2 November 2020

Macro Research

Week 45/2020

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

- **Still Mostly Bad Corona News:** The number of new Covid-19 cases, hospitalisations and deaths is surging in most European countries, and deaths numbers will climb sharply the coming 3 weeks, even if the curve flattens or bends down now. New restrictions are imposed 'everywhere', including light travel 'bans' in some countries. The 2nd wave is having an economic impact but so far directly just in parts of the service sector but the risk is on the downside for other parts of the economy. The number of cases & hospitalisations is increasing steadily in the US too, and there are no evidences of a significant reduction in the death rate recently. The good news is that growth in new cases is slowing is several countries, including Belgium & the Czech Rep, the two hardest hit European countries, signalling that change in behaviour in the end will bend the curves down, this time too (Israel has done it). No specific vaccine news last week, and it will anywat take a long while reach herd immunity through vaccination.

- The **Chinese PMIs** rose marginally in Oct, better than expected. The levels signal continued growth above trend. The **global manufacturing PMI** probably rose 0.7 p, 0.5 p better than our initial estimate. As services probably was flat (due to a setback in Europe), the global composite could increase by 0.2 p

- No new **US budget deal** before the election. On the economic front: **GDP** rose 7.4% (33.1% annualised) in Q3, precisely as expected, following the 9% decline in Q3. GDP is down 3.5% from Q4-19, and 2/3rd of the H1 decline is reversed. **Private consumption** rose sharply in Q3, and in Sept, consumption was down just 2% from the Feb level. **Savings** are still at 14%, 7 pp higher than before corona, as **household income** is still significantly boosted by government support. More strong **housing data;** new home sales at a very high level, and **existing home prices** are on they way up. **Durable & investments orders** are above the pre corona level, barring aircrafts – for obvious reasons. **Wage cost and consumer price inflation** is still muted

- **In EMU, GDP** grew by 12.7% in Q3 (61% annualised), 3 pp more than expected – from an extremely low Q2 level. GDP is down 4.3% below the Q4-19 level. Spain the laggard, down 9%, due to its dependence of foreign tourists. Retail sales very likely fell in Sept, Germany reported a substantial decline, from a high level. **Inflation** is still very low, and even adjusted for V.A.T. cuts, core inflation is at less than 1%. The **ECB did nothing, but talked a lot!** The bank said it was 'necessary to take action' it was not preparing to use 'all our instruments'. Barring a Covid miracle (some believe it will disappear Nov 4th , just like miracle), the ECB at the next meeting in December no doubt will deliver more QE, and the bank could subsidise banks even more, but could still keep the signal rate unchanged

- **In Norway, NAV unemployment** fell as expected in October, but ordinary 'full time' unemployment is still 2 pp above the pre corona level, and included part time unemployed the rate is more than 3 pp up. The number of new vacancies is up, but still well below normal levels. **Credit growth** slowed in September due to a decline in corporate borrowing, which is now clearly slowing. Household borrowing has not. **Consumer confidence** fell a tad in according to Opinion's monthly survey but the level is not far below average (while Finans Norge's survey is still weak). Still, **homebuyers' sentiment** was close to all time high in October.

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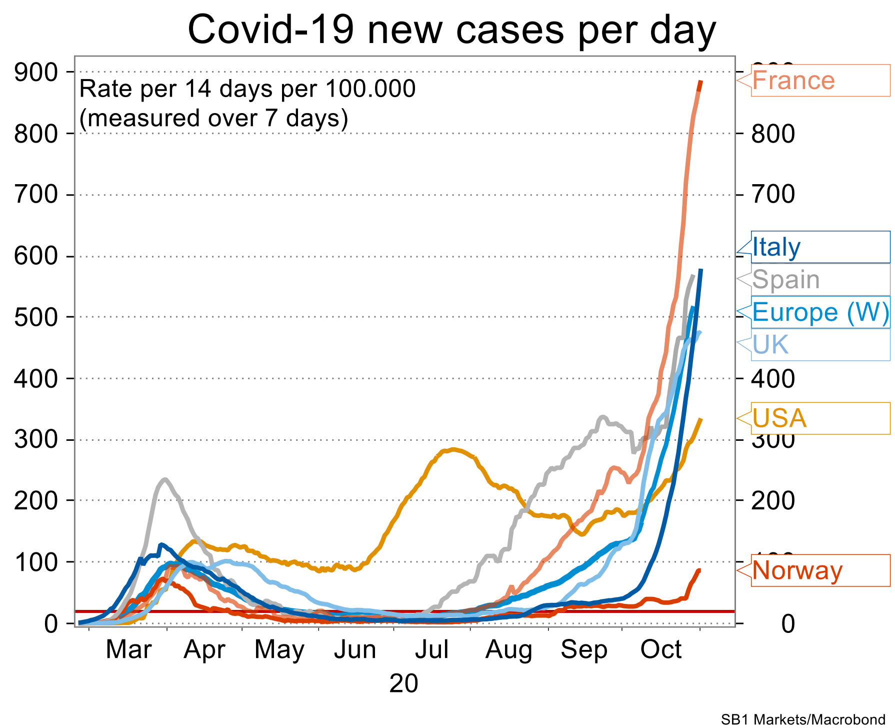
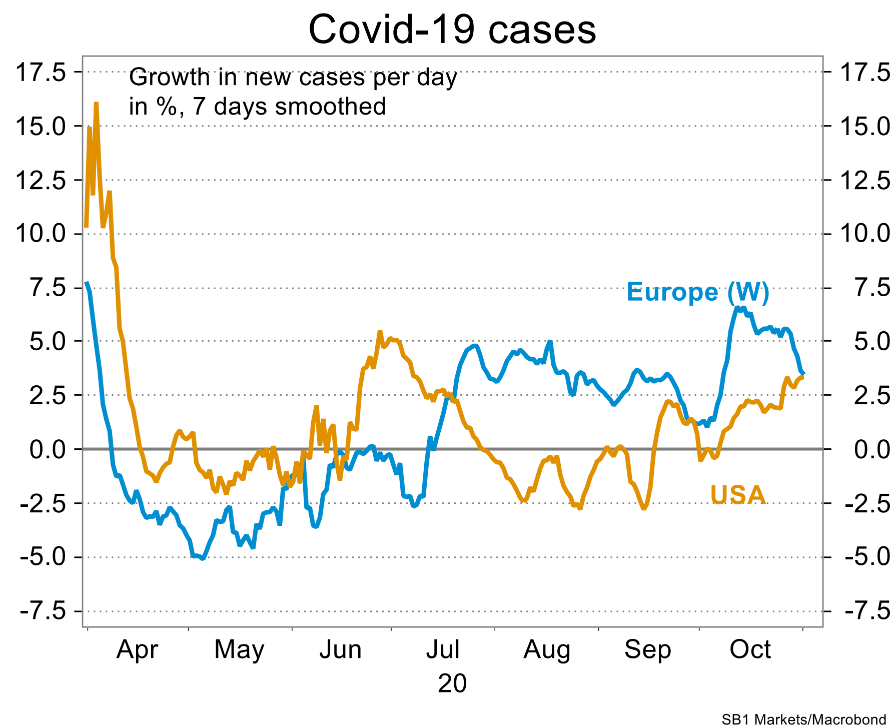
The curves may have started bending in Europe but the direction is still up

We expect new restrictions to work this time as well, and should see some results the coming 2 weeks





- 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, in Belgium and the Netherlands – and in the Czech republic (*check two pages forward*). Hospital occupancy is increasing everywhere, and is disturbingly high in some countries. New restrictions are imposed i most countries – and growth will be hurt in Q4
- 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
- **<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>

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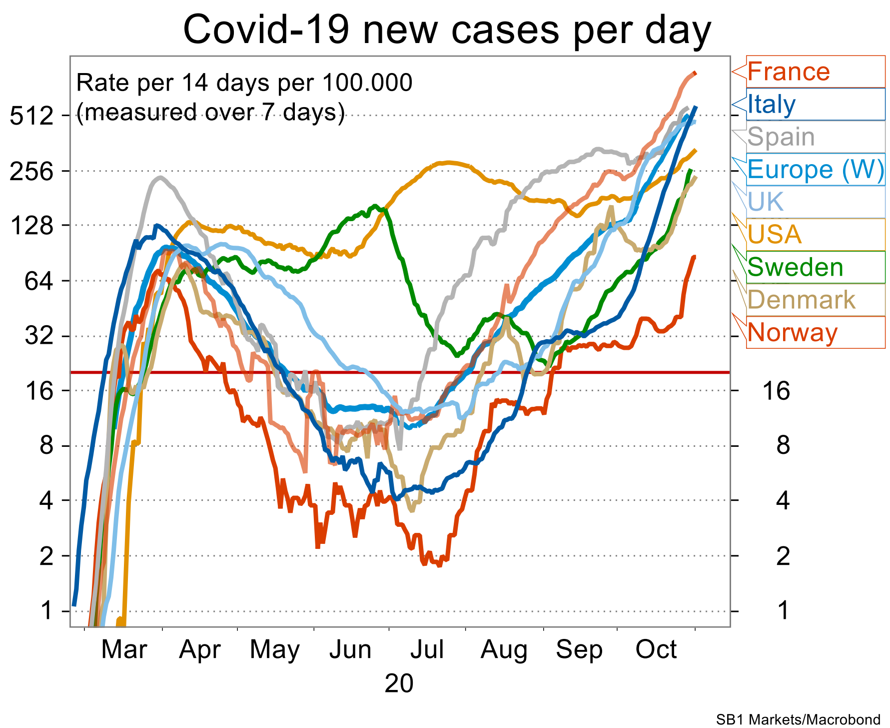
Norway has the highest 'R' once again. The level is still low

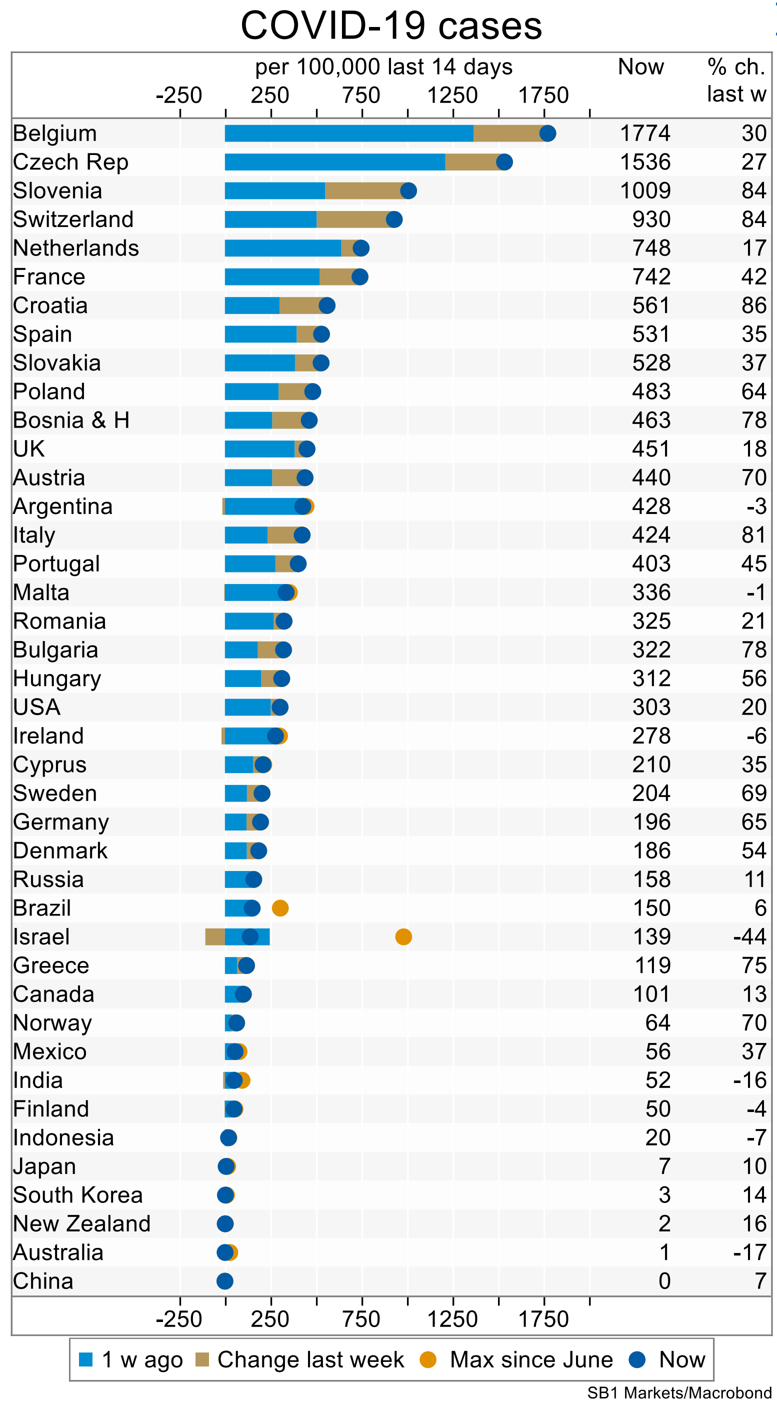
.. But it will not be in 3 weeks time, if the curve does bend – as several times before



Not too many are heading downwards…

Huge increases in many countries the past weeks

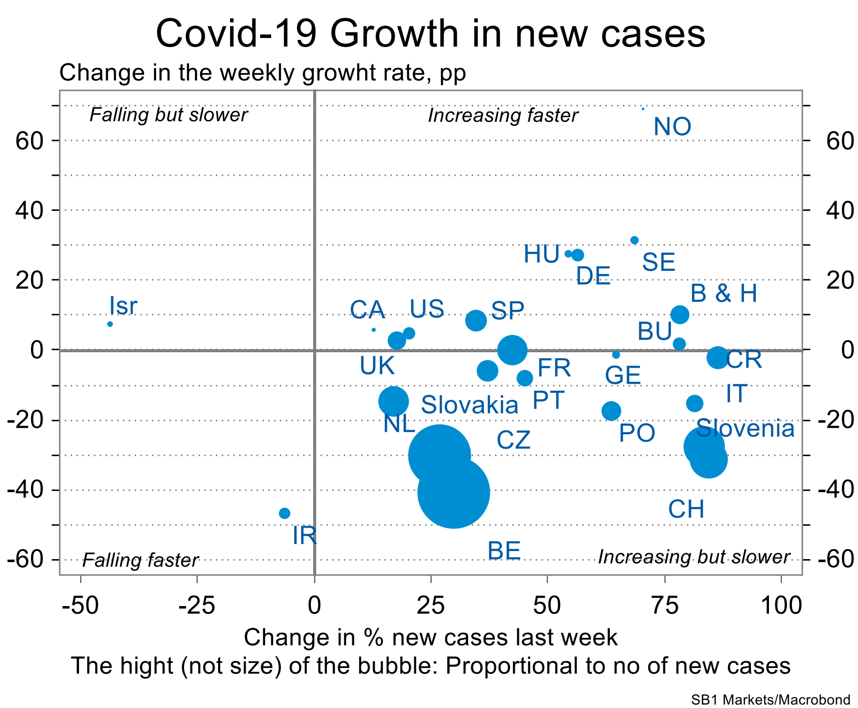
- The axis has to be changed every week
  - » Belgium is at the top of the list, followed by the Czech Rep and Slovenia – and Switzerland. Their health systems are or will be overwhelmed by sick patients.
  - » Israel is the only country with a significant reduction is new cases recent weeks – following another lockdown
  - » Some few other countries are also reporting fewer cases (see more next page)
  - » 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

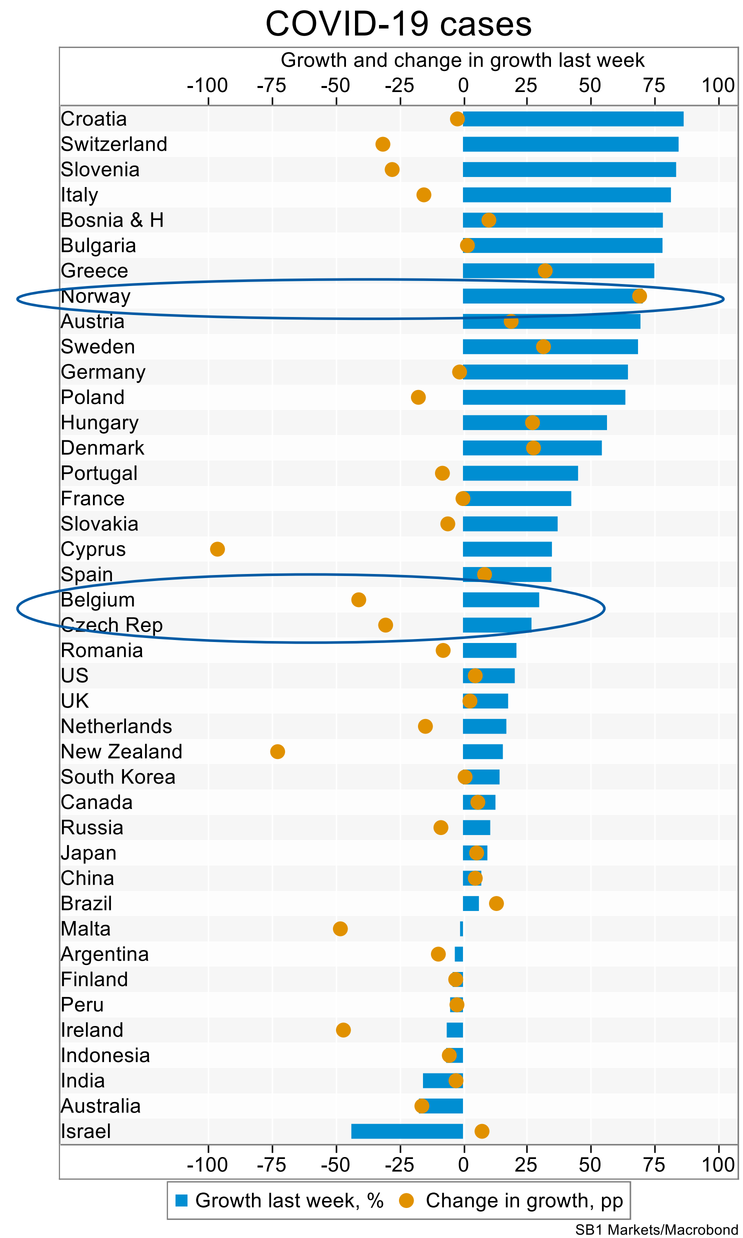


Growth in new cases is still slowing

… in some half of the countries. Its increasing elsewhere

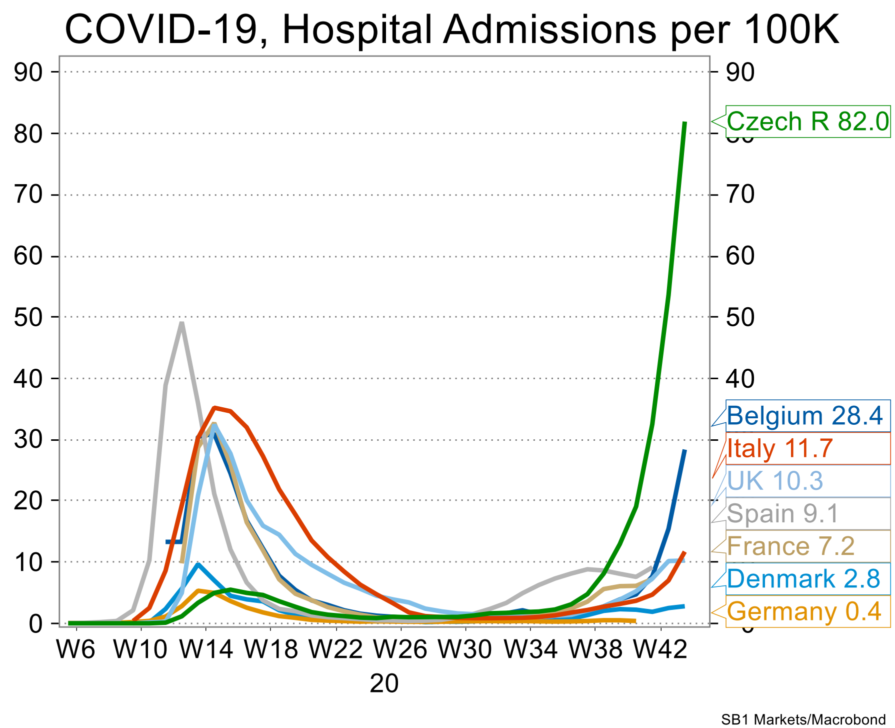
- .. And the number of new cases is falling in some (very) few countries
- The good news: Growth is slowing where the number of new cases is the highest (like Belgium and Czech Rep)
- Norway is reporting the fastest increase in the growth rate (and the growth rate is pretty high too)
- Growth is falling at the most rapid pace in Israel

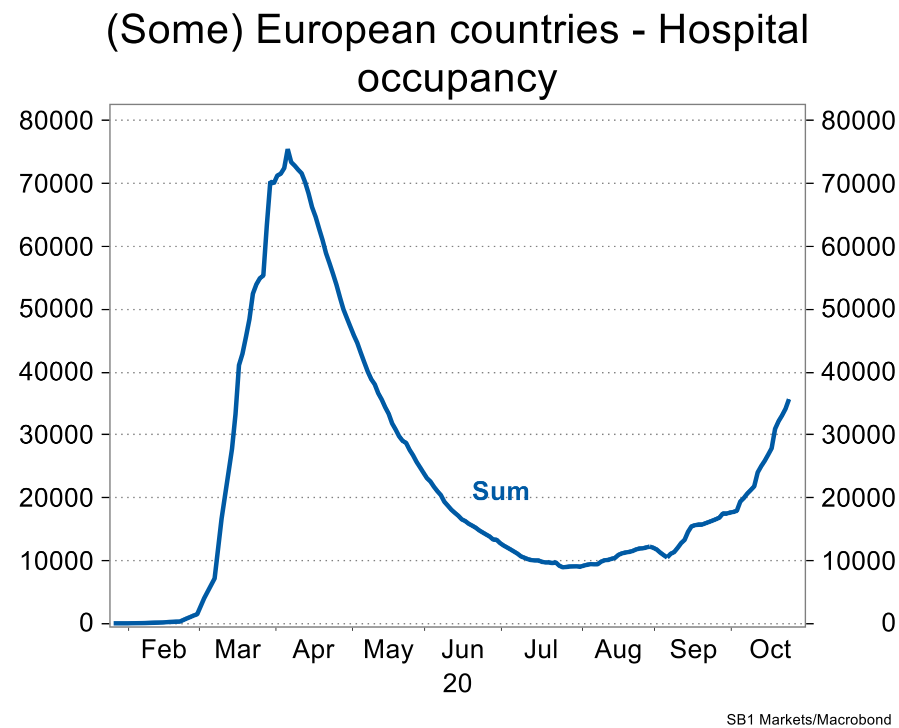




Corona is becoming a health problem, at least some places

The number of hospital admissions is on the rise again. The Czech Rep. has a huge challenge





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

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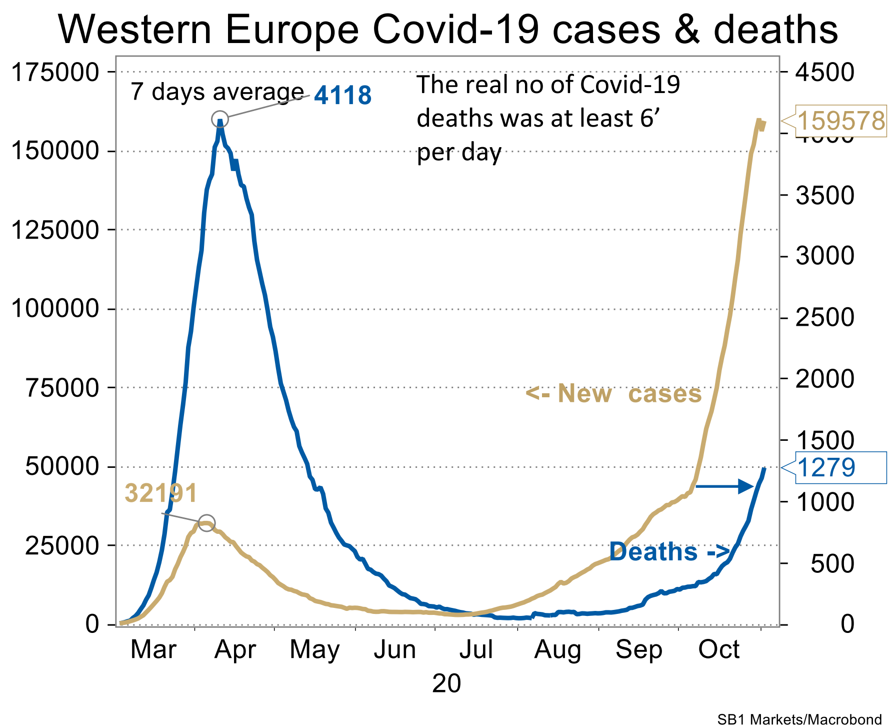
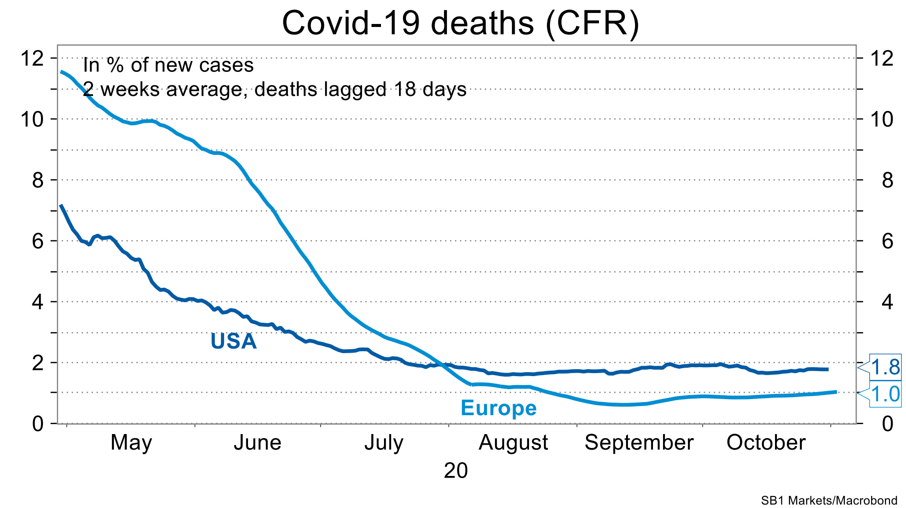
Europe: The number of deaths rapidly in the way up, will rise at least 3x more

… if the European curve flattens NOW. If not…





- The number of deaths in Europe is growing at a fast pace, now 1.300 per day, up from below 800 one week ago (and less than 100 in August).
- Given the sharp increase in new cases past 3 weeks, the number of deaths will increase sharply, up to levels comparable to the official death numbers in March/April (when real numbers were clearly higher)

- In Europe, the death rate (deaths vs. confirmed cases 2 – 3 weeks earlier), fell to 0.7% in September but has now increased to 1%. At the same time, the positivity (test) rate has increased. Most likely, the real rate of contagion has increased even faster than the official case number
- In the US the death rate is at 1.8%, and it has been more or less table since August (while some are reporting a rapidly falling death rate). *See more next page*

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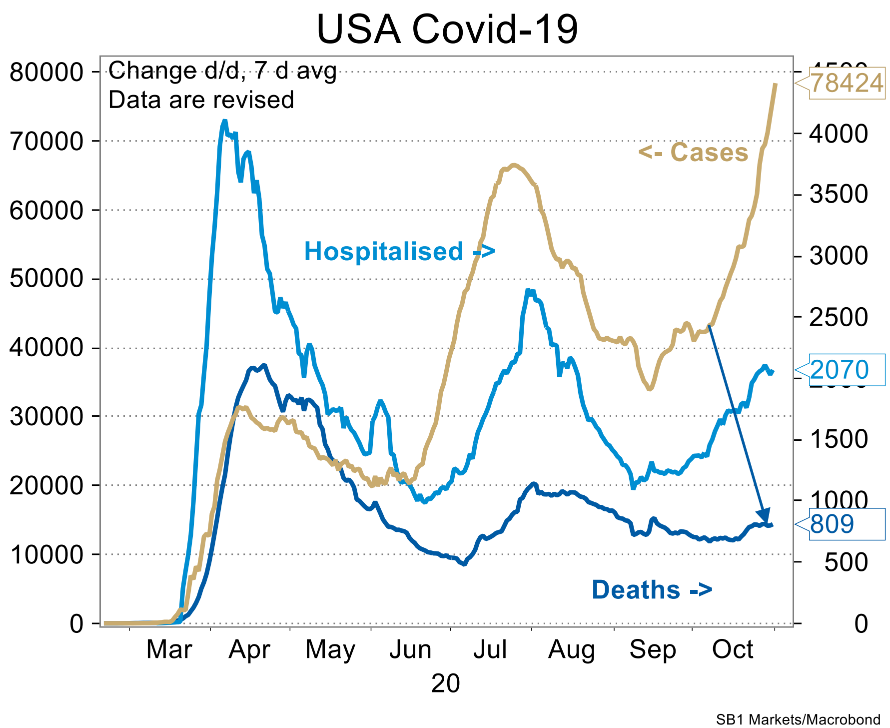
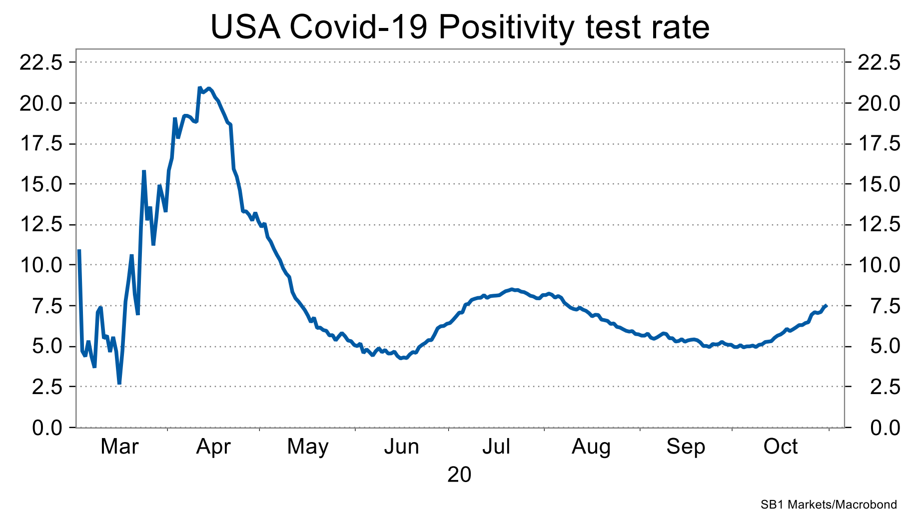
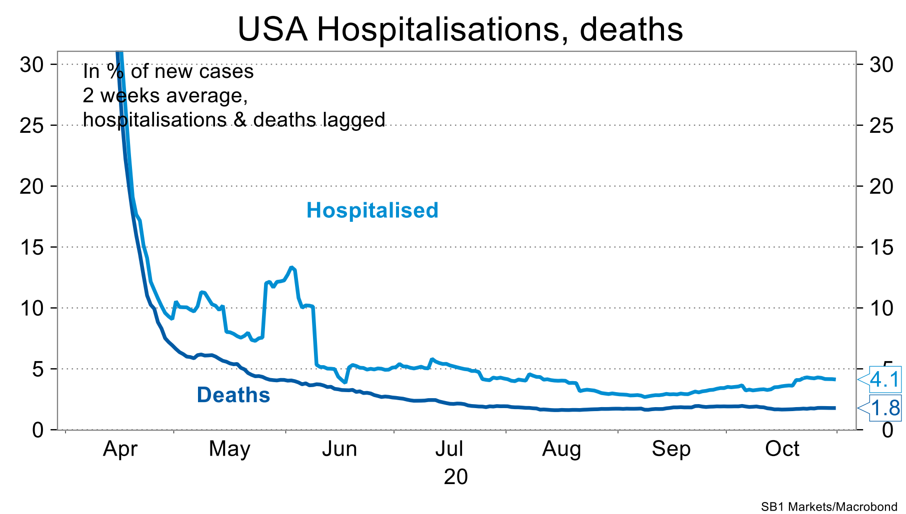
US: More new cases, more hospitalisations – and soon more deaths

The death rate is pretty stable at just below 2%. The no of death will climb to the April peak?



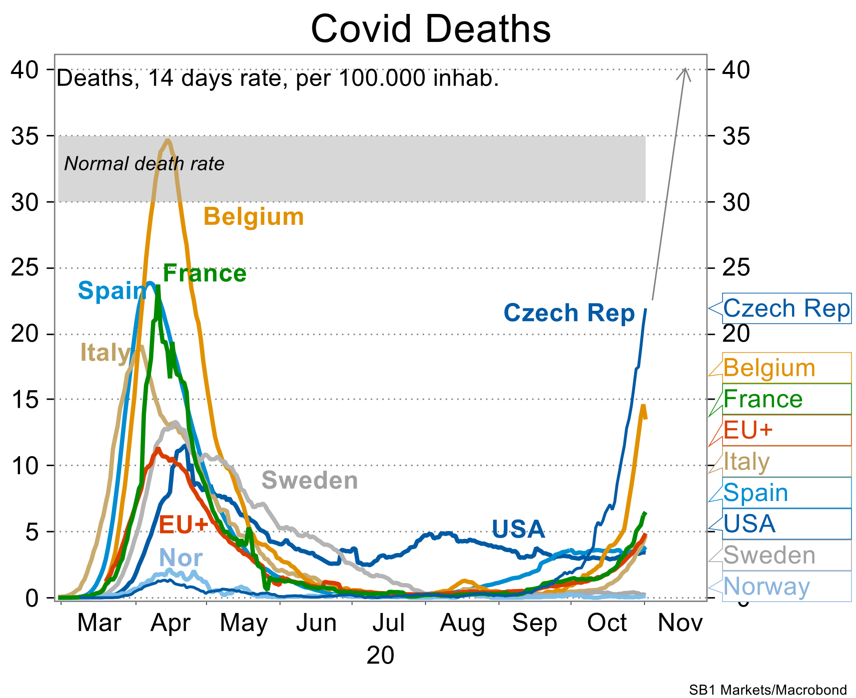




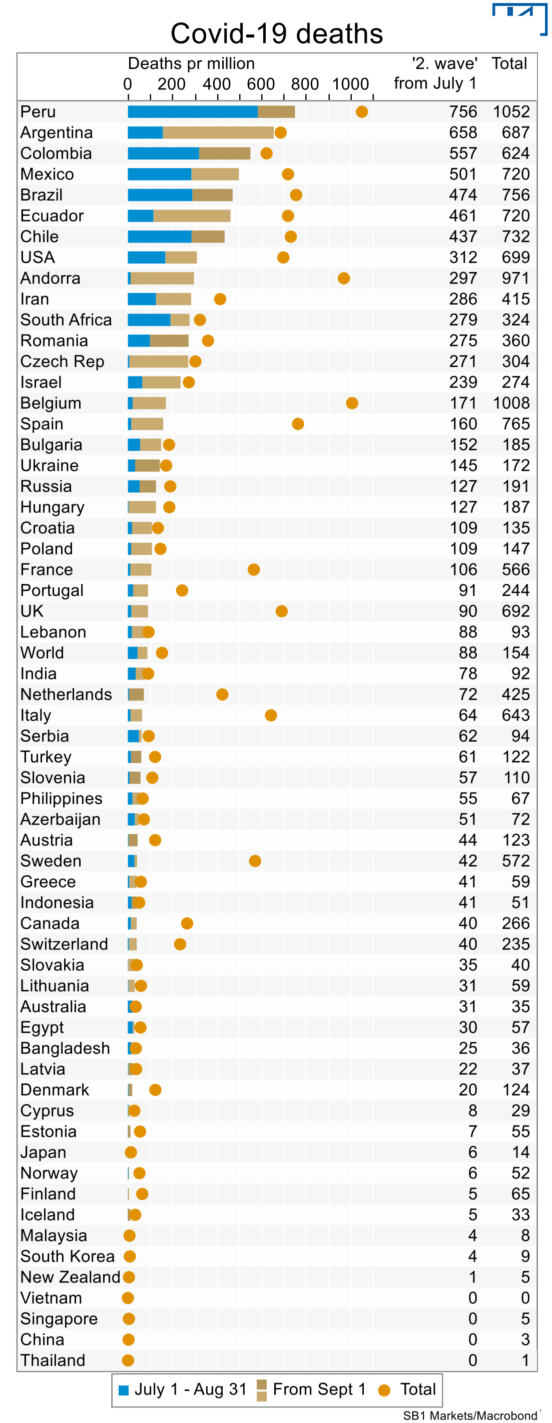
- The hospitalisation rate is far lower than during the early phases of the pandemic but has increased since early Sept, and is now at 4% - probably because the real no of new cases is higher than the official figure – also supported by a higher positivity rate
- The death rate (CFR) fell sharply until late July and has flatted out since – at just below 2% of new cases. The number of new cases is now at 80’ per day – and no of deaths will soon approach 1.500 per day, still below the 2’ per day peak in April. And if the no of new cases not flattens NOW, more pain to come…

The bottom line: The deaths

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



The herd immunity model does not seem to be easy achievable. If the virus is allowed to spread with just light restrictions, the number of infected will rapidly rise to levels that is not manageable for the health system – and the economy will not cope either. Like in the Czech Rep now



- Lat-Am has reported 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. However, US is lagging Span and Belgium if we start counting in March – but US is ahead of UK, Italy, Sweden, and France – and all others
  - » The US has 2.6x more deaths than Canada (overall, per capita), and 8x more measured from July 1
- 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)
- The Czech Rep will report at least a doubling of deaths the coming 2-3 weeks, and Belgium a tripling, most likely to above the April pace – and will move up to the top of the overall global rank…

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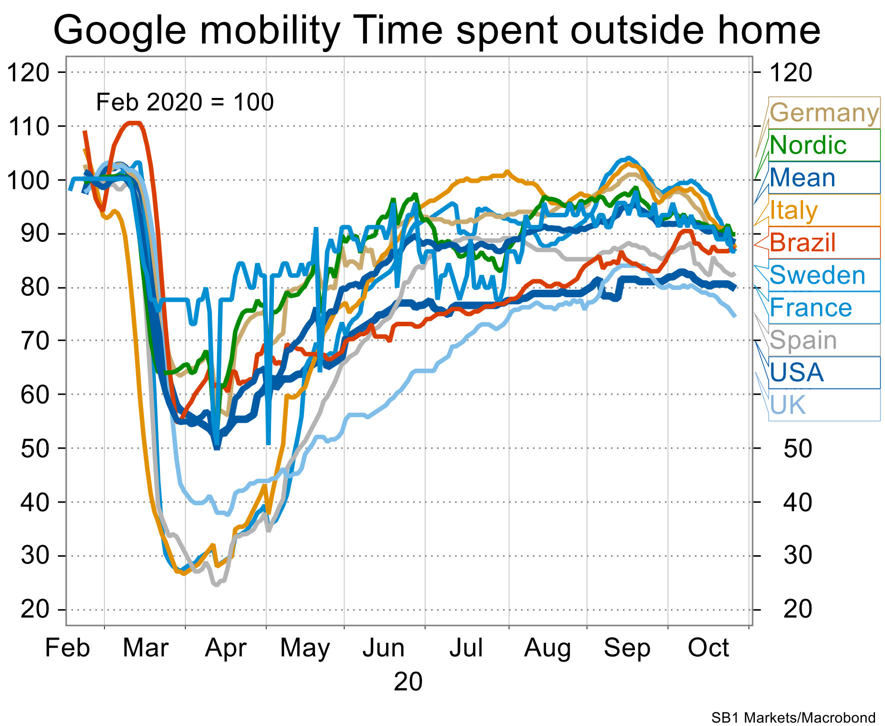
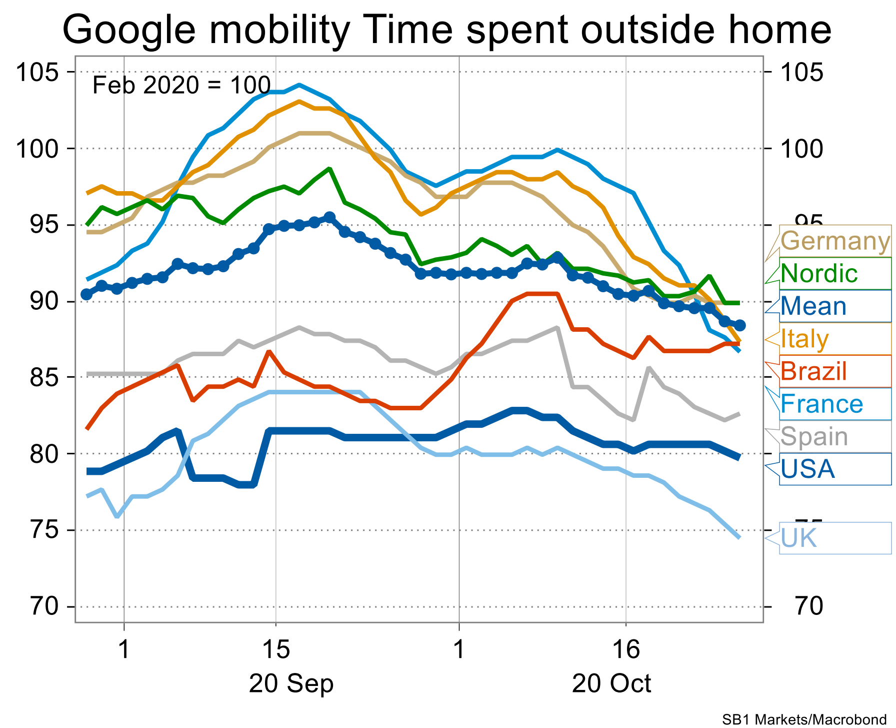
Time spent outside home is declining again – due to the season or Covid-19?

It seems likely that at least part of the reduction in time spent outside home is due to Covid-19

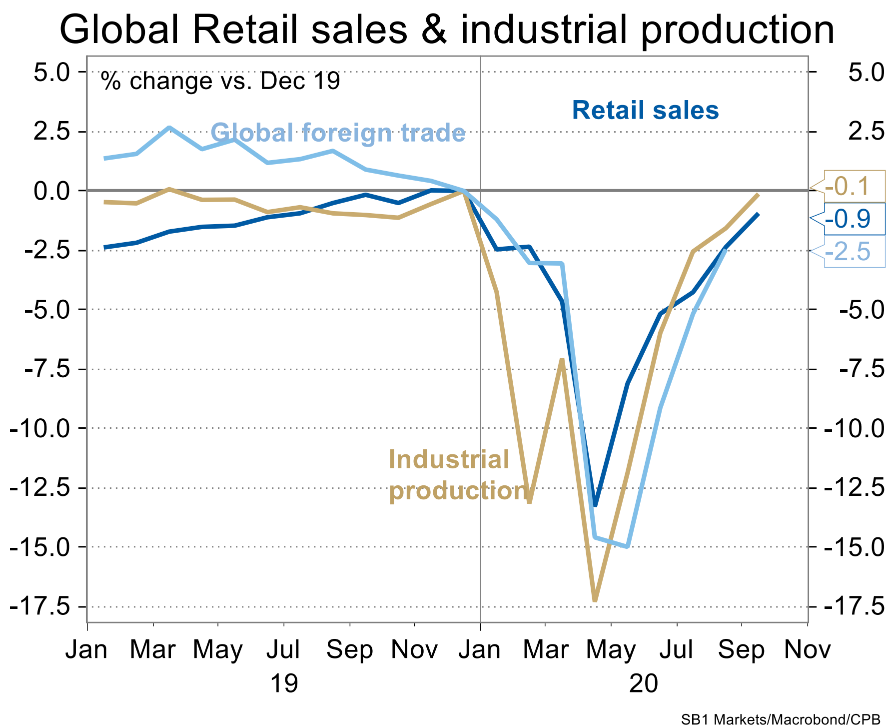


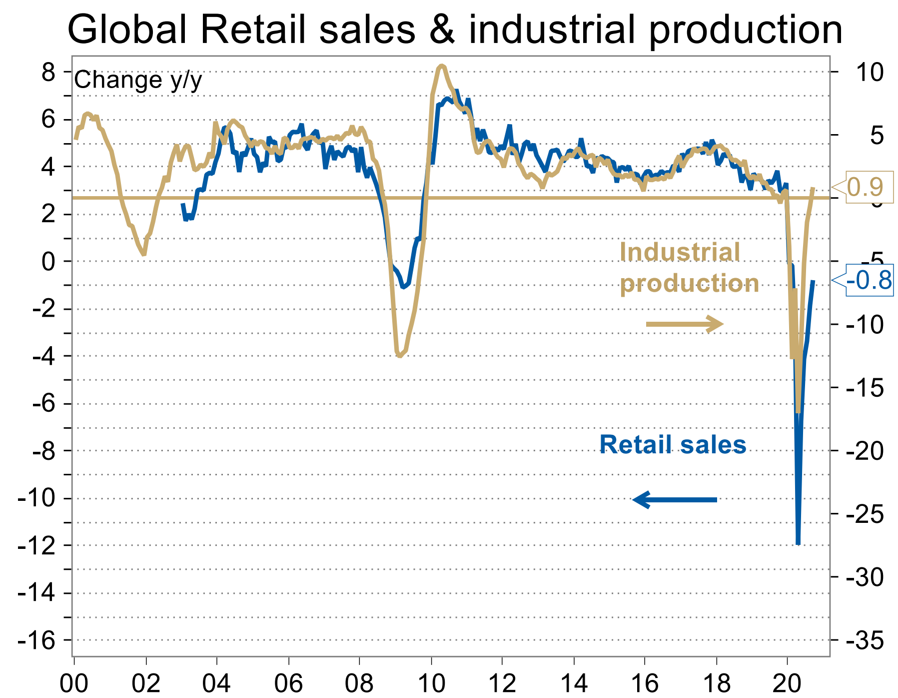


- Regrettably, Google has not published long time series or y/y comparisons, and it is not possible translate these ‘autumn’ data into economic activity – like we more or less could during the dramatic spring weeks
- The decline is steepest in Continental Europe and in UK, less so in the Nordics – and almost no decline at all in the US

Industrial prod, retail sales & global trade up, soon closing the gap

Activity just 0.2 – 2.5% below the pre corona level





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

- Global retail sales grew by approx 1.5% m/m in Sept, down from 2% in August. Sales are 0.9 % below the pre corona (Dec) level (but above the Jan level). *The estimate is uncertain, since many countries have not yet reported*
- Industrial production also rose approx 1.5% in Sept. Production is close to the pre corona level
- Global foreign trade rose 1.8% in Aug 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 Sept

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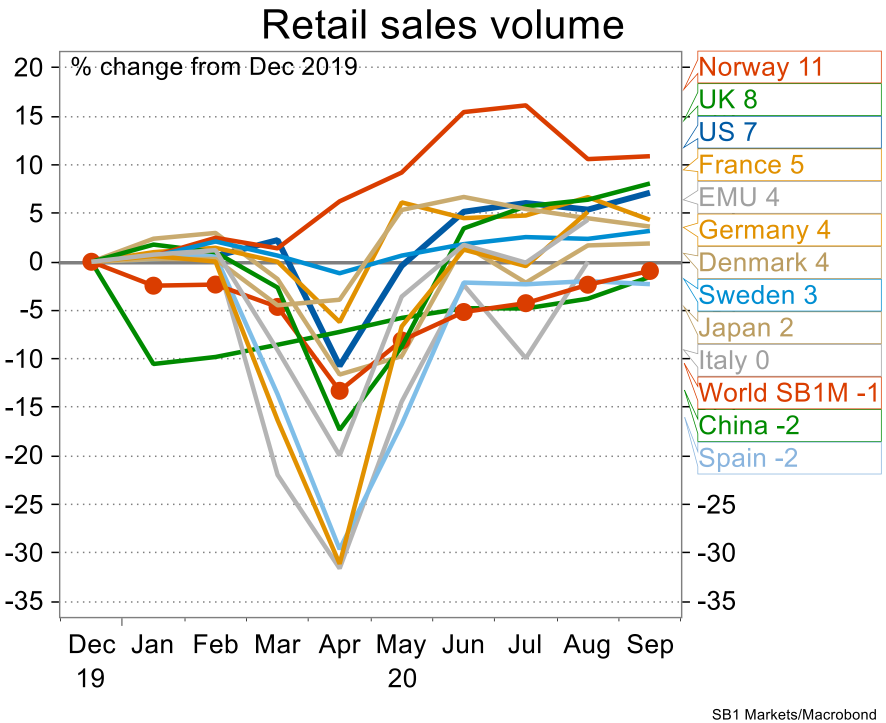
Global retail sales are on the way back to pre corona levels

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



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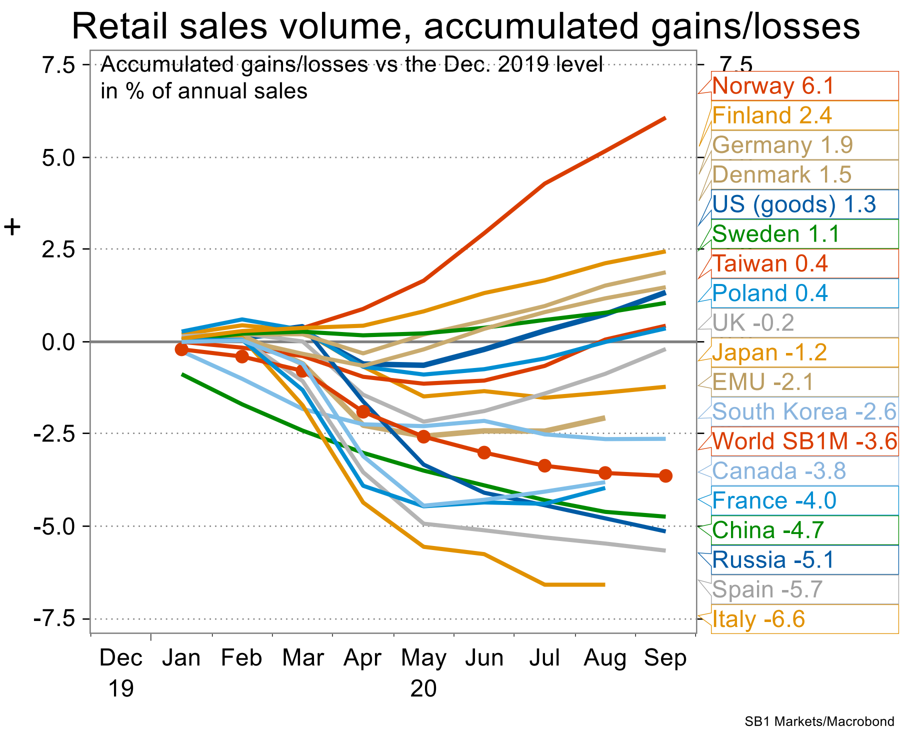
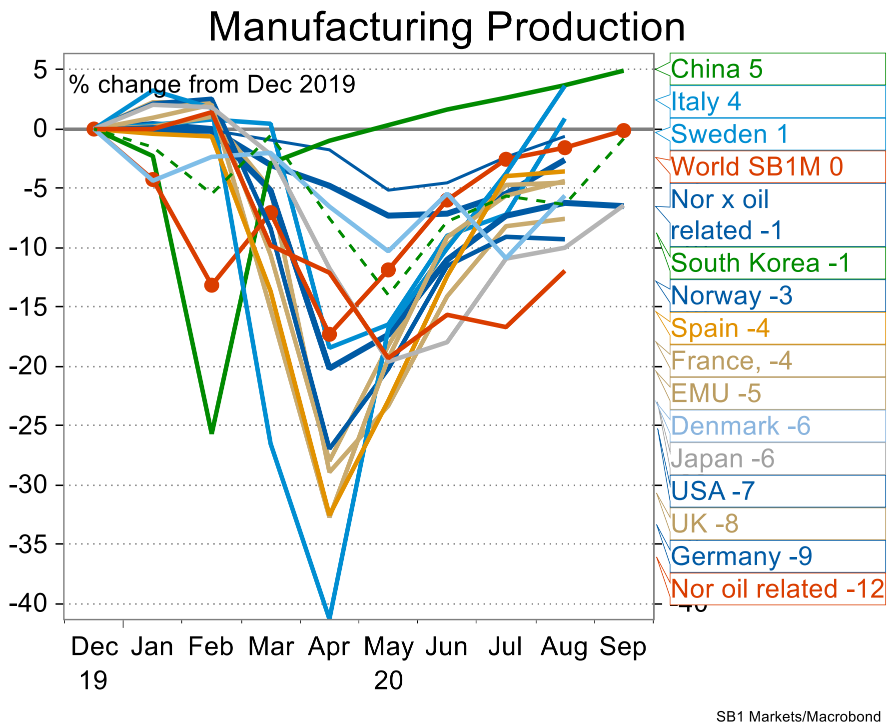
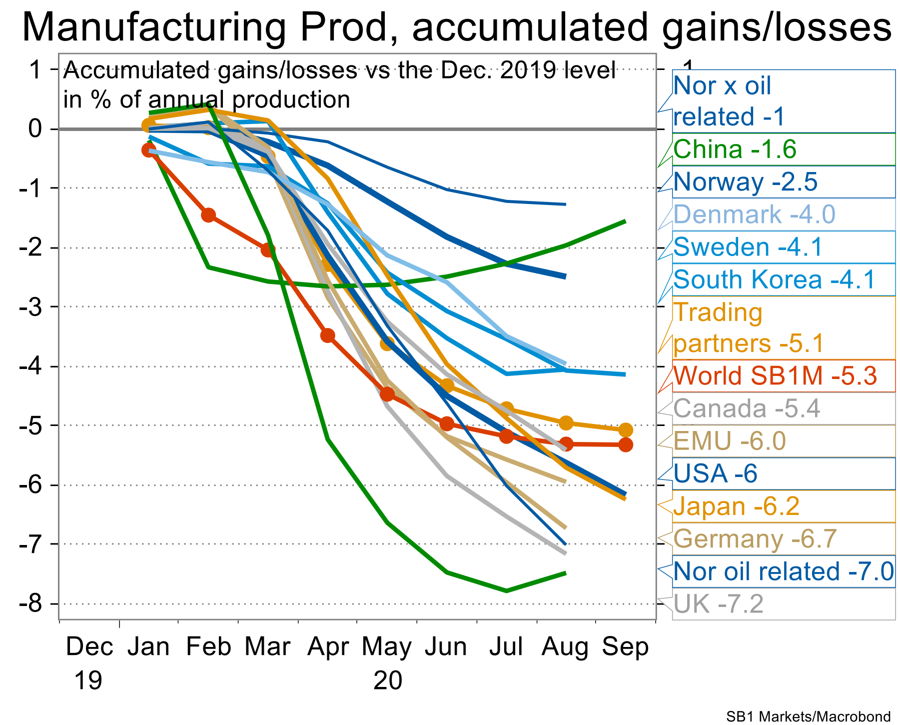


- Global retail sales were 1% below the Dec level in August. Most countries are now reporting higher sales than before corona hit. Even if sales fell sharply in August, Norwegian retail sales are still at the top
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 7% above the pre corona level in Sept 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

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

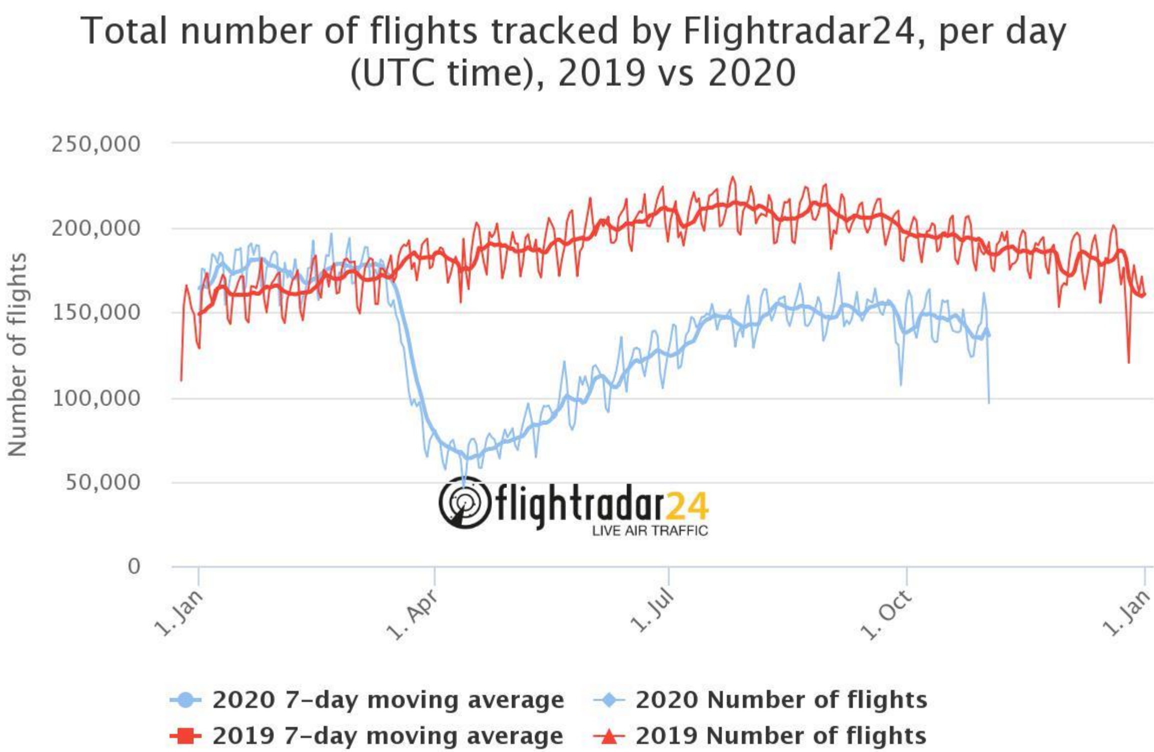
Production rose further in August, and is now less than 2% below the Dec level





- Manufacturing production was down close to the Dec level in Sept, following an approx 1.5% 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 Sept. Total production during the first 9 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

Airlines are still flying rather low, traffic down 43% y/y

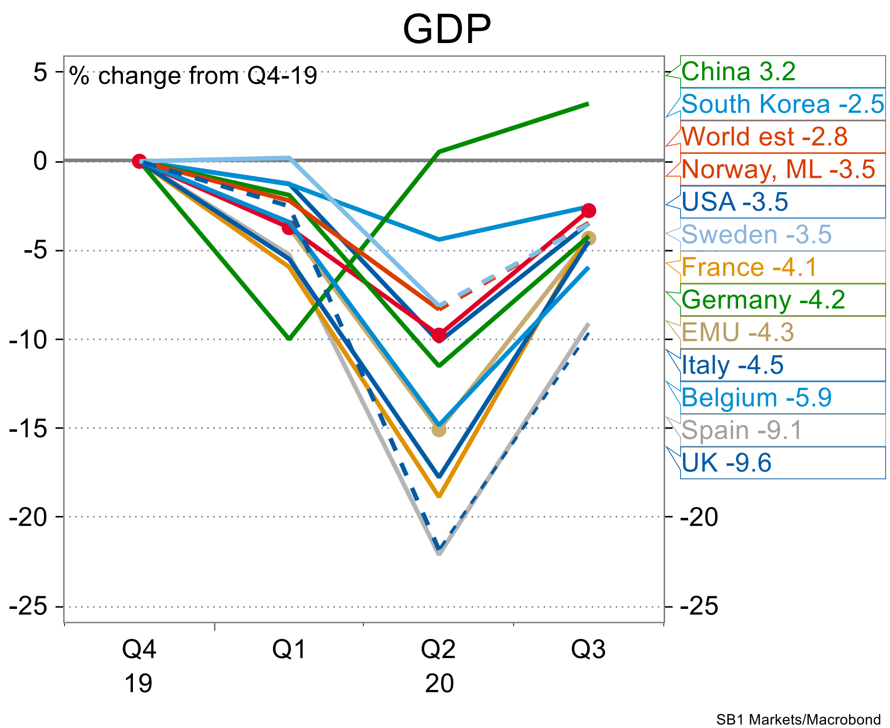


- The gap is very slowly narrowing (and not further last week). However, at the current pace the gap will not be closed before long – it has been narrowing by less than 1 pp per month since mid August, and it is still at 43%
- The leisure airline traffic will most likely not recover before vaccines have been widely distributed (and they work well)
- Business travel will be far more challenging, as meeting habits most likely have changed permanently – more meeting will take place digitally than before

Source: Flightradar24

Global GDP up almost 8 % in Q3? Our very preliminary estimate says so

EMU/UK in the lead growth wise in Q3, from very low levels, up 13 – 16% q/q. US up 7.4%



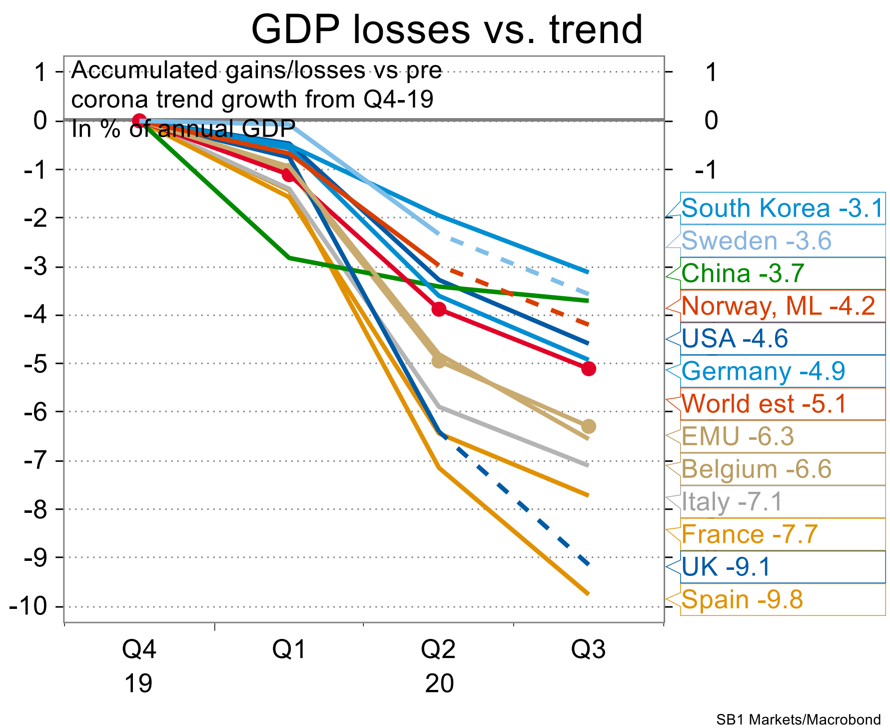
- Given our estimate, global GDP was less than 3% below the Q4-19 level in Q3
  - » Most countries have not yet reported. EM may disappoint us, like India

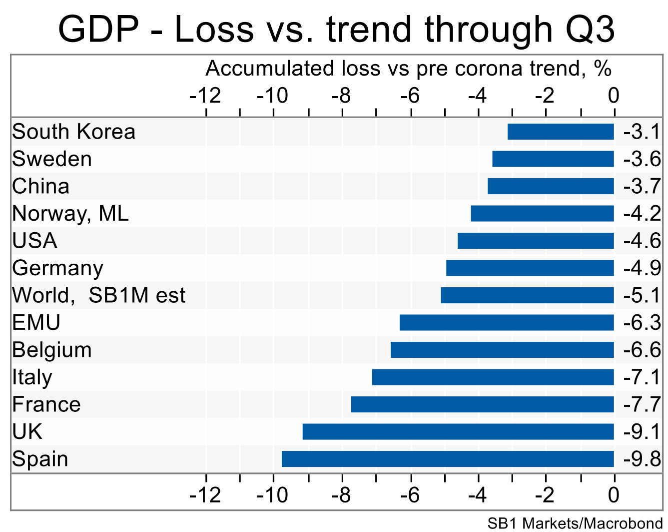
- Some observations:
  - » China is 3.2% above Q4
  - » Norway & Sweden -2.8% (our forecasts)
  - » USA -3.5%
  - » EMU -4.3%, of which Spain -9%, France -4.1%
  - » UK down 9.6% (our forecast)

Norway, Sweden & UK: SB1 Forecasts

The accumulated losses vs trend growth equalled 5% of global GDP in Q3

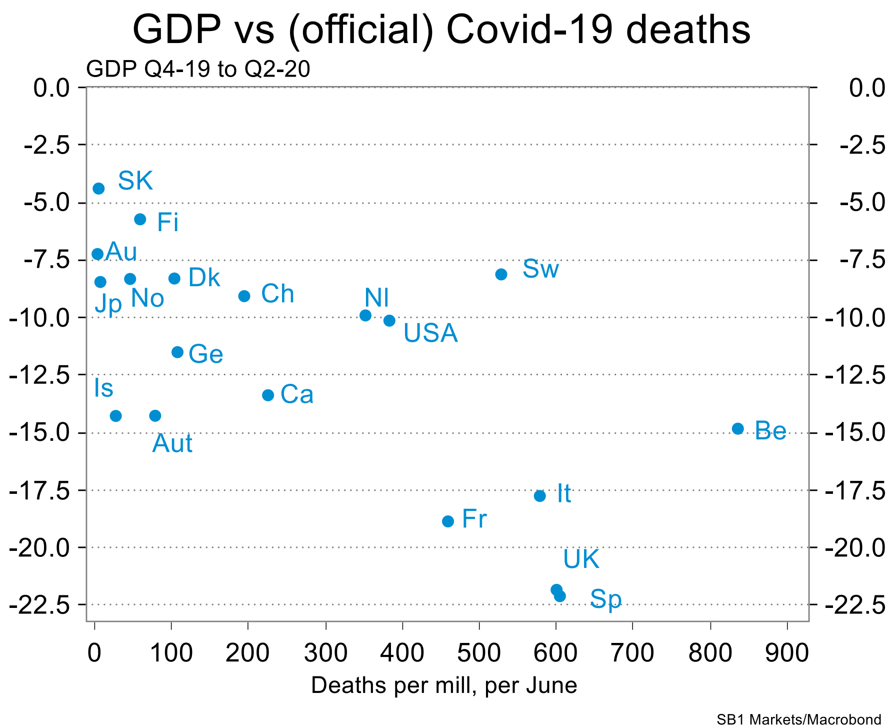
… and even if GDP has recovered in China, the drag is still 3.6% (vs the trend growth path)

