9 November 2020

Macro Research

Week 46/2020

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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
A top right button will bring you back to the content page

Last week:

- The outcome of **the US election** has been greeted by markets, especially the stock market. Biden will (very likely) become president but the Senate will probably remain in control of the Republicans as the Blue Wave did not materialise (but the outcome of the Senate election will not be decided before Jan 5). A divided Congress/a split government is not the best for taking bold decisions but barring the need for a 2nd fiscal stimulus, markets could appreciate that. There will be no reversal of the cut in corporate taxes, no wealth tax etc, as compromises must be made towards 'the centre'

- **Some Better Corona News:** The number of new Covid-19 cases, hospitalisations and deaths is surging in most European countries, with corona deaths equalling more than 20% of the normal death rate. Death numbers will climb sharply the coming 3 weeks, even if the all case curves flattens or bends down <u>now</u>. The good news is that growth in new cases is slowing most places). Belgium and the Czech Rep, which are at the top the European league with almost 2,000 new cases over the past 14 days/100', are finally reporting fewer cases, following a 'moderate' decline in physical (Google) mobility over some few weeks. The UK curve has flattened. We expect the 'lockdowns' in most other European to turn the 'R' to below 1 the coming very few weeks. However, since the level of contagion is high in many countries, restrictions will not be eased immediately

- **Norway announced new corona measures** last week but far from a full lockdown, following a surge in new cases over the previous two weeks. The doubling time has been approx 8 days, like in many other European countries through Oct. Still, the <u>level</u> of contagion is just a small fraction of numbers seen in the hardest hit European countries, and we do not have any Covid health problem, now . <u>We expect the 'R' to fall below 1 pretty soon, and that some the restrictions will be eased after just some few weeks</u>. The economic impact of the new measures will be limited compared to the March/April experience (GDP down 11%), as both kindergartens and schools are kept open, and few activities are closed down. We have pencilled a 2 – 3% GDP setback over <u>some few weeks</u>

- **Global auto sales** rose further m/m in Oct, according to our preliminary estimate, and are at the same level as before corona. Sales rose in China, Japan and in India, but fell slightly in the US and EMU, the two are 4 and 7% resp. below the 2019 avg. Sales in China (and India) are both above the pre corona level. **Norwegian auto sales** have been unusually strong in both Sept and Oct.

- The **global October composite PMI** turned out to be clearly better than we assumed, up 0.8 p to 53.3, signalling continued growth, as both manufacturing and services reported faster growth. The soft spot was **services in Europe** (which was published two weeks ago), while the **US PMIs/ISMs** were stronger than expected. The Germany manufacturing sector reported strong growth. Several bright spots in Emerging Markets, both in China, and elsewhere – with India reporting the strongest PMIs in October. The **Norwegian PMI** further up too

- **US unemployment** fell far more than expected in October, down to 6.9%, and private sector employment rose more than expected. Still, employment/hours worked are 5.5 – 6.5% below vs. the Feb level. **Wage inflation** has fallen to some 2.5%. The **Federal Reserve** signalled willingness to support growth but did not announce any new measures, the day after the presidential election. The statement was unchanged

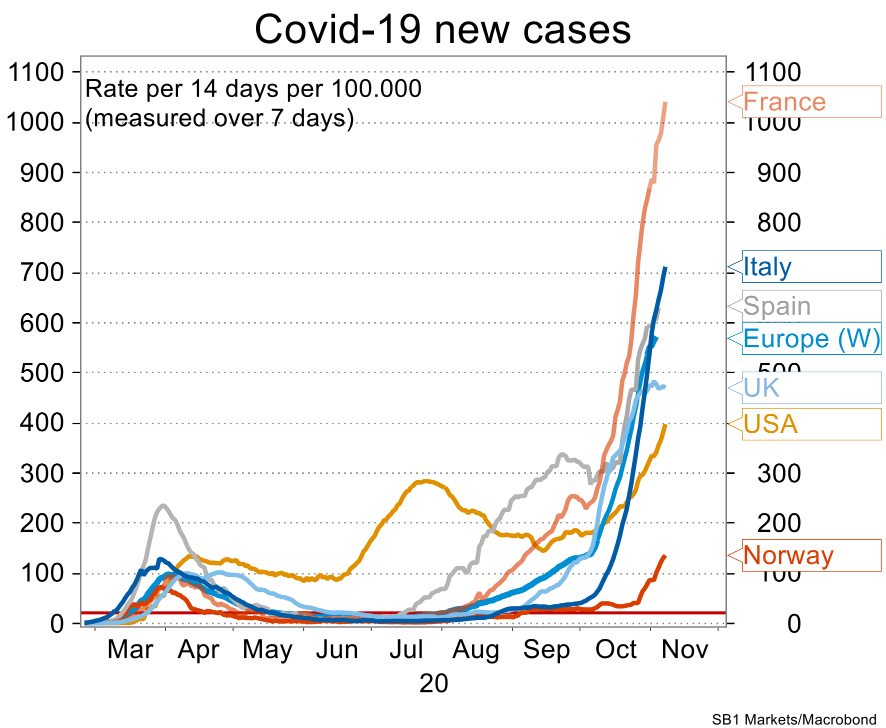
- **In EMU, Retail sales** no fell as expected in Sept, but far less than the Aug hike. However, the Q4 outlook is not that bright, another downturn in retail sales is likely – even if parts of the service sector now is more exposed

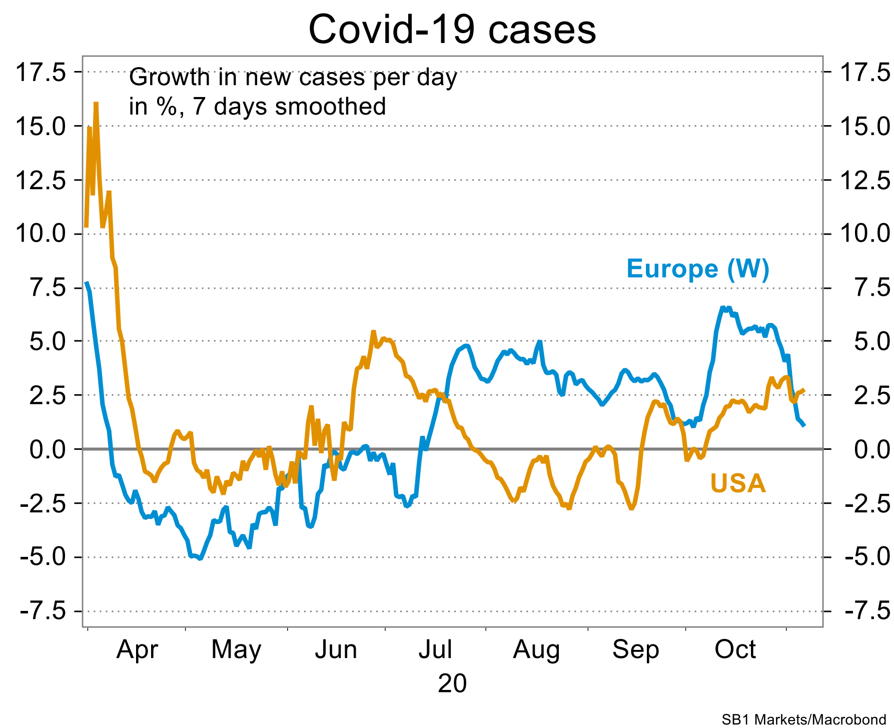
- **Norges Bank** kept the signal rate unch at zero, an did not indicated any change in the interest rate path in the December Monetary Policy Report. **House prices** rose at a fast pace in October too, by 1.3%, up 7.7% y/y – and 10% higher than NoBa expected when the bank cut the signal rate to zero in early May. The inventory of unsold homes is falling at a fast pace

SpareBank 1 MARKETS

The curves are bending in Europe, and some have turned south

Restrictions are working this time as well

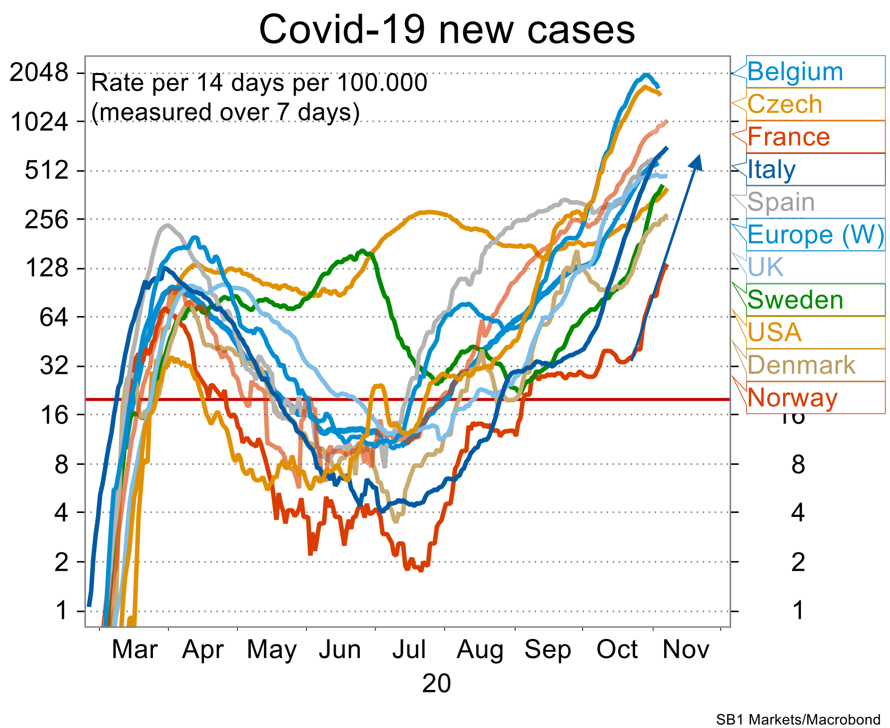




- The goods news from **Europe** is the growth is slowing almost everywhere, and that the no of cases in falling in both Belgium and in the Czech Republic (see next page). In the UK, the no of new daily cases has flattened. Hospital occupancy is increasing everywhere, and is already disturbingly high in some countries, as are no of daily deaths – and they will continue upwards the next two weeks at the best, if the no of new cases stabilises now. That's not yet the case… 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, with no signs of slowing. The number of hospitalisations is on the way up, and more deaths are following. So far, the economic cost has been limited, as no data signals another downturn. However, the curve has to be bent here to. It behaviour is not changed, the no of cases will quadruple before mid January. Then…
- Norway is reporting the highest growth rates – and several restrictions were tightened last week

Belgium and the Czech Rep are reporting a decline in new cases

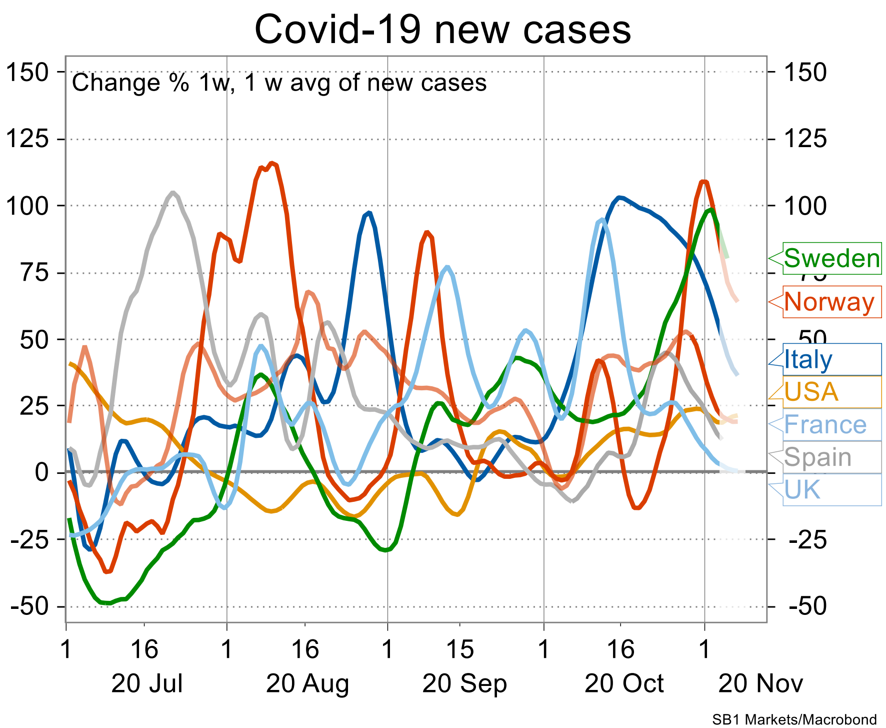
The UK curve has flattened – and others are growing more slowly – barring US and Norway…

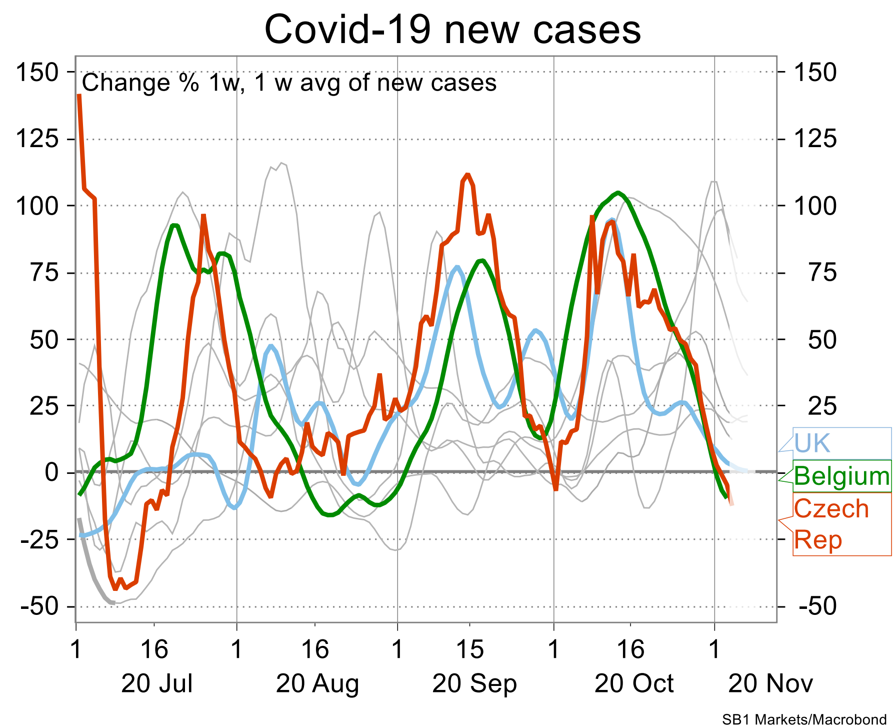


- The no of cases in **Norway** is growing at a very brisk pace, with a 8 days doubling time – implying an 'R' at closer to 2 than 1.5 (at least before we adjust for the 'feed' of new cases from abroad. Without a substantial change in behaviour, Norway will reach an 'European level' in just a couple of weeks
- However, we expect the 'R' will now decline to below 1 again, without too serious consequences for the economy
- As the level of contagion is low, some restriction will be eased earlier than abroad, if the R is pushed below 1 now
- **Denmark and Sweden** are reporting 2 – 3 times more daily cases than Norway, but growth is slowing in Denmark (however not in Sweden)
  - » Denmark is worried that a mutated corona virus (via a mink farm) may create even more serious problems

Case growth rates are volatile but they are now heading down most places

The no of cases is falling the both Belgium and the Czech Rep – from disastrous levels



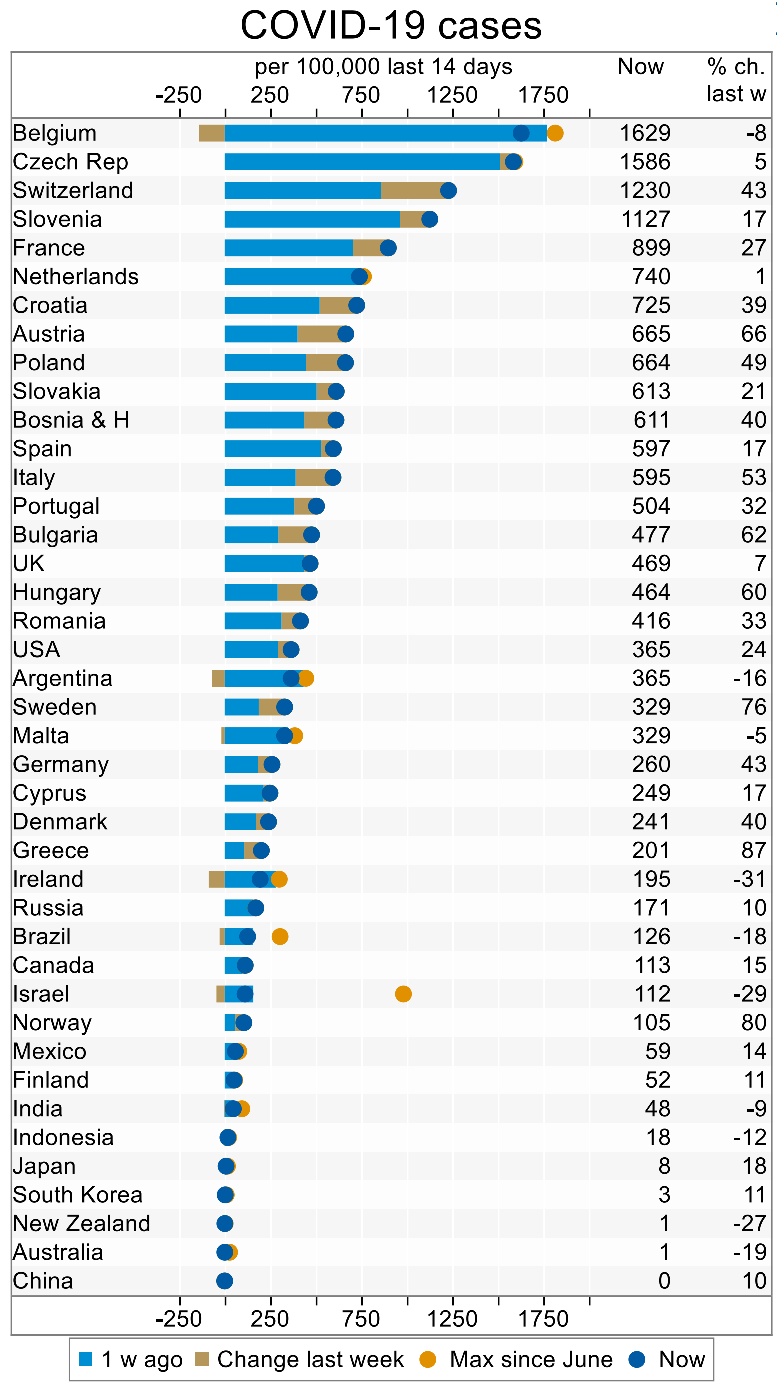


- Check the mobility data some few pages out in the report

Not too many are heading downwards…

But growth is slowing most places

- *Comment on the data: At the chart at this page and the next, we present accumulated cases over 14 days, and not over 7 days, at a 14 days' pace, like at page 4 - 6. Thus neither level data or growth rates are equal – but the broad patterns are of course the same*
- For the first time since early October, is was not necessary to enhance the axis to the right this week
  - » Belgia and the Czech Republic , the two at the top has not reported a further increase, Belgium is down even measured by the 14 day average
  - » Not many other are reporting fewer cases
  - » Israel has curbed the outbreak almost completely



SB1 Markets/Macrobond

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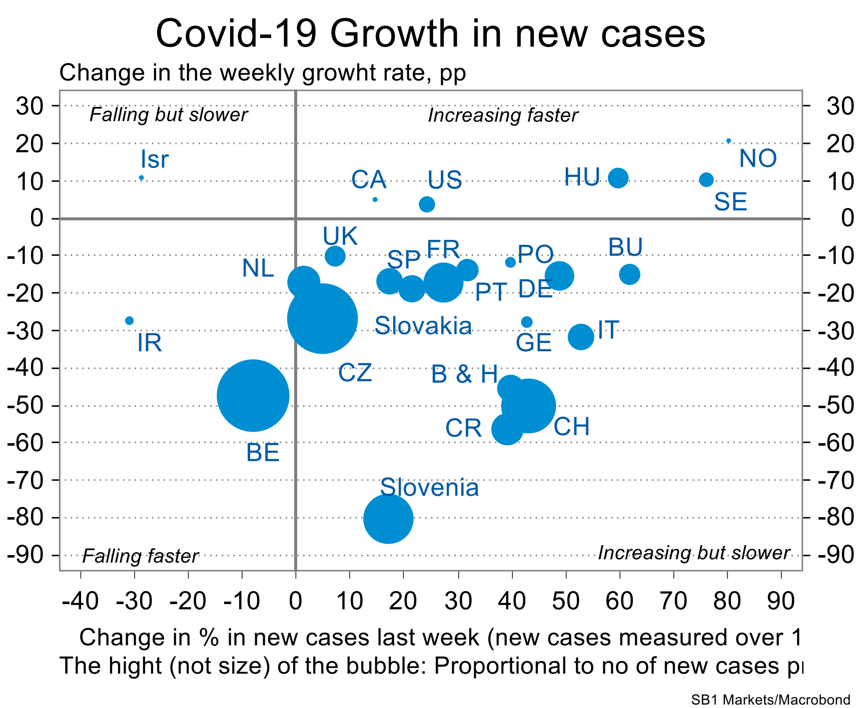
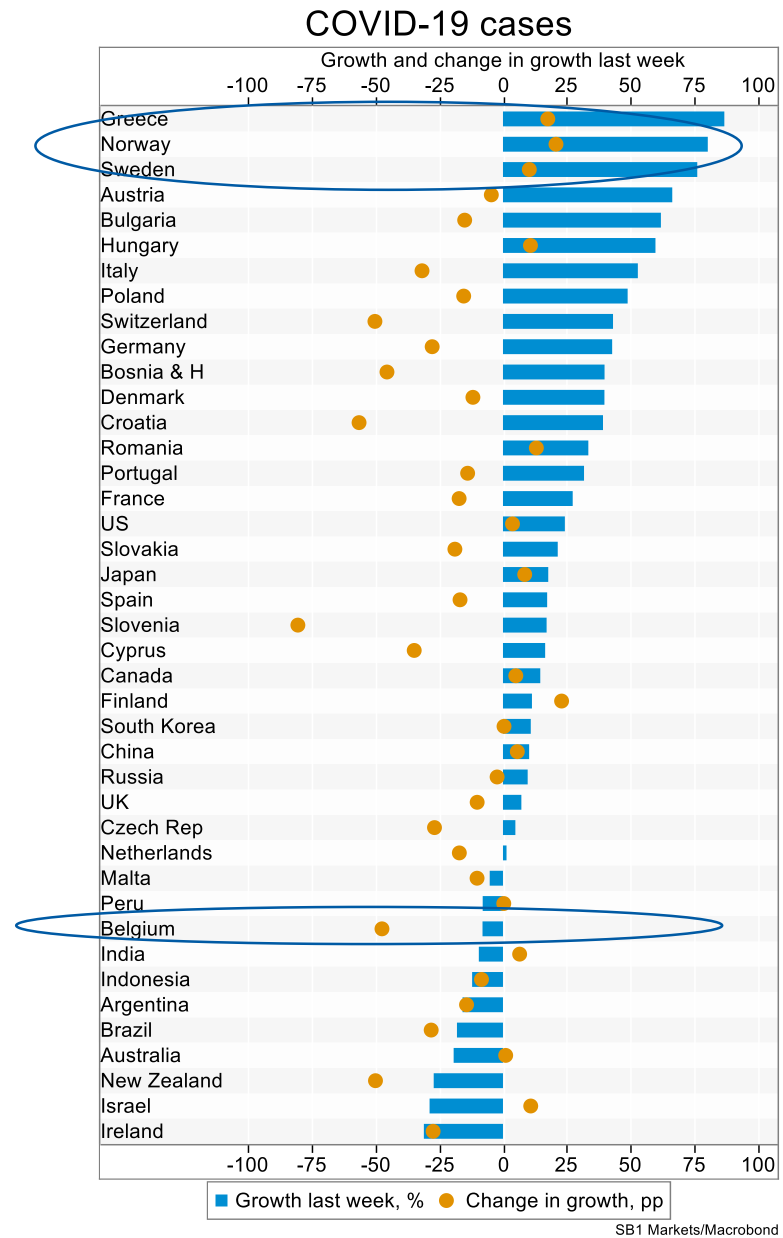
Growth in new cases is slowing most places!

Growth is accelerating just some few places

- .. And the number of new cases is falling in some (very) few countries
- Greece, Norway & Sweden is are reporting the fastest growth rates and still accelerating
- Growth is falling at the most rapid pace in Israel





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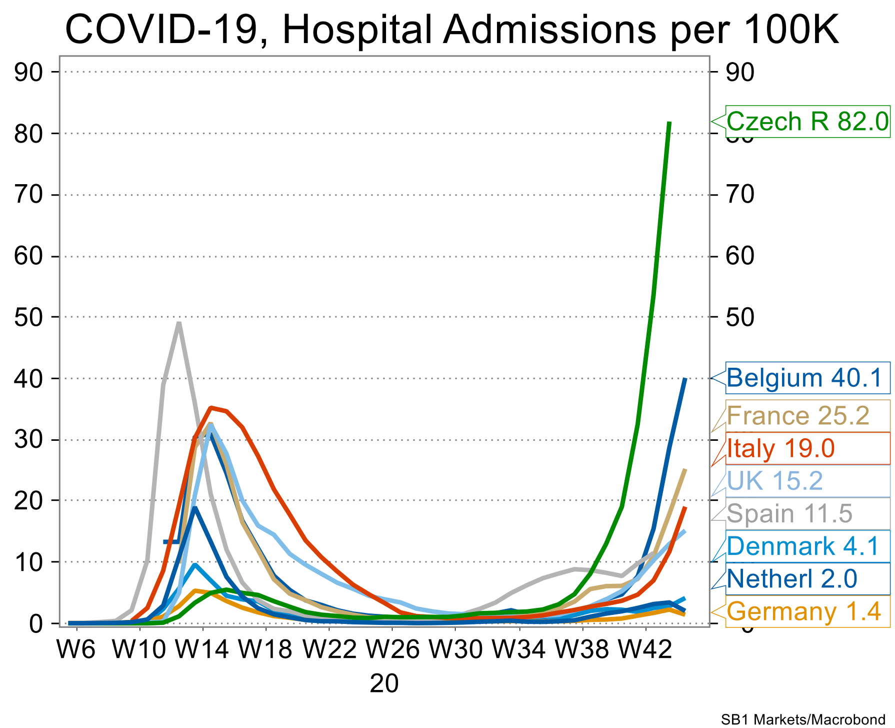
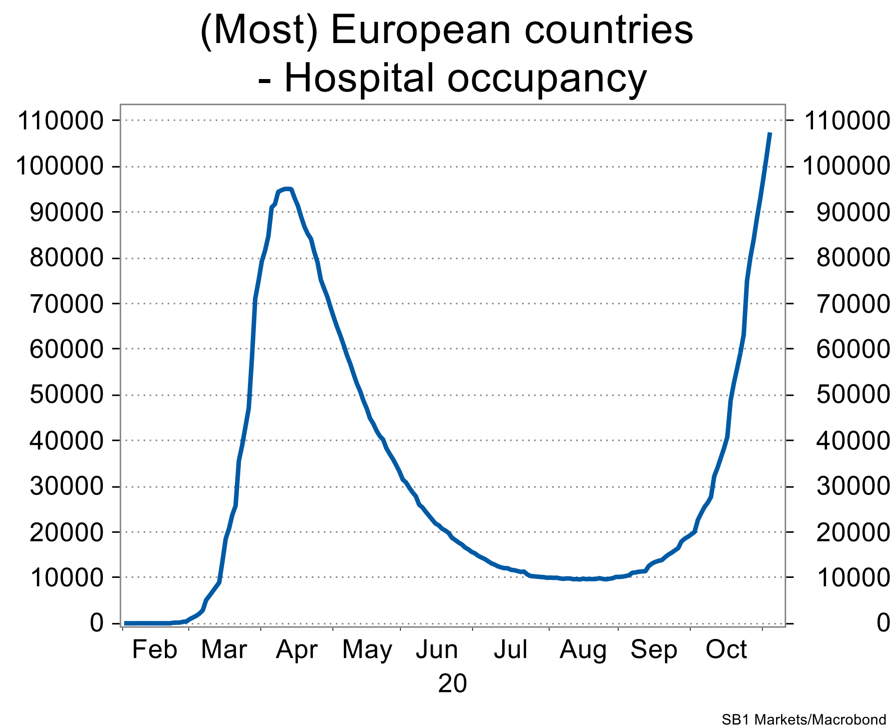
Corona is becoming a health problem, at least some places

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

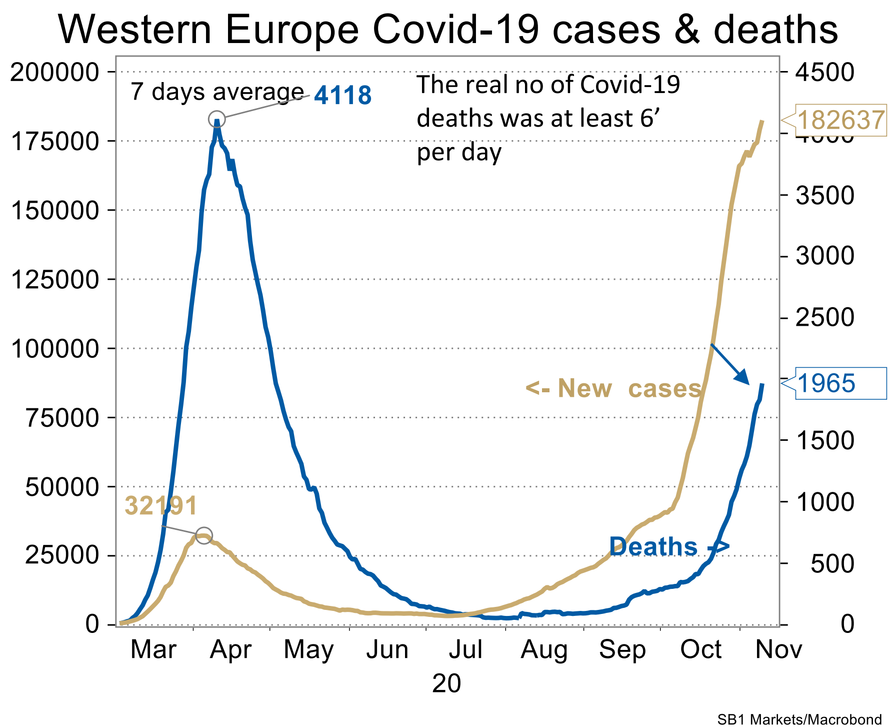


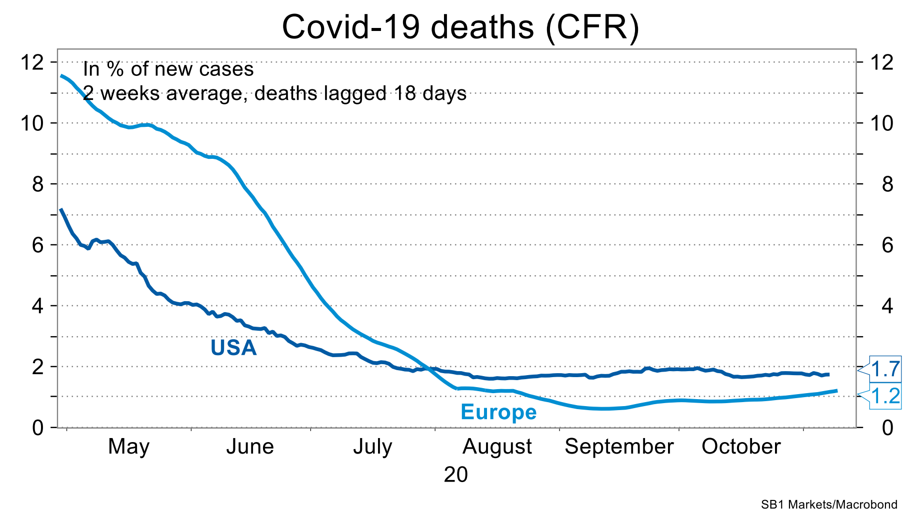


- There are now more patients at European hospitals than in March/April
- The last data points are preliminary – and they are lagging.

Europe: The number of deaths rapidly in the way up, will rise furher

... if the European curve flattens NOW. If not...



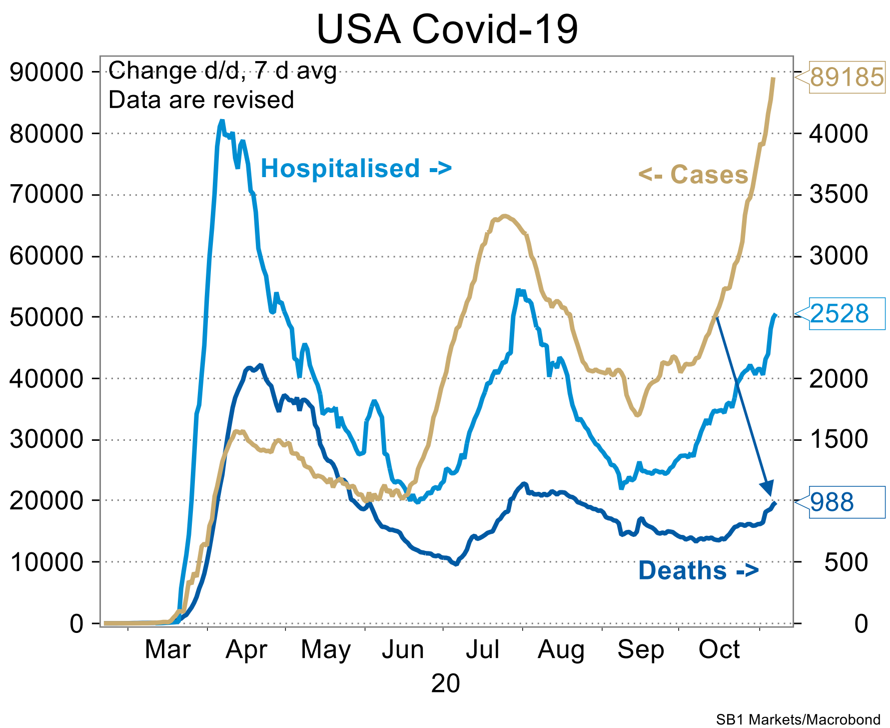


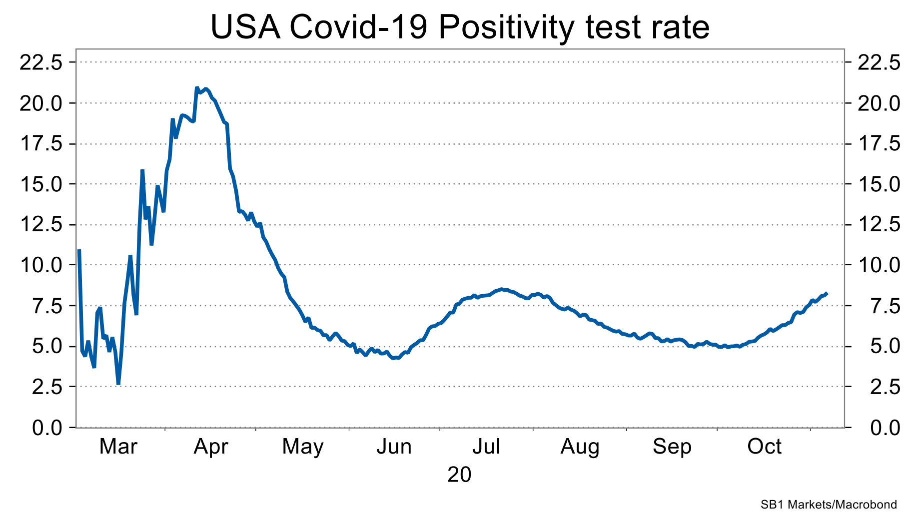
- The number of deaths in Europe is growing at a fast pace, now 2,000 per day, up from below 1,300 one week ago (and less than 100 in August).
- Given the sharp increase in new cases past 3 weeks, the number of deaths will increase sharply, up to levels comparable to the official death numbers in March/April (when real numbers were clearly higher)

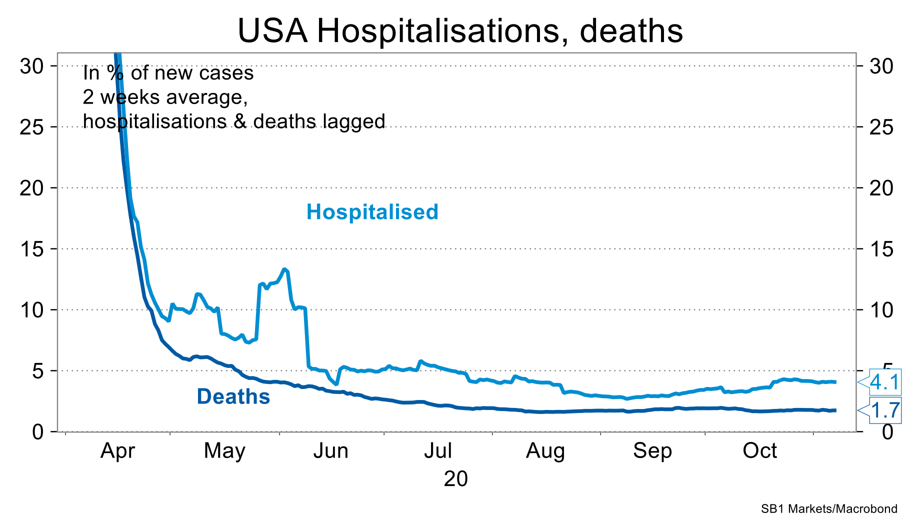
- In Europe, the death rate (deaths vs. confirmed cases 2 – 3 weeks earlier), fell to 0.7% in September but has now increased to above 1%. At the same time, the positivity (test) rate has increased. Most likely, the real rate of contagion has increased even faster than the official case number
- In the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

Remarkably, in the US the Covid did not disappear Nov 4 as some said

Deaths up to 1000/d, will double the next 2-3 weeks – because cases have, and the CFR is flat



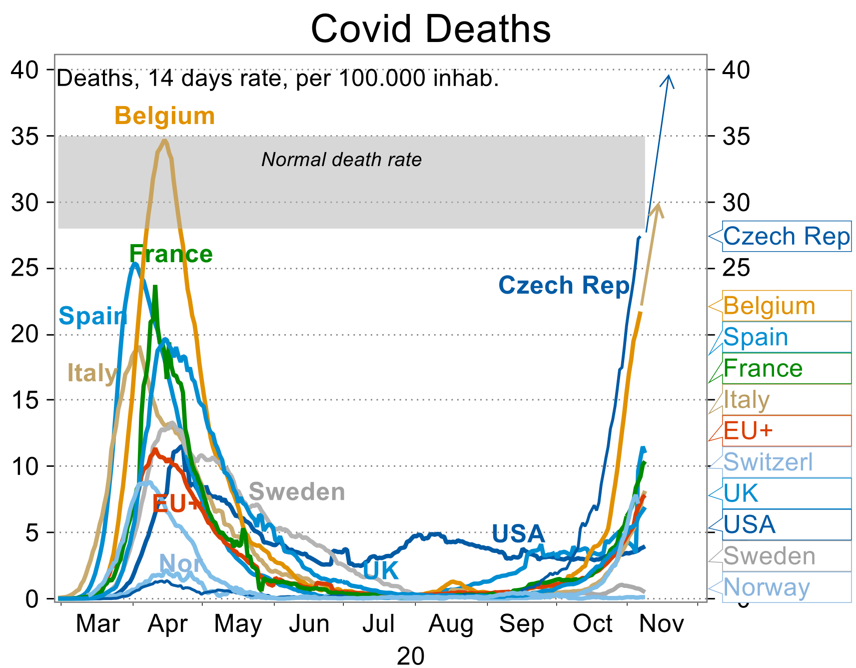




- The hospitalisation rate is lower than during the early phases of the pandemic but will climb further the coming few weeks – and there is still no signs of any slowdown in growth. If behaviour is not altered before mid January, when president elect Biden enters the White House
- The death rate (CFR) 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 90' 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, even more pain to come…

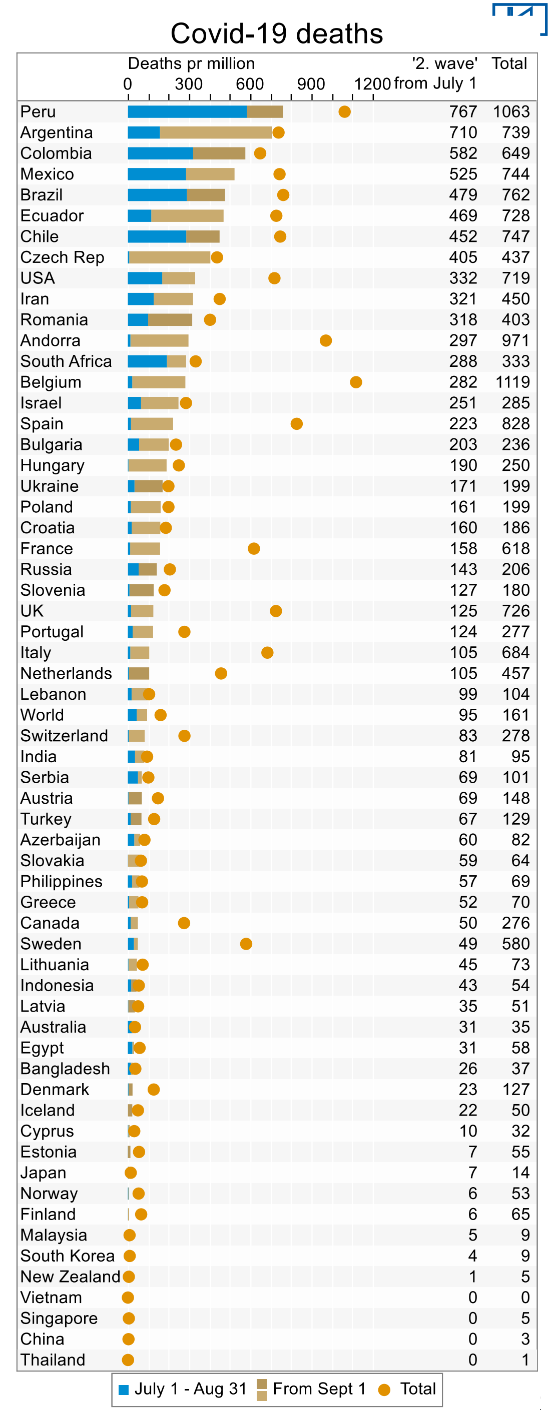
The bottom line: The deaths

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



SB1 Markets/Macrobond

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



SB1 Markets/Macrobond

- 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
- Last week the Czech Rep overtook US is at the top 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)
- Both the Czech Rep and Belgium reported a huge increase in daily deaths last week – and more will come this week, and probably the day thereafter. But then death number should be close to peak

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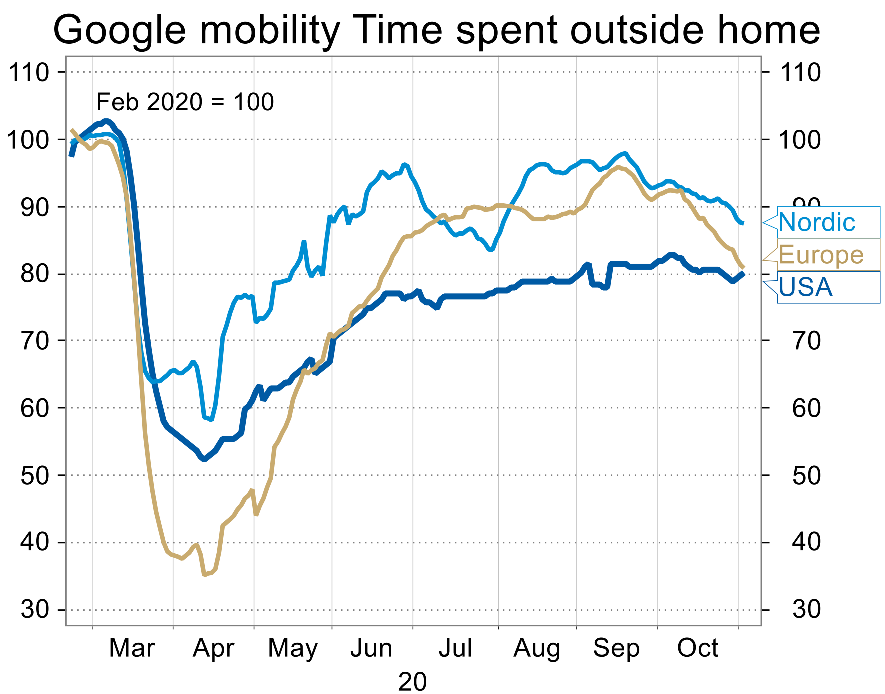
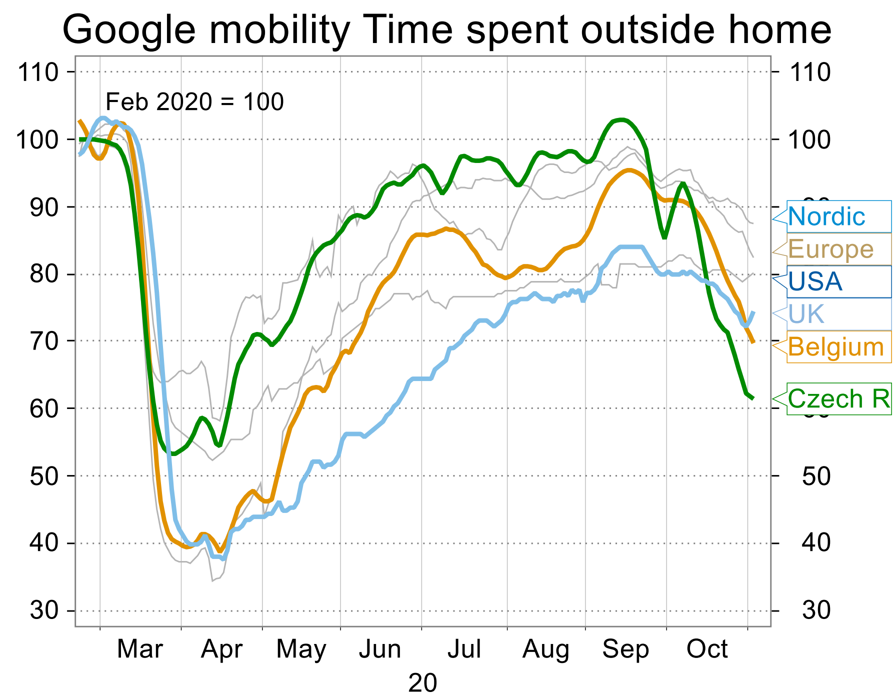
Time spent outside home is declining again – no doubt due to Covi-19

The case curve has flattened in the UK, and is heading down in Belgium, Czech R., without 'full stop'



SB1 Markets/Macrobond

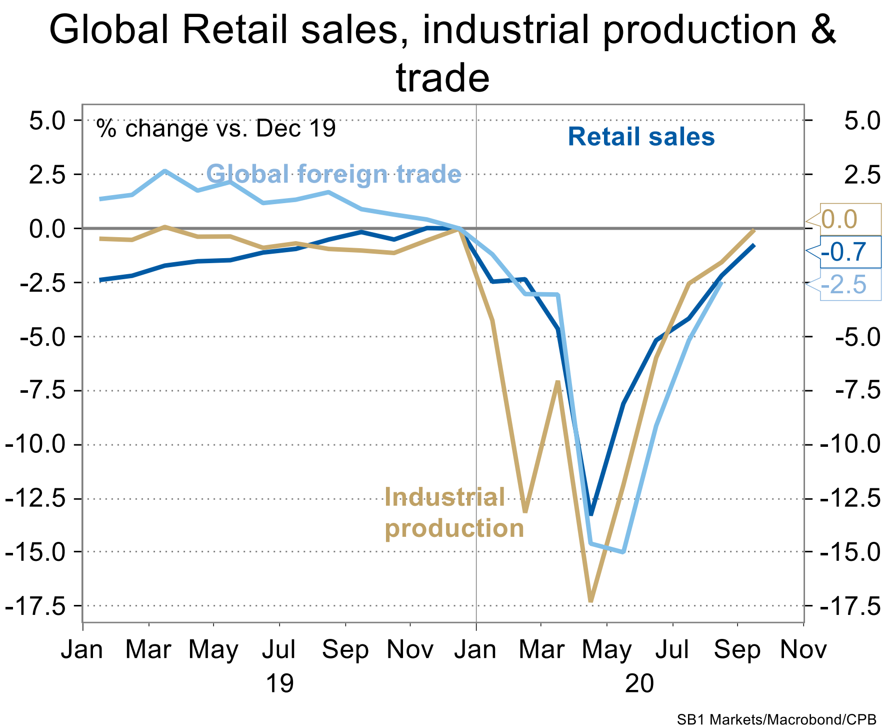


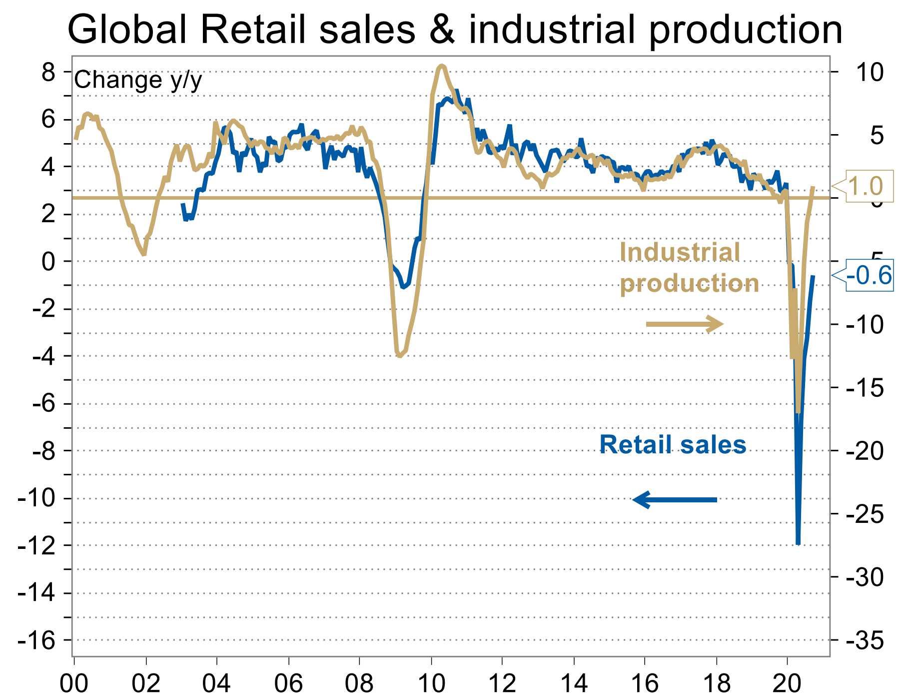
SB1 Markets/Macrobond

- Mobility (here measured by time spent outside home) has fallen sharply in Belgium and even more the Czech Rep – and the no of new Covid cases has fallen in both countries. In UK, the mobility has declined too – and the curve has flattened
- Others well have to follow suit, as their 'R's are still well above 1

Industrial prod, retail sales & global trade up, is now closing the gaps

Activity flat to 1% below the pre corona level





- Global retail sales grew by approx 1.5% m/m in Sept, down from 2% in August. Sales are less than 1% below the pre corona (Dec) level (but above the Jan level). *The estimate is still uncertain, since many countries have not yet reported, even not the previous months*
- Industrial production also rose approx 1.5% in Sept. Production is just some 1% below 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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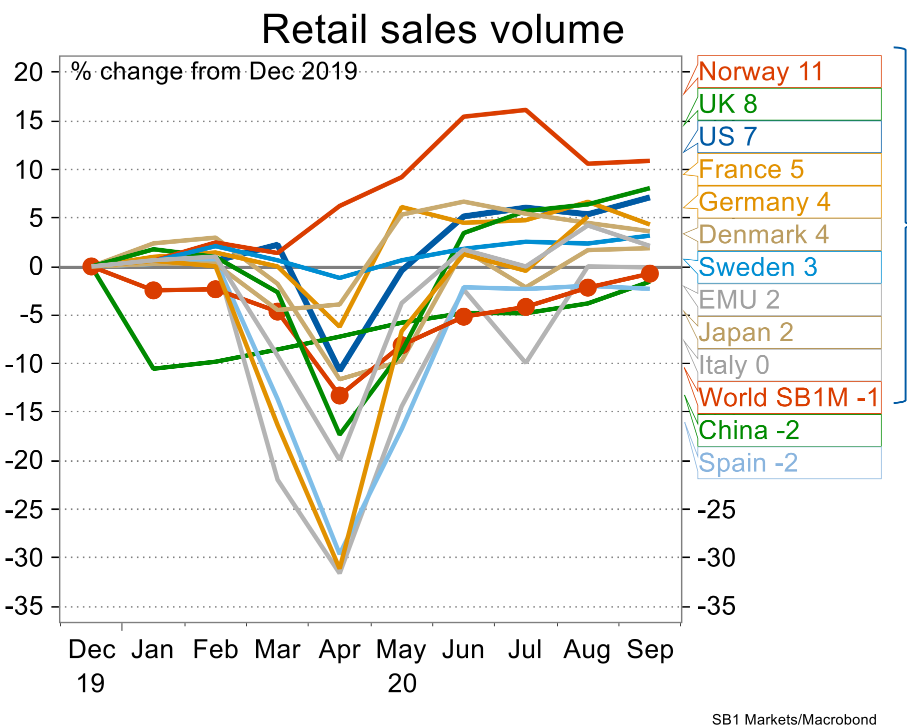
Global retail sales almost back to the Dec level

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



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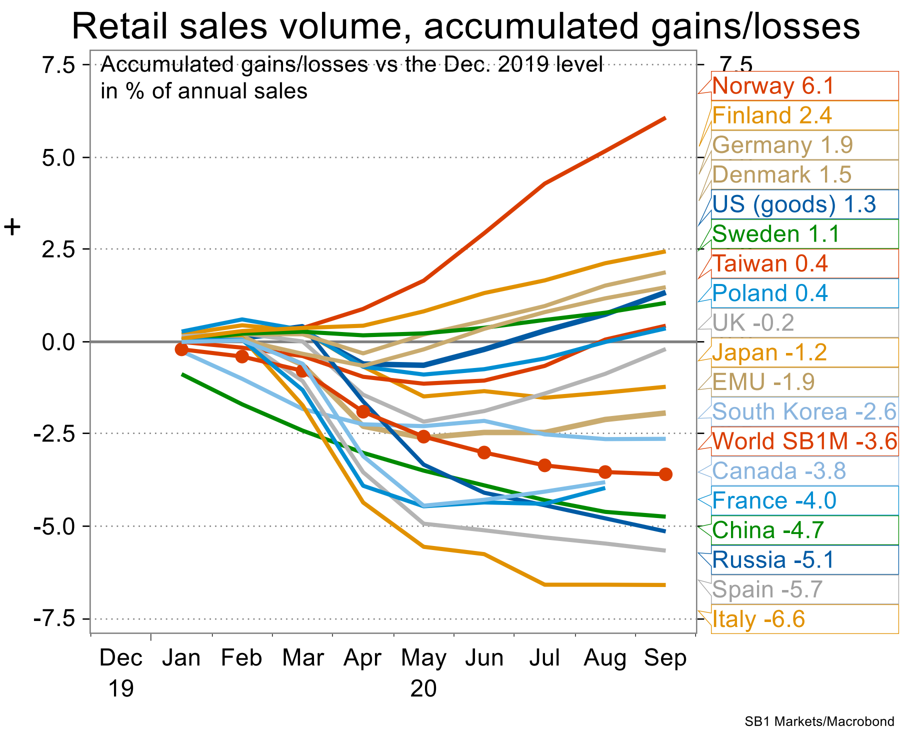
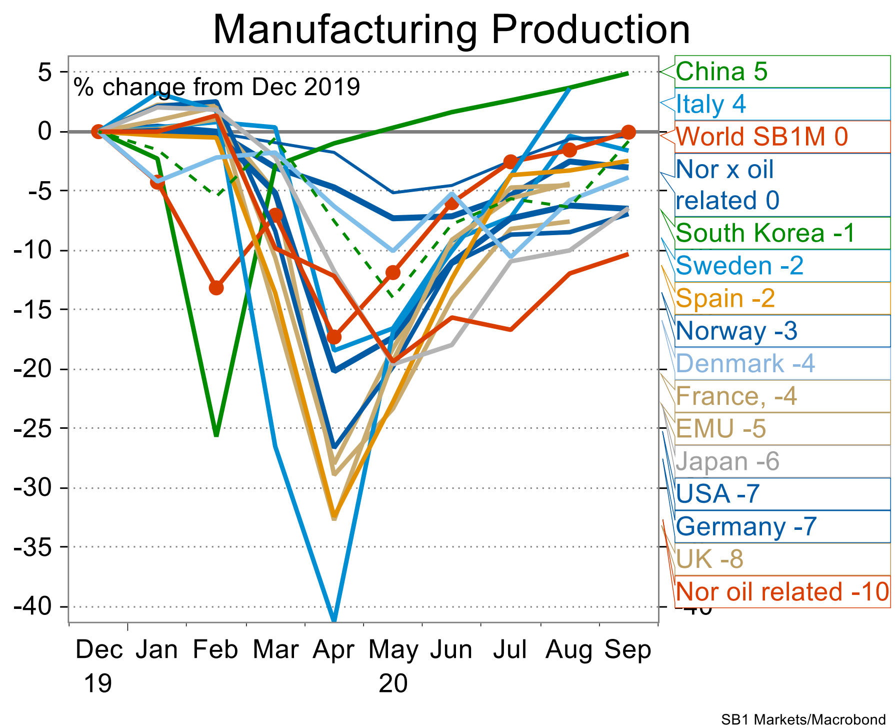
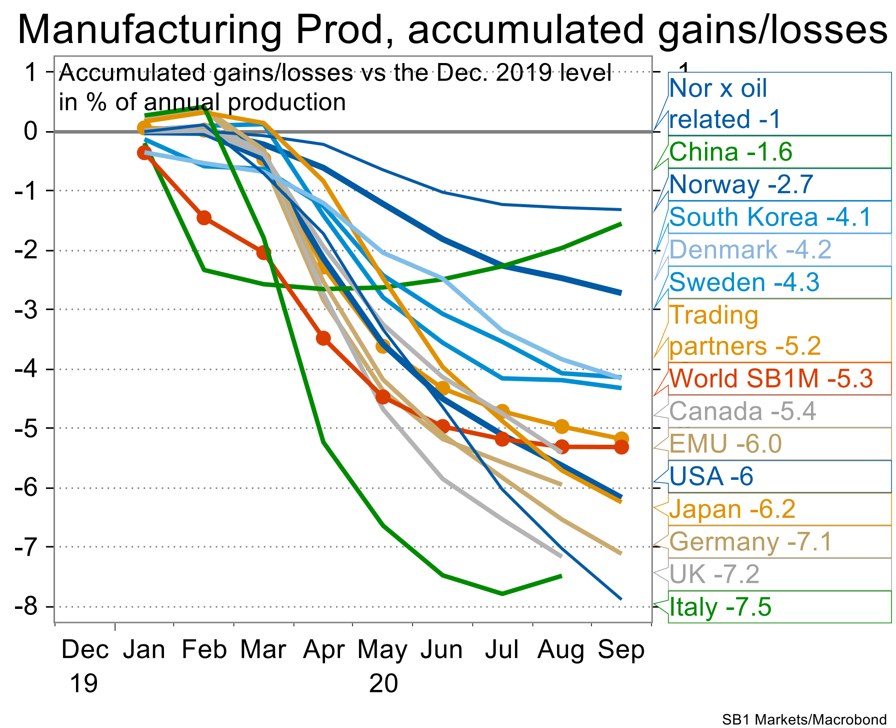


- Global retail sales were 1% below the Dec level in September. Most countries are now reporting higher sales than before corona hit
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in say US were 7% above the pre corona 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
- Consumption of services are not included in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production back too, still >5% of 2020 'is lost'

Production rose further in September, and is now event with the level in December

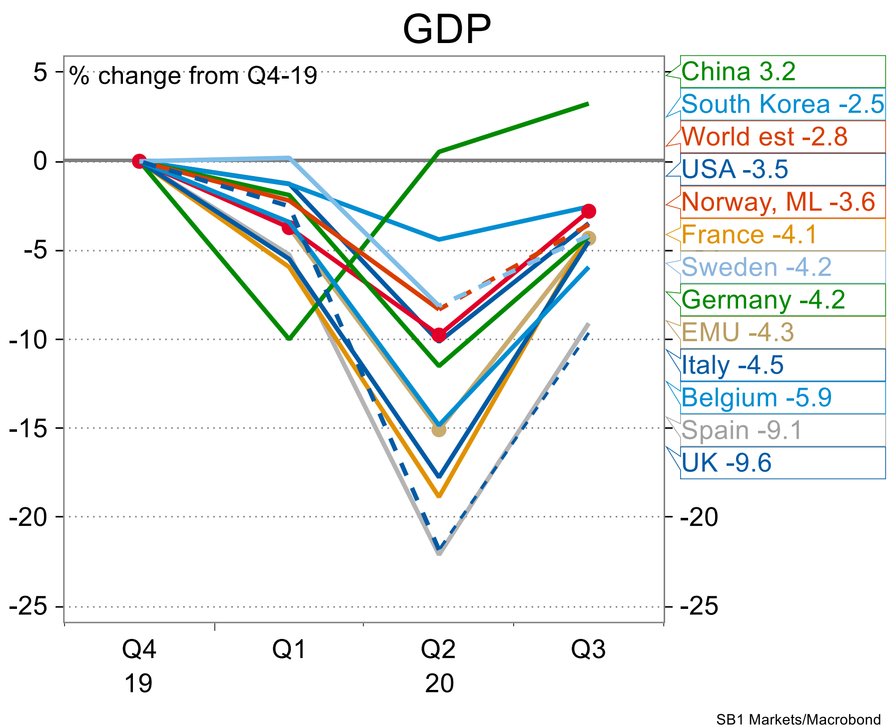




- Manufacturing production was close to the Dec level in Sept, following an approx 1.5% lift - even if most developed markets are below the pre corona level
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in 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

