

SpareBank MARKETS



Macro Weekly

11 January 2020

Week 2/2021

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MARKETS 

Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week 1: Politics & corona

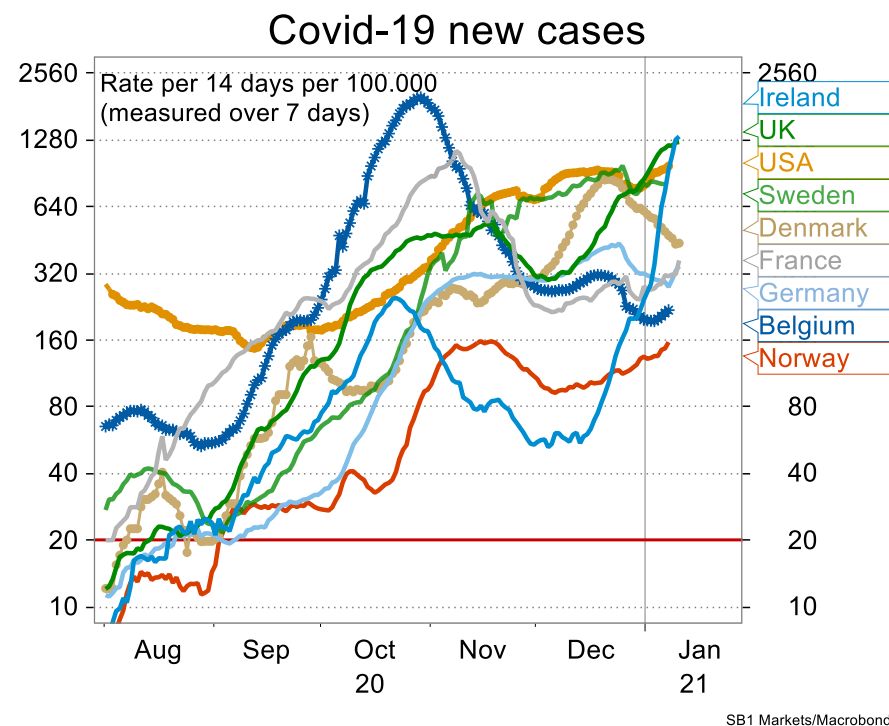
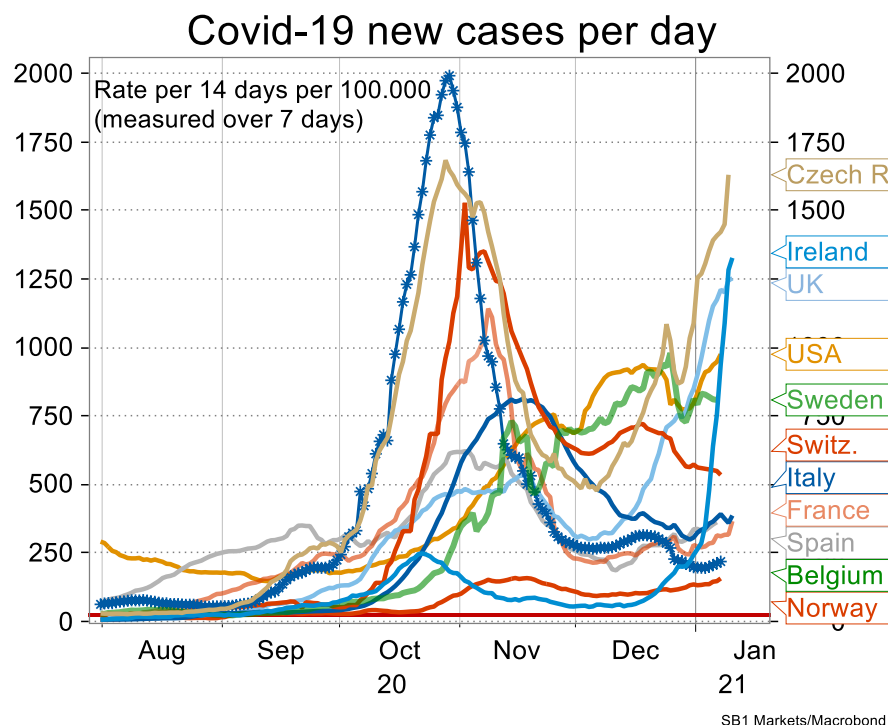
- **'Some' political turmoil in the US.** The **Democrats took the Senate** (legally), and an even more **expansionary fiscal policy** suddenly became much more likely. The 10y gov bond yields rose by 20 bps. Equities still continued upwards, even if some of the 2018 tax cuts now probably will be reversed. The unbelievable, crazy **storming of the Capitol** did not frighten markets. And outgoing **president Trump** may be impeached once more. Nobody knows what he will do the (maximum) remaining 9 days in office. Thereafter, the GOP (Republicans) has some challenges...
- The mutated virus is creating huge challenges in **UK**, and even more in **Ireland**, where the no of cases have exploded ('R' at 2.5) and the hospital system is now being overwhelmed. Just some very few ICU beds available. Hospitals are struggling hard in UK too. The virus is creating problem elsewhere too; a dramatic surge in the **Czech Rep** while several other **European countries** are reporting more cases again, after a successful reduction in Nov/into Dec. Cases are still increasing in the **US** too, as are hospitalisations & deaths, all to record heights. The no. of cases up in **Norway** too, back to the Nov peak. Any good news? In **Denmark**, the no of new infections have fallen by almost 50% past 3 weeks, and **Sweden** may have flattened the curve. And growth in new cases may be slowing in the UK!
- **More positive vaccine news:** EU, and by default Norway, has doubled its orders for Pfizer's vaccines, with extra deliveries starting in early Q2. Norway will receive 3.6 mill extra doses, of which 0.9 mill extra in Q2. In addition, Norway will receive 3.4 mill doses of the Oxford/AstraZeneca's vaccine, of which up to 2 mill in Feb/March, assuming a EU approval late January. Markets are now awaiting news on 3rd phase trial of Johnson & Johnsons' vaccine – which like O/AZ's vaccine can be produced in large quantities. In sum, substantial amounts of vaccines will be available through Q2
- Many countries are still **struggling to cope with the distribution of the vaccines**, but we are rather confident the roll-out will be successful, even at a large scale, at least in Norway. Several other large vaccination programs have been conducted before
- The challenge: The vaccines will not arrive fast enough to curb the 3rd wave, now, in early 2021. Without social distancing (and more economic pain), an unacceptable explosion in new cases & hospitalisations, especially if the mutated virus takes the lead in more countries (which it probably will). However, the outlook from some time in Q2 or at least in Q3 is far better, given the rapid ramp up of vaccine production. In addition, the death rate (CFR) will soon decline as the old'ies have are getting vaccinated the coming weeks (but hospitals will still have a problem if too many 'normal' people are infected)

Last week 2: The economy

- **'Global auto sales** reversed the Nov decline in Dec, with contributions from both US and EMU. Chinese sales were close to flat. Dec global sales are 2% below the 2019 average, China +6%, US -4% and Europe -5% **Norwegian** Dec sales rose to the best level ever – and sales fell just 2% last year vs 2019! Denmark and Japan are next on the rich man's list, -13%. In the US auto sales fell by 15%, EMU sales down 23% and UK -27%! Global sales fell 15%, and Chinese sales 6%
- The **global composite PMI** fell 0.4 p to 52.7 in Dec but it still signals growth at trend in Q4. The **EMU PMI** rose sharply, and much more than the initial forecasts, still the composite index is below 50. The US PMIs fell but the manufacturing ISM rose sharply, close to the best levels in 4 decades! Most countries are reporting growth, both in manufacturing and even in the service sector
- **Chinese inflation** inched back into positive territory due to higher pork/food prices m/m in Dec. The trend for the latter is down – and will keep inflation down. **Producer prices** have bottomed after a mild downturn, still down 0.4% y/y. **Industrial profits** are rising sharply
- **US employment** surprisingly fell by 150', due to a 498' decline in leisure/hospitality (mainly restaurants, -323'), while other sectors reported decent growth. Employment is 6.5% below the pre corona level. **Unemployment** was flat in Dec – and it is 3 pp higher than before corona. The labour force participation rate has fallen, but not further in Dec (or recent months)
- **EMU retail sales** fell much more than expected, -6% in Nov, as sales fell 16 – 18% in Belgium and France, of course due to the strict lockdowns – that were eased in Dec. In Germany sales rose by 2%, but here the lockdowns were reinforced in Mid Dec.
- **Norwegian house prices** rose by 0.8% in Dec, 0.1 pp more than Norges Bank (and we) expected. Prices are up 8.4% y/y, Oslo at the top with 11.8%, and Stavanger at the bottom, still up 5.1% - the house price boom is wide-spread. The no. of transactions is up more than 20% from last year, and the inventory is very low. At one stage **the interest rate impact** will fade (and then reverse) but not yet. **Credit growth** was much higher than we assumed in Nov – up to 4.8% y/y, households have never increase their debt by more in one month, in NOK terms, that is. The corporate sector has not stopped borrowing either. **Manufacturing production** once more surprised at the upside, + 1.5%. Non-oil related industries are up 1.5 vs. early 2020, oil related down 5.5%

Well, the 3rd wave is exploding several places. Czech R., Ireland and UK in the lead

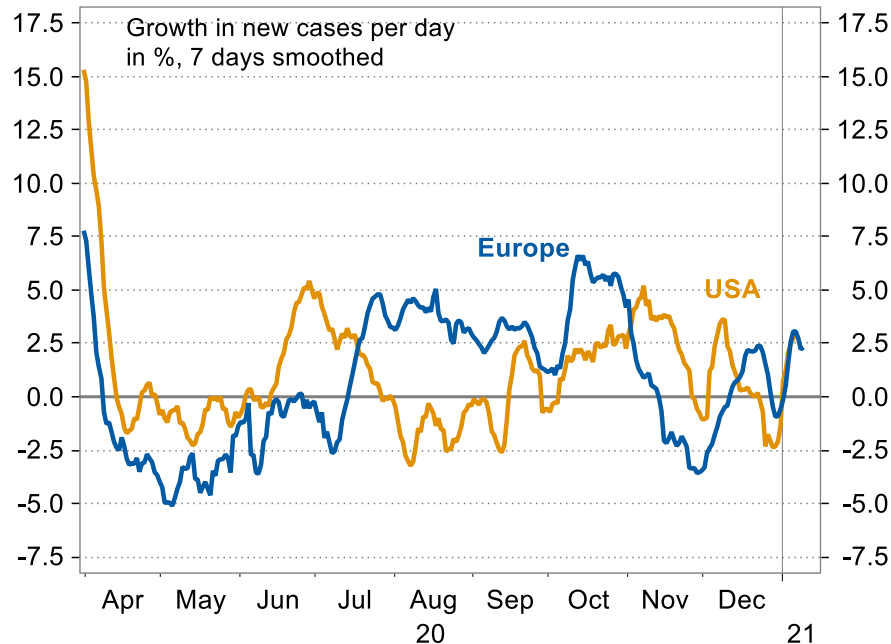
The mutant virus to blame in Ireland/UK, not in the CR. Hospitals are filled up with covid patients.



- Rather dramatic infection data** from several countries, partly due to the mutated, and much more infectious virus (which is found in more than 40 countries). The **Irish Rep** has experienced an extreme increase last week (see more two pages forward). Growth may be slowing in the **UK** but at level is very high. The **Czech Rep.** is been 'cooked' again, now at the same level as in Oct. The curve have turned up in several other European countries, but not dramatic – Norway included. However, the 'R's are above 1 many places, before the mutated virus is to blame. The same goes for the US, where cases, hospitalisations & deaths are running at record high levels.

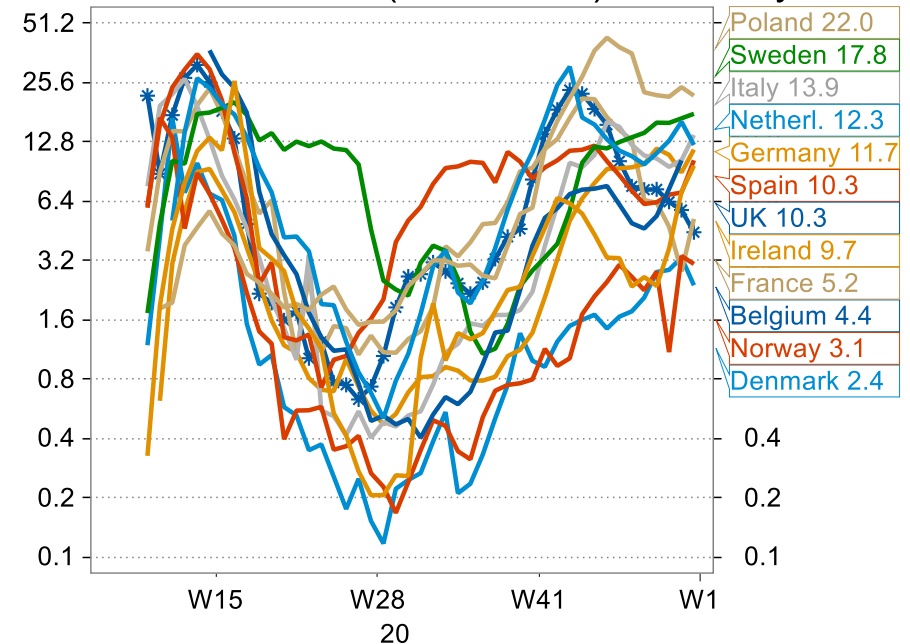
Growth in no. of new cases, and the positivity rates are heading up

Covid-19 cases



SB1 Markets/Macrobond

Novel Coronavirus (COVID-19), Positivity Rate

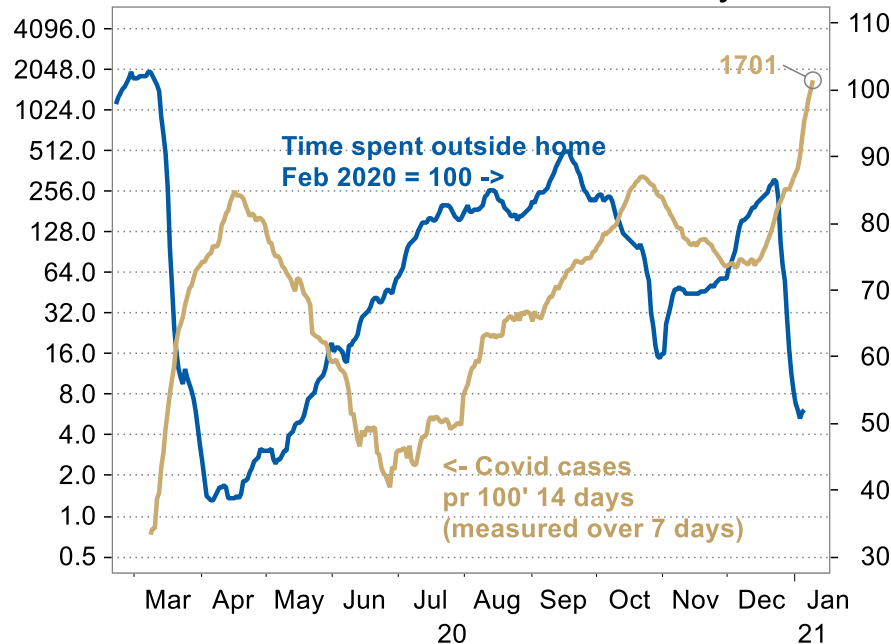


SB1 Markets/Macrobond

Ireland: A British/South Afr. mutant! Cases are exploding, even with low mobility!

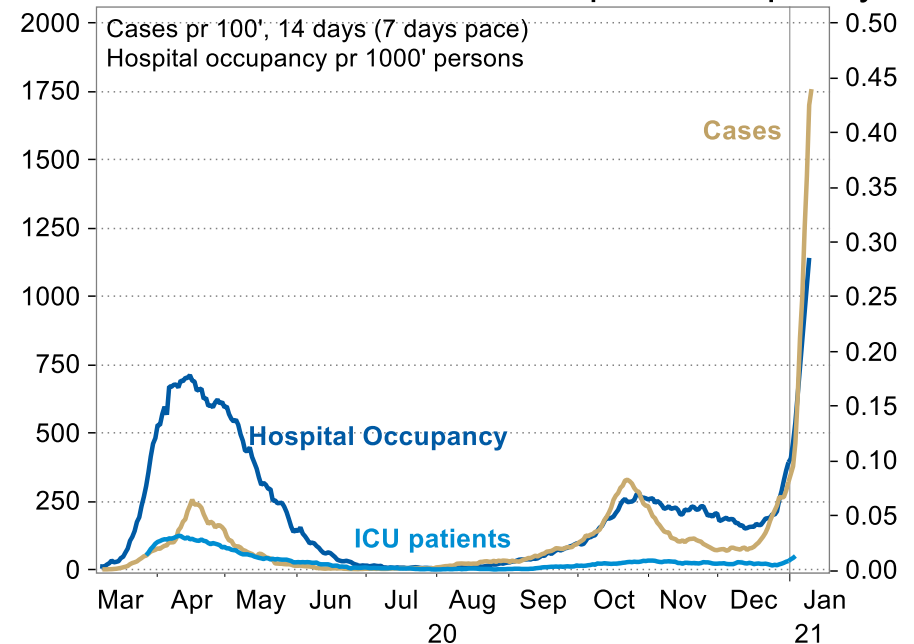
If you get the mutated virus, you ain't got a chance! Ireland now has a R at 2.5? 70x up per month

Ireland Covid Cases & mobility



SB1 Markets/Macrobond

Ireland Covid-19 cases & hospital occupancy

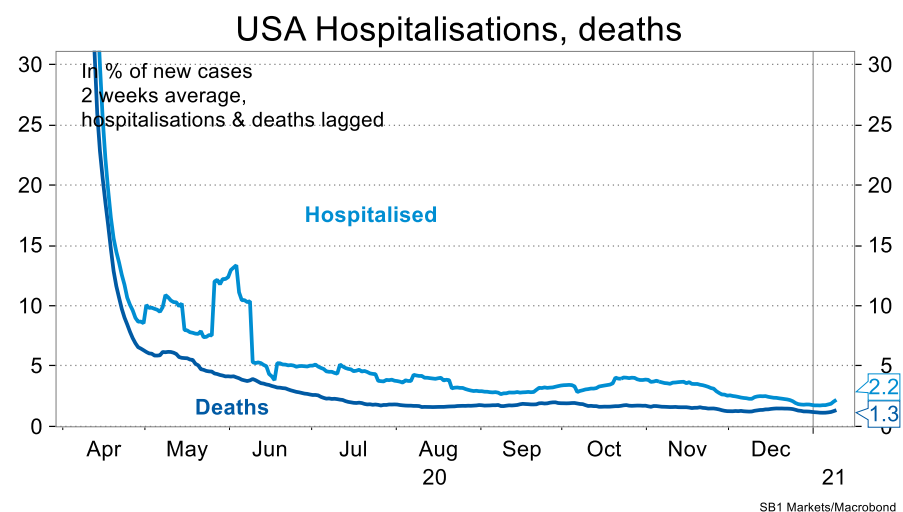
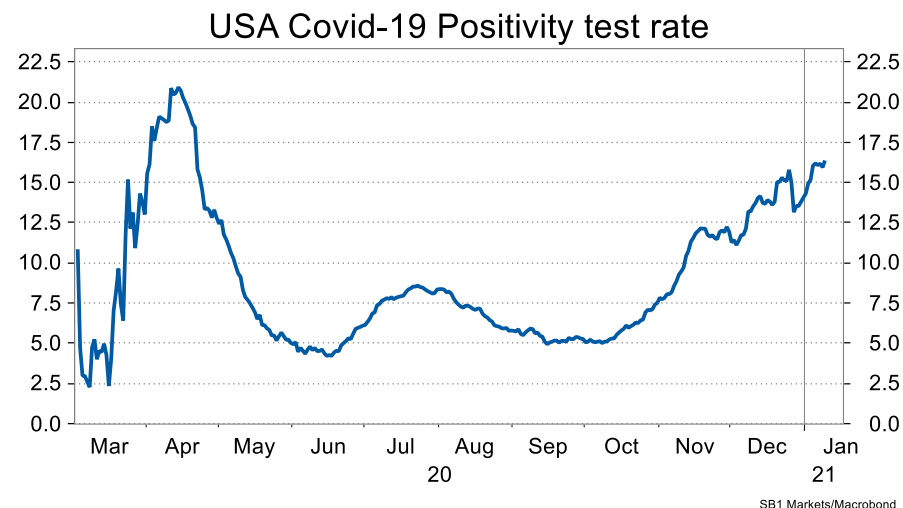
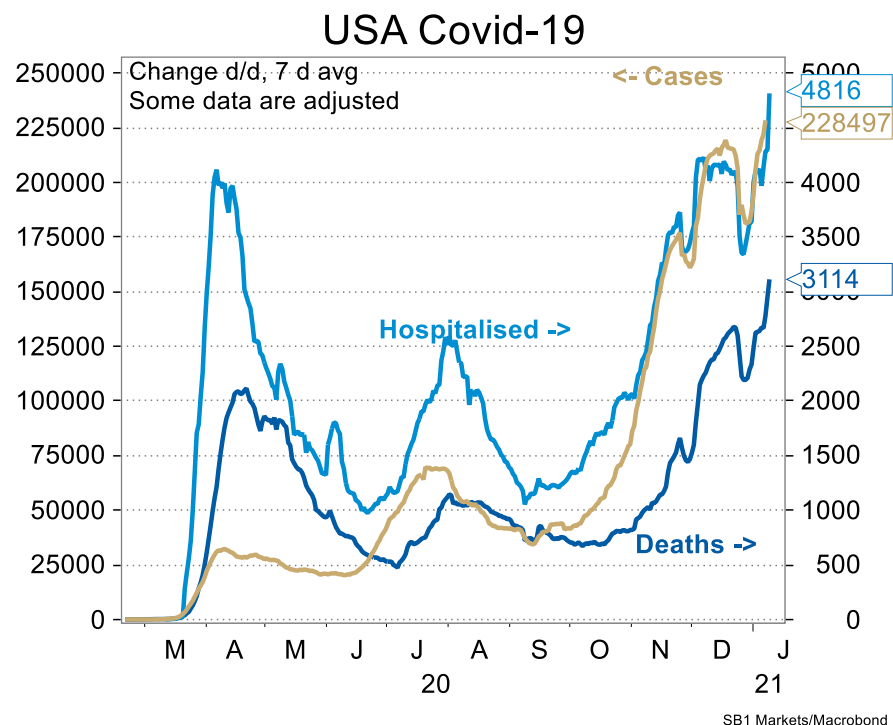


SB1 Markets/Macrobond

- Cases are up by at least 15% per day, equalling 2.6 x per week, 70 x per month. The 3rd wave hit, even if mobility was sharply reduced (though during the Christmas holidays, infections are not probably nor reduced as normal due to reduced mobility – due to more 'risky' social contact during the holiday season). A full lock-down has now been decided
- 1.400 beds, or 10% of the hospital capacity, are now allocated to covid-19 patients. Last week 42' tested positive, and some 5% of them will need hospital treatment. Thus, the inflow of new patients will be far higher than the outflow the coming days, even if the case curve suddenly should turn downwards, now. There are almost no more ICU beds available, and the death rate will probably increase due to lack of treatment capacity. In addition, the hospitals are unable to conduct their normal life-saving activities

USA: On the way up, record no. of cases, hospitalisations & deaths

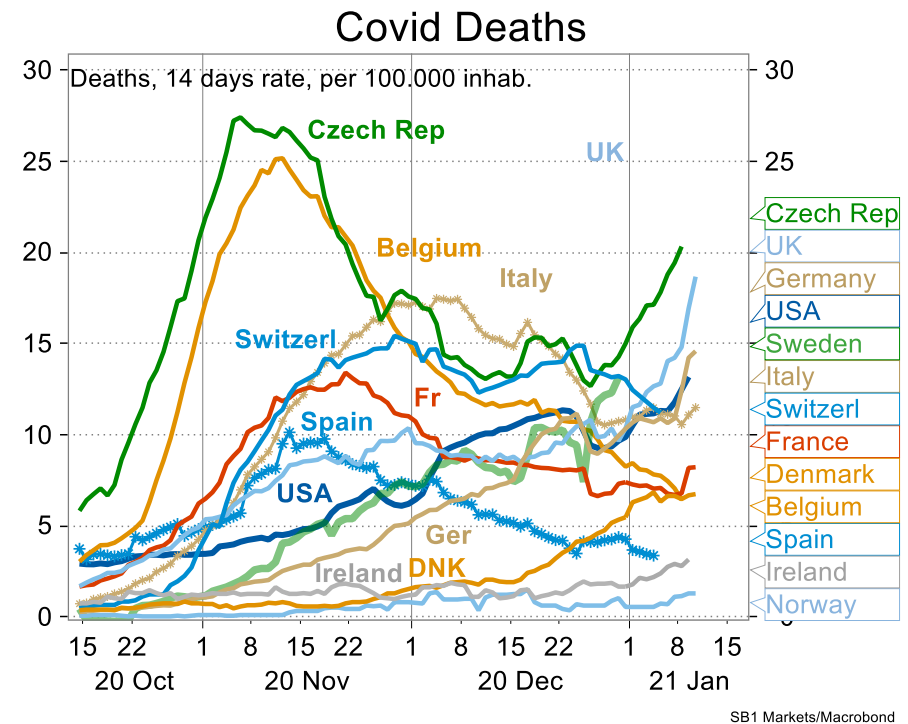
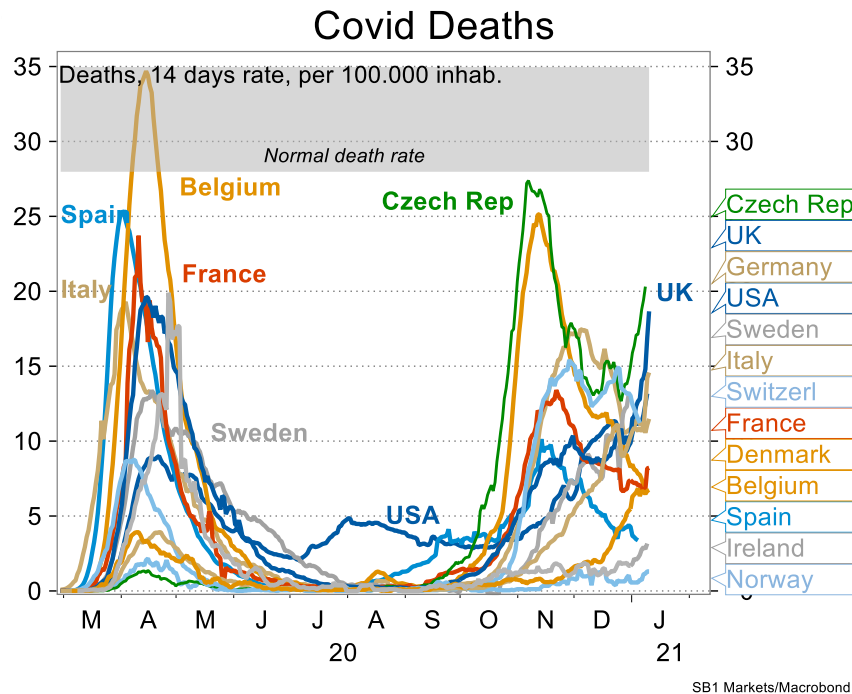
Still a long way to go before the vaccines will come to rescue



- The positivity test rate sharply up
- The hospitalisation rate has declined somewhat, as has the death rate (CFR) – and it have fallen to 1.3%

The deaths: UK, Germany, US (and Czech R) on the way up

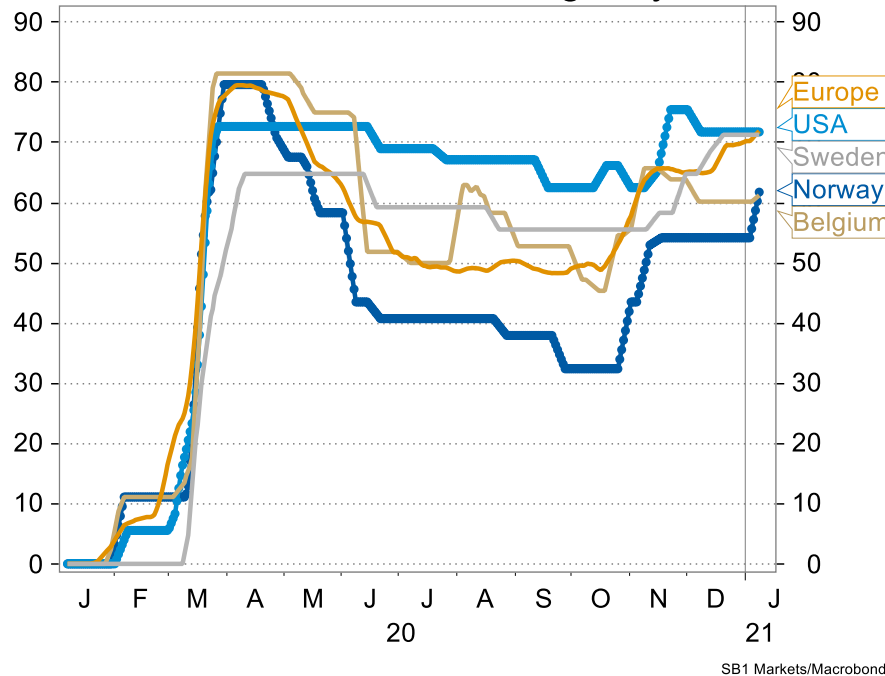
Sweden probably too (data lagging seriously). Ireland still has few deaths. But many more to come...



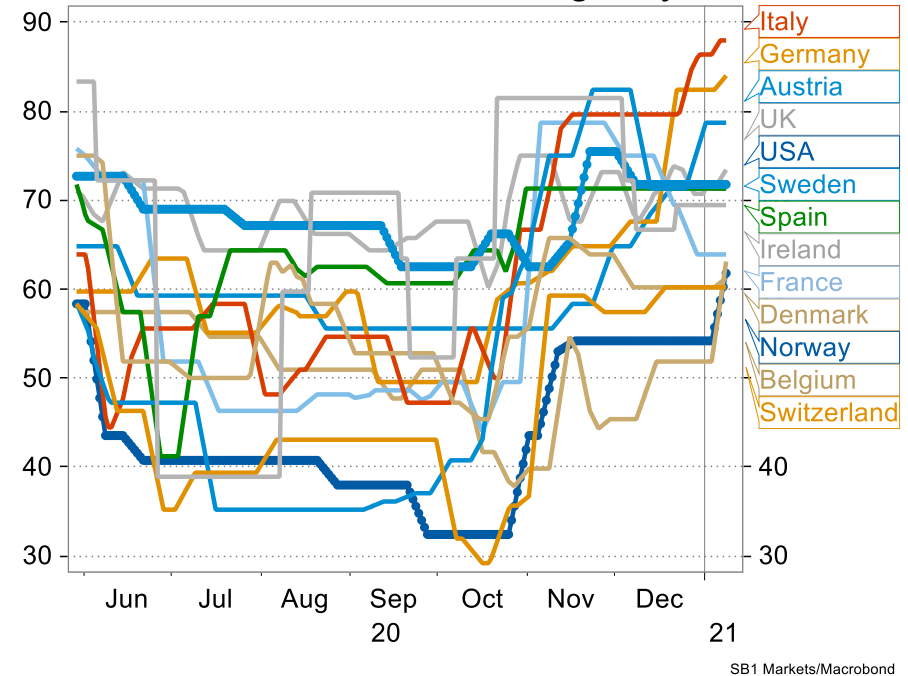
- The no. of deaths in Ireland could easily rise by 10 – 15 times from the present level – barring a steep decline in CFR, now at some 2.5% does not collapse. However, the CFR has until now been climbing – and lack of hospital capacity suggest a further increase!
- The no. of deaths in the UK will continue rapidly upwards from the present level, possibly to above the Belgium level during the spring, at least above the Nov Belgium level
- The Czech Rep is heading sharply up again too
- Even Germany is reporting more deaths – and more than in the US, per capita!
- Deaths in Denmark has flattened, and should decline the coming two weeks

The stringency index is drifting upwards in Europe – and some more to come

COVID-19, Oxford Stringency Index



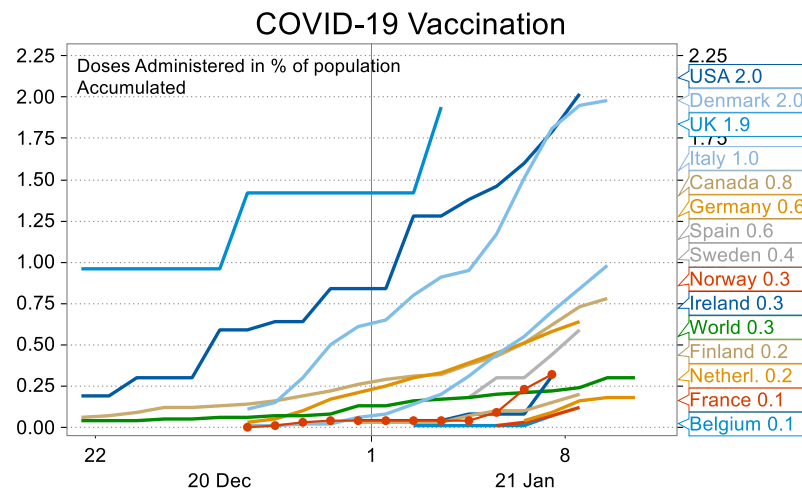
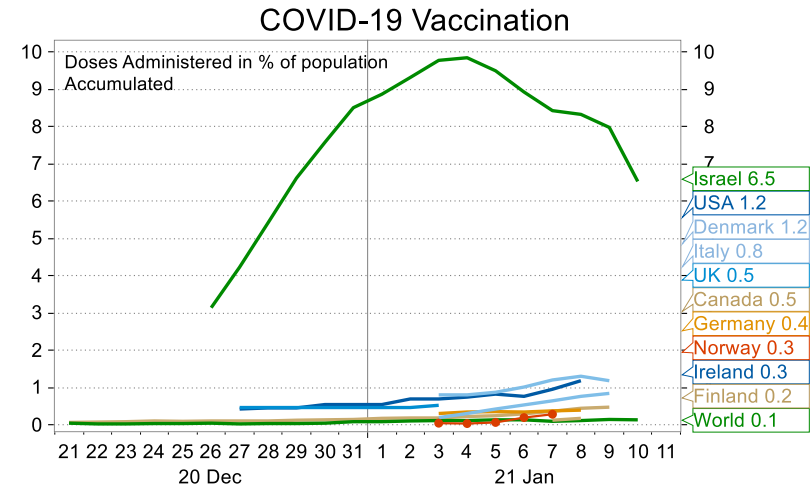
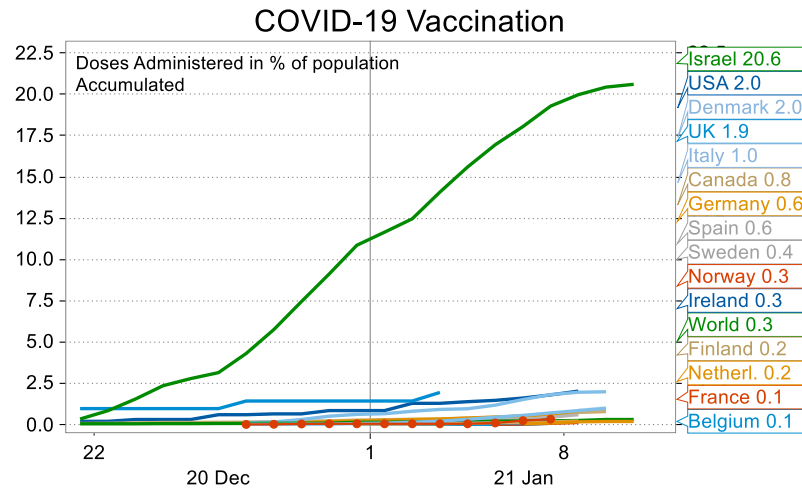
COVID-19, Oxford Stringency Index



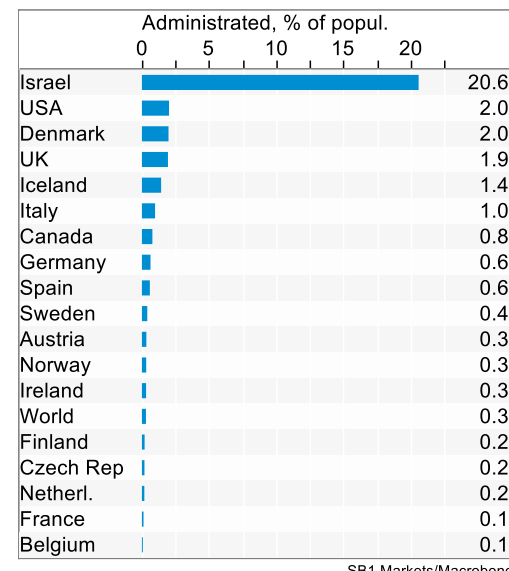
- Spain should soon ease restrictions, given the steep decline in cases & deaths. France has already lifted some measures. UK, Germany, Switzerland, Finland and Denmark have all tightened somewhat during December
- We are not sure Oxford's stringency indices are correct all the time but the broad picture may still be relevant

Vaccinations: On the way but just Israel has done substantial progress

Israel expects to reach herd immunity by end of Q1. Others need more time, it seems like



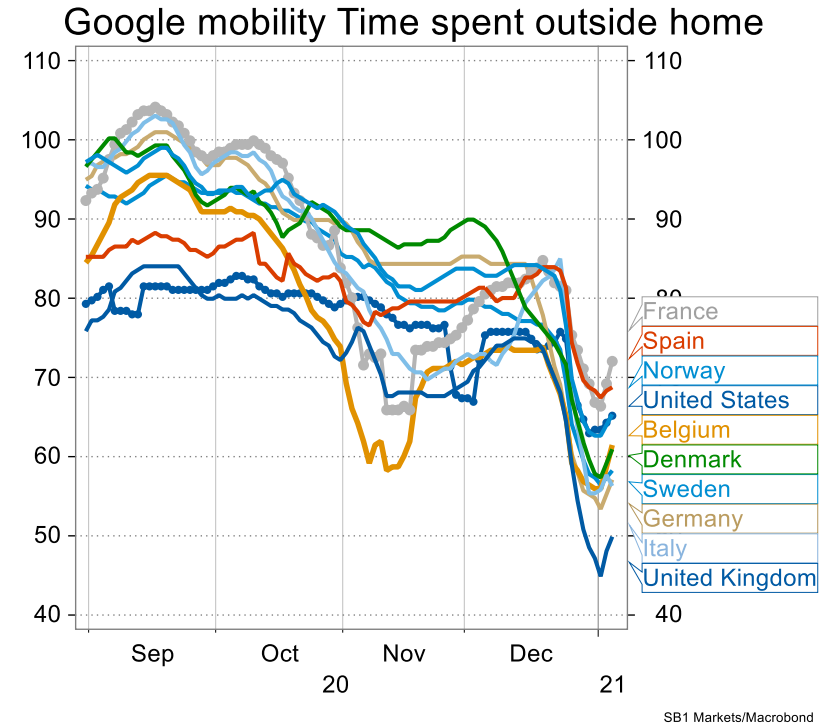
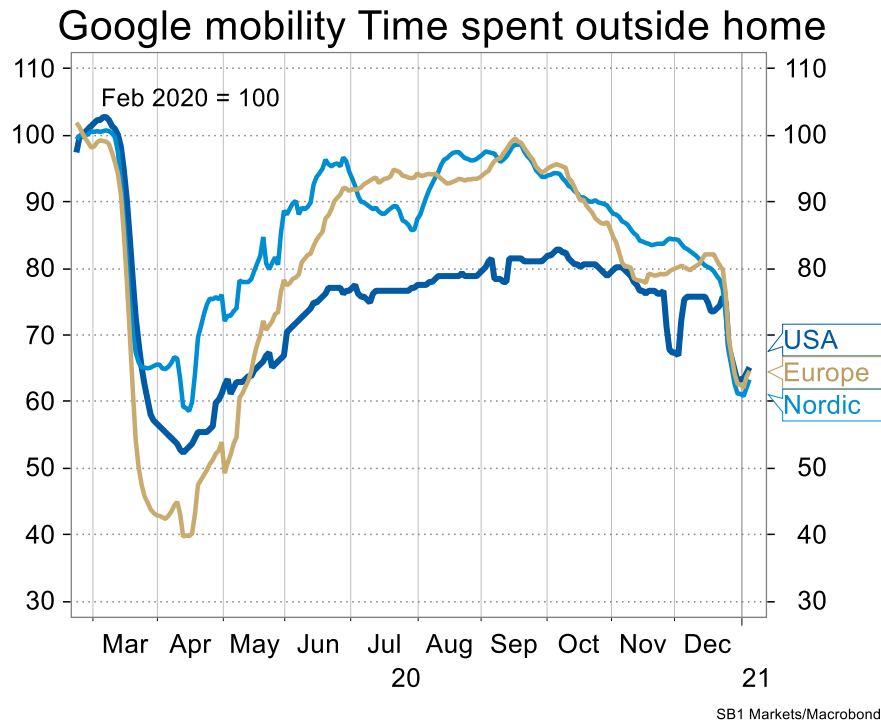
Covid-19 Vaccinations



- Oxford/AstraZeneca and Johnson & Johnson will eventually provide much larger quantities. Others may follow
- We doubt distribution will become an impossible challenge, as most countries are used to distribute large quantities of vaccines
 - » Complicated priority systems create problems now, but hopefully not for too long

Lagging Google mobility data – but mobility probably lower than before Xmas

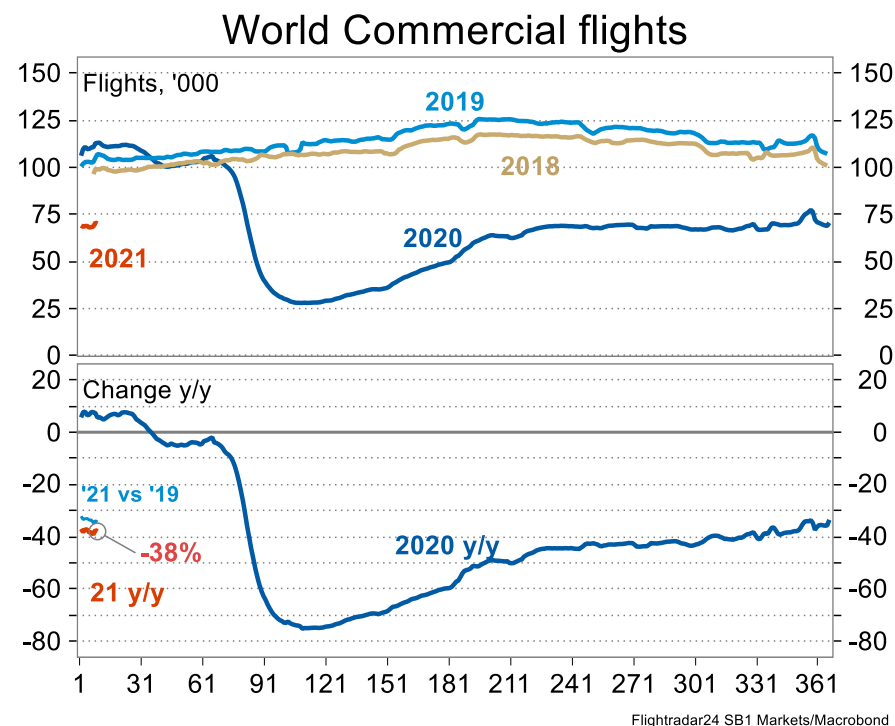
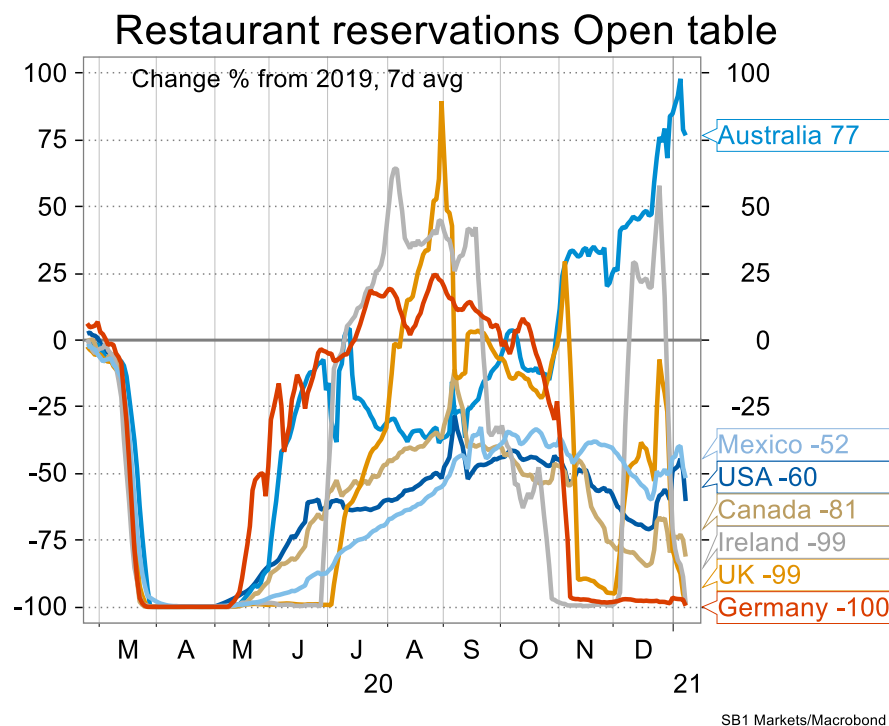
The virus will decide how much we are going to move around the coming weeks/months



- We do not know how much of the steep decline in time spent outside home past two weeks is due to the virus situation or public restrictions, and how much is due to the holiday season. We assume most is due to the latter. The coming days will give us more relevant info
- The time spent at home during Christmas has probably yielded the same reduction in the R, due to less distancing at home
- What we know, is that when the virus is beaten back, time outside home, and thus economic activity, quickly returns – until the virus blossoms up again. We assume this back-and-forth war to continue the coming weeks/months.
- Several countries are contemplating or have already decided tighter restrictions – like Norway did last week, and UK last weekend, and Ireland this weekend

Restaurant open only in Australia. Full closure in Ireland, UK & Germany

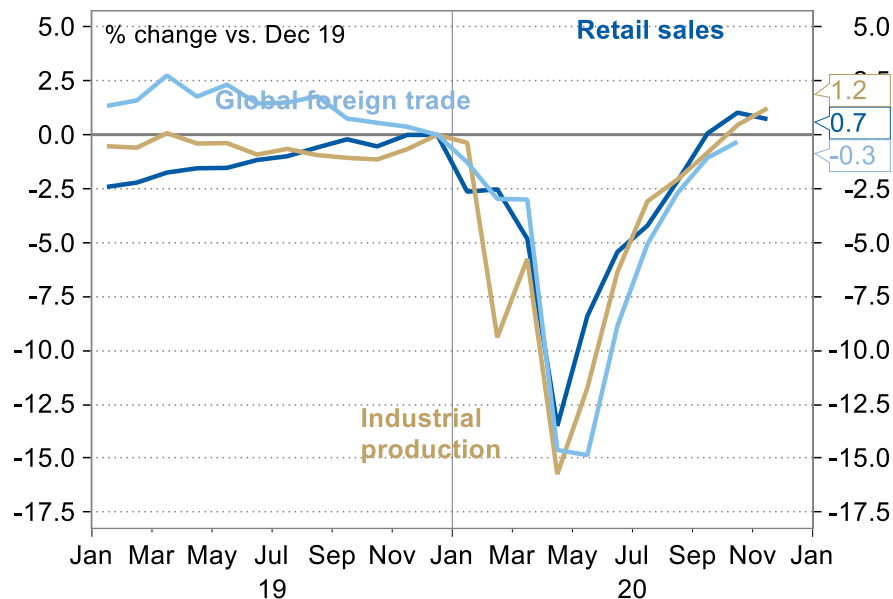
Commercial airline traffic still down 38% vs, last year



Industrial prod further up in Nov, retail sales down due the EMU drop

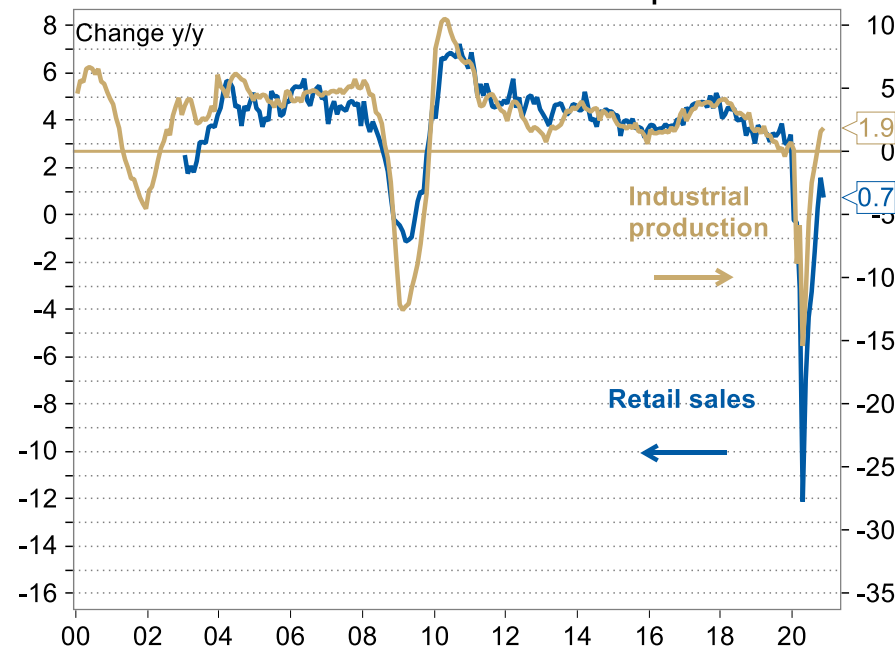
Foreign trade rose in October – and the trade gap to the pre-corona levels is almost closed too

Global Retail sales, industrial production & trade



SB1 Markets/Macrobond/CPB

Global Retail sales & industrial production



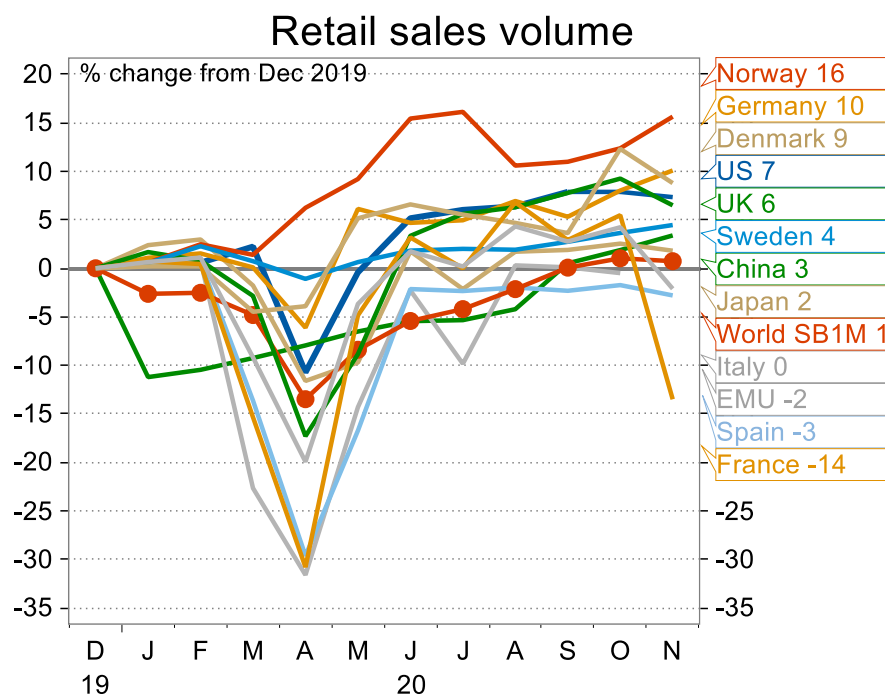
Memo: Keep in mind the different scales at the chart above

SB1 Markets/Macrobond

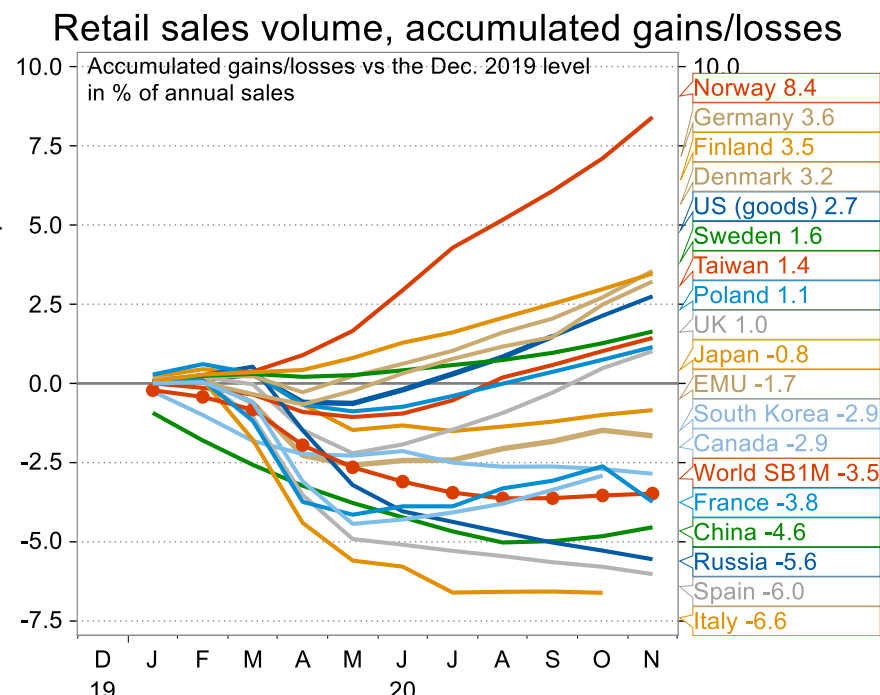
- Retail sales fell by 0.3% due to a larger than expected (6.2% vs. 3.8%) decline in retail sales in EMU (Belgium & France down 16 – 18%). Global sales are still above the pre-corona level
- Manufacturing production probably climbed some 0.8% - and is 1.2% above the pre-corona level, according to our preliminary estimates
- Global foreign trade rose 0.8% in October, and the level is just 0.3% below the Dec-19 level – the gap is closed

Global retail sales above the Dec-level in October in most rich countries

But not in the EMU – due to the 2nd corona wave drop in France & Belgium. Others to follow??



SB1 Markets/Macrobond

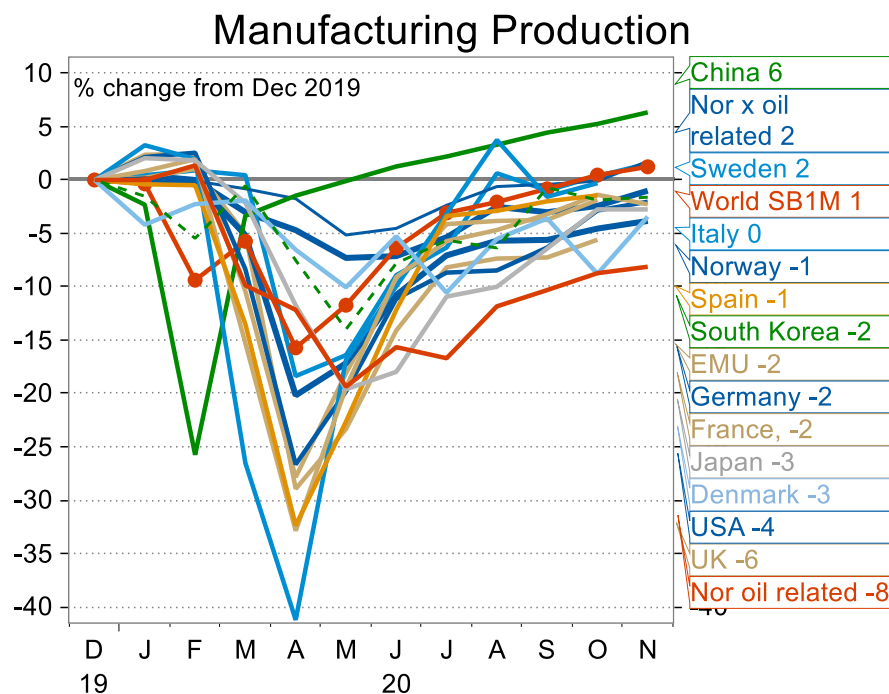


SB1 Markets/Macrobond

- Norway is in the lead – and has been during the whole corona crisis. Crisis, what crisis??
- Consumption of services is not included in these retail sales data – and service consumption has fallen sharply, everywhere

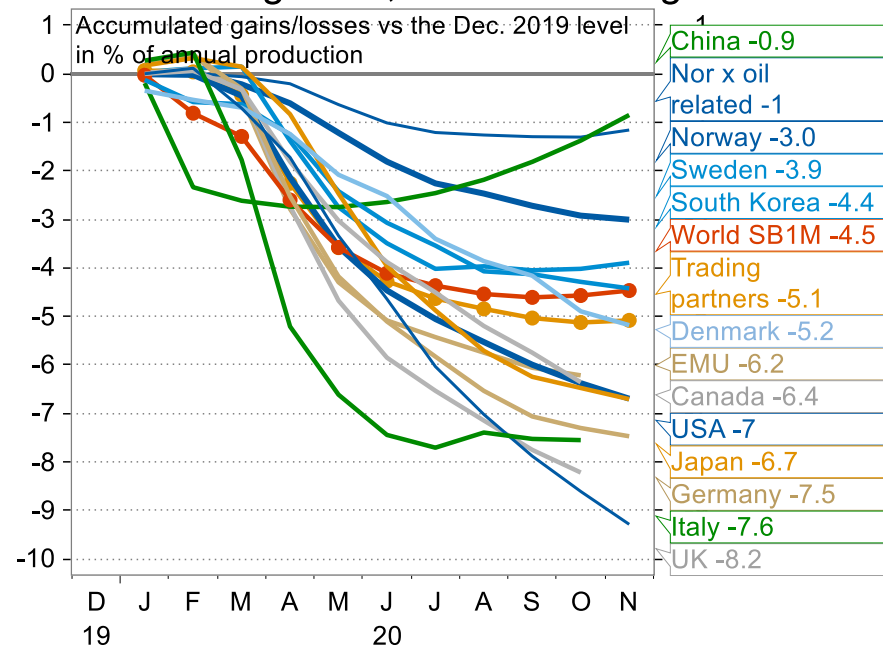
Manufacturing production above the Dec-19 level in November

Production rose at the same pace as during the previous two months – a brisk growth pace into Q4



SB1 Markets/Macrobond

Manufacturing Prod, accumulated gains/losses

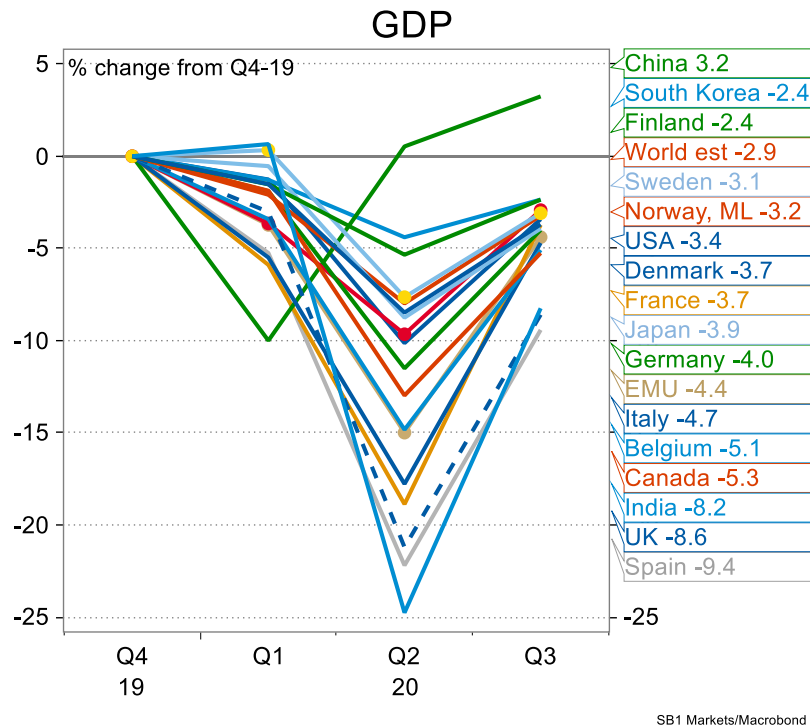


SB1 Markets/Macrobond

- Service sector production is not included in these retail sales data – and service consumption(=production) is still way below a normal level

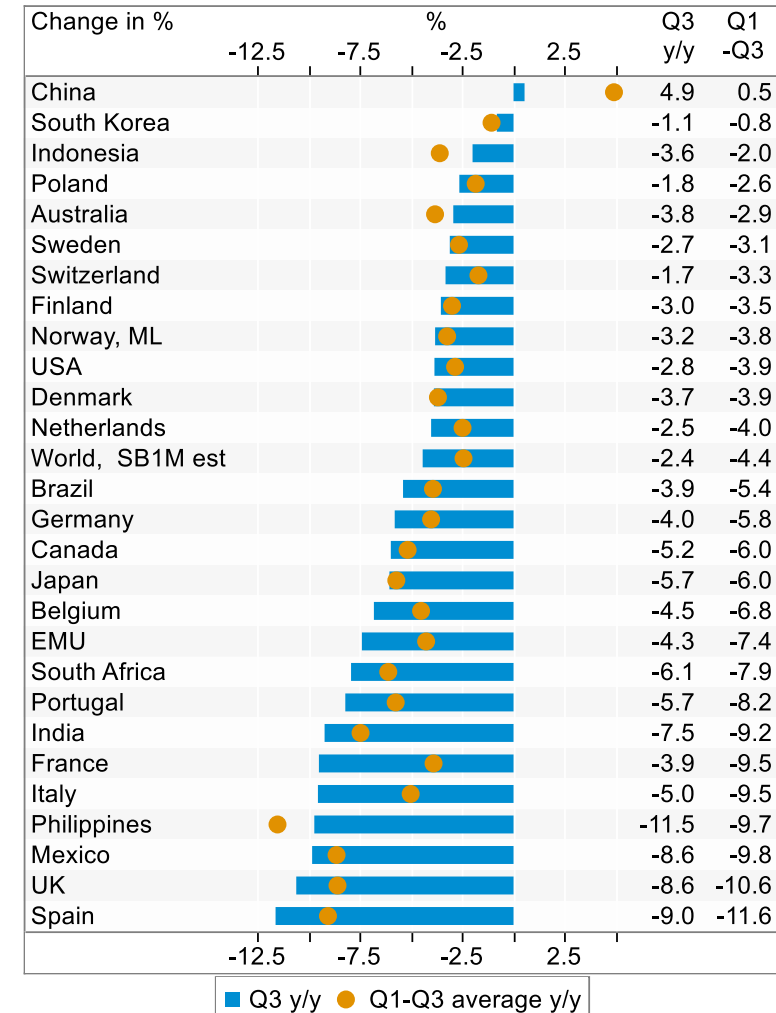
Global Q3 GDP 'just' 3% below Q4-19 level

The total loss over the first 3 quarters equals 4.4% y/y. US down 3.9%, EMU 7.4%



- Some observations – Q3 vs Q4-19:
 - » China 3.2% above Q4. Others are down:
 - » India still down 8.2%, 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 in Q4)
 - » USA -3.4%
 - » EMU -4.4%, of which Spain -9.4%, France -3.7%
 - » UK down 8.6%
 - » Sweden -3.1% (and Finland just -2.4%, best in the rich mans' class). Denmark -3.7%
 - » Norway (Mainland) -3.2%

GDP Q1-Q3 2020 vs. 2019



The Calendar

China Dec & Q4 data. US retail sales & ind. Production. EMU ind. production. GDP & CPI here

Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 11					
08:00	NO	CPI YoY	Dec	(0.9)	0.7%
08:00	NO	CPI-ATE YoY	Dec	(3.1)	2.9%
Tuesday Jan 12					
08:00	NO	GDP Mainland MoM	Nov	(-0.5)	1.2%
12:00	US	NFIB Small Business Optimism	Dec	--	101.4
16:00	US	JOLTS Job Openings	Nov	6300	6652
Wednesday Jan 13					
11:00	EC	Industrial Production SA MoM	Nov	0.2%	2.1%
14:30	US	CPI MoM	Dec	0.4%	0.2%
14:30	US	CPI Ex Food and Energy YoY	Dec	1.6%	1.6%
20:00	US	Monthly Budget Statement	Dec	-\$82b	-\$145.3b
20:00	US	U.S. Federal Reserve Beige Book			
Thursday Jan 14					
	CH	Exports YoY	Dec	15%	21%
	CH	Trade Balance	Dec	\$70b	\$75b
10:00	NO	Norges Bank Lending Survey			
14:30	US	Initial Jobless Claims	Jan-09	818k	793k
Friday Jan 15					
02:30	CH	New Home Prices MoM	Dec		0.1%
08:00	UK	Manufacturing Production MoM	Nov	0.4%	1.7%
08:00	UK	Monthly GDP (MoM)	Nov		0.4%
08:00	NO	Trade Balance	Dec		0.2b
09:30	SW	CPI Excl. Energy YoY	Dec		1.1%
14:30	US	PPI Ex Food and Energy MoM	Dec	0.1%	0.1%
14:30	US	Empire Manufacturing	Jan	6	4.9
14:30	US	Retail Sales Advance MoM	Dec	-0.3%	-1.1%
14:30	US	Retail Sales Ex Auto and Gas	Dec	-0.1%	-0.8%
15:15	US	Manufacturing (SIC) Production	Dec	0.3%	0.8%
16:00	US	Business Inventories	Nov	0.4%	0.7%
16:00	US	U. of Mich. Sentiment	Jan P	79.5	80.7
Monday Jan 18					
03:00	CH	GDP SA QoQ	4Q	2.6%	2.7%
03:00	CH	GDP YoY	4Q	6.2%	4.9%
03:00	CH	Industrial Production YoY	Dec	6.9%	7.0%
03:00	CH	Retail Sales YoY	Dec	5.5%	5.0%
03:00	CH	Fixed Assets Ex Rural YTD YoY	Dec	3.2%	2.6%
During the week					
	CH	Aggregate Financing CNY	Dec	2165b	2130b

• China

- » **GDP growth** is expected to have been far above trend in Q4 too, and the annual growth rate at 6.2% represents a full recovery. **Dec activity & credit** data are expected to be decent too

• USA

- » **Retail sales** fell in Nov, and are expected further down in Dec. Even so, total consumption is still on track for a 4% growth pace in Q4. **Industrial production** is still on the way up, and surveys are very strong. The first **Jan surveys** will also be published, as well as Fed's Beige Book, its regional network

• EMU

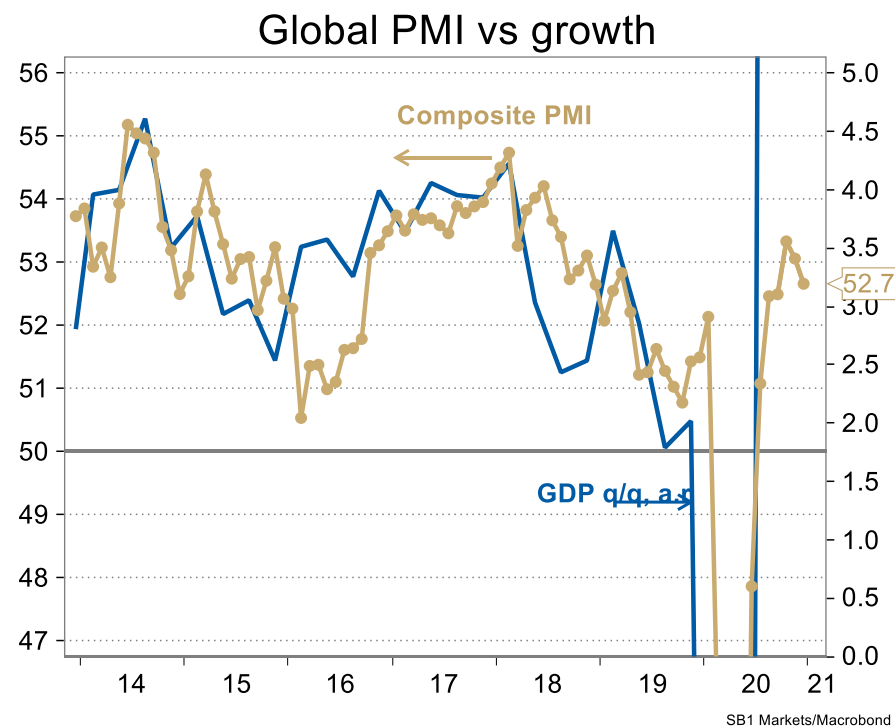
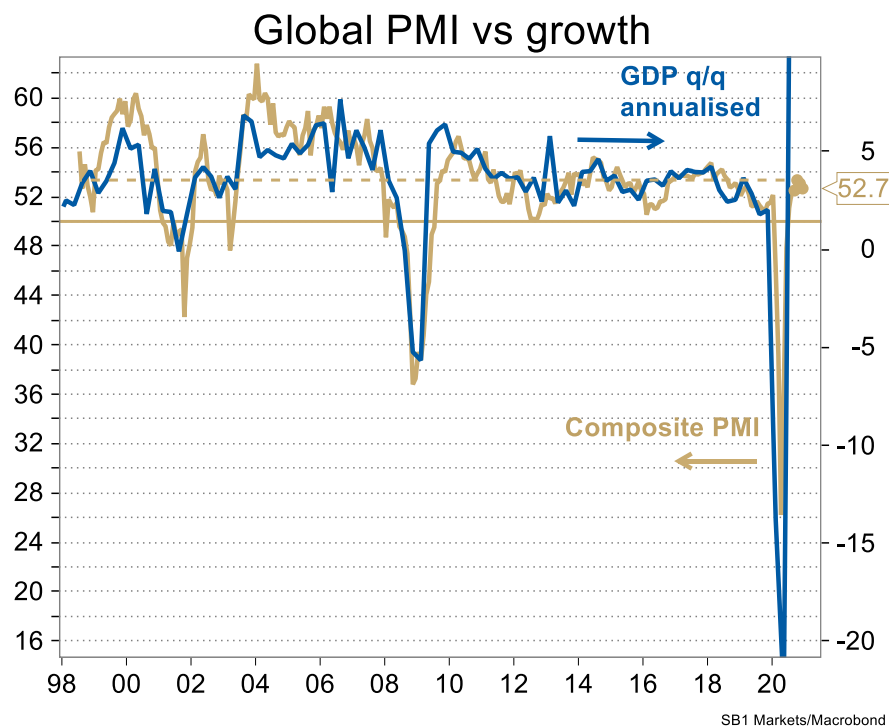
- » **Industrial production** probably stagnated in Nov - even if surveys are strong here too. Some countries have already reported their data