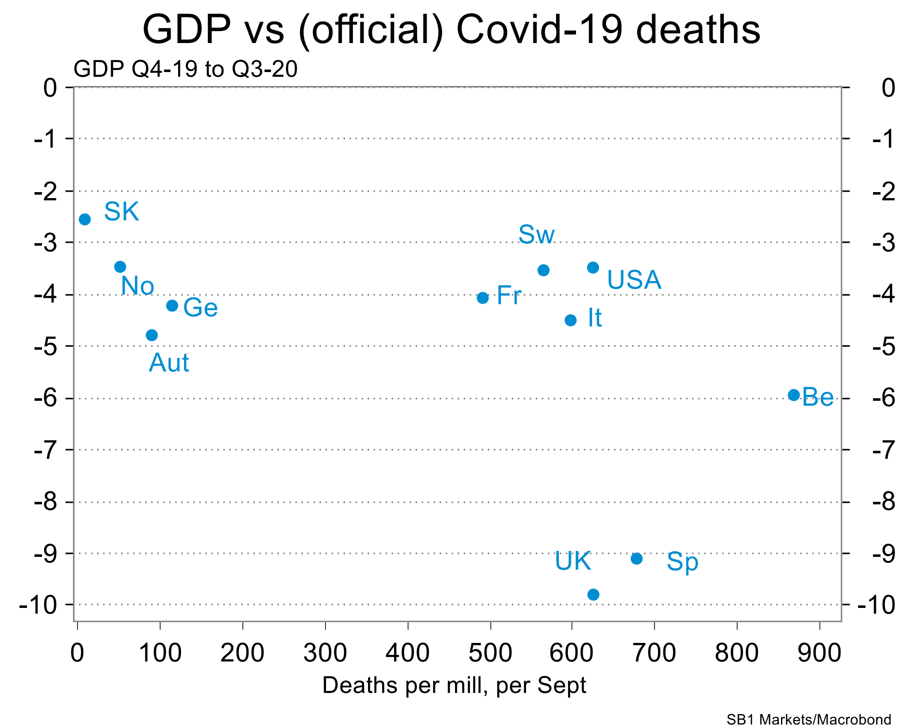




Still a negative GDP/covid deaths slope, but less pronounced after Q3

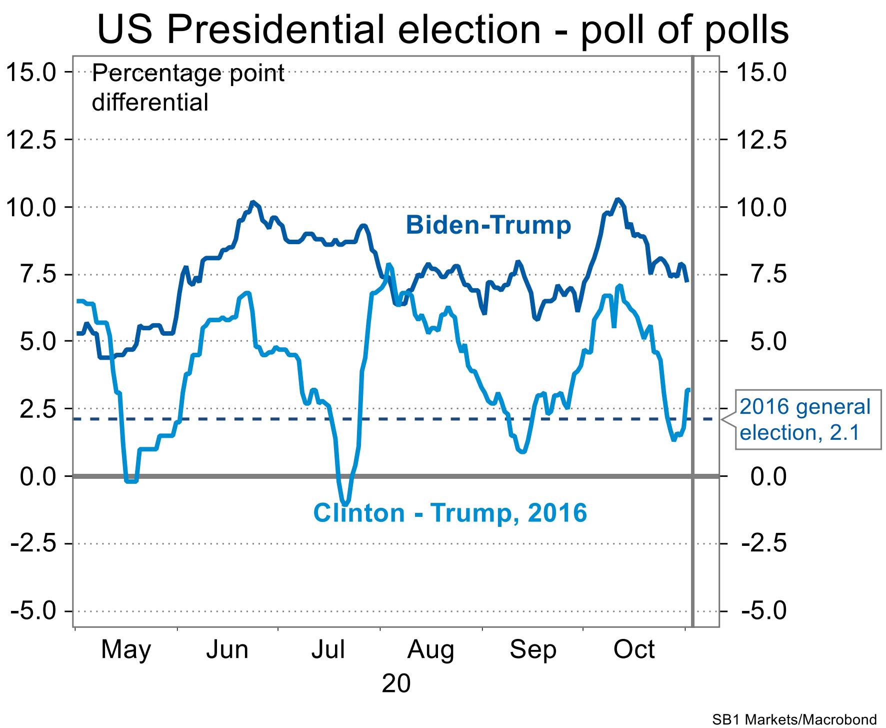
Many countries have not yet reported Q3 GDP, the 'fit' may change

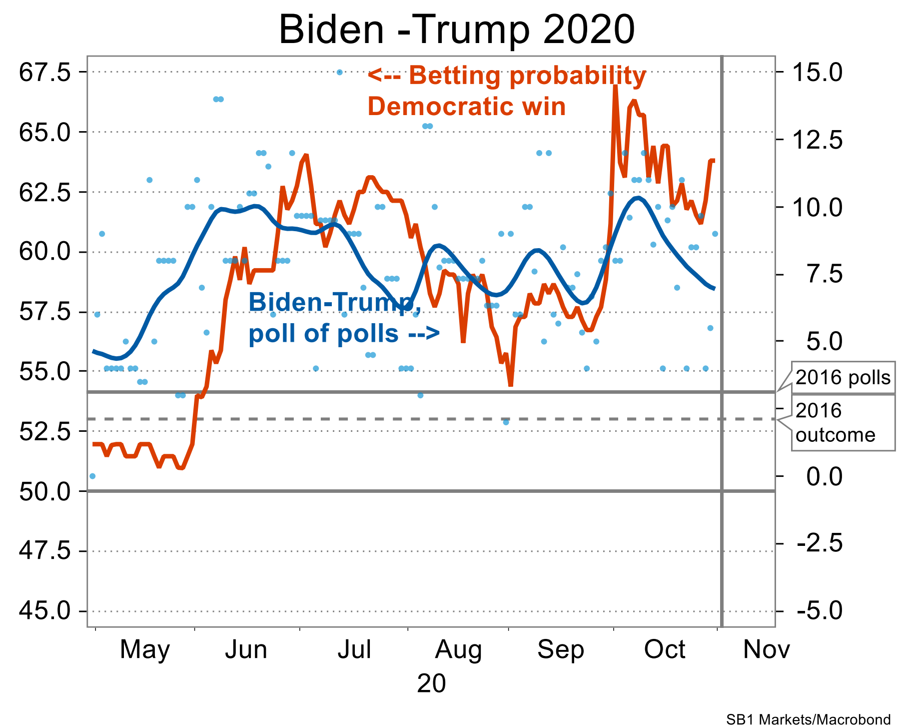




Biden’s margin has narrowed but is probably wide enough

… to win the important battleground states. Biden is 7-8% pp ahead of Trump. Clinton was 2-3





- The bookmakers have lifted their odds for a Biden victory, but it is not yet overwhelming; some 64%
- Fivethirtyeight says 89 – 10, The Economist 96 – 4

Sources: RealClearPolitics, PredictIt

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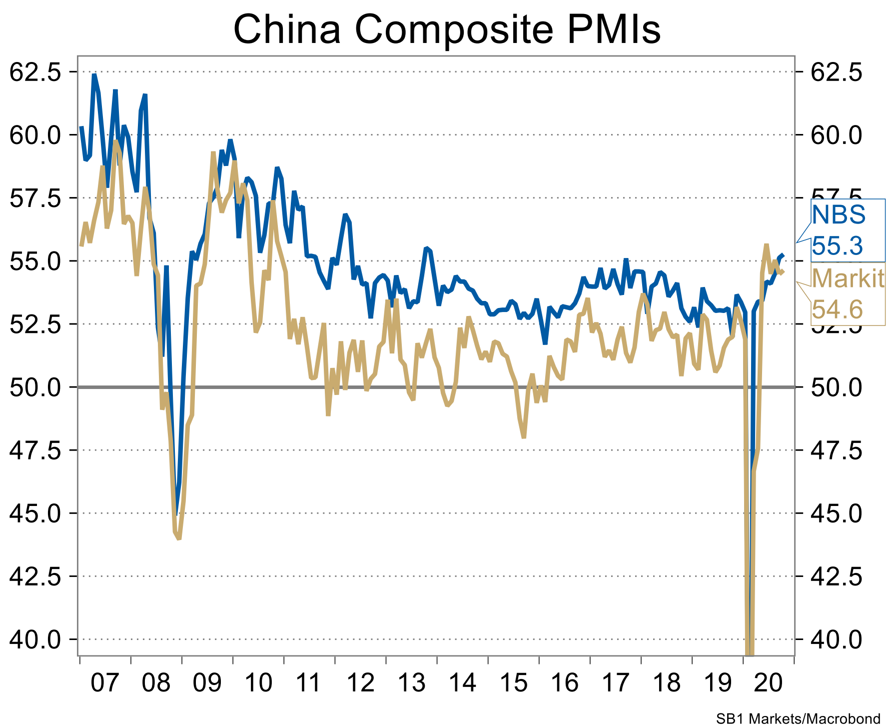
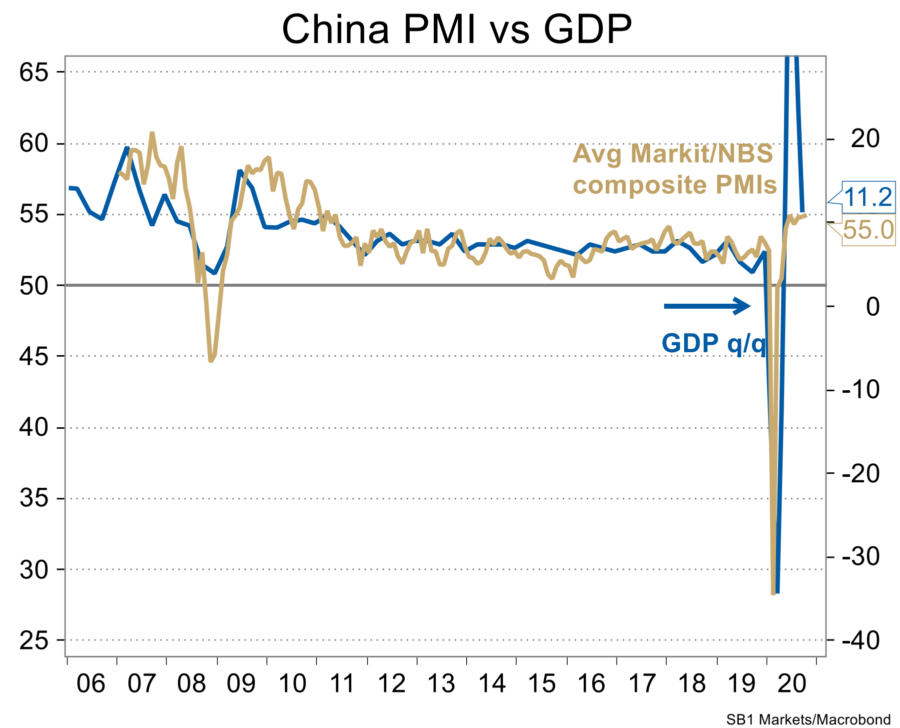
September PMIs in sum steady, signalling growth well above trend

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

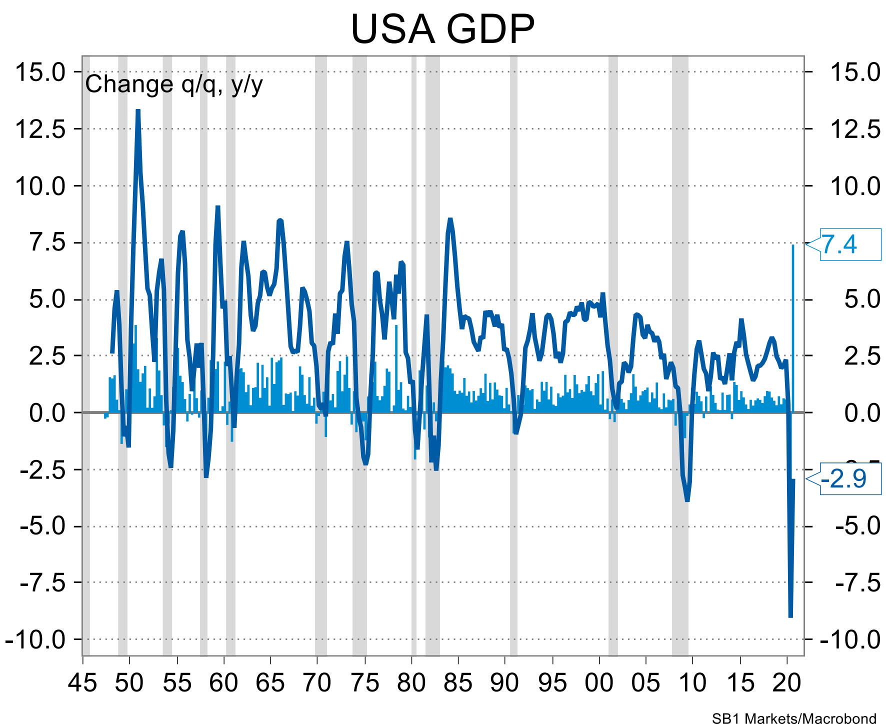


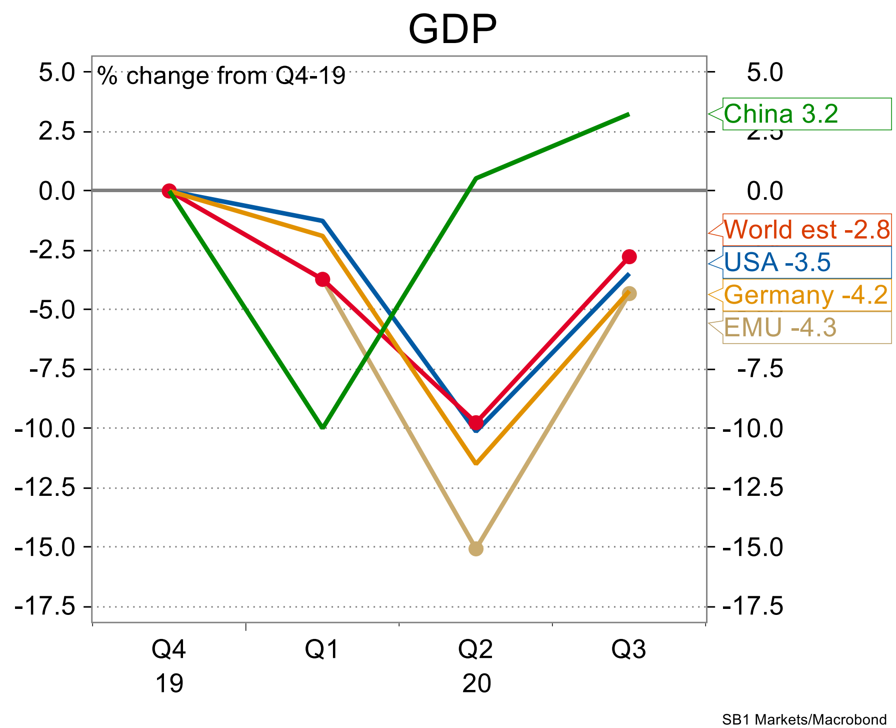


- The NBS' 'official' composite PMI edged up 0.2 p to 55.3 in Oct. The manufacturing index fell by 0.1 p to 51.4, services up 0.5 p to 56.2, a strong print
- Markit's manufacturing PMI rose 0.6p to 53.3 in Oct, better than expected (an unch. service sector PMI is assumed at the charts above)
- In sum, these PMI data confirm a continued recovery and growth above trend (at a 8 – 9% growth pace)

GDP 7.4% (or 33% annualised) in Q3, following the 9% Q2 drop; down 3.5% vs. Q4

Growth almost exactly as expected (32%, a quite impressive est!). Private consumption

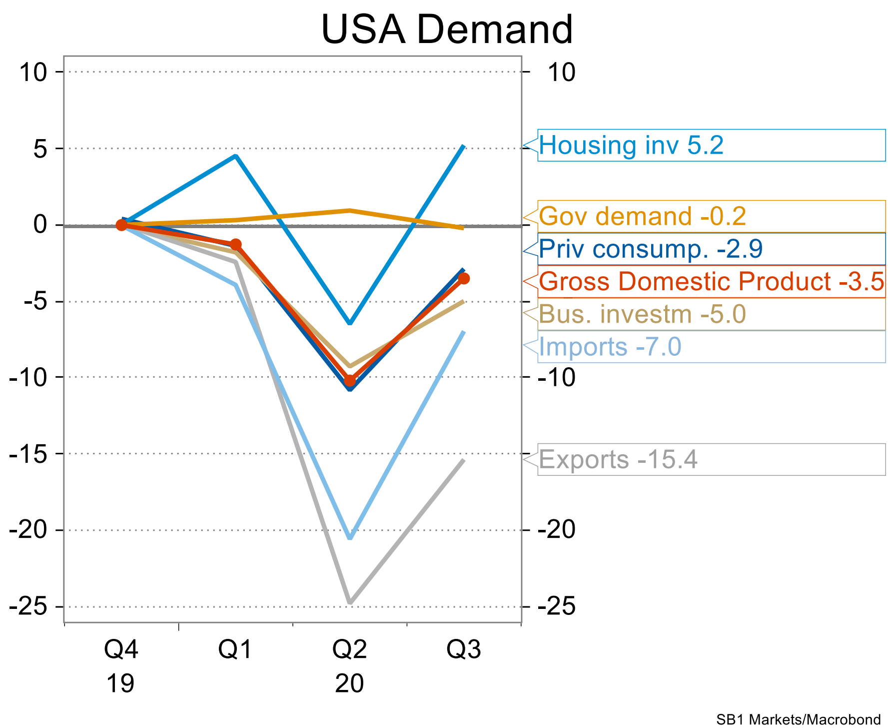




- GDP grew exactly as expected in Q3 and almost 2/3rd of the decline in Q1 and Q2 is reversed. At the end of the quarter, the gap is smaller, we assume some 2.8%. GDP is down 2.9% y/y. Assuming a gradual recovery in Q4, GDP will decline by close to 3½%
  - » The Q3 growth rate was the highest ever, following the largest decline ever in Q2, of course
- The recovery in US is less impressive than in China, but it is stronger than in the EMU

Housing is going strong – exports the weakest link in the chain

Business investments also weaker than GDP. Private consumption close to the GDP trajectory



- .. But since private consumption is by far the largest component of GDP, private consumption is the main component of this GDP cycle as well

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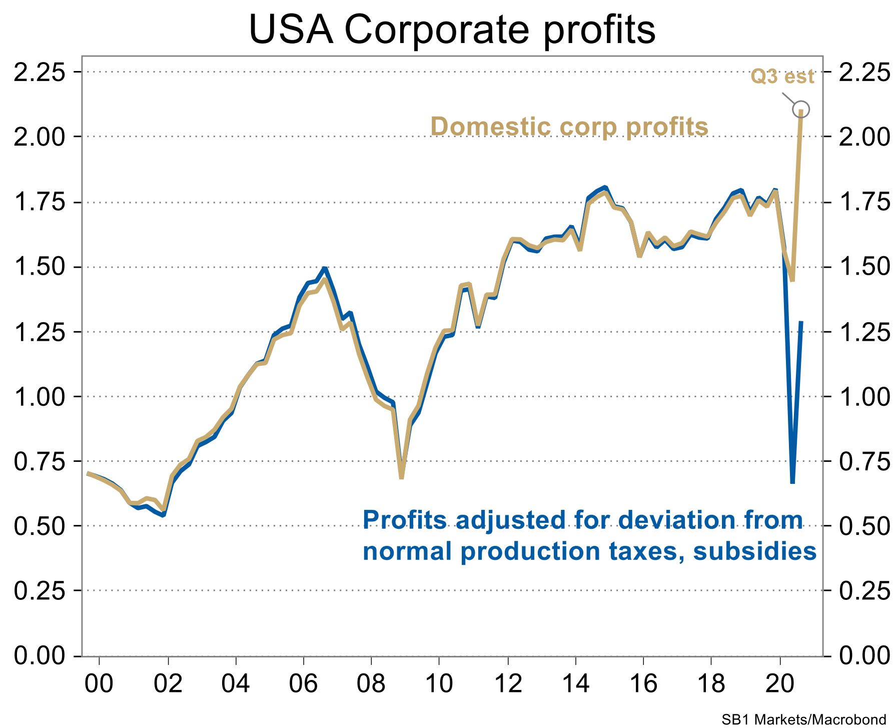
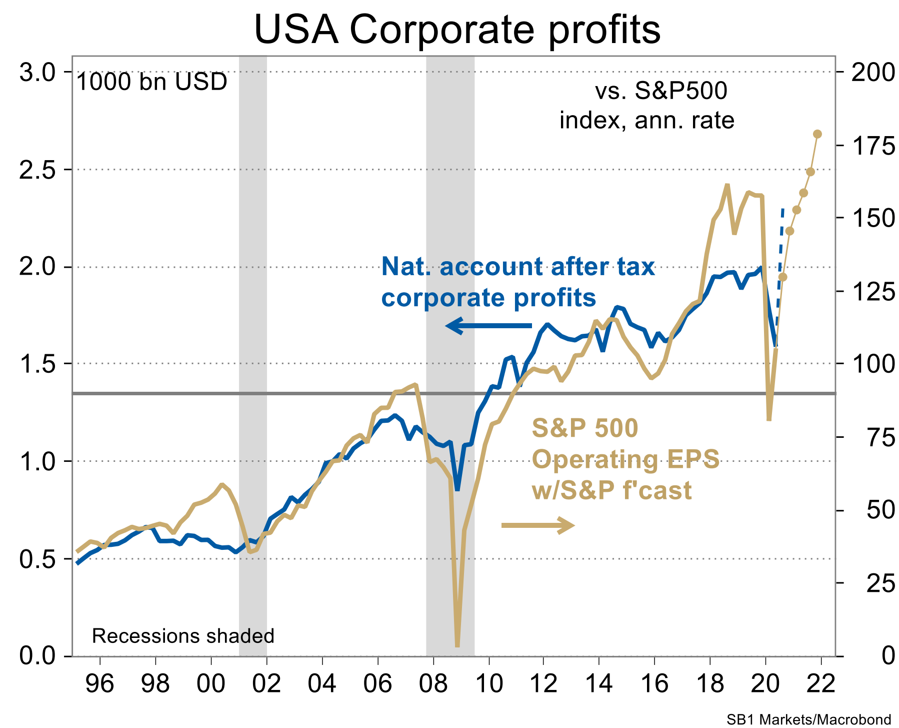
Corporate profits probably through the roof in Q3 – due to public support…

In both Q2 and Q3 (the net of) production taxes - subsides were USD 800 bn below a normal level

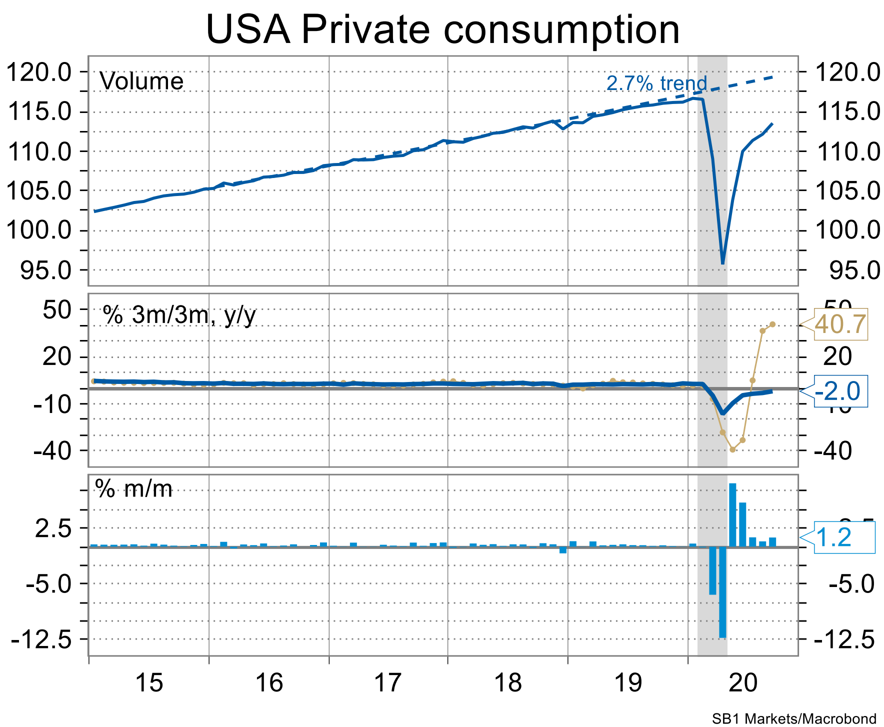


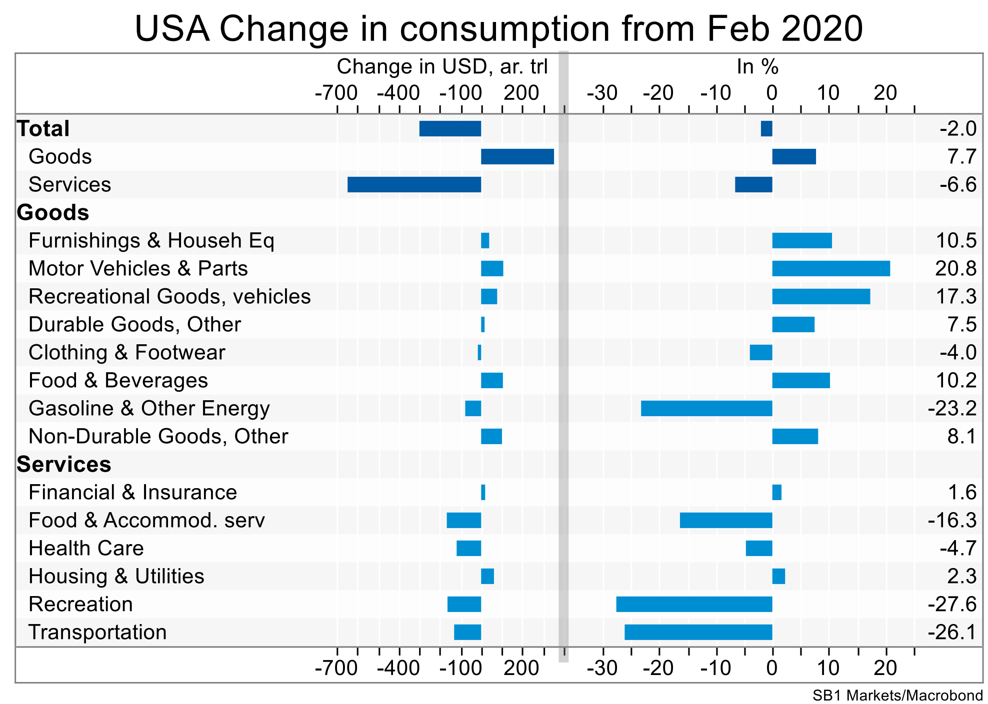


- … supporting corporate profits by 40% of profits or equalling 4% of GDP!!
  - » The net of production taxes – subsides is down from USD 1.000 bn (5% of GDP) to USD 200 bn (1% of GDP)
    - Government support to businesses are booked at subsidies in the National account
  - » Thus, 'underlying' income generation is far weaker than 'the official bottom line' signals
  - » Q3 corporate profits is not yet reported but our preliminary estimate (which is our best assessment based on available data) is sky high – up almost 50% from the Q2 level or 20% vs the pre corona level, even if 'underlying' earnings still are 30% below a pre corona level
- It the 'Blue wave' materialises, a substantial part of the approx. 5 pp cut in the effective corporate tax rate in 2018 will be reversed (after tax profits will decline by the same percentage

Consumption up 1.2% in Sept, down just 2% vs. Feb. Goods +8, services -7%

Personal income grew 0.8% - and is up 4.5% from Feb! The savings rate to 14% from 7% in Feb!



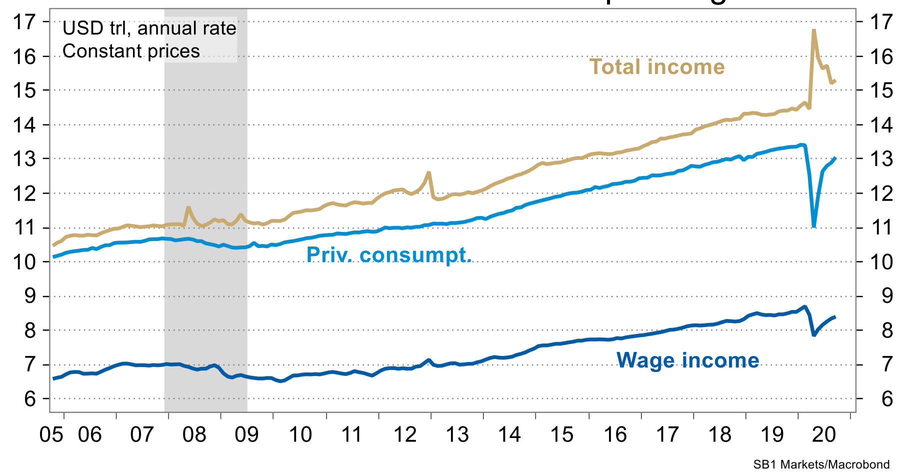


- Private consumption is still on the way up, +1.2% in volume terms in Sept, 0.4 pp more than expected. Consumption is now just 2% below the pre corona level – but 5% below the pre corona trend. The pickup in consumption is uneven, most services are still lagging:
  - » Consumption of goods is now 7.7% above the Feb level, driven by food & beverages (at home), autos (2nd hand), recreational vehicles (!), while gasoline is sharply down – all in value terms
  - » Consumption of services are down 6.6% due to restaurants/hotels, recreational services, transport – of course dramatic for these industries (and their empl.)
- Personal income grew 0.8%, some 0.5 pp more than expected. The income level 4.5% higher vs. the pre corona level – as government transfers still have increased much more than the decline in market income! (See next page)

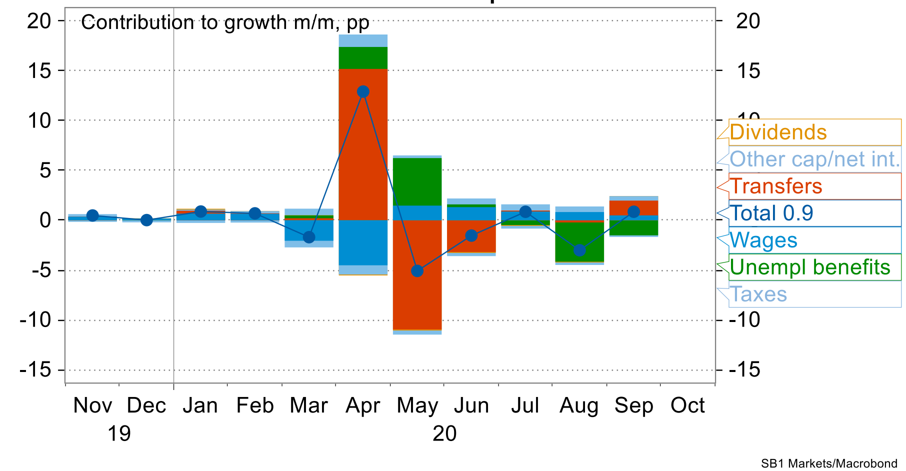
Income down from the spring peak, but still way above a normal level

Households have – in average – been heavily overcompensated for the loss of market based income

USA Household income & spending

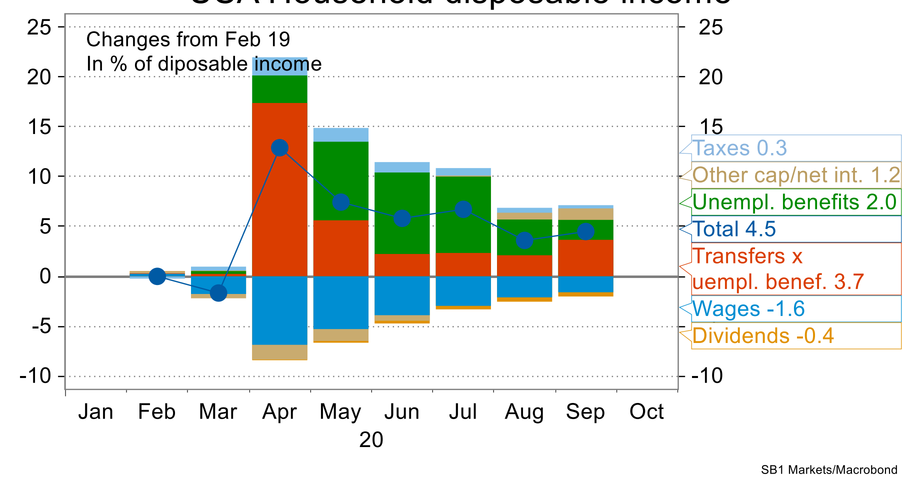


USA Household disposable income



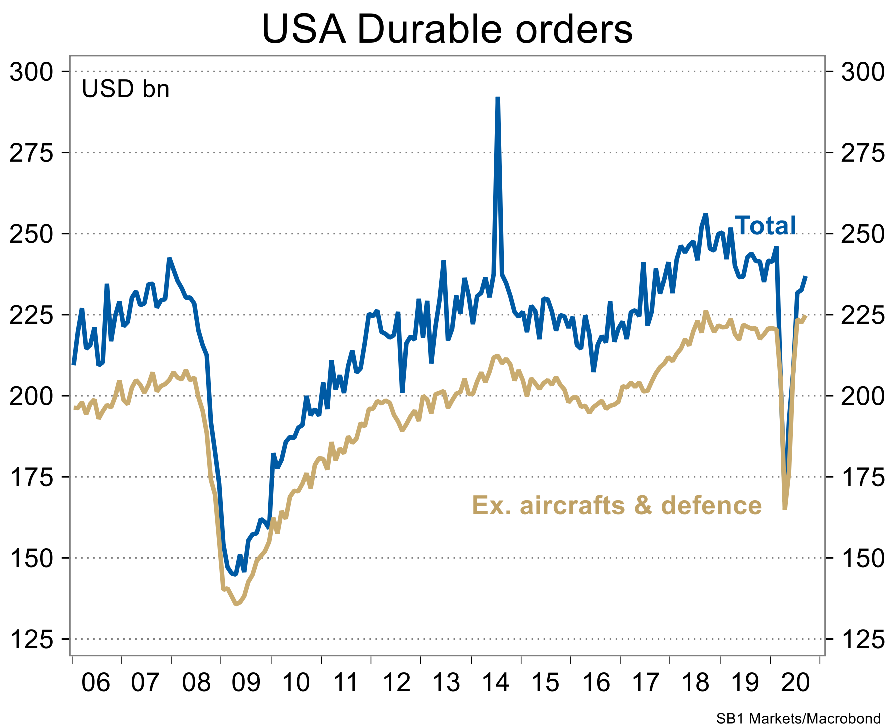
- Household income grew by 0.9% m/m in Sept, due to higher wage revenues. Unemployment benefits fell further, while other gov. transfers rose again
- Since before corona: Households have – in aggregate – been <u>overcompensated, big time by government support</u>
- Overall household income is <u>up</u> 4.5% from February 2020
  - » Wage income is down 1.6%, measure as % of disposable income, a small amount compared to the decline in
  - » Unemployment benefits are up equalling 2% of disp income
  - » Other transfers are up equalling 4.7% of disp income. At the peak in April, transfers equalled 17% of the Feb-20 monthly income!
  - » <u>Government transfers have in sum been much larger than the decline in wages and other market based income</u>
- Unemployment benefits were reduced in August. Another support package has not yet been decided on

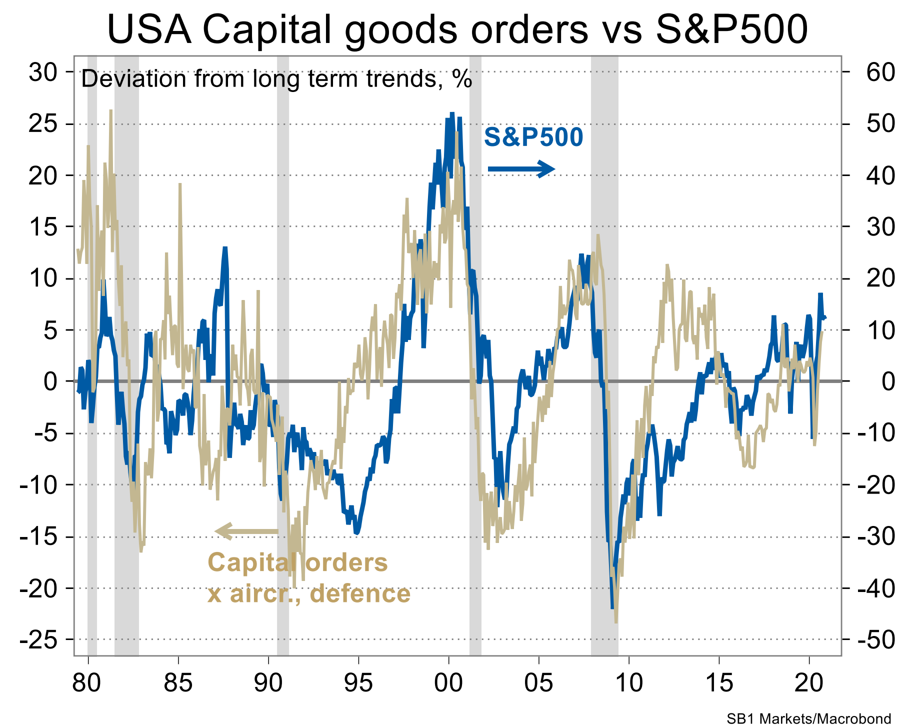
USA Household disposable income



Core durable orders further up in Sept, ex aircrafts well above pre corona level!

A narrow 'V' shape for core orders, +2% from early 2020! Even the grand total just down <2%!

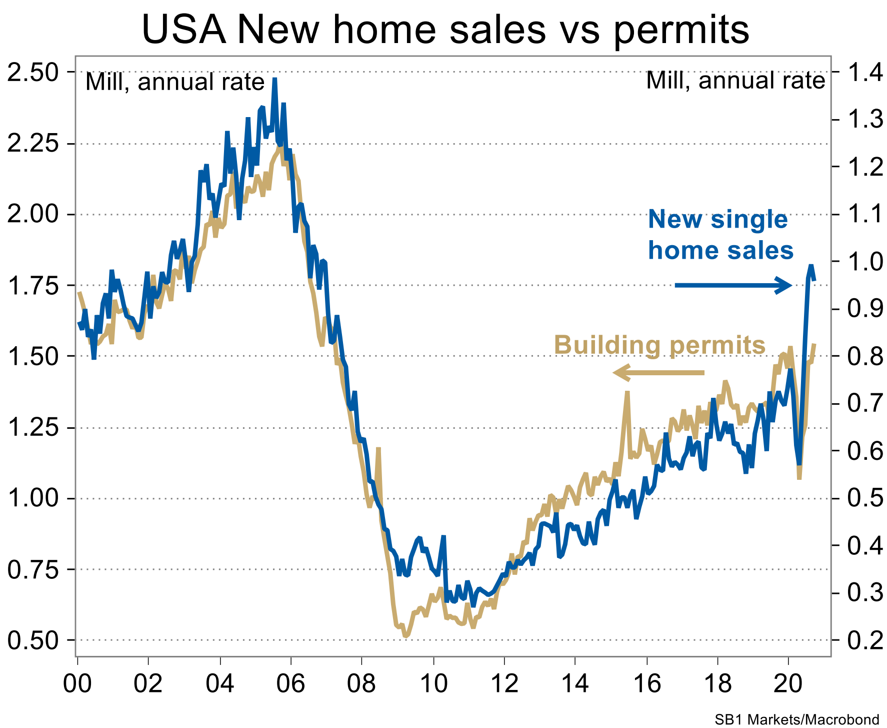




- Core durable orders up 1% in Sept, somewhat better than expected. Orders are up 36% from April – and up 2% vs the level in early 2020
- Total orders inched up almost 2%, expected 1%, and are now less than 2% down vs the pre corona level. The difference to core orders is due to close to zero net orders for new civil aircrafts (although up from net cancellations in the March-Aug periode
- Core investment goods orders rose another 1.8% in August, suggesting a rapid recovery in Q3, by close to a 40% annualised rate, record high, of course. In Q2, investments fell by 26% (annualised)

New home sales down in Sept but still almost 40% above pre corona

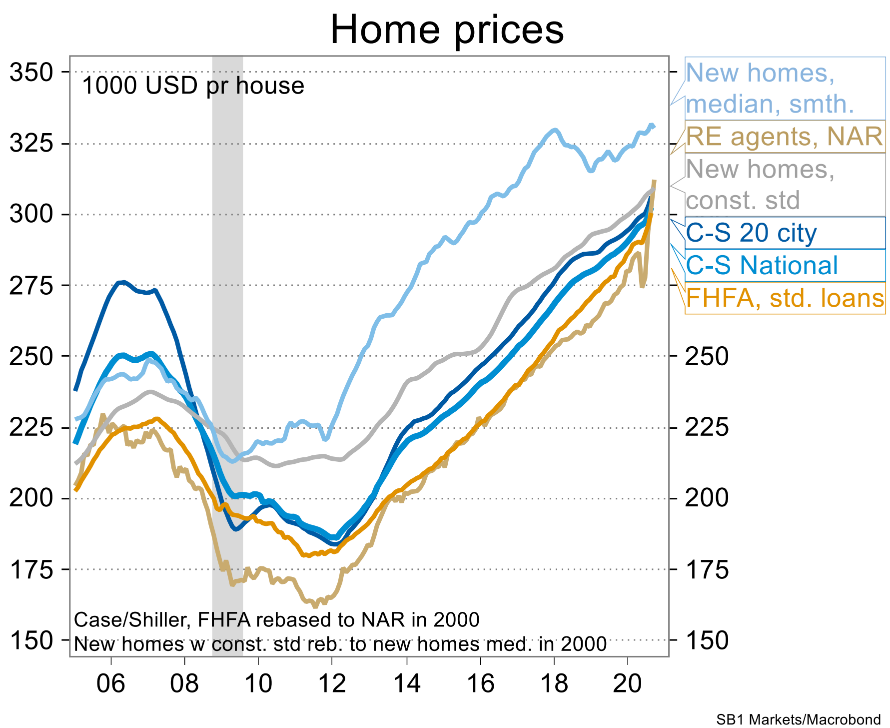
Sales so far in 2020 are up 17% vs. 2019; no pent up can explain the 3 past very strong months

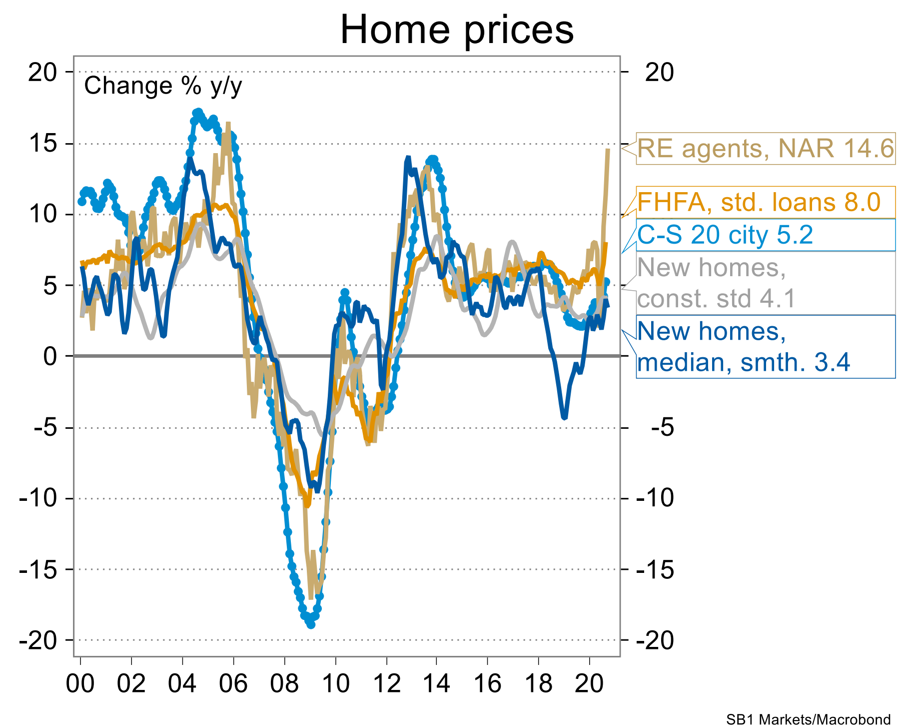


- New single home sales fell 3.5% to 959', expected marg up 1.000' – but that's not the important fact: New home sales are running at high level

Something is going on, house prices are moving fast upwards

As mortgage rates are record low

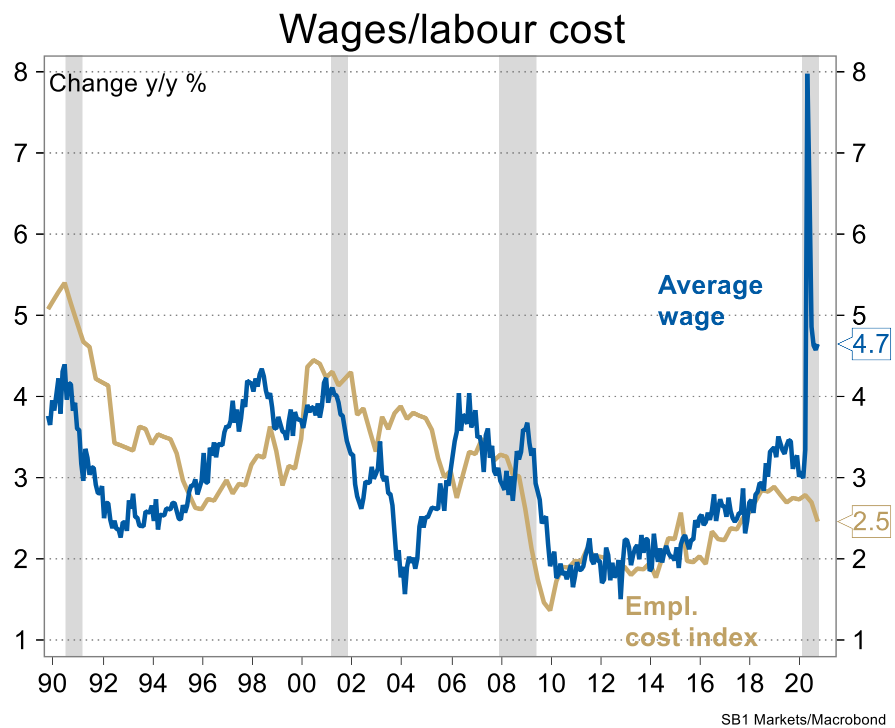




- The realtor's index is a primitive median 'raw' index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) have very likely lifted the median price
- Still, 'something is very likely going on' at the housing market. 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

Employment costs are not accelerating, of course

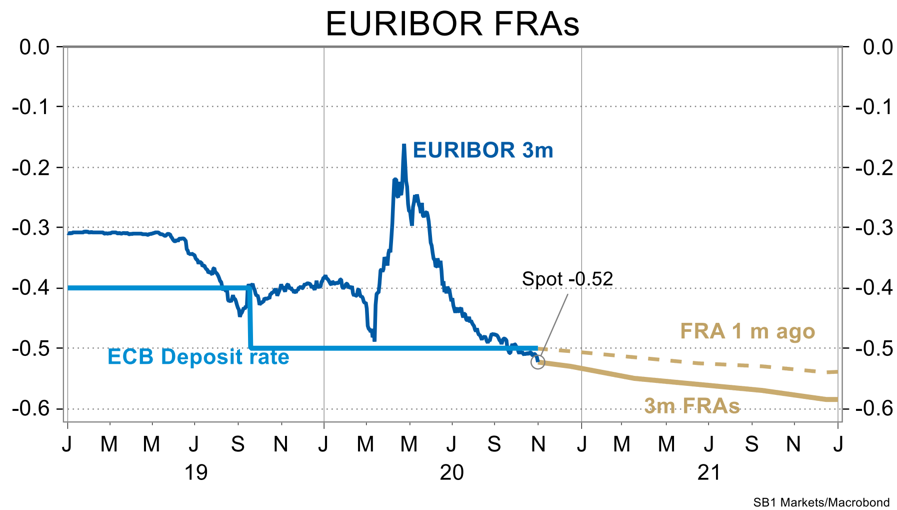
The Employment Cost Index rose 2.0% q/q in Q3, like in Q2, way below the increase in average wages

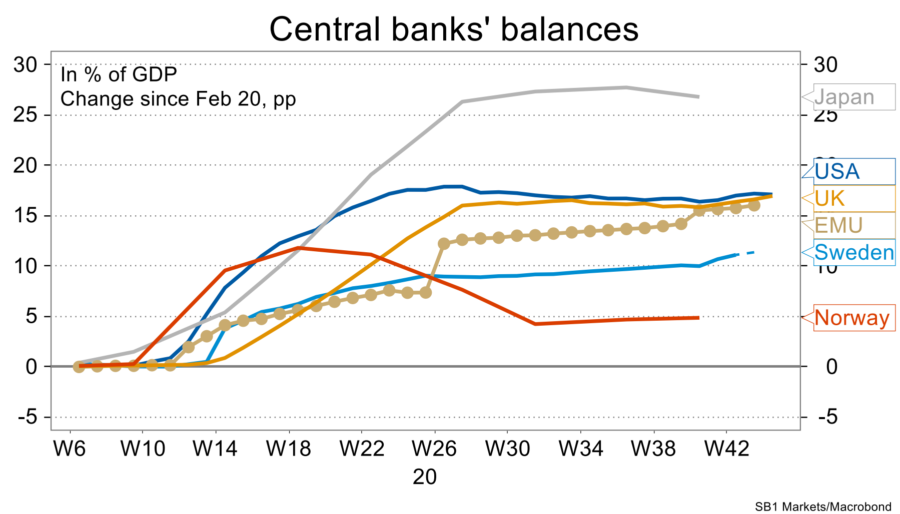


- … because ECI statistics are adjusted for changes in the mix of labour, it measures wage for 'the same worker', not the average wage for all workers. Now the difference is HUGE, far larger than we have ever seen before!
  - The Covid-19 recession has been especially tough for the lower paid – and the average wage for the remaining employees has risen sharply
- Over the past year, the employment costs are up 2.5% - and it is now trending marginally down

ECB did nothing, as expected. But the bank talked a lot

The bank is preparing several measures to be announced at the December meeting

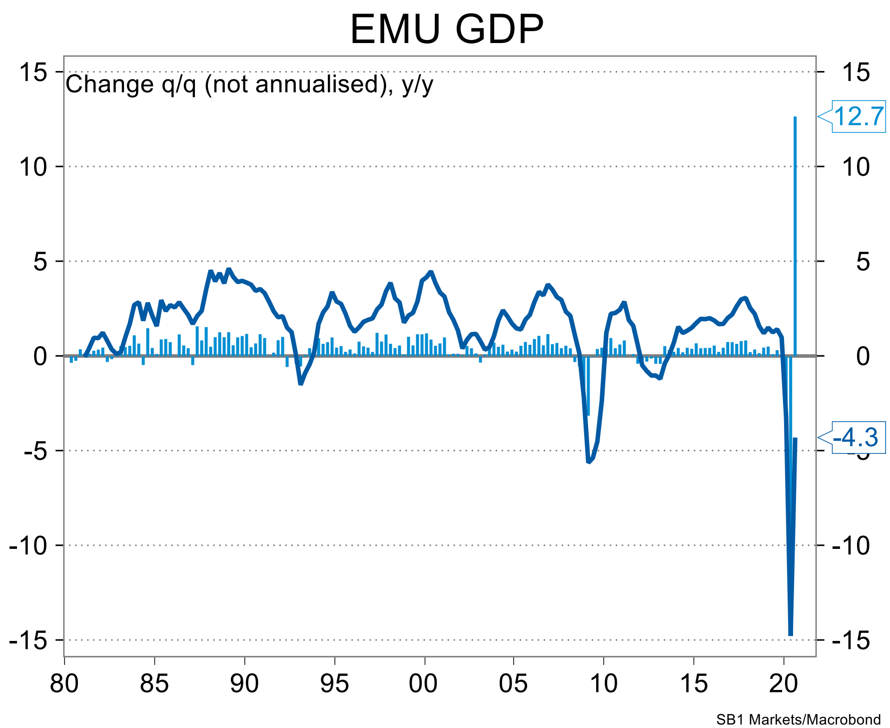


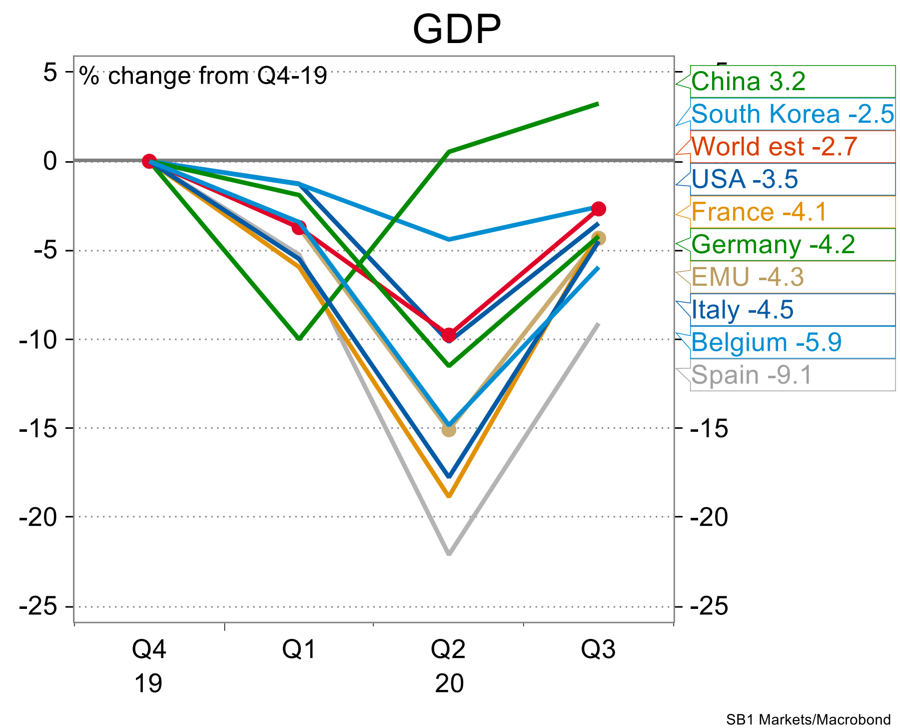


- But it was not prepared to do anything now…
- Lagarde said it was 'necessary to take action', as the risks clearly were tilted to the downside, and the bank was prepared to respond
- The staff had started work to potential adjustments/recalibration of 'all our instruments'
- Barring a Covid miracle (some believe it will disappear Nov 4th , just like miracle), the ECB at the next meeting in December no doubt will deliver
  - » An even more aggressive QE, up from the current target at EUR 1.35 trl. The ECB is still buying a lot, while Fed's overall balance is not growing anymore. There is no limit to what or how much the ECB could buy?
  - » The bank could subsidise banks even more, vs. the -1% rate on some loans now
  - » Most likely, the ECB is hesitant cutting the signal rate further into negative territory. Still, the market is pricing in a cut, before Christmas but no more than 10 bps to -0.6% (and further down to -0.7 by the end of 2021 (but the Dec contract just fell by 1 bps to -53 bps last Thursday

GDP up 12.7% in Q3 (61% annualised, if you prefer), far better than expected

GDP down 'just' 4.3% vs. Q4-19, but Spain down 9%. *Anyway, now we enter the 2nd wave*

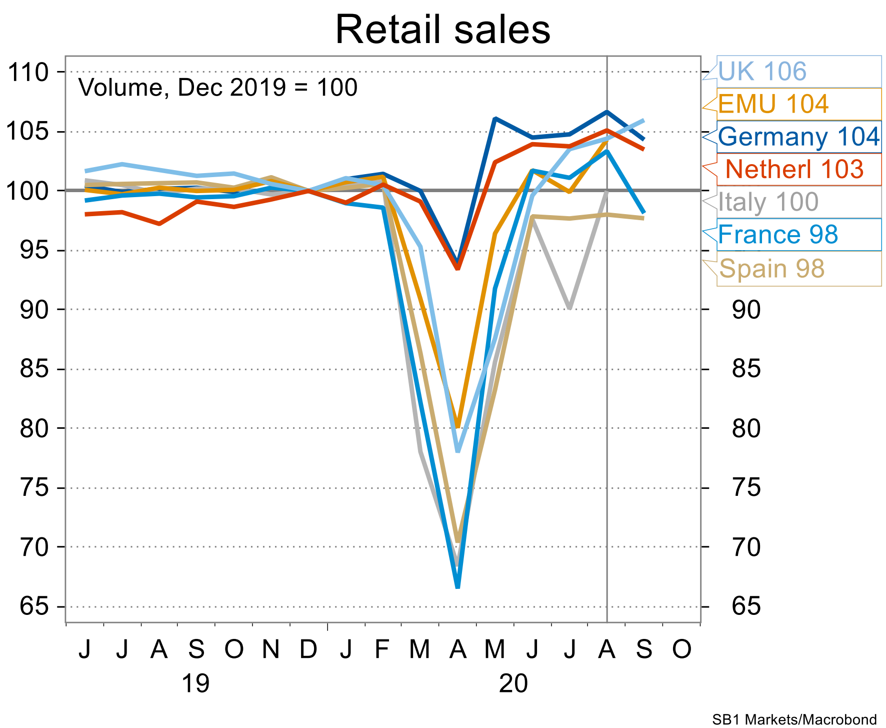




- GDP rose by 12.7% q/q in Q3, far ahead of expectations at 9.6% (and 7.5% less than 2 weeks ago). GDP is down 4.3% vs. Q4 - and down 4.3% y/y
  - GDP grew by 8.2% q/q in Germany, 16.1% in Italy, 16.7% in Spain and 18.3% in France (96% annualized ☺), all better than expected
  - France, Germany and Italy was down 4.1 – 4.5% from Q4. No demand or other detail yet
- GDP in Europe fell much more than in the US in Q2, but grew much faster in Q3
  - Still, the Q3-20 level is 0.8% lower vs Q4-19 compared to the US. However, adjusted for underlying growth in working age population the difference is close to zero. Even so, given the loss of activity in Q2, EMU has performed worse Q1-Q3 accumulated, check the graph here
- **The 2. corona wave is now dampening activity** in 'personal oriented sectors' in most of Europe. The lockdowns are so far less restrictive than in March/April, and the economic impact will be far less damaging. Still, a decline in GDP in Q4 is likely as the carry over into Q4 probably was limited, the Q3/Q2 lift took place through Q2 and during the first part of Q3

Retail sales down in Sept, but level still above pre corona, at least in avg

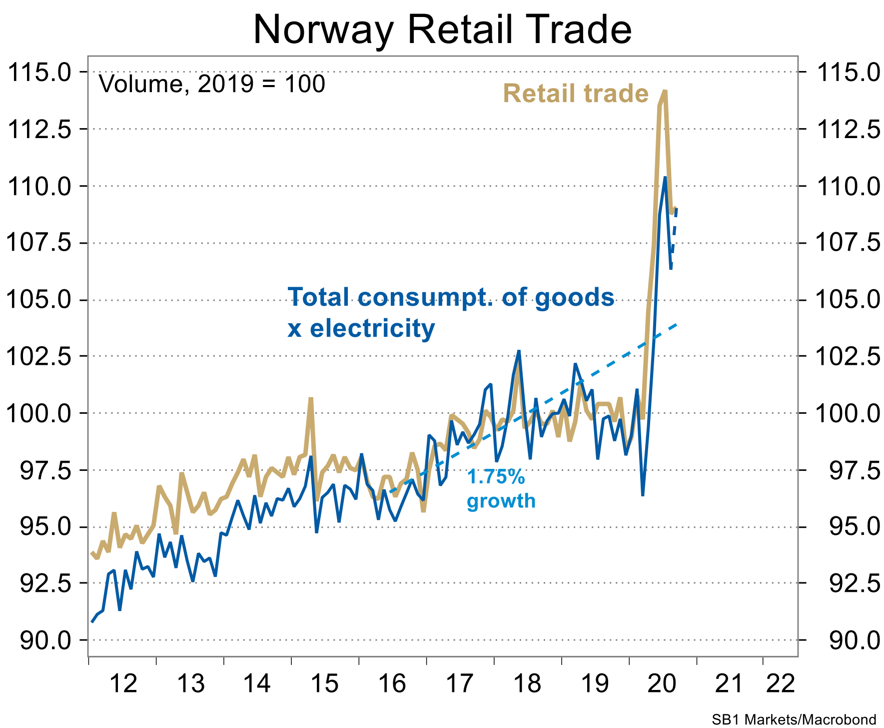
Germany down 2.2% m/m in Sept, France perhaps -5%, Spain -1%. Will Oct/Nov be any better??



