26 October 2020

Macro Research

Week 44/2020

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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:

- **Still ~~Very~~ Mostly Bad Corona News:** The number of new Covid-19 cases, hospitalisations and deaths is surging in most European countries – and new restrictions are imposed in many countries, and more will be announced this week. The 2nd wave is having an economic impact but so far just in parts of the service sector; the EMU services PMI fell further into red in October, and overall GDP growth in Europe may be stalling (even if the manufacturing sector is still going strong). The number of cases & hospitalisations is increasing steadily in the US too. The good news is the growth in new cases slowed is several countries during last week, including Israel, Belgium & the Czech Rep, which all have been (and the two latter still are) in dire straits

- The **global manufacturing PMI** probably rose marginally in October, as the index rose in both EMU, US, and Japan – with EMU in the lead. However the **global service sector PMI** flattened, as the decline in the EMU continued, no doubt due to the 2nd corona wave. However, in the far from corona free US, the service sector PMI rose further, and services in the UK is still reporting growth (albeit slower). We estimate an unch. **global composite PMI** (but no emerging country has so far reported)

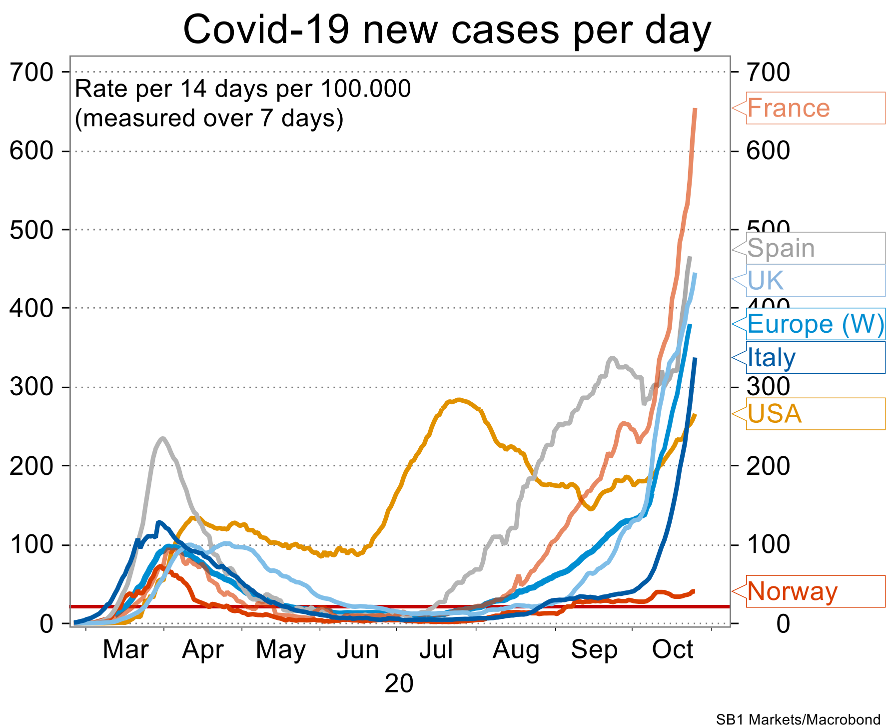
- Still no news on the negotiations on another **US fiscal stimulus package** but they are at least still talking – but markets are becoming somewhat impatient, at least for a deal before next week's election. **Housing starts** rose somewhat and is back at the pre corona level, while building permits rose to the highest level since 2007. **Homebuilders** have never before been more excited than in October! **Existing home** sales surged further in Sept, reaching the highest level since 2006, 20% above the pre corona level. **House prices are up 14%** since May, <u>the steepest 4 m appreciation ever</u> – and prices are up 15% y/y, among the strongest prints on record. The **inventory of unsold** homes is shrinking rapidly, and is at the lowest level ever. *Seems like record low mortgages rates are appreciated*

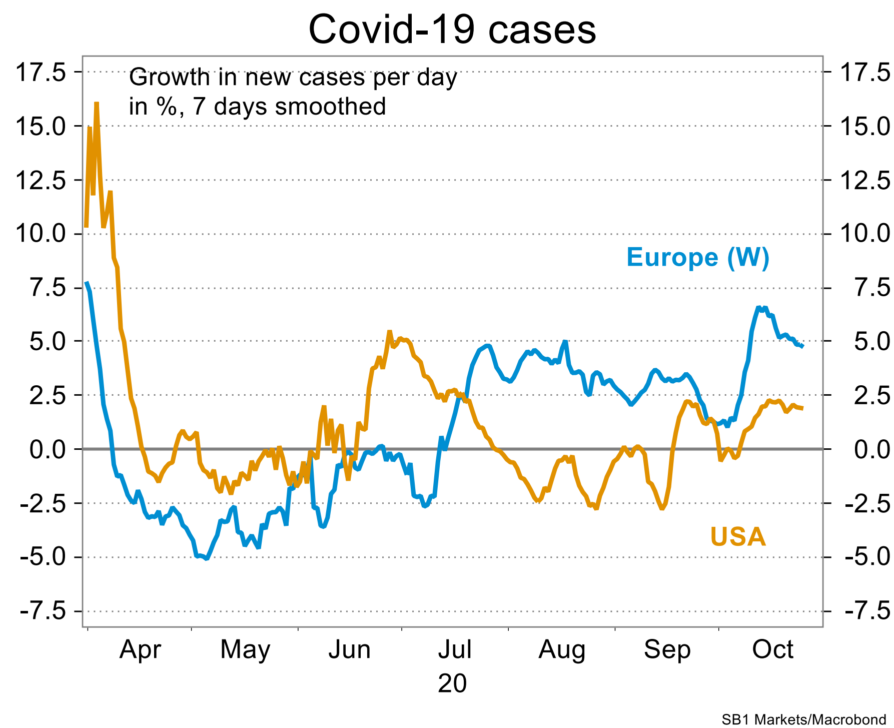
- Don't hold your breath: EU and UK is still trying to reach a **Brexit** deal – and the deadline may be this week (Wednesday). Some positive vibes last week. **UK retail sales** are strong, but the **manufacturing sector** is still reporting a very slim order book

- **In Norway, SSB's manufacturing** survey rose almost up to an average level in Q3, well above our expectations. Oil related industries are still reporting a rapid decline in orders/activity, while other industries are reporting growth <u>above</u> normal. As these industries have not reported any substantial corona setback, that's good news! The **LFS/AKU unemployment** has stabilised around 5¼%, **employment** rose to Q3 from Q2 but remains 1½% below the pre corona level, **while hours** worked are even closer! The latter is rather remarkable, given the still low activity in some service sectors

Some pretty worrisome trends in France, UK & partly US. Italy on the way up too

The worst picture for several weeks. Are more restrictions needed? <u>We may have been wrong!</u>

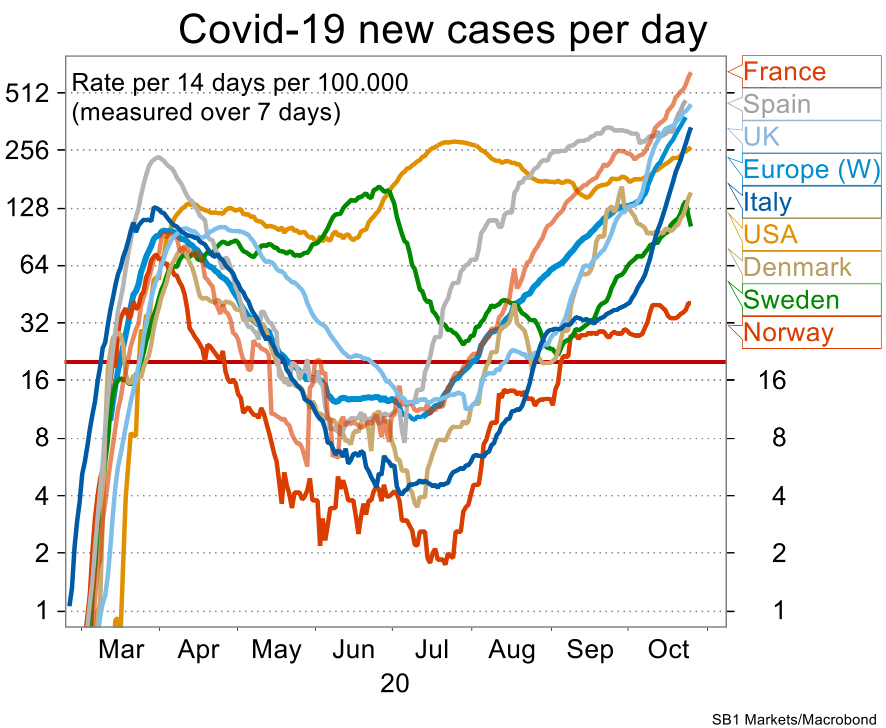




- The number of **new cases in the US** is on the way up again, quite broadly geographically. The number of hospitalisations is on the way up, but not (yet) deaths. So far, the economic cost has been limited, as no data signals another downturn
- The only goods news from **Europe** is the growth is slowing some places – but overall the growth rate is very high, and levels of contagion is still rising rapidly in France, UK as in Italy (from a lower level), in Belgium and the Netherlands – and in the Czech republic (*check two pages forward*). Hospital occupancy is increasing everywhere, and will soon become very high in some countries
- <u>**We were probably wrong**</u>: We thought light restrictions, and some changes in behaviour (masks, voluntary distancing) would be sufficient to turn the R<1 in Europe – like we saw in the US from late July until early September. <u>Well, that's not the case</u>

Even Norway on the way up again. But the level i still low

We are all well into the ‘red zone’

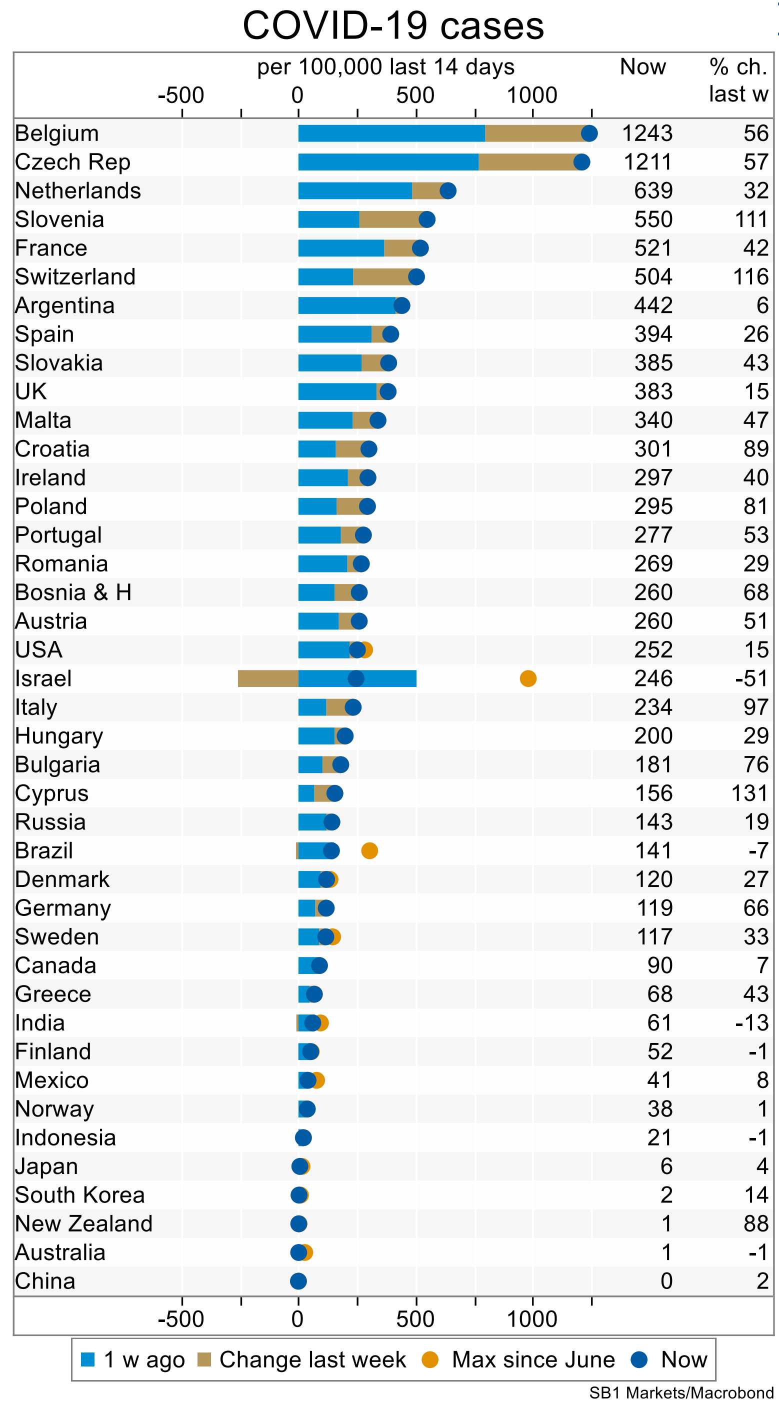


- Given the current trajectory, more countries will introduce new restrictions the coming days & weeks
- Denmark is on the way up again, perhaps Norway as well. The last Swedish data are somewhat uncertain

Not too many are heading downwards…

Huge increases in many countries the past weeks

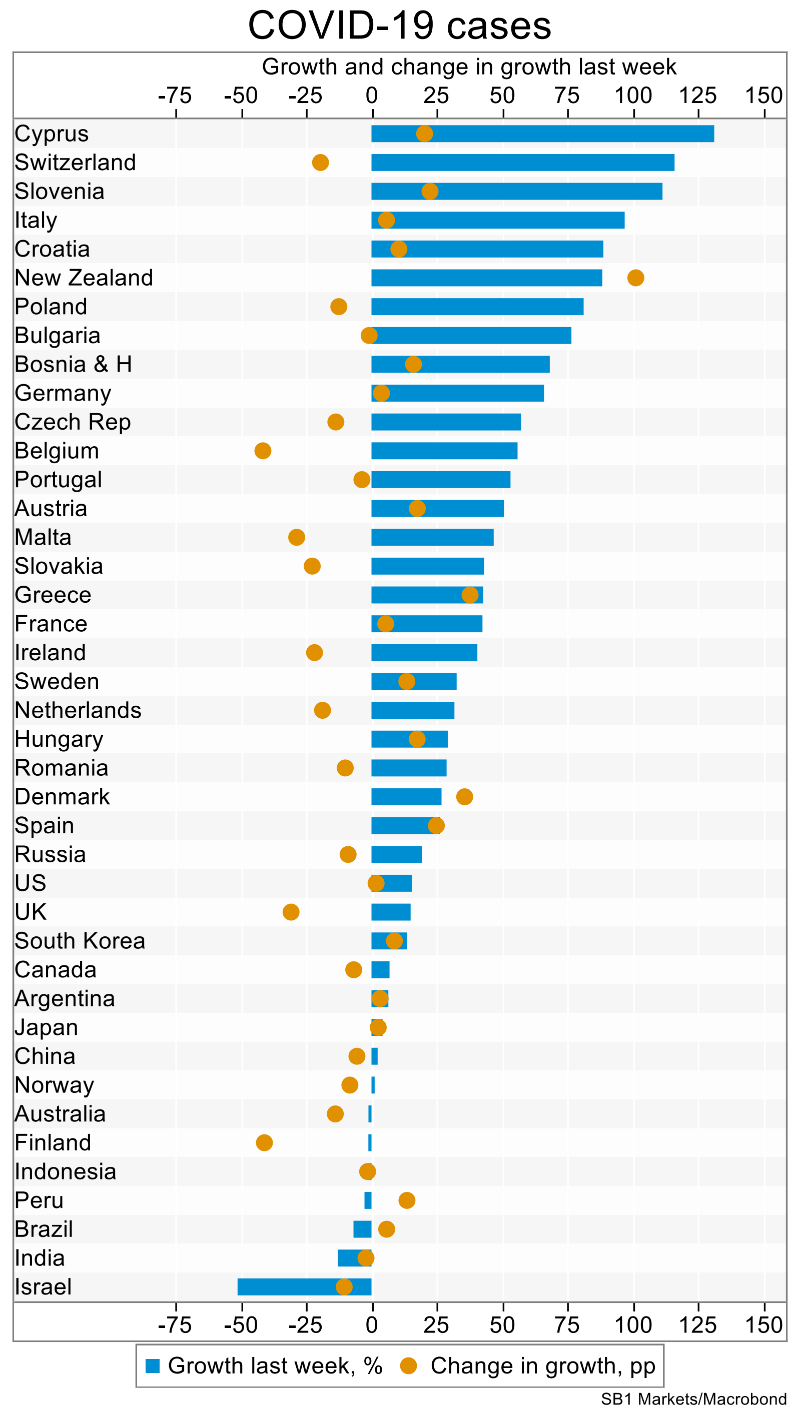
- We had to change the axis once more, the number of new cases is increasing among those at the top last week to – as for almost all other countries
  - » Israel is the only country with a significant reduction is new cases recent weeks – following another lockdown
  - » Some few other countries are also reporting fewer cases
  - » Almost all countries are at the highest level since June (when the ‘2nd wave’ started
- Hospitals in some places of Europe and some few places in the US are reporting a challenging situation. Hospital occupancy is increasing everywhere, and are record high in some countries (like the Czech Rep), and will soon approach a record level (like Belgium)
- The no of deaths is on the way up most places – and rapidly in Europe - but (so far) not to a high level vs. the disastrous peak levels during the spring
- The good news: The growth in new cases is slowing in several countries, including the Czech Rep & Belgium, check the chart at the next page



Growth in new cases is slowing

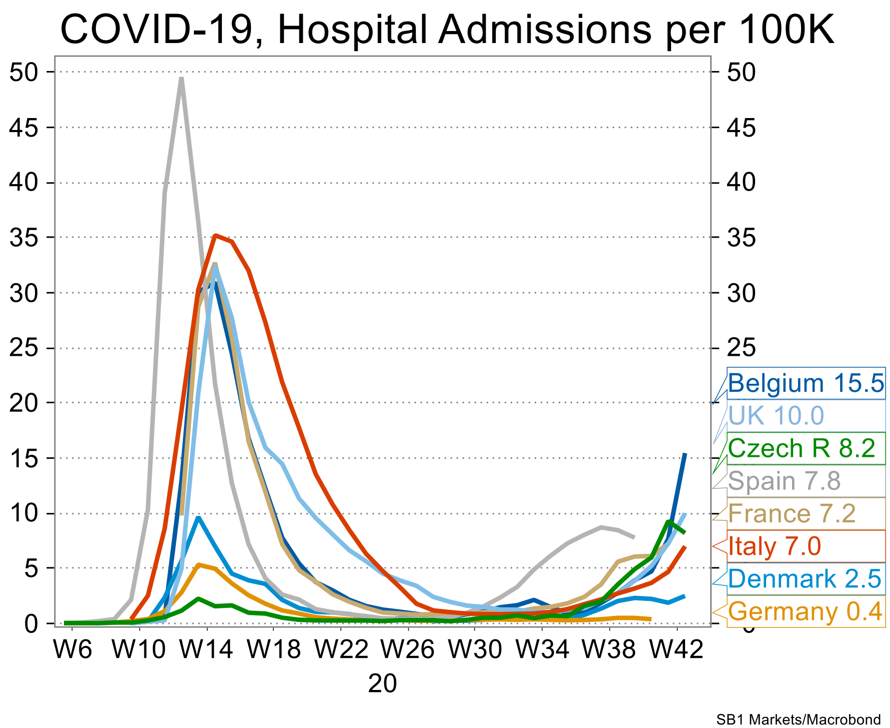
… in some half of the countries

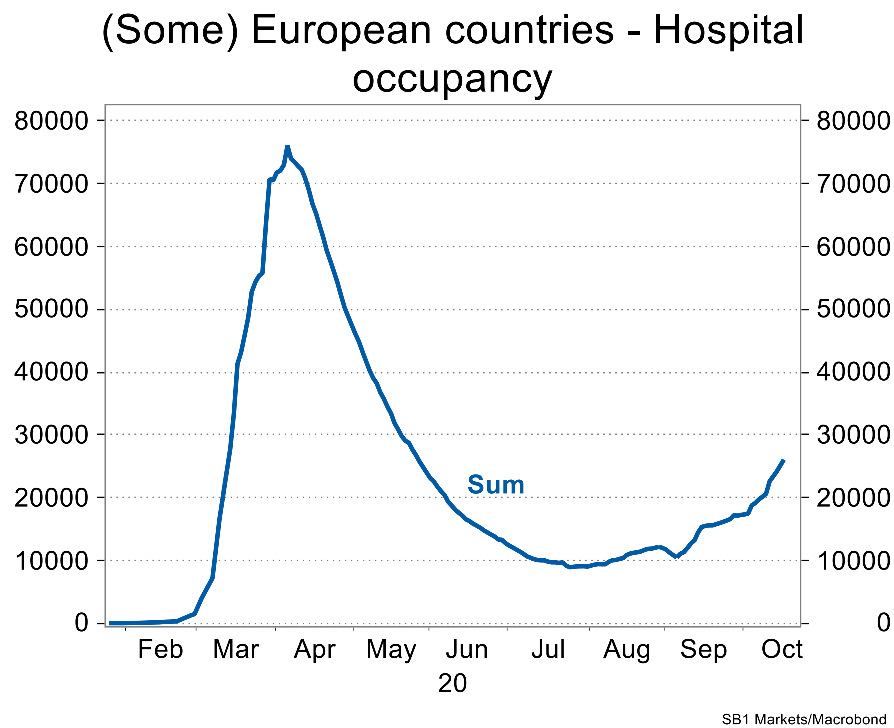
- .. And the number of new cases is falling in some (very) few countries



Corona is becoming a health problem, at least some places

The number of hospital admissions is on the rise again





- The last data point may be preliminary – and they are lagging .

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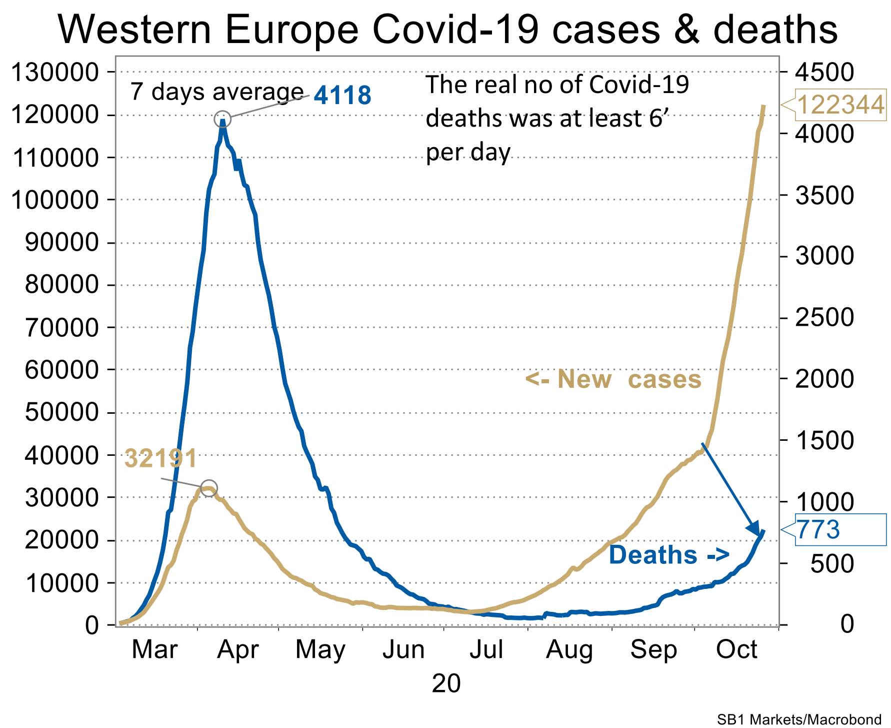
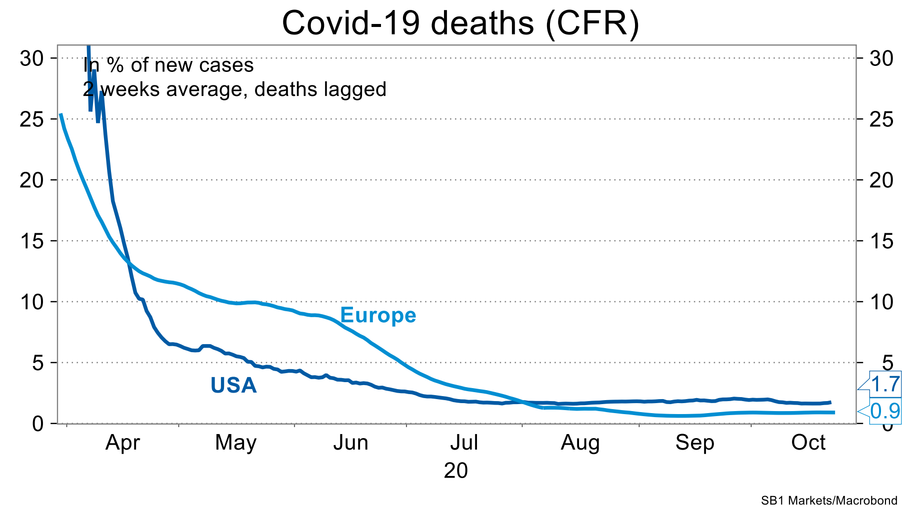
Europe: Covid deaths still at a low level, some 5% of total deaths

But the number of deaths is climbing again



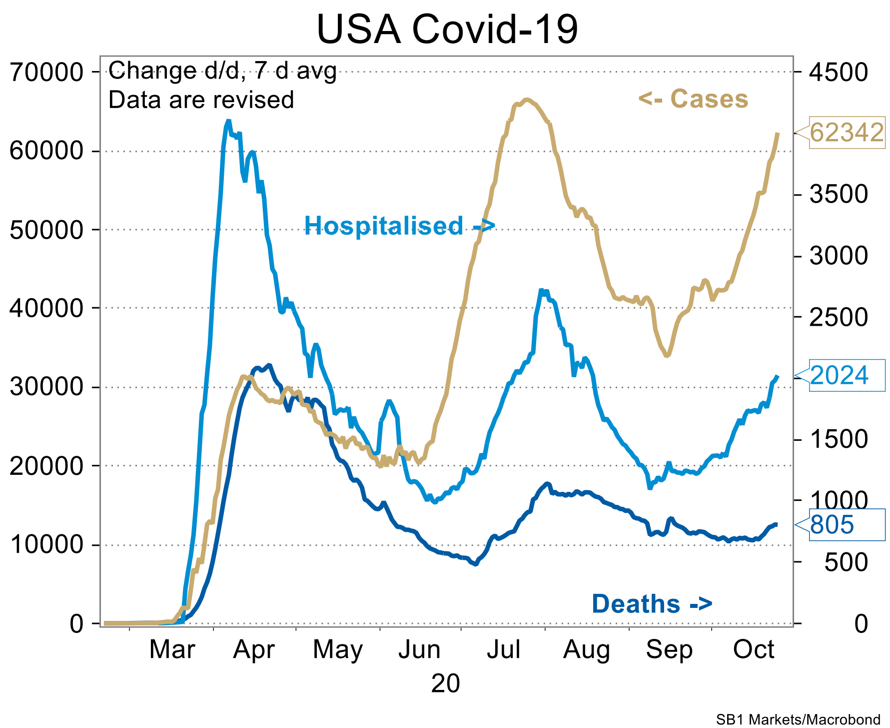
- The number of deaths in Europe is growing at a fast pace but the level is still low, below 800/day, 1/8th of the level in March/April, and equalling 9% of the 9.000 daily deaths in Europe

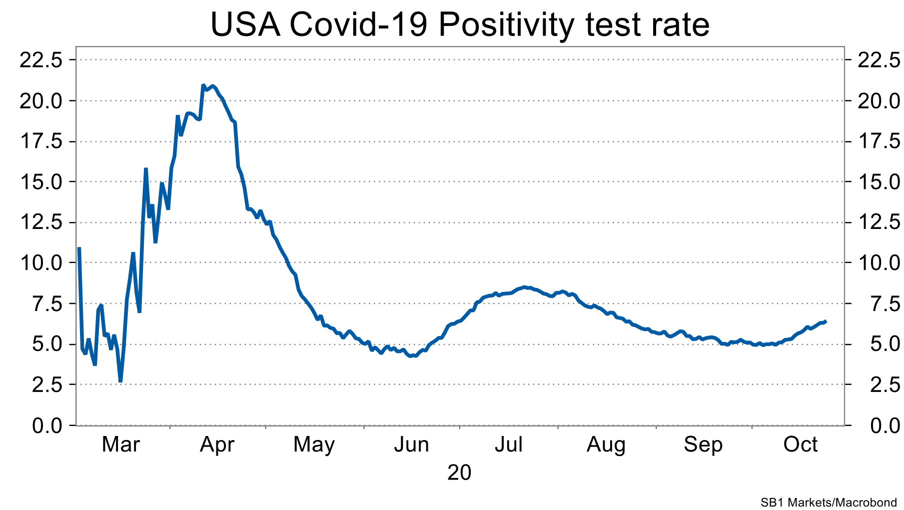


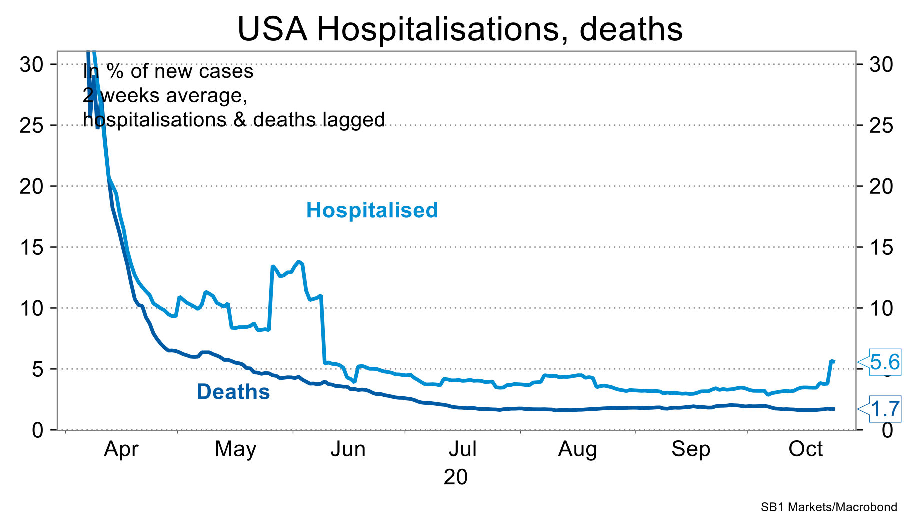
- The death rate (vs. confirmed cases) has stabilised at less than 1% in Europe. In the US it is at 1.7%, probably mostly because the real number of new cases is relatively higher in the US than in Europe vs the officially reported figure. (The positivity rate has been far higher in the US than in Europe – but this rate is rapidly climbing in Europe now)

USA: More new cases but hospitals not filled up, not cemeteries either

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





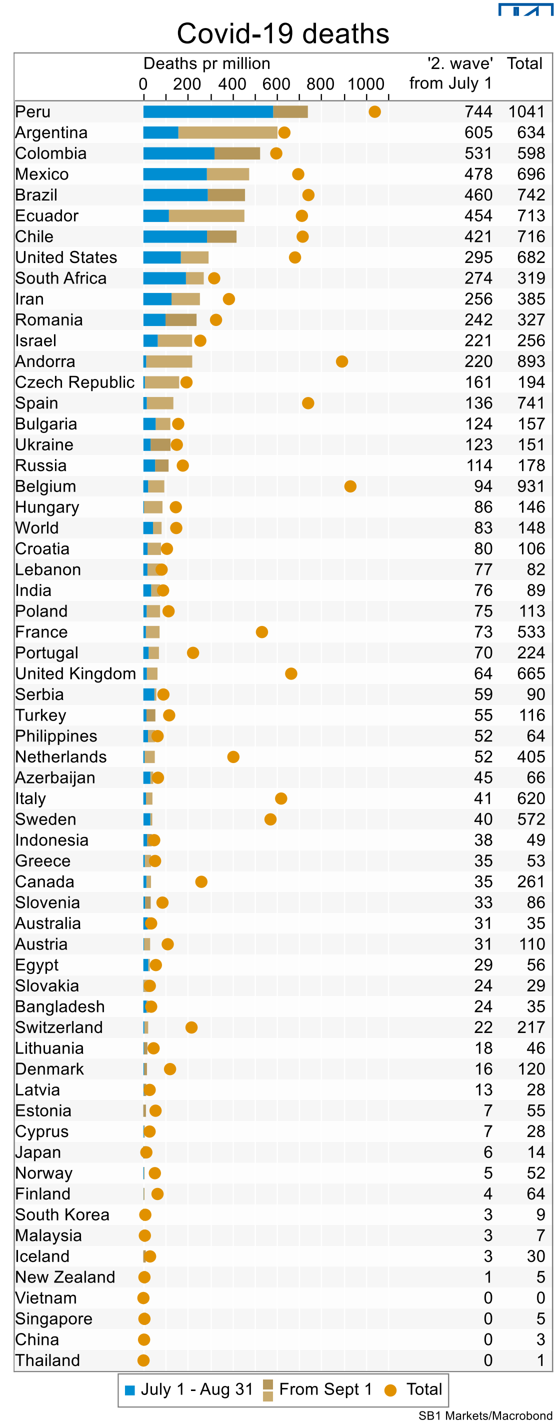


- The hospitalisation rate is far lower than during the early phases of the pandemic but has increased since early Sept
- The death rate (CFR) fell sharply until late July and has flatted out since – at just below 2%. A rather high positivity test rate indicates a higher real infection rate

The bottom line: Where are people dying

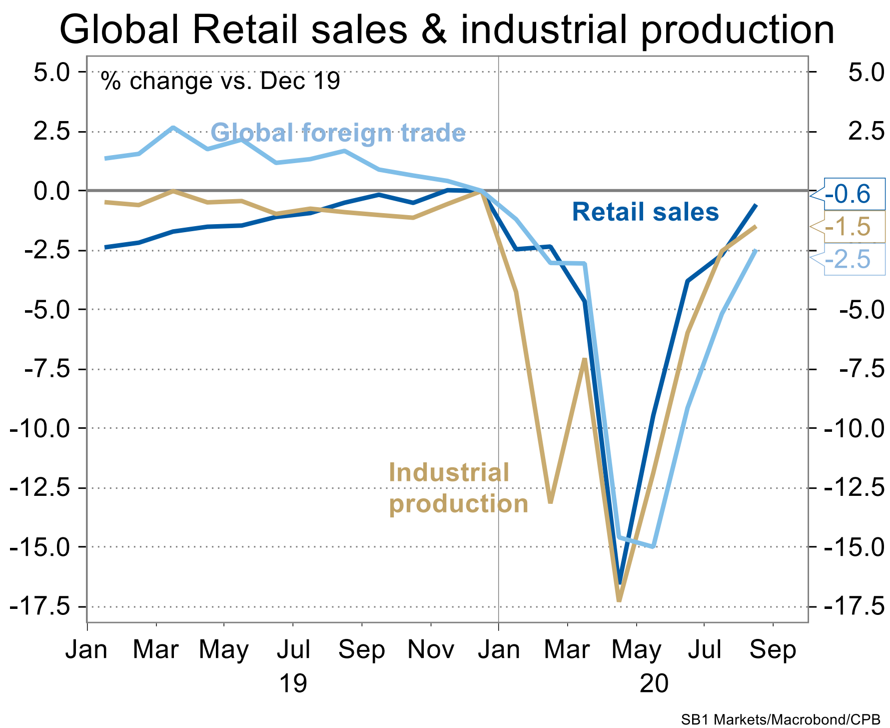
Death data are underreported many places but still the best we have

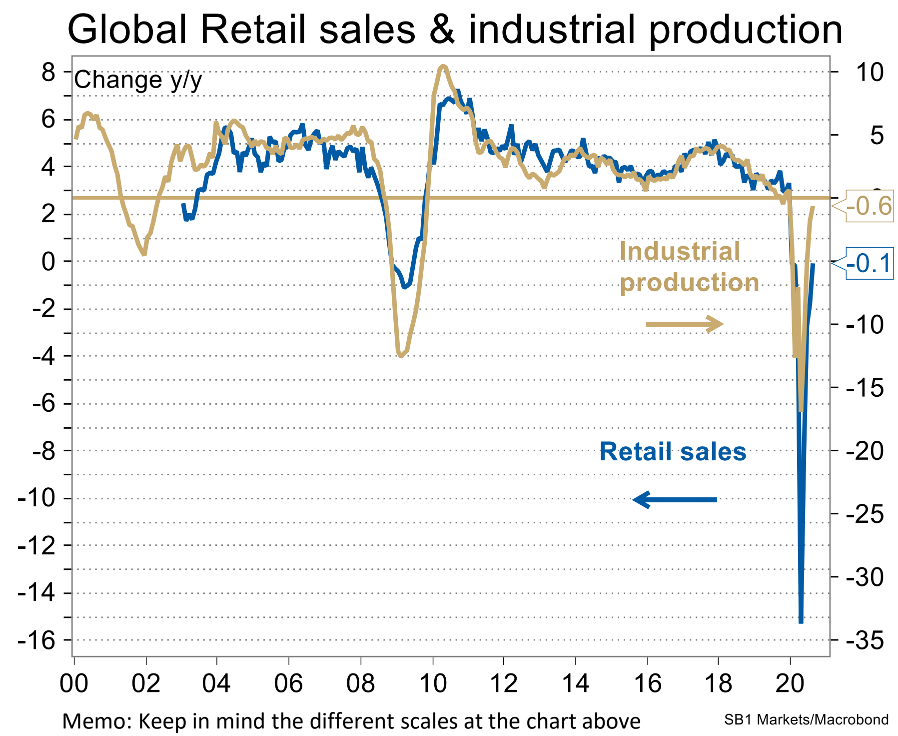
- Lat-Am is reporting the highest death numbers since 1 July with the 7 top positions. Peru is at the top, but most deaths took place before Sept 1
- US is at the top by far among rich countries, if we start counting at July 1 but is lagging Span and Belgium if we start counting in March – but ahead of UK, Italy, Sweden and France – and all others
- Norway is close to the bottom of the list, together with Finland (and Denmark is not far above, and not Sweden either if we compare the no of deaths since 1 July)



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

Activity just 0.6 – 2.5% below the pre corona level

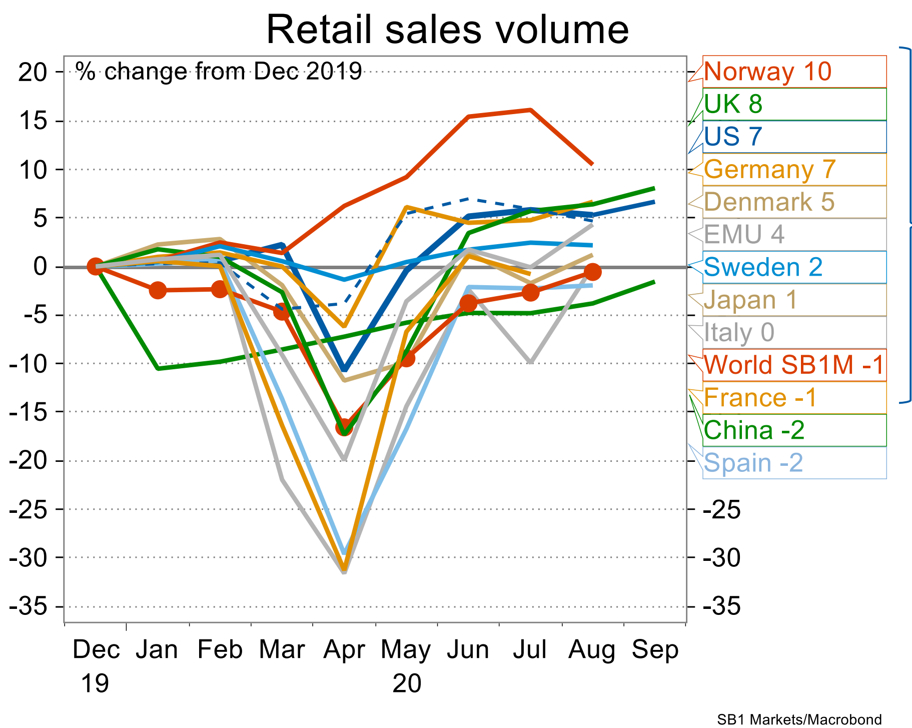




- Global retail sales grew by approx 2% m/m in Aug, as in July (and 6% in June). Sales are 0.6 % below the pre corona (Dec) level (but above the Jan level)
- Industrial production rose approx 1% in August down from 3.6% m/m in July and 7% in June. Production is just 1.5% below the pre corona level
- Global foreign trade rose 1.8% in August after a 4.4% rise in June, and the level is just 2.5% below the pre corona level. We expect a further uptick in trade in September

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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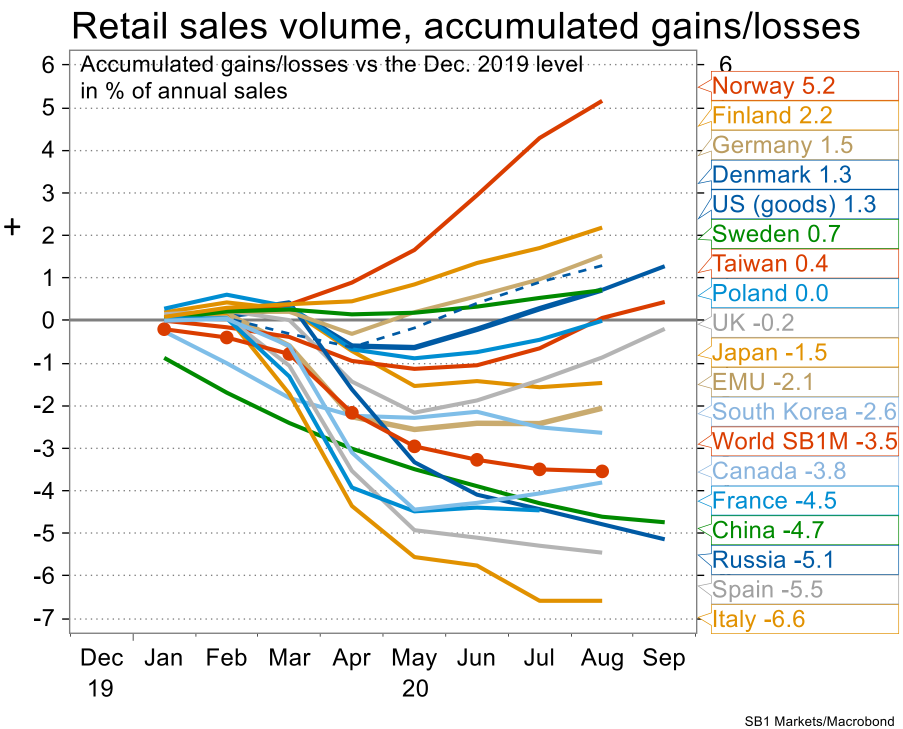

- Global retail sales were 1% below the Dec level in August. Most countries are now reporting higher sales than before corona hit. Even if sales fell sharply in August, Norwegian retail sales are still at the top
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 7% above the pre corona level in August but total sales during the first nine months of 2020 were still 'just' 1.3% above the pre corona level, measured in % of annual sales, due to the losses during the spring
- <u>Consumption of services are not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

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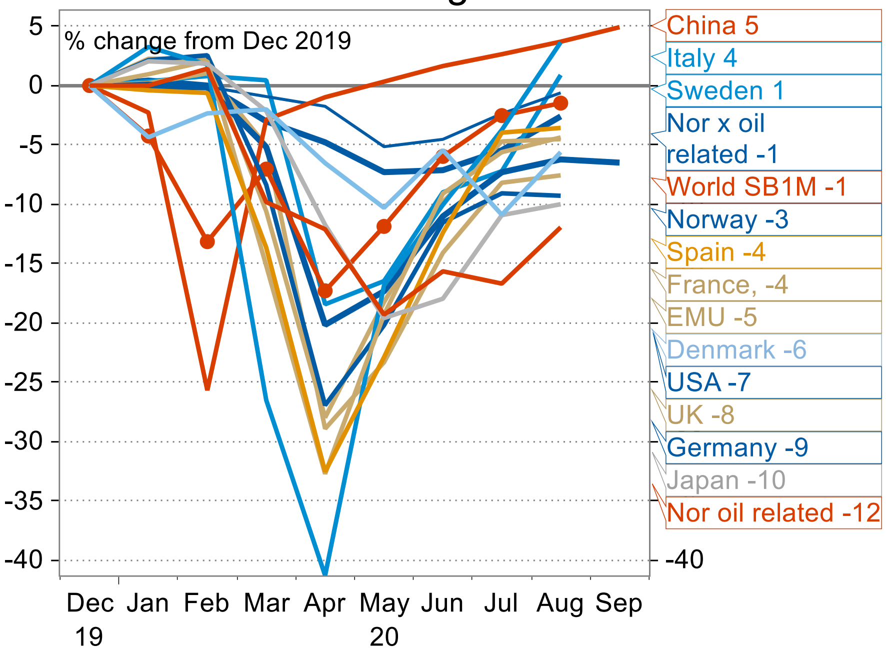
Manufacturing production on the way back, still >5% of 2020 ‘is already lost’

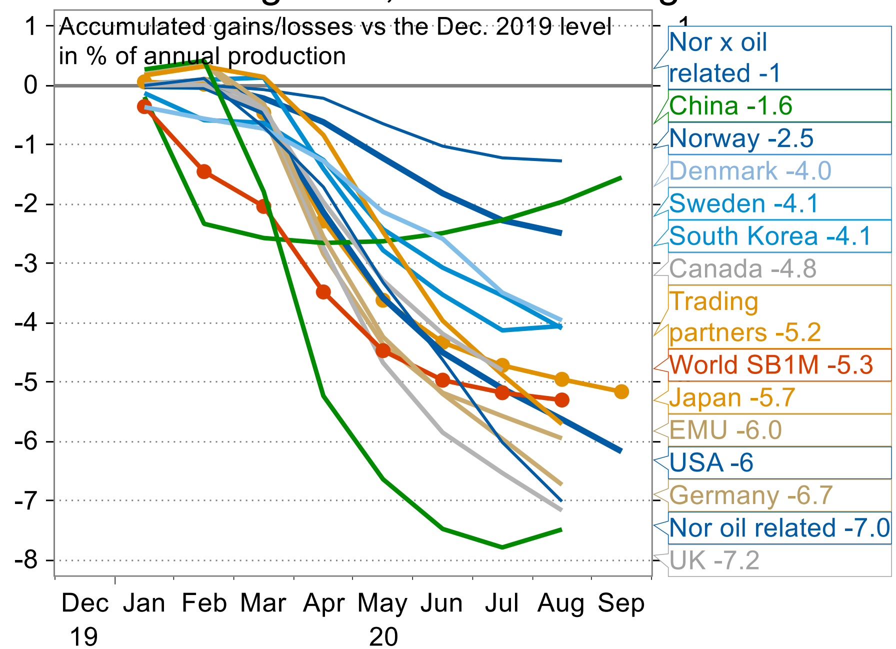
Production rose further in August, and is now less than 2% below the Dec level

Manufacturing Production



SB1 Markets/Macrobond

Manufacturing Prod, accumulated gains/losses



SB1 Markets/Macrobond

- Manufacturing production was down 1% vs. the Dec level in August, following an approx 1% lift
- 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

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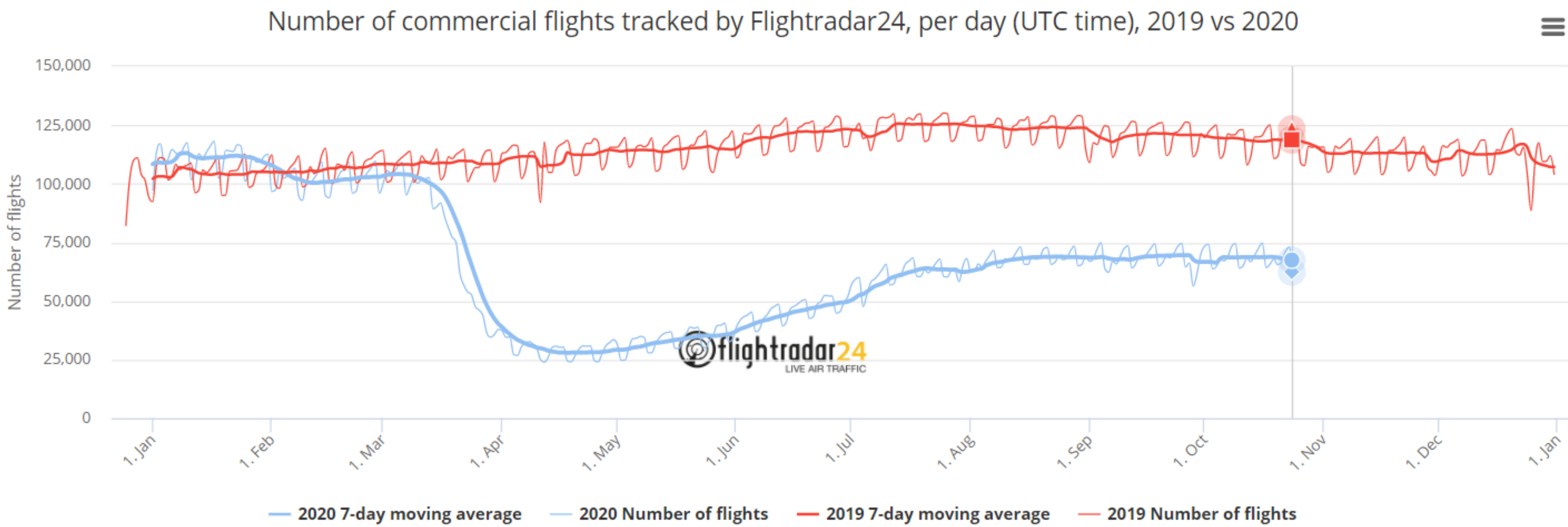
Airlines are still flying rather low

However, the gap may now be closing slowly – but it remains large, down 43% from the 2019 level

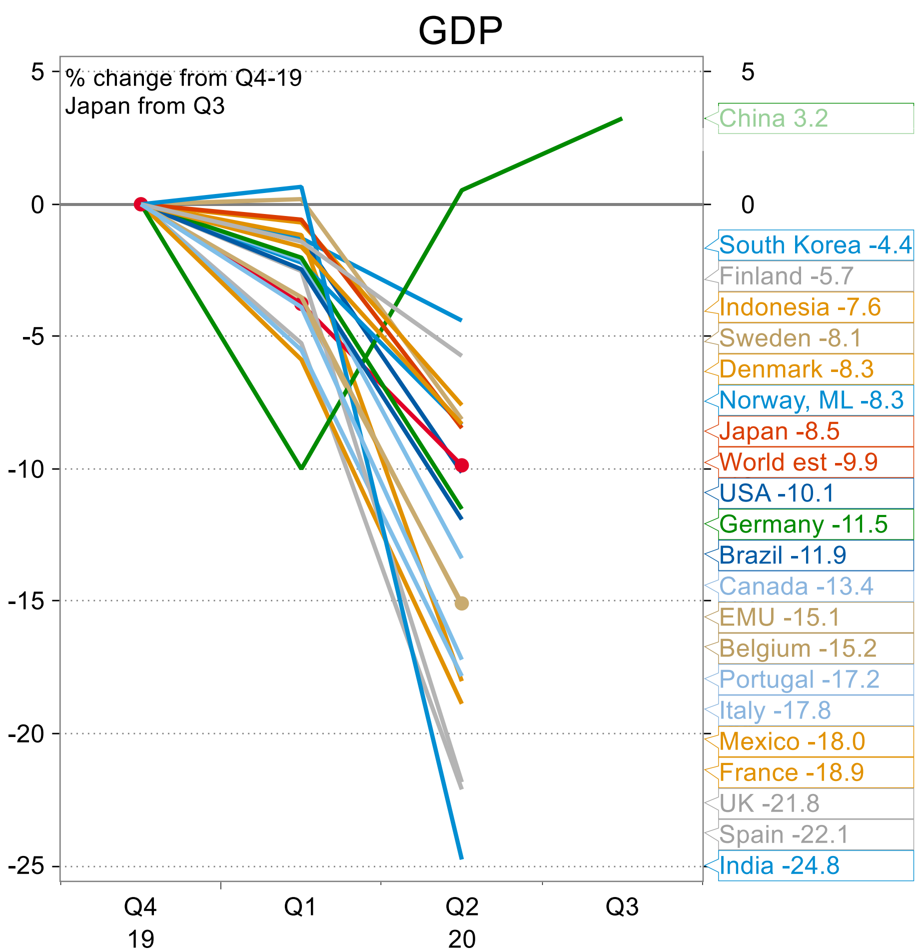


- The gap is very slowly narrowing (and not further last week). However, at the current pace the gap will not be closed before long – it has been narrowing by less than 1 pp per month since mid August, and it is still at 43%
- The travel industry will most likely not recover before vaccines have been widely distributed (and they work well)

Source: Flightradar24

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

Q3 growth in China was weaker than expected but level is 3.2% above Q4 '19

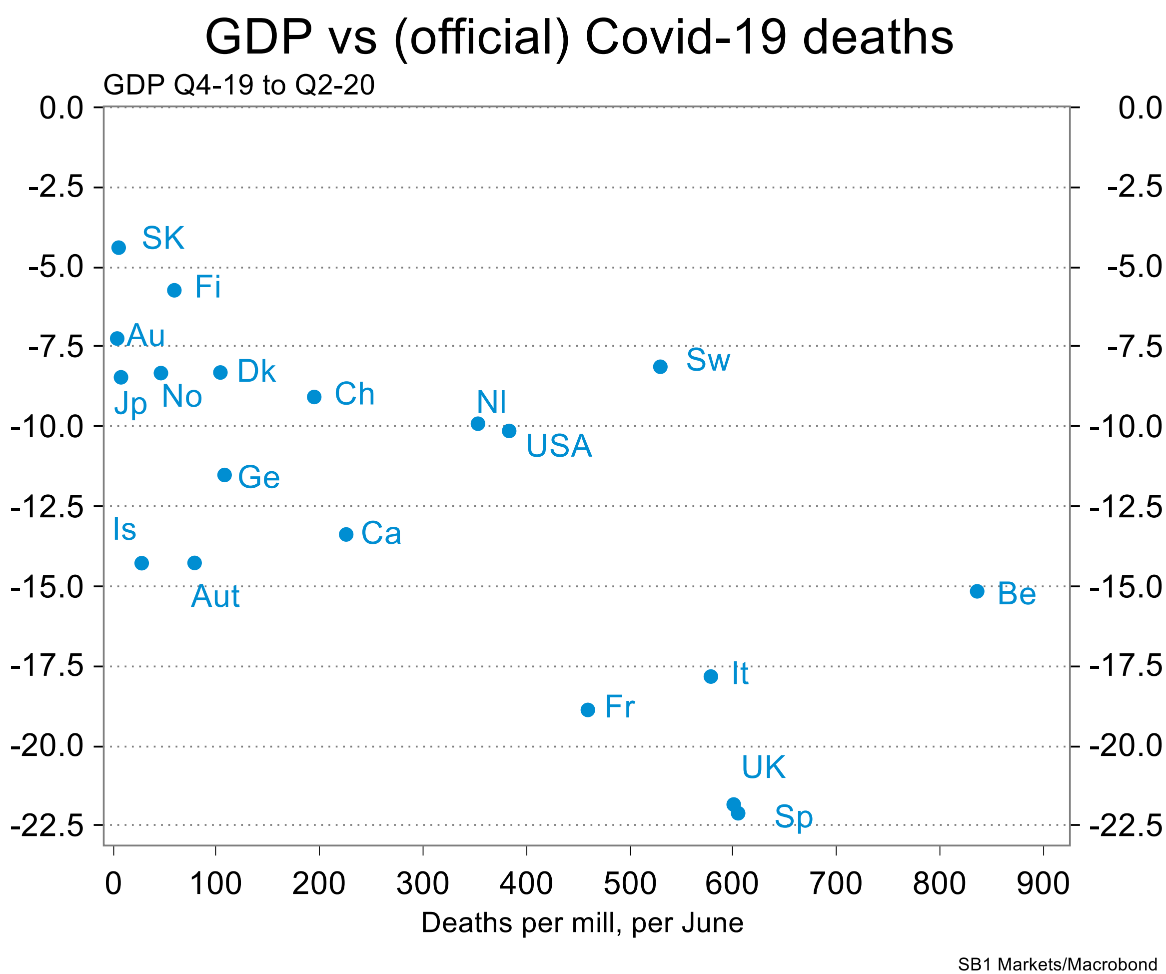


SB1 Markets/Macrobond

- Global GDP declined by 3.7% in Q1, of which almost 2 pp due to China alone
- China has reported a 11.5% growth surge in Q2, and another 2.7% in Q3, bringing the GDP level 3.2% above the Q4 level – almost back to the pre corona growth path
- In most other countries GDP fell sharply in Q2
- Global GDP has fallen by 10% from the Q4 2019 level, and it was 11.5% below the pre corona trend path
- In Q3, the global economy ex China grew faster than ever, probably by some 7%. Both EMU and US will report Q3 data this week

If you had a choice, where would have preferred to live?

