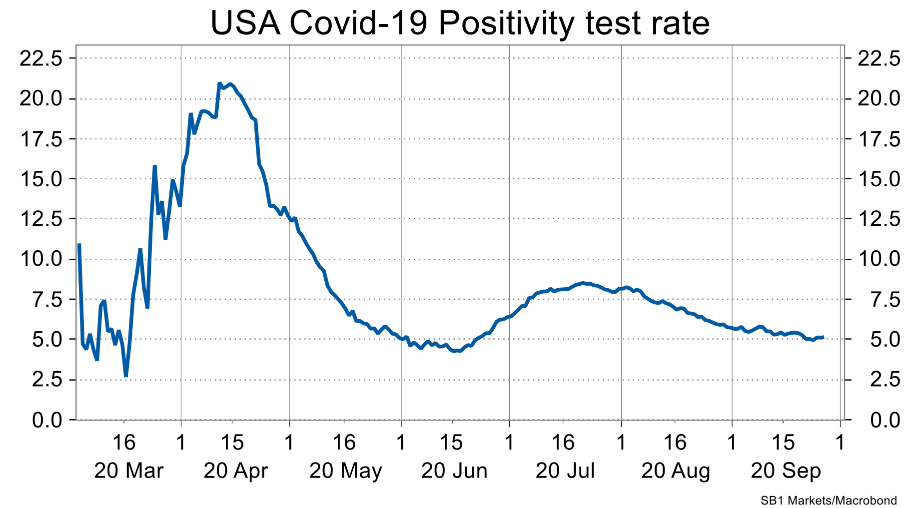
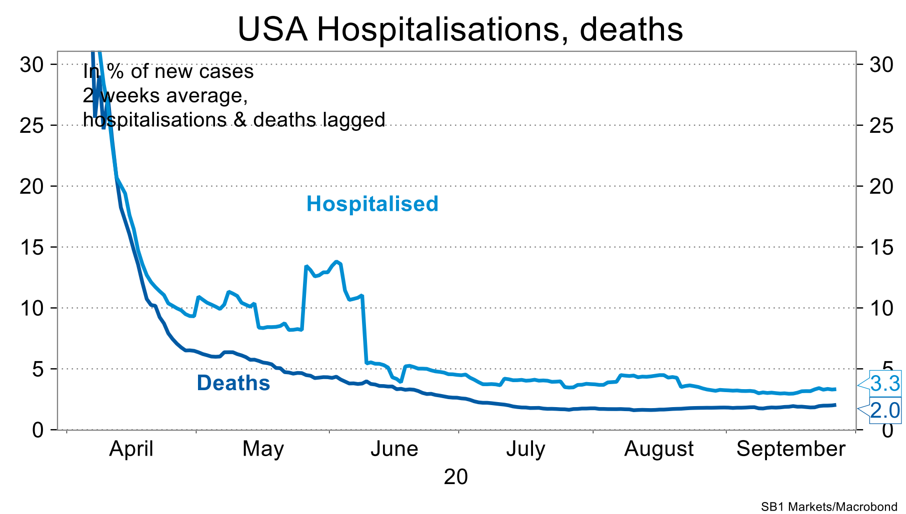
USA: Hospitalized & deaths has stabilised, level still low vs April/May

Cases up, but hospitalized and deaths still flattish, following the decline since early August







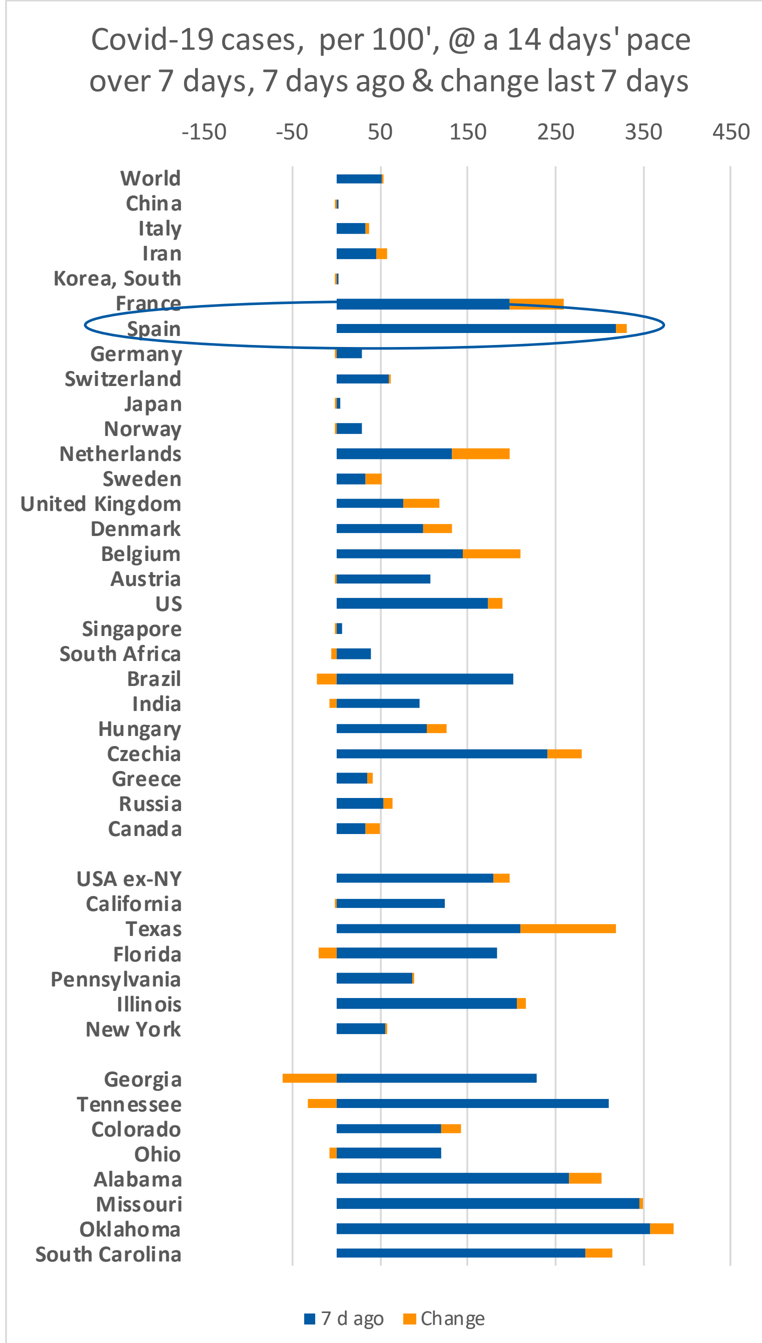
- The hospitalisation rate is far lower than during the early phases of the pandemic but has not fallen further the past two months
- The death rate (CFR) fell sharply until late July but has since flatted out and now increasing marginally – at 2%. In Europe, the CFR inched up to 0.8% last week (and it is half of that again in Norway). This indicates that just a fraction of new cases in US are discovered (or that the European version of the virus is less aggressive). A rather high (but not increasing) positivity test rate at 5% also indicates a much higher infection rate than in Europe

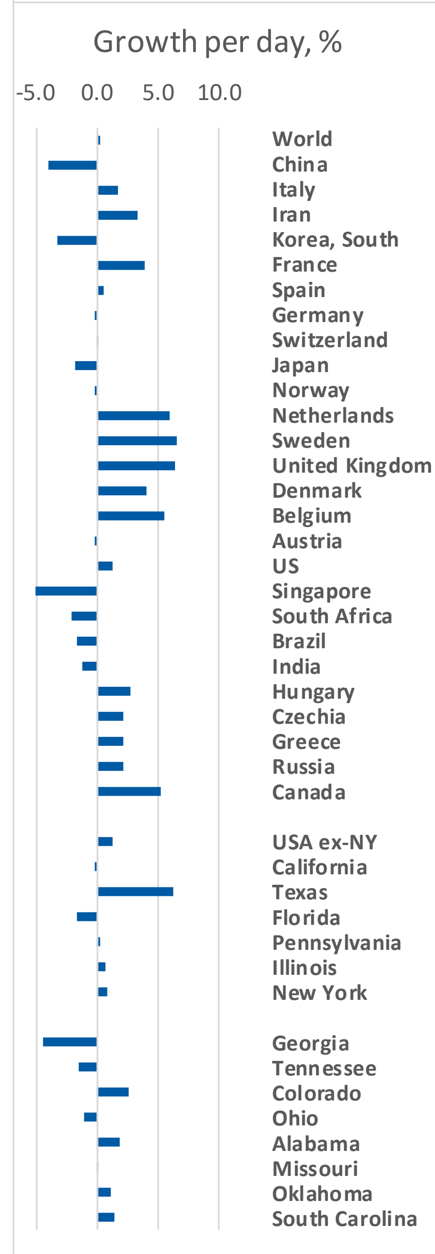
Covid-19

US & the rest: A comparison

It won't lay down…

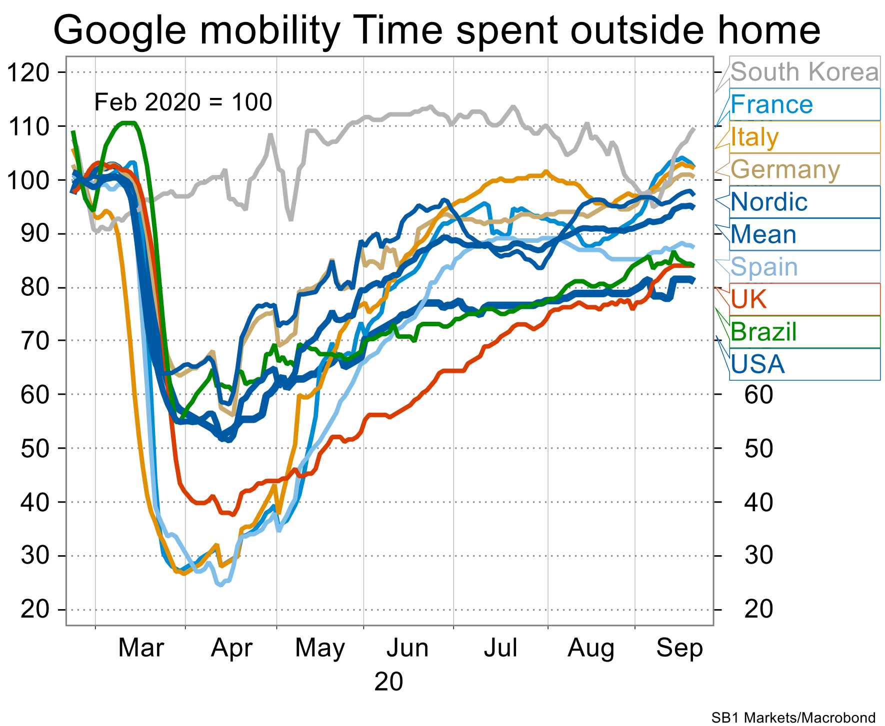
- Still most countries are reporting a further increase last week:
  - » US is well down from the July peak but up the past three weeks, led by Texas
  - » In Europe, cases are increasing but growth is slowing down. Spain is reporting by far the highest number but growth has at least slowing somewhat
  - » Netherlands, UK, Denmark and Sweden reported the highest growth rates last week
  - » The no of new cases in Norway has stabilised over the past weeks
- We do not trust all of these data
  - » There are changes in test policies & capacity
  - » Some countries do not report properly

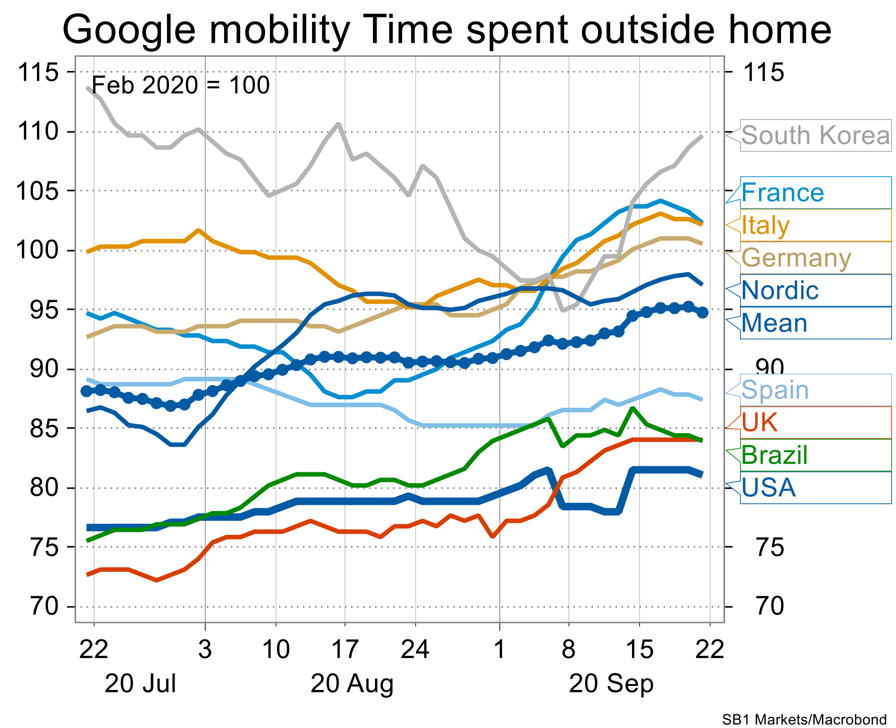




Time spent outside home on the way up, most places

Data are volatile and seasonality may be fooling us now, at least vs. any relevant economic analysis

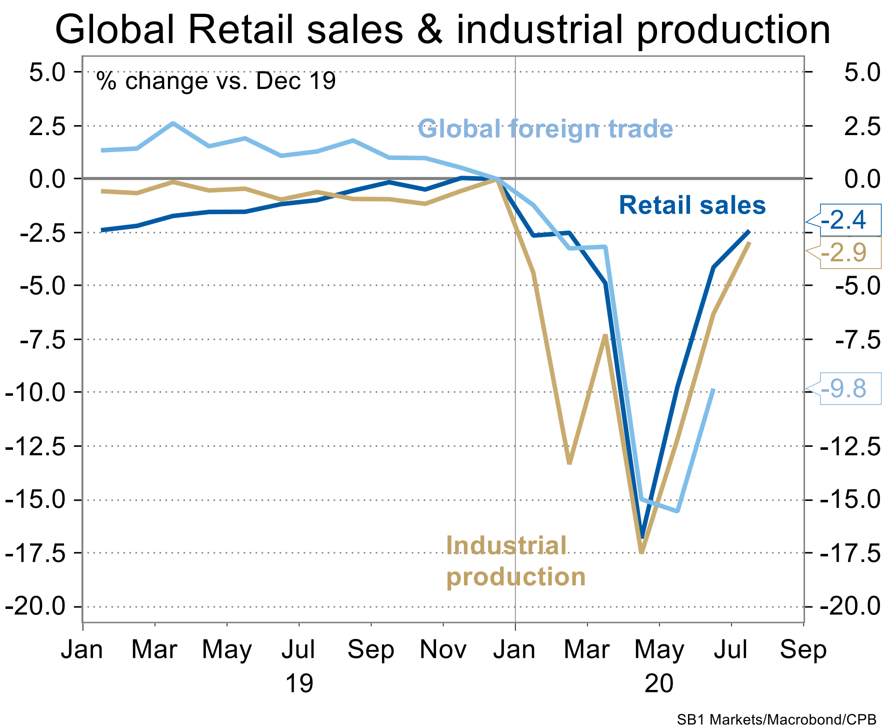


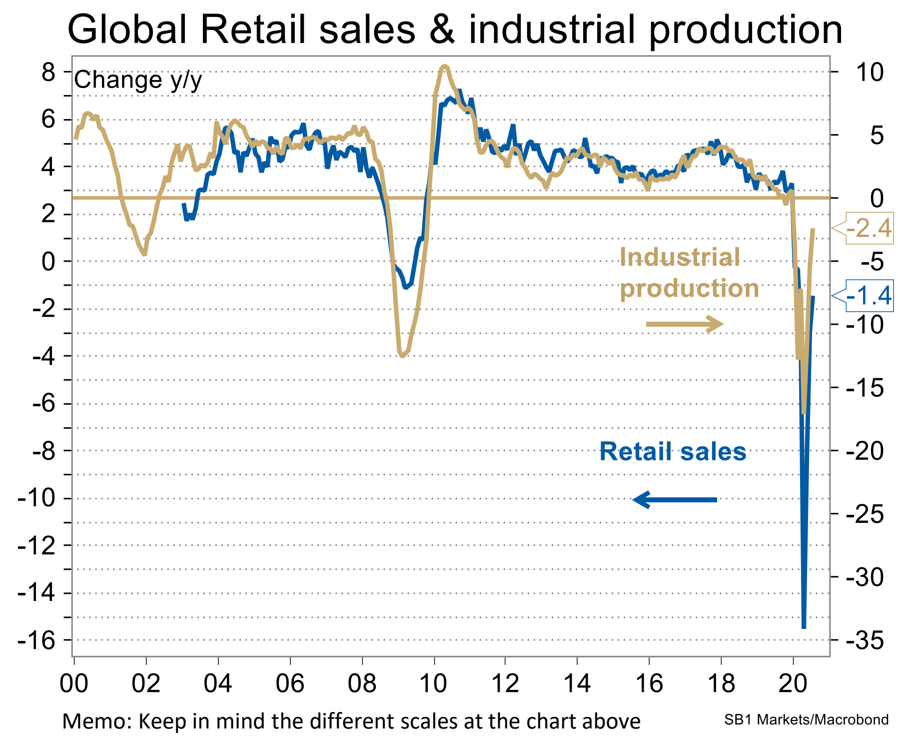


- The Nordics are quite similar, except for the 2 – 3 weeks from mid March when time spent outside home fell less in Sweden than in Denmark and Norway

Industrial prod, retail sales further up, both still below pre corona trends

July retail sales were just 2.4% below the Dec 19 level in July, manuf. production 2.9% below



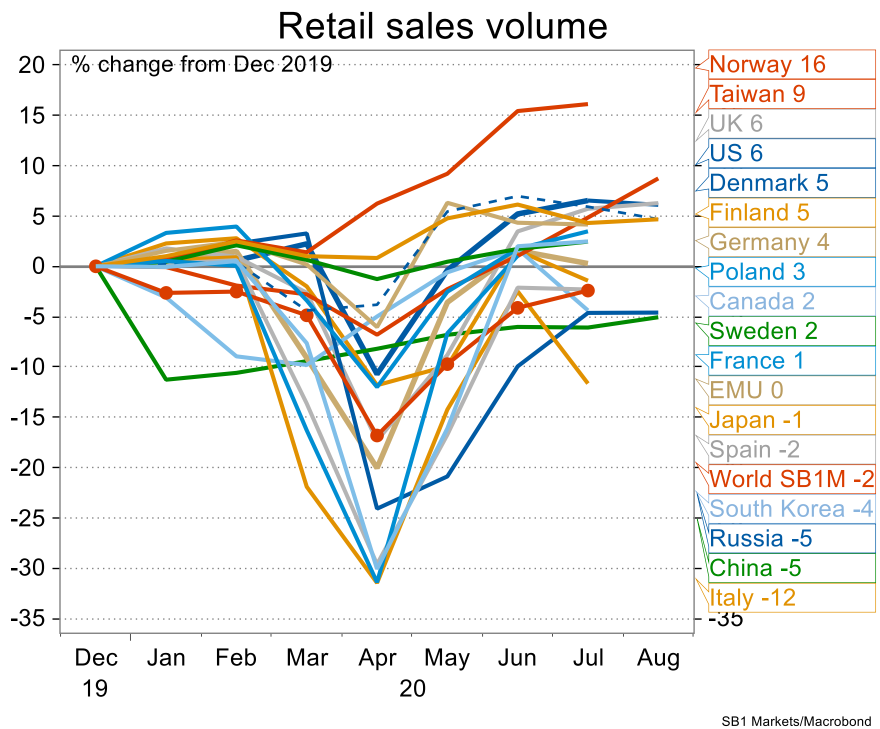


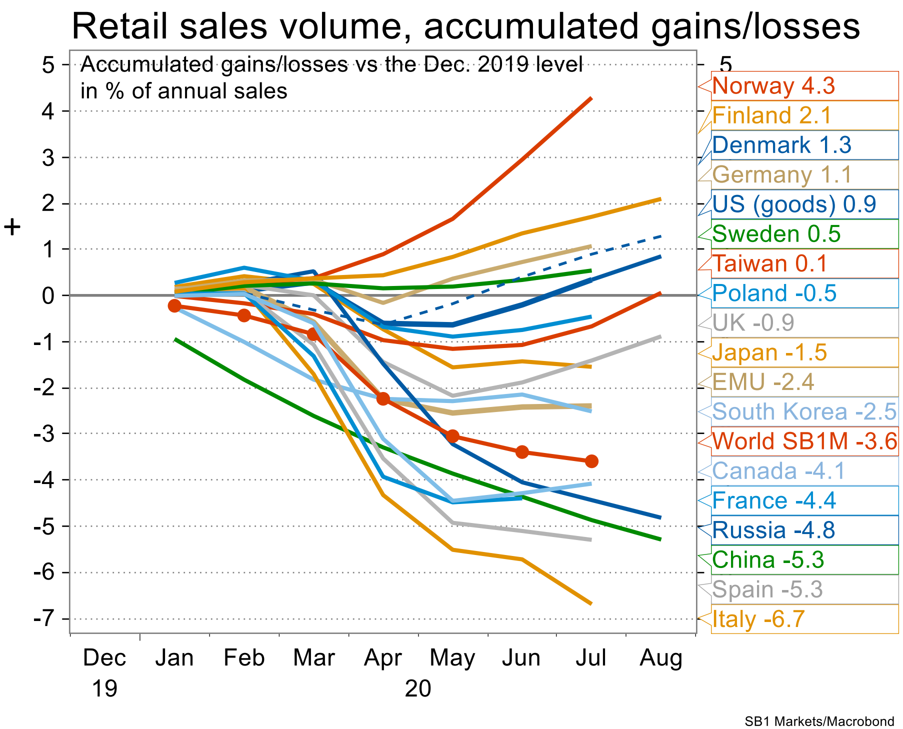
Memo: Keep in mind the different scales at the chart above

- Global retail sales grew by 1.8% m/m in July, according to our estimate, after rising 6% in June. Sales are 2.4% below the pre corona (Dec) level (but on par with Jan/Feb). Sales in many DM countries are above the Dec level, China (and probably India is still well below
- Industrial production rose 3.6% m/m in July (our est), from 7% in June. Production is just 2.9% below the pre corona level
- Global foreign trade shot up 7% m/m in June but was still 10% below the pre corona level. No July data but national data suggest a further, substantial lift

Global retail sales are on the way back to pre corona levels

Sales are above the pre corona level in many countries, even accumulated through the 'crisis'

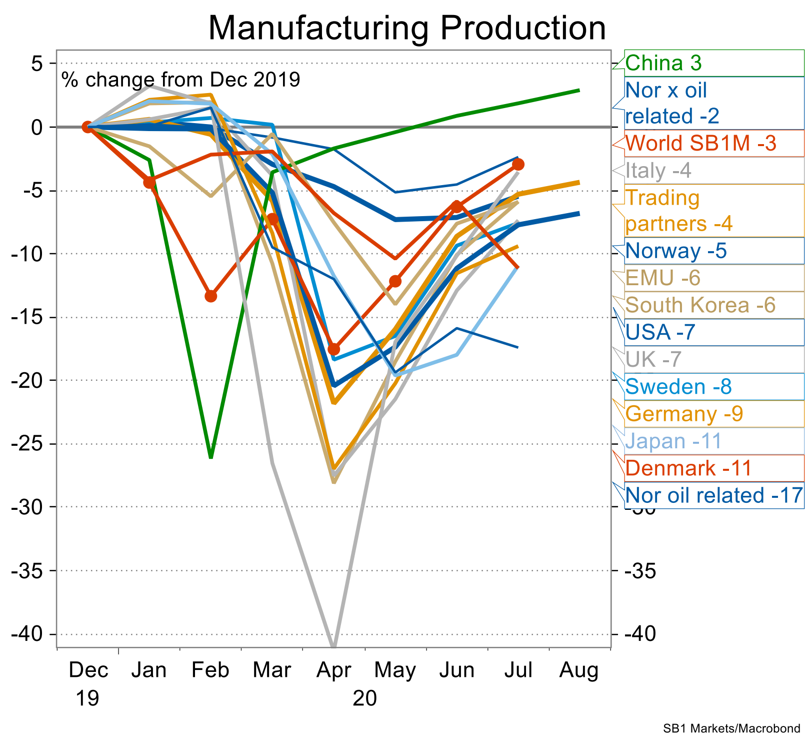


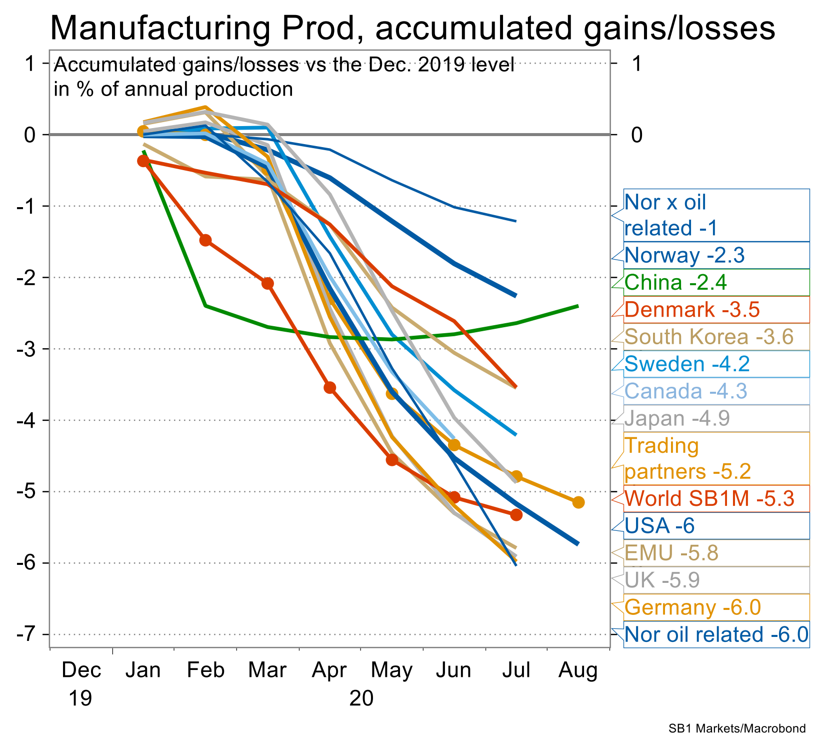


- Global retail sales were just 2% below the pre corona level in July. Most countries are now reporting higher sales than before corona hit. Norway is in the lead, big time
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 6% above the pre corona level in August but total sales during the first six months of 2020 were still 'just' 0.9% above the pre corona level, measured in % of annual sales, due to the losses during the spring
- Consumption of services are not included in these retail sales data – and service consumption has fallen sharply, everywhere

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

Production rose by more than 3% in July and the gap will probably be closed within a month or two





- Manufacturing production was down 3% vs. the Dec level in July
  - Compared to the Dec 19 level, China is in the lead (3% above the Dec level in August) followed by Norway and the US. Norway oil related manuf. at the bottom, followed by Denmark, Japan and Germany
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 7 % below the pre corona level in Aug. Total production during the first 7 months of 2020 was 6% below the pre corona level, measured in % of annual production. *This illustrates the loss of production during the corona crisis, so far*
- Service sector production is not included in these retail sales data – and service consumption has fallen sharply, everywhere

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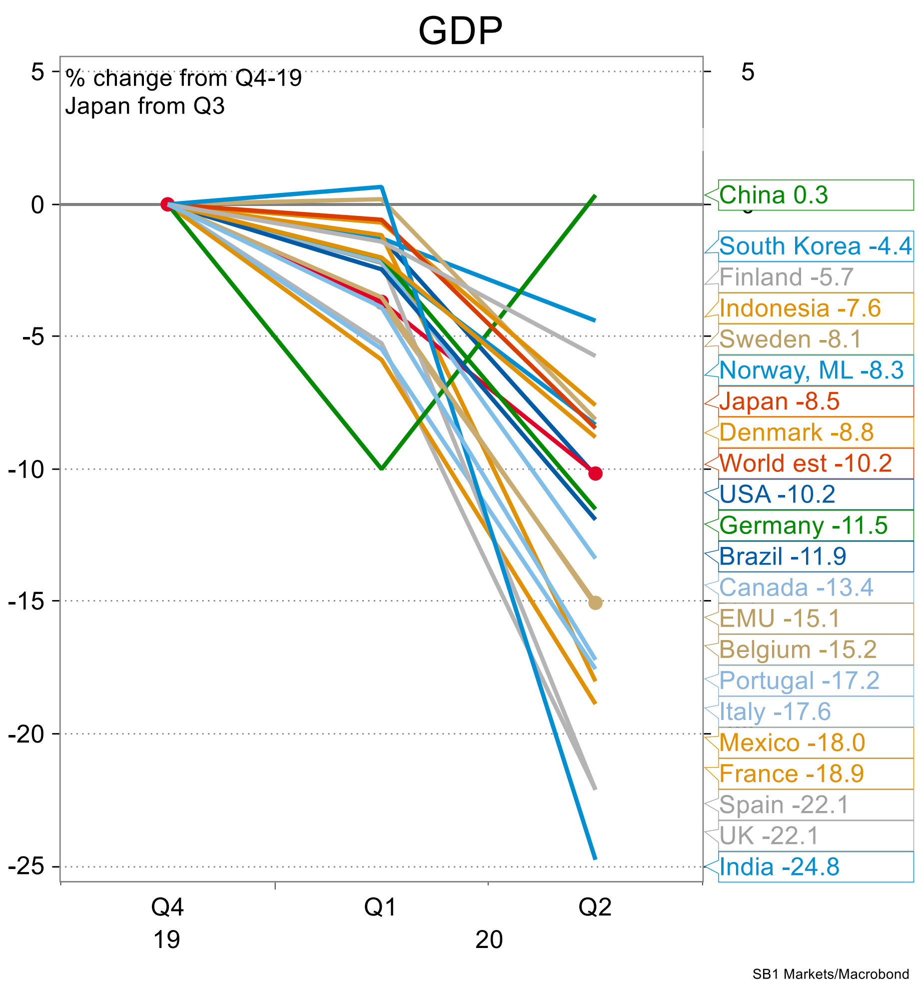
Global GDP down 'just' 6.7% in Q2 but down 10% v. Q4

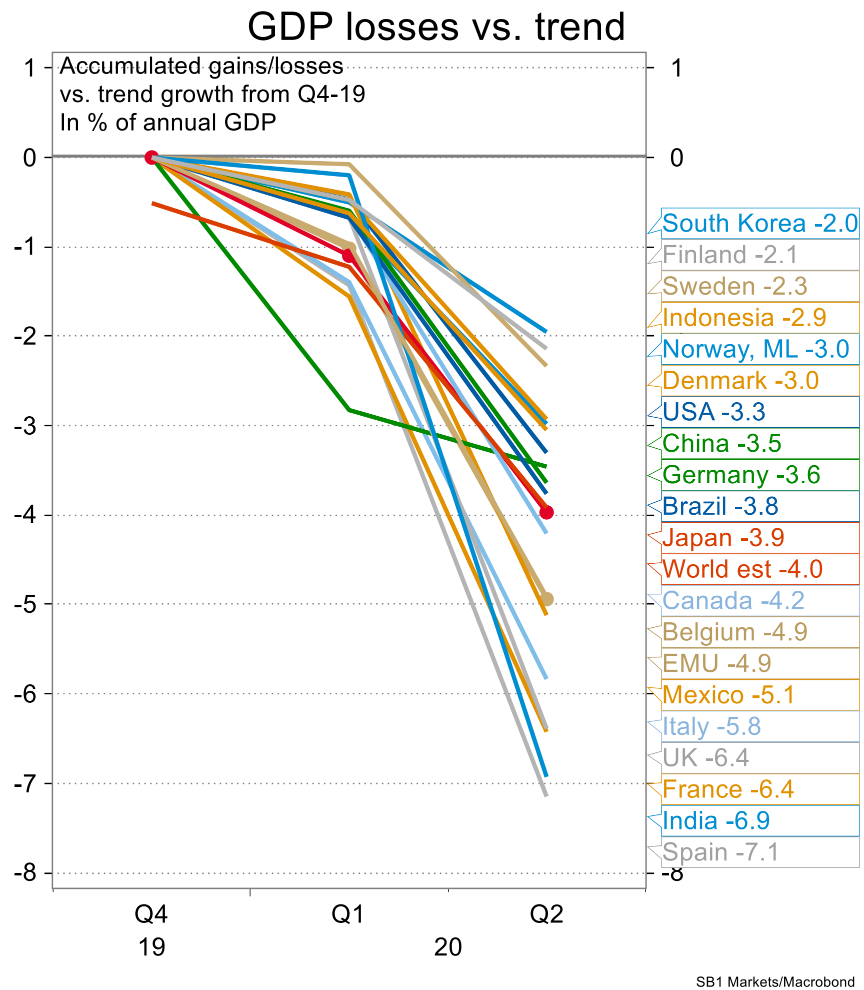
Except China, all countries we follow have reported lower GDP

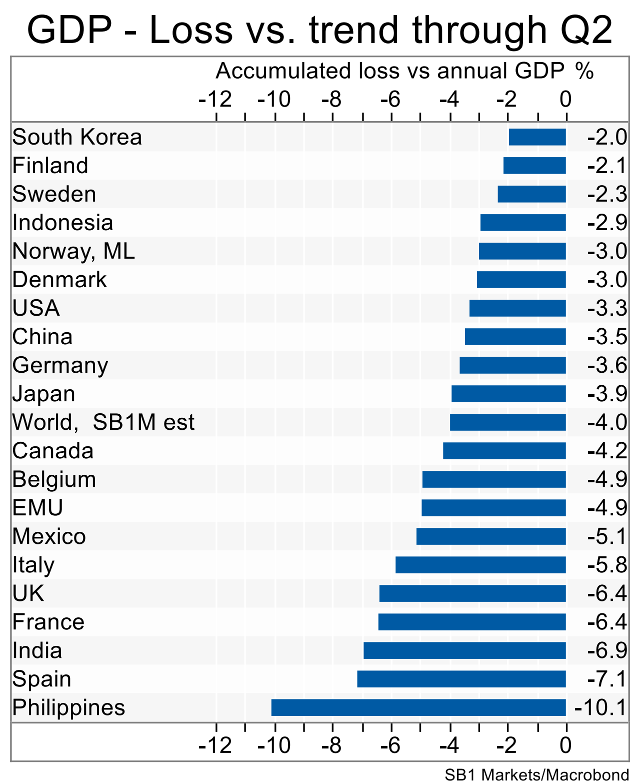


- Global GDP declined by 3.7% in Q1, of which almost 2 pp due to China alone
- China has reported a 11.5% growth surge in Q2, bringing the GDP level up to slightly above the Q4 level
- In most (all?) other countries, GDP fell sharply in Q2 – and global GDP probably fell by approx the same amount as in Q1, or a tad faster
- If so, global GDP has fallen by 10% from the Q4 2019 level, and it was 10% below the pre corona trend path (see chart next page)
  - China up 11.5% q/q, and is up 0.3% from Q4
  - US down 9.1% q/q
  - EMU down 11.8% q/q
  - UK down 20.4%
  - Sweden down 8.3% in Q2, Denmark 7%
  - Norway Mainland down 6.3% in Q2, 8.3% from Q4
- As production and demand recovered through Q2, we estimate that June was some 4 – 5% below the Q4-19 level
- *Our July global nowcast is for a further expansion in activity, and a 2 – 4% shortfall vs. the pre corona level and 5 – 6% negative output gap (check next page)*

The accumulated losses vs trend growth so far equals 4% of global GDP

... and it will grow larger in Q3 as the activity most places will remain far below the pre corona trend





- So far, Sweden has lost less than most other countries, barring South Korea & Finland (!)
- Norway close to the top of the list too, ahead of Denmark (and the US)
- Spain has reported the largest loss in DM

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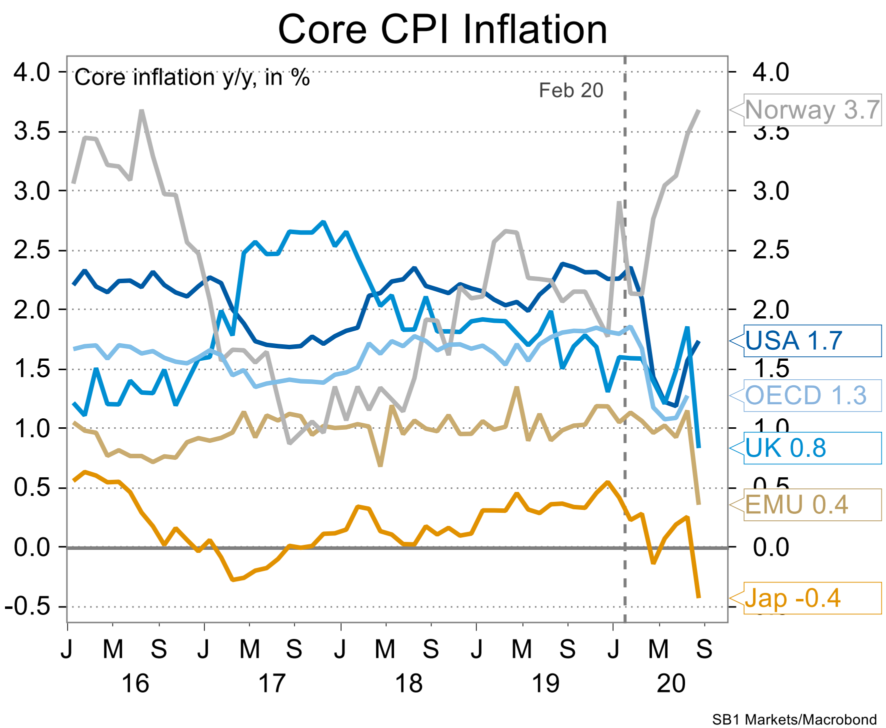
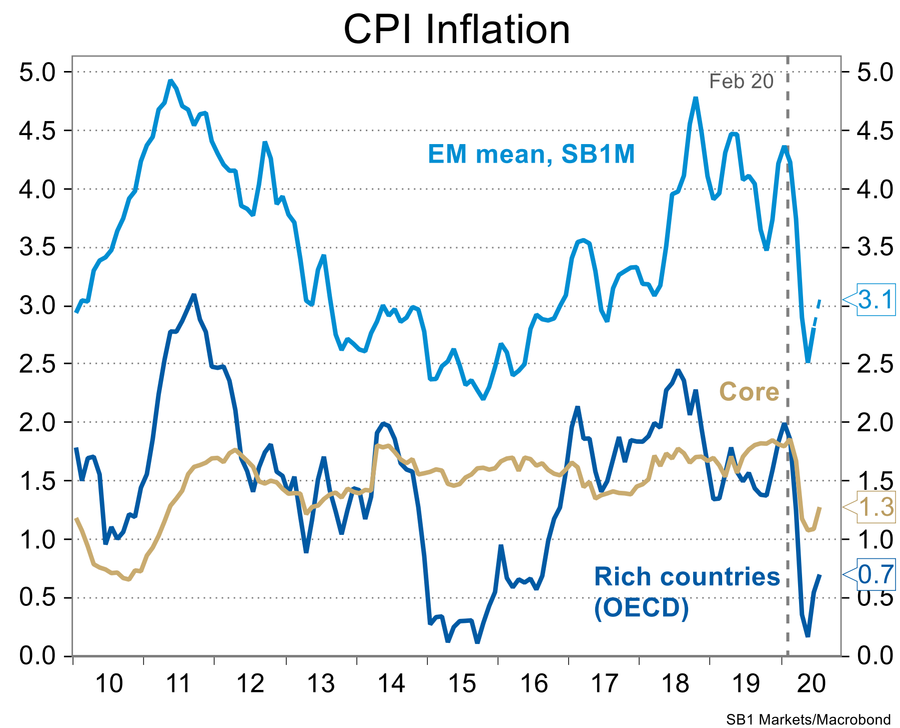
The inflation impact has so far been a downward shift – Norway the exception

Some temporary factors such as VAT cuts have contributed, we are not too worried about deflation

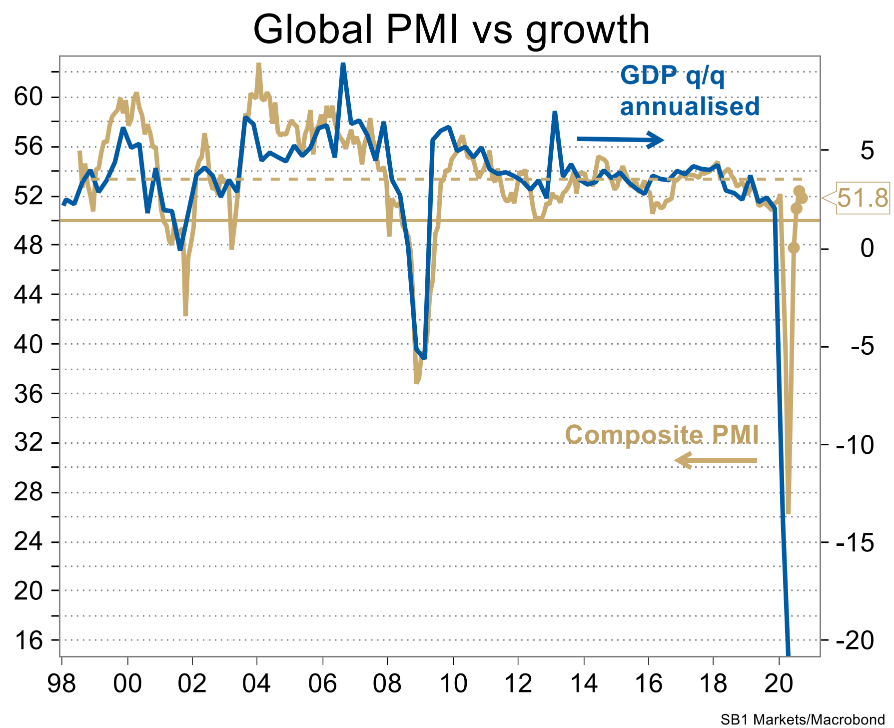


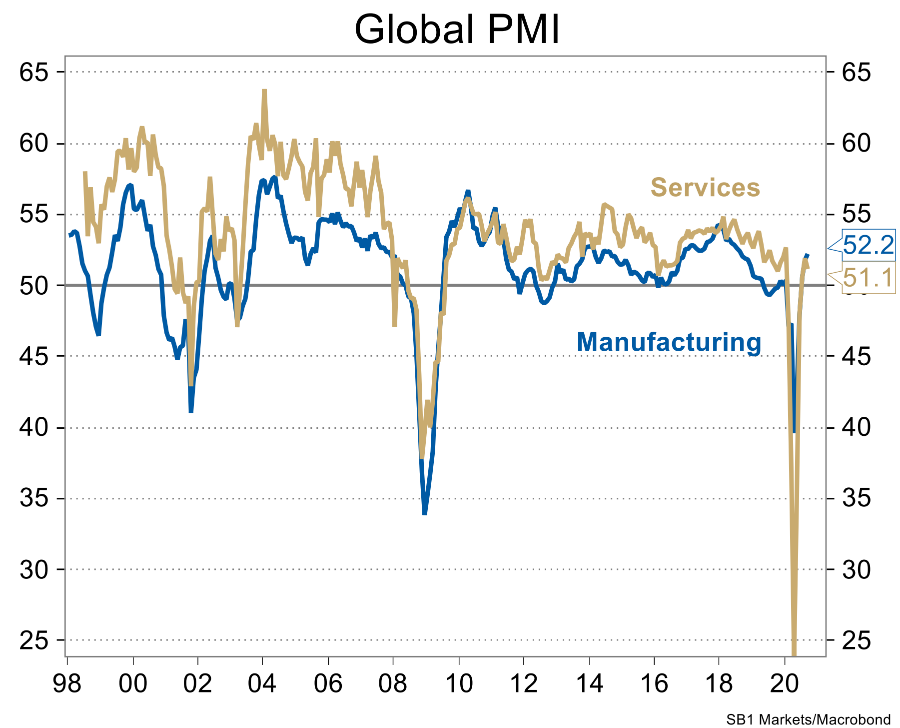


- We expect core inflation to pick up the coming months as demand is recovering most places
- Some country spesifics
  - » The decline in EMU core inflation is due to the German VAT cut
  - » The decline in Japan core inflation is due to heavy subisides for domestic holiday travel

Global composite PMI a tad down in September, due to weaker services

We estimate a 0.6 p decline in the global PMI. Still a low level in the 'sharpest recovery ever'





- Global manufacturing rose marginally (our est) while services weakened modestly. Concerns about Covid-19 and reintroduction of restrictions in many countries, particularly in southern Europe, have likely been hampering activity
- The PMI respondents may still be reporting somewhat between growth (which is strong) and the activity level (which is still below par) – and we do not trust these indices to be used to estimate the growth rate
- The EMU composite PMI fell by 1.8 p in September, US down just 0.3 p. Japan a tad up, from a very low level

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

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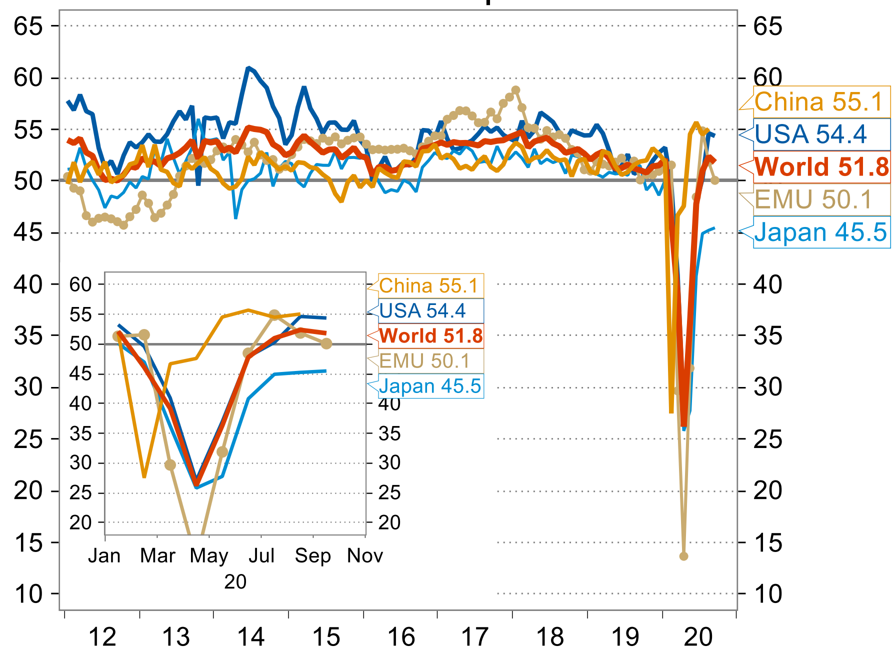
The recovery stalled in the EMU in Sept, US growing steadily, Japan still weak

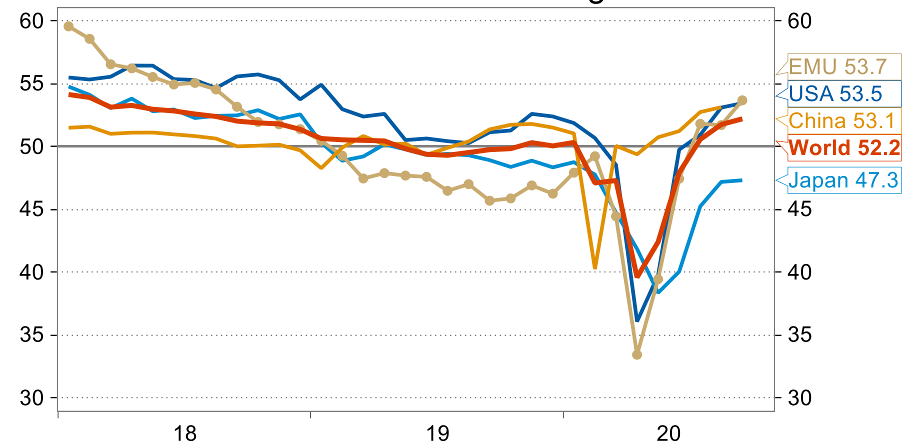
Services reported slower growth in the EMU, UK and marginally in the US, manufacturing slowly up

PMI Composite



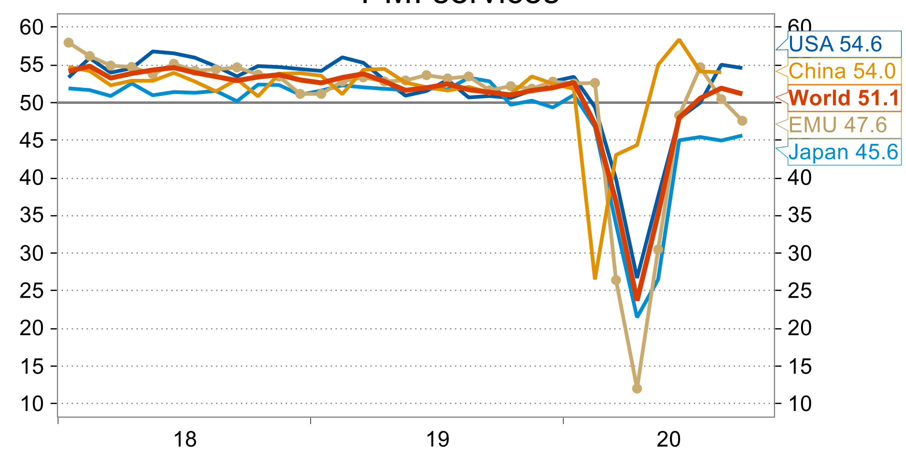
Source: IHS Markit, SB1 Markets, Macrobond