- Sales in Germany was still 4% above the 2019 avg level in Sept
- Sales in EMU was 4% above the 2019 level in August, will very likely remain above in Sept, but with a smaller margin
- The challenge now: The 2nd corona wave has led to new restrictions, some also vs some retail sales activities – and more people want to social distancing again.
  - » The impact will be larger for restaurants, bars, cultural activities, hotels and travel

Retail sales marginally up in Sept – and less than expected; level still VERY high

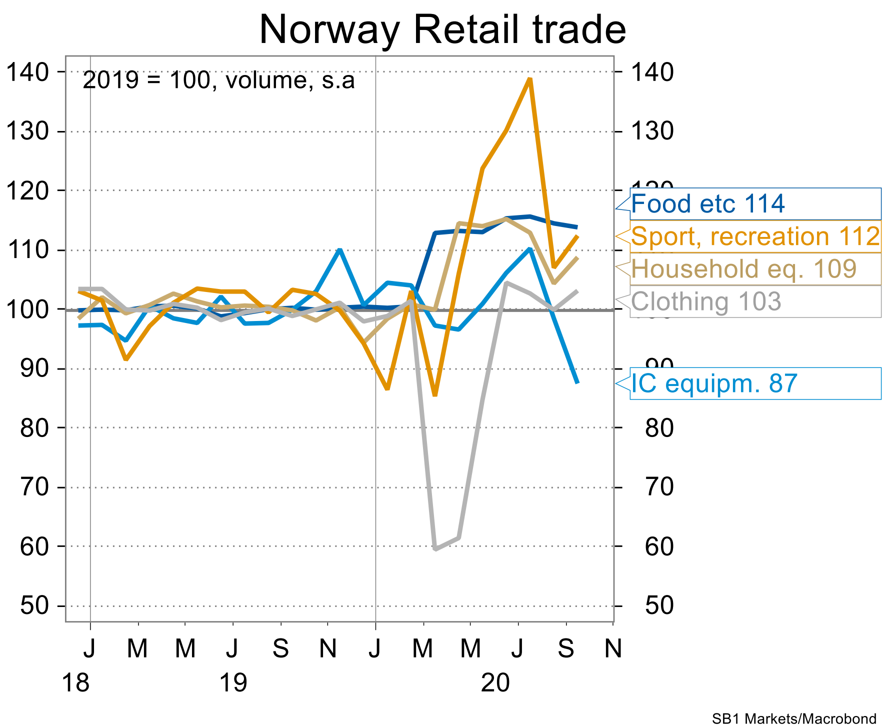
Sales are up some 9% vs the 2019 level, down from the 14% peak in July – but still strong

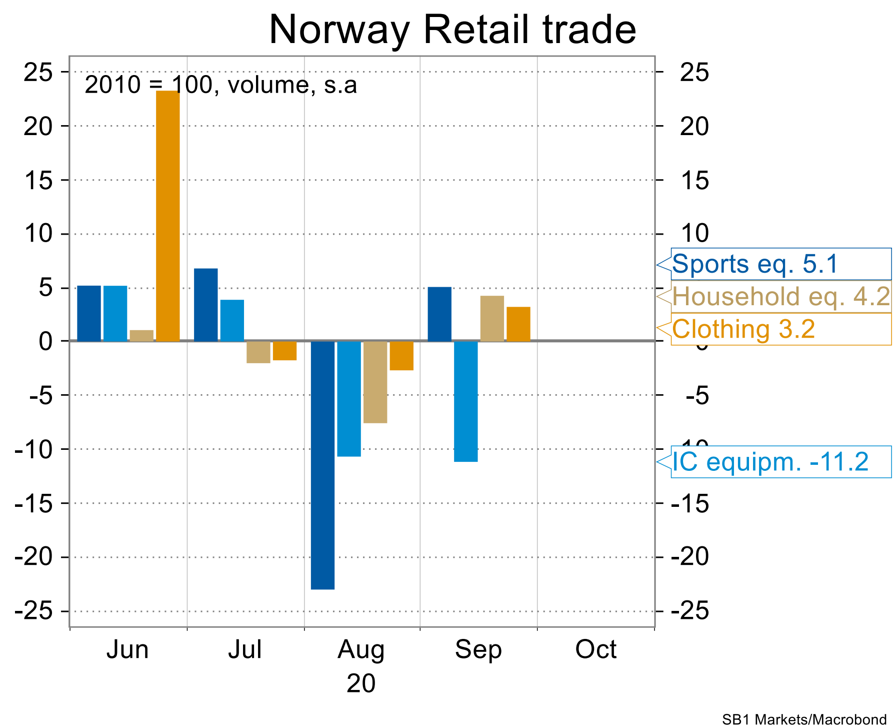


- Retail sales rose by 0.3% m/m in Sept, expected 0.6% (we had 1%), following the 4.8% decline in Aug. The level remains far above the pre corona level. Most branches up
- Total consumption of goods was not reported together with retail sales this time. These data will be published at Nov 12, together with the Sept (and Q3) national accounts. Given the surge in auto sales in Sept, we assume that consumption of goods (ex electricity) rose some 2.5%
- We expect a gradual decline in retail sales the coming month, even if some sectors will blossom as long as borders are more or less closed, and we cannot go shopping in Sweden or spend time (and money) abroad
- Service consumption is of course far below a pre corona level, no data included in these retail sales data. Sept. data will be out Nov 12

ITC equipment down in Sept (to a low level), most others up

Food sales still 14% above normal! Sport/recreation up 12%

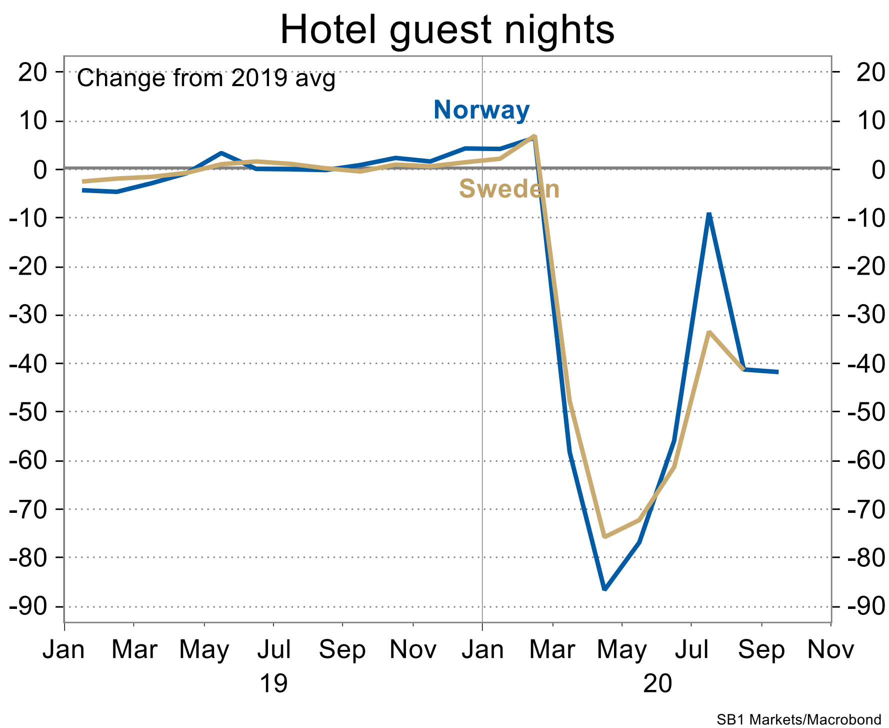


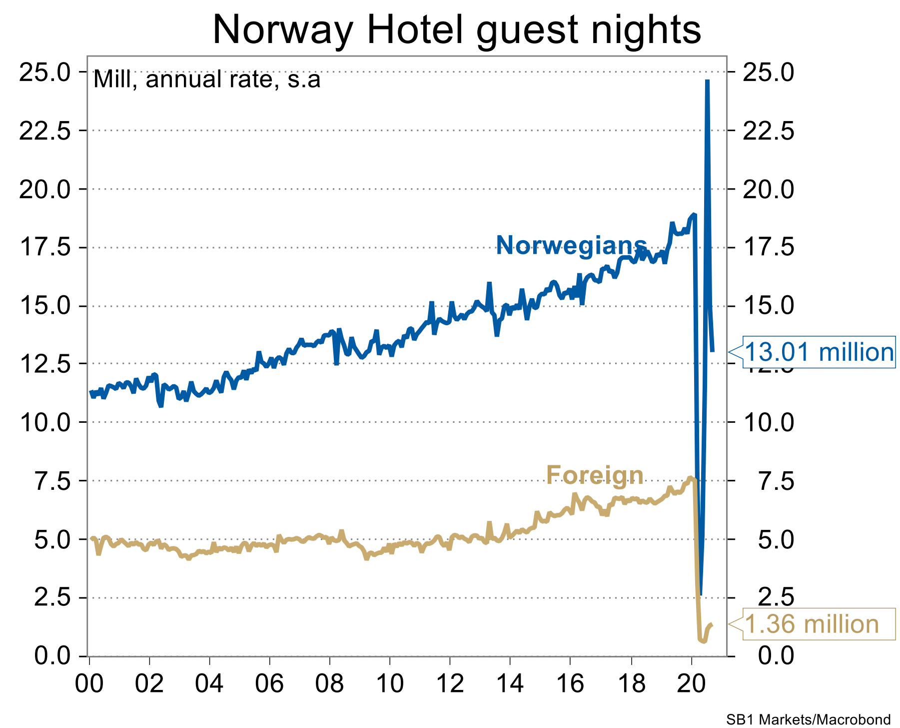


- Clothing sales recovered well in the late spring/summer and are back at a 'normal' level
- Less travelling, x border shopping in Sweden and less capacity at restaurants may keep food sales up for the next months – but sales will eventually be normalised
- Auto sales rose sharply in September

Hotel guest nights down 40% y/y in September too

No foreigners – but Norwegians not that afraid of sleeping at a hotel, down 'just' 30% from pre cor.



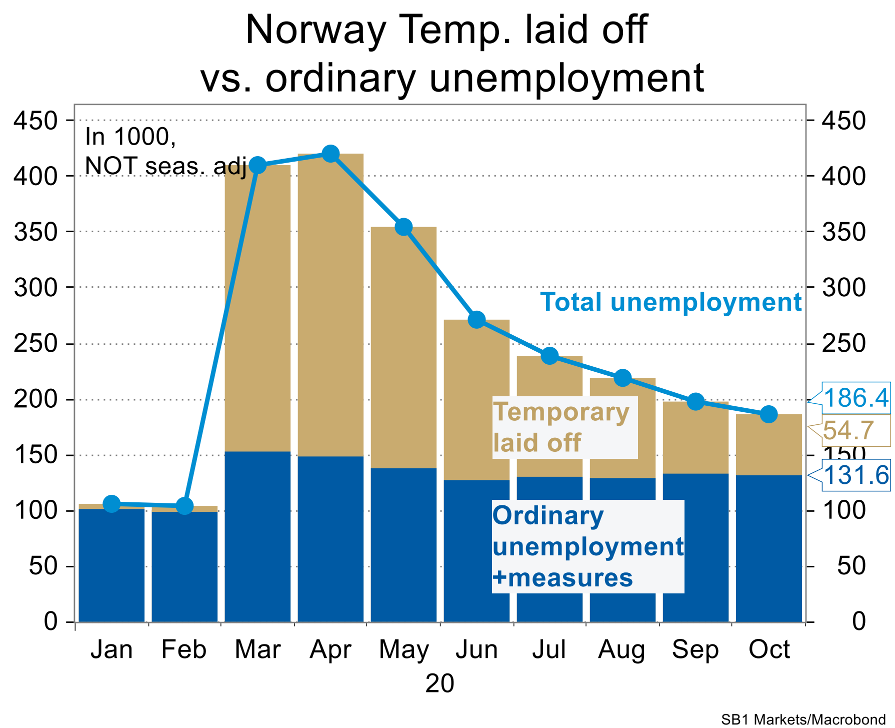


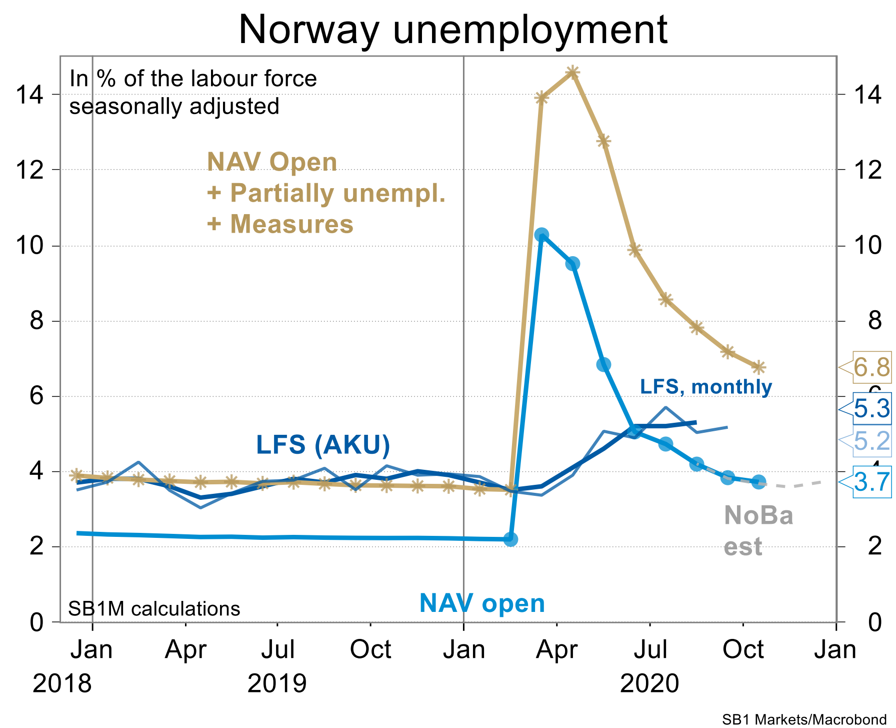
- July was the only reasonably good month for Norwegian hotels, at Norwegians took their holiday travel in Norway
- 70% of the Norwegian demand is intact, not that bad these days?

SpareBank 1 MARKETS

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

Ordinary unemployment fell by 0.1 pp to 3.7% in September. Total down 0.4 pp to 6.8%

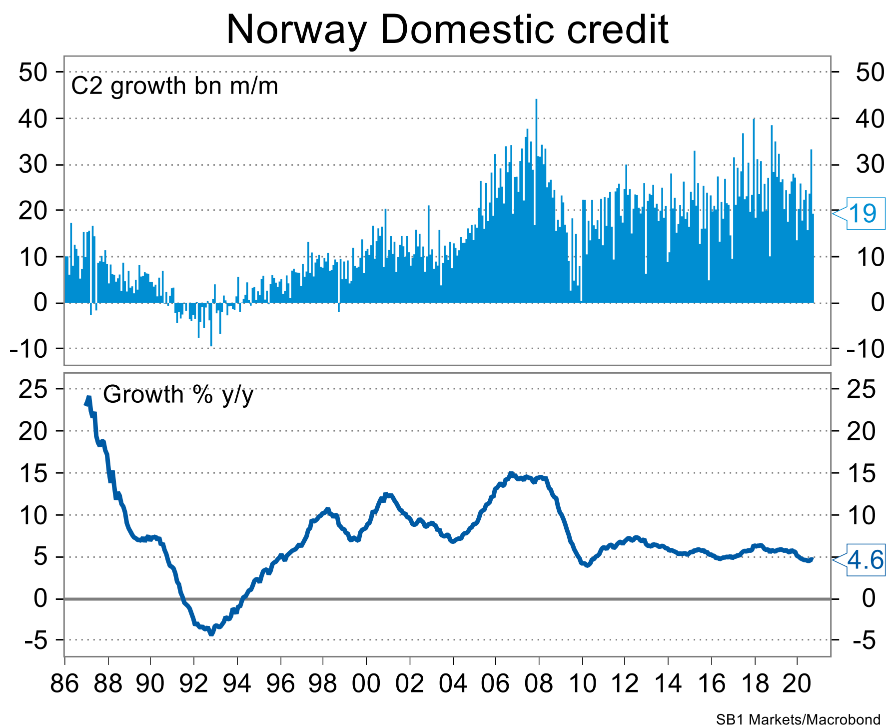


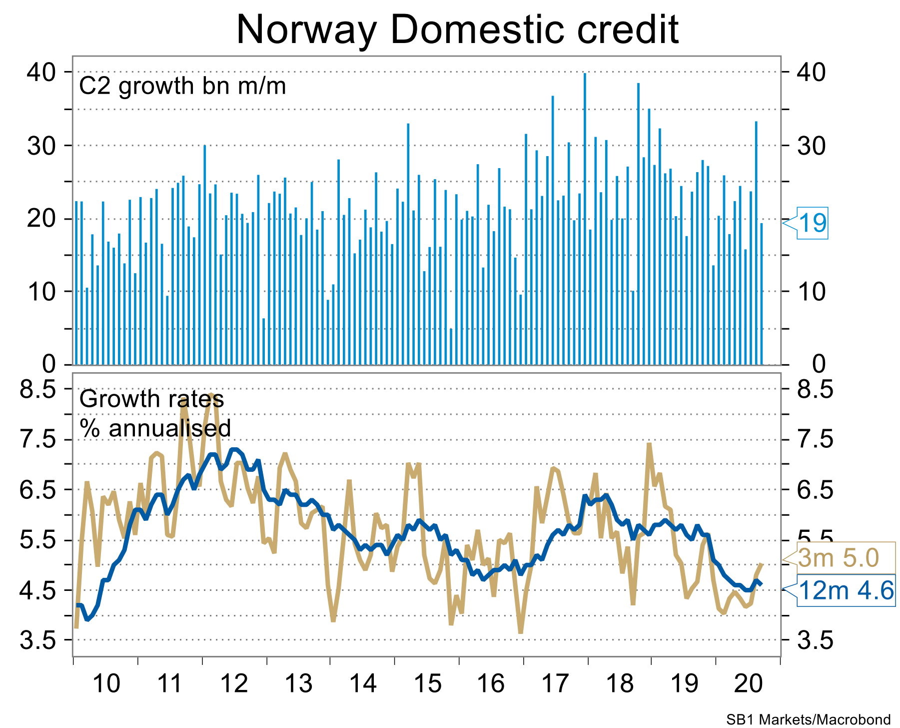


- Open 'full time' unemployment measured at NAV, which includes furloughed workers, fell by 6' in September, down to 99', or by 3' seas. adj. or down 0.1 pp to 3.7% of the labour force. At the April peak, more than 10% were 'full time' unemployed. In February, the unemployment rate was 2.2%. Unemployment fell more as Norges Bank and we expected
- Including the partially unemployed, the total unemployment is at 186' or 6.8% (the latter seas adj) - down 11' or 0.4 pp from August. The speed of decline is slowing. We expect at gradual decline the coming months but parts of the service industry will not recover anytime soon
- The LFS (AKU) reported a decline to 5.2% in September (single month obs). These data have been lagging NAV figures as furloughed workers have been counted as unemployed after 3 months in the dole

Credit growth inching down, businesses blame; households, municipalities not

Total domestic credit growth (C2) down 0.1 pp to 4.6% – the trend is (perhaps) slowly downwards

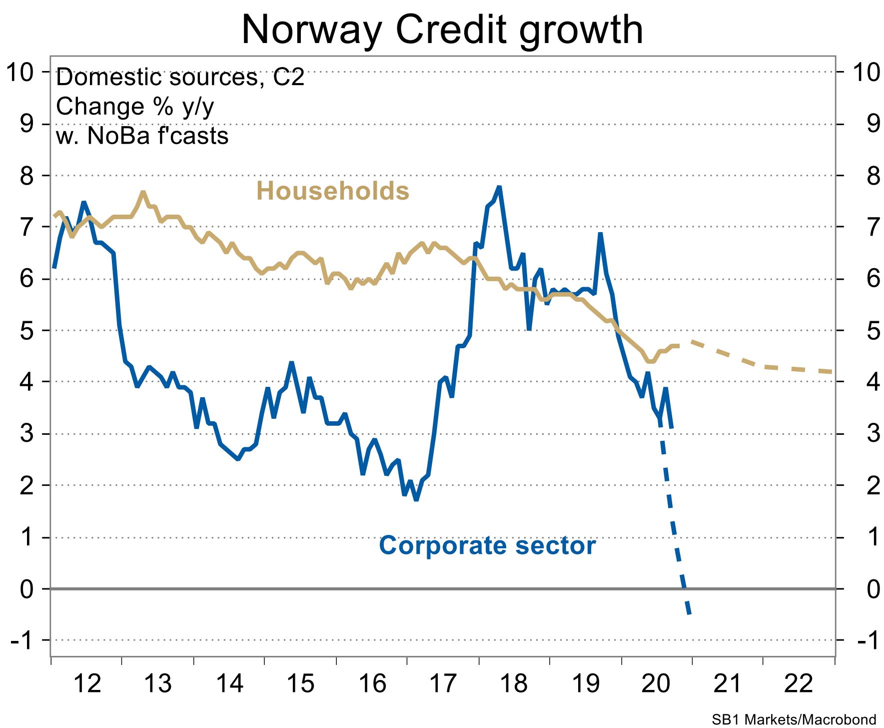


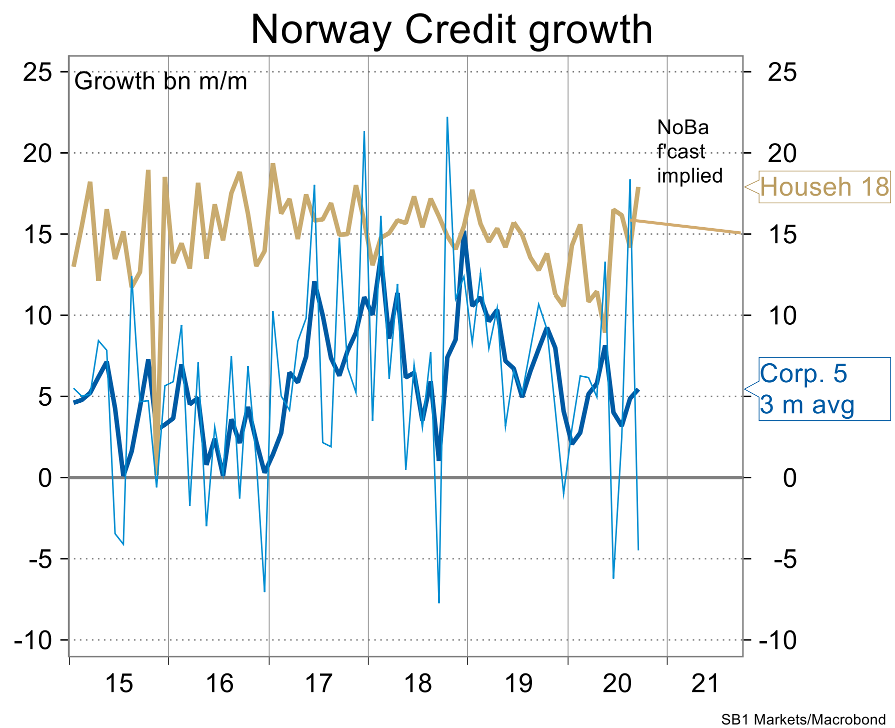


- **Total domestic debt** (C2) rose by NOK 19 bn m/m in Sept, down from 33 bn in Aug. The annual growth fell slightly to 4.6%, we expected a decline to 4.5%. Growth has been heading down since late 2019 (and from early 2018) but has stabilised recent months
- **Household credit growth** accelerated in Sept, to 18 bn, from 13 bn in Aug, we expected 15.5 bn – the highest monthly growth rate since Jan 2019. The annual growth rate has climbed to slightly since the summer, to 4.7% from 4.4% - above, but not far above underlying household income growth. Thus, there are no evidence of a 'crazy' household credit boom, even if house prices and the transaction level both have increased substantially since the short spring 'break'
- **Corporate credit growth**, which is very volatile, fell by 4 bn m/m, following the unusual 19 bn lift in August. Corporate credit growth is clearly heading down, the annual rate fell 0.8 pp to 3.1%. Norges Bank expects the annual rate to fall below zero around year-end
- Local governments borrowed more than we assumed in Sept (6 bn), and the annual rate accelerated by 0.5 pp to 8.6%, far above their income growth

No take off in household credit – but growth is accelerating

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





- Following a mild slowdown during the corona spring, household credit growth has accelerated past 4 months, at a 5% growth pace, pulling the annual growth rate slowly upwards
- Corporate credit (in C2, domestic lending) fell by 4 bn in Sept, following the 19 bn surge in Aug, the avg at 7.5 bn, still rather high. Still, the trend is clearly downwards, and the annual rate fell to 3.1% in Sept, down 3 pp over the past year. Det slowdown started well ahead of corona. We expect companies to be cautious vs. both investments and more debt the coming months/quarters. Norges Bank expects a steep decline in the annual growth rate the next months

The Calendar, in addition to an election…

Global PMIs, China trade, US employment market. The Fed, BoE & Norges Bank. Norw. house prices

Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 2					
08:30	SW	PMI Manufacturing	Oct		55.3
10:00	NO	PMI Manufacturing	Oct	50.5	50.3
10:00	EC	PMI Manufacturing	Oct F	54.4	54.4
15:45	US	PMI Manufacturing	Oct F	53.3	53.3
16:00	US	ISM Manufacturing	Oct	55.8	55.4
16:00	US	Construction Spending MoM	Sep	0.9%	1.4%
17:00	WO	PMI Manufacturing	Oct	53	52.3
Tuesday Nov 3					
	EC	Auto sales several countries	Oct		
	US	Auto sales	Oct	16.50m	16.34m
Wednesday Nov 4					
02:45	CN	PMI Composite	Oct		54.5
02:45	CN	PMI Services	Oct	55	54.8
08:30	SW	PMI Services	Oct		54.7
10:00	EC	PMI Composite	Oct F	49.4	49.4
11:00	NO	House prices, MoM	Oct		
14:15	US	ADP Employment Change	Oct	700k	749k
14:30	US	Trade Balance	Sep	-$63.9b	-$67.1b
15:45	US	PMI Services	Oct F	56.0	56.0
15:45	US	PMI Composite	Oct F		55.5
16:00	US	ISM Services	Oct	57.4	57.8
17:00	WO	PMI Composite	Oct	52.3	52.1
Thursday Nov 5					
08:00	GE	Factory Orders MoM	Sep	2.0%	4.5%
09:30	SW	Industrial Orders MoM	Sep		5.6%
09:30	SW	GDP Indicator SA QoQ	3Q	5.0%	-8.6%
10:00	NO	Deposit Rates		0.0%	0.0%
11:00	EC	Retail Sales MoM	Sep	-1.5%	4.4%
13:00	UK	Bank of England Bank Rate		0.1%	0.1%
13:00	UK	BOE Asset Purchase Program Total		845b	745b
14:30	US	Initial Jobless Claims	Oct-31	738k	751k
14:30	US	Nonfarm Productivity	3Q P	4.5%	10.1%
14:30	US	Unit Labor Costs	3Q P	-9.9%	9.0%
20:00	US	FOMC Rate Decision (Upper Bound)		0.25%	0.25%
Friday Nov 6					
08:00	GE	Industrial Production SA MoM	Sep	2.5%	-0.2%
08:00	NO	Ind Prod Manufacturing MoM	Sep		3.00%
14:30	US	Change in Nonfarm Payrolls	Oct	600k	661k
14:30	US	Unemployment Rate	Oct	7.6%	7.9%
14:30	US	Average Hourly Earnings YoY	Oct	4.6%	4.7%
14:30	US	Average Weekly Hours All	Oct	34.7	34.7
Saturday Nov 7					
	CN	Exports YoY	Oct	8.0%	9.9%
	CN	Imports YoY	Oct	7.5%	13.2%
	CN	Trade Balance	Oct	$44.3b	$37.0b

- **PMI**
  - » We expect a 0.2 p uptick in the **global composite PMI** as the **manufacturing PMI** probably rose by 0.7 p. Services probably flattened, with a downside drag from services in Europe
  - » In the **US, the manufacturing ISM** could 'surprise' at the upside as regional surveys in sum have been at the strong side
- **China**
  - » **Imports** surprised at the upside in Sept, big time – and **exports** have been strong for a long while (the downturn just lasted one month, in Feb). Oct. data out the upcoming weekend
- **USA**
  - » **Employment growth** has slowed, as the easy part for the corona recovery is done. In Oct, growth is expected to remain at almost the same level as in Sept, at 600' – sufficient to lower the unemployment rate by 0.3 pp to 7.6%. **Wage inflation, labour productivity and unit labour cost** data are now all over the place, and the underlying trend is hard to decipher, as many low productivity/wage jobs have taken a disproportionally hard beating during the corona setback. On the demand side, **auto sales** are expected to remain close to the pre corona level. **The Federal Reserve** will reassure that its prepared do whatever in takes, but will most likely – as the ECB – wait until December by push the accelerator, if needed at that time. Financial conditions do not require an even more expansionary policy stance, and the impact in the rest of the economy would probably be muted; it's not at an overall demand shortfall – but a supply side corona challenge
- **EMU**
  - » **Retail sales** no doubt fell in Sept, but far less than the Aug hike. However, the Q4 outlook is not that bright, another downturn in retail sales is likely – even if parts of the service sector is more exposed. **Manufacturing production** is expected further up in Sept, but may also now be at risk
- **Norway**
  - » **House prices** very likely rose further in Oct, as the inventory of unsold homes is shrinking rapidly and (a likely) higher supply of new homes will take time to materialise, mortgage rates are record low and the signs of a 2nd corona wave has not (yet) frightened Norwegian households. We expect +0.8% (s.a, zero unadjusted). **Norges Bank** will keep the signal rate unchanged at zero and will not publish any Monetary Policy report. Given the increased uncertainty due the corona situation the Bank will of course not signal a more hawkish stance!

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

Highlights

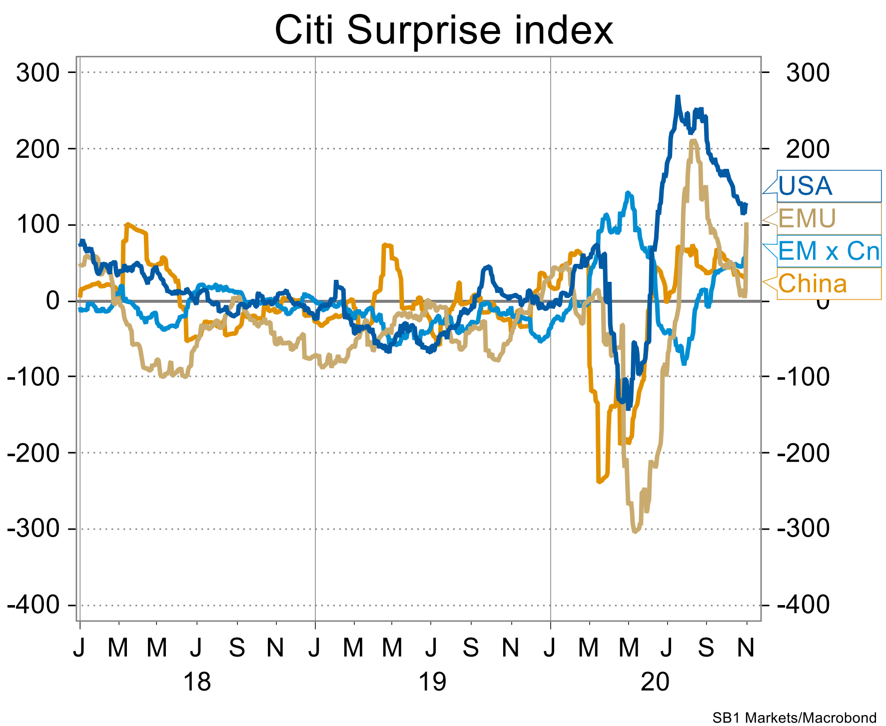
The world around us

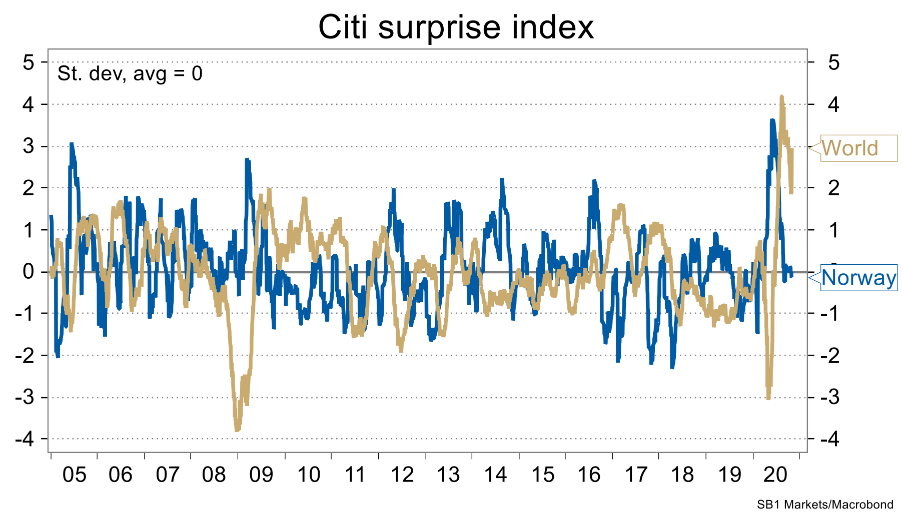
The Norwegian economy

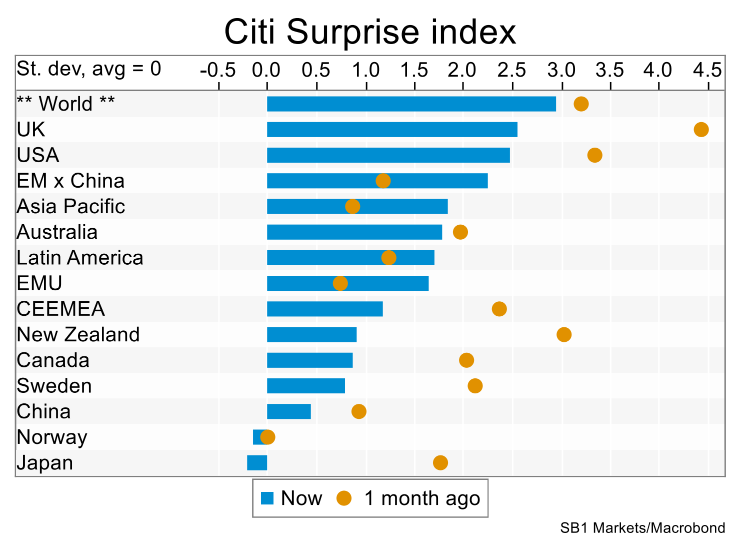
Market charts & comments

Europe surprised at the upside last week

Even so, Citi's surprise indices are less elevated than a few months ago





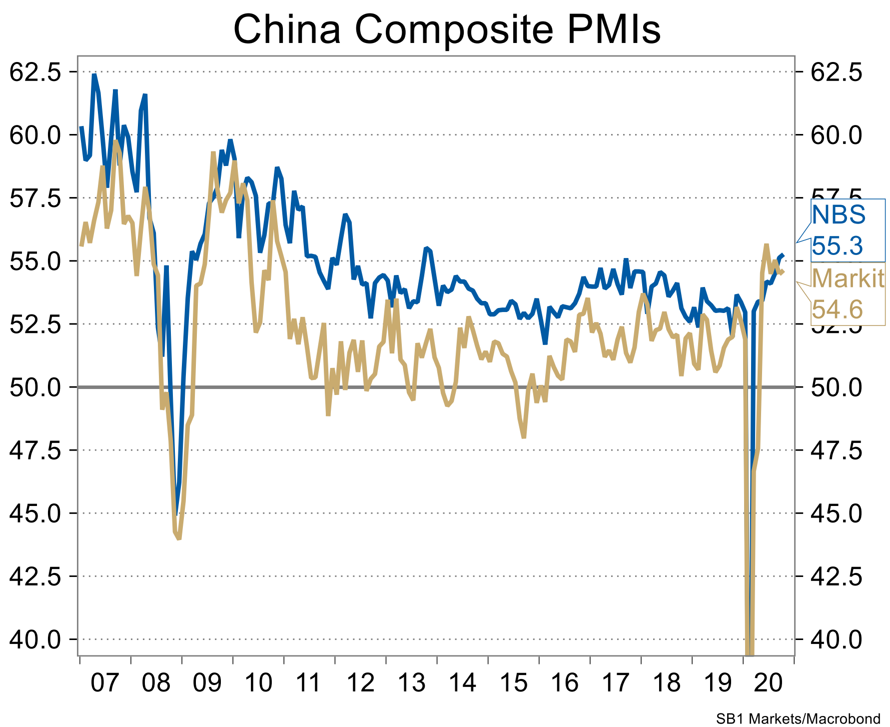


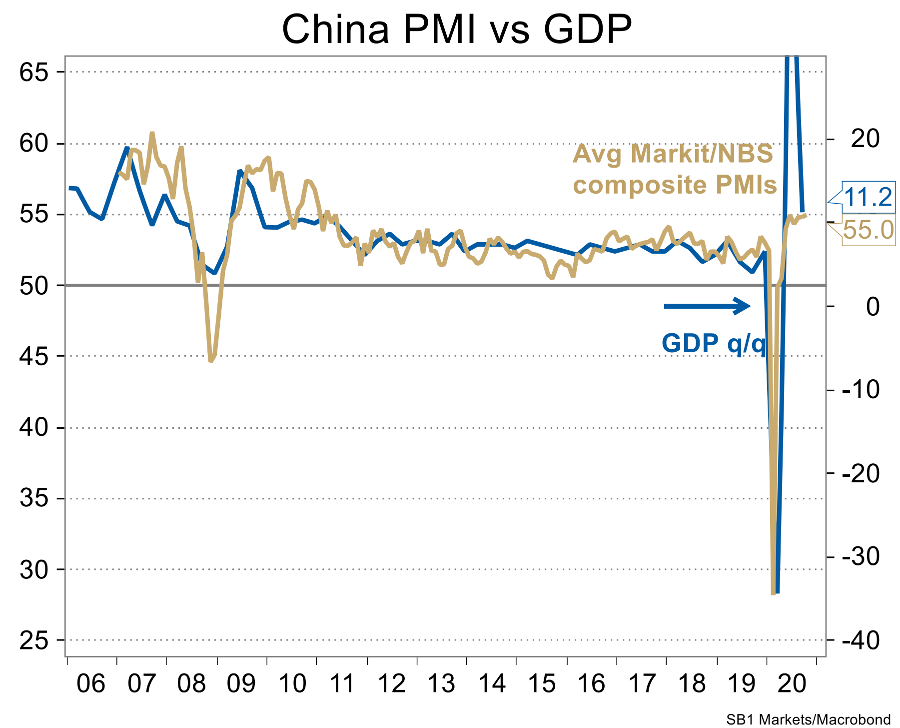
- All major countries/regions (barring Norway and Japan) are reporting data above expectations, for the first time ever
- Strong GDP data in the EMU
- The US is still far into positive territory but less than during the summer
- China slightly into positive territory
- Other EMs are above an average level too

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

September PMIs in sum steady, signalling growth well above trend

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



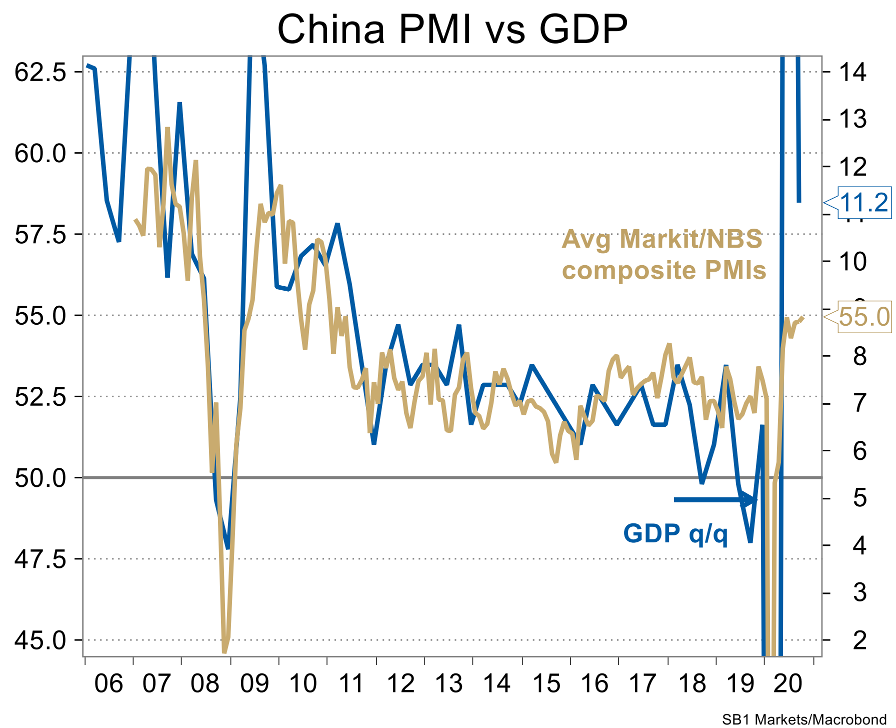


- The NBS' 'official' composite PMI edged up 0.2 p to 55.3 in Oct. The manufacturing index fell by 0.1 p to 51.4, services up 0.5 p to 56.2, a strong print
- Markit's manufacturing PMI rose 0.6p to 53.3 in Oct, better than expected (an unch. service sector PMI is assumed at the charts above)
- In sum, these PMI data confirm a continued recovery and growth above trend (at a 8 – 9% growth pace)

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

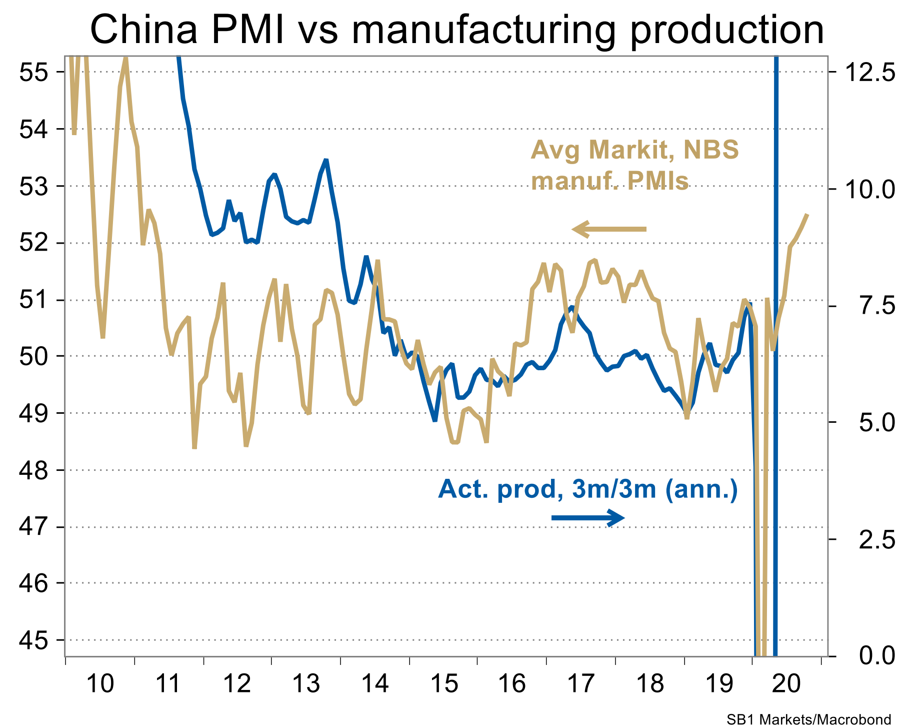
GDP rose 2.7% q/q in Q2 (11.2% annualised), far above a normal growth rate

- We do not put too much emphasis on the PMIs for finetuning our GDP forecasts but strong PMIs do signal a continued recovery in Q4



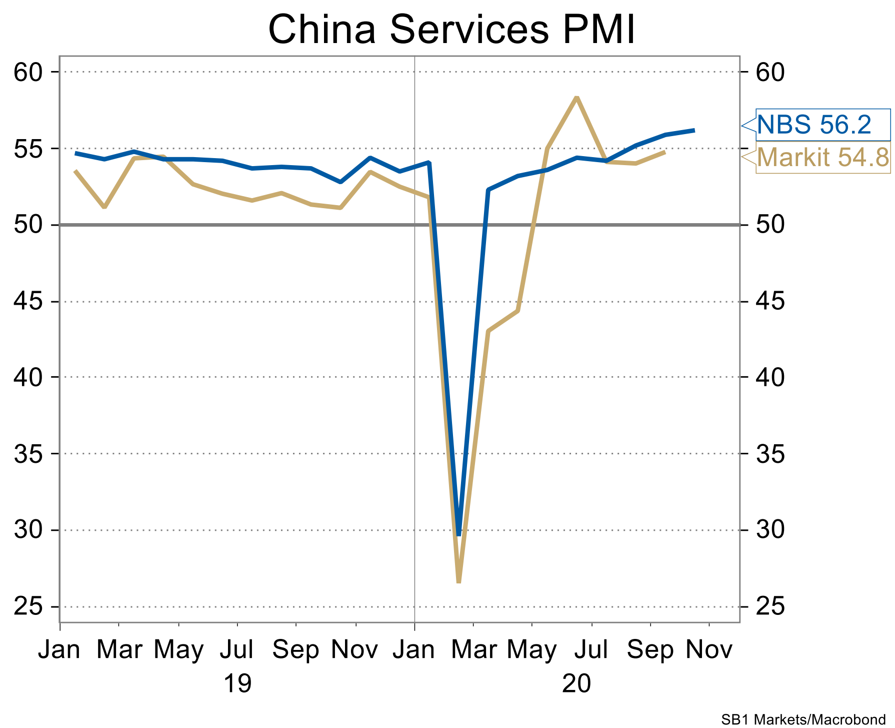
Both manufacturing PMIs up in average in Oct, both are reporting cont. growth

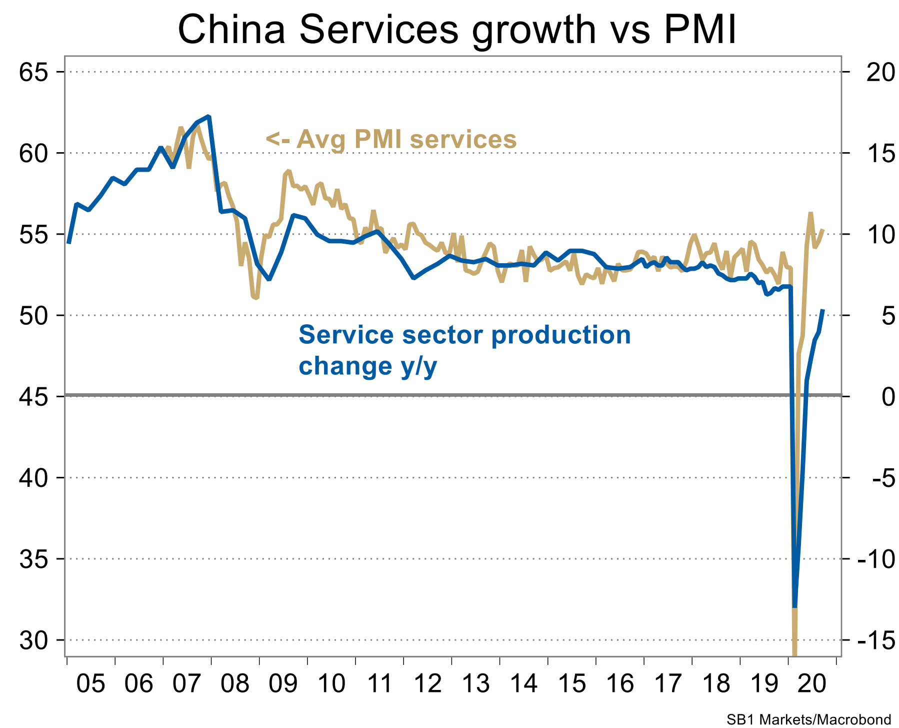
The PMIs are in average at the best level since 2011



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

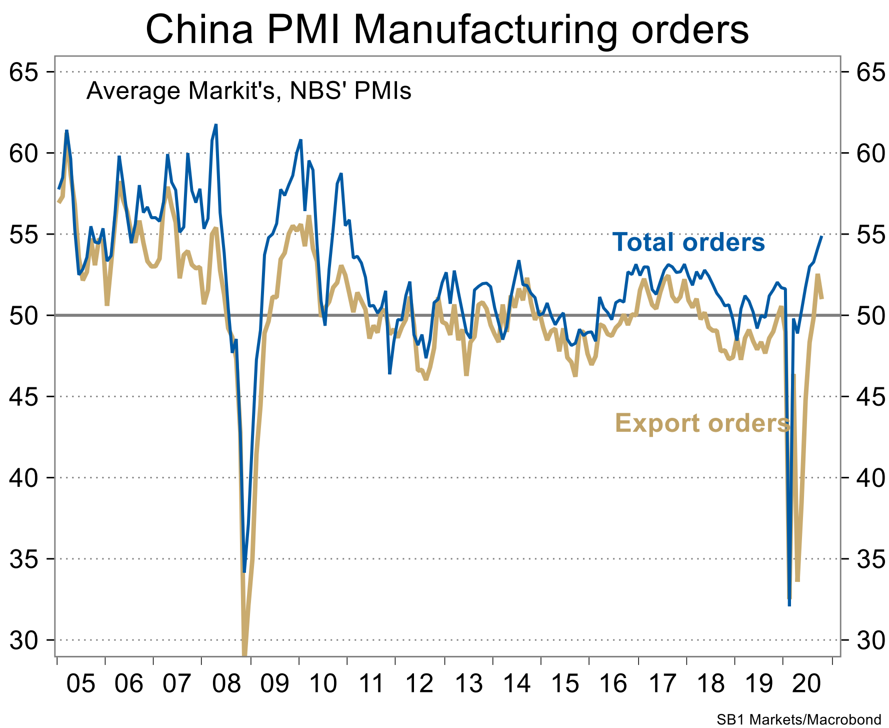
Service sector PMIs signal growth above normal





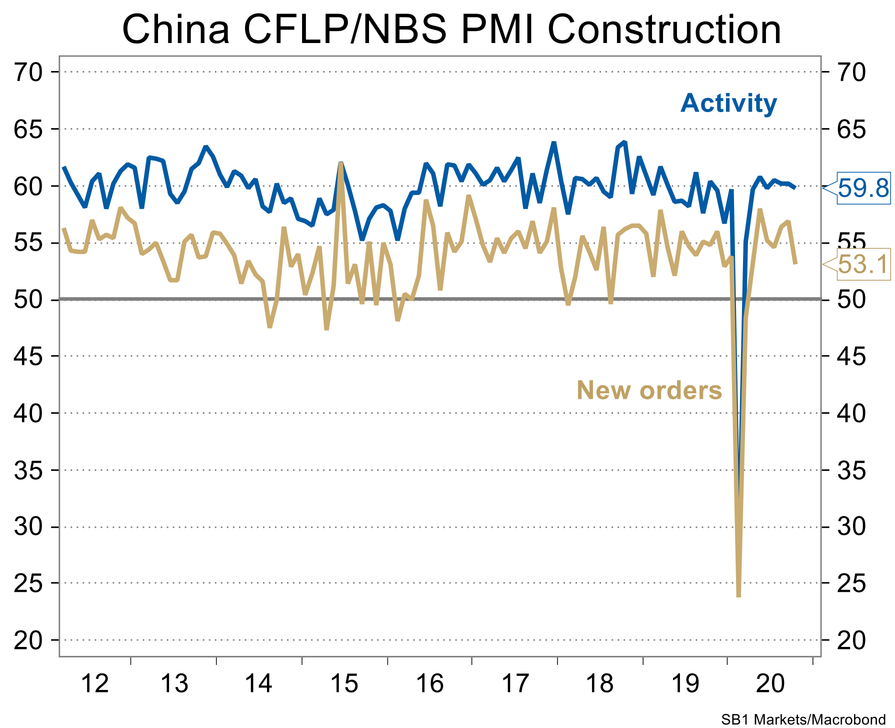
Export orders are growing again

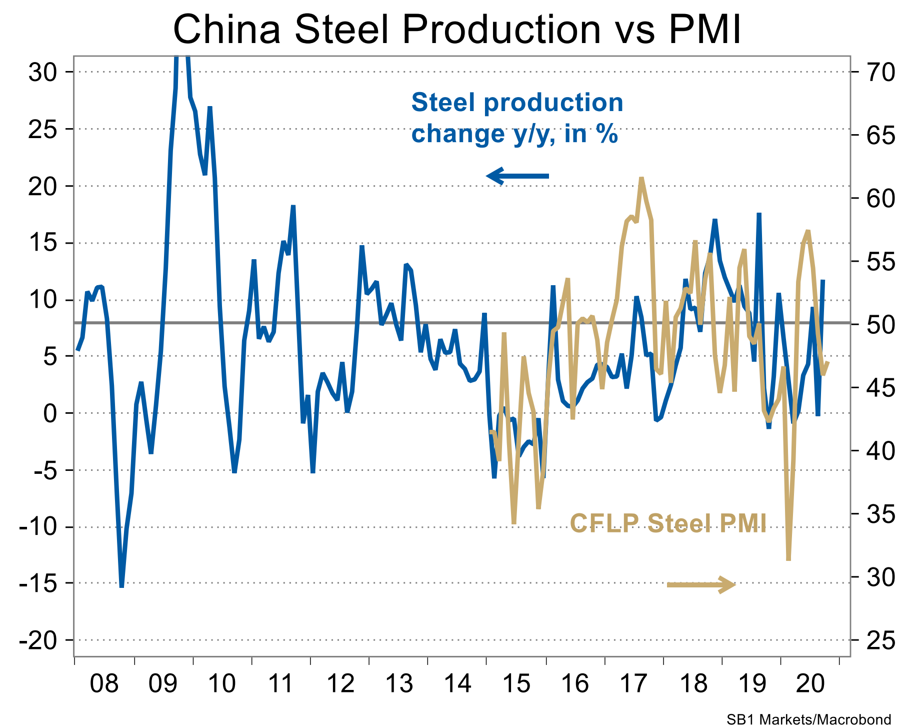
Total and domestic orders are growing at a brisk pace, export orders are now in plus too



Construction & steel back on track, signaling growth roughly at trend

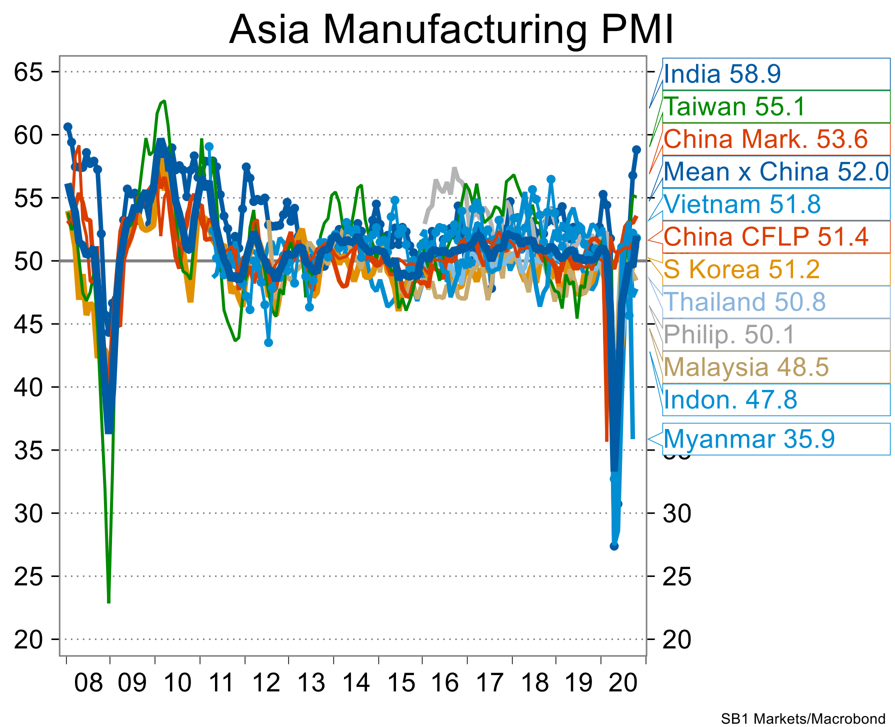
The construction PMI fell in Oct but remains at a normal level. The steel PMI slightly below par

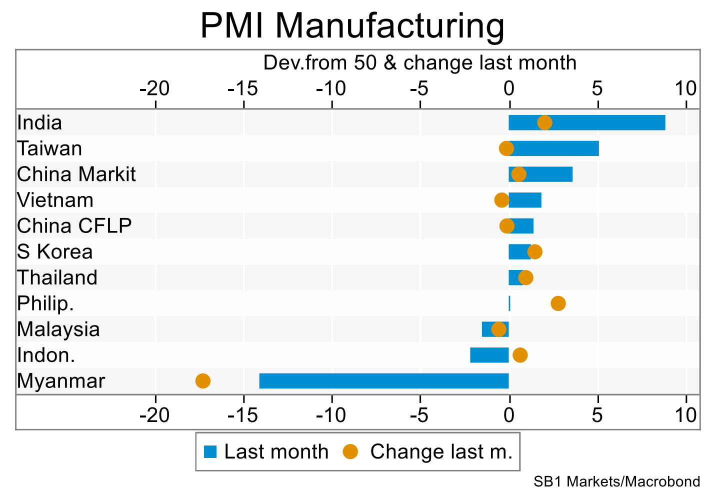


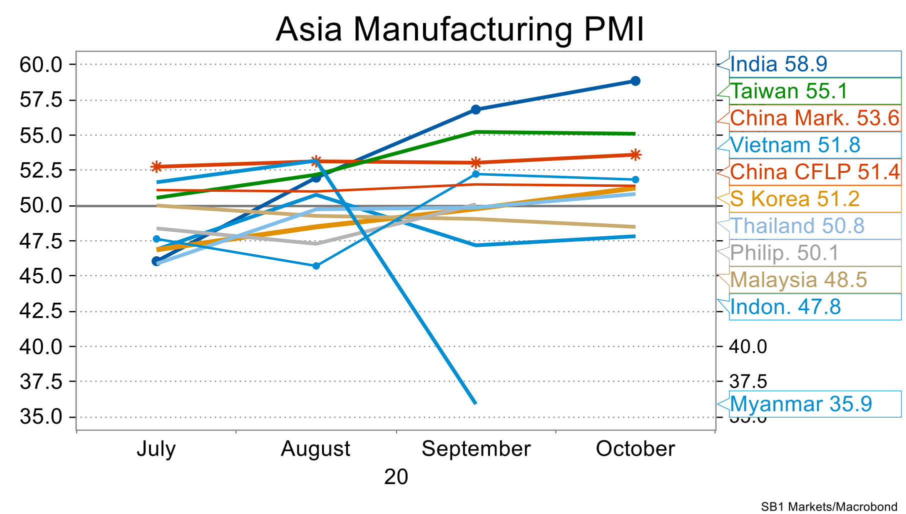


More up than down in Oct, South Korea finally above 50

So far: 5 manufacturing PMIs up, 3 slightly down, 2 have not yet reported



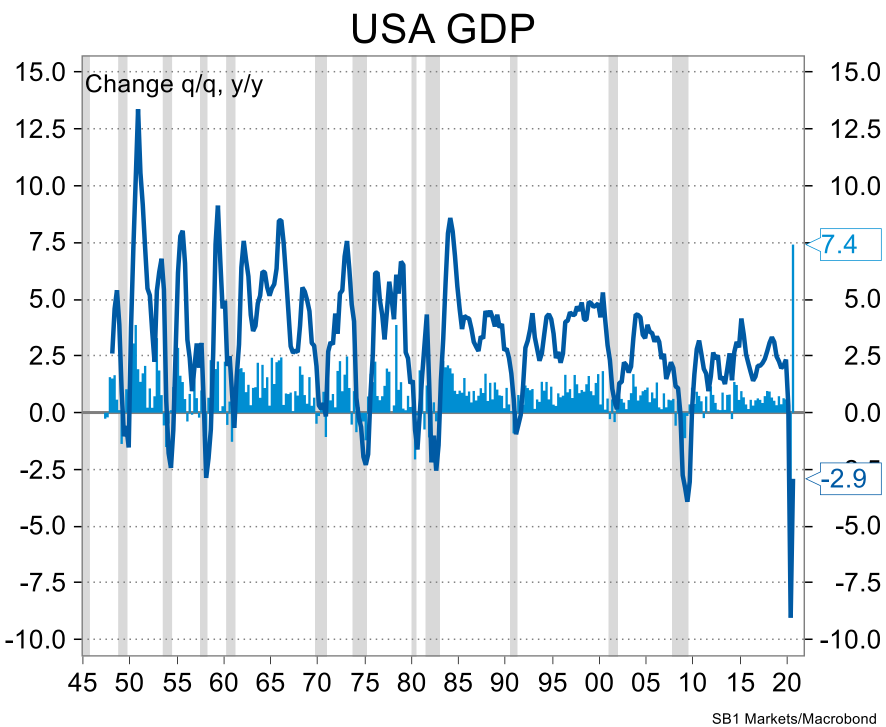


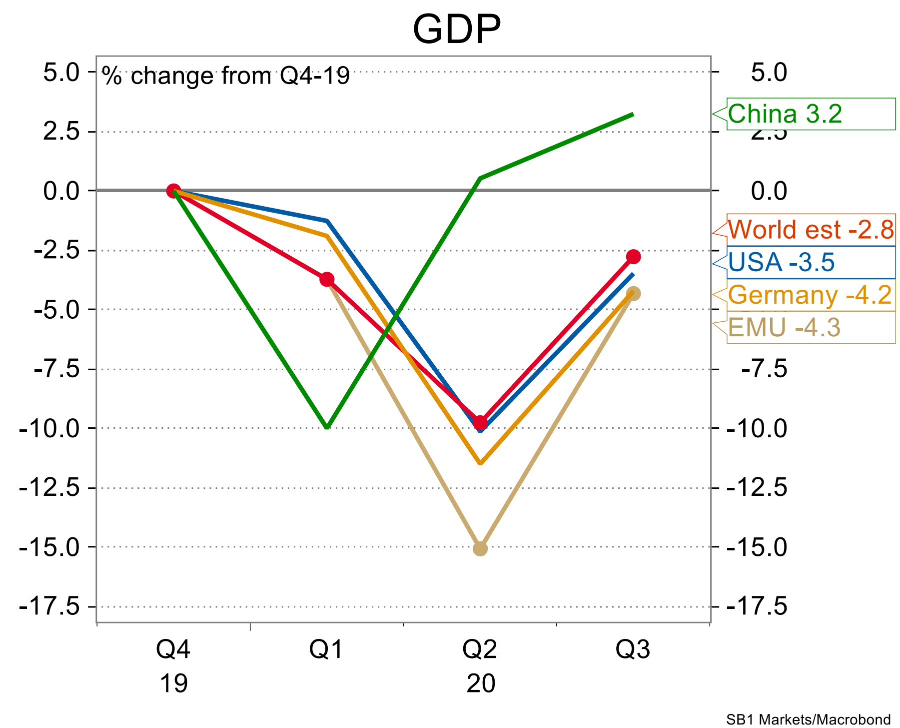


- India is reporting strong growth
- Finally, South Korea crossed the 50 line. The index is above the line for the first time since December. Acutal production is up 15% since May, and is now back to the pre corona level – and the PMI 'should' have been sky for the past 5 months

GDP 7.4% (or 33% annualised) in Q3, following the 9% Q2 drop; down 3.5% vs. Q4

Growth almost exactly as expected (32%, a quite impressive est!). Private consumption

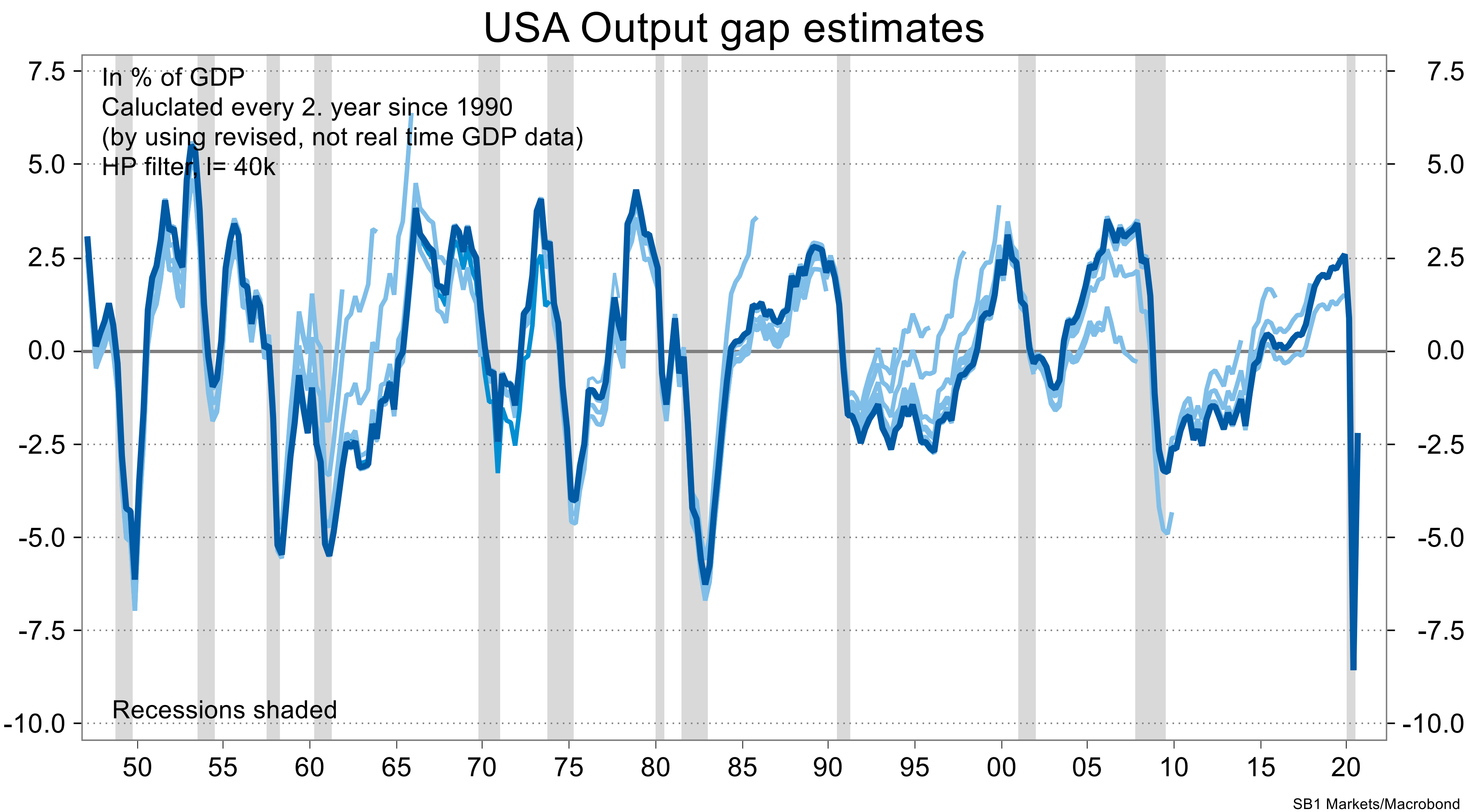




- GDP grew exactly as expected in Q3 and almost 2/3rd of the decline in Q1 and Q2 is reversed. At the end of the quarter, the gap is smaller, we assume some 2.8%. GDP is down 2.9% y/y. Assuming a gradual recovery in Q4, GDP will decline by close to 3½%
  - » The Q3 growth rate was the highest ever, following the largest decline ever in Q2, of course
- The recovery in US is less impressive than in China, but it is stronger than in the EMU

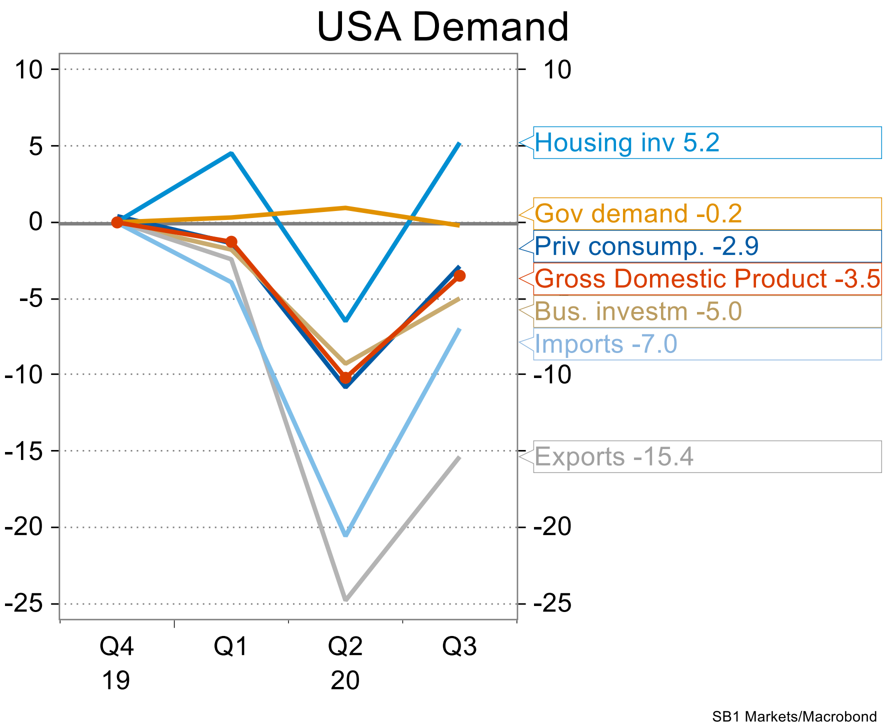
The deepest, and shortest recession ever