At least until Q2



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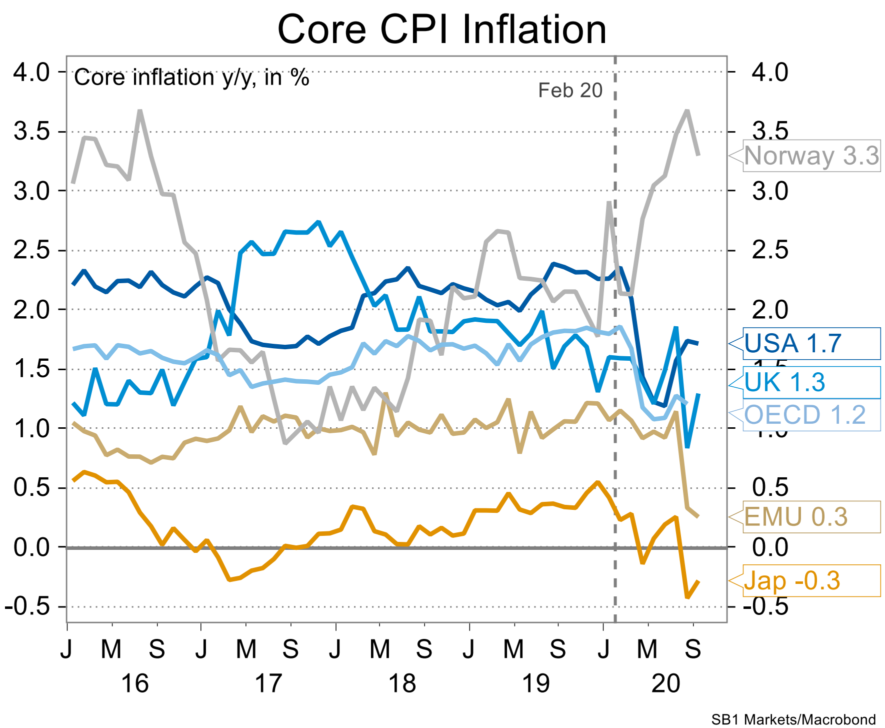
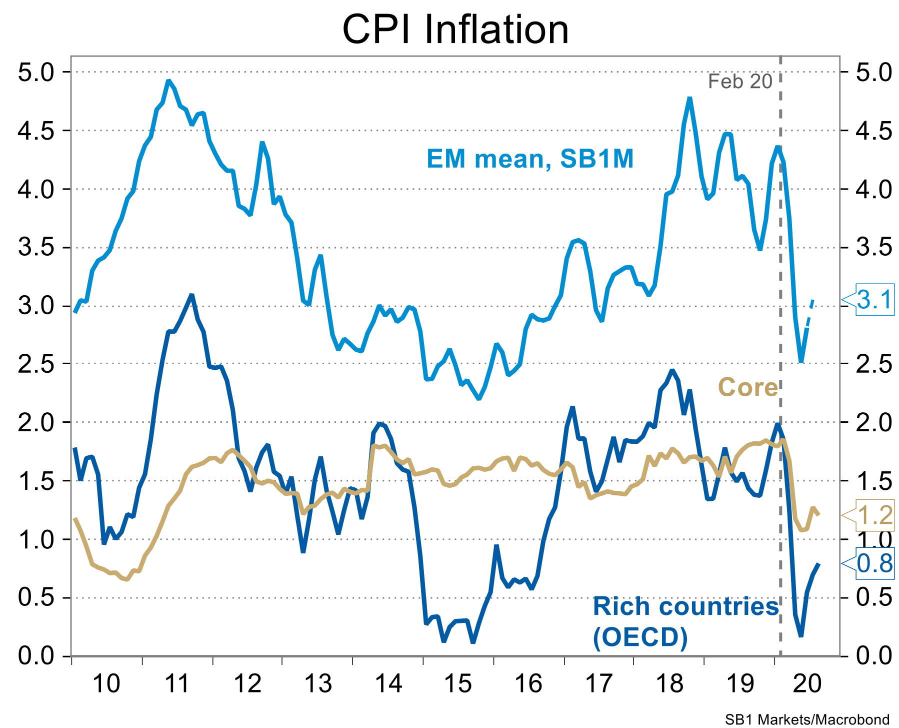
The inflation impact has so far been a downward shift – Norway the exception

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





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

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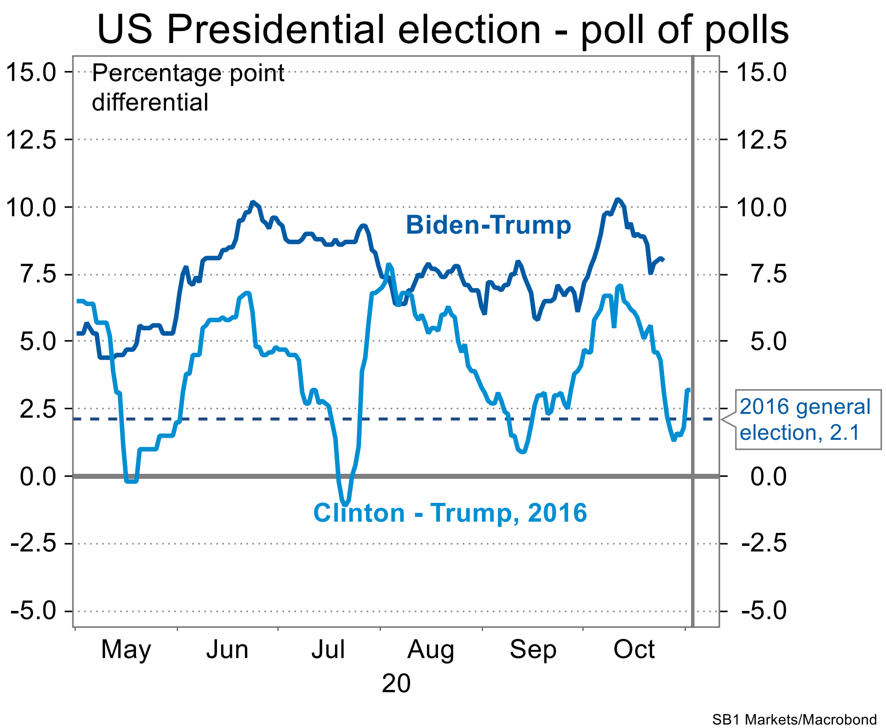
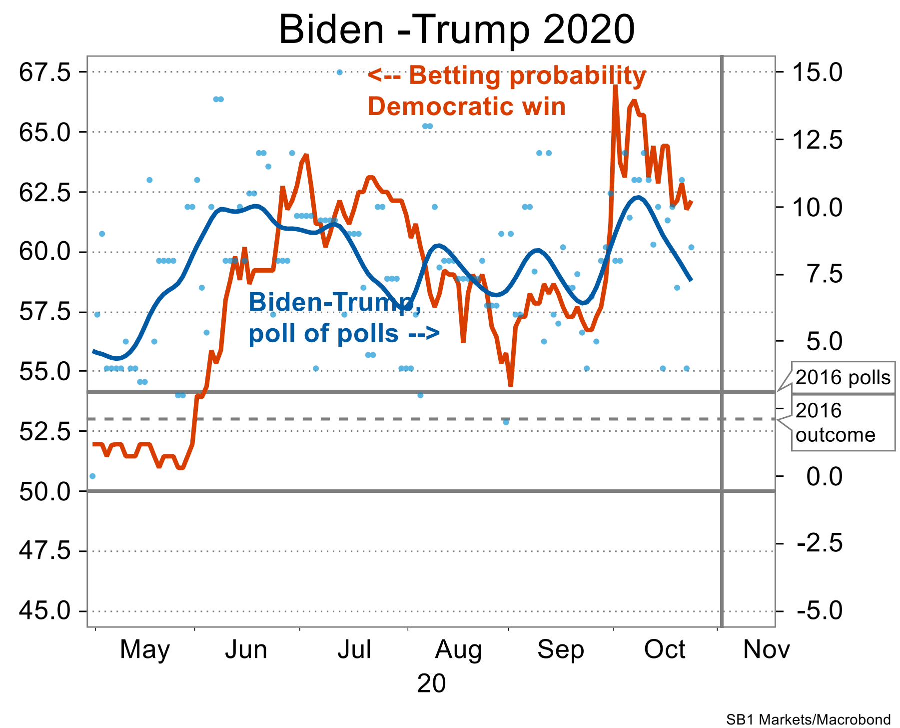
1 week to go: Biden's margin is narrowing but is probably large enough

Biden is some 7-8 pp ahead of Trump, the models say 88:12 in Biden's favour. The punters 62:38



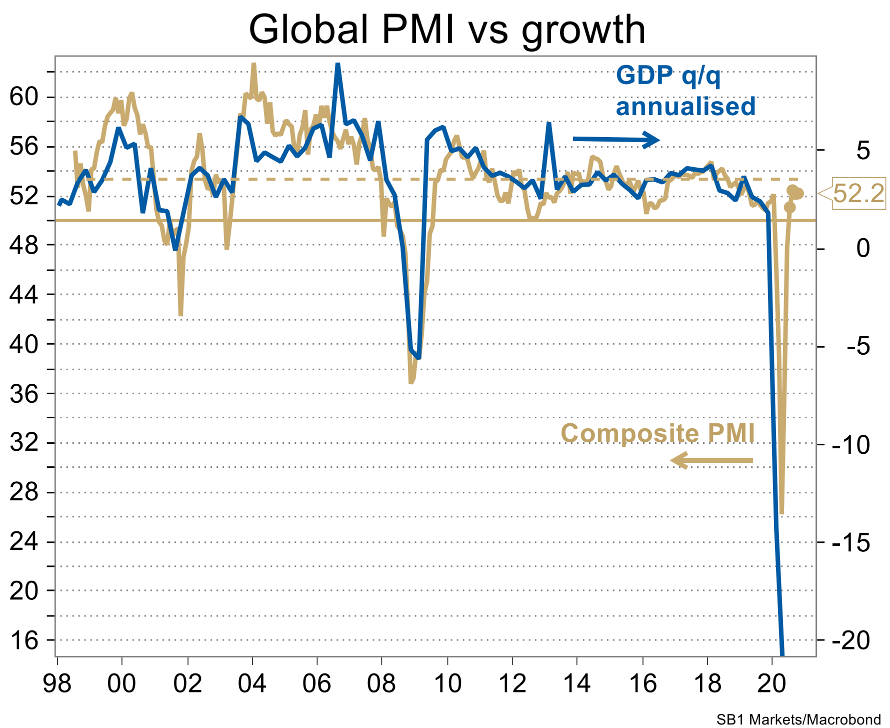


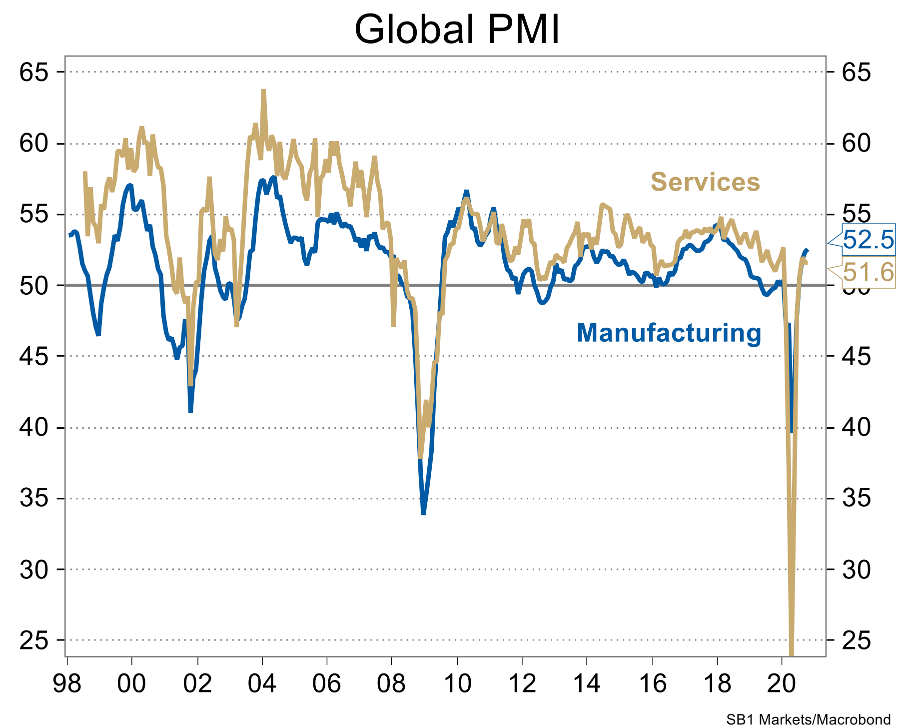
- Biden is far further ahead og Trump in the polls than Hilary Clinton was in 2016
- The punters go for Biden, albeit not by impressive odds, some 62% probability. Should you put some money here??

Sources: RealClearPolitics, PredictIt

Global composite PMI most likely close to flat in Oct, European services down

We estimate an unchanged PMI at 52.2 in Oct. The manufacturing PMI a tad up, services marg. down



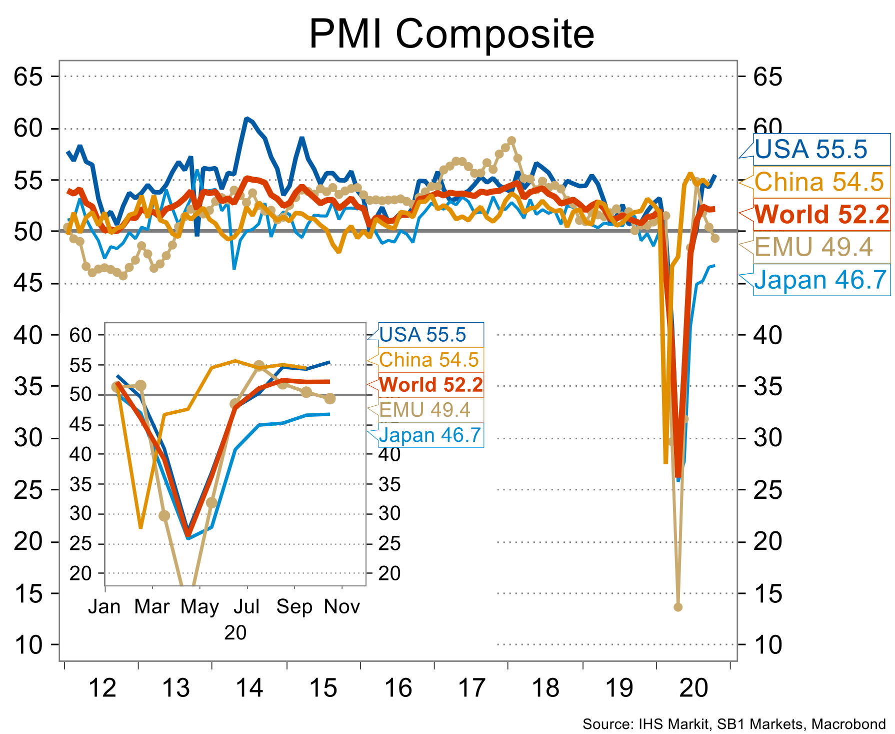


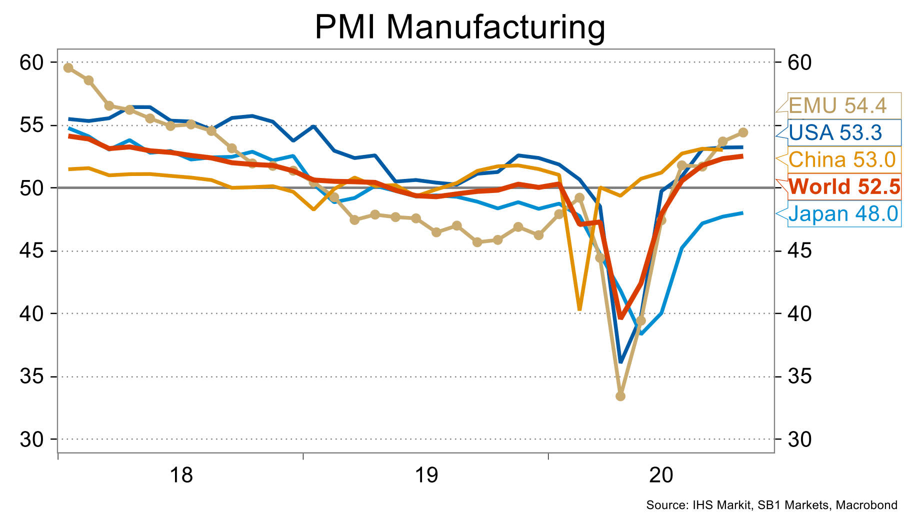
- Global manufacturing rose 0.2 p (our est) while services weakened modestly. Concerns about Covid-19 and reintroduction of restrictions in many countries in Europe pulled the service sector activity further in the red here
- The EMU composite PMI fell by 1.0 p in Oct to below 50, following the 1.8 p Sept drop. UK sharply down. US one up 1.2
- The PMI respondents may still be reporting somewhat between growth (which is strong) and the activity level (which is still below par) – and we do not trust these indices to be used to estimate the growth rate

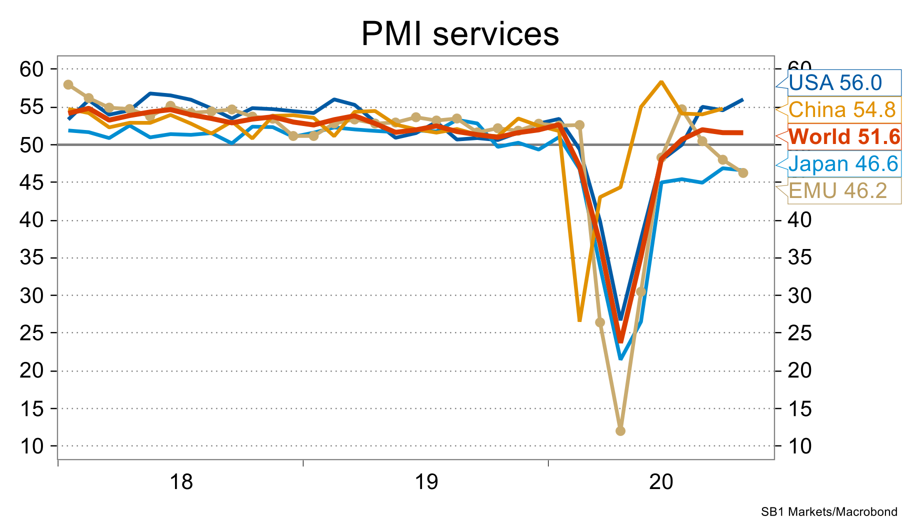
Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain since Emerging Markets are not publishing preliminary

The recovery stalls in Europe, US growing at a brisk pace, Japan still weak

In EMU, services are contracting faster. In the US, they are expanding faster. Manuf. strongest in EMU

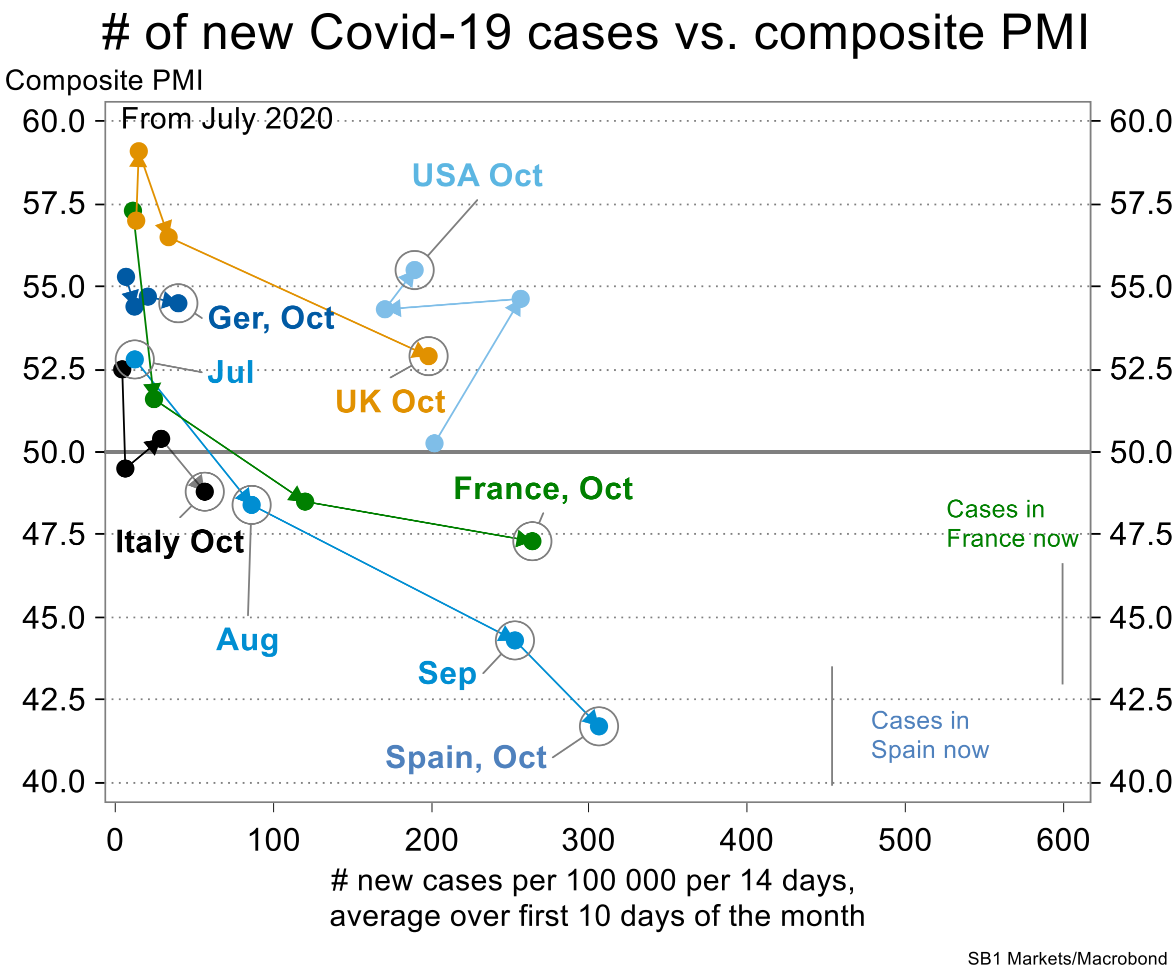






- In the **EMU**, services fell further into contraction mode, no doubt due to corona measures, and changes in behaviour due to the virus spread. The manuf. PMI further up, to 54.4
- The **US** composite PMI (from Markit) rose by 1.2p, due to faster growth in services, the manuf. PMI unch
- In **Japan**, both manufacturing and services are reporting continued decline in activity – at the same speed as in Sep
- **UK** PMIs (not included on these charts) weakened but both manufacturing and services are at decent levels

More cases in Europe – and the PMIs are turning south



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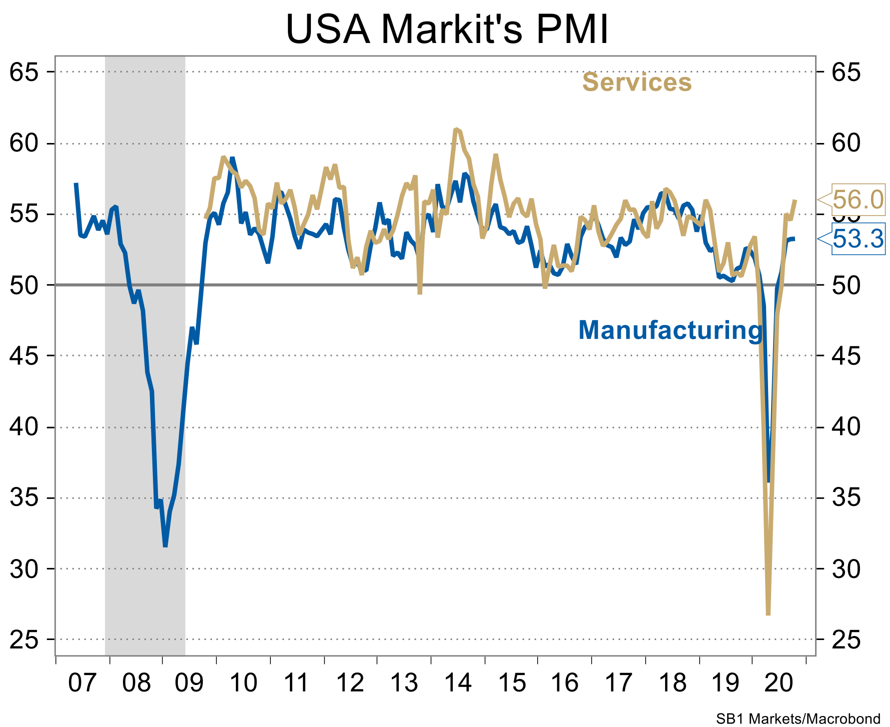
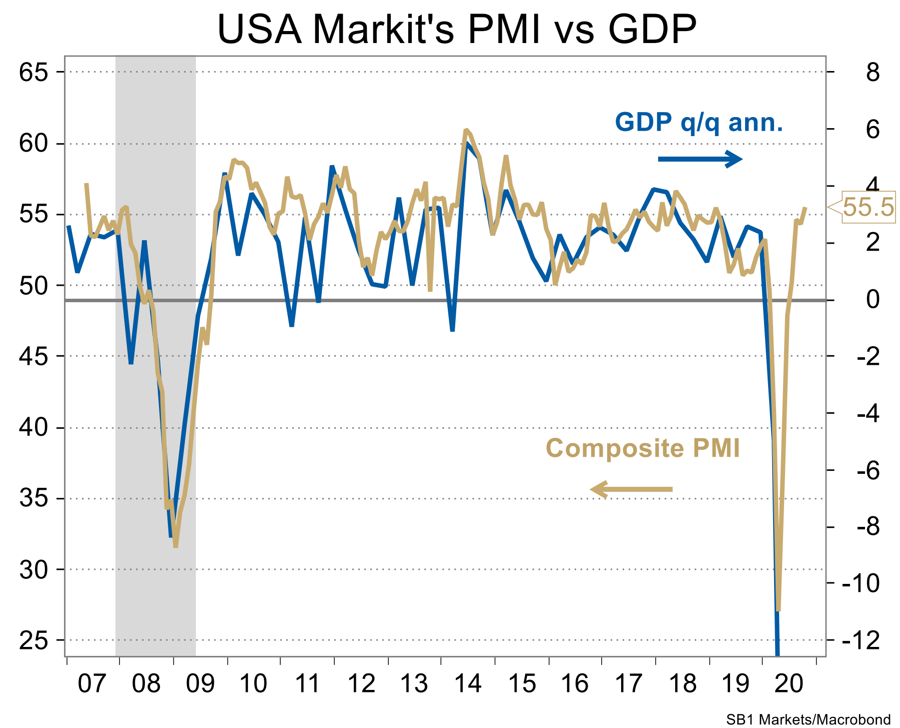
Markit's PMIs up again in Oct, no signs of a corona 2nd /3rd wave slowdown

Services PMI rose 1.4 p to 56; manufacturing +.1 p to 53.3 – in total decent growth into Q4

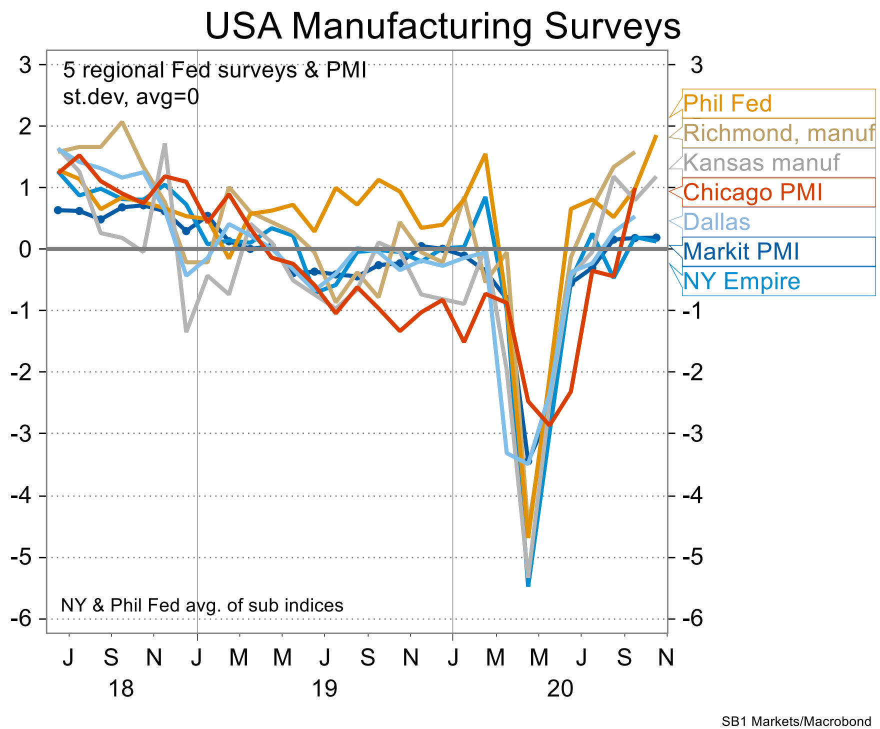


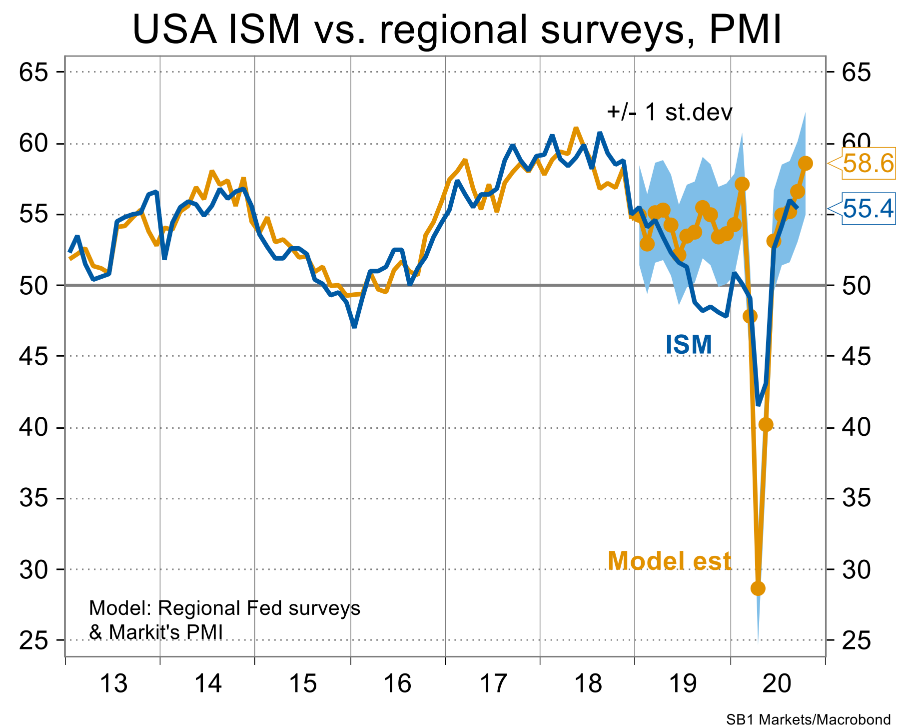


- The increase in new cases is so far less aggressive in US compared to Europe, and far more formal restrictions are imposed in Europe than in the US

Regional surveys & Markit's PMI suggest a further lift in manufacturing ISM

A >2 p lift is indicted, mostly due to the large lift in the Phil Fed index





- The surveys underestimated growth during the first phase of the recovery but will at one stage be able to track the economy as they usually have done

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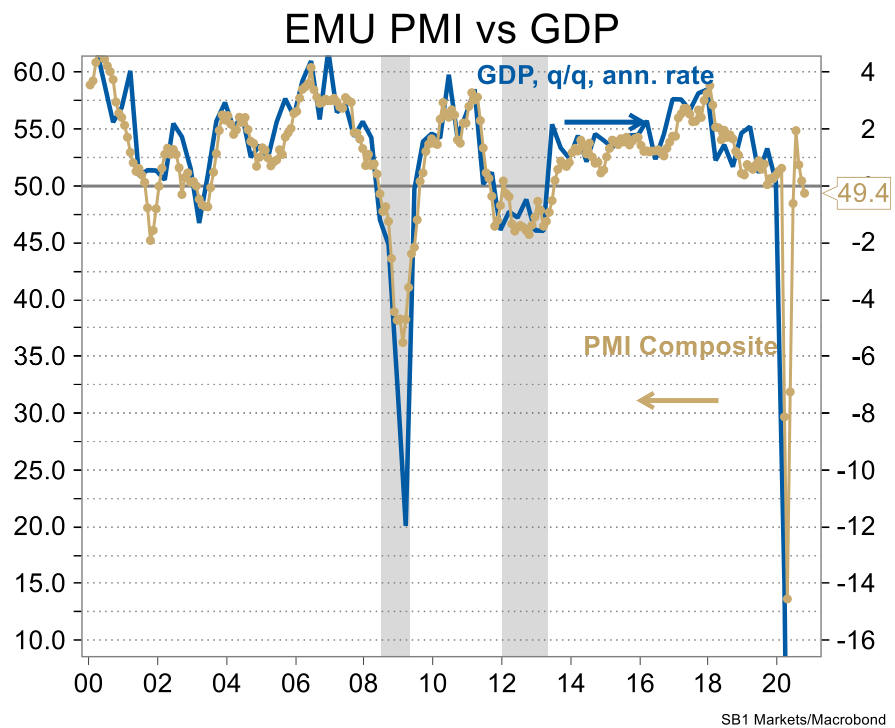
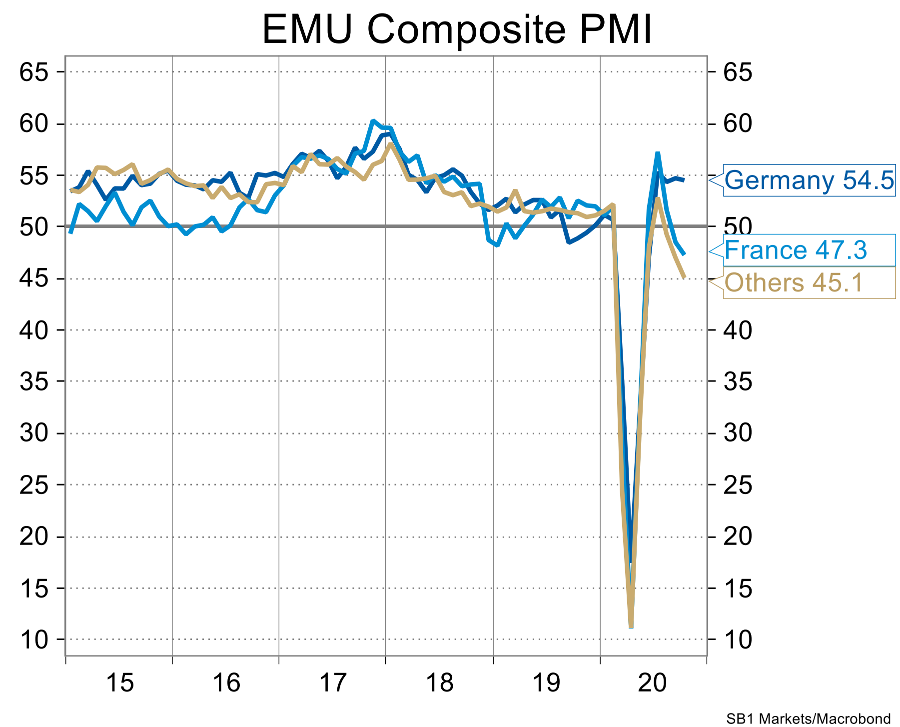
Composite PMI another step down in Oct, services to blame. Manufacturing up!

Corona no doubt to blame for the setback in services, while manufacturers report stronger growth

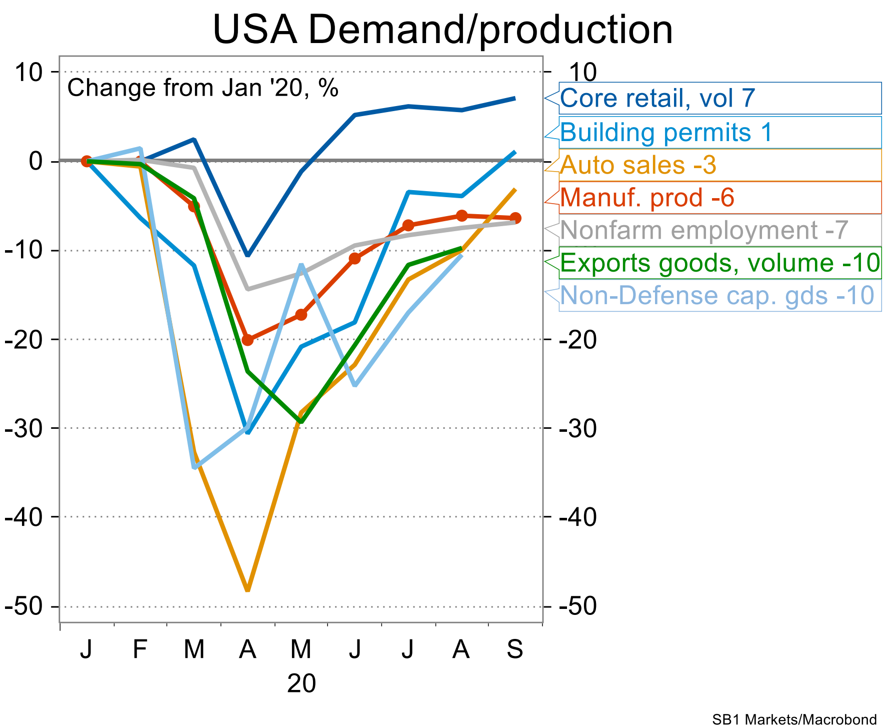




- The preliminary composite PMI fell 1 p to 49.4 in October, marginally better than expected (49.2). The level signals a small decline in GDP
- In Germany, the index kept up at almost the same level as in Sept, at a decent 54.5. France and (implied) the avg of Spain and Italy fell further, the southerners to 45.1
- The service sector index fell 1.8 p to 46.2, on par with the low levels during the Euro crisis (2011/12). The service sector indices are below the 50-line in all of the big 4
- The sun is still shining on the manufacturers: The manufacturing PMI rose by 0.7 p to 54.4, signalling growth well above trend. All big 4 are probably above the 50 line. Germany at the top at 58! France marginally down to 51

Goods consumption, housing is back; goods production not

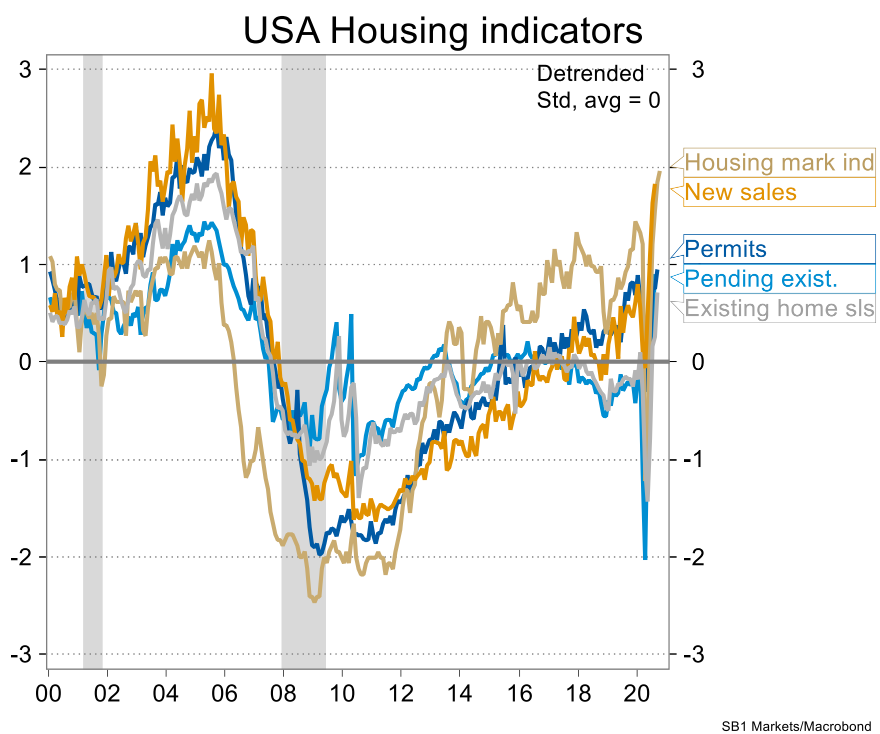
as exports/investments are still down, Services have still a way to go too, as have total employment

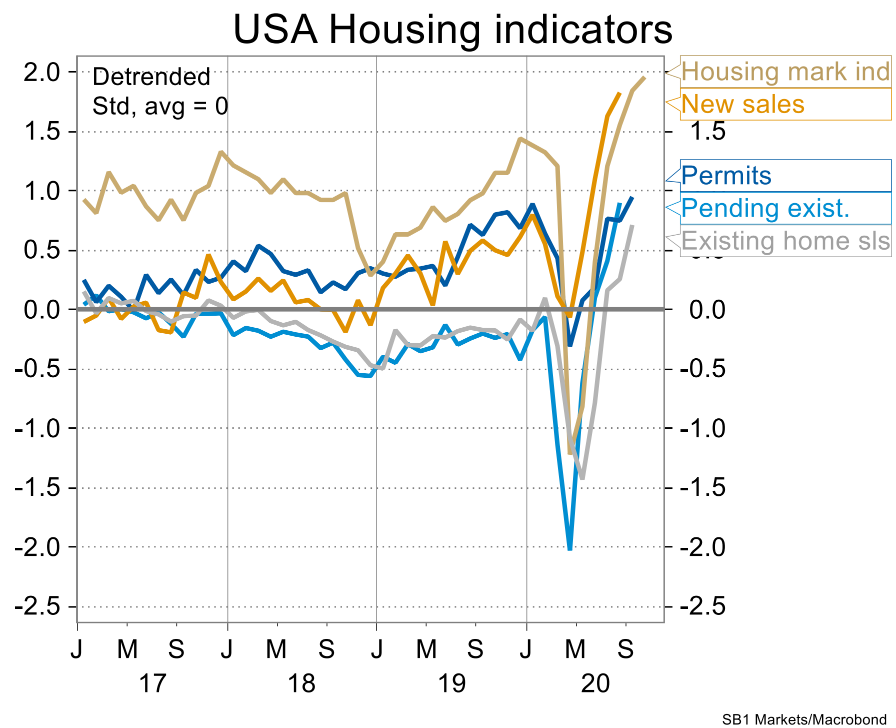


- The US economy is still recovering but not evenly
- Consumption of goods incl. autos and housing has fully recovered (and the existing home market is exploding, check the following pages)
- Exports and investment goods demand are still down 10% vs the pre corona level, the latter however just due to zero demand for new aircrafts
- Manufacturing production fell in Sept, and is 6% down vs January
- Services are still struggling, restaurants are down 15%
- Employment is down 7%

Check the housing market ‘V’s. It just took 4 – 5 months. Las time: *Never*

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

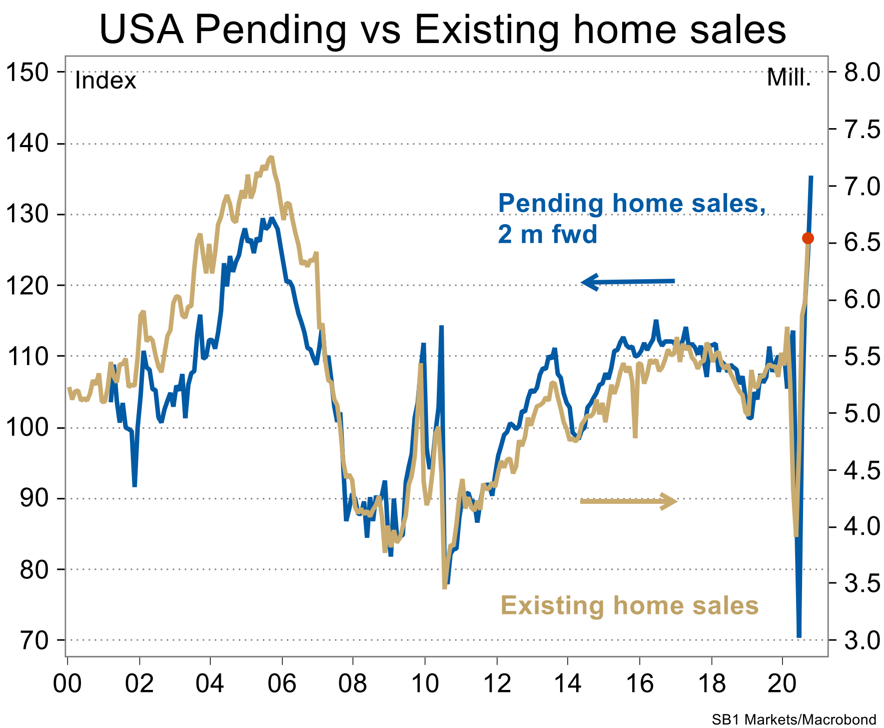


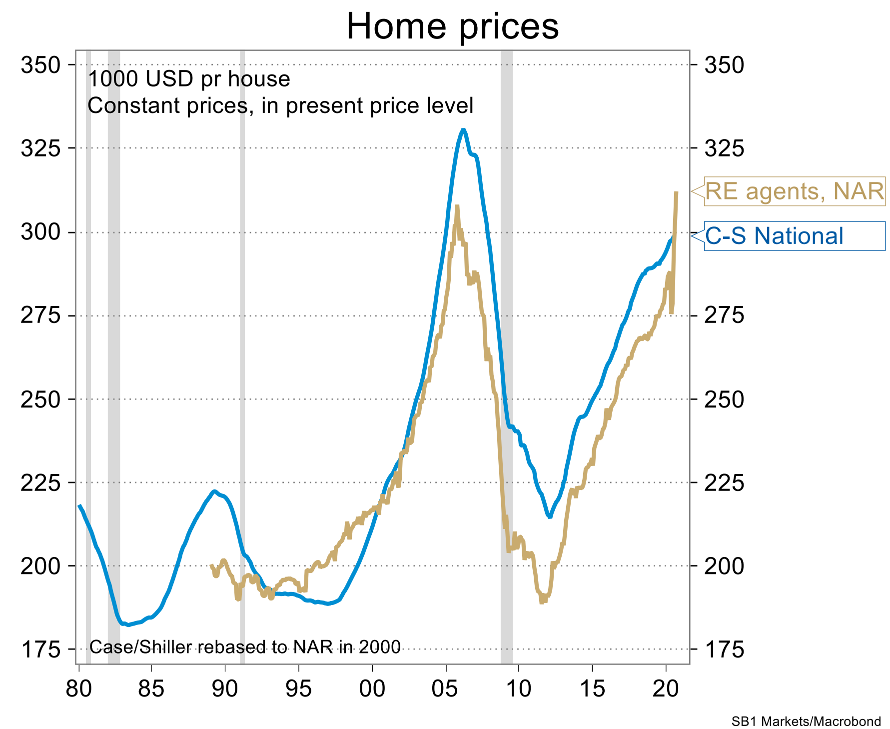


- Compare this 4 – 5 months downturn/recovery to what happened during/after the housing/financial crisis: Housing has not yet come back to the pre corona peaks. It even took some 10 years to come back to an average housing market activity level (barring the Homebuilder’s market index)!
  - » BTW: The peak in the housing market was in late 2005/early 2006, and most of the downturn was done when the ‘financial crisis’ hit 2 – 2 ½ years later

Existing home sales straight up to the highest level since 2006, *prices explode*

Pending sales had pre-warned exciting sales data. Prices up 14% past 4 months, up 9% vs February!