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%

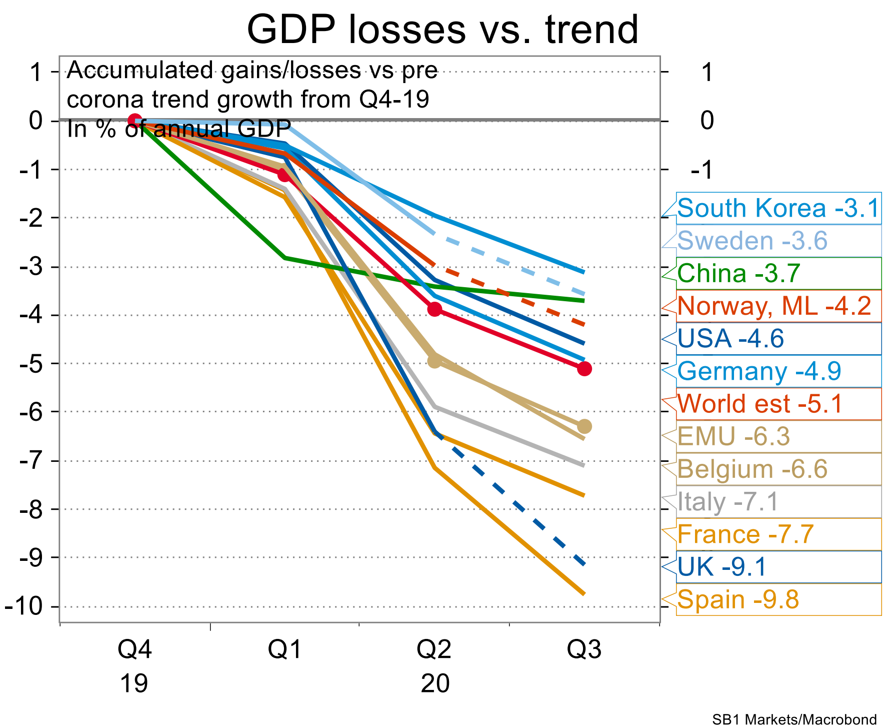


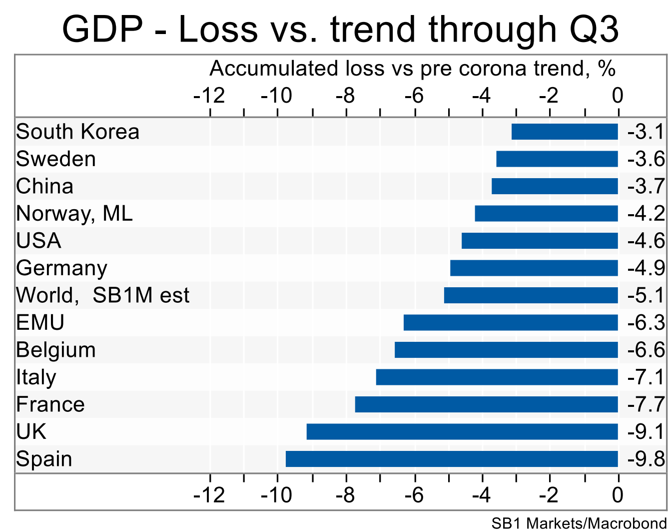
- Given our estimate, global GDP was less than 3% below the Q4-19 level in Q3
  - » Most countries have not yet reported. EM may disappoint us, like India
- Some observations – Q3 vs Q4-20:
  - » China 3.2% above Q4
  - » USA -3.5%
  - » Norway -3.6%
  - » Sweden -4.2% (growth was slower than expected in Q3)
  - » EMU -4.3%, of which Spain -9%, France -4.1%
  - » UK down 9.6% (our forecast)

Norway & 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)





The Calendar

Chinese activity data, US inflation, Norwegian growth & inflation

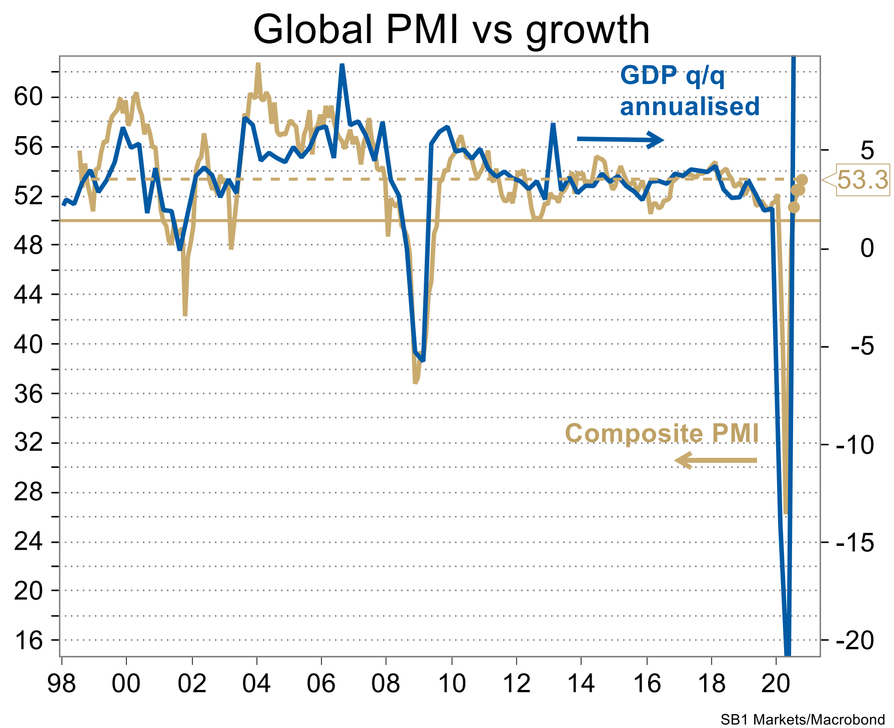
Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 9					
08:00	GE	Trade Balance	Sep	15.0b	12.8b
Tuesday Nov 10					
08:00	NO	CPI Underlying YoY	Oct	3.4% (3.4)	3.3%
08:00	UK	ILO Unemployment Rate 3Mths	Sep	4.8%	4.5%
10:00	NO	Norges Bank Financial Stability			
11:00	GE	ZEW Survey Expectations	Nov	45	56.1
12:00	US	NFIB Small Business Optimism	Oct	104.2	104
16:00	US	JOLTS Job Openings	Sep	6500	6493
Wednesday Nov 11					
06:00	SW	PES Unemployment Rate	Oct	--	5.30%
Thursday Nov 12					
00:50	JN	Core Machine Orders MoM	Sep	-1.1%	0.2%
08:00	NO	GDP Mainland QoQ	3Q	5.2% (5.2)	-6.3%
08:00	NO	GDP Mainland MoM	Sep	0.6% (0.6)	0.6%
08:00	UK	Manufacturing Production MoM	Sep	0.7%	0.7%
08:00	UK	GDP QoQ	3Q P	15.6%	-19.8%
08:00	UK	GDP MoM	Sep	1.1%	2.1%
09:30	SW	CPI YoY	Oct	0.4%	0.4%
09:30	SW	CPIF Excl. Energy YoY	Oct	1.1%	0.9%
11:00	EC	Industrial Production SA MoM	Sep	0.9%	0.7%
14:30	US	CPI MoM	Oct	0.2%	0.2%
14:30	US	CPI Ex Food and Energy MoM	Oct	0.2%	0.2%
14:30	US	Initial Jobless Claims	week		751k
20:00	US	Monthly Budget Statement	Oct		-$124.6b
Friday Nov 13					
11:00	EC	Employment QoQ	3Q P		-2.9%
11:00	EC	GDP SA QoQ	3Q	12.7%	12.7%
14:30	US	PPI Ex Food, Energy, Trade MoM	Oct	0.2%	0.4%
16:00	US	U. of Mich. Sentiment	Nov P	82	81.8
Monday Nov 16					
00:50	JN	GDP Nominal SA QoQ	3Q P	4.4%	-7.6%
02:30	CH	New Home Prices MoM	Oct	--	0.3%
03:00	CH	Industrial Production YoY	Oct	6.7%	6.9%
03:00	CH	Retail Sales YoY	Oct	5.0%	3.3%
03:00	CH	Fixed Assets Ex Rural YTD YoY	Oct	1.6%	0.8%
During the week					
	CH	Aggregate Financing CNY	Oct	1369b	3480b

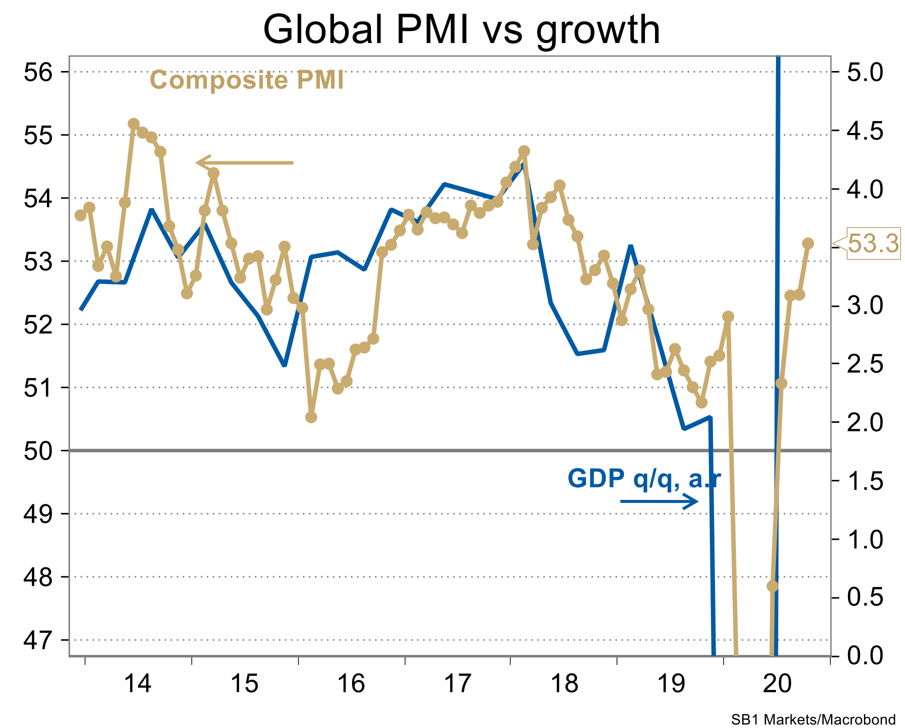
- **China**
  - » September activity data were on the strong side, as was the Q3 GDP growth. Most likely, October data will confirm that the recovery continued. However, as the activity level has almost returned to the pre corona growth path, monthly growth rates (which is the relevant data, not annual rates) should slow. Industrial & service sector production, retail sales & investments out early next Monday
- **USA**
  - » Annual CPI growth has climbed recent months, to 1.7%, expected unch in October.
- **EMU**
  - » Industrial production will probably get further lift in September, as signalled by national data last week. Revised Q3 data will probably not surprise either
- **Norway**
  - » We assume the **Mainland GDP** grew further in September, still at higher than a 'normal' pace – but the gap to the pre corona level would still be more than 3%. The Q3 GDP growth should not surprise too much, if monthly data through August is not too heavily revised
  - » **Core inflation at 3.3% y/y** is far above NoBa's 2% target but the bank is patient, for good reasons. The NOK has stabilised and wage inflation has slowed substantially – and inflation will hopefully decline the coming quarters

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

PMIs stronger than we assumed in October, a good momentum into Q4

The Oct PMI was 1.1 p better than we expected, a 53.3 index signals growth at least at trend





- The Sept composite PMI was revised up 0.4 pp to 51.5, and the index rose by +0.8 p to 53.3 in October, we expected 0.2p to 52.2 – an unusual miss. The index is at the best level since mid 2018
- The PMIs have been close to useless in order to calibrate the size of the downturn as well as both the timing and the pace of growth during the recovery. Thus we have not put too much emphasis on the PMIs recent months
- Now, we assume the theses surveys will become more relevant again as the changes in activity in the economy from month to month – or over the past few months becomes more normal. The October PMIs/ISMs signal a continued global recovery – which is in line with our forecast

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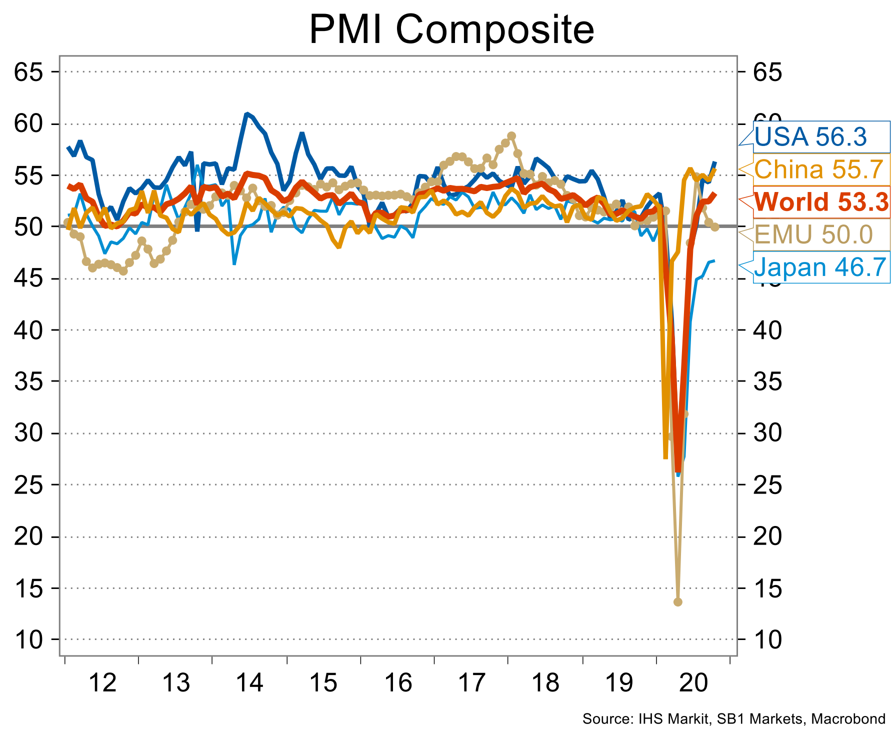
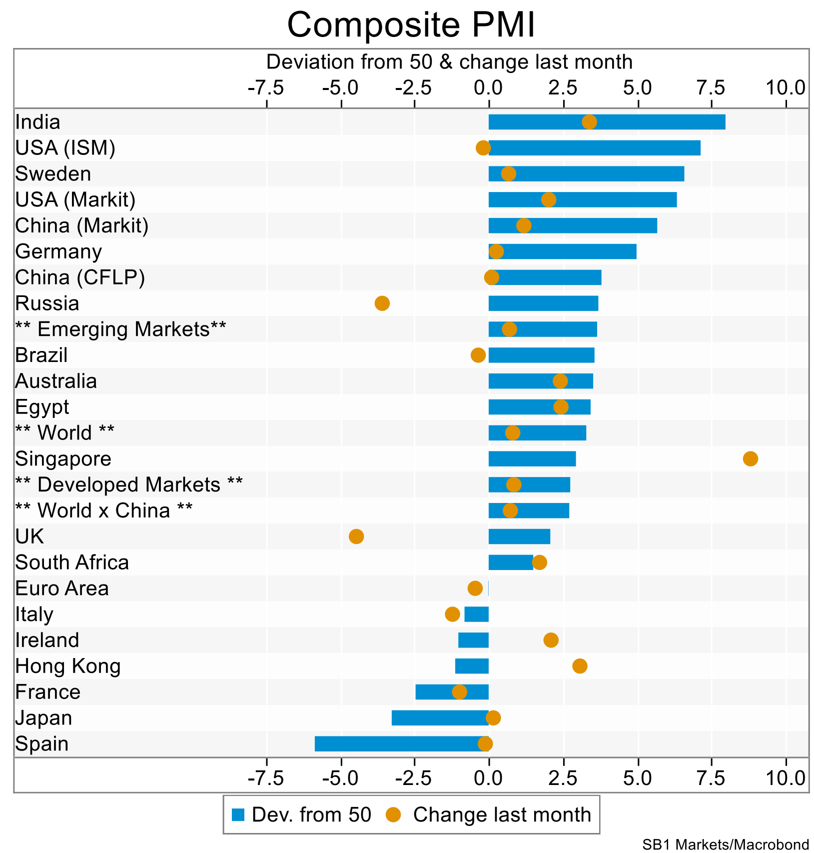
16 of 25 countries/regions reported higher composite PMIs in August vs July, 18 above the 50 line





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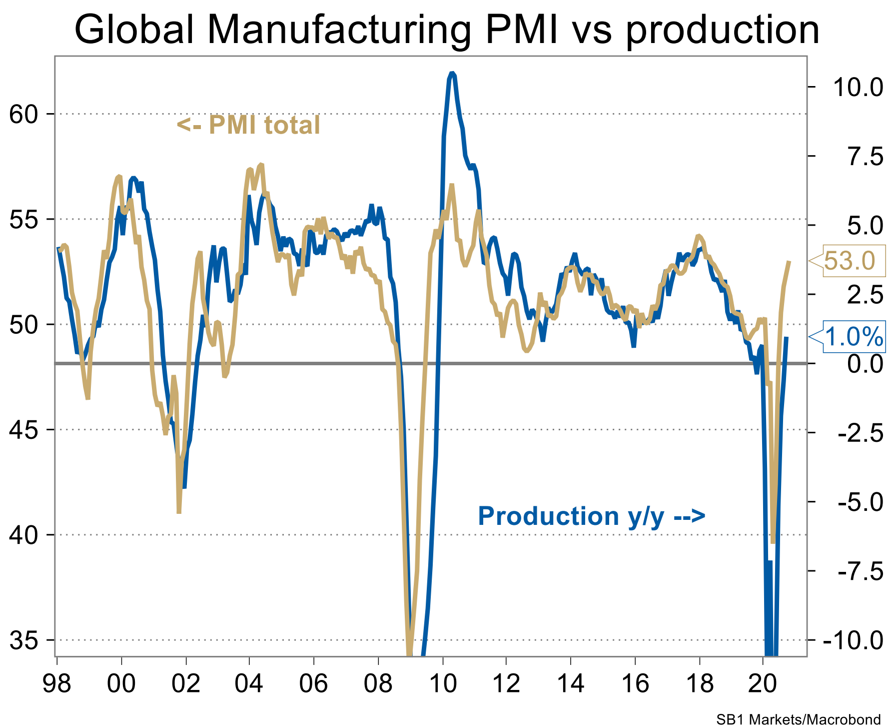

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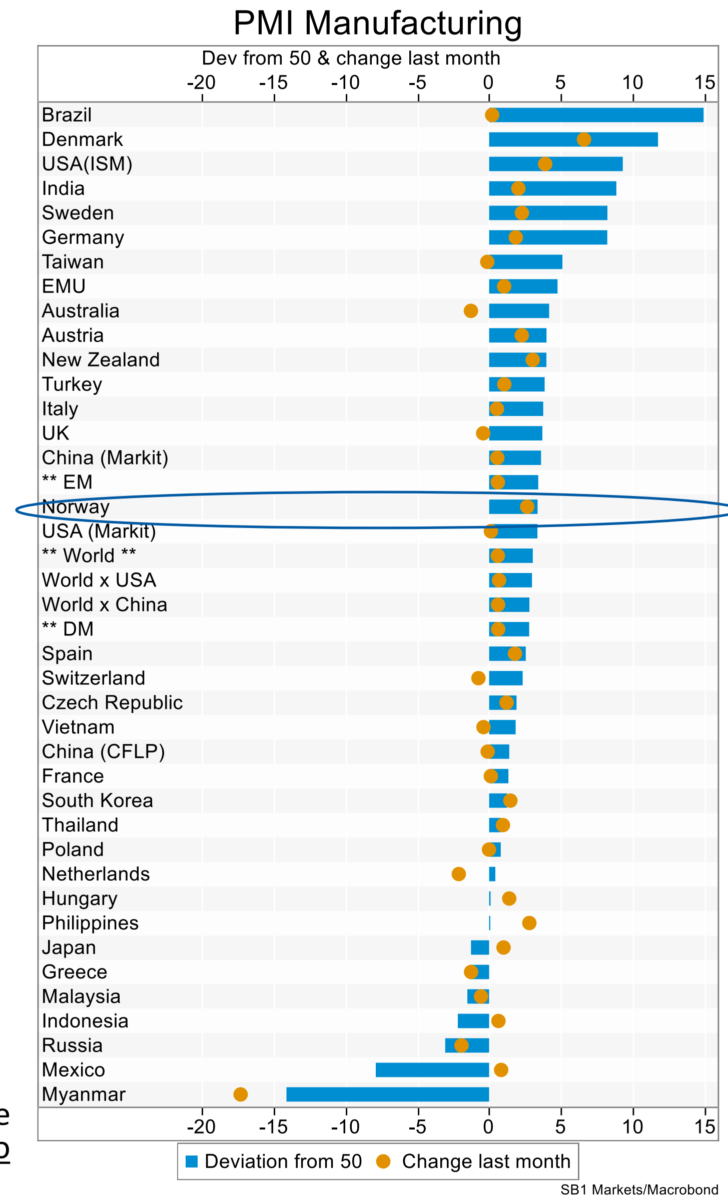
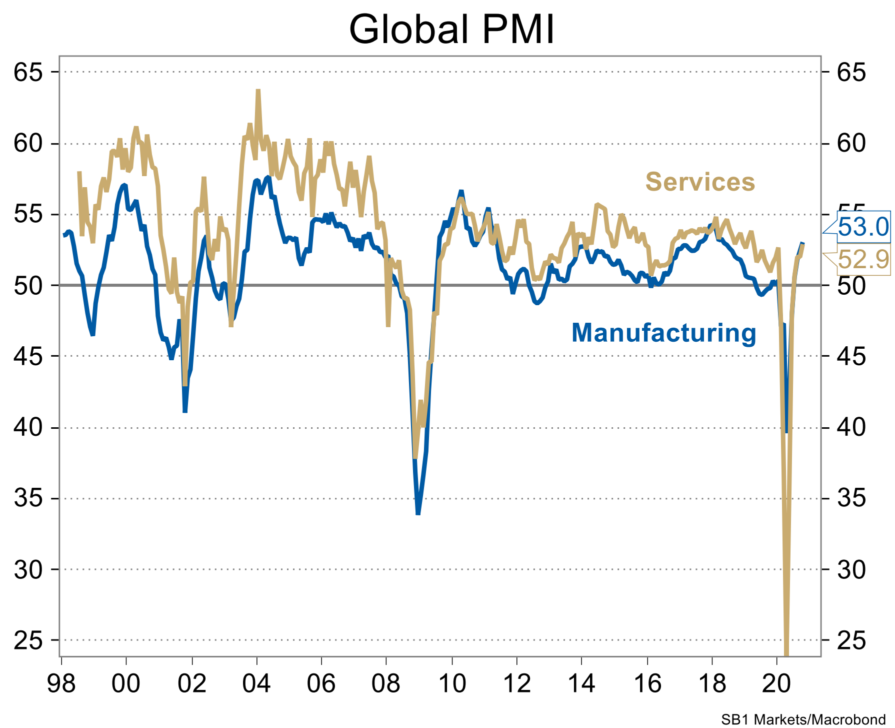
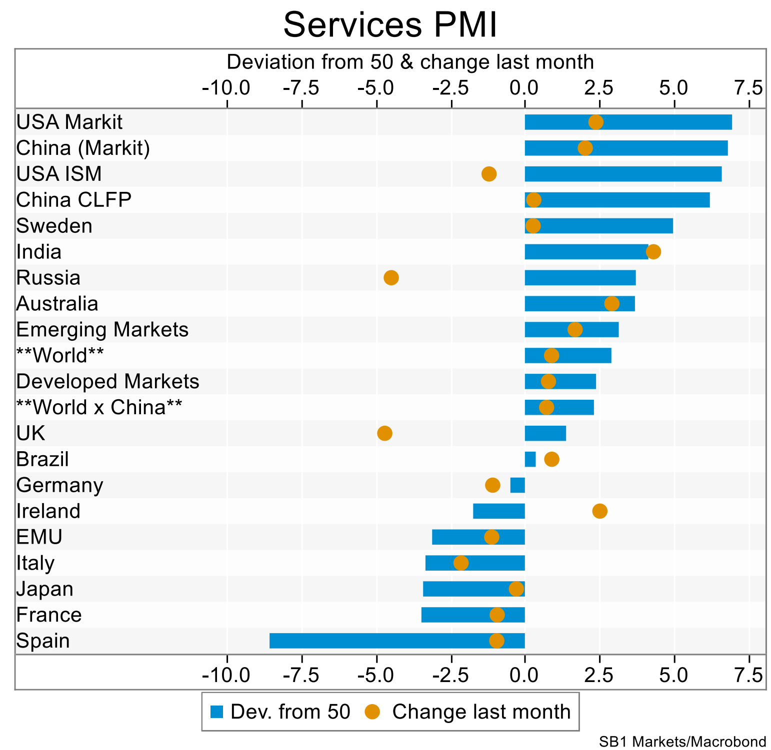
- Emerging markets have recovered somewhat faster than rich countries (DM), both are reporting positive growth rates – with a large spread within: Brazil in the lead, Mexico almost at the bottom. The Norwegian PMI climbed further and is no longer among the weakest (it is now above median)



The service sector PMI surprised on the upside to

Rapid growth in US, China, India and Sweden. Italy, France and Spain at the bottom, joined by Japan





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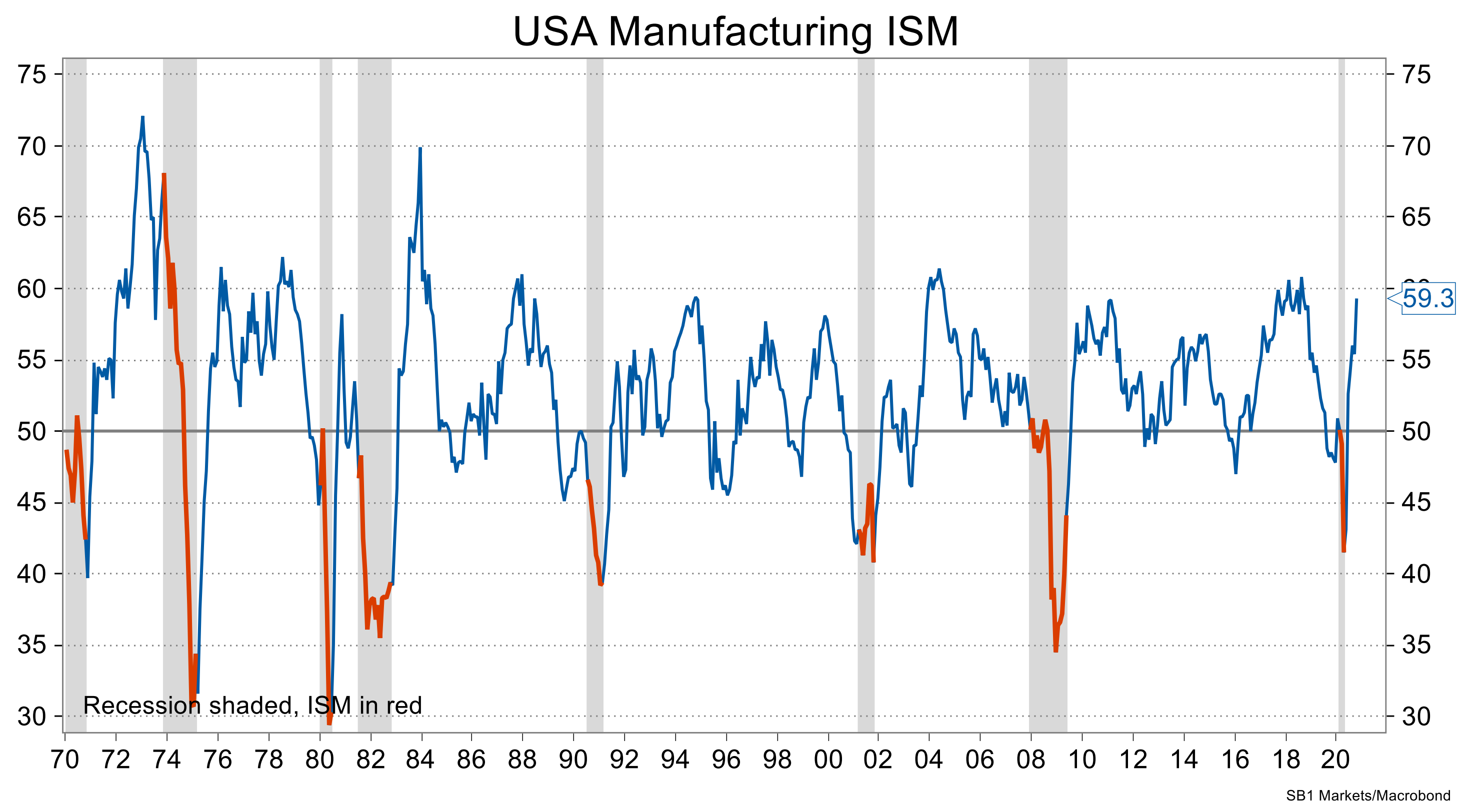
… which was not so surprising, given strong regional surveys ☺



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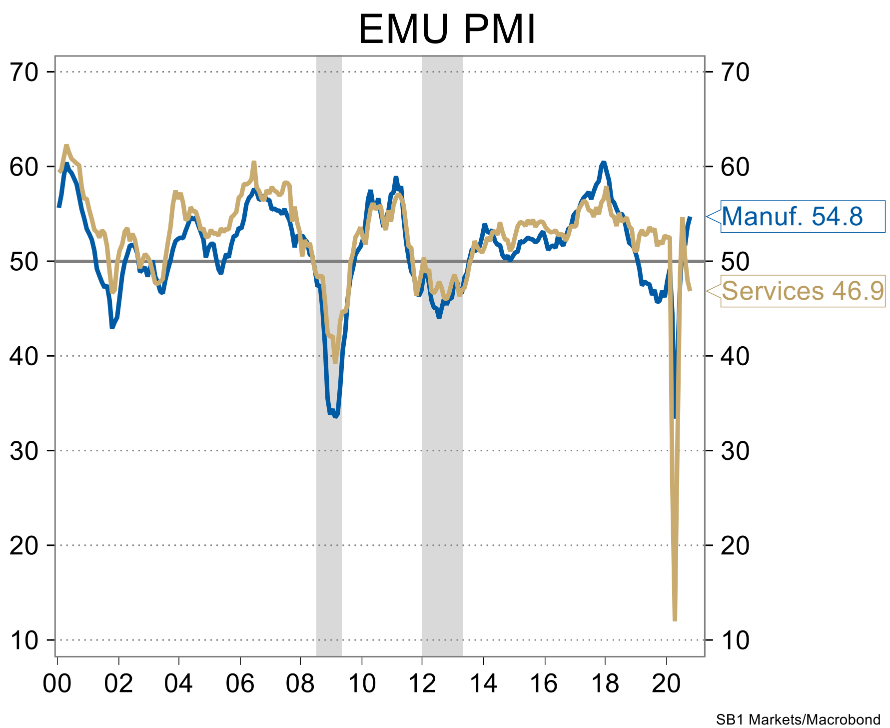
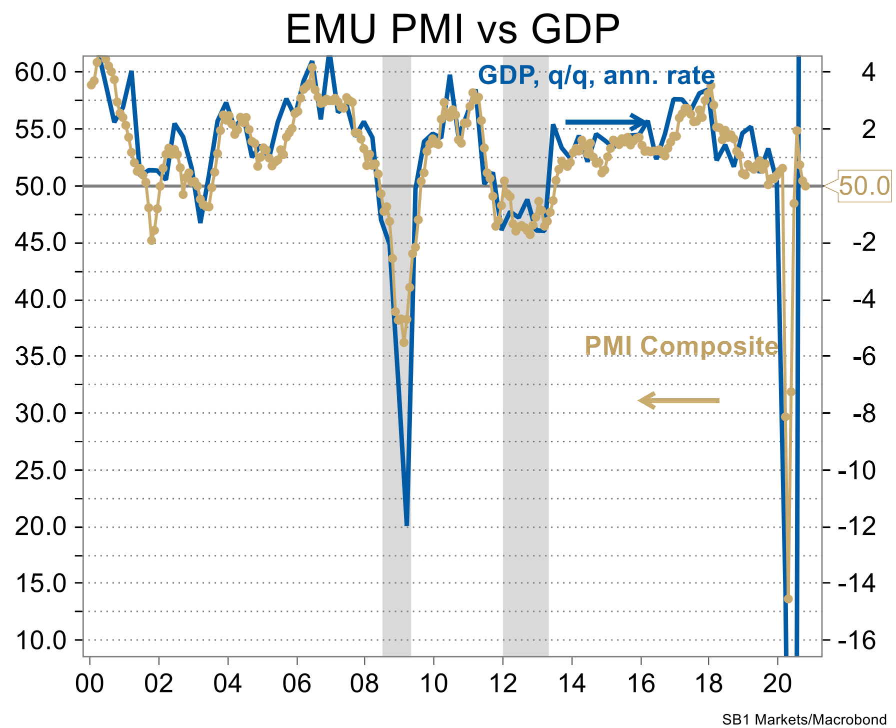
- Just 2 out of 18 manufacturing industries reported decline in activity to October from September, 15 reported growth – an unusual strong mix

The PMI a tad better than the preliminary estimates – still down to 50.0

The service sector down to below 50 – while the recovery in the manufacturing sector continues

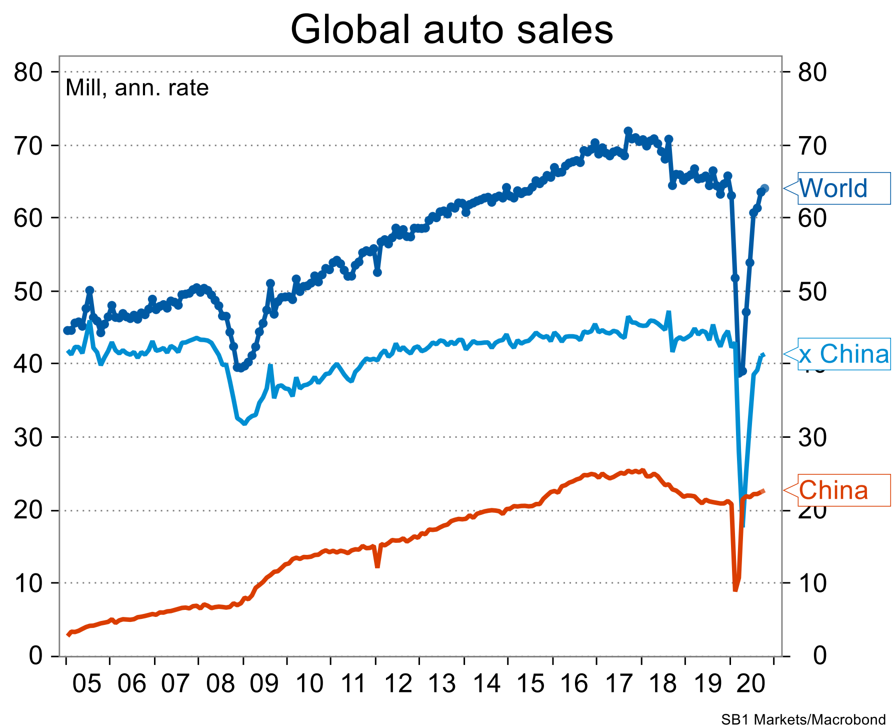


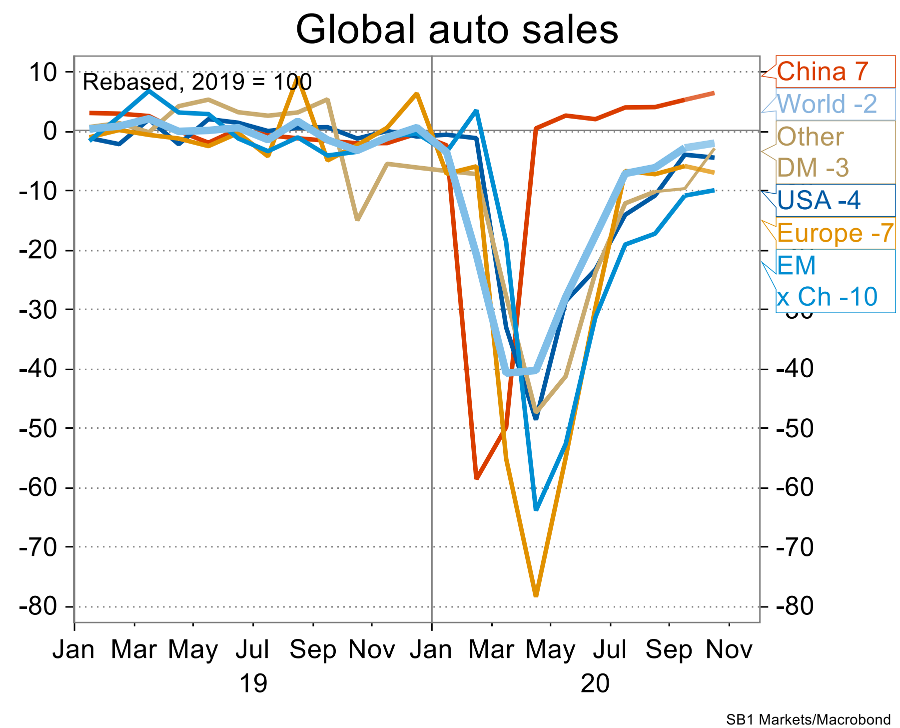


- The PMI respondents are still probably reporting somewhat between growth (which is strong), and the activity level (which is still below par) - and these indices cannot be used to estimate the growth rate now
- Still, det decline in the service sector PMI in August is surely not a signal of strength. Most likely, the new corona outbreaks is having some impact on activity, especially in the tourism sector
- The service sector PMI as well as the composite index was 0.3 – 0.4 p better than the preliminary estimate

Global sales still trend up – and are close to the pre corona (low) level

Sales still below par in EM x China (-10% vs '19 avg), Europe -7%, US -4% & China up 7%

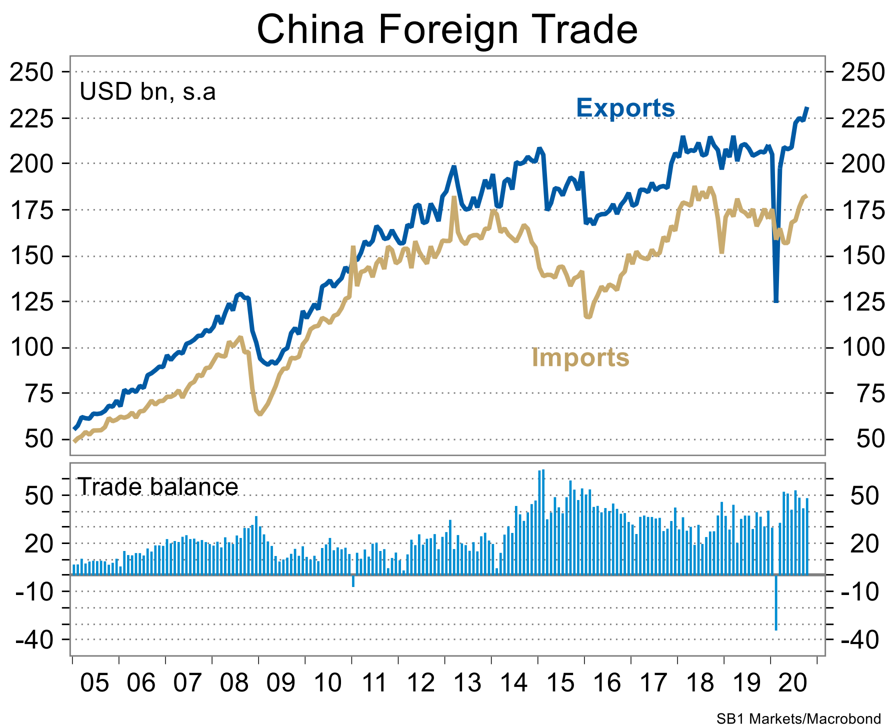




- Global sales rose marginally in October, and the level is 2% below the 2019 avg
  Sales in
  - China rose further in Oct, and are at the highest level since Feb 2019. However, sales are still well below the late 2017 level, far lower than expected at that time (a further growth in auto sales)
  - US fell marginally is still 4% below the 2019 average
  - European sales (EMU+ UK and others) were fell marginally to 7% below the 2019 avg
  - other DMs rose sharply, due to higher sales in Japan and Australia – and are just 3% below the 2019 avg
  - Emerging Markets x China grew broadly but are still 10% below the 2019 avg. Sales in India was sky high in October

A further surge in exports – imports strong too even if below expectations

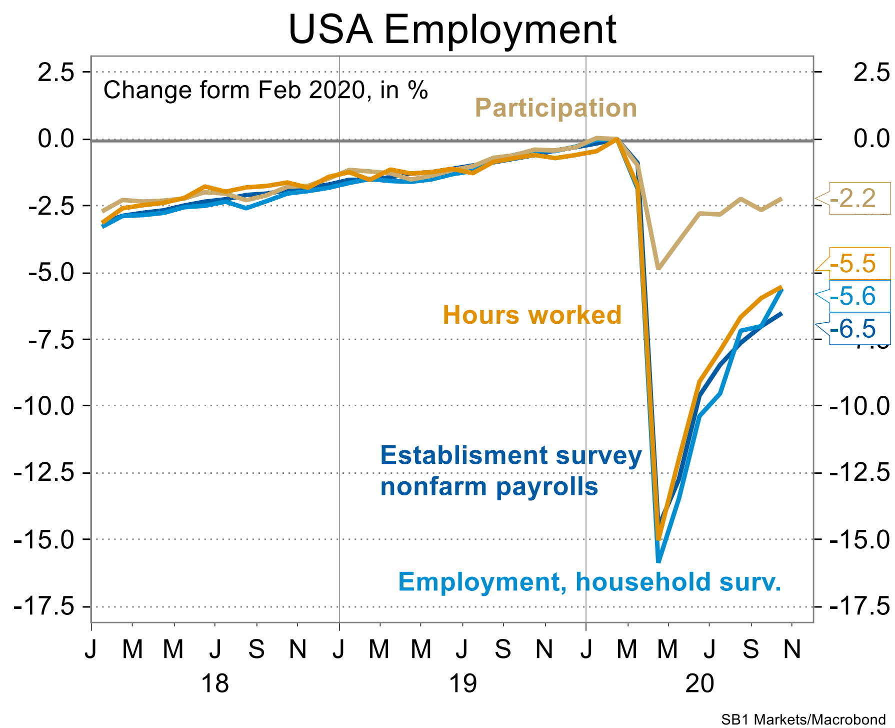
No signs of any collapse domestically or abroad. Rather the opposite, in fact



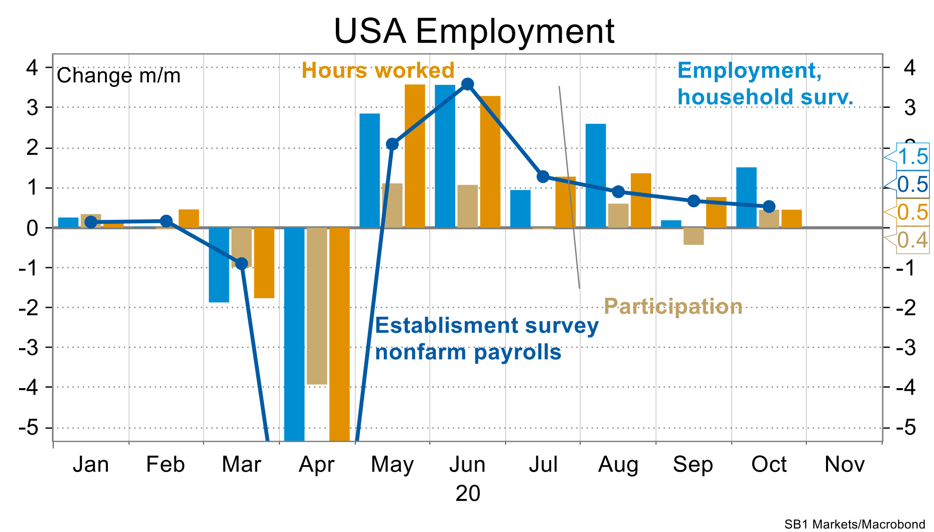
- Exports grew 11.4% y/y in USD terms in October, better than the expected 9.2% - and up more than 3% m/m (our calc). In volume terms export most like rose sharply too. Chinese exports are the highest ever – and the highest for any country at any time, of course – which have has been the norm for some years – and probably will be 'forever'
- Imports were up 4.7% y/y, 4 pp lower than expected but still up 0.7% m/m (expectations were far too aggressive). In volume terms (based on our own quite uncertain price assumptions for the 3 last months), imports are far above any reasonable trendline. Domestic demand must be strong
- The trade surplus rose almost USD 10 bn to 50 bn. The surplus has been higher than normal since March. Still, China is not running a large large current account surplus anymore

Employment still 5.5- 6.5% below par

The household survey reported strong growth in Oct, but are on par with payrolls data past months

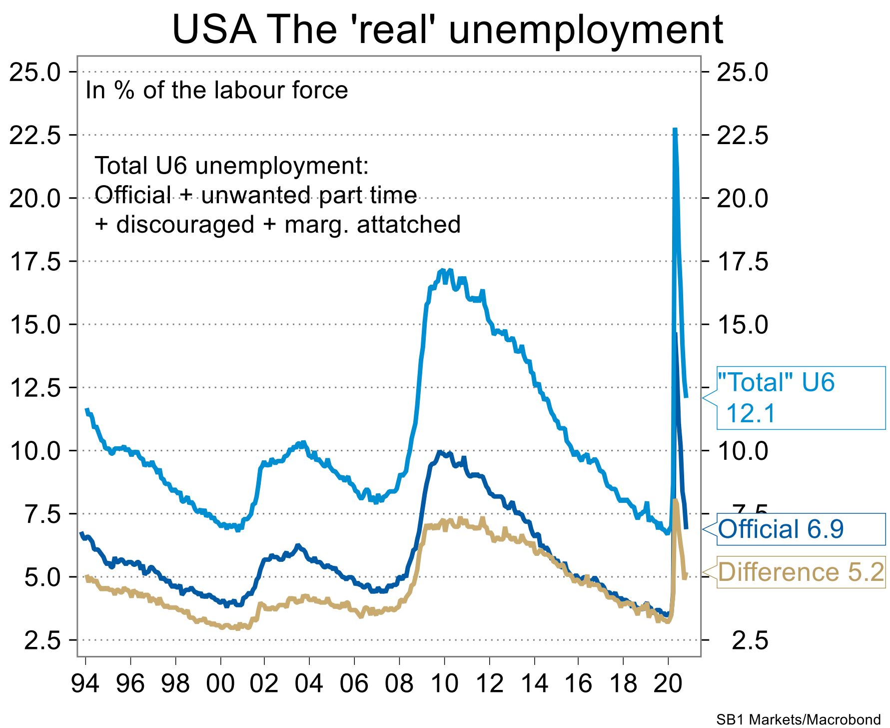


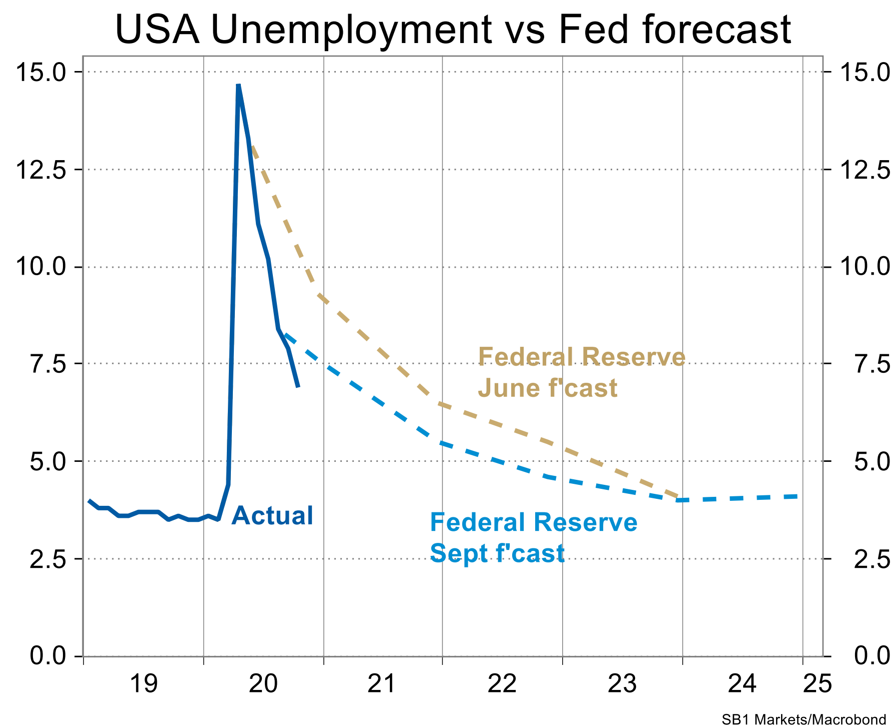
- The participation rate has stabilised at some 2.5% below the pre corona level, which is lowering the unemployment rate by the same amouny
- Nonfarm payrolls are down 6.5% vs Feb, hours worked by 5.5
- Hours worked is increasing approx. at the same pace as employment but and is 5.5% below the pre corona level



Unemployment down 1 pp to 6.9% (exp. 7.7%!), and is far below Fed's forecast

Still, the 'real' unemployment is 12% - or even higher



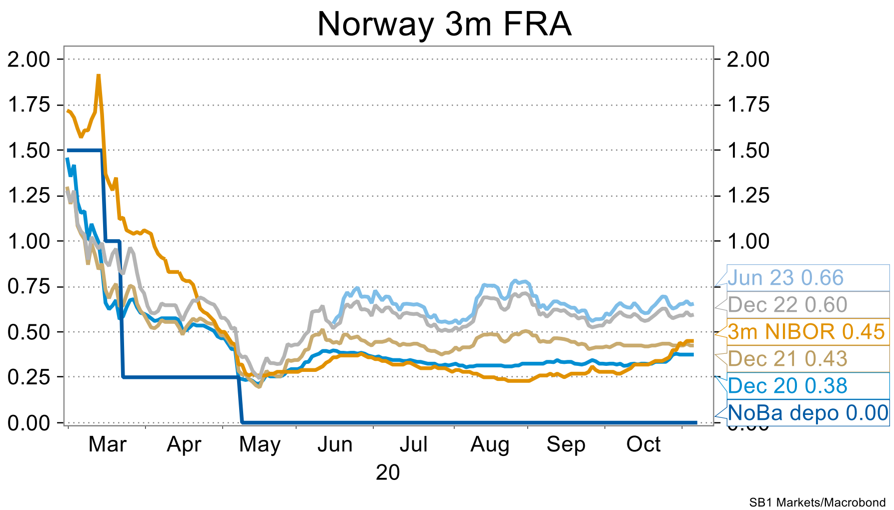


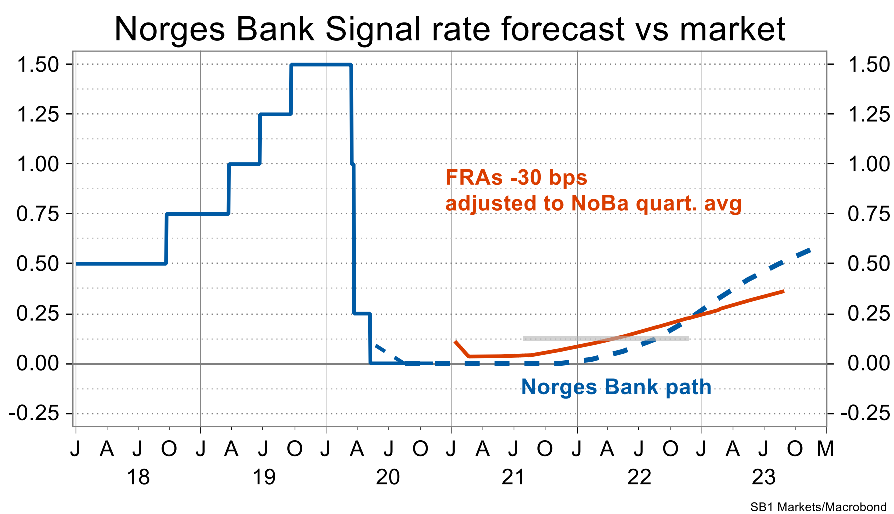
1) Some are counted as employed even if they should have been counted as unemployed
2) Almost 5% of the labour force is working unwanted part time (or at not able to get a work). In good times, less than 4%
3) The labour force participation rate has fallen because workers do not bother searching for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

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

Norges Bank: Radio silence (almost), at the ‘mid’ meeting

The corona risk has inceased, but the gradual recovery is still on track. Rates on hold for long

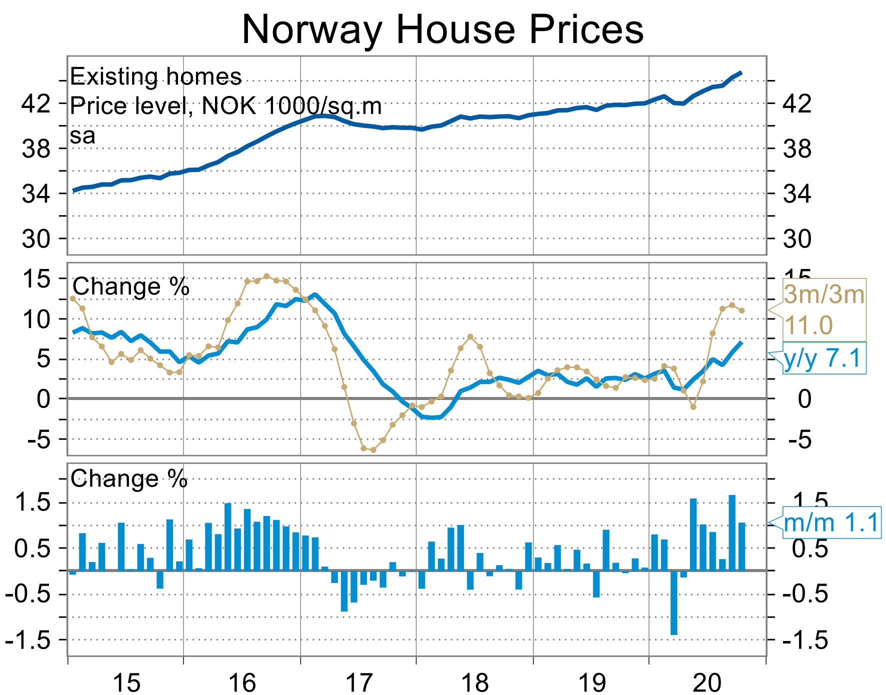




- Norges Bank left the signal rate unch. at 0.0%, as everybody expected
- The Bank did not give any signal change any changes in its assessment of the current stance in the economy or the outlook in the upcoming December Monetary Policy Report . Some factors at the upside, some on the downside. Some quotes:
  - » *Economic development have largely been in line with Sept. projections as activity is picking up but the level is still below lower than prior to the pandemic, and unemployment remains high.*
  - » *Increased Covid-19 infection rates and containment measures will likely put a break on the upswing the coming period*
  - » *House prices have continued to rise. A long period of low interest rates increases the risk that financial imbalances are building up.*
  - » *Underlying inflation has fallen but is still higher than the target*
  - » Norges Bank will *keep.. the policy rate on hold until there are clear sigs that economic are normalising*
- Alas, no news
- FRA rates XXXX

Here we go again: House prices up 1.1% in Sept, annual growth at 7.1%

House price inflation higher than expectations once more; NoBa f'casted 0.4%, we 0.8%



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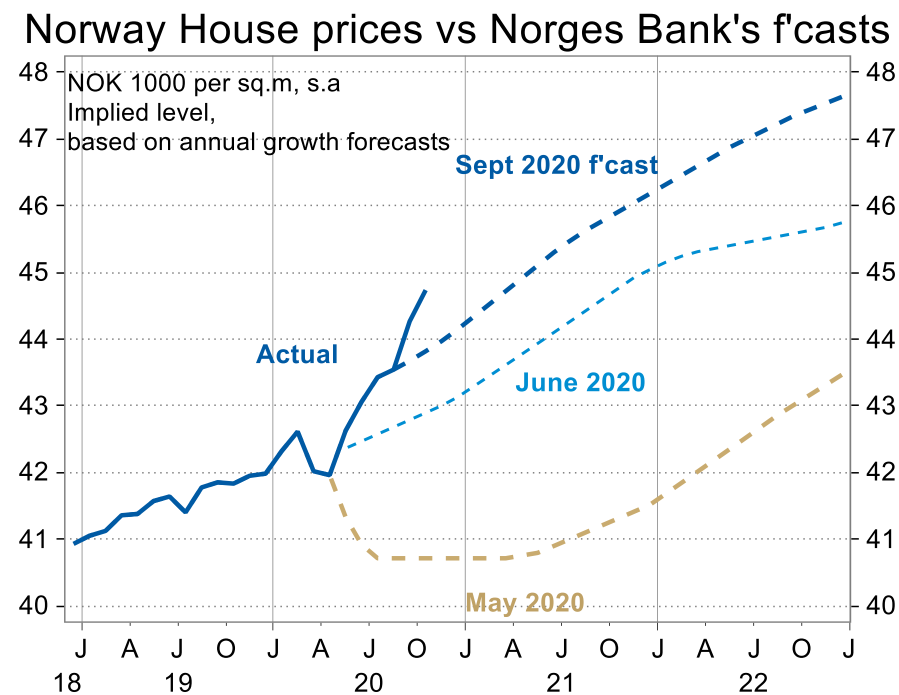


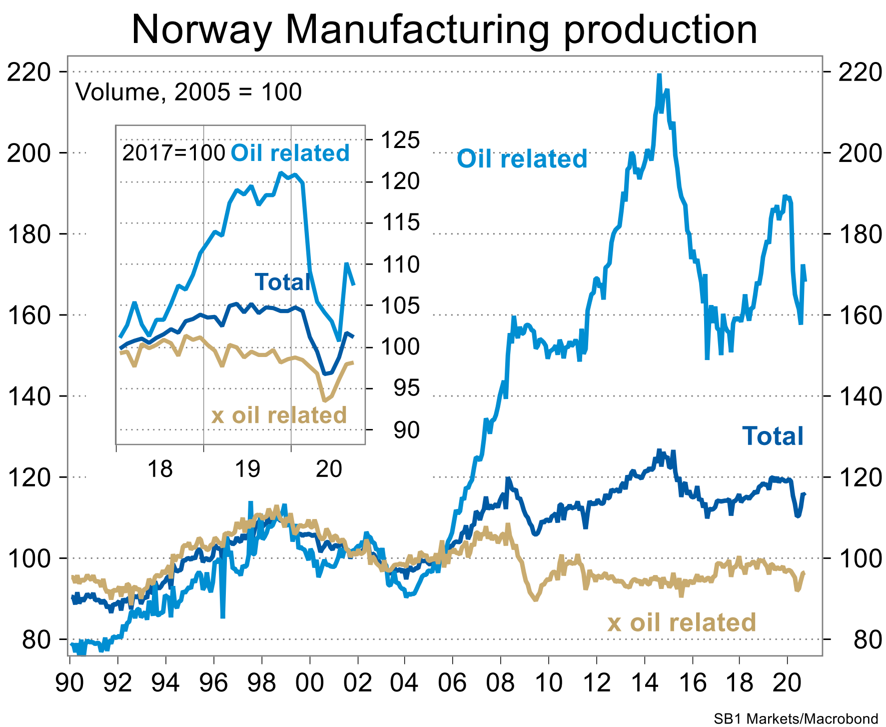
SB1 Markets/Macrobond

- House prices rose by 1.1% seas. adj Oct, following 1.3% in Aug (rev. up 0.2 pp) – and more than we expected. The past 3m/3m, prices are up by 11%, annualised. Prices are almost 5% above the Feb level, and are up 7.1% y/y, the highest in 3 years. A 1.2 pp cut in mortgage rates (to 1.8% in average now, from 3.0% in Feb), has been much more important the corona setback and higher unemployment
  - » No city reported declining prices. Stavanger and Kristiansand (still) at the bottom of the list (m/m), the costal cities from Ålesund to Tromsø at the top
- The number of transactions kept up at a high level in Sept, at some 10% above the (average) 2019 level. The inventory of unsold homes fell sharply in Sept too, and it is now 25% down from early 2020 and below a normal level, even if more ho0mes are put on the market at fewer are withdrawn!
- **Should the steep price growth continue, Norges Bank will start hiking rates before late 22' (the market expects Q2 2022)**

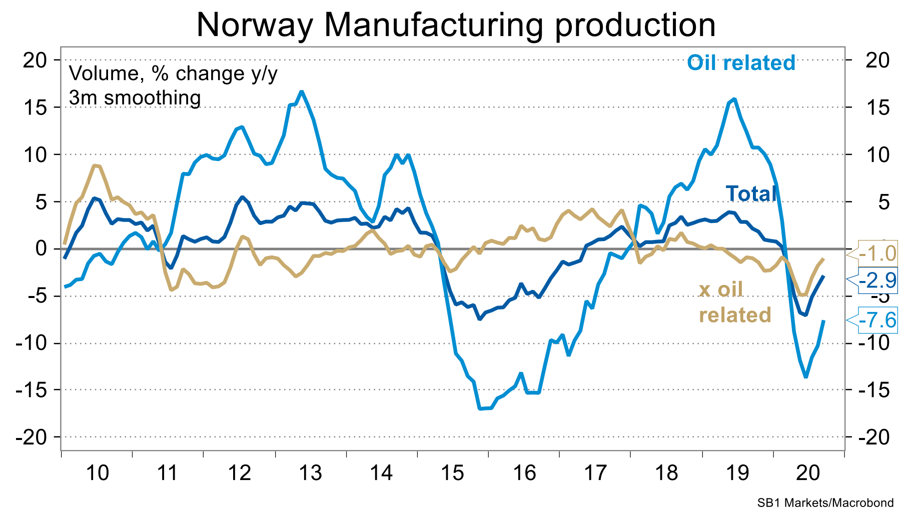
SpareBank 1 MARKETS

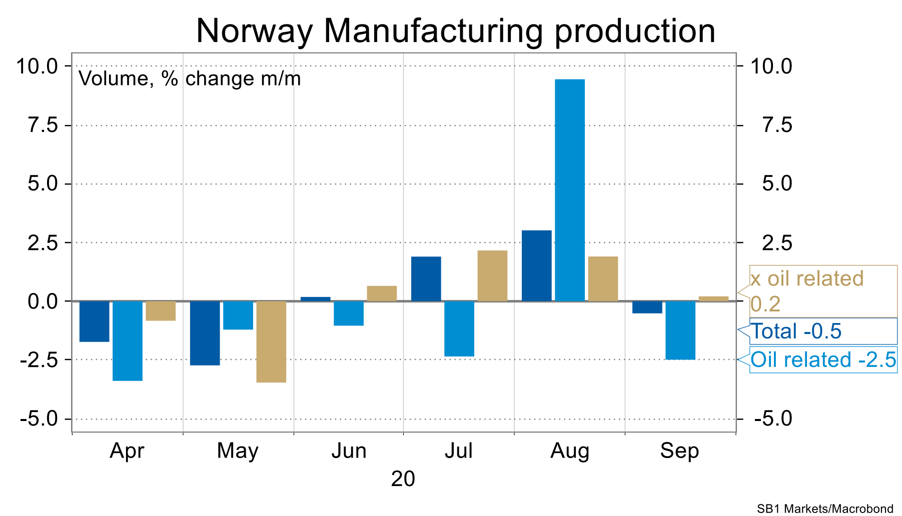
Manufacturing down in Sept, 3% down vs. the early 2000 level

Oil related production down is down 14%, the rest close to flat



- Production fell by 0.5% in Sept, following the 3% lift in August. The trend since the spring trough is clearly up
- The decline in oil related manufacturing industries have been large vs the decline in investments in the oil sector
- Manufacturing production in Norway has fallen less then in most other countries, check here
- Surveys are mixed, the PMI crossed the 50 line in September and further in October, SSB's survey signals close to a flat development in production, while NHO's Q3 survey was not that upbeat





