6 December 2020

Macro Weekly

Week 50/2020

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Last week:

- Still mostly **good corona news from Europe**, as the number of cases in most countries is falling sharply. Belgium is down 90% in 5 weeks, France 85% in 4 weeks. Spain, Italy and UK on the way down too – rapidly! Germany, Netherlands, Denmark and Sweden are still borderline cases, albeit with 'low' levels of infection, and some in the South Eastern Europe is not yet brought under control. **Norway** turned down two weeks ago, and the infection level is low, no stress in the health system. In the **US**, the no of new cases is increasing rapidly to new ATHs, following the Thanksgiving reduced testing, hospitalisations are at peak level, and the no. of deaths will reach ATH this week. **Time spent outside home** is increasing sharply in Belgium, ahead of any formal lifting of restrictions. Mobility in Europe in avg is marginally up, in US it is still trending down but not yet sufficient (if other measures are not taken). Pfizer will not be able to produce as many doses of **vaccine** as planned in December, but the delay is temporary. No other negative vaccine news

- **The global PMI** fell just 0.2 p to 53.1, less than we expected, signalling growth at least at trend in Q4. However, the **European services** contributed sharply on the downside. Even so, EMU PMIs do not at all signal a harsh setback in Q4. The **US PMIs** were confirmed strong, and even in the **ISMs** fell marginally, they both remained at high levels, and these and other surveys are signalling strong growth, and no 2nd wave corona economic setback. The Chinese PMIs rose further and are – at the best level since 2010/11 – signalling growth well above trend in Q4. Mostly strong PMIs from the rest of Asia as well. The **Swedish composite** was the best of all – one week after the Riksbank said that Sweden was heading for a new downturn due to the 2nd corona wave. So far, not so

- **Chinese exports** 'exploded' in November, up 21%, expected 12% (still just up 5% m/m). Imports up 'just' 4.7% (anyone better?), as expected – and the trade deficit rose sharply. Export volumes are 10 – 15% above any reasonable trend, imports some 5% above. So far, the US has not been able to 'contain' China. At it will probably never will

- **US employment** grew by just 0.2% in November, half of the expected, and the gap up to the pre corona level is 6.5% - and it ill 'never' be closed at the current growth pace. However, that's anyway not possible before the corona virus is beaten down, and that will take several months, especially as social distancing is not popular in all quarters of the land. **Unemployment** fell further but just because the participation rate fell more than the employment rate. Business are still reporting that it is 'impossible' to fill **vacant positions** – which was confirmed by **Fed's Beige book**. This 'regional' network was not particularly upbeat – and Fed will stay dovish/expansionary at the FOMC meeting later in Dec. Existing (pending) home sales may have peaked, not because demand is slowing but because the inventory is 'completely' sold out. Long **government bond yields** rose sharply last week, and is approaching 1% - up from 0.5% in August

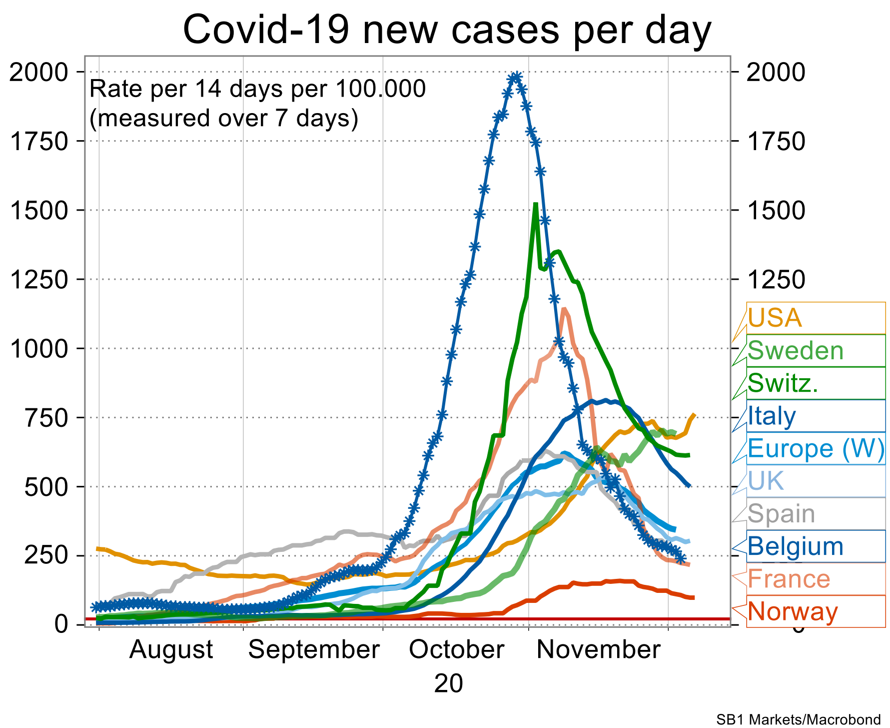
- **EMU retail sales** continued upwards in October, and are 4% higher than before corona. All big 4 contributed – tough before most of the 2ne wave restrictions/lockdowns were introduced. November will be more of a challenge. Nov **auto sales** fell some 5% from Oct, albeit 'just' because French auto sales 'collapsed', down 25%, while German sales rose m/m (and are at high level). However **UK auto sales** fell some 27%, due to the lockdown

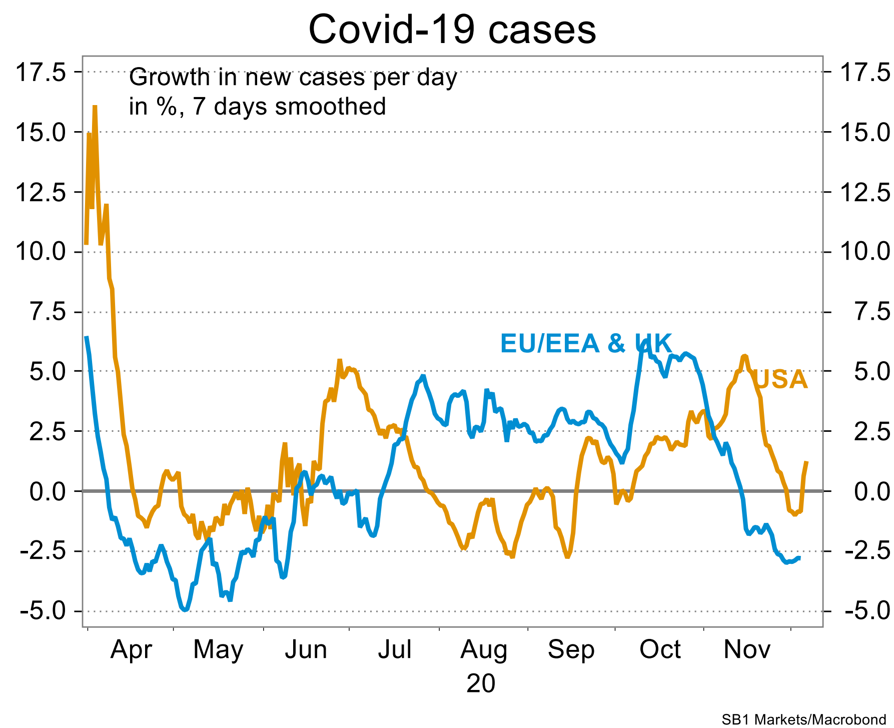
- **Now or never:** The **Brexit negotiations** broke down at Friday but Boris Johnson & Ursula vd Leyen agreed to make a last try (but not more than that) before the European Council meet at the end of this week (so that member countries can ratify an eventual recommended deal before Christmas). Just 2% of the total deal is now on the table, 98% is agreed upon, according to sources. Both the EU and UK want to solve the remaining 2%? Think so

- **Norwegian home prices** rose by 0.8% in November, as we expected. Prices are now 11% higher than the bank expected in May, when the signal rate was cut to zero (and up 8% y/y) . The no. of transactions remain high, and even if the inventory did not decline further in Nov, it is very low, especially vs. sales. **NAV unemployment** fell marginally in the last week of November, confirming that the labour market is not falling apart, this time. **Credit growth** is slowed as expected in Oct. Household credit has accelerated since the spring but not further recent months, and is <u>not</u> higher than underlying income growth. Corporate borrowing has not slowed recently is now well above NoBa's pessimistic Sept f'cast. **Household savings** fell to 13% in Q3 from 21% in Q2, as consumption rose almost 10%, and **household incomes** fell, for the 2nd quarter in row. Incomes are still not hard hit by the corona setback. November **auto sales** fell marginally, remain above 'normal'

Europe has made it again. The US not

The decline in no. of new cases, hospitalisations and deaths continues. US accelerates again, after TG

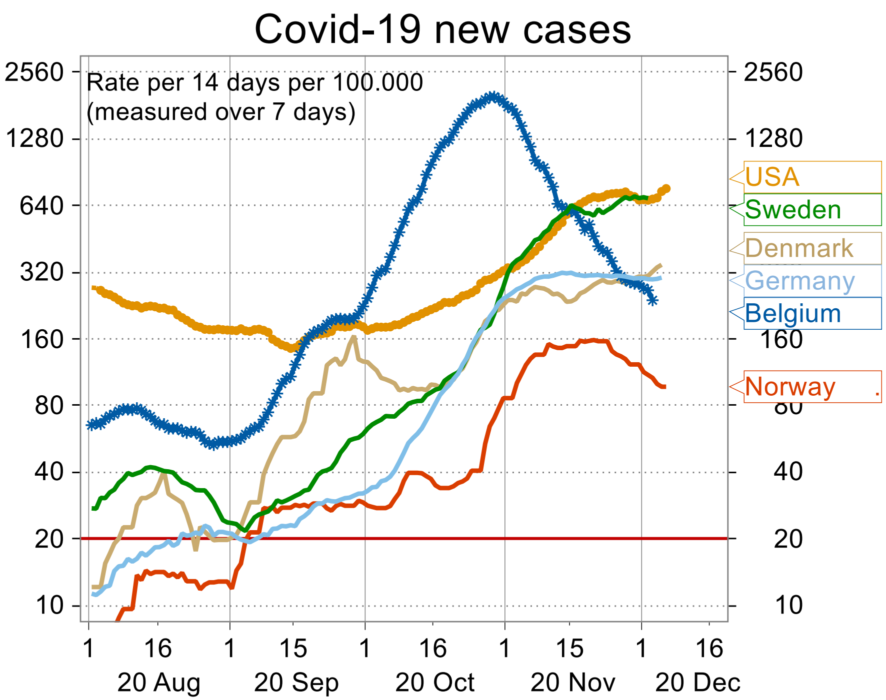




- As we noted last week, the decline in cases in the US was probably due to 10% decline in testing - and it was. Now, the no og cases has climbed to new ATHs, as are hospitalisations and the no of deaths per day are on the way up to ATH
- In Europe, the 'R' remains is well below 1 in most countries, and the number of new cases is falling rapidly – especially in countries that had a high number of new cases. Mobily has declined as restrictions have been imposed. We expect restriction in some countries to be eased before Christmas, as the infection rate has fallen and the economic/social costs are substantial. Germany is a laggard, together with Denmark and Sweden – though both Germany and Sweden are at 'low' levels (300) – Sweden at 650'
- The number of new cases in **Norway is now slowly but steadily declining.** Some measure were eased last week – and more will come

Not everyone is headed in the right direction

The US, Sweden, Denmark, and Germany are struggling



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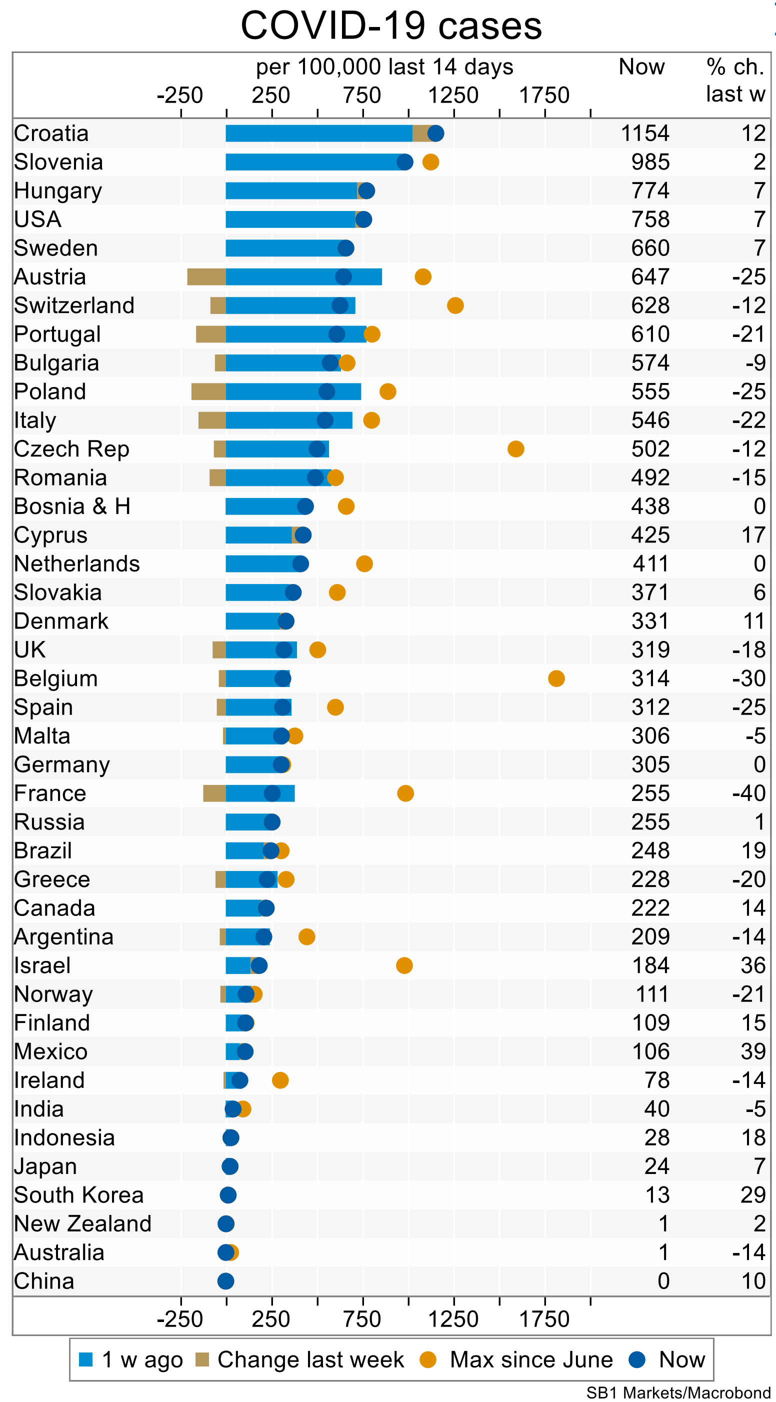
- The number of new cases in Belgium has fallen 85% the past 4 weeks
  - » Some of the decline may be due to less testing, but the positivity rate has fallen sharply as well
- Almost all other European countries are rapidly on the way down
  - » Except some few, like Germany and Denmark – and some in the South East
  - » Most likely, the number of new cases is now peaking in Sweden (and death rates are not high)
- Growth in cases in the US is not the way up again
- Norway turned south two weeks ago, well before any health problems turned up
  - » Just some 1 – 1.5% of the capacity of hospital beds/IUCs are occupied by corona patients. The corona death numbers are very low too – and there is not any 'health crisis'

The big picture: Still many on the way up

… and the level is rather high many places

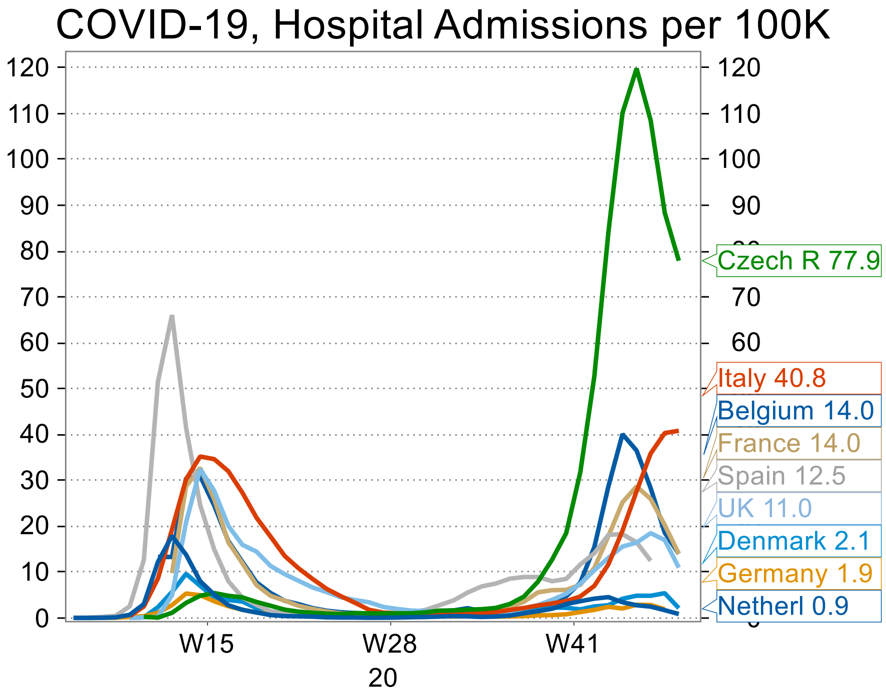
- Croatia, Slovenia and Hungary at the top followed by the US and Sweden – and none of them are on the way down
- Most other European countries are heading down – and Belgium has fallen from the top at 2000 down to 300 (over 14 days, closer to 200 last week)
- Lockdowns work everywhere and every time!

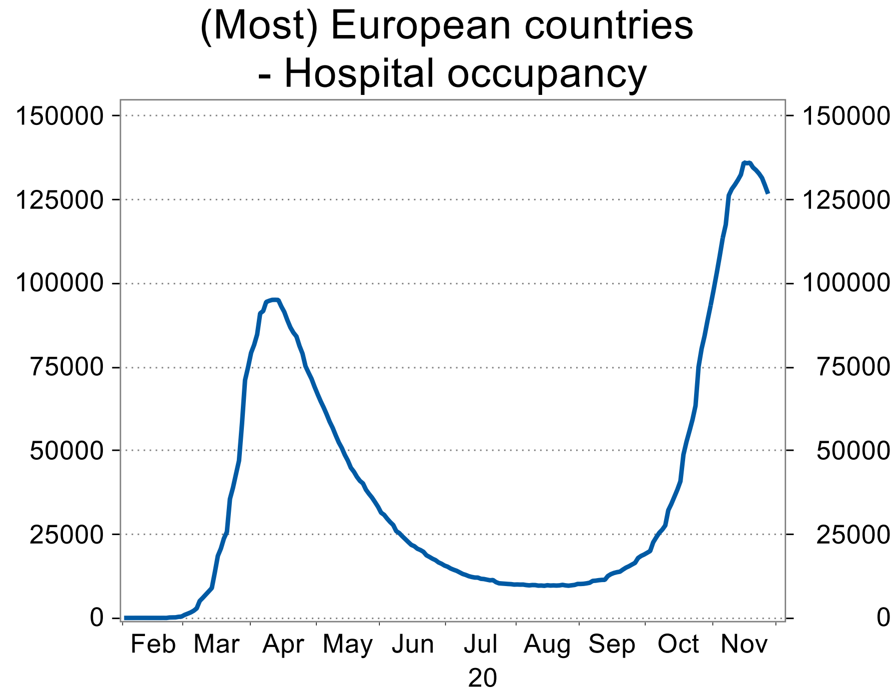
Comment on the data: At the chart at this page and the next, we present accumulated cases over 14 days, and not over 7 days, at a 14 days' pace, like at page 4 - 6. Thus neither level data or growth rates are equal – but the broad patterns are of course the same



Corona became an unbearable health problem, some places

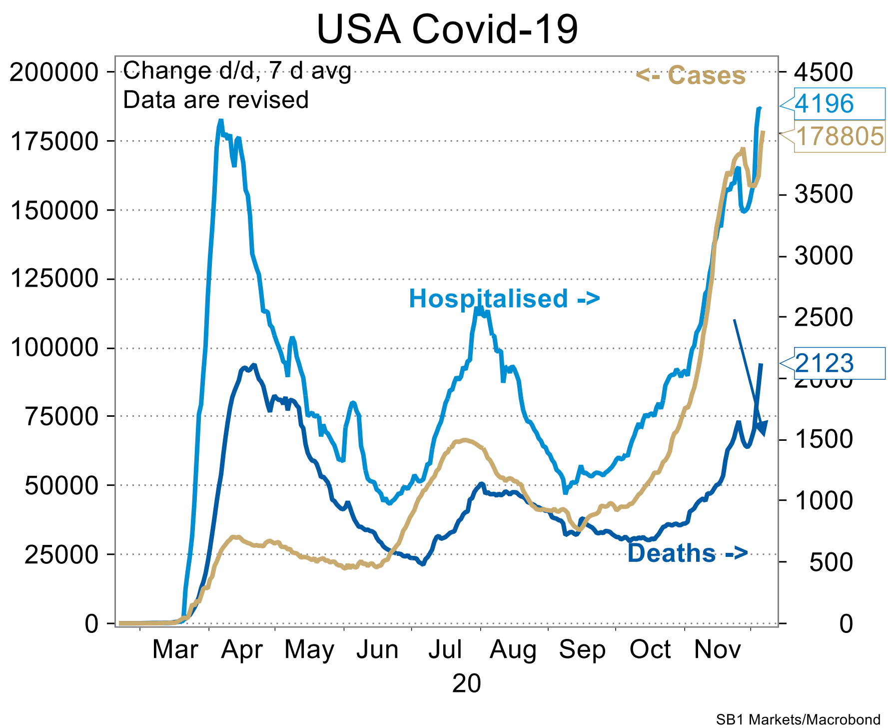
But the 2nd wave has now peaked – and new hospital admissions are on the way down several places

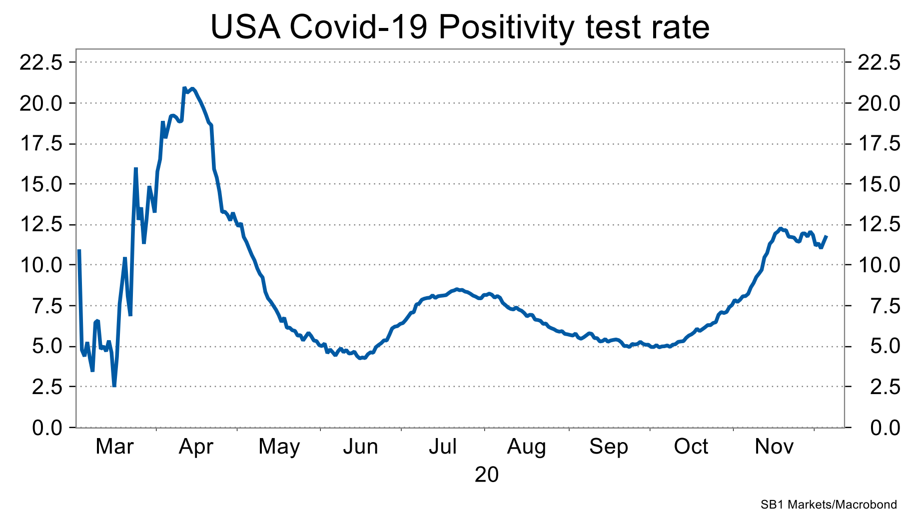


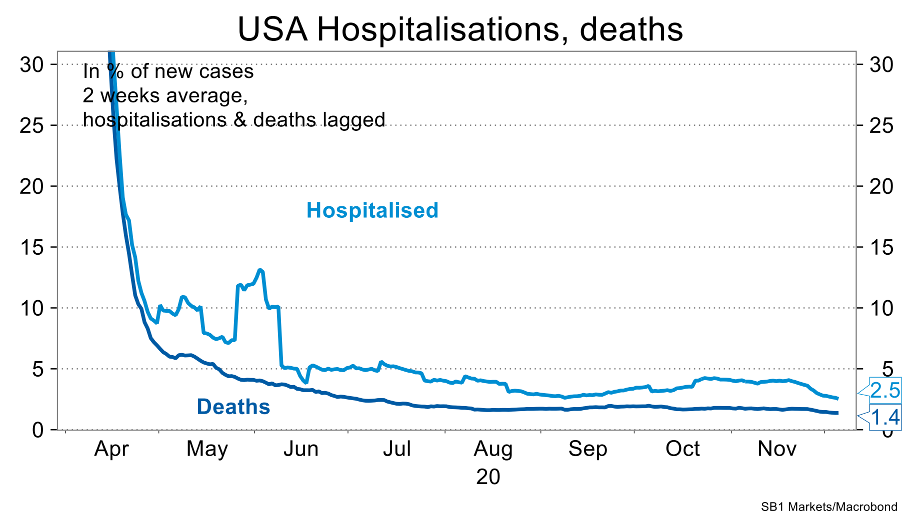


USA: Here we go again

More of everything last week – and this week the no of deaths will rise to ATH too…





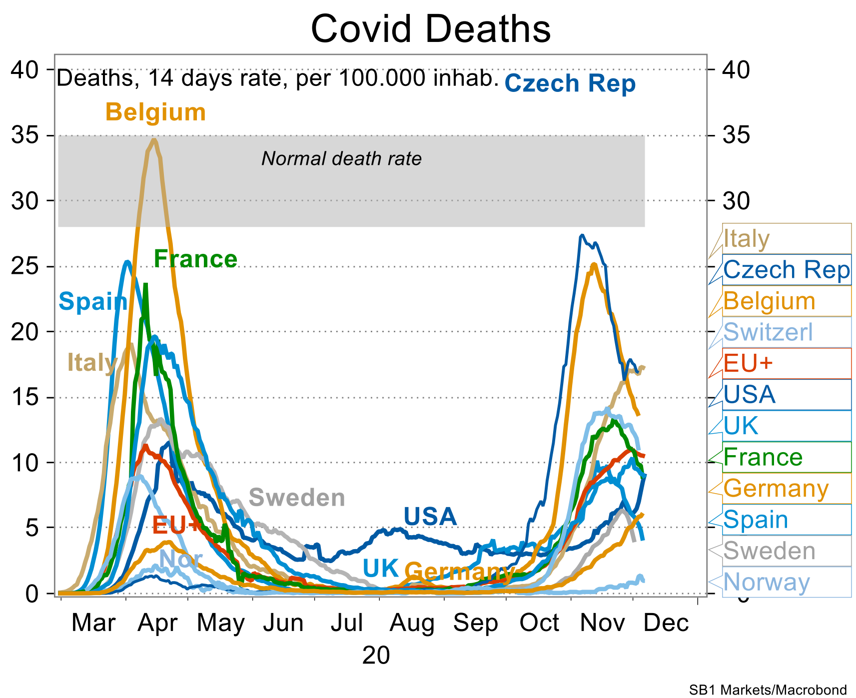


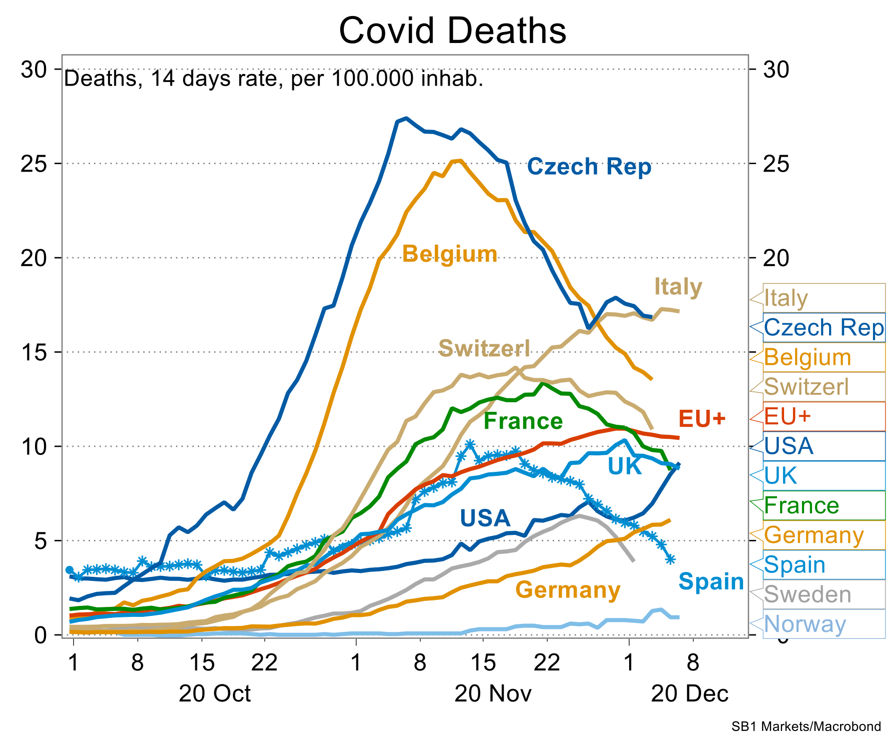
Some good news

- The positivity test rate has stabilised
- The hospitalisation rate has declined somewhat, as has the death rate (CFR)

The bottom line: The deaths

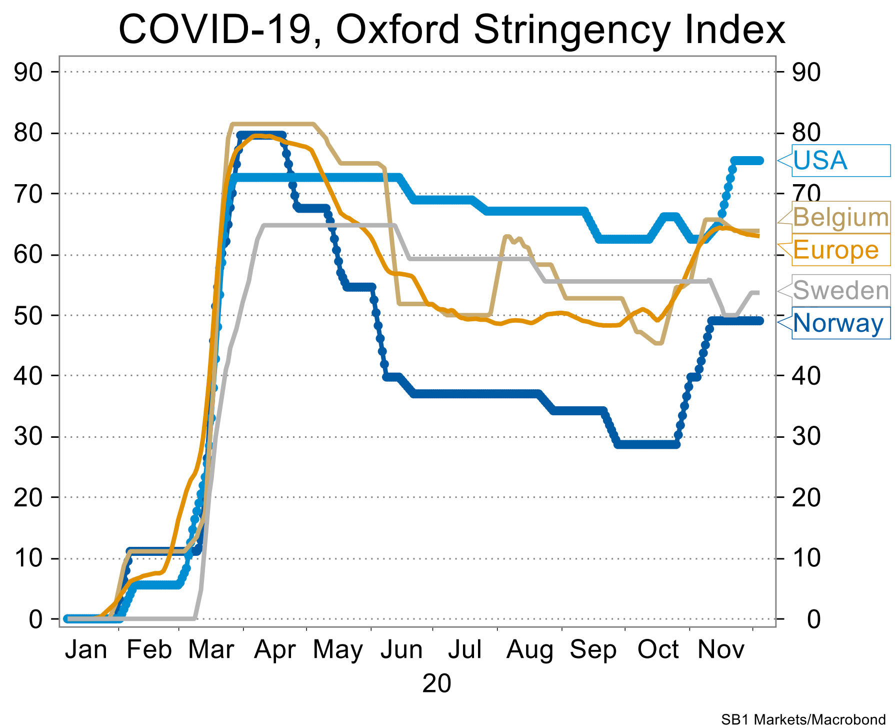
Deaths in Czech Rep, Belgium & Spain are falling rapidly!

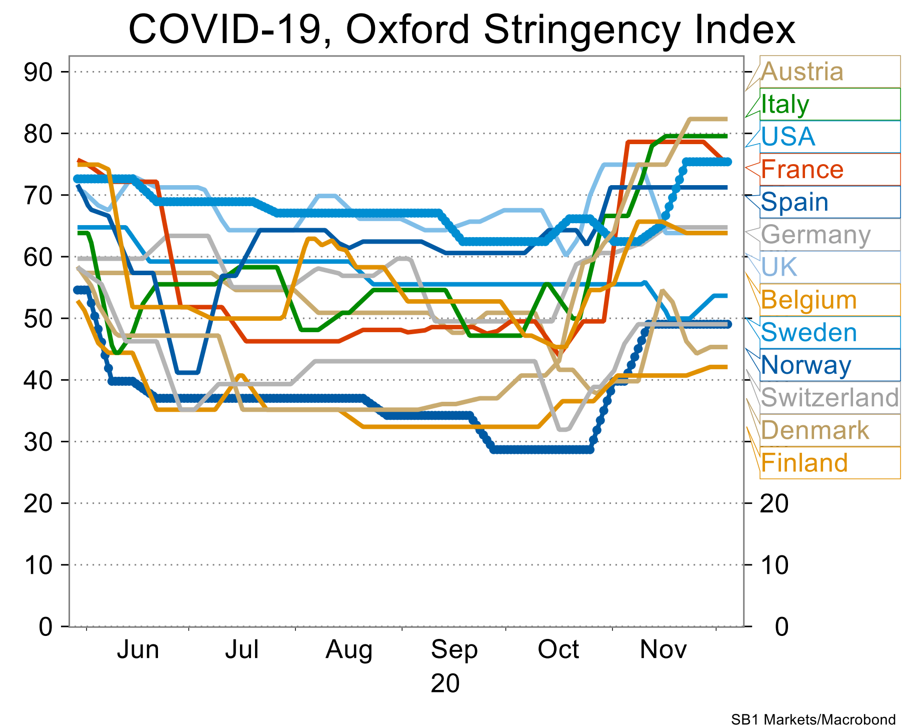
- 



Some tightening in the US, some European restrictions are eased

France, UK, Belgium, Denmark & Sweden have all eased marginally, according to Univ. of Oxford





- We are not sure Oxford's stringency indices are correct all the time but the broad picture may still be relevant

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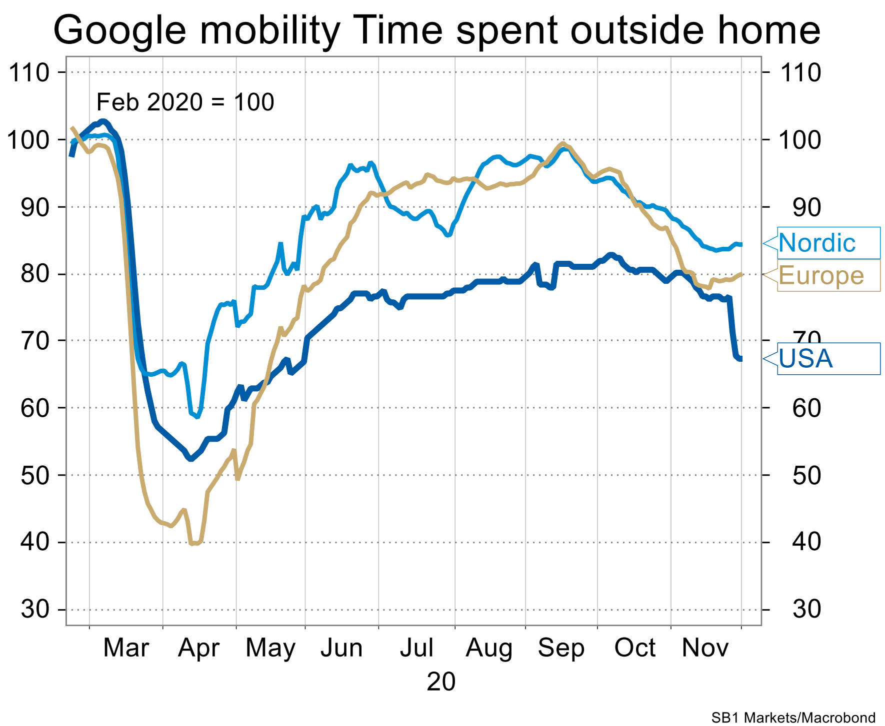
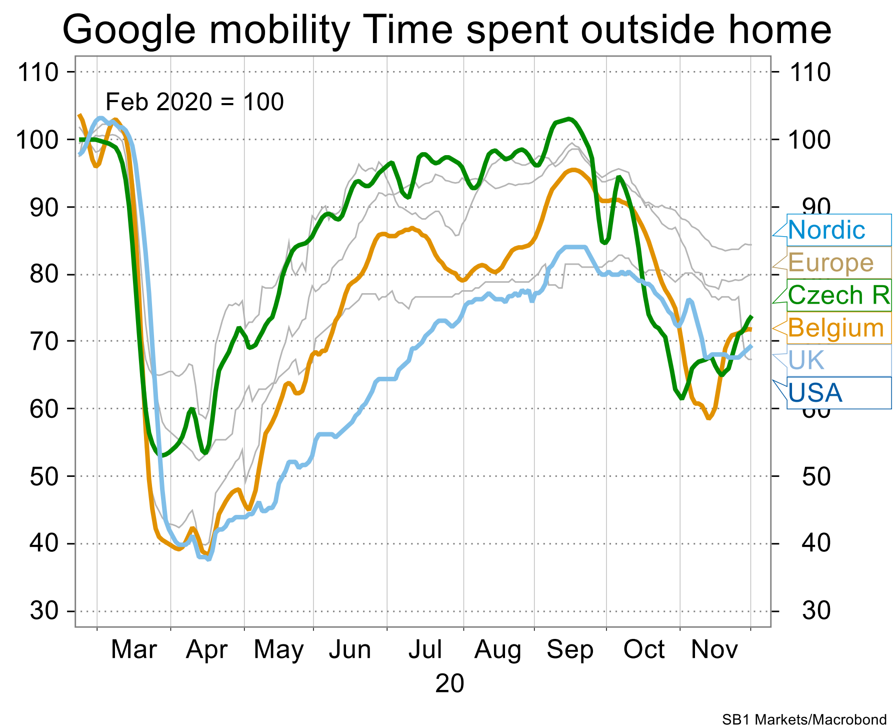
Time spent outside home is stabilising where corona is subsiding

Mobility in Belgium is up >20% from the bottom 3 w ago, without much lifting of formal restrictions

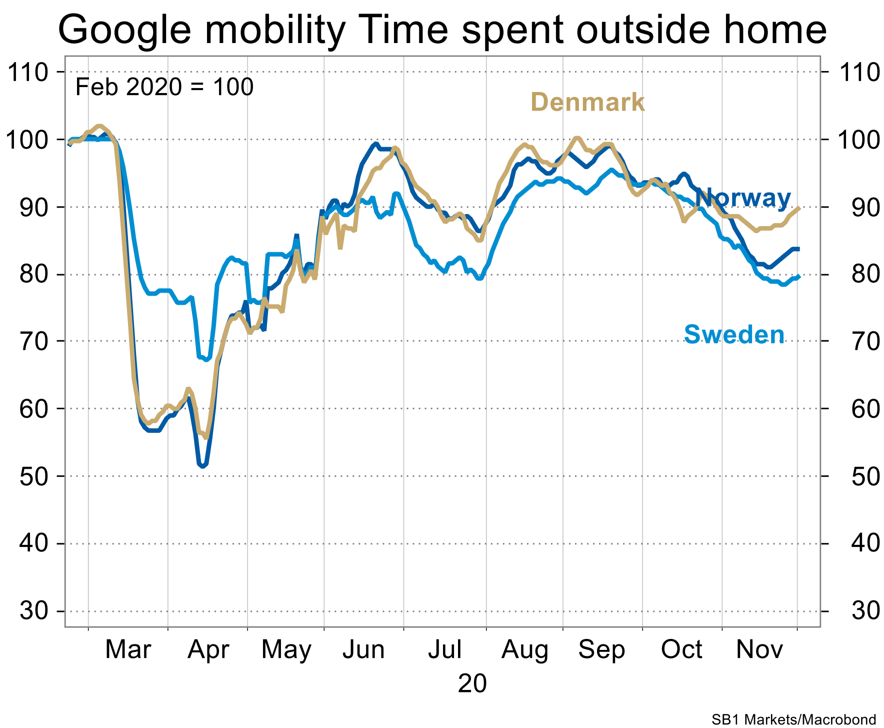


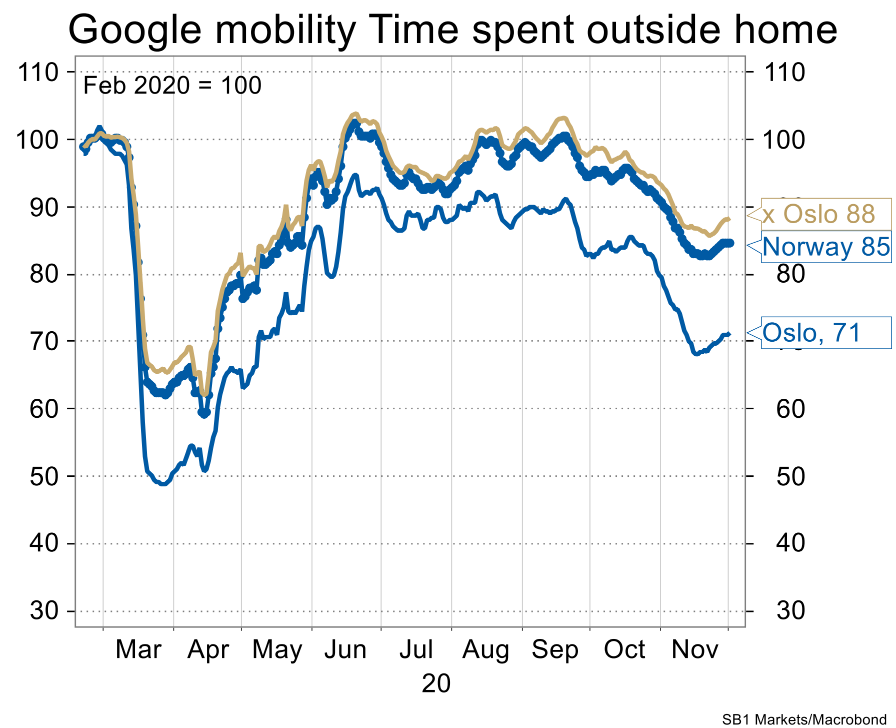


- Mobility in the Czech Rep is on the way up to, so is the average in Europe. People are 'voting with their feet', and life and very likely the economy recovers when the battle over the virus is won (if not the final battle yet)
  - » Mobility among the Nordic countries may also have bottomed (perhaps too early for Denmark & Sweden)
- In the US, time spent outside home is still trending down as cases (most likely) are still trending up (Thanksgiving the last observation, not relevant)

Quite similar trends among the Nordics – and within Norway

... and the current social distancing & mask usage may have pushed the ‘R’ down to 1

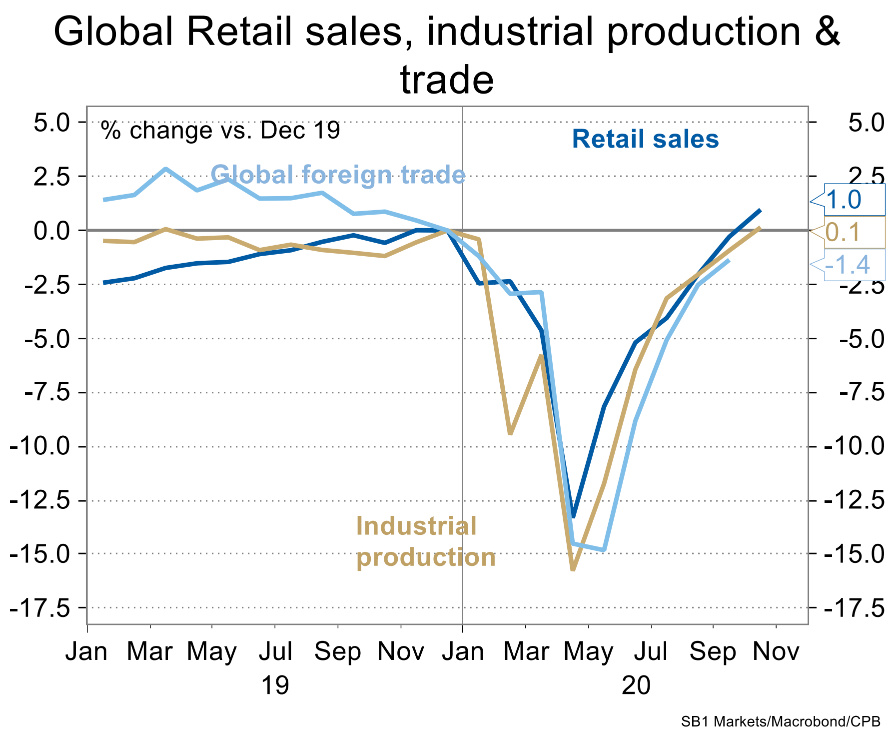


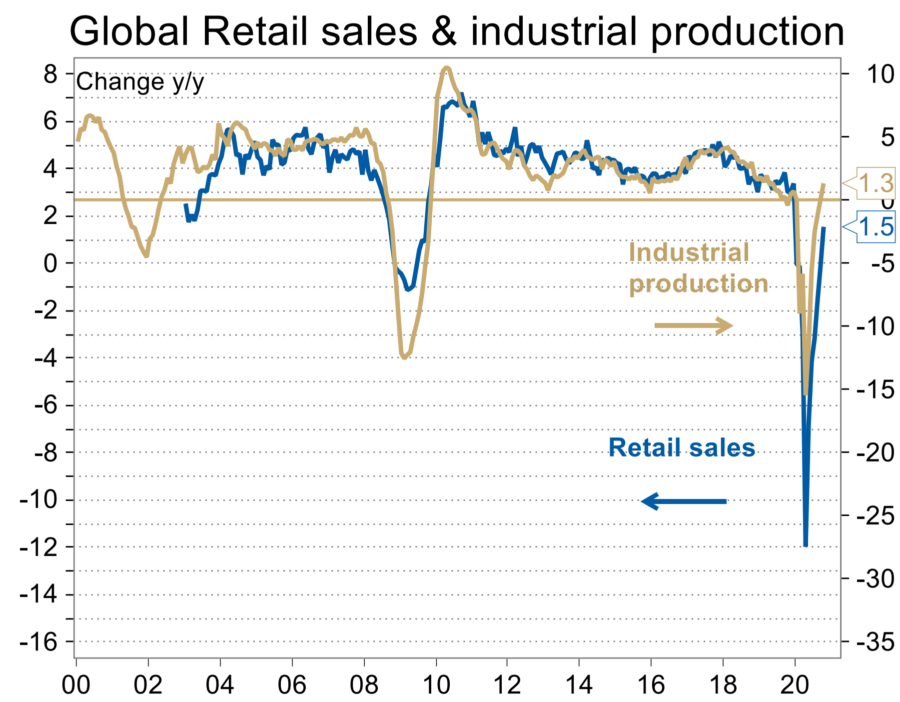


- ... and well below 1 in Norway ☺

Industrial prod, retail sales up in October, gaps have probably closed

Foreign trade rose in September – and very likely in October – and the gap is almost closed



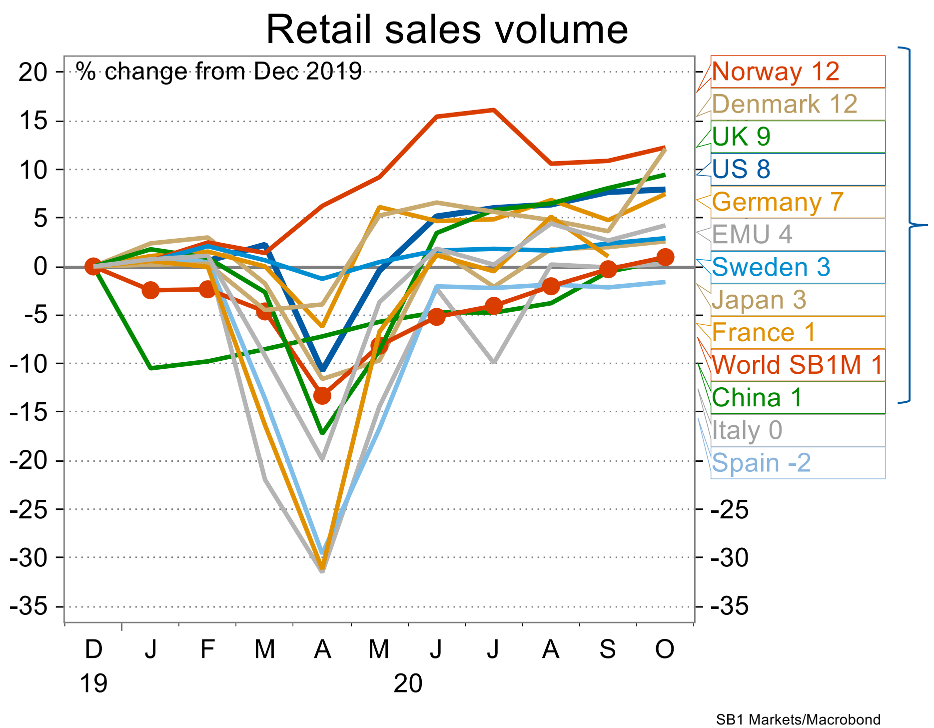


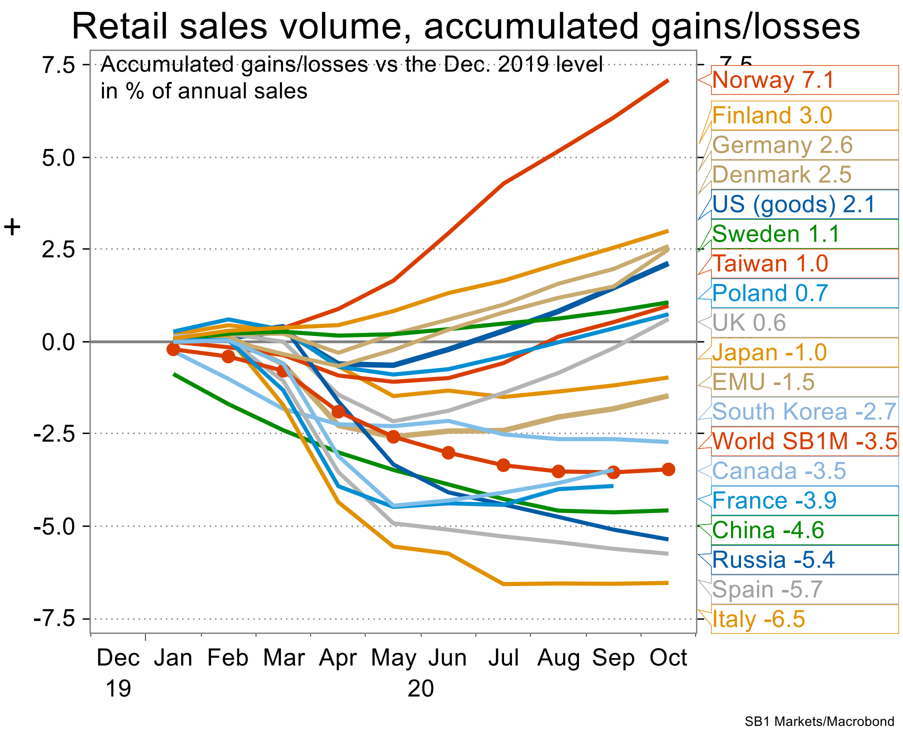
Memo: Keep in mind the different scales at the chart above

- Retail sales are 1.1% above the Dec level, and manufacturing production on par, according to our preliminary Oct estimates – and even more up y/y
- Global foreign trade rose 1% in September, and the level is just 1.4% below Dec last year. The gap will be closed in October or November?

Global retail sales probably above the Dec-level in October

Sales are above the pre-corona level in many countries, even accumulated through the ‘crisis’

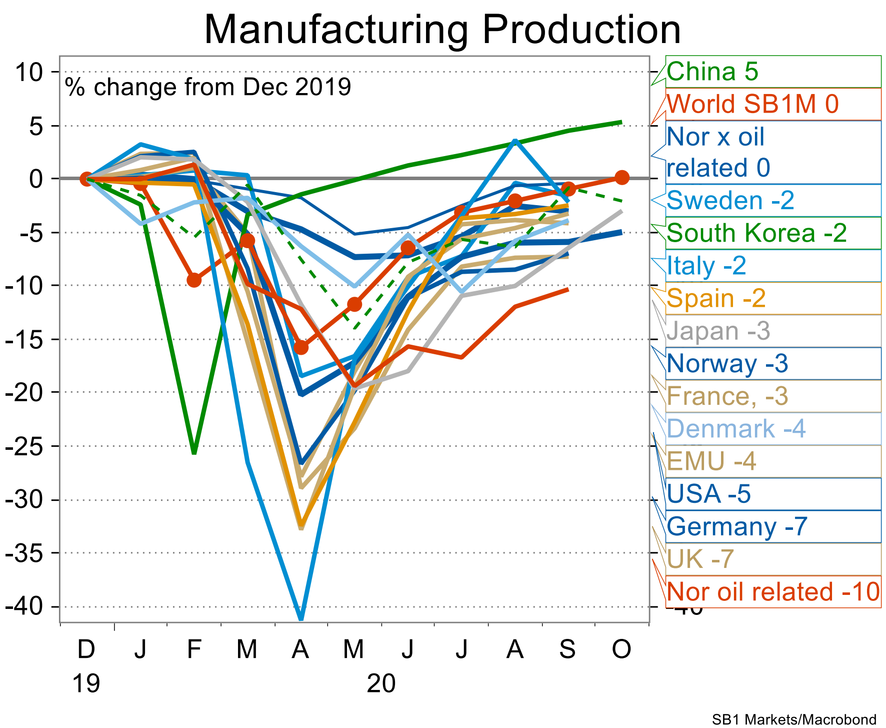


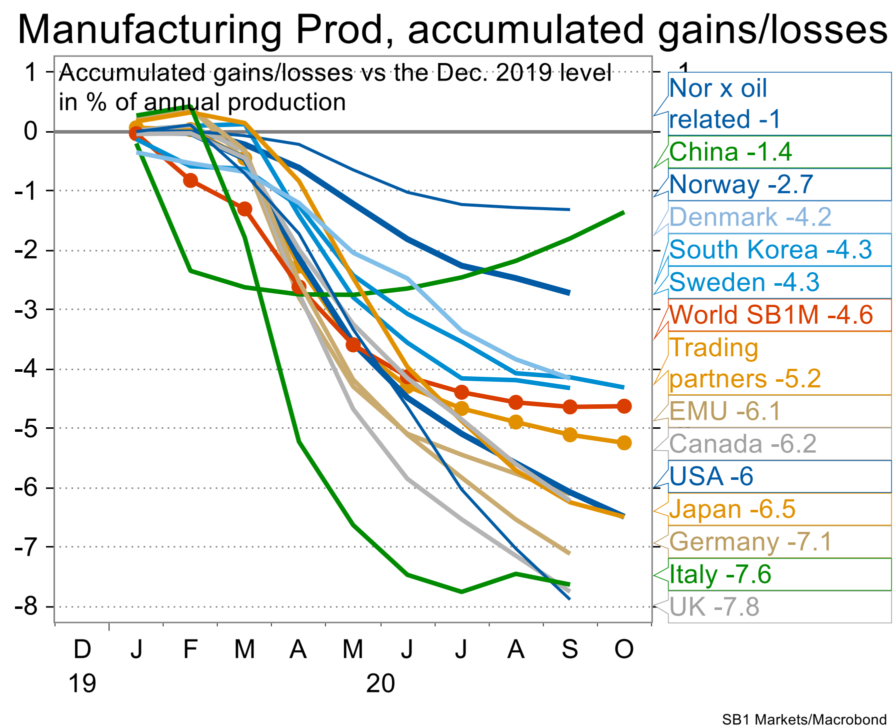


- A preliminary estimate: In November, global retail sales were 1% above the Dec-19 level. The estimate is still uncertain has some countries have not yet reported. Most rich countries are now reporting higher sales than before corona hit
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual sales. Sales in the US were 8% above the pre-corona level in Oct, but total sales during the first 10 months of 2020 were still ‘just’ 2.1% above the pre corona level, measured in % of annual sales, due to the losses during the spring
- <u>Consumption of services are not included</u> in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production probably above the Dec-19 level in October

Production most likely rose further in October

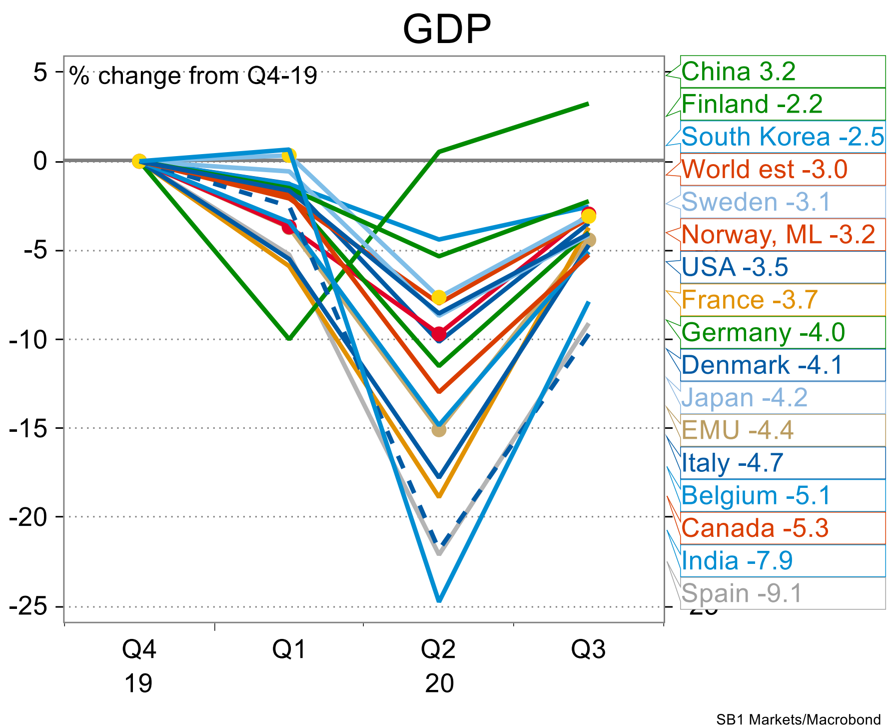




- A preliminary estimate: Global manufacturing production was equal to the Dec-19 level in October
- The chart to the right presents the accumulated gains/losses vs. the level in Dec 19, measured in percent of annual production. Production in US was 5 % below the pre-corona level in October. Total production during the first 10 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 - and the final outcome will be significantly higher*
- 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%

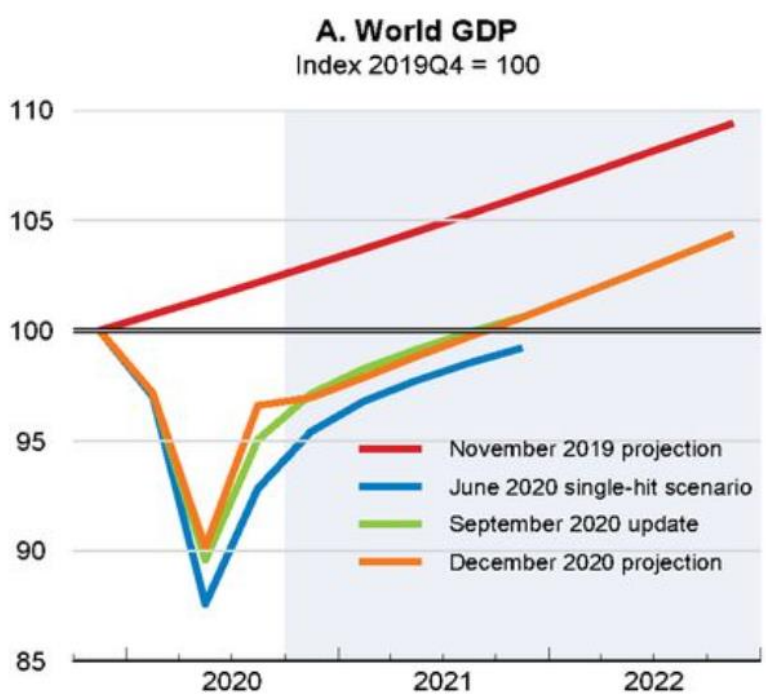


- Given our estimate, global GDP was less than 3% below the Q4-19 level in Q3
  - May countries have not yet reported. EM countries may disappoint us, like India
- Some observations – Q3 vs Q4-20:
  - China 3.2% above Q4
  - India still down 7.9%, even after a 22% recovery in Q3 (124% annualised ☺)
  - Japan is down 3.9% (but 6% vs Q3 19, before the VAT hike tanked the economy (once more))
  - USA -3.5%
  - EMU -4.3%, of which Spain -9%, France -4.1%
  - UK down 9.6% (our forecast)
  - Sweden -3.1% (and Finland just -2.2%, best in the rich mans' class). Denmark -3.8%
  - Norway -3.2%

Norway & UK: SB1 Forecasts

The OECD is getting less gloomier – Q3 was 5% better than the June best case!

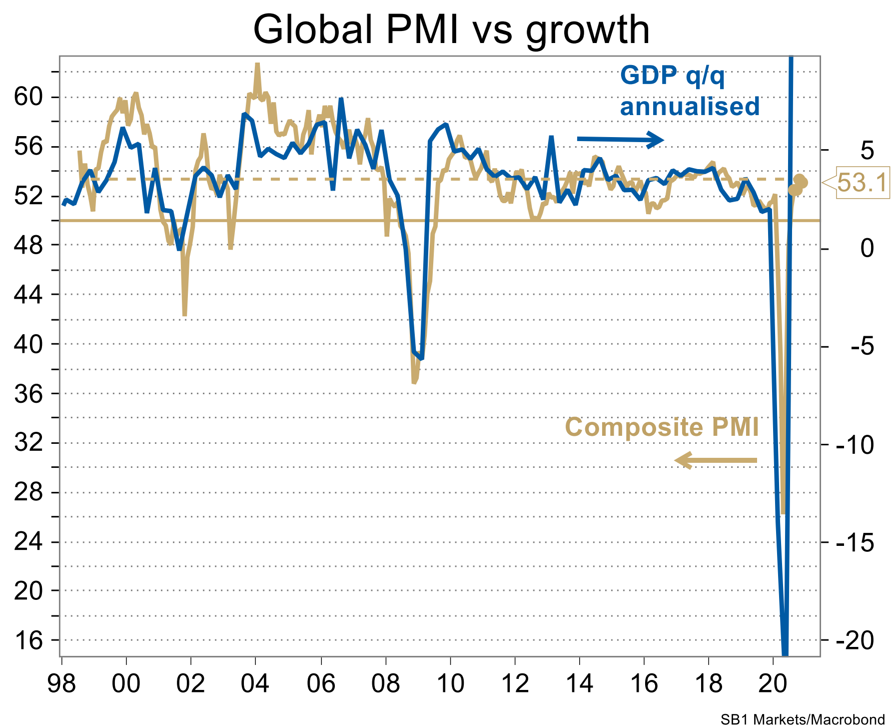
The downturn has not been as harsh as previously estimated

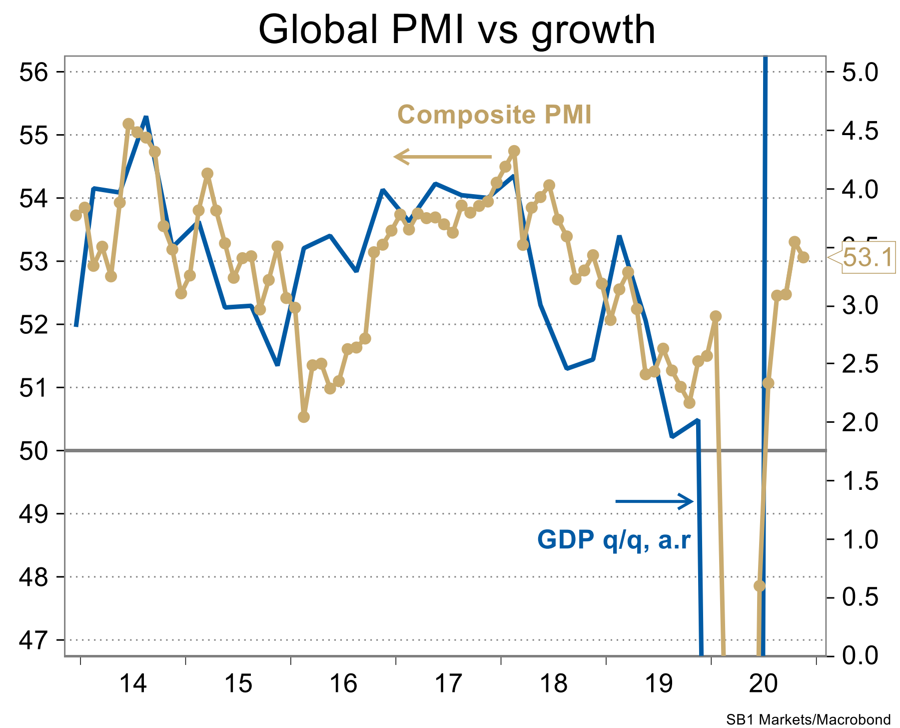


- The recent projection is well above the June single-hit (no 2nd corona wave) scenario, even if the 2nd hit is now included
  - » Global Q3 GDP is almost 5% higher than OECD's assumed in it's best scenario in June – and 2% higher than in its September update
- Growth is expected to slow substantially in Q4, due to the 2nd corona wave but still remain almost on par with the Sept f'cast
  - » We think the OECD may be too pessimistic on the global impact of the 2nd wave
- The global growth path through 2021 is not steepened, even if vaccine news have been positive since early November. Growth will just be marginally above the estimated pre corona trend growth and the gap to the 'original' trend path will 'never' be closed
- We think OECD's next revision will turn out be upwards too

The global composite PMI just marginally down, even if services in EU struggles

A 0.2 p decline was smaller than we assumed – and 53.1 is close to average

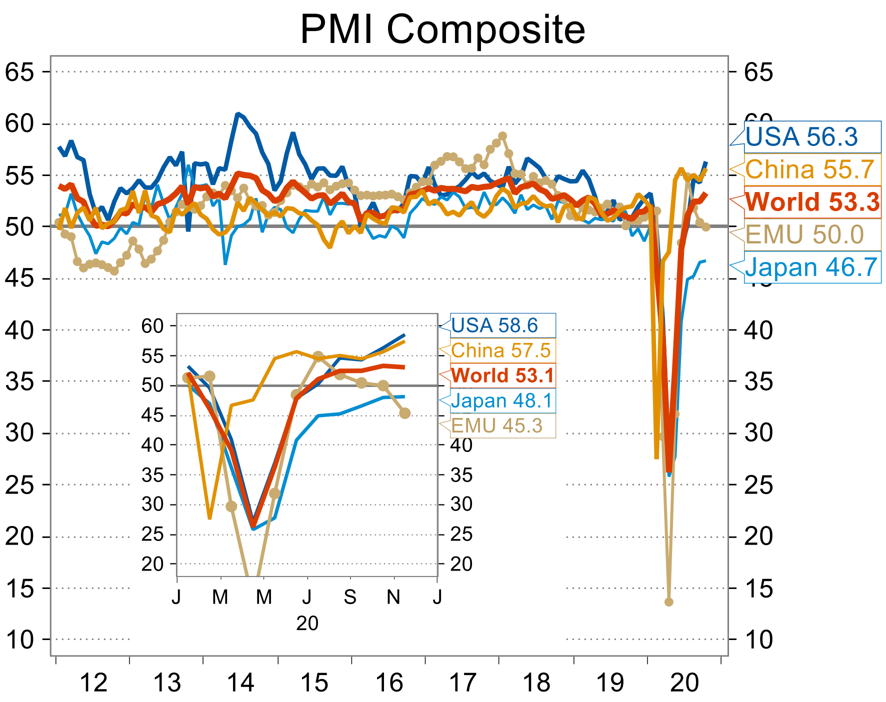


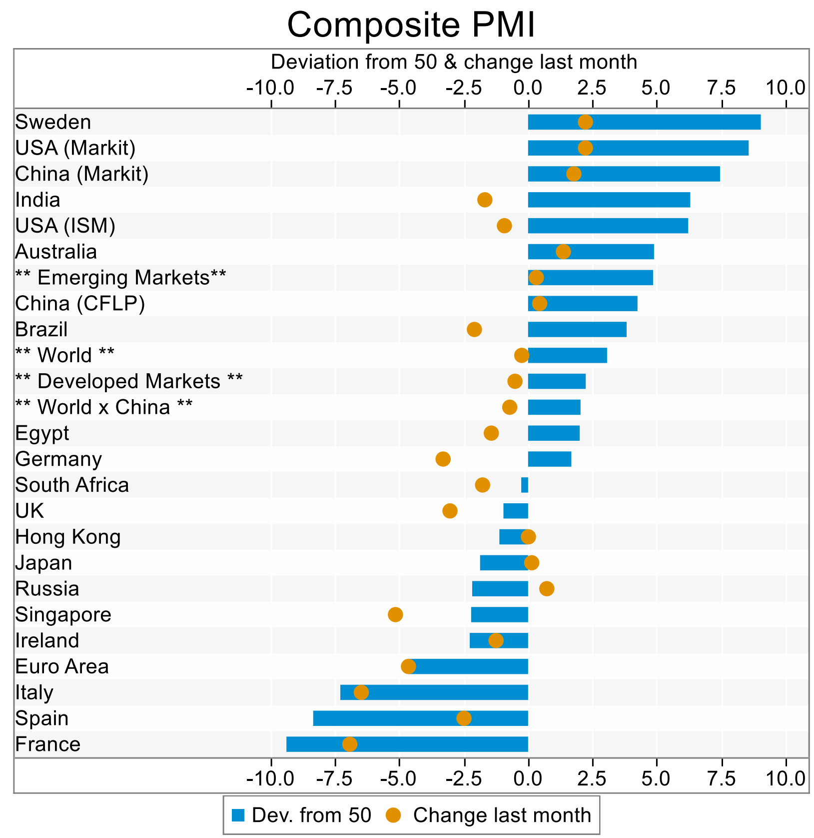


- The manufacturing PMI rose 0.7 p to 53.7, even if manufacturers in the EMU reported lower growth - but still above trend
- The global service sector PMI fell 0.2 p due to a 5.2p decline in EMU 3.8 p in UK, both less than initially reported. In the US, the service sector PMI rose further, in spite of the surge in Covid-19 cases and reduced mobility – and the composite US PMI is the strongest since 2015, and better than the prelim. estimate!
- The November PMIs signal a continued recovery in the global economy in Q4 but probably not above trend due to a moderate downturn in Europe
  - » 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 since may. W now assume that these (and other) surveys will become more relevant again as changes in activity from month to month – or over the past few months are becoming more normal.