• Norway

- » We expect a small decline in **Mainland GDP** in November, due to the closure of restaurants, fewer hotel nights and a reduction air travel. However, other parts of the economy grew further in Nov, like retail trade & manufacturing production
- » We expect an uptick in annual **core CPI** to above 3% again – but the longer term trend is downwards
- » **Norges Banks lending survey** should confirm brisk demand for loans from households. Credit conditions rather eased than tightened, both vs. households and businesses. We are more uncertain on business demand for credit

The global composite PMI slightly down in Dec, growth still at trend

A 0.4 p decline to 52.7 was a tad larger than we assumed but at 3%+ growth pace is still signalled

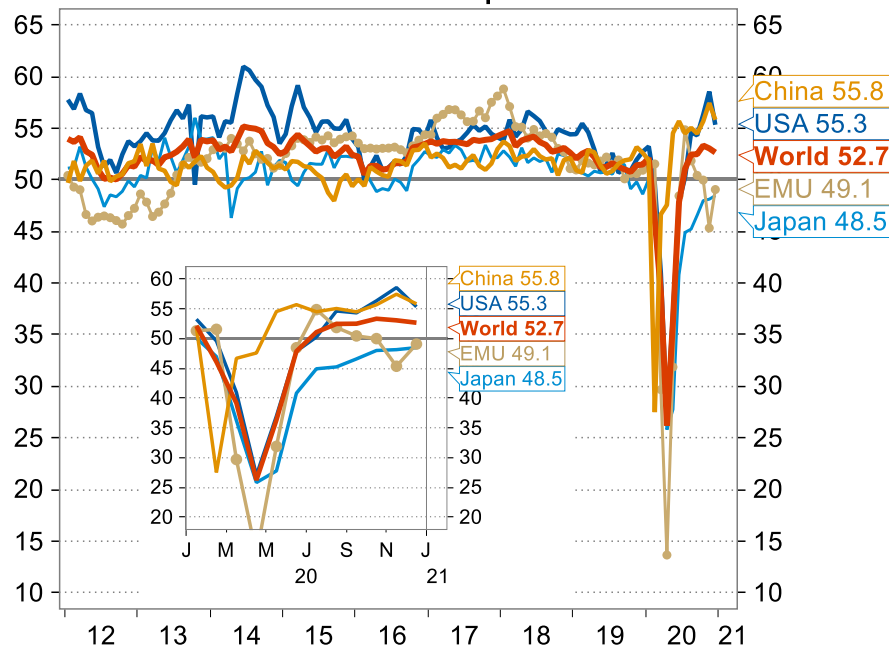


- A sharp recovery in the EMU PMI was outweighed by decline in Markit's US & Chinese PMIs. The global manufacturing (total) PMI was stable (the output index fell), while the services index fell 0.4 p
 - » In the US, the **manufacturing ISM** rose sharply to close to the best level in 40 years, and a calculated composite ISM climbed
- The global composite PMI signal a continued recovery in the global economy in Q4 but probably not above trend growth due to a moderate downturn in Europe

EMU sharply up, US & China down. 2/3rd of countries above the 50 line

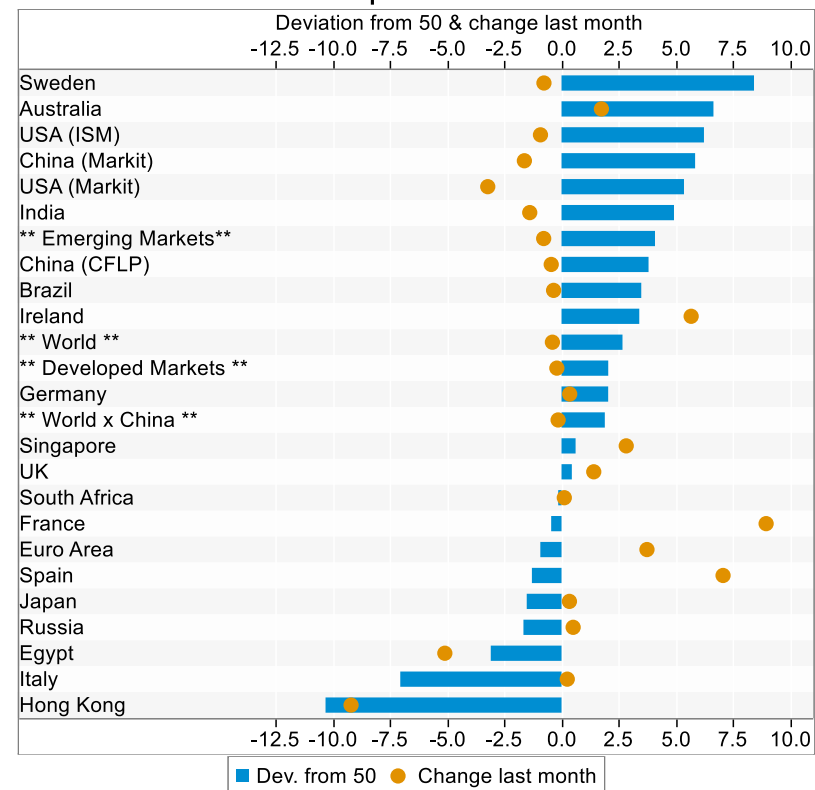
Sweden, Austr., China & US at the top. More countries up than down in Dec, France/Spain the most

PMI Composite



Source: IHS Markit, SB1 Markets, Macrobond

Composite PMI

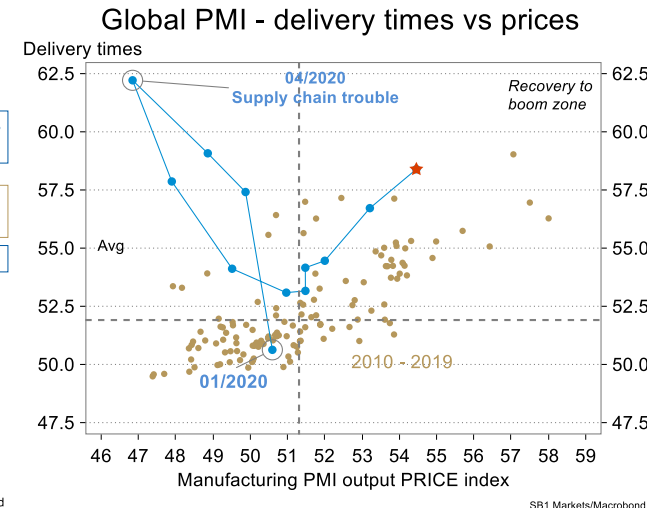
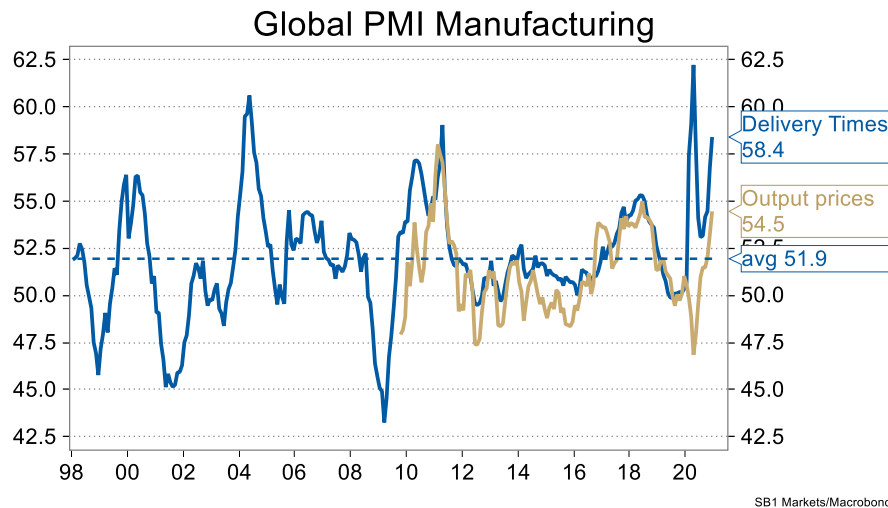
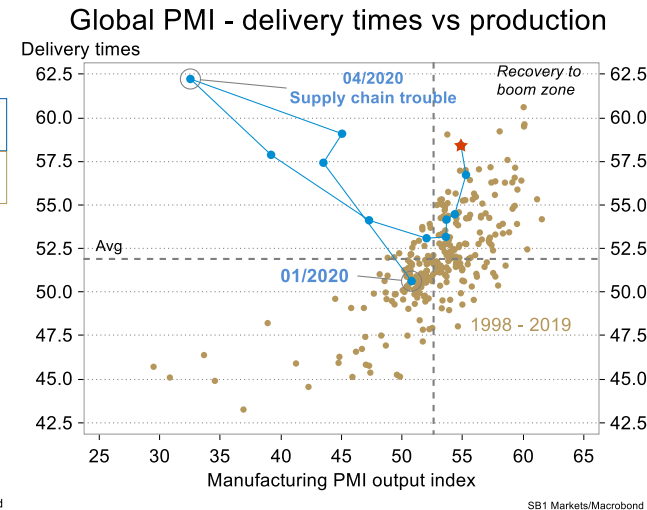
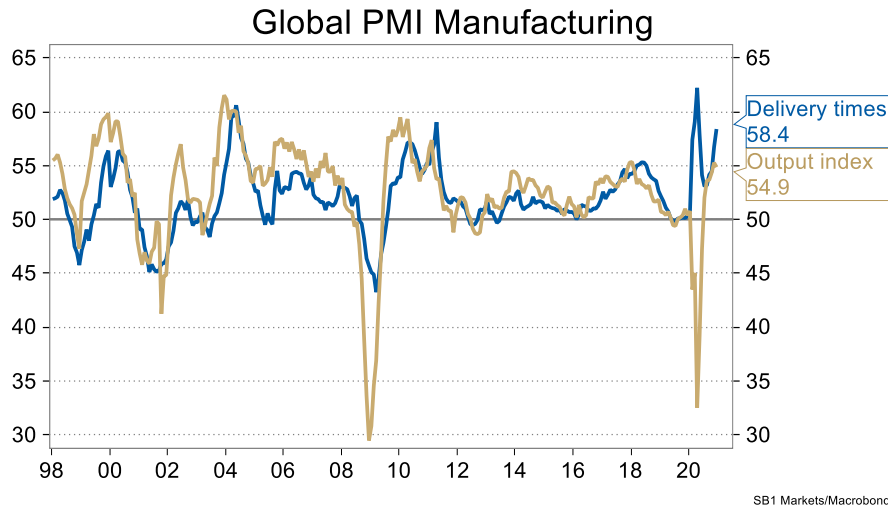


SB1 Markets/Macrobond

- **China and US** is still reporting strong growth, albeit at tad slower than in November. India an Brazil is high up one list too
- **EMU** is still below the 50 line but the recovery from the Nov slump was impressive (and totally unexpected vs the original estimate – though 0.7 p below the prelim est)
 - » The French & Spanish PMI rose sharply, and much more than originally expected
- **Sweden** is at the top, as in November. Sure, the Swedish Riksbank might be correct, Sweden could hit the wall hard due to the 2nd or 3rd corona wave. But so far, it has not happened

Activity, delivery times & output prices up in tandem: *Towards the hot zone?*

Some capacity constraints – and likely not due to corona trouble? If so...

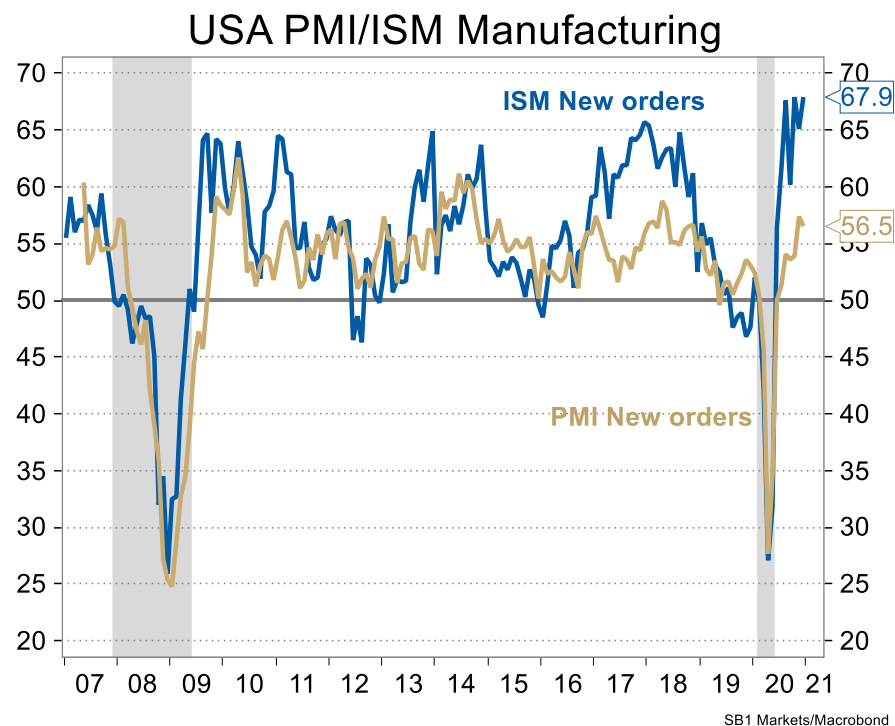
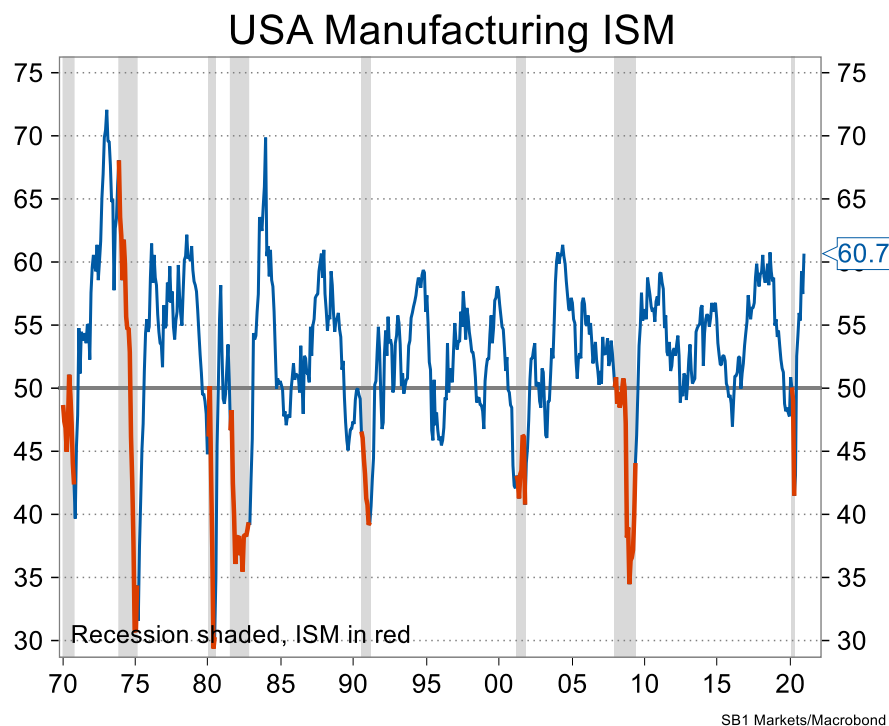


- Barring the Feb-Jun 20 months, activity, delivery times & prices are moving in parallel
- Now all 3 indicators are moving in the same direction: Delivery times are soaring, alongside strong growth in production – and prices are increasing fast too
- May the corona virus create specific supply side problems? If so, the output index would not have been so strong at the same time. So this is not 'April-20'

» **It looks more like a normal boom – that won't last forever**

Manufacturing ISM surged in Dec, has been marg. higher just 3 times past 40 y

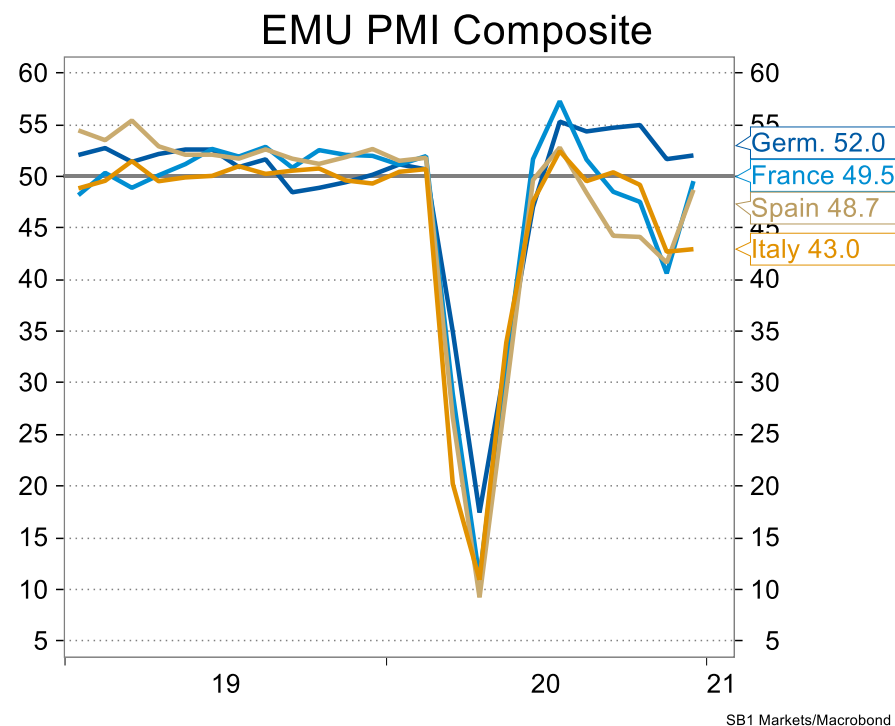
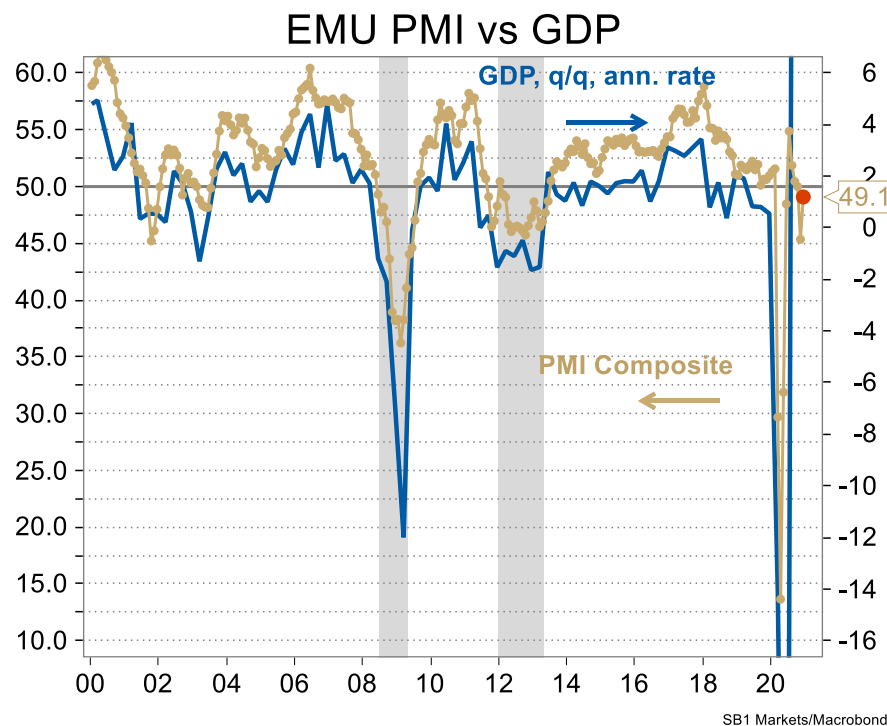
The ISM surprised sharply at the upside, +3.2 p to 60.7, expected down to 56.6. Orders strong too



- No signs of a slowdown, of course

The big Dec surprise confirmed, though a tad weaker than first reported

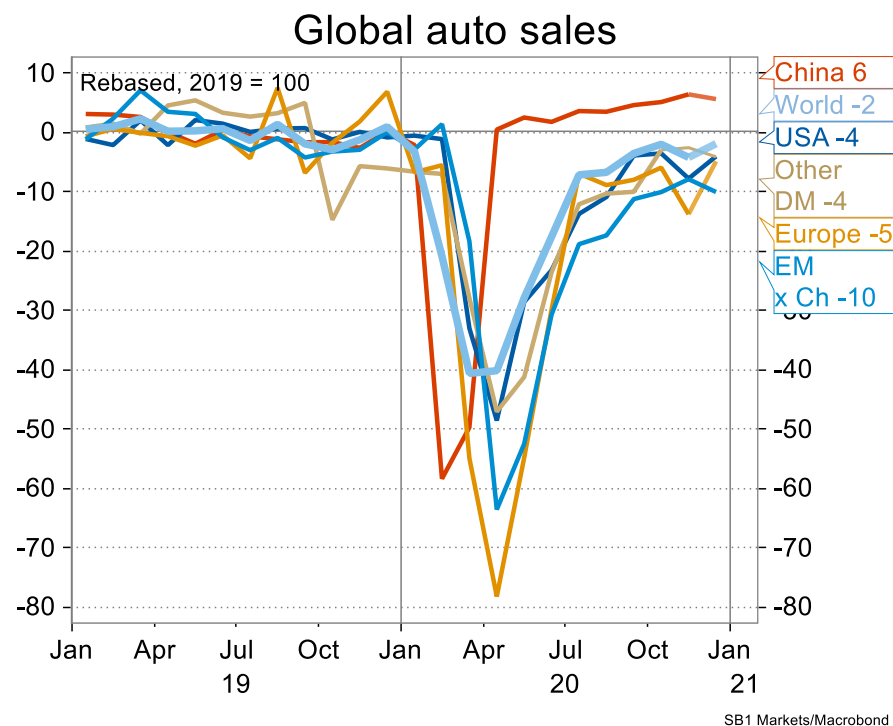
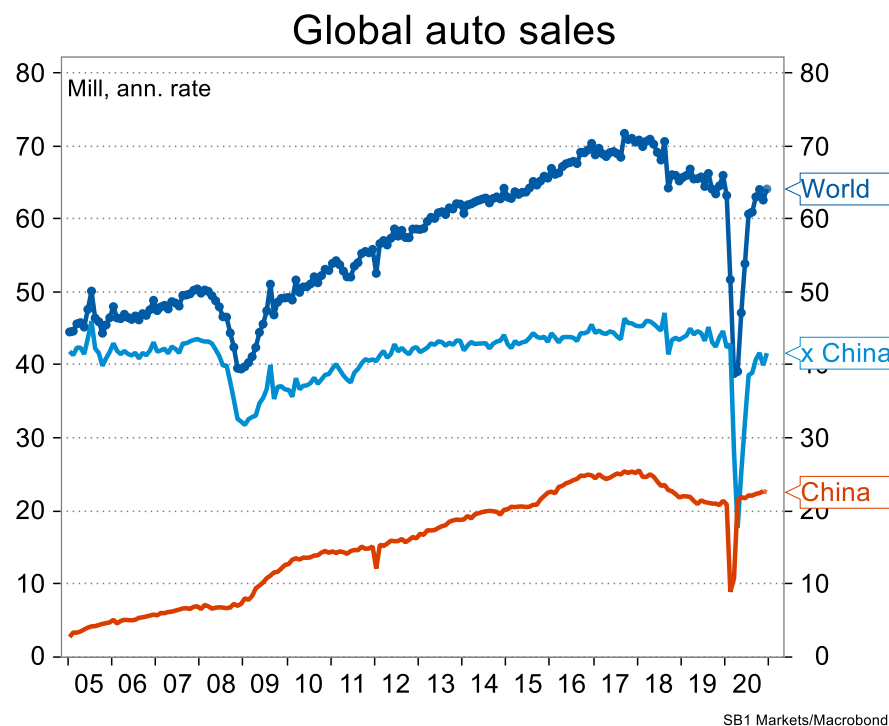
The composite revised down 0.7 p vs. prelim est. Services revised 0.9 p down, still up 5.3 p



- The final **composite PMI** rose 3.7 p to 49.1 in December, 3.6 p above the initial expectations. We cannot remember anything like this ever before in 'normal' times (PMIs were all over the place during the spring/early summer, for obvious reasons)
 - » The French rose by 8.9 p, 6.5 p more than originally expected – unprecedented in 'normal' times
 - » Germany rose just marginally but was expected down
 - » The marginal decline in the final PMI vs. the preliminary estimate might indicate that growth slowed during December
- A PMI at 50 signals zero GDP growth. We still assume EMU GDP fell in Q4 but less than many expected when the 2nd corona wave forced authorities to impose new restrictions in Oct and Nov

Global auto sales has flattened – at close to the (a tad low) pre-corona level

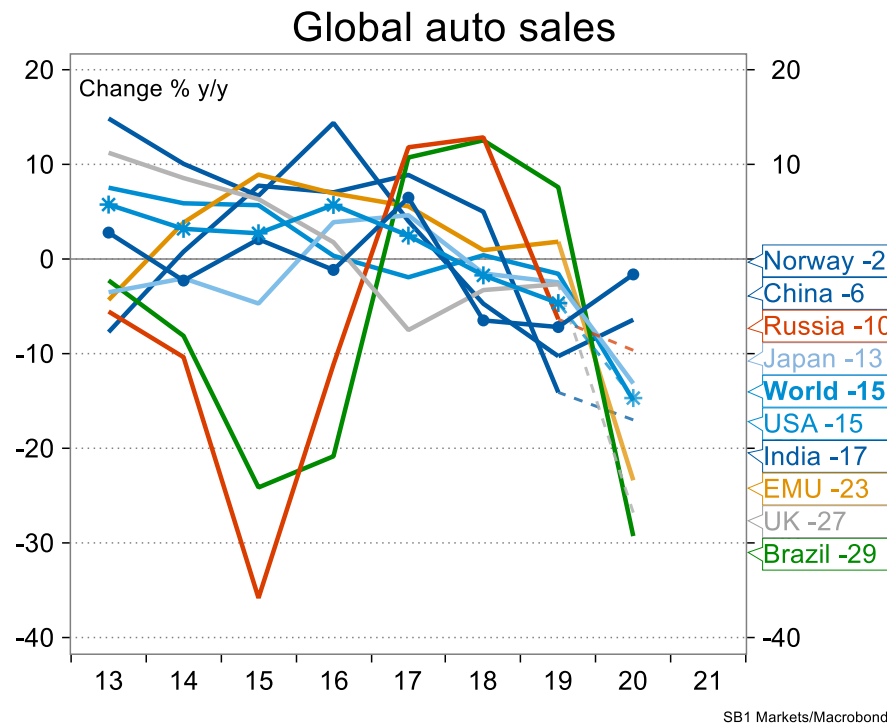
China is well above – and sales are still trending up. Most others slightly below



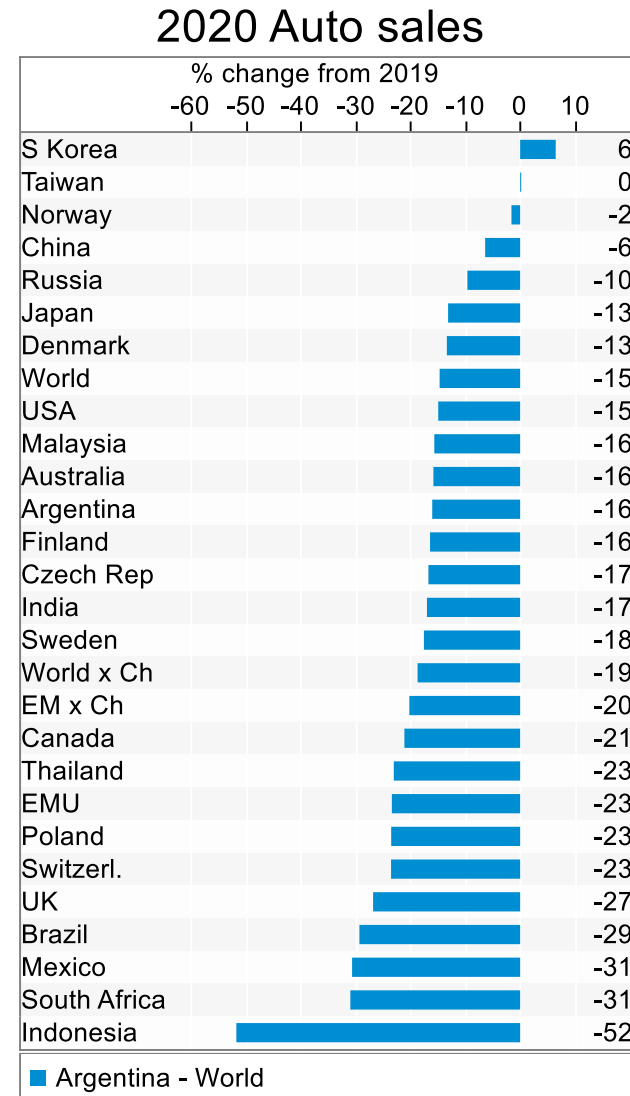
- Based on our preliminary estimates global auto sales recovered the 2% setback in November. Sales were close to flat m/m in China but rose in both US & the EMU. Sales in EM x China most likely fell (but many countries have not yet reported)
- Chinese sales are 6% above the 2019 average, EMU (and Europe) and US are 5% down. Other EMs than China are still down 10%
- BTW, Norway is up. By 59% 😊

In the year of the corona: What happened to auto sales? Not one story, it seems

Norway down 2%. The next DM? Japan & Denm -13%. The world down 15%

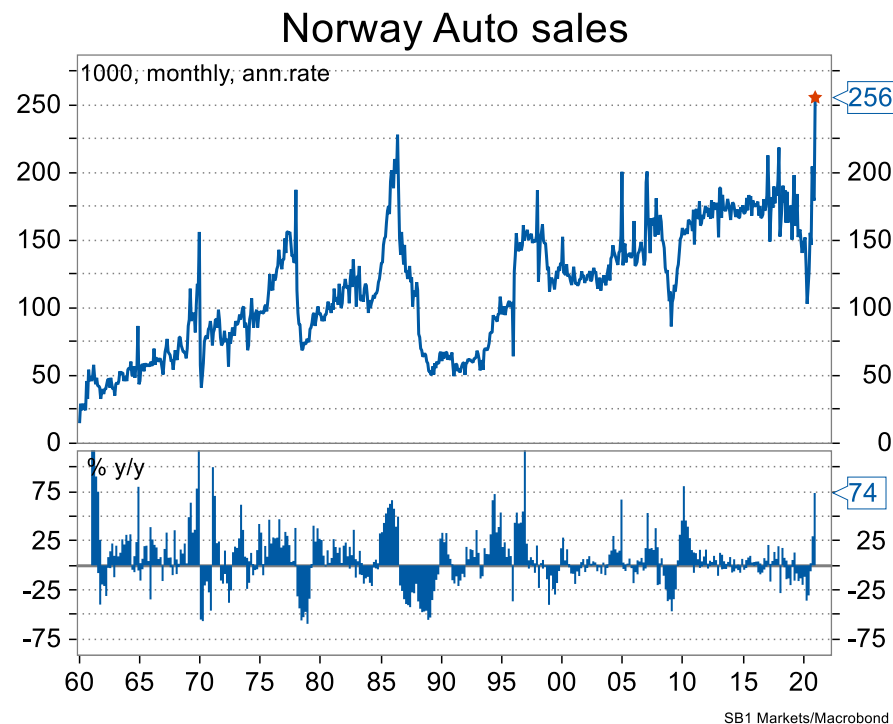
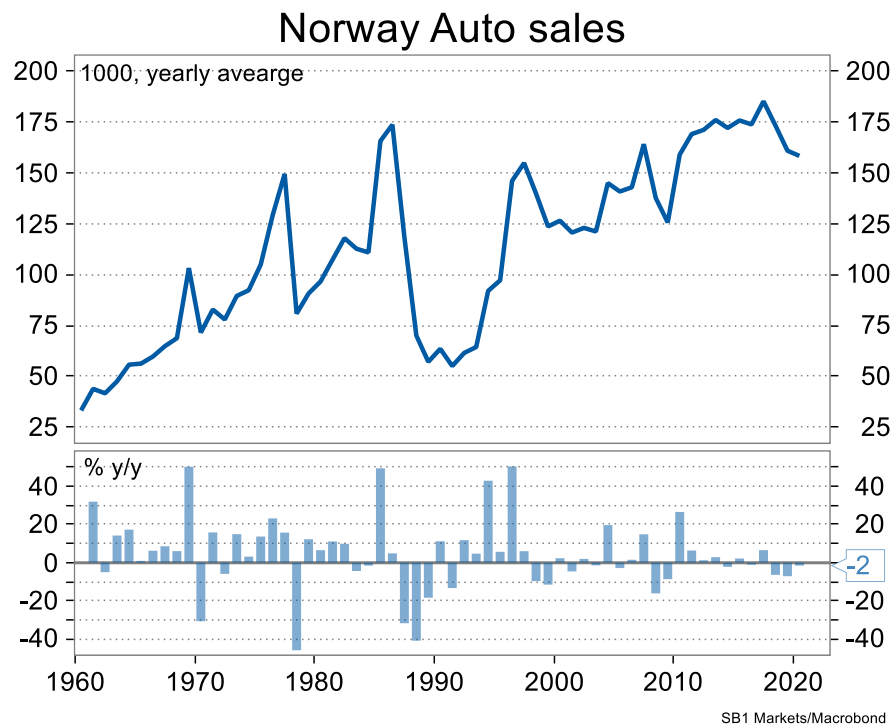


- Global sales down 15%
- China down 6%, US 15%, Sweden -18%, EMU -23%, UK-27%
- Turkey up 47%, following the 2019 disaster – not included at the charts



Suddenly, a huge lift in Norwegian auto sales in December, up to ATH (here too...)

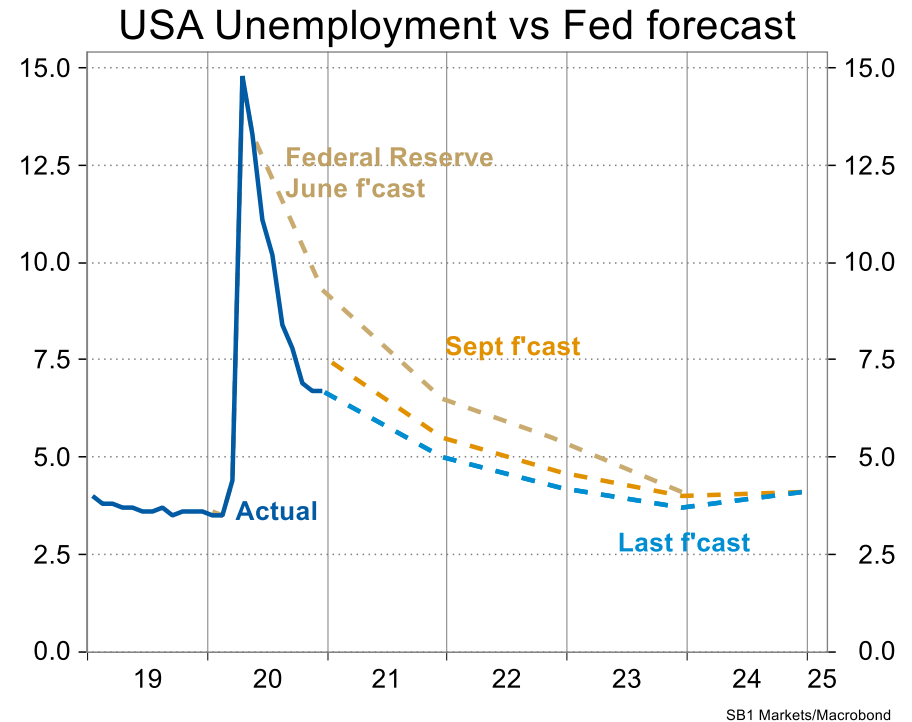
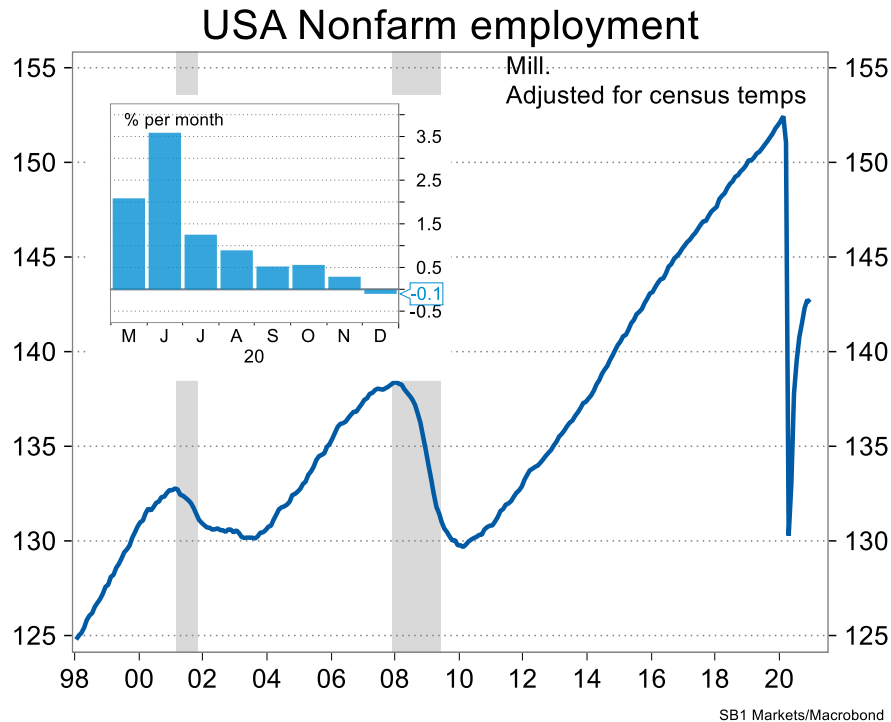
New regs up to a 256' pace, from the 'normal' 175'. Higher fossil fuel car taxes from Jan to 'blame'?



- Well, higher fossil auto taxes may perhaps explain parts of the lift, but EV's contributed to 87% of Dec sales, at least of new cars – the highest figure in any country at any time, we assume
 - » Several gas and diesel models are up NOK 10 – 20', and even more from Jan 1.
- For the year, sales declined 2% vs. 2019. Not that bad in a corona crisis year? No other peers anyway close!

Employment down in Dec, due to corona trouble in leisure/hotels/rest. Others up

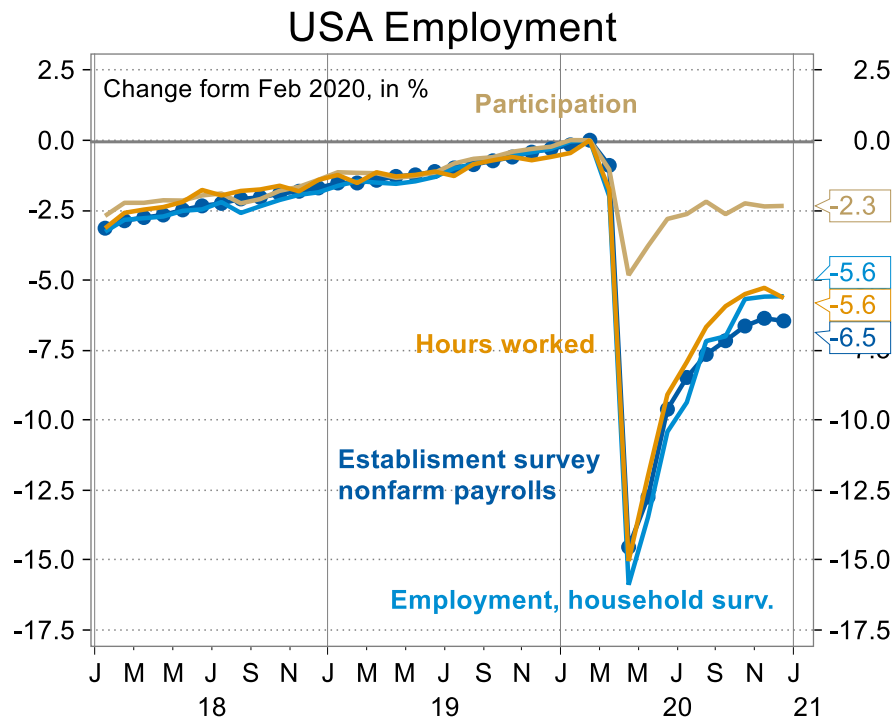
Employment fell by 140', expected up by 50' (at least until ADP reported a 123' drop Wednesday)



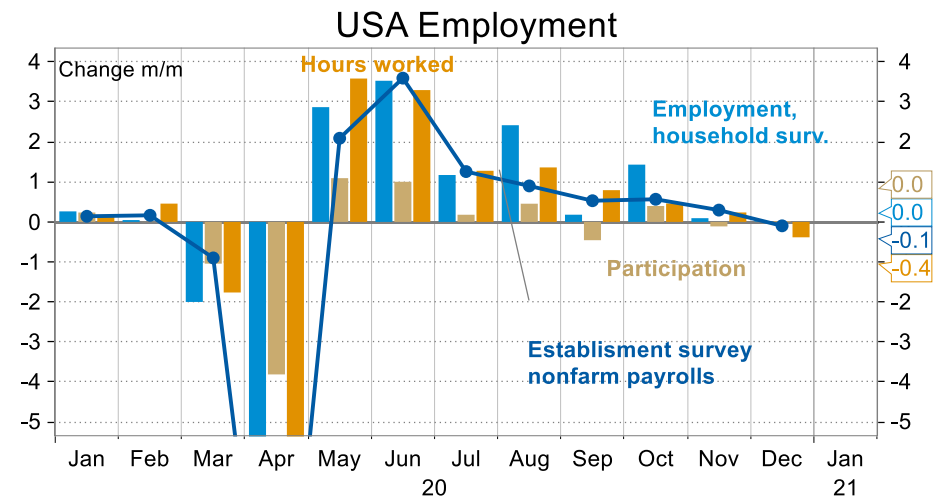
- **Employment** fell by 140' in Dec, expected up 50', at least ahead of the weak ADP -123' was published at last Wednesday. Public employment fell by 45' as local government's budgets are squeezed due to the corona downturn. In the private sector, employment in leisure/hospitality fell by 498', of which 372' in restaurant, 92' in recreational activities. Empl. in education fell by 62', also due to Covid-19 challenges. In other private sectors, employment rose by 465' a decent number. Employment is 6.5% below the pre-corona level, it was down 14% in April
- **Unemployment** was unchanged at 6.7%, expected up 0.1pp. Both the participation & the employment rate were unchanged
- **Average wages** rose sharply due to loss of low paid jobs in the hospitality sector. The 'real' growth in earnings (ECI) is at 2.5%
- **The Federal reserve will keep pushing the accelerator hard the coming months, whatever fiscal stimulus may be decided**

Employment still 5.5- 6.5% below par

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

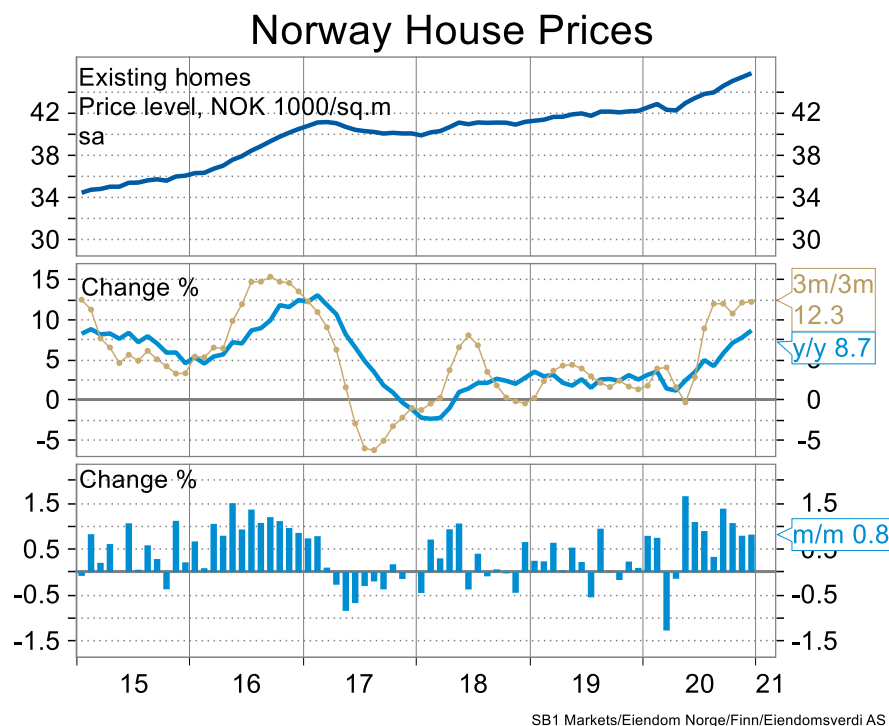


- The participation rate has stabilised at some 2.5% below the pre-corona level, which is lowering the unemployment rate by the same amount
- Nonfarm payrolls are down 6.5% vs Feb, while employment measured by the household survey (LFS/'AKU') is 5.6 & below par
- Hours worked is increasing approx.. at the same pace as employment but and is 5.6% below the pre-corona level

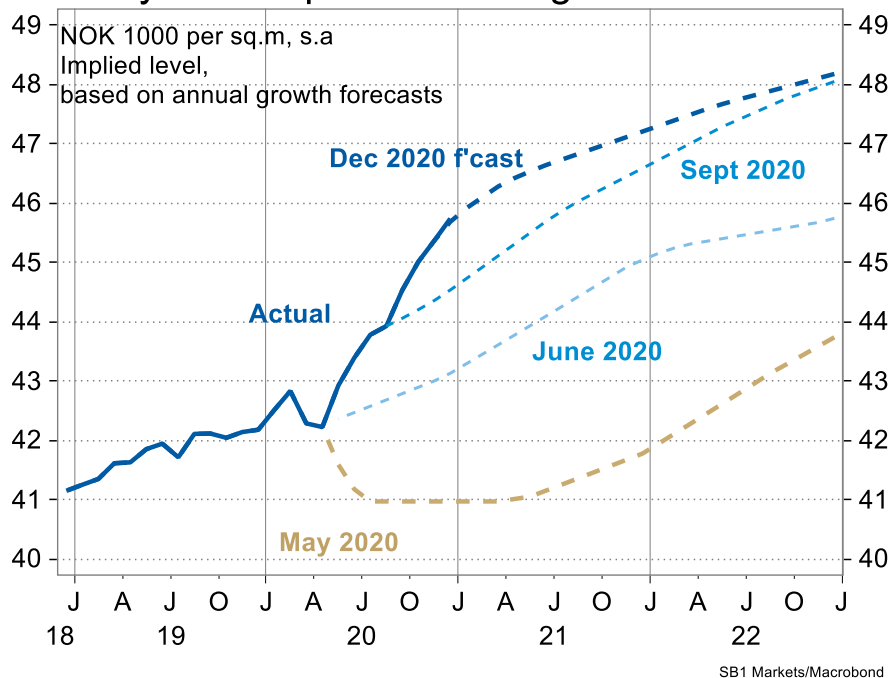


Steady as she goes: House prices increased by another 0.8% m/m in Dec

Norges Bank (and we) expected 0.7%



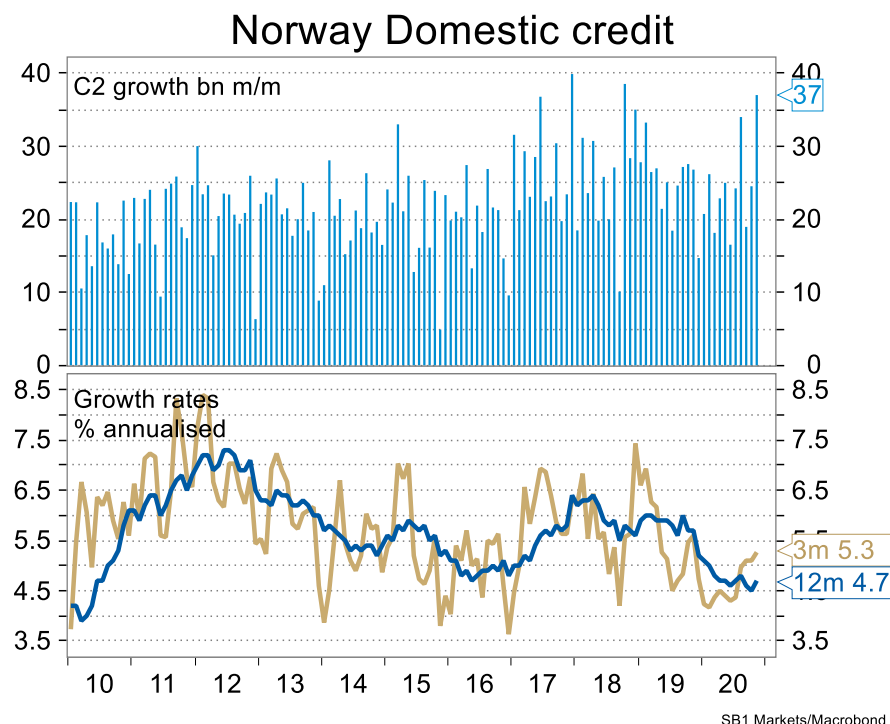
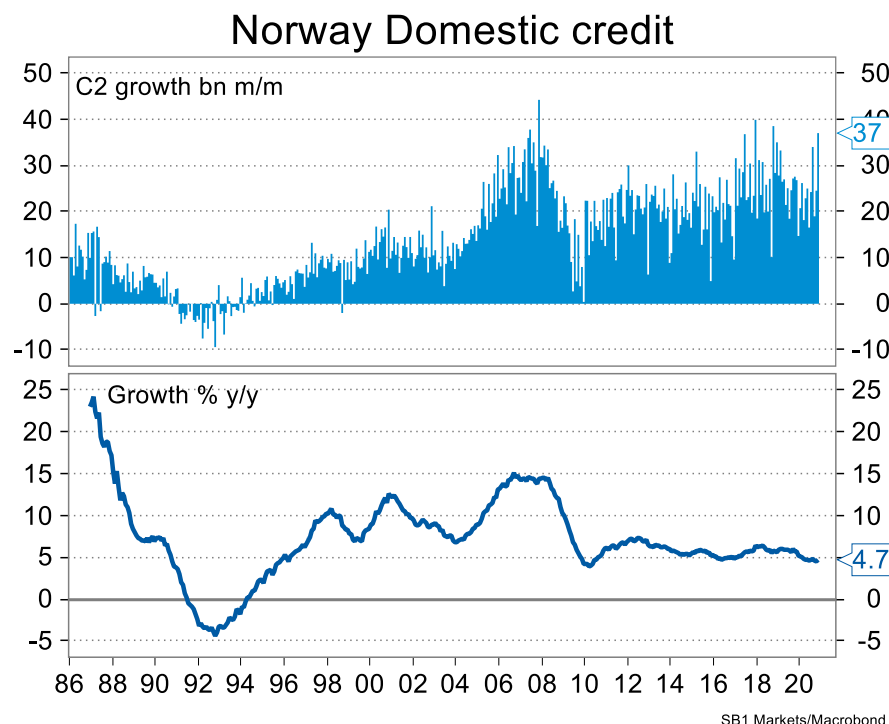
Norway House prices vs Norges Bank's f'casts



- House prices rose by 0.8% seas. adj in Dec, as in Nov, roughly in line with expectations. The past 3m/3m, prices are up by 12%, annualised. Prices are 6.7% above the Feb level, and are up 8.7% y/y, the highest in 3 years. A 1.2 pp cut in mortgage rates (to 1.8% in average now, from 3.0% in Feb), has been much more important the corona setback and higher unemployment
 - 3 cities reported marginal decline in prices m/m. Oslo was at the top, far above other towns, prices rose by 1.7%. The large soccer town Bodø no. 2, 0.9%
 - Smoothed 3m/3m prices are up everywhere. Stavanger and Kr.sand at the bottom, Oslo at the top, at 19% (annualised) – and Bodø next with 17%!
 - The number of transactions kept up at a high level in Dec, at some 23% above the (average) 2019 level. The inventory of unsold homes has fallen sharply, and it is now 25% down from early 2020 and far below a normal level, even if more homes are put on the market and fewer are withdrawn!
- Should the steep price growth continue, Norges Bank will start hiking rates even before Q1 22' (Q4 21 is more likely, we think)**

Strong credit growth in November, households more than ever, at least in billions

Total domestic credit growth (C2) up 0.2 pp to 4.7% – the trend is (perhaps) slowly downwards

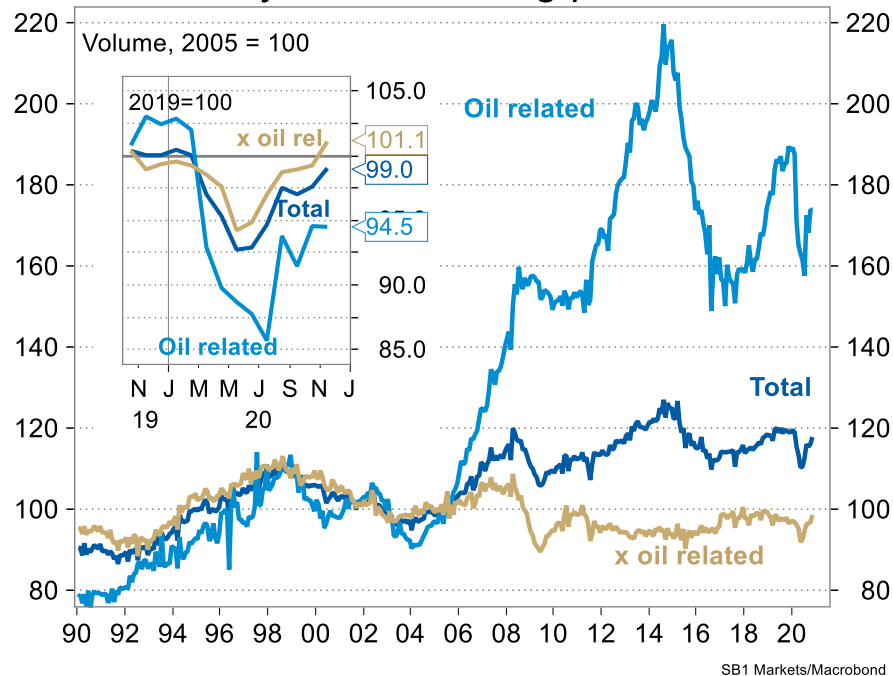


- **Total domestic debt (C2)** rose by NOK 37 bn in Nov, or by 7.3% annualised. The annual growth rate accelerated by 0.2 pp to 4.7%, we expected a decline to 4.4%. Measured 3m/m growth accelerated to 5.3%, from just above 4% before the corona crisis – and we are not witnessing a full scale credit boom (at least not yet)
- **Household credit** rose by NOK 21 bn in Nov – more than any month before - or by 7.0% annualised. The annual rate was unchanged at 4.8%, we expected 4.7% - as did Norges Bank.. Underlying income growth is at approx.. 4.5%. Thus, even if the Nov. debt hike may be a warning sigh, there are yet 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 by itself not a strong argument for Norges Bank to change tack**
- **Corporate C2 credit**, which is very volatile, rose by NOK 12 bn and 3.6% y/y, above our 3.2% forecast. **Mainland corporates** increased their debt by 3.4% vs Norges Bank's 2.9% forecast (Dec f'cast, revised upwards from far too dovish 0.3% f'cast in the Sept MPR)

The manufacturing recovery continues – prod. up 1.5% in Nov, 1% down vs Feb!

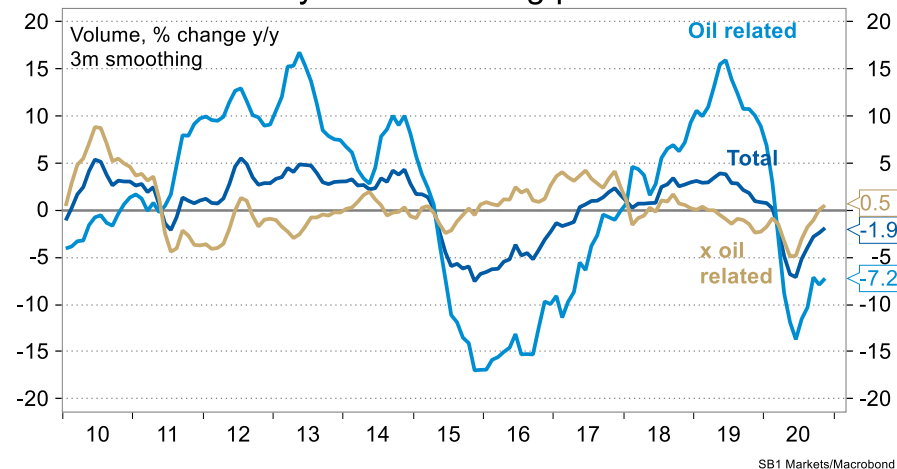
Oil related industries unch. in Nov (-5.5% vs Feb) – others +2% m/m to above the pre-corona level

Norway Manufacturing production

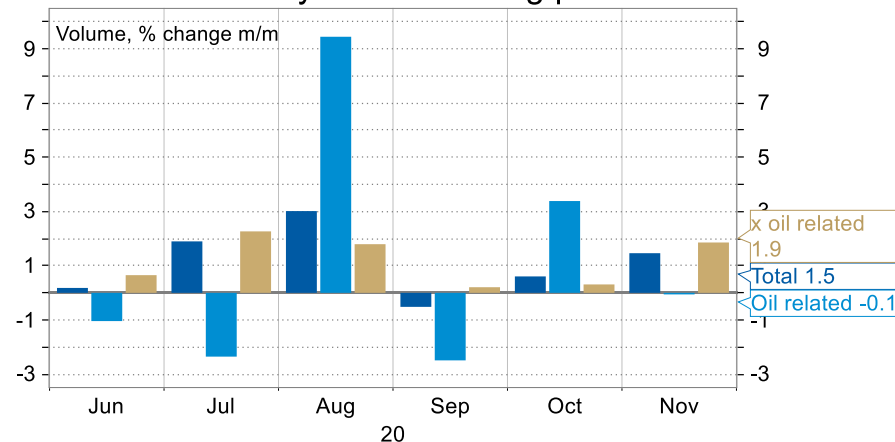


- Production has been rising since June, barring a 0.5% dip in Sept. Currently up 3% 3m/3m
- Oil related production was down 0.1% m/m, other +1.9%. Oil related is still some 5.5% below the level in early 2019. Non-oil related is up 1.1%! Still, the trend recent years is far from impressive!
- Manufacturing production in Norway has fallen less than in most other rich countries, [check here](#)
- Surveys are mixed, the Regional Network signals no growth, while both the PMI and SSB's survey signals close to normal growth. NHOs survey is a laggard, signalling falling production

Norway Manufacturing production

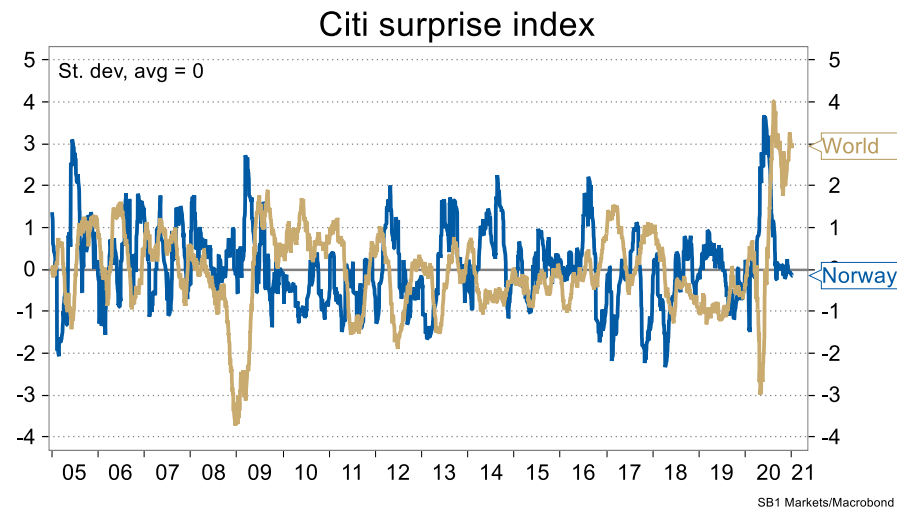
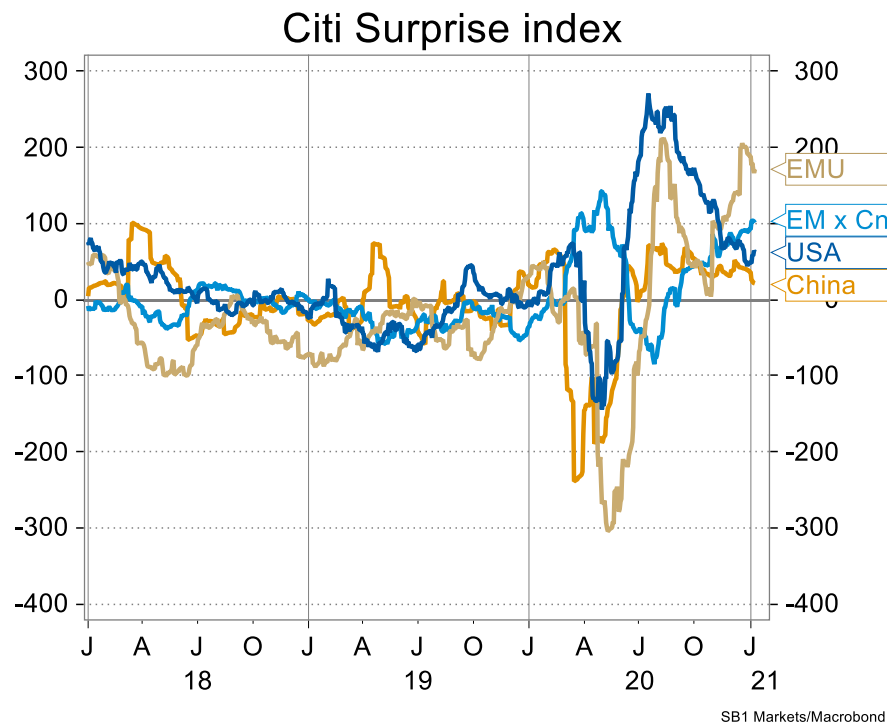


Norway Manufacturing production

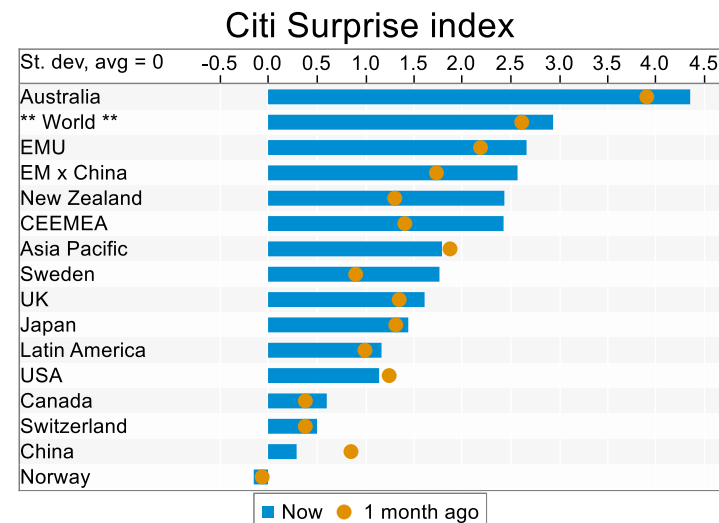


Surprises are still on the upside – but not more

EMU is still surprising big time at the upside, but weak retail sales lowered the surprise index last w.