PMI Manufacturing



Source: IHS Markit, SB1 Markets, Macrobond

PMI services

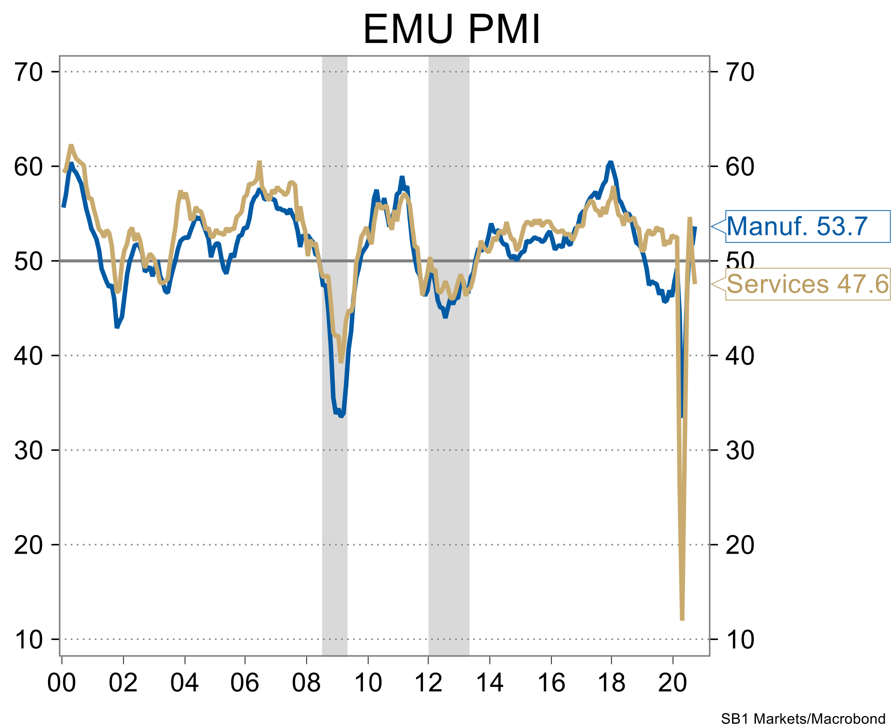


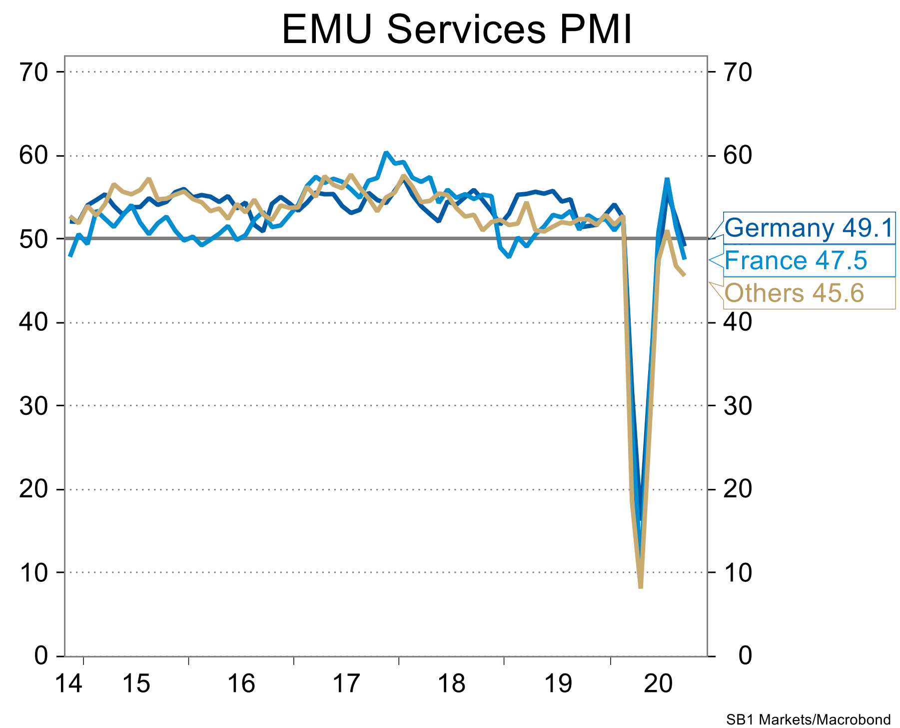
SB1 Markets/Macrobond

- In the EMU, services fell back in contraction mode, no doubt due to stricter corona measures
- In Japan, both manufacturing and services are reporting continued decline in activity
- The US composite PMI (from Markit) fell marginally
- UK PMIs (not included on these charts) weakened but both manufacturing and services are at decent levels

Services back in contraction mode, new corona restrictions to blame

The manufacturing recovery is gaining speed but services reported a decline in activity, again





- Services PMI fell to 47.6 from 50.5, the second month of decline. Activity is most likely hurt by the second wave of corona cases which started in the summer, and more restrictions imposed in many countries. The services decline was broad, the implicit average of other countries than Germany and France (read Italy and Spain) is having the most trouble
- The manufacturing PMI rose more than expected, to 53.7. Still, the current level does formally not imply any impressive recovery given the 6-7% gap to a pre corona production level. Total Eurozone PMI pushed up by Germany, PMI up 4.4 p to 56.6 in Sept

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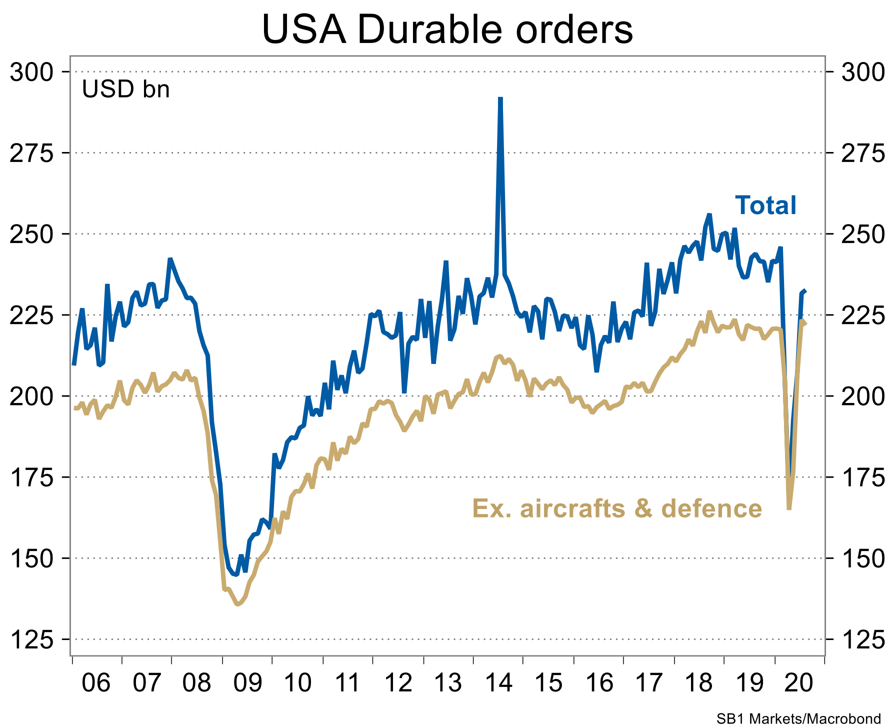
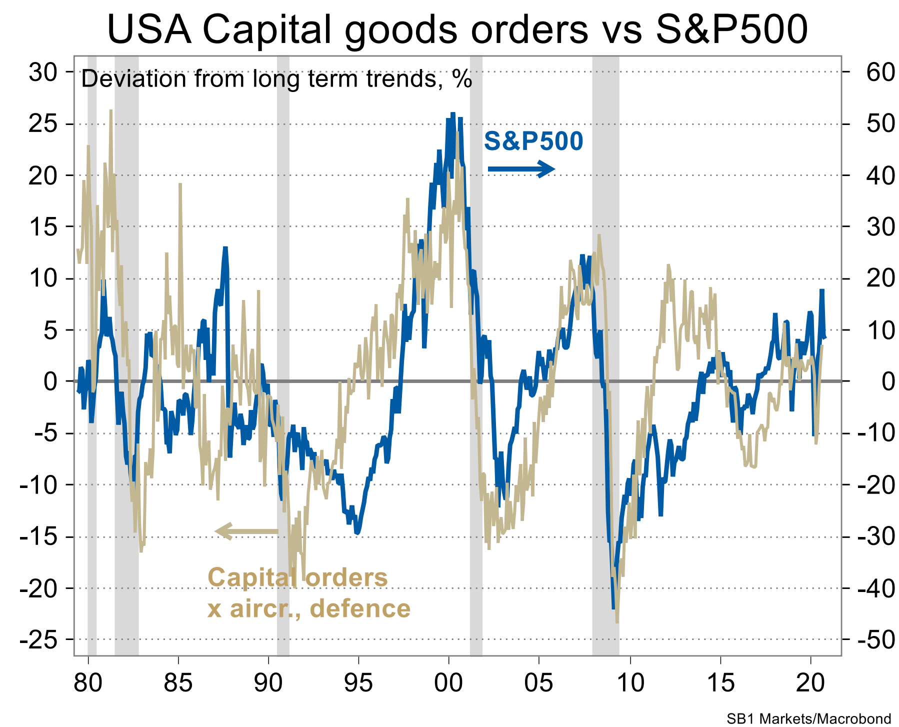
Core durable orders slightly down in Aug, still above the pre corona level

A narrow 'V' shape! Investment goods orders ex aircrafts continue to recover, aircrafts not

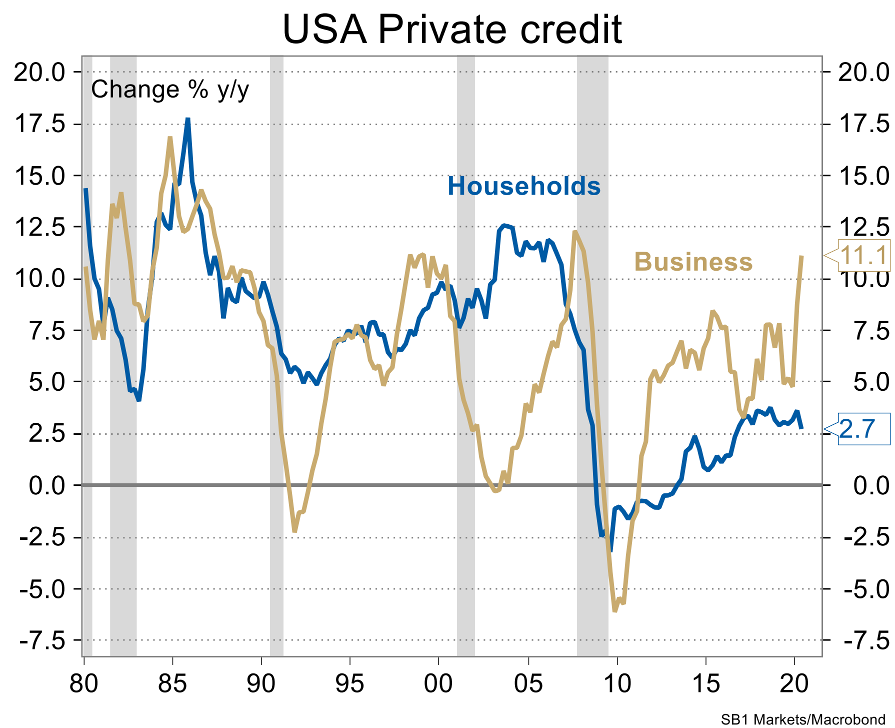


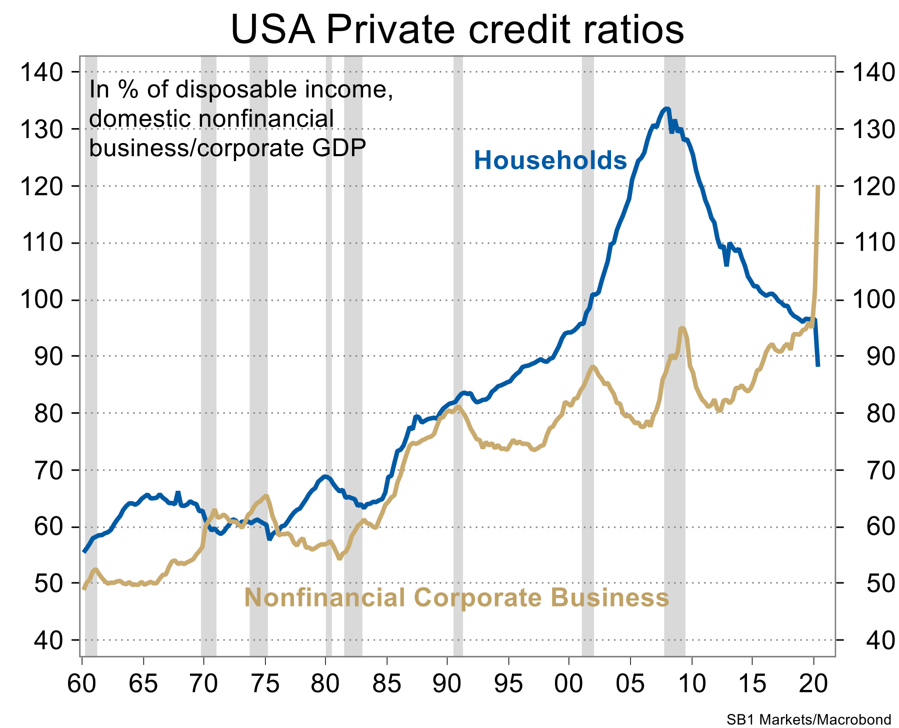


- Core durable orders fell by 0.8% m/m in August, not bad following an 8% rise in July and 17% in June!
- Total orders inched up. Airline orders still the main drag, more cancellations than new orders in Aug too
- Core investment goods orders rose another 1.8% in August, suggesting a rapid recovery in Q3, by close to a 40% annualised rate, record high, of course. In Q2, investments fell by 26% (annualised)

Corporate credit growth shot up in Q2, households slightly down

Corporate debt up 11% y/y, highest since 2008. Surprisingly, household debt growth slowed to 2.7%

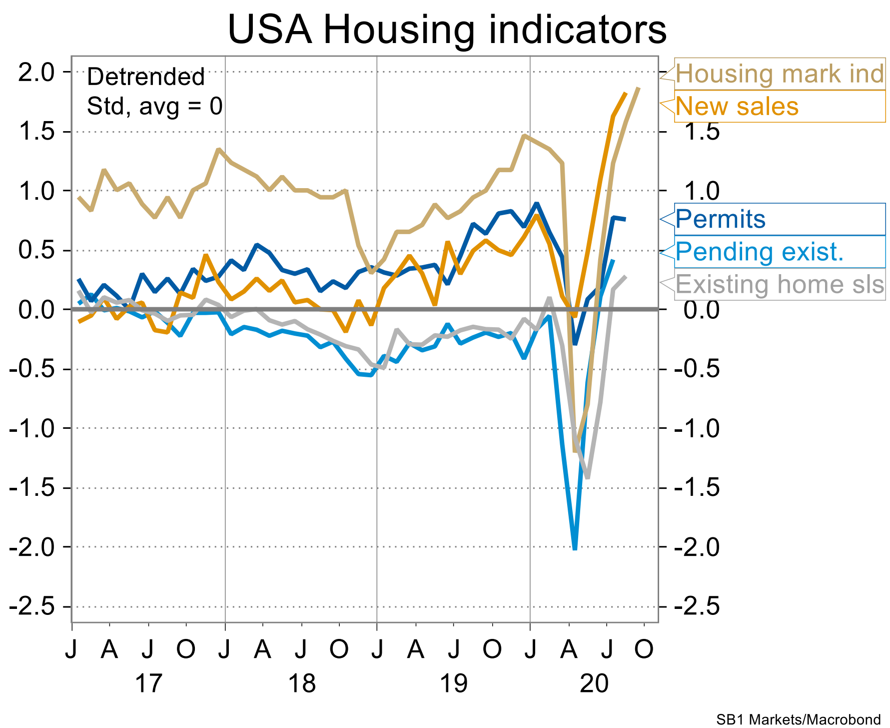


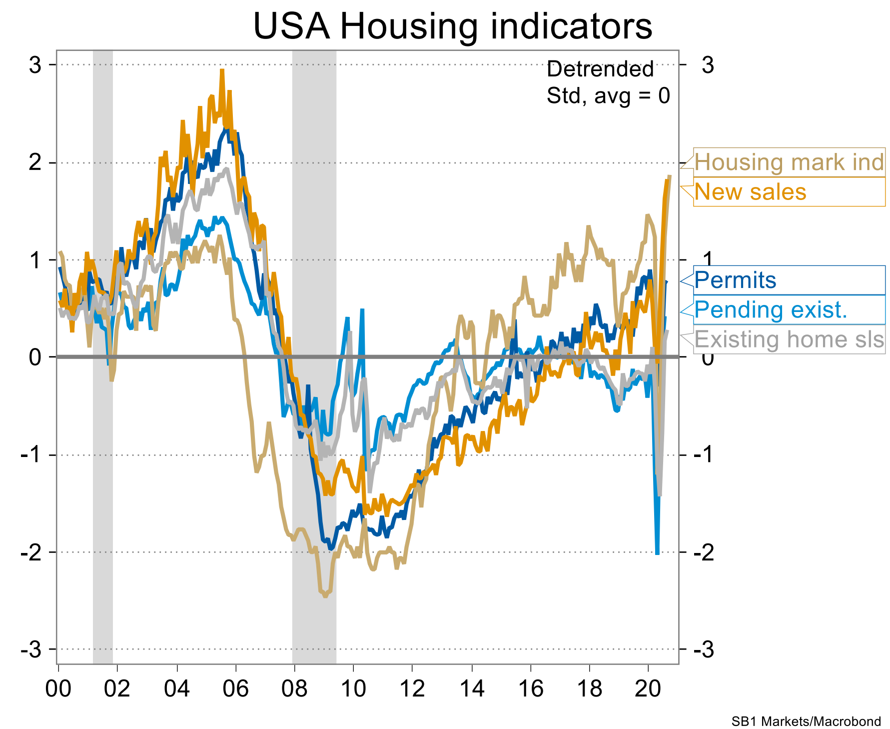


- Corporate credit growth spiked in Q1 and further in Q2, driven by loan programs and a booming corporate bond market, as capital has been flooding into the corporate debt sector. Growth rose to 11% y/y in Q2 (and 13.8% q/q, annualised). The debt/GDP ratio shot up, also due to the decline in corporate GDP fell in Q2, to record high levels, at 120% (of non-financial corporate GDP)!
- Household debt growth slowed to 2.7% in Q2, down 0.9 pp from Q1 and slower than household income (which soared in Q2!). The debt/income ratio fell ‘artificially’ in Q2 due to the lift in household income, but it was down to 95% in Q1 - it was 133% in 2007! The largest deleveraging ever in the US

Check the housing market 'V's. It just took 4 – 5 months. Last time: Never

Starts, home sales & the housing market index all sharply up, boosted by low interest rates

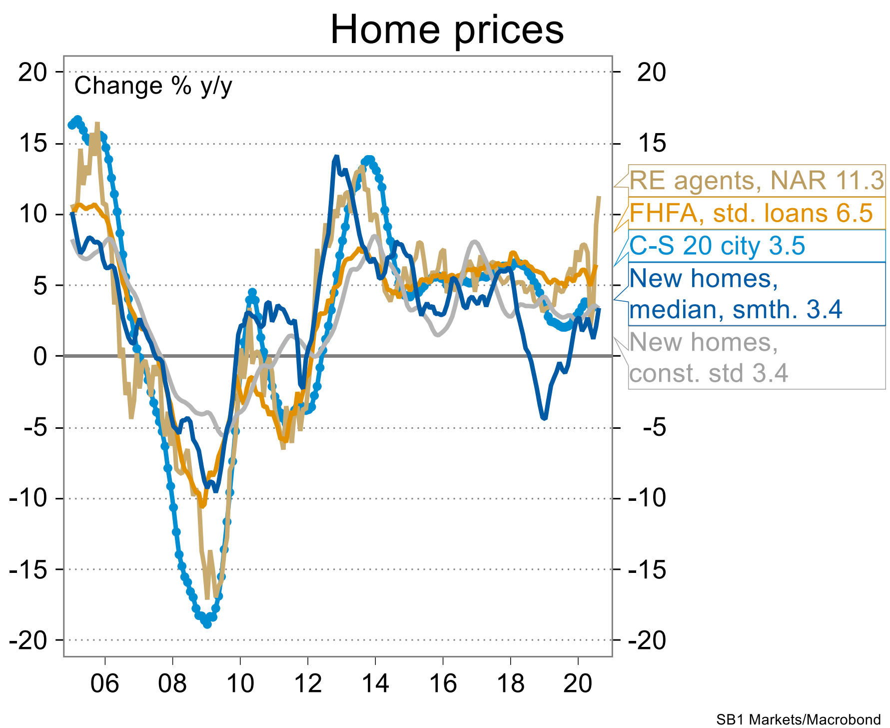


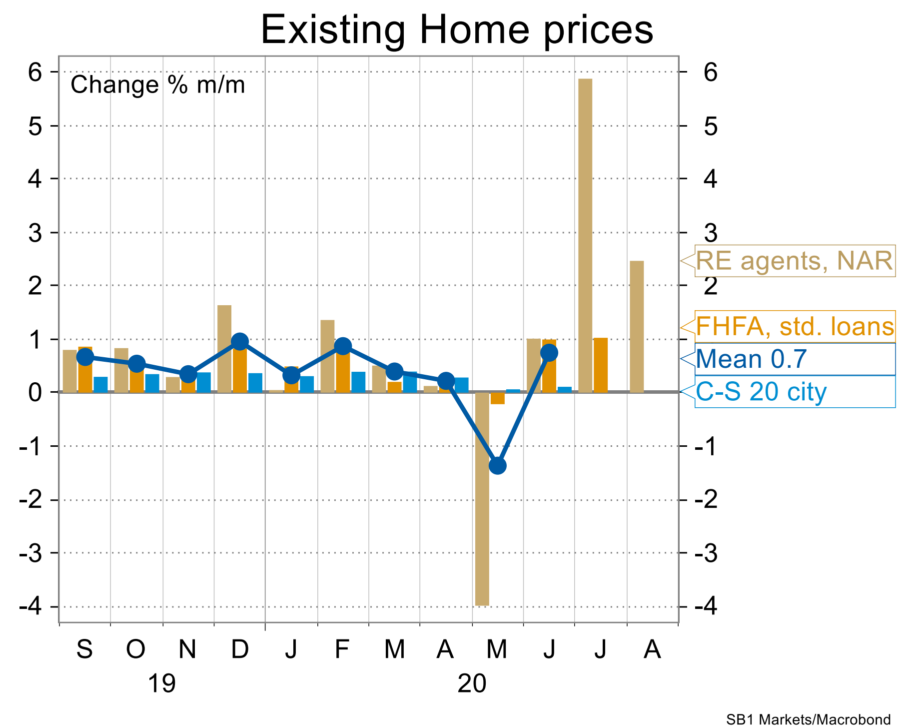


- Compare this 4 – 5 months downturn to what happened during/after the housing/financial crisis: Housing has not yet come back to the pre corona peaks. It even took some 10 years to come back to an average housing market activity level!

House prices through the roof, says the realtors

Prices rose by 6% m/m in July and by more than 2% in August, up 11% y/y according to NAR

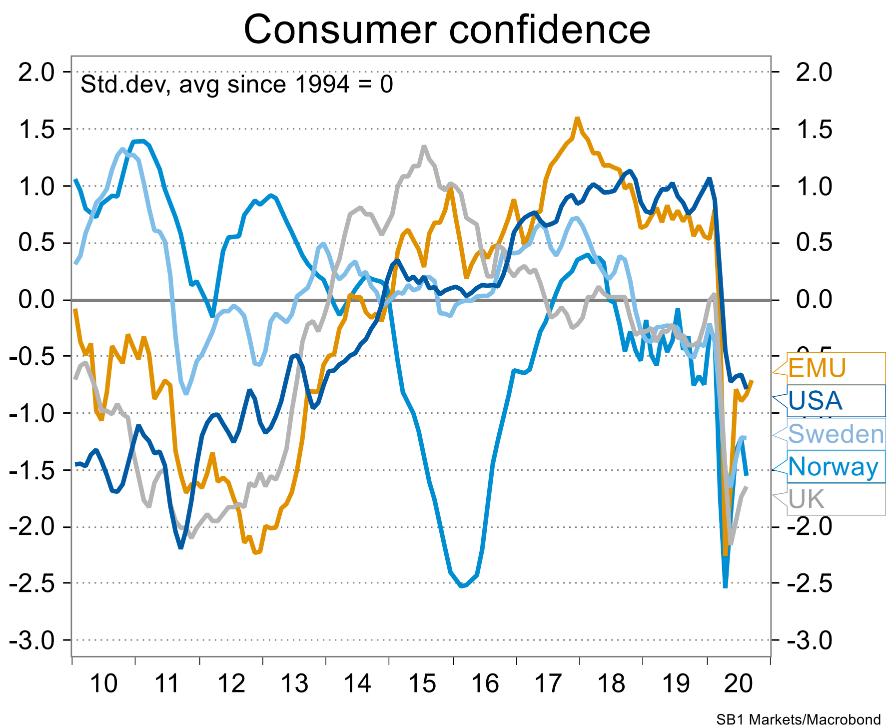


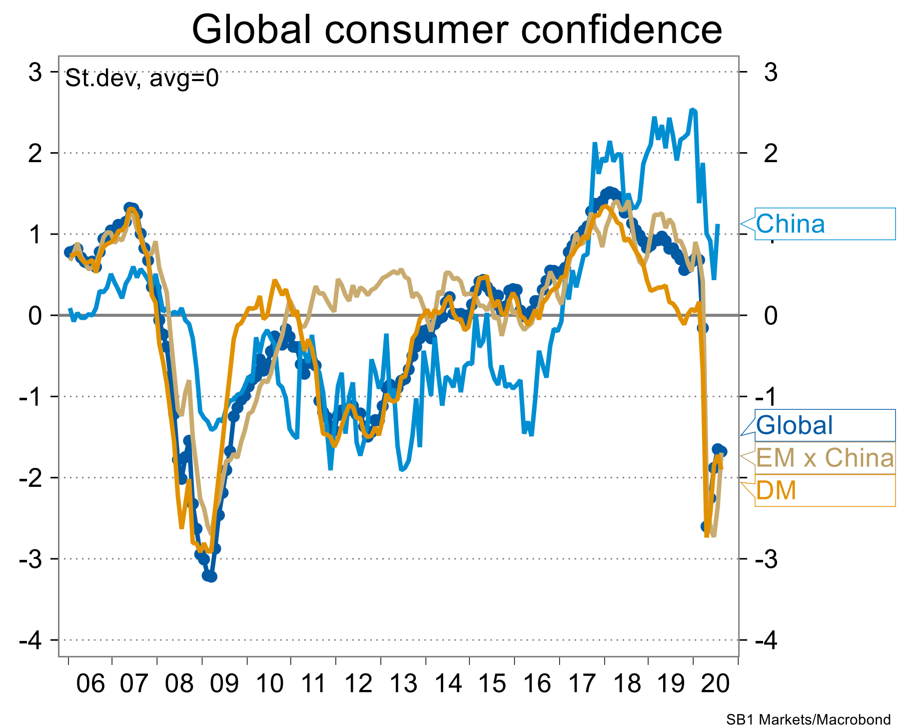


- The realtor index is a primitive 'raw' index but still, something is probably going on
  - » The 8% lift over the past two months is unprecedented – almost twice the previous ATH for a two month hike!

Consumer confidence remains weak everywhere, even as retail sales have soared

The confidence recovery has been surprisingly soft, given strong goods consumption, stock markets

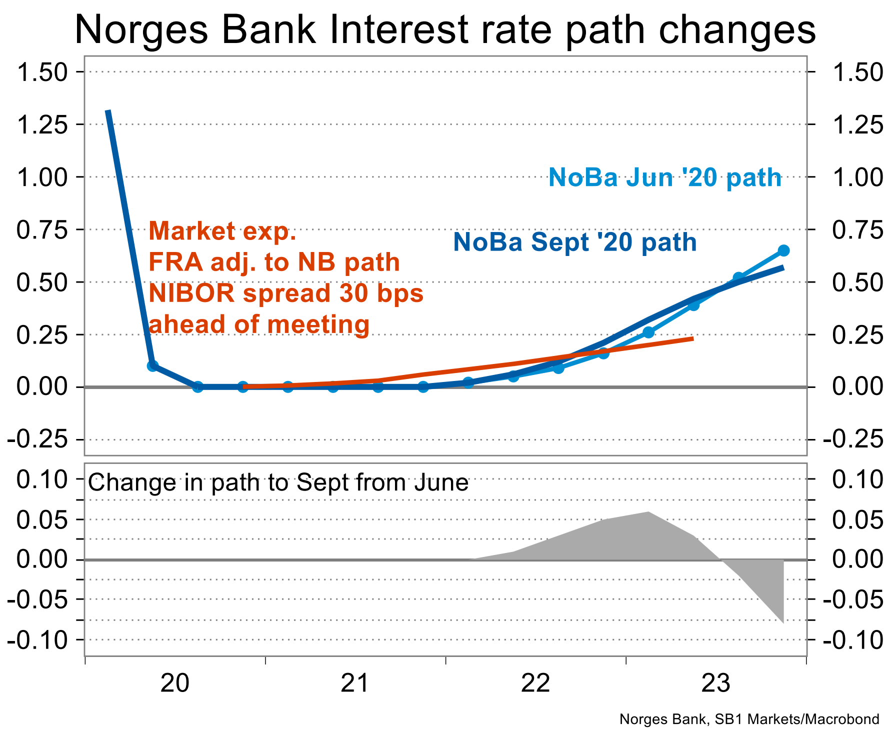




- OPPDATER!

Norges Bank lifted the rate path marginally, first hike still signalled in H2 2022

Insignificant changes to the rate path, the first hike moved forward by 1-2 months, in H2 2022

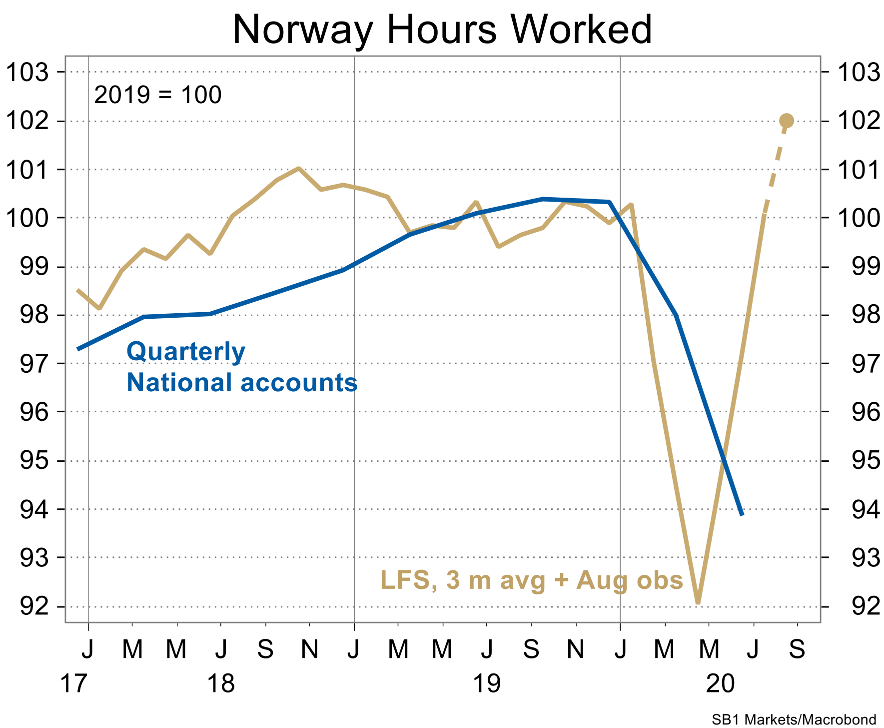


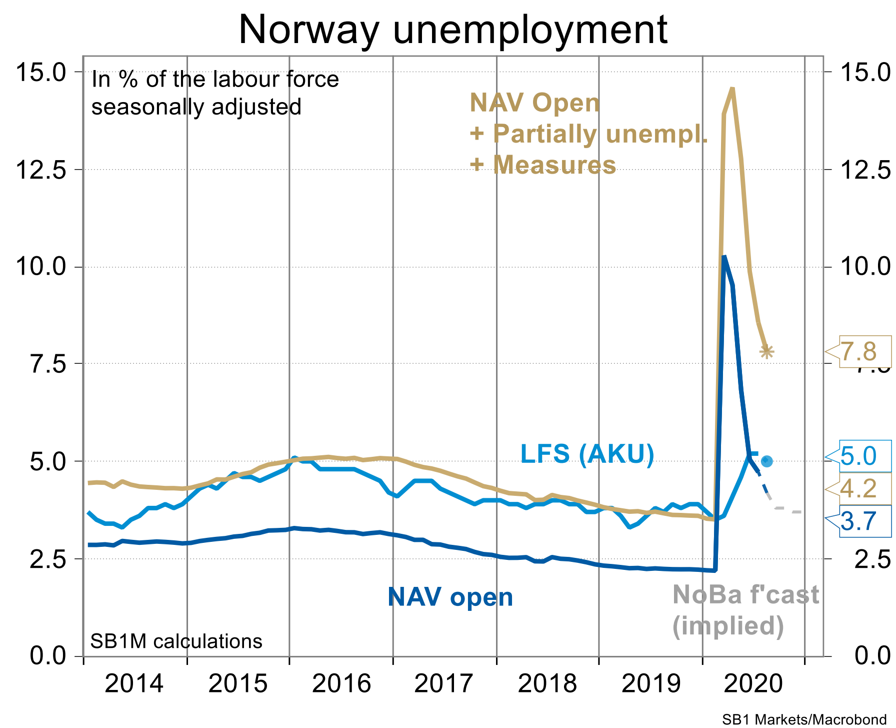
Market reactions: NOK FRAs fell by 4 bps in the long end. NOK initially depreciated some 0.7% on EUR but most of it was reversed later in the day

- Norges Bank made just minor changes to the interest rate path, as we (and most others) expected. The path was lifted by up to 6 bps in 2022/23 and lowered by 8 bps in late 23. The first hike still signalled in H2 2022, most likely Q4 but Q3 is also possible
- As expected, the bank emphasized uncertainties and stated that rates will be kept at zero until there are '*clear signs that economic conditions are normalising*'. A new wording, but no change in actual policy strategy
- The Mainland GDP forecast was more or less unchanged, NoBa expects a 3.6% decline in 2020 (from 3.7% in June) and a 3.7% rise in 2021
- Household consumption revised down in 2020 (services will remain depressed), up in 2021. The Bank is probably too optimistic on goods consumption in H2 '20.
- Both Mainland business investments and oil investments are expected to decline rapidly, and more in 2021 than projected in June. We agree
- Few changes on the unemployment f'cast, a gradual decline to a normal unempl. level is expected by 2023
- House prices revised up, as expected. The bank expects moderate credit growth even as house prices are rising fast. Households savings revised up sharply, due to weaker service consumption
- Core CPI inflation revised up in H2 but is expected to slow faster the next years. Wage inflation at 1.9% in 2020

LFS (AKU) (3m avg) unemployment unch at 5.2% in July - and down to 5.0% in Aug

An encouraging recovery in the number of hours worked, even if the data are uncertain

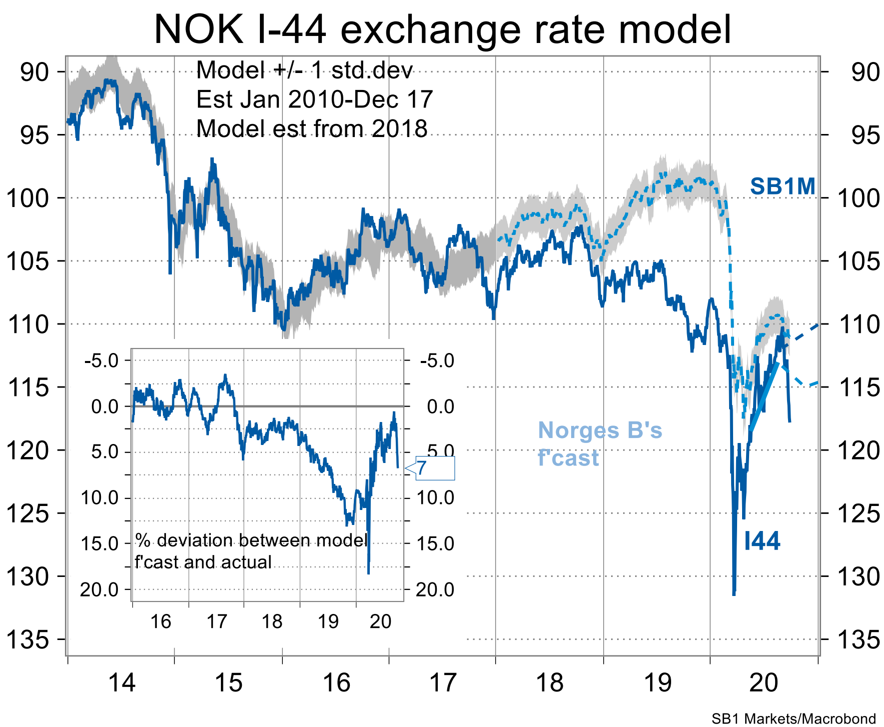


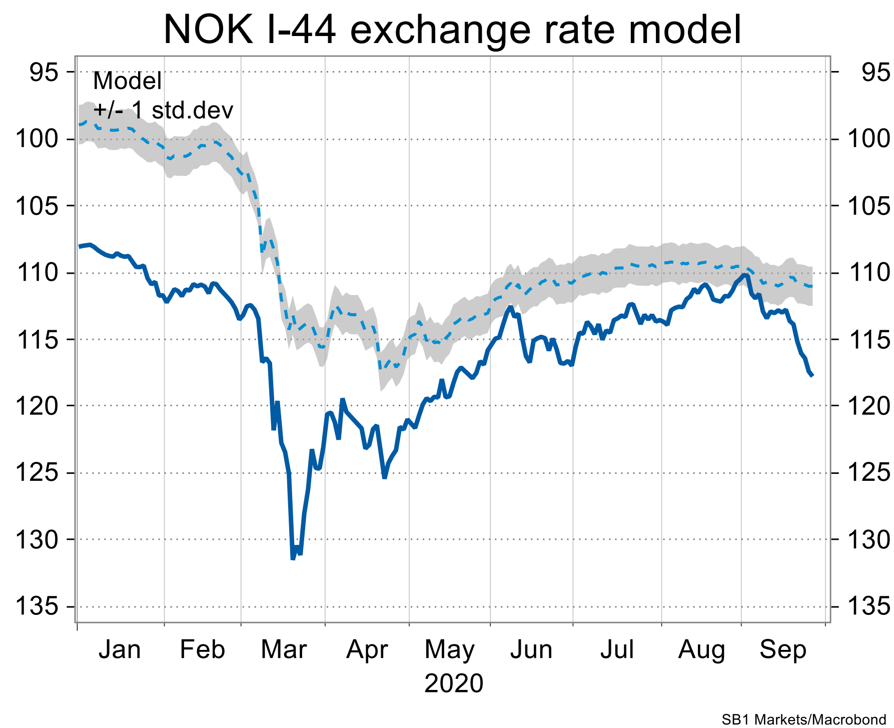


- The 3m smoothed unemployment rate was unchanged at 5.2% in July (June-August), we expected an increase to 5.6%, as July strand alone was reported at 5.8% (not shown in the chart). However, unemployment fell to 5.0% in August, partly due to furloughed workers returning to work. The 5% rate is probably close to the 'real' figure, as most furloughed workers are now counted as unemployed (after the first 3 months of the furloughed period, were they are counted as still employed)
- The LFS employment recovered marginally in August, up by 2'. Still, employment has fallen 2% from February and is down 1.8% y/y. In this figure, there are a number of furloughed workers included
- Hours worked rose sharply through Q2 and further in July and August, and are above a pre corona level! Annual rate at +2.4%. We find these hours worked figures unlikely, given the production data, surveys etc.

NOK down 3.4% last week (and 7% from local peak), our model signalled -0.6%

NOK fell to the lowest level since May, risk off sentiment probably the main driver

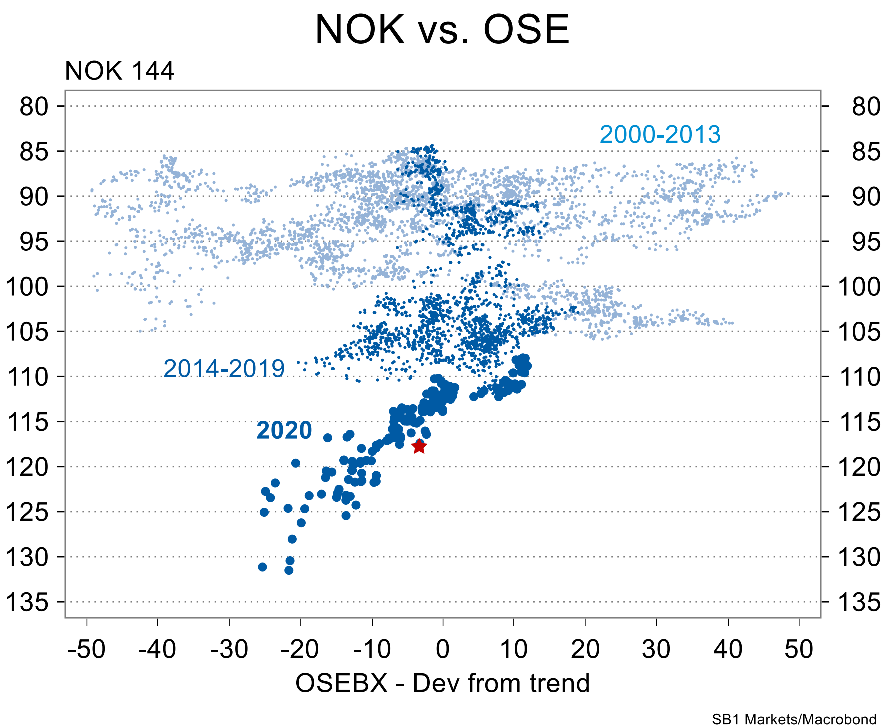


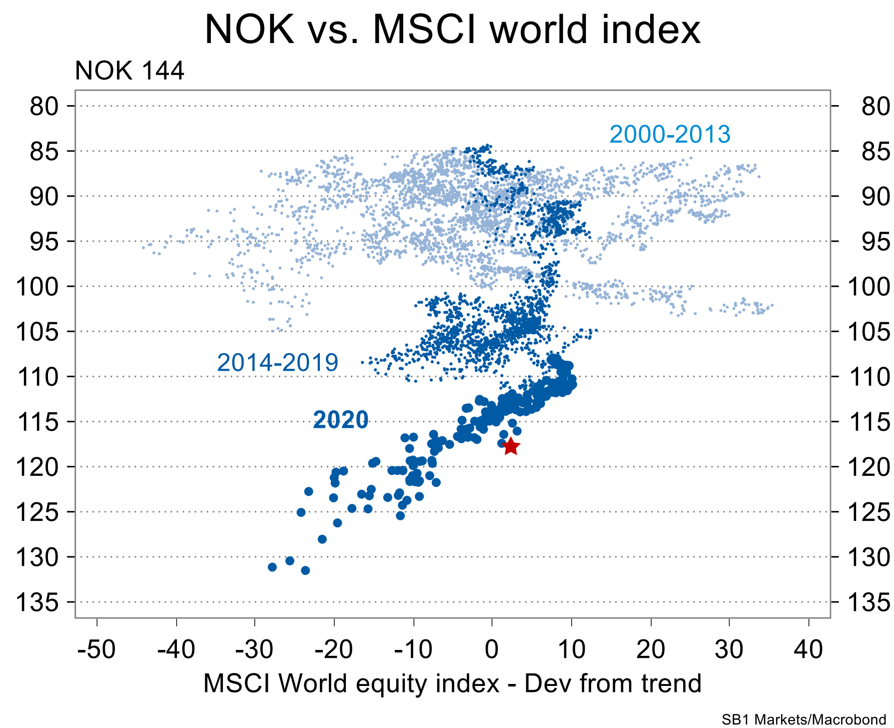


- The gap to the standard, oil price dependent model widened to 6% last week, as the NOK fell more than the oil price or other fundamentals explained
- The NOK has fallen more than oil companies and our supercyclical currencies (although our closest peer, the AUD, has fallen substantially too)
- Thus, we strengthen our NOK buy recommendation!
- The NOK is still 'too strong' vs a model based on oil equities but weaker than the other supercycle currencies (AUD, CAD, SEK), we prefer the latter model

NOK has been sensitive to the OSE in 2020, but not before

OSE down -> NOK down. Or just MSCI World index down -> NOK down?