‘V’s almost everywhere, most PMIs above 50. Sweden in the lead, France at the bottom

7 of 25 countries/regions reported higher composite PMIs in November, 16 down

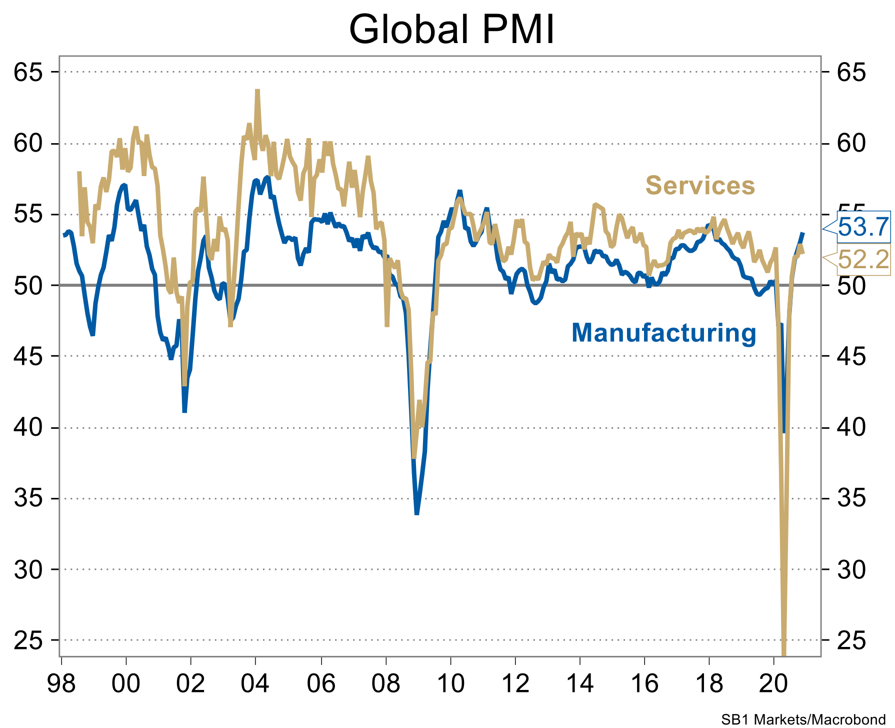


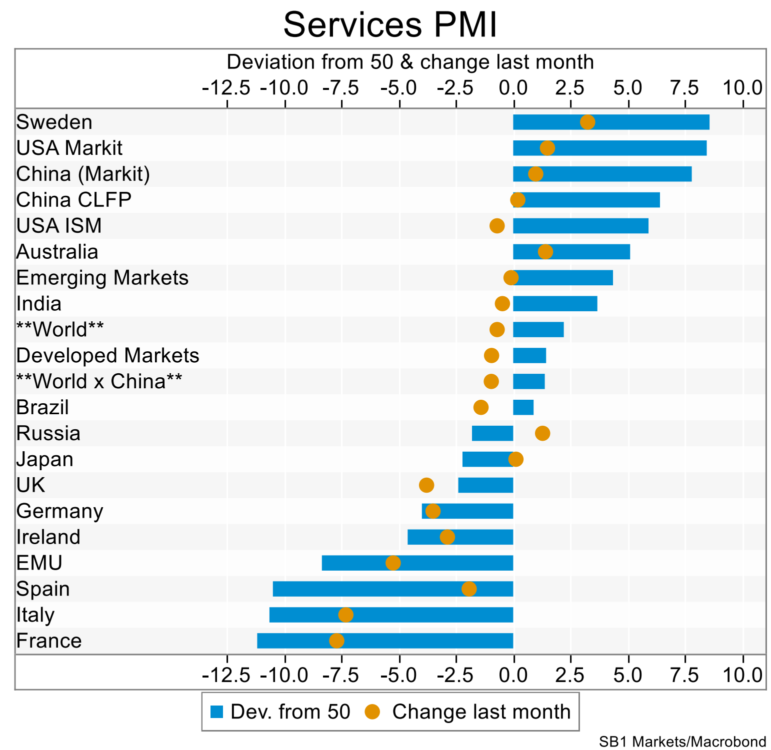


- After the Swedish PMI (which also rose the most in Nov), the US Markit’s composite is no 2 (and the ISM no 4), China no 3
  - *The increased spread of infection and tighter restrictions will lead to a new downturn in the Swedish economy*, was the first sentence in Riksbank’s policy statement last week – and the bank lifted the QE program to 14% from 10% of GDP. Perhaps the Bank will be right in December?
- The downturn was concentrated to Europe, both UK and countries in the EMU – due to a significant setback in the service sector
  - Italy, France, Spain, UK, Japan are all below the 50 line – Germany is still above
  - All important Emerging Market PMIs are on the strong side, both India, Russia and Brazil report growth (as China do)

The service sector PMI surprised on the upside too

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

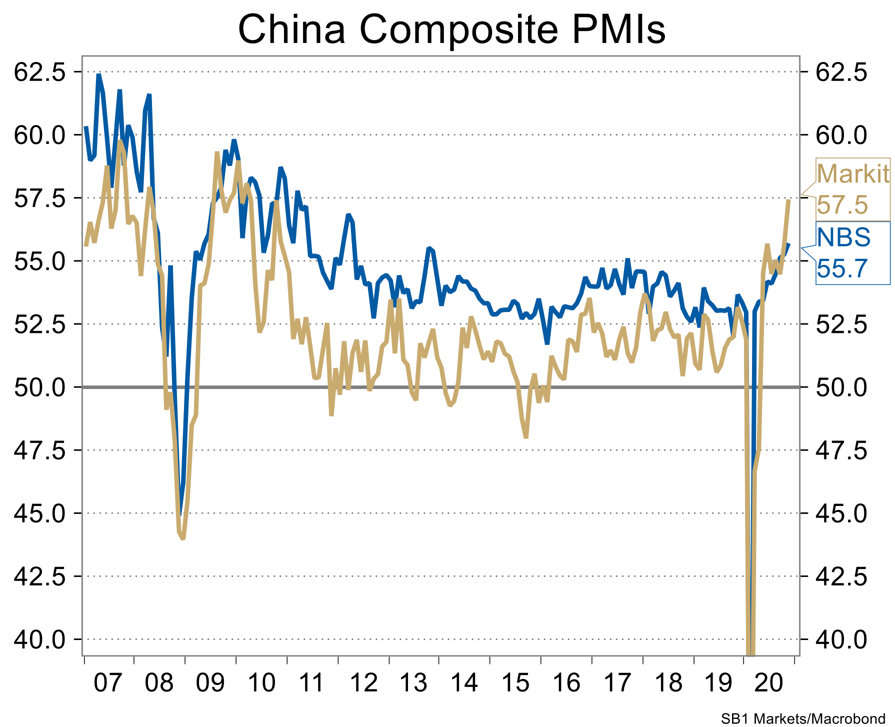


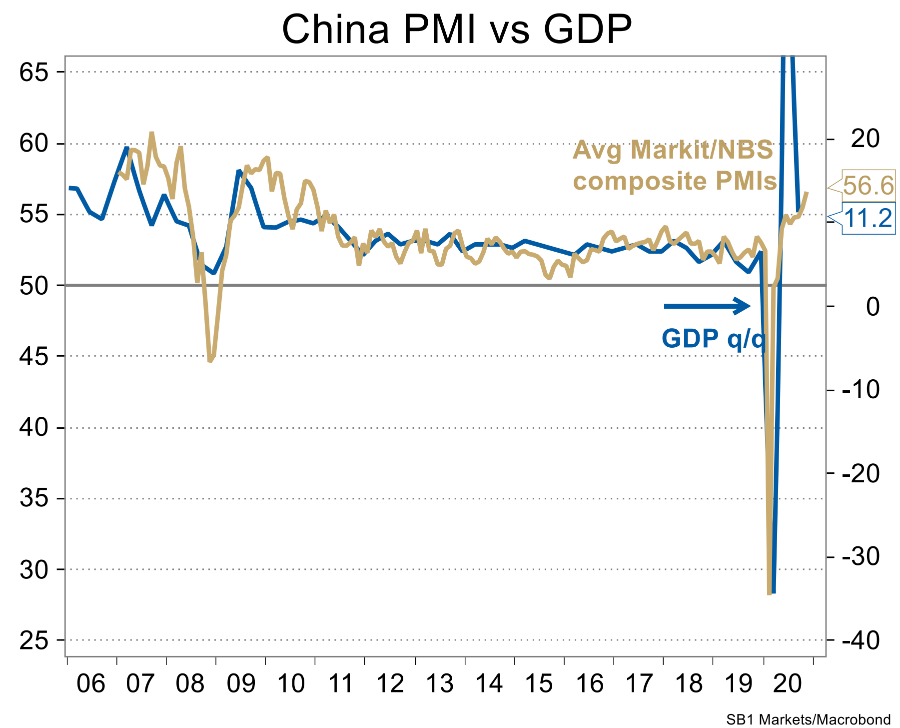


- Just 5 countries/regions up, 13 down. 9 below the 50 line, 12 above – and the average at 52.2, a decent level
- The setback in Europe is harsh but nothing compared to the setback in March/April

Strong China PMIs – best since 2010! Both manufacturing & services contribute

Markit's PMI +1.8 p to 57.5, NBS' PMI +0.4 to 55.7, signals growth well above trend in Q4 too





- Both manufacturing & services reported higher growth Markit's and NBS' 'official' survey
- In sum, these PMI data confirm a continued recovery and growth above trend (at a 8 – 10% growth pace)

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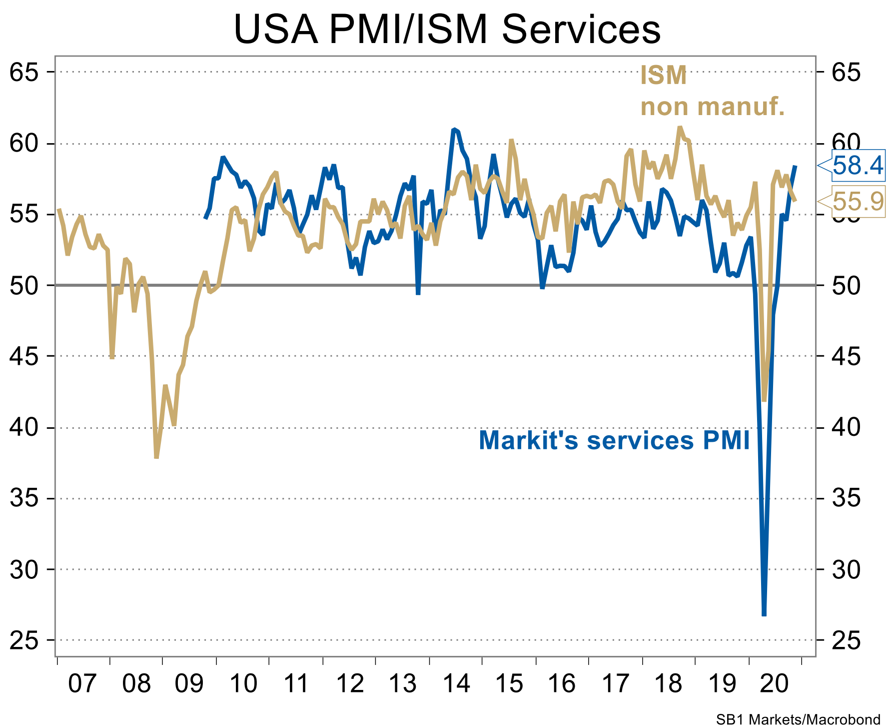
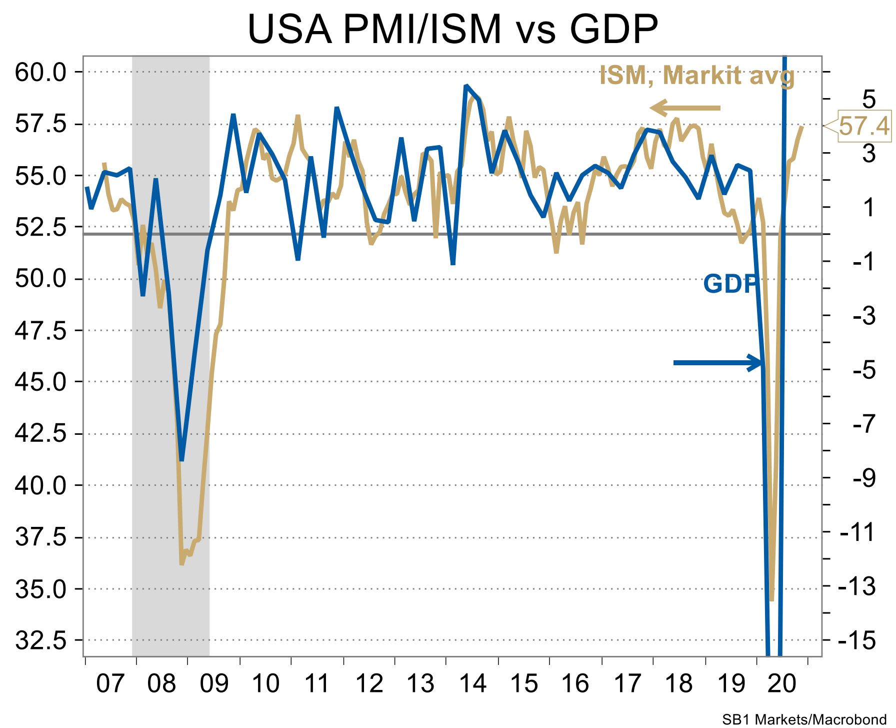
The service ISM down, Markit's more up, both strong. No corona hit, *GDP +4%*

The service sector ISM -0.7p to 55.9, Markit's +1.5 p to 58.4. The average composite up to 57.4

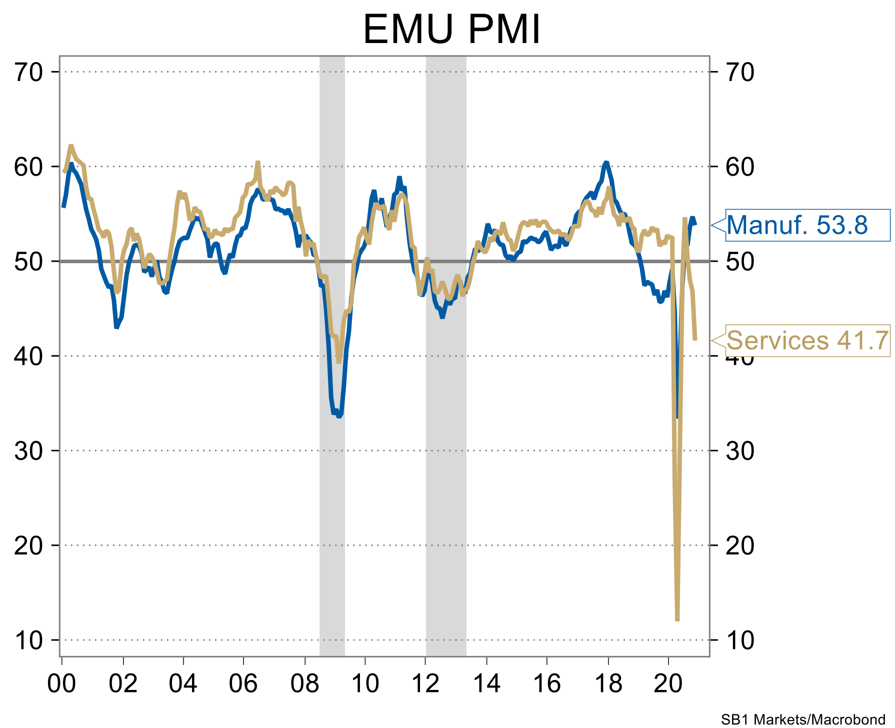


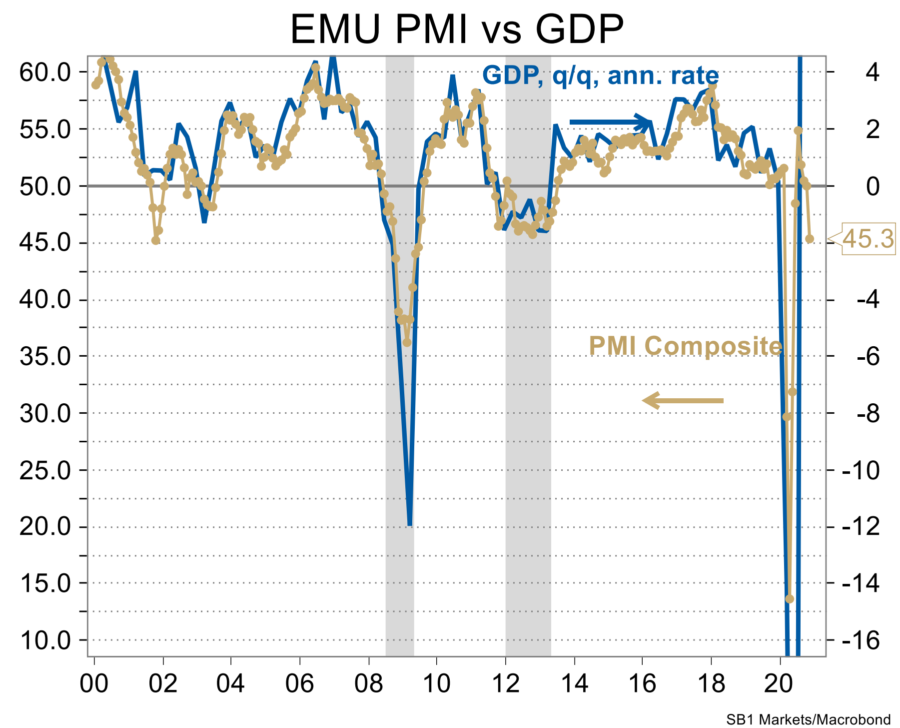


- Both surveys dramatically underreported growth in Q3, following the collapse in GDP in Q2. The PMI/ISM signalled a 2 – 3pp growth pace, it turned out to be 33.1%
- We assume these surveys are now becoming more relevant again – and they are signalling growth above trend into Q4

The PMI a tad better than the preliminary estimates – still down to 45.3

The service sector nosedived to 41.7 – manufacturing just marginally down, to 53.8



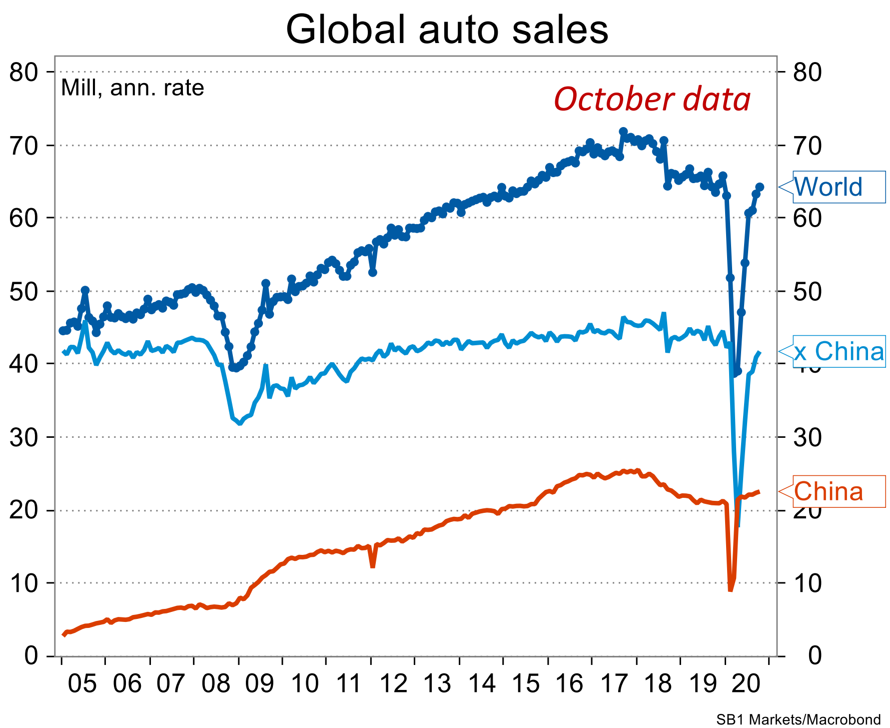


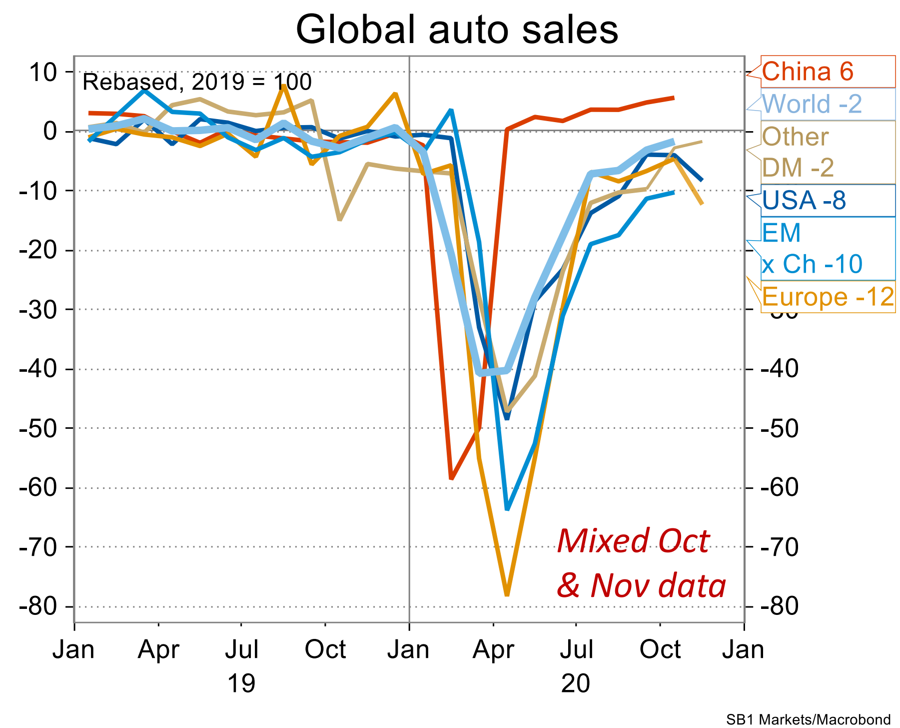
- The preliminary composite PMI fell almost 5 p to 45.3 in November
  - » The level signals a 2% pace of decline in GDP, or 0.5% per quarter, the same speed of decline as during the Euro crisis in 2012
  - » How much will GDP decline now? As the number of new corona cases is 'collapsing' in Europe, restrictions should be eased in a not too distant future, most likely during December but too late to lift activity before next year. Even so, the Q4 setback should be significantly less than the 3-4% (9 – 17% annualised) decline many are referring to now – the PMIs formally say -0.5%.
    A disclaimer: Should the PMI decline further, the relation to the decline in GDP is not linear, check 2008/9 and the spring this year – and the setback could become more serious if the PMIs declines by even small amounts from here

SpareBank 1 MARKETS

Global auto sales probably down in November – both EU & US down. Covid-19?

Several Emerging Markets have not yet reported (China included), no global estimate yet

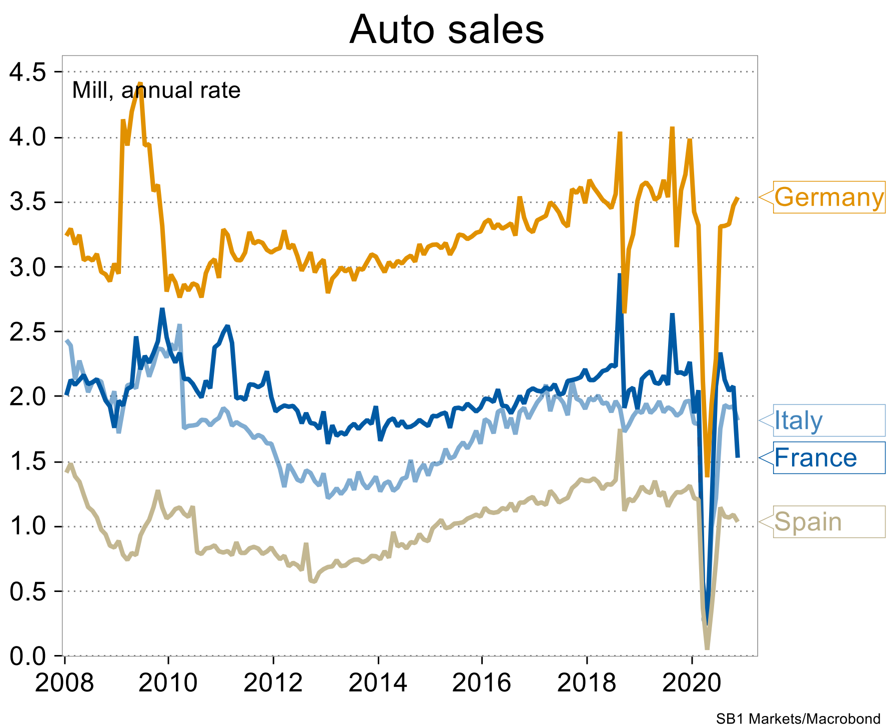


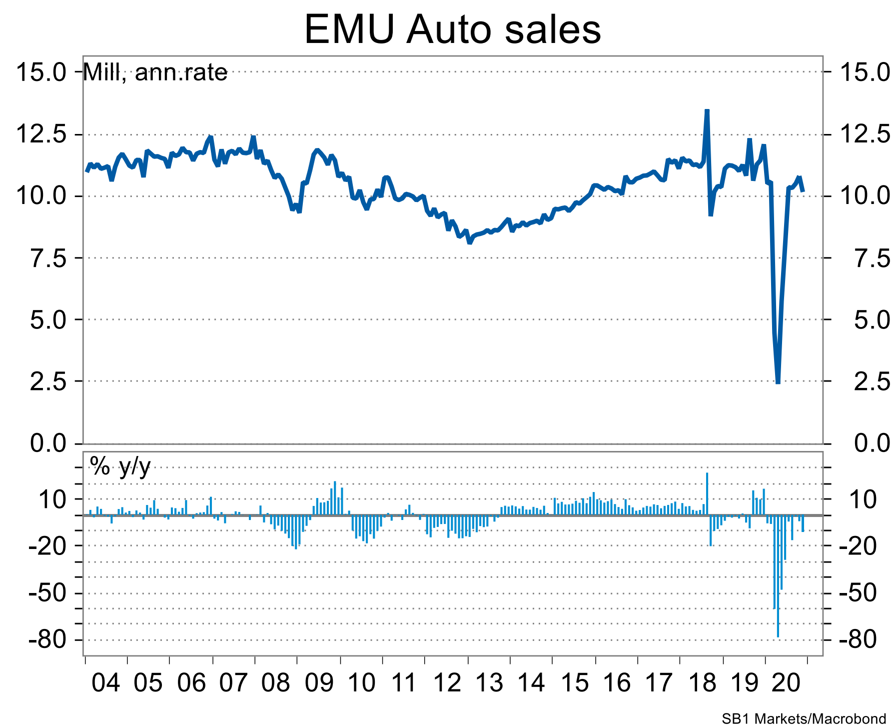


- The decline in sales in DM is very likely due to Covid-19 & Covid-19 restrictions
- Auto sales in Europe fell by 7%, to 12% below the 2019 average, as both France & UK reported 25 – 30% decline in November. German sales rose marginally
- US sales fell 4% to 8 % below the 2019 average

EMU sales down in November, due a 25% French cut. Germany further up

We estimate a 5% m/m (and y/y) decline in the region, to 10.2 mill – 10% down from 2019 avg

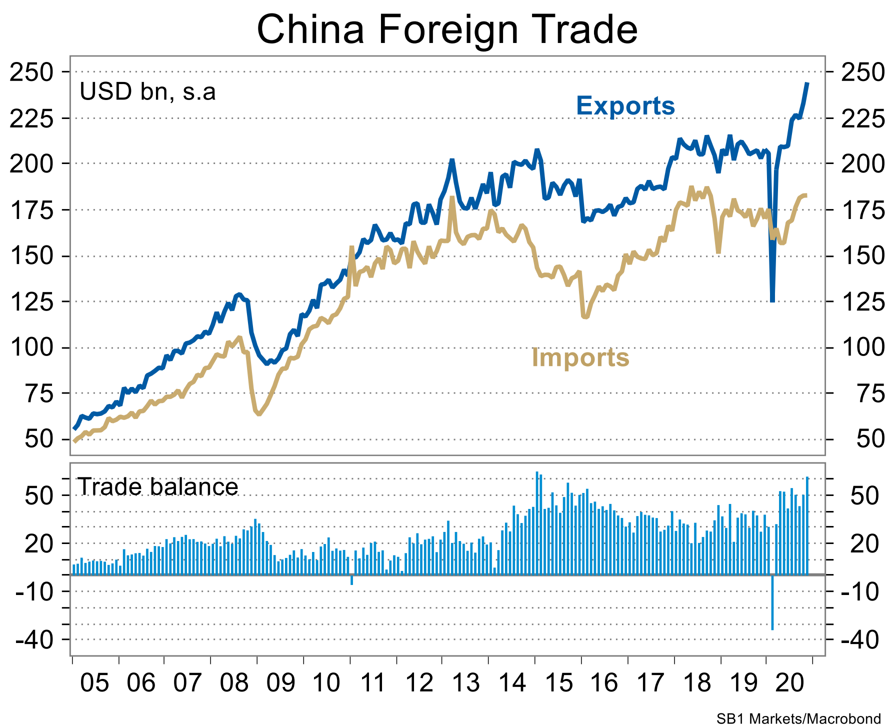




- Sales have been quite stable at 10.3 – 10.5 mill the past 3 months – and marginally below in November at 10.2. Lockdown in France kept people from buying anything but nonessential items.
- Last year, 11.3 mill autos were sold in Europe, the best year since 2007. From mid 2018 new emission regulations 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!

An incredible export number – and the trade surplus close to ATH

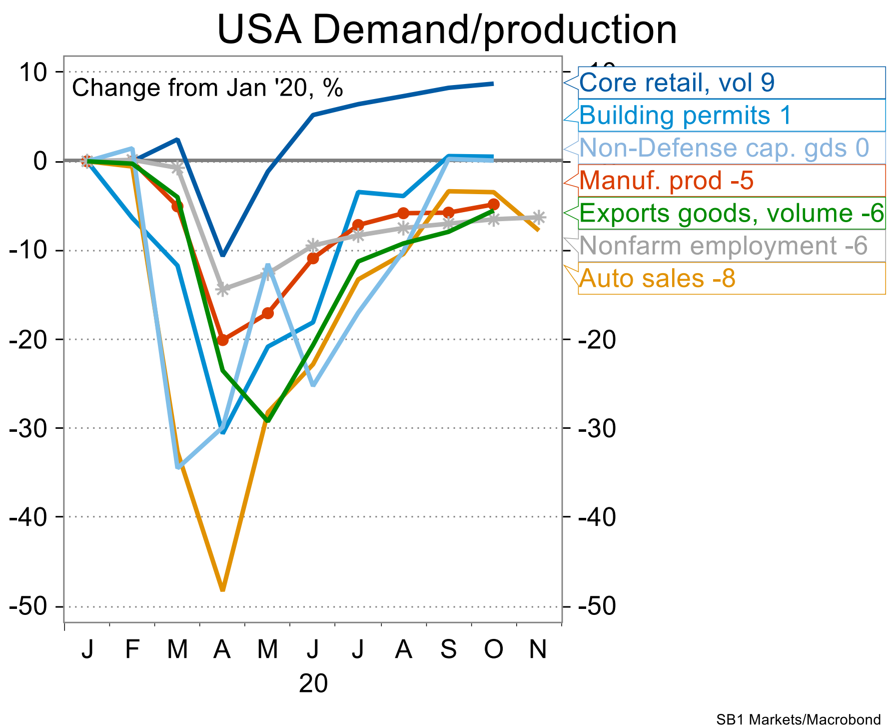
Exports up 21% y/y, almost twice as much as expected, 10-15% above trend. Imports +4.5%, as exp.



- **Exports** grew 21% y/y in USD terms in November, far better than the expected 12%, and up from 11% in October. Expectations were far too low, as export grew by 'just' 5% m/m (s.a, our calc). In **volume terms** export are up 18% y/y (based on our quite uncertain price assumptions for the 3 last months). More important, export volumes are 10 – 15% above any reasonable trendline you can draw! 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' – whatever 'containment' policy the US might introduce
- **Imports** were up 4.7% y/y, close to expectations , and flat m/m. In **volume terms** (our price assumptions last 3 m), imports are up 6% y/y, and some 5% above a reasonable trendline. Domestic demand must be strong
- The **trade surplus** rose almost USD 10 bn to 60 bn in November (s.a, the actual surplus up to USD 75 bn from 68, expected 53), close to the early 2015 ATH. The surplus has been higher than normal since March. China is still running a **deficit in services** (but it is narrowing, less Chinese travel abroad in 2020). The surplus on the overall **current account** has increased in 2020 but remains well below previous peaks in % of GDP, that is.

The recovery is slowing but has not yet stalled

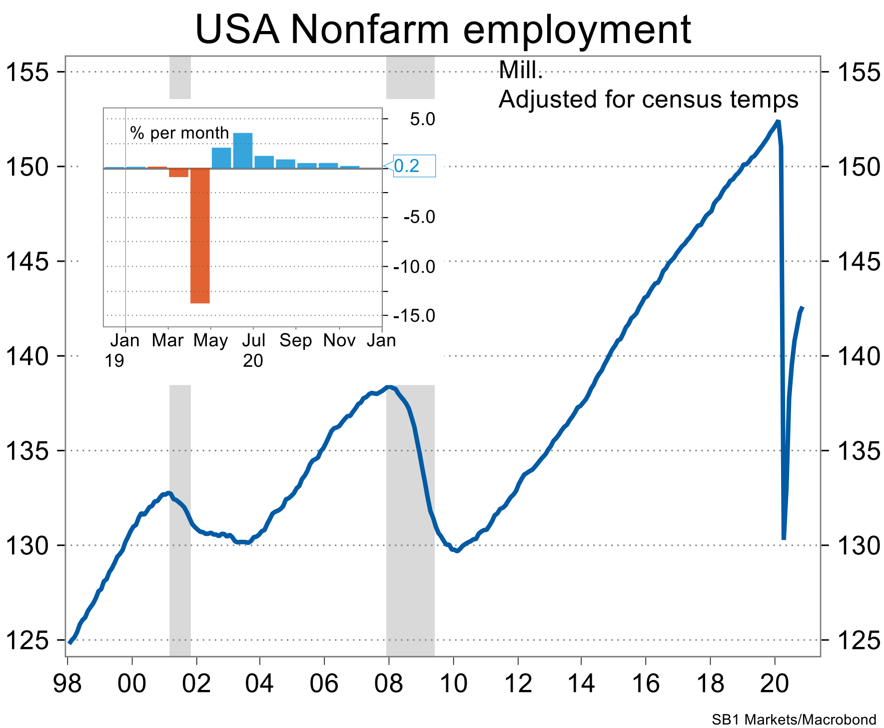
Growth is slowing into Q4, as the corona bites and re-opening are halted/reversed

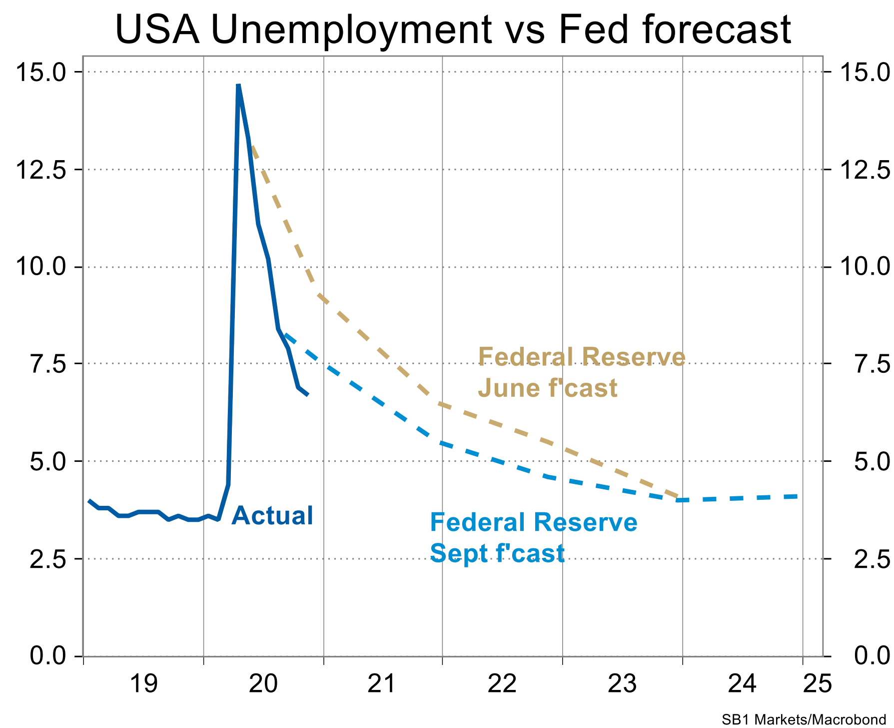


- Still, almost all indicators pointed upwards in October/November – and surveys do not signal any Q4 setback
- Auto sales fell in November, and employment growth slowed
- Retail sales and all housing indicators are still strong

Employment growth slowed in Nov but unemploym. fell more than expected

Employment grew by 245’, 200’ less than. Unemployment further down following the huge Oct drop

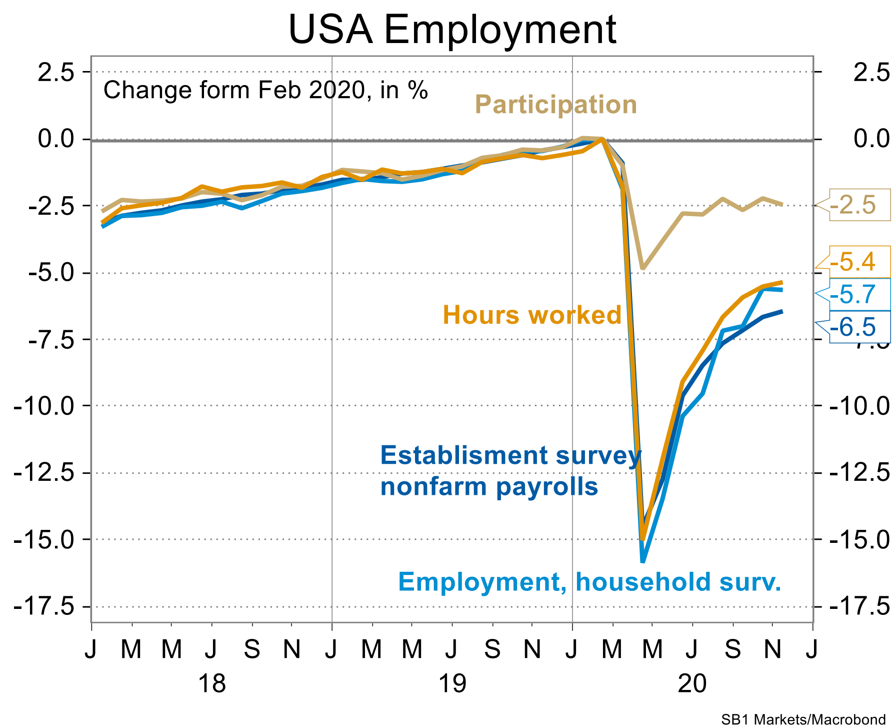




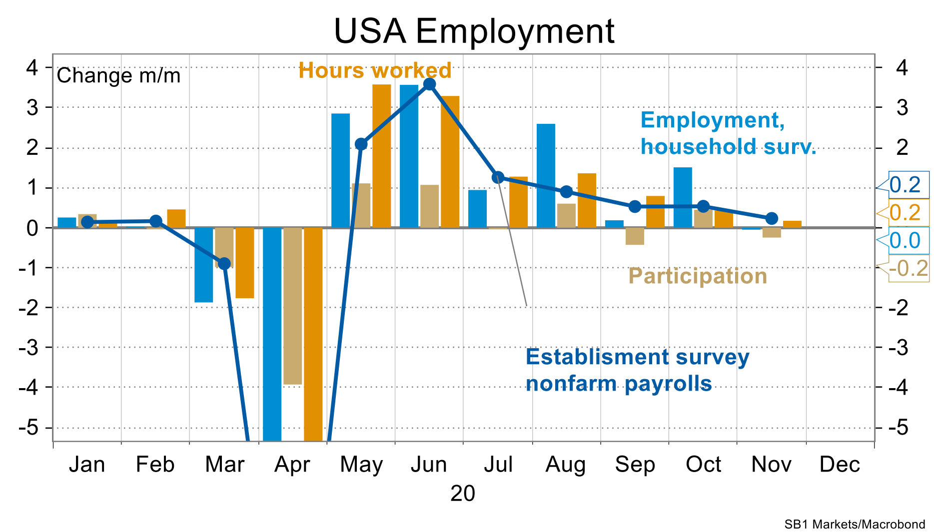
- **Employment** rose by ‘just’ 245 in Nov, well below the exp. 440. Government employment fell by 86’, due to a 93’ cut in temporary census workers. However,, private sector employment grew far less than expected too. The slowdown was broad based. Monthly growth has slowed recent months – and the 0.2% growth pace in Nov is not sufficient to close the 6.5% employment gap vs the Feb level anytime soon- and it will not before corona is brought under control, and service sector activities can recover
- **Unemployment** fell by 0.2% to 6.7%, 0.1pp better than expected. A larger decline in participation rate than in the employment rate (which also fell) explained the decline. However, the employment rate rose 0.8 p in October – and the unemployment rate has fallen far more than the Federal Reserve expected in mid September
- **Average wages** are still sharply (4.4%) up y/y but just due to a decline low paid jobs. The ‘real’ growth in earnings (ECI) is at 2.5%
- **The Federal reserve will keep pushing the accelerator hard the coming months, whatever the outcome of the fiscal stimulus debate**

Employment still 5.5- 6.5% below par

All indicators are signalling slower growth – while all are still way below the pre corona level

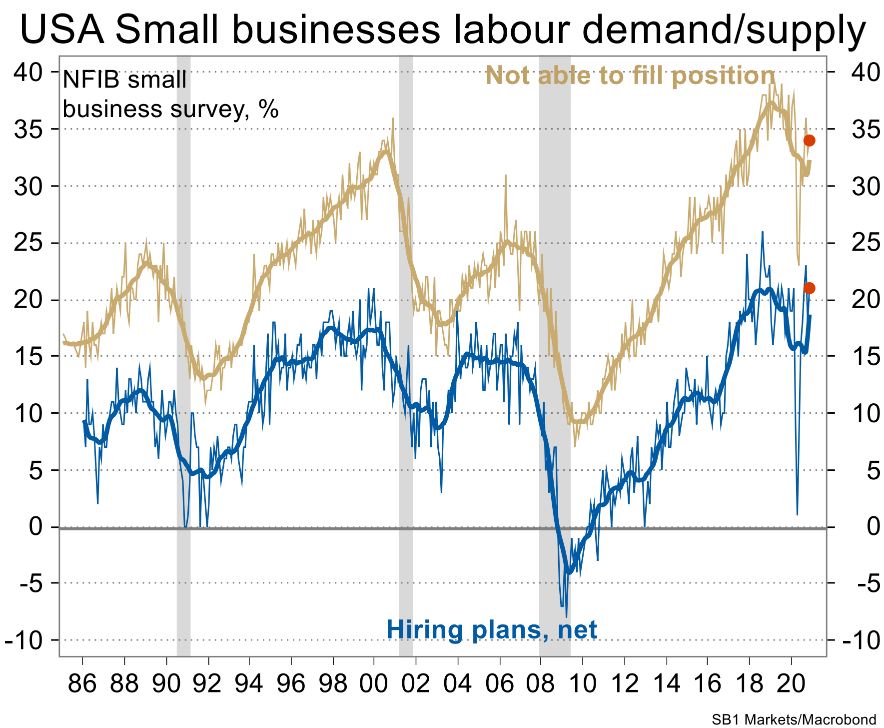


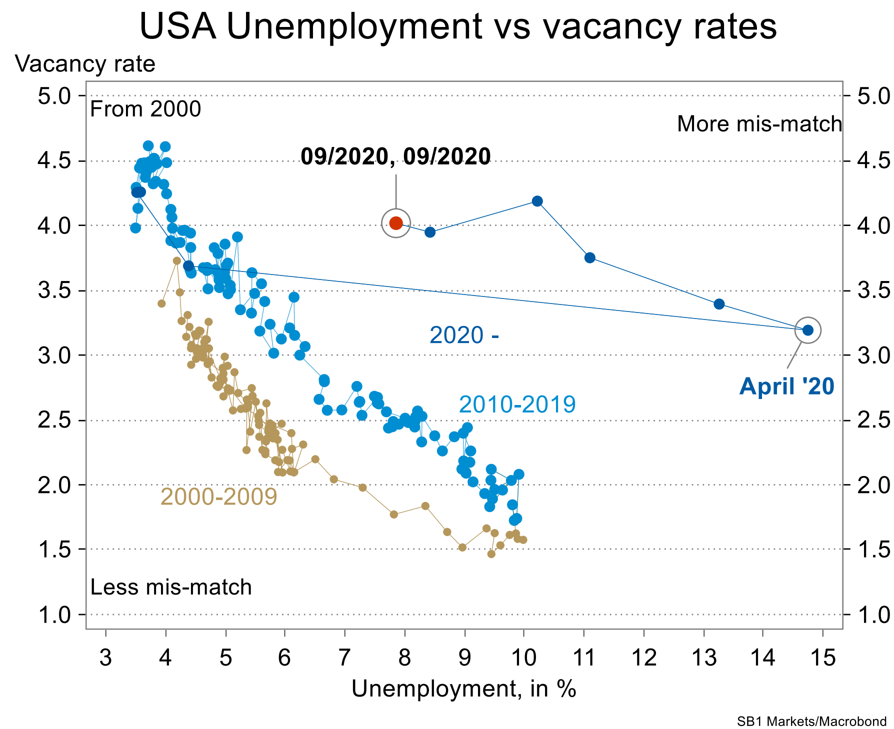
- The participation rate has stabilised at some 2.5% below the pre corona level, which is lowering the unemployment rate by the same amount
- Nonfarm payrolls are down 6.5% vs Feb, while the employment rate is 5.7% below par
- Hours worked is increasing approx. at the same pace as employment but and is 5.4% below the pre corona level



Small businesses are not able to fill vacant positions

… just like before corona. Is it now due to corona, employees are not able to move/take new position?

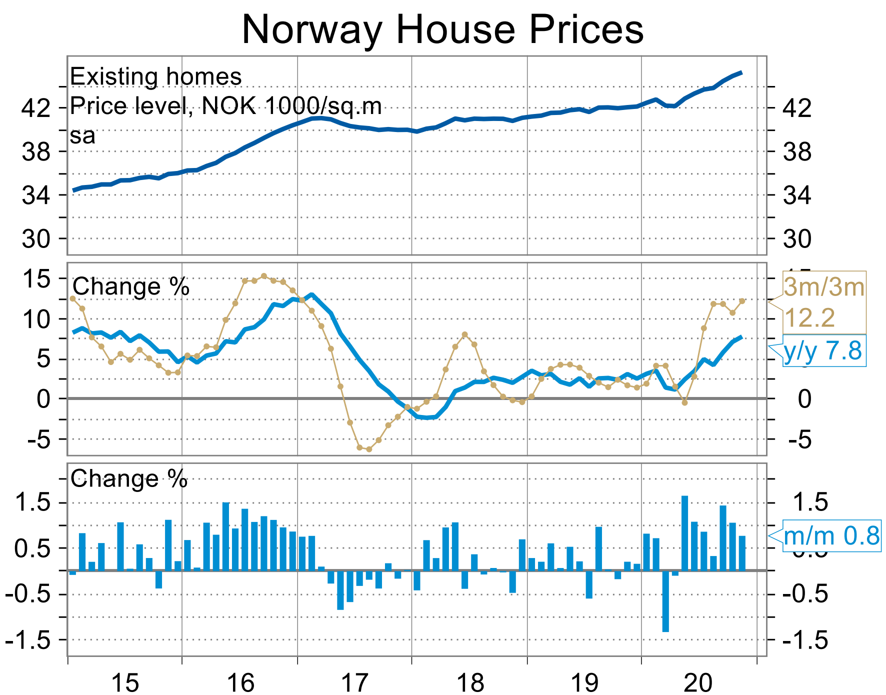




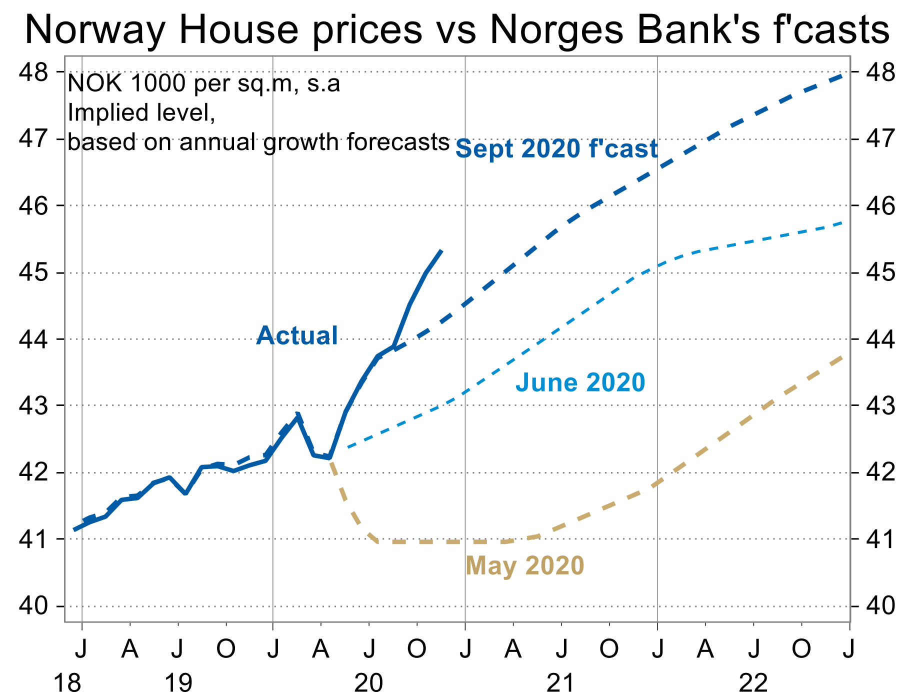
- … or are large parts of the labour market tight?
- Hiring plans are aggressive, not surprising given gradual recovery in the economy
- The number of unfilled vacancies is also high, according up official statistics (last obs September)

Still no sign of weakness in housing market – and why would there be at 0% rate

House prices up 0.8% in November, spot on our estimate; NoBa annual forecast implied 0.35%



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

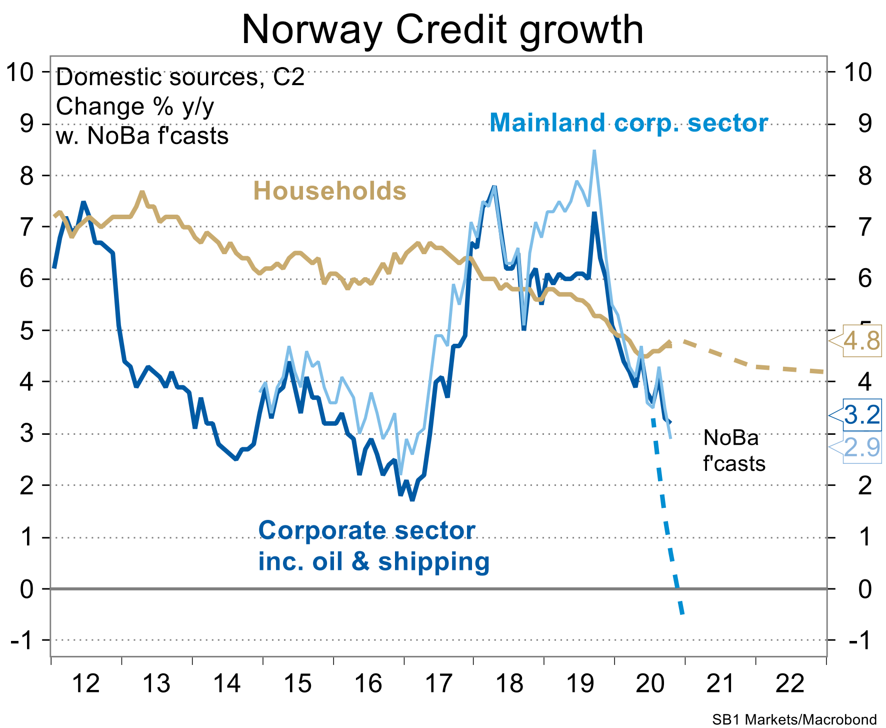


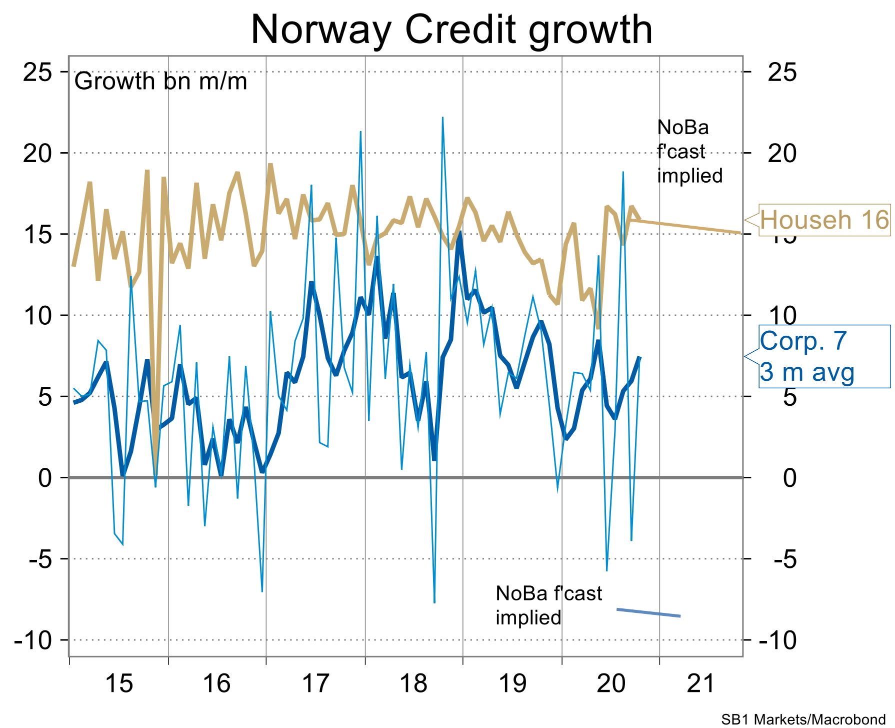
SB1 Markets/Macrobond

- **House prices** rose by 0.8% seas. adj in Nov, as we expected. Prices are up by 12% 3m/3m, annualised, up 6% above vs Feb, and by 7.8% y/y, the highest in 3 years. A 1.2 pp cut in mortgage rates (to 1.8% in avg, from 3.0% in Feb), has been much more important than the corona setback and higher unemployment
  - » 4 cities reported declining prices with Stavanger and Kristiansand (still) at the bottom of the list (m/m). The costal cities from Ålesund to Tromsø + Oslo are at the top
- The number of **transactions** remained at a high in Nov, at some 13% above the (average) 2019 level. The inventory of unsold homes stabilised in November, following a huge decline. The inventory is 25% down from early 2020 and far below a normal level
- **Prices are increasing faster than Norges Bank assumed in September (as was the case with its May and June f'casts). Should the steep price growth continue, Norges Bank will start hiking rates well before late 22'. The market has moved the timing forward to late 2021 or early 2022. Dec 2021 is our present f'cast**

No take off in household credit – but growth has accelerated

So far not more than NoBa assumed. Corporate credit growth is slowing – but less than NB assumed



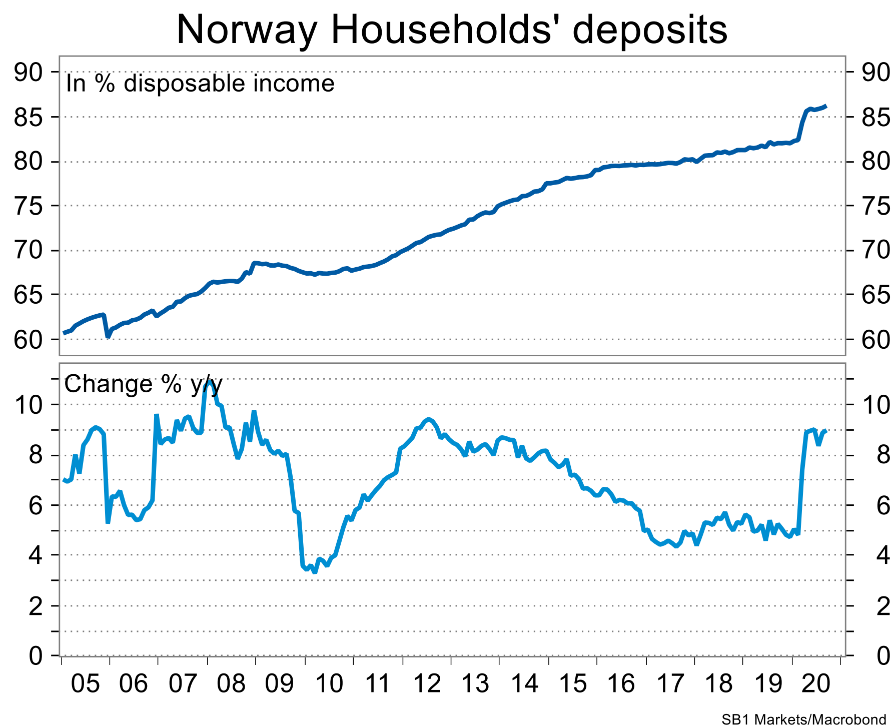


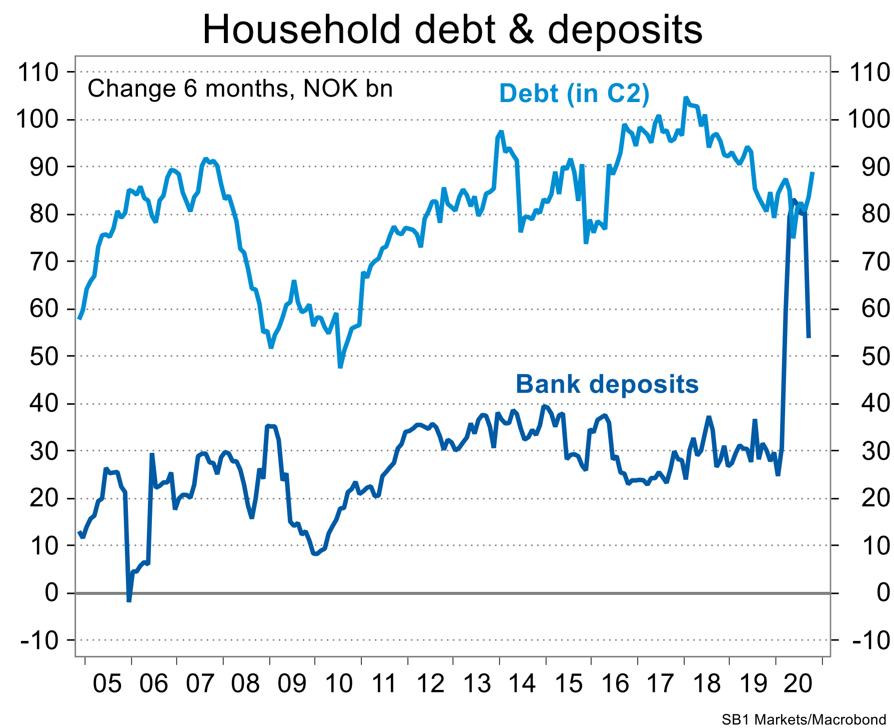
- Following a mild slowdown during the corona spring, **household credit** growth har returned to a 'normal' level past 5 months, at a 5% growth pace, pulling the annual growth rate slowly upwards. Consumer credit is declining at some NOK 1 - 1.5 bn/month over the past year, which has reduced the annual total credit growth by 0.5 pp
- While the annual rate in **corporate credit** has fallen sharply since late 2019, actual m/m growth has stabilised through 2020 at 3.5% pace. If anything, the underlying growth rate is increasing
  - » Norges Bank's 0.7% y/y October Mainland corporate debt growth forecast has turned out to far to dovish vs the 2.9% outcome

Norway

Household debt is growing faster than deposits again, as usual

Household deposits jumped by an extra NOK 50 bn (4% of annual disp. income) to May from Feb

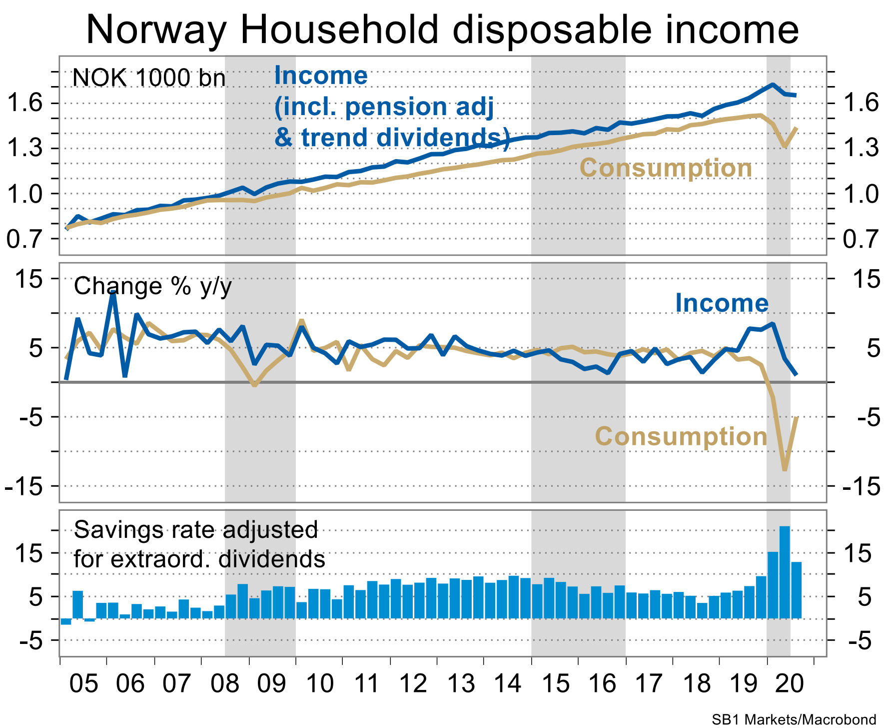


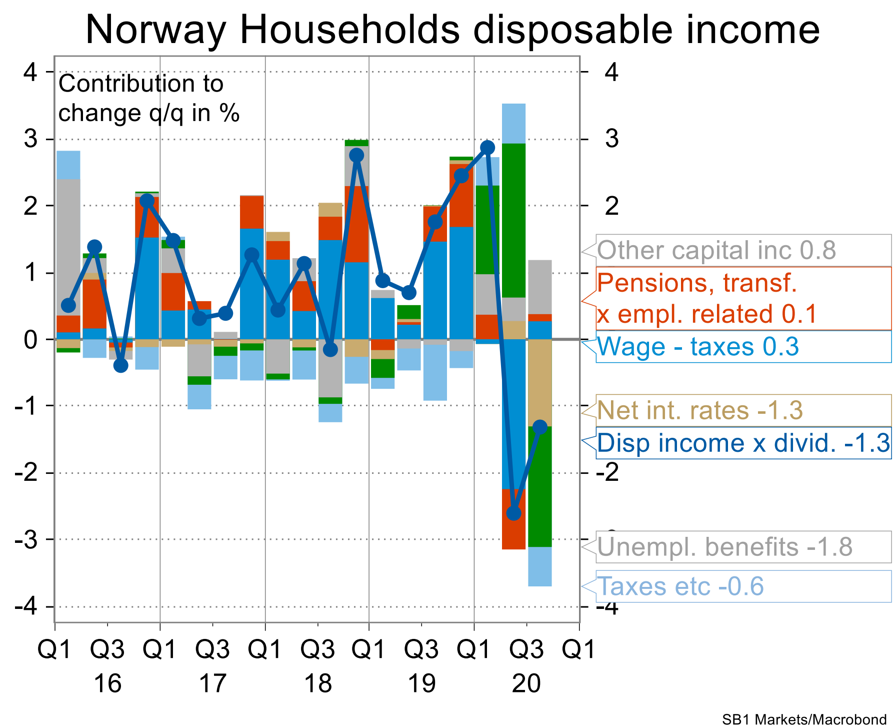


- For the first time 'ever' household deposits rose at the same rate as household debt, measured in NOK – for some few months
- Growth in deposits have slowed since May, as consumption has gradually recovered – and growth in debt is gained traction and household debt is once again growing faster than their bank deposits. Other asses
  - » Still, households have saved a 'small wall of money' of which what we assumed

Disposable income down 1.7% to Q3 from Q4-19, consumption down 5.3%

The savings rate fell to 13% in Q3 from 21% in Q2 – but it is still up from 10% in Q4 (a high level)



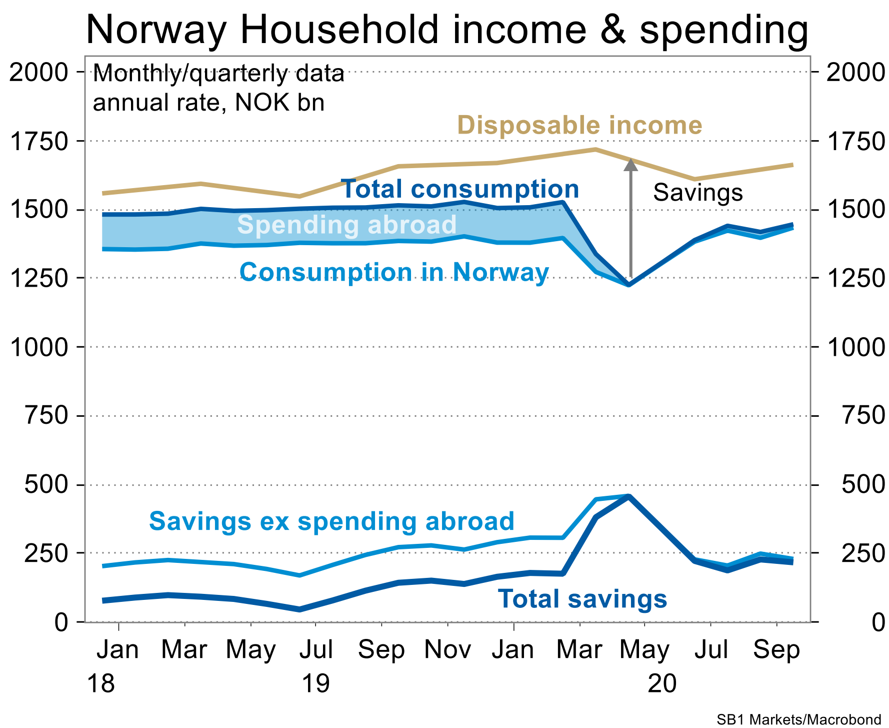


- In Q3, consumption rose almost 10% while income declined by 0.5% - and the savings rate fell sharply
- In Norway, government transfers have not fully compensated the loss of wage income during the Covid crisis
  - » In the US, on the contrary, income rose 10% (not annualised!! as households have been overcompensated by unemployment benefits and other government transfers
- The decline in net interest income in Q3 (and the small increase in Q2) seems unreasonable, given the huge decline in mortgage rates. If we are right, disposable income have decline less than so far estimated

All data here are in nominal terms. Disposable income is adjusted for extraordinary dividends

Savings up, but…

Norwegians are saving a small part of what they are not spending abroad these days



- Household incomes have fallen somewhat (check the previous page)
- In September, Norwegian's spending at home was above the level in February
- Norwegian households' spending abroad has fallen sharply, equalling 8% of disposable income
- The savings rate is up 'just' 4% vs the pre corona level, which was quite high (for a better picture, check the prev. page)
- When (not if ☺) the economy normalises after corona, households' income will recover, spending abroad will increase sharply. Spending at home be shifted to services from goods, and in sum probably not rise by much

The Calendar

More global auto sales, US CPI, ECB, Breit. Back home: NoBa Reg. Network, GDP, CPI, manuf. prod.