- All major countries/regions are reporting data above expectations, for the first time ever
- The Euro Zone has been delivering strong data recent weeks
- The US is still well into positive territory, even in the labour market was weak in Dec
- China has moderated lately
- Other EMs are well above their average level too – and more last week
- Norway, Canada and Switzerland at the bottom, with China. At BTW, Australia at the top



The Calendar

China Dec & Q4 data. US retail sales & ind. Production. EMU ind. production. GDP & CPI here

Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 11					
08:00	NO	CPI YoY	Dec	(0.9)	0.7%
08:00	NO	CPI-ATE YoY	Dec	(3.1)	2.9%
Tuesday Jan 12					
08:00	NO	GDP Mainland MoM	Nov	(-0.5)	1.2%
12:00	US	NFIB Small Business Optimism	Dec	--	101.4
16:00	US	JOLTS Job Openings	Nov	6300	6652
Wednesday Jan 13					
11:00	EC	Industrial Production SA MoM	Nov	0.2%	2.1%
14:30	US	CPI MoM	Dec	0.4%	0.2%
14:30	US	CPI Ex Food and Energy YoY	Dec	1.6%	1.6%
20:00	US	Monthly Budget Statement	Dec	-\$82b	-\$145.3b
20:00	US	U.S. Federal Reserve Beige Book			
Thursday Jan 14					
	CH	Exports YoY	Dec	15%	21%
	CH	Trade Balance	Dec	\$70b	\$75b
10:00	NO	Norges Bank Lending Survey			
14:30	US	Initial Jobless Claims	Jan-09	818k	793k
Friday Jan 15					
02:30	CH	New Home Prices MoM	Dec		0.1%
08:00	UK	Manufacturing Production MoM	Nov	0.4%	1.7%
08:00	UK	Monthly GDP (MoM)	Nov		0.4%
08:00	NO	Trade Balance	Dec		0.2b
09:30	SW	CPI Excl. Energy YoY	Dec		1.1%
14:30	US	PPI Ex Food and Energy MoM	Dec	0.1%	0.1%
14:30	US	Empire Manufacturing	Jan	6	4.9
14:30	US	Retail Sales Advance MoM	Dec	-0.3%	-1.1%
14:30	US	Retail Sales Ex Auto and Gas	Dec	-0.1%	-0.8%
15:15	US	Manufacturing (SIC) Production	Dec	0.3%	0.8%
16:00	US	Business Inventories	Nov	0.4%	0.7%
16:00	US	U. of Mich. Sentiment	Jan P	79.5	80.7
Monday Jan 18					
03:00	CH	GDP SA QoQ	4Q	2.6%	2.7%
03:00	CH	GDP YoY	4Q	6.2%	4.9%
03:00	CH	Industrial Production YoY	Dec	6.9%	7.0%
03:00	CH	Retail Sales YoY	Dec	5.5%	5.0%
03:00	CH	Fixed Assets Ex Rural YTD YoY	Dec	3.2%	2.6%
During the week					
	CH	Aggregate Financing CNY	Dec	2165b	2130b

• China

- » **GDP growth** is expected to have been far above trend in Q4 too, and the annual growth rate at 6.2% represents a full recovery. **Dec activity & credit** data are expected to be decent too

• USA

- » **Retail sales** fell in Nov, and are expected further down in Dec. Even so, total consumption is still on track for a 4% growth pace in Q4. **Industrial production** is still on the way up, and surveys are very strong. The first **Jan surveys** will also be published, as well as Fed's Beige Book, its regional network

• EMU

- » **Industrial production** probably stagnated in Nov - even if surveys are strong here too. Some countries have already reported their data

• Norway

- » We expect a small decline in **Mainland GDP** in November, due to the closure of restaurants, fewer hotel nights and a reduction air travel. However, other parts of the economy grew further in Nov, like retail trade & manufacturing production
- » We expect an uptick in annual **core CPI** to above 3% again – but the longer term trend is downwards
- » **Norges Banks lending survey** should confirm brisk demand for loans from households. Credit conditions rather eased than tightened, both vs. households and businesses. We are more uncertain on business demand for credit

Highlights

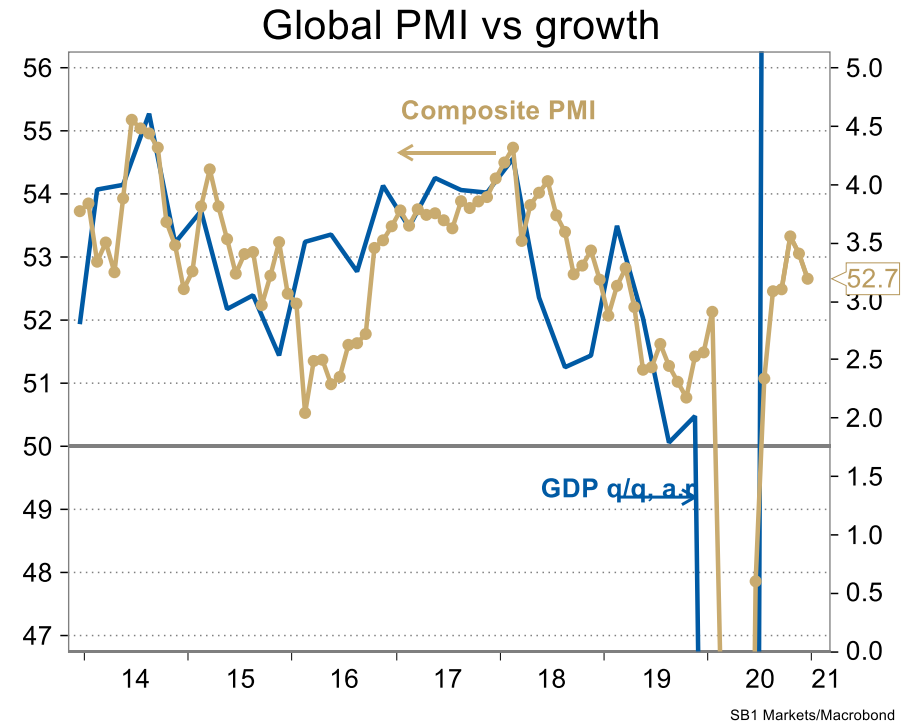
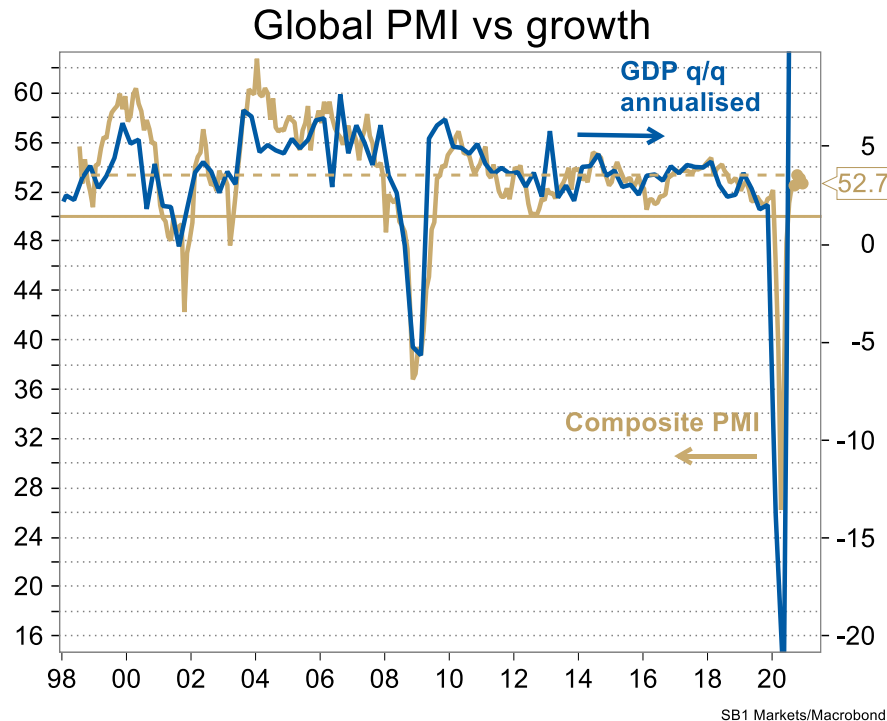
The world around us

The Norwegian economy

Market charts & comments

The global composite PMI slightly down in Dec, growth still at trend

A 0.4 p decline to 52.7 was a tad larger than we assumed but at 3%+ growth pace is still signalled

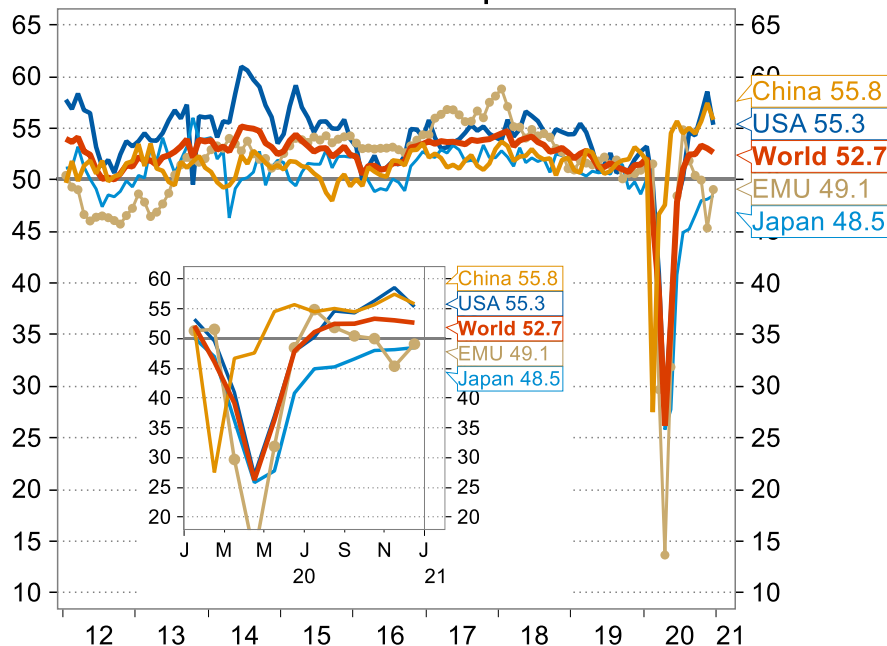


- A sharp recovery in the EMU PMI was outweighed by decline in Markit's US & Chinese PMIs. The global manufacturing (total) PMI was stable (the output index fell), while the services index fell 0.4 p
 - » In the US, the **manufacturing ISM** rose sharply to close to the best level in 40 years, and a calculated composite ISM climbed
- The global composite PMI signal a continued recovery in the global economy in Q4 but probably not above trend growth due to a moderate downturn in Europe

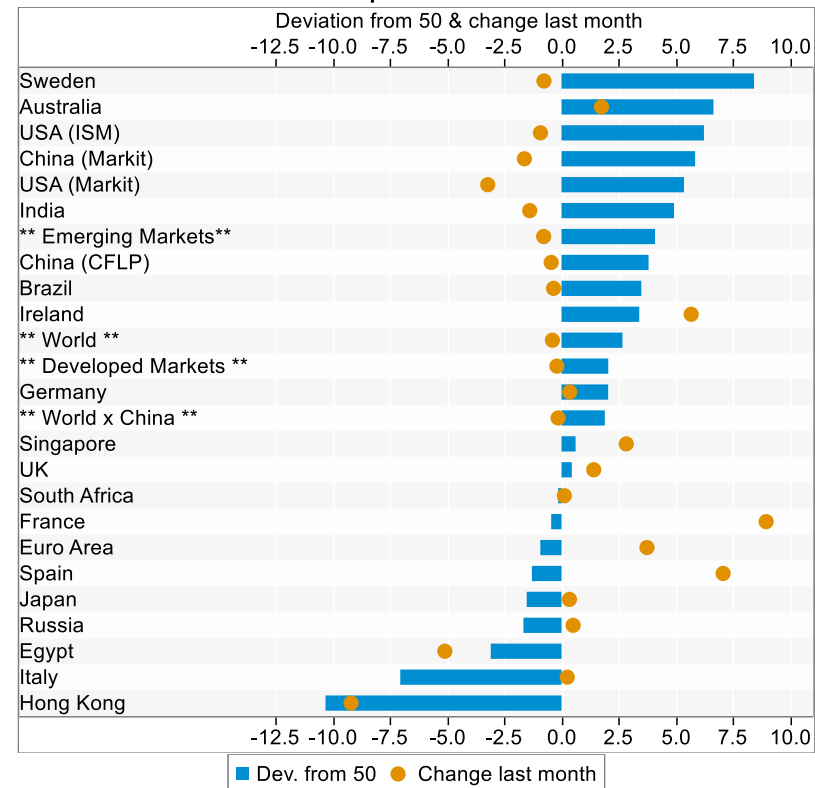
EMU sharply up, US & China down. 2/3rd of countries above the 50 line

Sweden, Austr., China & US at the top. More countries up than down in Dec, France/Spain the most

PMI Composite



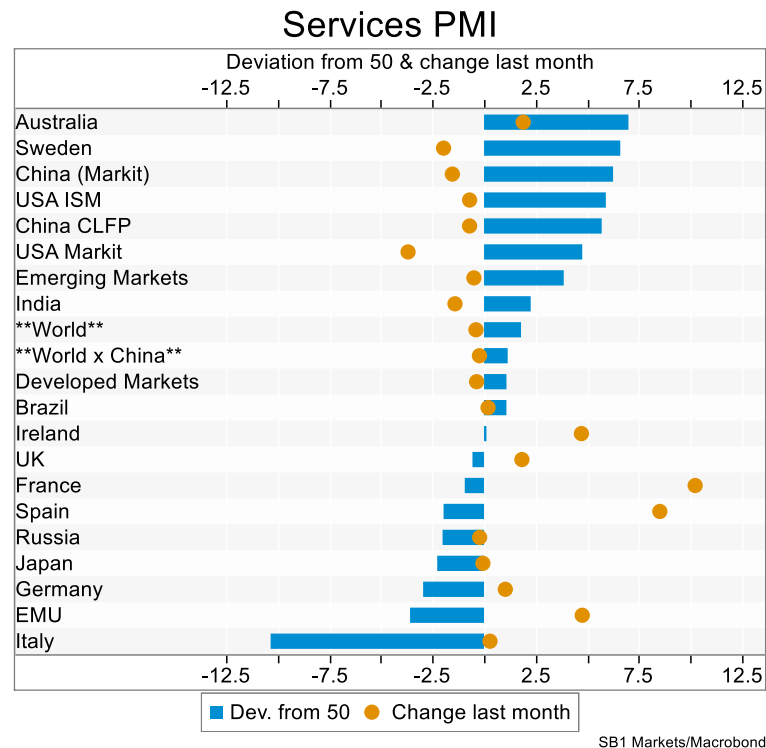
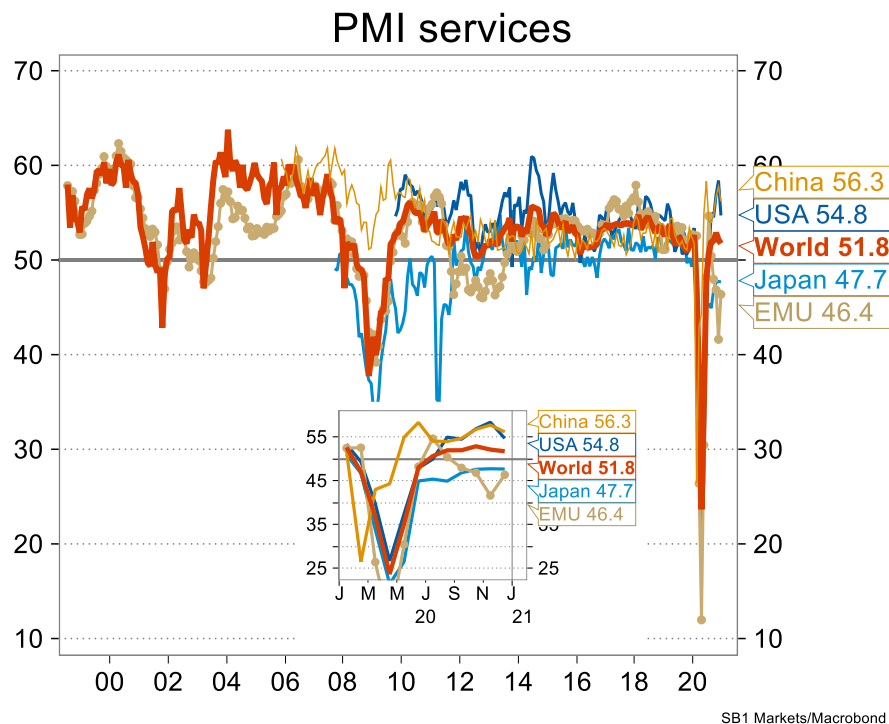
Composite PMI



- **China and US** is still reporting strong growth, albeit at tad slower than in November. India an Brazil is high up one list too
- **EMU** is still below the 50 line but the recovery from the Nov slump was impressive (and totally unexpected vs the original estimate – though 0.7 p below the prelim est)
 - » The French & Spanish PMI rose sharply, and much more than originally expected
- **Sweden** is at the top, as in November. Sure, the Swedish Riksbank might be correct, Sweden could hit the wall hard due to the 2nd or 3rd corona wave. But so far, it has not happened

The service sector PMI surprised on the downside

Though the service sector in France and Spain is still contracting, the Dec PMI lift remarkably large

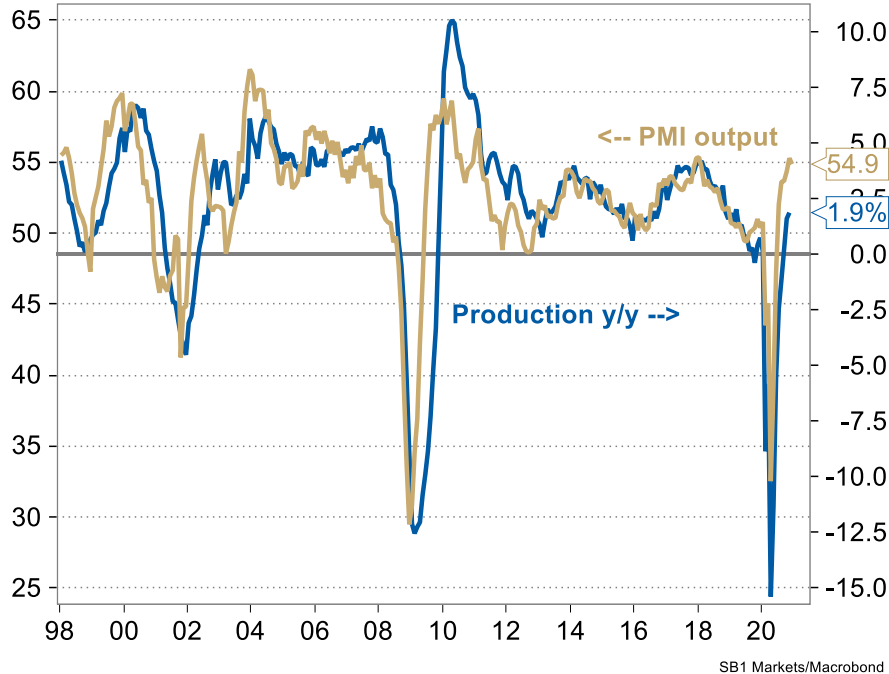


- 9 countries/regions up, 12 down. 8 below the 50 line, 13 above – and the average at 51.8
- EMU services PMI up to 46.4 from 41.7 – still contracting but at a softer pace

The manuf. PMI stays strong, signalling continued booming production growth

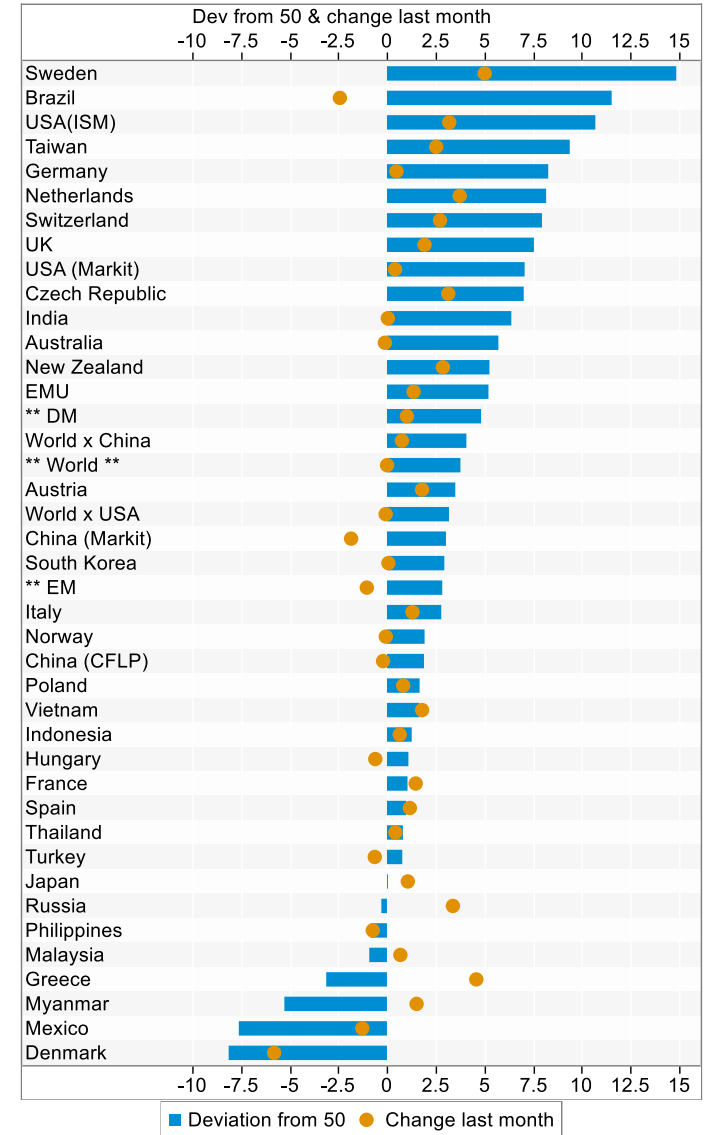
The PMI was flat in Dec, at a high level. Sweden in the lead!

Global Manufacturing PMI vs production



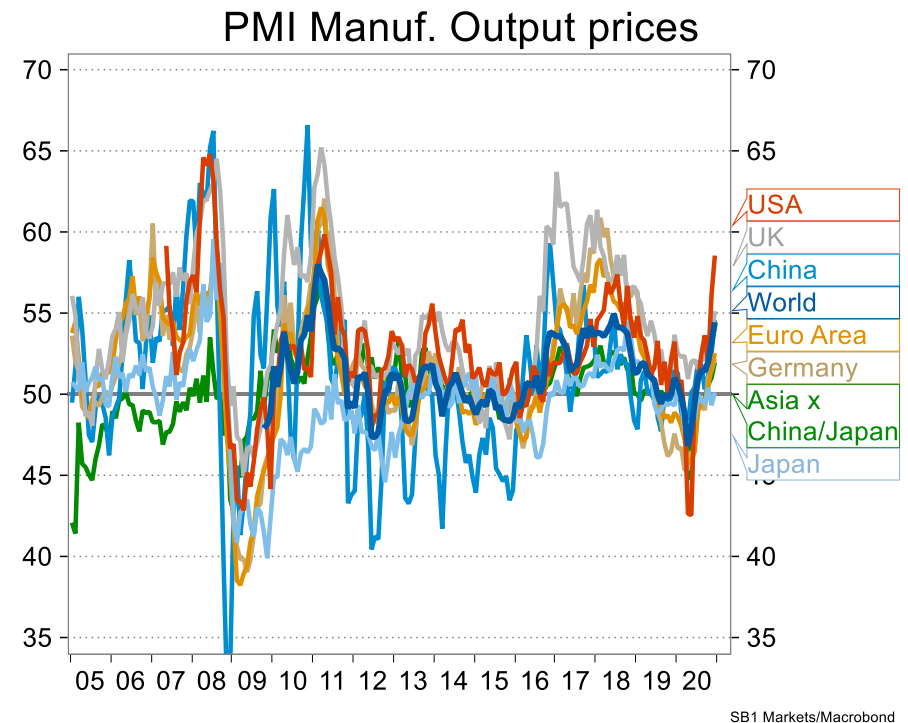
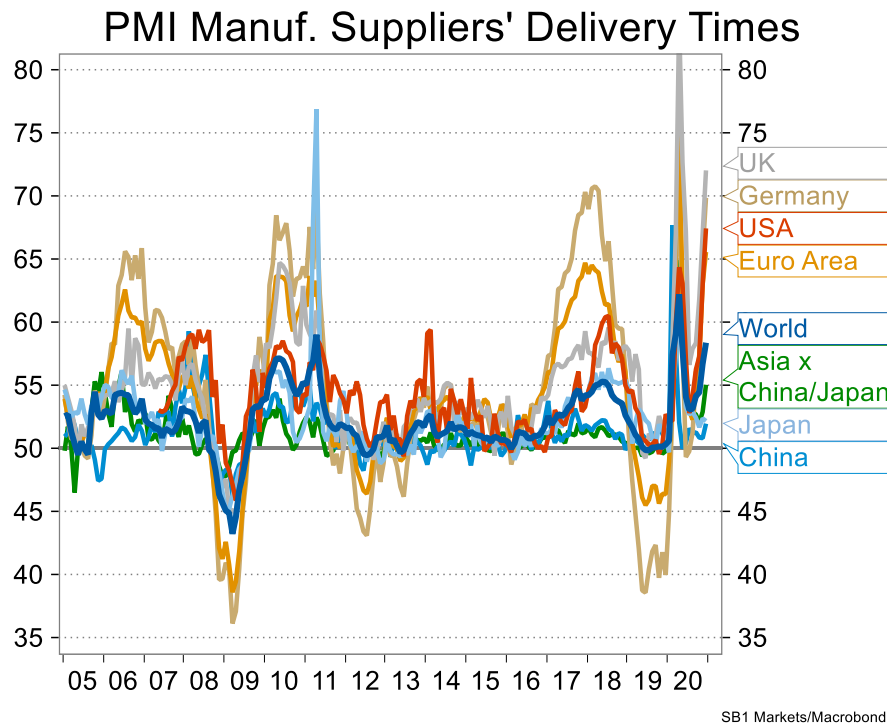
- The global manufacturing PMI was flat at 53.8 in Dec, we expected a 0.1 p decline. The level is close to the best during the past 10 years
 - 73% of the countries/regions reported higher PMIs in December than in Nov (from 62)
 - A majority of the countries (80% from 72%) are reporting PMIs above the 50 line
 - The output index fell by 0.4 p, as we assumed – but remains at a high level
- EM down due to China, Brazil. DM up due to EMU, UK & Japan
- Sweden (and Brazil) in the lead, the volatile Danish PMI at the bottom

PMI Manufacturing



Delivery times are soaring and prices are rising faster almost everywhere

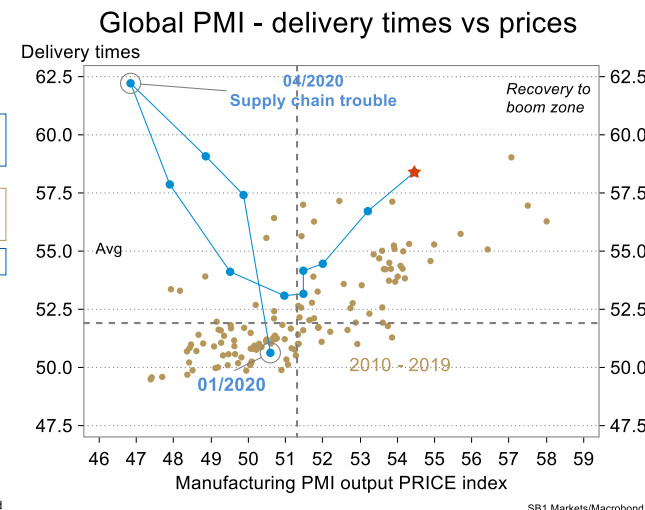
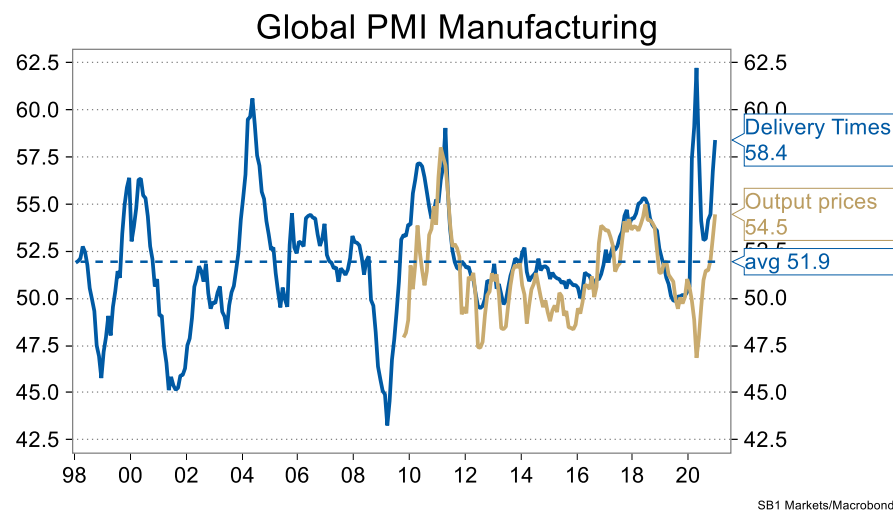
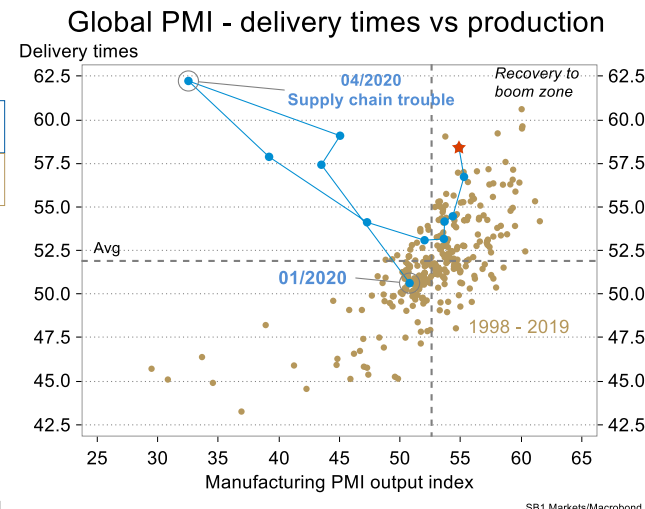
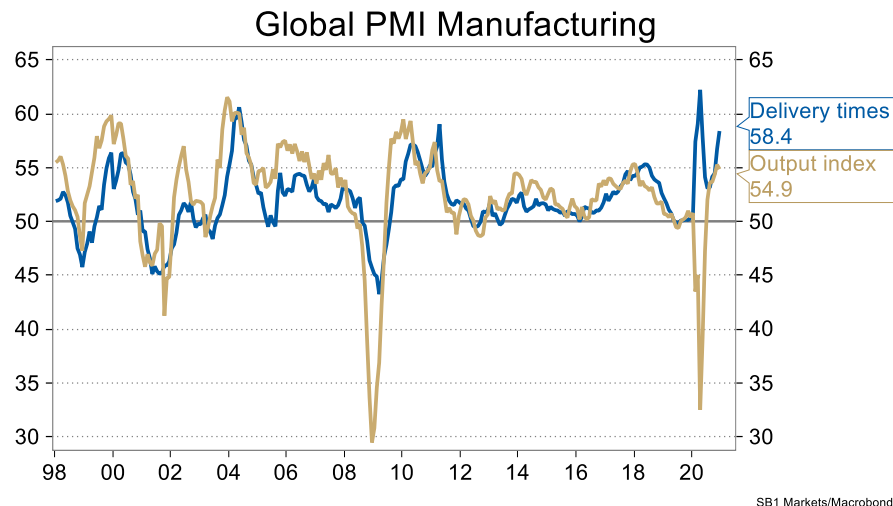
... and probably not mostly due to specific corona challenges



- Brexit and partly the covid-19 surge may explain some of the delivery problems in the UK, perhaps even in Germany – but production is surging, especially in the German manufacturing sector. The same goes for the US
- Taken together – rapid growth, longer delivery times and higher prices looks like something more familiar – *check the next page!*

Activity, delivery times & output prices up in tandem: *Towards the hot zone?*

Some capacity constraints – and likely not due to corona trouble? If so...

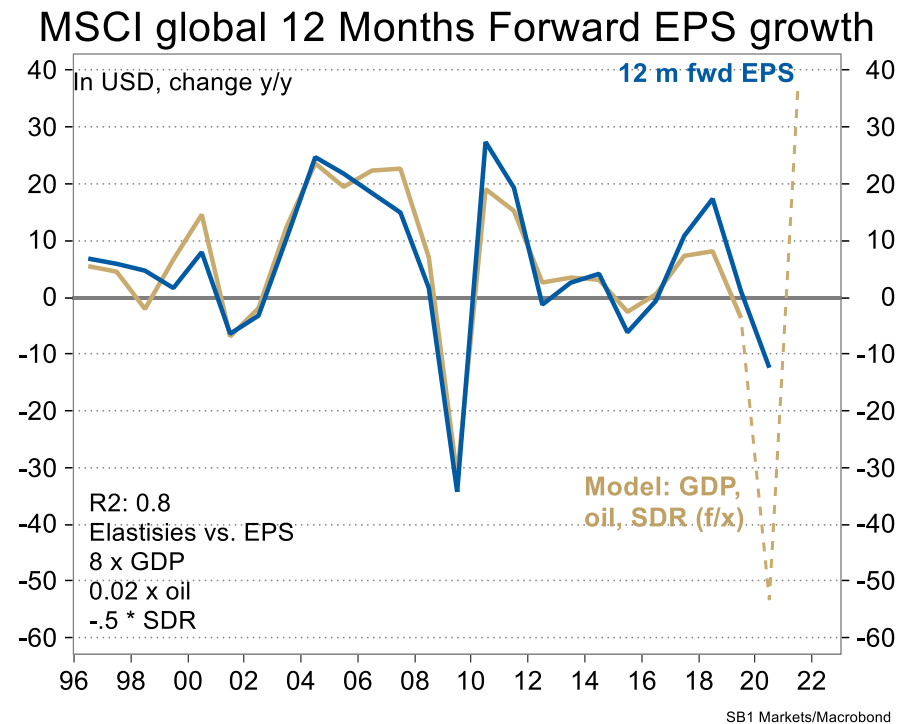
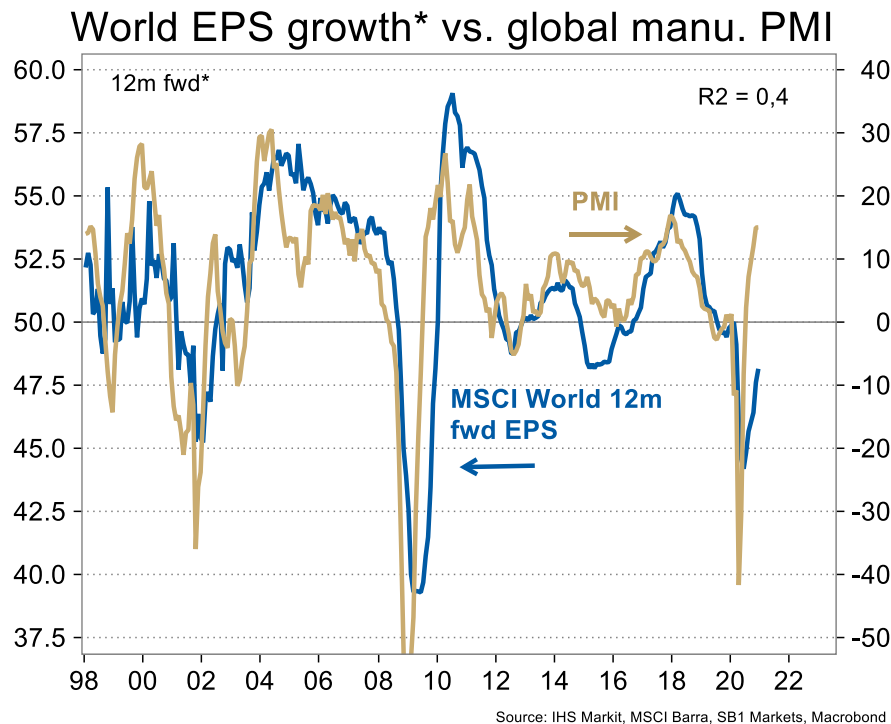


- Barring the Feb-Jun 20 months, activity, delivery times & prices are moving in parallel
- Now all 3 indicators are moving in the same direction: Delivery times are soaring, alongside strong growth in production – and prices are increasing fast too
- May the corona virus create specific supply side problems? If so, the output index would not have been so strong at the same time. So this is not 'April-20'

» **It looks more like a normal boom – that won't last forever**

Profits should have fallen much more – but with a little help from your friends...

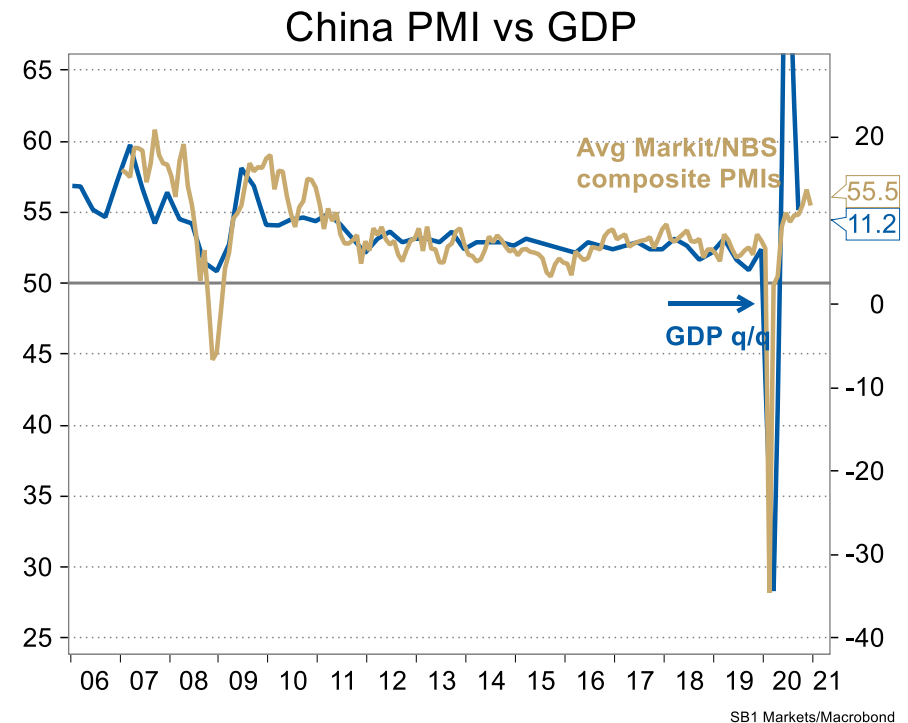
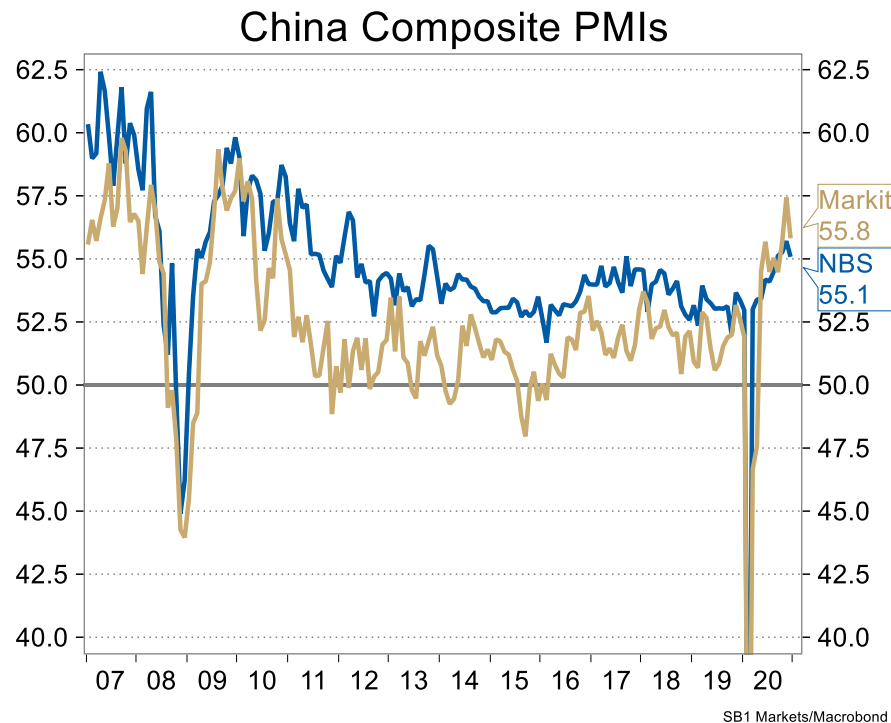
Government support at least explain the moderate decline in profits vs. the deep setback in the etc.



- Besides, the expectations of 'V'-shaped recovery, which have been confirmed for most sectors, has kept the 12 m forward earnings expectations up
- All in all: This was not a normal economic downturn – and traditional relationships do not fit in the usual way

The PMIs slightly down but still at a very high level, signalling growth >> trend

Both PMI data sets reported a decline in December, Markit's the most but level close to 10 y high

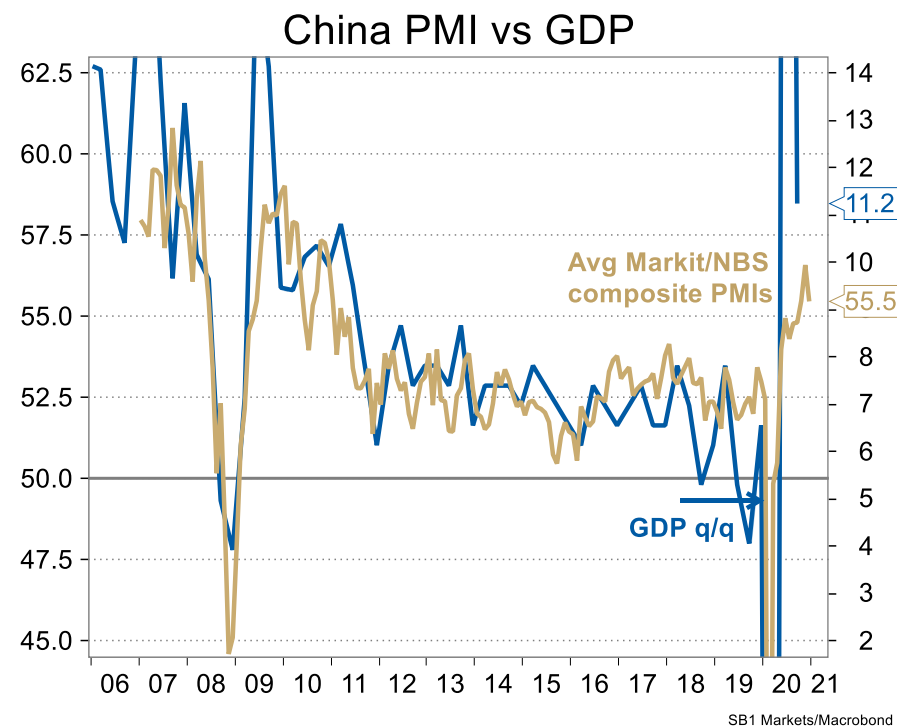


- In sum, these PMI data confirm a continued recovery and growth above trend (at a 8 – 10% growth pace)

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

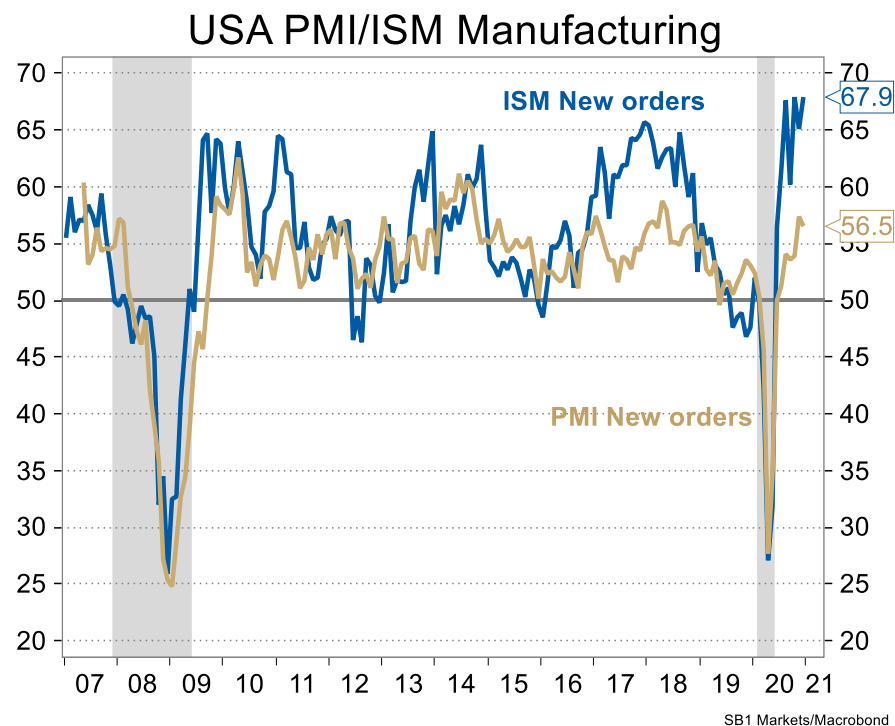
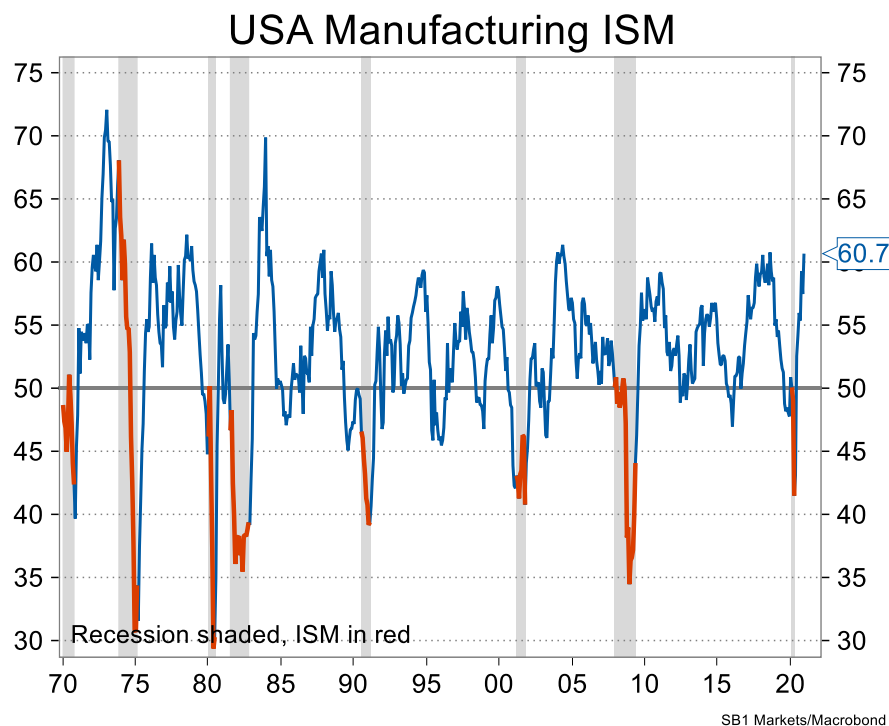
GDP rose by 2.7% q/q in Q3 (11.2% annualised), far above a normal growth rate

- ... 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 Q4 PMIs confirm growth above trend in the last quarter last year



Manufacturing ISM surged in Dec, has been marg. higher just 3 times past 40 y

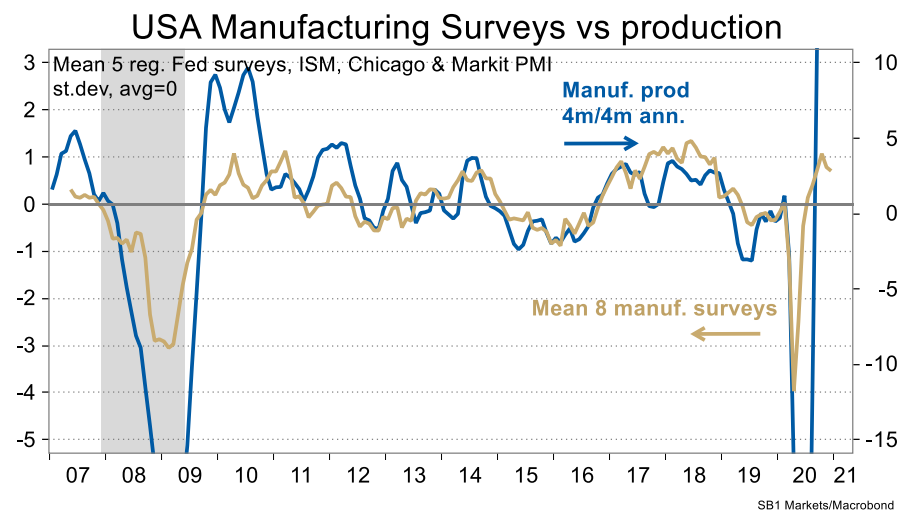
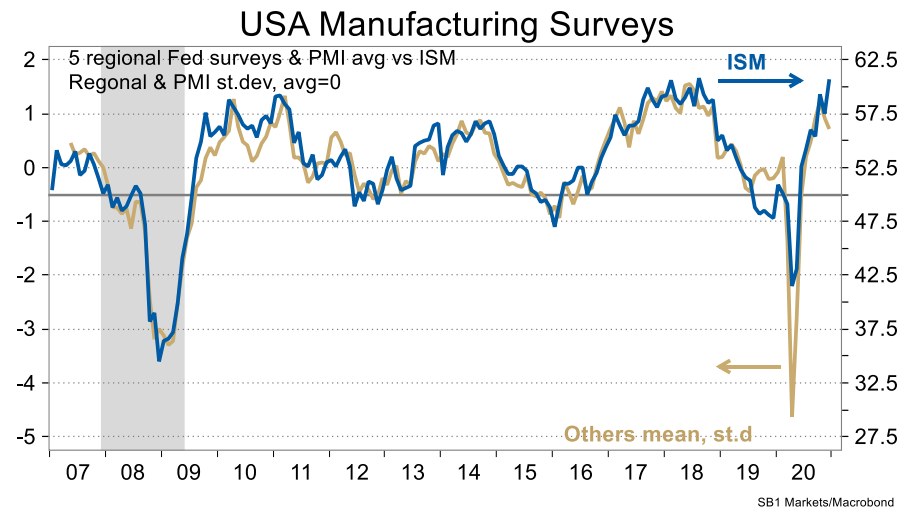
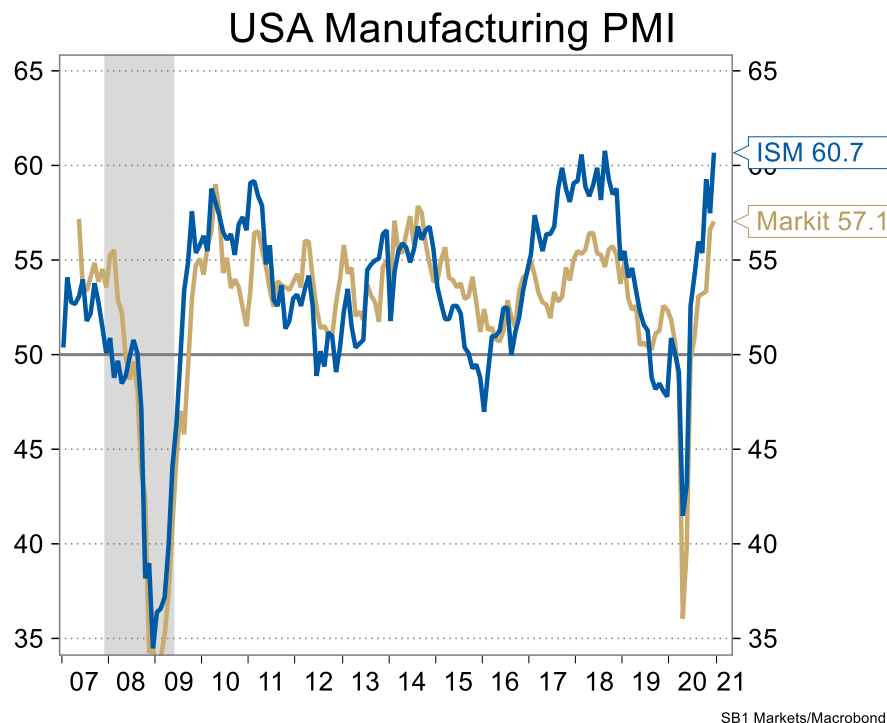
The ISM surprised sharply at the upside, +3.2 p to 60.7, expected down to 56.6. Orders strong too



- No signs of a slowdown, of course

Manufacturing ISM up in Dec, other surveys a tad down on average

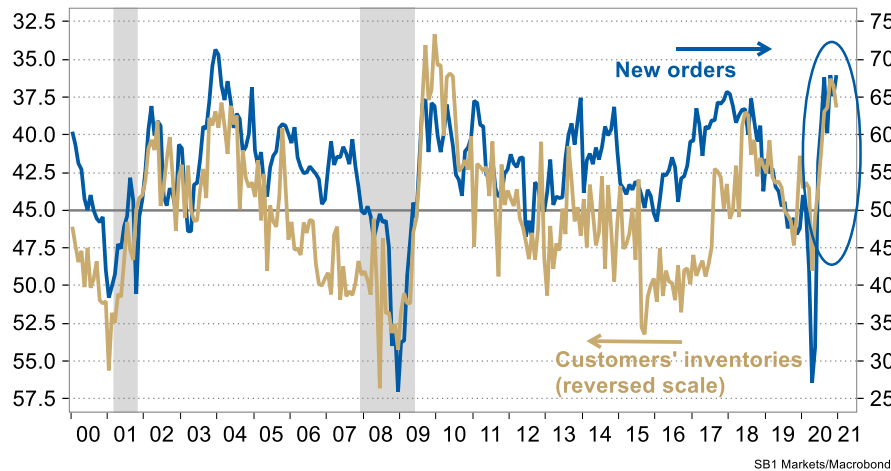
Still, the overall picture is strong!



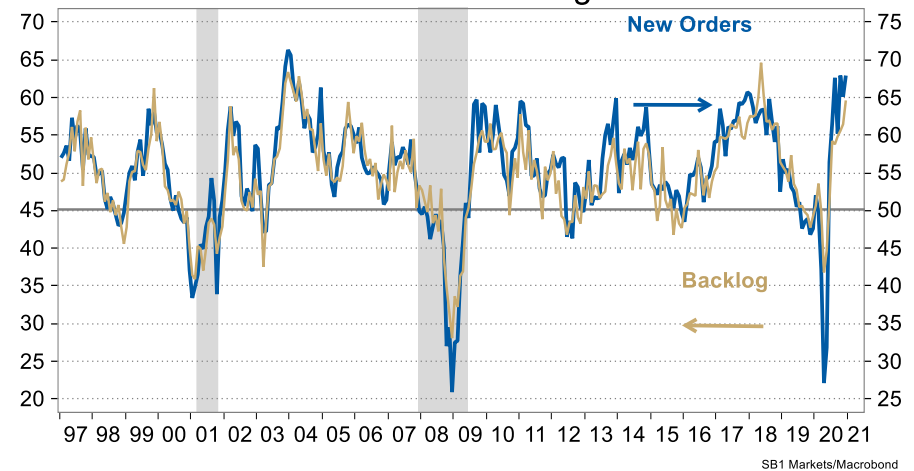
Customers' inventories fell a touch slower – still very fast

... and new orders are coming to the manufacturers. Delivery challenges are building. As are prices...

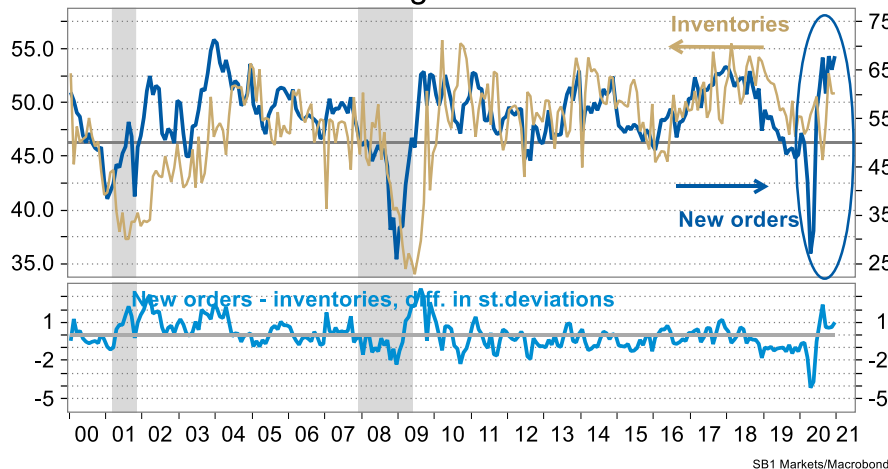
ISM New orders vs customers' inventories



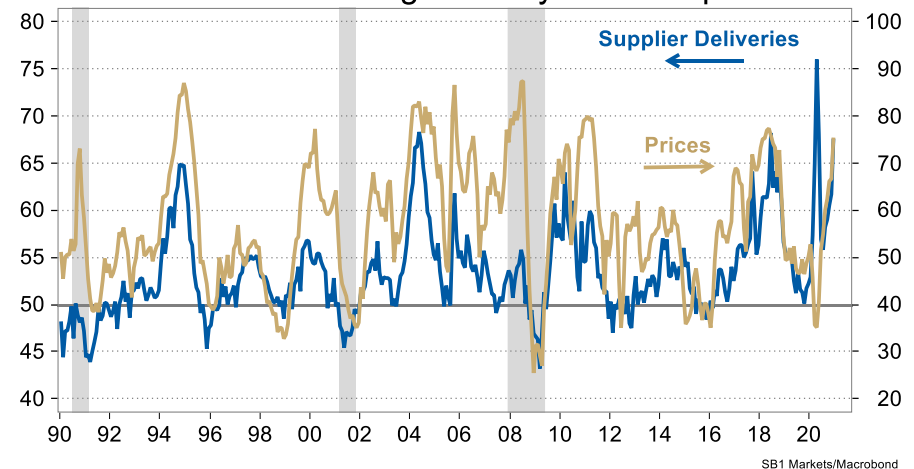
USA ISM Manufacturing orders



ISM Manufacturing Orders vs inventories

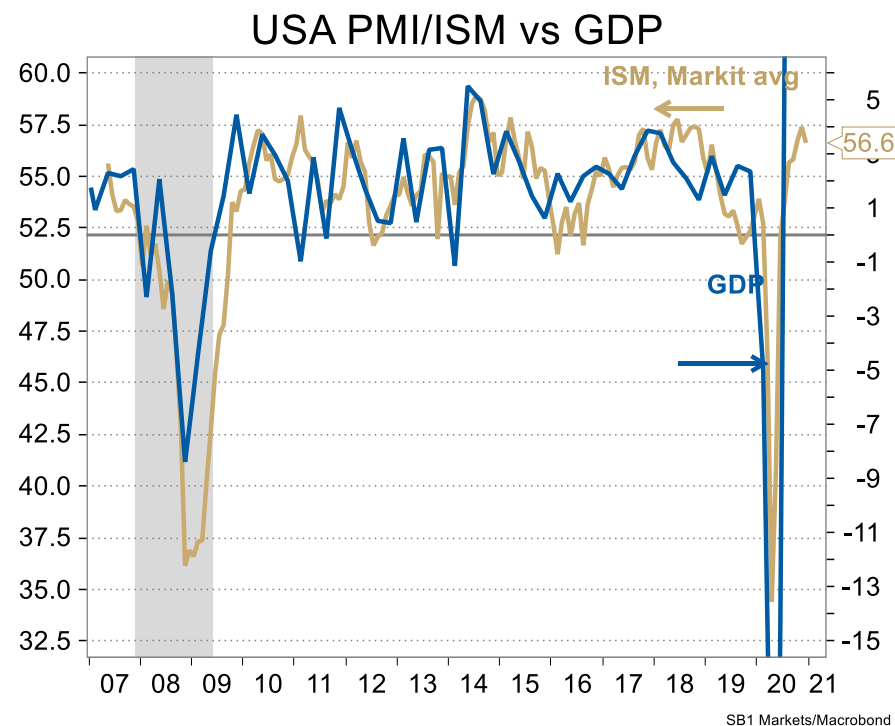
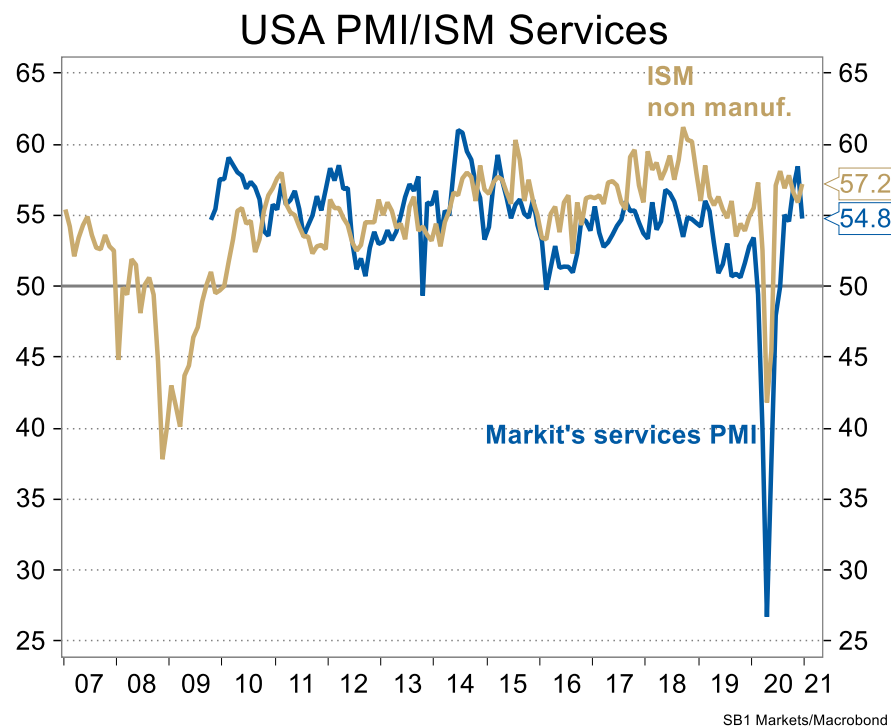


ISM Manufacturing Delivery times vs prices



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

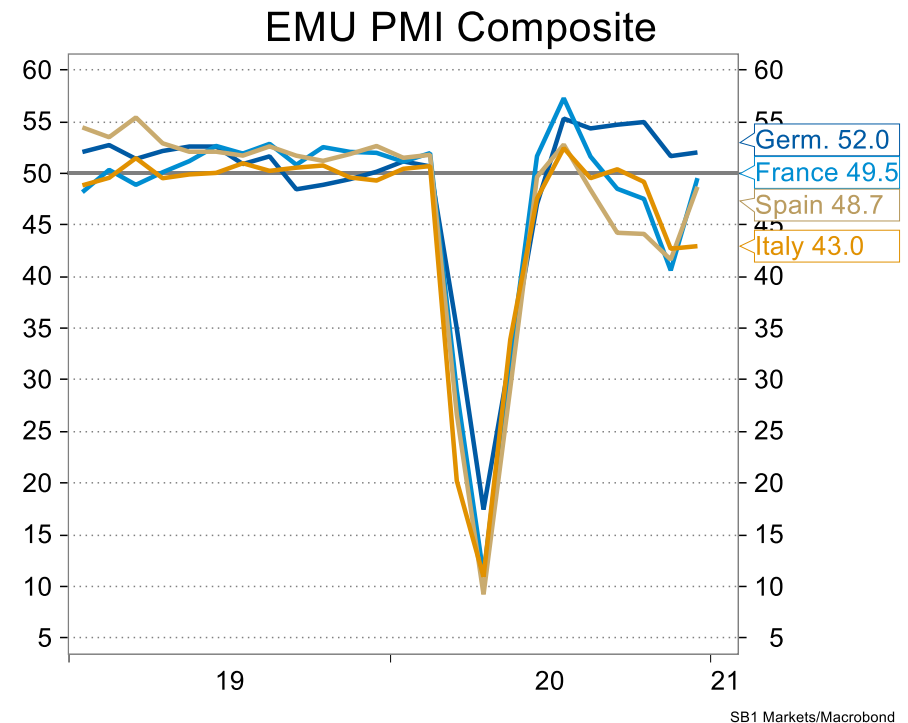
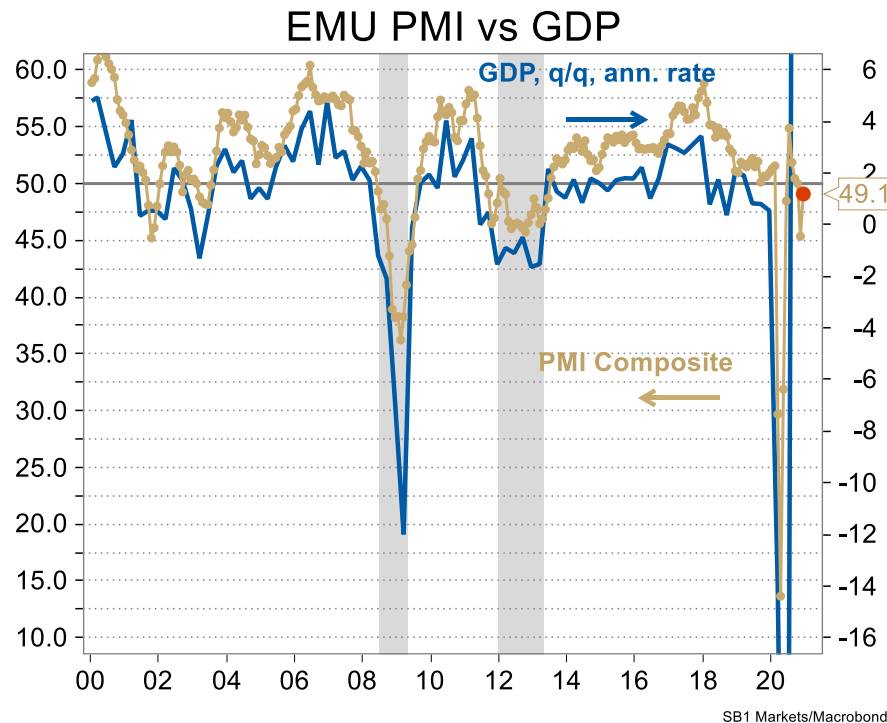
The service sector ISM +1.3 p to 57.2, Markit's -3.7 p to 54.8. All PMI/ISMs: Marg. Down, still strong



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

The big Dec surprise confirmed, though a tad weaker than first reported

The composite revised down 0.7 p vs. prelim est. Services revised 0.9 p down, still up 5.3 p

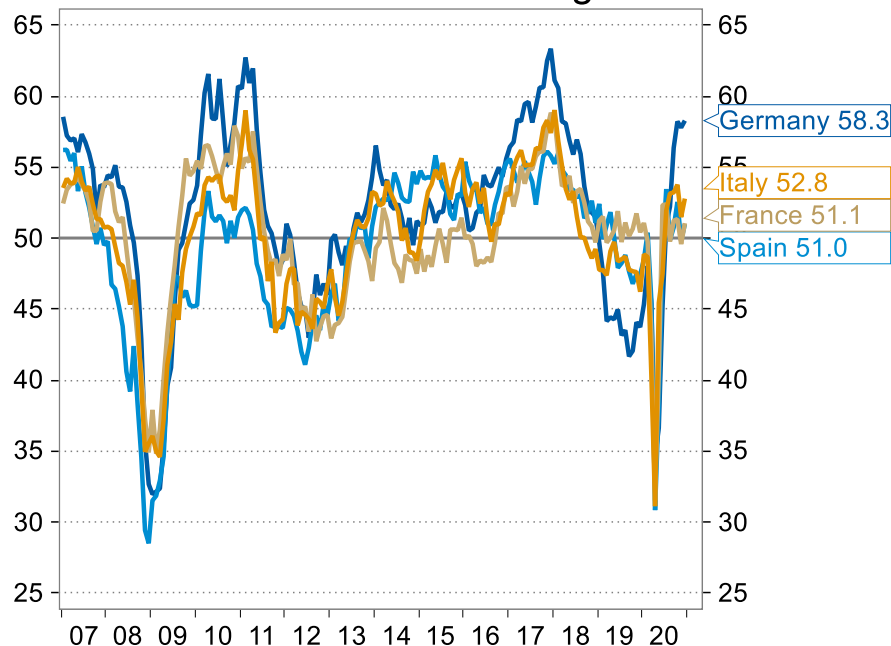


- The final **composite PMI** rose 3.7 p to 49.1 in December, 3.6 p above the initial expectations. We cannot remember anything like this ever before in 'normal' times (PMIs were all over the place during the spring/early summer, for obvious reasons)
 - » The French rose by 8.9 p, 6.5 p more than originally expected – unprecedented in 'normal' times
 - » Germany rose just marginally but was expected down
 - » The marginal decline in the final PMI vs. the preliminary estimate might indicate that growth slowed during December
- A PMI at 50 signals zero GDP growth. We still assume EMU GDP fell in Q4 but less than many expected when the 2nd corona wave forced authorities to impose new restrictions in Oct and Nov

French service sector PMI up to 49.1 in December from 38.8!