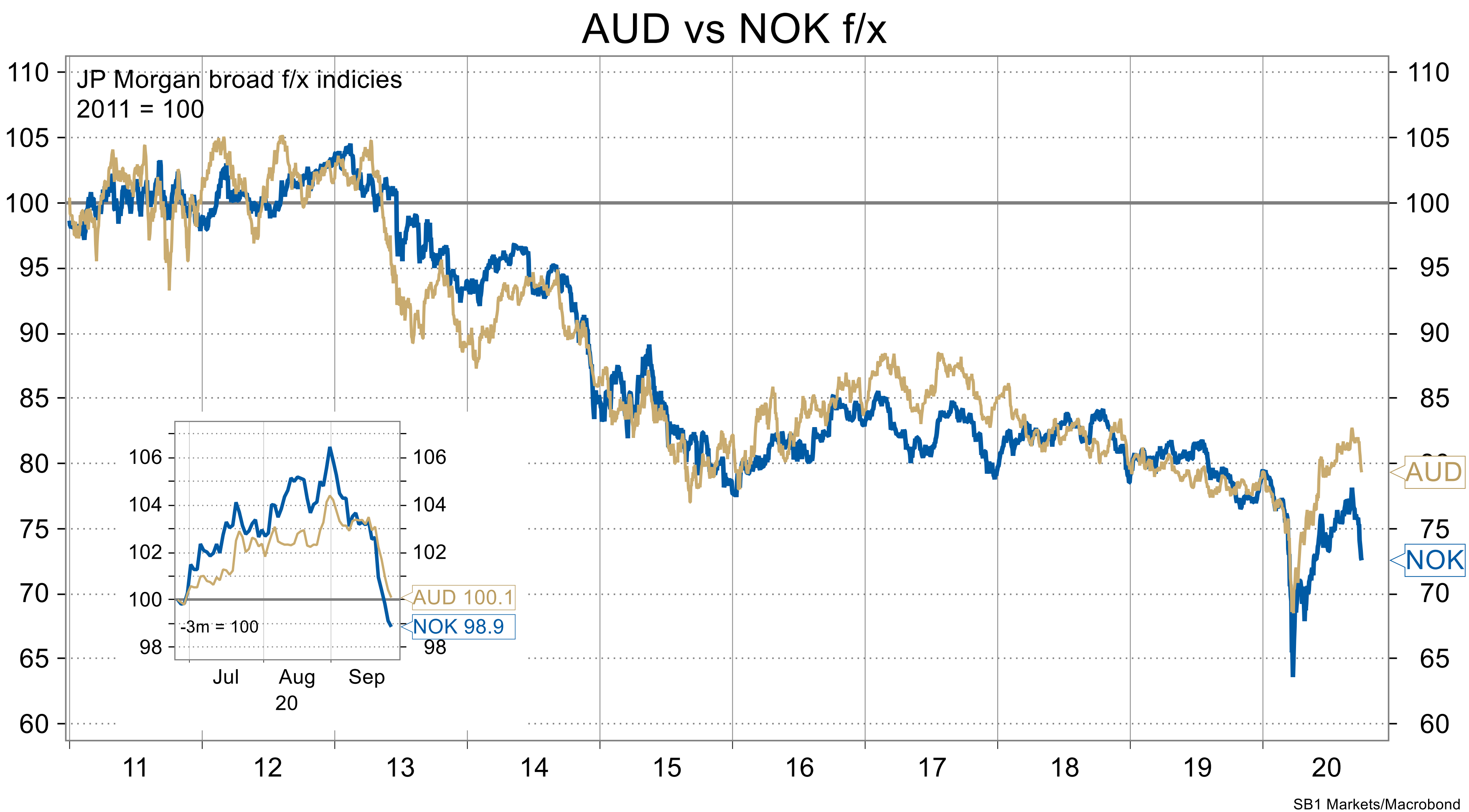




- There has not been any stable correlation between NOK and the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. In 2020, NOK have been closely correlated to all of them. The relationship is illustrated at the charts above. In formal regression models, where the normal suspects driving the NOK is included, the conclusion is the same
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund is larger then the value of the remaining oil & gas reserves. Has the market 'suddenly' come to the same conclusion?
- NOK has not been correlated to OSE/MSCI (which could be interpreted as specific Norwegian factor)
- Now, the NOK is weaker than 'normal' (since Jan 2020) vs. the OSE and the MSCI

The AUD lost ground last week too, but somewhat less than the NOK

The AUD has fallen 4% from the Sept 1 local peak, the NOK 7%



The Calendar

Manufacturing PMIs/ISM, China PMIs, US nonfarm payrolls, Norwegian retail sales & credit growth

Time	Count.	Indicator	Period	Forecast	Prior
Monday Sept 28					
08:00	NO	Retail Sales MoM	Aug	-2.4 (-8.0)	0.6%
09:30	SW	Retail Sales MoM	Aug	--	1.9%
Tuesday Sept 29					
09:00	SW	Economic Tendency Survey	Sep	--	87
09:00	SW	Consumer Confidence	Sep	--	84.4
11:00	EC	Economic Confidence	Sep	89	87.7
14:30	US	Advance Goods Trade Balance	Aug	-$81.8b	-$79.3b
15:00	US	CS 20-City House Prices MoM	Jul	0.1%	0.0%
16:00	US	Conf. Board Consumer Confidence	Sep	90	84.8
Wednesday Sept 30					
01:50	JN	Retail Sales MoM	Aug	2.0%	-3.3%
01:50	JN	Industrial Production MoM	Aug P	1.1%	8.7%
03:00	CH	PMI Composite+A37, CFLP/NBS	Sep	--	54.5
03:45	CH	PMI Manufacturing, Markit/Caixin	Sep	53.1	53.1
08:00	NO	Credit Growth YoY	Aug	(4.6)	4.6%
14:15	US	ADP Employment Change	Sep	630k	428k
14:30	US	GDP Annualized QoQ, Revision	2Q T	-31.7%	-31.7%
16:00	US	Pending Home Sales MoM	Aug	3.0%	5.9%
Thursday Oct 1					
02:30	JN	PMI Manufacturing	Sep F	--	--
08:30	SW	PMI Manufacturing	Sep	--	53.4
10:00	NO	PMI Manufacturing	Sep	--	46.1
10:00	EC	Manufacturing PMI	Sep F	53.7	--
10:30	UK	PMI Manufacturing	Sep F	54.3	--
11:00	EC	Unemployment Rate	Aug	8.1%	7.9%
13:30	US	Challenger Job Cuts YoY	Sep	--	116.5%
14:30	US	Initial Jobless Claims	Sep-26	850k	870k
14:30	US	Personal Income	Aug	-2.5%	0.4%
14:30	US	Personal Spending	Aug	0.8%	1.9%
14:30	US	PCE Core Deflator YoY	Aug	1.4%	1.3%
15:45	US	Markit Manufacturing PMI	Sep F	53.5	53.5
16:00	US	ISM Manufacturing	Sep	56.3	56
	US	Vehicle Sales	Sep	15.60m	15.19m
Friday Oct 2					
01:30	JN	Jobless Rate	Aug	3.0%	2.9%
10:00	NO	Unemployment Rate, Registered	Sep	3.8%	4.3%
11:00	EC	CPI Core YoY	Sep P	0.4%	0.4%
14:30	US	Change in Nonfarm Payrolls	Sep	850k	1371k
14:30	US	Unemployment Rate	Sep	8.2%	8.4%
14:30	US	Average Hourly Earnings MoM	Sep	0.2%	0.4%
16:00	US	U. of Mich. Consumer Sentiment	Sep F	78.9	78.9

- **PMIs**
  - » We estimate a 0.6 p decline in the **global composite PMI**, based on preliminary PMIs from the US, EMU, UK and Japan. The first Sept Chinese PMIs are published this week
- **USA**
  - » **Employment** is increasing rapidly but is still down 7.7% from before corona, all sectors are down. The recovery is now slowing, 865' is expected in September
  - » **New jobless claims** are still at an elevated level, 0.5% of the labour force is registering as newly unemployed each week. Luckily, a higher amount is being employed and unemployment is heading steeply down
  - » Demand for housing is strong, all housing market indicators are heading straight up. **House prices** will most likely follow suit, the realtors reported a sharp rise in July & August (in sum 8%!)
  - » **Consumer sentiment** remains below par and we have been surprised of how little confidence has recovered until now
- **EMU**
  - » **Core CPI inflation** has slowed to just 0.4%, mostly explained by the German VAT cut. The constant tax core CPI is at 1.1%, a normal level
- **Norway**
  - » **Retail sales** have been thriving since May and by June they were up 14% from the pre corona level. We assume the shopping party came to an abrupt halt in August, we expect an unprecedented 8% decline m/m – and most likely a further normalisation the coming months
  - » **Household credit growth** has turned up, fuelled by record low interest rates, and a booming housing marked, both prices and no of transactions are sharply up. Corporate debt growth, on the other hand, is slowing – and we expect more to come as businesses are holding back investments

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

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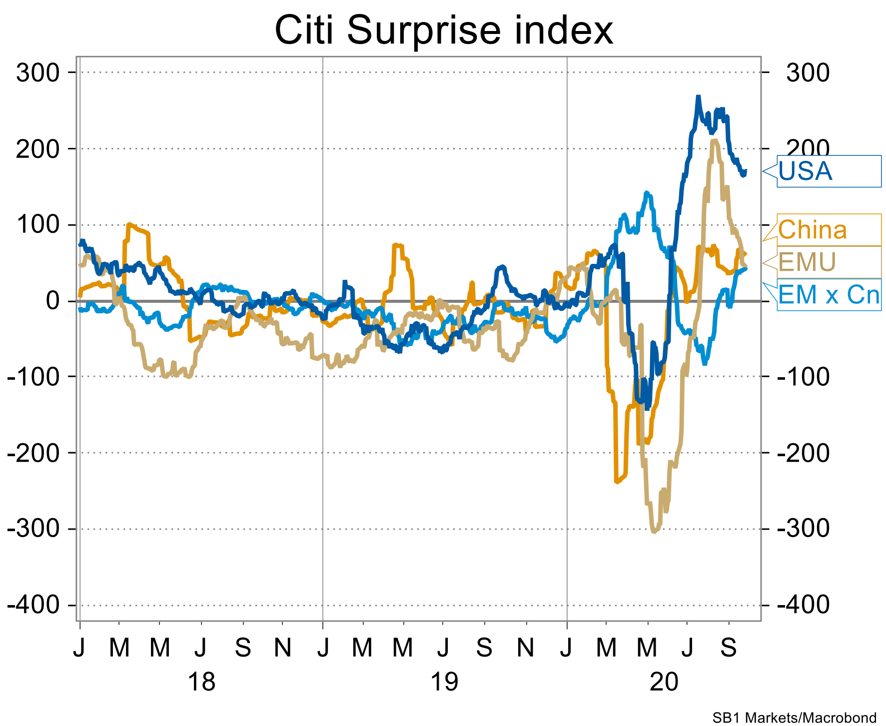
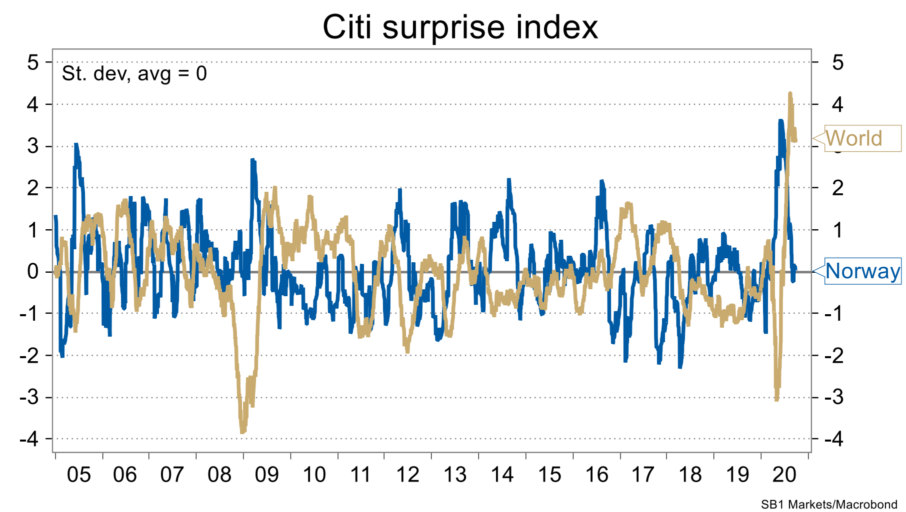
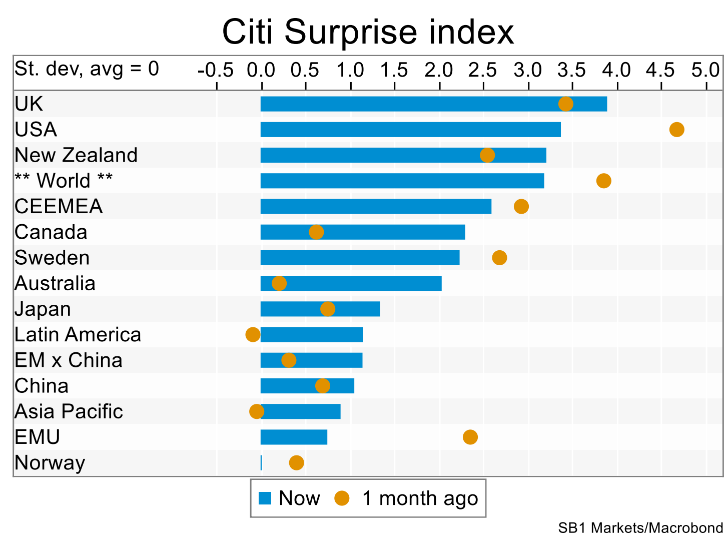
Macro data are less on the upside (3 m avg measured)

Citi's surprise indices are still elevated but less so than a few months ago





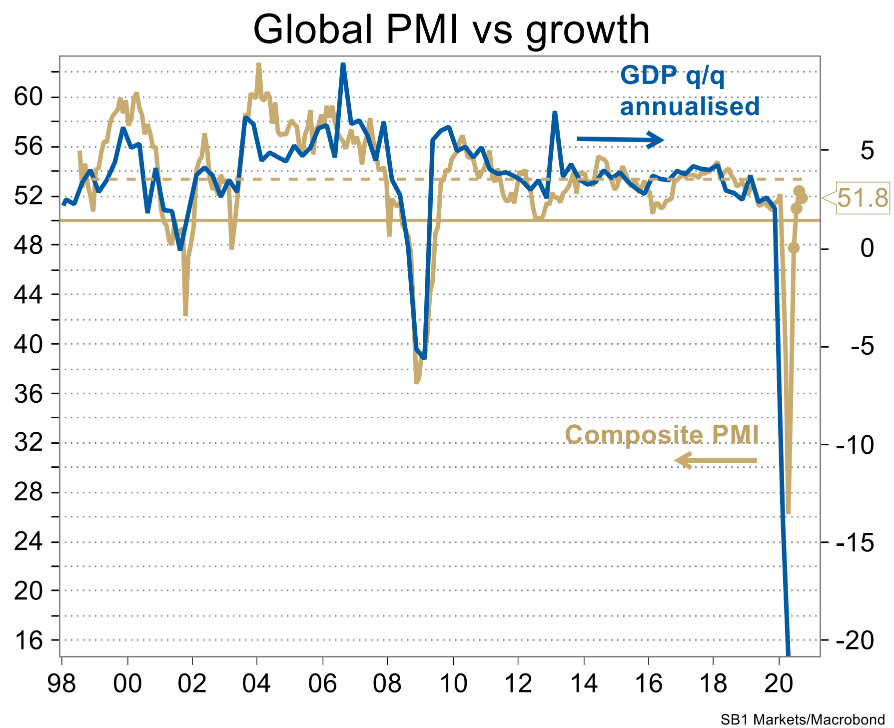


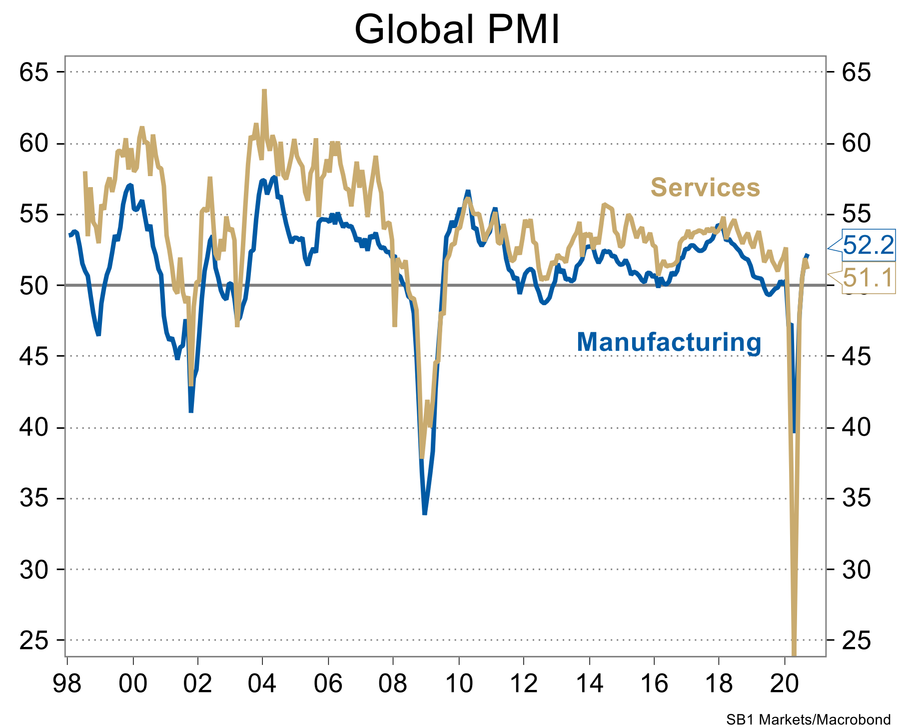
- All major countries/regions are reporting data above expectations, for the first time ever
- The US has been surprising more on the upside than ever before (data from 2003), although a tad less so the past weeks
- EMU sliding down and is much less upbeat than the US. UK at the top
- China well into positive territory
- Other EMs are above an average level. Norway at par, the weakest of all!

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

Global composite PMI a tad down in September, due to weaker services

We estimate a 0.6 p decline in the global PMI. Still a low level in the 'sharpest recovery ever'





- Global manufacturing rose marginally (our est) while services weakened modestly. Concerns about Covid-19 and reintroduction of restrictions in many countries, particularly in southern Europe, have likely been hampering activity
- The PMI respondents may still be reporting somewhat between growth (which is strong) and the activity level (which is still below par) – and we do not trust these indices to be used to estimate the growth rate
- The EMU composite PMI fell by 1.8 p in September, US down just 0.3 p. Japan a tad up, from a very low level

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

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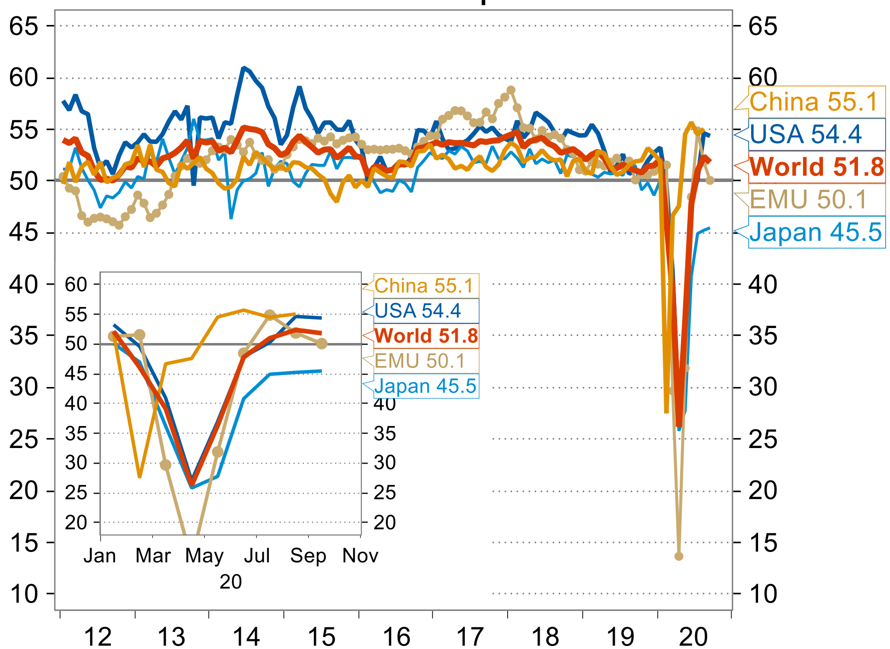
The recovery stalled in the EMU in Sept, US growing steadily, Japan still weak

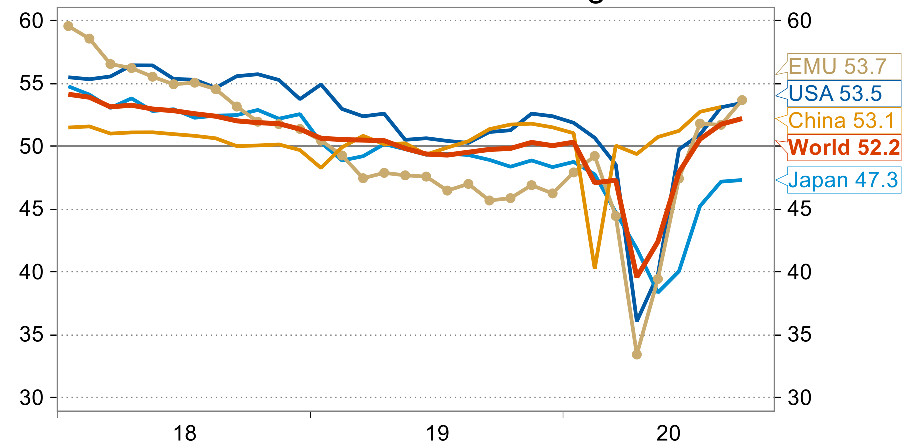
Services reported slower growth in the EMU, UK and marginally in the US, manufacturing slowly up

PMI Composite



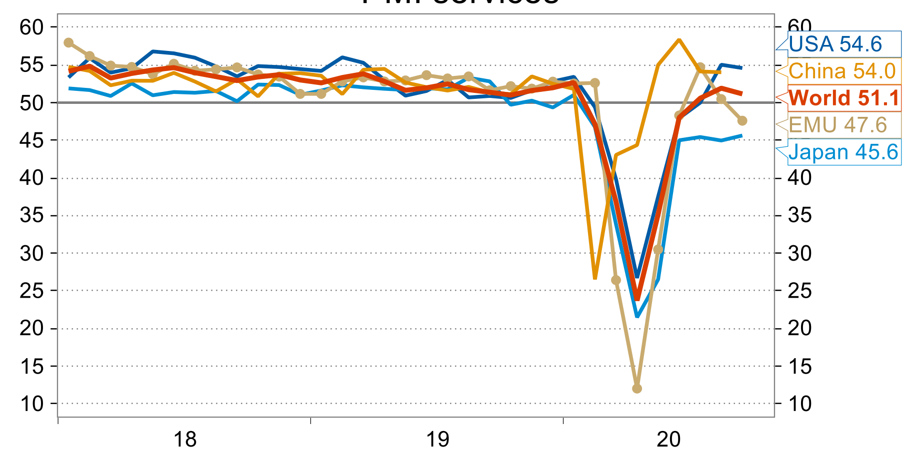
Source: IHS Markit, SB1 Markets, Macrobond

PMI Manufacturing



Source: IHS Markit, SB1 Markets, Macrobond

PMI services

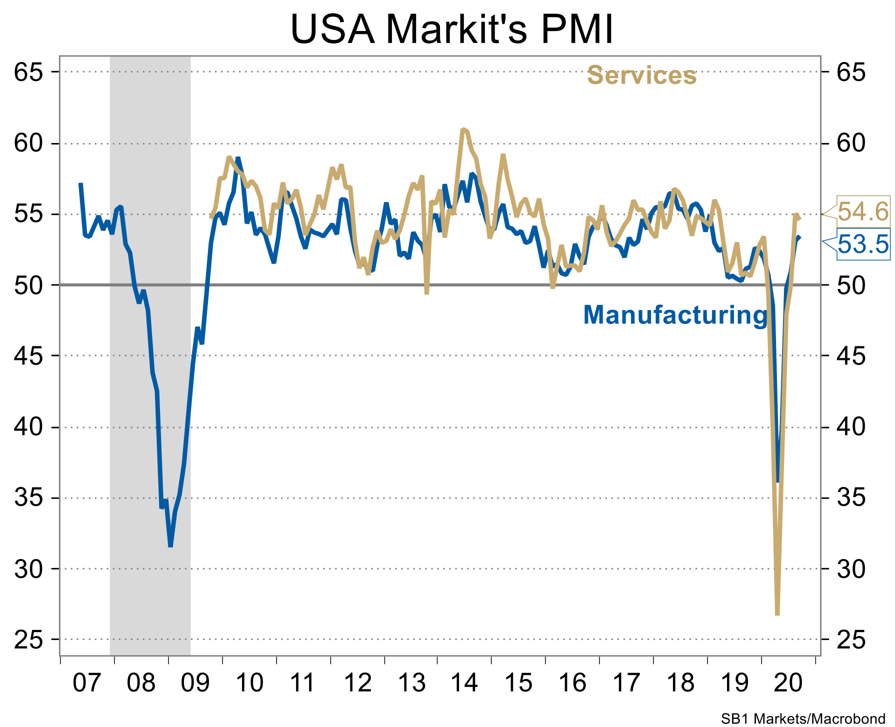


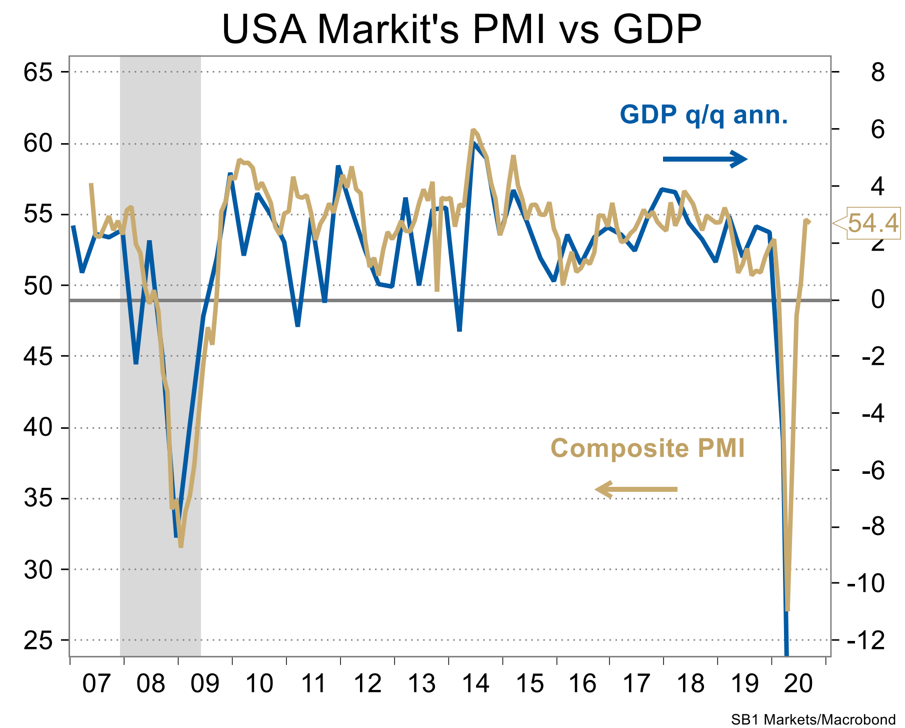
SB1 Markets/Macrobond

- In the EMU, services fell back in contraction mode, no doubt due to stricter corona measures
- In Japan, both manufacturing and services are reporting continued decline in activity
- The US composite PMI (from Markit) fell marginally
- UK PMIs (not included on these charts) weakened but both manufacturing and services are at decent levels

Markit's PMIs steady in September, no signs of a corona 2nd wave slowdown

Services PMI fell 0.4 p and manufacturing up 0.3 p, composite suggest a continued recovery

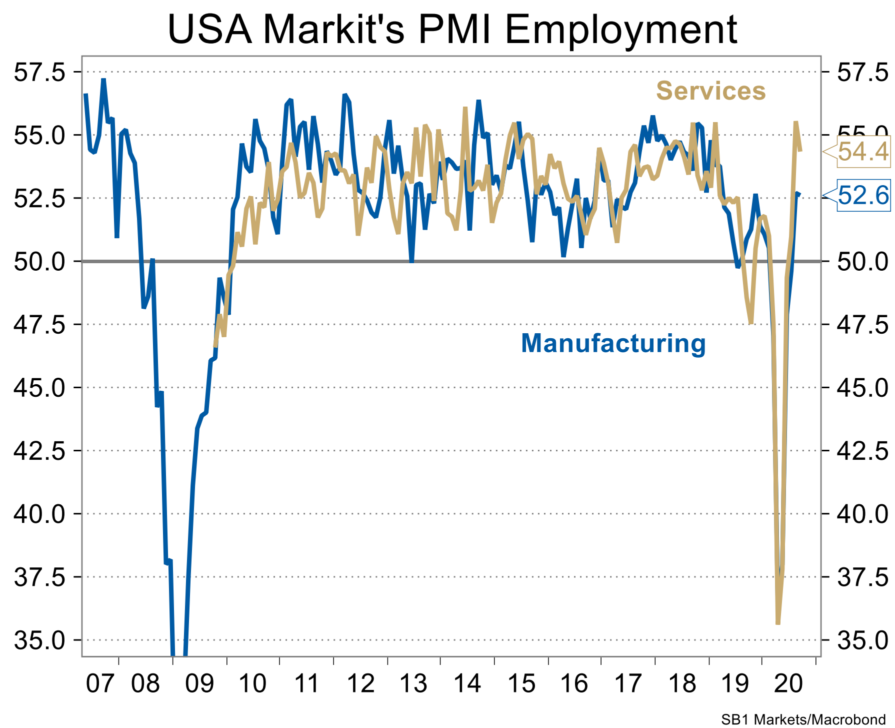


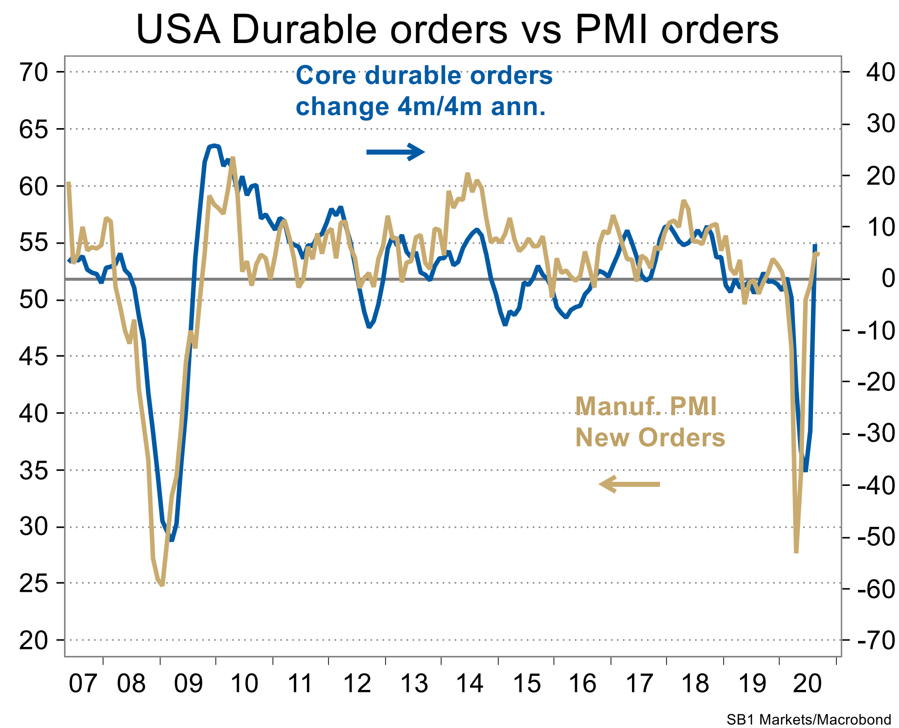


- The composite PMI ticked down 0.3 p to 54.4 in September, pushed down by a small retreat in services – no sign of serious corona trouble, even if social distancing has pushed the 'R' down to below 1 since mid July (at least until early Sept)
- The PMI has recovered swiftly since the height of the corona pandemic, however, the levels are not very impressive, we expect growth well above 2% in Q3! Rather 20%

Employment growth slowed somewhat in Sept, according to the PMIs

New manufacturing orders are increasing but do not signal a further lift in durable orders





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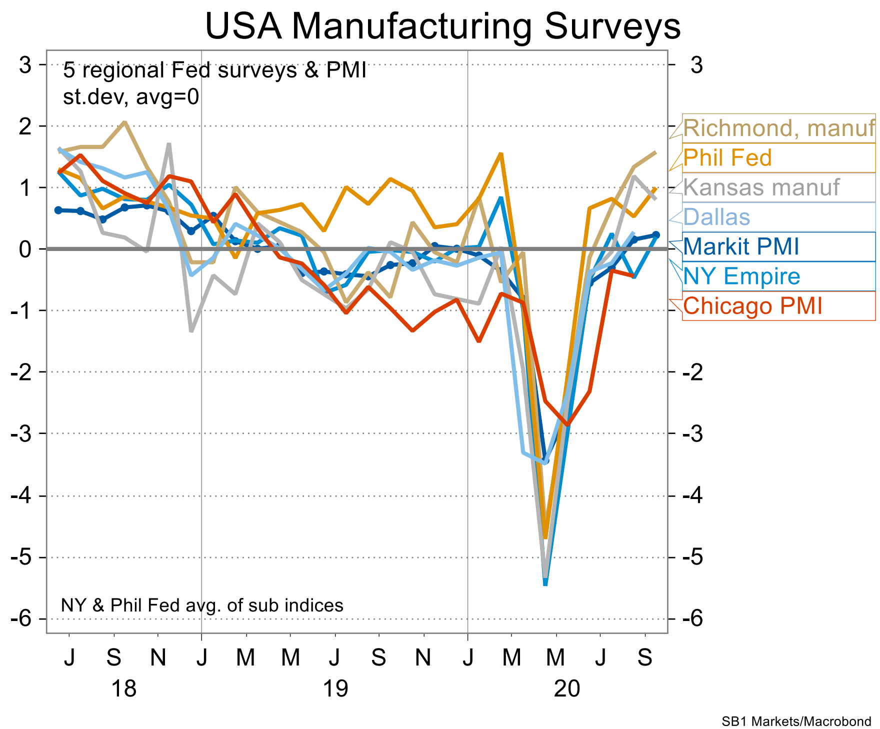
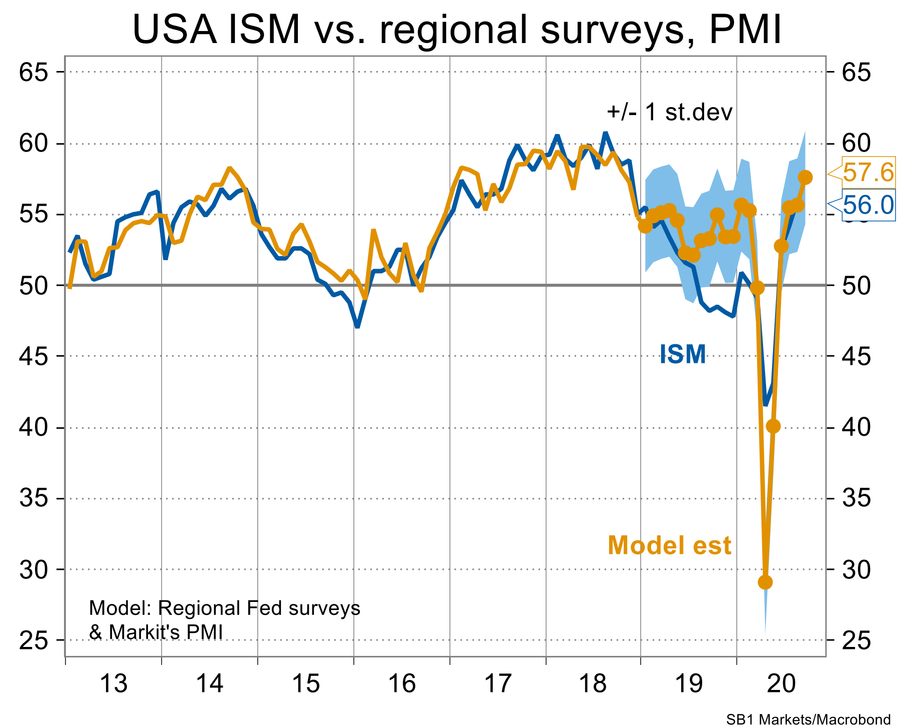
Regional surveys & Markit's PMI up in Sept, suggesting a further rise in the ISM

Levels are OK but none are indicating a fast recovery. Together signalling a 1p uptick in the ISM

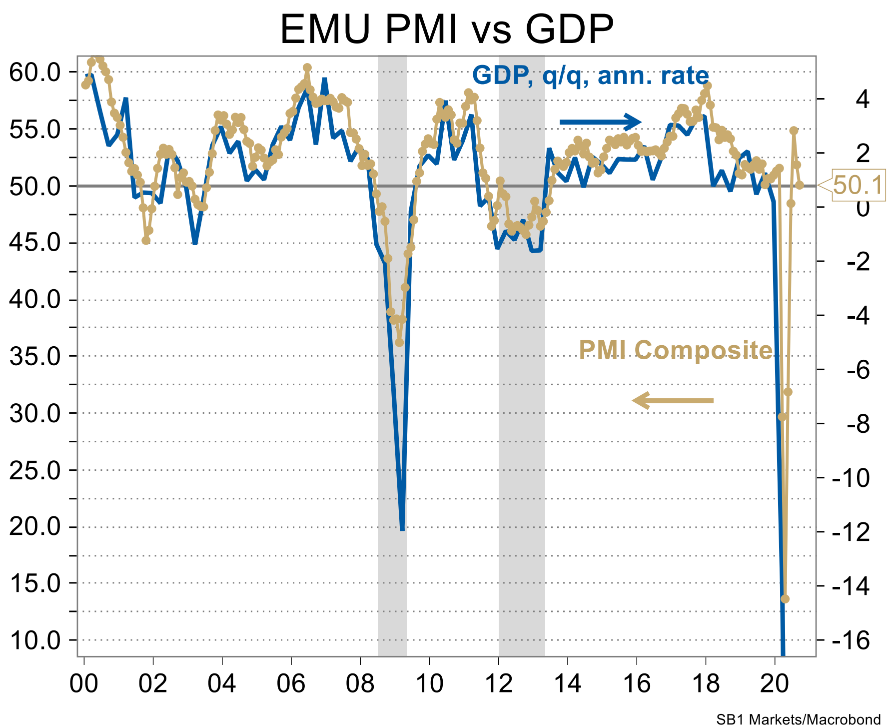


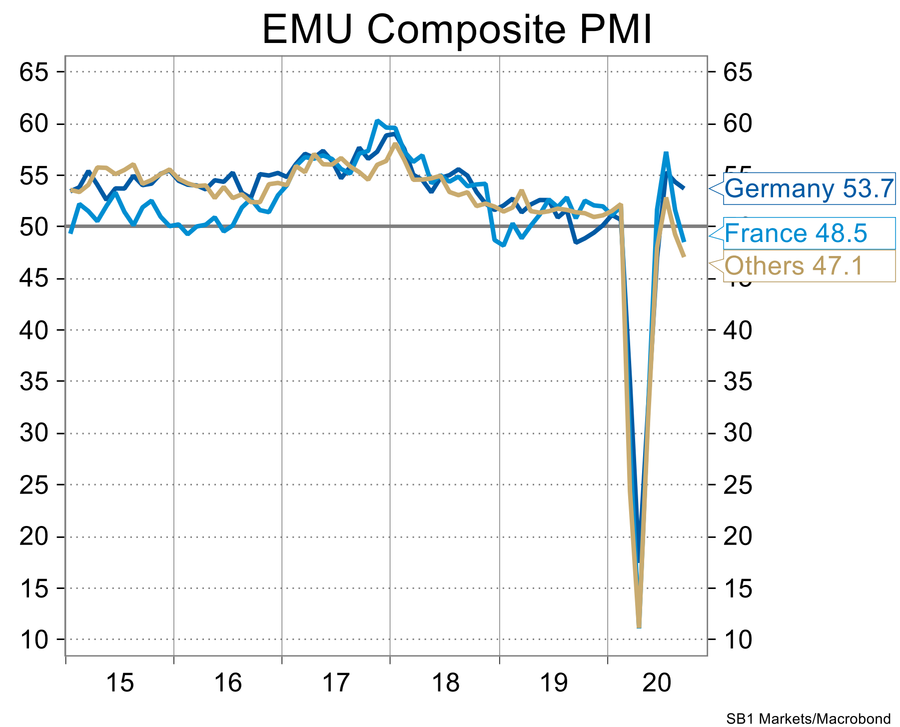


- The surveys underestimated growth during the first phase of the recovery and may still do so
- We assumed that companies soon would become better to calibrate their answers to the actual growth rate now. The surveys signal growth above trend in manufacturing production – but less than needed to close the production gap anytime soon. Production is still 7% below the pre corona level

Composite PMI another step down in September, the rebound is faltering

PMI retreated to stagnation mode, a response to new corona challenges & imposed restrictions

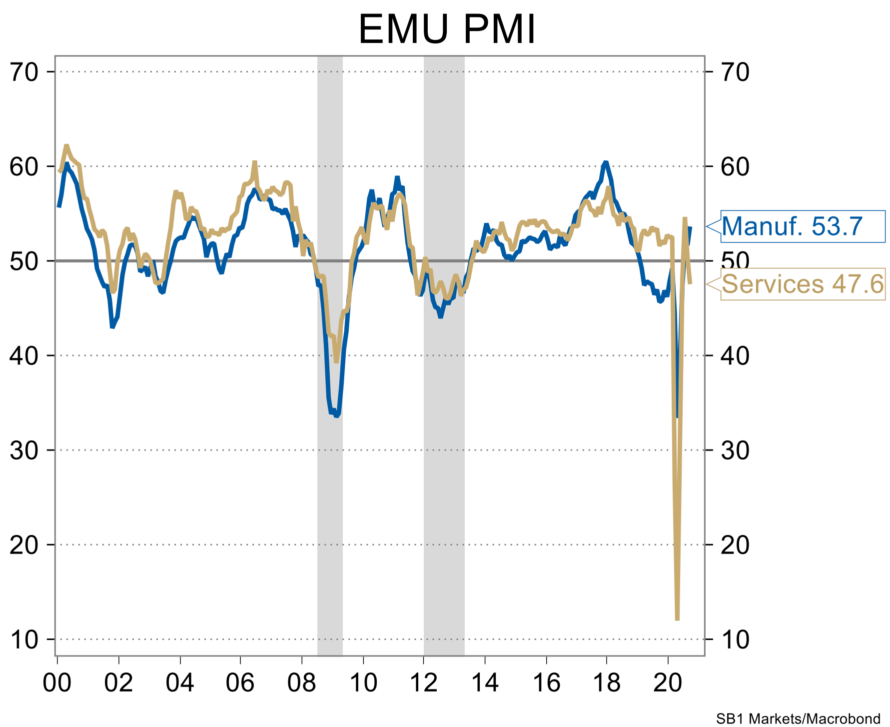


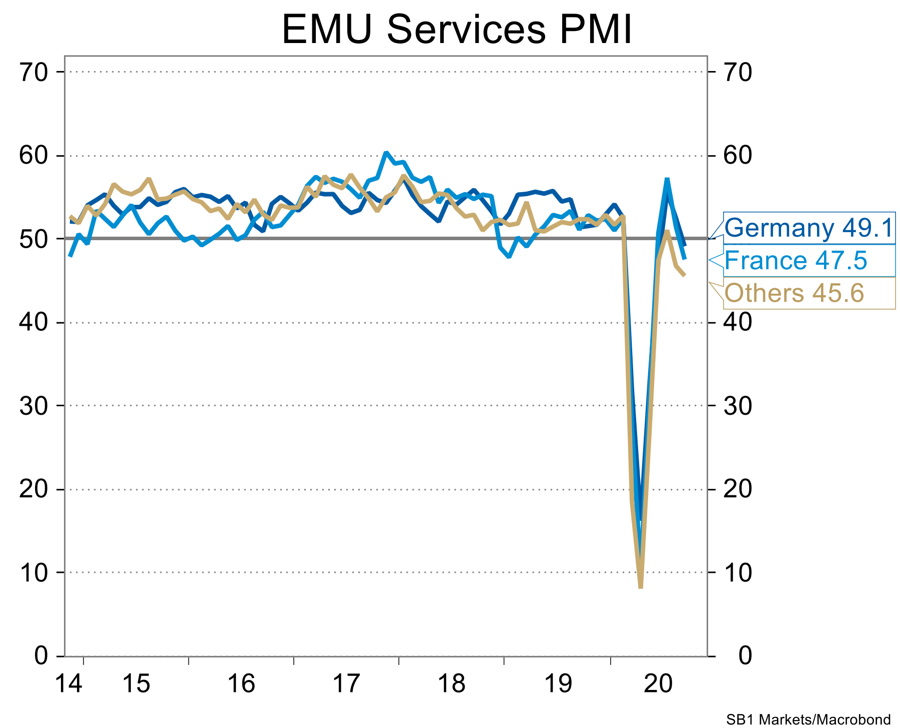


- The preliminary composite PMI fell to 50.1 in September, from 51.9, 1.6 p weaker than expected. The PMI is signalling just below a 1% GDP growth rate (annualised). That's way too low, but the PMIs probably still can't be translated directly to growth figures, as usual in 'extreme' economic ups and downs, however, the survey is anyway a signal of a faltering recovery
- The good news: Manufacturing reports that the recovery is gaining speed, the PMI rose to 53.7, better than expected. The bad news is that services have fallen back into contraction, led by Italy & Spain (our implicit est), but both Germany & France below the 50-line
- The reported stagnation in activity in September and the weakness in services is no doubt related to the resurge in coronavirus cases since the summer and a reintroduction of restrictions in many countries

Services back in contraction mode, new corona restrictions to blame

The manufacturing recovery is gaining speed but services reported a decline in activity, again

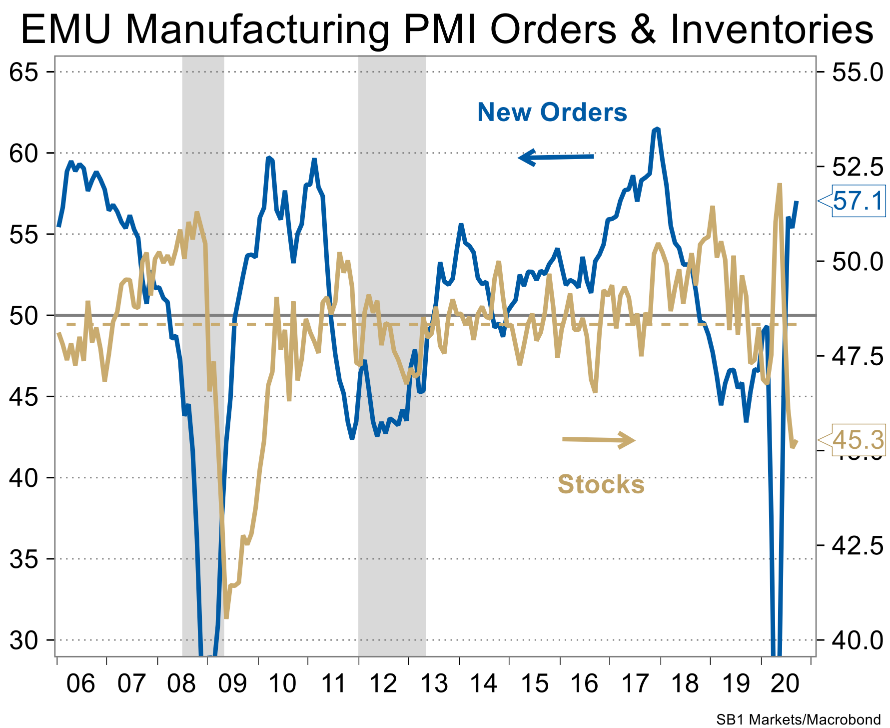


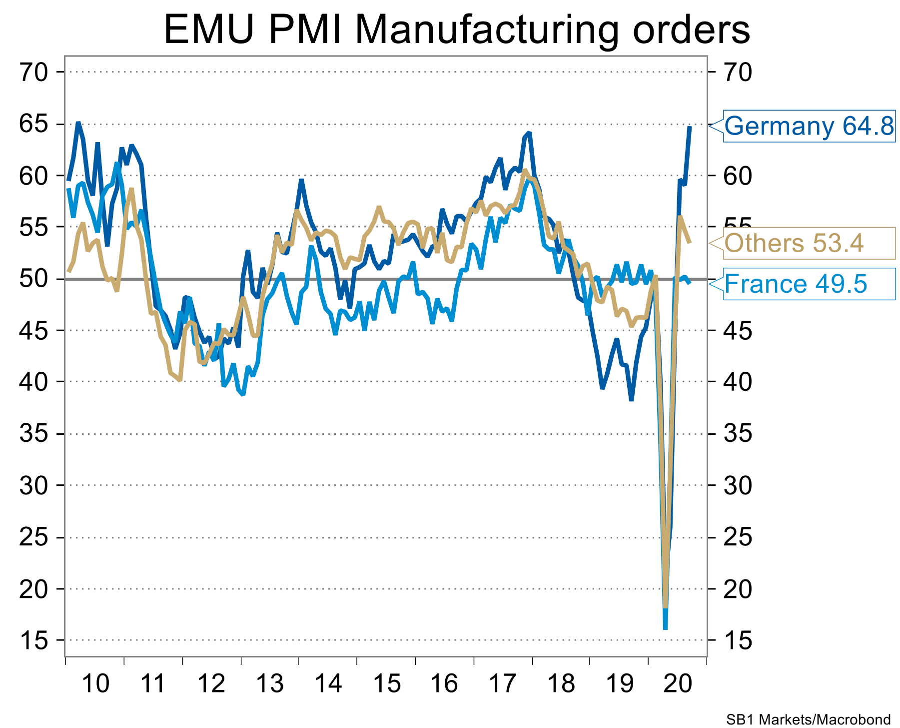


- Services PMI fell to 47.6 from 50.5, the second month of decline. Activity is most likely hurt by the second wave of corona cases which started in the summer, and more restrictions imposed in many countries. The services decline was broad, the implicit average of other countries than Germany and France (read Italy and Spain) is having the most trouble
- The manufacturing PMI rose more than expected, to 53.7. Still, the current level does formally not imply any impressive recovery given the 6-7% gap to a pre corona production level. Total Eurozone PMI pushed up by Germany, PMI up 4.4 p to 56.6 in Sept

(German) Manuf. orders are increasing and inventories are being reduced

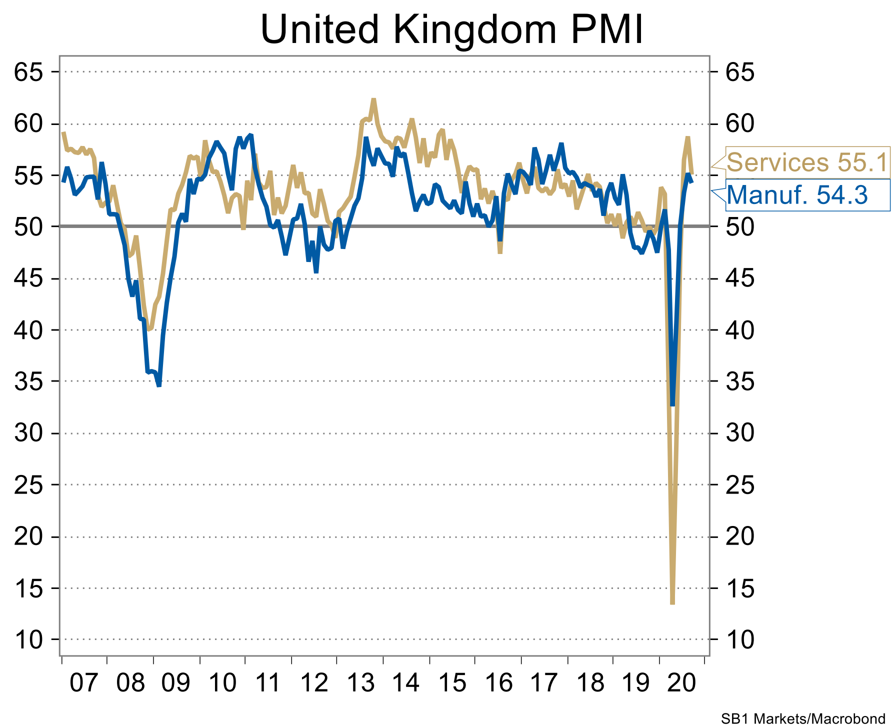
Confirms the rapid recovery in the manufacturing sector

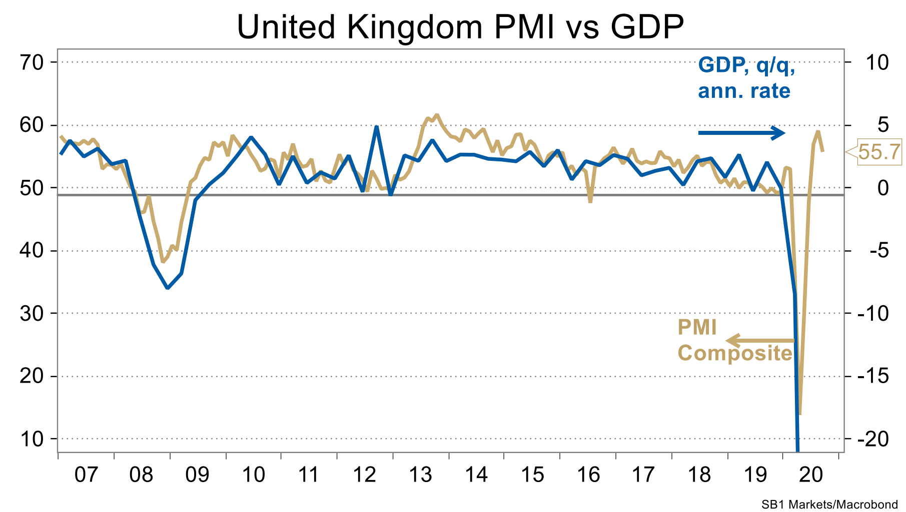


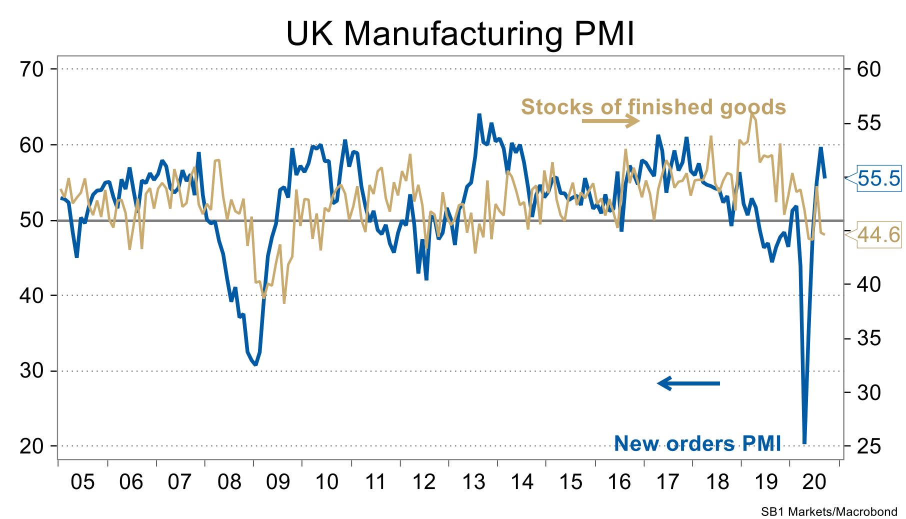


The composite PMI down to 55.7, growth in services hit by corona restrictions?