The Calendar

Chinese activity data, US inflation, Norwegian growth & inflation

Time	Count.	Indicator	Period	Forecast	Prior
Monday Nov 9					
08:00	GE	Trade Balance	Sep	15.0b	12.8b
Tuesday Nov 10					
08:00	NO	CPI Underlying YoY	Oct	3.4% (3.4)	3.3%
08:00	UK	ILO Unemployment Rate 3Mths	Sep	4.8%	4.5%
10:00	NO	Norges Bank Financial Stability			
11:00	GE	ZEW Survey Expectations	Nov	45	56.1
12:00	US	NFIB Small Business Optimism	Oct	104.2	104
16:00	US	JOLTS Job Openings	Sep	6500	6493
Wednesday Nov 11					
06:00	SW	PES Unemployment Rate	Oct	--	5.30%
Thursday Nov 12					
00:50	JN	Core Machine Orders MoM	Sep	-1.1%	0.2%
08:00	NO	GDP Mainland QoQ	3Q	5.2% (5.2)	-6.3%
08:00	NO	GDP Mainland MoM	Sep	0.6% (0.6)	0.6%
08:00	UK	Manufacturing Production MoM	Sep	0.7%	0.7%
08:00	UK	GDP QoQ	3Q P	15.6%	-19.8%
08:00	UK	GDP MoM	Sep	1.1%	2.1%
09:30	SW	CPI YoY	Oct	0.4%	0.4%
09:30	SW	CPIF Excl. Energy YoY	Oct	1.1%	0.9%
11:00	EC	Industrial Production SA MoM	Sep	0.9%	0.7%
14:30	US	CPI MoM	Oct	0.2%	0.2%
14:30	US	CPI Ex Food and Energy MoM	Oct	0.2%	0.2%
14:30	US	Initial Jobless Claims	week		751k
20:00	US	Monthly Budget Statement	Oct		-$124.6b
Friday Nov 13					
11:00	EC	Employment QoQ	3Q P		-2.9%
11:00	EC	GDP SA QoQ	3Q	12.7%	12.7%
14:30	US	PPI Ex Food, Energy, Trade MoM	Oct	0.2%	0.4%
16:00	US	U. of Mich. Sentiment	Nov P	82	81.8
Monday Nov 16					
00:50	JN	GDP Nominal SA QoQ	3Q P	4.4%	-7.6%
02:30	CH	New Home Prices MoM	Oct	--	0.3%
03:00	CH	Industrial Production YoY	Oct	6.7%	6.9%
03:00	CH	Retail Sales YoY	Oct	5.0%	3.3%
03:00	CH	Fixed Assets Ex Rural YTD YoY	Oct	1.6%	0.8%
During the week					
	CH	Aggregate Financing CNY	Oct	1369b	3480b

- **China**
  - » September activity data were on the strong side, as was the Q3 GDP growth. Most likely, October data will confirm that the recovery continued. However, as the activity level has almost returned to the pre corona growth path, monthly growth rates (which is the relevant data, not annual rates) should slow. Industrial & service sector production, retail sales & investments out early next Monday
- **USA**
  - » Annual CPI growth has climbed recent months, to 1.7%, expected unch in October.
- **EMU**
  - » Industrial production will probably get further lift in September, as signalled by national data last week. Revised Q3 data will probably not surprise either
- **Norway**
  - » We assume the **Mainland GDP** grew further in September, still at higher than a 'normal' pace – but the gap to the pre corona level would still be more than 3%. The Q3 GDP growth should not surprise too much, if monthly data through August is not too heavily revised
  - » **Core inflation at 3.3% y/y** is far above NoBa's 2% target but the bank is patient, for good reasons. The NOK has stabilised and wage inflation has slowed substantially – and inflation will hopefully decline the coming quarters

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

Highlights

The world around us

The Norwegian economy

Market charts & comments

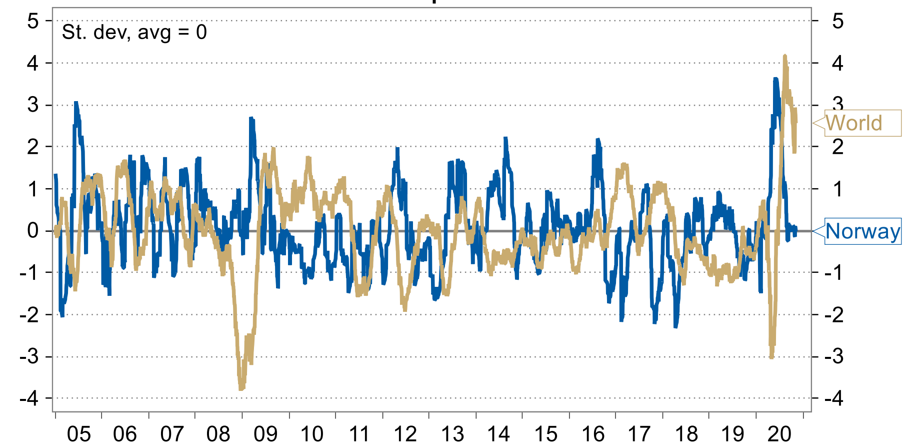
Surprises are still on the upside

Just Japan and Norway are not delivering better economic data than expected

Citi Surprise index

SB1 Markets/Macrobond

Citi surprise index



SB1 Markets/Macrobond

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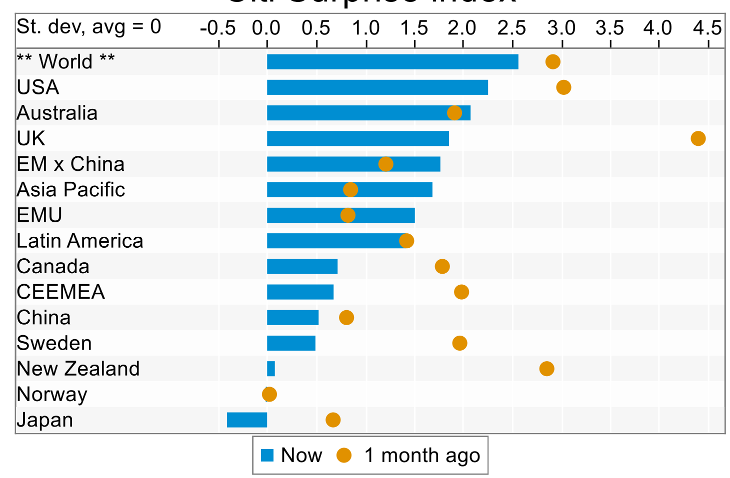


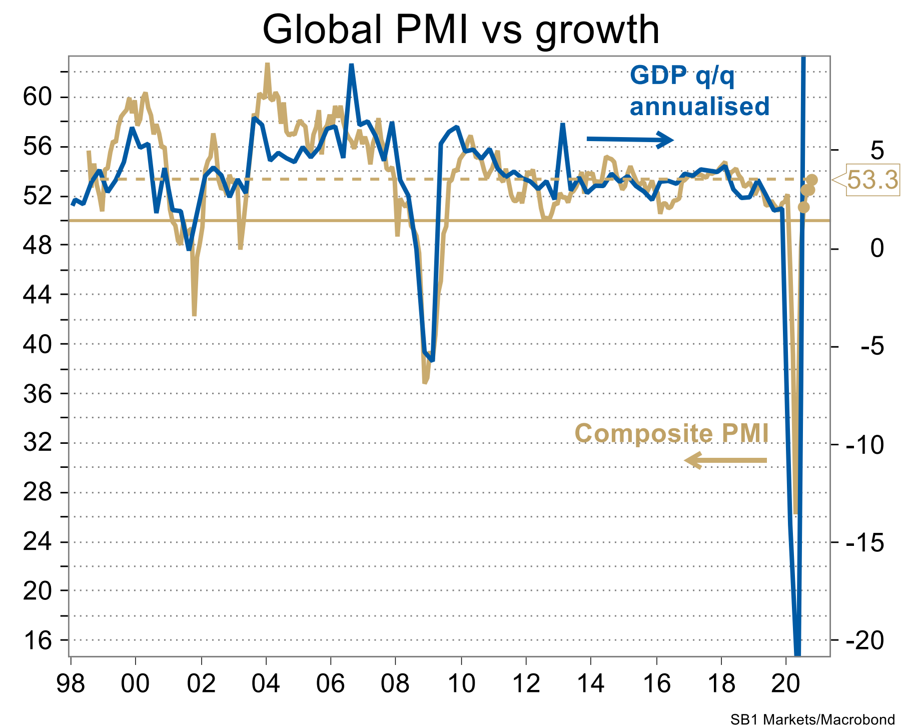
SB1 Markets/Macrobond

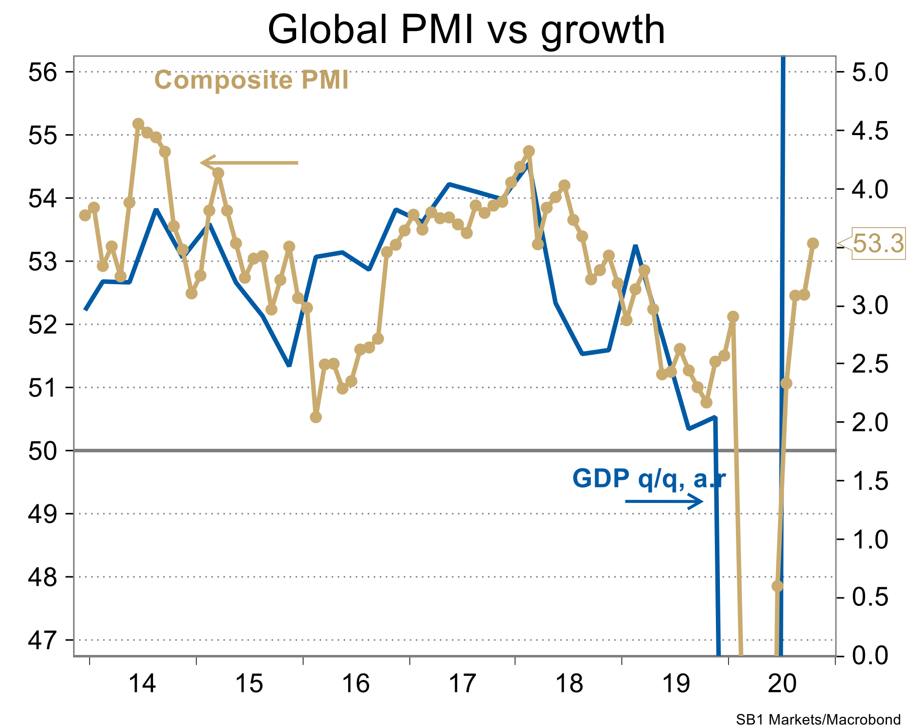
- All major countries/regions (barring Norway and Japan) are reporting data above expectations, for the first time ever
- Strong GDP data in the EMU lifted the surprise index here the prev. week
- The US is still far into positive territory but less so than during the summer
- China slightly into positive 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

PMIs stronger than we assumed in October, a good momentum into Q4

The Oct PMI was 1.1 p better than we expected, a 53.3 index signals growth at least at trend





- The Sept composite PMI was revised up 0.4 pp to 51.5, and the index rose by +0.8 p to 53.3 in October, we expected 0.2p to 52.2 – an unusual miss. The index is at the best level since mid 2018
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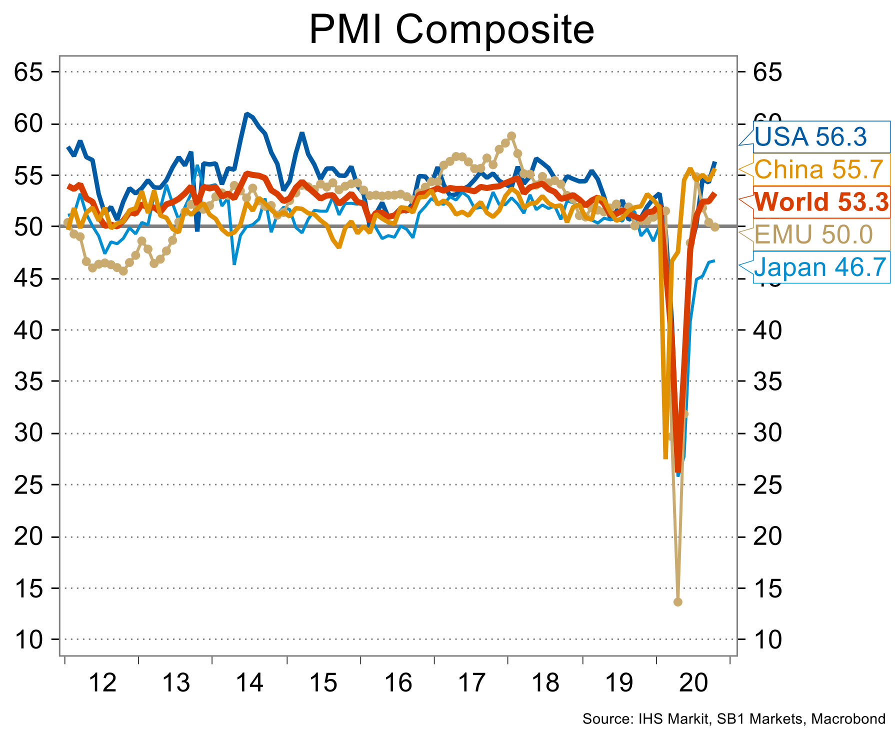

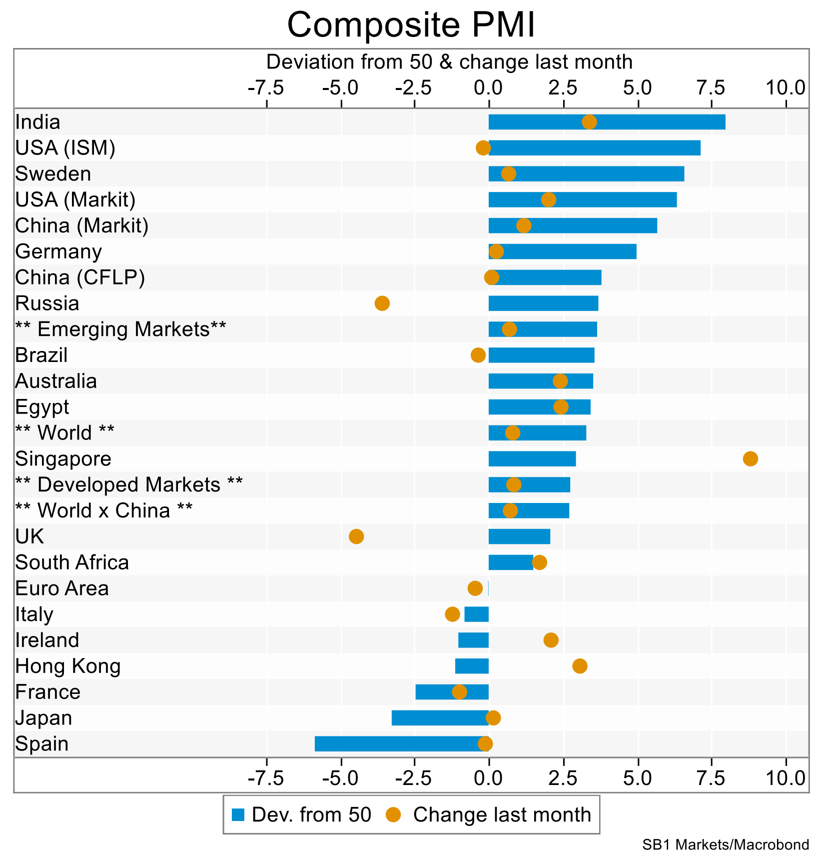

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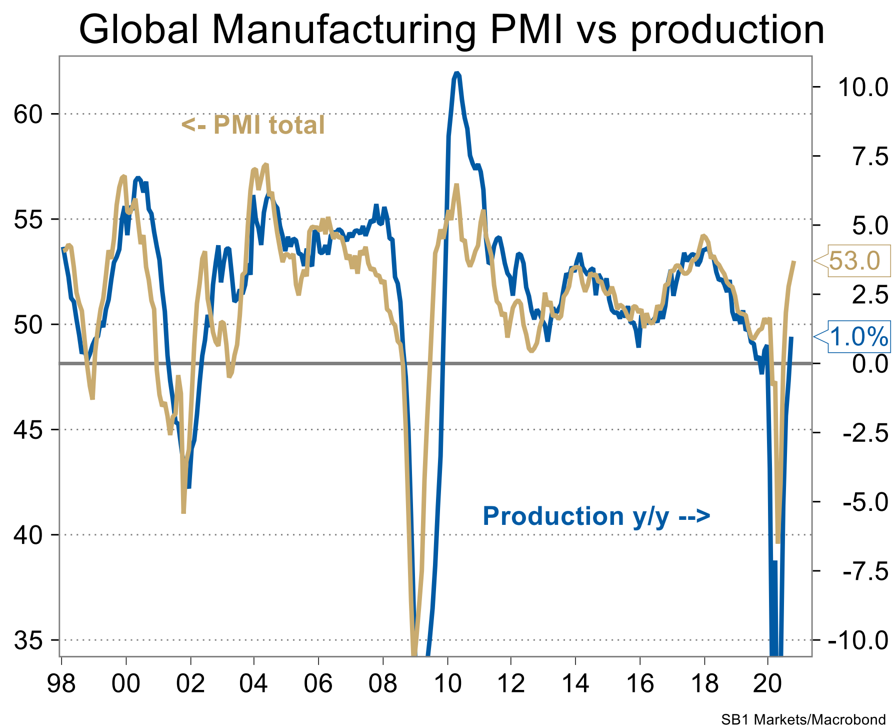
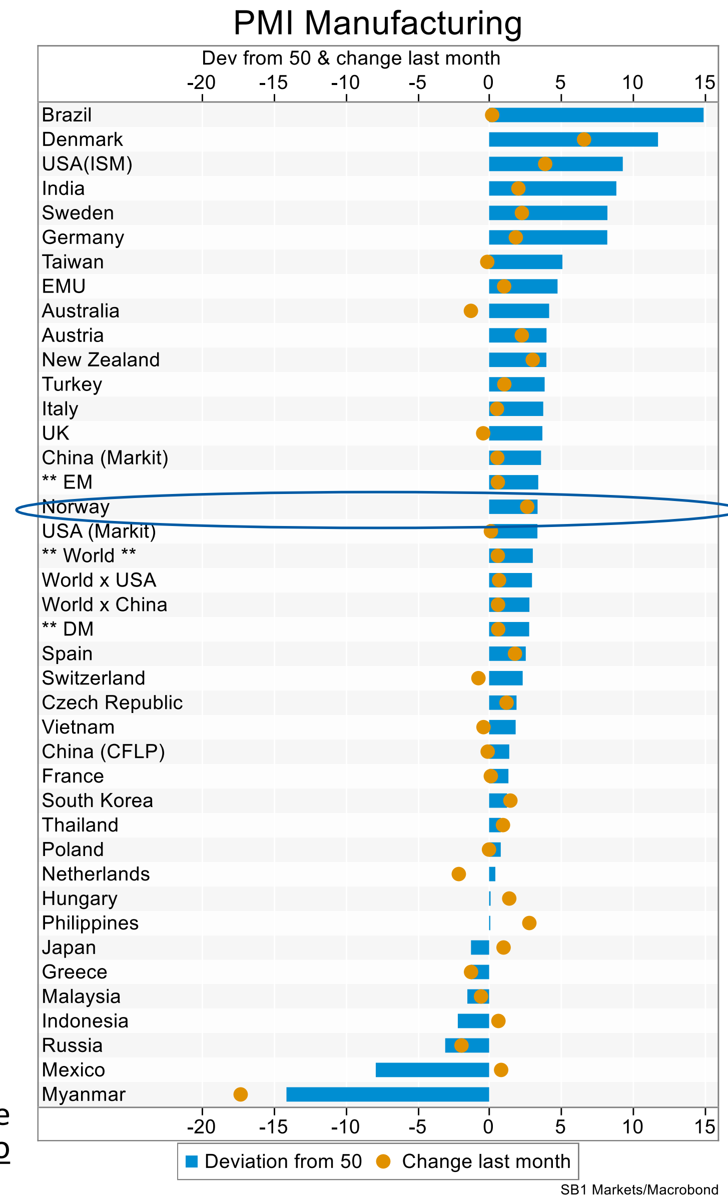
The best level since June 2018





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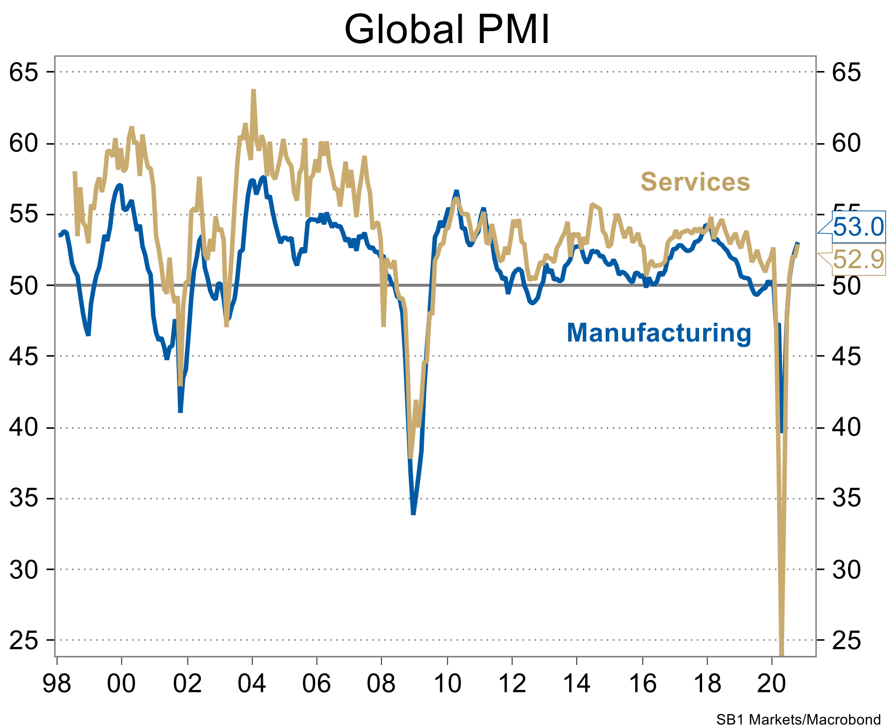

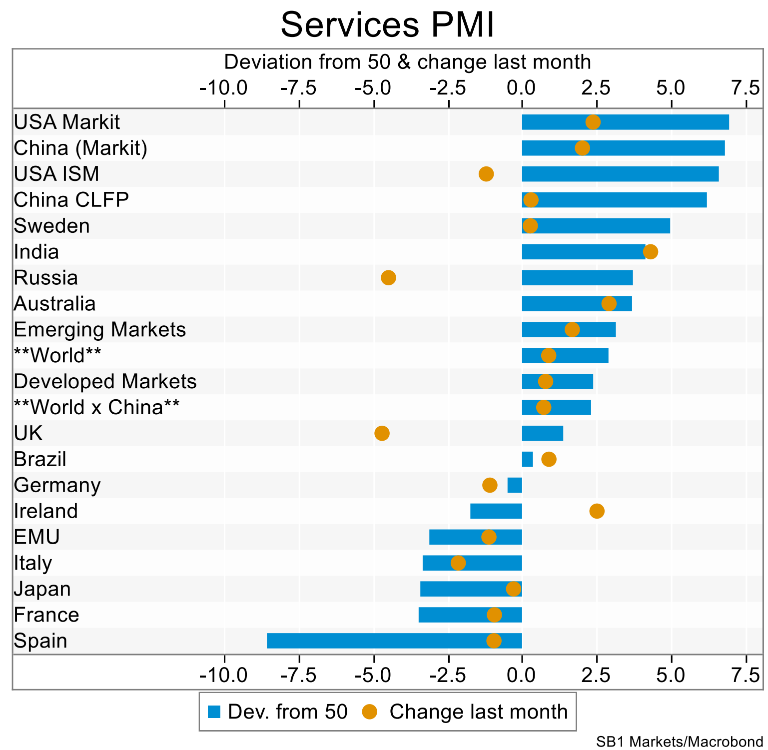

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SpareBank 1 MARKETS

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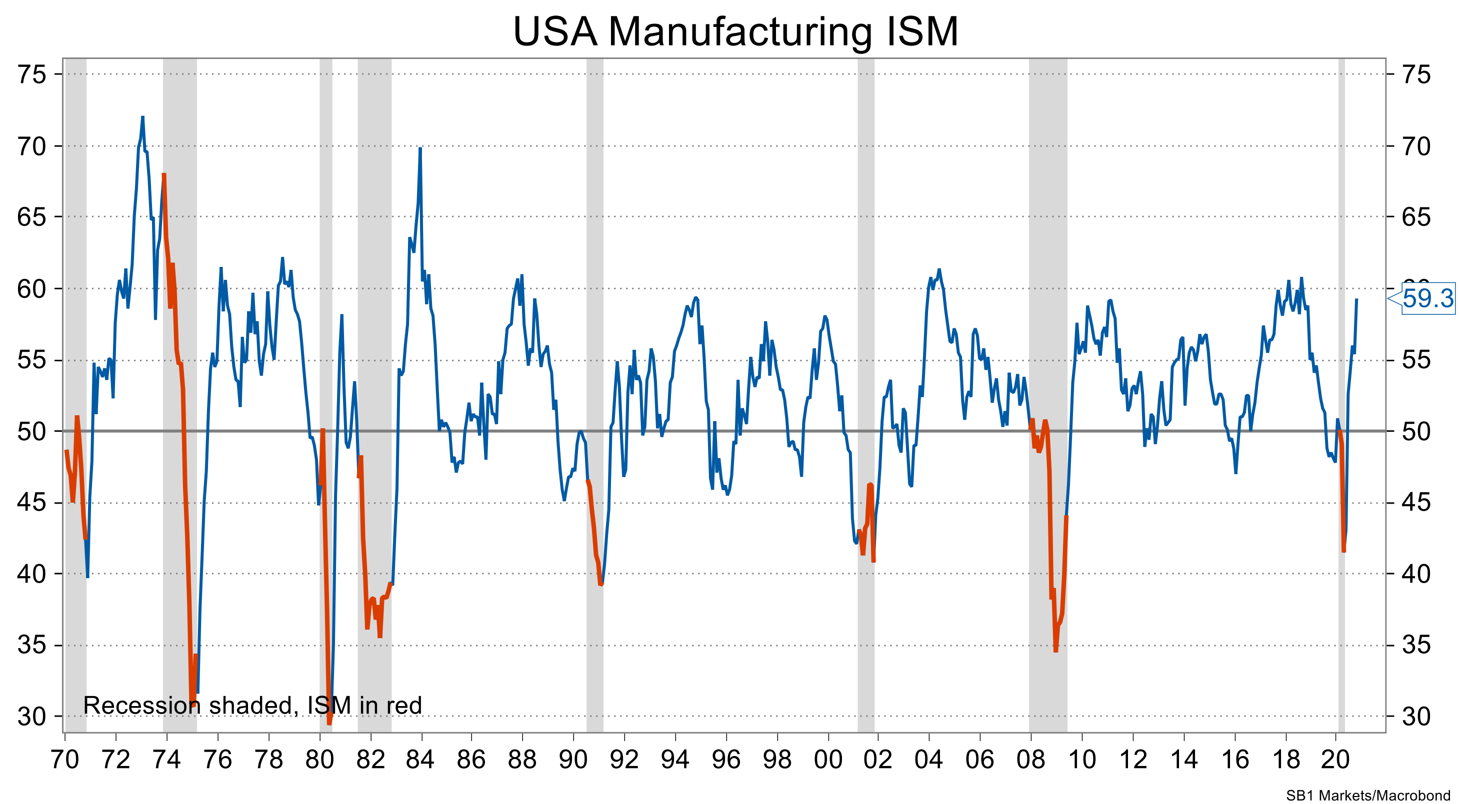

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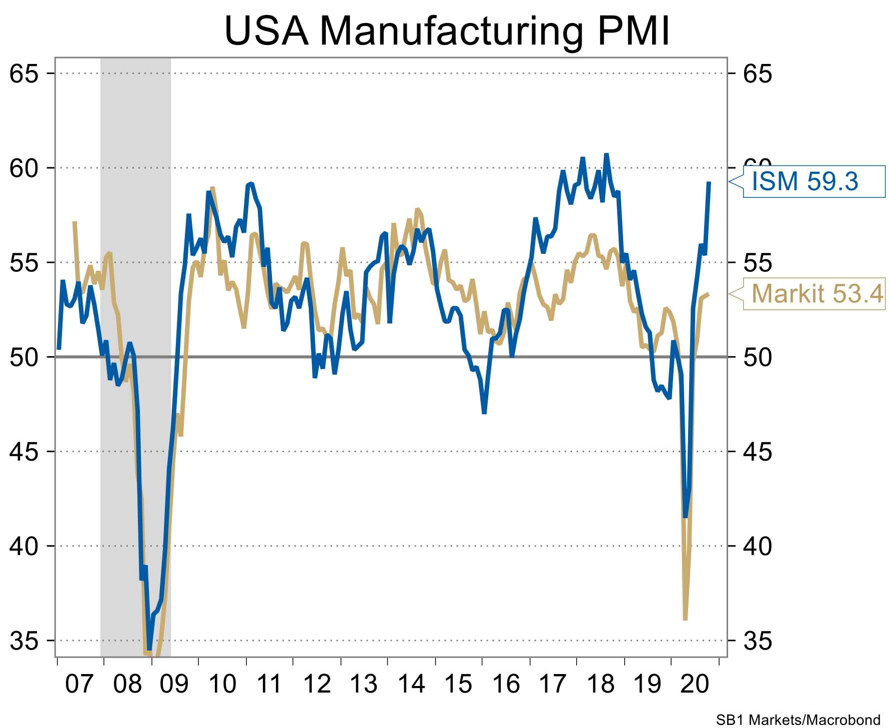
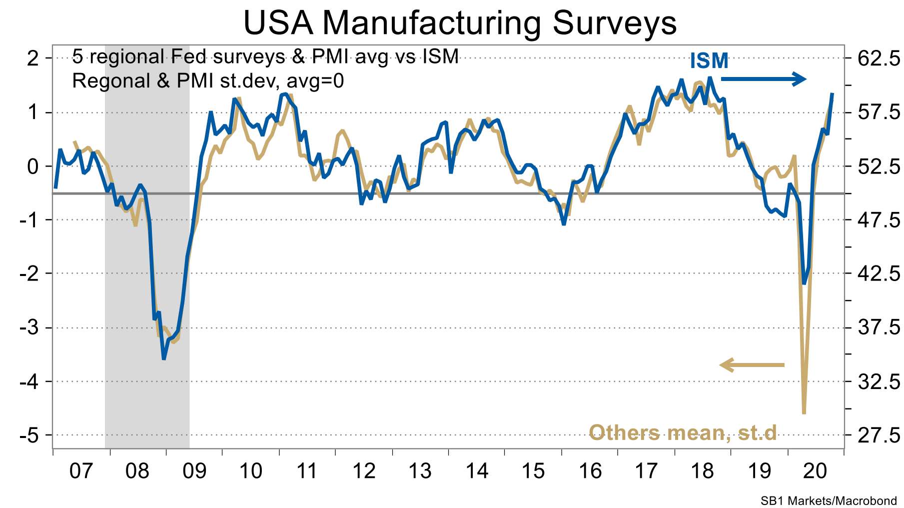
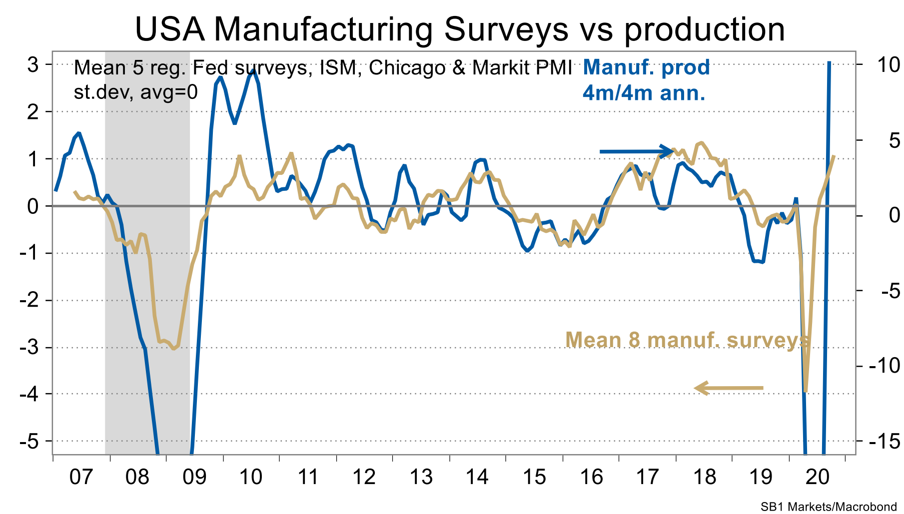
- Just 2 out of 18 manufacturing industries reported decline in activity to October from September, 15 reported growth – an unusual strong mix

SpareBank 1 MARKETS

ISM manufacturing ISM stronger than the PMI, but in line with avg of other surv.



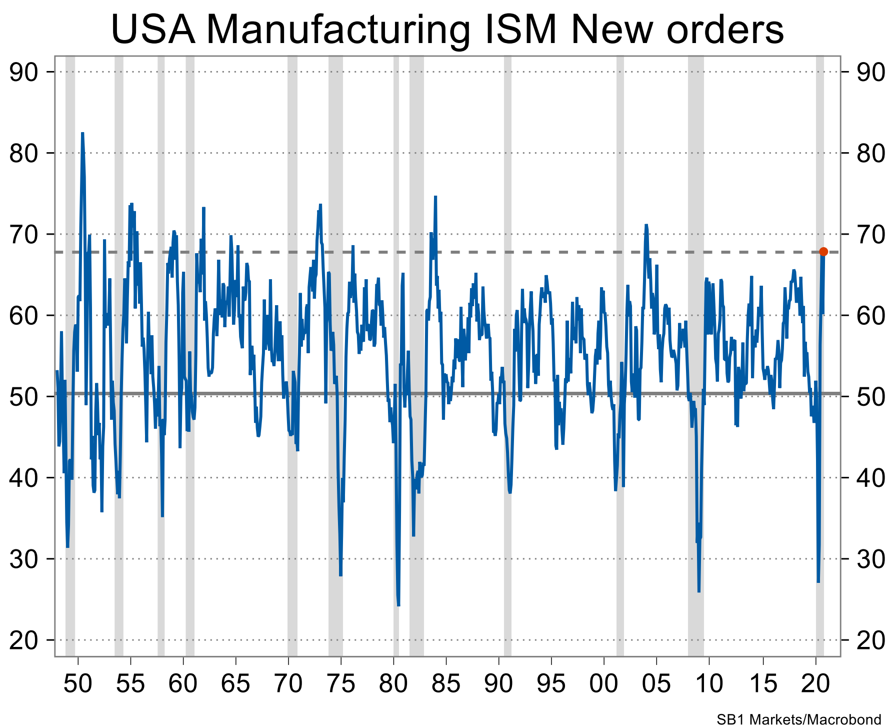


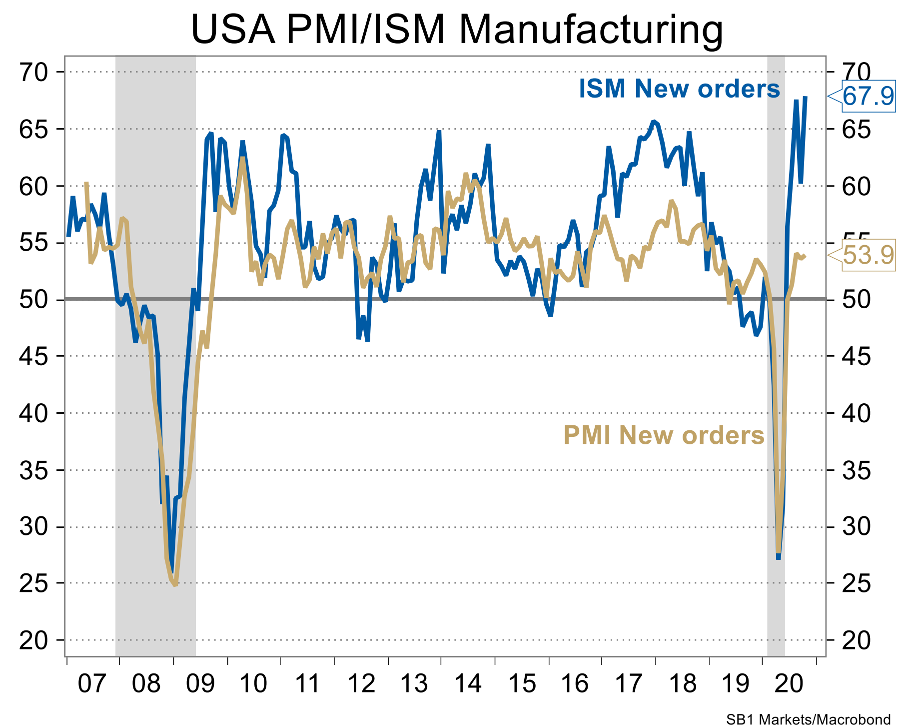


SpareBank 1 MARKETS

The 6th strongest growth in orders since 1975 (just two instances, in '83, '04)

Rather remarkably as orders already have recovered to above a pre corona level (x aircrafts)



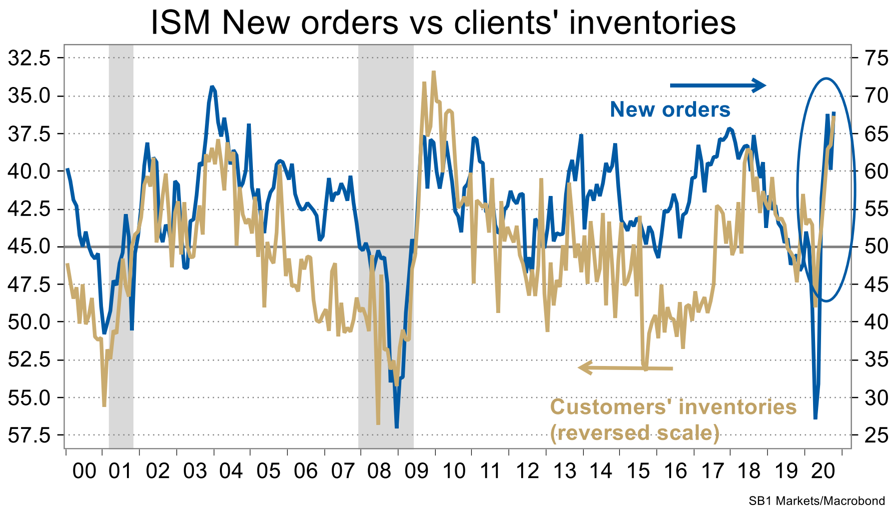


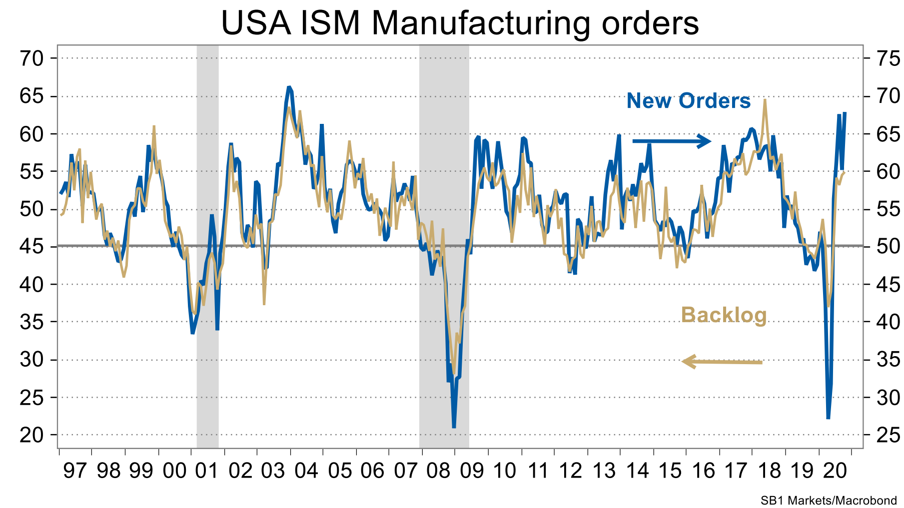
- Modification: There is a huge discrepancy between the ISM order index, which is at very high level, and the order index in Markit's PMI survey, which is above an average level but not by that much. Markit's PMI has clearly been closer to changes in actual order inflow than the good ol' ISM

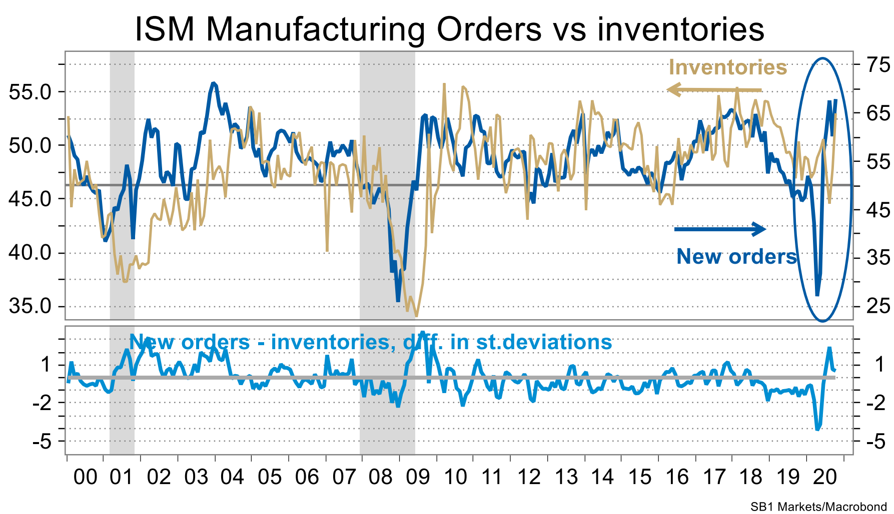
SpareBank 1 MARKETS

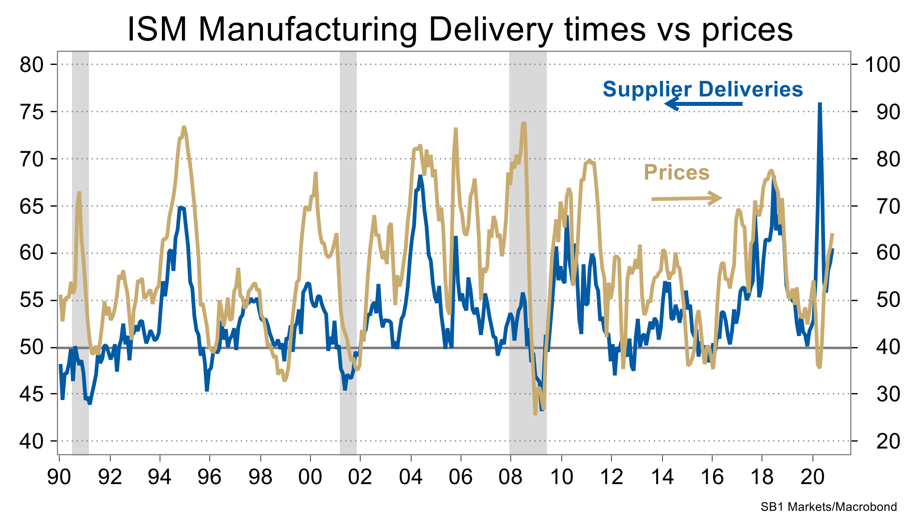
Customers' inventories are shrinking rapidly, restocking needed

… and new orders are coming the manufacturers. Delivery challenges have eased but prices are up



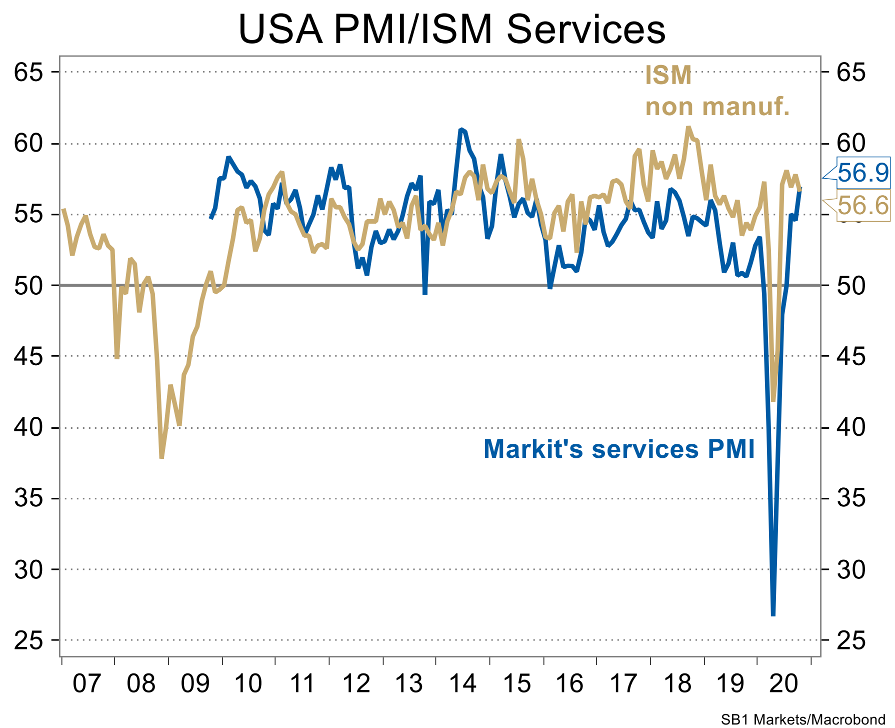


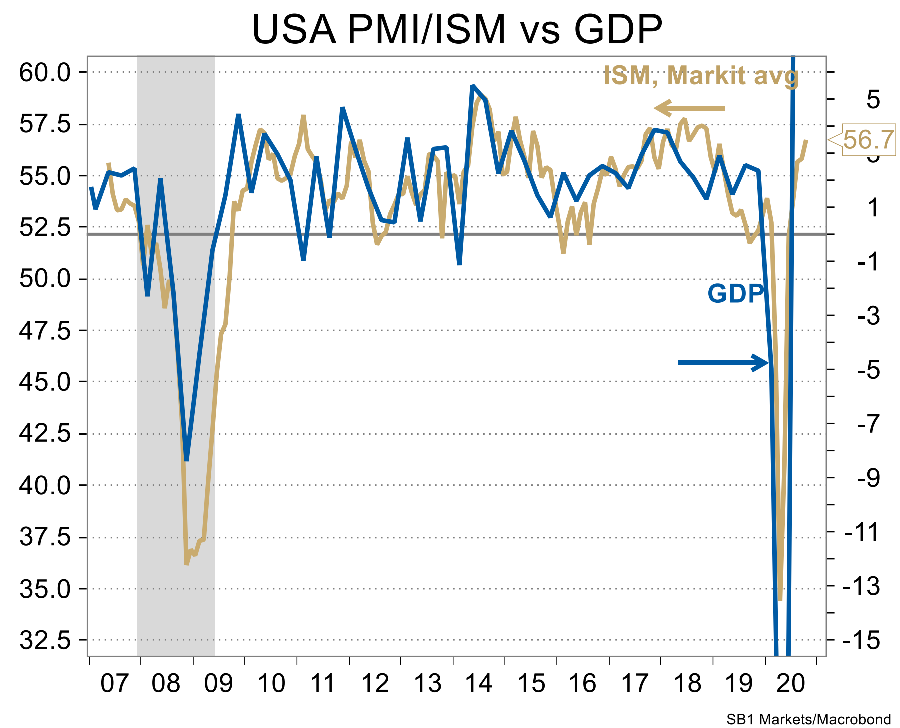




The ISMs, PMIs are reporting growth well above trend, no new Covid-19 shock

The service sector ISM -0.9p to 56.9, Markit's +2 p to 54.6. 'Composite' ISM +1.1 to 56.7

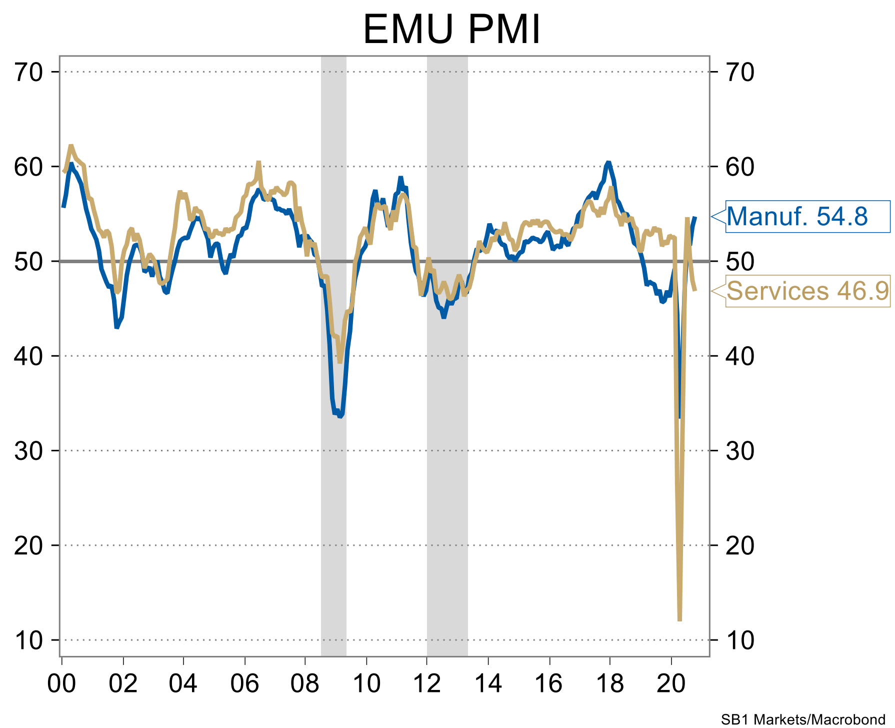


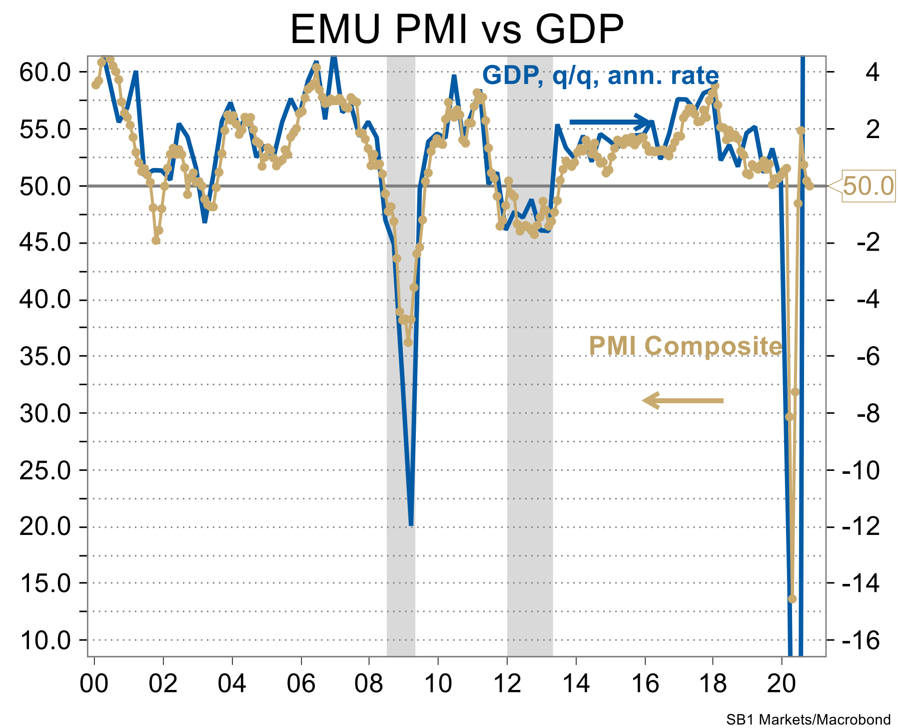


- Both surveys have been dramatically underreporting growth in Q3, following the collapse in GDP in Q2. The PMI/ISM signalled a 2 – 3pp growth pace, it turned out to be 33.1%
- We assume these surveys are now becoming more relevant again – and they are signalling growth above trend into Q4

The PMI a tad better than the preliminary estimates – still down to 50.0

The service sector down to below 50 – while the recovery in the manufacturing sector continues

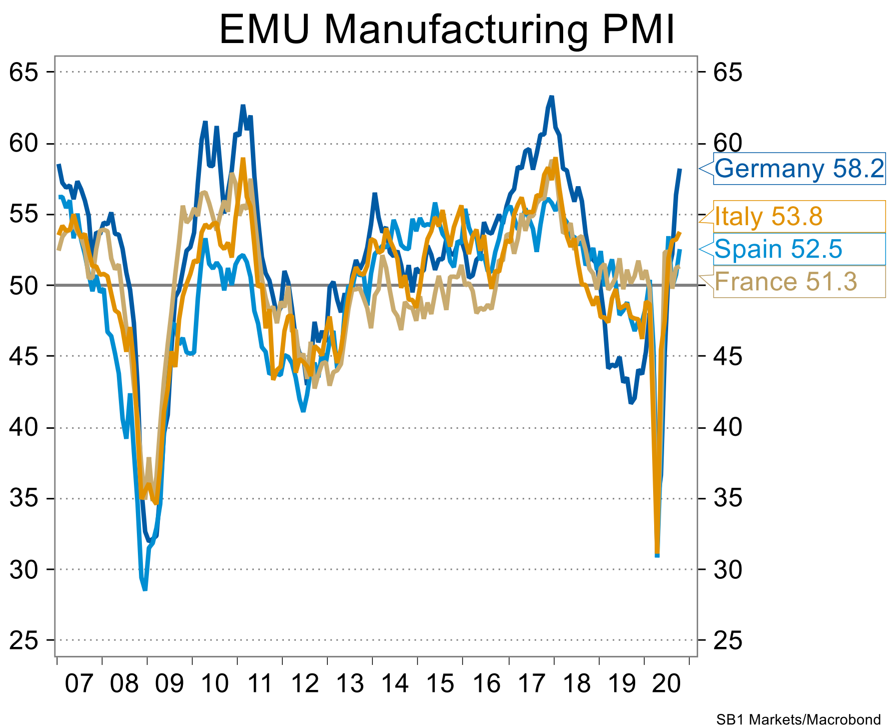


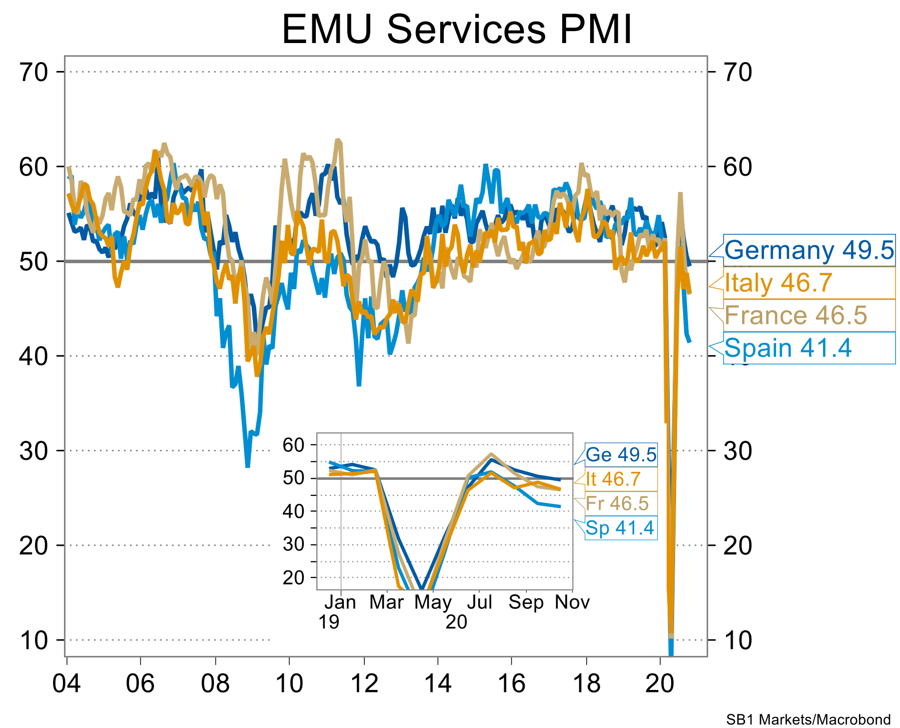


- The PMI respondents are still probably reporting somewhat between growth (which is strong), and the activity level (which is still below par) - and these indices cannot be used to estimate the growth rate now
- Still, det decline in the service sector PMI in August is surely not a signal of strength. Most likely, the new corona outbreaks is having some impact on activity, especially in the tourism sector
- The service sector PMI as well as the composite index was 0.3 – 0.4 p better than the preliminary estimate

Services are sagging everywhere – manufacturing report higher growth

The Spanish service sector PMI down to 41.4, hard to blame others than the corona virus?

