Macro Research

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Week 41/2020

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

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

Last week:

- **Corona news:** New cases stabilised many places last week; US turned slightly down again and both Spain and France may have peaked. Denmark, Sweden down but UK not. Western Europe in total has probably flattened. 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. Vaccines will probably not become widely available before next summer

- Markets were not frightened Friday (and even less Monday morning) following the news of **Trump's positive corona test**. With just one month left until the election day, uncertainties ahead of the election are no doubt heightened. Trump seems to have lost support following the disastrous TV debate with Biden, and he is probably down in the polls through the weekend. Time will show what happens when Trump returns to the scene; he is expected to return to the White House from the hospital today

- **Global manufacturing PMI** rose to 52.3 in Sept, a 1.5 p increase from Aug. Most countries are recovering, PMIs above 50. **The US manufacturing ISM** fell to 55.4, a 0.6 p decline and 0.9 p weaker than expected. The level of the ISM signals a continued recovery. **Chinese PMIs** were mixed in Sept, the NBS' survey rose 0.6 p, Markit's PMI probably fell. The levels are anyway signalling growth above trend

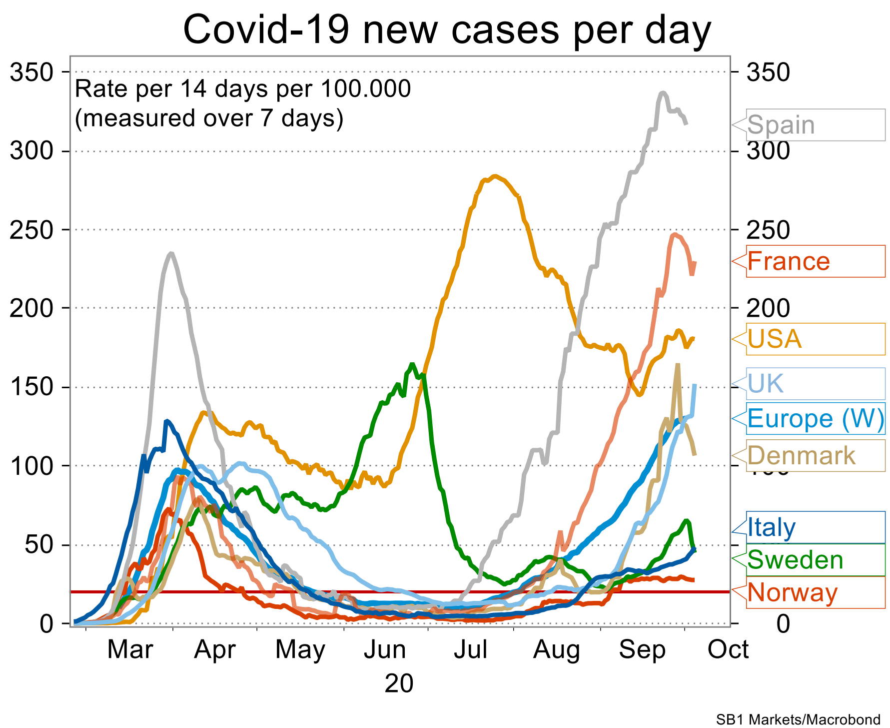
- **US auto sales** rose sharply in September and were close to the downward sloping pre corona trend**. Norwegian new auto registrations** soared in Sept to the best level in several years, lifted by electric vehicles, of course

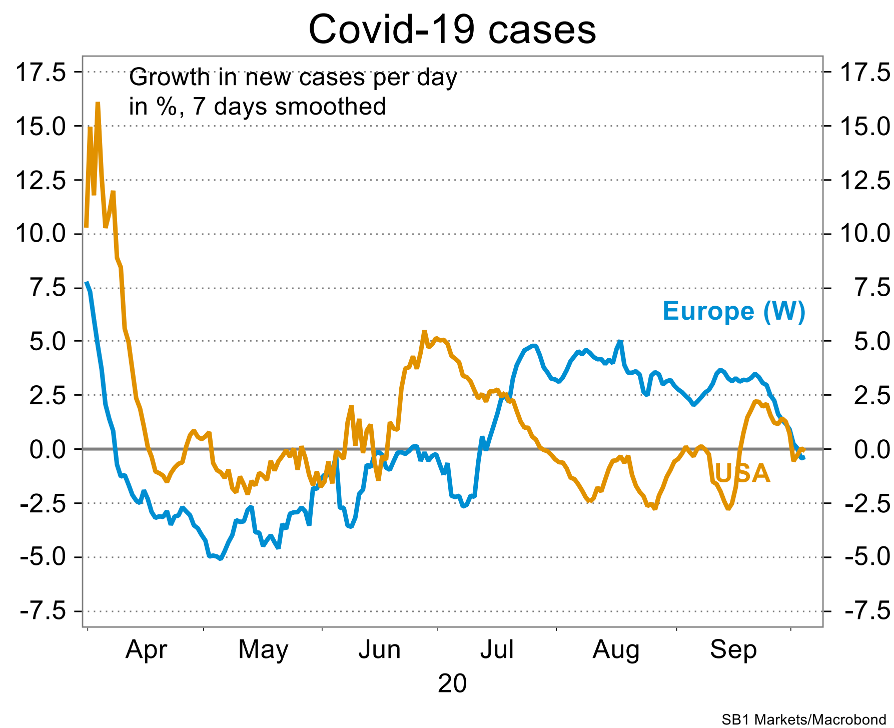
- **US employment** rose 661' in Sept vs expectations at 860'. However, private employment rose more than expected, while government employment declined. Unemployment further down to 7.9%, expected 8.2%, however just to a decline in the participation rate. **Private consumption** rose 0.7%, close to expectations, still below the pre corona level due to weak services. **Household income** fell in Sept after soaring since Feb, due to a partial reversal of the extreme government transfers. **Price inflation** gains speed, **core PCE** up to 1.6% y/y, and it's higher than Fed assume for the Q4 avg**. House prices** are accelerating sharply, and **pending home sales** shot up to the highest level on record in August, adding to evidence of a housing market boom. **Consumer confidence** is edging up but remains at rather low levels. No compromise is yet on another fiscal support package but the parties are still talking together

- **Norwegian registered unemployment** fell to 3.8% of the labour force in September, as expected. The decline is merely due to fewer furloughed workers. **Retail sales** dropped 5% in August, an unexpected decline (consensus was -2% but our -8% estimate lowered the consensus f'cast subst.) Sales are still 9% above the pre corona level, best among the countries we follow – at a not sustainable level. **Credit growth** accelerated in Aug due to a spike in corporate lending. We expect a slowdown as lower business investments will drag demand for credit down. No signs of a take-off in household lending

New US cases stabilised again, probably Europe too (France & Spain down)

The US curve turned up some weeks ago, we assume temporarily. Signs of stabilisation in Europe

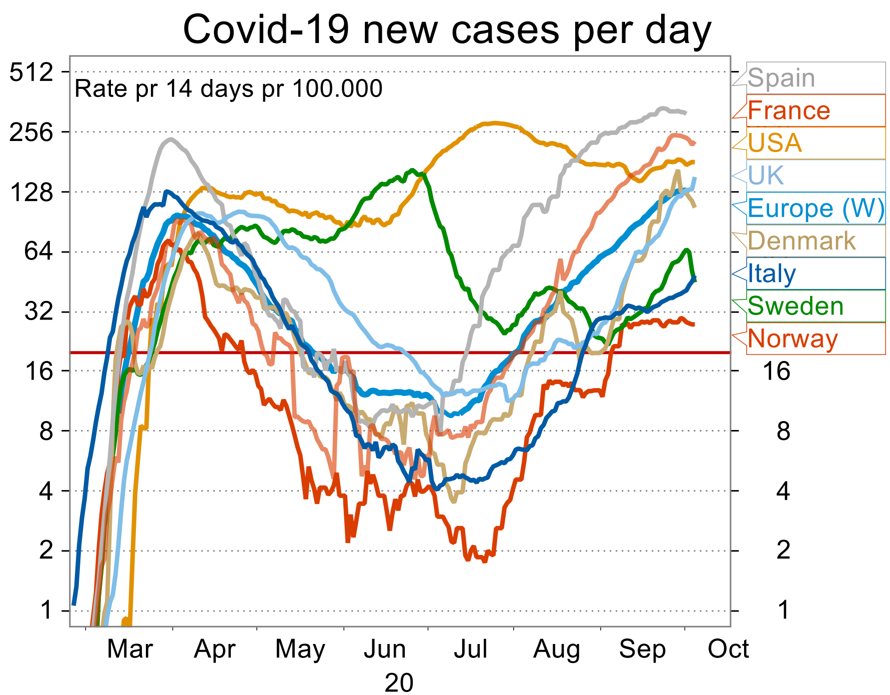




- **The number of new cases in the US** turned down again last week after a two weeks' upturn. No of cases still not higher than in late August and the number of hospitalised patients is still low, although increasing, and the number of deaths is falling. These levels are both low and trending down. **The economic cost of successfully turning the curve in the summer was limited**
- Growth in new cases in **Europe** has slowed, and may have stabilised last week, with an 'R' close to 1, as both Spain and France are reporting fewer cases. The no of hospitalisation are up from the bottom during the summer but remains low, and deaths are just marginally up, equalling less than 3% of all deaths. At the peak, the extra no of deaths equalled 70% of the normal number

Norway is flattening, Denmark and Sweden on the way down again

We are all still in the 'red zone'. UK further up, while Spain and France may have peaked



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- Some restrictions were reintroduced during July (in the US), and in August/Sept (in Europe) – <u>and these measures seem to have been working</u>
- Norway announced some easings last week – at the no of new cases has flattened at quite low level

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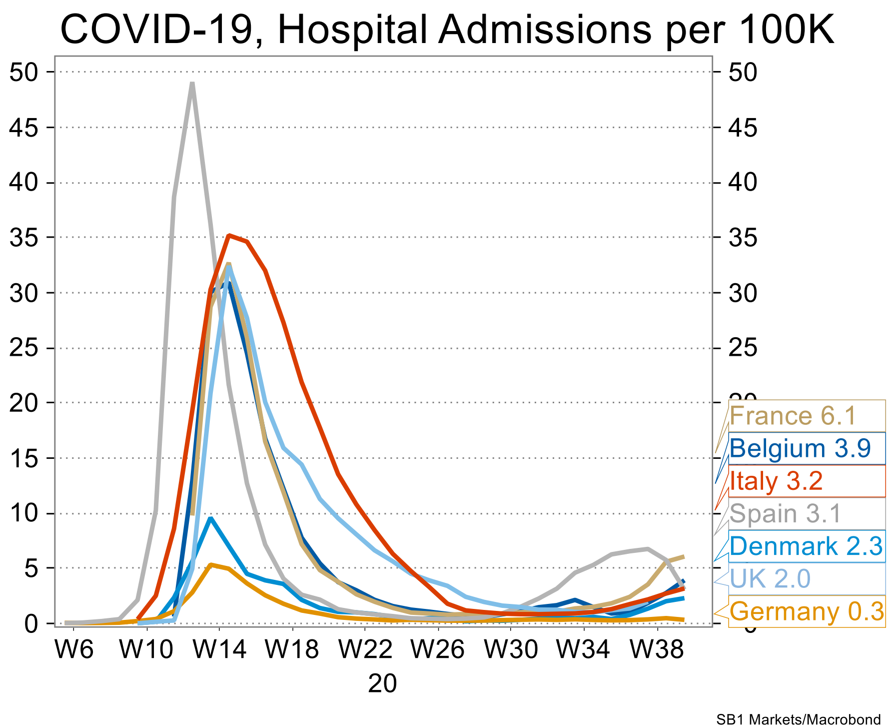
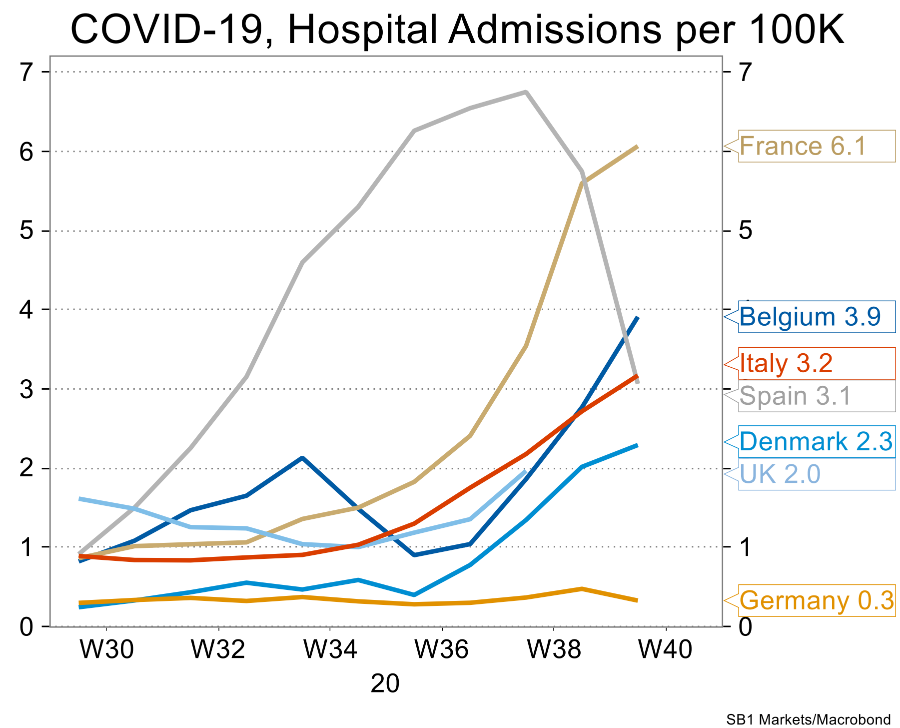
Corona is not a health problem, at least not yet, still very few hospitalisations

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

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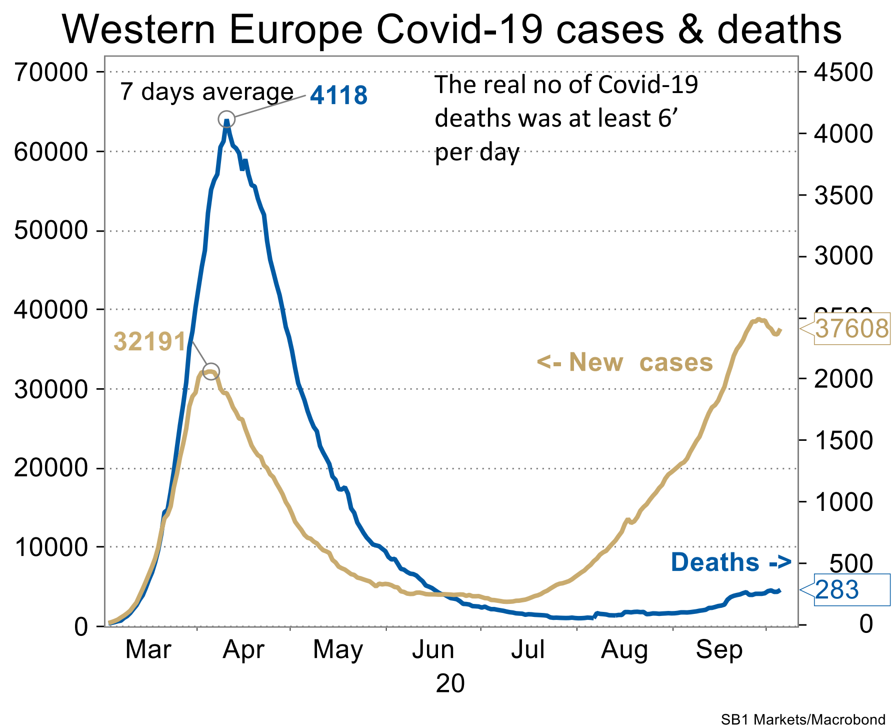
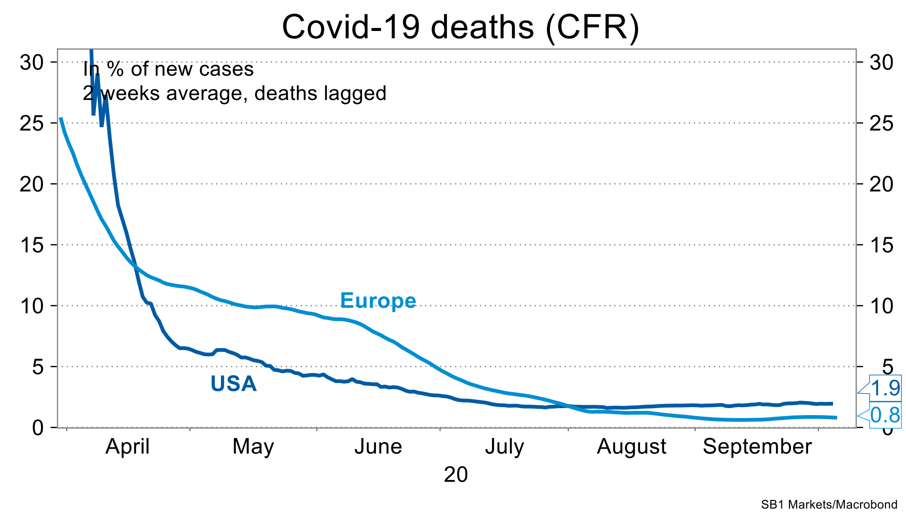
Covid deaths flattening out in Europe, just 2.5% of total deaths

The CFR at 0.8% - from 10 – 20% during the spring (the decline mostly due to much more testig)

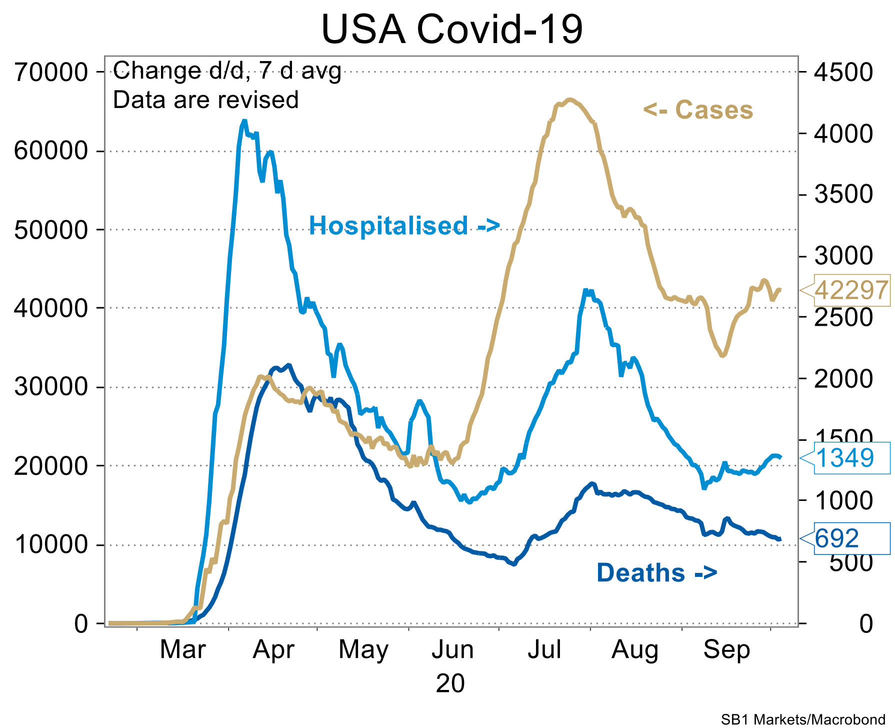


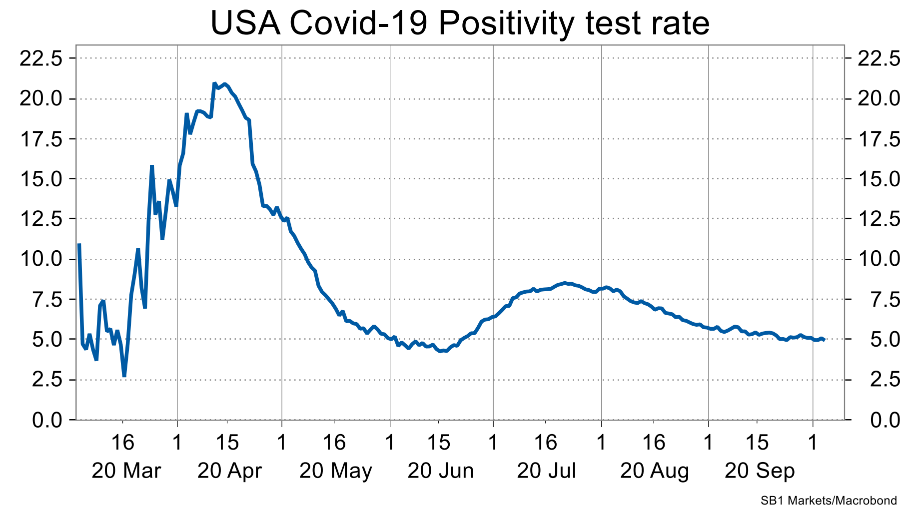


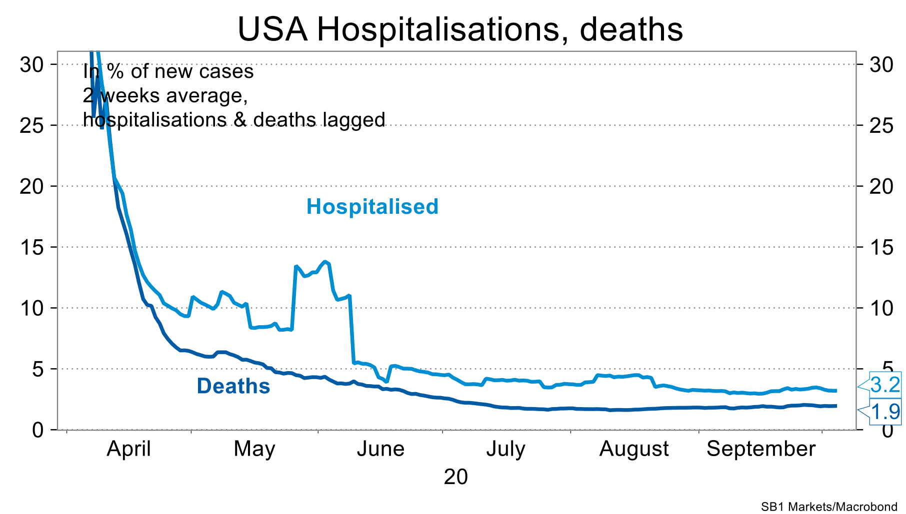
- The number of deaths in Europe increased sharply through most of September. The past week, deaths have almost stabilised at less than 300' per day, from below 100 in July/August
- Still, Covid-19 deaths equal below 3% of the daily number of the 9.000 deaths per day in Western Europe. Do not forget: 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

USA: Hospitalised up but deaths not, levels still low vs April/May

The no of hospitalised patients is increasing but deaths are declining marginally



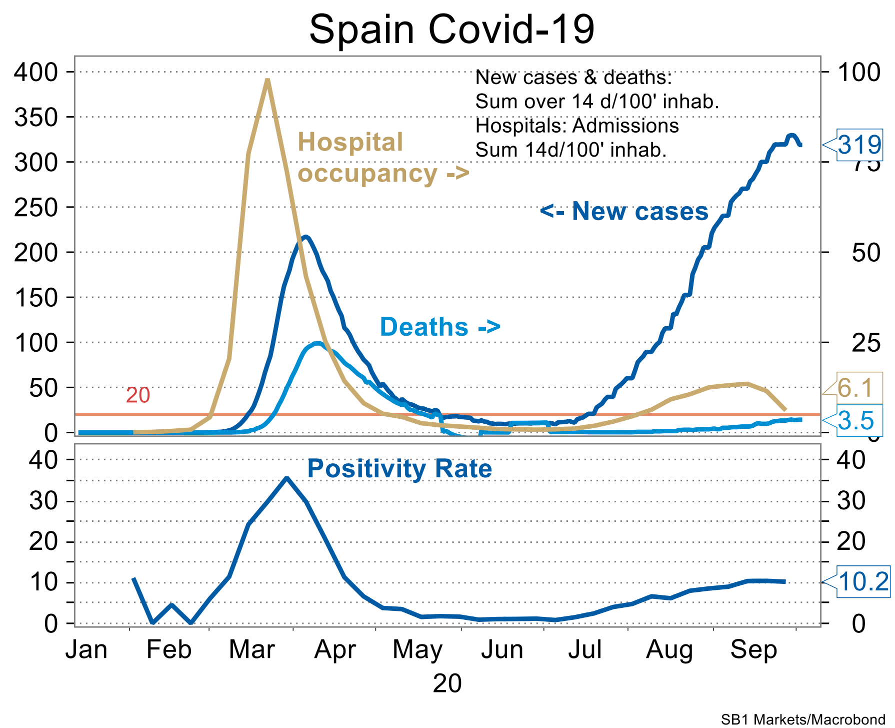


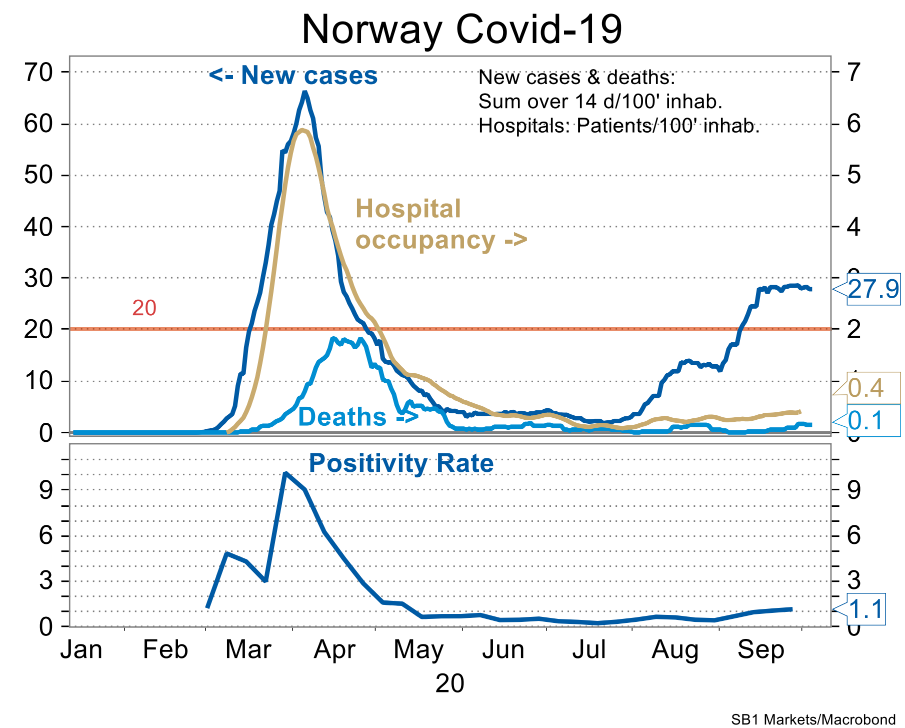


- The hospitalisation rate is far lower than during the early phases of the pandemic but has increased since early Sept
- The death rate (CFR) fell sharply until late July and has flatted out since – at approx. 2%. In Europe, the CFR was flat at 0.8% last week (and it is half of that again in Norway). 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

Please check the axes at these charts

Spain has no hospital or church yard problem. Norway even less so



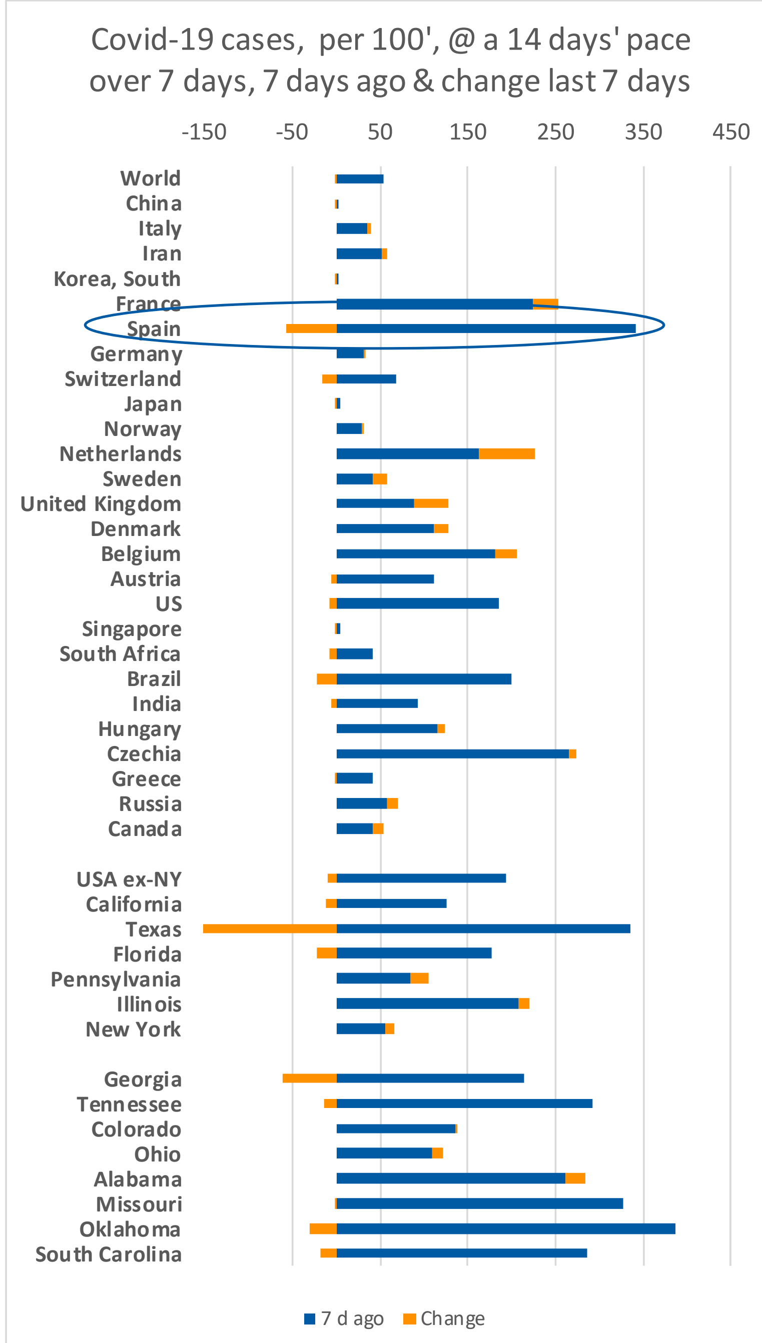


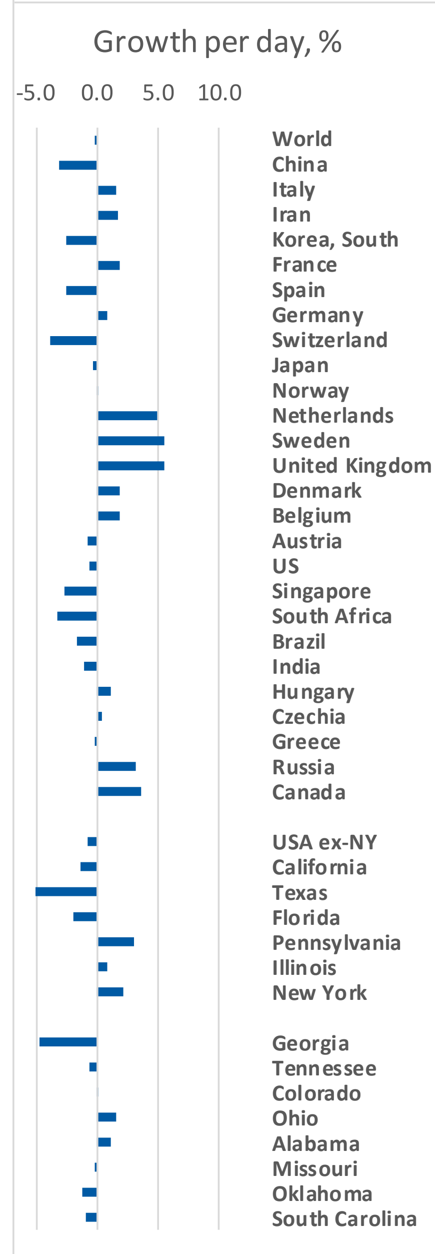
- The number of infected persons were 10++ times higher than reported back in March/April

US & the rest: A comparison

It won't lay down…

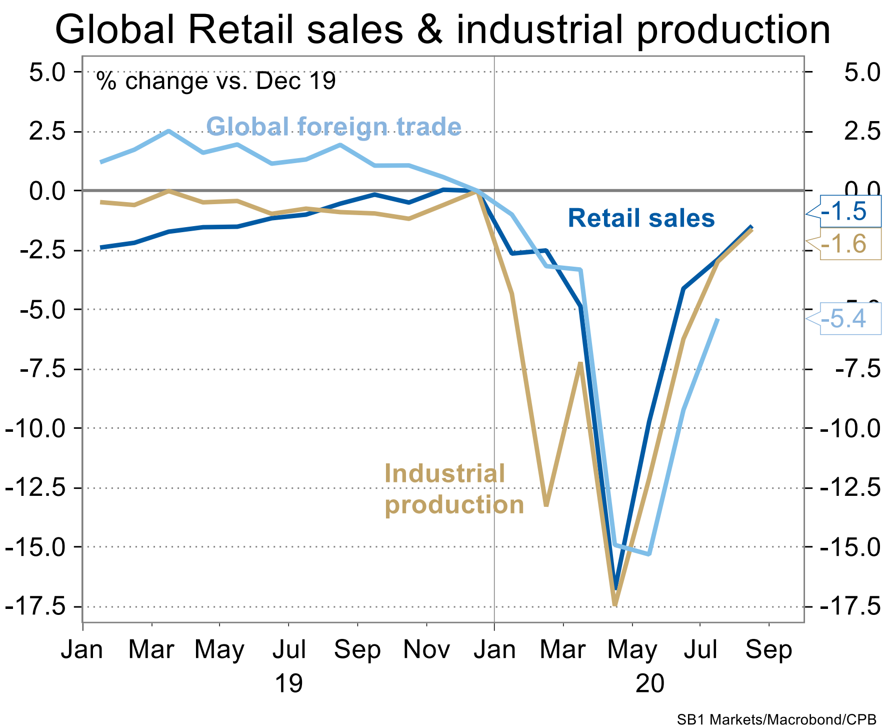
- Mixed reports last week but many countries reported a slowdown:
  - » US is well down from the July peak and turned down again last week, after a small upswing
  - » In Europe, growth is slowing down. Spain is reporting by far the highest number but the number of new cases fell last week, finally!
  - » Netherlands, UK 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

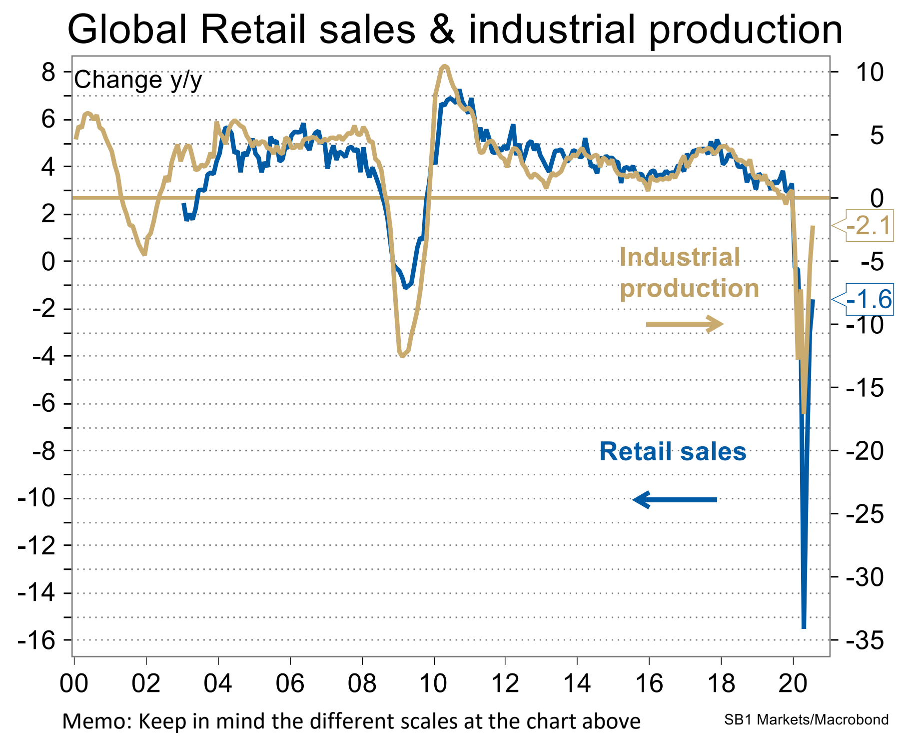




Industrial prod, retail sales & global trade up, still below pre corona levels

Both global retail sales & industrial production up some 1.5% in August, both 1.5% below pre corona





- Global retail sales grew by apporx 1.6% m/m in August, according to our preliminary estimate, as in July (and 6% in June). Sales are 1.5 % below the pre corona (Dec) level (but on par with Jan/Feb). Sales in many DM countries are above the Dec level, China
- Industrial production also rose apporx 1.5% in August (again premlim. est) down from 3.6% m/m in July and 7% in June. Production is just 1.6 % below the pre corona level
- Global foreign trade rose 4.2% in July after a 7% rise in June, still 5.4% below the pre corona level. Most likely, global exports rose sharply in August, closing more than half of the remaining gap

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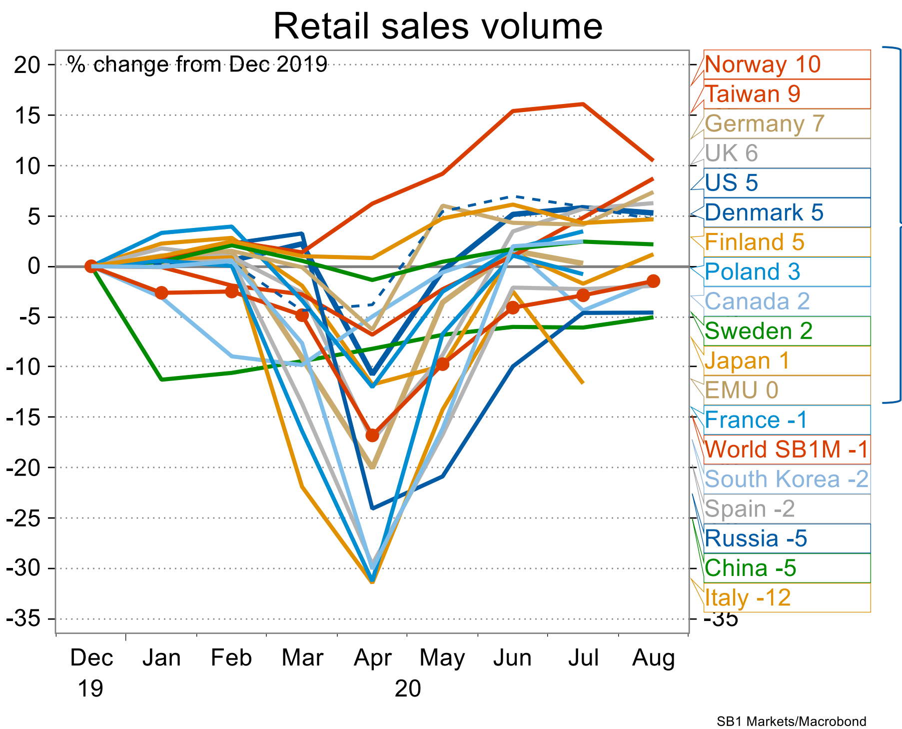
Global retail sales are on the way back to pre corona levels

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



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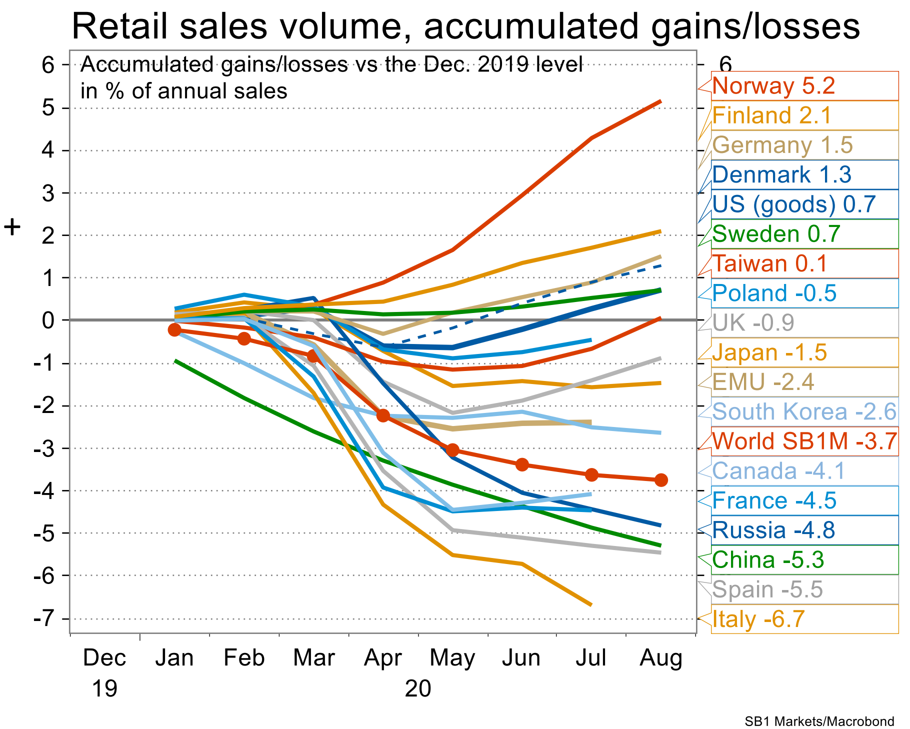
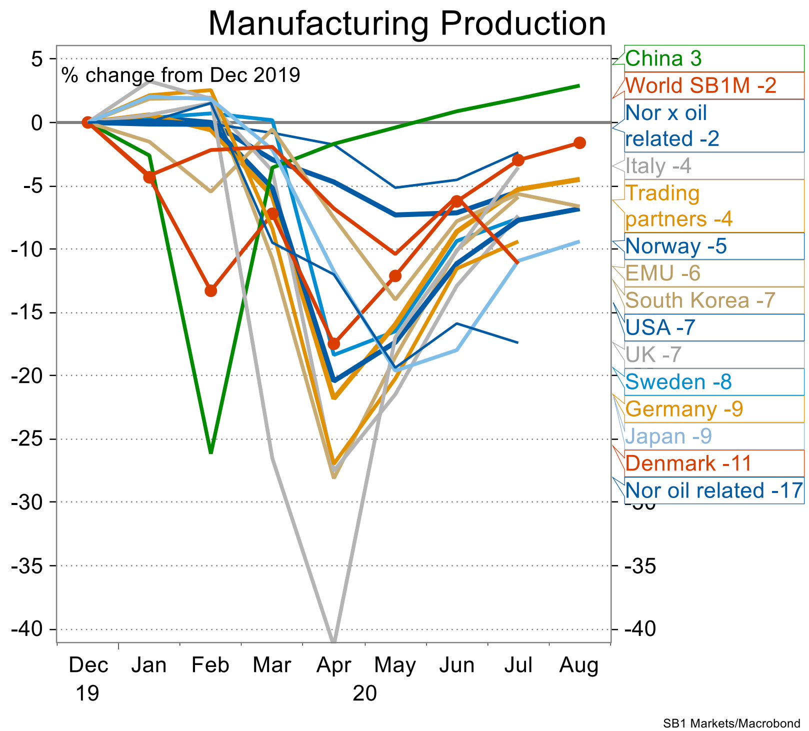
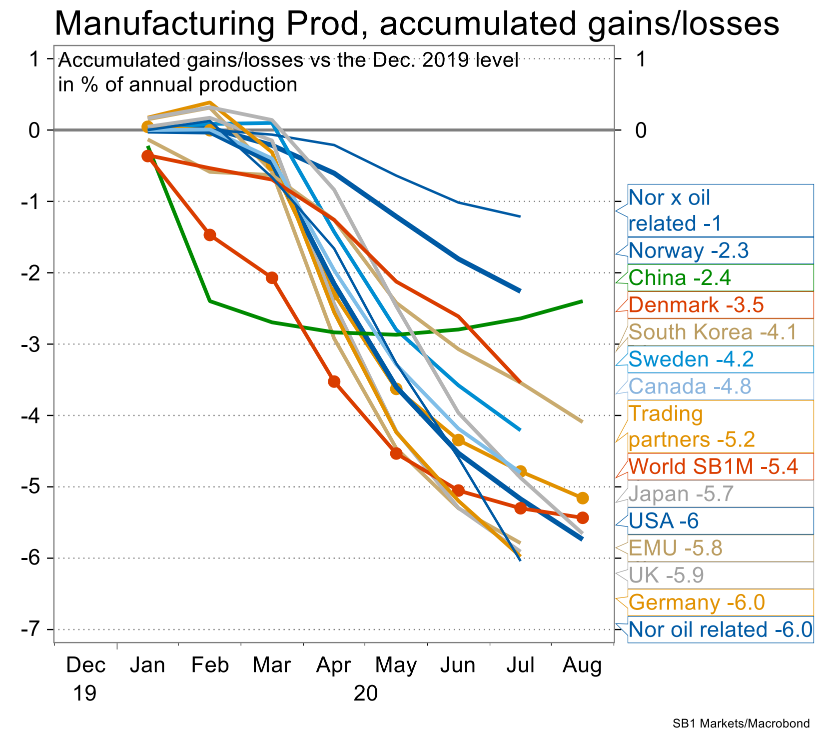


- Global retail sales were less than 2% below the Dec level in August. Most countries are now reporting higher sales than before corona hit. Even if sales fell sharply in August, Norwegian retail sales are still at the top. We still lack Aug data from several countries
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 5% above the pre corona level in August but total sales during the first six months of 2020 were still 'just' 0.7% 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 >5% of 2020 'is already lost'

Production rose further in August, and is now less than 2% below the Dec level

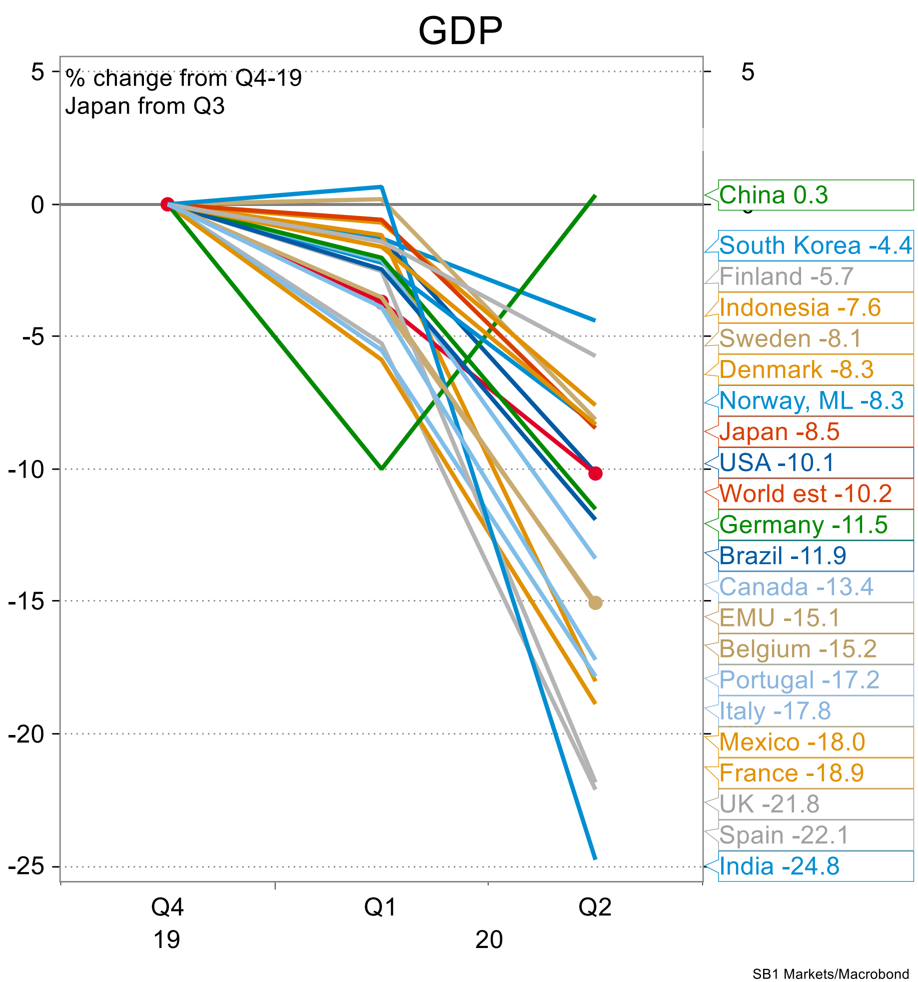




- Manufacturing production was down 2% vs. the Dec level in August, following an approx 1.5% lift. Many countries have not yet reported
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 7 % below the 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(=production) is still way below a normal level

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)*

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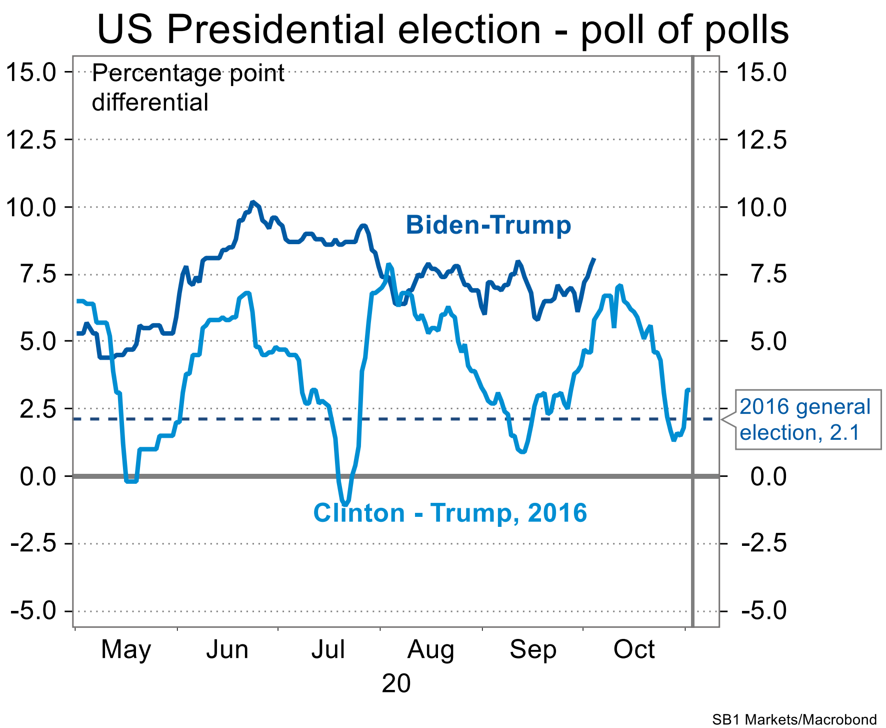
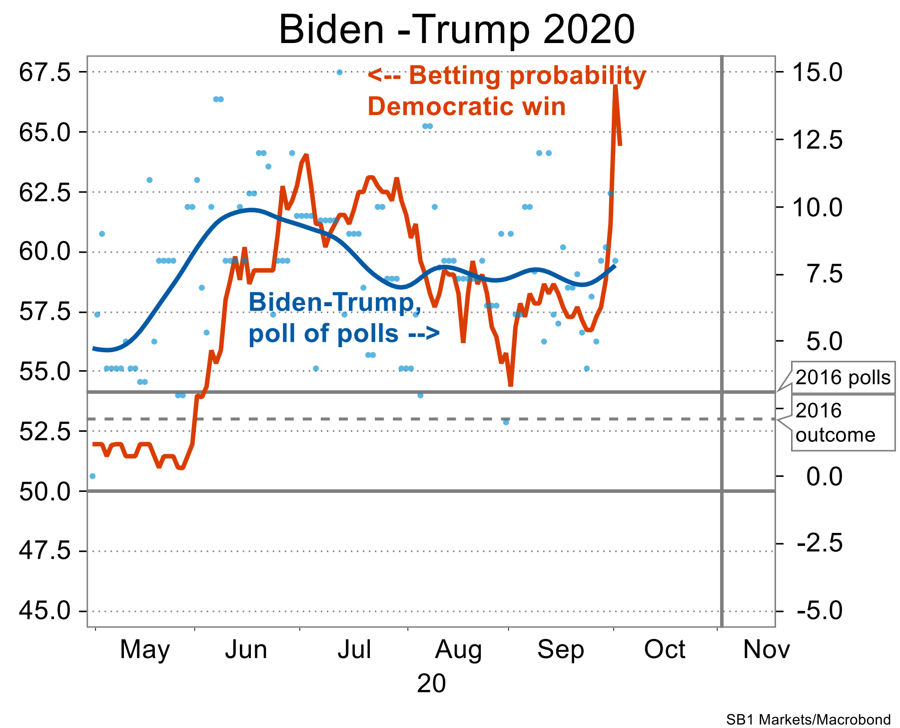
4 weeks to go: Biden is still well ahead of Trump in the polls. So was Clinton

However, Joe Biden has been far more consistently ahead of Trump then Hilary Clinton ever was





- … and the punters go for Biden, albeit not by impressive odds (but they strengthened following the debate debacle)
- The betting probability for a Biden win fell somewhat after Trump was diagnosed with Covid-19, but it is far higher than before the debate between Trump and Biden at Tuesday
- Biden is some 8% ahead of Trump in the polls of polls. Some Sunday polls signalled even higher support for Biden (Polls of polls is just updated through Friday)

Sources: RealClearPolitics, PredictIt

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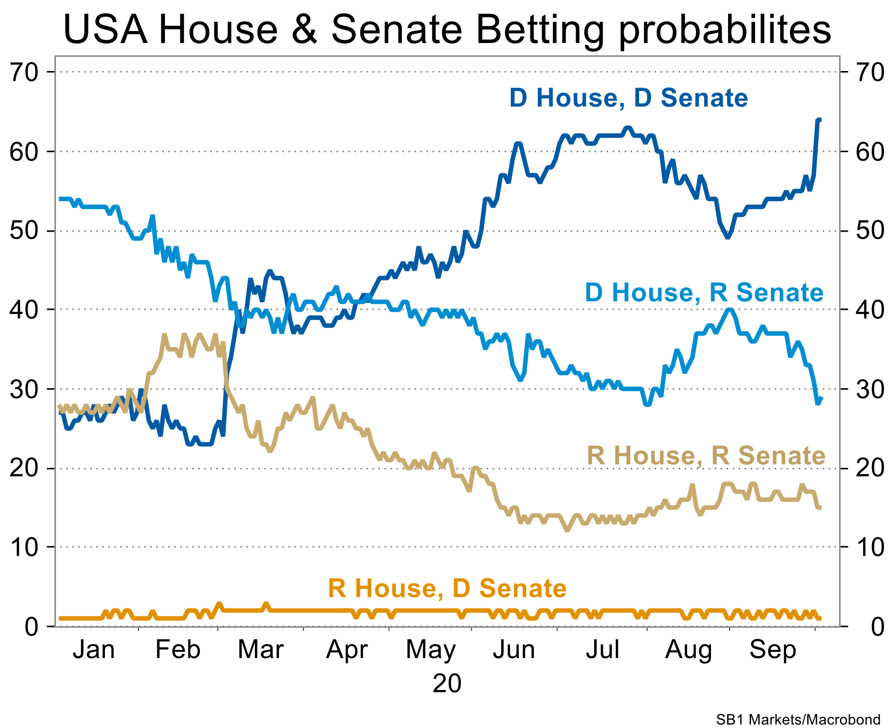
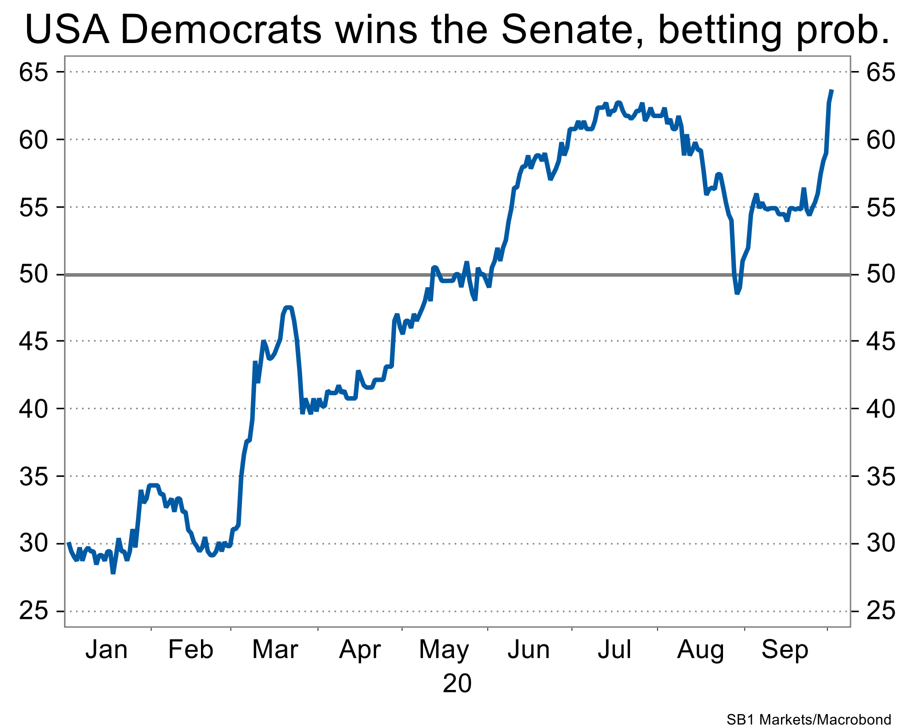
The punters are tilting towards a Democratic Congress, House & Senate

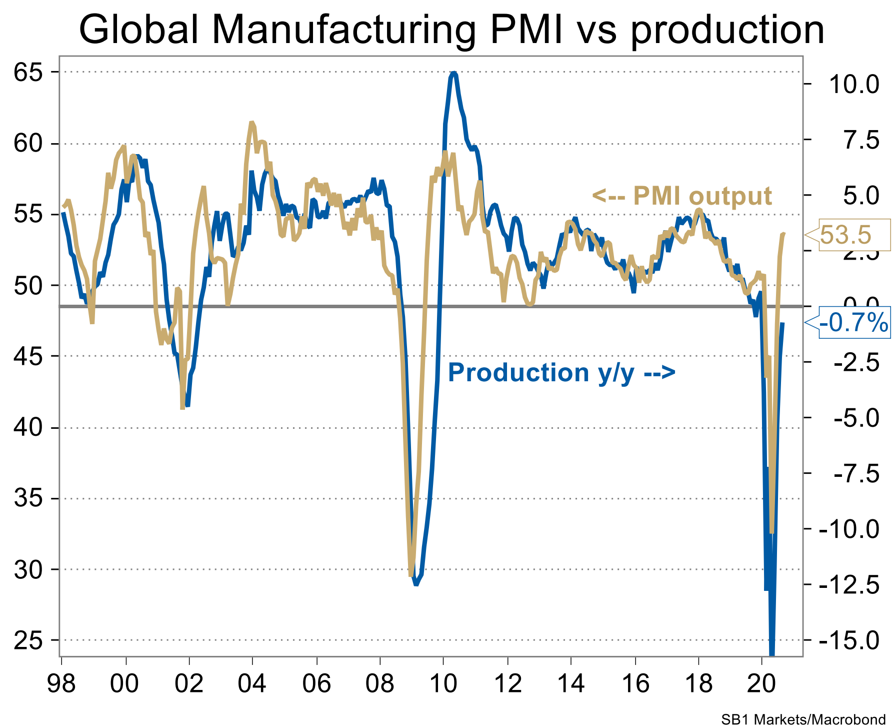
A steep increase following the debate between Biden and Trump at Tuesday

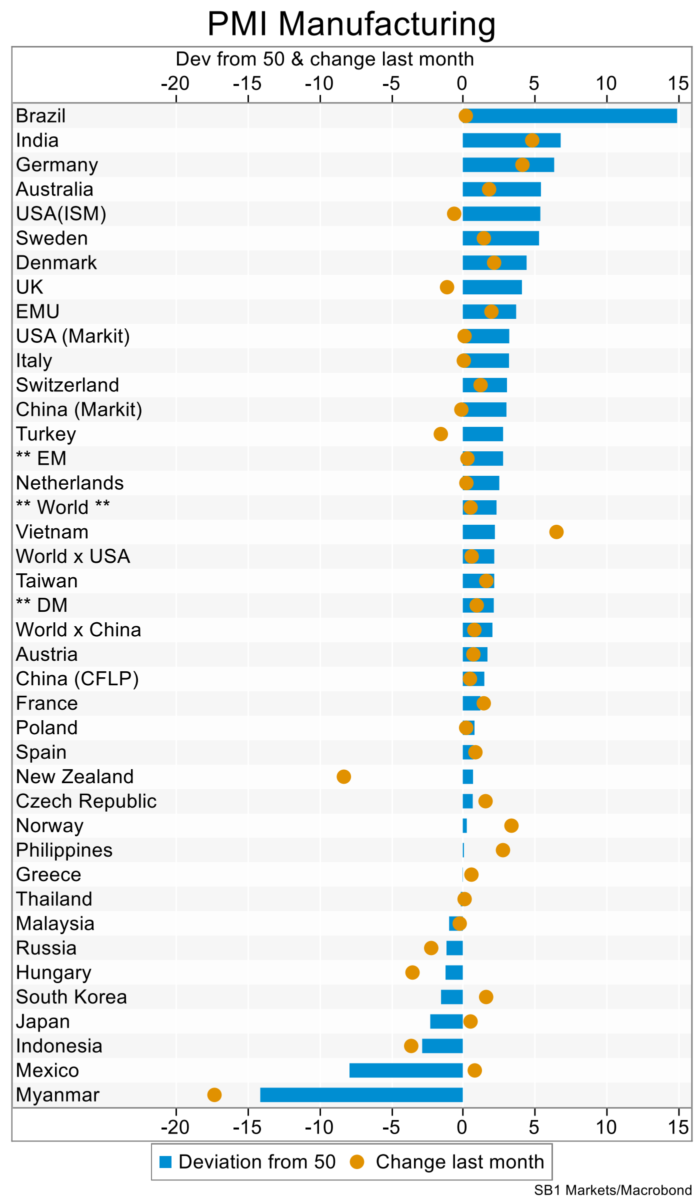




Manufacturing PMI climbs, most countries above 50

The PMI rose 1.5 p in Sept but the level is still not impressive





- The global manufacturing PMI rose 1.5 p to 52.3 in Sept, close to our estimate based on preliminary PMIs
  - » 69% of the countries/regions reported higher PMIs in September than August
  - » A majority of the countries (72%) are reporting PMIs above the 50 line
- Rich countries (DM) recovered somewhat more than Emerging Markets (EM), from a lower level. Brazil and India in the lead, Mexico at the bottom

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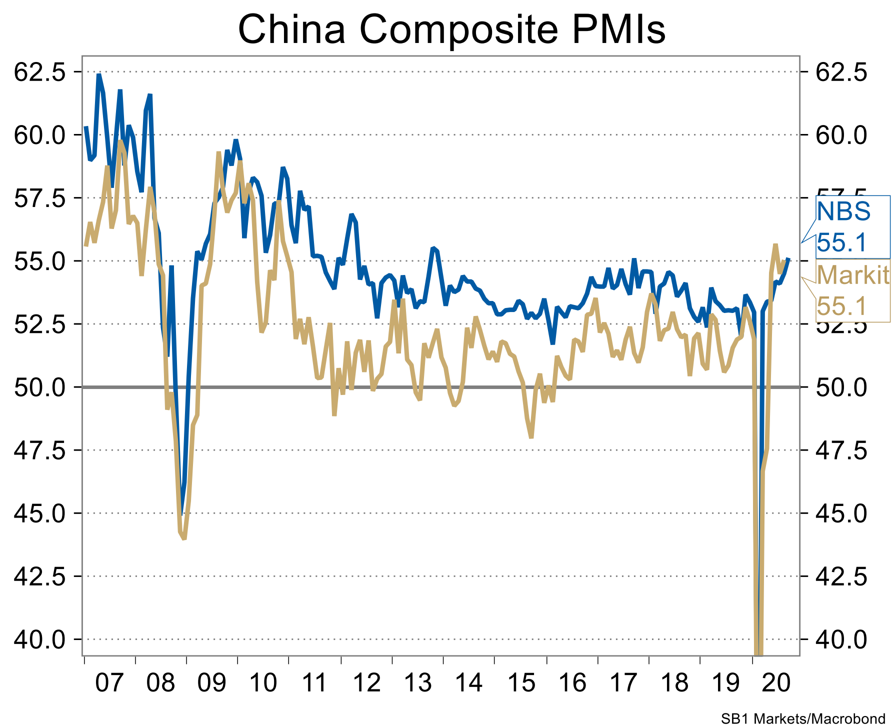
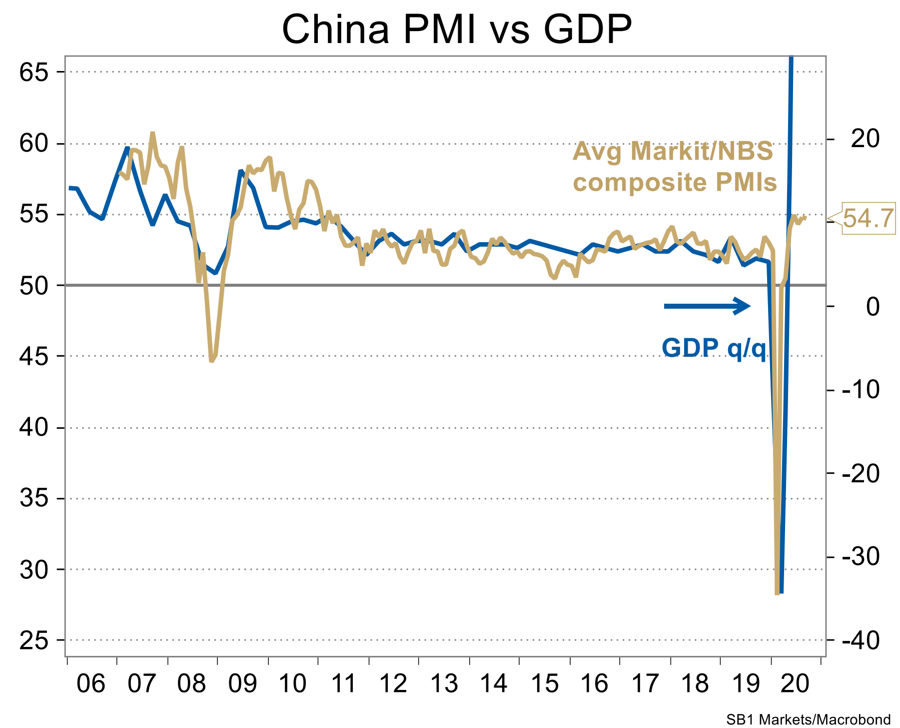
September PMIs in sum steady, signalling growth well above trend

The NBS composite PMI rose by 0.6 p to 55.1, we estimate a 0.8 p decline in Markit's PMI