The service sector PMI down to 55.1, still signalling growth above trend. But that's needed!



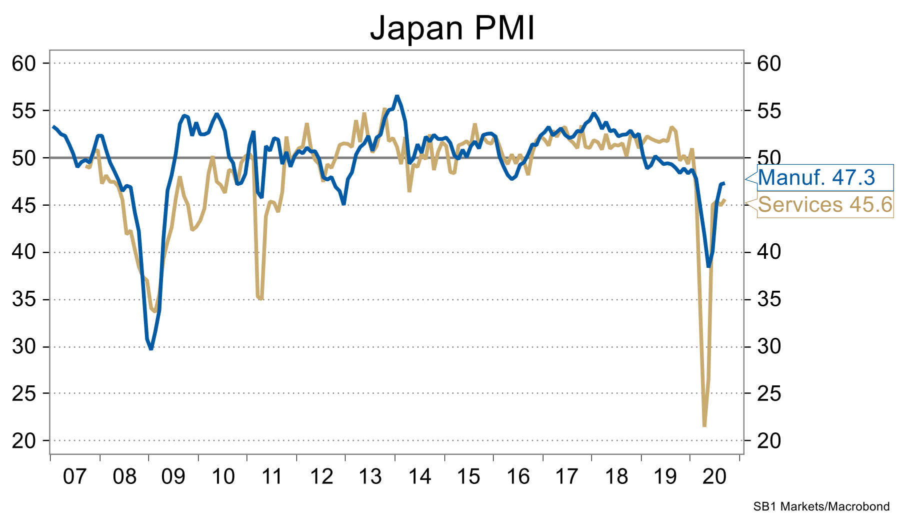


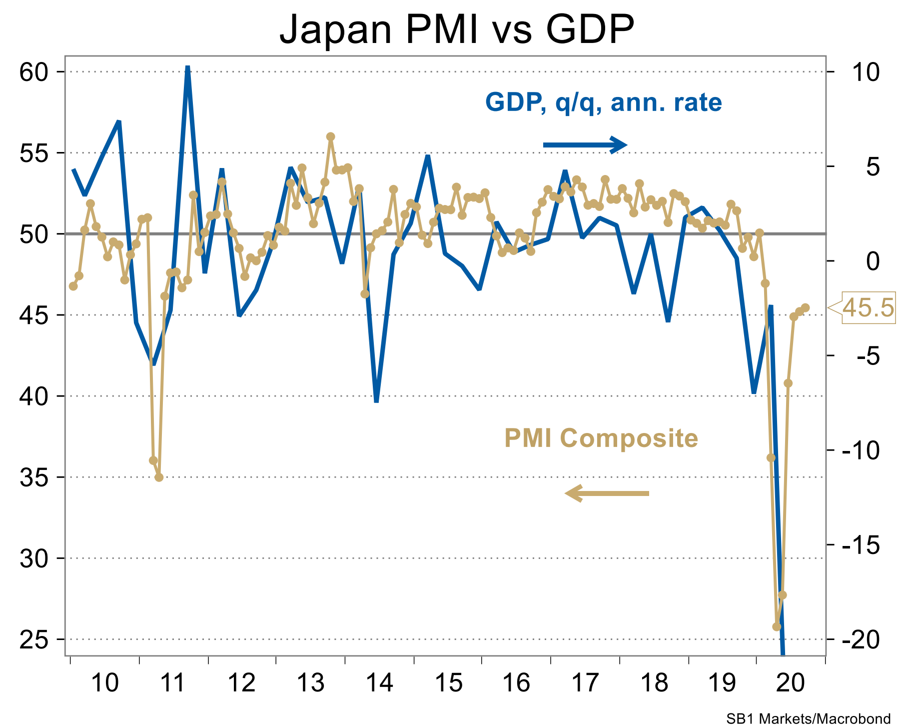


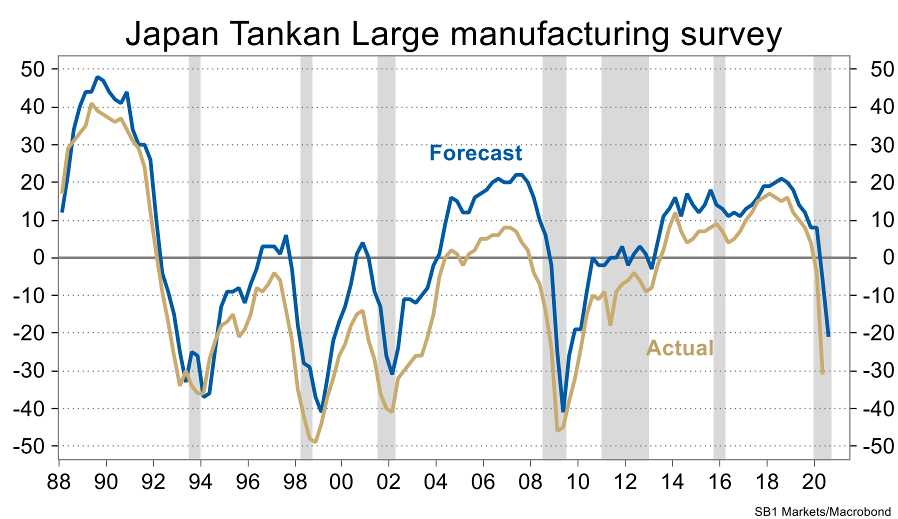
- Most likely, the PMI is underestimating growth in Q3. Barring a setback in August/Sept (which the PMI is not signalling) GDP will increase by 16% in Q3 (or 80% annualised, if you prefer the silly number), following the 20% drop in Q2 (-60%, annualised, if you wondered)

Japanese PMIs remain soft, signalling a further decline in activity

Both manufacturing and services are still well below 50, other surveys also subdued



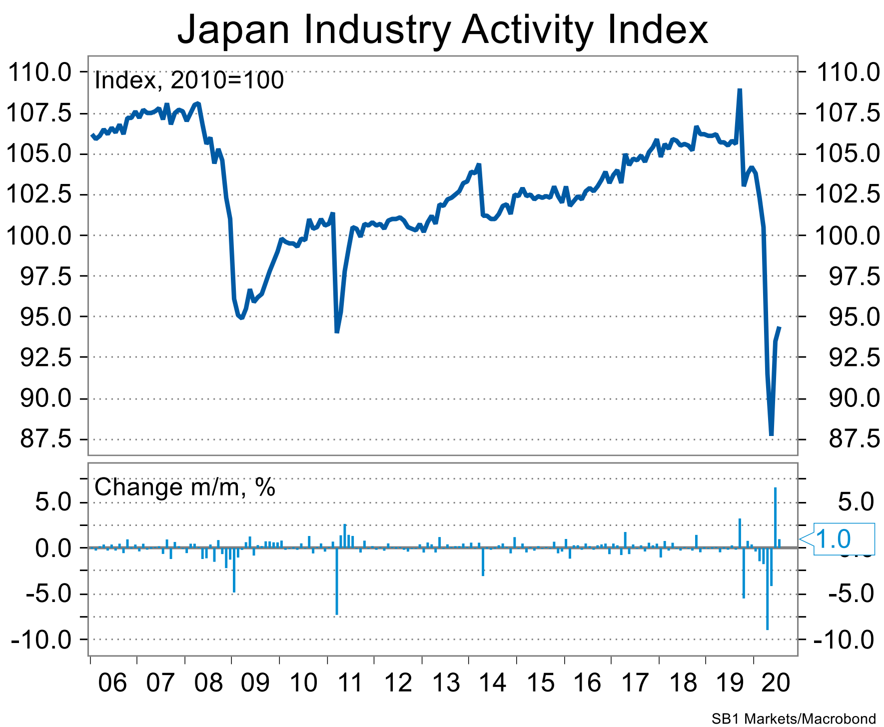


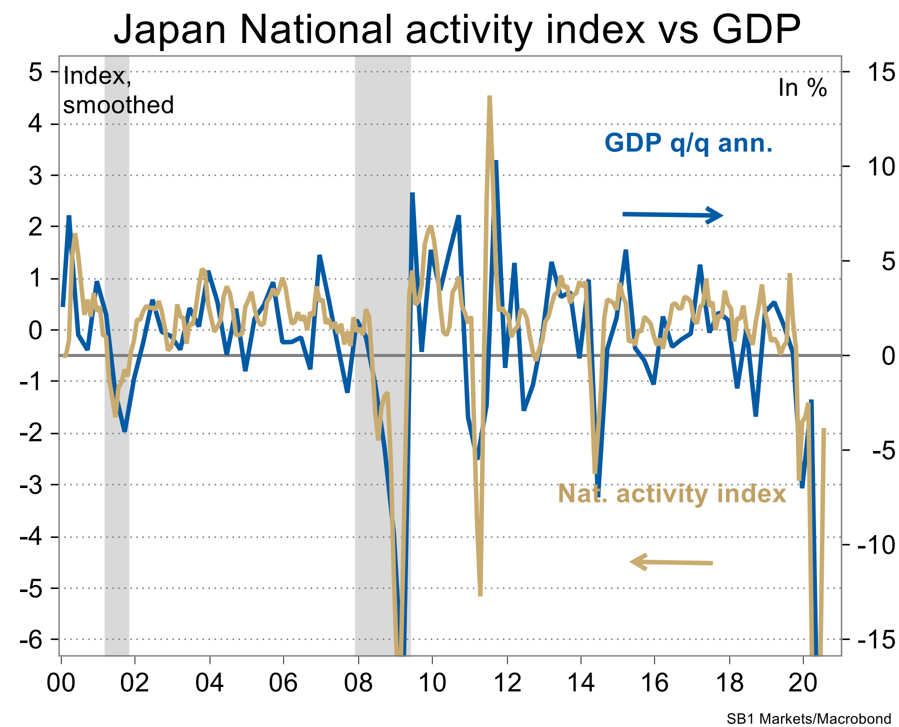


- Actual business activity reported in the Tankan large manufacturing survey are based on Q2, forecast on Q3

Business activity index confirms a subdued recovery

The index has recovered less than 50% of the loss during the height of the pandemic

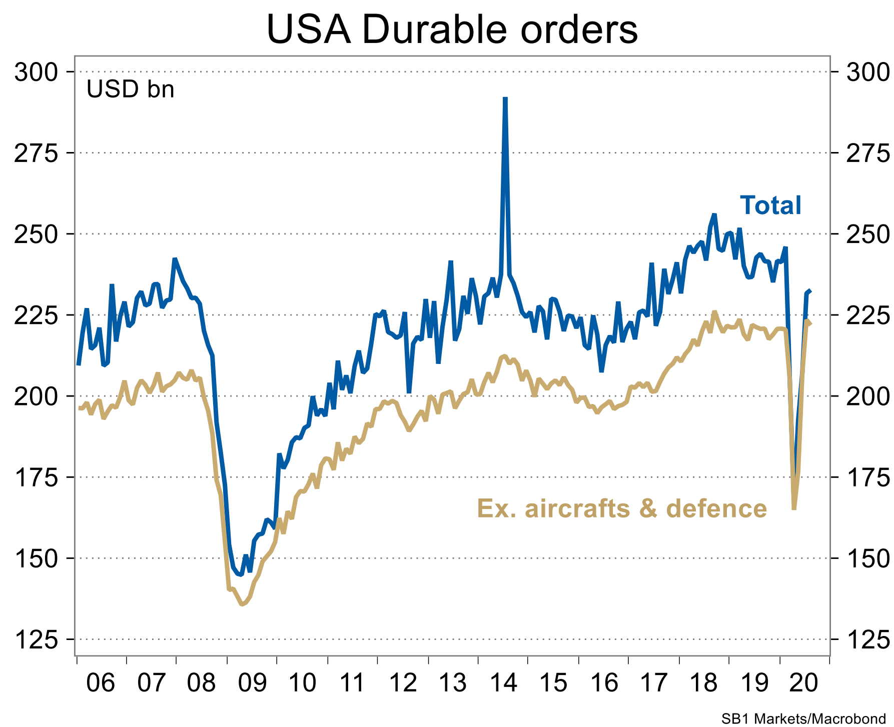


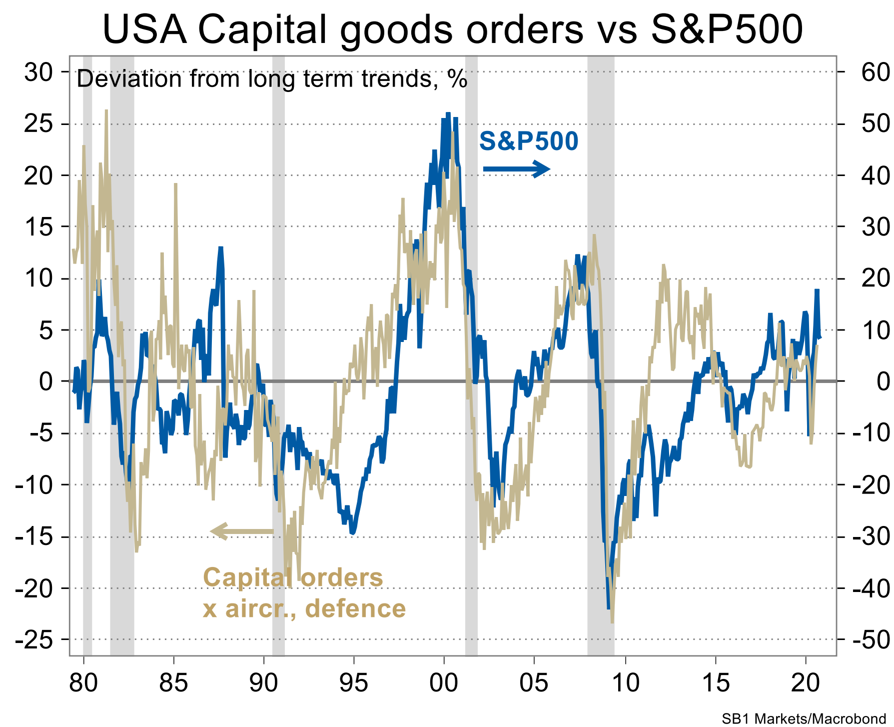


- The activity index inched up 1.2% in July but is still down more than 7% from February

Core durable orders slightly down in Aug, still above the pre corona level

A narrow 'V' shape! Investment goods orders ex aircrafts continue to recover, aircrafts not

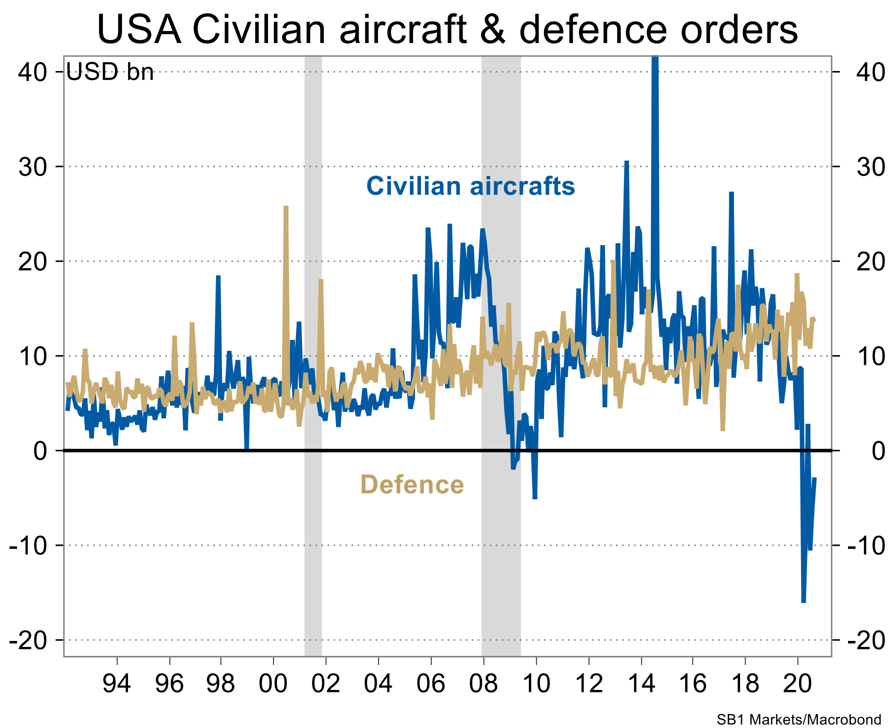


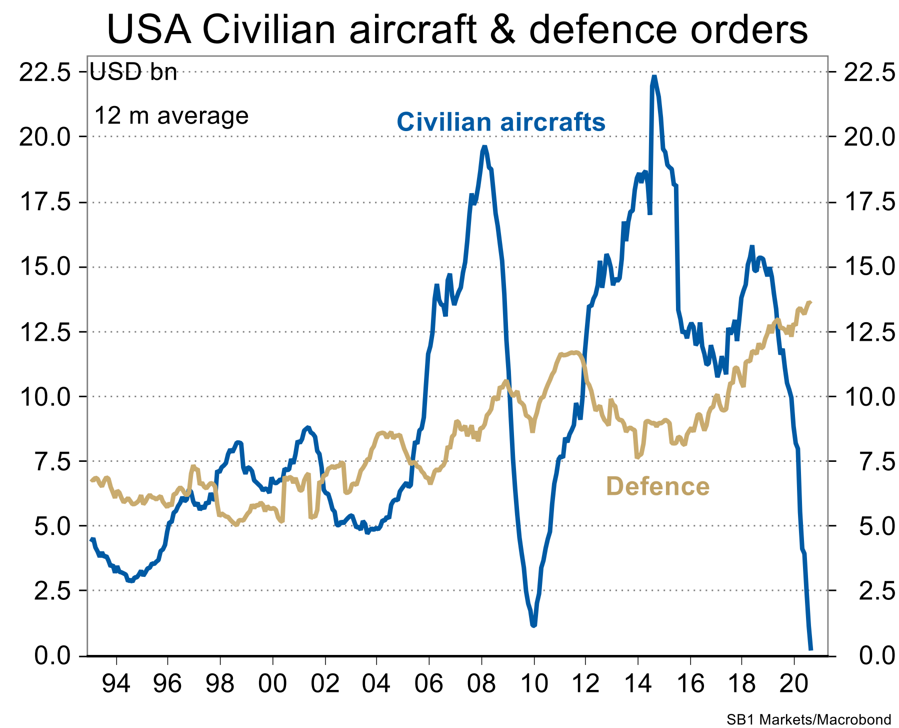


- Core durable orders fell by 0.8% m/m in August, not bad following an 8% rise in July and 17% in June!
- Total orders inched up. Airline orders still the main drag, more cancellations than new orders in Aug too
- Core investment goods orders rose another 1.8% in August, suggesting a rapid recovery in Q3, by close to a 40% annualised rate, record high, of course. In Q2, investments fell by 26% (annualised)

Boeing orders have been hit hard, no recovery so far

Net aircraft orders have been negative since March – and still are

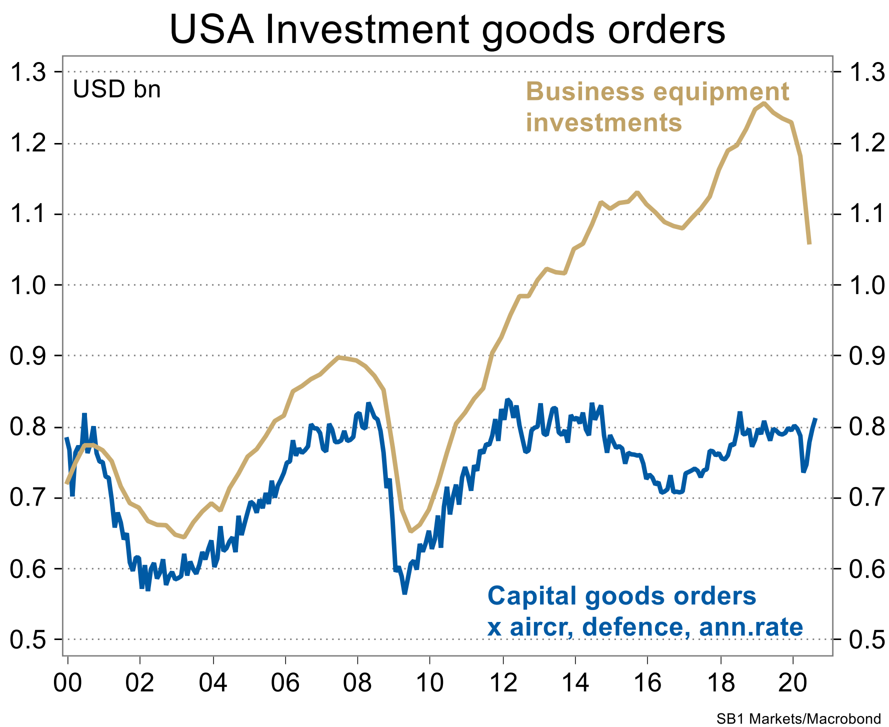


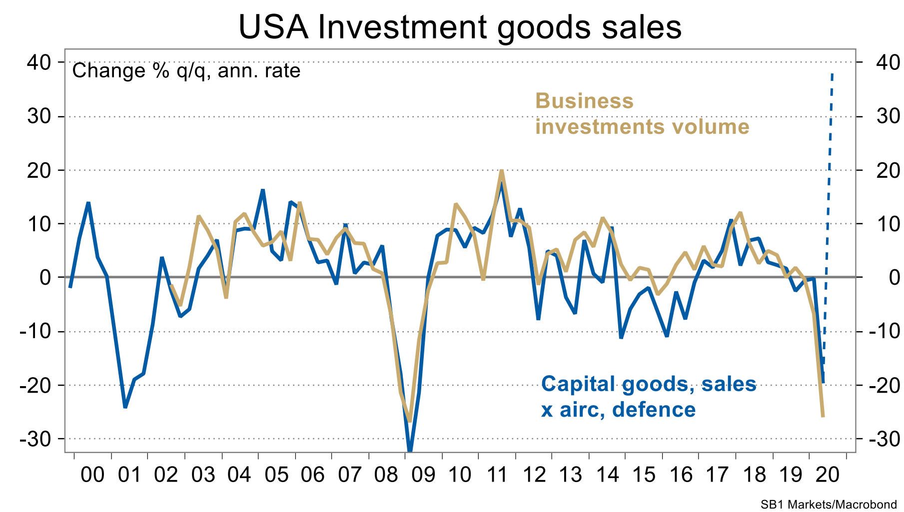


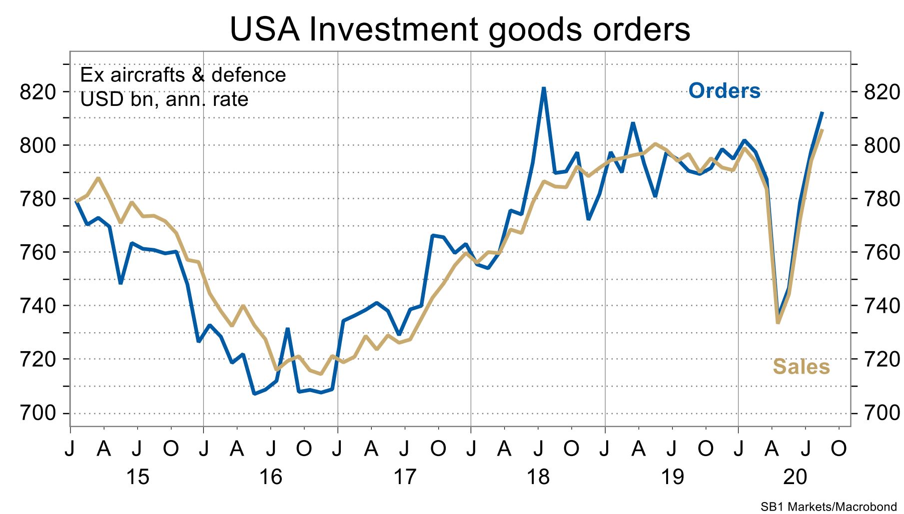
- Still, compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters (it started last spring!) is not surprising at all – even if the USD 45 bn net cancellations in March, April and June was an unprecedented blow

Core capital goods orders & sales rose further in Aug, to above pre corona levels!

The spring's decline in both orders and sales was very muted indeed, just ¼ of the Fin Crisis setback



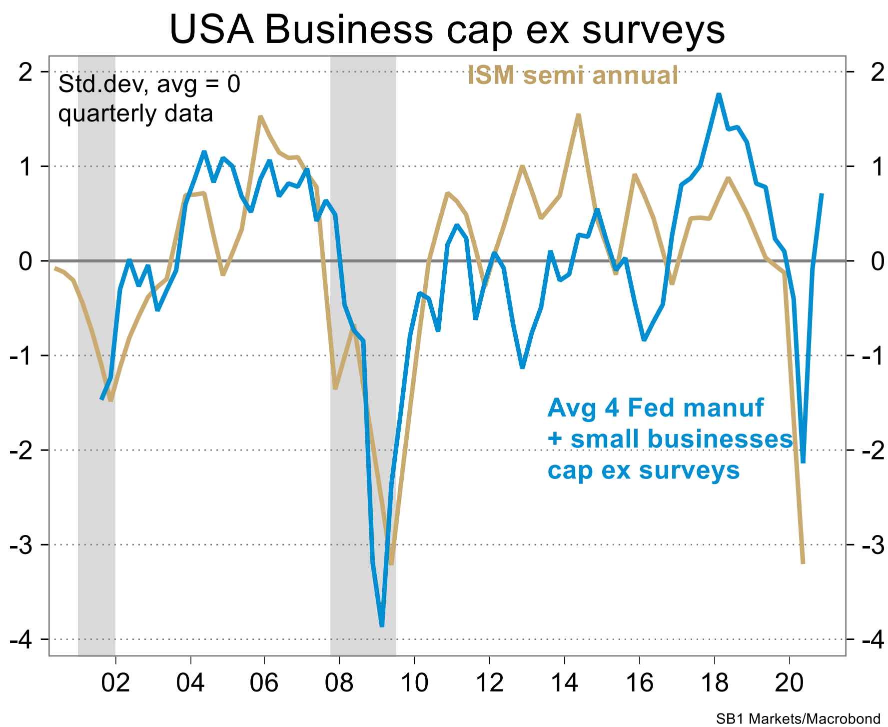


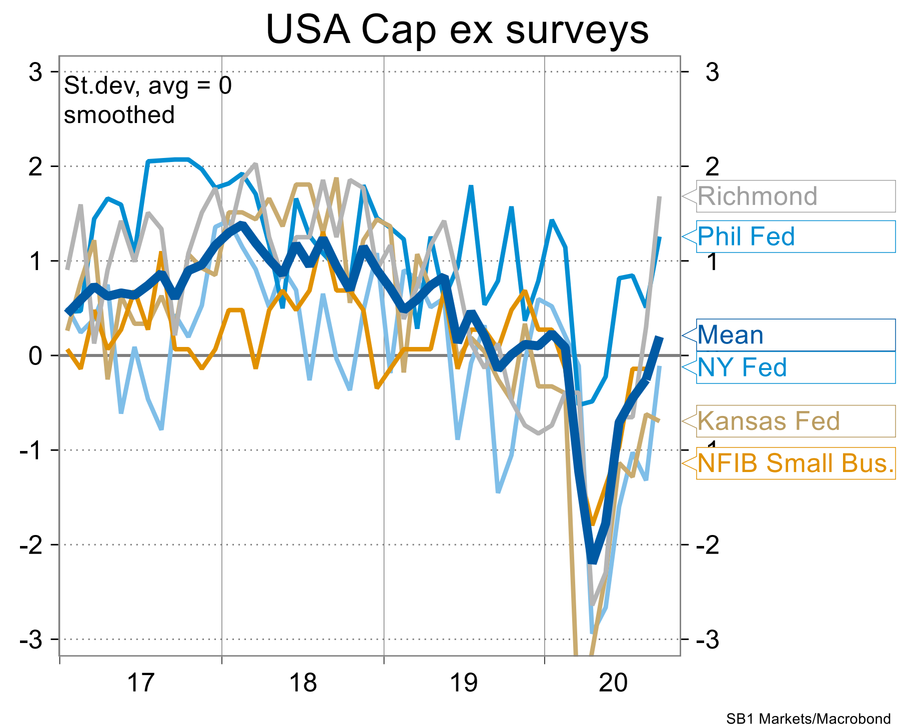


- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
  - Usually, the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year, or even more
- Business survey signal a recovery, but not a sharp one. However, the survey levels may be too low, like the PMIs/ISM have been vs actual production

Business were planning aggressive investment cuts. Not anymore

Businesses are planning to increase investments – however not yet at any impressive speed

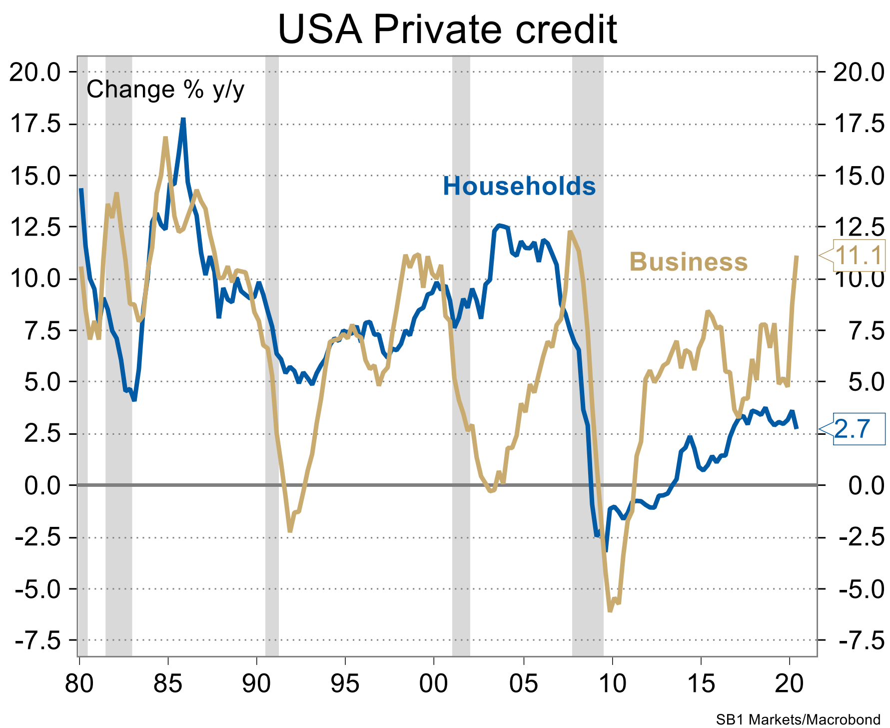


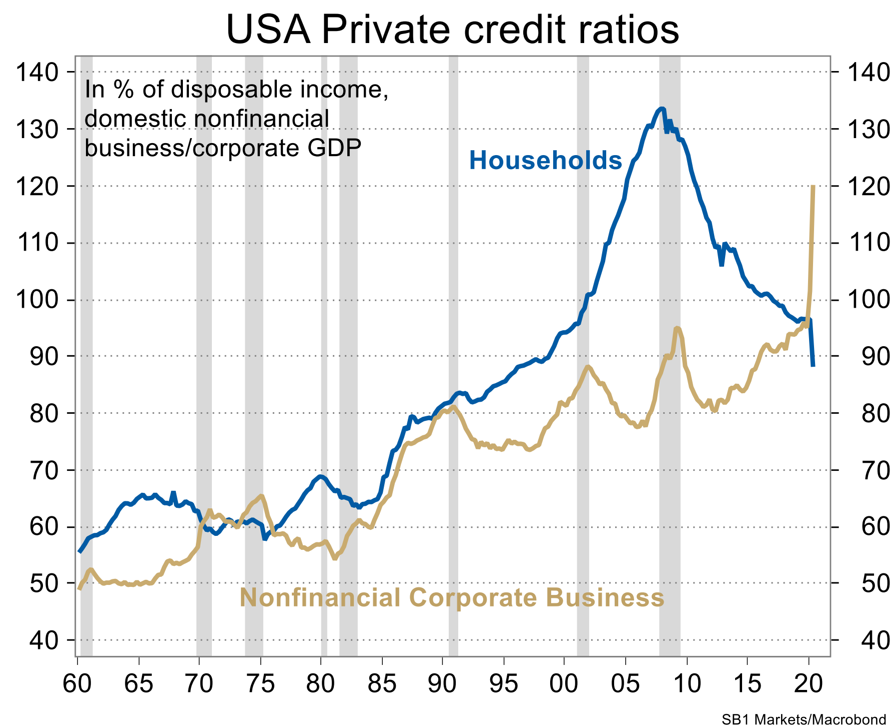


- Investment plans have been nudged up in all the regional surveys. In average, the surveys are now at par
- The ISM semi annual survey is from Q2, the other surveys from Sept/Aug

Corporate credit growth shot up in Q2, households slightly down

Corporate debt up 11% y/y, highest since 2008. Surprisingly, household debt growth slowed to 2.7%

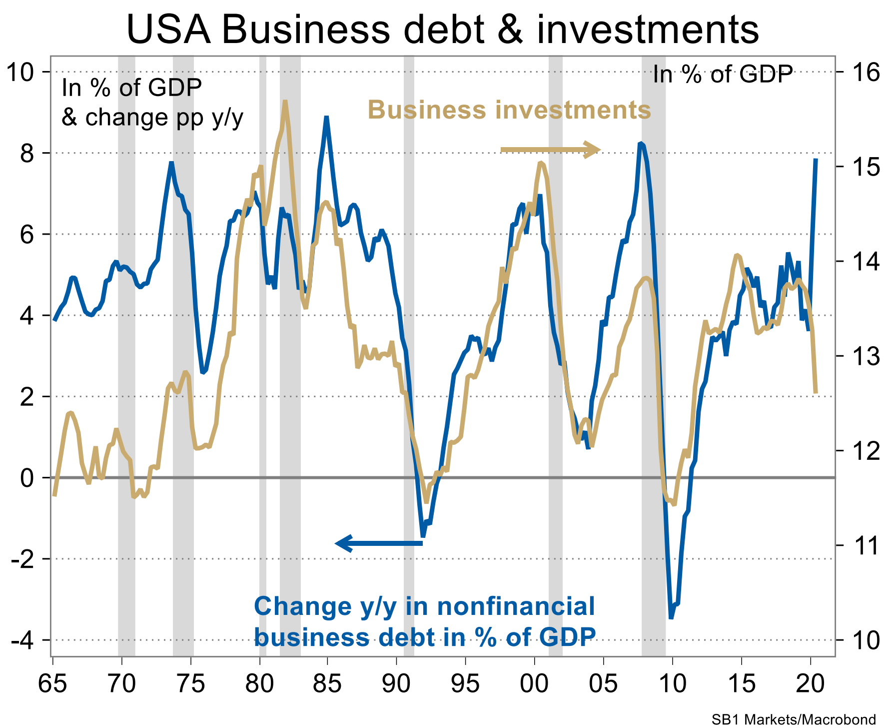


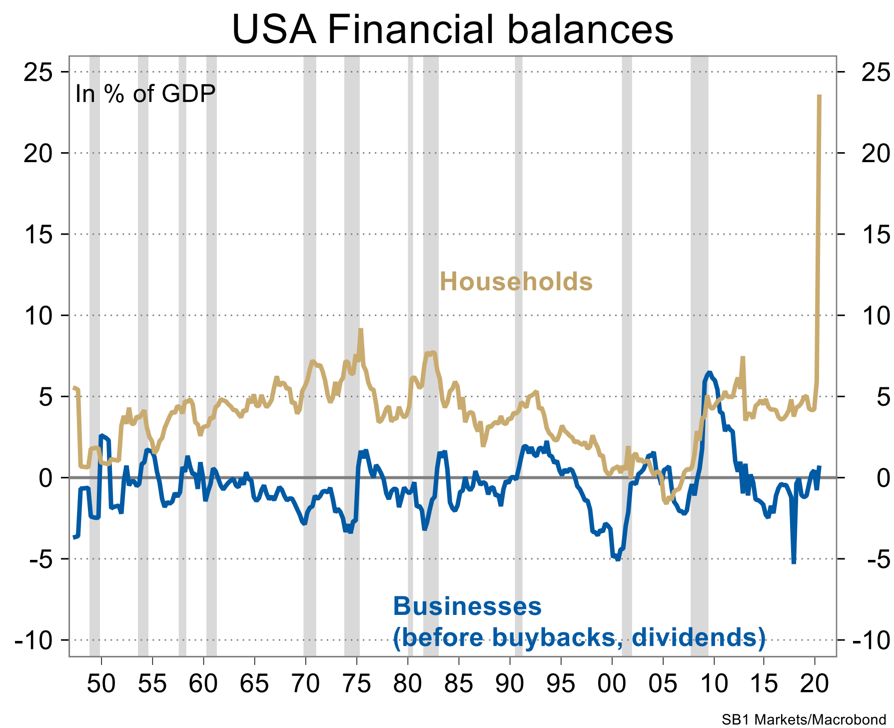


- Corporate credit growth spiked in Q1 and further in Q2, driven by loan programs and a booming corporate bond market, as capital has been flooding into the corporate debt sector. Growth rose to 11% y/y in Q2 (and 13.8% q/q, annualised). The debt/GDP ratio shot up, also due to the decline in corporate GDP fell in Q2, to record high levels, at 120% (of non-financial corporate GDP)!
- Household debt growth slowed to 2.7% in Q2, down 0.9 pp from Q1 and slower than household income (which soared in Q2!). The debt/income ratio fell 'artificially' in Q2 due to the lift in household income, but it was down to 95% in Q1 - it was 133% in 2007! <u>The largest deleveraging ever in the US</u>

Corporate credit soaring, investments down, record high household cash balance

Business investments and credit are usually correlated. We doubt business investments will follow up

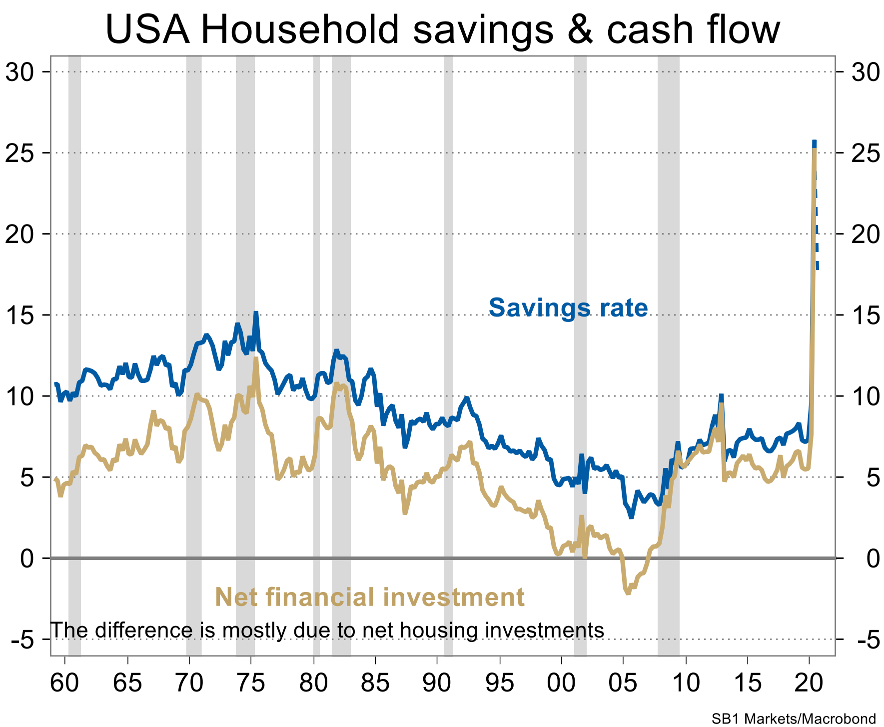


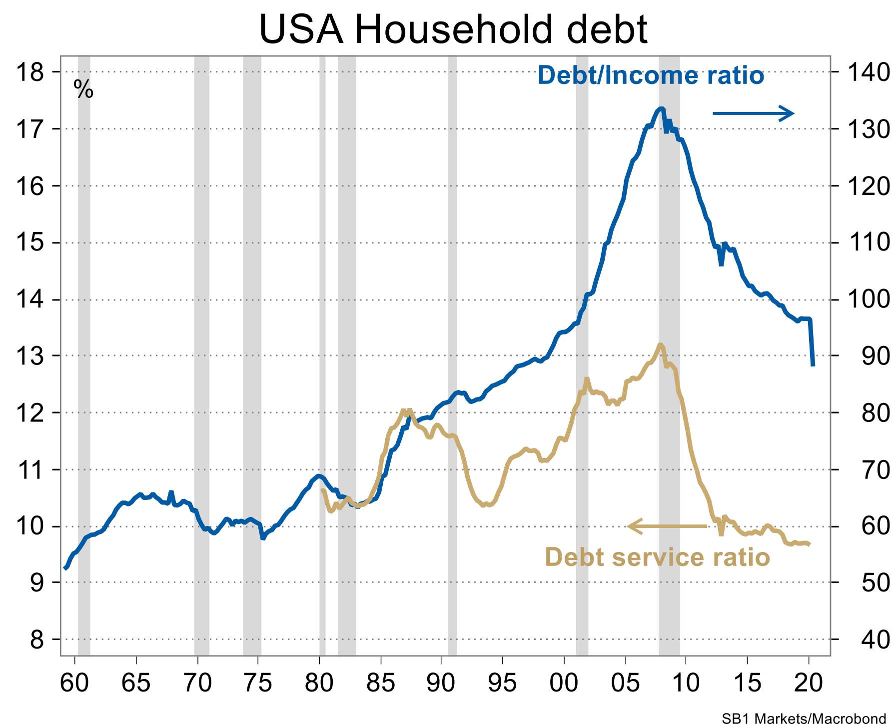


- Households' cash balance spiked to 24% of GDP in Q2, from 6%, an extreme lift, totally unprecedented! Massive federal aid support and a rising stock market boosted net lending. Savings rose to record high levels, check the next slide
- Corporate debt rose sharply, as did corporate liquid assets. Profits fell in Q2, but far less than debt rose, and fixed investments fell (freeing up cash). Thus assets rose as well

Households' savings and cash flow at record high levels

The savings rate jumped to 26% in Q2 as income soared while spending fell. Will decline in Q3

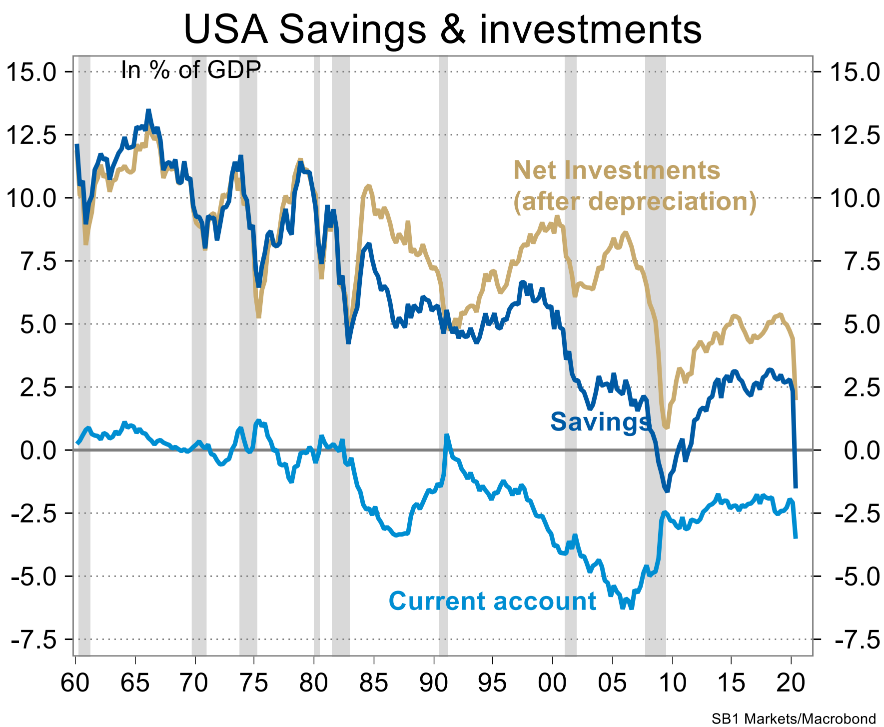


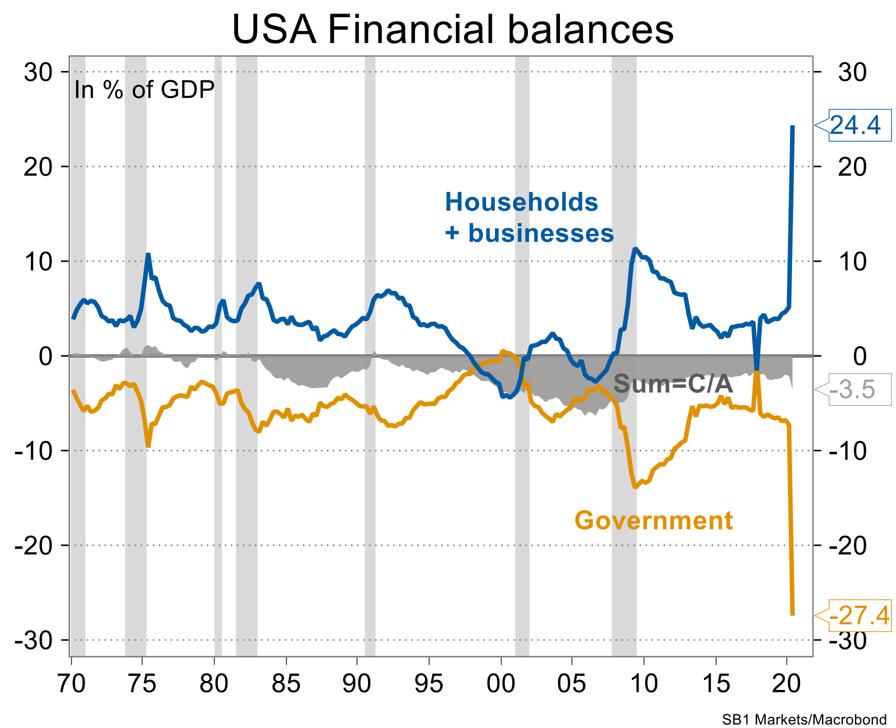


- The savings rate rose to 26% in Q2, from 9.6% in Q1. Household income was boosted by generous government transfers, which more than compensated for the loss of wage income, total up 10% (not annualised). At the same time, households cut back their spending, pushing savings to levels we have never seen before. Savings fell to 18% in July and will no doubt come down in Q3
- Households were running a cash surplus at 25% in Q2, unlike anything we have seen before (12% in 1975 is the closest we get)!
  - » Cash balance (net financial investments) = Savings – net (of depreciation) investments in fixed real capital (mostly housing)
  - » Households' debt ratio has been sliding down for more than 10 years and fell sharply in Q2, as disposable income rose sharply. Households have never before (data from 1980) spent less of their income serving debt!

Public deficit at 27% of GDP in Q2, private sector + 24%!