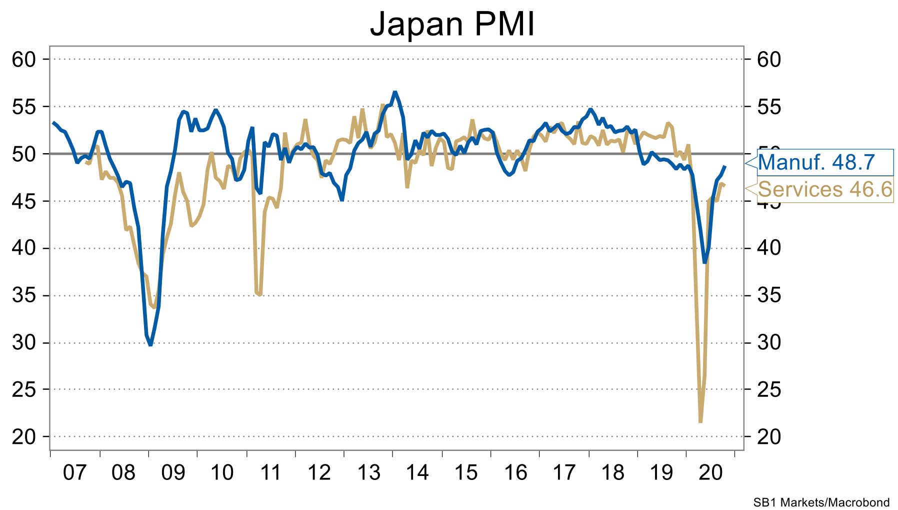


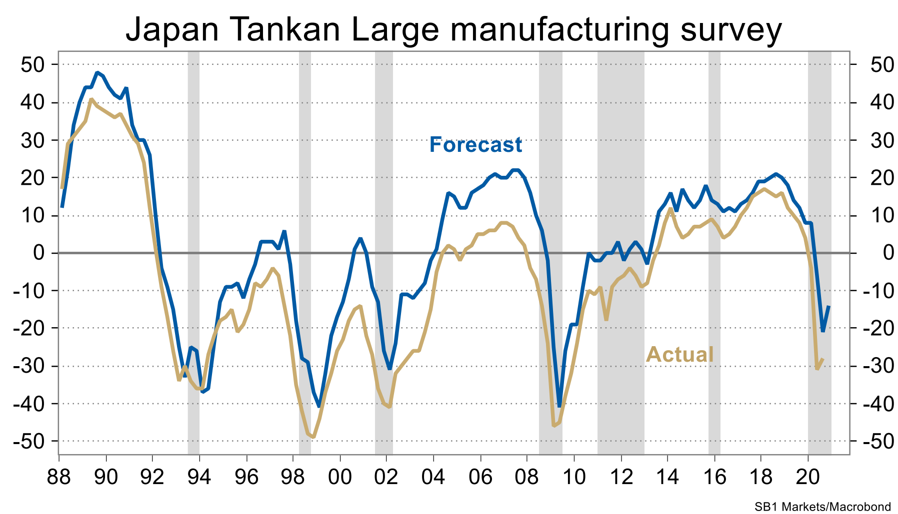


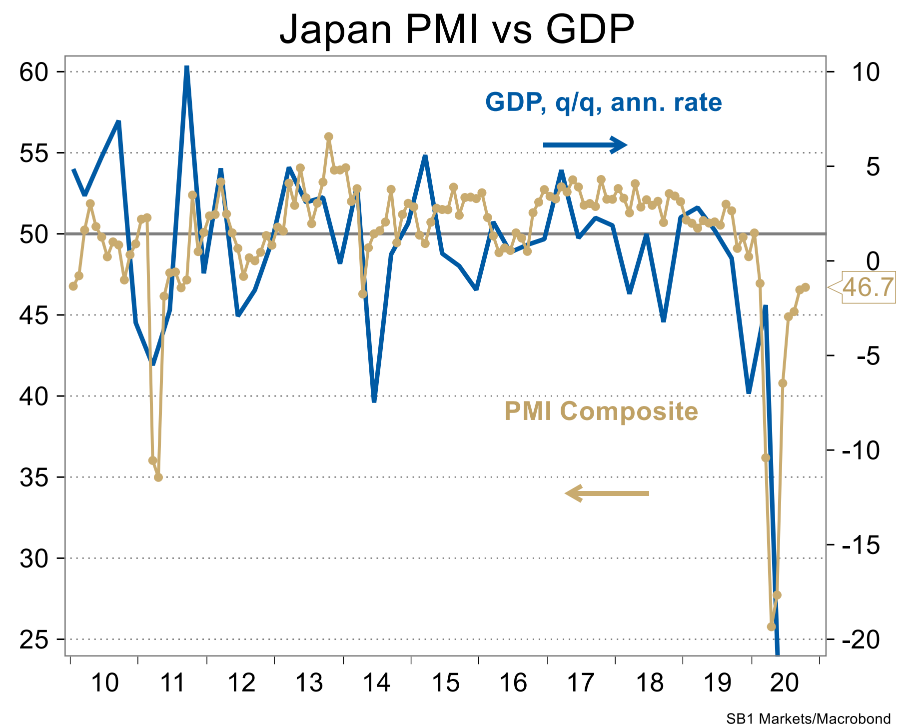
- The service sector PMIs fell to below 50 in all big 4
- Manufacturing up everywhere and above 50 everywhere

Japanese PMIs up but remain soft - are still (formally) signalling GDP contraction

Both manuf & services are well below the 50 line. Other surveys are not upbeat either



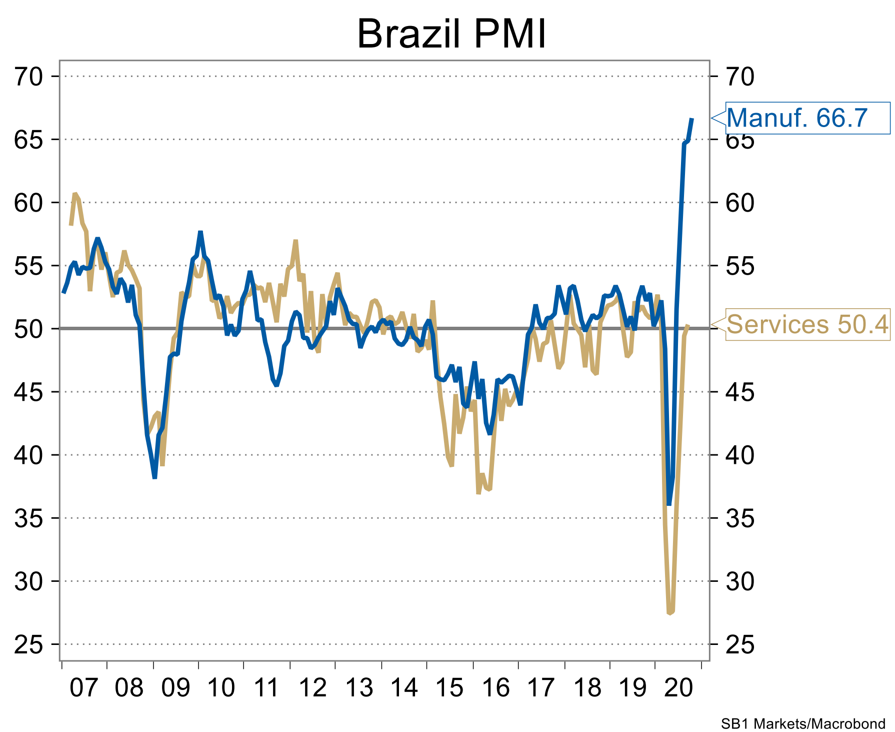


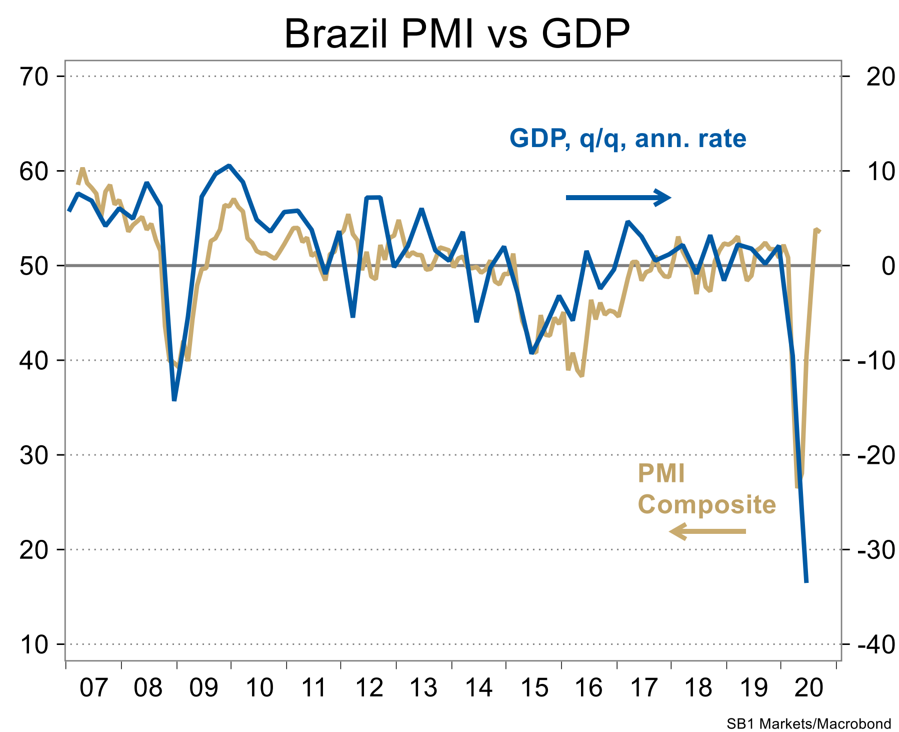


- However, given a sharp lift in manufacturing production and retail sales, as well as a much higher production in service industries as well, a sharp GDP recovery in Q3 is very certain – which is not reflected in these surveys

Brazil has turned the corner? A very strong manufacturing recovery

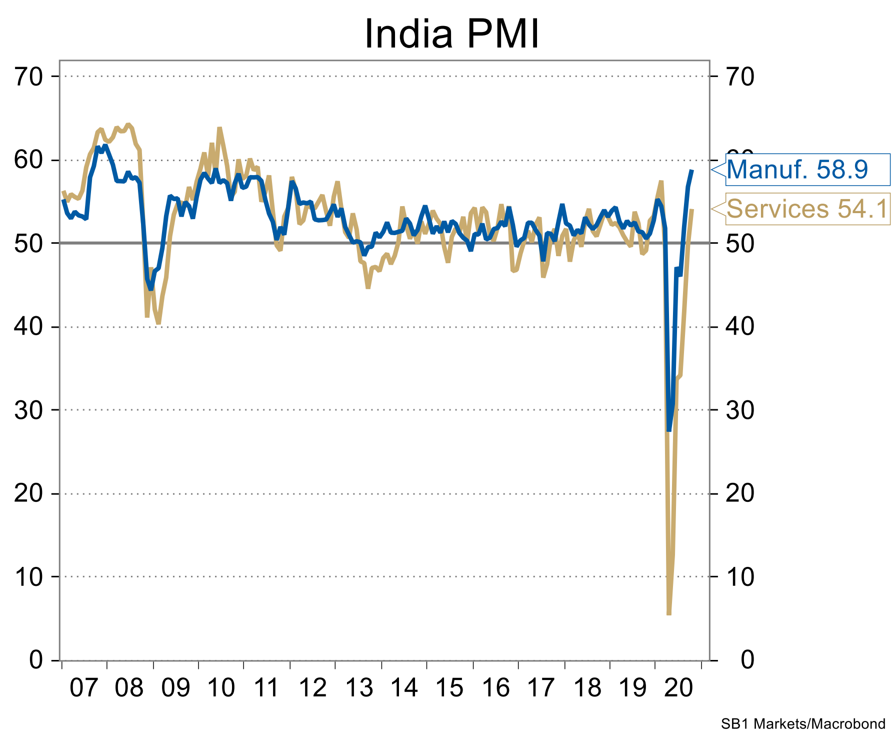
… and no further contraction in the service sector

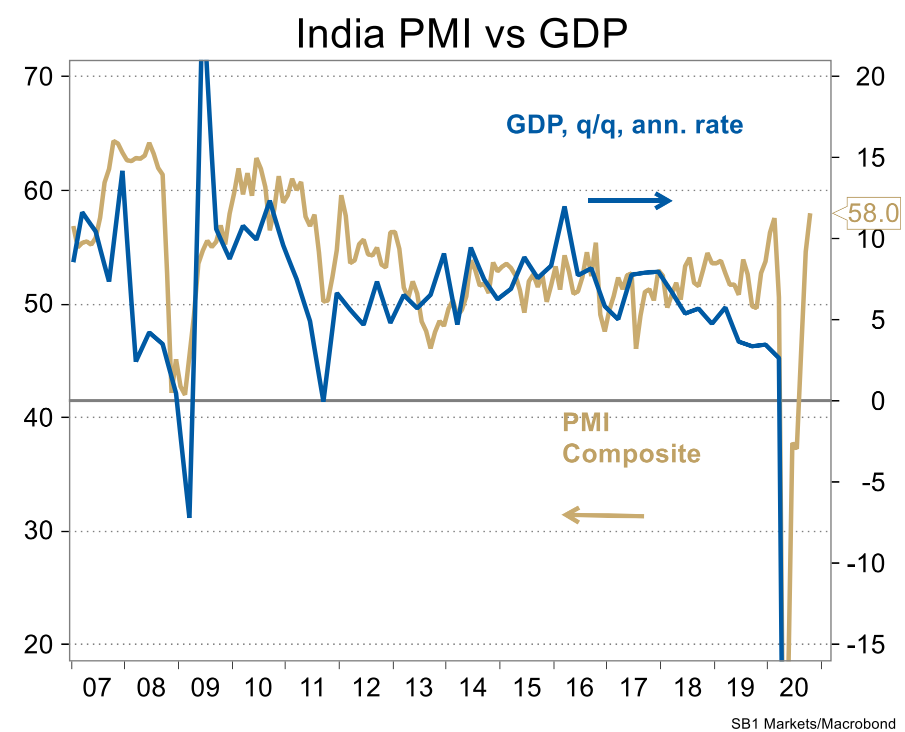




Growth has returned to India, the composite PMI the best since 2011

Manufacturing in the lead but growth in services too

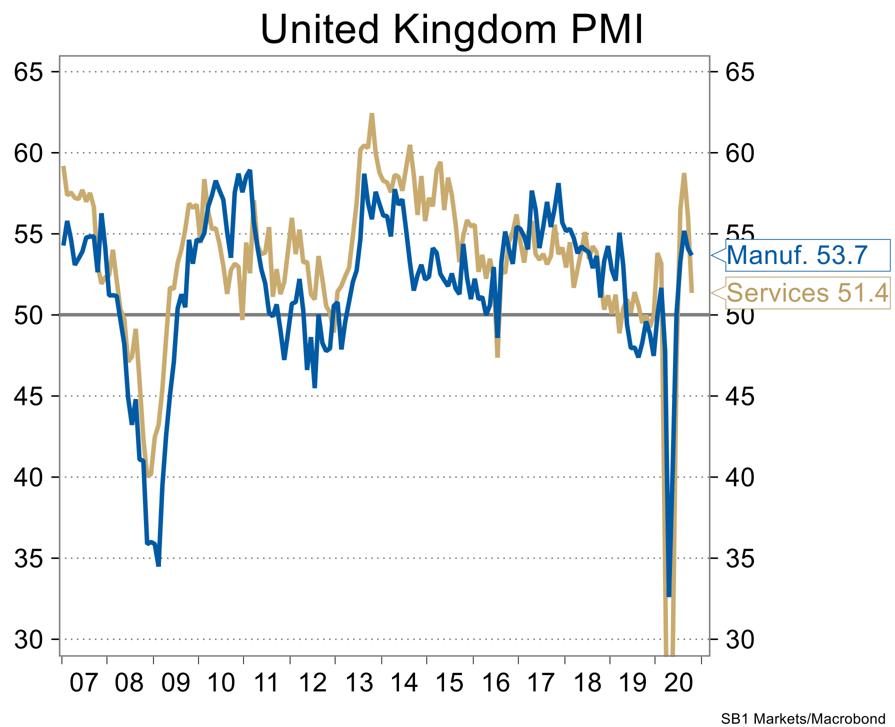


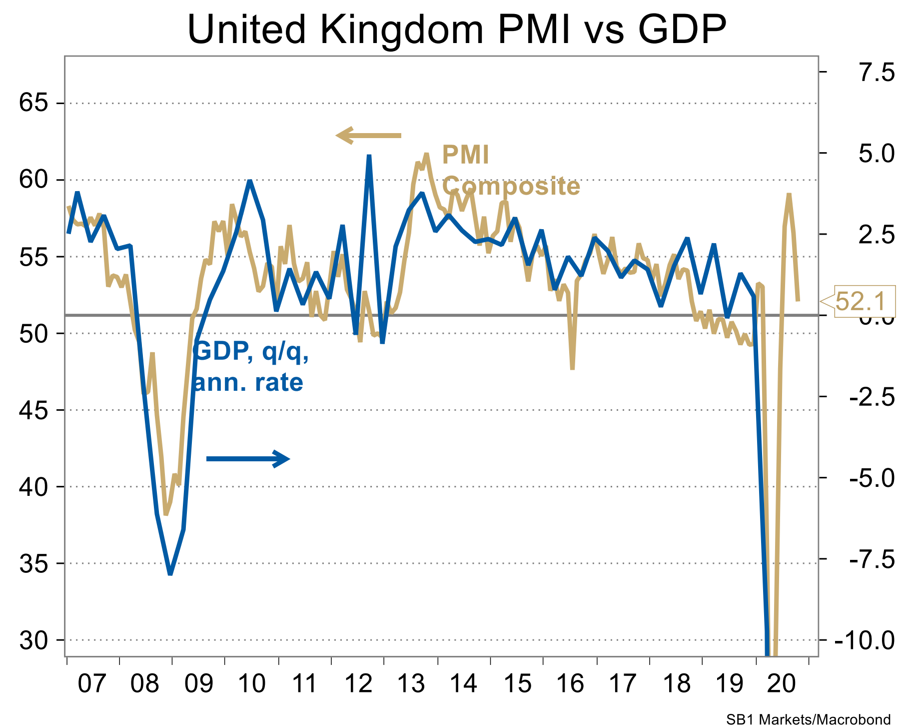


- India has not yet reported Q3 GDP but following the setback in Q2, a substantially recovery is expected

Both manufacturing and services are slowing – but both still growing

The composite PMI down 4.4 p to 52.1, still signalling growth. Will November be worse?

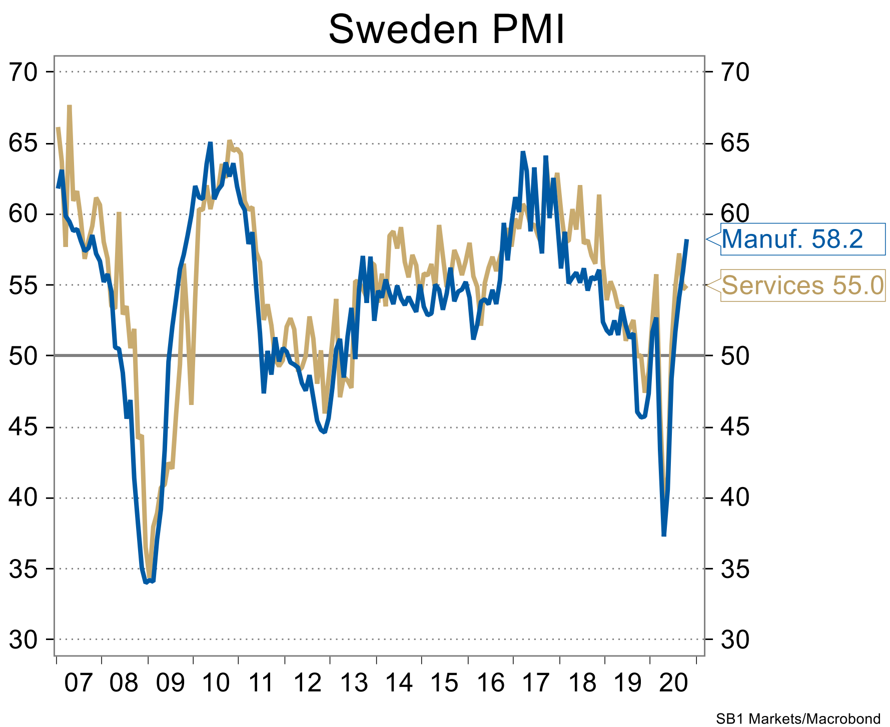


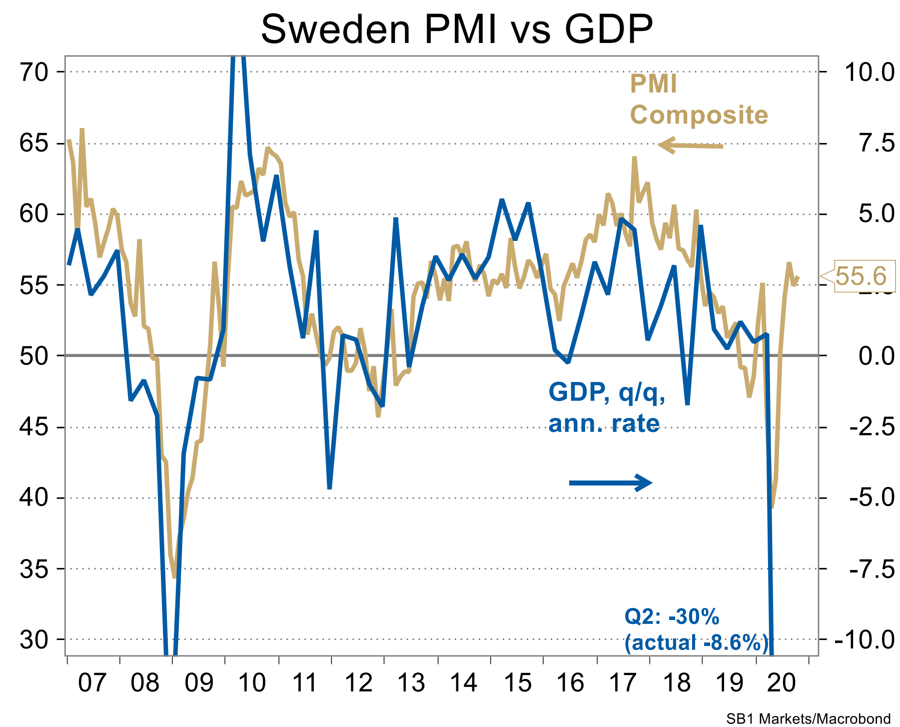


- The current PMI signals a ½ – 1% growth rate. Actual growth was probably 80% in Q3 (annualised, that is). The PMI did not tell us so

Sweden is growing again, services at 55, manufacturing at 58

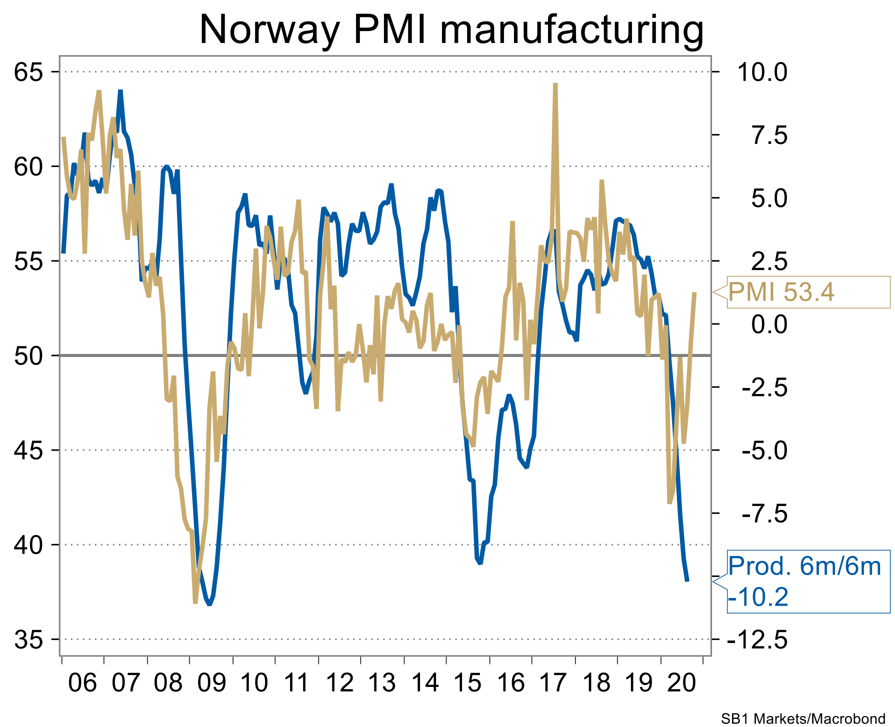
The composite fell slightly in September, still signalling GDP growth well above trend

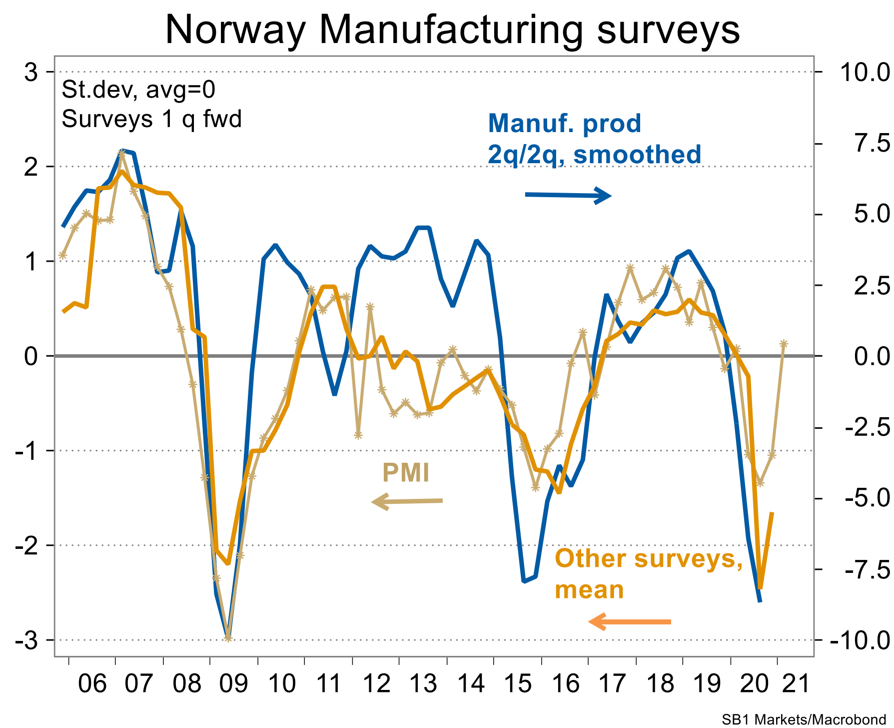




PMI up to 53.4 in Oct from 50.7, better than expected

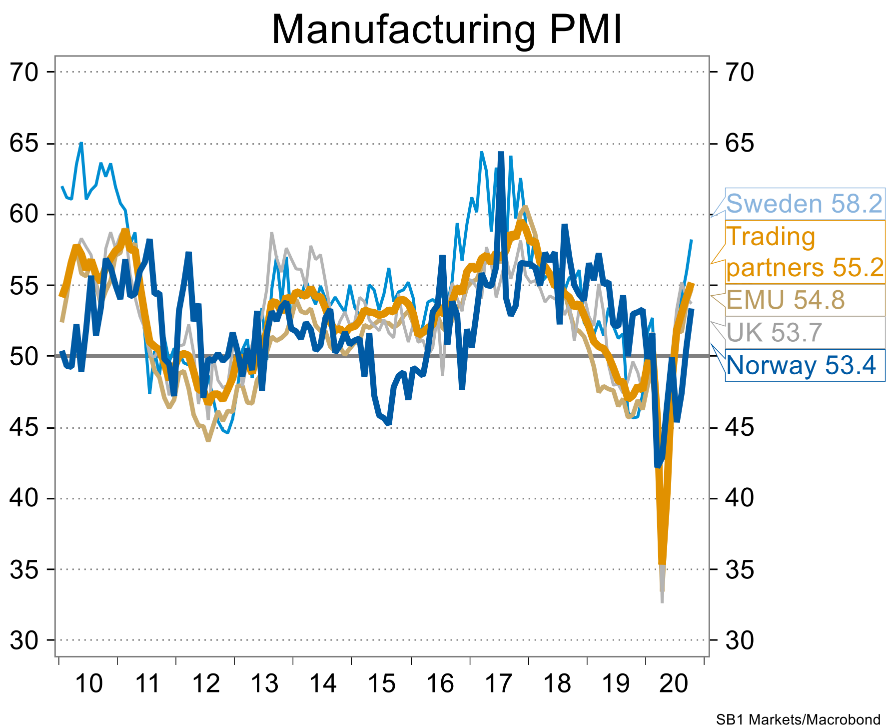
The Norwegian PMI is volatile but 2 months above the 50 signal a moderate expansion

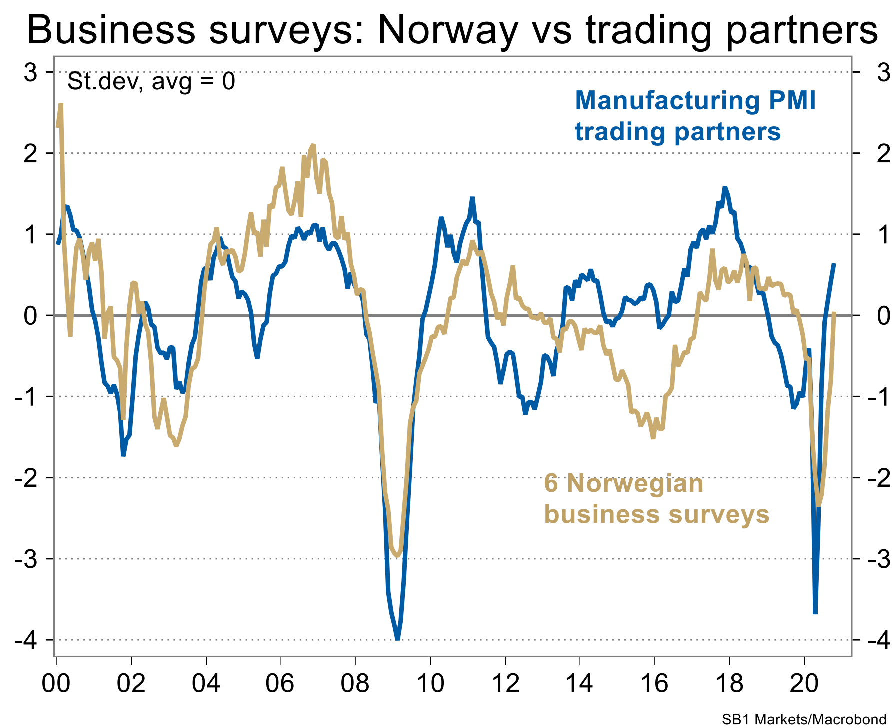




- Other surveys have also turned up over the summer but the average level in Q3 was still well below average

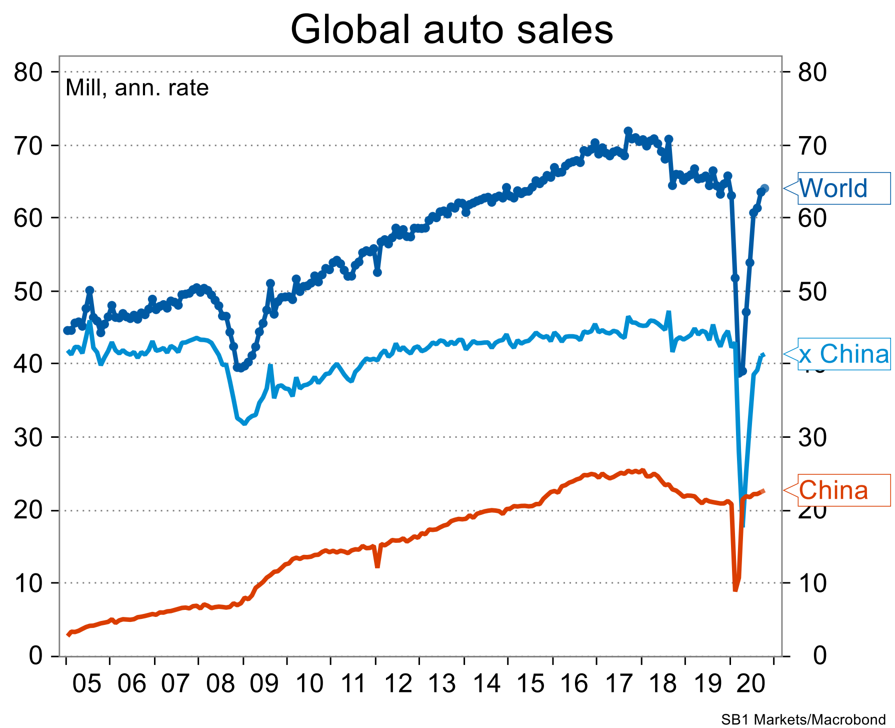
Norwegian manufacturers follows others upwards

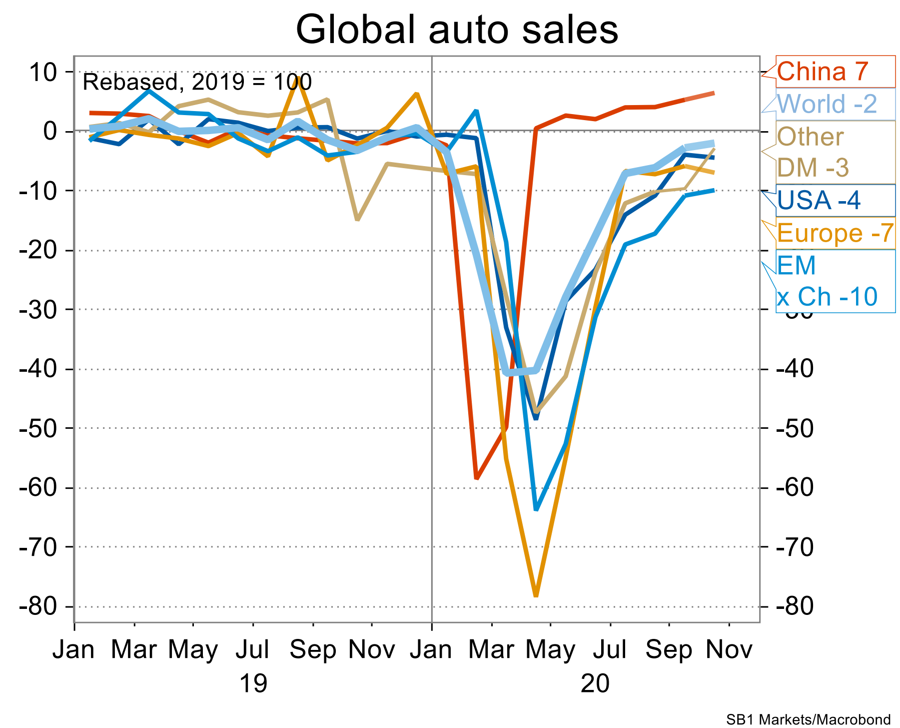




Global sales still trend up – and are close to the pre corona (low) level

Sales still below par in EM x China (-10% vs ’19 avg), Europe -7%, US -4% & China up 7%

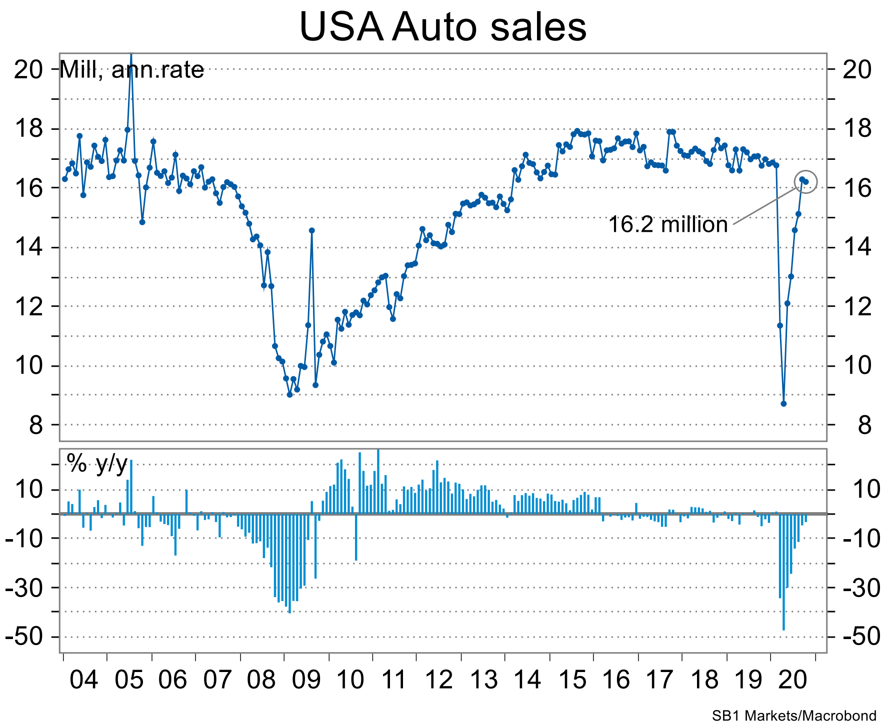


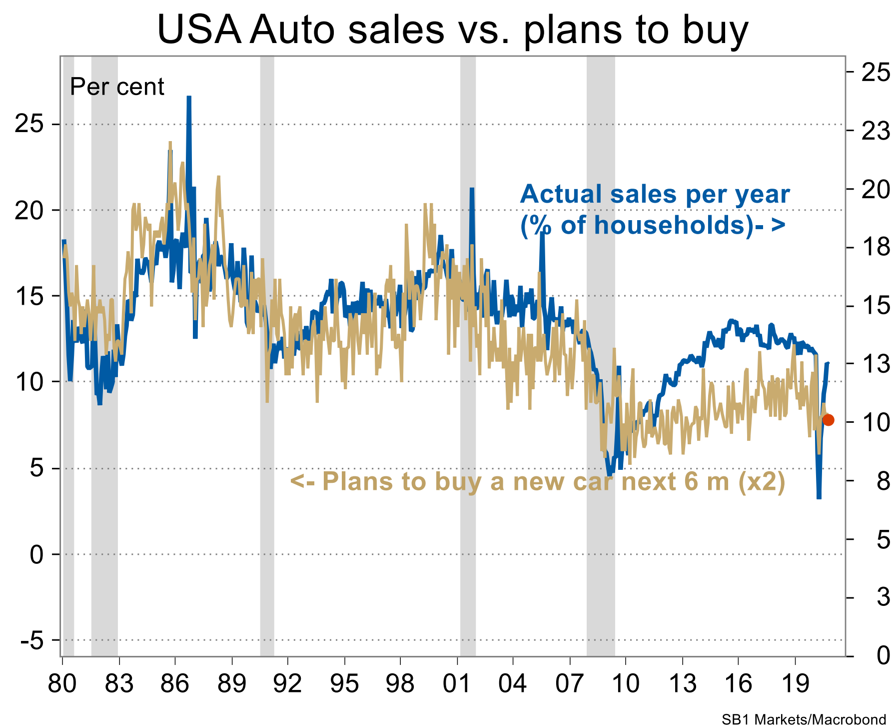


- Global sales rose marginally in October, and the level is 2% below the 2019 avg
  Sales in
  - China rose further in Oct, and are at the highest level since Feb 2019. However, sales are still well below the late 2017 level, far lower than expected at that time (a further growth in auto sales)
  - US fell marginally is still 4% below the 2019 average
  - European sales (EMU+ UK and others) were fell marginally to 7% below the 2019 avg
  - other DMs rose sharply, due to higher sales in Japan and Australia – and are just 3% below the 2019 avg
  - Emerging Markets x China grew broadly but are still 10% below the 2019 avg. Sales in India was sky high in October

US auto sales marginally down, still slightly below the pre corona trend

US sales down 0.1 mill to 16.2, expected up to 16.5 mill. Level 4% below the 2019 average

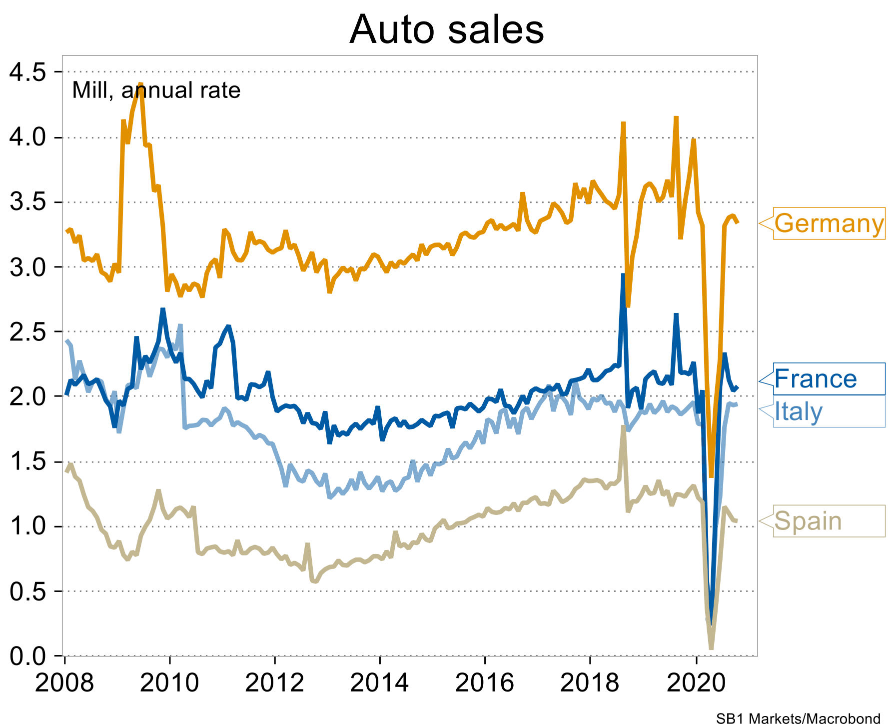


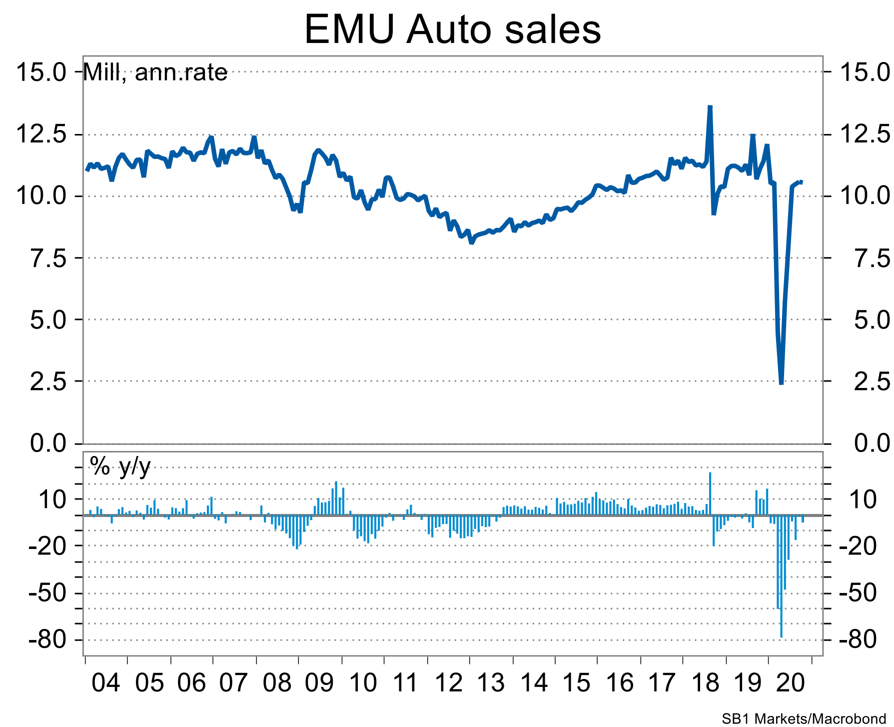


- Sales fell almost 50% in March/April. Most of the setback is now recovered but sales remain 4% below the pre corona level – which was somewhat below the average sales the previous years
  - » Sales are close to the downward falling pre corona trend
- Households are not reporting aggressive plans for buying a new car

EMU sales marginally down in October, to 7% below the 2019 avg

Just Italy has recovered fully, others are still below the pre corona level. Just Spain is trending down

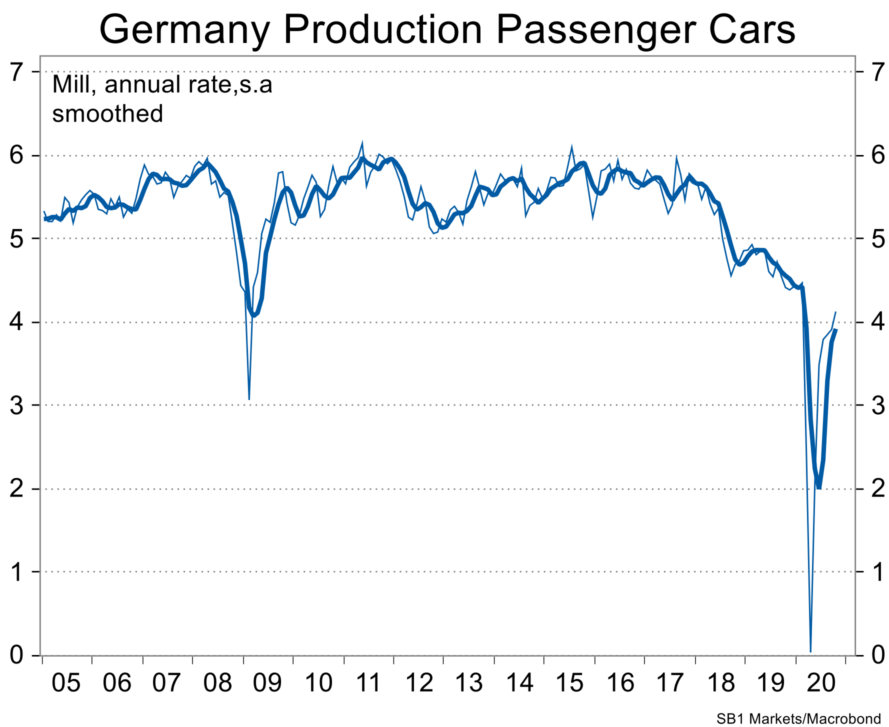


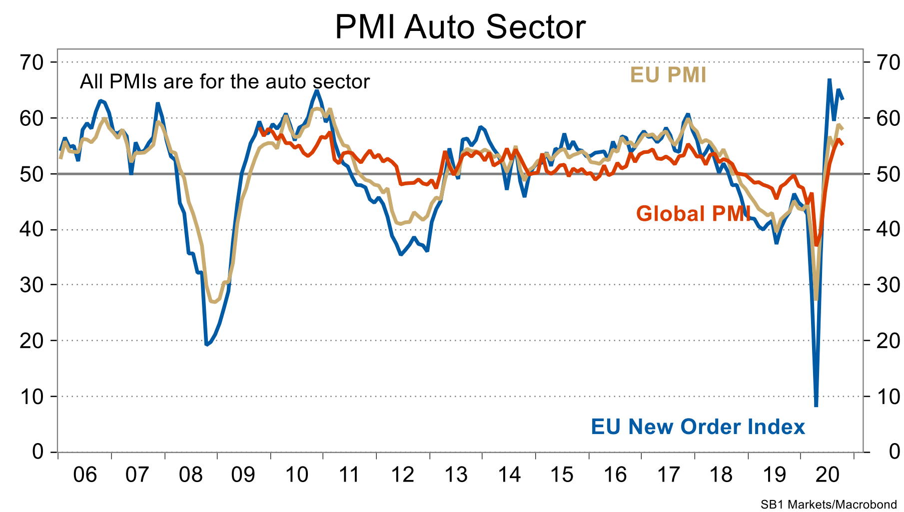


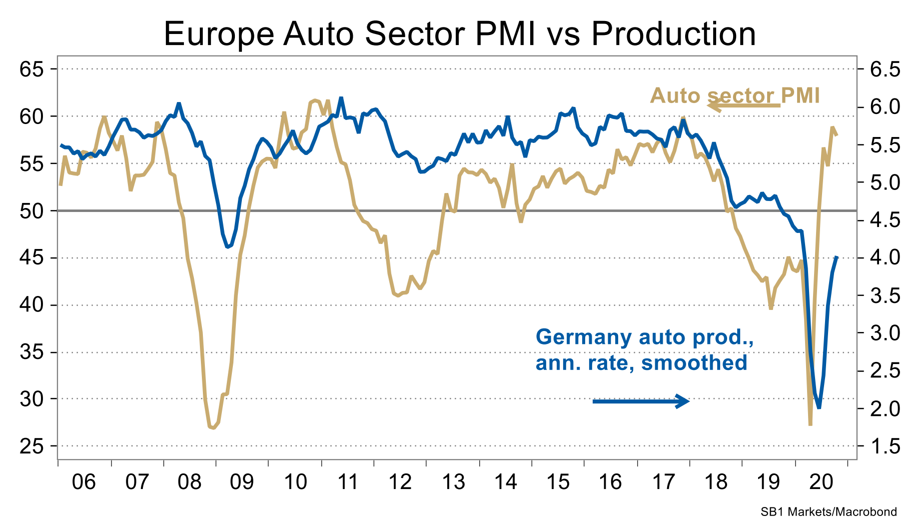
- Sales have been quite stable at 10.3 – 10.5 mill the past 3 months
- Last year, 11.3 mill autos were sold in Europe, the best year since 2007. From mid 2018 new emission regulations created substantial volatility in sales, and we assumed that the cycle anyway was mature. In Jan/Feb 2020 sales were at some 10.5 mill (annual rate).
- No surprise: Production is up too (and will probably have to increase further, given European and global sales), check the next page!

German auto production has just partly recovered, down 12% vs (a low) ’19 level

Car production at 4 mill, down from almost 6 mill until 2018 and >4.5 mill in 2019



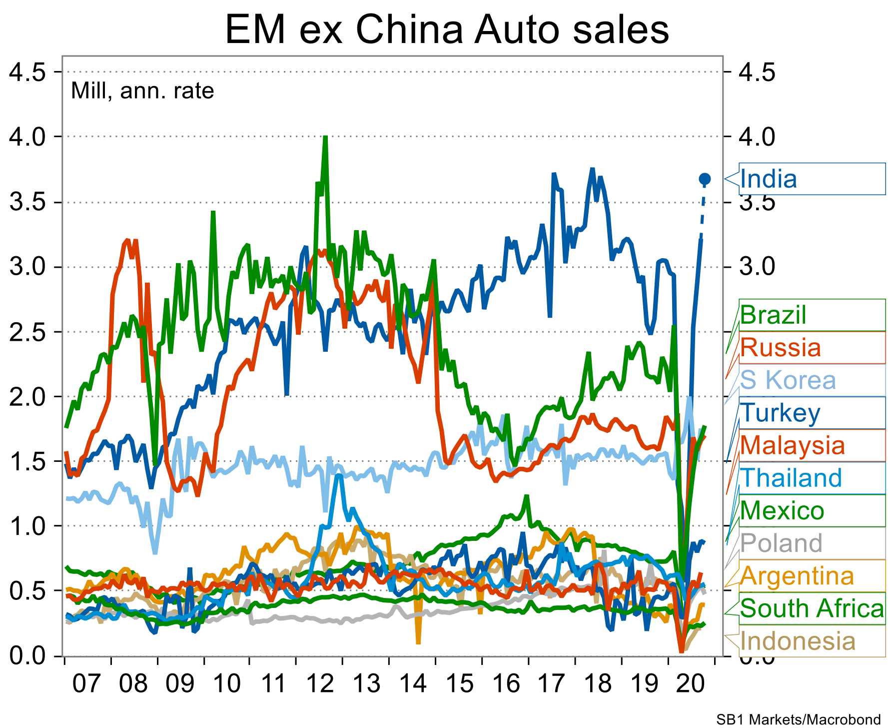


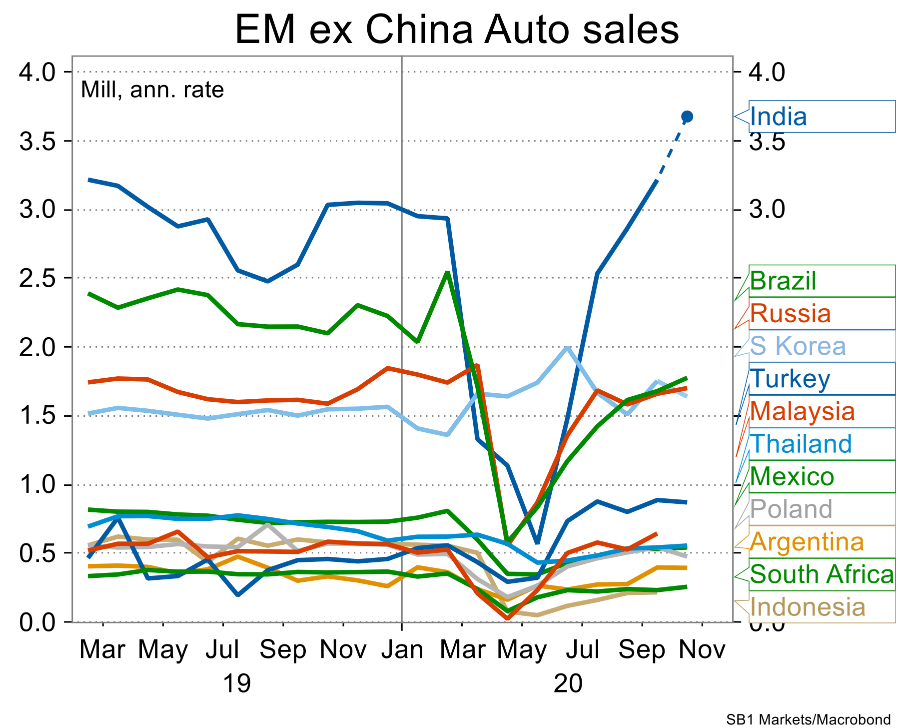


- Global and EMU auto sector PMIs have recovered to decent levels, signalling a further increase in production

A broad recovery in EM x China auto sales, India back up to ATH

In sum, sales are still 10% below 2019 level but trends are up everywhere



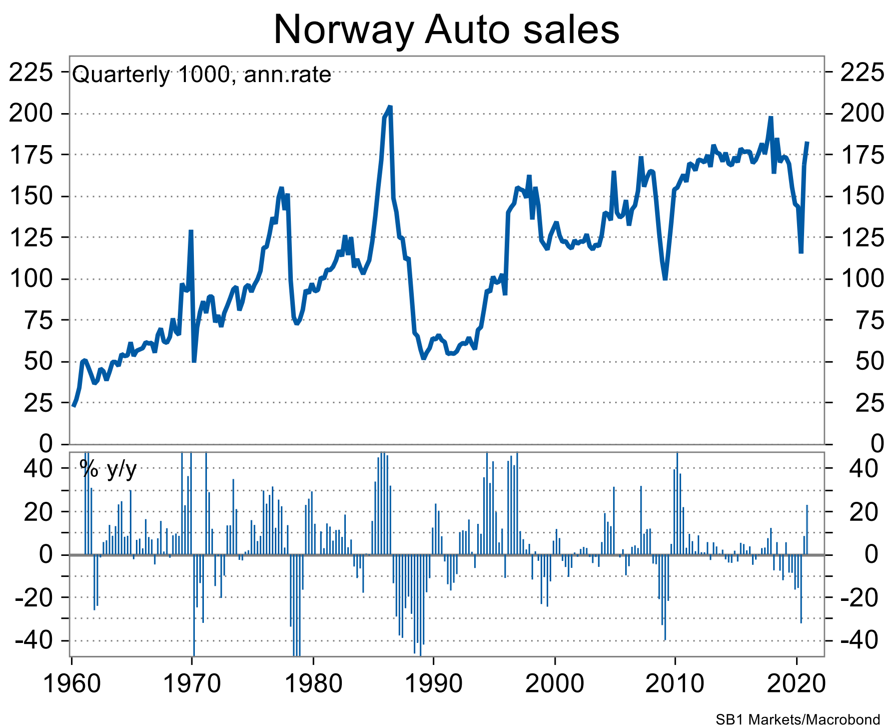


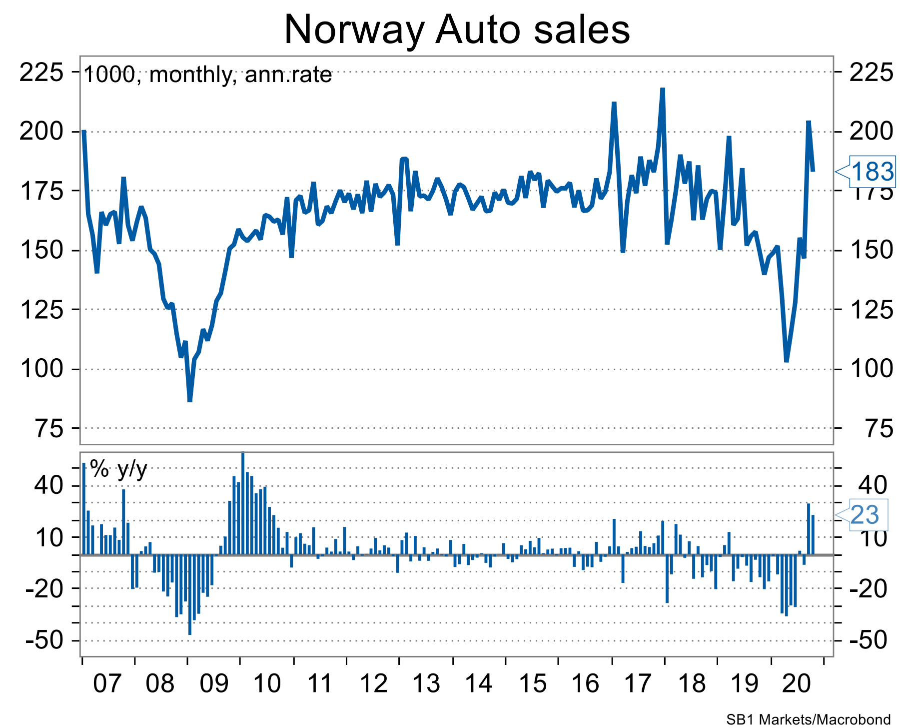
- Sales in India were record strong in October (based on media reports), Brazil is trending up but are still 20% below sales last year. Russia is almost on par – and South Korea above
  - » Turkey is this year's winner – and Indonesia the bi loser

Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

Norwegian auto sales down in October but level still above 'normal'

Sales down to 183' in Oct from above 200 in Sept, well above the 175' 'norm'

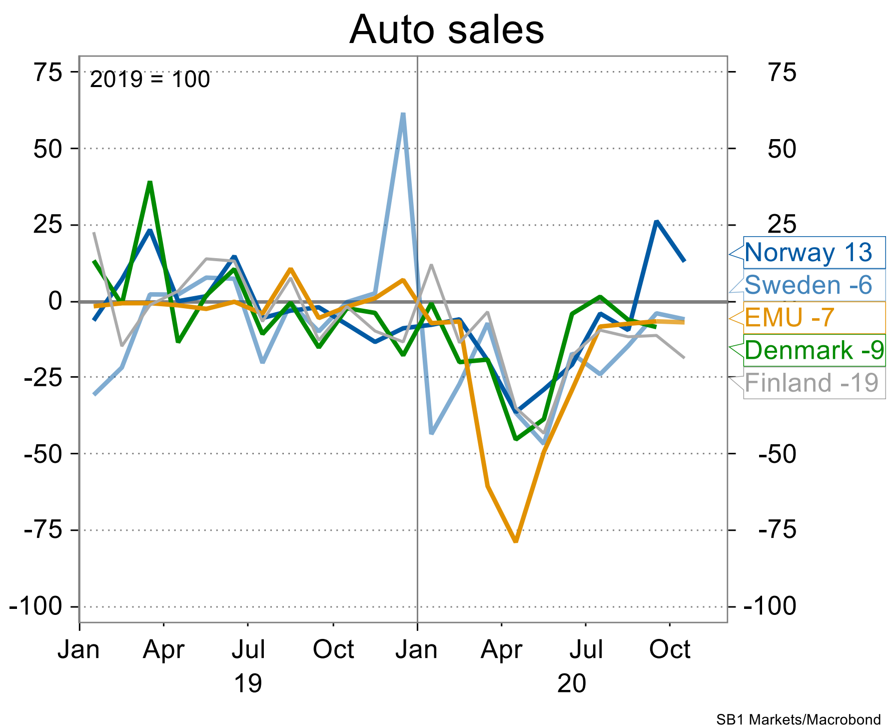




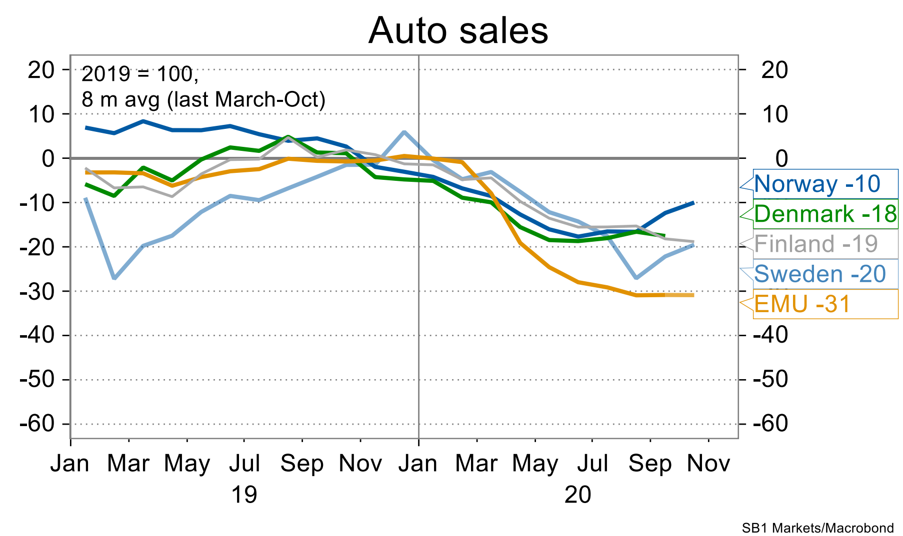
- Sales fell to almost 100' in April – and have more than recovered to far above the pre corona level – which at 150' was slower than normal

Nordic auto sales down in October, just Norway above a 'normal' level

Sales in the Nordics are still below the 2019 avg level – and now outpaced by the Eurozone

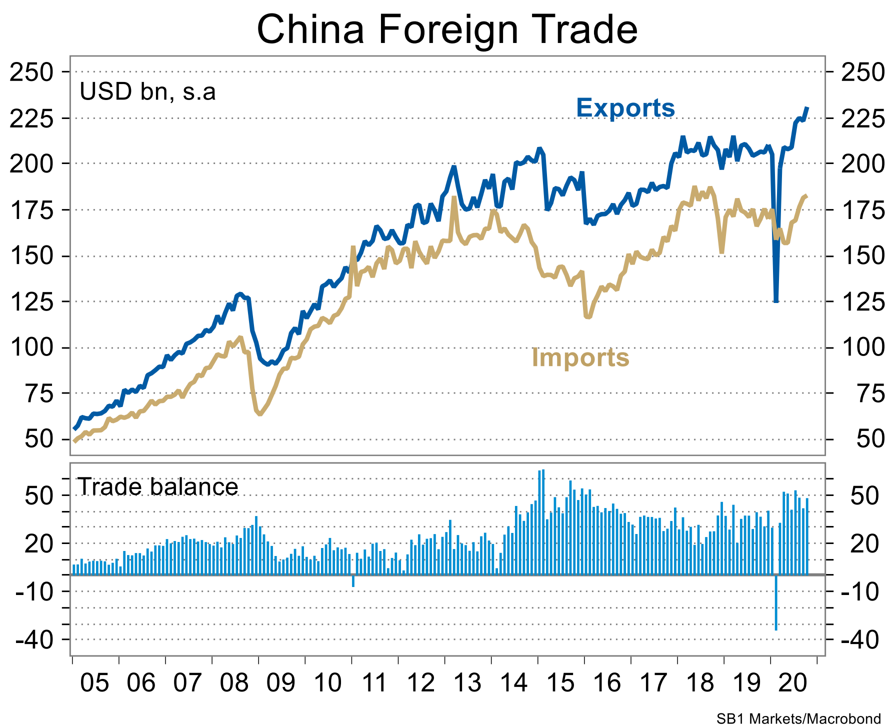


- No major differences between sales in the Nordic region during the 8 corona months sales in the March – Oct period are down 10% - 20 vs. the 2019 average. Sweden at the bottom, Norway at the top, following very strong sales in Sept & October
  - » EMU sales have recovered too, but the downturn was much deeper and sales are 31% during this period



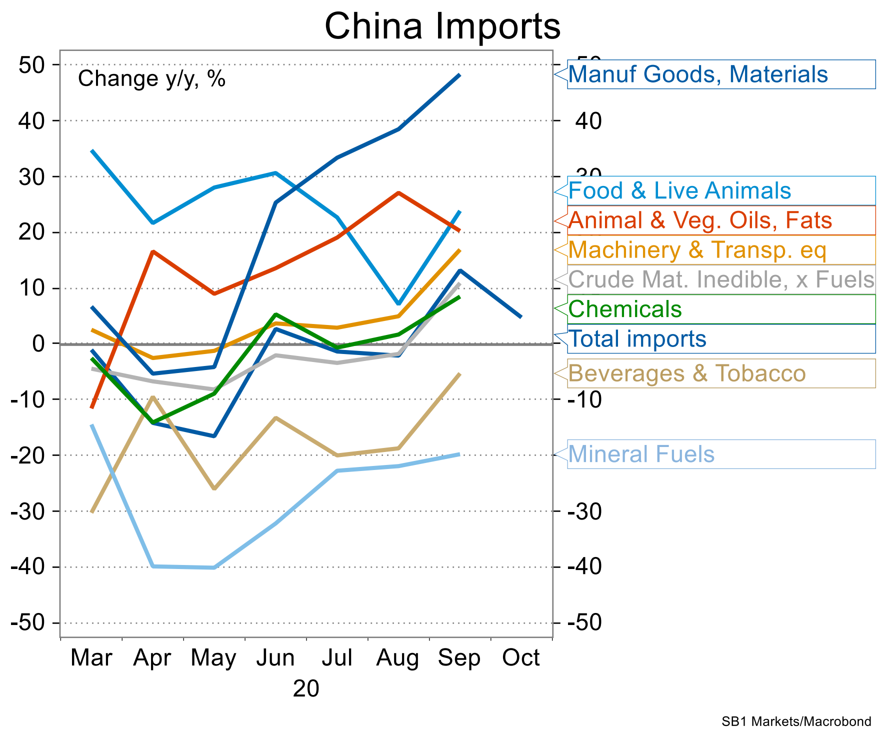
A further surge in exports – imports strong too even if below expectations

No signs of any collapse domestically or abroad. Rather the opposite, in fact



- Exports grew 11.4% y/y in USD terms in October, better than the expected 9.2% - and up more than 3% m/m (our calc). In volume terms export most like rose sharply too. Chinese exports are the highest ever – and the highest for any country at any time, of course – which have has been the norm for some years – and probably will be 'forever'
- Imports were up 4.7% y/y, 4 pp lower than expected but still up 0.7% m/m (expectations were far too aggressive). In volume terms (based on our own quite uncertain price assumptions for the 3 last months), imports are far above any reasonable trendline. Domestic demand must be strong
- The trade surplus rose almost USD 10 bn to 50 bn. The surplus has been higher than normal since March. Still, China is not running a large large current account surplus anymore

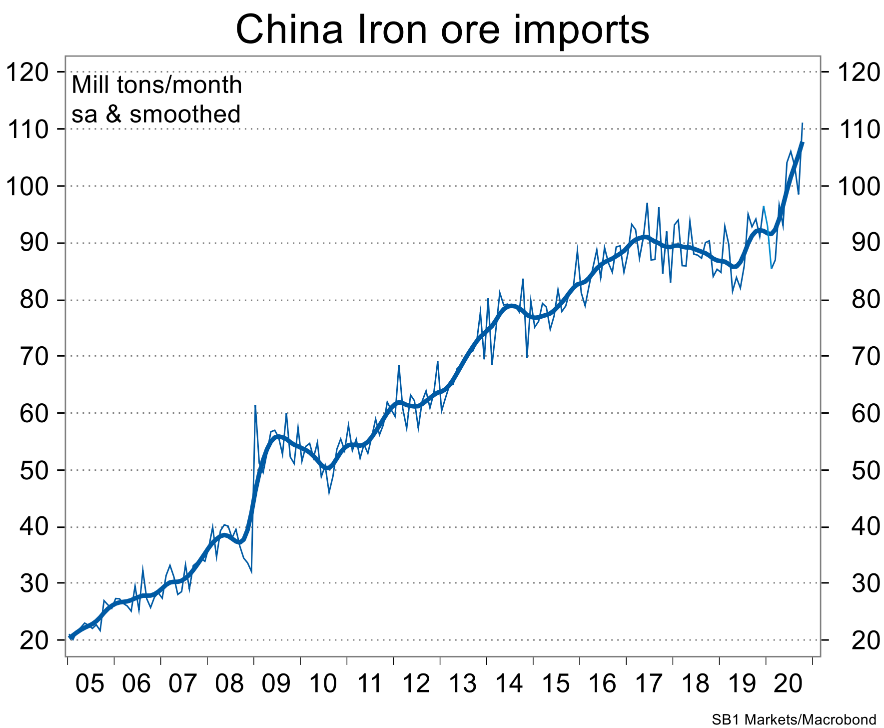
Total imports up, even if oil imports are down (in value terms)