For good reasons, a virus setback do not have to look like ordinary recessions



Housing is going strong – exports the weakest link in the chain

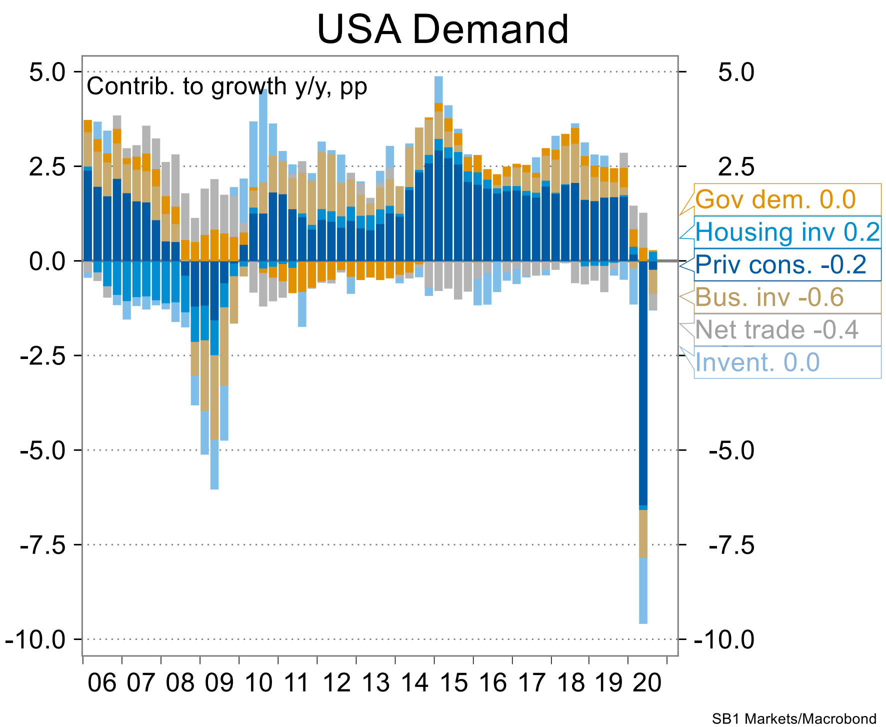
Business investments also weaker than GDP. Private consumption close to the GDP trajectory

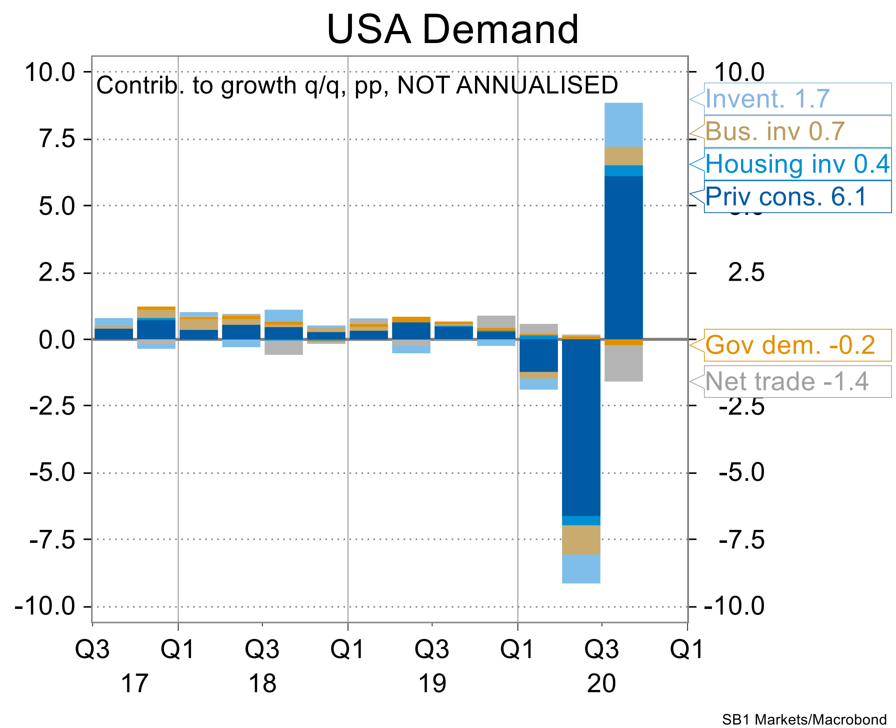


- .. But since private consumption is by far the largest component of GDP, private consumption is the main component of this GDP cycle as well

Private consumption the main swing factor, due to lack of spending opportunities

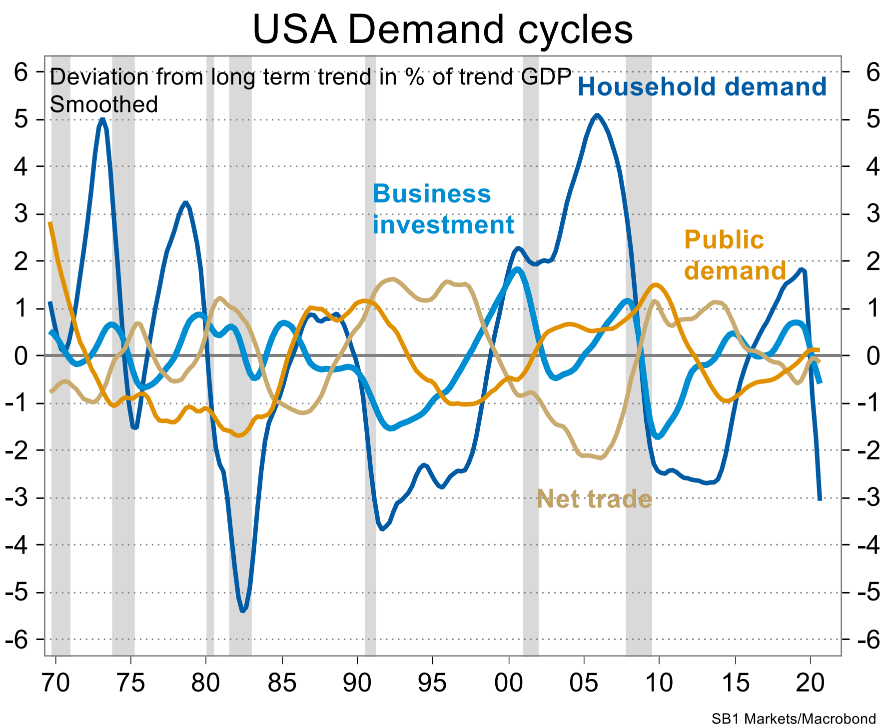
Household income has kept up well, due to government support (check here). Trade a laggard in Q3

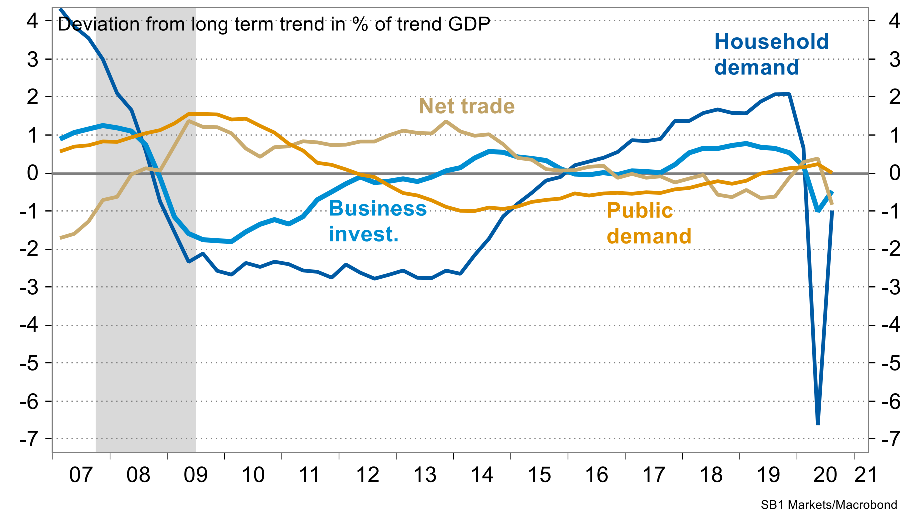


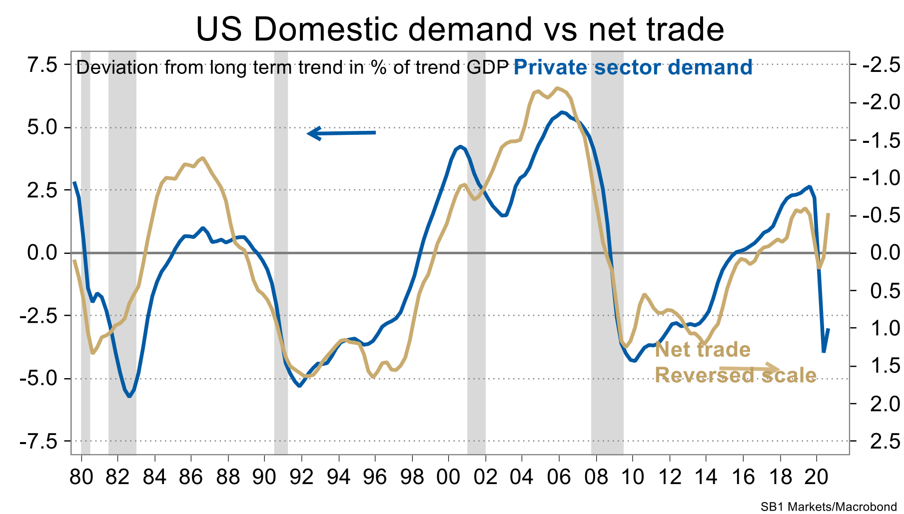


- Private consumption rose sharply, but is still down
- Housing investments fell more than GDP, while business investments fell marginally slower – but both were down sharply
- Government demand rose marginally in Q2
- Both exports and imports fell sharply, and exports more than imports - but the net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

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



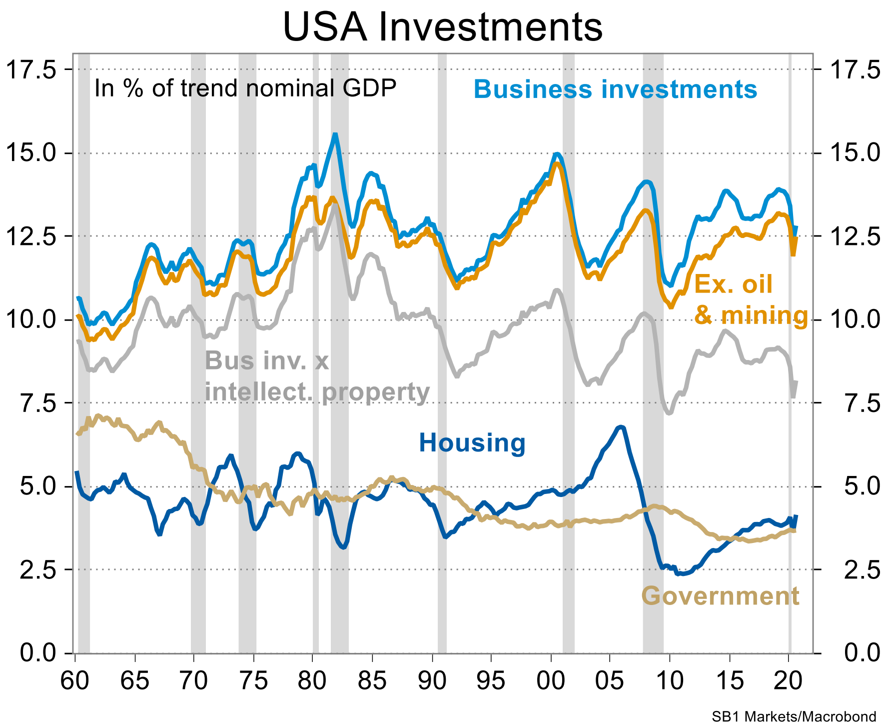


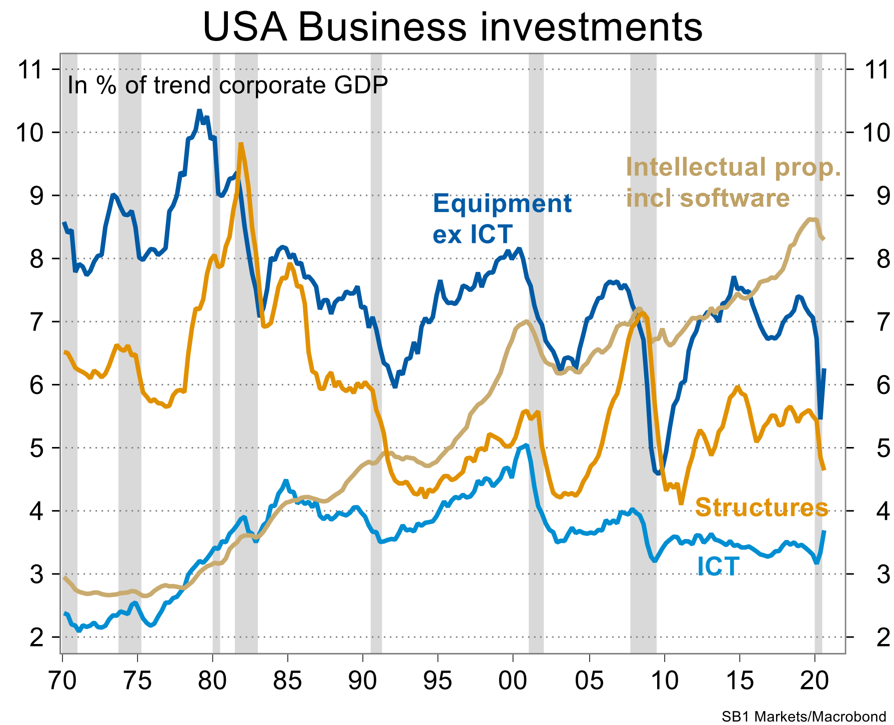


Investment cycles: Business investments peaked in Q2 2019, still not low

Investments rose 5% (not annualised) in Q3, ITC equipment really strong (not surprising)

Investments are measured in % of trend GDP, in order to illustrate the size of changes in investment activity

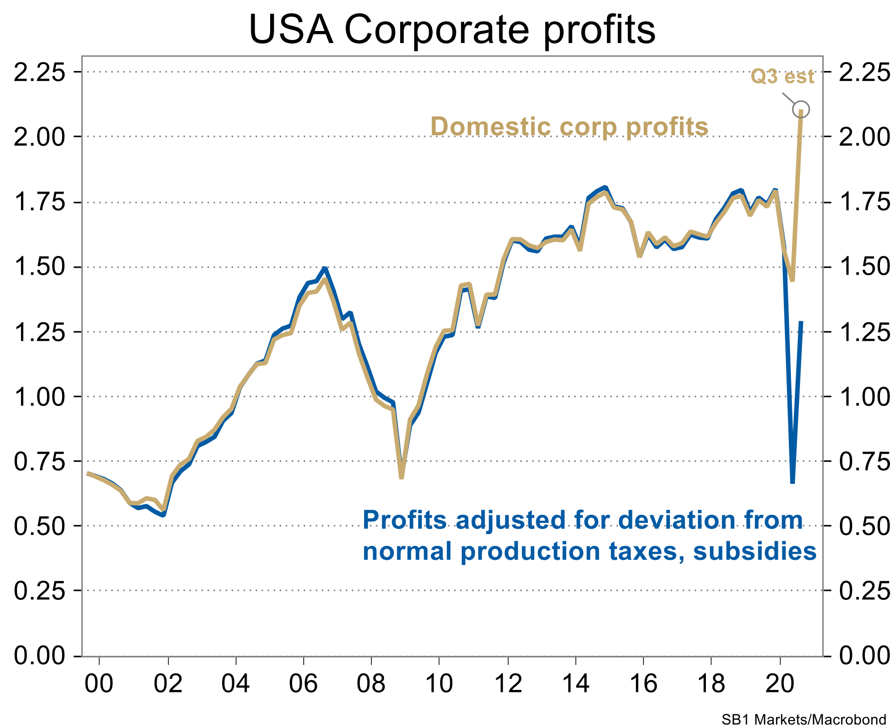


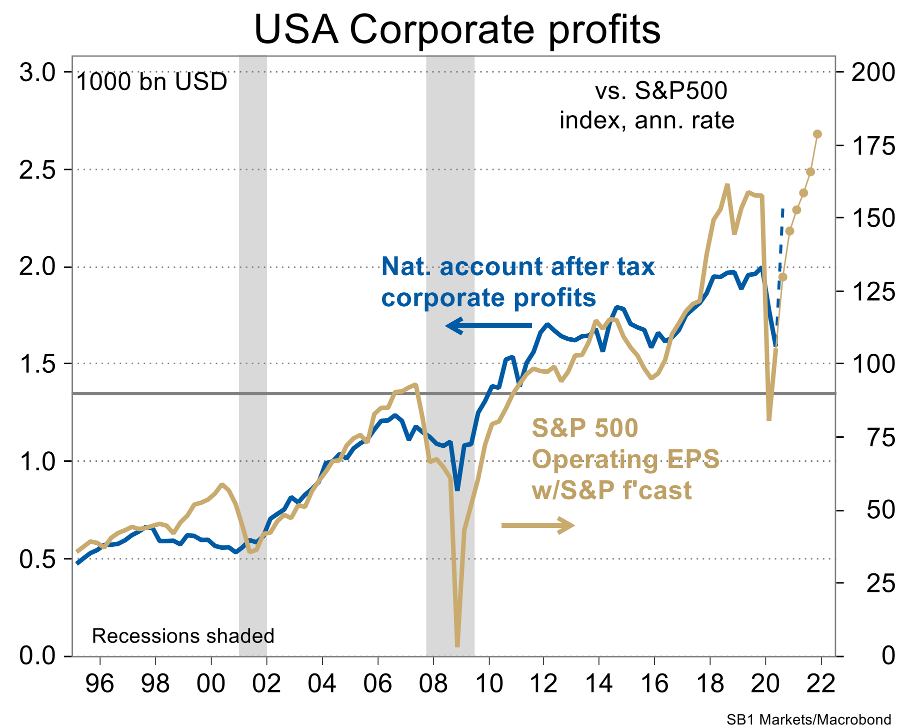


- Business investments are down 5% from before corona, far smaller downturn than during/after normal recessions. We doubt the (probable) corona induced lift in ICT investments will continue, the level is now rather high. However, equipment ex ITC is most likely further below a normal level. IP/software investments have slowed in Q2/Q3, somewhat surprising. The trend is impressive, check the graph to the right
- Housing investments rose sharply in Q3, and we will probably have more to go in Q4. We think housing investments are above a long term level
- Government investment as share of GDP is still low – probably too low

Corporate profits probably through the roof in Q3 – due to public support…

In both Q2 and Q3 (the net of) production taxes - subsides were USD 800 bn below a normal level

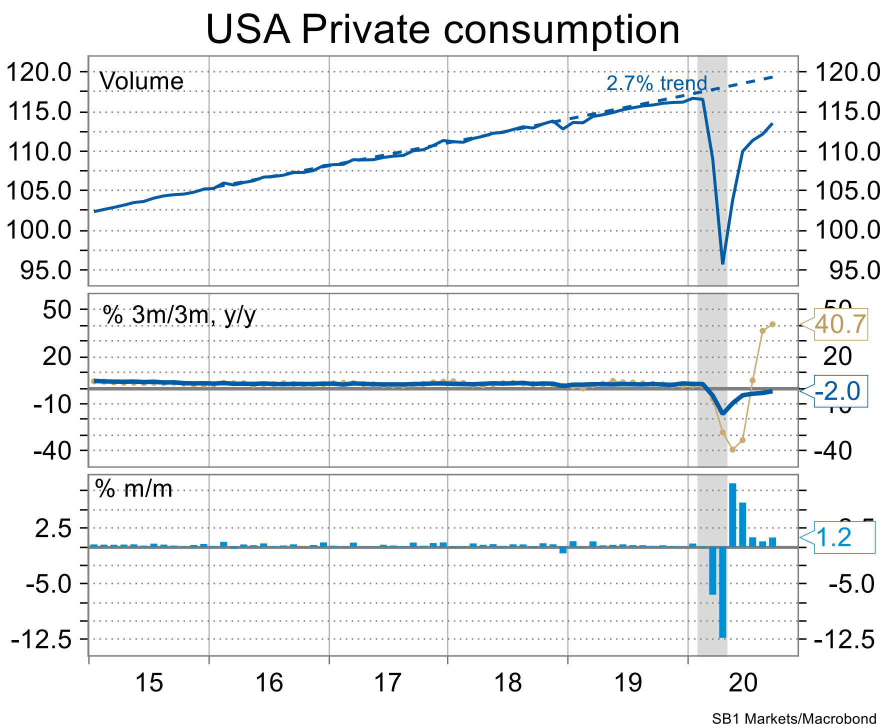


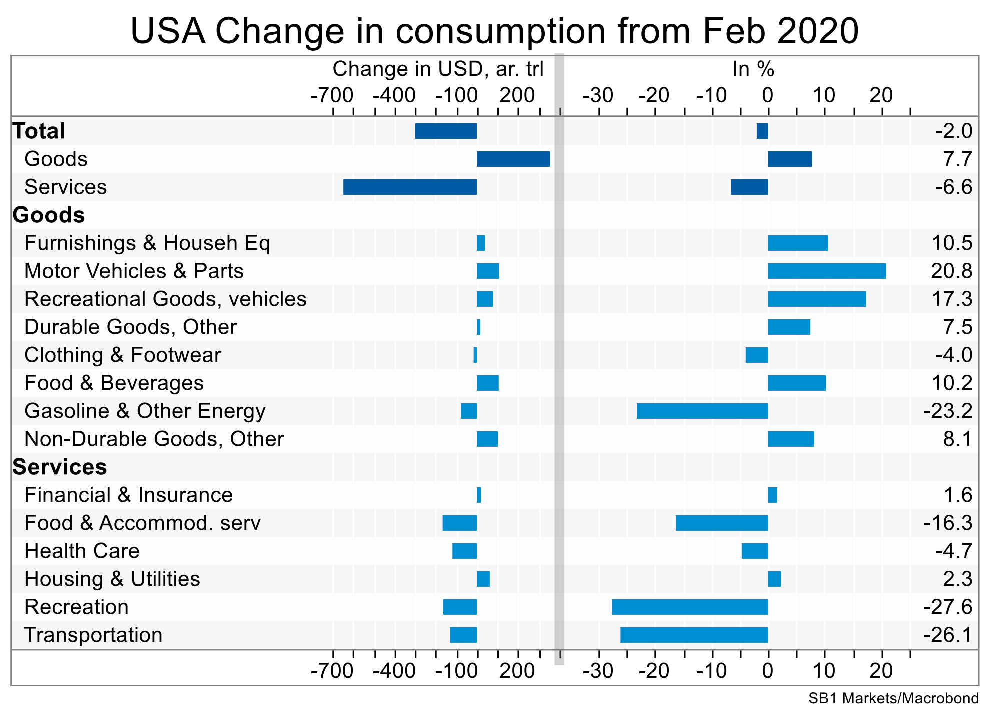


- … supporting corporate profits by 40% of profits or equalling 4% of GDP!!
  - » The net of production taxes – subsides is down from USD 1.000 bn (5% of GDP) to USD 200 bn (1% of GDP)
    - Government support to businesses are booked at subsidies in the National account
  - » Thus, 'underlying' income generation is far weaker than 'the official bottom line' signals
  - » Q3 corporate profits is not yet reported but our preliminary estimate (which is our best assessment based on available data) is sky high – up almost 50% from the Q2 level or 20% vs the pre corona level, even if 'underlying' earnings still are 30% below a pre corona level
- It the 'Blue wave' materialises, a substantial part of the approx. 5 pp cut in the effective corporate tax rate in 2018 will be reversed (after tax profits will decline by the same percentage

Consumption up 1.2% in Sept, down just 2% vs. Feb. Goods +8, services -7%

Personal income grew 0.8% - and is up 4.5% from Feb! The savings rate to 14% from 7% in Feb!

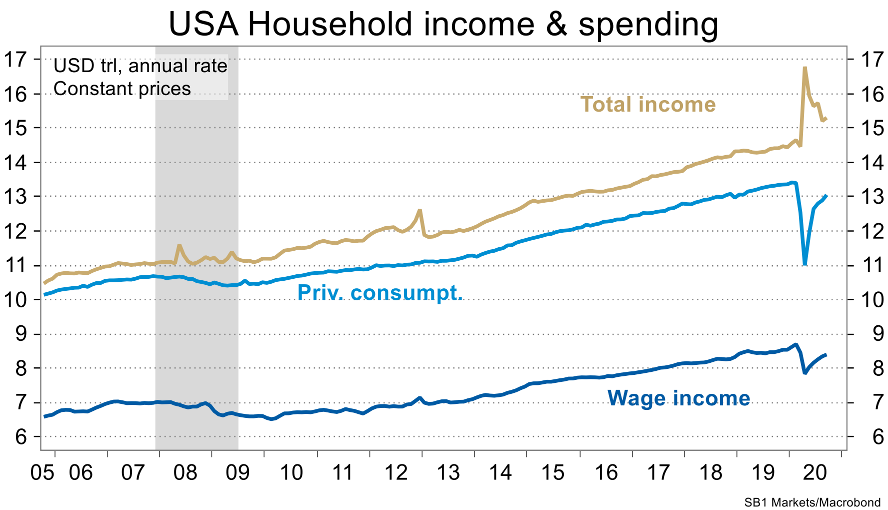


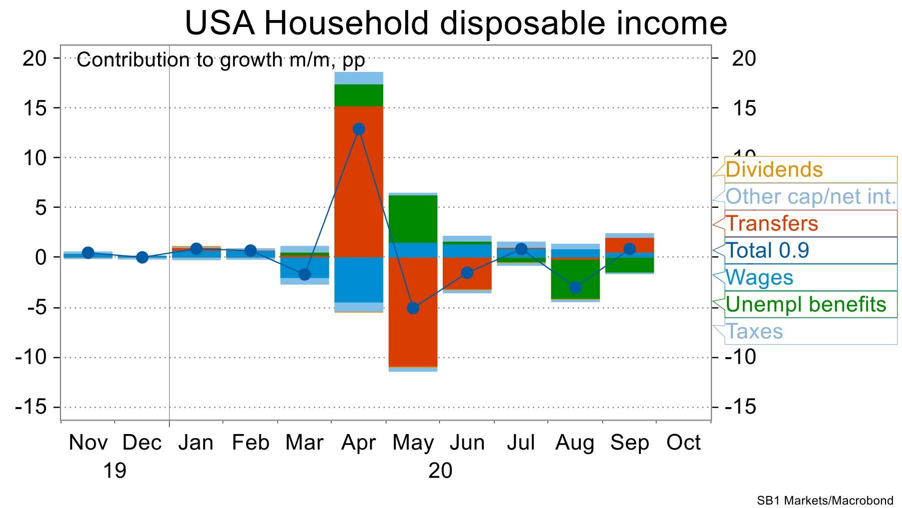


- Private consumption is still on the way up, +1.2% in volume terms in Sept, 0.4 pp more than expected. Consumption is now just 2% below the pre corona level – but 5% below the pre corona trend. The pickup in consumption is uneven, most services are still lagging:
  - » Consumption of goods is now 7.7% above the Feb level, driven by food & beverages (at home), autos (2nd hand), recreational vehicles (!), while gasoline is sharply down – all in value terms
  - » Consumption of services are down 6.6% due to restaurants/hotels, recreational services, transport – of course dramatic for these industries (and their empl.)
- Personal income grew 0.8%, some 0.5 pp more than expected. The income level 4.5% higher vs. the pre corona level – as government transfers still have increased much more than the decline in market income! (See next page)

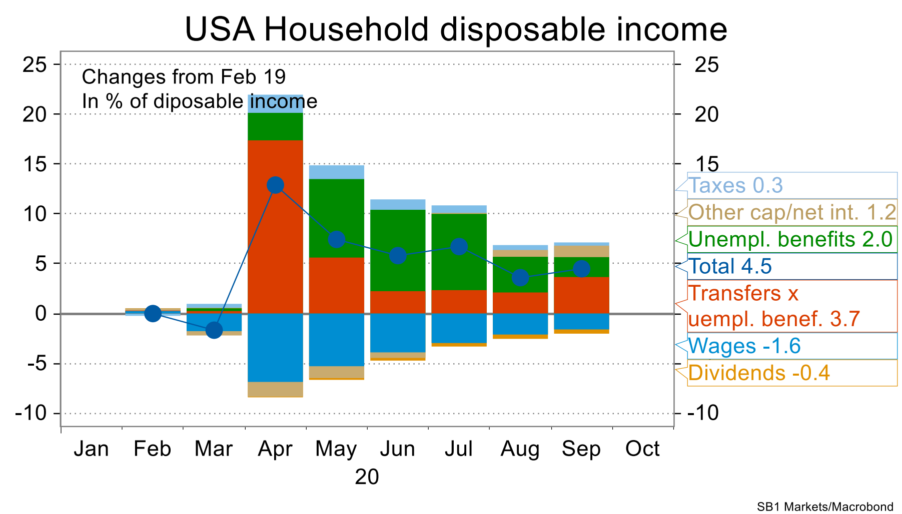
Income down from the spring peak, but still way above a normal level

Households have – in average – been heavily overcompensated for the loss of market based income

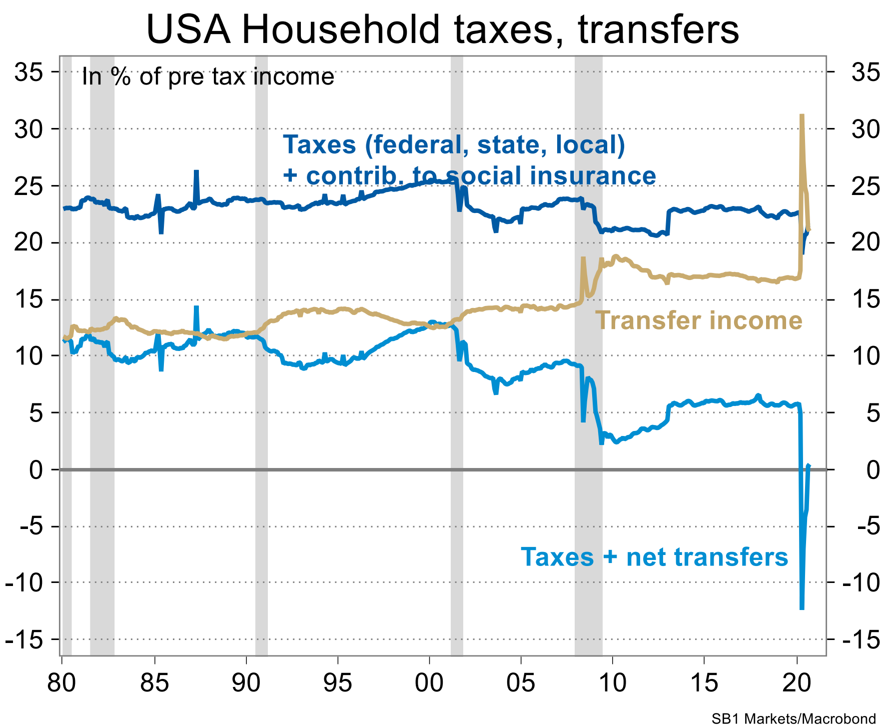


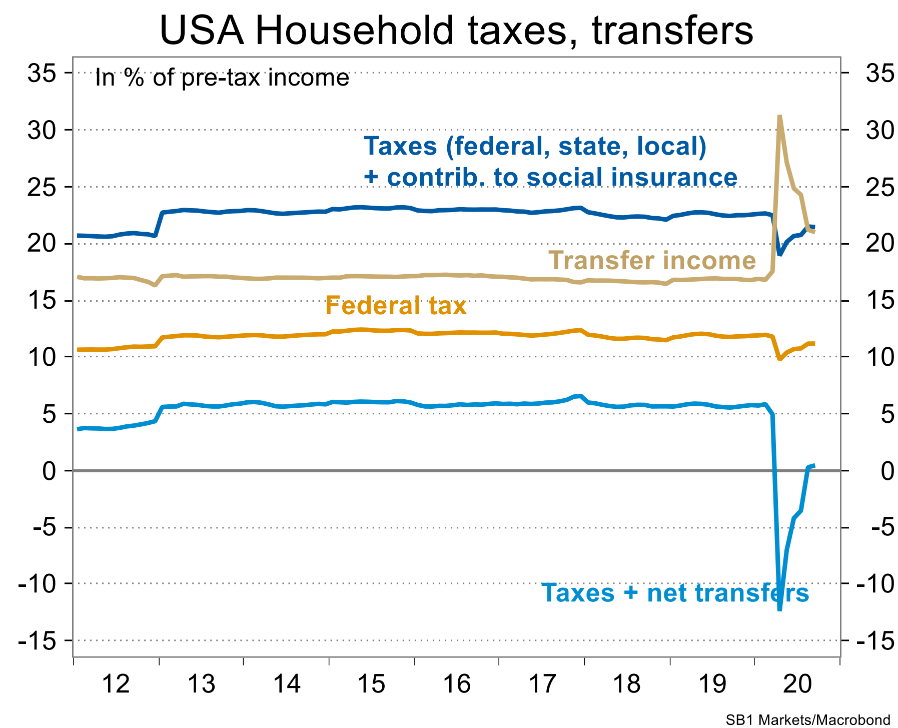


- Household income grew by 0.9% m/m in Sept, due to higher wage revenues. Unemployment benefits fell further, while other gov. transfers rose again
- Since before corona: Households have – in aggregate – been overcompensated, big time by government support
- Overall household income is up 4.5% from February 2020
  - » Wage income is down 1.6%, measure as % of disposable income, a small amount compared to the decline in
  - » Unemployment benefits are up equalling 2% of disp income
  - » Other transfers are up equalling 4.7% of disp income. At the peak in April, transfers equalled 17% of the Feb-20 monthly income!
  - » Government transfers have in sum been much larger than the decline in wages and other market based income
- Unemployment benefits were reduced in August. Another support package has not yet been decided on



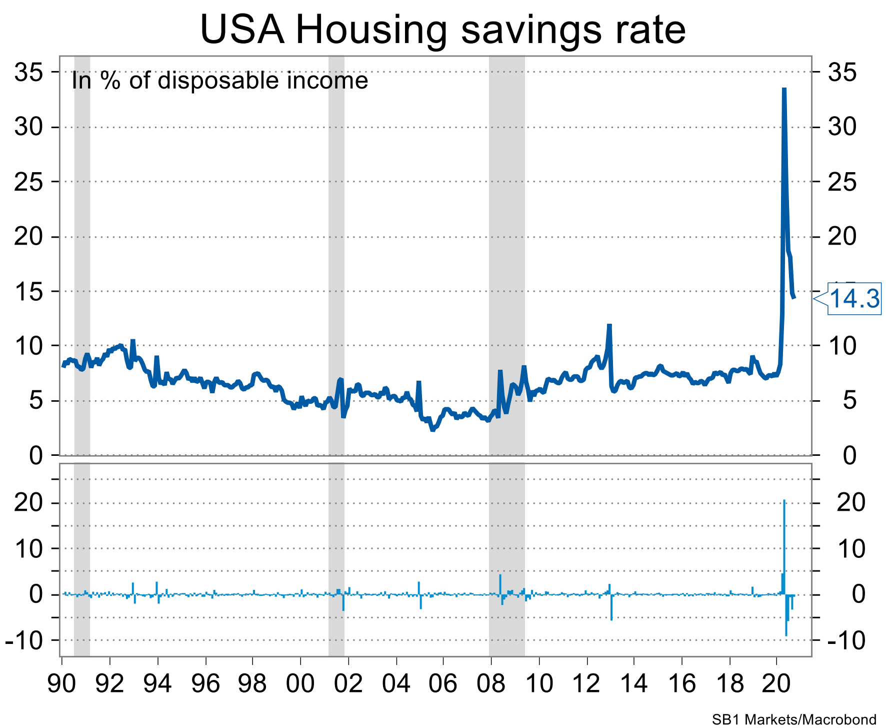
Transfers down after a steep rise, taxes slightly up

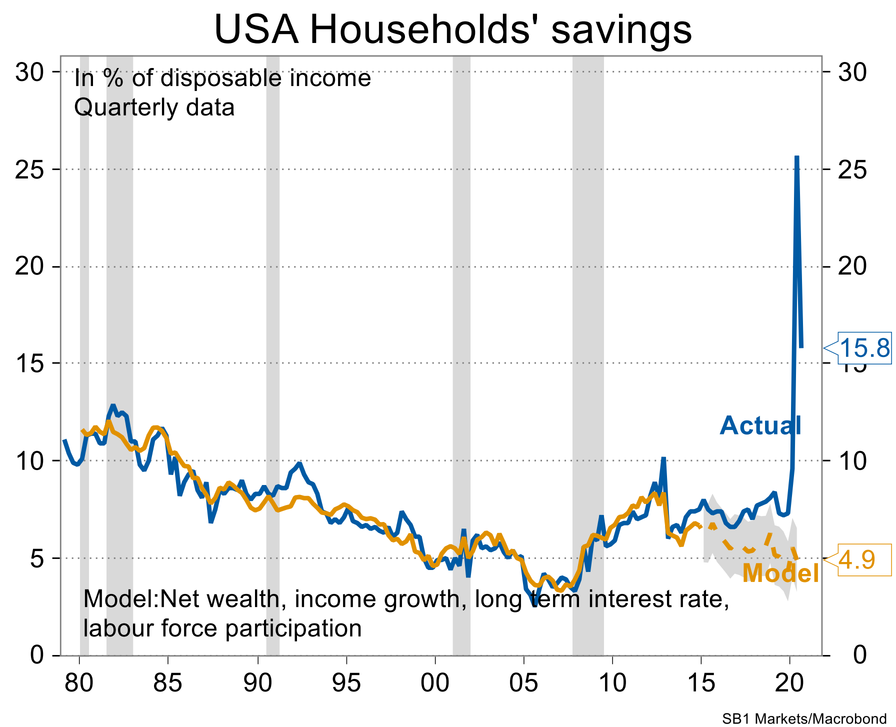




Households savings still at 14%, 'transfers are saved'

Spending down due to lack of spending opportunities (recreation etc), income up due to gov. support

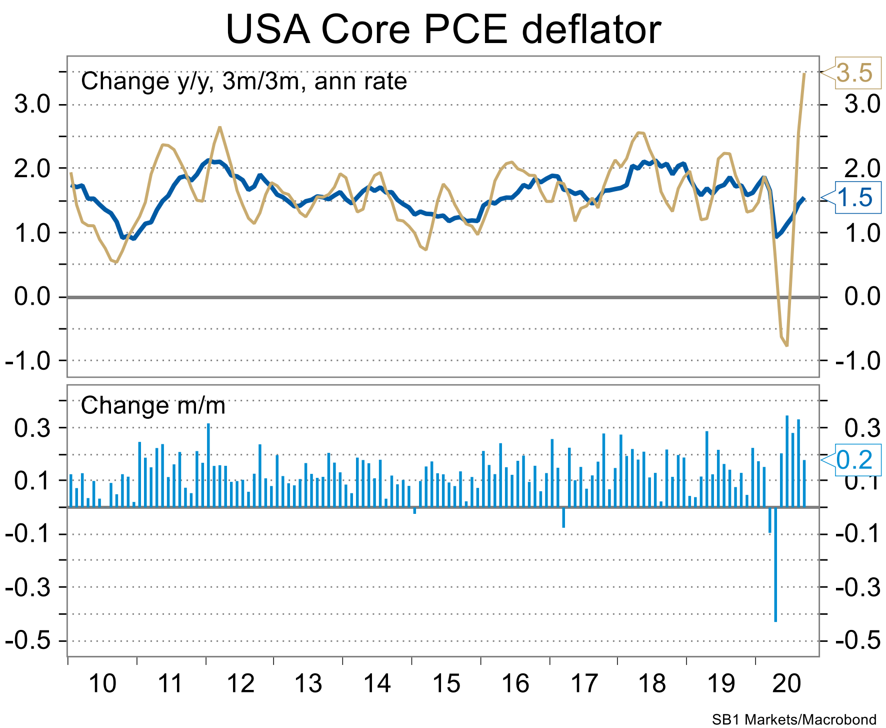


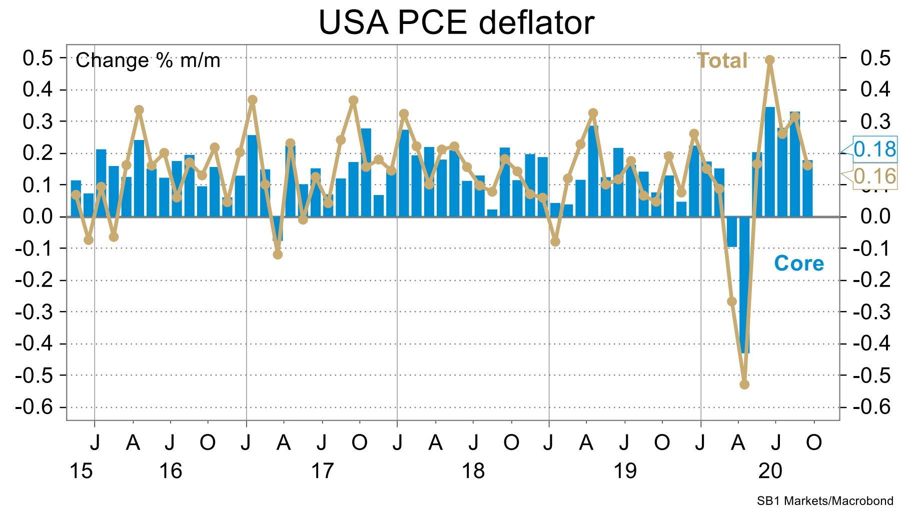


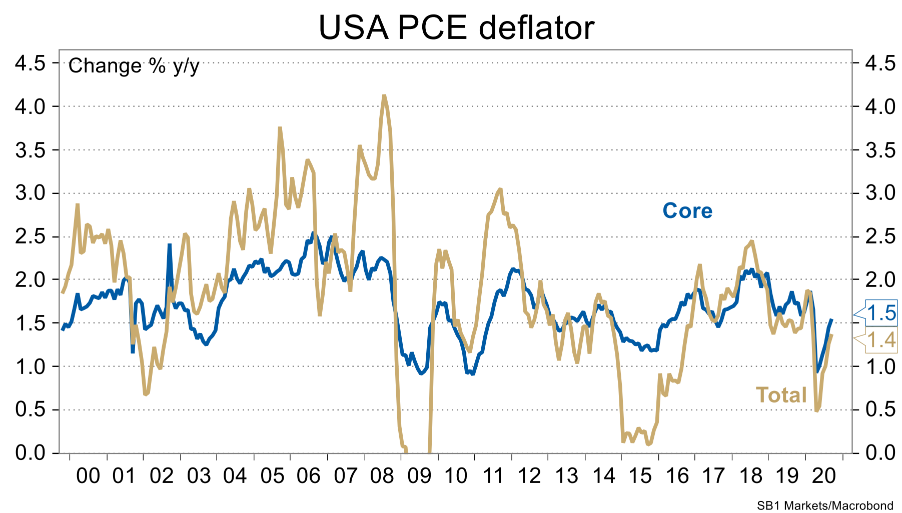
- The savings rate equaled 15.8% in Q3 in average
- The income support increases the probability for a full recovery in spending (or even an overshooting) as soon as the services side of the economy one day fully opens up. Regrettably, it won't happen anytime soon

Core PCE prices up 0.2% m/m in Sept, annual rate at 1.5%, well below expect.

… and growth in August was revised down to 1.4% from 1.6%



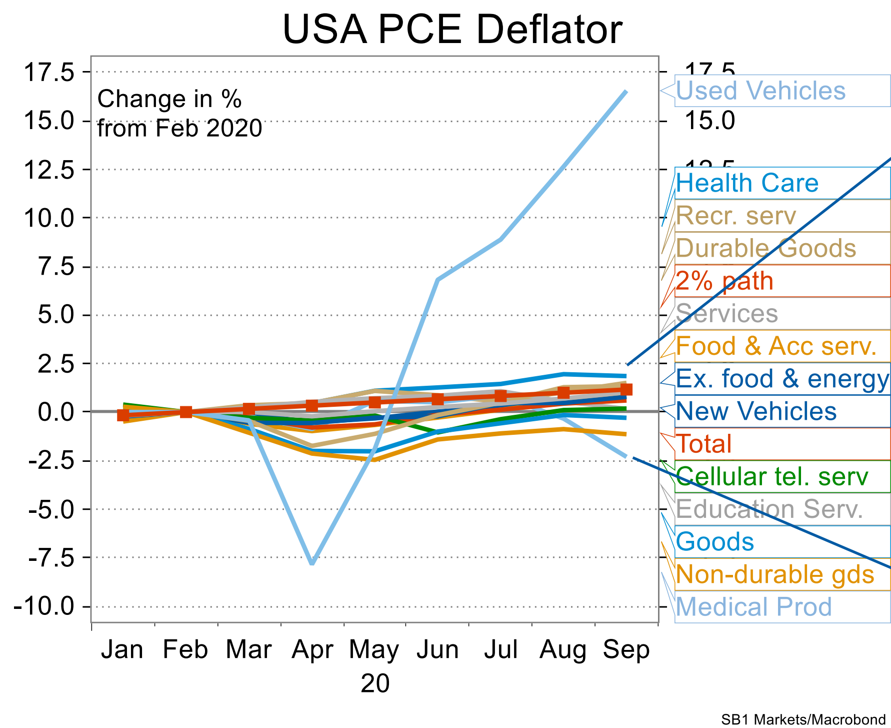


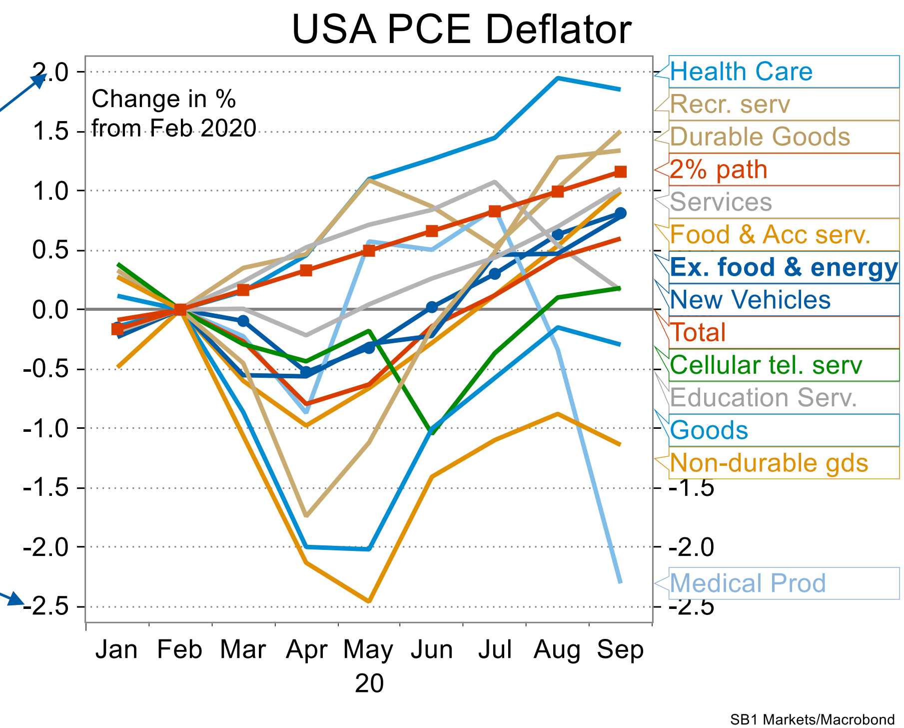


- The core price deflator rose by 0.2% in Sept, as expected, but the annual rate was far lower than expected due to the revisions. The Federal Reserve expected a 1.5% average growth rate in Q4, which do not seem to be unlikely down
- Total PCE accelerated 0.1 p 1.4% y/y

Used vehicles are in short supply, prices straight up. Most others below 2% path

Since, February the underlying inflation rate has equalled approx 1.4%



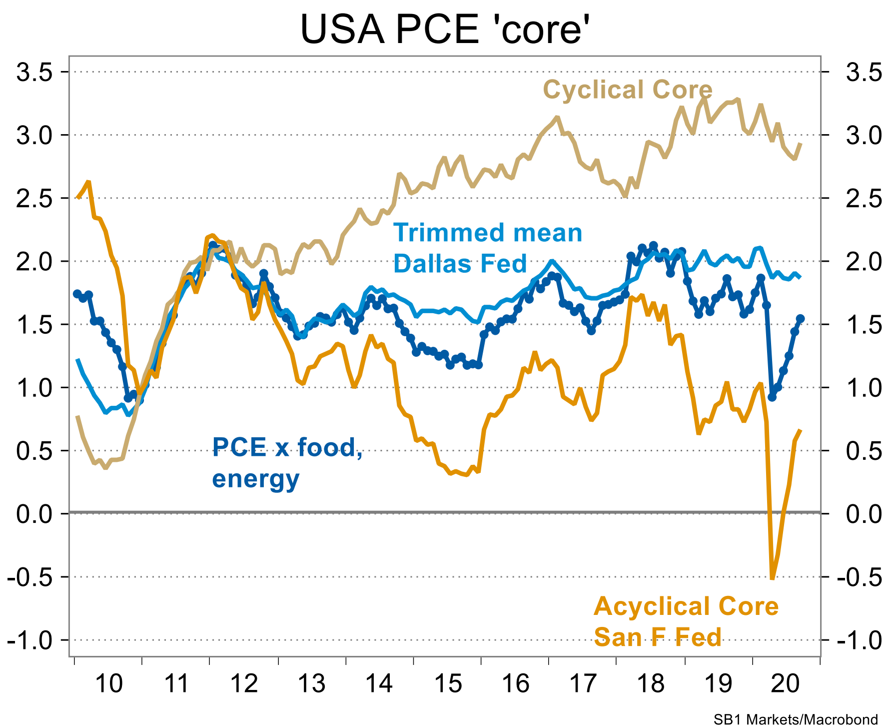


- Second hand car prices are up 17% since Feb - after an 8% decline!

SpareBank 1 MARKETS

The PCE deflator is below par – but not due to cyclical factors

Cyclical core PCE inflation at 2.9% - the acyclical index at 0.7%



- It's hard to move the acyclical (non-cyclical) components of the
- The trimmed mead is just marginally below 2%

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

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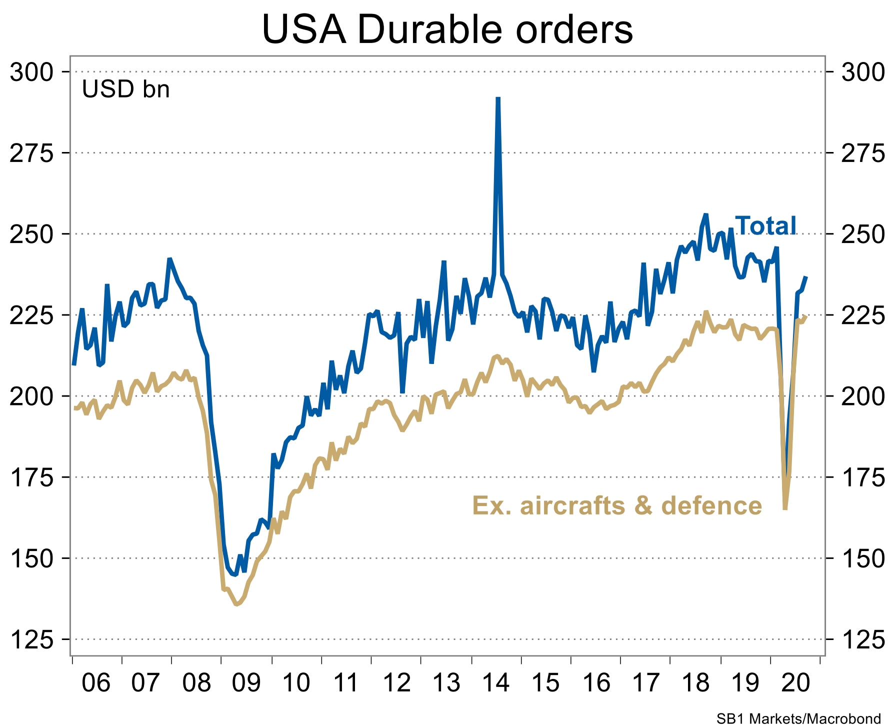
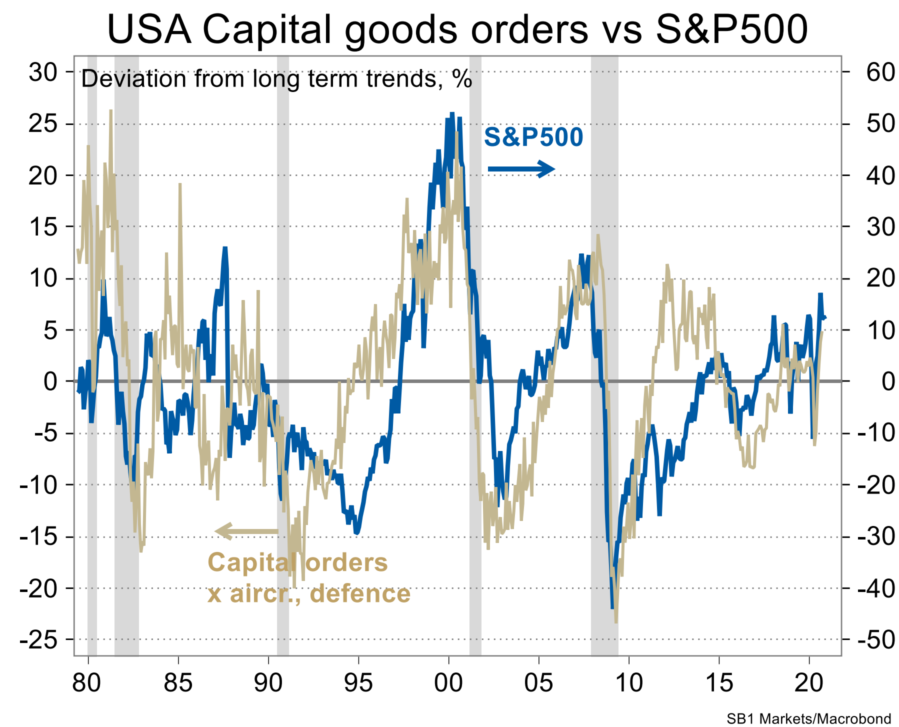
Core durable orders further up in Sept, ex aircrafts well above pre corona level!

A narrow 'V' shape for core orders, +2% from early 2020! Even the grand total just down <2%!

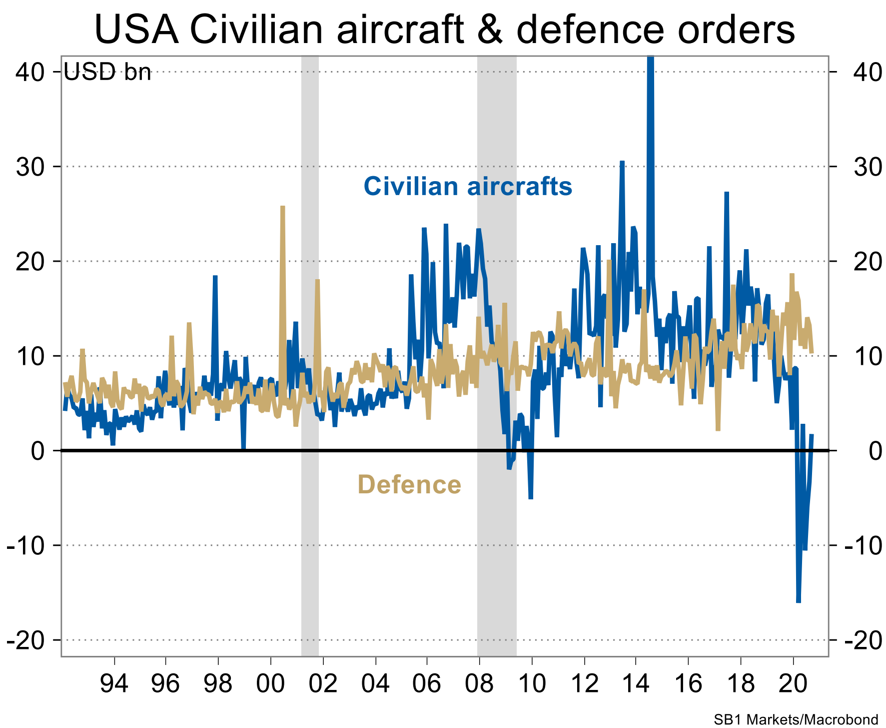


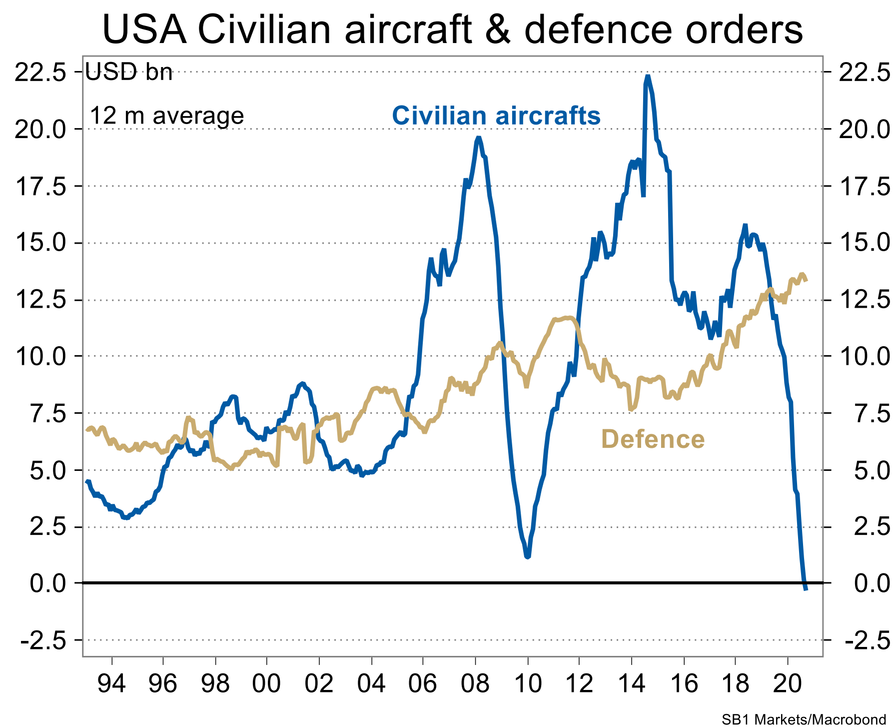


- Core durable orders up 1% in Sept, somewhat better than expected. Orders are up 36% from April – and up 2% vs the level in early 2020
- Total orders inched up almost 2%, expected 1%, and are now less than 2% down vs the pre corona level. The difference to core orders is due to close to zero net orders for new civil aircrafts (although up from net cancellations in the March-Aug periode
- Core investment goods orders rose another 1.8% in August, suggesting a rapid recovery in Q3, by close to a 40% annualised rate, record high, of course. In Q2, investments fell by 26% (annualised)

Boeing orders have been hit hard, now finally back in (net) plus

Net aircraft orders have been negative since March, barring a small plus in May

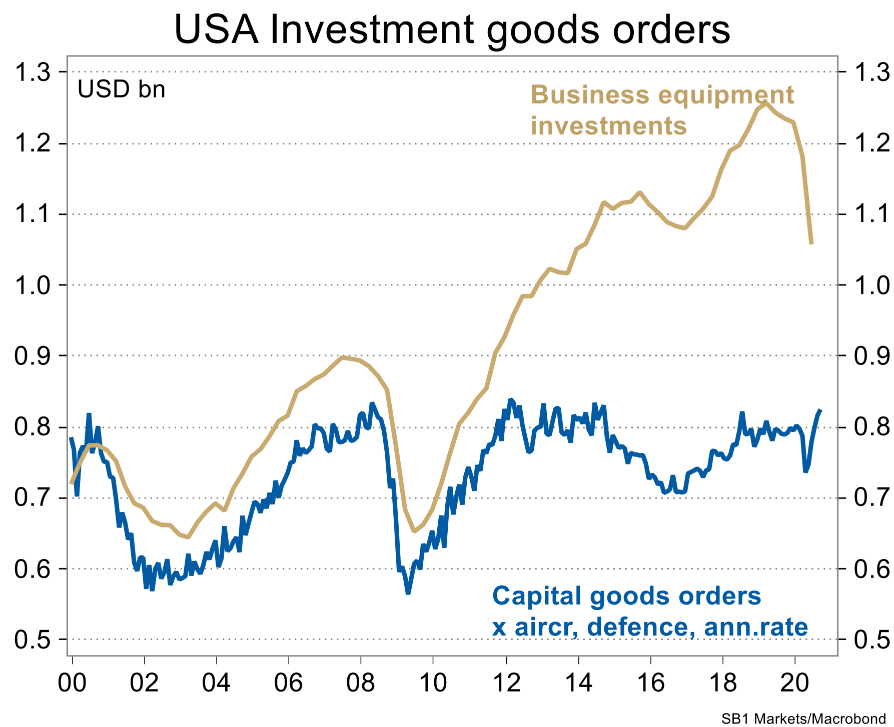


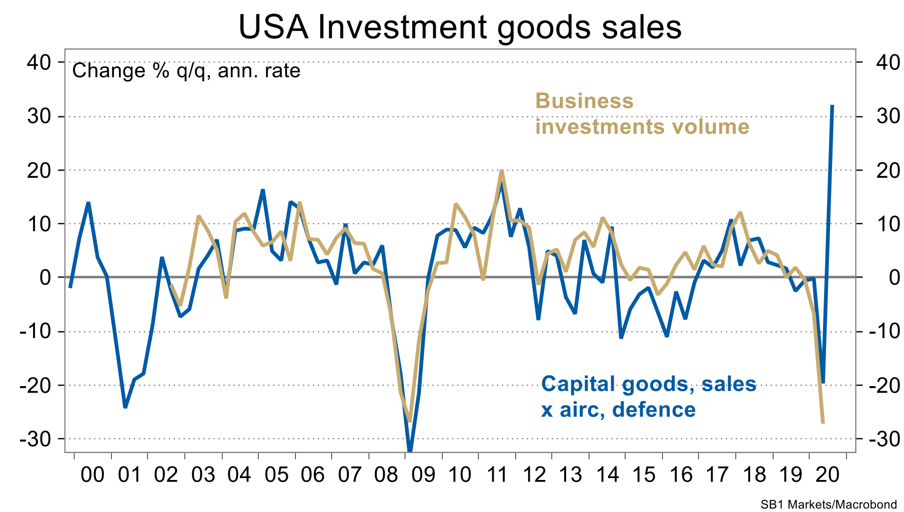


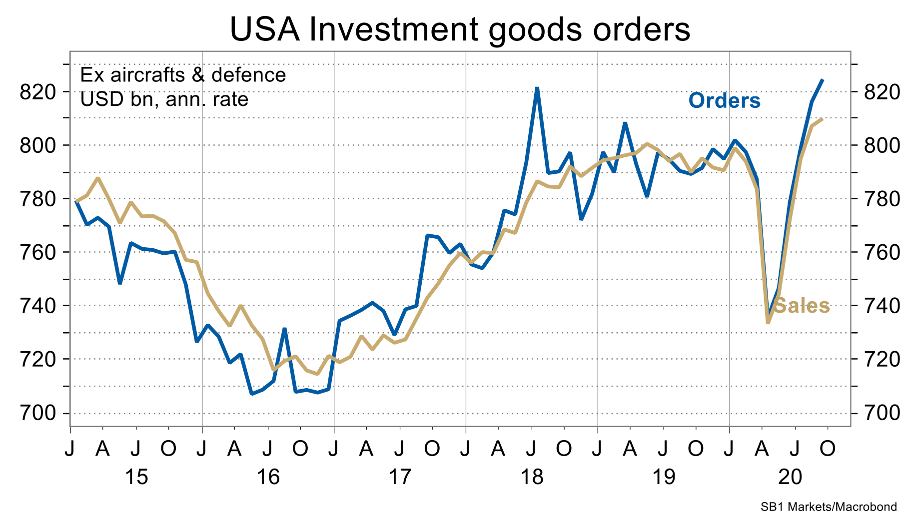
- Still, compared to ‘normal’ turbulence in this industry, the weakness over the past 3 quarters (it started last spring!) is not surprising at all – even if the USD 40 bn net cancellations to August from March are unprecedented

Core capital goods orders & sales rose further in Sept, 3% above pre corona level

Core orders rose 1% in Sept, to the highest level in 6 years. Did you expect that back in, say, April?