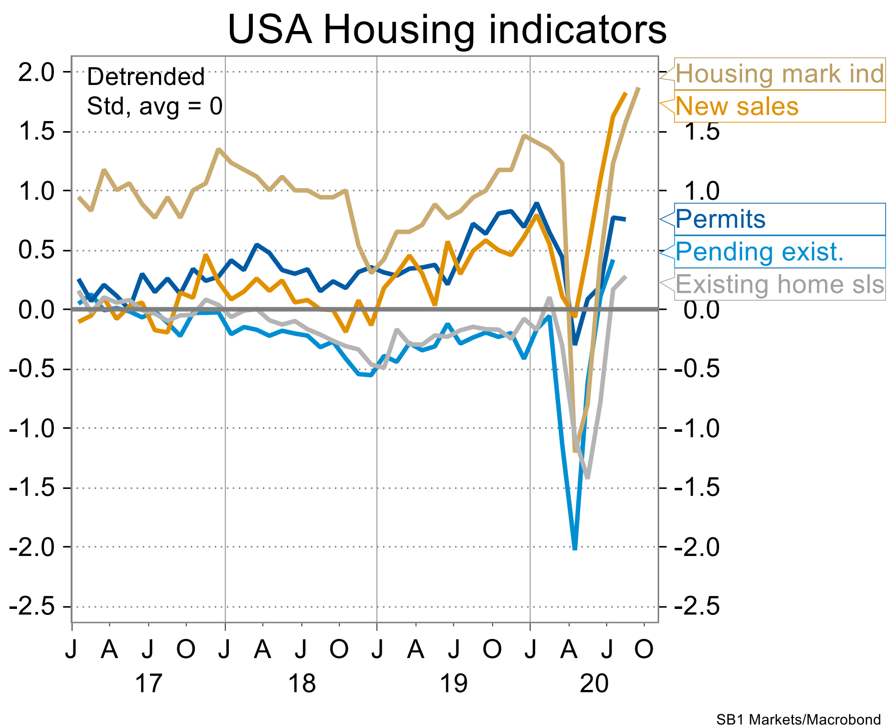
Total savings pushed down by the public sector which is much deeper into red than ever before

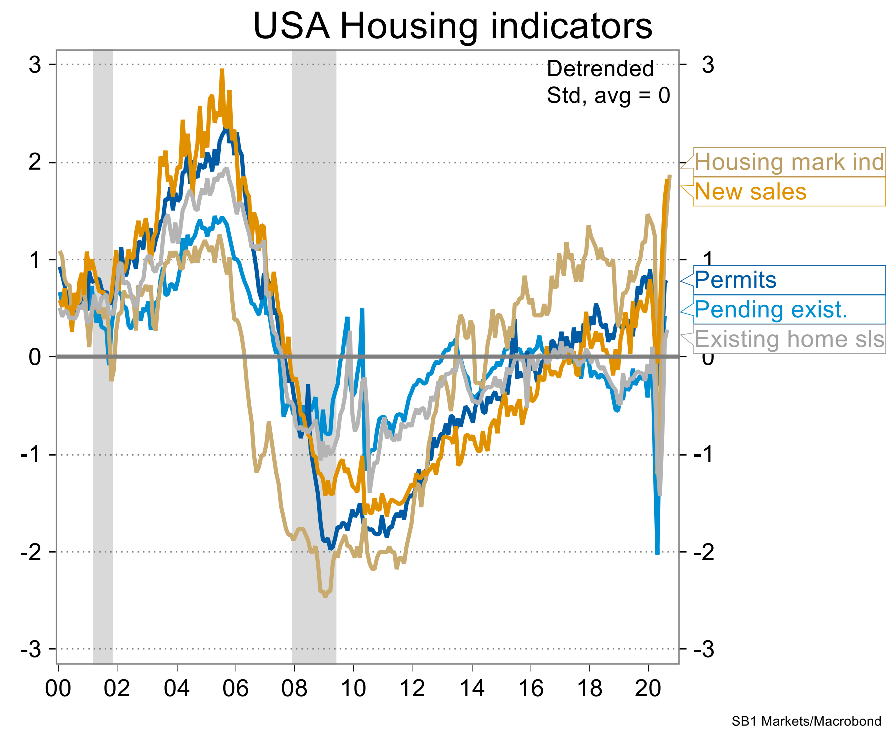




Check the housing market 'V's. It just took 4 – 5 months. Last time: Never

Starts, home sales & the housing market index all sharply up, boosted by low interest rates

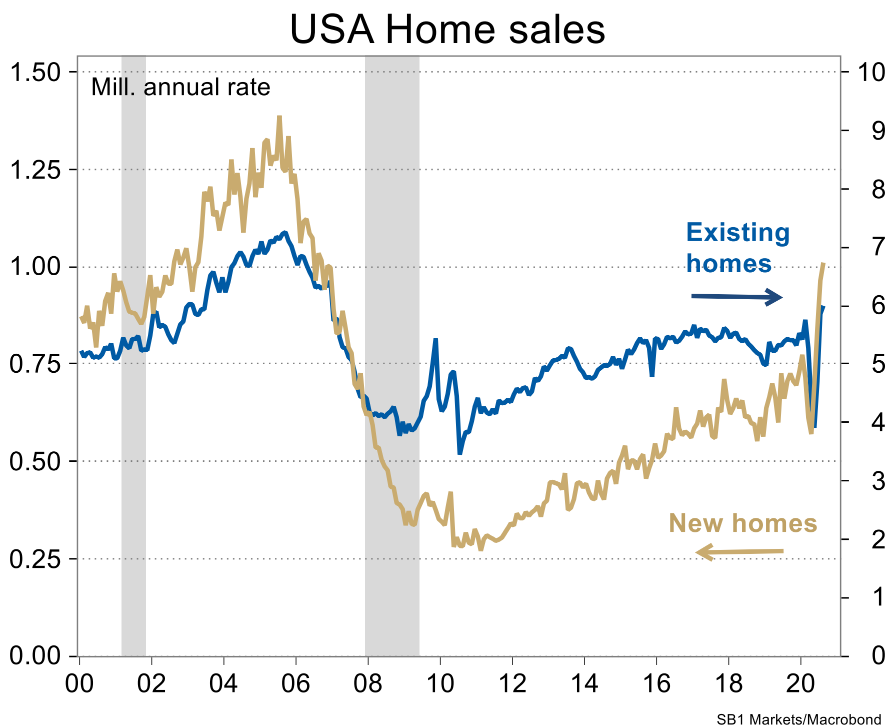


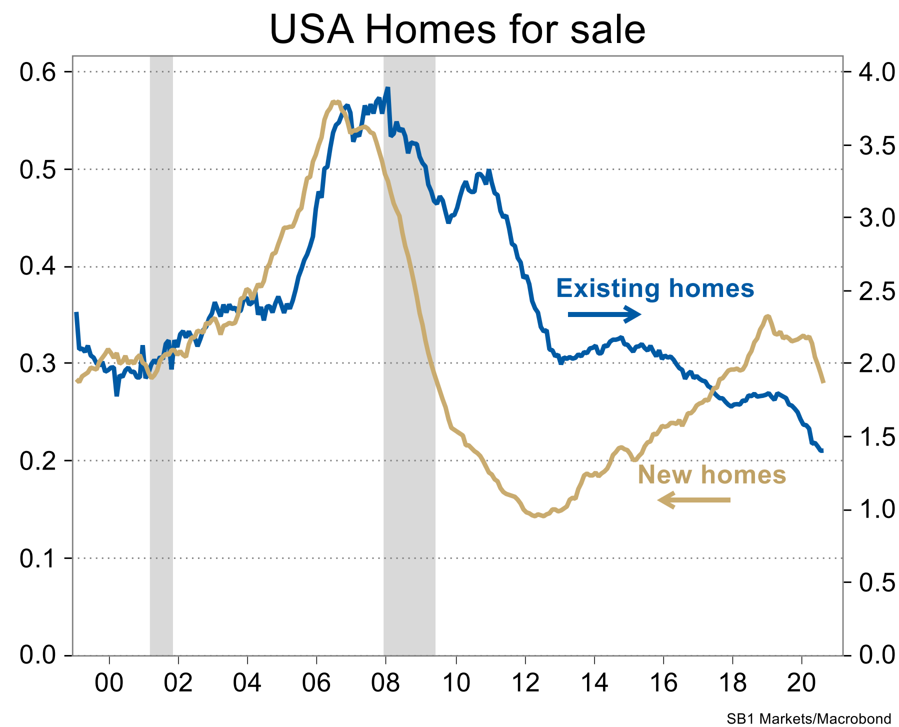


- Compare this 4 – 5 months downturn to what happened during/after the housing/financial crisis: Housing has not yet come back to the pre corona peaks. It even took some 10 years to come back to an average housing market activity level!

New and existing home sales further up – number of homes for sale drops

New home sales 40% above the pre corona level. Existing home sales up 10%

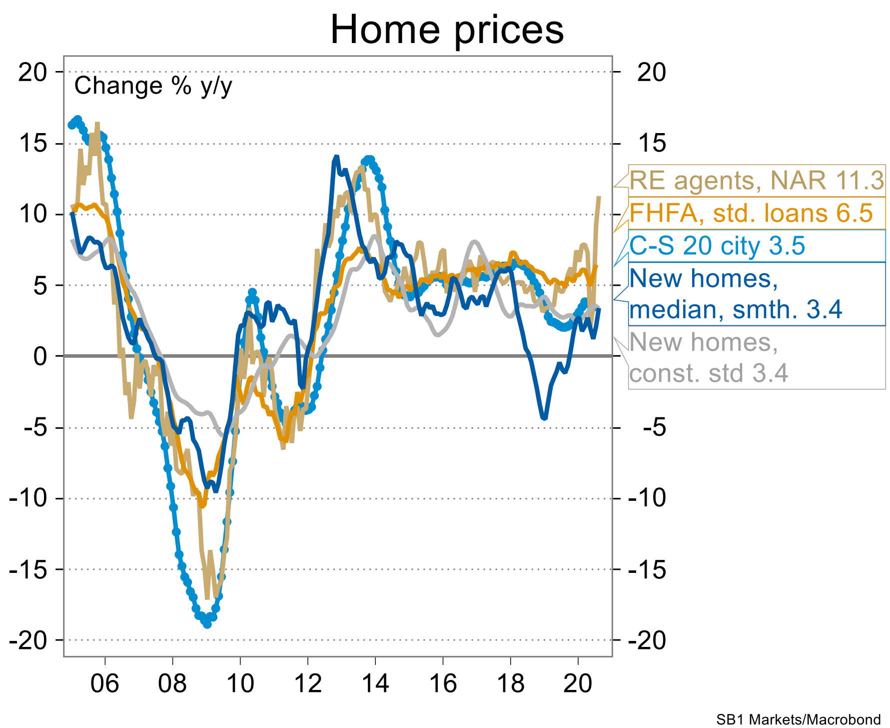


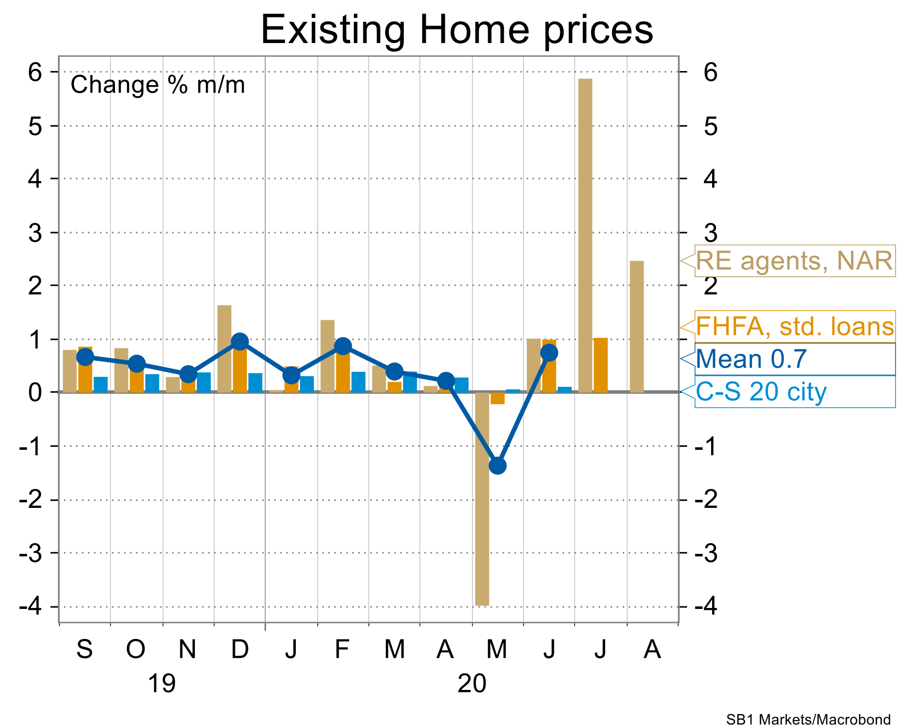


- New home sales rose by another 4.8% m/m in Aug, far higher than expected – to above 1 mill (annual rate). Sales are 40% above the pre corona level! The upturn is partly driven by pent up demand but low mortgages are no doubt boosting demand for housing. The no of new homes for sale is falling rapidly – and level is not high, especially vs. the sales level
- Existing home sales rose 2.4% m/m. Sales are at the highest level since 2007 and the number of unsold homes is much lower than usual – and falling fast

House prices through the roof, says the realtors

Prices rose by 6% m/m in July and by more than 2% in August, up 11% y/y according to NAR



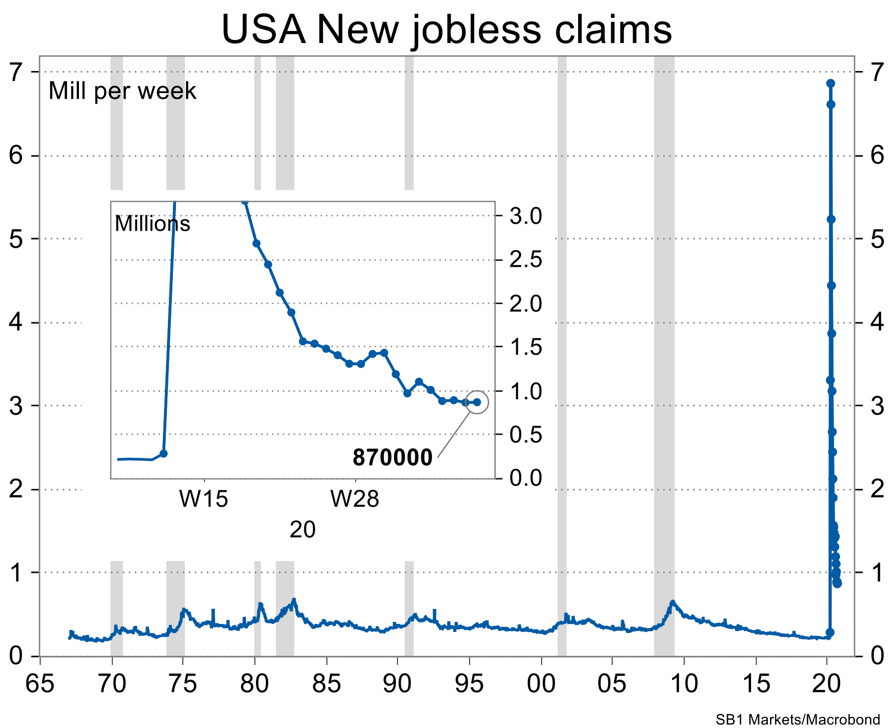


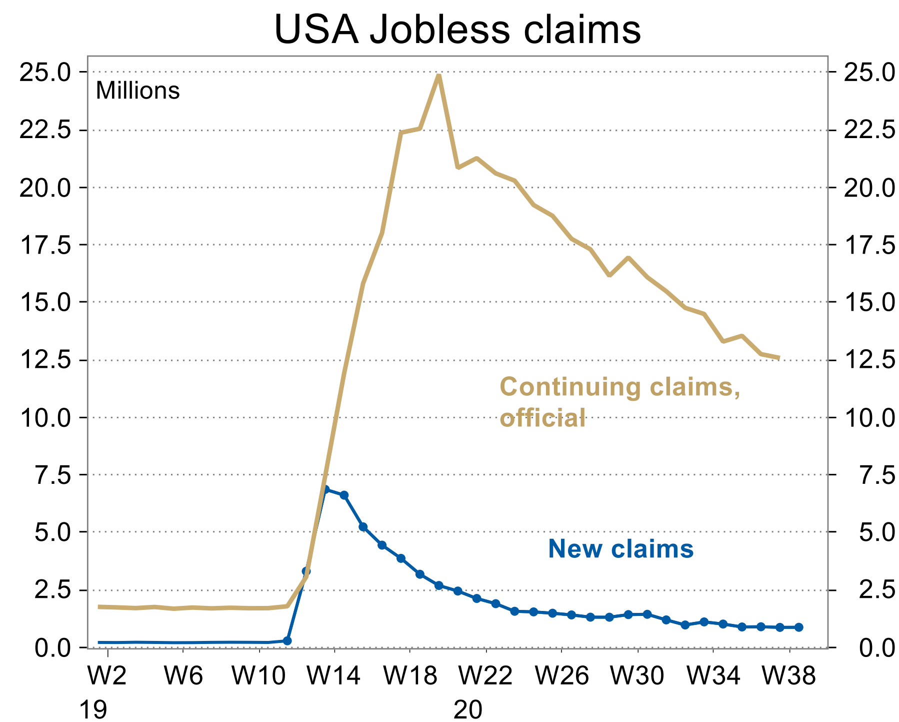
- The realtor index is a primitive 'raw' index but still, something is probably going on
  - » The 8% lift over the past two months is unprecedented – almost twice the previous ATH for a two month hike!

SpareBank 1 MARKETS

Number of new jobless claims steady at 870' last week

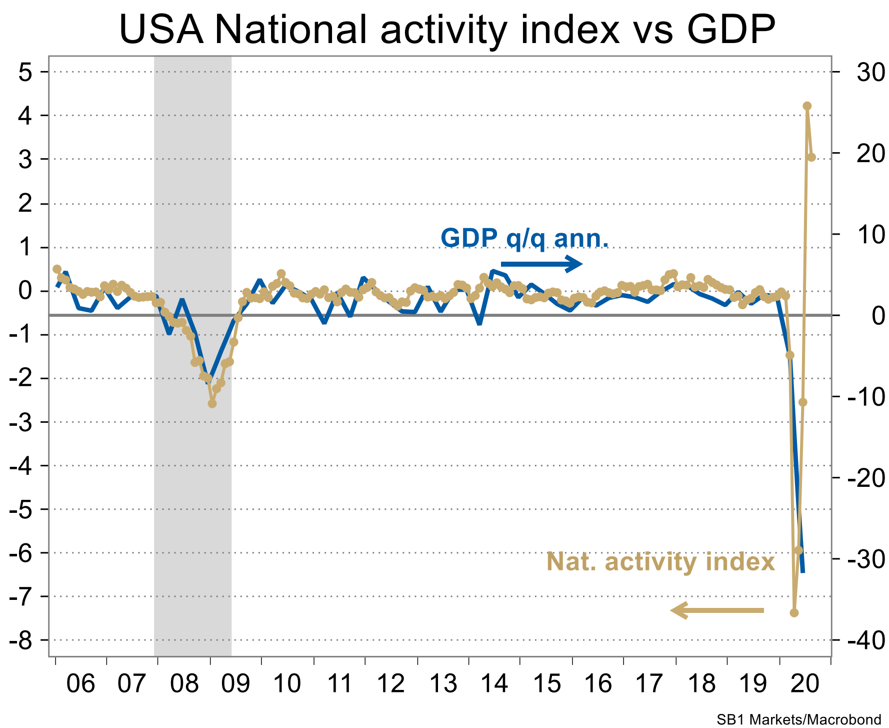
The decline in new claims has more or less stagnated the past 3 weeks, at a very high level





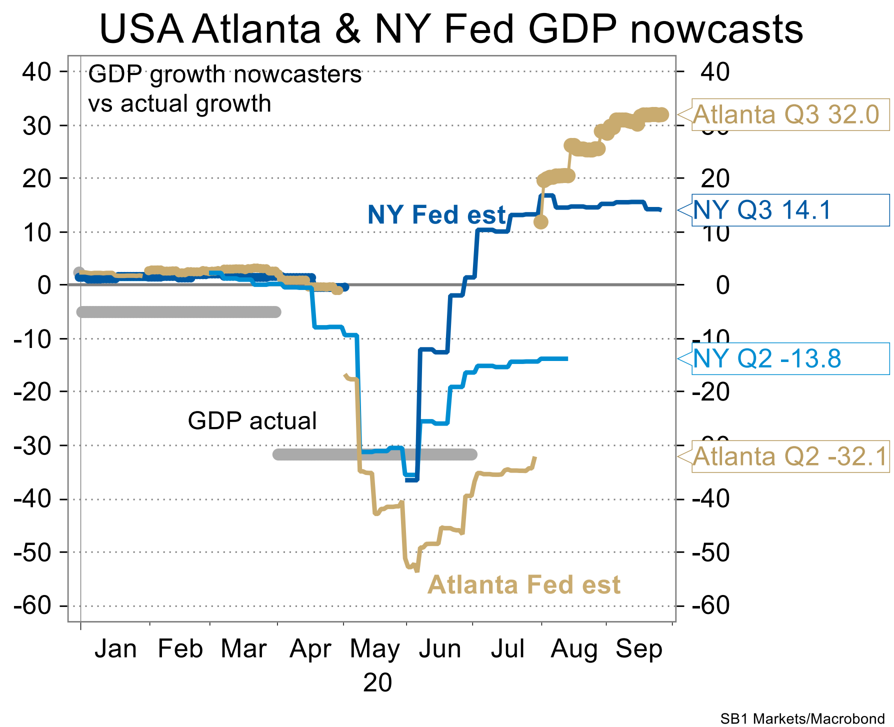
- The inflow has been abating, however, the downturn has slowed substantially and more or less stalled the past 3 weeks. New jobless claims came in at 870' last week, 30' higher than expected. 0.5% of the labour force is still entering the labour market offices as newly unemployed each week! The number is much higher than during any earlier USA recession
- Luckily, more are leaving the dole (for a job or are they leaving the labour market?): Continued claims has fallen to 12.6 mill. from 25 mill. – still 8% of the labour force is on the dole

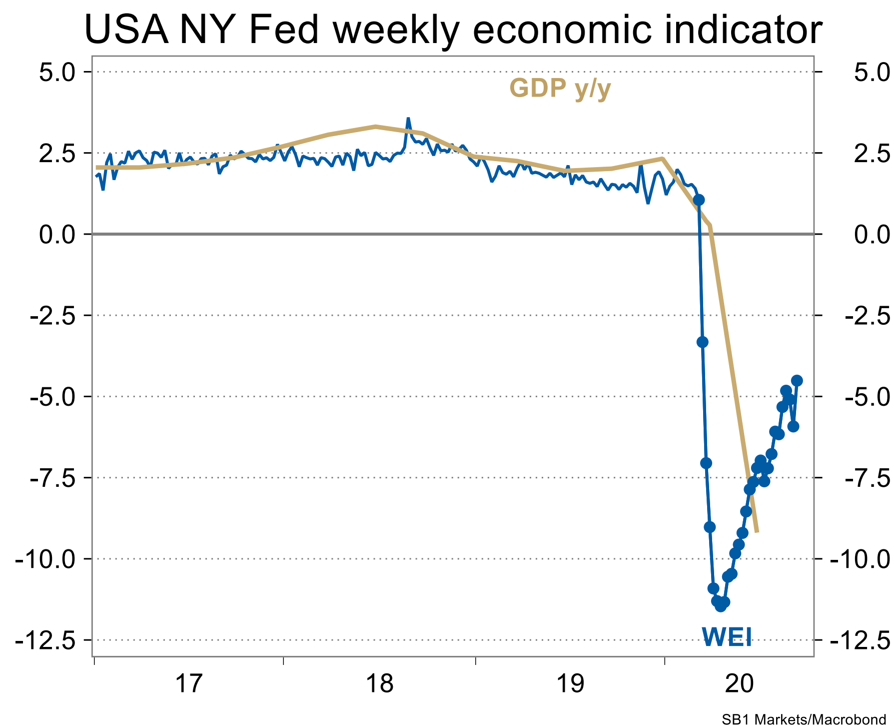
The Chicago Fed national activity index signals a 20% Q3 growth pace



Nowcasters are looking upwards in Q3, of course. In avg less than the Q2 loss

15 – 30% growth (4 – 8% not annualized) signaled, vs. the 31% (9.1 n.a) Q1 setback



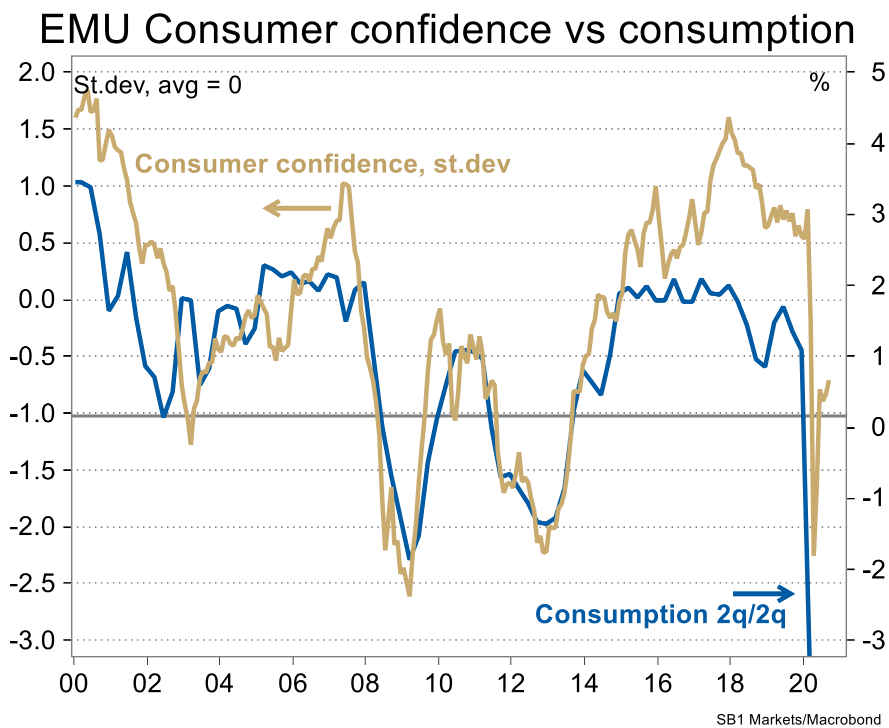


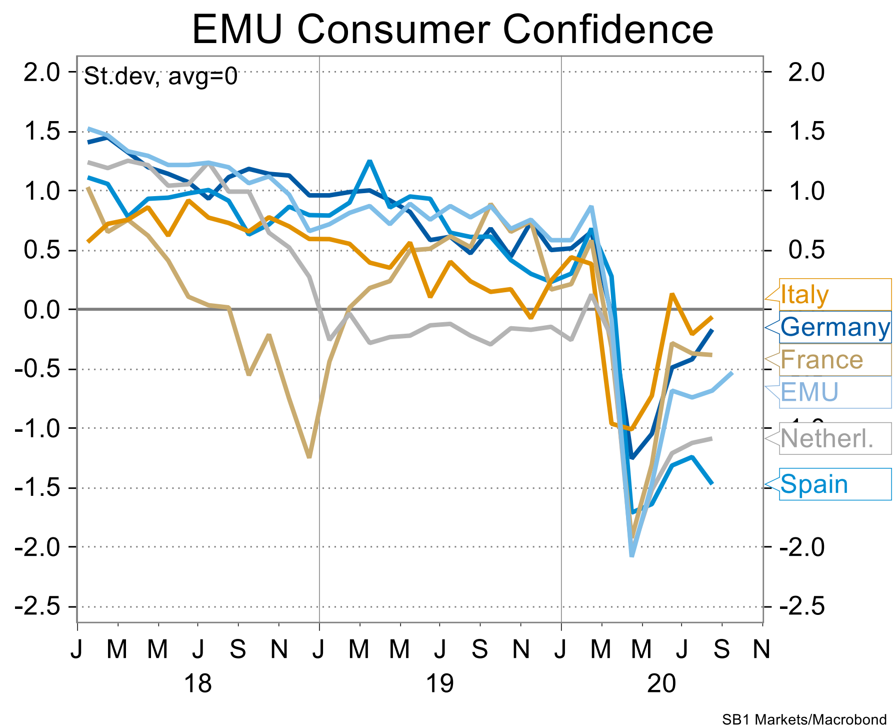
- The nowcasters' Q3 forecasts are still very uncertain - and they don't even get it right after the quarter is done. So for what they are worth, the Atlanta and NY Fed nowcasters reports 15 – 30% growth in Q3 (annualised rate)
- NY Fed's weekly model signal 5.8% decline y/y in Q3 (average of weekly obs in Q3, equalling a 18 - 20% growth pace q/q in Q3 (5% actual growth, following the 9.1% decline in Q2). We still assume growth will turn out to be somewhat higher that that in Q3 (but our confidence have weakened following the decline in core retail sales in August, and continued challenges in parts of the service sector)

SpareBank 1 MARKETS

Sept consumer sentiment marg. up, still well below pre corona level and avg

Sentiment is still 1.5 st.dev below the pre corona level; does not signal growth in consumption

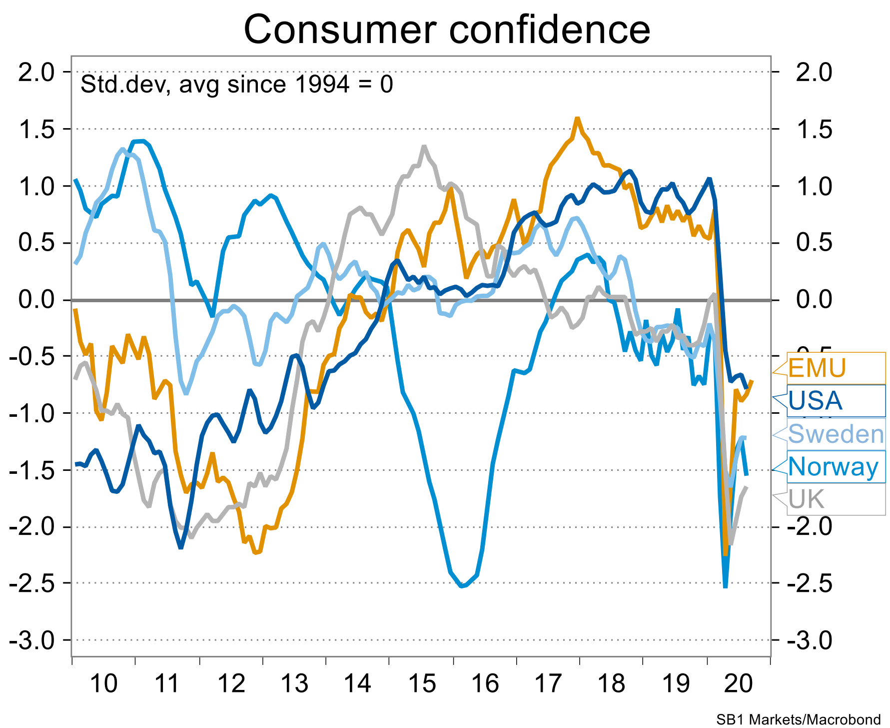


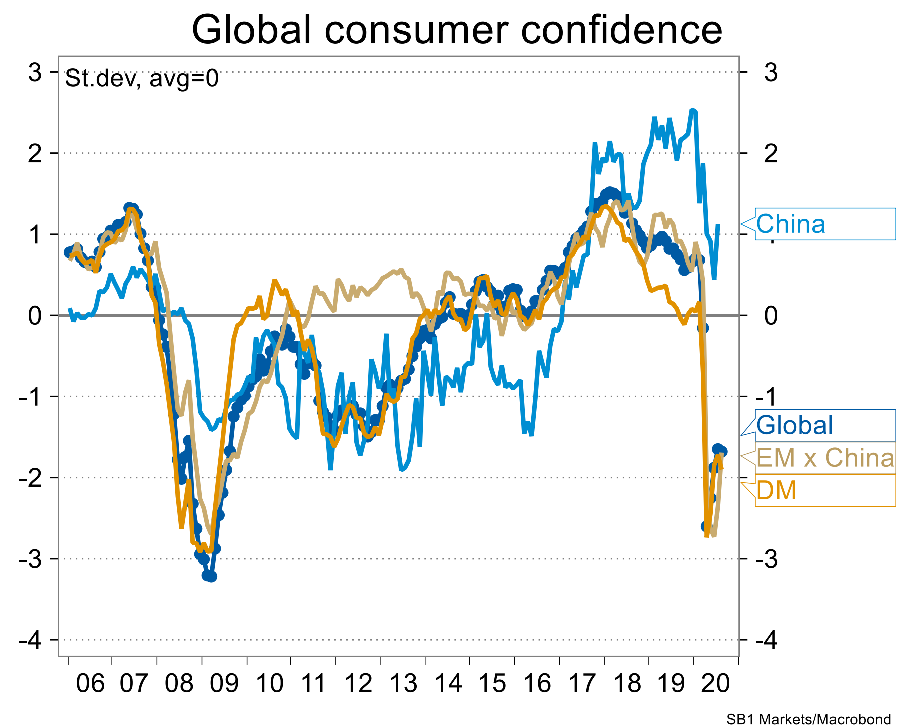


- Italy and Germany reported a rise in consumer sentiment in Sept, Spain down and is the weakest among the major countries

Consumer confidence remains weak everywhere, even as retail sales have soared

The confidence recovery has been surprisingly soft, given strong goods consumption, stock markets

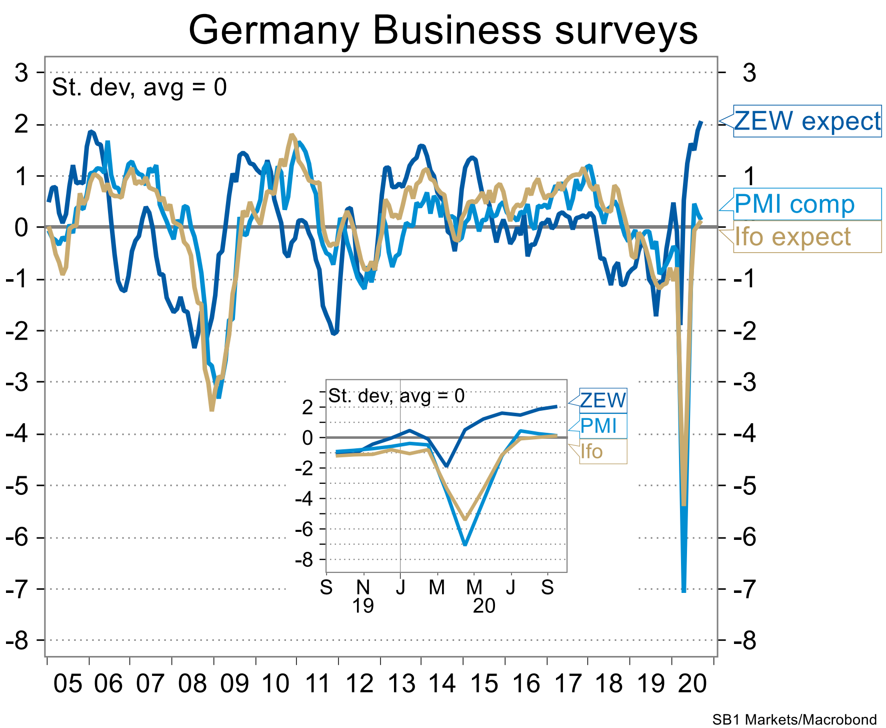


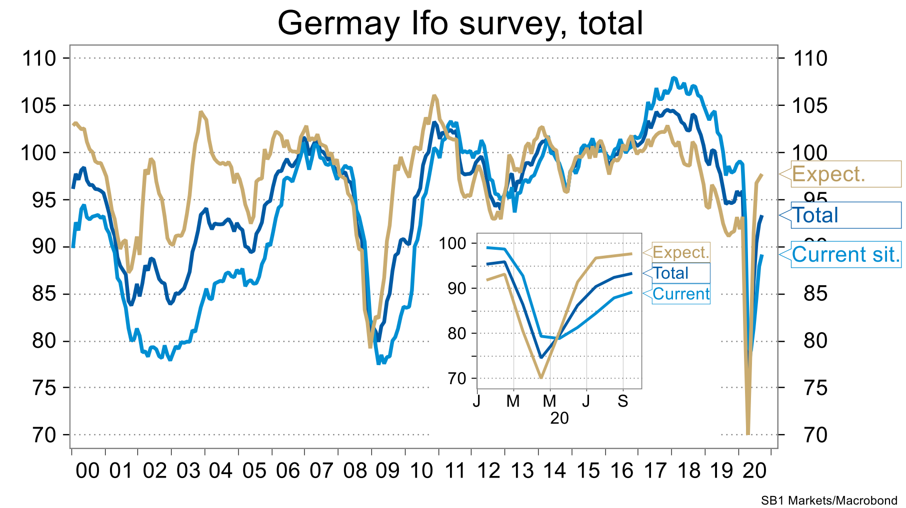


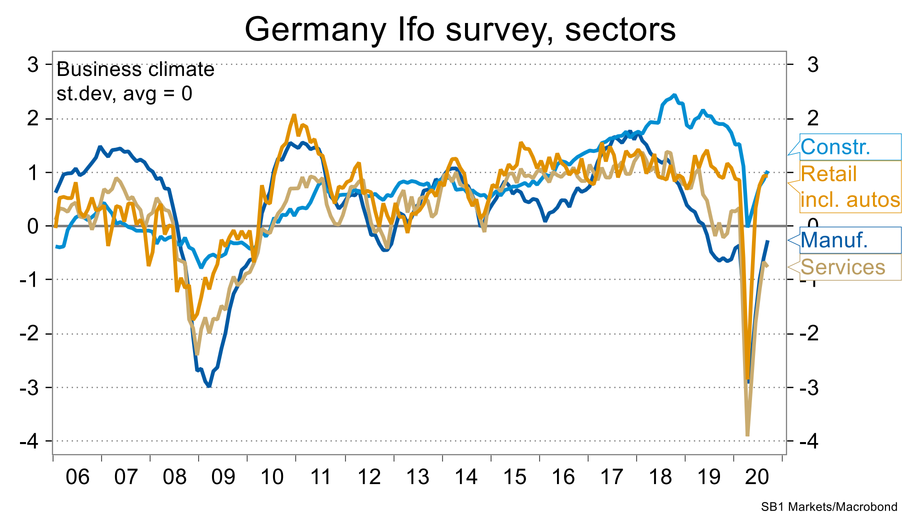
- OPPDATER!

Ifo expectations inched up in Sept, level in line with the PMI

Retail trade and construction are reporting growth, manufacturing and services still below par



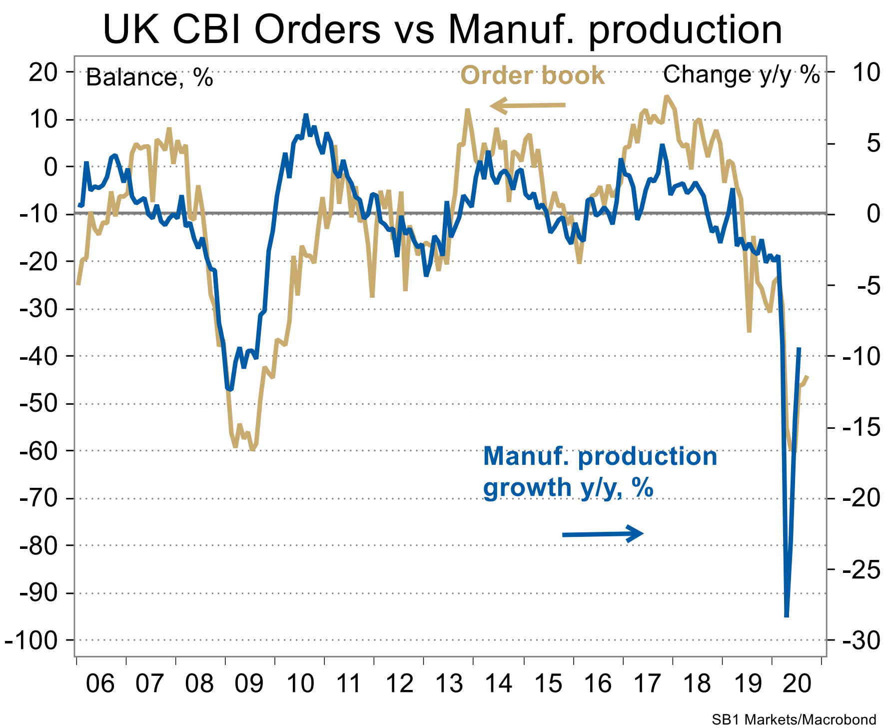


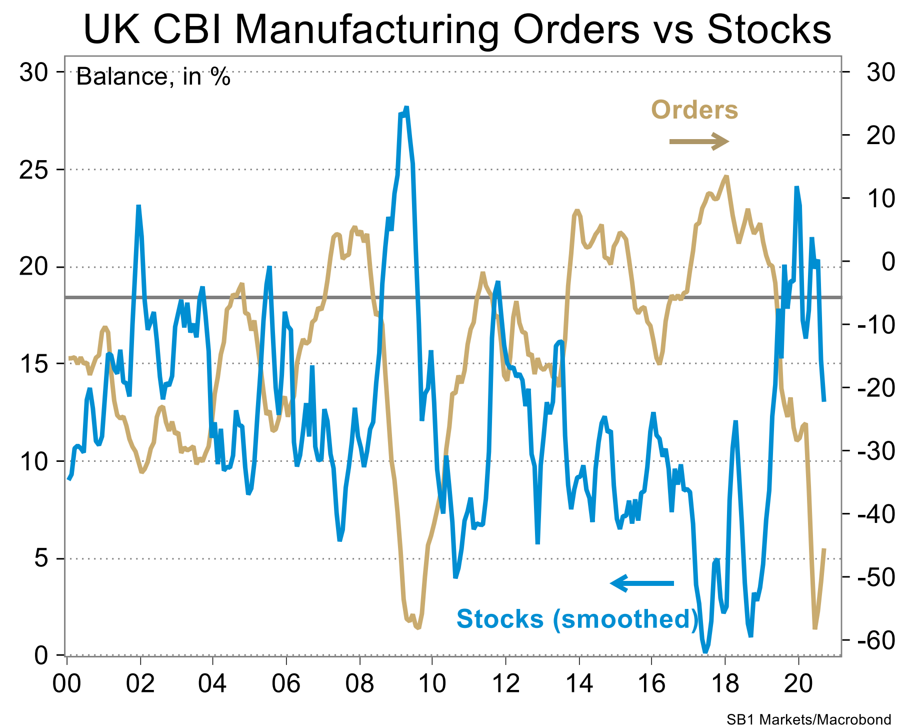


- The ZEW expectation survey (which is a survey among economists and investors, not a business survey) is the most upbeat – and might be the most correct vs growth rates in Q3
- Both the PMI and Ifo surveys have rebounded but are signalling just a soft recovery in the German economy

CBI manufacturing order index reports a continued decline!

Orders are being reduced rapidly, just marginally slower than during the worst months of the crisis



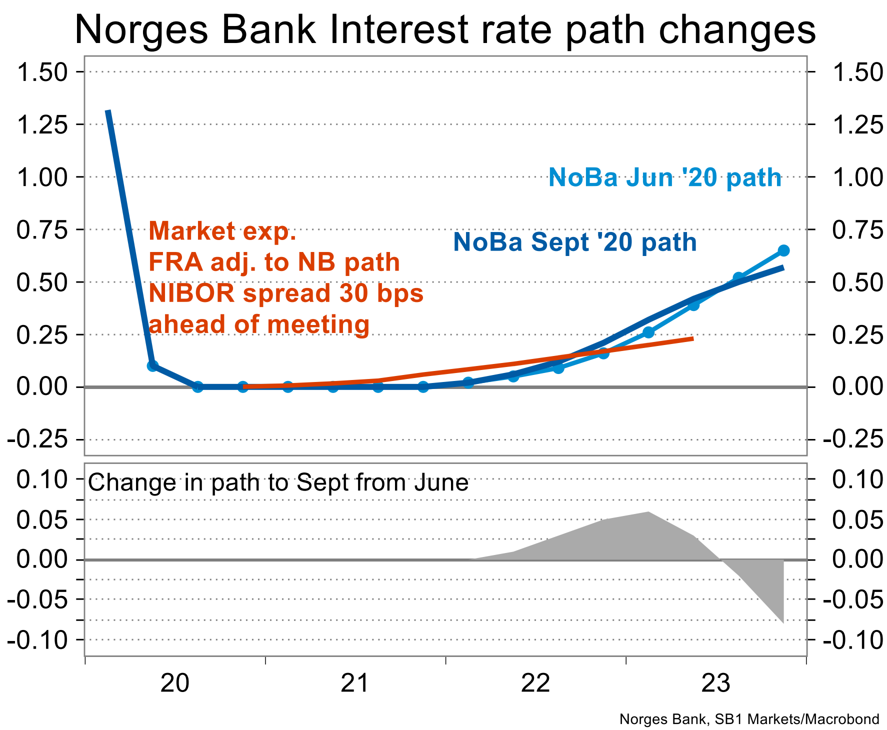


- The CBI order book index bottomed out in May but is still – in September – at a very low level, signalling a steep decline in manufacturing orders
- According to the CBI, inventories were reduced in September but has not been reduced over the recent months

SpareBank 1 MARKETS

Norges Bank lifted the rate path marginally, first hike still signalled in H2 2022

Insignificant changes to the rate path, the first hike moved forward by 1-2 months, in H2 2022

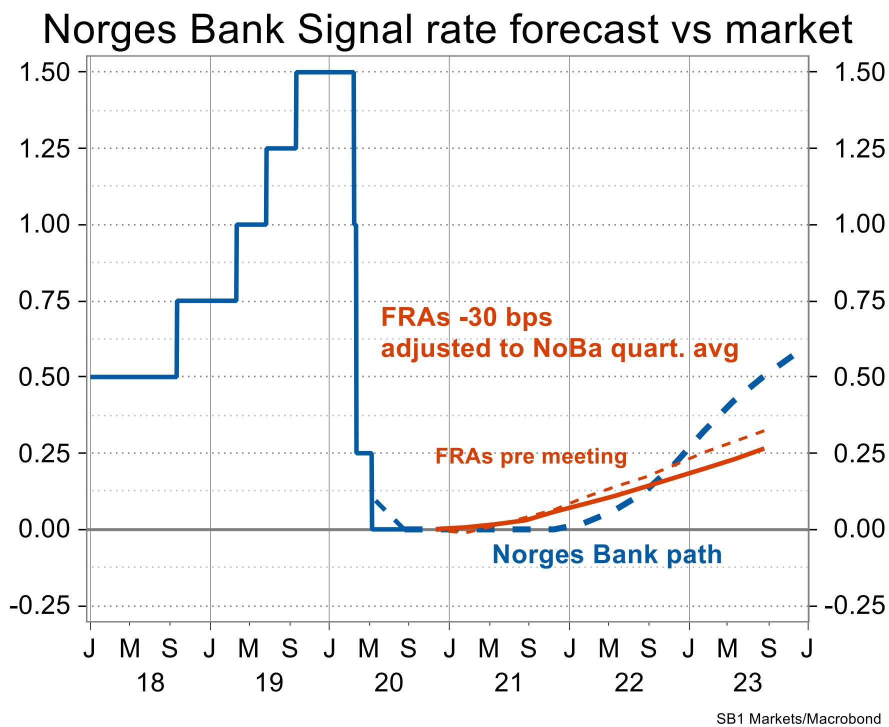


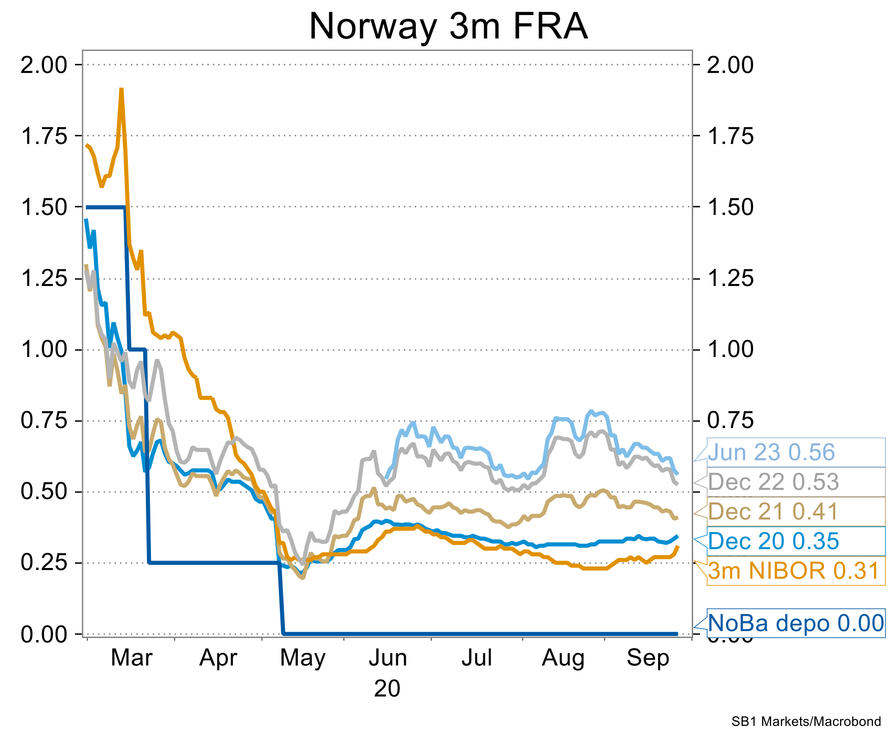
Market reactions: NOK FRAs fell by 4 bps in the long end. NOK initially depreciated some 0.7% on EUR but most of it was reversed later in the day

- Norges Bank made just minor changes to the interest rate path, as we (and most others) expected. The path was lifted by up to 6 bps in 2022/23 and lowered by 8 bps in late 23. The first hike still signalled in H2 2022, most likely Q4 but Q3 is also possible
- As expected, the bank emphasized uncertainties and stated that rates will be kept at zero until there are '*clear signs that economic conditions are normalising*'. A new wording, but no change in actual policy strategy
- The Mainland GDP forecast was more or less unchanged, NoBa expects a 3.6% decline in 2020 (from 3.7% in June) and a 3.7% rise in 2021
- Household consumption revised down in 2020 (services will remain depressed), up in 2021. The Bank is probably too optimistic on goods consumption in H2 '20.
- Both Mainland business investments and oil investments are expected to decline rapidly, and more in 2021 than projected in June. We agree
- Few changes on the unemployment f'cast, a gradual decline to a normal unempl. level is expected by 2023
- House prices revised up, as expected. The bank expects moderate credit growth even as house prices are rising fast. Households savings revised up sharply, due to weaker service consumption
- Core CPI inflation revised up in H2 but is expected to slow faster the next years. Wage inflation at 1.9% in 2020

The market is still somewhat ahead of Norges Bank, pricing a hike in Q2 '22

FRAs fell further last week but the market is still slightly ahead of NoBa, but now just 1 – 2 quarters





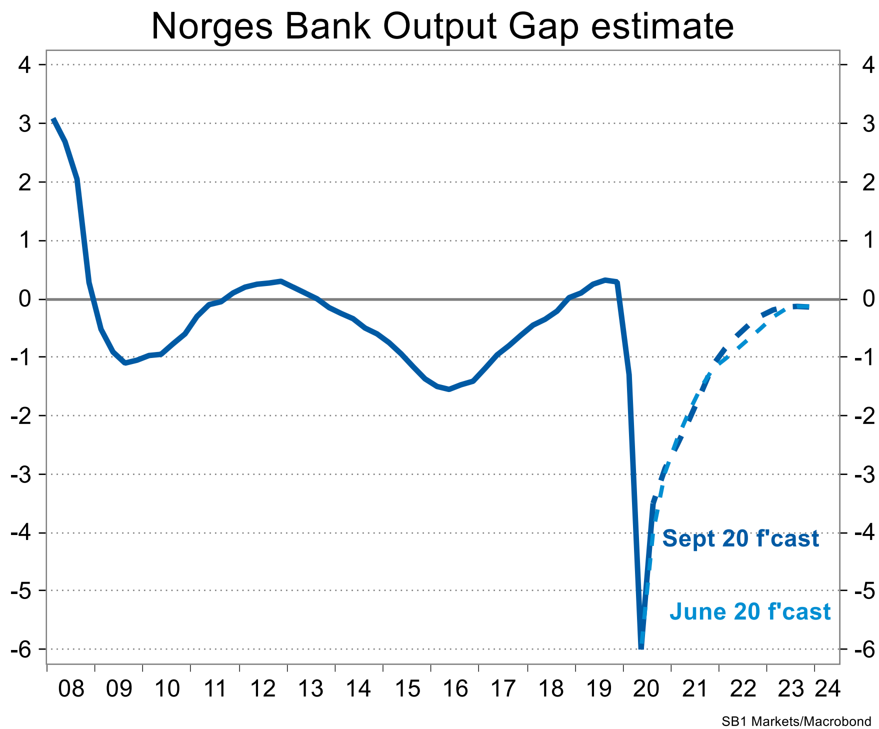
- FRAs fell 4 bps in the long end Thursday, following the NoBa meeting (and another bps at Friday). The market is no longer pricing a hike in late 2021, as it did some weeks ago; the 50% probability line is now crossed in Q2 2022