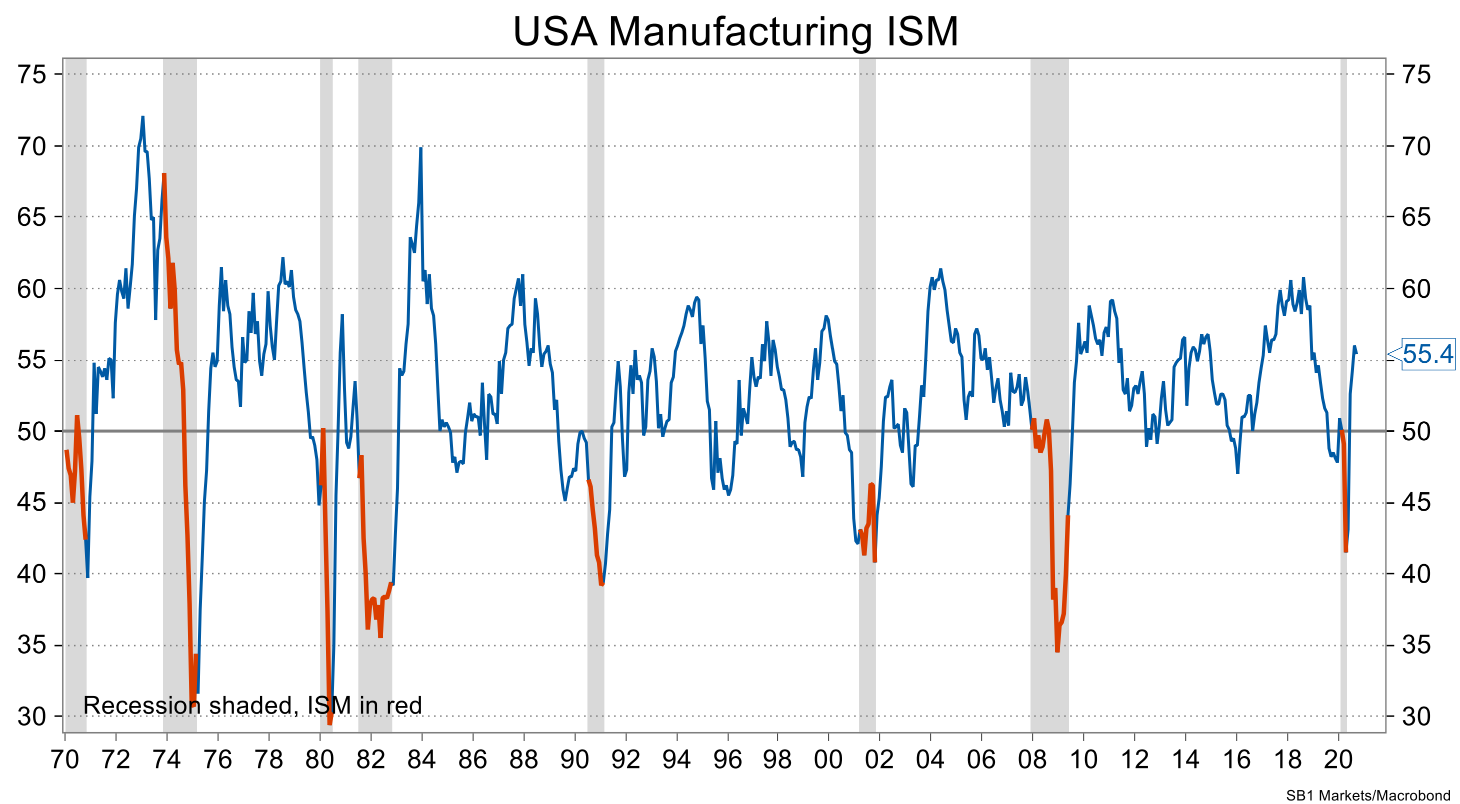




- The NBS' 'official' composite PMI edged up to 55.1 in Sept, up 0.6 p. The manufacturing index rose by 0.5 p to 51.5, services up 0.7 p to 55.9. The higher level of the services index is needed to bring activity in the service sector back to pre corona levels (it is still well below the pre corona trend, while manufacturing is fully recovered)
- Markit's manufacturing PMI inched down to 53.0, composite down 0.8 p if we assume a 0.7 p rise in services (not yet reported)
- In sum, these two PMI data sets confirm a continued recovery in the Chinese economy (a 8 – 9% growth pace), and growth above trend in Q3 too – which is needed to close the 2 – 3% negative output gap in Q2

Manufacturing ISM inched down to 55.4 in Sept, slightly weaker than expected

All in all, an OK report; orders increased at a slower speed, employment is close to stabilisation



- ISM fell by 0.6 p to 55.4 in Sept, following a strong Aug. A 0.1 p increase was expected. The survey confirms that the sector continued to recover in September, although at a somewhat slower pace. The details were less upbeat than in August as growth in domestic manufacturing orders slowed. On the bright side, customers have run down their inventories and will soon have to restock. Employment is close to stabilising
- 14 manufacturing sectors reported growth from August, 4 reported a decline (apparel, printing, petroleum & coal and primary metals)

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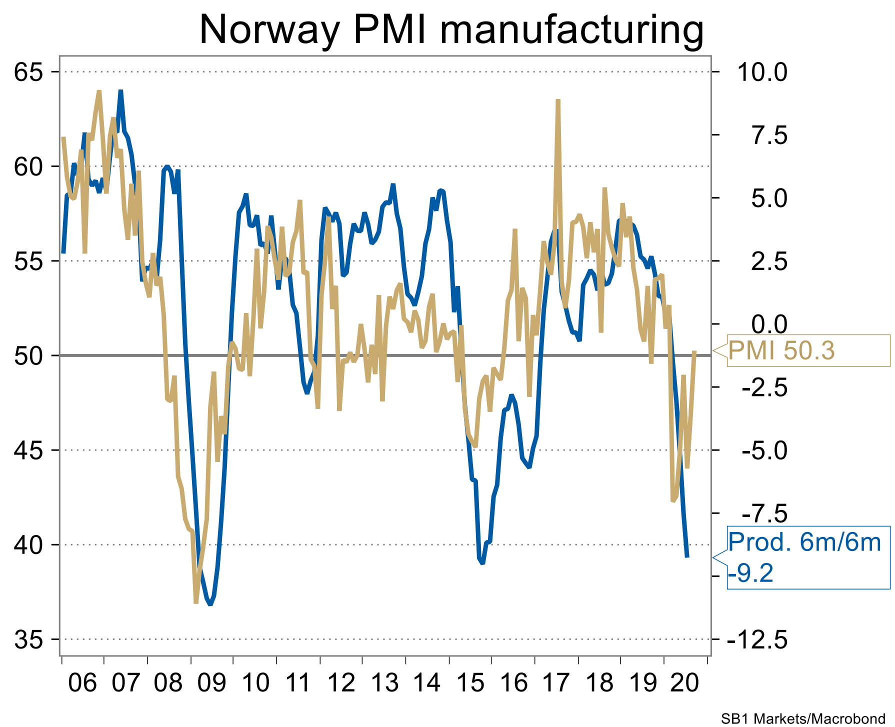
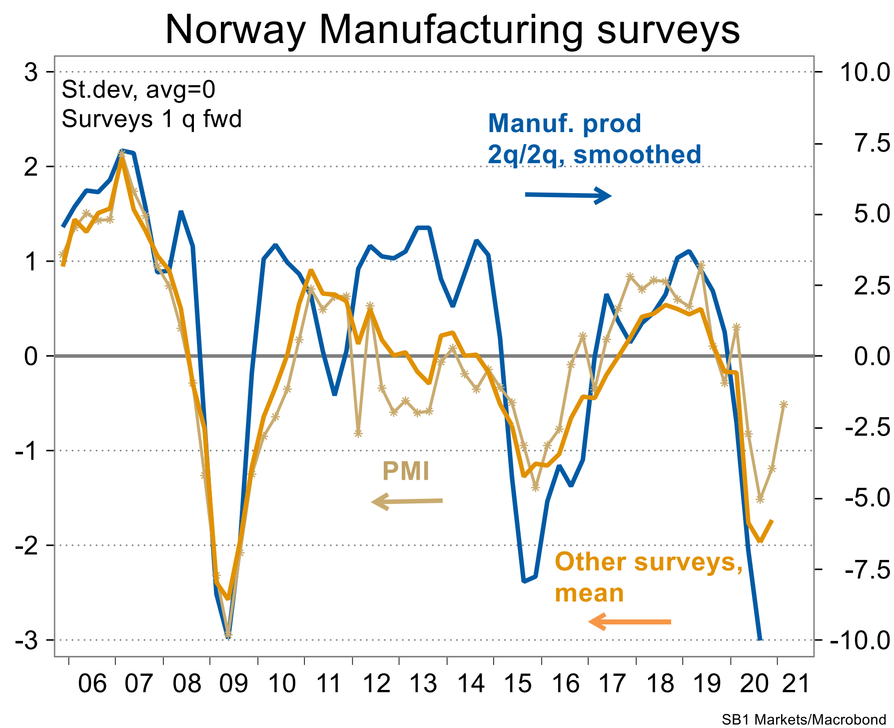
Manufacturing PMI finally (just) above 50 in September

The manufacturing recovery has so far been subdued, PMI signals a stabilisation, at best

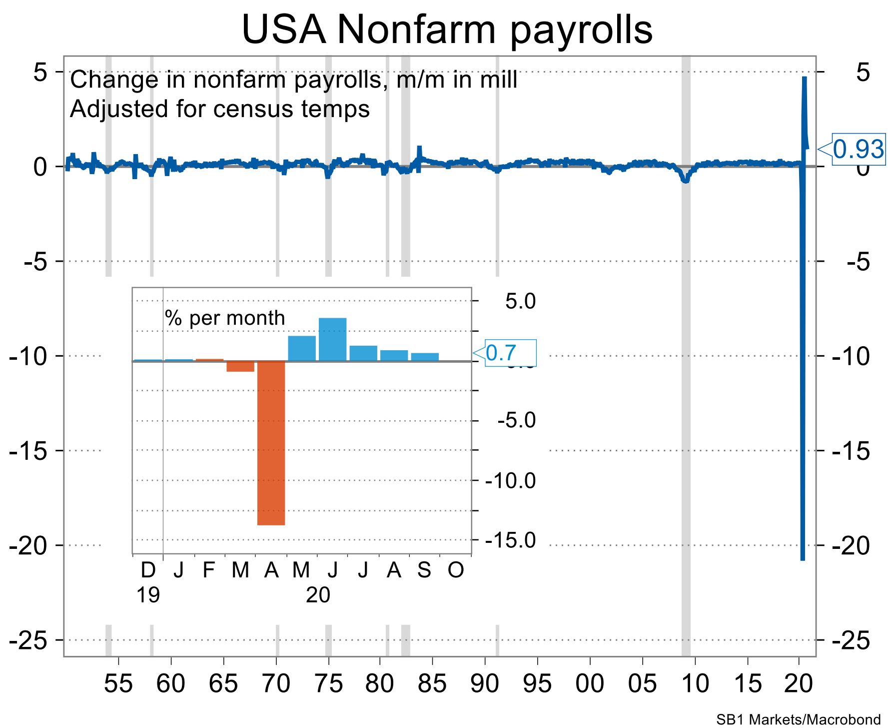


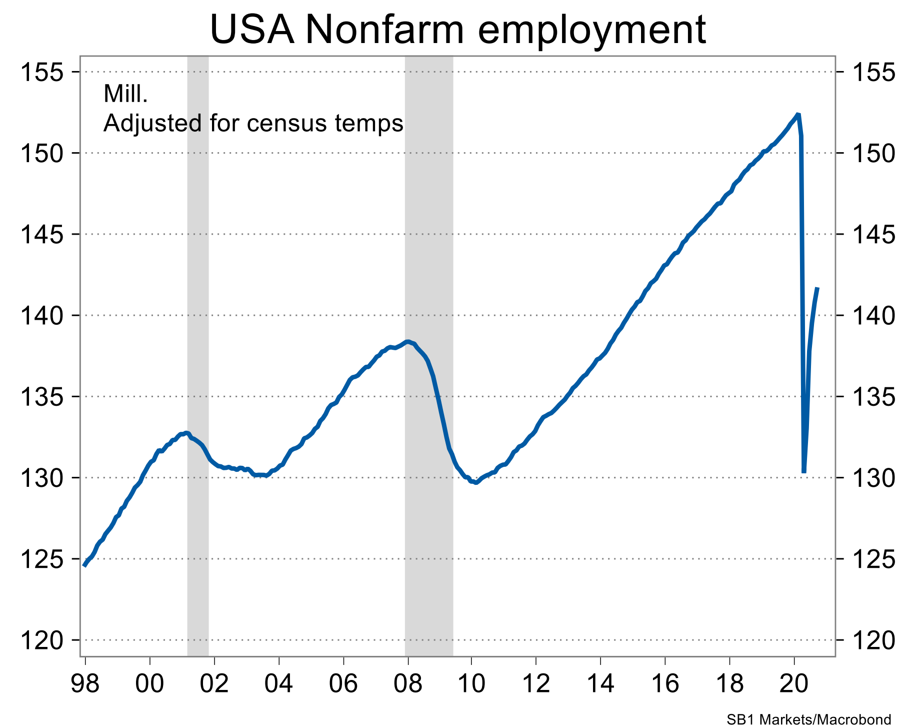


- The manufacturing PMI rose to 50.3 in September, a 4.2 p increase, we expected up to 48. Activity in the Norwegian manufacturing industries fell in the spring but did not experience a deep setback. So far, we have not seen any upturn either, and the PMI signals just a stabilisation
  - » The details were not bright, even as all sub indices rose. New orders failed to increase and employment continued to decline
- Other surveys are still signalling a substantial decline in manufacturing production

Employment growth slows further but unemployment fell more than expected

Employment up 662' (exp. 860'), but private employment was up 877'. Still down 7% from pre corona





- **Employment** rose by 661' in Sept, 200 less than expected. Employment growth has slowed the past 4 months, in line with expectations. However, private employment rose by 877', 27' more than expected. Government employment fell by 216', dragged down by a decline in education and temporary Census jobs (34'). A the chart above, we have adjusted for census employment. Nonfarm employment is still 7% below the Feb level – and the recovery in jobs is now clearly slowing
- **Unemployment** dropped by 0.5 pp to 7.9%, just a 0.2 pp decline was expected. However, the decline was almost entirely due to a lower participation rate, not a higher employment rate). Unemployment has fallen from 14.7% at the peak but remains elevated. Also, the real unemployment level is still higher, as the participation rate has fallen and more are working involuntary part time etc. The total U6 employment rate is 12.8%, up from less than 7% pre corona
- **We expect employment growth to continue to slow the coming months**. New jobless claims are still running at a very high level

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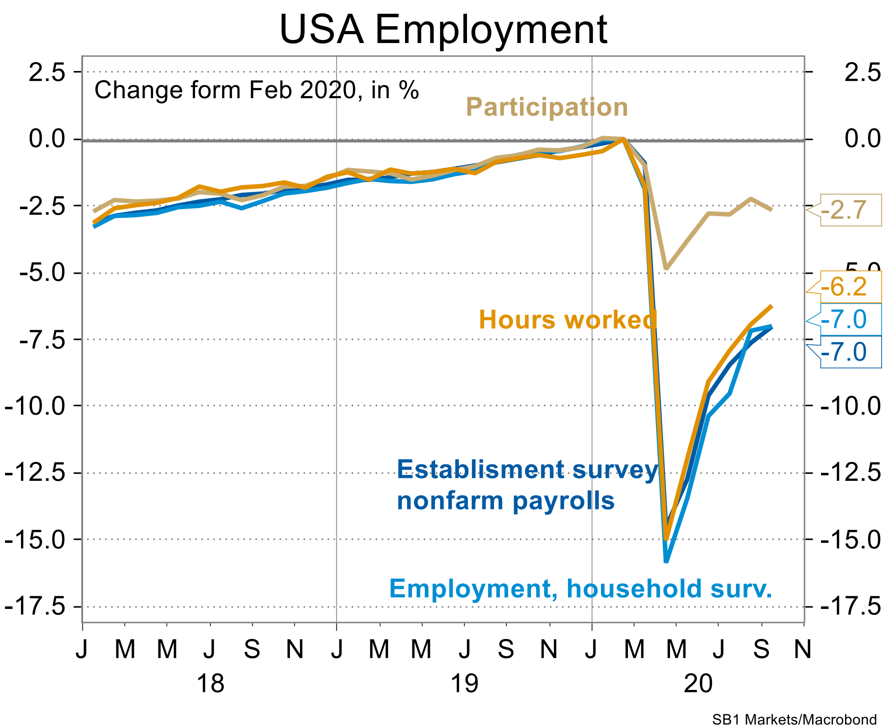
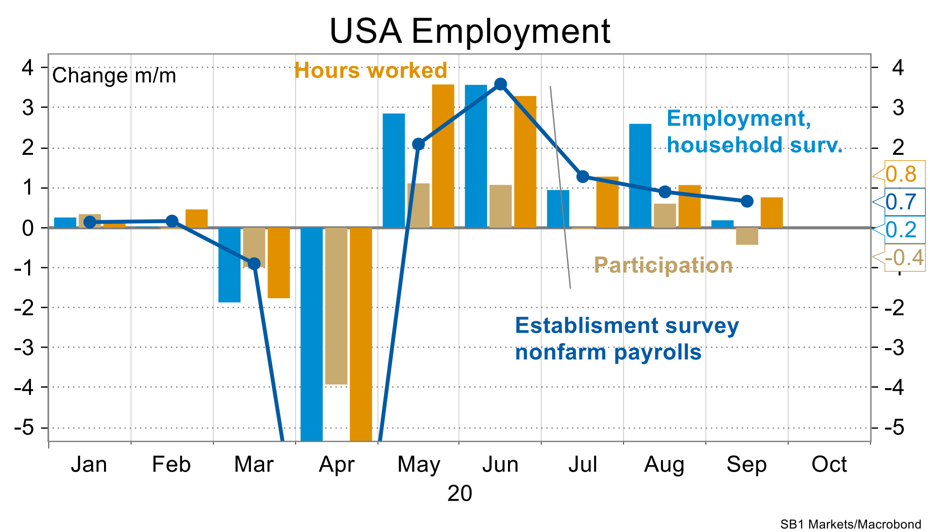
Employment still 7% below par, hours worked -6%

No big difference between enterprise employment headcount & the household (LFS) survey



- If the participation rate had not fallen by 2.7% since February, unemployment would have been running higher, at 10.6%
  - » The participation rate fell by 0.3 p to 62.4
- In September, the (usually more volatile LFS ('AKU') employment measure rose by 0.2%, following a steep rise in Aug
- Hours worked is increasing approx. at the same pace as employment, still 6% below the pre corona level



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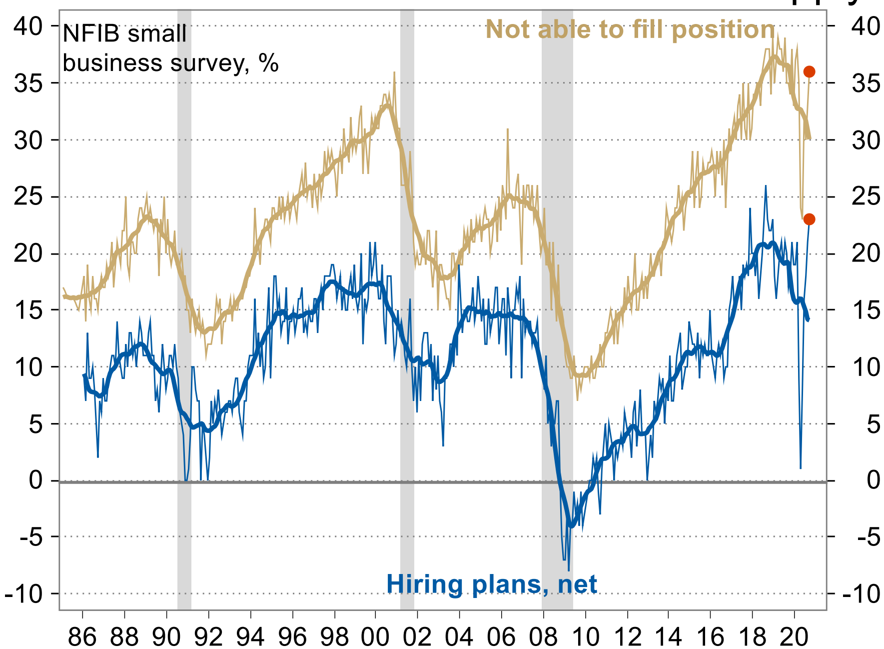
Small businesses are <u>not able to fill positions</u>! And more are planning to hire

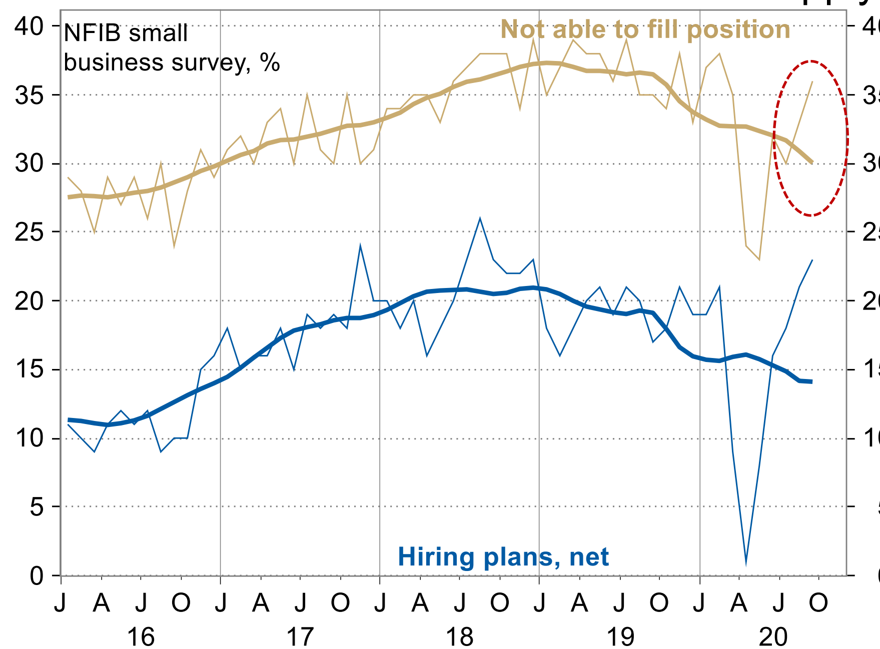
Businesses reported even more trouble filling positions in Sept, not a good sign

USA Small businesses labour demand/supply



SB1 Markets/Macrobond

USA Small businesses labour demand/supply

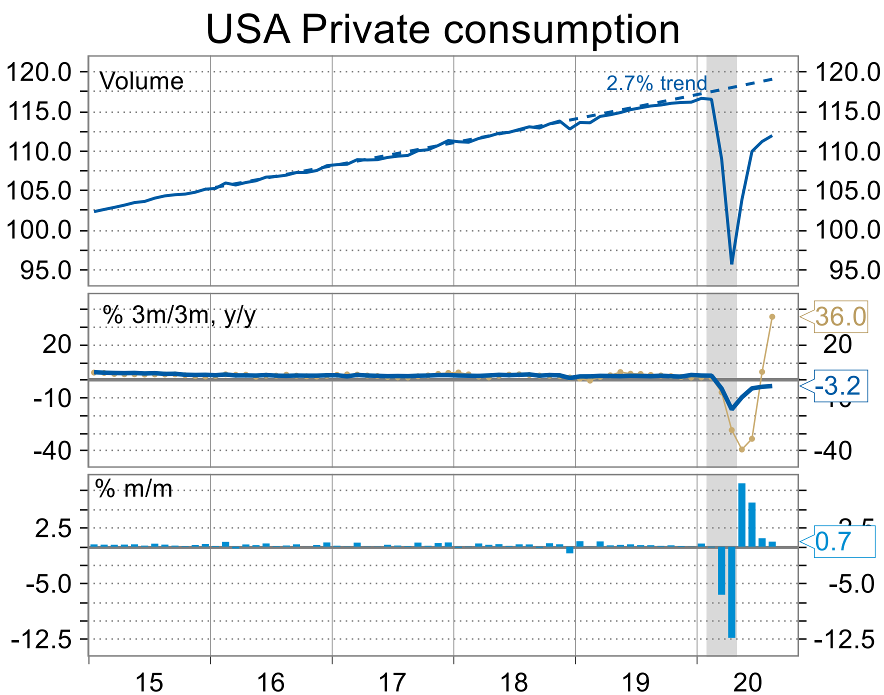


SB1 Markets/Macrobond

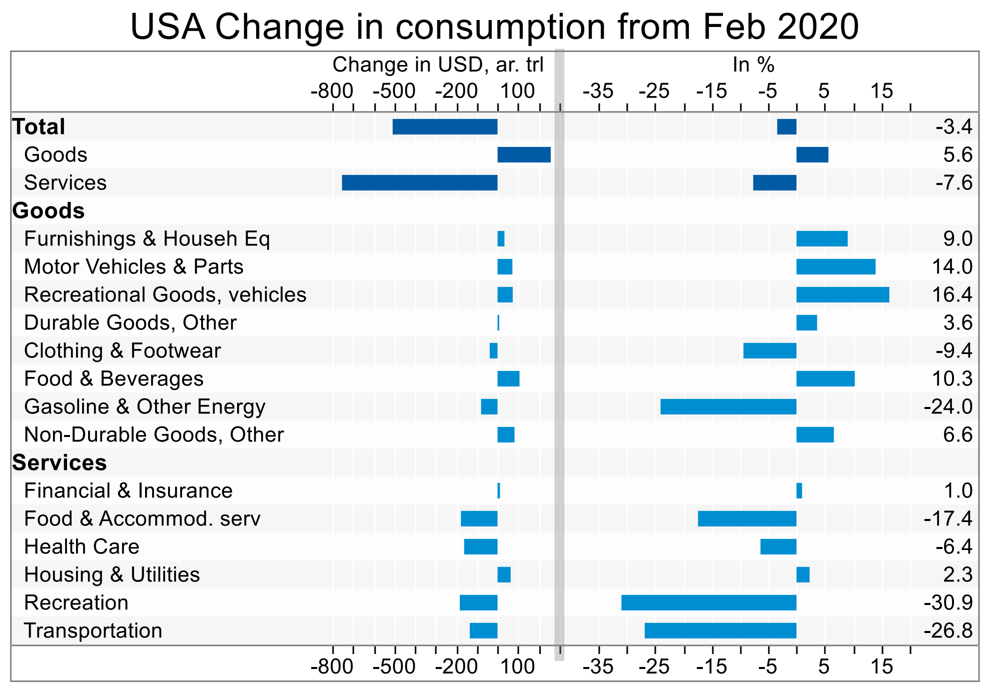
- It is <u>remarkable that so many companies are reporting that it is so difficult to fill vacant positions</u> given the high unemployment level. May signal serious mis-matches at the labour market
  - » In the Fed August Beige Book, matters such as day care availability, as well as much higher jobless benefits than before, were cited as reasons for the rising difficulties attracting labour. If so, a Covid-19 impact, not a signal of the real underlying slack at the labour market
- It's hard to calibrate businesses' hiring plans, as so many companies have cut their workforce lately – and are now employing more workers again. Still, the close to record high level of hiring plans is not a signs of weakness

Consumption up another 0.7% in Aug, still 3% below Feb, due to services

Personal income down 3.2% (value), but the level is still high, due to extreme government transfers



SB1 Markets/Macrobond

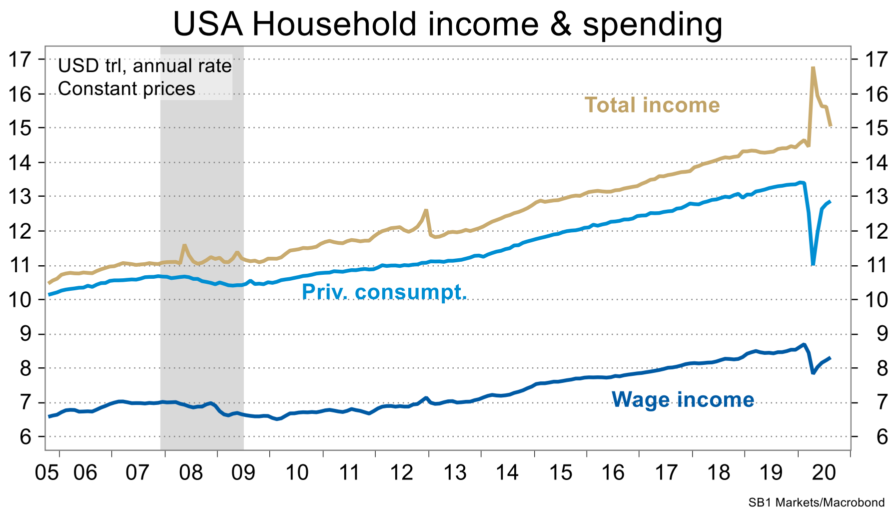


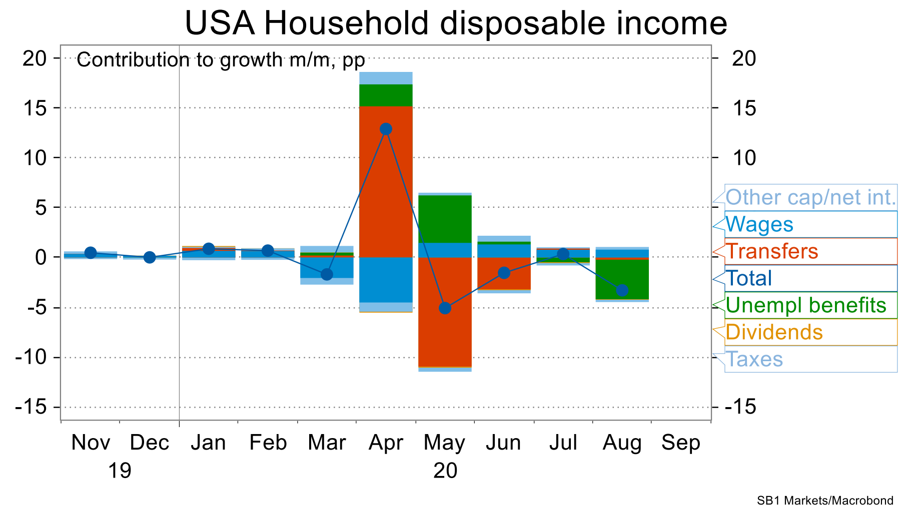
SB1 Markets/Macrobond

- The increase in spending was 0.1 pp lower than expected, while growth in August was revised down by 0.5 pp, and July by 0.3 pp. Still, August is 8% above the Q2 level, and growth in Q3 will be at least 8% - or almost 40% in an American annualised terms. Consumption alone will lift GDP by 5% (22% annualised)
- The pickup in consumption is far from uniform, and most services are still lagging
  - » Consumption of goods is now 6% above the Feb level, driven by food & beverages (at home), recreational vehicles (!), while gasoline is sharply down
  - » Consumption of services are down 8% due to restaurants/hotels, recreational services, transport – of course dramatic for these industries (and their empl.)
- Personal income fell 0.7 pp more than expected, as unemployment benefits fell sharply. Still, the income level 4% higher vs. the pre corona level – since government transfers still have increased much more than the decline in market income! (See next page)

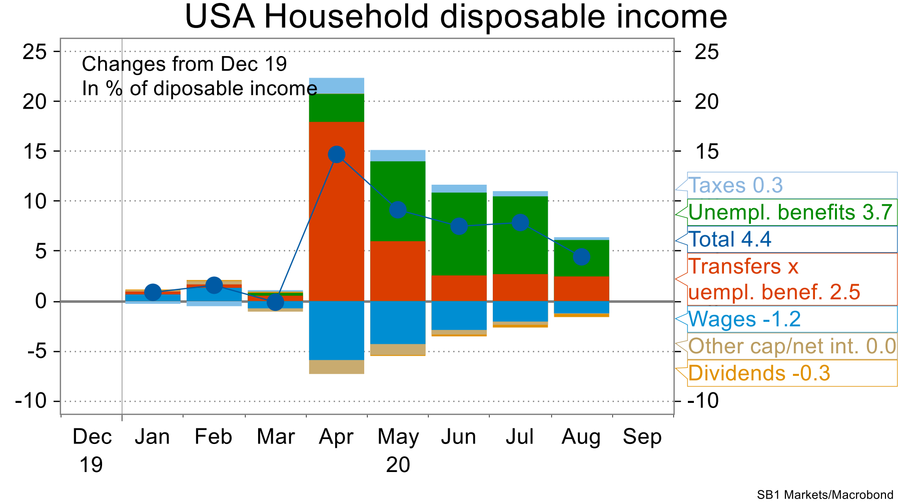
Income down as generous government transfers are being reduced

Income fell by 3.2% in July August but are still 4% higher than before corona, due to transfers



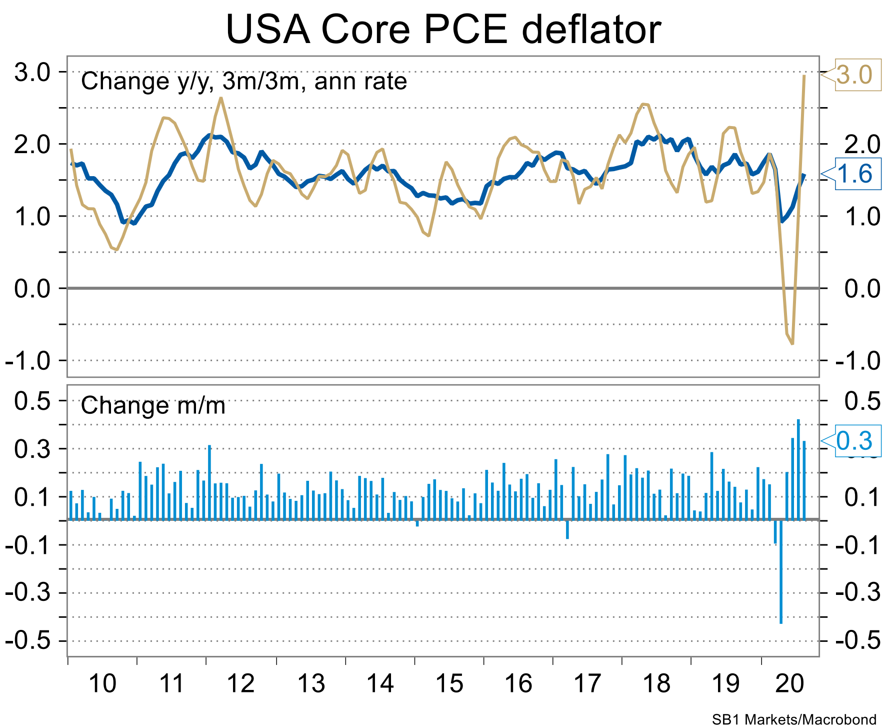


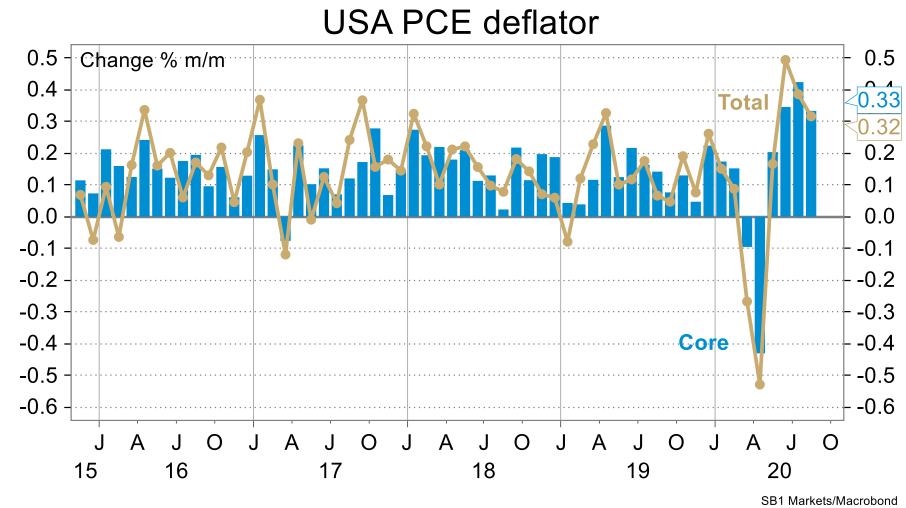
- Changes in household income have been dramatic as households – in aggregate – have been overcompensated, big time
- Overall household income is up 4% from December 19
  - » Wage income is down almost , equalling 1.2%, in % of disp. income
  - » Unemployment benefits are up equalling 3.7% of disp income, still 3x more than the cut in wage incomes
  - » Other transfers are up equalling 2.5% of disp income. At the peak in April, transfers equalled 17% of the Dec 19 monthly income!
  - » Government transfers in sum equal more than the reduction in wages and other market based income
- Unemployment benefits were cut in August, as expected. Another support package, both cash transfers to all, and a continued extra unemployment benefits has not yet been decided on

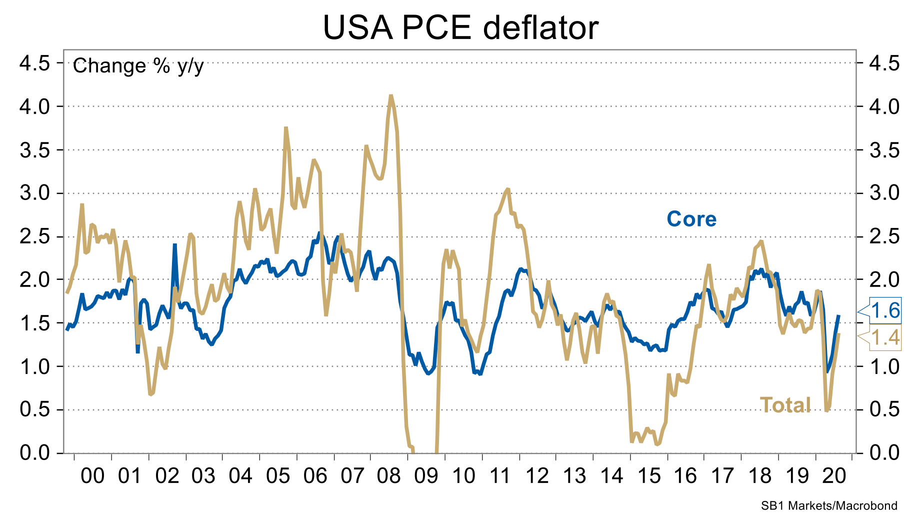


Core PCE inflation up to 1.6% in Aug, 0.2 pp above expectations. Headline up to 1.4%

Prices are 'normalising' following the COVID-19 shock, no deflationary pressure to be seen



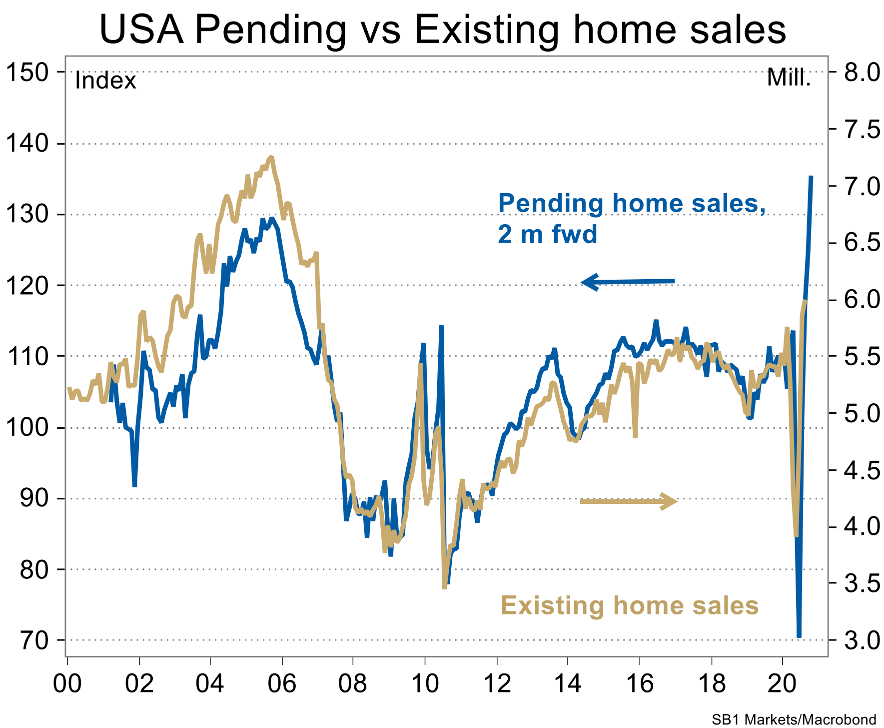


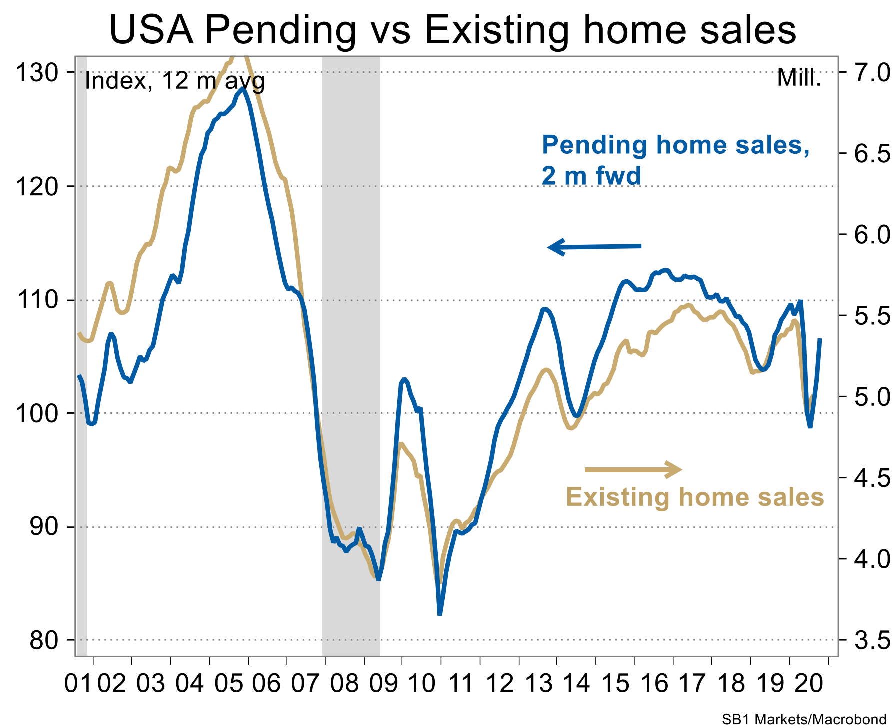


- The core price deflator rose by 0.3% m/m in August
- The annual rate ticked up to 1.6%, a 0.2 pp increase following a 0.1 pp upward revision of July. FOMC assumed 1.5% in Q4 Measured 3m/3m inflation has accelerated to 3%
- Total PCE is up 1.4% y/y, up from 0.5% at the bottom – with contributions also from higher energy prices
- Prices have been recovering in most sectors – and just a few are lower than before corona

Pending existing home sales through the roof, highest on record (data from '01)!

Pending home sales rose much more than expected in August, and signals another lift in actual sales

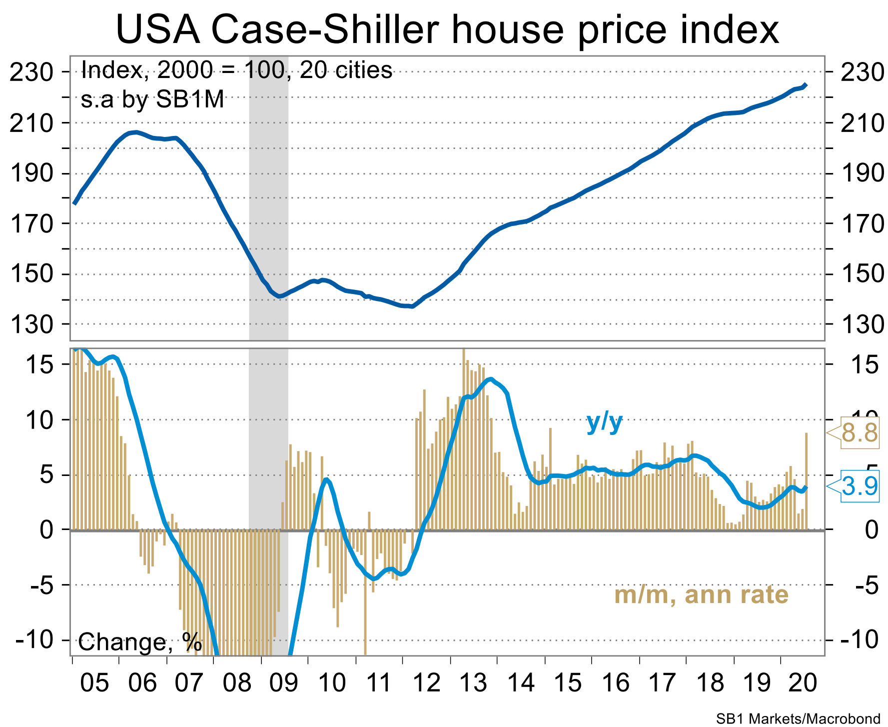


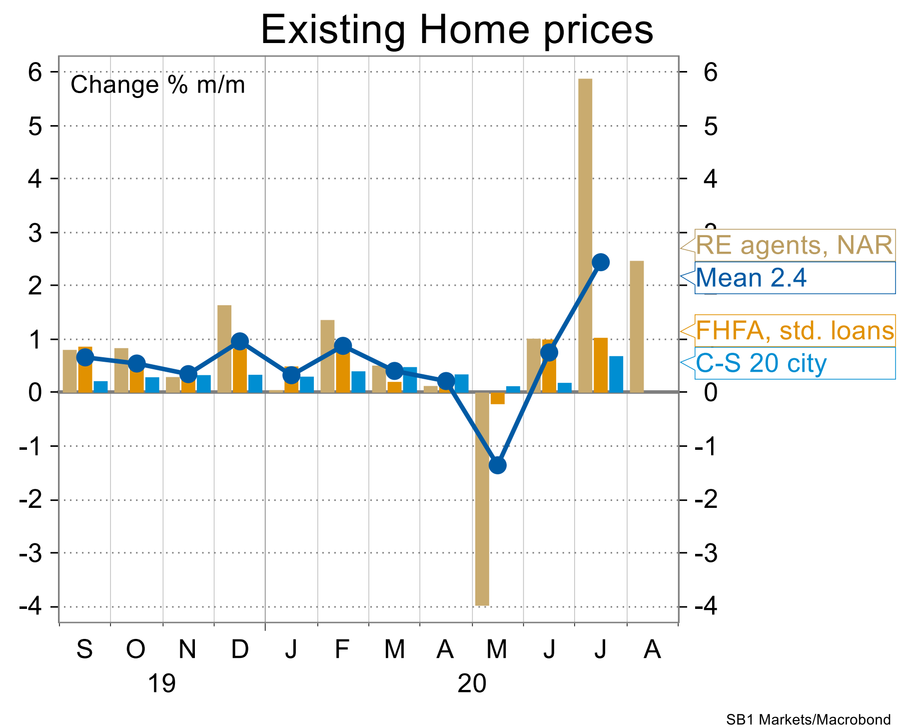


- Pending home sales (existing home transactions agreed upon) jumped 8.8% m/m in August, a 3% lift was expected. This is the 4th month of rapid growth in contracts for home purchases, to 20% above the pre corona level! This is higher than at the 2006 peak and the highest level on record (2001)!
- Pending sales, which are leading actual existing home sales, signals a sharp increase in actual existing home sales, are already at the highest levels since 2008 (but well below the pre 2008 peak)
- The housing market is booming. Low interest rates have no doubt outweighed the negative impacts of the pandemic and the economic setback

House prices are soaring, mean of price indices m/m growth highest on record

C-S prices rose 8.8% m/m (a.r) in July – and the realtors reported the highest growth since 1990!

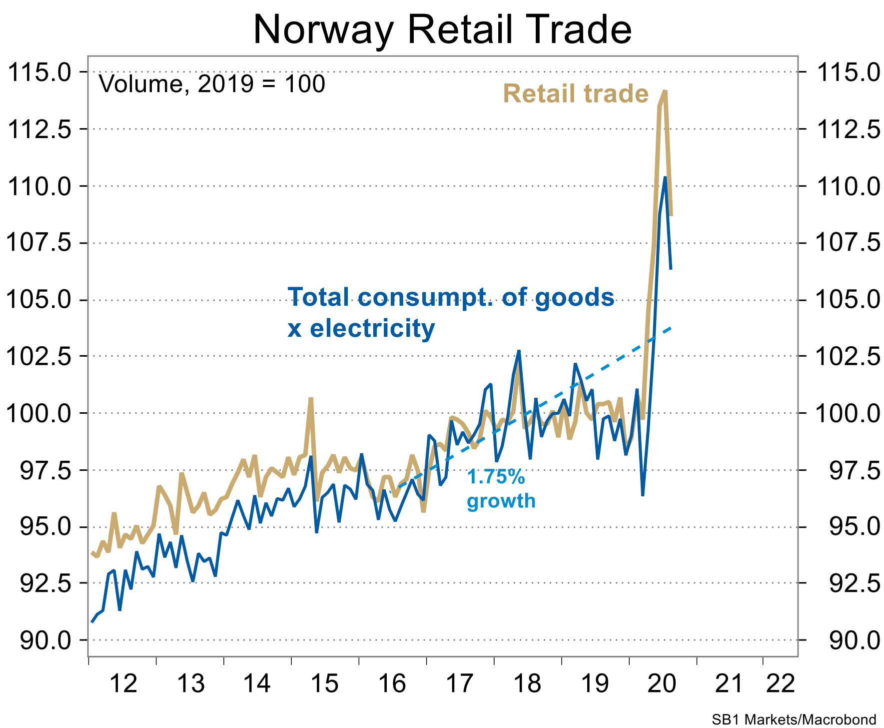


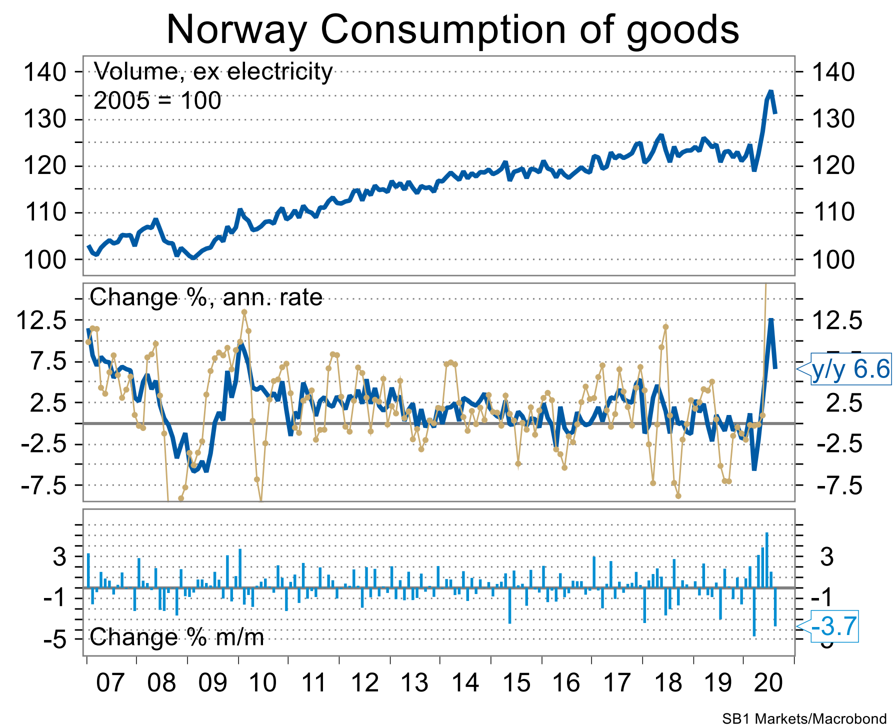


- Case/Shiller's price index rose 0.7% m/m in July (8.8% annual rate), the highest in more than 5 years
- According to the realtors, prices rose by 6% m/m in July (not annualised) and by more than 2% in August, and prices are up 10% since the 4% May drop
  - » The realtor index is a primitive 'raw' index but still, something is probably going on
- The avg of the three price indices was at 2.4% m/m growth in July, the highest on record (data back to 1990)

Retail sales down 5% in August, more to come – sales are still up 9% vs. 2019

The steep growth in the summer was of course not sustainable, will return towards a 'normal' level



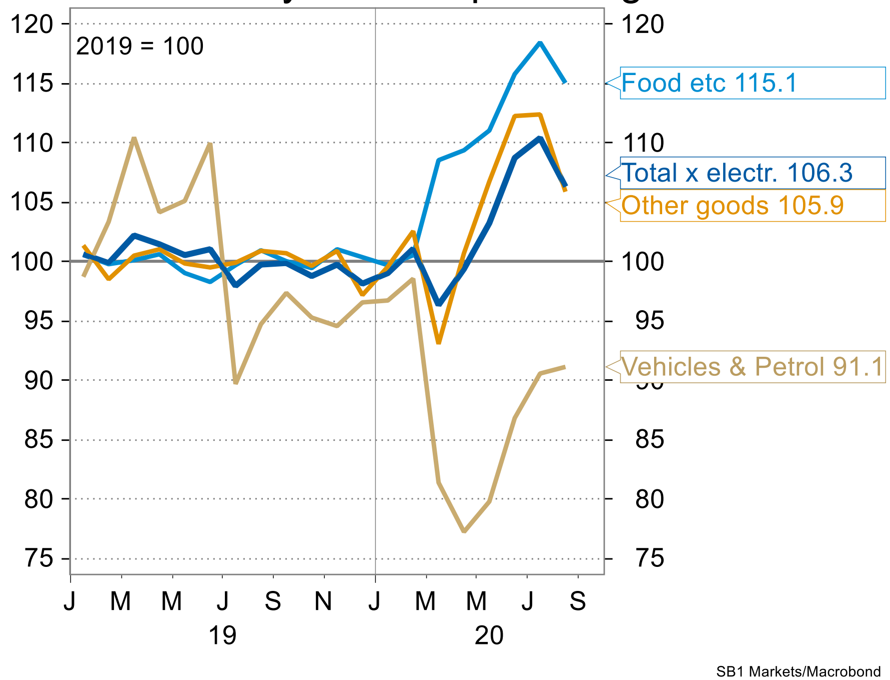


- Sales fell by 4.9% m/m in August, we expected an even larger drop, at 8%. Consensus -2.4% (and not far below 0 without our contribution. Sales have shot up since March, up 14% until July
  - » Broad decline in August. Sport equipment fell the most, unsurprisingly, following rapid growth the prior months. Food sales fell less and may remain elevated the coming months as people are still shopping less in Sweden, spend more time at home and less on restaurants, and are not travelling abroad
- Total consumption of goods (x electricity) fell by 3.7% in August. Total consumption of goods is some 6% above the pre corona level
- We expect a further retreat the coming months too, even if some sectors will blossom as long as borders are more or less closed
- Service consumption is of course far below a pre corona level, no data included in these retail sales data

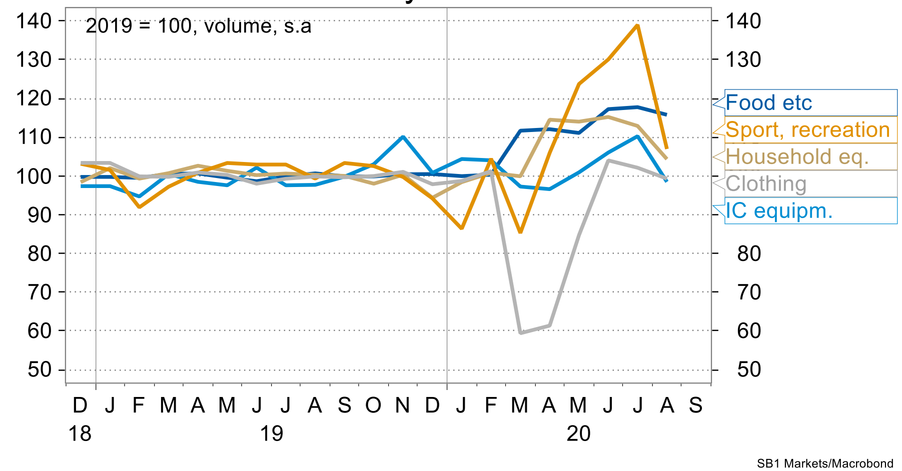
A broad decline in August. We have bought enough sport equipments!

Food sales remained high in August and may do so the coming months. Others will come down

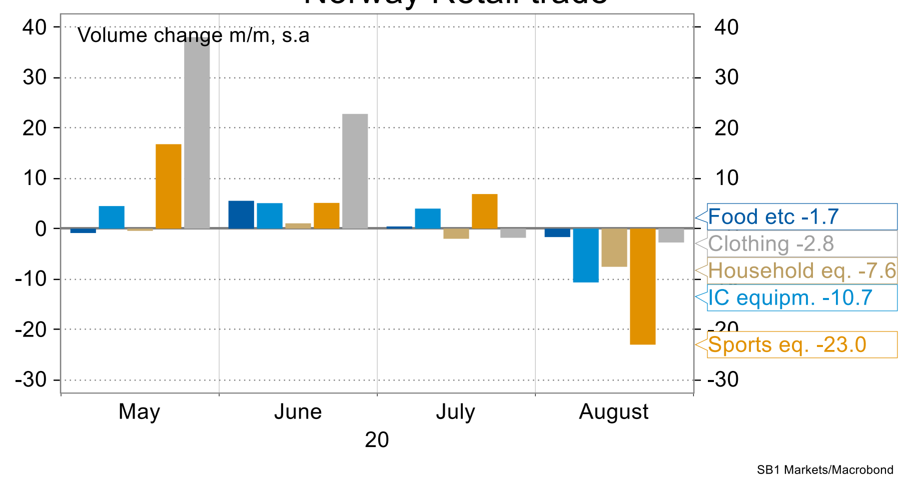
Norway Consumption of goods



Norway Retail trade



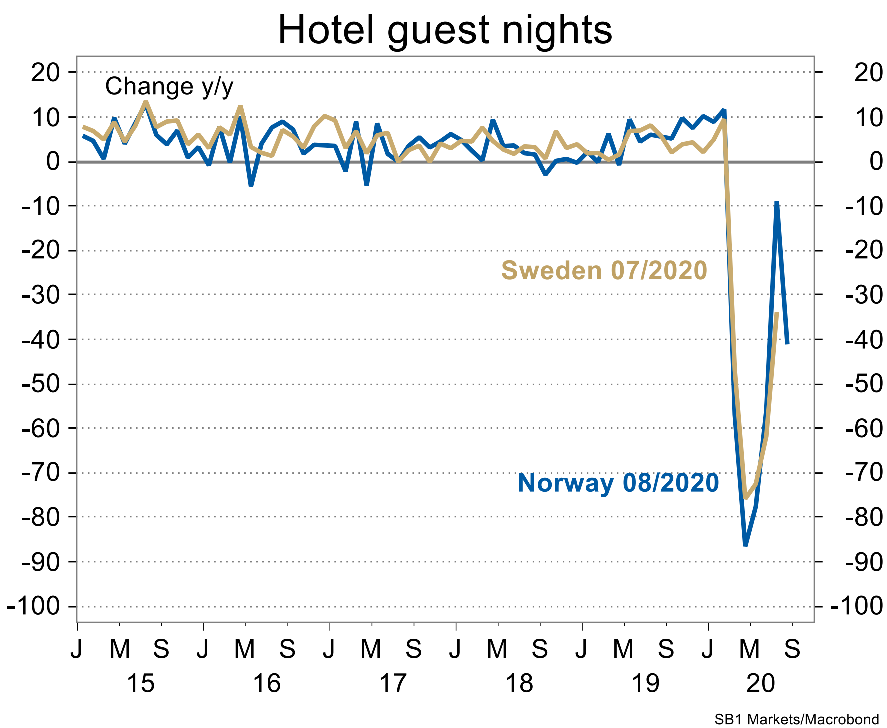
Norway Retail trade

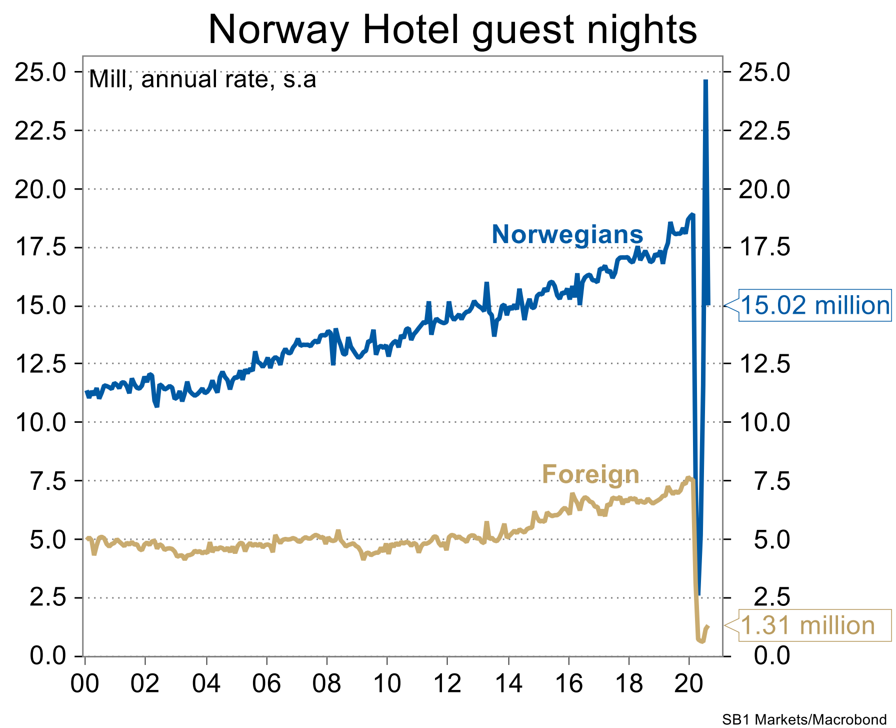


- Sales of sport equipment, information&communitation technologies and household equipment are all still above the levels from February. Clothing recovered well in the spring/summer and are back at a 'normal' level
- Less travelling, x border shopping to Sweden and less capacity at restaurants may keep food sales up for the next months
- Auto sales are still some 7% below the pre corona level

Hotel guest nights down 40% y/y in August

No of domestic hotel guests retreated after a strong July – and foreigners have fully disappeared



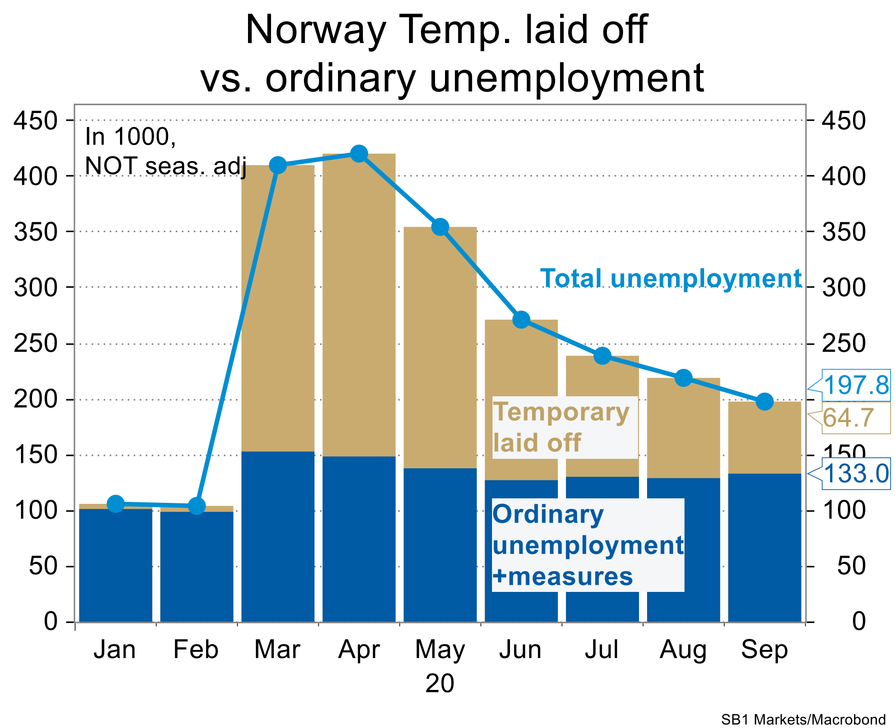


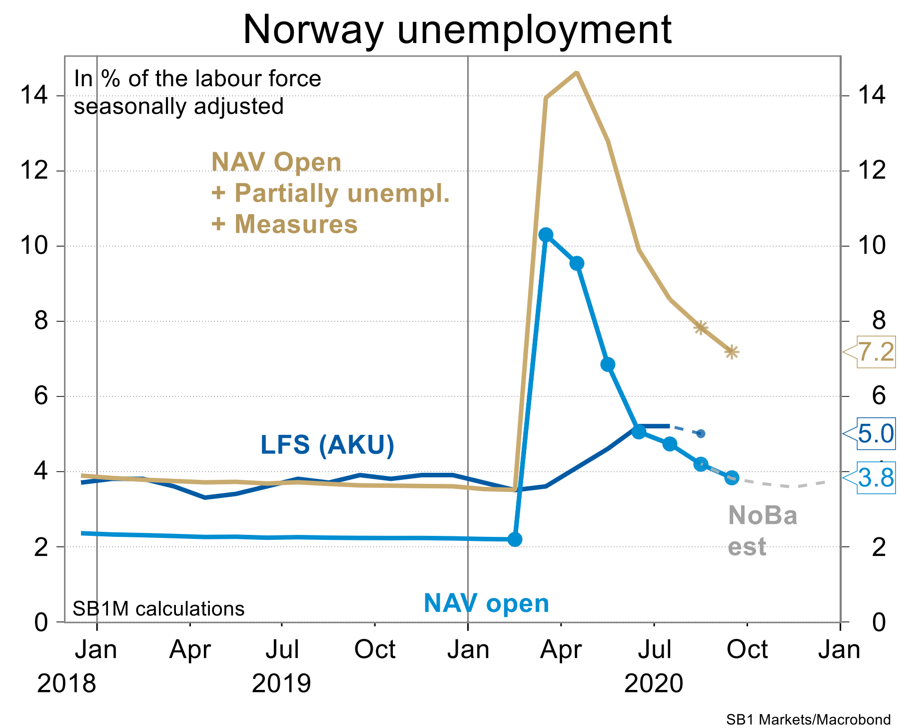
- The number of guest nights recovered sharply in July, saved by a record high number of domestic hotel guests. In August, Norwegians stayed fell to 20% below level from before Covid-19 – which is not that bad given the reduction in the business segment (which though normally speeds up in September). Foreigners have more or less disappeared, of course.
- The number of hotel nights was down by approx 80% at the worst, now 40%
- Large regional differences; Oslo, Viken and the West were all struggling in August

SpareBank 1 MARKETS

NAV unemployment further down, in line with NoBa f'cast

Ordinary unemployment fell by 0.4 pp to 3.8% in September. Total down 0.6 pp to 7.2%