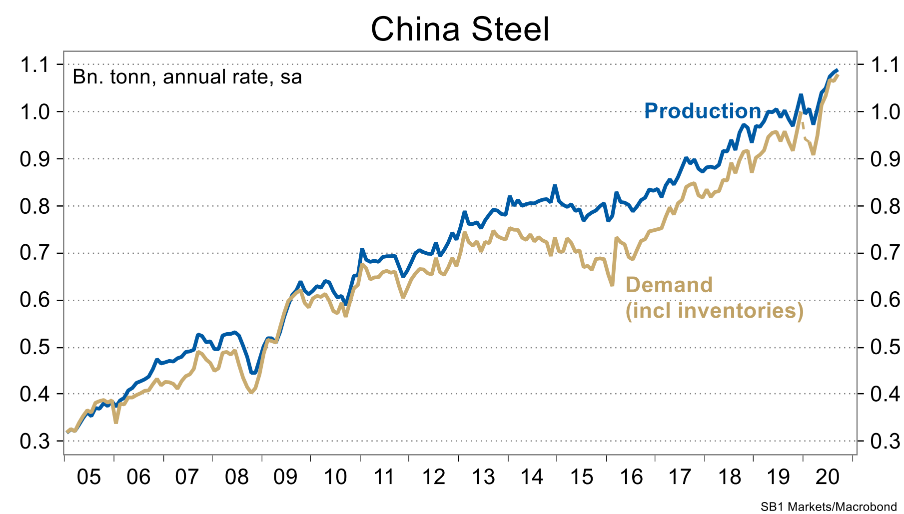


Source. WSJ (chart to the right)

SpareBank 1 MARKETS

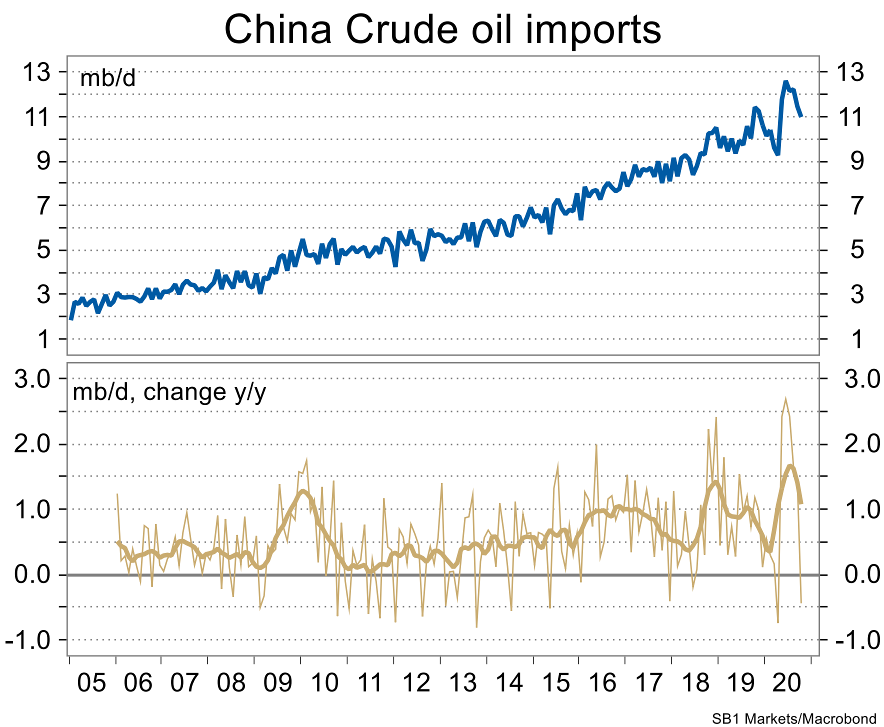
Iron ore imports up to ATH in Oct (by far); Steel production & demand up too

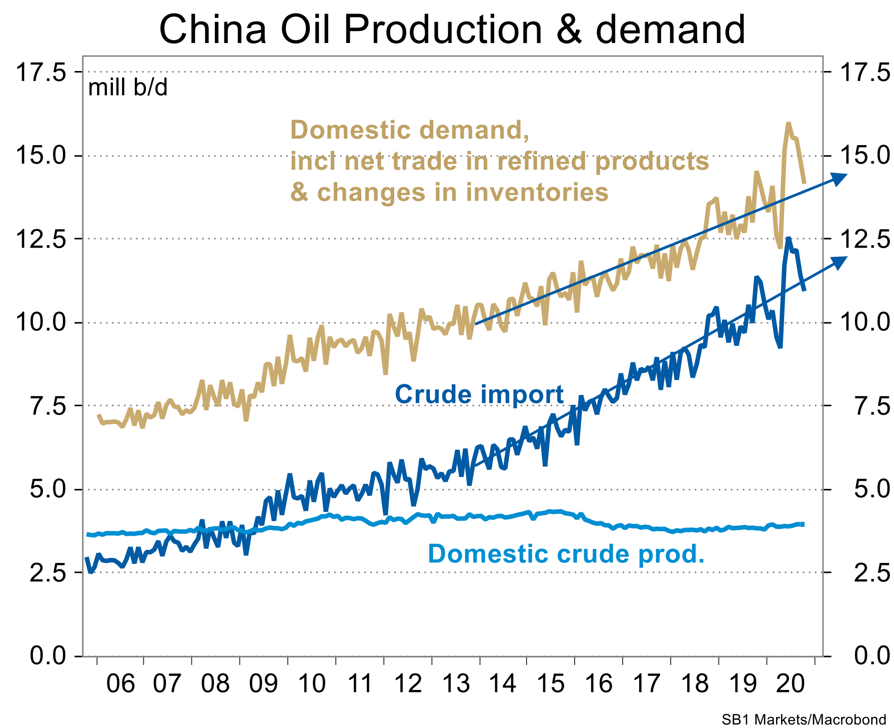




Oil imports down – to a brisk trend growth path

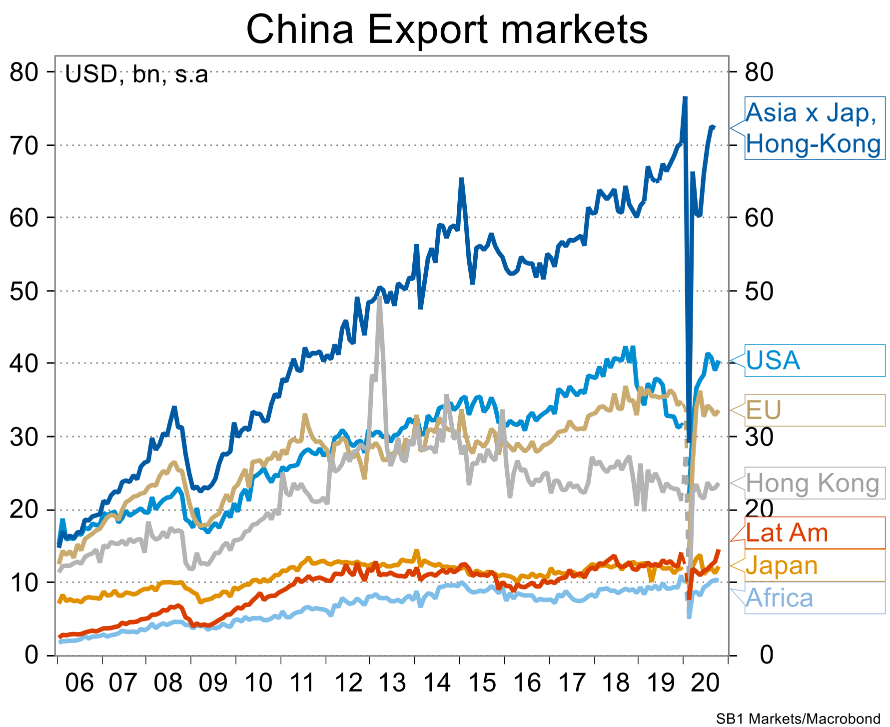
… according to Chinese data



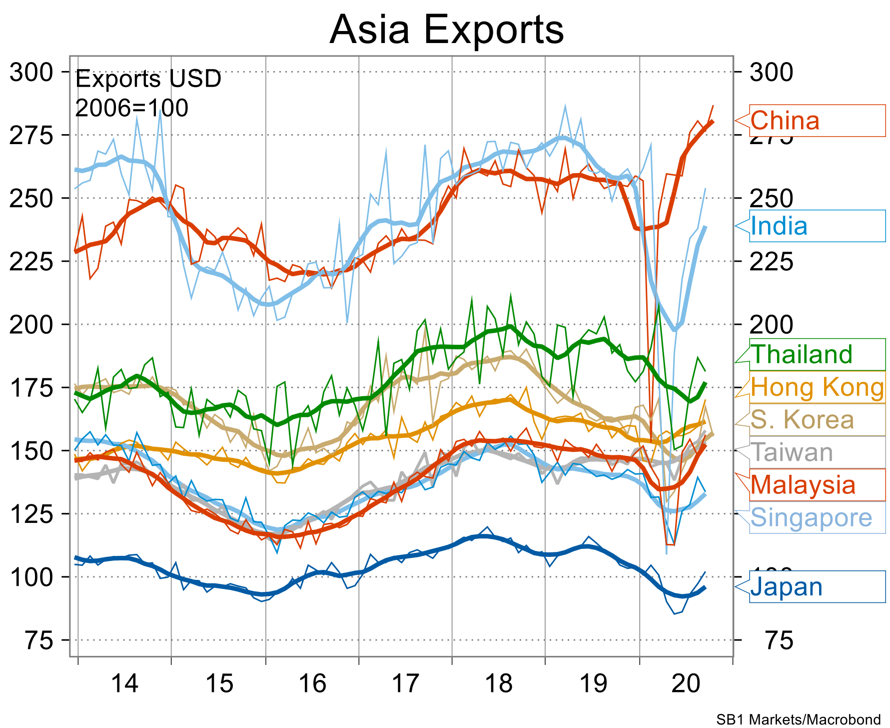


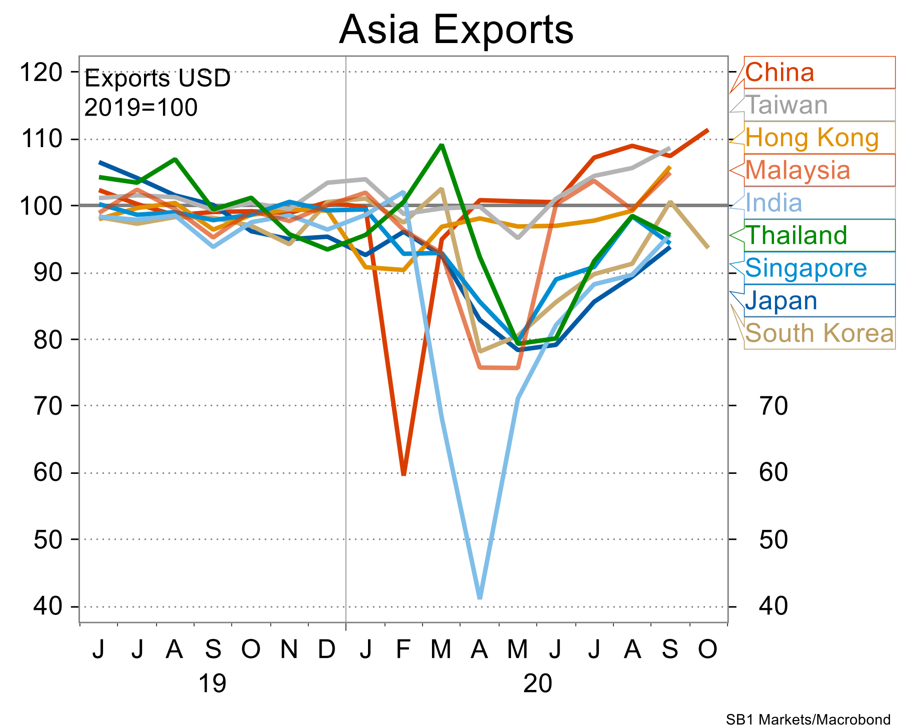
Exports to the US almost back to ATH

Exports to countries in Asia strong too – but weaker to Europe



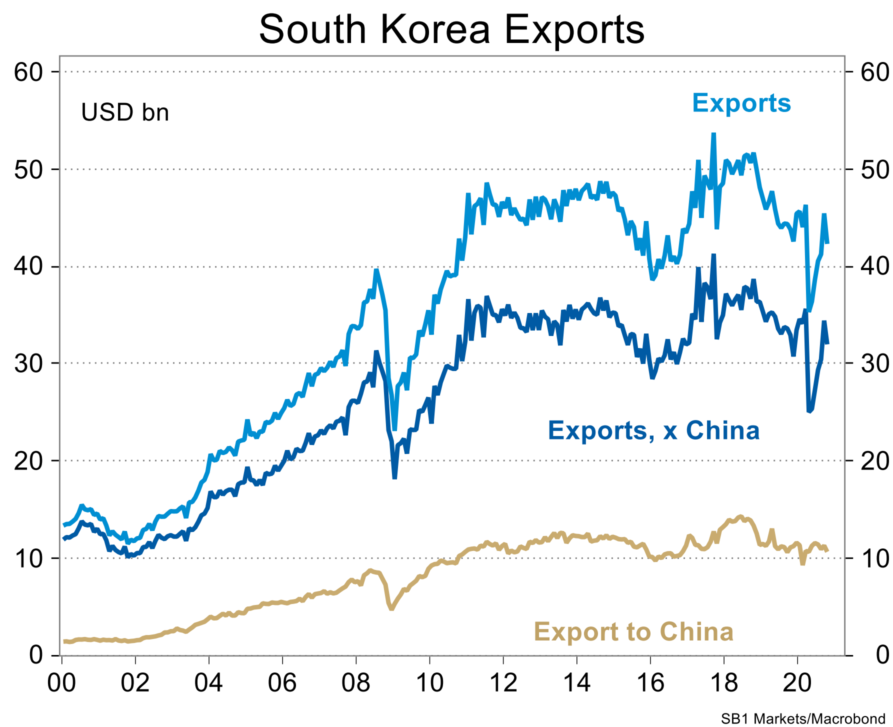
Asian exports have more or less recovered; some above, some below 2019 levels





South Korea exports down in October but level (almost) OK

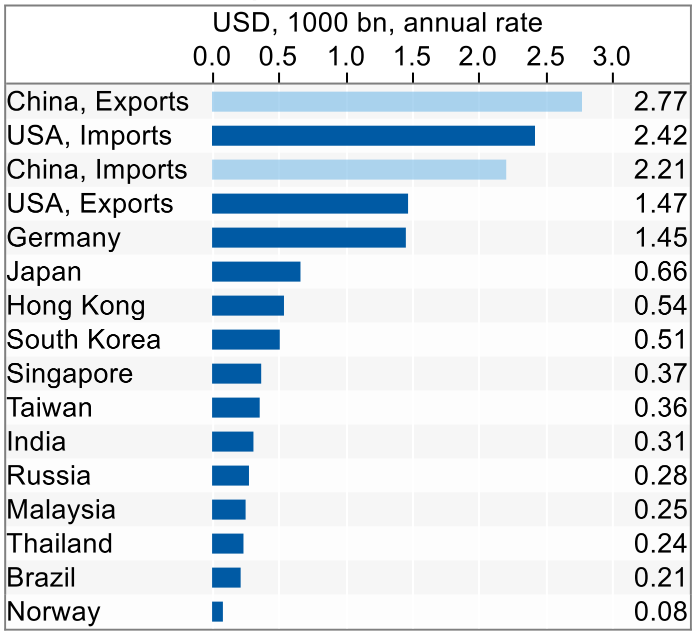
Exports have recovered back up to a pre corona level – but the trend has been downwards since ‘18



- Korean exports were not impressive before corona hit – exports to China as well to the rest of the world. Total exports are not up in value since 2011 (not to China either)
- Exports to China were not to blame for the setback March - June

China: No 1 exporter. No 2 importer

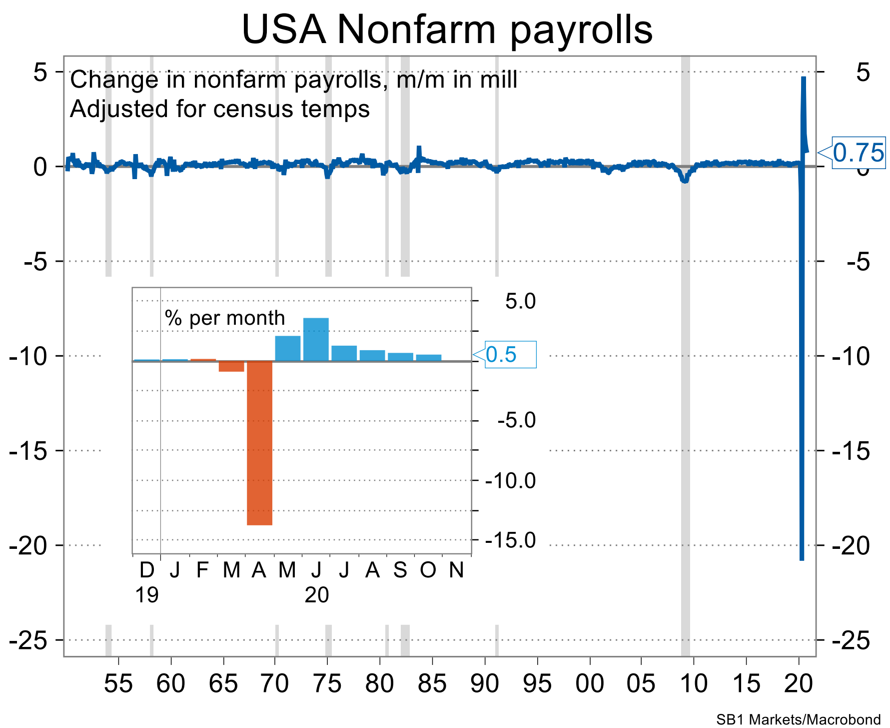
Exports - Goods

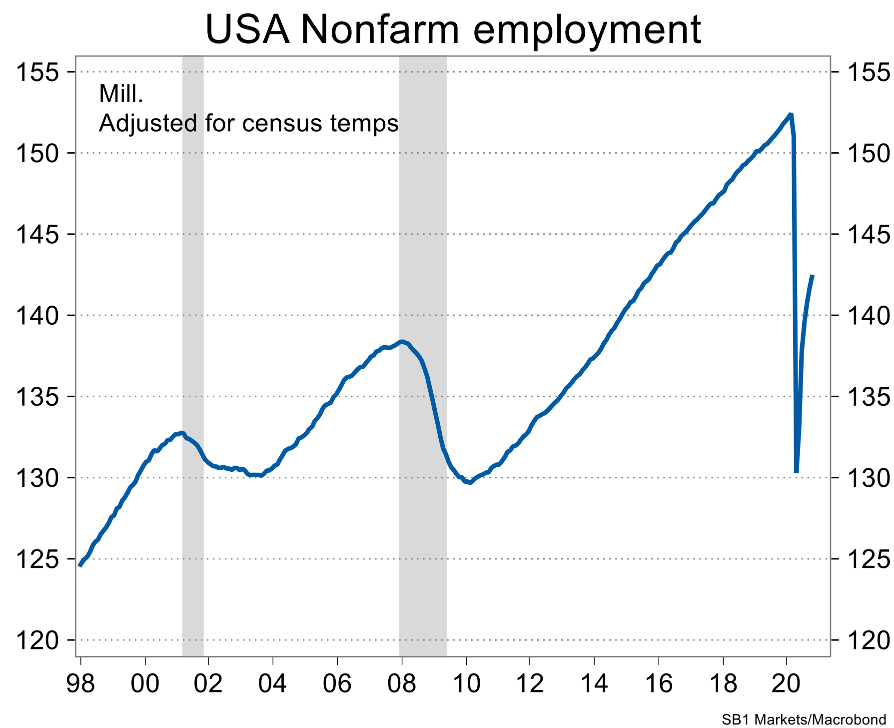


SB1 Markets/Macrobond

Employment growth slows but unemployment fell more than expected, again

Employment grew by 638’, expected 593, priv. empl +906’. Unempl. -1pp to 6.9%!

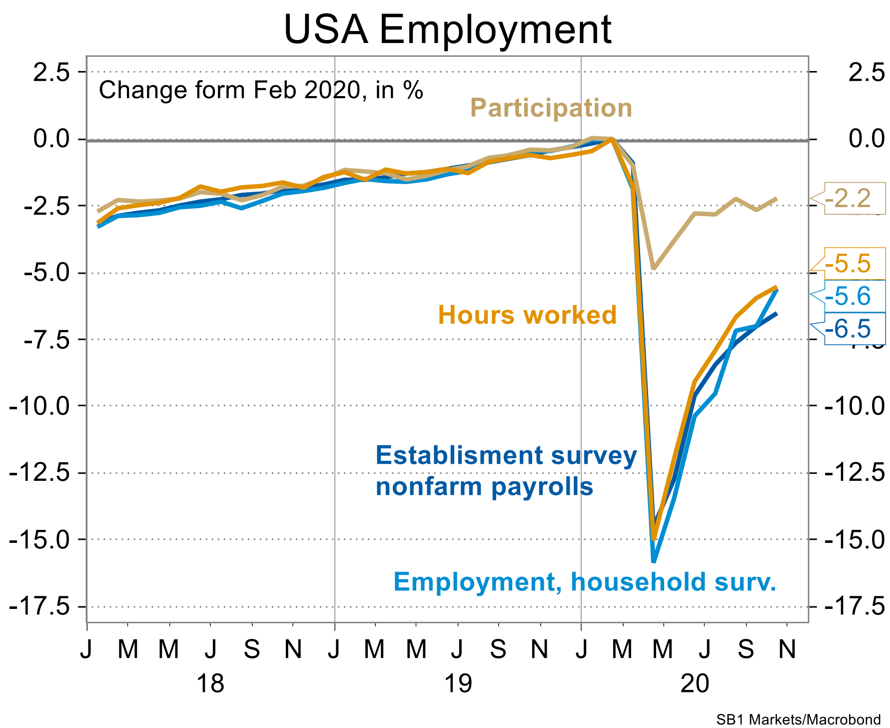




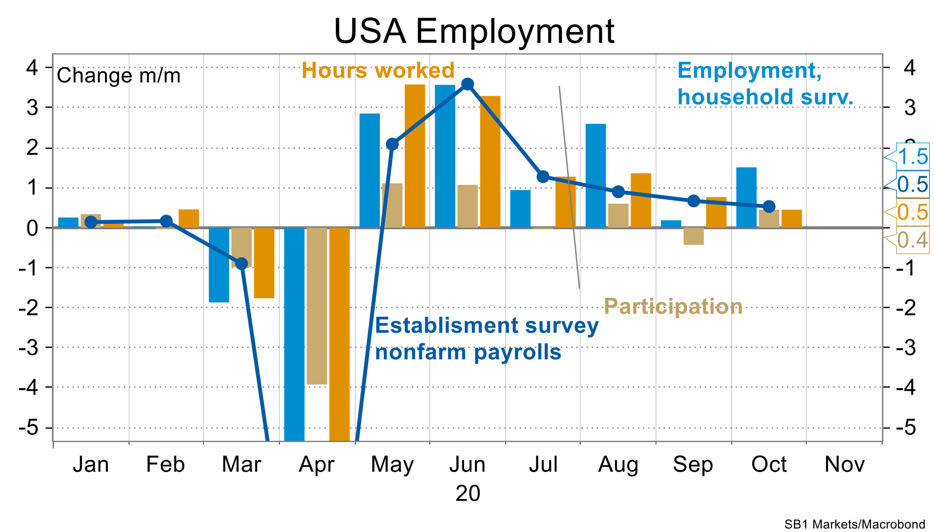
- **Employment** rose by 638’ in October, a tad faster than expected, and growth Sept was revised marginally upwards. Government in the public sector fell by 268’ of which 147’ temp workers in the 2020 Census. Nonfarm employment is still 6.5 % below the Feb level – and the recovery in jobs is now clearly slowing, even if private sector employment rose faster than expected in October
- **Unemployment** dropped by 1 pp to 6.9%, while just a 0.2 pp decline was expected! And unlike in Sept, the decline was not due to a lower participation rate but due to an unusual hike in employment rate (which tough is rather volatile from month to month). Unemployment is again falling faster than the Federals Reserve has assumed. The ‘real’ unemployment rate is still well above 10% but even this rate is trending sharply down
- **Average wages** are still sharply (4.5%) up y/y but just due to a decline low paid jobs. The ‘real’ growth in earnings (ECI) is at 2.5%
- **We expect employment growth to continue to slow the coming months**. New jobless claims are still running at a very high level

Employment still 5.5- 6.5% below par

The household survey reported strong growth in Oct, but are on par with payrolls data past months

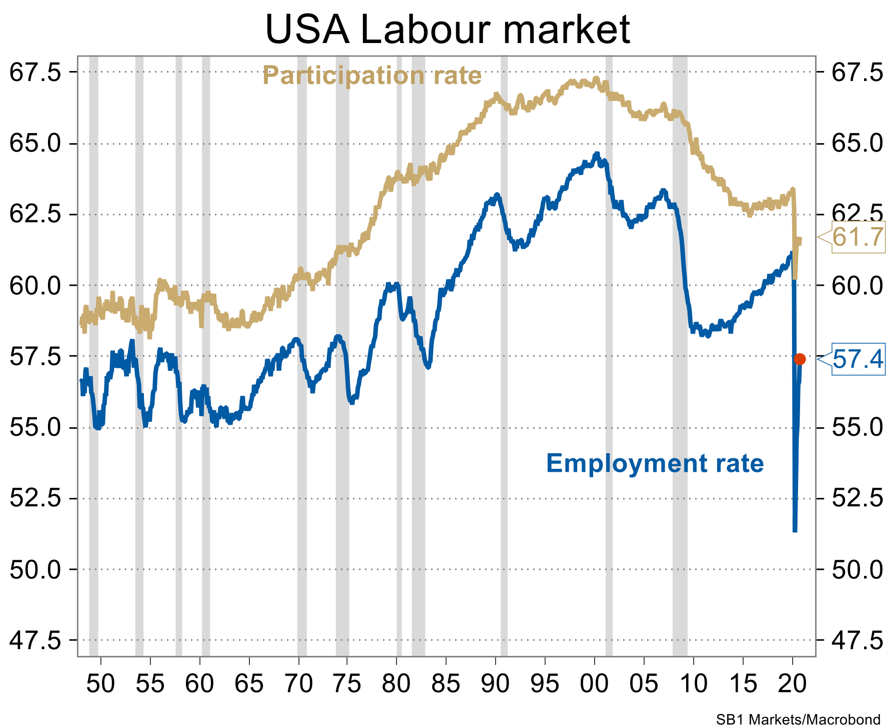


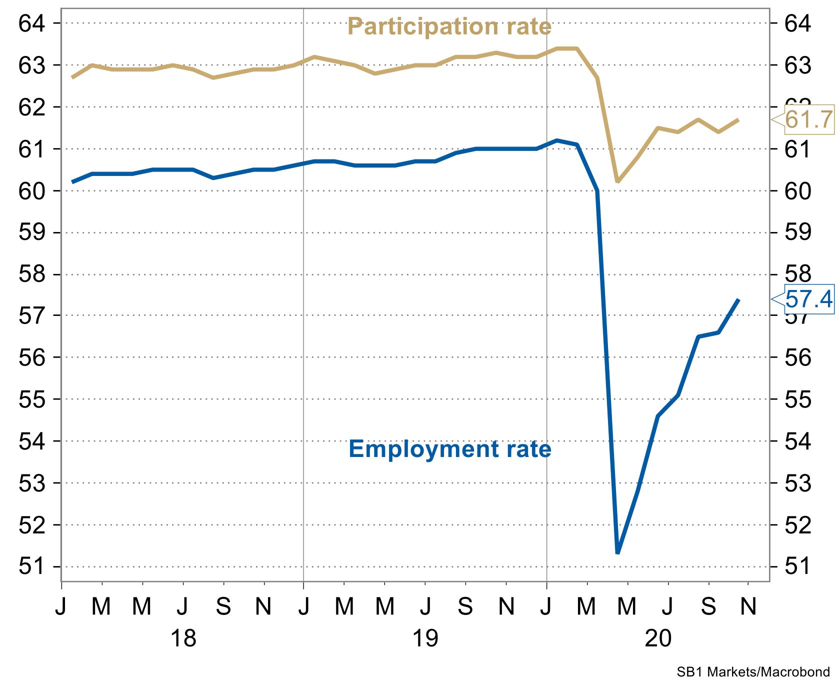
- The participation rate has stabilised at some 2.5% below the pre corona level, which is lowering the unemployment rate by the same amouny
- Nonfarm payrolls are down 6.5% vs Feb, hours worked by 5.5
- Hours worked is increasing approx. at the same pace as employment but and is 5.5% below the pre corona level



The employment rate sharply up in October, by 0.8 pp - still down 6% from Feb

Participation rose by 0.3 pp –and the unemployment rate 'collapsed'

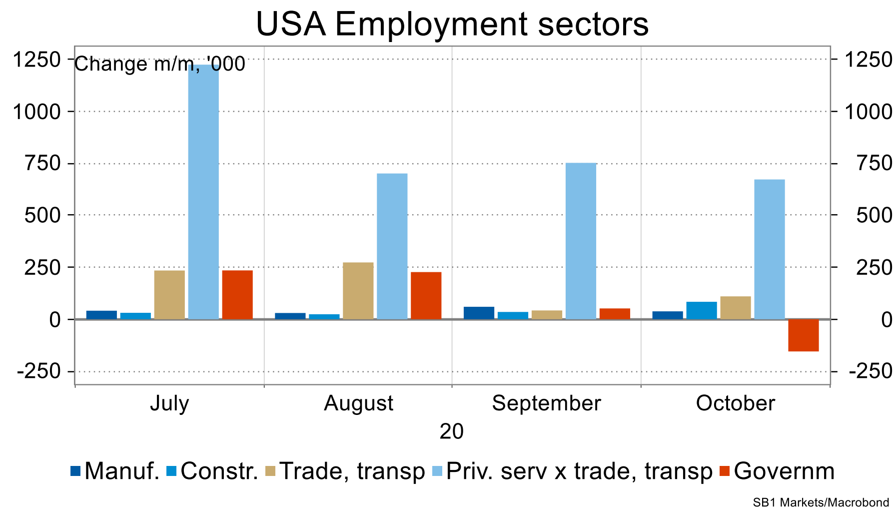


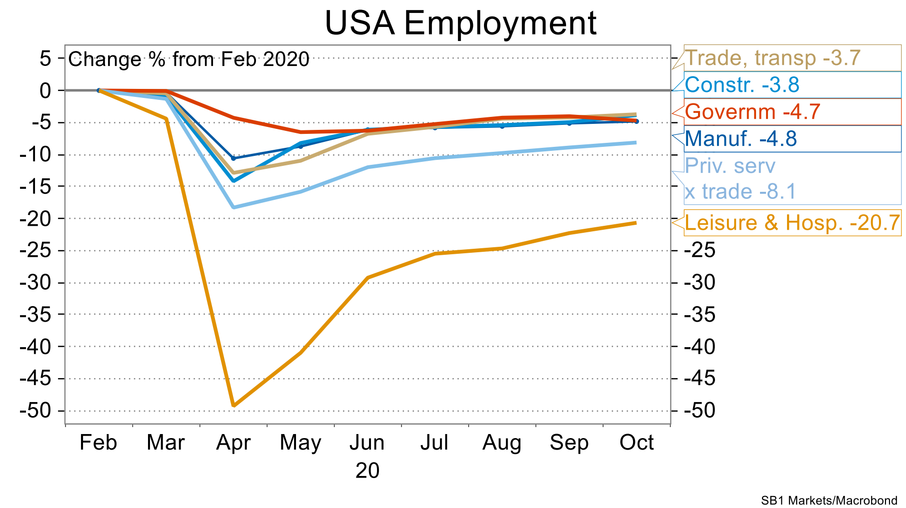


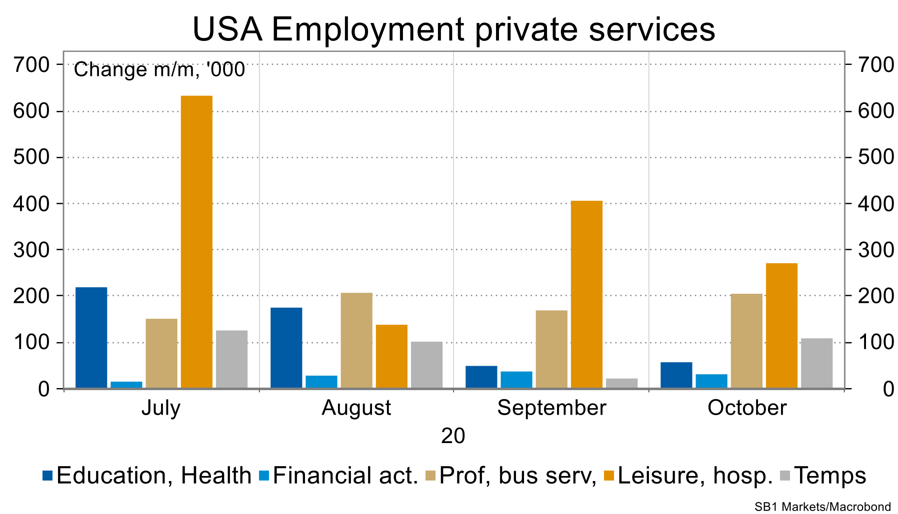
- **The labour force participation rate**, the supply side at the labour market, has moved slowly upwards since the worst months of the corona crisis, still almost 2 pp below February level

Employment has not fully recovered in any of the main sectors

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



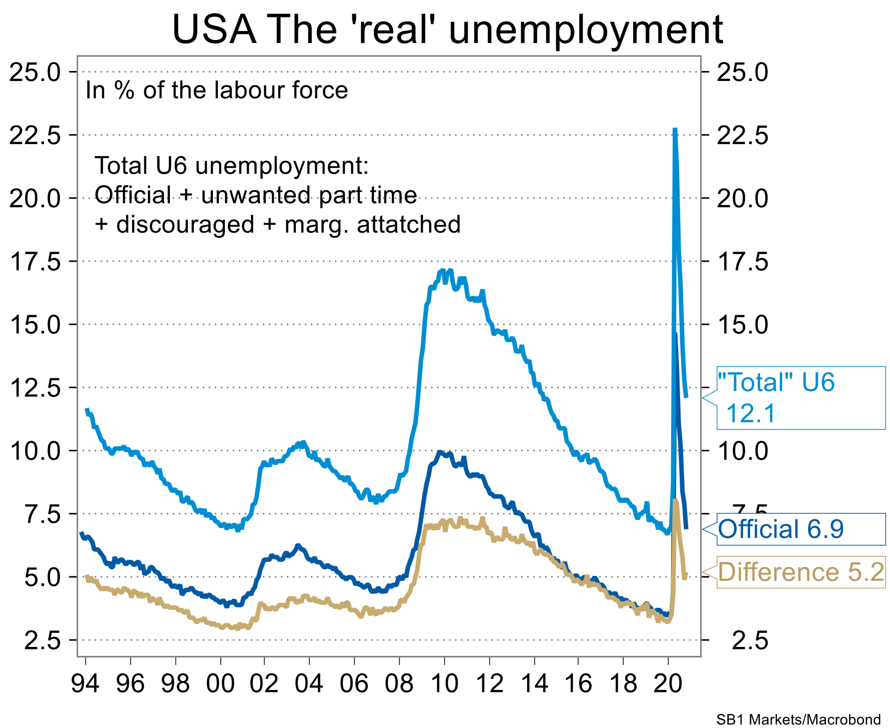


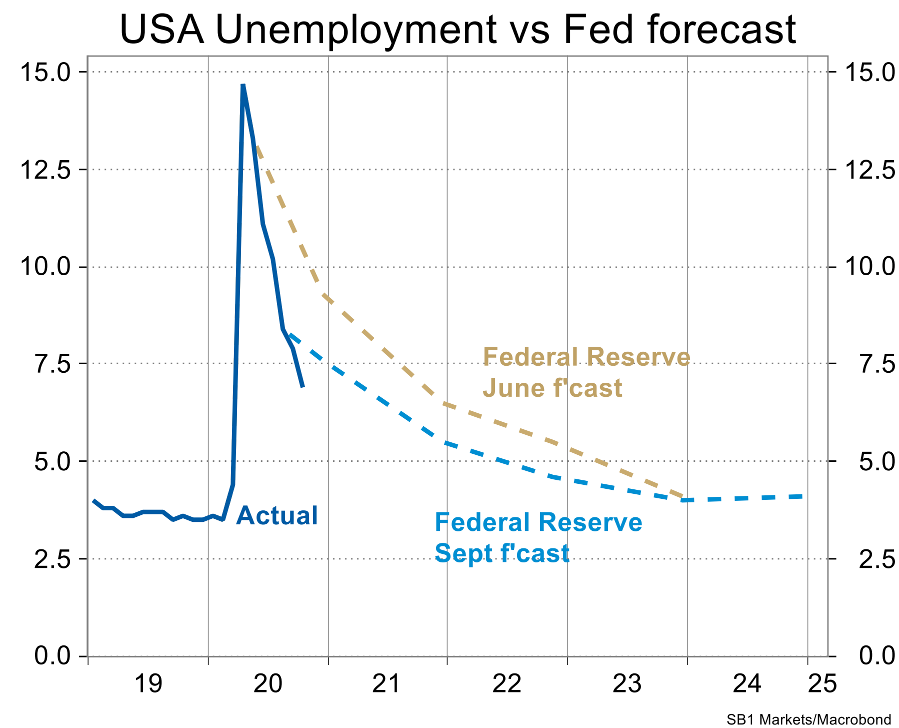


- Leisure & hospitality have recovered rapidly and more than other sectors the past months, but remains weaker than any other sector, down 21% from February
- Manufacturing is down 5%, construction is down 4%
- Trade & transport are down 3.7%
- Even government employment is down 5% (adjusted for temp census workers), which is remarkable in an economic downturn

Unemployment down 1 pp to 6.9% (exp. 7.7%!), and is far below Fed's forecast

Still, the 'real' unemployment is 12% - or even higher



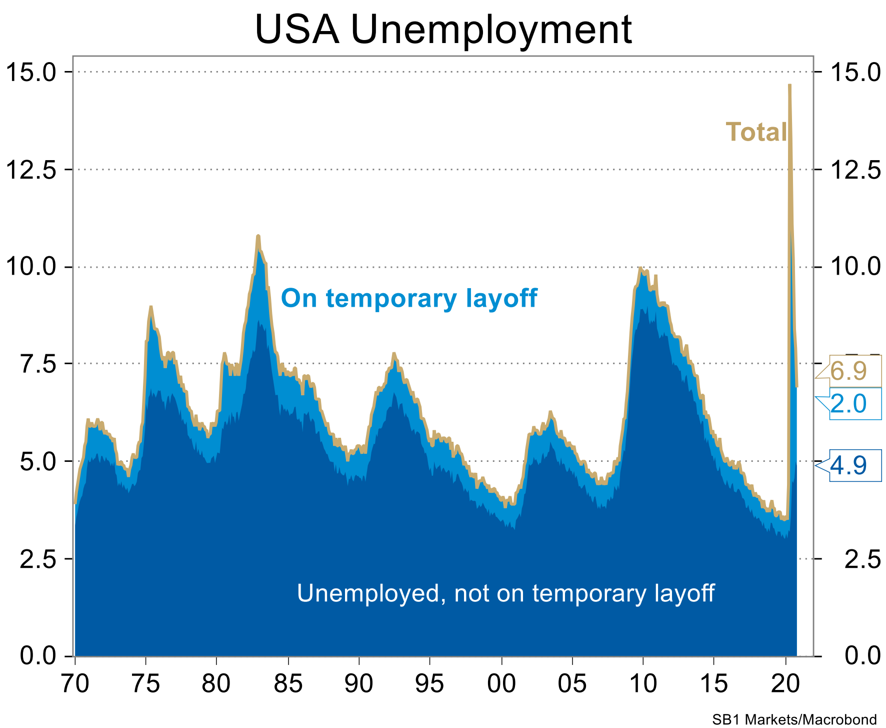


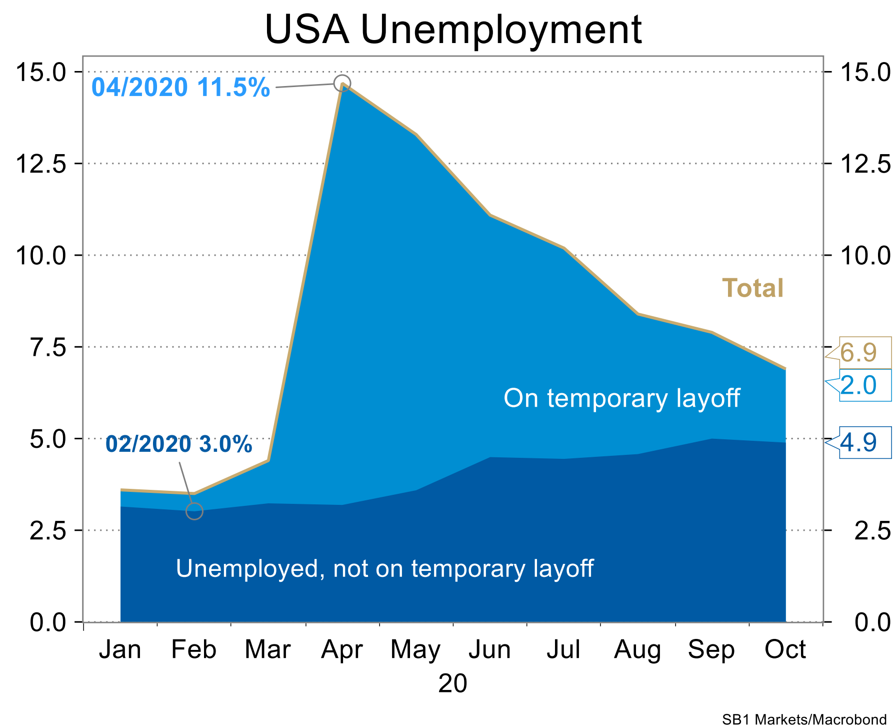
1) Some are counted as employed even if they should have been counted as unemployed
2) Almost 5% of the labour force is working unwanted part time (or at not able to get a work). In good times, less than 4%
3) The labour force participation rate has fallen because workers do not bother searching for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

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

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

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

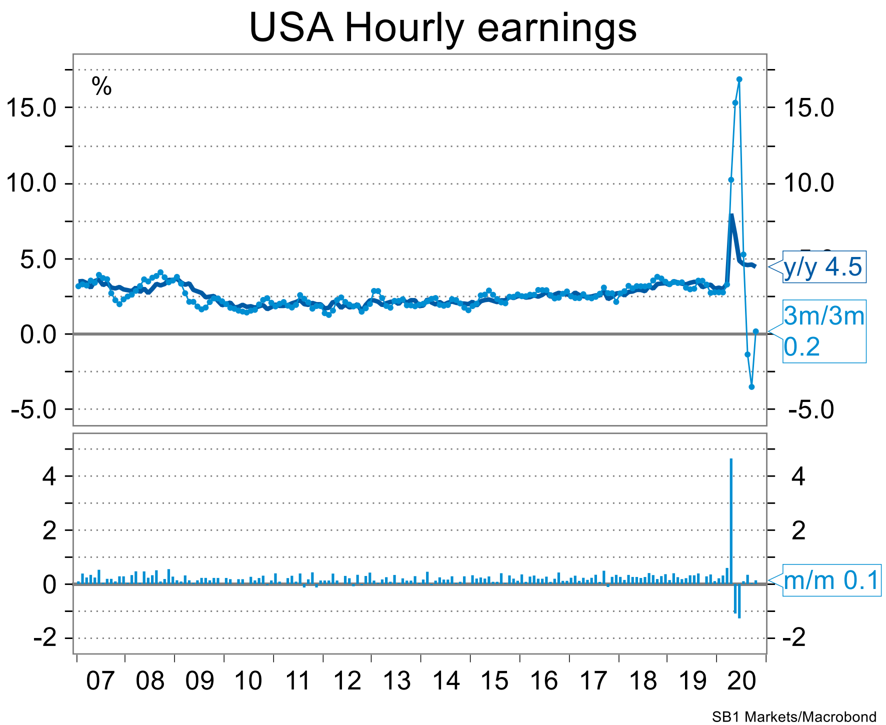


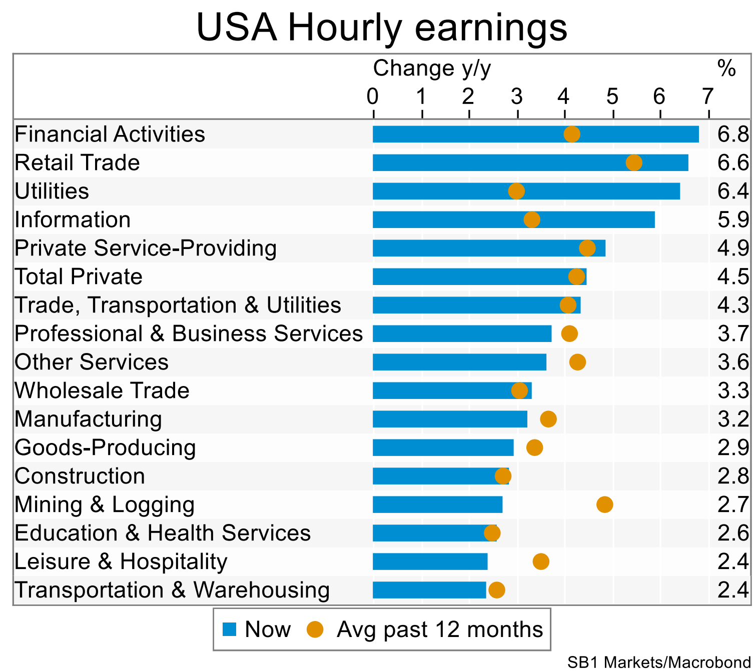


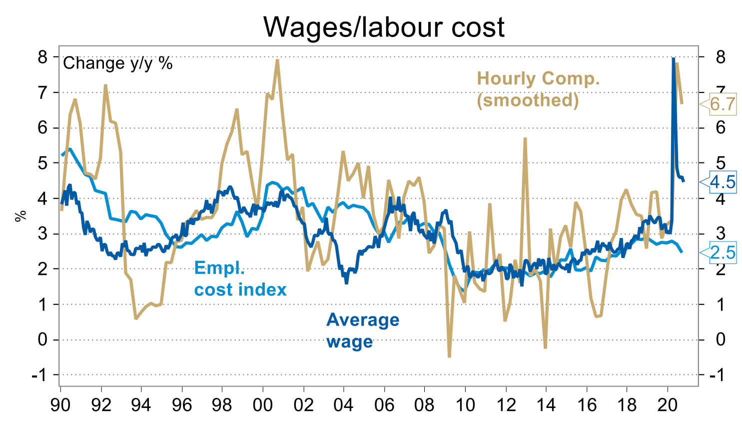
- The 'hard core' unemployed – not on temporary layoff – equalled 5,0% of the labour force, up from 4.6% in August (and at 3% in February

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

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



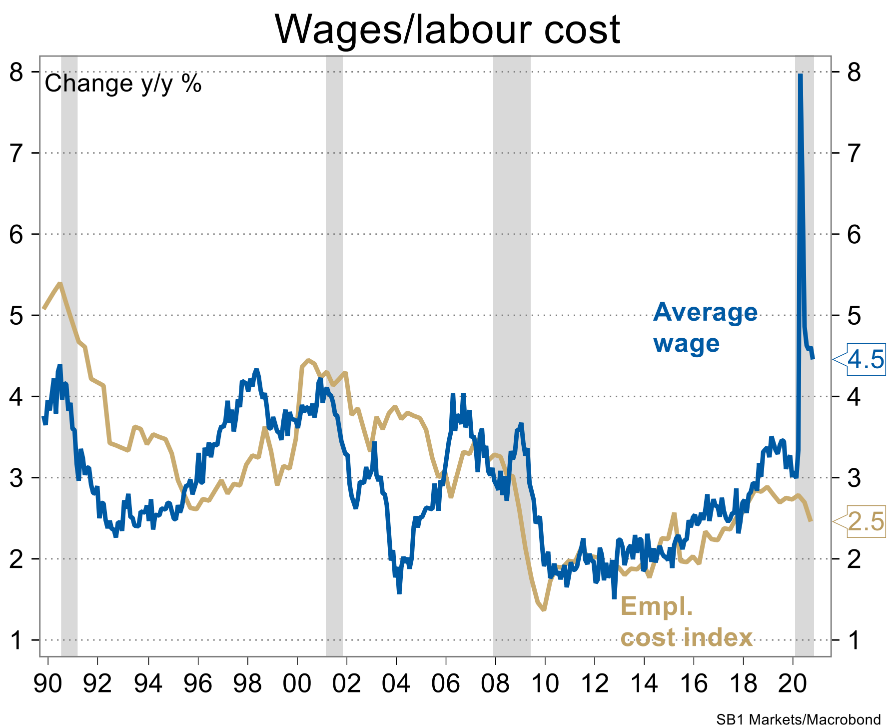




- Annual rate down 0.2 pp to 4.5%, even if wages have fallen recent month. Average hourly compensation measured in the National Accounts is 6.7%. However underlying wage inflation is not much above 2%, check the next page too

Employment costs are not accelerating, of course

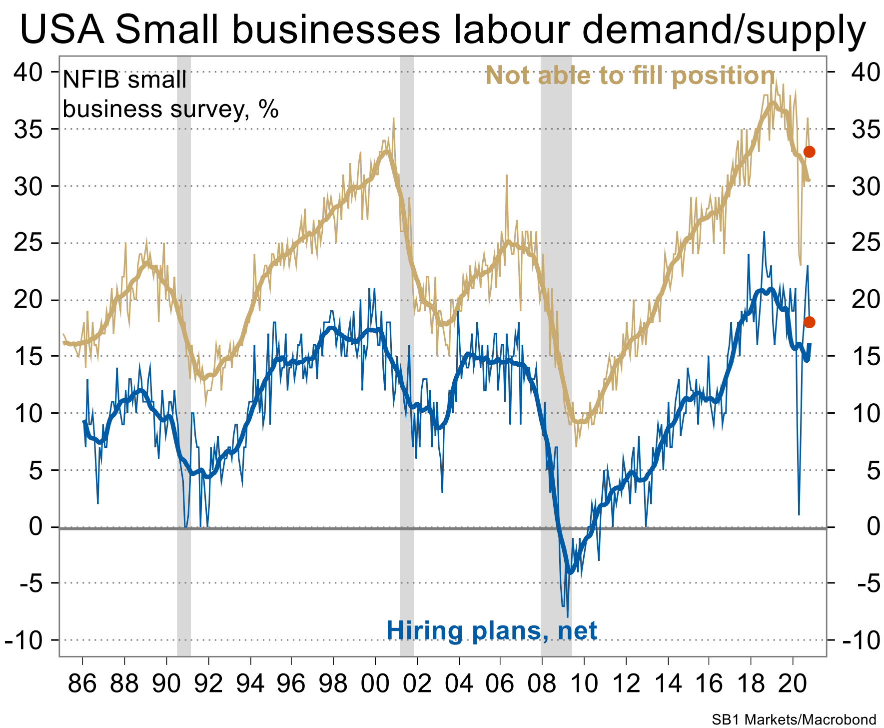
The Employment Cost Index rose 2.0% q/q in Q3, like in Q2, way below the increase in average wages

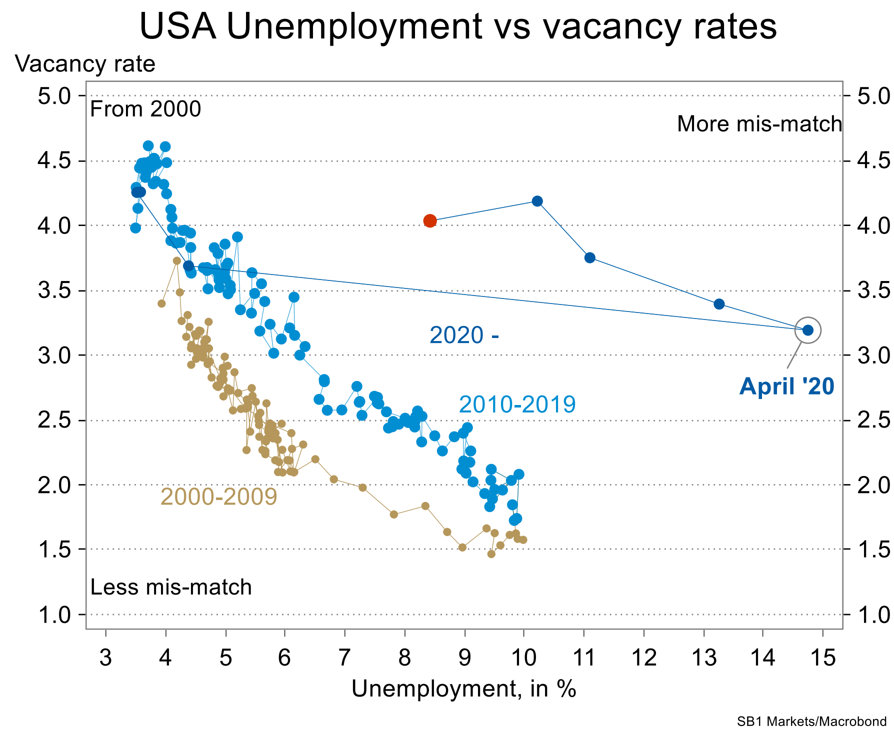


- … because ECI statistics are adjusted for changes in the mix of labour, it measures wage for 'the same worker', not the average wage for all workers. Now the difference is HUGE, far larger than we have ever seen before!
  - » The Covid-19 recession has been especially tough for the lower paid – and the average wage for the remaining employees has risen sharply
  - » Total hourly compensation us up 6.7%, according to national accounts
- Over the past year, the employment cost index is up 2.5% - and it is now trending down

Small businesses are not able to fill vacant positions

Which is rather remarkable, as the unemployment rate is still high. Hiring plans are aggressive

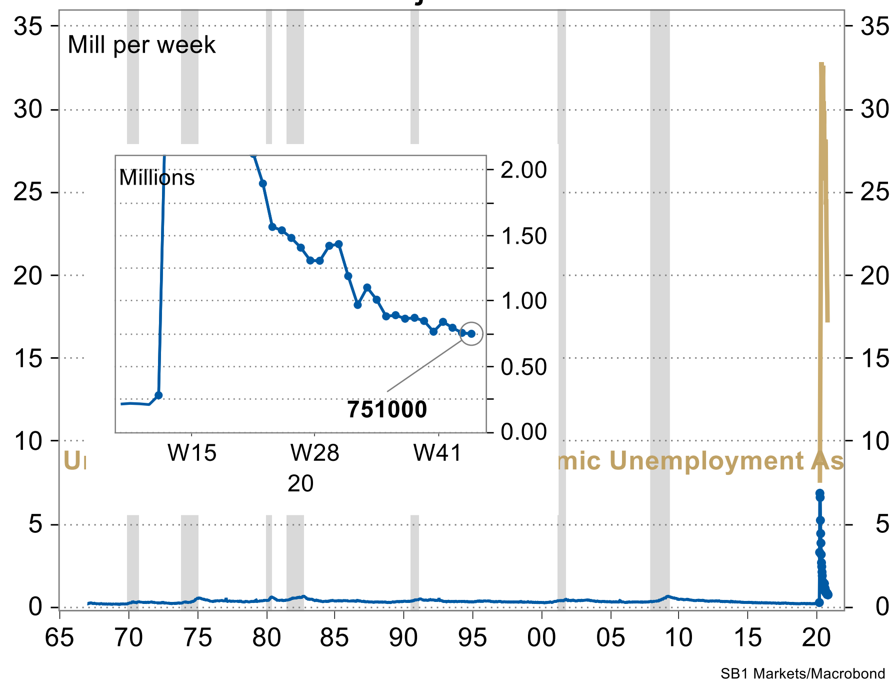


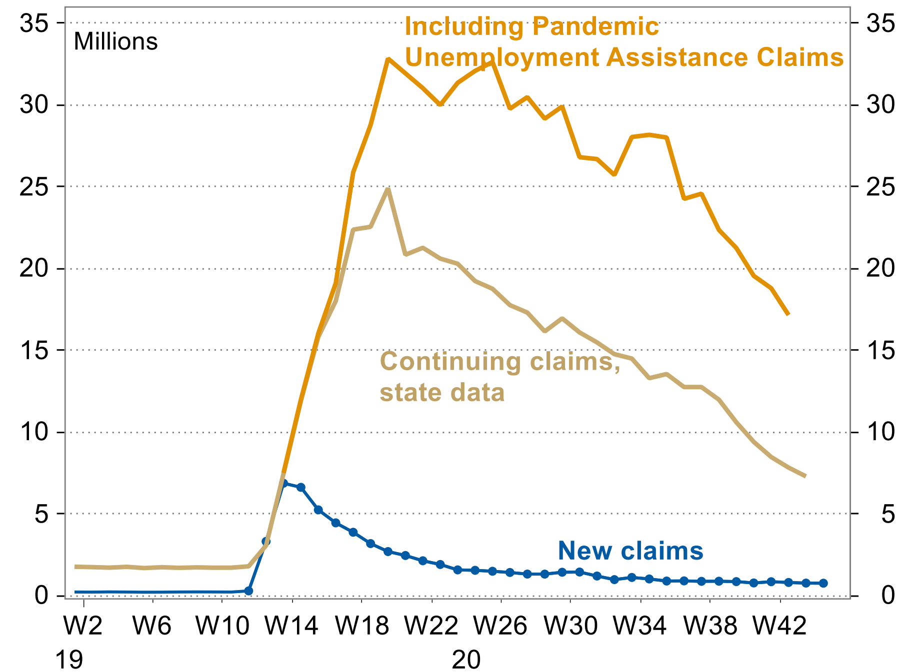


- The number of unfilled vacancies is also high, according up official statistics (last obs August)

New jobless claims is trending down, still at a very high level

751' new claims last week, the same as originally reported for the previous week (not at 758')

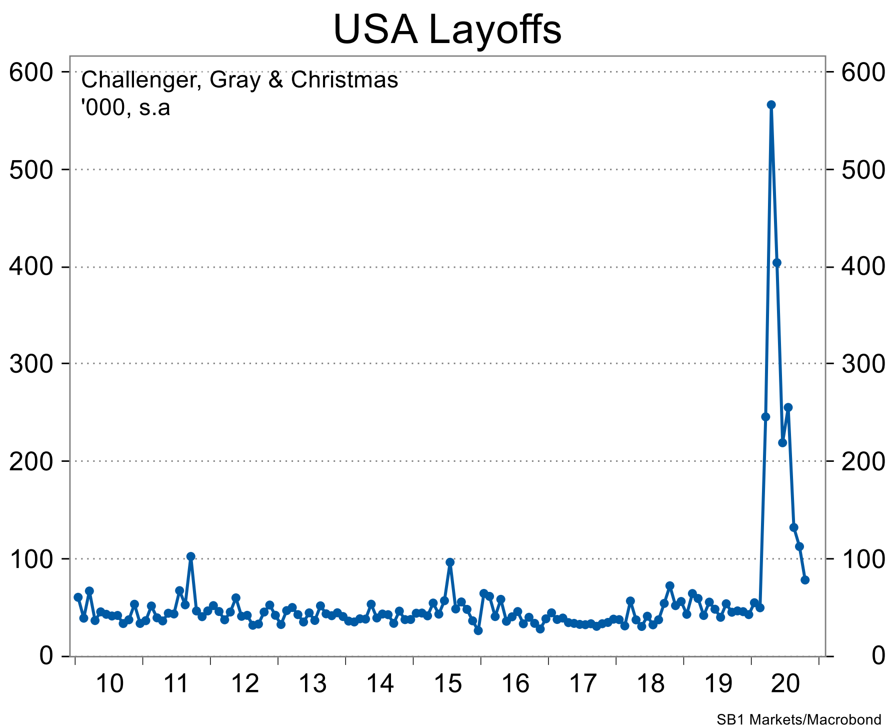




- The inflow (or rather outflow) is still brisk, some 0.5% of the employed loses their job, each week – so the turmoil is still higher then even seen before (barring the few recent months, of course)
- Even so, the no of persons receiving unemployment benefits – continued claims – is falling rapidly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

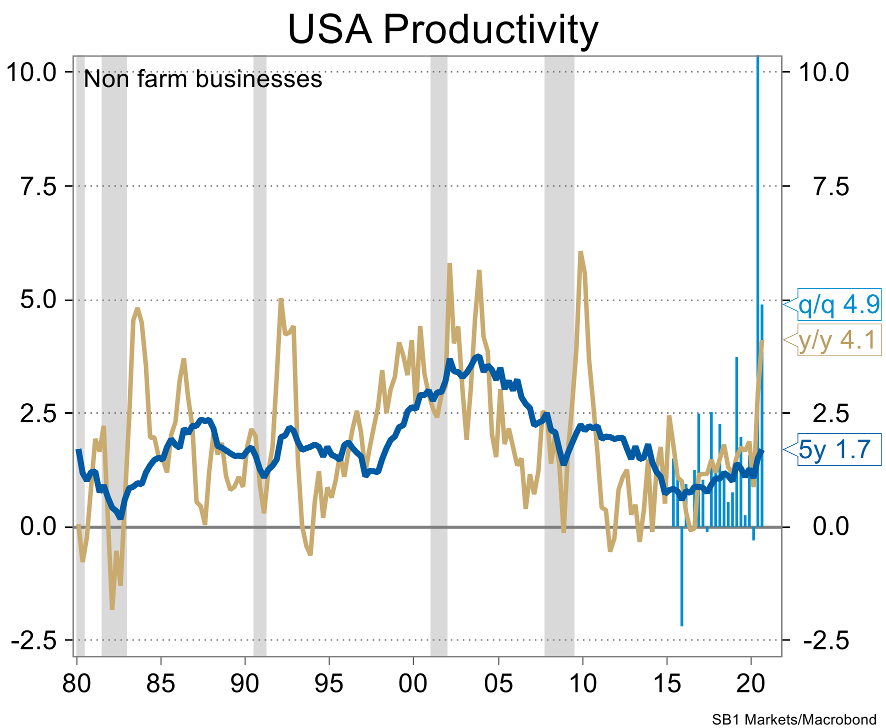
Layoffs further down in October, not that far above a normal level anymore