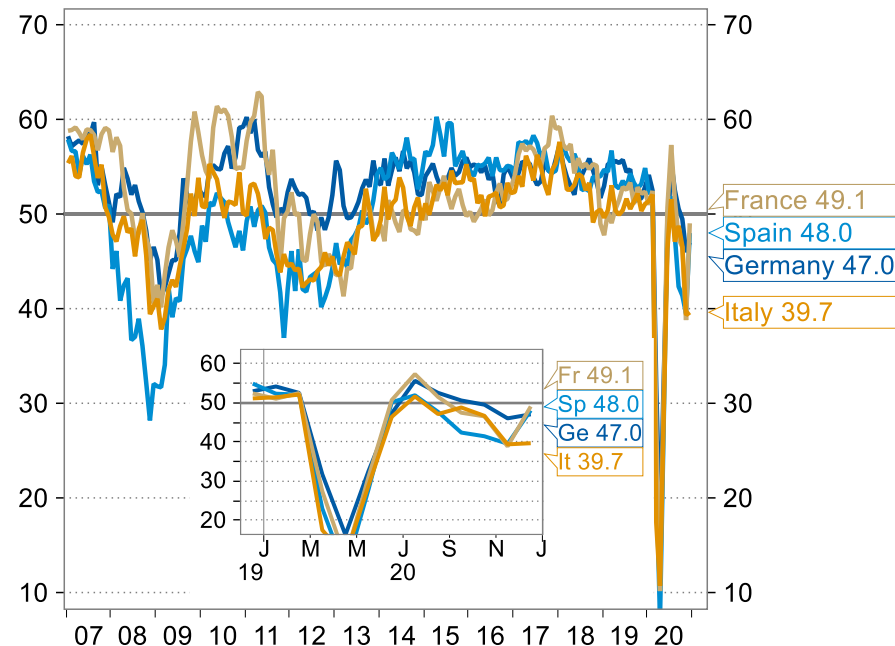
But services are still struggling – and they did not report growth in Dec

EMU Manufacturing PMI



SB1 Markets/Macrobond

EMU Services PMI

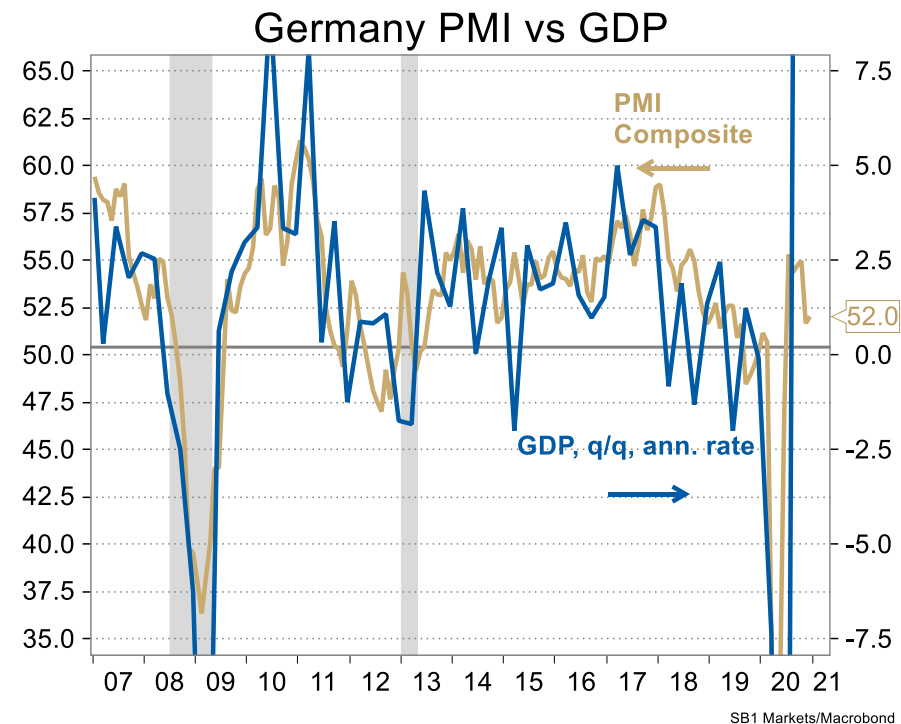
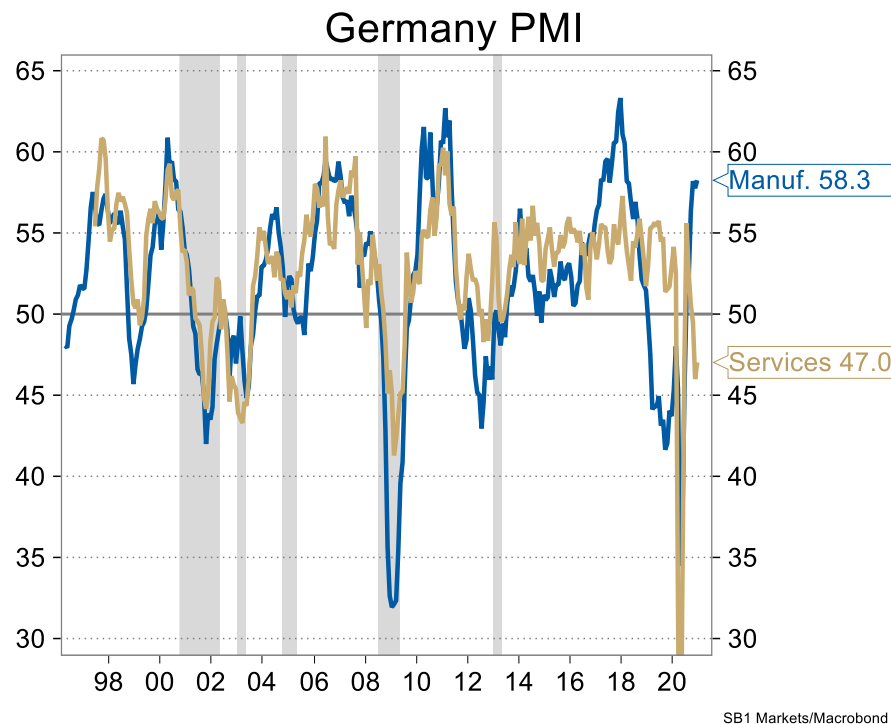


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- The manufacturing PMIs rose by 1-1.5 p in France, Italy and Spain – but only marginally in Germany where the level is very high, at 58.3

Germany: The PMI marginally up in Dec. Level OK, signaling growth in Q4

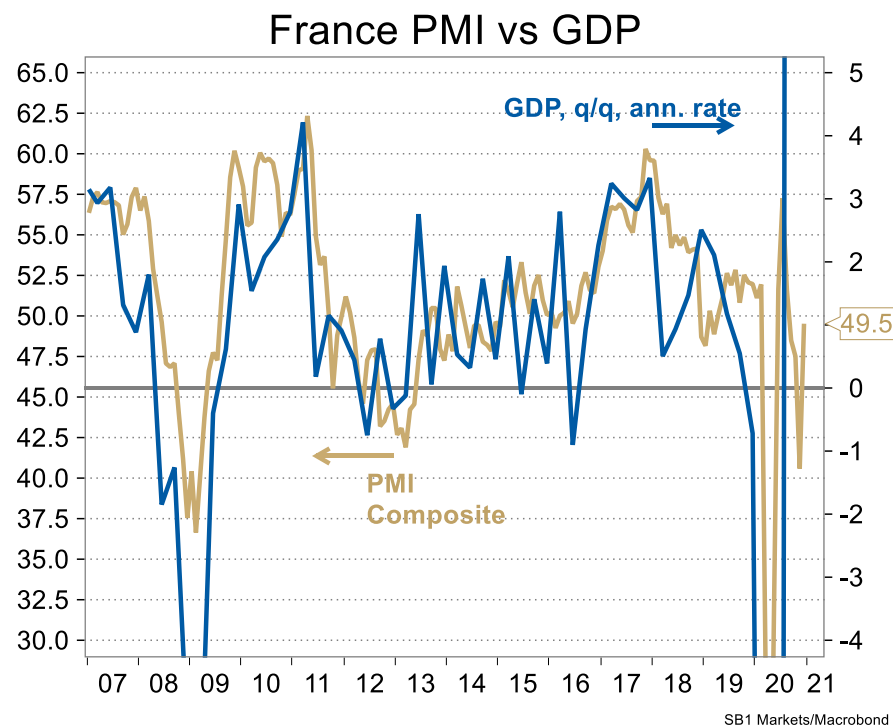
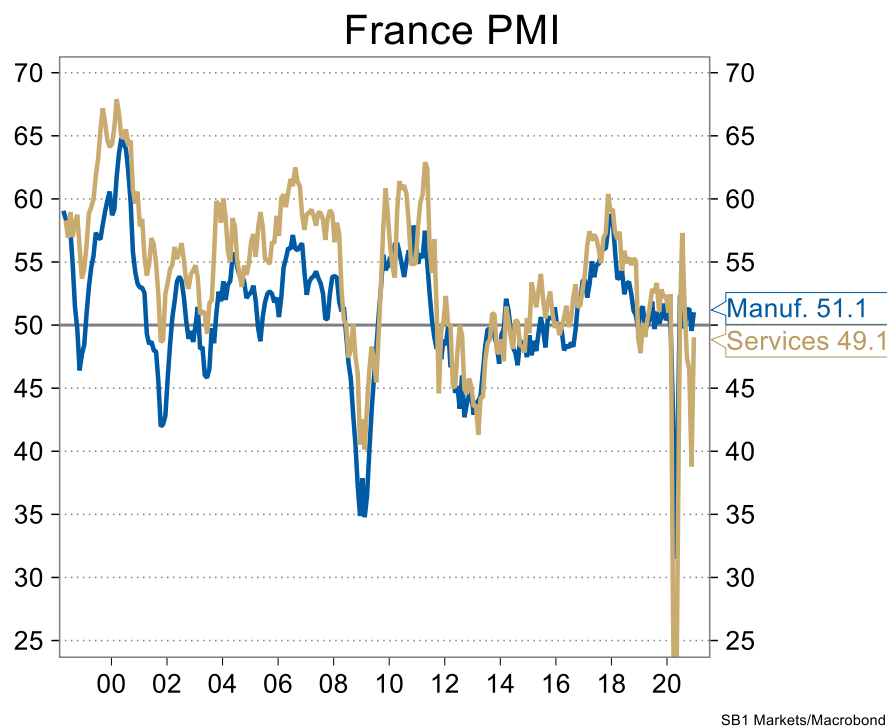
Still, the divergence between a blooming manufacturing sector and services are unprecedented



- Germany has been in a partial lockdown since the beginning of Nov. New restrictions in Dec, and further restrictions imposed last week. Lockdown extended until Jan. 31st. This has probably impacted the final December PMI and also the January figures

France: Dec PMI far stronger than expected – still <50 - but signals growth??

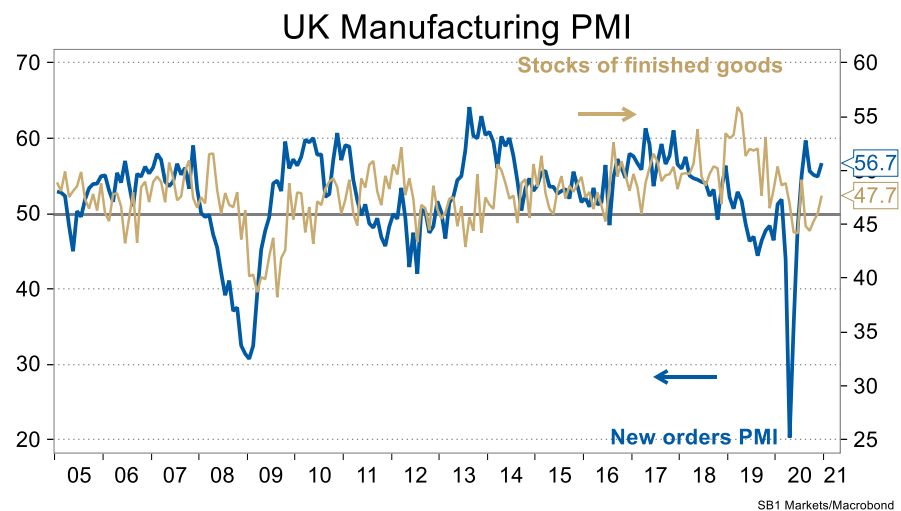
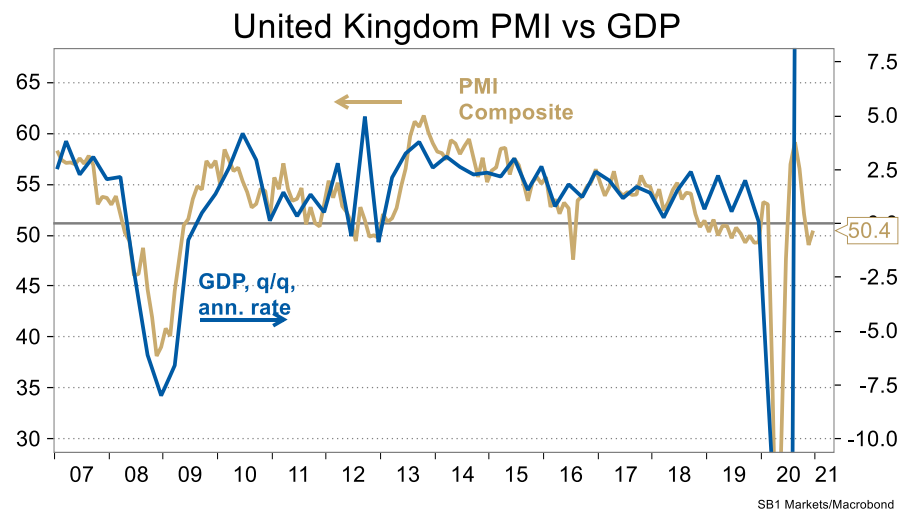
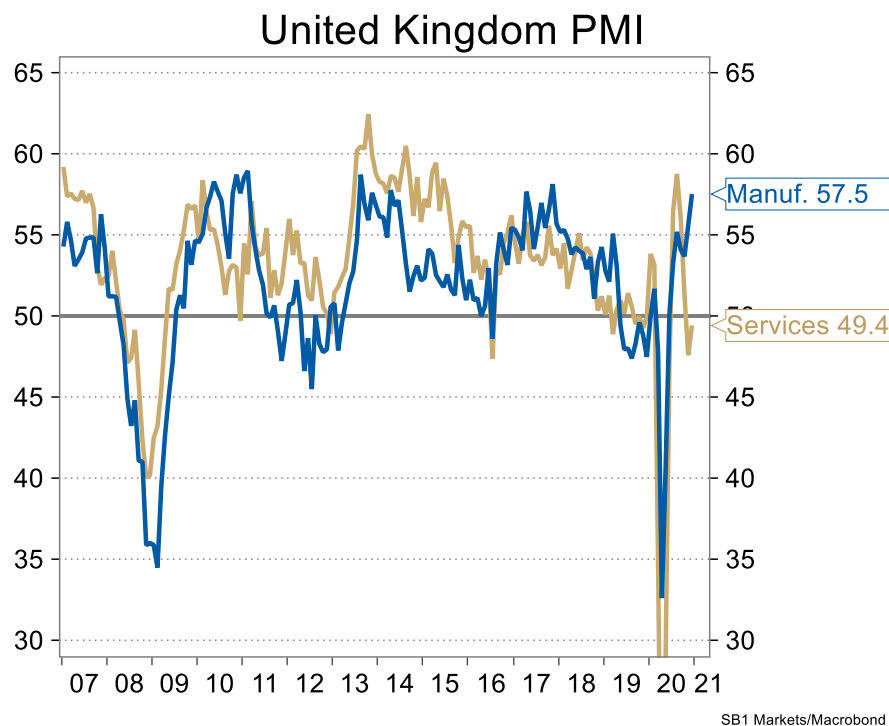
The service sector PMI rebounded to 49.2 from 38.8 in Nov – manuf. in expansion mode



- **The composite** PMI rose 9 p in December, 6.6 p above the original consensus - probably driven by easing of restrictions flowing the steep decline in new cases through November, and good vaccine news. Composite PMI at 49.5 suggests a GDP growth around 1% (and not a minor decline, if we take the PMI print literally)
- The 10 p hike in the **service sector** index to 49.1 is the 3. strongest ever, just last May & June were better. With a history back to 1998, the Dec lift was twice as large as any other month (barring the two earlier last year)!
- **Manufacturing PMI** climbed 1.5 p to above the 50-mark, at 51.1

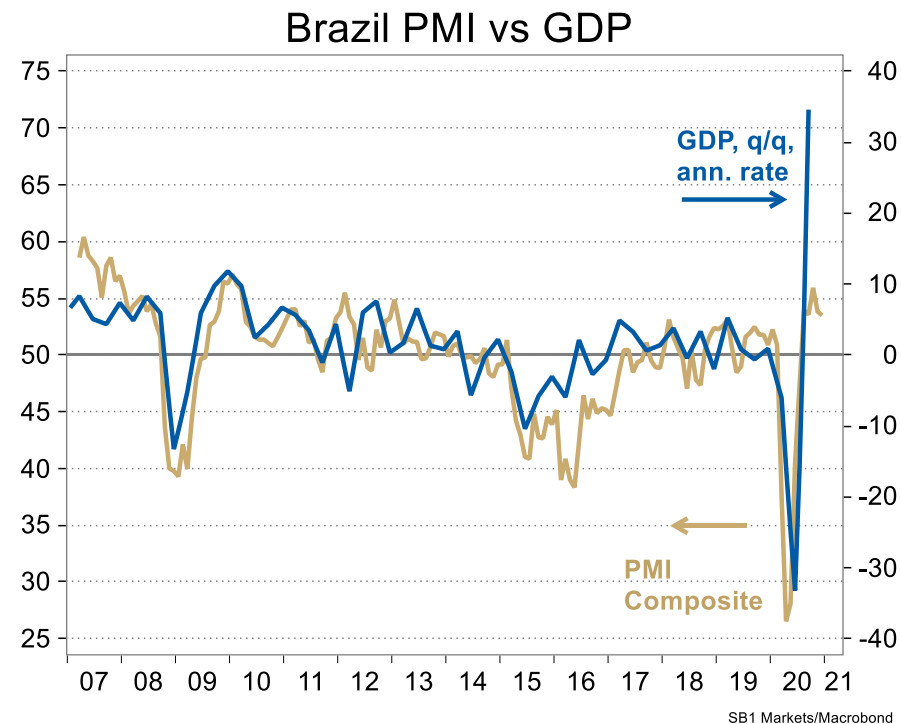
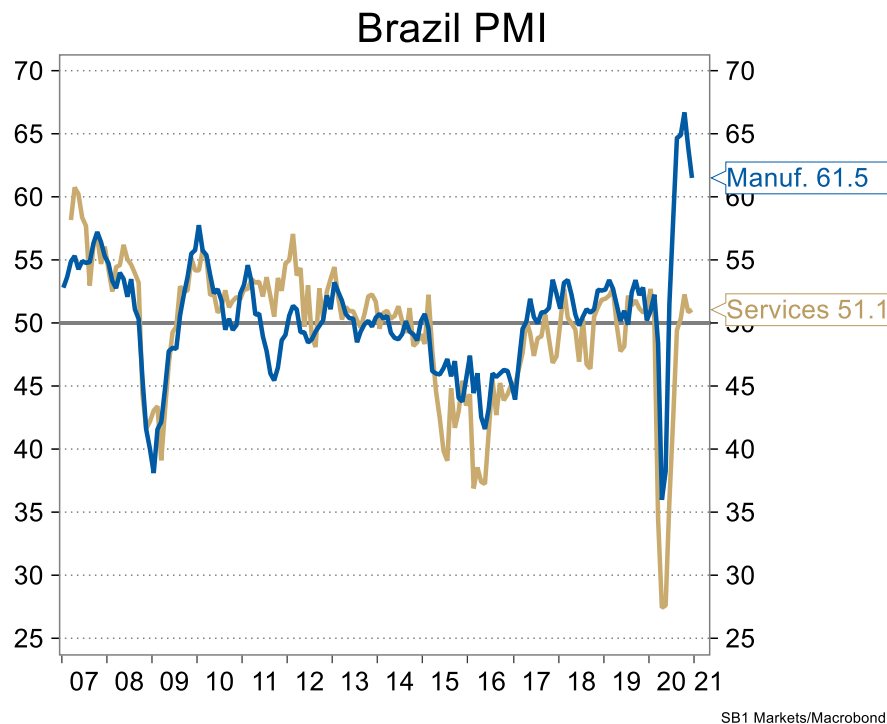
The composite PMI back in positive territory at 50.4 (0.3 p below prelim. est)

Highest manufacturing PMI in 3 years, but composite clocked in below consensus



Brazilian economy is expanding – Manuf. PMI still in the 60s

Service sector PMI rose slightly (0.2 p) in Dec but is just at 51.1

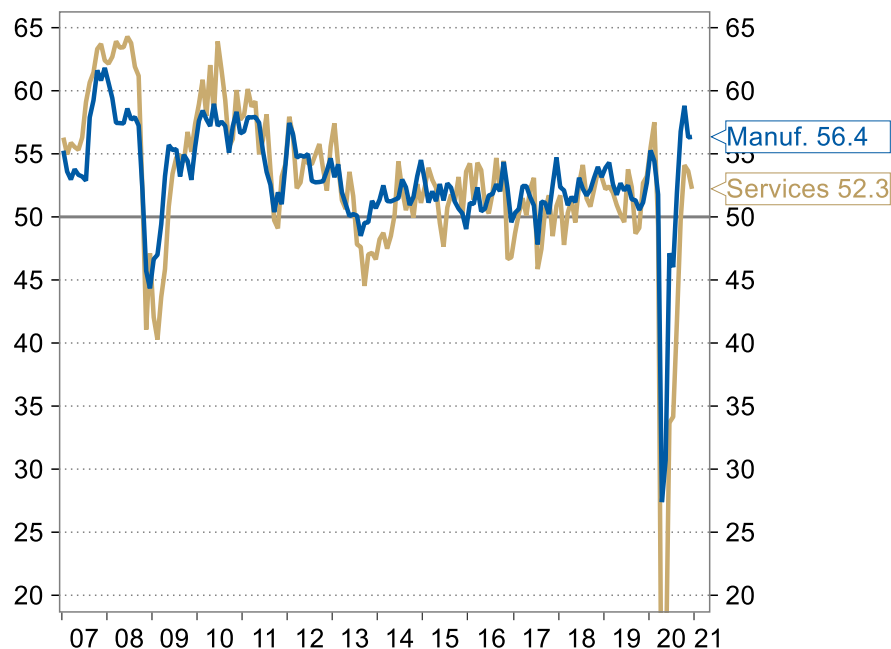


- Although the manufacturing PMI fell by 1.4 p to 61.5 from 63.9, it still indicates incredible growth in the sector
- The composite PMI index signals more than 5% growth

Although both PMIs in India declined in December, strong growth still signalled

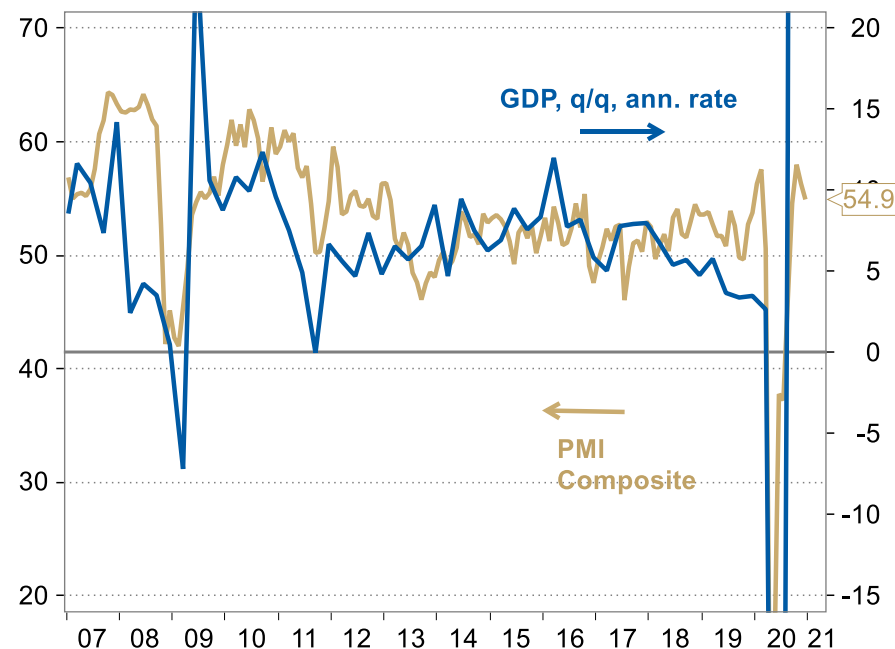
The recovery continues with at 10% growth pace, according for the PMIs

India PMI



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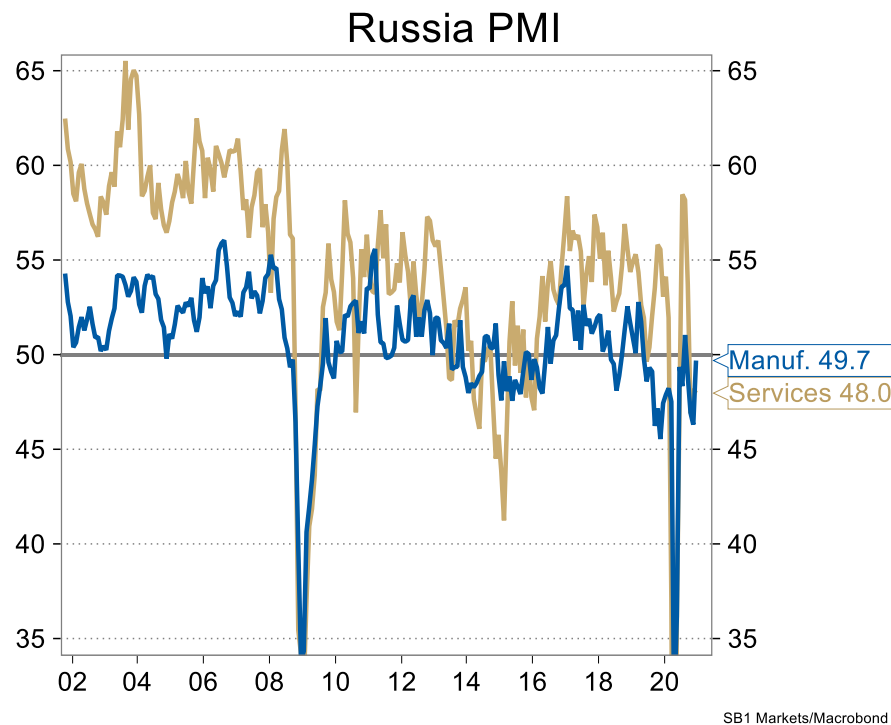
India PMI vs GDP



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Russia still in contraction mode

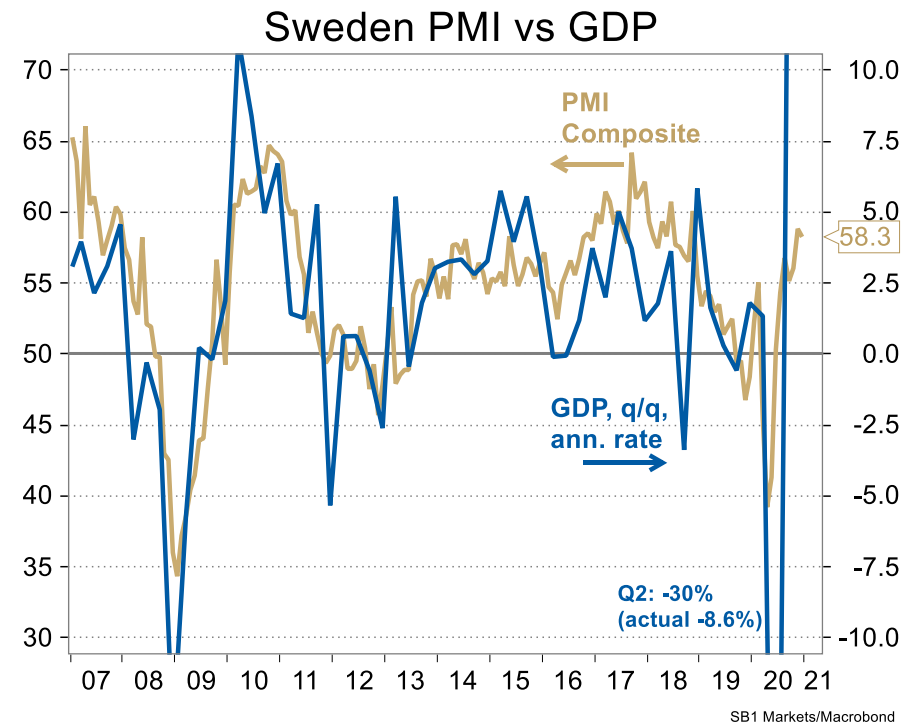
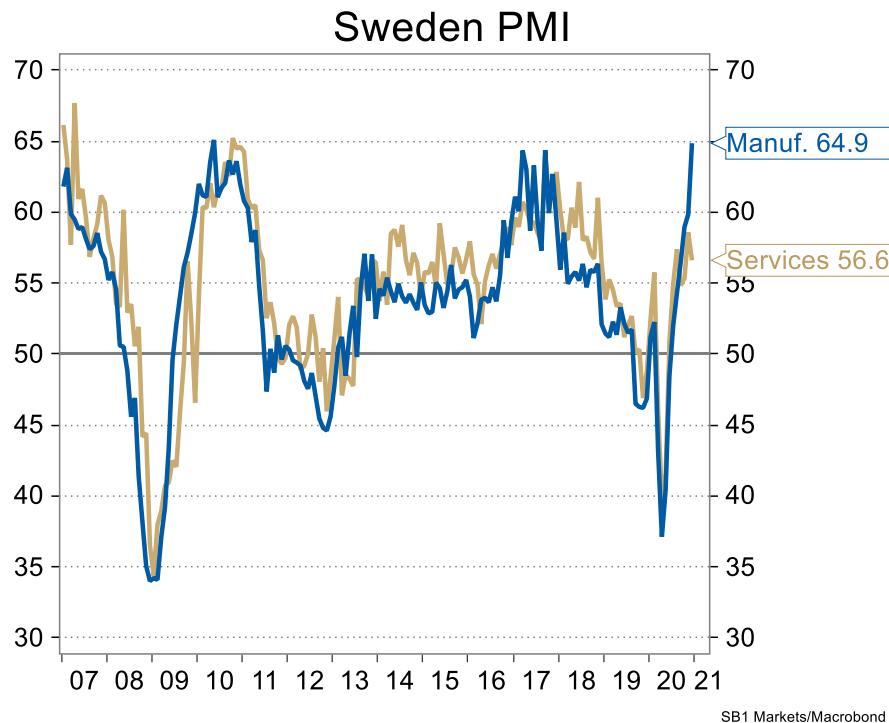
...However, economy contracted more slowly in Dec than in Nov



- Manufacturing PMI rose by 3.4 p to 49.7
- Service sector PMI was down 0.2 p

Vill ni se en stjärna, se på mig (once more) – Sweden is still the star

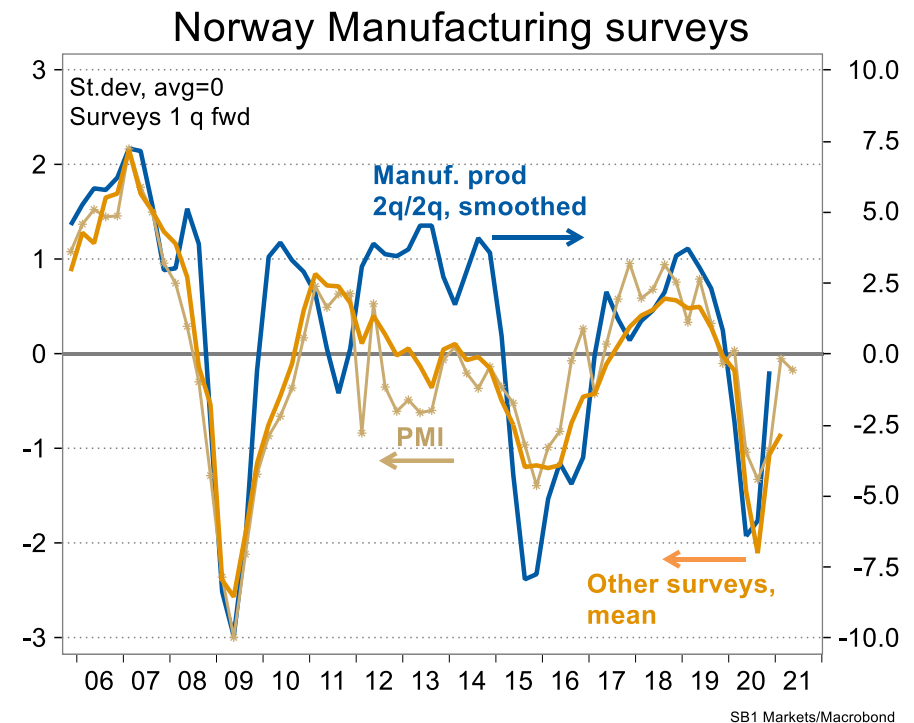
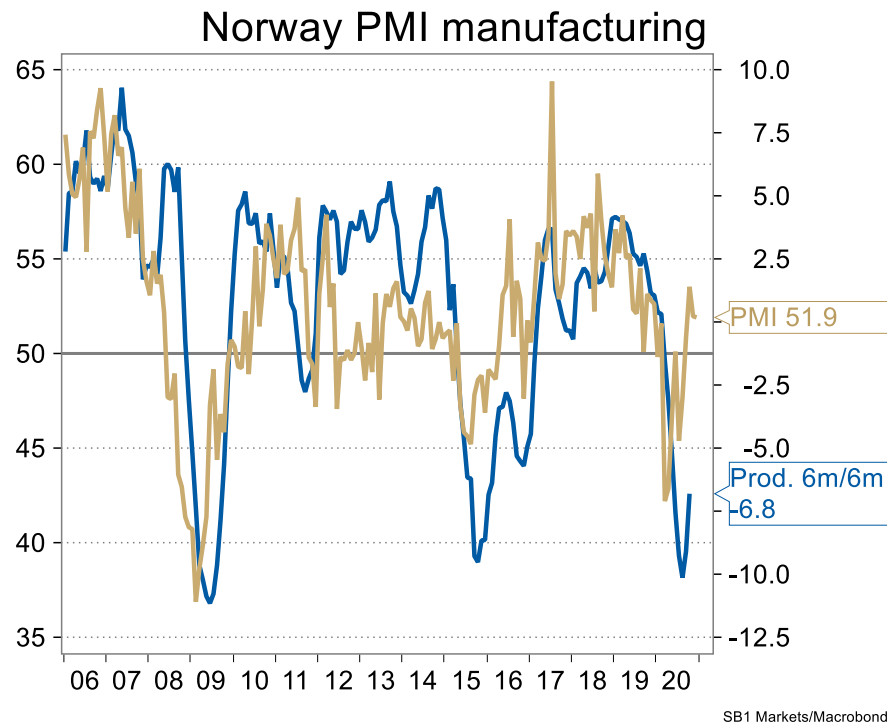
Manufacturing PMI up 5.0 points to 64.9 in Dec, 2nd best ever. Services down 2 p but still at 56.6



- The composite PMI is signalling strong growth in Q4 – in spite of new corona challenges and more restrictions imposed by the government (and not by the health authorities...)
- In November, the Riksbank expected another downturn due to the corona outbreak, and turned the QE tap further
So far it does seem to be warranted. Because we do not think it is the extra QE that pushes the Swedish economy upwards

PMI down 0.1 p to 51.9 – signals moderate growth

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

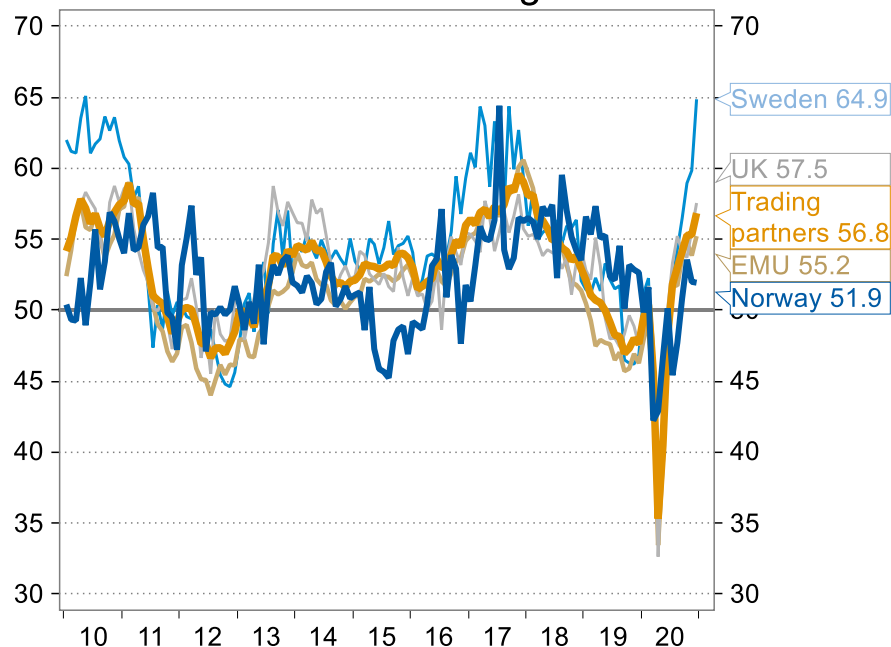


- ... following the contraction in the first part of 2020. Production is now heading upwards, [check here](#)
- Other surveys have also turned up over the summer but the average level late last year was still well below average

Norwegian manufacturers follows others upwards – but are lagging

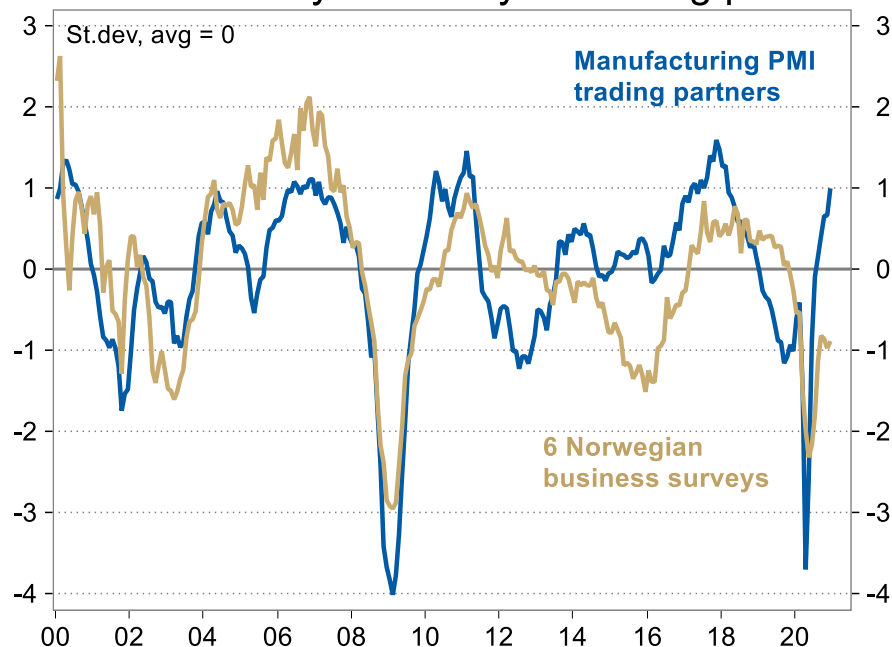
The downturn in oil investments is probably the best explanation

Manufacturing PMI



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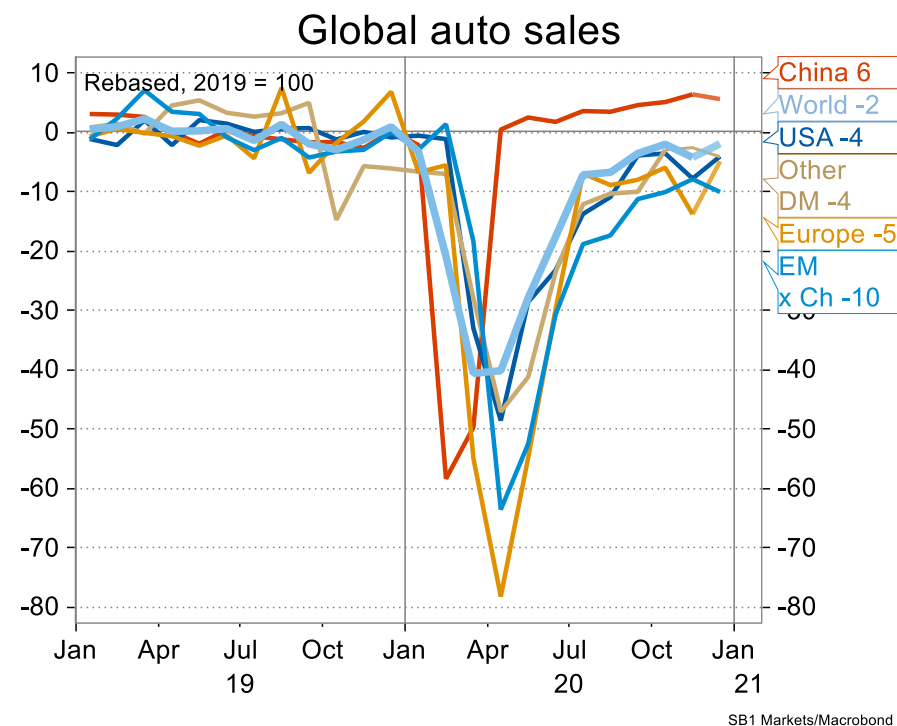
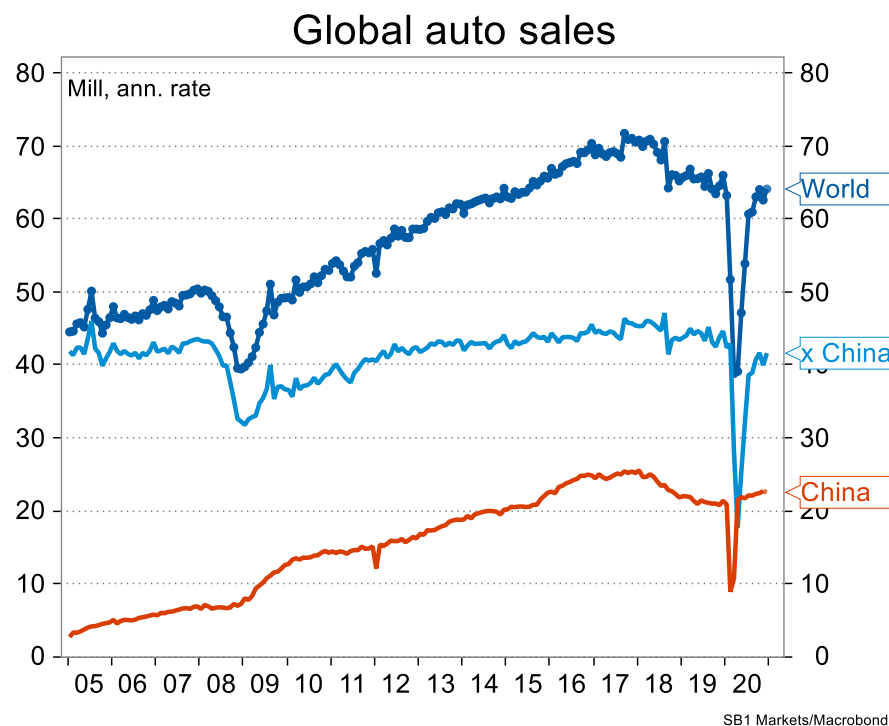
Business surveys: Norway vs trading partners



SB1 Markets/Macrobond

Global auto sales has flattened – at close to the (a tad low) pre-corona level

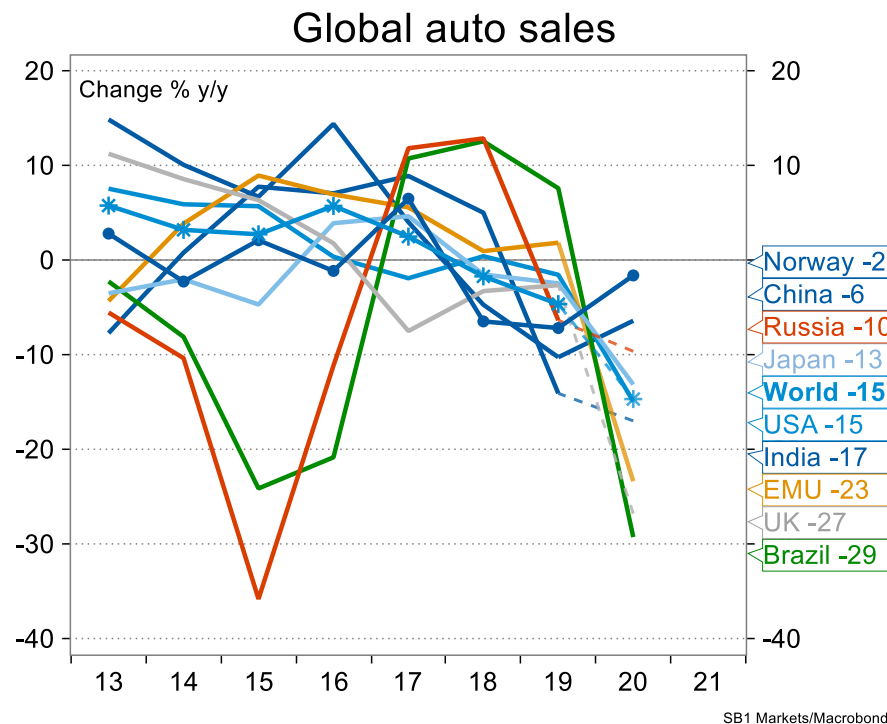
China is well above – and sales are still trending up. Most others slightly below



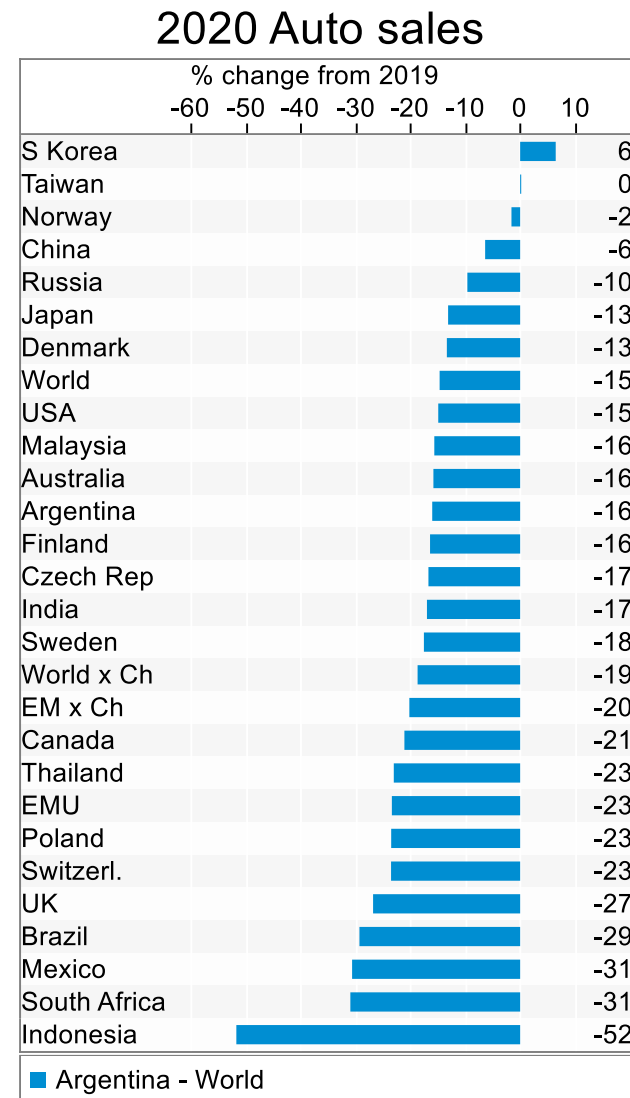
- Based on our preliminary estimates global auto sales recovered the 2% setback in November. Sales were close to flat m/m in China but rose in both US & the EMU. Sales in EM x China most likely fell (but many countries have not yet reported)
- Chinese sales are 6% above the 2019 average, EMU (and Europe) and US are 5% down. Other EMs than China are still down 10%
- BTW, Norway is up. By 59% 😊

In the year of the corona: What happened to auto sales? Not one story, it seems

Norway down 2%. The next DM? Japan & Denm -13%. The world down 15%

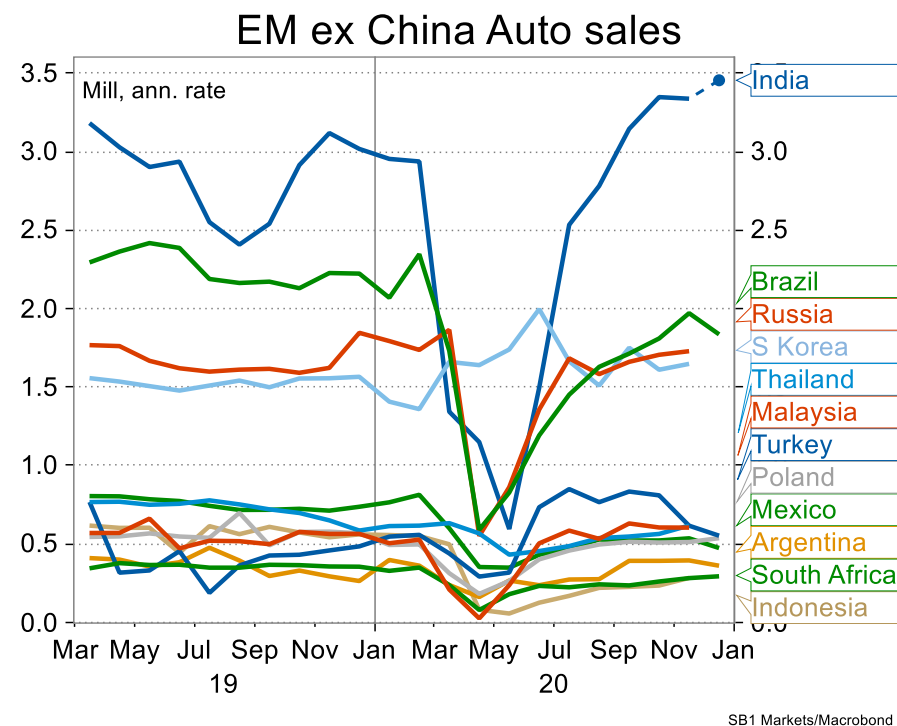
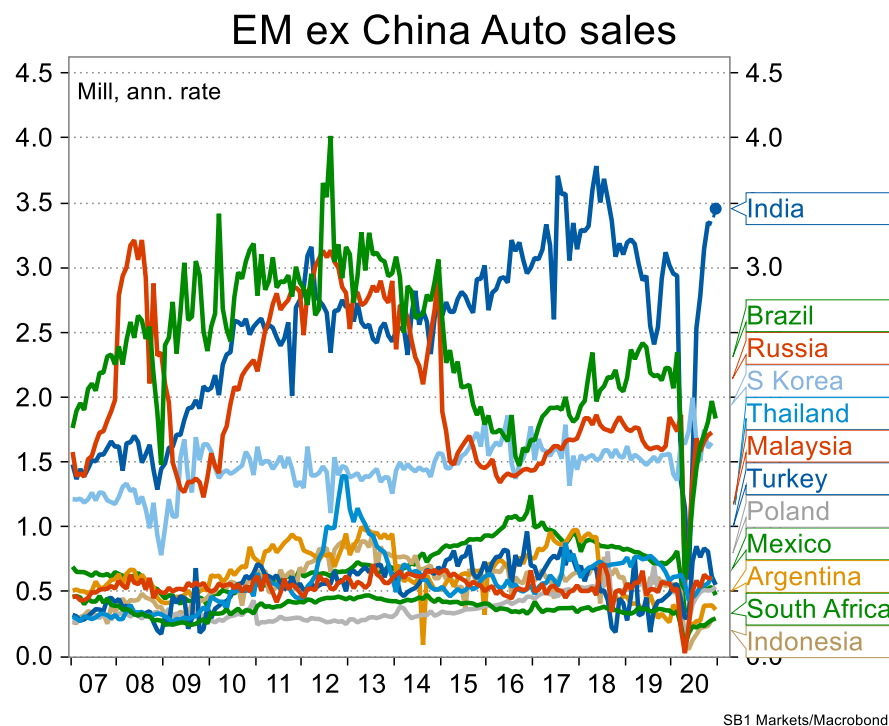


- Global sales down 15%
- China down 6%, US 15%, Sweden -18%, EMU -23%, UK-27%
- Turkey up 47%, following the 2019 disaster – not included at the charts



EM x China auto sales have recovered, India down 1.2% in Nov, but still strong

In sum, sales are still 8% below 2019 level but trends are up everywhere

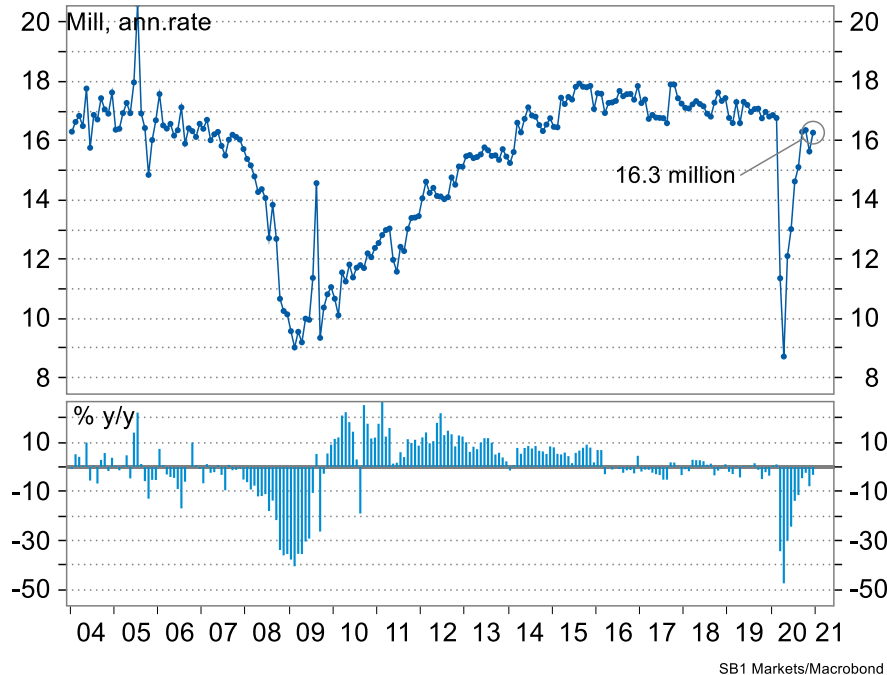


- Sales in India were probably the best since 2018. Brazil is trending up but are still 20% below sales last year. Russia is almost on par – and South Korea is above!
 - » Turkey is this year's winner – and Indonesia the big loser

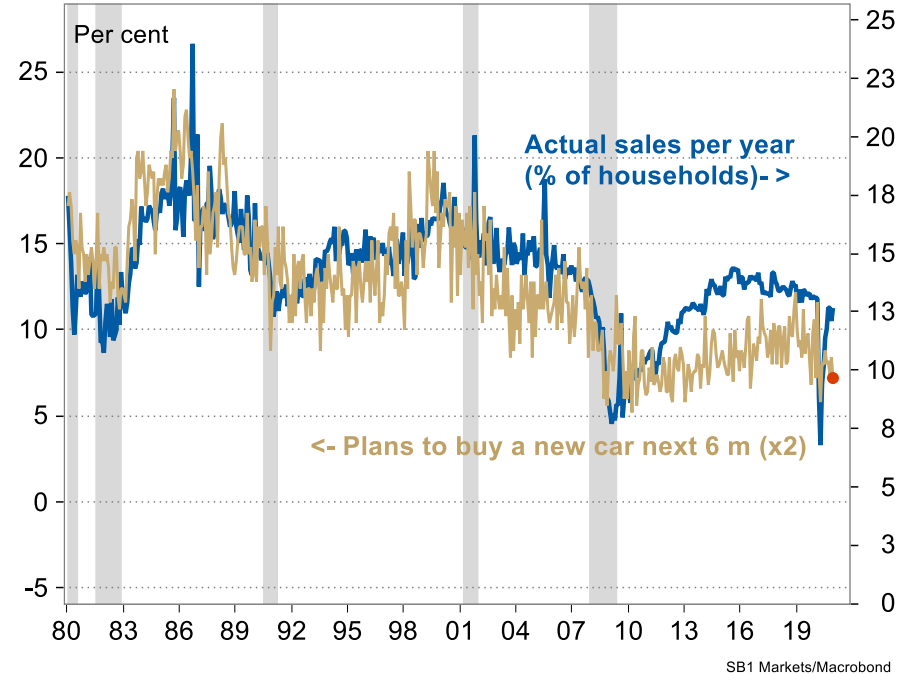
US auto sales above expectations in December – still on a downward trend?

US sales up 0.6 mill to 16.3, expected -0.2 mill to 15.7. Level 4% below the 2019 average

USA Auto sales



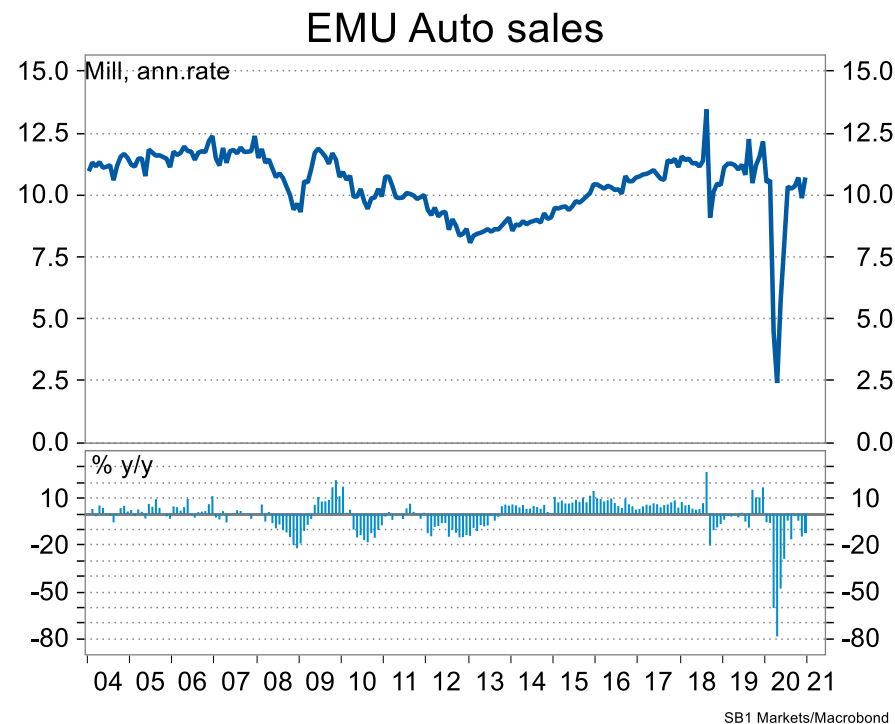
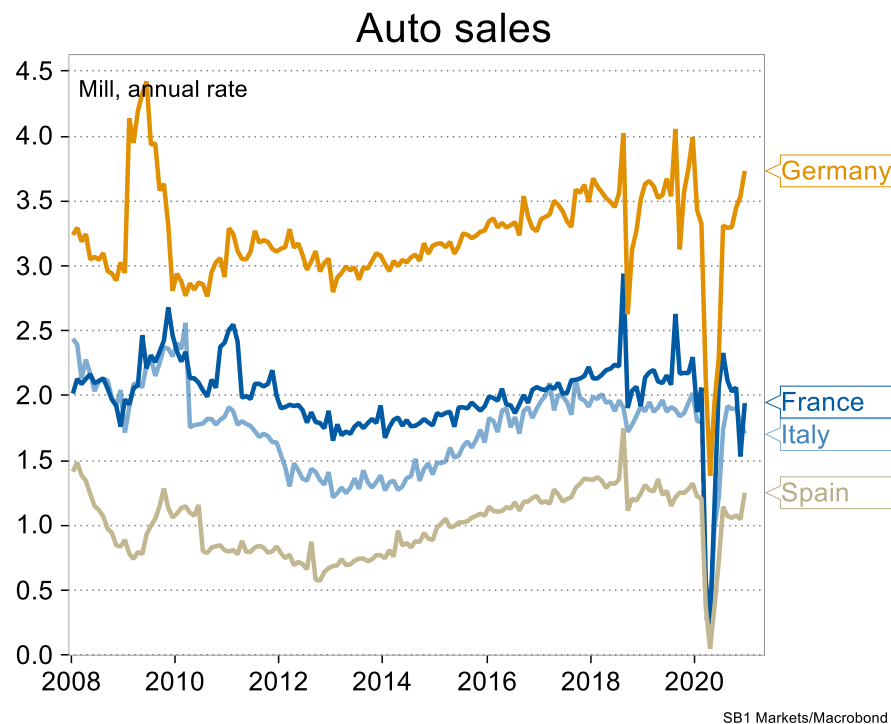
USA Auto sales vs. plans to buy



- Sales fell almost 50% in March/April. Most of the setback is now recovered but sales remain 3% 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. The peak was in 2016 (4 years before the current president was elected)
- Sales fell 15% last year, from 2019
- Households are not reporting aggressive plans for buying a new car, rather the opposite

EMU reversed the Nov setback, sales on par with early 2020 level

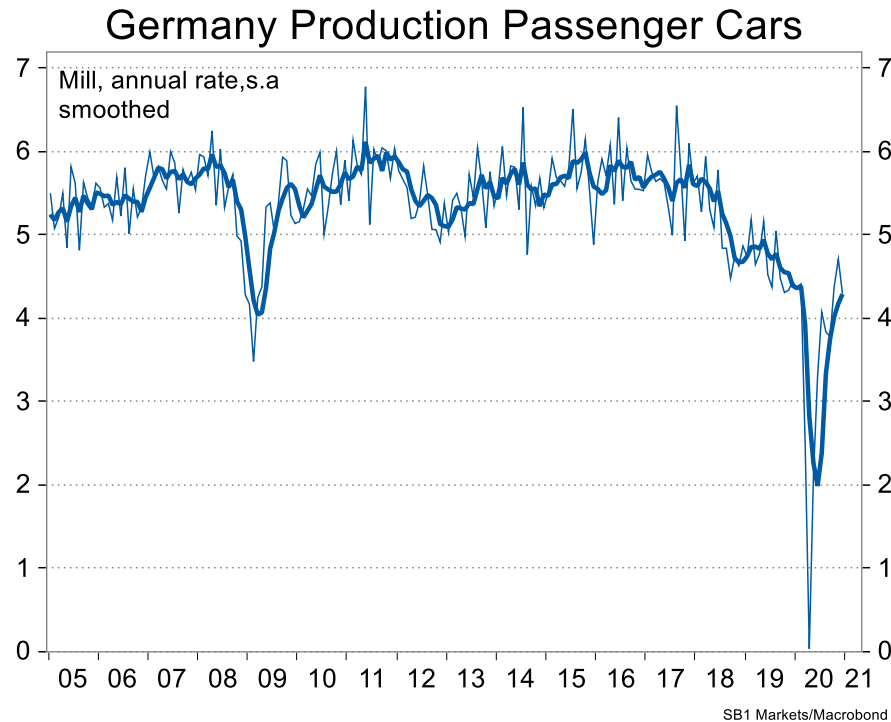
We estimate a +7% m/m lift in Dec to 10.7 mill, 5% down from 2019 avg (but sales fell 23% in 2020)



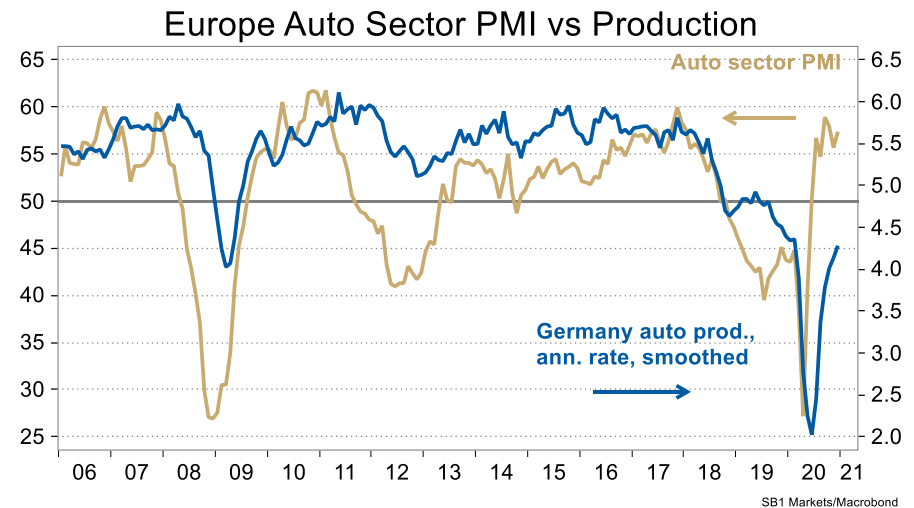
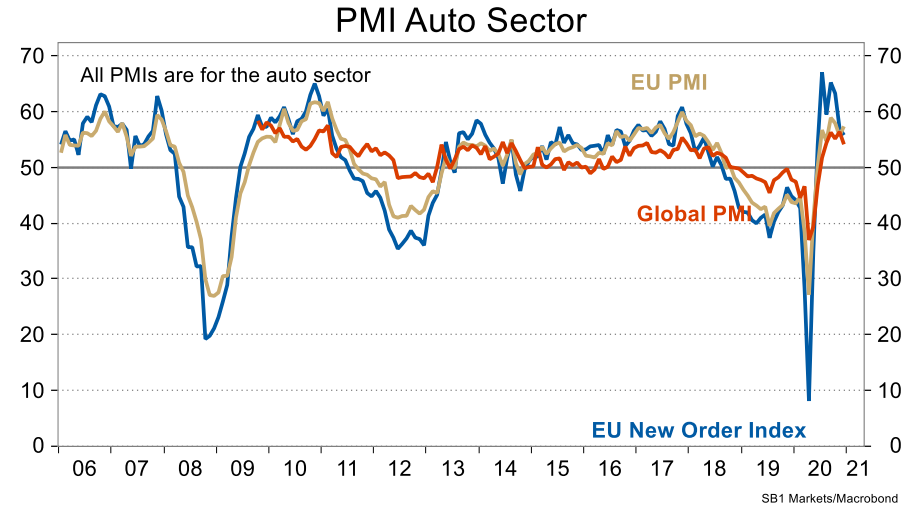
- Sales have been quite stable at 10.3 – 10.5 mill the past 3 months. Lockdown in France kept people from buying anything but nonessential items in November, but sales recovered in France. Sales rose in Germany, Italy & Spain too. A lift in the VAT rate in Germany probably explains the lift in sales here
- Sales in Dec were 4% below the 2019 average
- Last year, 8.65 mill autos were sold in Europe, down 23% from 2019, which was the best year since 2007!
- No surprise: Production is on the way up too, check the next page!

German auto production finally at the pre-corona level – still low

Car production at 4.3 mill pace in Nov, down from almost 6 mill until 2018. But in line with early '20

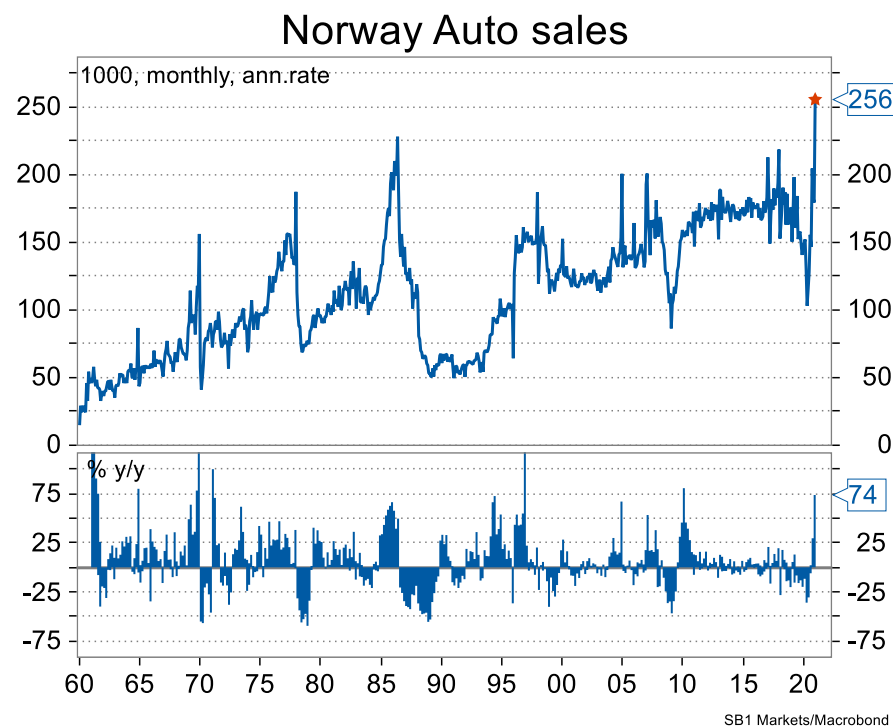
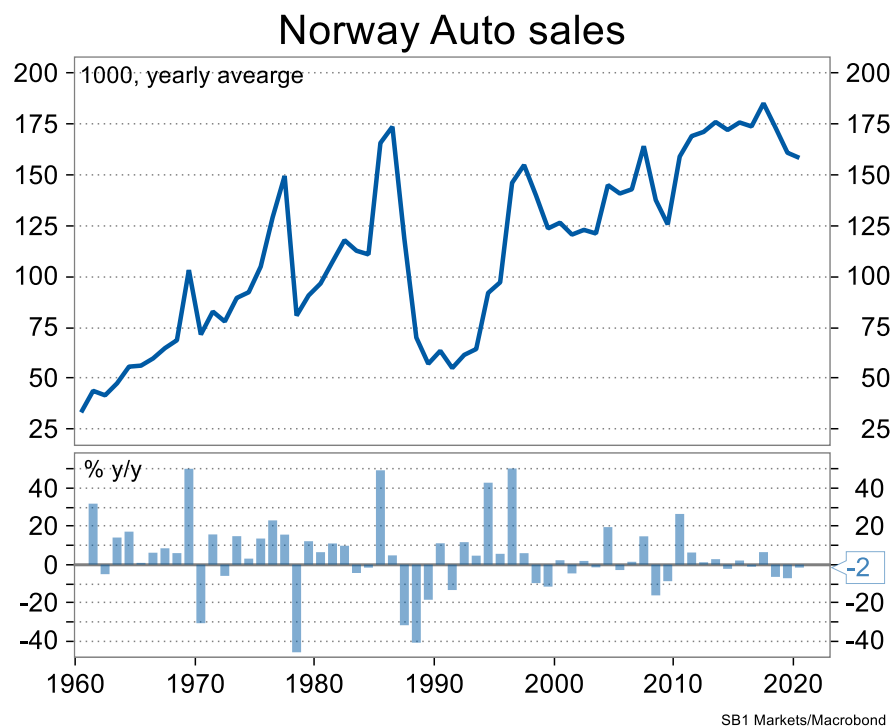


- Global and EMU auto sector PMIs have recovered to decent levels, signalling a further increase in production – and the European auto PMI rose somewhat in December too



Suddenly, a huge lift in Norwegian auto sales in December, up to ATH (here too...)