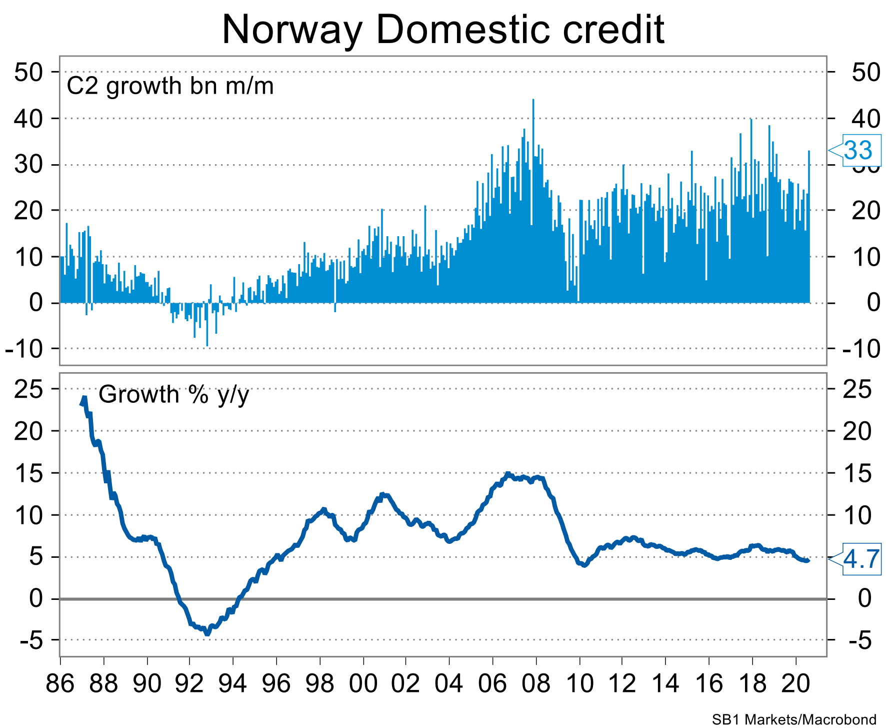


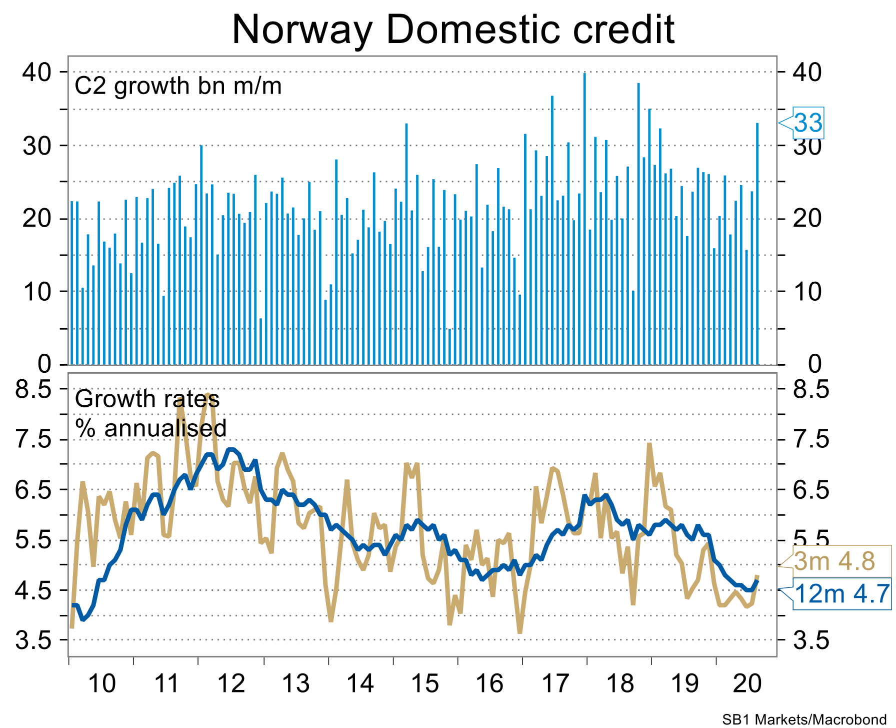


- Open 'full time' unemployment measured at NAV, which includes furloughed workers, fell by 17' in September, down to 105', or by 10' seasonally adjusted or to 3.8% of the labour force. At the April peak, more than 10% were unemployed. In February, the unemployment rate was 2.2%. Unemployment fell more than we expected, but in line with NoBa's f'cast
- Including the partially unemployed, the total unemployment is at 198' or 7.2% (the latter seas adj) - down 21' or 0.6 pp from August. The speed of decline is slowing. We expect at gradual decline the coming months but parts of the service industry will not recover anytime soon
- The LFS (AKU) reported a decline to 5.0% in August (single month obs). These data have been lagging NAV figures as furloughed workers have been counted as unemployed after 3 months in the dole

Corporate credit growth spiked in August, households a tad down

Total domestic credit growth (C2) up 0.1 pp to 4.7% – the trend is still down

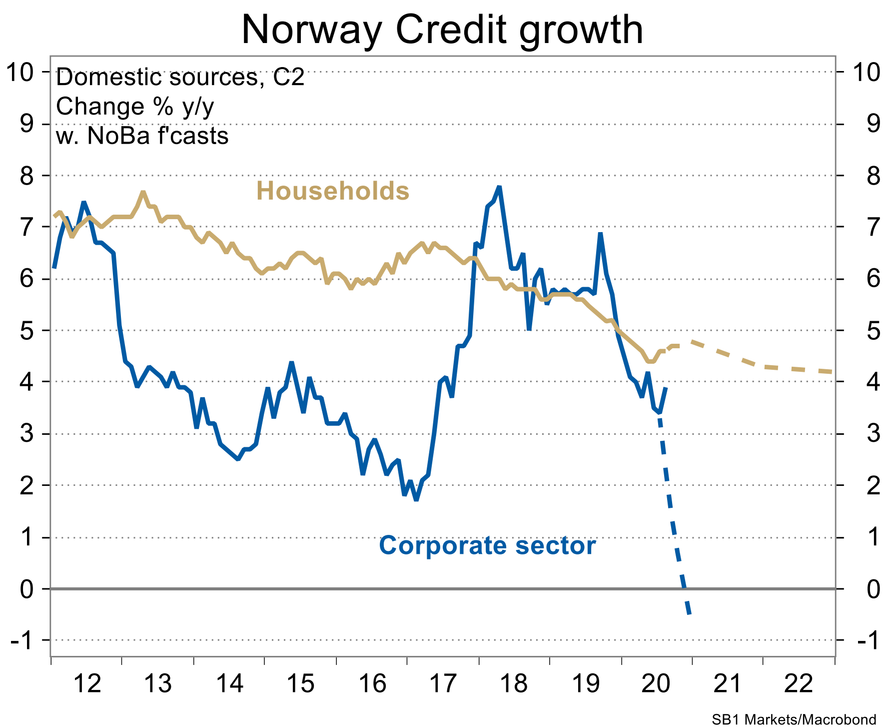


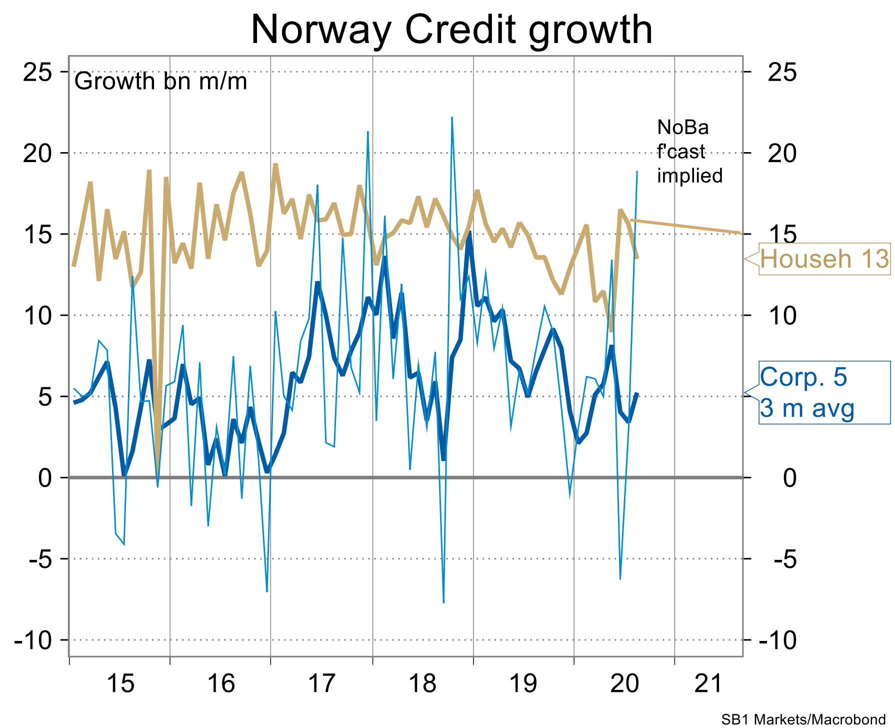


- **Total domestic debt** (C2) rose by NOK 33 bn m/m in August, up from 24 bn in July. The annual growth inched up to 4.7%, expected unchanged at 4.6%. Growth has been heading down since late 2019 (and from early 2018) but gaining speed the past two months
- **Household credit growth** slower somewhat in August, to 13 bn m/m. Growth has picked up since the spring and is now back at the levels from early 2020. Thus, there are no evidence of a household credit boom, such as the rapid growth in house prices might suggest. Over the past year, credit growth has fallen below income growth
- **Corporate credit growth**, which is very volatile, jumped to 19 bn m/m, the highest in two years. We suspect this to be just a one off as businesses are planning to reduce their investments the coming months

No take off in household credit – and a temporary one in the corporate sector

We (and NoBa) expect the corporate sector to cut investments & dampen their demand for credit





- Households' total borrowing rose by NOK 13 bn m/m in August. Credit growth has slowed the past two months after soaring in June and is back at the levels from early 2020, before corona. These figures do not confirm the acceleration in loan appetite which we expected due to strong demand for housing and banks reporting higher demand for credit
- Corporate credit (in C2, domestic lending) soared to 19 bn m/m, following low growth in June/July. These data are volatile from month to month and the 3 month average speed is just 5.3 bn. The annual rate is clearly on the way down. We expect companies to be cautious vs. both investments and more debt the coming months/quarters. Norges Bank expects a steep decline in the annual growth rate the next months

The Calendar

Final September PMIs/ISM, China credit, Norwegian 2021 budget, August GDP, CPI and house price

Time	Count.	Indicator	Period	Forecast	Prior
Monday Oct 5					
02:30	JN	PMI Composite	Sep F	--	45.5
08:30	SW	PMI Composite	Sep	--	55.7
10:00	EC	Services PMI	Sep F	47.6	47.6
10:00	EC	Composite PMI	Sep F	50.1	50.1
10:30	UK	Composite PMI	Sep F	55.6	55.7
11:00	NO	House Prices, Real Estate Norway	Sep	(0.6)	0.3%
11:00	EC	Retail Sales MoM	Aug	2.5%	-1.3%
15:45	US	Markit Composite PMI	Sep F	--	54.4
16:00	US	ISM Services	Sep	56.3	56.9
Tuesday Oct 6					
08:00	GE	Factory Orders MoM	Aug	3.0%	2.8%
09:30	SW	Private Sector Production MoM	Aug	--	3.2%
14:30	US	Trade Balance	Aug	-$66.1b	-$63.6b
16:00	US	JOLTS Job Openings	Aug	6500	6618
Wednesday Oct 7					
08:00	GE	Industrial Production MoM	Aug	1.5%	1.2%
08:00	NO	2021 National Budget		see text	
08:00	NO	Manufacturing Production MoM	Aug	--	1.8%
20:00	US	FOMC Meeting Minutes	Sep-16	--	--
Thursday Oct 8					
03:45	CH	PMI Composite, Caixin/Markit	Sep	--	55.1
08:00	GE	Trade Balance	Aug	15.9b	19.2b
08:00	NO	GDP Mainland (MoM)	Aug	1.0%(-0.3)	1.1%
14:30	US	Initial Jobless Claims	Oct-03	823k	837k
Friday Oct 9					
08:00	NO	CPI Underlying MoM	Sep	--	-0.4%
08:00	NO	CPI Underlying YoY	Sep	3.6%	3.7%
08:00	UK	Monthly GDP (MoM)	Aug	5.0%	6.6%
08:00	UK	Manufacturing Production MoM	Aug	3.4%	6.3%
08:45	FR	Manufacturing Production MoM	Aug	--	4.5%
During the weekend					
	CH	Total Credit, CNY	Sep	2775.0b	3580.0b

- **PMIs**
  - » We estimate a 0.6 p decline in the **global composite PMI**, based on preliminary PMIs from the US, EMU, UK and Japan as the service sector PMI most likely fell
- **USA**
  - » **Unfilled vacancies** (job openings) are running at remarkable high level, higher than in February
- **EMU**
  - » **Industrial production** probably rose further in August but will still remain some 4 – 5% below the pre corona level. The PMIs and other manufacturing surveys are still on the way up
  - » **Retail** sales were mixed in July, as southern countries did not receive the normal inflow of northern tourists – and seasonally adjusted sales fell. August was probably not even weaker, and spending in the north probably kept up
- **Norway**
  - » **The 2020 budget** will be substantially revised, to the better, as corona crisis expenses have turned out to be significantly lower than assumed in May/June. Still, the non-oil structural budget deficit will be far above the long term budget guideline, at approx NOK 390 bn (down from 420 bn in the May Revised Budget). The government will assume a substantial economic recovery next year, and the budget will be strengthened (also cyclically adjusted), we assume to at least NOK 360 bn, while the spending rule yields some NOK 325 bn in 2021. The overspending in 2020/21 is far less than 'underspending' vs the spending rule the previous 10 years
  - » We expect a minor decline in **Mainland GDP** in August. Consumption of goods fell sharply, and services were mixed, at best, as tourism slowed from the July peak. So even if we assume the underlying trend is upwards, we assume the recovery took a pause in August
  - » **House prices** climbed further in September, realtors are really positive in their assessment of the market. Following the cut in interest rates, and the temporary easing of lending regulations, prices have shot up. Regulations were be brought back to normal again form Oct 1
  - » **Core CPI inflation** runs at almost 4%, but should soon peak as the NOK has strengthened, and wage inflation is slowing

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

Highlights

The world around us

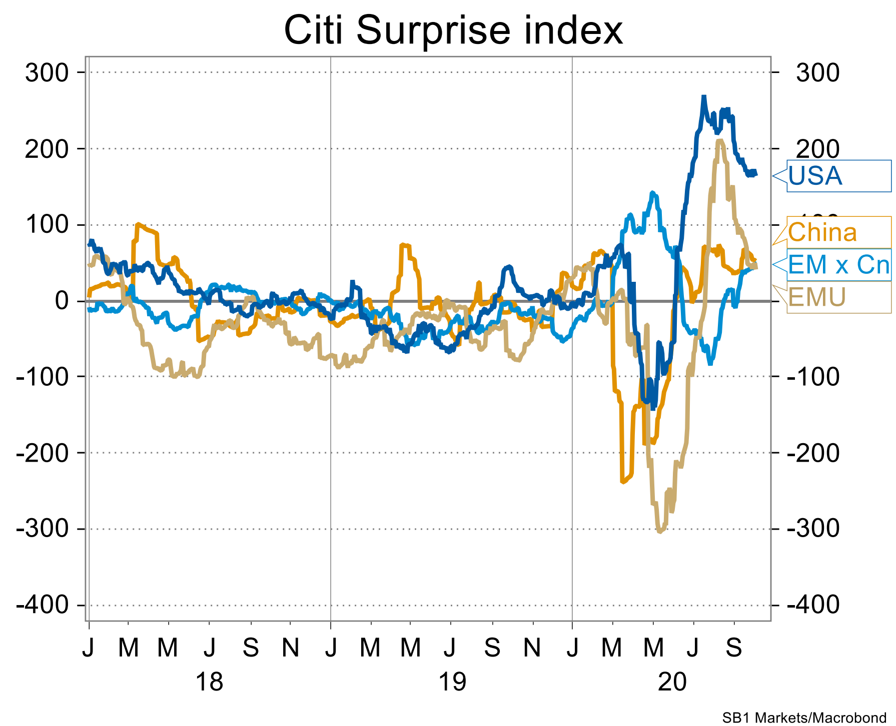
The Norwegian economy

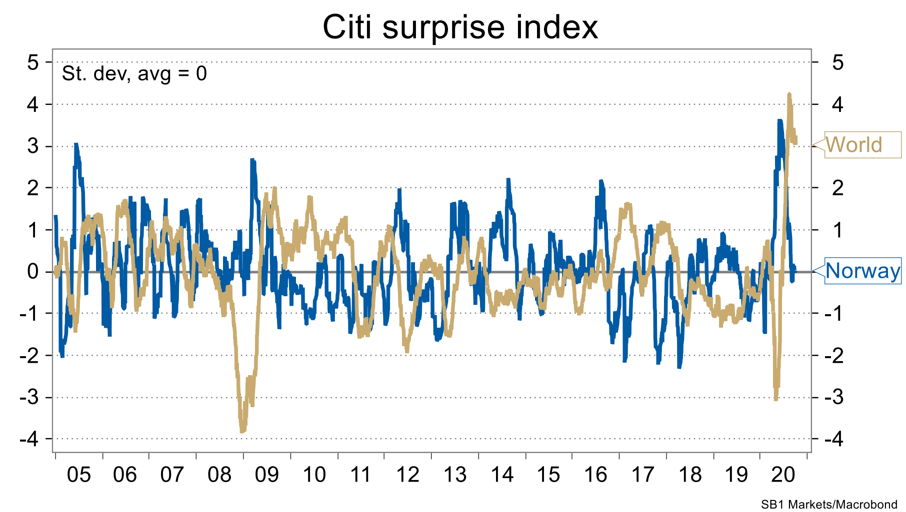
Market charts & comments

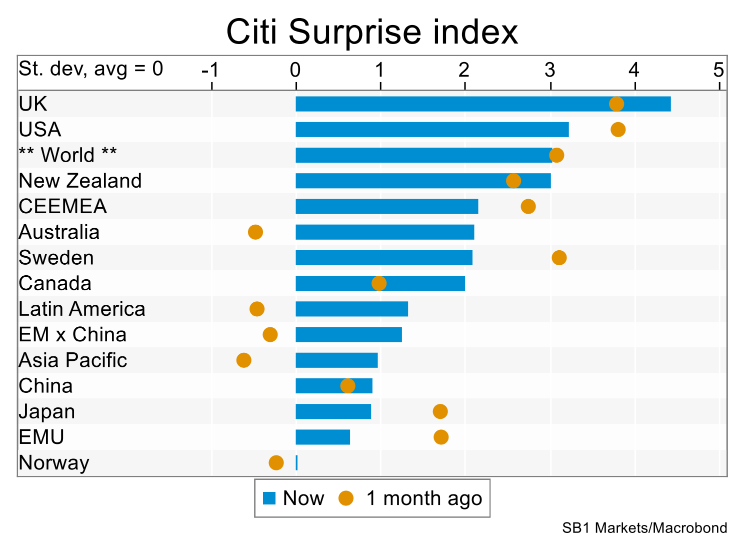
SpareBank 1 MARKETS

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





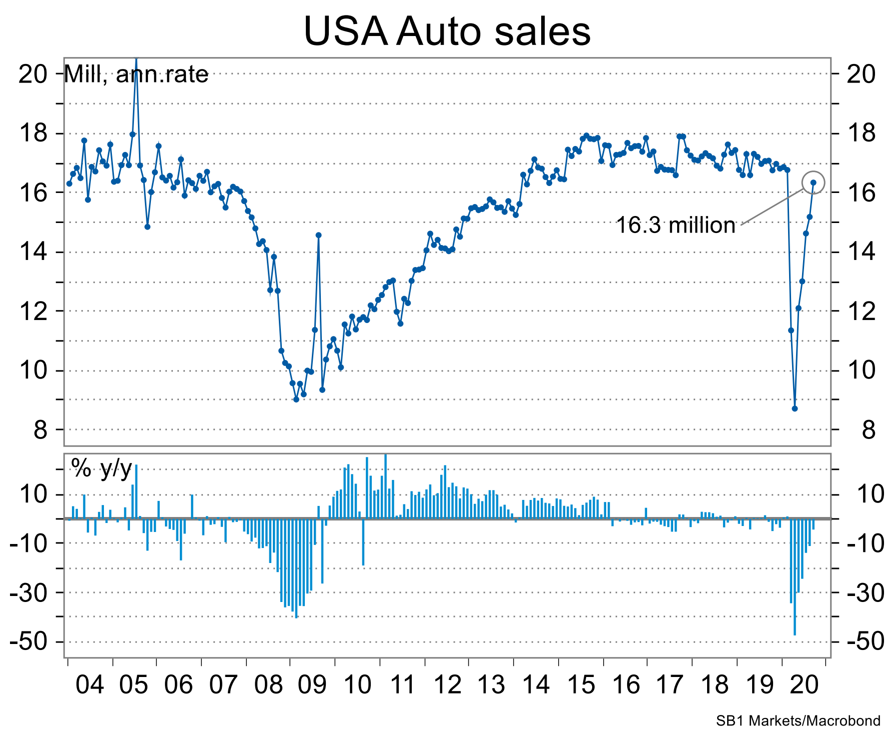


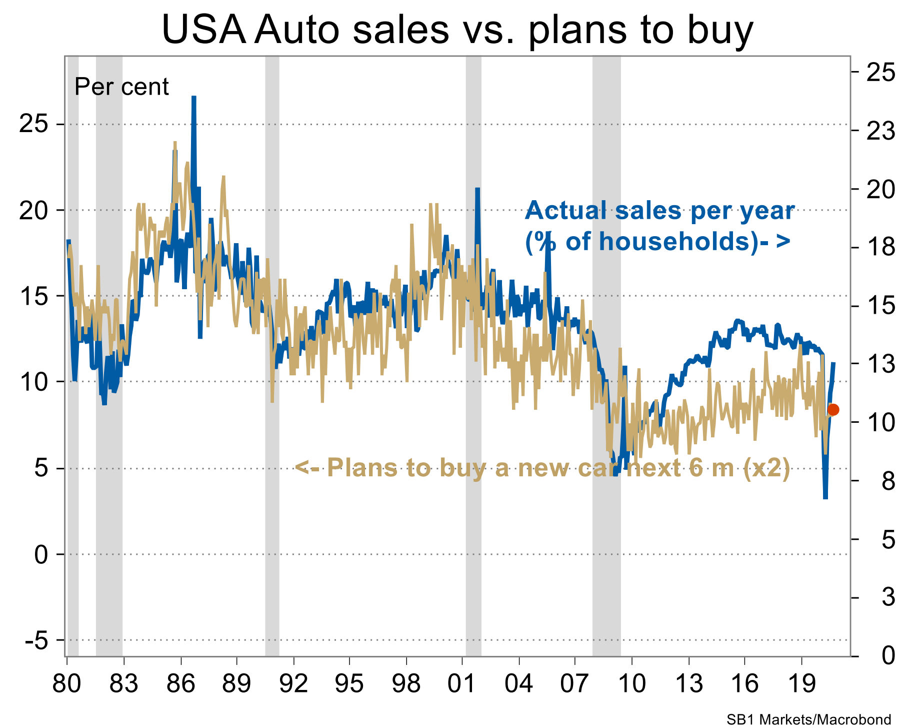
- All major countries/regions are reporting data above expectations, for the first time ever
- The US has been surprising more on the upside than ever before (data from 2003), although a tad less so the past weeks
- EMU sliding down and is much less upbeat than the US. UK at the top
- China well into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

September auto sales further up, level close the pre corona (downward) trend

US sales up to 16.3 mill from 15.2, expected 15.6 – still the Feb level, but close to declining trend



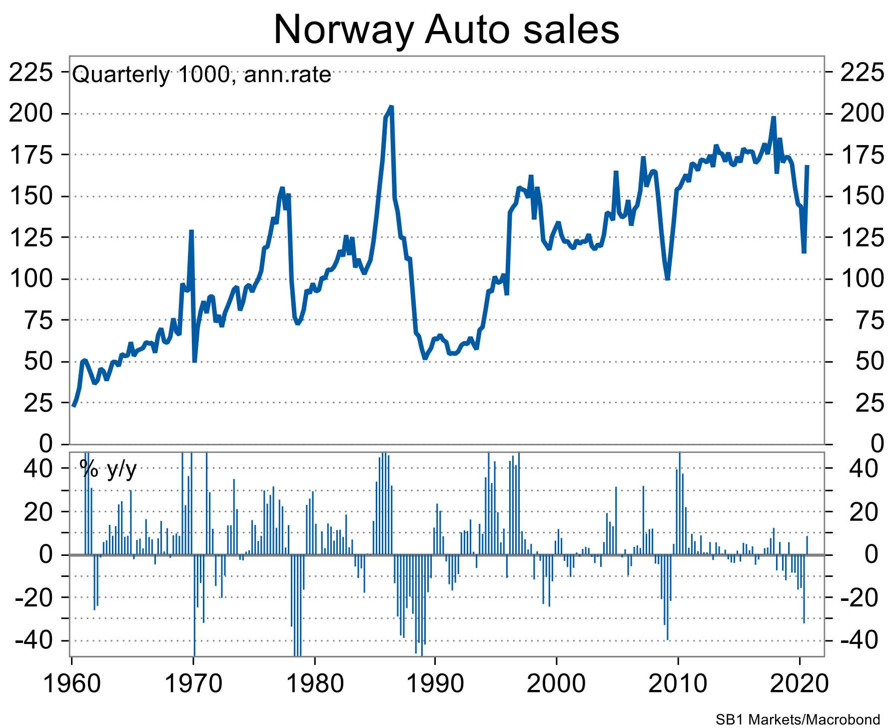


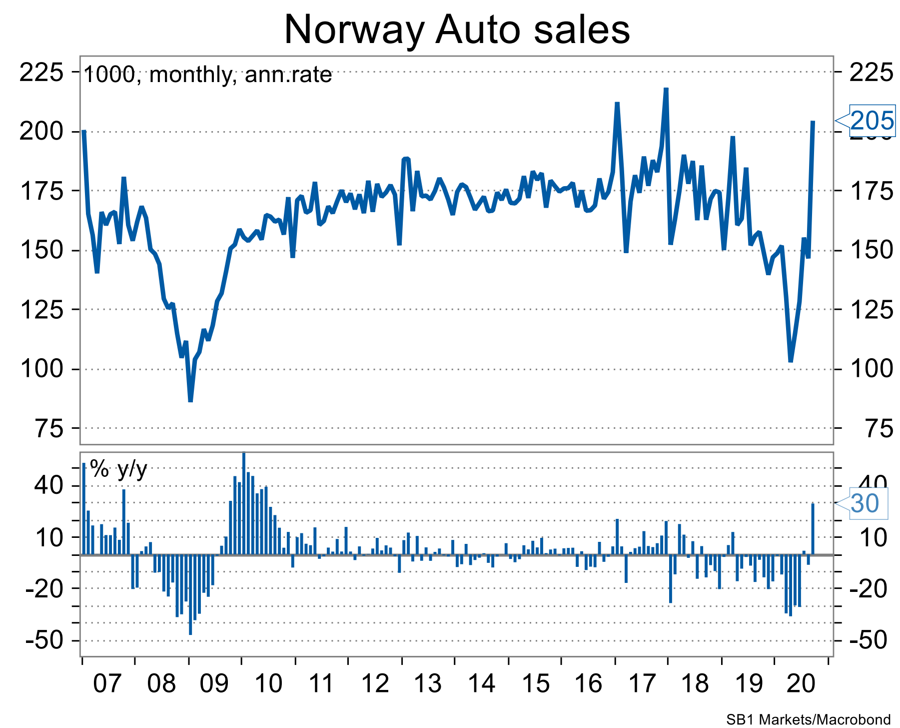
- Sales fell almost 50% in March/April. Most of the setback is now recovered, sales are just 2.5% below the level in February

SpareBank 1 MARKETS

Norwegian auto registrations shot up in September, boosted by electric vehicles

Sales soared to 205’ vs 146’ in Aug, up 30% y/y –and the highest in almost 3 years



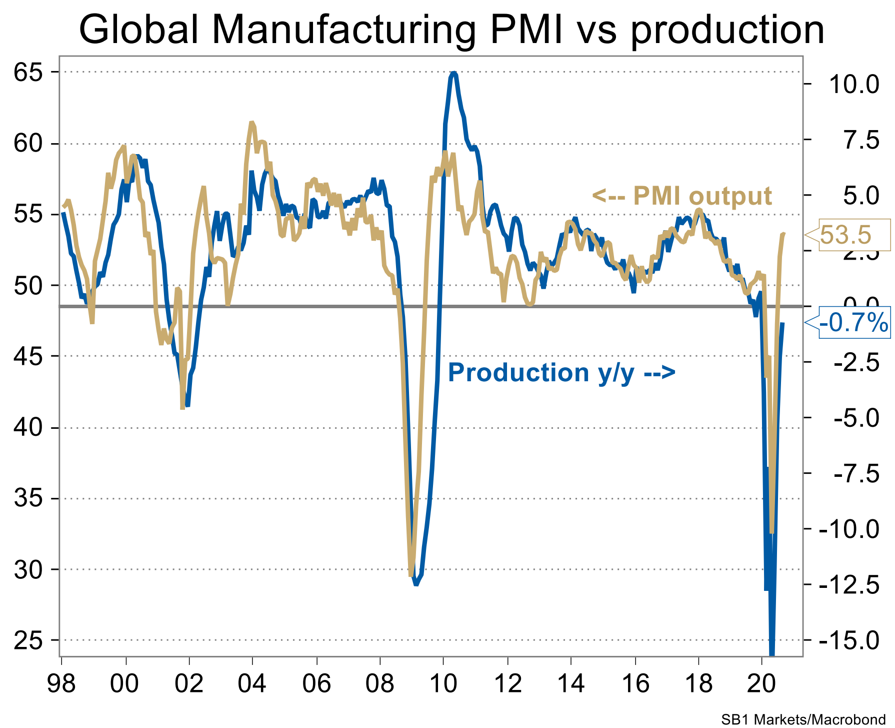


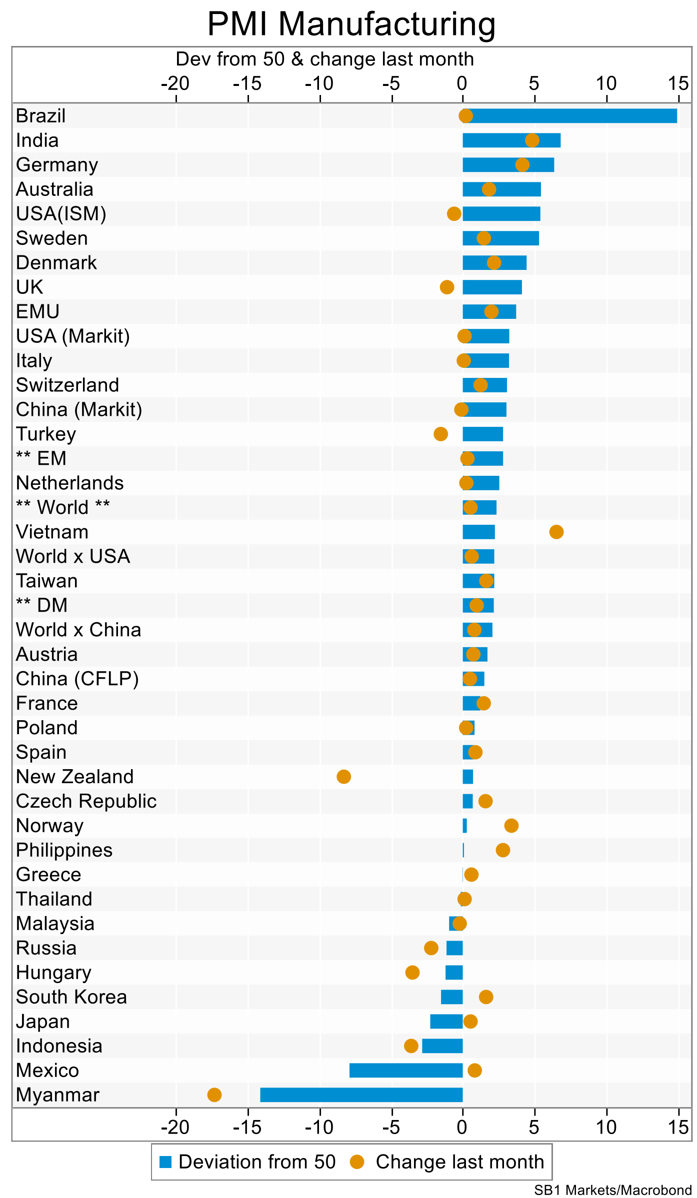
- Sales fell in March/April and have been on the weak side since last summer, partly due to delivery challenges on electric vehicles. In September, 61,5% of new registered autos were electric, the highest monthly share we have seen. Sales of the new e-Golf and Tesla model 3 were on top of the list

SpareBank 1 MARKETS

Manufacturing PMI climbs, most countries above 50

The PMI rose 1.5 p in Sept but the level is still not impressive

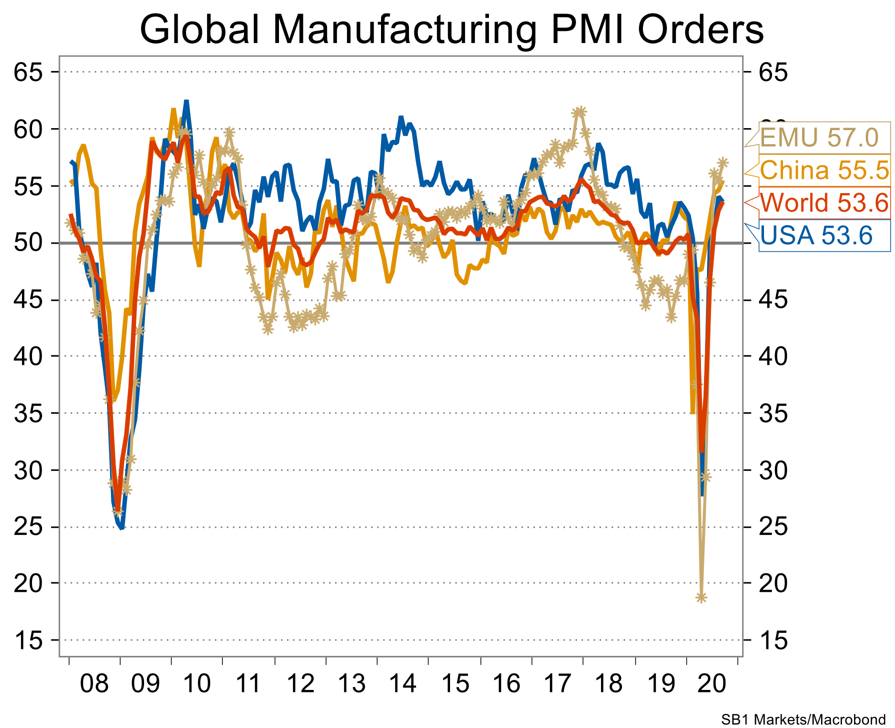


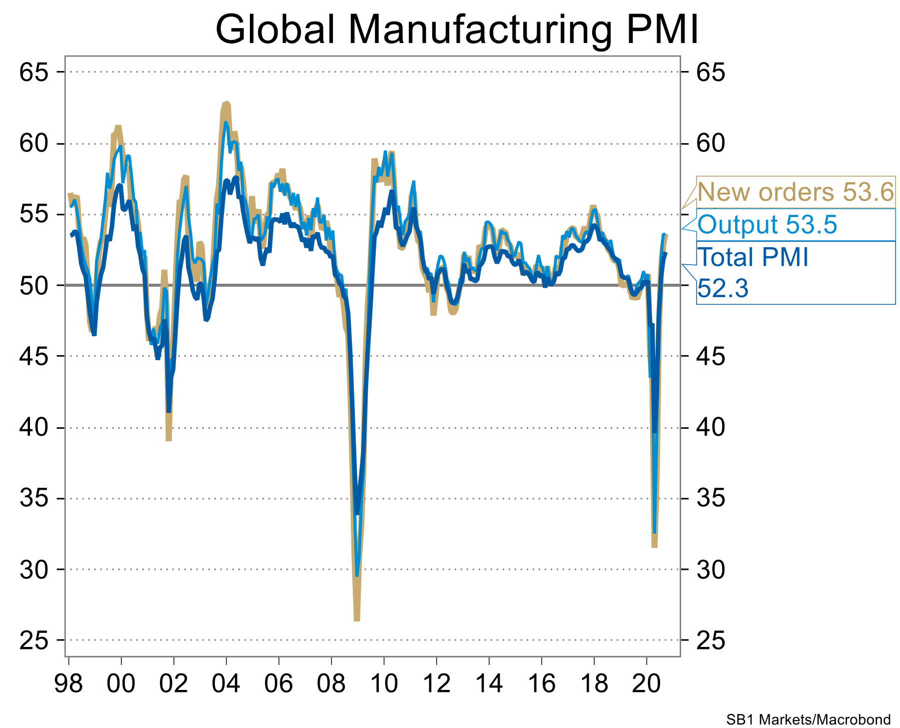


- The global manufacturing PMI rose 1.5 p to 52.3 in Sept, close to our estimate based on preliminary PMIs
  - » 69% of the countries/regions reported higher PMIs in September than August
  - » A majority of the countries (72%) are reporting PMIs above the 50 line
- Rich countries (DM) recovered somewhat more than Emerging Markets (EM), from a lower level. Brazil and India in the lead, Mexico at the bottom

Manufacturing PMI signals growth in major countries/regions

Orders are increasing at the fastest speed in Europe, from the steepest decline

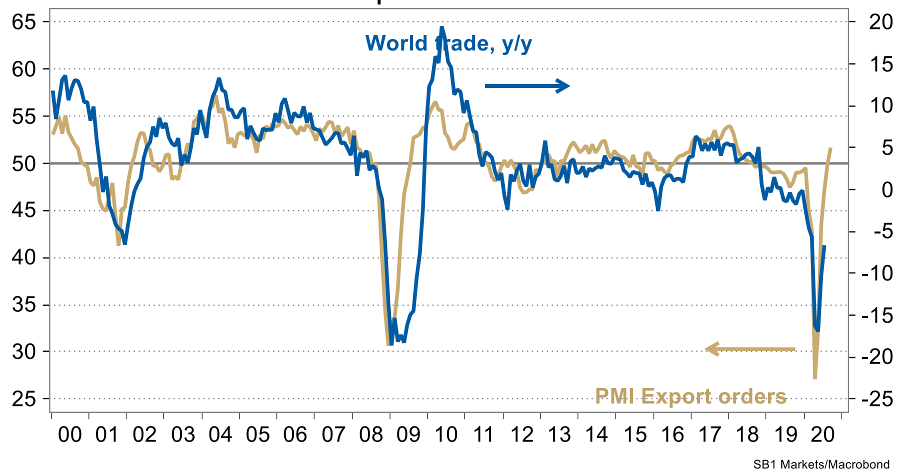




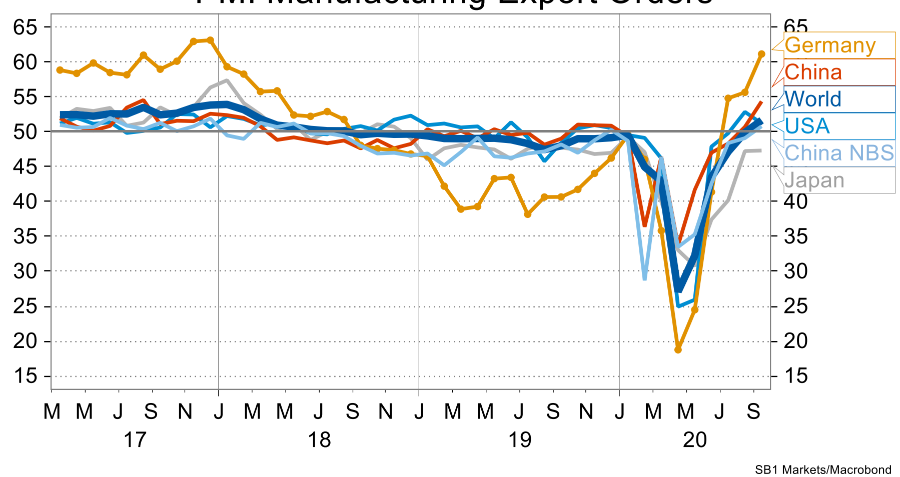
Export order PMIs further up but does not signal a fast recovery, Germany at top

Some Asian & EM countries still below the 50 line

Global exports vs PMI orders

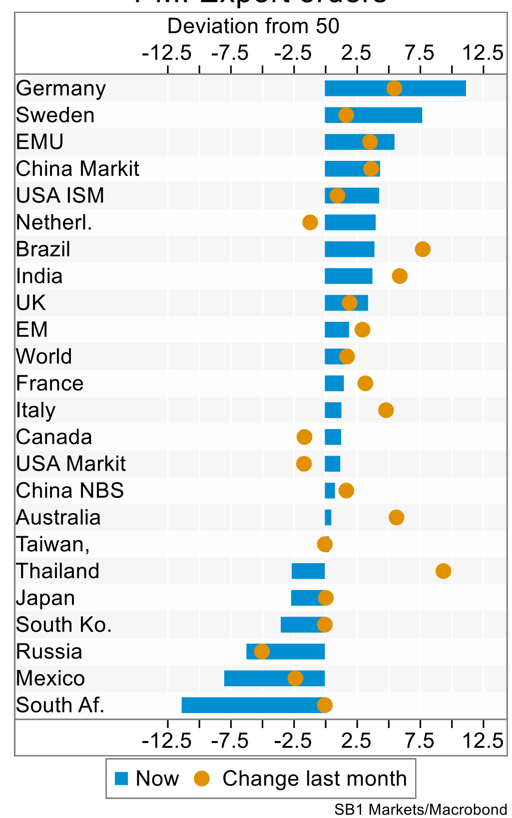


PMI Manufacturing Export Orders



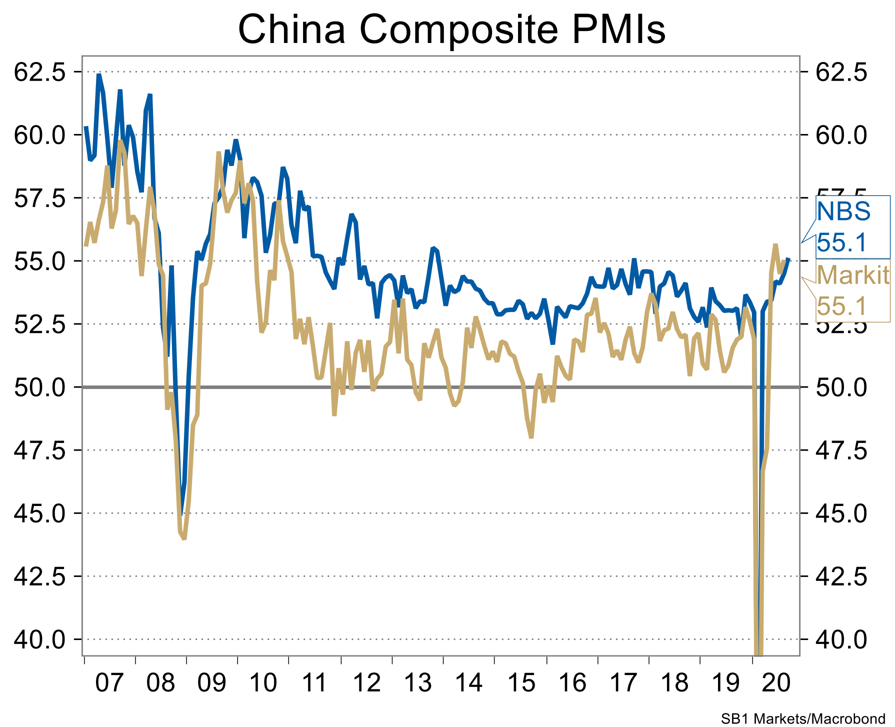
- Most countries are now reporting an increase in export orders (index >50)
  - » Germany has moved to the top of the list, from the bottom in April/May!

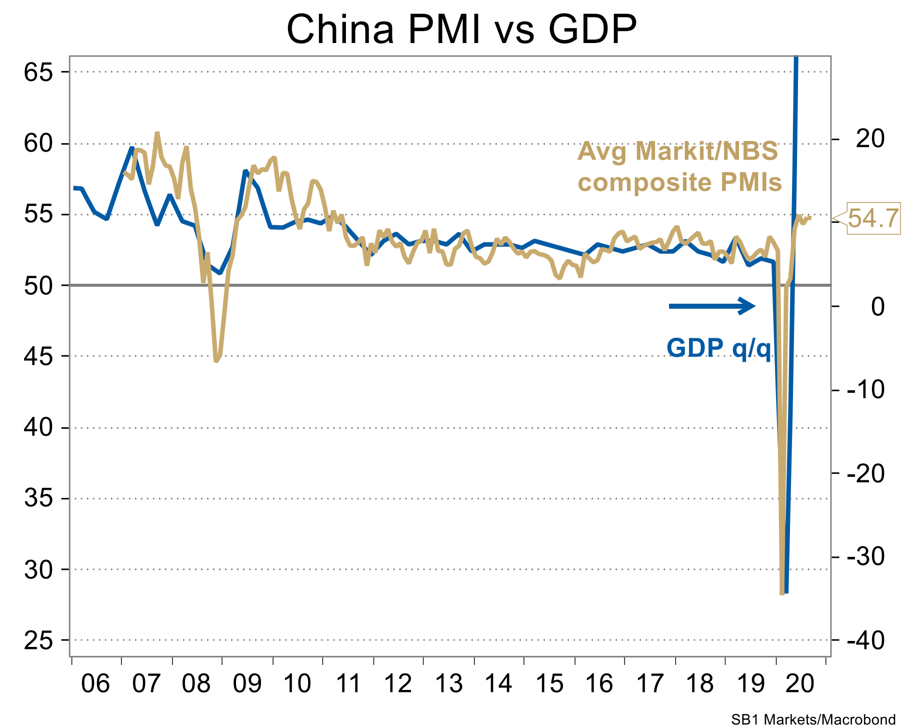
PMI Export orders



September PMIs in sum steady, signalling growth well above trend

The NBS composite PMI rose by 0.6 p to 55.1, we estimate a 0.8 p decline in Markit's PMI

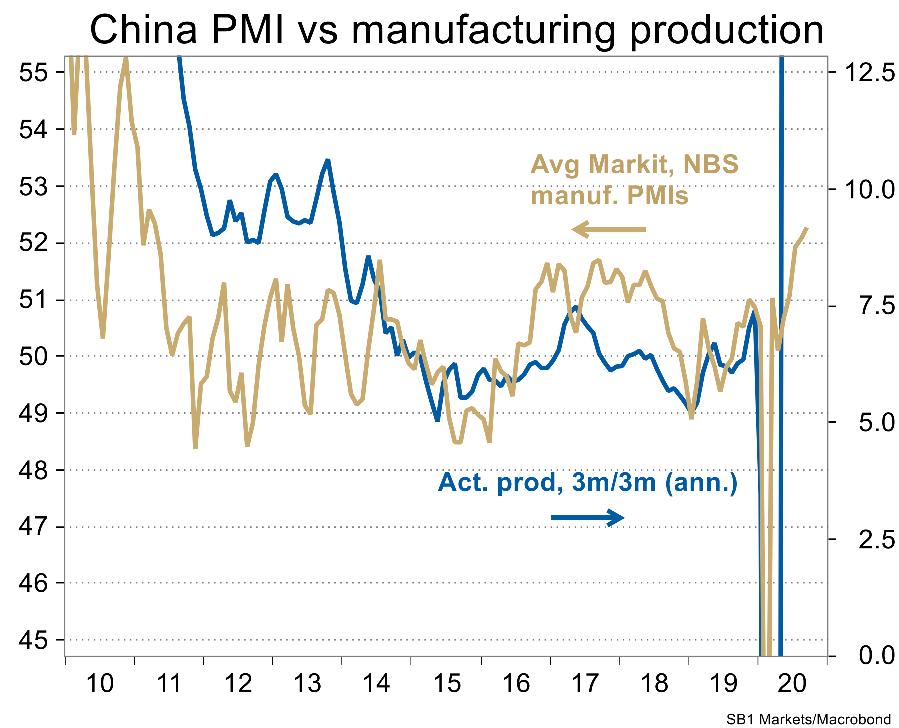




- The NBS' 'official' composite PMI edged up to 55.1 in Sept, up 0.6 p. The manufacturing index rose by 0.5 p to 51.5, services up 0.7 p to 55.9. The higher level of the services index is needed to bring activity in the service sector back to pre corona levels (it is still well below the pre corona trend, while manufacturing is fully recovered)
- Markit's manufacturing PMI inched down to 53.0, composite down 0.8 p if we assume a 0.7 p rise in services (not yet reported)
- In sum, these two PMI data sets confirm a continued recovery in the Chinese economy (a 8 – 9% growth pace), and growth above trend in Q3 too – which is needed to close the 2 – 3% negative output gap in Q2

Manufacturing PMIs still edging up, level more than high enough

The PMIs are in average signalling growth above trend – and production has fully recovered



- The NBS manufacturing survey rose by 0.5 p in Sept, Markit's PMI down 0.1 p (from a higher level)
- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

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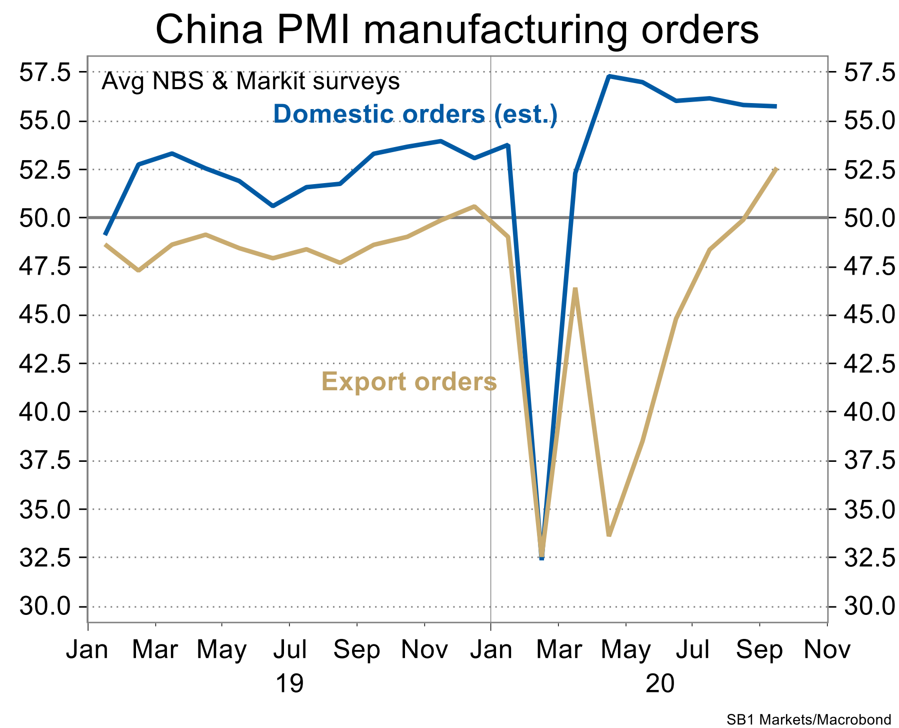
Export orders are recovering but domestic demand still fueling growth

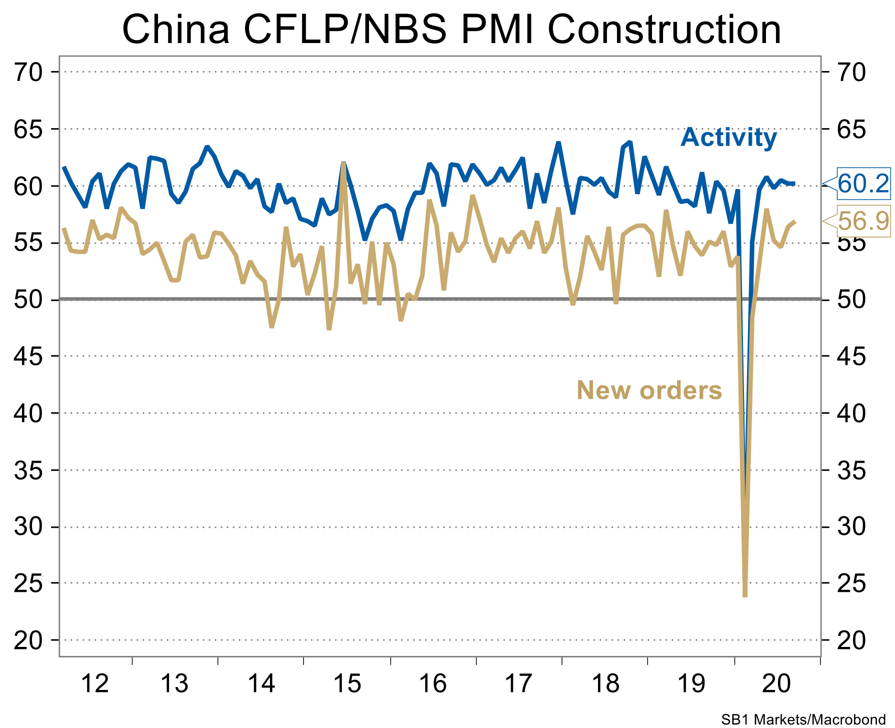
Total orders are rising at a brisk pace, export orders finally growing

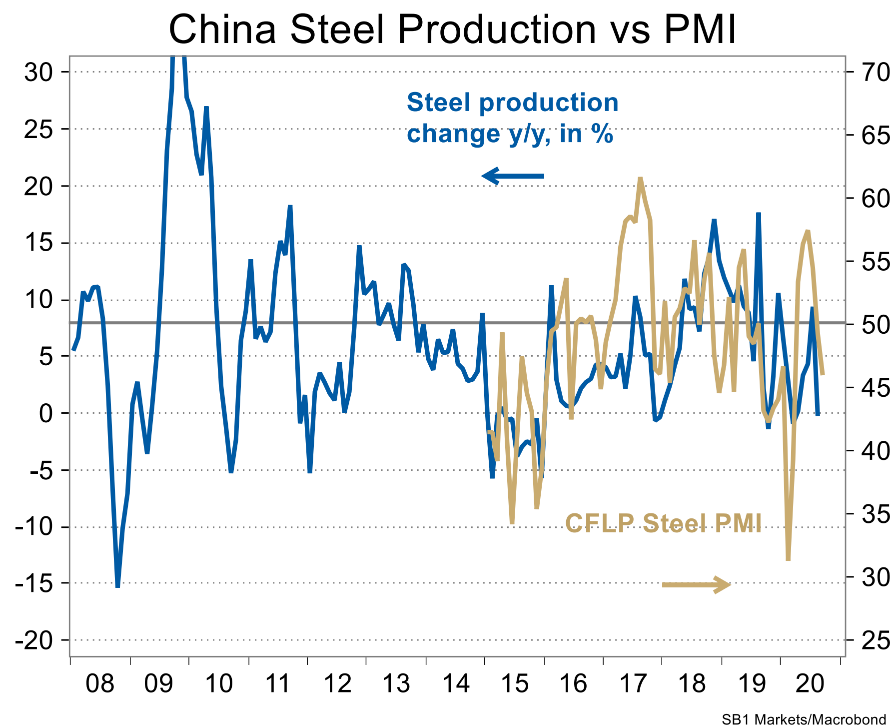


- Businesses reported an increase in export orders for the first time since December 2019. The avg of Markit's and NBS' order indices came in at 52.6 in Sept, a 2.7 p rise from Aug
- Domestic orders are growing at a brisk pace, however at tad slower the past few months
- The total order indices are well above 50, another confirmation of a solid manufacturing recovery
  - » At the chart to the right we have made a rough estimate of an domestic order index (which is not published).

Construction & steel back on track

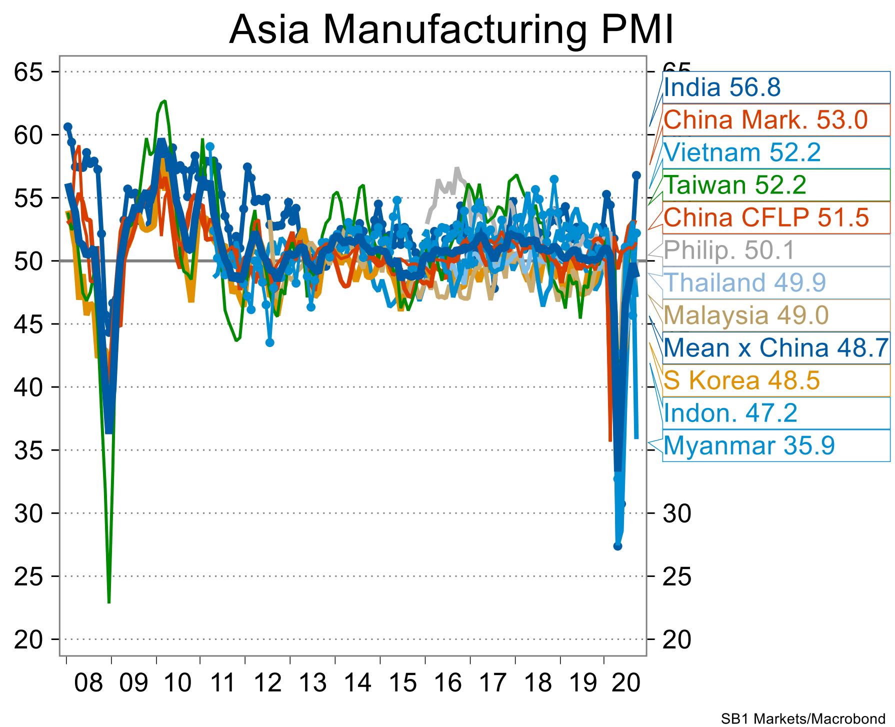
The construction sector PMI stayed strong, the volatile steel PMI fell further, not yet significant

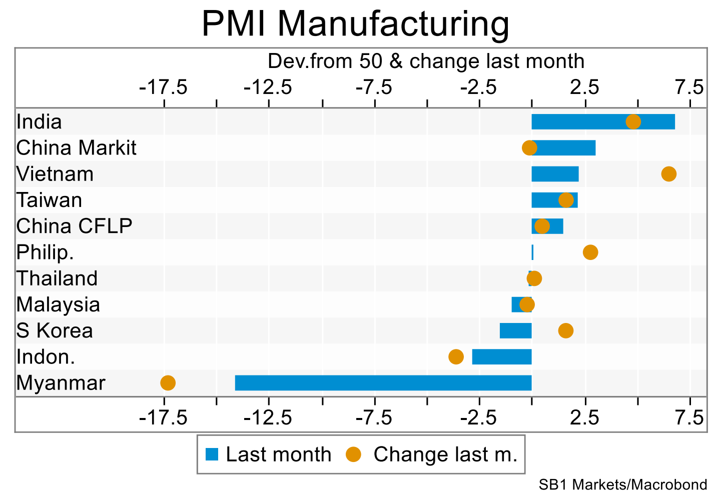


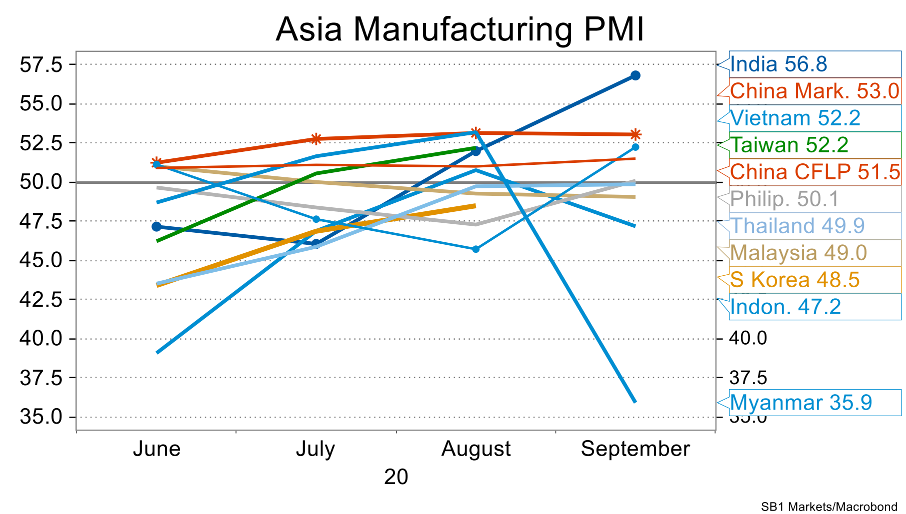


Rest of Asia: Mixed PMIs in September, just India at a high level

5 PMIs were above the 50-line, 3 below. India rose sharply, to 56.8







- 5 PMIs so far up, 2 down in September, 3 unch
- South Korea has not yet reported

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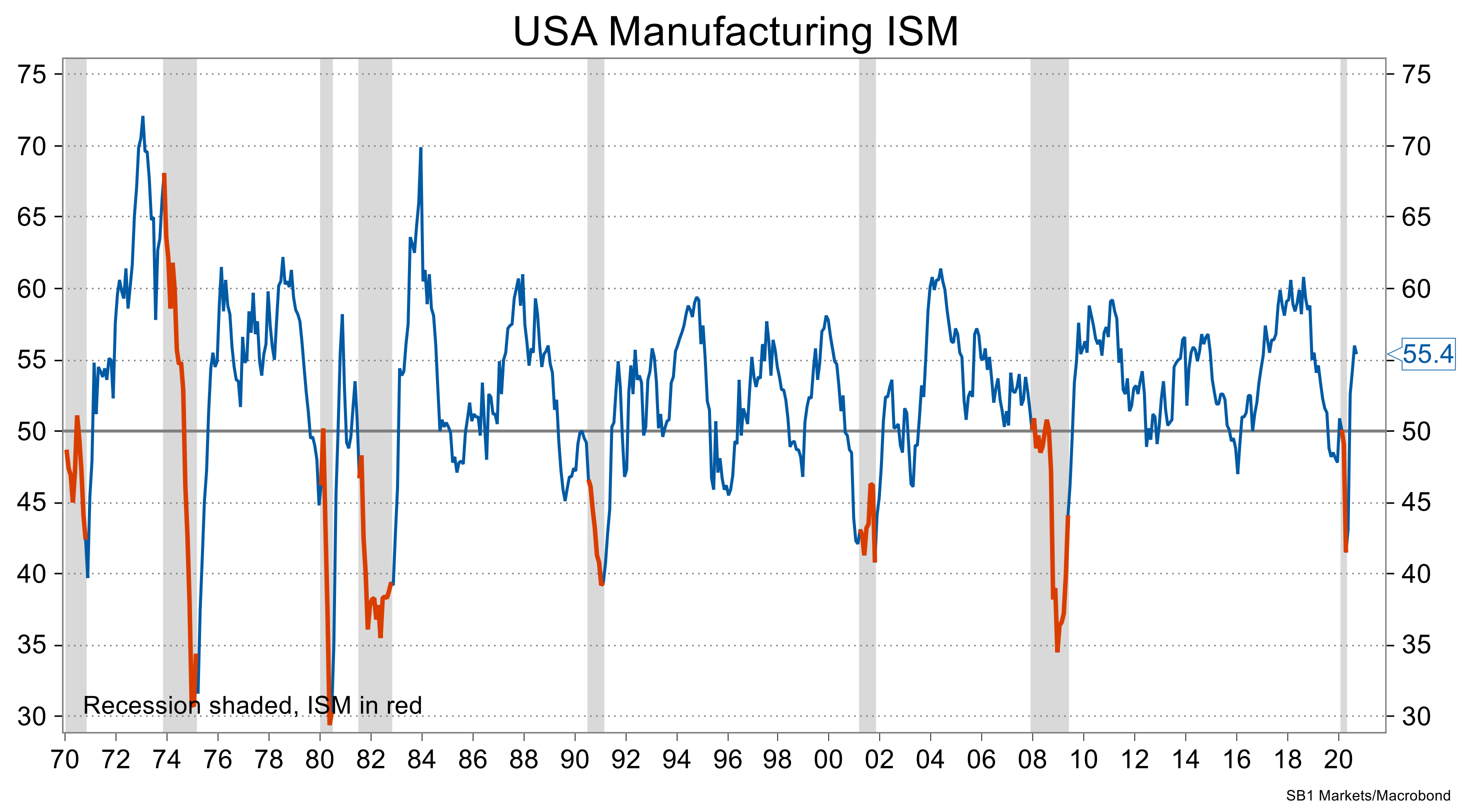
Manufacturing ISM inched down to 55.4 in Sept, slightly weaker than expected

All in all, an OK report; orders increased at a slower speed, employment is close to stabilisation

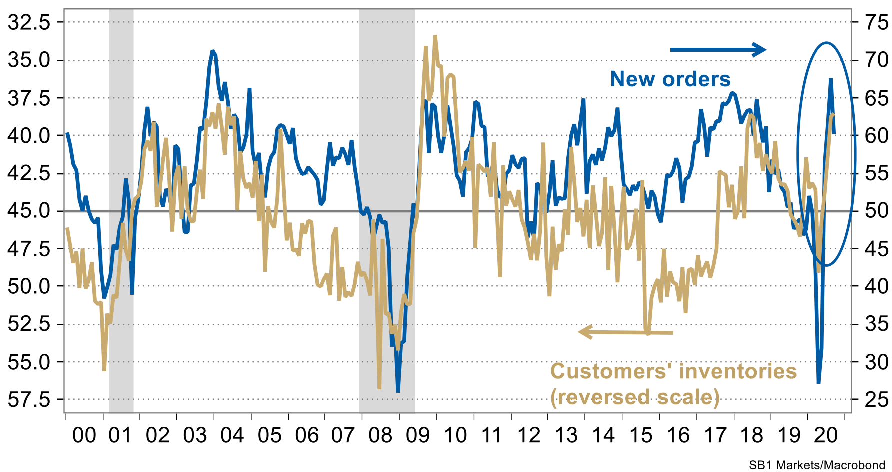


- ISM fell by 0.6 p to 55.4 in Sept, following a strong Aug. A 0.1 p increase was expected. The survey confirms that the sector continued to recover in September, although at a somewhat slower pace. The details were less upbeat than in August as growth in domestic manufacturing orders slowed. On the bright side, customers have run down their inventories and will soon have to restock. Employment is close to stabilising
- 14 manufacturing sectors reported growth from August, 4 reported a decline (apparel, printing, petroleum & coal and primary metals)

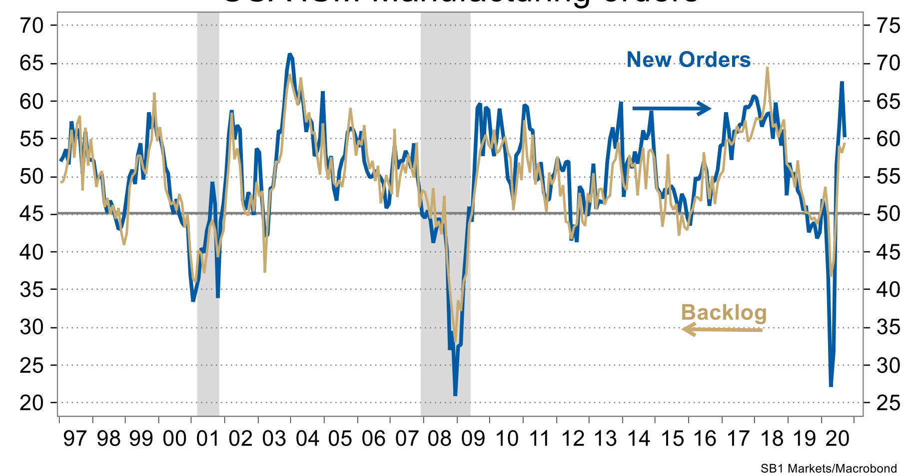
Growth in new orders slowed in Sept but inventories have been reduced