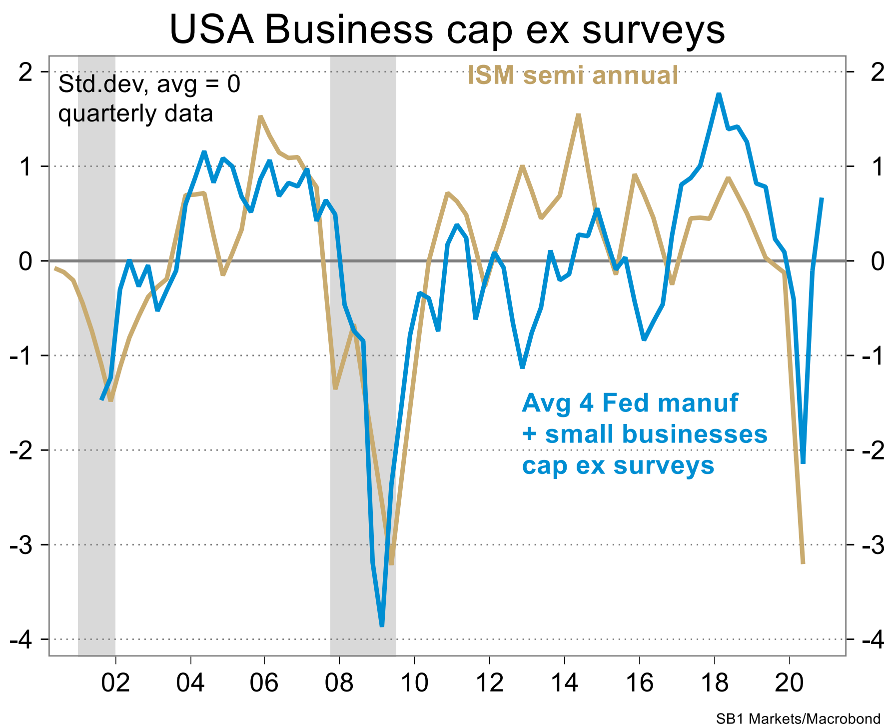


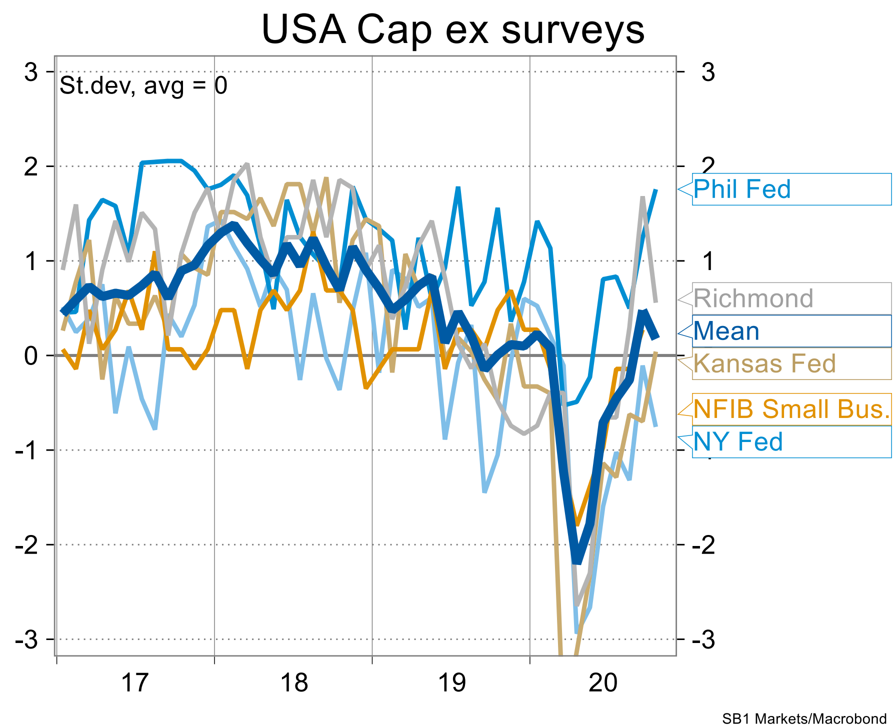


- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
  - » Usually, the downturns in investment goods orders as well as in actual business investments are stretched out over time, typically one year, or even more. And then 1- 2 years to recover
- Business survey signal a recovery, but not a sharp one. However, the survey <u>levels</u> may be too low, like the PMIs/ISM have been vs actual production

Business were planning aggressive investment cuts. No more.

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

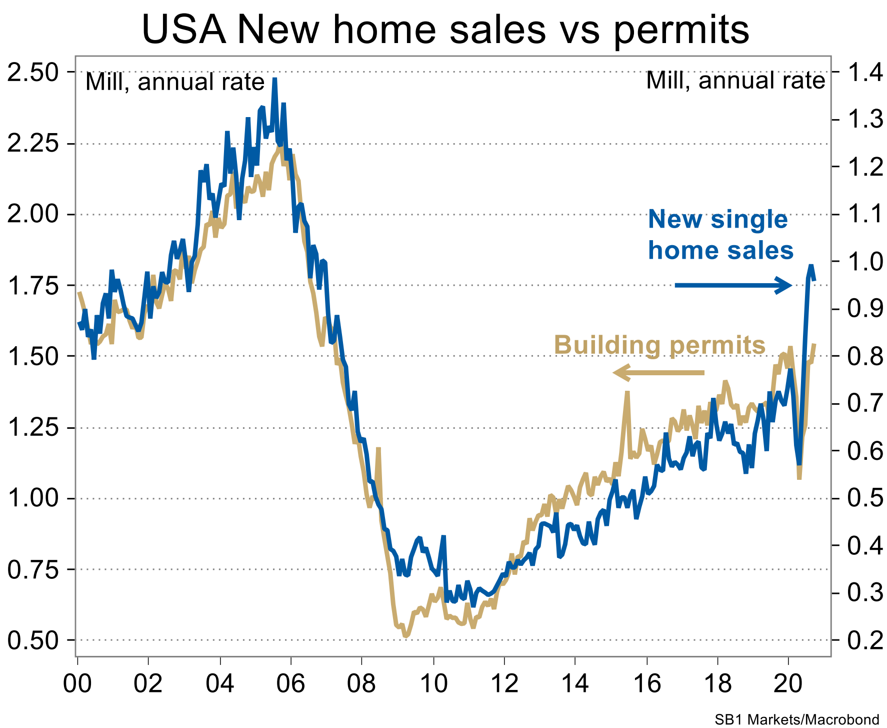




- Investment plans have been nudged up in all the regional surveys. In average, the surveys are now at par
- The ISM semi annual survey is from Q2, the other surveys from Sept/Aug

New home sales down in Sept but still almost 40% above pre corona

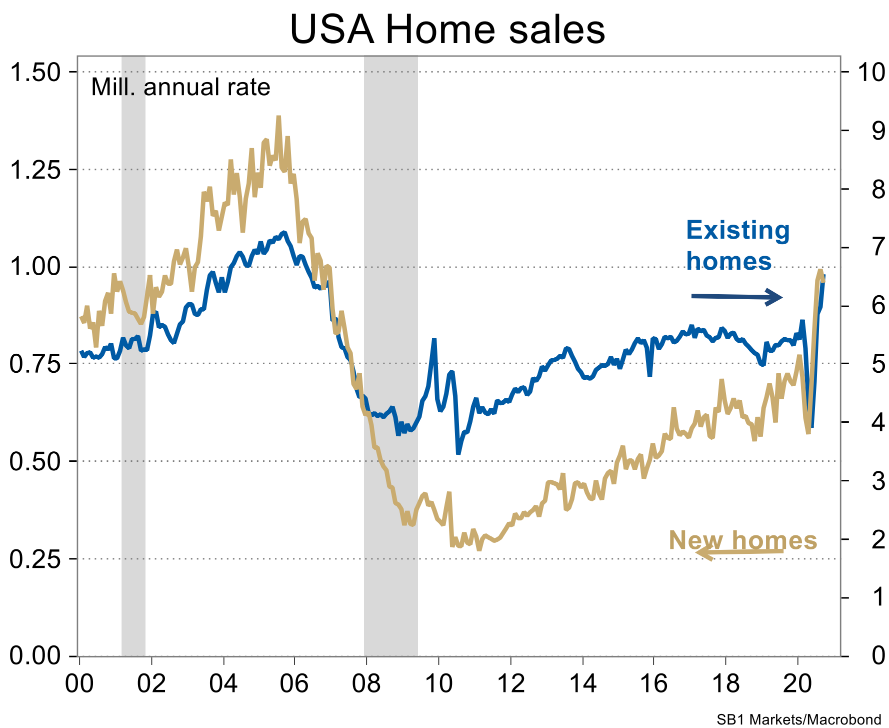
Sales so far in 2020 are up 17% vs. 2019; no pent up can explain the 3 past very strong months

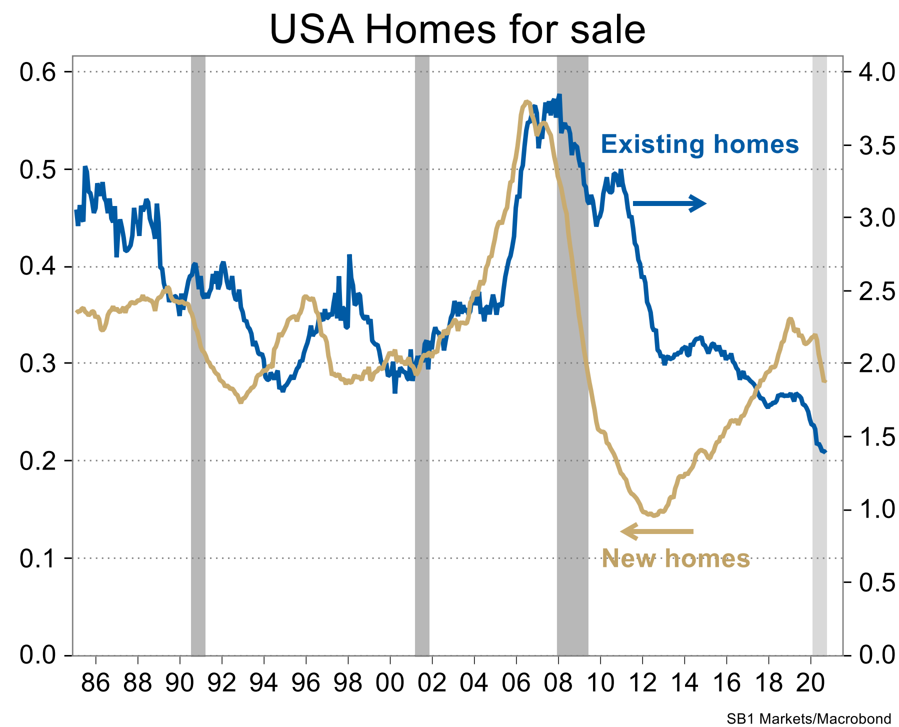


- New single home sales fell 3.5% to 959', expected marg up 1.000' – but that's not the important fact: New home sales are running at high level

Both new and existing home sales are running at a high level; inventories down

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

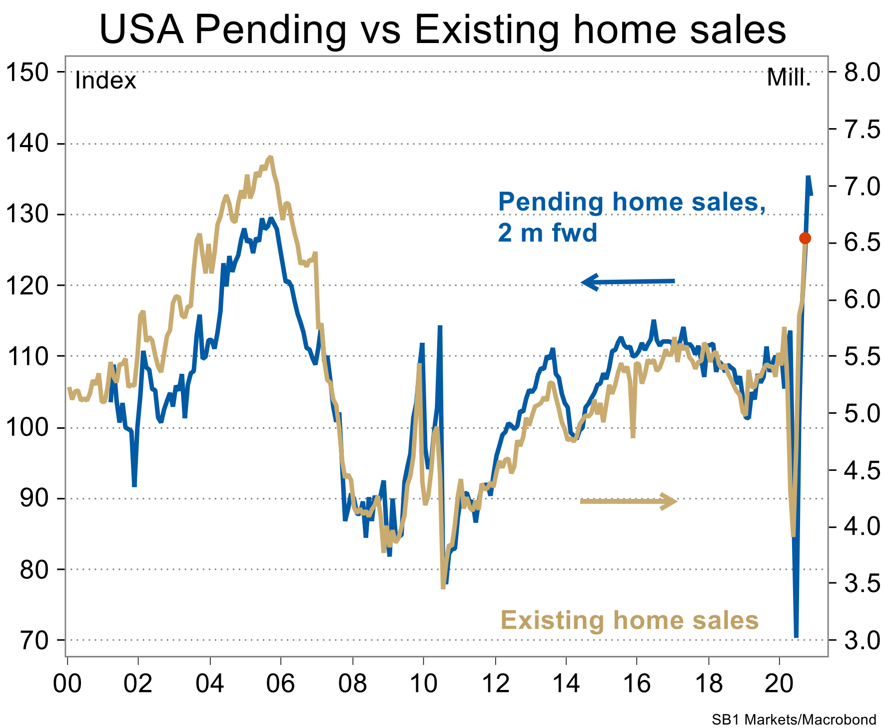


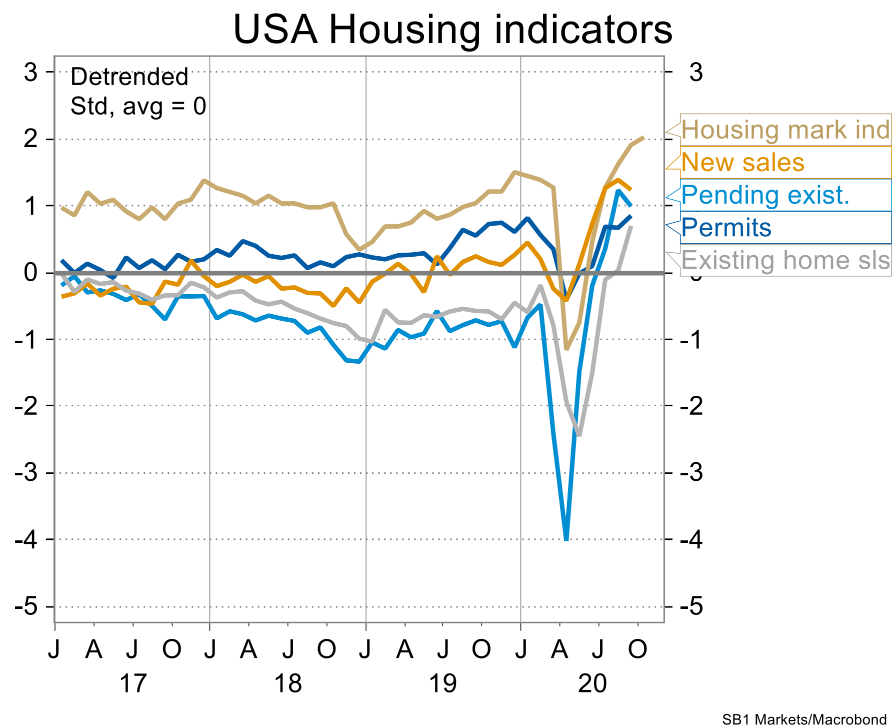


- The inventory of **unsold existing homes** at the market is the lowest on record – data back to 1985
  - » The inventory/sale ratio is the lowest ever too
- The number of **new unsold homes** is falling rapidly and the level is low, especially vs. new home sales

Pending home sales slightly down in Sept – but level record high

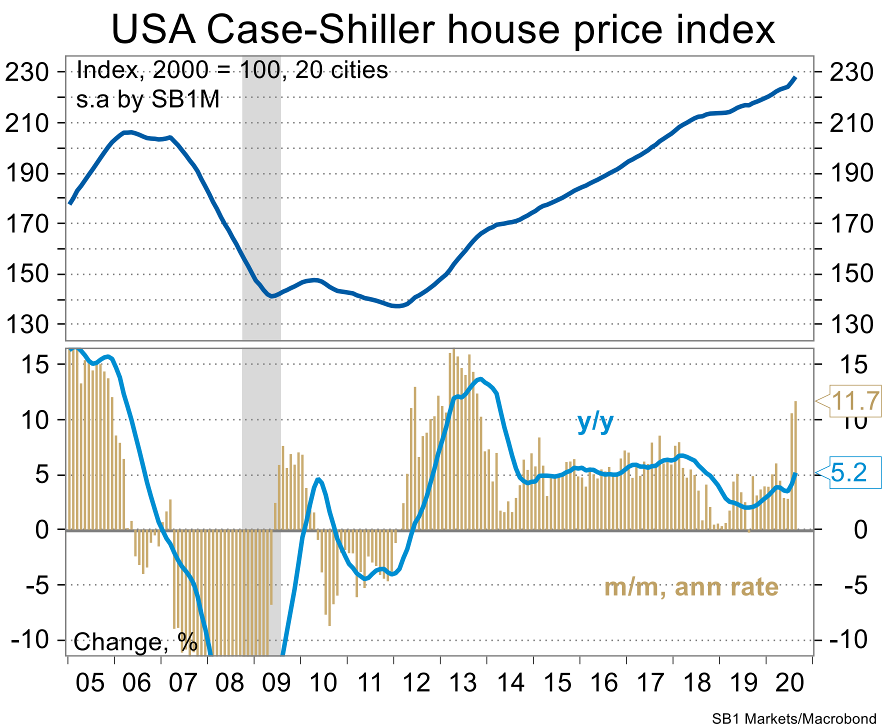
Another sign of an incredible strong US housing market – other indicators are also strong

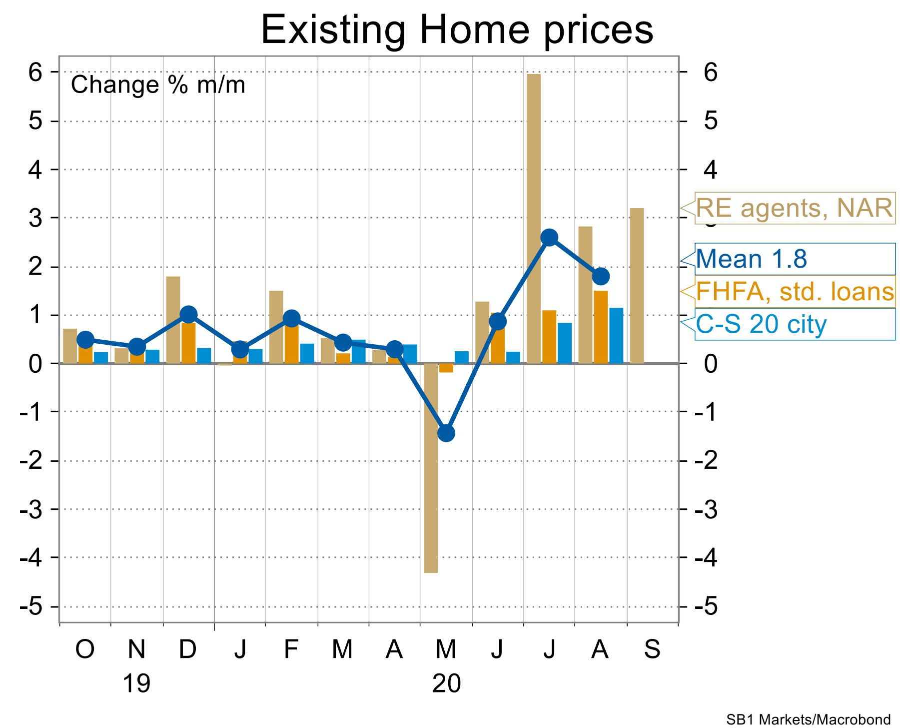




Shiller joins, house prices are rising rapidly (if not by 15% y/y)

C-S prices rose 11.7% m/m (a.r) in Aug, and July revised up. Realtors report far (too high) price lifts

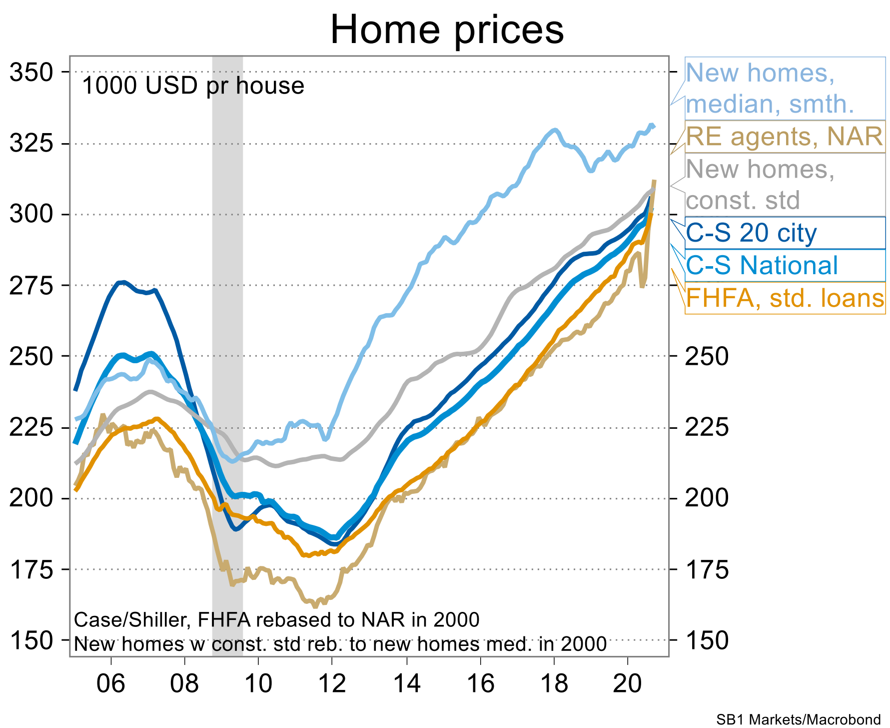


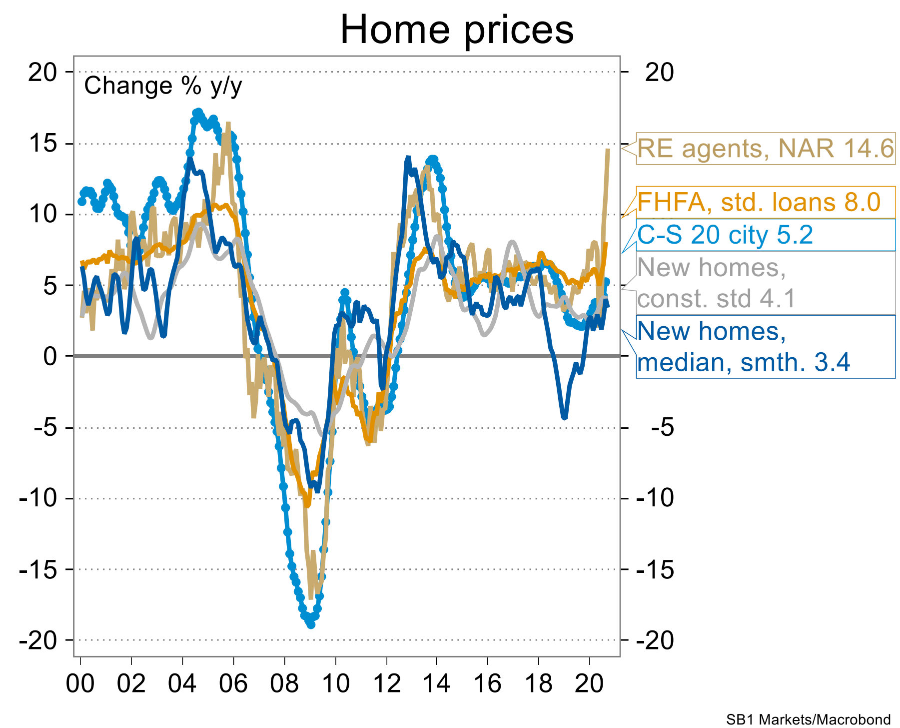


- Case/Shiller's price index rose 1.1% m/m in August (11.7% annual rate), the highest in 7 years! Annual price inflation is still modest at 5.2%. July prices were revised marginally up (we use our seasonally adjusted data, not the published data)
- According to the realtors, prices rose by 6% m/m in July (not annualised) and then by 3% in both Aug and Sept – and prices are up 14.6% y/y (again, seasonally adjusted by SB1M). The FHFA index is up 8% y/y
- The price index for FHFA (public) guaranteed homes rose by 1.5% m/m in Sept, up from 1.1% in July – and its up 8% y/y

Something is going on, house prices are moving fast upwards

As mortgage rates are record low

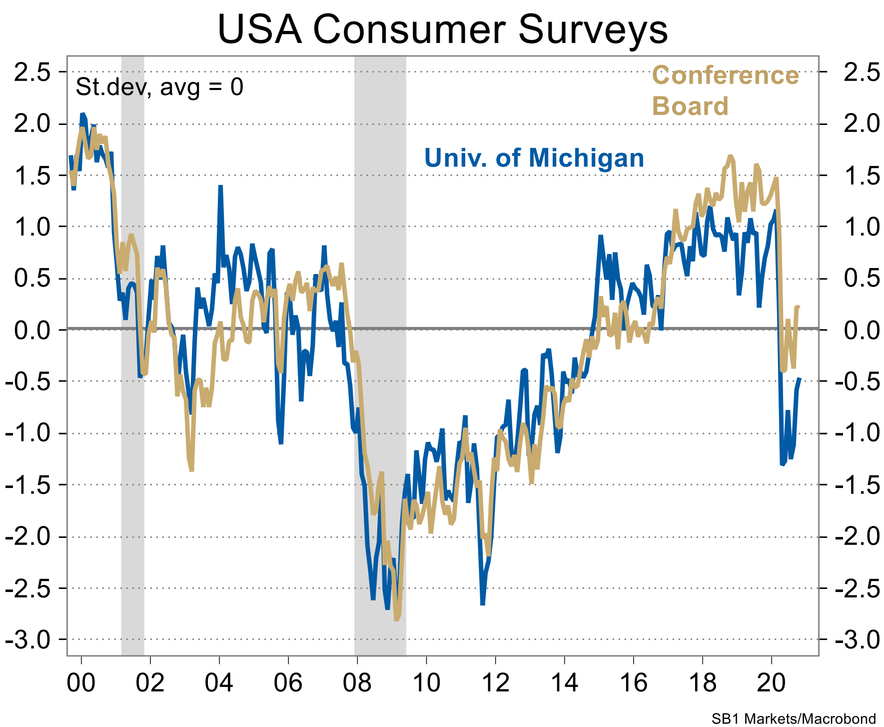


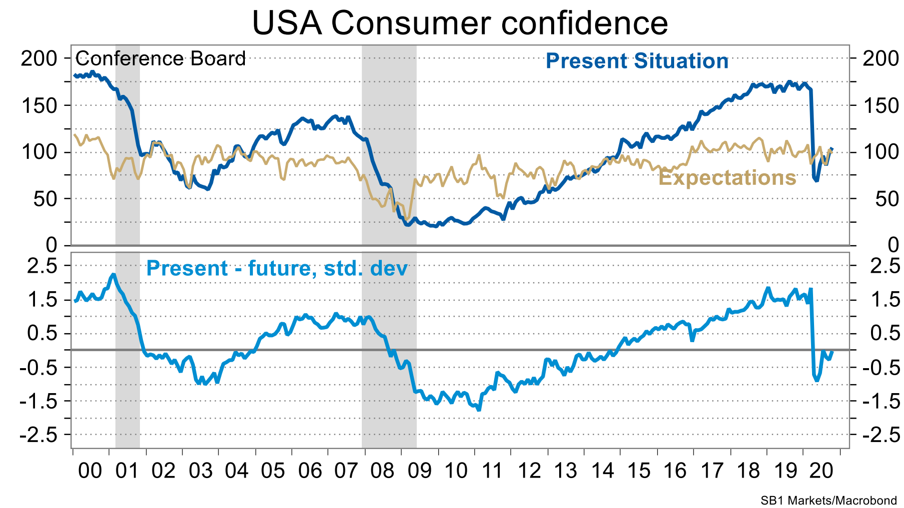


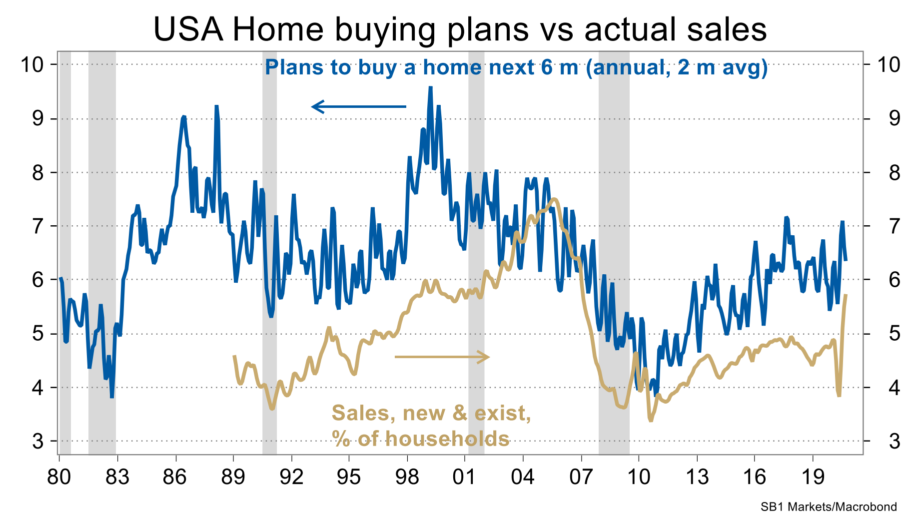
- The realtor's index is a primitive median 'raw' index, and more volatile than other house price indices. A change in the sales mix towards the high end of the market (size, standard or location) have very likely lifted the median price
- Still, 'something is very likely going on' at the housing market. 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

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

Conference Board's CC flat, slightly above avg in Oct; Univ of M's index marg. up, level below avg







- Given the situation in the US economy & society is perhaps surprising the households' economic confidence is at average level, at least as measured by Conference Boards survey. Univ. of Mich is still reporting weaker than normal consumer sentiment
- Households' assessment of the present situation fell slightly, while expectations rose a tad, according to Conf. Board

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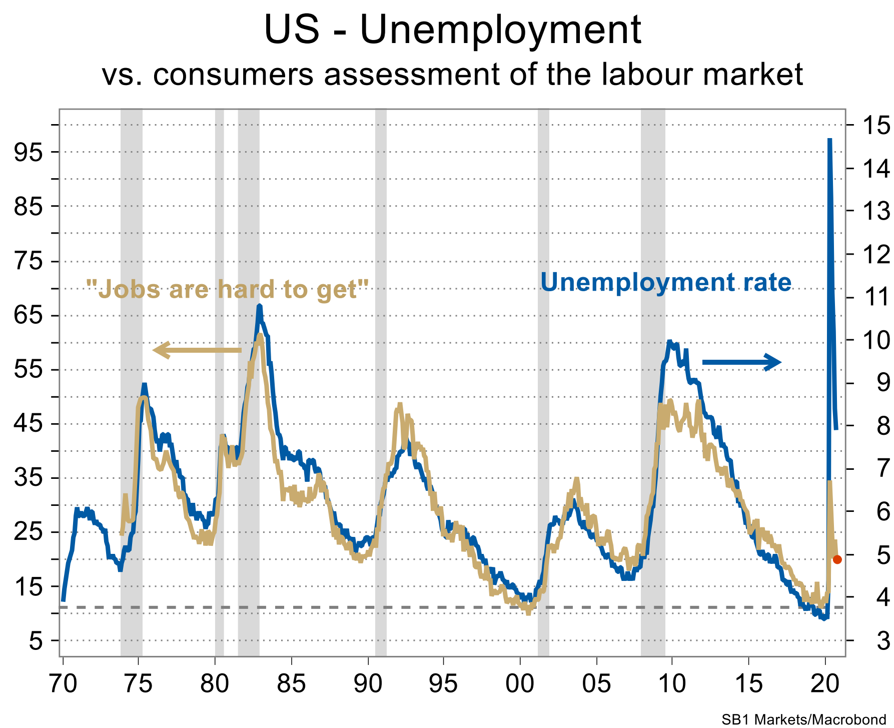
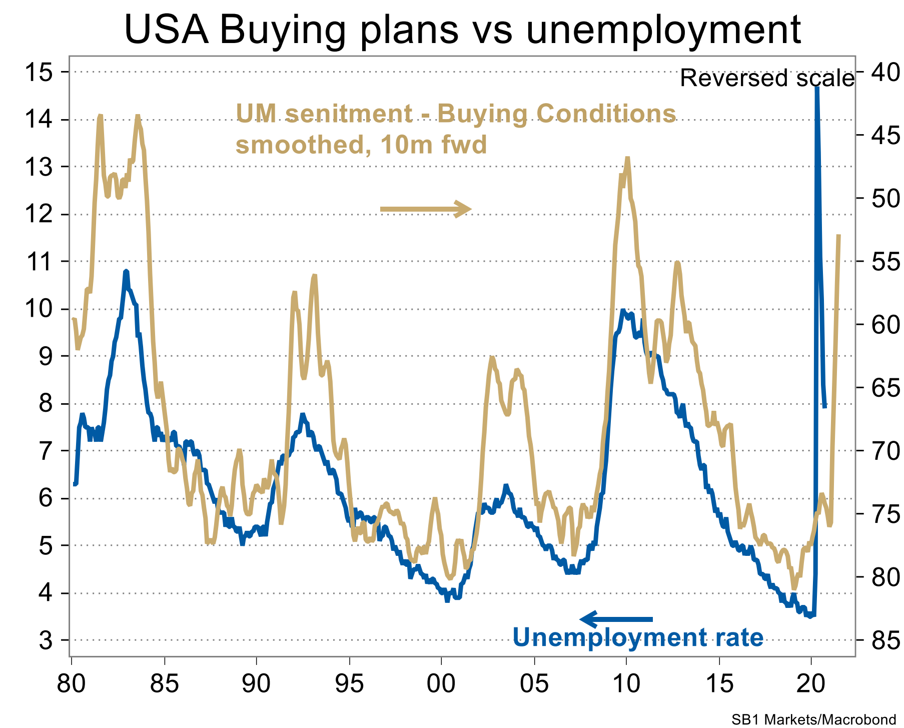
The labour market is not far from prefect, according to the households

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

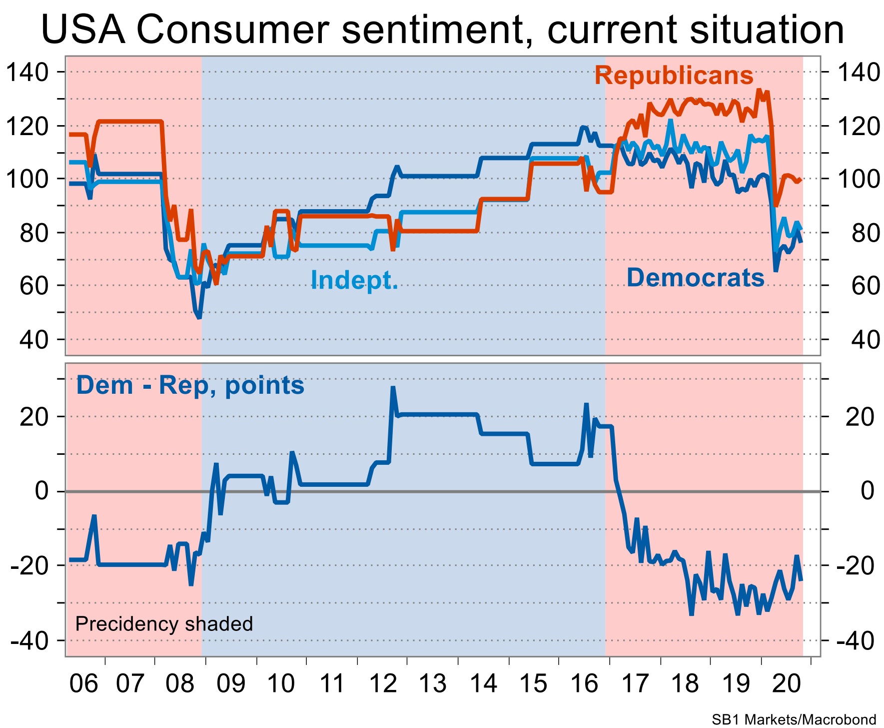




- The ‘jobs are hard to get’ index from Conference Board has come down to a well below average level
- On the other hand: The measure of buying conditions from UoM has been weakening since mid-2018. This index is usually quite closely correlated to the unemployment rate, leading in average by 10-12 months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

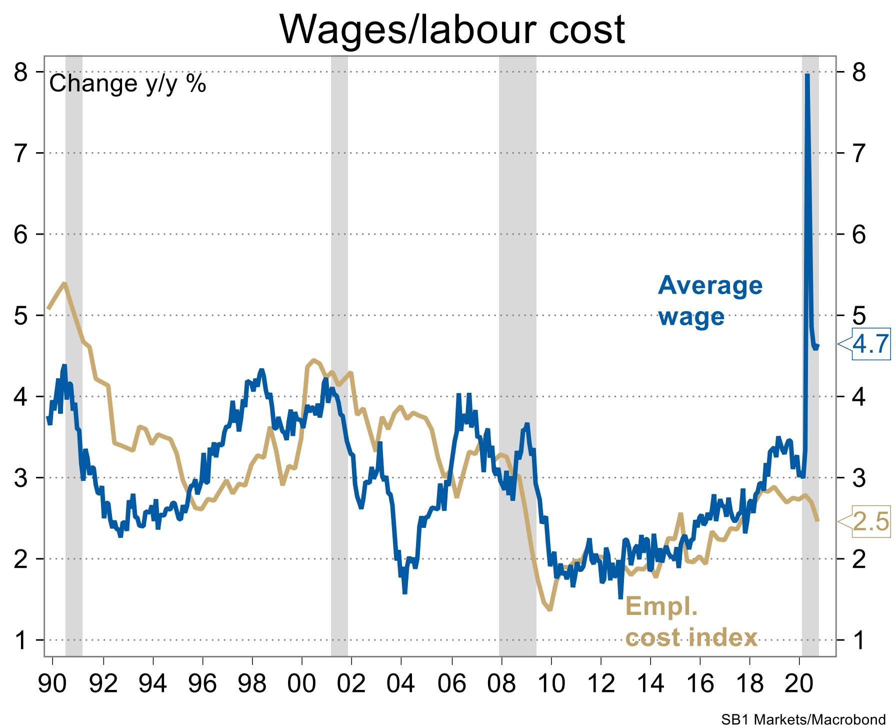
Will the assessment of the current economic situation switch once more?

… that is, among the voters – if the Democrats win, of course



Employment costs are not accelerating, of course

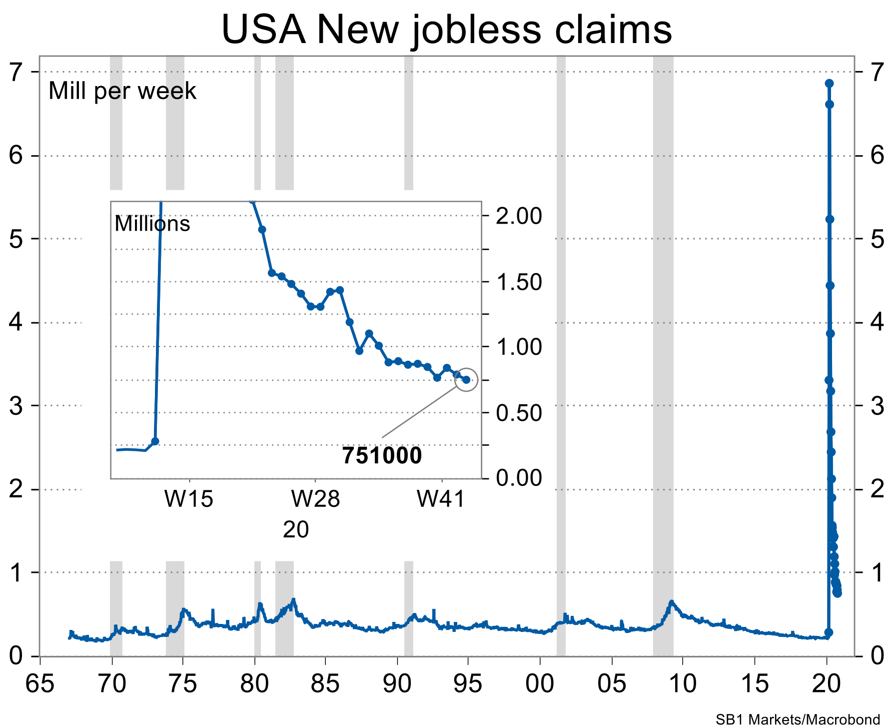
The Employment Cost Index rose 2.0% q/q in Q3, like in Q2, way below the increase in average wages

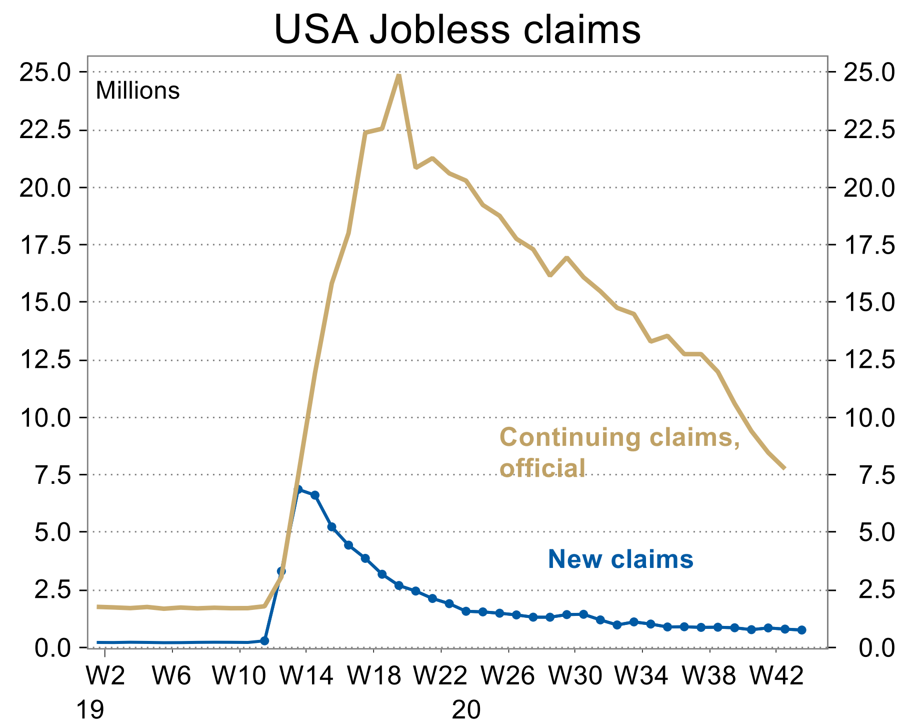


- … because ECI statistics are adjusted for changes in the mix of labour, it measures wage for 'the same worker', not the average wage for all workers. Now the difference is HUGE, far larger than we have ever seen before!
  - » The Covid-19 recession has been especially tough for the lower paid – and the average wage for the remaining employees has risen sharply
- Over the past year, the employment costs are up 2.5% - and it is now trending marginally down

New jobless claims back on downward trend past two weeks

‘Just’ 751’ new claims last wee - still an unusual high number

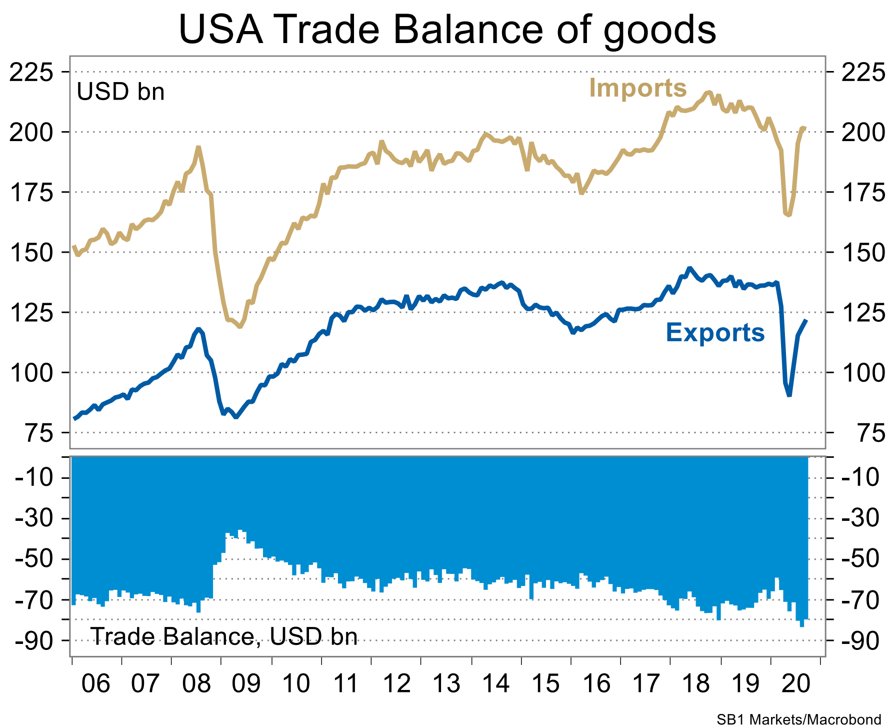


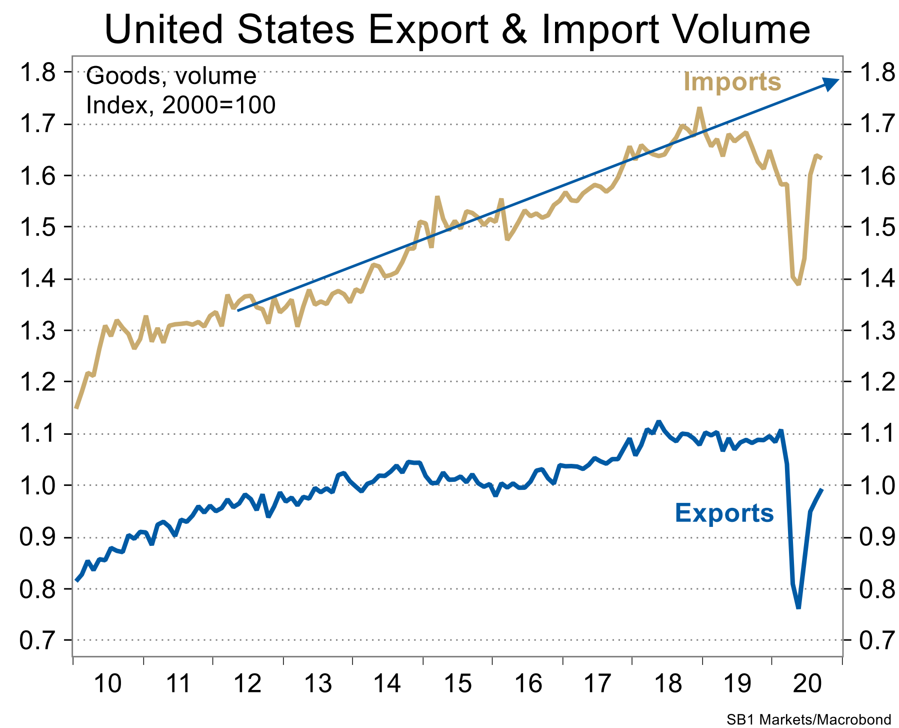


- The inflow (or rather outflow) is still brisk, some 0.5% of the employed loses their job, each week – so the turmoil is still higher then even seen before (barring the few recent months, of course)
- Even so, the no of persons receiving unemployment benefits – continued claims – is falling rapidly. 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)

Trade a drag on Q3 GDP, but the deficit now flattens. Imports ‘normal’, exp -10%

Exports up 2.7% in Sept, imports a tad down, the deficit has flattened through Q3

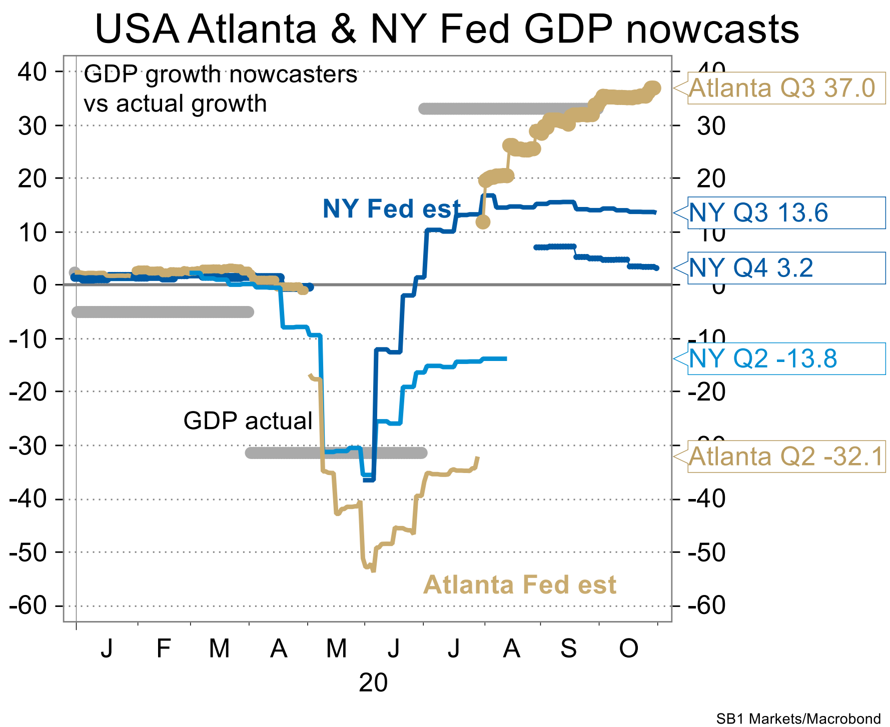


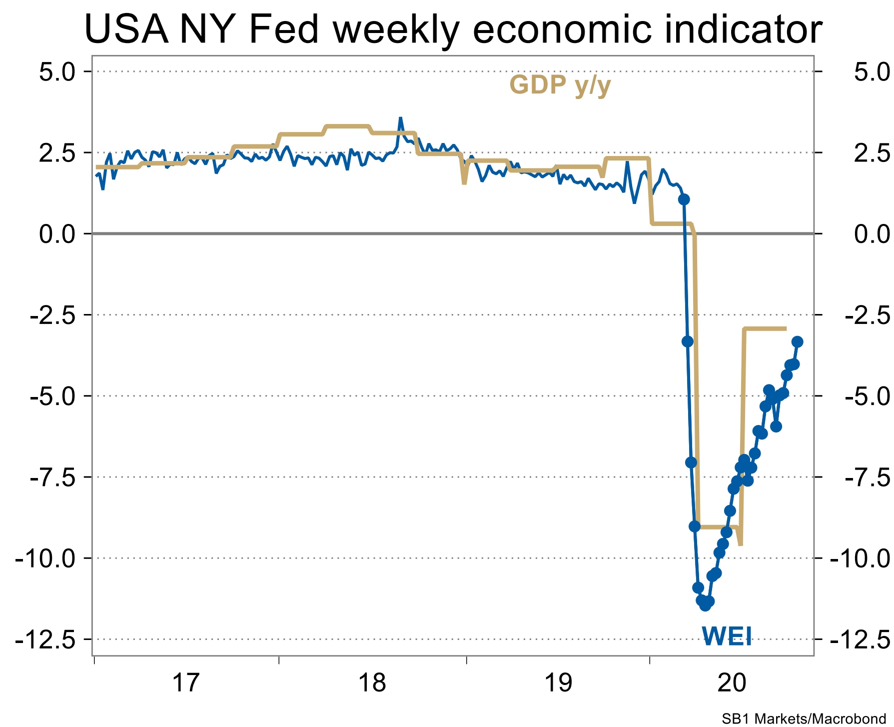


- The deficit rose sharply to Q3, in average. The outlook for Q4 is better, at least the speed into Q4
- Import values & volumes are back to the pre corona level, though some few % down from the late 2018 level – and 8% below the trend growth path 2012-2018 – as the US economy was slowing ahead of the corona outbreak
- Exports are still well below the level in early 2020, by 10% in volume terms, but not more vs. the pre corona trend – which was rather flat

Atlanta Fed nowcaster once more close to the ball, NY Fed's quarterly model not

However, economist's consensus at 32% was far better than both nowcasters

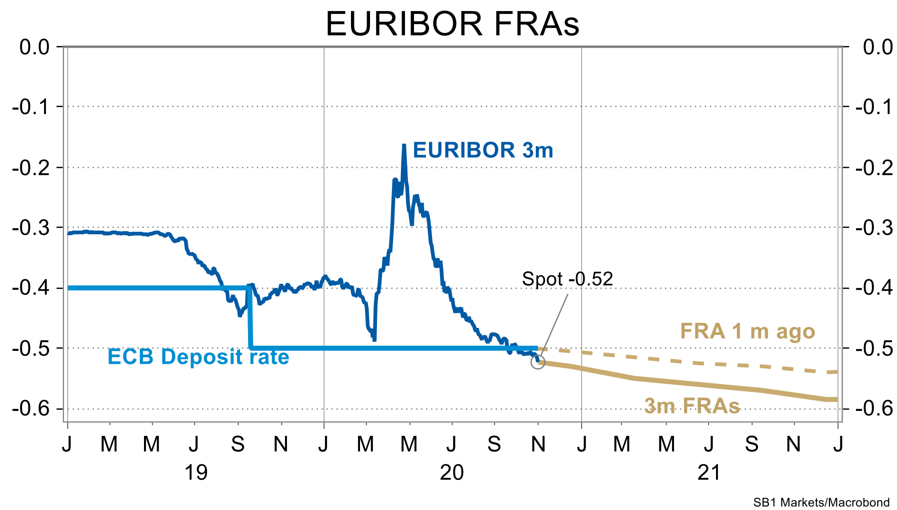


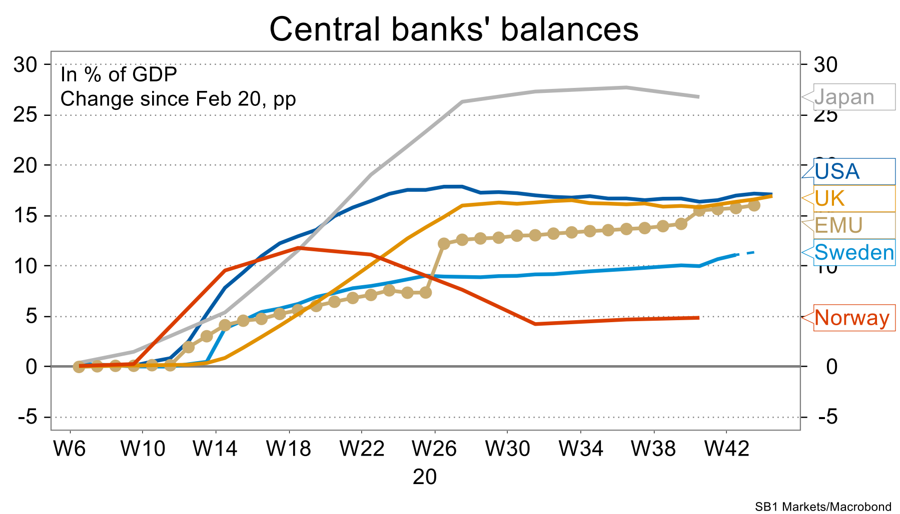


- NY Fed's weekly model signals a further gradual recovery into Q4, the GDP indicator is so far down 3.3% y/y
  - » In Q3, growth was better than the weekly model signalled

ECB did nothing, as expected. But the bank talked a lot

The bank is preparing several measures to be announced at the December meeting





- But it was not prepared to do anything now…
- Lagarde said it was 'necessary to take action', as the risks clearly were tilted to the downside, and the bank was prepared to respond
- The staff had started work to potential adjustments/recalibration of 'all our instruments'
- Barring a Covid miracle (some believe it will disappear Nov 4th , just like miracle), the ECB at the next meeting in December no doubt will deliver
  - An even more aggressive QE, up from the current target at EUR 1.35 trl. The ECB is still buying a lot, while Fed's overall balance is not growing anymore. There is no limit to what or how much the ECB could buy?
  - The bank could subsidise banks even more, vs. the -1% rate on some loans now
  - Most likely, the ECB is hesitant cutting the signal rate further into negative territory. Still, the market is pricing in a cut, before Christmas but no more than 10 bps to -0.6% (and further down to -0.7 by the end of 2021 (but the Dec contract just fell by 1 bps to -53 bps last Thursday

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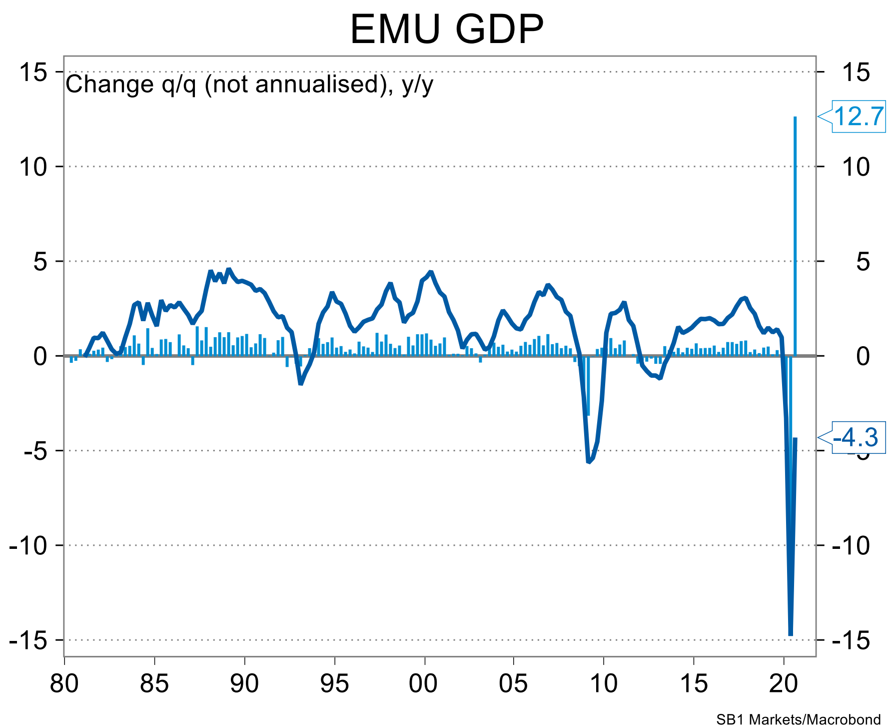
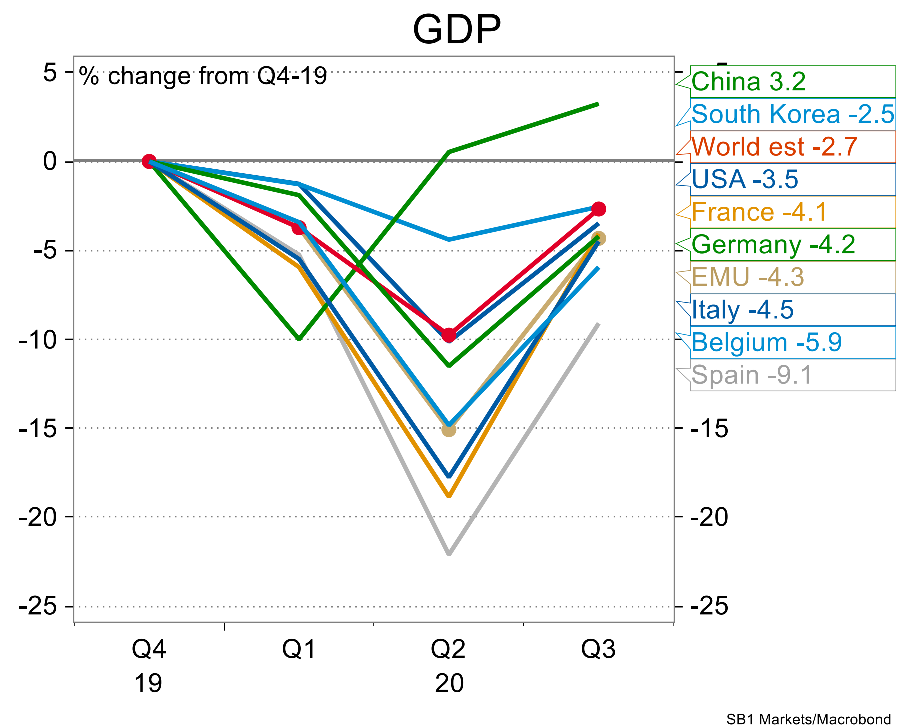
GDP up 12.7% in Q3 (61% annualised, if you prefer), far better than expected

GDP down 'just' 4.3% vs. Q4-19, but Spain down 9%. *Anyway, now we enter the 2nd wave*

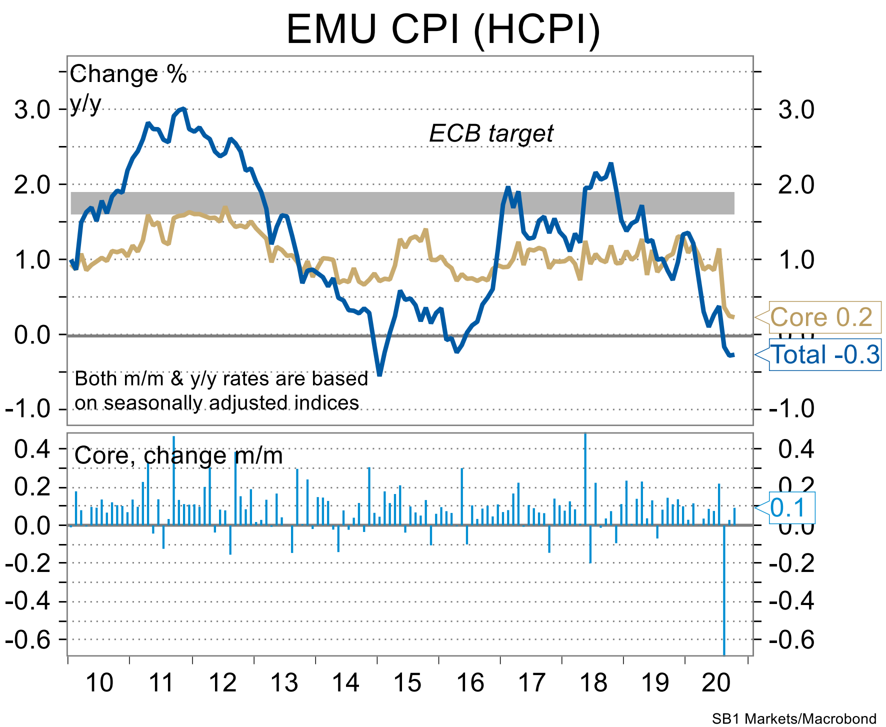


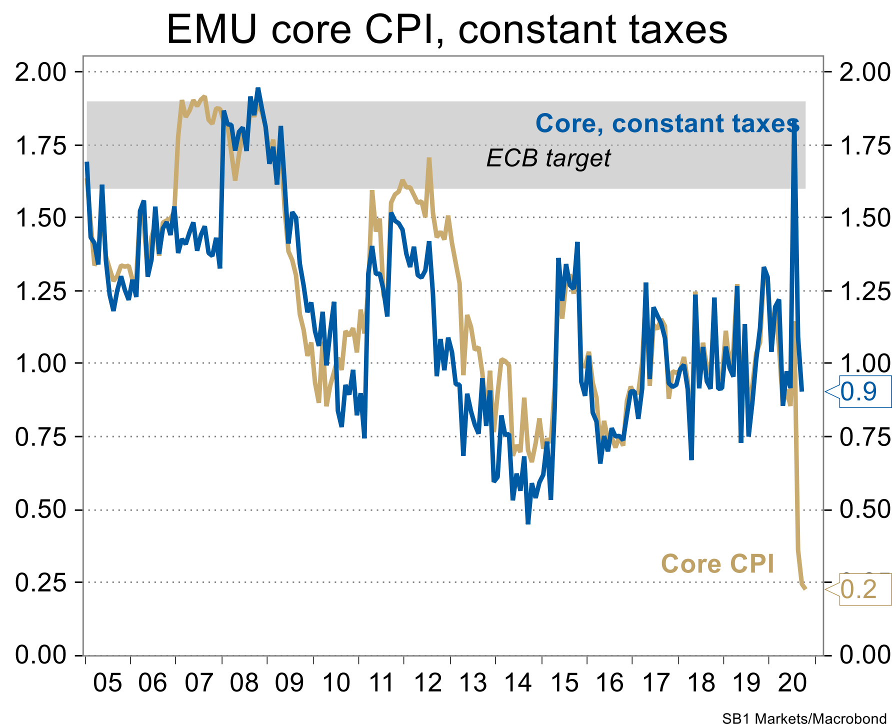


- GDP rose by 12.7% q/q in Q3, far ahead of expectations at 9.6% (and 7.5% less than 2 weeks ago). GDP is down 4.3% vs. Q4 - and down 4.3% y/y
  - GDP grew by 8.2% q/q in Germany, 16.1% in Italy, 16.7% in Spain and 18.3% in France (96% annualized ☺), all better than expected
  - France, Germany and Italy was down 4.1 – 4.5% from Q4. No demand or other detail yet
- GDP in Europe fell much more than in the US in Q2, but grew much faster in Q3
  - Still, the Q3-20 level is 0.8% lower vs Q4-19 compared to the US. However, adjusted for underlying growth in working age population the difference is close to zero. Even so, given the loss of activity in Q2, EMU has performed worse Q1-Q3 accumulated, check the graph here
- **The 2. corona wave is now dampening activity** in 'personal oriented sectors' in most of Europe. The lockdowns are so far less restrictive than in March/April, and the economic impact will be far less damaging. Still, a decline in GDP in Q4 is likely as the carry over into Q4 probably was limited, the Q3/Q2 lift took place through Q2 and during the first part of Q3