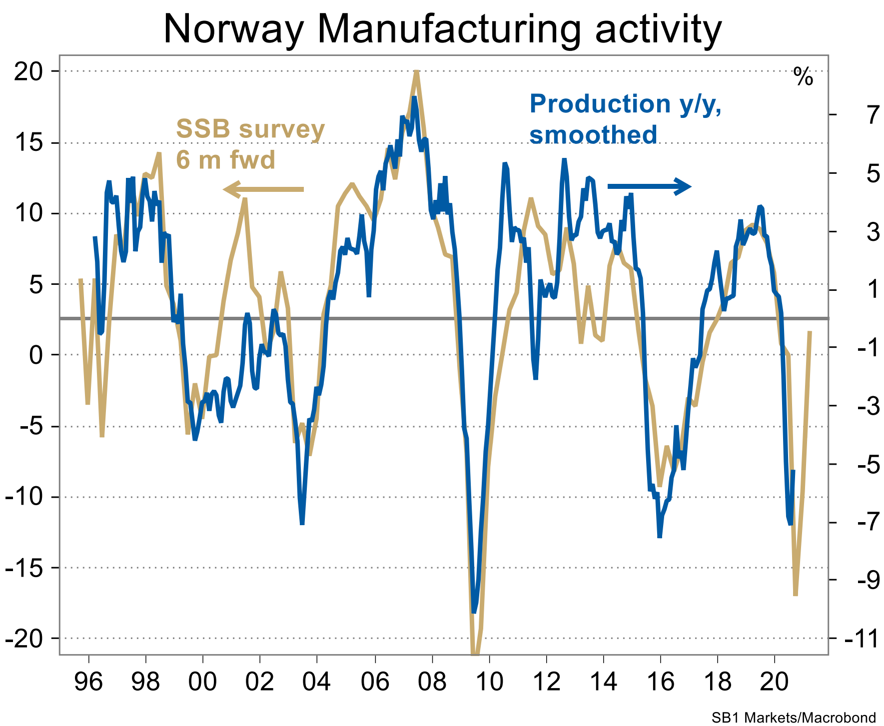


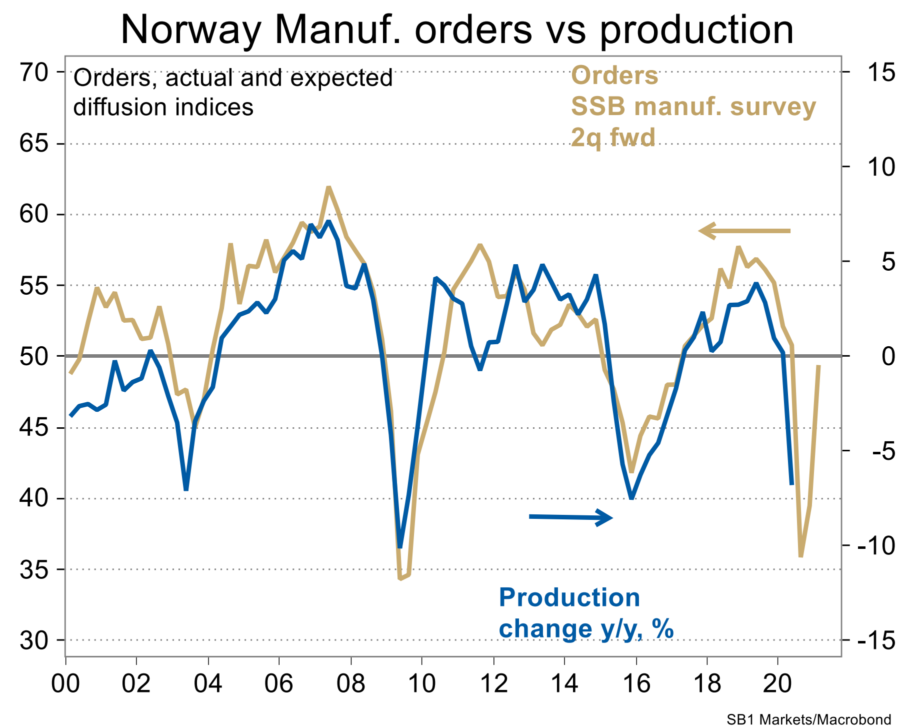


- Sales rose 9% to 6,45 mill (annual rate) in September, 3 pp more than expected - but not too surprising given the high number of deals signed (pending sales) in August that signaled a 7 mill pace. Anyway, the sales level is the highest since 2006. Sales fell to 4 mill in April from 5.5 mill before corona hit – and now we are not far below ATH!
- Median transaction prices are even more spectacular: Price fell 4% in May (most transactions agreed upon in April), but turned up in June, and now prices are up 14% vs the May level, the fastest rise in 4 months ever. Prices are up almost 15%, among the highest growth rates (*NB: No adjustment for size, location, standard etc, just the median price*)
- The number of unsold homes is falling rapidly, and is very low, especially vs sales (thus, the turnover is very high)

SSB's manufacturing sharply up in Q3, now just slightly below par

Oil related still weak, other parts of the manufacturing sector not

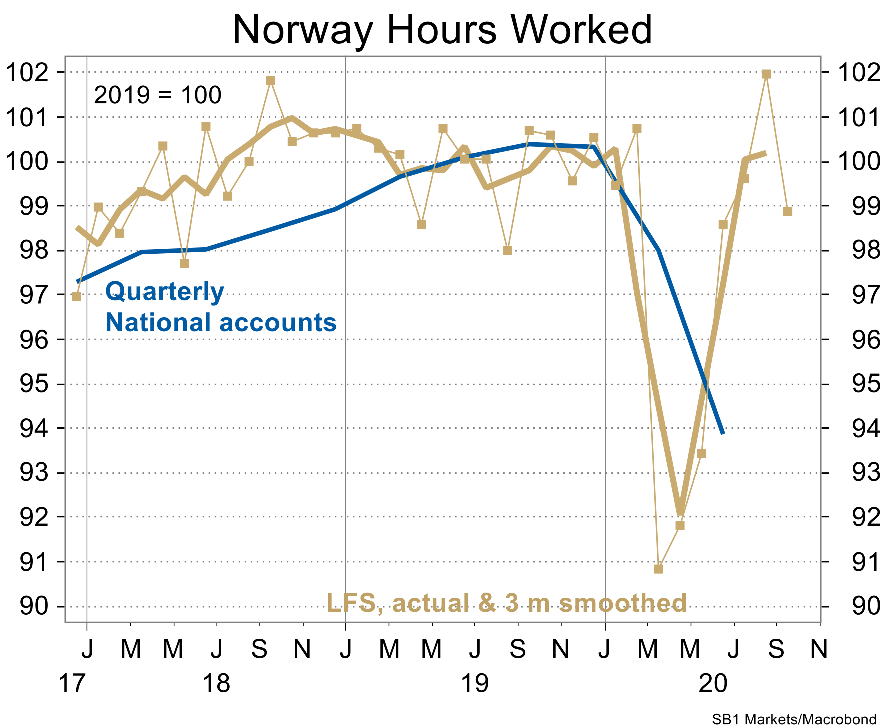


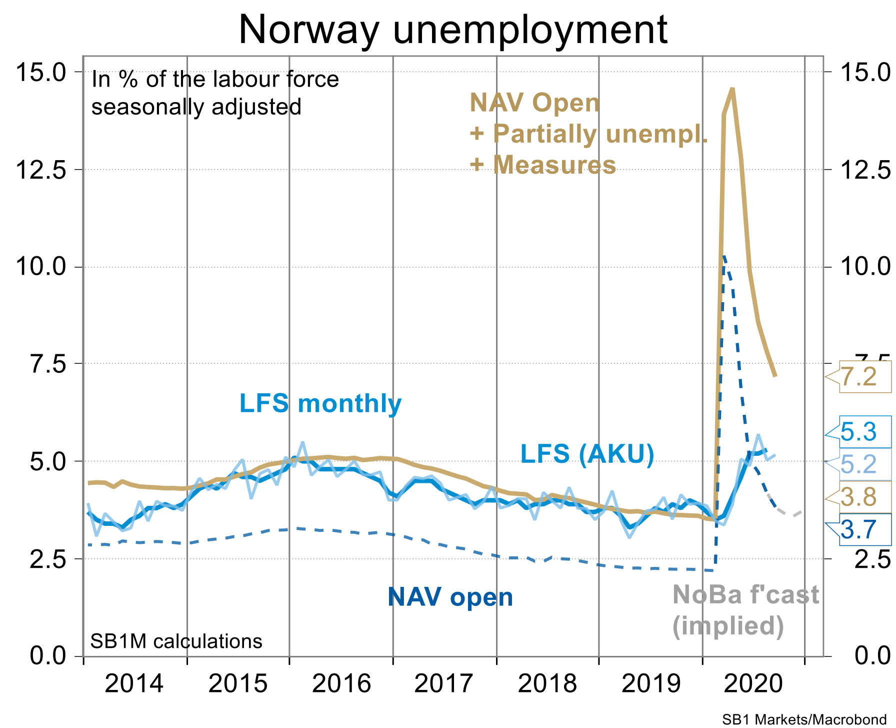


- The composite index in SSB's manufacturing survey rose to +1.7 in Q3, from -9 in Q2 (revised up from -10, and from -17 in q1). We expected an increase up to -4
  - » The historical average is at 3.5, and the current print is just marginally below!
  - » The index signals flattish production in the manufacturing sector, 2% growth in GDP and 10% growth in corporate earnings. However, like for all surveys these days, it is more challenging than usual to translate survey data into growth rates
- Oil related industries are still reporting a sharp contraction - but several sectors are expecting higher production, from a modest base, that is. ***An average share of companies are reporting lack of demand as a constraining factor – this is not a demand crisis***

LFS (AKU) (3m avg) unemployment has stabilised at 5¼%

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





- The 3m smoothed unemployment rate rose to 5.3% in August (July-Sept), we expected (somewhat optimistic, we acknowledge) a decline to 5.0%, consensus was 5.1%. The standalone Sept rate as 5.2%, up from 5.0% in August
- Employment
- unemployment fell to 5.0% in August, partly due to furloughed workers returning to work. The 5% rate is probably close to the 'real' figure, as most furloughed workers are now counted as unemployed (after the first 3 months of the furloughed period, were they are counted as still employed)
- The LFS employment recovered marginally in August, up by 2'. Still, employment has fallen 2% from February and is down 1.8% y/y. In this figure, there are a number of furloughed workers included
- Hours worked rose sharply through Q2 and further in July and August, and are above a pre corona level! Annual rate at +2.4%. We find these hours worked figures unlikely, given the production data, surveys etc.

The Calendar

Q3 GDP in US & EMU, the best growth ever (at least q/q). Norw. retail sales, unempl. & credit growth

Time	Count.	Indicator	Period	Forecast	Prior
Monday Oct 26					
10:00	GE	IFO Expectations	Oct	96.5	97.7
13:30	US	Nat Activity Index	Sep	0.6	0.79
15:00	US	New Home Sales	Sep	1025k	1011k
Tuesday Oct 27					
13:30	US	Durable Goods Orders	Sep P	0.5%	0.5%
13:30	US	Cap Goods Orders Nondef Ex Air	Sep P	0.7%	1.9%
14:00	US	Case/Shiller house price index	Aug	0.40%	0.55%
15:00	US	Conf. Board Consumer Confidence	Oct	101.9	101.8
Wednesday Oct 28					
08:00	NO	Retail Sales MoM	Sep	0.6 (1)	-4.9%
09:00	SW	Consumer Confidence	Oct	88.5	88.3
09:00	SW	Manufacturing Confidence SA	Oct	107.00	105.8
09:30	SW	Retail Sales MoM	Sep		-0.3%
13:30	US	Trade Balance Goods	Sep A	-$85.0b	-$82.9b
Thursday Oct 29					
	JN	BOJ Policy Balance Rate		-0.1%	-0.1%
00:50	JN	Retail Sales MoM	Sep	1.1%	4.6%
11:00	EC	Economic Confidence	Oct	89.6	91.1
13:30	US	Initial Jobless Claims	week	788k	787k
13:30	US	GDP QoQ	3Q A	31.8%	-31.4%
13:45	EC	ECB Deposit Facility Rate		-0.5%	-0.5%
14:00	GE	CPI YoY	Oct P	-0.3%	-0.2%
15:00	US	Pending Home Sales MoM	Sep	3.0%	8.8%
Friday Oct 30					
00:30	JN	Jobless Rate	Sep	3.1%	3.0%
00:50	JN	Industrial Production MoM	Sep P	3.0%	1.0%
07:30	FR	GDP QoQ	3Q P	15.0%	-13.8%
08:00	GE	GDP SA QoQ	3Q P	7.3%	-9.7%
0.333	GE	Retail Sales MoM	Sep	-0.5%	0.018
08:00	NO	Credit Indicator Growth YoY	Sep	(4.5)	4.7%
10:00	NO	NAV Unemployment Rate	Oct	3.5'(3.5)	3.7%
11:00	EC	Unemployment Rate	Sep	8.2%	8.1%
11:00	EC	GDP SA QoQ	3Q A	9.5%	-11.8%
13:30	US	Personal Income	Sep	0.3%	-2.7%
13:30	US	Personal Spending	Sep	1.0%	1.0%
13:30	US	PCE Core Deflator YoY	Sep	1.7%	1.6%
13:30	US	Employment Cost Index	3Q	0.6%	0.5%
14:45	US	Chicago Manufacturing PMI	Oct	57.9	62.4
Saturday Oct 31					
02:00	CH	Manufacturing PMI, NBS	Oct	51.5	51.5
02:00	CH	Non-manufacturing PMI, NBS	Oct	56.1	55.9
Monday Oct 19					
02:45	CH	Manufacturing PMI, Markit	Oct	52.8	53.0

- **China**
  - » China will report most of its PMIs the upcoming weekend. So far they have signalled growth above trend. As GDP has almost returned to the pre corona trend, a slowdown to 'normal' growth seems reasonable
- **USA**
  - » **GDP** fell by 9% in Q2 (-31.4% annualised), and is expected up 7.1% in Q3 (31.8% ann.), leaving the activity level 3.6% below the Q4 '19 level. Some will promote the 31.8% growth rate, others the 3.6% shortfall. You know who. **Household income** is expected up again in Sept, from a high level, **spending** rose as well – and **inflation** (PCE) is on the way up. **Durable orders** have recovered to pre corona levels – barring the aircraft industry which is still struggling for good reasons. **House prices** and **new home sales** are on the way up. Over time**, labour cost** growth might challenge the new dovish monetary policy
- **EMU**
  - » **GDP** fell 11.8% in Q2 (-39% annualised), and is expected up 7.5% in Q3 (33.5% ann.), leaving the activity level 8.5% below the Q4 19 level (vs. 3.5% in the US). **The ECB** will probably not signal any changes in its monetary policy but signal willingness to support the economy even more, if needed
- **Norway**
  - » **Retail sales** fell by almost 5% m/m in August, less than we expected – and sales were still 9% above the pre corona level. Card transaction data and shopping centre reports signal an uptick in September. Still, as retail sales are well above any reasonable long term trend, we expect sales to slow the coming months/quarters, and probably before the boarders to abroad are opened. **NAV unemployment** is now declining by some 6' per month, equalling 0.2 pp. We expect **credit growth** to slow in September due to a slowdown in business borrowing. In the recent Norges Bank lending survey, banks signalled they expected demand growth below par both from households and the business sector. We are not sure whether household will take a break

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

Highlights

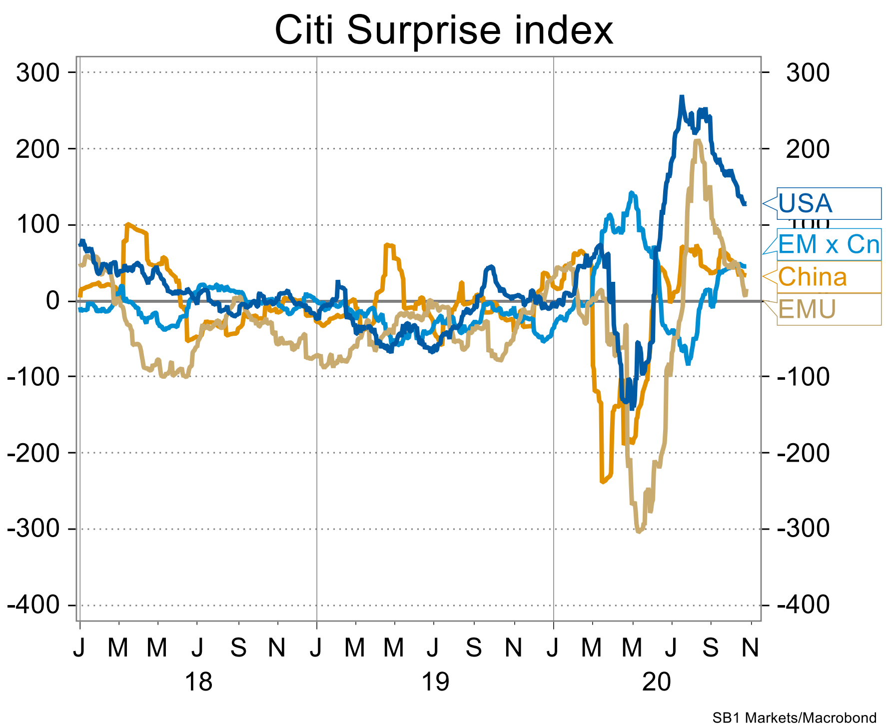
The world around us

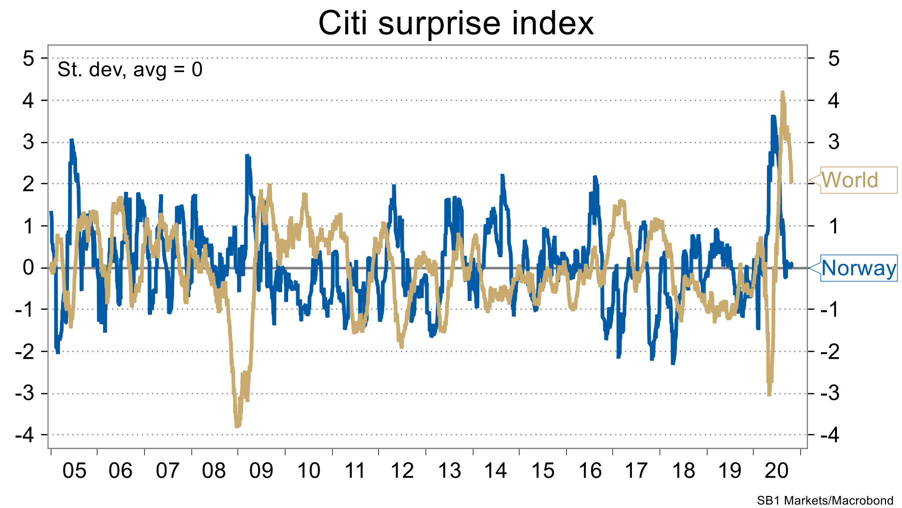
The Norwegian economy

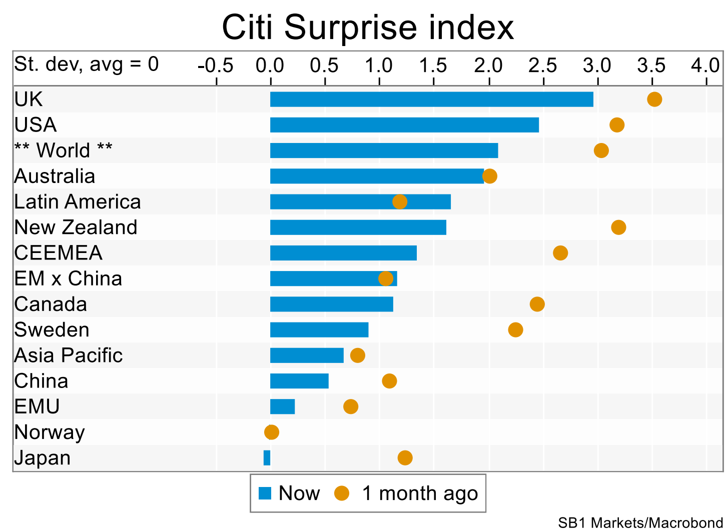
Market charts & comments

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

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





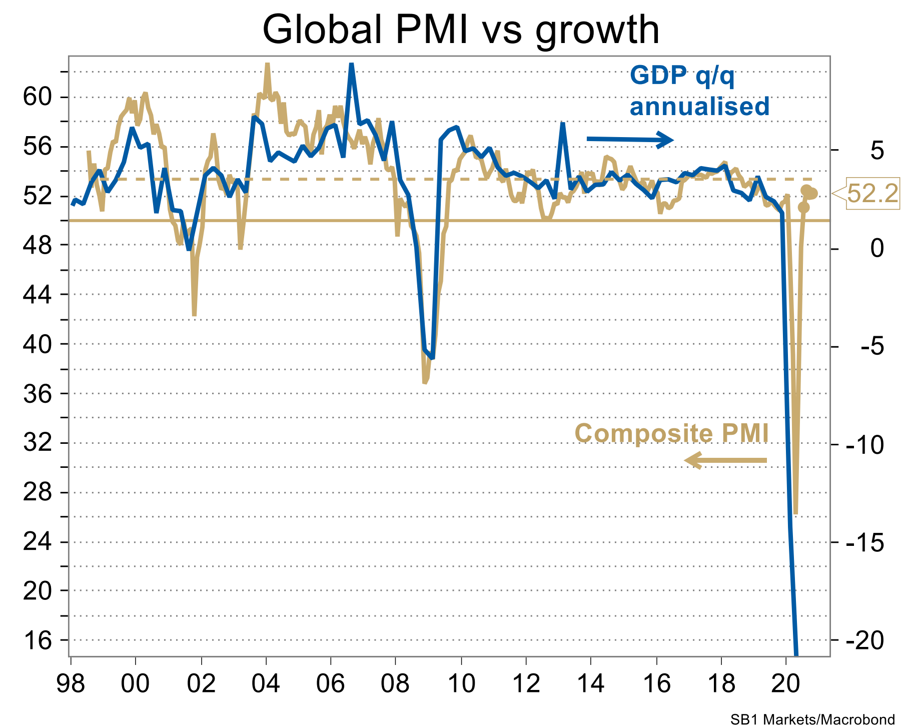


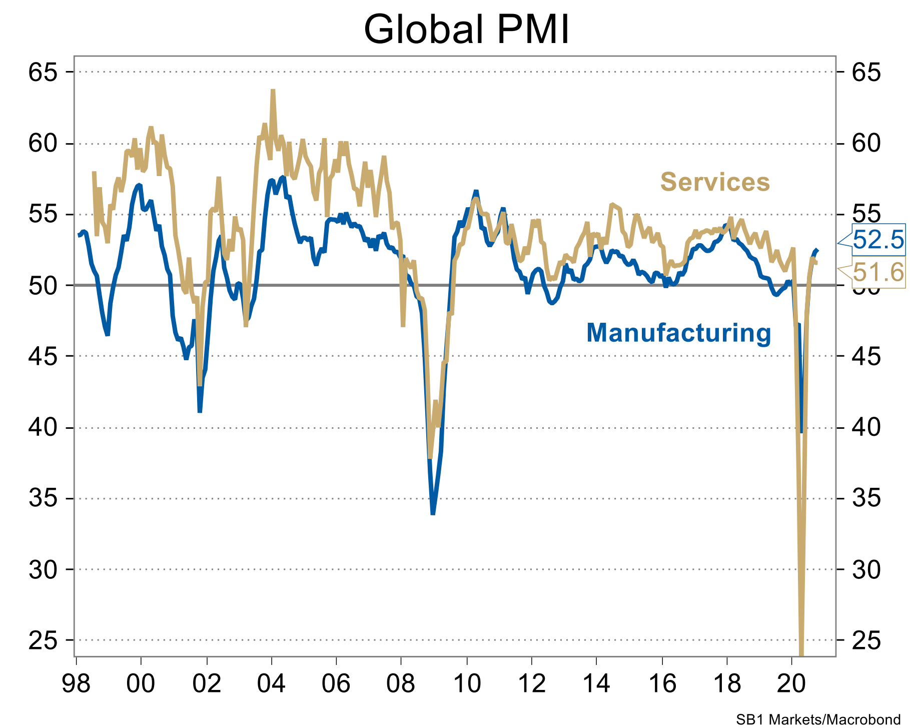
- All major countries/regions are reporting data above expectations, for the first time ever
- The US has been surprising more on the upside than ever before (data from 2003), although less so the past weeks
- EMU sliding down and is much less upbeat than the US. UK at the top!
- China well into positive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

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

Global composite PMI most likely close to flat in Oct, European services down

We estimate an unchanged PMI at 52.2 in Oct. The manufacturing PMI a tad up, services marg. down





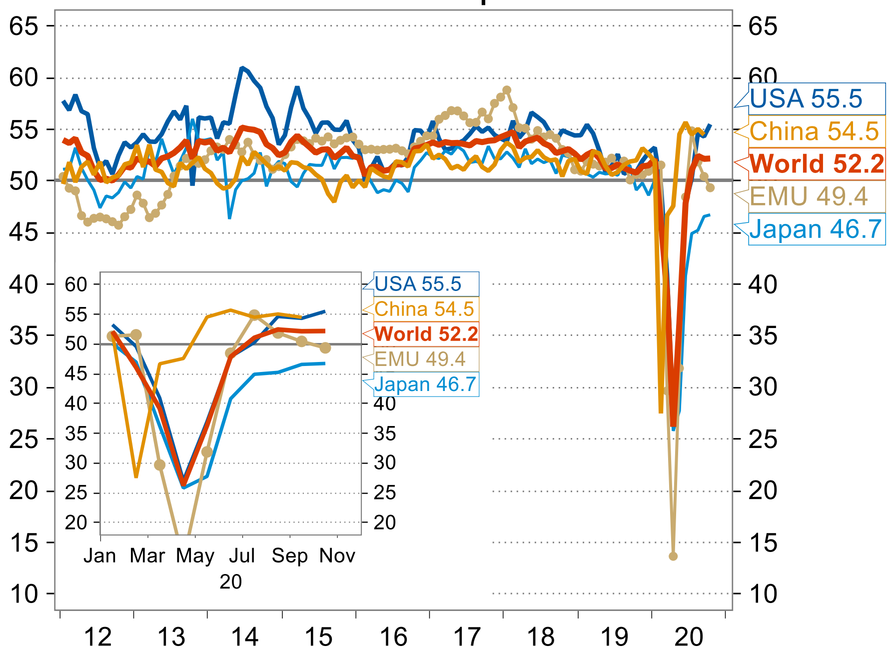
- Global manufacturing rose 0.2 p (our est) while services weakened modestly. Concerns about Covid-19 and reintroduction of restrictions in many countries in Europe pulled the service sector activity further in the red here
- The EMU composite PMI fell by 1.0 p in Oct to below 50, following the 1.8 p Sept drop. UK sharply down. US one up 1.2
- The PMI respondents may still be reporting somewhat between growth (which is strong) and the activity level (which is still below par) – and we do not trust these indices to be used to estimate the growth rate

Our estimate is based on the preliminary composite PMIs from EMU, Japan UK, US. The estimate is uncertain since Emerging Markets are not publishing preliminary

The recovery stalls in Europe, US growing at a brisk pace, Japan still weak

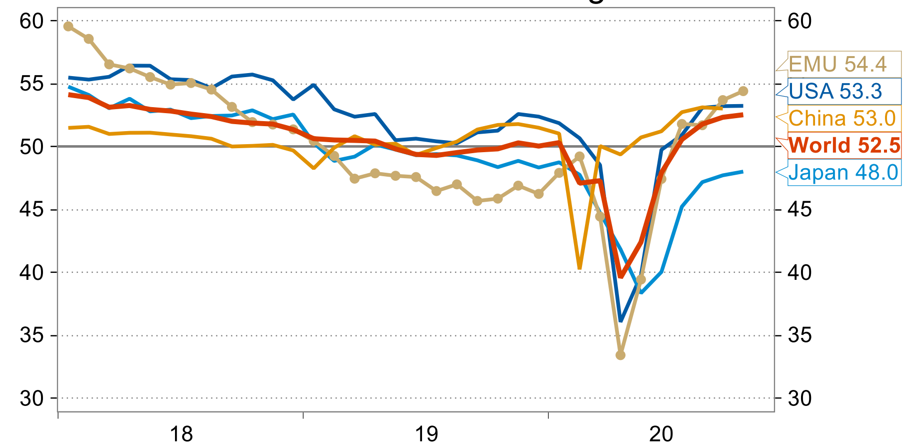
In EMU, services are contracting faster. In the US, they are expanding faster. Manuf. strongest in EMU

PMI Composite



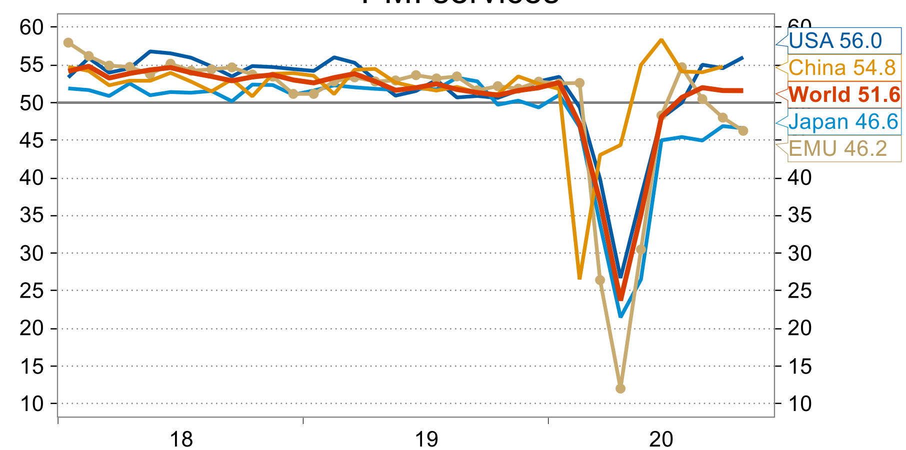
Source: IHS Markit, SB1 Markets, Macrobond

PMI Manufacturing



Source: IHS Markit, SB1 Markets, Macrobond

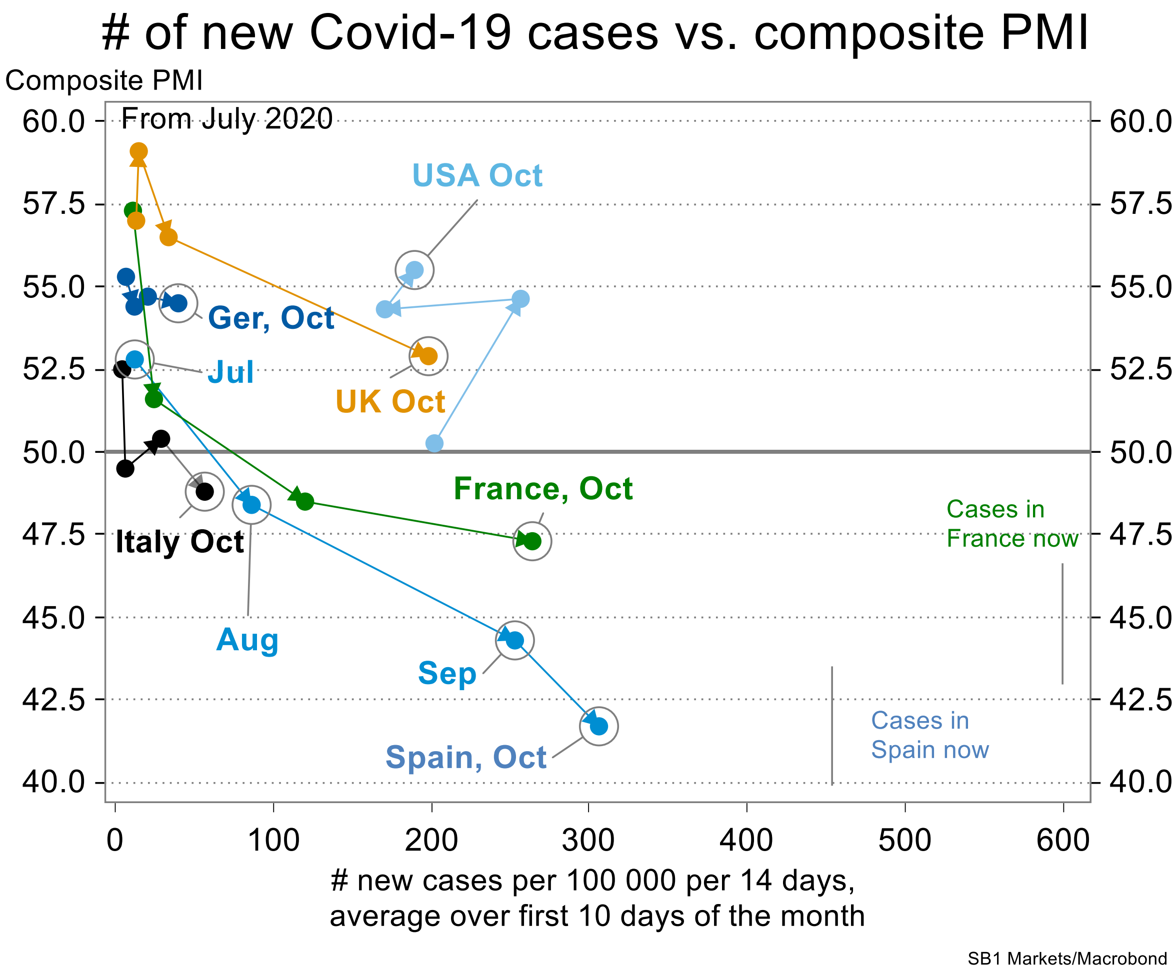
PMI services



SB1 Markets/Macrobond

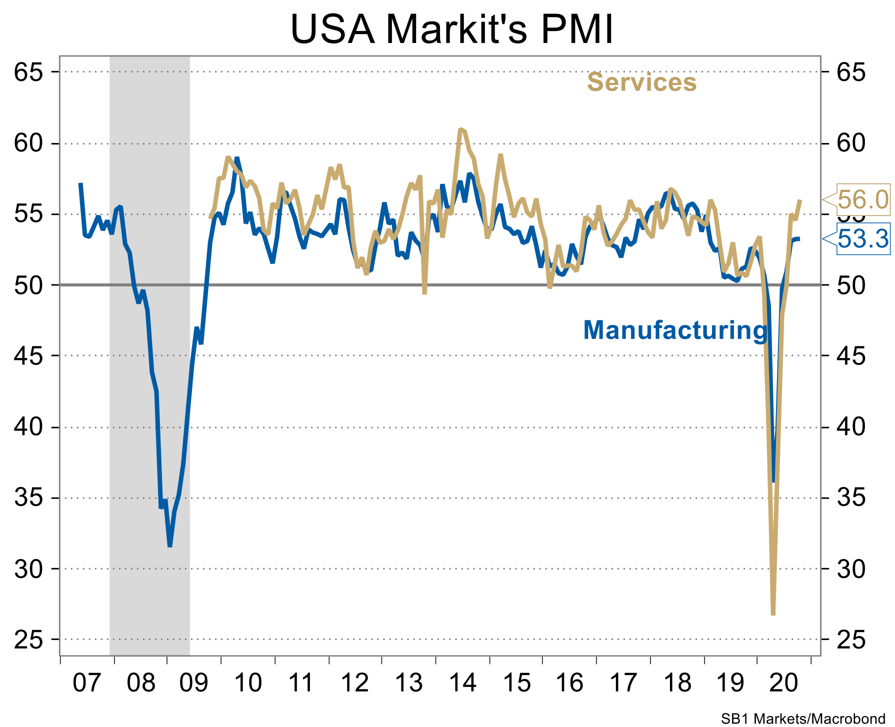
- In the **EMU**, services fell further into contraction mode, no doubt due to corona measures, and changes in behaviour due to the virus spread. The manuf. PMI further up, to 54.4
- The **US** composite PMI (from Markit) rose by 1.2p, due to faster growth in services, the manuf. PMI unch
- In **Japan**, both manufacturing and services are reporting continued decline in activity – at the same speed as in Sep
- **UK** PMIs (not included on these charts) weakened but both manufacturing and services are at decent levels

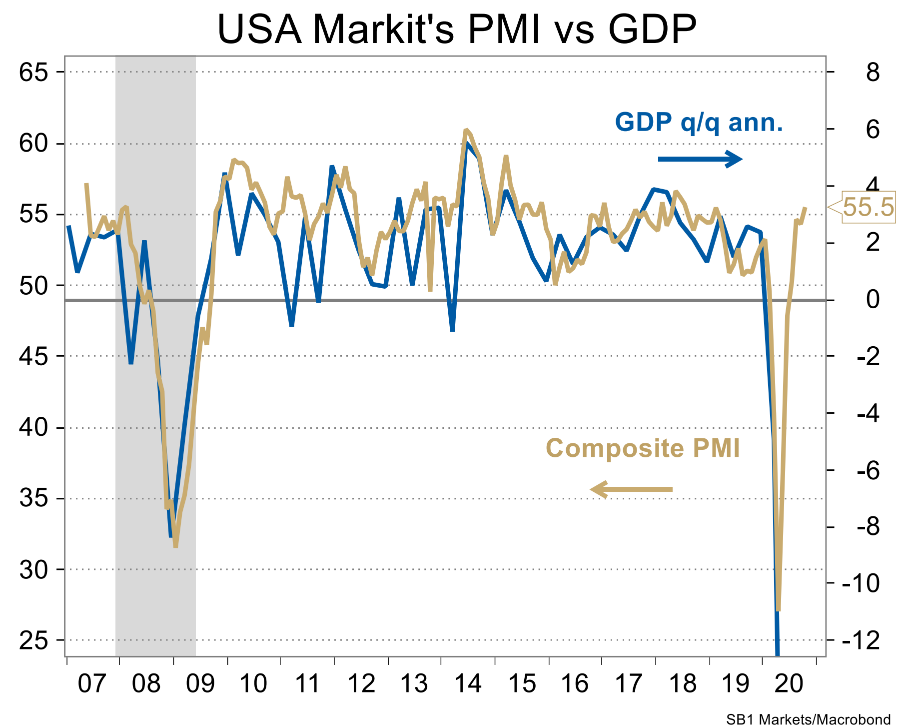
More cases in Europe – and the PMIs are turning south



Markit's PMIs up again in Oct, no signs of a corona 2nd /3rd wave slowdown

Services PMI rose 1.4 p to 56; manufacturing +.1 p to 53.3 – in total decent growth into Q4



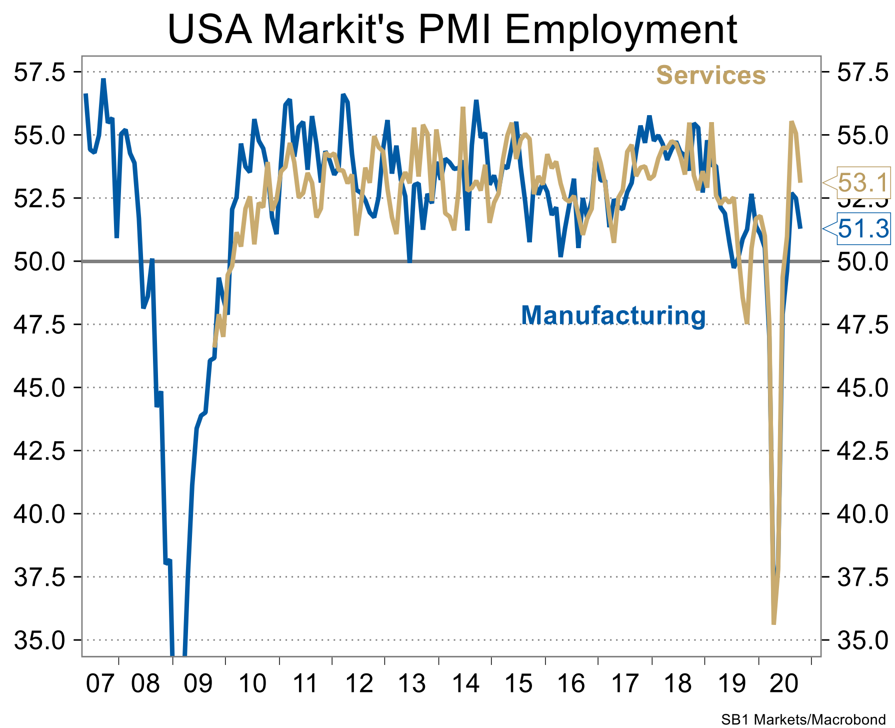


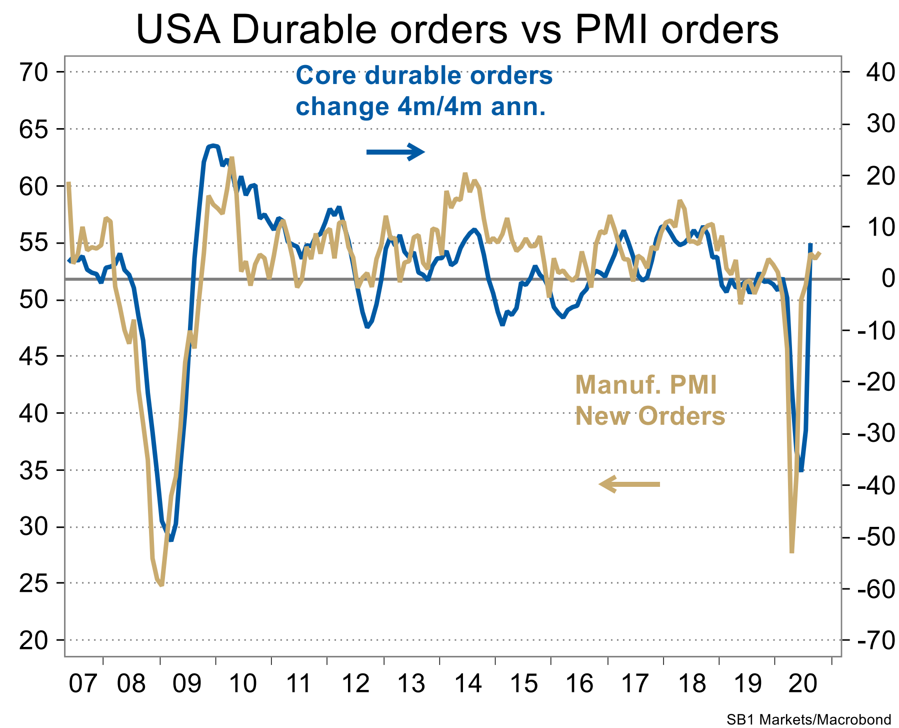
- The increase in new cases is so far less aggressive in US compared to Europe, and far more formal restrictions are imposed in Europe than in the US

SpareBank 1 MARKETS

Employment growth slowed somewhat in Sept, according to the PMIs

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

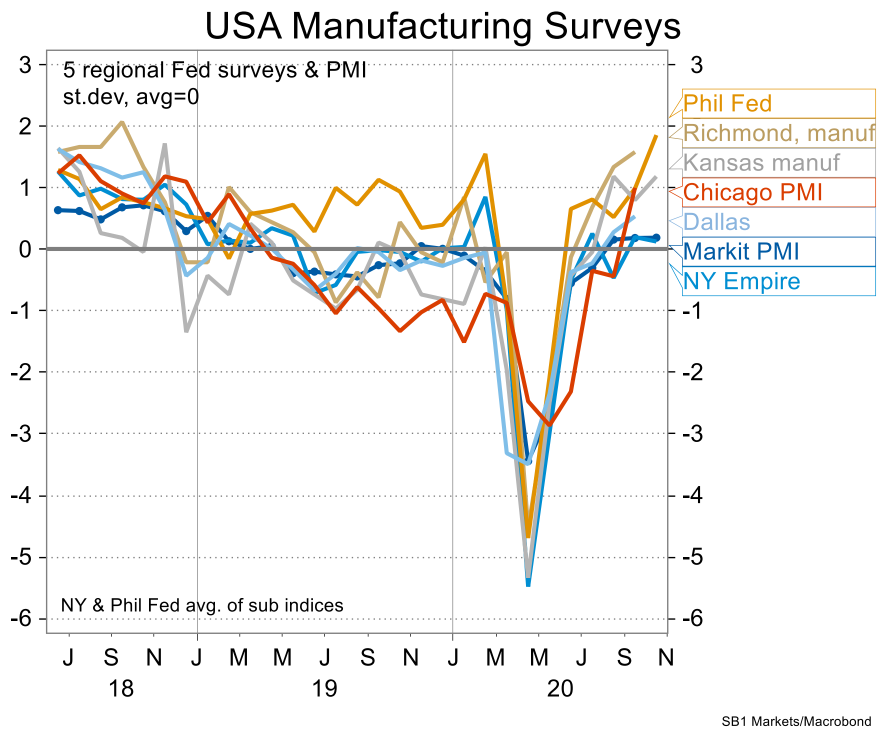


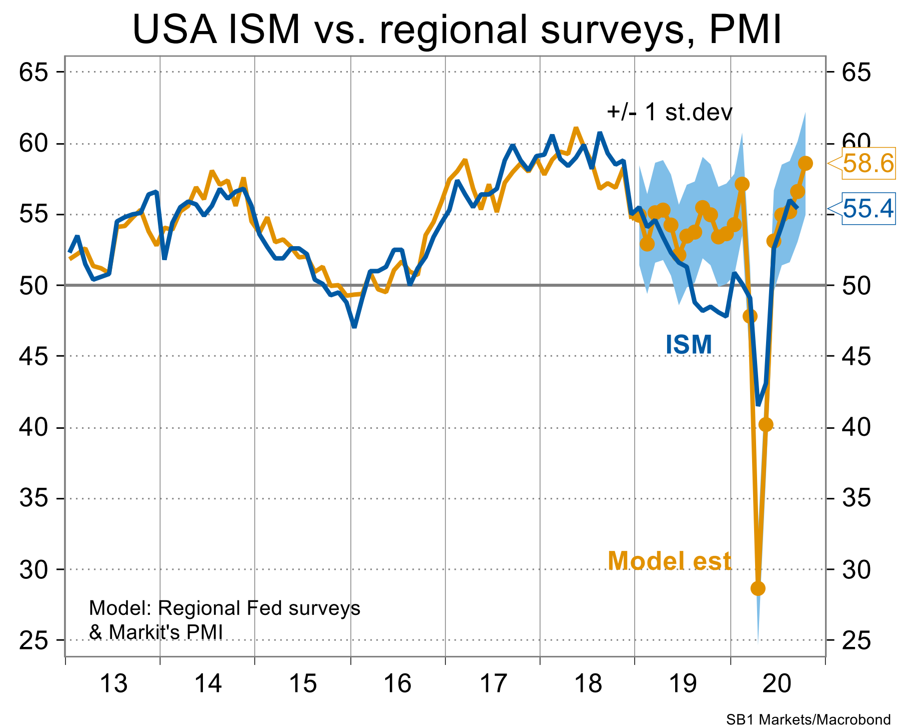


SpareBank 1 MARKETS

Regional surveys & Markit's PMI suggest a further lift in manufacturing ISM

A >2 p lift is indicted, mostly due to the large lift in the Phil Fed index

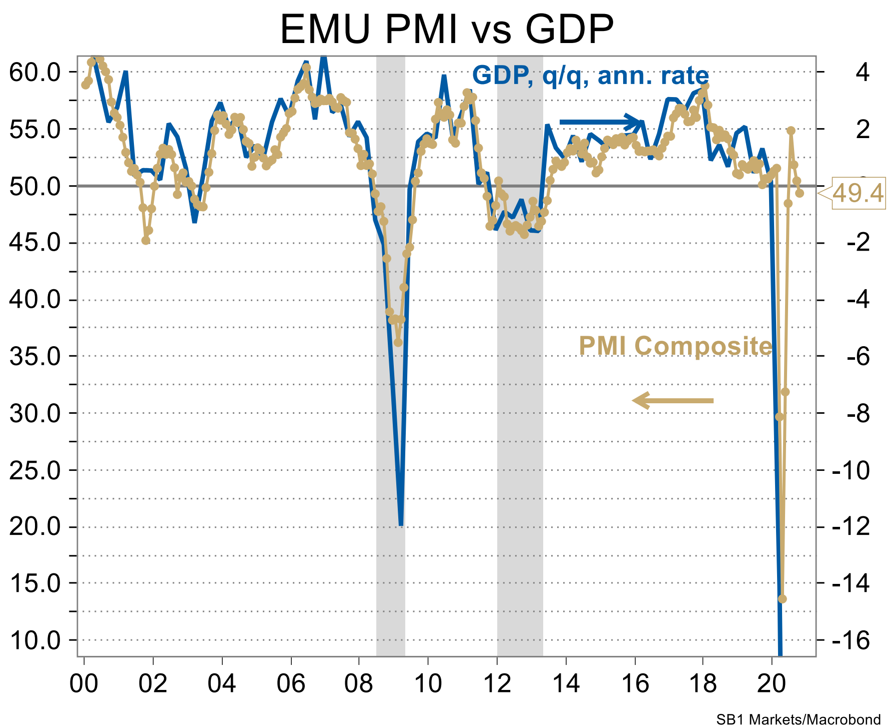


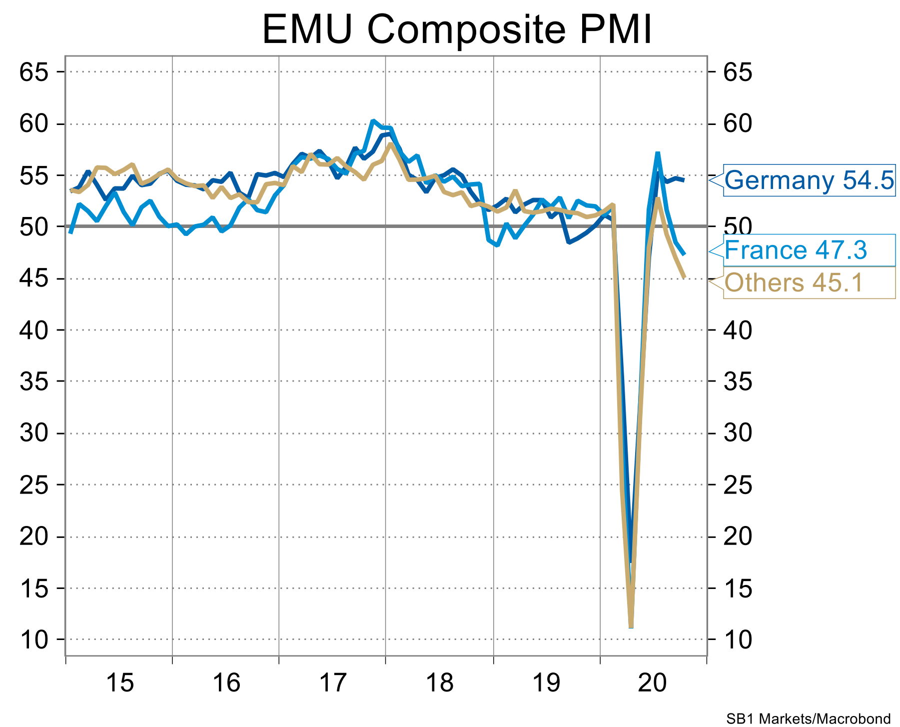


- The surveys underestimated growth during the first phase of the recovery but will at one stage be able to track the economy as they usually have done

Composite PMI another step down in Oct, services to blame. Manufacturing up!