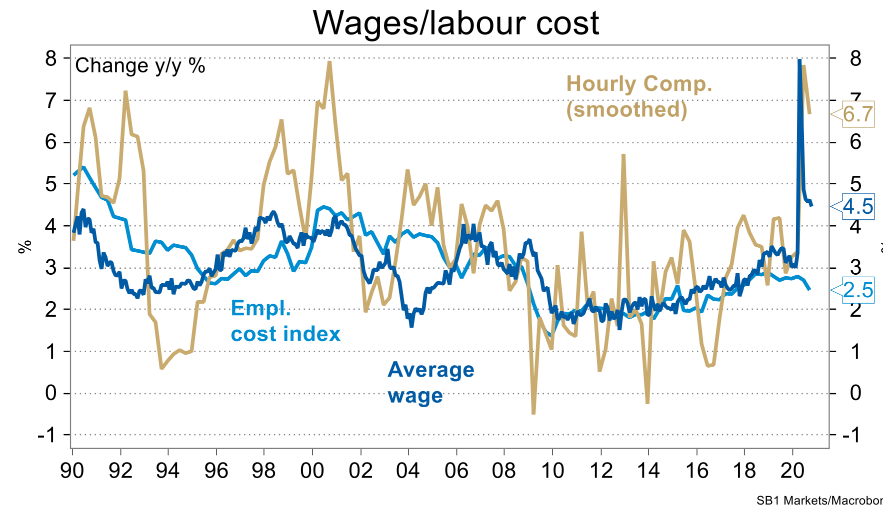
The best US labour market data point

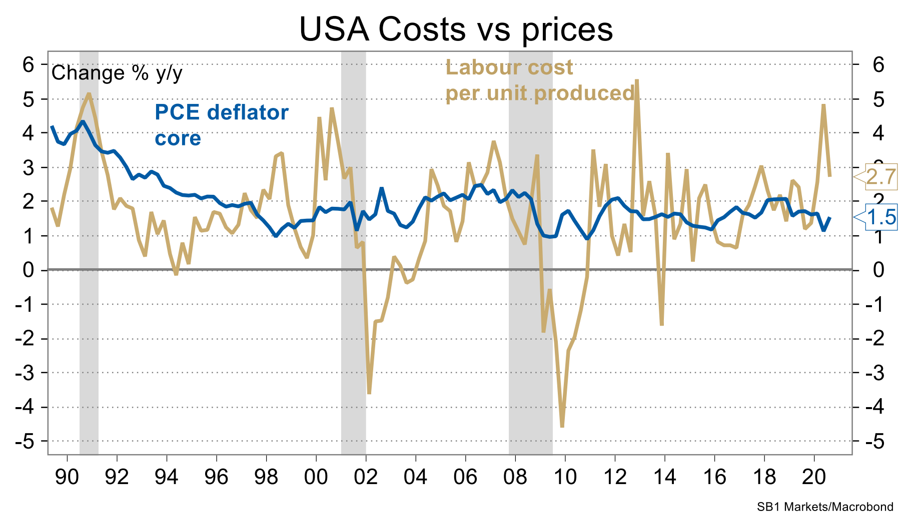


Wild productivity & labour cost data; low productive/low paid workers are shed

Productivity up 4.1% y/y, hourly compensation up 6.7% - and labour cost per unit prod. up 2.7%



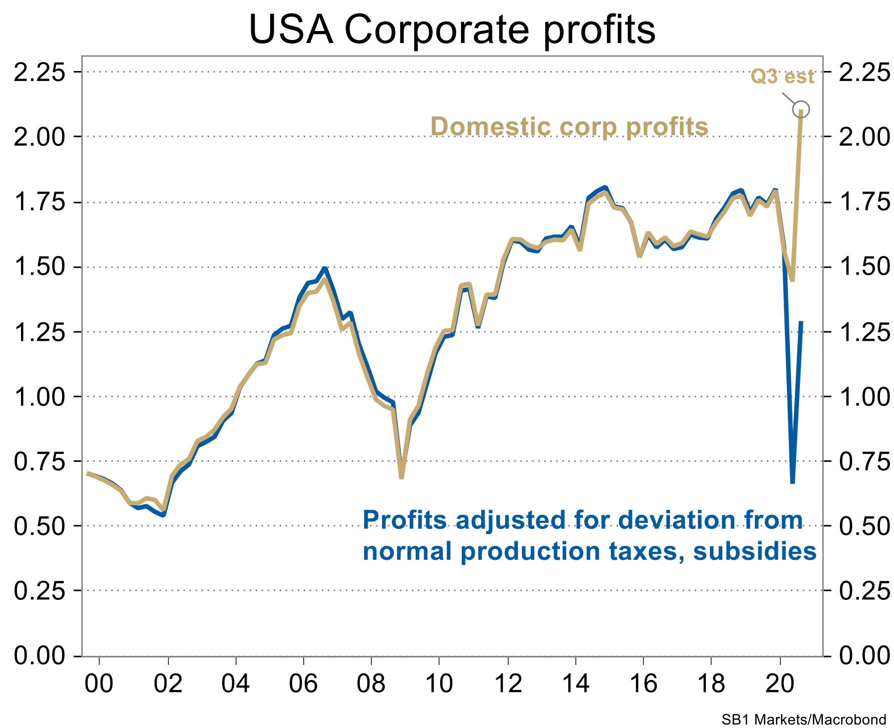


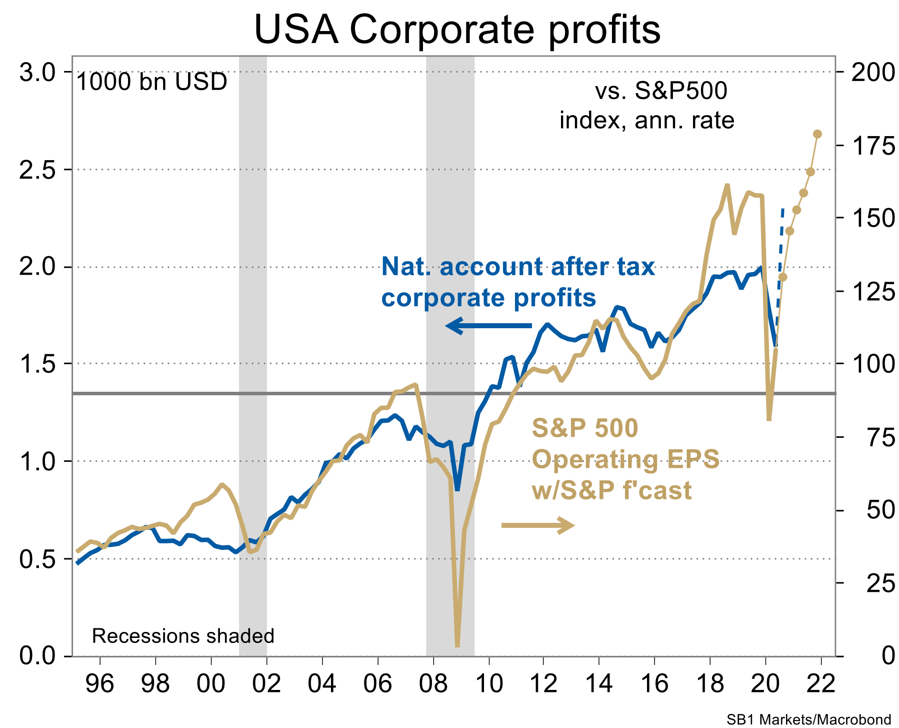


- These quarterly data are now more or less meaningless when evaluating the underlying trends in productivity, labour costs or unit labour costs due the large changes in the composition of the employees and production
- Both productivity and unit labour cost inflation has accelerated but we are not sure that is the underlying trend. We hope the Q4 (or more likely, H1-21) will yield more robust data

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

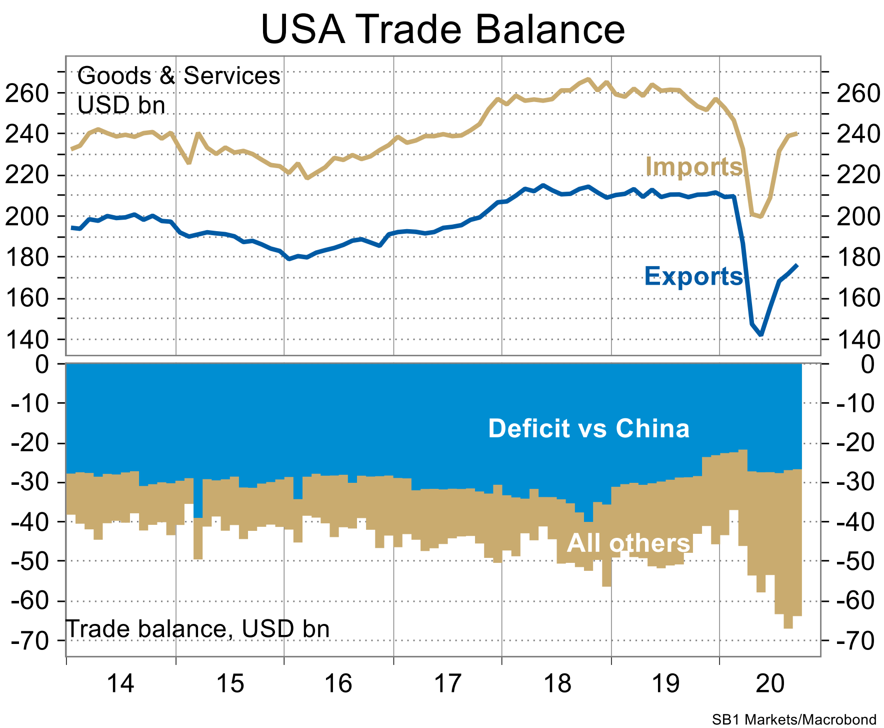


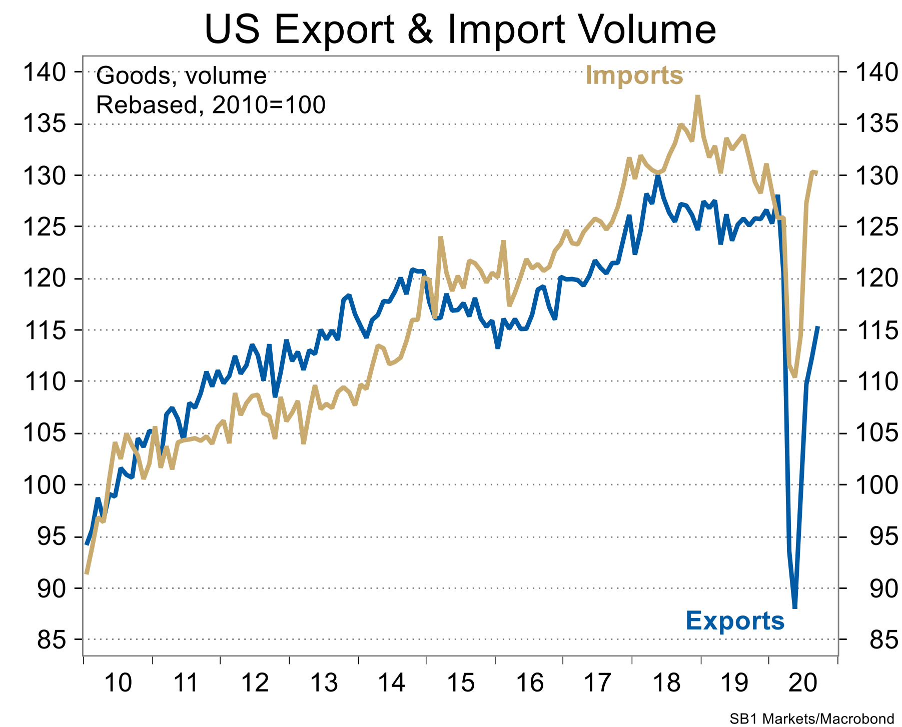


- … supporting corporate profits by 40% of profits or equalling 4% of GDP!!
  - » The net of production taxes – subsides is down from USD 1.000 bn (5% of GDP) to USD 200 bn (1% of GDP)
    - Government support to businesses are booked at subsidies in the National account
  - » Thus, 'underlying' income 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.
  - » The government support is focused towards smaller companies and S&P companies have probably not received that much of the subsidy
- If the Republican keeps their majority of the Senate, which is quite likely, the 'Trump' tax cuts will not be reversed

Export volumes still far below the pre corona level – should soon recover?

Import volumes are above (a declining) pre corona level, exports still 9% below

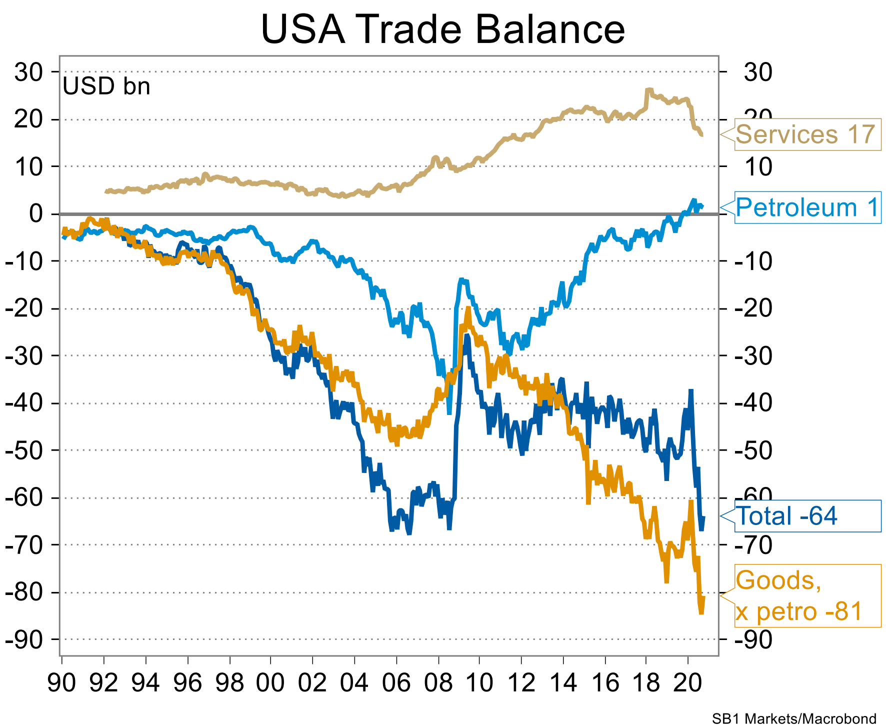


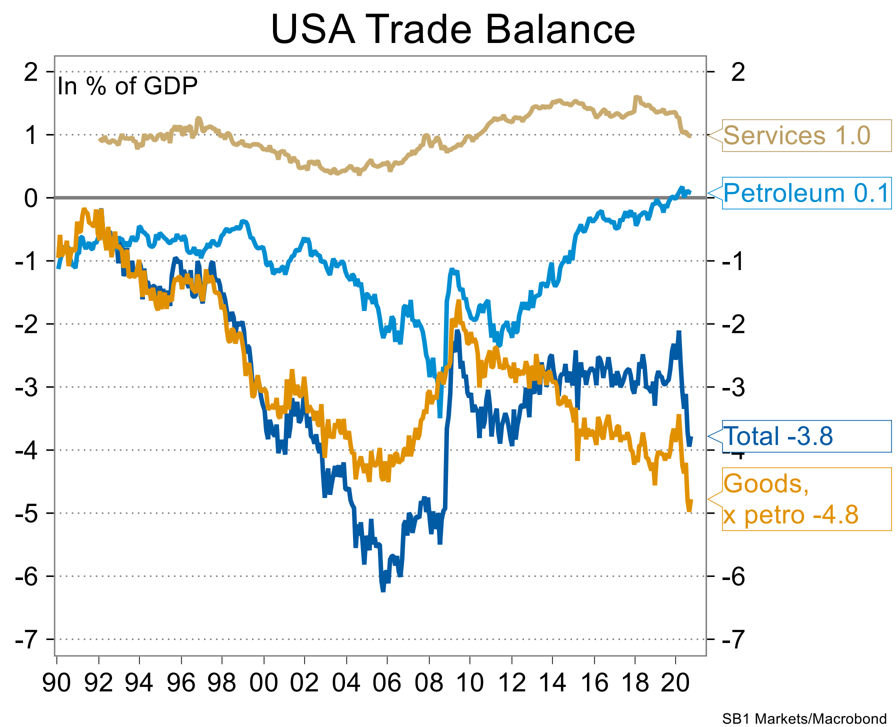


- The overall trade deficit of goods & services fell in September, from the ATH in August
  - » Exports grew faster than imports in September. In value terms both are below the level in early 2020. However, in volume terms imports have fully recovered – albeit to a low level in early 2020. Export volume are still 9% below par. Given the recovery in global manufacturing production a further growth in exports the coming months
- The deficit vs China is lower than 2- 3 years ago but the deficit vs. others have widened more – but probably mostly due to corona impacts, and not a structural worsening
- A wider trade deficit subtracted almost 6 pp from the blistering 33% (annualized) GDP growth rate in Q3. In Q4, the sign will change

US is no longer running a deficit in petroleum; other goods deficit close to ATH

The goods deficit ex petroleum has widened to 5% of GDP, the surplus is services is falling fast too

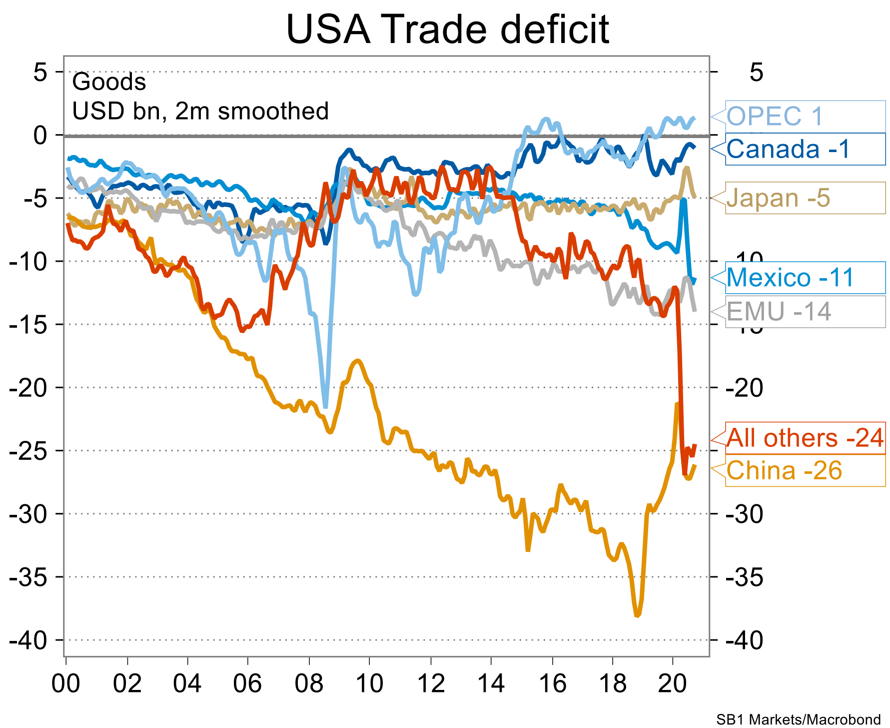


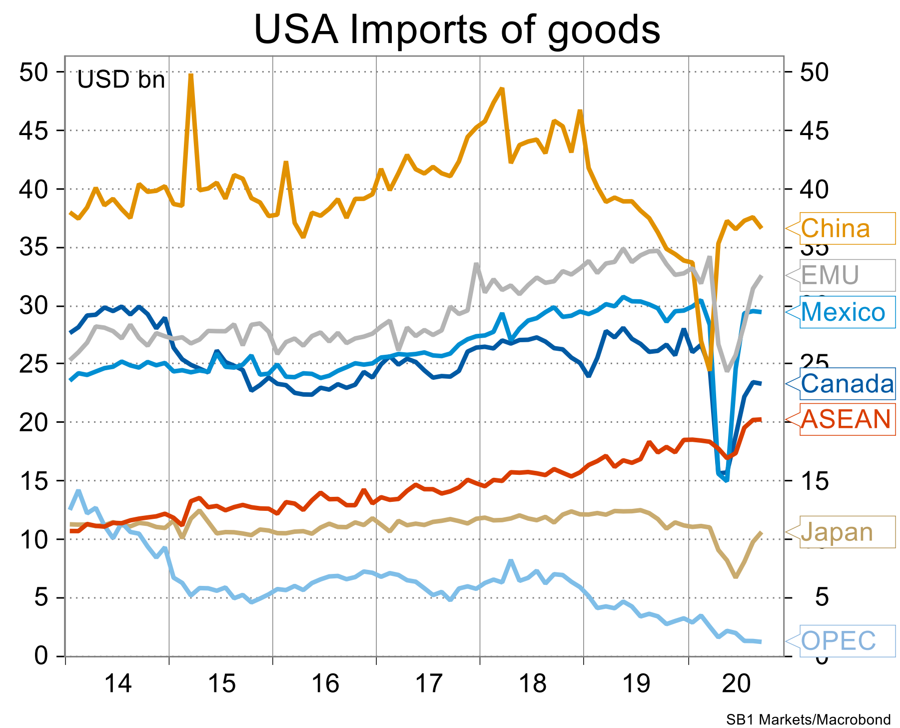


- The goods x petro products deficit dropped to ATL at USD -85 bn in August, or 5% of GDP, but recovered marginally to USD 81 bn in Sept . Before the corona virus hit, the goods trade deficit was narrowing
- The petroleum trade deficit has turned into a surplus this year, now +1 bn from -30 bn/m in 2012
- The US runs surplus in services at USD 17 bn, equalling 1% of GDP, trending down

Huge disruptions, both on the supply and demand side

The deficit to China is almost back at the level from Dec 19, before the pandemic





- Imports from China will probably be under pressure given the escalation of all sorts of wars between the US and China

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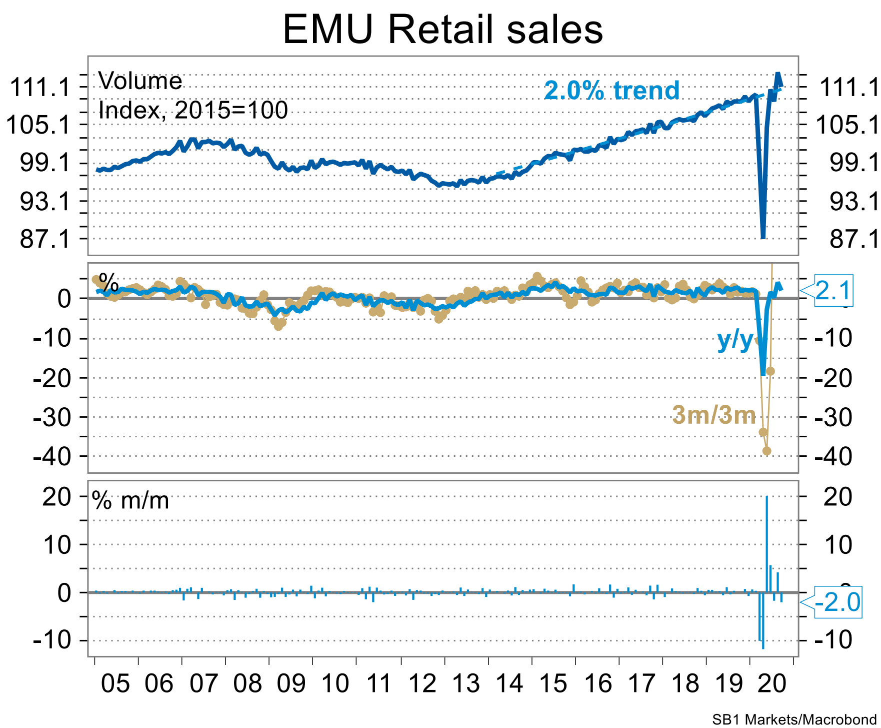
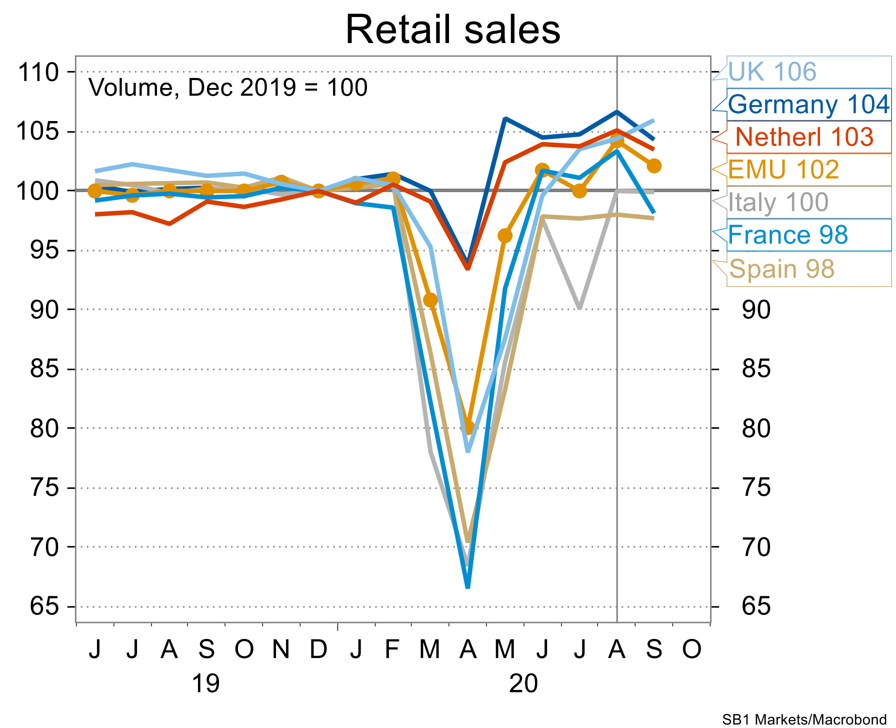
Retail sales down 2% in Sept, from a high Aug level – up 2% vs. 2019 level

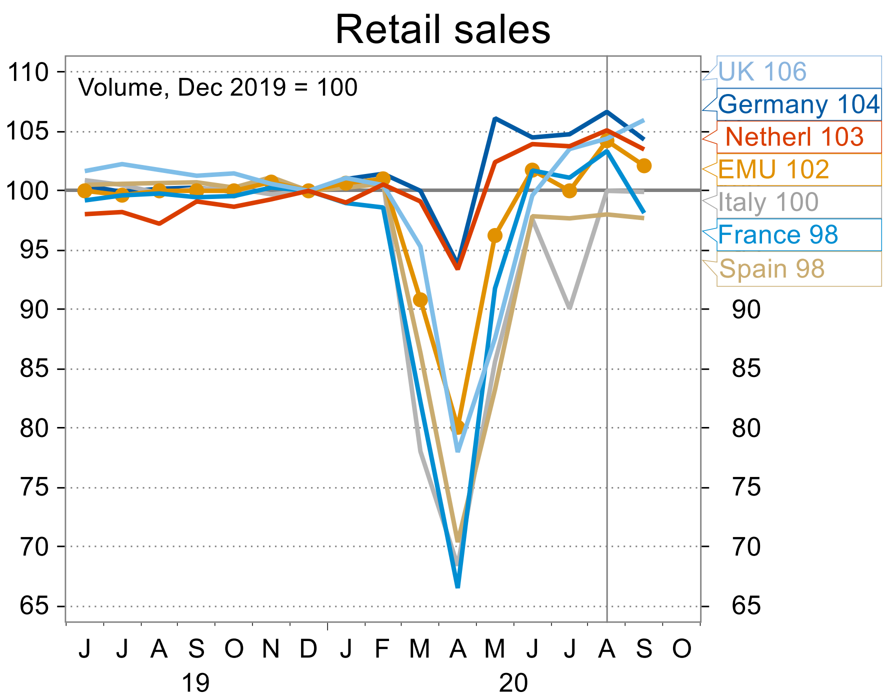
Sales down in all main countries, most in France, may be corona related (but sept was not that bad…)





- Germany is up 4% vs the 2019 average; Italy flat, France and Spain -2%
- 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 (which is not included in retail sales)

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

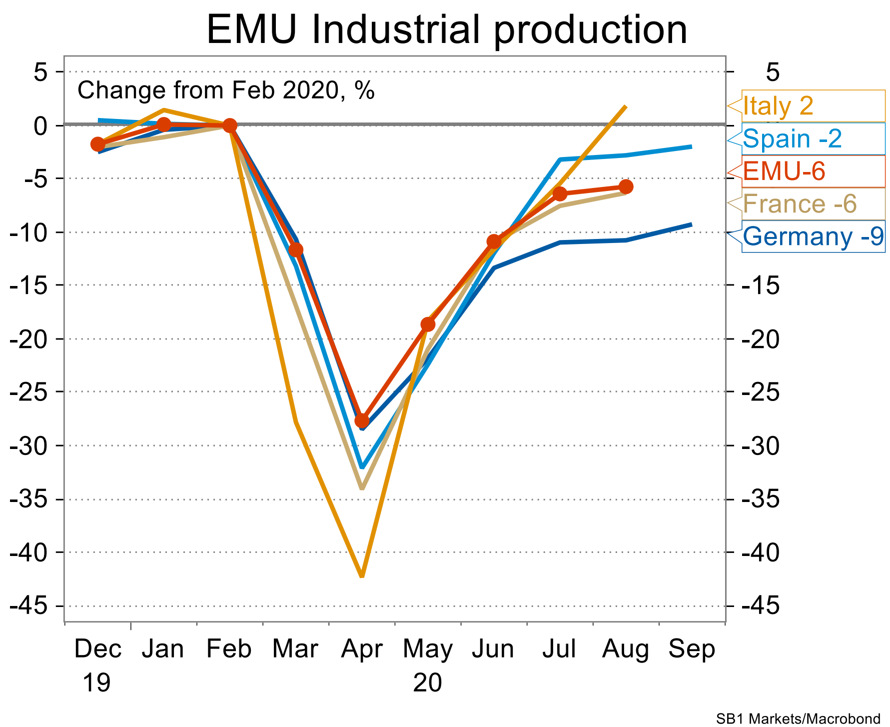


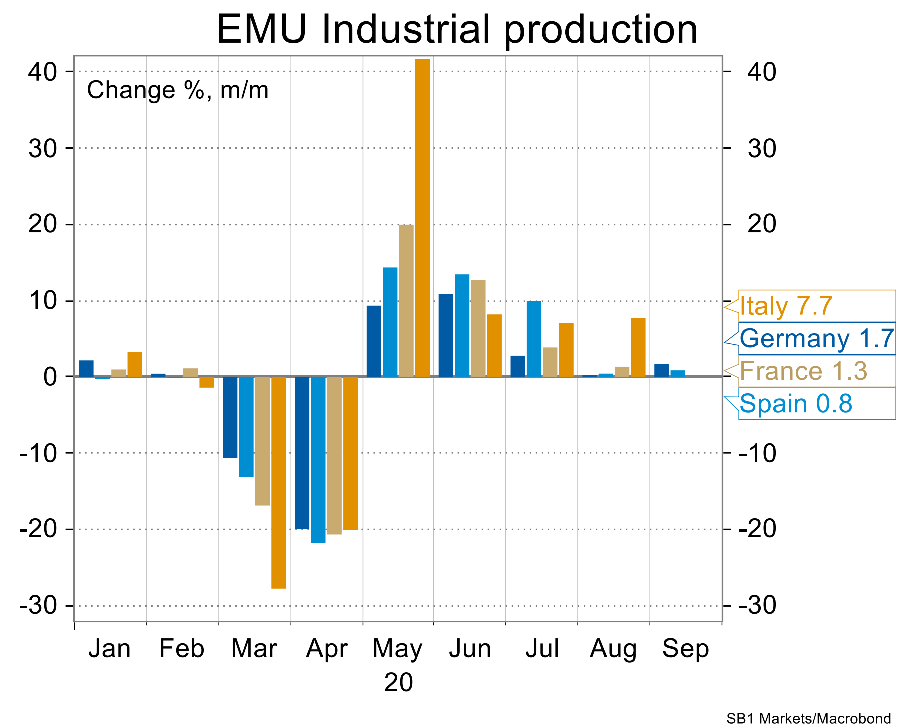
SB1 Markets/Macrobond

- Sales in Germany was still 4% above the 2019 avg level in Sept
- Sales in EMU was 4% above the 2019 level in <u>August, will very likely remain above in Sept, but with a smaller margin</u>

Manufacturing further up in September, Germany up but still lagging, -9% vs Feb

German production rose by 1.7% m/m in Sept, slightly below expectations. Spain up 0.8%





- Euro wide production will be reported this week and is expected up almost 1% a reasonable estimate

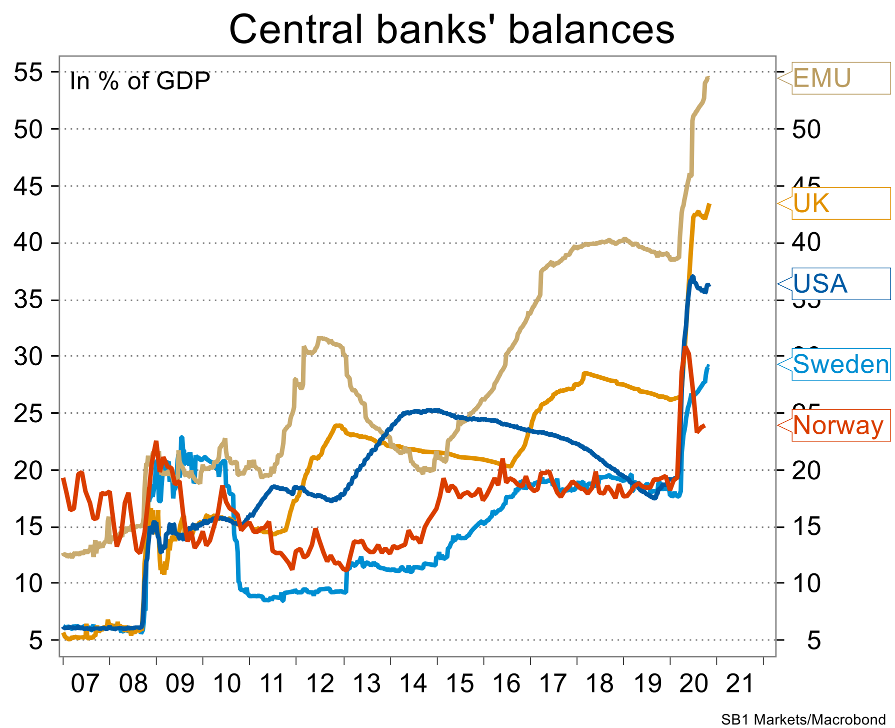
Orders further up in September, signals higher industrial production

New manufacturing orders up 1% m/m, and are no more or less at the same level as pre corona

- Production is still 9% below the level late 2019/early 2020 – the gap will probably be closed

Bank of England will buy even more bonds. The bank rate kept at 0.1%

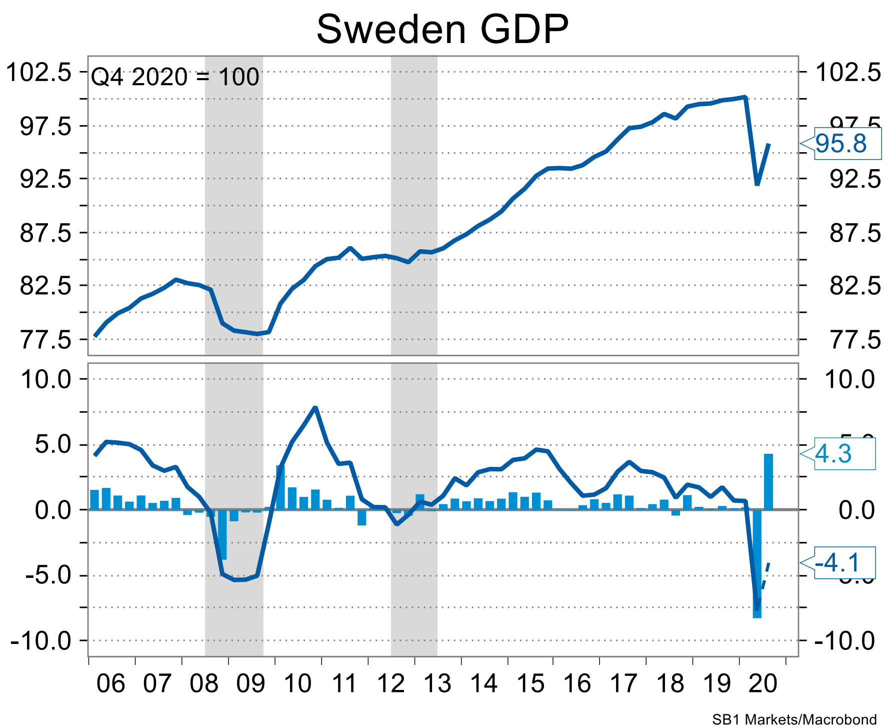
The gov. bond holding target is lifted by £150 bn (6% of GDP) to £875 bn (40%)



- The Bank of course recognises the risk to the economy due to the 2nd corona wave
- The Q4 y/y GDP forecast is revised down by 5.5 pp to -11%, from -5.4% - as the Banks expects a 3% decline in GDP in Q4.
  - » We expect similar revisions (but rather smaller than larger) for the hardest corona hit EMU countries
- The extra QE measure was as expected. It will contribute to keep longer term rates down. Other central bank will probably follow suit, at least the ECB
  - » The Bank did not allocate more resources to the (symbolic?) £20 bn investment grad corporate bond holding

A moderate recovery in Q3, GDP still down 4.2% form Q4-19

GDP was expected up 5%, following the 8% Q2 decline



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Highlights

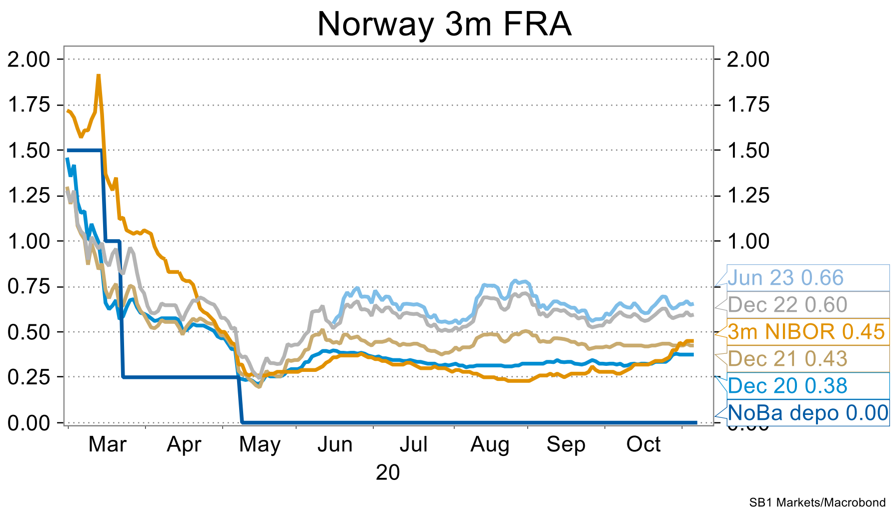
The world around us

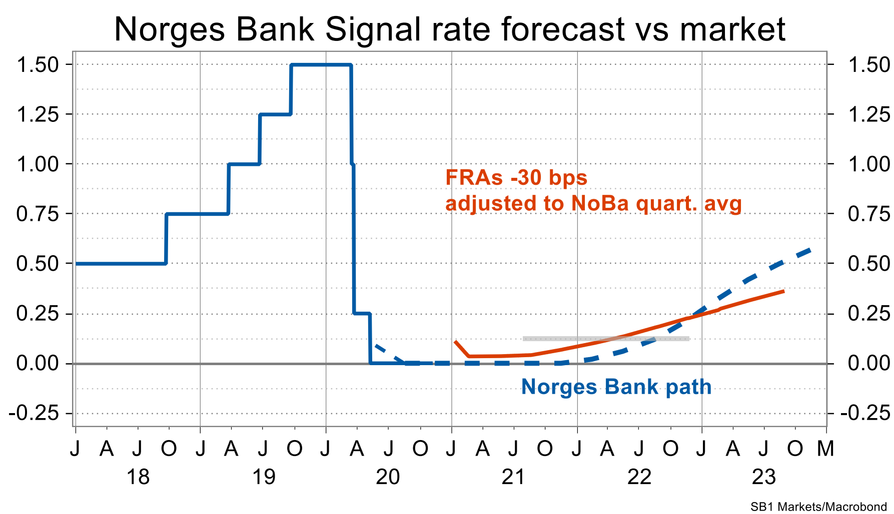
The Norwegian economy

Market charts & comments

Norges Bank: Radio silence (almost), at the 'mid' meeting

The corona risk has inceased, but the gradual recovery is still on track. Rates on hold for long

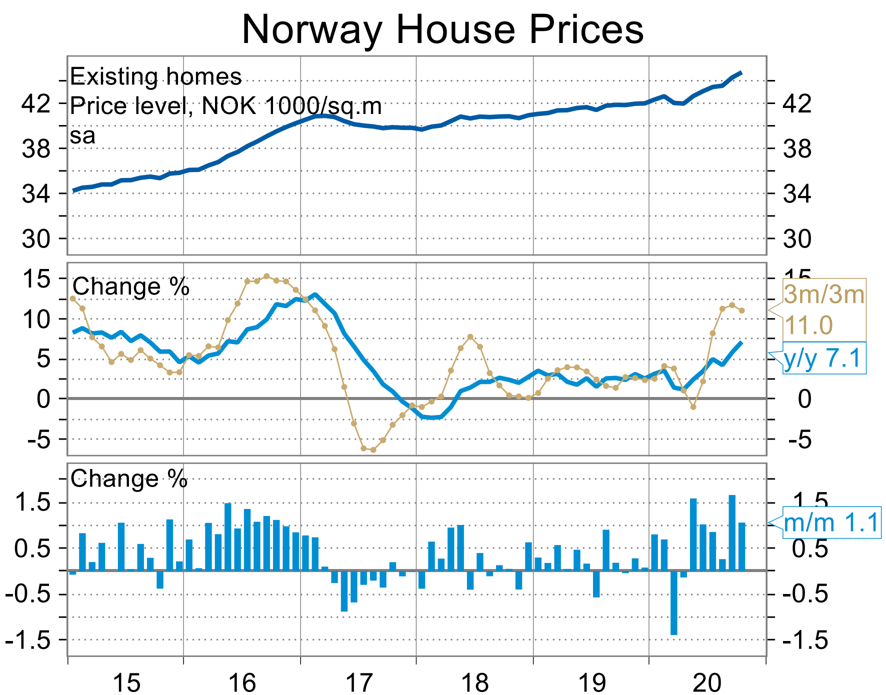




- Norges Bank left the signal rate unch. at 0.0%, as everybody expected
- The Bank did not give any signal change any changes in its assessment of the current stance in the economy or the outlook in the upcoming December Monetary Policy Report . Some factors at the upside, some on the downside. Some quotes:
  - » *Economic development have largely been in line with Sept. projections as activity is picking up but the level is still below lower than prior to the pandemic, and unemployment remains high.*
  - » *Increased Covid-19 infection rates and containment measures will likely put a break on the upswing the coming period*
  - » *House prices have continued to rise. A long period of low interest rates increases the risk that financial imbalances are building up.*
  - » *Underlying inflation has fallen but is still higher than the target*
  - » Norges Bank will *keep.. the policy rate on hold until there are clear sigs that economic are normalising*
- Alas, no news
- FRA rates XXXX

Here we go again: House prices up 1.1% in Sept, annual growth at 7.1%

House price inflation higher than expectations once more; NoBa f'casted 0.4%, we 0.8%



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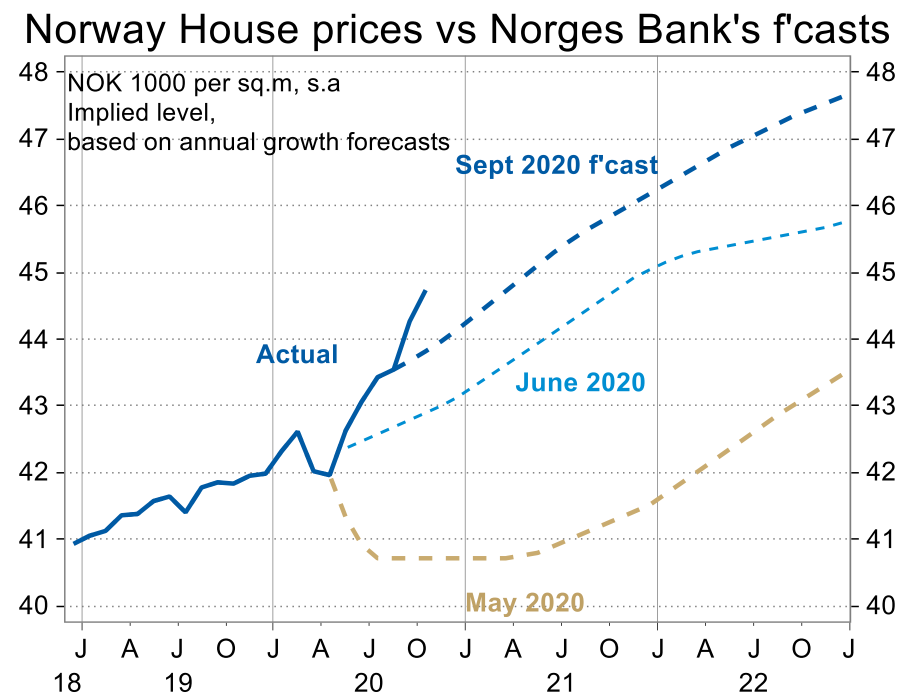

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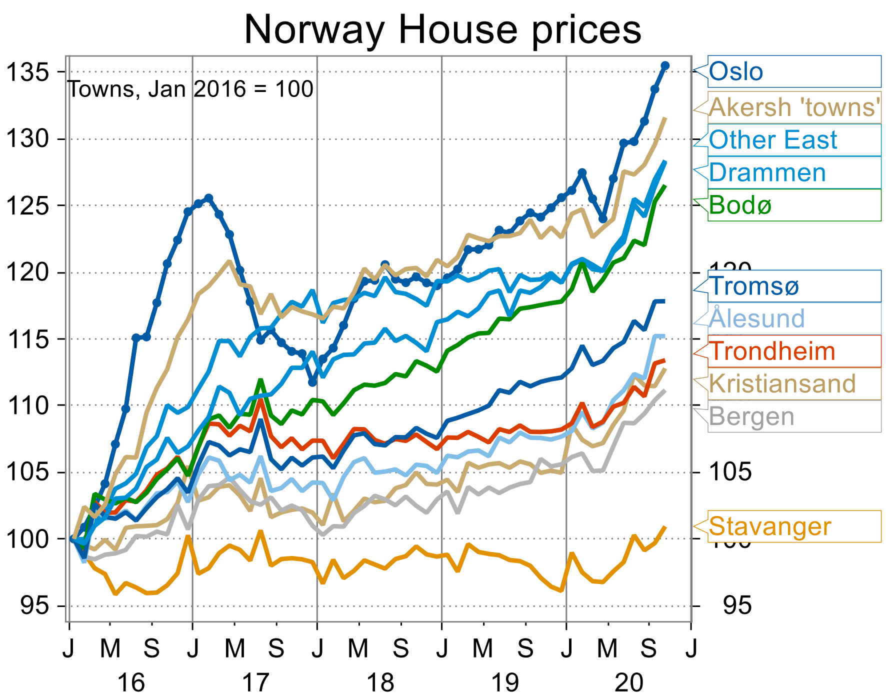
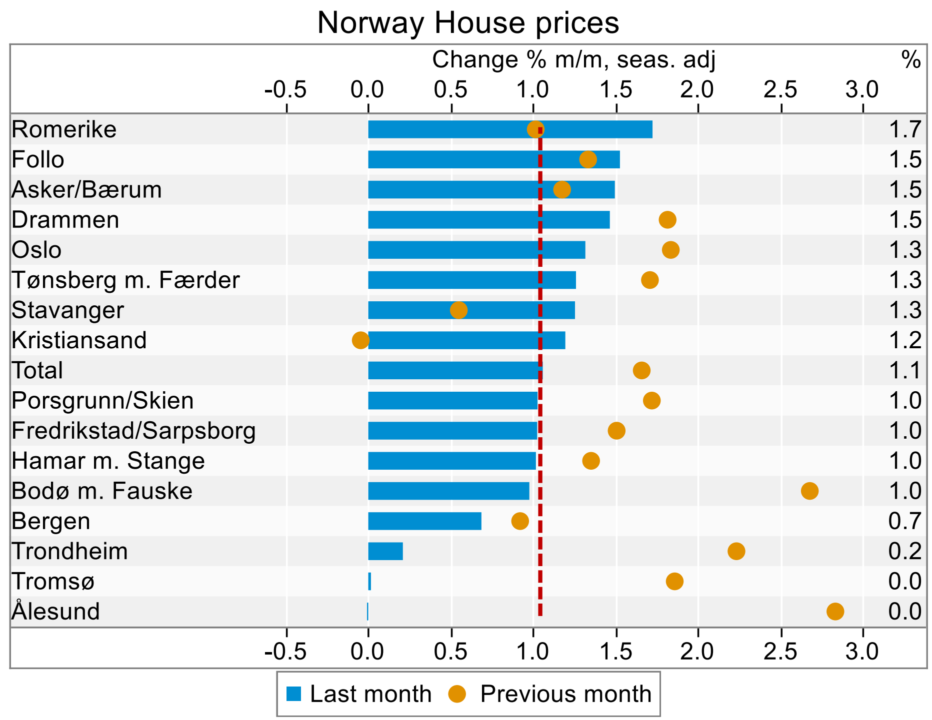
- House prices rose by 1.1% seas. adj Oct, following 1.3% in Aug (rev. up 0.2 pp) – and more than we expected. The past 3m/3m, prices are up by 11%, annualised. Prices are almost 5% above the Feb level, and are up 7.1% y/y, the highest in 3 years. A 1.2 pp cut in mortgage rates (to 1.8% in average now, from 3.0% in Feb), has been much more important the corona setback and higher unemployment
  - » No city reported declining prices. Stavanger and Kristiansand (still) at the bottom of the list (m/m), the costal cities from Ålesund to Tromsø at the top
- The number of transactions kept up at a high level in Sept, at some 10% above the (average) 2019 level. The inventory of unsold homes fell sharply in Sept too, and it is now 25% down from early 2020 and below a normal level, even if more ho0mes are put on the market at fewer are withdrawn!
- **Should the steep price growth continue, Norges Bank will start hiking rates before late 22' (the market expects Q2 2022)**

Prices are increasing everywhere

A broad upturn: Prices are above the pre corona levels in all towns, Stavanger the least



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

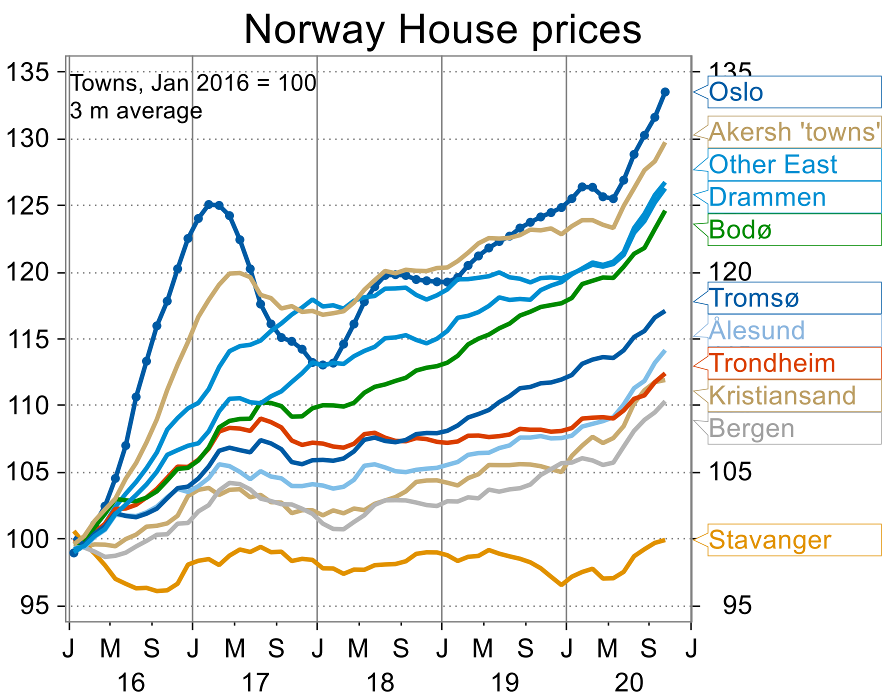


	%
Romerike	1.7
Follo	1.5
Asker/Bærum	1.5
Drammen	1.5
Oslo	1.3
Tønsberg m. Færder	1.3
Stavanger	1.3
Kristiansand	1.2
Total	1.1
Porsgrunn/Skien	1.0
Fredrikstad/Sarpsborg	1.0
Hamar m. Stange	1.0
Bodø m. Fauske	1.0
Bergen	0.7
Trondheim	0.2
Tromsø	0.0
Ålesund	0.0

SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

Recent months; measured 3m/m: All up, from zero in April to 11% now! Oslo 15%

Prices in Oslo fell the most in March/April – but has recovered sharply since then



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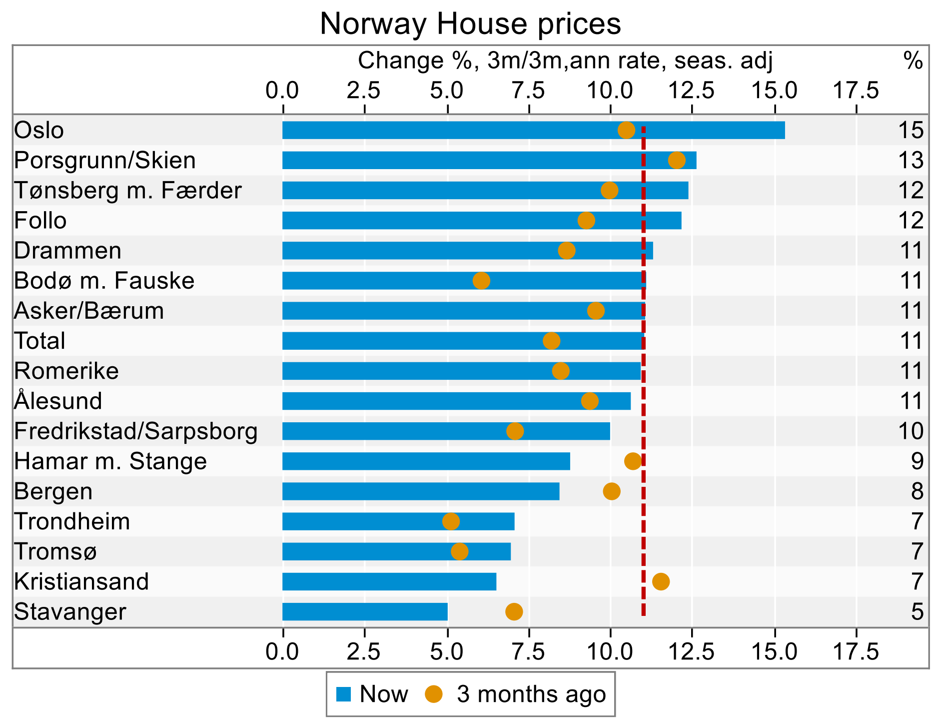
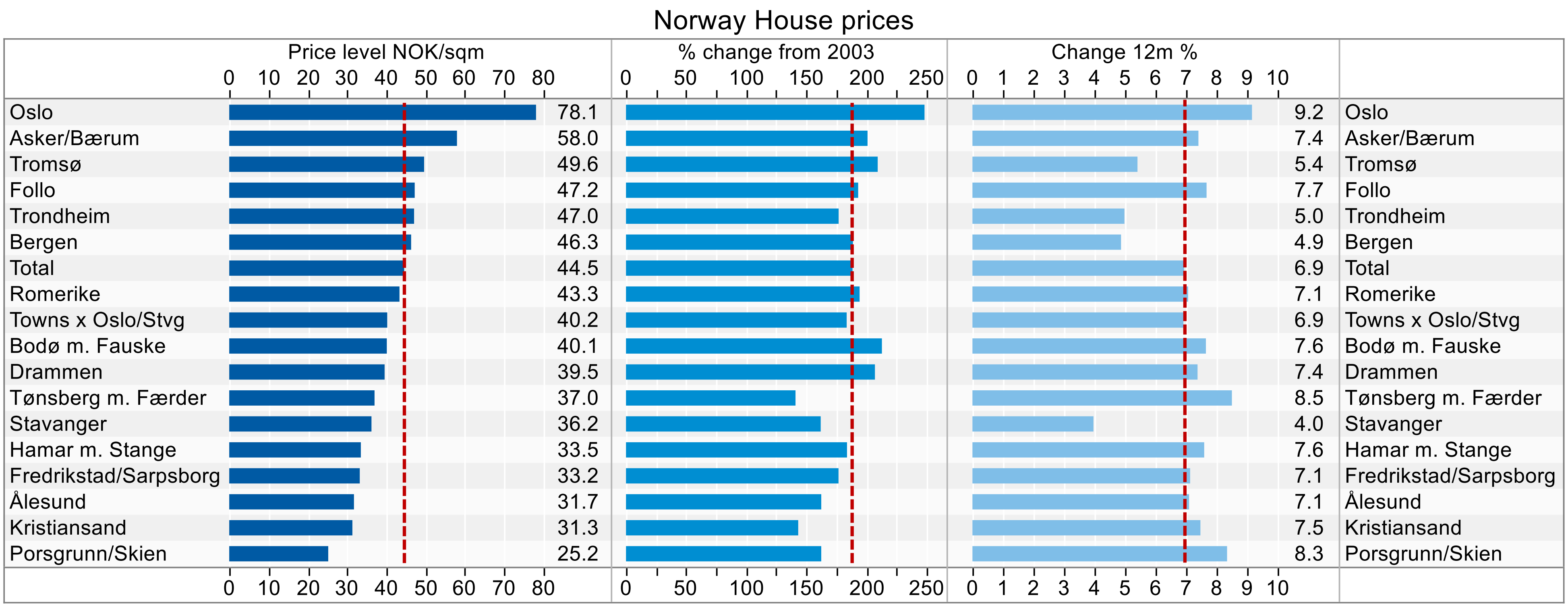


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

- Prices in Stavanger are slowly on the way up – but the price level is still lower than in early 2016
- All others are up – with Oslo in the lead vs the early 2016 price level, up 33%

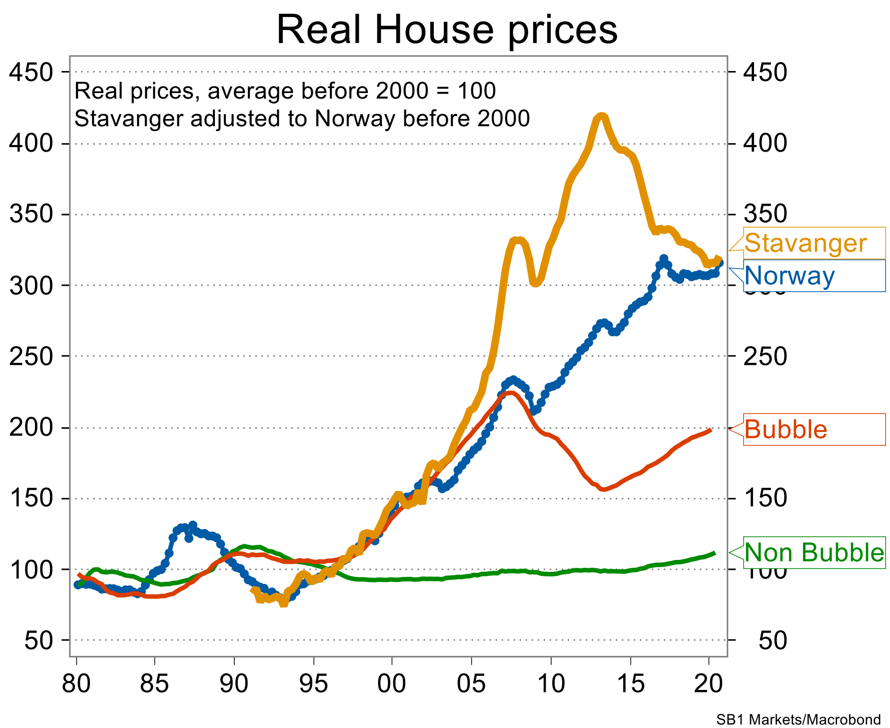
Oslo in the lead past 12 months, up 9.2%

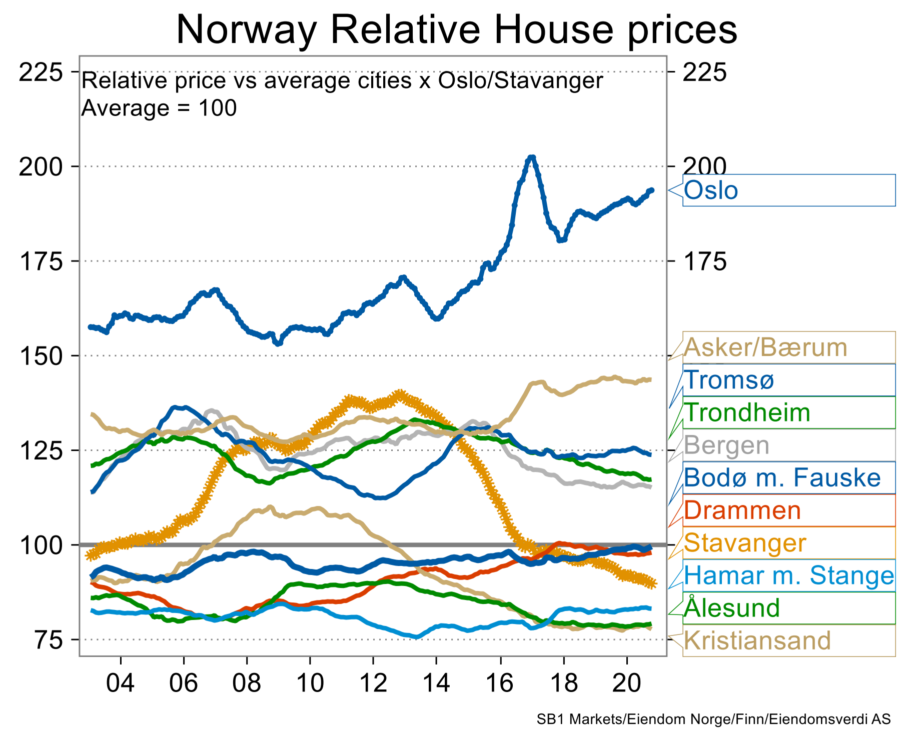


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

The Stavanger case: Could it happen elsewhere?