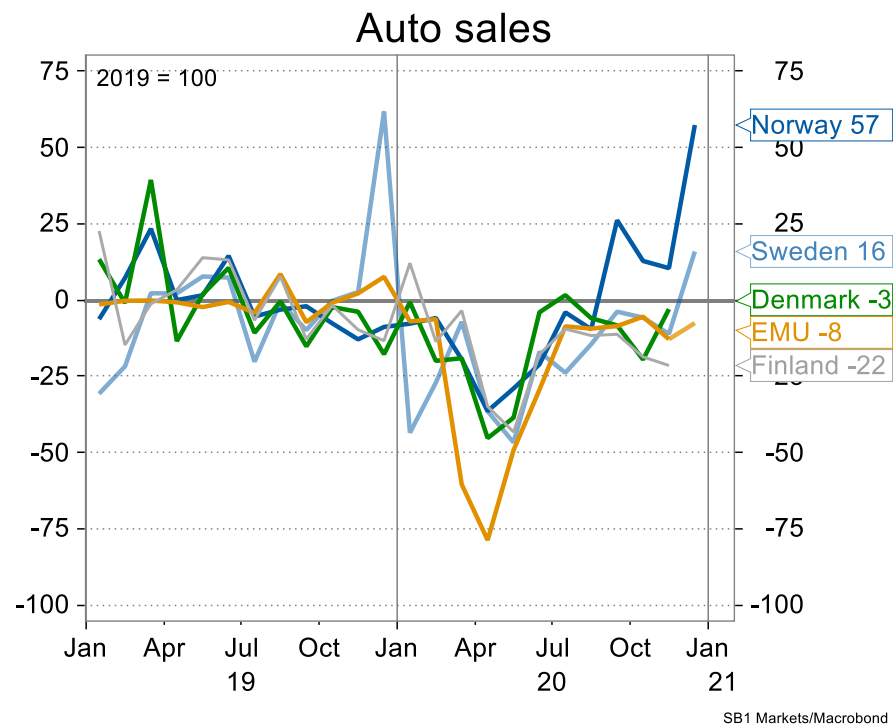
New regs up to a 256' pace, from the 'normal' 175'. Higher fossil fuel car taxes from Jan to 'blame'?



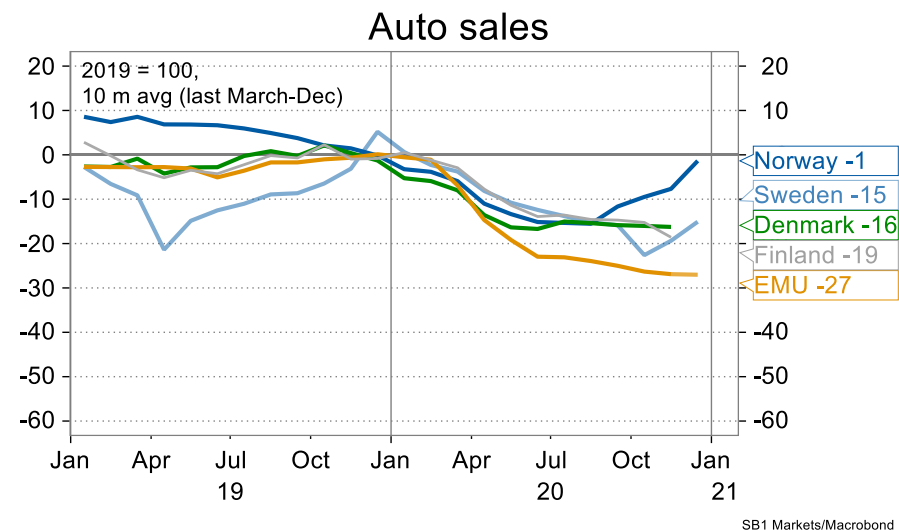
- Well, higher fossil auto taxes may perhaps explain parts of the lift, but EV's contributed to 87% of Dec sales, at least of new cars – the highest figure in any country at any time, we assume
 - » Several gas and diesel models are up NOK 10 – 20', and even more from Jan 1.
- For the year, sales declined 2% vs. 2019. Not that bad in a corona crisis year? No other peers anyway close!

Strong December auto sales in Sweden too

Norway is still the star, both in Dec and in the March-Dec 'corona' period. Sales -1%, others -15-25%

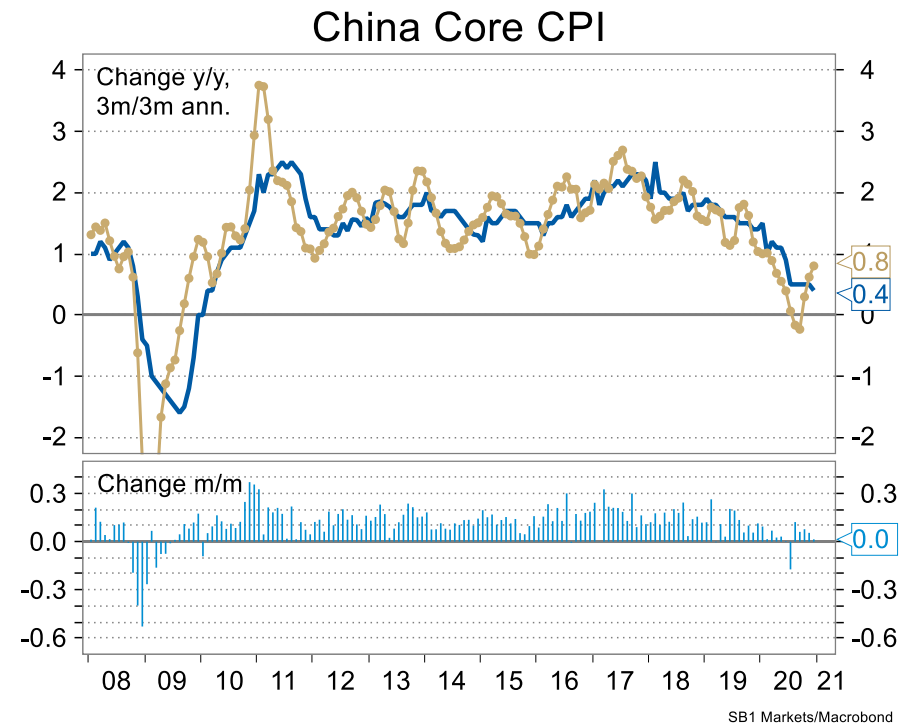
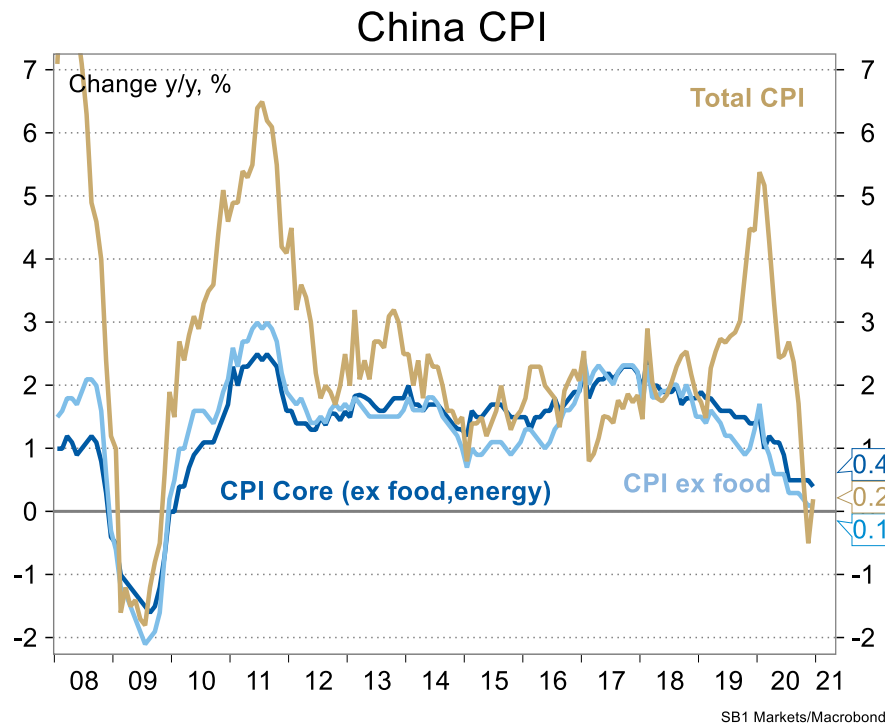


- The aggregate decline in auto sales over the March-Dec period, vs the 2019 average sales is
 - » 1% in Norway
 - » close to 15- 20 % in the other Nordics
 - » 27% in the Eurozone



CPI up in positive territory, pork prices did not fall further

The headline CPI up to 0.2%, from -0.5%. However, the core unch m/m, up down 0.1 pp y/y, to 0.4%

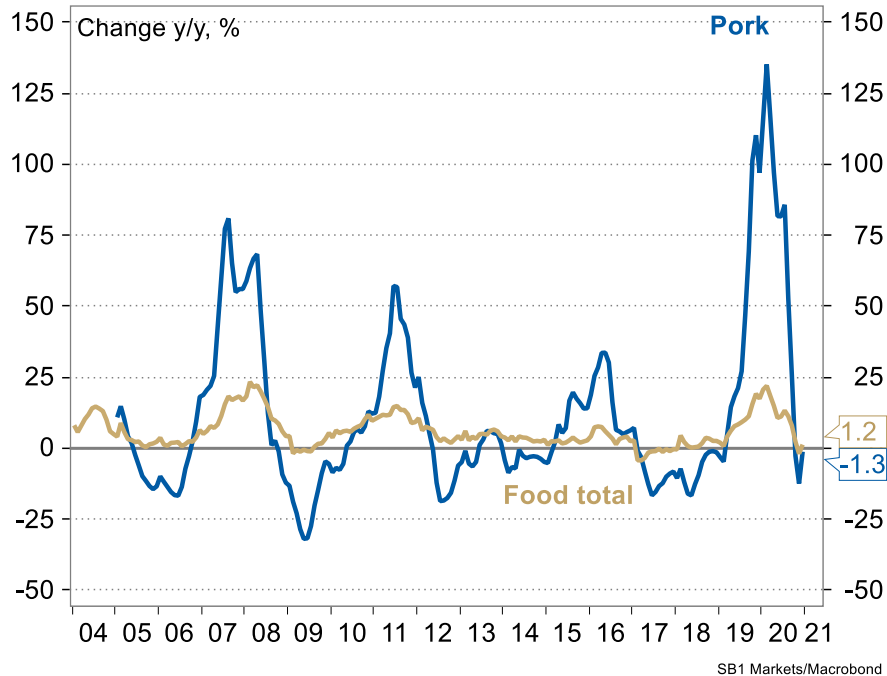


- **Total annual CPI** growth has fell from above 5% in early 2020 to -0.5% in Nov, but climbed to 0.2% in Dec, expected 0.0%. The steep decline in headline CPI is due to a partial reversal of the ultra high pork prices last year
- **Food prices** rose by 2.4% m/m as pork prices rose 5%. However, the latter is trending down, at the level is high – and will probably continue down over time. Food prices are up 1.2% y/y
- **Thus, CPI inflation ex food** is low as well, at 0.1% - partly due to falling energy prices. Ex energy prices too – the real core – prices were flat y/y, and are up just 0.4% y/y - also a very low number (the lowest since early 2010)
- **Low inflation** support real income growth. **Monetary policy** will not respond at low inflation per se, the real economy is more important

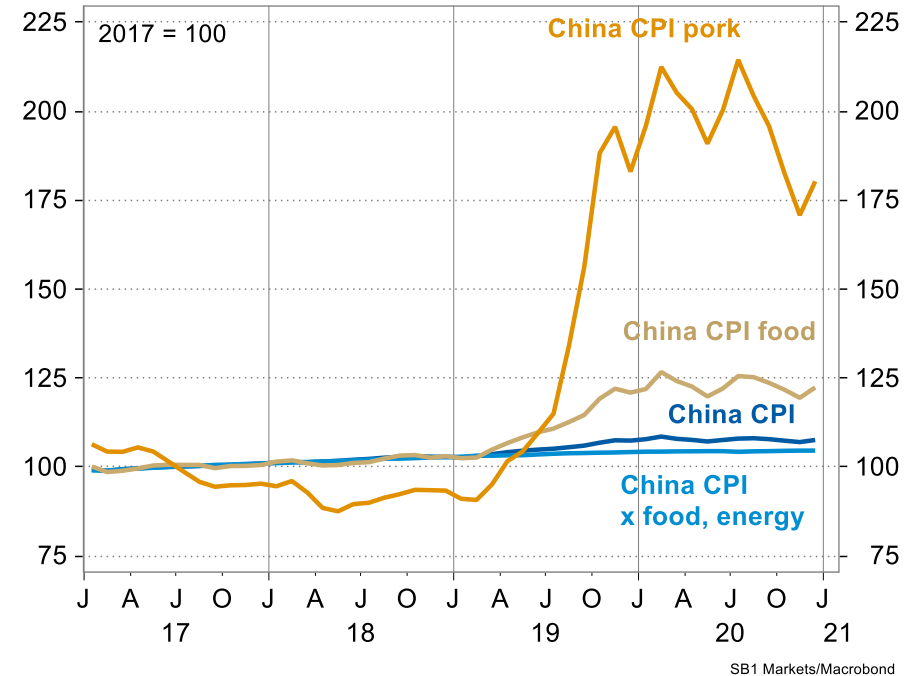
Pork prices up 5% m/m, but prices will decline substantially over time?

... taking both overall food prices, and the total price level down

China CPI Food vs Pork Prices

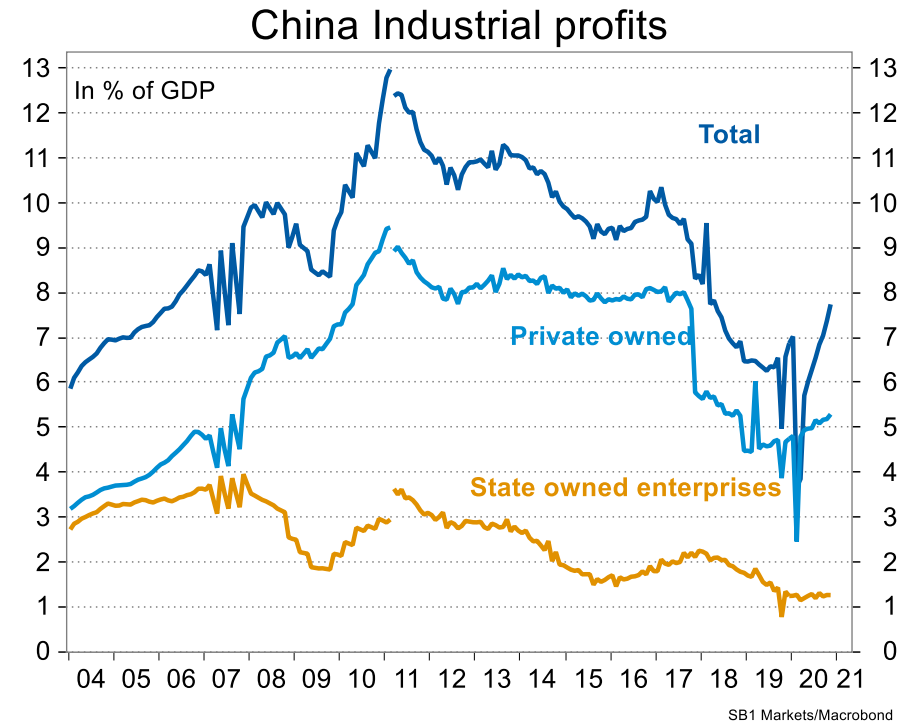
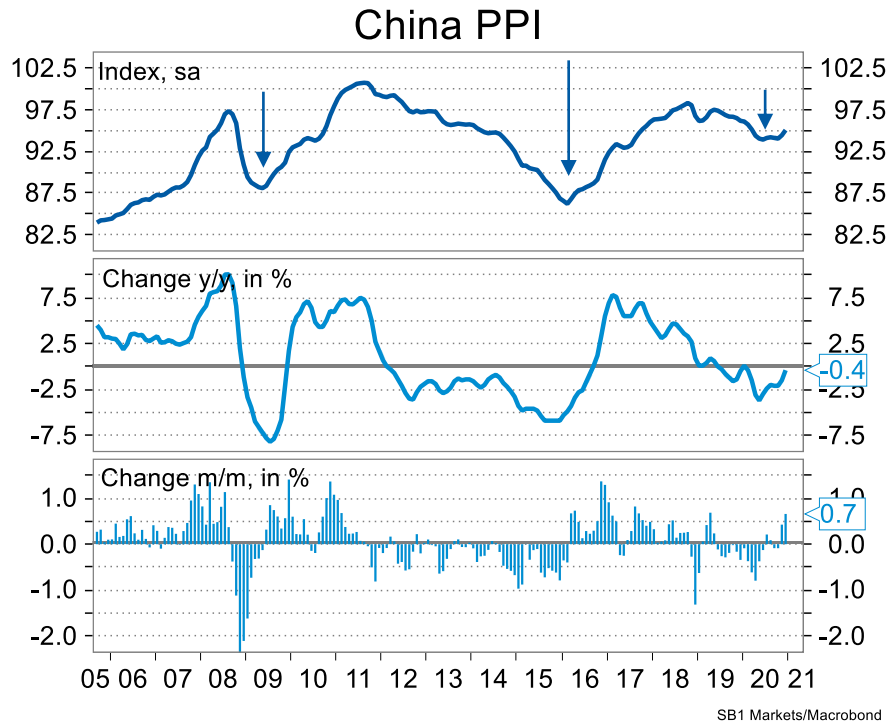


China CPI



Producer prices have bottomed, profits on the way up again

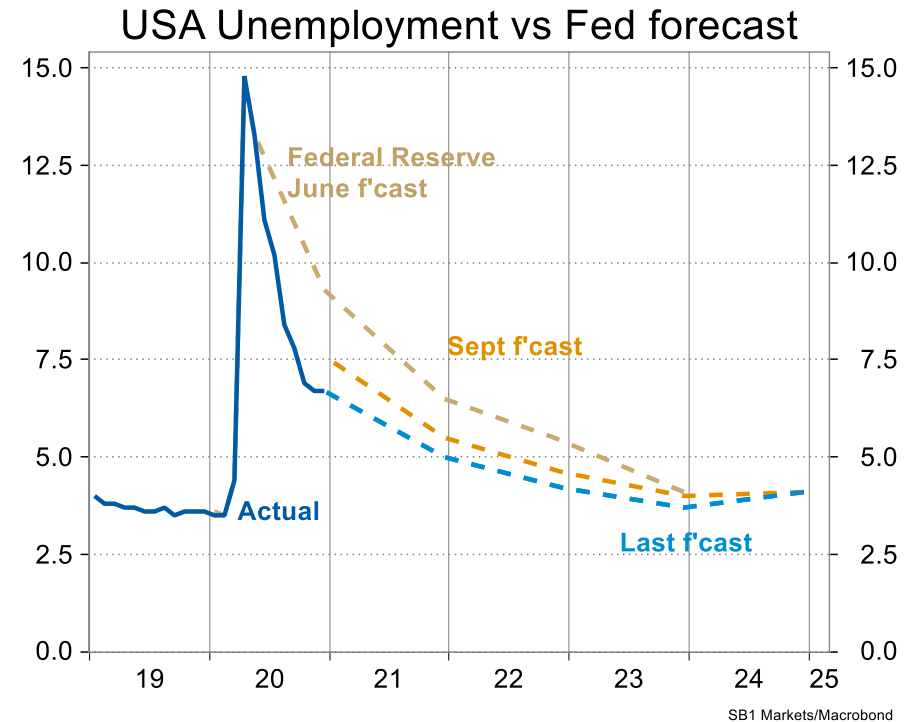
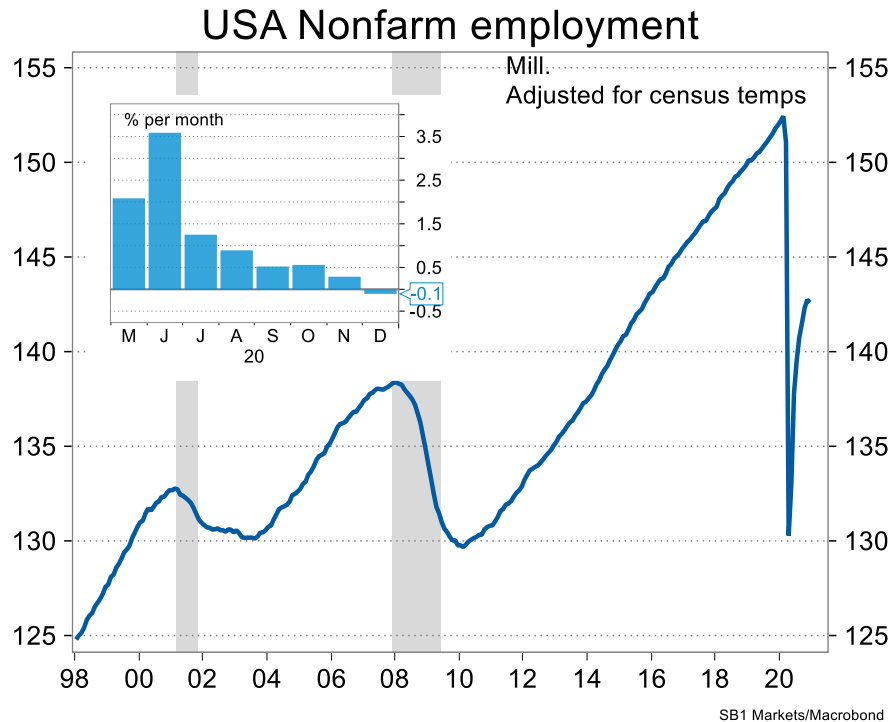
PPI up 0.7% m/m in Dec, still down 0.4% y/y – was down almost 4% last May. Profits are recovering



- The PPI peaked in late 2018 but prices just fell some 4%, some of it during the spring. During previous setbacks, PPI has fallen up to 13% (and never less than 8%). Now, prices have probably bottomed
- Profits in privately owned industrial enterprises fell by 50% in February. Profits rose to a normal level in April/May – if we label the profit level in 2019 and early 2020 as normal - at 5% of GDP – and now it has climbed to almost 8%
- In state owned enterprises profits have fallen from 2% in 2018 to just above 1% now – but the profit rate is not falling further

Employment down in Dec, due to corona trouble in leisure/hotels/rest. Others up

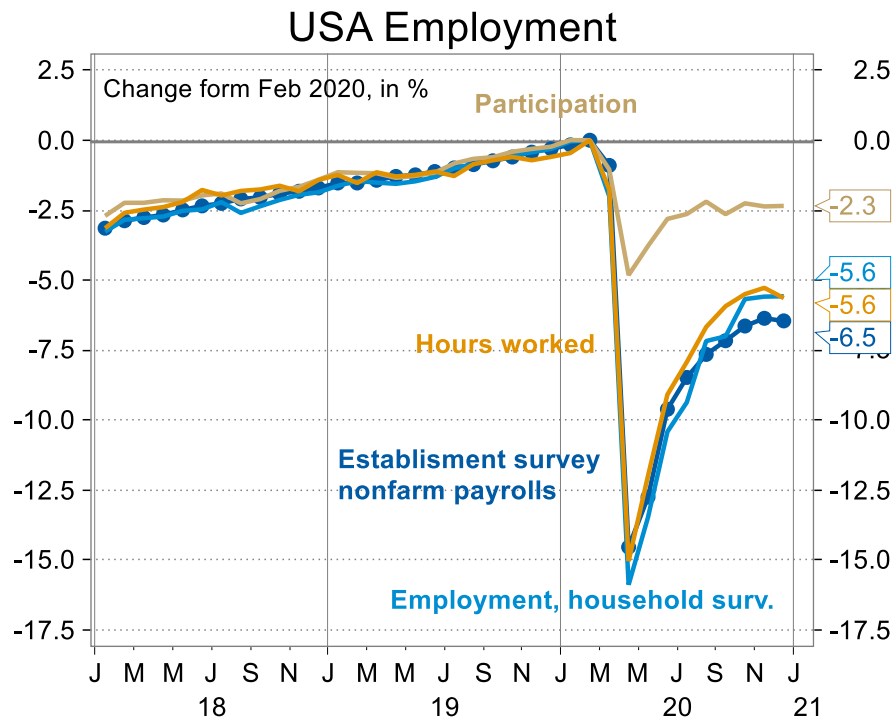
Employment fell by 140', expected up by 50' (at least until ADP reported a 123' drop Wednesday)



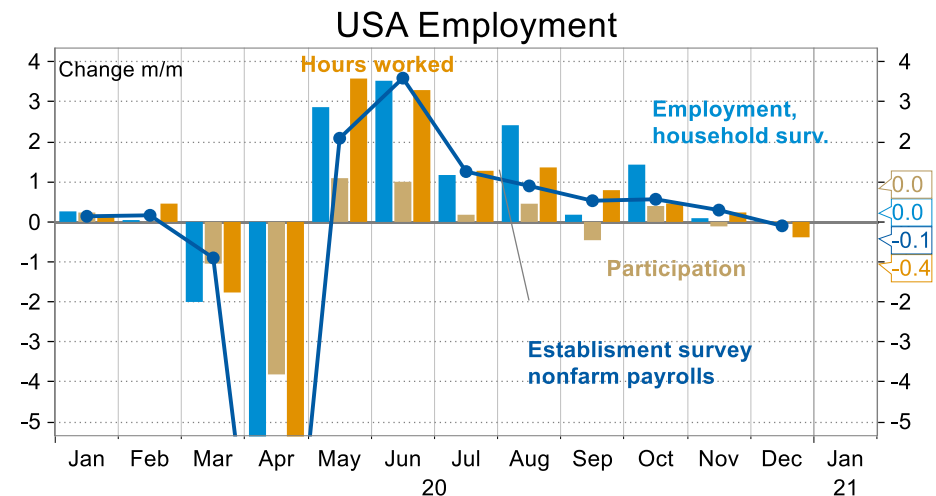
- **Employment** fell by 140' in Dec, expected up 50', at least ahead of the weak ADP -123' was published at last Wednesday. Public employment fell by 45' as local government's budgets are squeezed due to the corona downturn. In the private sector, employment in leisure/hospitality fell by 498', of which 372' in restaurant, 92' in recreational activities. Empl. in education fell by 62', also due to Covid-19 challenges. In other private sectors, employment rose by 465' a decent number. Employment is 6.5% below the pre-corona level, it was down 14% in April
- **Unemployment** was unchanged at 6.7%, expected up 0.1pp. Both the participation & the employment rate were unchanged
- **Average wages** rose sharply due to loss of low paid jobs in the hospitality sector. The 'real' growth in earnings (ECI) is at 2.5%
- **The Federal reserve will keep pushing the accelerator hard the coming months, whatever fiscal stimulus may be decided**

Employment still 5.5- 6.5% below par

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

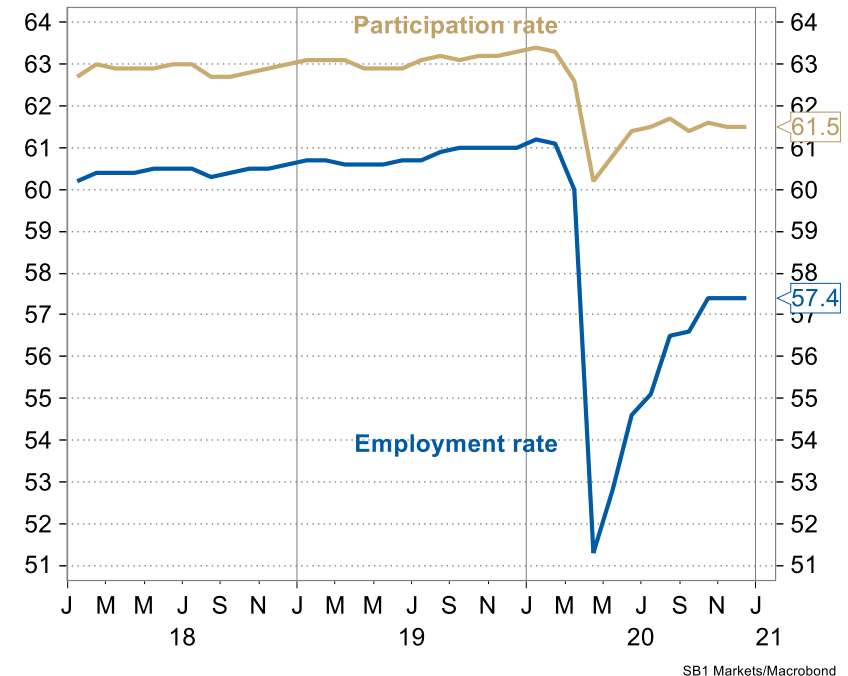
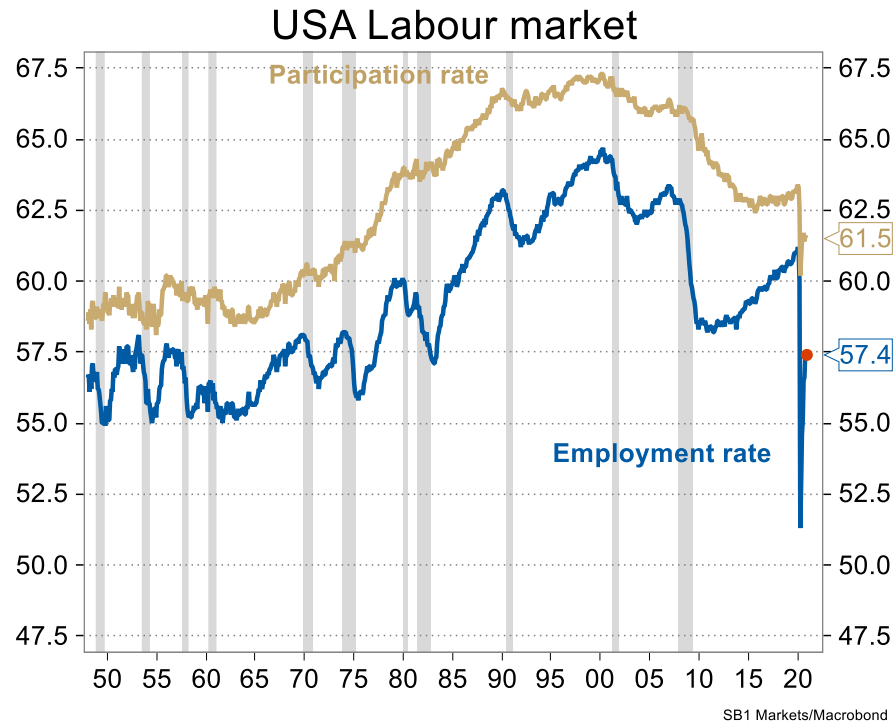


- The participation rate has stabilised at some 2.5% below the pre-corona level, which is lowering the unemployment rate by the same amount
- Nonfarm payrolls are down 6.5% vs Feb, while employment measured by the household survey (LFS/'AKU') is 5.6 & below par
- Hours worked is increasing approx.. at the same pace as employment but and is 5.6% below the pre-corona level



The employment & participation rate flat in December – still at low levels

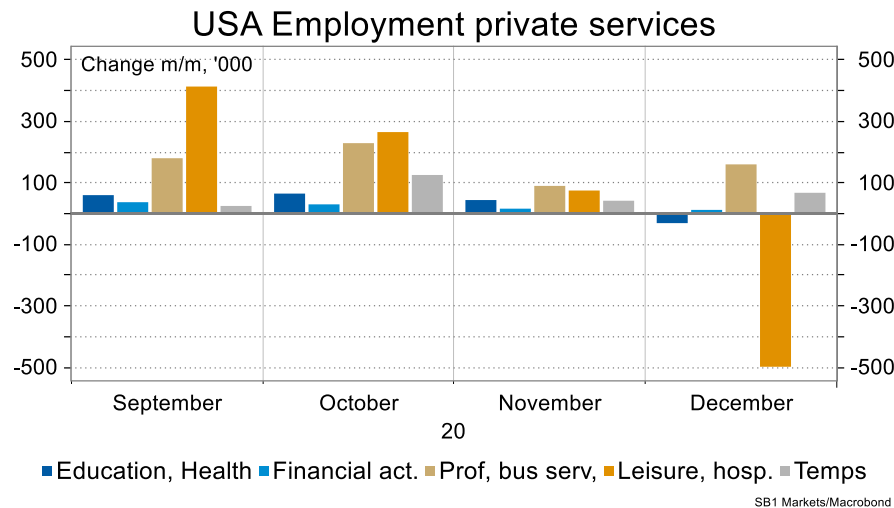
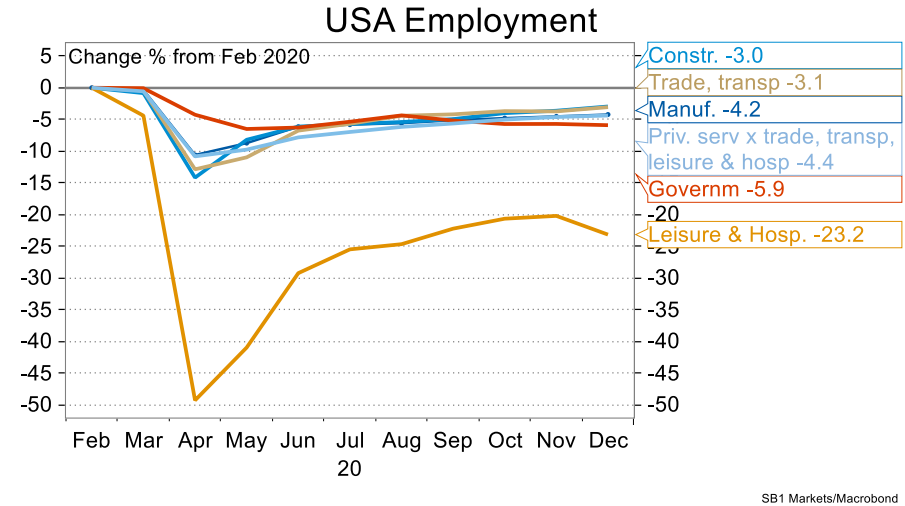
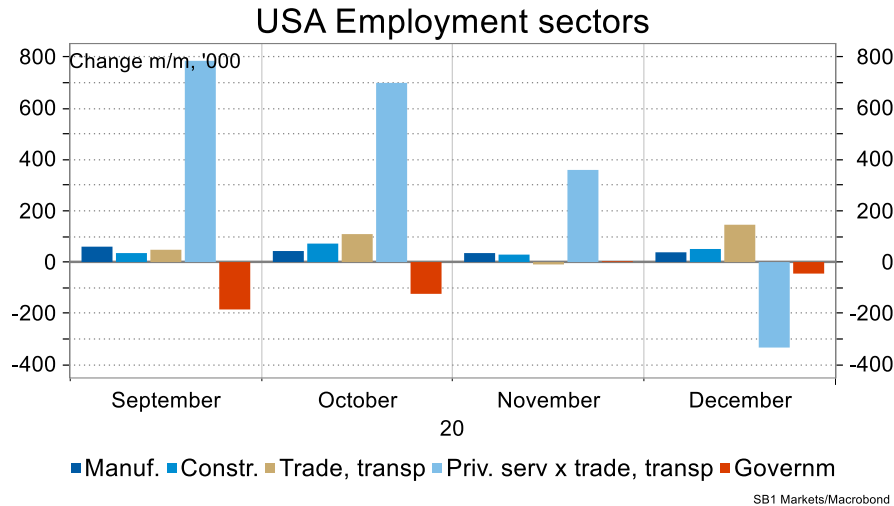
The participation rate is down 2.3% (1.9 pp), the employment rate is down 6.1% (3.7 pp)



- 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 from 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

Restaurants & parks were closed, the government cuts. But OK growth elsewhere

The 3rd corona wave shut down restaurants & recreational activities, some hotels. Others not

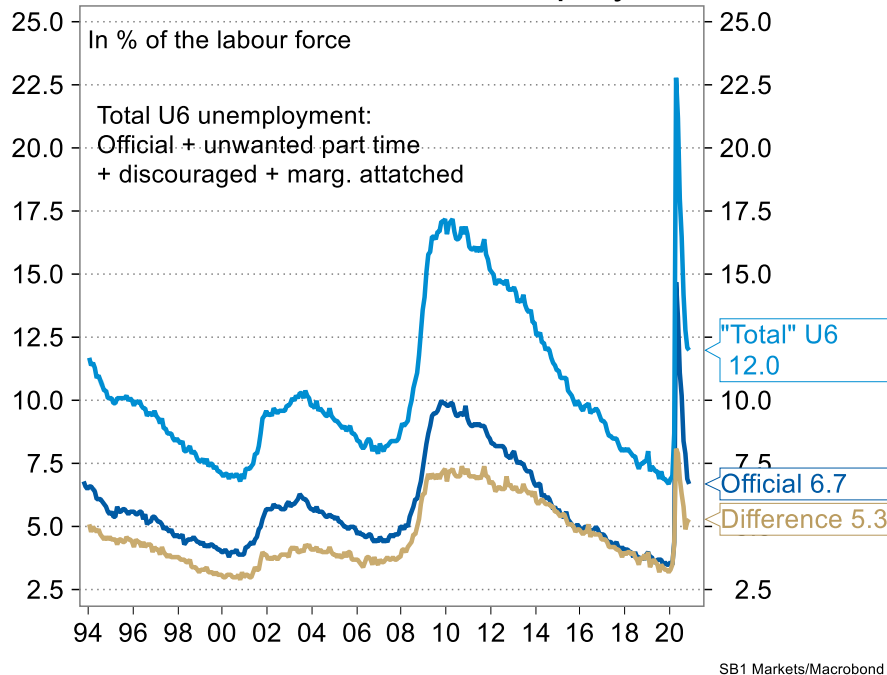


- In December: A narrow but substantial decline in the corona exposed sectors. Restaurant employment fell by 372' (3.6%), still limited vs. the 50% decline in March/April. Other leisure activities and hotels down too (sum 498'). Government employment is sliding too, down by 45'. Employment in other sectors grew further
- From February
 - » No main sector is above the Feb level, not even trade/transport
 - » Leisure & hospitality is down 23.2% Manufacturing is down 4.2%, trade & transport 3.1%, construction 3%
 - » Even government employment is down 5.9% (adjusted for temp census workers), which is remarkable in an economic downturn. Local governments mostly to blame, they have run out of money. Some fiscal support underway from Congress now? Public education is down too (as is private education, as schools have closed down)

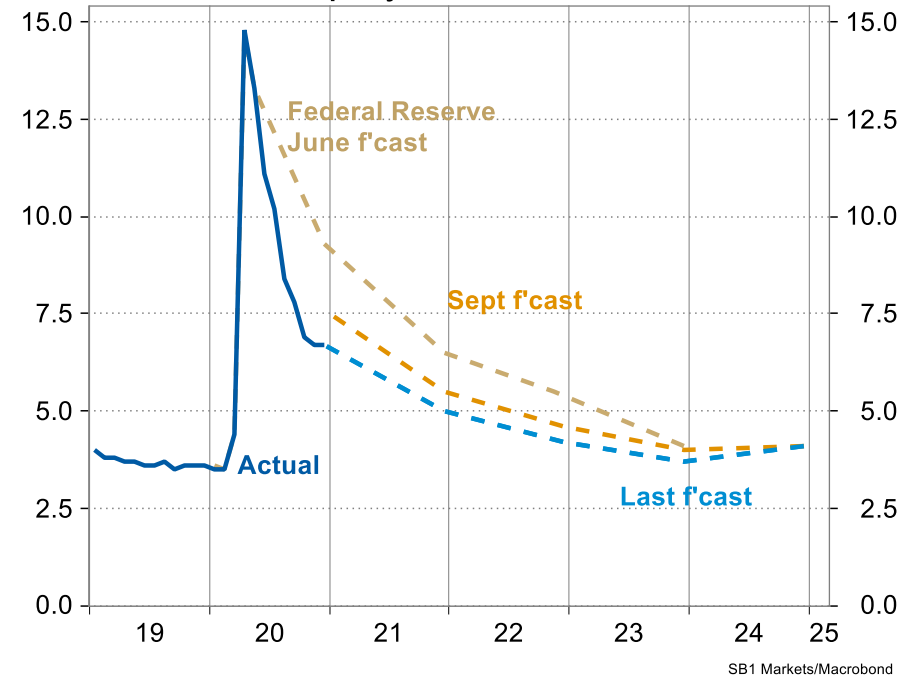
Unemployment flat at 6.7% (exp. 6.8%), far below Fed's Sept f'cast

Still, the 'real' unemployment is substantially higher

USA The 'real' unemployment



USA Unemployment vs Fed forecast

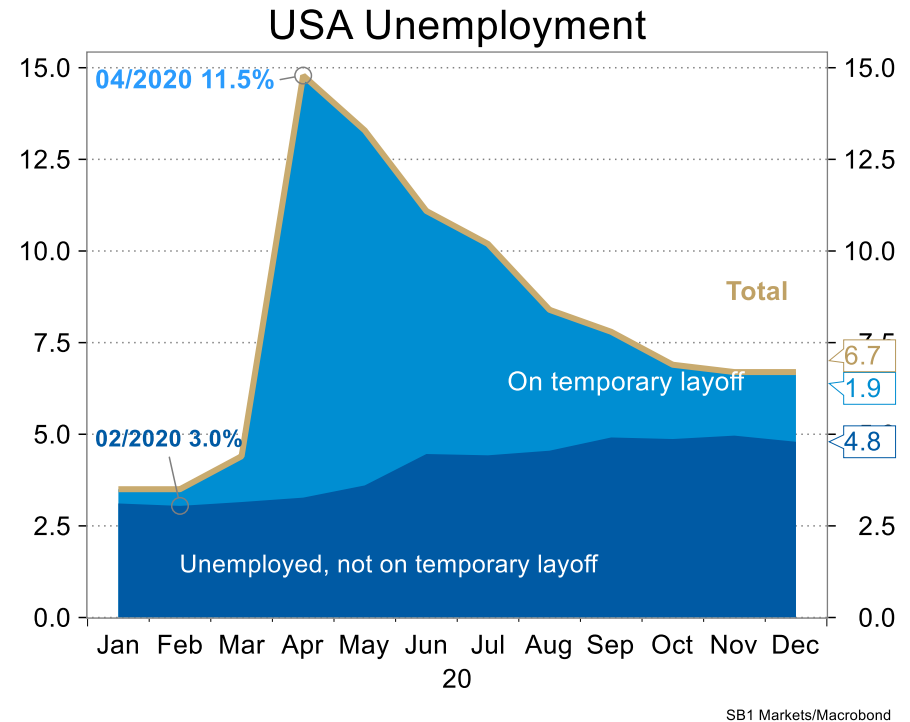
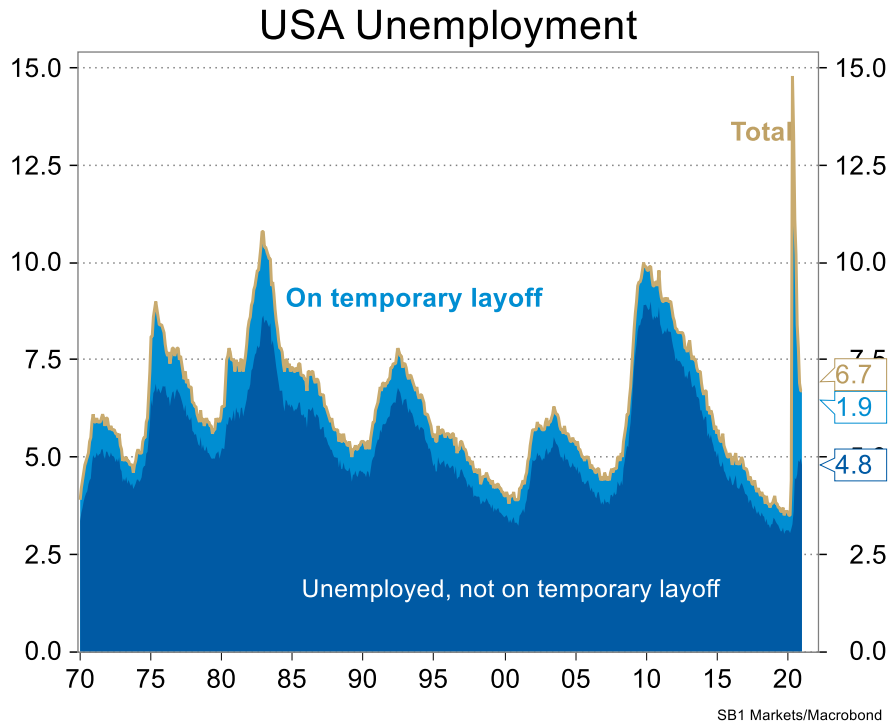


- 1) Almost 5% of the labour force is working unwanted part time (or at not able to get work). In good times, less than 4%
- 2) The labour force participation rate has fallen because workers do not bother searching for work during the crisis (2%)
- 3) In sum, the unemployment significantly higher than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

Unemployment has been declining much faster than the FOMC has expected vs. its June & Sept forecasts. (FOMC's Dec forecast is still on track 😊)

More furloughed workers in Dec, and fewer ordinary unemployed

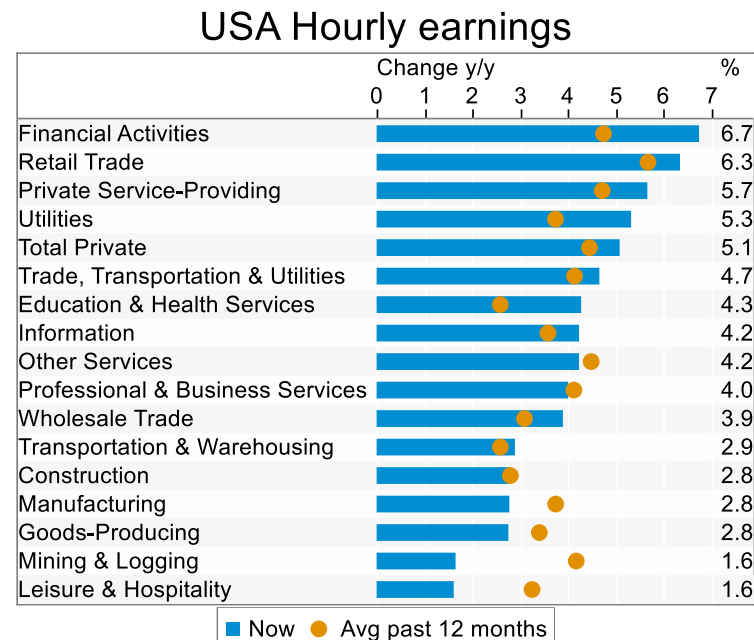
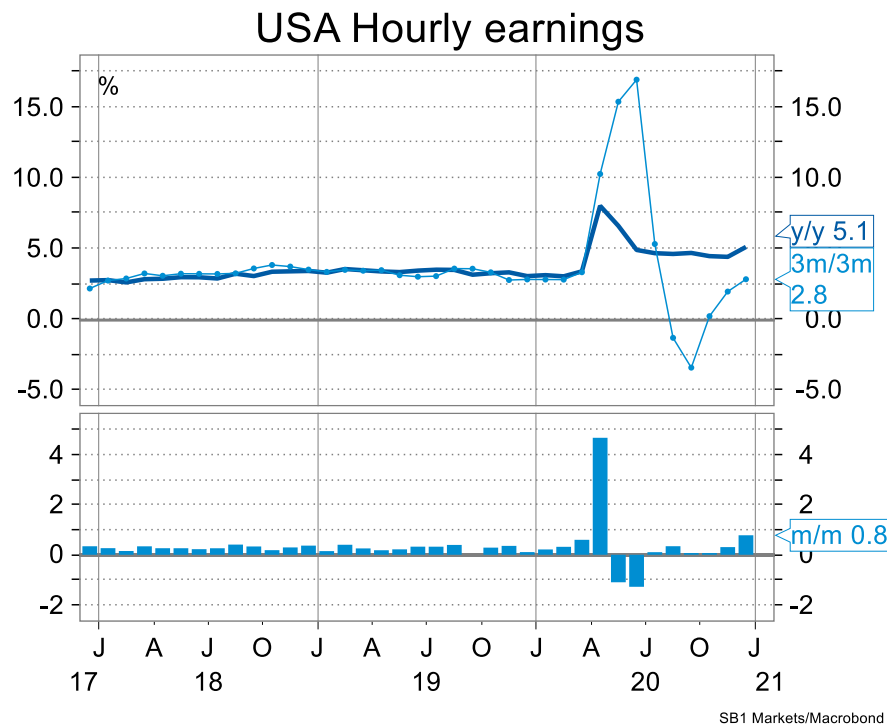
Temp laid off unemployment up 0.2 p 1.9% - but was 11.5% in April!



- The 'core' unemployed – not on temporary layoff – equalled 4.8% of the labour force, down 0.2 pp from Nov
- It is a good sign that the increase in unemployment in Dec (hopefully) was temporary – as employers plan to reemploy the furloughed workers

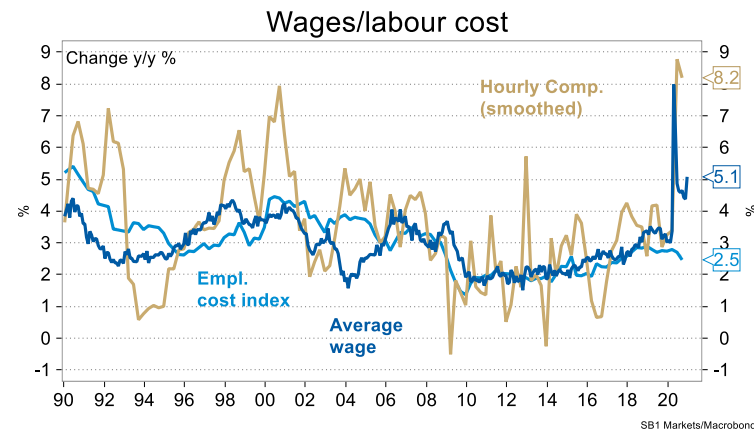
Average wages up and down during the corona crisis – *due to the labour mix*

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



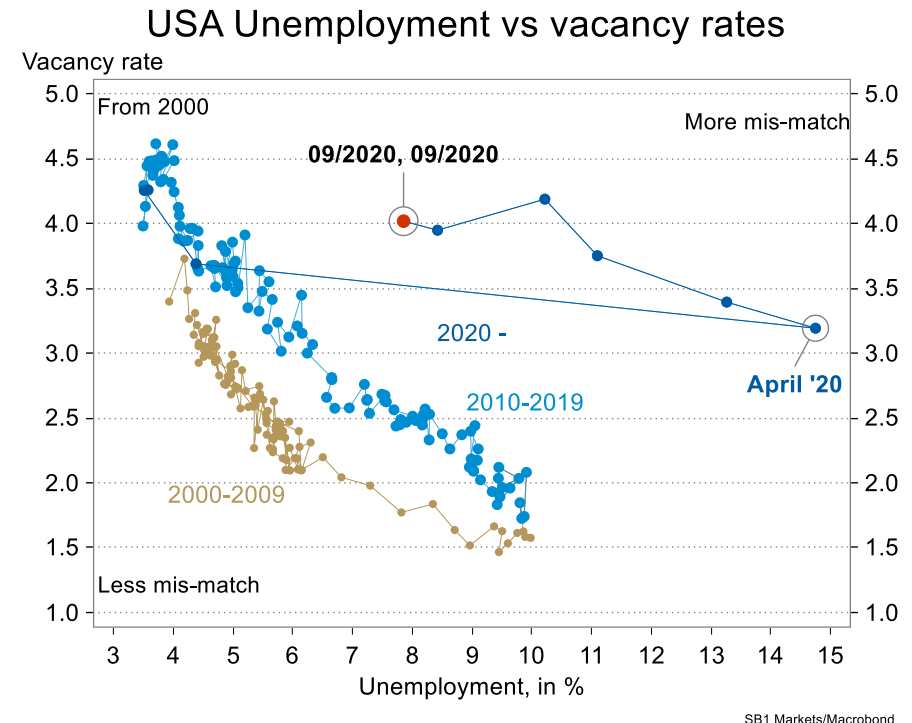
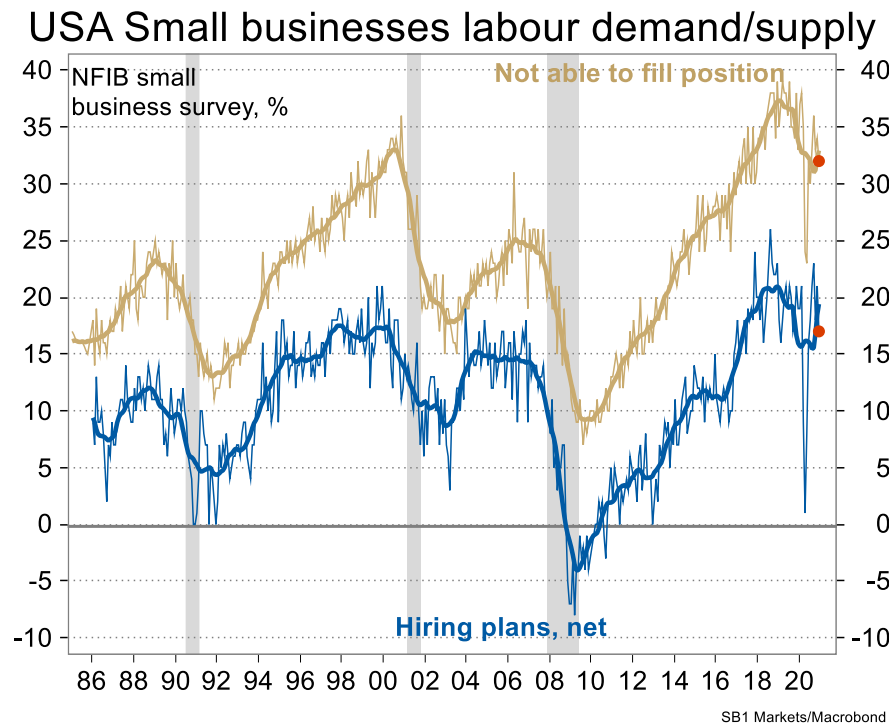
SB1 Markets/Macrobond

- The average hourly wage rose by 0.8% m/m in Dec, and the annual rate accelerated to 5.1% from 4.4% in November
- According to national accounts, the wage cost grew 8% in Q3
- However, the employment cost for 'the same job' was up just 2.5% y/y in Q3 (*check the chart to the right*)
- The 'strange' wage inflation data are just due to changes of the mix of the employment



Small businesses are not able to fill vacant positions

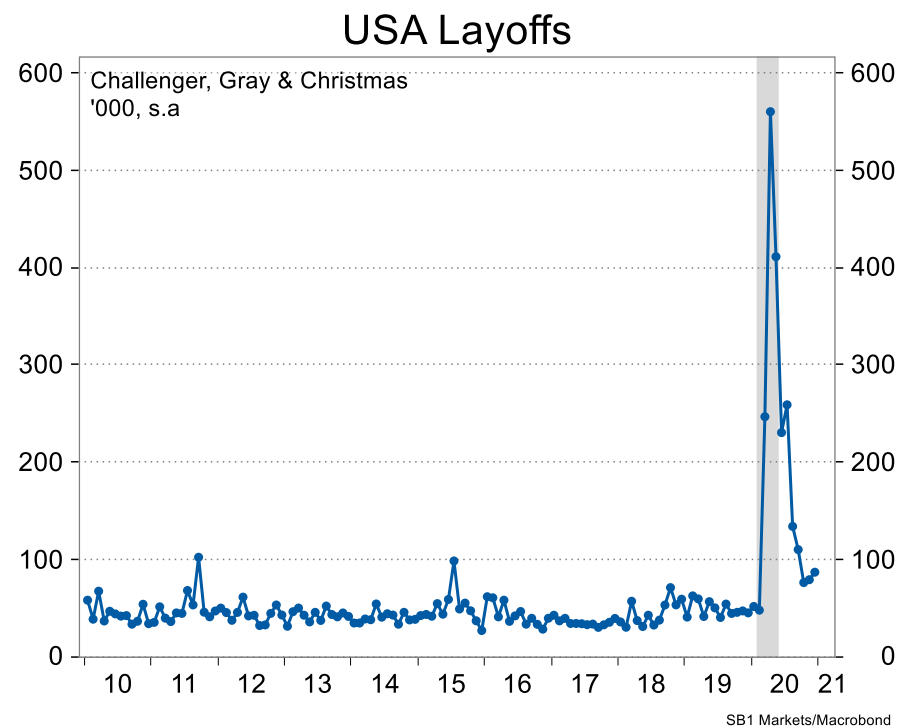
... just like before corona. Is it now due to corona, employees are not able to move/take new position?



- ... or are large parts of the labour market still tight?
- Both the share of companies reporting they are not able to fill position, and the share of companies reporting hiring plans fell slightly in Dec but remain at unusual elevated levels
- The number of unfilled vacancies is also high, according to official statistics (last obs. Oct) – as if the unemployment rate was 4 – 4½%, not close to 8% (as it was in Oct)

More layoffs in Nov & Dec, but no drama (compared to the Mar/Apr experience)

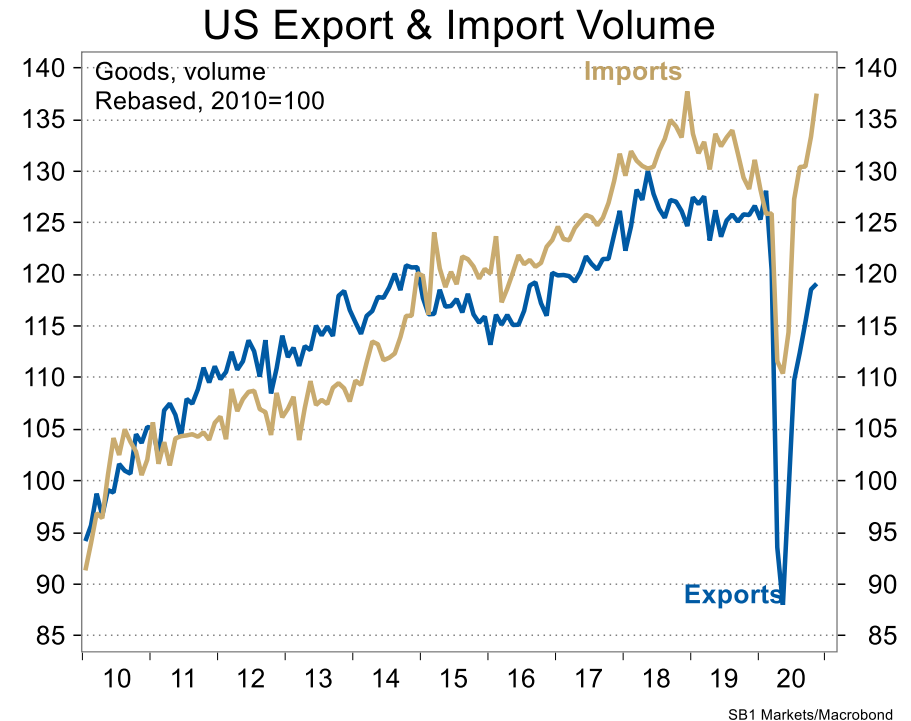
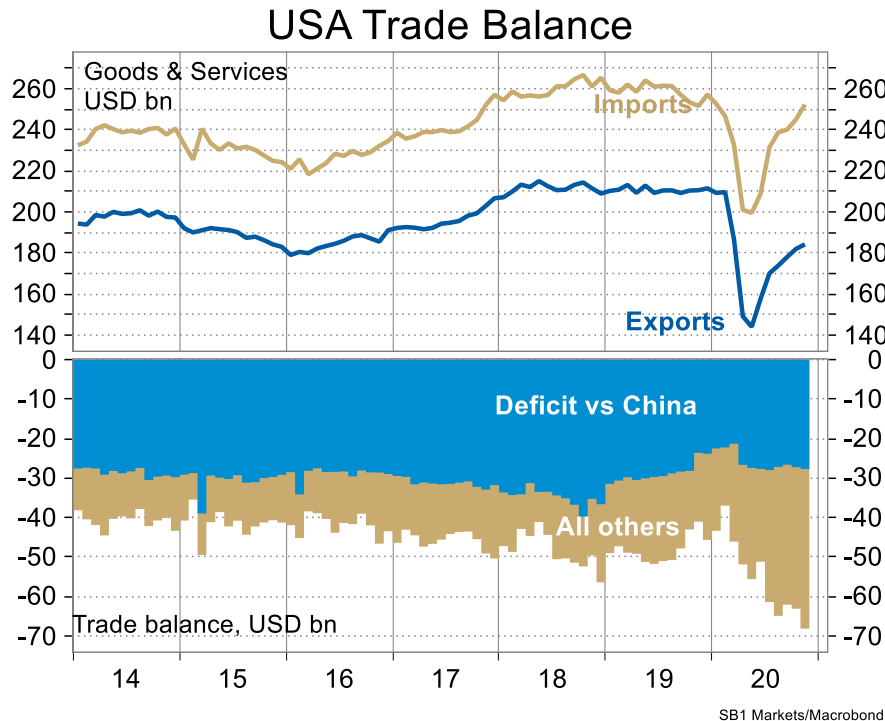
The no of layoffs are at half the peak levels during the two previous recessions



- A

The trade deficit up to ATH in November, 60% higher than in Nov '16, BTW

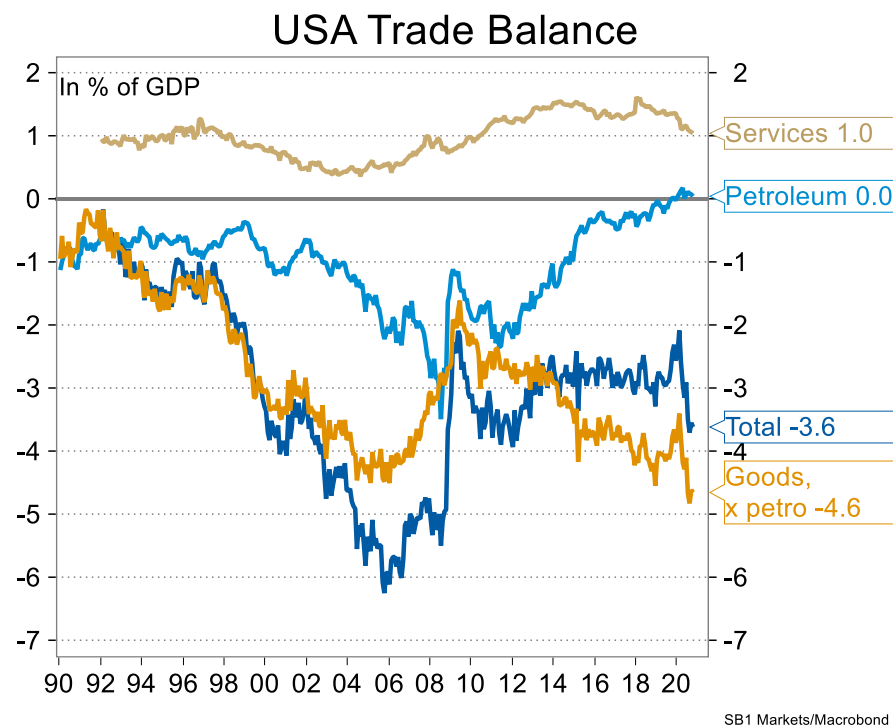
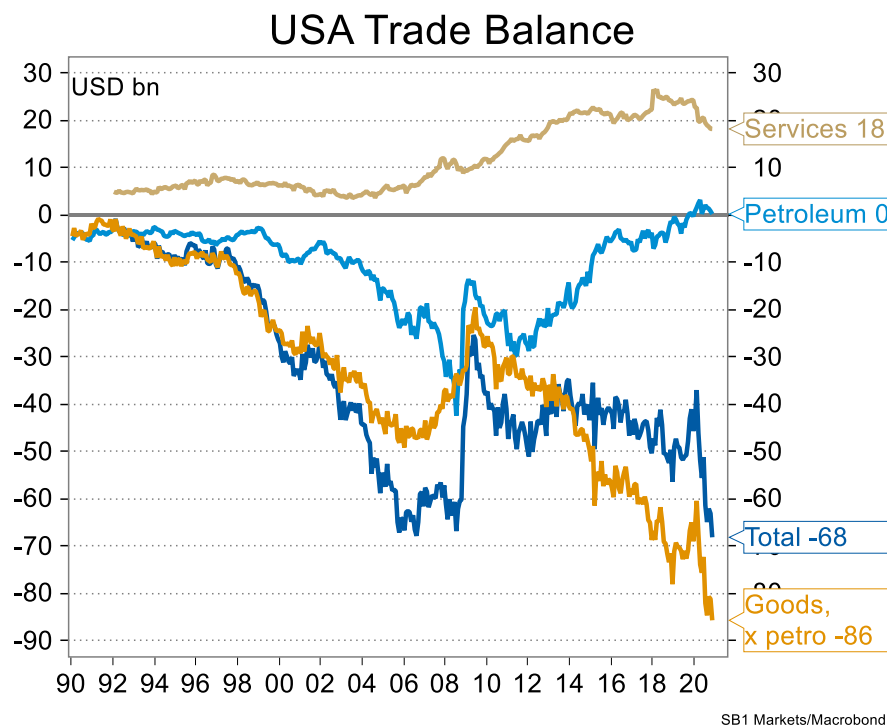
... even if the trade deficit vs. China is unchanged. The deficit vs others is up 2.6x. Surprised? ☺



- The overall trade deficit of goods & services rose to USD 68 bn in Nov from 63 bn in Nov. The deficit was much higher than expected (5 bn from before the advanced deficit in goods was published late Dec). Both exports and imports rose but imports much faster (3 vs. 1%)
- In volume terms – for goods – imports also rose faster than exports. Import volumes were record high, while imports are still 6% below the pre-corona level. Still, the negative drag from trade to Q4 GDP will probably be limited, and then mostly due to services
- The trade deficit was the largest ever in Nov in value terms but not as share of GDP. Parts of the deficit is probably due to corona, and thus temporary
- The deficit vs China is at the same level as when Trump became president. The deficit vs. others have exploded, however measured

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

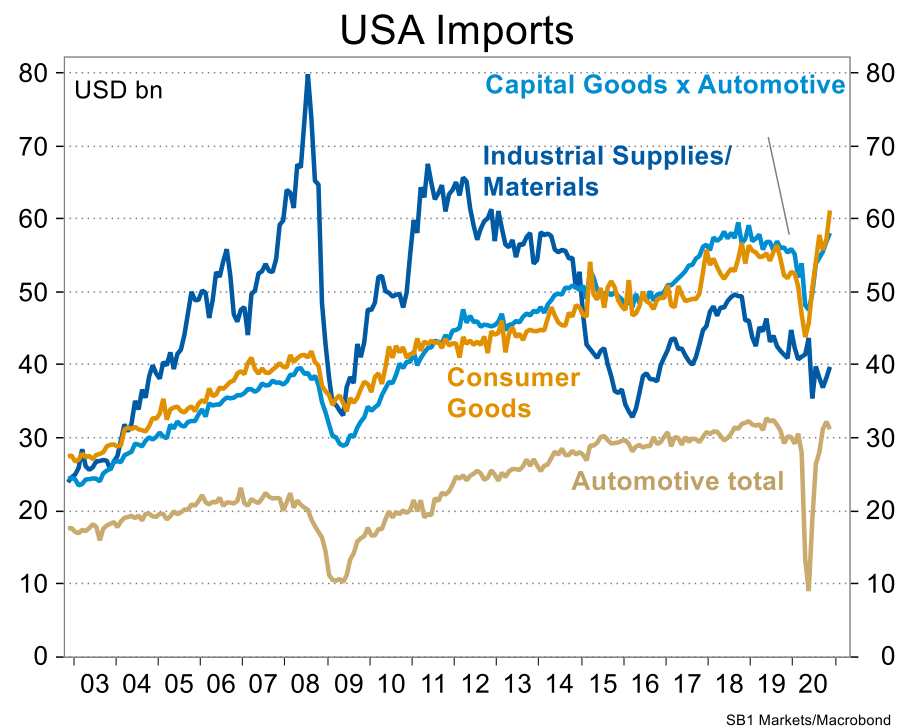
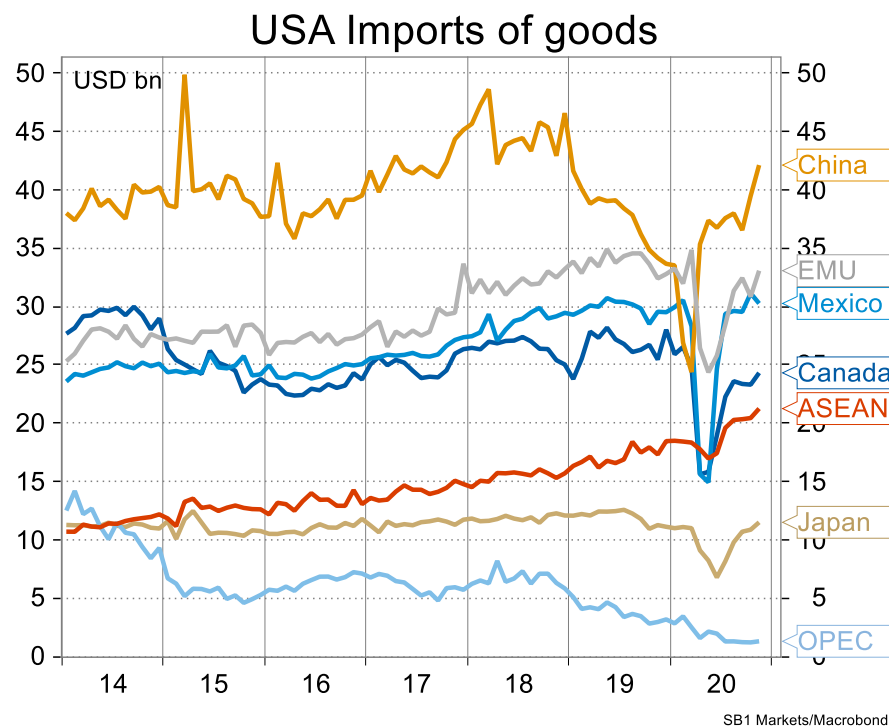
The goods deficit ex petroleum has widened to 4.6% of GDP, the surplus in services is falling fast too



- The goods x petro products deficit dropped to ATL at USD -86 bn in Nov, or 4.6% of GDP. 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)
- The total trade surplus equals 3.6% of GDP, well below the record at 6.2% in late 2005

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

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

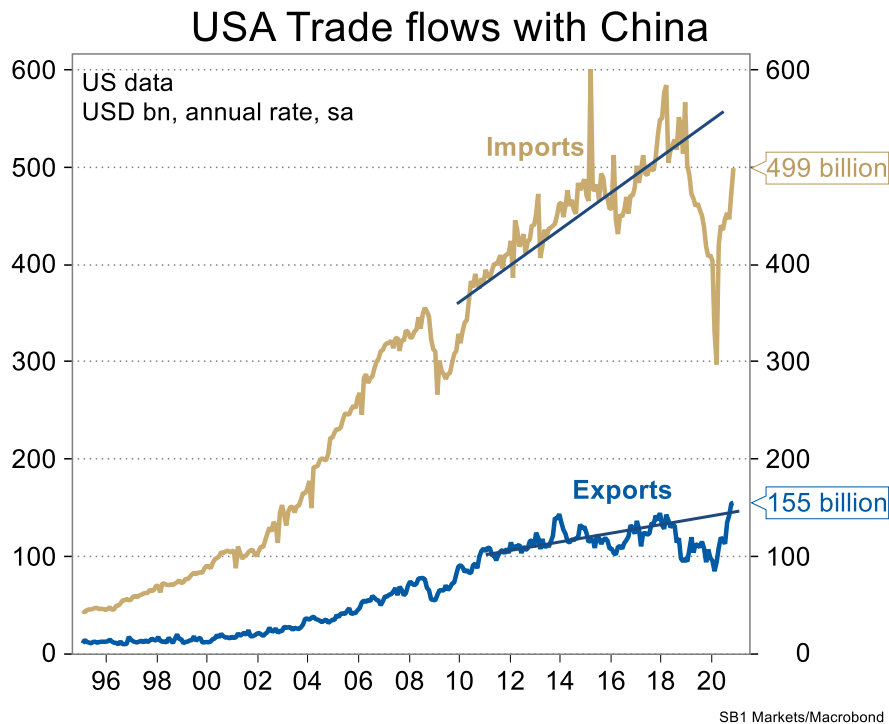


- Imports from China are well above the pre-corona level – as are exports (*check next page*). Export to ASEAN (the minor Asians) are very strong too. Canada and the EMU are the export-to-US laggards. The US is not importing anything from OPEC anymore

Exports to China are pretty strong

The Chinese authorities have done more than paying lip services?