Delivery challenges have eased and prices are increasing

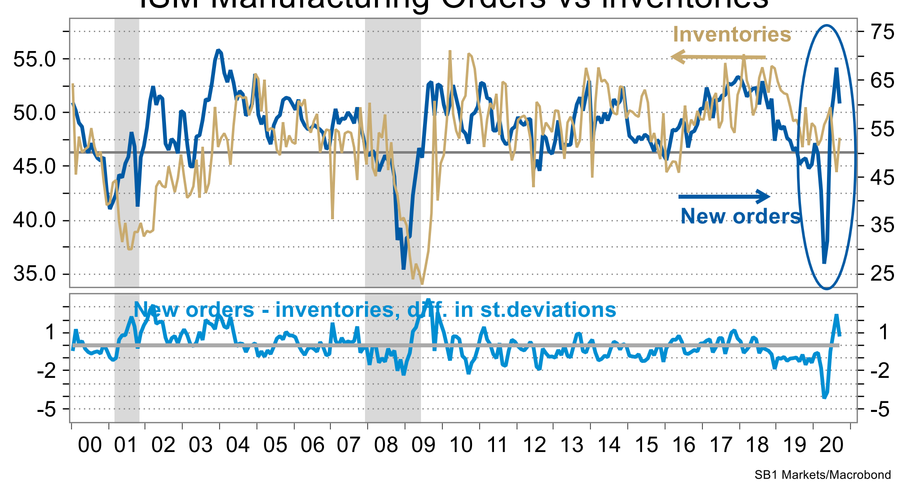
ISM New orders vs clients' inventories



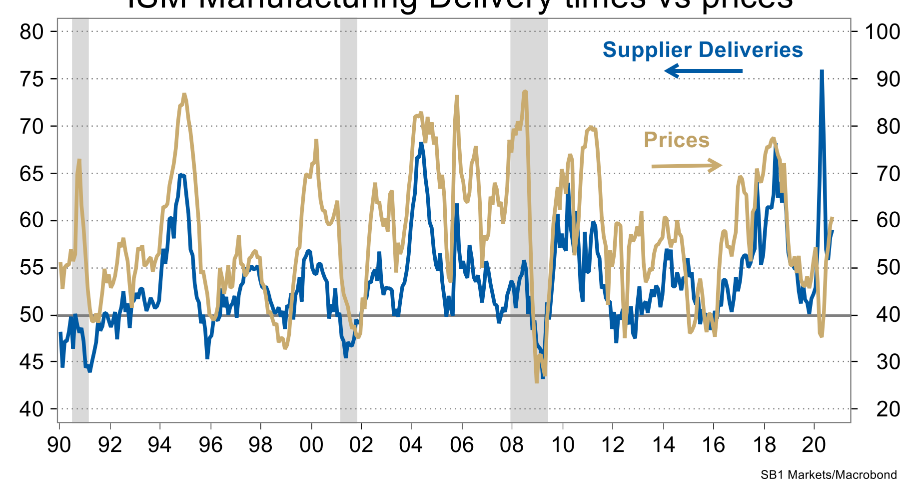
USA ISM Manufacturing orders



ISM Manufacturing Orders vs inventories

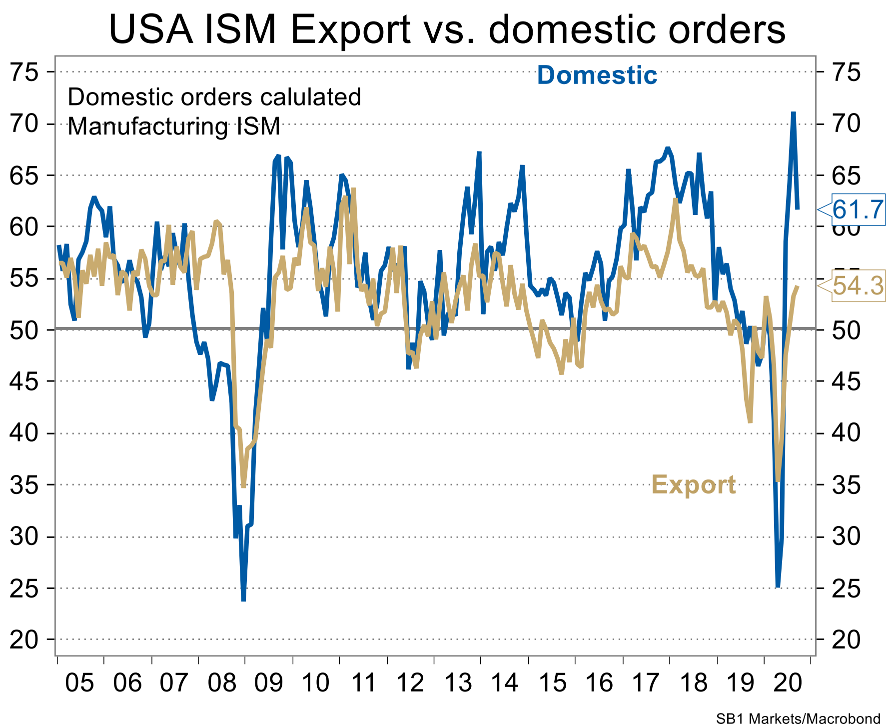


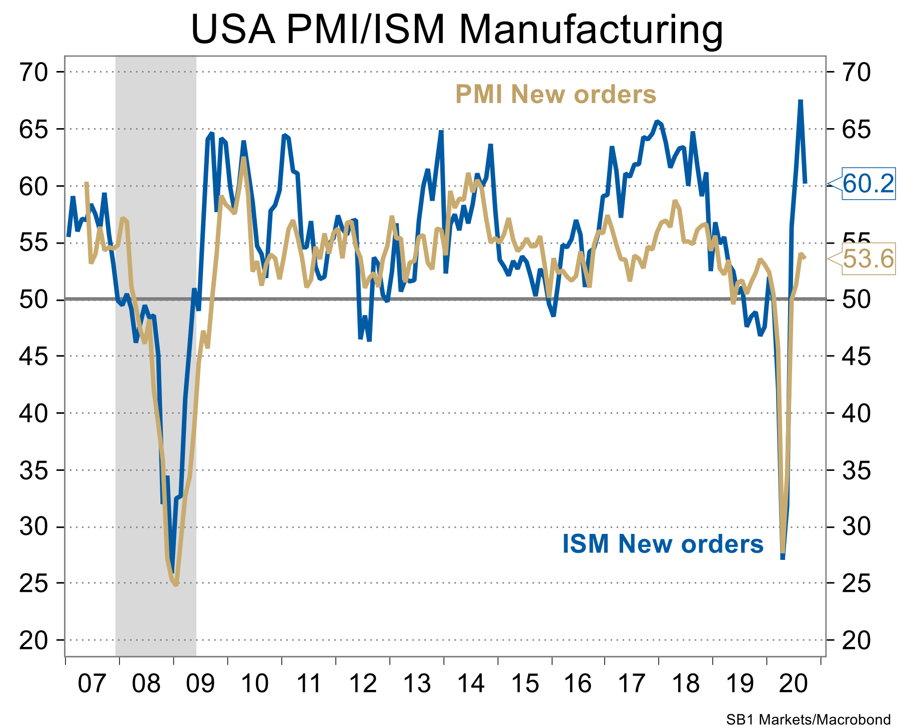
ISM Manufacturing Delivery times vs prices



Domestic orders slowed but are still strong, export orders building up

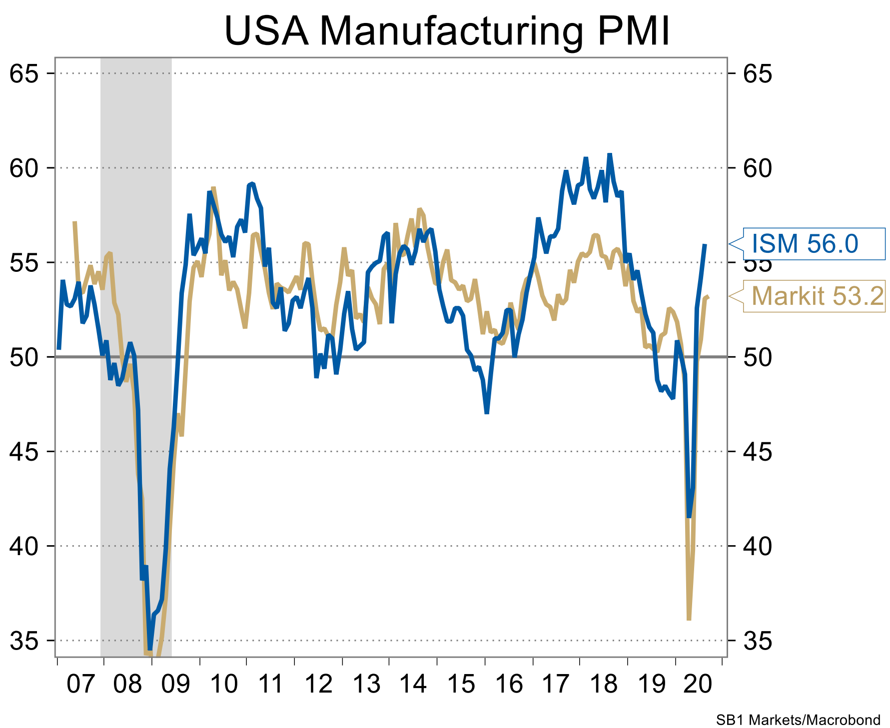
The ISM is still much more upbeat than Markit's PMI

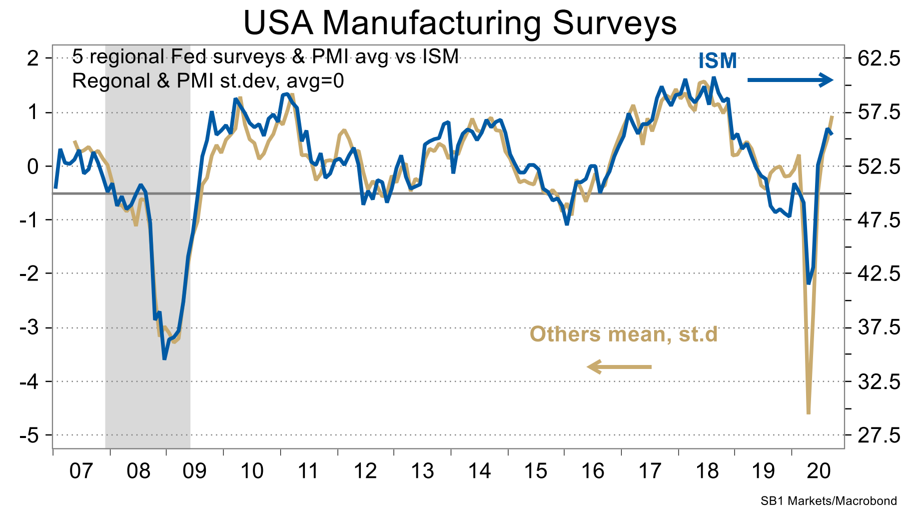


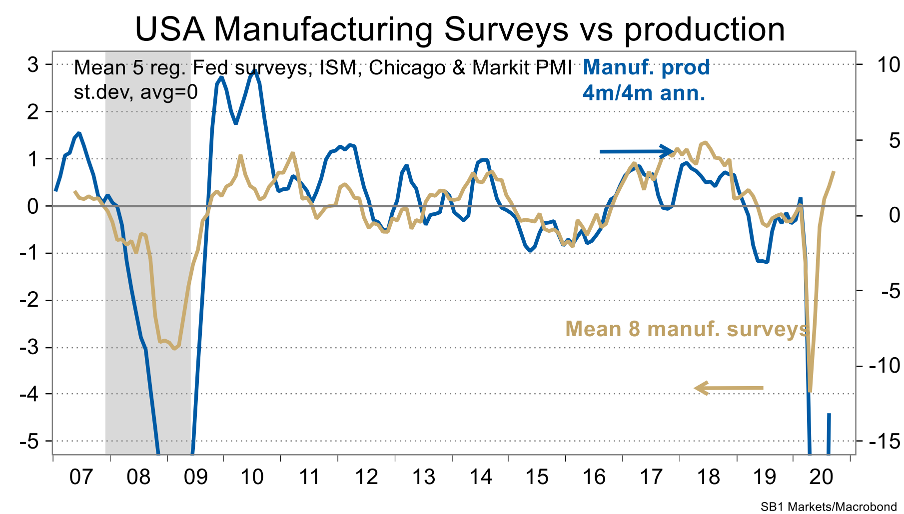


Other manufacturing surveys somewhat more upbeat than the ISM in Sept

In average, the surveys are not that impressive, we expect growth well above an average pace



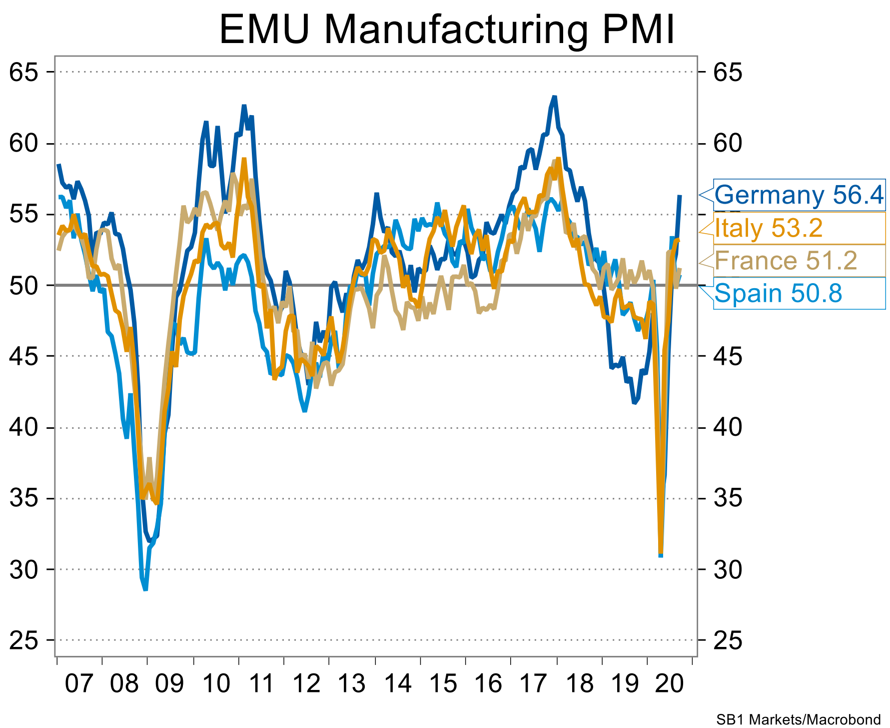


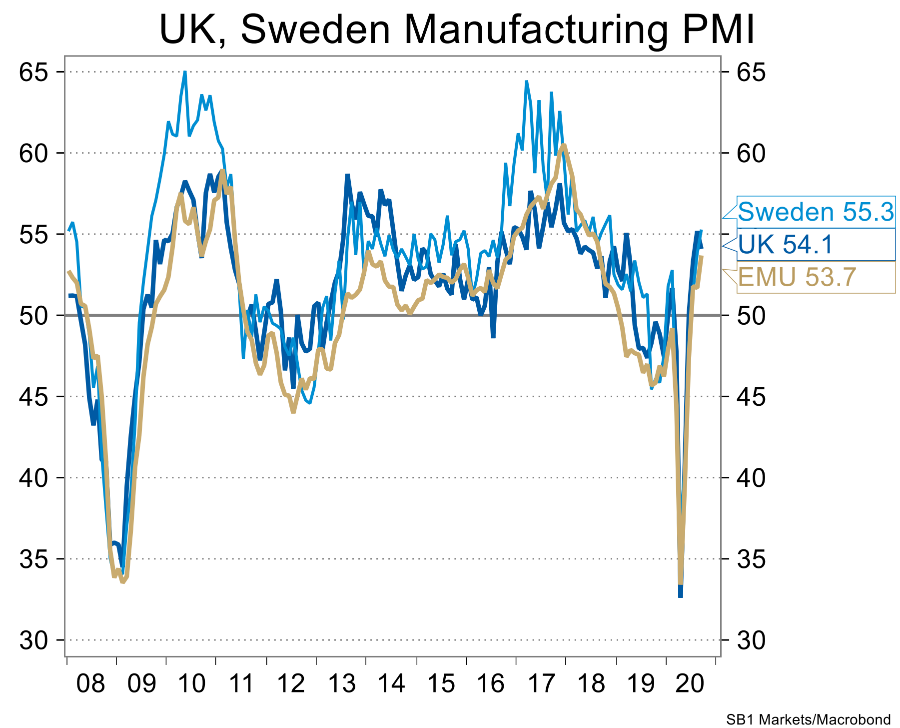


- Markit's final manufacturing PMI at 53.2, 0.3 p weaker than first reported (and up 0.1 p from Aug)
- Actual manufacturing production is on the recovery track but is still some 7% below the pre corona level
- We expect a continued growth the coming months. Core durable goods orders are above the pre corona level and goods consumption is strong

Eurozone manufacturing recovery gains speed, as in UK and Sweden

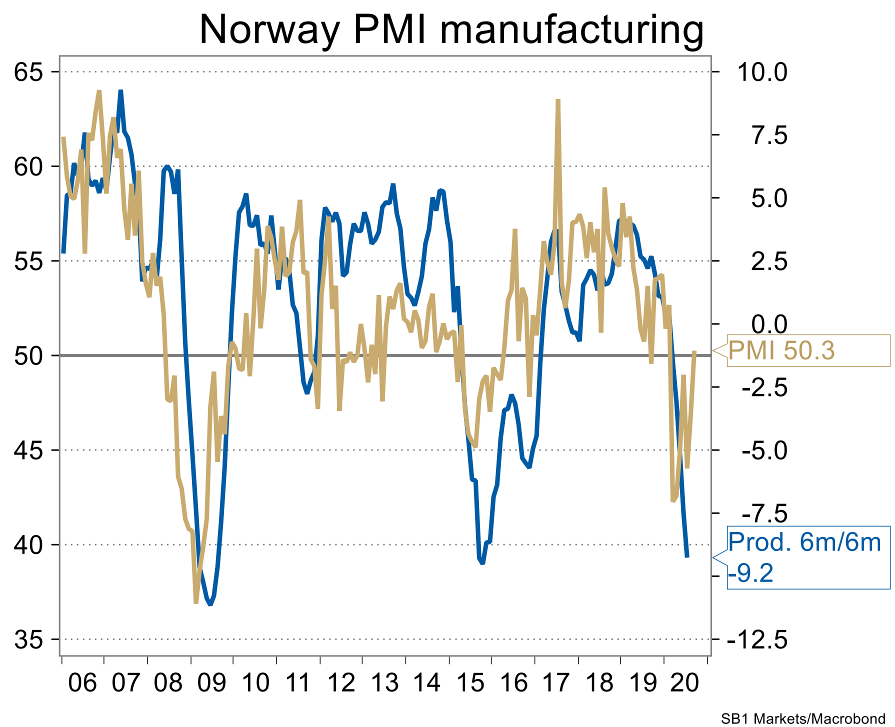
The PMI was unchanged at 53.7 in the final report (+2 from Aug). All main four countries above 50

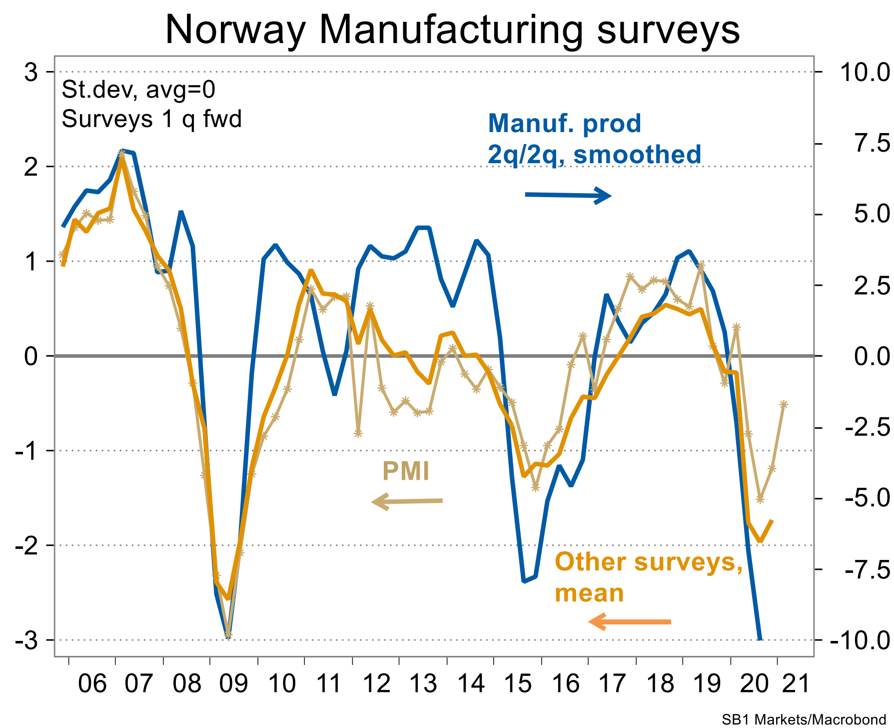




Manufacturing PMI finally (just) above 50 in September

The manufacturing recovery has so far been subdued, PMI signals a stabilisation, at best

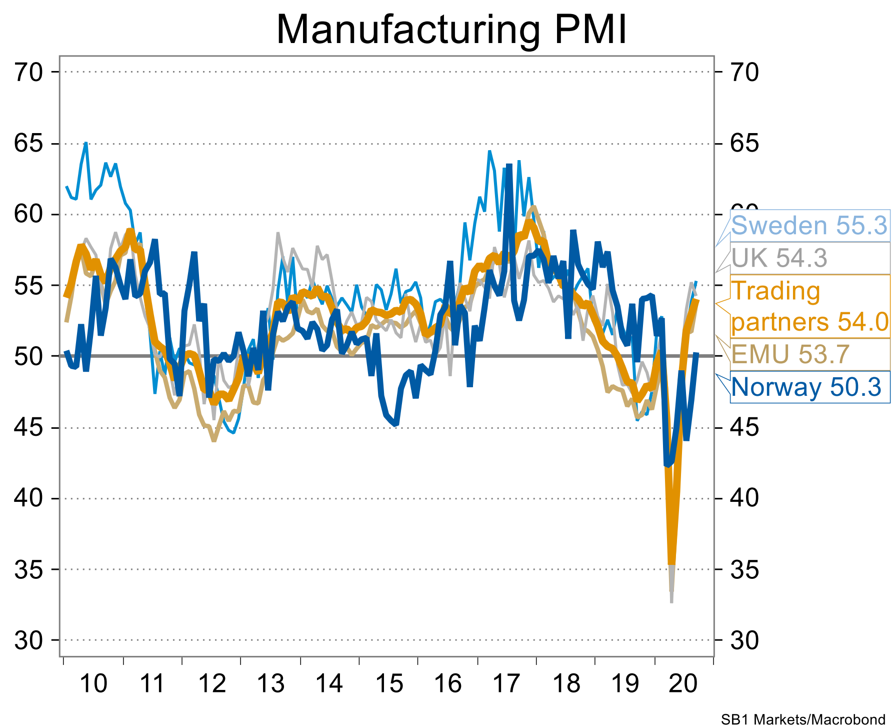


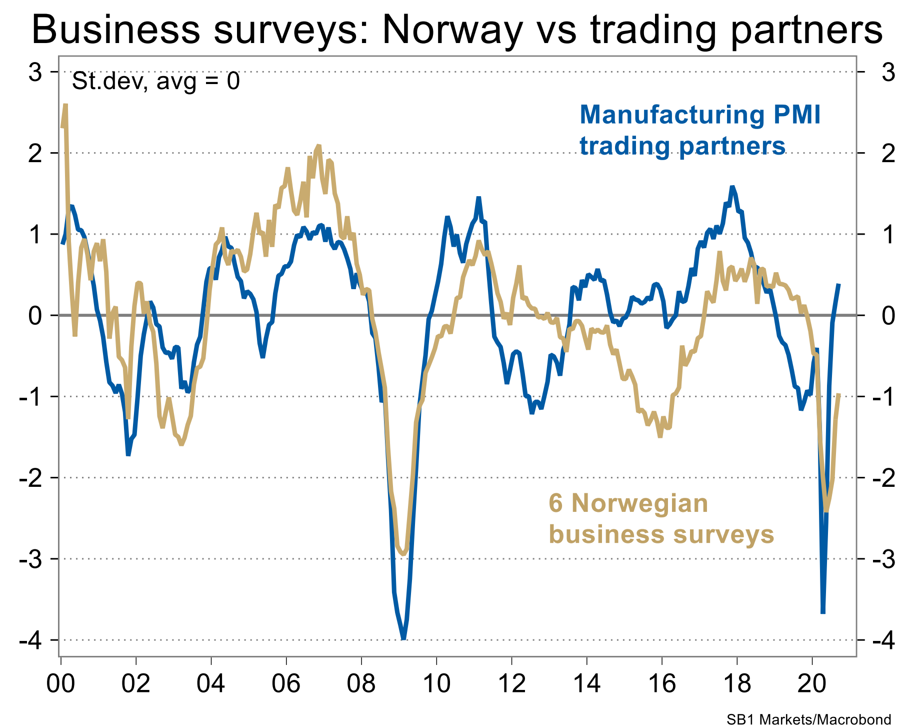


- The manufacturing PMI rose to 50.3 in September, a 4.2 p increase, we expected up to 48. Activity in the Norwegian manufacturing industries fell in the spring but did not experience a deep setback. So far, we have not seen any upturn either, and the PMI signals just a stabilisation
  - » The details were not bright, even as all sub indices rose. New orders failed to increase and employment continued to decline
- Other surveys are still signalling a substantial decline in manufacturing production

Norwegian manufacturers fared better during the spring but lags now

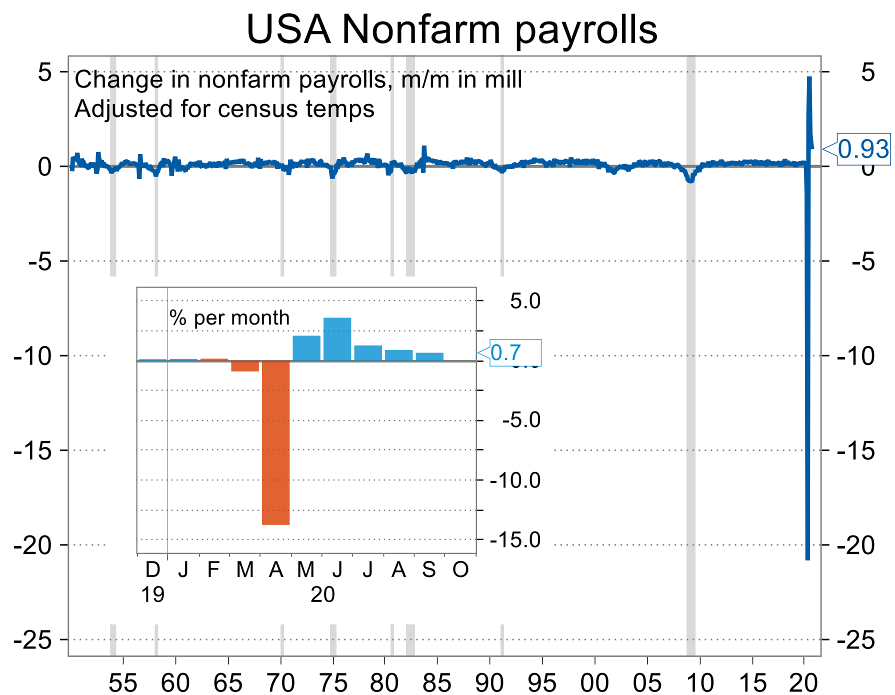
… at least growth wise (Norway is still ahead, level wise)

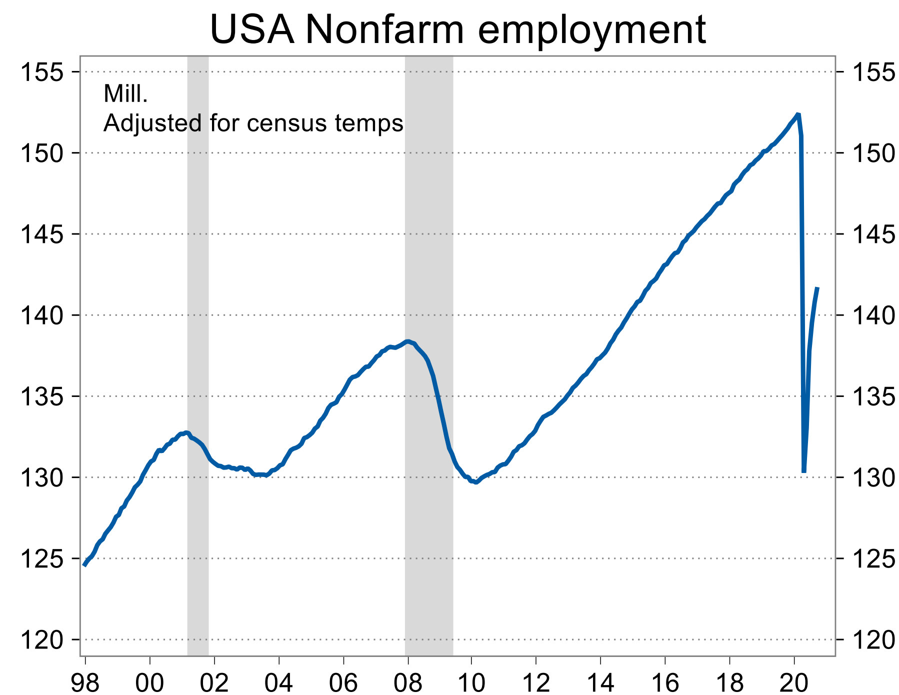




Employment growth slows further but unemployment fell more than expected

Employment up 662' (exp. 860'), but private employment was up 877'. Still down 7% from pre corona

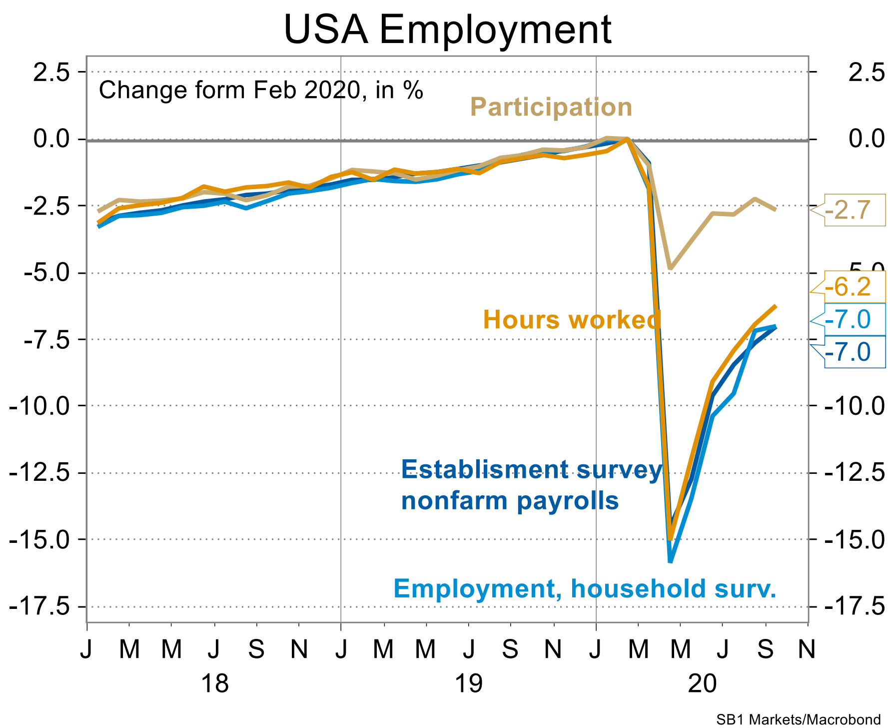




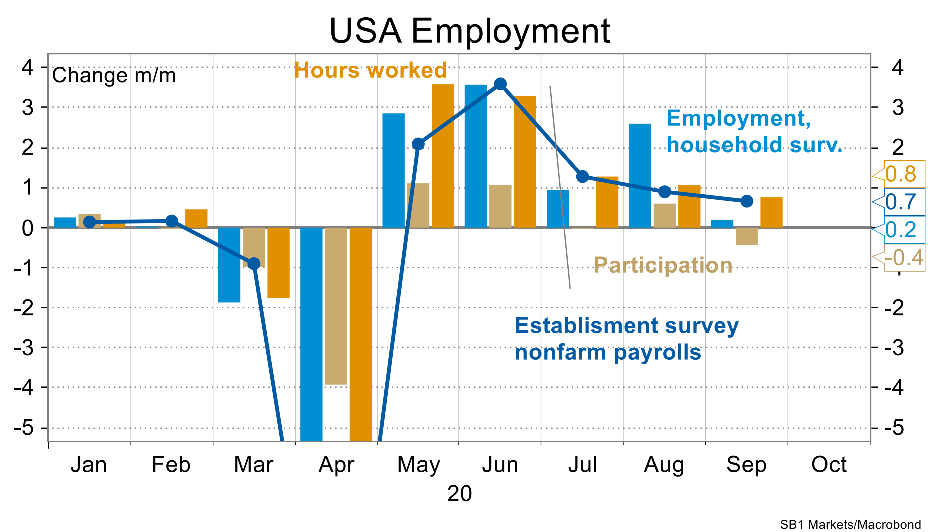
- **Employment** rose by 661' in Sept, 200 less than expected. Employment growth has slowed the past 4 months, in line with expectations. However, private employment rose by 877', 27' more than expected. Government employment fell by 216', dragged down by a decline in education and temporary Census jobs (34'). A the chart above, we have adjusted for census employment. Nonfarm employment is still 7% below the Feb level – and the recovery in jobs is now clearly slowing
- **Unemployment** dropped by 0.5 pp to 7.9%, just a 0.2 pp decline was expected. However, the decline was almost entirely due to a lower participation rate, not a higher employment rate). Unemployment has fallen from 14.7% at the peak but remains elevated. Also, the real unemployment level is still higher, as the participation rate has fallen and more are working involuntary part time etc. The total U6 employment rate is 12.8%, up from less than 7% pre corona
- **We expect employment growth to continue to slow the coming months**. New jobless claims are still running at a very high level

Employment still 7% below par, hours worked -6%

No big difference between enterprise employment headcount & the household (LFS) survey

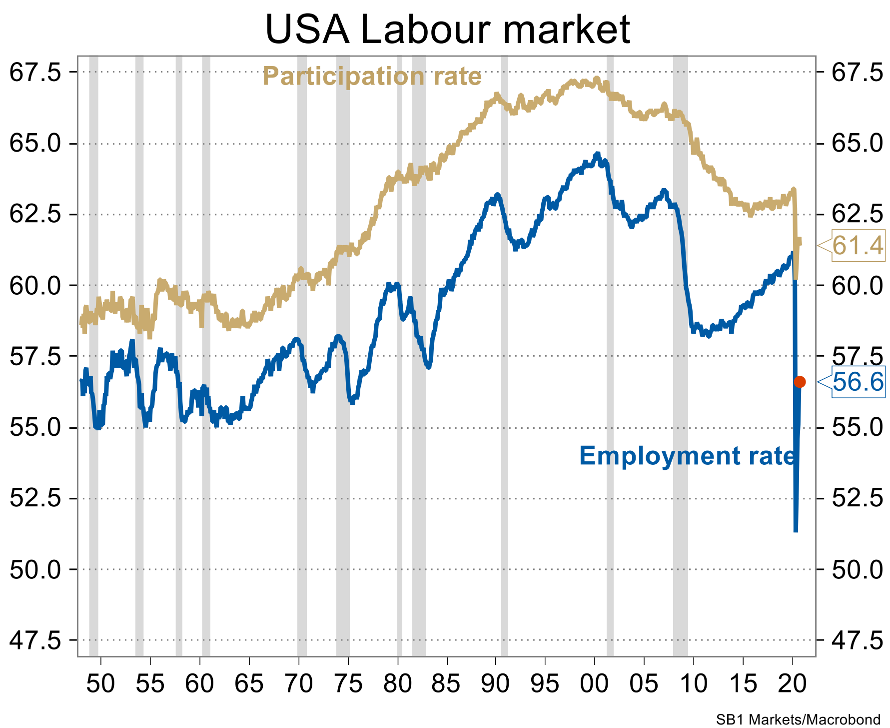


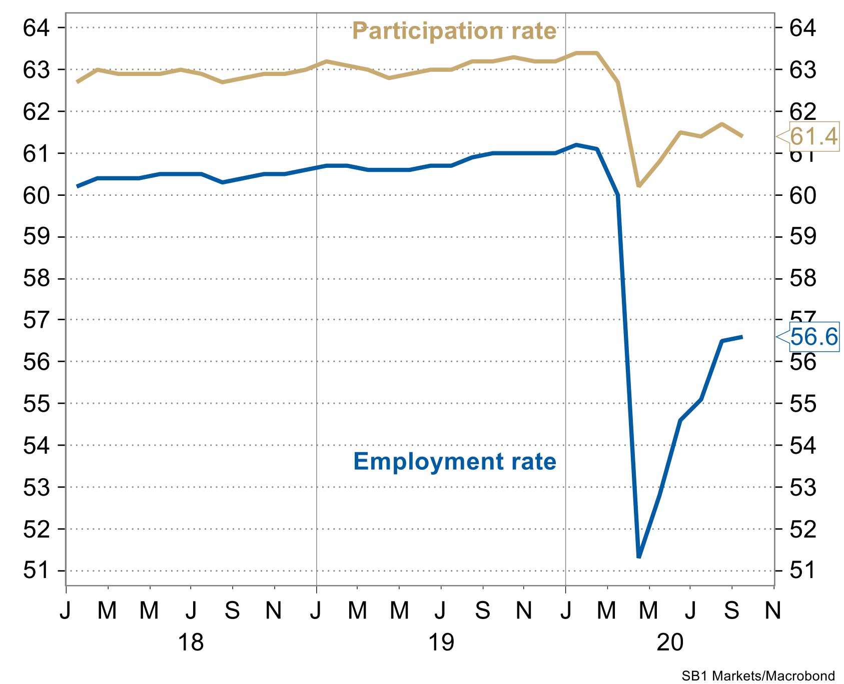
- If the participation rate had not fallen by 2.7% since February, unemployment would have been running higher, at 10.6%
  - » The participation rate fell by 0.3 p to 62.4
- In September, the (usually more volatile LFS ('AKU') employment measure rose by 0.2%, following a steep rise in Aug
- Hours worked is increasing approx. at the same pace as employment, still 6% below the pre corona level



Employment and participation rates remain far below the pre corona level

Participation fell by 0.3 pp in Sept and the employment rate was flat, at 56.6

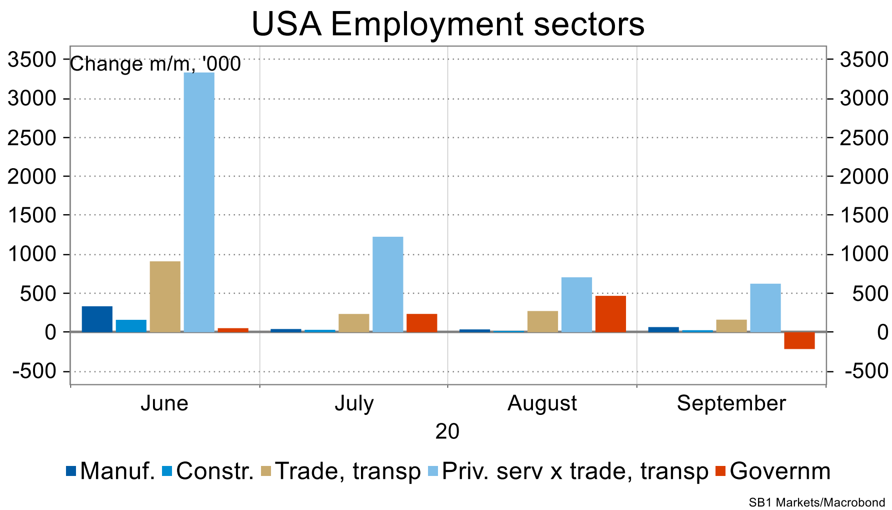


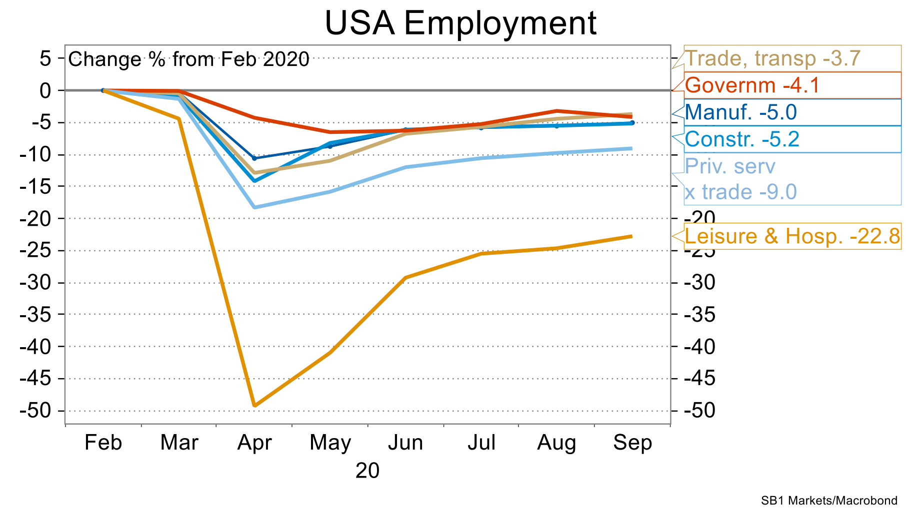


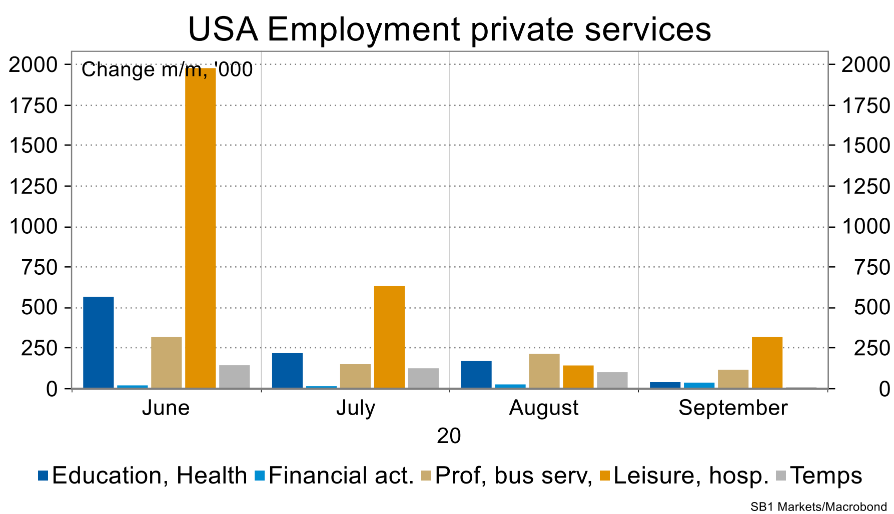
- **The labour force participation rate**, the supply side at the labour market, has moved slowly upwards since the worst months of the corona crisis, still 2 pp below February level
- The decline in the participation rate contributed to almost all of the the decline in the unemployment rate

Employment has not fully recovered in any of the main sectors

Employment rose in all sectors x government in Sept, private services the most, as expected



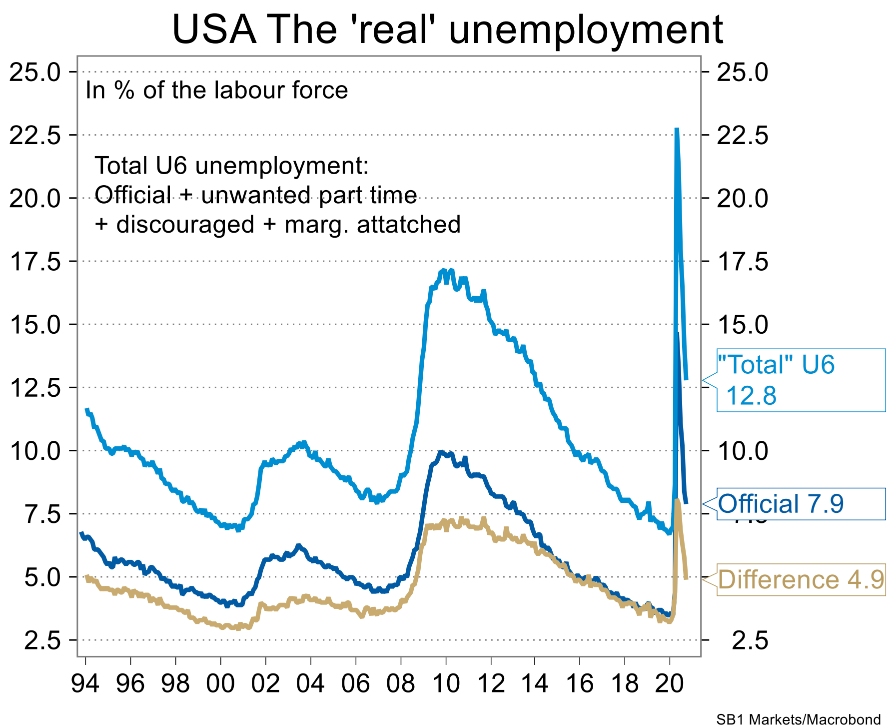


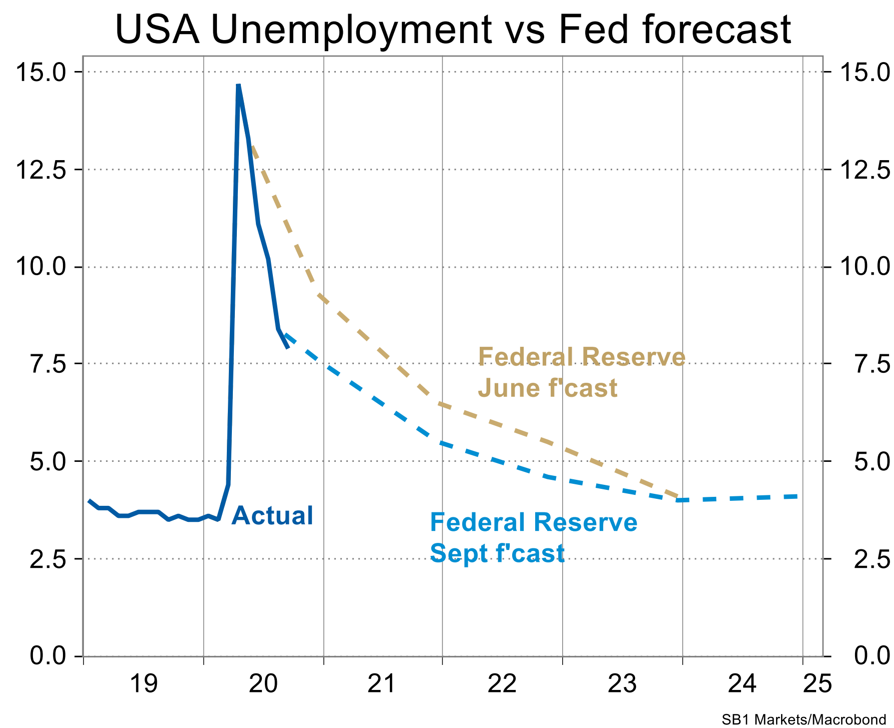


- Leisure & hospitality have recovered rapidly and more than other sectors the past months, but remains weaker than any other sector, down 23% from February
- Manufacturing and construction are both down 5%
- Trade & transport is down 3.7%
- (Government employment is adjusted for temp census workers)

Unemployment down to 7.9% but the 'real' unemployment rate is much higher

Unempl. down 0.5 pp to 7.9%. Still, the 'real' unemployment is 12.8% - or even higher



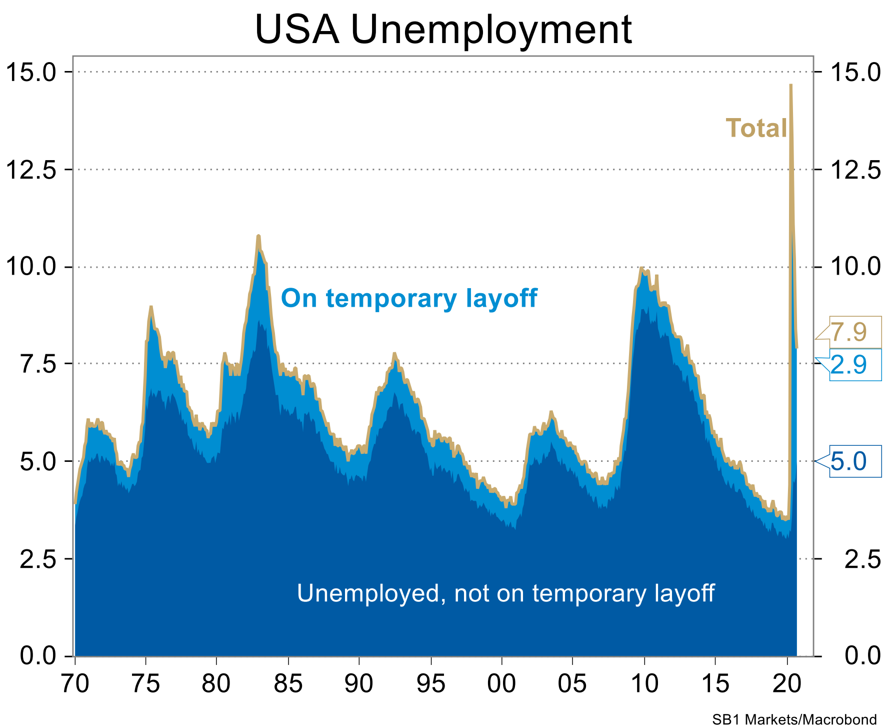


1) Some are counted as employed even if they should have been counted as unemployed
2) Almost 5% of the labour force is working unwanted part time (or at not able to get a work). In good times, less than 4%
3) The labour force participation rate has fallen because workers do not bother searching for work during the crisis (2%)
4) In sum, the unemployment significantly higher than the traditional official rate

The FOMC has not published a monthly unemployment forecast but the decline in unemployment past three months is faster than any reasonable interpretation of the annual figures implies

3/4 of the temporary laid offs have returned to work, but 'core' unempl. up to 5%

Temp laid off unemployment down to 2.9%, was 11.5% in April!

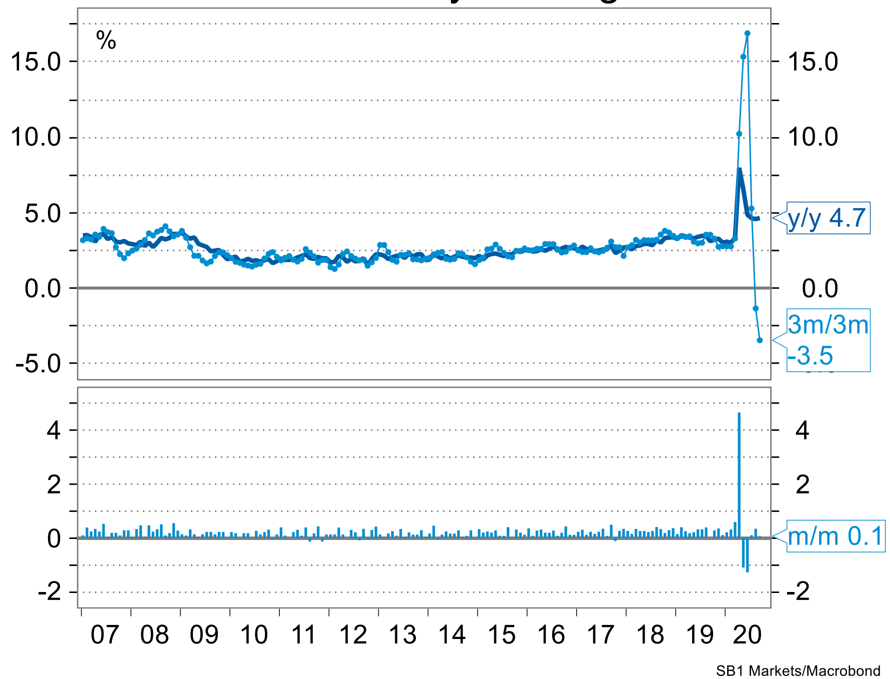


- The 'hard core' unemployed – not on temporary layoff – equalled 5,0% of the labour force, up from 4.6% in August (and at 3% in February

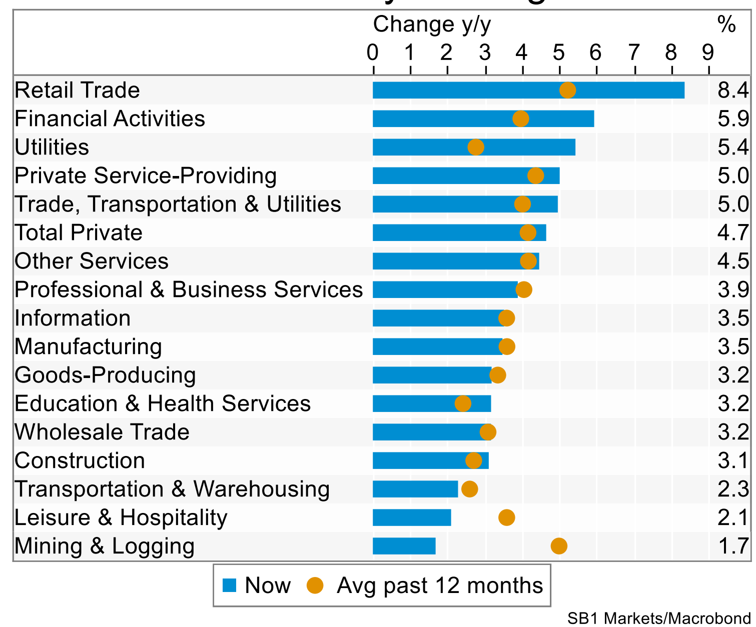
Average wages up and down during the corona crisis – due to the labour mix

These wage data are not relevant now as the mix between high/low paid works changes rapidly

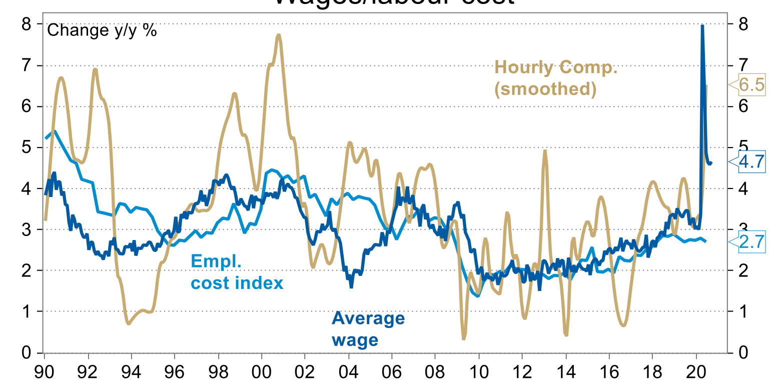
USA Hourly earnings



USA Hourly earnings



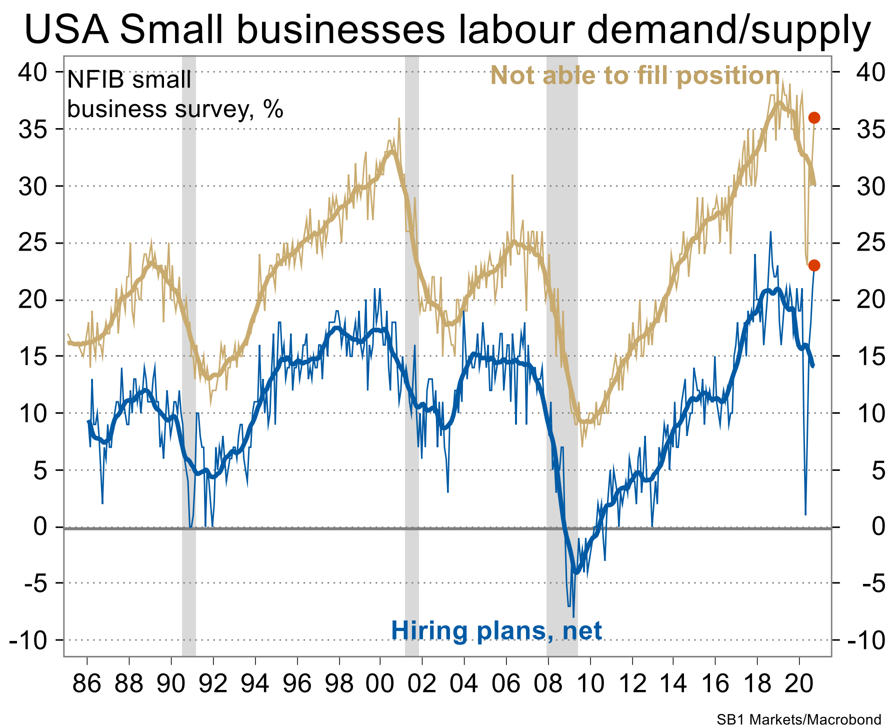
Wages/labour cost

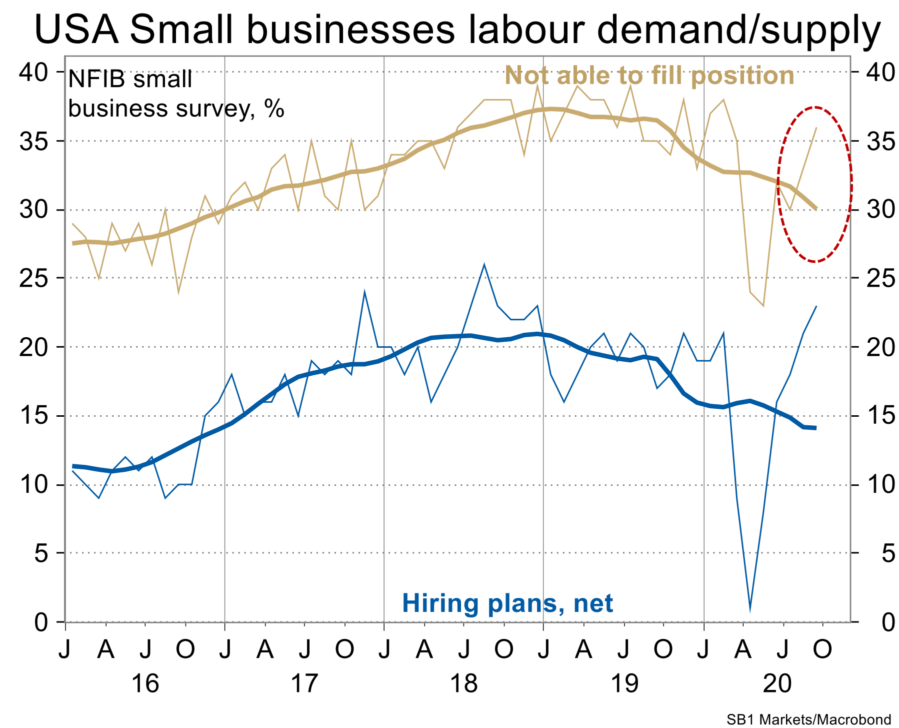


- Annual rate unchanged at 4.7%, even if wages have fallen recent month (3m/3m down 3.5%). The 'real' rate no doubt below 3%
- The quarterly employment cost index is far more relevant for assessing the underlying cost level inflation, signalling less than 3% growth y/y

Small businesses are not able to fill positions! And more are planning to hire

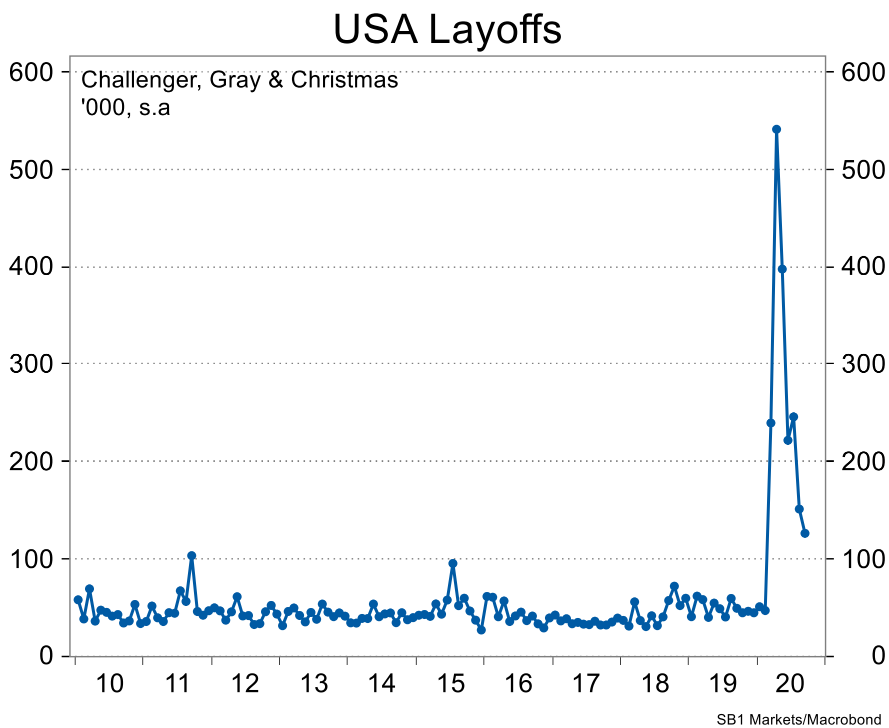
Businesses reported even more trouble filling positions in Sept, not a good sign





- It is remarkable that so many companies are reporting that it is so difficult to fill vacant positions given the high unemployment level. May signal serious mis-matches at the labour market
  - » In the Fed August Beige Book, matters such as day care availability, as well as much higher jobless benefits than before, were cited as reasons for the rising difficulties attracting labour. If so, a Covid-19 impact, not a signal of the real underlying slack at the labour market
- It's hard to calibrate businesses' hiring plans, as so many companies have cut their workforce lately – and are now employing more workers again. Still, the close to record high level of hiring plans is not a signs of weakness

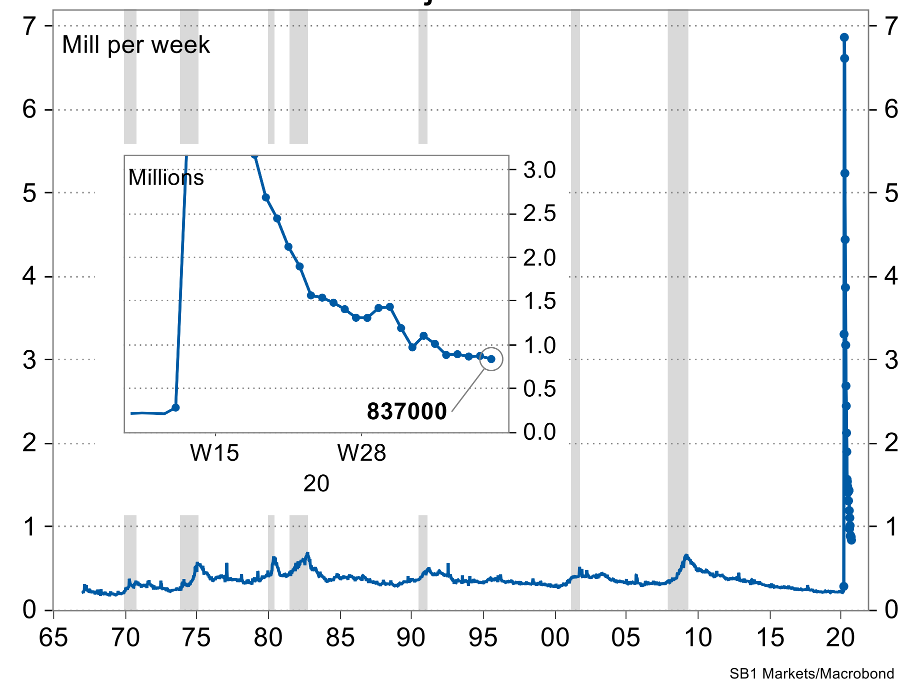
Layoffs steeply down, still at a recessionary level, even if growth is record high



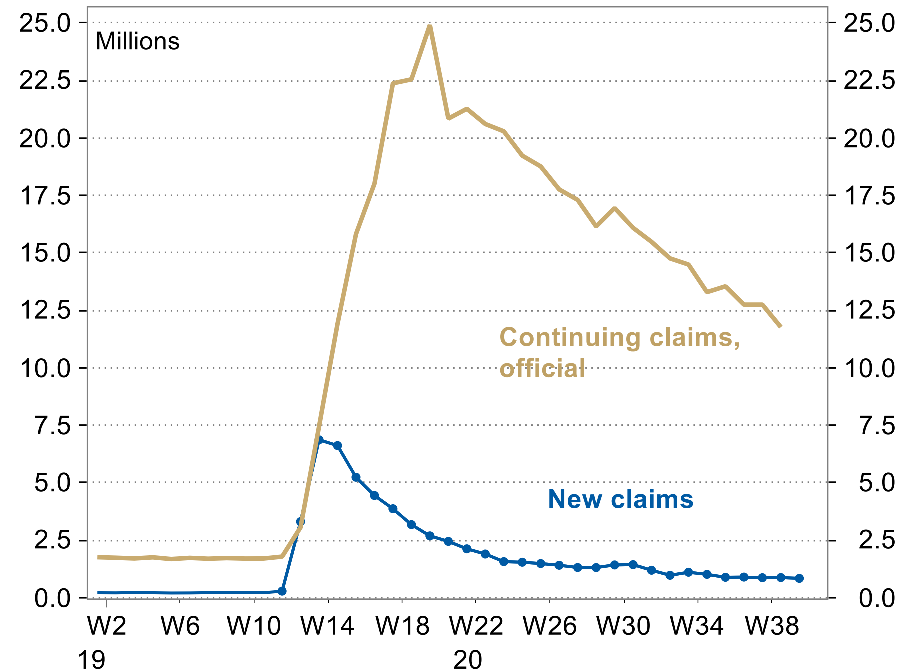
Number of new jobless claims is declining but very slowly. Level still very high

A steeper decline in new claims than expected last week – but the level is still very high

USA New jobless claims



USA Jobless claims



- New jobless claims came at 837’ last week, 13’ lower than expected. The downturn has slowed substantially the past 3 weeks. 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 11.8 mill. from 25 mill. – still 7% of the labour force is on the dole