Time	Count.	Indicator	Period	Forecast	Prior
Monday Dec 7					
08:00	GE	Industrial prod SA MoM	Oct	1.3%	1.6%
08:00	NO	Manufacturing prod MoM	Oct	(0.7%)	-0.5%
09:30	SW	Industrial Orders MoM	Oct		0.3%
Tuesday Dec 8					
10:00	NO	NAV unemployment, WOW	week		-1'
10:00	NO	Region Survey: Output Past 3M	Nov	(2)	1.47
10:00	**NO**	**Region Survey: Output Next 6M**	**Nov**	**(1.5)**	**0.19**
11:00	GE	ZEW Survey Expectations	Dec	40.5	39
12:00	US	NFIB Small Business Optimism	Nov	102.5	104
Wednesday Dec 9					
02:30	CH	CPI YoY	Nov	0.0%	0.5%
08:00	**NO**	**GDP Mainland MoM**	**Oct**	**0.4%**	**0.6%**
08:00	GE	Trade Balance	Oct		20.8b
16:00	US	JOLTS Job Openings	Oct	6300	6436
	FR	Bank of France Ind. Sentiment	Nov	95	97
Thursday Dec 10					
08:00	NO	CPI YoY	Nov	1.7%(1.7)	1.7%
08:00	**NO**	**CPI Underlying YoY**	**Nov**	**3.3%(3.4)**	**3.4%**
08:00	UK	Monthly GDP (MoM)	Oct	0.4%	1.1%
08:00	UK	Manufacturing prod MoM	Oct	0.3%	0.2%
08:45	FR	Industrial priod MoM	Oct	0.4%	1.4%
09:30	SW	CPIF Excl. Energy YoY	Nov	1.1%	1.1%
13:45	**EC**	**ECB Deposit Facility Rate**	**Dec-10**	**-0.5%**	**-0.5%**
14:30	US	Initial Jobless Claims	Dec-05		712k
14:30	**US**	**CPI Ex Food and Energy MoM**	**Nov**	**0.2%**	**0.0%**
14:30	US	CPI Ex Food and Energy YOY	Nov	1.5%	1.6%
20:00	US	Monthly Budget Statement	Nov		-$284.1b
	CH	Aggregate Financing CNY	Nov	2050.0b	1420.0b
Friday Dec 11					
14:30	US	PPI Ex Food, Energy, Trade YoY	Nov		0.80%
16:00	US	U. of Mich. Sentiment	Dec P	76.3	76.9
Monday Nov 14					
00:50	JN	Tankan Large Mfg Index	4Q		-27

- **Global auto sales**
  - » Sales fell somewhat in both US and Europe in November, very likely due to Covid-19 & restrictions. China and several other Emerging Markets will report sales this week. The sum probably down
- **USA**
  - » No **CPI** take-off yet – and probably not in November either (1.5 is expected). Fed's preferred price measure (the PCE deflator) was at 1.4% y/y in Oct. The first Dec consumer sentiment survey out Friday (Univ. of Michigan). A 2nd **fiscal stimulus deal** may (or may not) be decided
- **EMU**
  - » The **ECB** has promised to 'recalibrate' its expansionary policy measures. However, given the 10 y negative real interest rate at -1.5% (in Germany), and shrinking sovereign and credit spreads, the bank must dig deep into its pockets to achieve substantially more, especially as it is the VIRUS that creates the problems, not general lack of demand or financial constraints. The **EUR** has strengthened vs. the USD recently it but is not at all strong trade weighted. The ECB's Q4/Q1 forecast may be revised down due to the 2nd wave, but given positive vaccine news the outlook thereafter should be revised up, just like the OECD did last week and IMF before that
  - » Several EMU countries will report October **manufacturing production** data during the week, another lift is expected
- **UK: To Brexit the hard way, or not. *A trade deal is still possible***
- **Norway**
  - » **Norges Bank's Regional Network** surprised on the downside in August but we assume that companies were not able to calibrate their answers, given the unprecedented turmoil the previous months. We now expect companies to report decent growth past 3 months (they could have said 4, implying an 8% GDP growth pace (measured 3m/3m) in Nov, but we assume more modest 2 (=4% GDP growth pace). The outlook is more important: We expect the 6 m forward indictor to climb to 1.5 from 0.19 in August, signalling a 3% growth pace. Sectoral differences are substantial. Oil related industries (manufacturers, services) and household services should expect less hardship in H1
  - » We assume **Mainland GDP** growth slowed to 0.3 – 0.5% in October, down from 0.6% in Sept.
  - » We expect unchanged annual **CPI** growth rates with the core remaining at 3.4%, and a 0.5% increase in **manufacturing production**

Source: Bloomberg. SB1M est. in brackets. Key data points are highlighted, **the most important in bold**

SpareBank 1 MARKETS

Highlights

The world around us

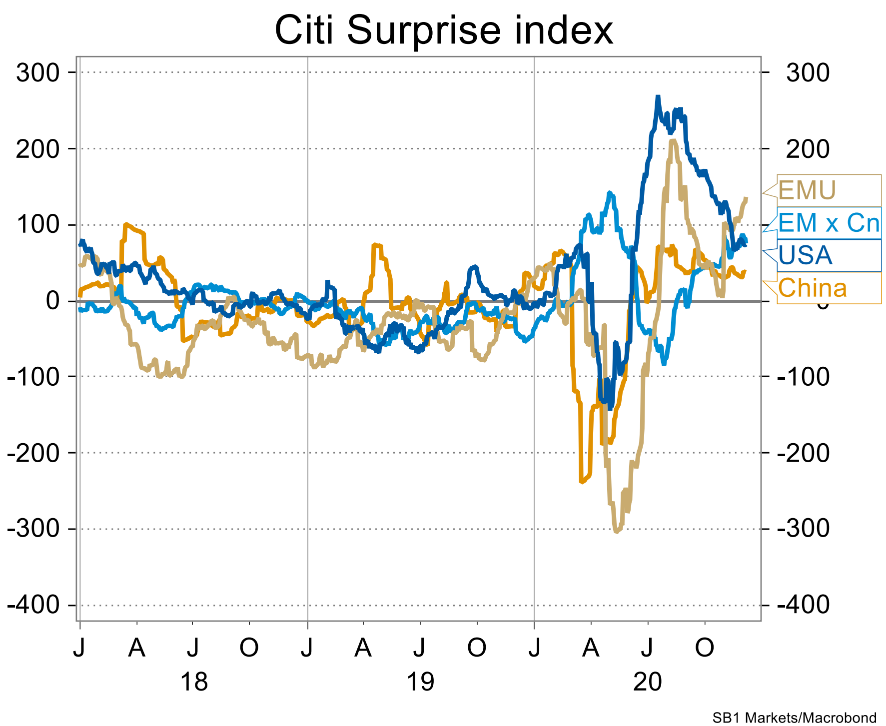
The Norwegian economy

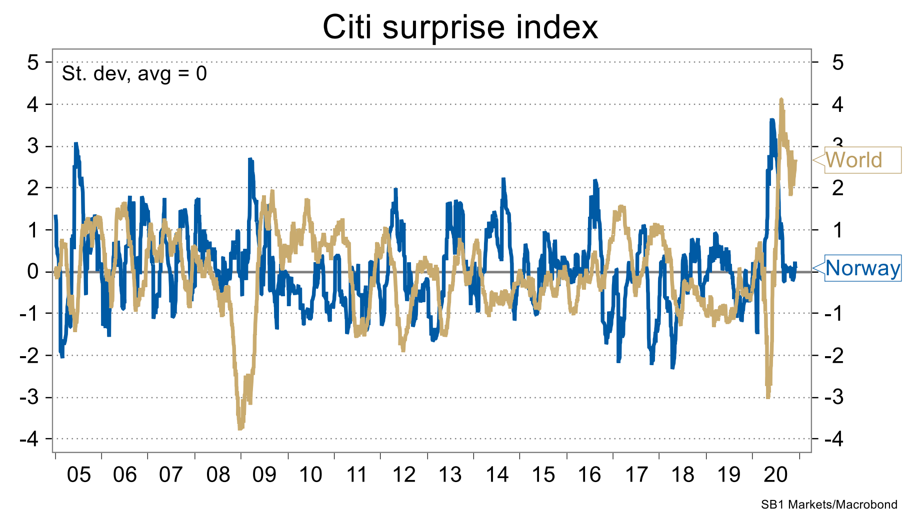
Market charts & comments

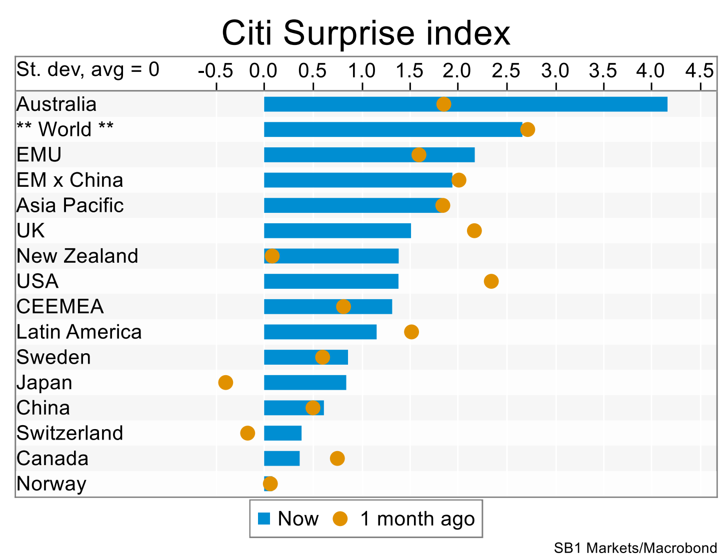
SpareBank 1 MARKETS

Surprises are still on the upside – and somewhat more last week

All major countries/regions x Switzerland are reporting data above expectations







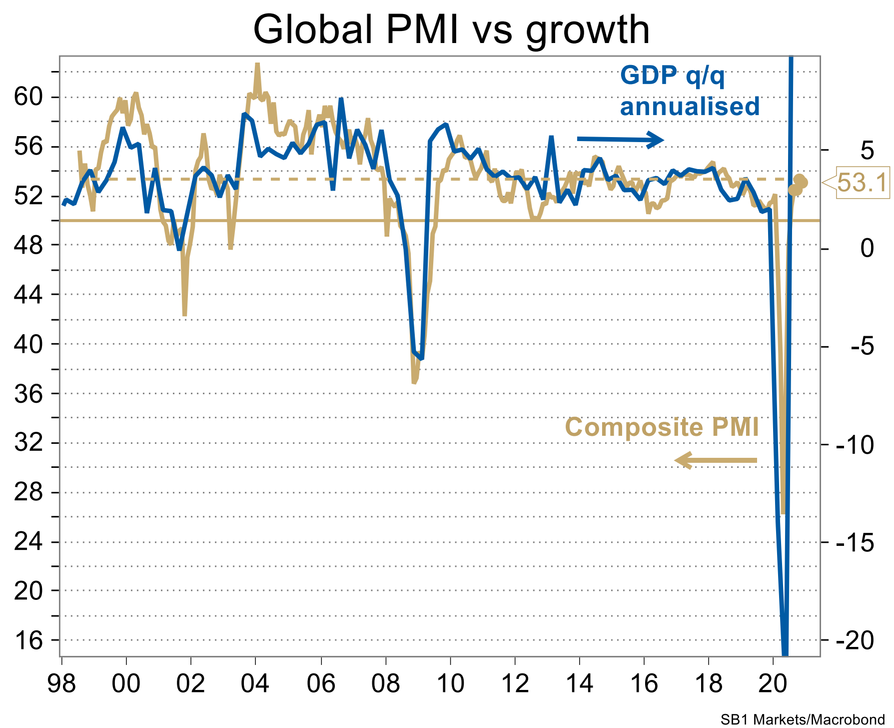
- All major countries/regions are reporting data above expectations, for the first time ever
- The Euro Zone is surprising more on the upside than the US
- The US is still far into positive territory but less so than during the summer – but a tad better last week
- China clearly into positive territory
- Other EMs are well above their average level too
- Norway and Switzerland at the bottom, but just the latter below par!

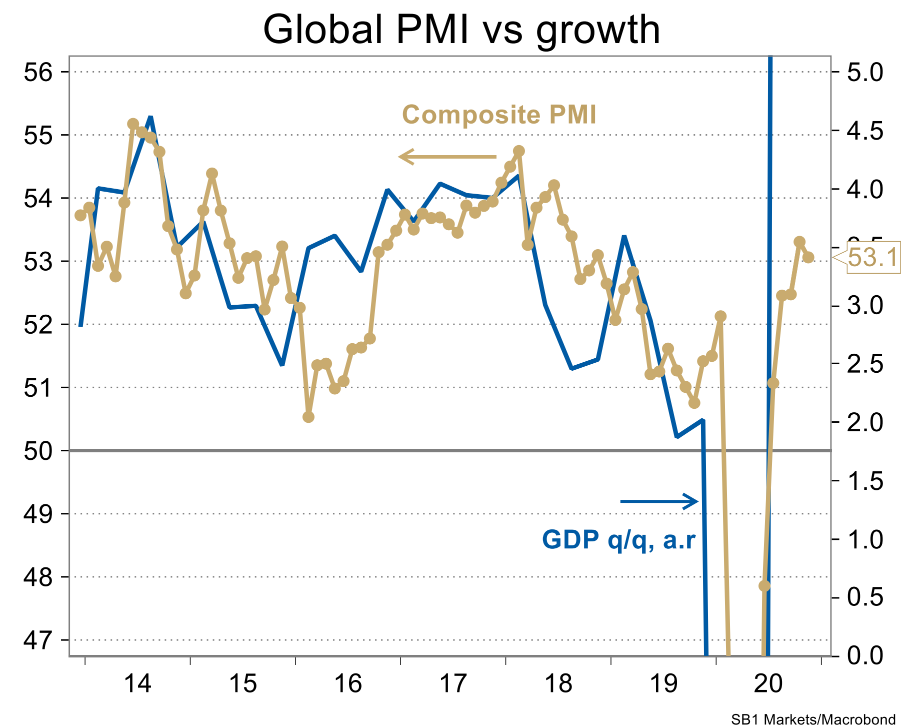
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

SpareBank 1 MARKETS

The global composite PMI just marginally down, even if services in EU struggles

A 0.2 p decline was smaller than we assumed – and 53.1 is close to average

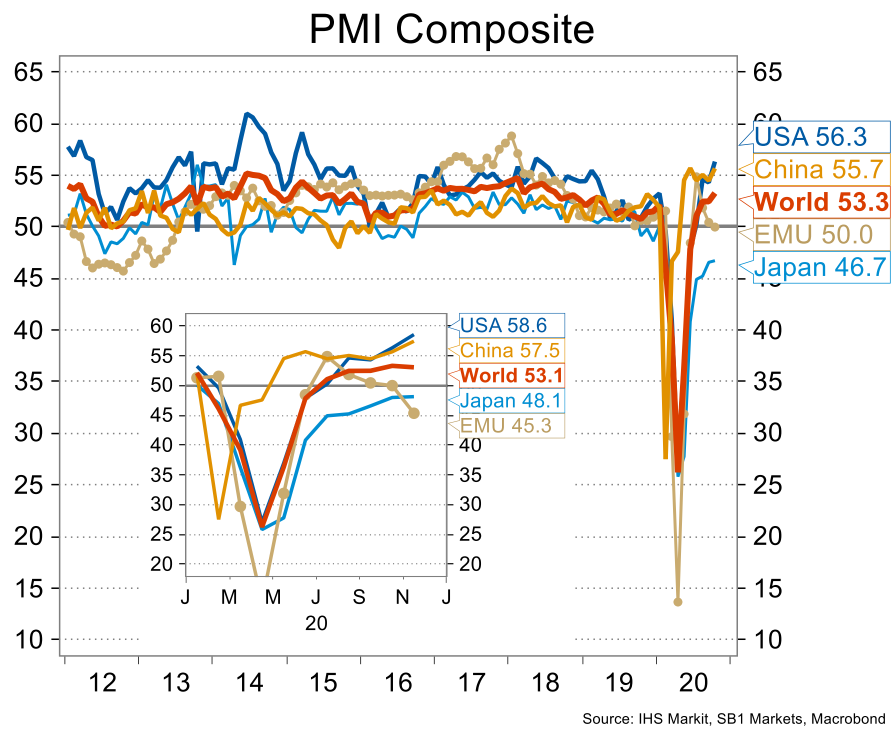


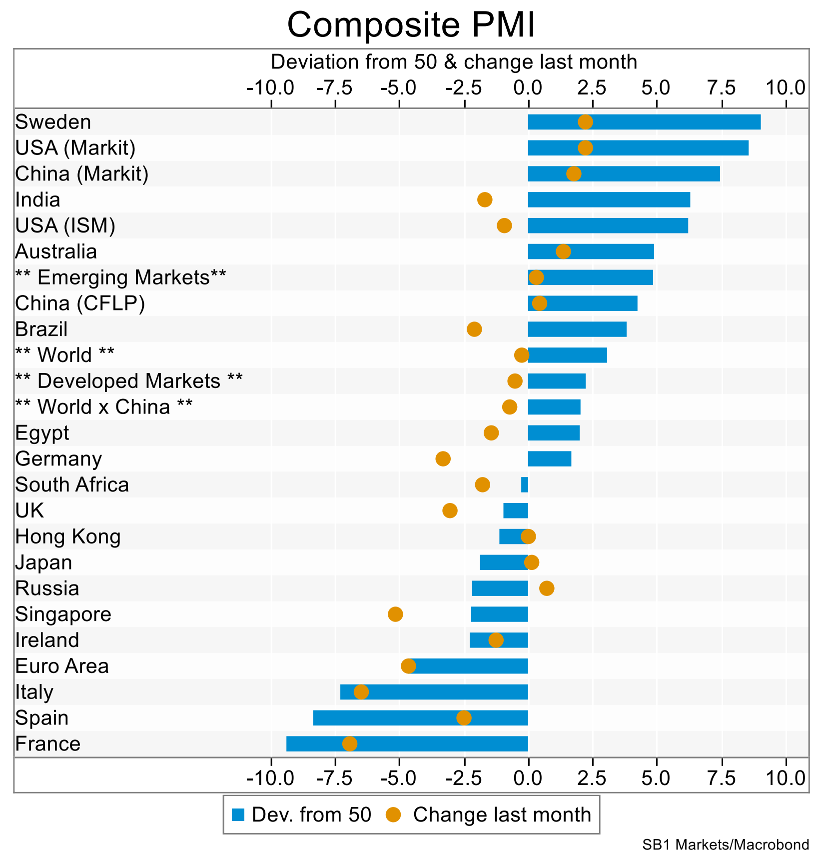


- The manufacturing PMI rose 0.7 p to 53.7, even if manufacturers in the EMU reported lower growth - but still above trend
- The global service sector PMI fell 0.2 p due to a 5.2p decline in EMU 3.8 p in UK, both less than initially reported. In the US, the service sector PMI rose further, in spite of the surge in Covid-19 cases and reduced mobility – <u>and the composite US PMI is the strongest since 2015</u>, and better than the prelim. estimate!
- The November PMIs signal a continued recovery in the <u>global</u> economy in Q4 but probably not above trend due to a moderate downturn in Europe
  - » 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 since may. W now assume that these (and other) surveys will become more relevant again as changes in activity from month to month – or over the past few months are becoming more normal.

'V's almost everywhere, most PMIs above 50. Sweden in the lead, France at the bottom

7 of 25 countries/regions reported higher composite PMIs in November, 16 down

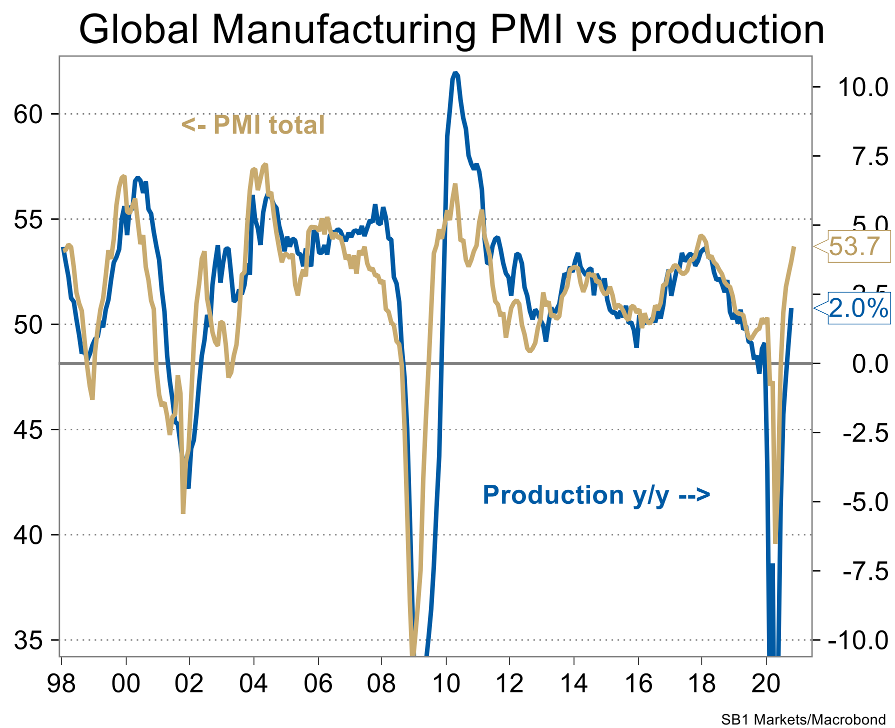


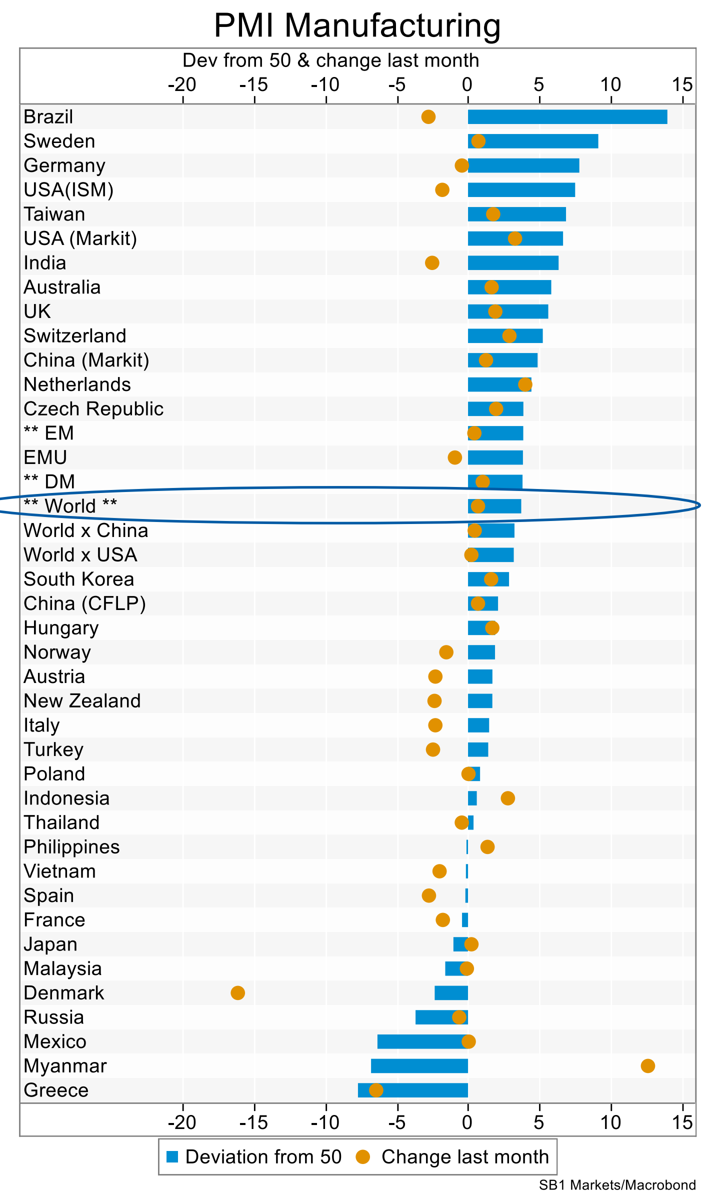


- After the Swedish PMI (which also rose the most in Nov), the US Markit's composite is no 2 (and the ISM no 4), China no 3
  - *The increased spread of infection and tighter restrictions will lead to a new downturn in the Swedish economy*, was the first sentence in Riksbank's policy statement last week – and the bank lifted the QE program to 14% from 10% of GDP. Perhaps the Bank will be right in December?
- The downturn was concentrated to Europe, both UK and countries in the EMU – due to a significant setback in the service sector
  - Italy, France, Spain, UK, Japan are all below the 50 line – Germany is still above
  - All important Emerging Market PMIs are on the strong side, both India, Russia and Brazil report growth (as China do)

Manuf PMI up to 53.7 in Nov, signalling continued growth above trend

The best level since February 2018

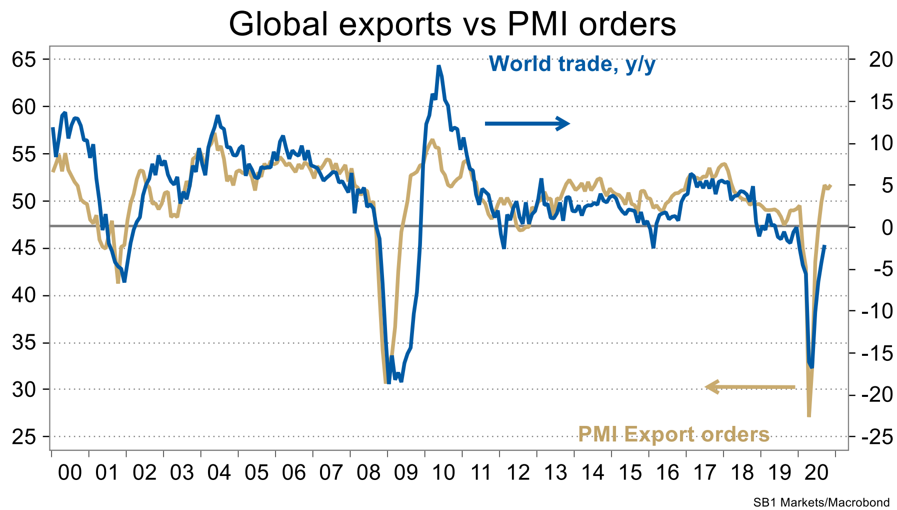


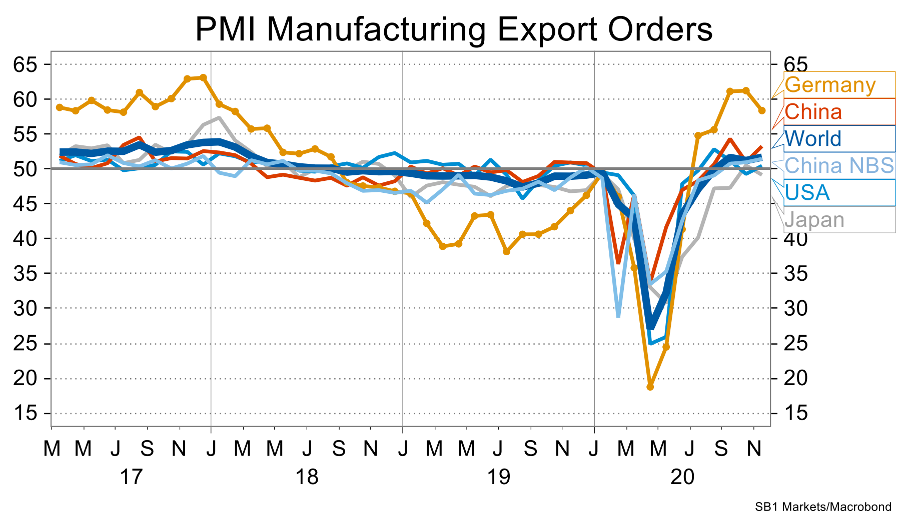


- The global manufacturing PMI further rose 0.7 p to 53.7 in Nov, 0.4 pp more than we expected
  - 19 countries/regions reported higher growth, 16 slower growth
  - A large majority of the countries are reporting PMIs above the 50 line, just 8 clearly below,
- Emerging markets have recovered somewhat 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 fell 1.5 p but remained above 50, for the 3rd month in row. Sweden almost at the top of the list.

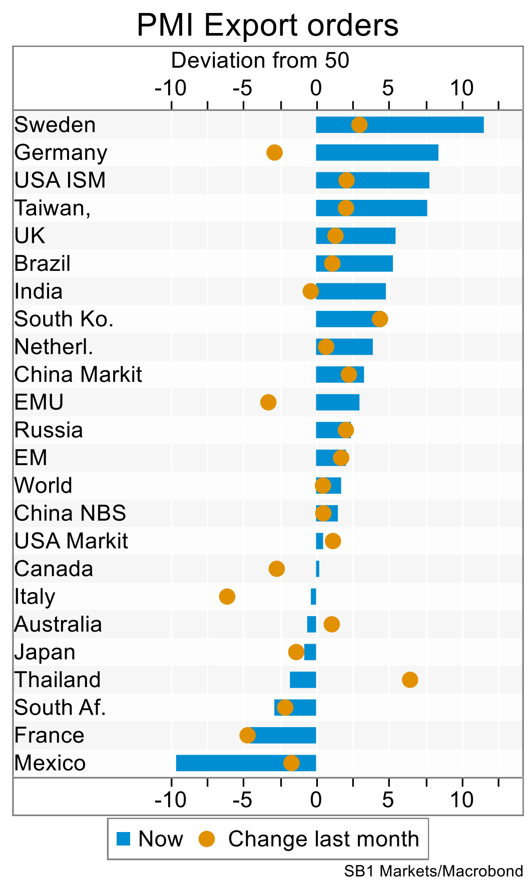
Export orders PMIs have recovered, so has global foreign trade

Actual exports are sharply up since April/May and are almost back to the pre corona level



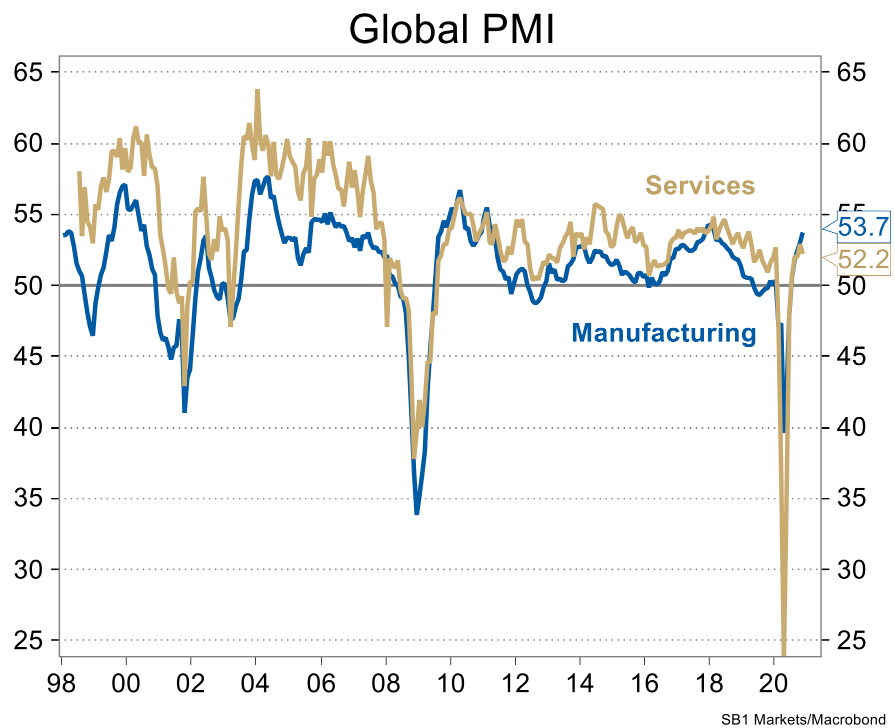


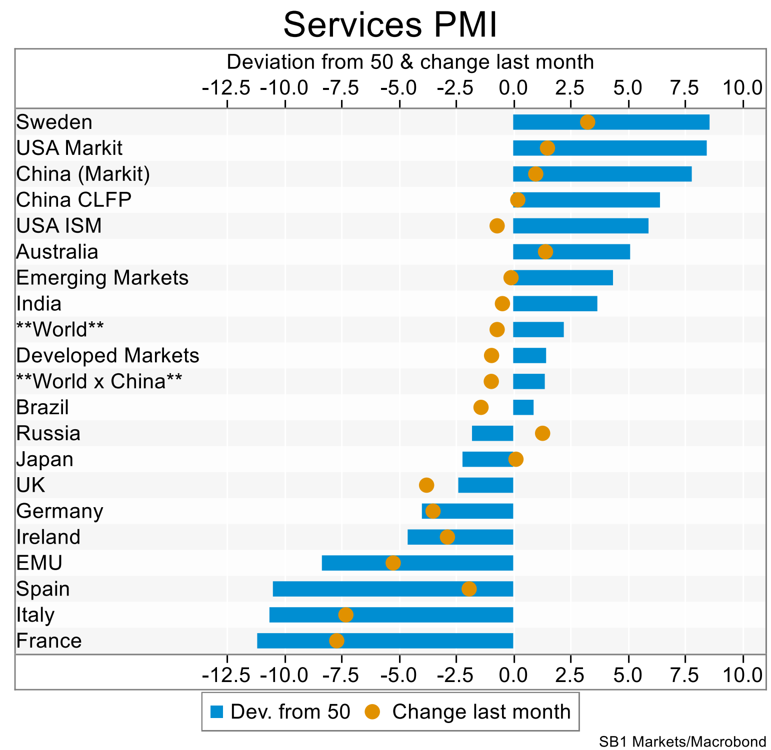
- 2/3rd of countries are reporting growing export orders
- Sweden and Germany are competing for the pole position, France has fallen to the bottom



The service sector PMI surprised on the upside too

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

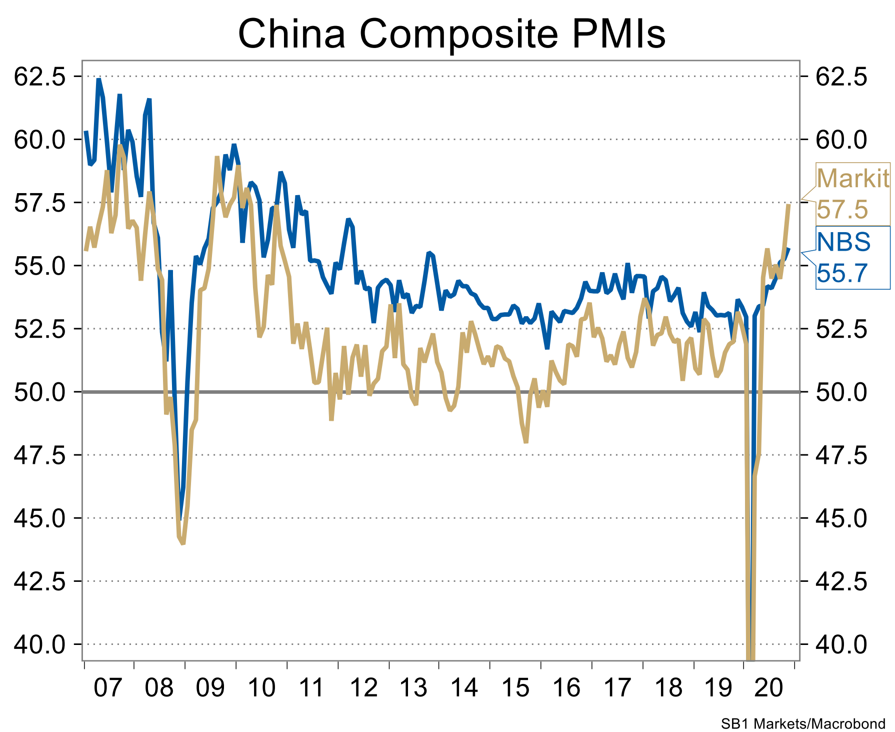


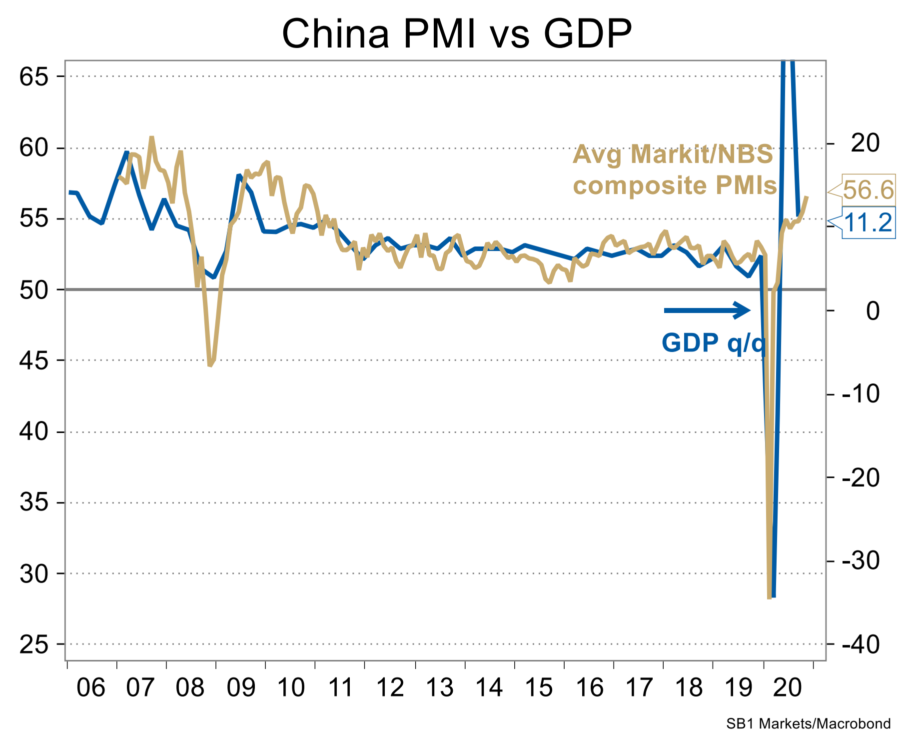


- Just 5 countries/regions up, 13 down. 9 below the 50 line, 12 above – and the average at 52.2, a decent level
- The setback in Europe is harsh but nothing compared to the setback in March/April

Strong China PMIs – best since 2010! Both manufacturing & services contribute

Markit's PMI +1.8 p to 57.5, NBS' PMI +0.4 to 55.7, signals growth well above trend in Q4 too



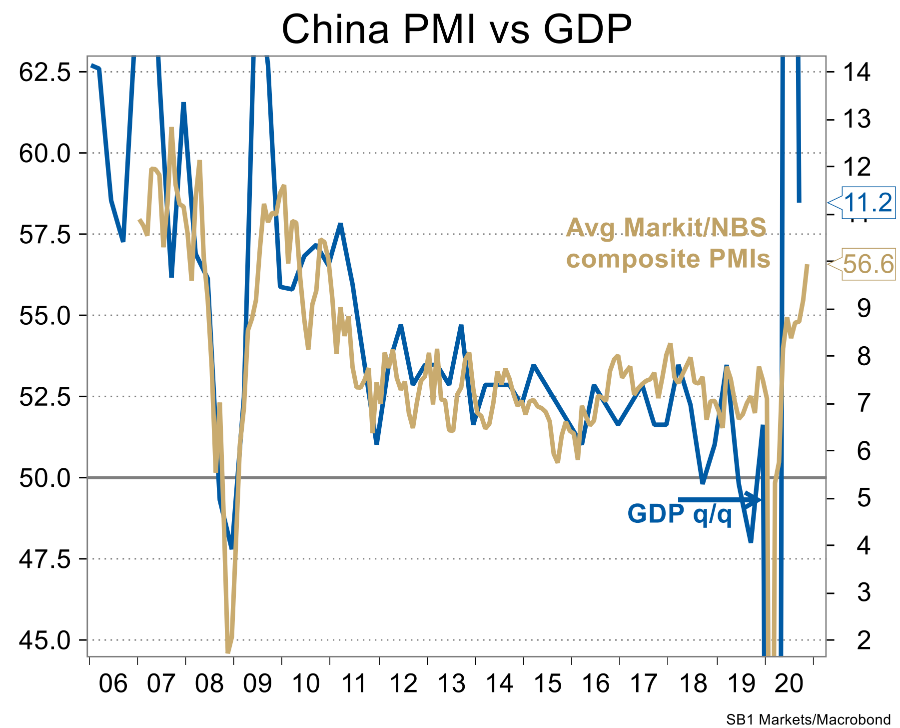


- Both manufacturing & services reported higher growth Markit's and NBS' 'official' survey
- In sum, these PMI data confirm a continued recovery and growth above trend (at a 8 – 10% growth pace)

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

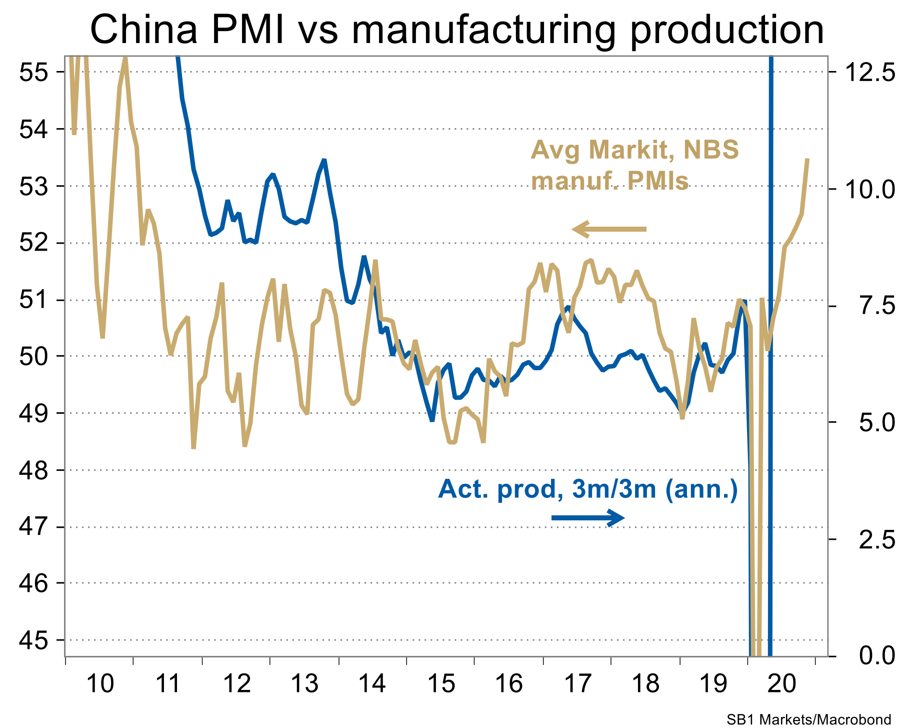
GDP rose 2.7% q/q in Q2 (11.2% annualised), far above a normal growth rate

- … way better than the PMIs signalled
- We have not put too much emphasis on the PMIs for finetuning our GDP forecasts during the corona unprecedented economic turmoil
- We assume these surveys gradually will report relevant growth signals – and that the November PMIs confirm growth above trend in Q4



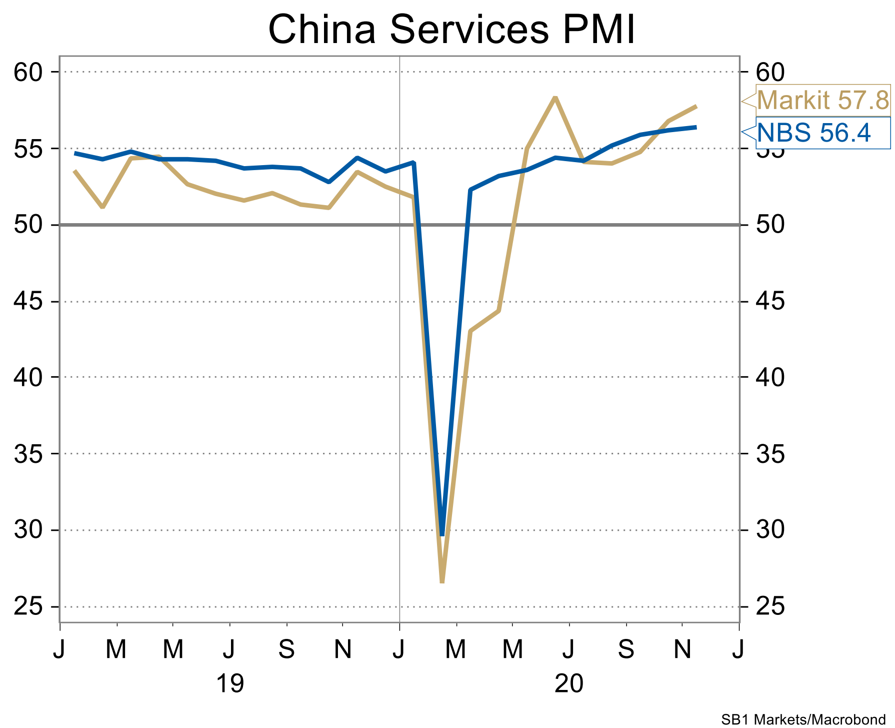
Both manufacturing PMIs up in November, signals very strong growth

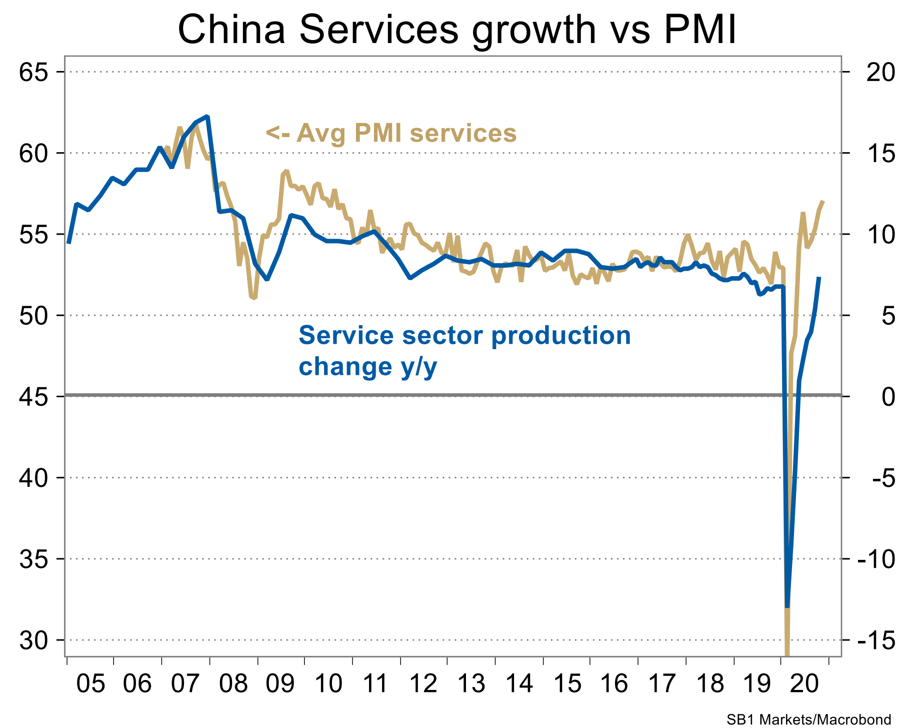
The PMIs are in average at the best level since 2011



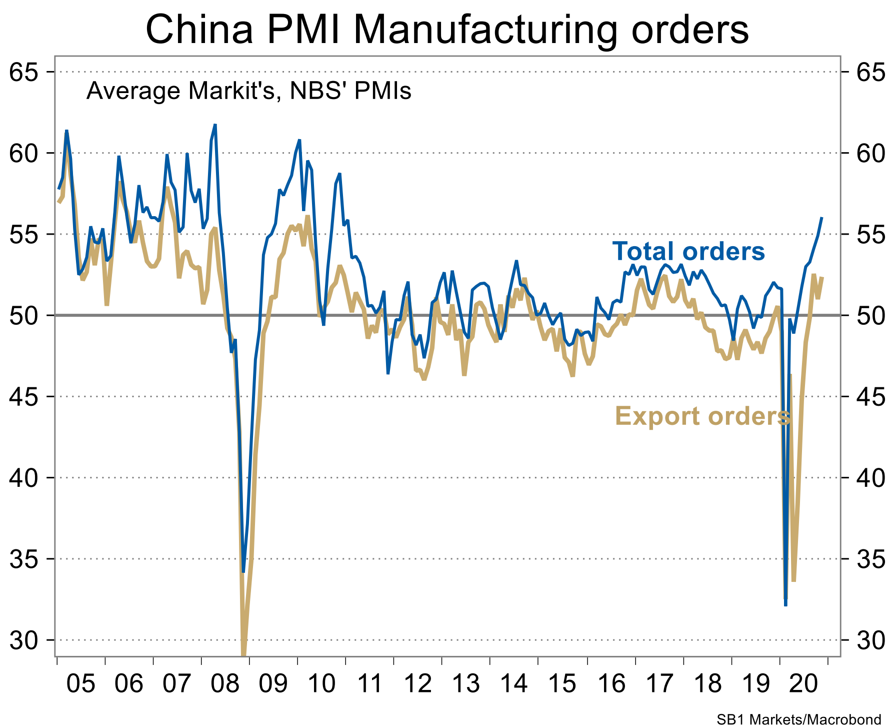
- The NBS survey is more concentrated vs large state owned companies, Markit's vs 'smaller' privately owned companies

Service sector PMIs also signal growth well above normal



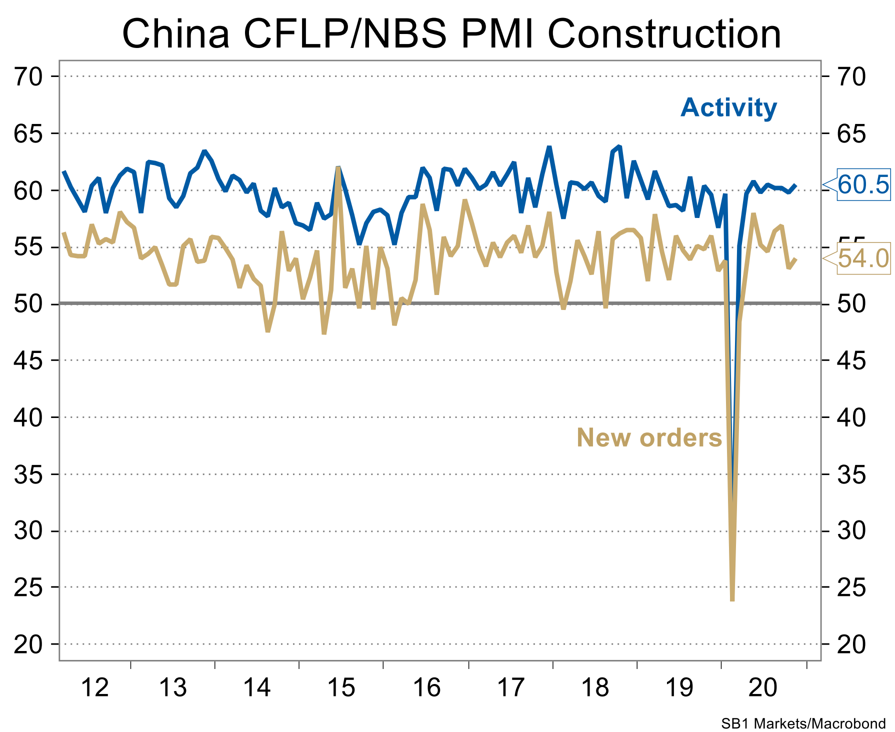


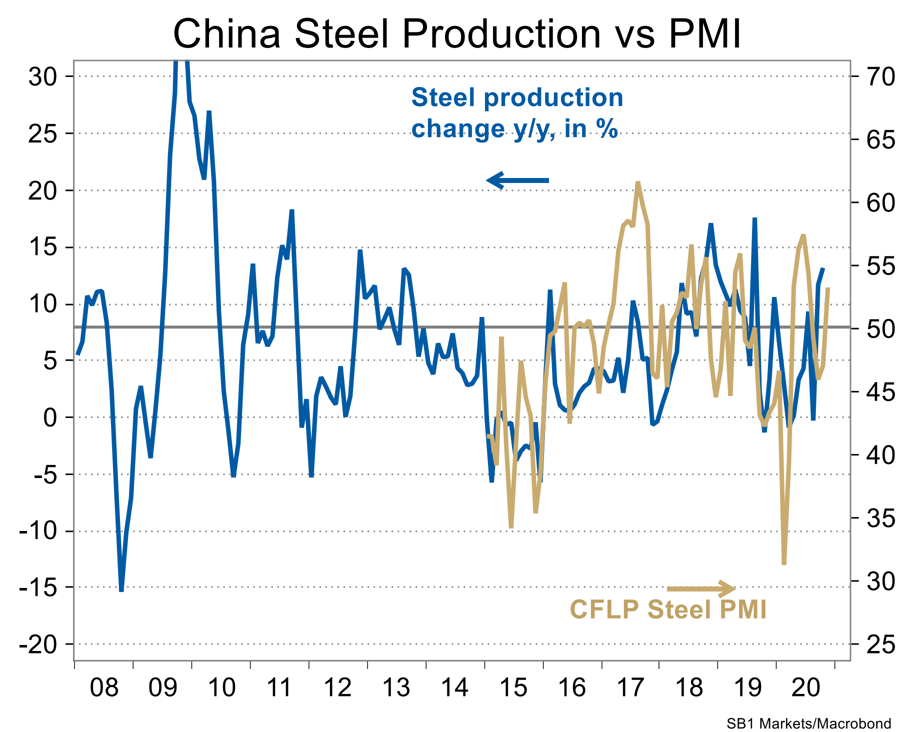
Export orders are growing again – but domestic orders are surging!



Construction back on track, steel even better

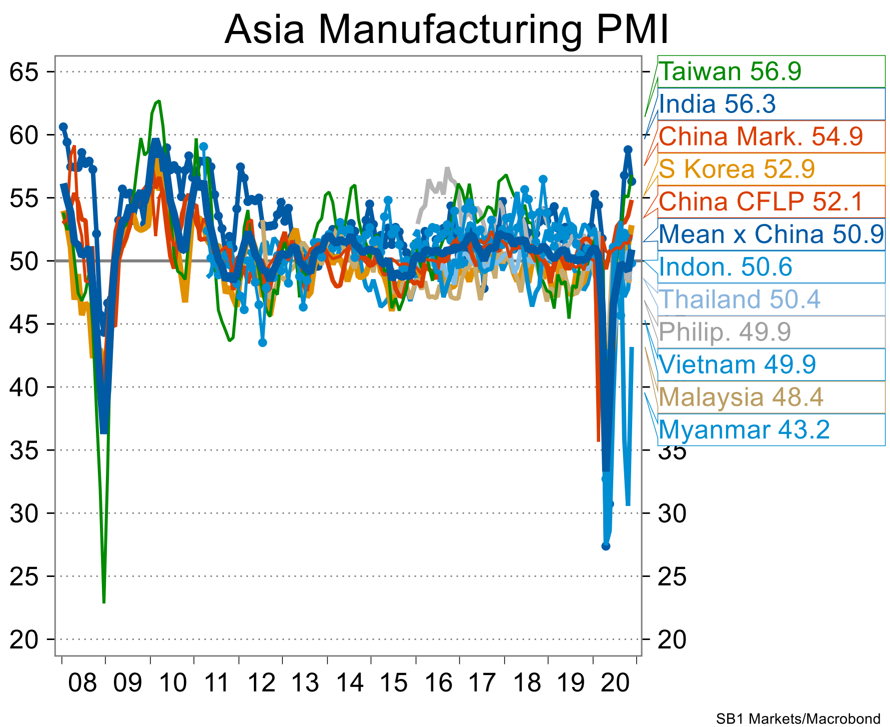
The volatile steel PMI rose sharply in November – and the level is above avg. Construction at average

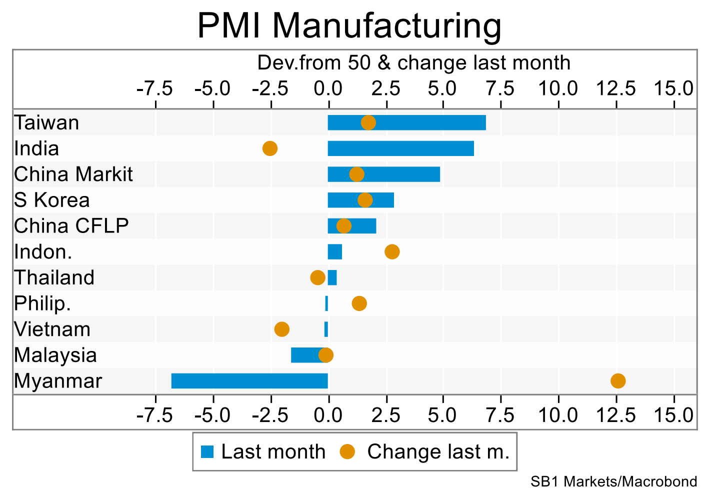


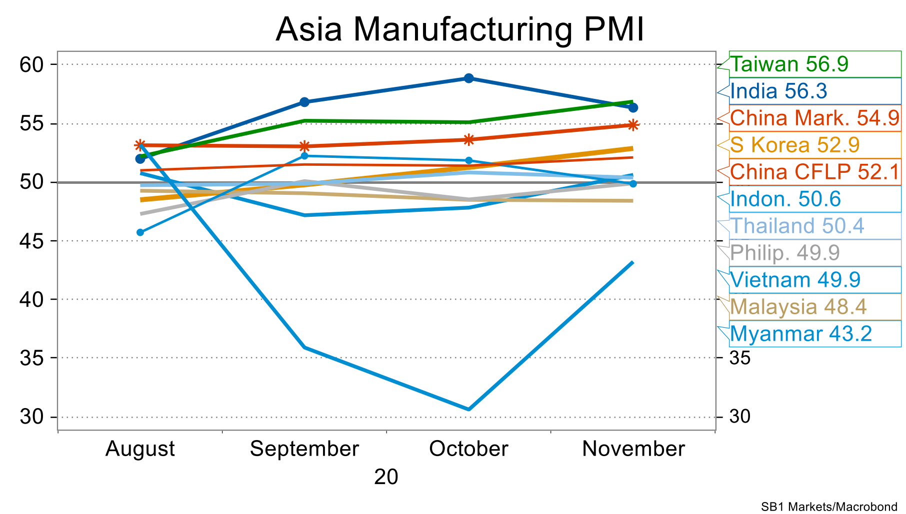


More up than down in November, just 2 of 11 clearly below the 50 line

7 manufacturing PMIs up, 1 flat, 3 slightly down



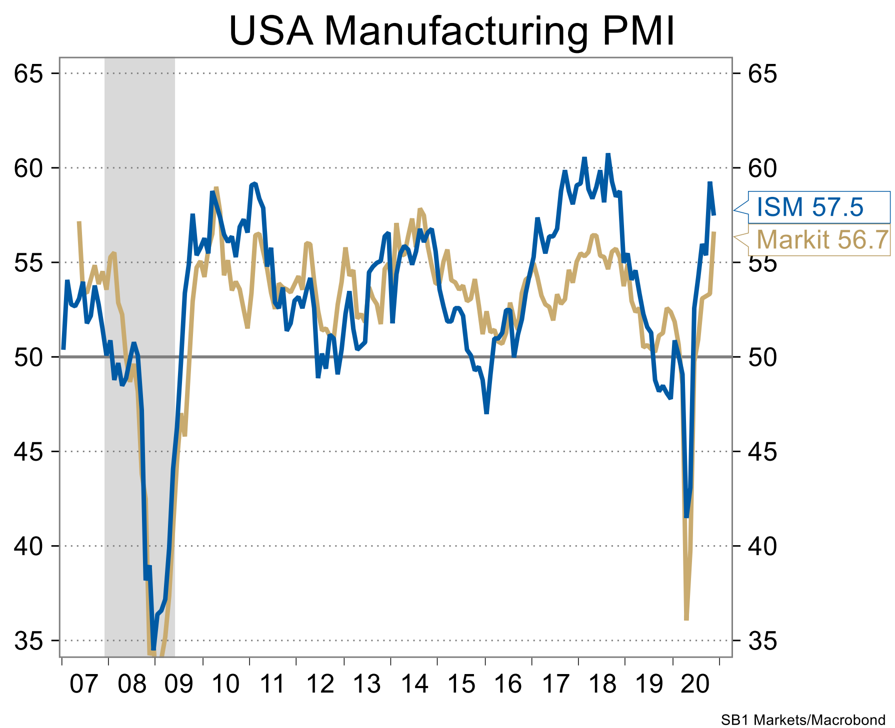


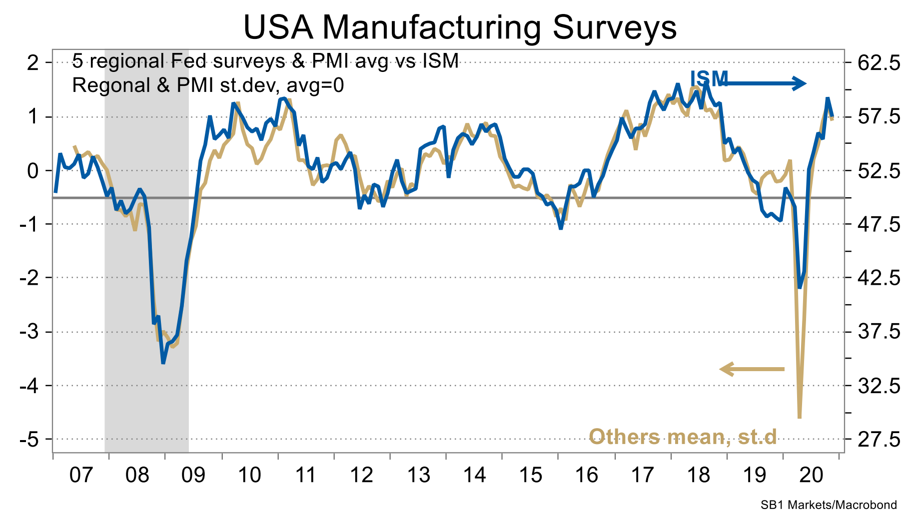


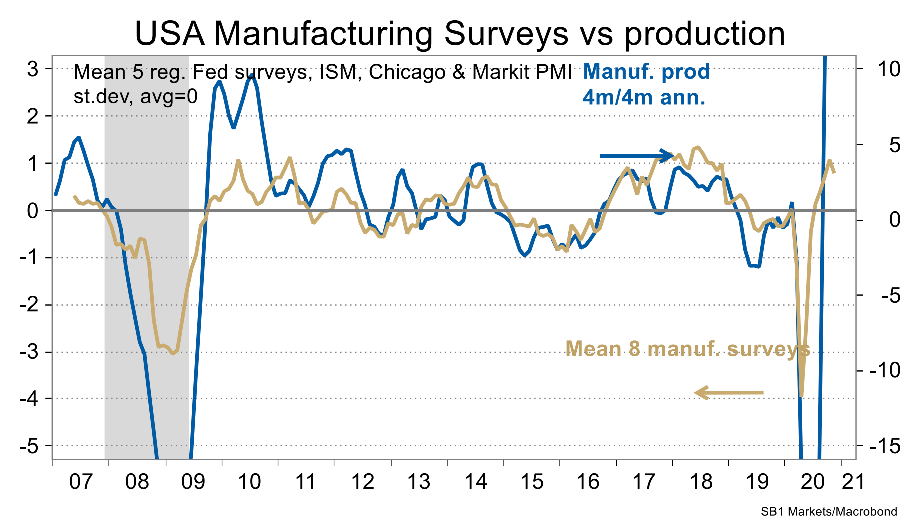
- India is reporting strong growth
- Finally, South Korea crossed the 50 line. The index is above the line for the first time since December. Actual production is up 14% since May, and is now back to the pre-corona level – and the PMI 'should' have been up in the sky for the past 5 months

The manufacturing ISM slightly down, Markit's straight up – both at a high level

Other surveys report strong growth too, in average a tad lower in November than in October

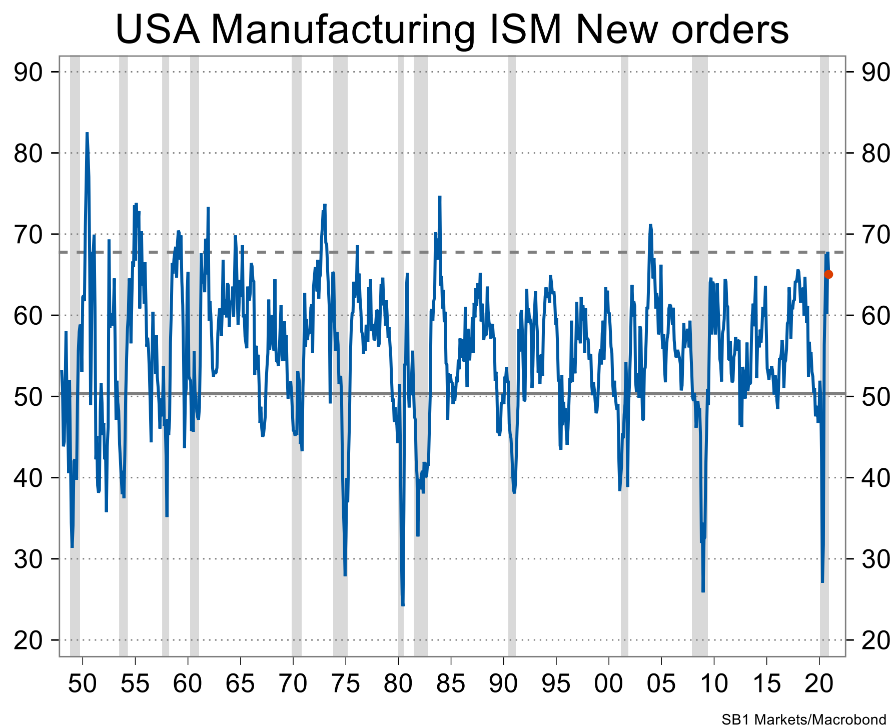


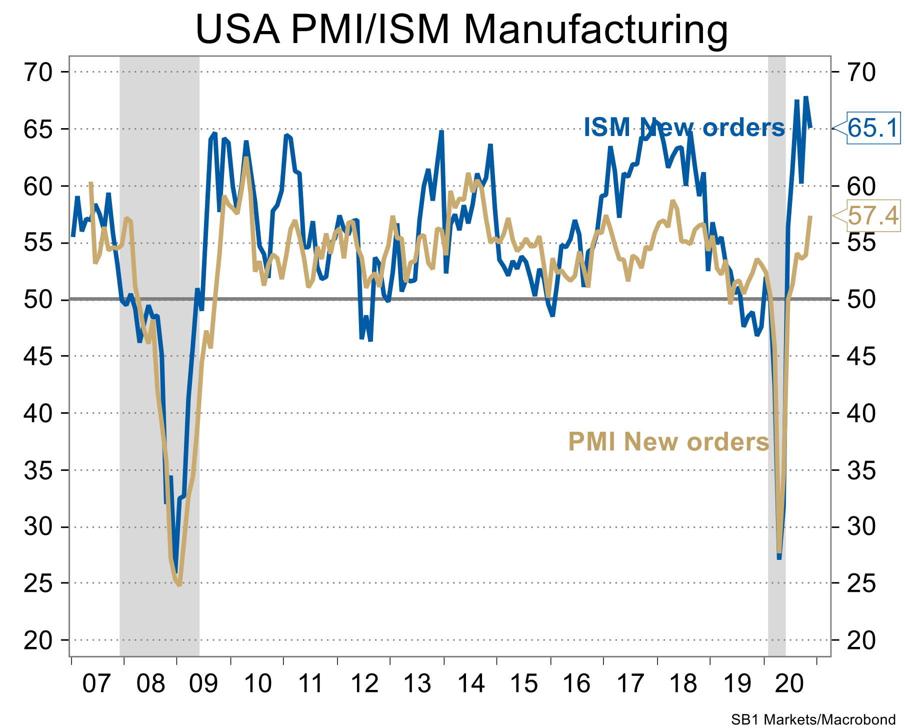




The order index marginally down – from the 6th best level ever in October

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

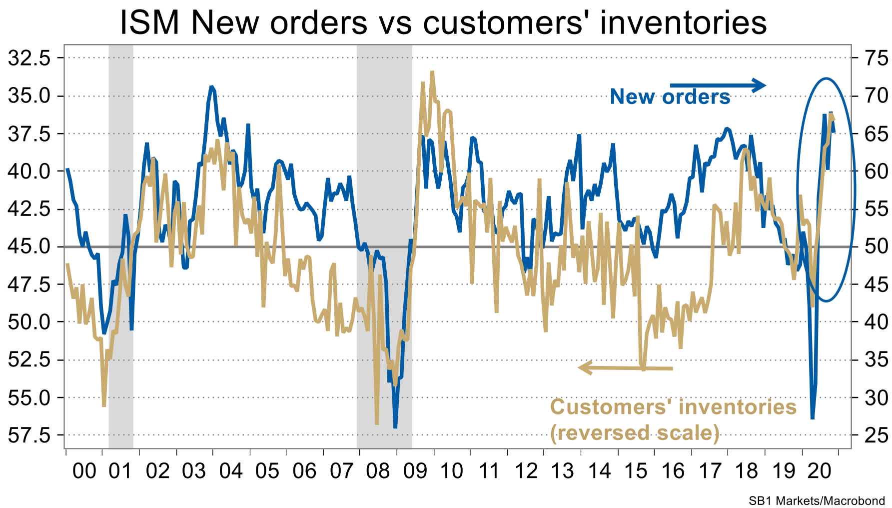


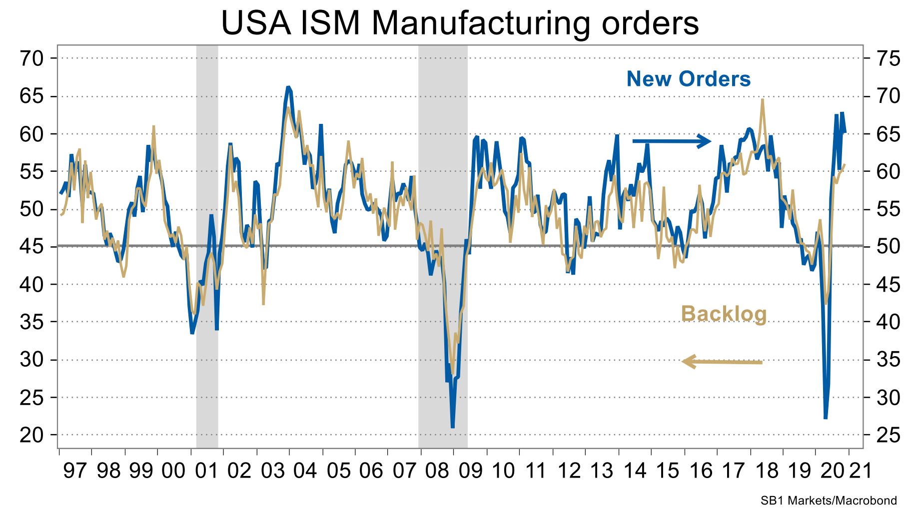


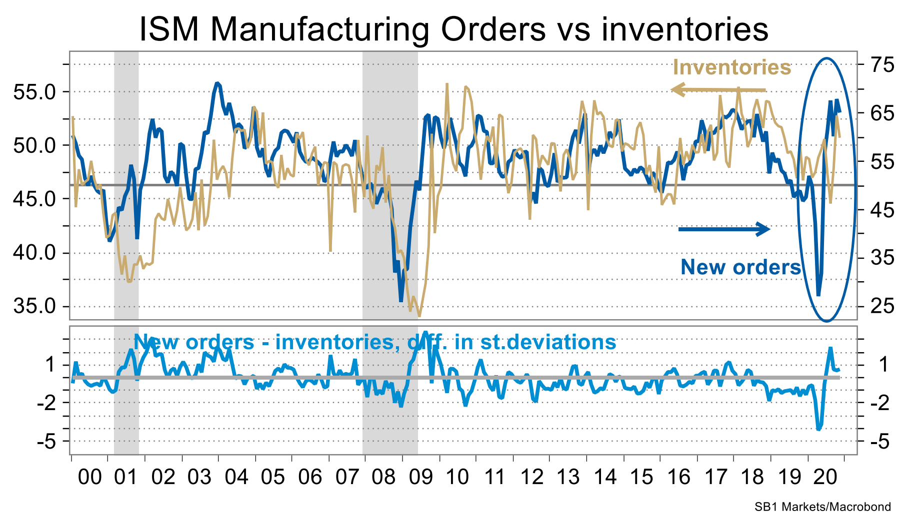
- Modification: There is a huge discrepancy between the ISM order index, which is at very high level, and the order index in Markit's PMI survey, which is above average but not up in the sky. Markit's PMI has clearly been closer to changes in actual order inflow than the good ol' ISM

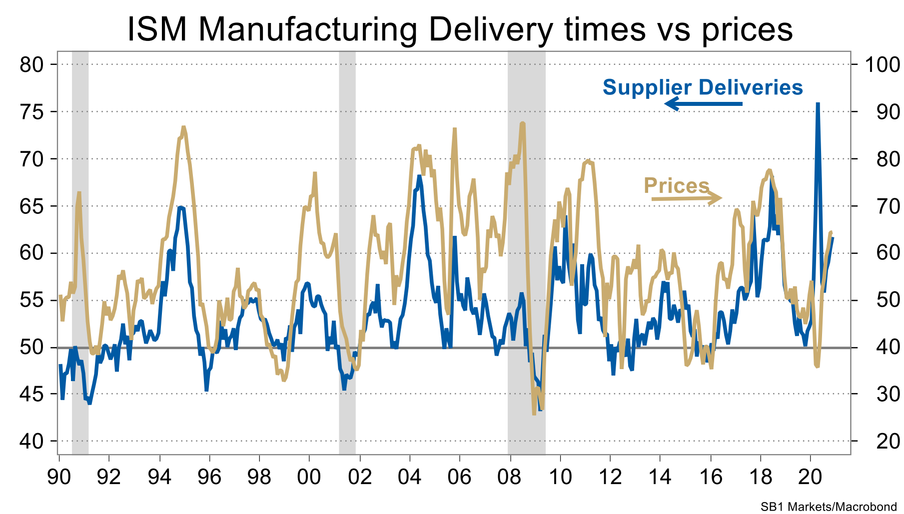
Customers' inventories are shrinking rapidly, restocking needed

... and new orders for the manufacturers. Delivery times up, as are prices! *The new normal?*