Corona no doubt to blame for the setback in services, while manufacturers report stronger growth

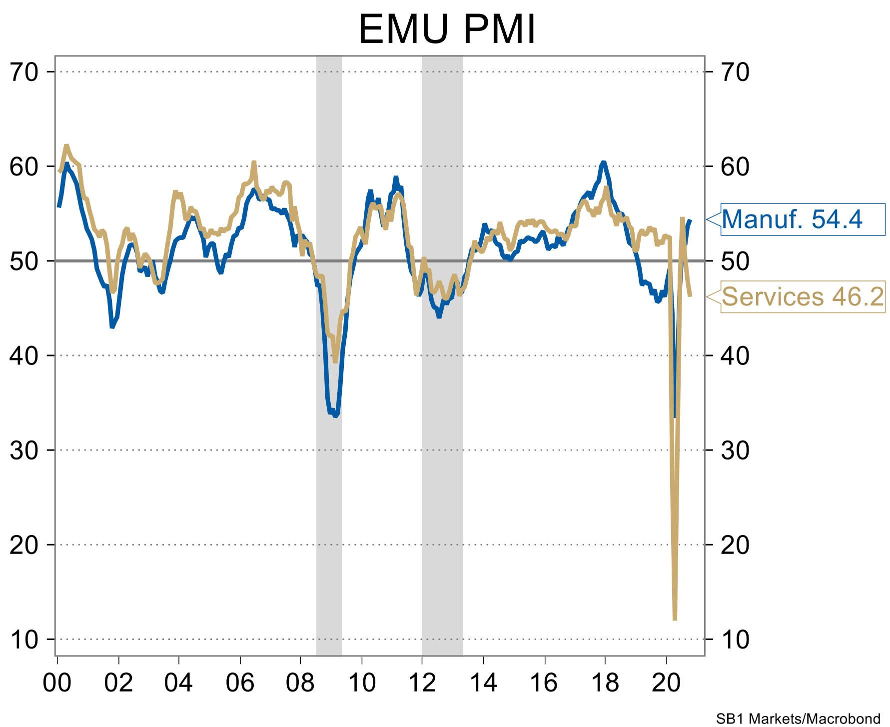


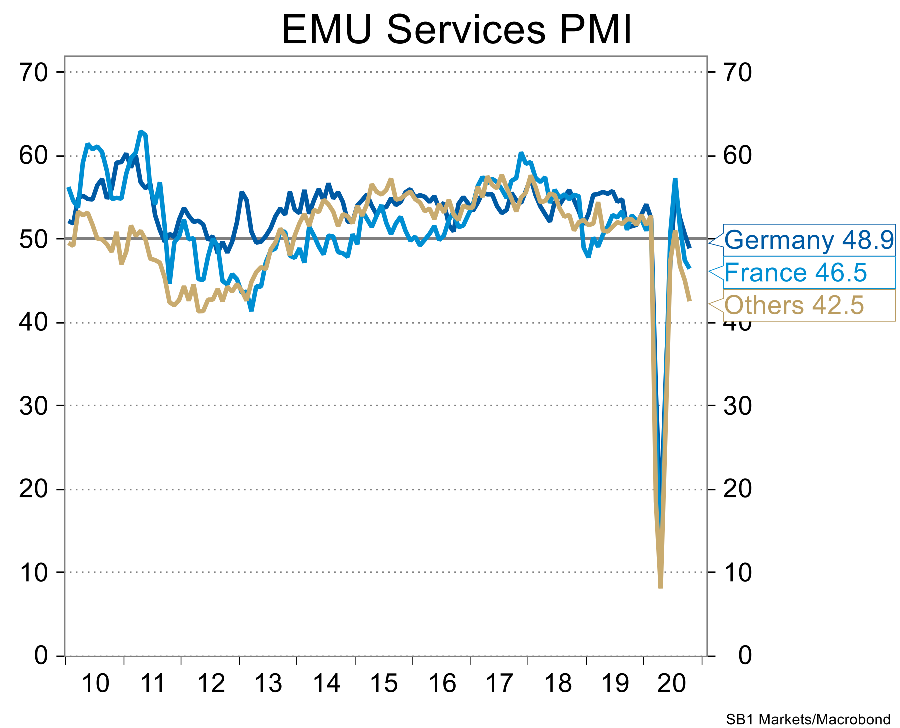


- The preliminary composite PMI fell 1 p to 49.4 in October, marginally better than expected (49.2). The level signals a small decline in GDP
- In Germany, the index kept up at almost the same level as in Sept, at a decent 54.5. France and (implied) the avg of Spain and Italy fell further, the southerners to 45.1
- The service sector index fell 1.8 p to 46.2, on par with the low levels during the Euro crisis (2011/12). The service sector indices are below the 50-line in all of the big 4
- The sun is still shining on the manufacturers: The manufacturing PMI rose by 0.7 p to 54.4, signalling growth well above trend. All big 4 are probably above the 50 line. Germany at the top at 58! France marginally down to 51

Services back in contraction mode, new corona restrictions to blame

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

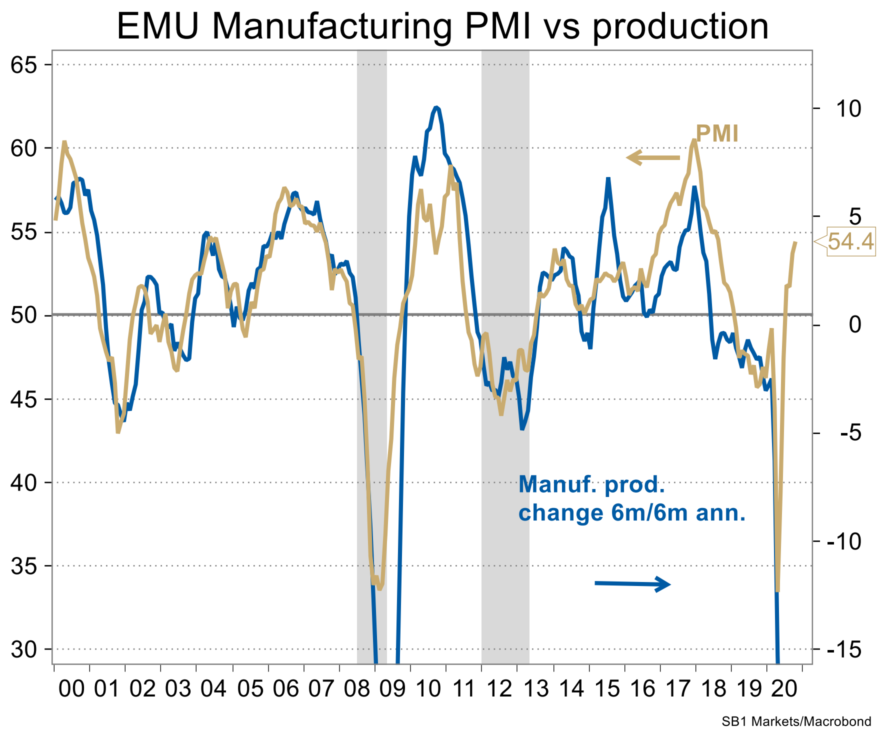


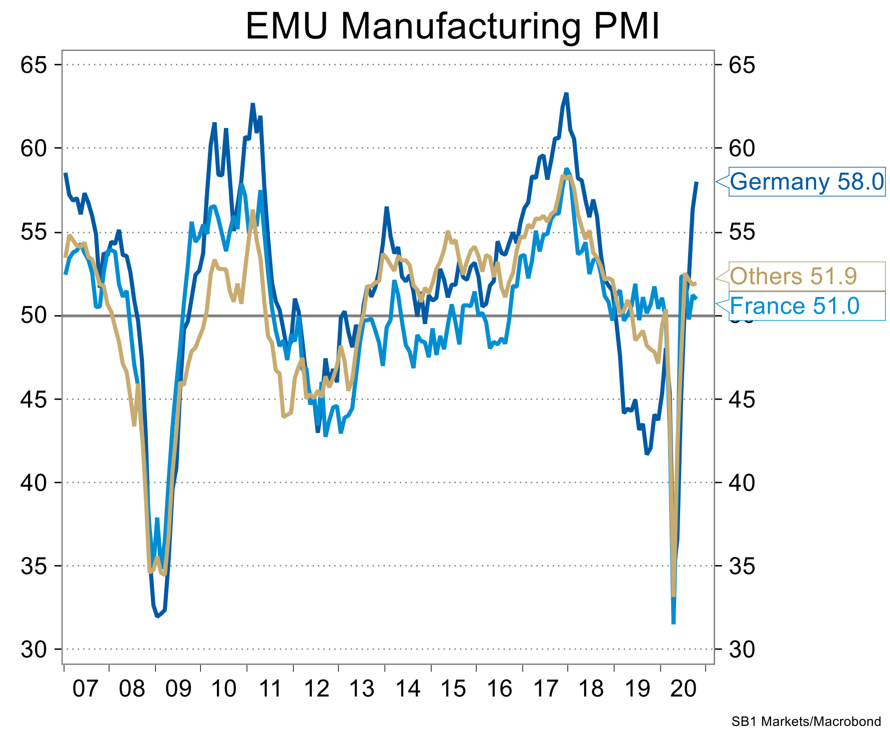


- Services PMI fell to 47.6 from 50.5, the second month of decline. Activity is most likely hurt by the second wave of corona cases which started during the summer, and more restrictions imposed in many countries. The services decline was broad, the implicit average of other countries than Germany and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

Still going strong in the manufacturing sector. All big 4 above 50

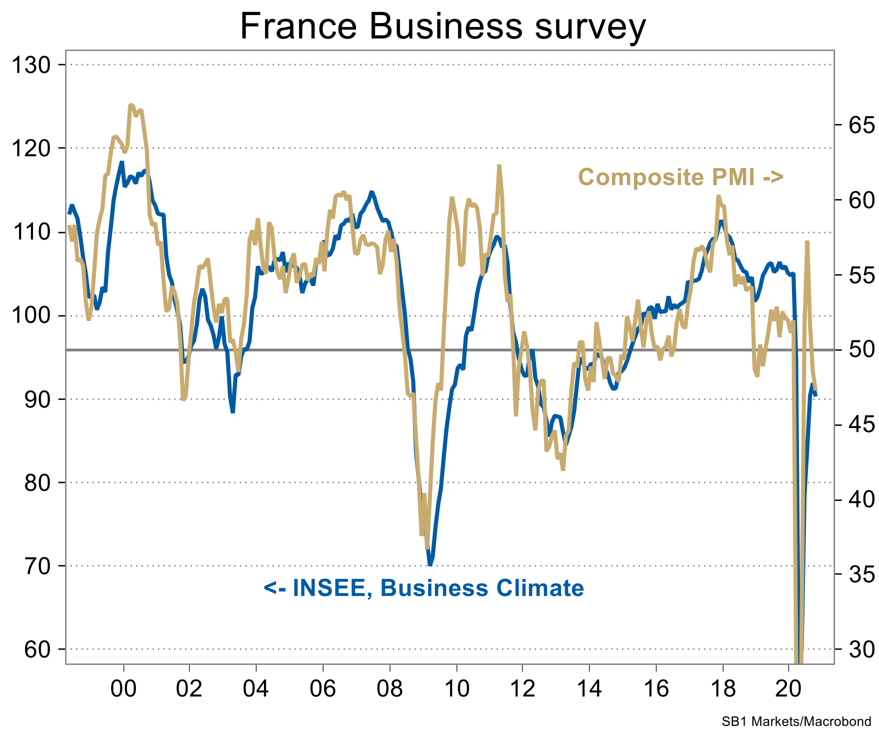
Germany at the lead at 58.0. Spain probably close to 50





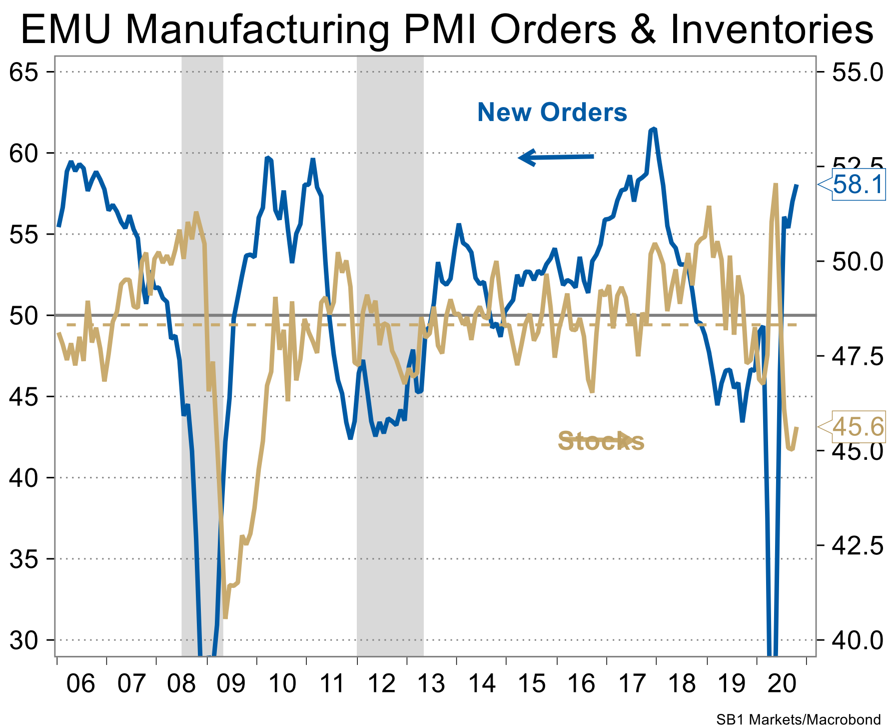
- Italy & Spain are not reporting preliminary PMIs, just France & Germany

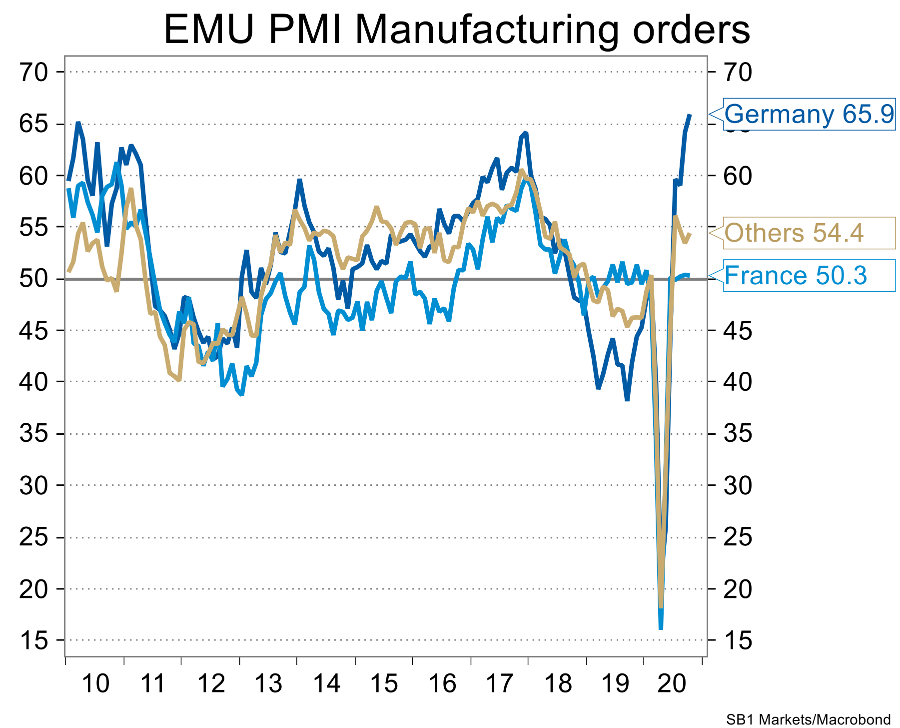
The French INSEE survey confirms a slowdown



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

Confirms the rapid recovery in the manufacturing sector





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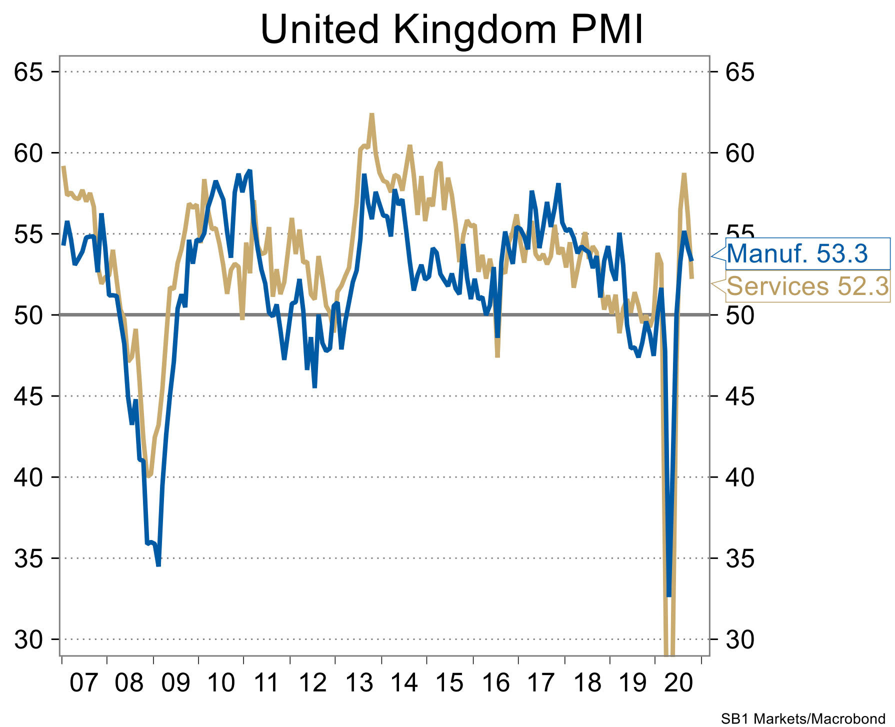
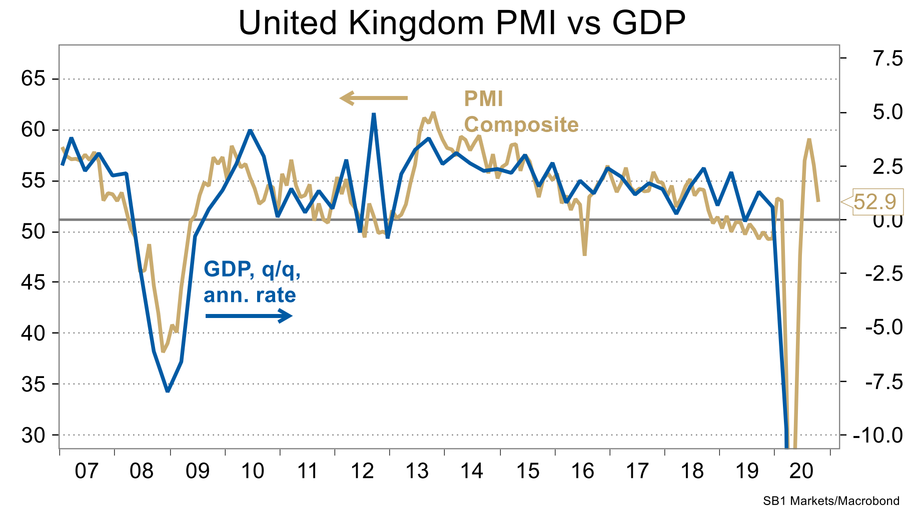
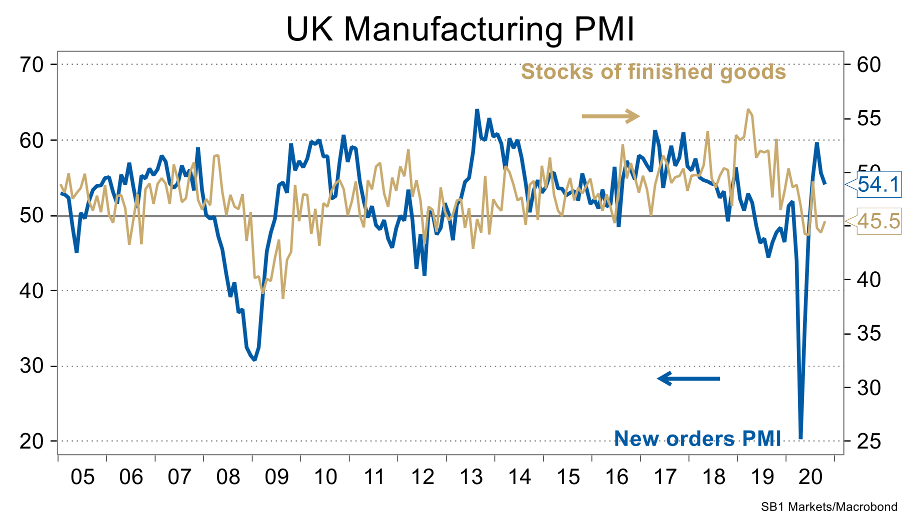
The composite PMI down 1.8 to 52.9, the service sector slows, not into reverse

The service sector PMI down to 2.8 p to 52.3, still signalling growth above trend. But that's needed!



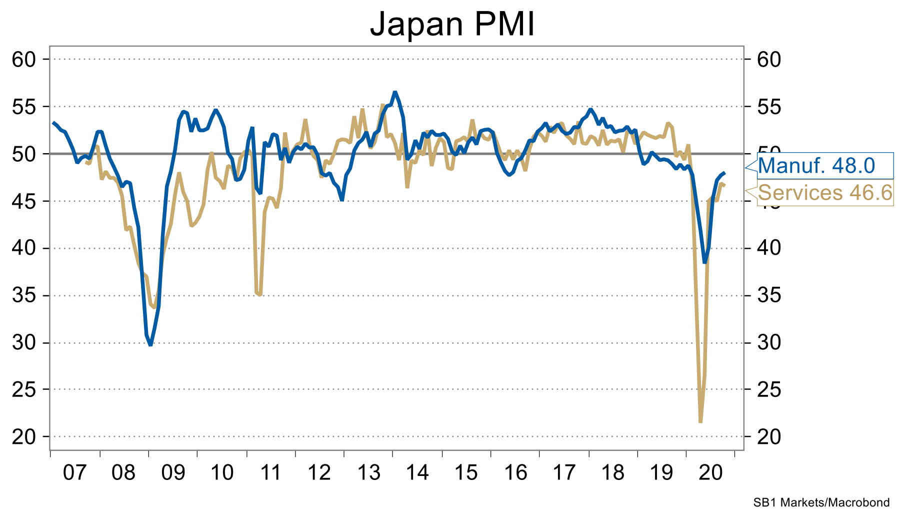


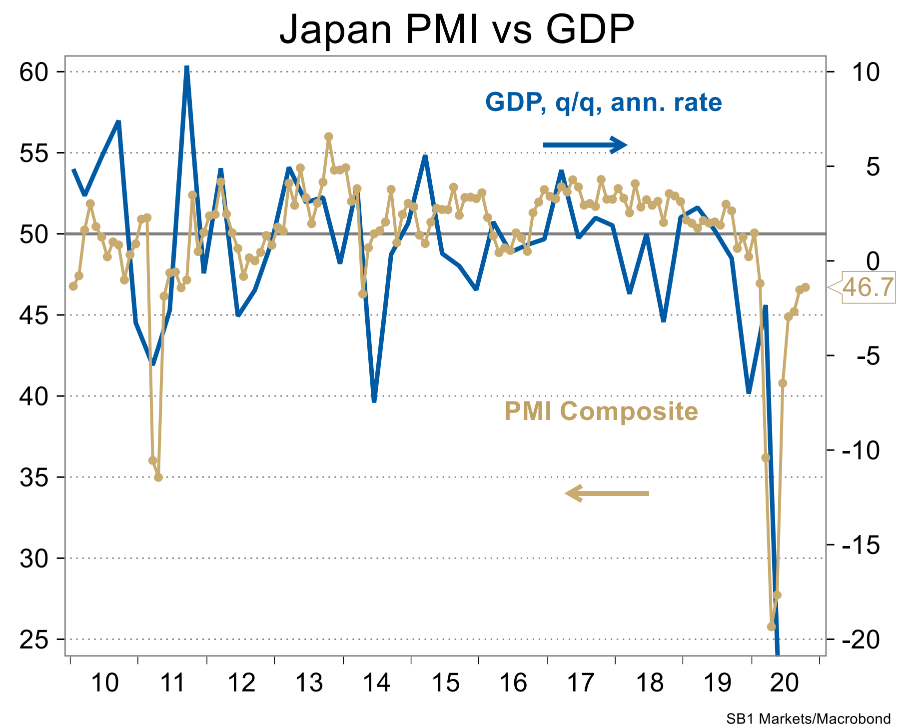


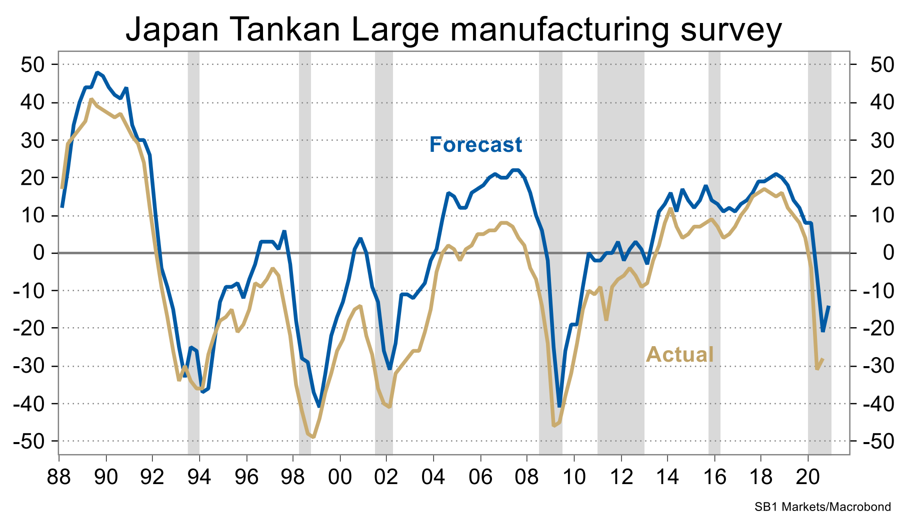
- Most likely, the PMI is underestimating growth in Q3. Barring a setback in Aug/Sept (which the PMI is not signalling) GDP will increase by 16% in Q3 (or 80% annualised, if you prefer the silly number), following the 20% drop in Q2 (-60%, annualised, if you wondered)

Japanese PMIs remain soft, signalling a further decline in activity

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



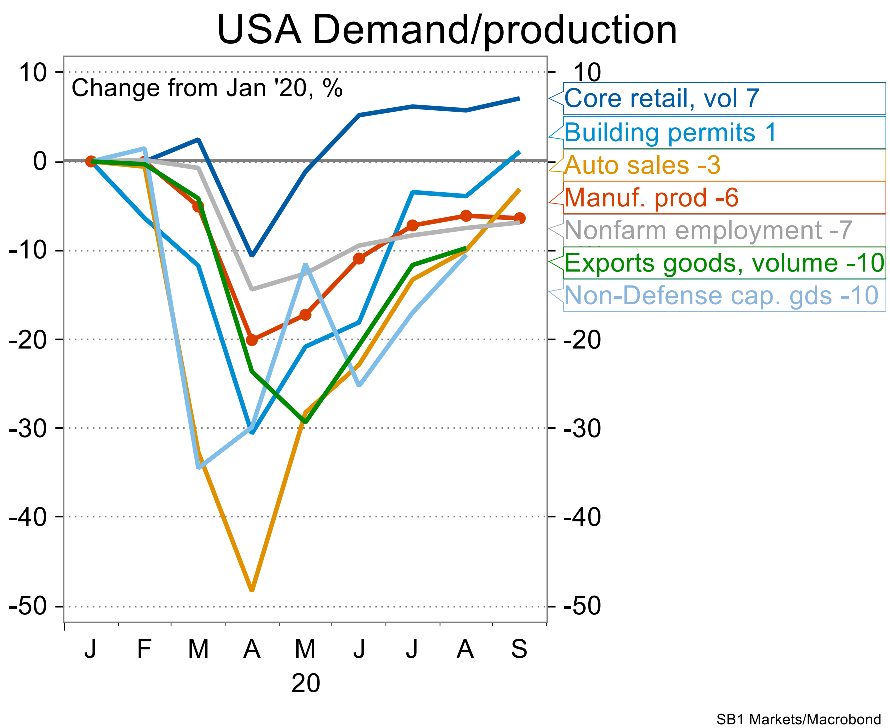




- The manufacturing index rose marginally but is still just at 48, signalling contraction in activity – which still has been growing recent months, undetected by the PMI (or other surveys), the answers are not yet well calibrated
- The service sector PMI was flat at 46.6

Goods consumption, housing is back; goods production not

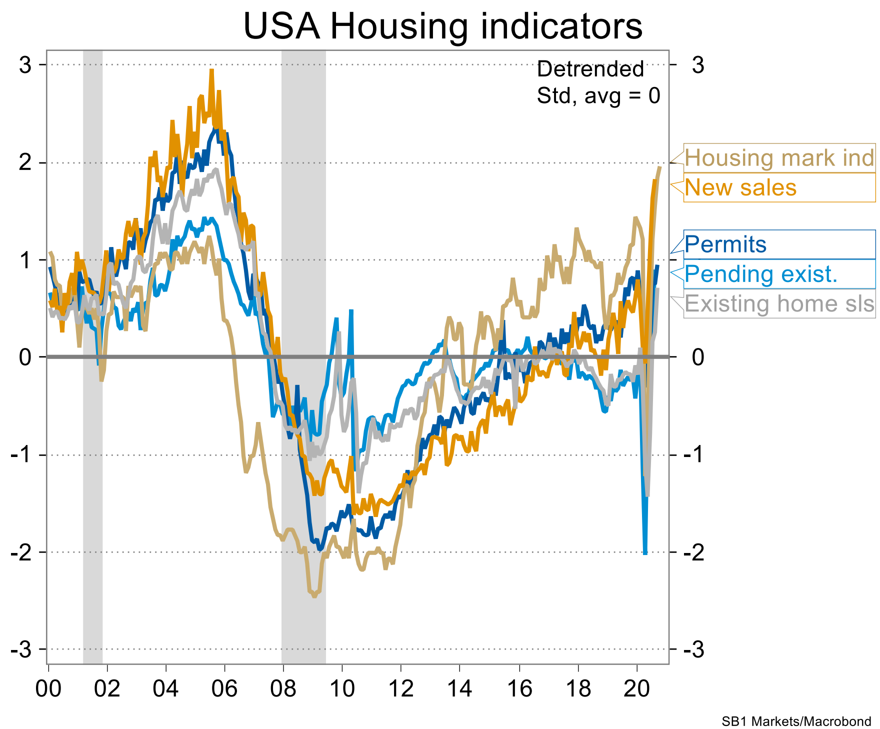
as exports/investments are still down, Services have still a way to go too, as have total employment

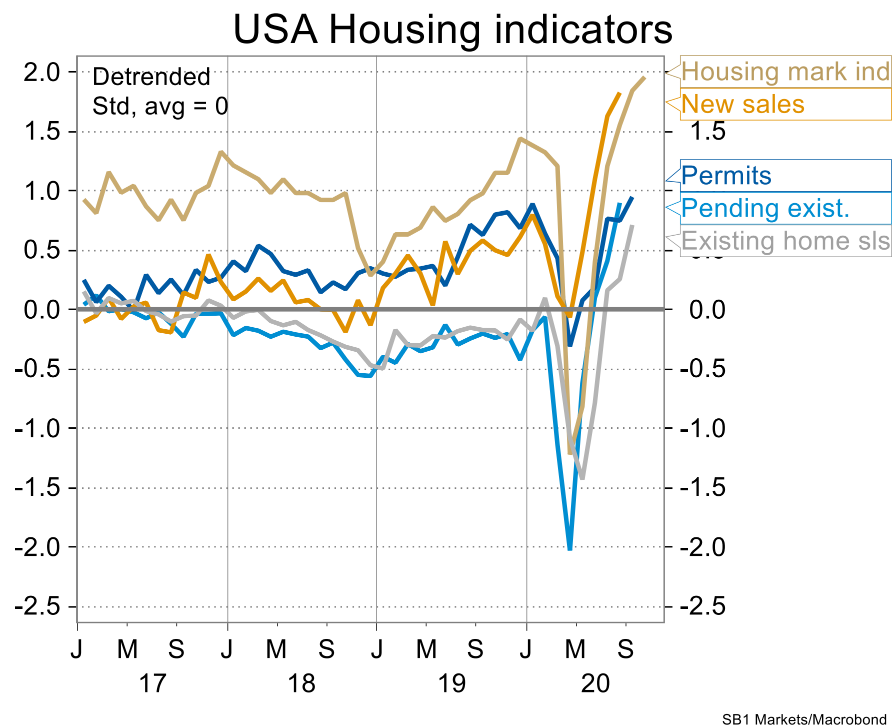


- The US economy is still recovering but not evenly
- Consumption of goods incl. autos and housing has fully recovered (and the existing home market is exploding, check the following pages)
- Exports and investment goods demand are still down 10% vs the pre corona level, the latter however just due to zero demand for new aircrafts
- Manufacturing production fell in Sept, and is 6% down vs January
- Services are still struggling, restaurants are down 15%
- Employment is down 7%

Check the housing market ‘V’s. It just took 4 – 5 months. Las time: *Never*

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

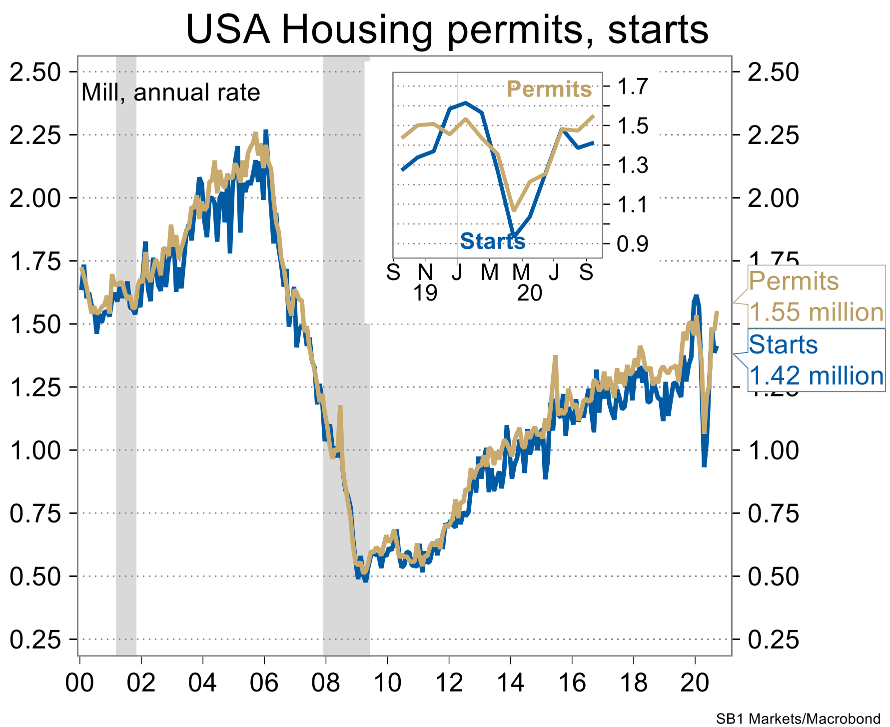


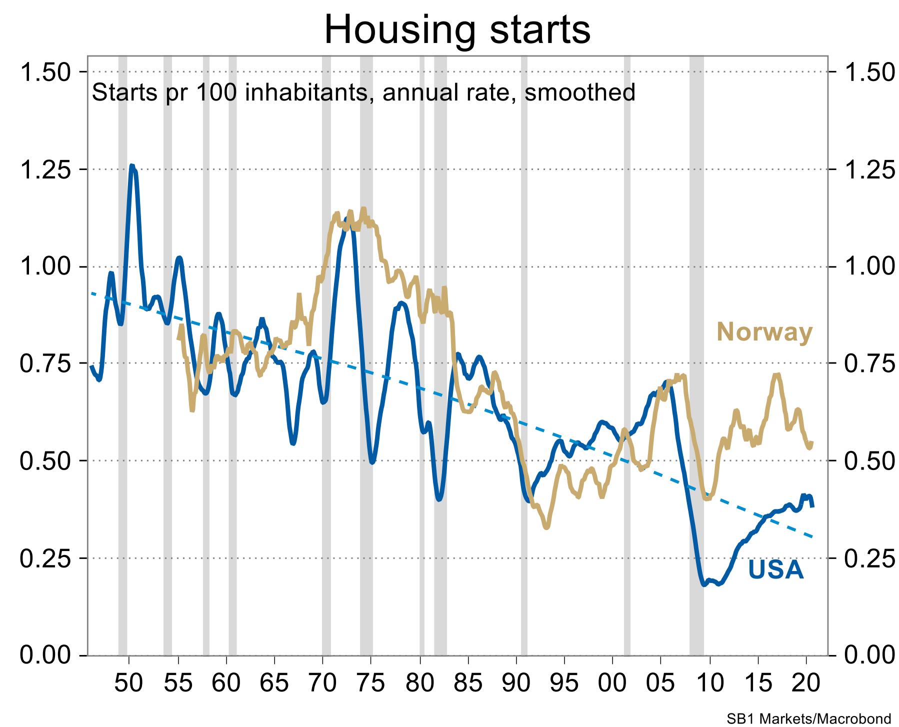


- Compare this 4 – 5 months downturn/recovery to what happened during/after the housing/financial crisis: Housing has not yet come back to the pre corona peaks. It even took some 10 years to come back to an average housing market activity level (barring the Homebuilder’s market index)!
  - » BTW: The peak in the housing market was in late 2005/early 2006, and most of the downturn was done when the ‘financial crisis’ hit 2 – 2 ½ years later

Housing building permits the highest in 13 years

Housing starts up too but less than expected, still above the 2019 average

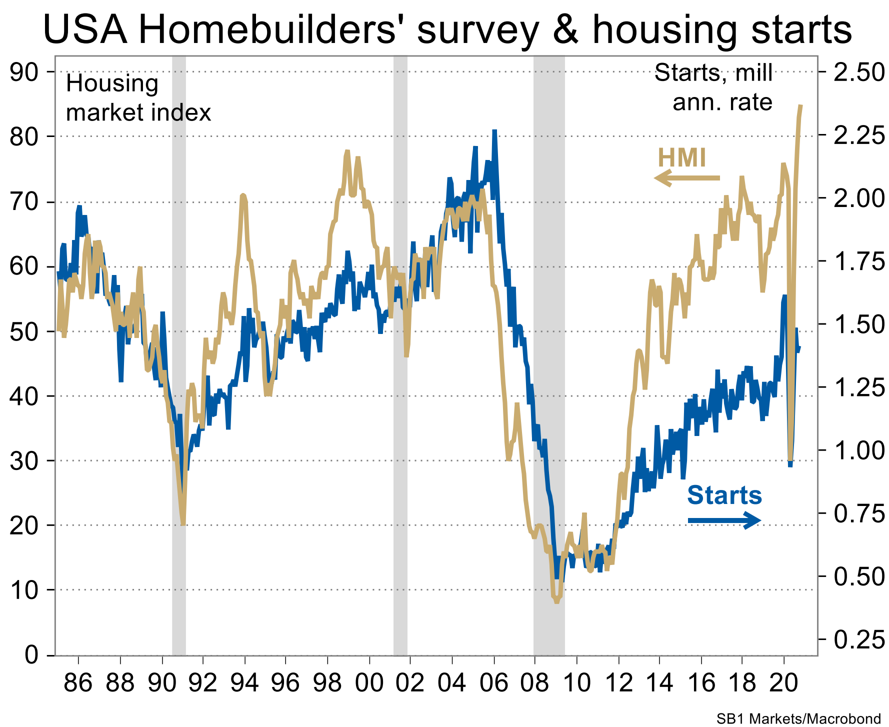


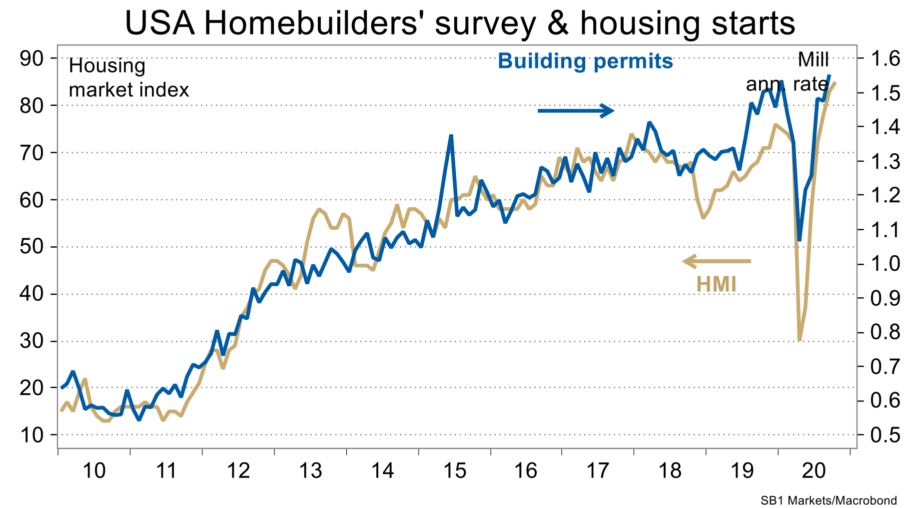


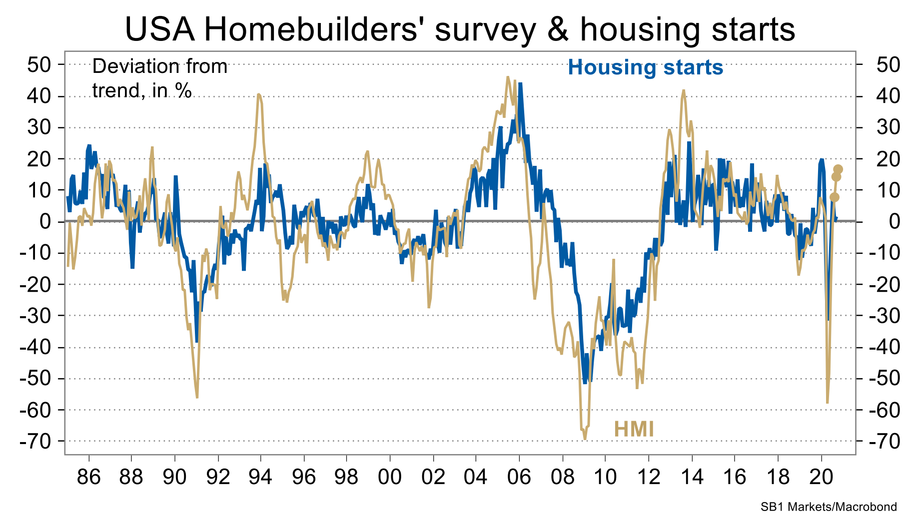
- Permits and starts are up almost 50% from the April trough – and are back to 'normal' level. Starts are below the peak at the end of 2019 but above the 2019 average – and barring the Dec 19 – Feb 20 local spike, the highest since 2007. In Sept, permits were at the highest level since early 2007
- Housing starts are at a quite low level per capita vs. history, like in all other rich countries, as the 'country is built', at least in many cities

Homebuilders report another ATH in October

The Housing Market Index rose further in Oct, from the record level in Sept







- Builders confidence has never before been higher (index at 85, up from 83 in Sept). Both the present sales level and expectations for the next months are upbeat
- The HMI is not an assessment of growth in housing stars nor the 'level' of housing starts vs a long term average. The best fit is vs deviation of starts from a more flexible trend, check the difference between the chart above and to the right
- The current index signals another lift in housing starts vs the level in September (literally almost 20% higher)

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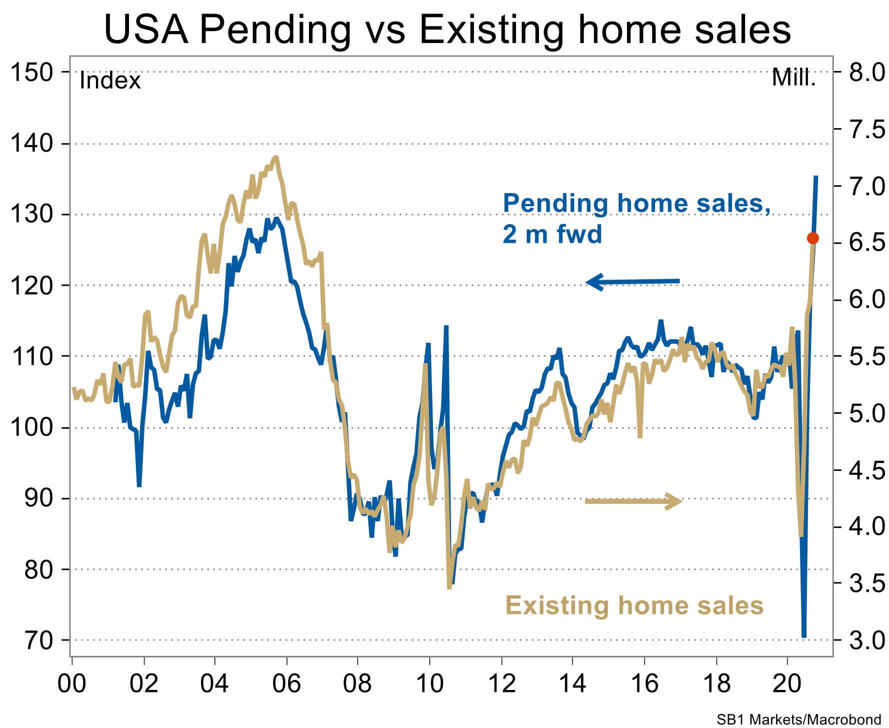
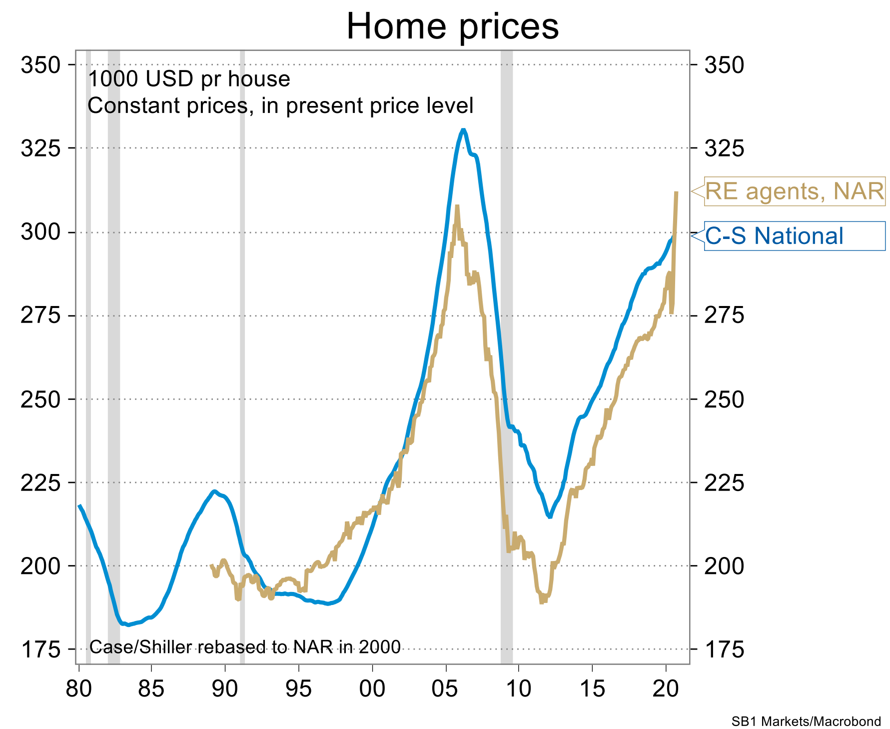
Existing home sales straight up to the highest level since 2006, *prices explode*

Pending sales had pre-warned exciting sales data. Prices up 14% past 4 months, up 9% vs February!