Core inflation stable at 0.2% (y/y…), total at -0.3%

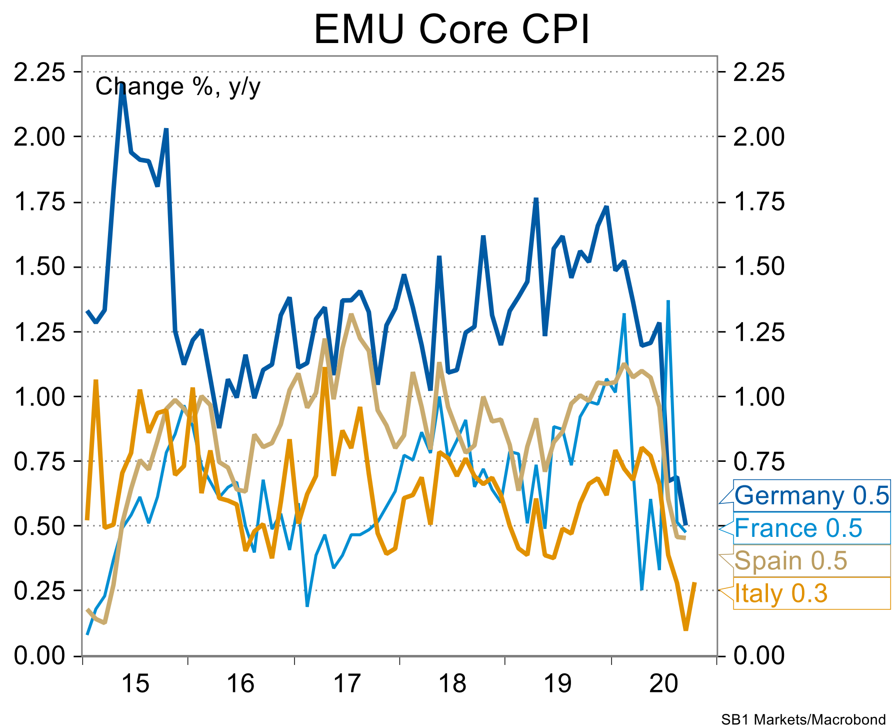
The German VAT cut has lowered EMU inflation by some 0.7 pp. Still, 'real' inflation is too low

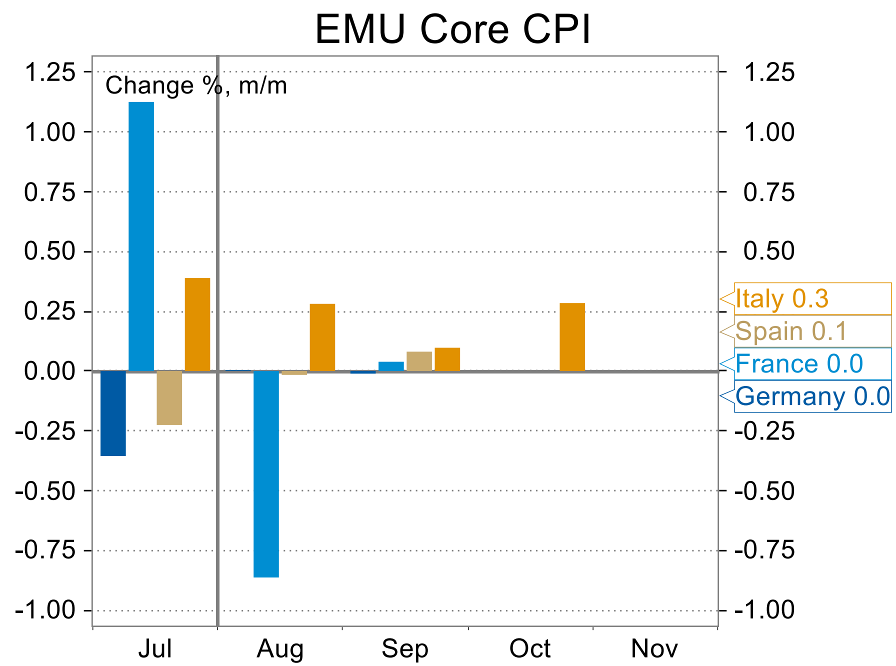


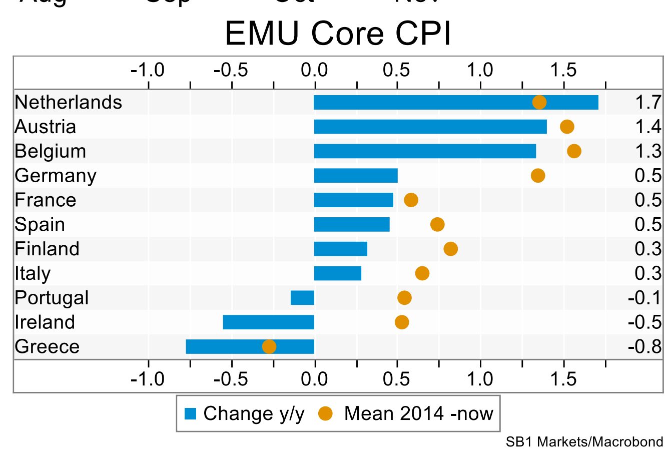


- In October, core prices were grew 0.1% m/m and the annual rate was unch at just 0.2%. Core inflation has fallen in all the major countries. However, the German VAT cut partly explain the slowdown in EMU inflation. The core, constant taxes CPI was 0.9% in Aug and was probably unch in Sept – thus, explaining 0.7 pp of the decline in core inflation, before taxes (like the Norwegian CPI-ATE, 'JAE')
- Energy prices have taken the total CPI down – and the headline HICP was down 0.3% y/y in October, like in Sept. *Good news for European households, and their purchasing power*

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



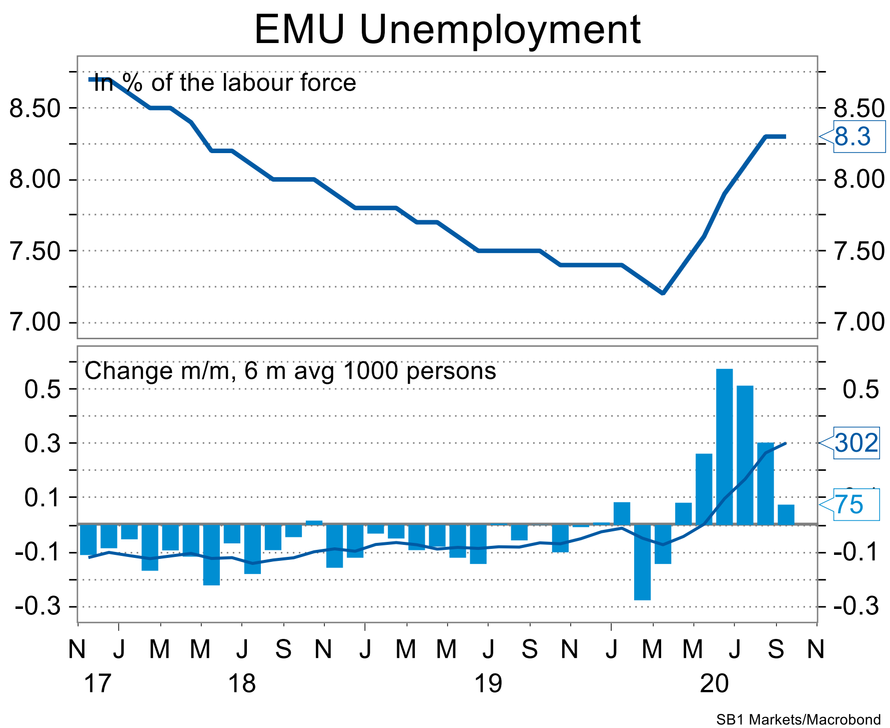


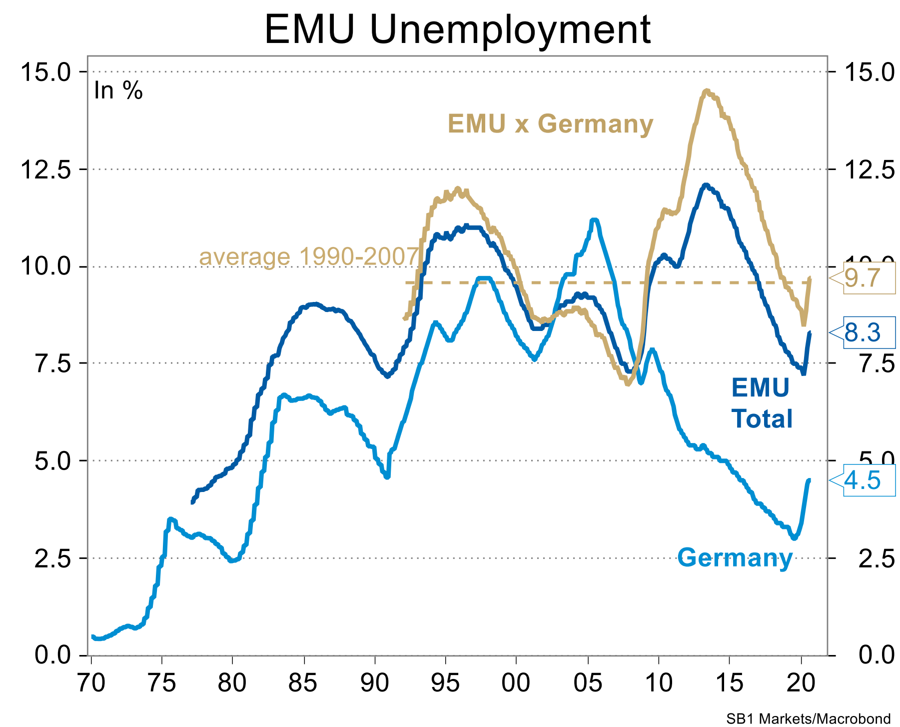


- Greece has fallen into deflation again – and prices are not higher than in 2010 (and core since ’08)

Unemployment up to 8.3%, but the real rate is far higher (and it's falling)

Unemployment stats are 'useless', due to gov. employment subsidies & furlough schemes

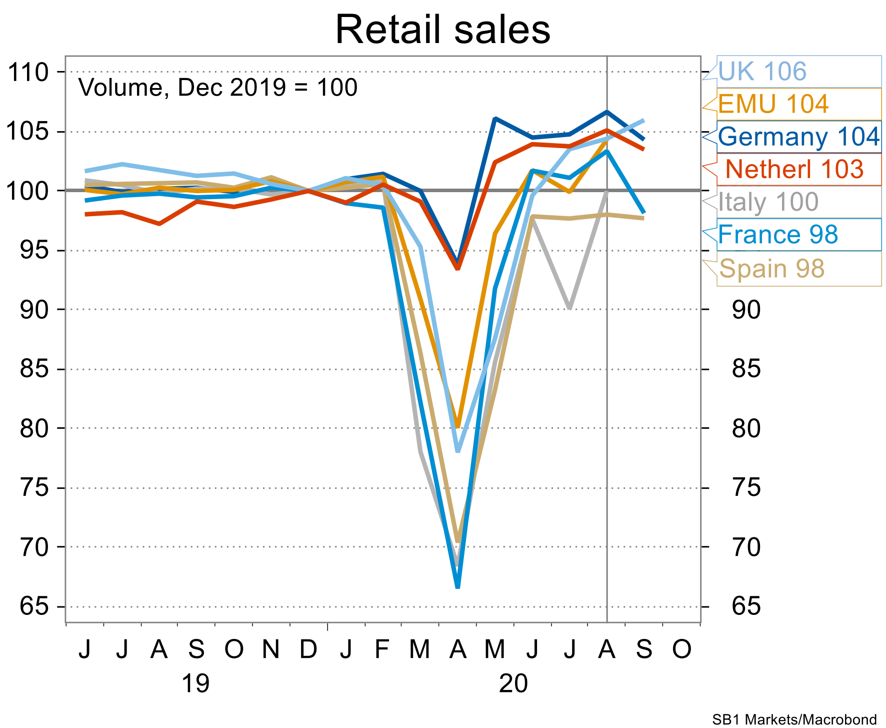




- In September, the number of unemployed rose by 75', down from -300' in August (and almost 500' in June)
  - » In Europe, companies are partly paid to take care of their workers during the lockdown. These government employment programmes makes unemployment stats useless as a gauche of real demand for labour (but the impact on household income is better mirrored by unempl. rates)
  - » Moreover, those who are furloughed are not counted as unemployed the first 3 months in the labour force surveys (like in the Norwegian 'AKU')
- The best proxy for the real unemployment rates, at least vs. demand for labour is the number of hours worked. Q2 was down by almost 17% from Q4. That was the real underutilisation of labour. In Q3, the loss was far lower, given the 13% rise in GDP

Retail sales down in Sept, but level still above pre corona, at least in avg

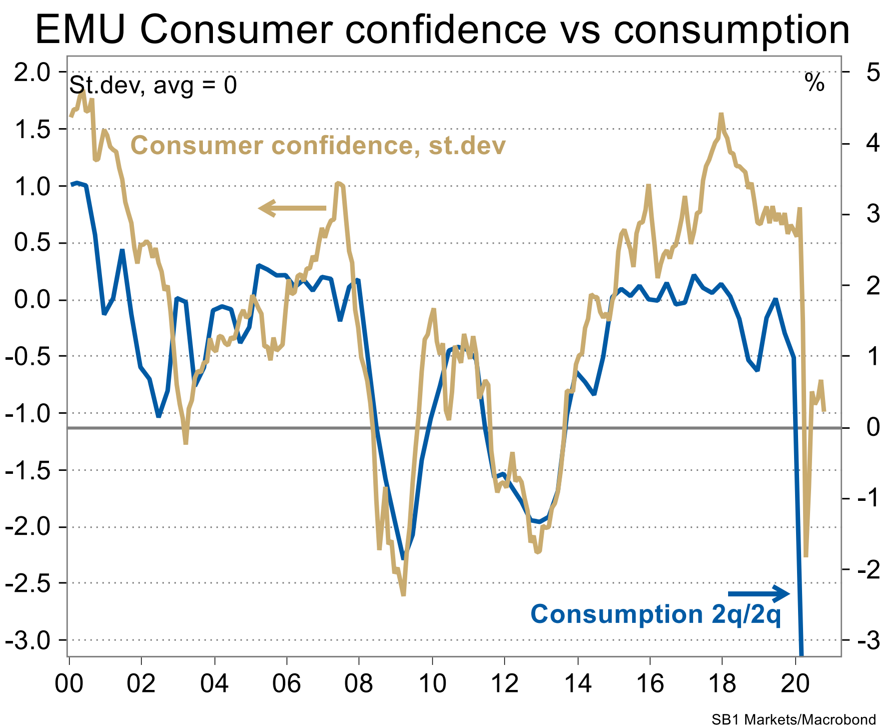
Germany down 2.2% m/m in Sept, France perhaps -5%, Spain -1%. Will Oct/Nov be any better??

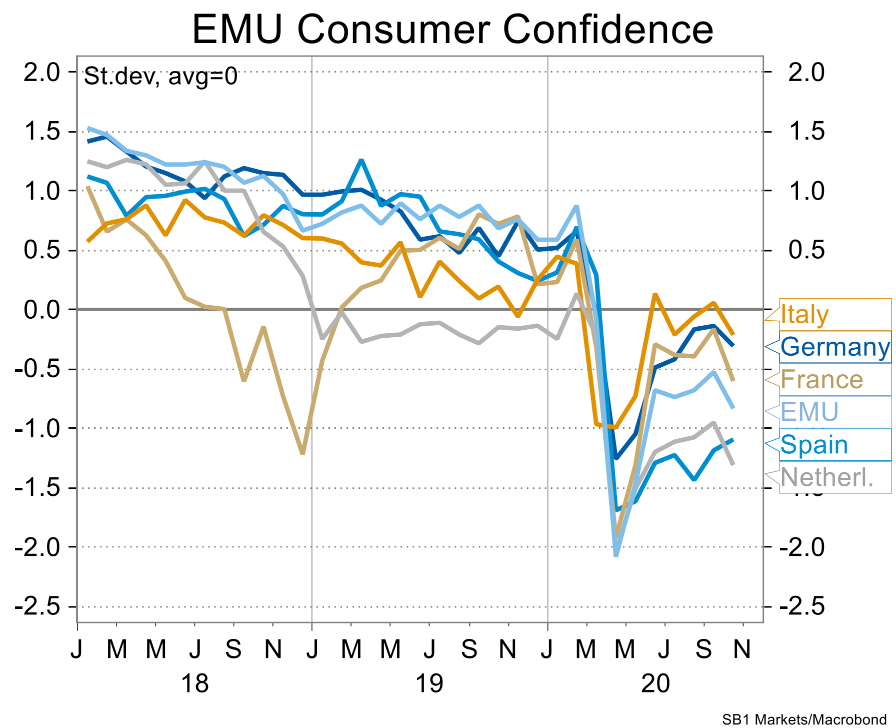


- Sales in Germany was still 4% above the 2019 avg level in Sept
- Sales in EMU was 4% above the 2019 level in August, will very likely remain above in Sept, but with a smaller margin
- The challenge now: The 2nd corona wave has led to new restrictions, some also vs some retail sales activities – and more people want to social distancing again.
  - » The impact will be larger for restaurants, bars, cultural activities, hotels and travel

Consumer sentiment was slowly recovering – but down in October

.... But not in Spain – quite remarkable given 2nd corona wave & 'lockdowns', which started there

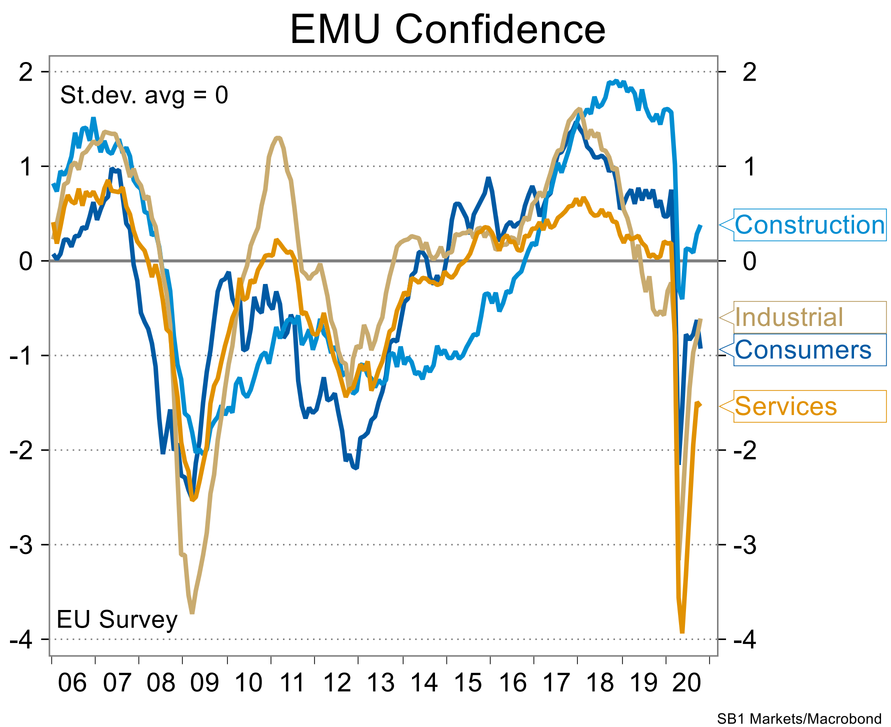




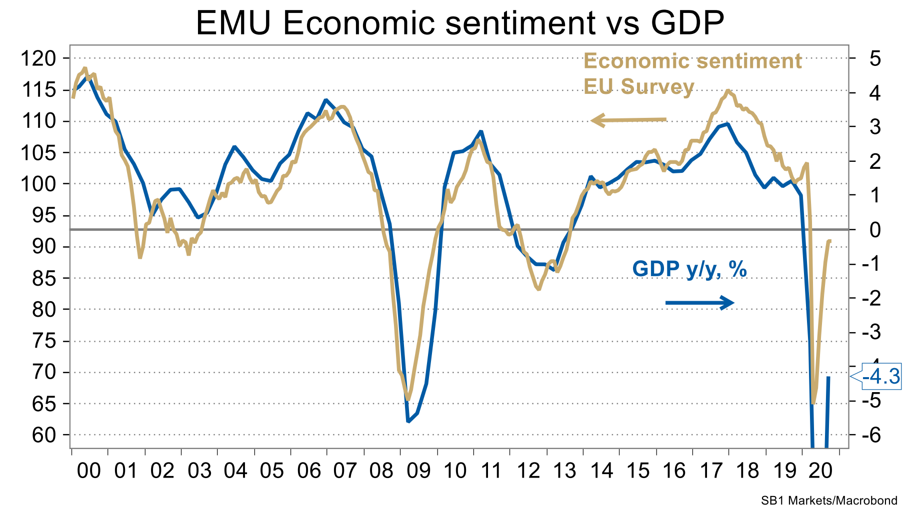
- Sentiment below par (-1 st.dev), and all countries are below avg – Italy the least, followed by Germany

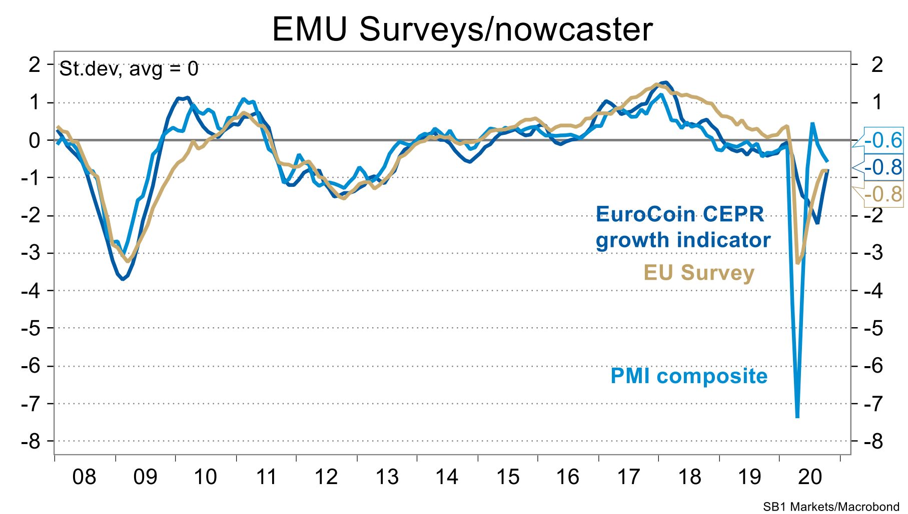
EU economic sentiment flattened in Oct, with consumers on the downside…

… and not services (m/m, the <u>level</u> is low here). The PMI has fallen back recent months



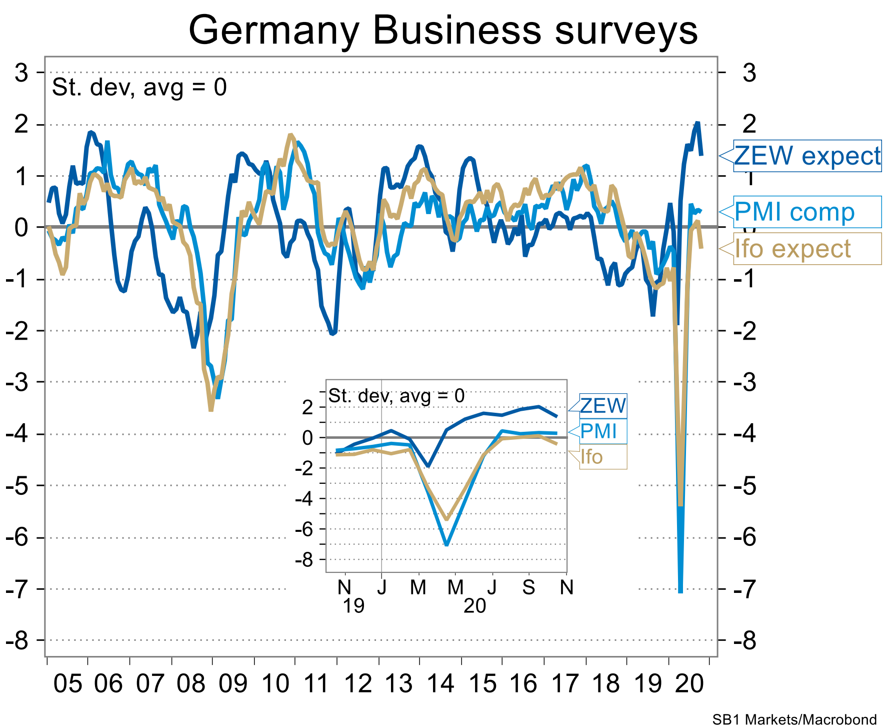
- The confidence survey was unchanged in Oct, expected a small tick down
- The survey has not signalled growth recent months, even if actual growth been the highest ever. Like all other surveys, this survey has not given relevant signals for the first part of the recovery, since May
- On the positive not, if we calibrate the survey to annual GDP growth, the message is not that bad- close to zero. Actual GDP was still 4.3% down y/y in Q3

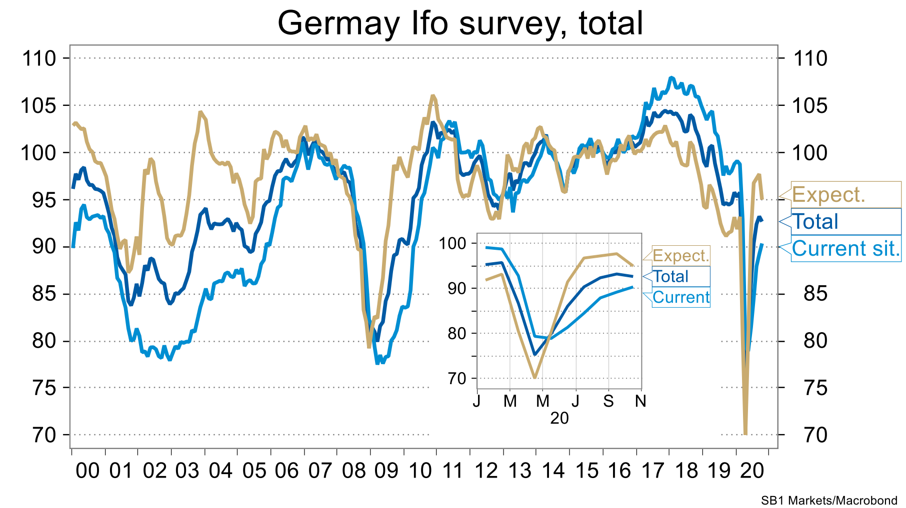


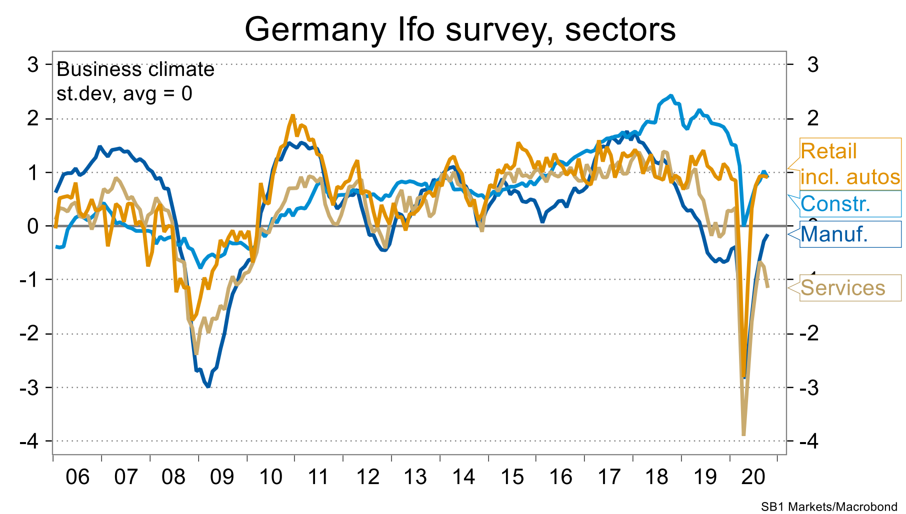


Ifo expectations down in October, the service sector to blame – others OK

Retail trade and construction are reporting high growth, manufacturing close to normal, services not



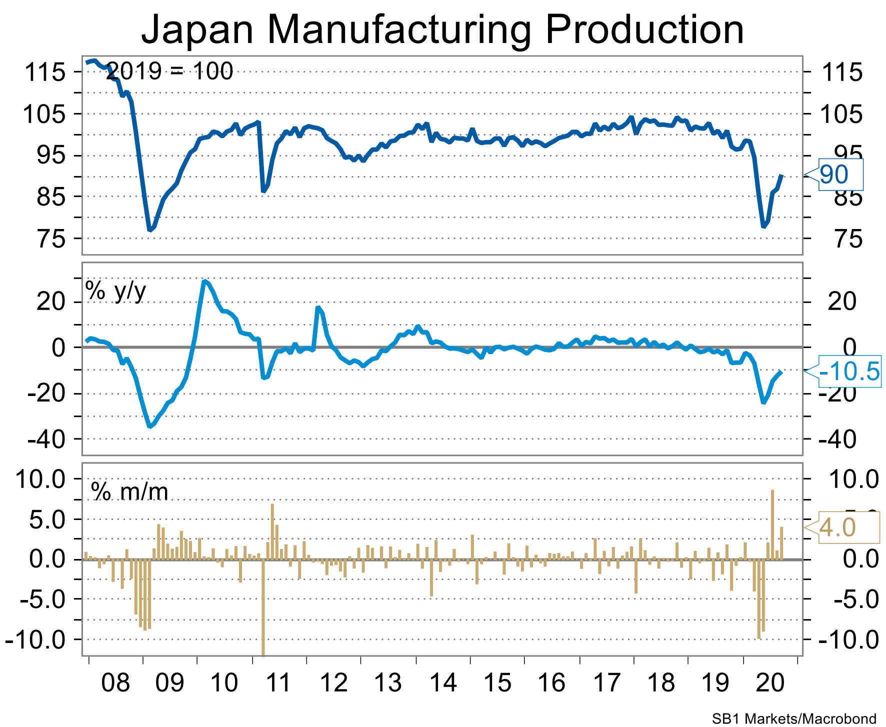


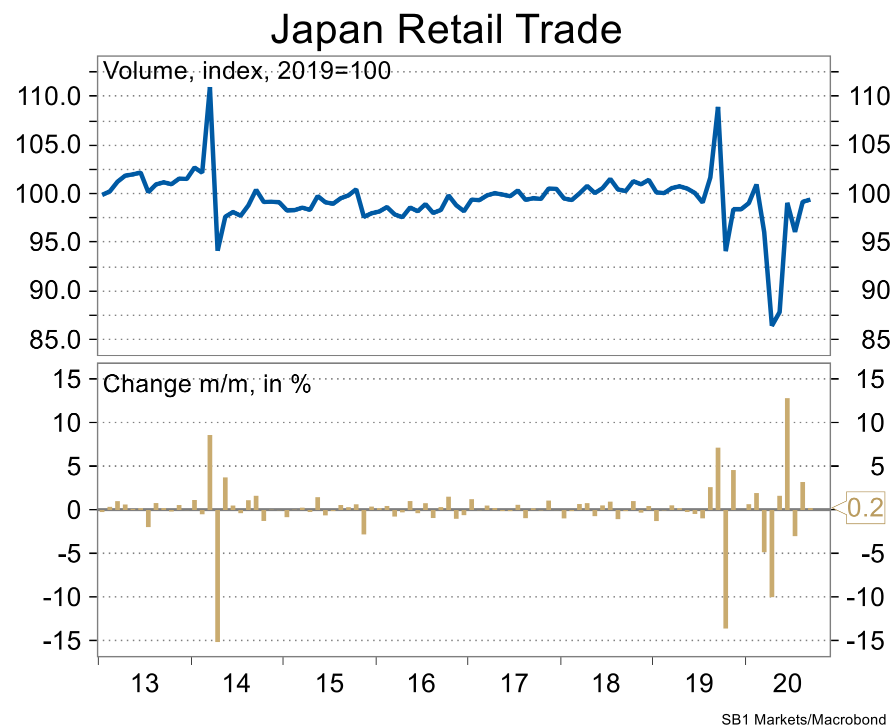


- Overall **expectations** in Ifo's business survey fell 2.7 p to 95 (from an avg level down to -0.4 st.dev, not dramatic), 1.6 p weaker than expected. The assessment of the current situation rose further
- **Retail and construction** is reporting rapid growth, and both were close to unch in Oct. The **manufacturing** index rose further, and is approaching an average level. The **services** index fell visibly – no doubt due to corona challenges
- The preliminary composite PMI was unch. in October, while expectations in the ZEW survey among investors and analysts fall – but remained very strong

Manufacturing production recovers, retail sales almost at a normal level

Manuf. prod up 4% in Sept, still 8% below the Feb level. However, retail sales almost on par

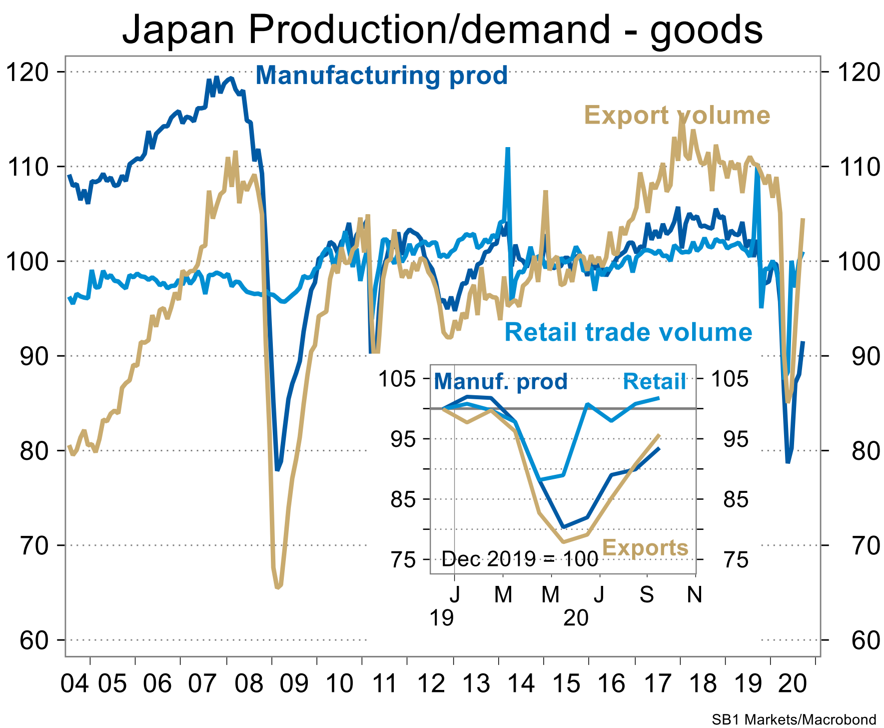


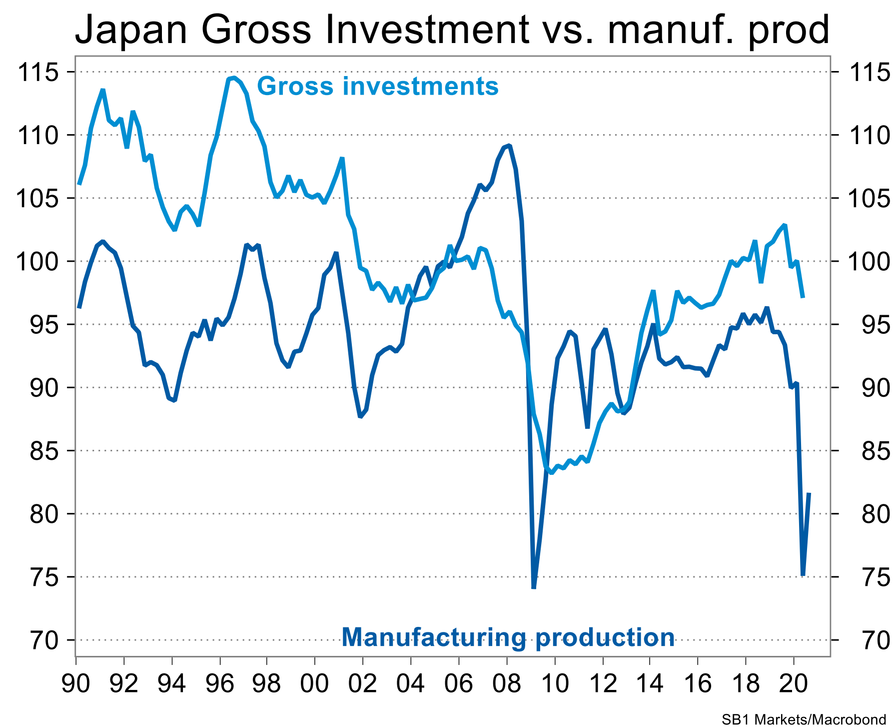


- Manufacturing production rose 4% m/m in Sept, expected up 3%, and production is up 16% from the bottom in May. Still, the production level is 10% below the average 2019 level (-8% vs. Feb). The PMI and other surveys are still at low levels, formally signalling a <u>decline</u> in activity, which has not been the case since May, growth has been <u>record high</u>
- Retail sales rose just 0.2% in Sept, expected up 1.1%. Sales have almost fully recovered, and are now just in line with the level during the months ahead of corona. However, sales were already weak before corona hit, the trend since last autumn (where the VAT rate was lifted) is not encouraging!

Should manufacturing production recover further? Probably

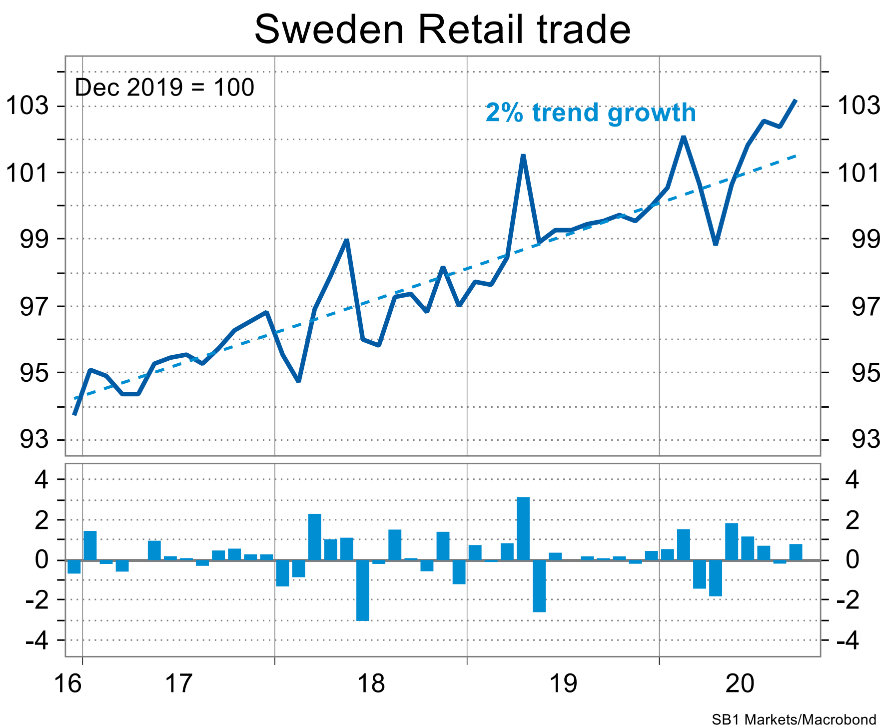
Retail sales are back, and investments were not that weak in Q2. Exports are recovering too

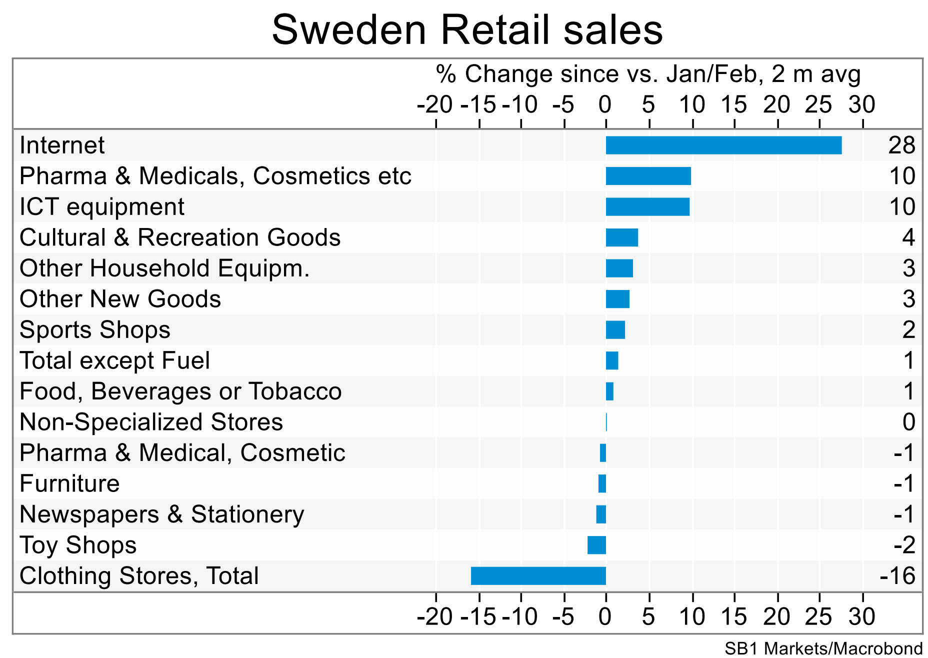




Retail sales up again in Sept, but up just 3% up since Dec

A rather muted increase compared to most other countries

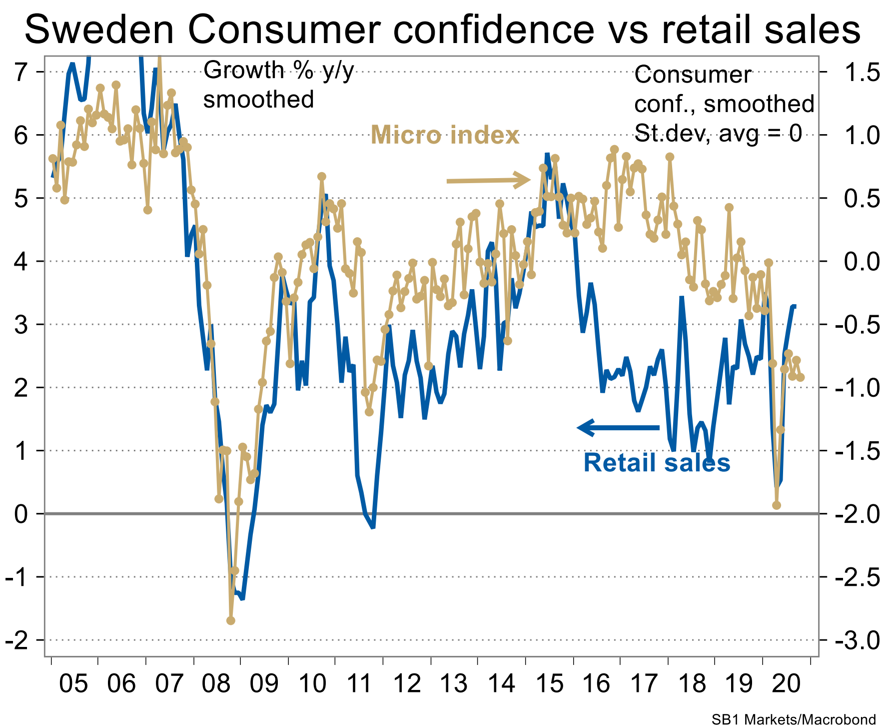


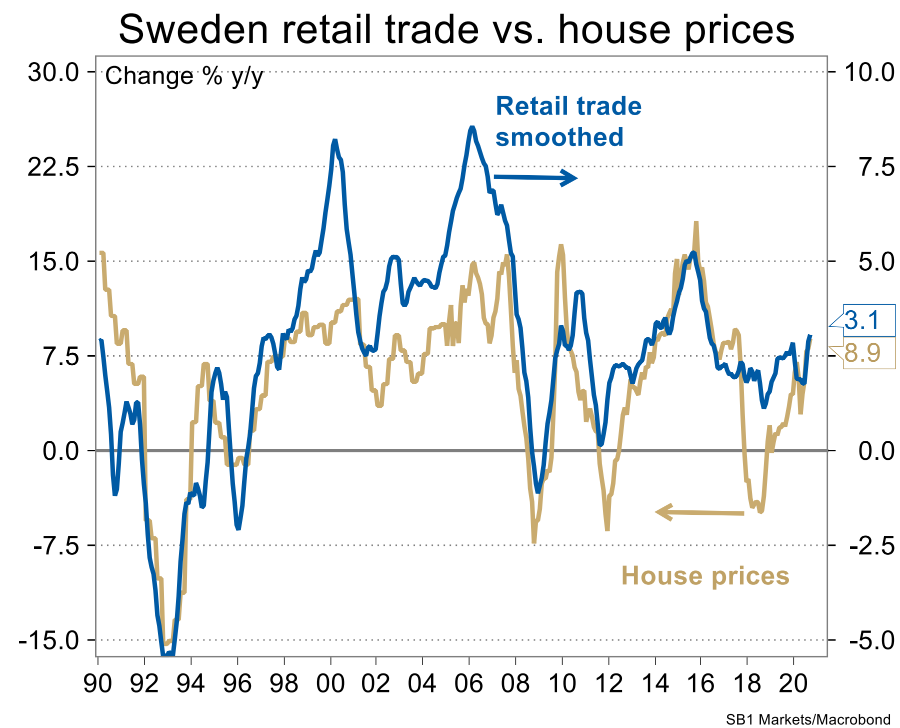


- Huge sectoral differences, though not as wild as in Norway. Clothing is still down 16 % vs Jan/Feb. Sports up 5%
- Service consumption is sharply down, but less than in Norway

Consumer confidence marginally down in Oct, level below par

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

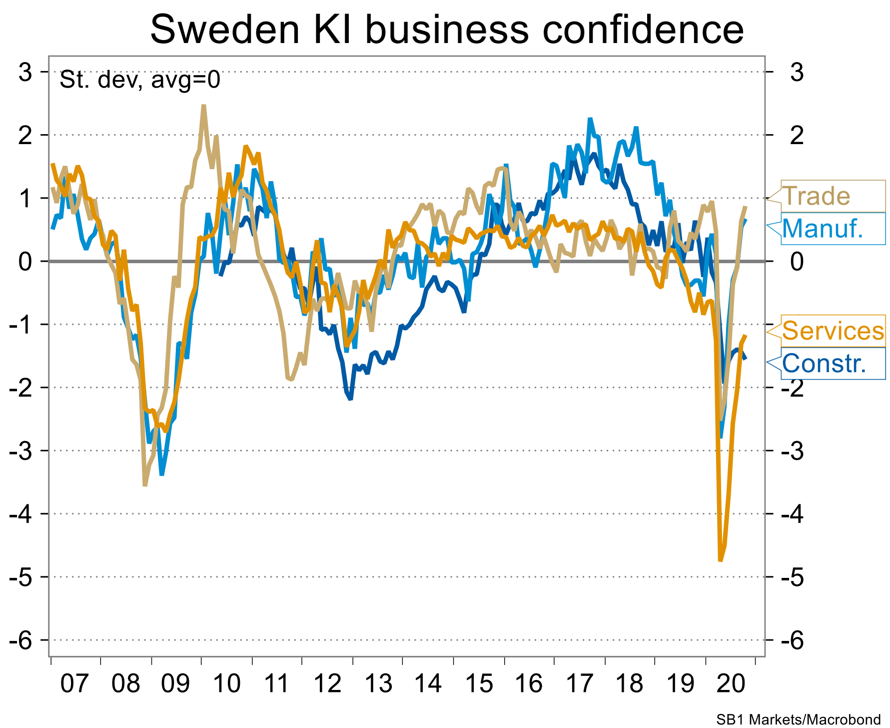


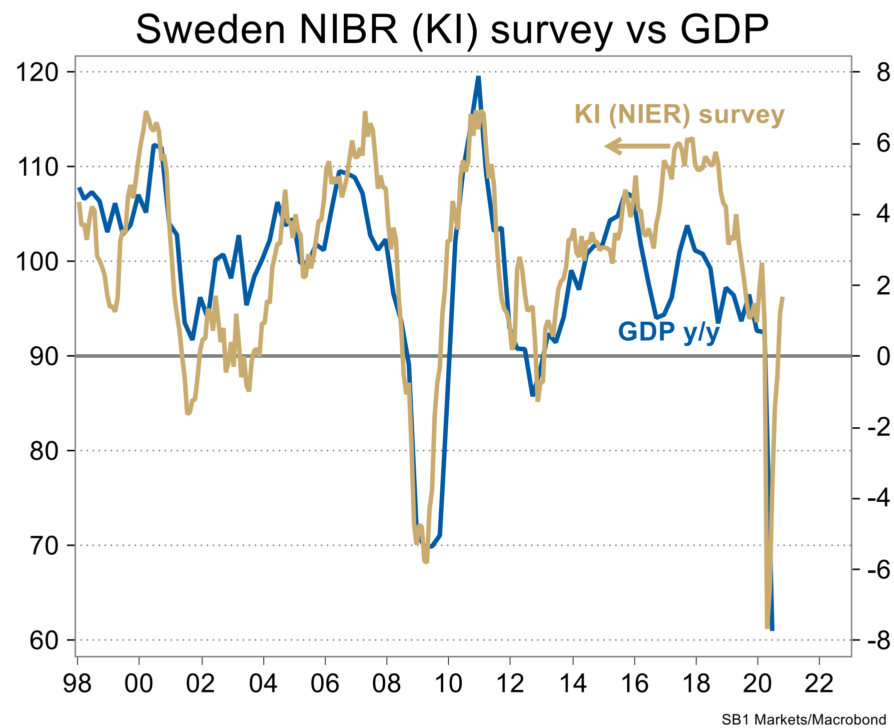


SpareBank 1 MARKETS

KI business survey signal a modest recovery

Manufacturing & trade are back at/above pre corona levels, services & construction still struggling





- The composite index signalled a less than 2% GDP growth (annualised) pace in Q3. The real rate is at least 10 x hihger at 20% - or 5% not annualised, following the 8.3% decline in Q2. However, the survey has not been a very good growth indicator the past few years (it has been far too optimistic, though)
- Services are still reporting a weak sentiment. Construction not upbeat either, in spite the housing market upturn
- Trade and manufacturing have both fully recovered – these sectors are at least reporting normal growth

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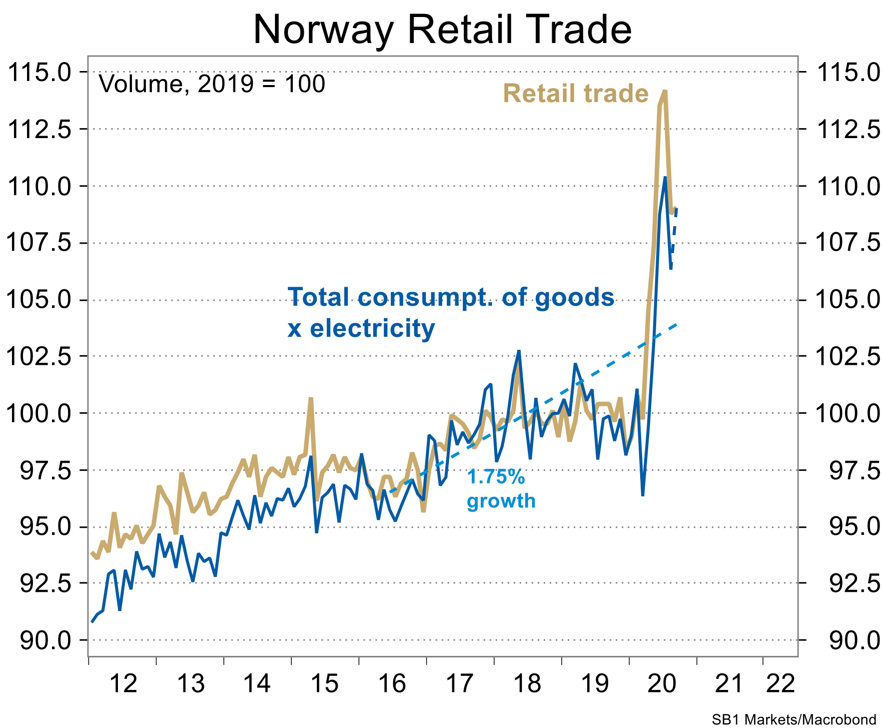
Retail sales marginally up in Sept – and less than expected; level still VERY high

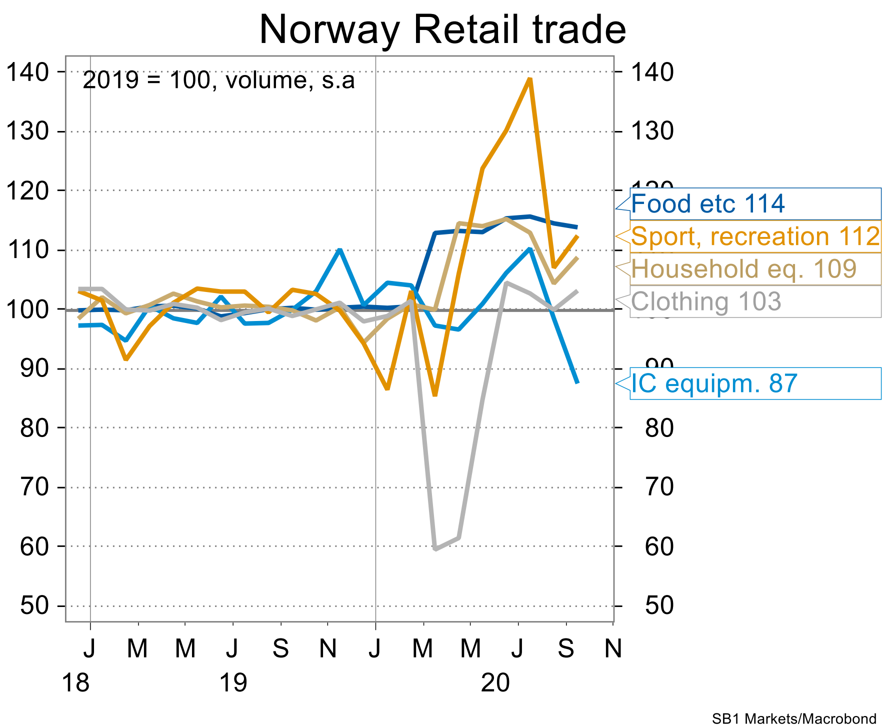
Sales are up some 9% vs the 2019 level, down from the 14% peak in July – but still strong

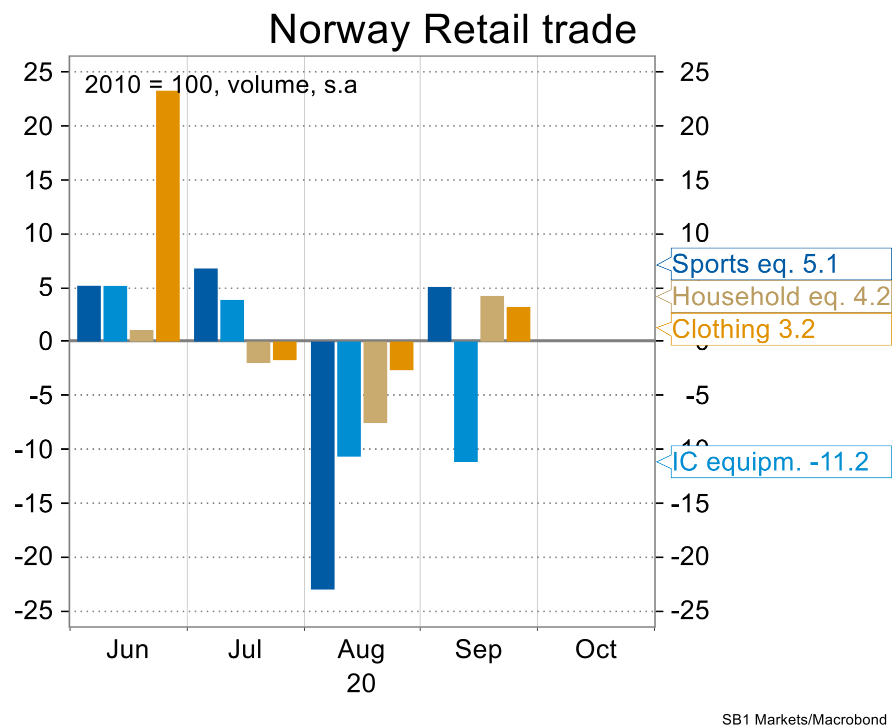


- Retail sales rose by 0.3% m/m in Sept, expected 0.6% (we had 1%), following the 4.8% decline in Aug. The level remains far above the pre corona level. Most branches up
- Total consumption of goods was not reported together with retail sales this time. These data will be published at Nov 12, together with the Sept (and Q3) national accounts. Given the surge in auto sales in Sept, we assume that consumption of goods (ex electricity) rose some 2.5%
- We expect a gradual decline in retail sales the coming month, even if some sectors will blossom as long as borders are more or less closed, and we cannot go shopping in Sweden or spend time (and money) abroad
- Service consumption is of course far below a pre corona level, no data included in these retail sales data. Sept. data will be out Nov 12

ITC equipment down in Sept (to a low level), most others up

Food sales still 14% above normal! Sport/recreation up 12%



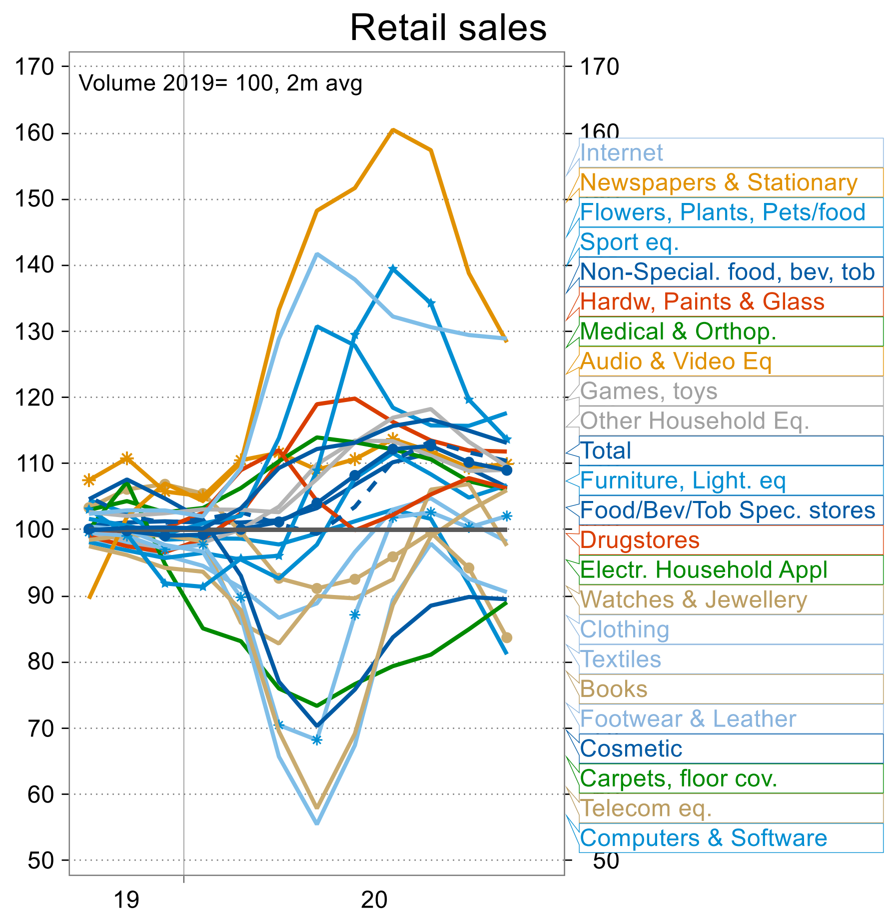


- Clothing sales recovered well in the late spring/summer and are back at a 'normal' level
- Less travelling, x border shopping in Sweden and less capacity at restaurants may keep food sales up for the next months – but sales will eventually be normalised
- Auto sales rose sharply in September

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

But so far, most are well in black

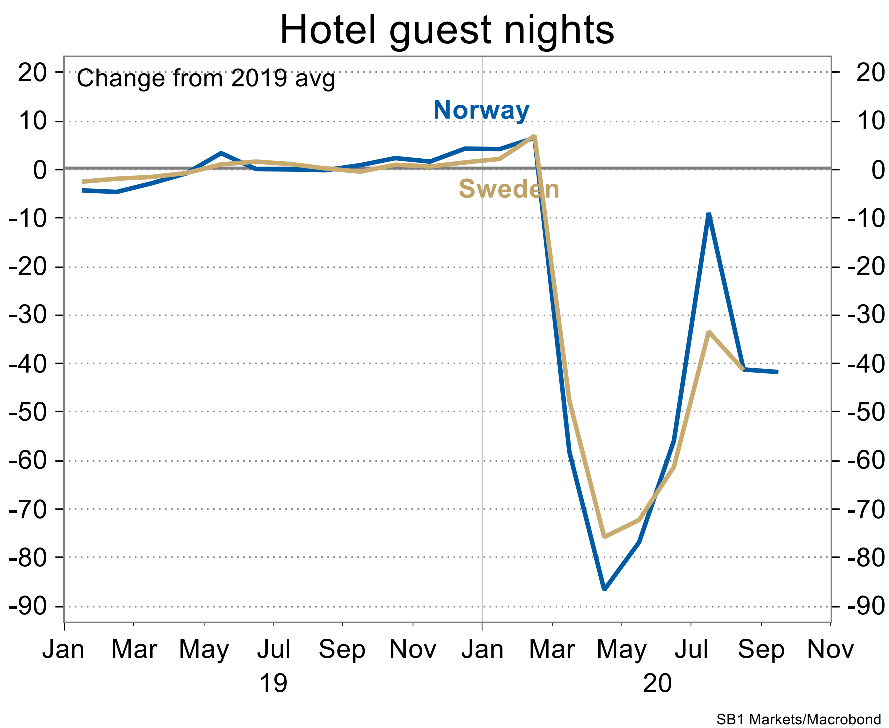
SB1 Markets/Macrobond

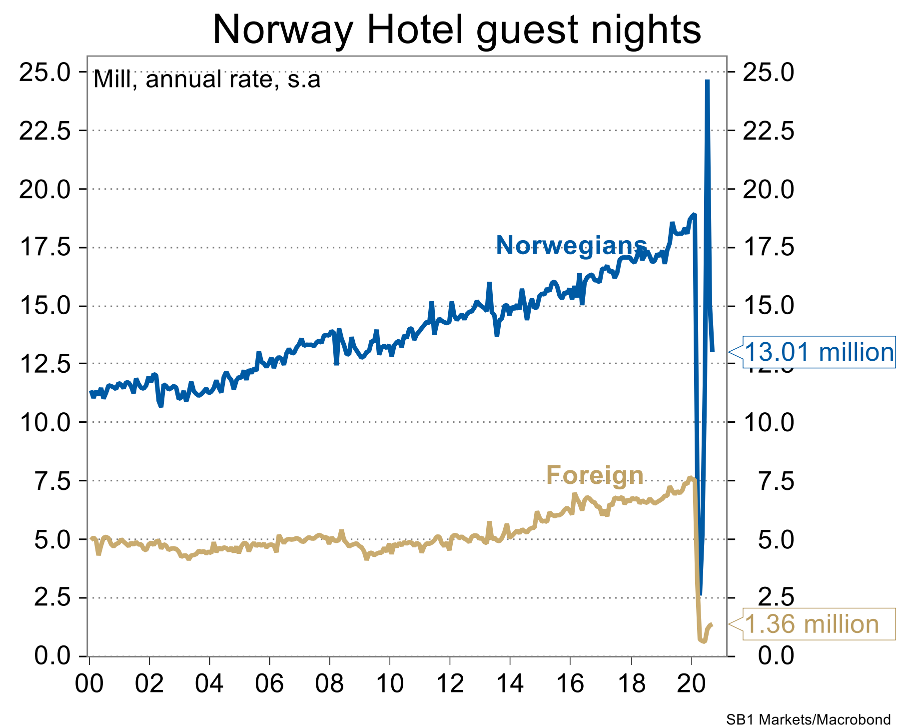


SB1 Markets/Macrobond

Hotel guest nights down 40% y/y in September too

No foreigners – but Norwegians not that afraid of sleeping at a hotel, down 'just' 30% from pre cor.