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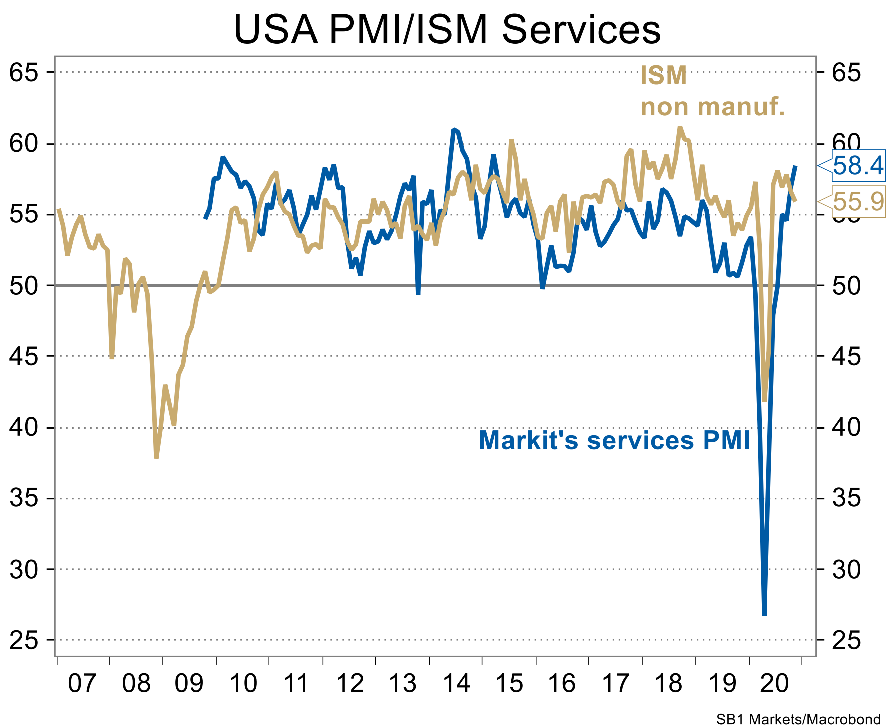
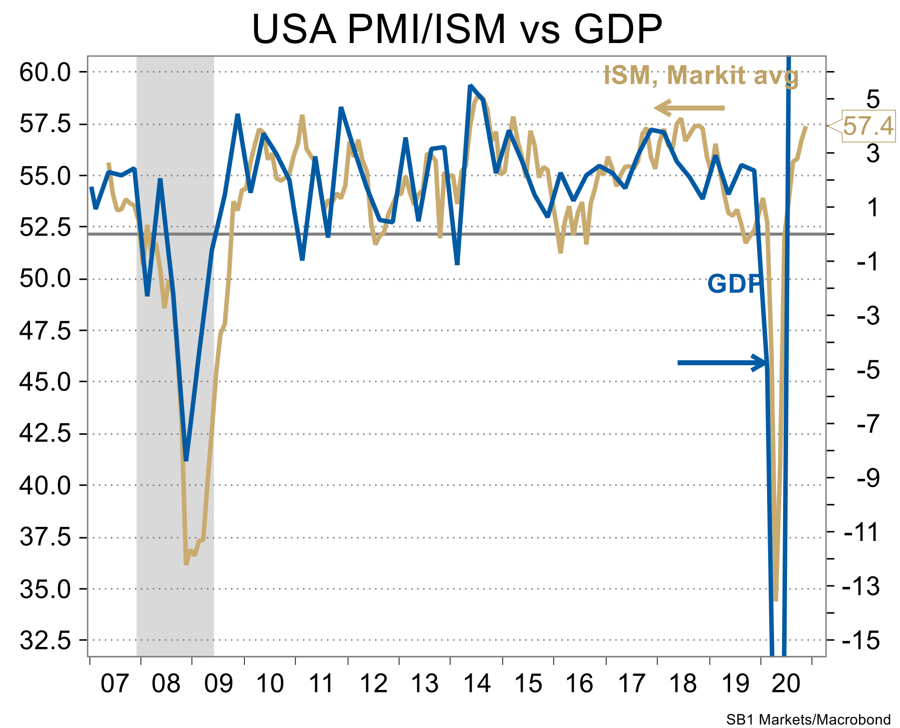
The service ISM down, Markit's more up, both strong. No corona hit, *GDP +4%*

The service sector ISM -0.7p to 55.9, Markit's +1.5 p to 58.4. The average composite up to 57.4

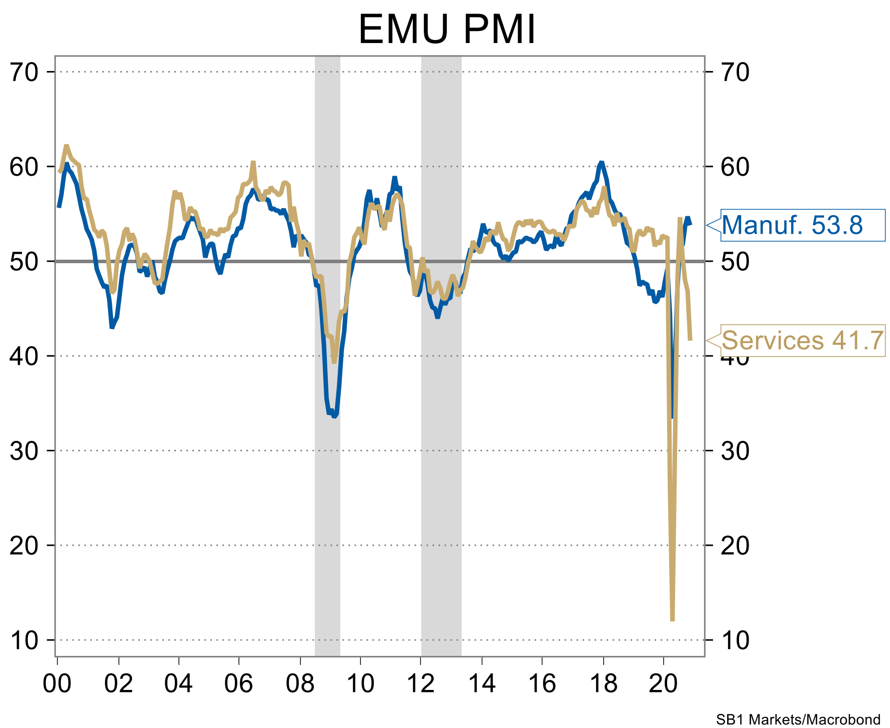


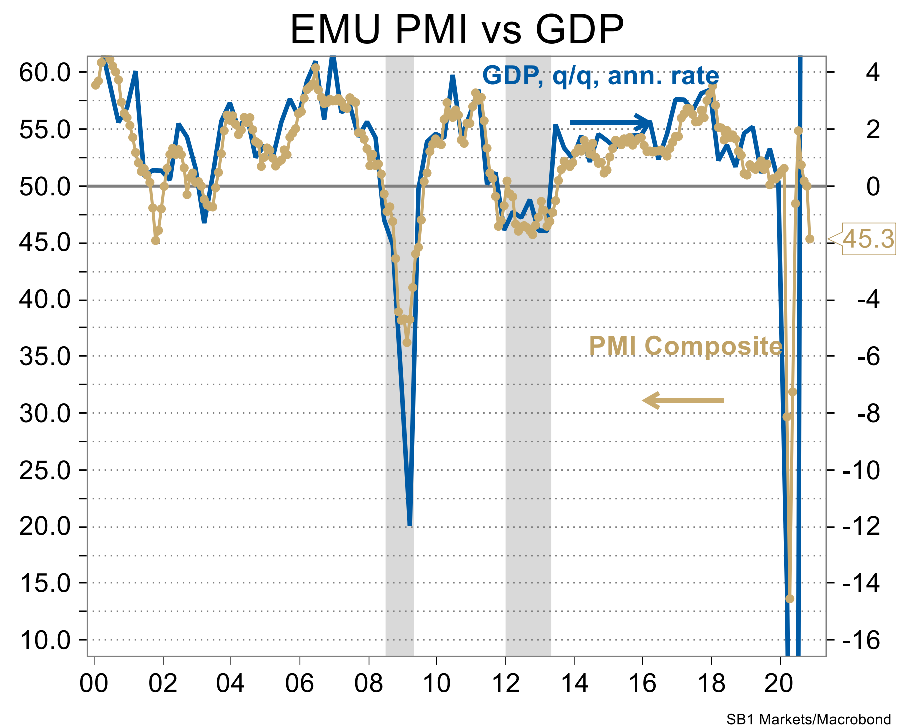


- Both surveys dramatically underreported growth in Q3, following the collapse in GDP in Q2. The PMI/ISM signalled a 2 – 3pp growth pace, it turned out to be 33.1%
- We assume these surveys are now becoming more relevant again – and they are signalling growth above trend into Q4

The PMI a tad better than the preliminary estimates – still down to 45.3

The service sector nosedived to 41.7 – manufacturing just marginally down, to 53.8

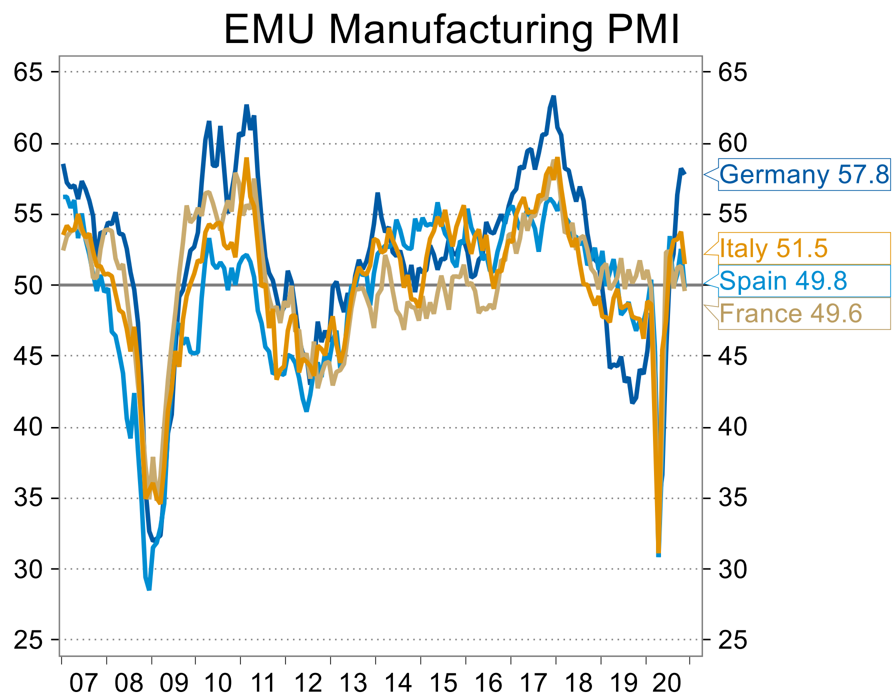




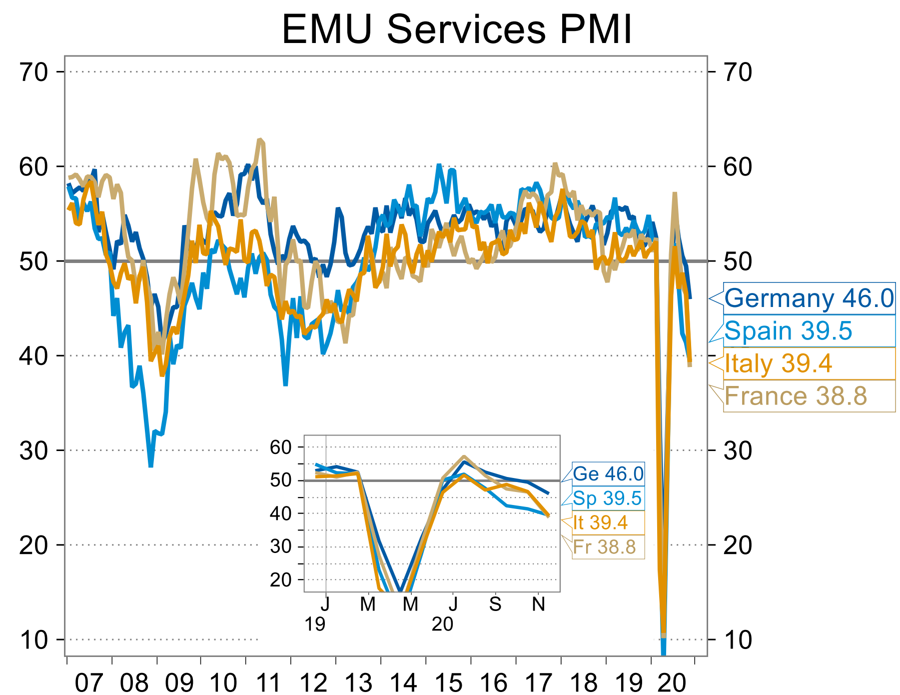
- The preliminary composite PMI fell almost 5 p to 45.3 in November
  - » The level signals a 2% pace of decline in GDP, or 0.5% per quarter, the same speed of decline as during the Euro crisis in 2012
  - » How much will GDP decline now? As the number of new corona cases is 'collapsing' in Europe, restrictions should be eased in a not too distant future, most likely during December but too late to lift activity before next year. Even so, the Q4 setback should be significantly less than the 3-4% (9 – 17% annualised) decline many are referring to now – the PMIs formally say -0.5%.
    A disclaimer: Should the PMI decline further, the relation to the decline in GDP is not linear, check 2008/9 and the spring this year – and the setback could become more serious if the PMIs declines by even small amounts from here

Services are struggling everywhere – but nothing like in March/April

The French service sector PMI at the bottom – Germany’s at the top (at 46…)



SB1 Markets/Macrobond



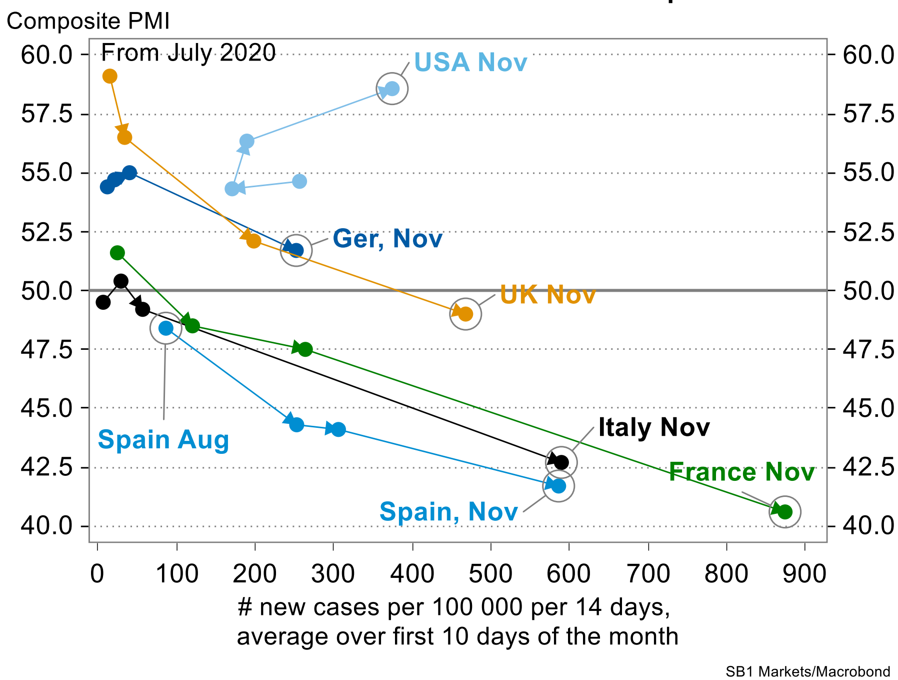
SB1 Markets/Macrobond

- The manufacturing PMIs fell in France, Italy and Spain – but not more than a millimetre in Germany (at 57.8)

US still not hurt by the 2nd corona wave – Europe is

Restrictions have been tightening in Europe, not much the US

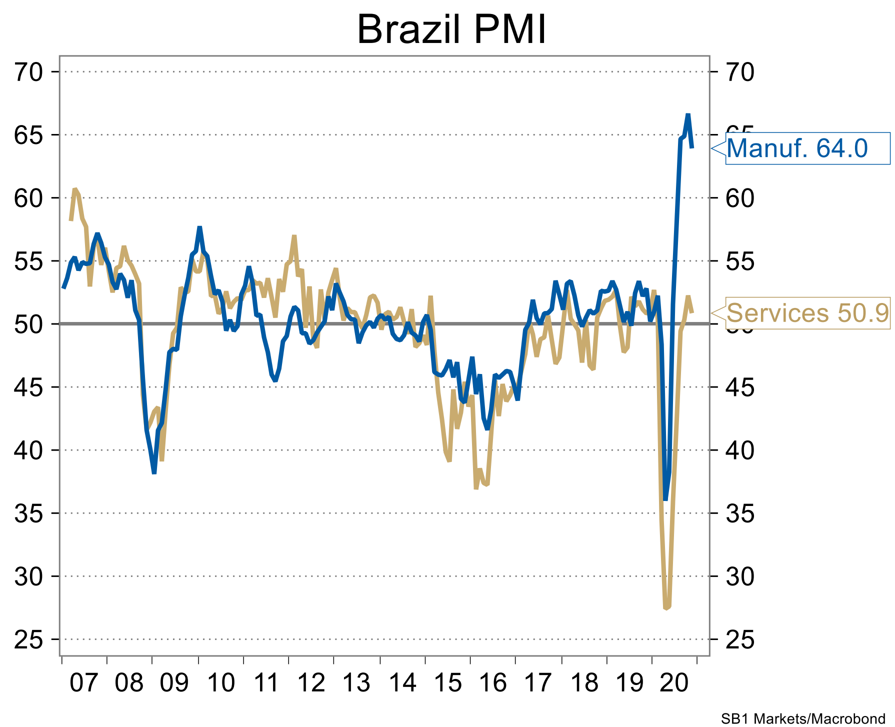
# of new Covid-19 cases vs. composite PMI

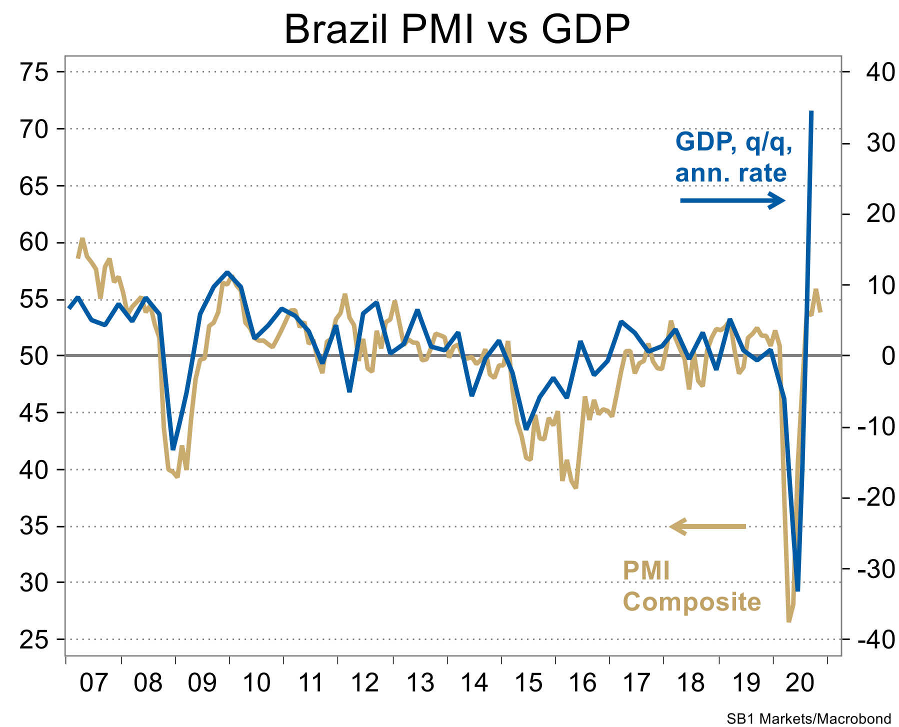


- Mobility has fallen more sharply in Europe than in the US
- Could the US ‘strategy’ turn out to be the best, vs the economy?
  Well, the jury is still out – but so far…

Brazil has turned the corner? A very strong manufacturing recovery

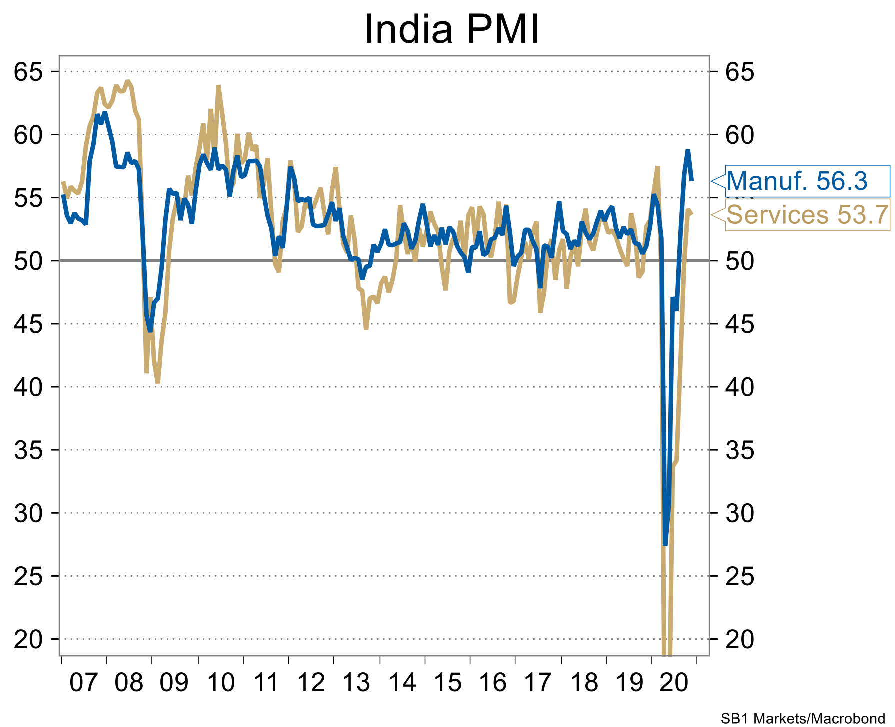
… and no further contraction in the service sector. Even if both PMIs retreated a tad in November

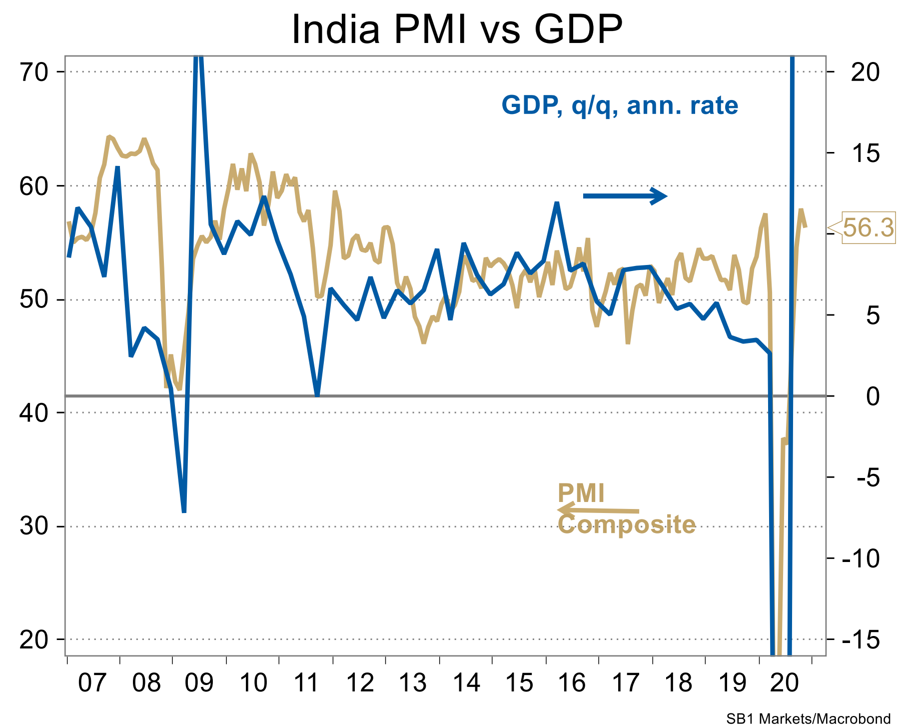




Growth has returned to India, the comp. PMI marginally down but still strong

Both services and manufacturing are reporting growth – following the Q2 collapse

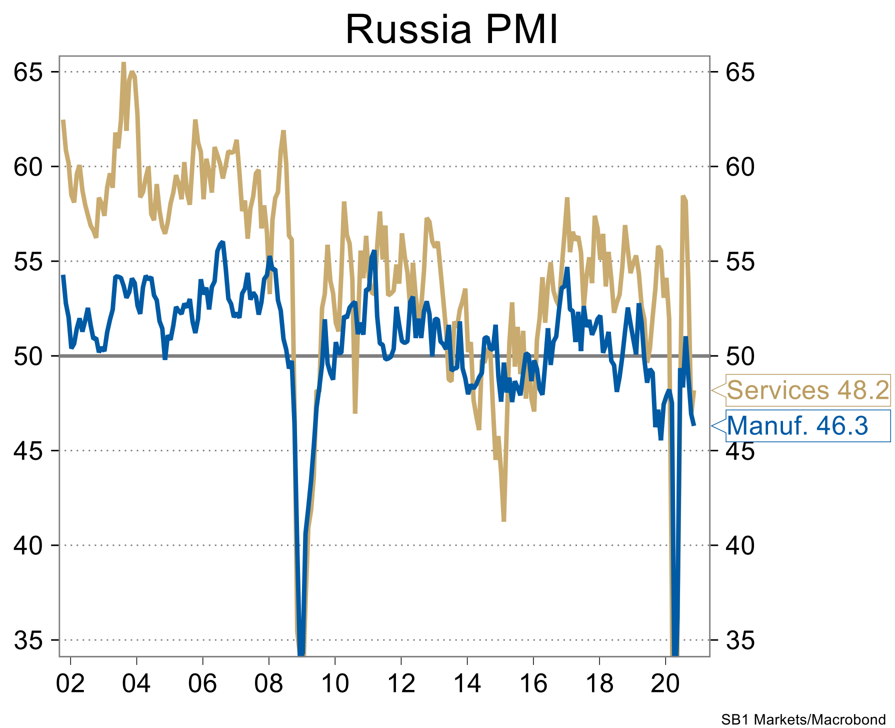


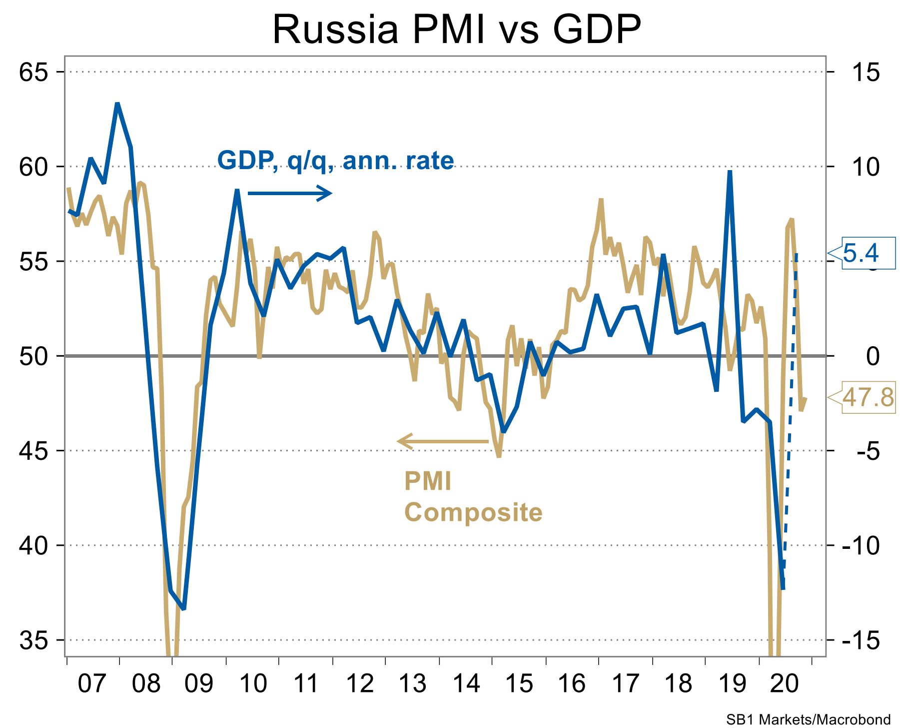


- In Q3, GDP grew by 22.4%, not annualised, far better than expected. The PMI level is still down 7.9% vs Q4-19 – so growth is badly needed

Back to a recessionary level, again

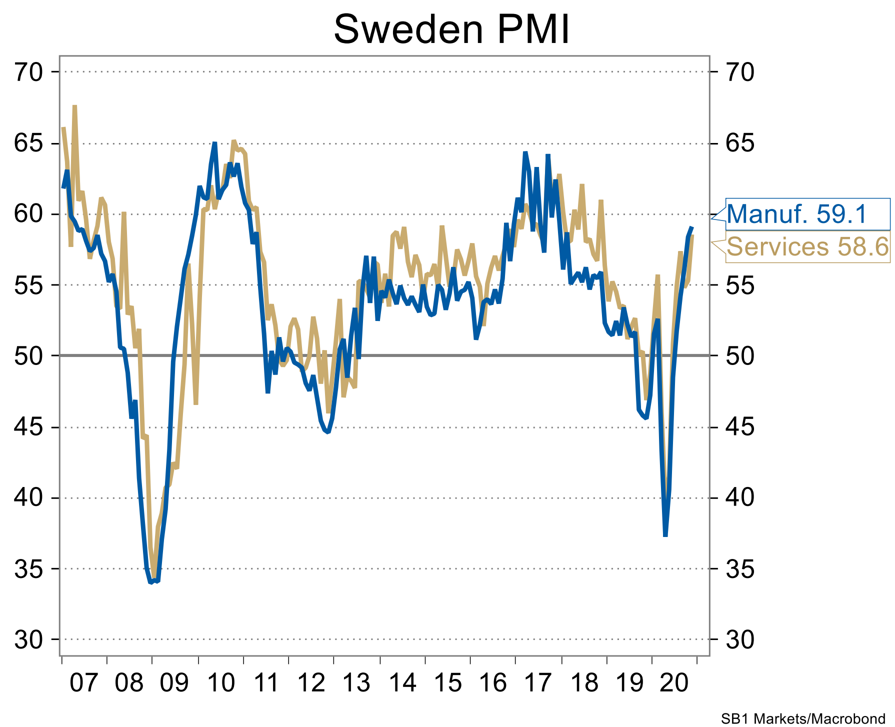
The PMIs fell sharply in October and did not recover much of the loss in November

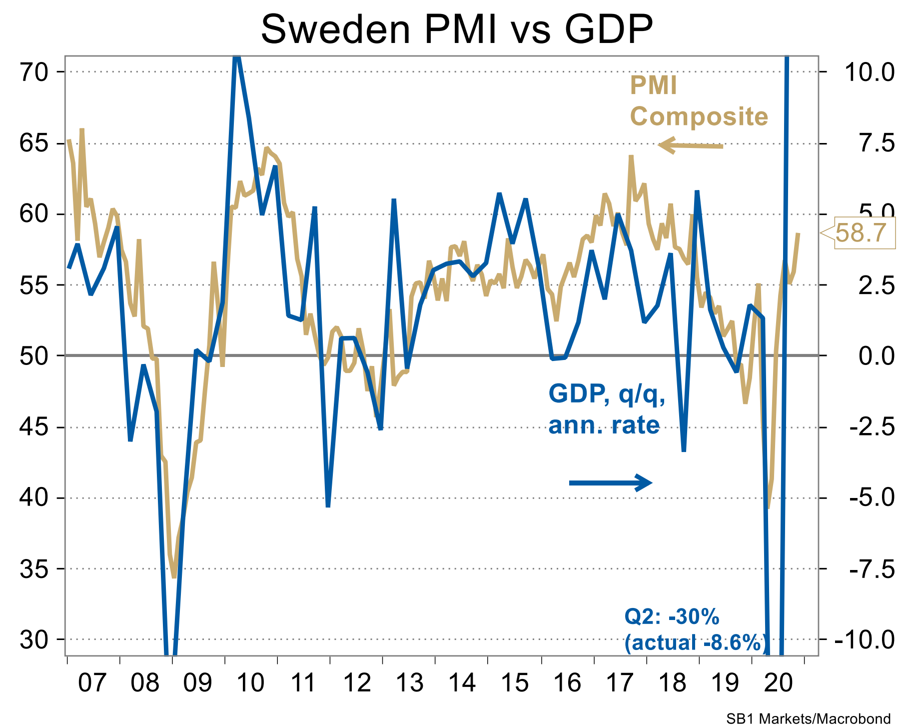




Vill ni se en stjärna, se på mig – Sweden is the star these days

Both manufacturing & service sector PMI up in Nov, services the most surprising, of course

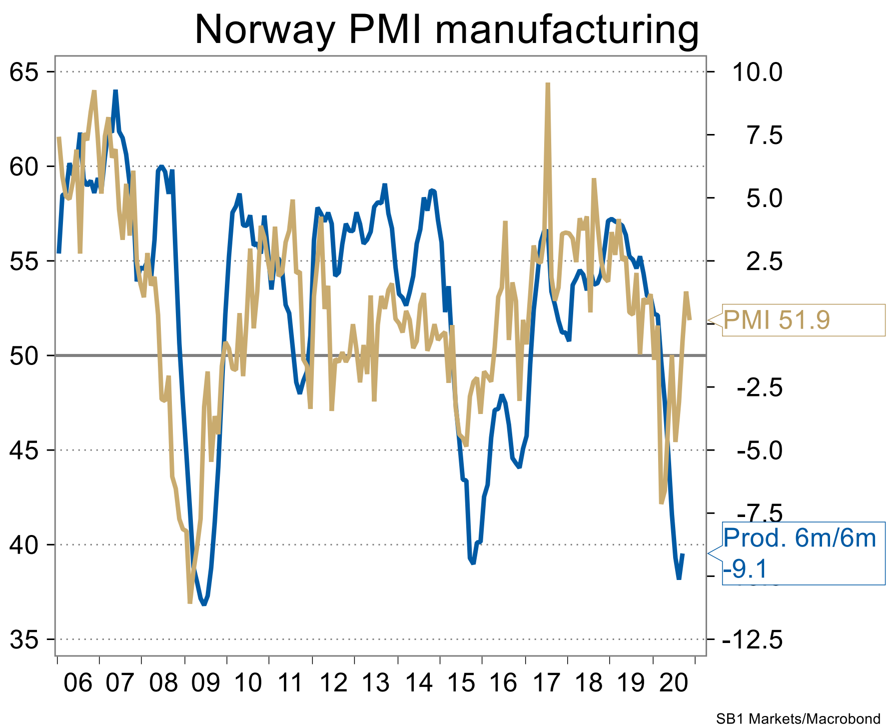


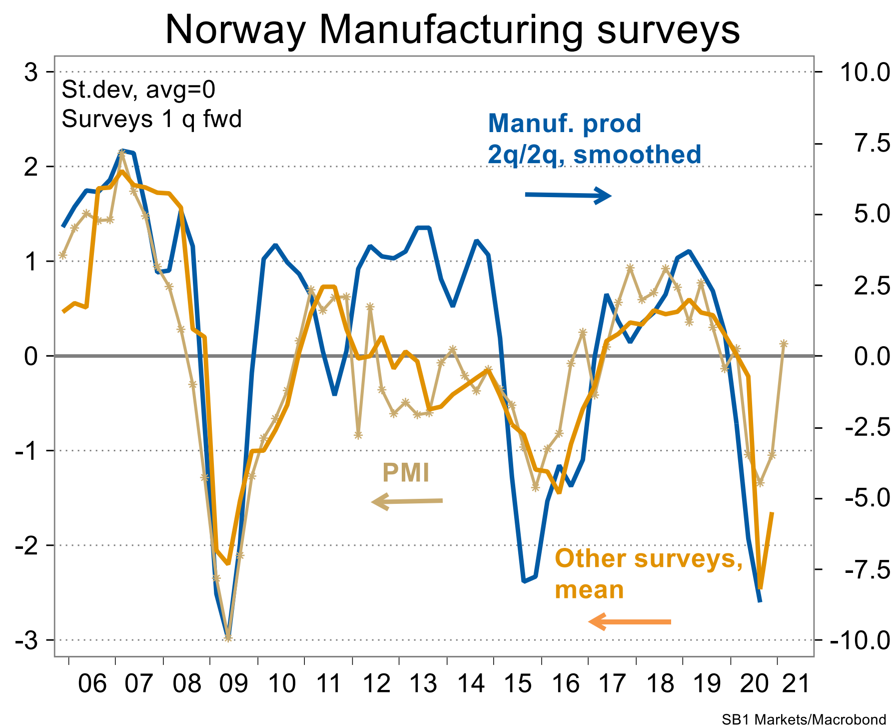


- The composite PMI is signalling strong growth in Q4 – in spite of the corona challenges and more restrictions imposed by the government (and not by the health authorities)
- The Riksbank expects another downturn, and turned the QE tap further up last week

PMI down 1.5 p to 51.9 – still signalling growth

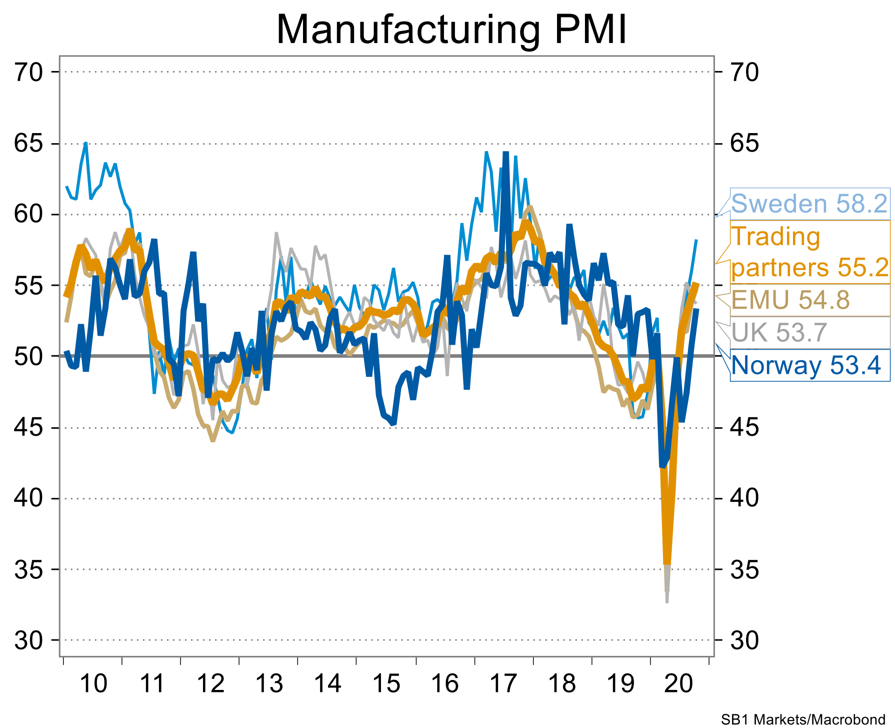
The Norwegian PMI is volatile but 3 months above the 50 line signal a moderate expansion

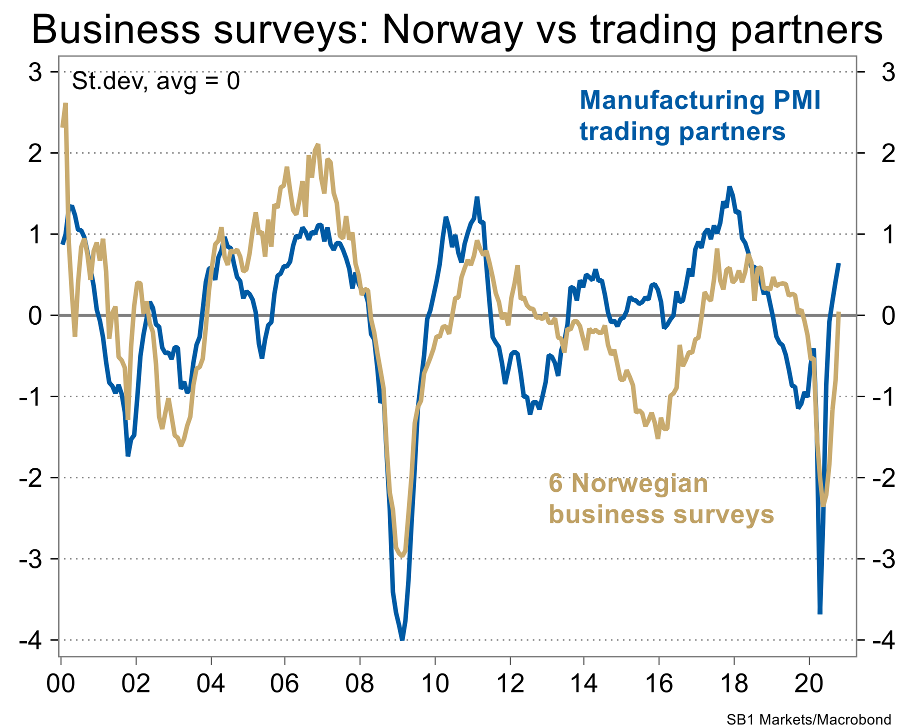




- … following the contraction so far in 2020
- Other surveys have also turned up over the summer but the average level in Q3 was still well below average

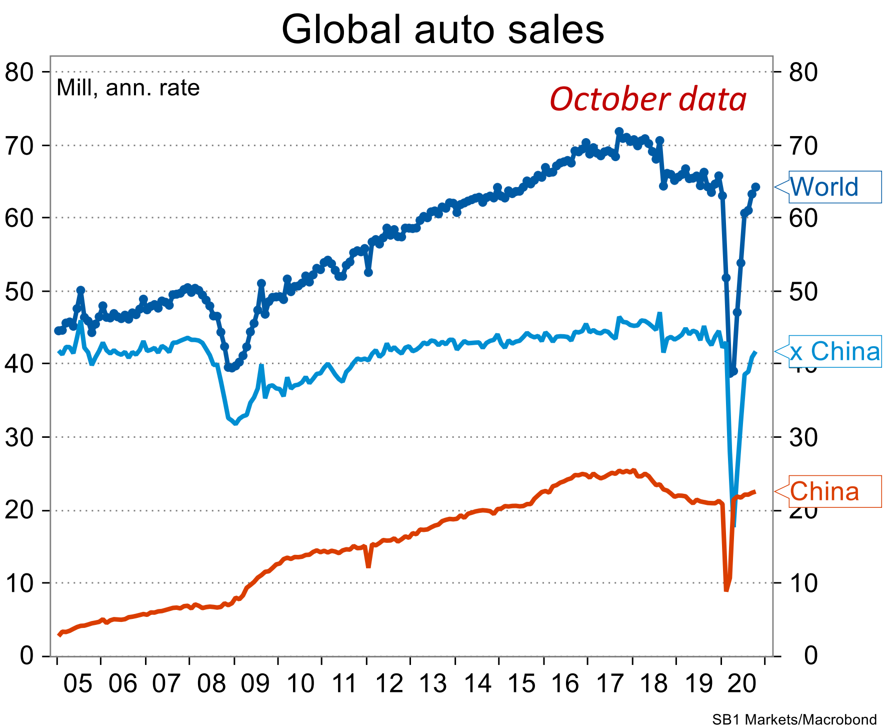
Norwegian manufacturers follows others upwards

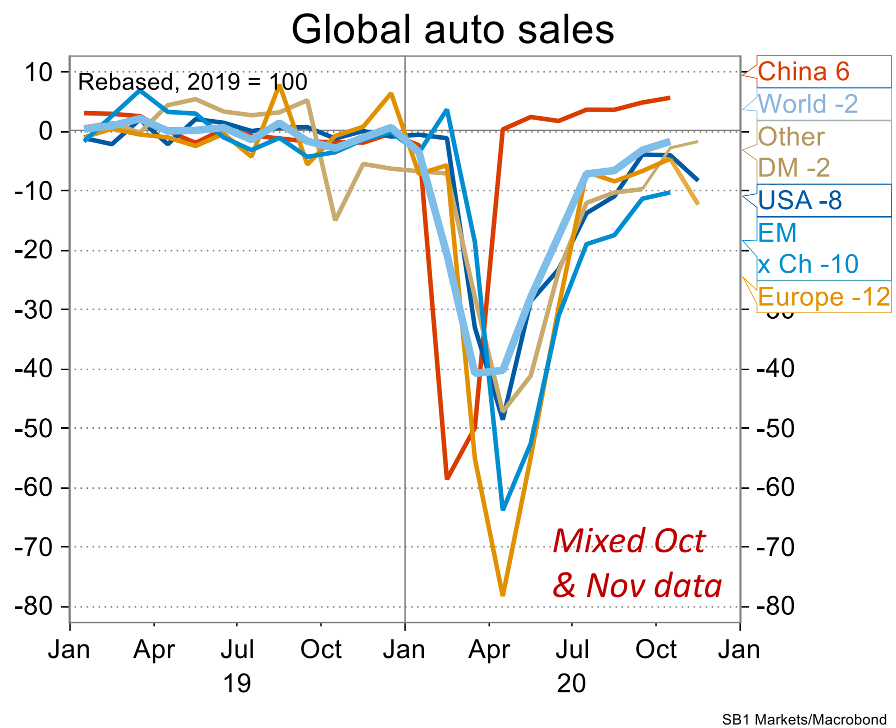




Global auto sales probably down in November – both EU & US down. Covid-19?

Several Emerging Markets have not yet reported (China included), no global estimate yet

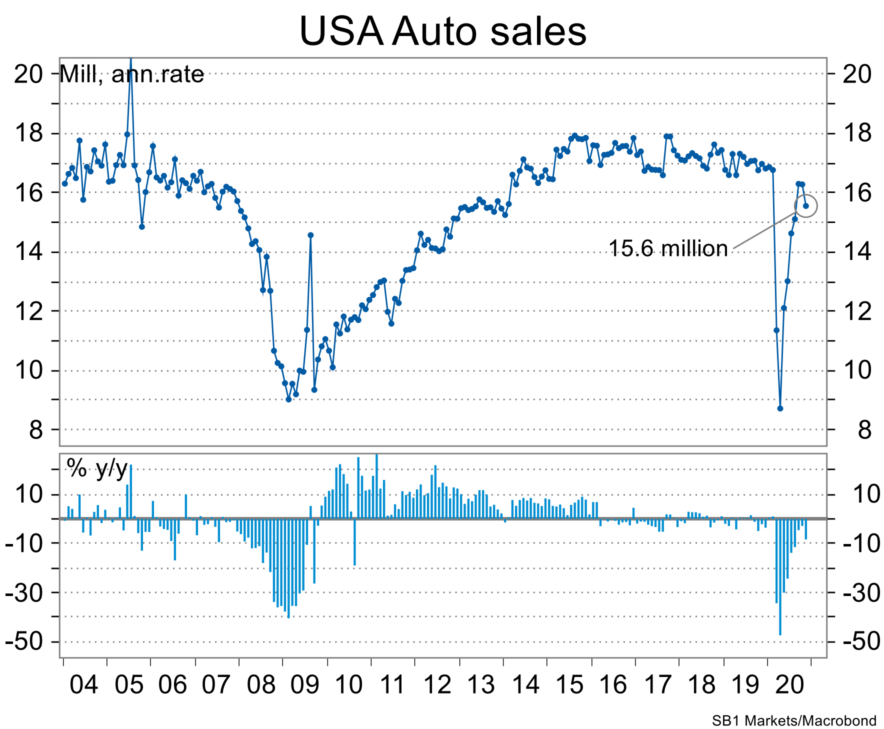


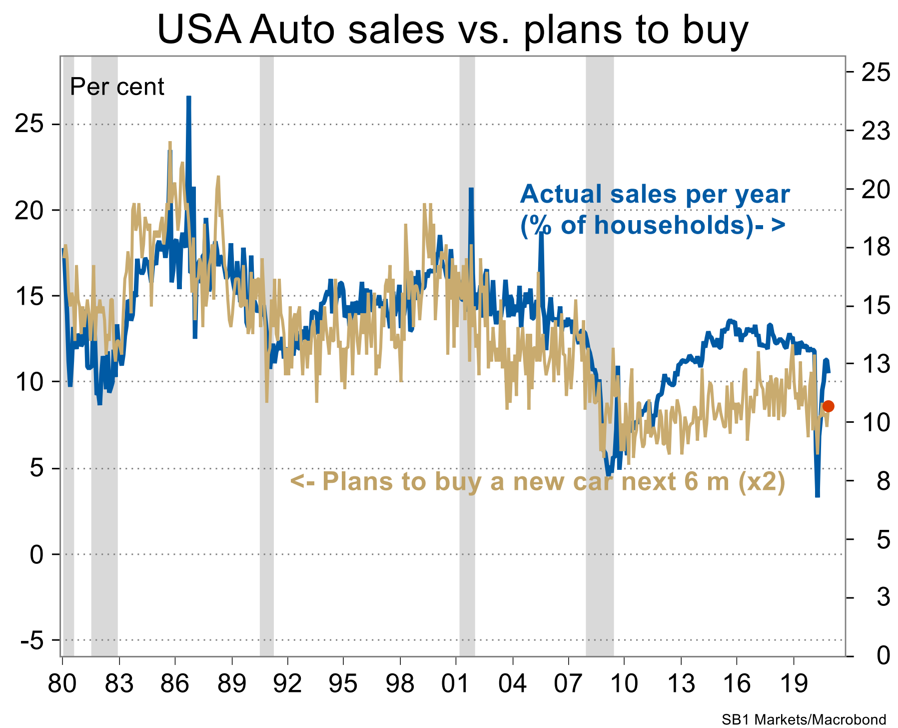


- The decline in sales in DM is very likely due to Covid-19 & Covid-19 restrictions
- Auto sales in Europe fell by 7%, to 12% below the 2019 average, as both France & UK reported 25 – 30% decline in November. German sales rose marginally
- US sales fell 4% to 8 % below the 2019 average

US auto sales down in November – is trending down too

US sales down 0.6 mill to 15.6, expected -0.1 mill to 16.1. Level 8% below the 2019 average

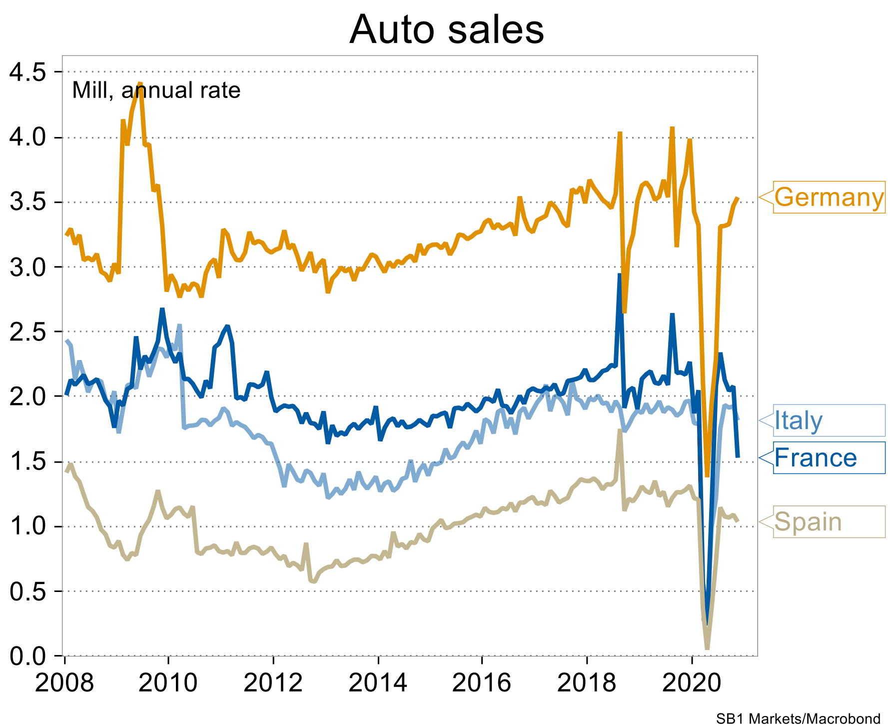


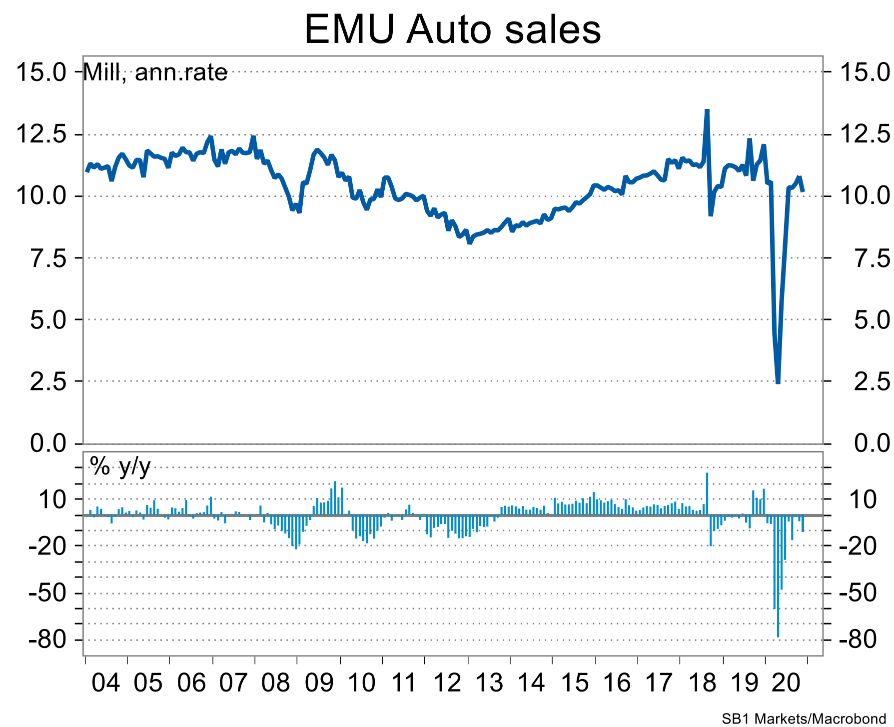


- Sales fell almost 50% in March/April. Most of the setback is now recovered but sales remain 4% below the pre-corona level – which was somewhat below the average sales the previous years
  - » Sales are close to the downward falling pre-corona trend
- Households are not reporting aggressive plans for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

EMU sales down in November, due a 25% French cut. Germany further up

We estimate a 5% m/m (and y/y) decline in the region, to 10.2 mill – 10% down from 2019 avg

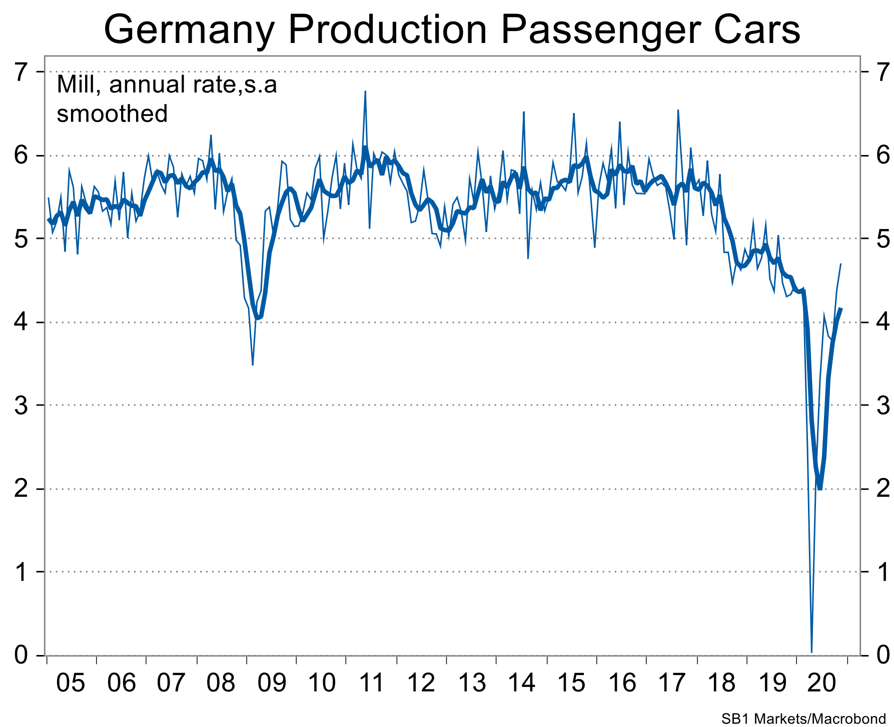


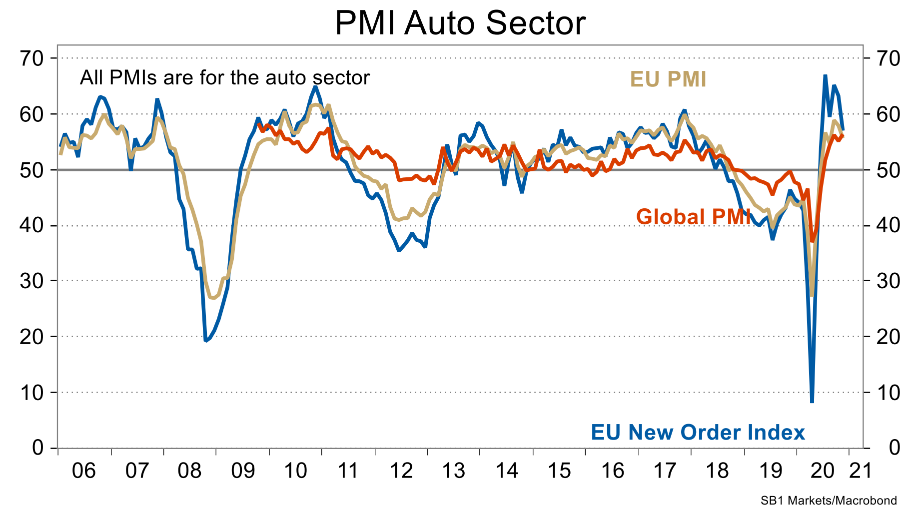


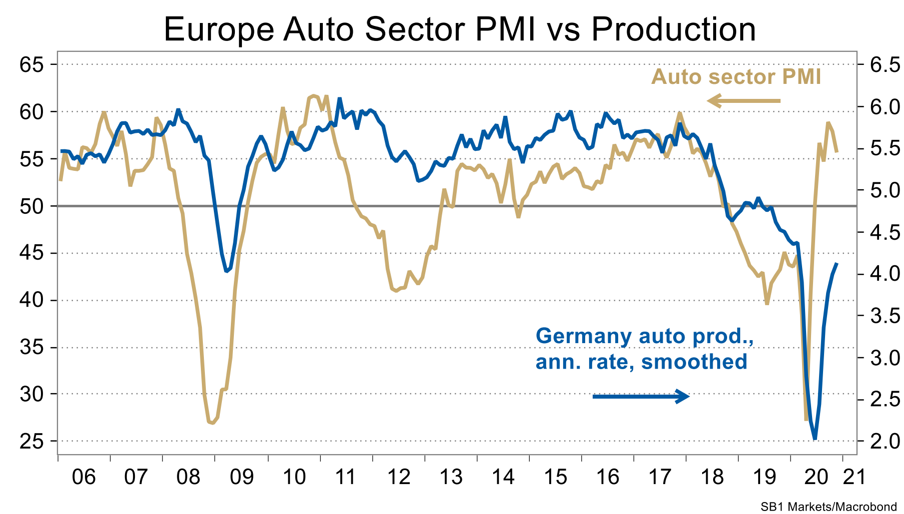
- Sales have been quite stable at 10.3 – 10.5 mill the past 3 months – and marginally below in November at 10.2. Lockdown in France kept people from buying anything but nonessential items.
- Last year, 11.3 mill autos were sold in Europe, the best year since 2007. From mid 2018 new emission regulations 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 finally above the pre-corona level – still low

Car production at 4.7 mill pace in Nov, down from almost 6 mill until 2018 but above 4.5 mill in '19



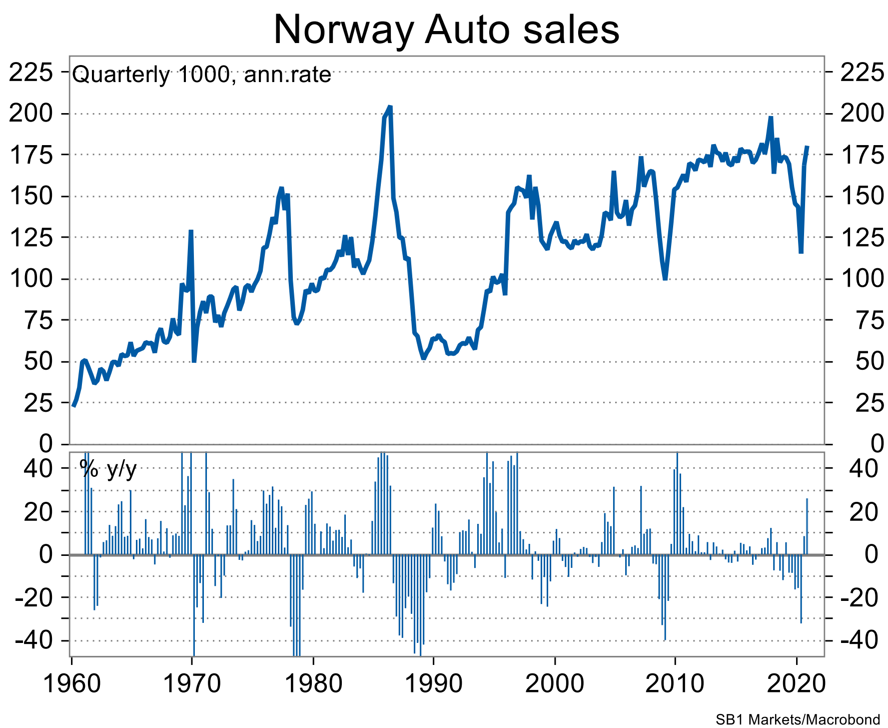


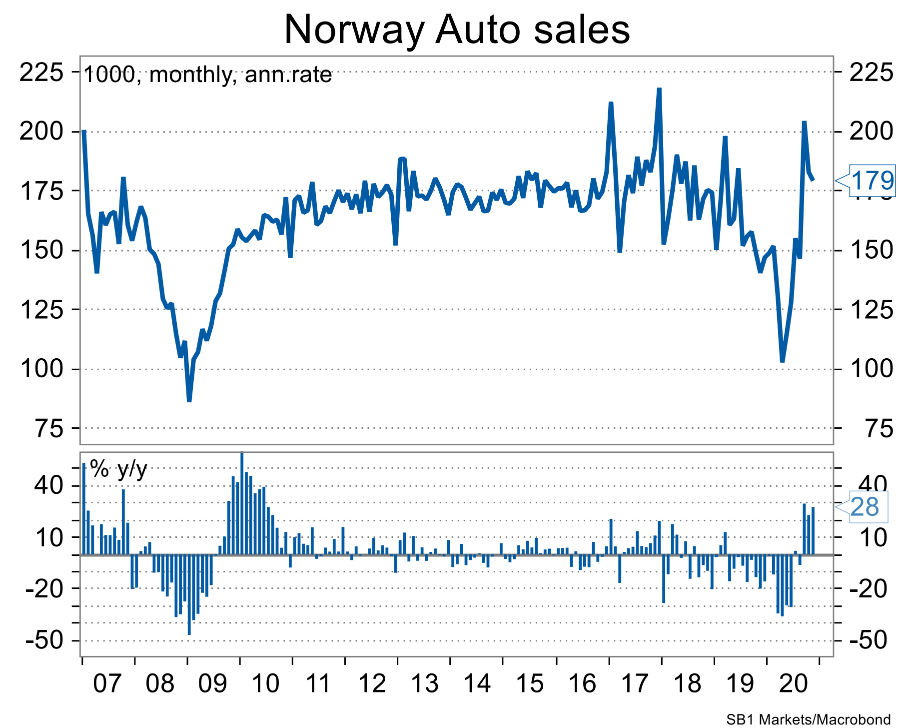


- Global and EMU auto sector PMIs have recovered to decent levels, signalling a further increase in production – but reported somewhat lower growth in November

Norwegian sales marginally down in Nov but still at high level

Sales down 4’ to 179’ in Nov, well above the 175’ ‘norm’. Sales had fallen to 150’ before corona





- 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

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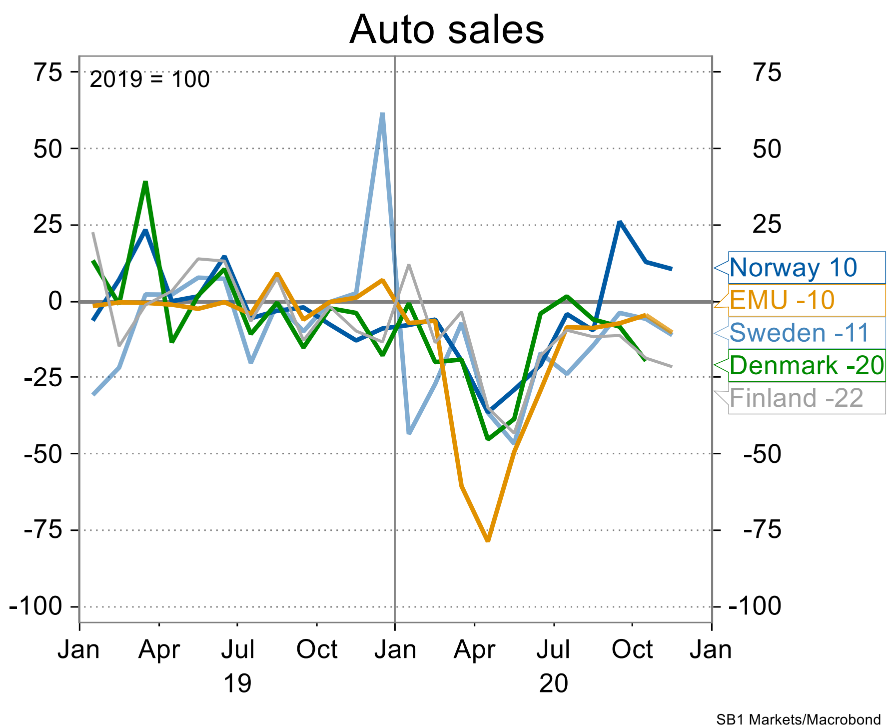
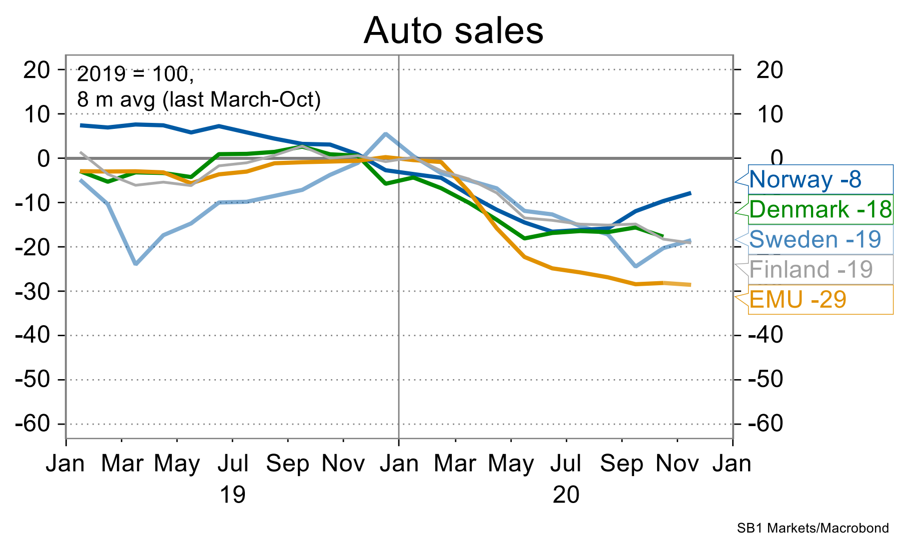
Nordic auto sales down in October, just Norway above a ‘normal’ level

Sales in the other Nordics are still 10 – 20% below the 2019 avg level (and sales are down 10 in EMU)

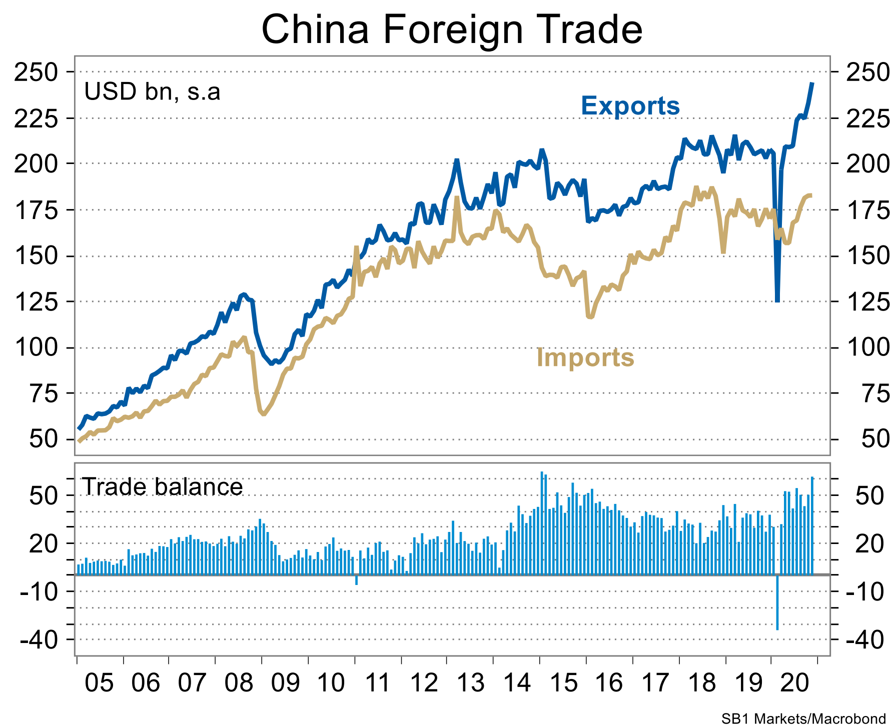


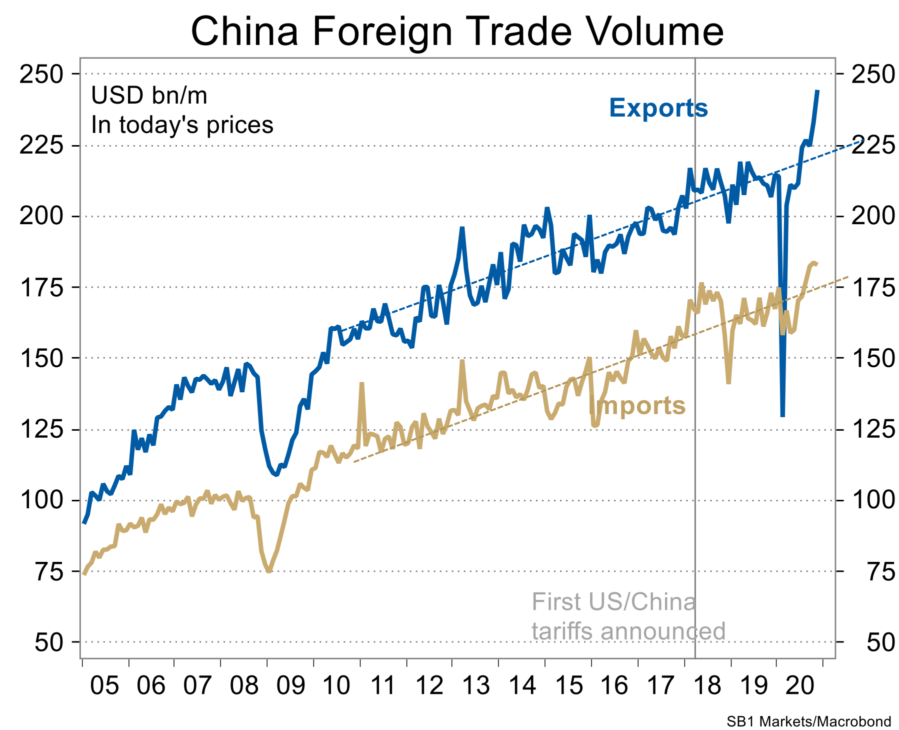
- The aggregate decline in auto sales over the March-Nov period, vs the 2019 average sales is
  - » 8% in Norway
  - » close to 20% in the other Nordics
  - » 30% in the Eurozone



An incredible export number – and the trade surplus close to ATH

Exports up 21% y/y, almost twice as much as expected, 10-15% above trend. Imports +4.5%, as exp.

