1 March 2021

Macro Weekly

Week 9/2021

Harald Magnus Andreassen
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.no

Tina Norden
Phone : (+47) 24 13 37 48
Mobile : (+47) 93 22 62 24
E-mail : tina.norden@sb1markets.no

SpareBank 1 Markets
Phone : (+47) 24 14 74 00
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PO Box 1398 Vika, 0114 Oslo

Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week 1: The (once again challenging) corona story

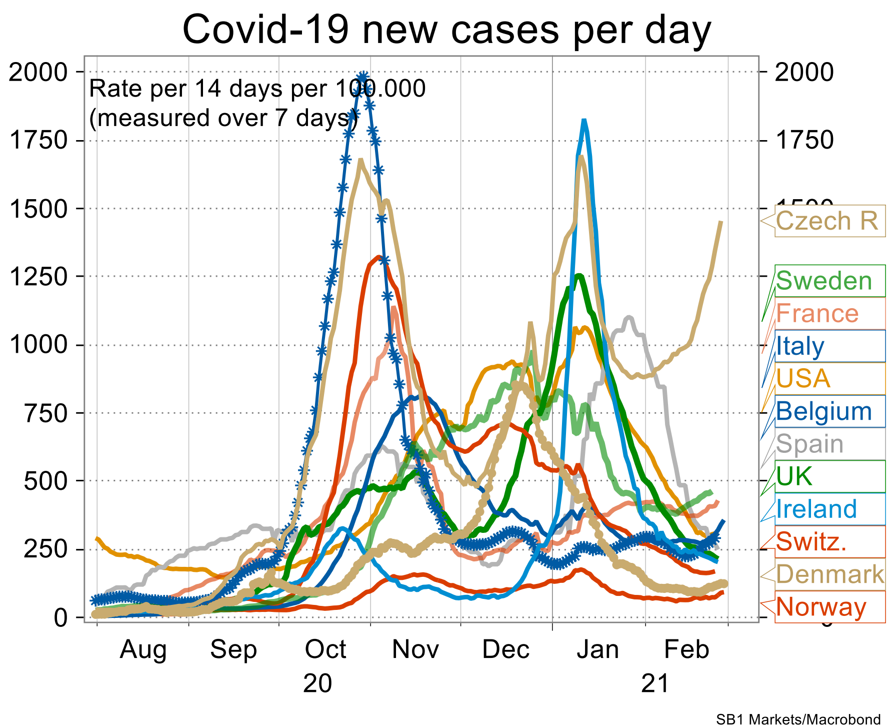
- **Here we go again:** The no. of new covid-19 infections suddenly rose in a large majority of countries last week. Just UK, Spain & Portugal are still trending down, in the US no doubt supported by a rapid increase in the share of vaccinated. In the US, where the trend is flat, the pace of vaccination is far higher than in Europe. Both Denmark, Finland, Norway and Sweden are reporting 'R's above 1 again.
- **The problem is simple:** It takes several weeks before vaccines arrive in large quantities to European countries (and 2 – 3 more weeks before the vaccines are activated). Last week, the Norwegian 'R' rose to 1.3 (we assume 50% share of mutants, and the 'original' virus has an 'R' at slightly above 1. 'Luckily' the mutated viruses have at least a 50% market share, implying that the upside for the R is not that large. However, 1.3 is a <u>huge</u> challenge. The level of new infections is still low but will – if behaviour is unchanged, and even if the share of vaccinated increases according to an optimistic delivery scenario, the no. of infections increase to 2.500 per 100' (over 14 days) in early May, from 93 now. Mutated viruses are probably more aggressive health wise, and may counterweight the effect of older/exposed persons now being vaccinated. With an R at 1.3 and a mutant share of 50 (rapidly approaching 100), social contact will have to be reduced by 15% – 20% to prevent a rather serious outcome. Policy/behaviour will be changed, implying some economic cost the coming weeks. Oslo decided new measures yesterday, and some other areas will likely follow suit
- **Mutant news:** Both Danish and British researchers claim that mutated viruses not only spread far easier but is also more aggressive, increase the risk for hospitalisation and death. Luckily, the oldest part of the population has now been vaccinated
- Still mostly good **vaccine** news: FDA in the US approved Johnson & Johnson's single dose vaccine, and delivery is starting immediately. EU will probably follow suit before not too long