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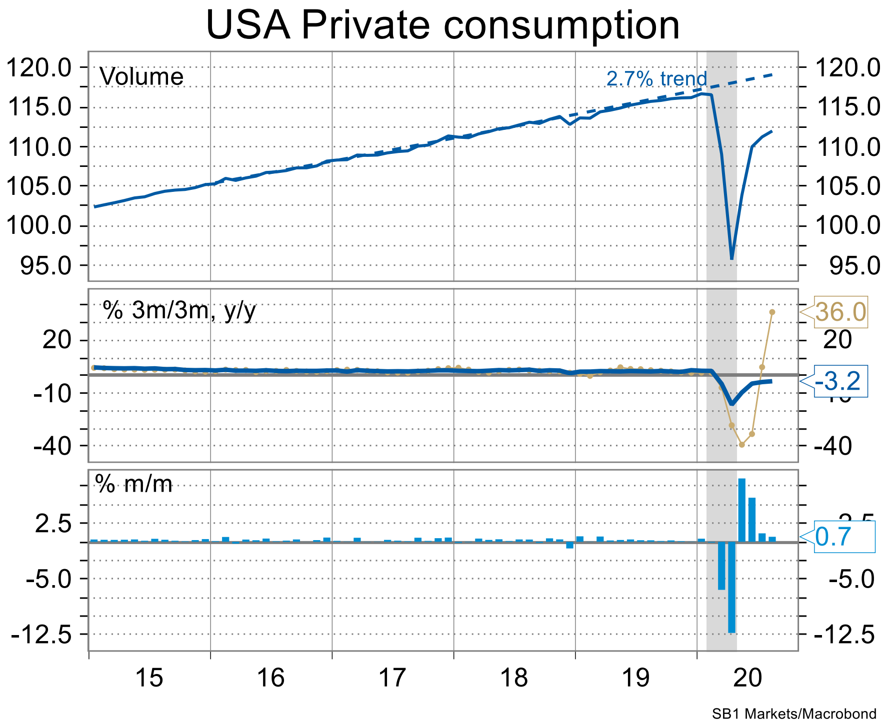
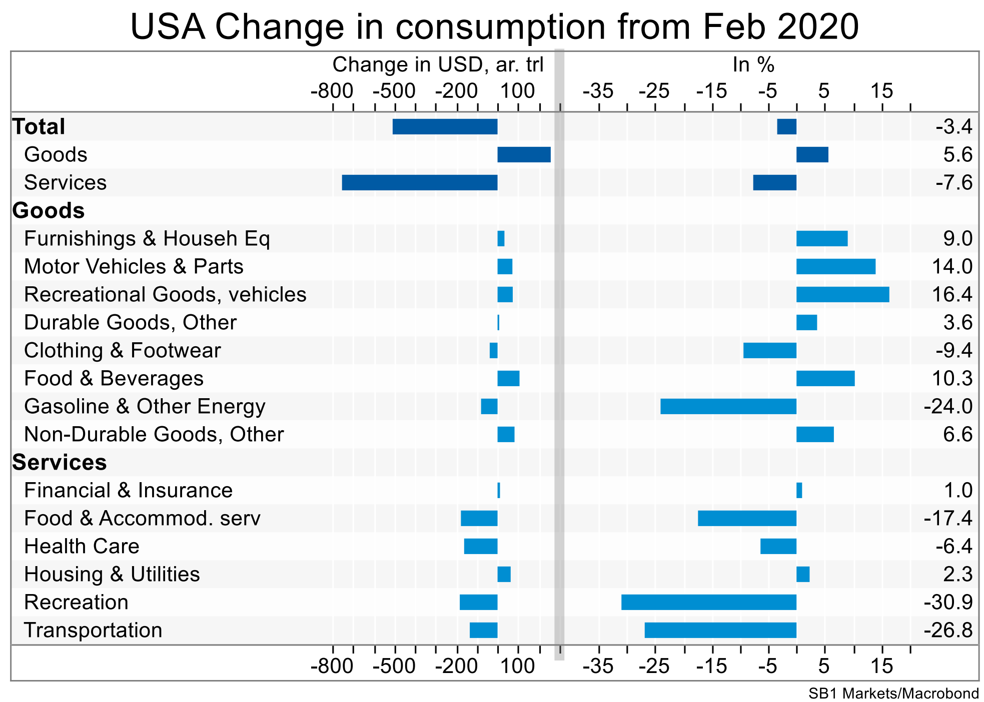
Consumption up another 0.7% in Aug, still 3% below Feb, due to services

Personal income down 3.2% (value), but the level is still high, due to extreme government transfers



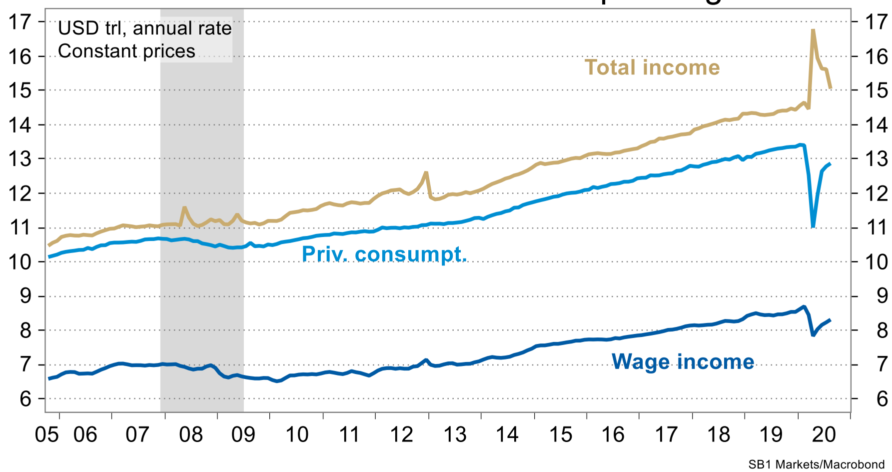


- The increase in spending was 0.1 pp lower than expected, while growth in August was revised down by 0.5 pp, and July by 0.3 pp. Still, August is 8% above the Q2 level, and growth in Q3 will be at least 8% - or almost 40% in an American annualised terms. Consumption alone will lift GDP by 5% (22% annualised)
- The pickup in consumption is far from uniform, and most services are still lagging
  - » Consumption of goods is now 6% above the Feb level, driven by food & beverages (at home), recreational vehicles (!), while gasoline is sharply down
  - » Consumption of services are down 8% due to restaurants/hotels, recreational services, transport – of course dramatic for these industries (and their empl.)
- Personal income fell 0.7 pp more than expected, as unemployment benefits fell sharply. Still, the income level 4% higher vs. the pre corona level – since government transfers still have increased much more than the decline in market income! (See next page)

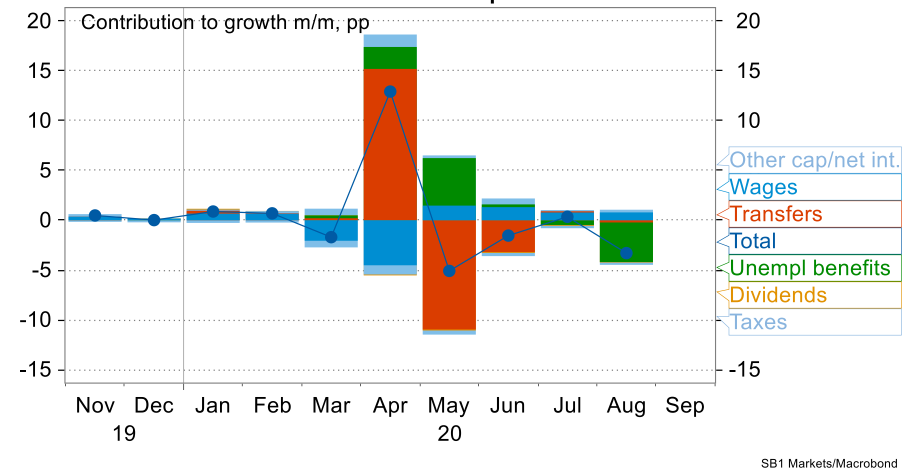
Income down as generous government transfers are being reduced

Income fell by 3.2% in July August but are still 4% higher than before corona, due to transfers

USA Household income & spending

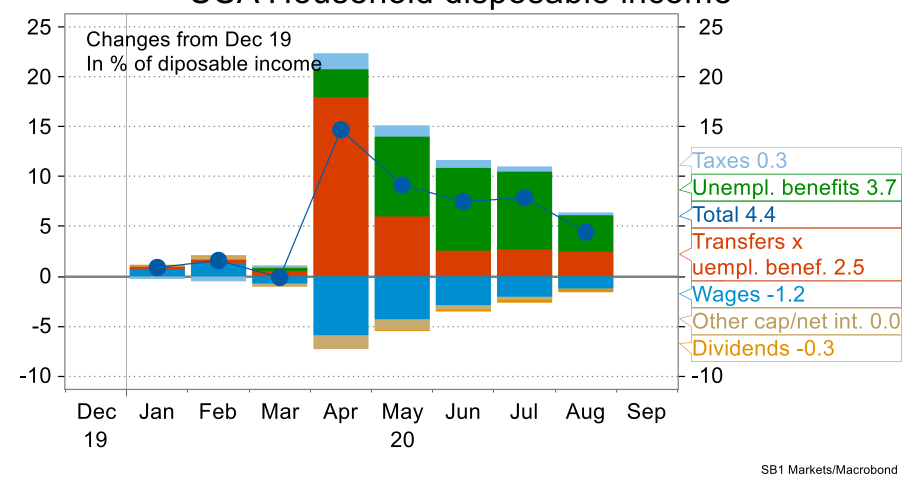


USA Household disposable income

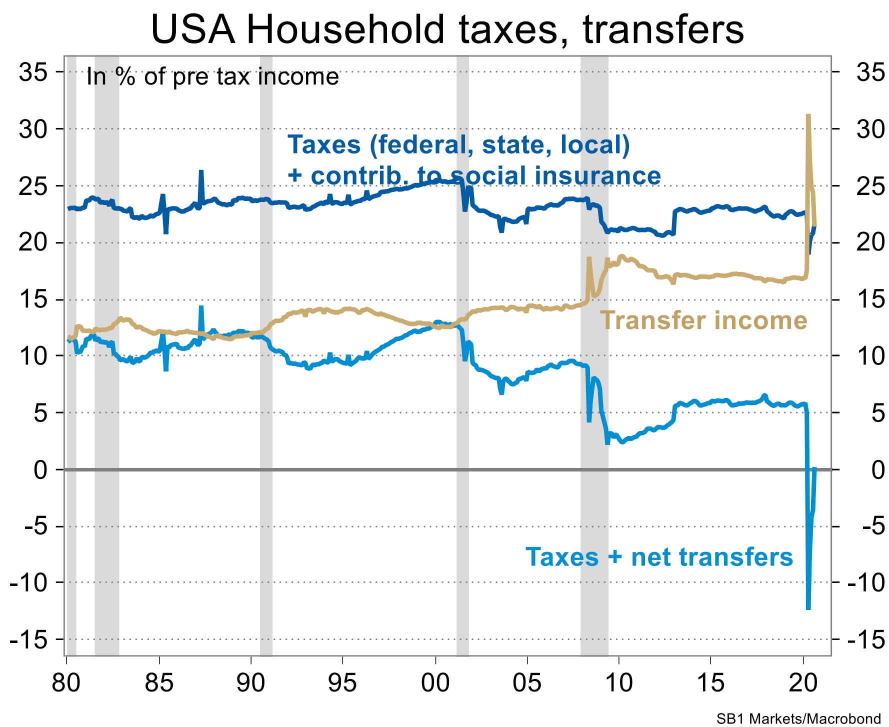


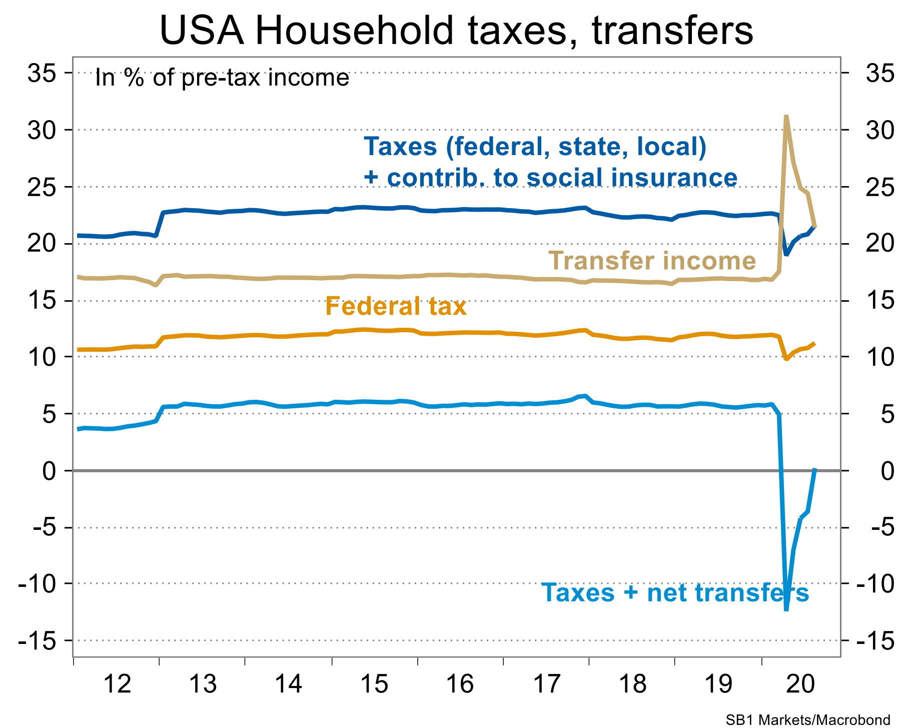
- Changes in household income have been dramatic as households – in aggregate – have been overcompensated, big time
- Overall household income is up 4% from December 19
  - » Wage income is down almost , equalling 1.2%, in % of disp. income
  - » Unemployment benefits are up equalling 3.7% of disp income, still 3x more than the cut in wage incomes
  - » Other transfers are up equalling 2.5% of disp income. At the peak in April, transfers equalled 17% of the Dec 19 monthly income!
  - » Government transfers in sum equal more than the reduction in wages and other market based income
- Unemployment benefits were cut in August, as expected. Another support package, both cash transfers to all, and a continued extra unemployment benefits has not yet been decided on

USA Household disposable income



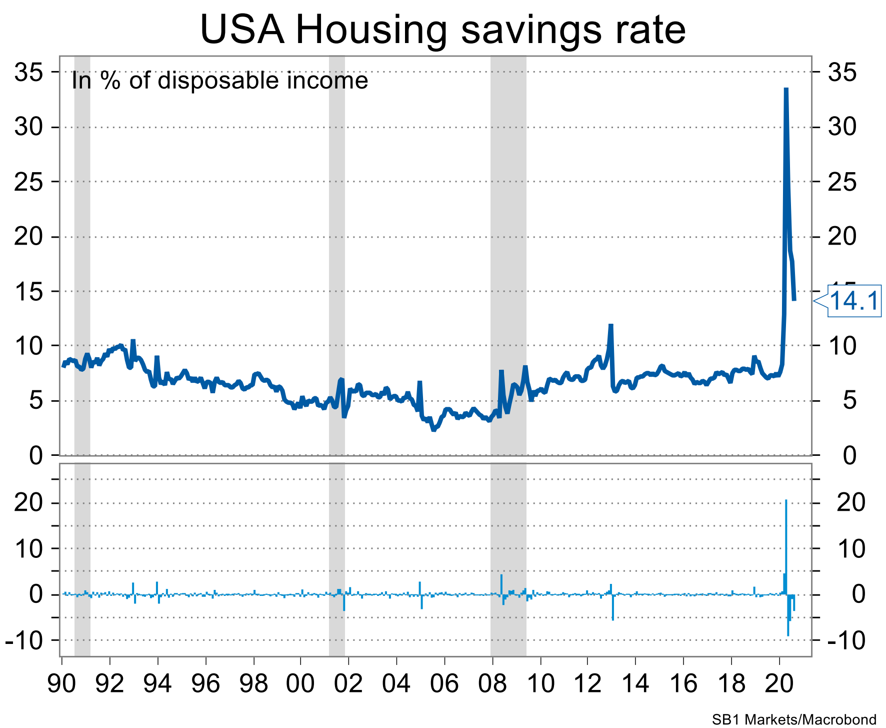
Transfers down after a steep rise, taxes slightly up

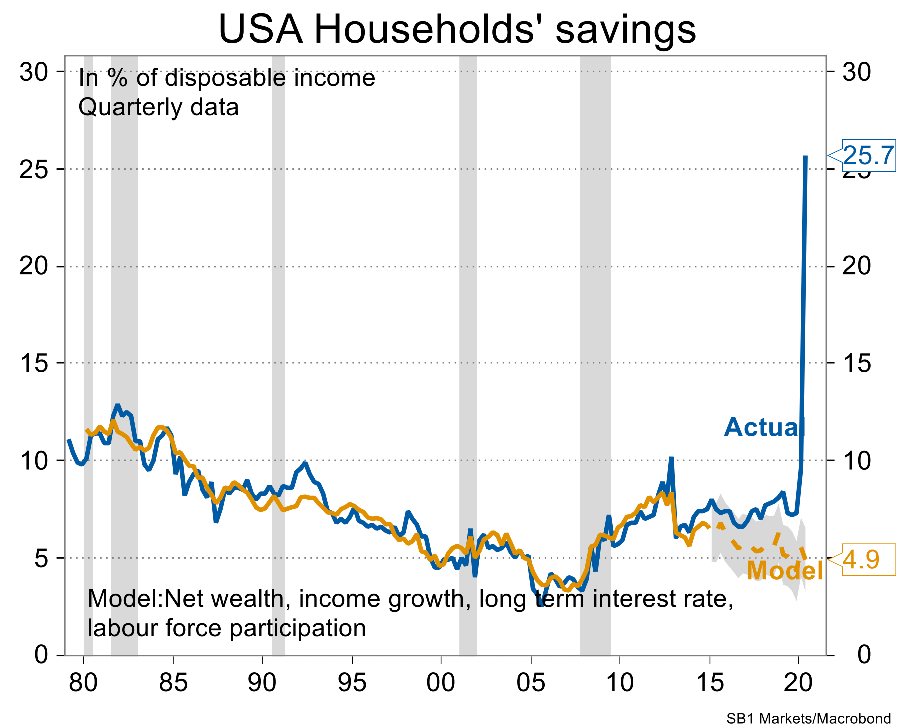




Households savings down to 14% in August, still an incredible high number!

Total spending is down from February, income has been increased rapidly, savings rate is record high

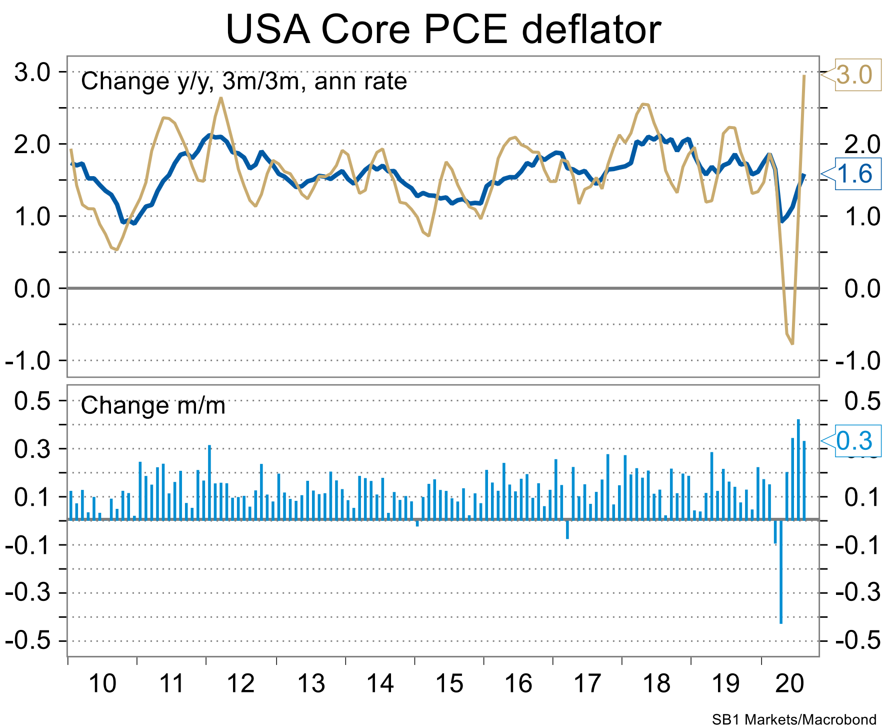


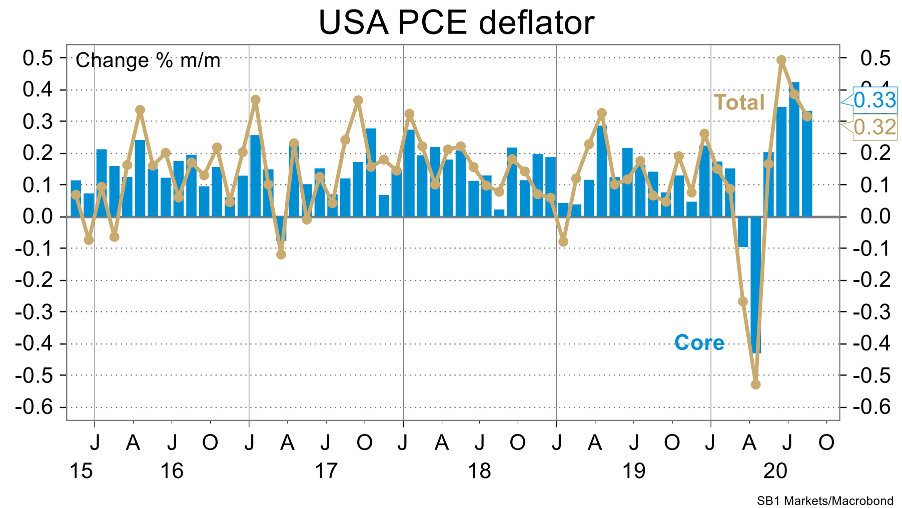


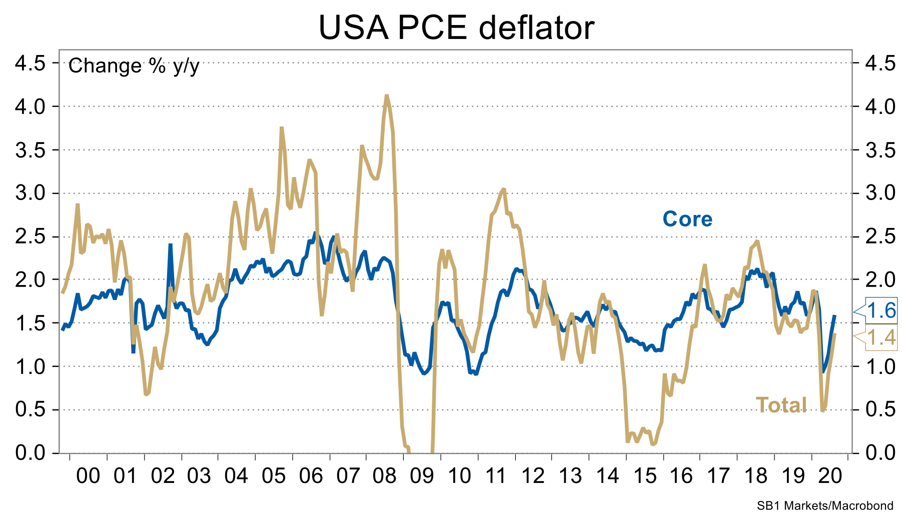
- The savings rate rose to 34% of disposable income at the peak in April, a totally unprecedented number
- The income support increases the probability for a full recovery in spending (or even an overshooting) as soon as the services side of the economy one day fully opens up

Core PCE inflation up to 1.6% in Aug, 0.2 pp above expectations. Headline up to 1.4%

Prices are 'normalising' following the COVID-19 shock, no deflationary pressure to be seen



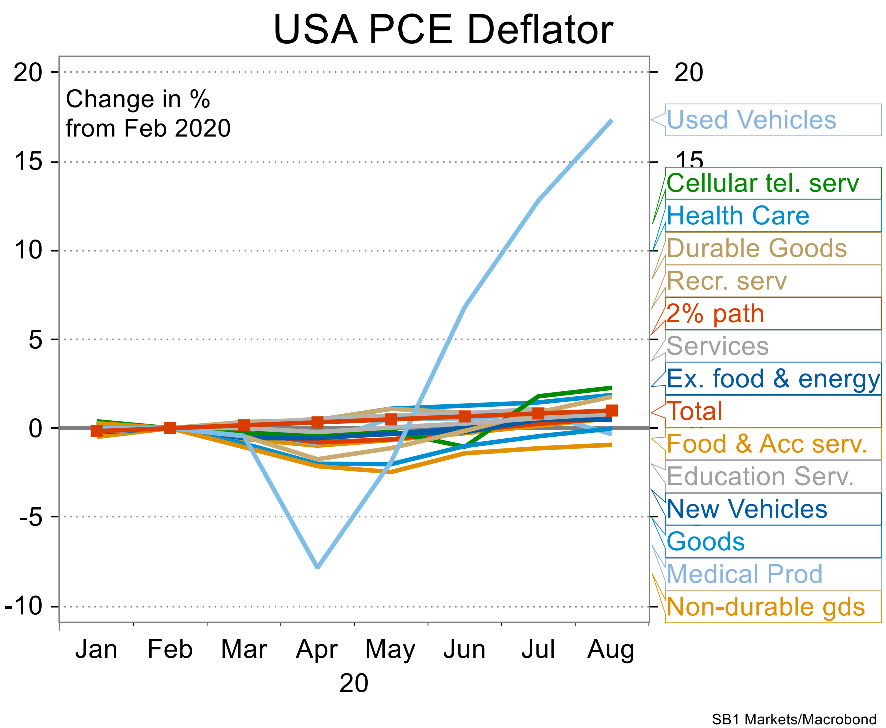


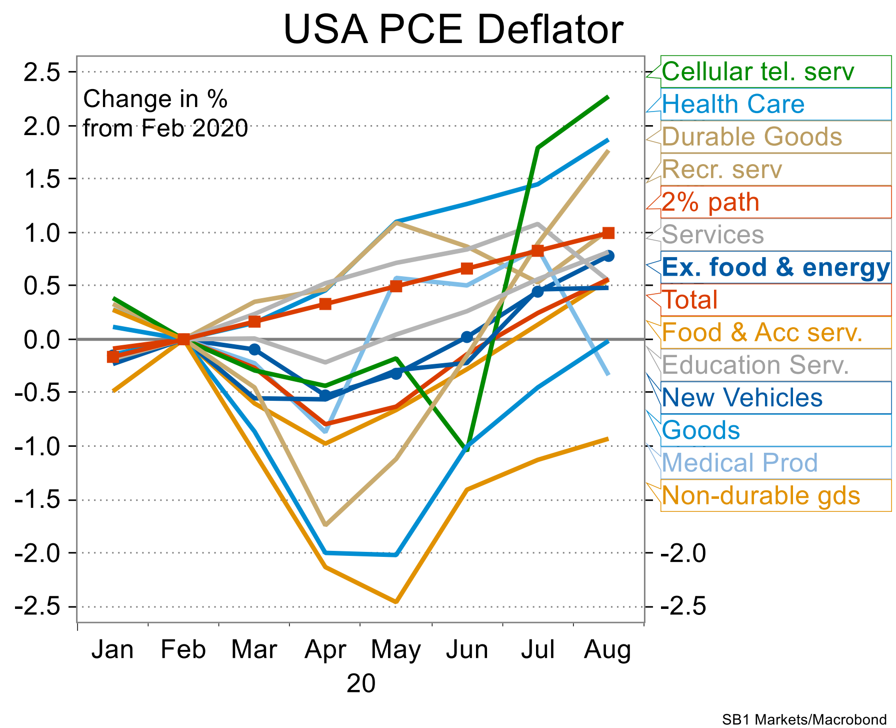


- The core price deflator rose by 0.3% m/m in August
- The annual rate ticked up to 1.6%, a 0.2 pp increase following a 0.1 pp upward revision of July. FOMC assumed 1.5% in Q4 Measured 3m/3m inflation has accelerated to 3%
- Total PCE is up 1.4% y/y, up from 0.5% at the bottom – with contributions also from higher energy prices
- Prices have been recovering in most sectors – and just a few are lower than before corona

Oh Lord, won't you buy me a second hand car… But they are so expensive!

Second hand car prices are up 17% since Feb – after an 8% decline! Most other prices on the way up

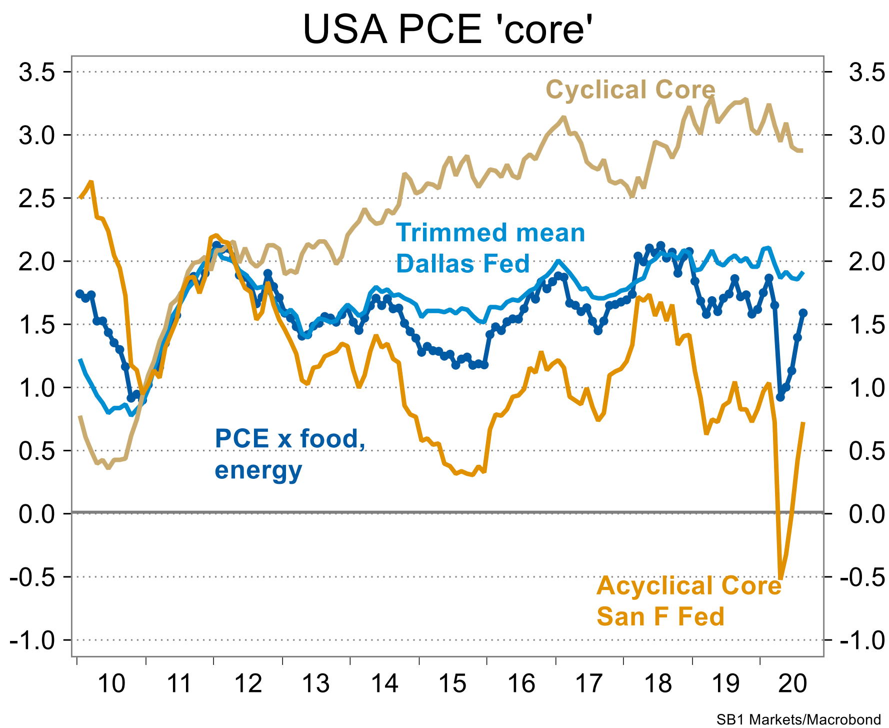


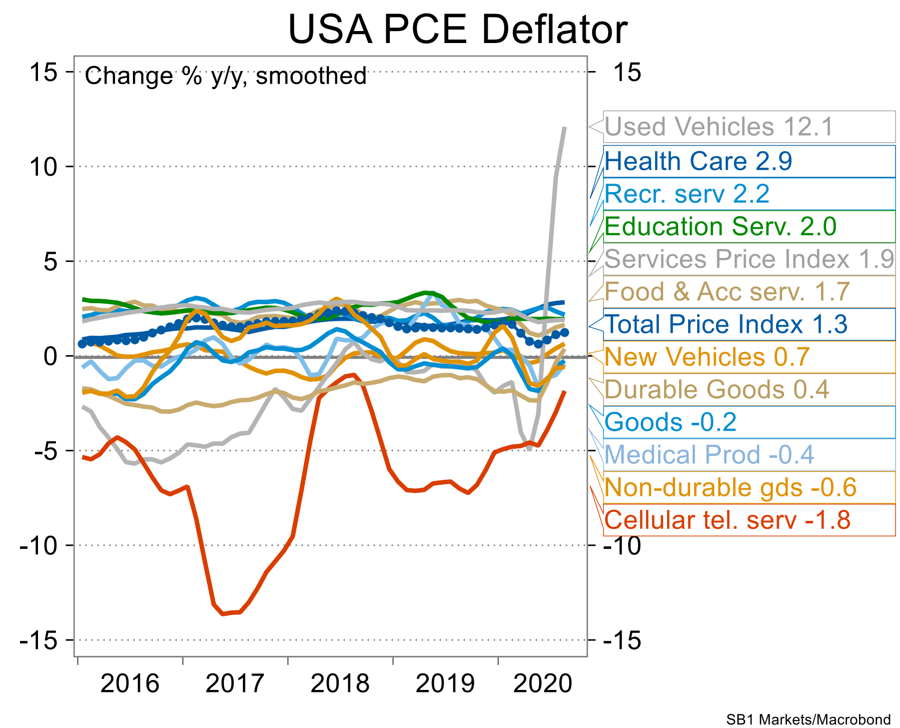


- Just prices on non-durable goods and medical products are lower than before corona
- Starting in February, prices are almost back to a 2% path

The PCE deflator is below par – but not due to the normal cyclical suspects

Cyclical core PCE inflation is heading down but is still at 2.8% - the volatile acyclical index at 0.7%

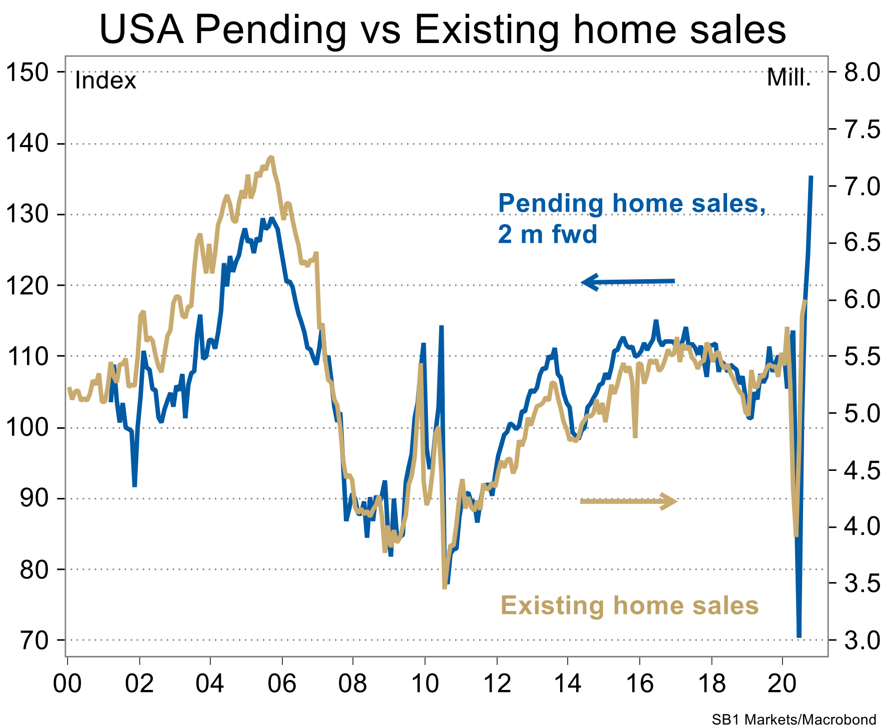


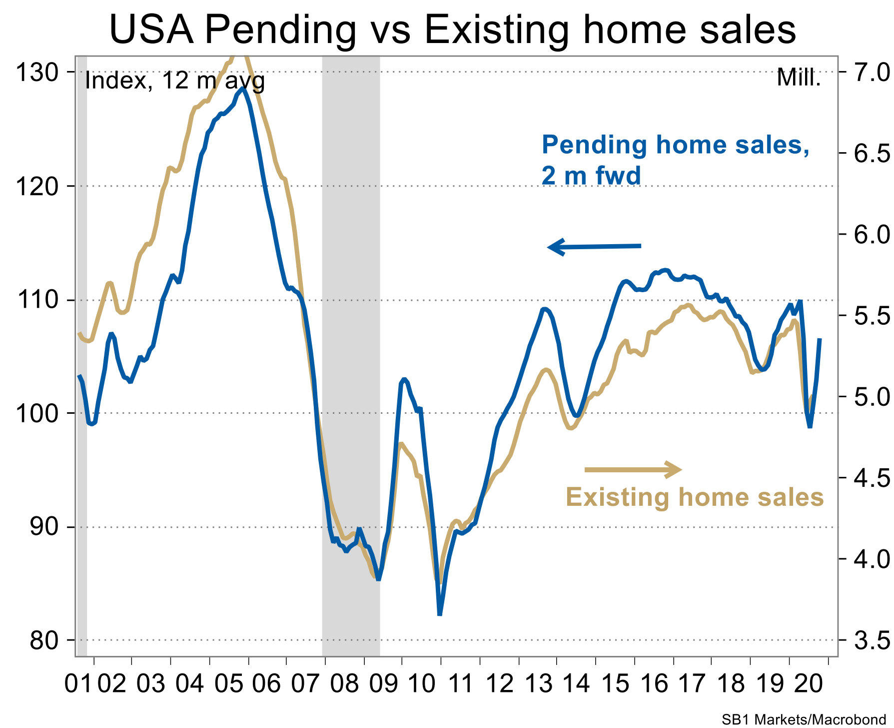


- Cyclical price inflation peaked at 3.3% in late 2019

Pending existing home sales through the roof, highest on record (data from '01)!

Pending home sales rose much more than expected in August, and signals another lift in actual sales

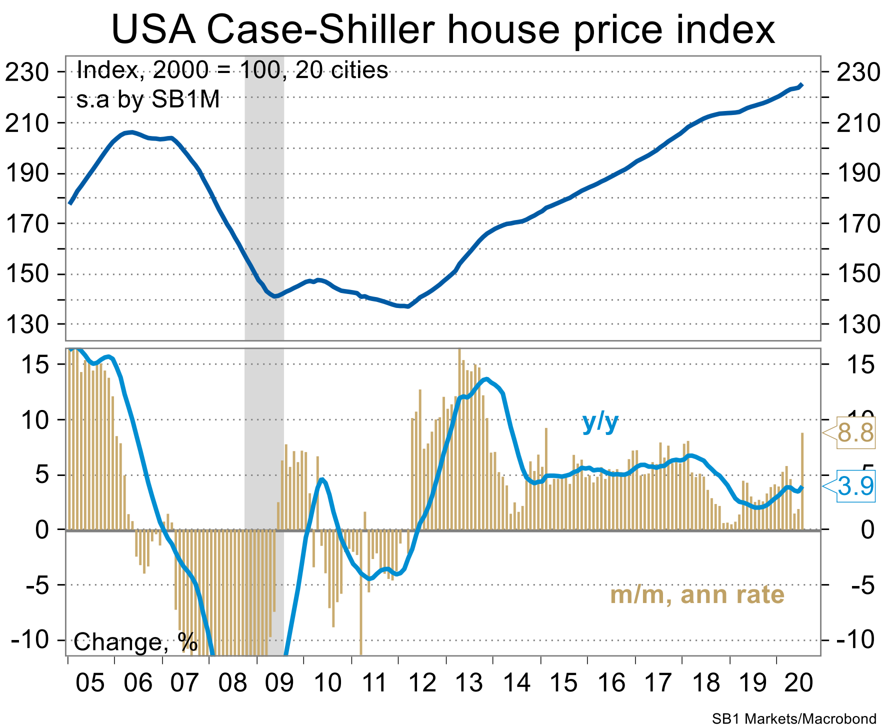


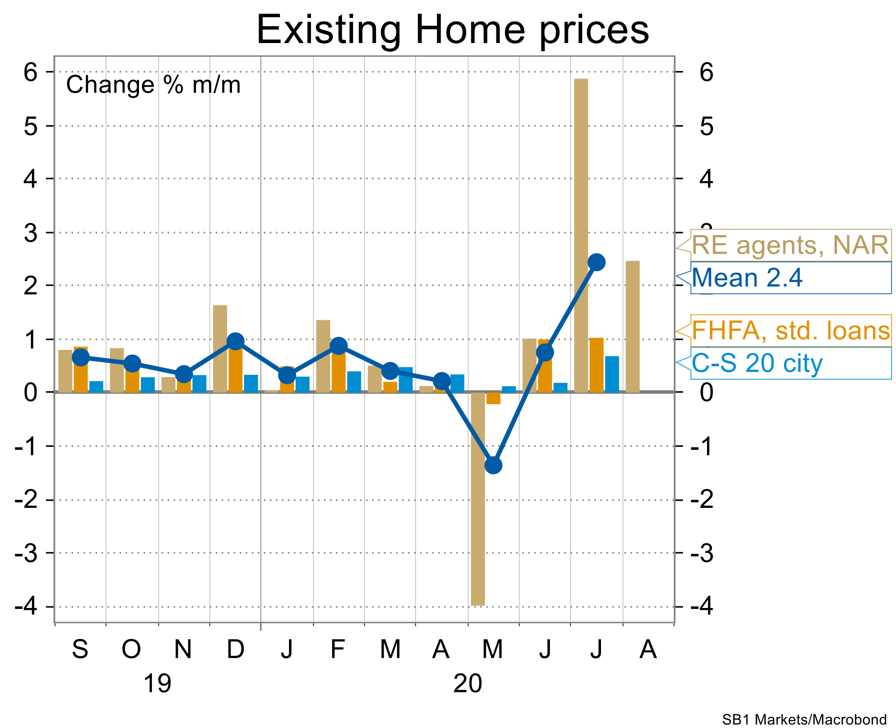


- Pending home sales (existing home transactions agreed upon) jumped 8.8% m/m in August, a 3% lift was expected. This is the 4th month of rapid growth in contracts for home purchases, to 20% above the pre corona level! This is higher than at the 2006 peak and the highest level on record (2001)!
- Pending sales, which are leading actual existing home sales, signals a sharp increase in actual existing home sales, are already at the highest levels since 2008 (but well below the pre 2008 peak)
- The housing market is booming. Low interest rates have no doubt outweighed the negative impacts of the pandemic and the economic setback

House prices are soaring, mean of price indices m/m growth highest on record

C-S prices rose 8.8% m/m (a.r) in July – and the realtors reported the highest growth since 1990!



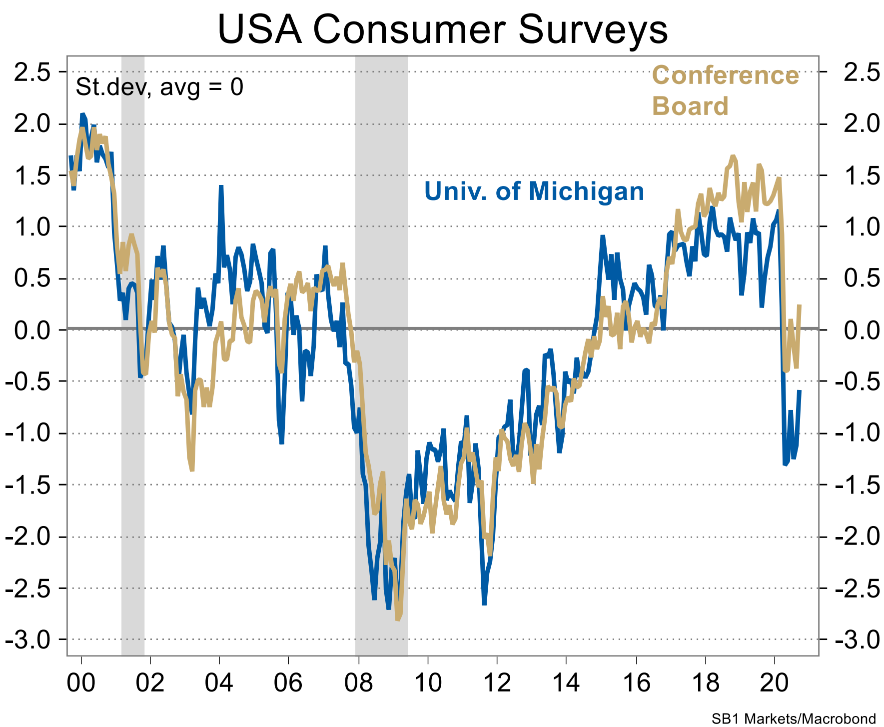


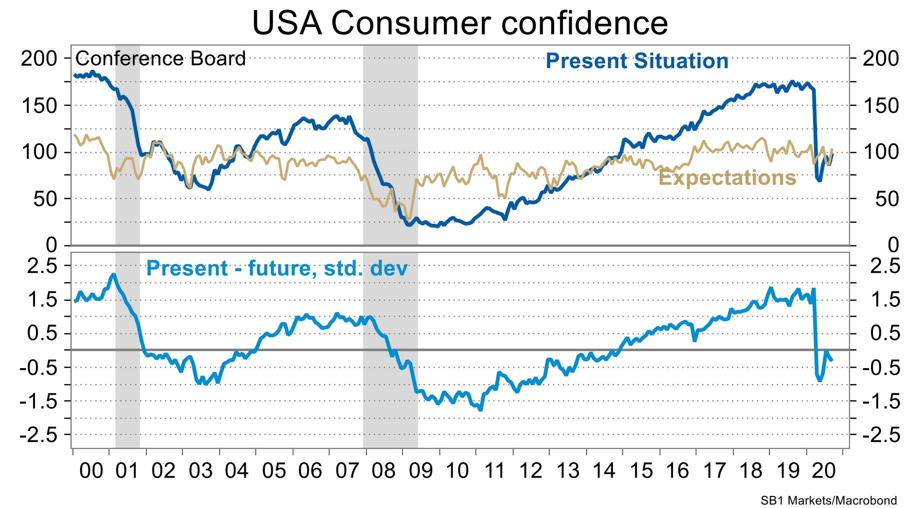
- Case/Shiller's price index rose 0.7% m/m in July (8.8% annual rate), the highest in more than 5 years
- According to the realtors, prices rose by 6% m/m in July (not annualised) and by more than 2% in August, and prices are up 10% since the 4% May drop
  - » The realtor index is a primitive 'raw' index but still, something is probably going on
- The avg of the three price indices was at 2.4% m/m growth in July, the highest on record (data back to 1990)

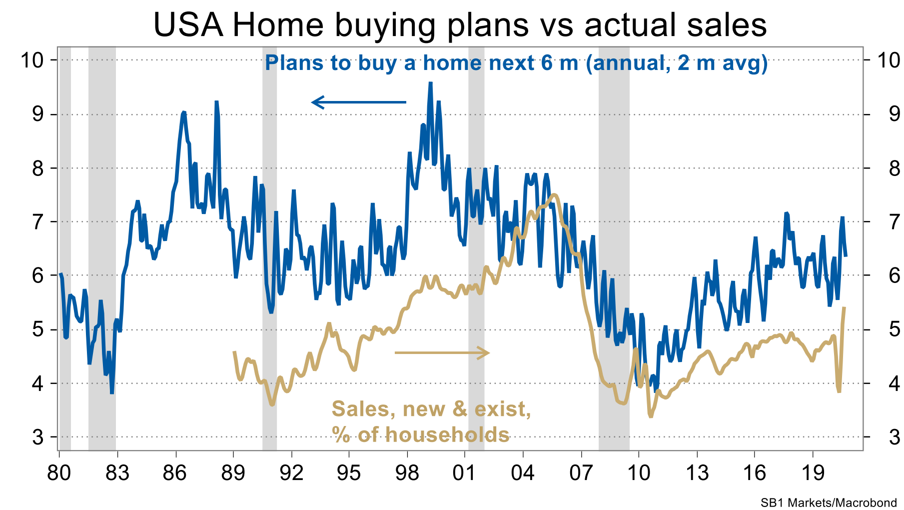
SpareBank 1 MARKETS

Consumer confidence & sentiment rose in Sept, but just one survey above avg

Both Conference Board and Univ. of Michigan reported stronger confidence data



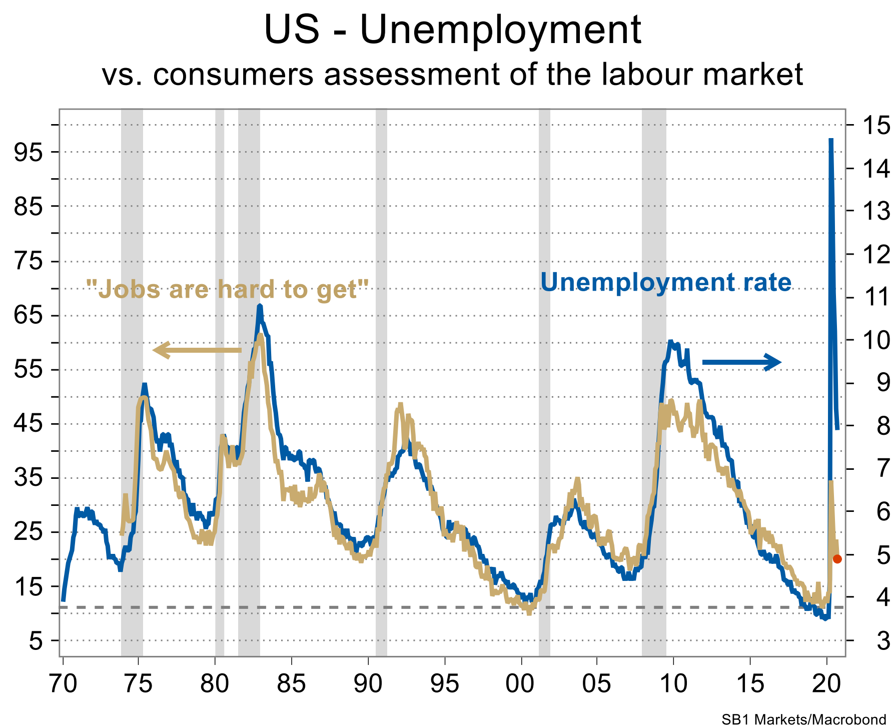


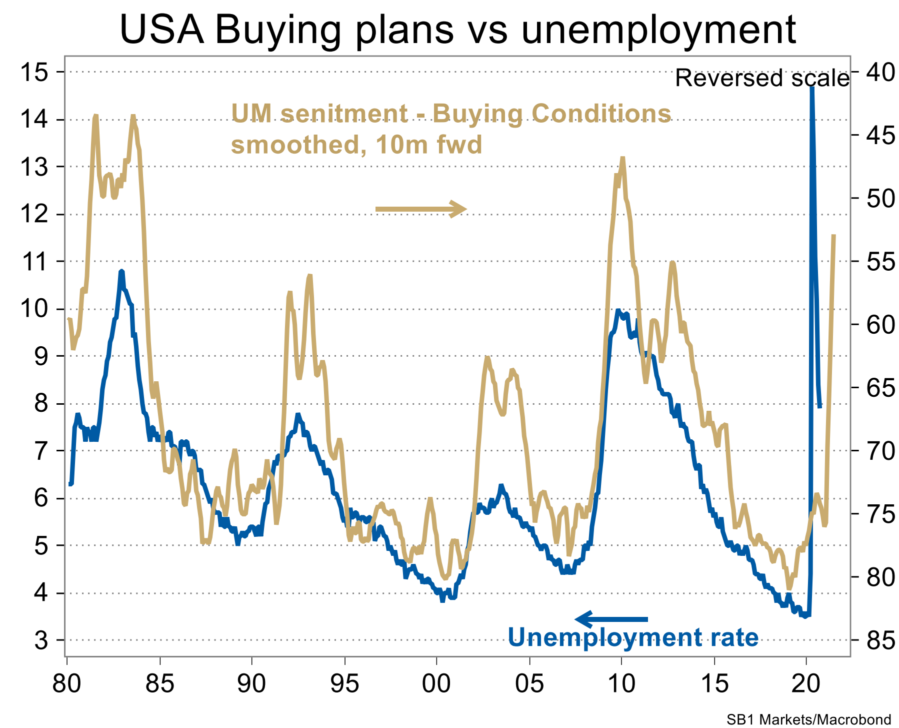


- Given the situation in the US economy & society is perhaps surprising the households' economic confidence is at average level, at least as measured by Conference Boards survey. Univ. of Mich is still reporting weaker than normal consumer sentiment, even after an upward revision of the Sept. survey
- Both households' assessment of the present situation and expectations rose in Sept, according to Conf. Board

The labour market is not far from prefect, according to the households

… as if the unemployment was 5%, not at 8%, the gap has never been larger

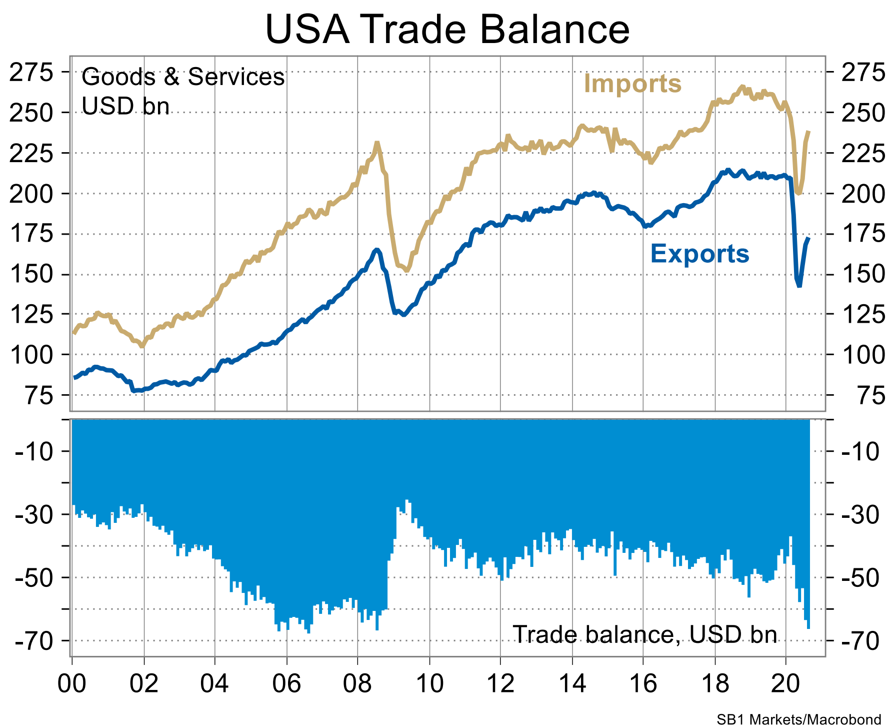


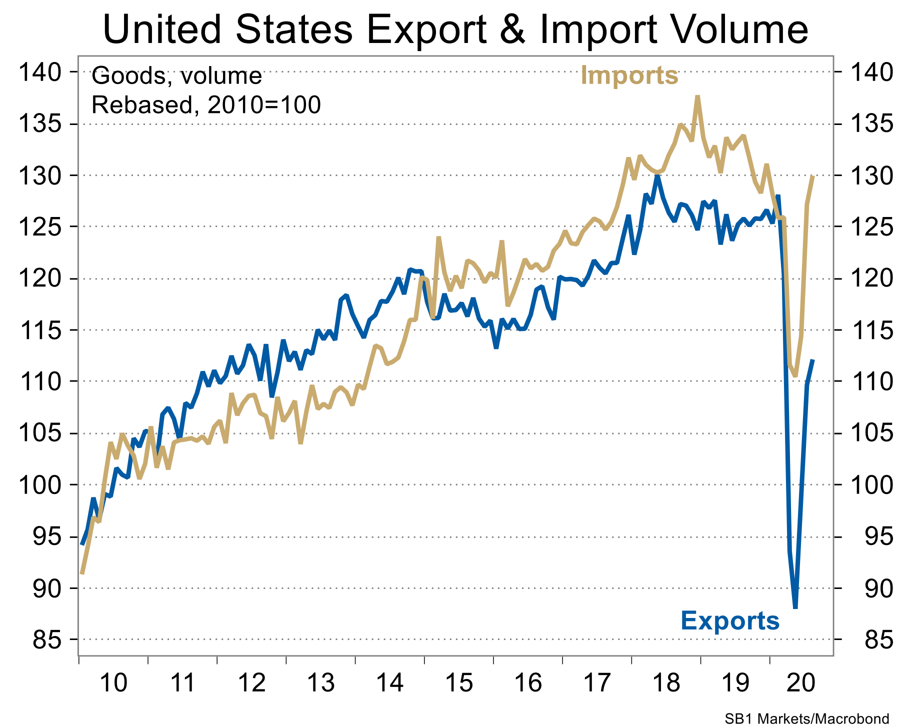


- The 'jobs are hard to get' index from Conference Board has come down to a well below average level
- On the other hand: The measure of buying conditions from UoM has been weakening since mid-2018. This index is usually quite closely correlated to the unemployment rate, leading in average by 10-12 months (with a lower correlation than the jobs assessment). The chart above is surely not encouraging

The trade deficit widens rapidly as exports remain much lower than usual

Import volumes have more than recovered after the corona setback, exports still 13% below

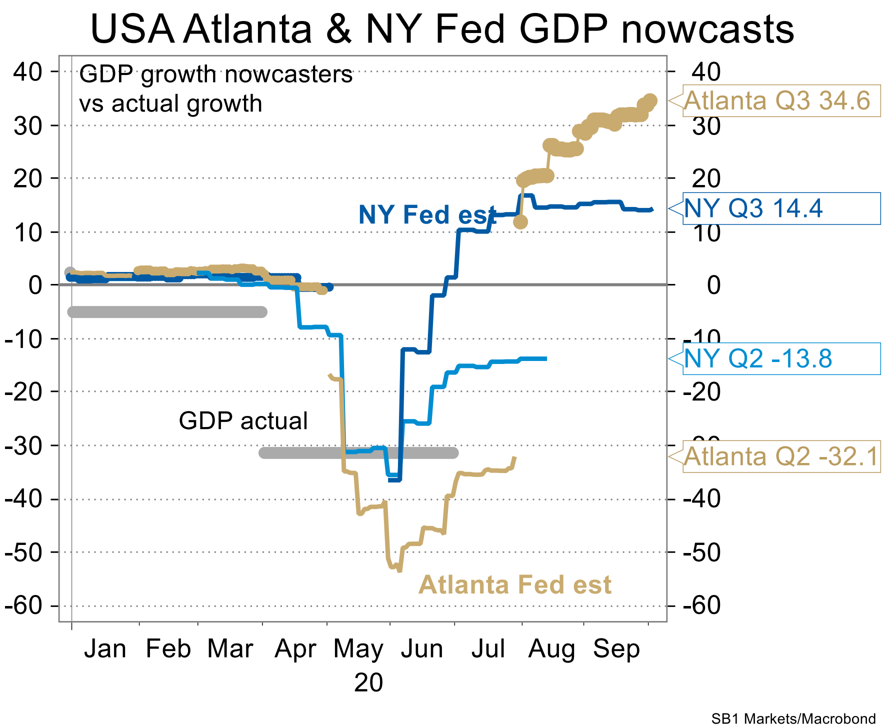


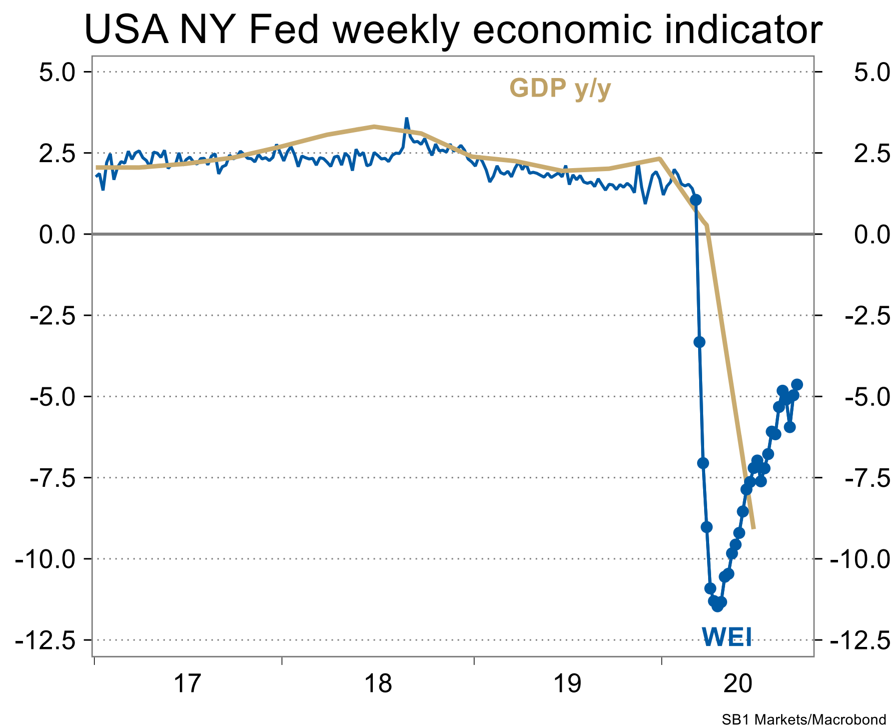


- The trade deficit widened to 66 bn in August. The deficit has increased rapidly during the corona crisis and is now at the widest since before the Financial Crisis
  - » Both imports and exports have turned up since June, however, imports have recovered better than exports, at least vs. the initial decline. In volume terms, imports are now 3% higher than in February, exports still 13% lower
  - » The trade deficit will subtract from Q3 GDP growth (which will anyway note a substantial lift)

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

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

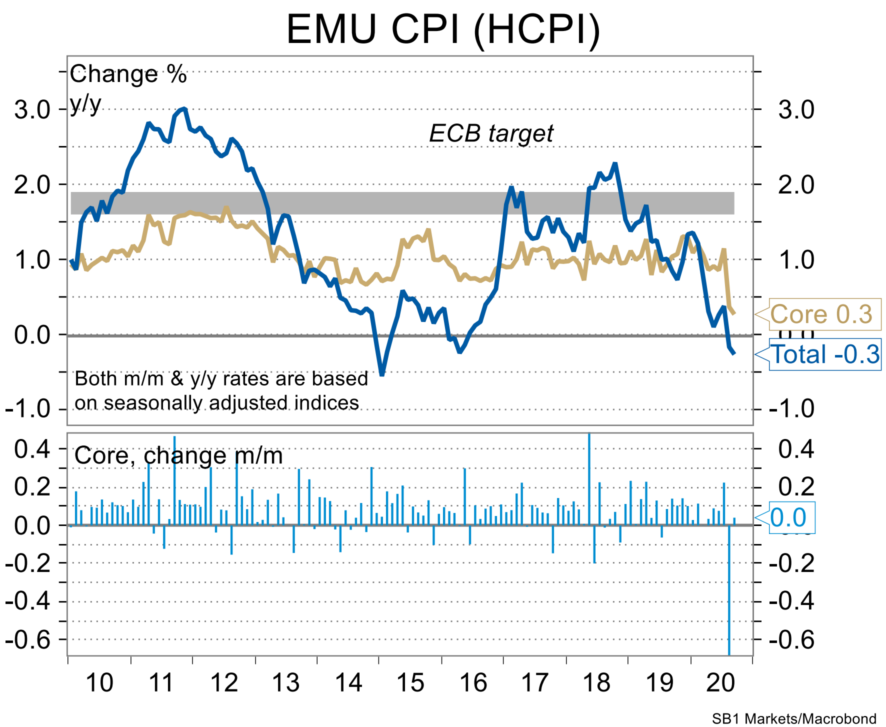


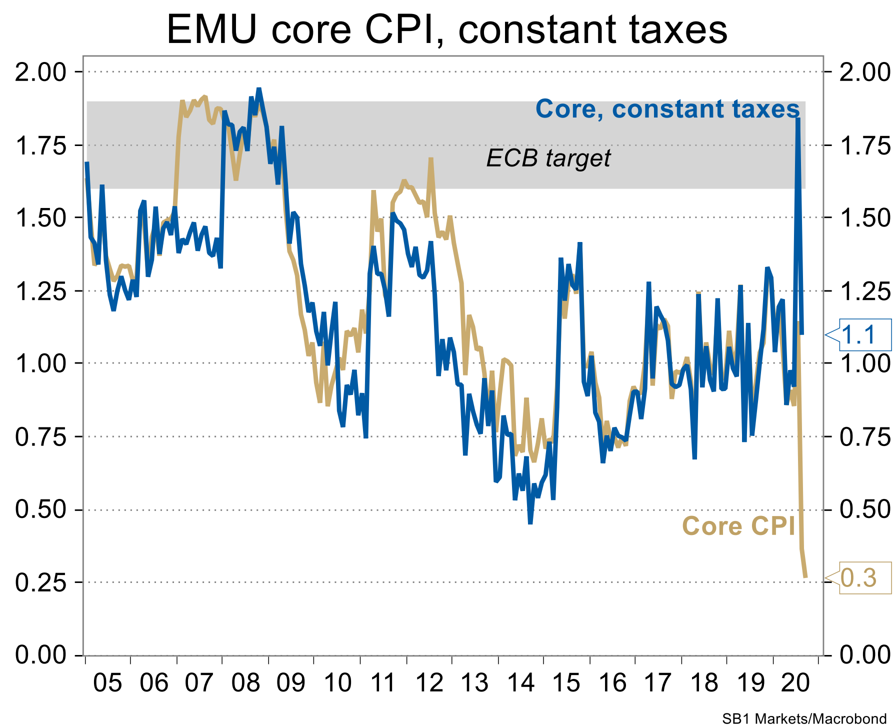


- The nowcasters' Q3 forecasts are still very uncertain - and they don't even get it right after the quarter is done. So for what they are worth, the Atlanta and NY Fed nowcasters reports 15 – 30% growth in Q3 (annualised rate)
- NY Fed's weekly model signal 5.8% lift y/y in Q3 (average of weekly obs 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

Core inflation further down to 0.3% in Sept, total inflation -0.3%

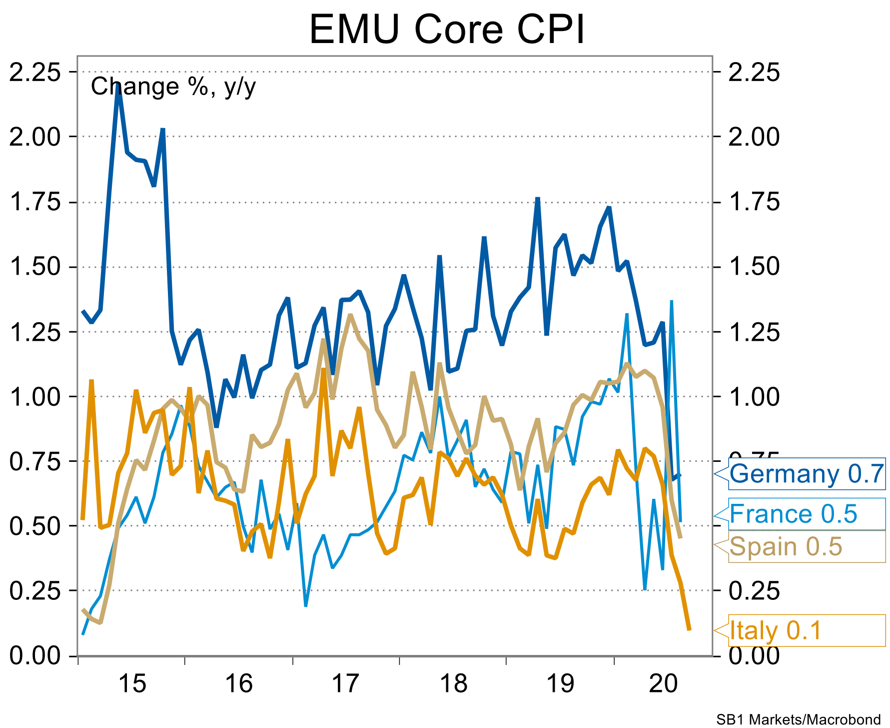
The German VAT cut has lowered EMU inflation by at least 0.7 pp, constant tax HICP at 1.1% in Aug

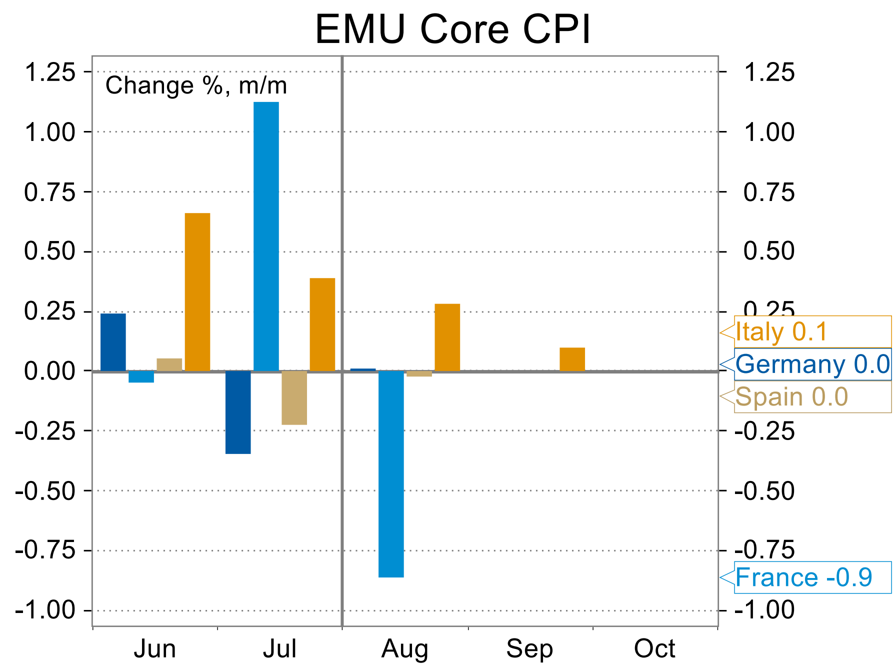


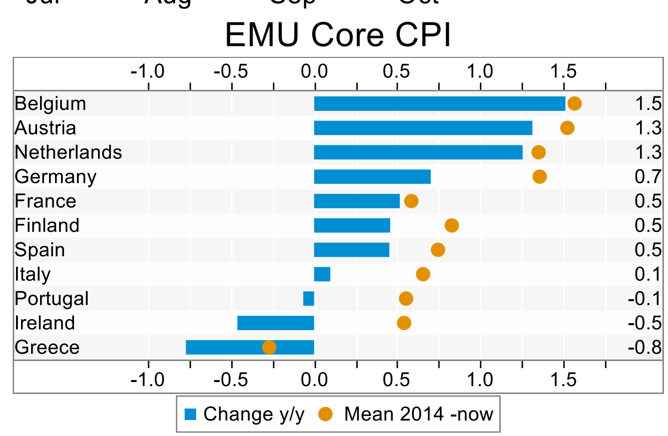


- In September, prices were flat m/m and the annual rate fell to just 0.3%, expected unchanged at 0.4%. Core inflation has fallen in all the major countries. However, the German VAT cut partly explain the slowdown in EMU inflation. The core, constant taxes CPI came in at 1.1% in August (no Sept data), thus, explaining at least 0.7 pp of the decline in inflation
- Energy prices have taken the total CPI down – and the headline HICP was down 0.3% y/y in September. *Good news for European households, and their purchasing power*