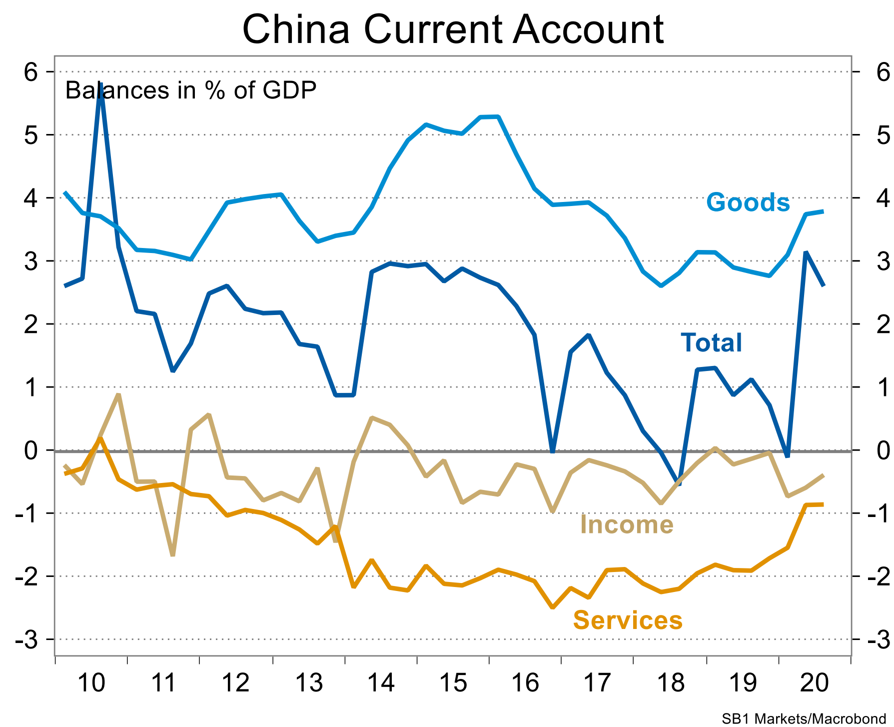




- **Exports** grew 21% y/y in USD terms in November, far better than the expected 12%, and up from 11% in October. Expectations were far too low, as export grew by 'just' 5% m/m (s.a, our calc). In **volume terms** export are up 18% y/y (based on our quite uncertain price assumptions for the 3 last months). More important, export volumes are 10 – 15% above any reasonable trendline you can draw! 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' – whatever 'containment' policy the US might introduce
- **Imports** were up 4.7% y/y, close to expectations , and flat m/m. In **volume terms** (our price assumptions last 3 m), imports are up 6% y/y, and some 5% above a reasonable trendline. Domestic demand must be strong
- The **trade surplus** rose almost USD 10 bn to 60 bn in November (s.a, the actual surplus up to USD 75 bn from 68, expected 53), close to the early 2015 ATH. The surplus has been higher than normal since March. China is still running a **deficit in services** (but it is narrowing, less Chinese travel abroad in 2020). The surplus on the overall **current account** has increased in 2020 but remains well below previous peaks in % of GDP, that is.

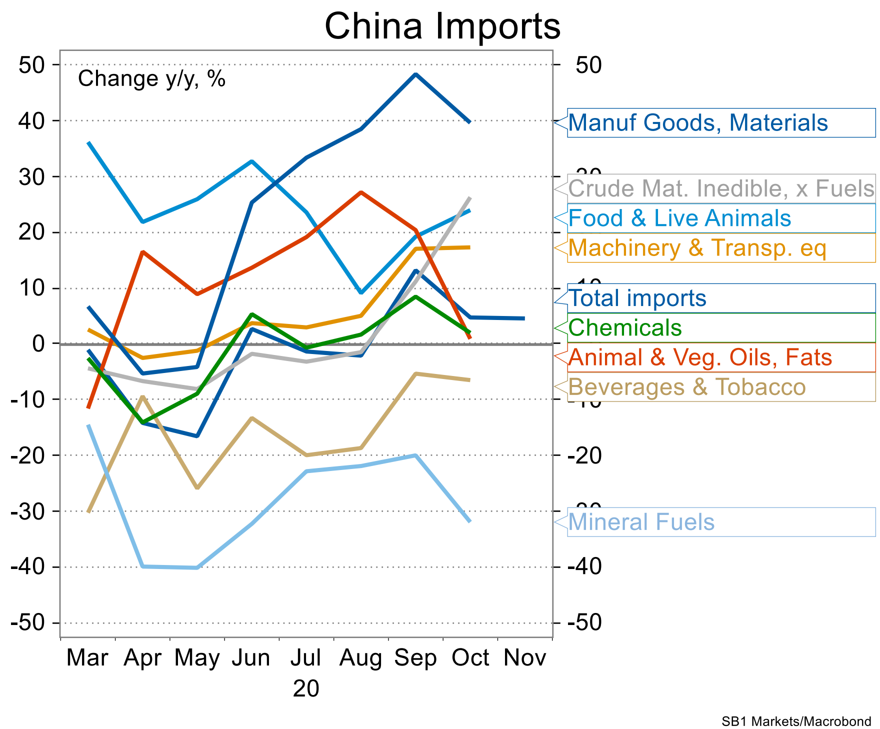
China runs a ‘modest’ surplus at the current account – just 3% of GDP

The C/A surplus was above 10% of GDP in 2007 – but close to zero in 2018



- The trade surplus in goods is hovering is now at 4% of GDP
- In services, China runs a 1% deficit, down from -2% in 2015 – 1 – but from zero 10 years ago. For the time being, the Chinese are not travel abroad
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

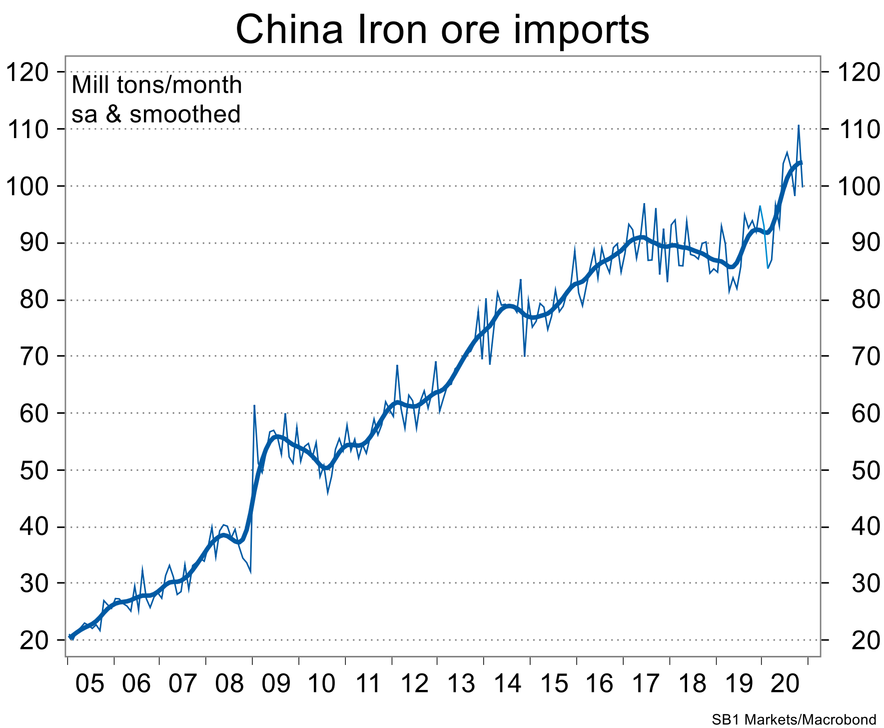
Total imports up, even if oil imports are down (in _____ terms)

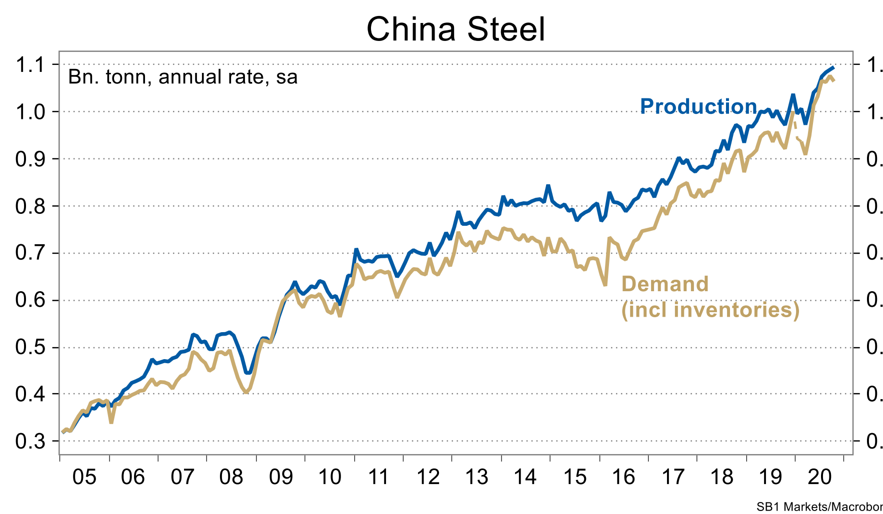


Source. WSJ (chart to the right)

Iron ore imports down in Nov, but still very high

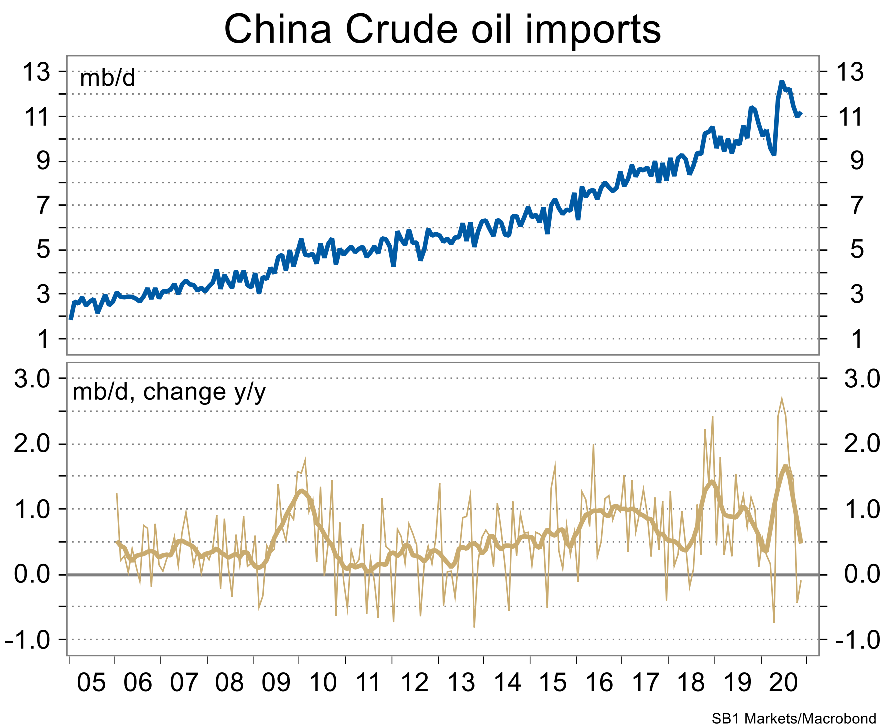
Steel production, domestic demand and net exports up too

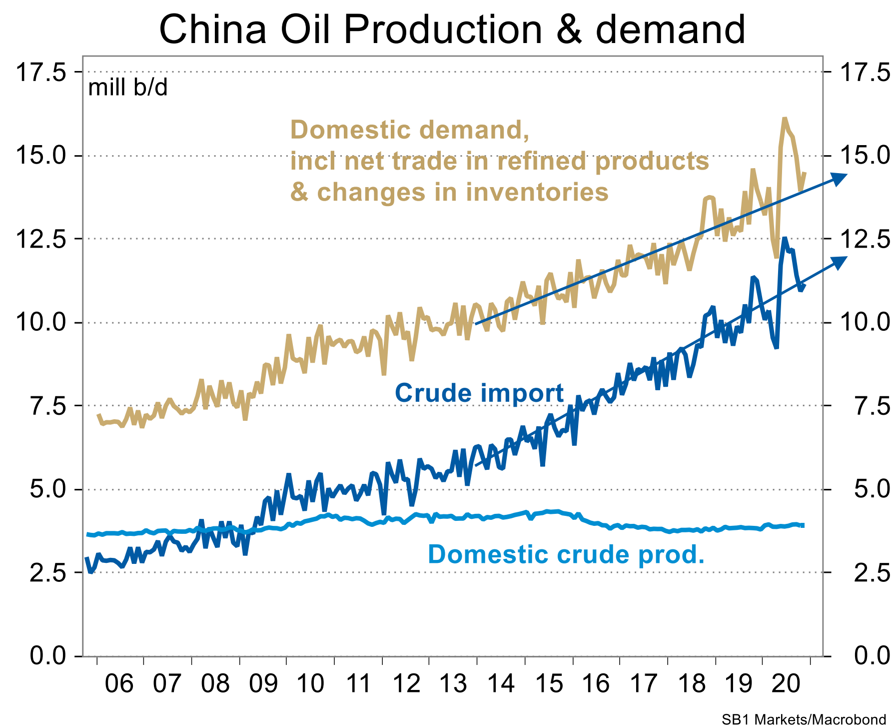




Oil imports still at a brisk trend growth path

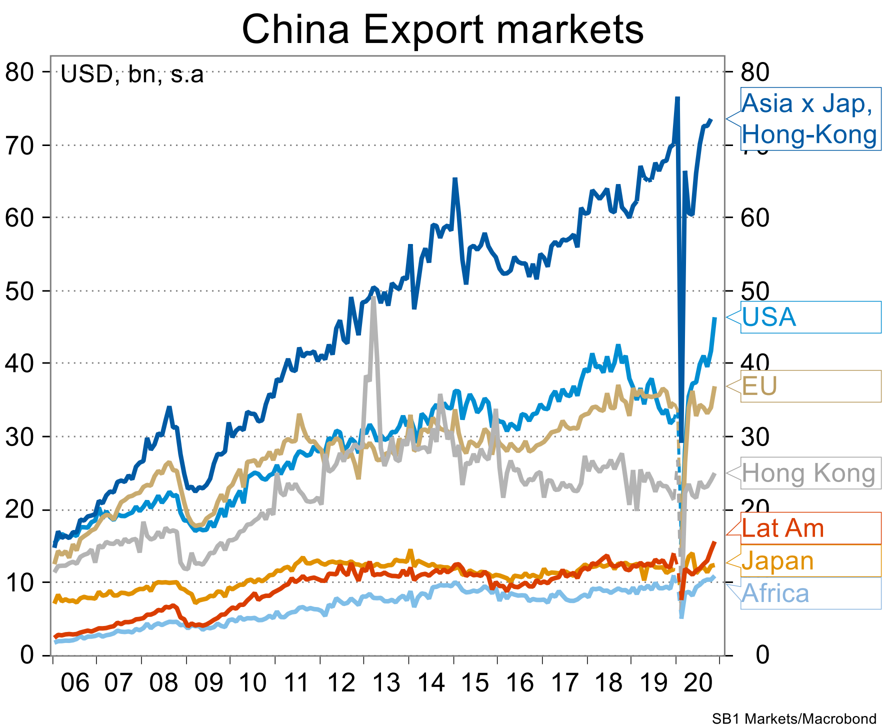
… according to Chinese data. Imports up some 0.5 mill/b (5%) vs. last year (smoothed)



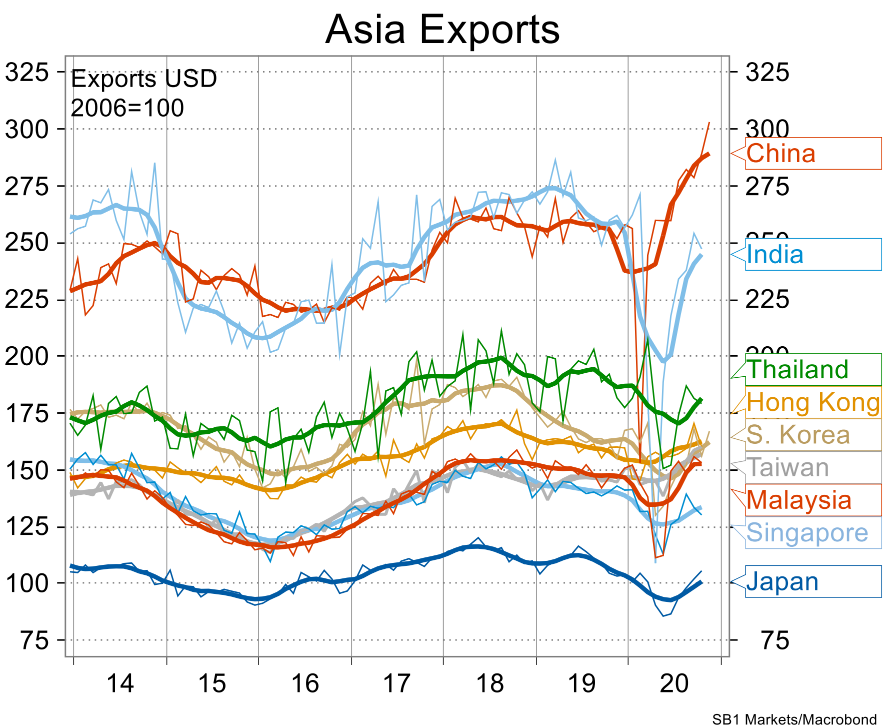


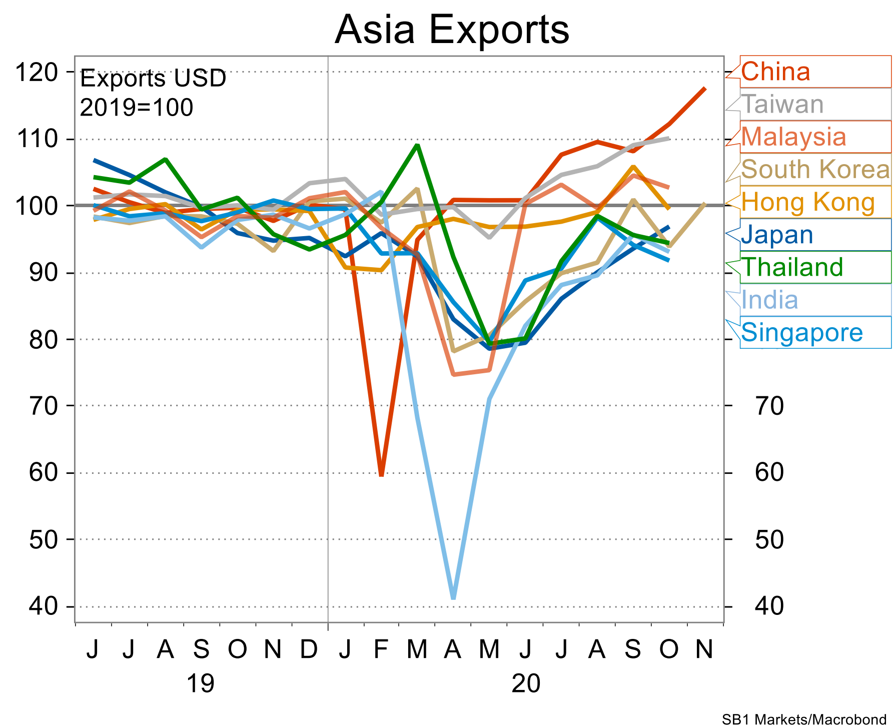
Chines exports to ‘all countries’ up – and a giant leap in exports the US, up to ATH

Exports to outher countries in Asia strong too – and even exports to the EU up in November



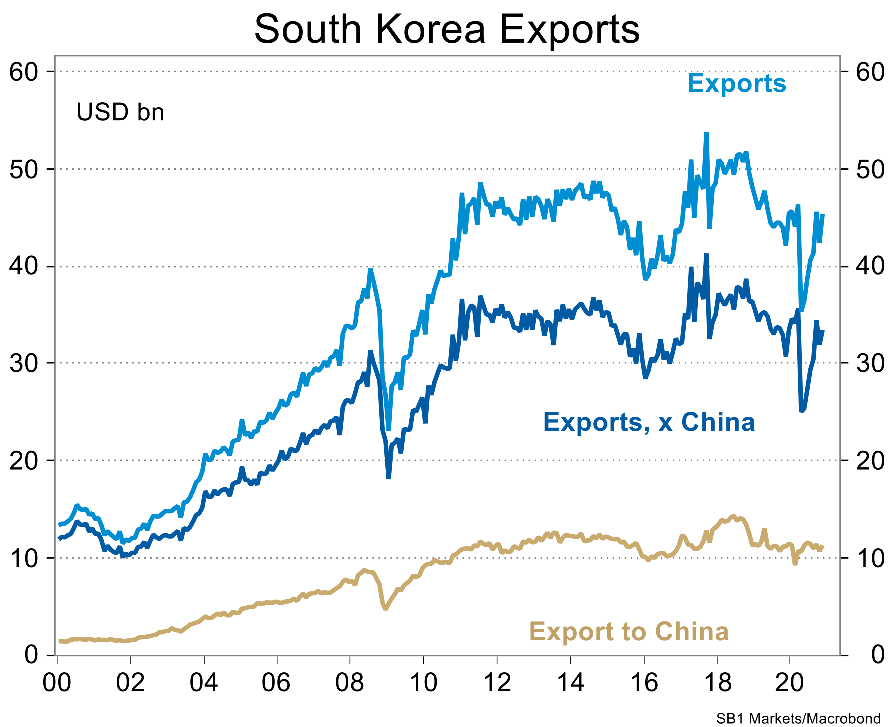
Asian exports have more or less recovered; some above, some below 2019 levels





South Korea exports up in November, levels (almost) OK

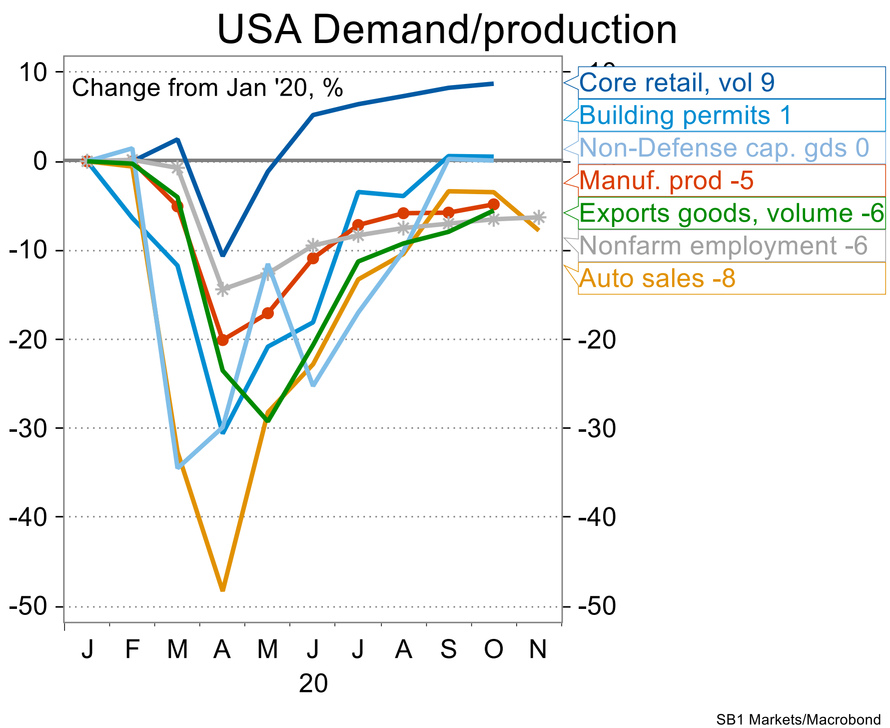
Exports have recovered back up to a pre corona level – but the trend has been downwards since '18



- Korean exports were not impressive before the corona hit – exports to China as well to the rest of the world had fallen substantially. 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

The recovery is slowing but has not yet stalled

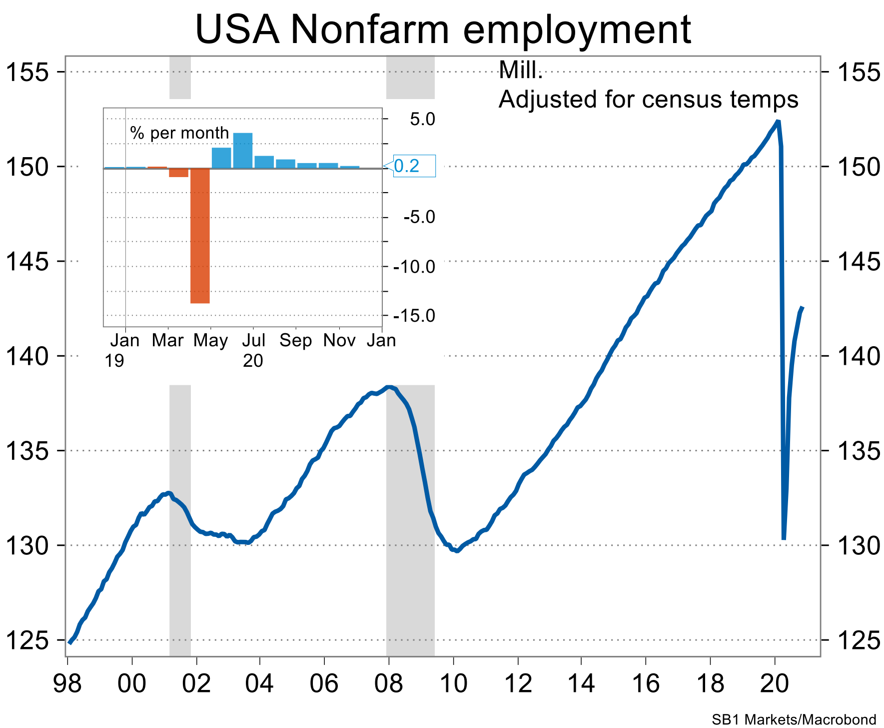
Growth is slowing into Q4, as the corona bites and re-opening are halted/reversed

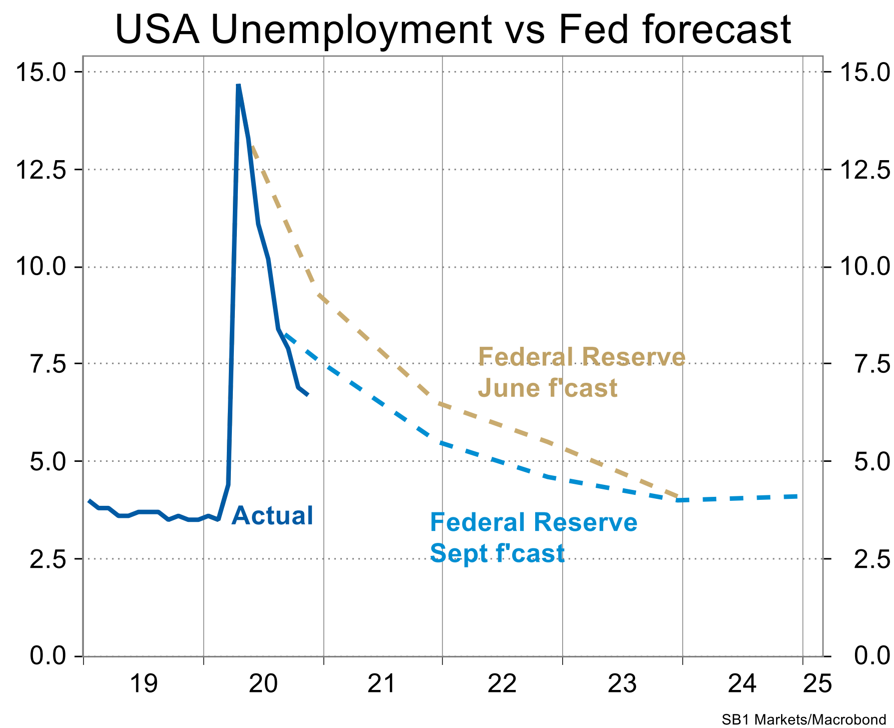


- Still, almost all indicators pointed upwards in October/November – and surveys do not signal any Q4 setback
- Auto sales fell in November, and employment growth slowed
- Retail sales and all housing indicators are still strong

Employment growth slowed in Nov but unemploym. fell more than expected

Employment grew by 245’, 200’ less than. Unemployment further down following the huge Oct drop

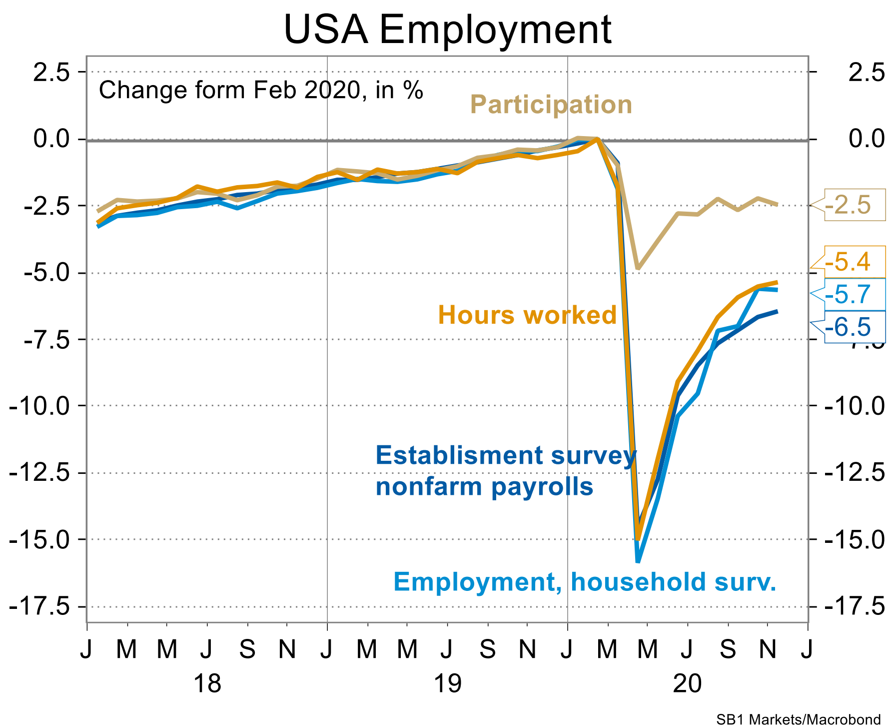




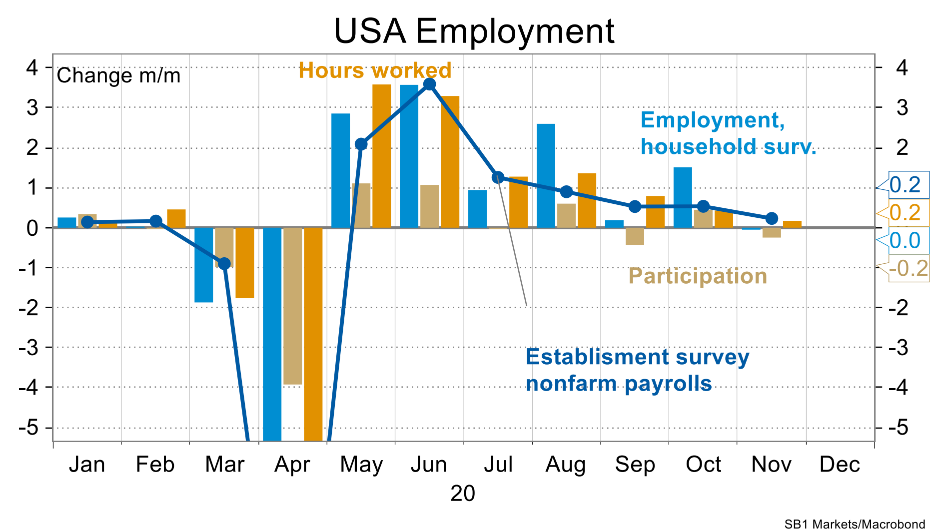
- **Employment** rose by ‘just’ 245 in Nov, well below the exp. 440. Government employment fell by 86’, due to a 93’ cut in temporary census workers. However,, private sector employment grew far less than expected too. The slowdown was broad based. Monthly growth has slowed recent months – and the 0.2% growth pace in Nov is not sufficient to close the 6.5% employment gap vs the Feb level anytime soon- and it will not before corona is brought under control, and service sector activities can recover
- **Unemployment** fell by 0.2% to 6.7%, 0.1pp better than expected. A larger decline in participation rate than in the employment rate (which also fell) explained the decline. However, the employment rate rose 0.8 p in October – and the unemployment rate has fallen far more than the Federal Reserve expected in mid September
- **Average wages** are still sharply (4.4%) up y/y but just due to a decline low paid jobs. The ‘real’ growth in earnings (ECI) is at 2.5%
- **The Federal reserve will keep pushing the accelerator hard the coming months, whatever the outcome of the fiscal stimulus debate**

Employment still 5.5- 6.5% below par

All indicators are signalling slower growth – while all are still way below the pre corona level

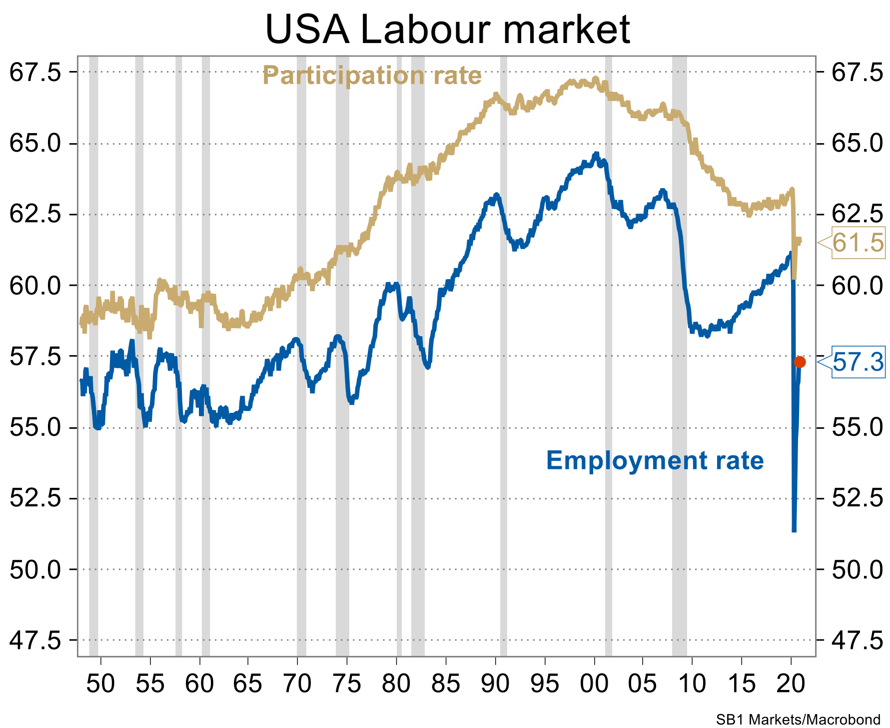


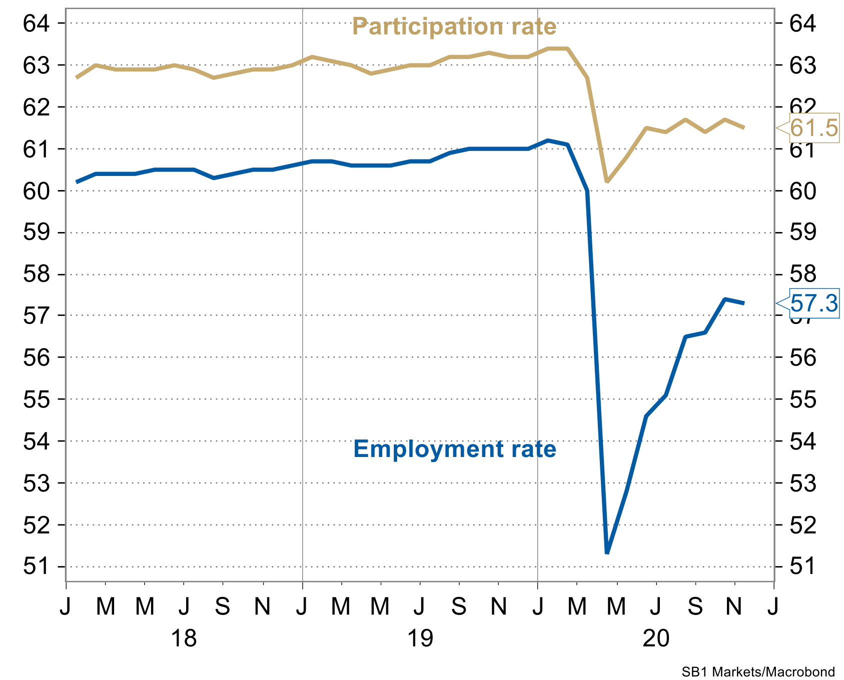
- The participation rate has stabilised at some 2.5% below the pre corona level, which is lowering the unemployment rate by the same amount
- Nonfarm payrolls are down 6.5% vs Feb, while the employment rate is 5.7% below par
- Hours worked is increasing approx. at the same pace as employment but and is 5.4% below the pre corona level



The employment rate down 0.1 pp in Nov, following the 0.8 Oct hike, in avg OK

Participation fell 0.2 pp, after the 0.3 pp lift – and has flattened since the summer

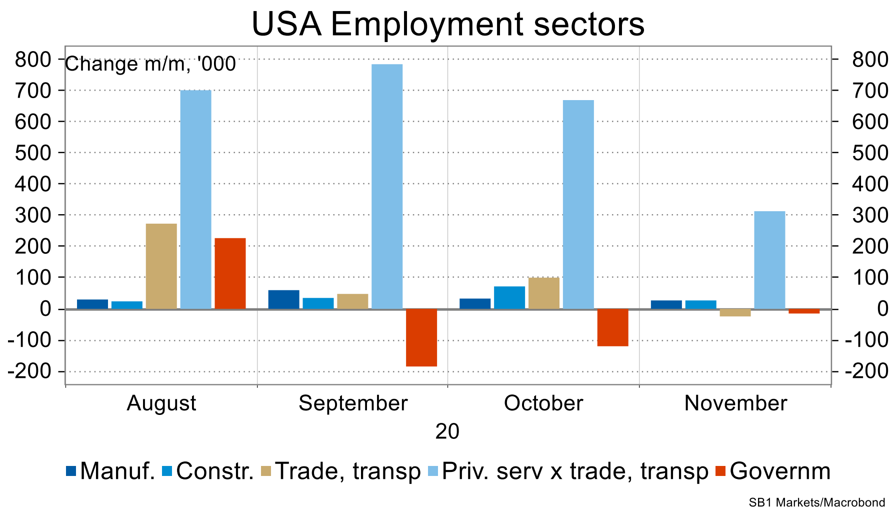


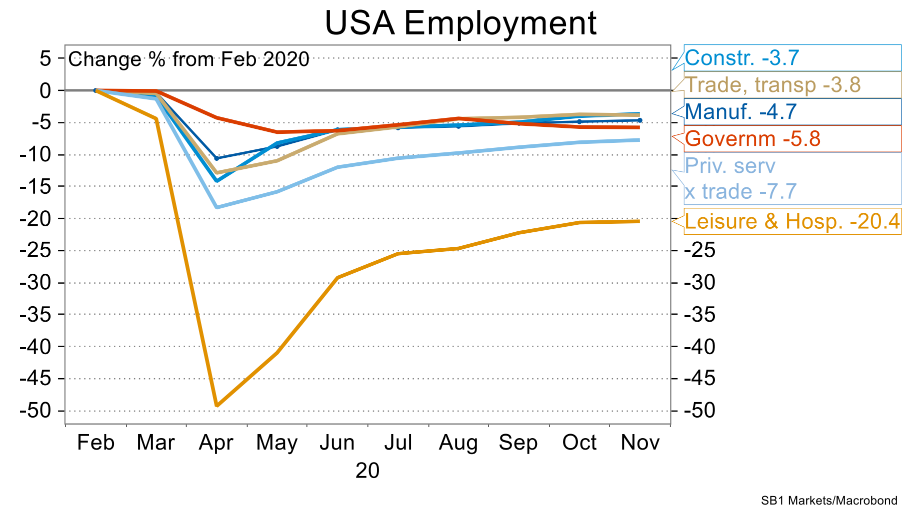


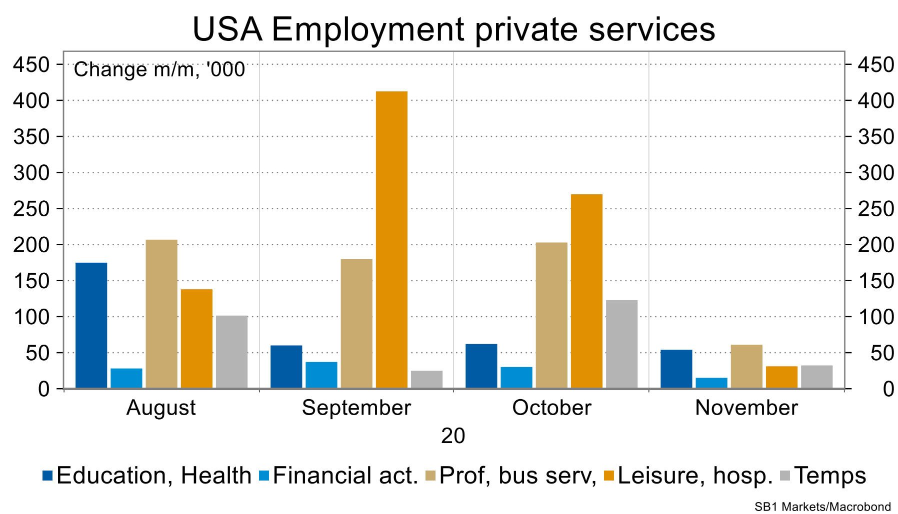
- The flattening of the participation rate may directly corona related, and not due the usual impact of weak demand in as in a normal recession(discouraged workers). Now, health concerns, lack of safe transport, need to take care of children when schools are closed due to corona may prevent many that in reality are unemployed from to actively searching for a job. These workers, who under normal circumstances would have applied for work – and then be counted as unemployed until they found a job, are now not included in the labour force, and are not officially unemployed

Slow employment growth everywhere in Nov – recovery is not that impressive

Employment rose in all sectors x trade & government in Nov – but at a slow pace





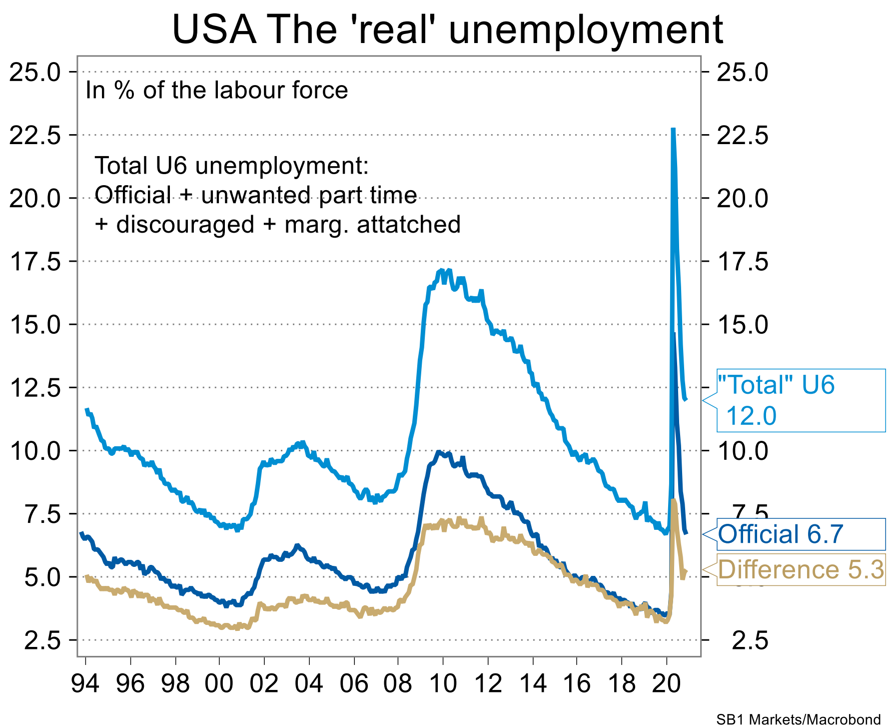


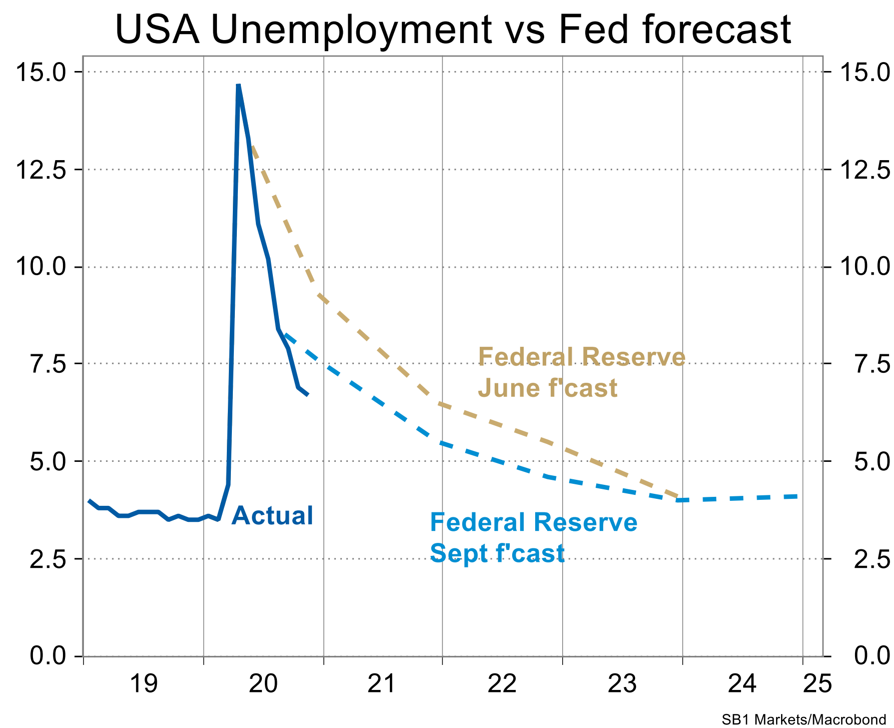
- In November: A broad slowdown – og something like a 'normal', pre corona growth pace – and not sufficient to 'close to gap', bringing employment up to a normal level
- From February
  - » Leisure & hospitality has recovered rapidly and more than other sectors the past months, but remains weaker than any other sector, down 20.4% from February
  - » Manufacturing is down 4.5%, construction is down 4%
  - » Trade & transport is down 3.8%
  - » Even government employment is down 5.8% (adjusted for temp census workers), which is remarkable in an economic downturn. Local governments to blame, they have run out of many

Government employment adjusted for temporary 2020 census workers

Unemployment down 0.2 pp to 6.7% (exp. 6.8%!) - is far below Fed's Sept f'cast

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



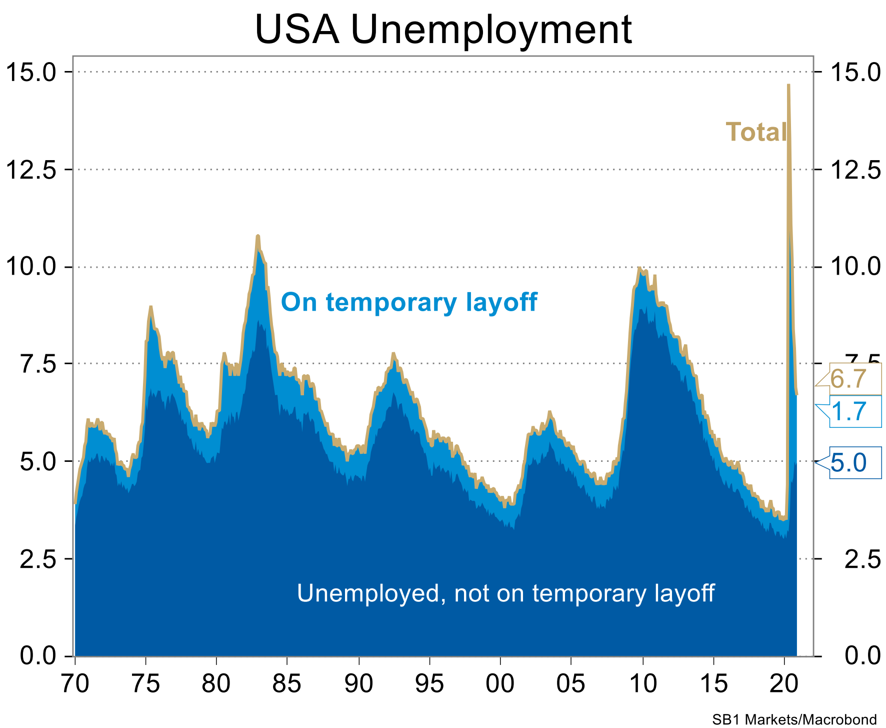


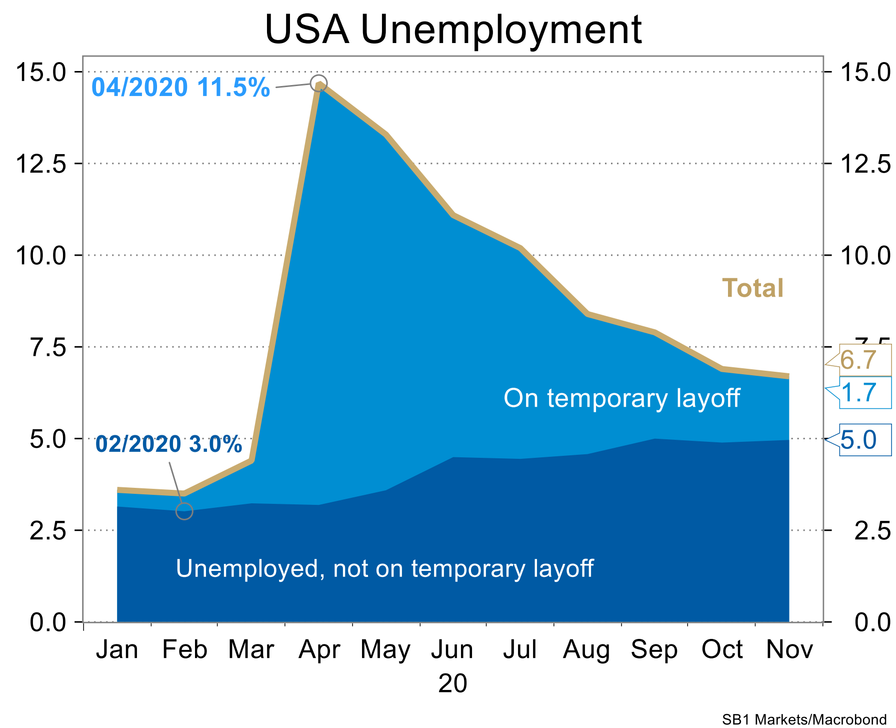
1) Almost 5% of the labour force is working unwanted part time (or at not able to get a work). In good times, less than 4%
2) The labour force participation rate has fallen because workers do not bother searching for work during the crisis (2%)
3) In sum, the unemployment significantly higher than the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

The FOMC has not published a monthly unemployment forecast but the decline in unemployment past three months is faster than Fed's end of year forecast implied

85% of furloughed workers have returned to work, 'core' unempl. up to 5%

Temp laid off unemployment down to 1.7%, was 11.5% in April!

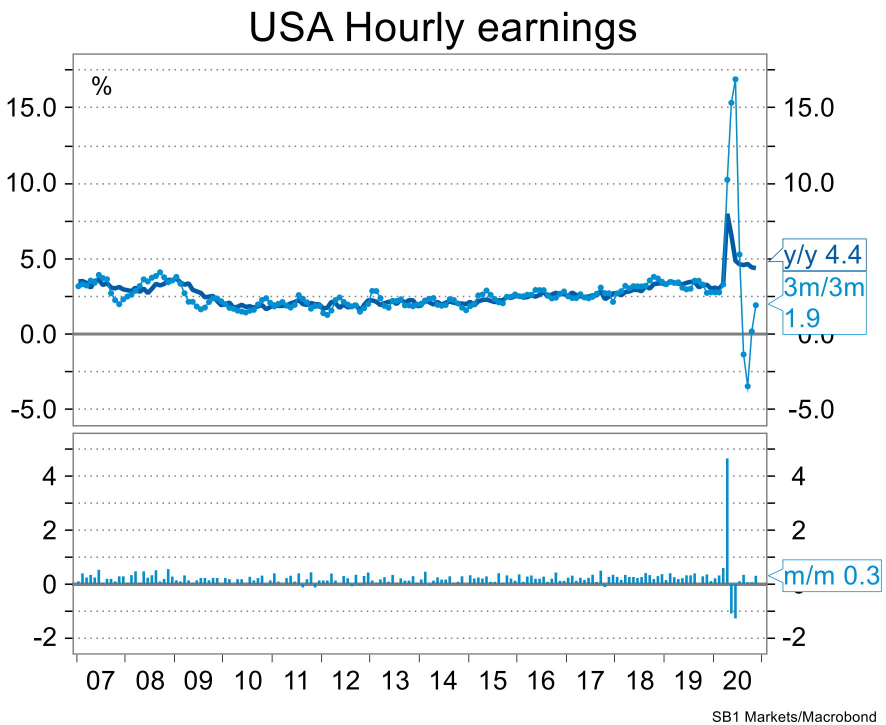


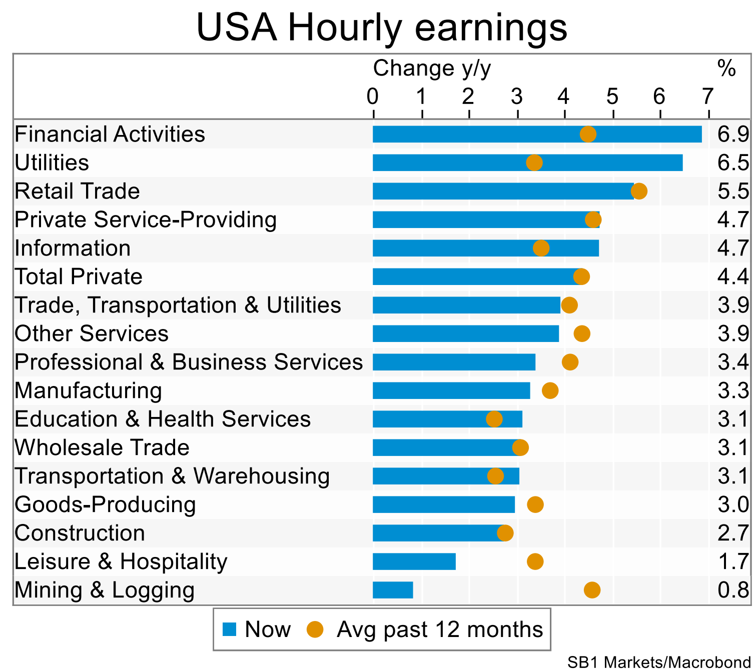


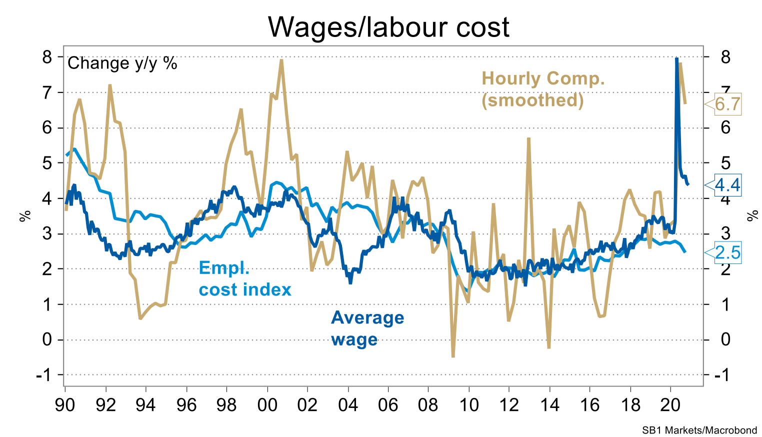
- … or some of the furloughed workers have left the labour market/or become 'normal' unemployment
- The 'hard core' unemployed – not on temporary layoff – equalled 5,0% of the labour force, unch from October but up from 4.6% in August (and at 3% in February)

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



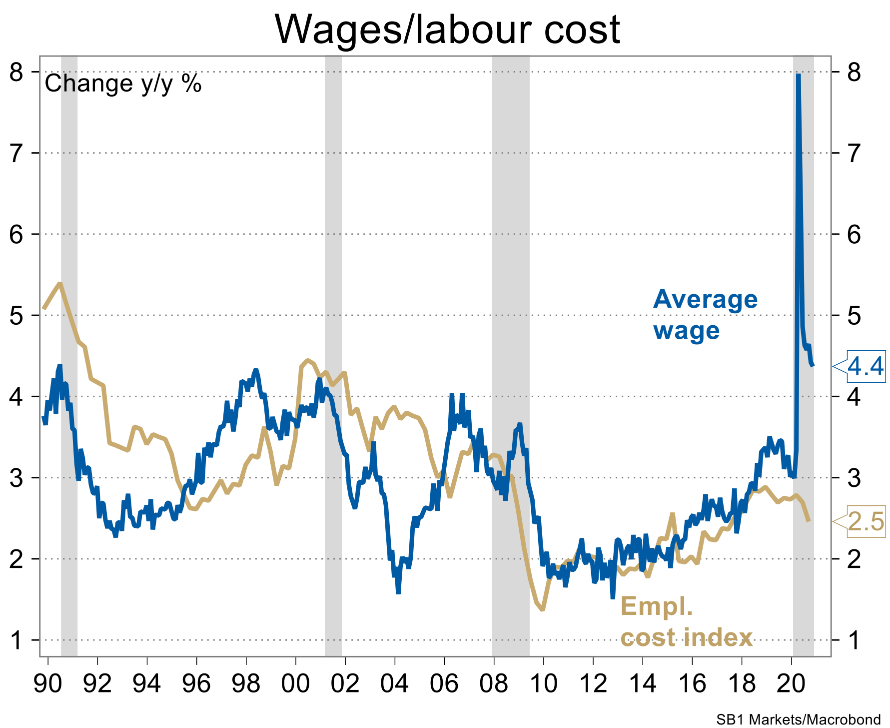




- Annual rate down 0.1 pp to 4.5%, following a 0.3% increase in the average wage at 0.3% in November.. Average hourly compensation measured in the National Accounts is 6.7%. However underlying wage inflation is not much above 2%, check the next page too

Employment costs are not accelerating, of course

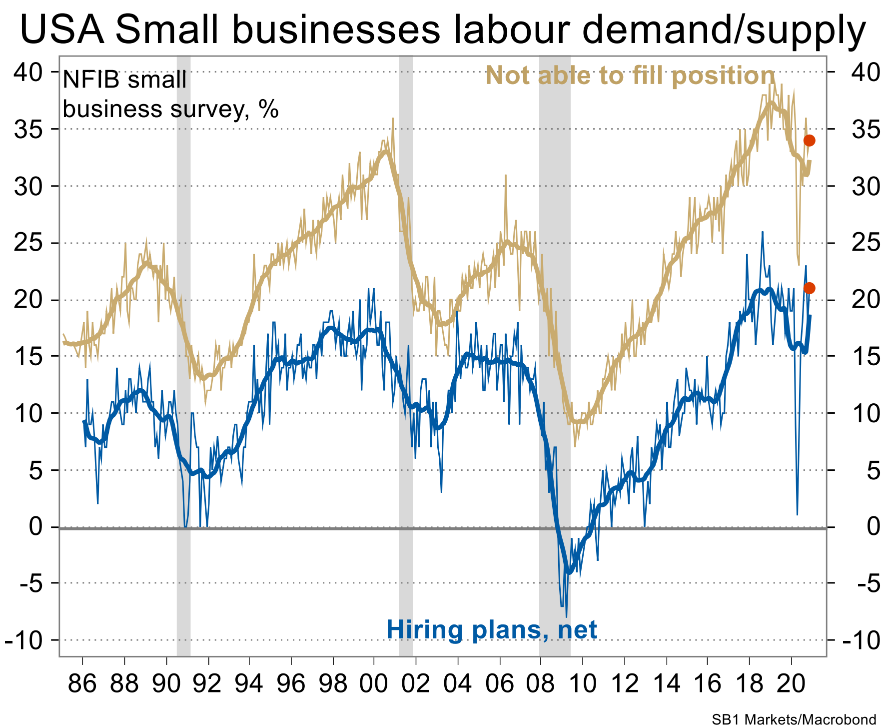
The Employment Cost Index rose 2.0% q/q in Q3, like in Q2, way below the increase in average wages

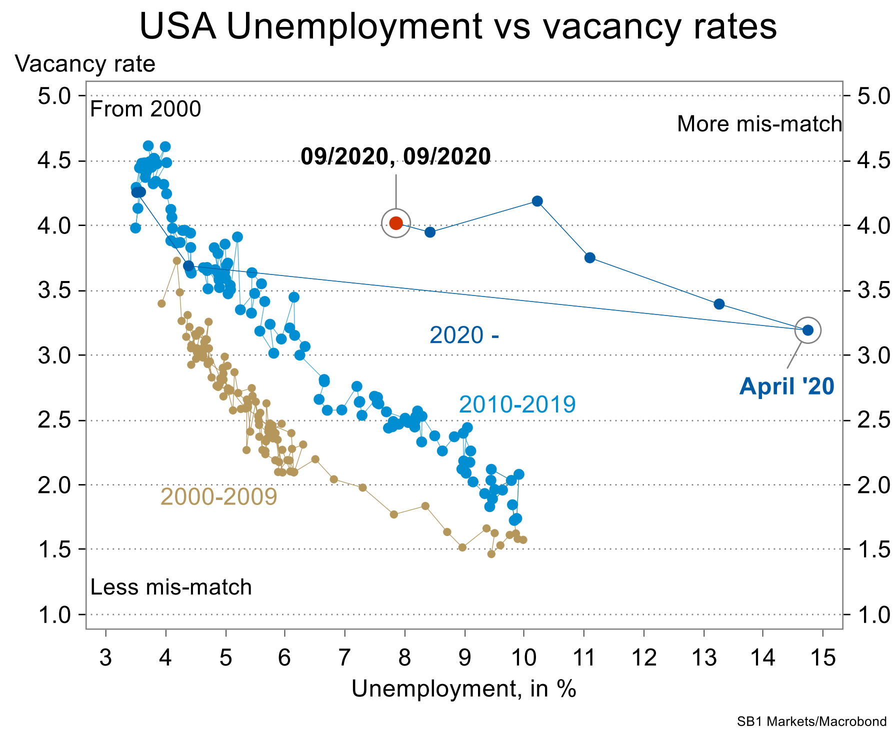


- … because ECI statistics are adjusted for changes in the mix of labour, it measures wage for 'the same worker', not the average wage for all workers at work. Now the difference is HUGE, far larger than we have ever seen before!
  - » The Covid-19 recession has been especially tough for the lower paid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

… just like before corona. Is it now due to corona, employees are not able to move/take new position?