- However, imports are recovering rapidly too, and the deficit vs. China is not reduced

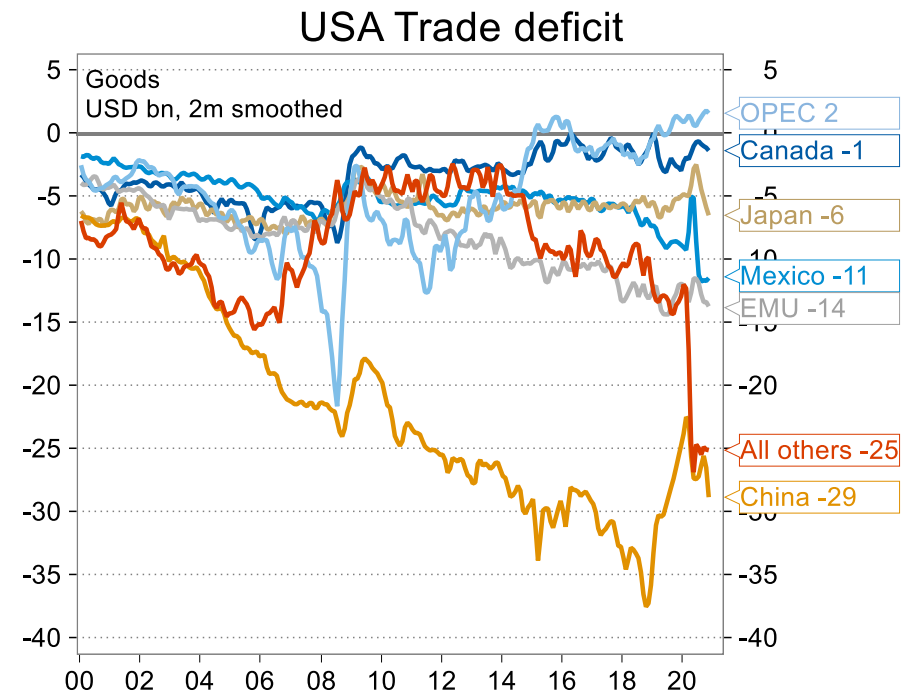


The deficit vs. China has narrowed last year

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



SB1 Markets/Macrobond

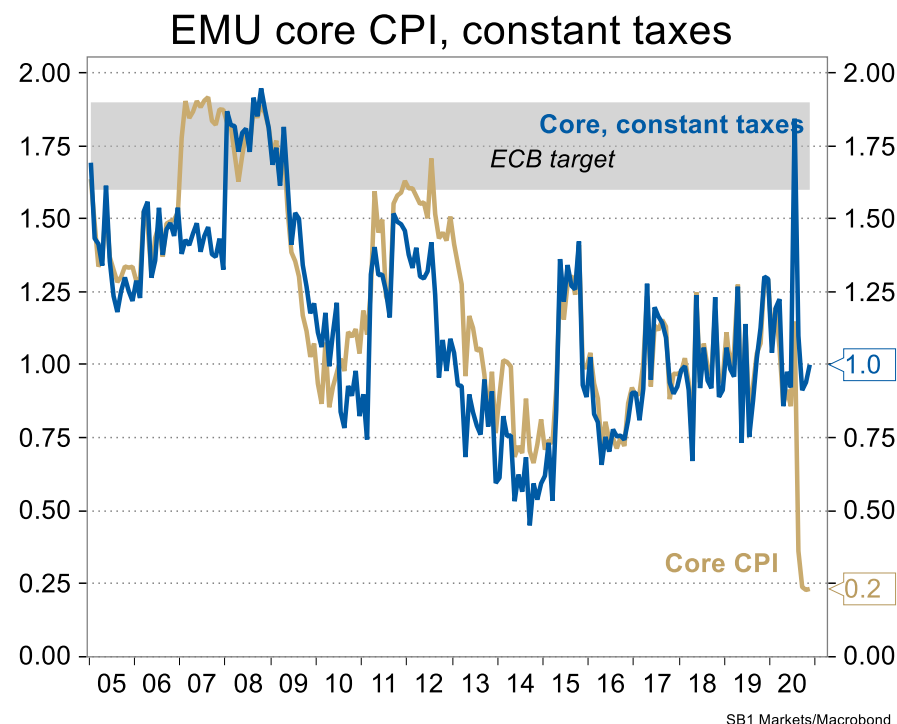
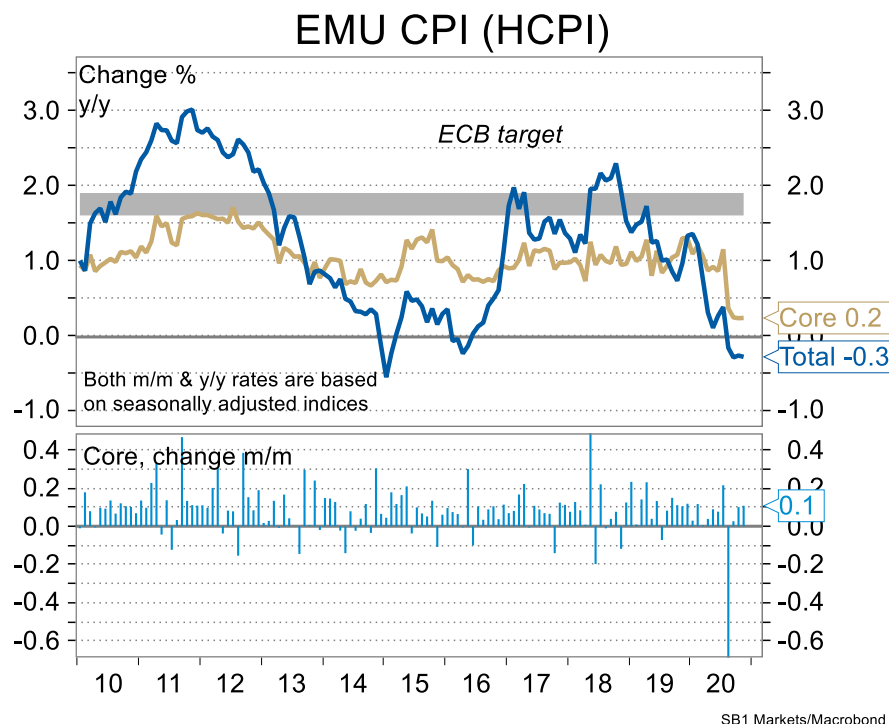


SB1 Markets/Macrobond

- 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 2 bn, due to higher domestic oil production (shale), and more exports of weapons

Core inflation stable at 0.2% (y/y...), total at -0.3% in Dec

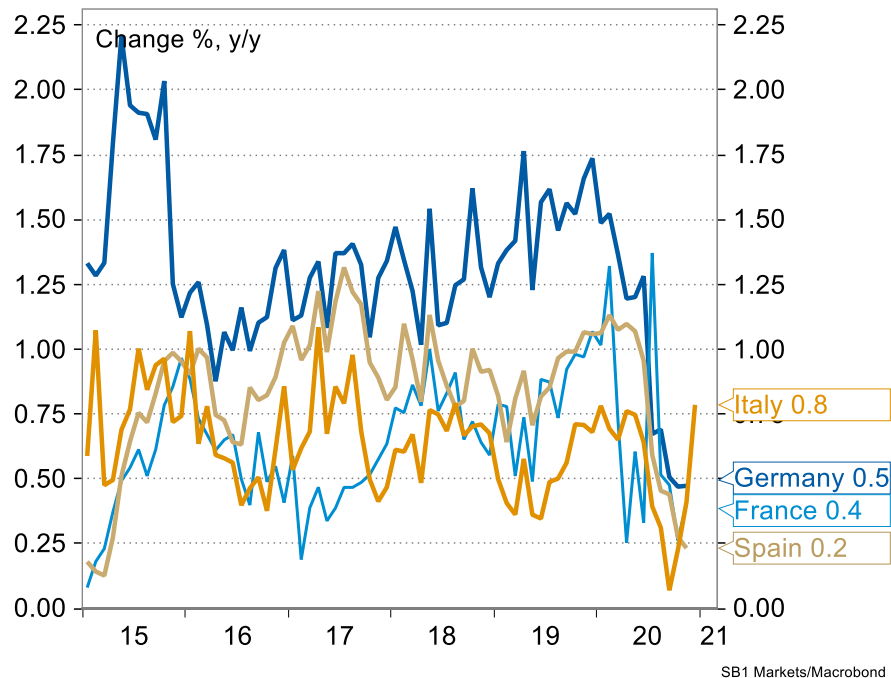
The German VAT cut (& other tax cuts) have lowered EMU infl. by some 0.8 pp. Still, 'real' infl. is low



- In Dec, core prices grew 0.1% m/m and the annual rate was unch at just 0.2%, both as in Nov.
 - » 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 1,0%. Thus, taxes are explaining 0.8 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 Dec, like in the two previous months. *Good news for European households, and their purchasing power*

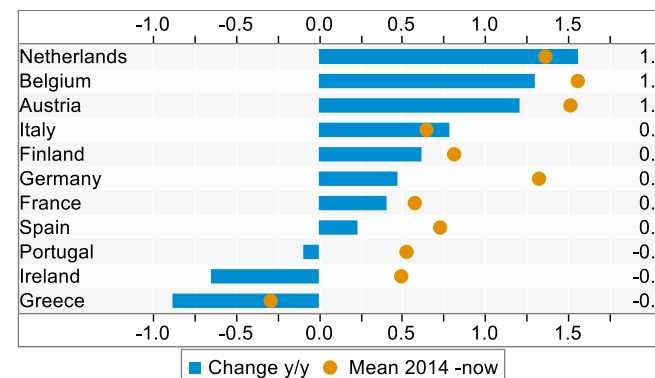
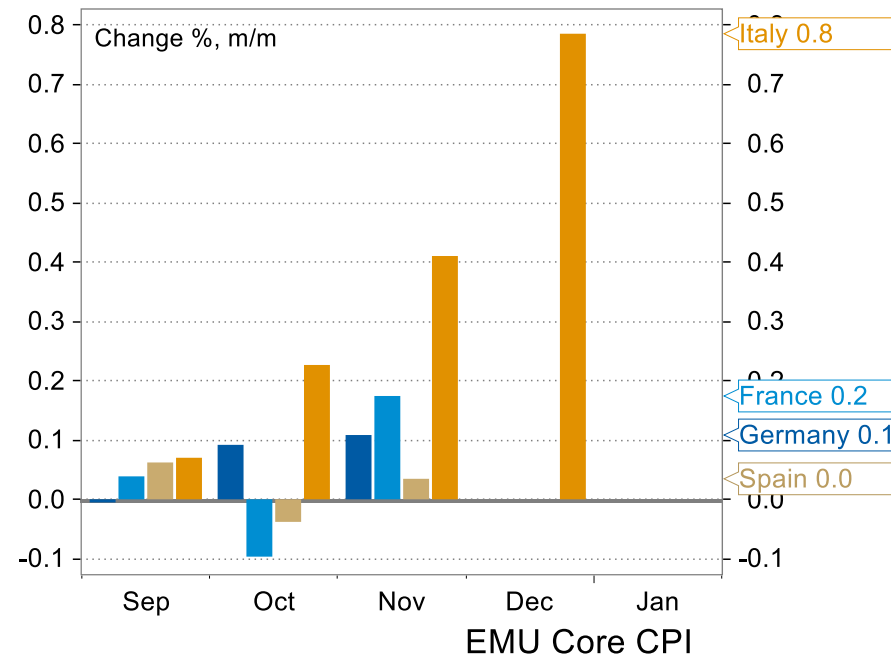
Core inflation is low everywhere, Germany and Italy have slowed the most

EMU Core CPI



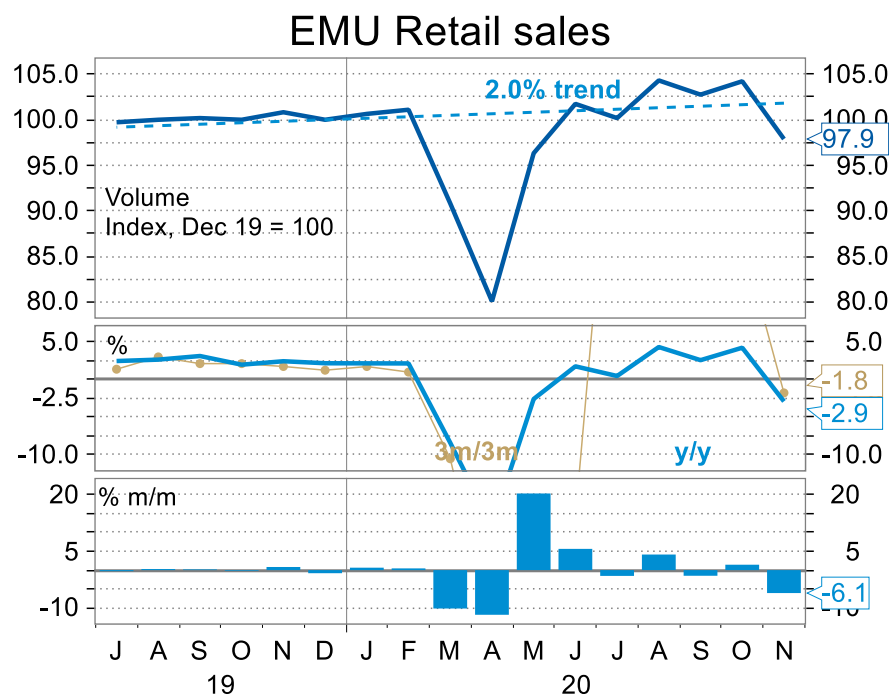
- Greece has fallen into deflation again – and prices are not higher than in 2010 (and core since '08). Core inflation below zero in Ireland and Portugal too
- Just Italy of the big 4 has reported Dec data

EMU Core CPI

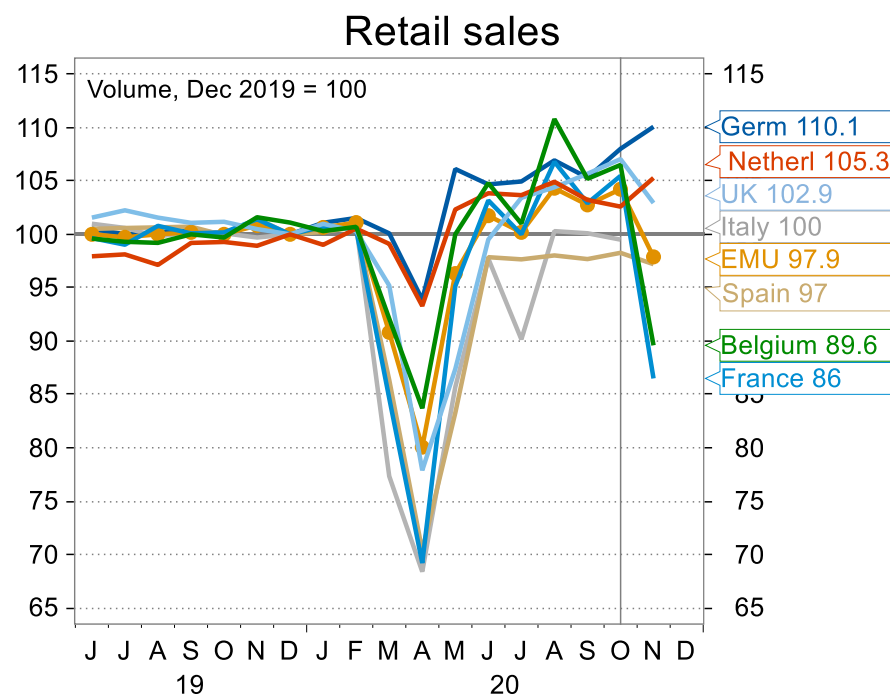


November retail sales dropped by 6.1% m/m, way off expectations of -3.4%

Largely driven by 18% and 16% decreases in France and Belgium respectively



SB1 Markets/Macrobond

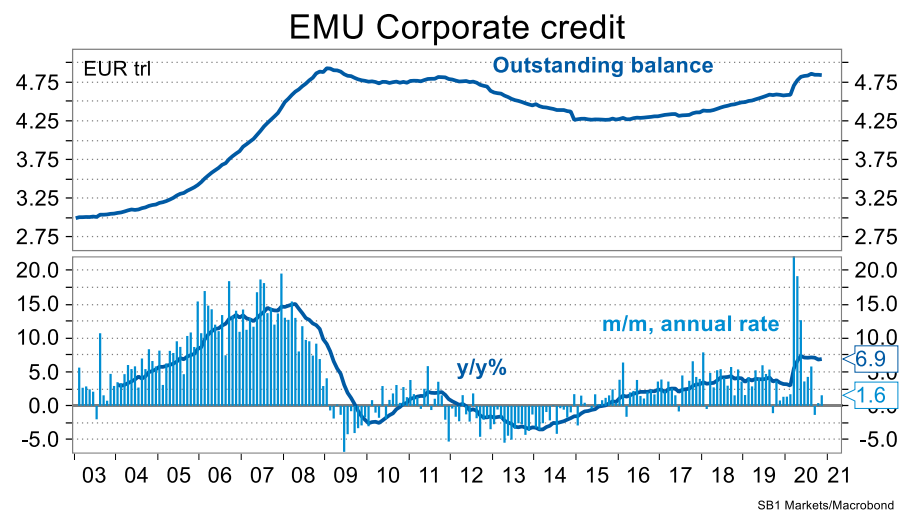
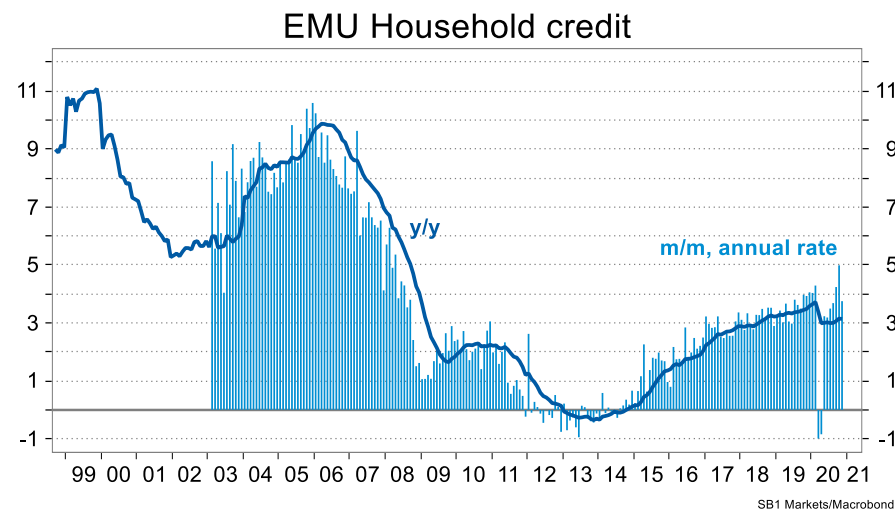
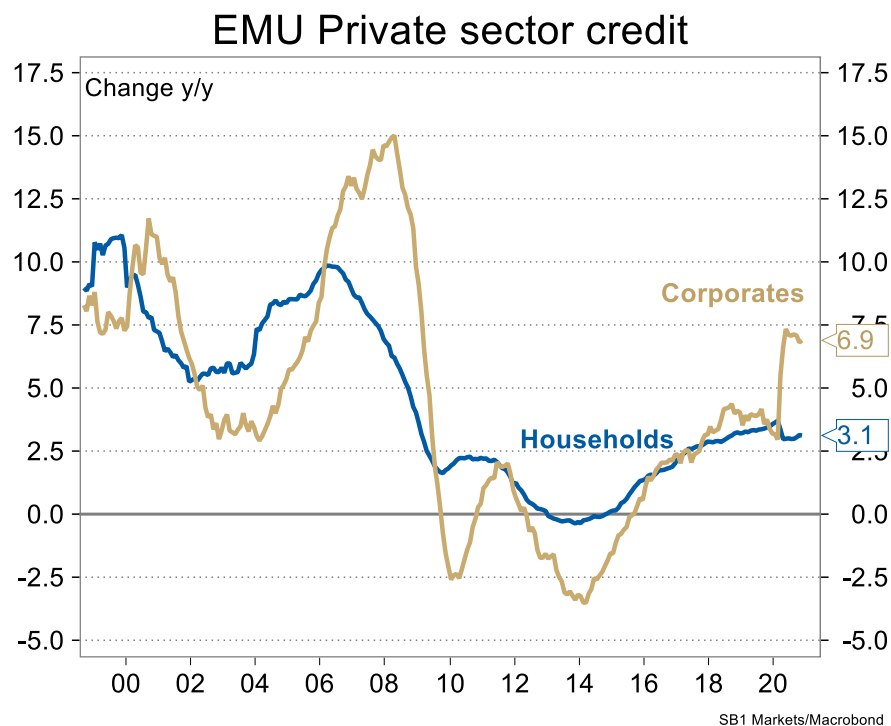


SB1 Markets/Macrobond

- Stores in France and Belgium closed in November due to the spread of the coronavirus, resulting in steep declines in retail sales
- We assume sales recovered substantially in December in these two countries, while German retail sales probably fell to the restrictions imposed there in the latter part of the month
 - » If sales were unchanged in Dec, retail sales fell by more than 2% (not annualised) – and private consumption will no doubt contract substantially – and GDP will very likely decline too (even if inventories probably rose sharply)
- The impact has probably been – and will be – even larger for restaurants

Households are borrowing, corporates almost stopped recent months

However, corporates borrowed heavily during the spring (debt rose by 4%), now up 6.9% y/y

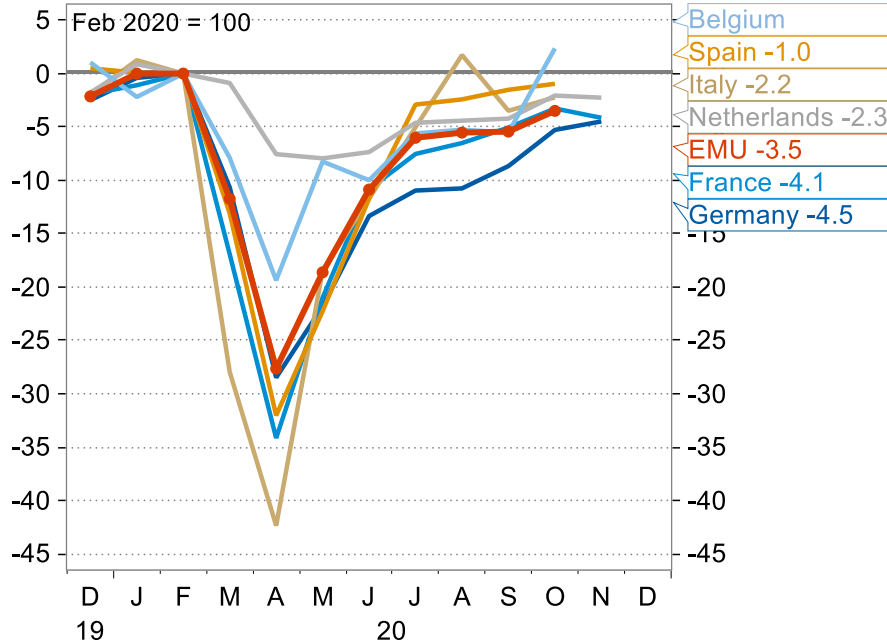


- In total, no credit squeeze in the Euro zone, but no growth in corporate credit the past 3 months may be a warning sign
- Deposits increased sharply during the spring – as always when credit accelerates

Manufacturing production +/- 0 in November? Germany up, France down

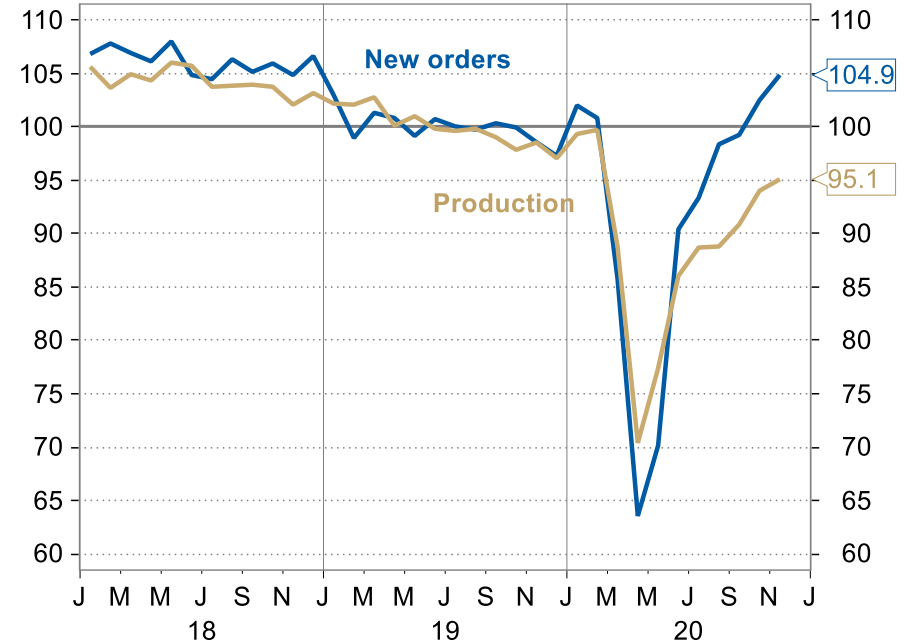
... but several countries not yet reported their activity data. France, Germany -4 to -5% from Feb

EMU Manufacturing production



SB1 Markets/Macrobond

Germany Manufacturing orders, production



SB1 Markets/Macrobond

- .. But order inflow is 5% above the Feb level!

Highlights

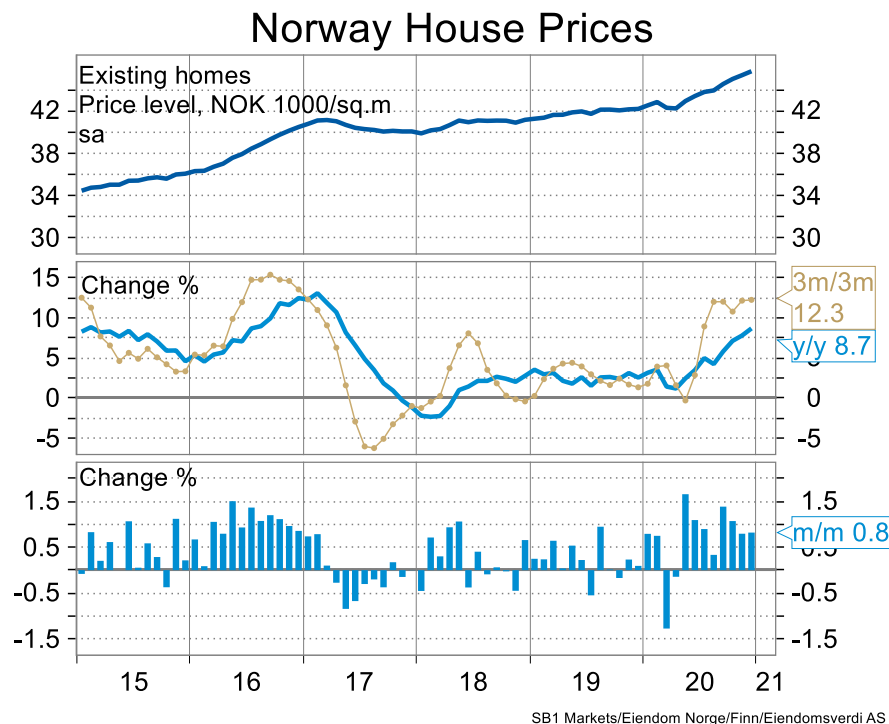
The world around us

The Norwegian economy

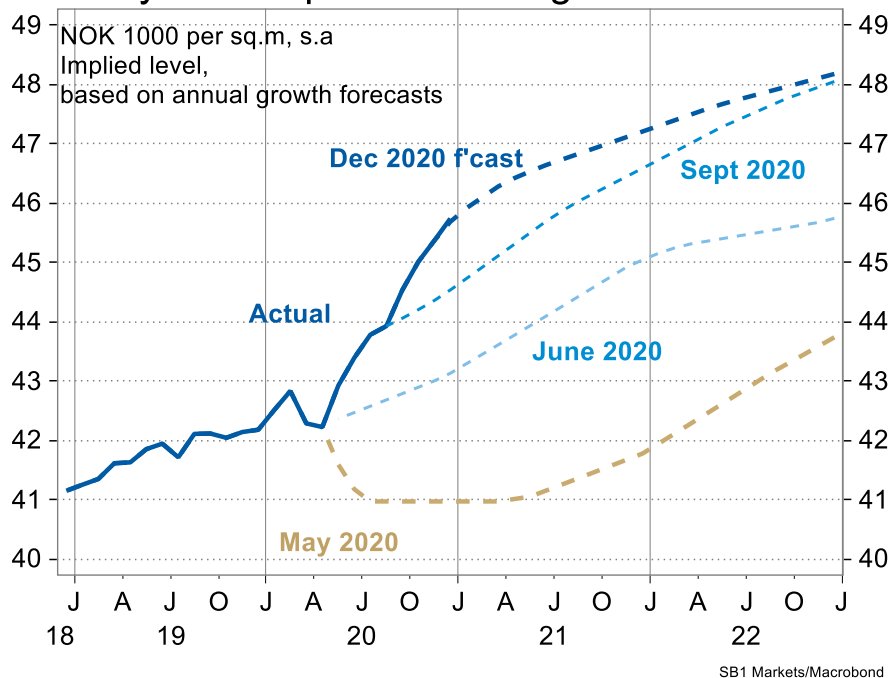
Market charts & comments

Steady as she goes: House prices increased by another 0.8% m/m in Dec

Norges Bank (and we) expected 0.7%



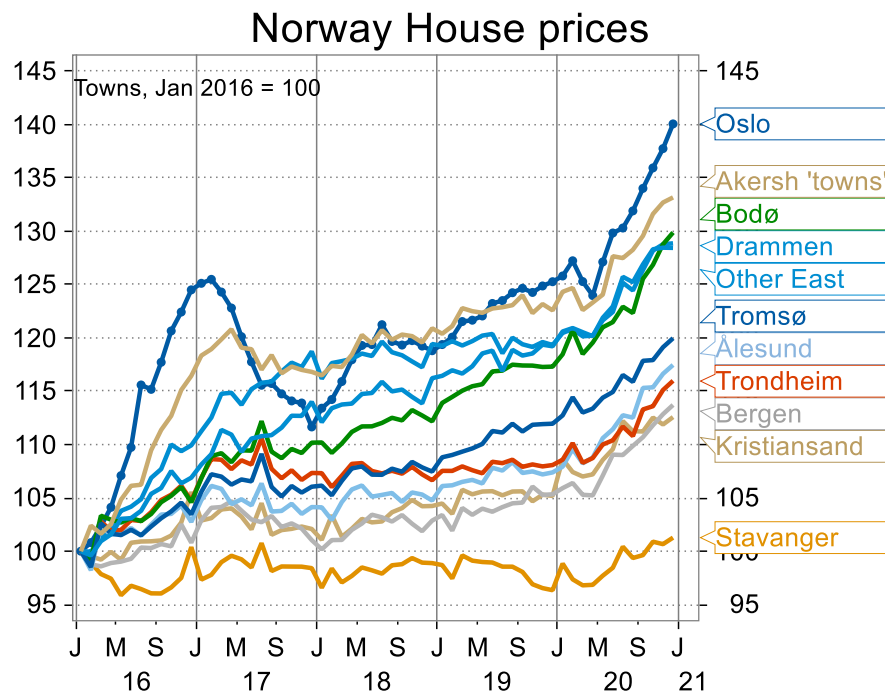
Norway House prices vs Norges Bank's f'casts



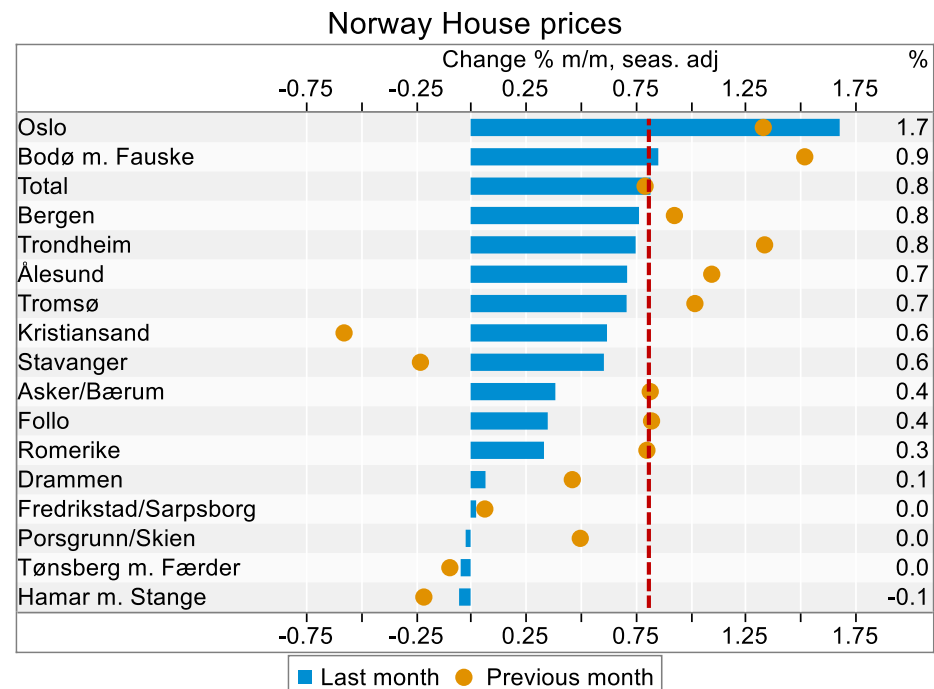
- House prices rose by 0.8% seas. adj in Dec, as in Nov, roughly in line with expectations. The past 3m/3m, prices are up by 12%, annualised. Prices are 6.7% above the Feb level, and are up 8.7% y/y, the highest in 3 years. A 1.2 pp cut in mortgage rates (to 1.8% in average now, from 3.0% in Feb), has been much more important the corona setback and higher unemployment
 - 3 cities reported marginal decline in prices m/m. Oslo was at the top, far above other towns, prices rose by 1.7%. The large soccer town Bodø no. 2, 0.9%
 - Smoothed 3m/3m prices are up everywhere. Stavanger and Kr.sand at the bottom, Oslo at the top, at 19% (annualised) – and Bodø next with 17%!
 - The number of transactions kept up at a high level in Dec, at some 23% above the (average) 2019 level. The inventory of unsold homes has fallen sharply, and it is now 25% down from early 2020 and far below a normal level, even if more homes are put on the market and fewer are withdrawn!
- Should the steep price growth continue, Norges Bank will start hiking rates even before Q1 22' (Q4 21 is more likely, we think)**

Prices up almost everywhere in December – with Oslo in the clear lead

Price increase twice as high in Oslo than the average for the country but just in December



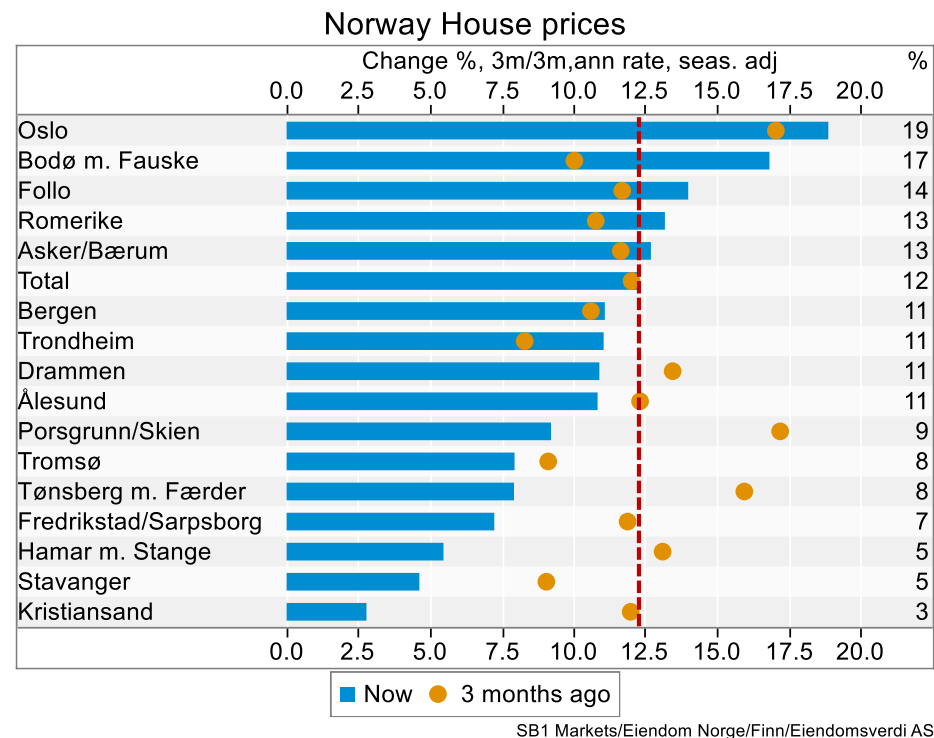
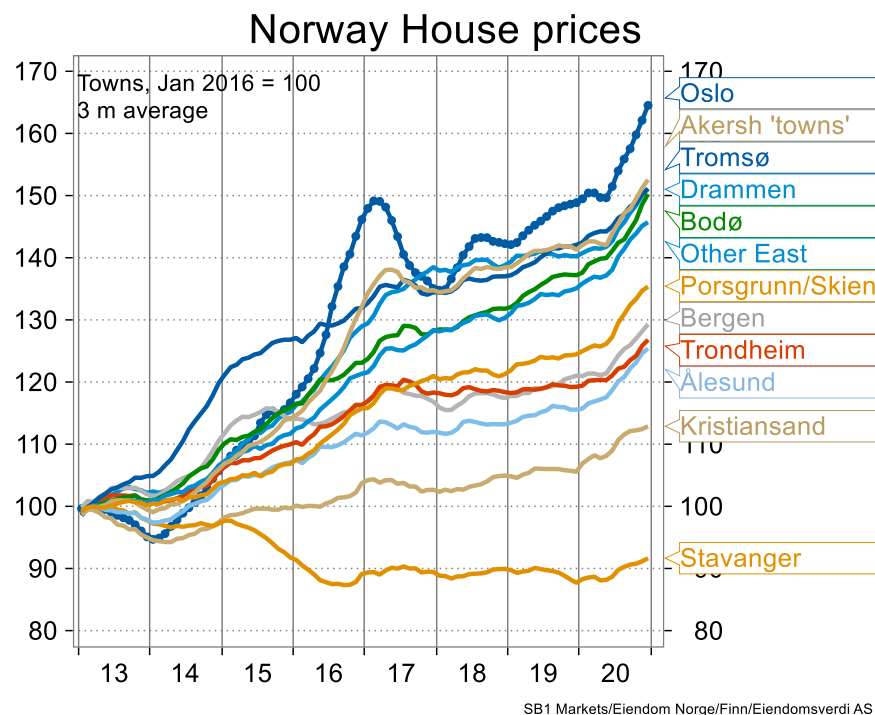
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

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

Prices in Oslo fell the most in March/April – but has recovered sharply since then, now up 19% 3m/3m

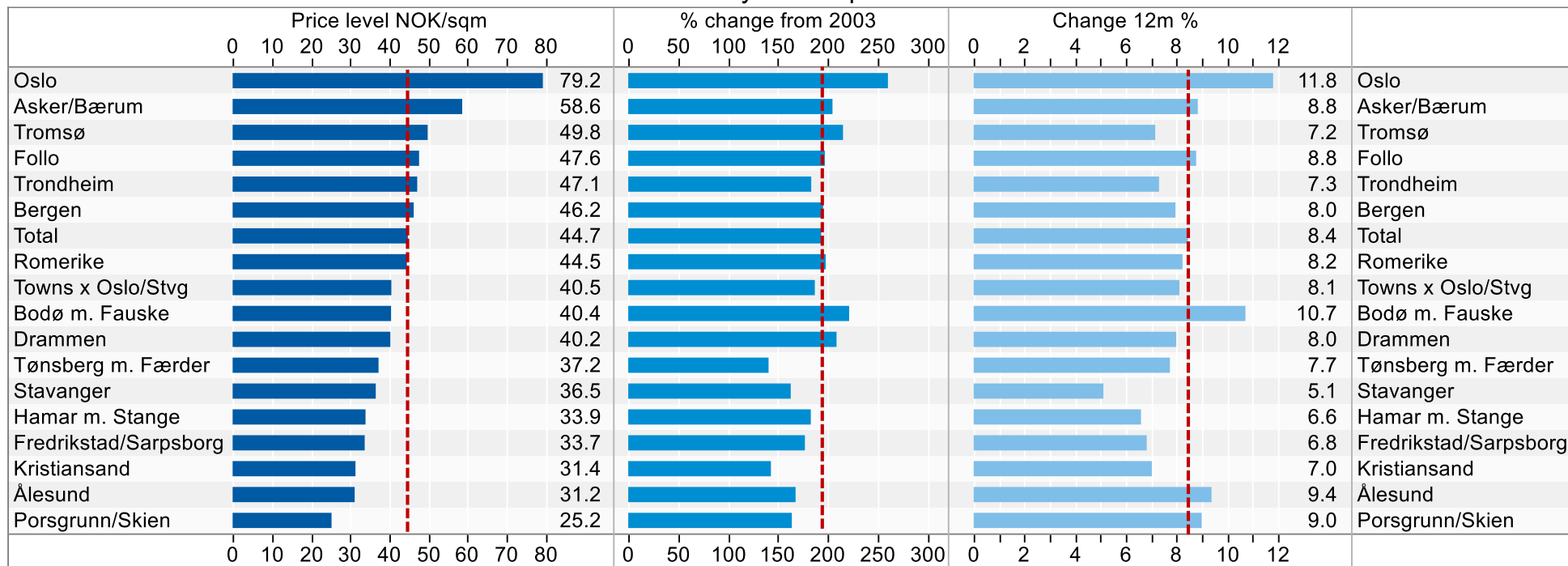


- Stavanger is perhaps best described as flat, recent years, even if prices have climbed since the spring.
- All others are up – with Oslo in the lead vs the early 2016 price level

Oslo in the lead past 12 months, up 11.8% - but the boom is broad!

But the weakest chain in the link through last year, Stavanger, is up 5.1%

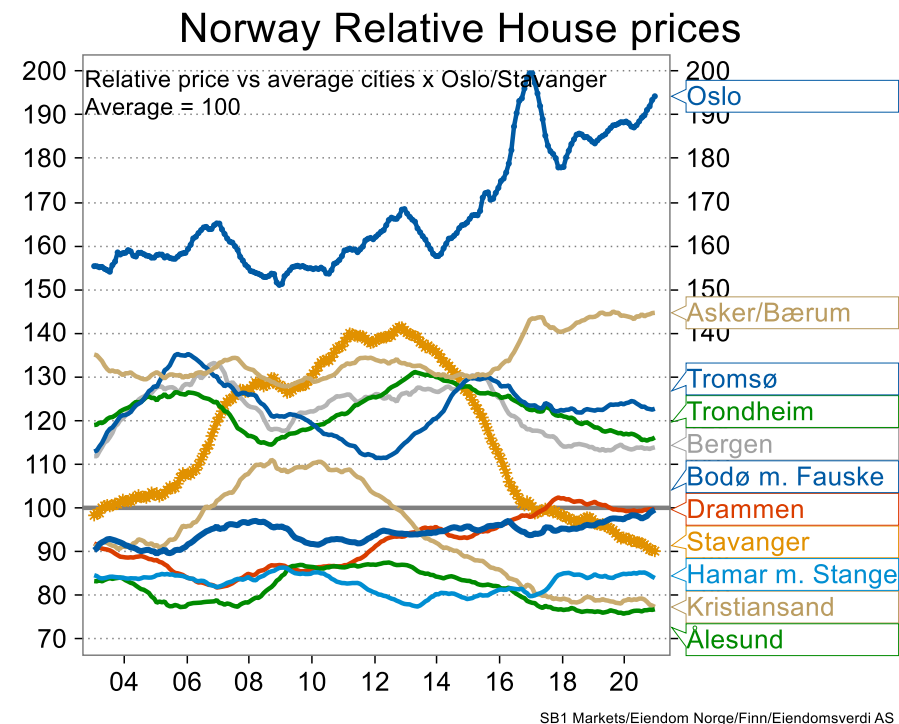
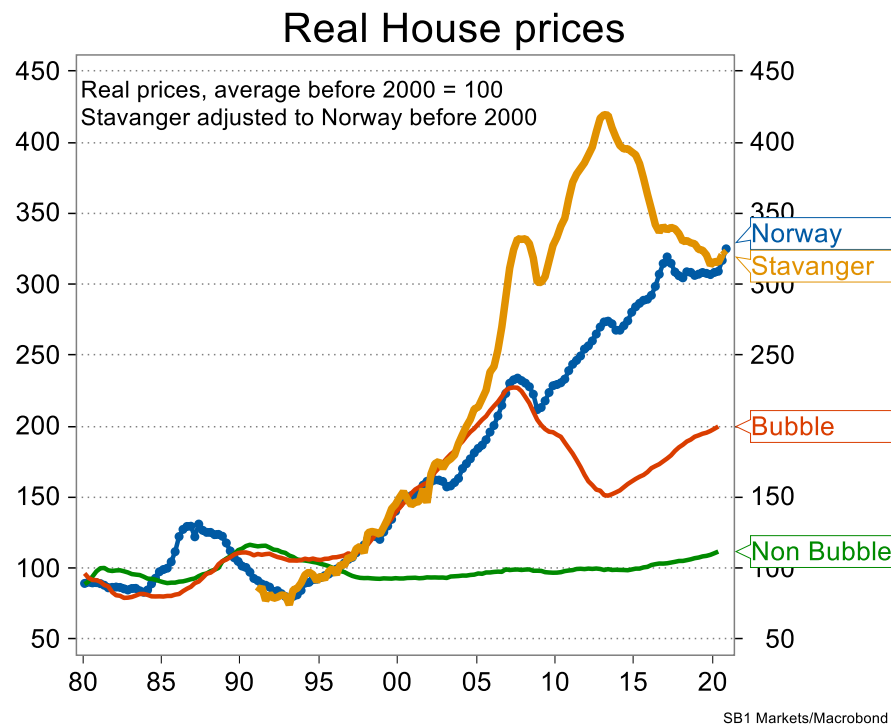
Norway House prices



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

The Stavanger case: Could it happen elsewhere?

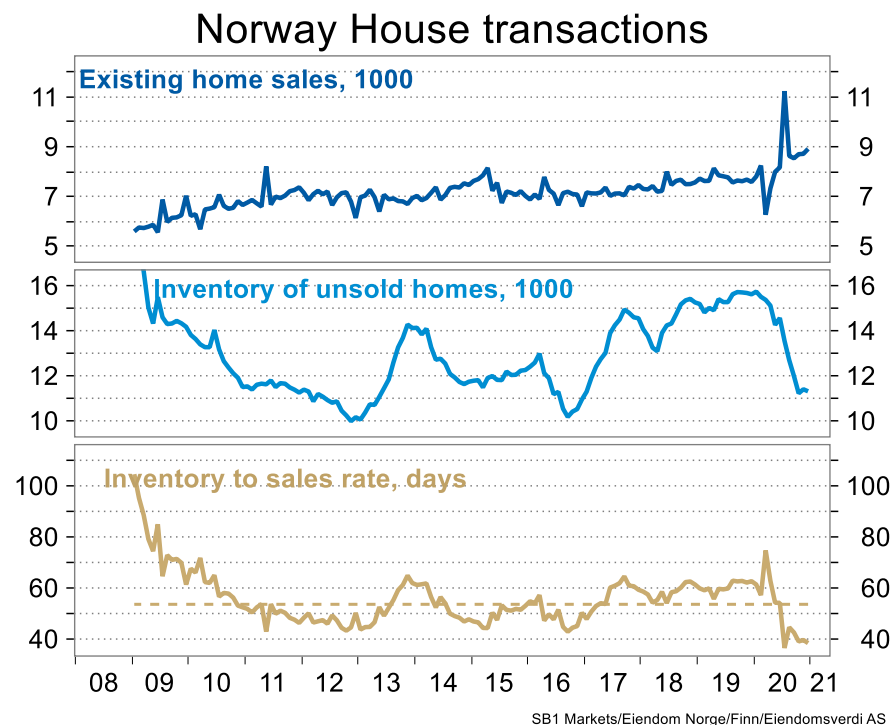
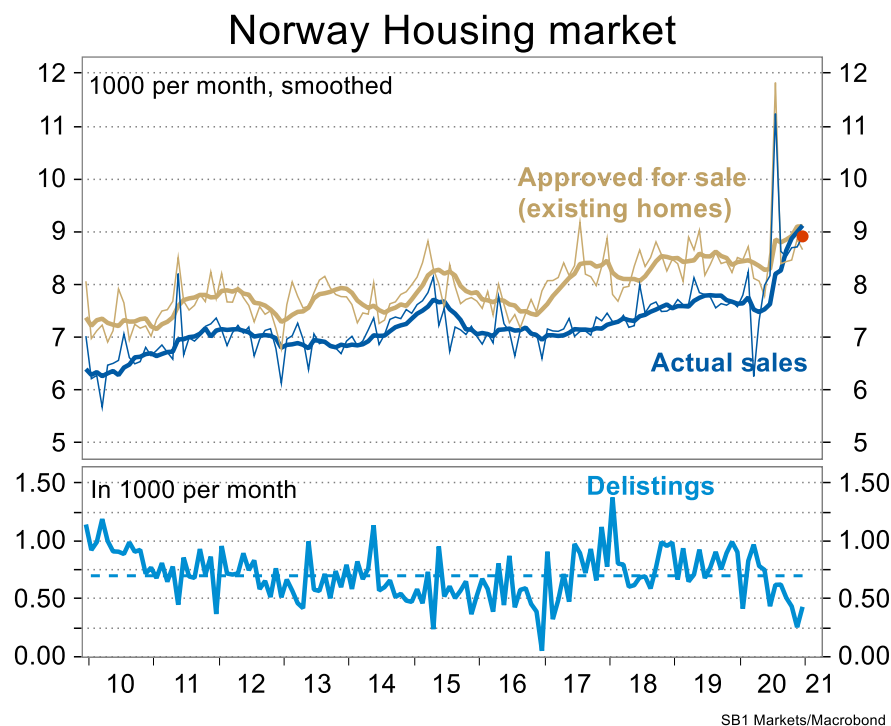
From no 2 in Norway in early 2012 to the bottom league now



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

The no of transactions at ATH in 2020, and the inventory fell sharply, to a low level.

Sales up 23% in Dec vs. '19 average. The inventory is down 27%

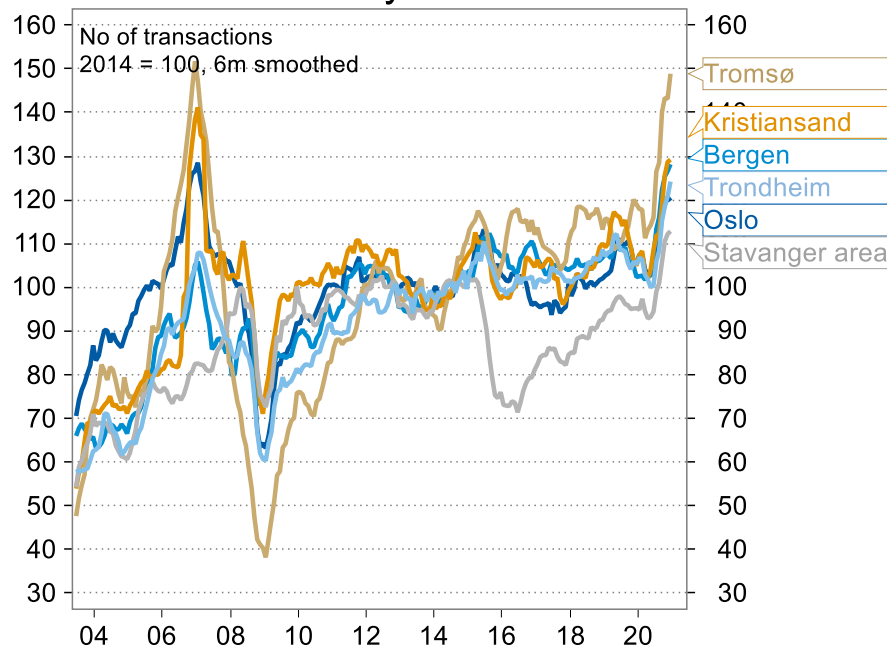


- **The number of transactions** was stable at a high level in December. Sales are up 23% from the 2019 level!
- The **supply of new existing homes for sale (approvals)** has been strengthening too
- **The number of delisting** is still far below a normal level – house are rather sold 😊
- The **inventory of unsold homes** fell ever so slightly in Dec but has more or less stabilised past 3 months – at a level 27% down vs pre corona!
- The **inventory/sales ratio** has contracted sharply too, and is close to ATL. The **turnover time** is was 40 days in Dec vs an avg at 54 days. As more homes that have been at a market for a while now are sold, the **average time on market for homes sold** is still high, at 58 days vs. an average at 43. Time on market will very likely decline rapidly the coming months, as even the shelf warmers are accepted by eager buyers

Fewer transactions in Oslo in the latter part of the year – level still high

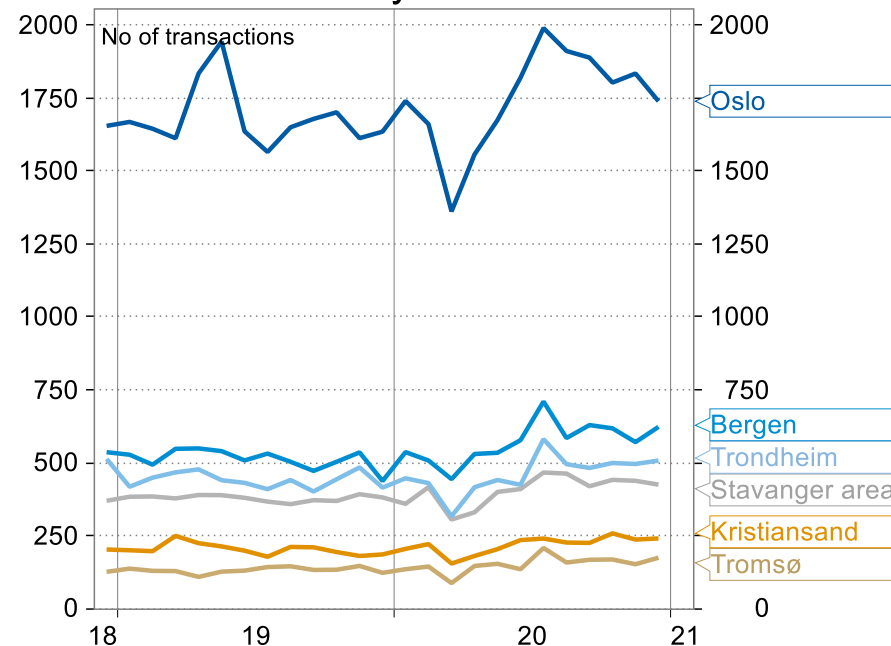
The decline no doubt due to lack of supply. Sales have increased more in Tromsø than elsewhere

Norway Home sales



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

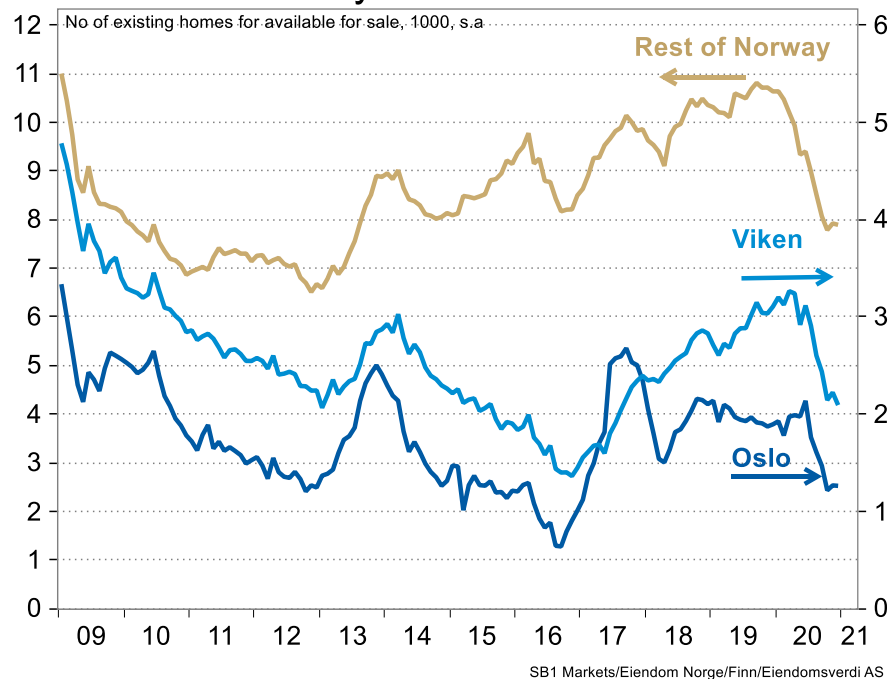
Norway Home sales



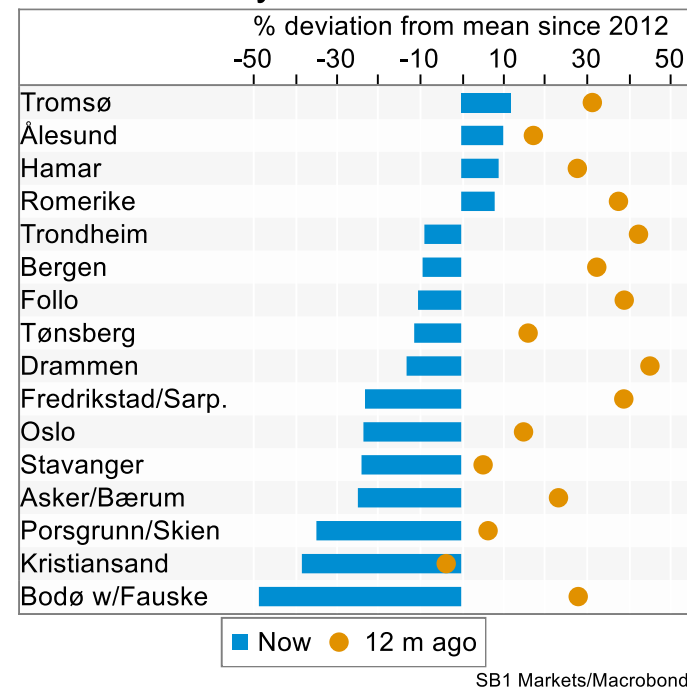
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

The inventory is falling everywhere – and is lower than normal most places

Norway Homes for sale



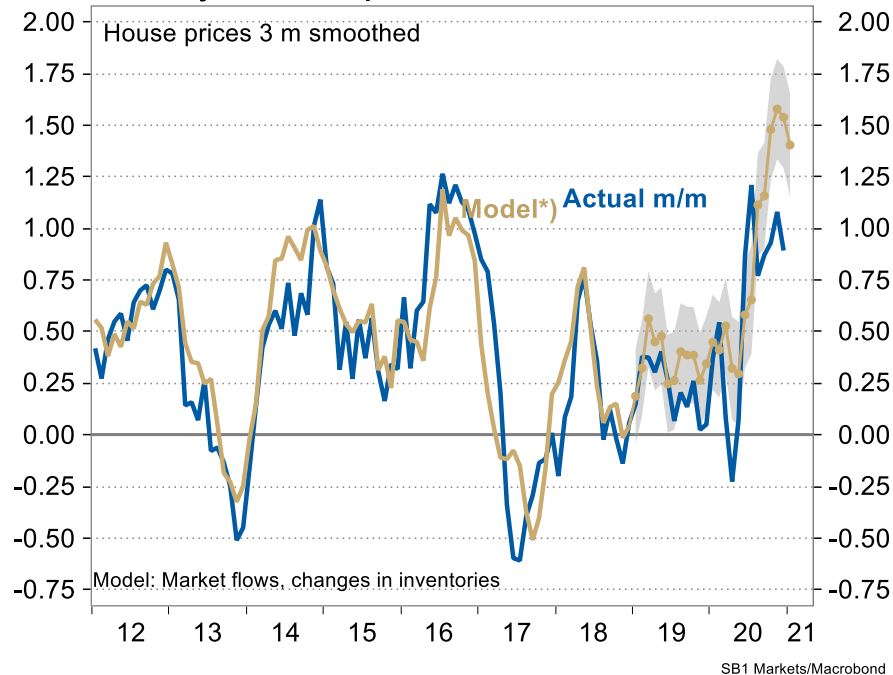
Norway Homes for sale



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

Strong sales, a low inventory signal a further increase in prices

Norway House prices - short term model



- 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 18% growth pace, up from 11% 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*

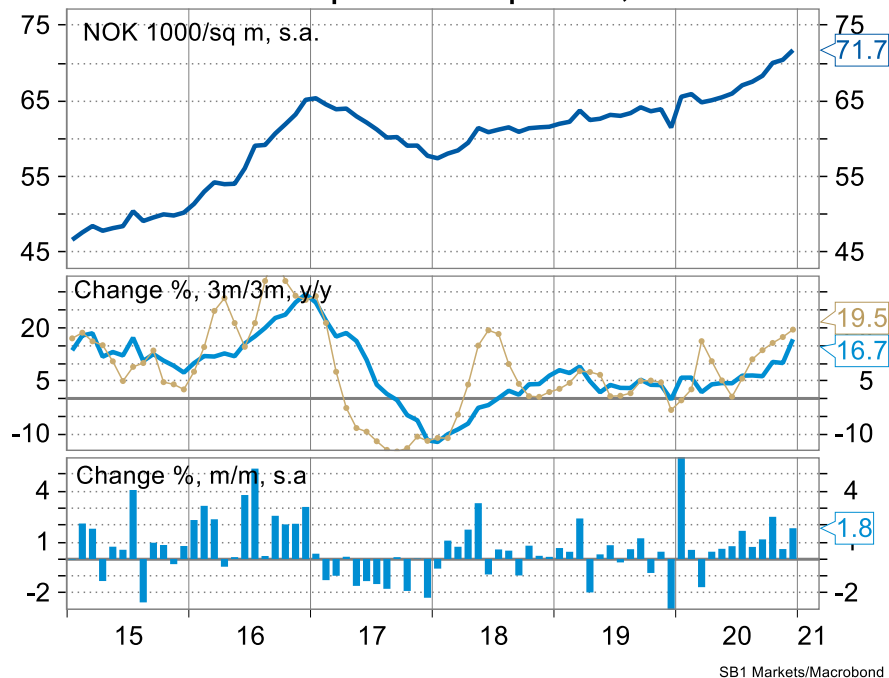
On the policy

- 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 the Min of finance did not decide to tighten regulations further (as we expected – even if the Ministry should have done it)
- 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, and another step up in the Dec
- Norges Bank will not turn on the dime and hike rates anytime soon but no doubt, the recent price hikes was a factor behind the heavy lifting of the interest rate path to Dec from the flat May path. Housing is no doubt the most important channel in the transmission mechanism (signal rate -> growth/inflation/financial stability)

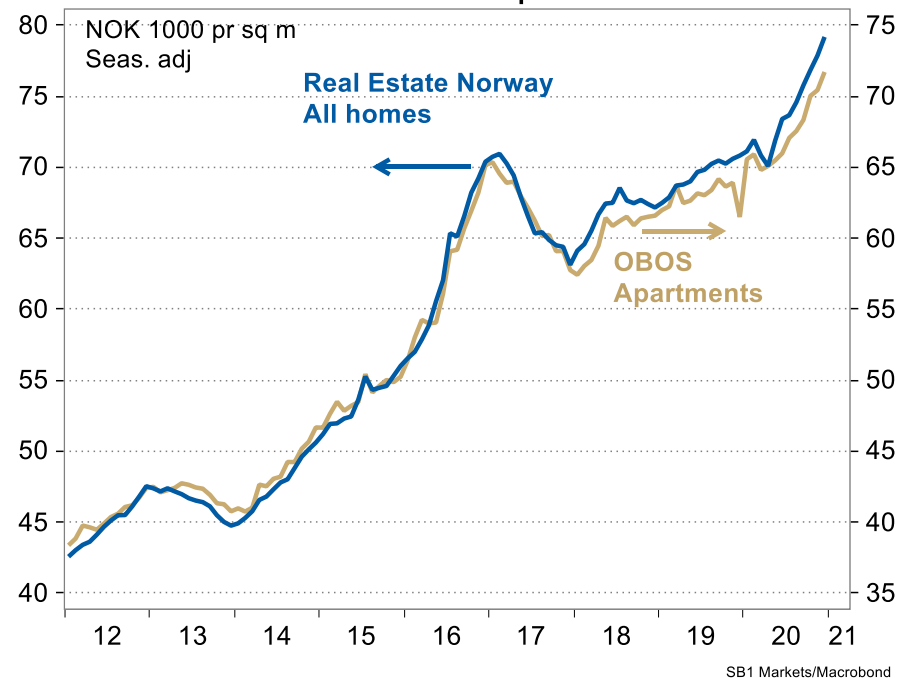
OBOS apartment prices confirm the Oslo surge, up 17% y/y!