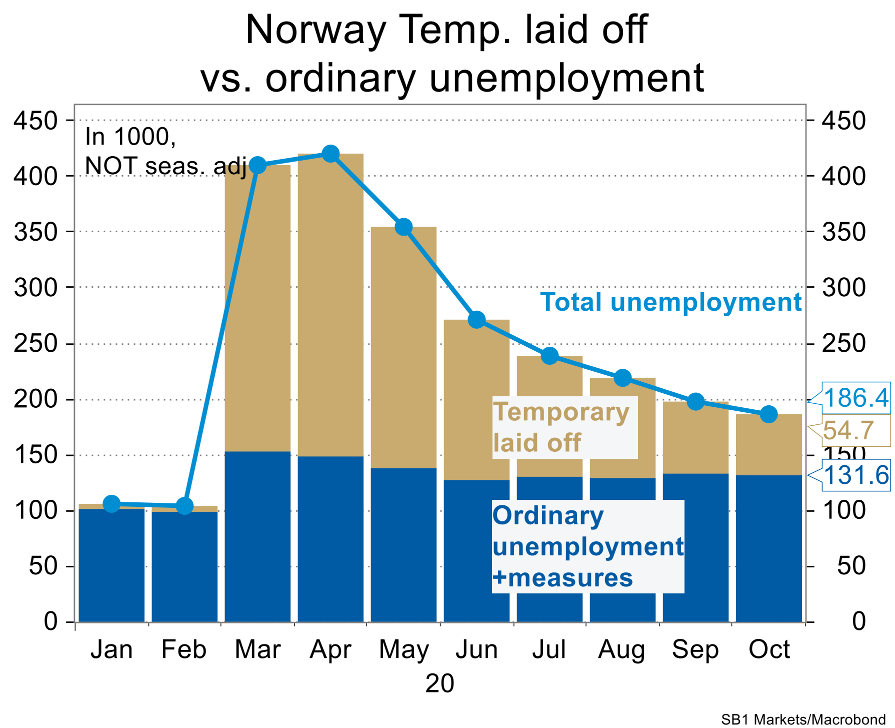


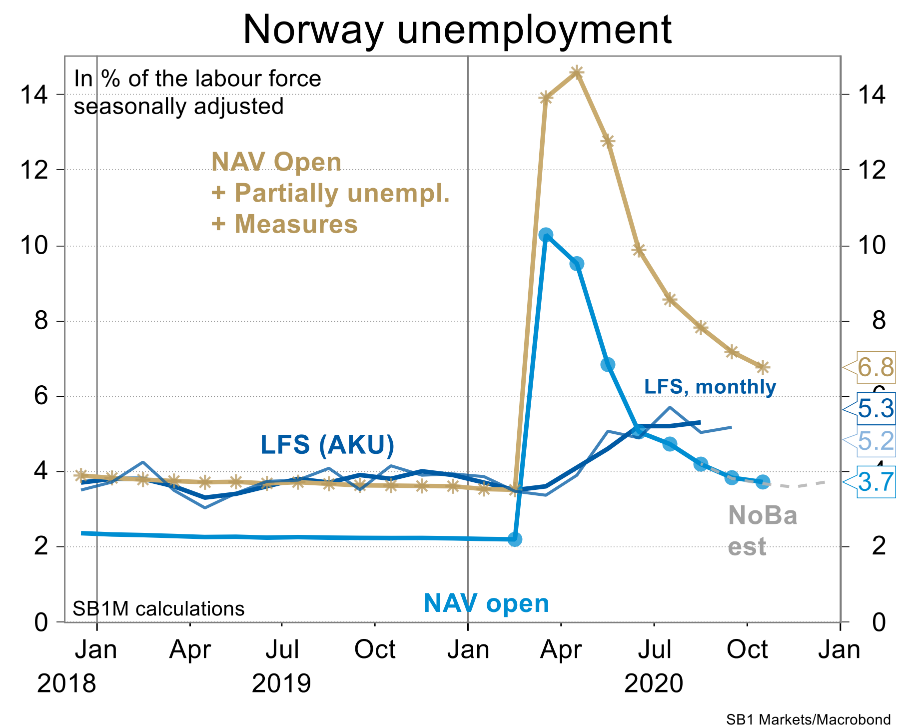


- July was the only reasonably good month for Norwegian hotels, at Norwegians took their holiday travel in Norway
- 70% of the Norwegian demand is intact, not that bad these days?

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

Ordinary unemployment fell by 0.1 pp to 3.7% in September. Total down 0.4 pp to 6.8%

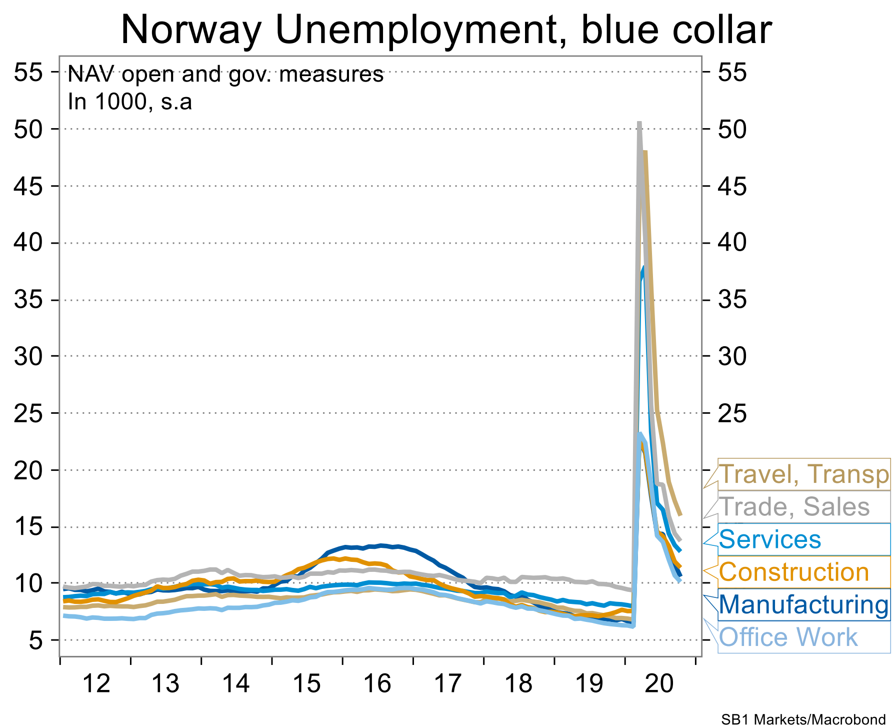


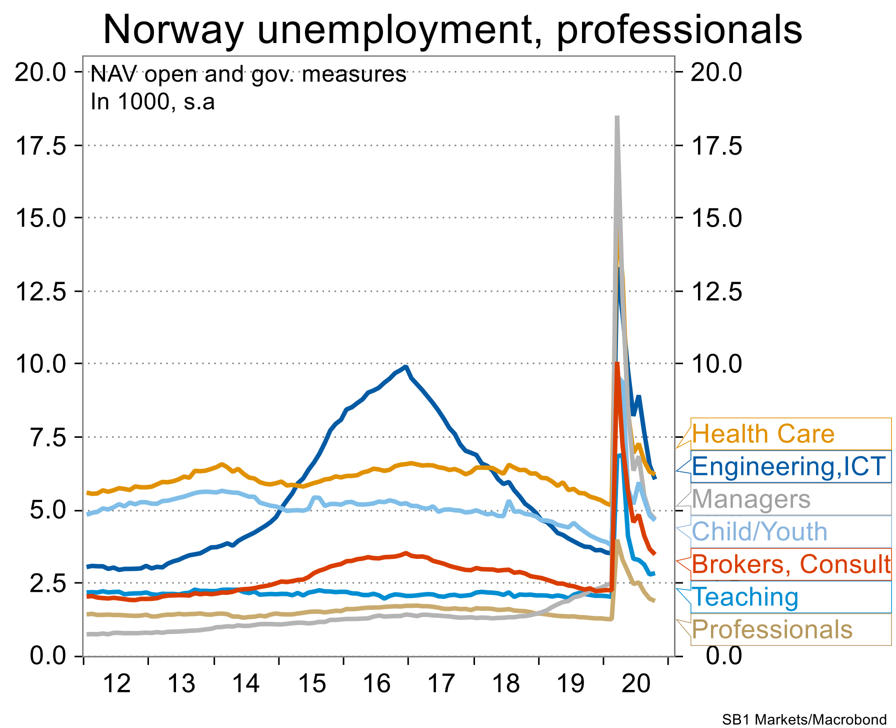


- Open 'full time' unemployment measured at NAV, which includes furloughed workers, fell by 6' in September, down to 99', or by 3' seas. adj. or down 0.1 pp to 3.7% of the labour force. At the April peak, more than 10% were 'full time' unemployed. In February, the unemployment rate was 2.2%. Unemployment fell more as Norges Bank and we expected
- Including the partially unemployed, the total unemployment is at 186' or 6.8% (the latter seas adj) - down 11' or 0.4 pp from August. The speed of decline is slowing. We expect at gradual decline the coming months but parts of the service industry will not recover anytime soon
- The LFS (AKU) reported a decline to 5.2% in September (single month obs). These data have been lagging NAV figures as furloughed workers have been counted as unemployed after 3 months in the dole

Unemployment still higher than normal in all sectors

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

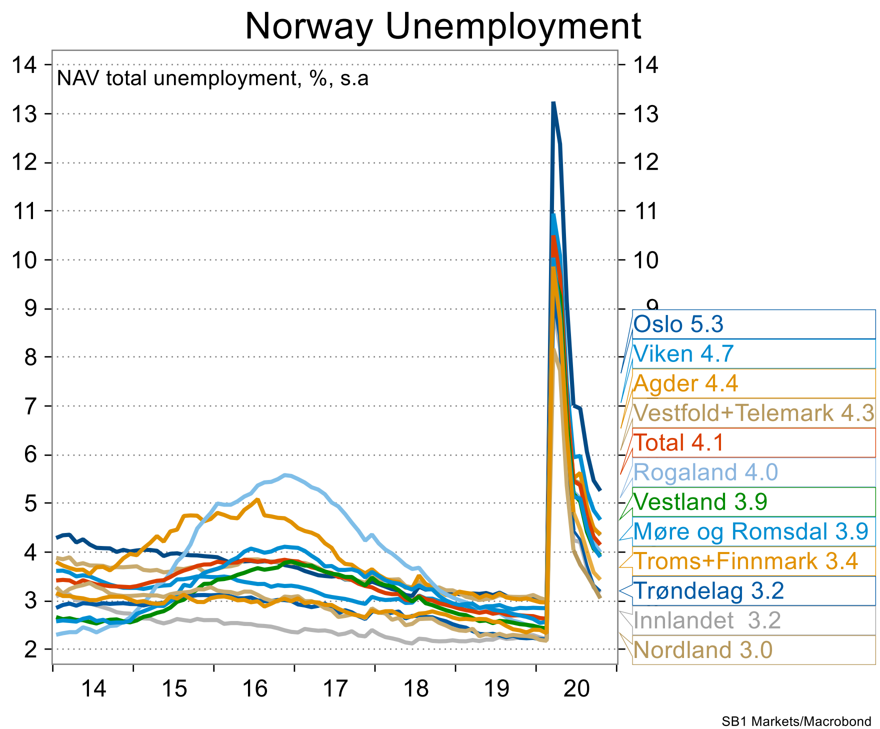


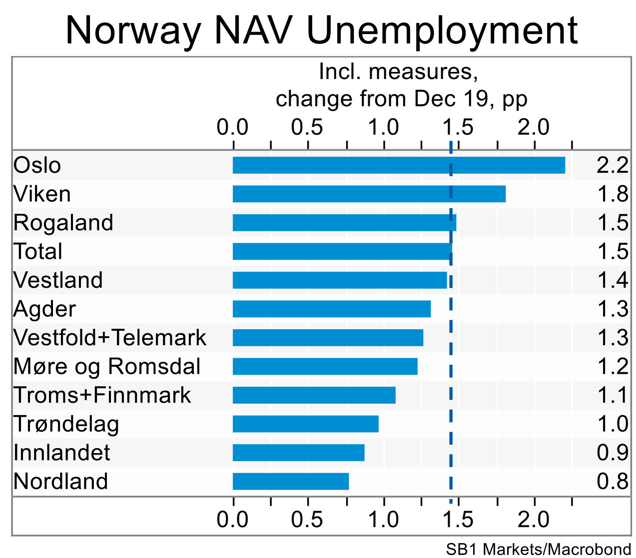


SpareBank 1 MARKETS

East (-Innlandet) has taken the hardest hit

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

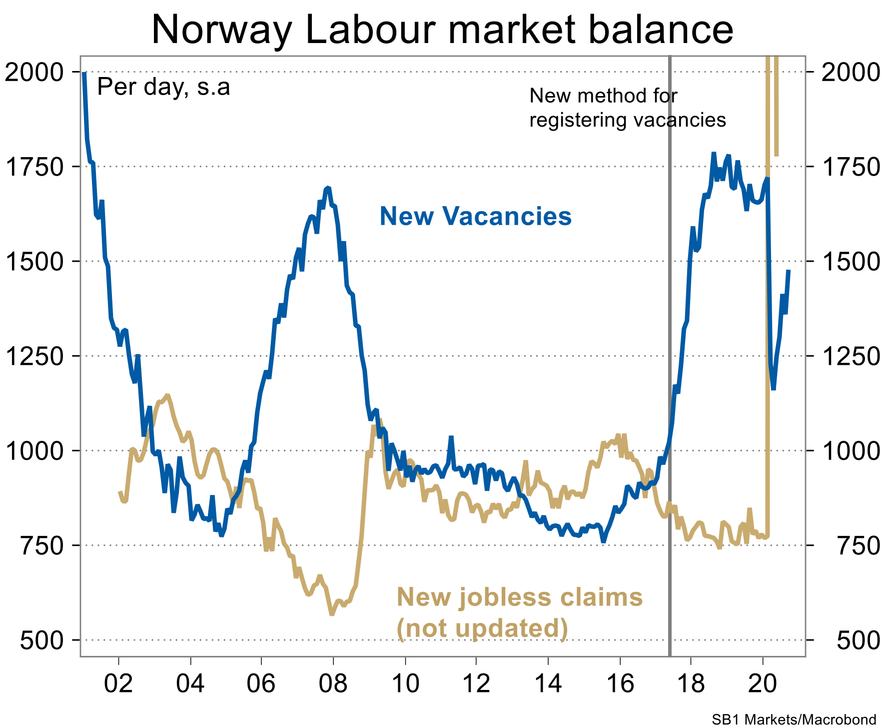


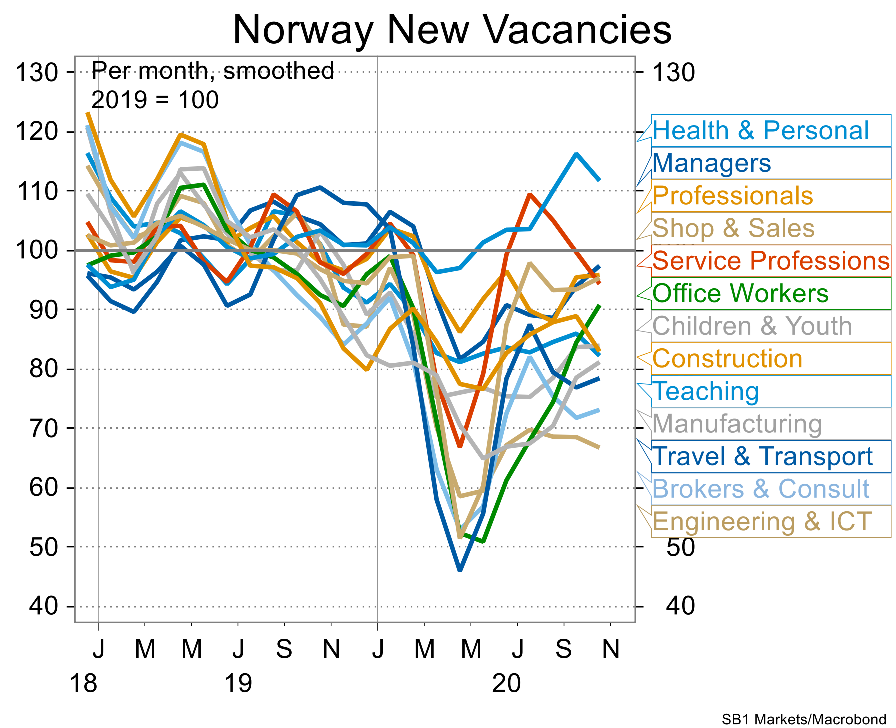


SpareBank 1 MARKETS

Just a partial recovery in new vacancies so far

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



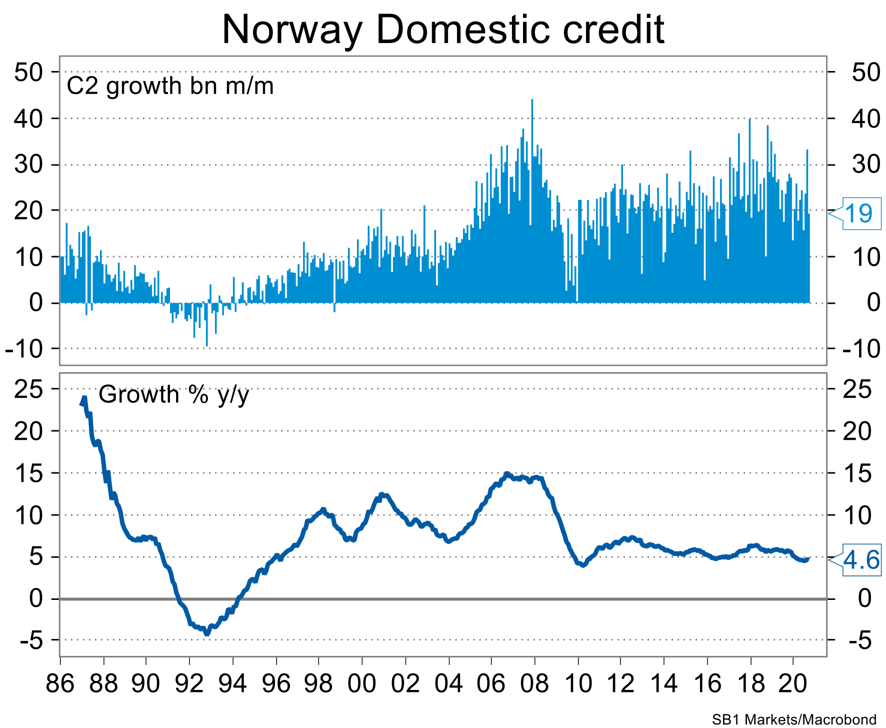


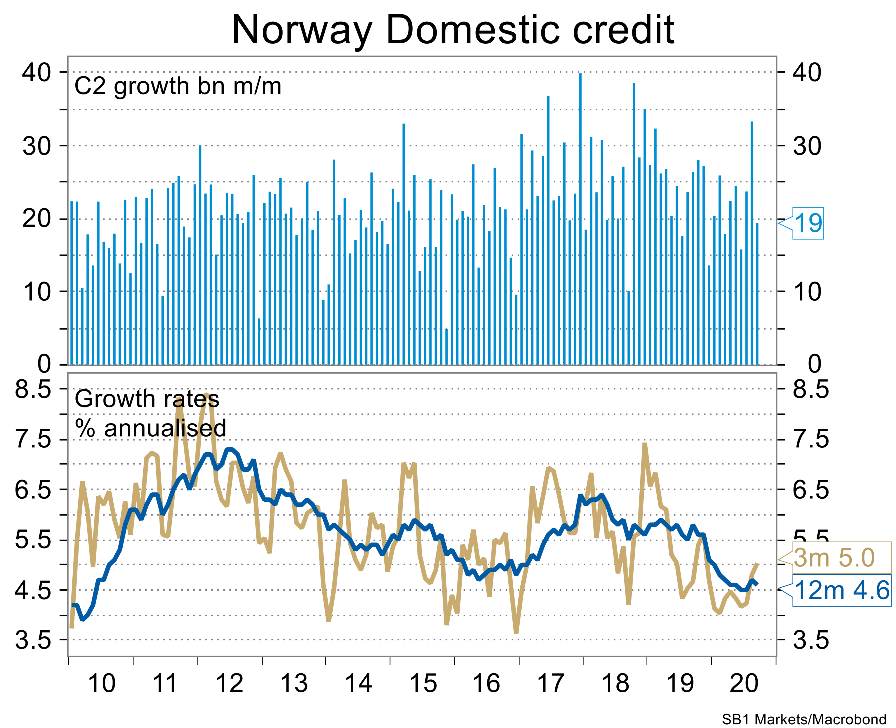
- A sign of the state in the engineering/ICT: At the bottom vs. pre corona levels

SpareBank 1 MARKETS

Credit growth inching down, businesses blame; households, municipalities not

Total domestic credit growth (C2) down 0.1 pp to 4.6% – the trend is (perhaps) slowly downwards

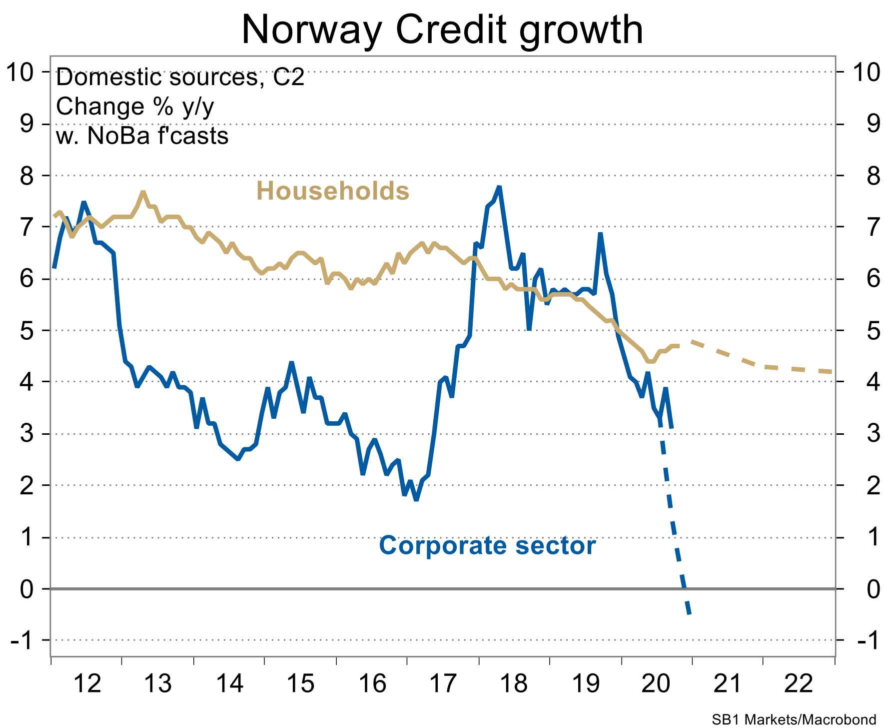


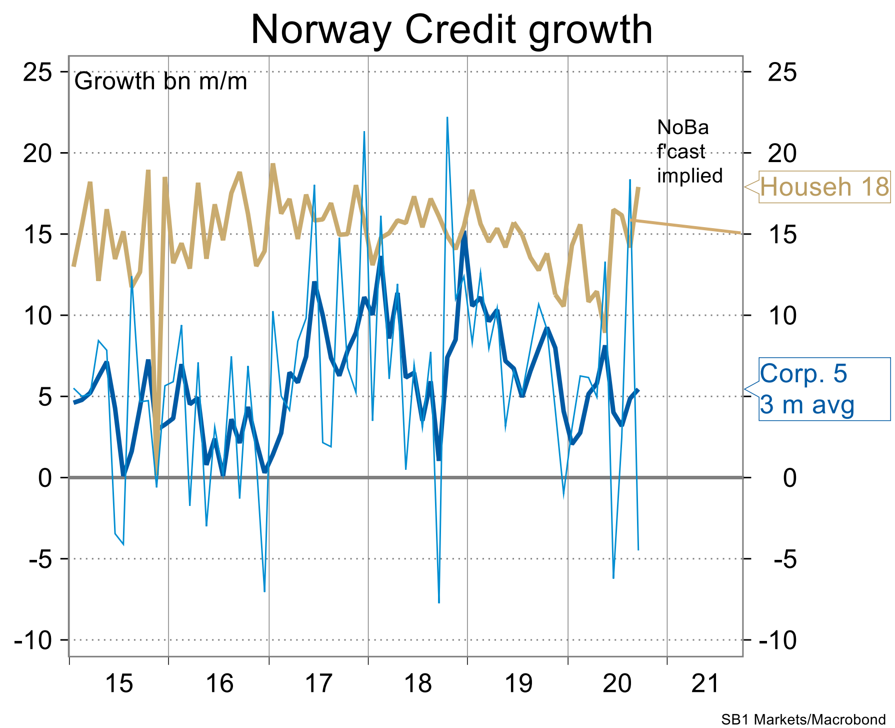


- **Total domestic debt** (C2) rose by NOK 19 bn m/m in Sept, down from 33 bn in Aug. The annual growth fell slightly to 4.6%, we expected a decline to 4.5%. Growth has been heading down since late 2019 (and from early 2018) but has stabilised recent months
- **Household credit growth** accelerated in Sept, to 18 bn, from 13 bn in Aug, we expected 15.5 bn – the highest monthly growth rate since Jan 2019. The annual growth rate has climbed to slightly since the summer, to 4.7% from 4.4% - above, but not far above underlying household income growth. Thus, there are no evidence of a 'crazy' household credit boom, even if house prices and the transaction level both have increased substantially since the short spring 'break'
- **Corporate credit growth**, which is very volatile, fell by 4 bn m/m, following the unusual 19 bn lift in August. Corporate credit growth is clearly heading down, the annual rate fell 0.8 pp to 3.1%. Norges Bank expects the annual rate to fall below zero around year-end
- Local governments borrowed more than we assumed in Sept (6 bn), and the annual rate accelerated by 0.5 pp to 8.6%, far above their income growth

No take off in household credit – but growth is accelerating

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

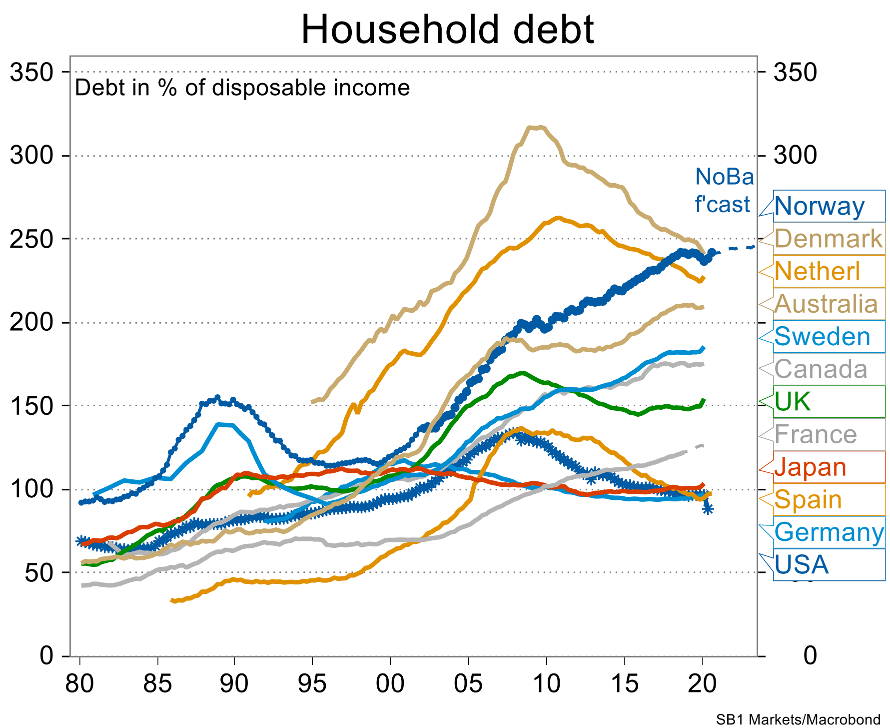


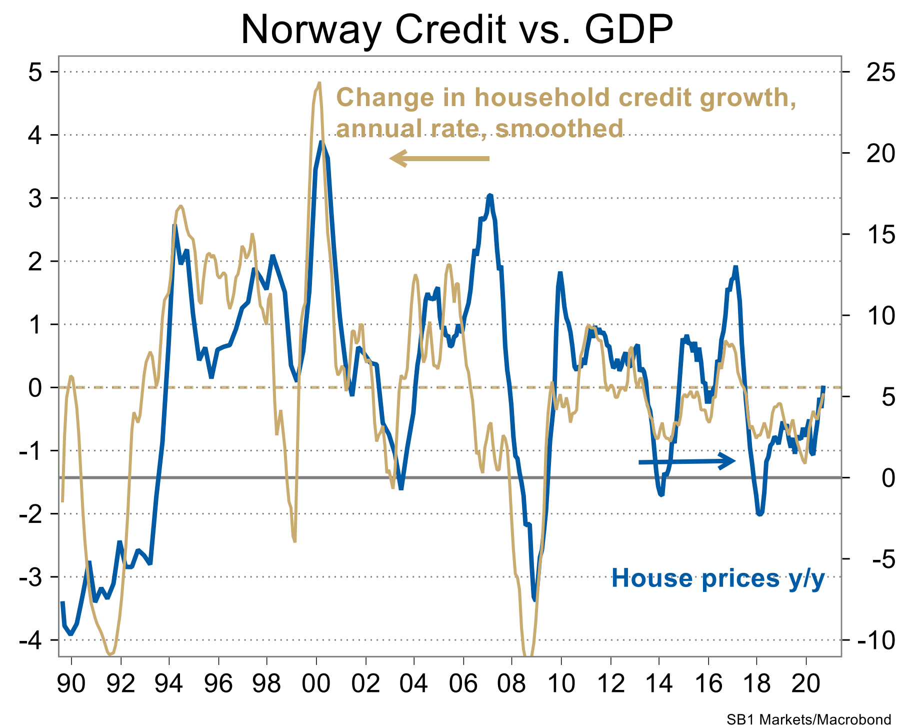


- Following a mild slowdown during the corona spring, household credit growth has accelerated past 4 months, at a 5% growth pace, pulling the annual growth rate slowly upwards
- Corporate credit (in C2, domestic lending) fell by 4 bn in Sept, following the 19 bn surge in Aug, the avg at 7.5 bn, still rather high. Still, the trend is clearly downwards, and the annual rate fell to 3.1% in Sept, down 3 pp over the past year. Det slowdown started well ahead of corona. We expect companies to be cautious vs. both investments and more debt the coming months/quarters. Norges Bank expects a steep decline in the annual growth rate the next months

The household debt/income probably at ATH, and now highest in the world?

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



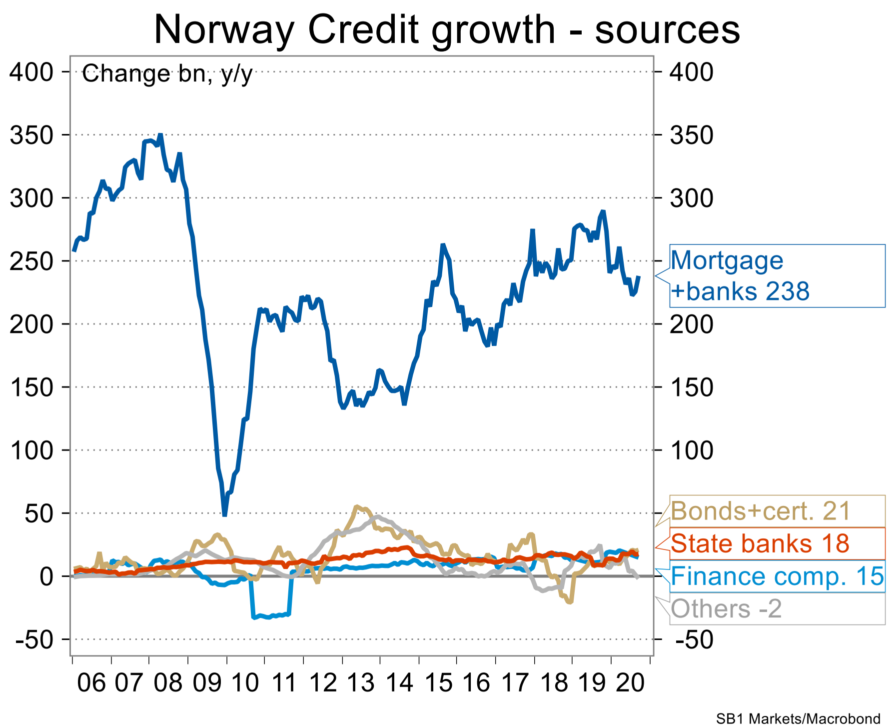


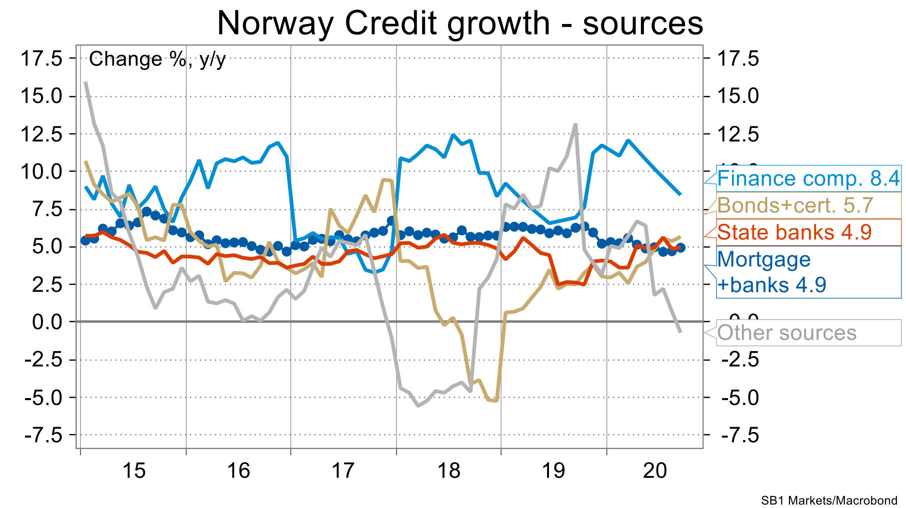
- Household debt has been growing slower than household disposable income since late 2019, for the first time in 30 years (barring some minor turbulence in 2008/09). In Q2, the debt ratio turned up again as income weakened (Covid-related)
- A slow retreat will be healthy in the long run, and if it is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

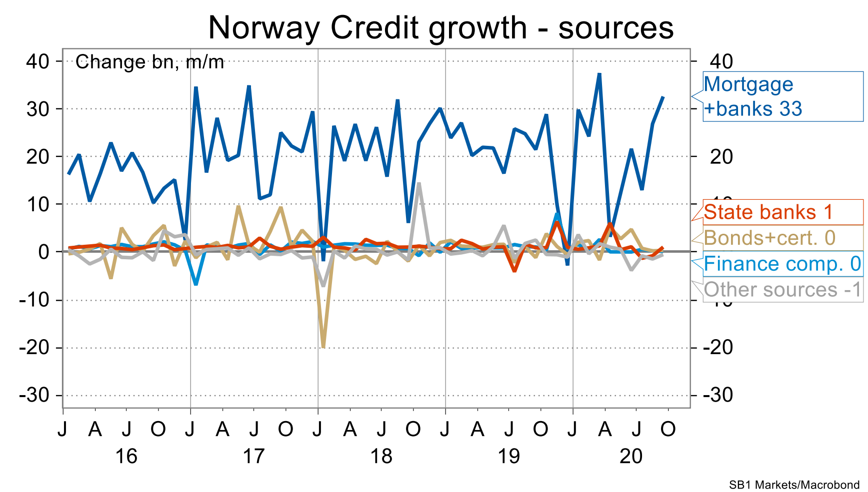
SpareBank 1 MARKETS

Bank lending has been slowing but is strengthening now

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



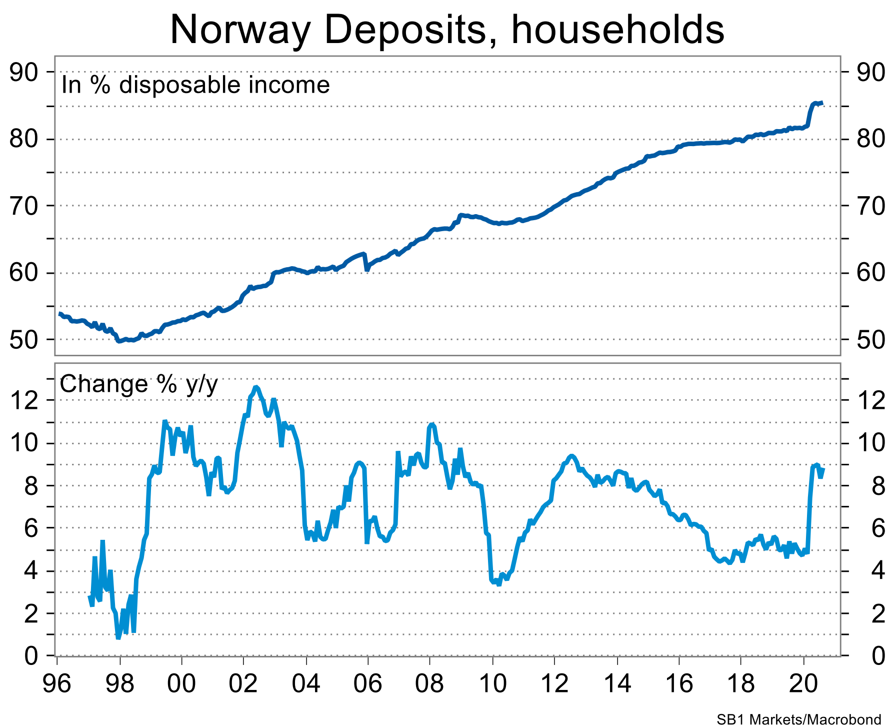




- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted changes in 'sum of the parts' credit supply does not exactly equal changes in the total C2s

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

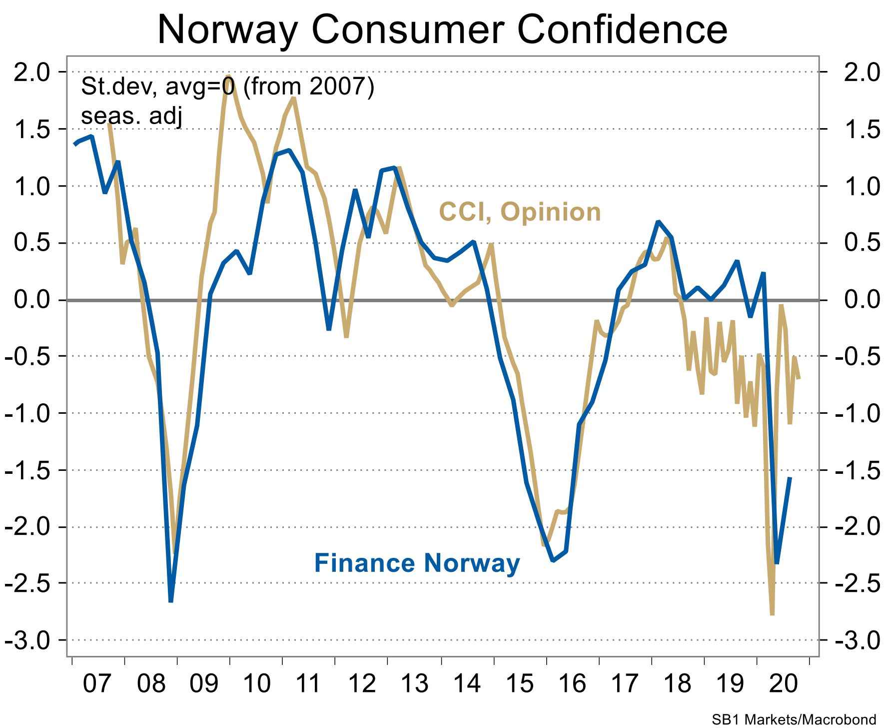
Deposits up 4% since February

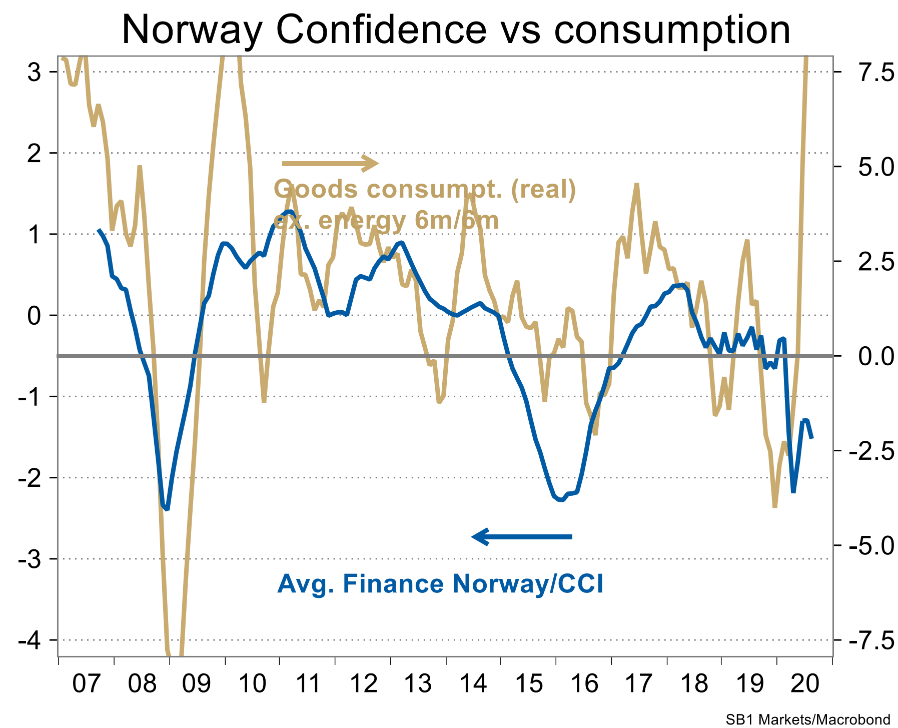


- Spending has been sharply cut, not on goods but services & spending abroad
- Households' income has been hurt by a lower increase in unemployment benefits than cuts in wage incomes, and by lower income for many self employed (and over time lower dividends) but supported by lower mortgage rates
- Following the unprecedented lift in bank deposits to May from February, growth has fallen back to a normal level

Consumer confidence not (so far) knocked further down due to corona

Consumer confidence fell marginally in Oct, and is somewhat below an average level

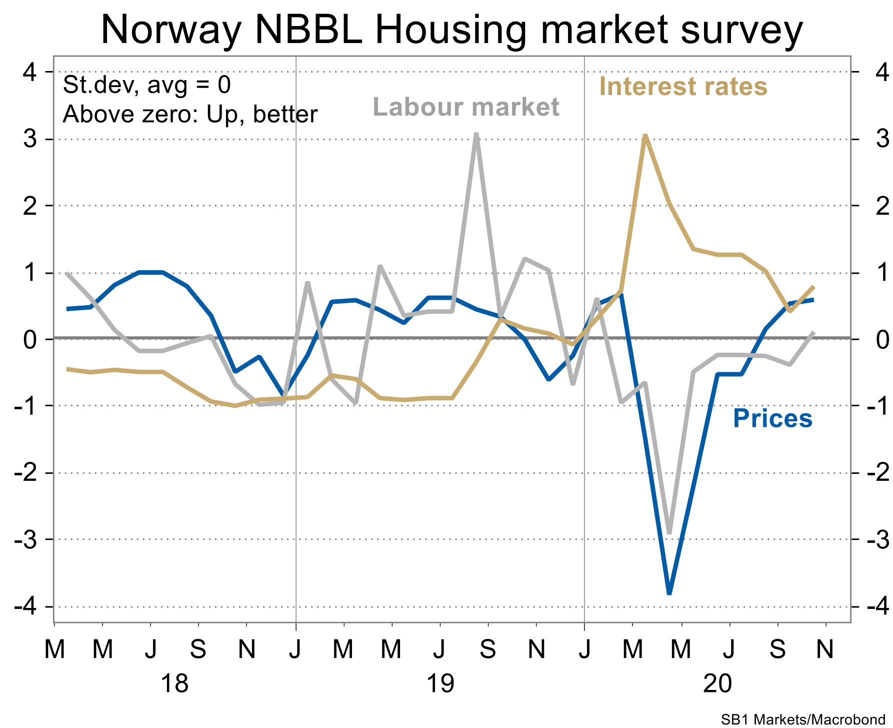


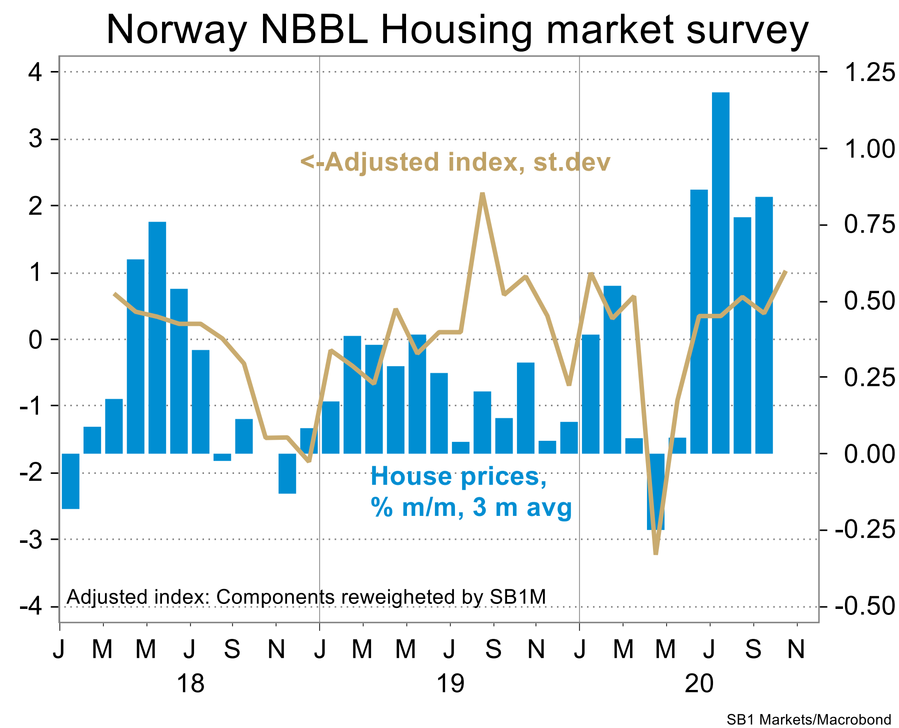


- The Consumer Confidence Index CCI from Opinion fell from -2.4 in September to -3.7 in October, far above the level in April, but down since the local peak during the summer. The level is at the same level as before the corona crisis
  - » The decline in Oct equalled 0.1 st.dev, and the level is 0.7 st.dev belov average
- Finance Norway's quarterly consumer confidence index surprised us at the downside in Q4, the level is still 1.6 st.dev below par, while confidence was at an average level before corona – which anyway is not unreasonable (we you forget the housing & credit market

NBBL: Housing optimism up again in October, no corona blues

Households expect higher prices, still low interest rates. Neutral vs the labour market





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

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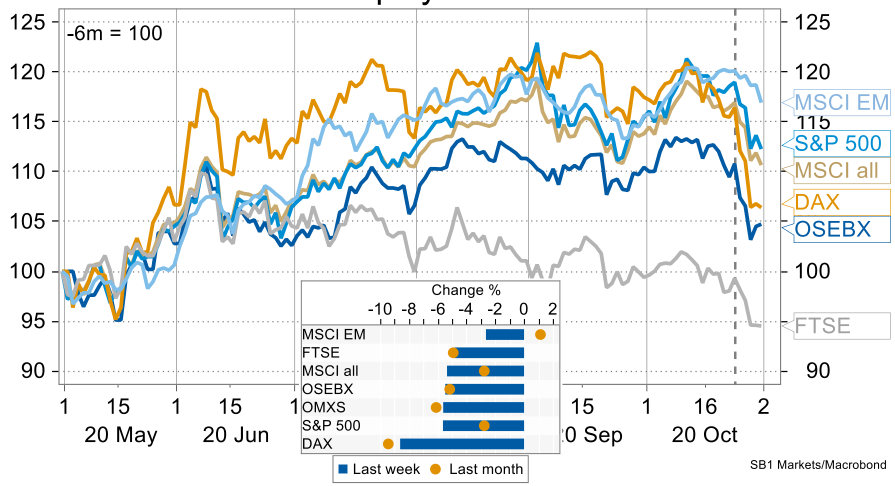
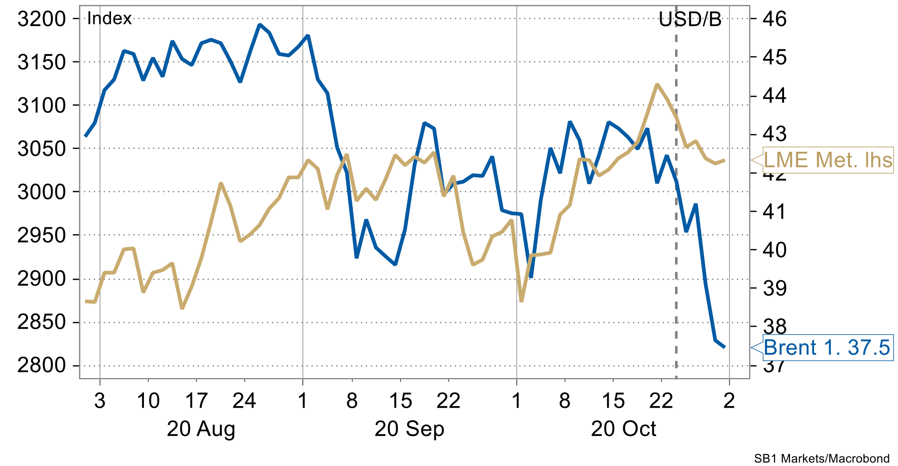
A 5-6% equity setback, oil down 5 USD, NOK down. Most long bond yields down

… but NOT the 10y US gov bond! A Biden twist? Metals are keeping up well compared to oil

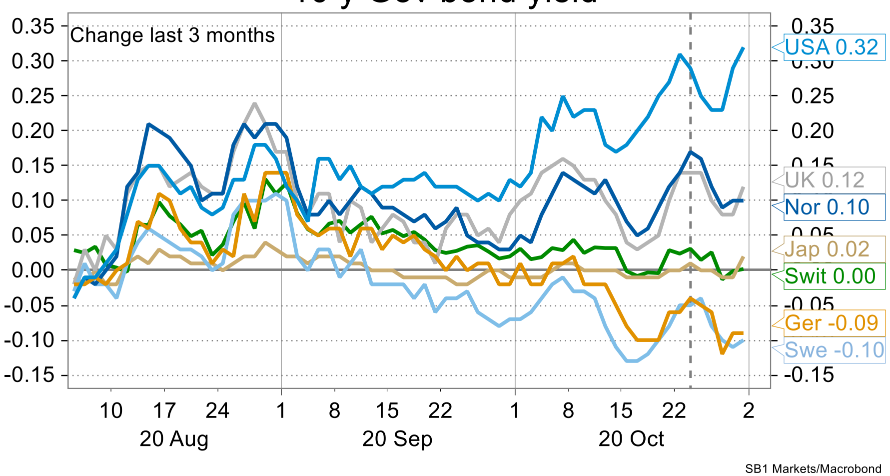
Equity Indices



Oil vs. metals

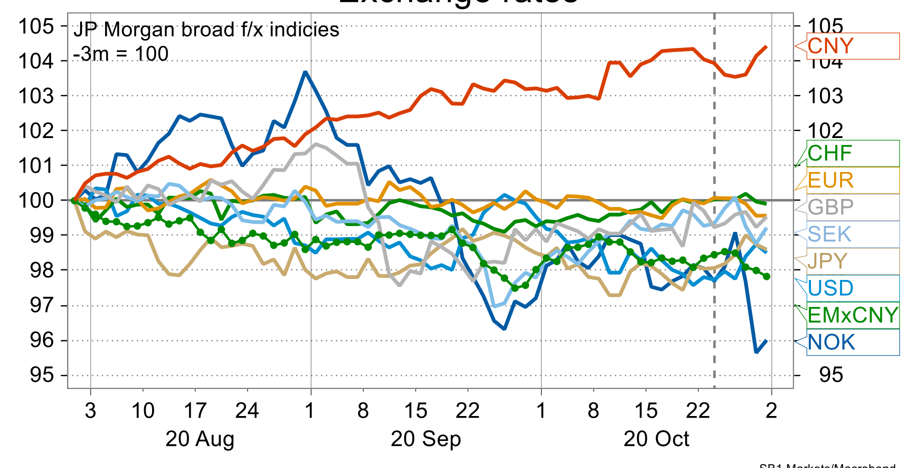


10 y Gov bond yield



US 10 y gov yields closed the week up, elsewhere yields fell, in EMU partly due to dovish signals from the ECB

Exchange rates

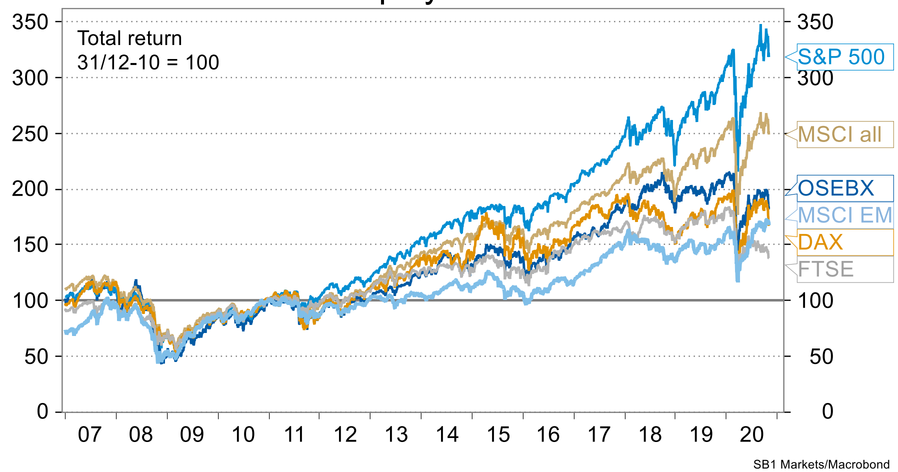


The CNY appreciated again. The USD up too. The NOK not

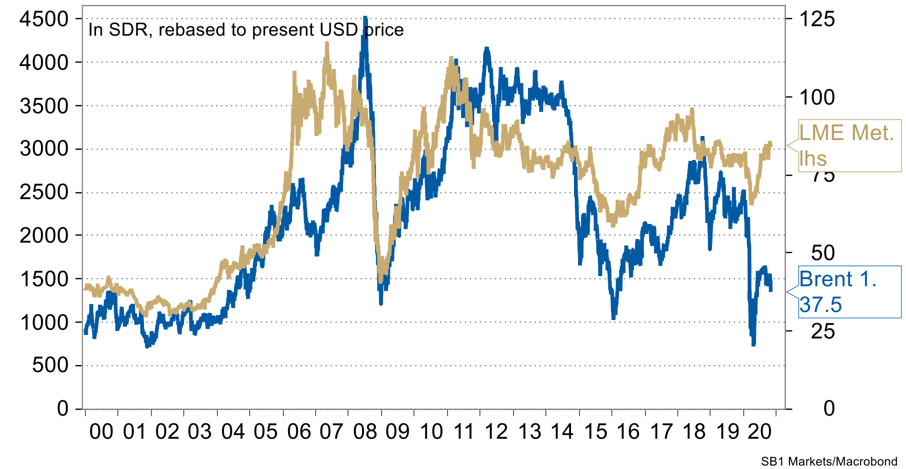
Some turbulence, at high altitudes

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

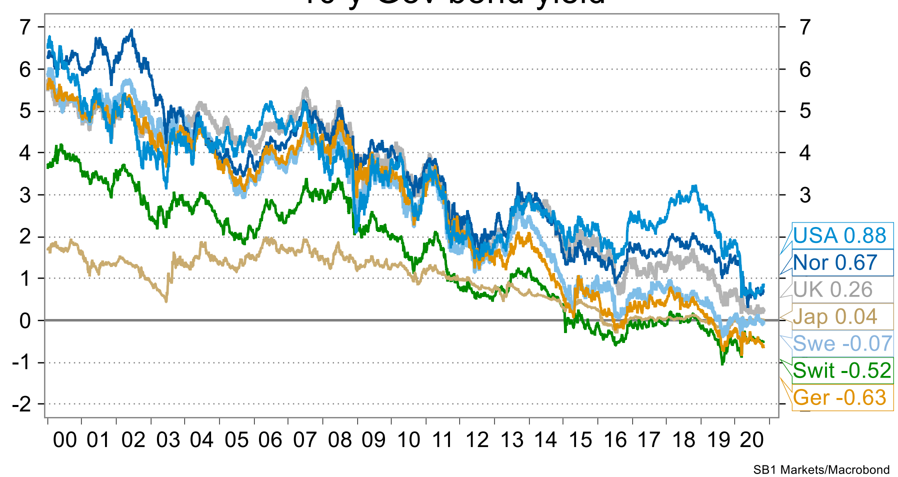
Equity Indices



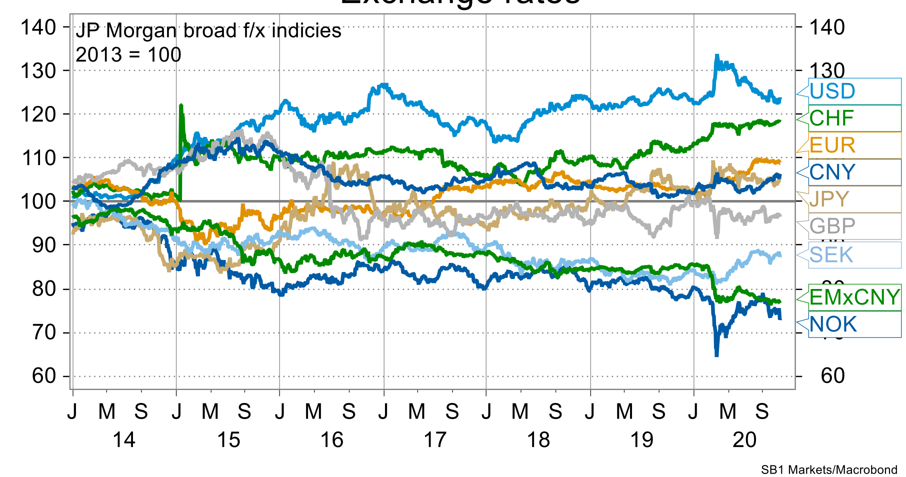
Oil vs. metals



10 y Gov bond yield



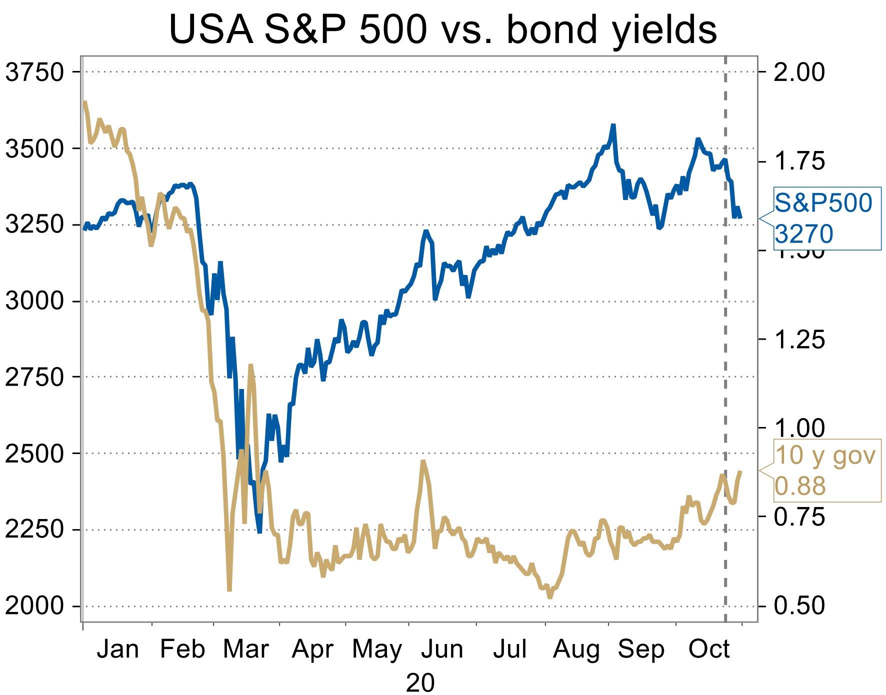
Exchange rates



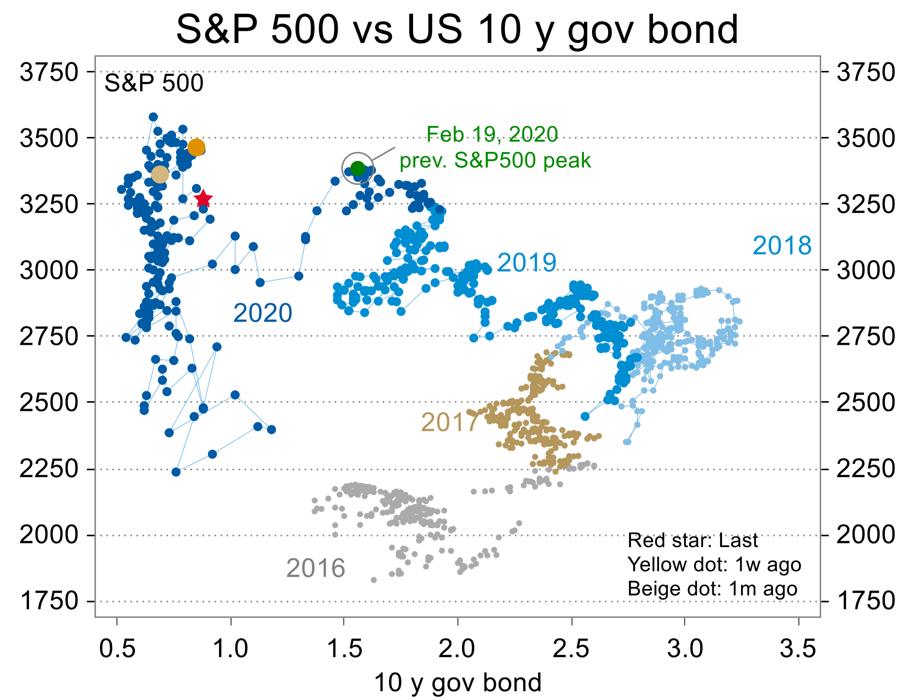
The USD is down but still not weaker than in Feb – and over the previous years (measured by broad f/x indices). NOK is the big loser

S&P 500 down 5.6%, 10 y bond yields up 3 bps (and by 36 bps since early Aug)

The stock market is up since early Aug too



SB1 Markets/Macrobond

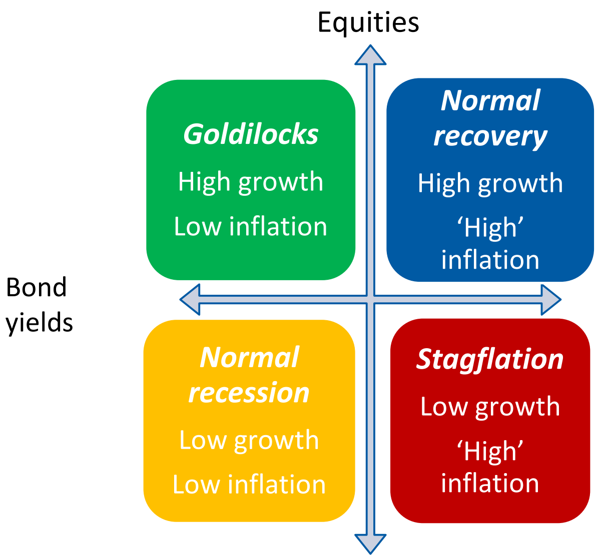


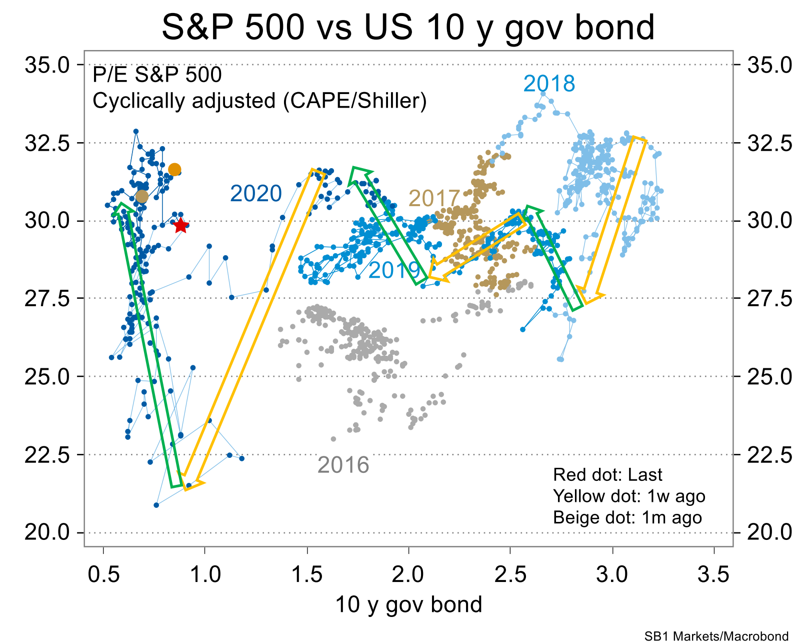
SB1 Markets/Macrobond

- Markets are most likely discounting a more expansionary fiscal policy is Democrats take both win the presidency & the Senate
- The setback at the stock market may be due to both corona challenges – and the possibility for higher corporate taxes, should the Blue Wave reach the Senate (and the White house)

From the ‘Goldilocks corner’, where to go?