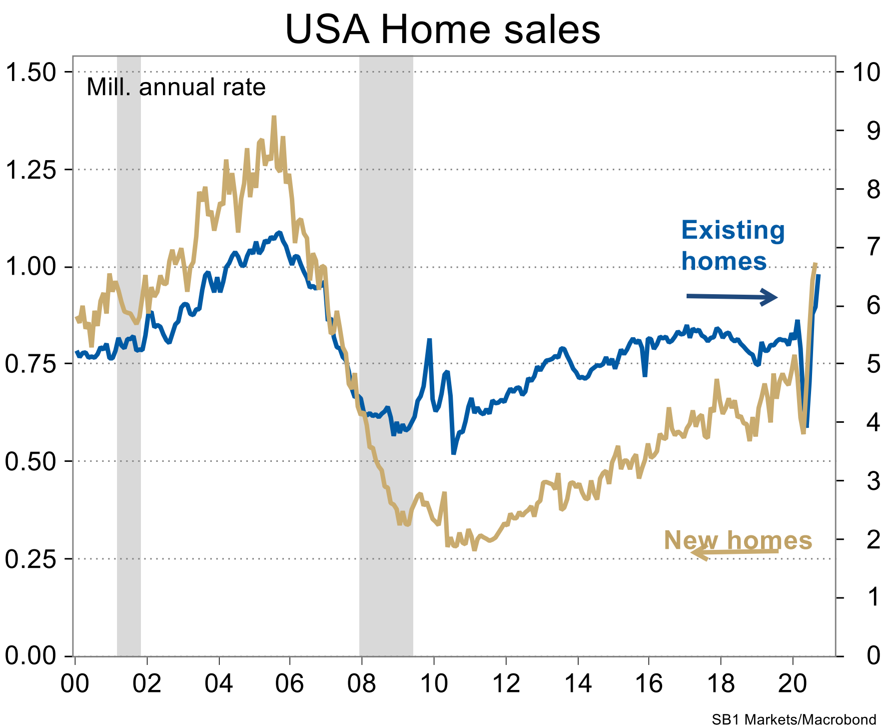


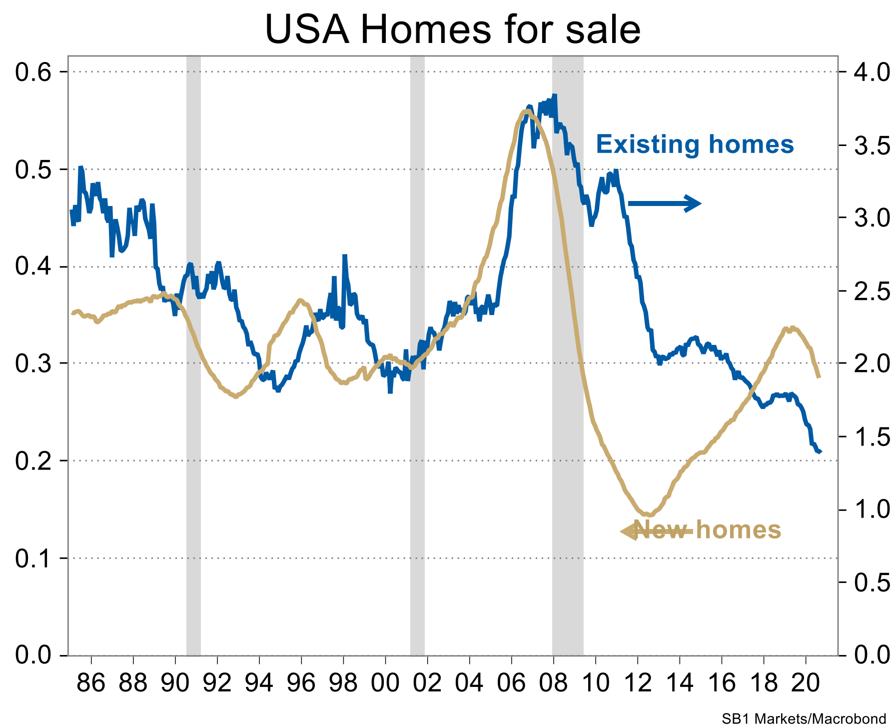


- Sales rose 9% to 6,45 mill (annual rate) in September, 3 pp more than expected - but not too surprising given the high number of deals signed (pending sales) in August that signaled a 7 mill pace. Anyway, the sales level is the highest since 2006. Sales fell to 4 mill in April from 5.5 mill before corona hit – and now we are not far below ATH!
- Median transaction prices are even more spectacular: Price fell 4% in May (most transactions agreed upon in April), but turned up in June, and now prices are up 14% vs the May level, the fastest rise in 4 months ever. Prices are up almost 15%, among the highest growth rates (*NB: No adjustment for size, location, standard etc, just the median price*)
- The number of unsold homes is falling rapidly, and is very low, especially vs sales (thus, the turnover is very high)

New homes very strong too, and the stock of unsold homes are falling sharply

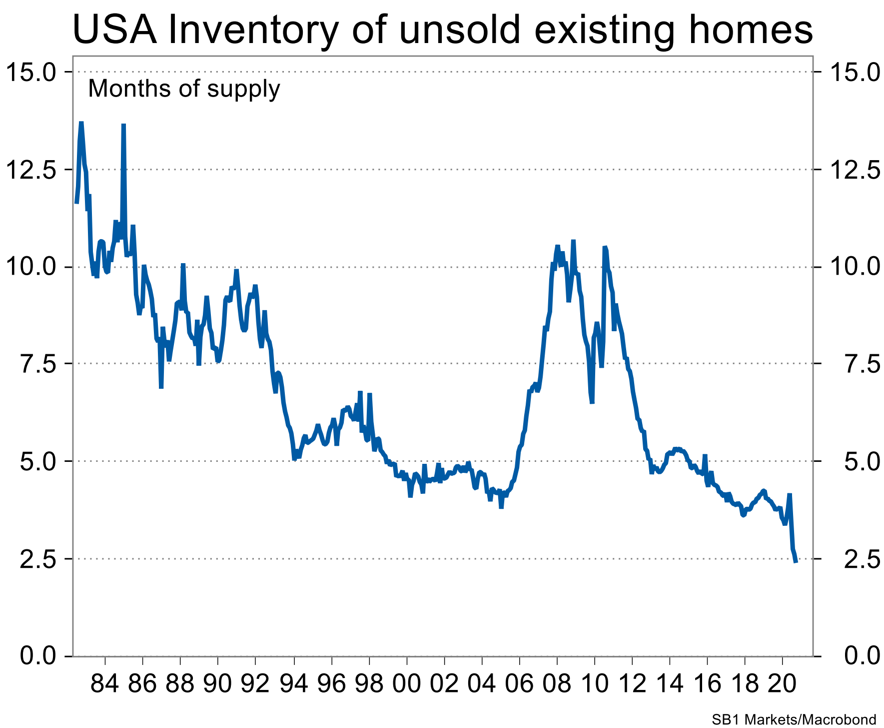
New home sales 40% above the pre corona level. Existing home sales up 20%

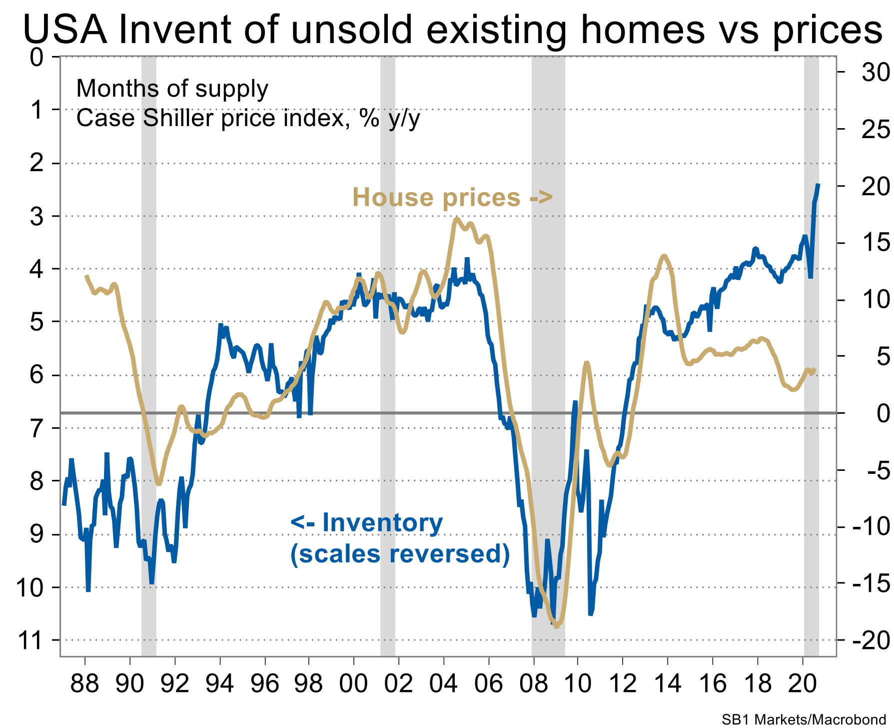




- The inventory of **unsold existing homes** at the market is the lowest on record – data back to 1985
  - » The inventory/sale ratio is the lowest ever too, check next page!
- The number of **new unsold homes** is falling rapidly and the level is low, especially vs. new home sales

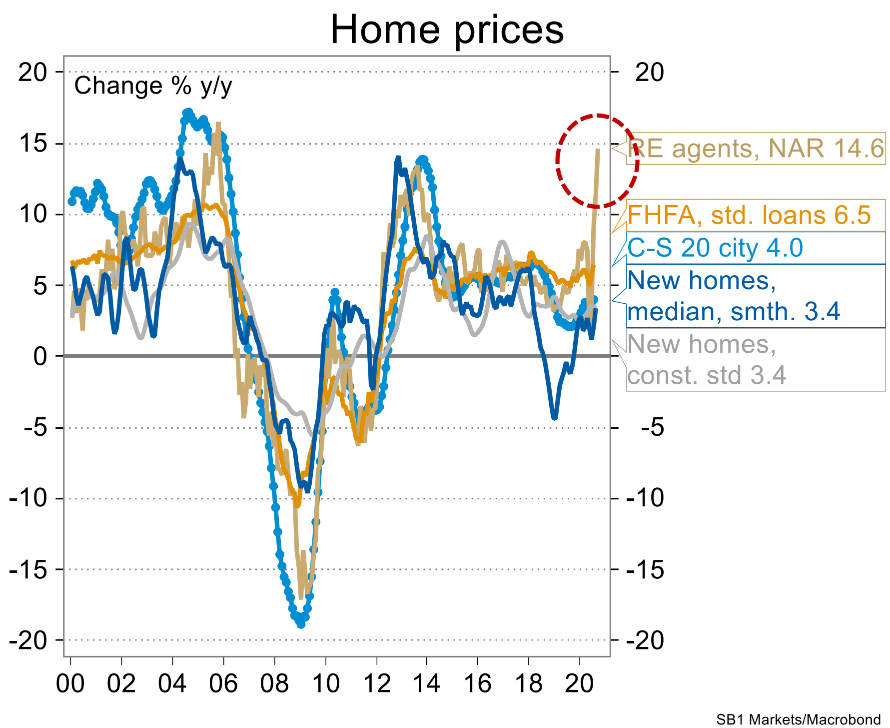
The inventory of unsold existing homes is at an extremely low level

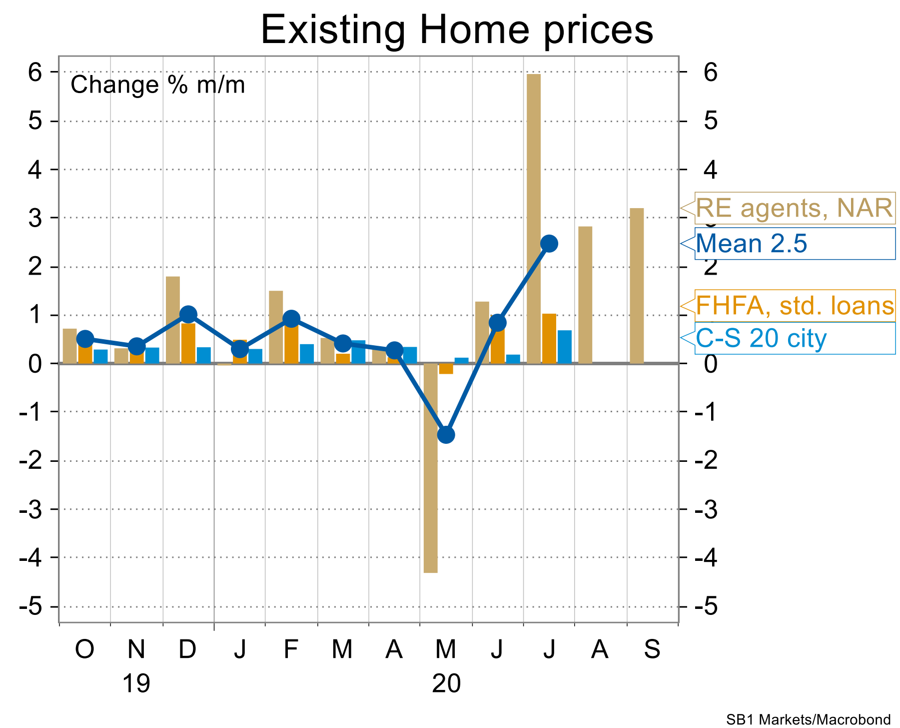




House prices through the roof, says the realtors

Prices rose by 6% m/m in July and by 3% in both Aug and Sept - unprecedented

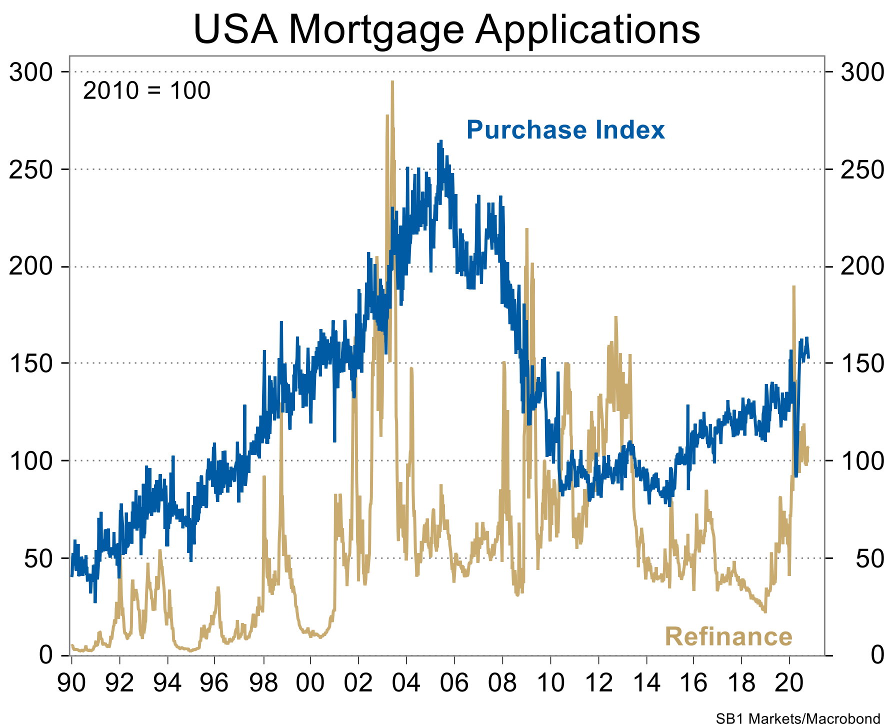


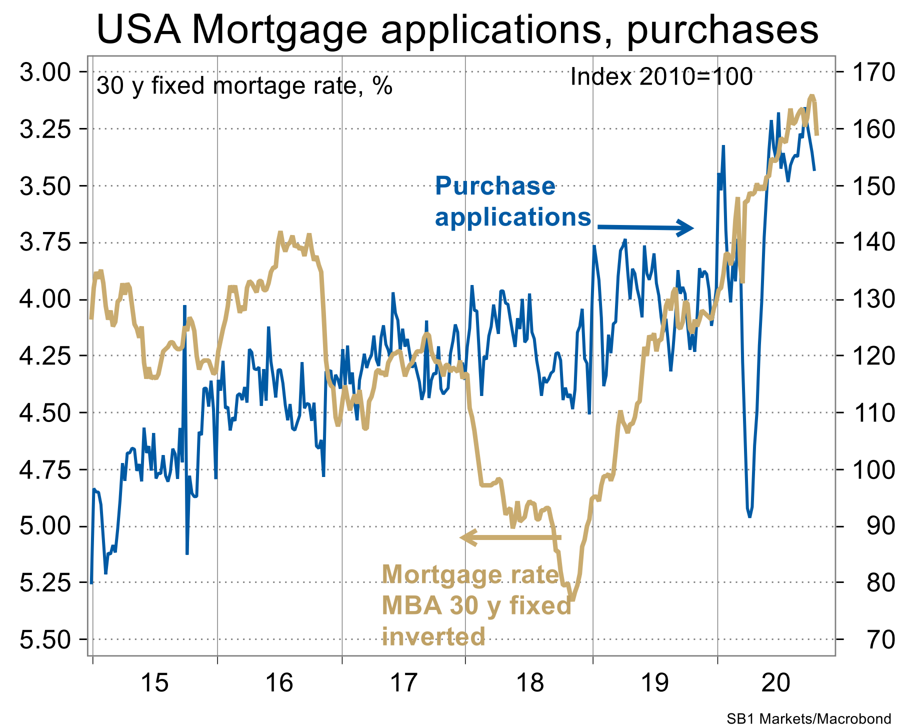


- The realtor's index is a primitive median 'raw' index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) have very likely lifted the median price
- Still, 'something is very likely going on' at the housing market. Other – and far more sophisticated indices will report much more muted developments than the realtor's index but house price inflation is on the way up again

Mortgage applications at a high level. As mortgage rates are at a very low level

Applications fell sharply during the spring, then a sharp 'V' recovery, up to the best levels in 12 years



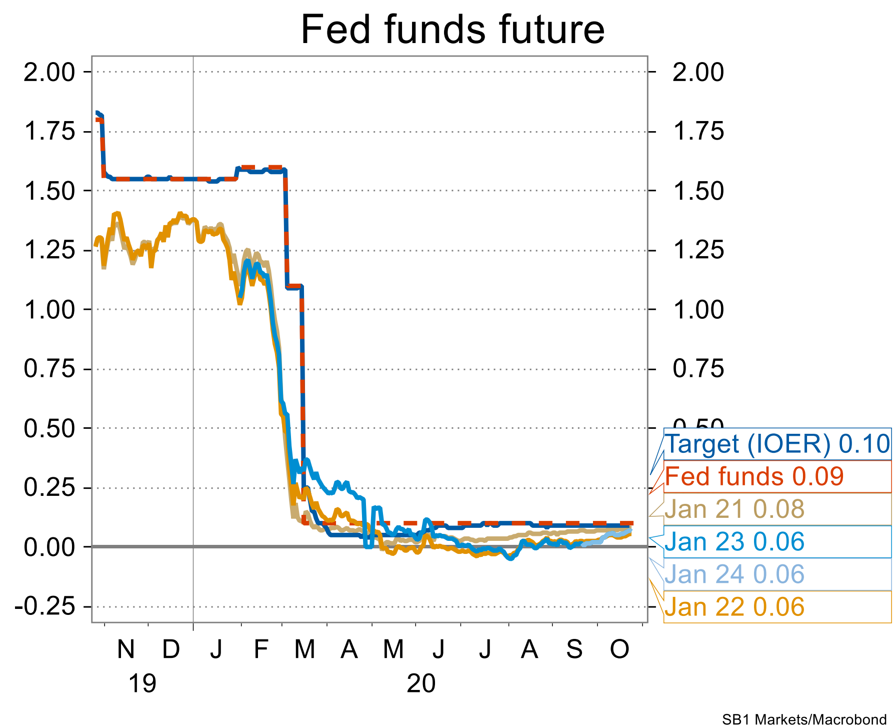


- No doubt, low mortgage rates stimulates demand
- 30 y fixed mortgage rates have fallen to 3.25% from 5.25% late 2018 via almost 4% at the end of 2019
- Disclaimer: Demand for new mortgages has <u>not</u> been a reliable leading indicator for the housing market. Still, the spike in demand for new mortgages cannot be a sign of weakness

Beige book: Economic activity slowly on the way up

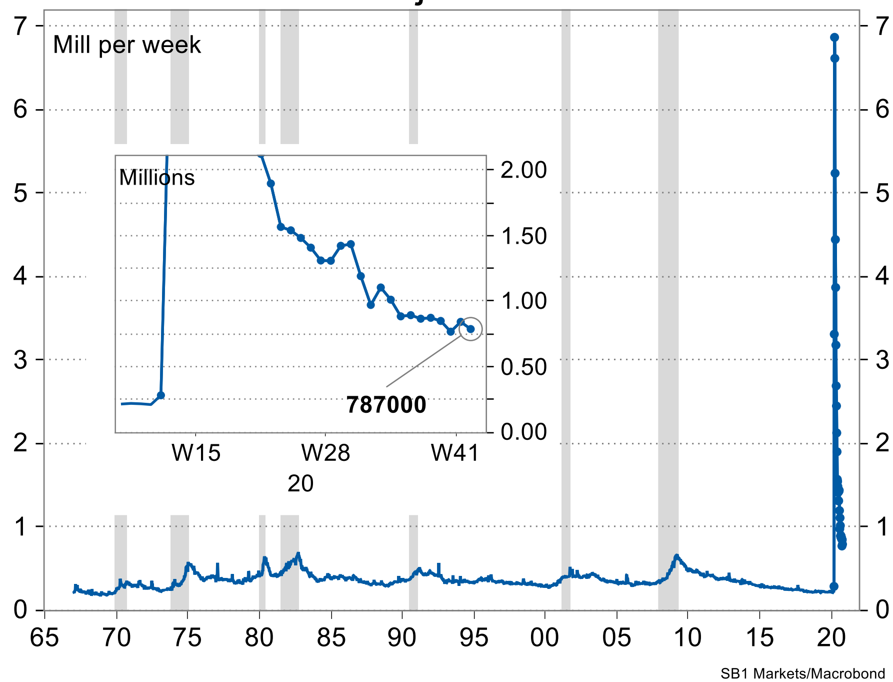
The Beige reports a modest – and still uneven - recovery

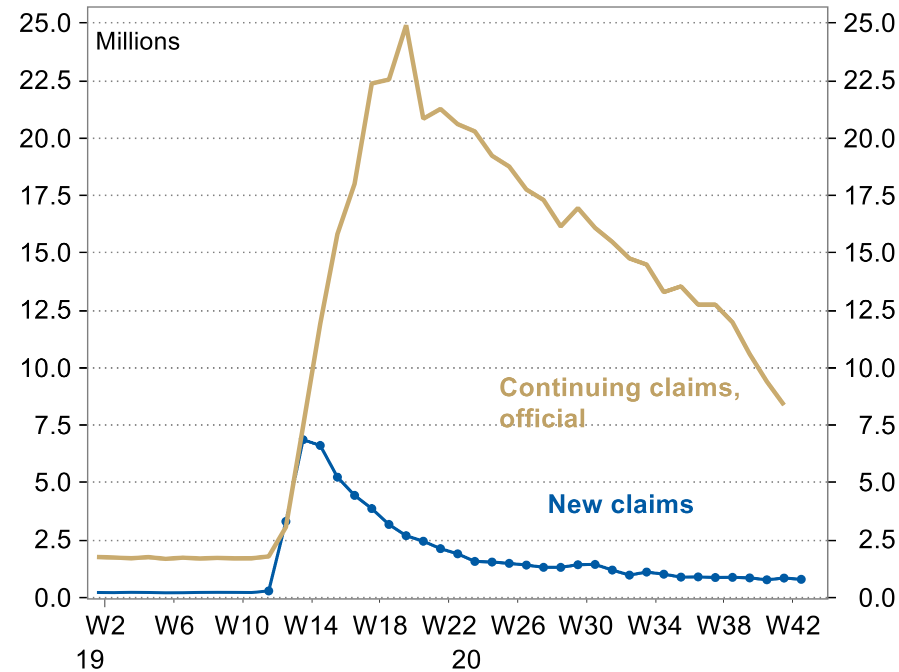
- In sum, the Fed's summary of economic activity among the 12 Districts noted a modest pickup in October vs. August. Covid-19 was just mentioned once in the summery.
- The banks' contacts are generally optimistic or positive, but are still uncertain. Lenders are concerned that delinquencies will increase the coming months
- Manufacturing continues upwards
- Retail sales are growing, but at a slower pace, while tourism noted a slight uptick in activity. Steady demand for housing, and demand for mortgages is increasing.
- However, commercial real estate conditions are deteriorating in many districts.
- Employment increased in almost all districts, though growth remained slow, while companies at the same time reported continued tight labour markets, parly due to corona challenges. Wages are increasing again, often due to difficulty finding workers, especially for low-wage jobs
- Prices rose modestly
- **So what? No new signals on the economy or the outlook. The Federal Reserve will stay put at its current policy stance. Markets do not expect the Fed to lift the interest rate from zero before sometime in 2024. It might happen before that…**



New jobless claims back on downward trend last week

'Just' 787' new claims last week down from 842 (rev. from 898). Still an unusual high number

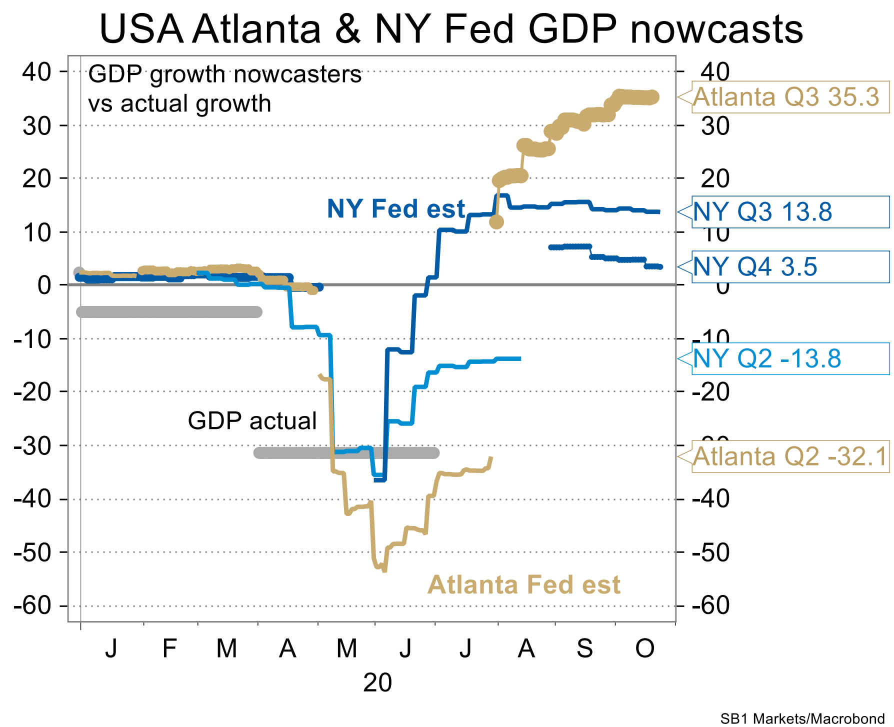


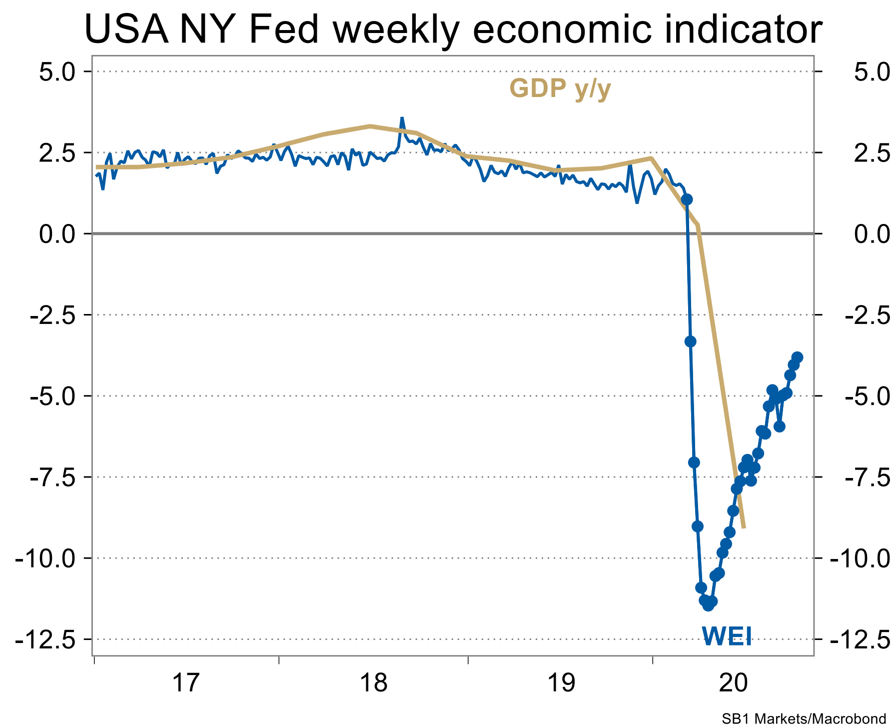


- The inflow (or rather outflow) is still brisk, some 0.5% of the employed loses their job, each week – so the turmoil is still higher then even seen before (barring the few recent months, of course)
- Even so, the no of persons receiving unemployment benefits – continued claims – is falling rapidly. Part of the decrease is due to unemployed been transferred to the Pandemic Unemployment Assistance emergency program, as they are not eligible to receive the normal unemployment anymore. The total is still on the way down (as far as we can understand these numbers)

The NY Fed quarterly forecaster is off the mark – Atlanta Fed says GDP grew by 35%

And the latter is probably not that far from the mark, consensus at 32% (7.2% not annualized)

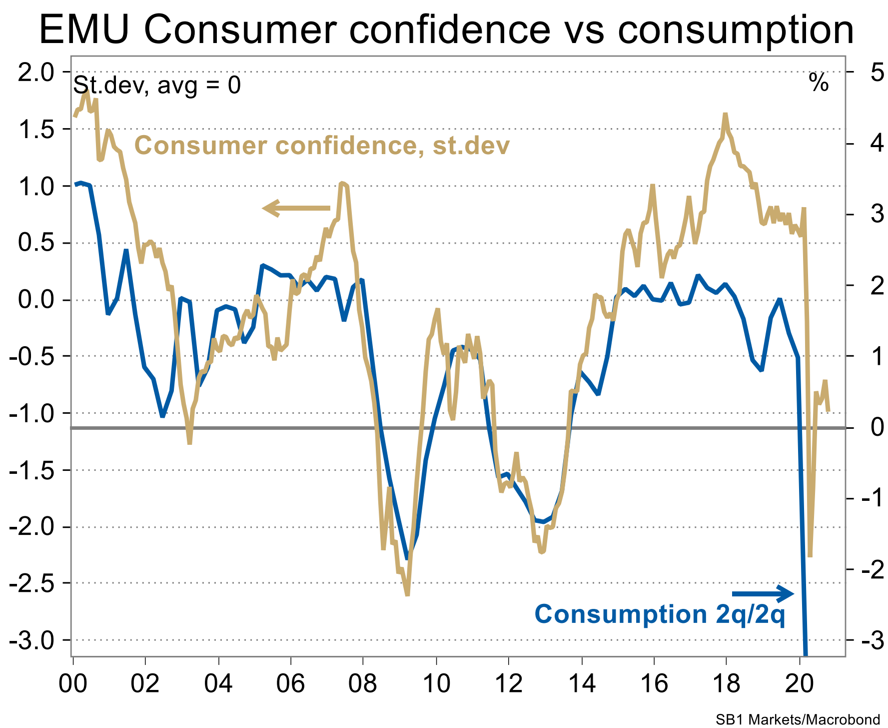


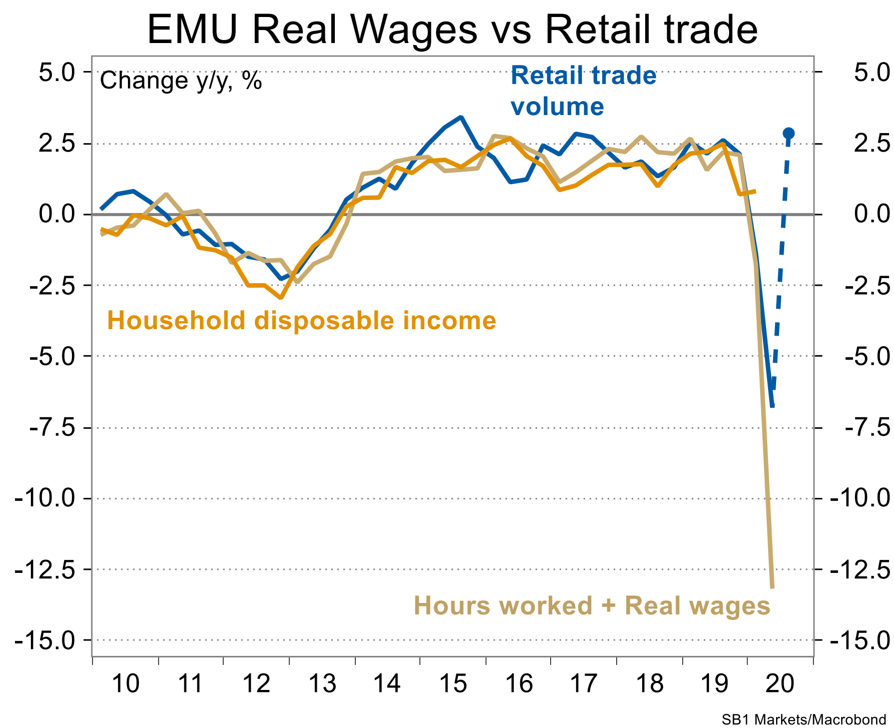


- NY Fed's weekly model signals a gradual recovery into Q4, the GDP indicator is down 3.8% y/y

Consumer confidence down in October, the virus very likely to blame

The index level is well up from the bottom in April but still below par – does not signal strong demand





- Consumer confidence fell more than twice as much as expected, equaling some ¼ st.dev to -1 st.dev below avg. In April it was close to -2.25, following a decline from +0.75 in February
- Real wages + hours worked, a normally a very good proxy of total disposable income were down 13% y/y in Q2. However, due to all measures taken to support household incomes, real disposable income was UP 1% y/y in Q2! That's one reason for the sharp increase in household spending on goods in Q3. Services are another story, of course – and total private consumption is very likely down y/y in Q3 too, even if consumption of goods is up

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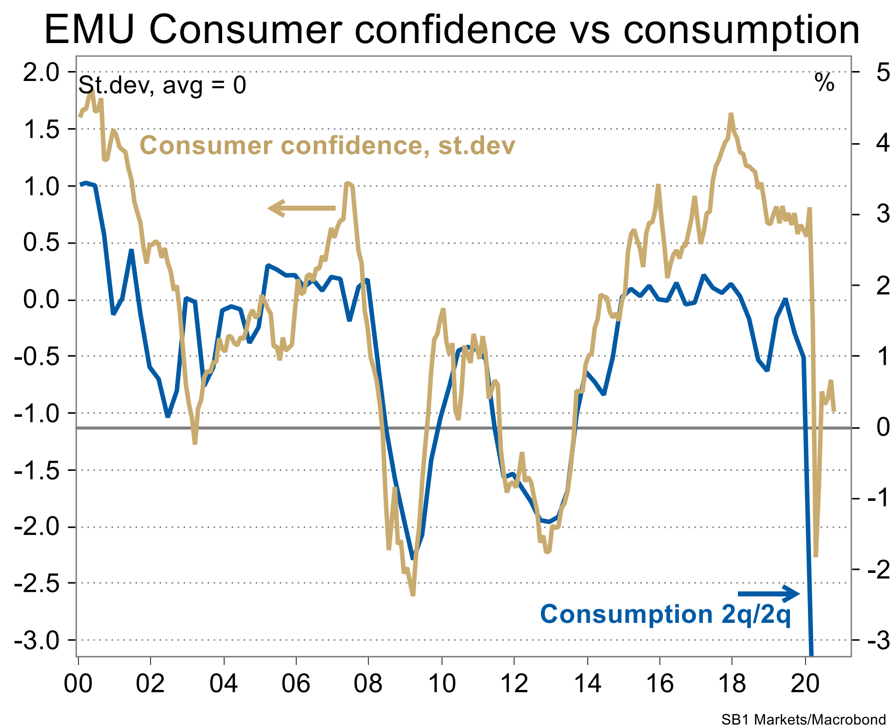
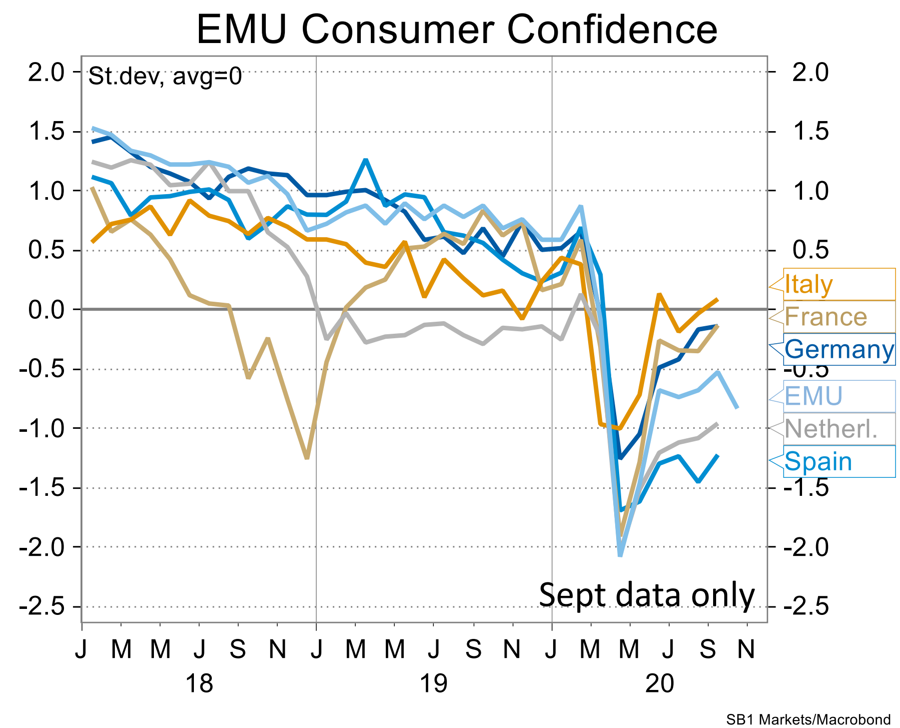
Consumer sentiment was slowly recovering

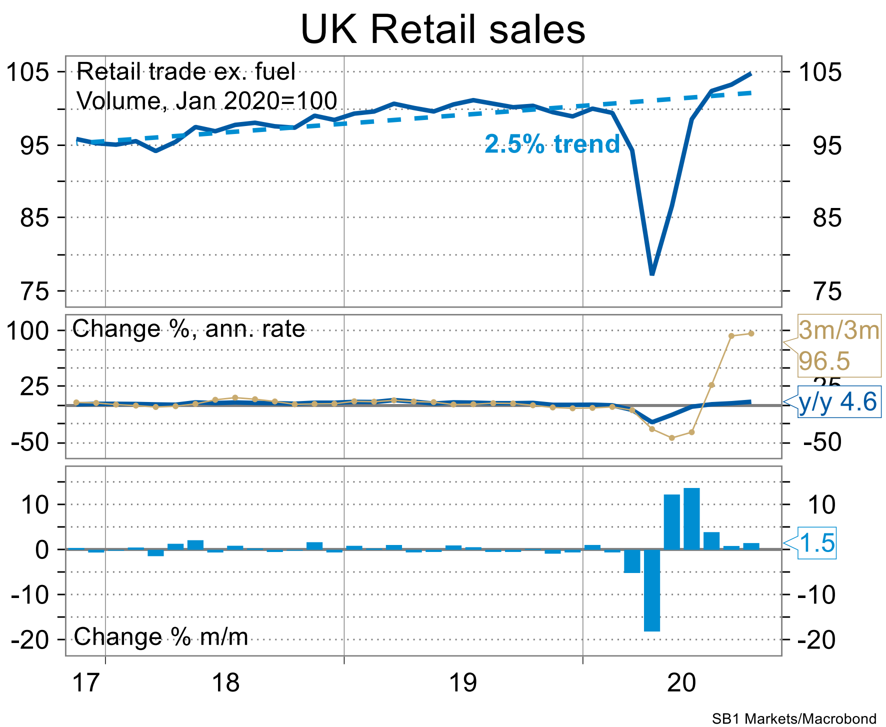
We not not yet have the national confidence data – but some headed down in October…

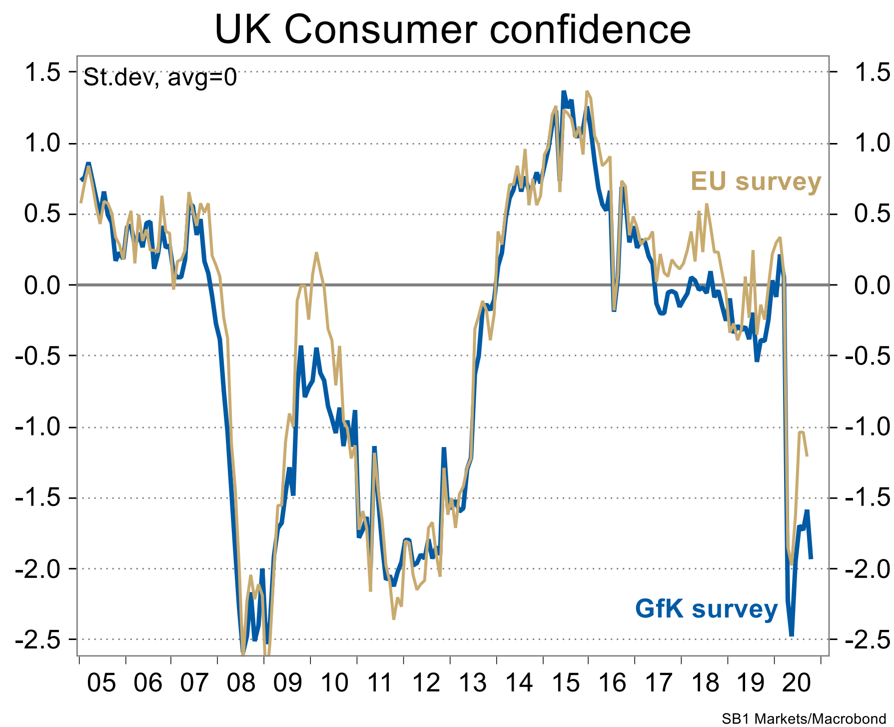




Retail sales back on track. At least they were strong in September

Sales rose 1.5% m/m, and are 5% above the January level

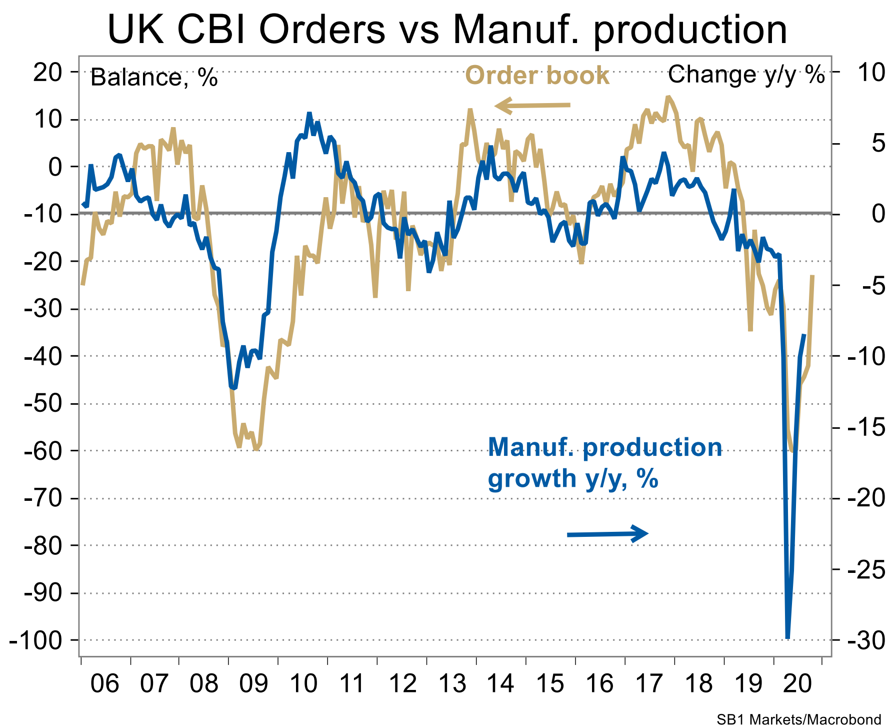


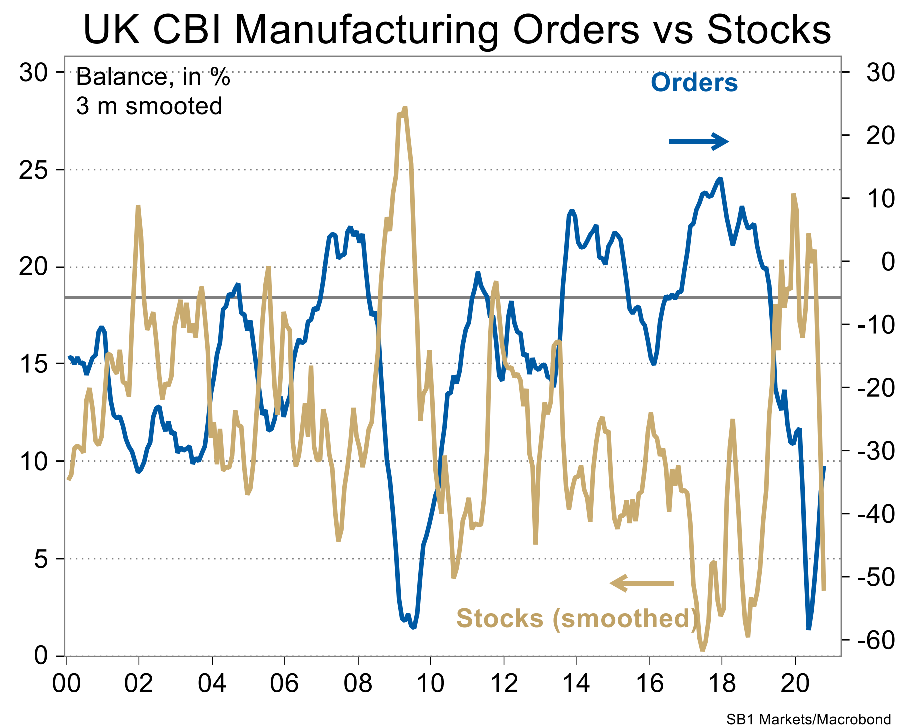


- A sharp 'V': as in many other countries, retail sales have fully recovered and are well above the pre corona level
- The two major consumer confidence surveys have turned up from the bottom but remain at very low levels, and the GfK survey fell visibly in October – we think we know why. These surveys do not suggest that total consumption will thrive the coming months

CBI manufacturing order index up but still unusual weak

The index was marginally better than expected – but signals a 10 % decline in manuf. production





- During the first phase of the corona crisis, the CBI order book index fell to the same (record) level as during the financial crisis – while production for a short while nosedived even harder (-30% vs 12% in 2008/9)
- The index has recovered somewhat but far less than our surveys. However, this survey measures the order book level, not new orders (like in the PMI). Still, the problem is obviously that the order book is too slim. There might be some Brexit impacts, in addition to corona
- Inventories have been increasing, first due to Brexit fears, then due to lack of sales during the corona crisis. In September, companies reported sharply lower inventories, a good sign

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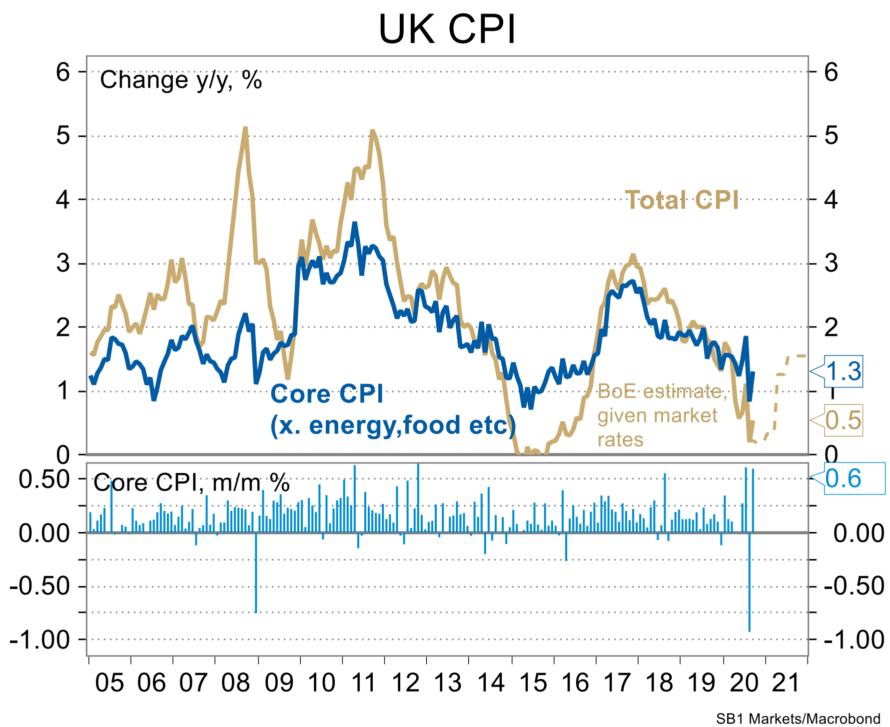
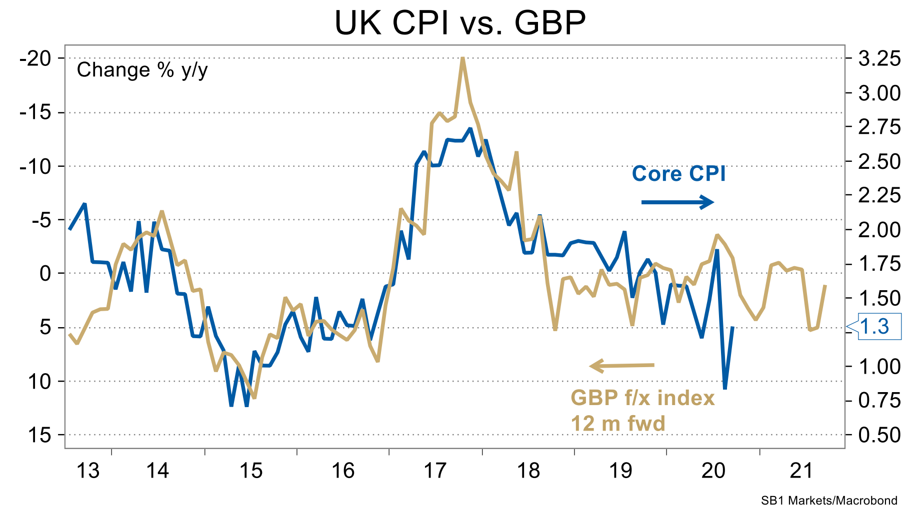
CPI up, down, and up again – the core annual rate now at 1.3, up from 0.9%

Prices rose 0.6% m/m, due to higher transportation, hotel/restaurant prices (from low levels)