Core inflation is low everywhere, Germany and Italy have slower the most

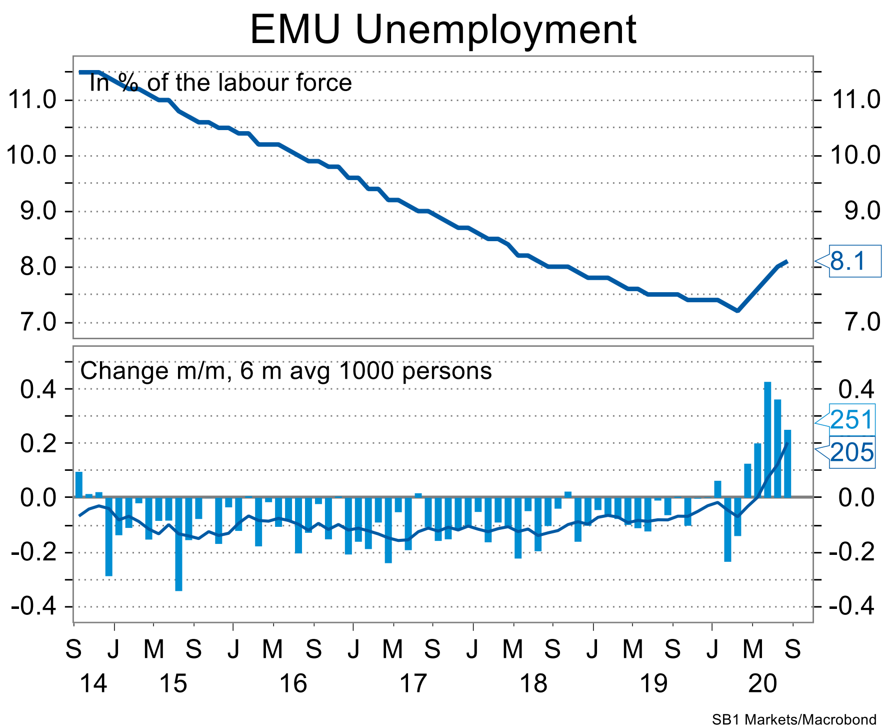


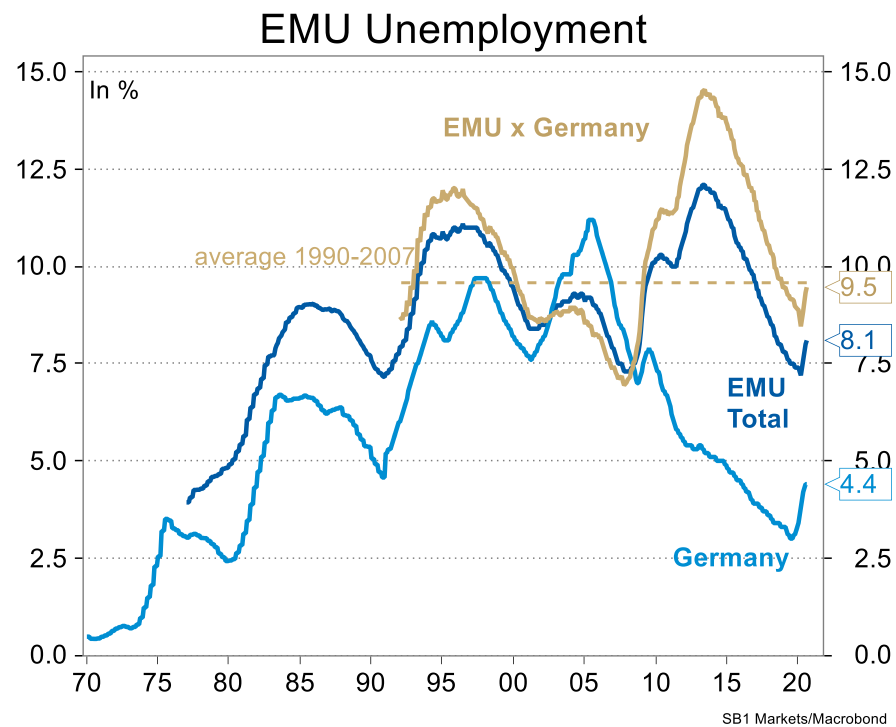




Unemployment climbed to 8.1%, but the real unempl. rate is far higher

Unemployment remains ‘low’ as government are paying companies to keep their employees

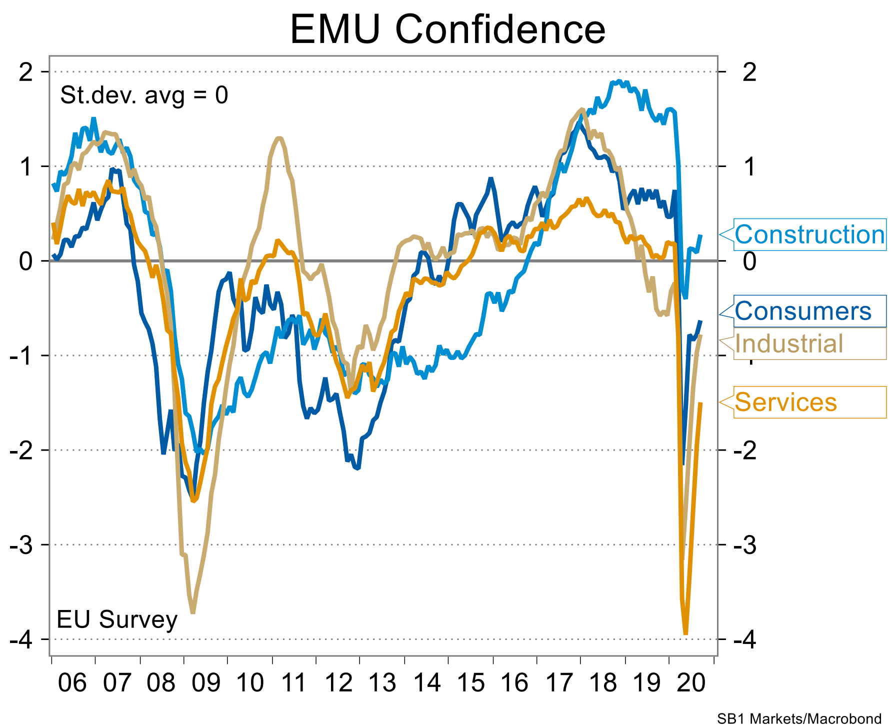


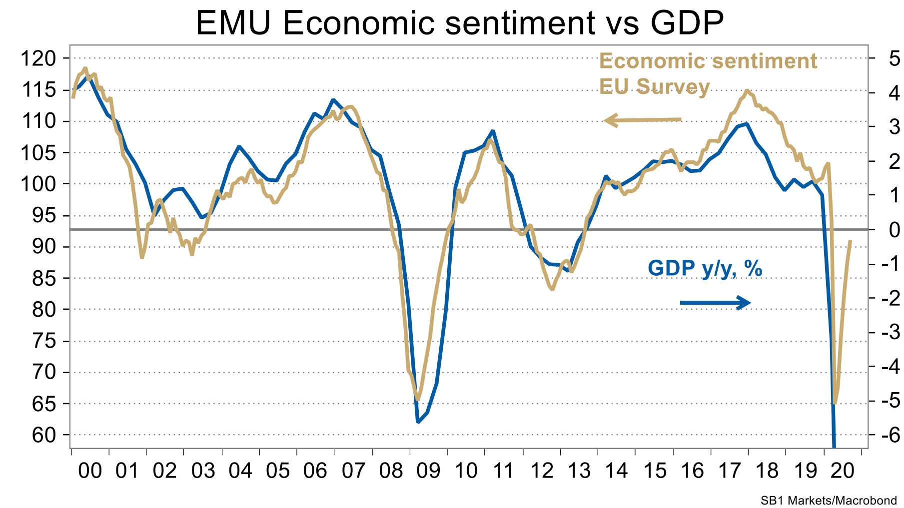


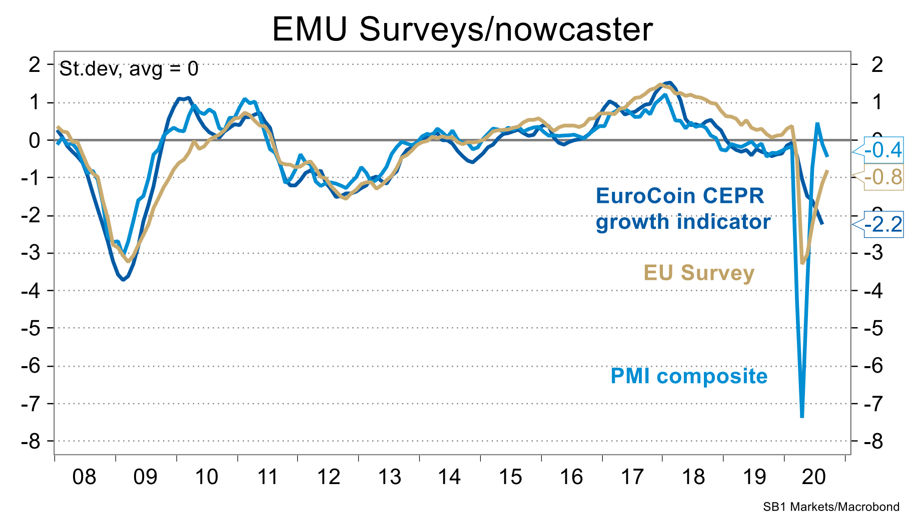
- In August, the number of unemployed rose by 251’, a lower increase than in June & July
- In Europe, companies are partly paid to take care of their workers during the lockdown. These government employment programmes are no doubt masking much weaker ‘real’ labour market conditions
- Moreover, those who are furloughed are not counted as unemployed the first 3 months in the labour force surveys (like in the Norwegian ‘AKU’), thus, the unemployment rate has been lagging the past months

EU economic sentiment moving slowly up, formally still indicating a GDP decline

Just construction is above par in September, other sectors struggling



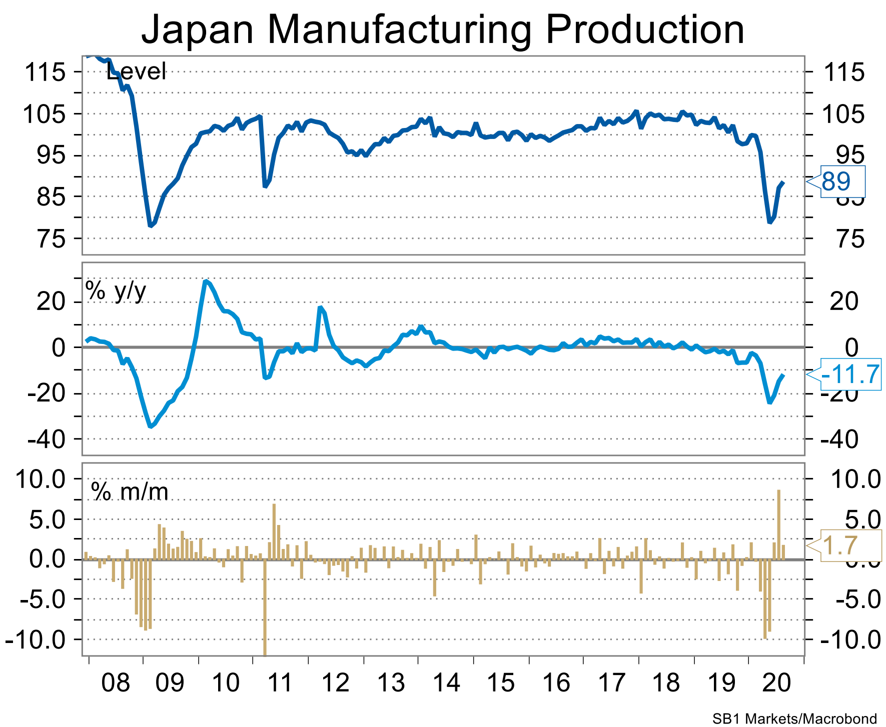


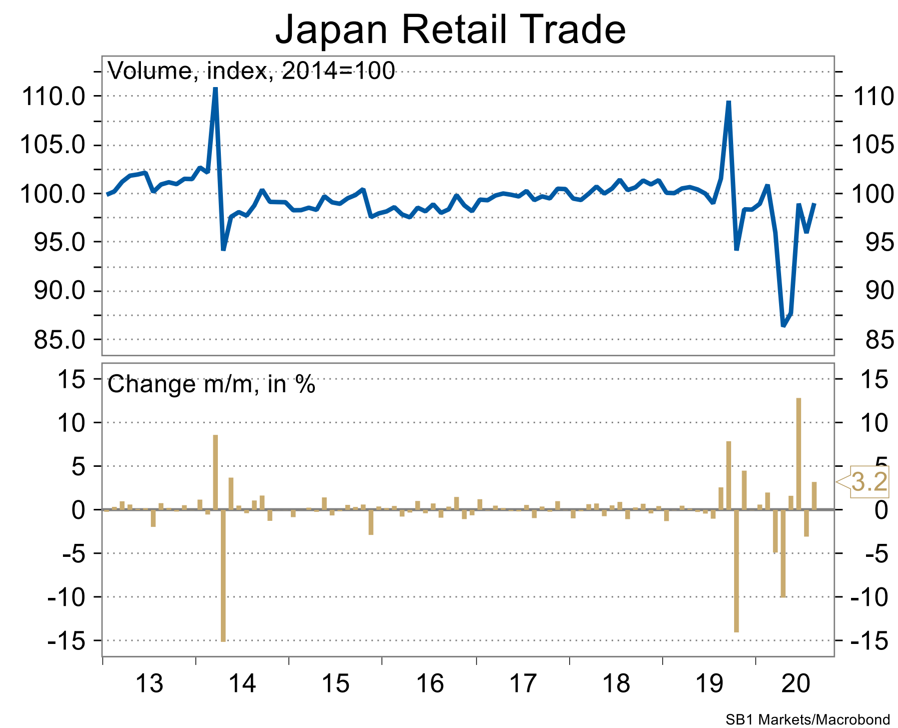


- The confidence survey rose more than expected in Sept, to an index at 91.1 (up from 87.7, expected 89)
- This survey is still probably too downbeat vs actual growth now, given all the real economic data we have seen so far
- However, it is likely that growth has slowed substantially compared to the rapid re-opening rally in May-June, even if the survey is sharply up

Manufacturing production slowly on the way up, level still low. Retail sales OK

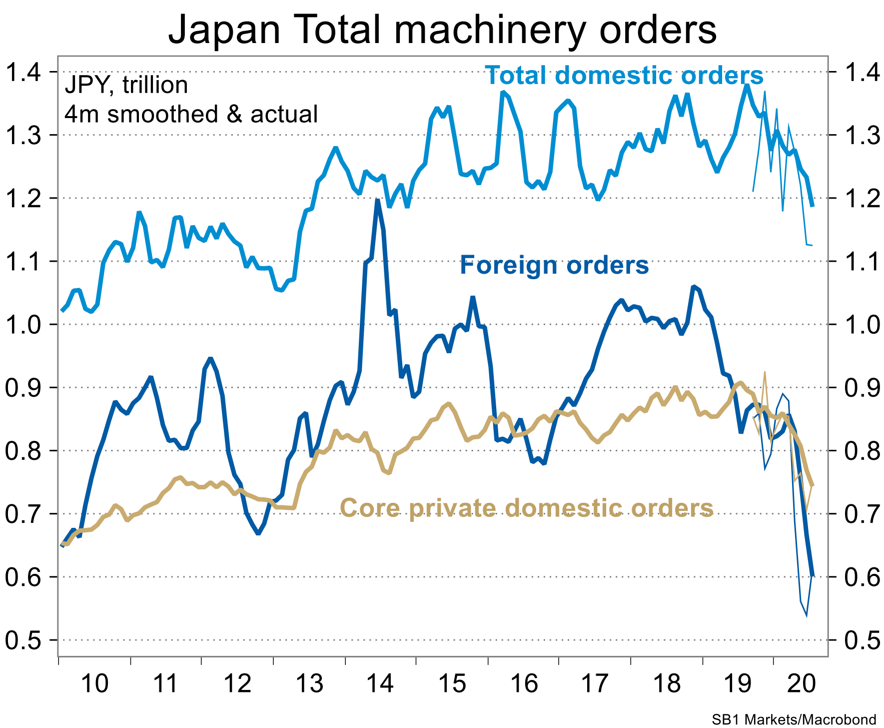
Manuf. prod up 13% June-Aug, still 11% below the Feb level. However, retail sales just 2% below

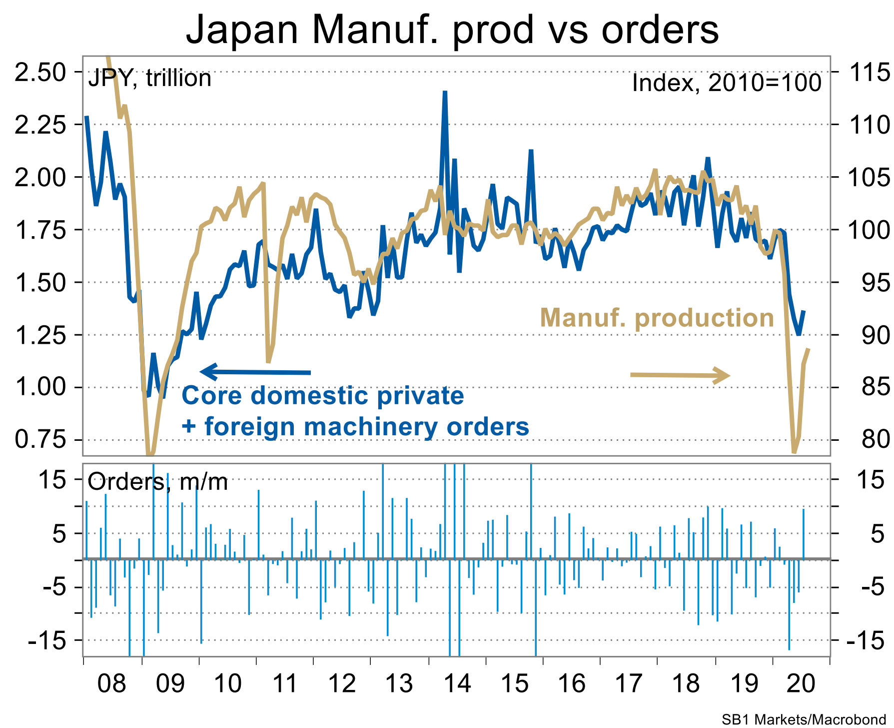




- Manufacturing production rose 1.7 % m/m in August, expected up 1.1% (and the lift in July was even higher than first reported, at 8.6%. Still, the production level is far below normal. The PMI and other surveys are still at low levels, formally signalling a decline in activity, which has not been the case since May, growth has been record high
- Retail sales rise 3.2% in August, expected up 2.0%. Sales have almost fully recovered, and are now just some 2% below the Feb level. However, sales were already weak before corona hit, the trend since last autumn (where the VAT rate was lifted) is not encouraging

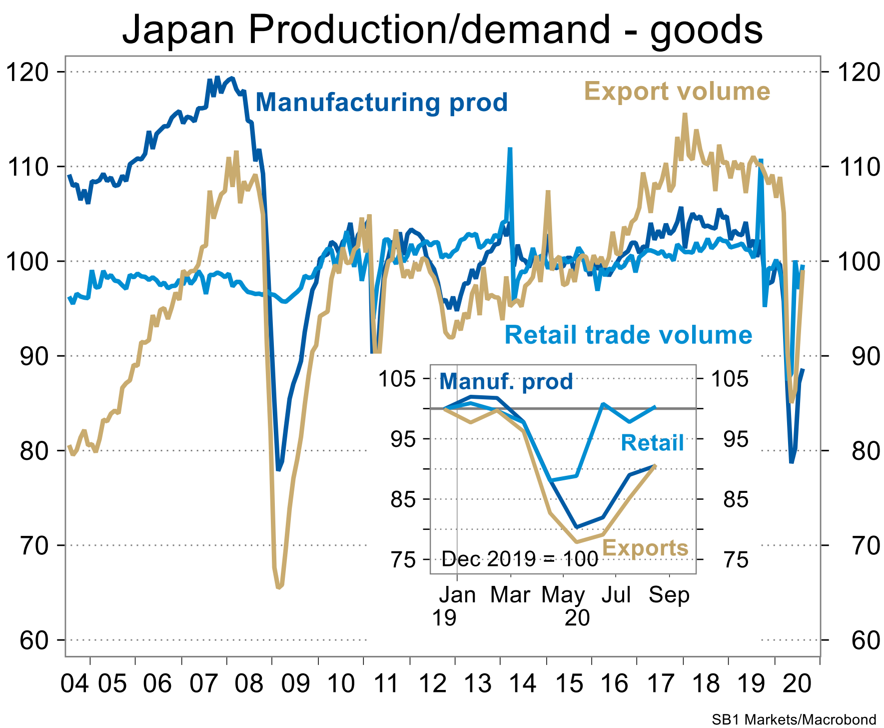
Order inflow remain weak too, both domestically and from abroad

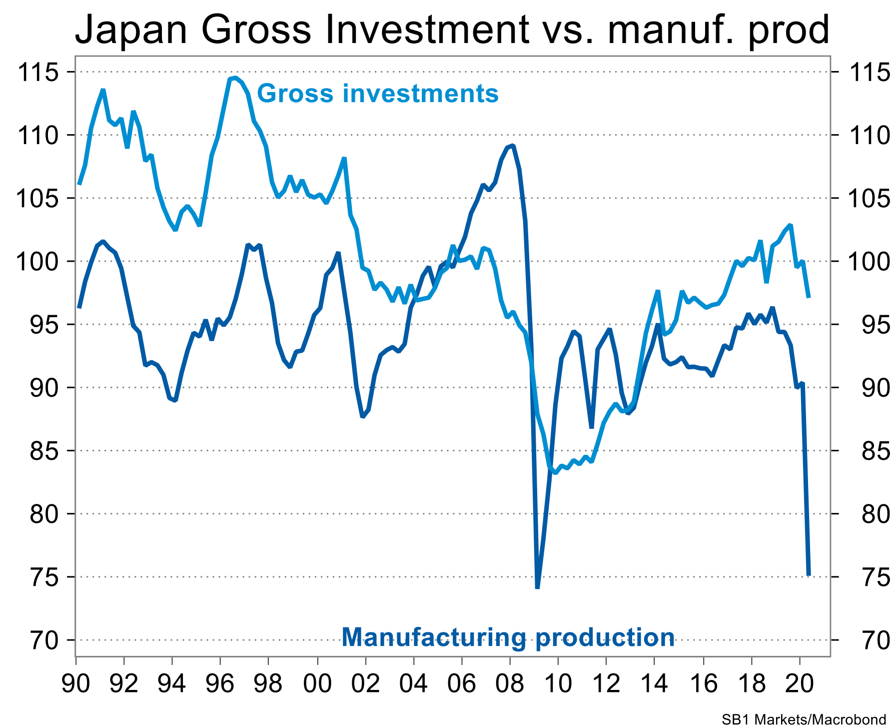




Should manufacturing production recover further? Probably

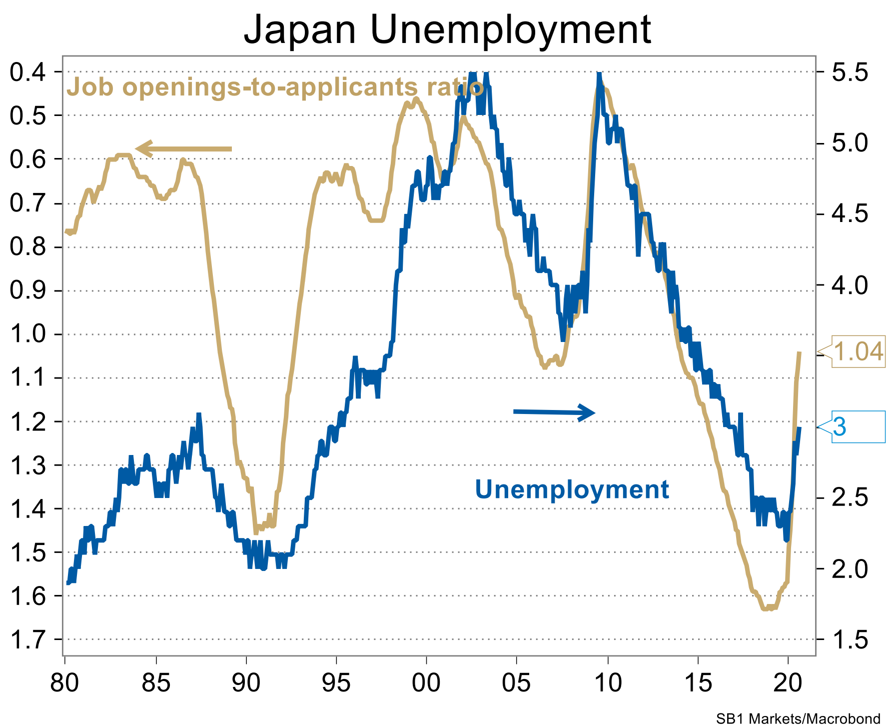
Retail sales are back, and investments were not that weak in Q2. Exports are recovering too

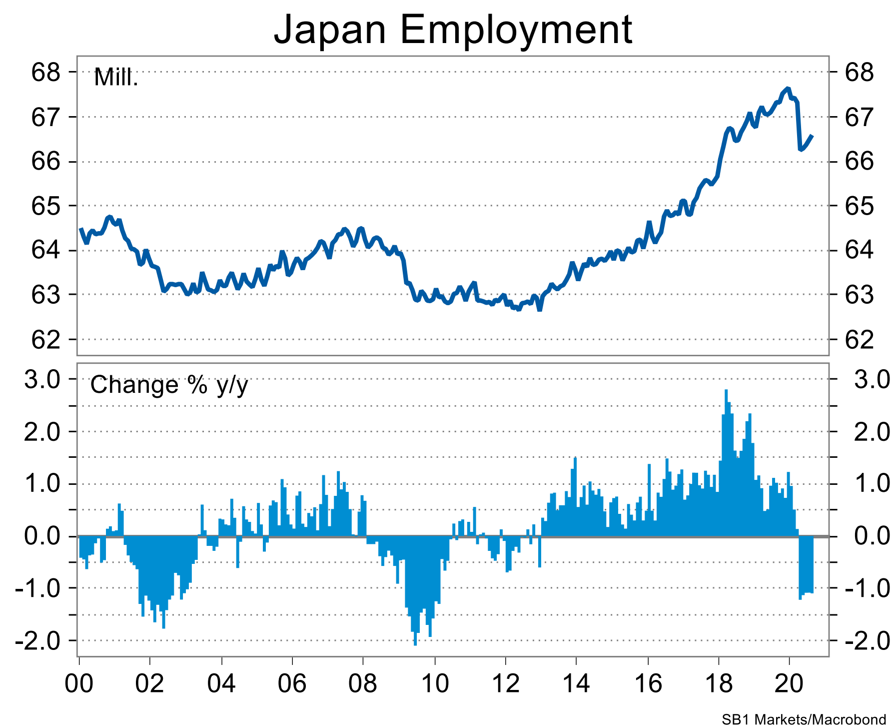




Unemployment up to just 3%, must be much higher?

Unemployment up to 3% from 2.4% before corona, employment down

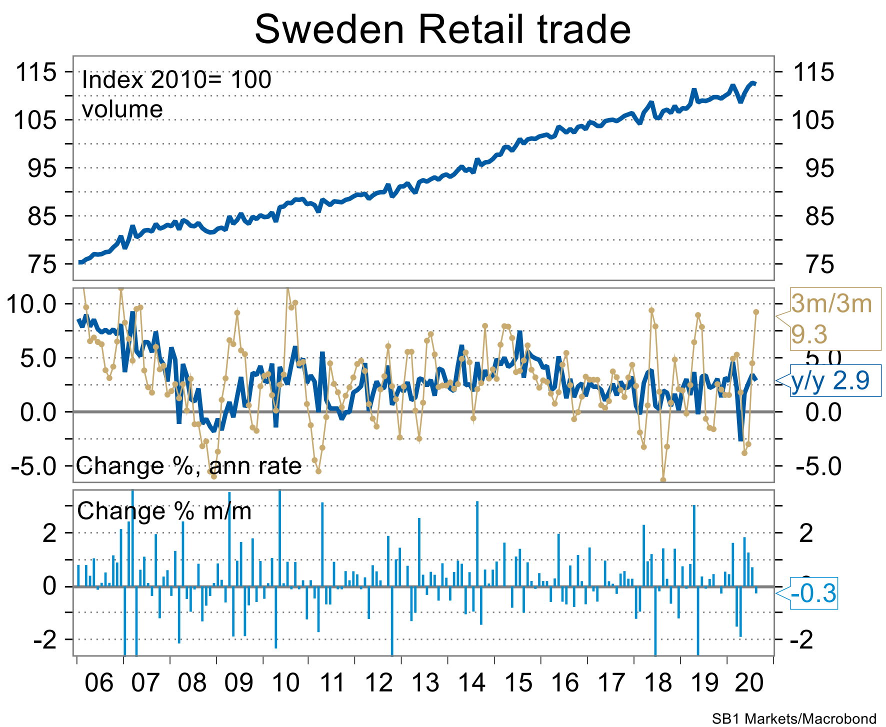


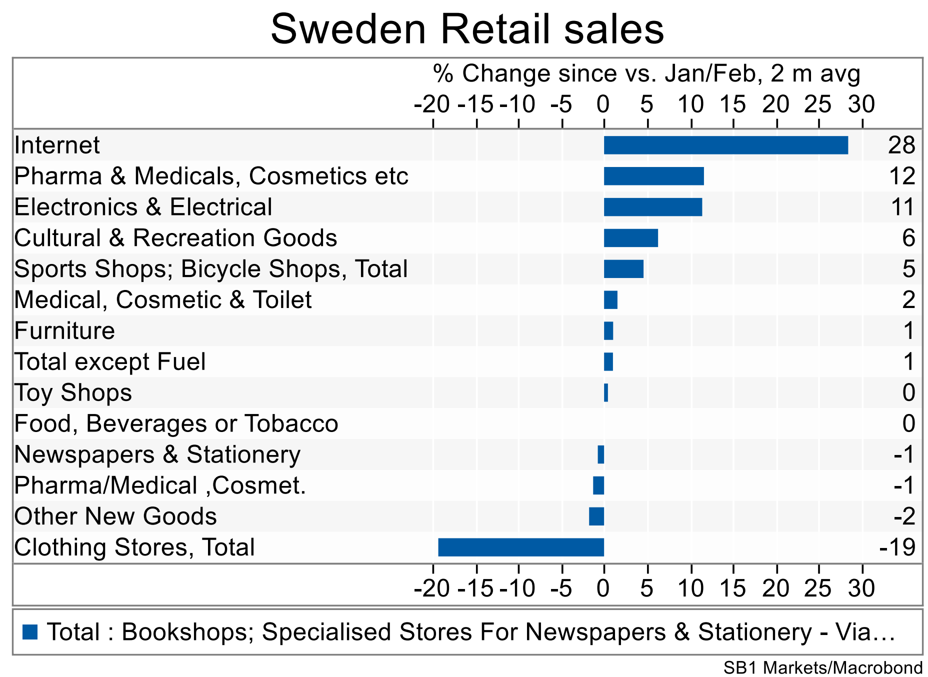


- The job openings-to-application ratio has turned up more steeply

Retail marginally down in August, no boom like in Norway

Rather a muted increase compared to most other countries

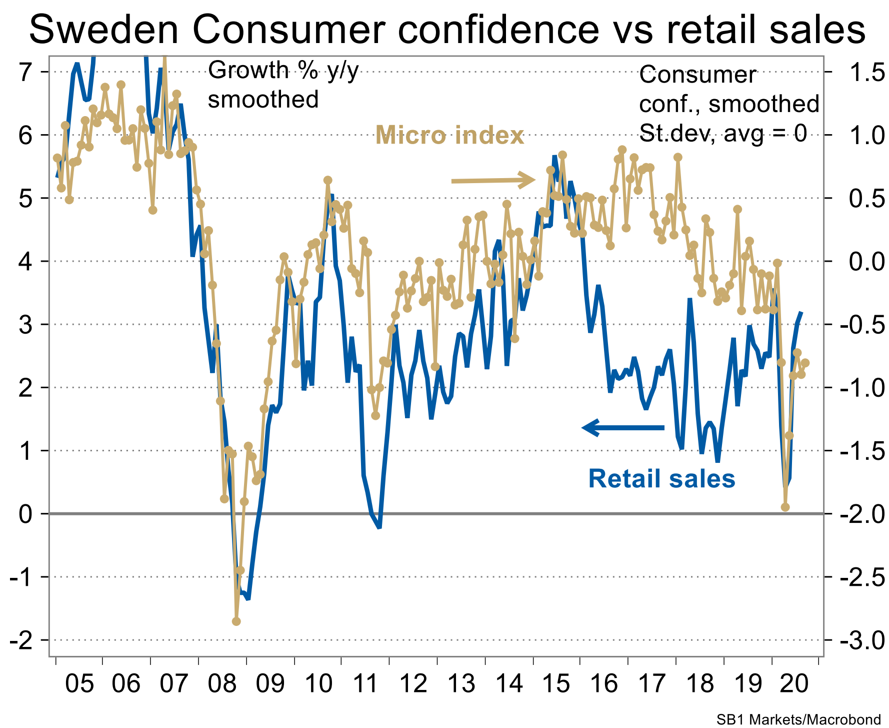


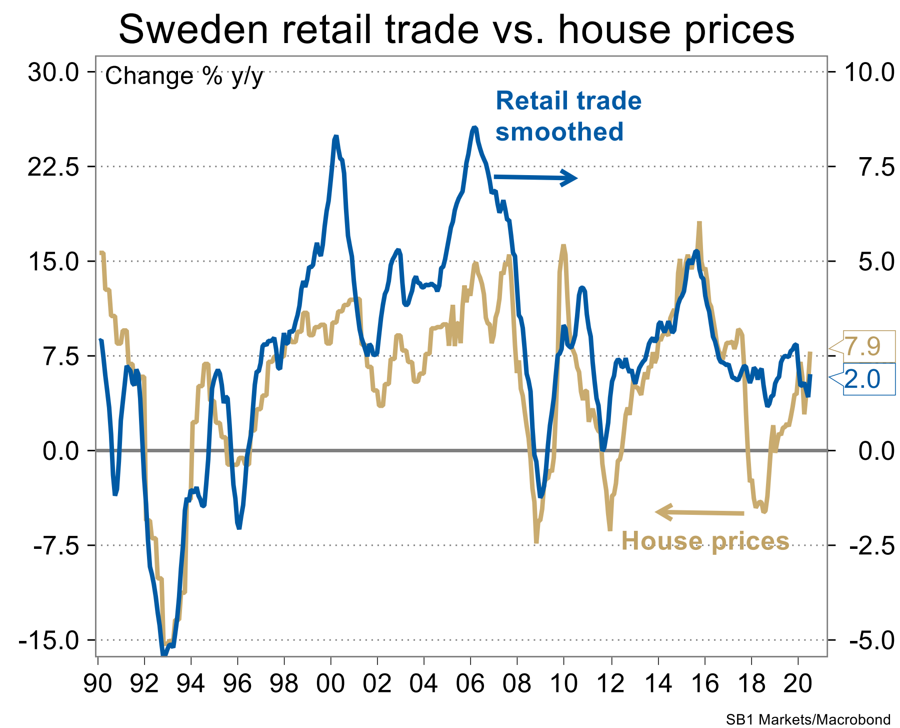


- Huge sectoral differences, though not as wild as in Norway. Clothing is still down 20% vs Jan/Feb. Sports up 5%
- Service consumption is sharply down, but less than in Norway
- Total consumption is down 9%, as in Norway

Consumer confidence steady at well below par

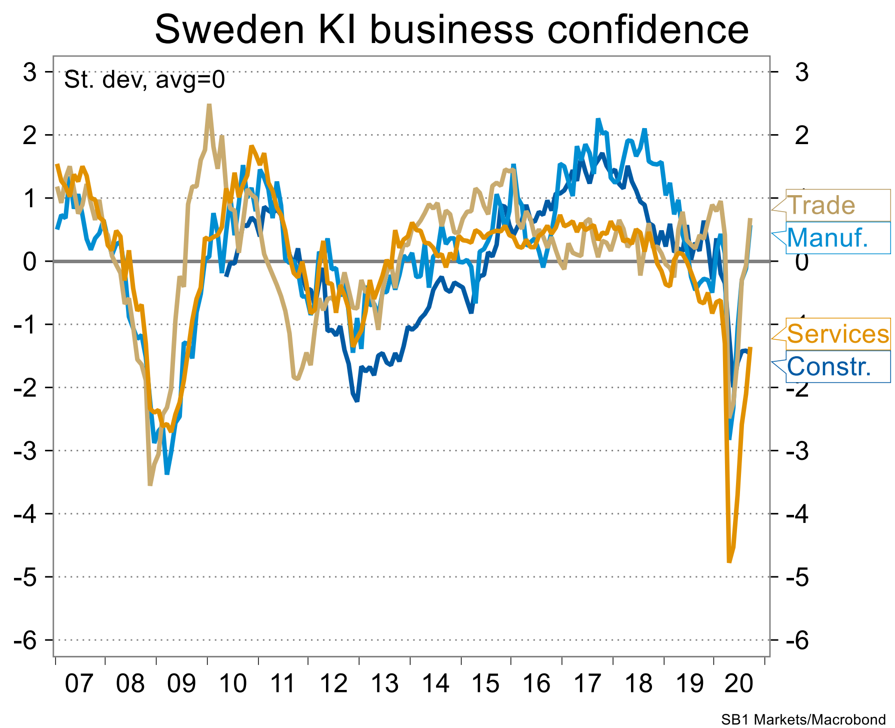
Retail sales have recovered and the housing market is booming – but consumers are not upbeat

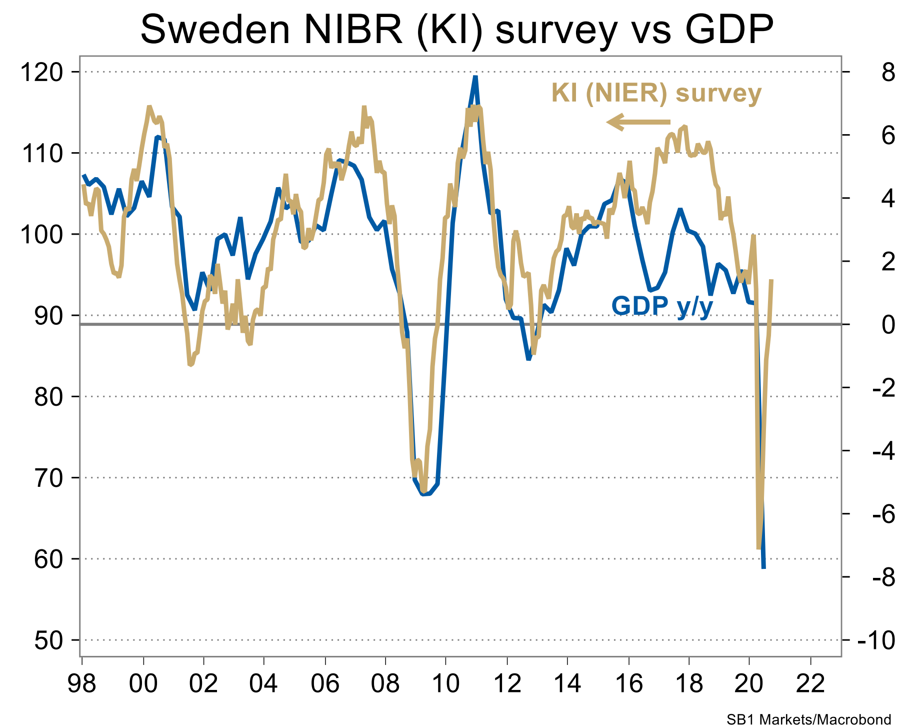




KI business survey signalling a modest recovery

Manufacturing and trade are back at/close to pre corona levels, services still struggling





- The composite index signals just below 2% growth in Q3 GDP – which is very modest following the 7.7% drop in Q2. However, the survey has not been a very good growth indicator the past few years (it has been far too optimistic)
- Services are still reporting a weak sentiment. Construction not upbeat either, in spite the housing market upturn.
- Trade and manufacturing have both recovered

Highlights

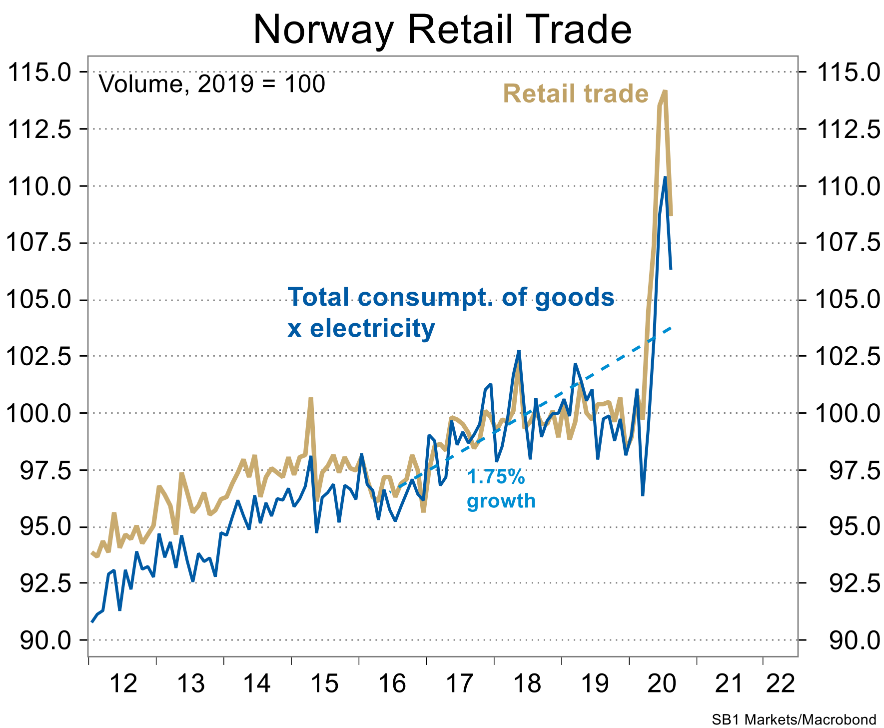
The world around us

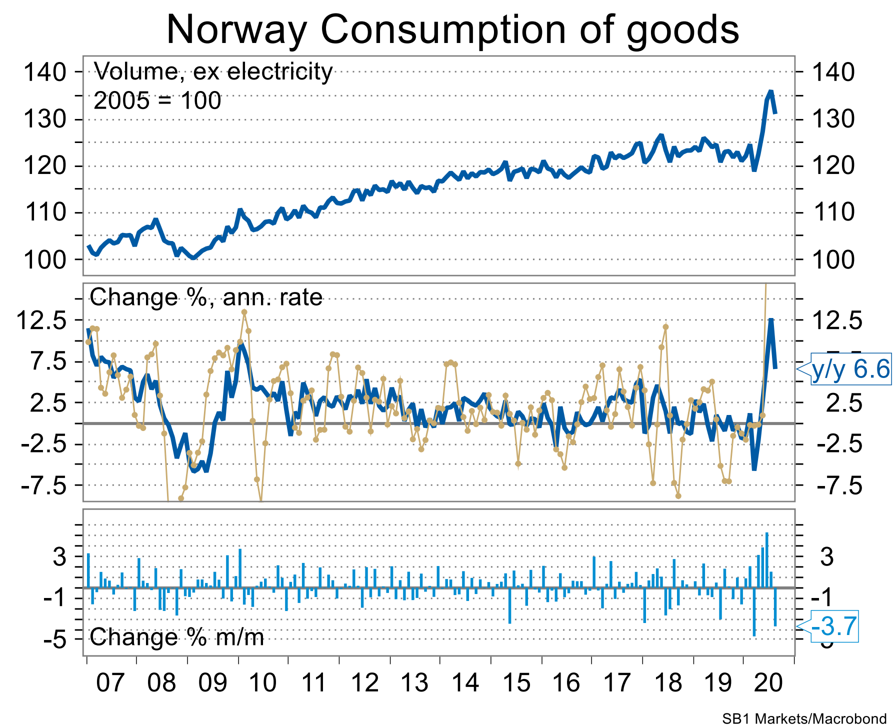
The Norwegian economy

Market charts & comments

Retail sales down 5% in August, more to come – sales are still up 9% vs. 2019

The steep growth in the summer was of course not sustainable, will return towards a 'normal' level

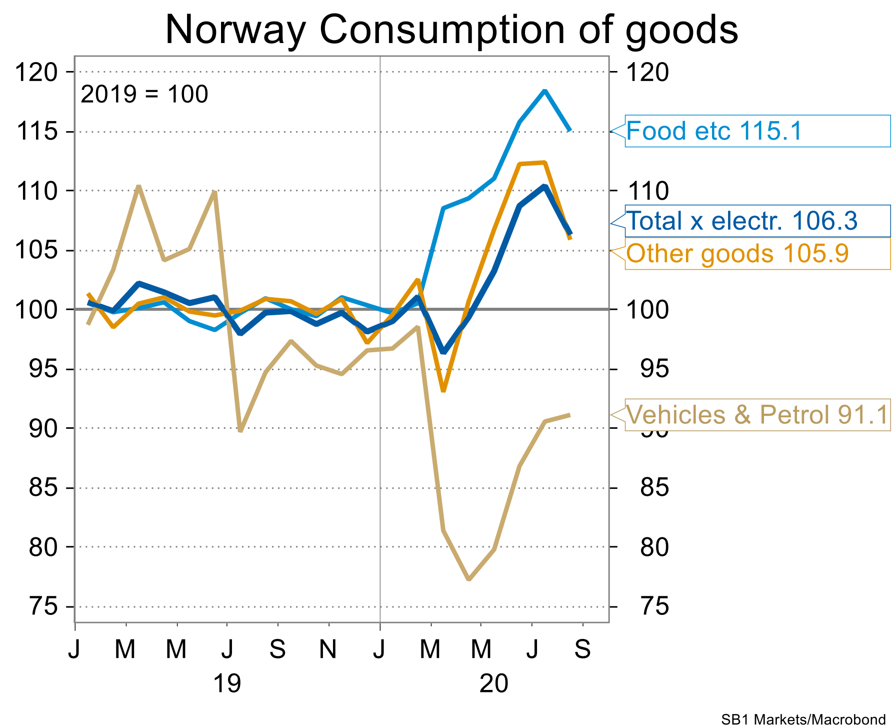


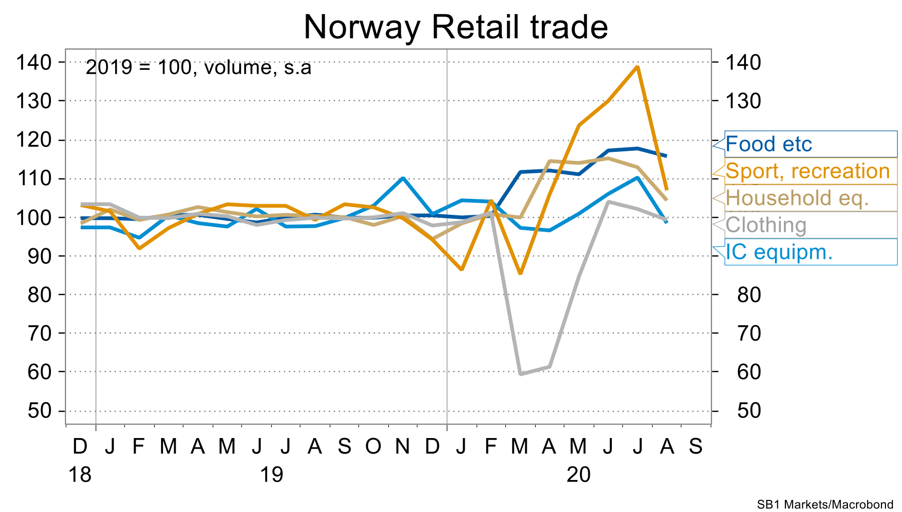


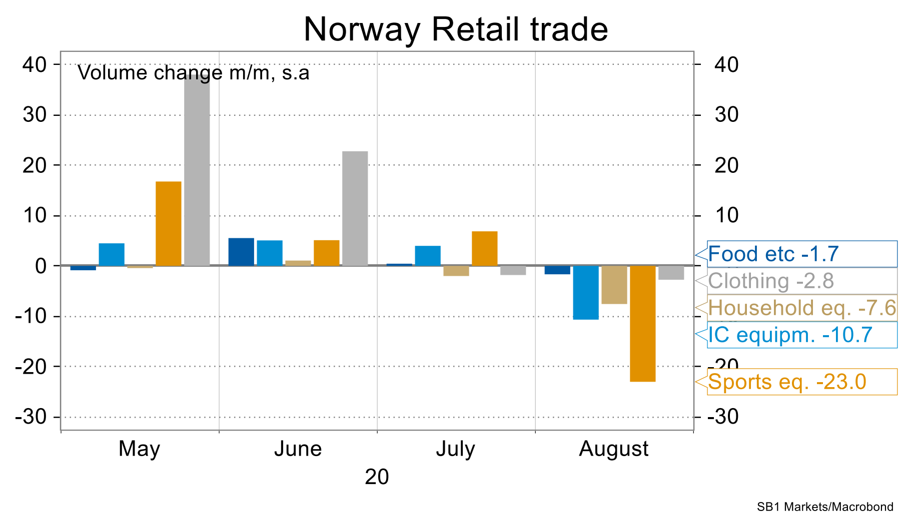
- Sales fell by 4.9% m/m in August, we expected an even larger drop, at 8%. Consensus -2.4% (and not far below 0 without our contribution. Sales have shot up since March, up 14% until July
  - » Broad decline in August. Sport equipment fell the most, unsurprisingly, following rapid growth the prior months. Food sales fell less and may remain elevated the coming months as people are still shopping less in Sweden, spend more time at home and less on restaurants, and are not travelling abroad
- Total consumption of goods (x electricity) fell by 3.7% in August. Total consumption of goods is some 6% above the pre corona level
- We expect a further retreat the coming months too, even if some sectors will blossom as long as borders are more or less closed
- Service consumption is of course far below a pre corona level, no data included in these retail sales data

A broad decline in August. We have bought enough sport equipments!

Food sales remained high in August and may do so the coming months. Others will come down







- Sales of sport equipment, information&communitation technologies and household equipment are all still above the levels from February. Clothing recovered well in the spring/summer and are back at a 'normal' level
- Less travelling, x border shopping to Sweden and less capacity at restaurants may keep food sales up for the next months
- Auto sales are still some 7% below the pre corona level

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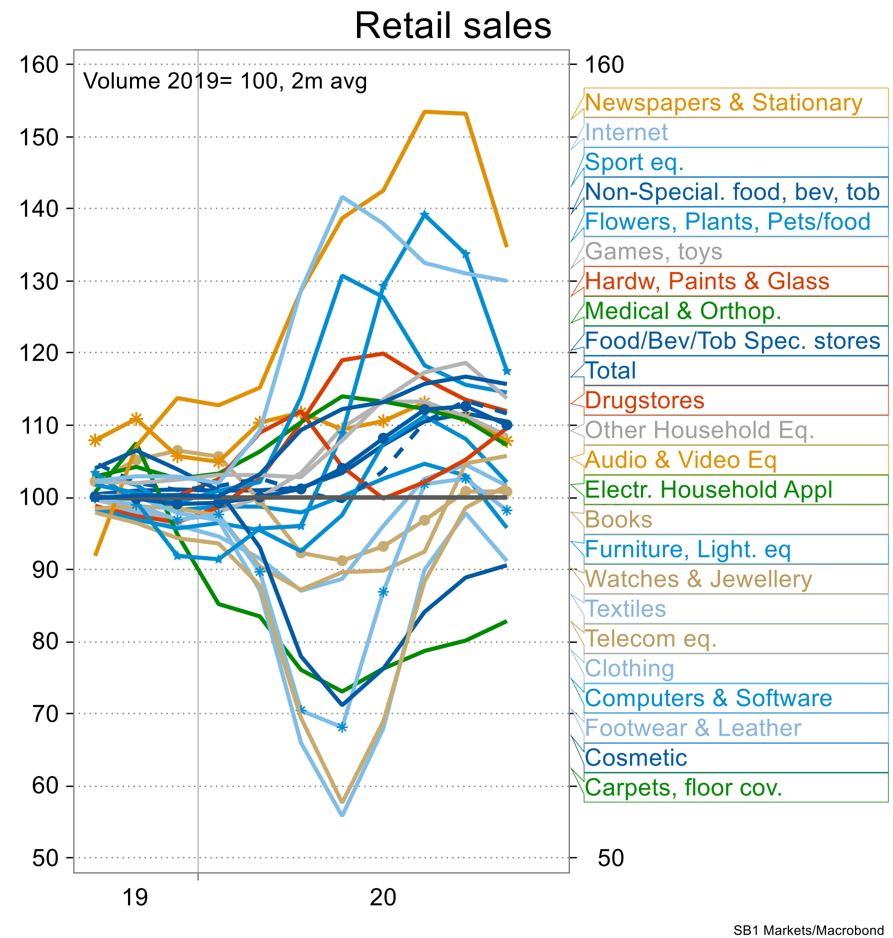
Some wild months – probably towards more normal times the coming months

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



- Just some sector are still reporting lower sales than in before corona

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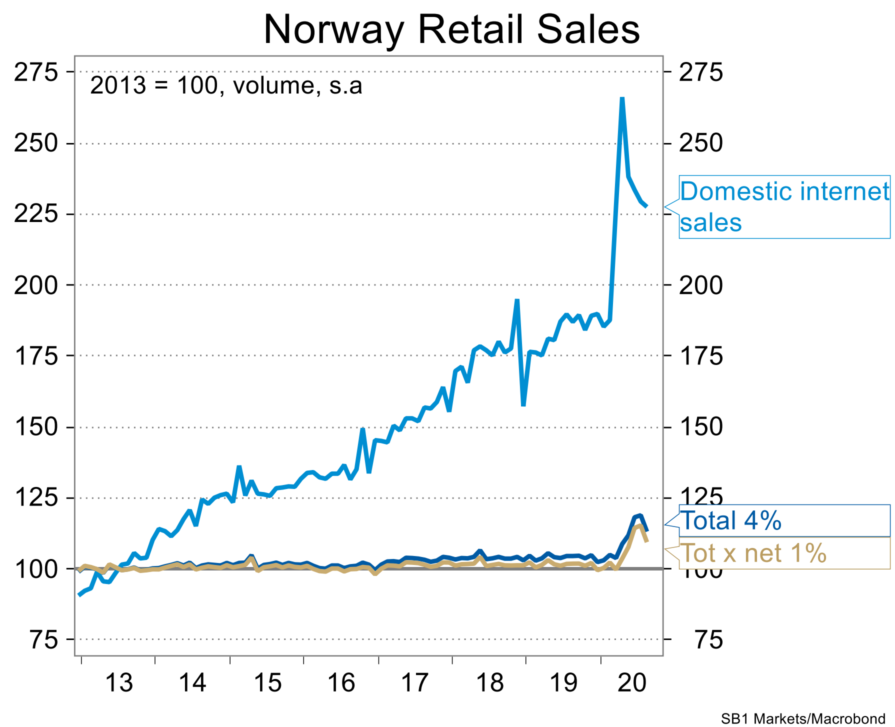
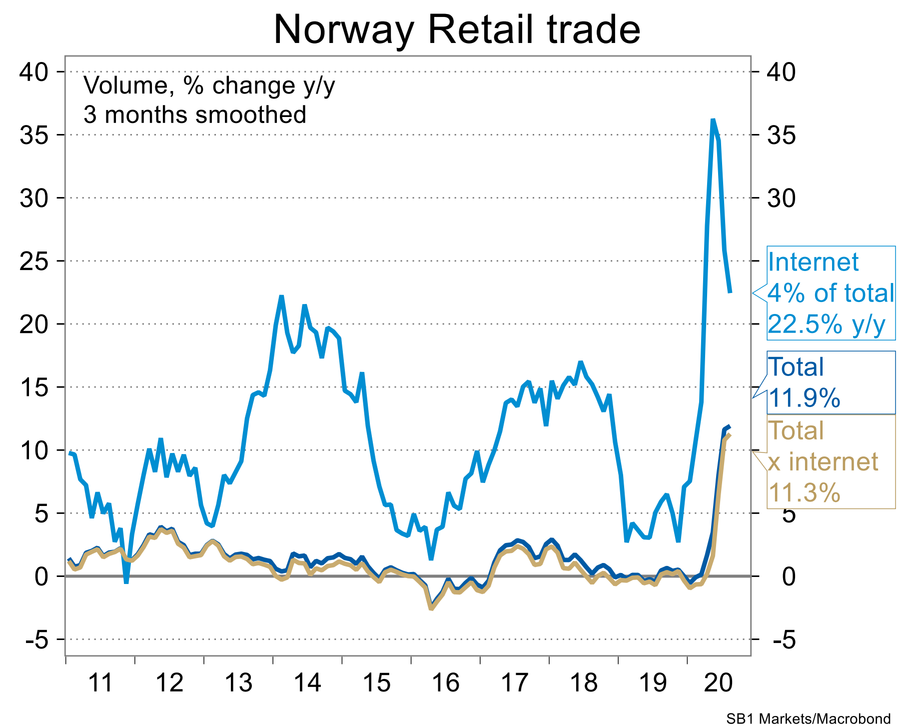
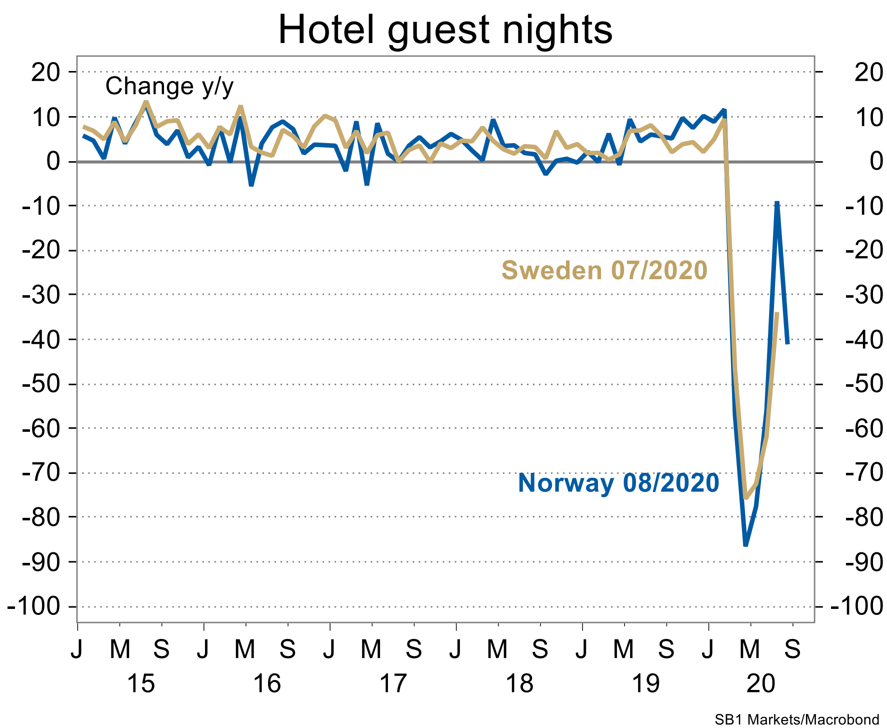
Internet sales (domestic) 15% down since May - following a 40% rise

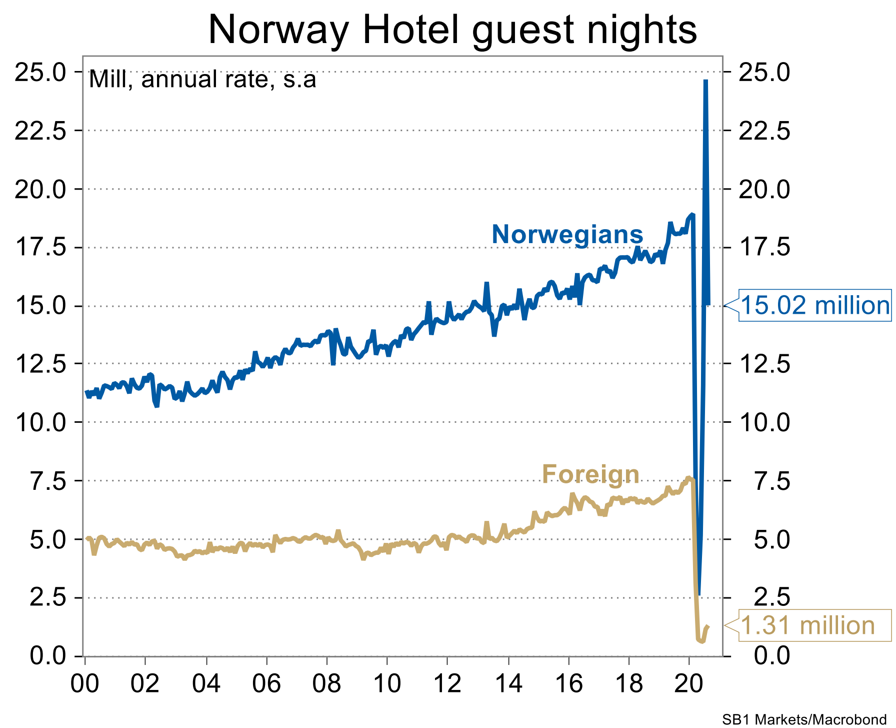




Hotel guest nights down 40% y/y in August

No of domestic hotel guests retreated after a strong July – and foreigners have fully disappeared

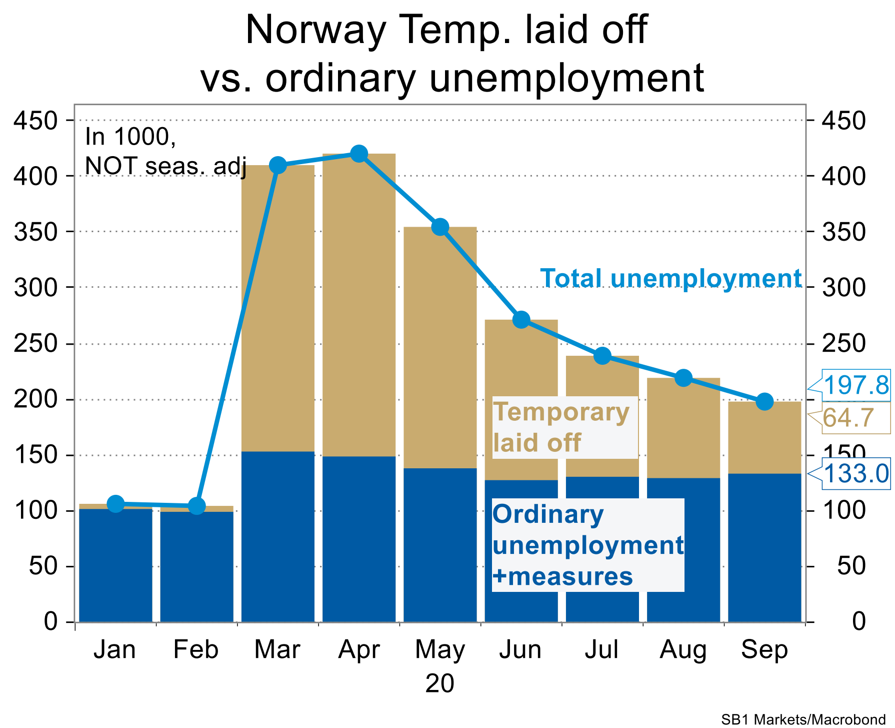


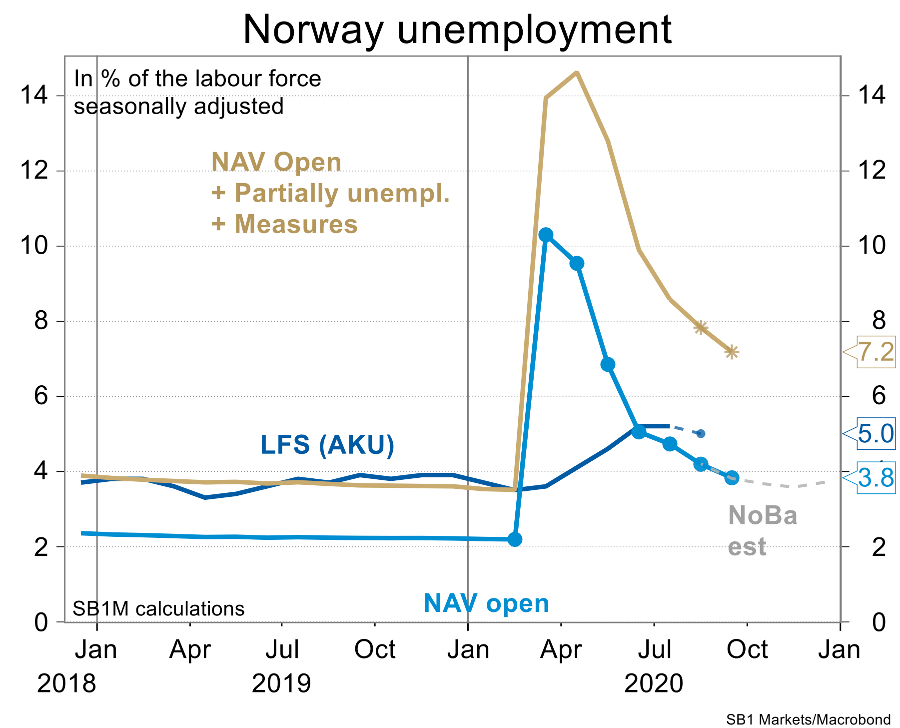


- The number of guest nights recovered sharply in July, saved by a record high number of domestic hotel guests. In August, Norwegians stayed fell to 20% below level from before Covid-19 – which is not that bad given the reduction in the business segment (which though normally speeds up in September). Foreigners have more or less disappeared, of course.
- The number of hotel nights was down by approx 80% at the worst, now 40%
- Large regional differences; Oslo, Viken and the West were all struggling in August

NAV unemployment further down, in line with NoBa f'cast

Ordinary unemployment fell by 0.4 pp to 3.8% in September. Total down 0.6 pp to 7.2%