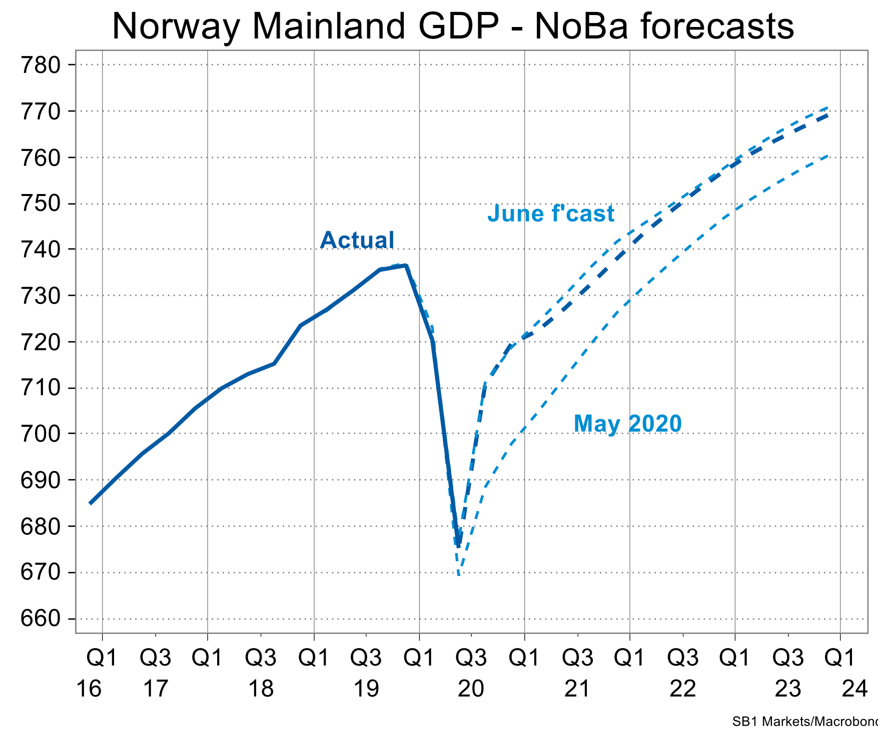
At the left hand chart, we have adjusted Dec FRAs some 3 – 4 bps downwards due to the seasonal Q4 impact in the FRA curve

SpareBank 1 MARKETS

Norges Bank expects the output gap to be closed in 2023

Small changes in GDP & output gap estimates but trend growth has been revised slightly down





- Norge Bank assumes trend growth will slow somewhat – and that the output gap will be closed in 2023, at lower activity level than assumed before the corona crisis

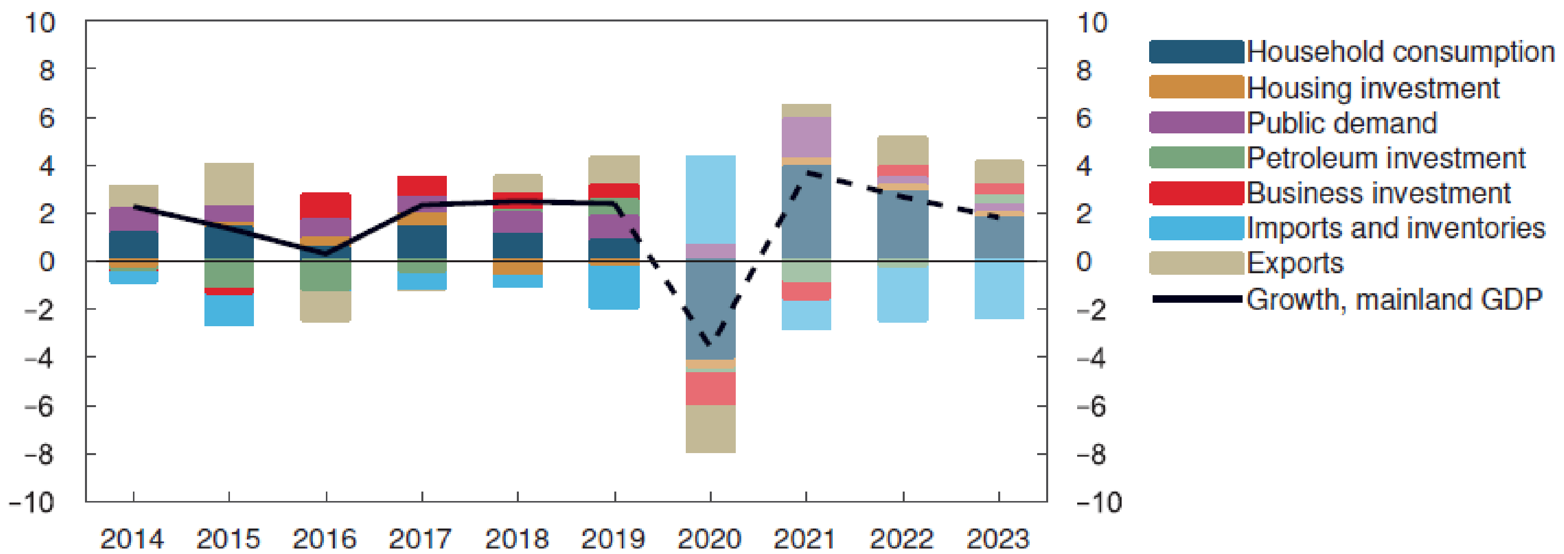
SpareBank 1 MARKETS

Household demand will be the main growth driver in the years ahead

In 2021, both oil and Mainl. Business investments are expected to drag GDP growth down

Chart 3.3 Households support growth ahead

GDP for mainland Norway. Contribution to annual growth. Percent

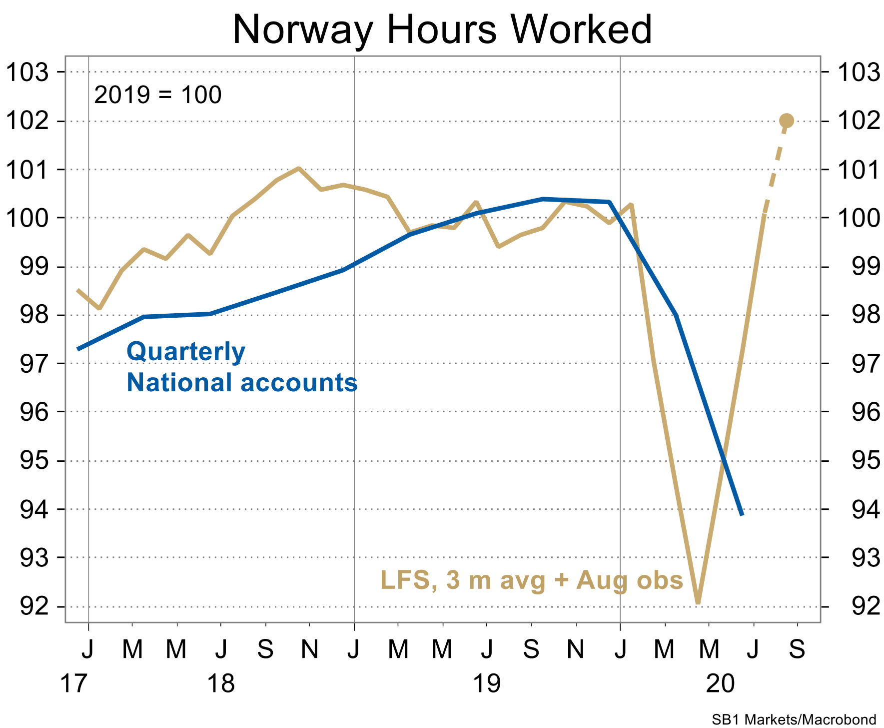


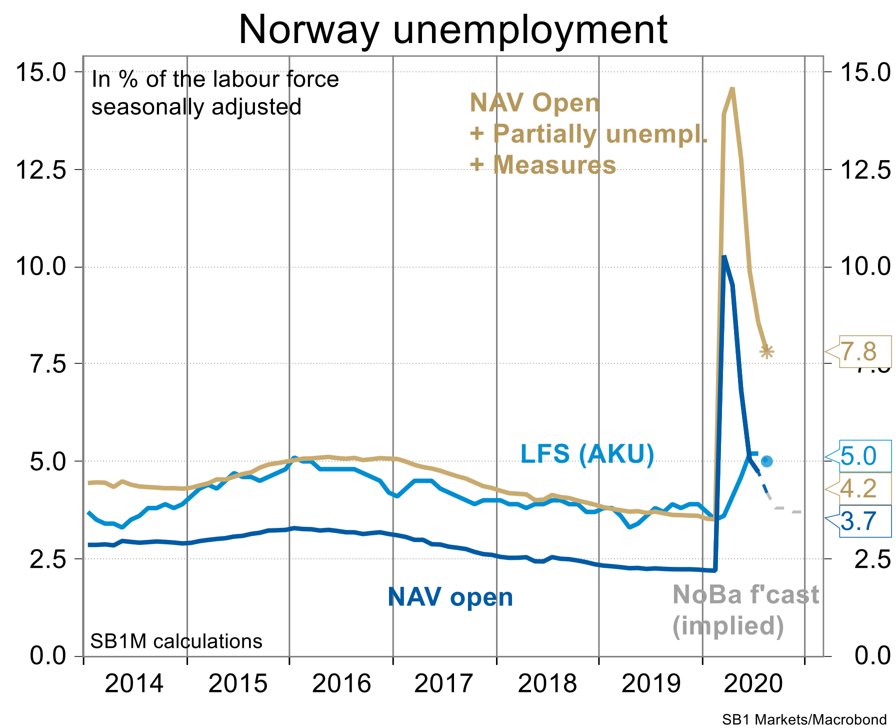
Sources: Statistics Norway and Norges Bank

- In the September MPR, Norges Bank made no substantial revisions to its forecast on GDP growth or the output gap (but several changes to the demand components)
  - » Private consumption revised up in 2021, following a downward revision of 2020. Housing investments revised up
  - » Both oil investments and business investments are expected to decline faster than f'casted in June

LFS (AKU) (3m avg) unemployment unch at 5.2% in July - and down to 5.0% in Aug

An encouraging recovery in the number of hours worked, even if the data are uncertain

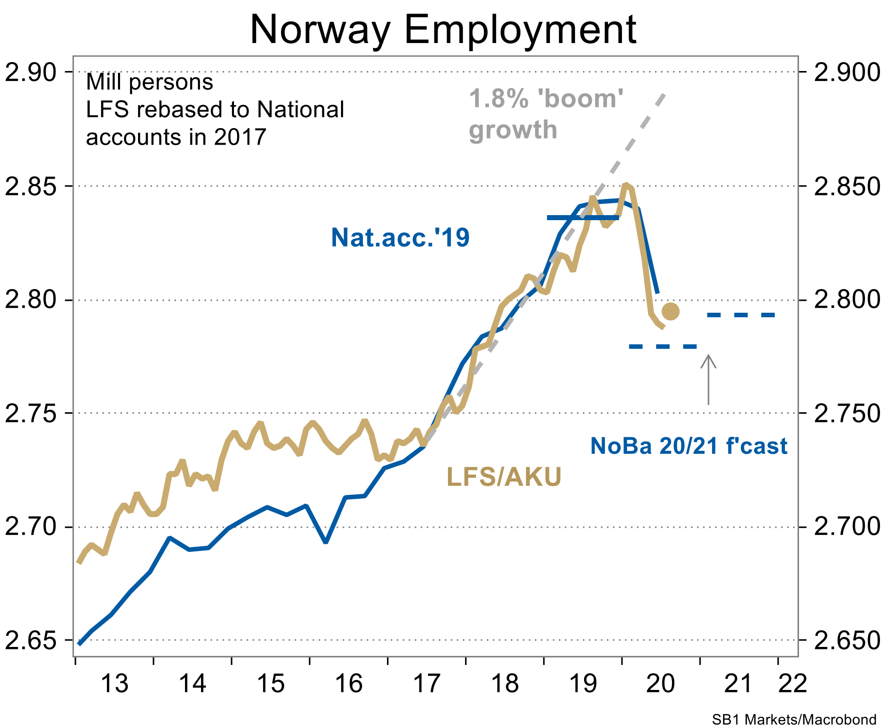


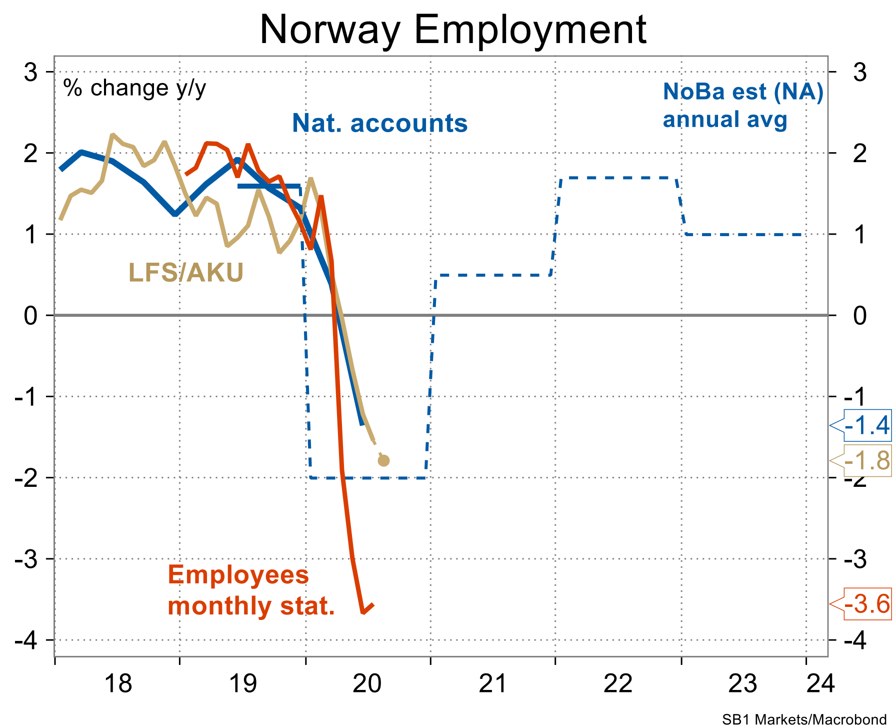


- The 3m smoothed unemployment rate was unchanged at 5.2% in July (June-August), we expected an increase to 5.6%, as July strand alone was reported at 5.8% (not shown in the chart). However, unemployment fell to 5.0% in August, partly due to furloughed workers returning to work. The 5% rate is probably close to the 'real' figure, as most furloughed workers are now counted as unemployed (after the first 3 months of the furloughed period, were they are counted as still employed)
- The LFS employment recovered marginally in August, up by 2'. Still, employment has fallen 2% from February and is down 1.8% y/y. In this figure, there are a number of furloughed workers included
- Hours worked rose sharply through Q2 and further in July and August, and are above a pre corona level! Annual rate at +2.4%. We find these hours worked figures unlikely, given the production data, surveys etc.

Employment marginally up in August, down 2% from before corona

LFS employment is down 1.8% y/y and 2% from Feb, National Accounts reported -1.4% from Q4

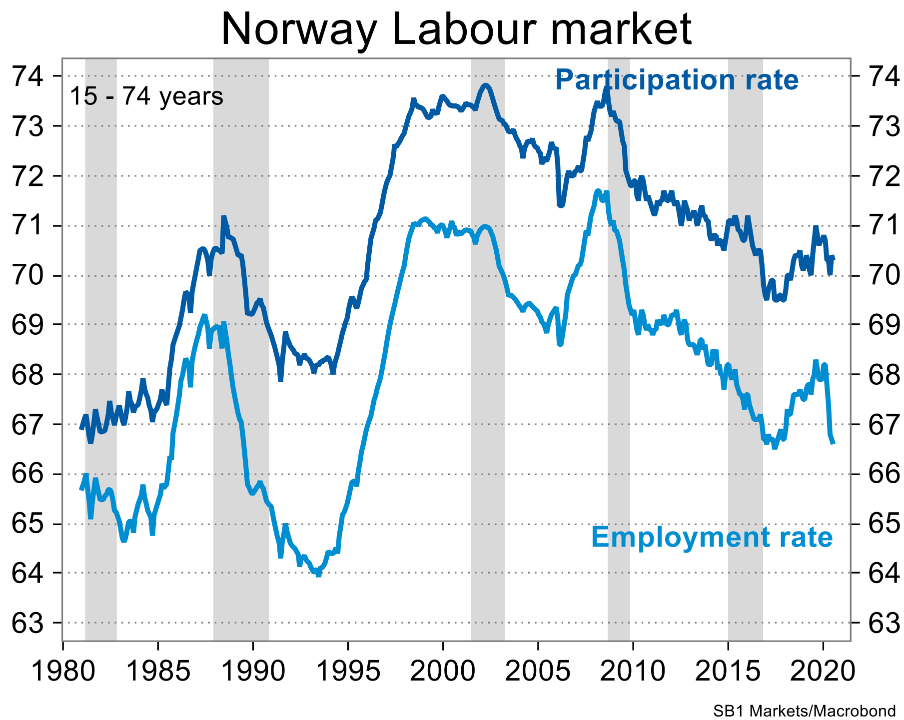


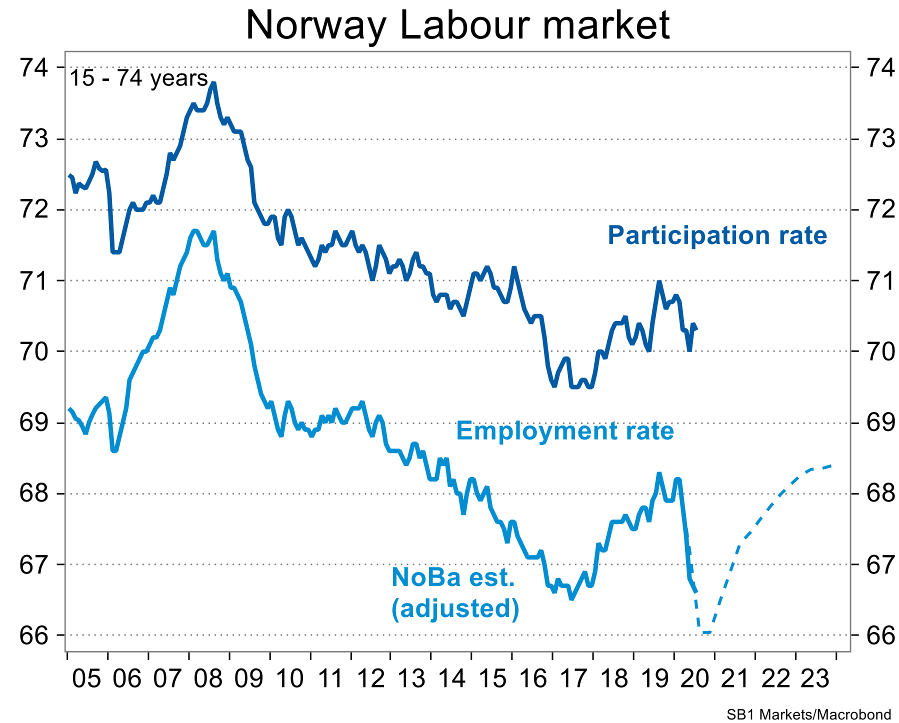


- SSB reported a small increase in employment in August, by 2' persons (the final dot at the employment line on the charts above). LFS employment rebased to national accounts is down from 2.85 mill in February to 2.80 mill in August
- SSB's new monthly employee stats reported a 3.6% y/y decline in the number of unemployed persons in July, marginally up from the June rate (August data published this week)

The employment rate sharply down, Norges Bank expect a steep recovery in '21

The employment rate another tick down in July, according to the LFS

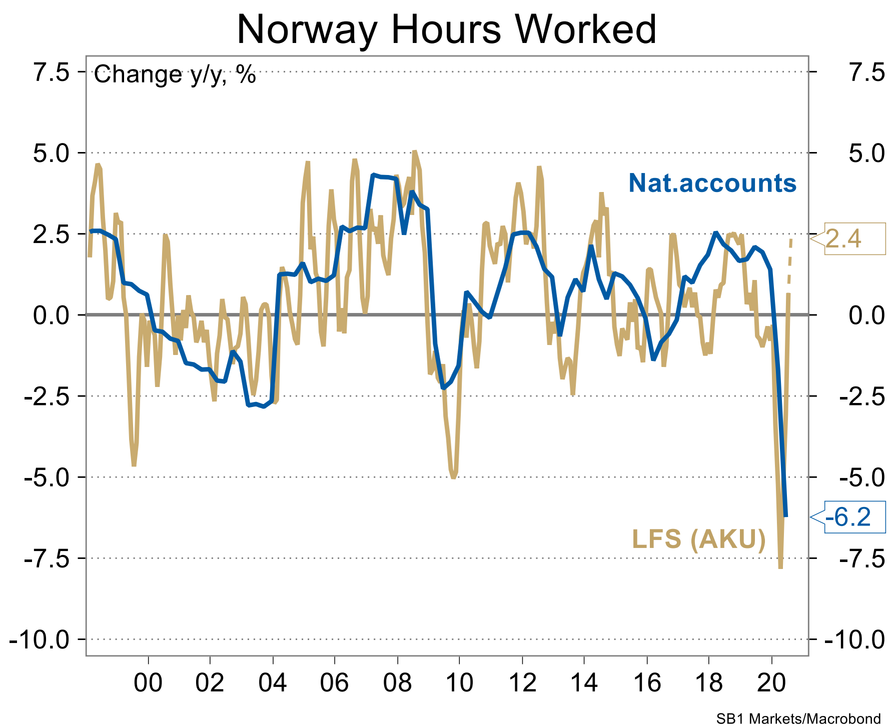


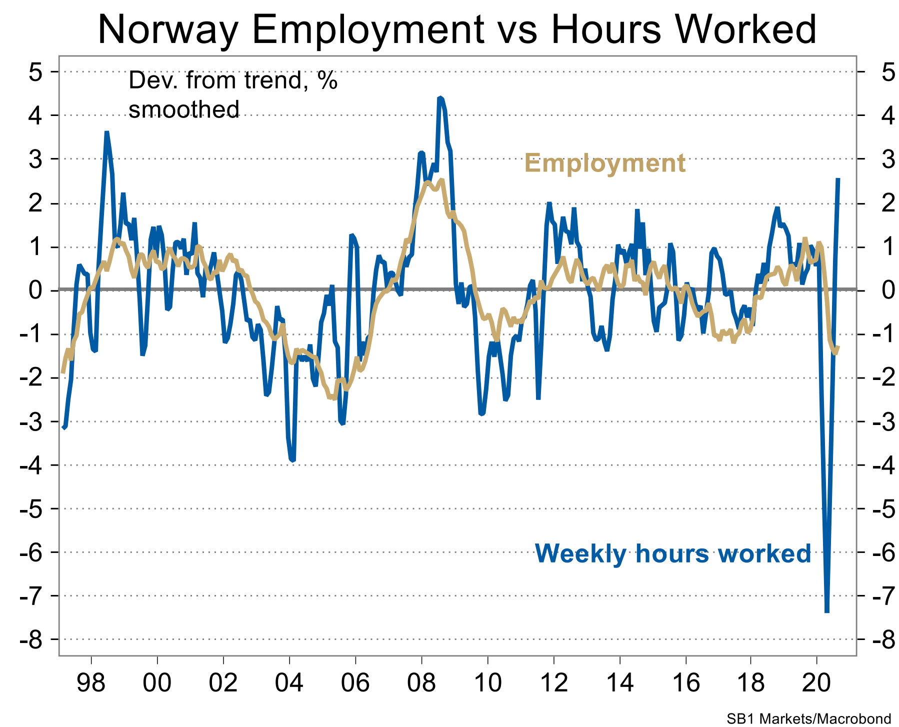


- The employment rate has fallen by 1.6 pp since Feb. The decline has slowed the past months, down 0.1 pp in July (this is the 3m average rate)
- The participation rate has fallen by just 0.4 pp since Feb
- In the September MPR, Norges Bank revised its 2020 employment forecast slightly down but 2021 was revised up by more. The Bank expects the employment rate to return close to the pre corona levels by late 2021.
  - » NoBa's Q3 employment forecast seems to be on the low side

Hours worked sharply down in Q2 – but sharply up since then!

In July, hours worked rose to above a normal level, according to the (volatile) LFS data

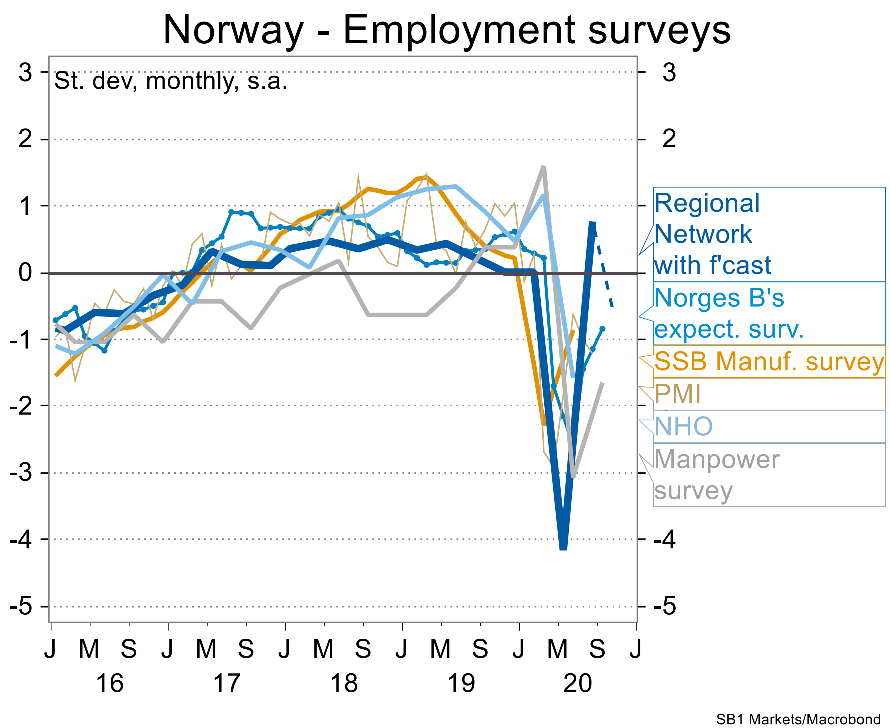




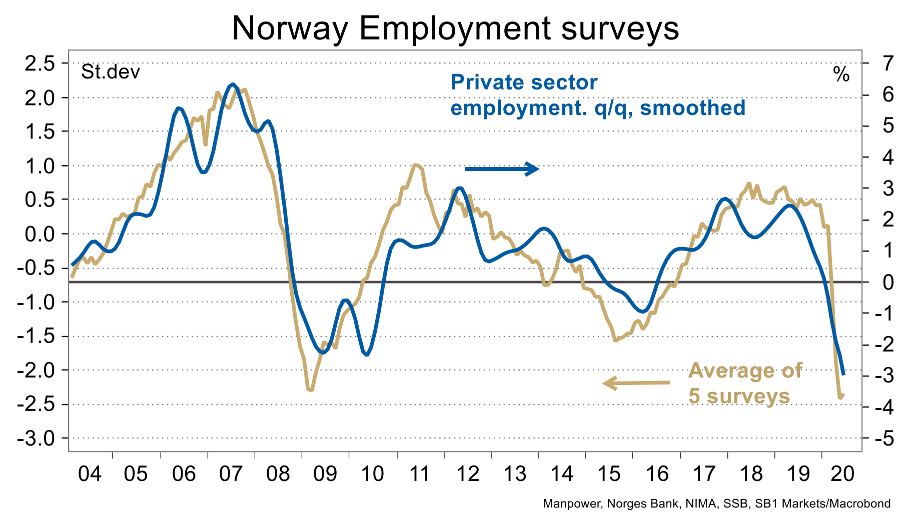
- Hours worked are published as a 3 months moving average. At the charts above, the surprisingly strong August single month observation is added. Take care: Even the 3 m avg is rather volatile, and monthly data even more – so this data must be taken with a pinch of salt!

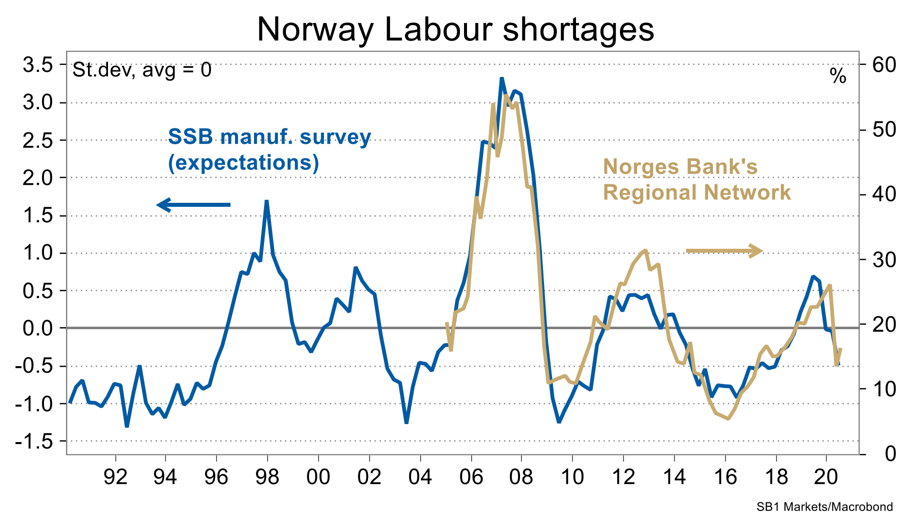
None of the employment surveys signal a brisk recovery

NoBa's Regional Network expects slower employment growth the coming 6 months



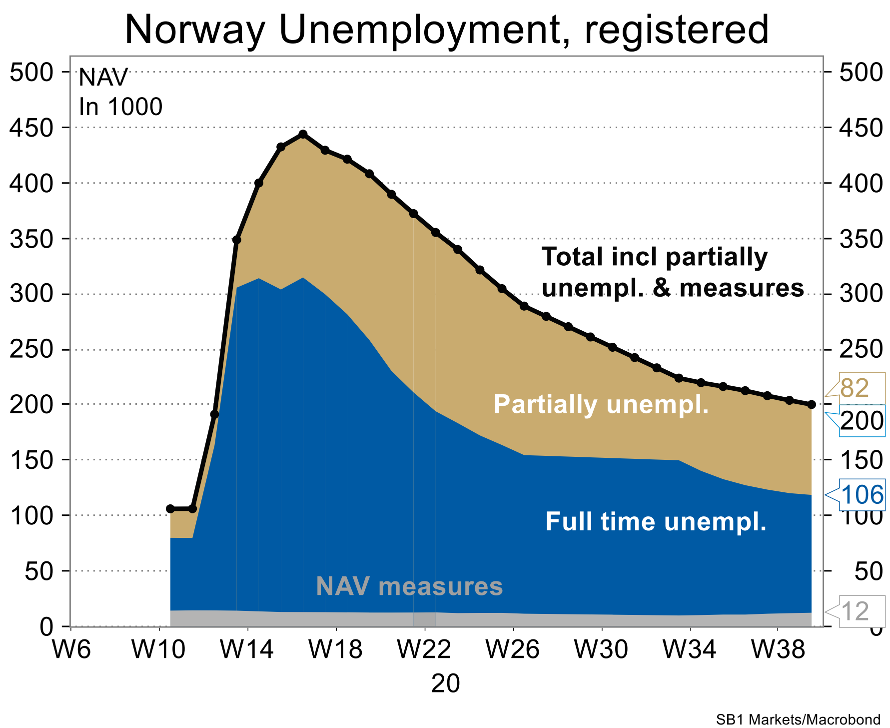
- All employment surveys have turned up, however, the levels are still low for most of them
- Norges Bank's Q3 Regional Network reported a modest recovery in May-July (following a much steeper drop) and expects slower growth the next months

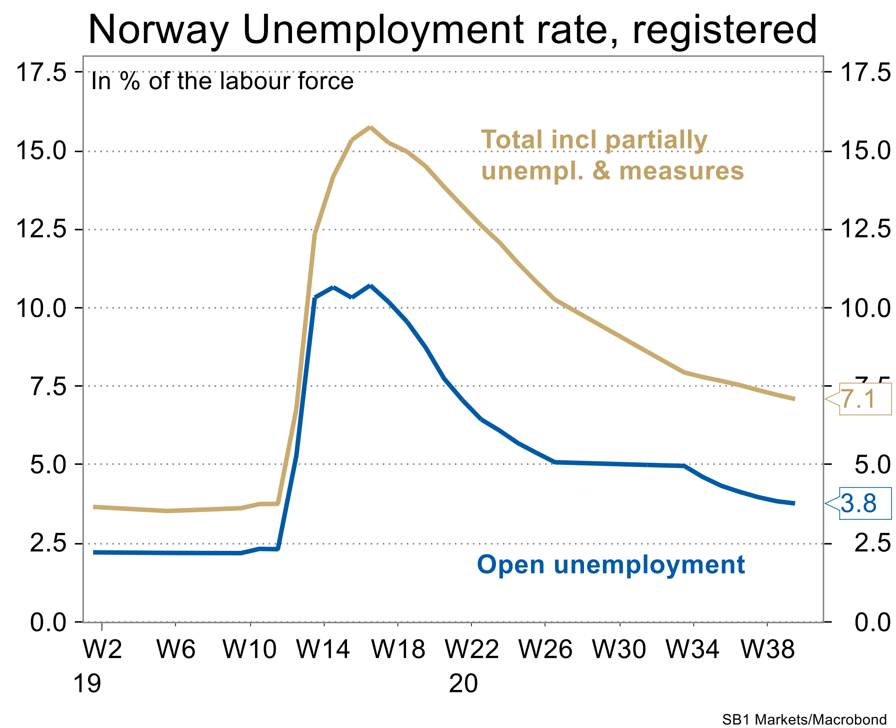




NAV unemployment down – but the downward speed is slowing

Full time unemployment down 2’ last week, vs 4.5’ in avg past 2 weeks. Total unempl. down 4’

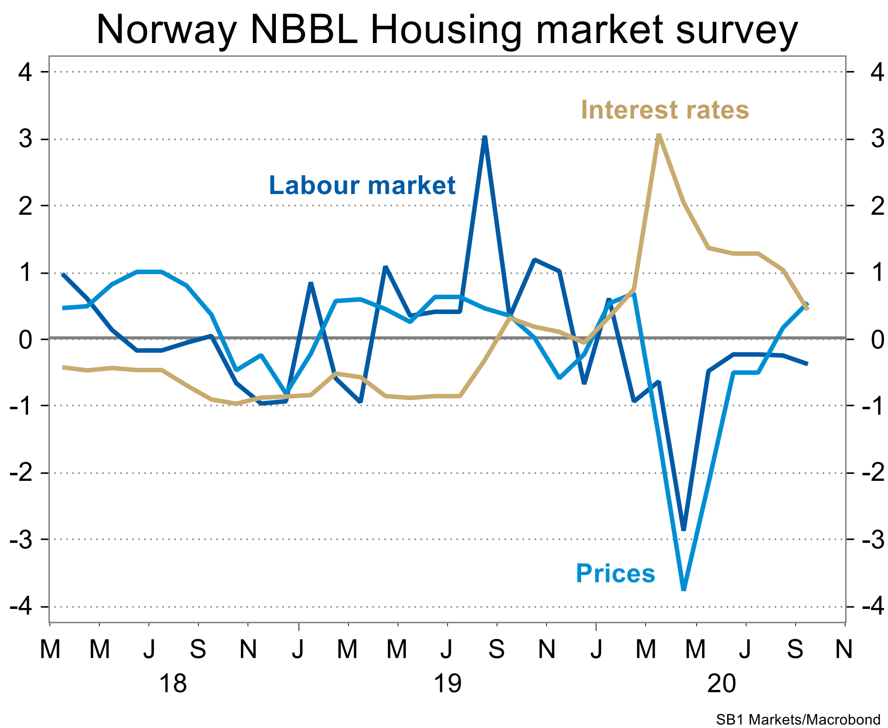


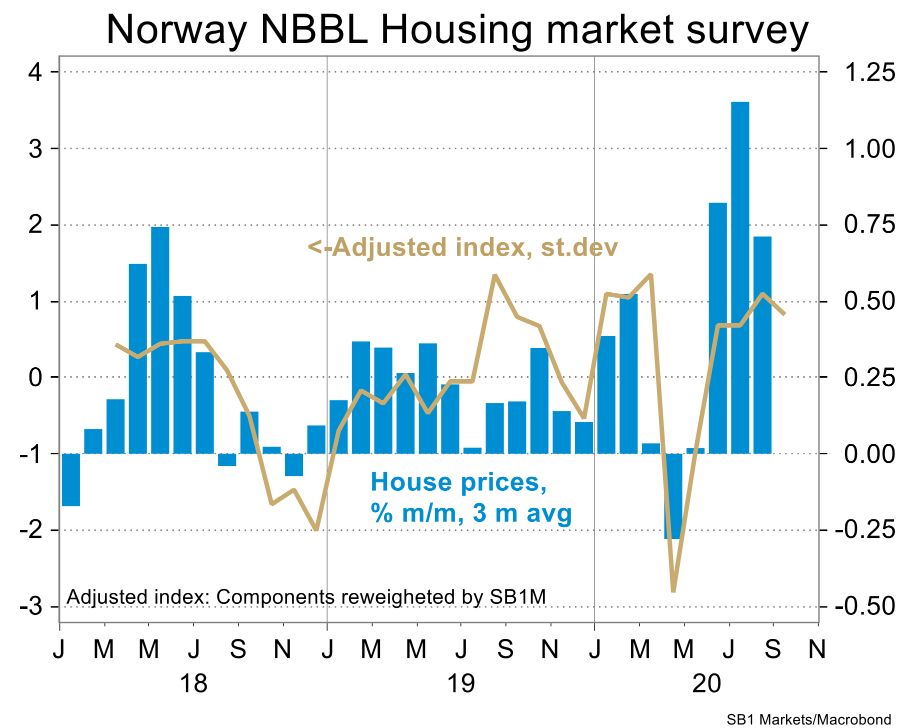


- Total unemployment (including partially unemployed and labour market measures) has fallen by 244’ in April, to 200’ last week (before corona, just above 100’ was unemployed), following a 4’ decline last. These 200’ equals 7.1% of the labour force. Over the past months, total unemployment has fallen at a 0.6 pp per month pace
- Full time unemployment fell by 2’, half the speed over the two past weeks – and it now equals 3.8% (not seasonally adj)
- Temporary laid offs equal just below 40% of total unemployment, and the entire decline is due to fewer furloughed

NBBL: Housing optimism close to stable in September, at a high level

More households are expecting rates to rise the coming year – but still fewer than normal

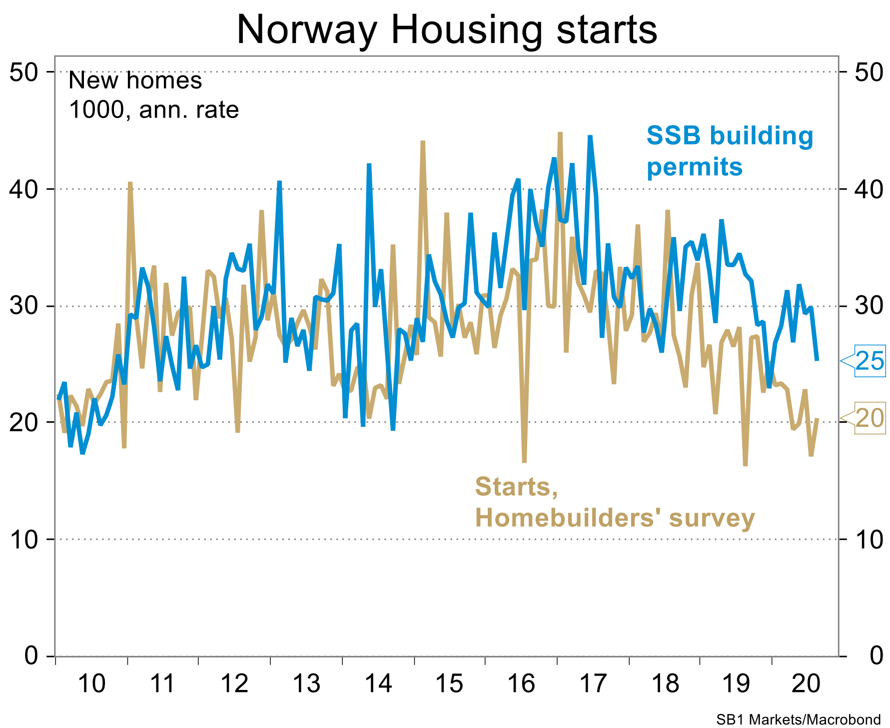


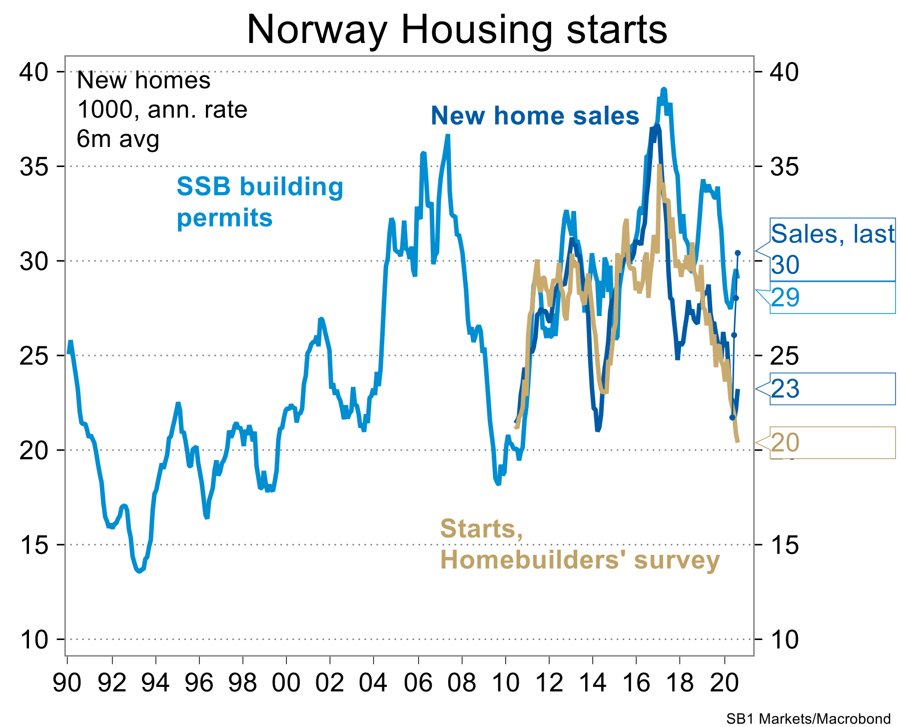


- The share of households expecting higher house prices fell marginally in the September NBBL housing market survey. The index has been climbing since May, along with actual house prices
- An interest rate index above zero implies that more respondents then normal (vs. the average from March 2018) are expecting lower rates – and this component contributes on the upside in the total housing market index

Mixed reports on housing starts, strong new home sales anyway suggest a lift

SSB reported a decline in starts to 25’ in August, yet the short trend is modestly upwards

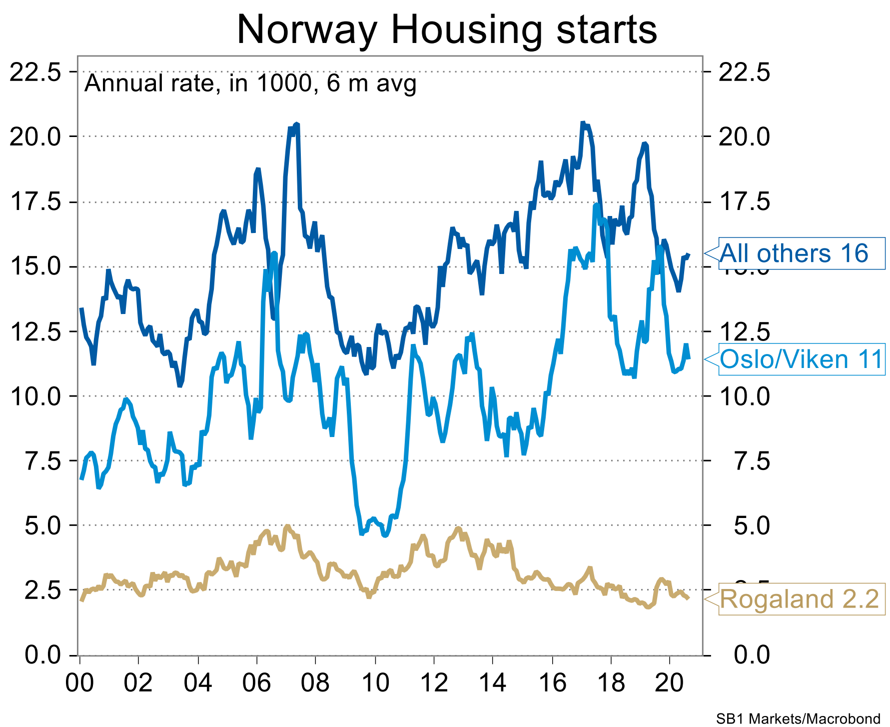


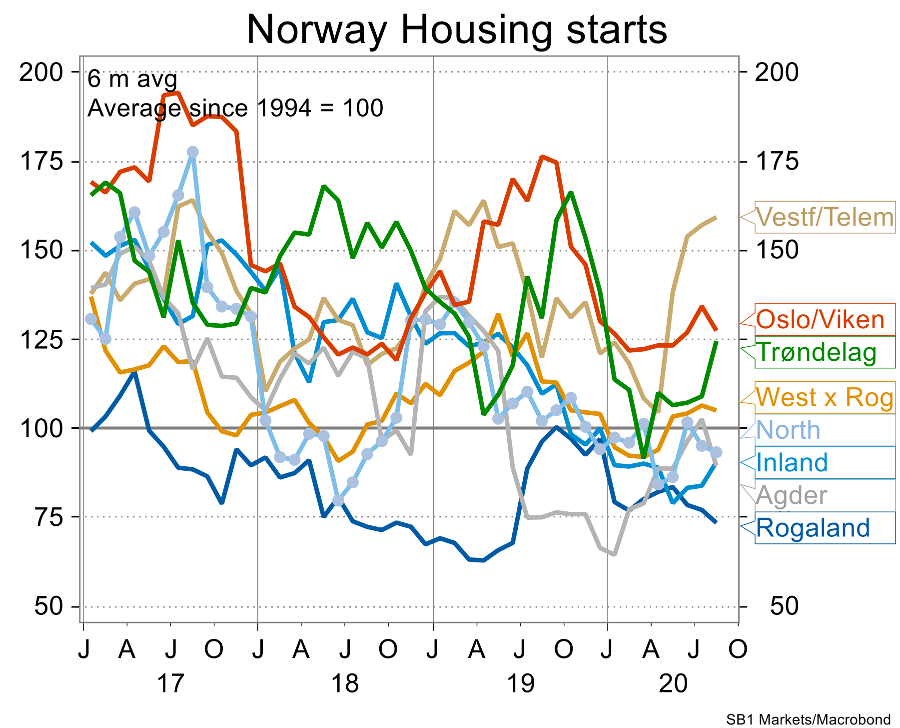


- SSB’s housing starts (building permits) fell to an annual rate at 25’ in August. Sales have been slowly increasing since January, 6m average at 29’. Contrariwise, the Homebuilders have been reporting a decline the past months
- New home sales have turned up sharply upwards the past 3 months, amid a hot existing home market. If sales do not collapse, starts will have to pick up the coming months
- Both sales and starts have been trending down since the peak in 2017. Real house prices have been trending down most of this period but are now increasing rapidly again. Medium term, starts are usually correlated to house price inflation
- The construction sector reported a comeback in May-July in Norges Bank’s Q3 Regional Network survey – and expect a moderate expansion in Q4/Q1 – most likely due to residential construction

Starts have been heading down everywhere, most slightly up the past months

Starts have increased the most in Vestfold/Telemark and Trøndelag. Rogaland heading down again