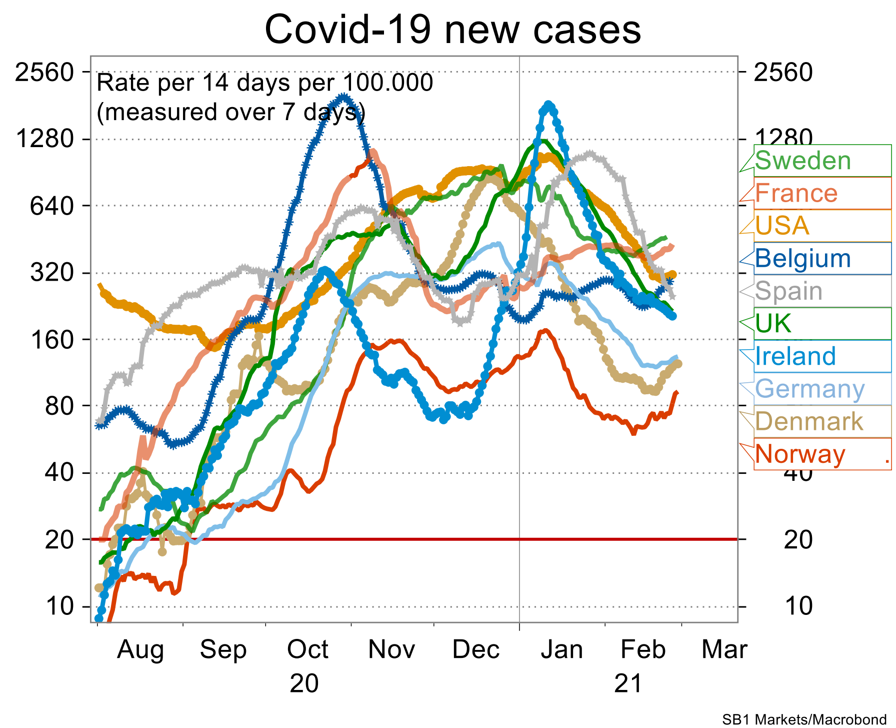
Last week 2: Economic news

- **China**
  - » The **Chinese PMIs** fell more than expected in February, and are now below past years. Reduced mobility in the Lunar New Year holidays probably contributed to the decline in the service sector PMI – and if so, temporary. Growth in export orders are slowing too. **House price inflation** is accelerating, and the authorities are not worried that they have tightened more
- **USA**
  - » The House of Rep. supported **Biden's USD 1,900 trl (9% of GDP) stimulus package**. Now, the Senate will decide. It will most likely be another 'aye'. **Household consumption** rose 2% in January, as the strong retail sales report had indicated. **Household income** grew by 10%, as the USD 600/person checks were distributed (from the first 4% of GDP stimulus package decided in late December. The next check will probably be at USD 1,400/person). Thus, some 80% of the transfer was saved, and the **savings rate** surged to 20%. Since last February, households have <u>accumulated savings above a normal saving level</u>, 'The Wall of Money' equalling 10% of annual disposable income, (and not all are 'spent' on Wall Street). **House prices** are increasing at a 15% pace, the second highest ever. **Durable orders** surged further in January and are now far above the pre-pandemic level, and business investments will very likely increase further in Q1. Just small revisions in the Q4 GDP report. **Fed's Powell** reiterated the central bank's dovish stance but the bond market did not listen, bond yields rose sharply – and the stock market yielded. Not because the growth outlook worsened but rather because it became less likely to at the same time have a rosy growth outlook, and lowest yields in history
- **EMU**
  - » **More surveys** confirm that the manufacturing is booming, and that some services are still struggling, due to the measures to contain the corona virus**. Inflation** was confirmed sharply up in January, the core up to 1.4% y/y, from 0.2%. A higher German VAT rates explained less than we assumed, but delayed (due to corona) seasonal sales pushed prices up temporarily
- **Norway**
  - » **NAV unemployment** rose less than we expected in February, and total unemployment is up just 2' since end of October, even in 50' more persons than normal have applied for unemployment support since corona restrictions were tightened in 3 rounds since early November. Still, unemployment is now 0.4 pp higher than Norges Bank assumed in the Dec MPR
  - » **Credit growth** nudged another tenth, to 4.9% y/y, as we expected. Credit to businesses contributed more, households less than we assumed. Credit growth is accelerating, but so far not much faster than income growth. Households have never been more optimistic on the **outlook for the housing market**, according to NBBL's survey.
  - » **Population growth** was low last year, as immigration slowed substantially. However, in Q3 and Q4 net immigration accelerated again. Population fell in Q4 in Oslo, as well as in the north and in Innlandet