Co-op apartment prices up 1.8% in Dec (seas a.), 16.7% y/y, even faster than the broader Oslo market

OBOS Apartment prices, Oslo

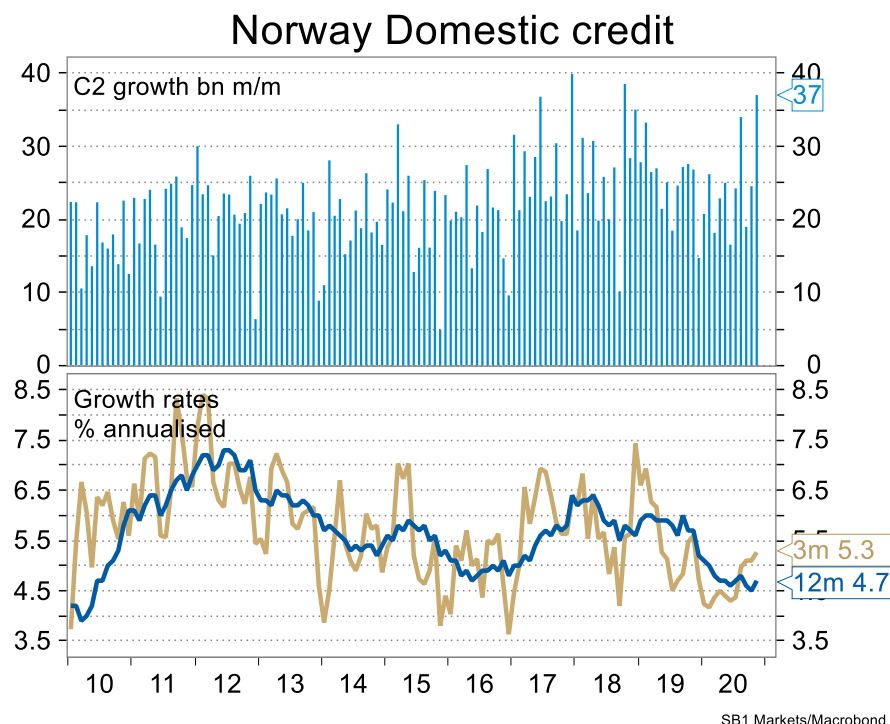
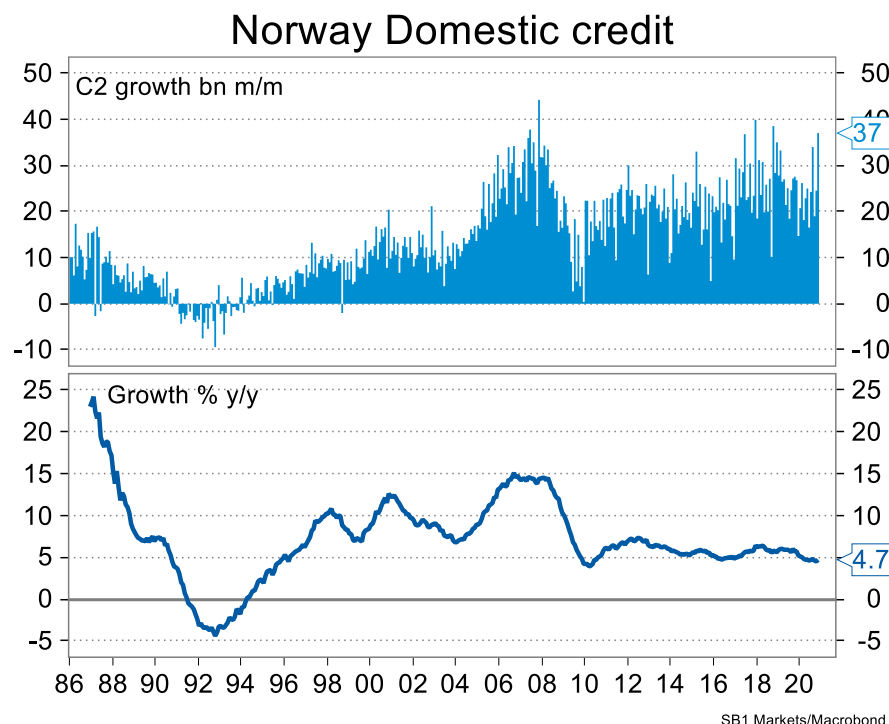


Oslo House prices



Strong credit growth in November, households more than ever, at least in billions

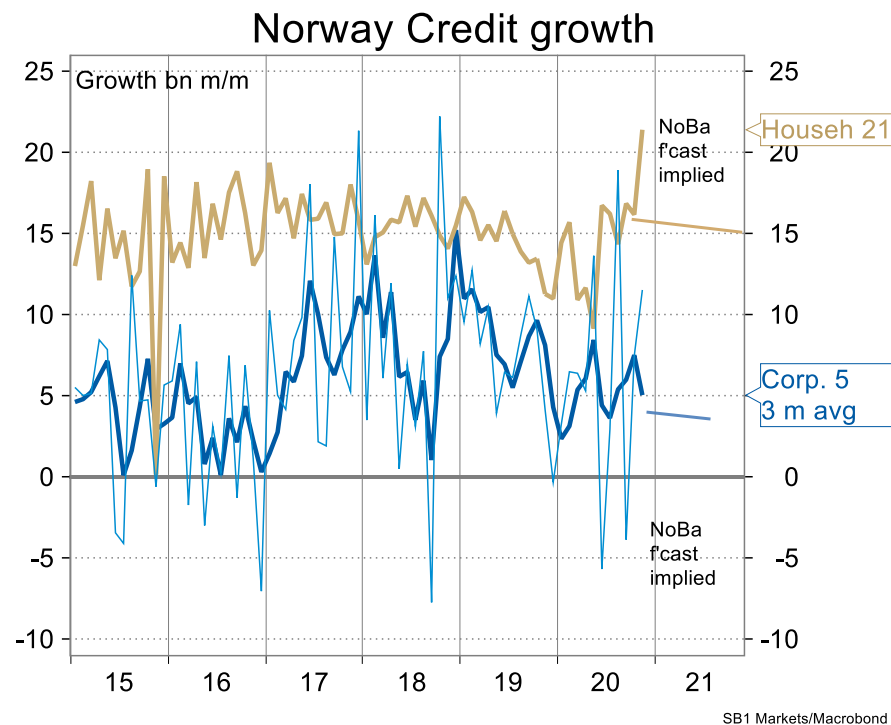
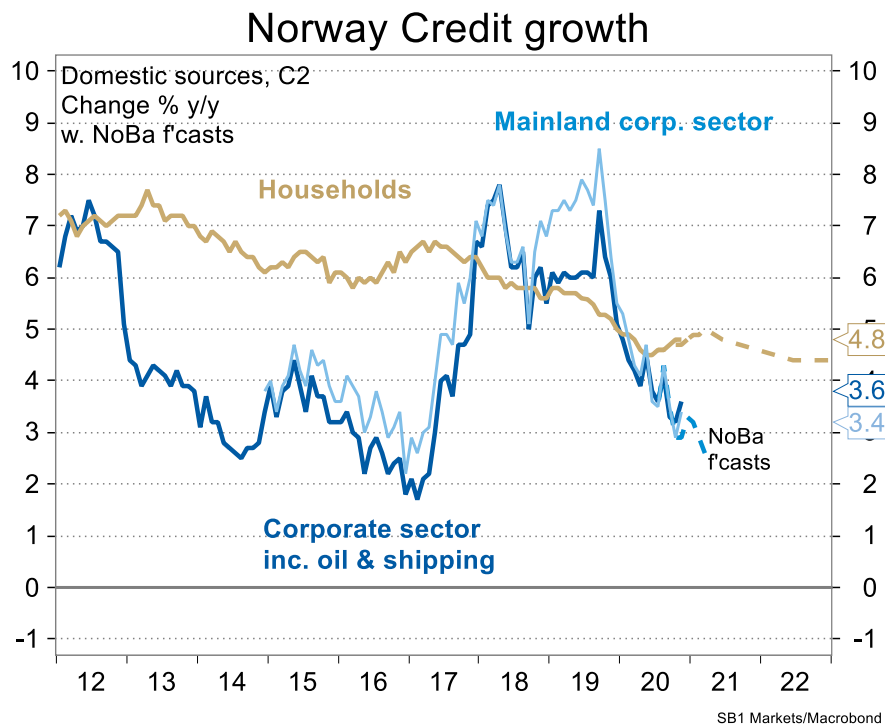
Total domestic credit growth (C2) up 0.2 pp to 4.7% – the trend is (perhaps) slowly downwards



- **Total domestic debt (C2)** rose by NOK 37 bn in Nov, or by 7.3% annualised. The annual growth rate accelerated by 0.2 pp to 4.7%, we expected a decline to 4.4%. Measured 3m/m growth accelerated to 5.3%, from just above 4% before the corona crisis – and we are not witnessing a full scale credit boom (at least not yet)
- **Household credit** rose by NOK 21 bn in Nov – more than any month before - or by 7.0% annualised. The annual rate was unchanged at 4.8%, we expected 4.7% - as did Norges Bank.. Underlying income growth is at approx.. 4.5%. Thus, even if the Nov. debt hike may be a warning sigh, there are yet 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 by itself not a strong argument for Norges Bank to change tack**
- **Corporate C2 credit**, which is very volatile, rose by NOK 12 bn and 3.6% y/y, above our 3.2% forecast. **Mainland corporates** increased their debt by 3.4% vs Norges Bank's 2.9% forecast (Dec f'cast, revised upwards from far too dovish 0.3% f'cast in the Sept MPR)

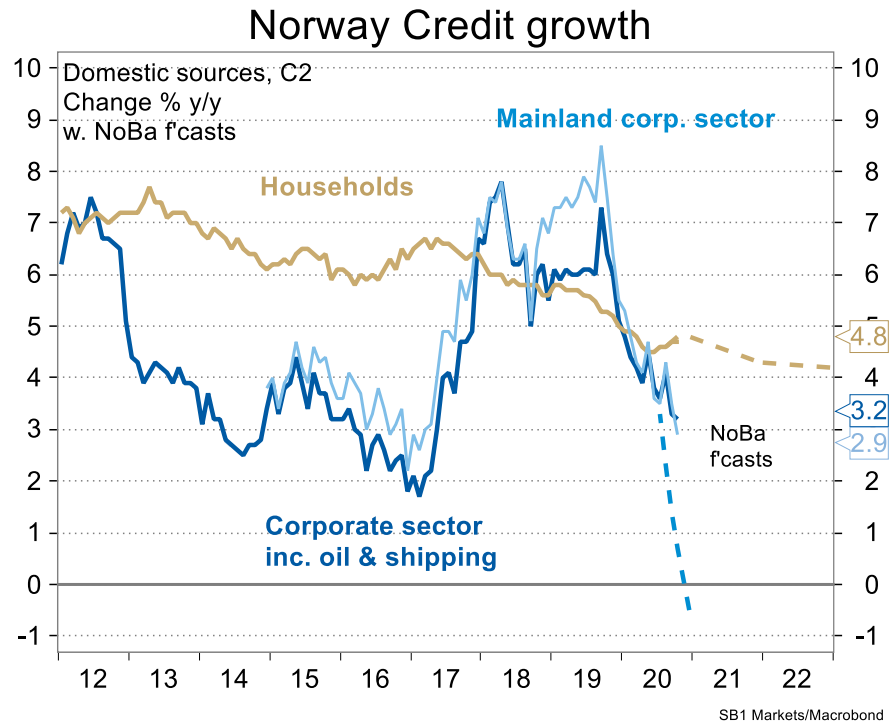
Most likely, Nov was an outlier. But we are not sure...

The 'short' trend line from May is quite potent, with November onboard



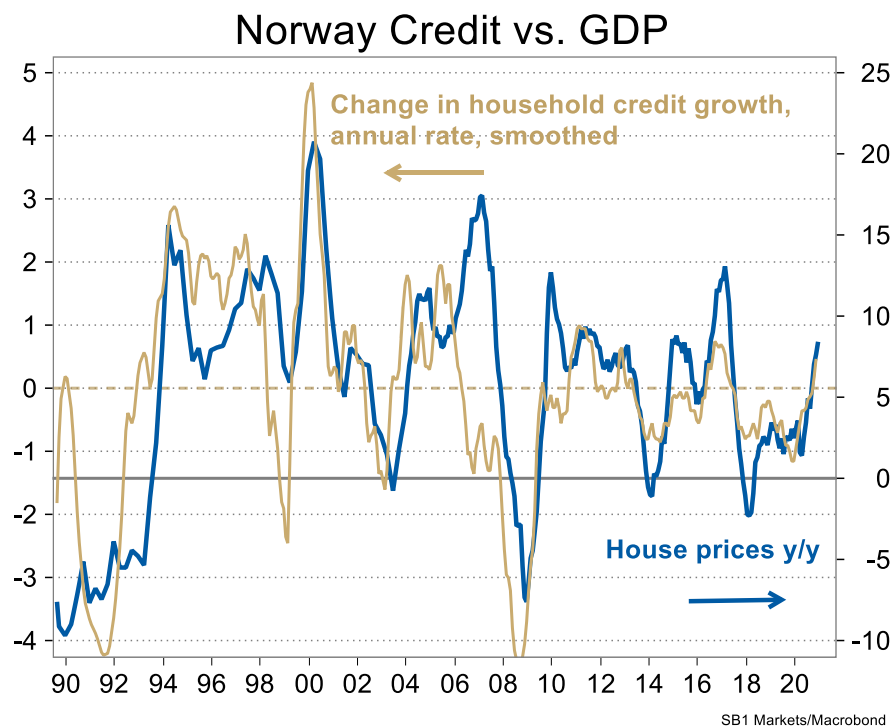
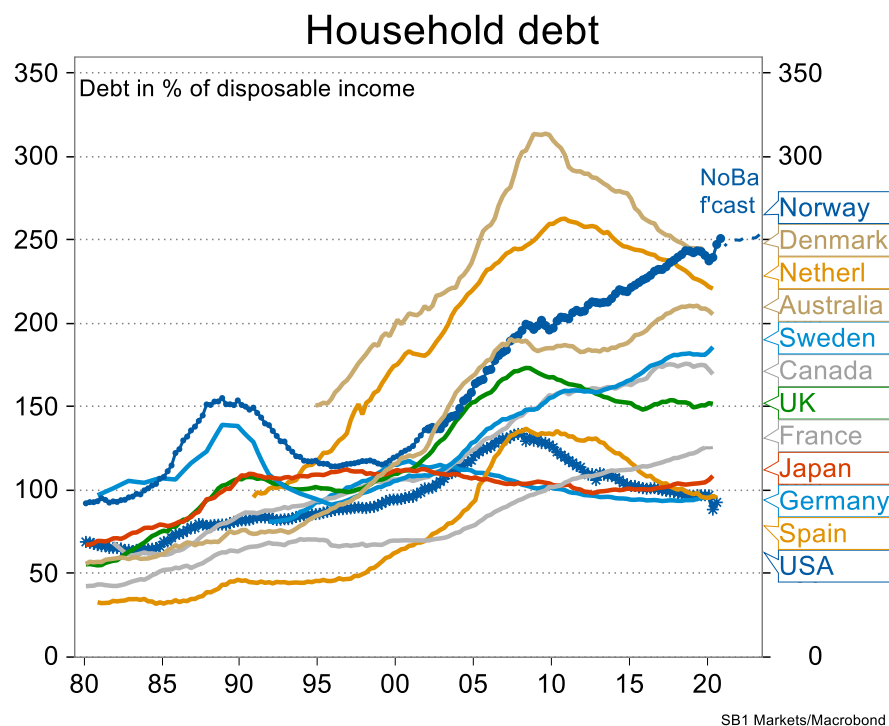
- Following a mild slowdown during the corona spring, **household credit** growth has recovered, first back up to a normal level, and to far above in November – and the annual growth rate is accelerating
 - Consumer credit has been declining at some NOK 1 -1.5 bn/month over the past year, which has reduced the annual total credit growth by some 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 revised up its growth forecast sharply in the Dec MPR, from a rapid contraction m/m to a moderate growth

Check: Norges Bank's Sept. credit forecasts



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

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

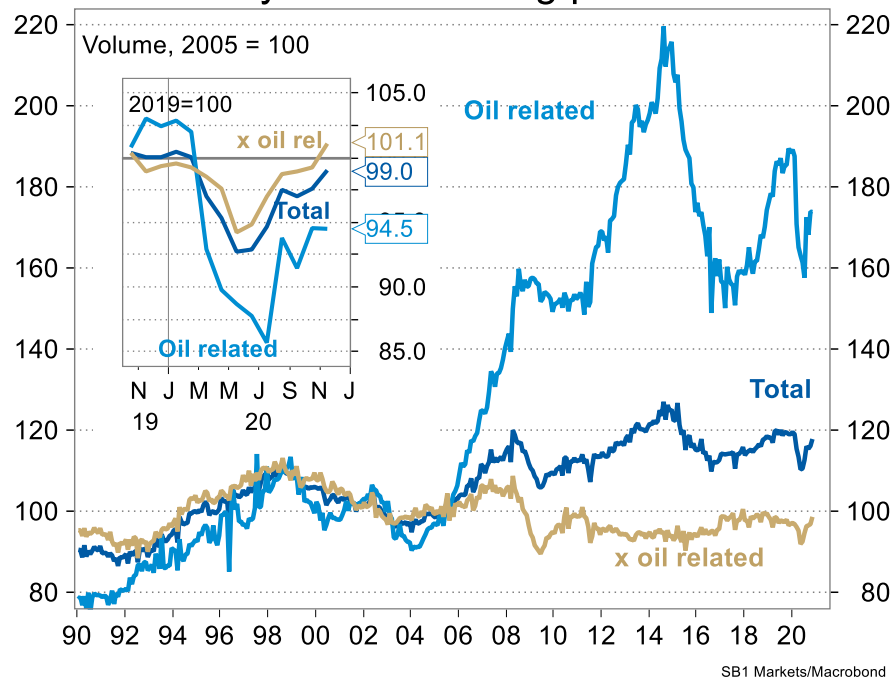


- Norwegians households' debt has been growing slower than household disposable income since late 2018, for the first time in 30 years (barring some minor turbulence in 2008/09). A small decline in household income lifted the debt ratio in Q3
- A slow retreat will be healthy in the long run, and if it 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

The manufacturing recovery continues – prod. up 1.5% in Nov, 1% down vs Feb!

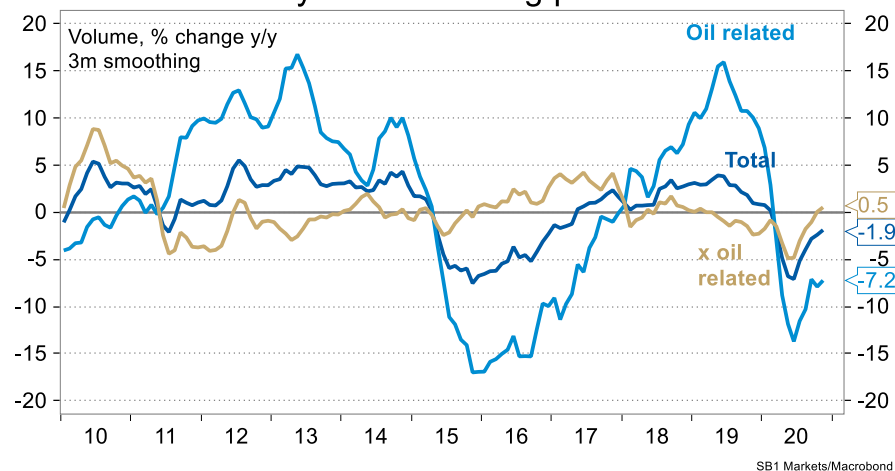
Oil related industries unch. in Nov (-5.5% vs Feb) – others +2% m/m to above the pre-corona level

Norway Manufacturing production

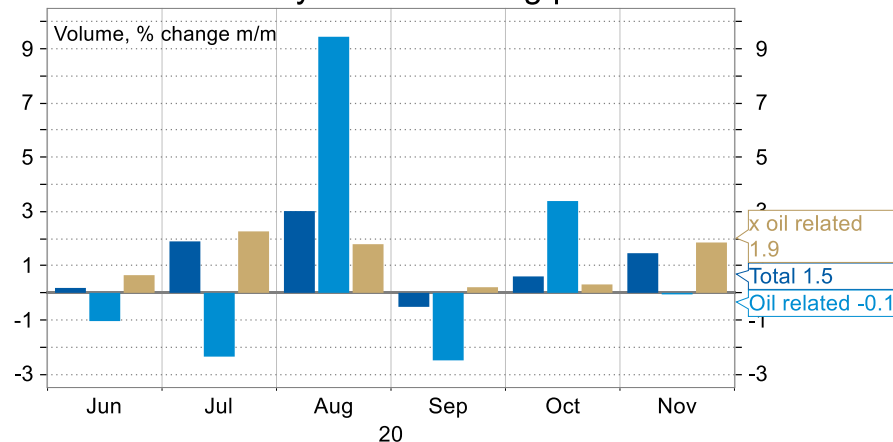


- Production has been rising since June, barring a 0.5% dip in Sept. Currently up 3% 3m/3m
- Oil related production was down 0.1% m/m, other +1.9%. Oil related is still some 5.5% below the level in early 2019. Non-oil related is up 1.1%! Still, the trend recent years is far from impressive!
- Manufacturing production in Norway has fallen less than in most other rich countries, [check here](#)
- Surveys are mixed, the Regional Network signals no growth, while both the PMI and SSB's survey signals close to normal growth. NHOs survey is a laggard, signalling falling production

Norway Manufacturing production



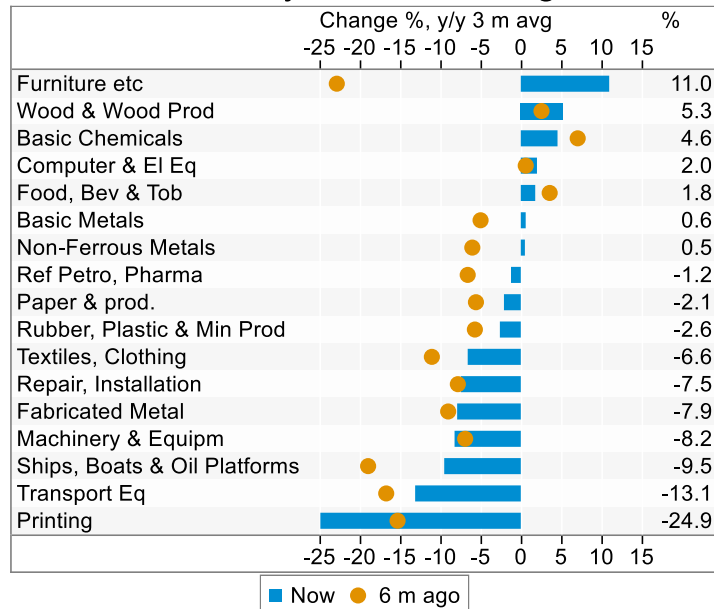
Norway Manufacturing production



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

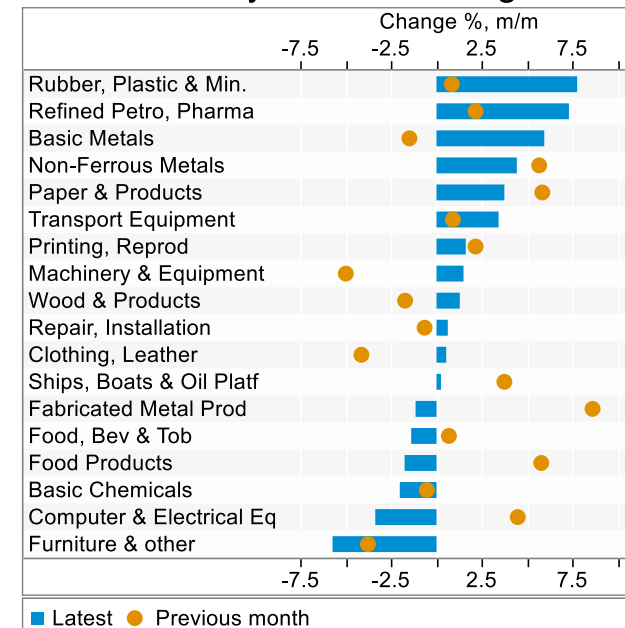
But most up m/m

Norway Manufacturing



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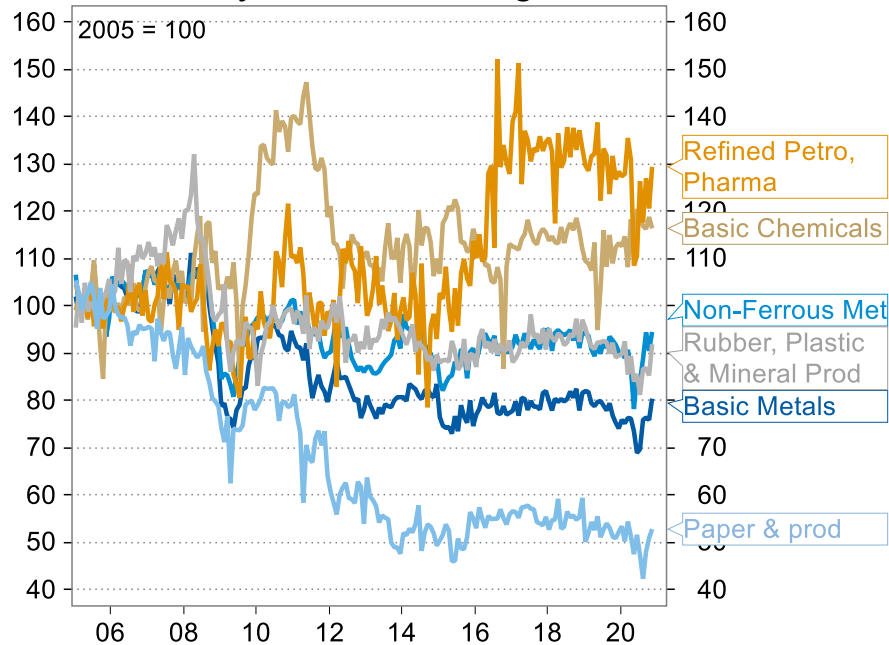
Norway Manufacturing



SB1 Markets/Macrobond

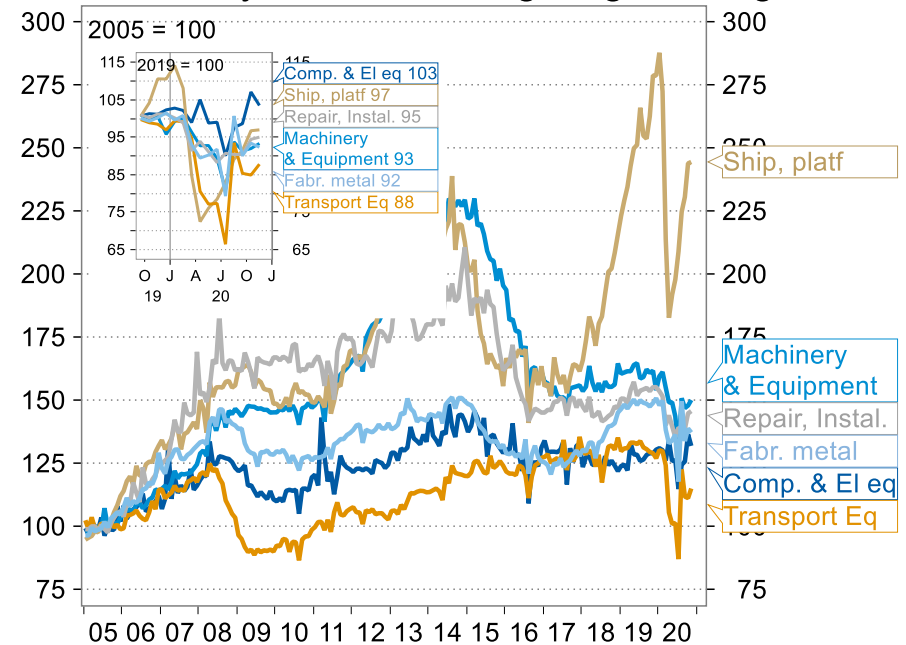
Engineering (and oil related) industries are recovering, still below peak

Norway Manufacturing commodities



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Norway Manufacturing Engineering+

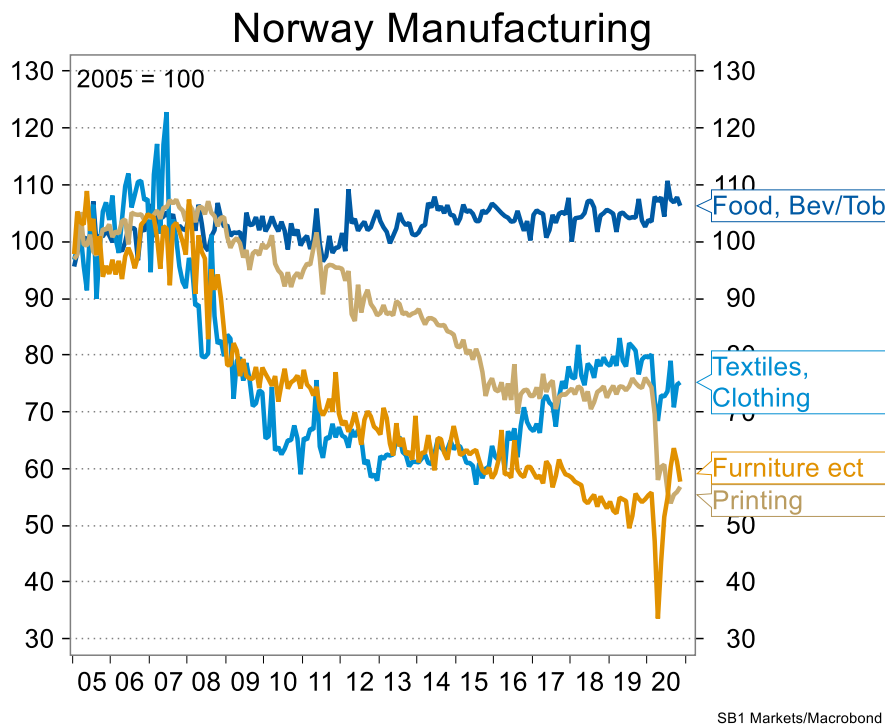


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- Production of ships & platforms was incredible strong in 2018/19, and have recovered sharply since the summer, following a 30%+ decline during H1. The level is once more impressive
 - » Corona measures, supply chain challenges probably explained parts of the drop during the spring
- Commodities have all recovered from the spring through

Food and beverage down 1.4% m/m, but still at a 'high' level...

... and will probably remain high until the restrictions are eased/vaccines are broadly distributed

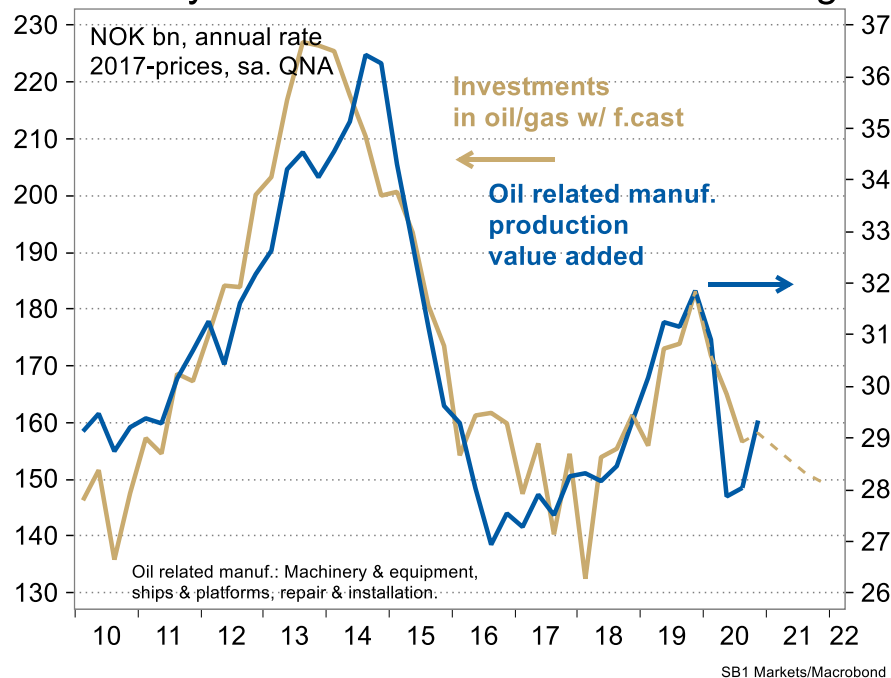


- ... so that we can eat at restaurants & go shopping in Sweden or travel abroad (as we used to)
- Furniture made a comeback – as domestic (and foreign) demand has surged during the corona crisis, but fell 5.7% in November
- Clothing up 0.5% m/m, and printing up 1.6% m/m but is still 24% below the pre-corona level

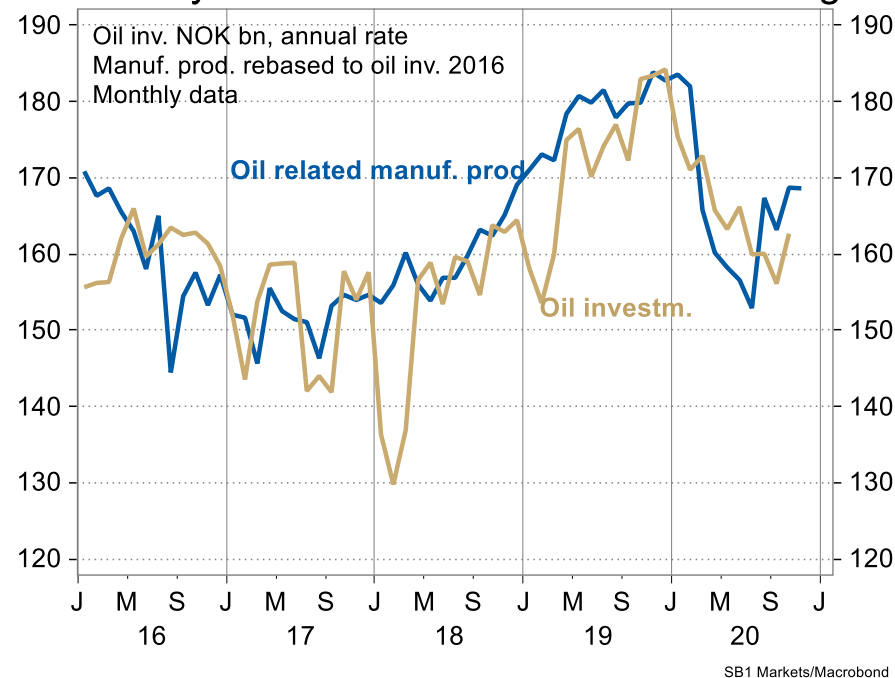
No more upside for oil related manufacturing production?

Production has recovered 15% since the summer – when production was ‘too’ low

Norway Oil investments vs manufacturing



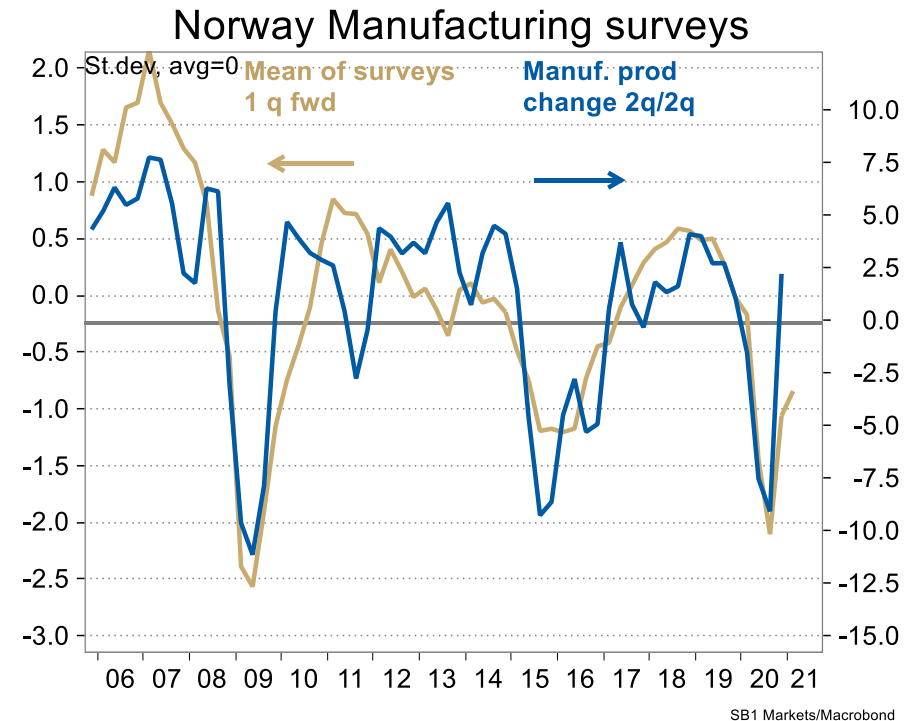
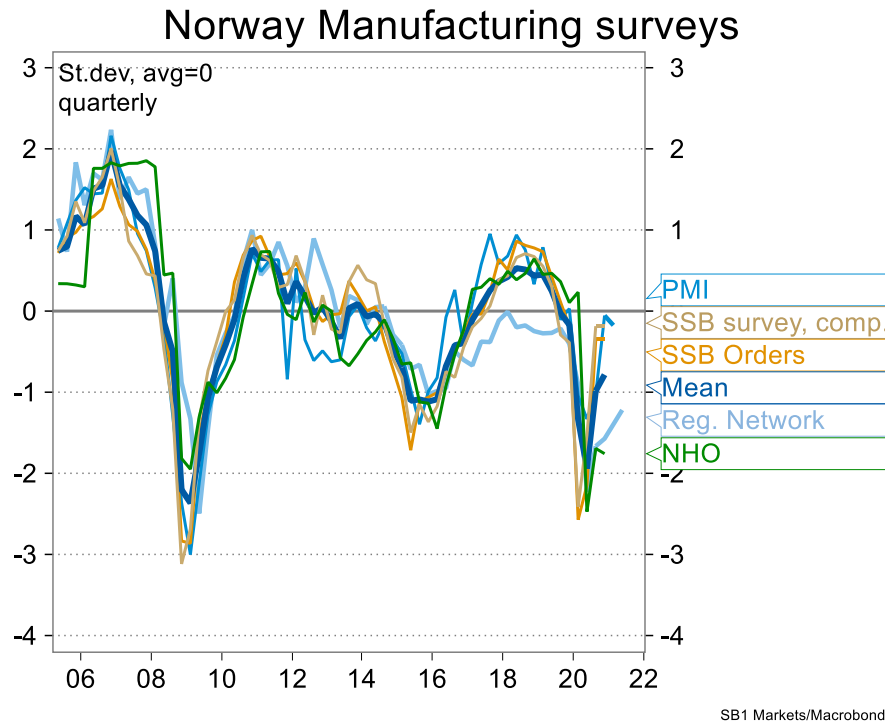
Norway Oil investments vs manufacturing



- Oil investments are down 11% from Q4 '19, and we expect another downturn through next year. However, the recent lift in oil prices has reduced the downside risk – and we may have to revise our forecast upwards
- Even so, given the recovery since the summer, we think the outlook for oil related manufacturing production is rather muted – and reported in Norges Bank's Regional Network

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

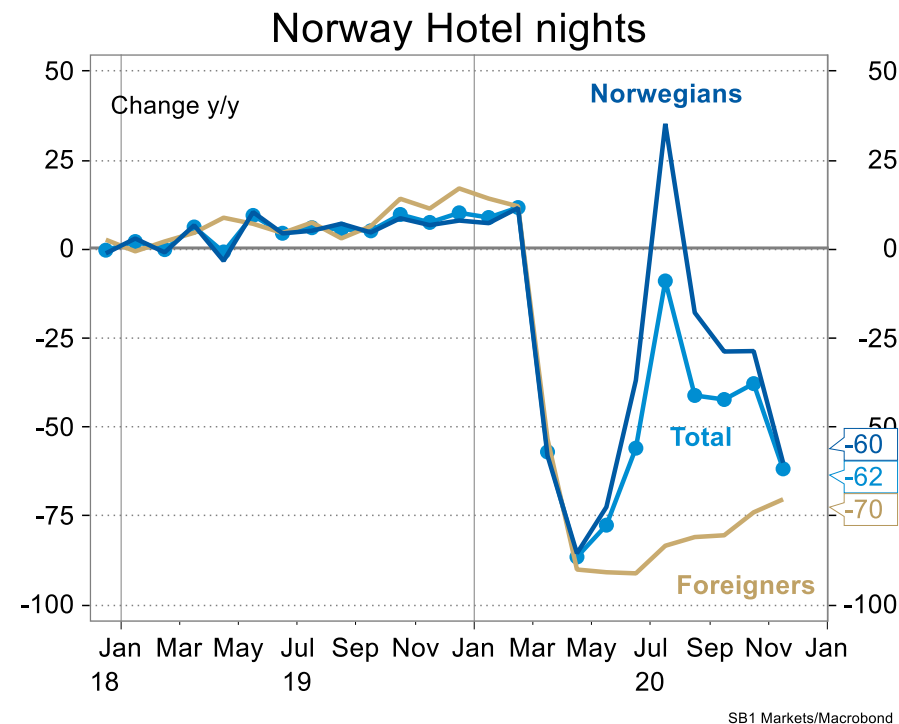
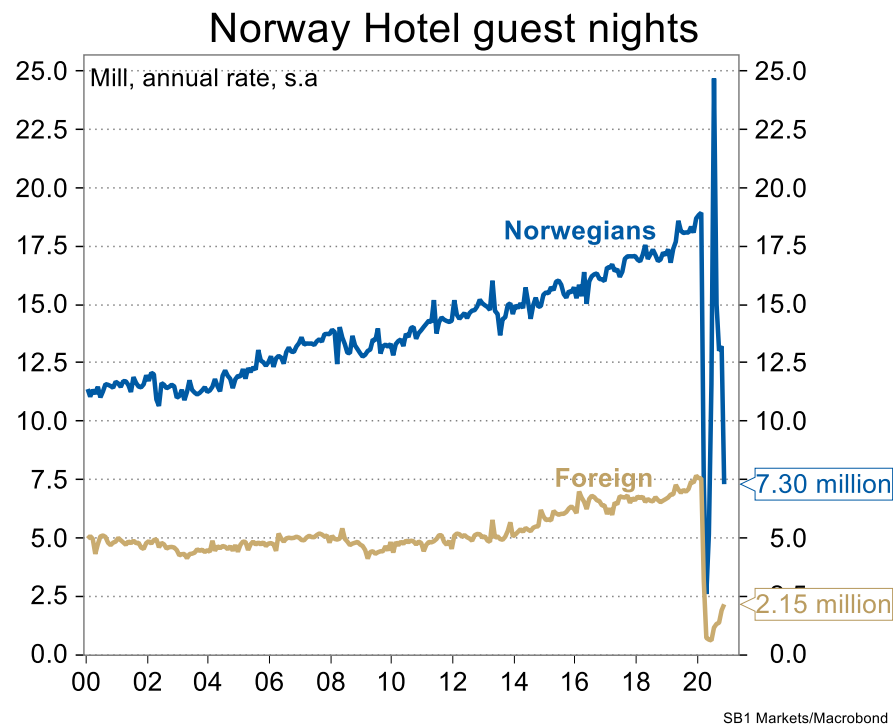
The avg is still signalling a steep decline in production – but some surveys have recovered well



- Both SSBs quarterly manufacturing survey and the PMI is signalling close to normal growth in manufacturing production – and production is on the way up

Hotel guest nights down 60% in November, the 2nd corona wave to blame

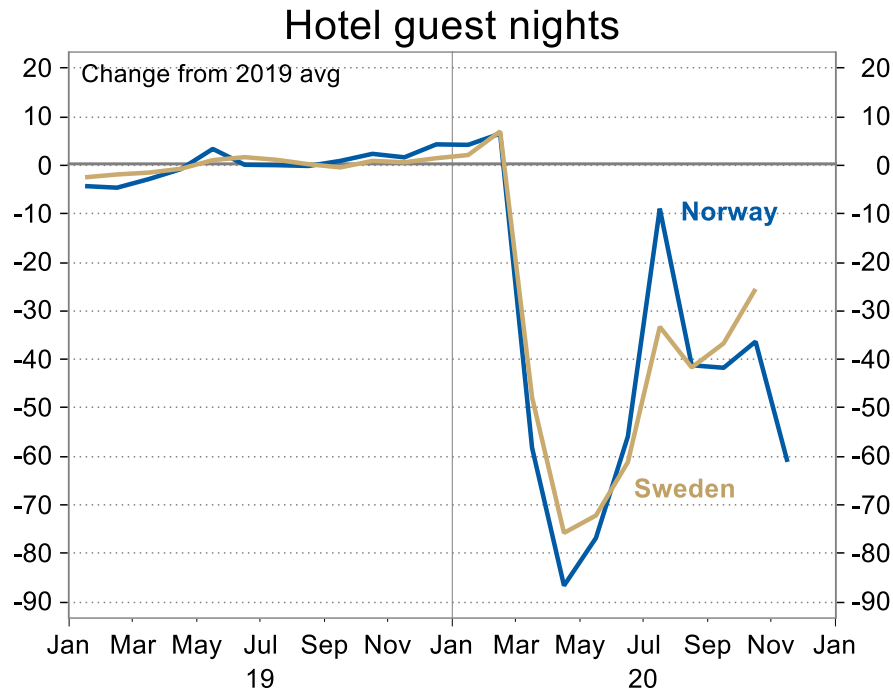
Norwegians' guest nights down from 'impressive' 70% of the normal in Oct. to 40% of normal in Nov.



- Just July has been anything close to normal for Norwegian hotels since February. Hotels cannot return to anything close to normal activity before corona is brought under control, both in Norway and abroad

Don't blame the 'lockdowns'. Blame the virus

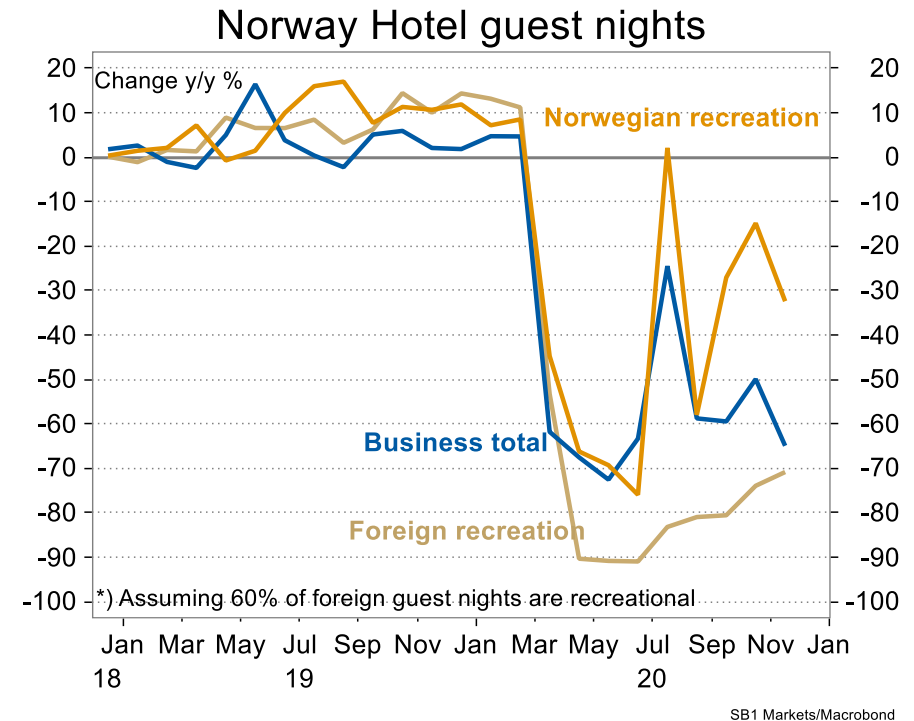
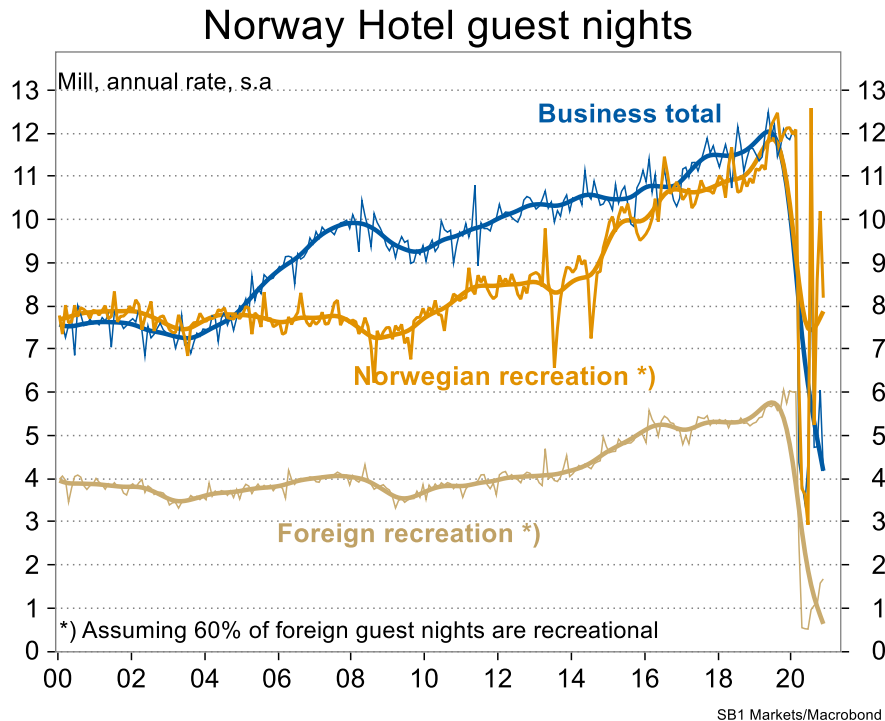
Spot the (lack of) difference between Norway & Sweden (and we could have added ROW)



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- Sweden and Norway are approx. equally hit by loss of foreign guests but domestic traffic is equally down both places as well, even if the official Covid-19 policy response has diverged sharply

Business hotel nights down 65%, domestic recreation 'just' some 30%



- Domestic recreational traffic is rather strong? Just down 20% vs. normal (based on heroic assumptions, see below)
- Business hotel guest nights are down 50% y/y but 60% from just before corona

Highlights

The world around us

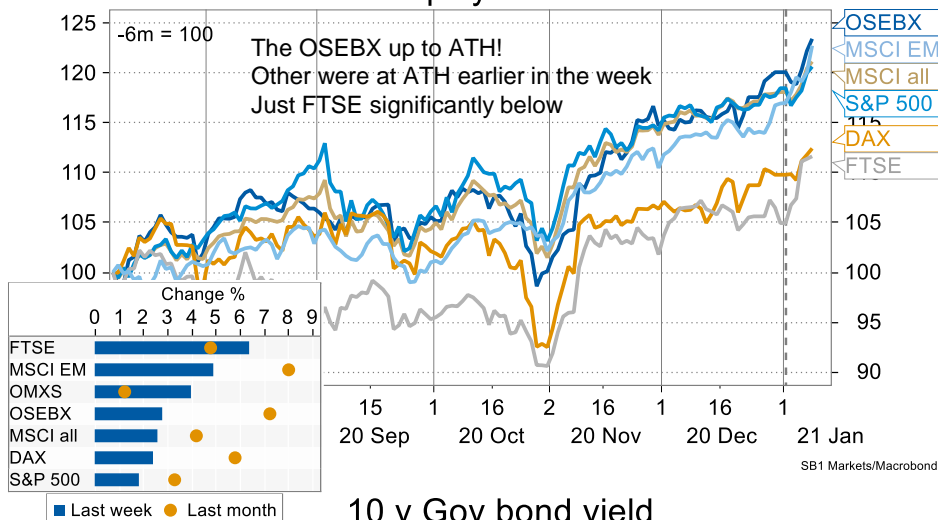
The Norwegian economy

Market charts & comments

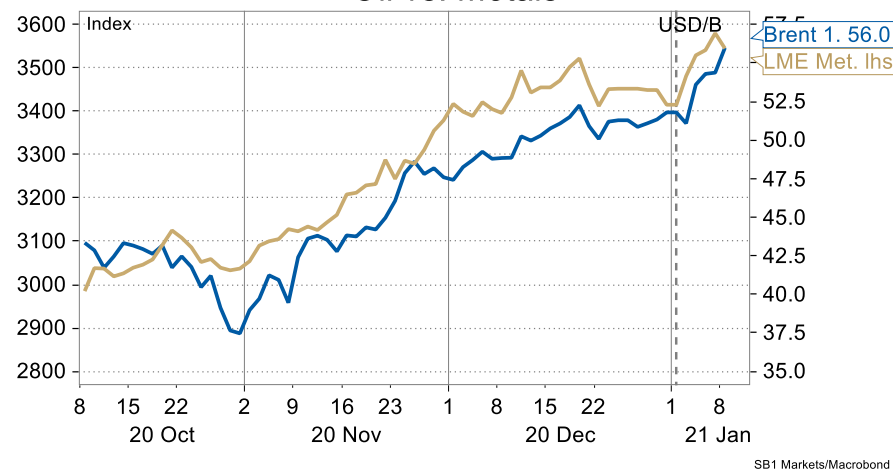
Risk on! Equities, oil & metals, and no need for safe havens – US 10y +20 bps!

OSEX at 1001! The Dems took the Senate (the legal way!), more fiscal stimulus underway.

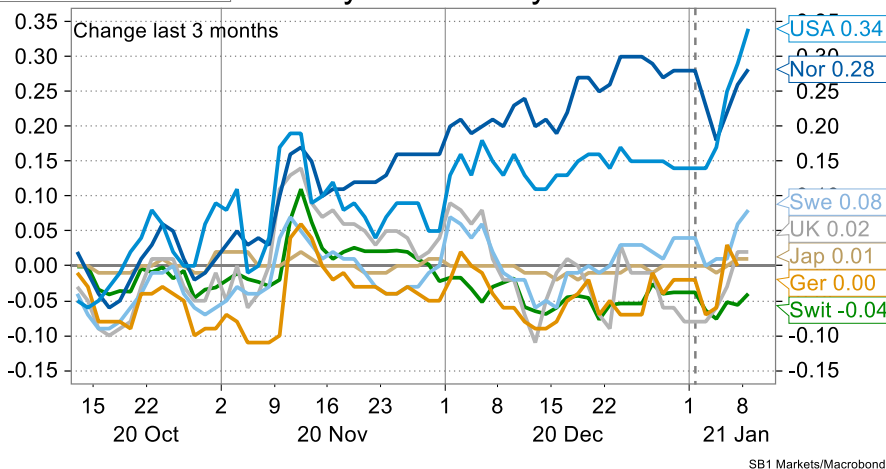
Equity Indices



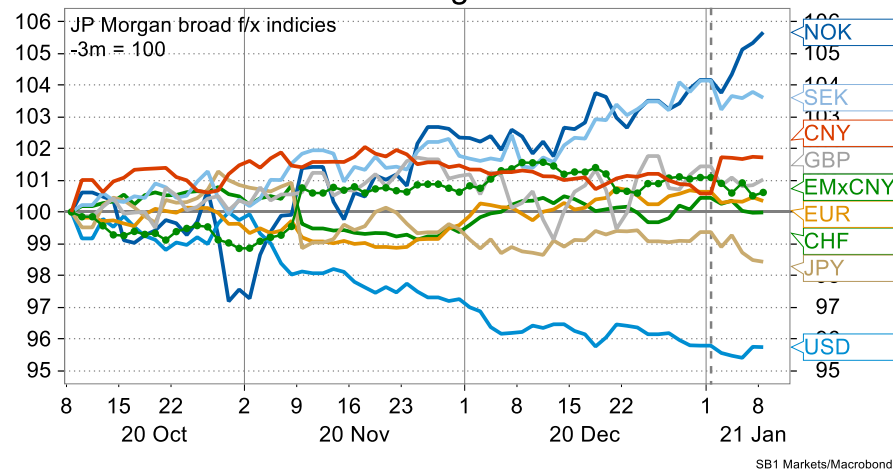
Oil vs. metals



10 y Gov bond yield



Exchange rates

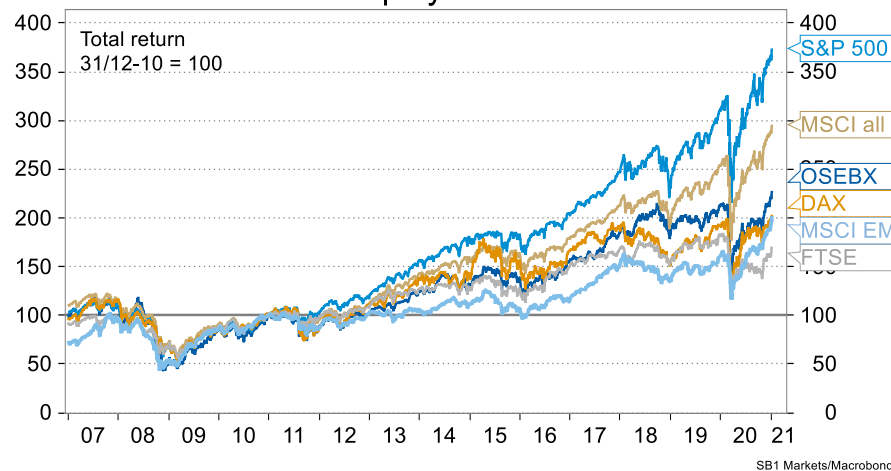


NOK continues upwards – and the USD is still trending down

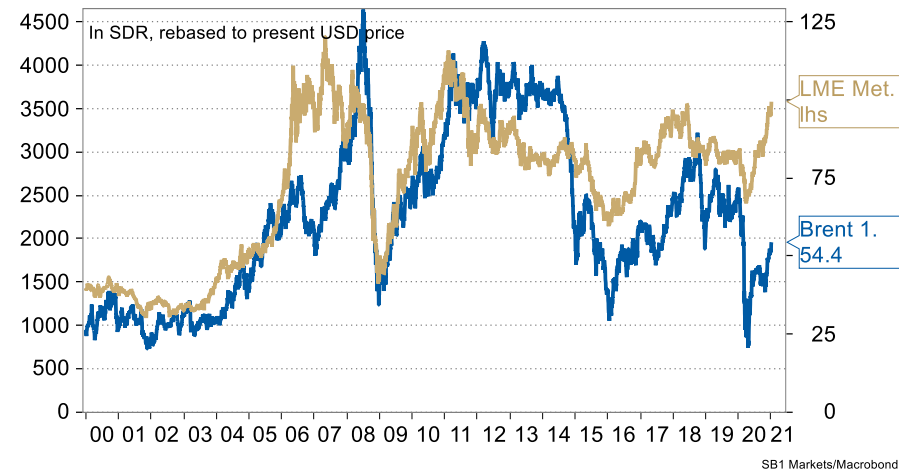
The reflation trade in on. Growth optimism everywhere

US 10y rate at 1.13%! USD is sliding down, less need for a 'safe' haven. Raw materials on the way up

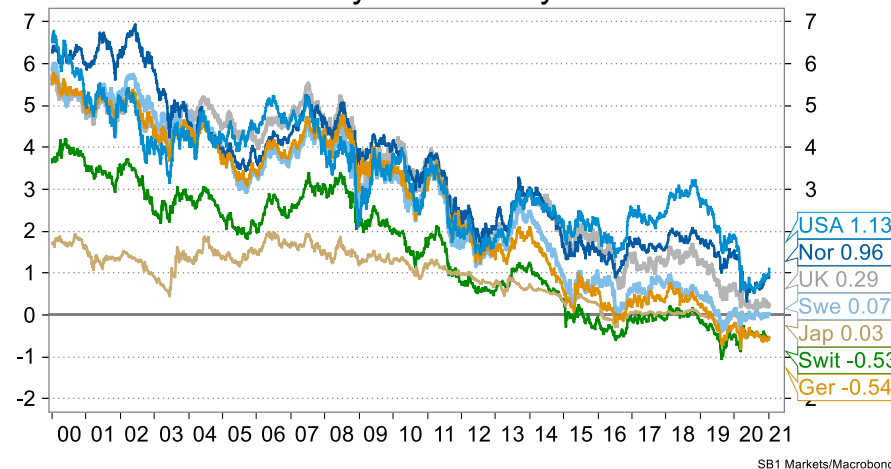
Equity Indices



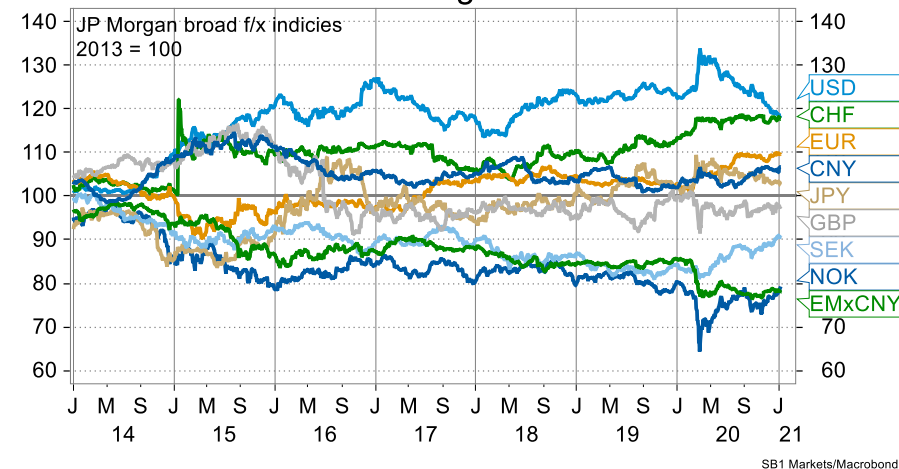
Oil vs. metals



10 y Gov bond yield



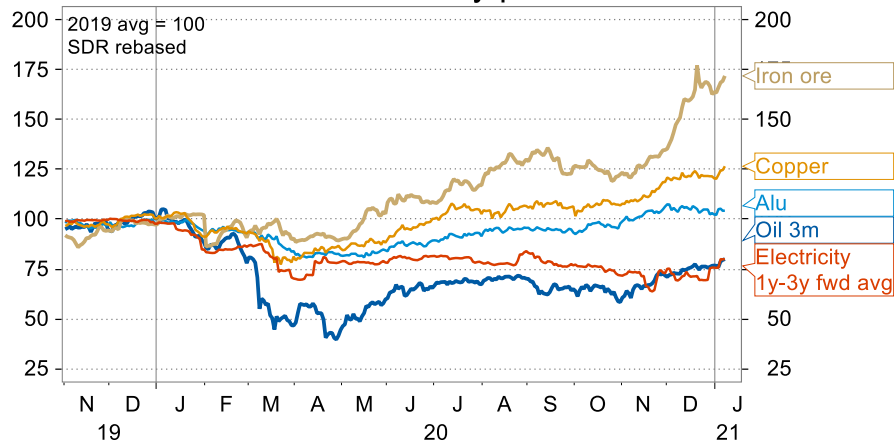
Exchange rates



Raw materials up – but not the longer dated oil contracts

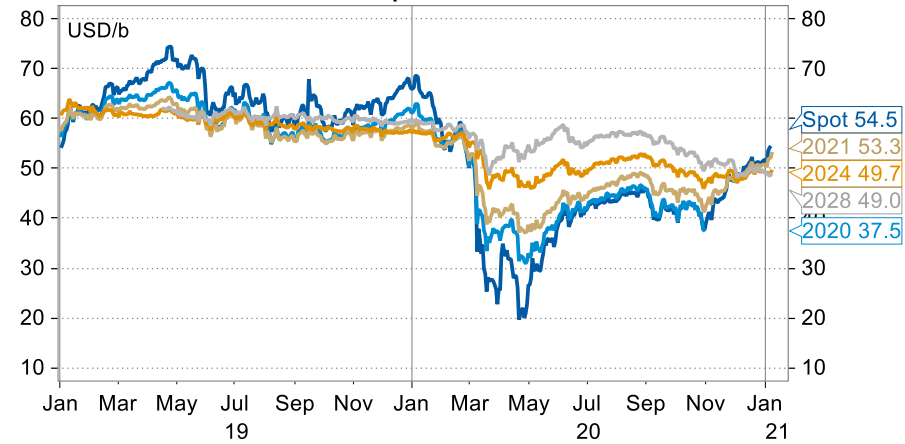
Raw material prices have recovered well since the corona crisis trough in March/April

Commodity prices



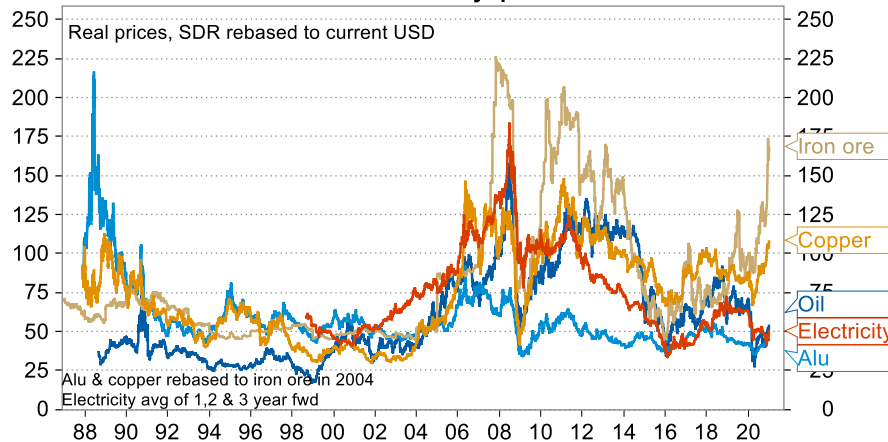
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Brent oil, spot & Dec contracts



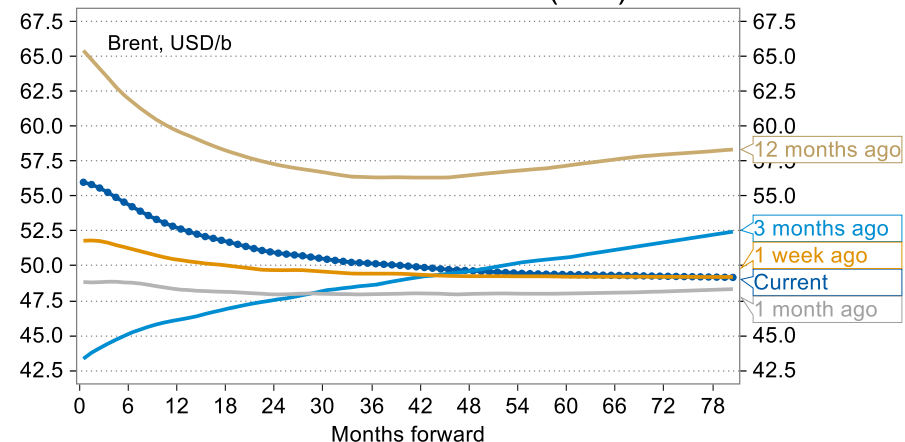
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Commodity prices



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Brent oil futures (ICE)

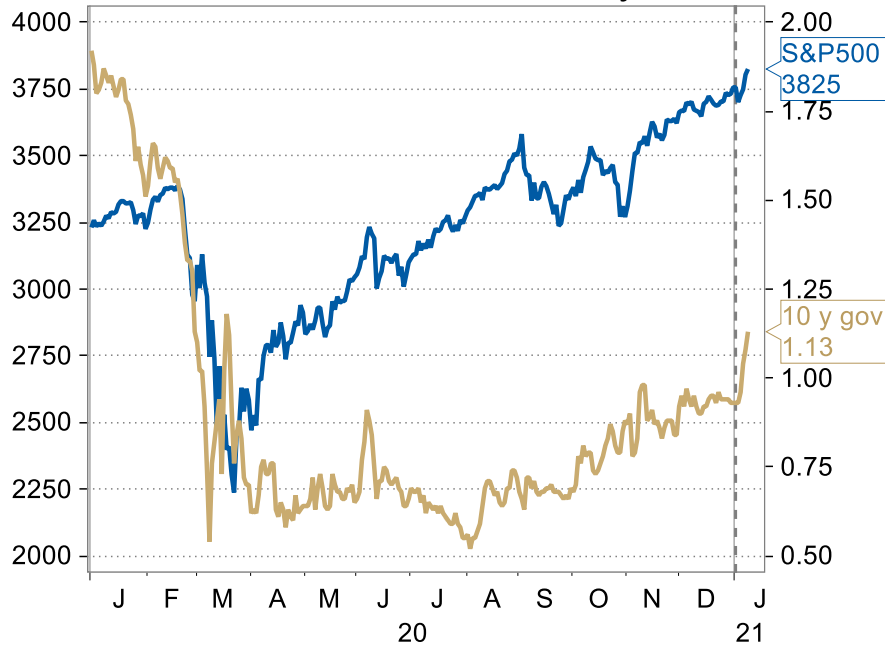


SB1 Markets/Macrobond

Trump is gone, and more fiscal stimulus to come as the Senate turned blue

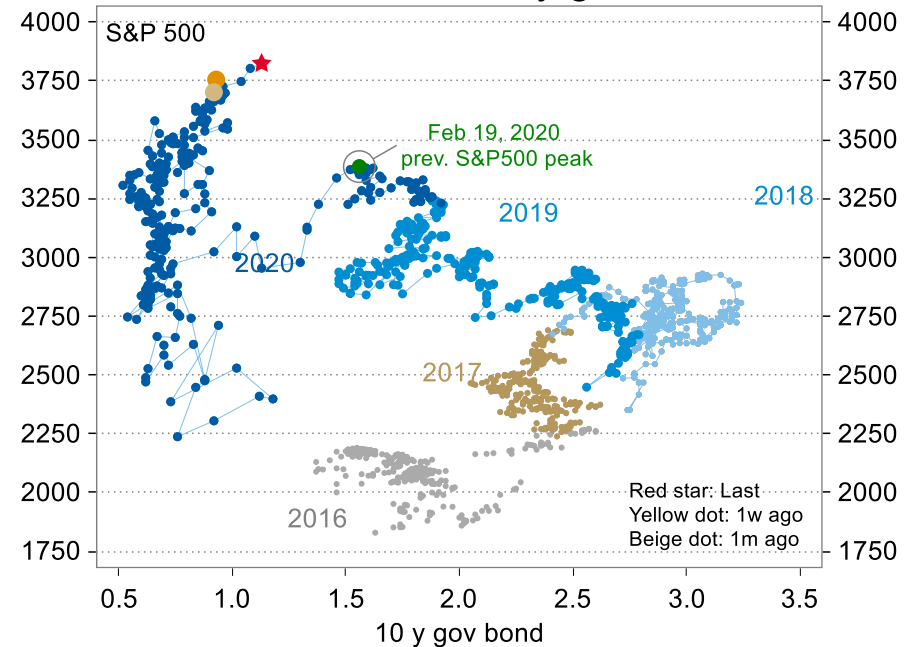
S&P 500 up 1.8% to yet another ATH, 10y bond yield up 20 bps – the recovery & reflation trade

USA S&P 500 vs. bond yields



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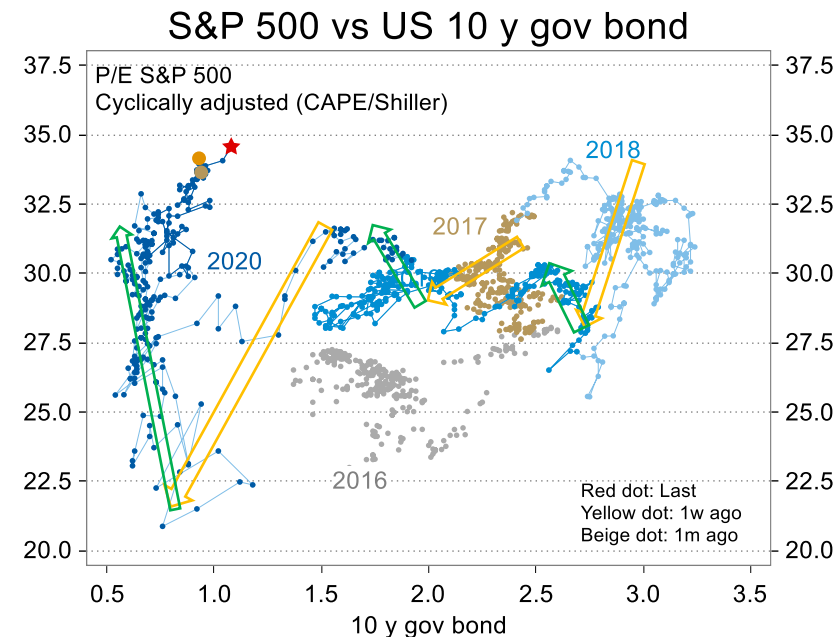
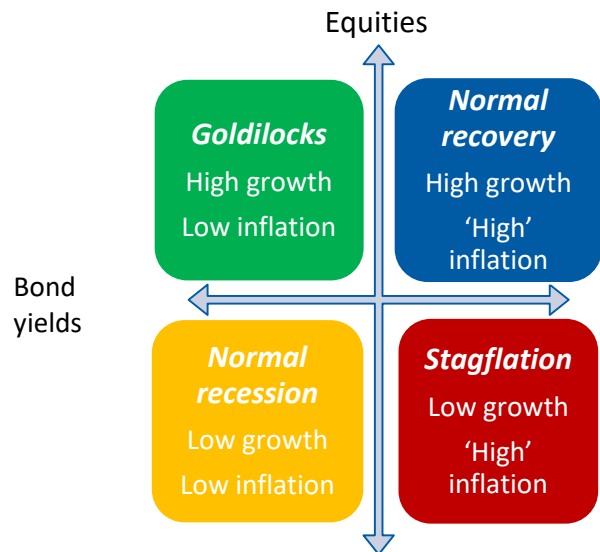
S&P 500 vs US 10 y gov bond



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A long term view: From the 'Goldilocks corner', where to go?