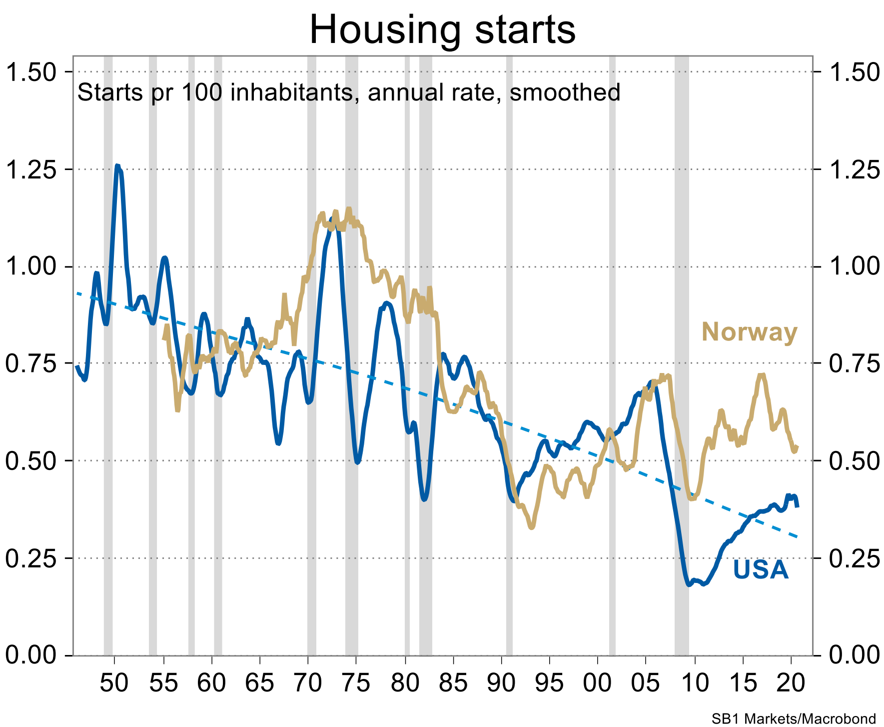


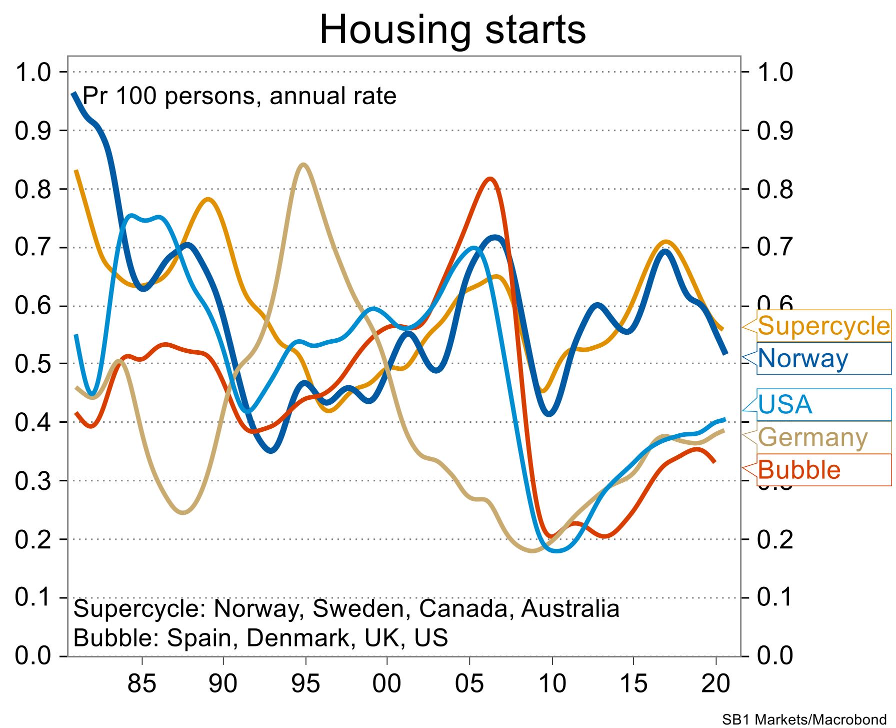


- Housing starts x Oslo/Viken have increased somewhat this year, after a steep decline through 2019. The level is still close to the 20 year average. Rogaland heading down again, below average
- In Viken, starts are up from the 2019 trough, after a steep drop. Starts are still at a high level, above the 20 year average. In Oslo, starts fell much more than in Akershus in late 2017-2018, as the builders were coping with a mild supply overhang. Starts have been sliding slowly down the past two years, to below an average level

Home building in Norway has been very high vs. other countries

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

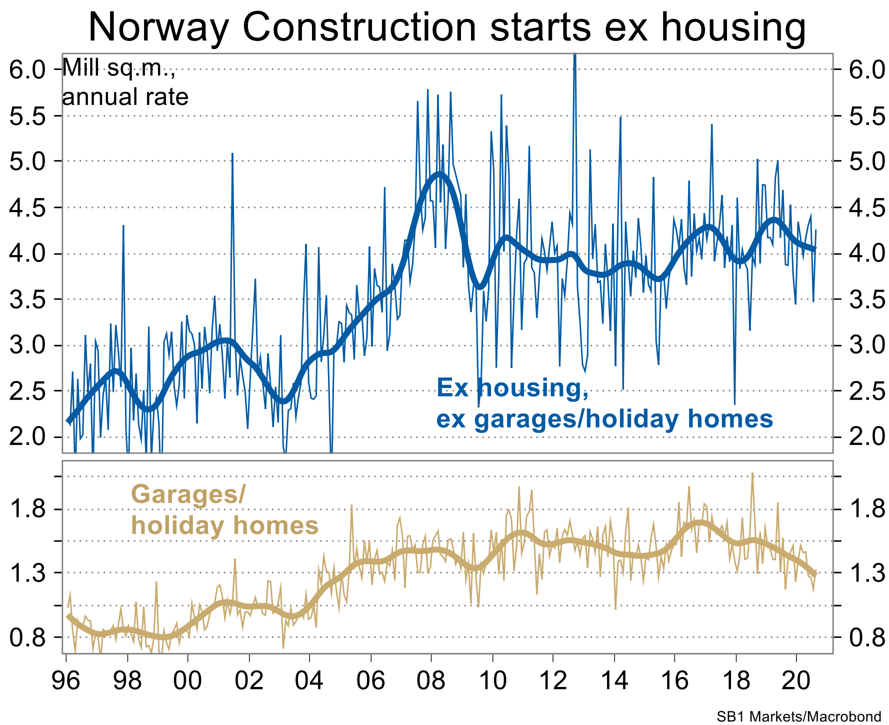


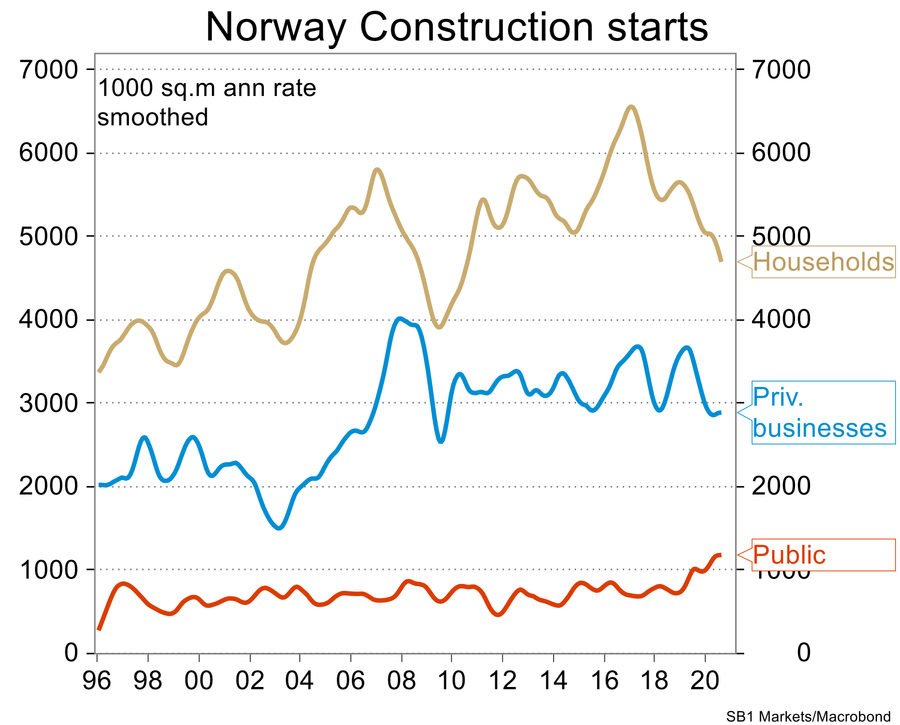


- The cycles among the supercyclicals (Australia, Canada, Norway, Sweden) have been quite closely correlated the past decades. Starts are falling in Australia, Sweden and Norway, and more modestly in Canada
- House prices and debt inflation are higher and rental yields are lower in these supercycle countries than other DMs. Because interest rates have been too low for a long time, as they were cut to more or less the same level as in countries that actually needed a strong monetary stimulus after 2008?

Construction ex. housing trending more or less flat, public up

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

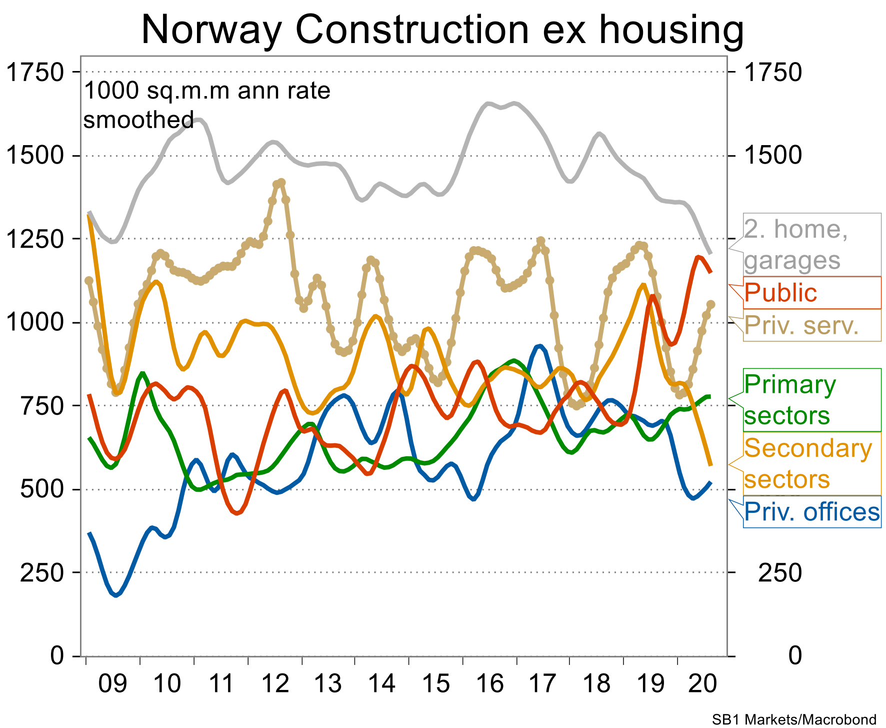


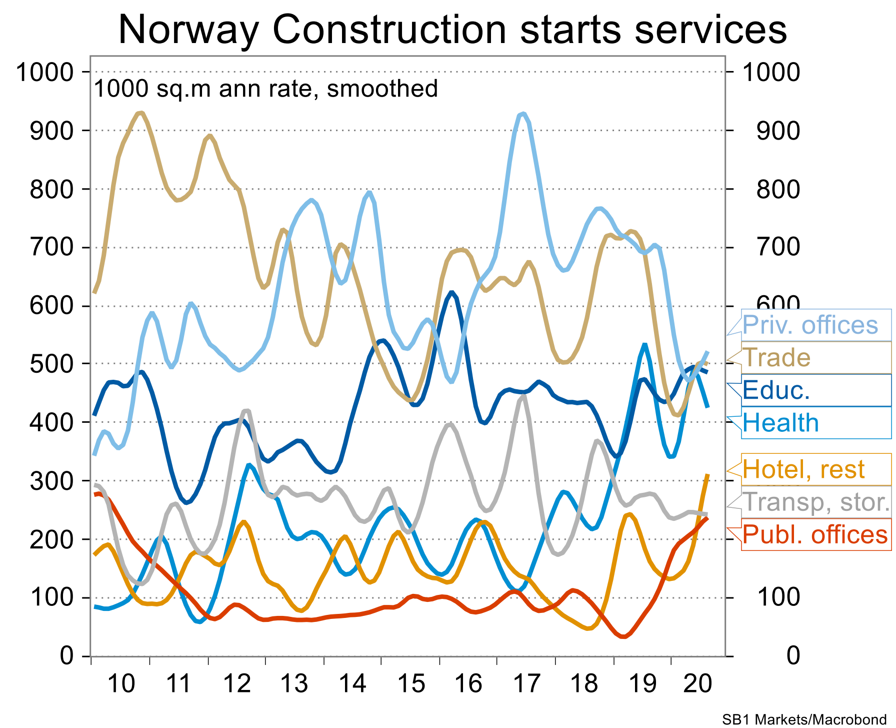


- Construction ex housing, garages/cabins has turned down since early 2019, after reaching the highest level since 2008. The trend over the past couple of years is close to flat
- Public sector construction starts is heading up, partly due to the new hospital in Stavanger
- Construction starts of cabins/garages are heading down and the level is the lowest since 2009

Retailers have been slamming the brakes, for good reason

Construction of private offices steeply down, public and hotels/rest. up (not for long, we suspect!)





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

Highlights

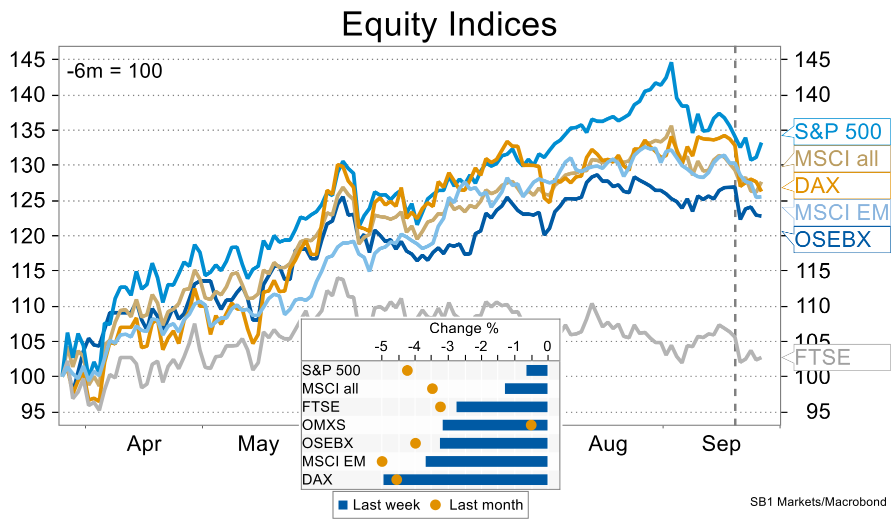
The world around us

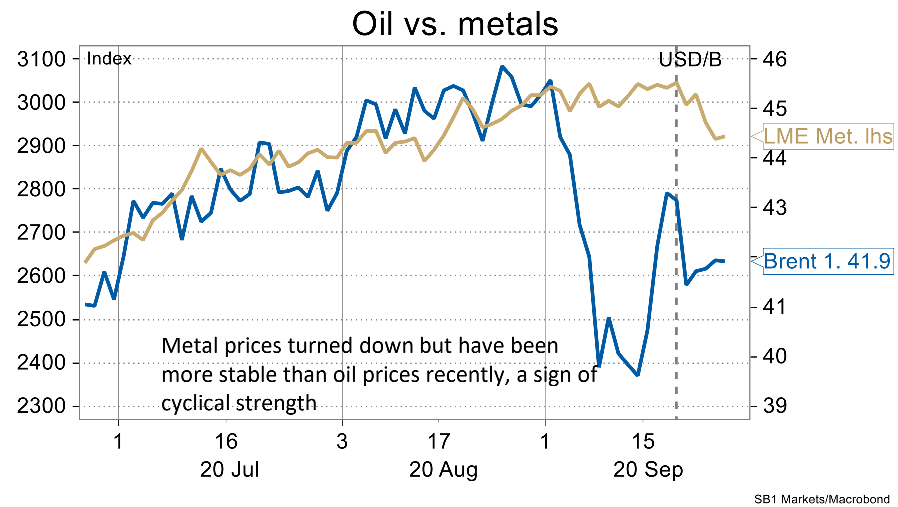
The Norwegian economy

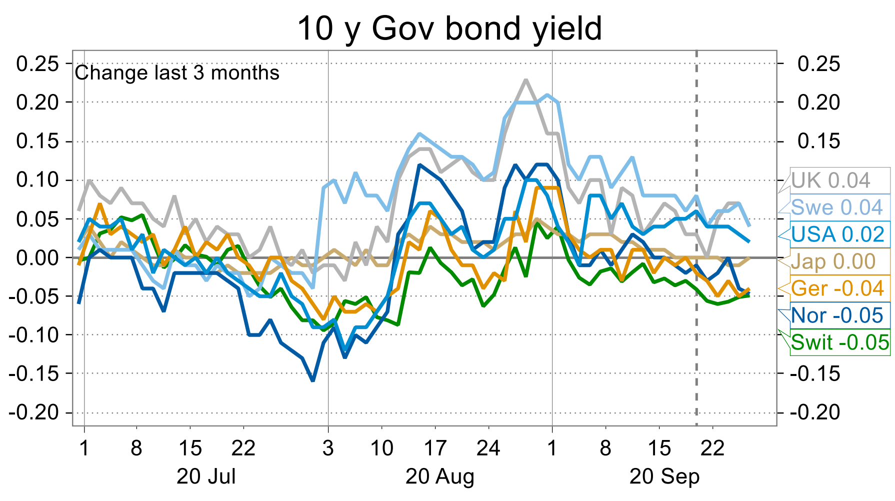
Market charts & comments

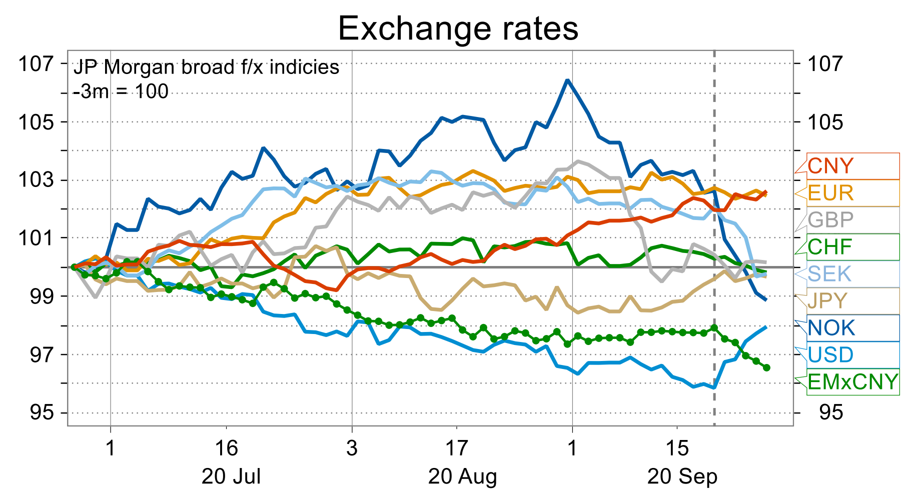
Stocks and bonds down last week, risk off mode at currency markets

Stock markets fell 1-5%, bond yields marginally down. NOK fell more than other currencies, oil. The USD up







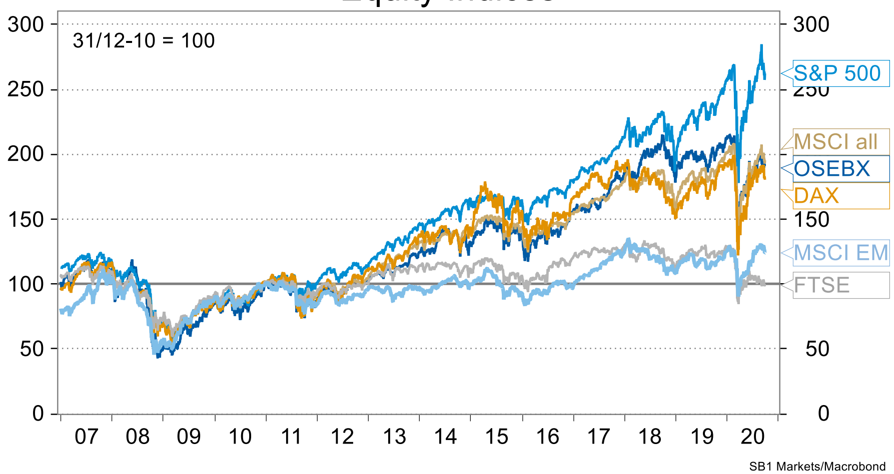


The USD strengthened last week, after sliding down since July. The USD is not weak. NOK further down, weakest since May.

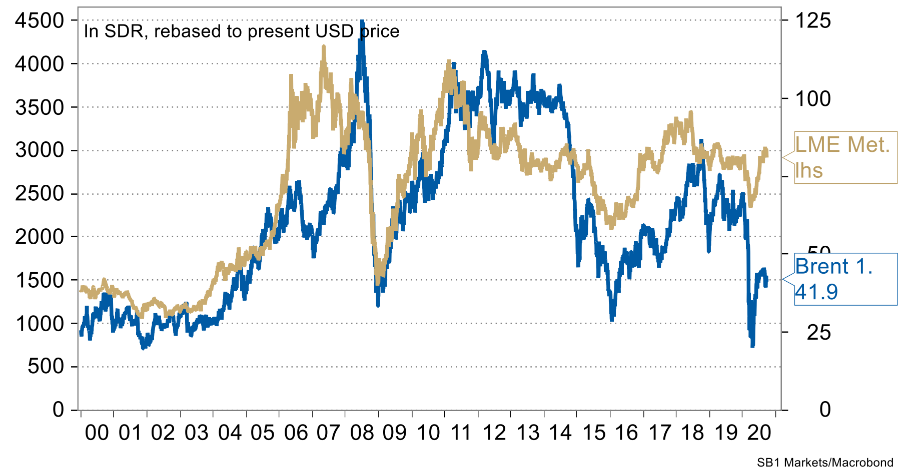
In the long run: Stock markets are looking like a ‘V’ (except the FTSE ‘L’!)

Bond yields are still close to record low everywhere. The USD is on the way down

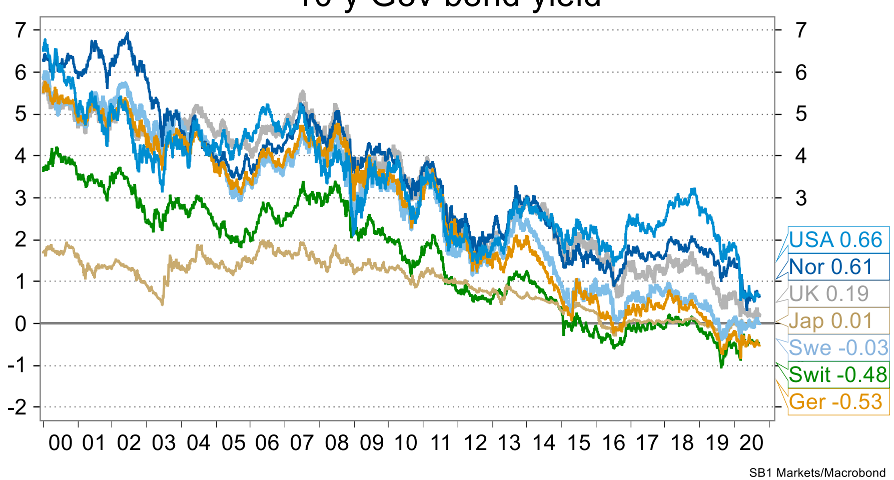
Equity Indices



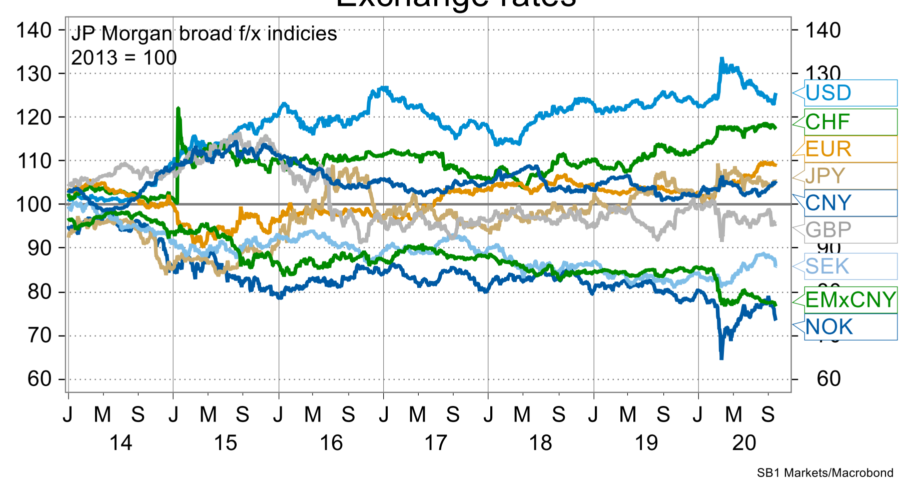
Oil vs. metals



10 y Gov bond yield



Exchange rates

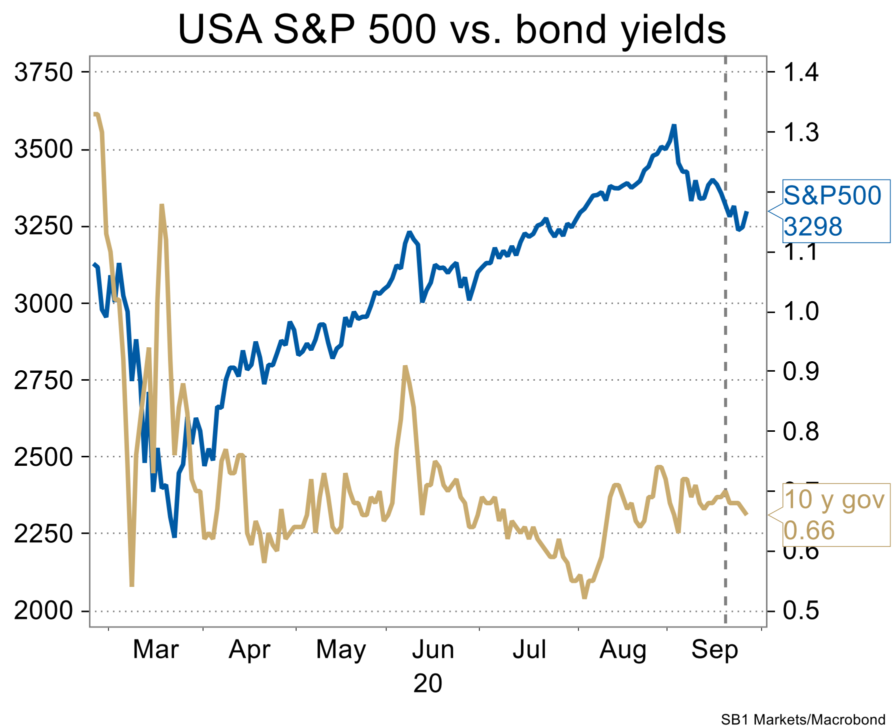


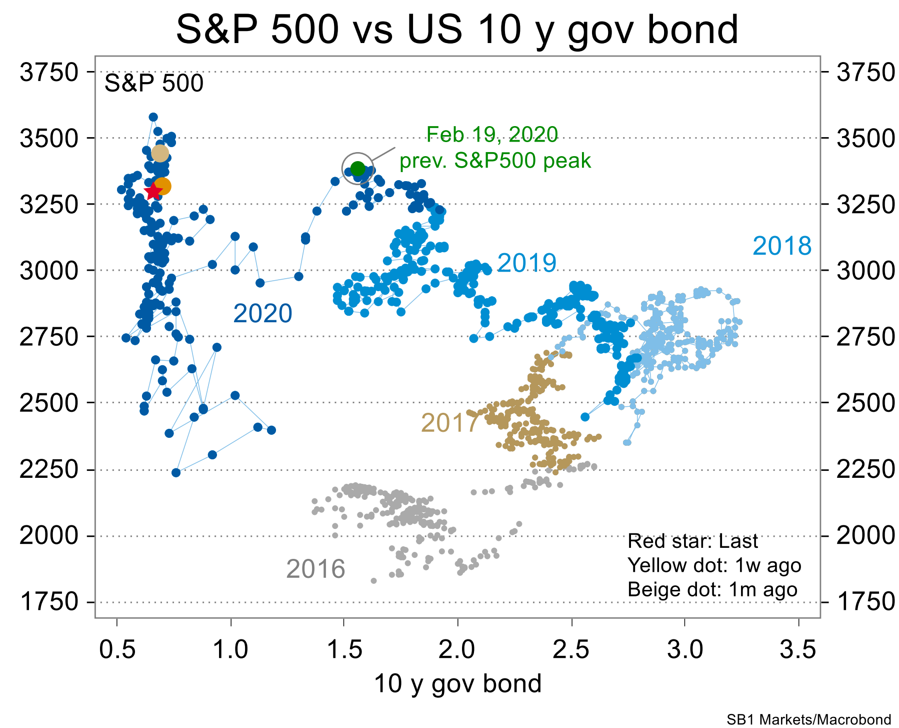
The USD is down but still not weaker than in Feb – and over the previous years (measured by broad f/x indices)

SpareBank 1 MARKETS

S&P down 8% from peak, bond yields more steady

US stock markets fell 0.6% last week and volatility is probably here to stay – until Nov 3



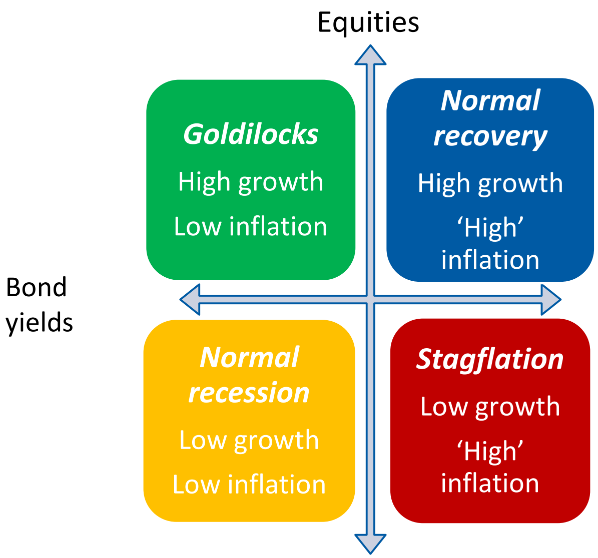


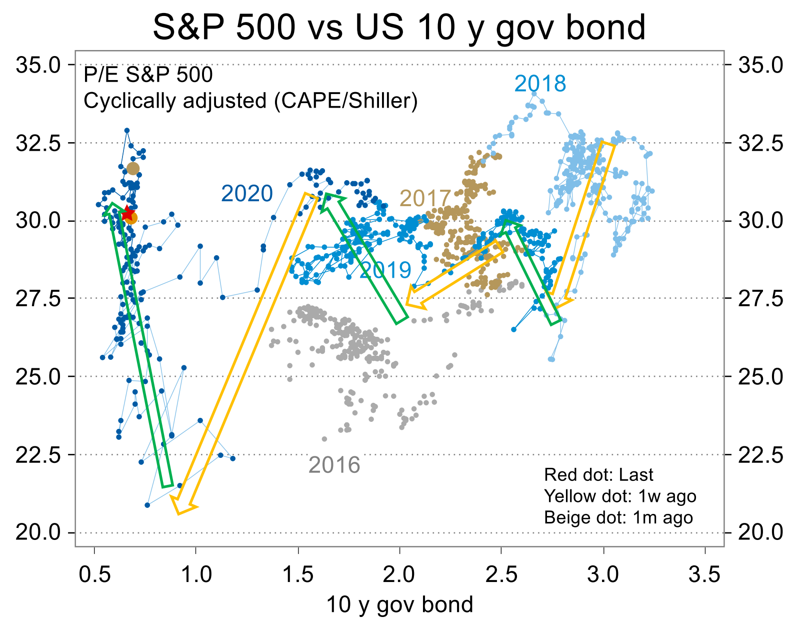
- Last week, S&P fell by another 0.6%. The S&P has declined by 8% since the peak on Sept 2. What drives the markets? The downturn started in the tech sector. Uncertainties regarding the pandemic and worries of the speed of the economic recovery and further fiscal stimulus are all probably all weighting on sentiment, more broadly. Fed officials warned Thursday that the economy needs more fiscal stimulus to continue to recover. The stock market may anyway at a rocky road towards the Nov 3 election – as usual
- The 10 y gov bond yield fell 4 bps last week –but has been more or less flat since early August

SpareBank 1 MARKETS

From the ‘Goldilocks corner’, where to go?

Recent weeks, markets have moved away from a Goldilocks’ scenario, as stocks have fallen more than bonds



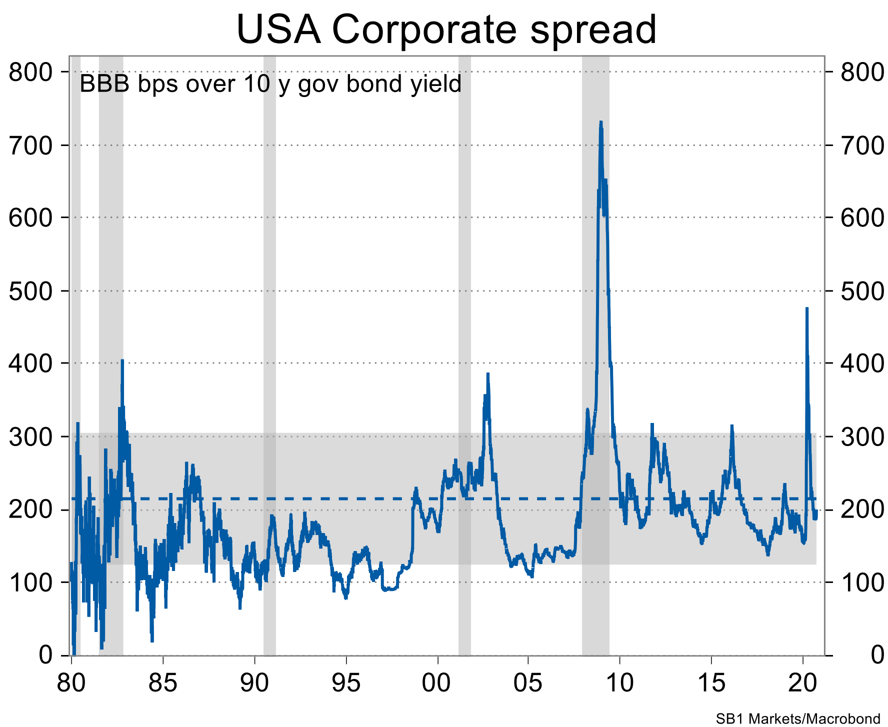


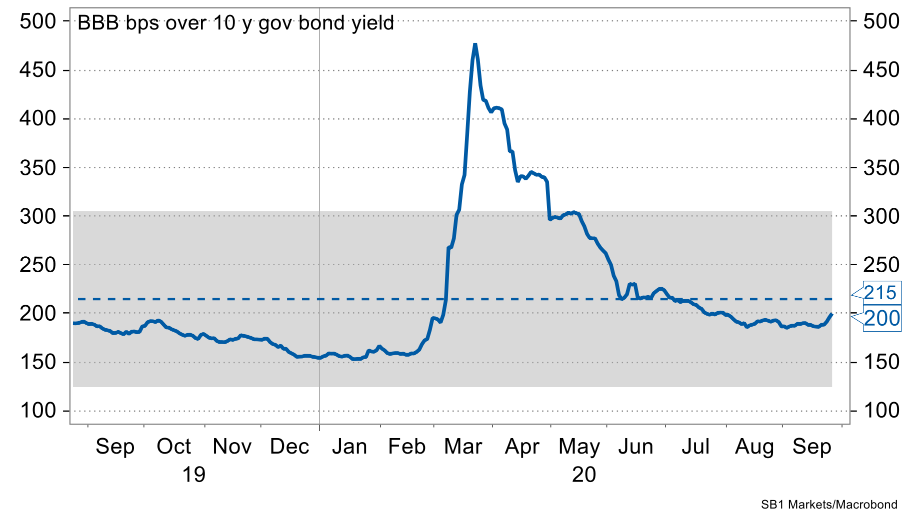
SB1 Markets/Macrobond

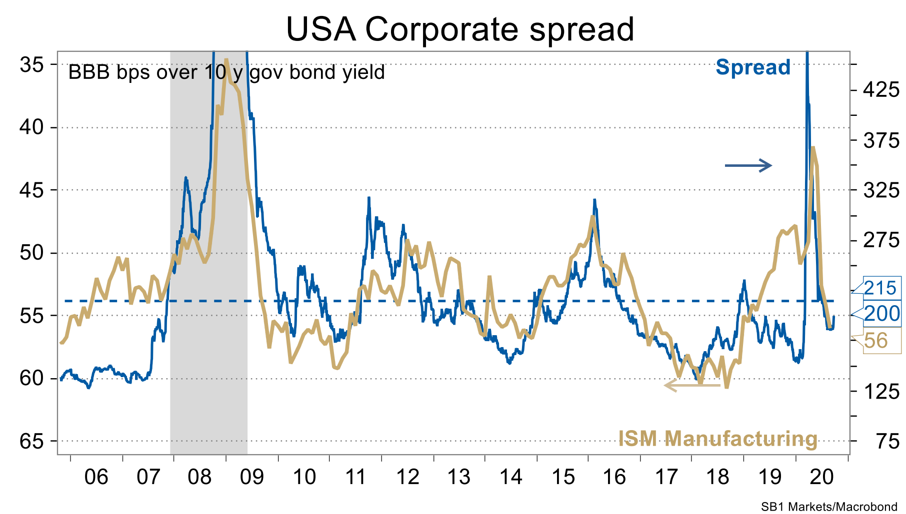
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
- Now, the US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and expected to exceed 2% for some time. As a bonus (at this stage of the cycle), that would also make it possible for the Fed to push employment higher and profits margins lower
- Will we stay up there, in the green? <u>Perhaps, for while – but probably not, long term</u>
  - » The economy has rebounded rapidly from the corona trough. Any substantial disappointment on corona/vaccine or the growth cycle in general would be challenging for the equity market, as we have already witnessed the past two weeks
  - » The Fed will not yield from its new strategy anytime soon. However, (higher than expected) actual wage or price inflation numbers may shake the market’s confidence in the sustainability of Fed’s strategy, pushing long term bond yields up. Again, the risk is not serious, short term
- Why are we sceptical vs. the long term outcome? Before corona, the employment rate was high in the core age group, businesses reported (and are now again reporting) unprecedented lack of labour, wage inflation was not low vs. inflation or productivity. Profits were under pressure, and investments on the way down. <u>Interest rates had not been too low, even if that is the popular view these days</u>

SpareBank 1 MARKETS

Credit spreads steady at a rather low level

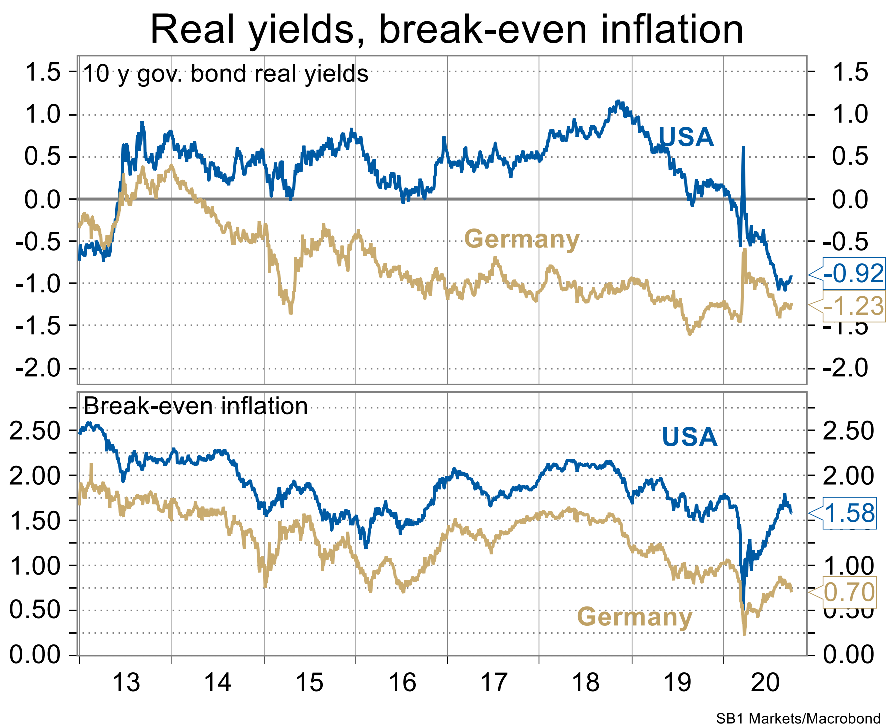


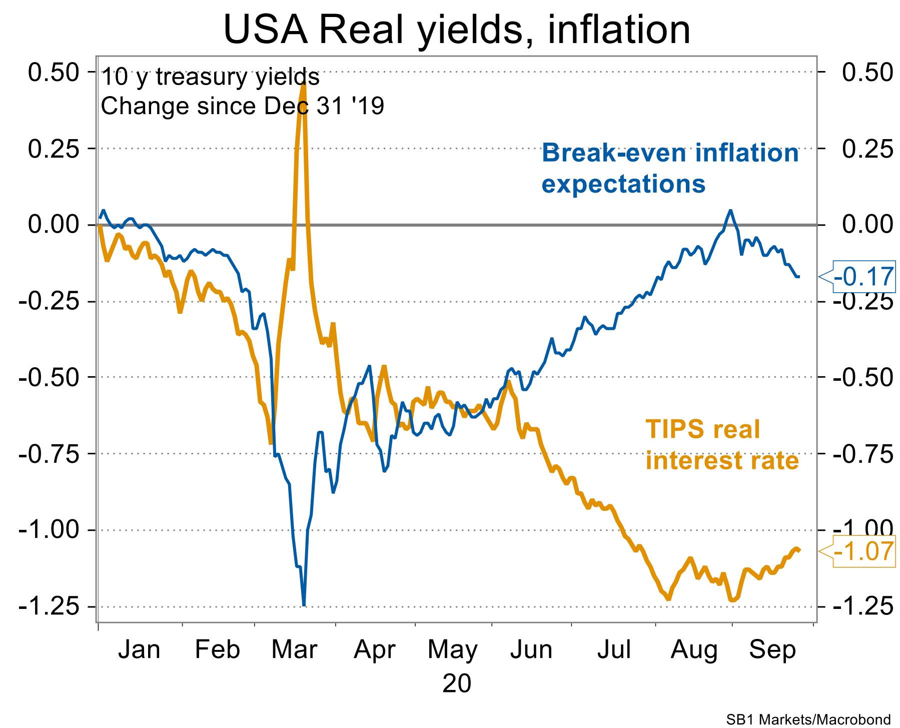




USA 10 y real rates up from the deep low, inflation expectations down

US inflation exp. peaked after Powell's Jackson Hole 'avg. inflation target speech', has fallen since

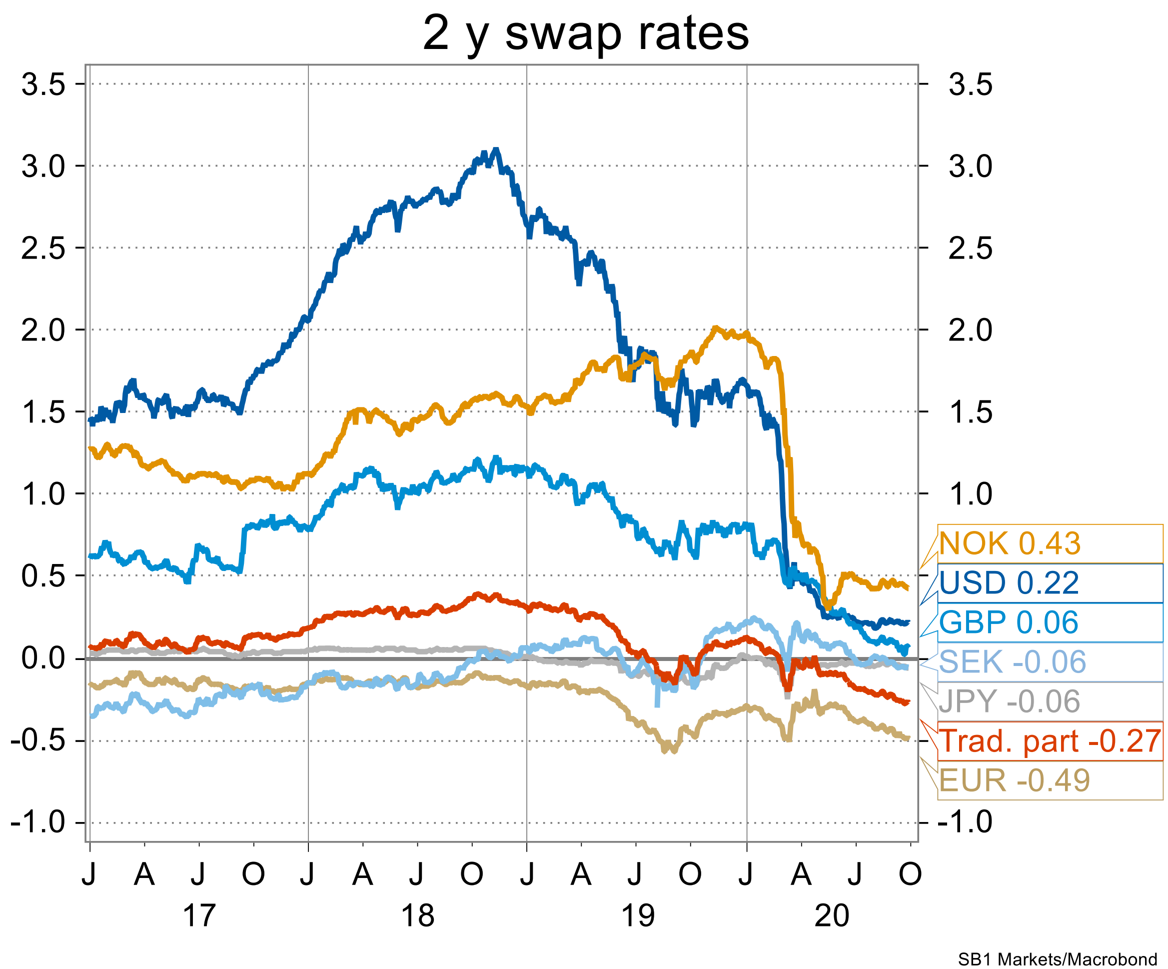


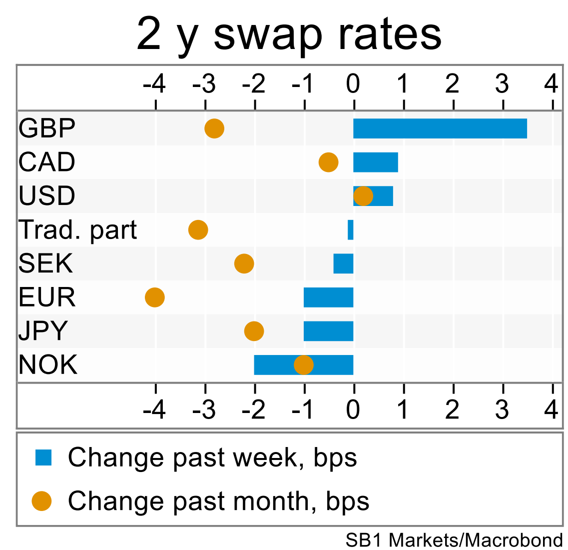


- The implied break even inflation rate climbed from April to August. Following Powell's announcement of the new Fed price level target strategy in late August, inflation expectations were pushed further up. Thereafter, inflation expectations have turned down, now to 1.58%, in 10 years. Low but not ridiculously low.
- The US real interest rate has inched up the past two weeks, to -0.92%
- The German real rate is at -1.23%, while inflation expectations are at 0.70%