Here we go again, more cases most places

The mutated viruses require more social distancing, until vaccines arrives in larger quantities



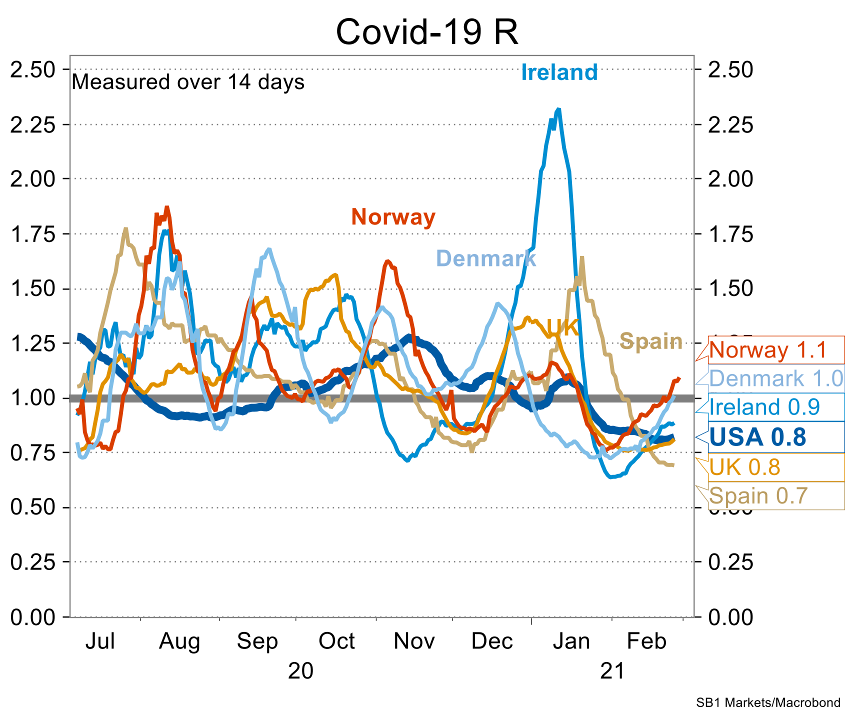


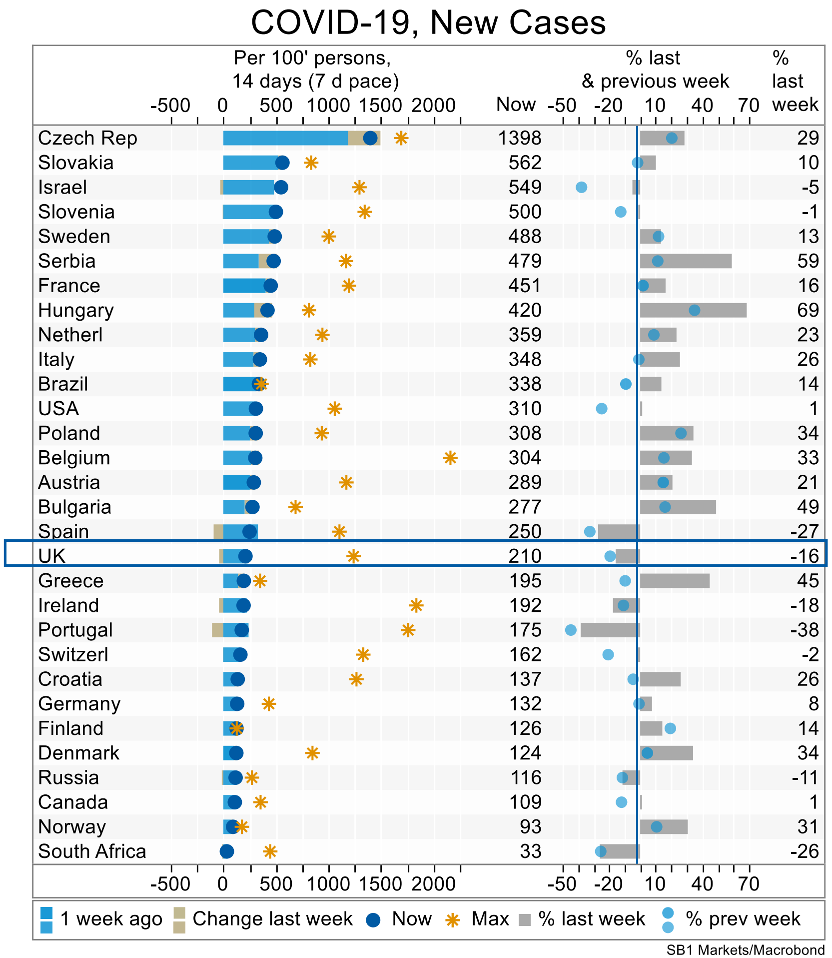
- Barring UK, where vaccines are rolled out at a high speed, and Portugal & Spain, the no. of new cases are increasing in most European countries – Denmark, Finland, Norway, and Sweden included. US has flattened – and here too the no of vaccinated increases
- The no. of hospitalisations and deaths are still on the way down, barring in the Czech Rep where they are really struggling again with a rapid growth in new cases
- Last week Norway reported a significant further increase in the no. of new cases, from a very low level that is, and the mutant share is increasing rapidly