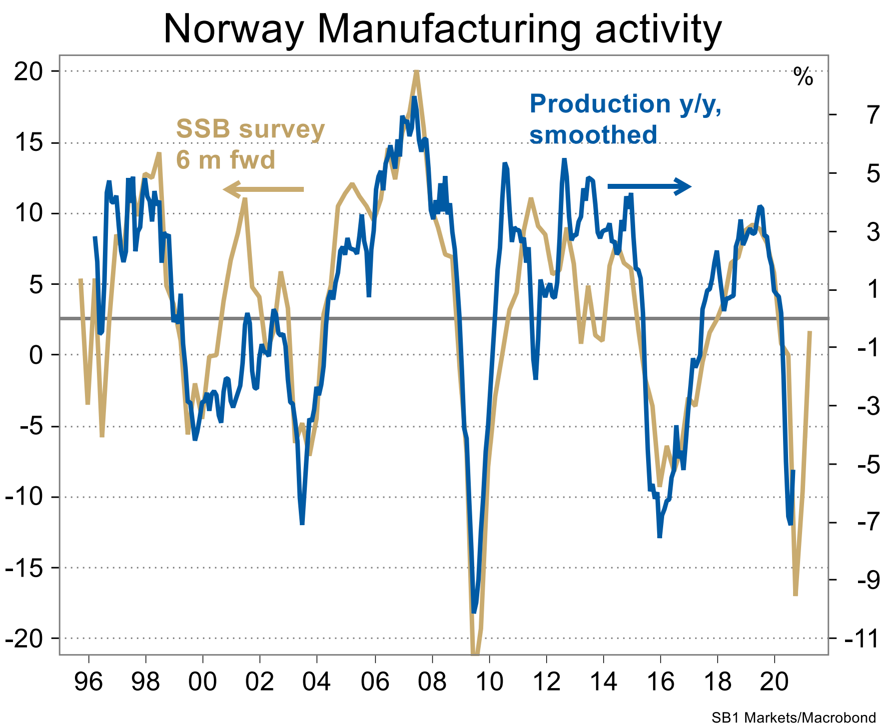


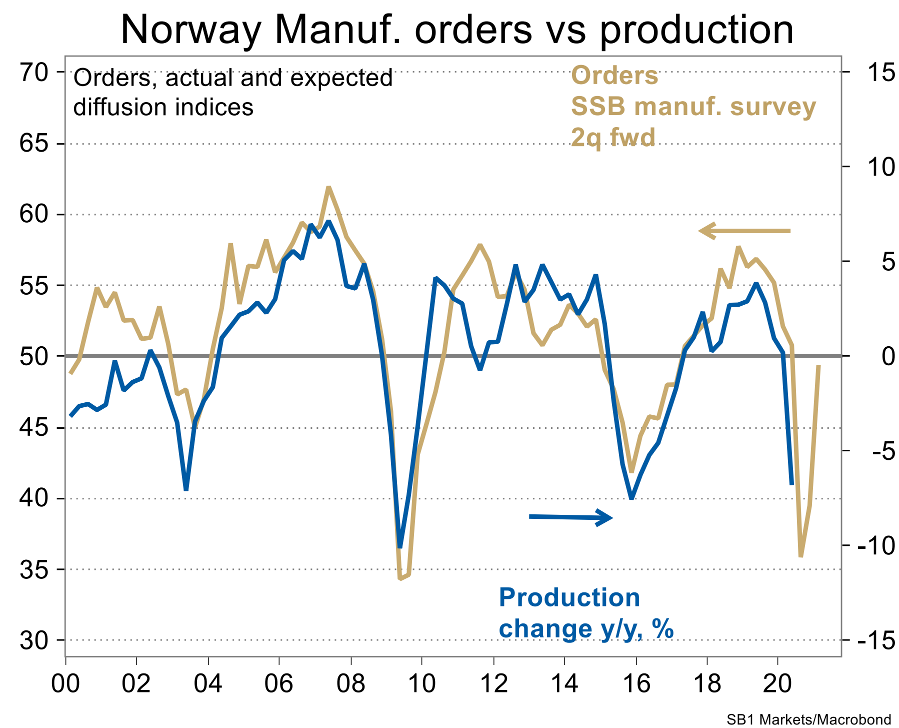


- Total headline inflation rose 0.3 pp to 0.5%
- Prices have been far more volatile than normal recent months due to different corona impacts, including VAT changes and a restaurant discount scheme
- Our simple f/x based model indicates that the impact from the GBP depreciation in 2018 is taken out, the slowdown in the UK economy is more important now

SSB's manufacturing sharply up in Q3, now just slightly below par

Oil related still weak, other parts of the manufacturing sector not

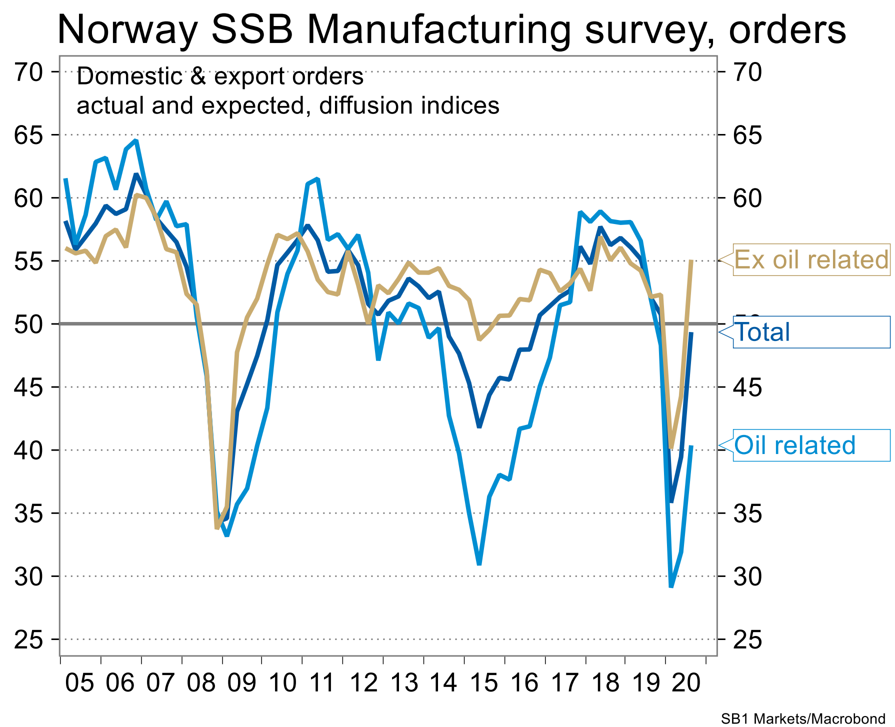


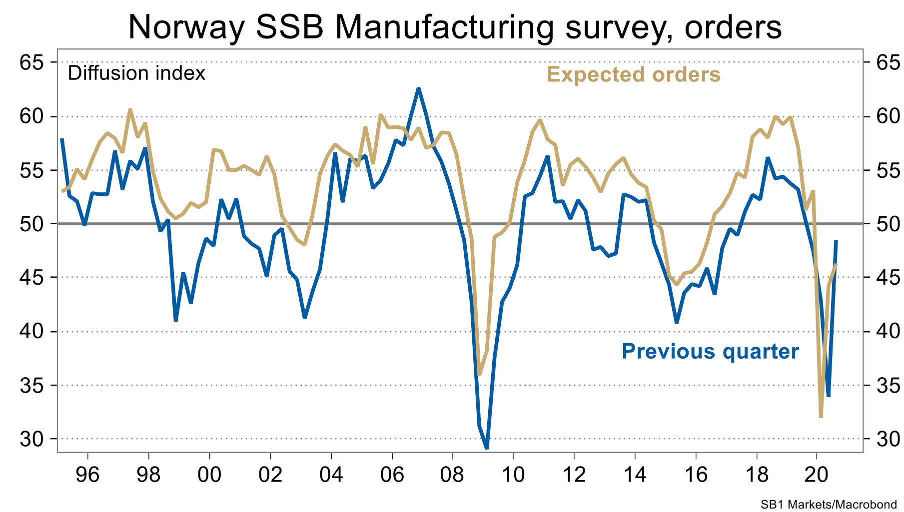


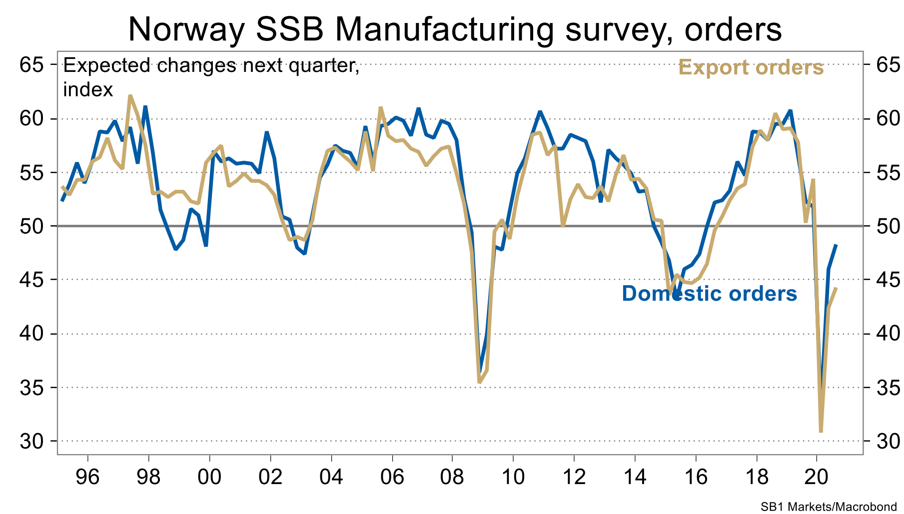
- The composite index in SSB's manufacturing survey rose to +1.7 in Q3, from -9 in Q2 (revised up from -10, and from -17 in q1). We expected an increase up to -4
  - » The historical average is at 3.5, and the current print is just marginally below!
  - » The index signals flattish production in the manufacturing sector, 2% growth in GDP and 10% growth in corporate earnings. However, like for all surveys these days, it is more challenging than usual to translate survey data into growth rates
- Oil related industries are still reporting a sharp contraction - but several sectors are expecting higher production, from a modest base, that is. ***An average share of companies are reporting lack of demand as a constraining factor – this is not a demand crisis***

Orders are still falling rapidly in oil related industries but not in other industries

Both domestic & foreign orders are recovering, domestic orders the most

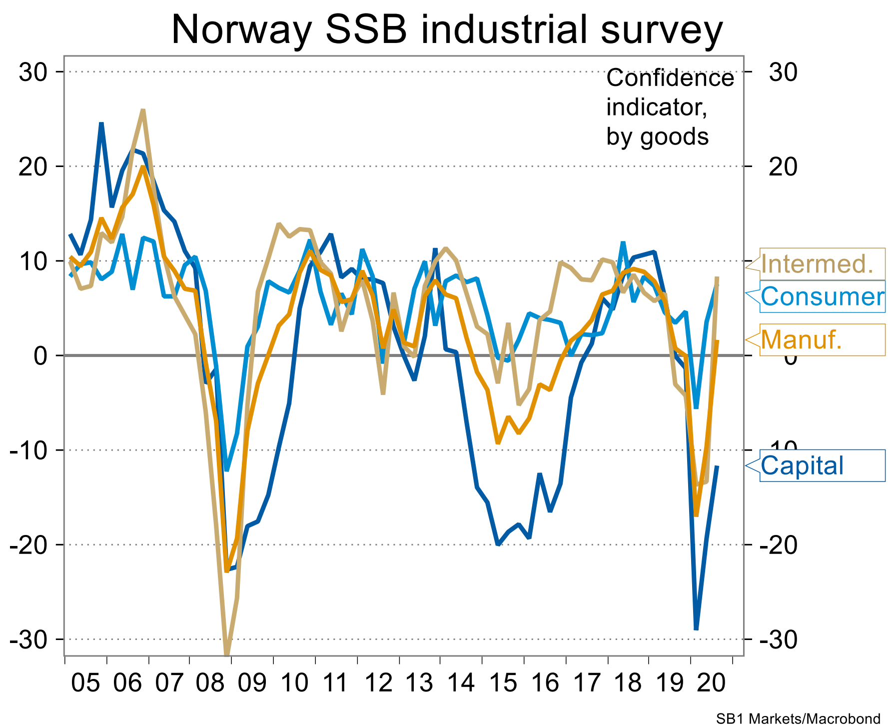


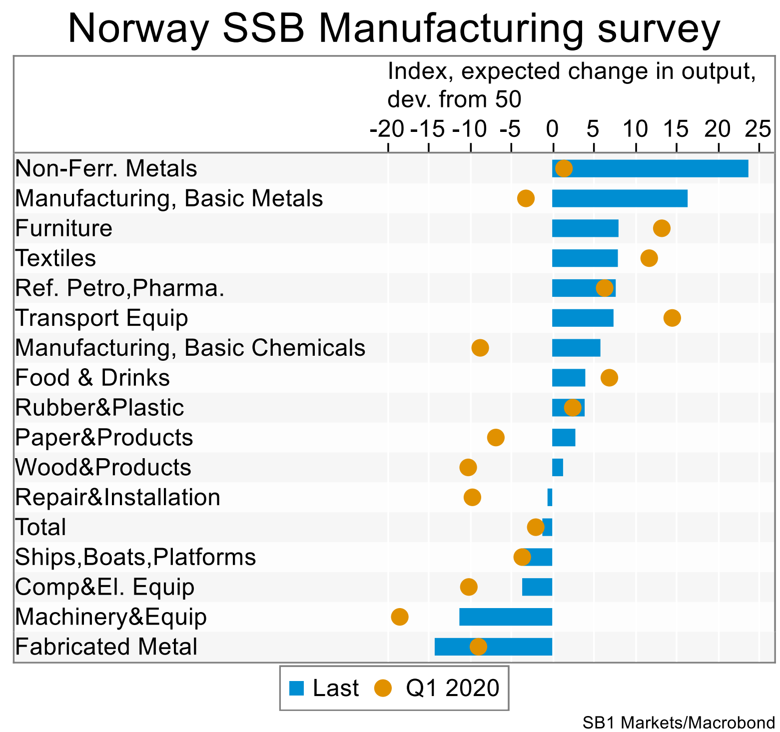




Capital goods the weakest link (much oil related)

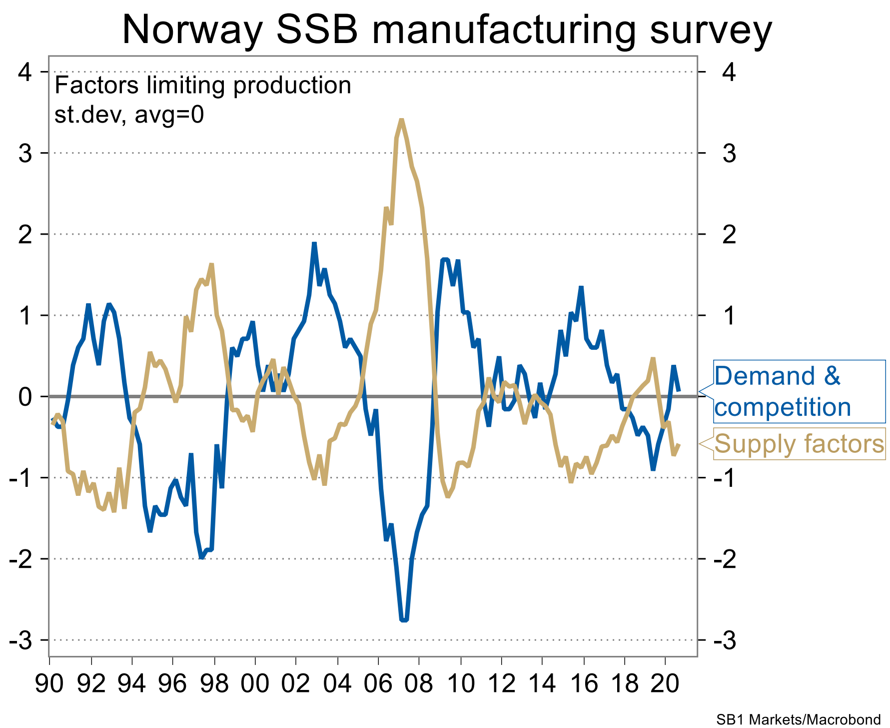
The downturn in oil/capital goods started in Q4 2019

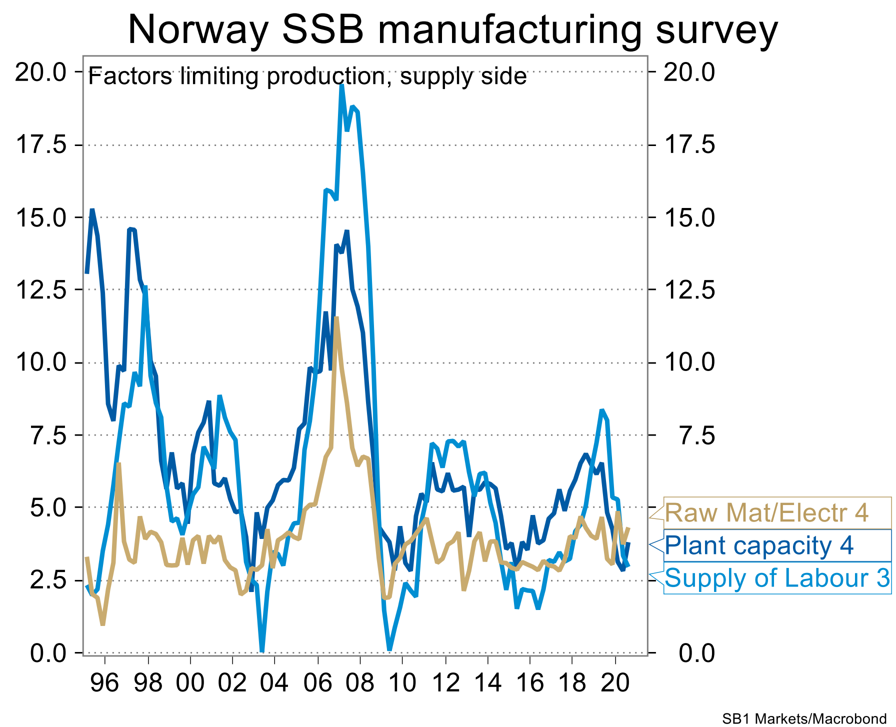




Demand close to normal, less supply challenges than normal

The share of businesses reporting labour shortages dropped further in Q3, no surprise

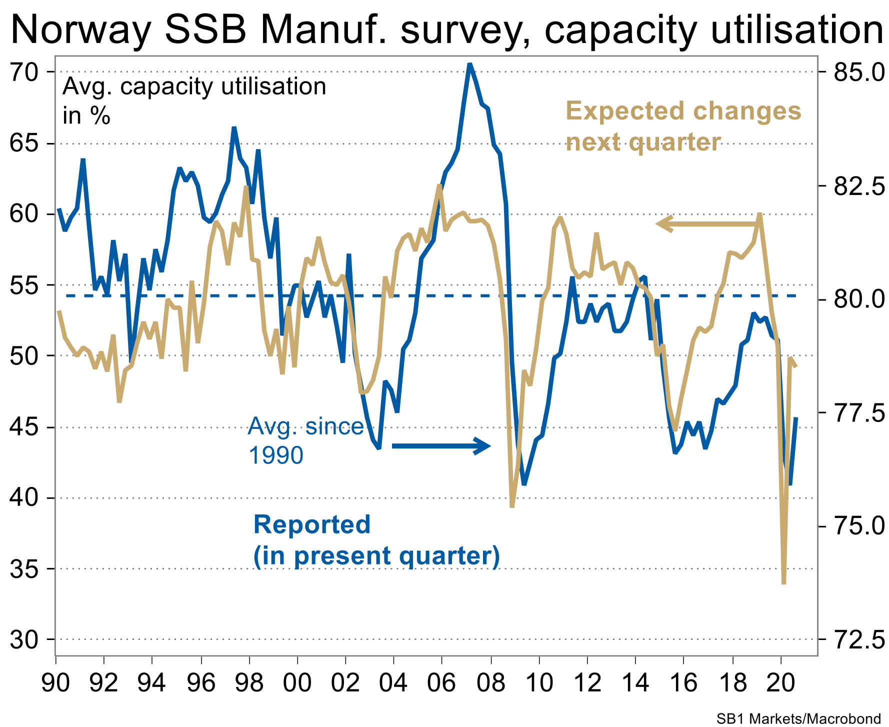


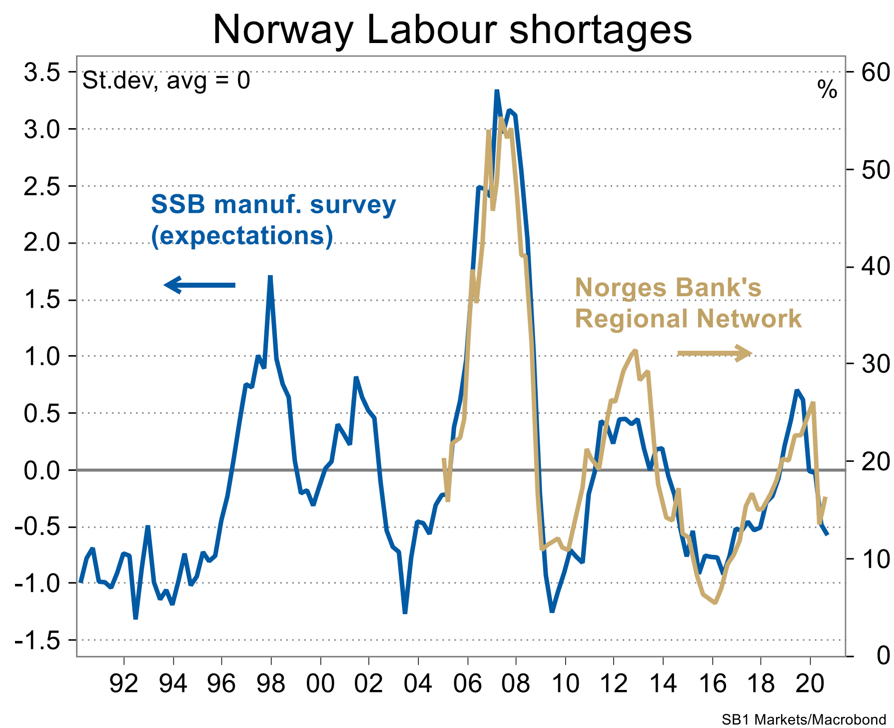


- The share of companies reporting lack of labour is well below average, but far from record low
- Plant capacity constraints have fallen substantially but recovered somewhat in Q3, from a close to record low level
- Raw materials are not any problem either (supply chains are not destroyed)
- Fewer, and now close to an average share of companies are reporting of demand/too much competition as a constraint in Q2. ***We do not have any demand crisis, like during normal downturns***

Reported capacity utilisation up, still not high

No labour shortages either, the SSB survey agrees with Norges Bank's network report

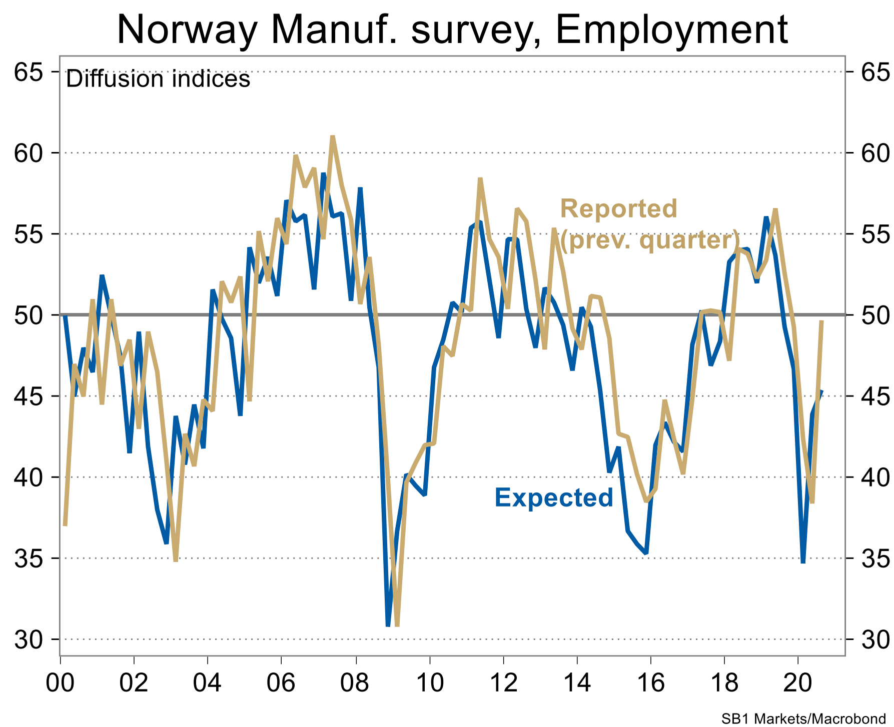


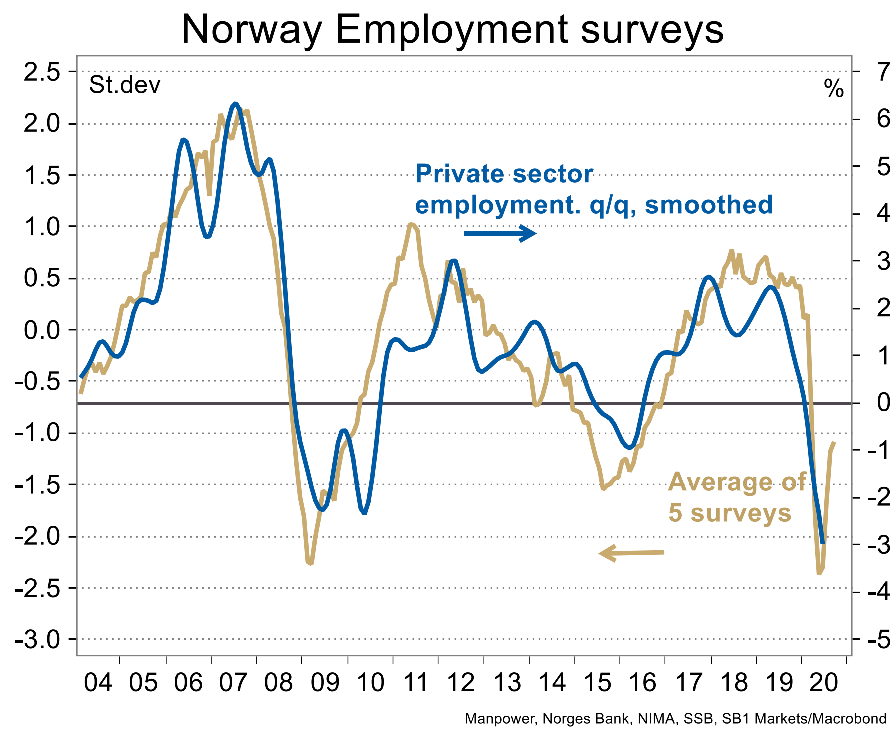


- An expectation index at close to 50 (like in Q3) formally signals a stable utilisation in Q3 but in reality is signals an increase

Manufacturers stabilised their workforce in Q3, but not not expect growth

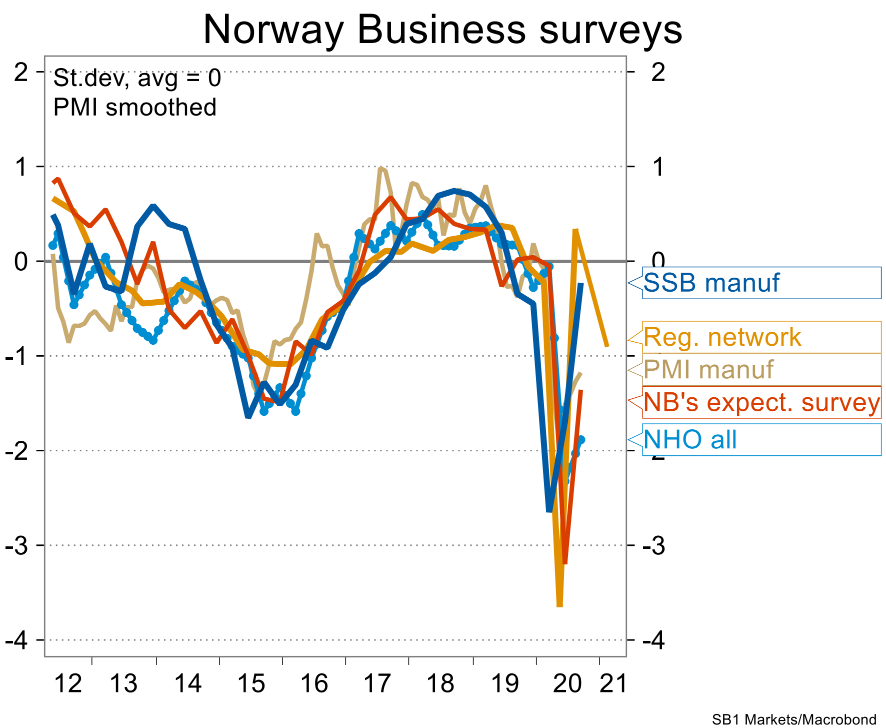
In sum, employment surveys still signal a decline in private sector employment

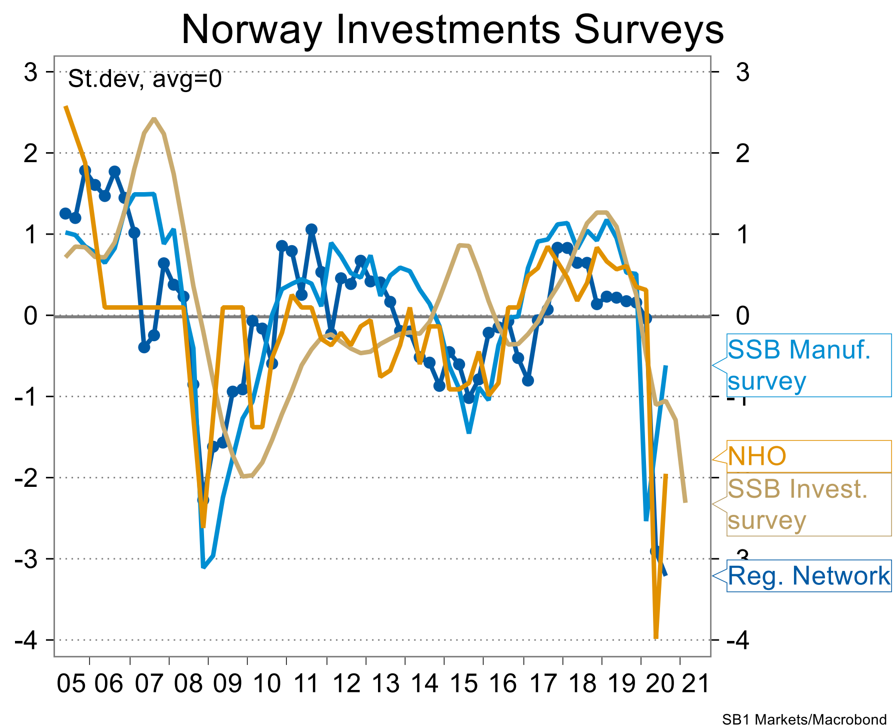




Surveys: The bottom was in Q2 but the level is still low

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

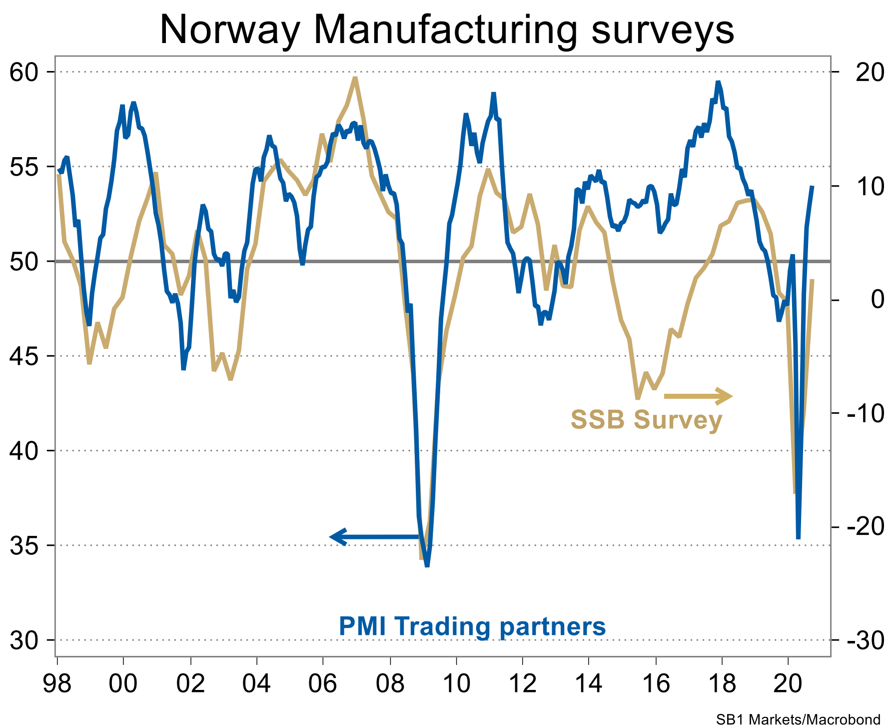


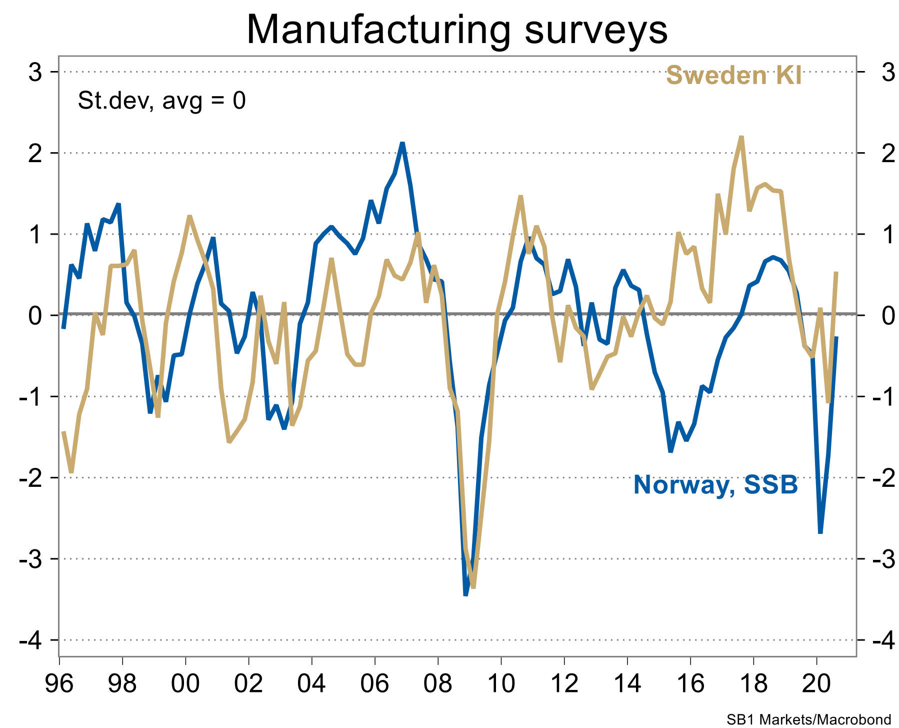


- In the current manufacturing survey, companies upgraded their **investment plans** but are still signalling a moderate cut. Other surveys are more downbeat

Norway is following its trading partners down – and now up, as usual

... but we are lagging somewhat

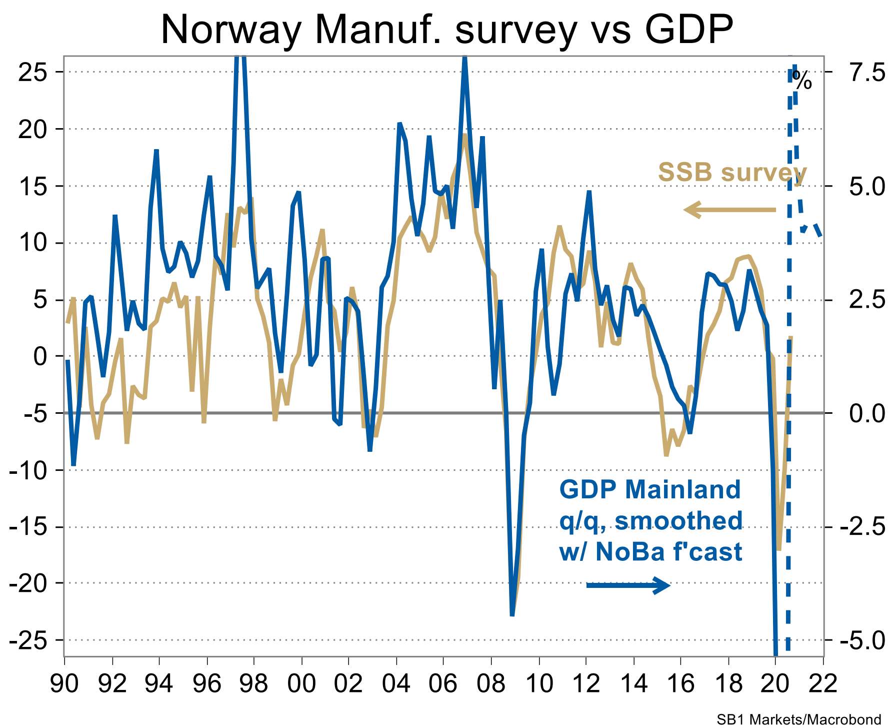


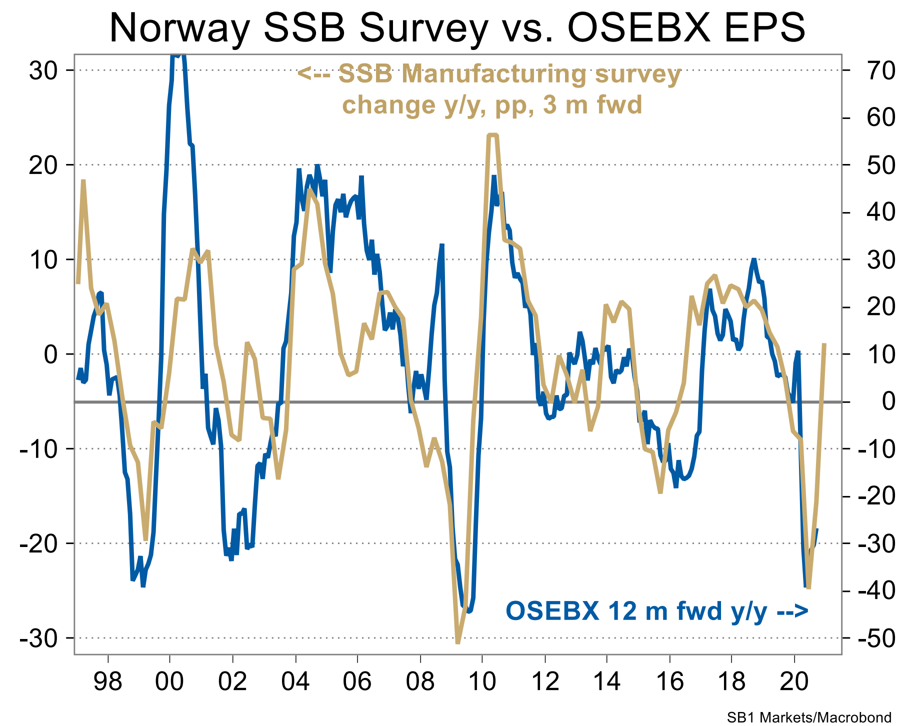


SpareBank 1 MARKETS

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

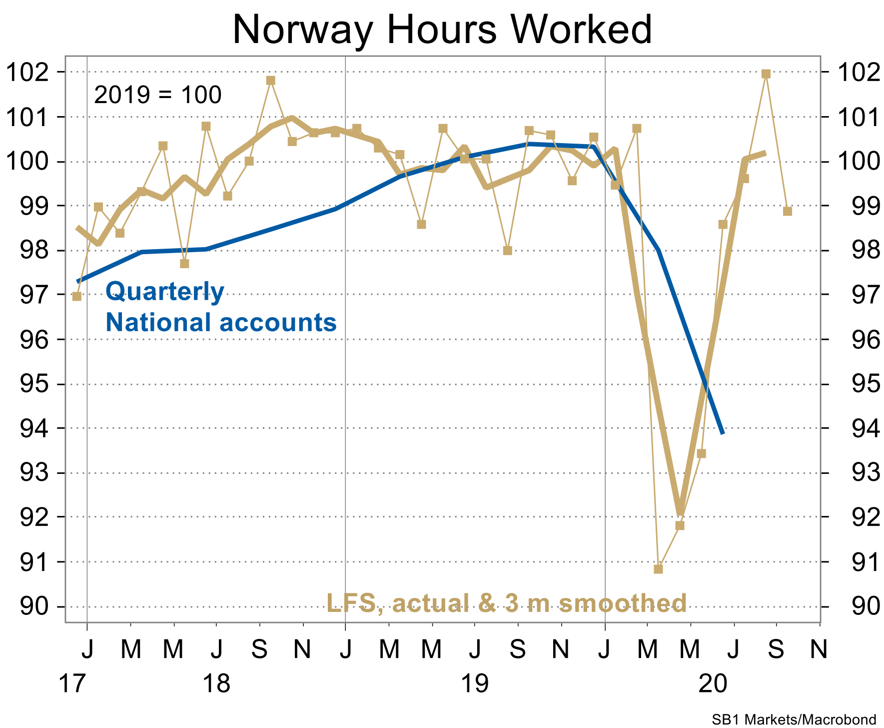
SSB manufacturing survey signals a harsh setback in the Norwegian economy, of course

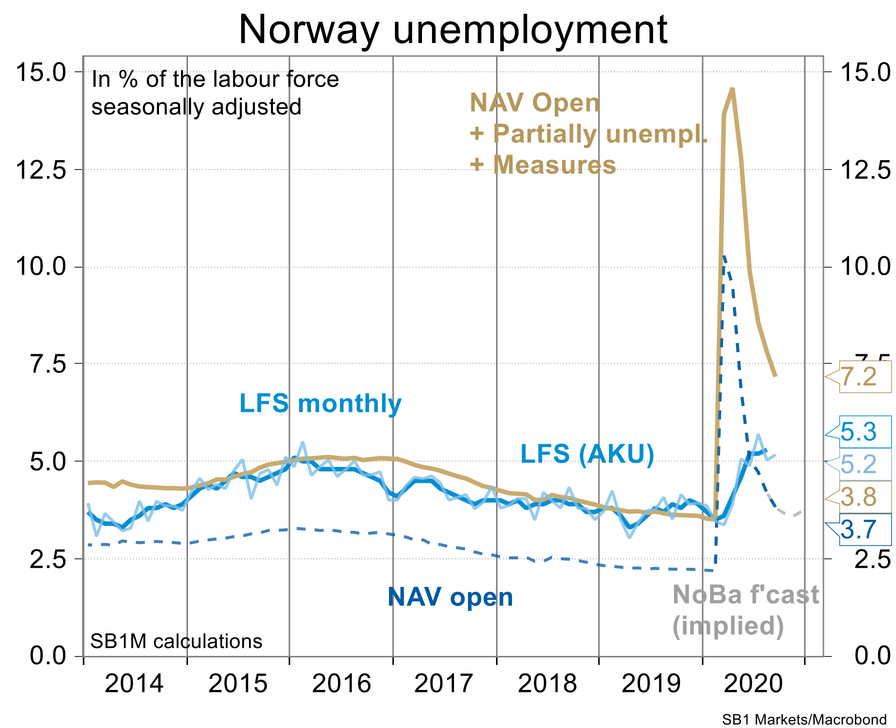




LFS (AKU) (3m avg) unemployment has stabilised at 5¼%

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

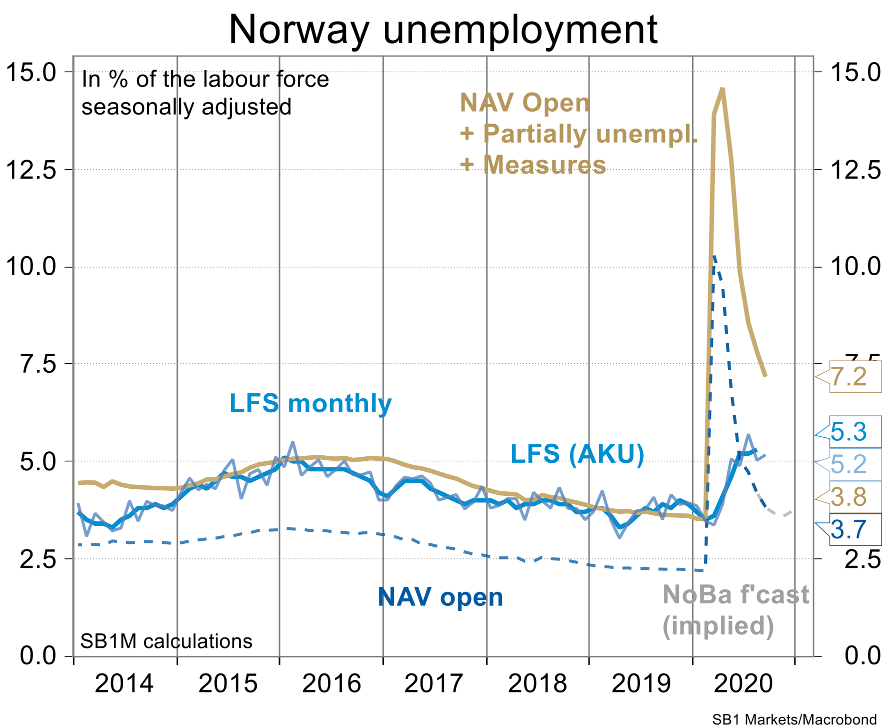


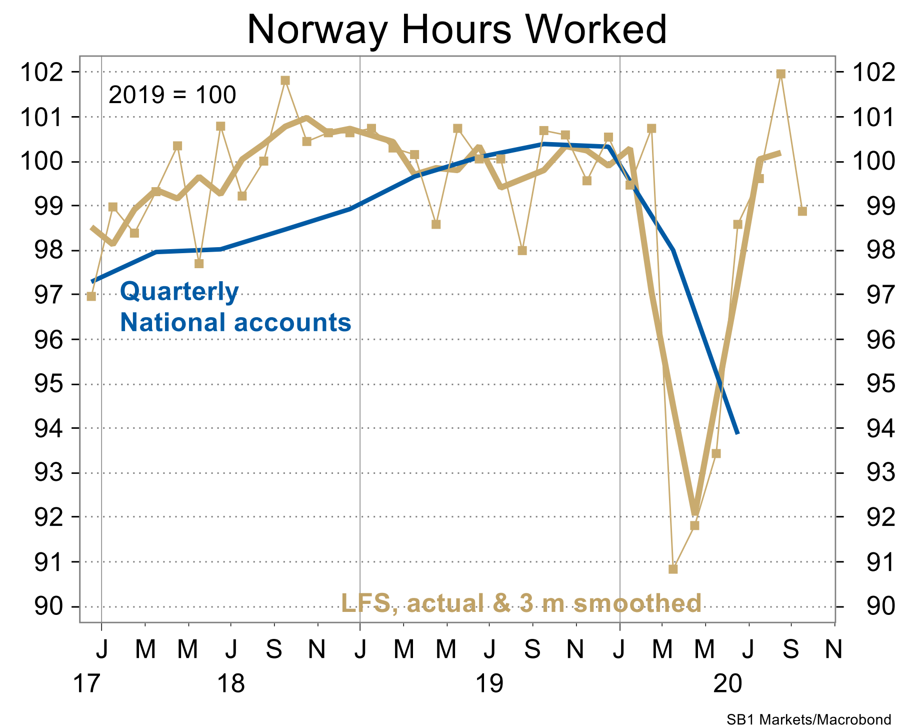


- The 3m smoothed unemployment rate rose to 5.3% in August (July-Sept), we expected (somewhat optimistic, we acknowledge) a decline to 5.0%, consensus was 5.1%. The standalone Sept rate as 5.2%, up from 5.0% in August
- Employment
- unemployment fell to 5.0% in August, partly due to furloughed workers returning to work. The 5% rate is probably close to the 'real' figure, as most furloughed workers are now counted as unemployed (after the first 3 months of the furloughed period, were they are counted as still employed)
- The LFS employment recovered marginally in August, up by 2'. Still, employment has fallen 2% from February and is down 1.8% y/y. In this figure, there are a number of furloughed workers included
- Hours worked rose sharply through Q2 and further in July and August, and are above a pre corona level! Annual rate at +2.4%. We find these hours worked figures unlikely, given the production data, surveys etc.

LFS (AKU) (3m avg) unemployment has stabilised at 5¼%

An encouraging recovery in the number of hours worked, up a pre corona level??