From no 2 in Norway in early 2012 to the bottom league now



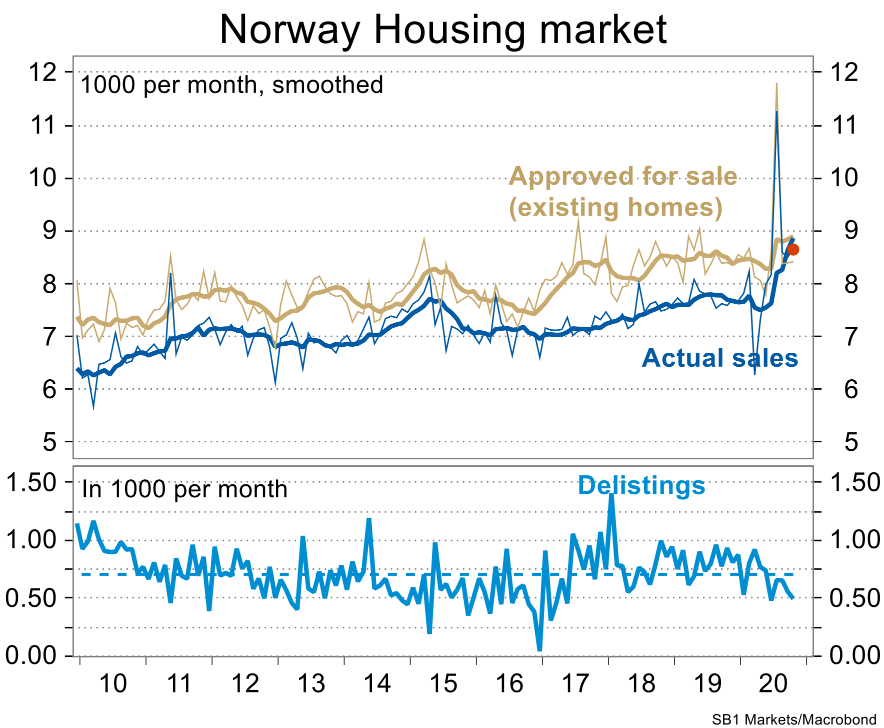


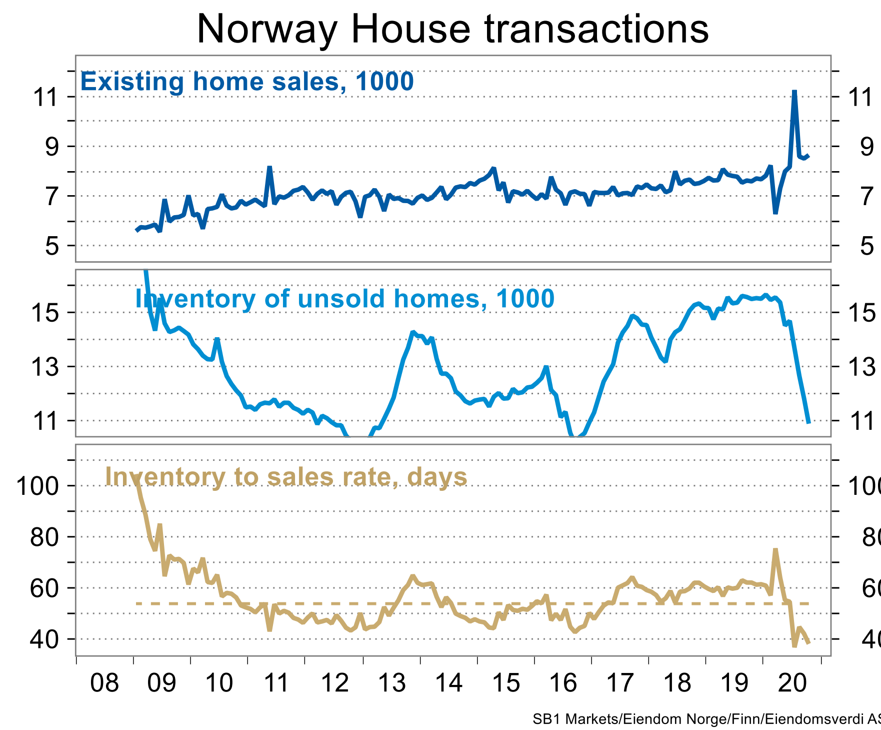
- Housing starts in Stavanger are still not lower than normal. It is still profitable to build!

SpareBank 1 MARKETS

The no of transactions still on the way up, and the inventory is 'collapsing'

The inventory of unsold houses is shrinking fast as sales are booming

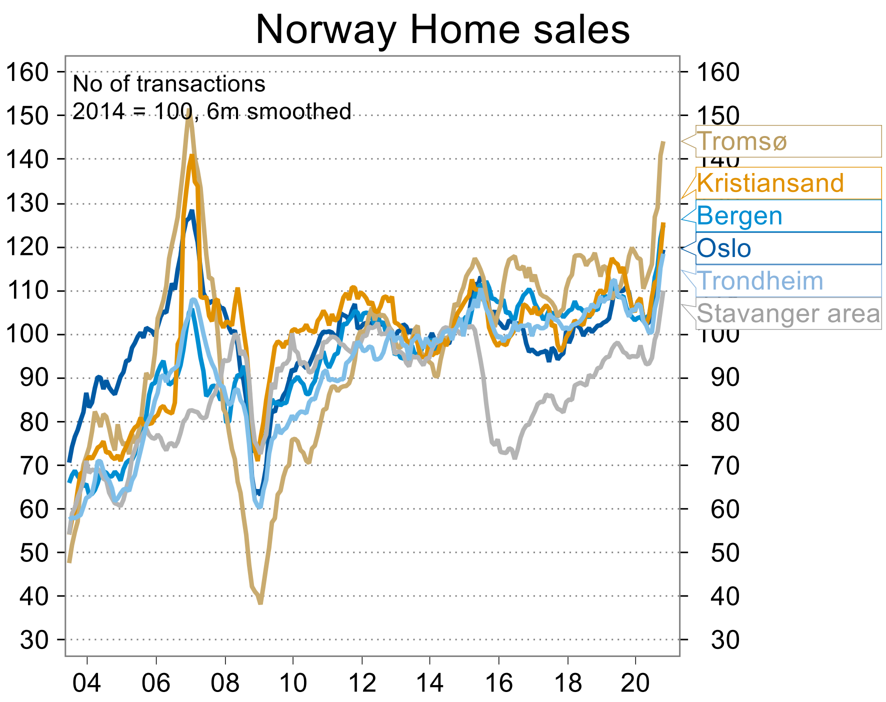




- **The number of transactions** was stable at a high level in September. Sales are up 15% from the 2019 level!
- The **supply of new existing homes for sale (approvals)** is back to a normal level, after spiking in July
- **The number of delisting** has fallen to below a normal level
- The **inventory of unsold homes** fell sharply in October too, to the lowest level since early 2017– down 30% from before corona hit!
- The **inventory/sales ratio** has contracted sharply too, and is close to ATL. The **turnover time** is now just 39 days vs an avg at 54 days. As more homes that have been at a market for a while now are sold, the **average time on market for homes sold** is still high, at 54 days vs. an average at 43. Time on market will decline rapidly the coming months

Transactions up everywhere recent months

Tromsø more steeply up than others, highest level since 2006



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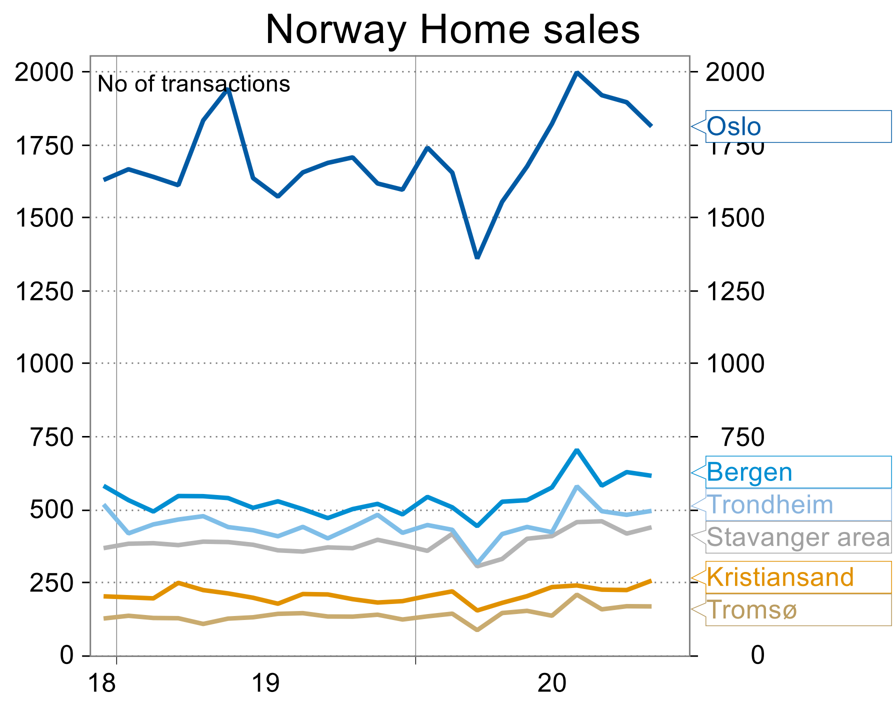
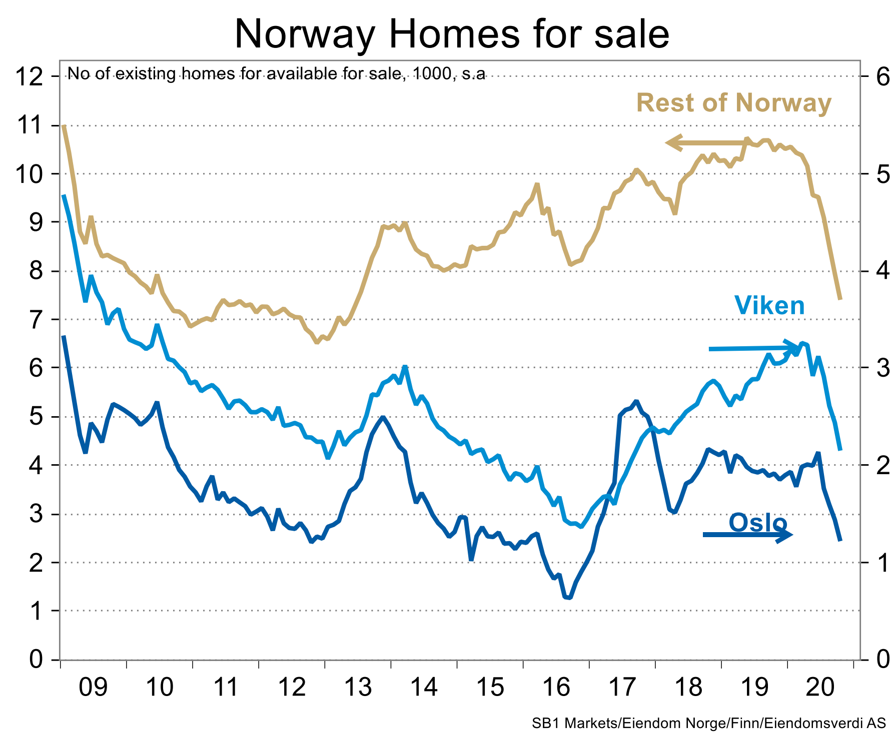
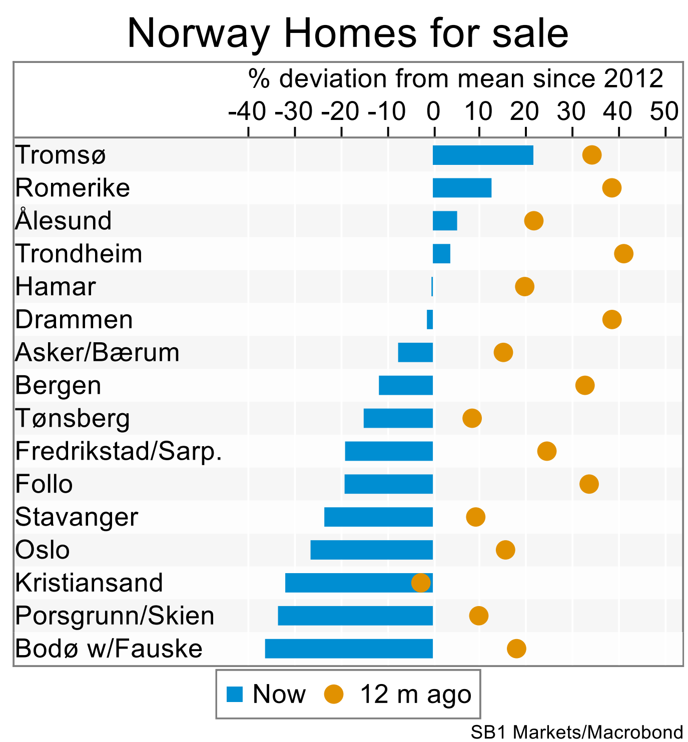


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

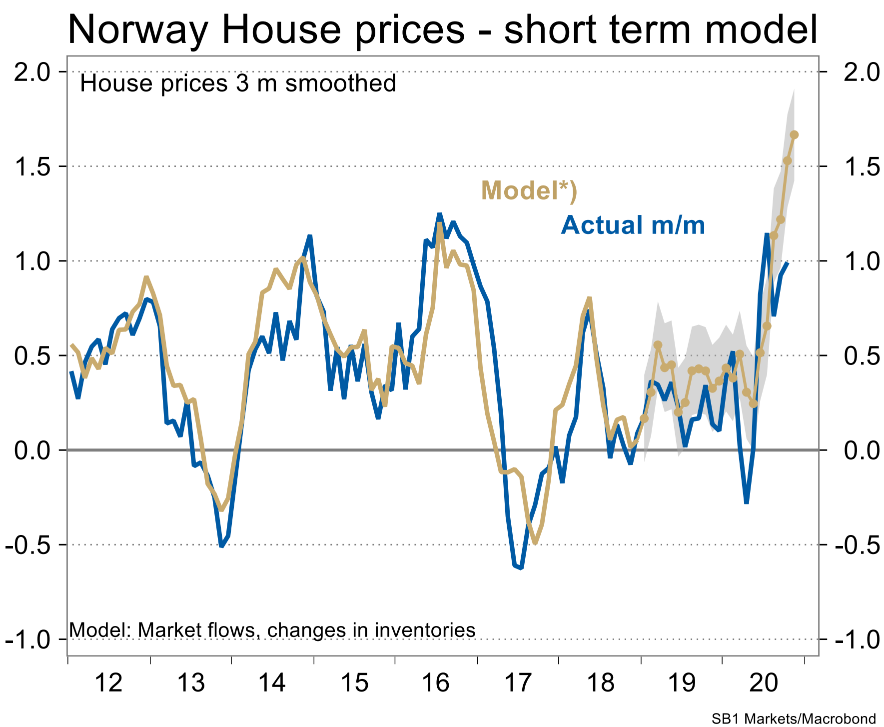
The inventory is falling sharply everywhere

The inventory is approx at an average level in Oslo and Viken but lower than normal in rest of Norway





Short term market flows suggest a price acceleration, even higher than in 2016



- The supply of new homes for sales and the inventory suggest rapid price growth the coming months, even faster than the past 3 months (avg)!
- The model signals a 22% growth pace, up from 13% now
- *This is <u>not</u> a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

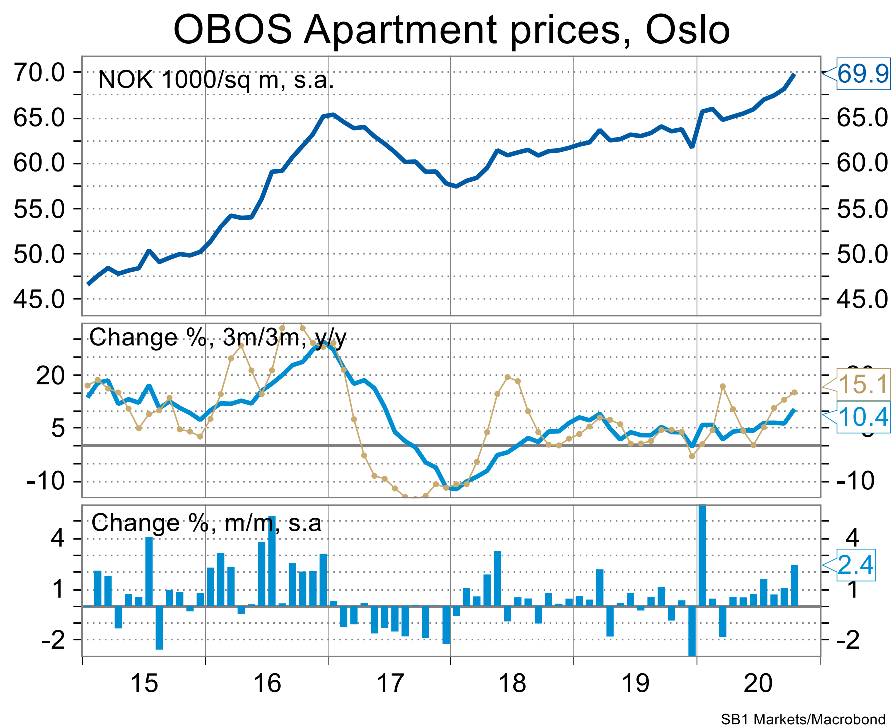
On the policy

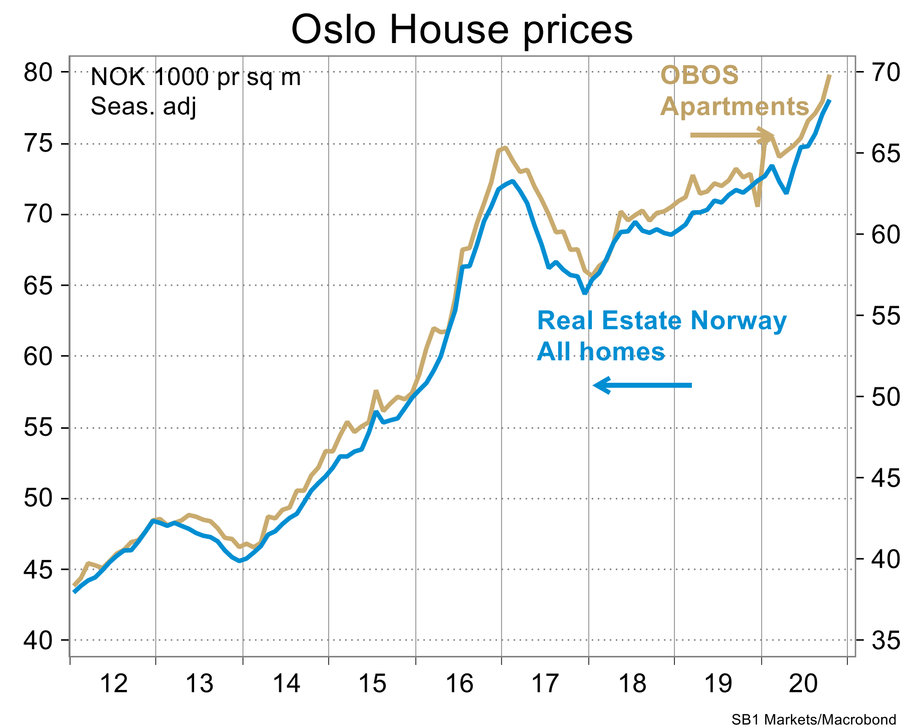
- In late March, when the world was expected to fall apart, an easing of the **mortgage regulations** was announced as a temporary measure to support the housing market. Ordinary regulations were reintroduced from Oct. Finanstilsynet (the FSA) proposed to tighten regulations further in 2021. Norges Bank did not support the FSA's proposal, and we doubt the Min of Finance will follow the FSA's recommendation
- Norges Bank cut in the **signal rate to zero** in order to support the Norwegian economy. The main channel is via the housing market, and even with rates at zero, the bank expected house prices to fall sharply in its May mini monetary policy report. In the June MPR, house prices were revised up by almost 10%, and further in the Sept report. In October, prices were 2% above the Sept f'cast (and 10% above the May f'cast).
- Norges Bank will not turn on the dime and hike rates but no doubt, at one stage the housing market may influence NoBa's actions – as the most important channel in the transmission mechanism (signal rate -> growth/inflation) is via the housing market

SpareBank 1 MARKETS

OBOS apartment prices confirm the Oslo surge

Co-op apartment prices up 2.4% in Oct (seas adj), 10.4% y/y





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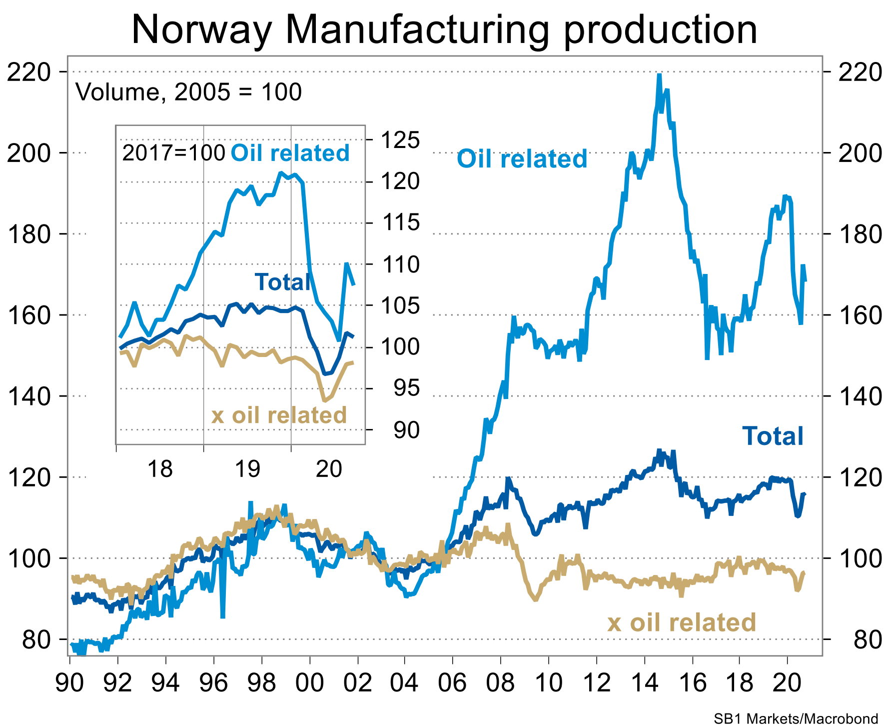
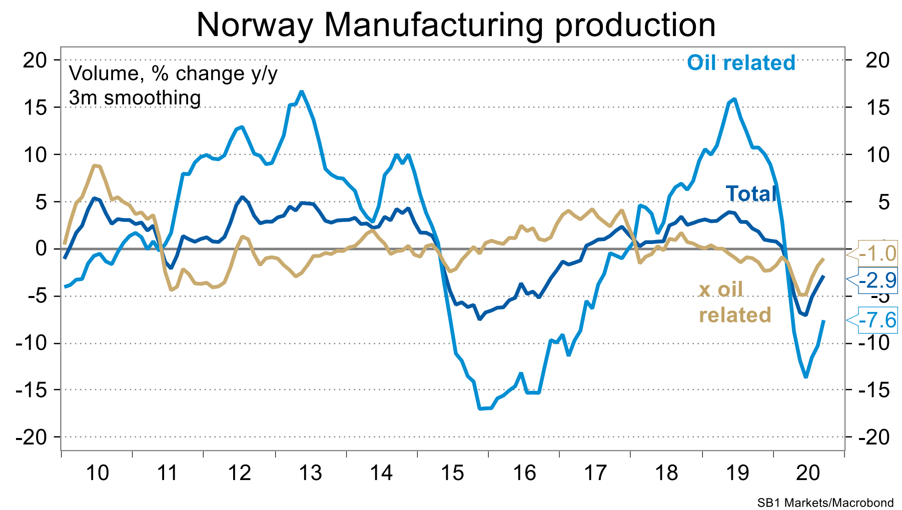
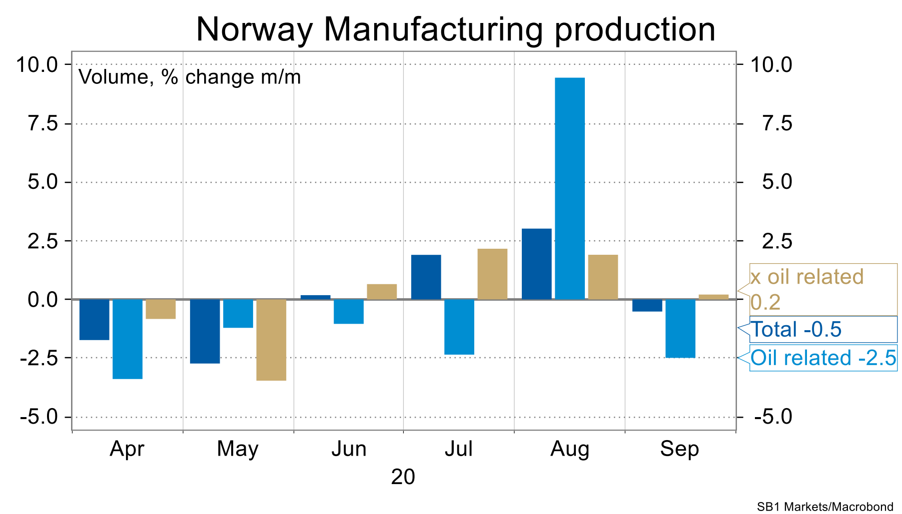
Manufacturing down in Sept, 3% down vs. the early 2000 level

Oil related production down is down 14%, the rest close to flat

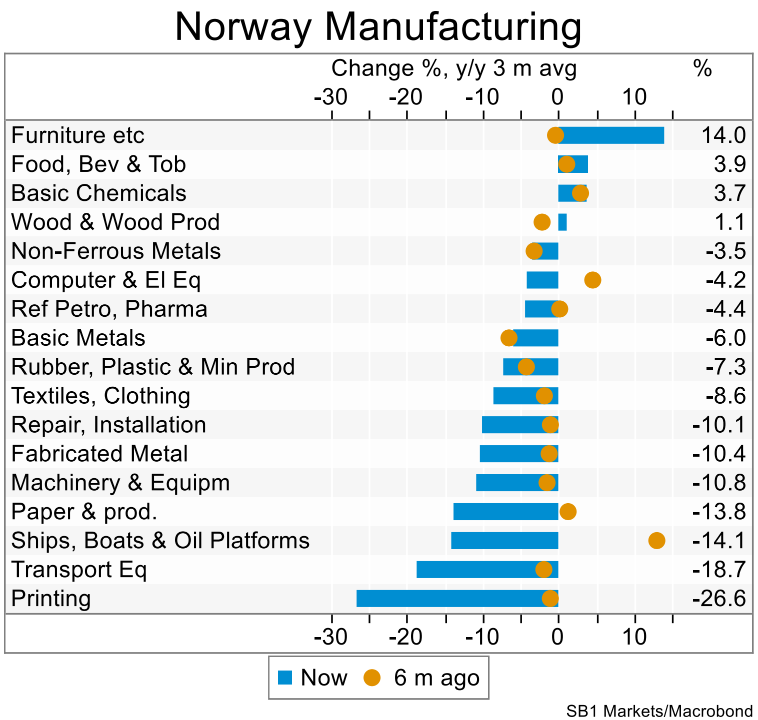


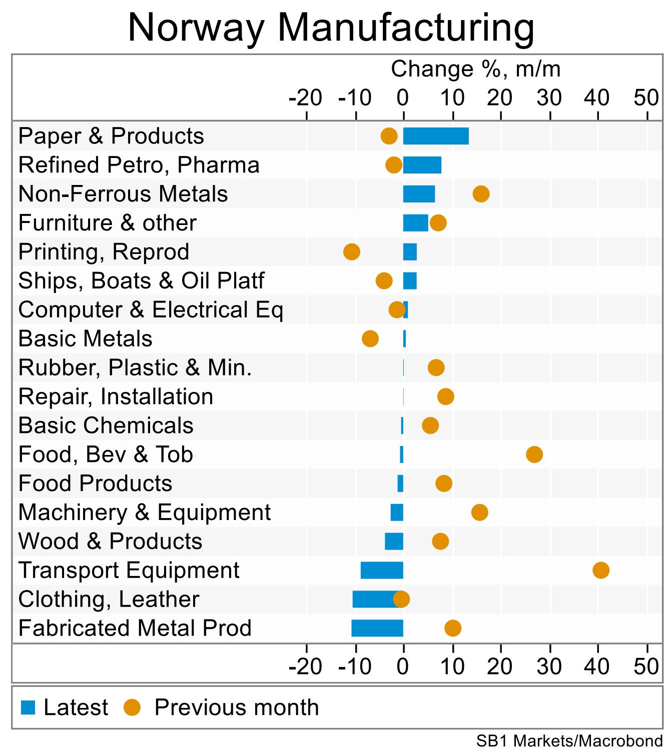




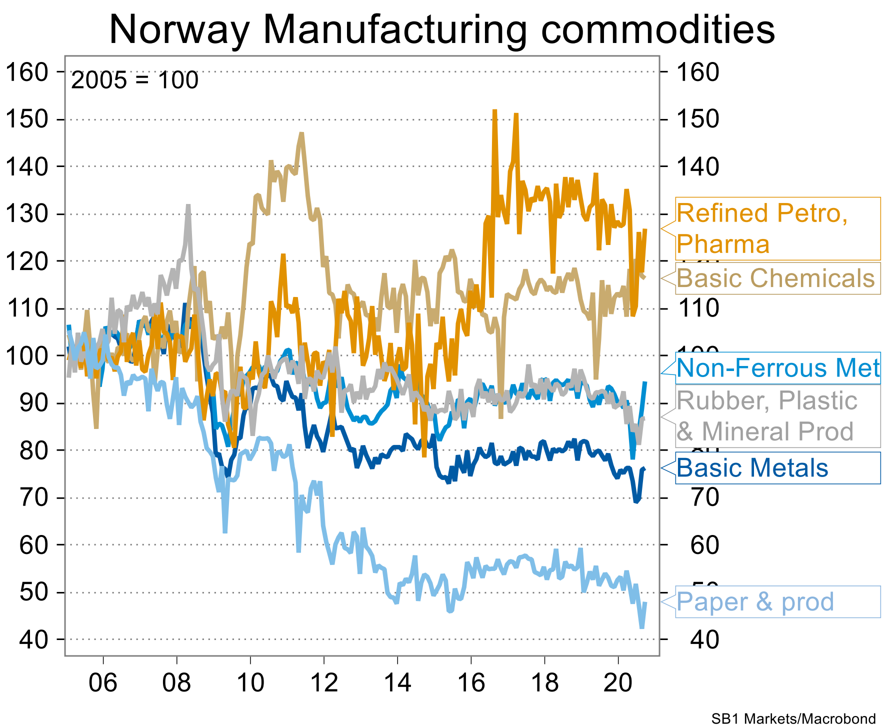
- Production fell by 0.5% in Sept, following the 3% lift in August. The trend since the spring trough is clearly up
- The decline in oil related manufacturing industries have been large vs the decline in investments in the oil sector
- Manufacturing production in Norway has fallen less then in most other countries, check here
- Surveys are mixed, the PMI crossed the 50 line in September and further in October, SSB's survey signals close to a flat development in production, while NHO's Q3 survey was not that upbeat

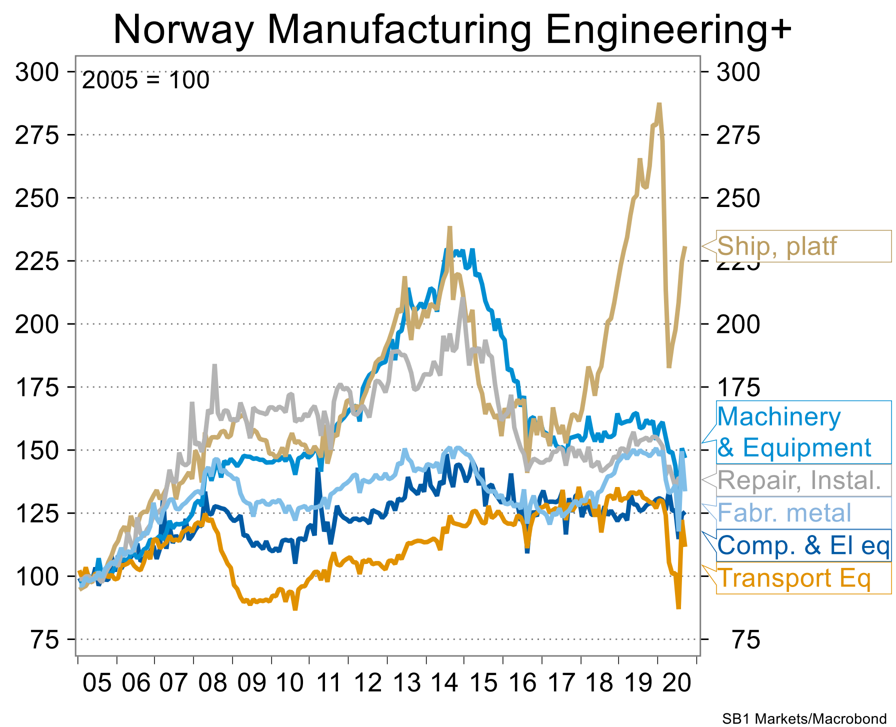
Mixed between sectors m/m, most still down y/y





Engineering (and oil related) industries still down, others ‘normal’

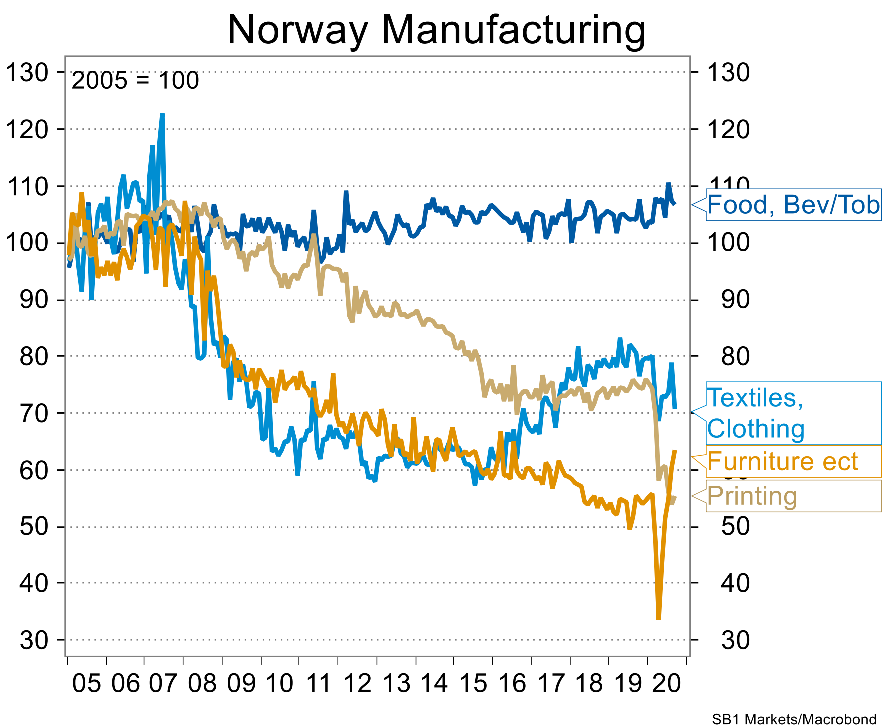




- Corona measures, supply chain challenges probably explained parts of the drop during the spring
- Commodities: Most up in August & September, none are impressive but basic chemicals are on the way up. Paper

We still need food (and more than usual, as we buy/eat less abroad)

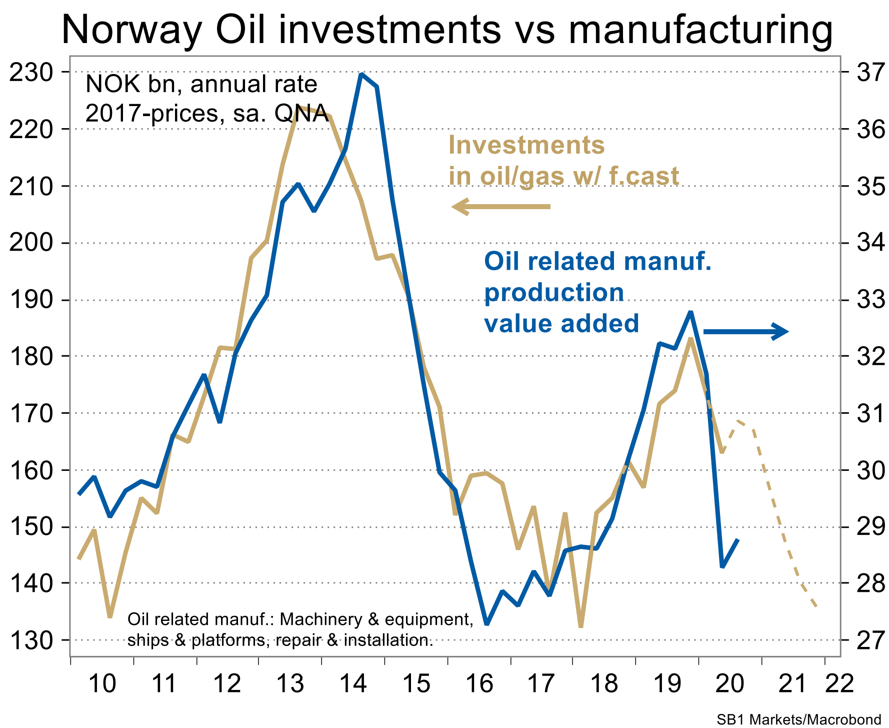
Other domestically oriented sectors down during the spring, has made a come back now

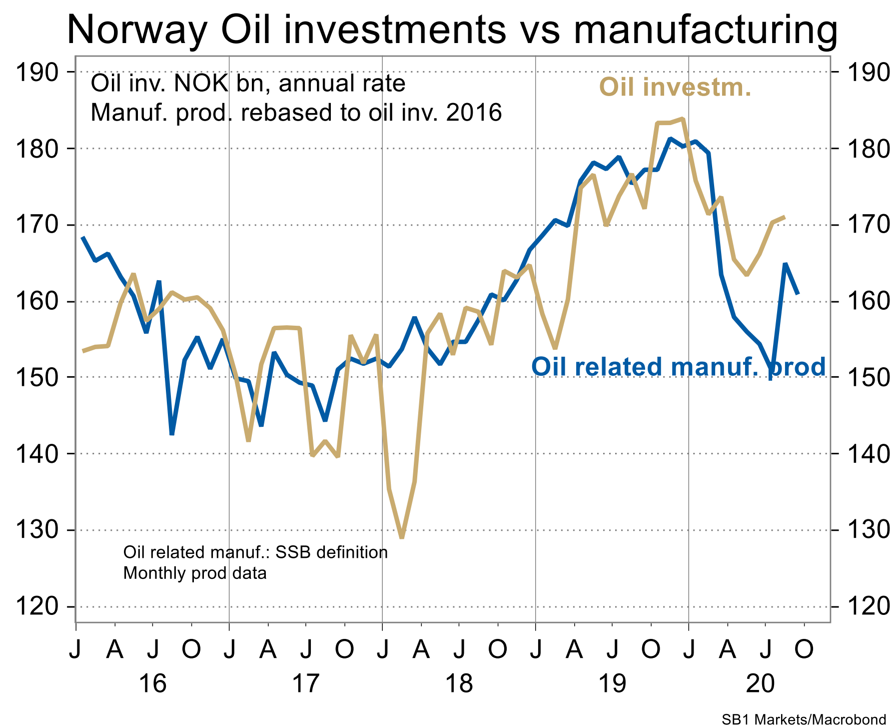


- Except printing. Are we not reading newspapers or books anymore? Or just fewer ads?

Oil related production may still have some upside – until next year, that is

Production recovered sharply in August, but may still be somewhat too low

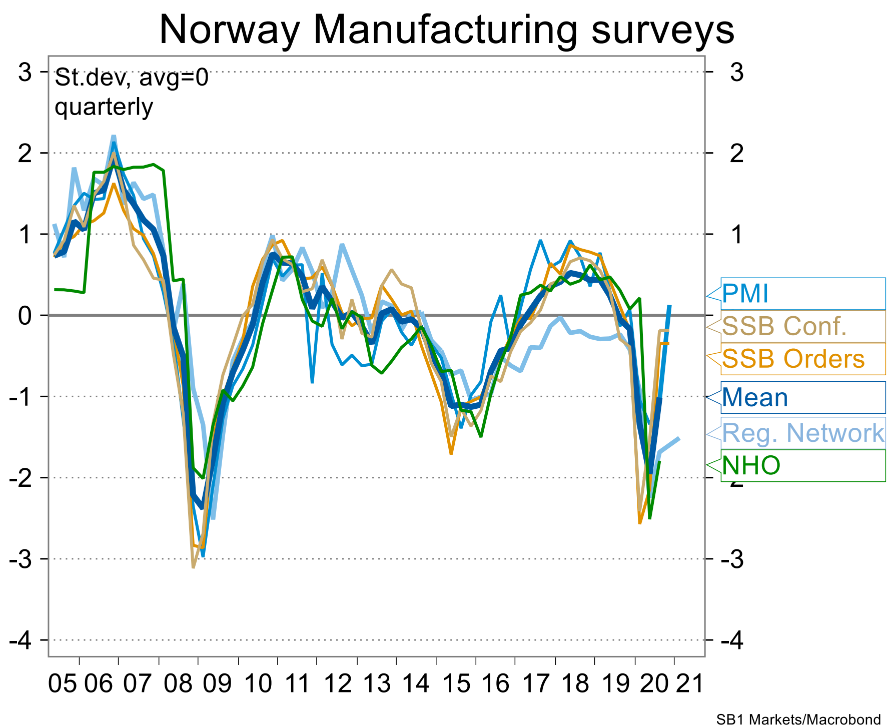


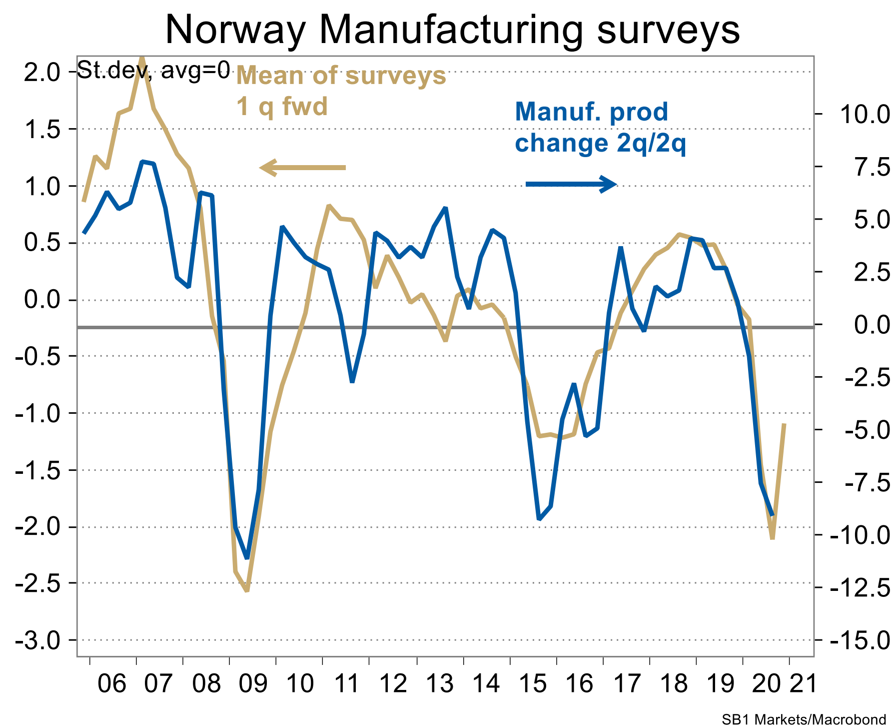


- Both oil sector investments and oil related manufacturing production peaked in Q4 last year, as we forecasted long time ago (before corona hit). Investments are now down some 7% from the peak. We expect a pause in the decline in rest of H2 but at substantial decline next year. The new tax regime may lift the activity somewhat
- Oil related manufacturing production was down 8% in August vs the early 2000 level. Now most of the gap vs. investments may be closed, and the further upside is not that large (even if the Q3 avg still may be low vs. Q3 investments)

Manufacturing surveys are turning up, the average still (too?) weak

The avg is still signalling a steep decline in production – but some surveys are at an avg level





Highlights

The world around us

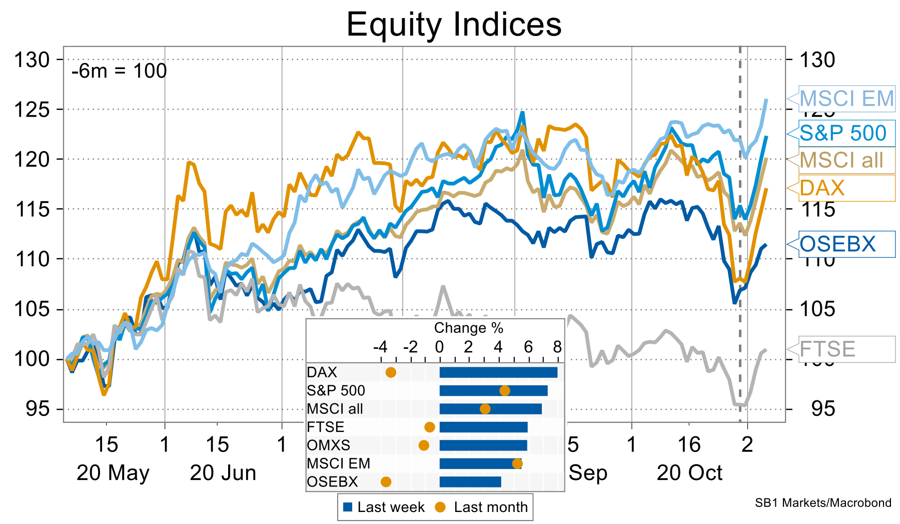
The Norwegian economy

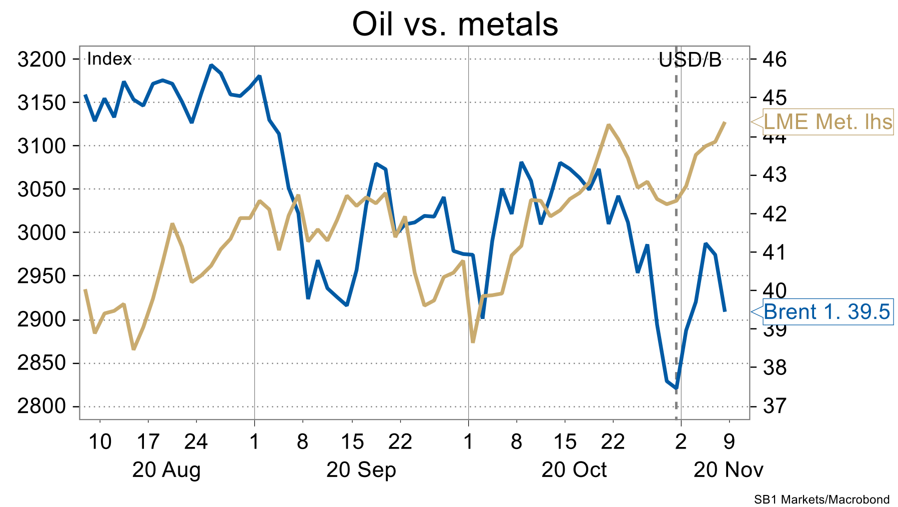
Market charts & comments

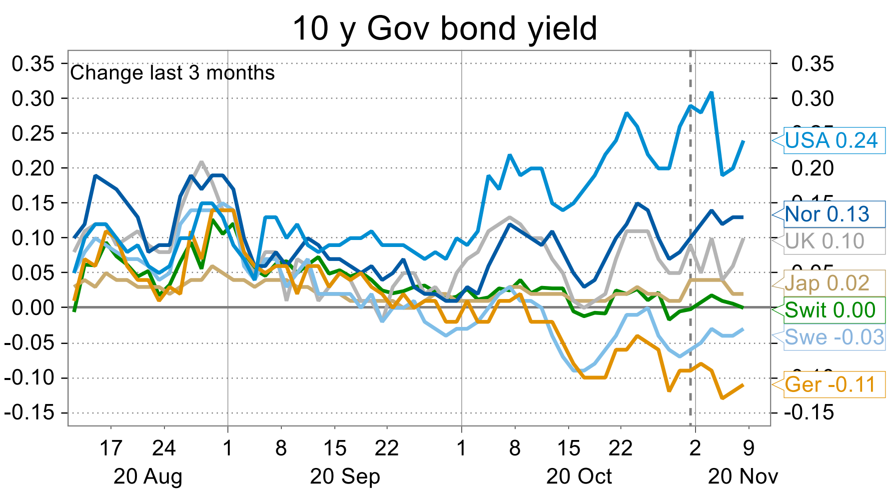
SpareBank 1 MARKETS

Strong equities in the US election week, a split government secures status quo?

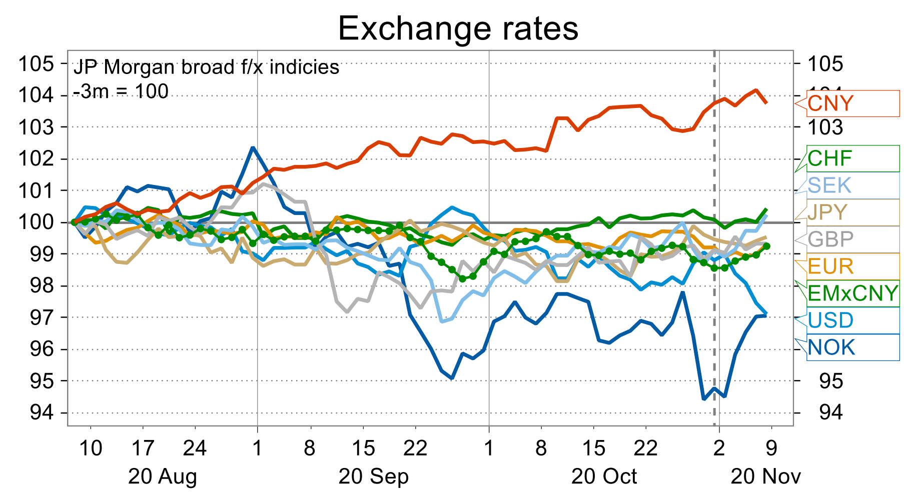
US bond yields were volatile, ended down. And the USD fell further. Oil up but not convincing







US 10 y gov yields closed the week down, elsewhere mostly up (ex. Germany)

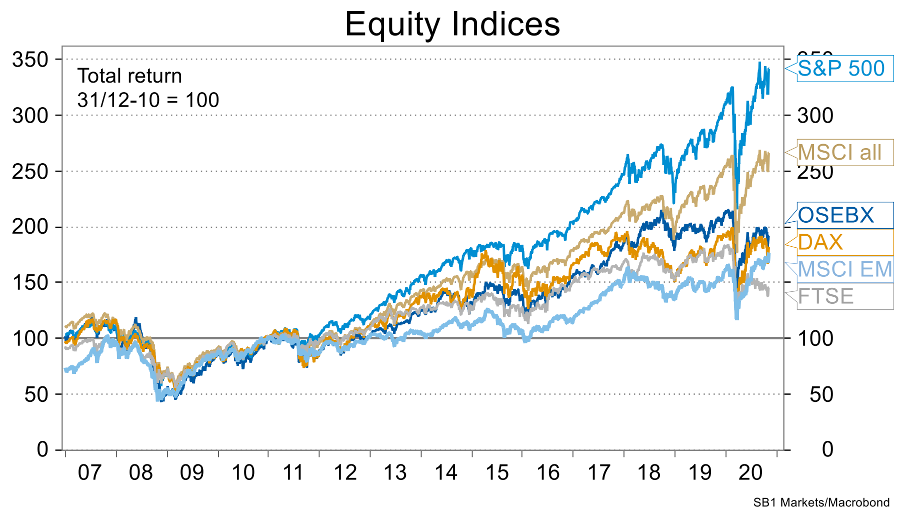


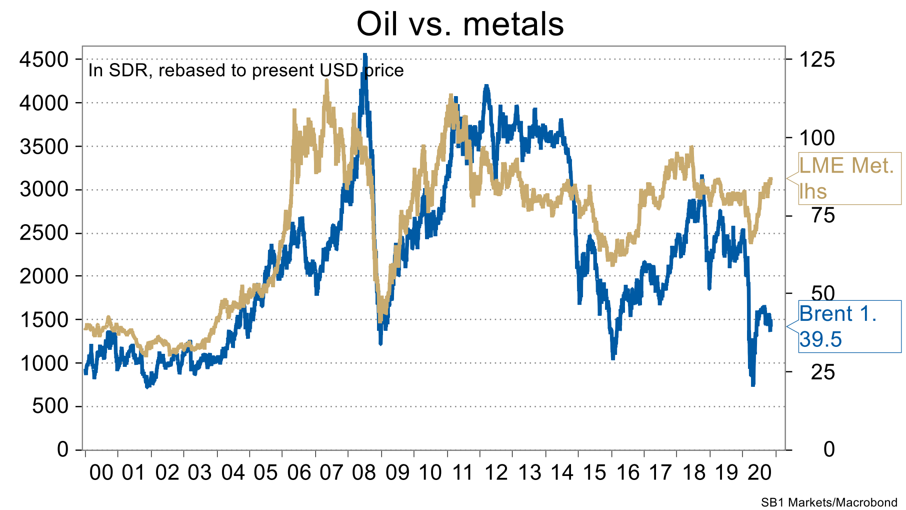
The CNY appreciated again. The USD up too. The NOK not

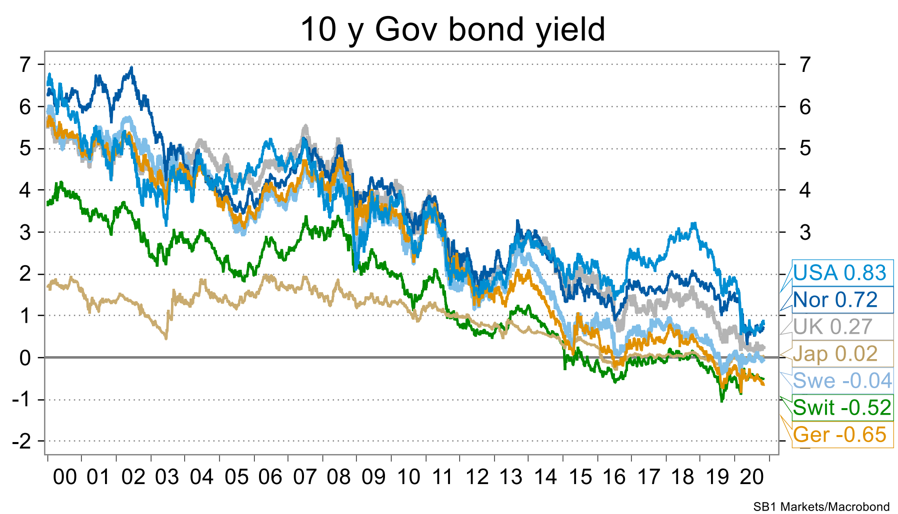
SpareBank 1 MARKETS

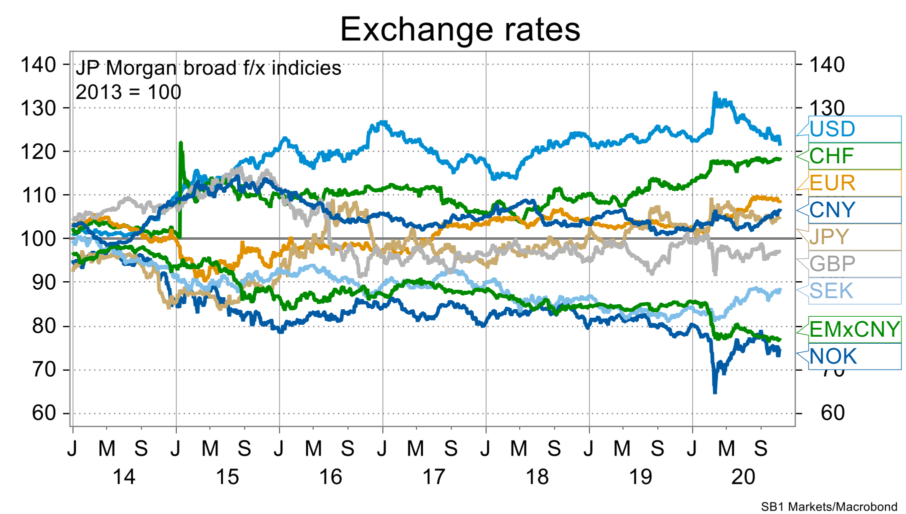
Some turbulence at risk markets, at high altitudes

The oil price is sagging vs. metals, partly due to a sharp hike in Libyan production







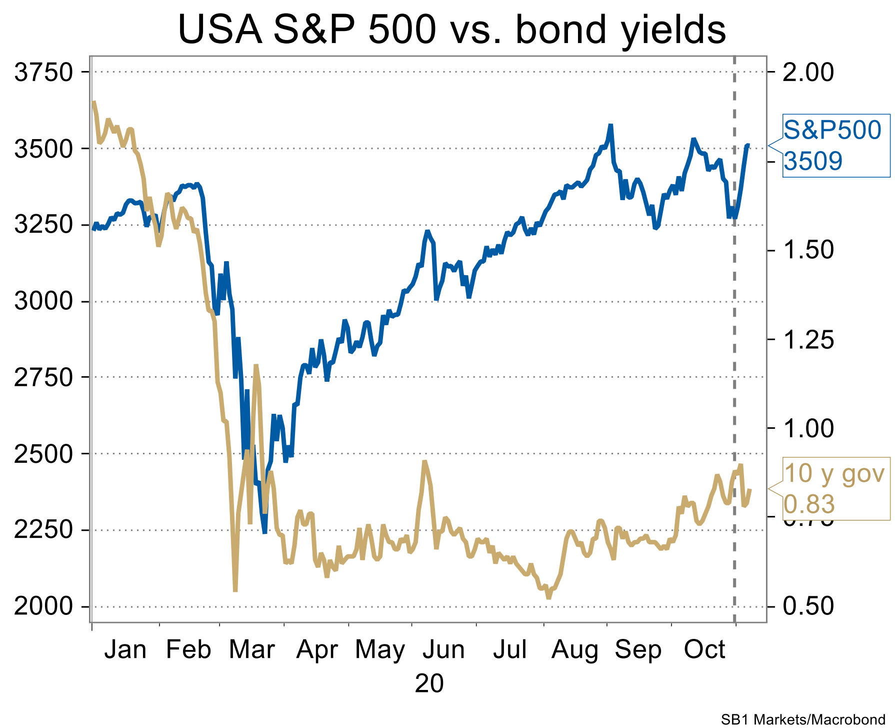


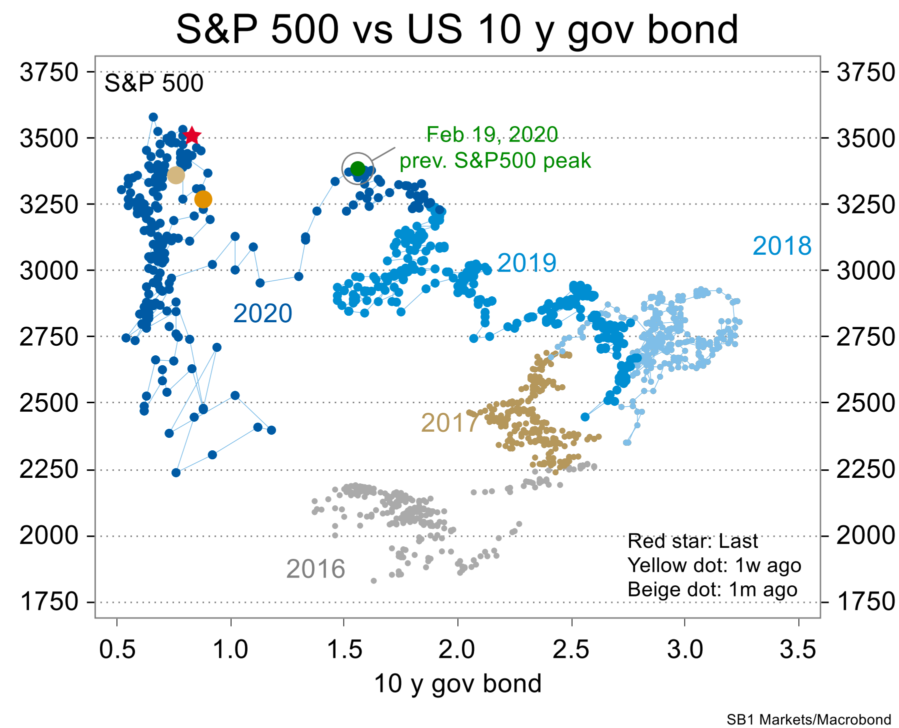
The USD is down but not dramatically – and it is still quite strong (though the weakest since early 2019. (measured by broad f/x indices). NOK is the big loser

SpareBank 1 MARKETS

S&P 500 up 7%, not far below ATH – the 10y gov yield down 5 bps

The stock market flat since mid Aug, bond yields are drifting slowly up

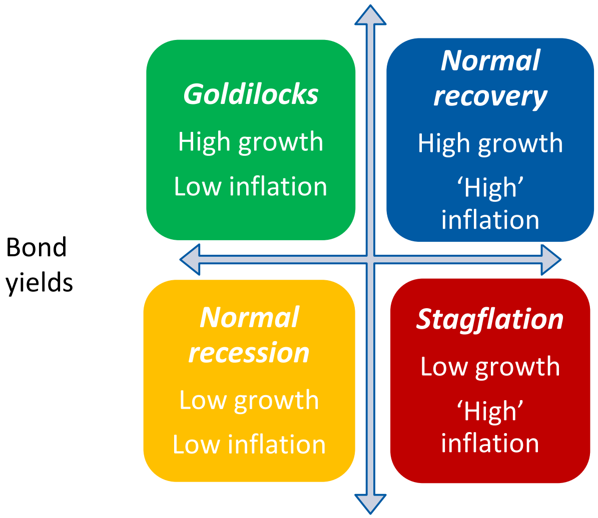


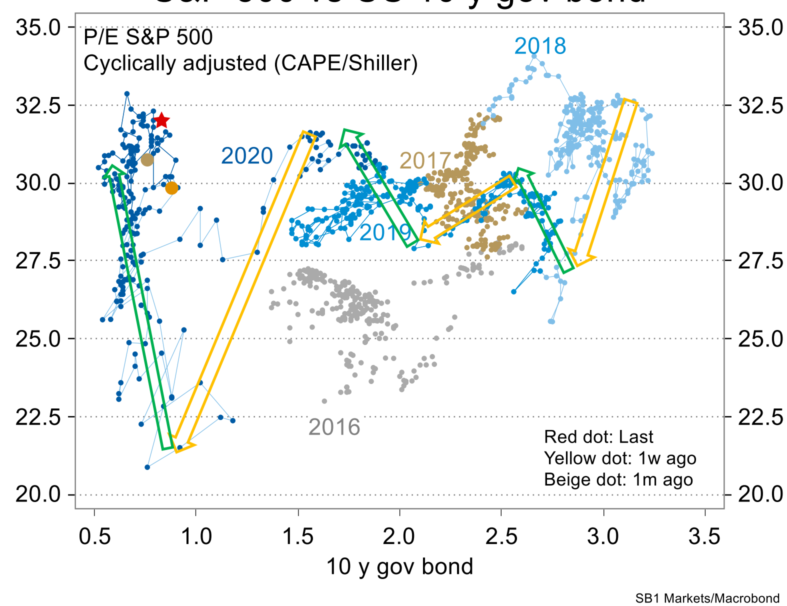


- The 10y US gov bond yield rose to 0.93% in the election day eve when most expected a Biden landslide, and the Senate majority to turn Blue. Than Wednesday morning, yields fell more than 20 bps to 0.72% over the next 36 hours, when Trump surprisingly was in the lead. Since then, yields have climbed by 11 bps, as Biden turned out to have the winning hand. However, as the Senate most likely will remain Republican (2nd round elections in Georgia Jan 5 may change the balance), the Democratic president will have limited room for manoeuvre on domestic issues like budgets, including taxes. A second stimulus package of sort is still likely
- The strong stock market may be explained by both an outcome of the election (even if it was not finally called before Saturday morning, but futures are indicating another rally today. A high probability of a split government, which reduces the risk a reversal of the cuts in corporate taxes or harsh regulation of the business sector or other 'extreme' policies (trade wars or 'socialism')

From the 'Goldilocks corner', where to go?