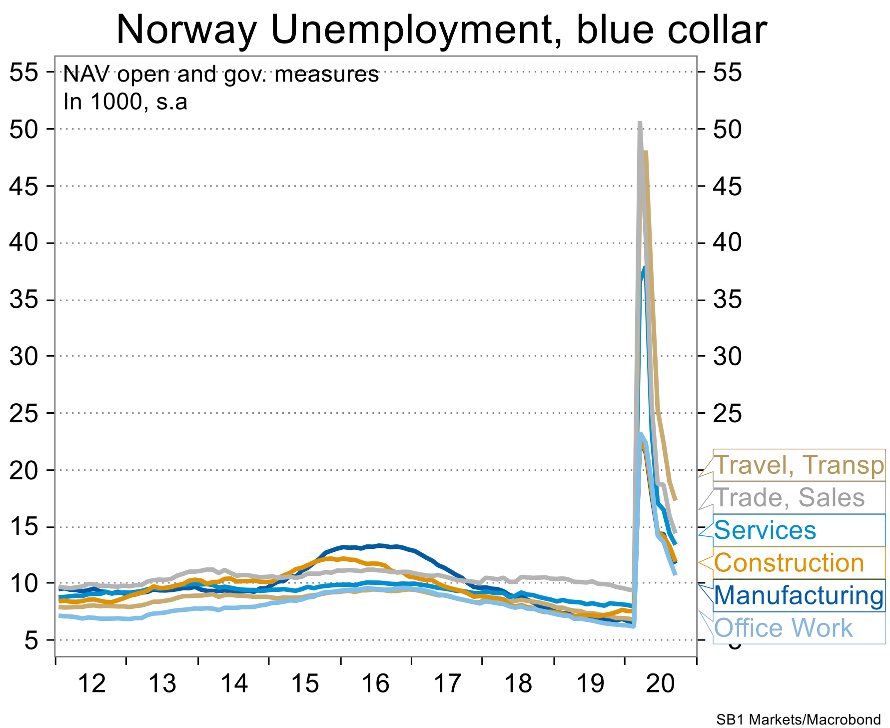


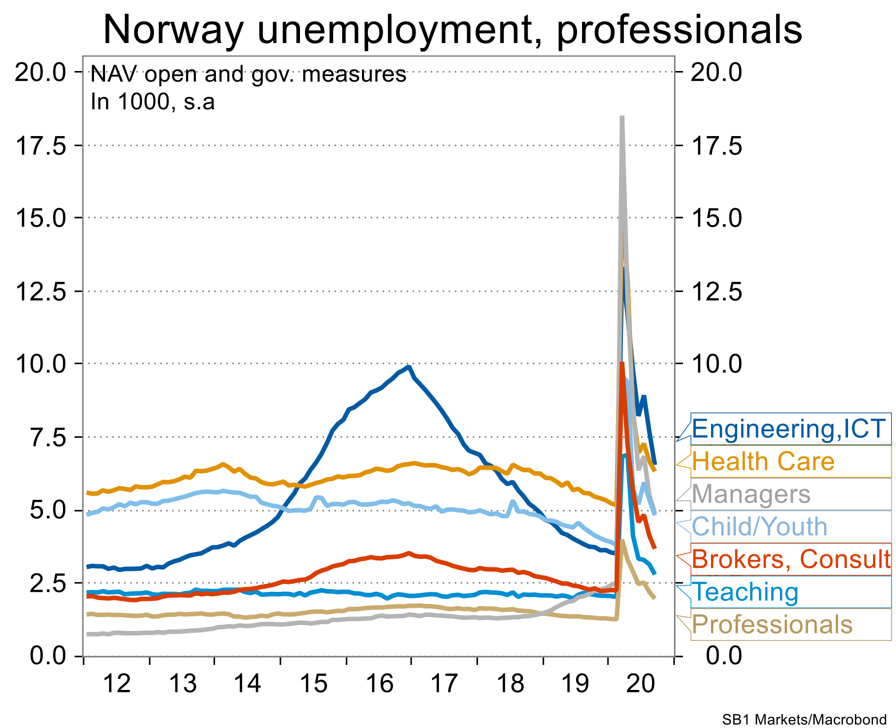


- Open 'full time' unemployment measured at NAV, which includes furloughed workers, fell by 17' in September, down to 105', or by 10' seasonally adjusted or to 3.8% of the labour force. At the April peak, more than 10% were unemployed. In February, the unemployment rate was 2.2%. Unemployment fell more than we expected, but in line with NoBa's f'cast
- Including the partially unemployed, the total unemployment is at 198' or 7.2% (the latter seas adj) - down 21' or 0.6 pp from August. The speed of decline is slowing. We expect at gradual decline the coming months but parts of the service industry will not recover anytime soon
- The LFS (AKU) reported a decline to 5.0% in August (single month obs). These data have been lagging NAV figures as furloughed workers have been counted as unemployed after 3 months in the dole

Unemployment still higher than normal in all sectors

Even among engineering, ICT workers. Travel at the top, of course





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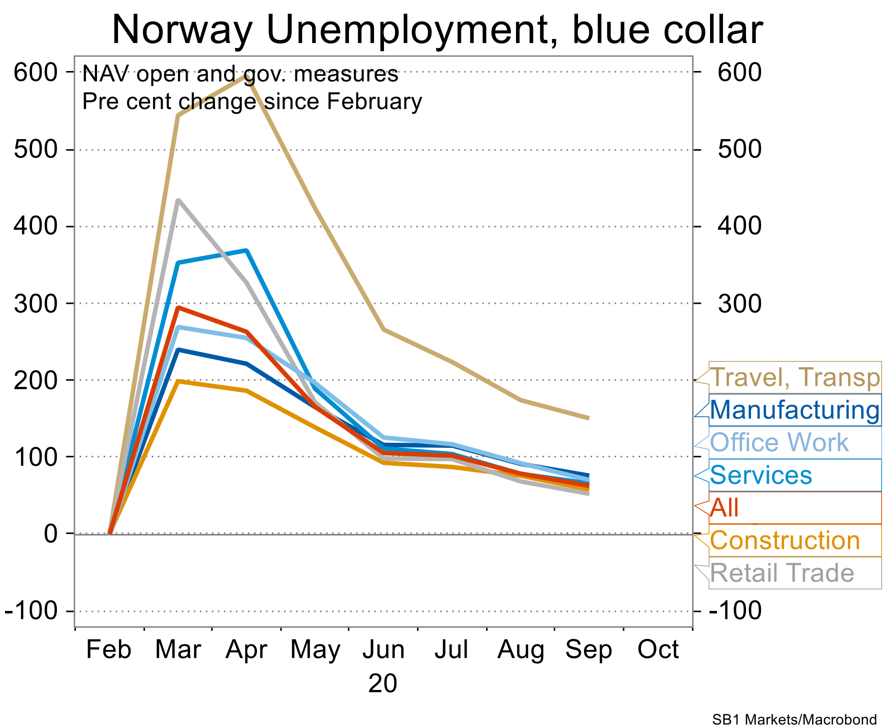
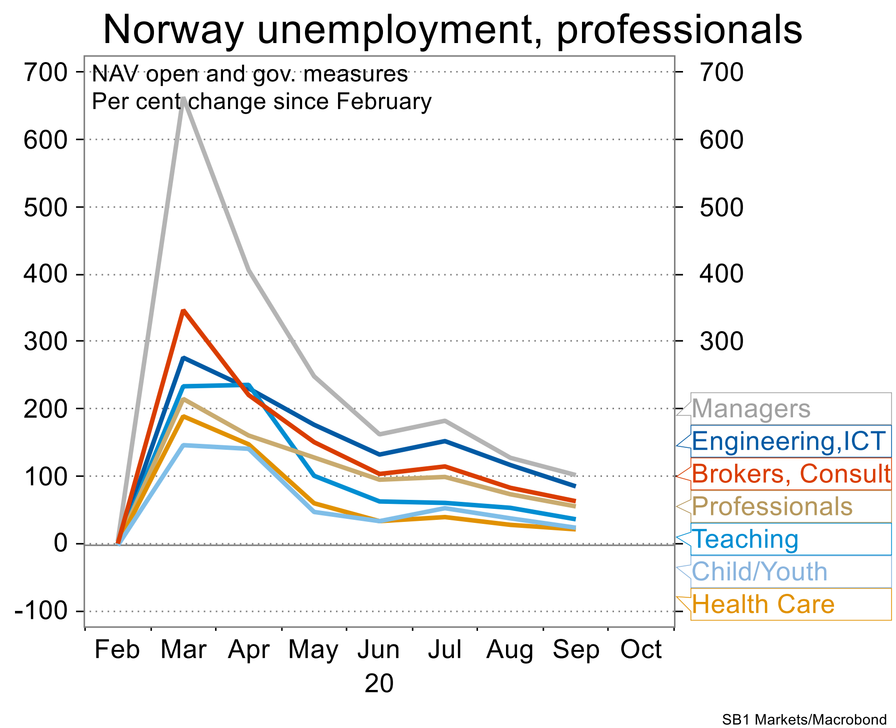
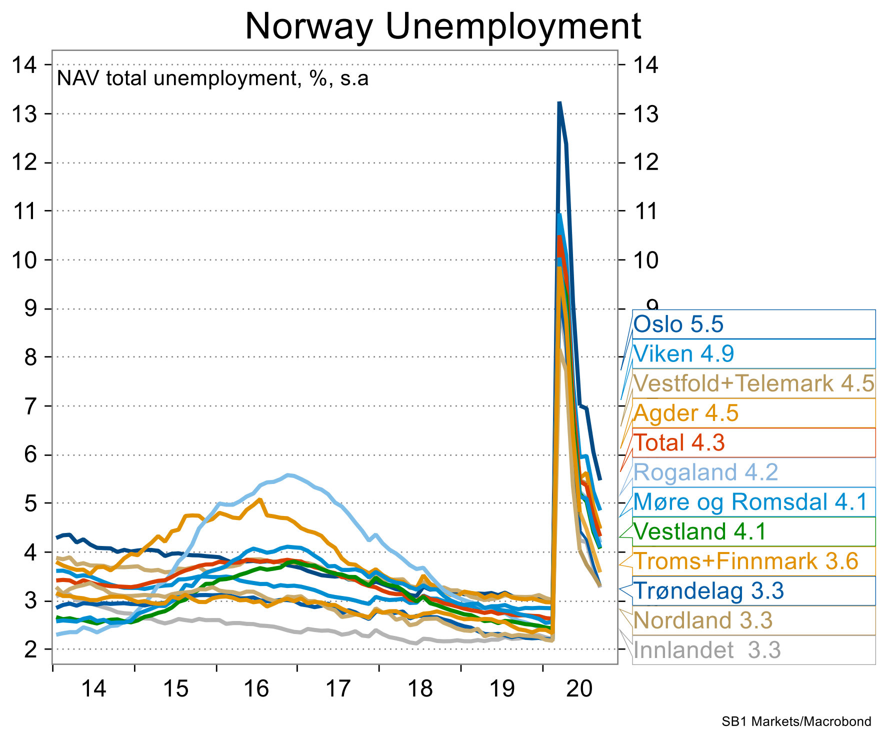
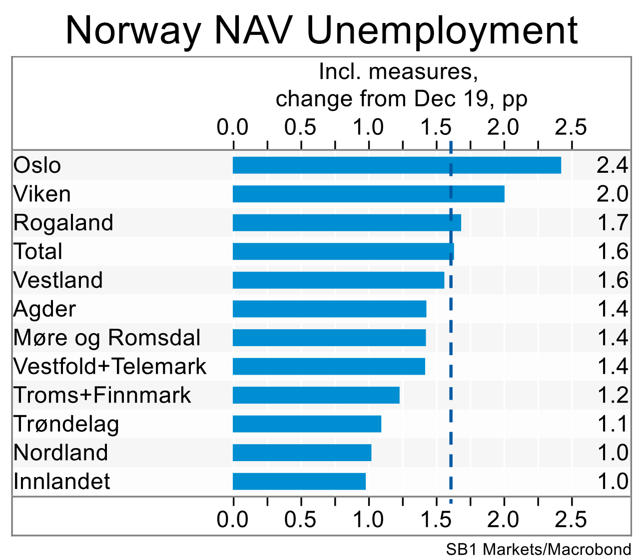




East (-Innlandet) has taken the hardest hit

Unempl. is higher than before corona everywhere, Oslo& Viken + Rogaland most up





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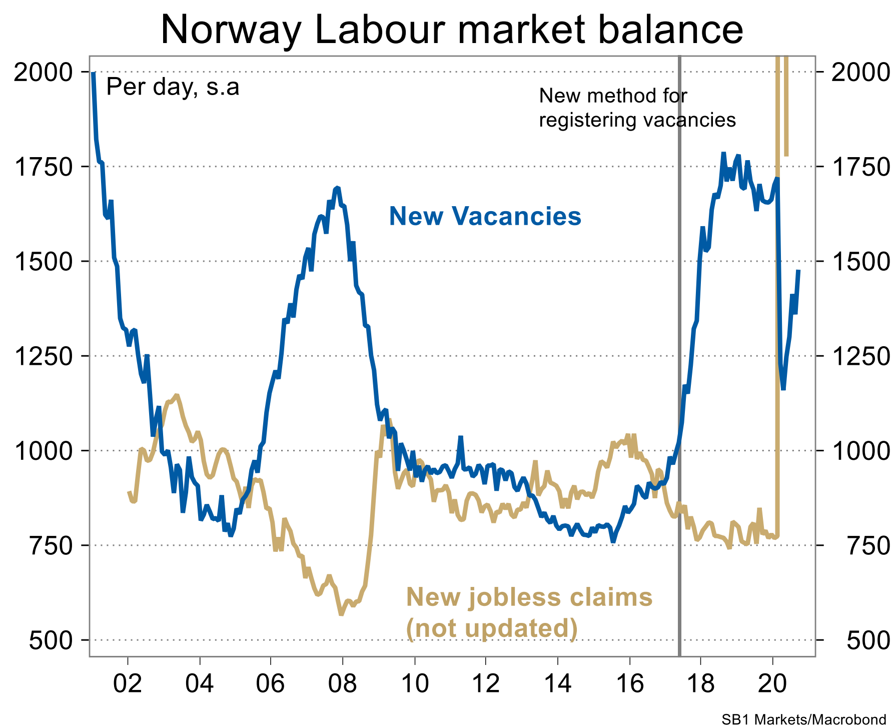
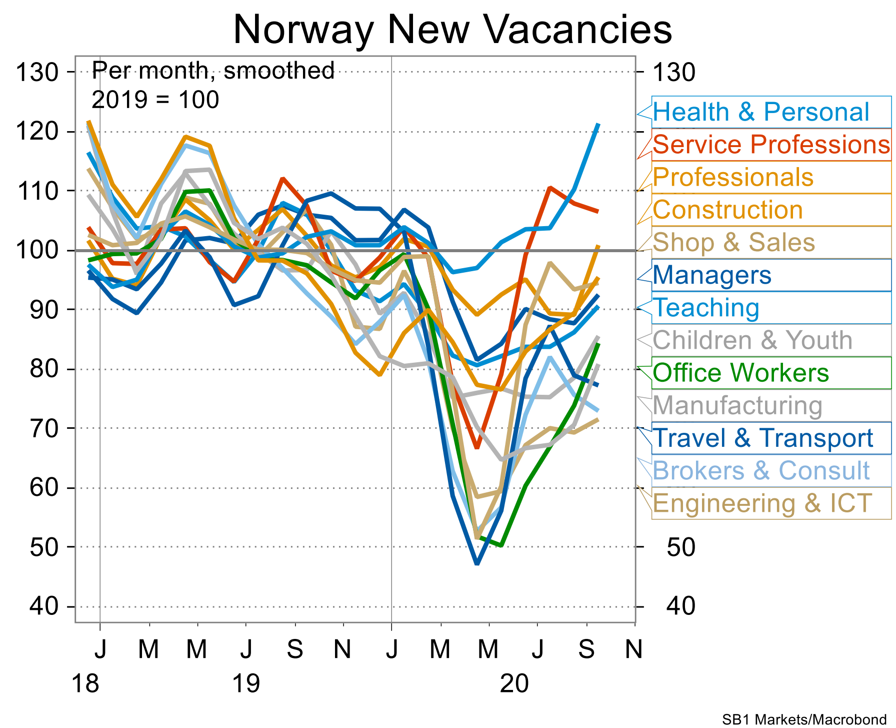
Just a partial recovery in new vacancies so far

New vacancies still down 14% from the pre corona level, as companies re-engage furloughed workers

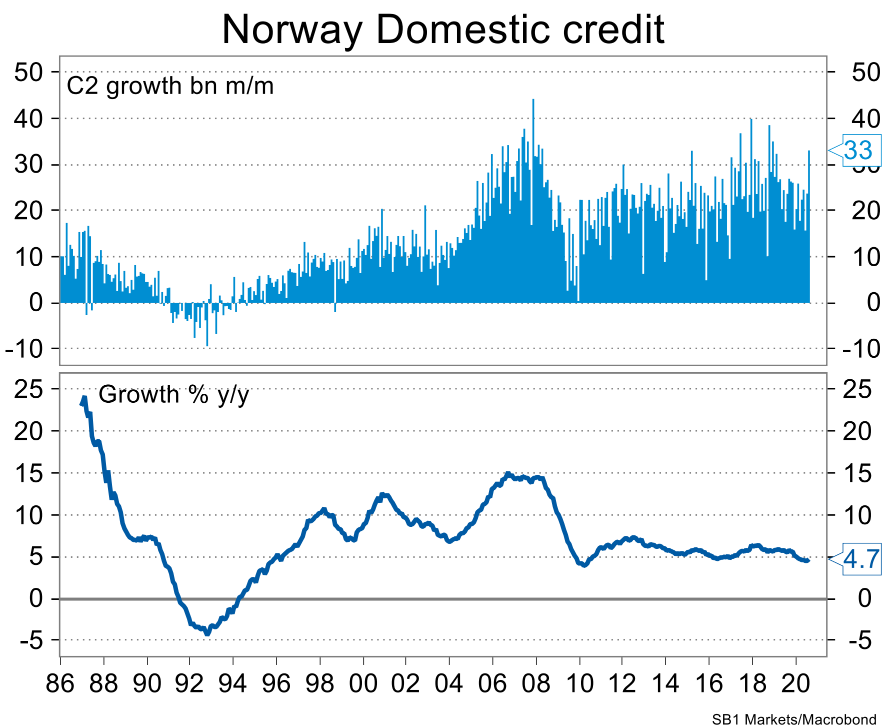


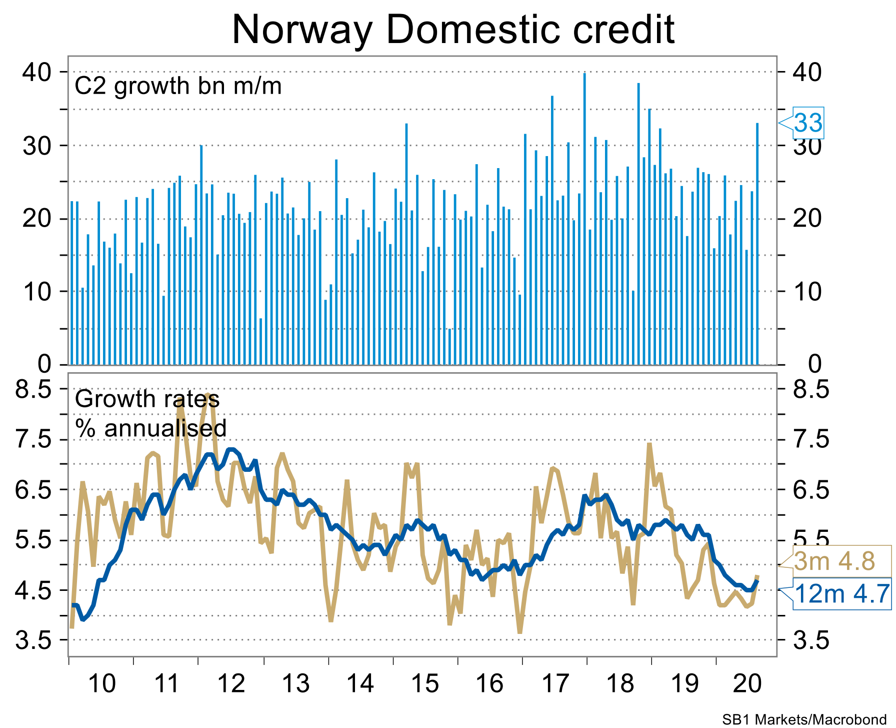


- A sign of the state in the engineering/ICT: At the bottom vs. pre corona levels

Corporate credit growth spiked in August, households a tad down

Total domestic credit growth (C2) up 0.1 pp to 4.7% – the trend is still down





- **Total domestic debt** (C2) rose by NOK 33 bn m/m in August, up from 24 bn in July. The annual growth inched up to 4.7%, expected unchanged at 4.6%. Growth has been heading down since late 2019 (and from early 2018) but gaining speed the past two months
- **Household credit growth** slower somewhat in August, to 13 bn m/m. Growth has picked up since the spring and is now back at the levels from early 2020. Thus, there are no evidence of a household credit boom, such as the rapid growth in house prices might suggest. Over the past year, credit growth has fallen below income growth
- **Corporate credit growth**, which is very volatile, jumped to 19 bn m/m, the highest in two years. We suspect this to be just a one off as businesses are planning to reduce their investments the coming months

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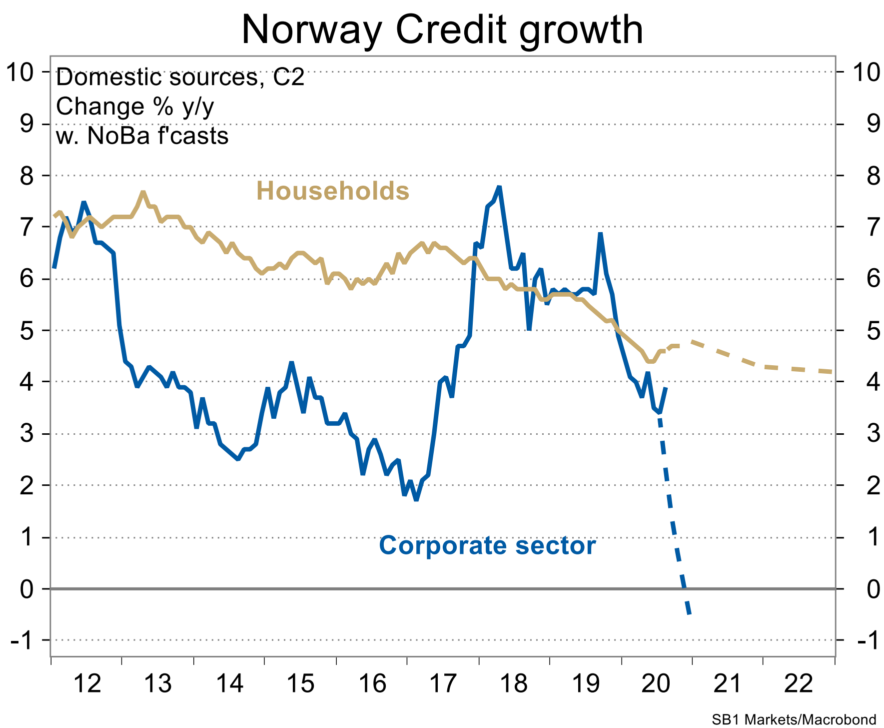
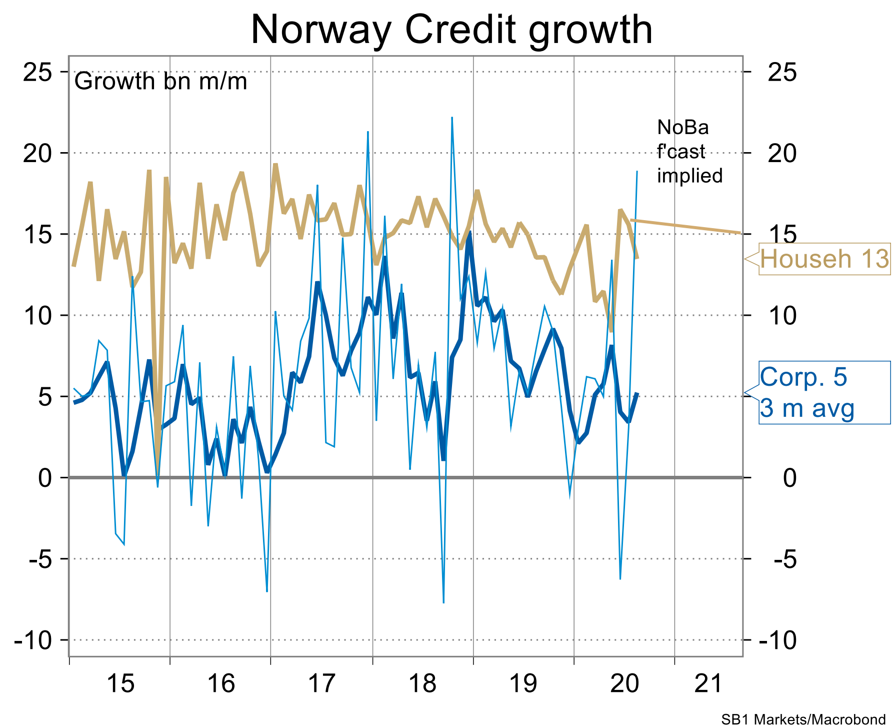
No take off in household credit – and a temporary one in the corporate sector

We (and NoBa) expect the corporate sector to cut investments & dampen their demand for credit

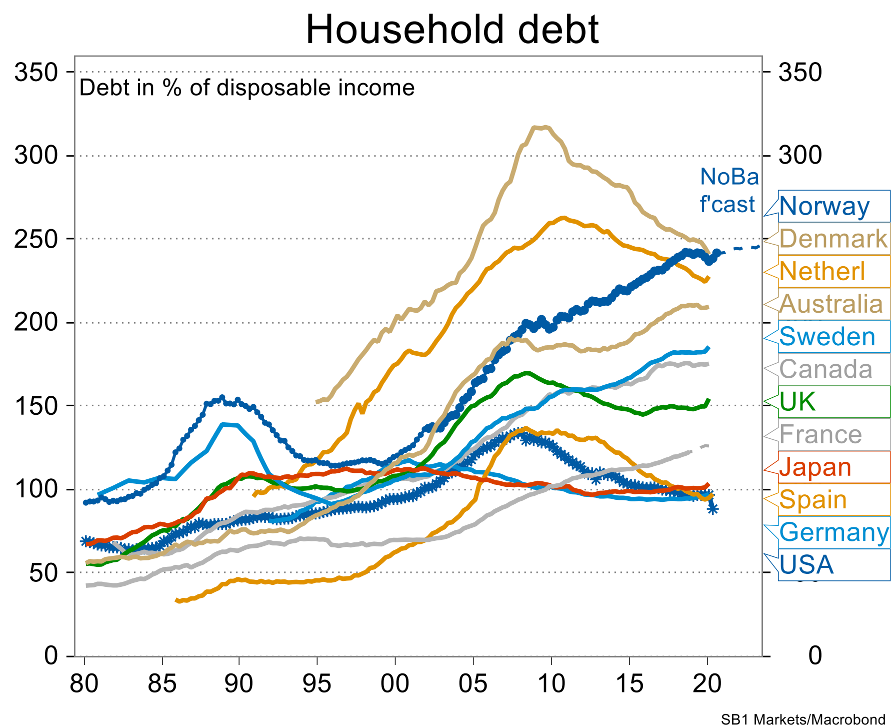


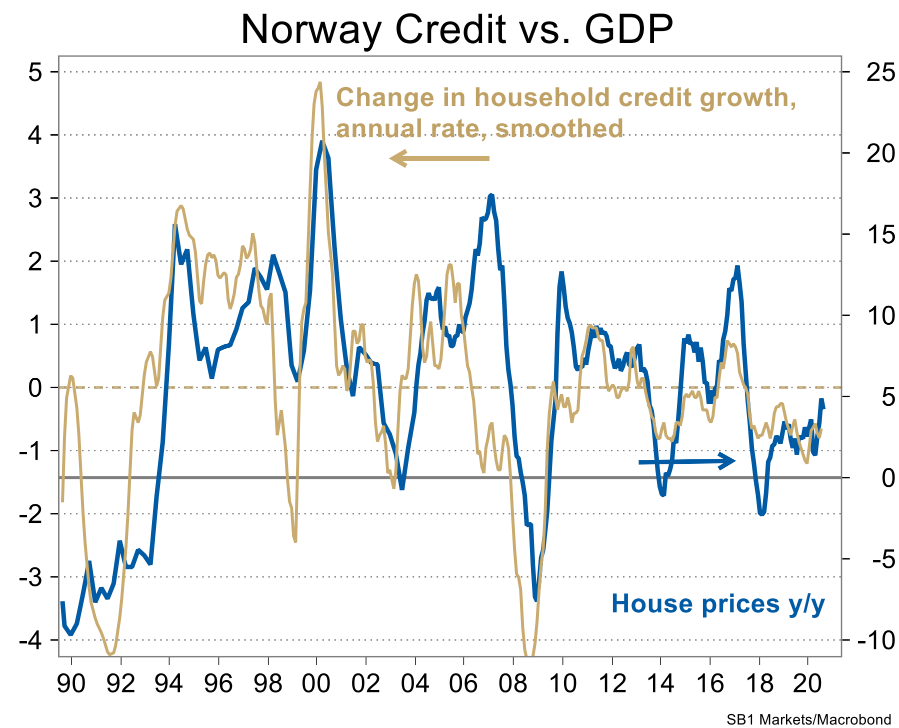


- Households' total borrowing rose by NOK 13 bn m/m in August. Credit growth has slowed the past two months after soaring in June and is back at the levels from early 2020, before corona. These figures do not confirm the acceleration in loan appetite which we expected due to strong demand for housing and banks reporting higher demand for credit
- Corporate credit (in C2, domestic lending) soared to 19 bn m/m, following low growth in June/July. These data are volatile from month to month and the 3 month average speed is just 5.3 bn. The annual rate is clearly on the way down. We expect companies to be cautious vs. both investments and more debt the coming months/quarters. Norges Bank expects a steep decline in the annual growth rate the next months

The household debt/income ratio stabilised – but Norway in the pole position?

The Norwegian debt/income ratio may have overtaken Denmark's. If so, *WE ARE FINALLY AT THE TOP!*

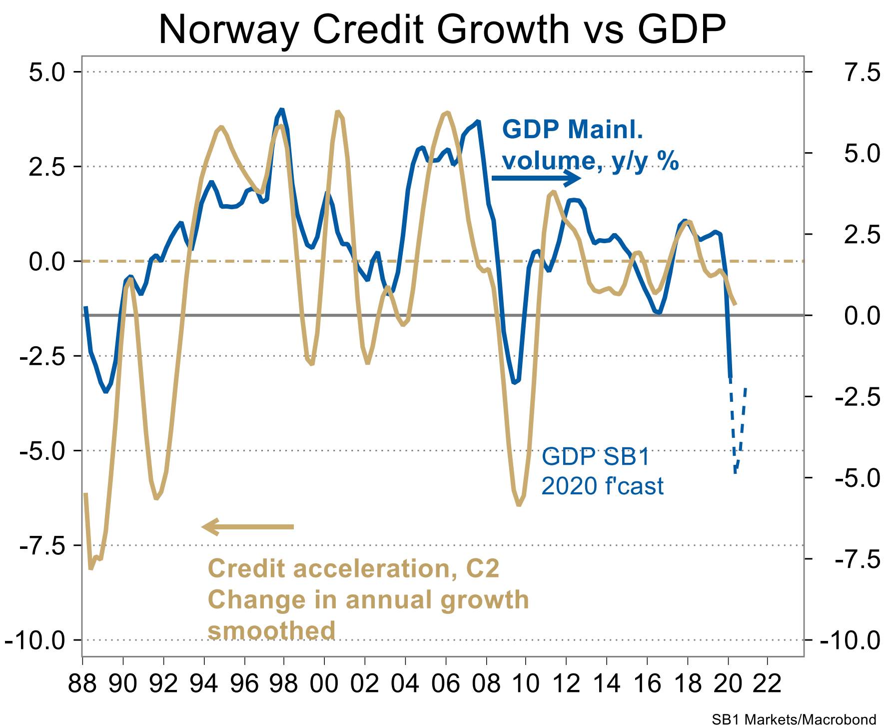




- Household debt has been growing slower than household disposable income since late 2019, for the first time in 30 years (barring some minor turbulence in 2008/09). In Q2, the debt ratio turned up again as income weakened (Covid-related)
- A slow retreat will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - » *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market. Now, however, the interest rate cuts may have boosted credit appetite more than the economic setback has restrained it

Credit and GDP growth not that correlated this time around

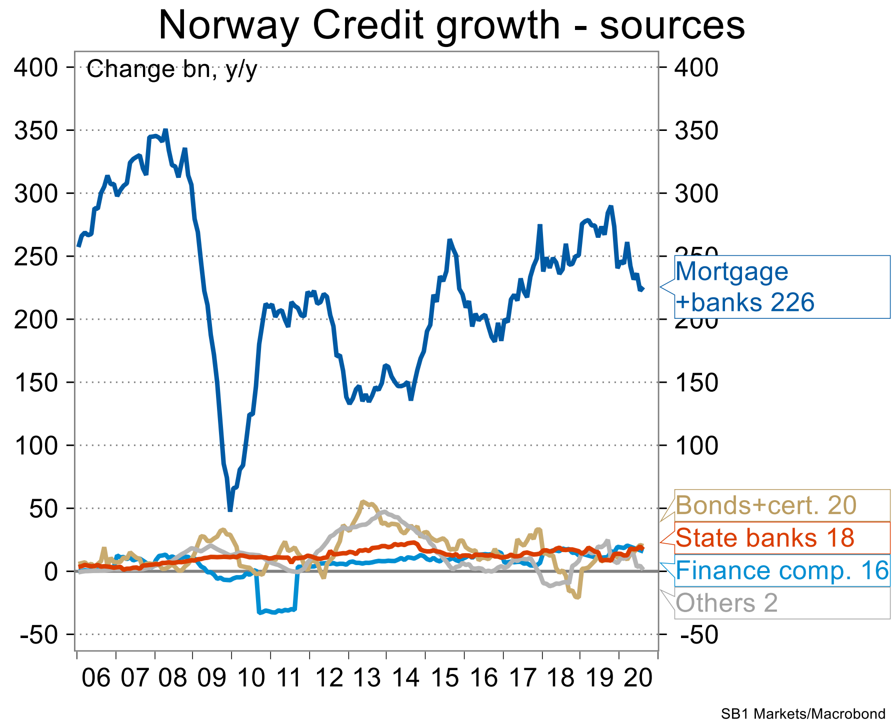
The current economic setback has been atypical – and may lead to an atypical credit response

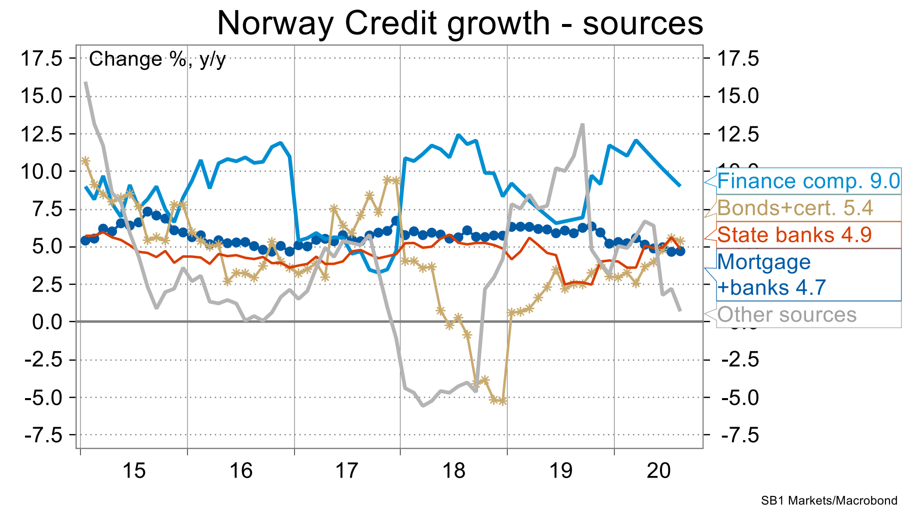


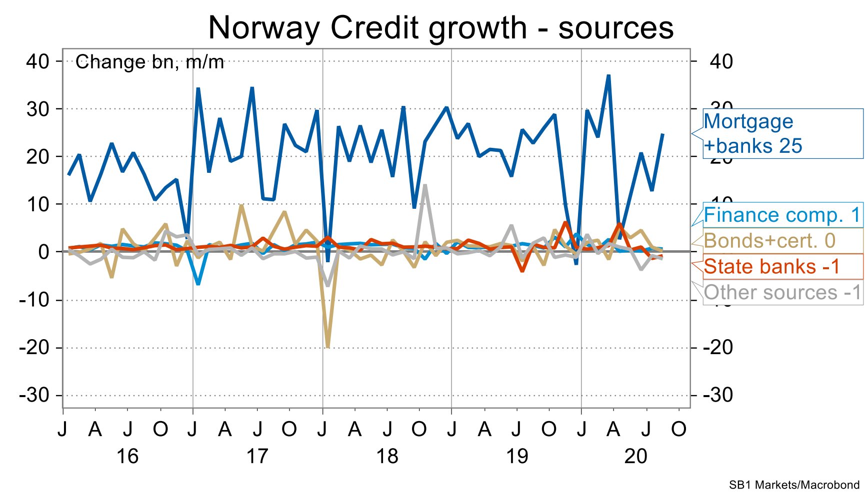
- GDP growth is quite coincident with *changes in credit growth (the 2nd derivative)*
- Face value, the rapid decline in GDP in Q2, should have led to lower credit growth, mostly due to lack of demand for credit. That did not turn out to be the case, this time

Bank lending has been slowing, bond financing + state banks up

Banks and their mortgage institutions are totally dominating the domestic credit market



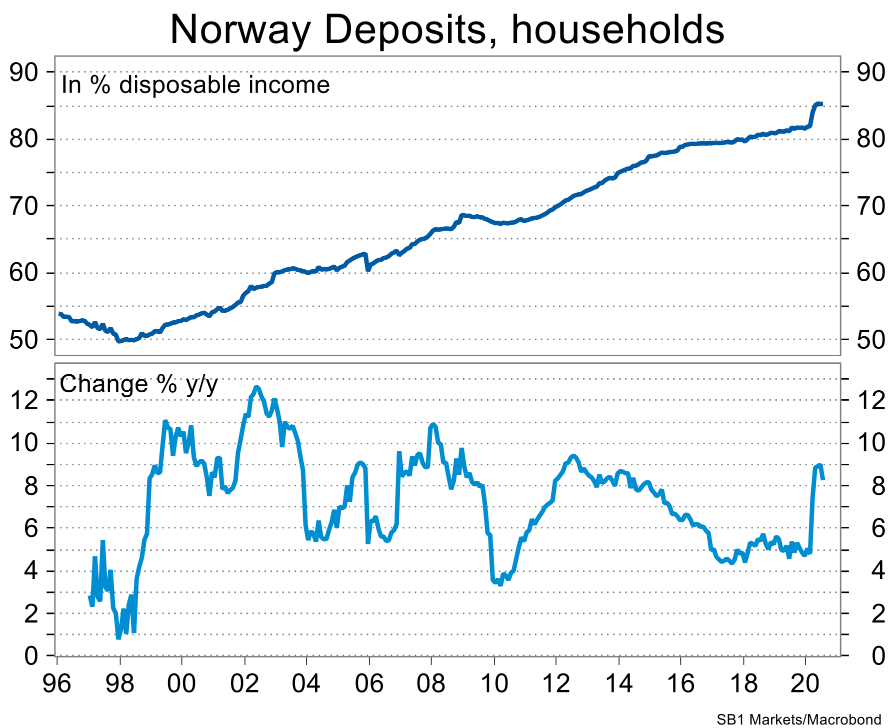




- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted changes in ‘sum of the parts’ credit supply does not exactly equal changes in the total C2s

When not spending…. Put the money in the bank!

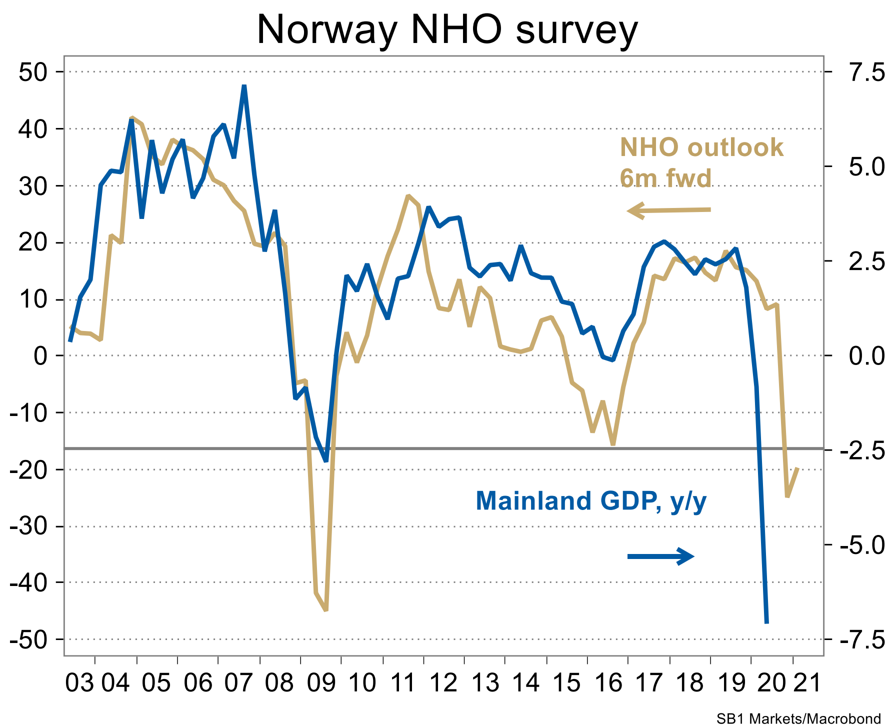
Deposits up 4% since February, equalling 13% of household income in the period!

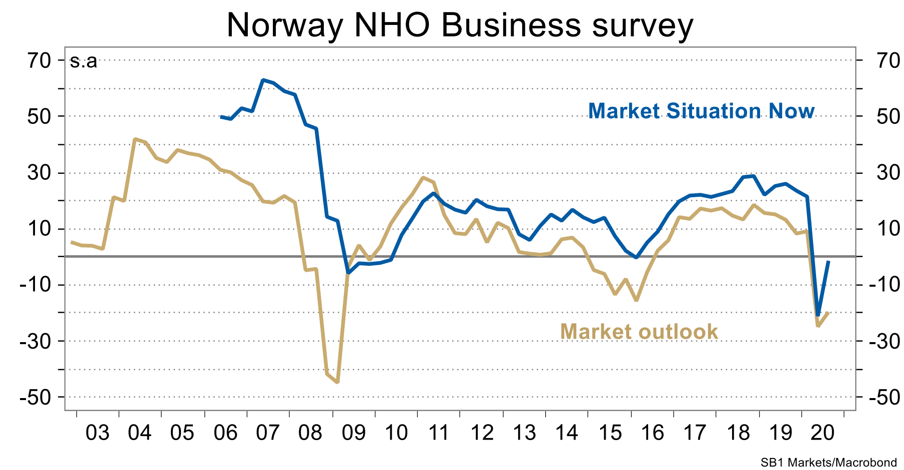


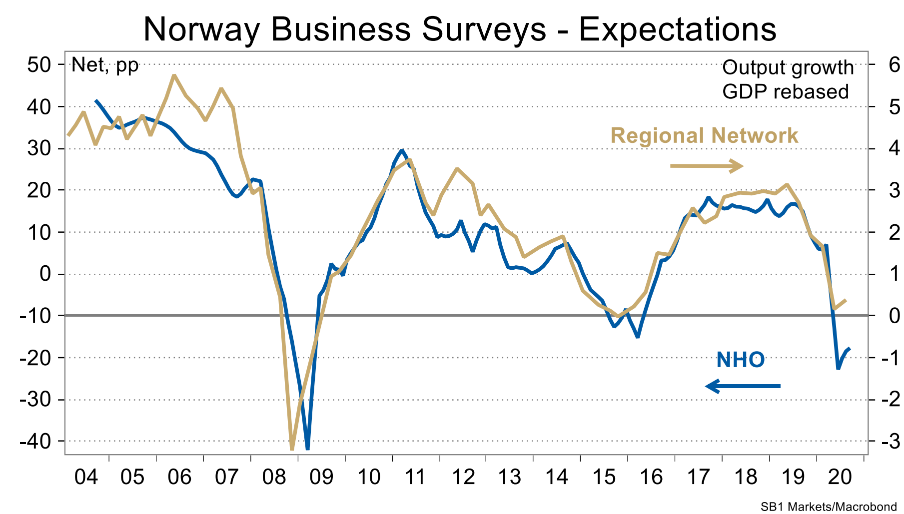
- Spending has been sharply cut, not on goods but services & spending abroad
- Households' income has been hurt by lower unemployment benefits than wages income, and by lower income for many self employed (and over time lower dividends) but supported by lower mortgage rates
- From February to May, bank savings rose sharply, up NOK 70 bn, equalling 13% of households' disposable income during these months. Steady in June-Aug

NHO Q3 survey reports a (continued) gloomy outlook

Businesses' view of the current situation up but expectations just marginally better than in Q2



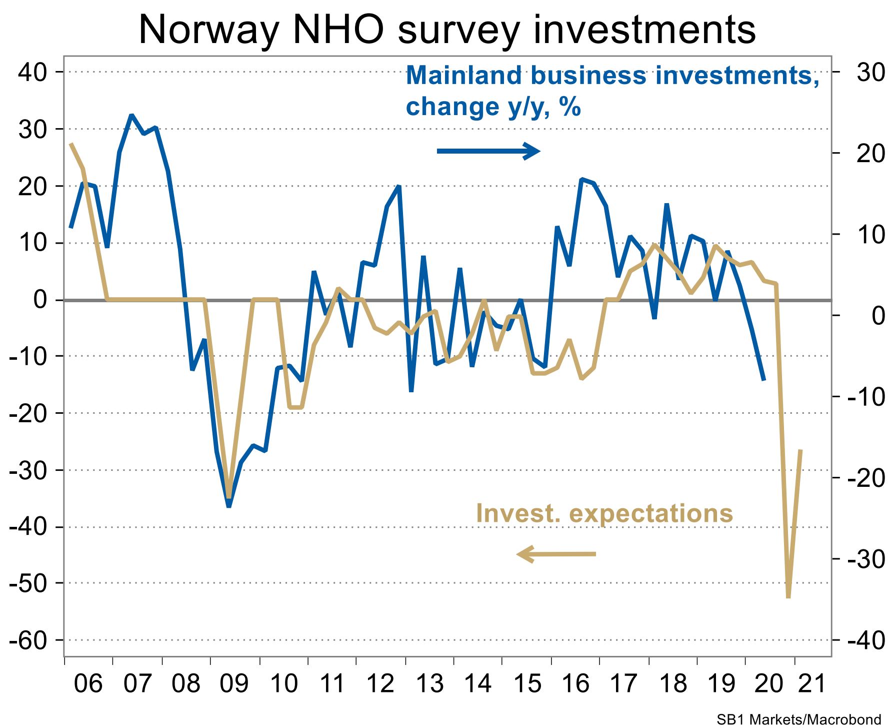


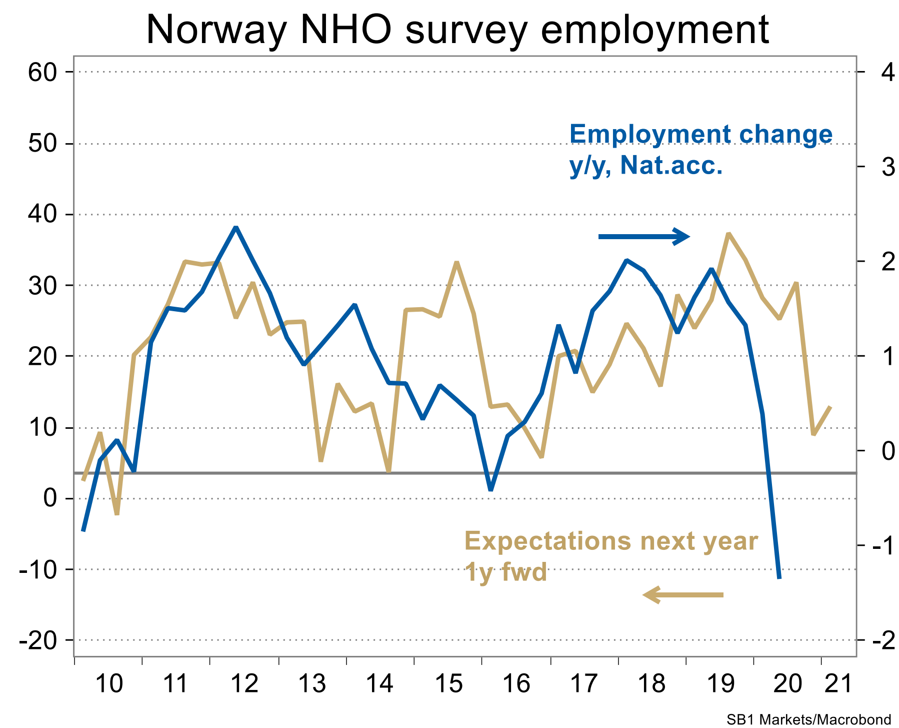


- Similar to other surveys (such as Norges Bank's Network), NHO reports that expectations are still muted, following the recover May-July (which was not recognised in HNO's survey). The service sector is still struggling

Businesses are reporting a less steep – but still steep

Other survey's confirm that Mainland business plans substantial investment cuts





- 36% of respondents are expecting to reduce investments, just 10% expect an increase (net=-26)

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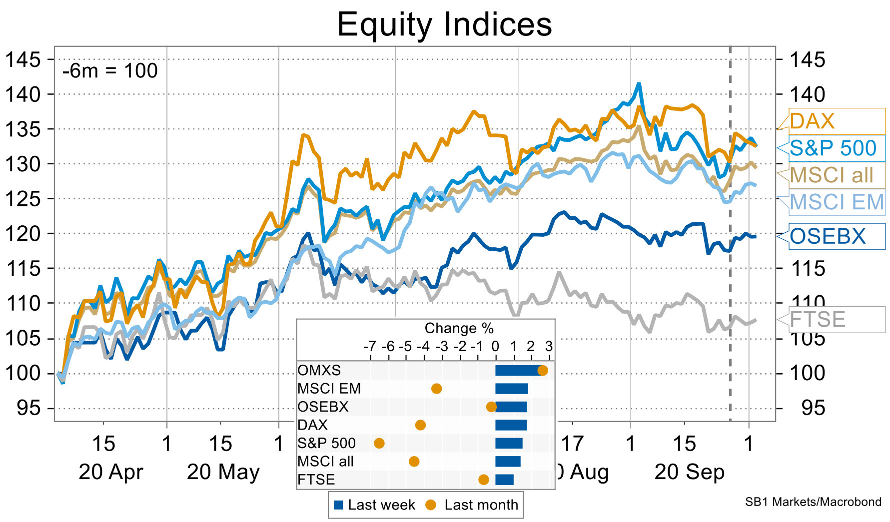
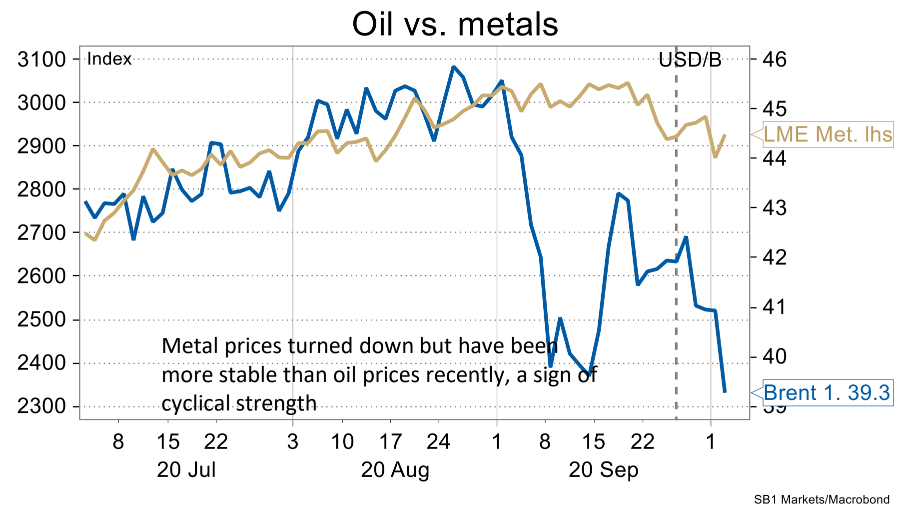
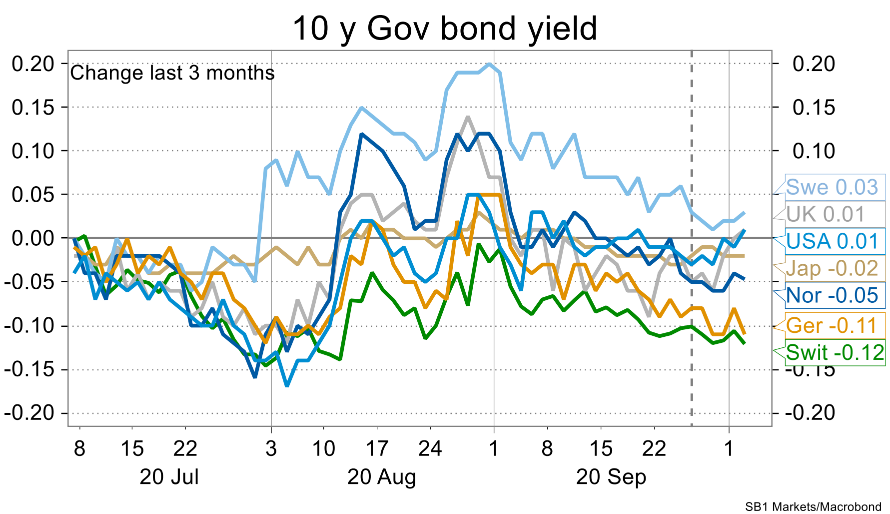
Markets not shocked by US corona patient no 7.223.001, even if it was the prez.

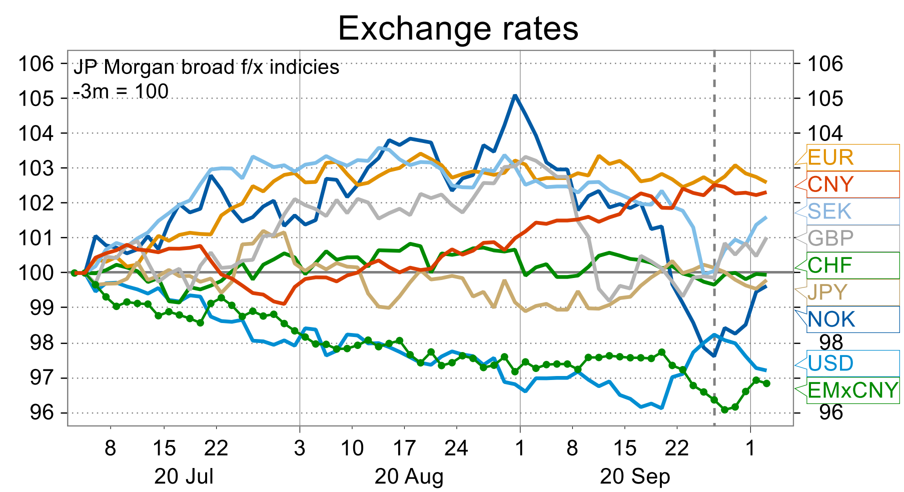
Stock markets fell at Friday, but just a little, and the week ended up everywhere. Oil down but NOK up







Mixed at bond markets, but most yields rose last week



The IUSD down again last week (the most before pres. Trump fell ill) – and the USD is not weak

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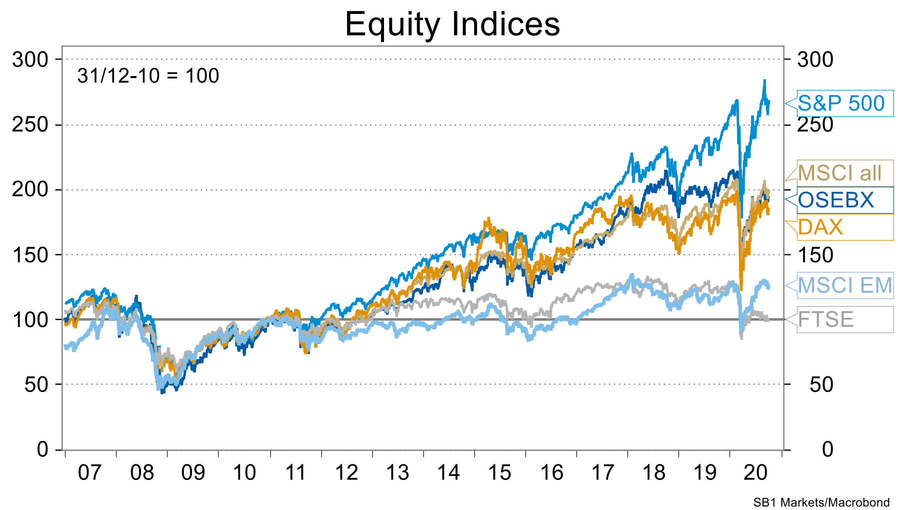
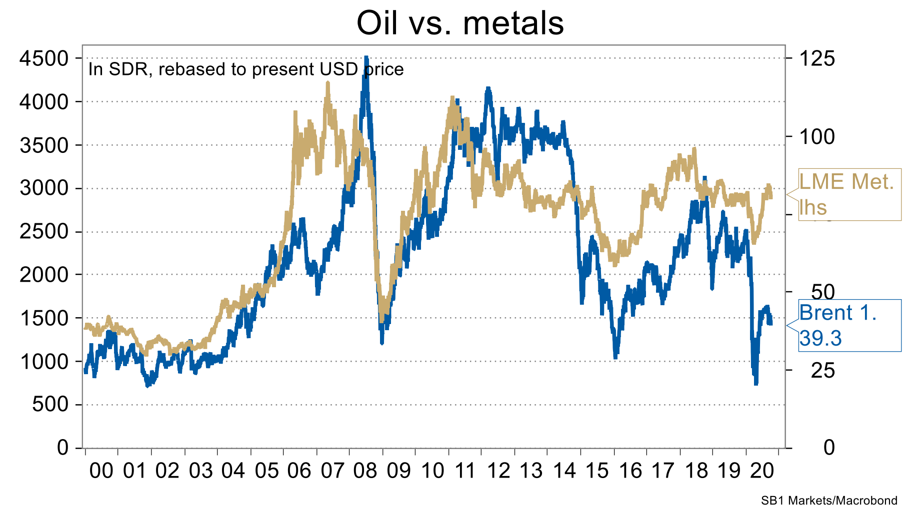
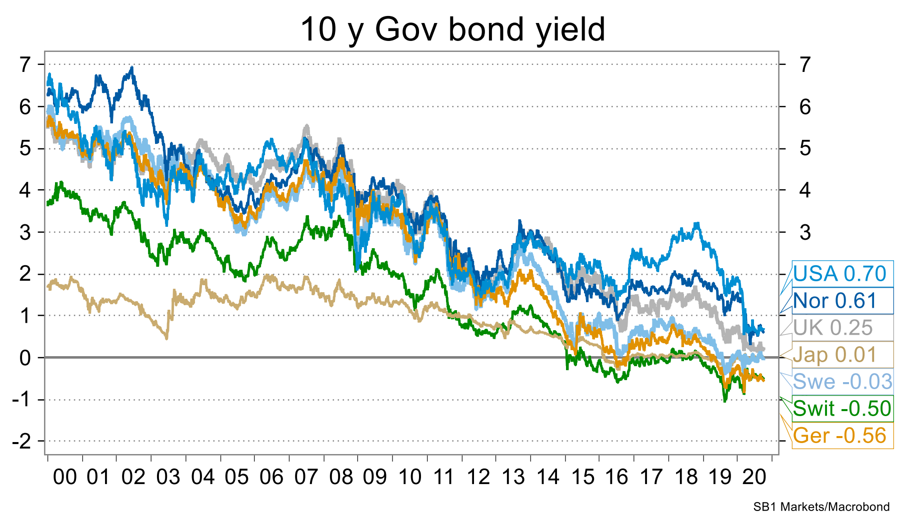
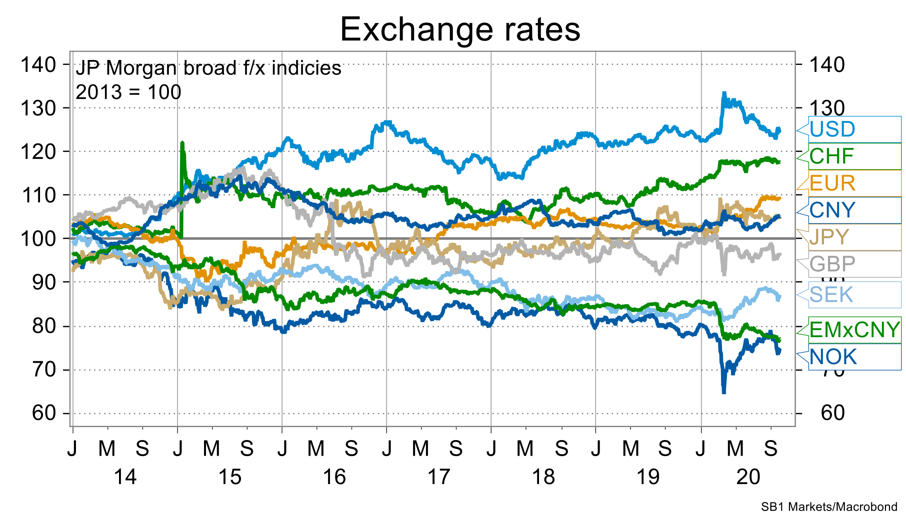
In the long run: Stock markets are looking like a 'V' (except the FTSE 'L'!)

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





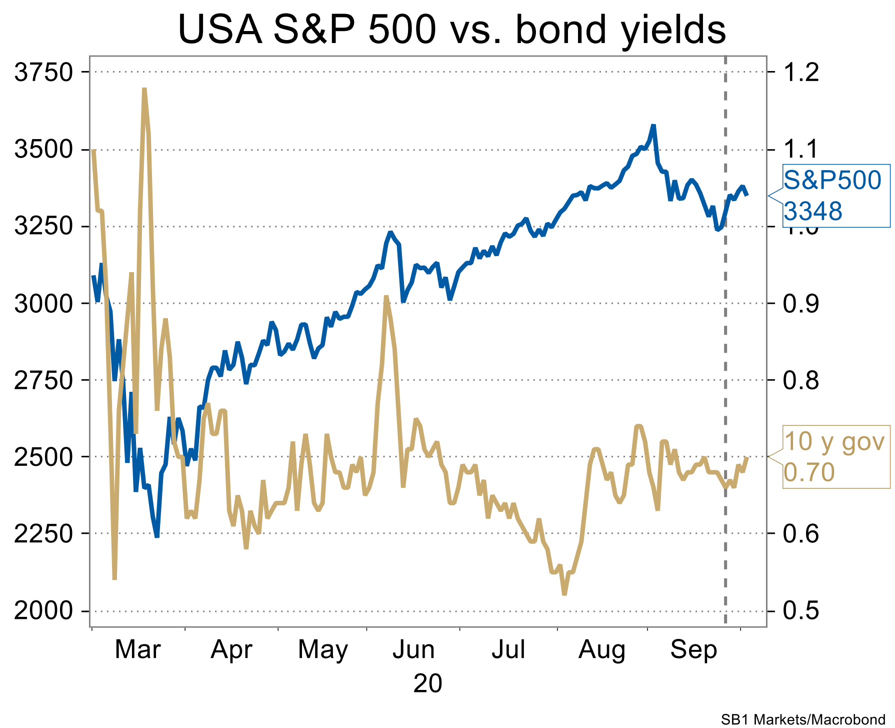


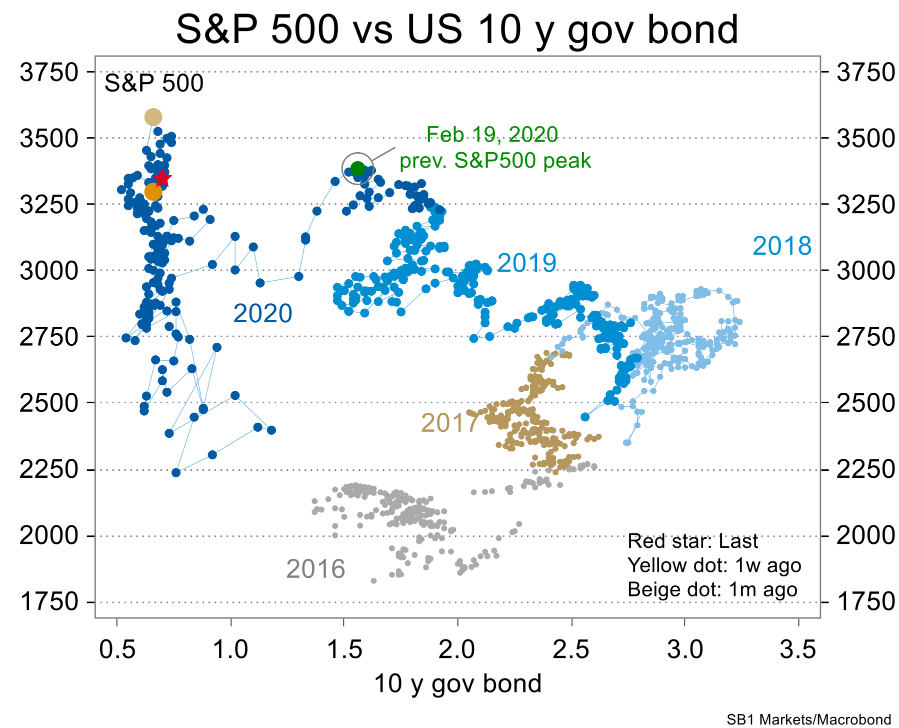


The USD is down but still not weaker than in Feb – and over the previous years (measured by broad f/x indices)

S&P recovered 3.4% of the 8% decline, bond yields steady, but up last week

S&P fell insignificantly Friday after Trump tested positive on Covid-19. Bond yields steady since Aug

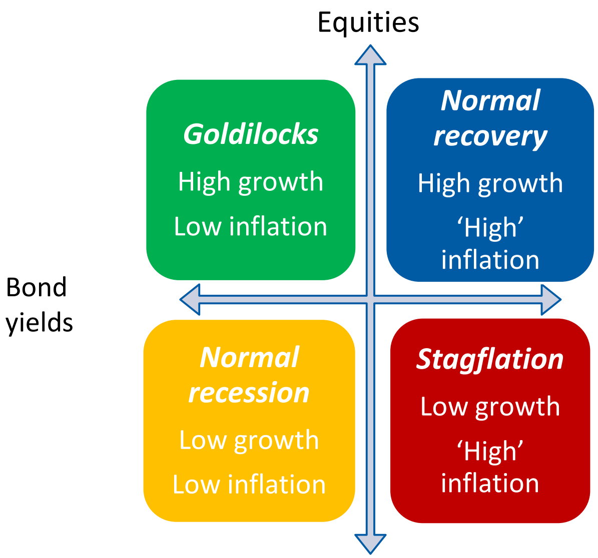


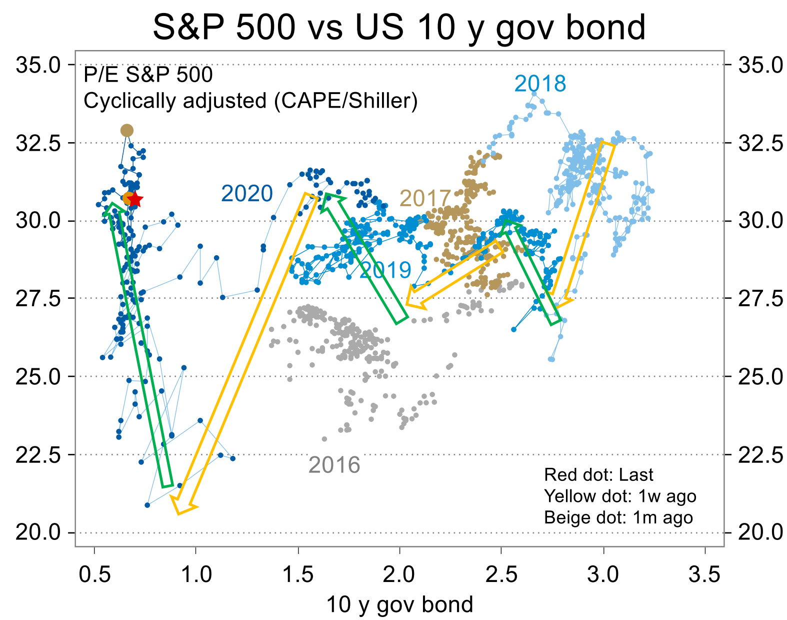


- Last week, S&P edged up 1.5%, the first weekly gain in 5 weeks. The stock market may anyway be at a rocky road towards the Nov 3 election – as usual
- The 10 y gov bond yield rose 4 bps last week –but has been more or less flat since early August

From the 'Goldilocks corner', where to go?