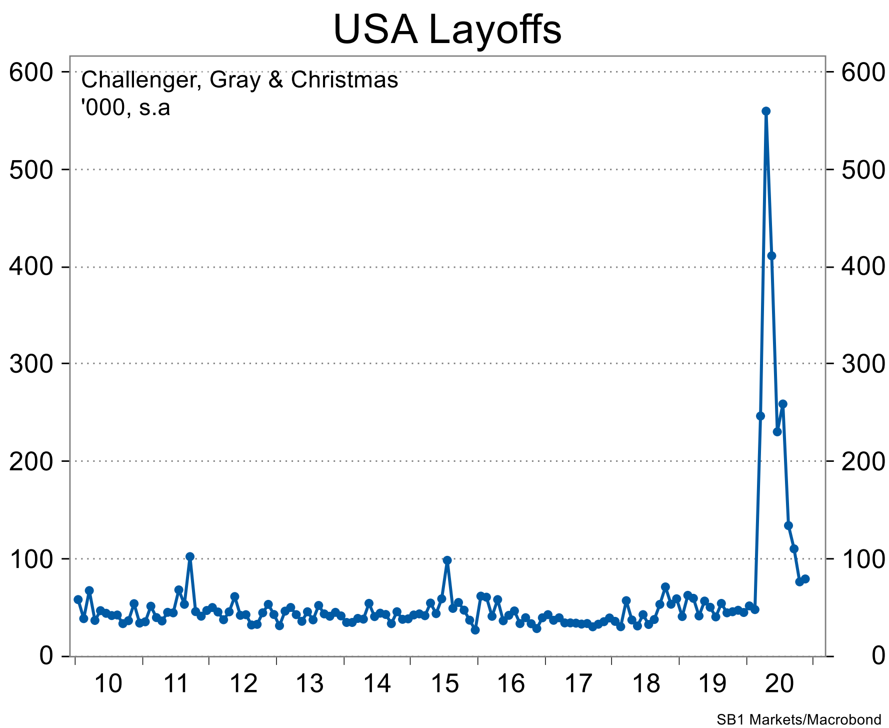




- … or are large parts of the labour market tight?
- Hiring plans are aggressive, not surprising given gradual recovery in the economy
- The number of unfilled vacancies is also high, according up official statistics (last obs September)

Layoffs stabilised in November, not that far above a normal level anymore

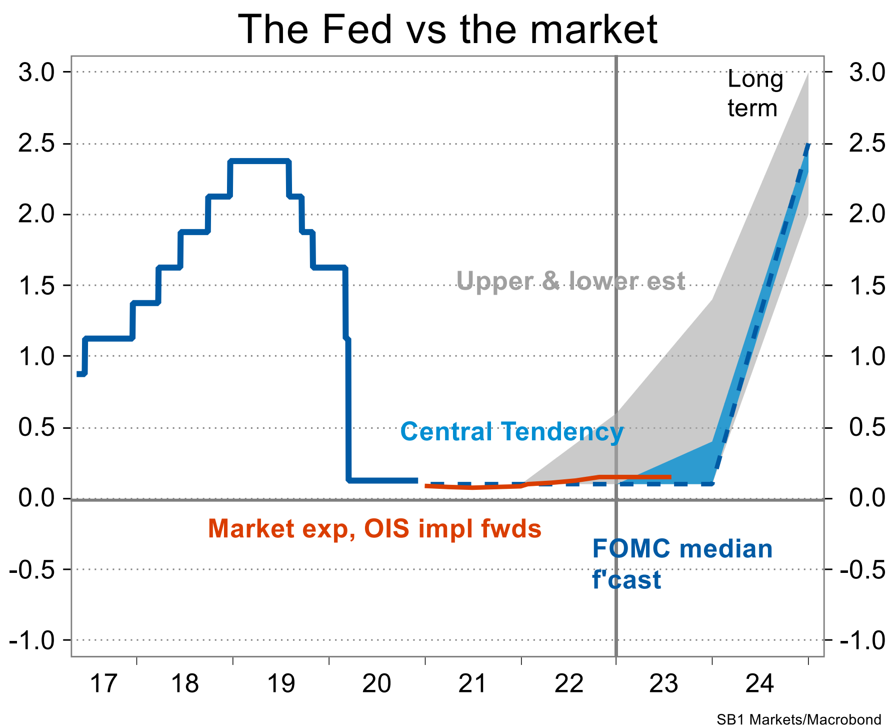
One of the brighter labour market data point



- A marginal increase in November but not significant

Beige book turned somewhat grey in November, no hurry to signal higher rates

Activity probably slowed through November, even if surveys have not reported so

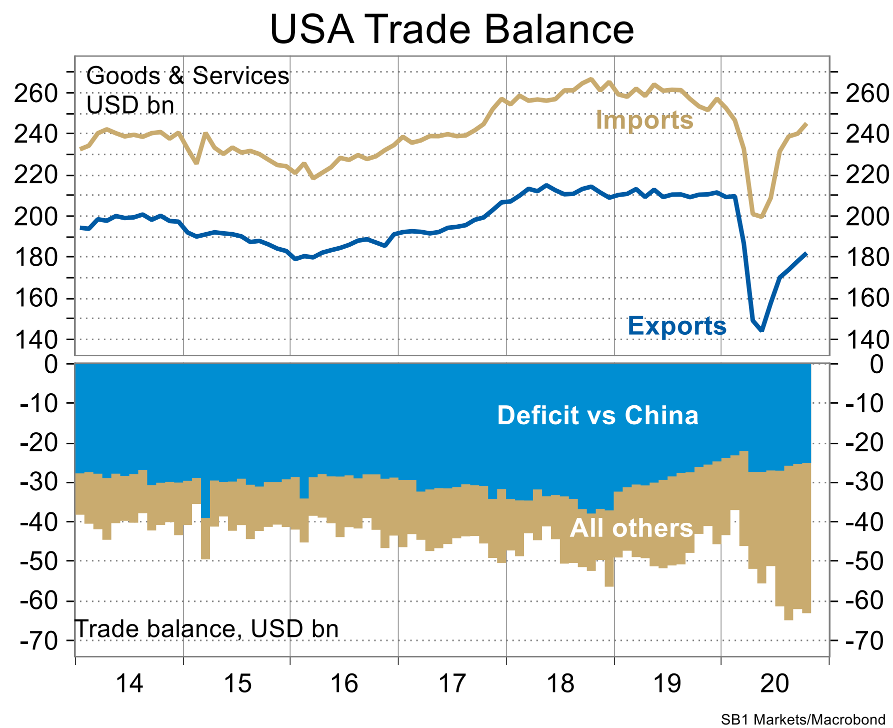


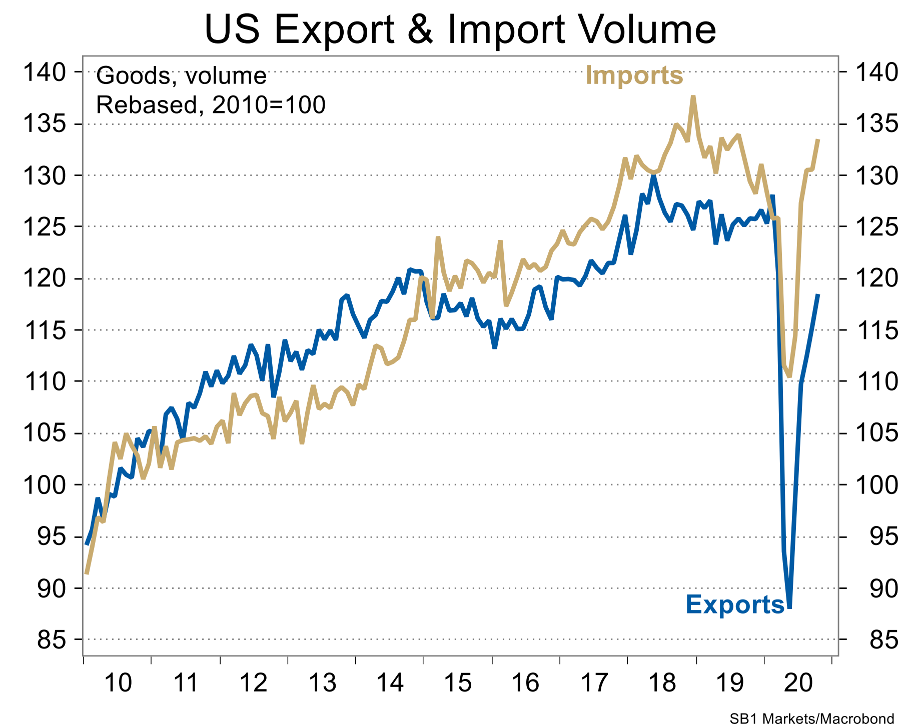
- We assume that the Fed will stay hyper-dovish until
  a) The **corona virus** is brought under control AND
  b) The **unemployment** rate has returned to well below 5% AND
  c) **Inflation** is not declining

- Growth still **modest or moderate** in most districts past six weeks, according to the Fed's 12 district banks
  - » 4 districts reported little or no growth
  - » 5 districts reported activity in for at least some sectors
  - » Philadelphia & 3 Midwestern districts observed that activity began to slow in early November as COVID-19 cases surged.
  - » Growth is still higher-than-average growth in **manufacturing, distribution and logistics, homebuilding, and existing home sales**, although not without disruptions.
  - » **Banking contacts** in numerous Districts reported some deterioration of loan portfolios, particularly for commercial lending into the retail and leisure and hospitality sectors. An increase in delinquencies in 2021 is more widely anticipated.
  - » Most Districts reported that **firms' outlooks** remained positive; however, optimism has waned--many contacts cited concerns over the recent pandemic wave, mandated restrictions (recent and prospective), and the expiration of unemployment benefits, and the moratoriums on evictions and foreclosures.
- **Employment is still growing**, but at a slower pace, and the recovery remains incomplete – but many company are not able to hire, partly due to corona challenges. **Wage inflation** may accelerate
- **Prices** are increasing at a slight to moderate pace, transport costs are increasing – and passed through

Import volumes have fully recovered, export sharply up but still 6% below par

The trade deficit widened marginally in October – and it is high

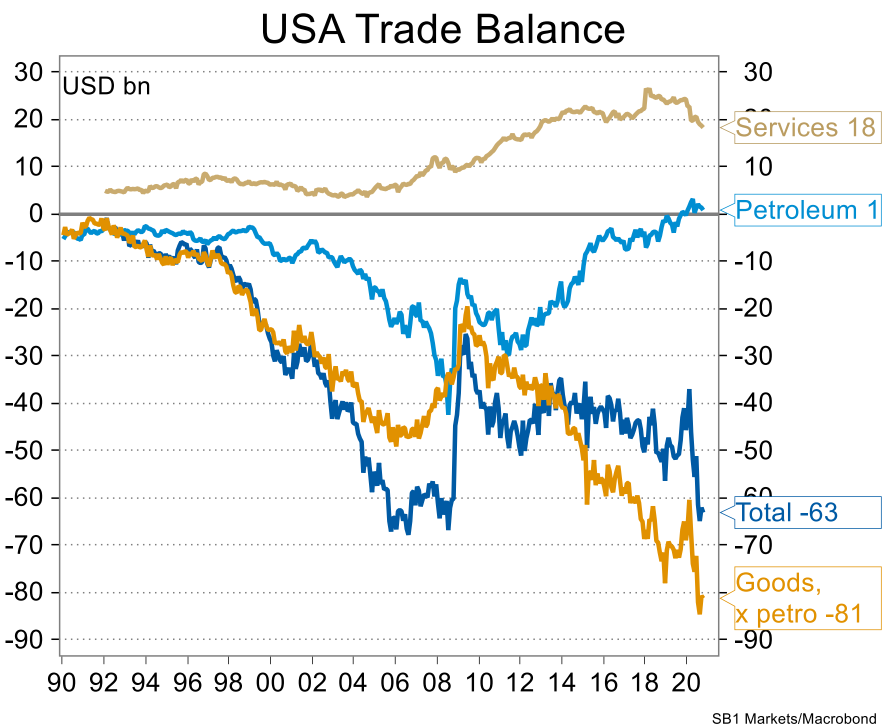


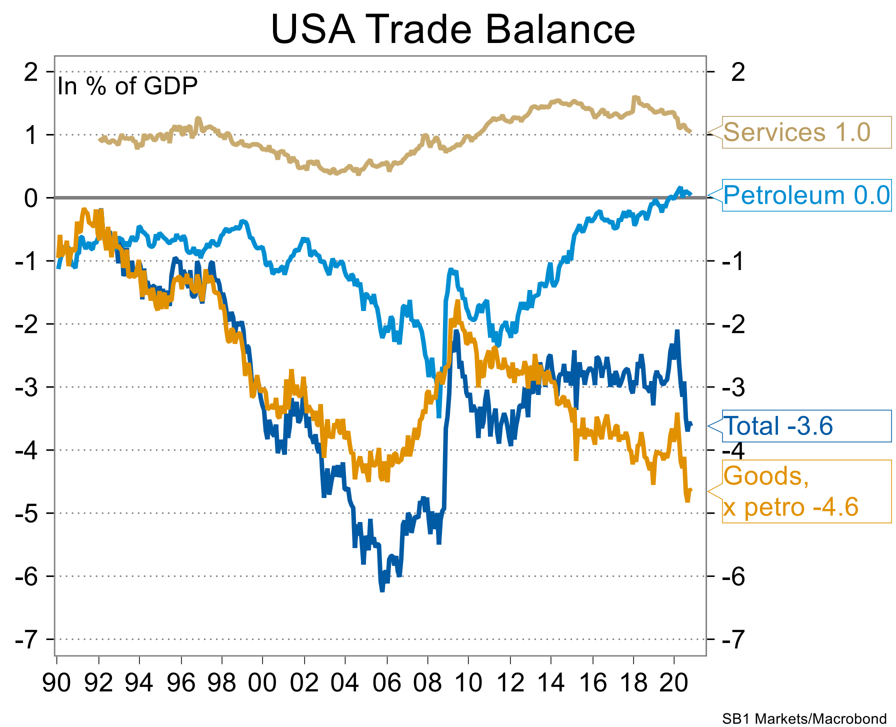


- The overall trade deficit of goods & services rose to USD 63.1 bn in October, from a downward revised Sept level
- Exports rose 2.2% and imports by 2.1%. in October. In value terms both are below the level in early 2020, exports more than imports
  - » However, in volume terms imports have more than fully recovered – to well above the early 2020 level.
  - » Export volumes are still 6% below par. Given the recovery in global manufacturing production we expect 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 an underlying, structural worsening
- A wider trade deficit subtracted almost 6 pp from the blistering 33% (annualised) GDP growth rate in Q3. In Q4, close to neutral

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

The goods deficit ex petroleum has widened to 4.6% of GDP, the surplus is services is falling fast too

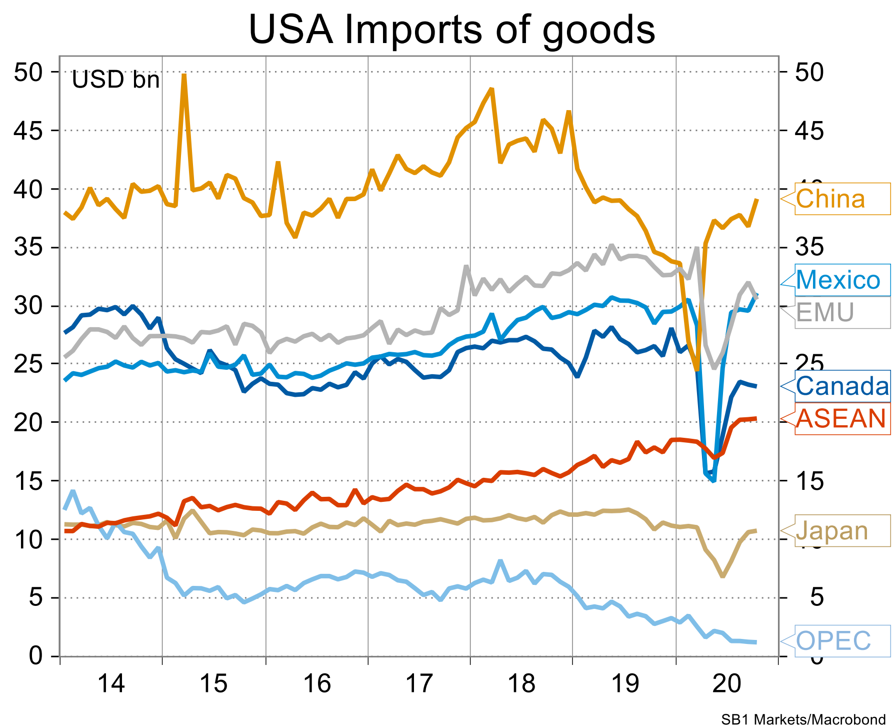


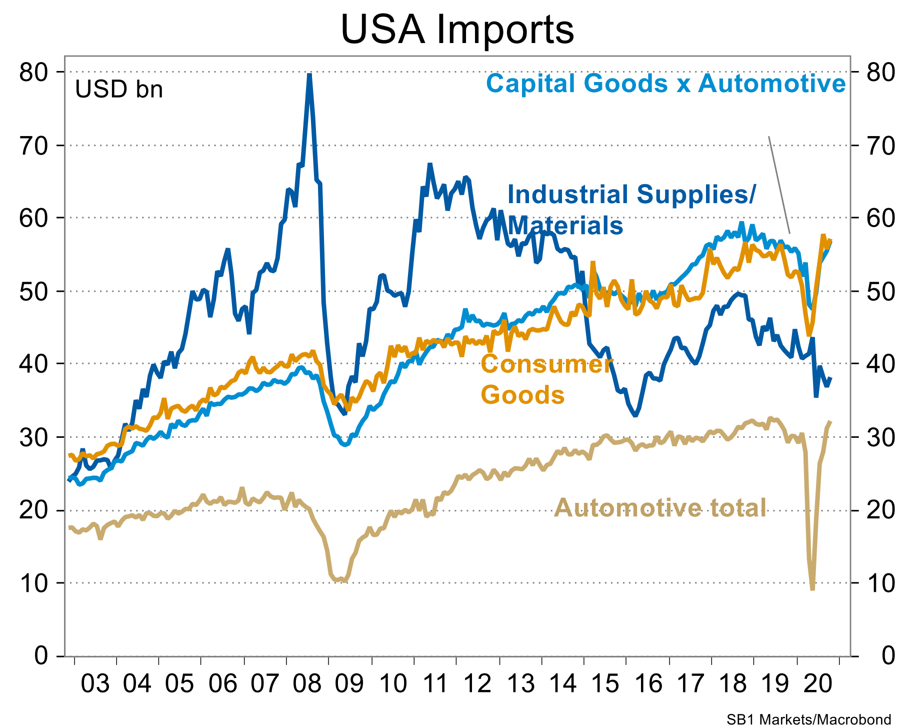


- The goods x petro products deficit dropped to ATL at USD -85 bn in August, or 5% of GDP, but has now recovered to USD -81 bn. Before the corona virus hit, the trade deficit in goods was narrowing, as growth in US slowed (and imports fell, which is normal)
- The petroleum trade deficit has turned into a surplus, now +1 bn from -30 bn/m in 2012!
- The US runs surplus in services at USD 18 bn, equalling 1% of GDP but is trending sharply down (and the downturn started well before corona)

Most imports have recovered. Imports from EMU, Canada and Opec are lagging

Imports of consumer goods at a record high level, autos & capital goods close to – materials not

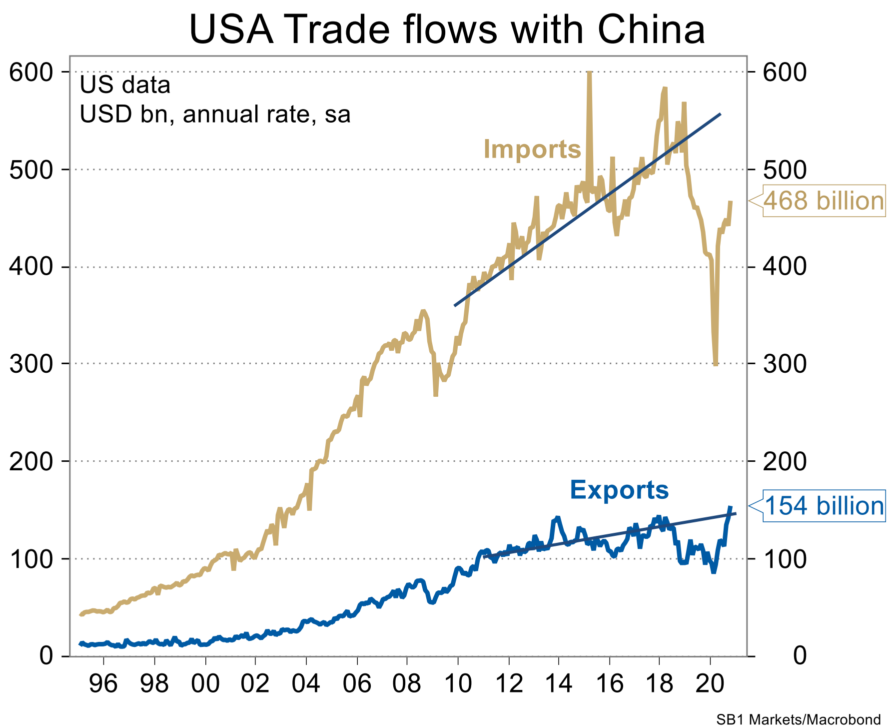




- Imports from China are well above the pre-corona level – as are exports (*check next page*). Export from ASEAN (the minor Asians) are very strong too. Canada and the EMU are the export-to-US laggards. The US is not importing anything from OPEC anymore
- Biden last week signalled in a NY Times interview that he will not prioritise removing tariffs, at least not vs China (but can he really continue aluminium & steel tariffs vs. US' friends in North A & Europe – or South Korea and Japan?)

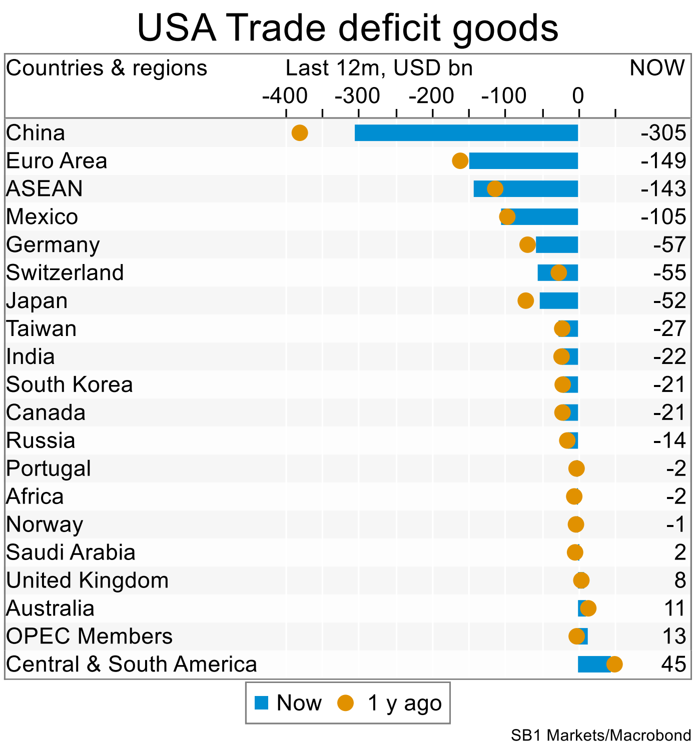
Exports to China are pretty strong

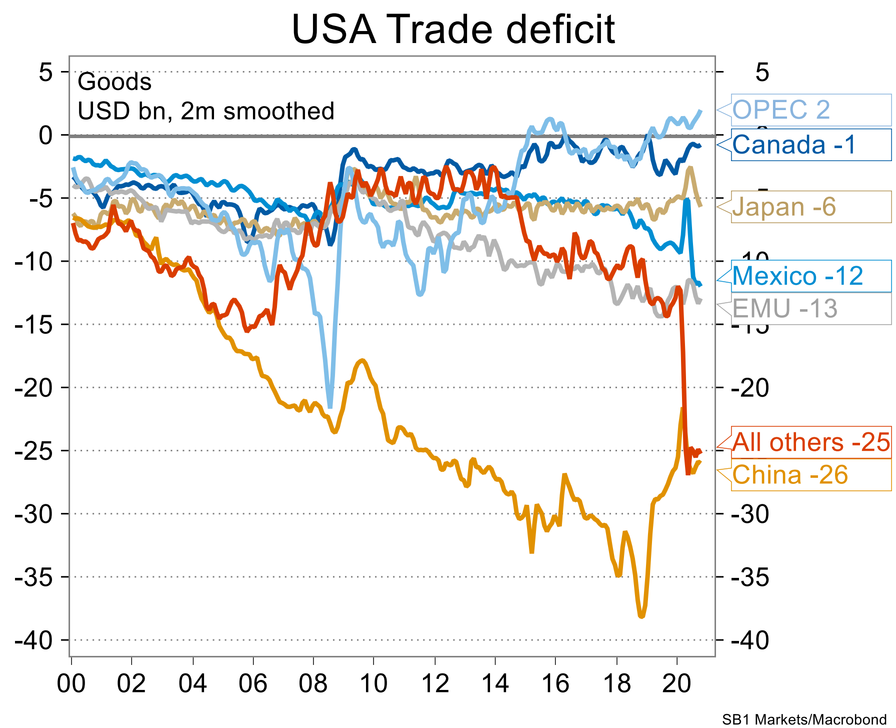
The Chinese authorities have done more than paying lip services?



The deficit vs. China has narrowed

The deficit vs OPEC is turned to a small surplus, and deficits vs Eurozone, Japan are now shrinking

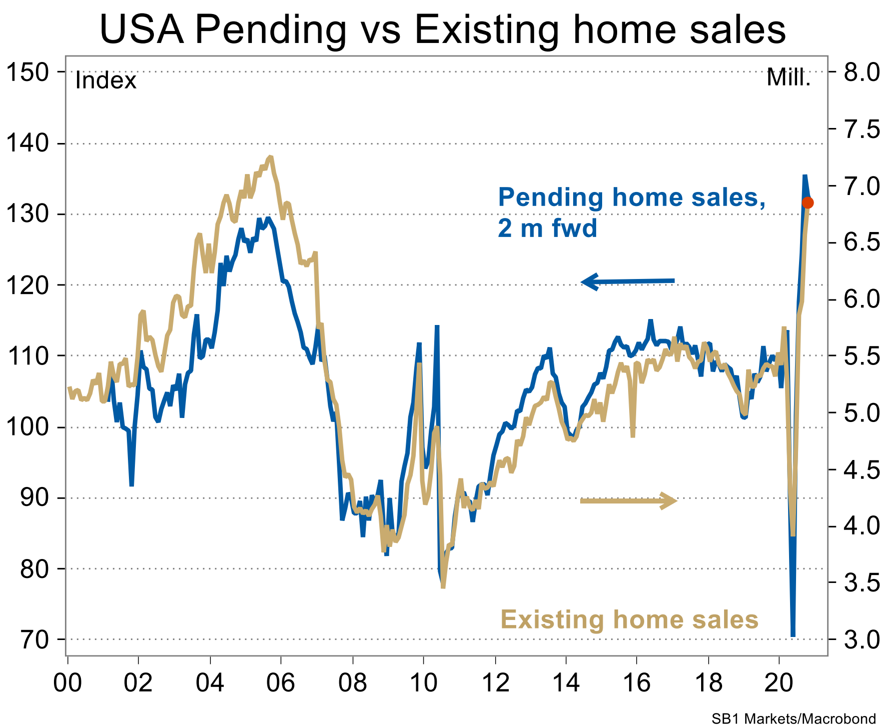


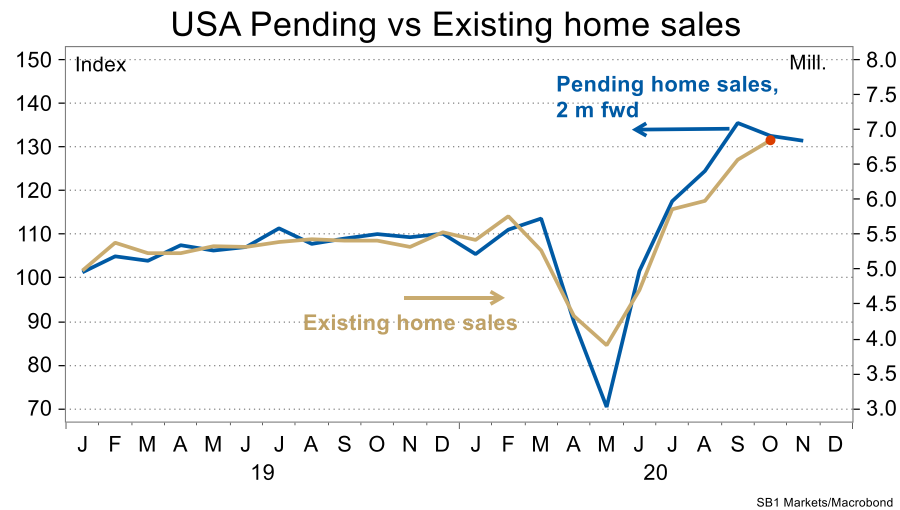


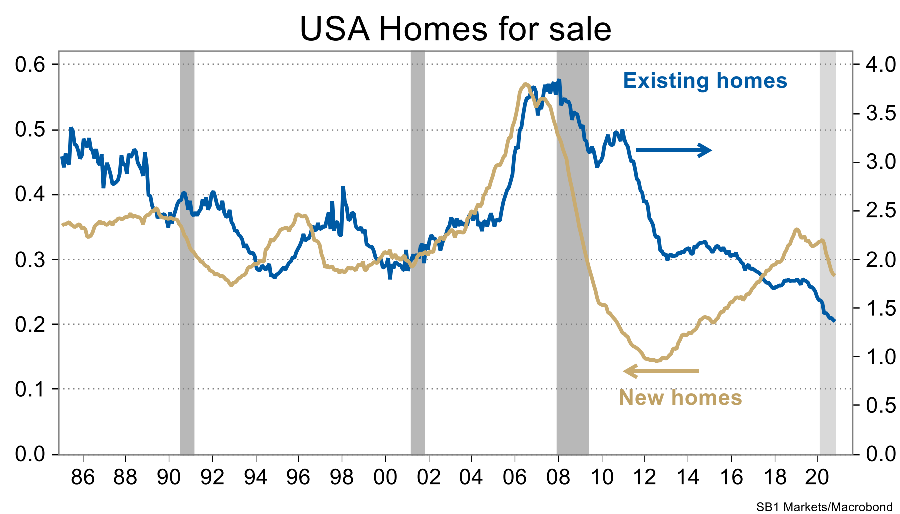
- The US deficit in goods (no services in these country stats) vs China now equals 'just' 30% of the total deficit in goods, used to be half of it
- The deficit vs Mexico has widened markedly since 2018. Canada is close to in balance vs the US. The deficit vs EMU is trending out but has stabilised since mid-2019, and the deficit to Japan has been shrinking somewhat
- The US now runs a surplus vs OPEC countries, +USD 1 bn, due to higher domestic oil production (shale), and more exports of weapons

Has pending home sales peaked? If so at a record-high level (while inventory is record low)

Most likely not a sign of weakness in the US housing market, it's just sold out!



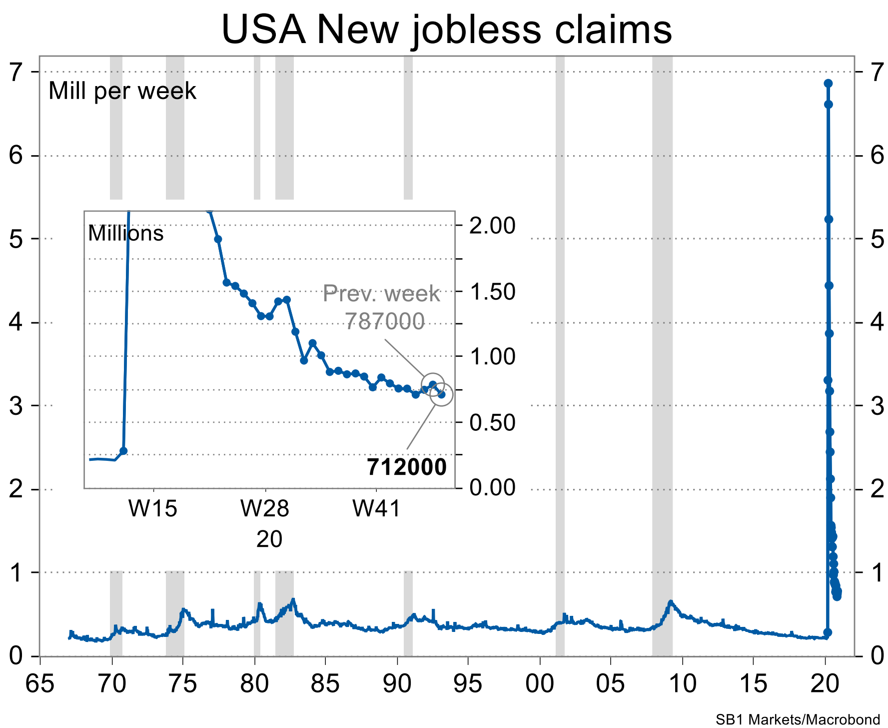


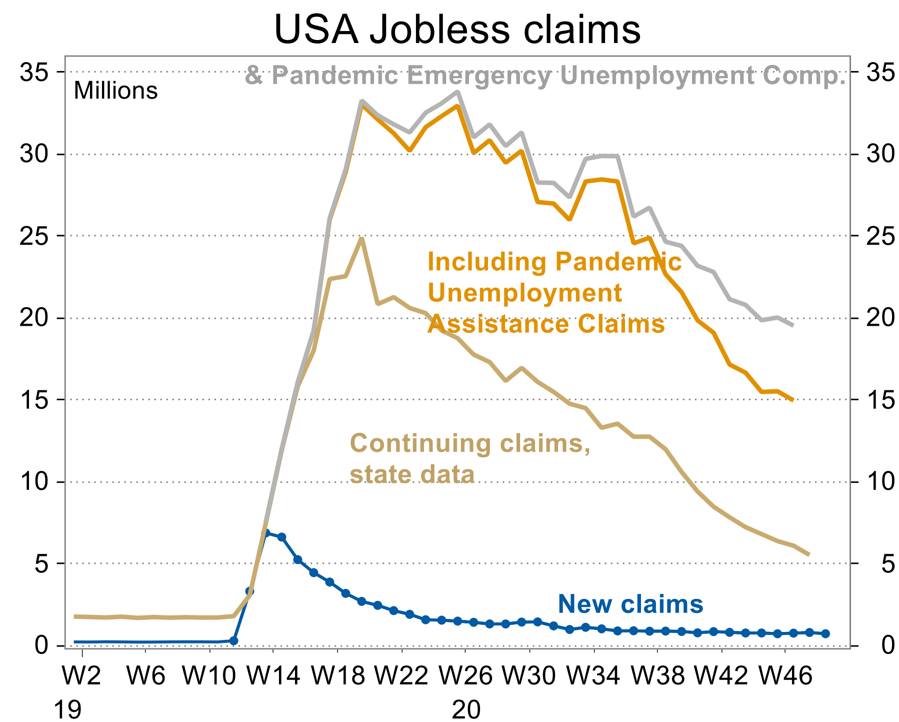


Pending home sales: Deals signed. Existing home sales: The actual transaction, typically 1 – 2 months after signing

New jobless claims down to the declining trend last week – level still not low

The trend is clearly down but not that fast, and 0.4% of the labour force applies for claims each week

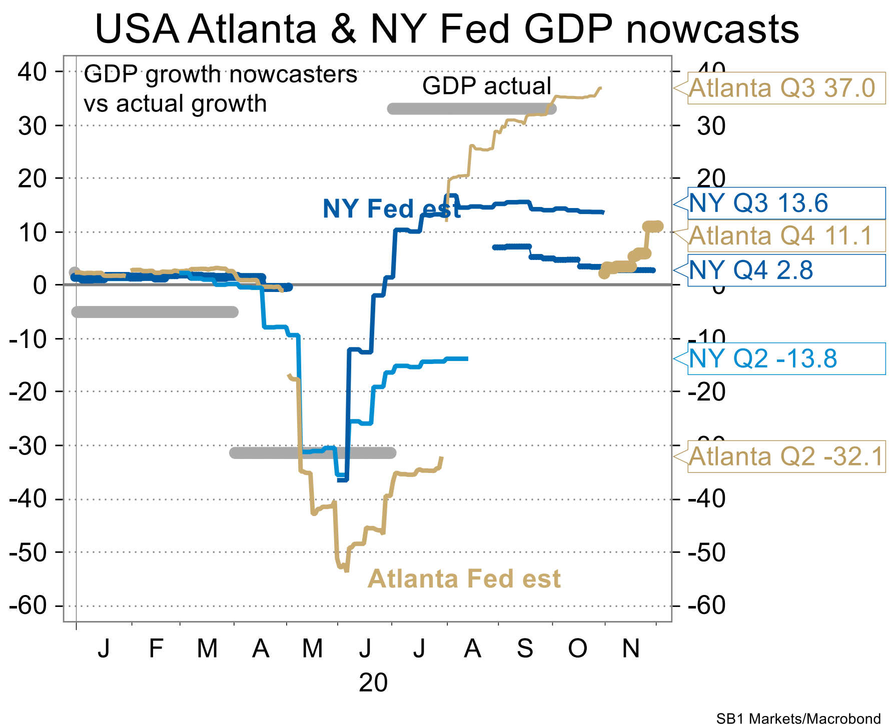


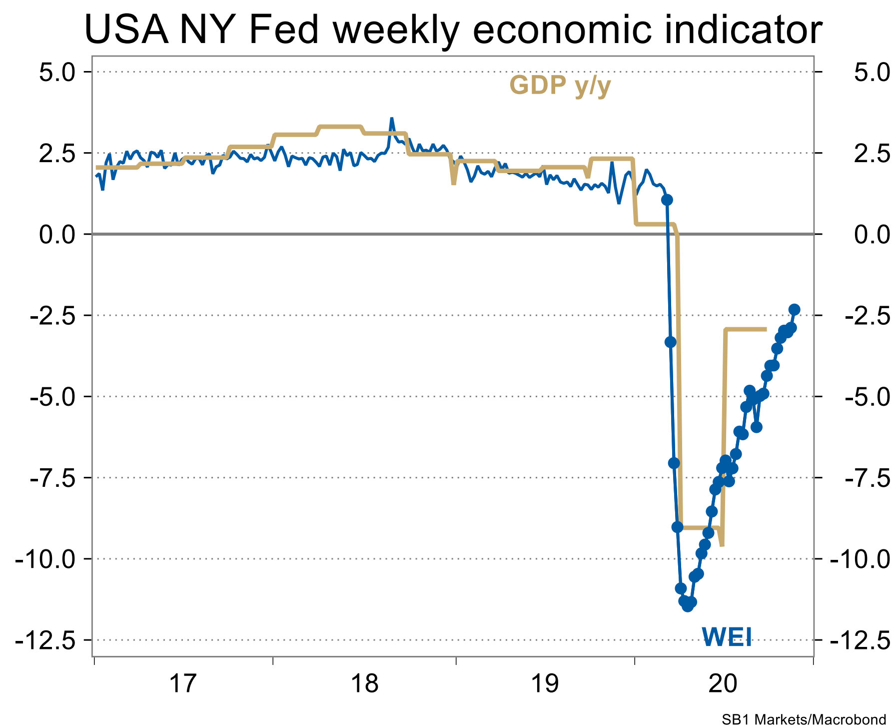


- Even so, the no of persons receiving unemployment benefits – continued claims – is falling rapidly – also if the Pandemic programs are included
- These extra programs will expire just after Christmas – and some millions unemployed will lose their unemployment benefits

Nowcaster reports are a mixed, as usual. The best one, Atlanta is signalling +11%

GDP was 3.5% down to Q3 from Q4 – the activity level is still some 5% below trend

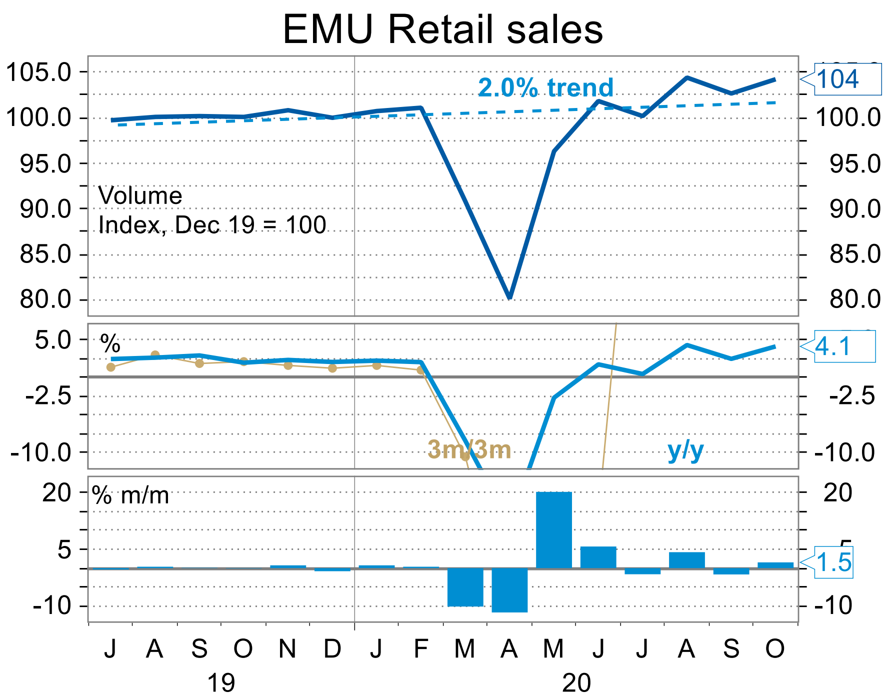


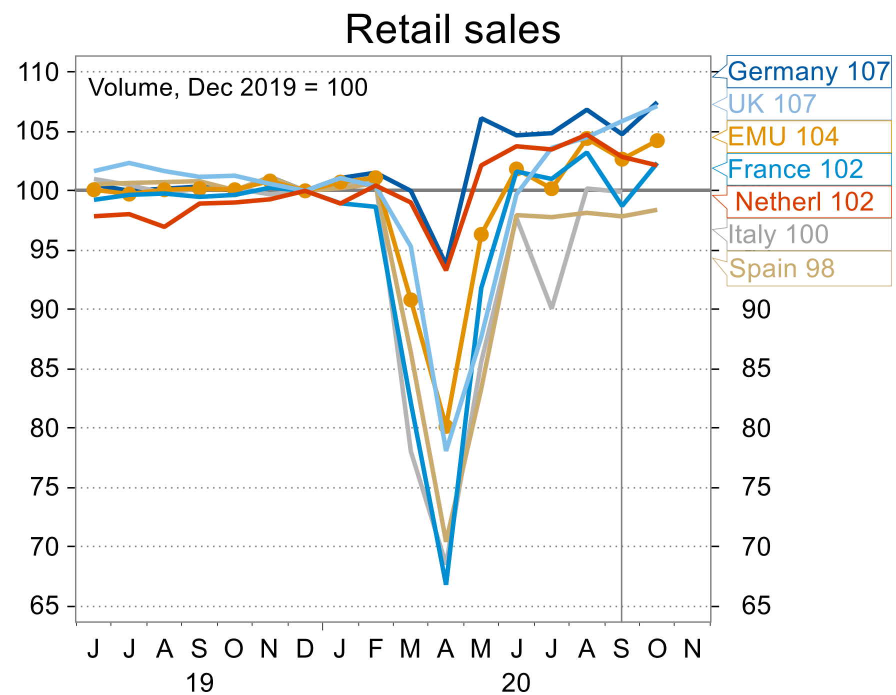


- NY Fed's traditional forecasters signals just 2.8% growth in Q4. This model has been completely useless recent quarters
- NY Fed's weekly model signal some 2.8% decline y/y (so far) in Q4, and the annual contraction is narrowing. If the WEI should end up 2.5% down y/y in Q4 (avg), that would imply a 4% (annualised) q/q growth. However, the WEI is not that precise

Strong October retail sales, broadly – up 4% from before corona

But November restrictions will likely generate another dip

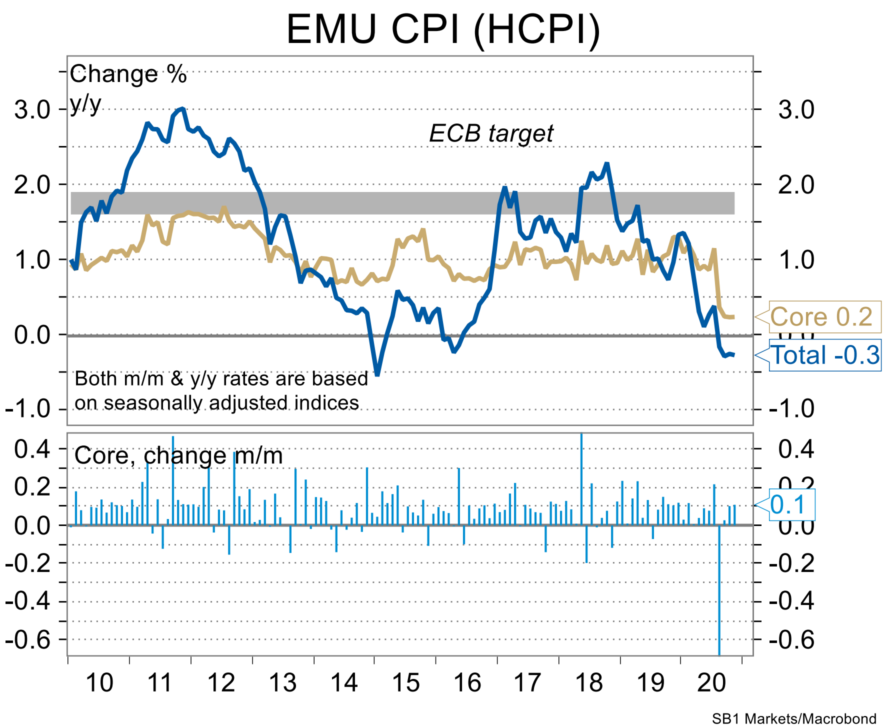


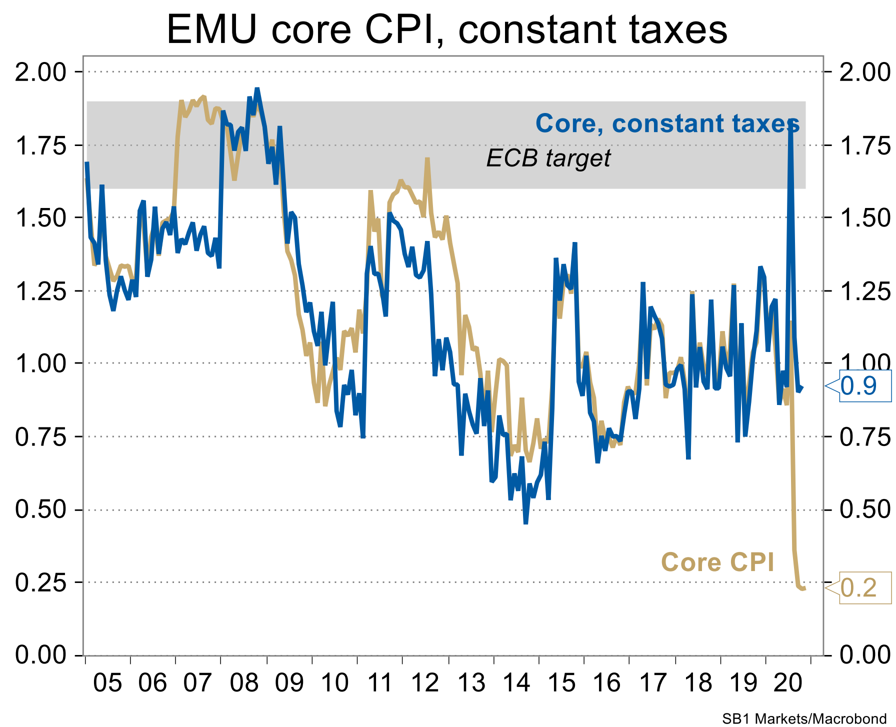


- Sales fell in Sept but rose more in Oct, by 1.5%, and more than expected. All big 4 up m/m
- Germany is up 7% vs Dec 2019, France 2%. Italy flat, and Spain (without foreign tourist) is down 2%
- The challenge now: The 2nd corona wave has led to new restrictions, some also vs retail sales activities – and more people may want to do more social distancing again
  - » The impact will be larger for restaurants, bars, cultural activities, hotels and travel (which are not included in retail sales)

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

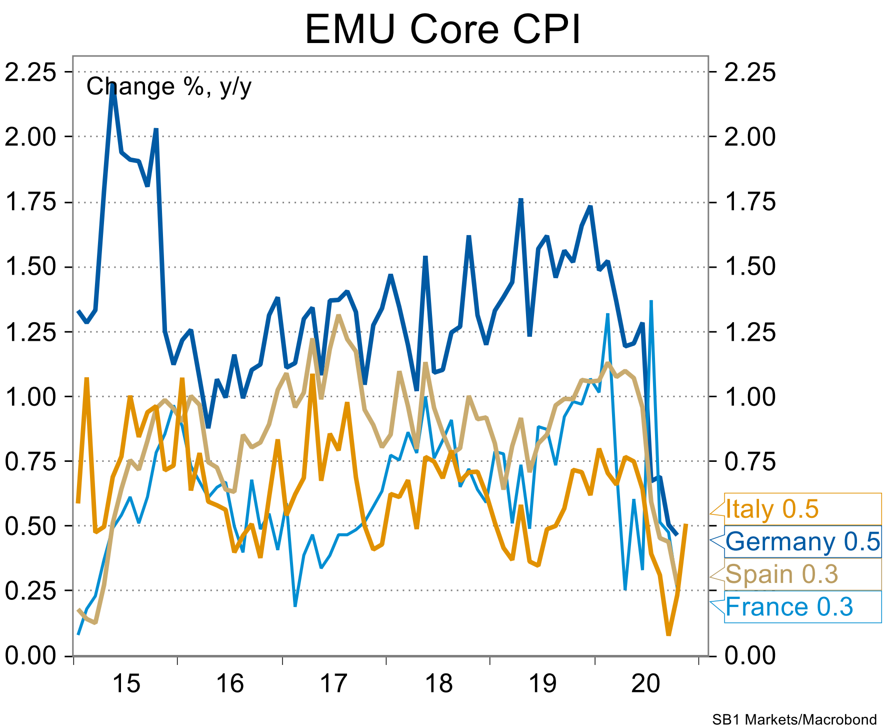
The German VAT cut has lowered EMU inflation by some 0.7 pp. Still, ‘real’ inflation is too low

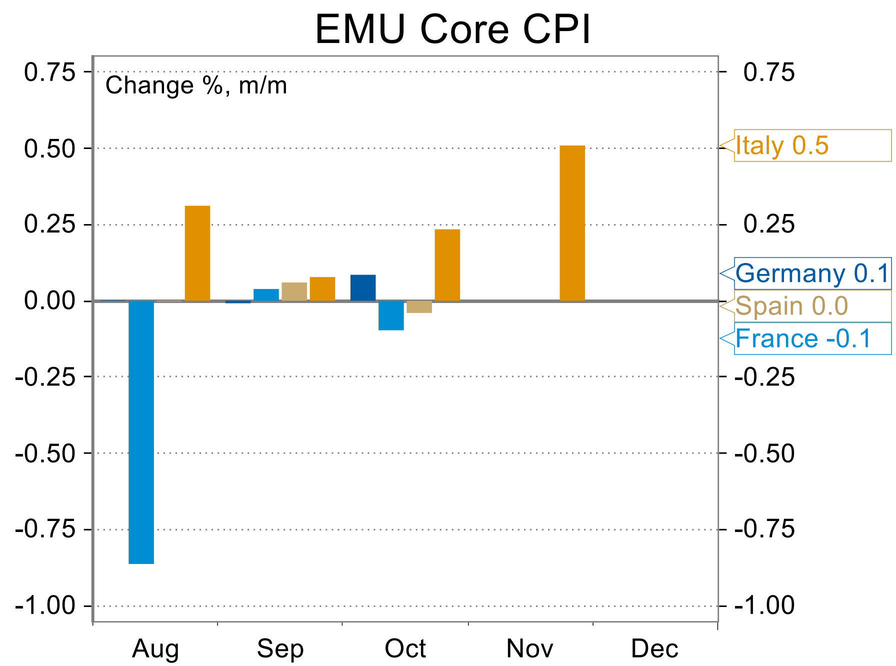


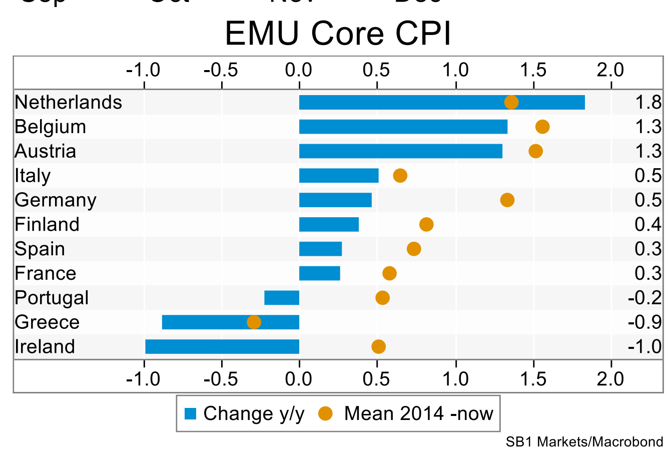


- In November, core prices grew 0.1% m/m and the annual rate was unch at just 0.2%. Core inflation has fallen in all the major countries. However, the German VAT cut partly explain the slowdown in EMU inflation. The core, constant taxes CPI was 0.9% in October. Thus, taxes are explaining 0.7 pp of the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

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



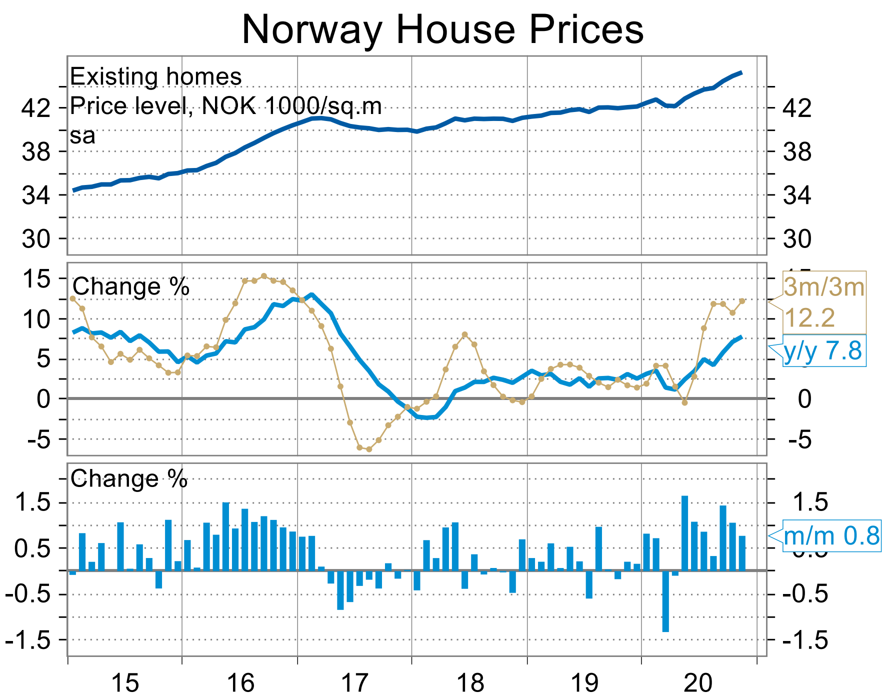




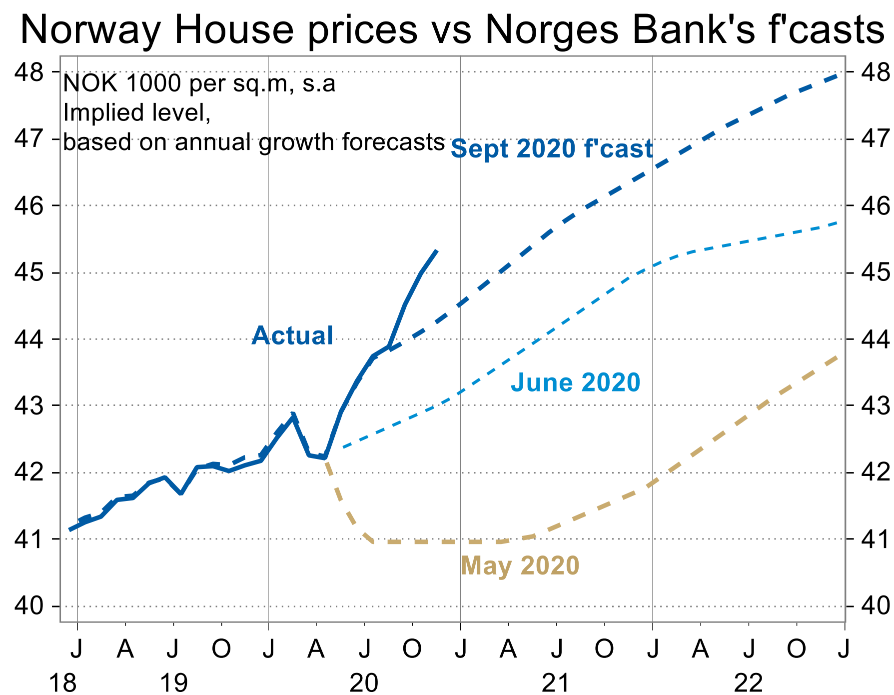
- Greece has fallen into deflation again – and prices are not higher than in 2010 (and core since '08)

Still no sign of weakness in housing market – and why would there be at 0% rate

House prices up 0.8% in November, spot on our estimate; NoBa annual forecast implied 0.35%



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

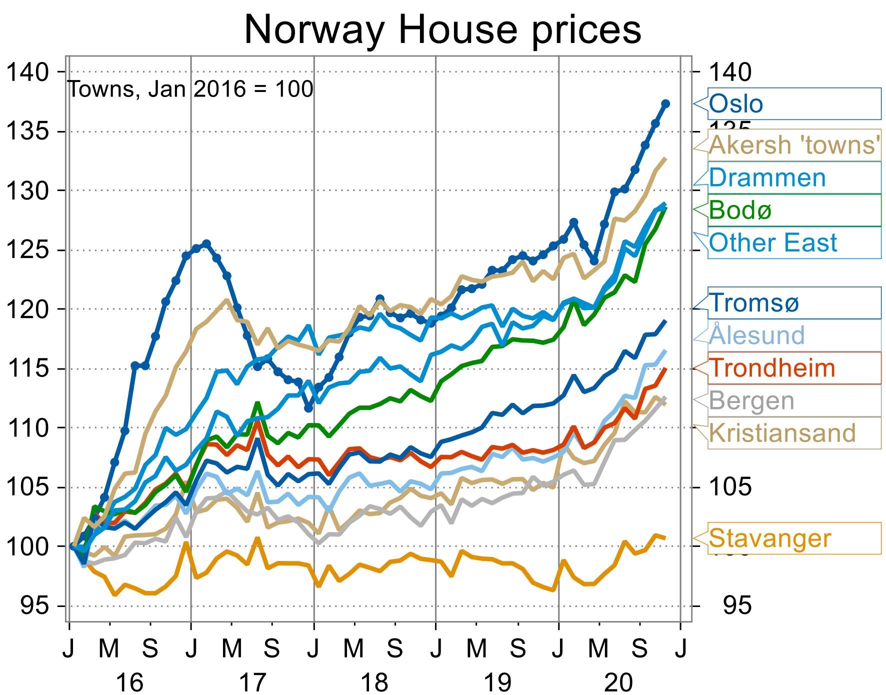


SB1 Markets/Macrobond

- **House prices** rose by 0.8% seas. adj in Nov, as we expected. Prices are up by 12% 3m/3m, annualised, up 6% above vs Feb, and by 7.8% y/y, the highest in 3 years. A 1.2 pp cut in mortgage rates (to 1.8% in avg, from 3.0% in Feb), has been much more important than the corona setback and higher unemployment
  - » 4 cities reported declining prices with Stavanger and Kristiansand (still) at the bottom of the list (m/m). The costal cities from Ålesund to Tromsø + Oslo are at the top
- The number of **transactions** remained at a high in Nov, at some 13% above the (average) 2019 level. The inventory of unsold homes stabilised in November, following a huge decline. The inventory is 25% down from early 2020 and far below a normal level
- **Prices are increasing faster than Norges Bank assumed in September (as was the case with its May and June f'casts). Should the steep price growth continue, Norges Bank will start hiking rates well before late 22'. The market has moved the timing forward to late 2021 or early 2022. Dec 2021 is our present f'cast**

Prices keep rising – Oslo off the chart

South – southwest more sluggish but no fret



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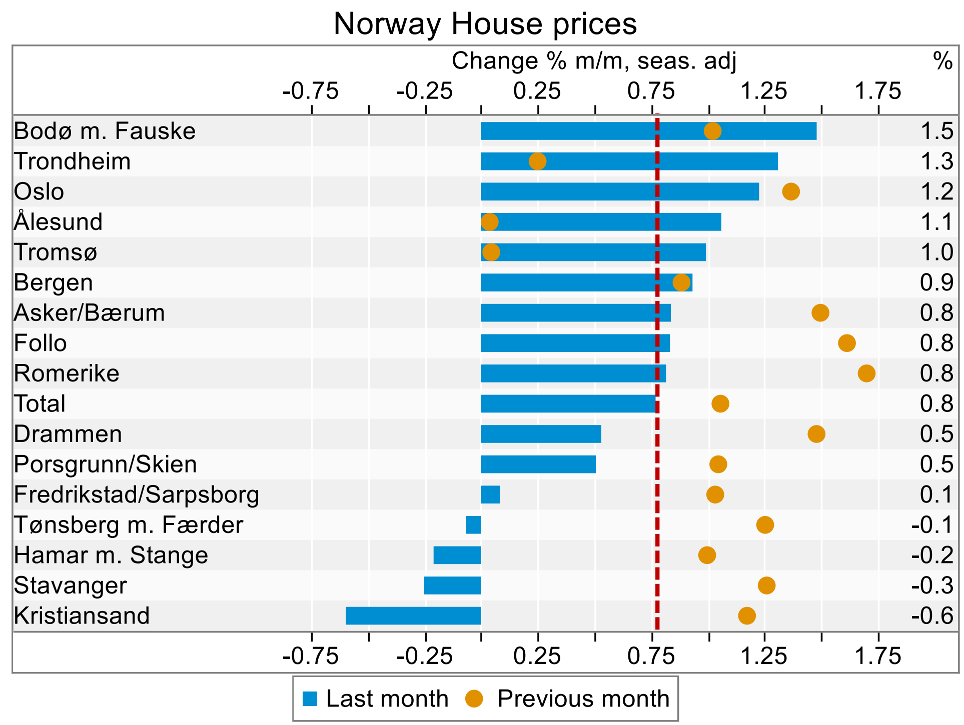
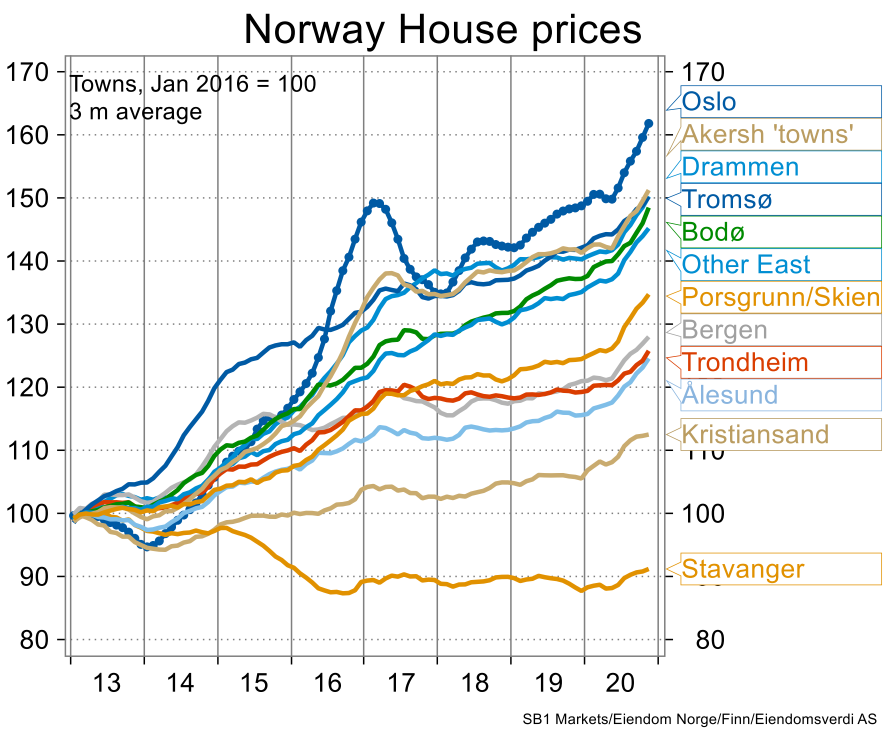


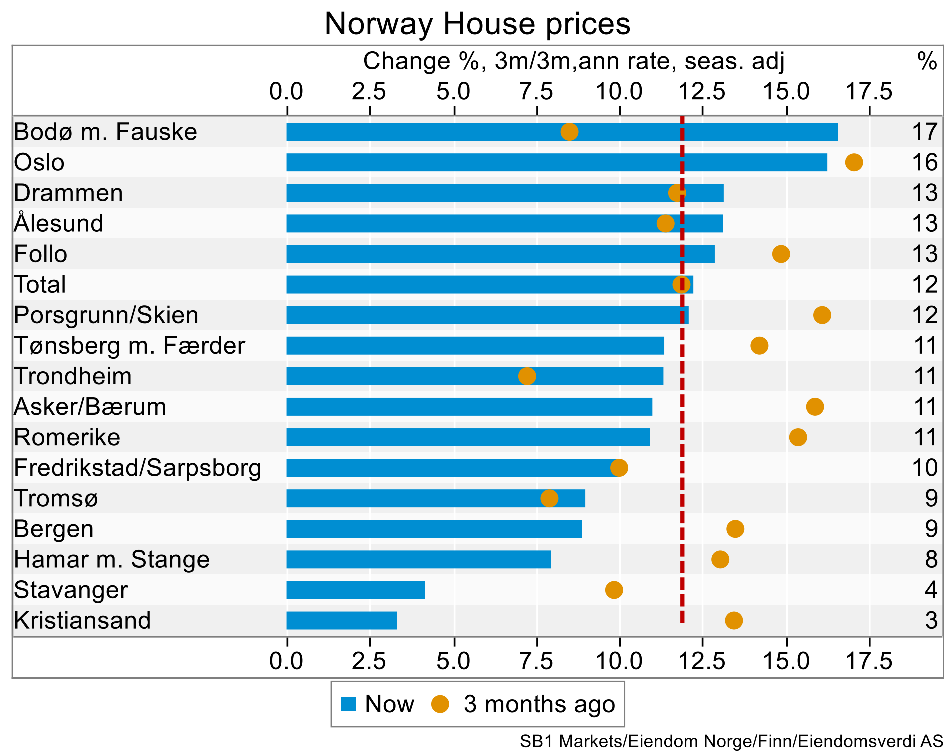
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

SpareBank 1 MARKETS

Recent months; measured 3m/m: All up, from zero in April to 12% now!

Prices in Oslo & Bodø are rising at a 16% pace! Stavanger/Kr.sand at the bottom – but on the way up



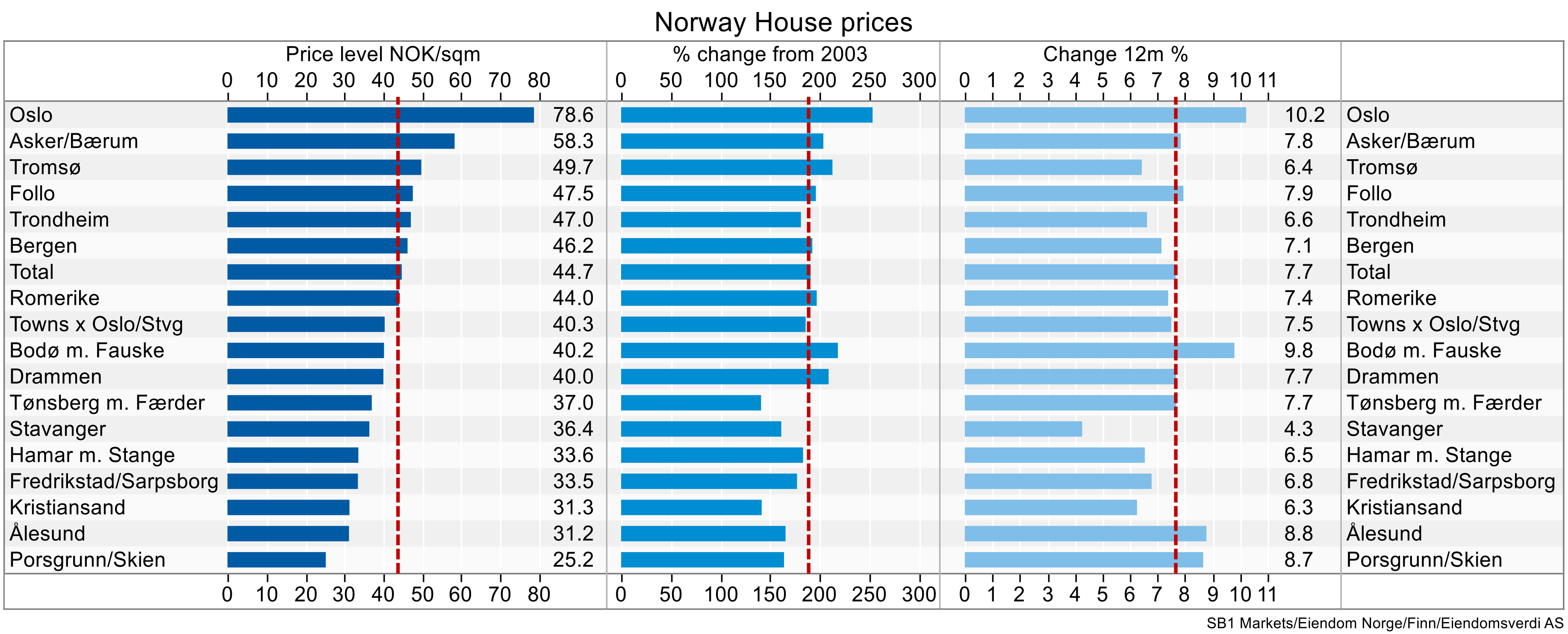


- Prices in Stavanger and Kristiansand fell last month, but are still up on a 3/3-month basis

SpareBank 1 MARKETS

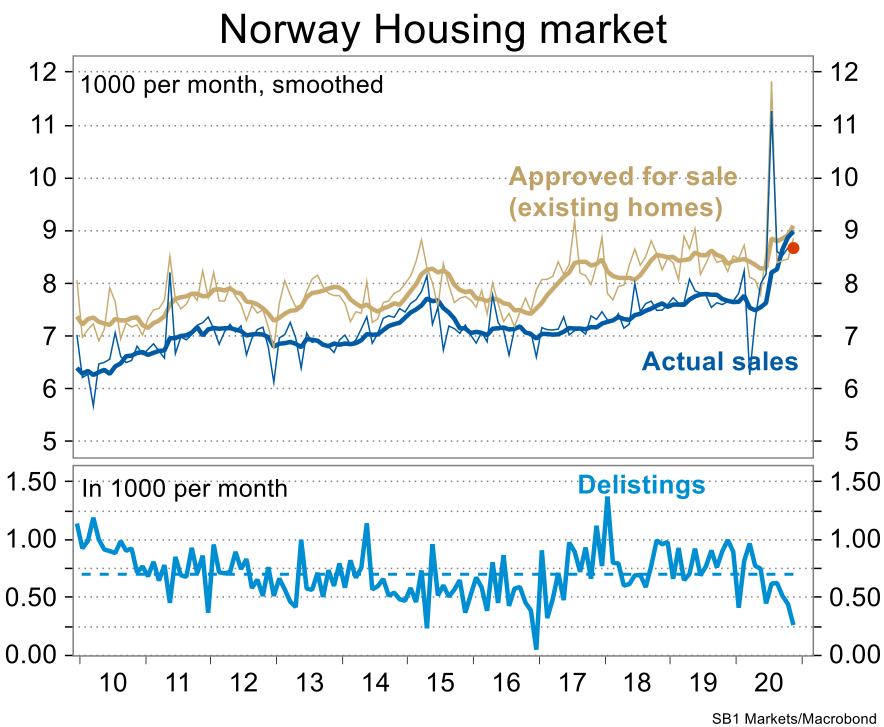
Oslo in the lead past 12 months, up 10%

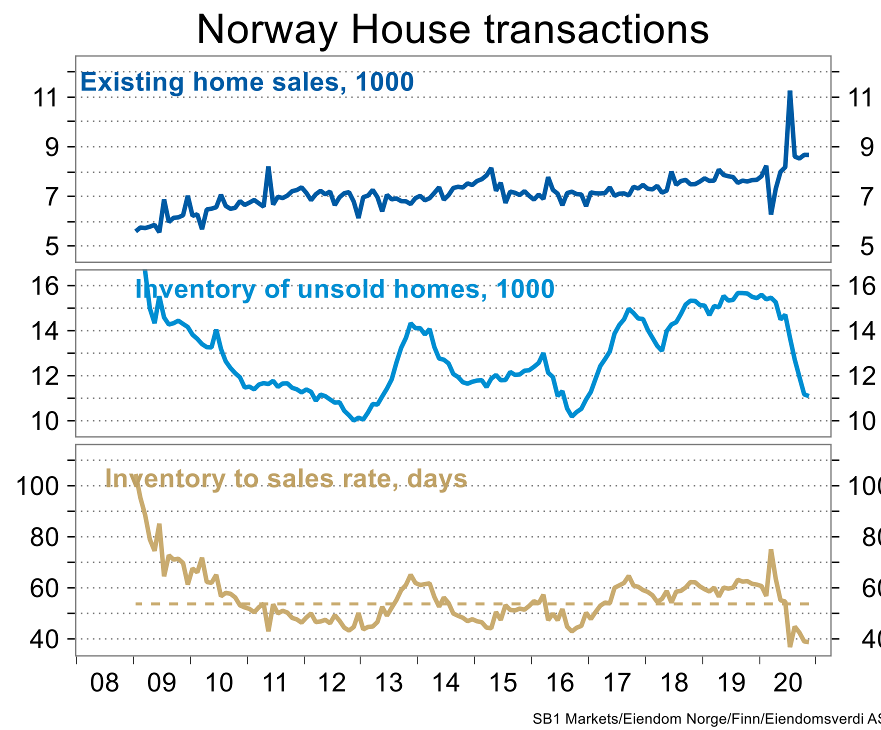
Strong growth in Bodø, but the price level in Oslo is roughly 2x higher



The no of transactions keeps climbing – but inventory just marginally down

However, the inventory has fallen sharply recent months and is at a record low level vs. no of sales

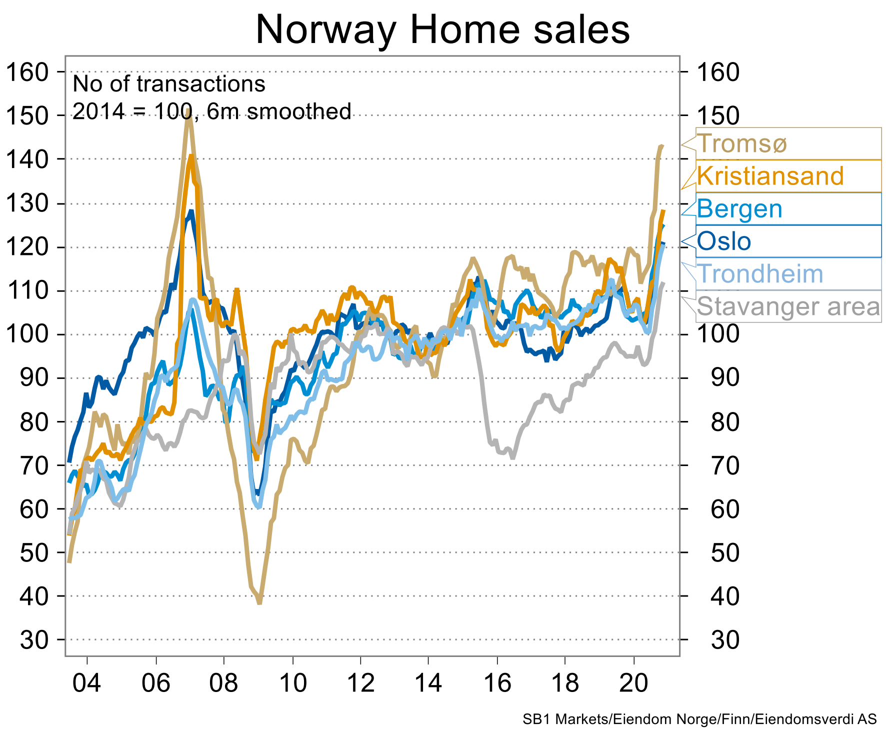


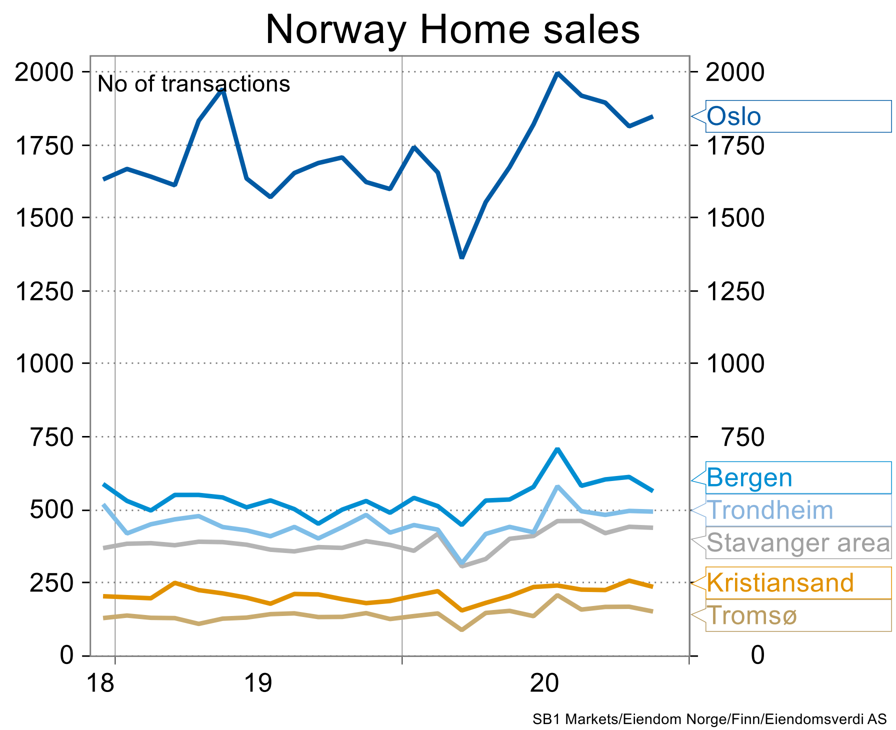


- **The number of transactions** remained at a high level in November. Sales are up 14% from 2019!
- The supply of new existing **homes for sale (approvals)** is also far above a normal level
- The number of **delisting** has fallen to far below a normal level – another sign of housing market strength
- The **inventory of unsold homes** has fallen to an unusual low level but the rapid decline we have seen since April seems to have caught a break in November
- The **inventory/sales ratio** has contracted sharply too, and is close to ATL, and the turnover time is just 29 days vs an avg at 53 . The **time to sell (for homes actually sold)** is still 49 days vs an avg at 39 days. In Oslo now at just 18 days!