Over the past month: The 'wrong' direction: Equities down, bond yields up – but a reversal last week



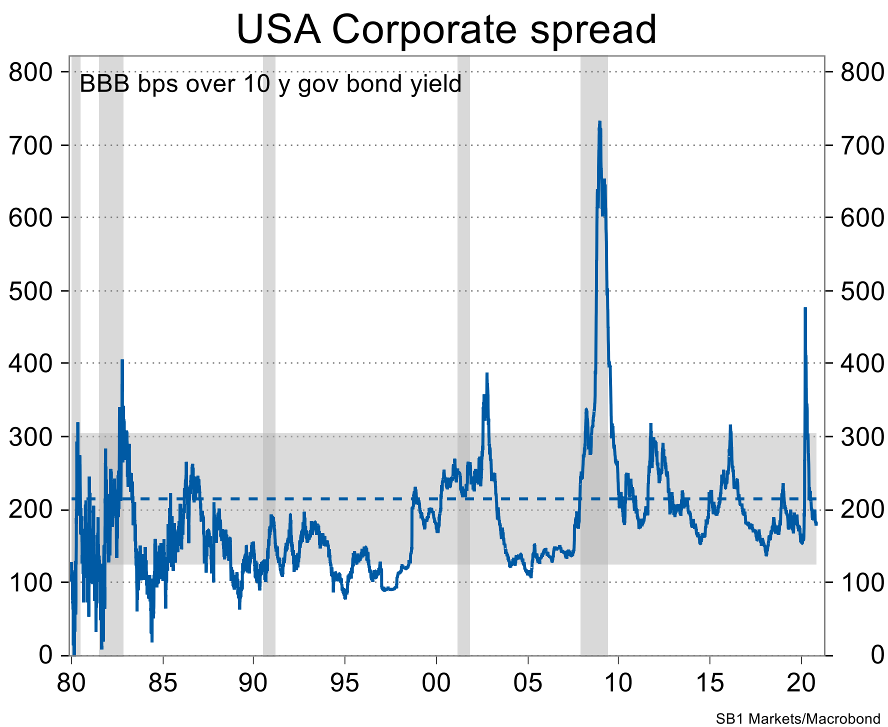


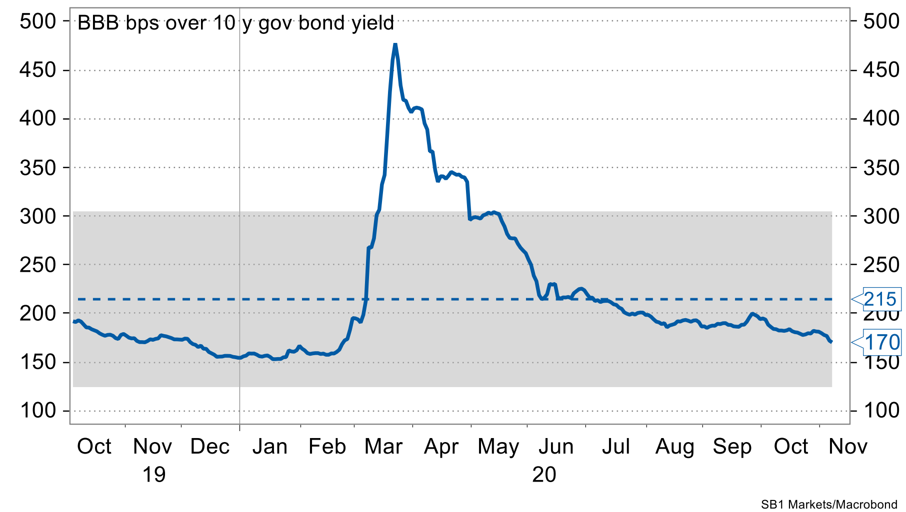
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- Now, the US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and expected to exceed 2% for some time. As a bonus (at a late stage of a cycle), that would also make it possible for the Fed to push employment higher and profits margins lower (which the market will not discount before it is too late?)
- 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. Still, the corona his is most likely behind us, and vaccines are underway
  - » The Fed will not yield from its new strategy anytime soon. However, (higher than expected) actual wage or price inflation numbers or just a rapid decline in the unemployment rate 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

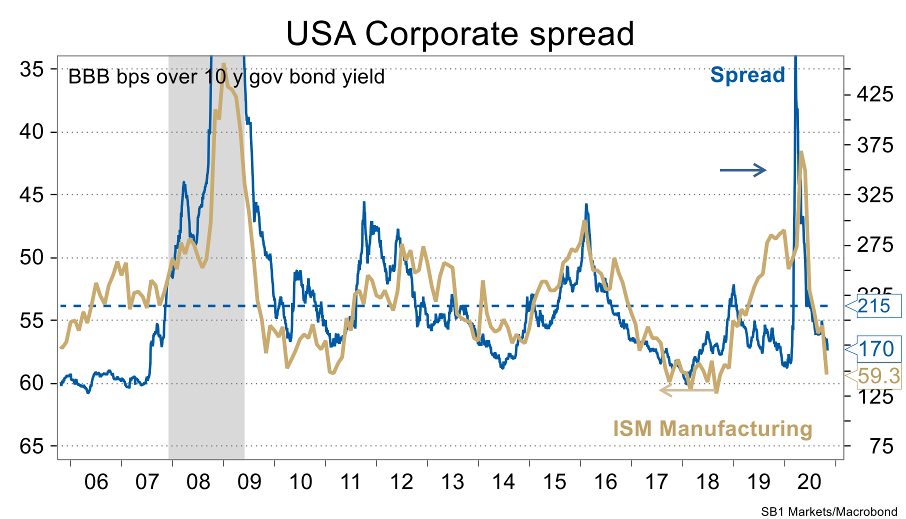
SpareBank 1 MARKETS

Credit spreads further down last week, is approaching Feb levels

Spreads are well below average levels and not much higher than before the corona crisis



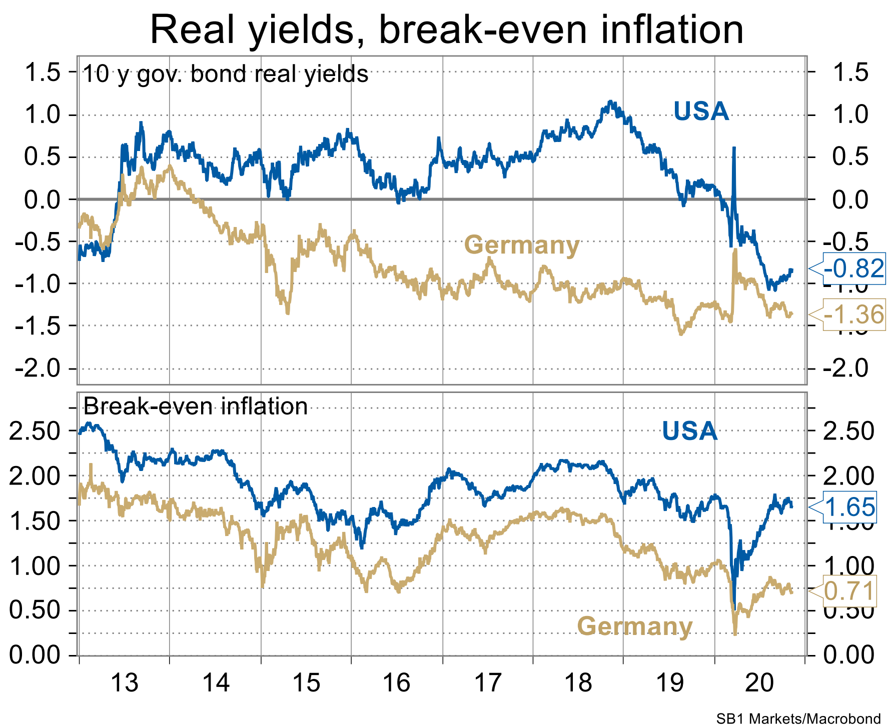


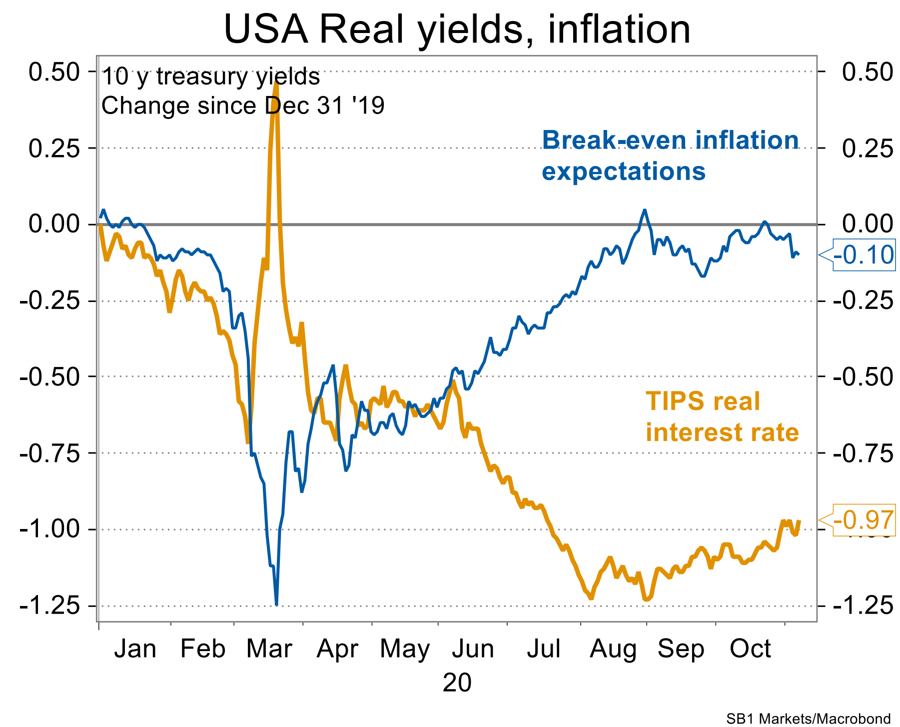


SpareBank 1 MARKETS

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

US inflation expectations marginally down last week – no dramatic response to the election

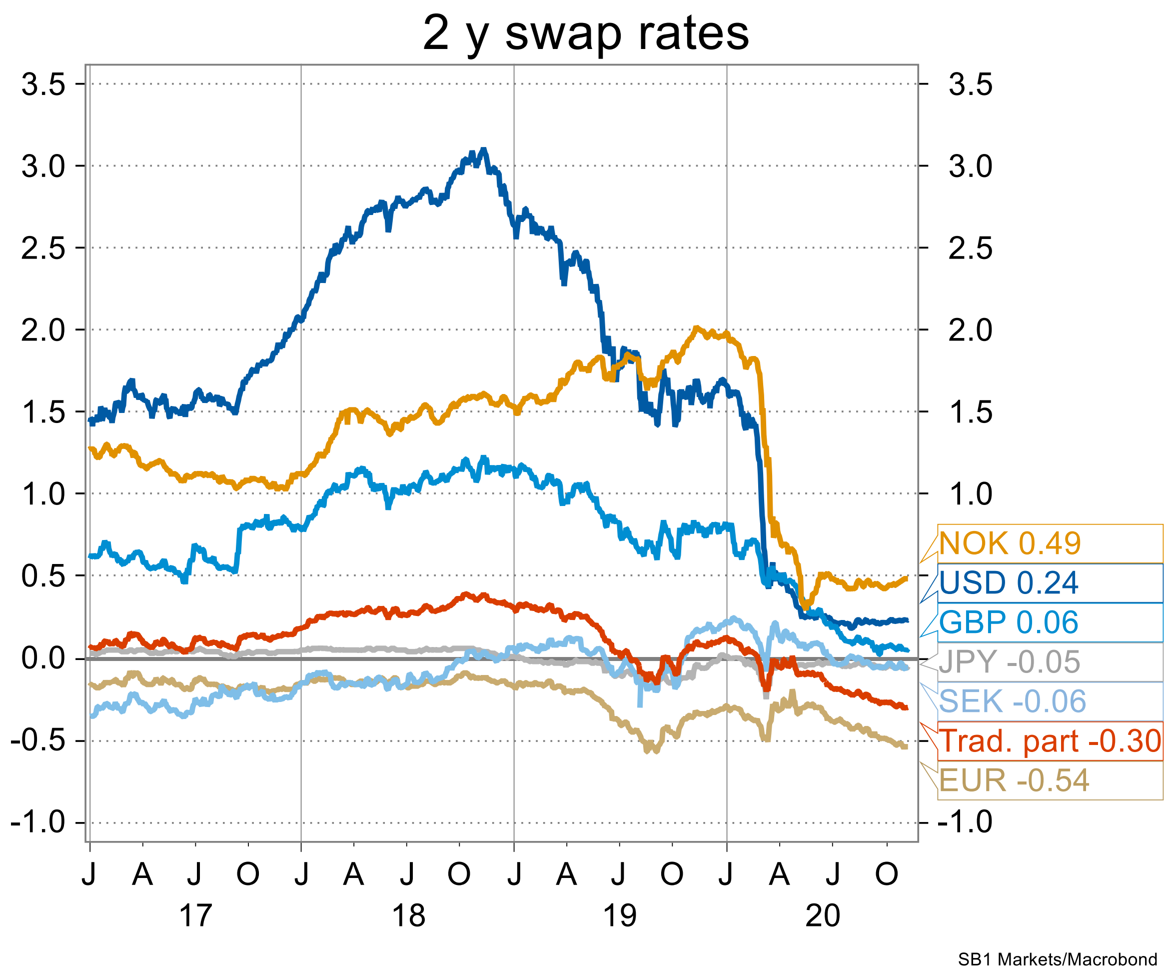


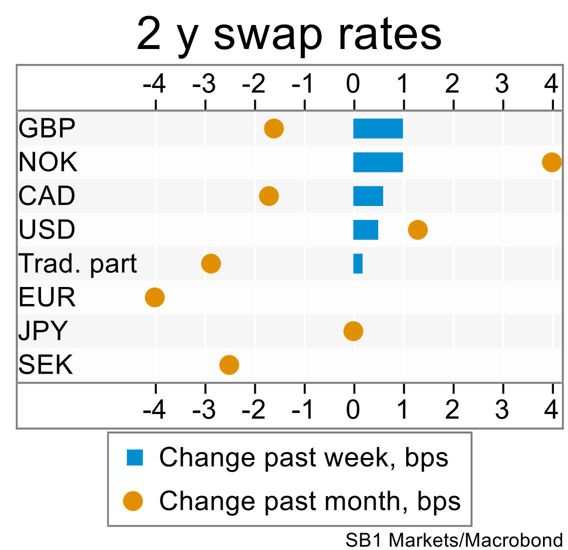


- The German real rate is extremely low at -1.36, inflation expectations at 0.71%

2 y swap rates are close to unch last week

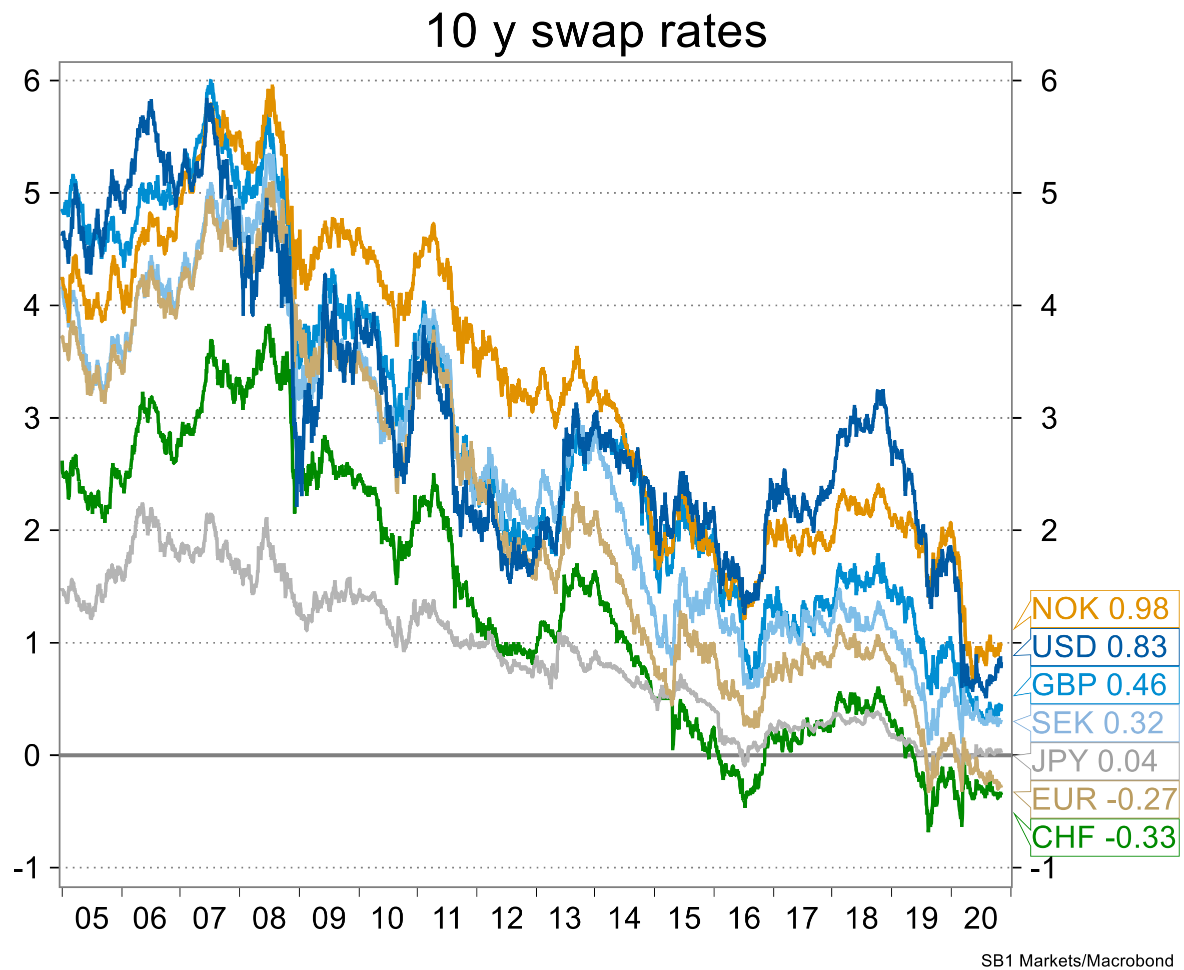
EUR rates are trending down

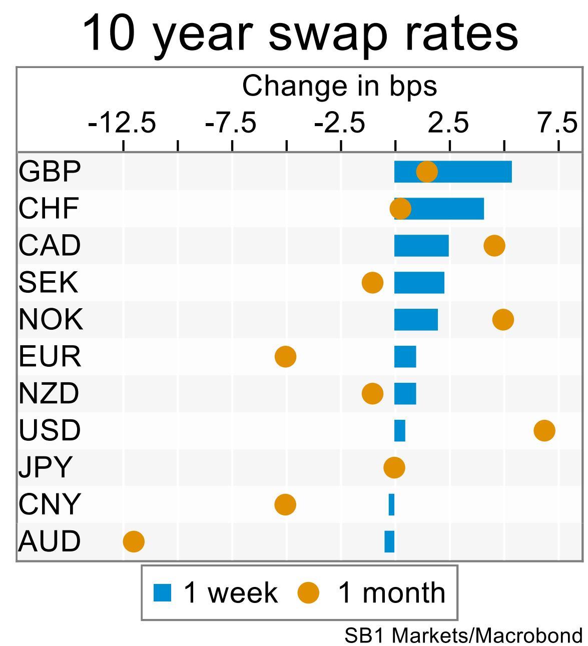




SpareBank 1 MARKETS

Long swap rates marginally up last week – short trend mixed





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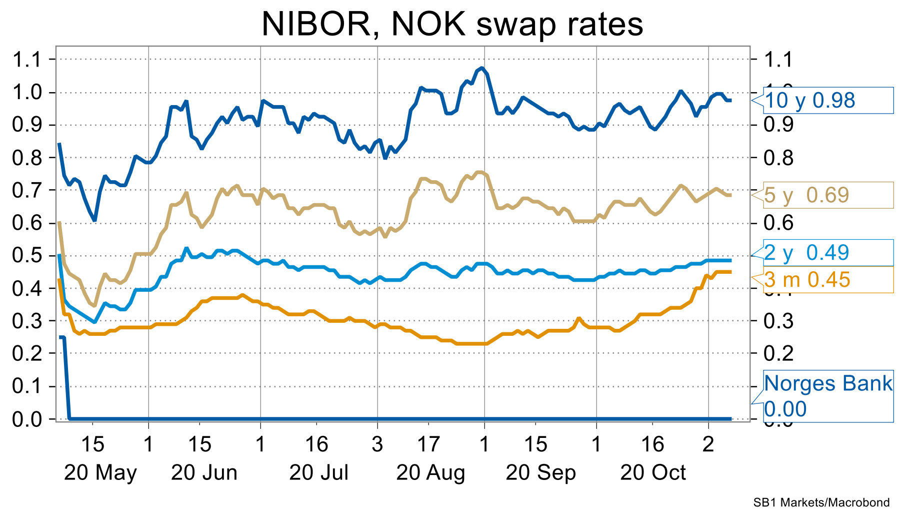
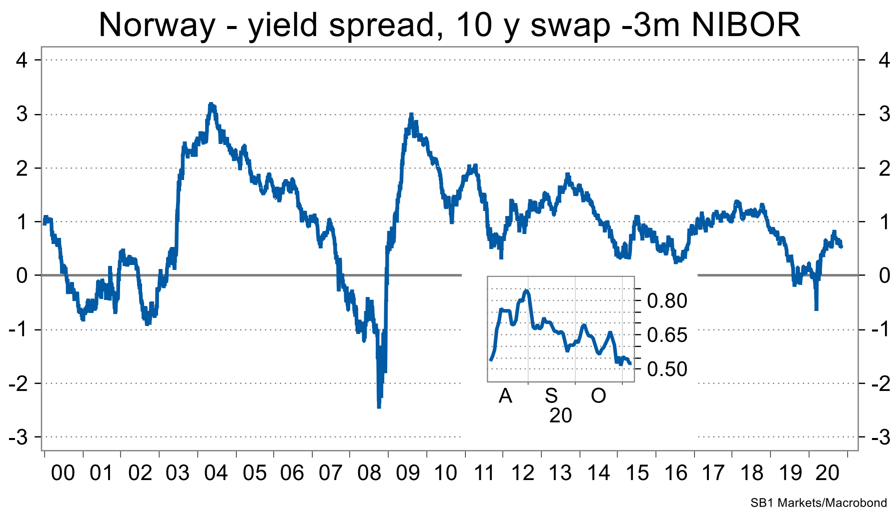
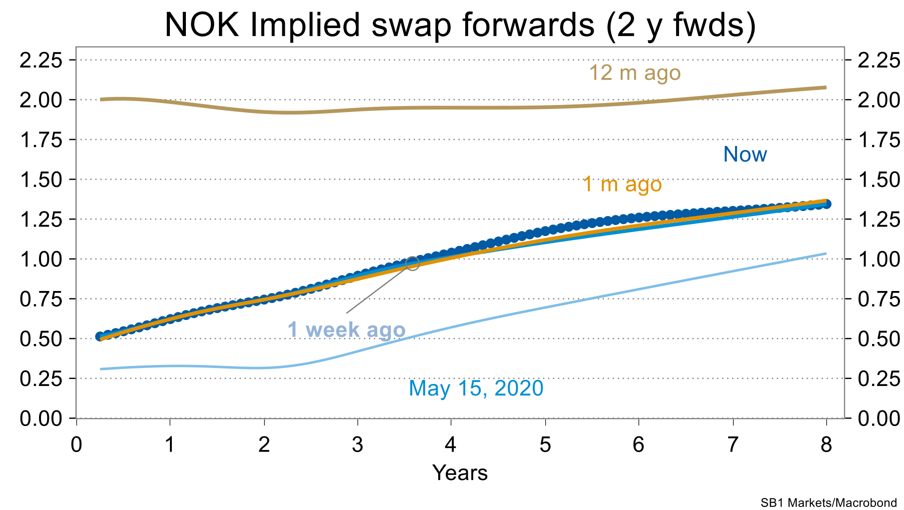
The 2nd half of the curve marginally up

Or should we say the curve was close to unch. last week?

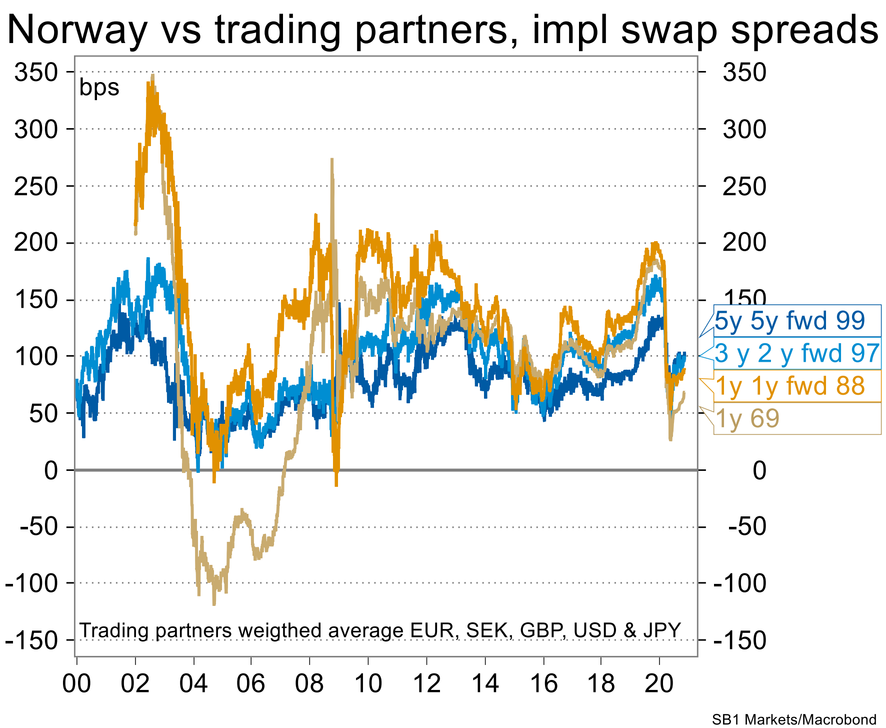


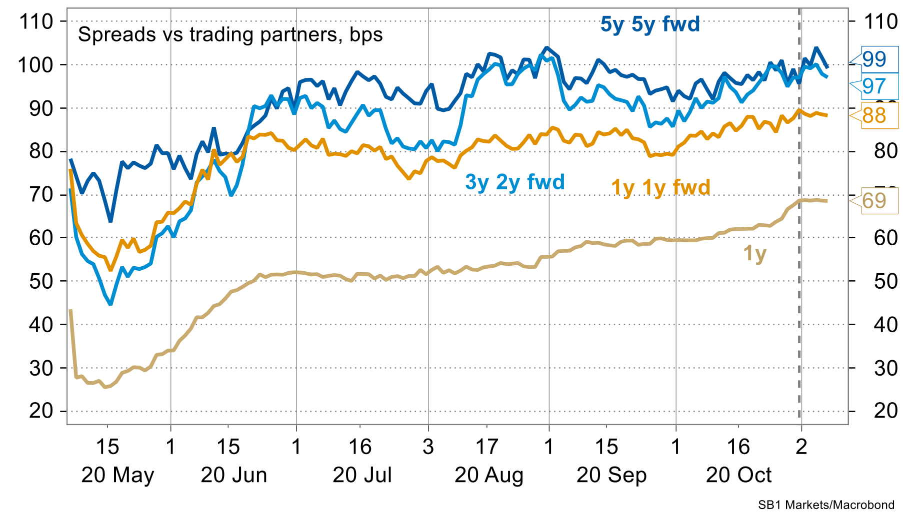


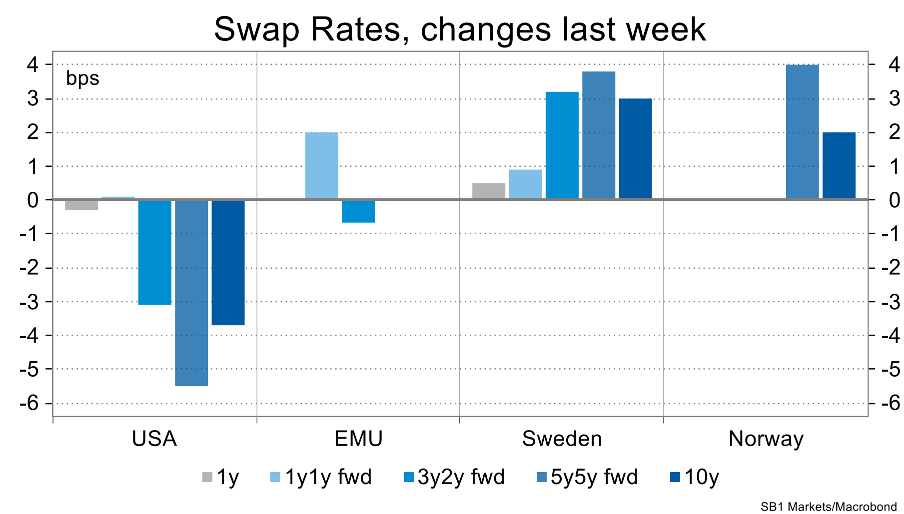


Spreads vs trading partnes marginally out in the long end

Big picture: Spreads vs. our trading partners quite stable since July







- We are still neutral vs. the spread

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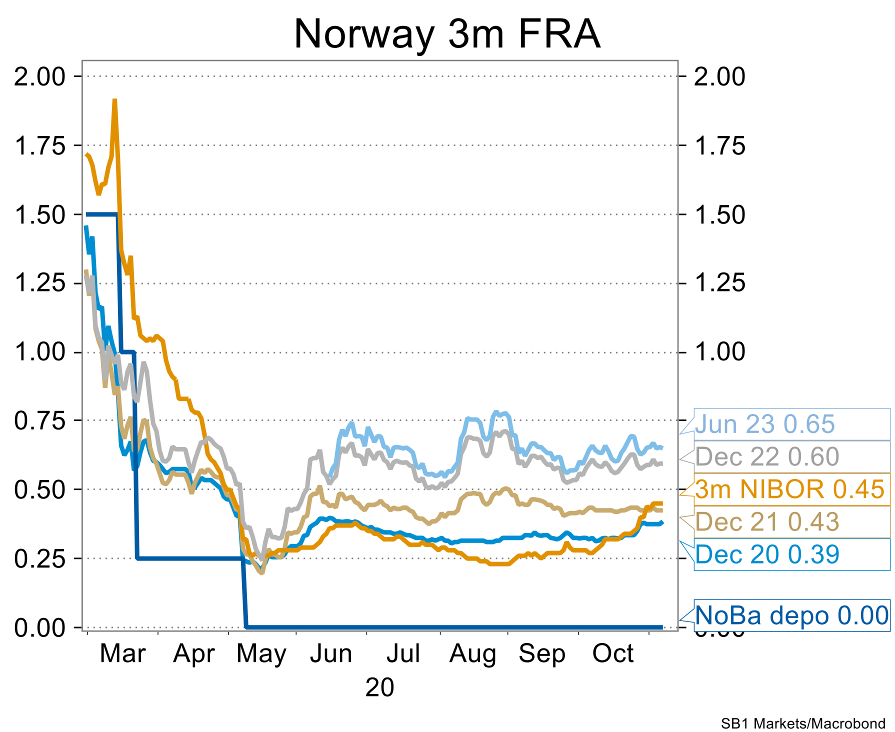
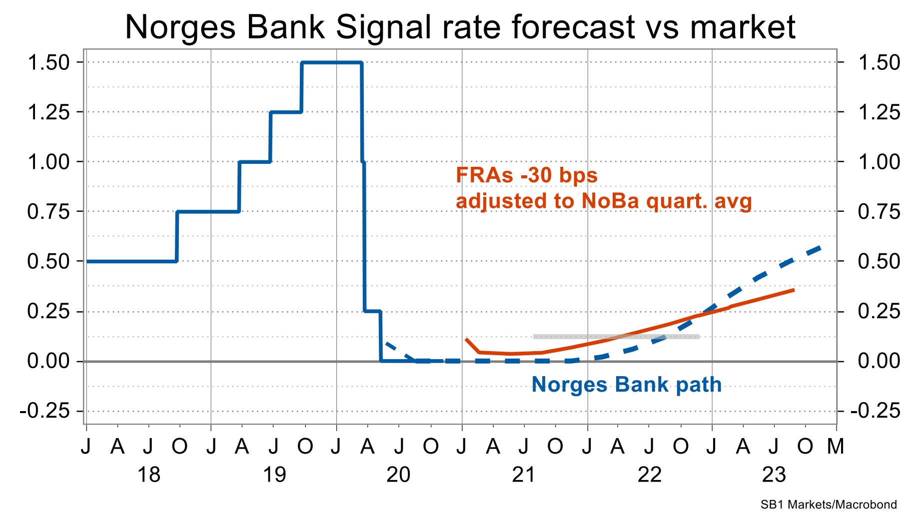
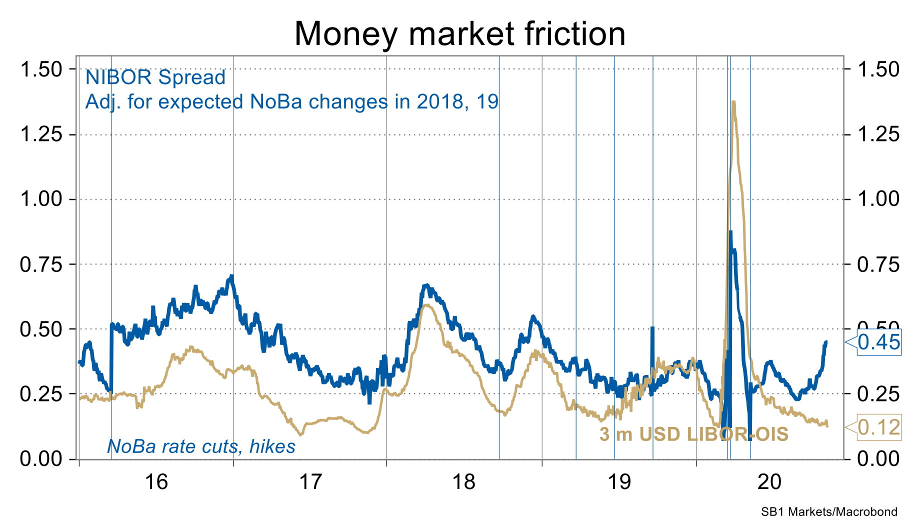
NOK FRAs flat last week – and the 3m NIBOR flattened at 0.45%

Liquidity is still not well distributed in the Norwegian market



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





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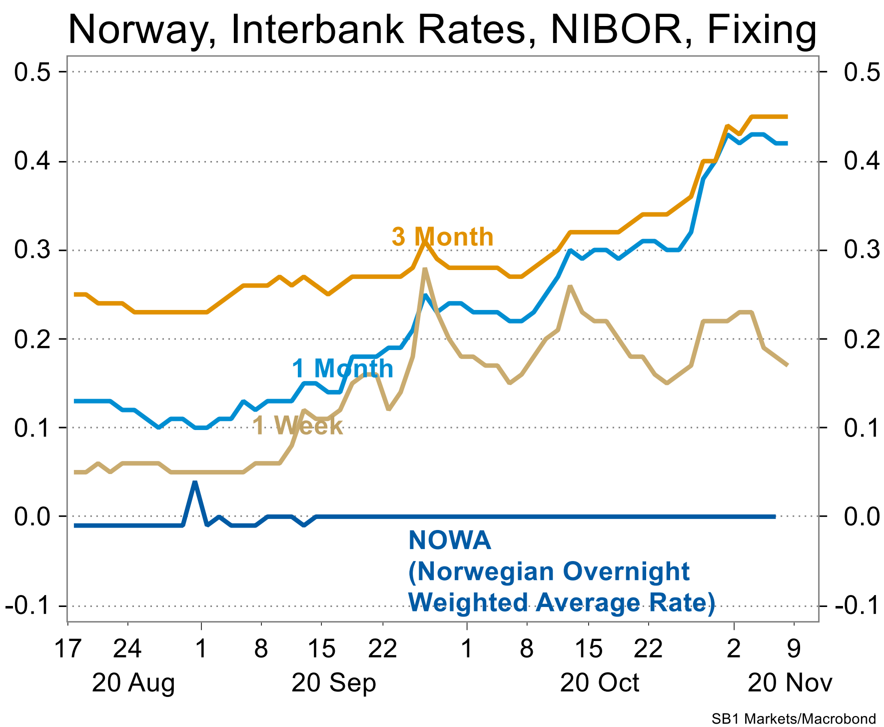
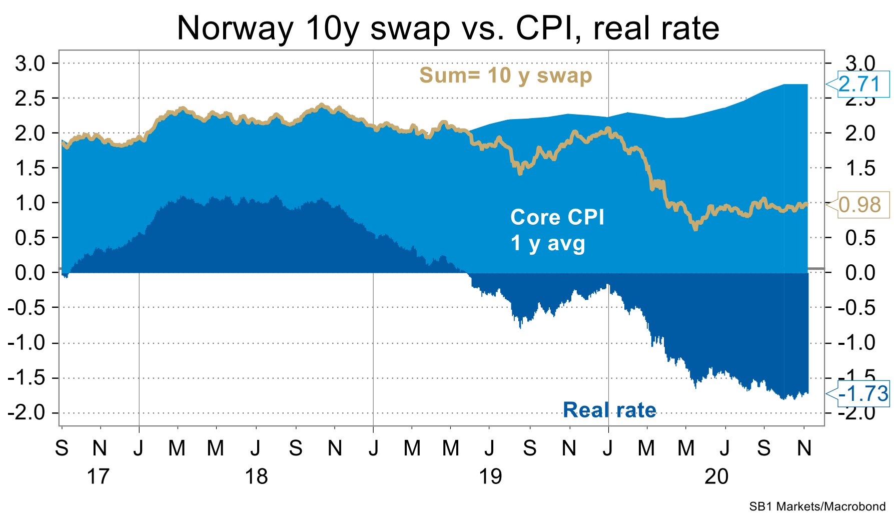
NOK short term rates still elevated but not further last week

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

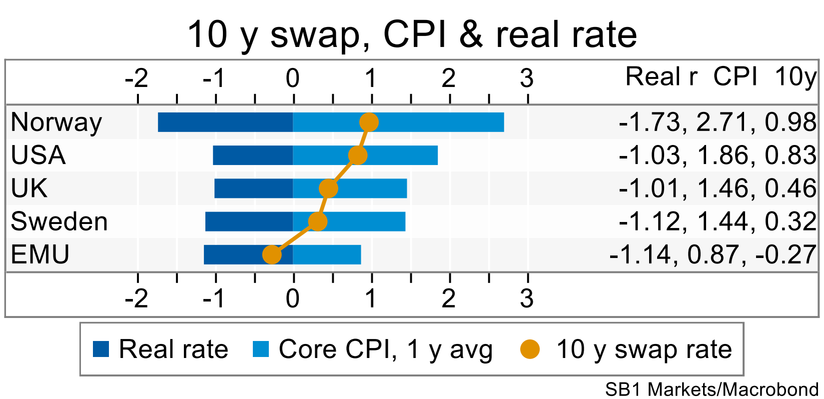


- Banks have not been able/willing to distribute short term liquidity between themselves
- Norges Bank has offered both F-loans and deposits at zero penalty (interest rate=NoBa deposit rate at 0.0%)
- Still, the very short term rates have been elevated. Last week the 1 week NIBOR fell somewhat, to 0.17%
- 1 m NIBOR flattened, now at 0.42% - up from 0.1% in August
- The 3 month NIBOR stabilised last week, just up 1 bp to 0.45%
  - » Often, the reason is higher spreads in the USD market but that is not the case this time – the reason is domestic
  - » There are not any expectations of a NoBa hike any times soon
- 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)

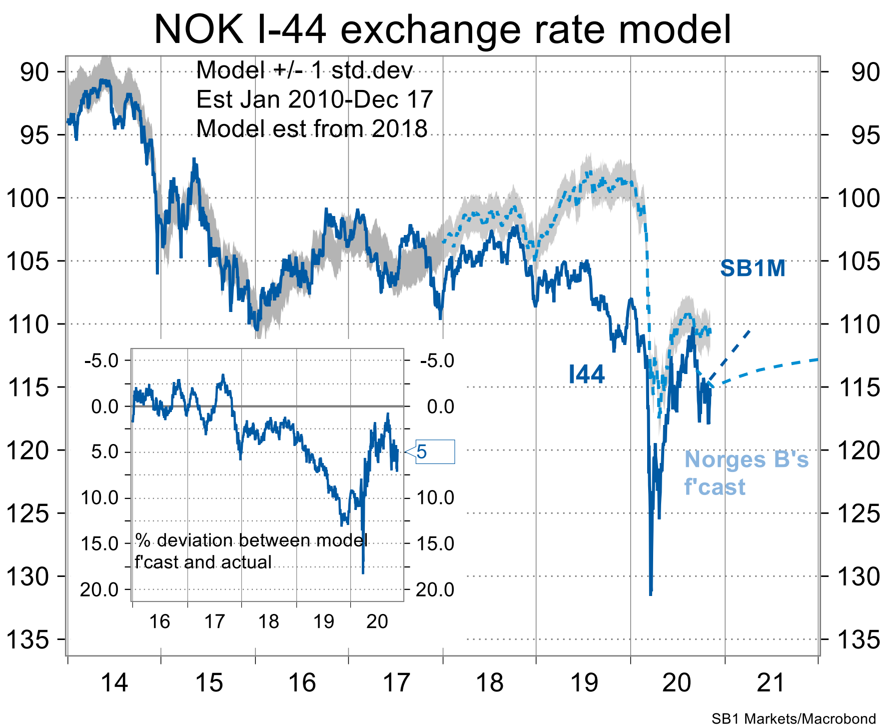


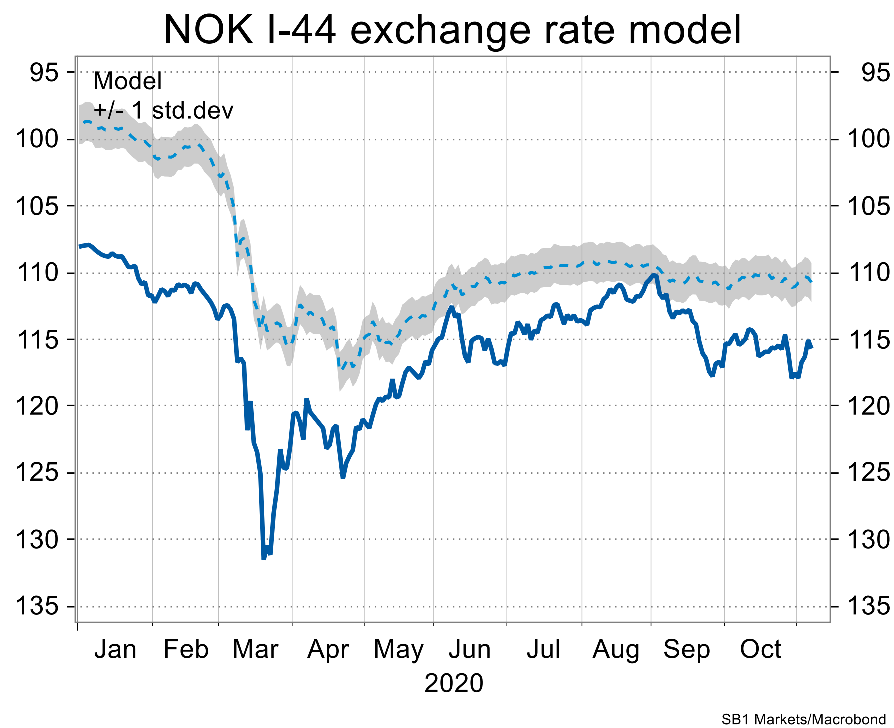
NOK real rates among the lowest, inflation exp. at top

- 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

NOK I44 up 1.5% last week – our ol' model yielded 0.2%

However, the NOK had fallen too much the previous week – and it may still be too weak





- The gap to the standard, oil price dependent model shrank 1 pp to 5% last week
- Risk on at global equity market may have supported the NOK (as has been the norm in 2020)
- 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)

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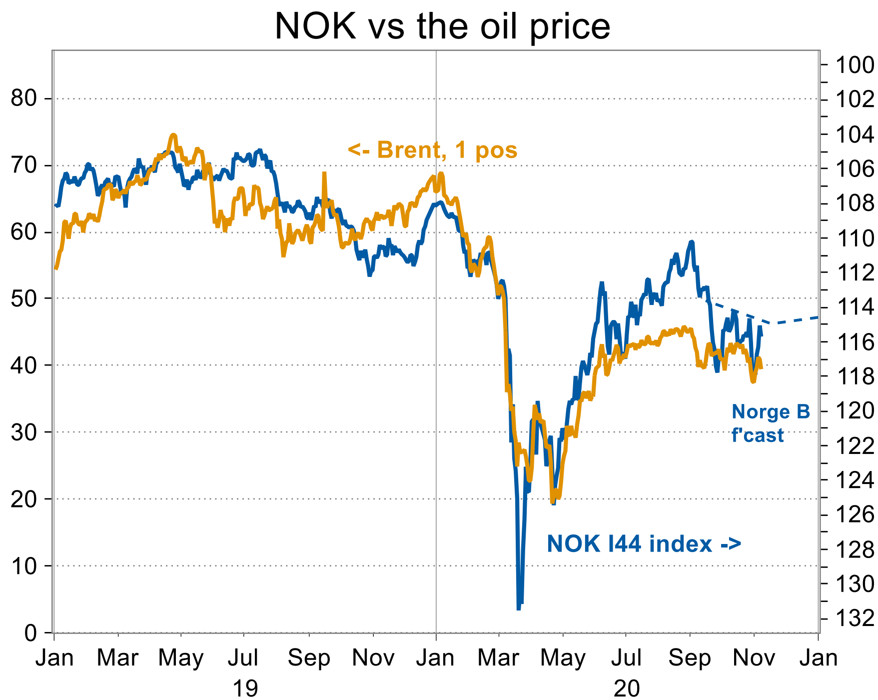
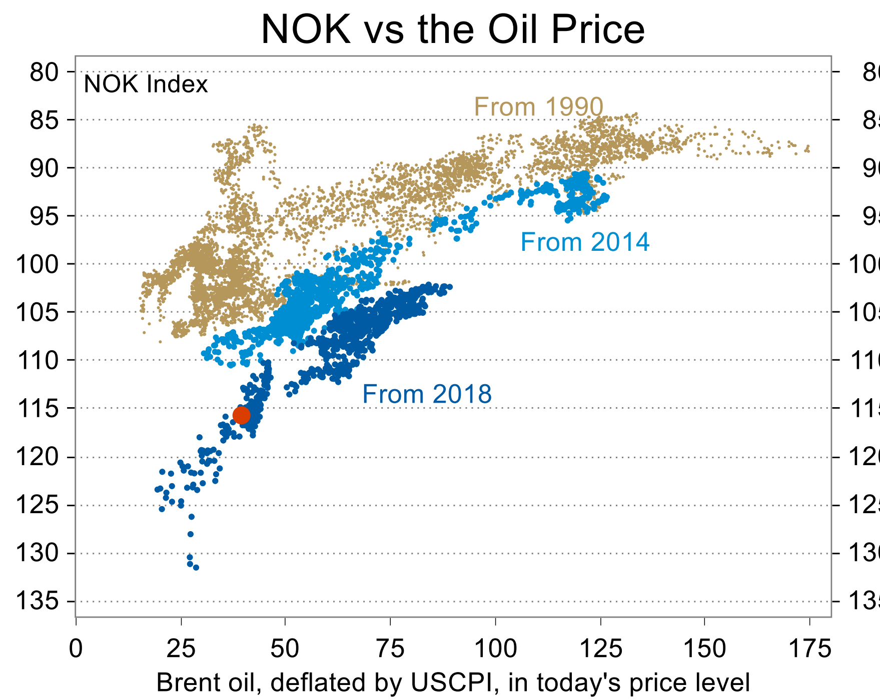
The oil price did not explain the NOK appreciation last week

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



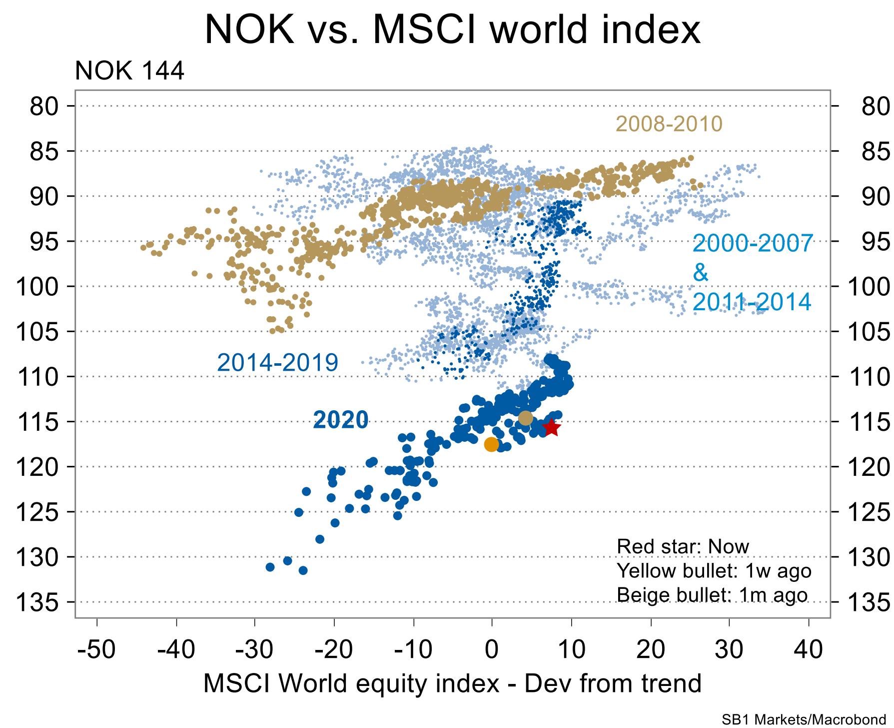
SB1 Markets/Macrobond



SB1 Markets/Macrobond

NOK up but 'less' the stock market last week – and the NOK is 6% 'too weak'

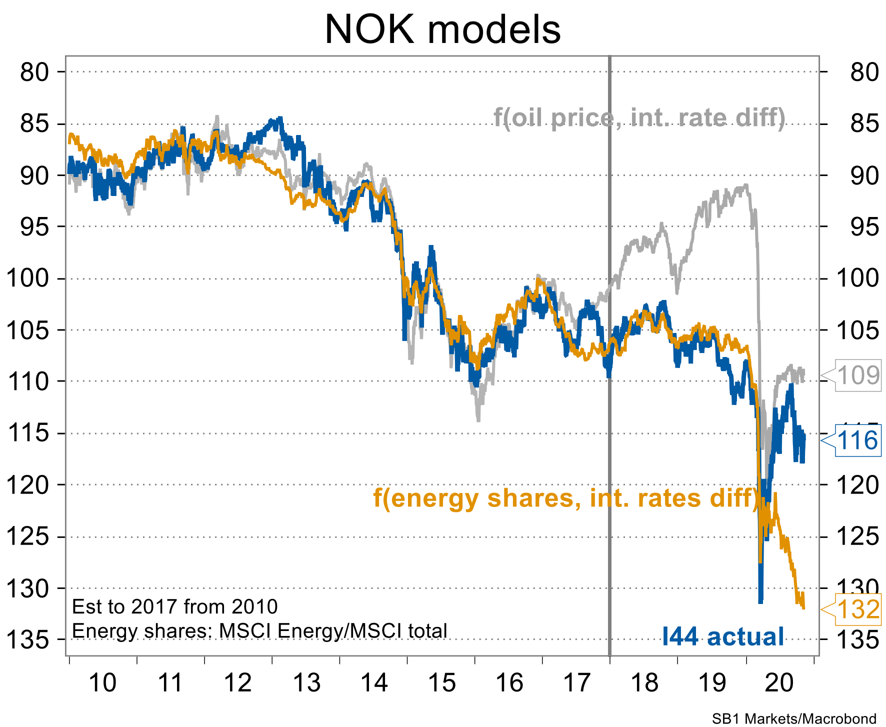
The NOK is still closely correlated to the equity market (here MSCI global) but has fallen behind now

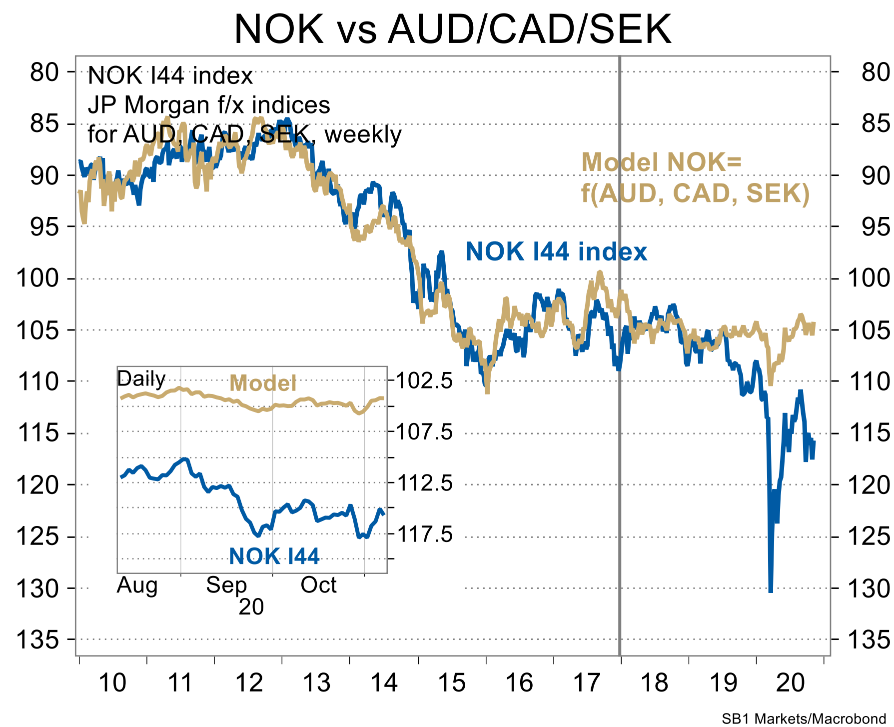


- There has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with correlation like the one we have seen since early 2020
- We have long argued that global equity prices should be more important 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 6% 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 12% 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 10% below our model est. We think this model is more relevant than the oil stock price model

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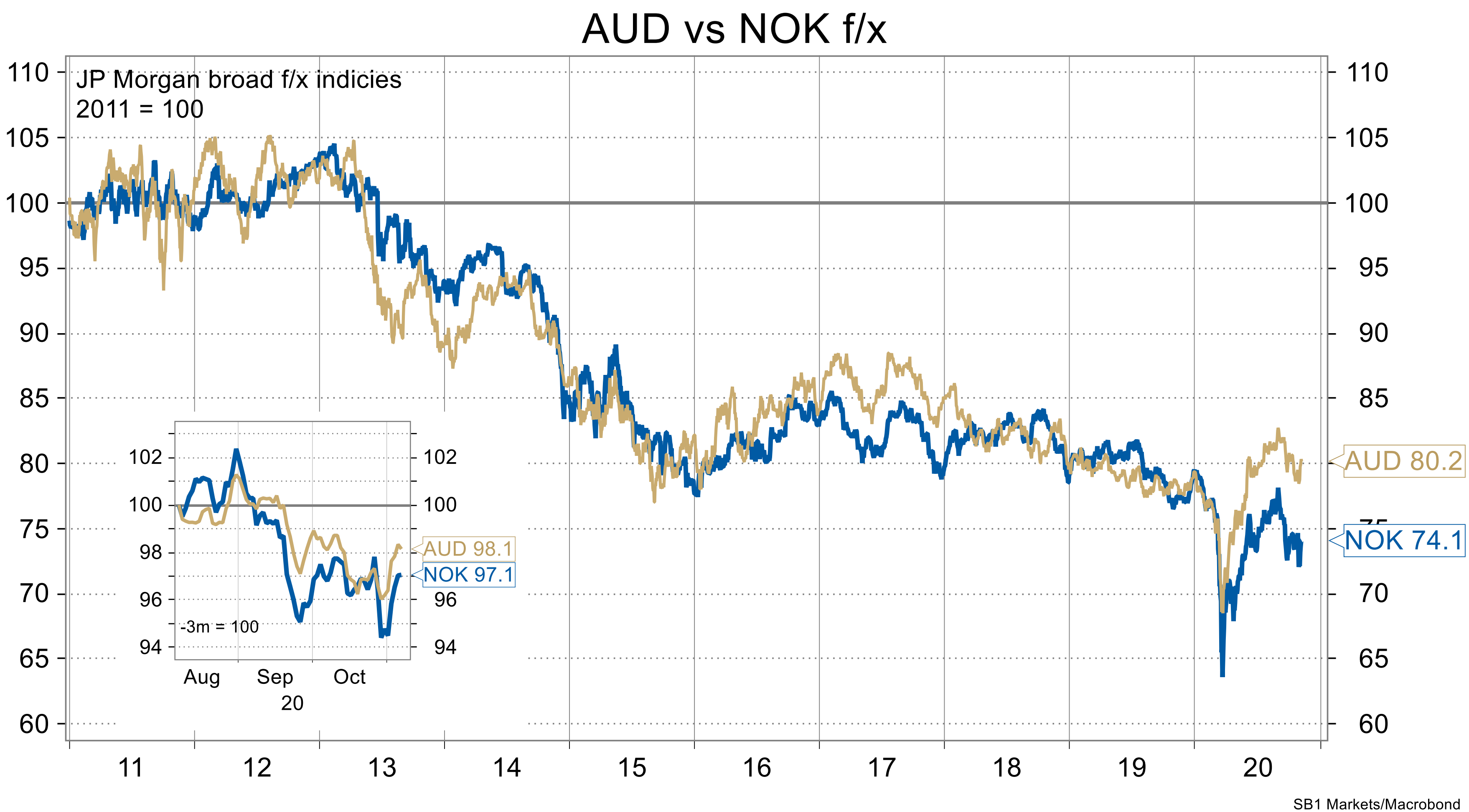
NOK recover, alongside the AUD, of course – quite in tandem past months

However, the NOK has lost some 8% vs. the AUD (and other supercyclical currencies) since February



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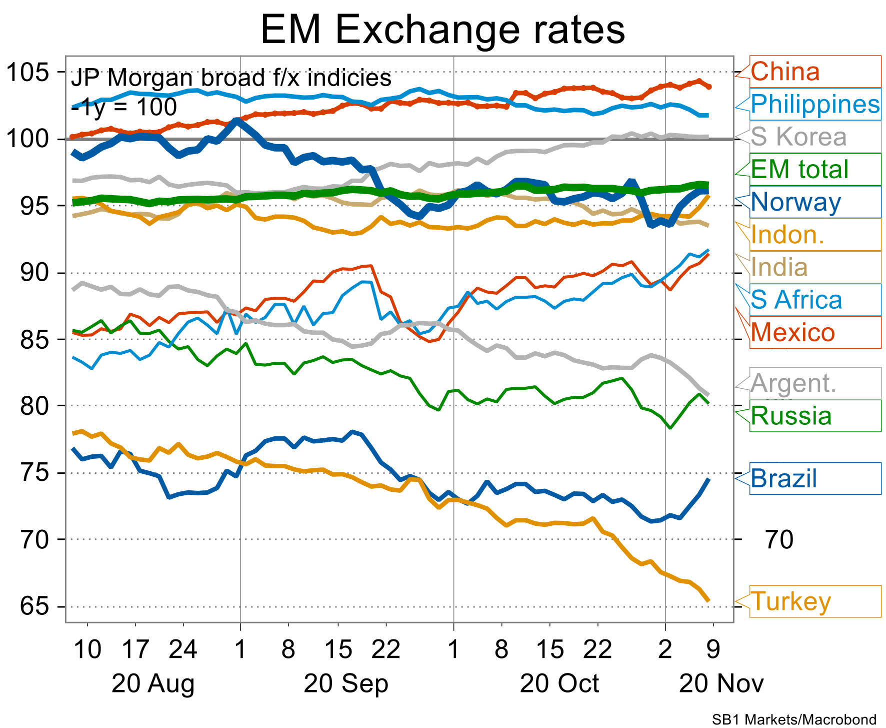
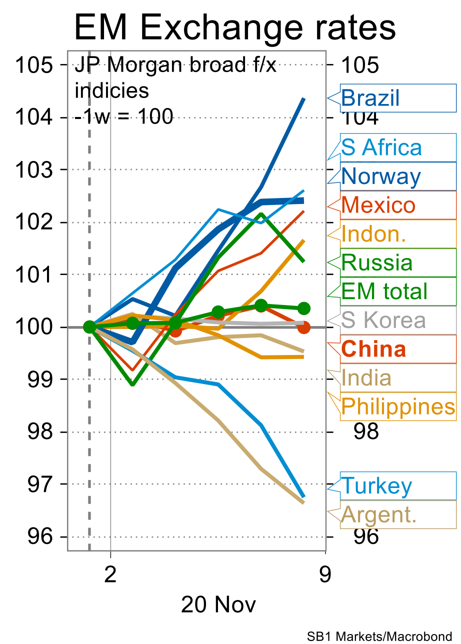
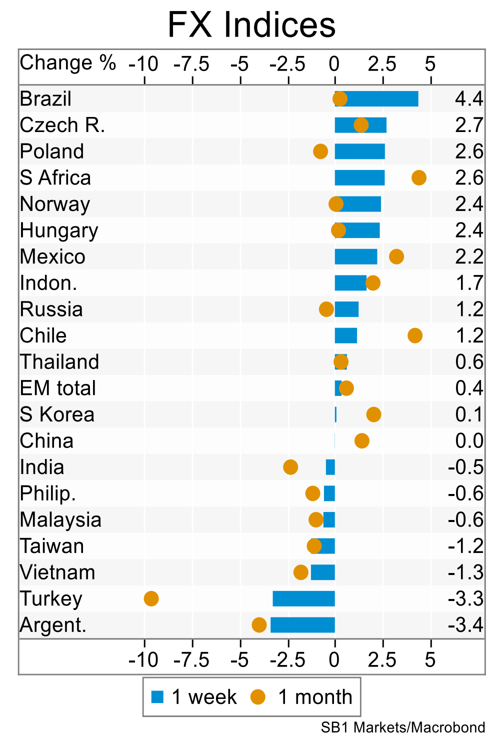
Volatile EM f/x market in the US election week: Brazil up; Turkey & Argent. down

The CNY contintues its way upwards







- Turkey lost its Min of Finance, president Erdogans son-in-law, yesterday, as he suddenly withdraw. We doubt that would hurt the lira, which has fallen by 35% the past 12 months

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