2 y swap rates are sliding down everywhere

NOK & JPY rates the losers last week, USD a tad up, EUR steady

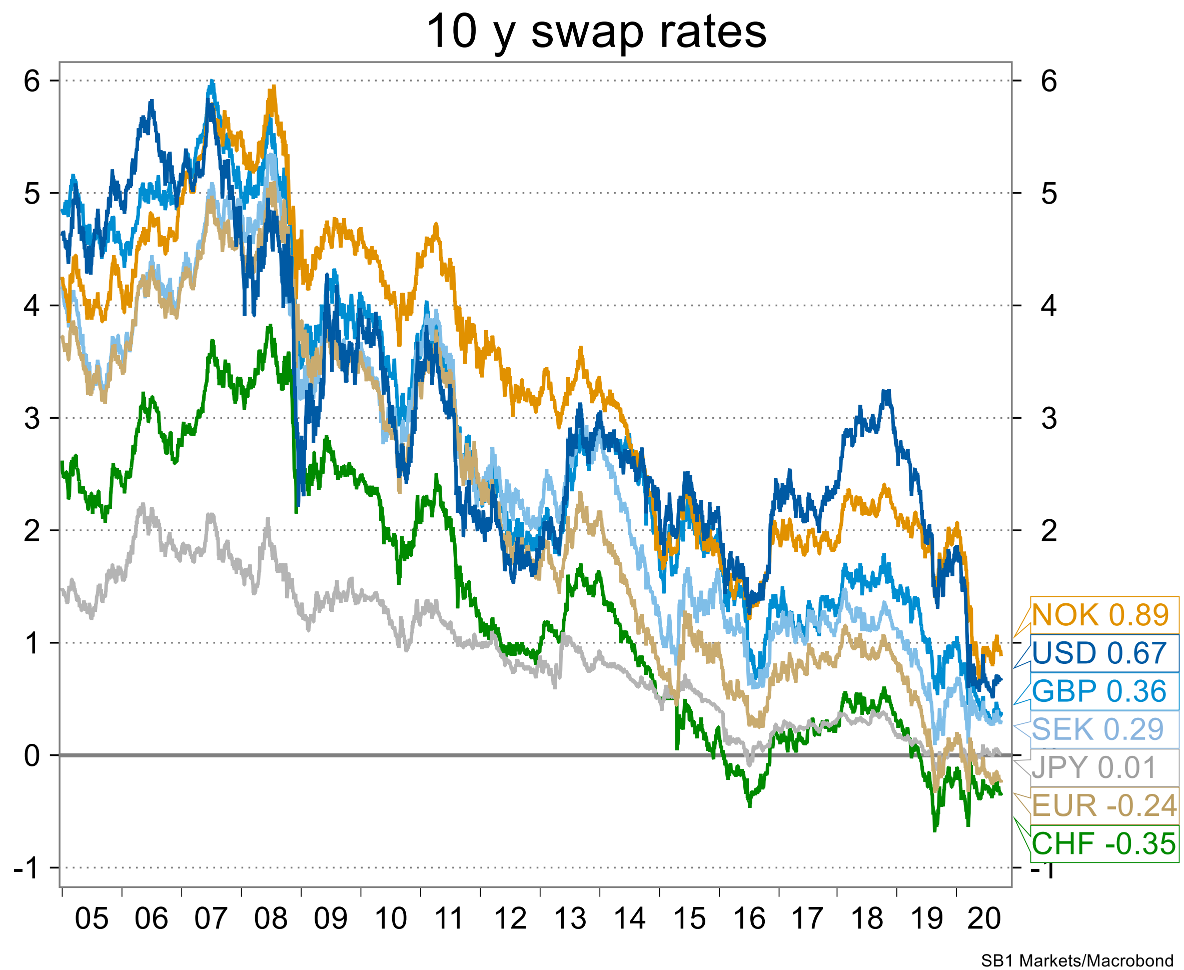


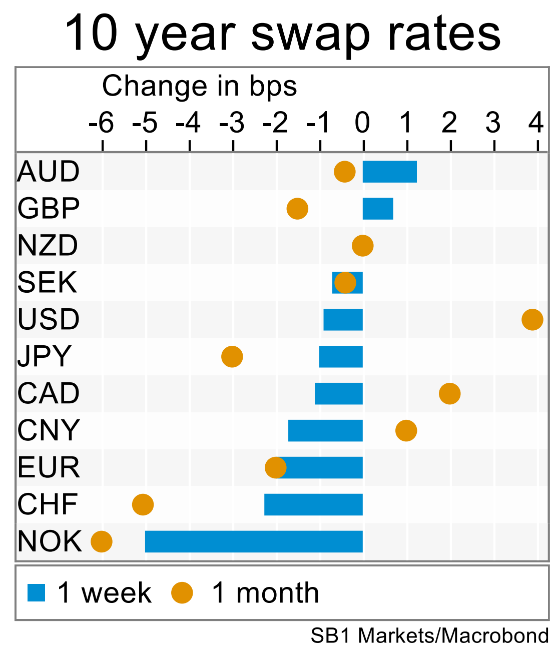


SpareBank 1 MARKETS

Most long term swaps up from the August bottom

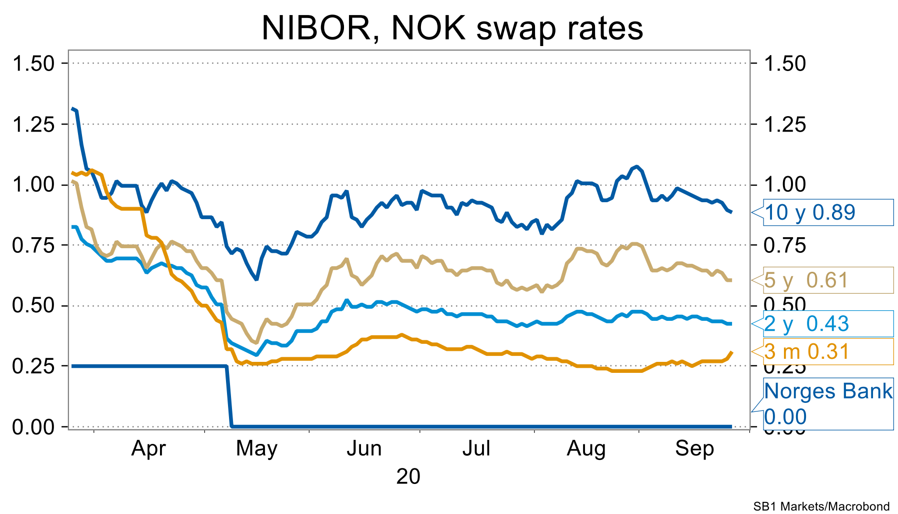
10 y swap rates mixed the past month and week, NOK has fallen the most, USD slowly recovering

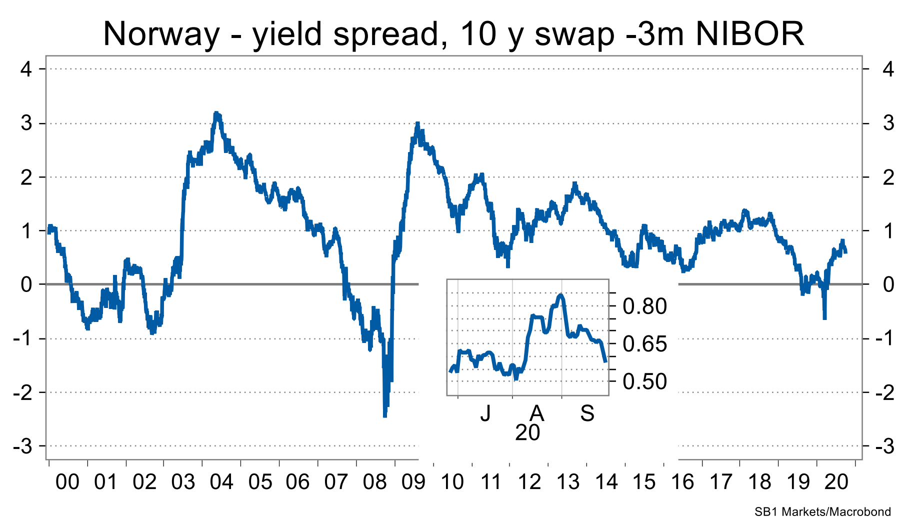


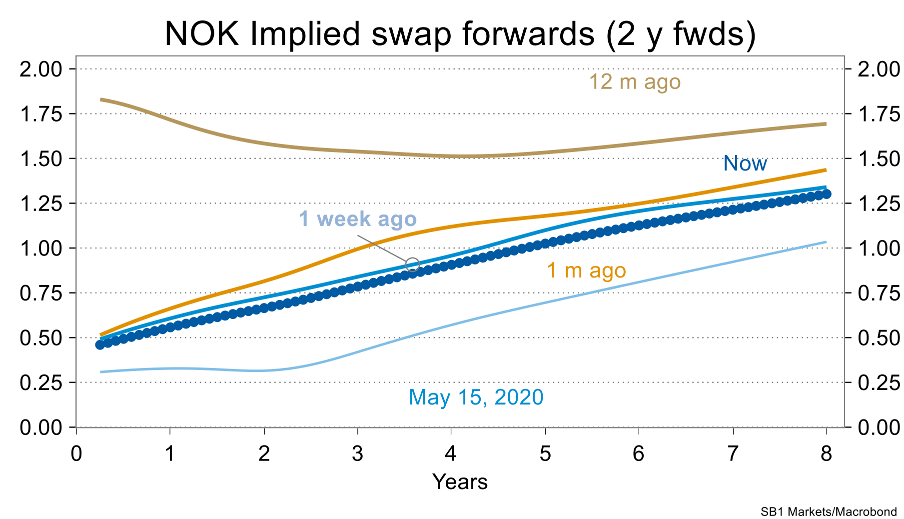


A downward shift in the NOK curve last week

The yield spread down in Sept, trending up since March. 10 y swap down 3 bps after Norges Bank





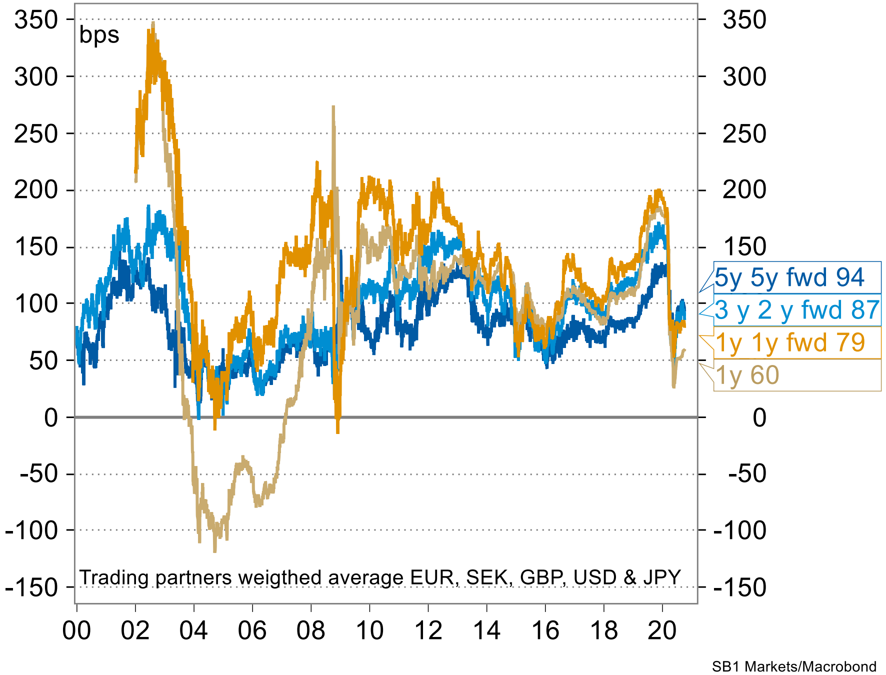


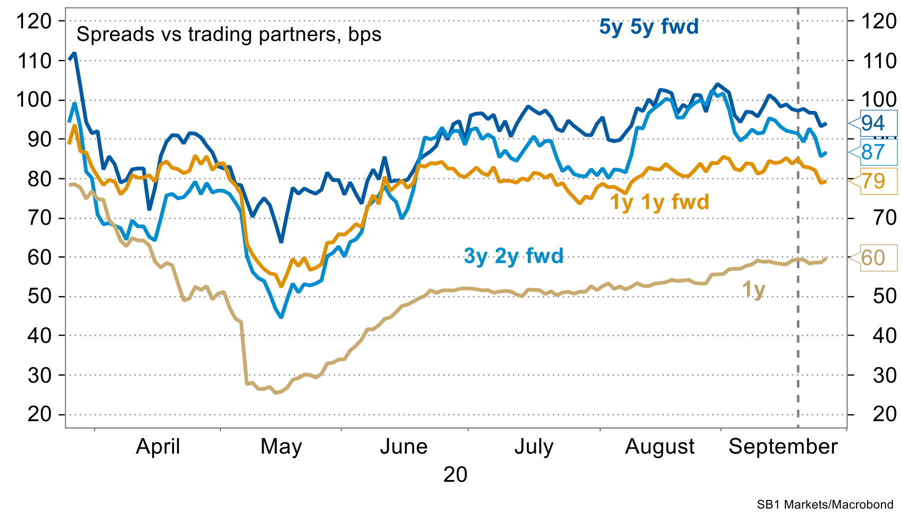
SpareBank 1 MARKETS

The swap spread vs trading partners is narrowing again

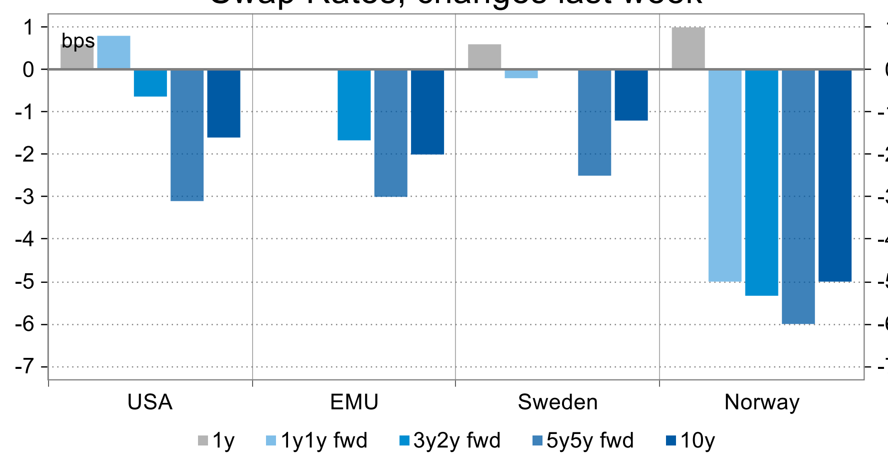
Spreads have fallen in the long end the past month, short end moving slowly upwards

Norway vs trading partners, impl swap spreads





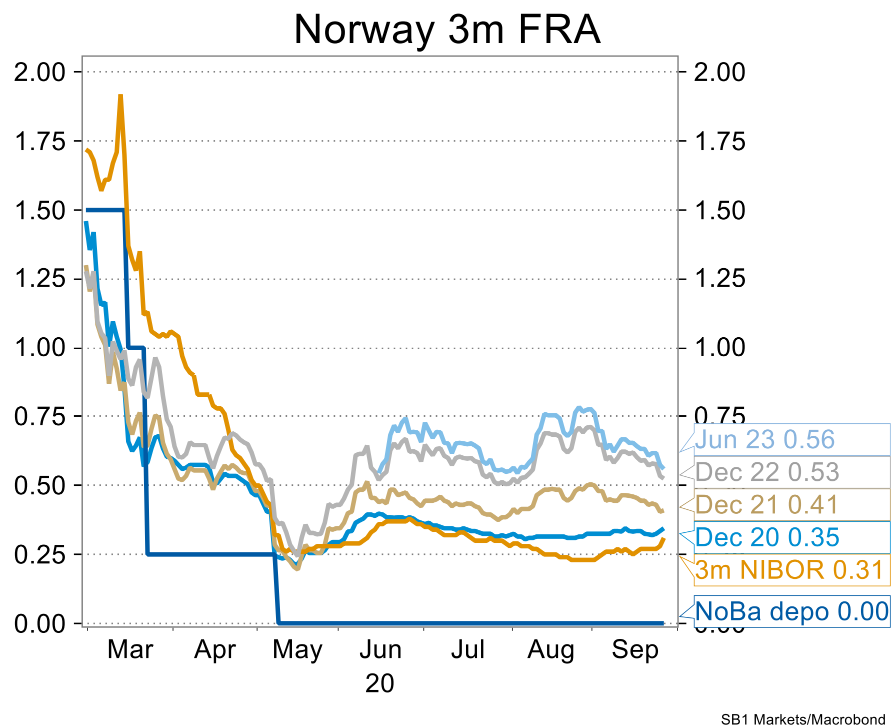
Swap Rates, changes last week

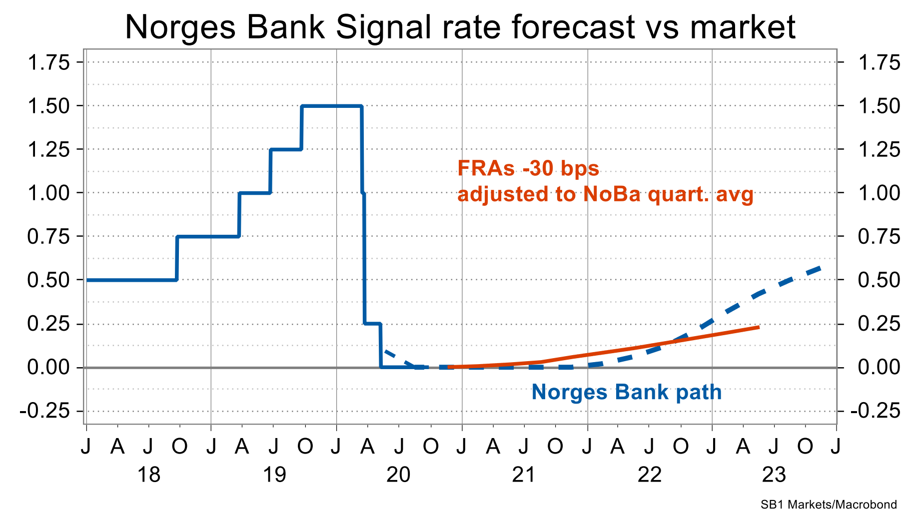


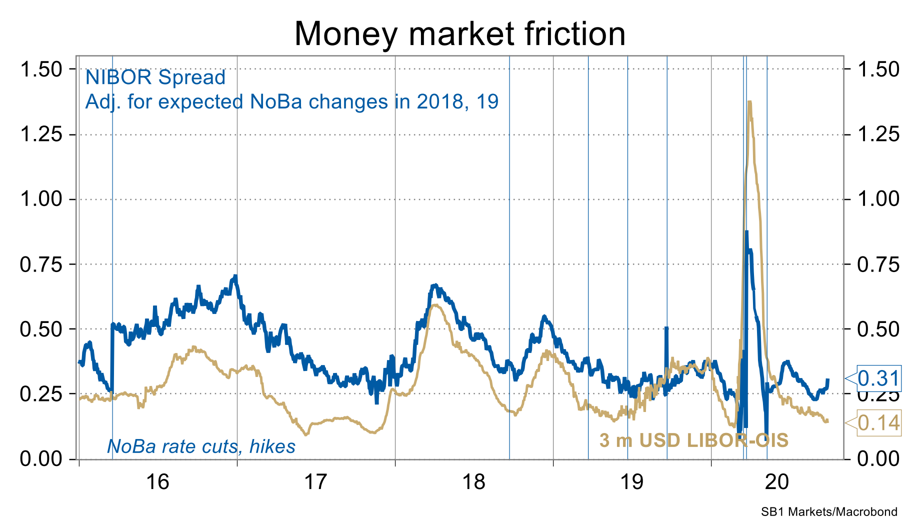
- Spreads vs trading partners have been trending wider since the May local trough but peaked in August, at least in the long end (short end still climbing)
- We are still neutral vs. the spread

NOK FRAs on the way down again, while the 3 m NIBOR ‘spiked’ to 0.31%

Moderate reactions to Norges Bank on Thursday, for good reason, but FRAs down 4 bps in 22/23





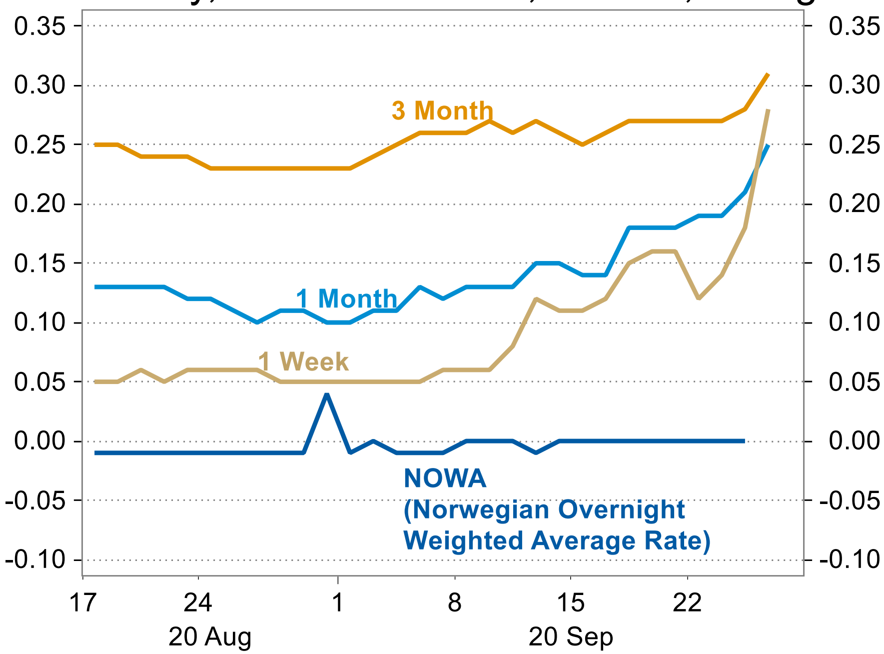


- Norges Bank lifted the interest rate path marginally in 2022, opening up for a hike in Q3 2020, Q4 still most likely. <u>Check this slide for more on Norges Bank’s September meeting</u>
- The first hike is priced in by more than a 50% probability in H1 2022, Norges Bank said H2
- There were some trouble in the very short end of the Norwegian money market last week, which probably contributed to the lift in the 3m NIBOR (check next page too)

Some frictions in the very short end of the money market

The distribution of liquidity in the money market was poor last week. A short term story?

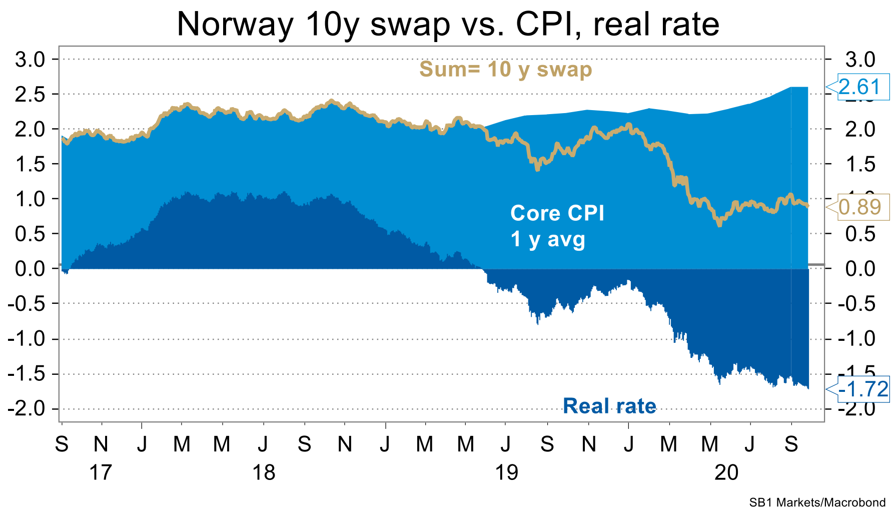
Norway, Interbank Rates, NIBOR, Fixing



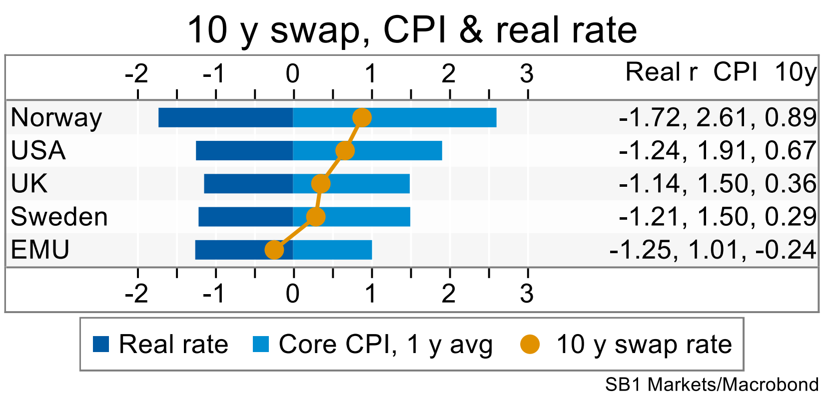
SB1 Markets/Macrobond

- Banks were not able/willing to distribute short term liquidity between themselves in the latter part of last week – and some banks parked more money than their quota at Norges Bank and has to pay a 1% penalty (the reserve rate), instead of lending to other banks, and keep their money intact (at a zero % overnight rate)
- Some banks are said to pay 1% for overnight money, and the 1 week NIBIR has climbed to 28 bs, from 5 a couple of weeks ago. The 3 m NBOR rose 4 bps to 0.31%, and is up from 0.23% at the bottom late August/early September
- In order to calm the market, Norges Bank offered F-loans at Friday, at zero premium vs. the deposit rate (zero), but no bank asked for these free money
- We assume that there are some ‘technicalities’ at the market place – and that Norges Bank will be able to stabilise rates in the very short end of the curve before the turbulence has any impact on lending rates

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



- NOK 10 y swap nominal rates are down more than 1 pp since January
- Real rates have fallen to -1.67%, based on actual core annual inflation (smoothed 12 m)
  - » All other measures of actual/expect inflation will yield results in the same ballpark, from -1% or lower)

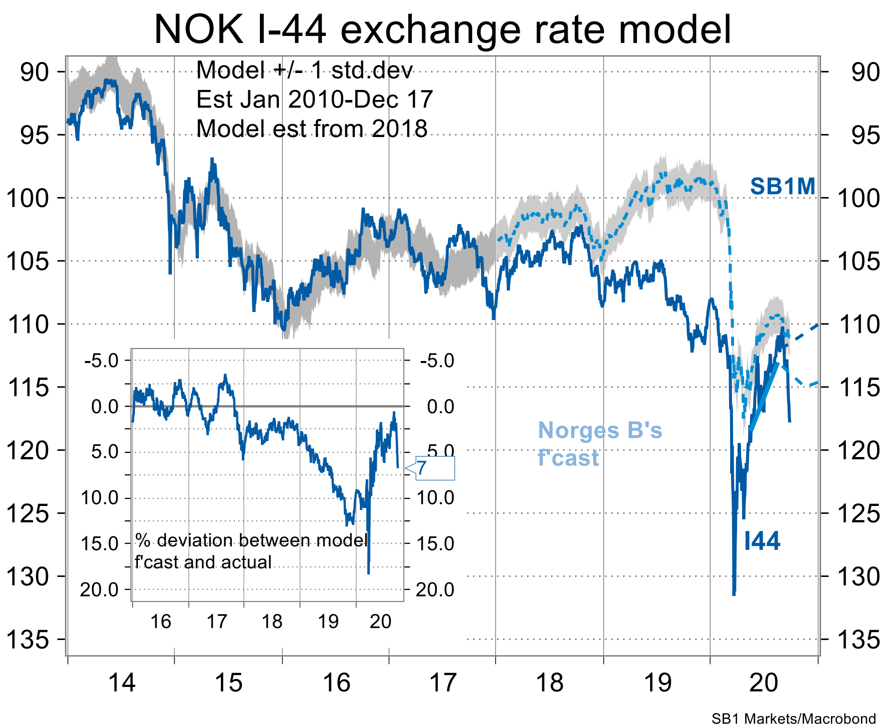


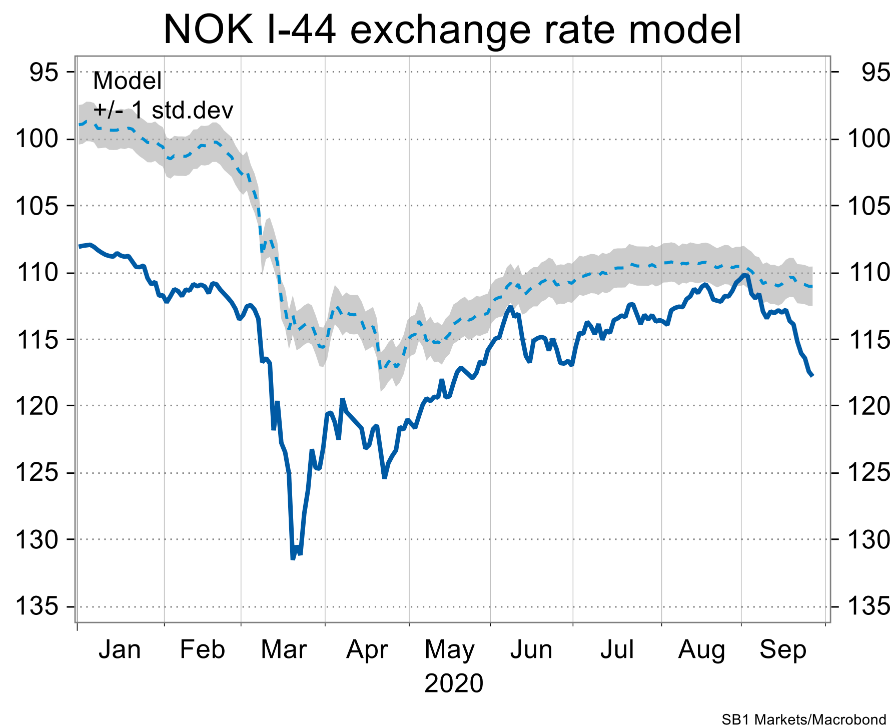
NOK real rates among the lowest, inflation exp. at top

- Inflation among Norway and our main trading partners varies between 1 to 2.6% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, Norway at the top
  - » Other measures of inflation trends, looking backward or including forward expectations yields the same result
- Real rates are quite similar among our trading partners, at -1.2% measured vs. the 10 y swap rate and inflation over the past two years. The Norwegian rate at -1.7% is an outlier, even if the nominal rate is the highest

NOK down 3.4% last week (and 7% from local peak), our model signalled -0.6%

NOK fell to the lowest level since May, risk off sentiment probably the main driver

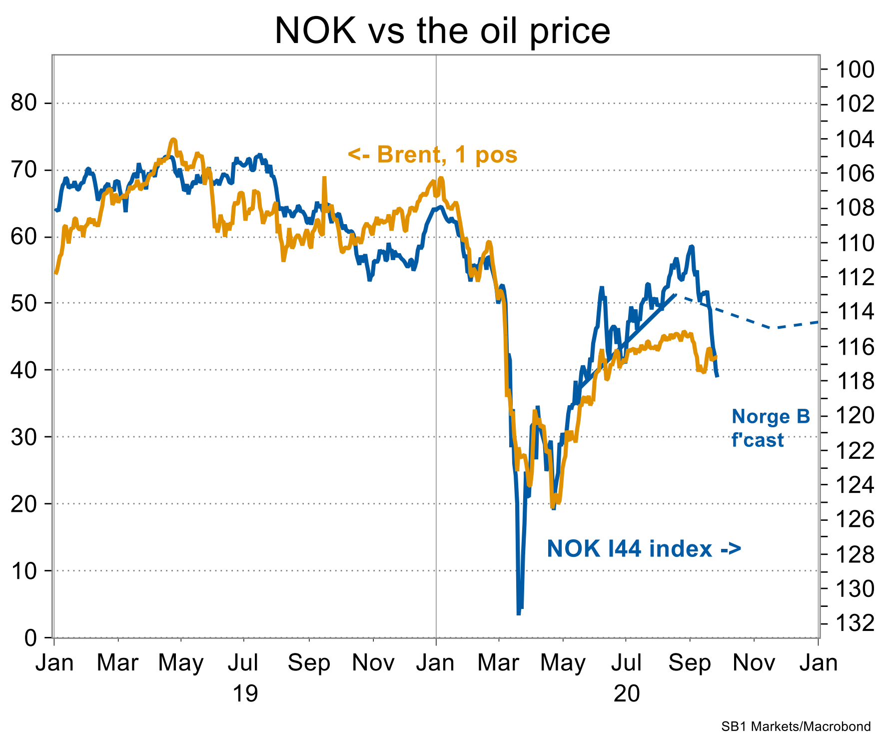


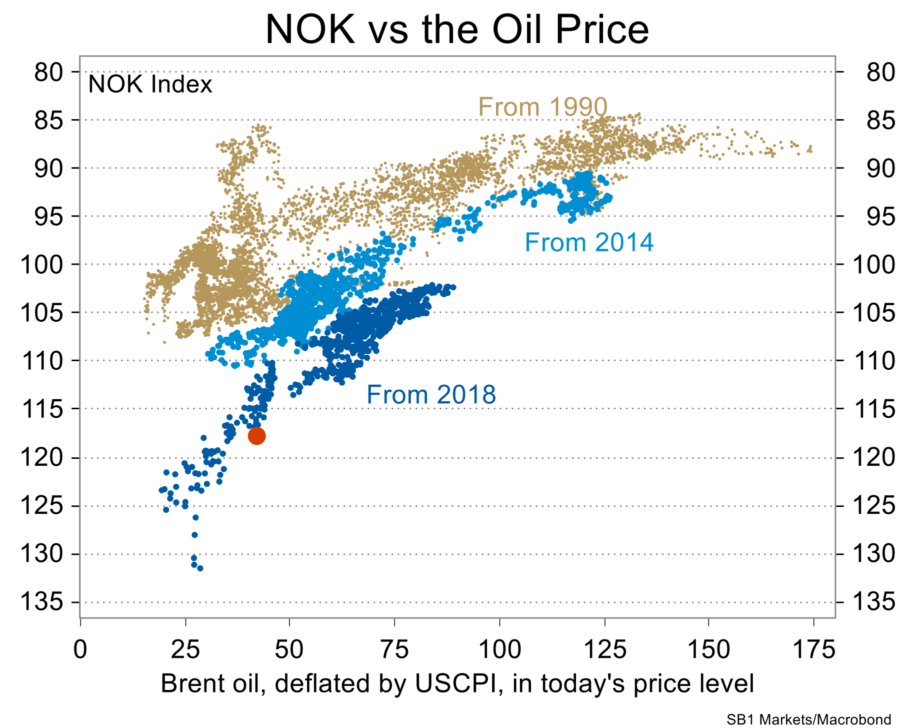


- The gap to the standard, oil price dependent model widened to 6% last week, as the NOK fell more than the oil price or other fundamentals explained
- The NOK has fallen more than oil companies and our supercyclical currencies (although our closest peer, the AUD, has fallen substantially too)
- Thus, we strengthen our NOK buy recommendation!
- The NOK is still 'too strong' vs a model based on oil equities but weaker than the other supercycle currencies (AUD, CAD, SEK), we prefer the latter model

It’s not the oil price, stupid. Rather some “risk off”, like in the stock market?

The NOK depreciation seems more related to risk sentiment & concerns of the global econ. recovery

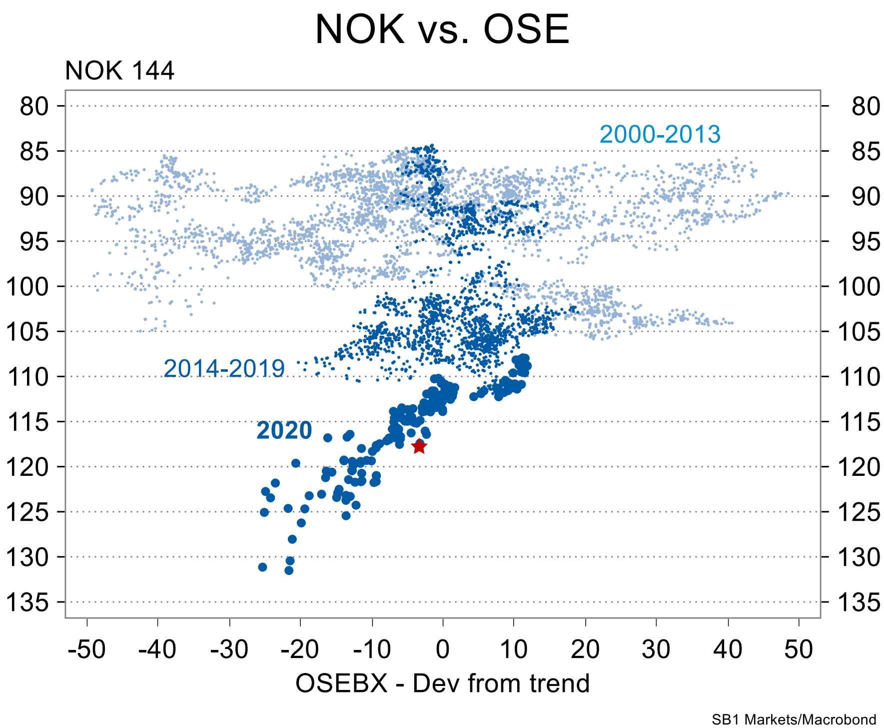


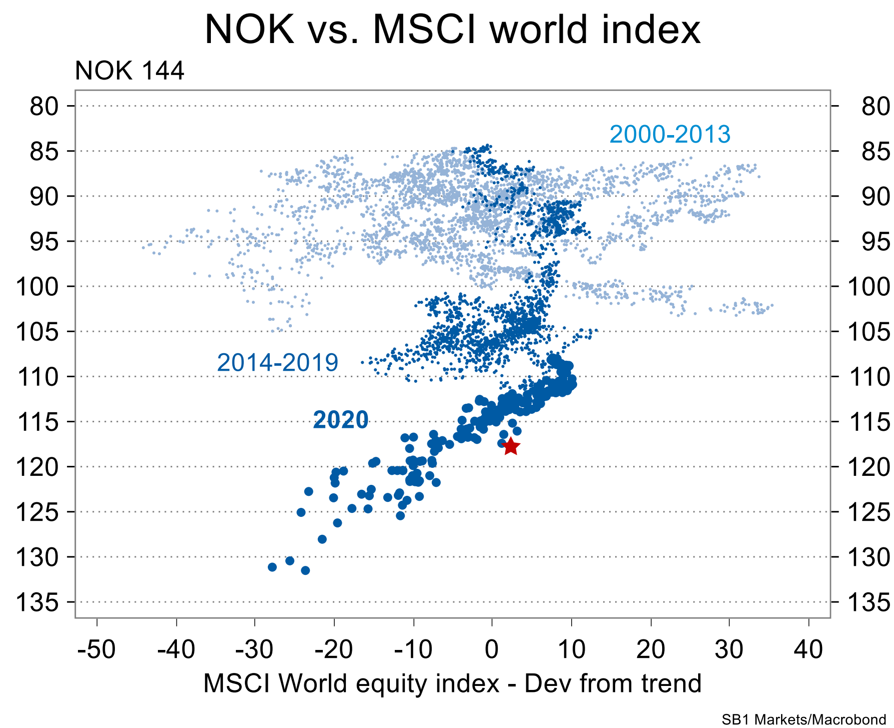


- The NOK is marginally weaker vs the oil price than the normal correlation until 2018

NOK has been sensitive to the OSE in 2020, but not before

OSE down -> NOK down. Or just MSCI World index down -> NOK down?

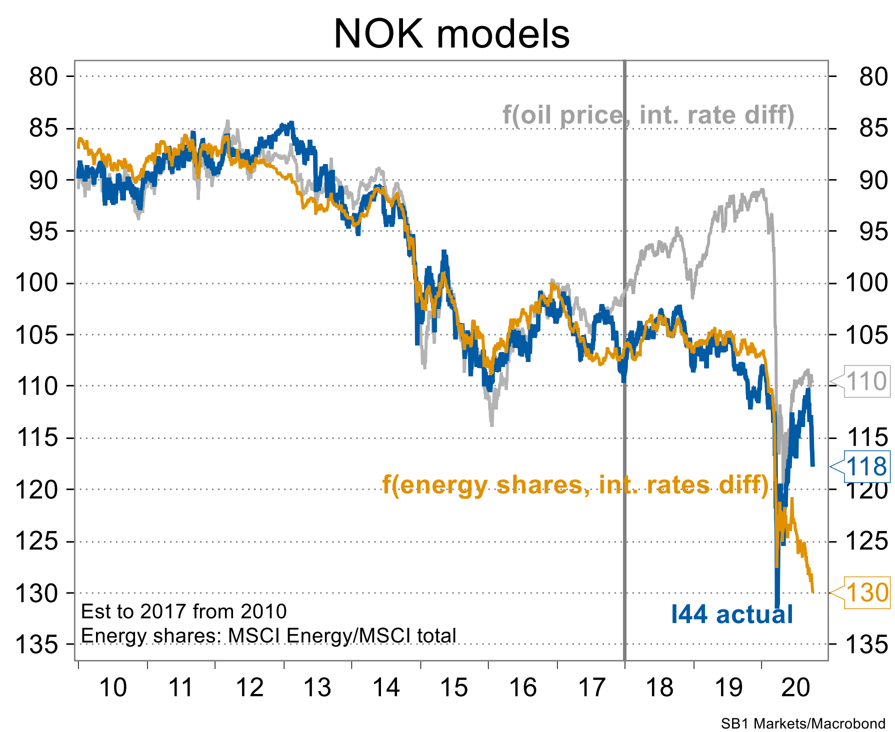


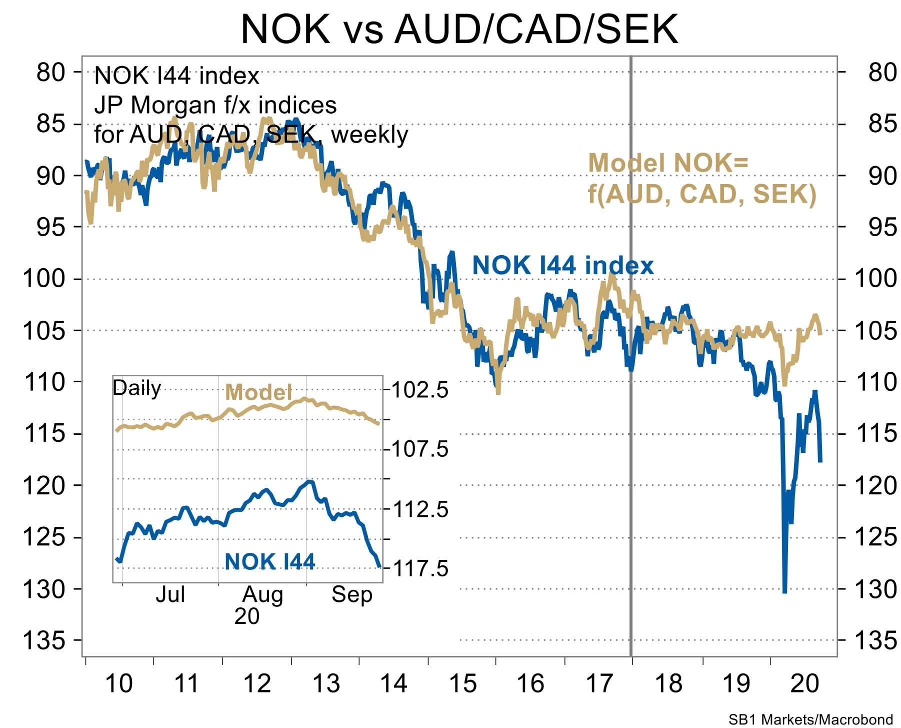


- There has not been any stable correlation between NOK and the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. In 2020, NOK have been closely correlated to all of them. The relationship is illustrated at the charts above. In formal regression models, where the normal suspects driving the NOK is included, the conclusion is the same
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund is larger then the value of the remaining oil & gas reserves. Has the market 'suddenly' come to the same conclusion?
- NOK has not been correlated to OSE/MSCI (which could be interpreted as specific Norwegian factor)
- Now, the NOK is weaker than 'normal' (since Jan 2020) vs. the OSE and the MSCI

NOK the only loser: Oil companies, our supercyclical peers survived last week

Oil companies did not shine, neither did AUD/CAD/SEK bot none fell like the NOK

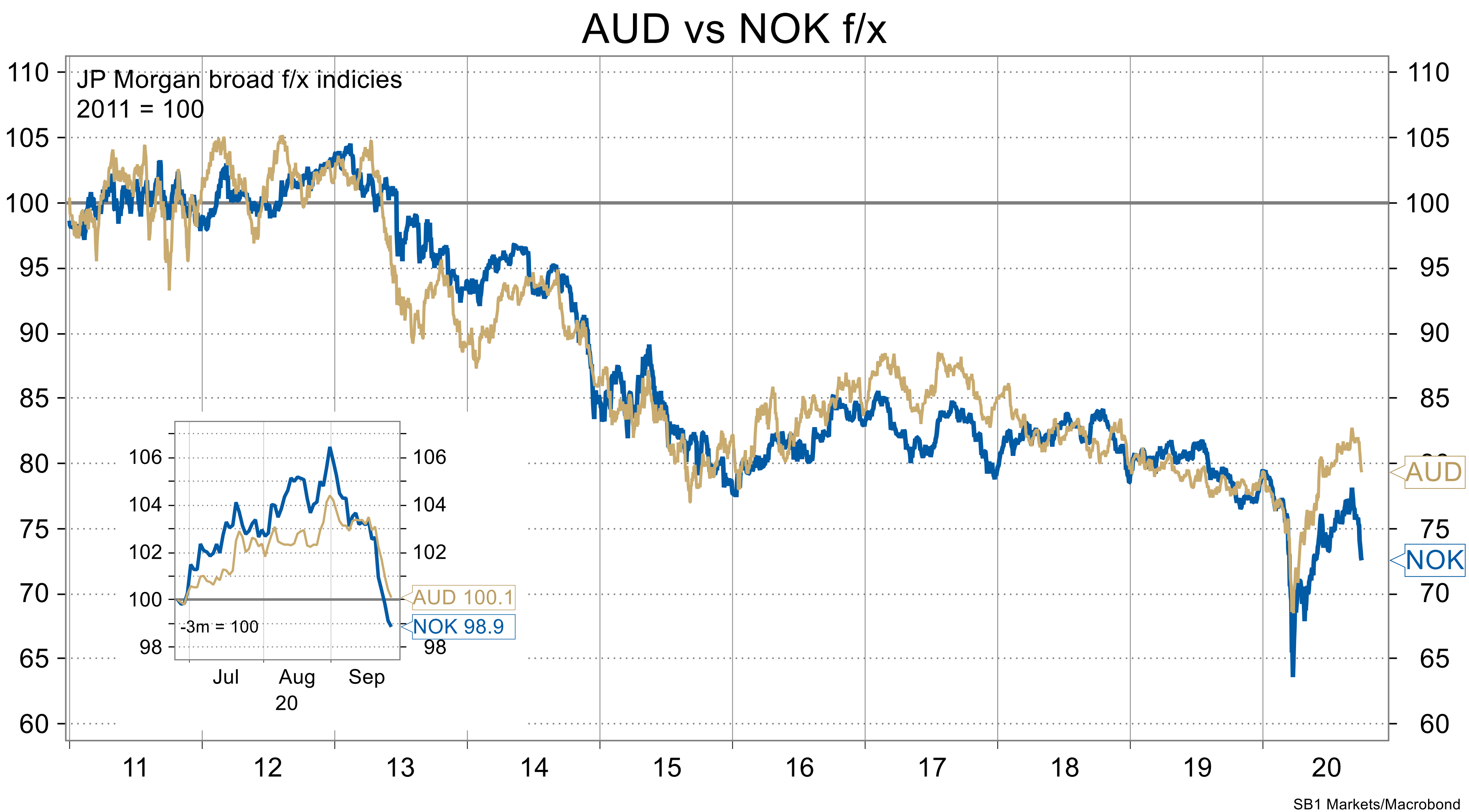




- On the alternative NOK models
  - » Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
  - » Until recently, energy shares have been falling, while the NOK appreciated. The gap was partly closed last week, as the NOK depreciated much more than signalled by our NOK oil share price model. Still, the NOK is 9% stronger than the model estimate
  - » The NOK also fell sharply vs. our AUD/CAD/SEK model forecast, and these currencies weakened less than the NOK last week, even as all are sensitive to market risk sentiment. The NOK is 9% below our model est. We think this model is more relevant than the oil stock price model

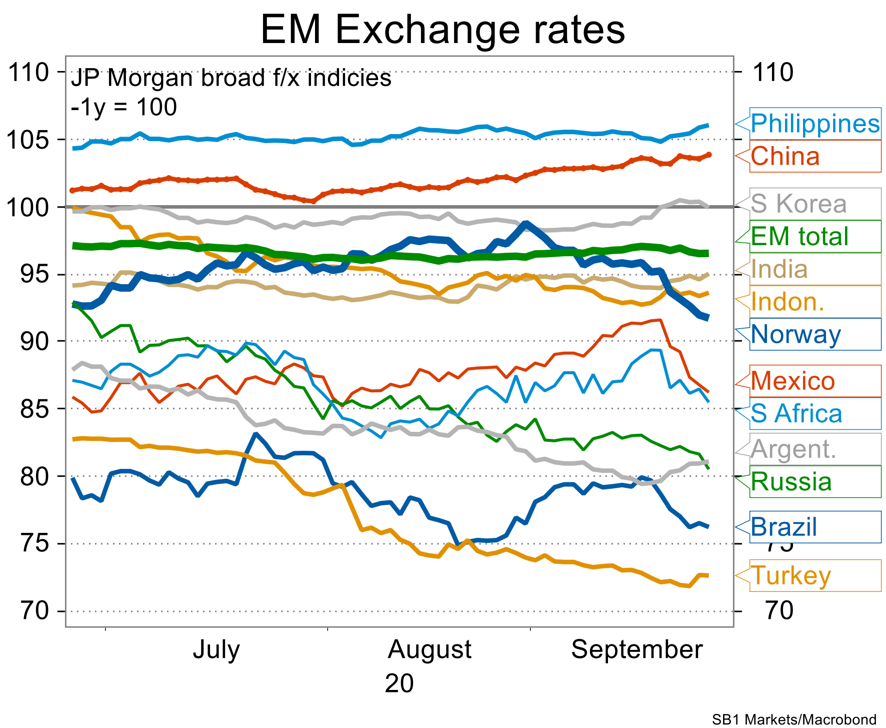
The AUD lost ground last week too, but somewhat less than the NOK

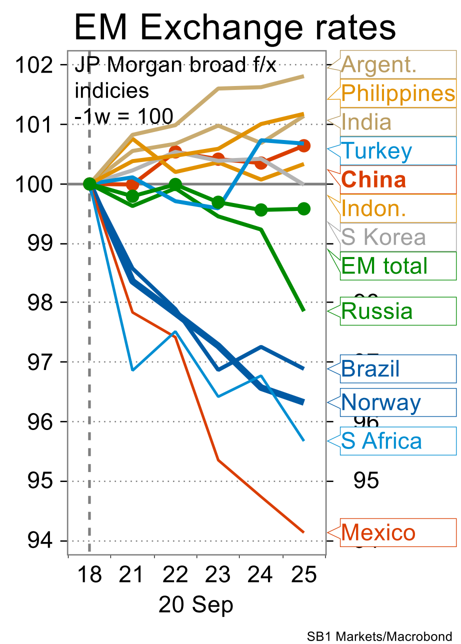
The AUD has fallen 4% from the Sept 1 local peak, the NOK 7%

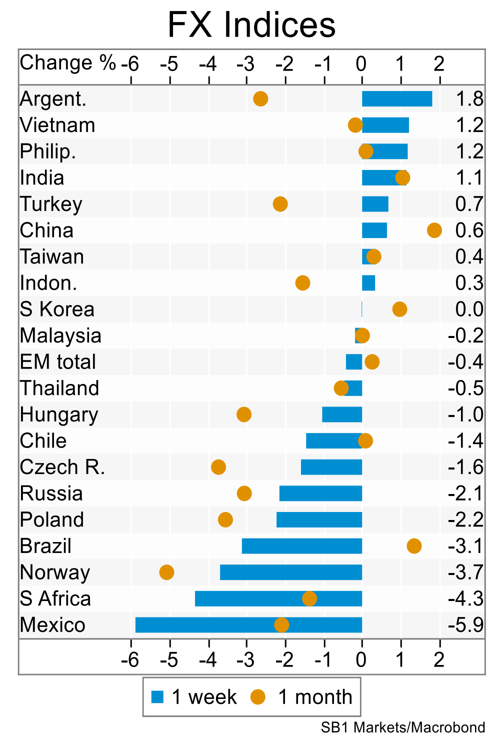


EM currencies weakened marginally week, due to Mexico, Brazil, S.Africa

Did you know? *The NOK has fallen more than any of the EM currencies the past month*







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