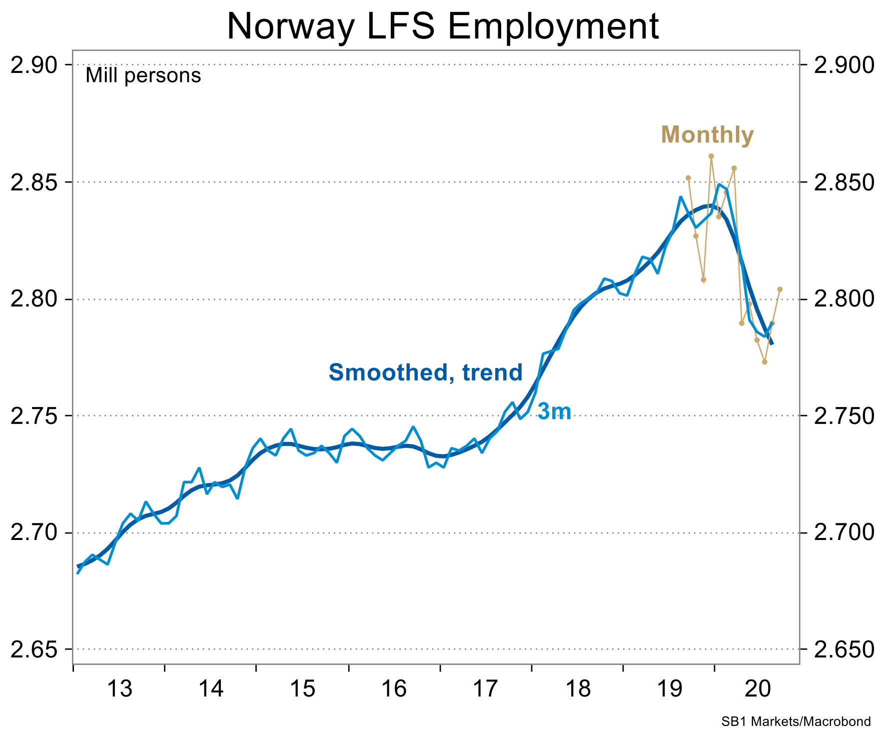


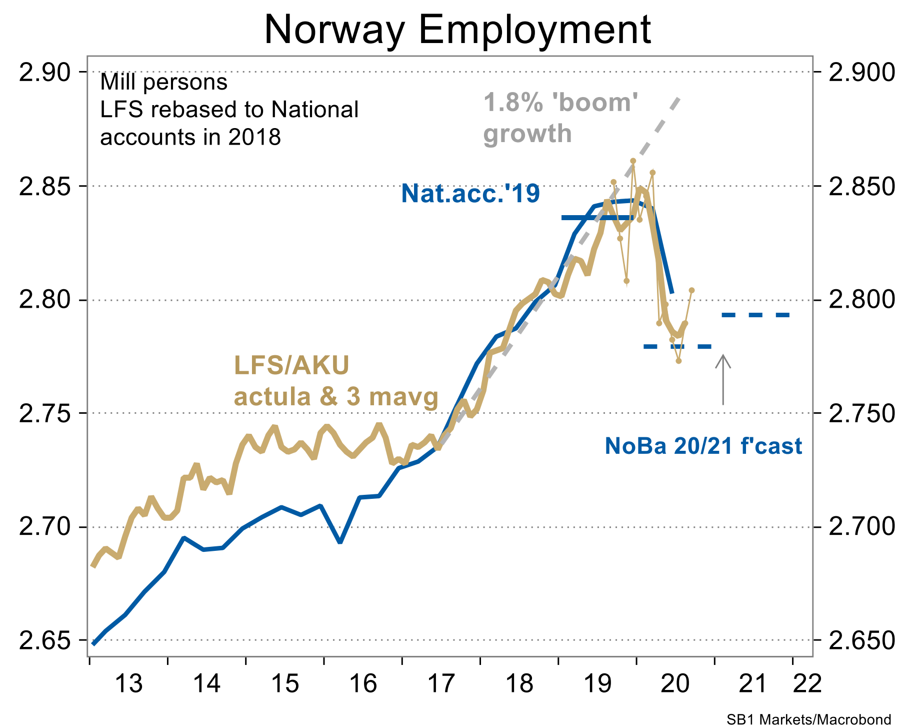


- The 3m smoothed **unemployment** rate rose to 5.3% in August (July-Sept), we expected (somewhat optimistic, we acknowledge) a decline to 5.0%, consensus was 5.1%. The standalone Sept rate as 5.2%, up from 5.0% in August – and down from 5.8% in July – these monthly data are volatile! **Unemployment measured by the LFS is just marginally above the early 2016 local peak!**
  - » Total NAV unemployment is still well above (7.2% vs. 5%), due to more part time unemployment and because furloughed workers are included from day 1, not after 3 months as in the LFS
- **LFS employment** rose sharply in September from August but fell marginally to Q3 from Q2. Employment is down approx 1.5% (1.2 – 1.8% range) from the pre corona level
- **Hours worked** rose sharply through Q2 and further in July and August, and even if it fell in September the level is high – and Q3 in average is at the pre corona level!

Employment sharply up in September – but marginally down in Q3

LFS employment 1.2 – 1.8% from the pre corona level



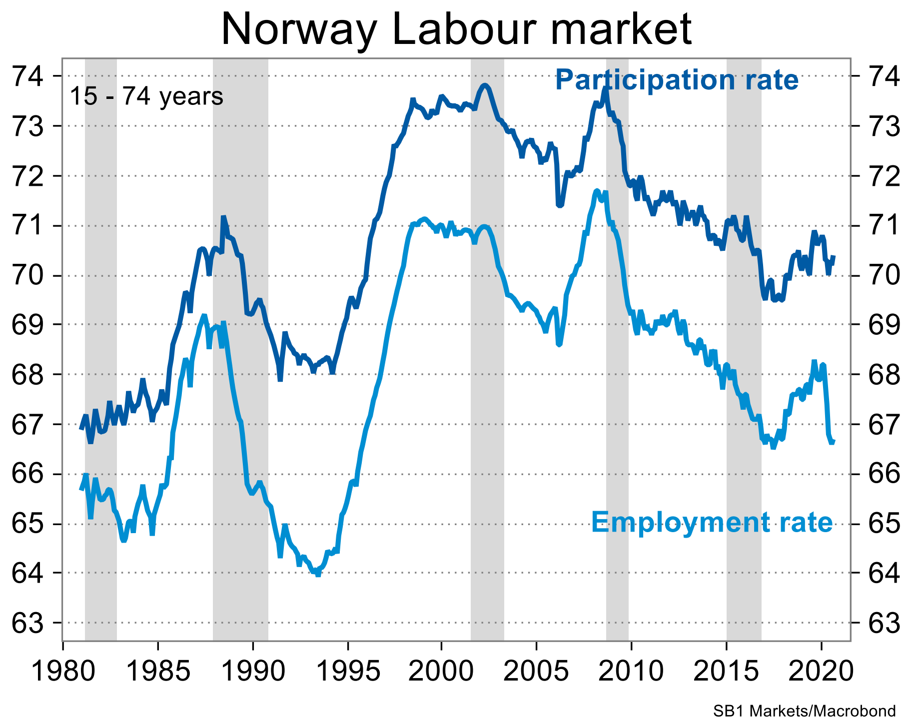


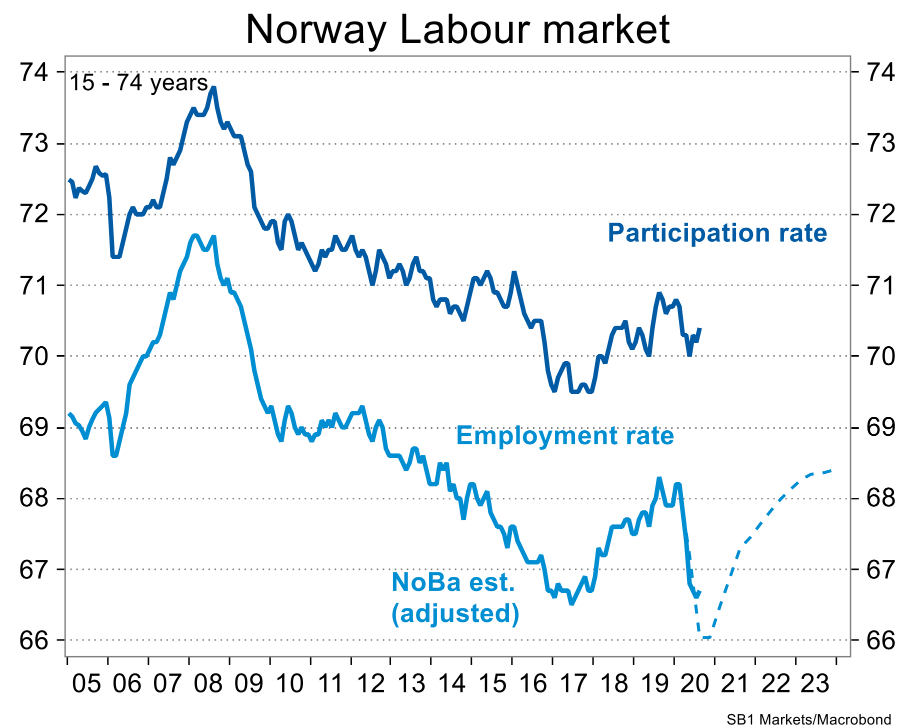
- SSB reported a large 1.2% increase in employment to September from August. However, as these (newly published) monthly date are quite volatile and contains too much noise, the 3 m avg is more reasonable – and the lift was justs marginal

SpareBank 1 MARKETS

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

The employment rate marginally up in August (the 3 m avg data)

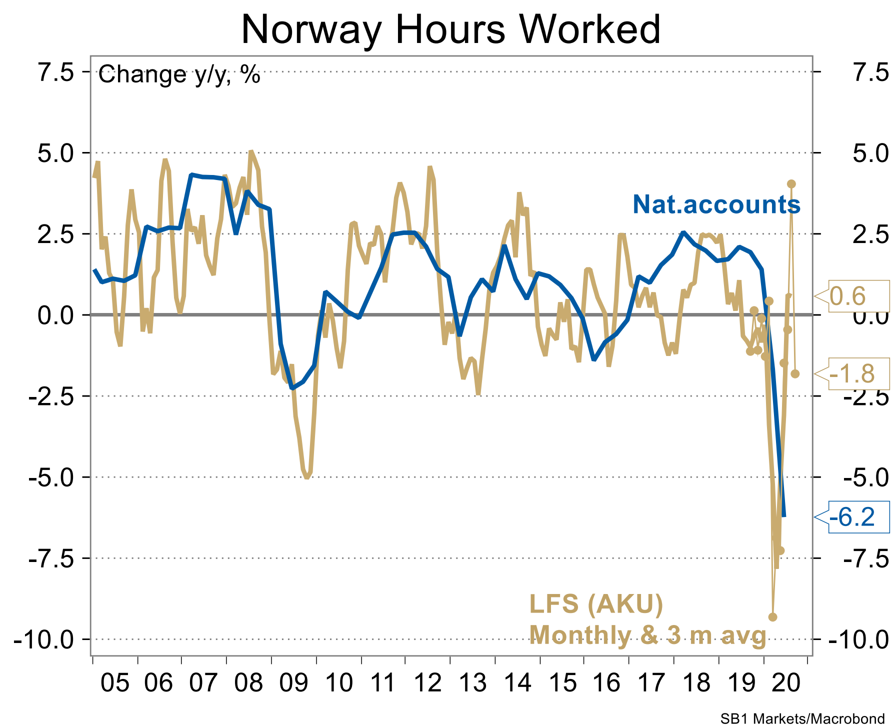


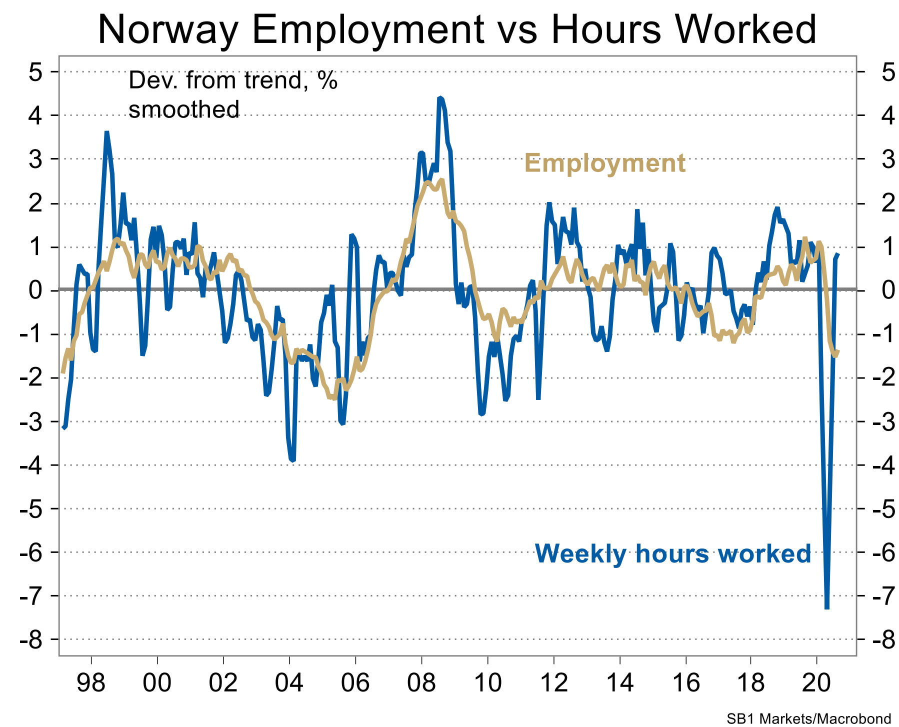


- The employment rate has fallen by 1.5 pp since Feb (which was a local peak, 1.3 pp if we flatten the curve at the start of 2020).
- The participation rate has fallen by 0.3 pp since Feb – which have contributed to keep the unemployment rate down (by 0.4 pp)
- In the September MPR, Norges Bank revised its 2020 employment forecast slightly down but 2021 was revised up by more. The Bank expects the employment rate to return close to the pre corona levels by late 2022 – and do not plan to lift its signal rate before that

Hours worked sharply down in Q2 – but just as sharply up in Q3

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

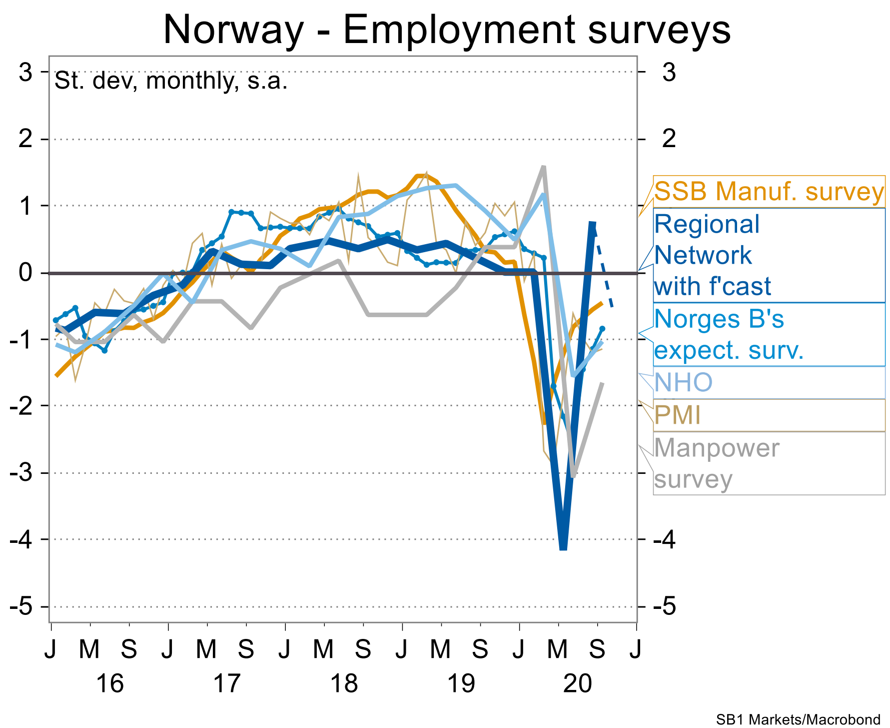


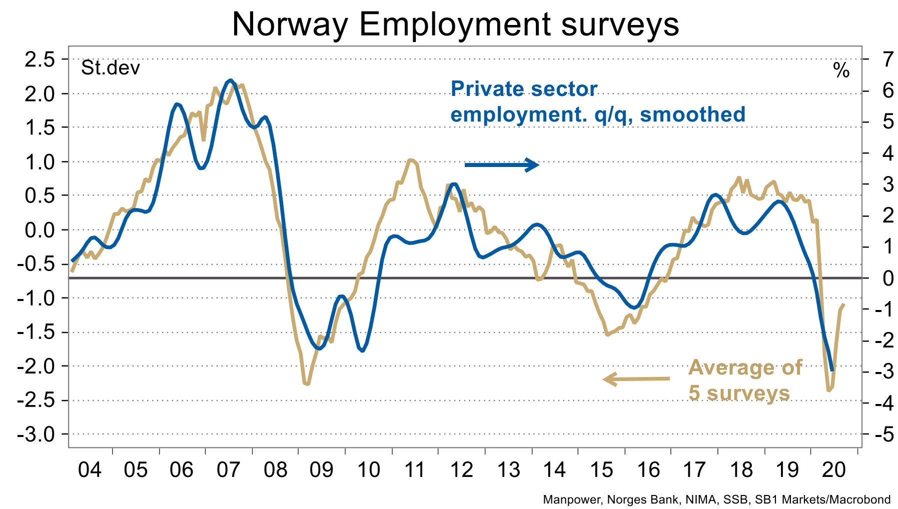


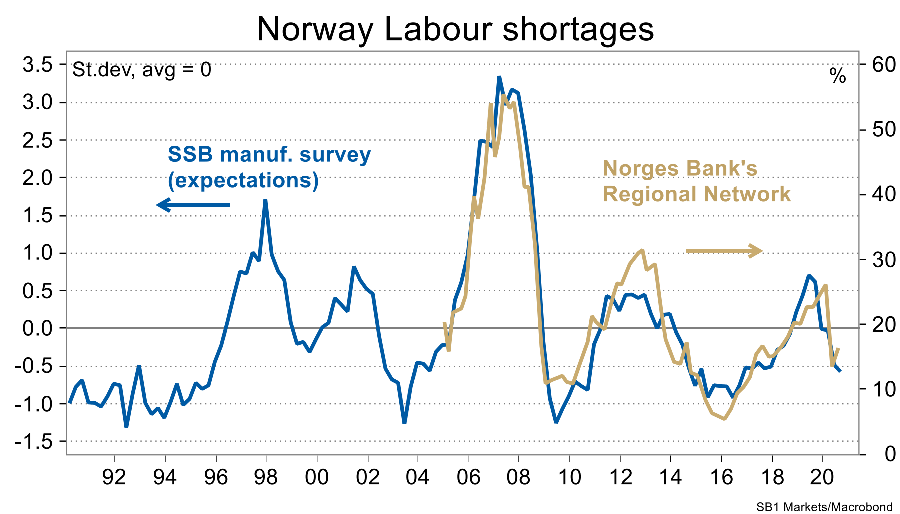
- ... And the Q3 avg was strong, even if hours worked fell in September
- Hours worked have until now been published just as a 3 months moving average

None of the employment surveys signal a brisk recovery

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







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

Highlights

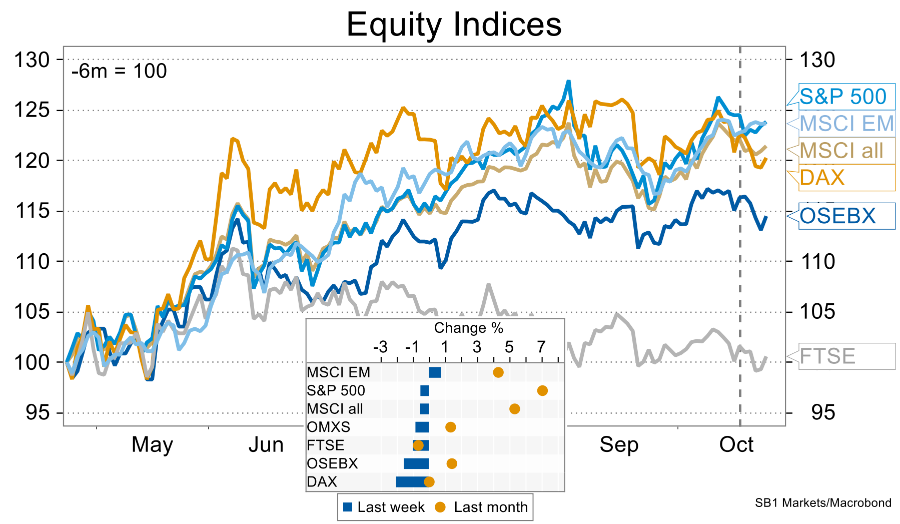
The world around us

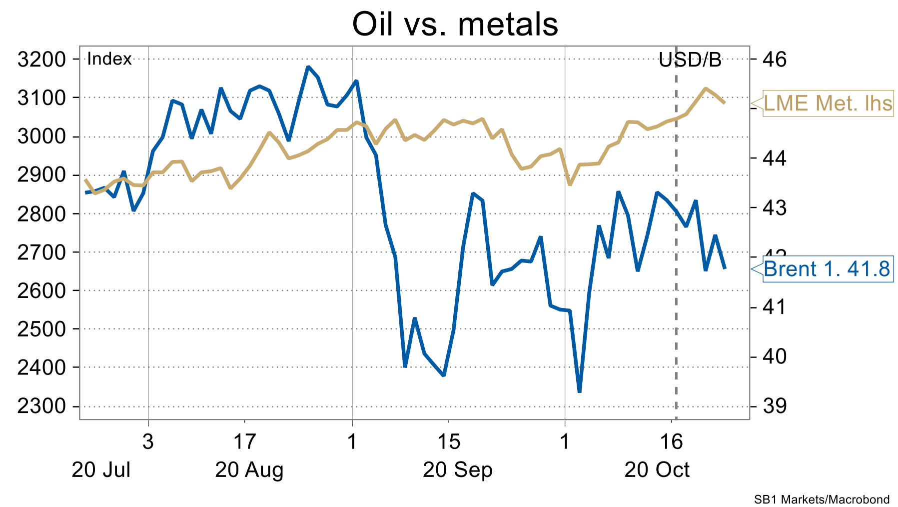
The Norwegian economy

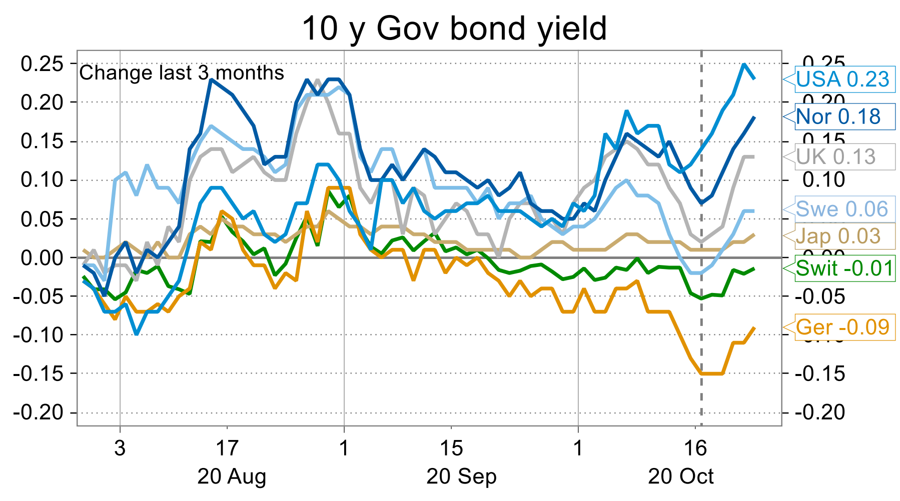
Market charts & comments

Stocks further down, bond yields sharply up – oil down but metals up

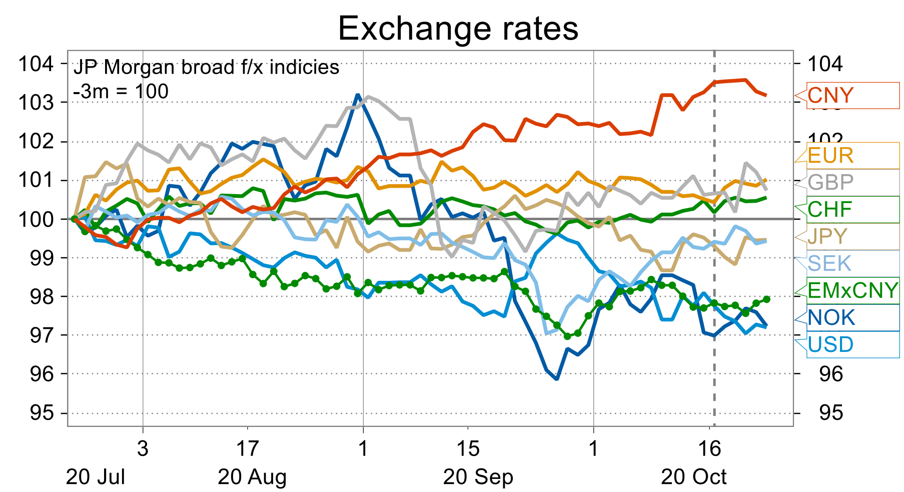
The USD still on the way down







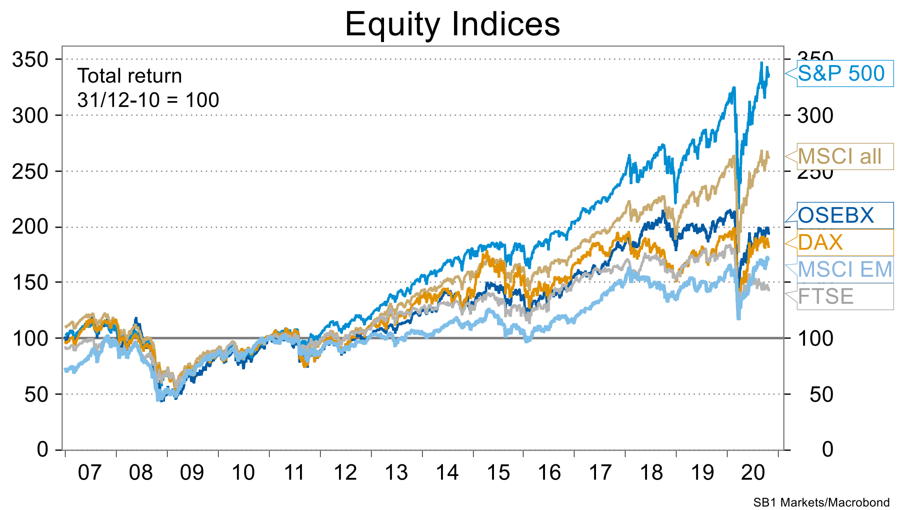
Long bond yields up everywhere

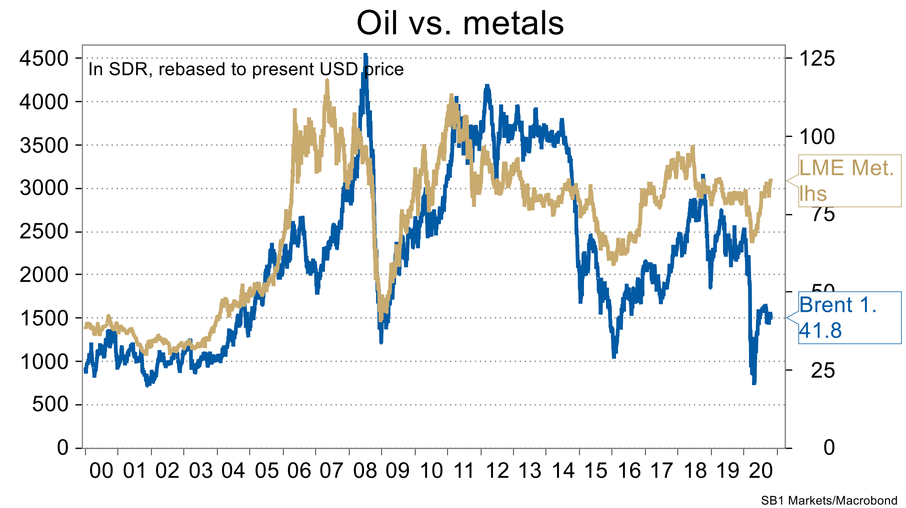


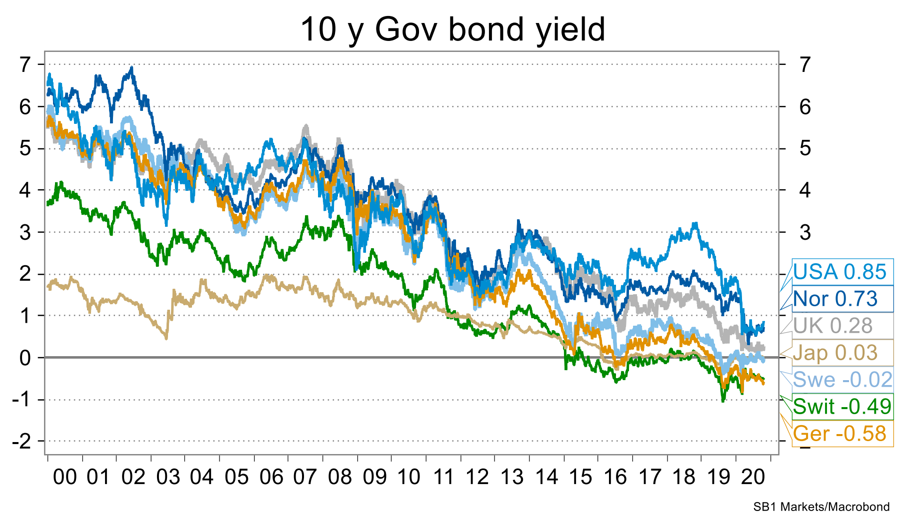
The USD further down again last week, the CNY flattened

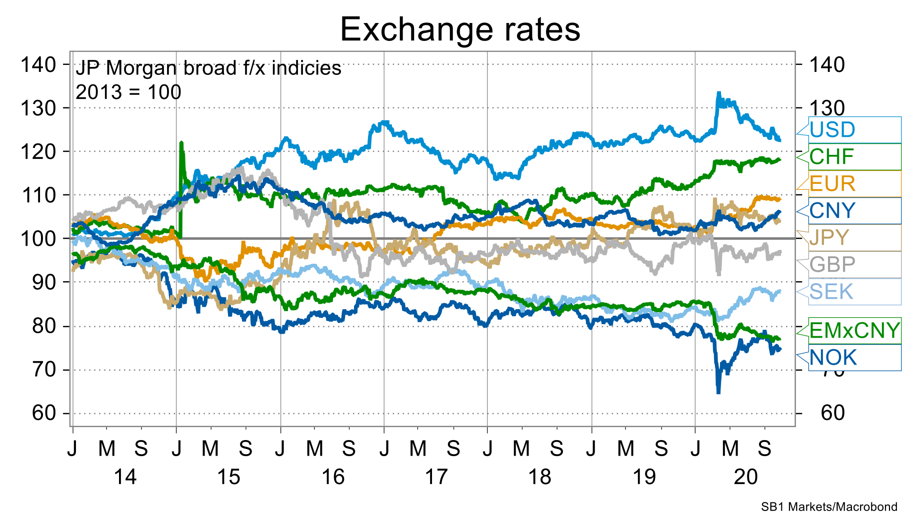
In the long run: Stock markets are looking like a 'V' (except the FTSE 'L'!)

Bond yields are still close to record low everywhere. The USD is on the way down but it's still strong





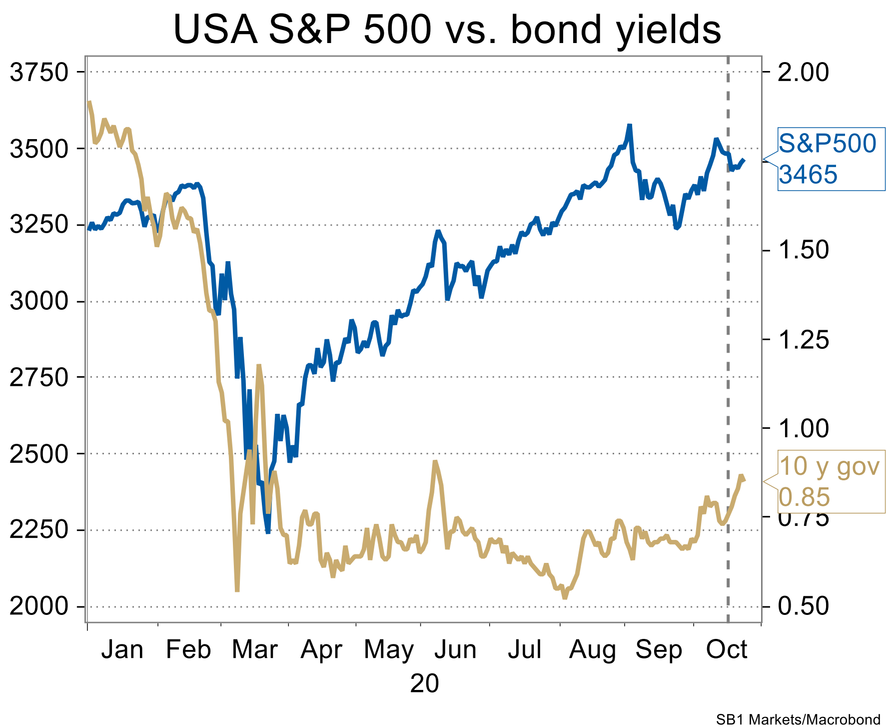


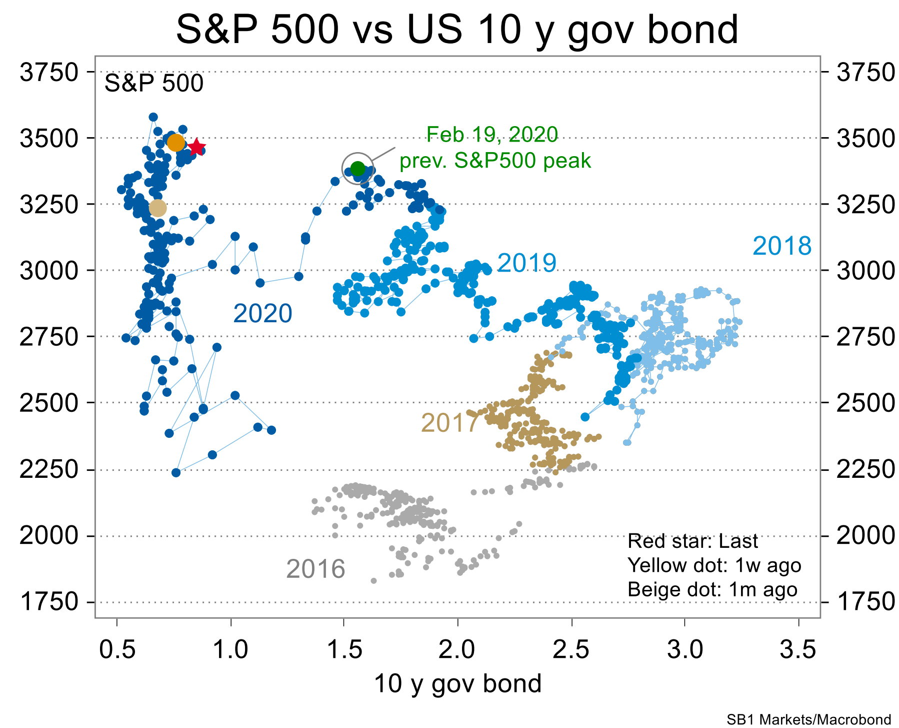


The USD is down but still not weaker than in Feb – and over the previous years (measured by broad f/x indices)

S&P 500 down 0.5%, 10 y bond yields up 9 bps (and by 33 bps since early Aug)

The stock market is up since early Aug too



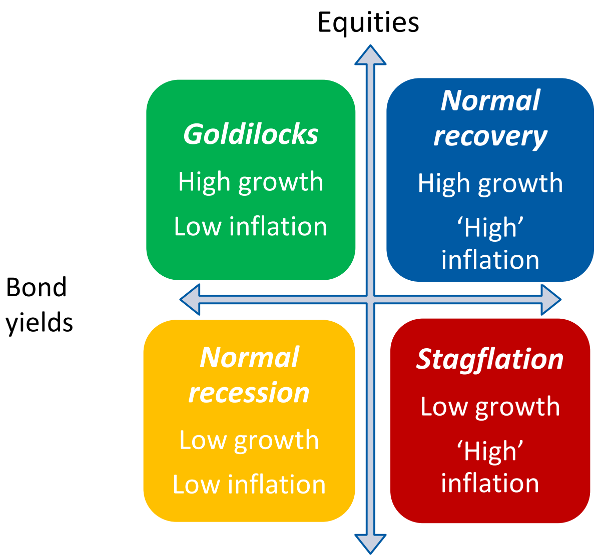


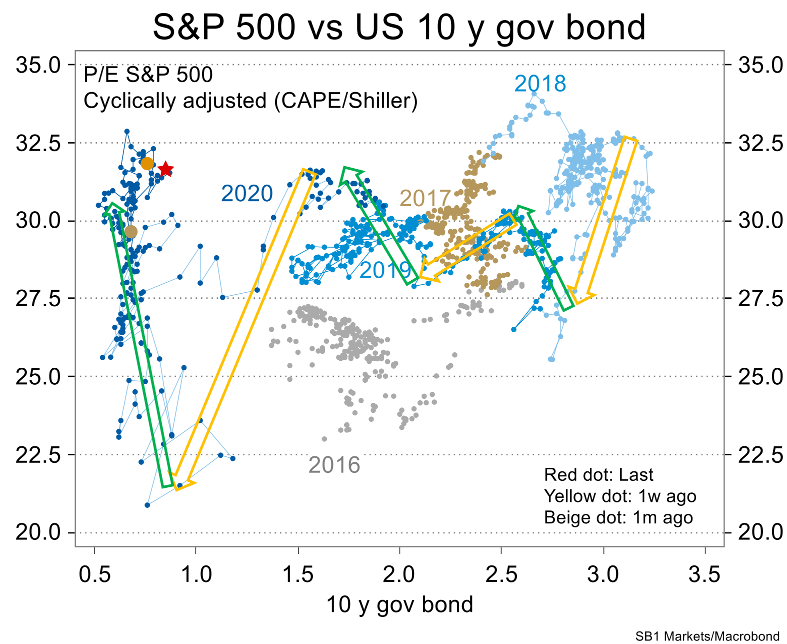
- Markets are most likely discounting a more expansionary fiscal policy is Democrats take both win the presidency & the Senate

SpareBank 1 MARKETS

From the ‘Goldilocks corner’, where to go?

Over the past month: Towards the ‘recovery’ scenario: The stock market up, yields up

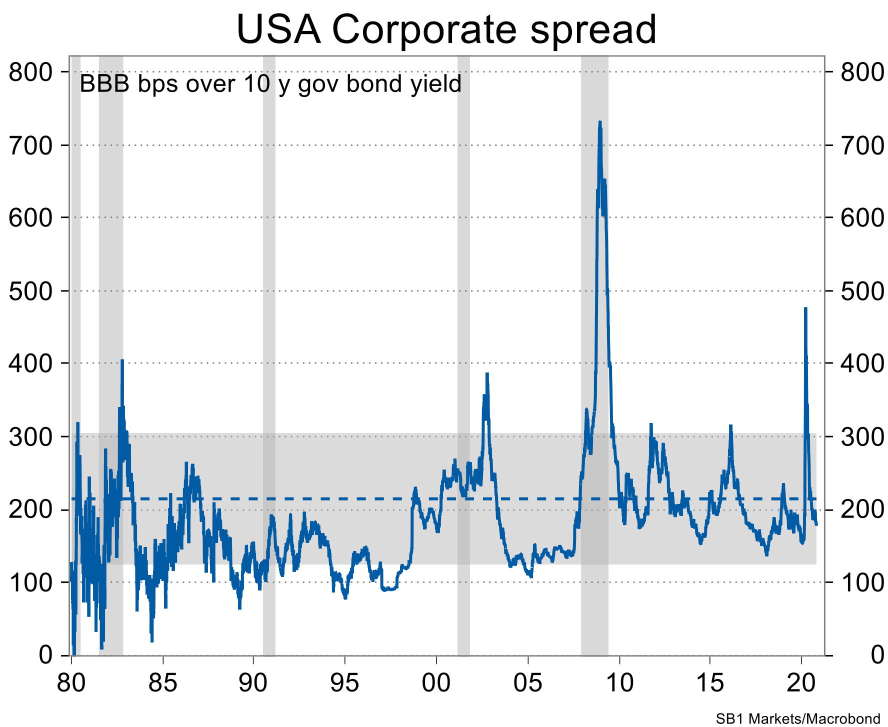


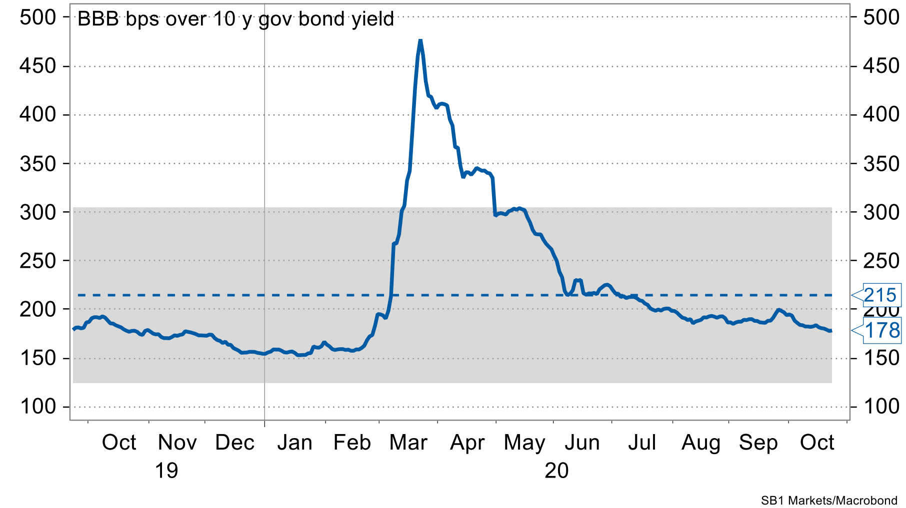


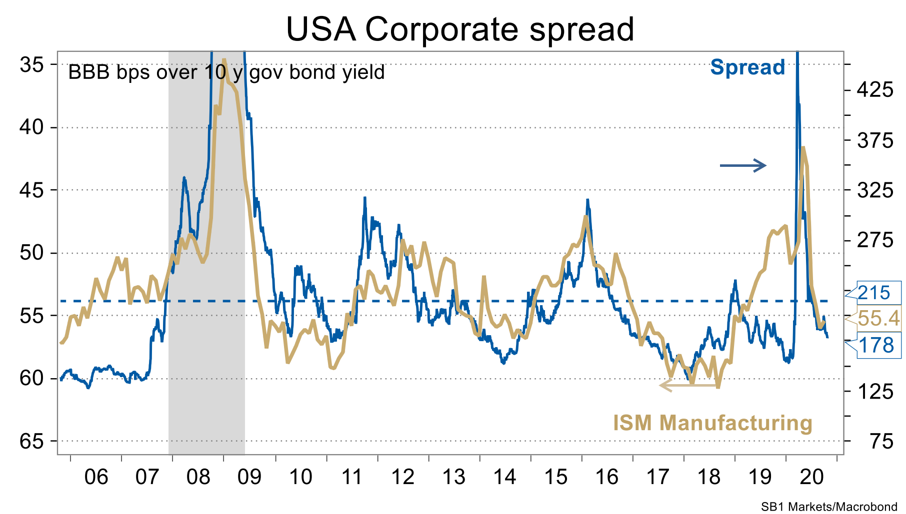
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- Now, the US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and expected to exceed 2% 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? Perhaps, for while – but probably not, long term
  - » 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. Interest rates had not been too low, even if that is the popular view these days

Credit spreads are still sliding down

Spreads are well below average levels but higher than before the corona crisis

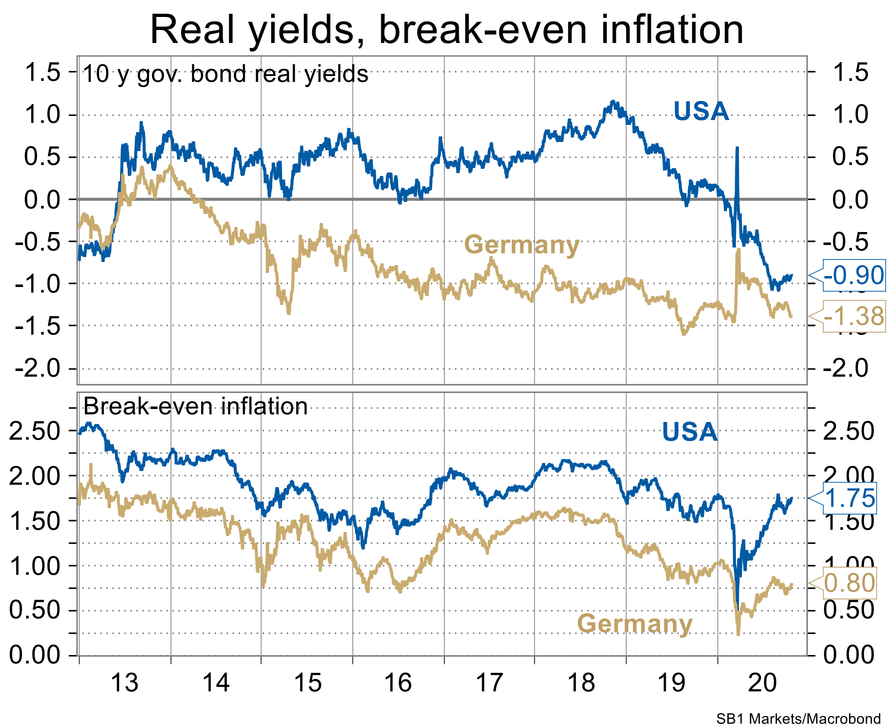


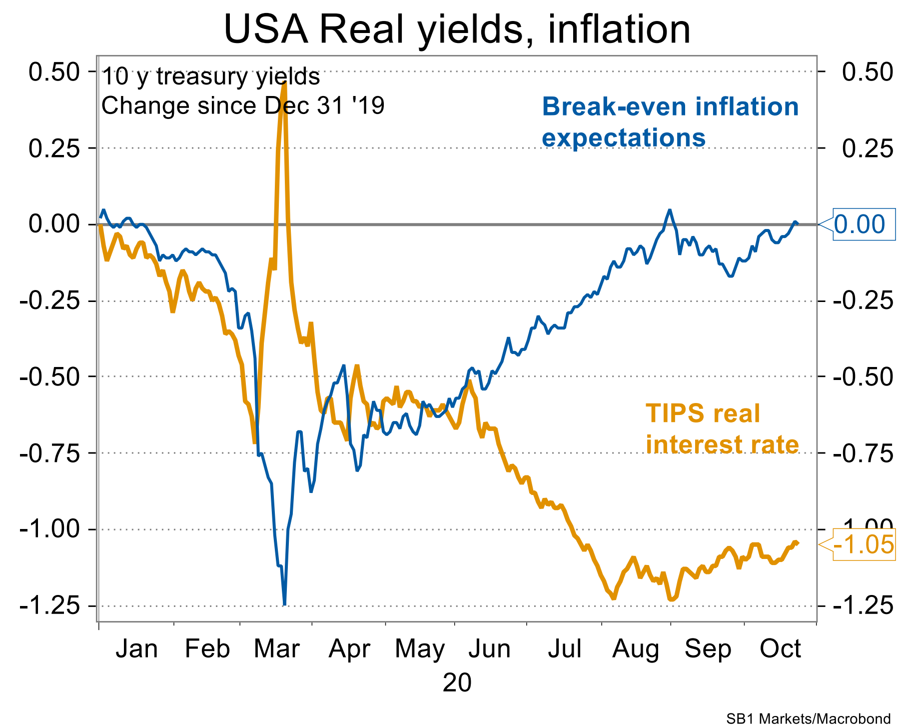




No big changes in the real rate/inflation expectation mix last week

US inflation exp. have recovered somewhat so far in Oct – and real rates are climbing slowly up



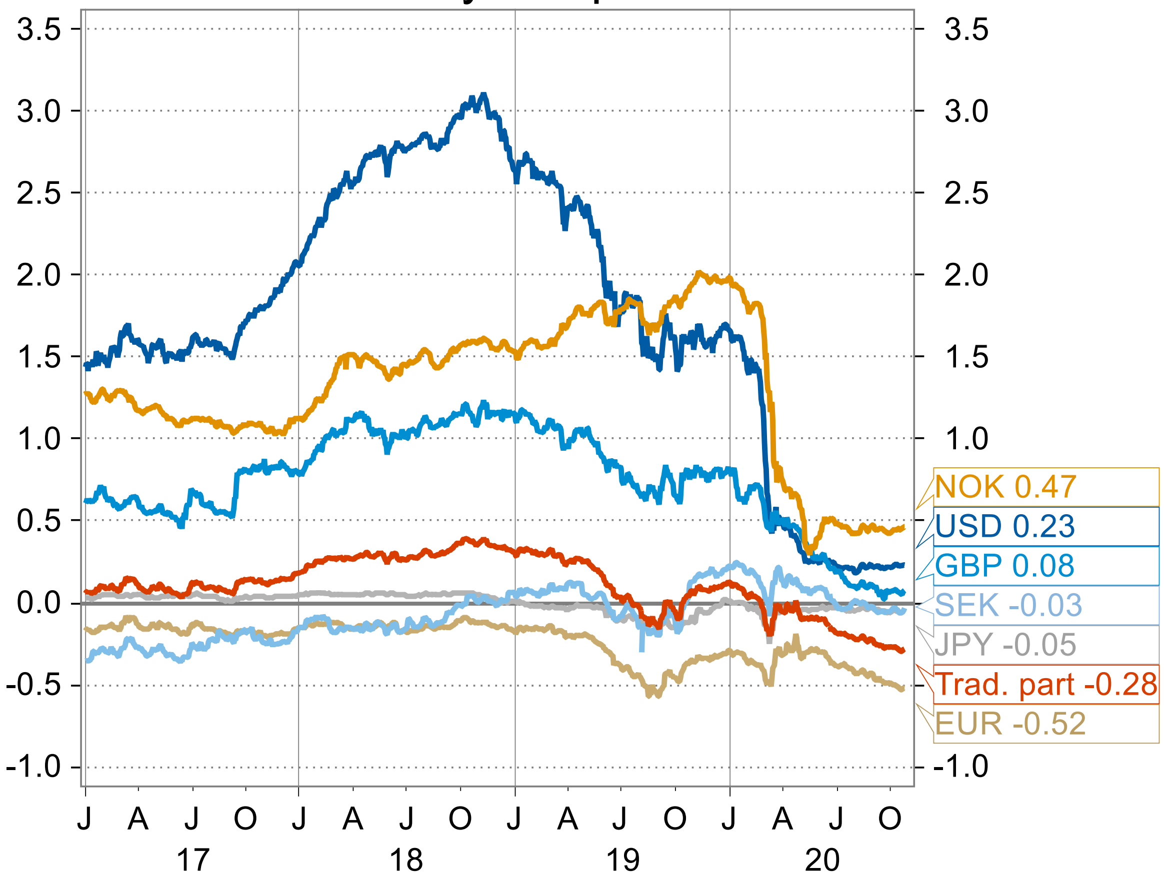


- The US 10 y gov real interest rate (TIPS) is trending slowly up – now to -0.90%
  - » Inflation expectations (measured by CPI) up to 1.75%, still well below the PCE deflator 2% target
- The German real rate is extremely low at -1.38 (down 7 bps past two weeks), inflation expectations at 0.70%

2 y swap rates marginally up – in some countries

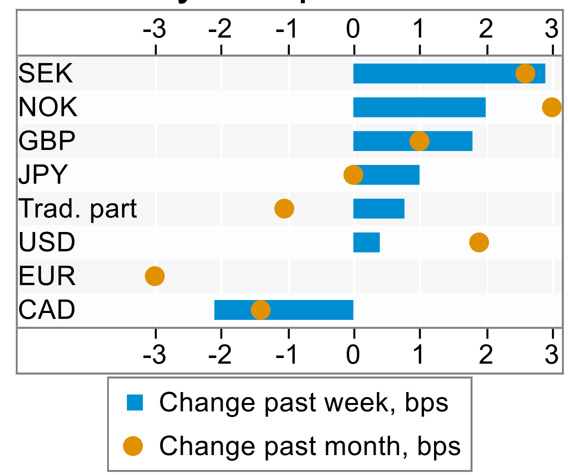
EUR has fallen recent weeks/months, partly due to dovish signal from ECB/Lagarde & some corona challenges