The past month, markets have moved away from a Goldilocks' scenario, as stocks have fallen more than bonds

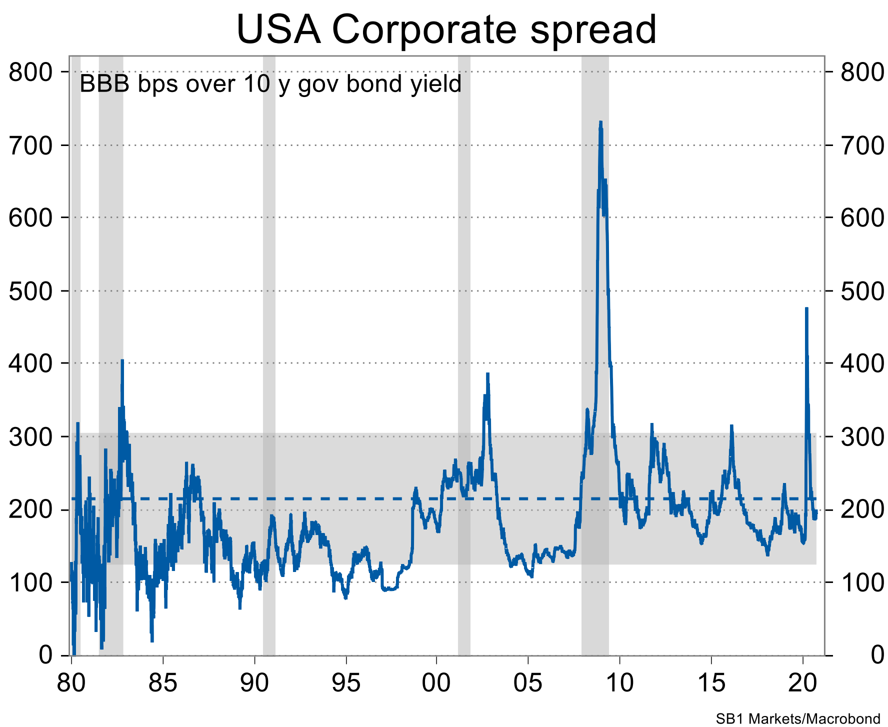


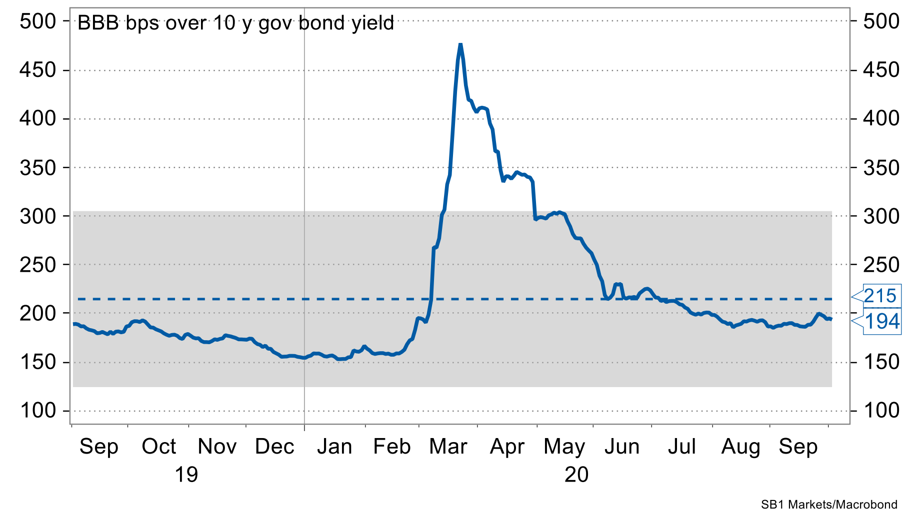


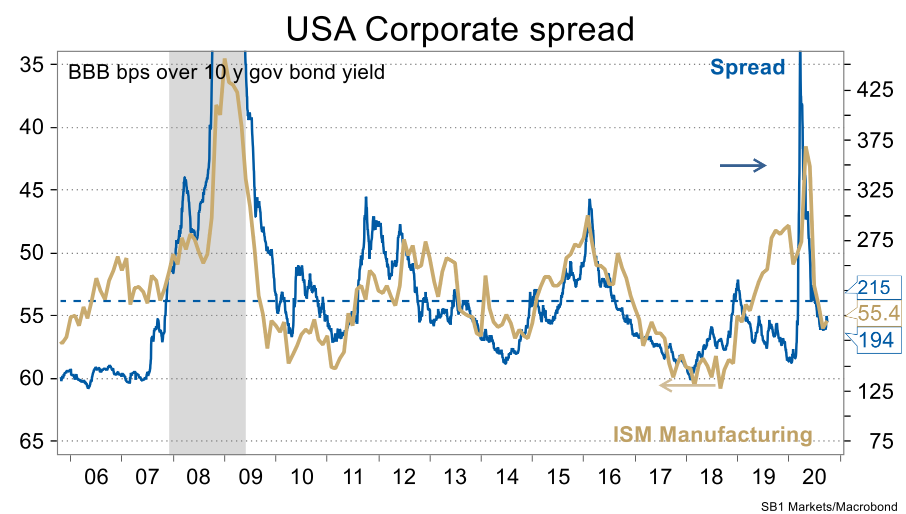
SB1 Markets/Macrobond

- 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>

Credit spreads down again after a small lift, at a rather low level

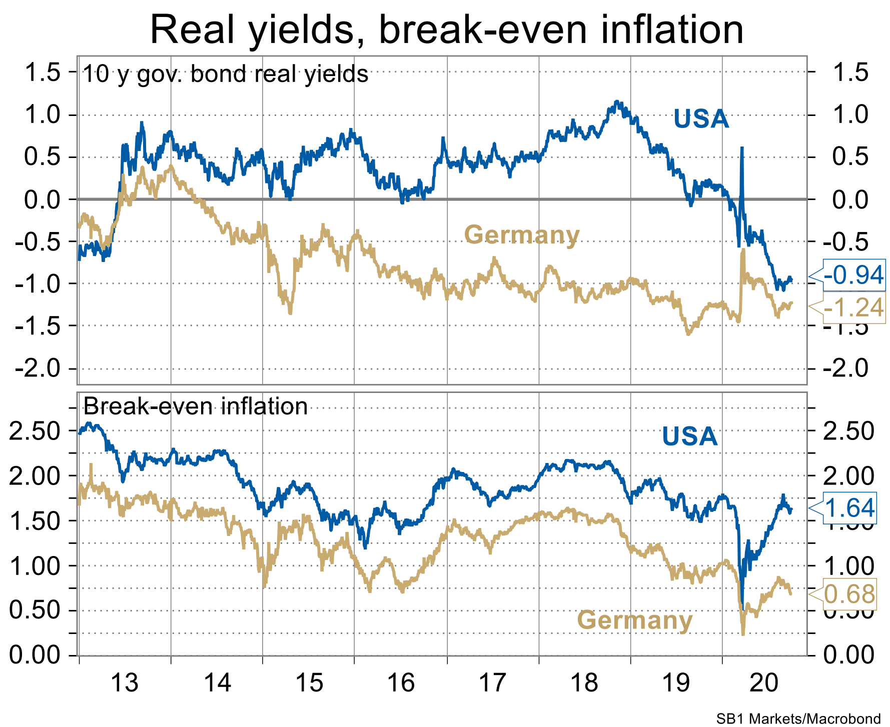


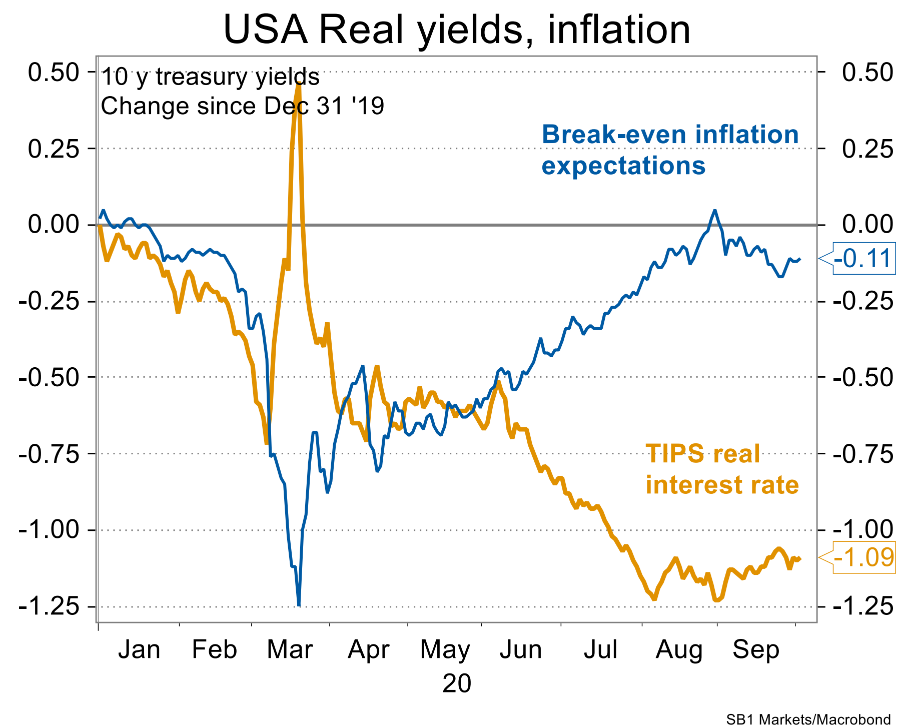




USA 10 y real rates up from the deep low, inflation expectations down

US inflation exp. have come down since the Fed first signalled the new inflation target

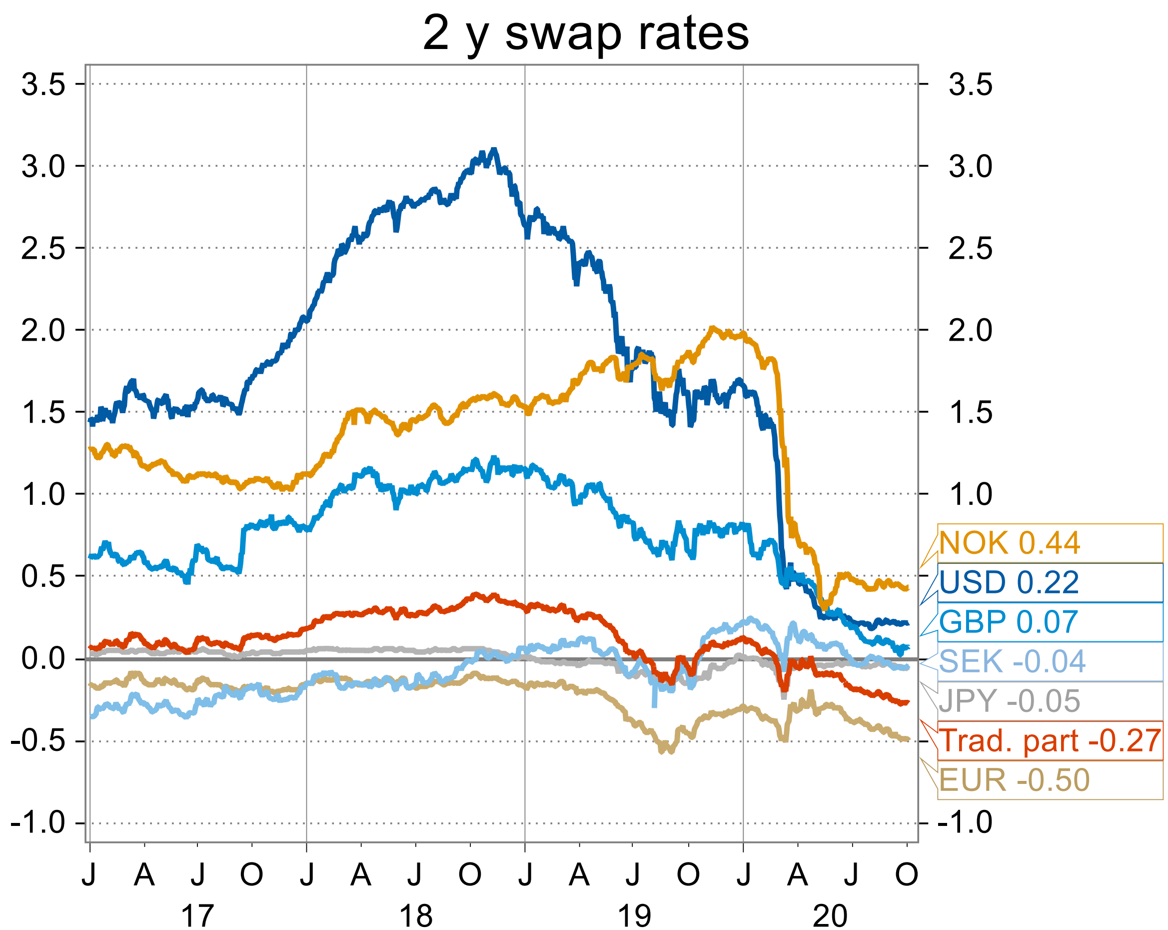




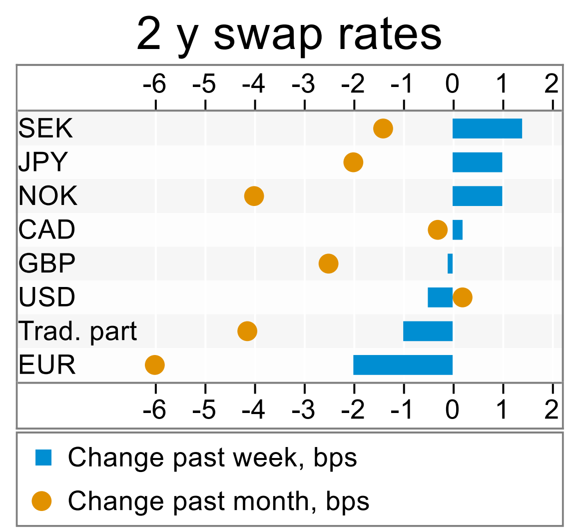
- The implied break even inflation rate climbed from April to August. Following Powell's announcement of the new Fed price level target strategy in late August, inflation expectations were pushed further up. Thereafter, inflation expectations have turned down. Last week, inflation exp. rose by a few bps, to 1.64% (in 10 years)
- The US real interest rate has inched up from the bottom but fell again last week, to -0.94%
- The German real rate is extremely low at -1.24%, inflation expectations at 0.68%

2 y swap rates have been sliding down everywhere

EUR rates down, probably partly due to dovish signal from ECB/Lagarde: Towards an average inflation target?

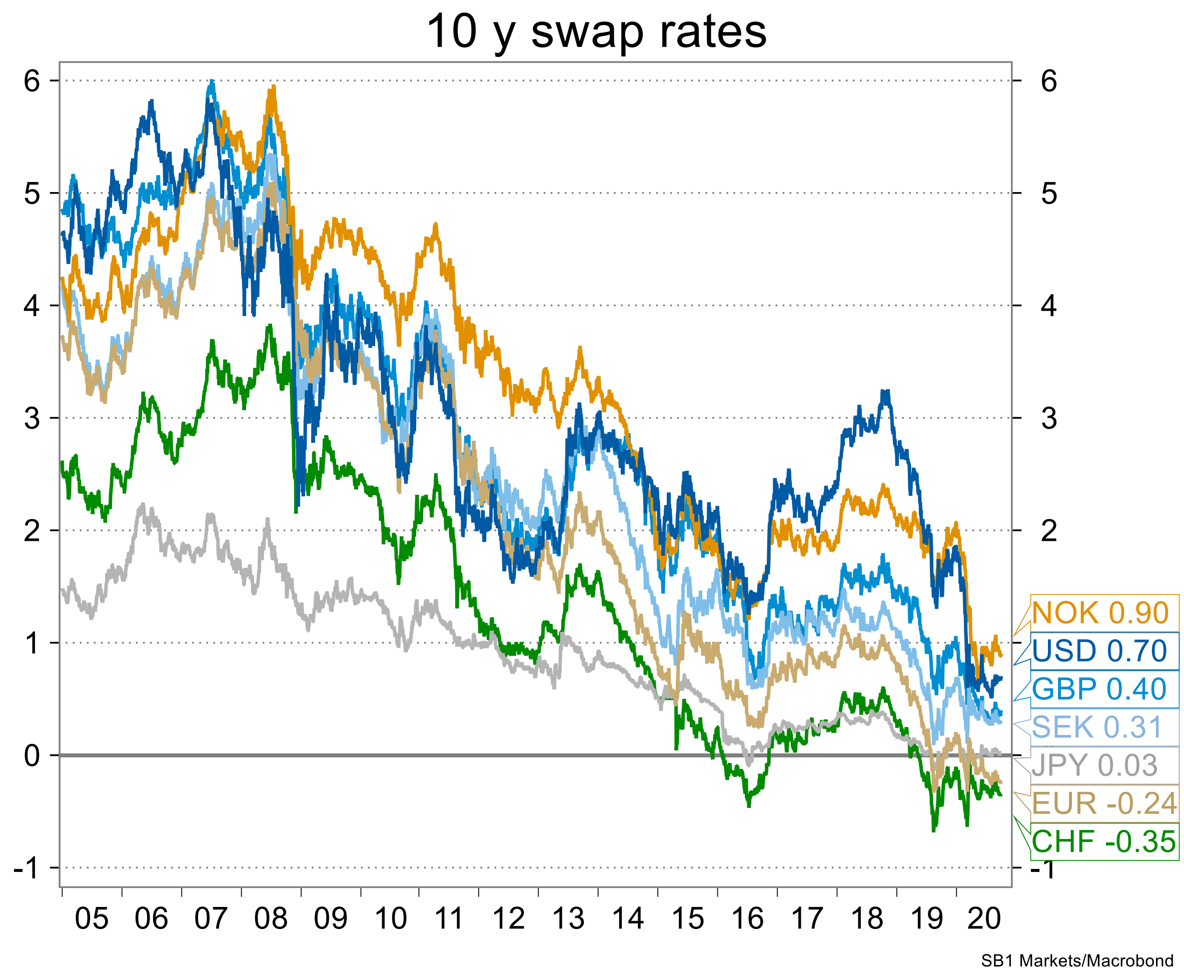


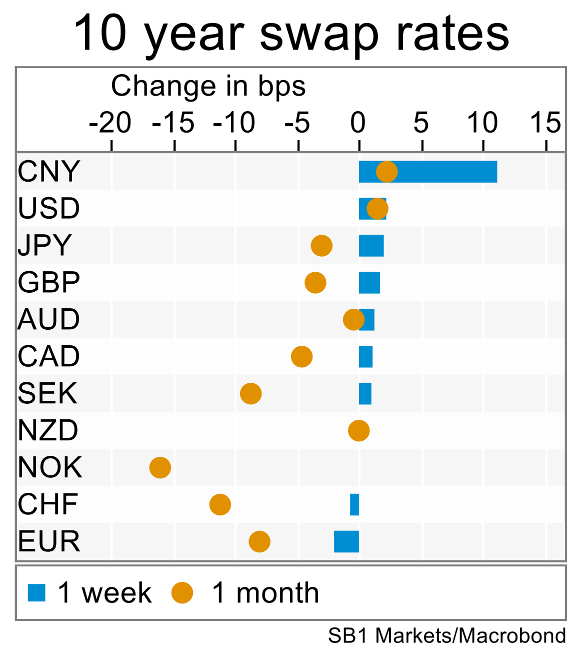
SB1 Markets/Macrobond



SB1 Markets/Macrobond

Most long term swaps mostly down past month, up last week





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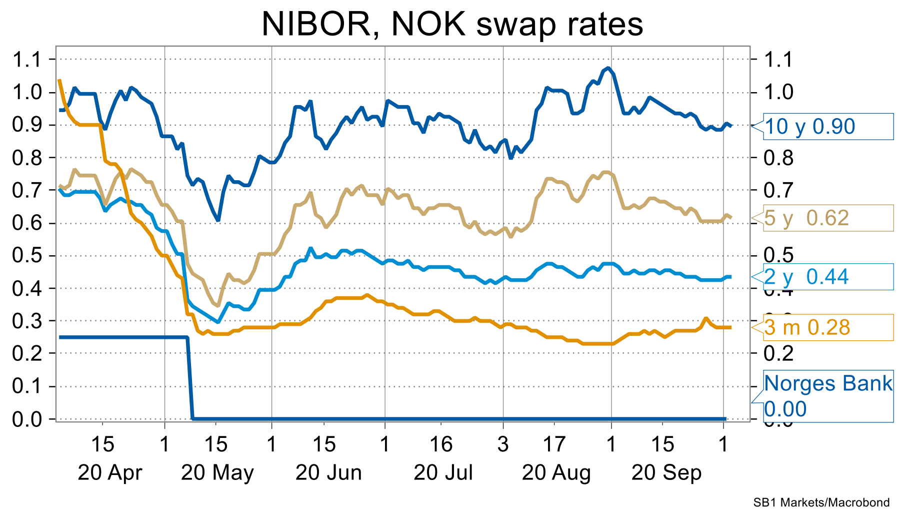
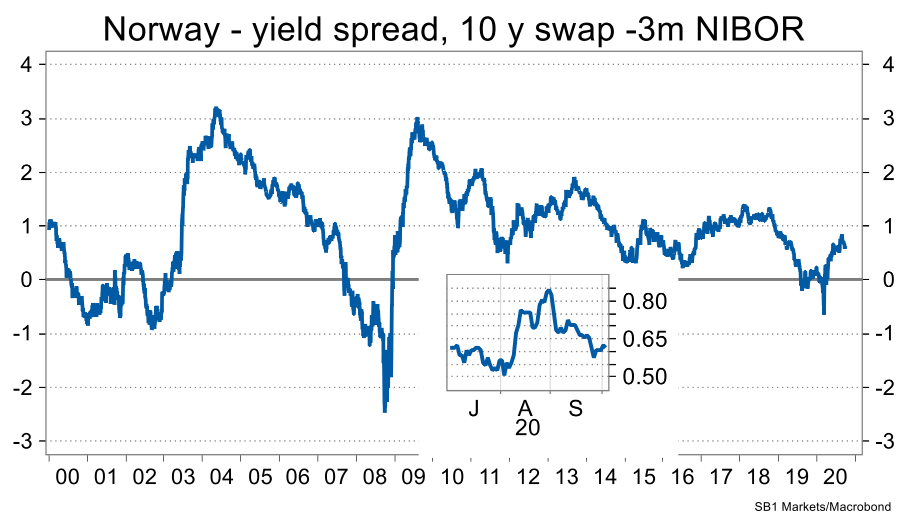
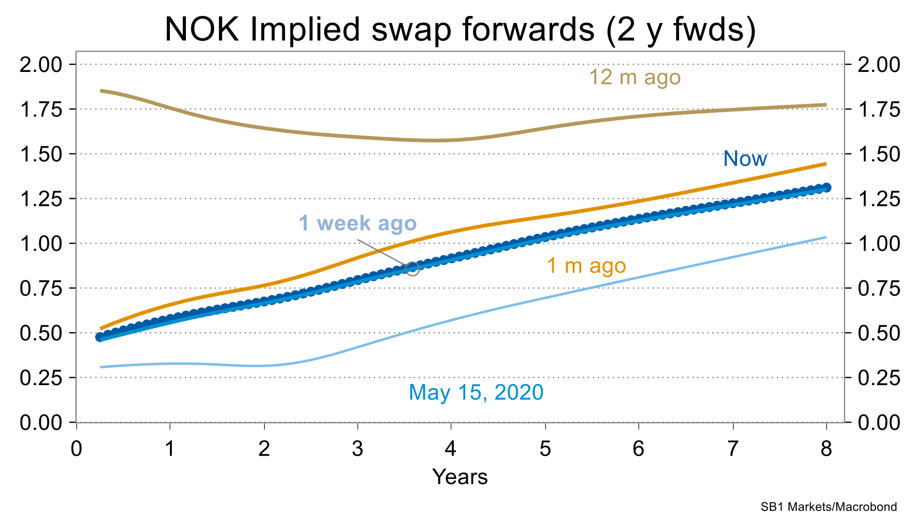
NOK curve steady last week, NIBOR back to 'normal'

A narrowing of the yield spread in Sept as swap rates fell in the long end in Sept, short end up

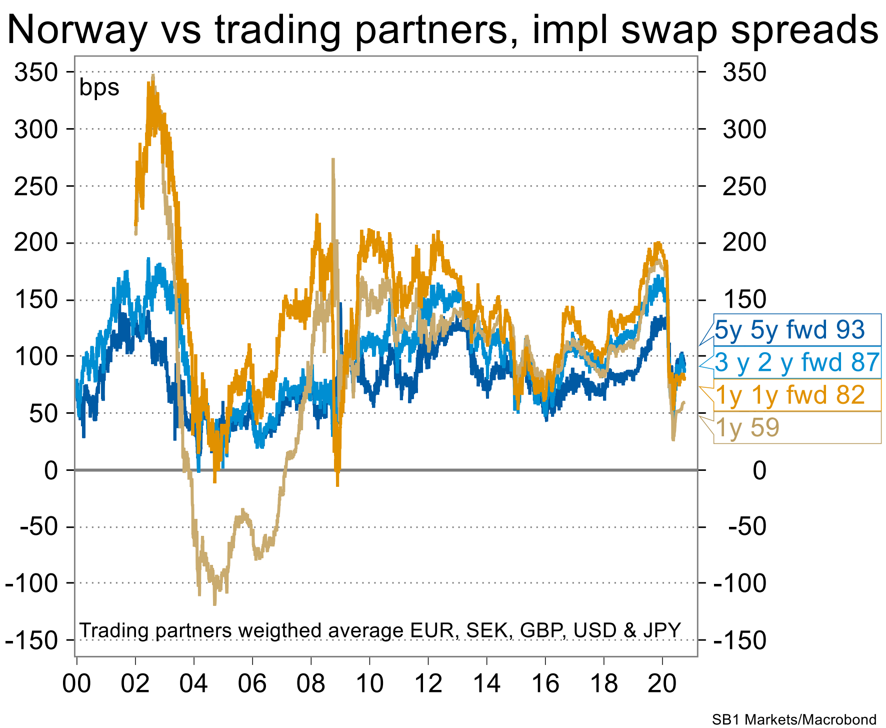


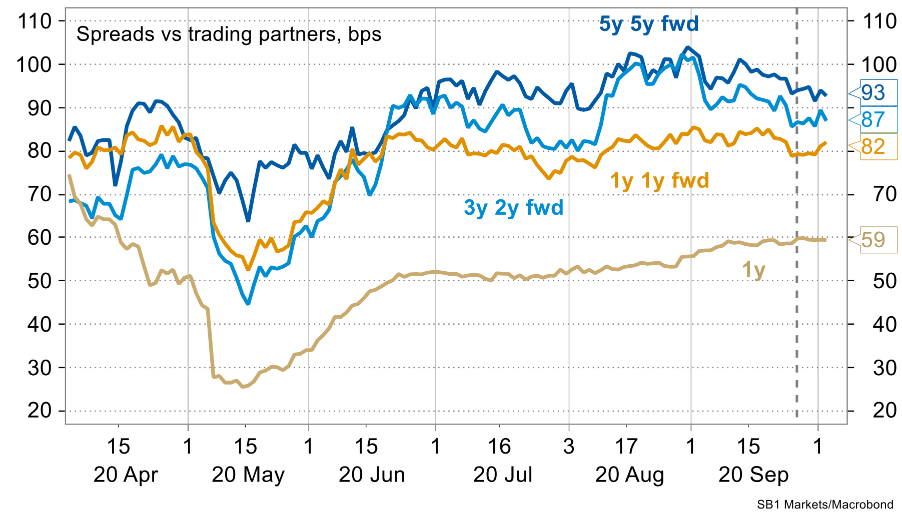


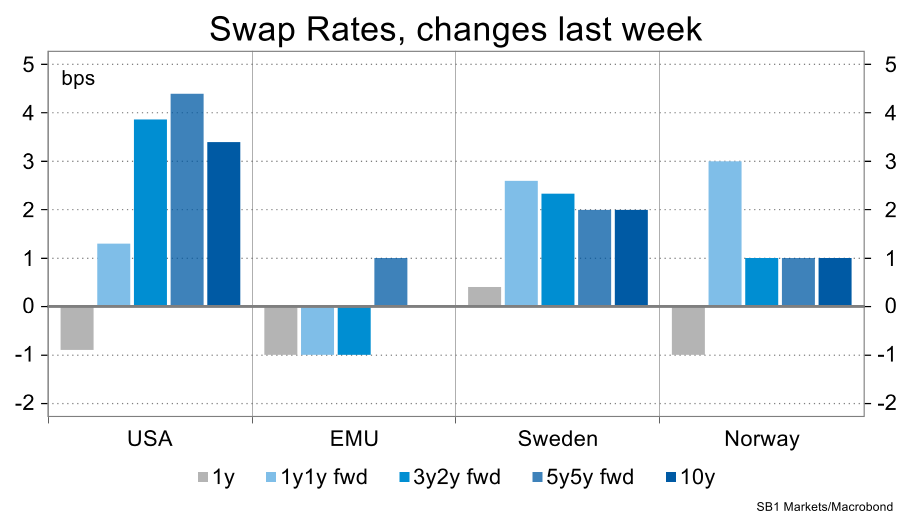


The swap spread vs trading partners is narrowing again

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



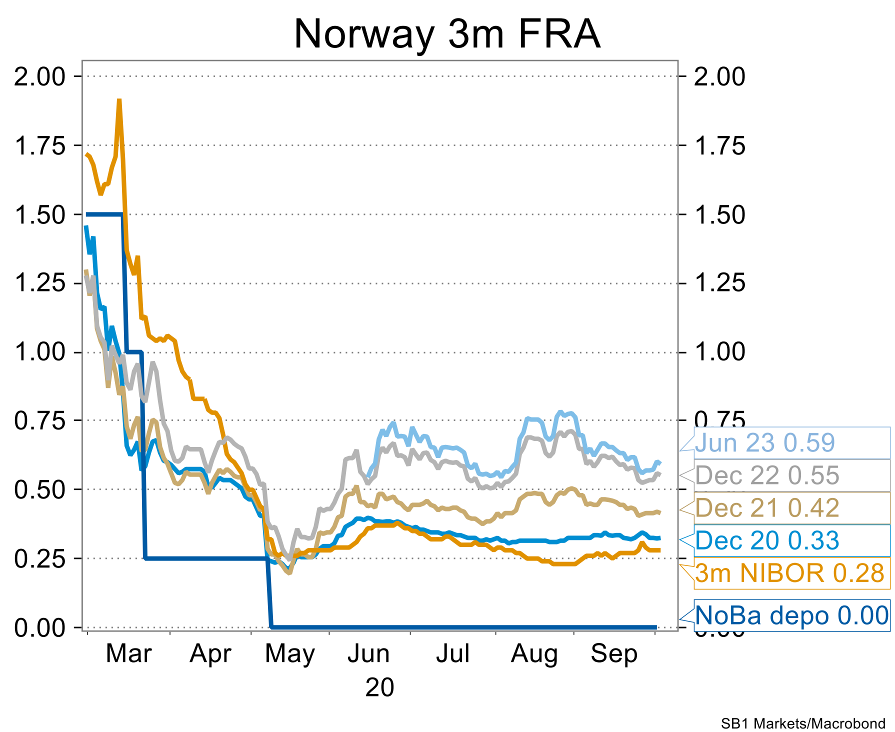


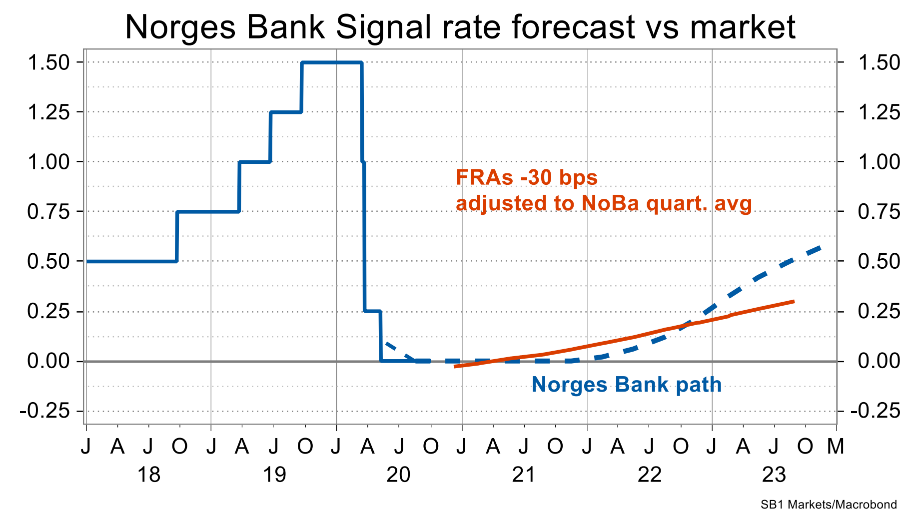


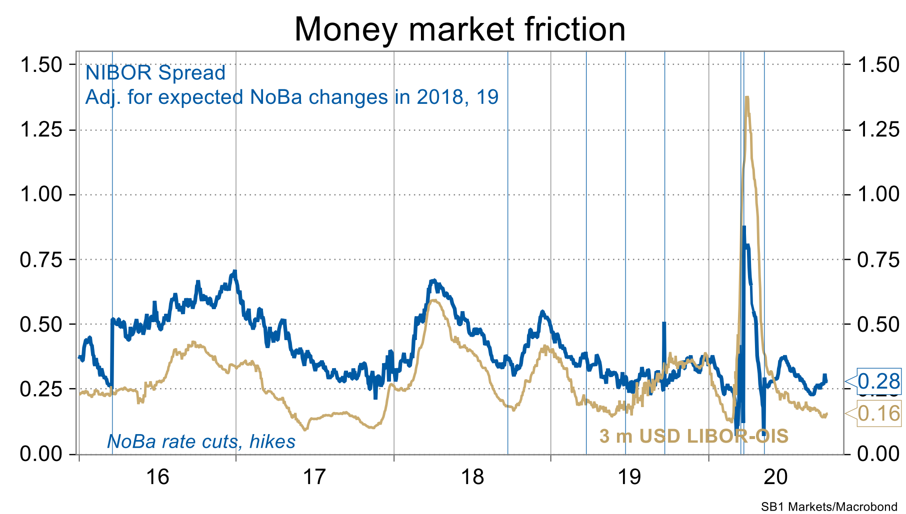
- Spreads vs trading partners have been trending wider since the May local trough but peaked in August, at least in the long end (short end still climbing)
- We are still neutral vs. the spread

NOK FRAs slightly up last week, 3 m NIBOR back to 0.28%

The market is probably pricing a NoBa hike in H1 2022 (vs H2 as signalled by NoBa)







- FRAs inched up in the long end last week, after sliding down since late August
- There were some trouble in the very short end of the Norwegian money market two weeks ago, lifting in the 3m NIBOR, but it soon returned to 'normal' levels

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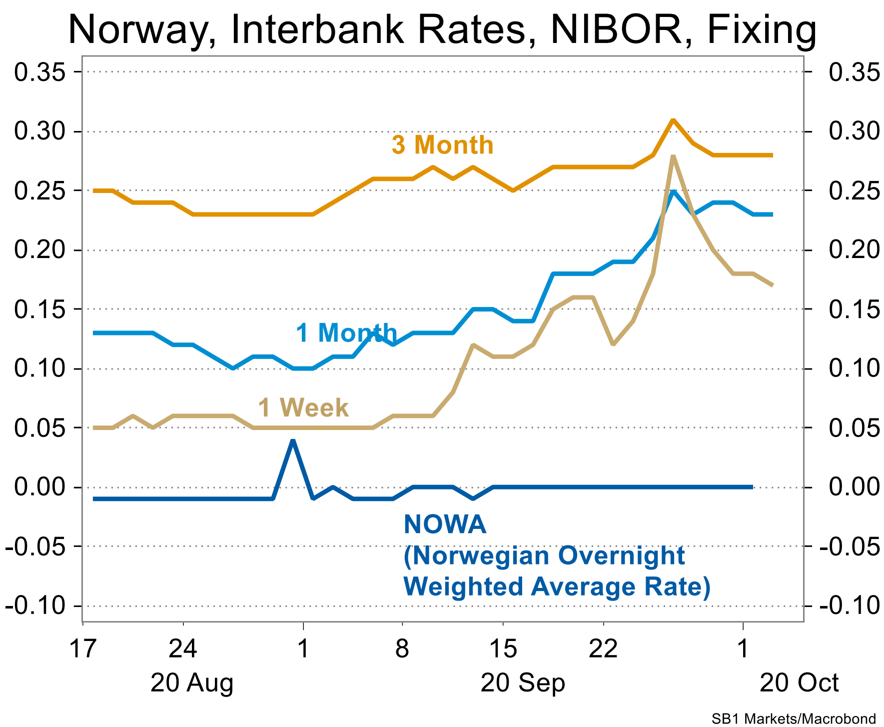
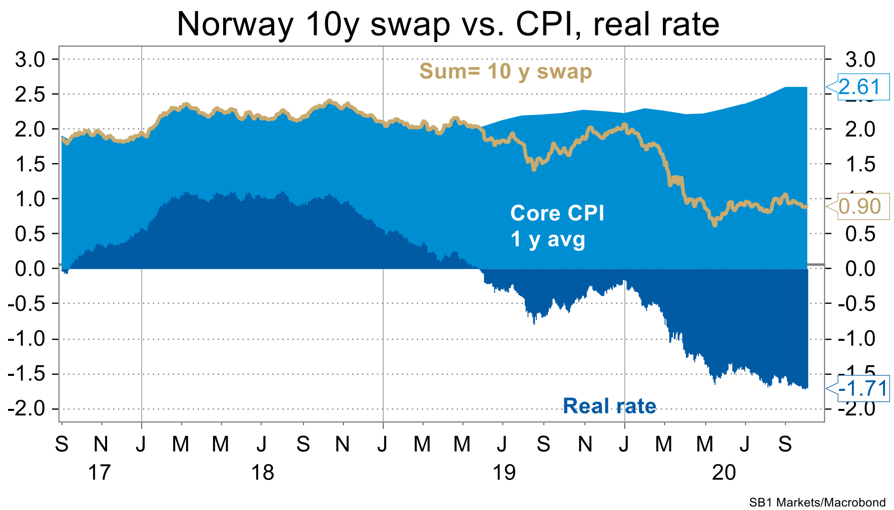
Less frictions in the very short end of the money market, but it's not fixed yet

The distribution of liquidity in the money market has been poor past two weeks

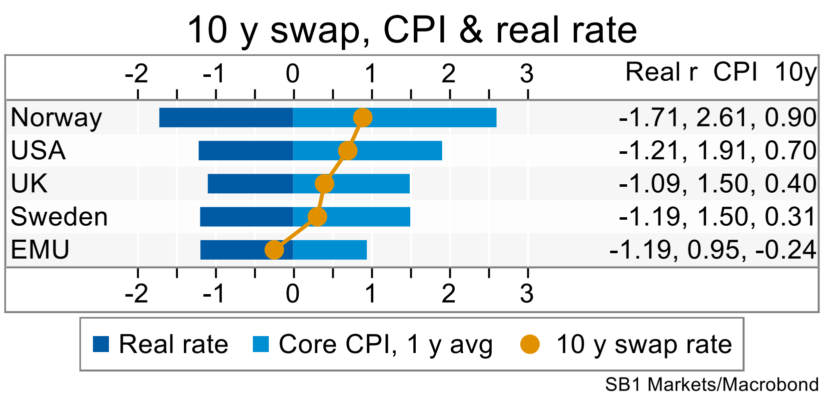


- Banks have not been able/willing to distribute short term liquidity between themselves in the latter part of last week – and some banks parked more money than their quota at Norges Bank and has to pay a 1% penalty (the reserve rate), instead of lending to other banks, and keep their money intact (at a zero % overnight rate)
- Some banks are said up have paid up to 1% for overnight money. However, the 1 week NIBOR fell to 17 bps last week, form 28 bps one week ago (but up from 5 bps a in early September. The 3 m NIBOR fell 3 bps to 28 bps, still higher than in the early Sept 23 bps trough
- In order to calm the market, Norges Bank has offered F-loans at Friday, at zero premium vs. the deposit rate (zero), but no bank have 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 -1.7%, 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 -1.1% to 1.2% measured vs. the 10 y swap rate and inflation over the past two years. The Norwegian real rate at -1.7% is an outlier, even if the nominal rate is the highest

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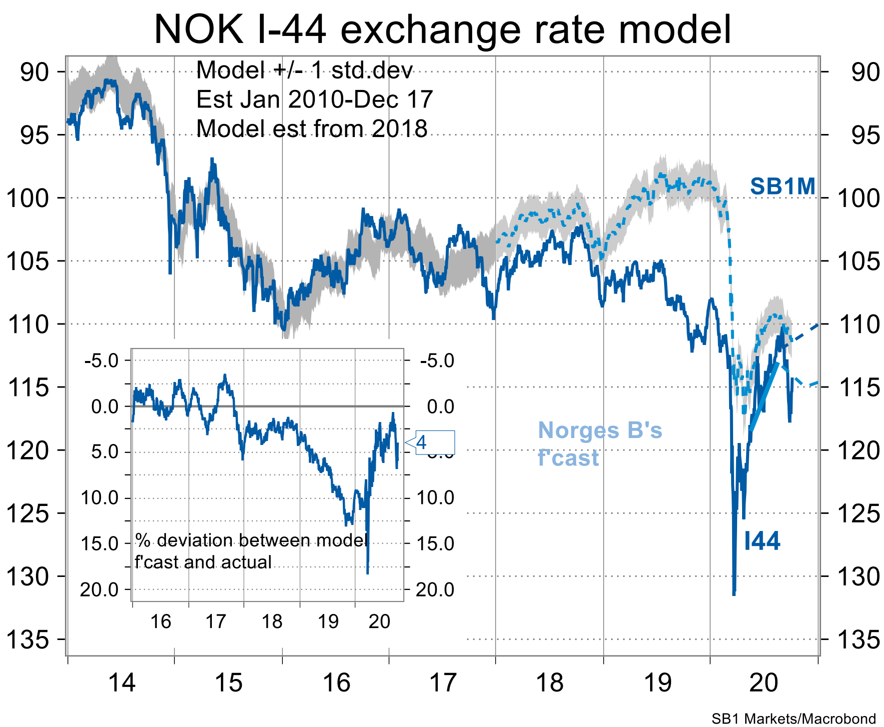
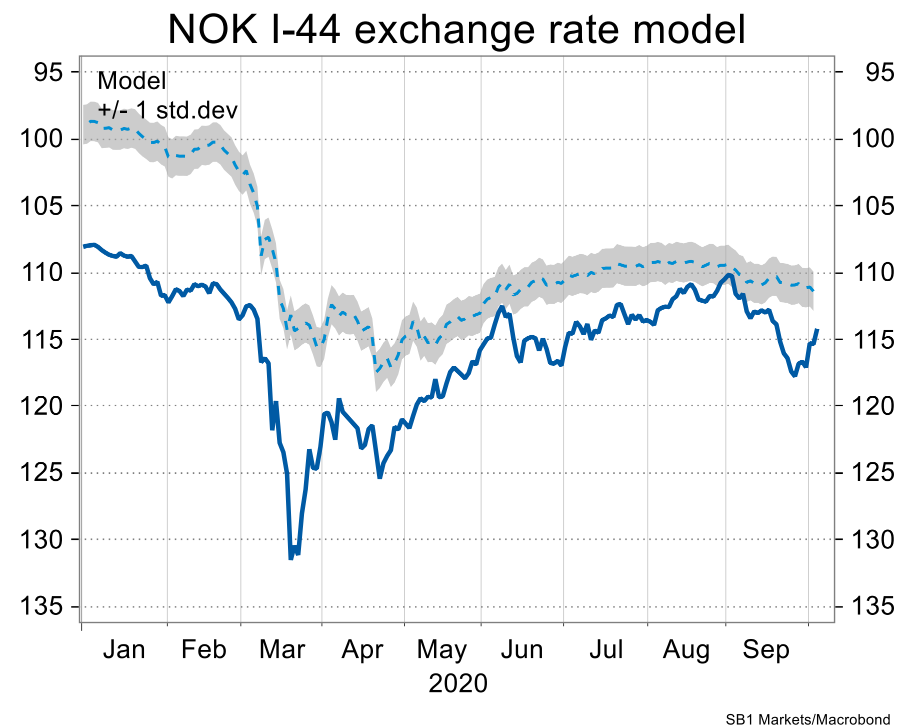
NOK in recovery mode last week, with no help from the oil price

NOK appreciated 2% last week, our model said -0.4%. Still, the NOK is 4% below our model forecast

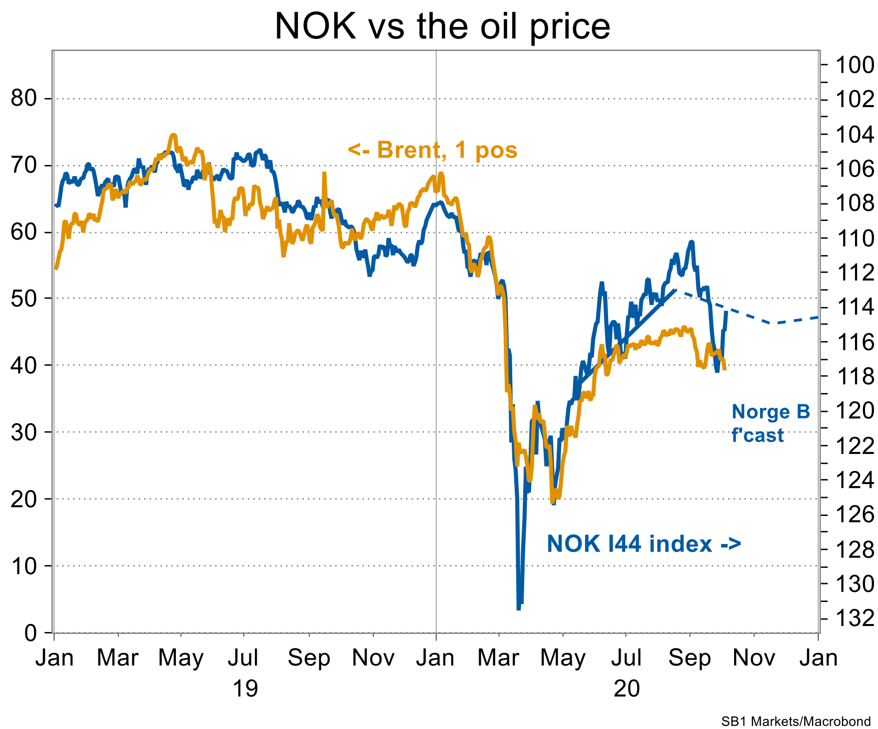


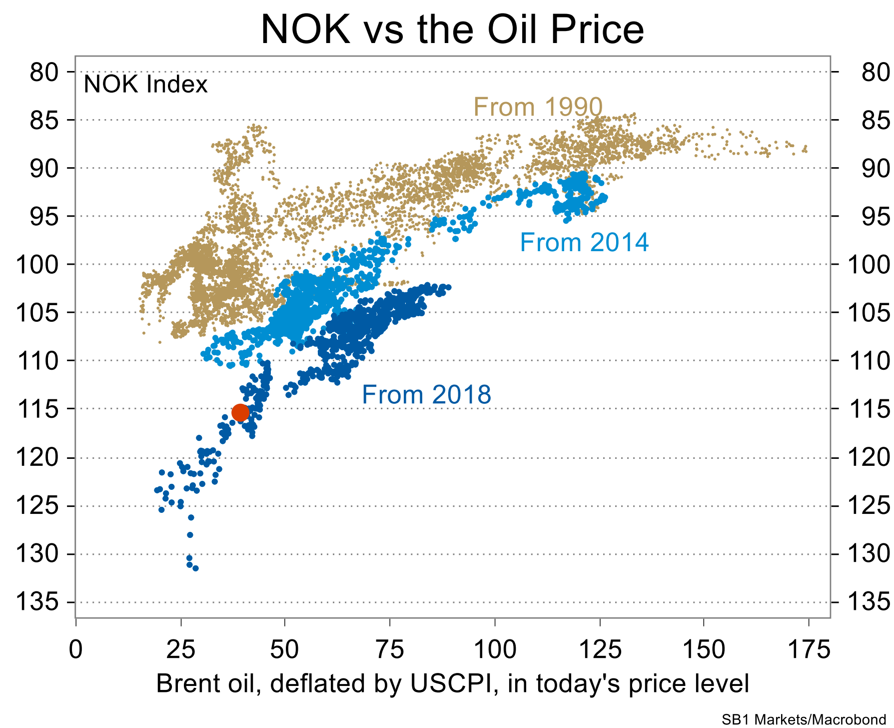


- The gap to the standard, oil price dependent model shrank to 4% last week, as the NOK appreciated without support from the oil price or other fundamentals. A more positive overall market sentiment probably helped the NOK, stock markets picked up. The NOK strengthened further Monday morning (an I44 estimate is included at the charts above)
- Following the decline in most of September, we have strengthened our buy NOK recommendation as the NOK has fallen more than oil companies and our supercyclical currencies
- 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, stock market sentiment?

The NOK depreciated more than the oil price fell earlier this month, related to risk sentiment

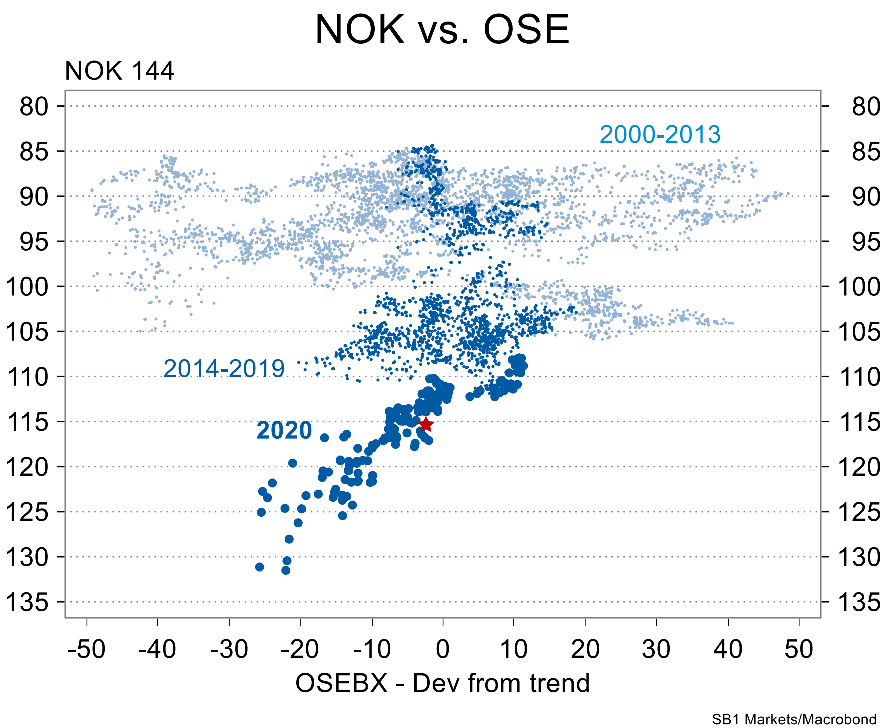


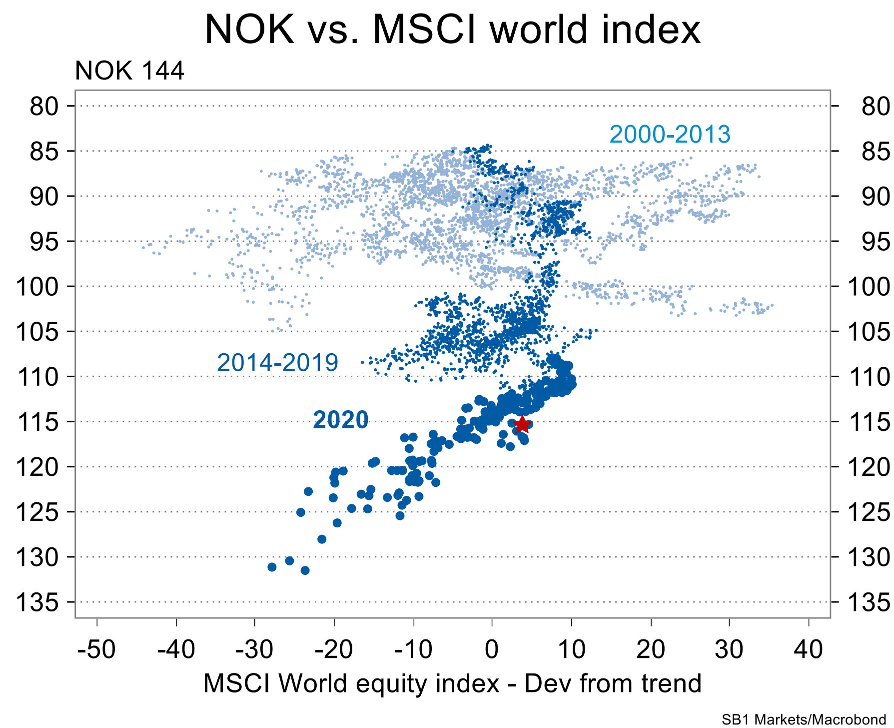


- The NOK is marginally stronger vs the oil price than the normal correlation until 2018

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

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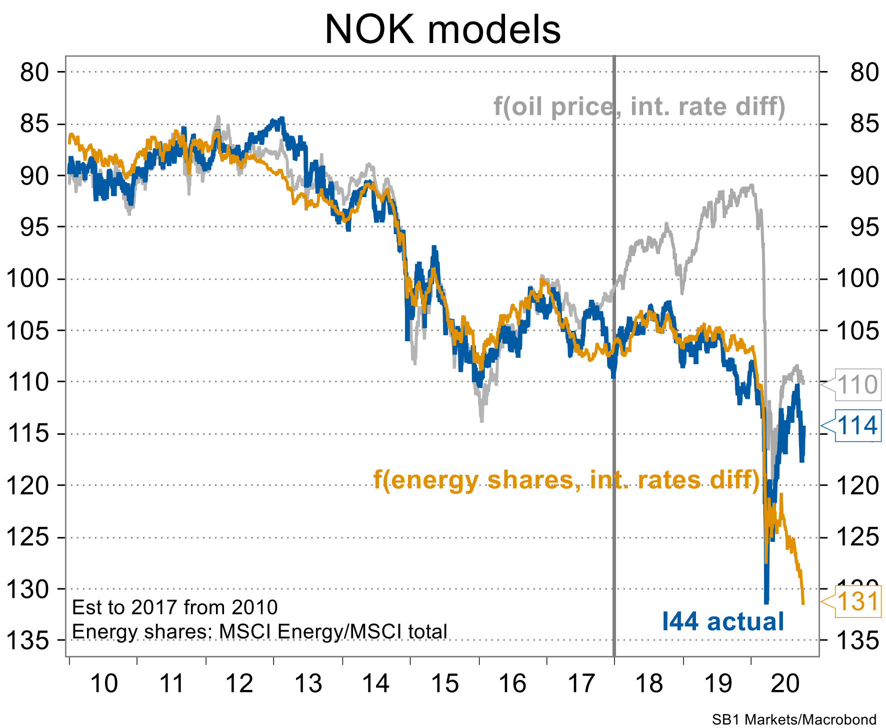
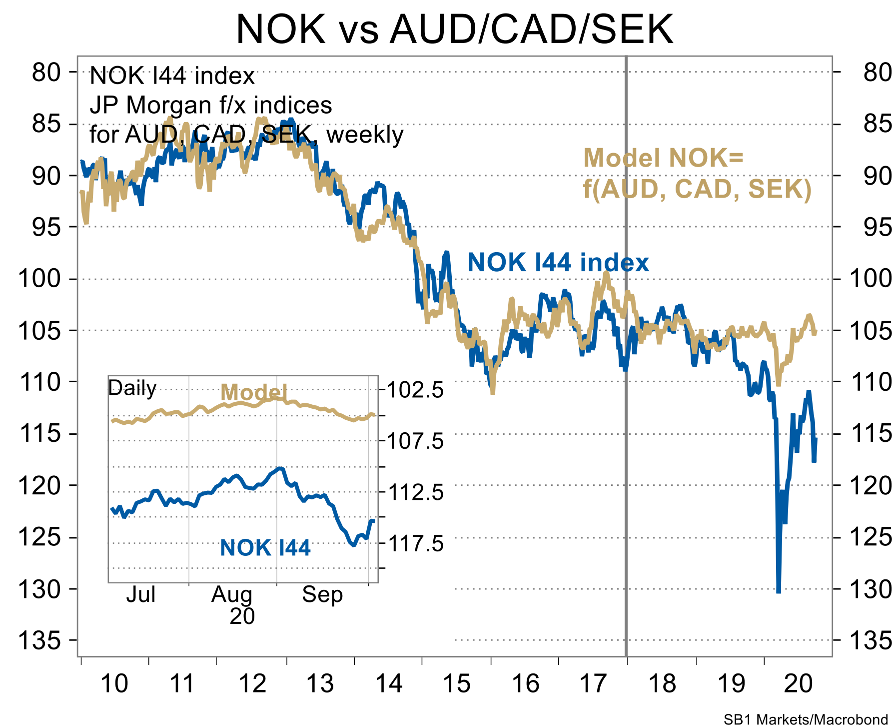
Oil companies continued down last week, the NOK not

The NOK much stronger than oil equities (relative to the stock market) but weak vs. our f/x peers





- 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
  - » Energy shares have been sliding down since June, and further last week, when the NOK appreciated. The NOK is 13% stronger than the model estimate
  - » The NOK has fallen much more than our AUD/CAD/SEK model forecast the past month, even as all are sensitive to market risk sentiment. The NOK is 9-10% below our model est. We think this model is more relevant than the oil stock price model

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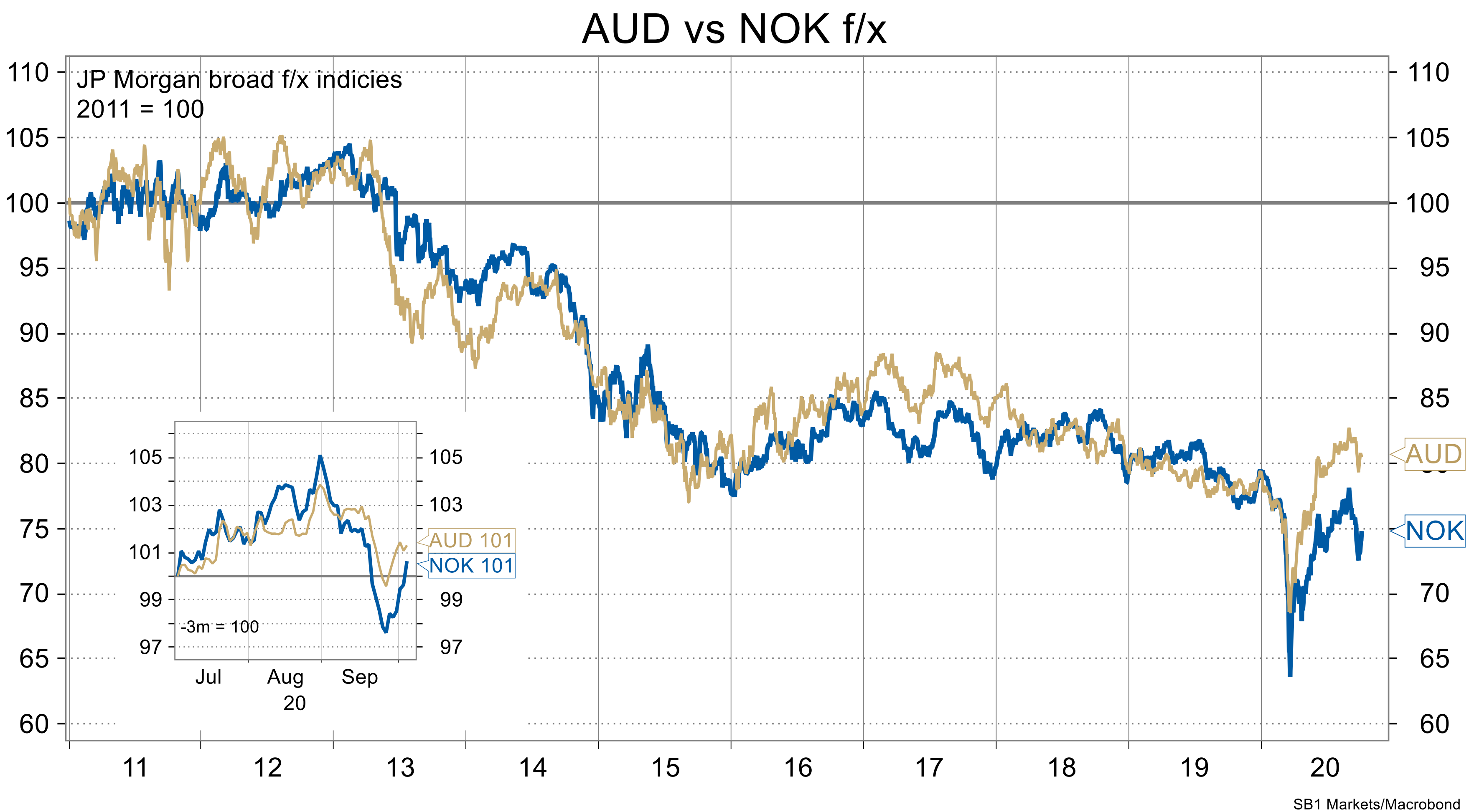
NOK weaker than usual vs the AUD but the gap narrowed last week

Both turned up last week but NOK more than the AUD



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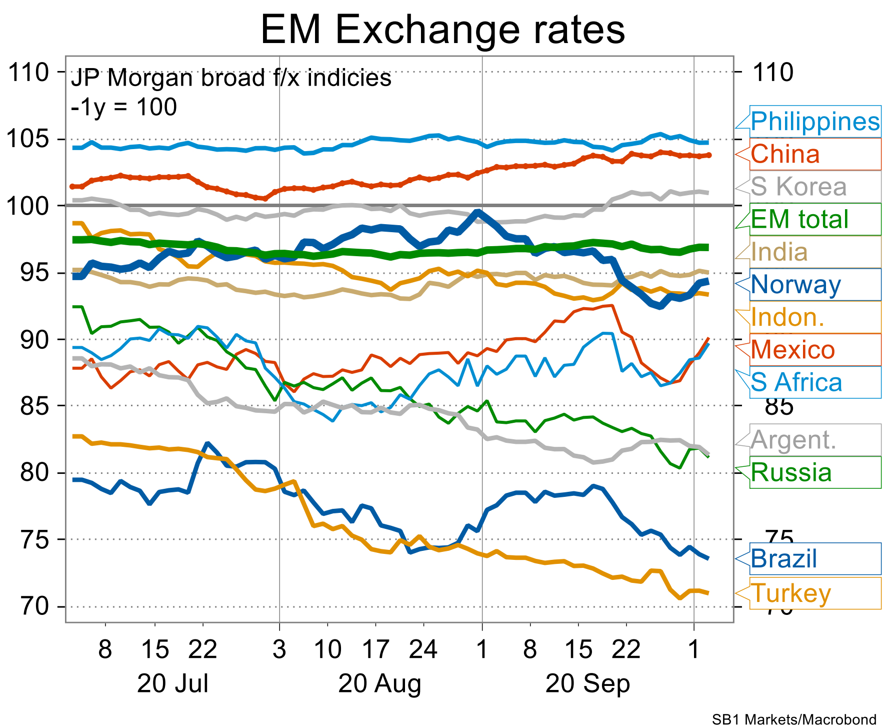
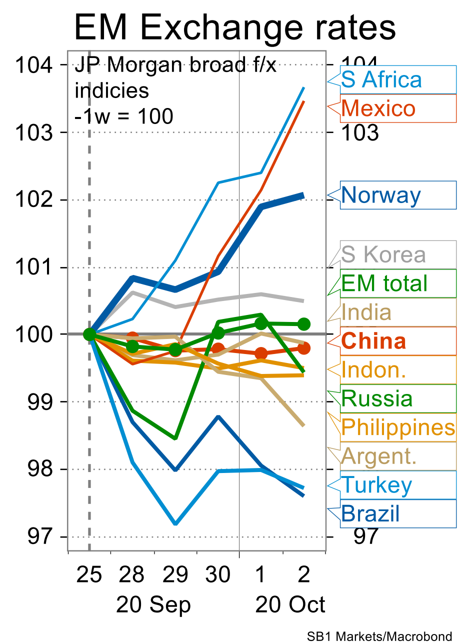
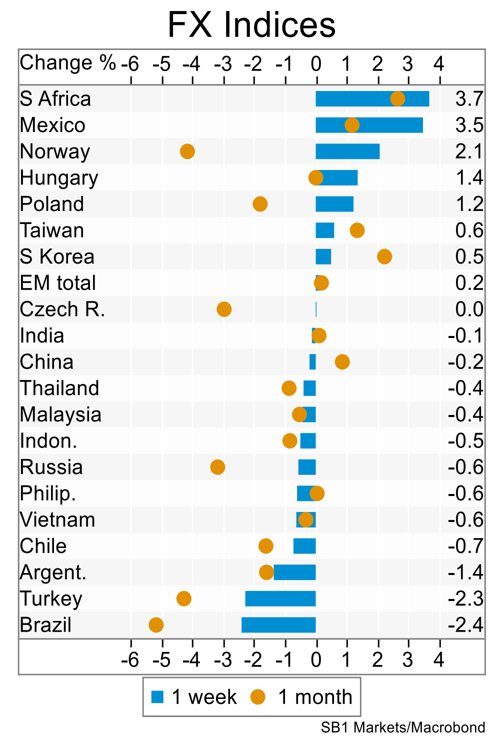
EM currencies in sum marginally up last week

Brazil,Turkey & Russia still on a slippery slope, others not







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