Transactions up everywhere recent months

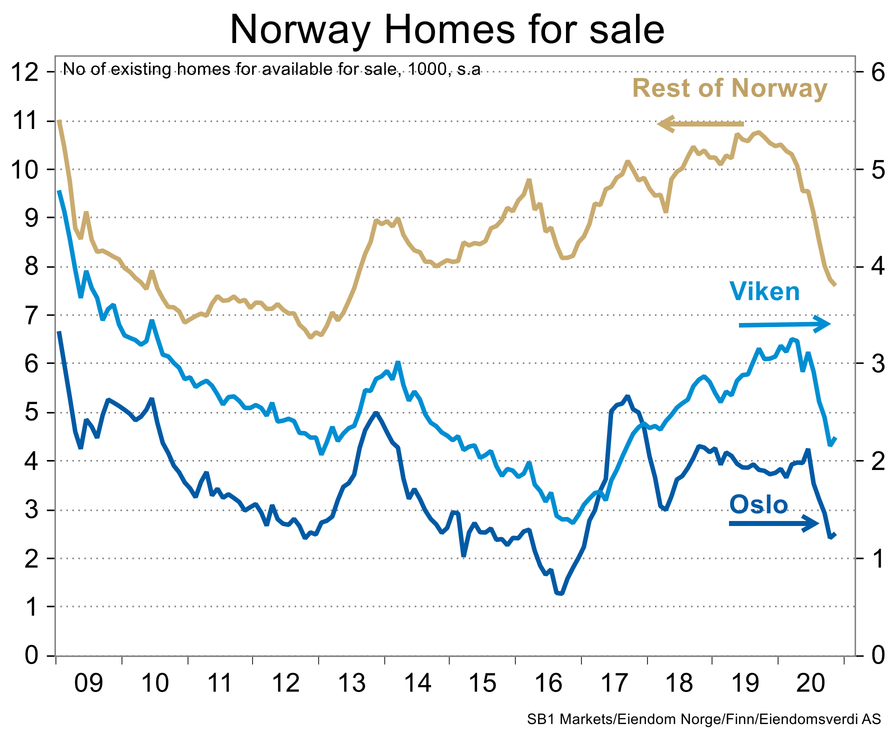
Tromsø more steeply up than others, highest level since 2006

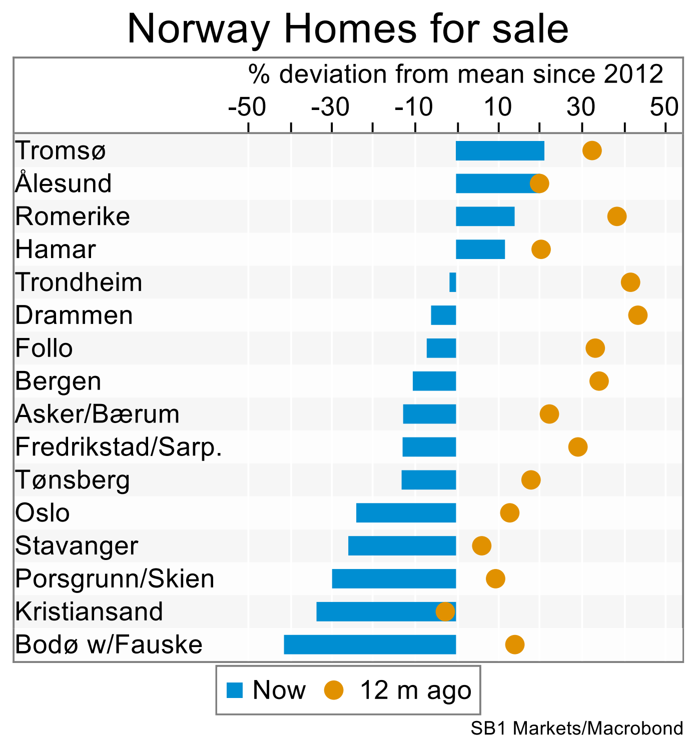




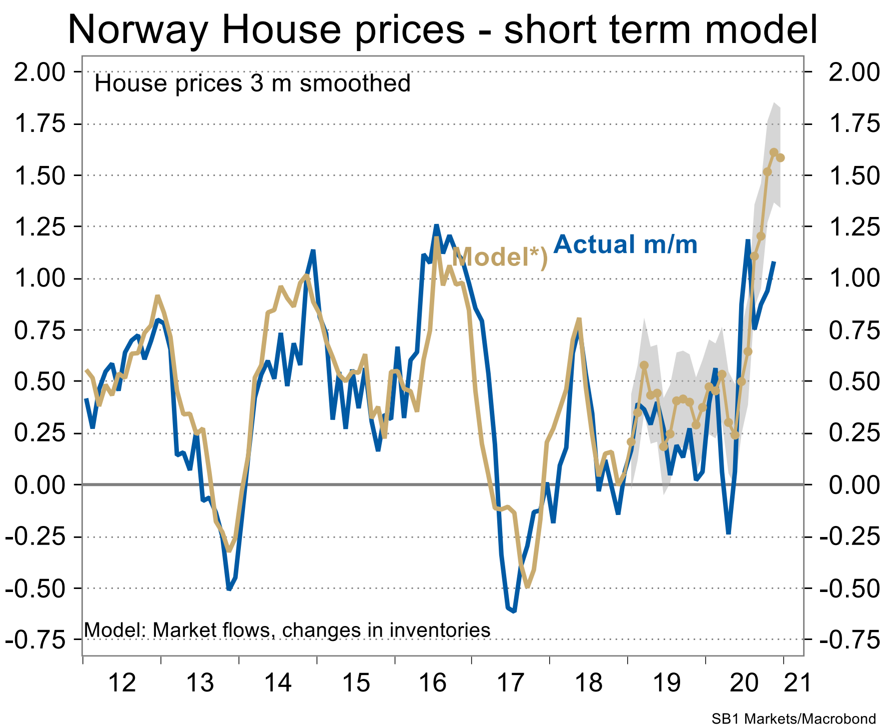
The inventory has fallen in recent months, but not further in November

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 further price acceleration



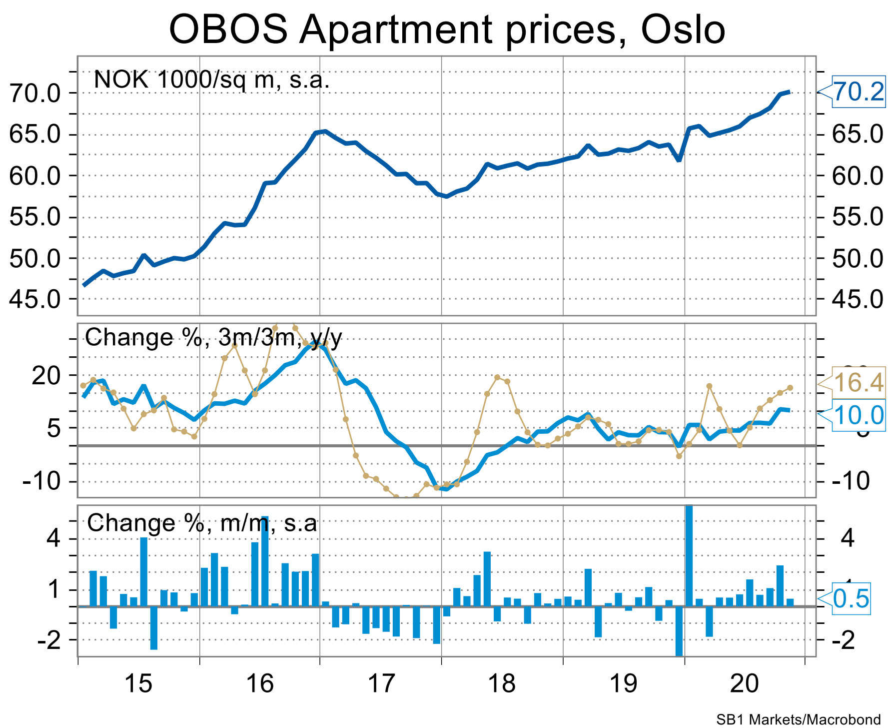
- The supply of new homes for sales and the inventory suggest rapid price growth the coming months, even faster than the past 3 months (avg)!
- The model signals a 22% growth pace, up from 13% now
- *This is not a long term price model, just a short term price model based on flows of (existing) houses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

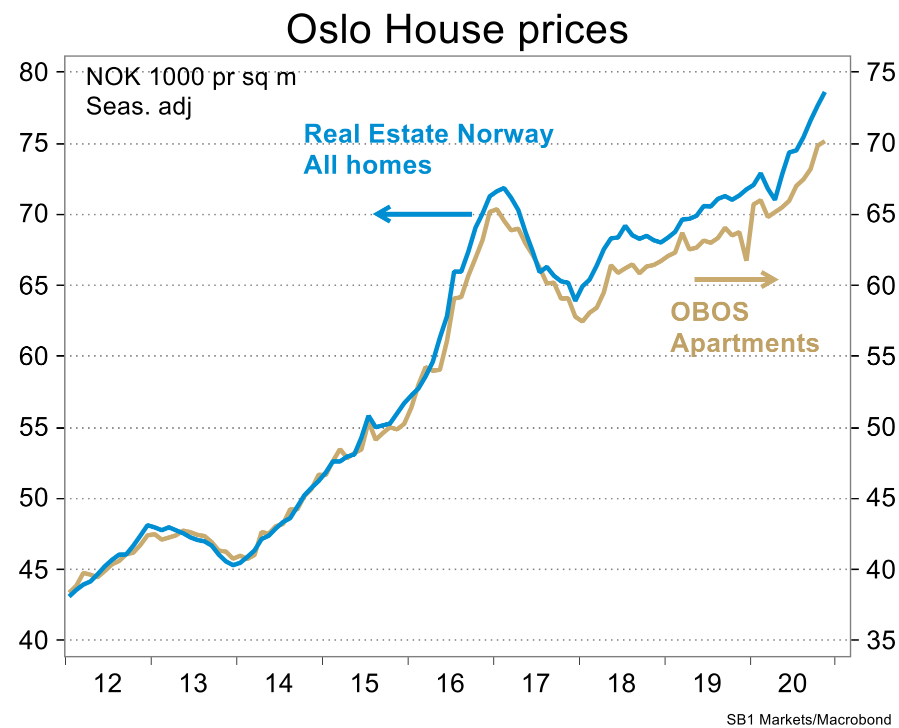
On the policy

- 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 November, prices were 5% 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

OBOS apartment prices confirm the Oslo surge

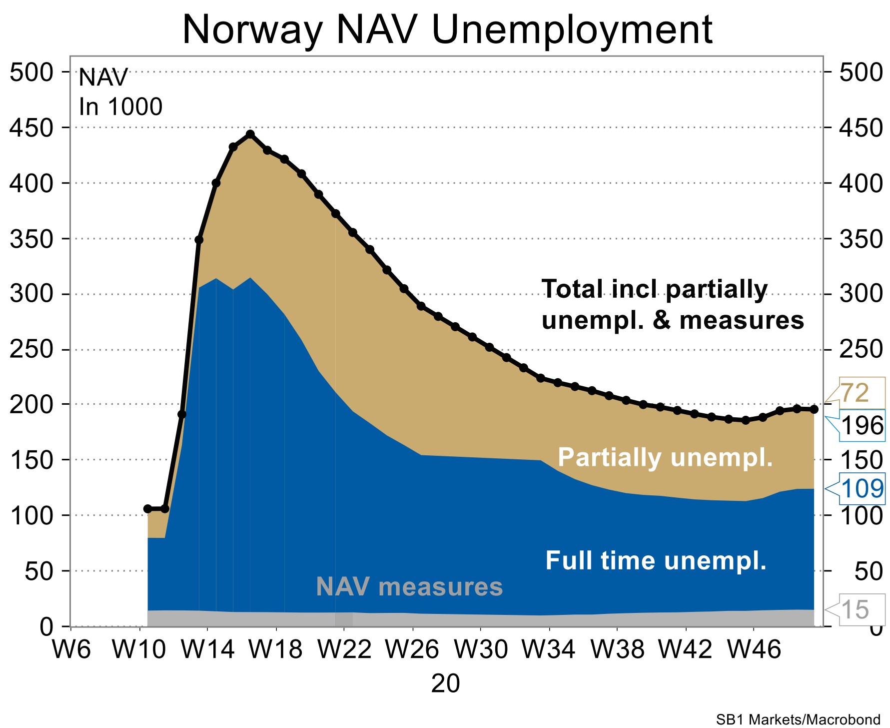
Co-op apartment prices up 0.5% in Nov (seas adj), 10.0% y/y

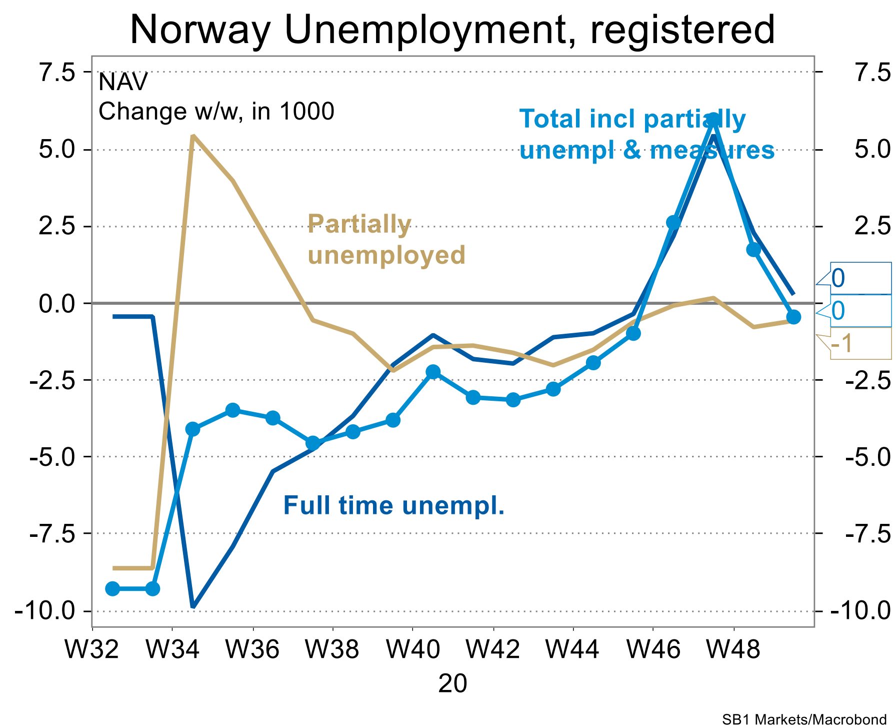




NAV unemployment sharply up in first half of November, corona hits again

Unemployment up by 9’ during the first two weeks, probably more to come

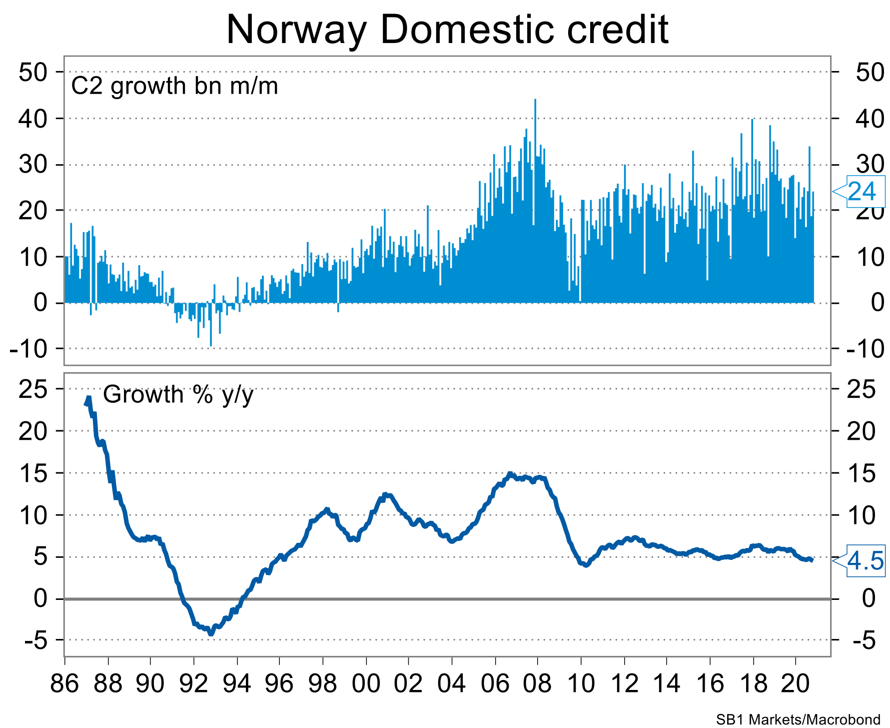


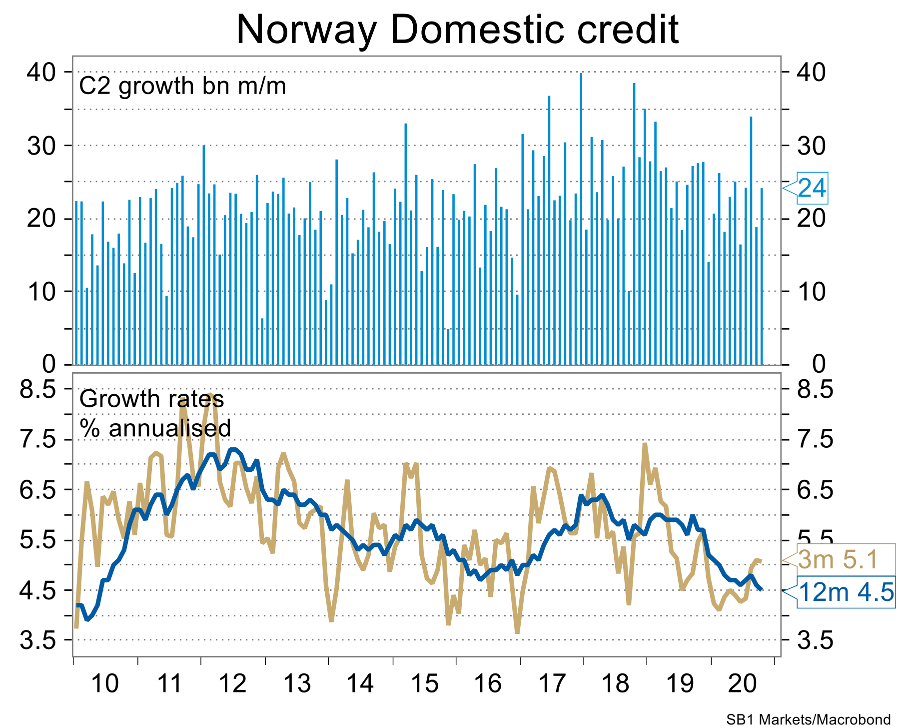


- Total unemployment (including partially unemployed and labour market measures) has declined steadily since April, even at a weekly basis
- The tide has turned, at least unemployment rose slightly in early November, very likely due to the new corona outbreak, and the measures taken to contain it. More will come the next weeks

Credit growth inching down,

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

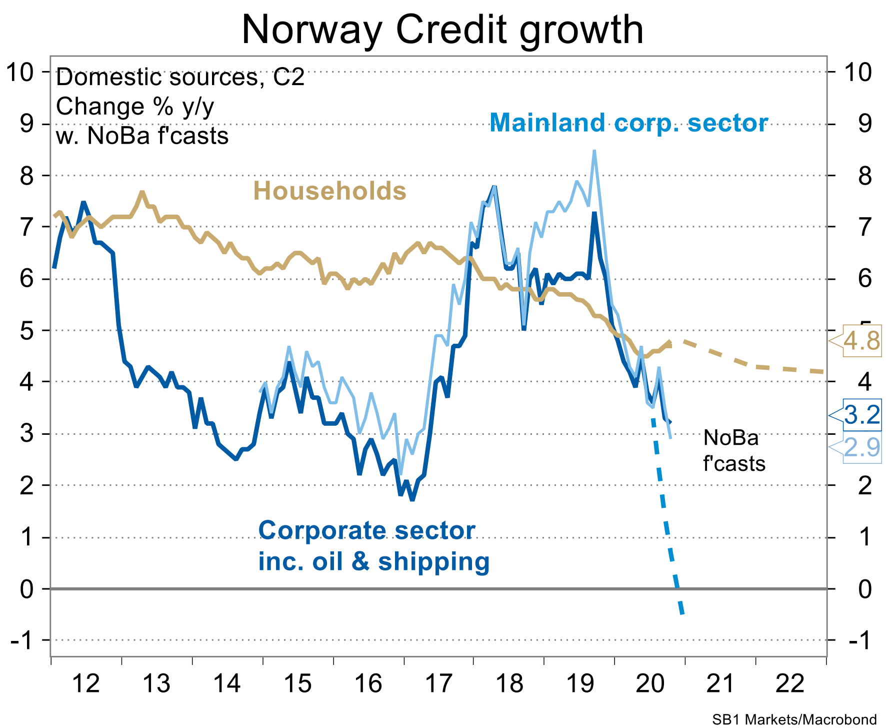


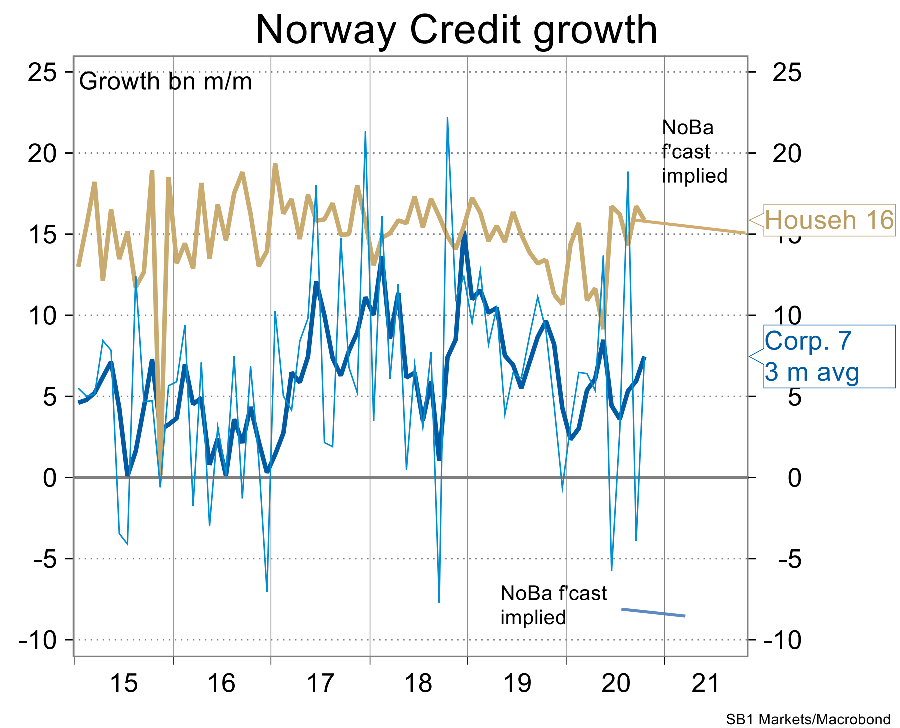


- **Total domestic debt** (C2) rose by NOK 24 bn in October, and the annual growth rate fell slightly to 4.5%, both as we expected. Growth has been heading down since late 2019 (and from early 2018) but has almost stabilised recent months (measured underlying 3m/3m)
- **Household credit** rose by NOK 16 bn in Oct, and the annual rate rose to 4.8% - both as we expected. The annual growth rate has climbed slowly since the summer. Underlying income growth is at approx 4.5%. Thus, there are no evidence of a 'crazy' household credit boom, even if house prices and the transaction level both have increased substantially since May. ***Thus: Household credit growth is not an argument for Norges Bank to change tack***
- **Corporate C2 credit**, which is very volatile, rose by 7 bn and 3.2% y/y, above our 2.8% forecast. Mainland corporates increased their debt by 2.9% vs Norges Bank's 0.7% forecast. This forecast was extremely dovish, as it implied a 5% pace of <u>decline</u> during the autumn
- **Local governments** borrowed less than we assumed in Oct (1 bn), and the annual rate fell to 7.8%, ***still far above their income growth***

No take off in household credit – but growth has accelerated

So far not more than NoBa assumed. Corporate credit growth is slowing – but less than NB assumed

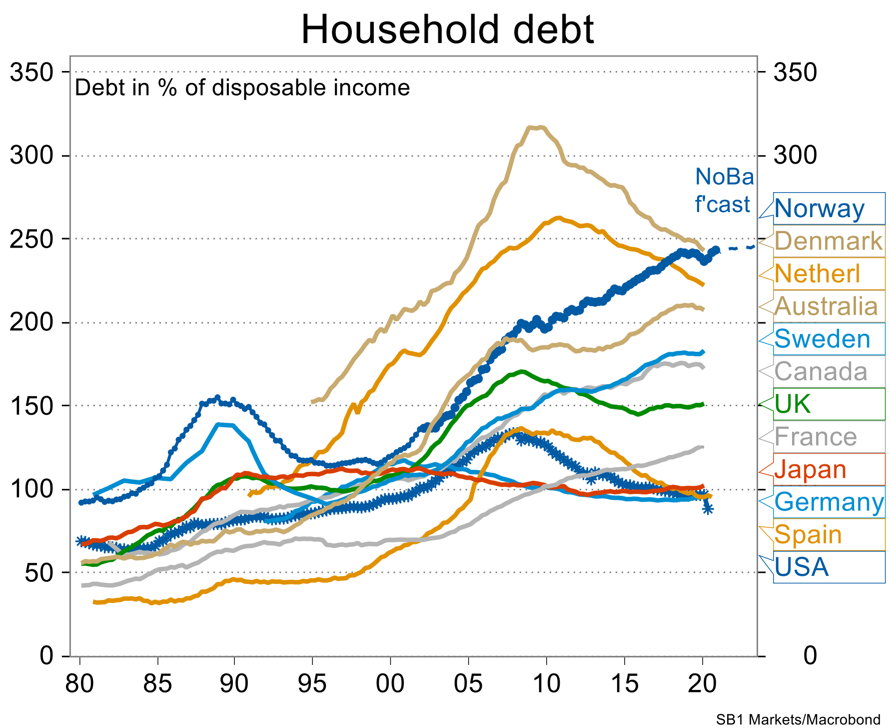


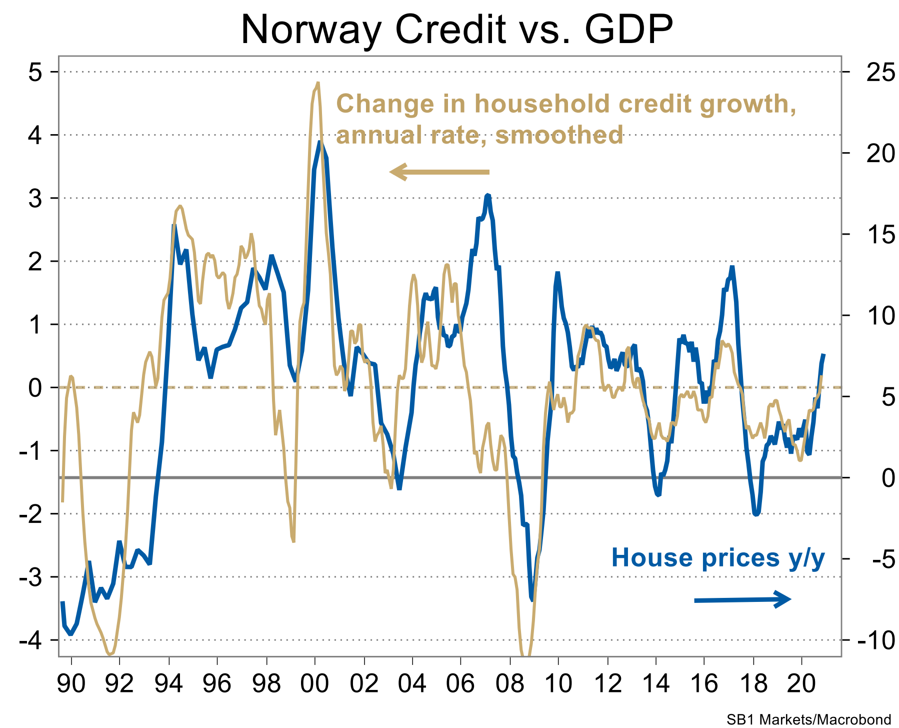


- Following a mild slowdown during the corona spring, **household credit** growth har returned to a 'normal' level past 5 months, at a 5% growth pace, pulling the annual growth rate <u>slowly</u> upwards. Consumer credit is declining at some NOK 1 - 1.5 bn/month over the past year, which has reduced the annual total credit growth by 0.5 pp
- While the annual rate in **corporate credit** has fallen sharply since late 2019, actual m/m growth has stabilised through 2020 at 3.5% pace. If anything, the underlying growth rate is <u>increasing</u>
  - » Norges Bank's 0.7% y/y October Mainland corporate debt growth forecast has turned out to far to dovish vs the 2.9% outcome

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

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

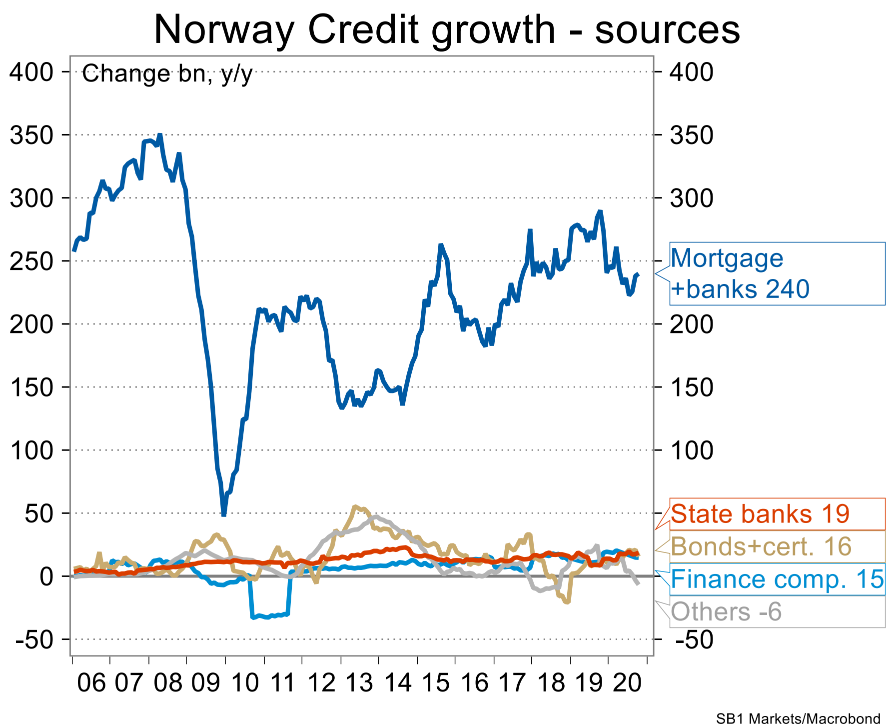


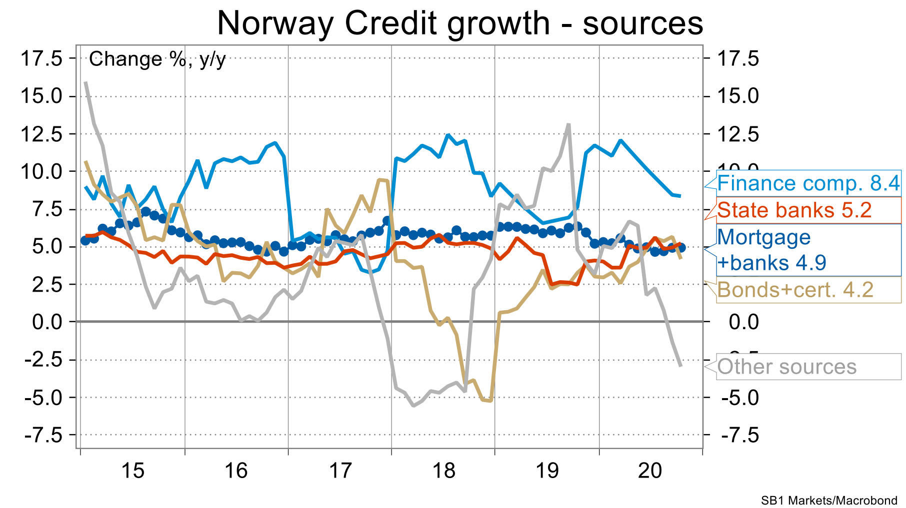


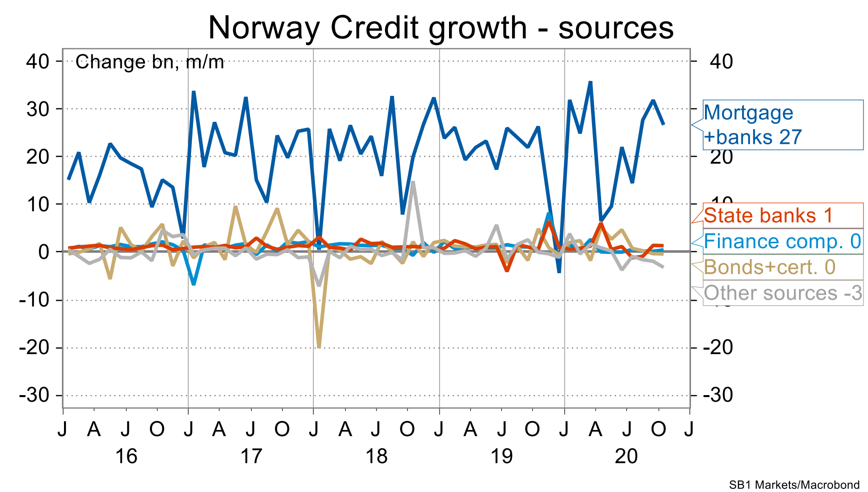
- Norwegians households' debt has been growing slower than household disposable income since late 2018, for the first time in 30 years (barring some minor turbulence in 2008/09). A small decline in household income lifted the debt ratio in Q3
- A slow retreat will be healthy in the long run, and if it is gradual it will not be too painful - even not for the housing market
  - » *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market. Now, however, the interest rate cuts may have boosted credit appetite more than the economic setback has restrained it
  - » Now, credit growth is not declining anymore – and the correlation to house prices is still to be seen, check the chart to the right

Bank lending has been slowing but is strengthening now

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



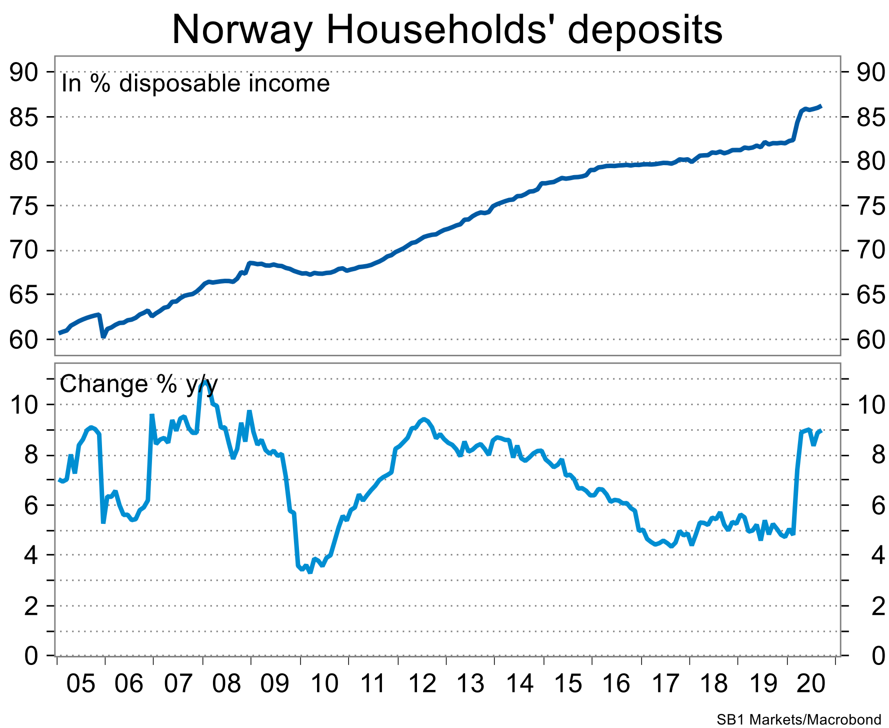


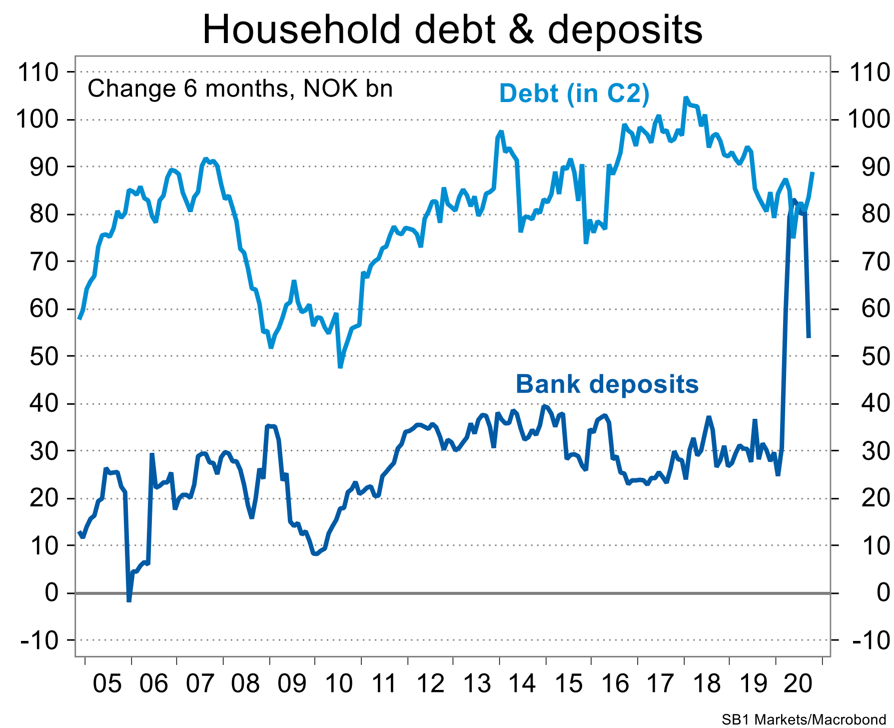


- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted changes in 'sum of the parts' credit supply does not exactly equal changes in the total C2s

Household debt is growing faster than deposits again, as usual

Household deposits jumped by an extra NOK 50 bn (4% of annual disp. income) to May from Feb



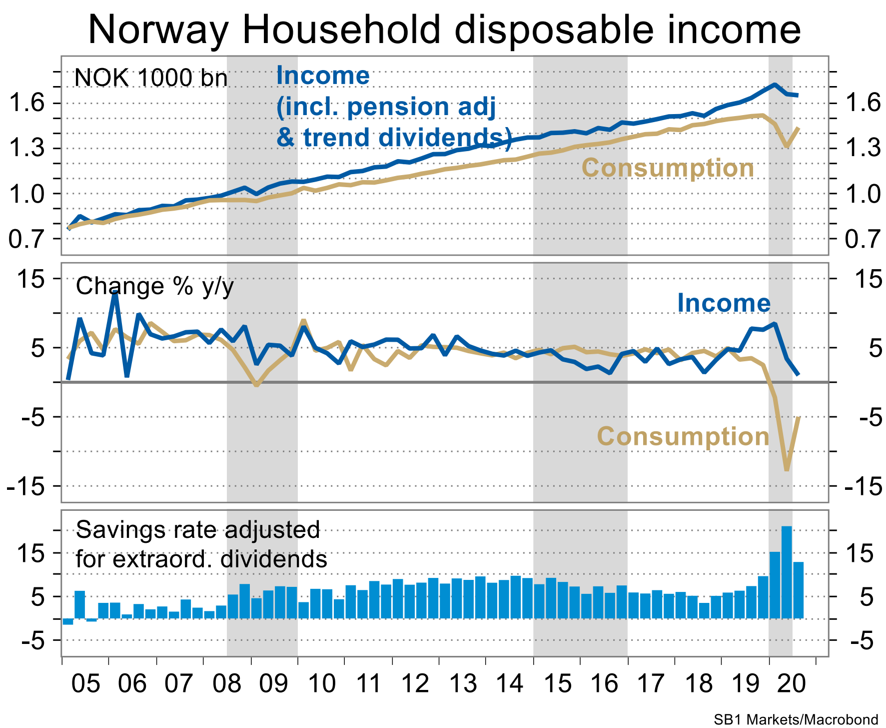


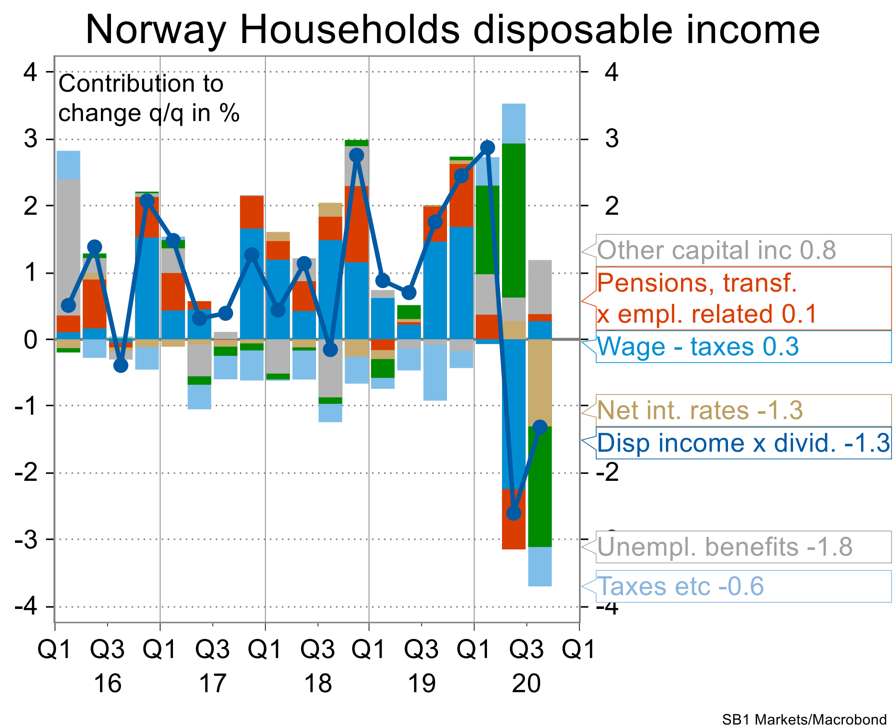
- For the first time 'ever' household deposits rose at the same rate as household debt, measured in NOK – for some few months
- Growth in deposits have slowed since May, as consumption has gradually recovered – and growth in debt is gained traction and household debt is once again growing faster than their bank deposits. Other asses
  - » Still, households have saved a 'small wall of money' of which what we assumed

SpareBank 1 MARKETS

Disposable income down 1.7% to Q3 from Q4-19, consumption down 5.3%

The savings rate fell to 13% in Q3 from 21% in Q2 – but it is still up from 10% in Q4 (a high level)



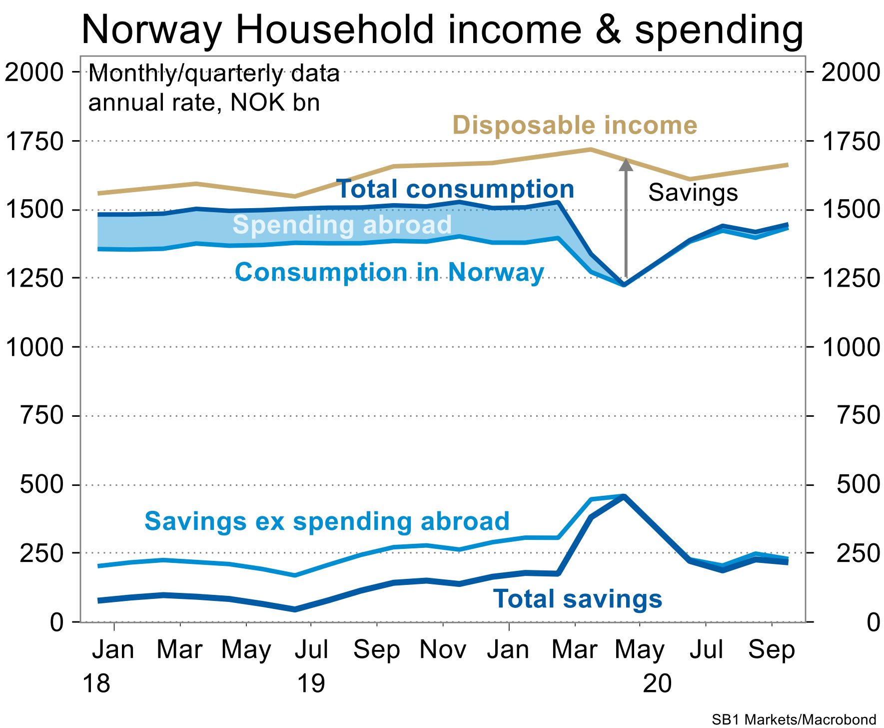


- In Q3, consumption rose almost 10% while income declined by 0.5% - and the savings rate fell sharply
- In Norway, government transfers have not fully compensated the loss of wage income during the Covid crisis
  - » In the US, on the contrary, income rose 10% (not annualised!! as households have been overcompensated by unemployment benefits and other government transfers
- The decline in net interest income in Q3 (and the small increase in Q2) seems unreasonable, given the huge decline in mortgage rates. If we are right, disposable income have decline less than so far estimated

All data here are in nominal terms. Disposable income is adjusted for extraordinary dividends

Savings up, but…

Norwegians are saving a small part of what they are not spending abroad these days



- Household incomes have fallen somewhat (check the previous page)
- In September, Norwegian's spending at home was above the level in February
- Norwegian households' spending abroad has fallen sharply, equalling 8% of disposable income
- The savings rate is up 'just' 4% vs the pre corona level, which was quite high (for a better picture, check the prev. page)
- When (not if ☺) the economy normalises after corona, households' income will recover, spending abroad will increase sharply. Spending at home be shifted to services from goods, and in sum probably not rise by much

Highlights

The world around us

The Norwegian economy

Market charts & comments

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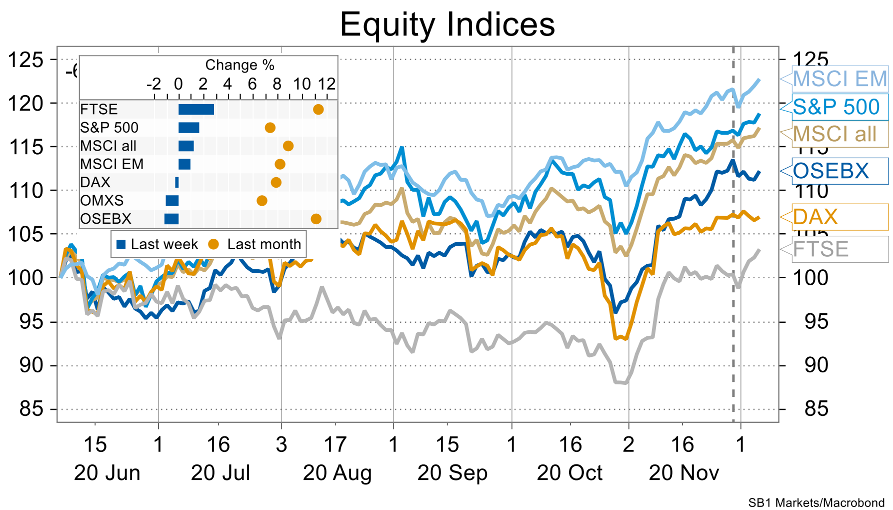
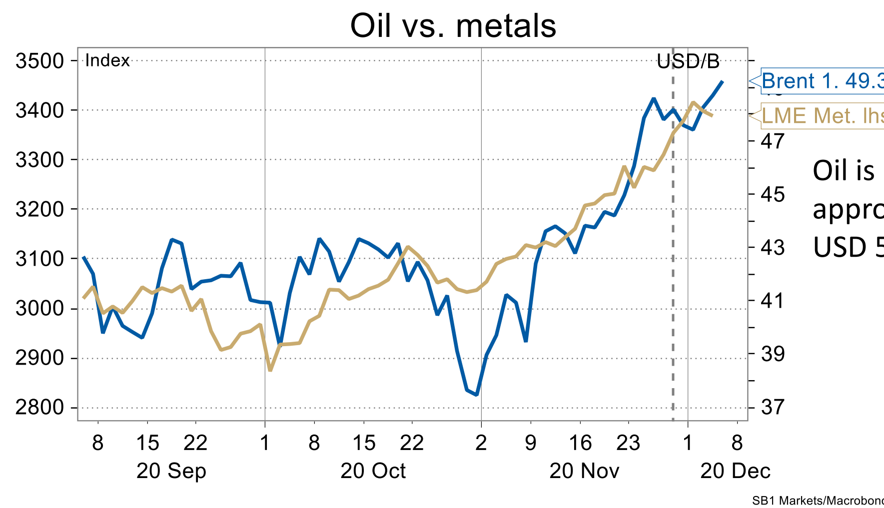
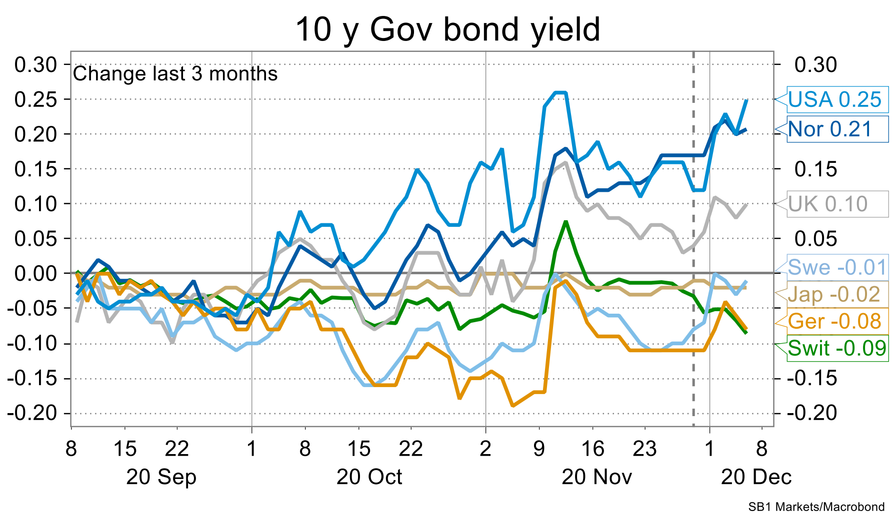
Risk on: Equities, yields, oil, metals up but oil – on growth expectations

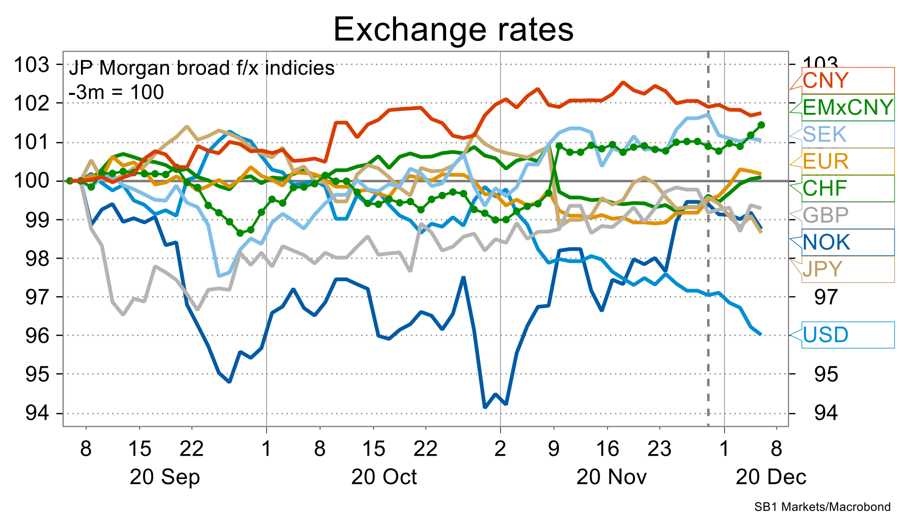
The vaccine is underway, and a 2nd US fiscal stimulus bill may be decided too





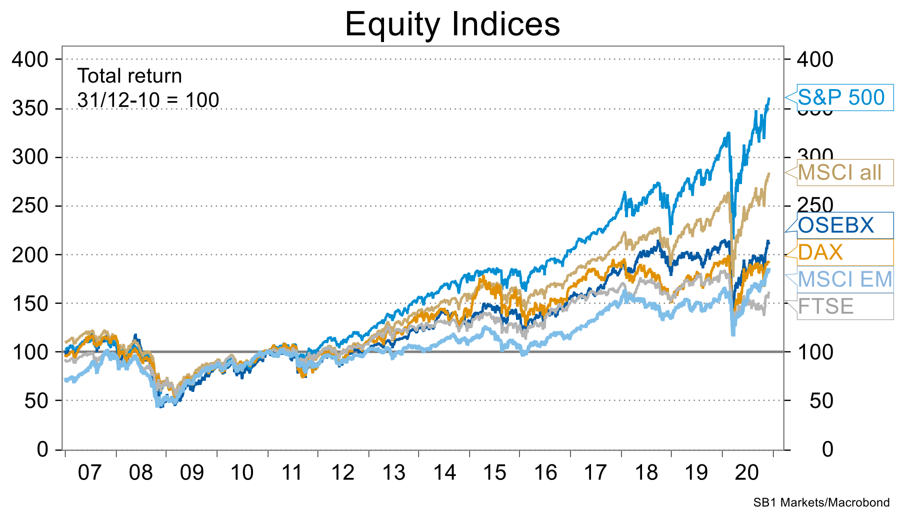
Oil is approaching USD 50/b

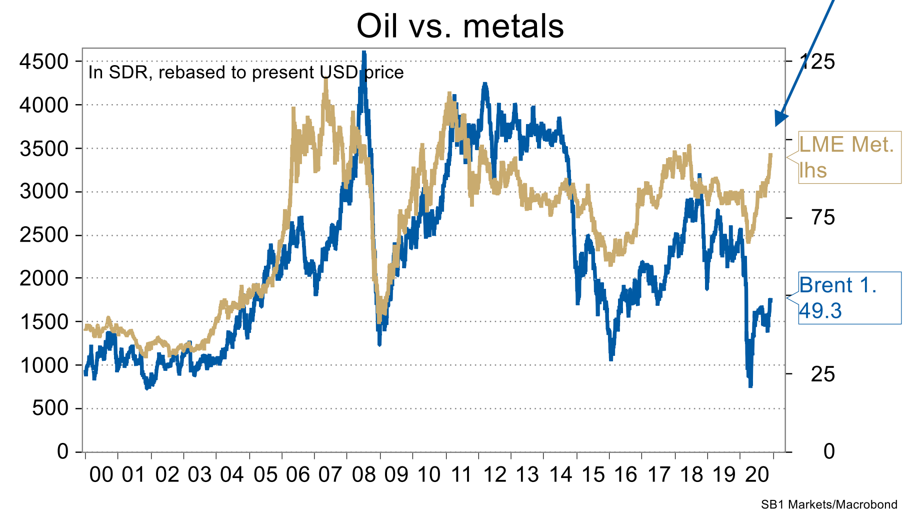


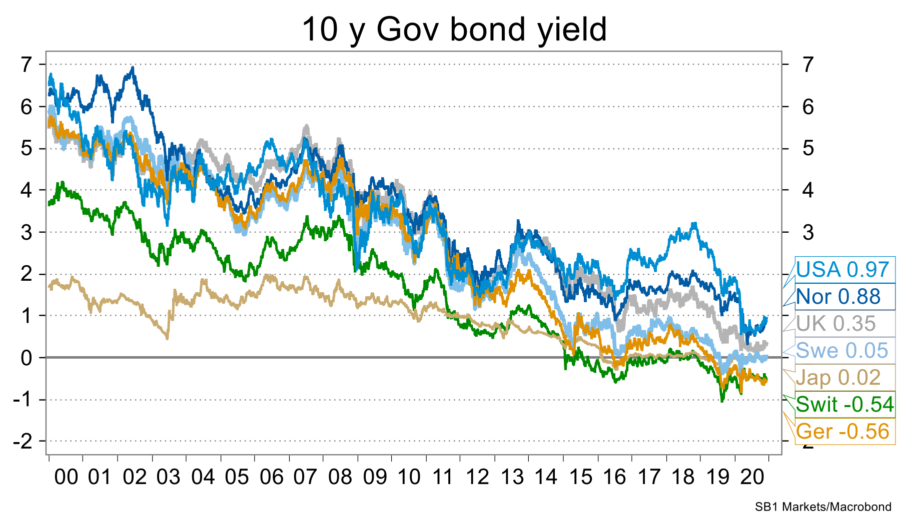


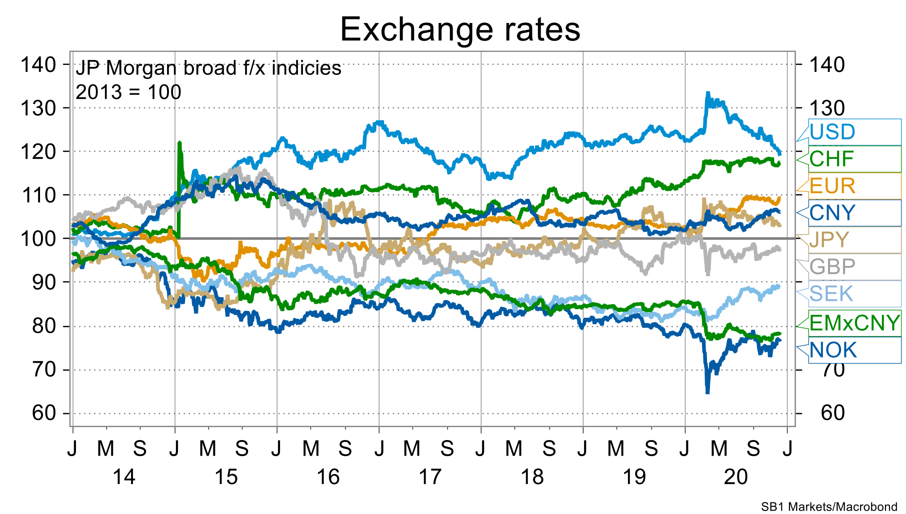
Growth optimism everywhere. Metal price close to the highest since ‘11

The Virus created a ‘V’ in the economy and now the Vaccines is around the corner.



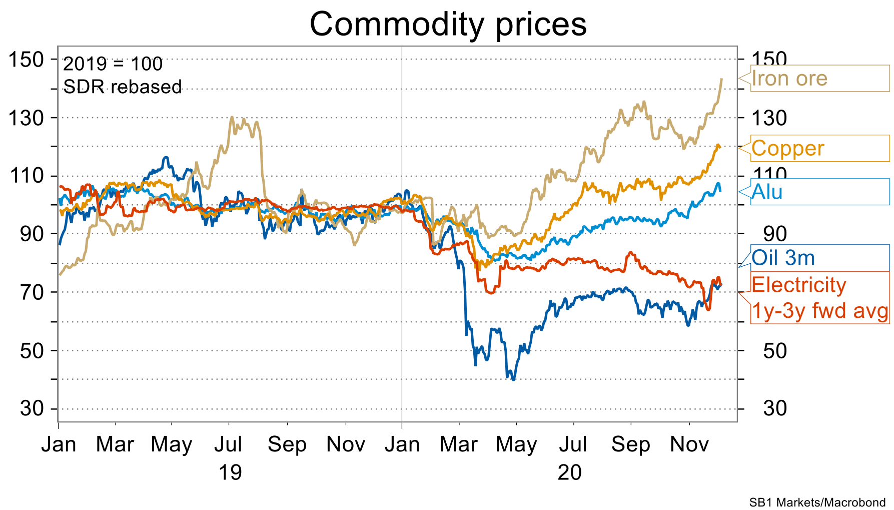


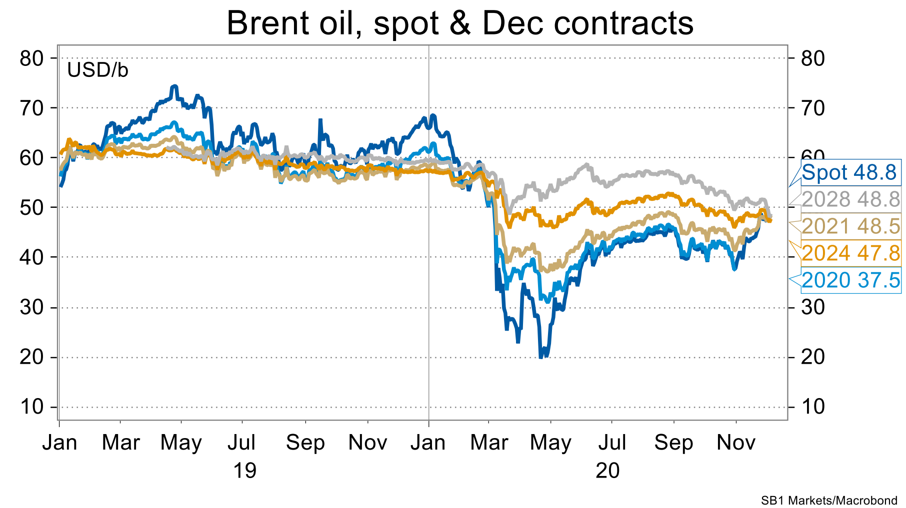


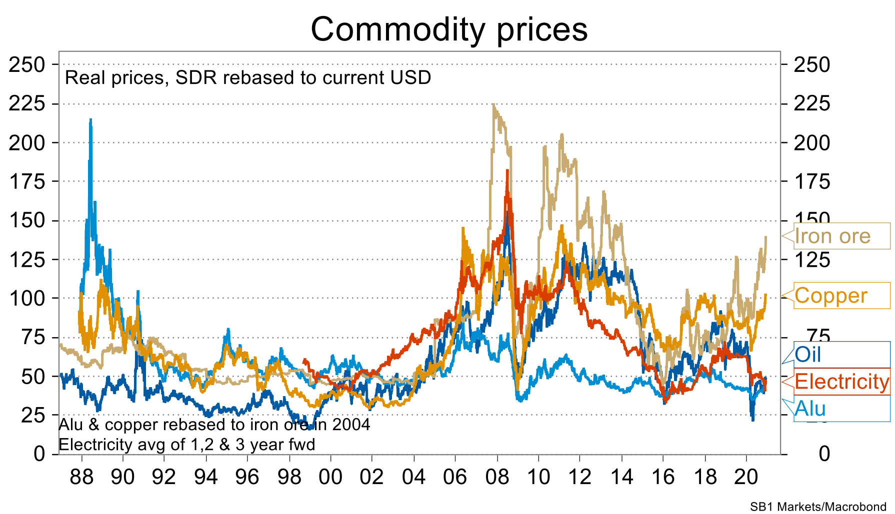


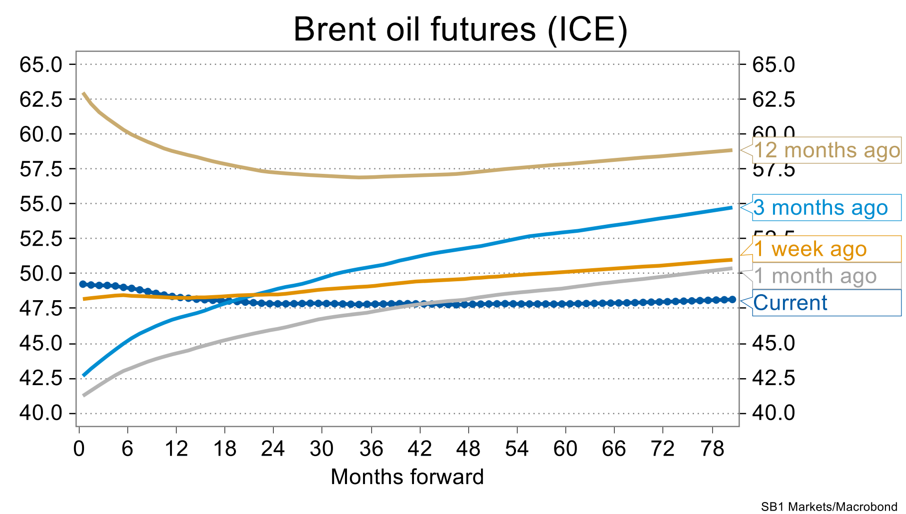
The USD is down but not dramatically – and it is still quite strong (though the weakest since mid 2018 (measured by broad f/x indices). NOK still a loser

A broad recovery in raw materials – but longer dated oil contracts are down









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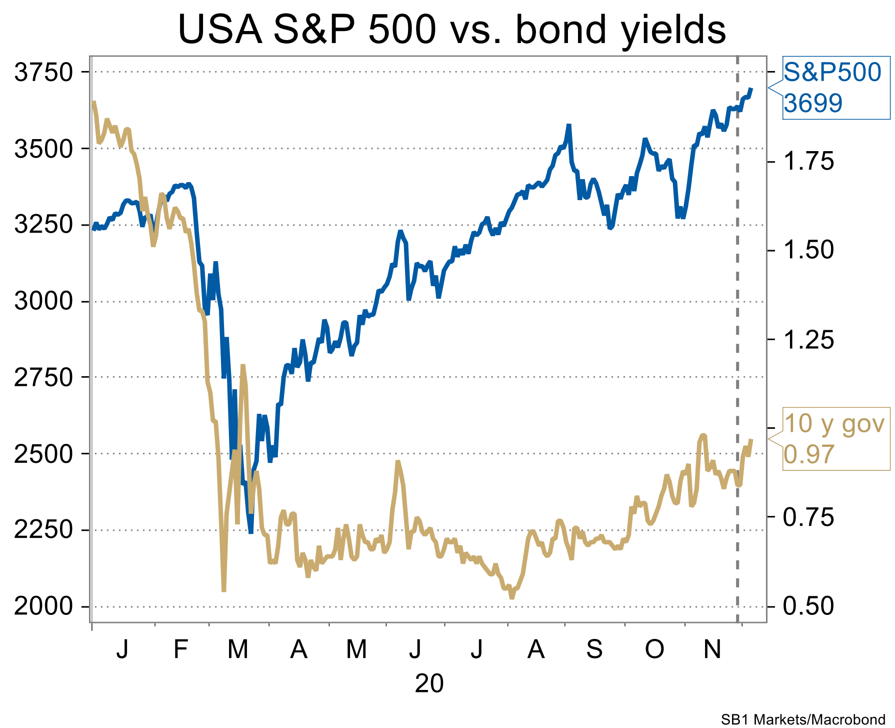
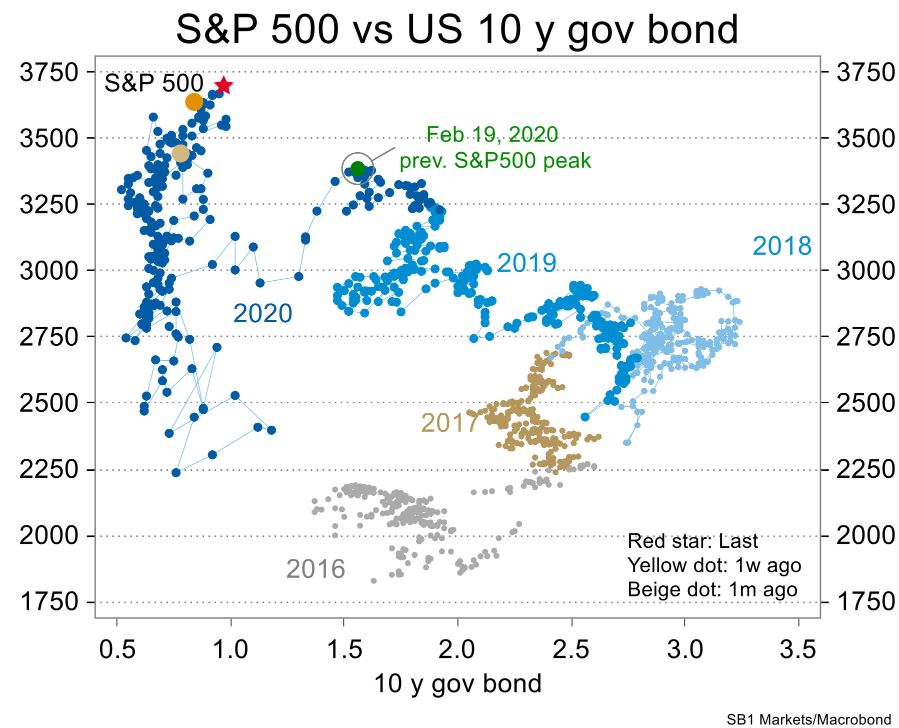
S&P 500 +1.7% to another ATH, the 10y bond yield +13 bp to 0.97% last week!

Market is growing more confident that vaccines will normalise the economy

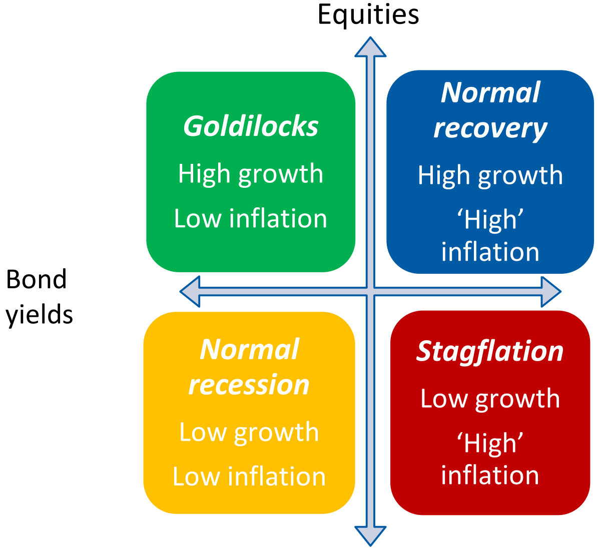


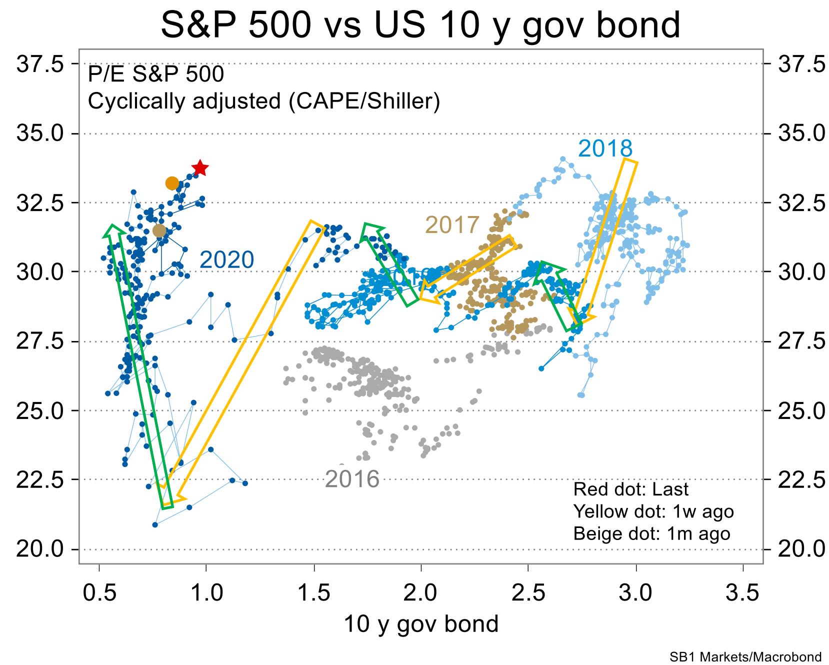


- Grounds for hope - Vaccines are coming (even if AstraZ may have made some dubious shortcuts), the US will very likely have a peaceful transition to a new president, most economic data are strong. So no need to worry…

From the ‘Goldilocks corner’, where to go?