Over the past month: The ‘wrong’ direction: Equities down, bond yields up



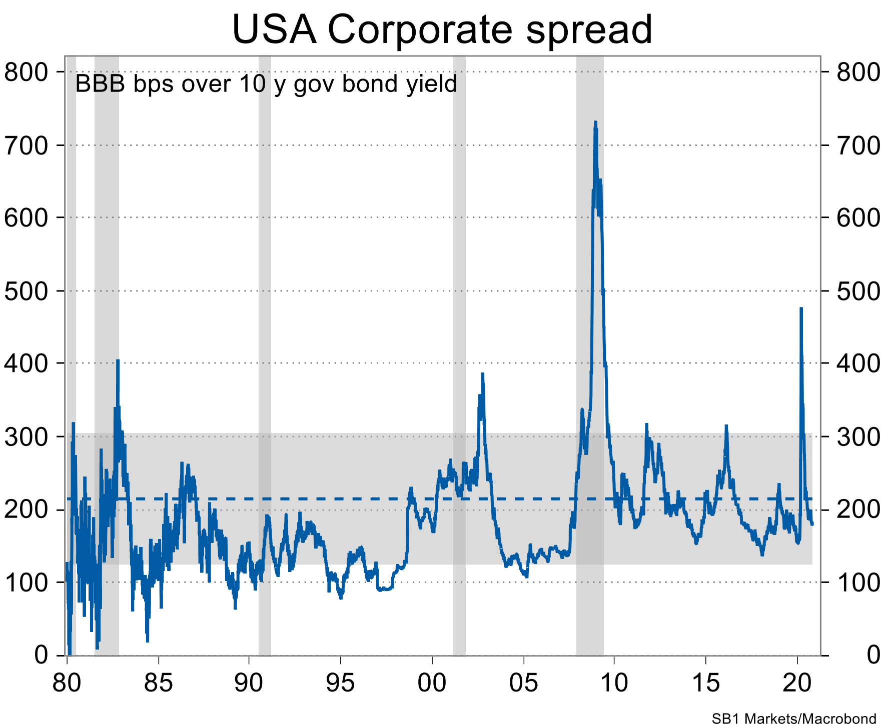


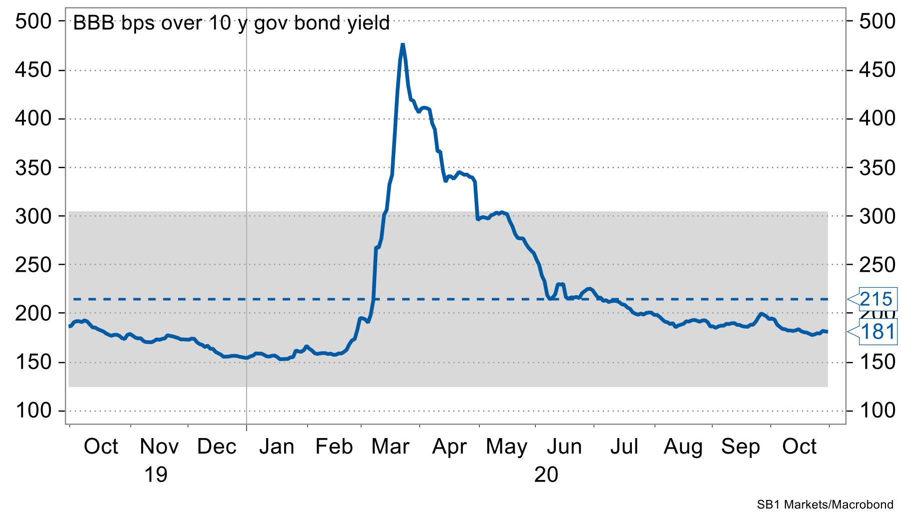
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- Now, the US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and expected to exceed 2% 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

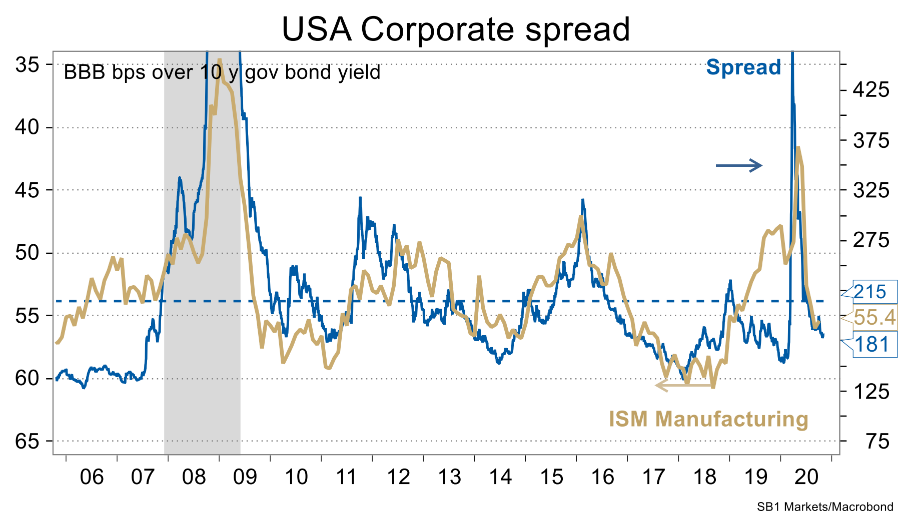
SpareBank 1 MARKETS

Credit spreads are still sliding down

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

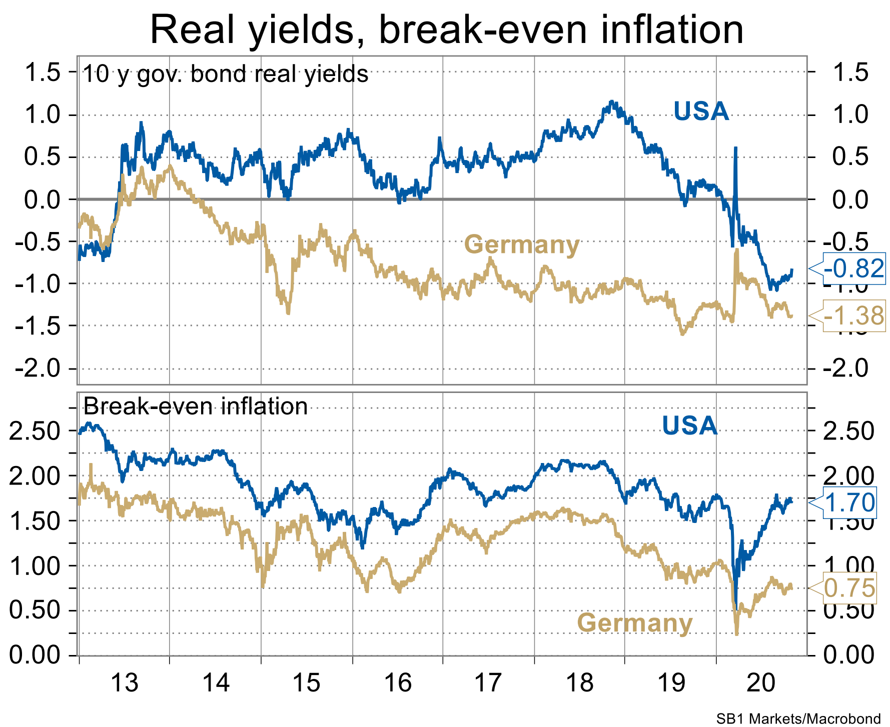


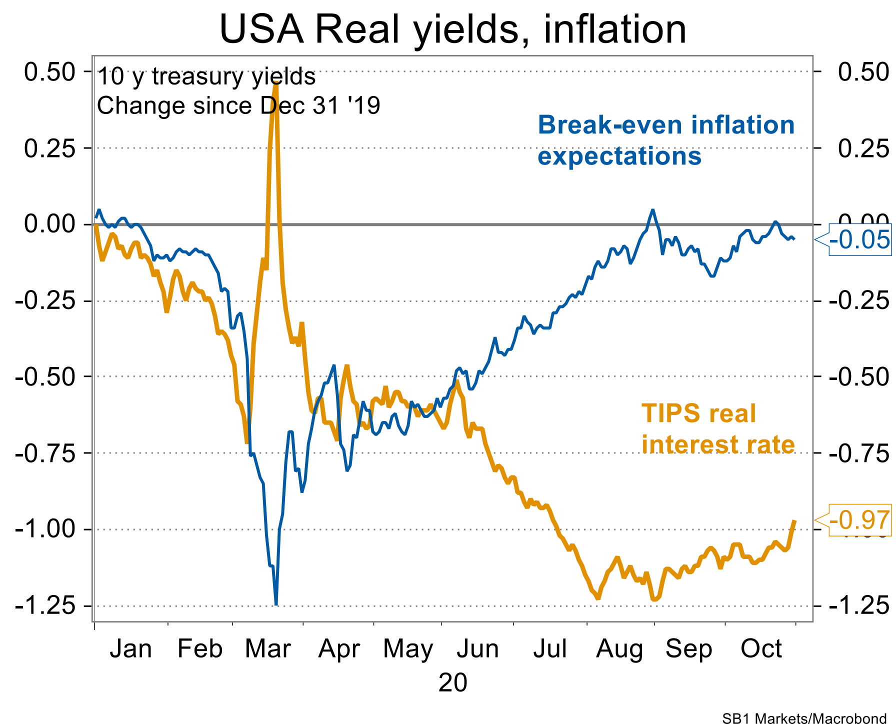




US real rates (TIPS) are trending up, still at -0.82% (10 y)

US inflation expectations have stabilised since late August – at 1.7%, below Fed's inflation target

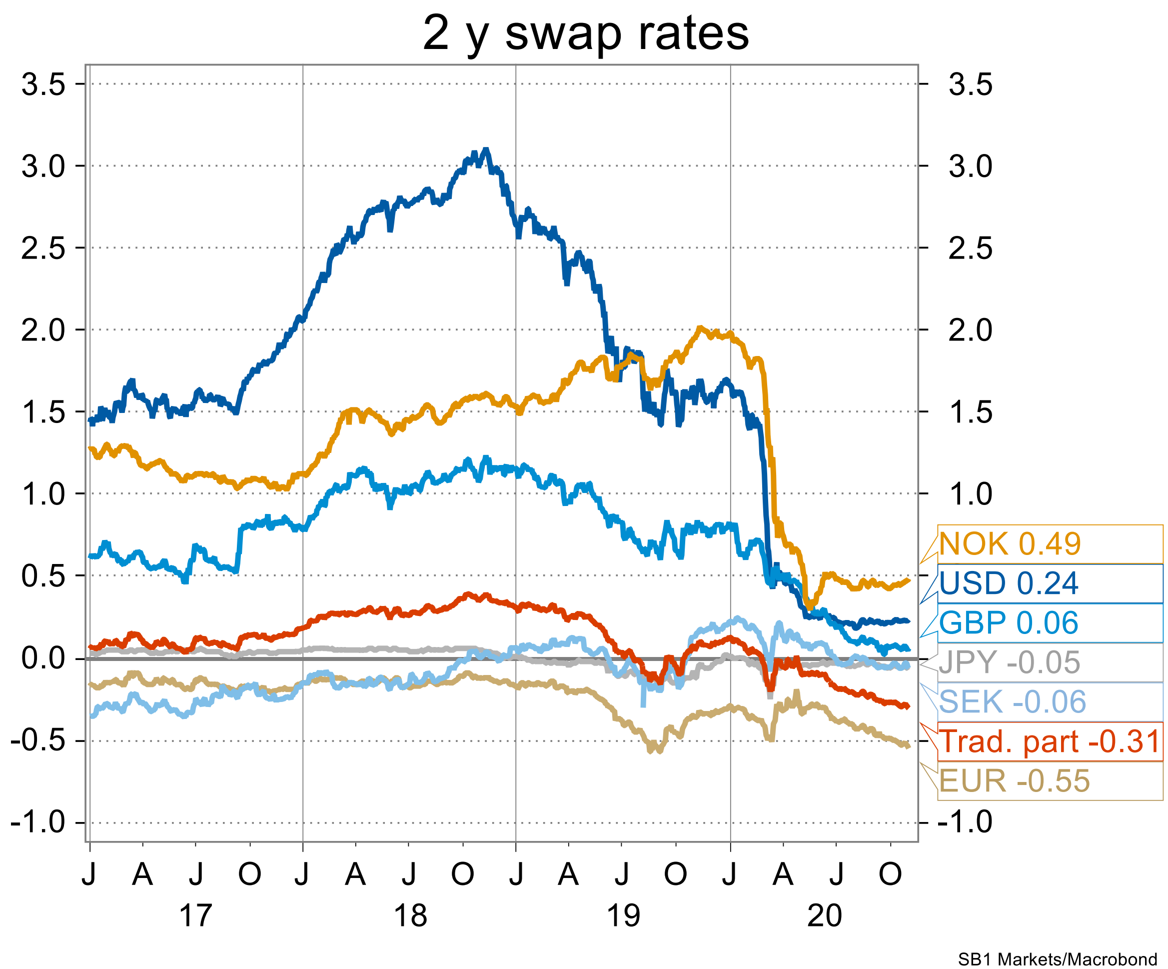


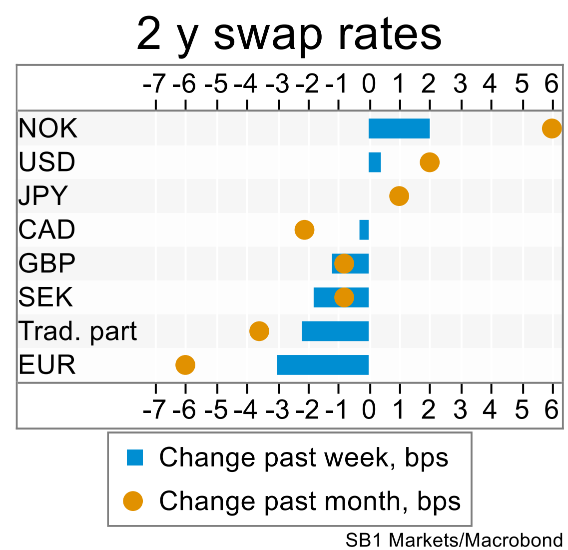


- The German real rate is extremely low at -1.38, inflation expectations at 0.76%

2 y swap rates are sliding down in EMU, and further last week

More dovish signals from the ECB contributed. And some more corona challenges…





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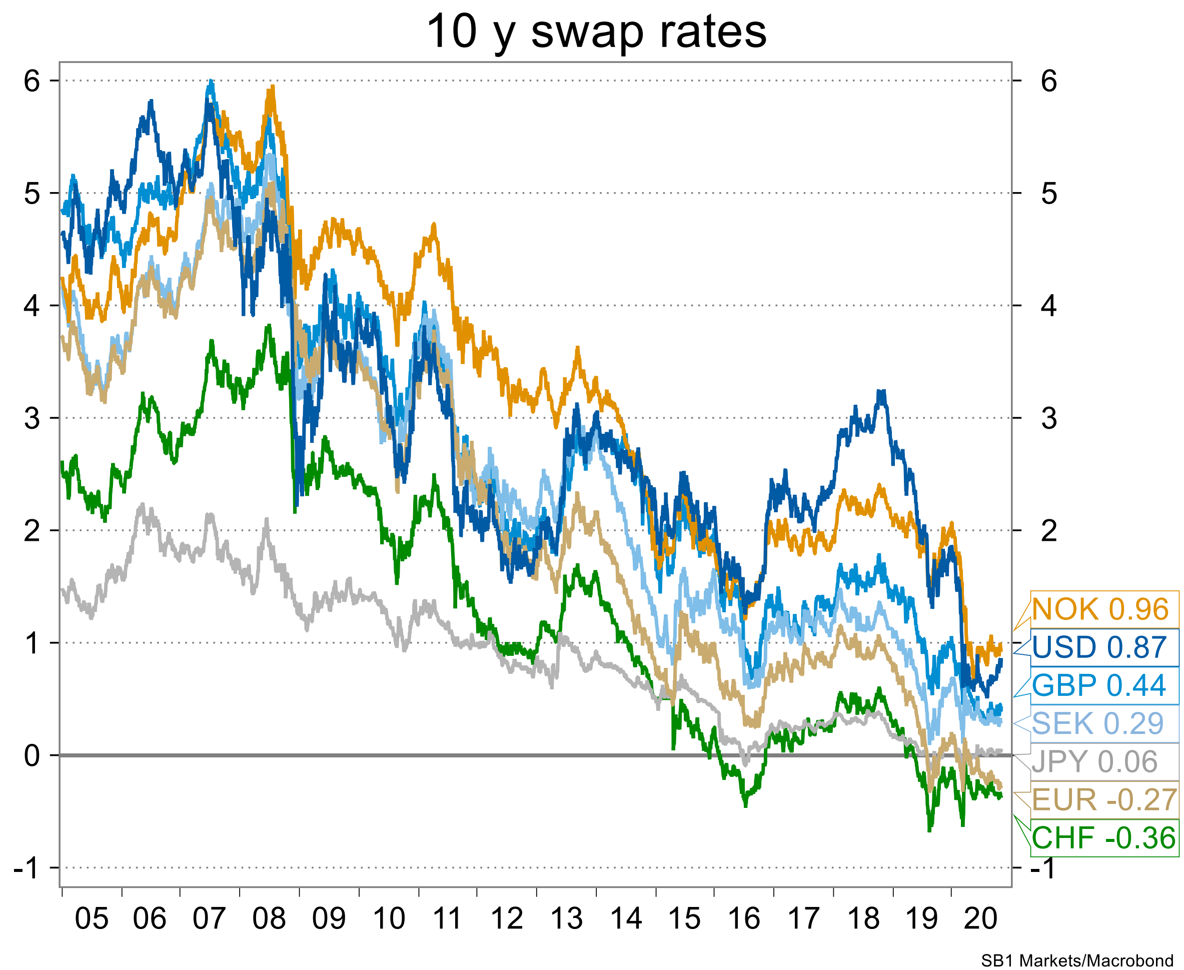
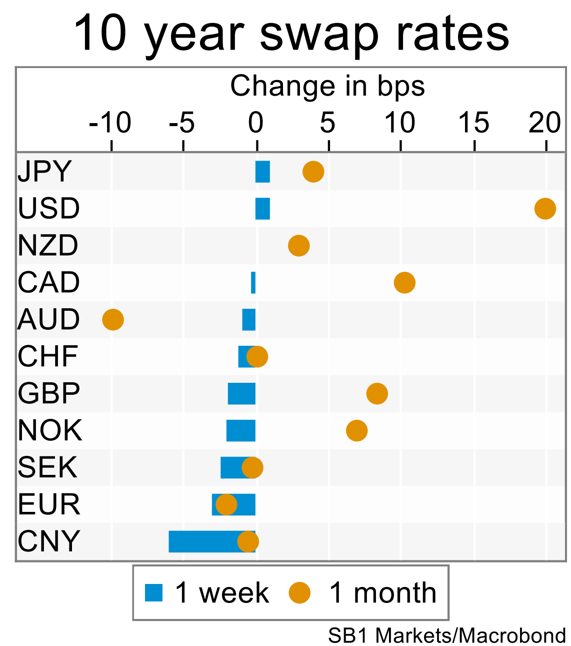
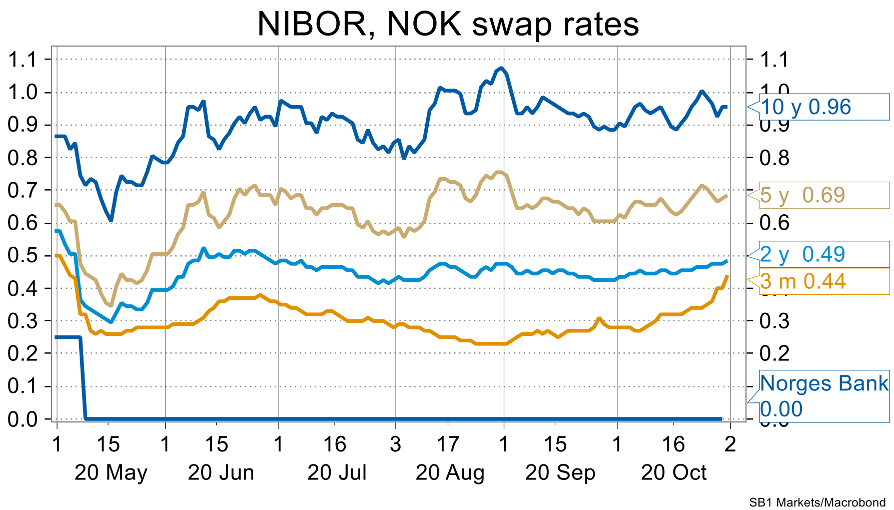
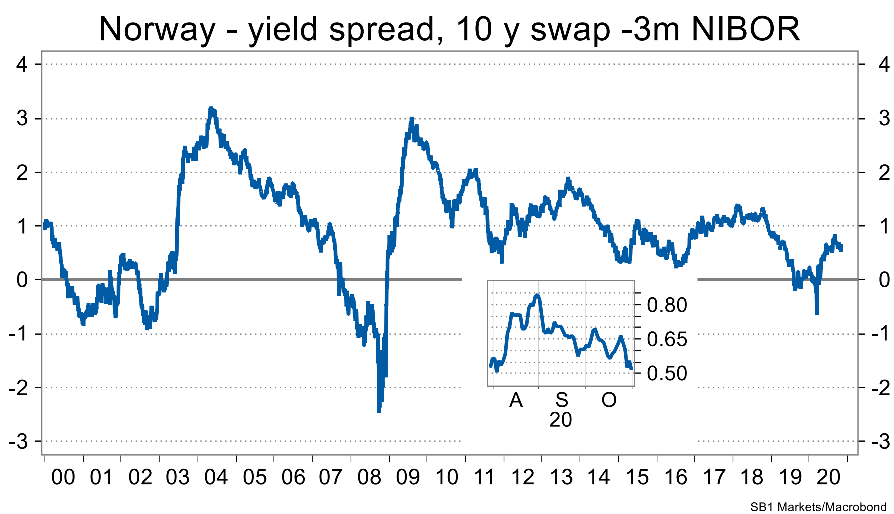
Long swap rates down most places last week – except in the US (and Japan)

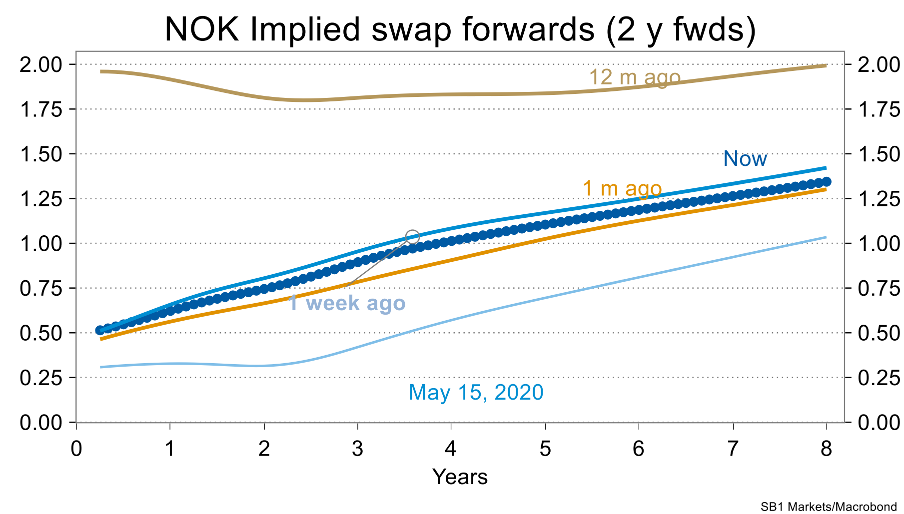




NOK rates up in the short end, down further out on the curve

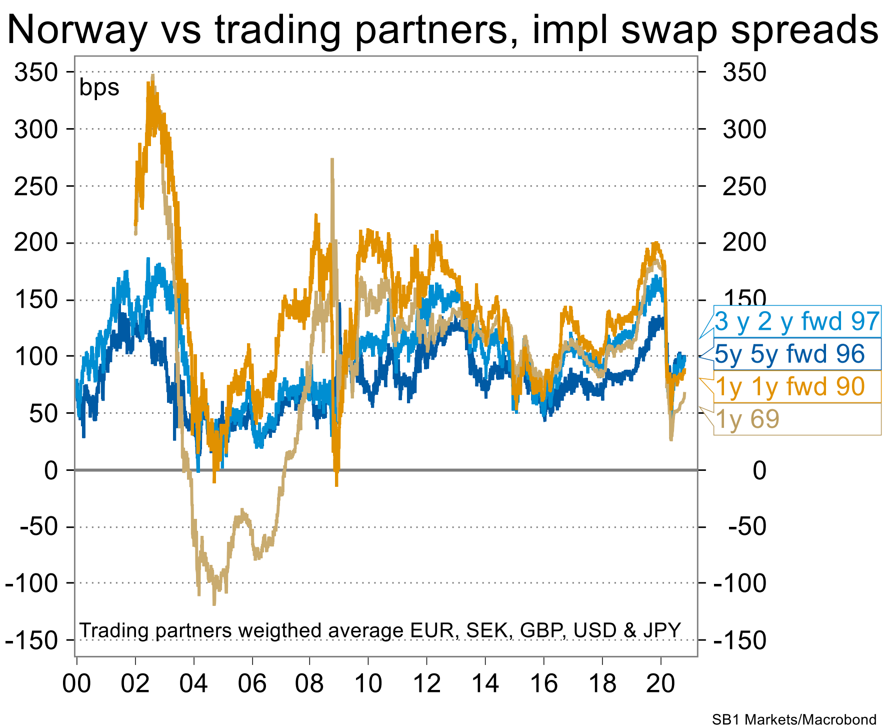


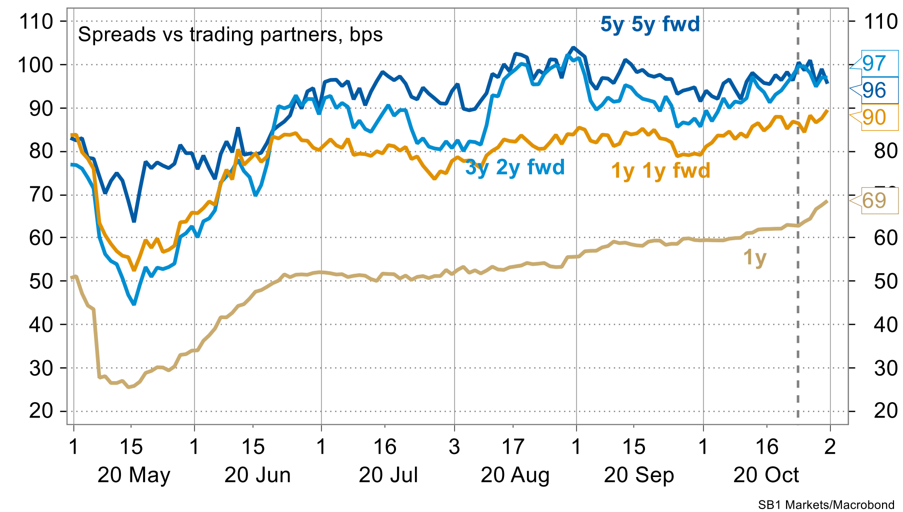


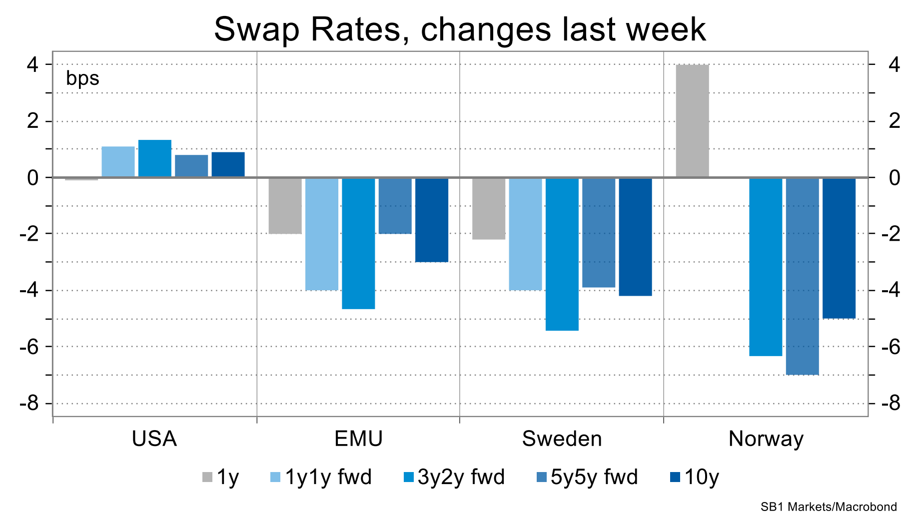


Small changes in spread vs. tradning partners – from 2 y outwards.

Up to 2 y: Wider spreads. Big picture: Spreads vs. our trading partners quite stable since July







- We are still neutral vs. the spread

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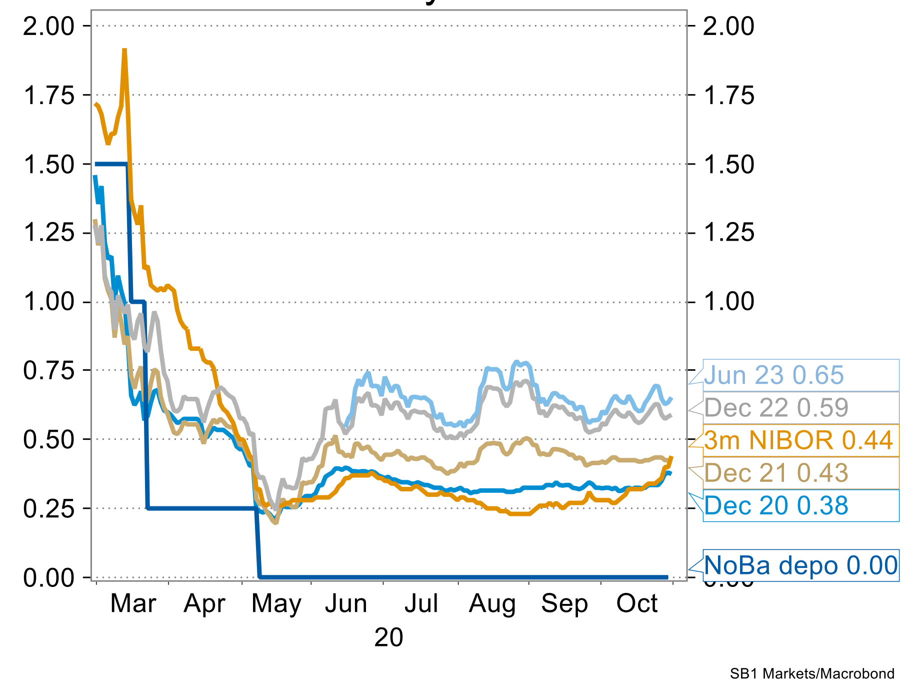
NOK FRAs slightly down last week but the 3 m NIBOR up 10 bps to 0.44%

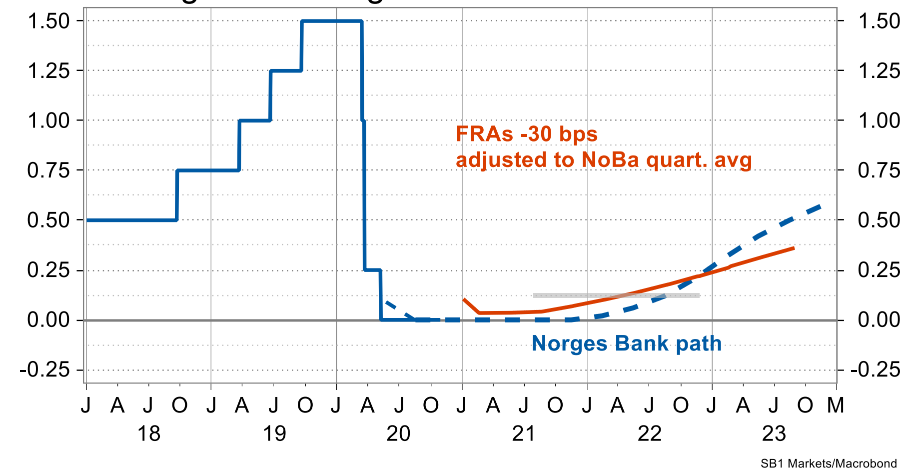
Liquidity is still not well distributed in the Norwegian market

Norway 3m FRA

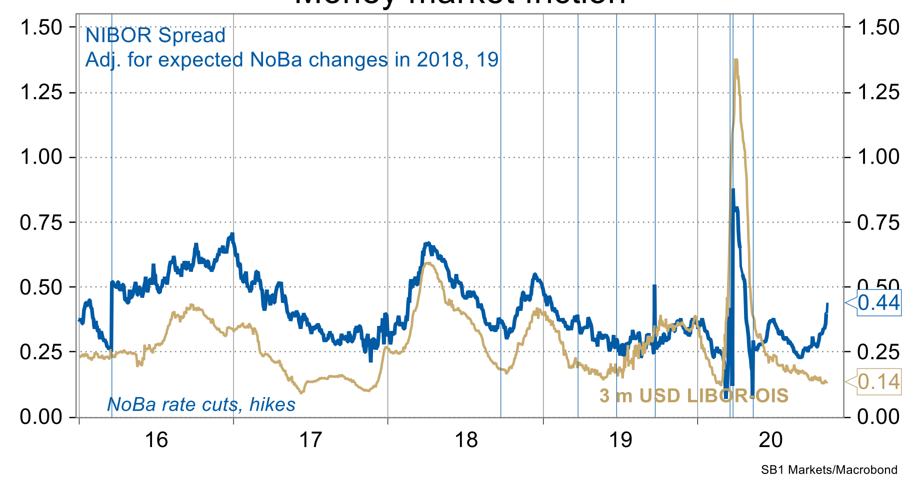


- FRAs have been more or less flat since mid June, well up from the May through

Norges Bank Signal rate forecast vs market

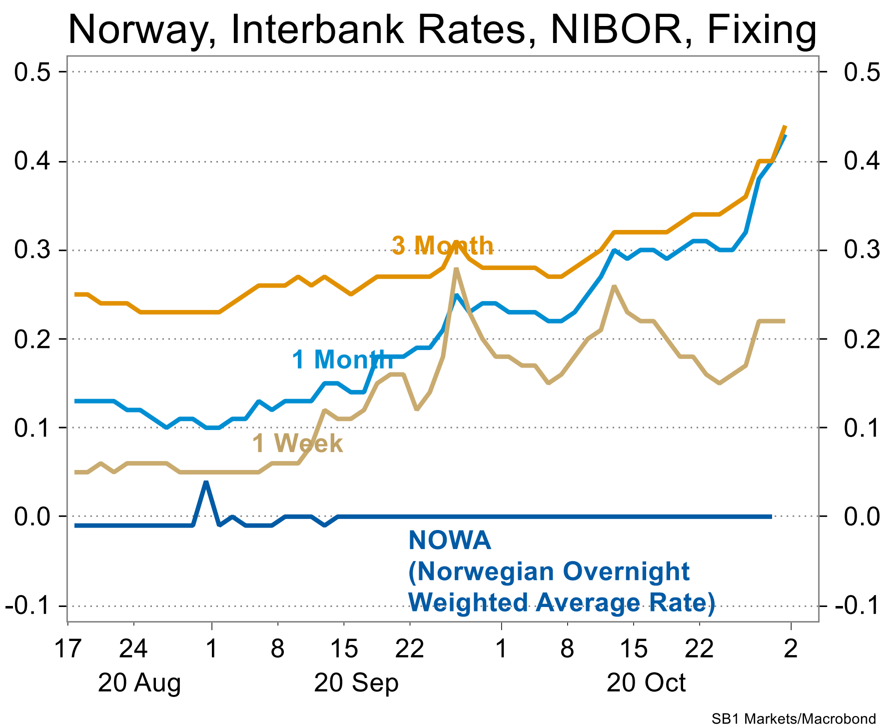


Money market friction



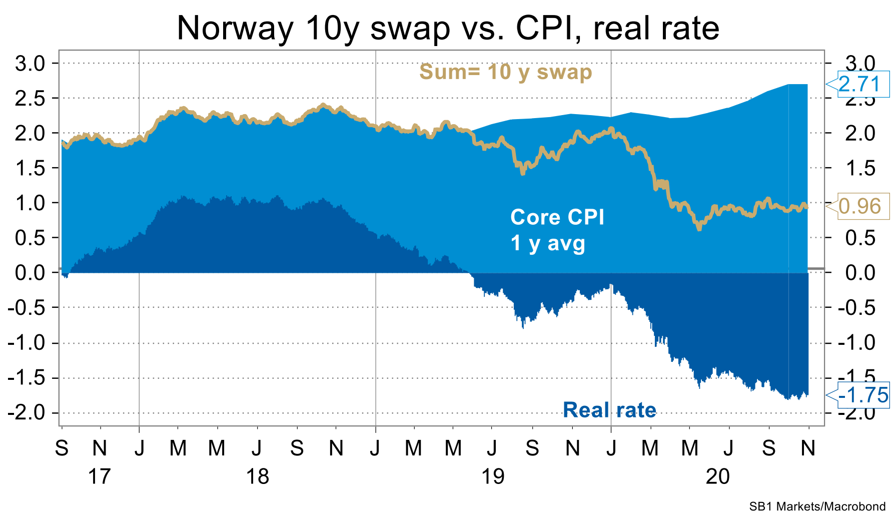
Still friction at the Norwegian money market

The distribution of liquidity in the money market has been poor since late September

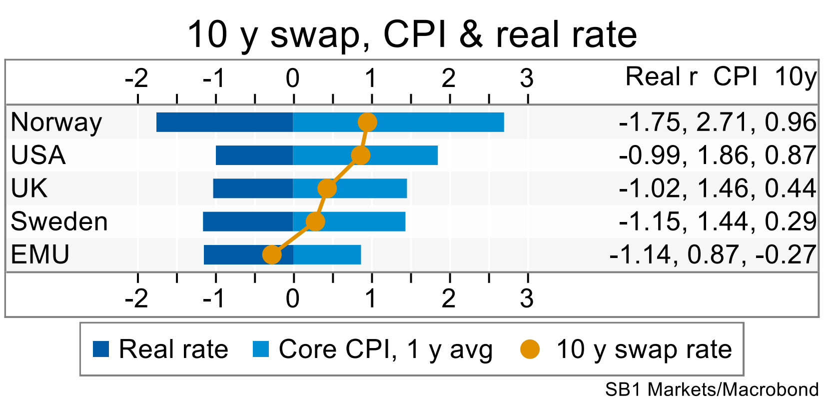


- Banks have not been able/willing to distribute short term liquidity between themselves
- Norges Bank has offered both F-loans and deposits at zero penalty (interest rate=NoBa deposit rate at 0.0%)
- Recently, banks have both borrowed and increased their deposits in the central bank
- Still, the very short term rates are elevated, and the 1 week rate is at 0.22%, up from 0.05% in Sept
- The 3 month NIBOR rose 10 bps last week, up to 0.44%, yielding a higher spread to the signal rate than normal
  - » Often, the reason is higher spreads in the USD market but that is not the case this time
- We still assume that Norges Bank will be able to control the short end of the curve – even if we have been wrong so far

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

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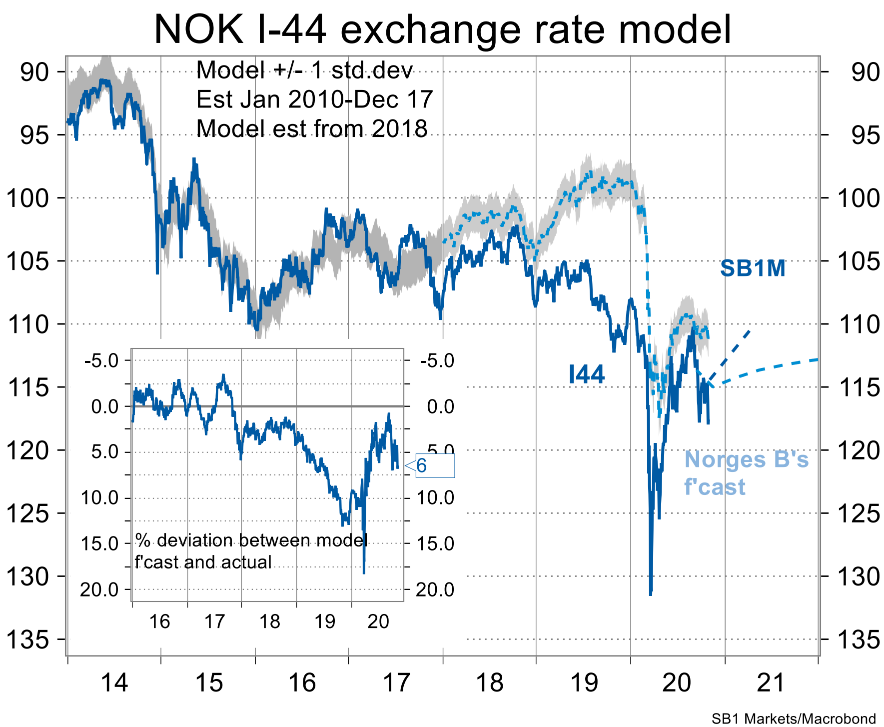
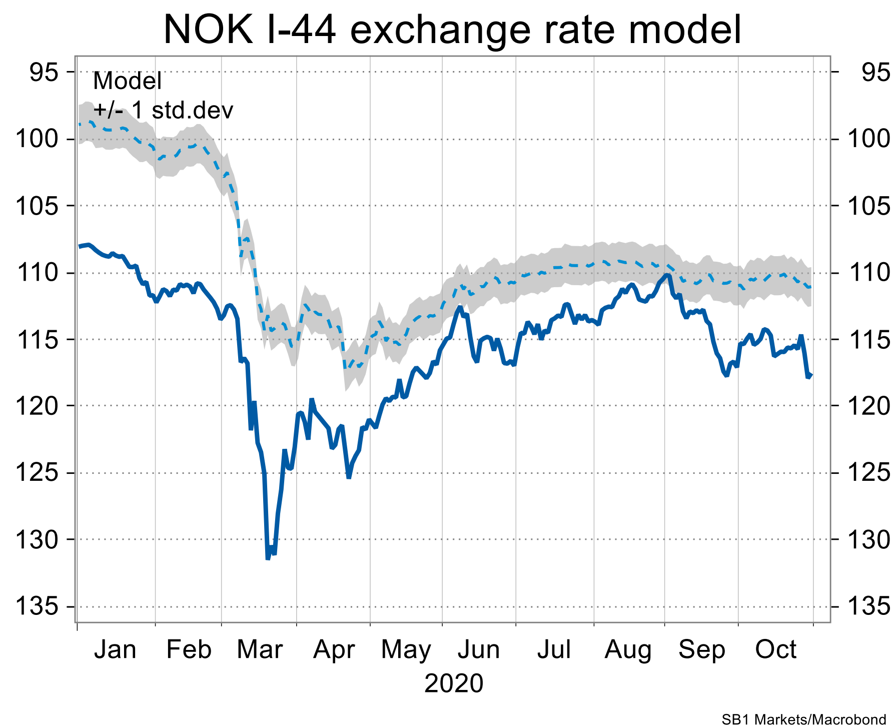
NOK I44 down 1.8% last week (and by 2.6 from Tuesday), our model said -0.6%

The NOK is 6% below our model forecast. Other supercycle currencies fared better, global stocks not

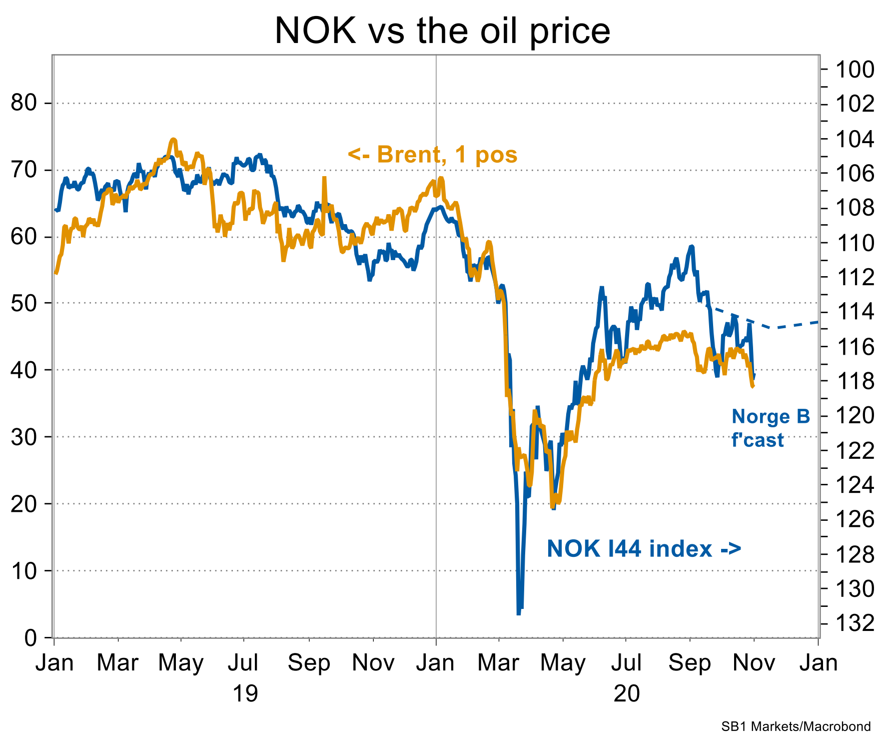


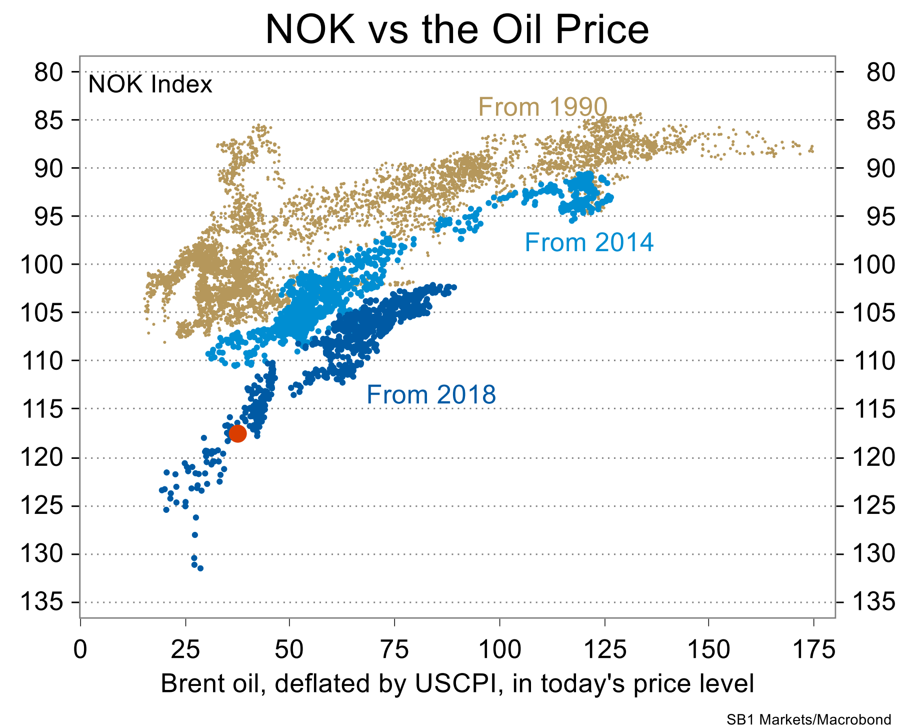


- The gap to the standard, oil price dependent model fell by more than 1 pp last week, to 6%
- The risk off sentiment last week, sending global equities down
- The NOK is still 'too strong' vs a model based on oil equities but weaker than the other supercycle currencies (AUD, CAD, SEK), we prefer the latter model. NOK is 6% weaker than estimated by a simple global equity model (given a narrow NOK/MSCI correlation since early 2020)

The oil price down last week, but the NOK fell far 'more'

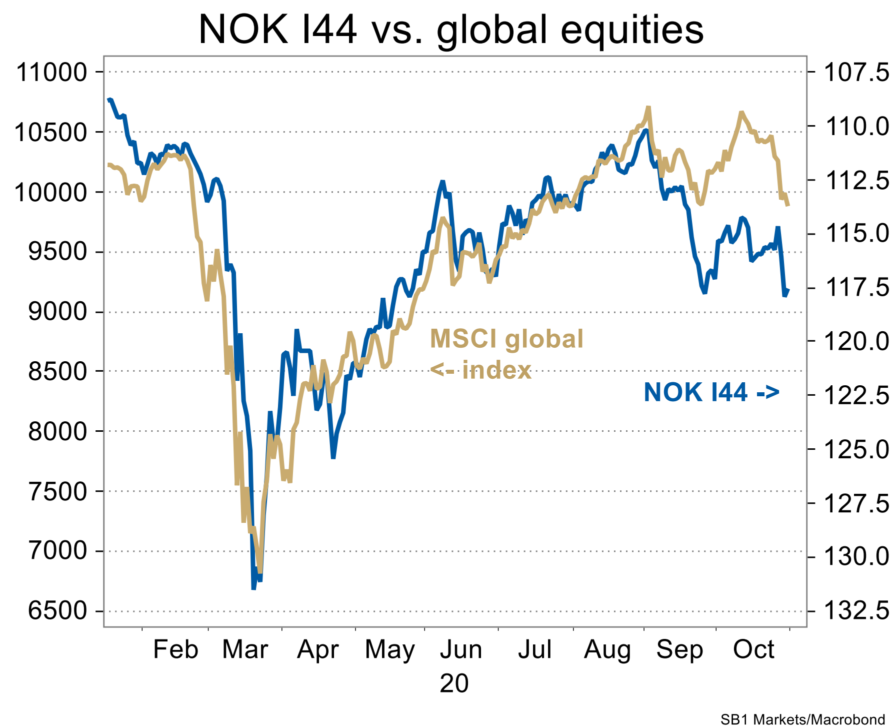
The oil price is still important for the NOK but the correlation has not been impressive since July

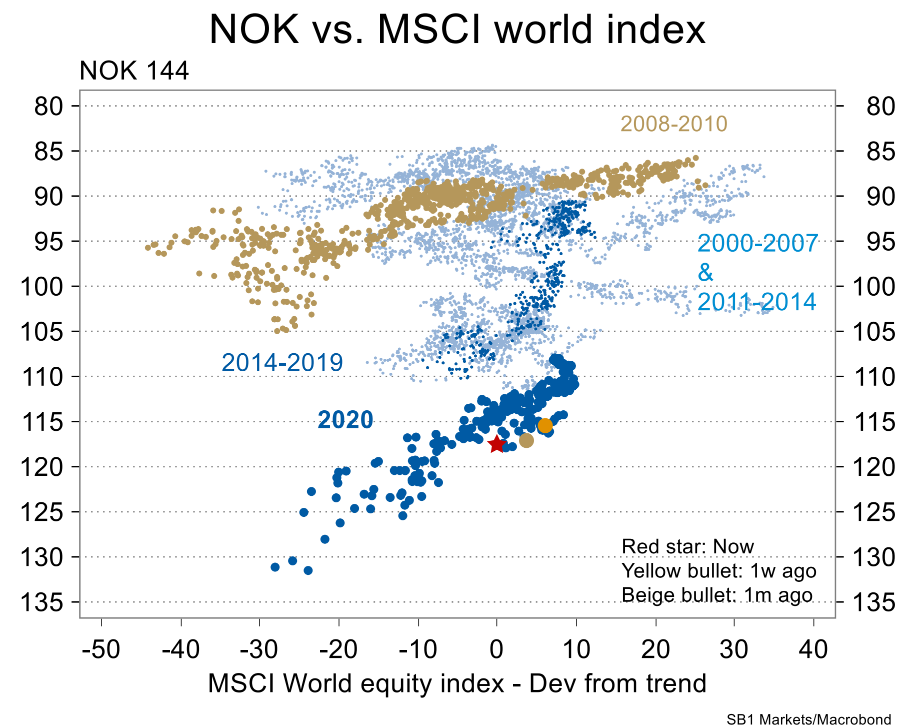




NOK down along with global equities last week, a 'normal' 2020-response

The NOK is still some 5% weaker than indicated by the MSCI global, base on the relationship since Jan

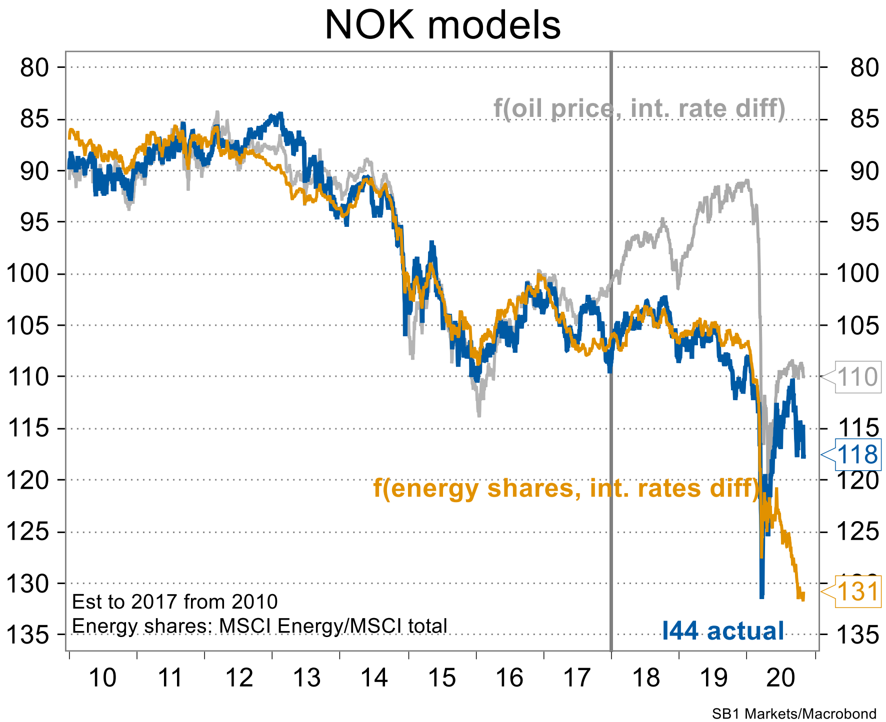


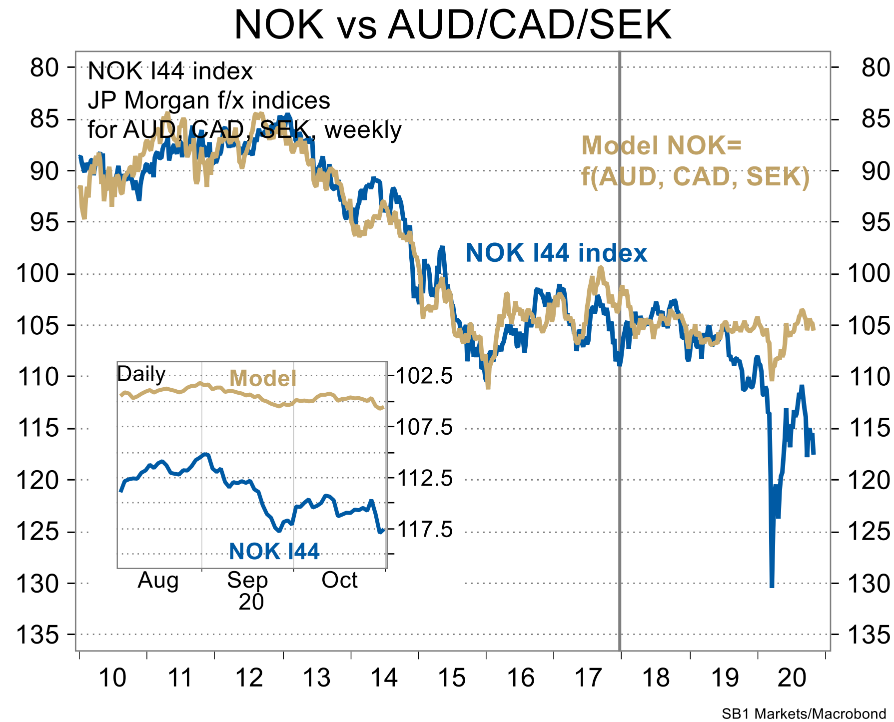


- There has not been any stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with correlation like the one we have seen since early 2020
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund is larger then the value of the remaining oil & gas reserves. Has the market 'finally (and rather sudden)' come to the same conclusion?
- Now, the NOK is 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 not 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

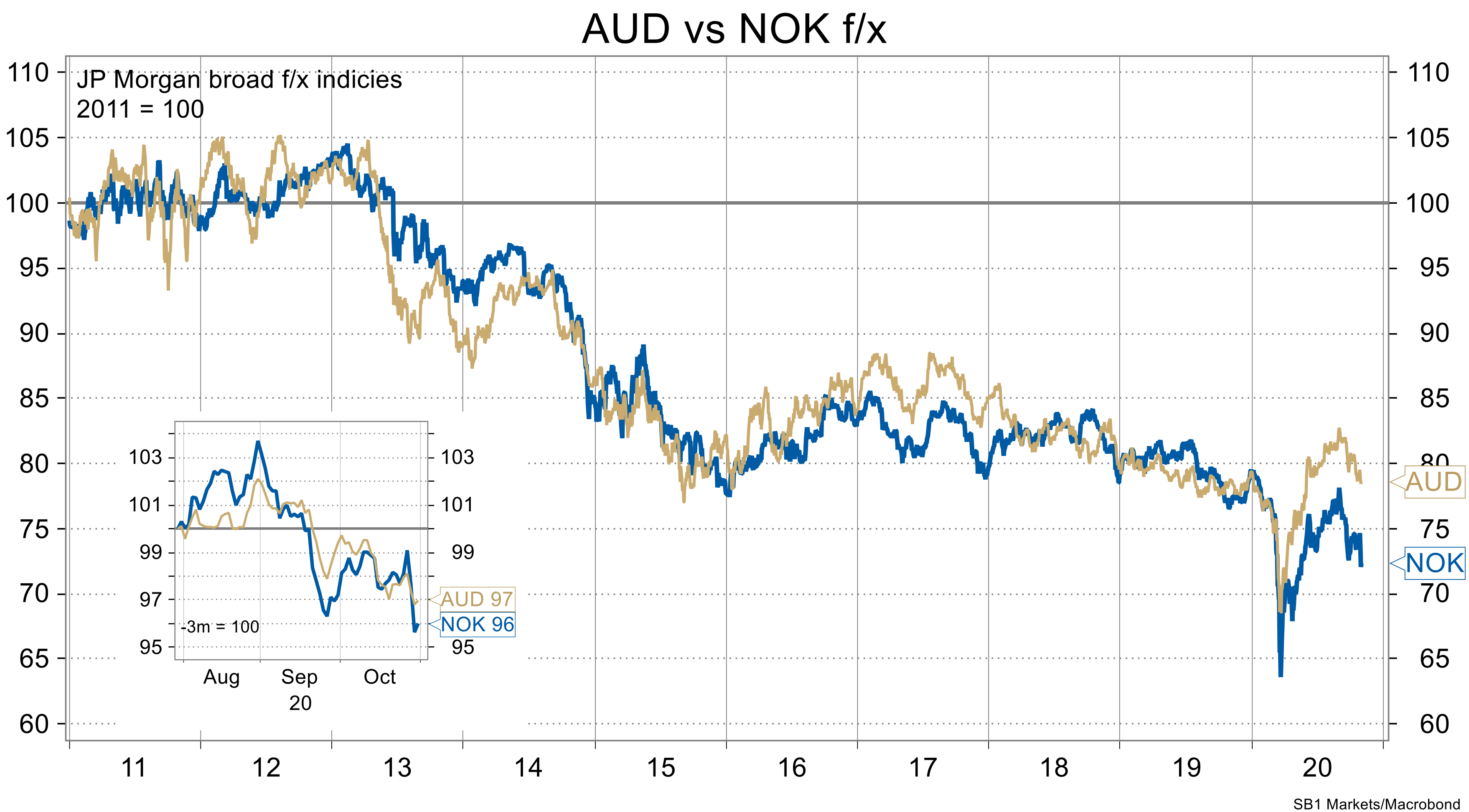




- On the alternative NOK models
  - » Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. 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 11% stronger than the oil equity 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 and last week, even as all are sensitive to market risk sentiment. The NOK is 11% below our model est. We think this model is more relevant than the oil stock price model

NOK took a real beating last week – far more hit than the AUD

However, not that large split between the two since the summer (or since 2011…)



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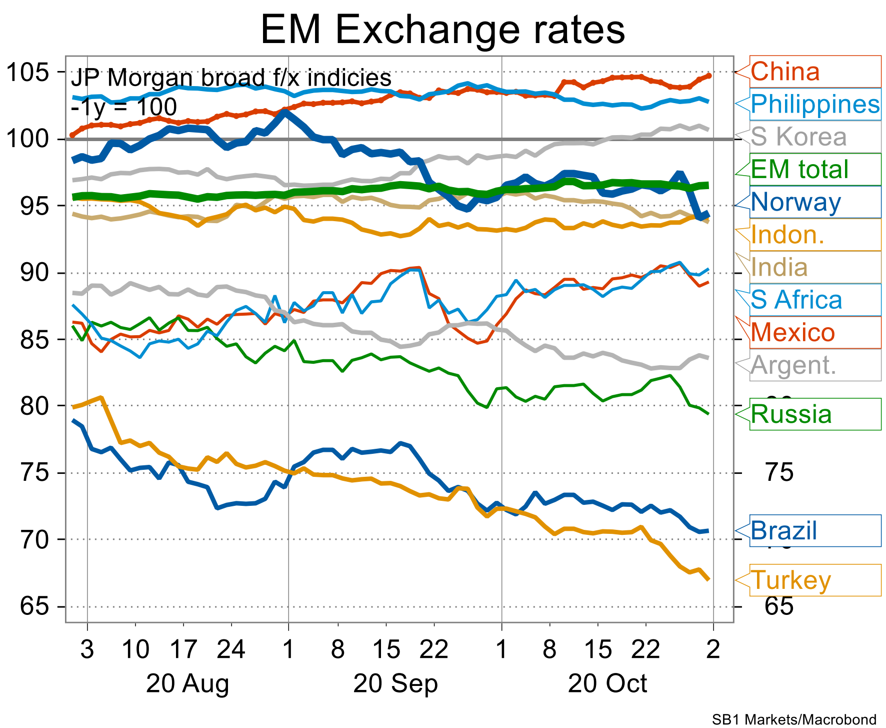
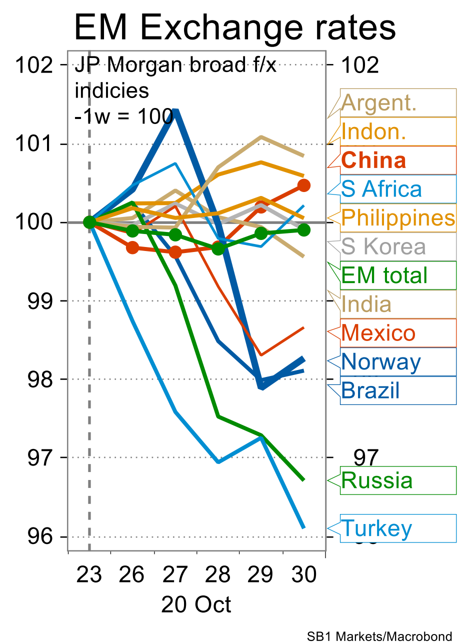
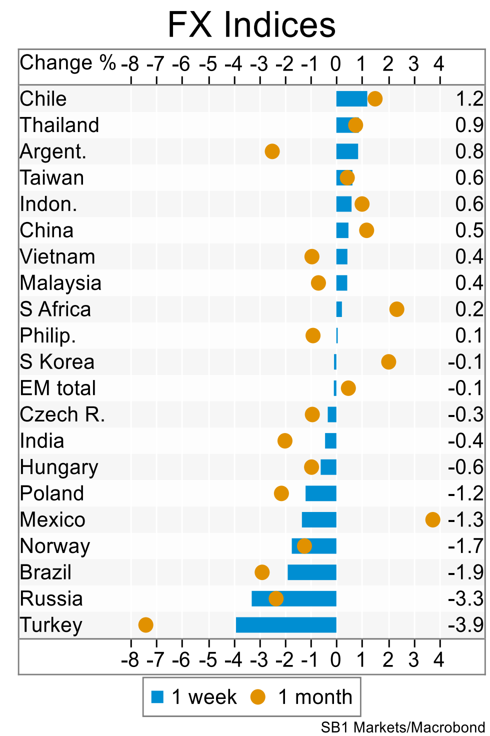
Most EM currencies down last week – but the CNY continues upwards again

Brazil and Turkey both on a slippery slope – down 27 – 30% last year. And Russia -20%







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