Over the past month/week: Towards the normal recovery 'blue' corner, but we are still in the 'green' Goldilocks

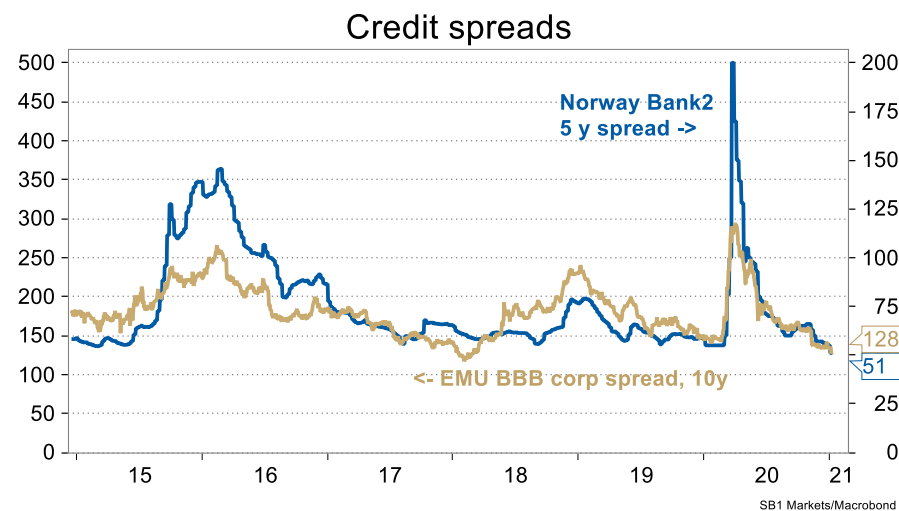
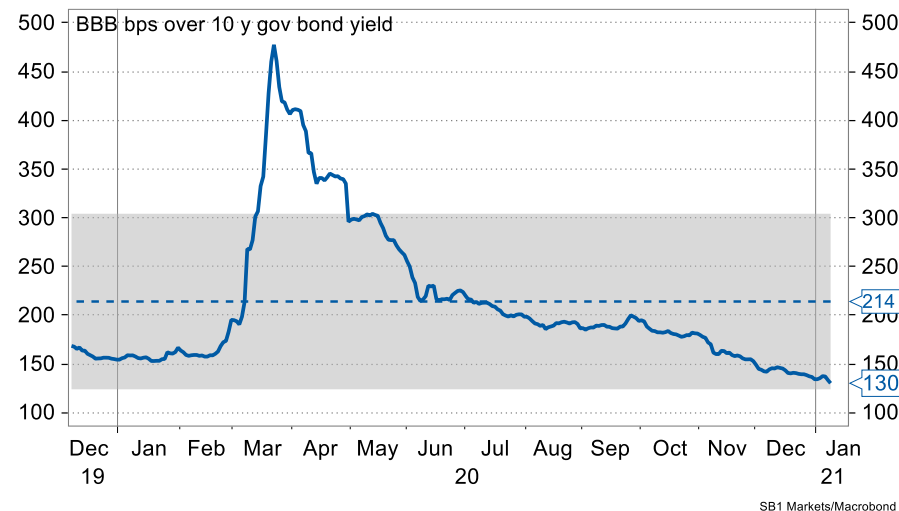


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- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation 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 have arrived
 - 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

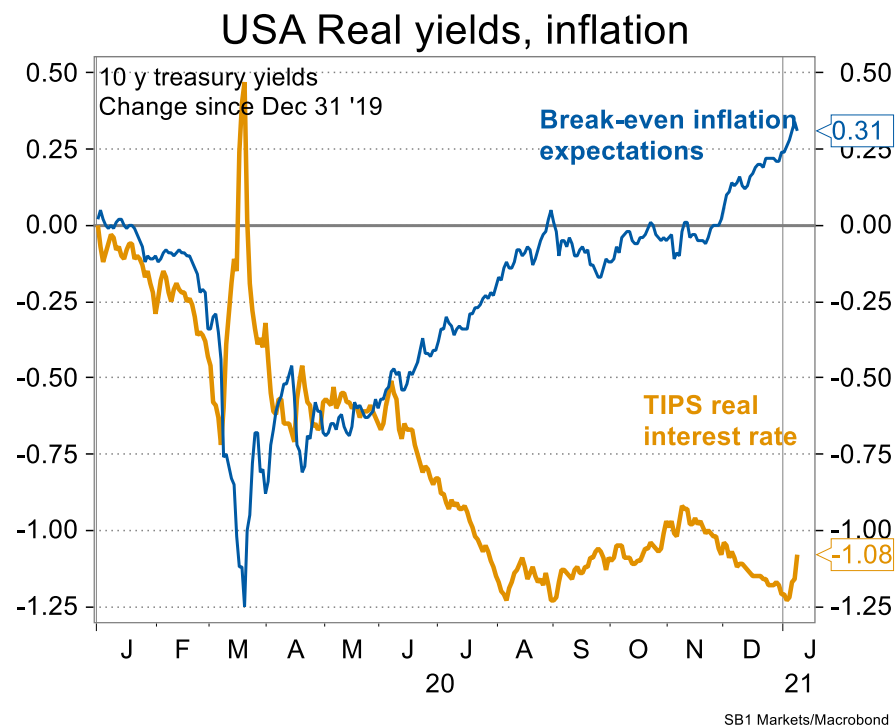
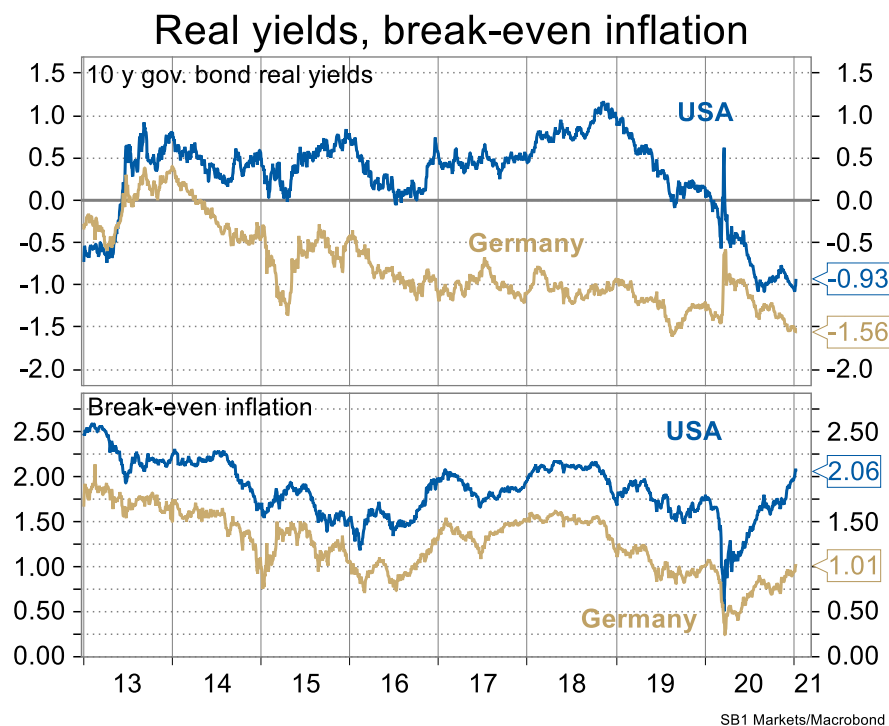
Credit spreads are down, down – to levels not seen before the financial crisis

... or close to; In the US, in Europe – and in Norway. The risk sentiment is close to perfect



Who said inflation was dead? Expectations of such surely aren't

Inflations expectations further up last week, to above 2%. And TIPS rate soared 13 bps, sum +20 bps!

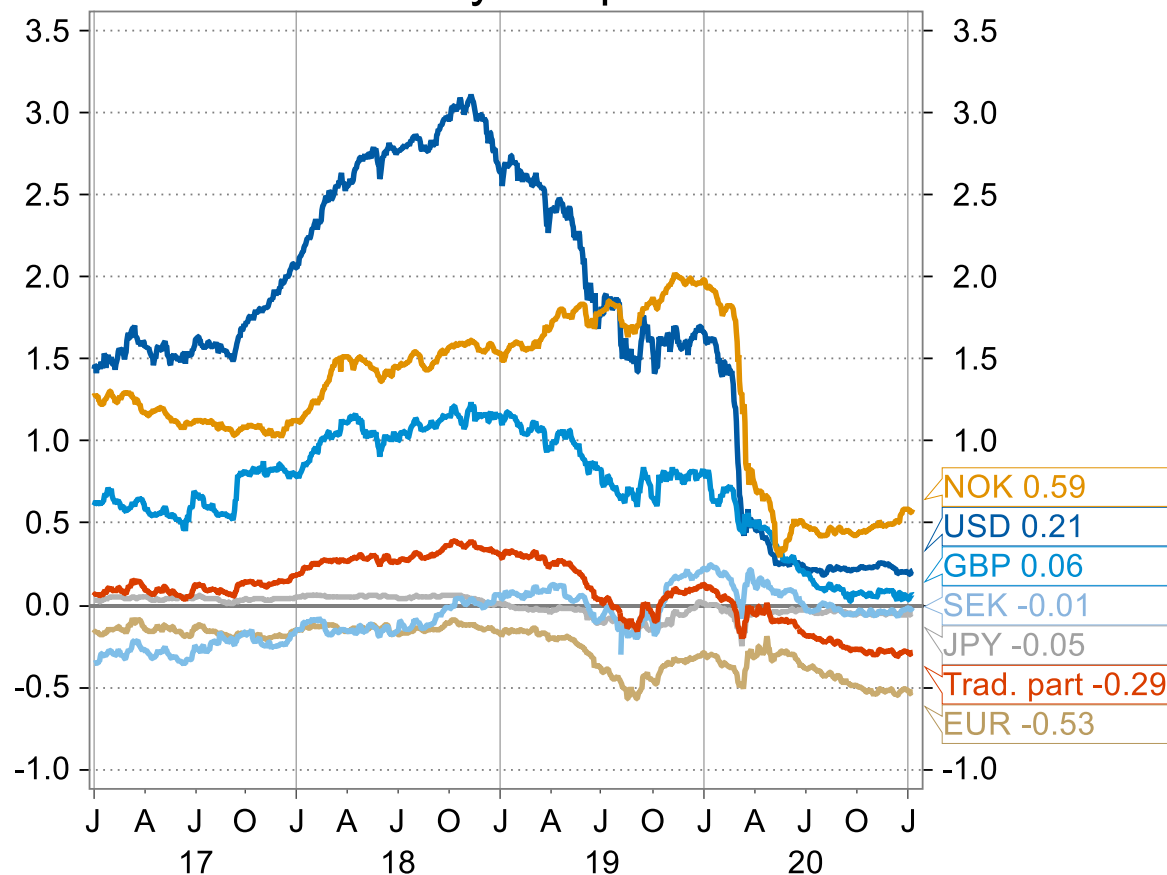


- US 10 y +20 bps
 - » Inflation expectations up 7 bps to 2.06% (and up 30 bps from late Nov) – and at the highest level since 2018
 - » The TIPS real rate gained 13 bps to -0.93% but the level is still very low, and almost 1 pp below the pre-corona level (and 200 bps lower than in late 2018)
- Germany 10y +1 bps - the spread vs US widened substantially
 - » Inflation expectations up 7 bps to 1.03% over the past week
 - » Real rate down 6 bps -1.55%, close to ATL – once more

Short term swap rate close to flat – NOK rates up 8 bps last month – on top

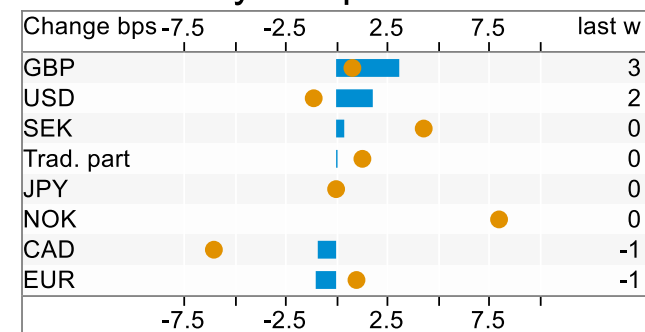
Long term interest rates sharply up, short term rates not!

2 y swap rates



SB1 Markets/Macrobond

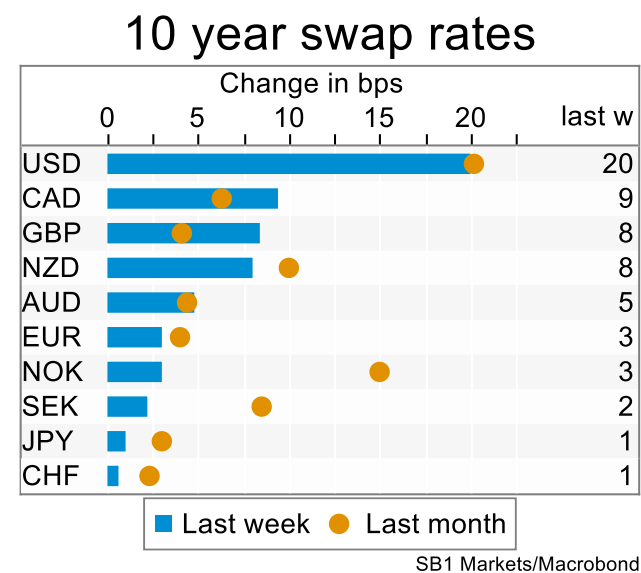
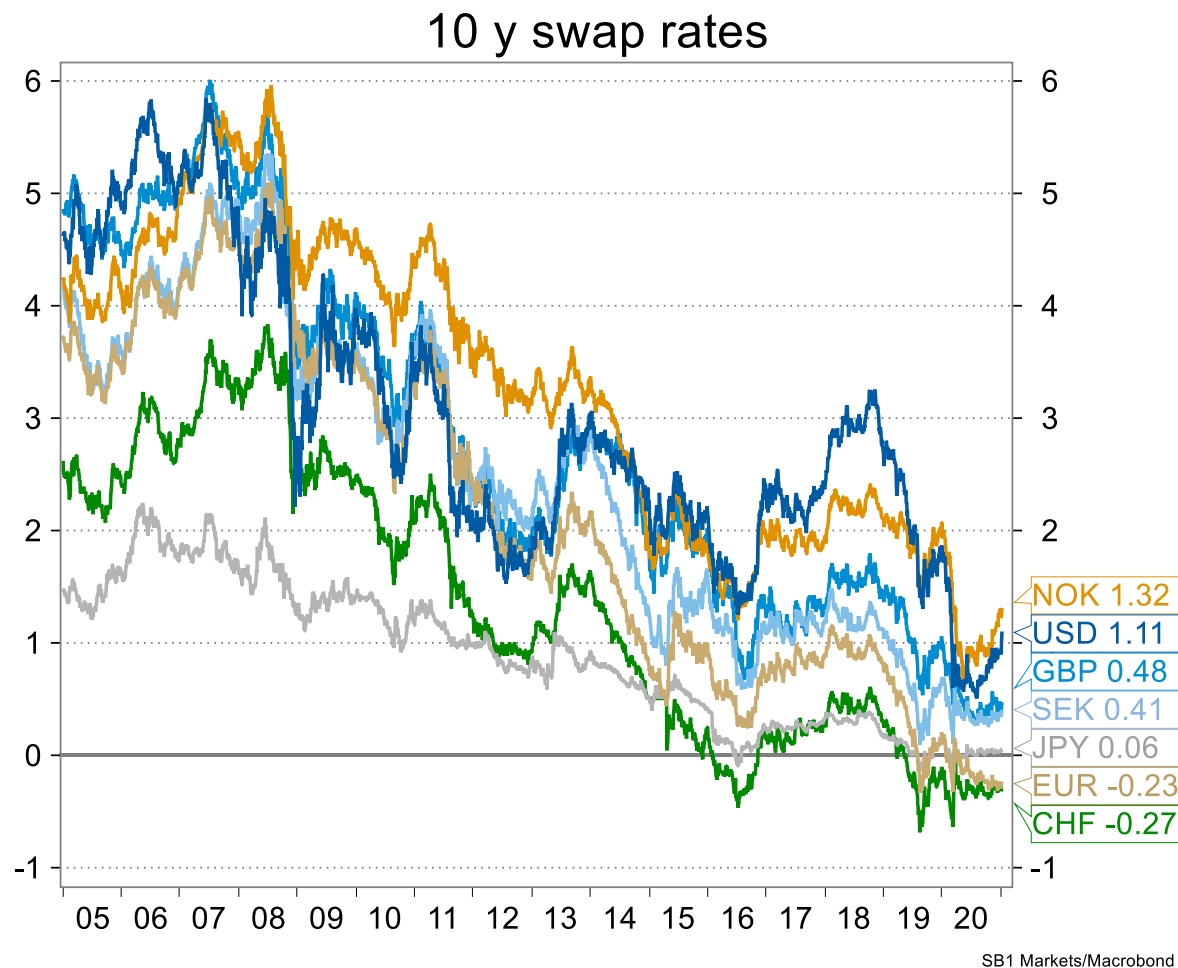
2 y swap rates



■ Last week ● Last month

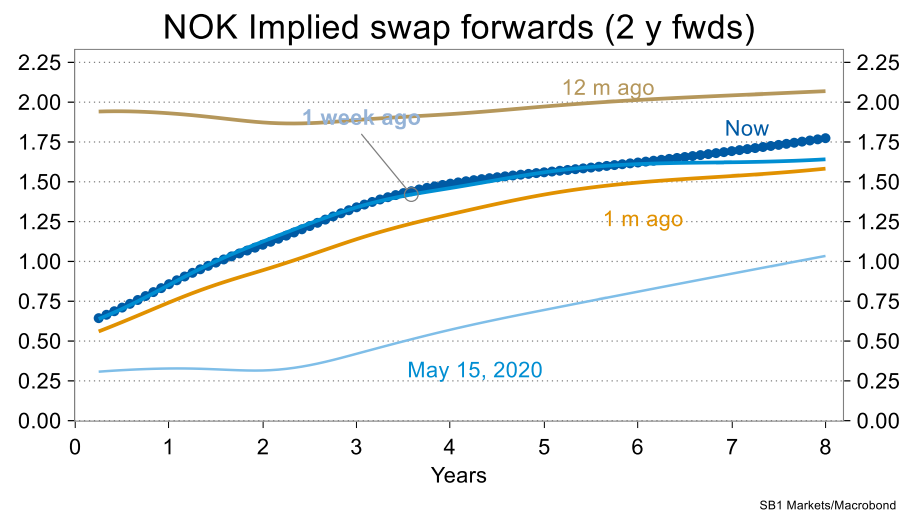
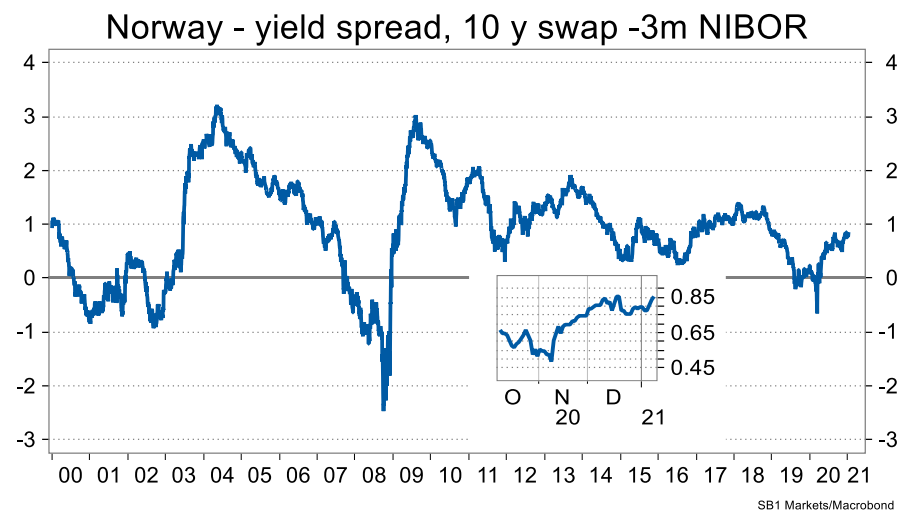
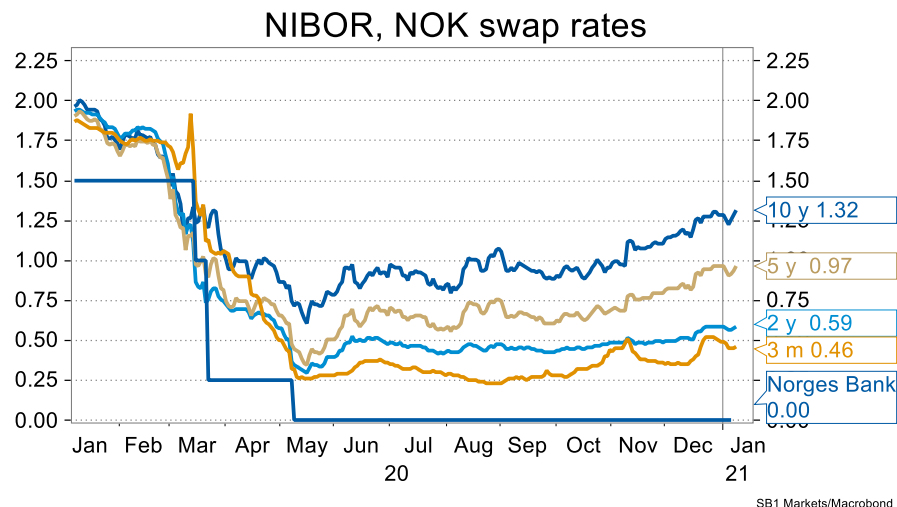
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USD 10 swap rates up 20 bps. Most others up too, but less. Europe close to flat



A marginal lift in longer NOK swap rates last week – the curve has steepened

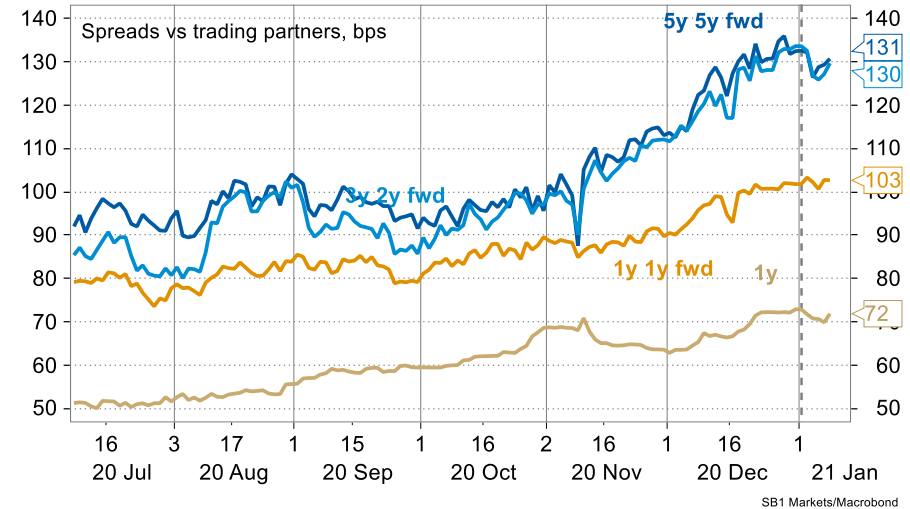
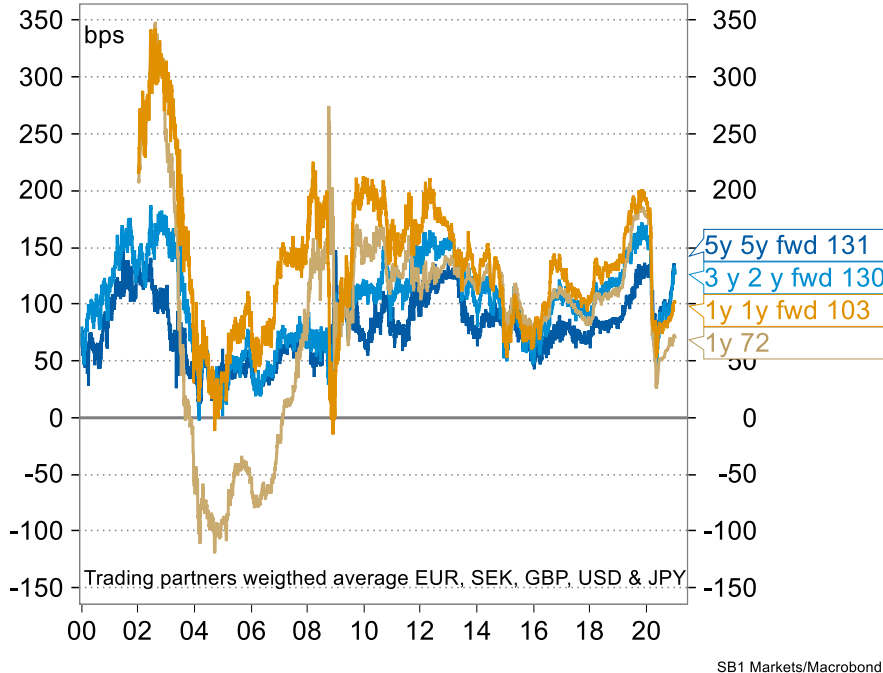
The 10 y swap rate has more than doubled vs the May trough – and is still at low level?



Have spreads vs trading partners peaked? Perhaps, spreads are not low anymore

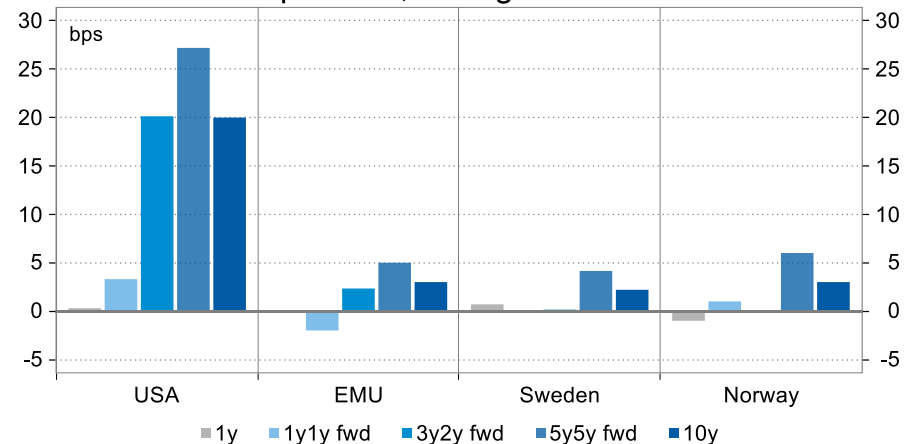
The spread down last week, due to the lift in US swap rates

Norway vs trading partners, impl swap spreads

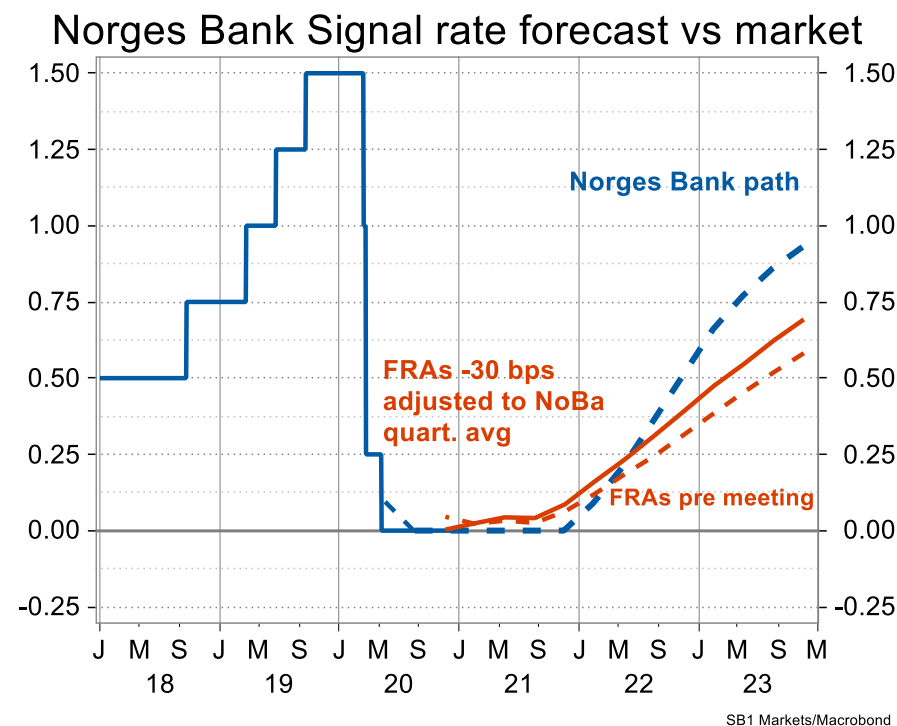
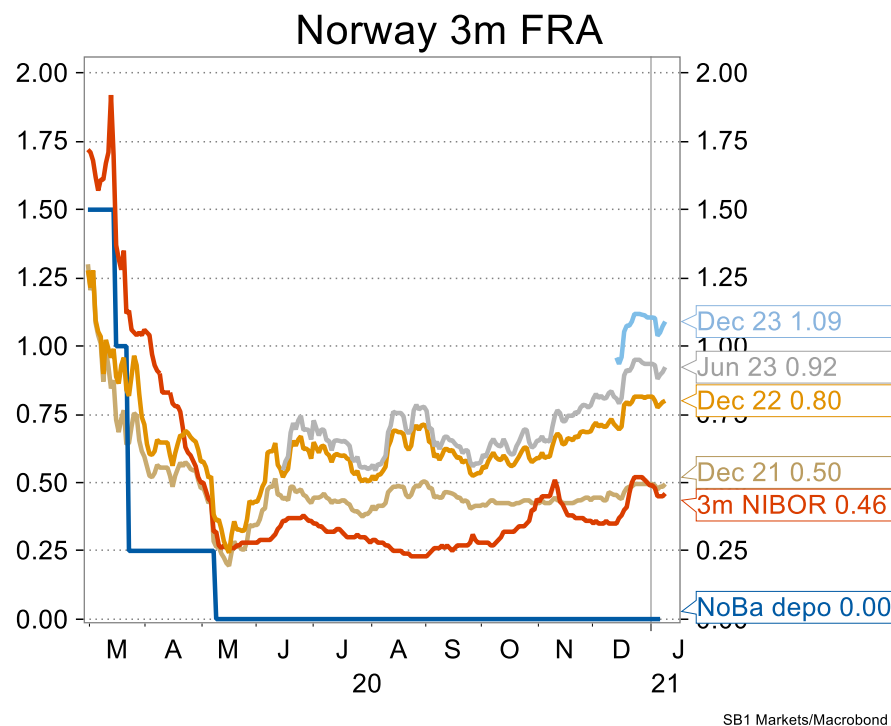


- The spread has widened substantially since the spring. We have been neutral to the spread. We expected rates to rise both abroad and in Norway. As we were uncertain on the investment outlook in Norway, we did not recommend betting on a more rapid steepening in Norway than abroad – even in the Norwegian housing market recovery from May could trigger at faster tightening in Norway. The spreads have to widen more before it's 'too much'

Swap Rates, changes last week



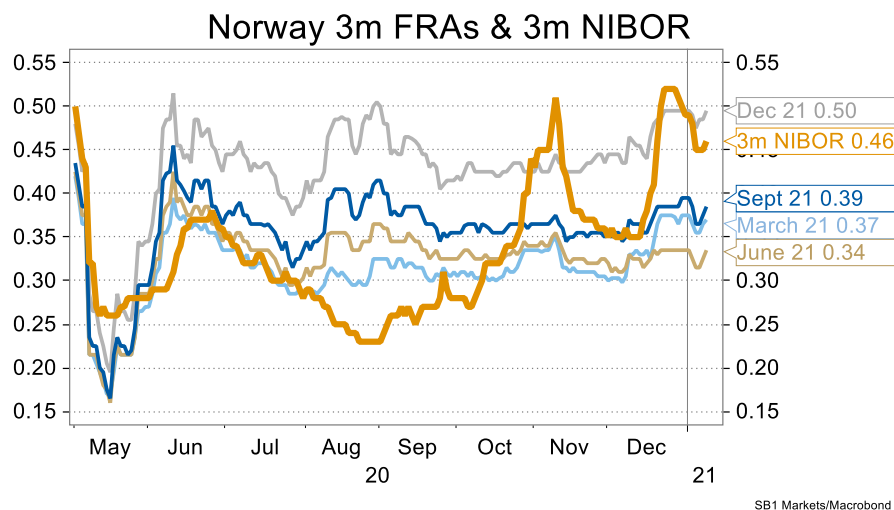
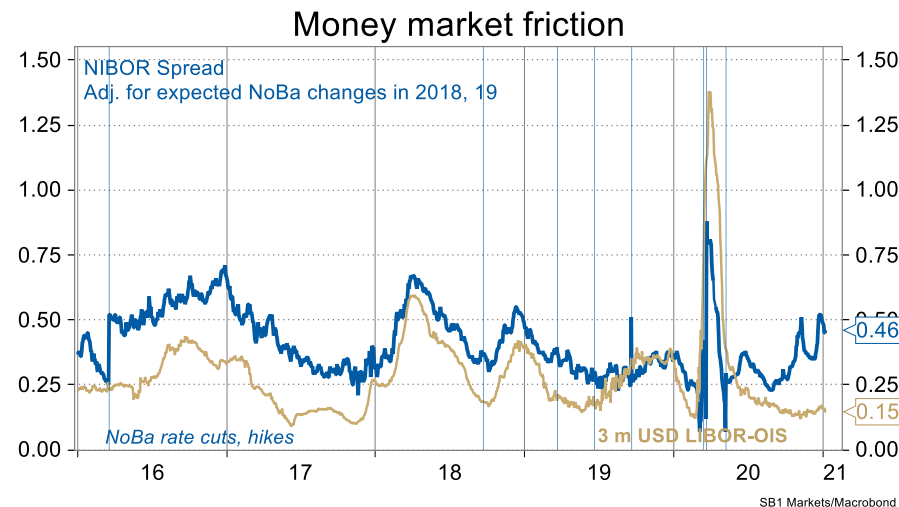
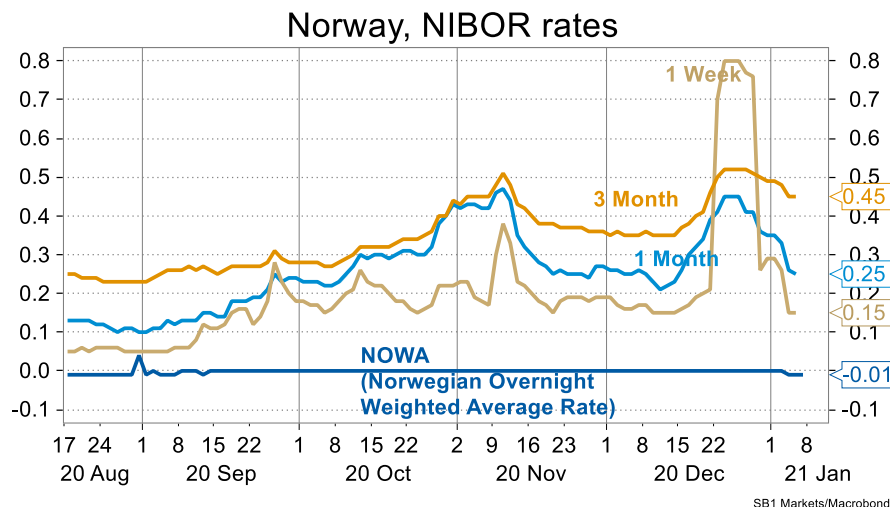
3m NIBOR FRAs down over the past week – but the spot rate still on the high end



- The FRA curve steepened before Christmas due the 'aggressive' rate message from NoBa. Of course, the Bank was not specifically hawkish per se but obviously more hawkish than the market expected on beforehand
- The FRA-curve has stabilised – and rates are marginally down recent days – perhaps due to short term covid-19 challenges

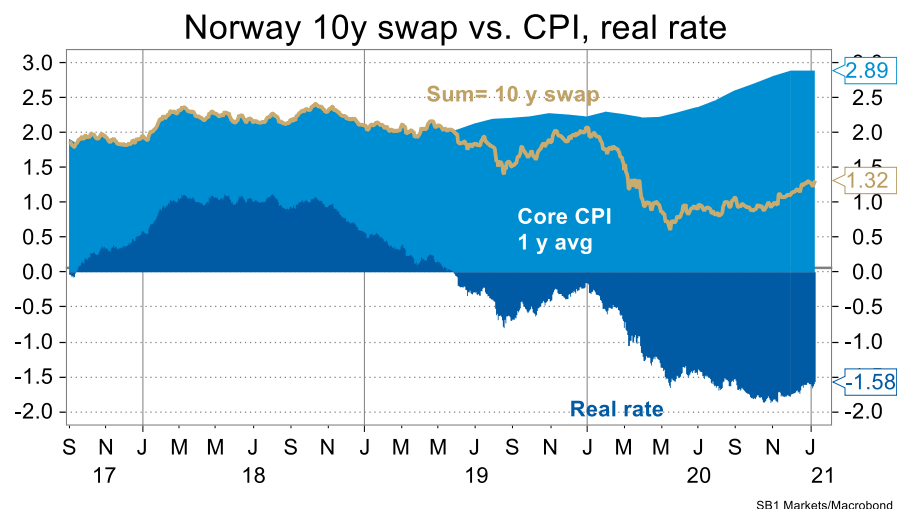
NIBOR rates continued down, the 1w NIBOR down 14 bps to 0.15% (was 0.8%)

... as the year end was conquered. The 1 m rate down 10 bps to 0.25%, the 3m -4bps to 0.45%



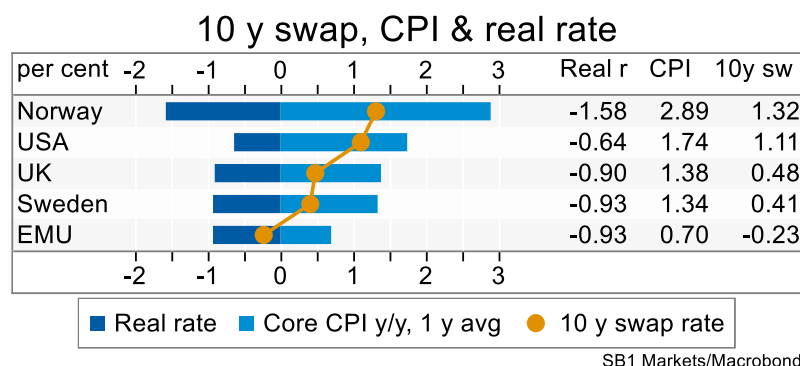
- The 3m NIBOR rate is still rather elevated, and even the 3m March FRA at 0.37% implying a much higher spread vs the signal rate than normal. The June FRA is at 0.33%, both a tick upwards last week
- There are no signs of stress in money markets in other countries
- Norges Bank will probably offer new F-loans if the liquidity squeeze does not abate the coming weeks

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 71 bps since the bottom in May, to 1.32%!
- The real rate, after deducting average inflation over the 2 past years still equals -1.6%

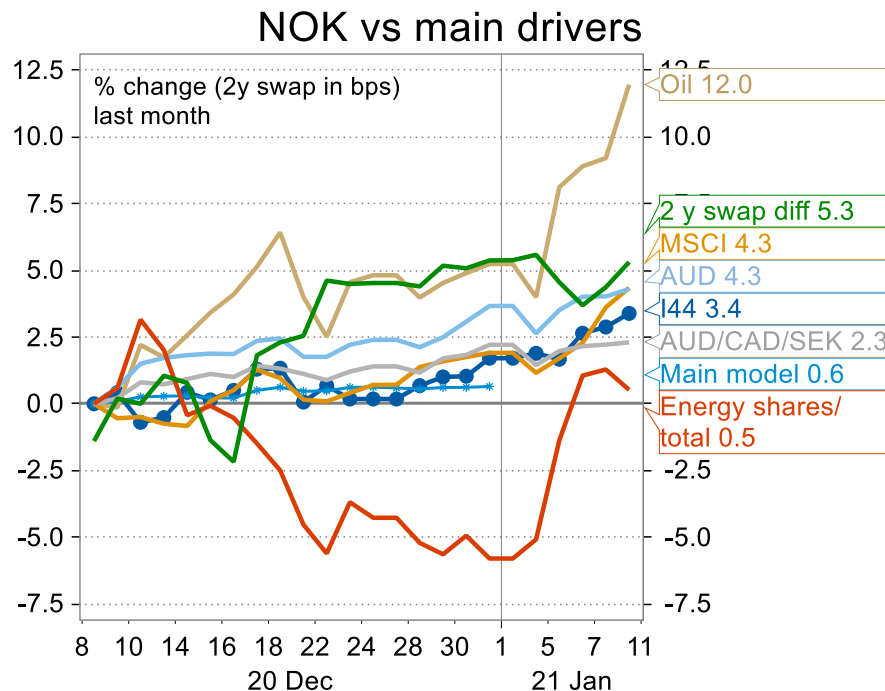


NOK real rates among the lowest, as inflation is at the top

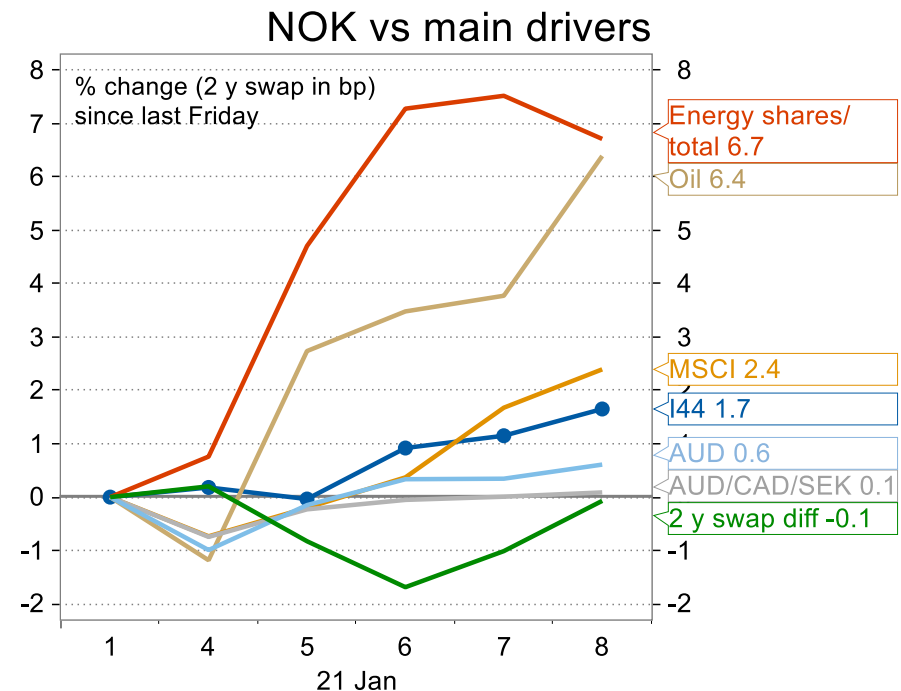
- Inflation among Norway and our main trading partners varies between 0.67 pp to 2.9% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, Norway at the top, by far
 - » Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- Real rates are quite similar among our trading partners, at -0.6% to -0.9% measured vs. the 10 y swap rate and core inflation over the past two years
- Thus, the Norwegian real rate at -1.6% is an outlier at the downside, even if the nominal rate is the highest

NOK up last week – together with our peers and the market

The oil price also up, and more than NOK



SB1 Markets/Macrobond

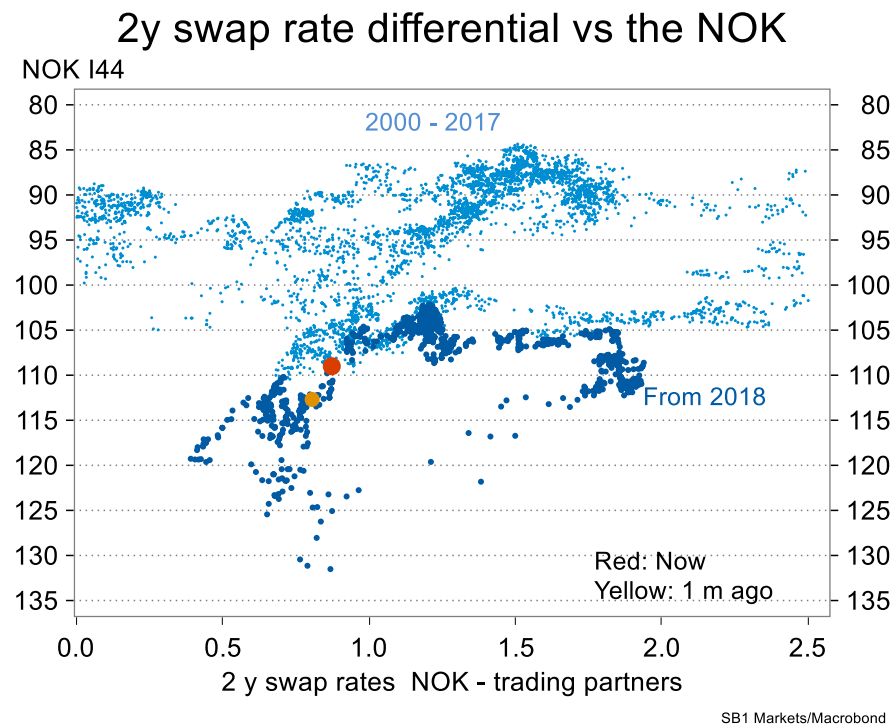
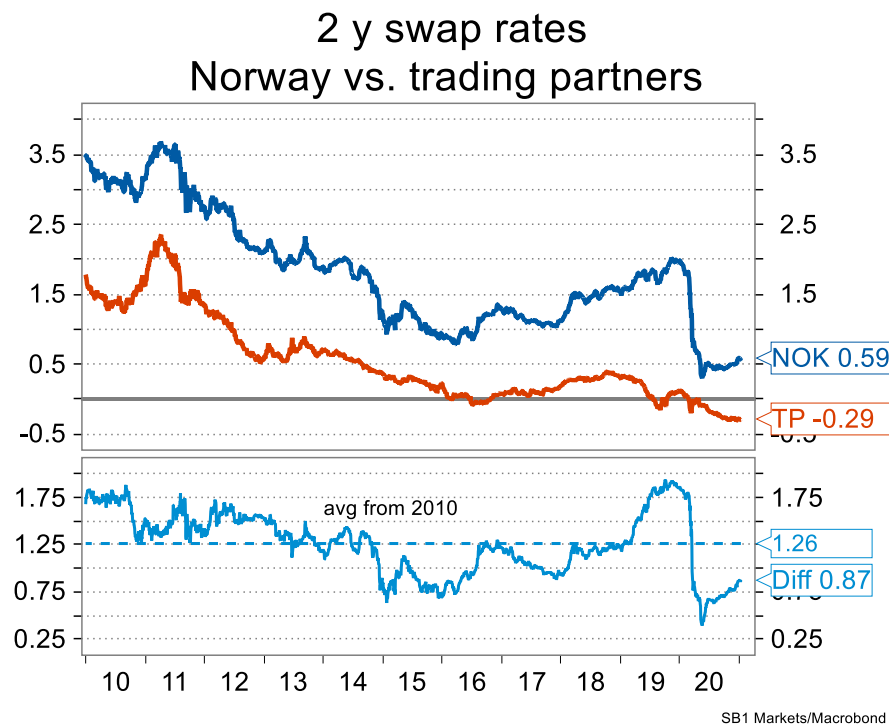


SB1 Markets/Macrobond

- The NOK is 1% weaker than suggested by our standard model
- The NOK is 6% 'weaker' than the global stock market vs the correlation between the two in 2020
- The NOK is 8% weaker than an average of AUD/CAD/SEK, our 'supercycle peers'
- On the other hand, the NOK is far (13%) stronger than a model which includes global energy companies equity prices (vs the global stock market), even after the impressive energy sector recovery recent weeks (that took a break last week)

Can Norges Bank walk the walk alone? Will the NOK become too strong?

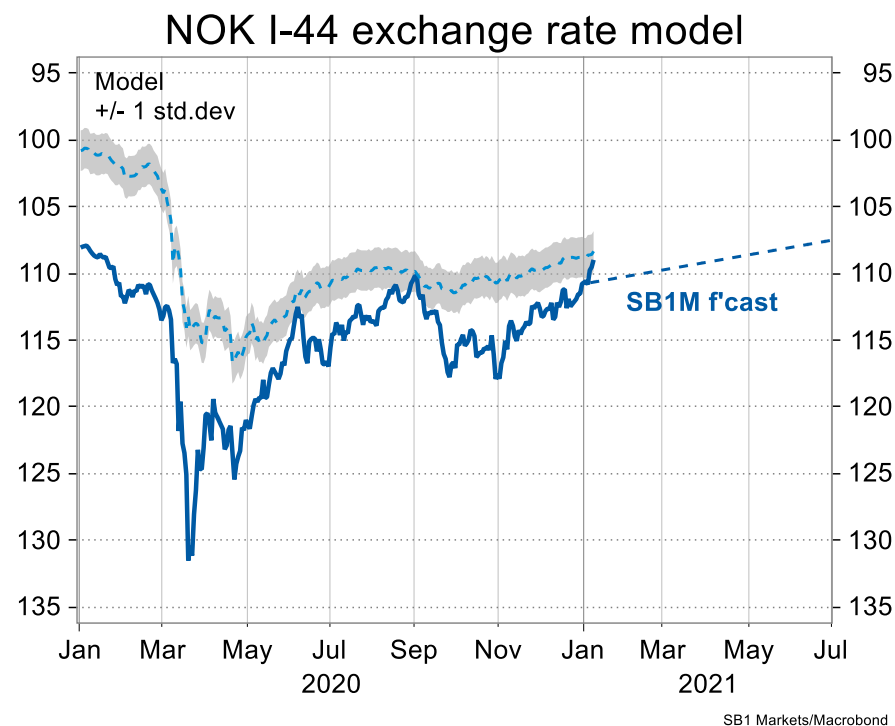
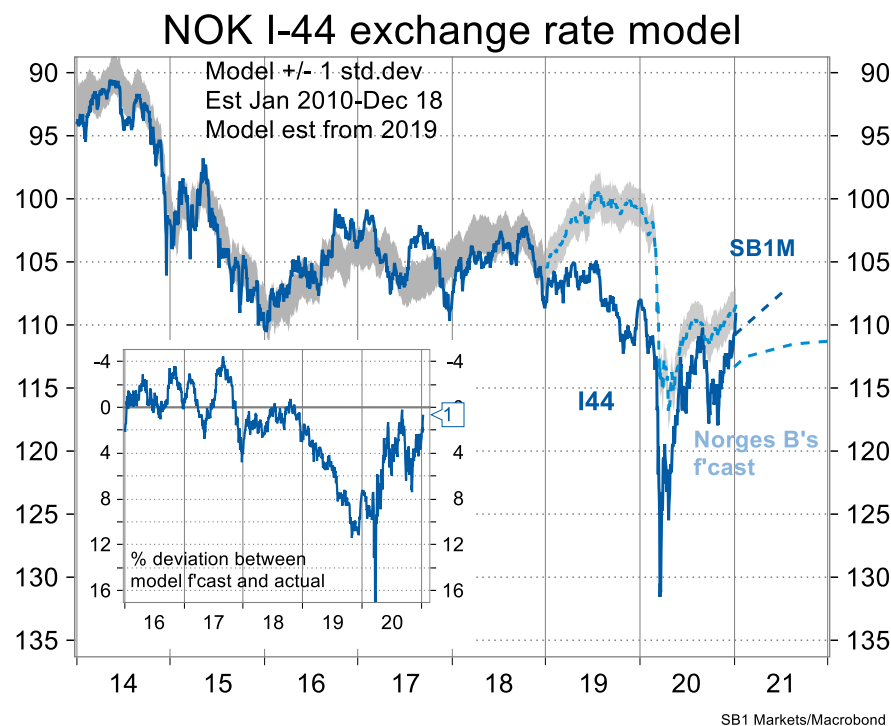
In our models, a 2y swap 1 pp spread widening yields a 7% stronger NOK



- However, the relationship is far from stable – and the oil price is usually much more important – and other factors are more important, at least from time to time

NOK I44 up 1.5% last week, our model said 0.5%

The NOK is just 1% below our model forecast

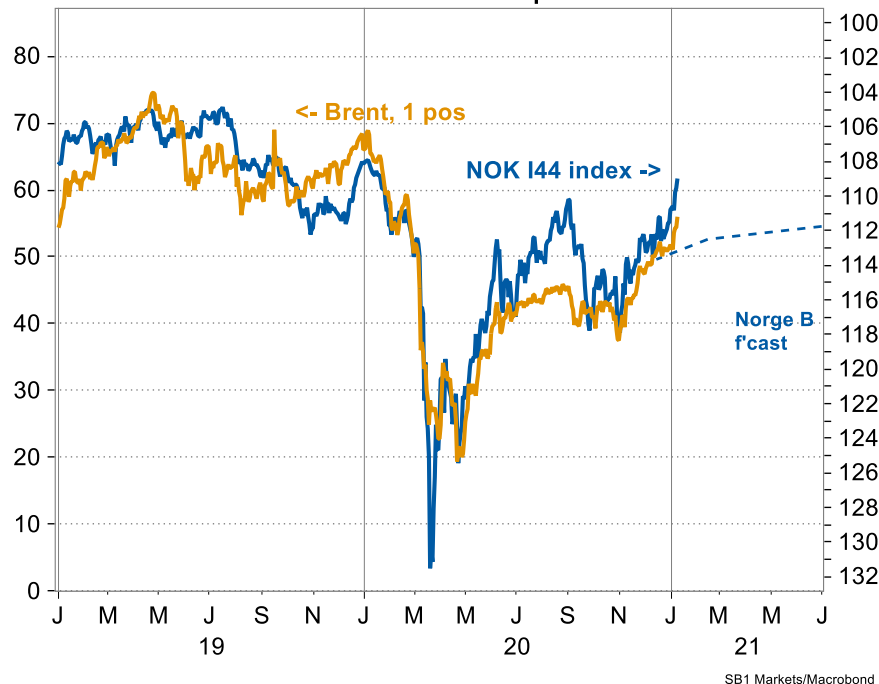


- The estimation period now includes 2018. The inclusion of the extra year did not change the model's forecasts significantly (well below 1%)

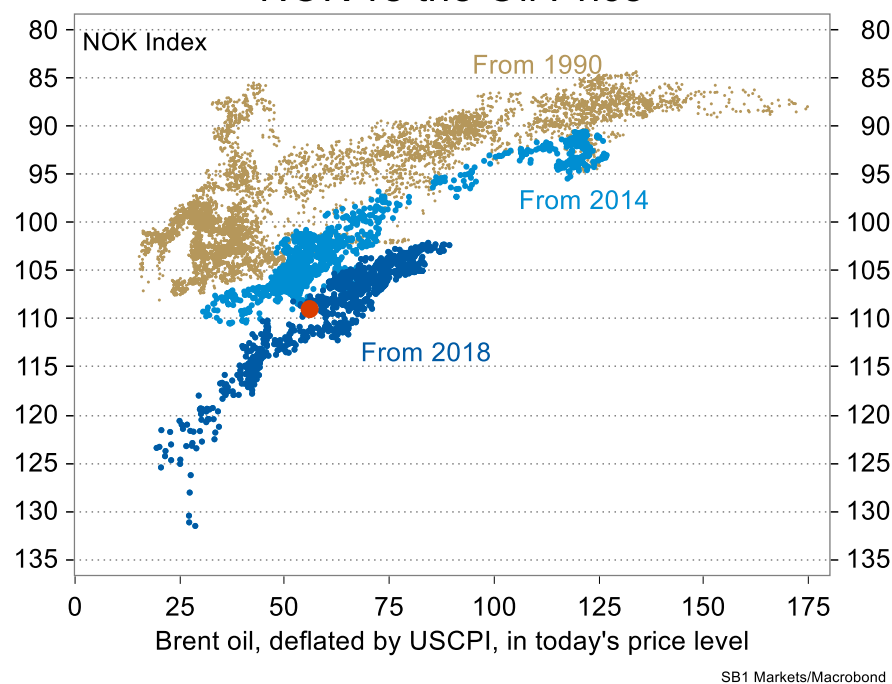
NOK up together with the oil price – which rose to USD 55/b!

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

NOK vs the oil price

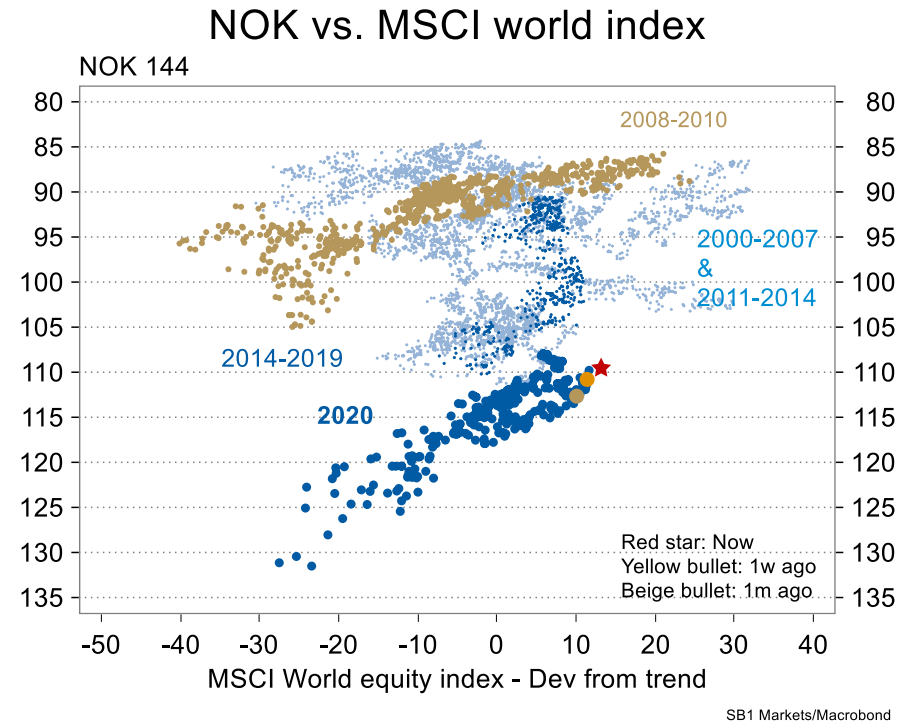
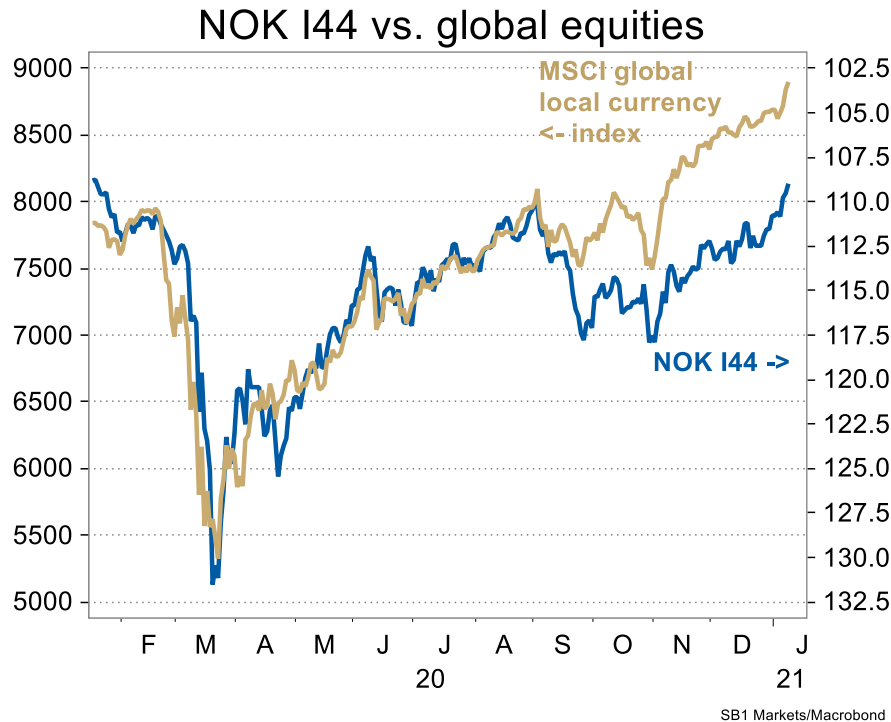


NOK vs the Oil Price



NOK & global equities up; Equities marginally 'more' than NOK last week

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 than 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)

The brother in arms on the way up. Still, AUD has gained 7% on the NOK in '20

Fair? Not sure. The Aussies are having a clash with their largest trading partner (China)

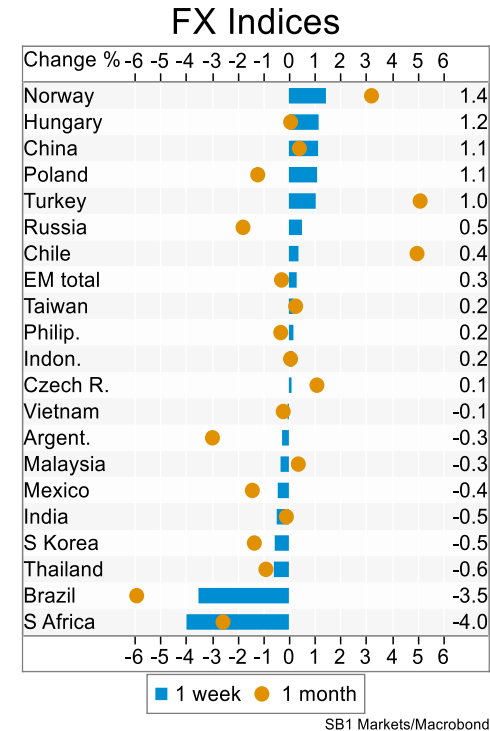
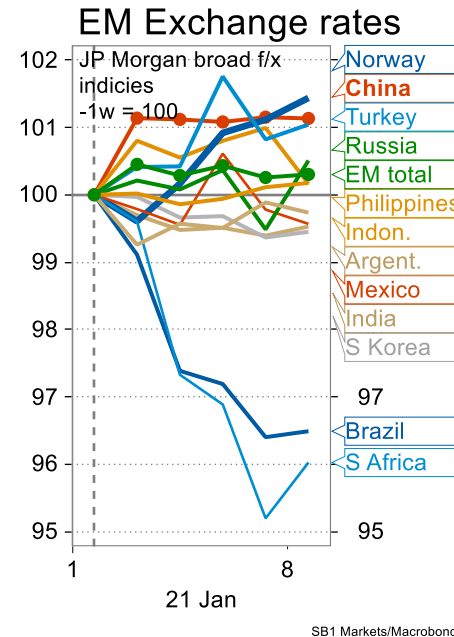
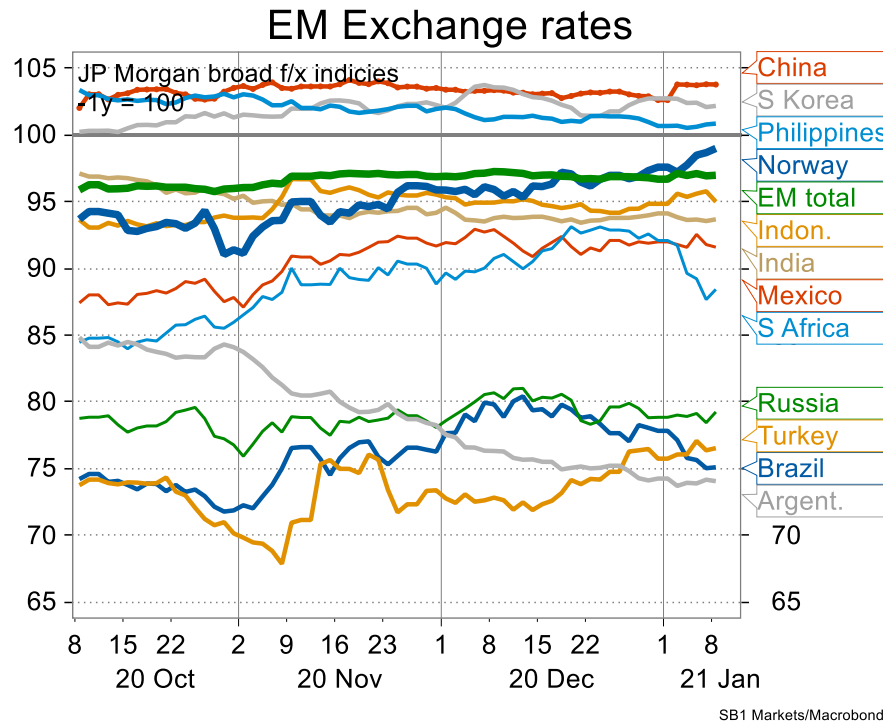
AUD vs NOK f/x



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EM f/x more up than down (flight to safe havens, from the US? 😊)

But Brazil and South Africa down – but the CNY took a step upwards



- What... NOK at the top of the f/x ranking last week??

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