Over the past month/week: Towards recovery – equities/yields up

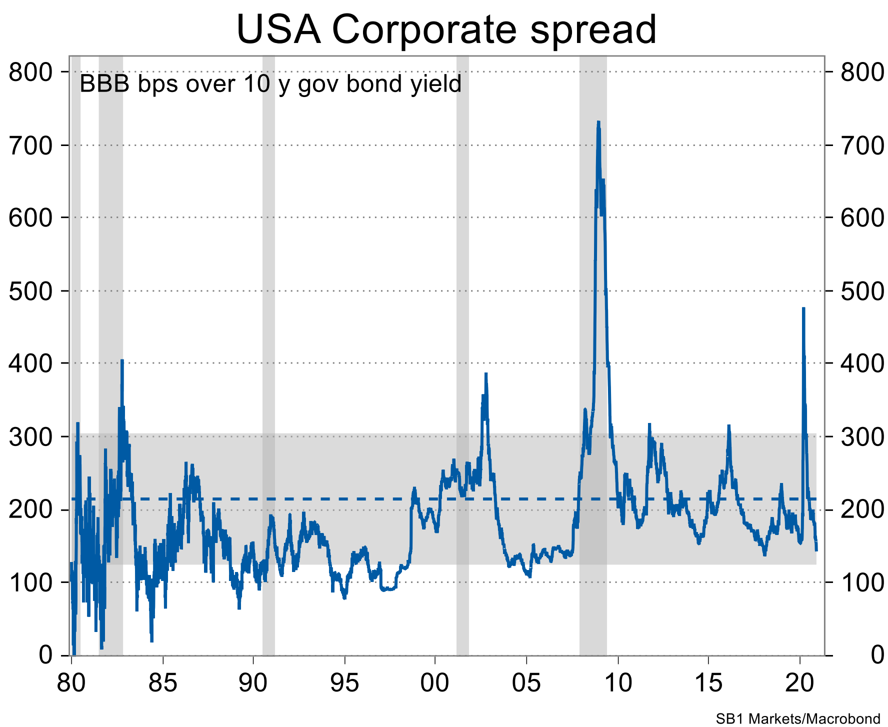


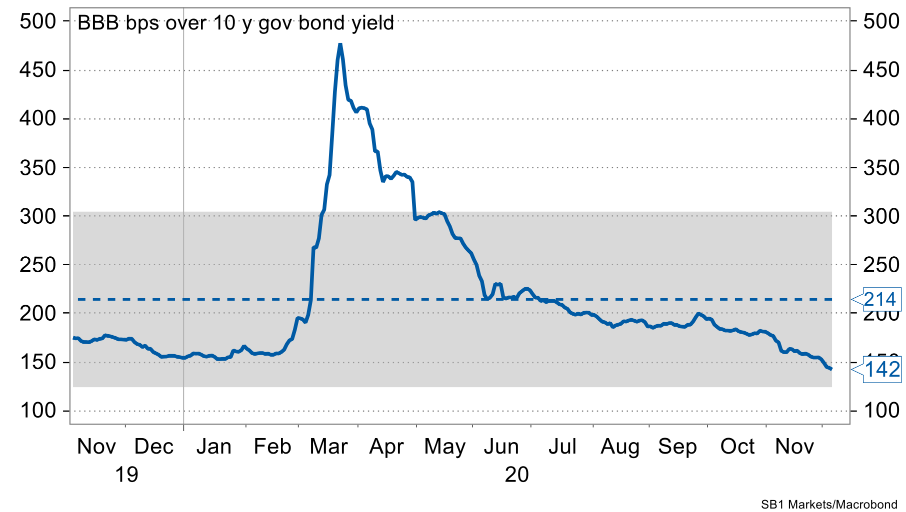


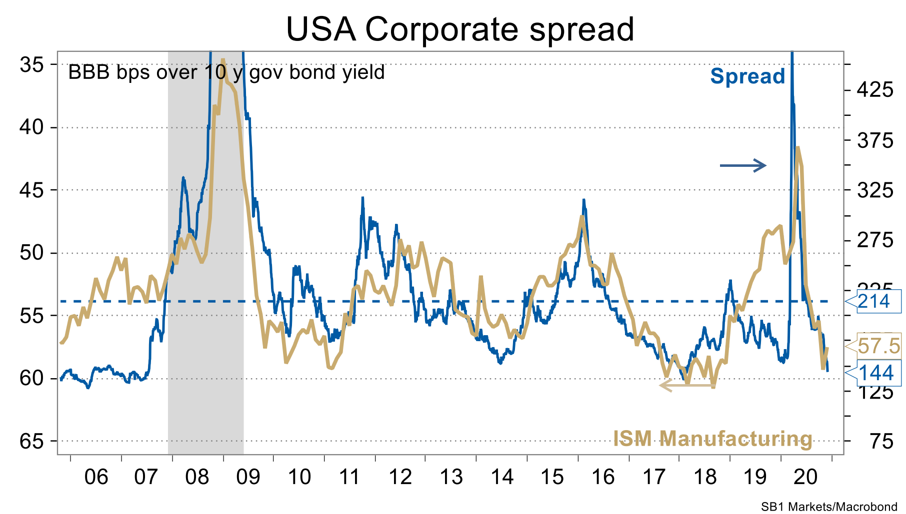
- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and is expected to exceed 2% for 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 here, 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. Still, the corona hit is most likely behind us, and vaccines are soon here
  - » 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 growth was not low vs. CPI inflation or productivity. Profits were under pressure, and investments on the way down. Interest rates had not been too low, even if that is the popular view these days

Credit spreads are sliding further down, to below pre-corona levels

… even if Fed's credit backstop is being removed by the Treasury



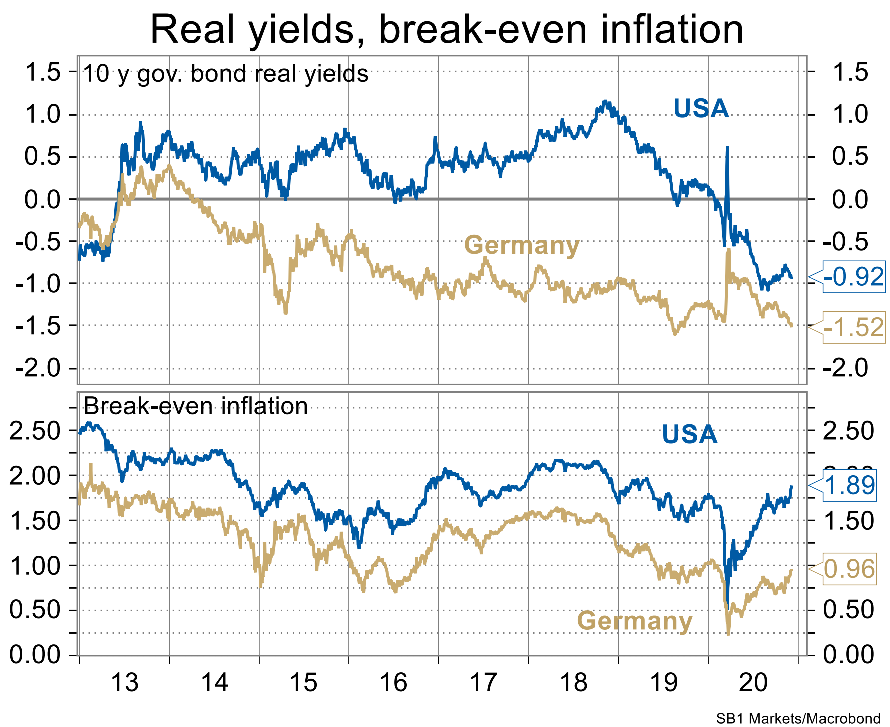


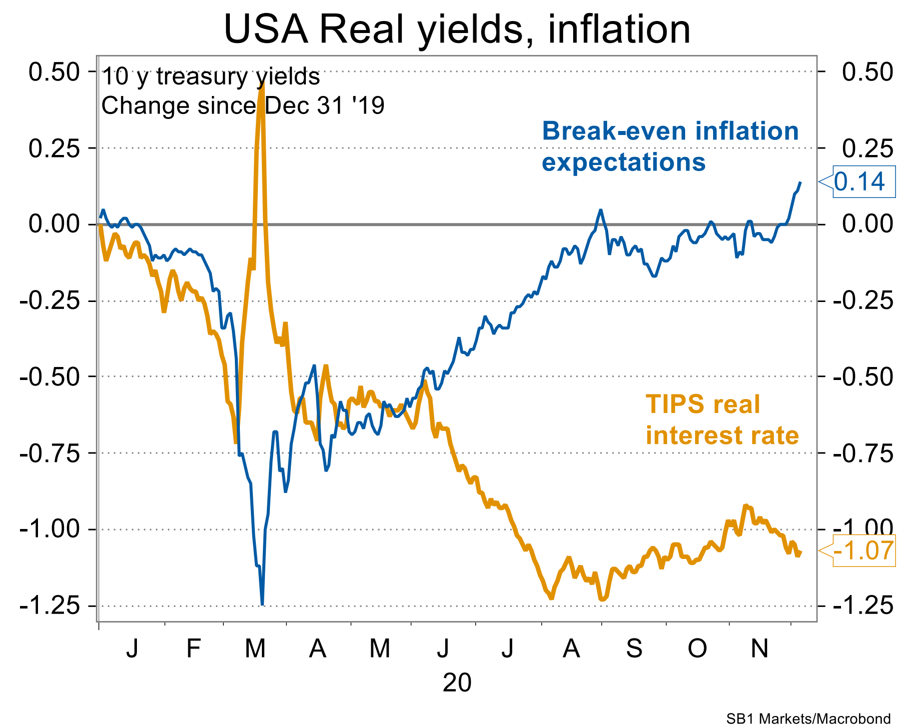


- These programs have hardly been utilised, but could still be looked upon as a lender of last resort, a bazooka that could be used, if needed. Two weeks ago, credit markets did not take notice when the Treasury announced that the programs would be terminated Dec 31, as planned when they were introduced. Will a Biden government try to get Congress to restore these programs? We doubt it – until 'a crisis' emerges. An now, no crisis is on the horizon

Inflation expectations are ‘surging’ – while real rates are retreating

… both in the US and in Europe

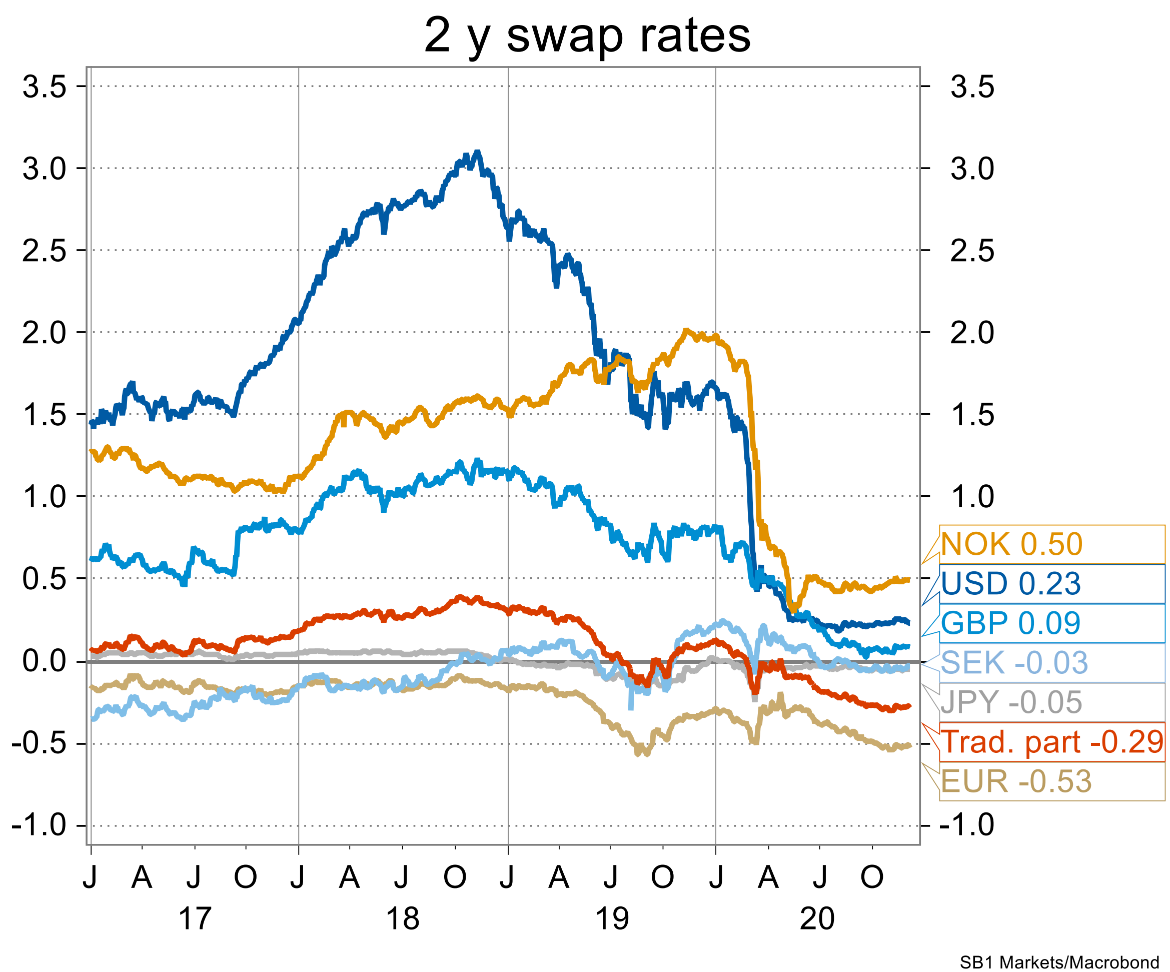


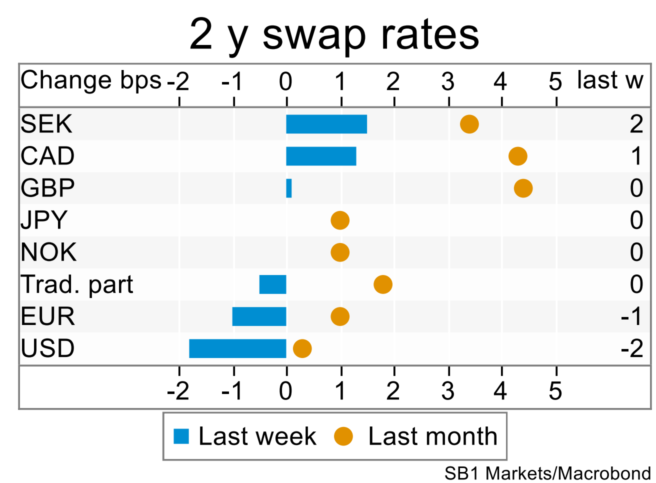


- US 10 y +13 bps
  - » Inflation expectations up to 14 bps 1.89%, higher than before corona
  - » The TIPS real rate down 1 bps to -0.92% - at it is 70 bps below the (low) pre-corona level
- Germany 10y +3 bps
  - » Inflation expectations up 8 bps to 0.96% last week
  - » Real rate fell further last week down 5 bps to -1.62%, close to ATL

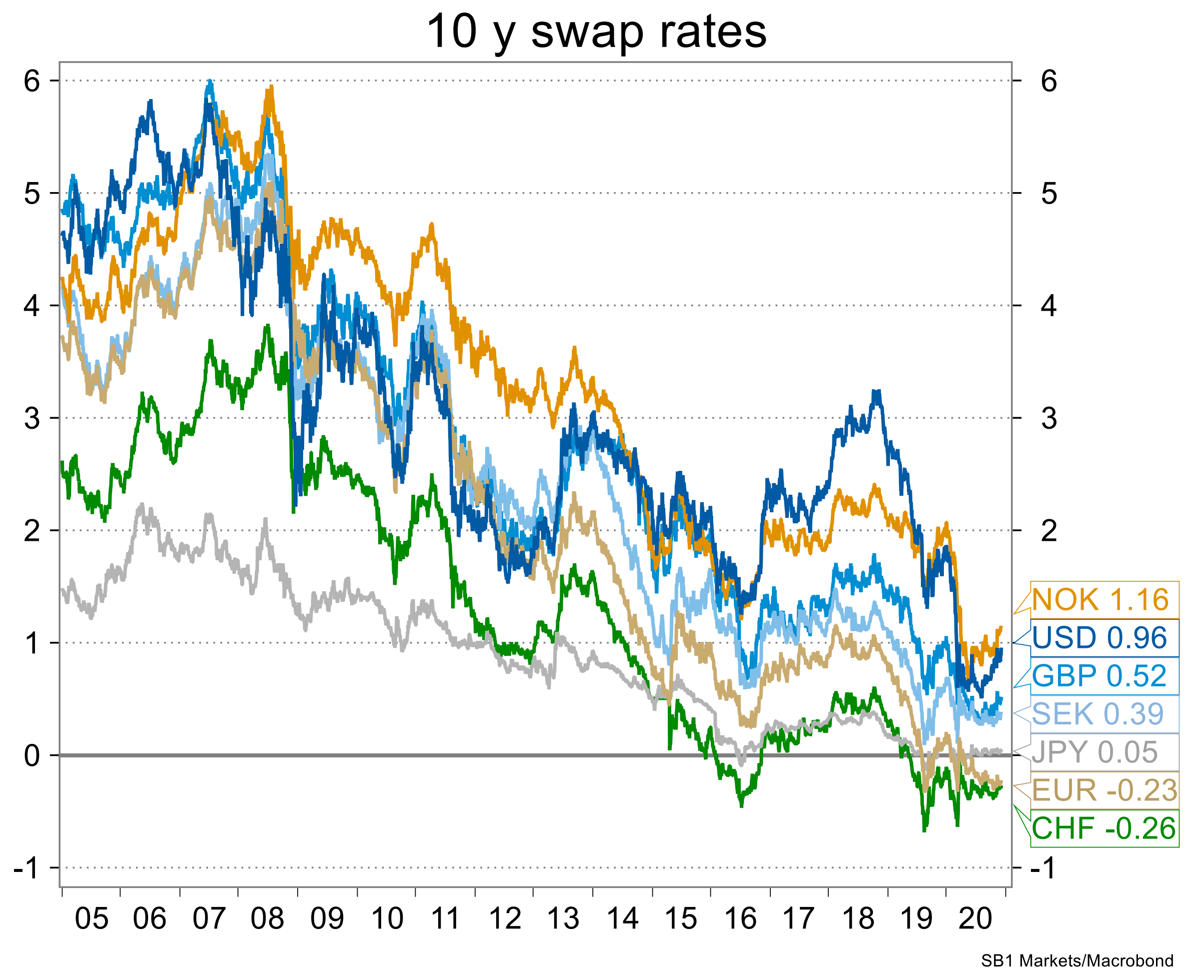
Mixed in the short end. NOK swaps are trending up, like some others

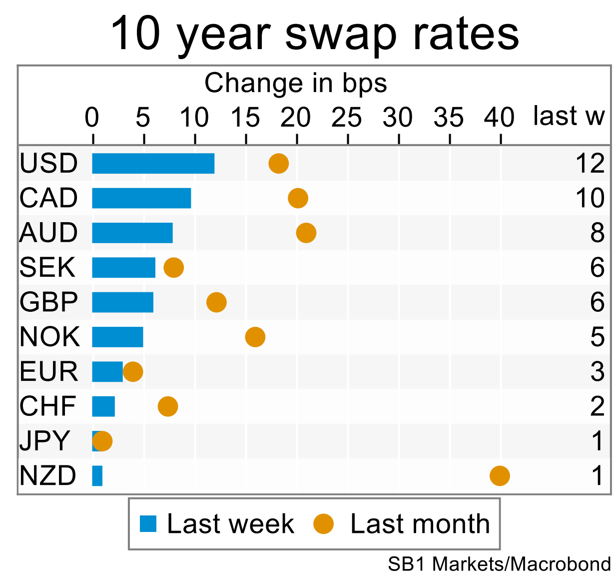
… and none are trending way down





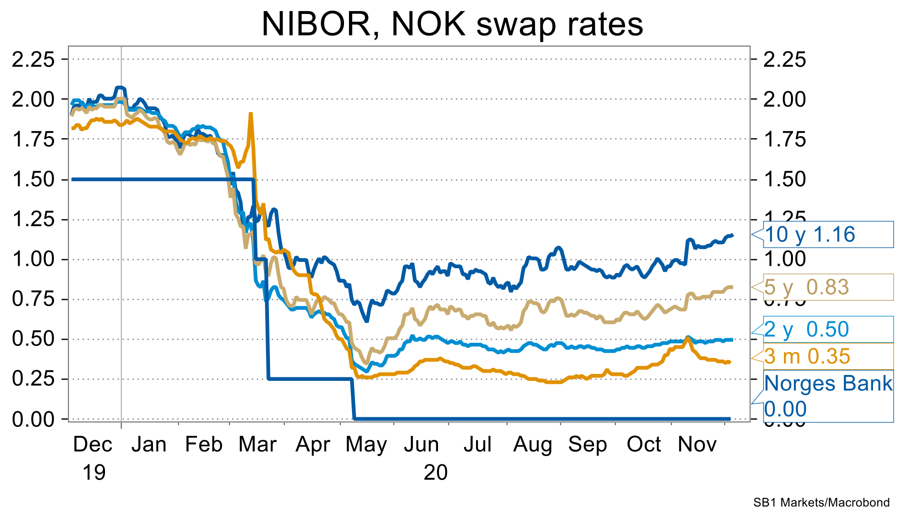
Long swap up everywhere last week

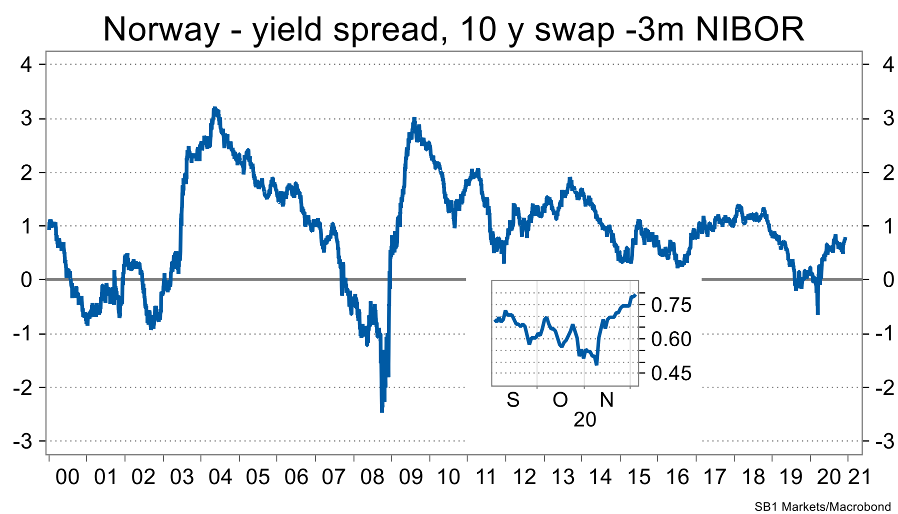


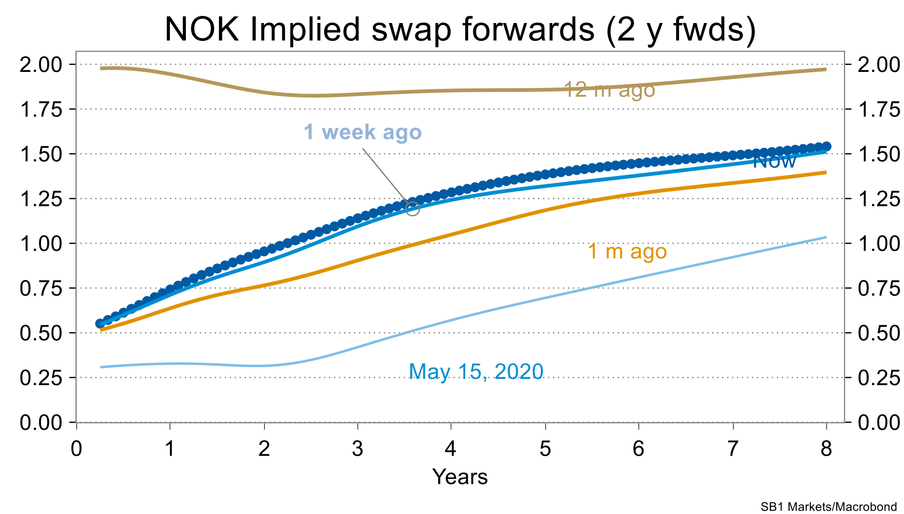


Another uptick last week, except in the very short end, the curve steepens

The 10 y swap rate has almost doubled vs the May trough – still at low level

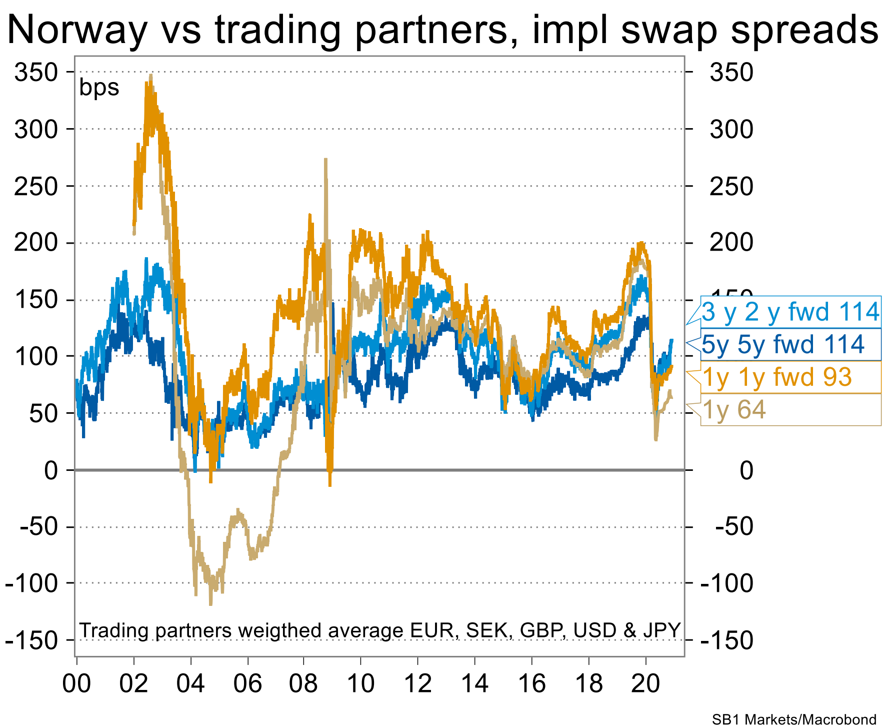


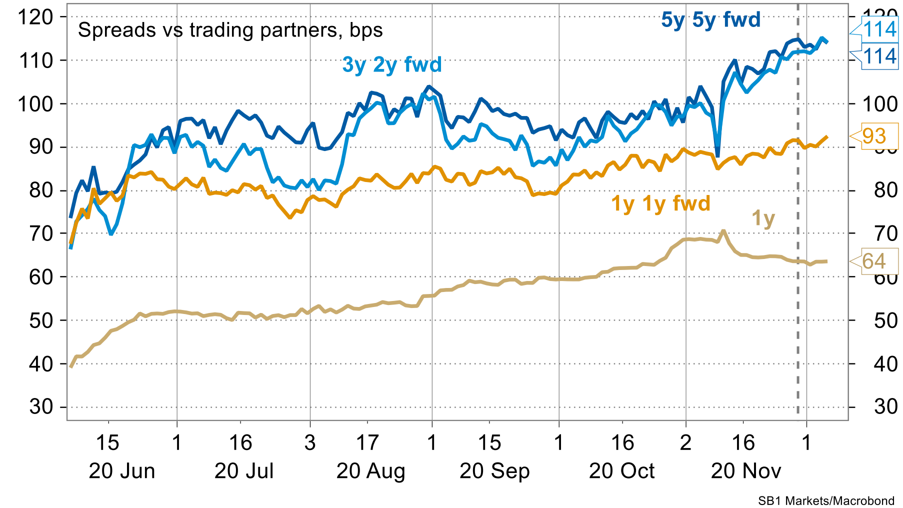


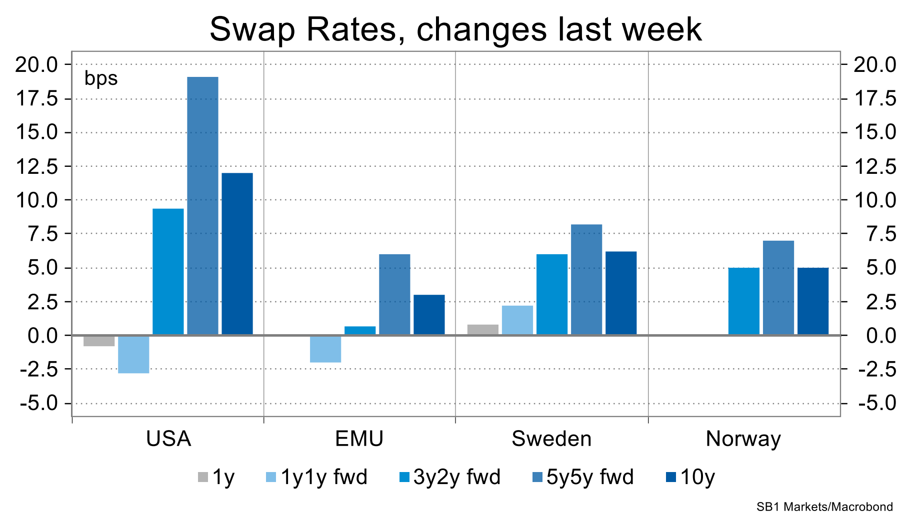


NOK swap rates up but (finally) less than abroad

Spreads have widened since the summer – but not further last week



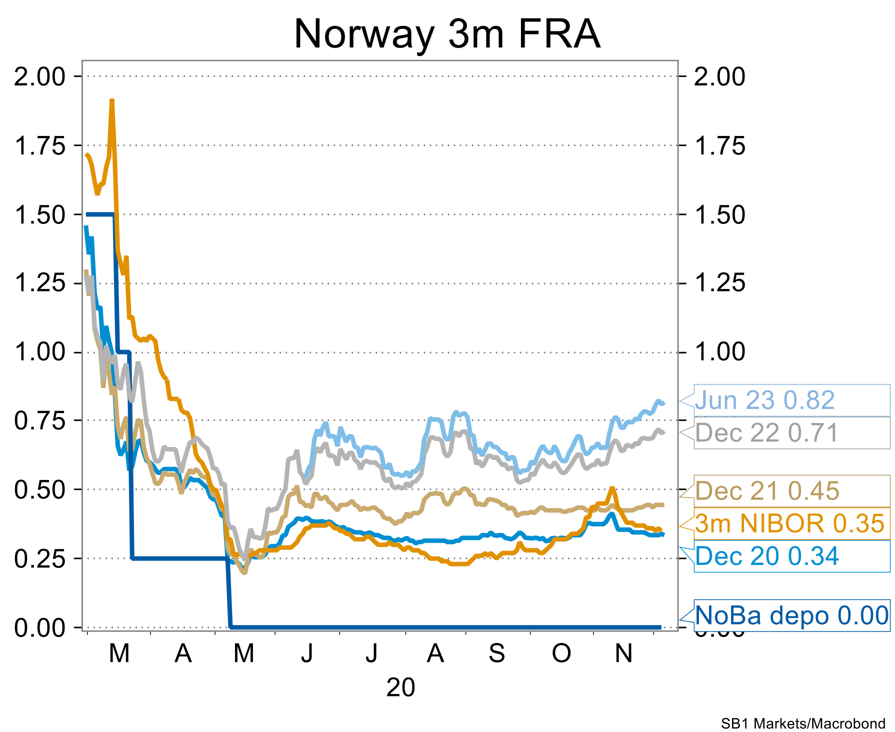




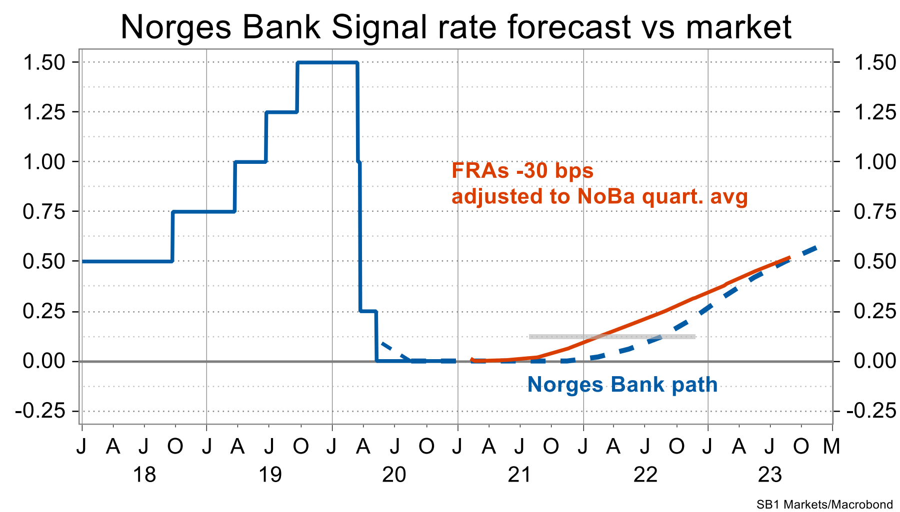
- We are still neutral vs. the spread

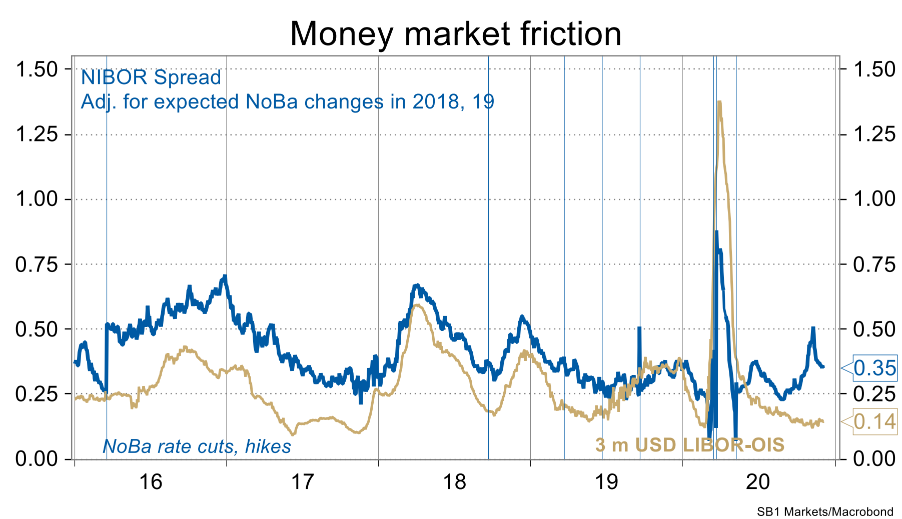
The FRA curve is steepening, is soon pricing in a late 2021 NoBa hike

Longer dated FRAs are up 25 bps since late September



- The sharp increase in the NIBOR-NoBa signal rate spread recent weeks have just been due to liquidity frictions in the short end of the NIBOR curve (see more next page)





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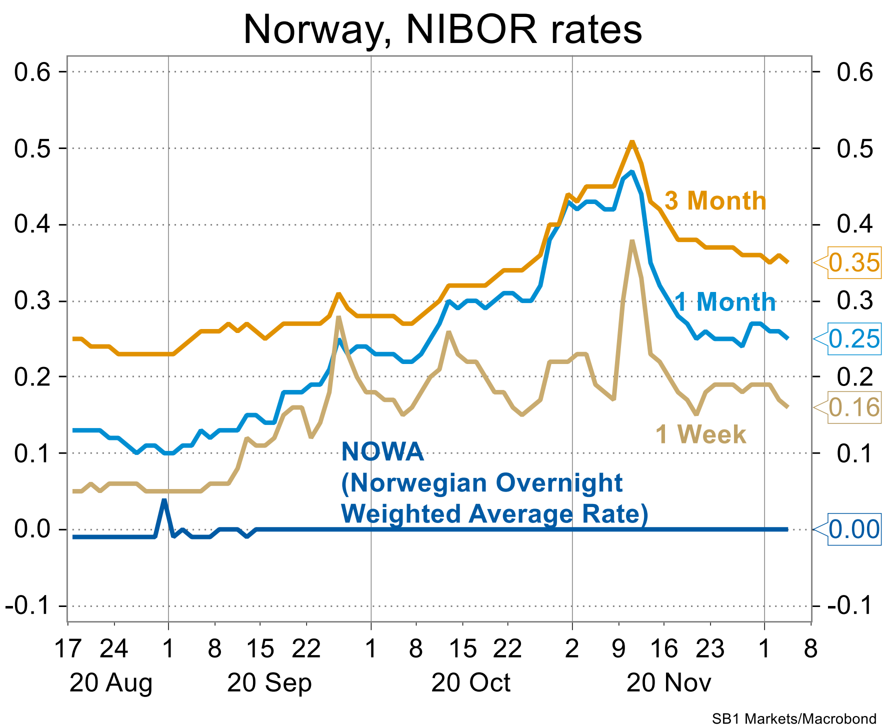
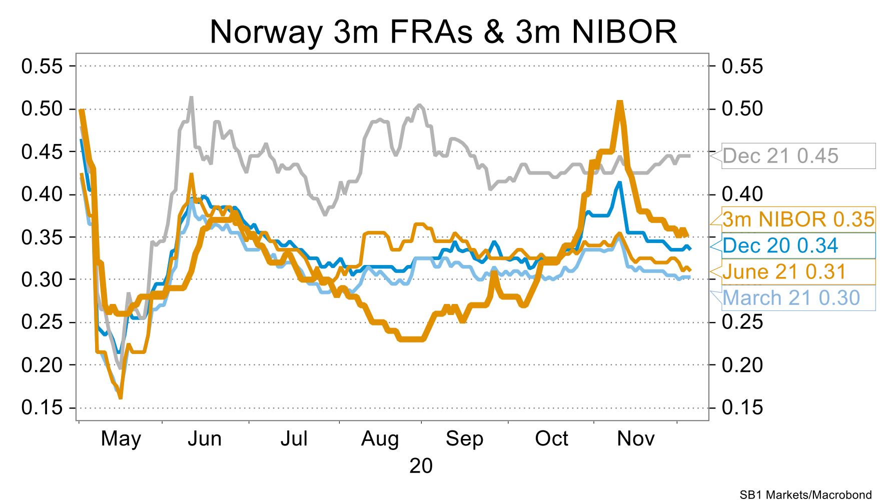
NOK short term rates on the way down, are not far above normal levels anymore

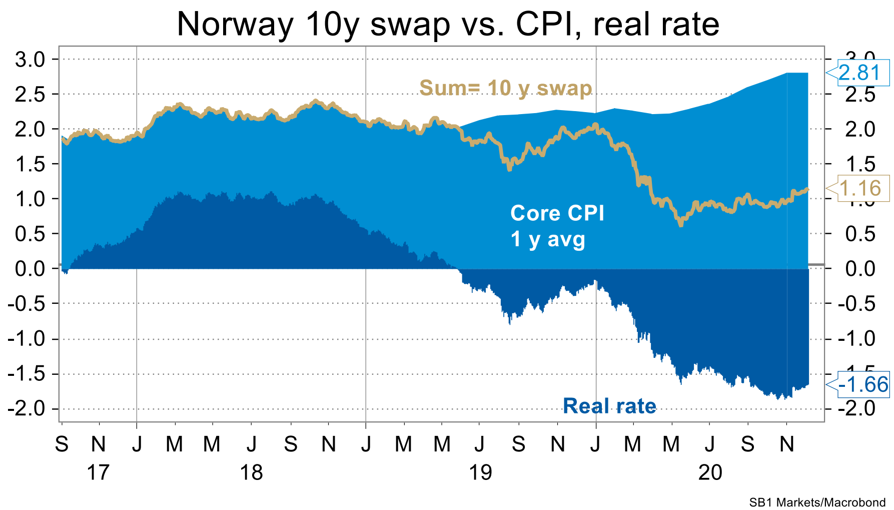
The 3 m NIBOR fell by just 1 bp last week, to 0.35%



- Bank liquidity was not well distributed Oct – early Nov, and short term lending rates between banks rose substantially – but following large uptake of 3 m F-loans, rates are normalising
- Last week, rates fell further – the 3m NIBOR by 1 bps to 0.35%. At the top, it was at 0.51%
- We expect – in line with the FRA market – rates to decline somewhat more. In the US, the LIBOR spread has fallen to close to record low levels (see the previous page)
  - » The nearest FRA rates rose somewhat as the short NIBOR rates surged, and have now fallen back to where they came from

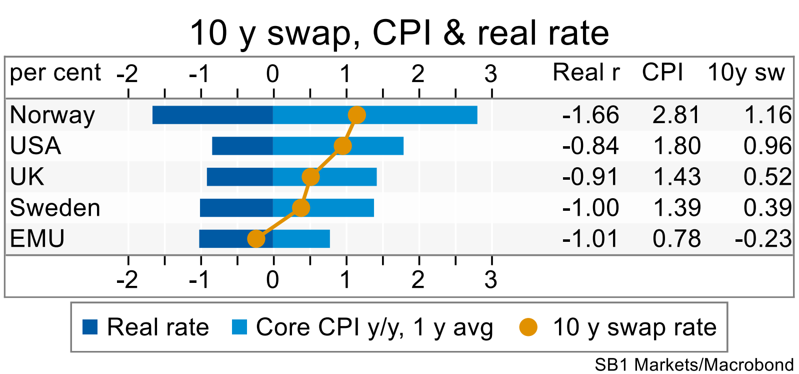


Negative (actual) real interest rates everywhere – NOK at the bottom



NOK 10 y swaps are drifting upwards

- The 10y NOK swap rate has climbed by almost 50 bps since the bottom in May, to 1.16%
- The real rate, after deducting average inflation over the 2 past years equals -1.66%



NOK real rates among the lowest, as inflation is at the top

- Inflation among Norway and our main trading partners varies between 0.8 pp to 2.8% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, Norway at the top, by far
  - » 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 -0.8% to -1.0% measured vs. the 10 y swap rate and inflation over the past two years
- Thus, the Norwegian real rate at -1.7% is an outlier, even if the nominal rate is the highest

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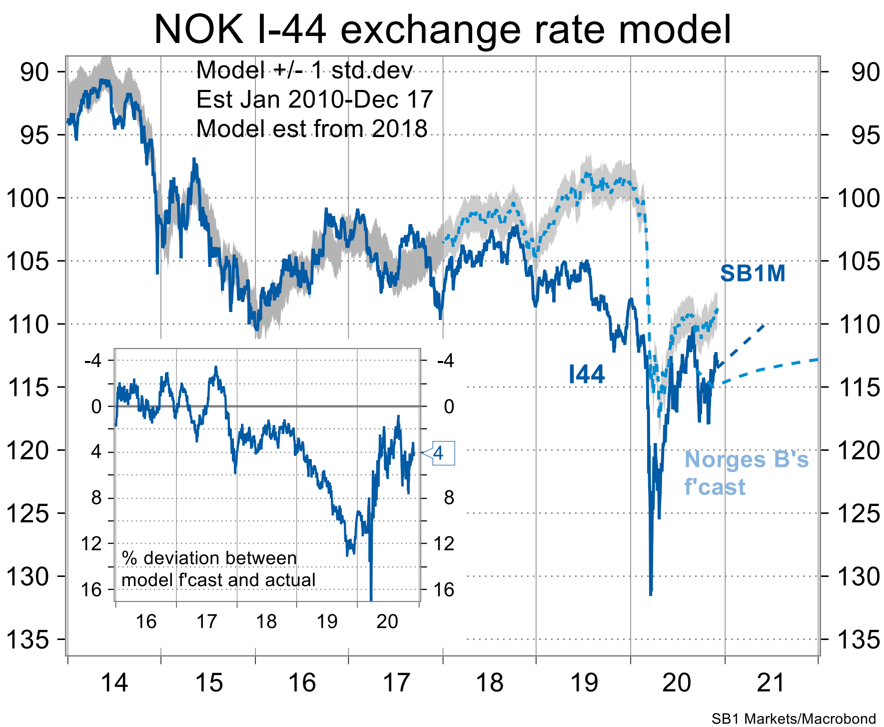
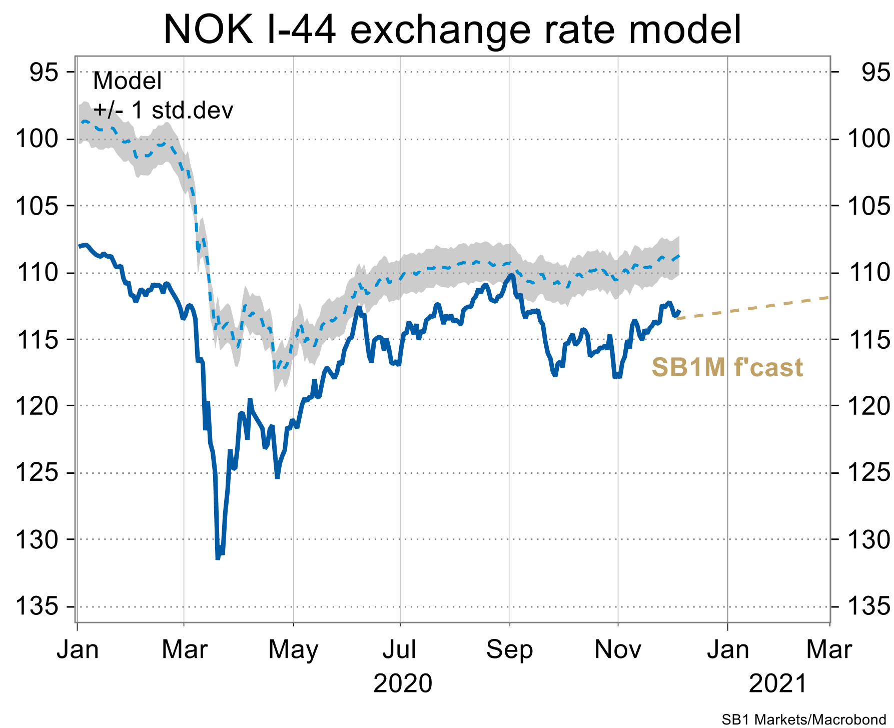
NOK I44 down 0.3% last week, our model said +0.2%, supported by the oil price

The NOK is 4% below the model forecast

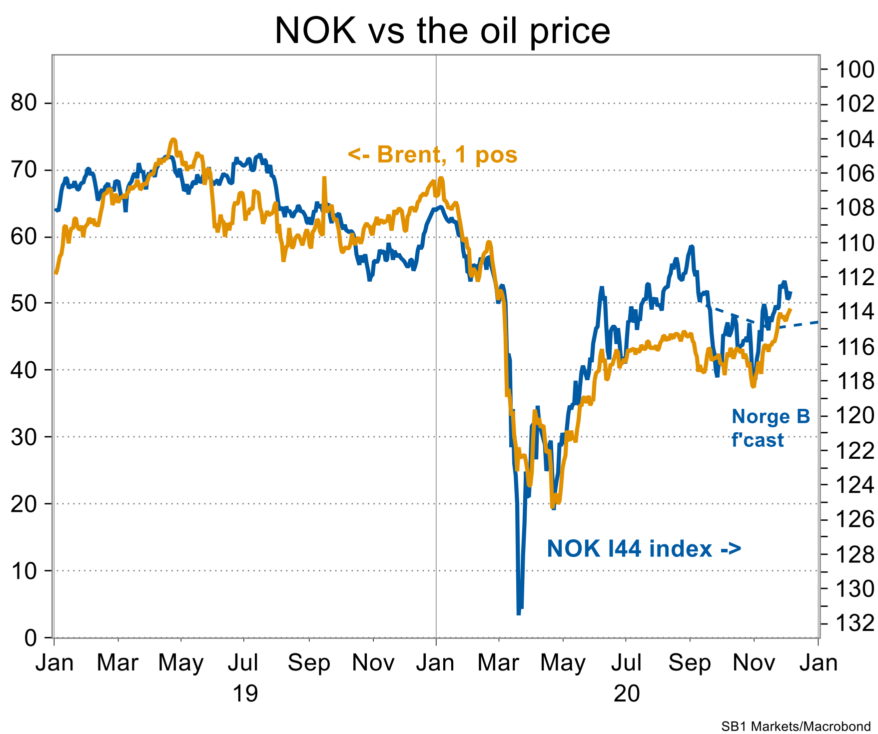


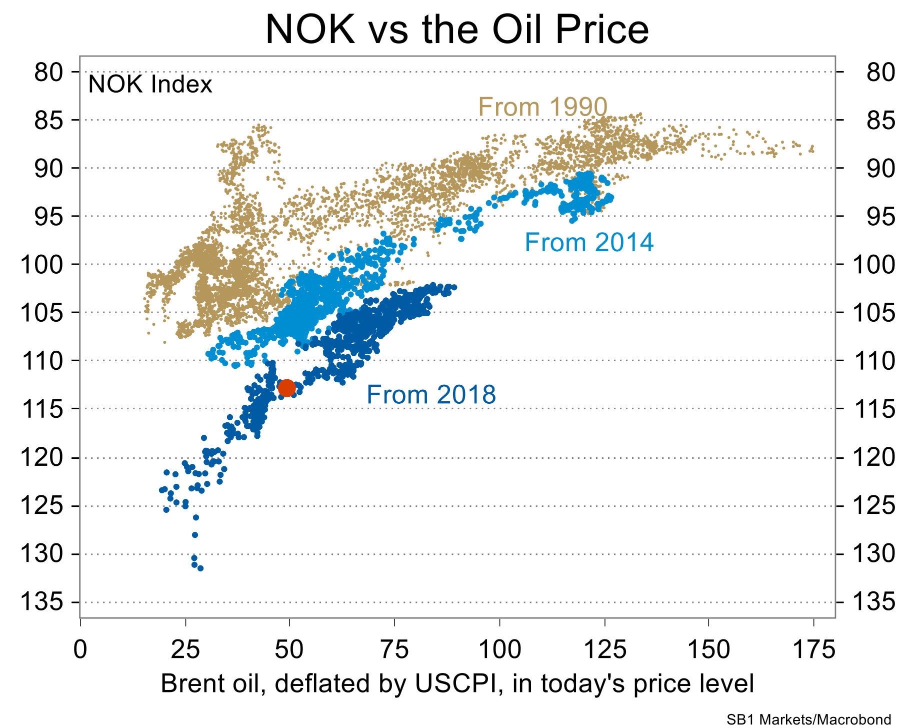


- The NOK is 4% weaker than suggested by our standard model
- The NOK is some 6% ‘below’ the global stock market vs the correlation between the two in 2020
- The NOK is 9% weaker than an average of AUD/CAD/SEK, our ‘supercycle peers’
- On the other hand, the NOK is far (10%) stronger than oil companies (their equity prices vs the total stock market, even after an impressive energy recovery)

The oil price contributed to the NOK appreciation last week too!

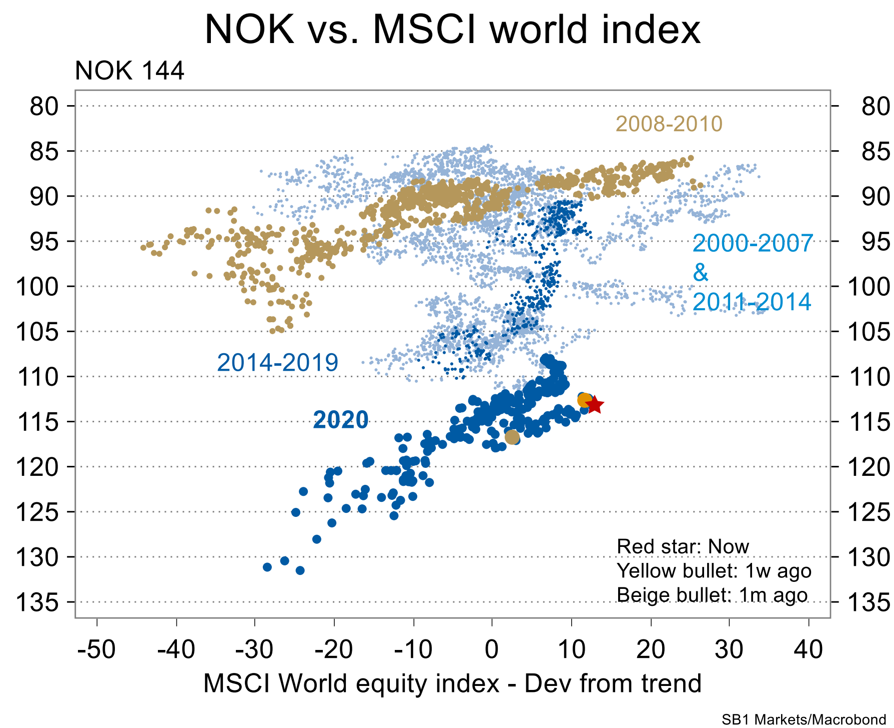
The oil price is still important for the NOK but the correlation has not been impressive since July





NOK down, global equities up, down 6% vs the ‘2020 relationship’

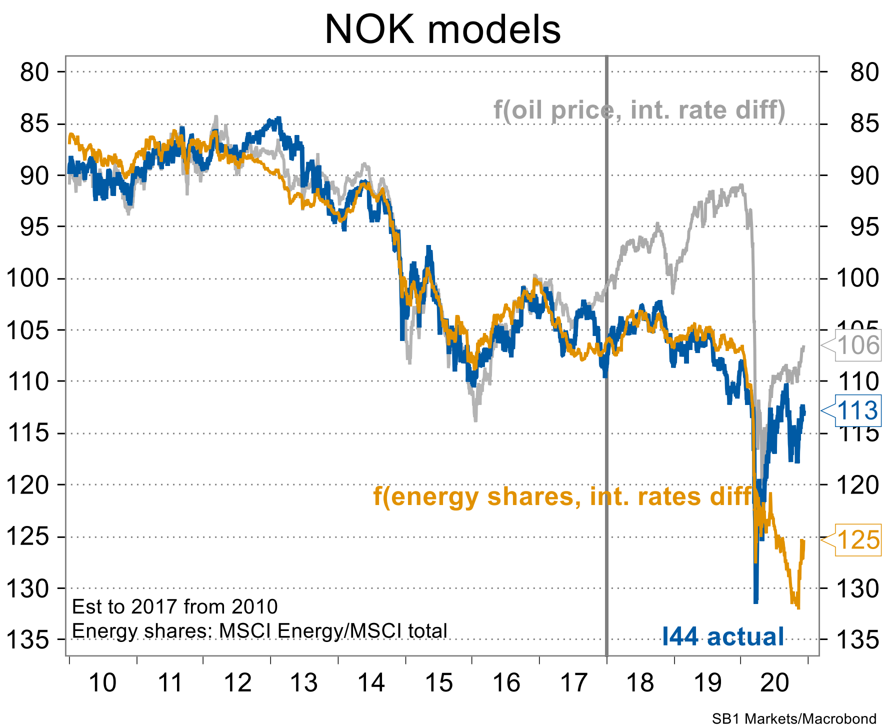
The NOK has been closely correlated to the global stock market in 2020 but has lost ground since Sept

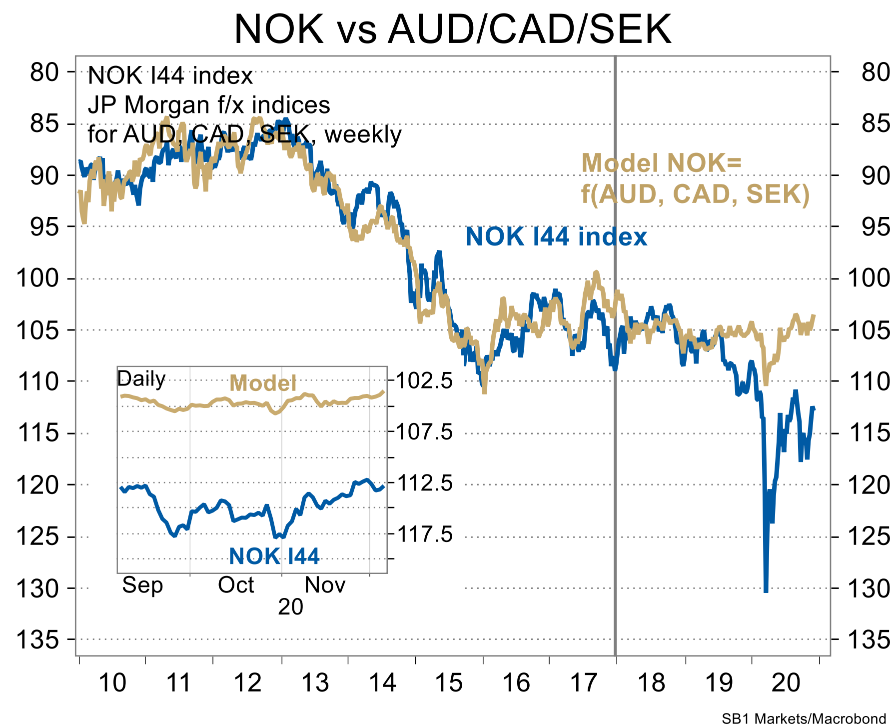


- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index) – but there have been periods with pretty close correlation like we have seen since early 2020
  - » NOK has not been correlated to OSE/MSCI (which could be interpreted as specific Norwegian factor)
- 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 are larger then the value of the remaining oil & gas reserves. Has the market ‘finally’ (and rather sudden) come to the same conclusion? Doubtful
- 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 up, and now finally joined by oil companies

Energy shares have recovered sharply, still 'weak' vs the NOK





- On the alternative NOK models
  - Our NOK model based on pricing of oil companies (oil shares/total market) has 'explained' the NOK much better than our traditional model since 2017, as have our 'super-cycle' peers currency model [NOK=f(AUD, CAD, SEK), with just a marginal contribution from SEK]. The EM x CNY currency aggregate is also quite closely correlated to the NOK
  - Energy shares have been sliding down since June but have turned up two past weeks. The NOK is still far 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 8% below our model est. We think this model is more relevant than the oil stock price model

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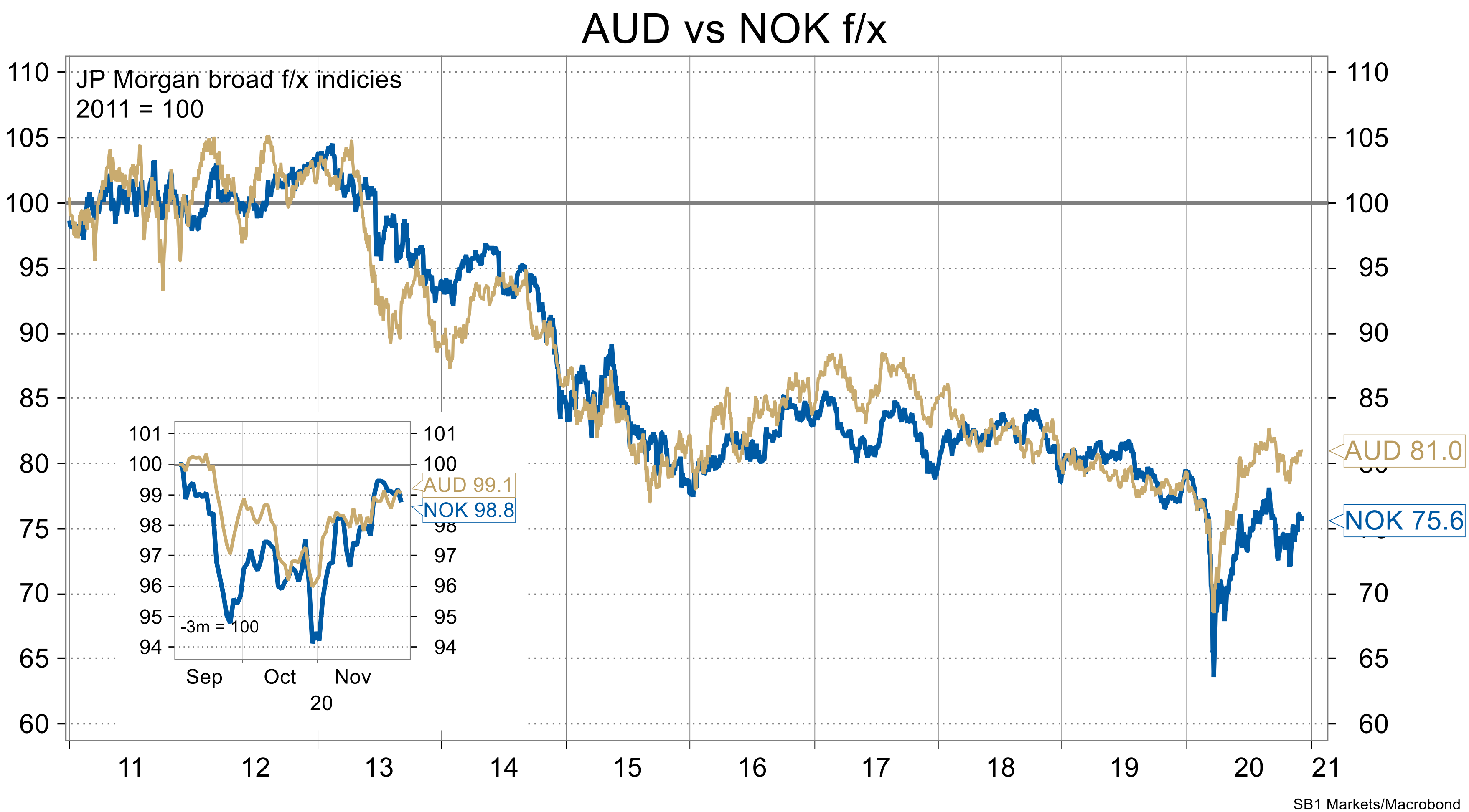
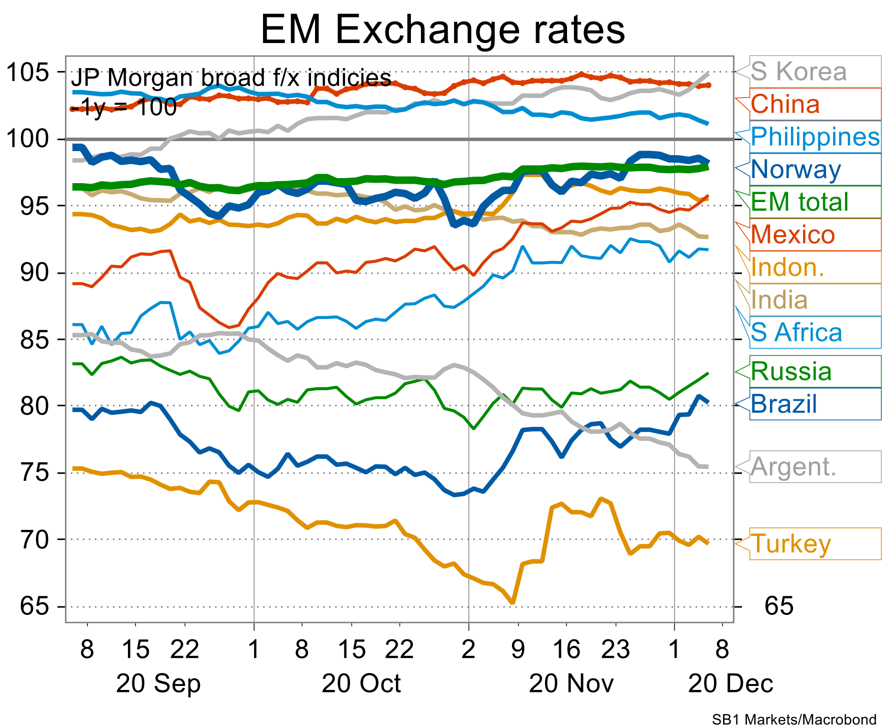
NOK recovers, alongside the AUD, of course – closely in tandem past months

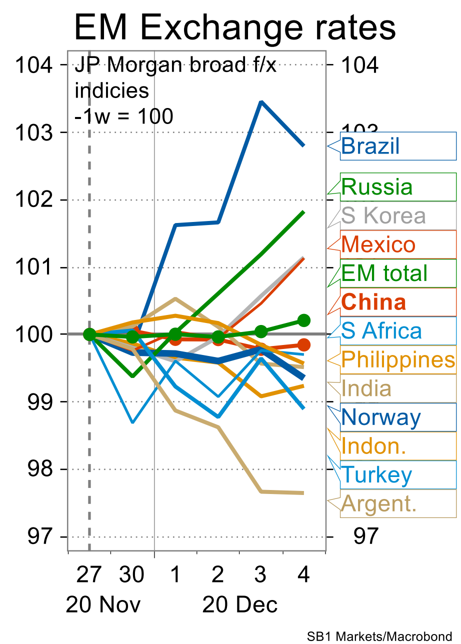
However, the NOK has lost some 6% vs. the AUD (and other supercyclical currencies) since February

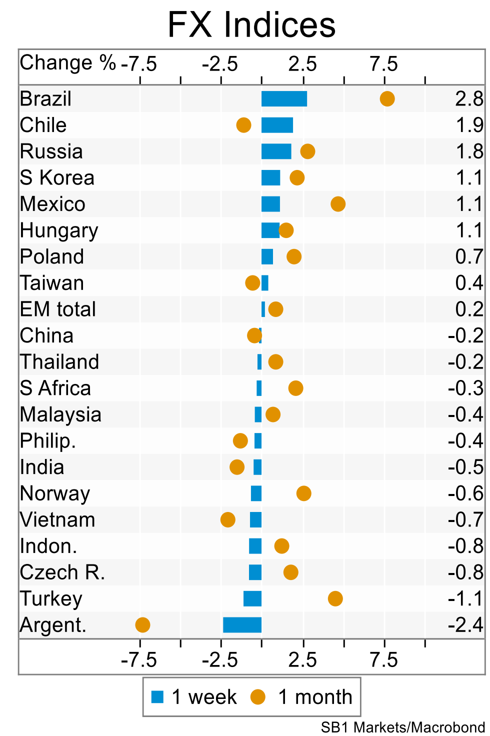


The CNY slowly down again, the Argentina peso at record low levels

Turkey is still not out of the woods. Others mixed, the Brazilian real is recovering







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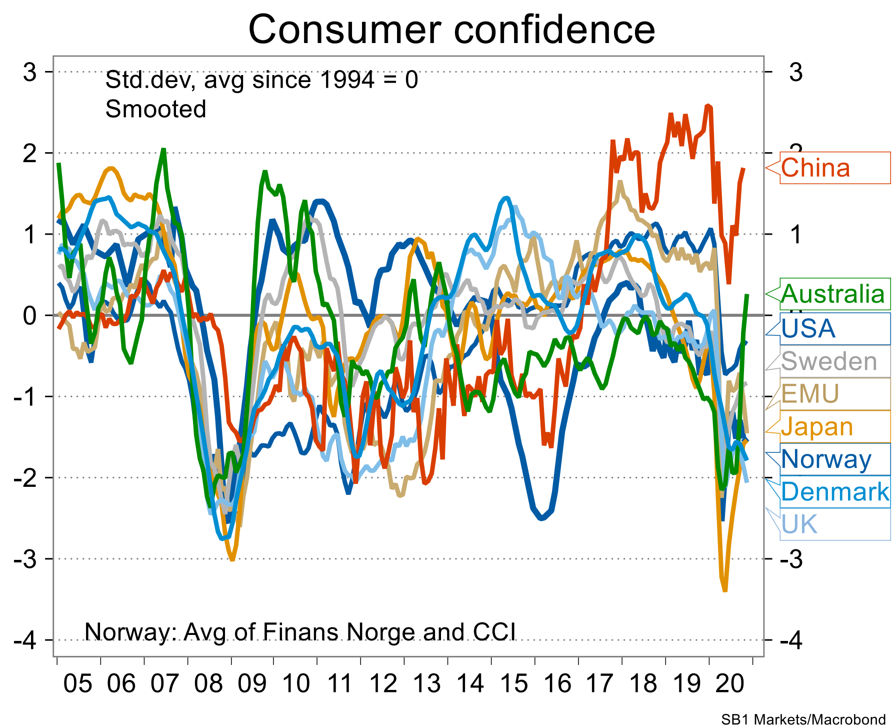
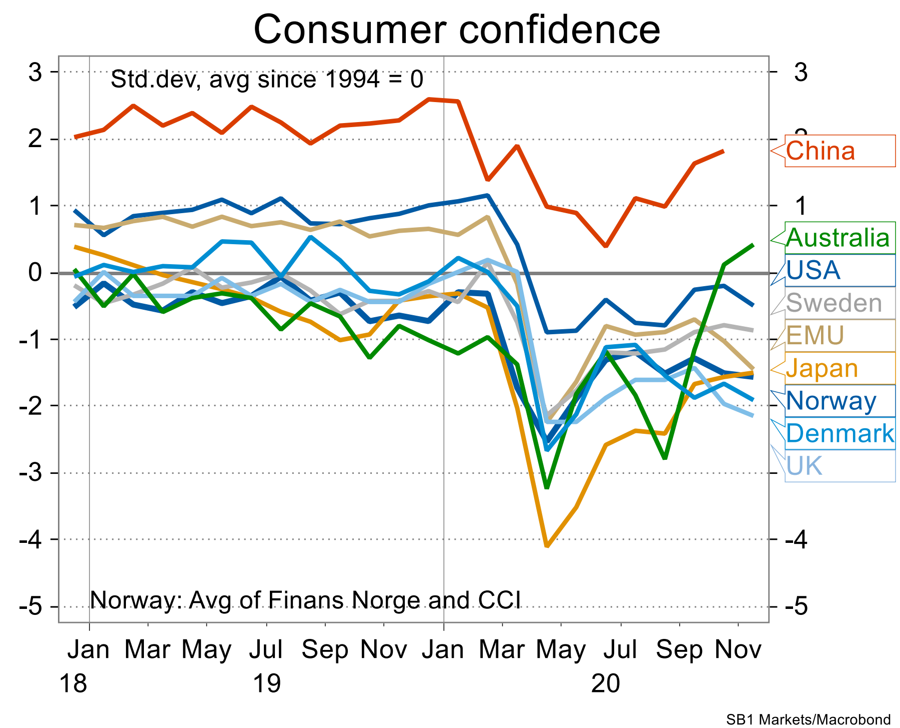
Consumer confidence down again in Europe, US – and below par everywhere

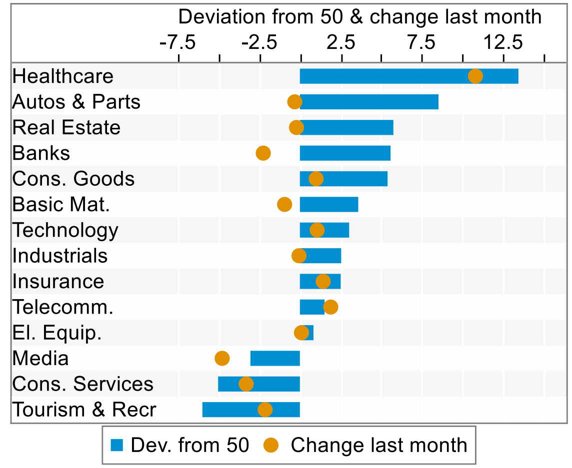
Better in China – and Australia





- Are there any common factors among the 'down countries'?

Global PMI Sectors - output



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