2 y swap rates



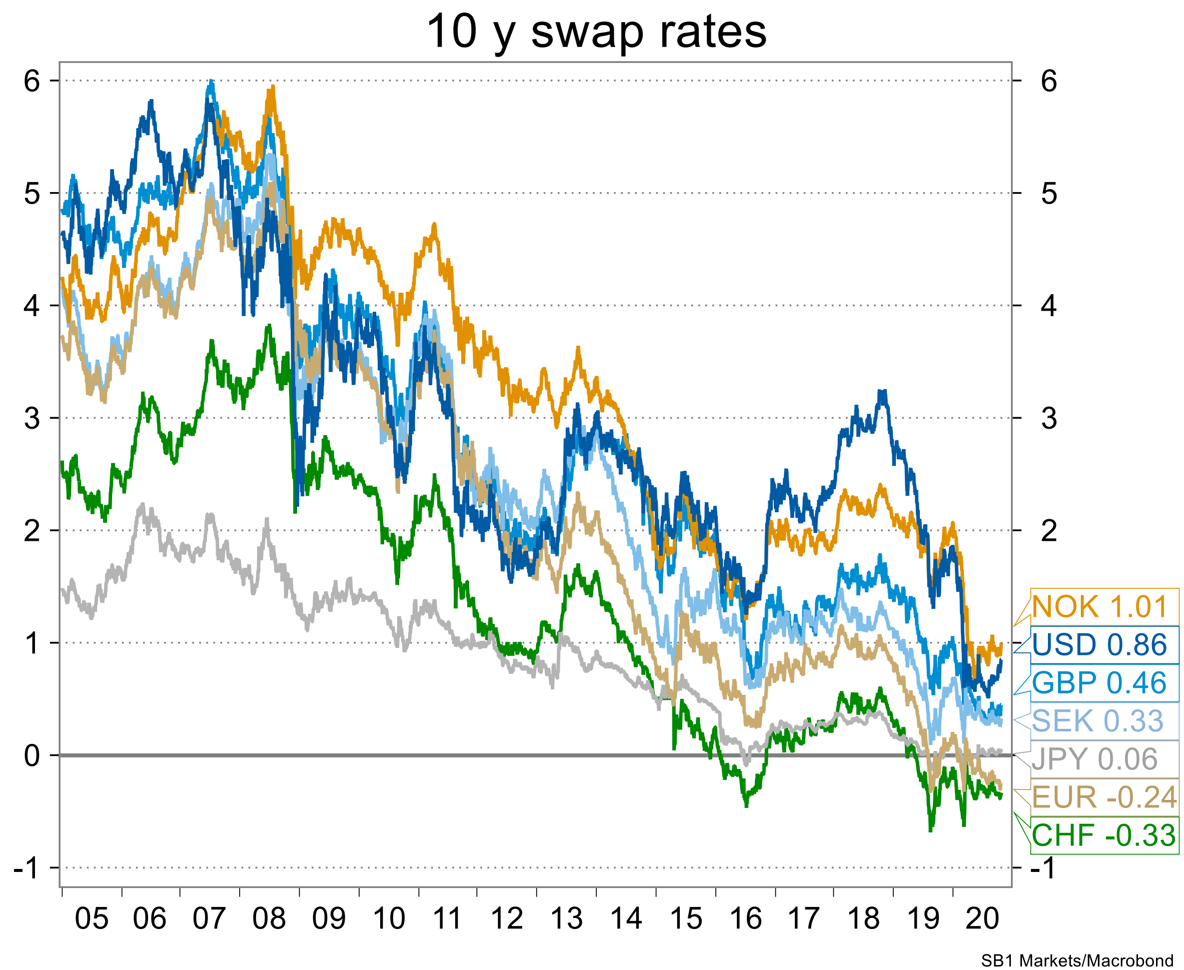
SB1 Markets/Macrobond

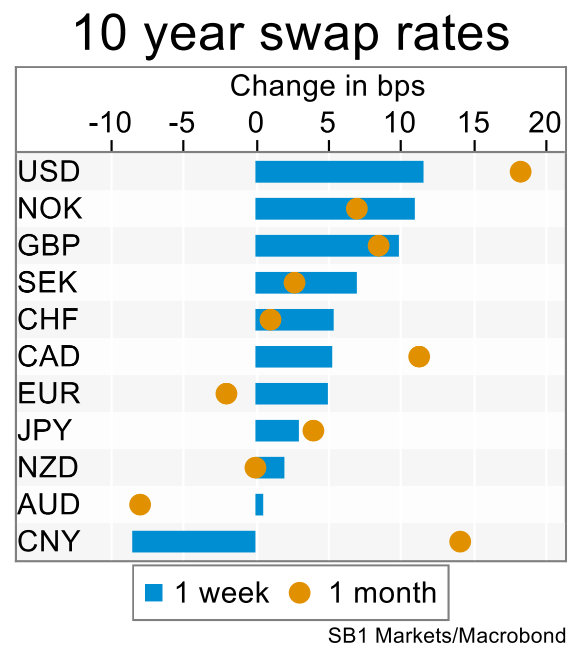
2 y swap rates



SB1 Markets/Macrobond

Long swap rates up almost everywhere, most in USD and NOK





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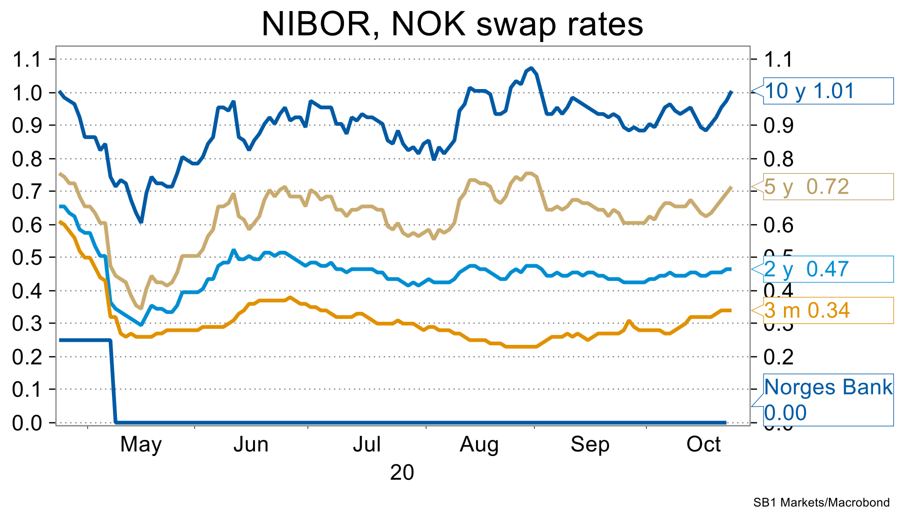
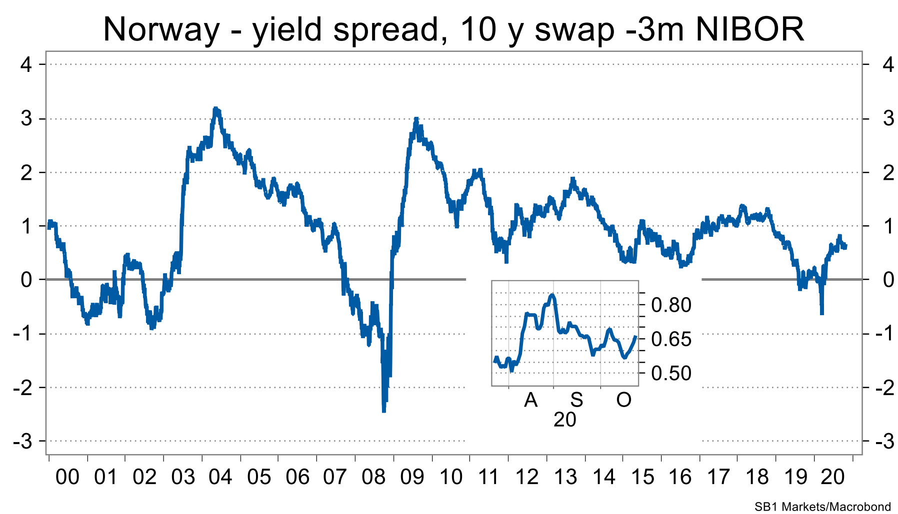
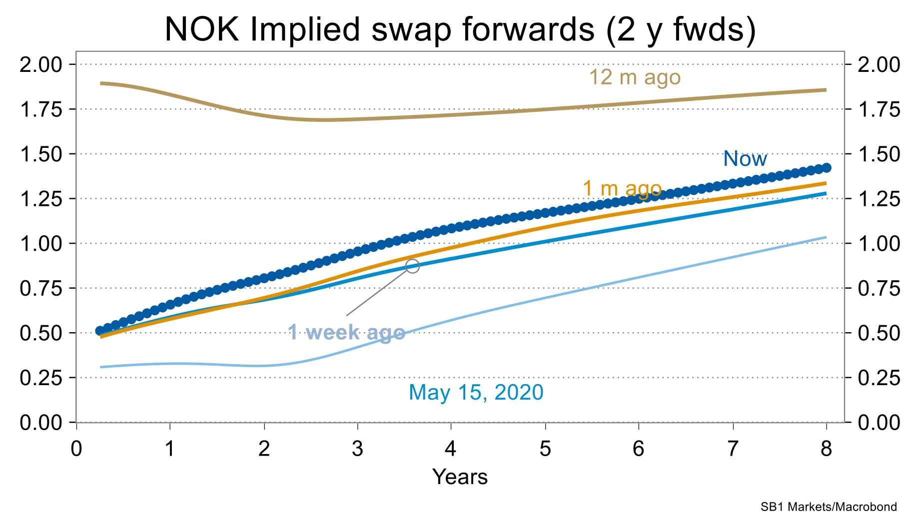
NOK rates up all over the curve, most in the long end of the curve

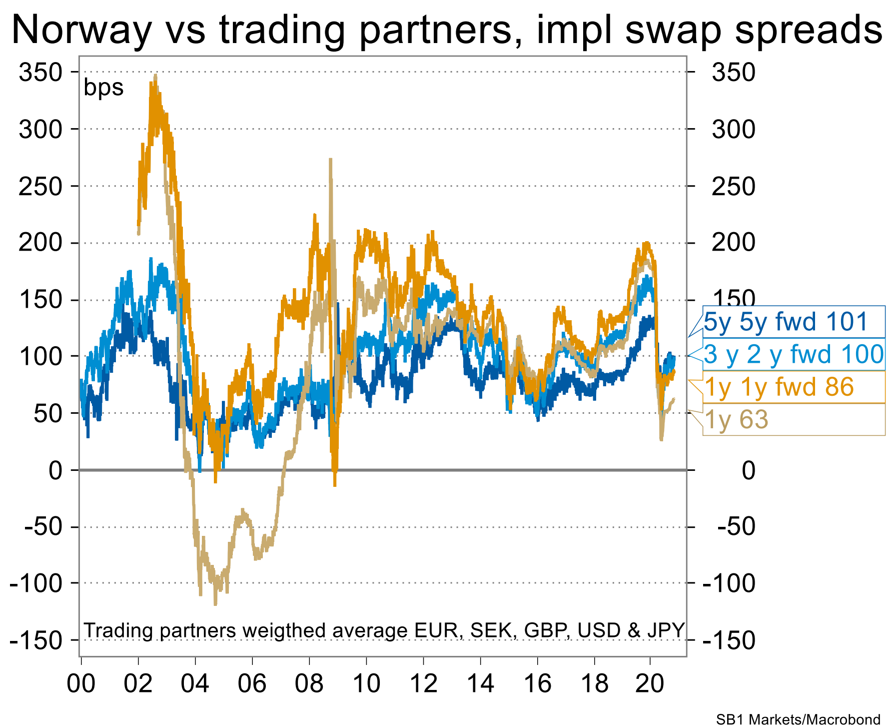


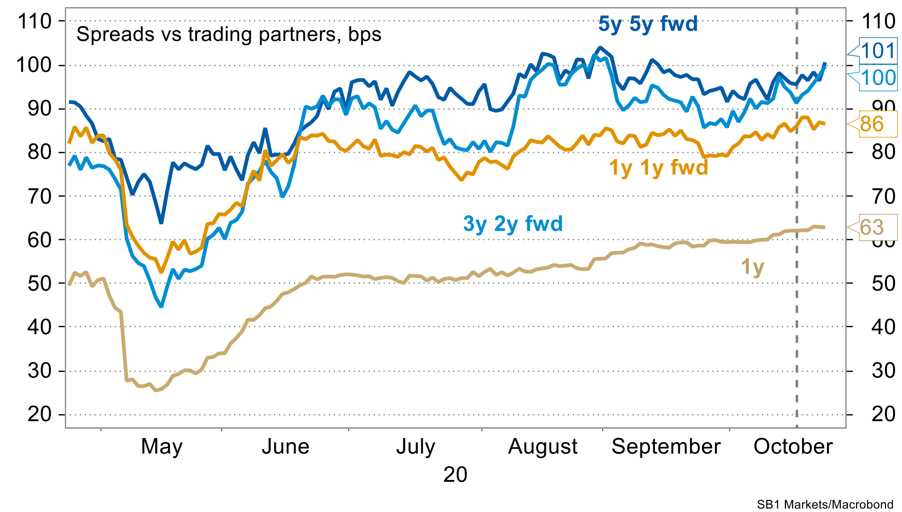


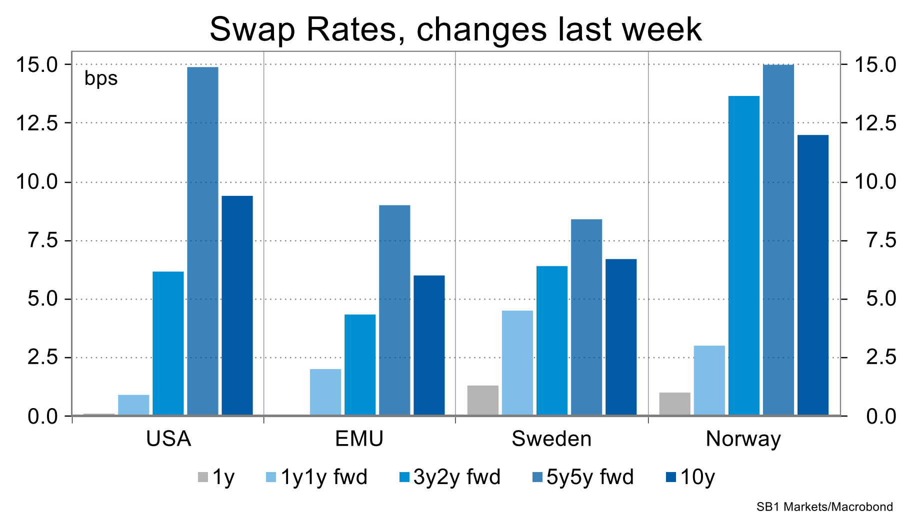


NOK swap rates more up than abroad, a minor spread widening through Oct

… back to the same level as in late August



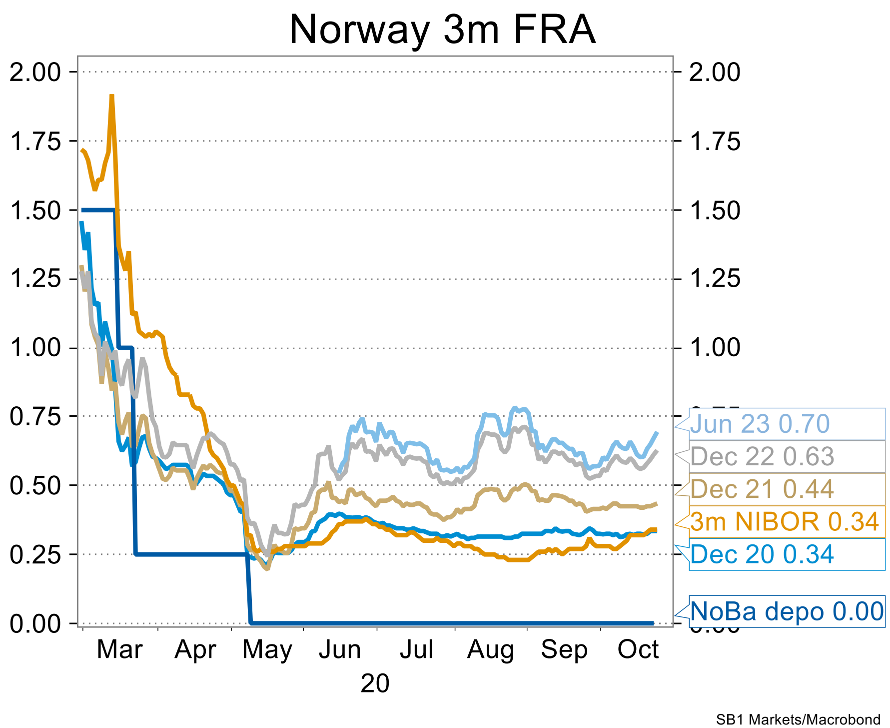


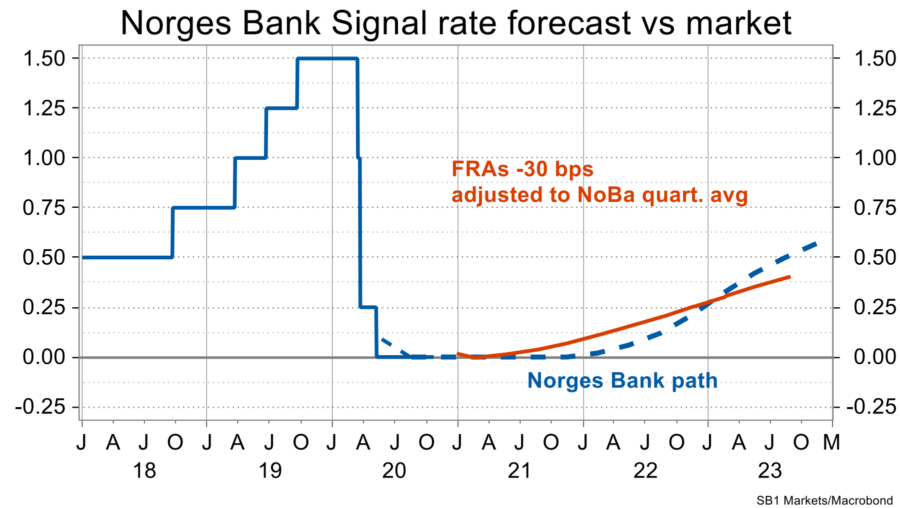


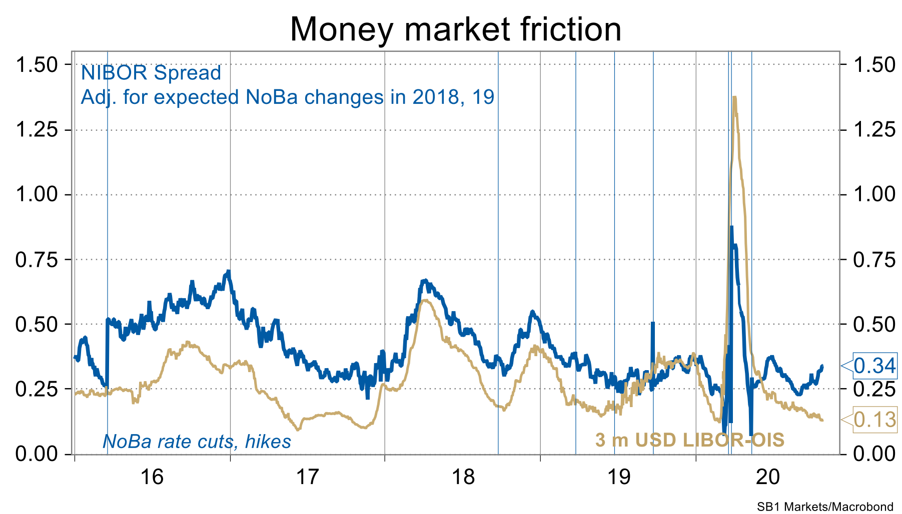
- We are still neutral vs. the spread

NOK FRAs up by up to 9 bps, and the 3 m NIBOR + 2 bps to 0.34%

The market is probably pricing a NoBa hike in Q1/Q2 2022 (vs Q3 or Q4 as signalled by Norges Bank)





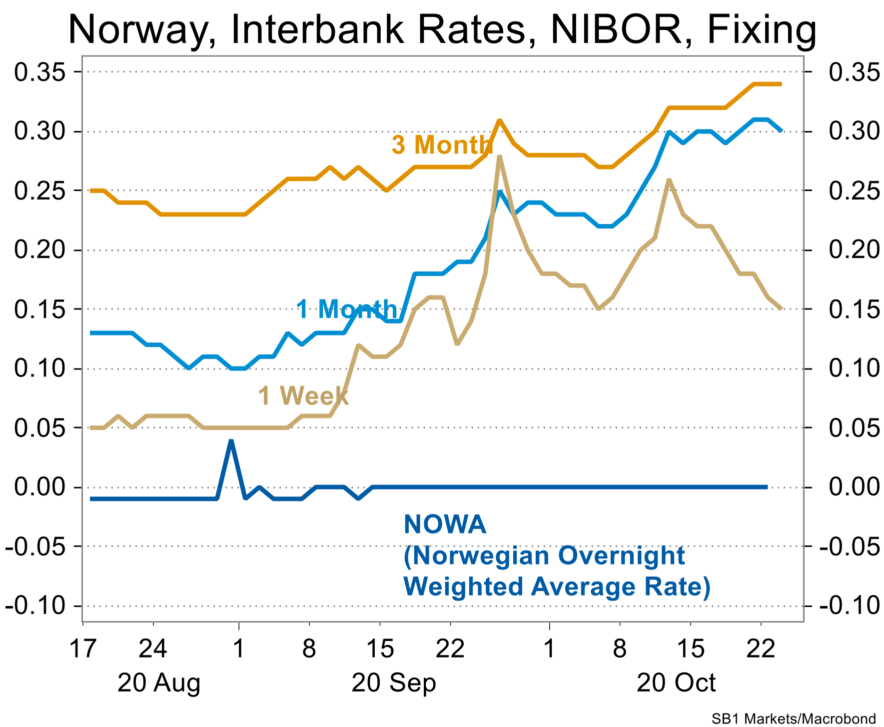


- FRAs rose to the highest level since early September
- There are still some trouble in the very short end of the Norwegian money market, check next page

SpareBank 1 MARKETS

Still friction at the Norwegian money market – but the very short rates down

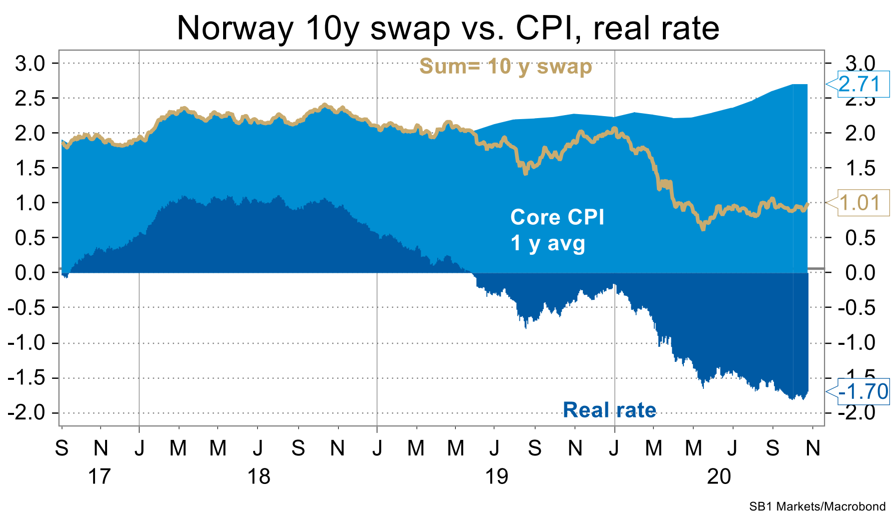
The distribution of liquidity in the money market has been poor past weeks



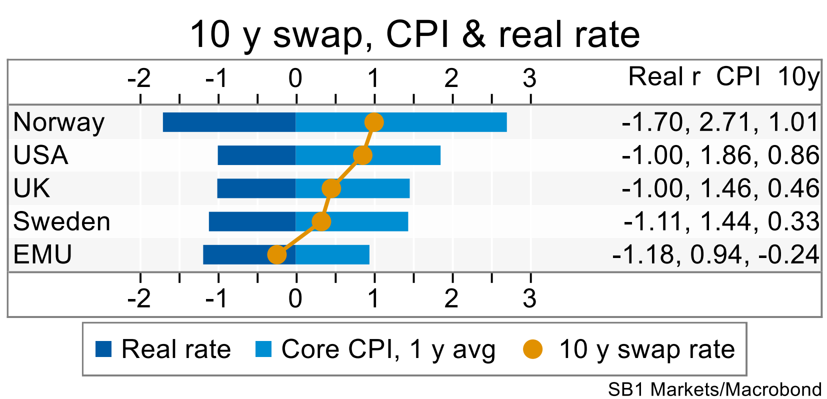
- Banks have not been able/willing to distribute short term liquidity between themselves
- Norges Bank has offered both F-loans and deposits at zero penalty (interest rate=NoBa deposit rate at 0.0%)
- Recently, banks have both borrowed and increased their deposits in the central bank
- Still, the very short term rates are elevated, but the 1 week NIBOR rate is down by 15 bps, from above 25 bps at the peak
- The 3 month NIBOR rose further last week but is not particularly high, at 0.34%, up 2 bps during the week

SpareBank 1 MARKETS

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)

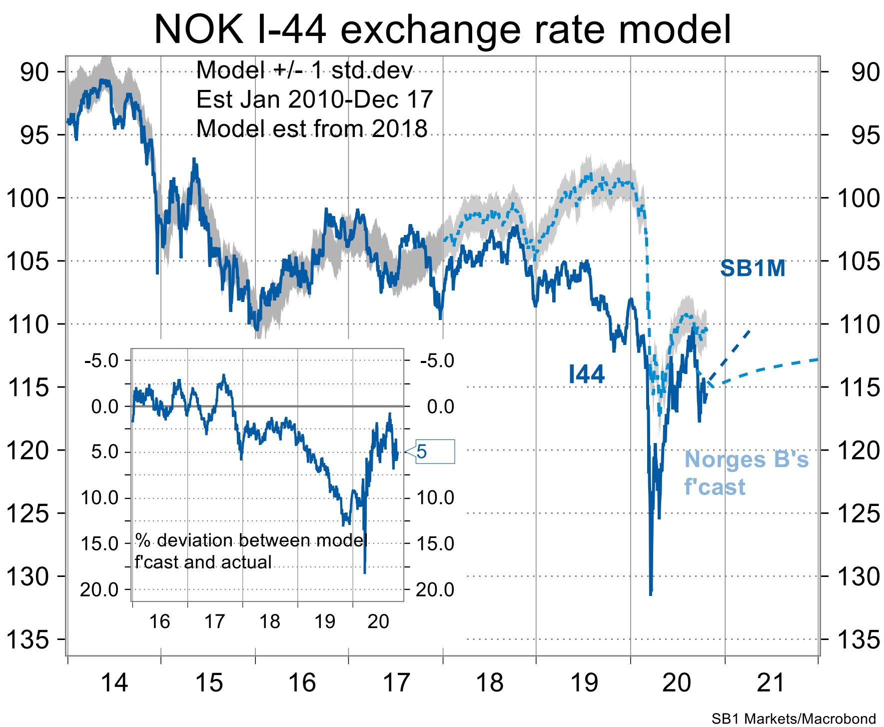


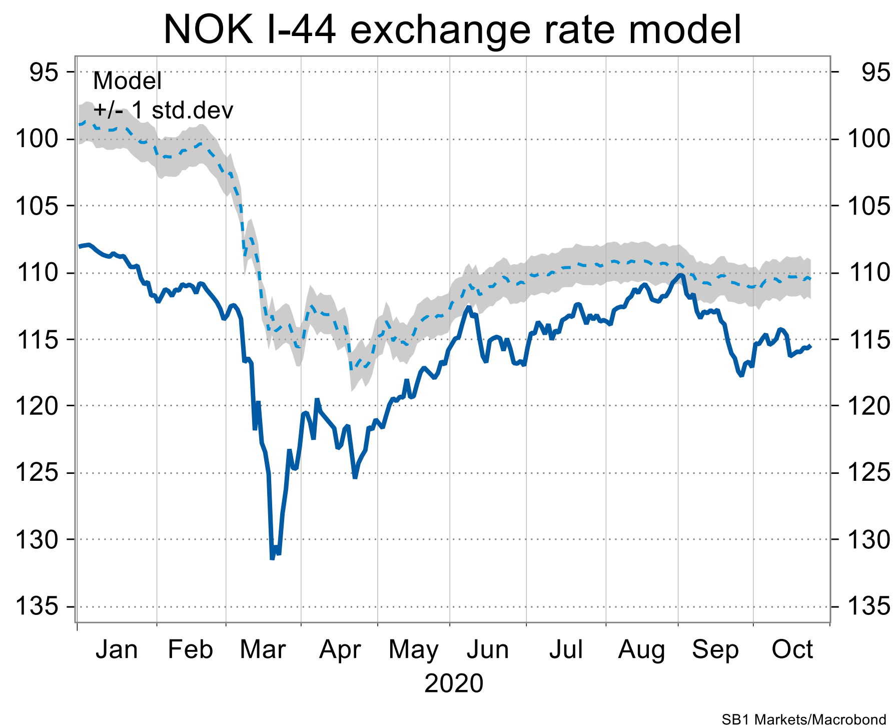
NOK real rates among the lowest, inflation exp. at top

- Inflation among Norway and our main trading partners varies between 0.9 to 2.7% (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 ranking
- Real rates are quite similar among our trading partners, at -1.0% to -1.1% 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

NOK I44 up 0.5% last week, the gap to our trad model slightly reduced

The NOK is 5% below our model forecast



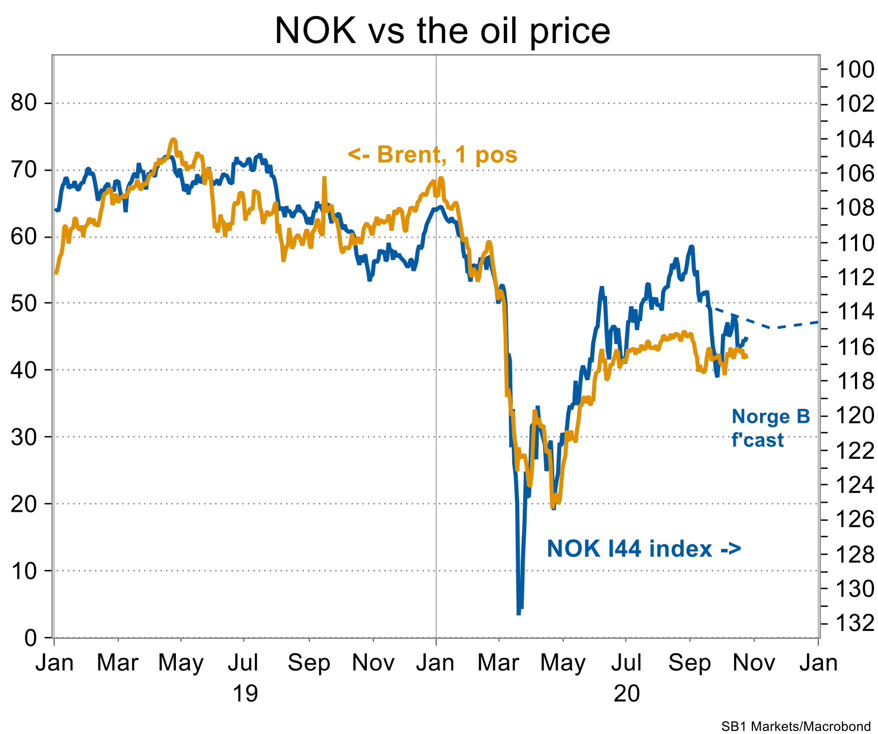


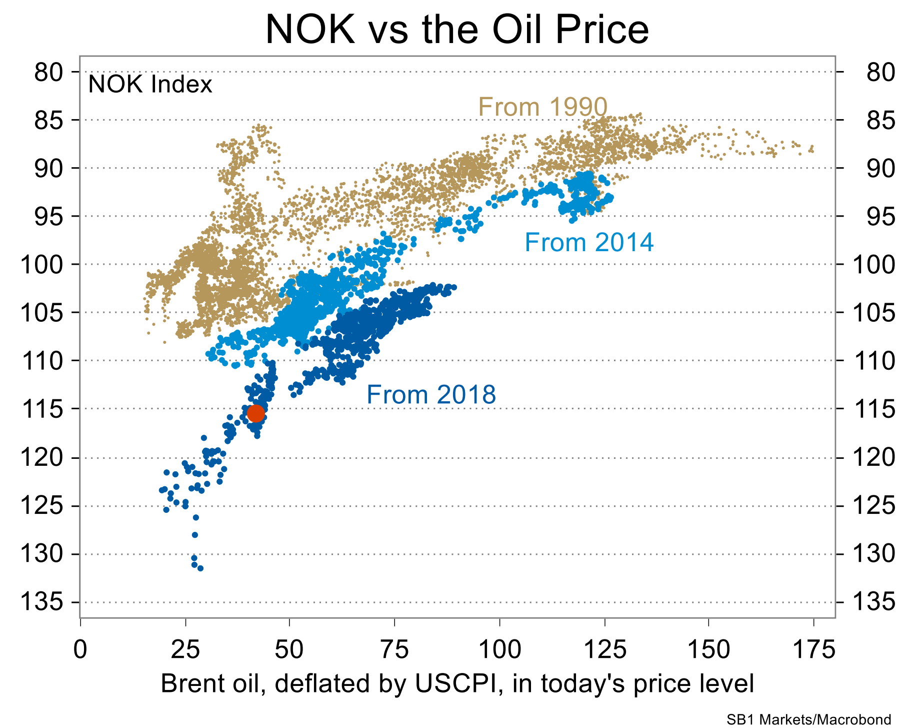
- The gap to the standard, oil price dependent model fell by almost 1 pp last week, to 5%
- Following the decline since early September, we have strengthened our buy NOK recommendation
- The NOK is still 'too strong' vs a model based on oil equities but weaker than the other supercycle currencies (AUD, CAD, SEK), we prefer the latter model. NOK is some 5% weaker than estimated by a simple global equity model (given a narrow NOK/MSCI correlation since early 2020)

SpareBank 1 MARKETS

It's not the oil price, stupid – at least recent months

The oil price is still important for the NOK but the correlation has not been impressive since July

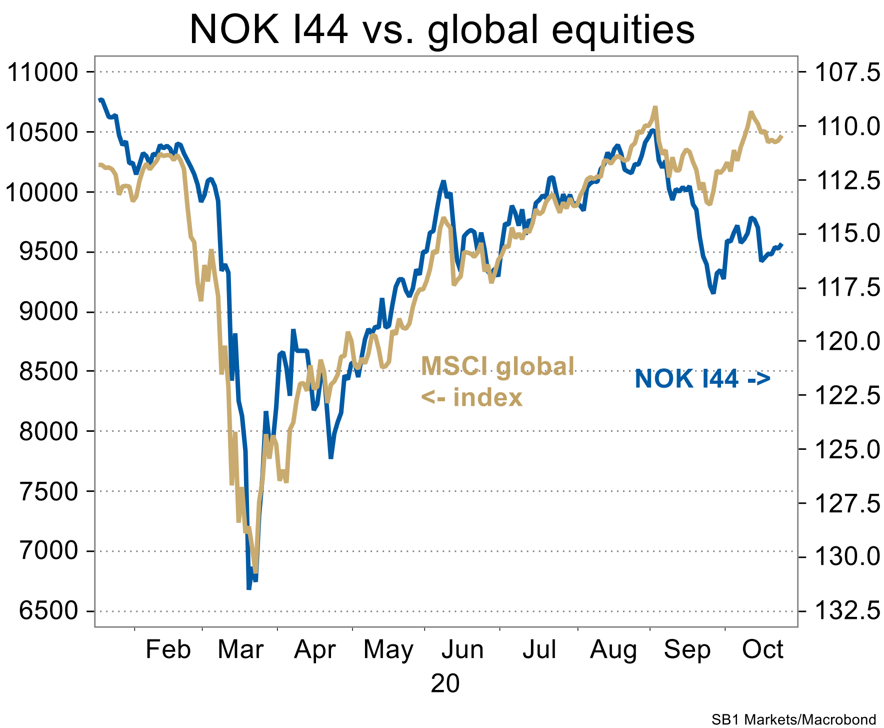


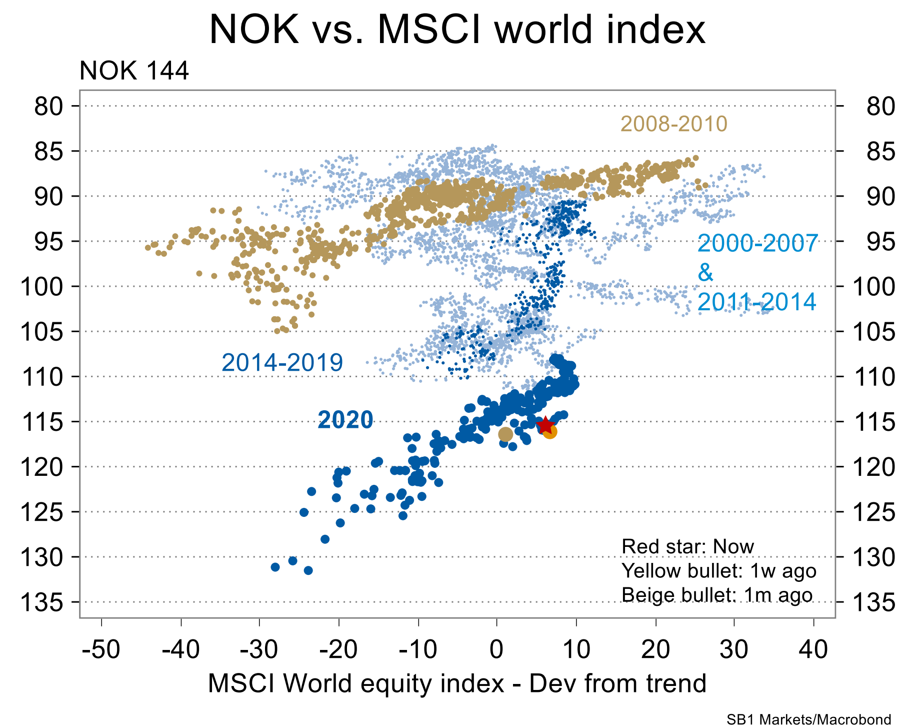


SpareBank 1 MARKETS

NOK has been very sensitive the stock market – in 2020, that is

The NOK has become weak vs the global stock market since early September

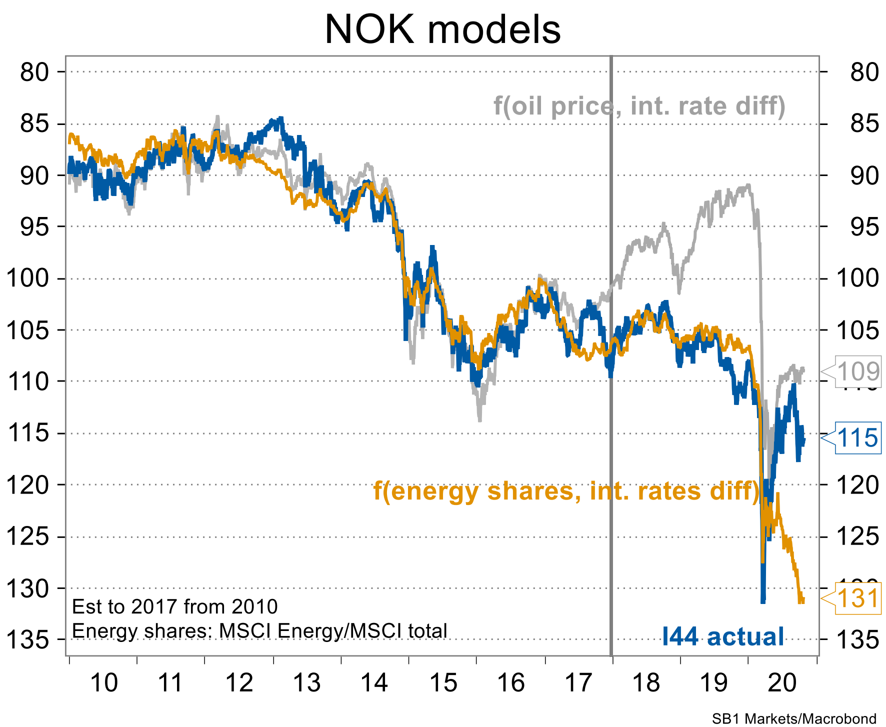


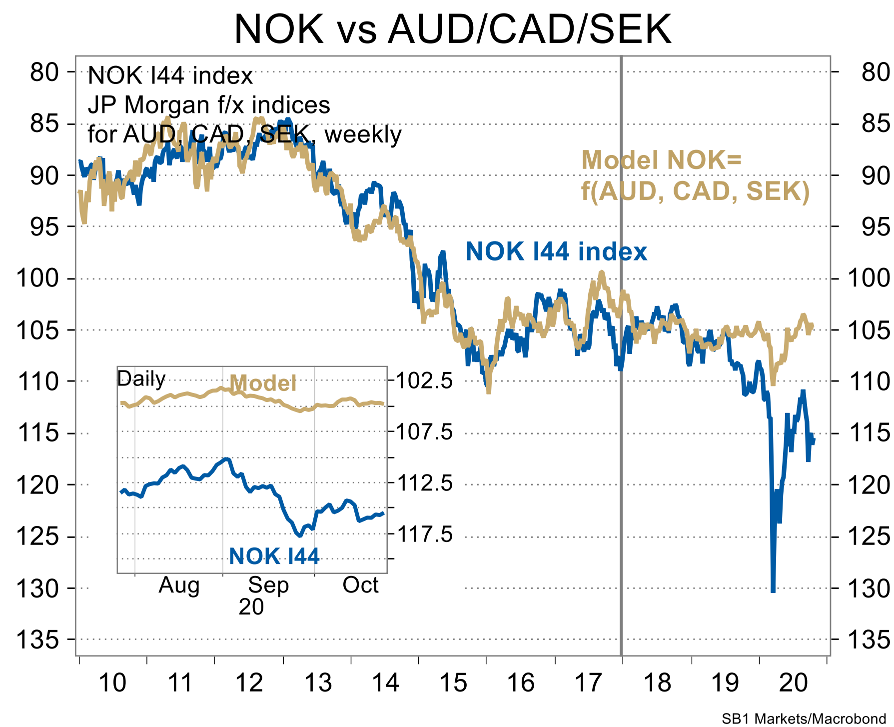


- There has not been any stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with correlation like the one we have seen since early 2020
- We have long argued that global equity prices <u>should</u> be 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 'finally (and rather sudden)' come to the same conclusion?
- Now, the NOK is more than 5% weaker than 'normal' vs the stock market – (the gap that built up since early September, based on the link between the NOK and MSCI since Jan 2020)
- NOK has <u>not</u> been correlated to OSE/MSCI (which could be interpreted as specific Norwegian factor)

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

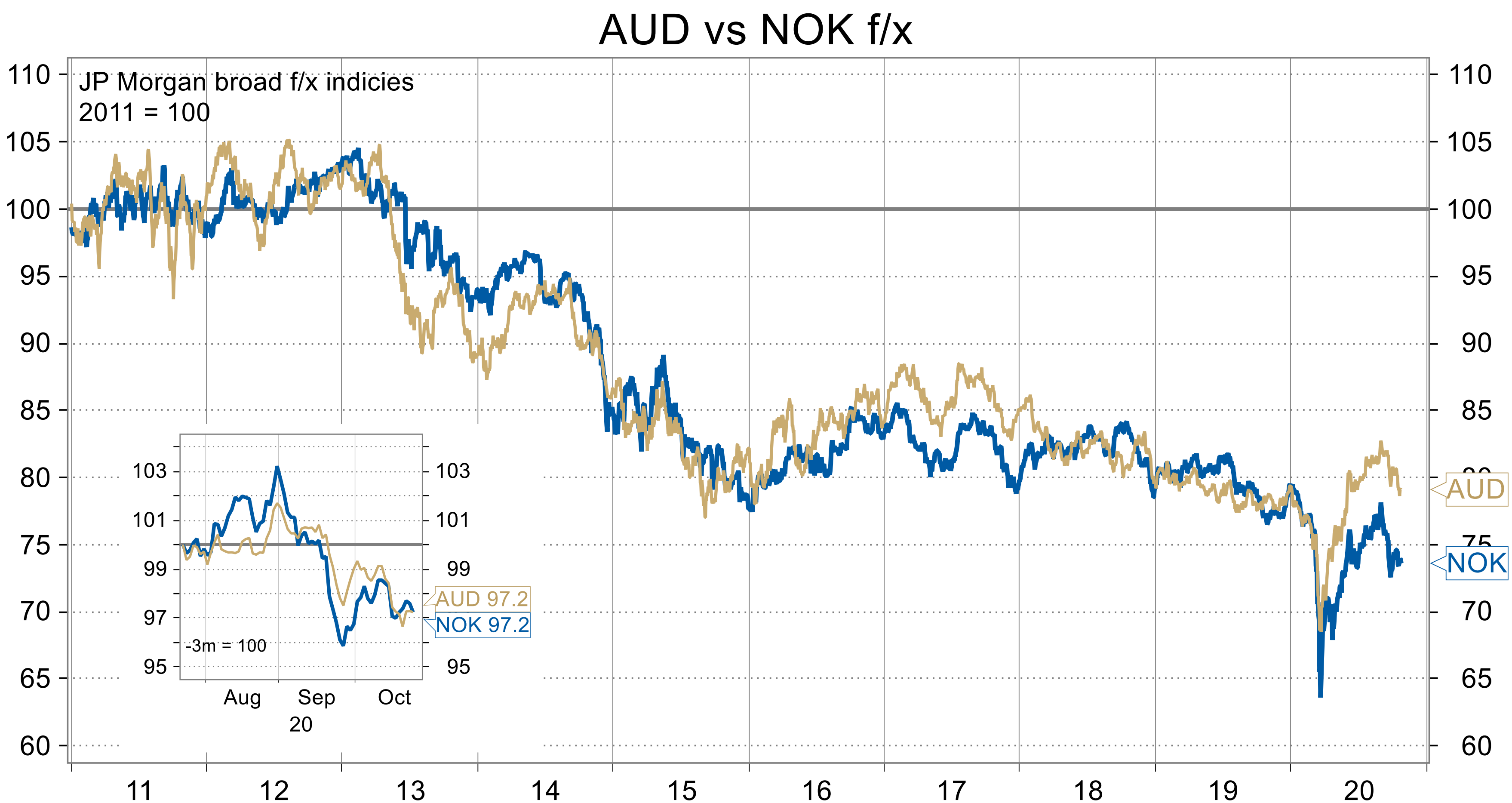




- On the alternative NOK models
  - » Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. 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 – and we recognise that the NOK has said goodbye to the still struggling oil companies
  - » The NOK has fallen more than our AUD/CAD/SEK model forecast the past month, even as all are sensitive to market risk sentiment. The NOK is 10% below our model est. We think this model is more relevant than the oil stock price model

NOK weaker than usual vs the AUD but not further recent months

Both close to flat last week



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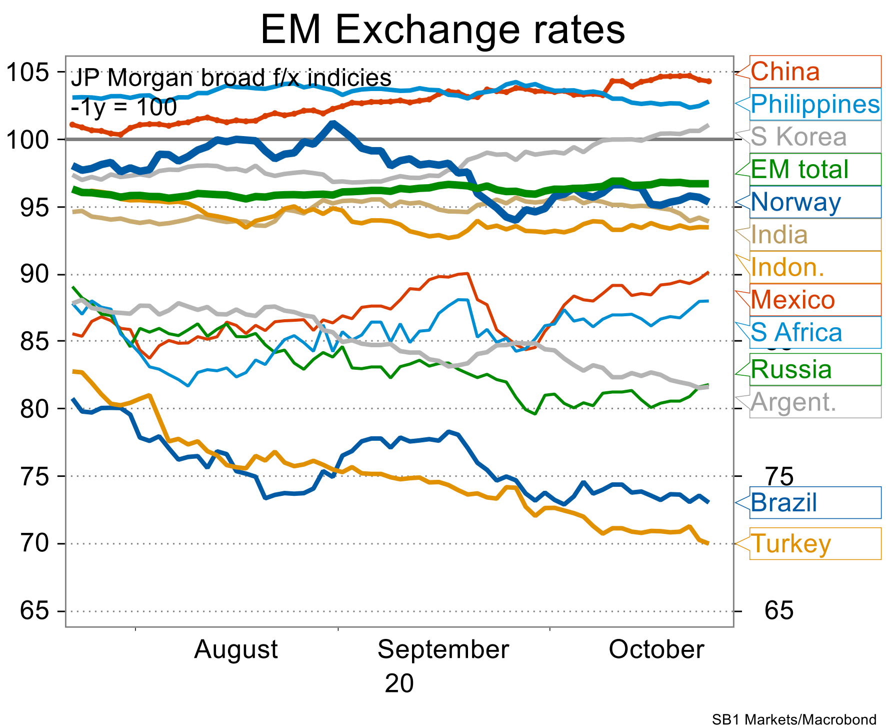
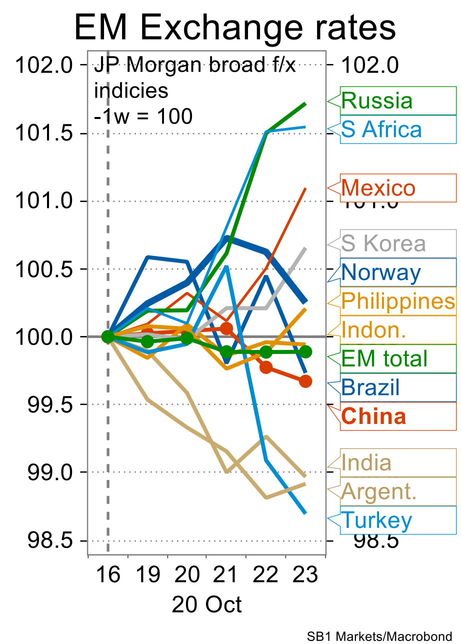
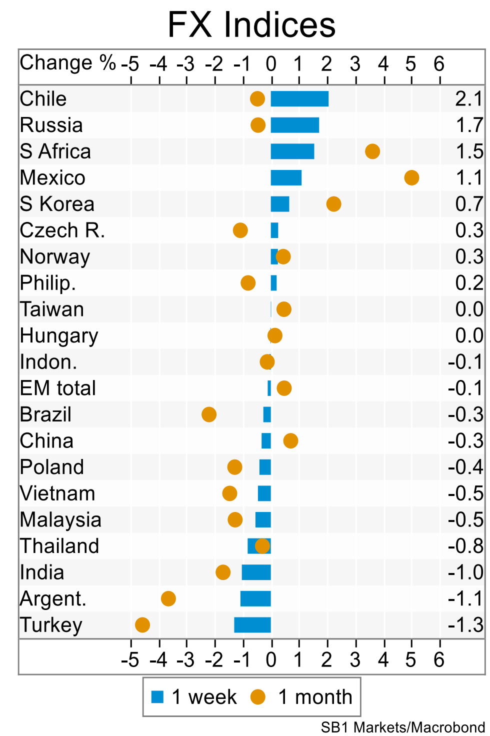
EM currencies mixed last week – the CNY finally flattened

Brazil and Turkey both on a slippery slope – down 27 – 30% last year







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