Suddenly, more cases in most countries. At our top 30 list: 21 up, 9 down

Few countries are reporting high infection numbers, but as the mutant wins, more cases reported

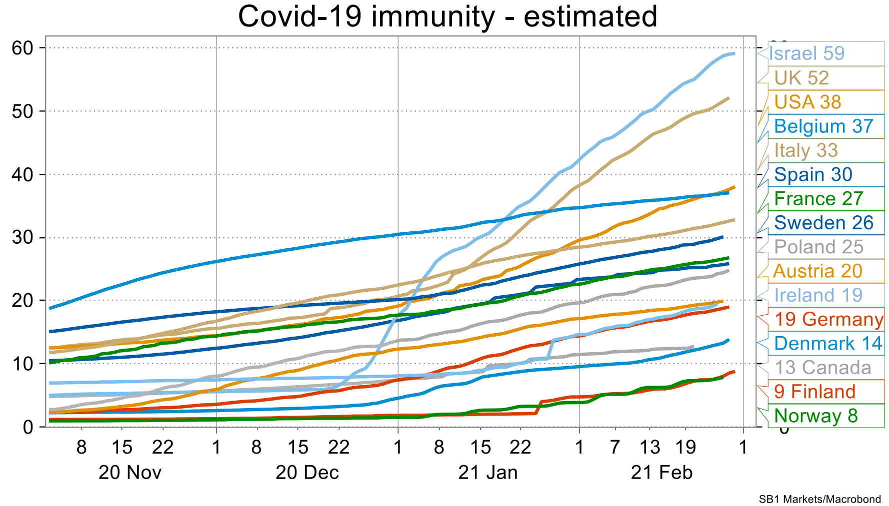
- **The Czech Rep.** is running into problems, again, for the 3rd time since October
- Substantial increases in many countries, from 'low' levels
- The no. of **hospitalised patients** and **deaths** are lagging, and are still down almost everywhere. We may soon expect to see the impact of vaccination of the most exposed groups
- **Mutated, and more infectious viruses** are taking market shares everywhere, and are now becoming dominant

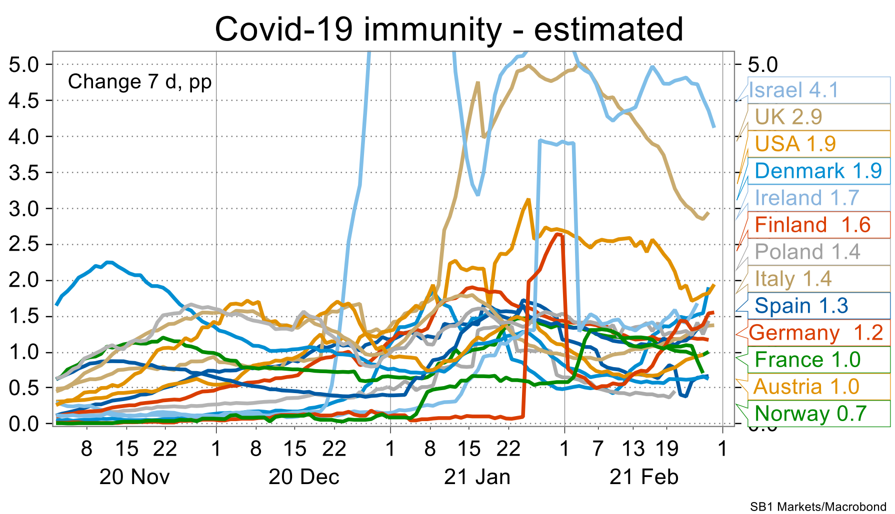


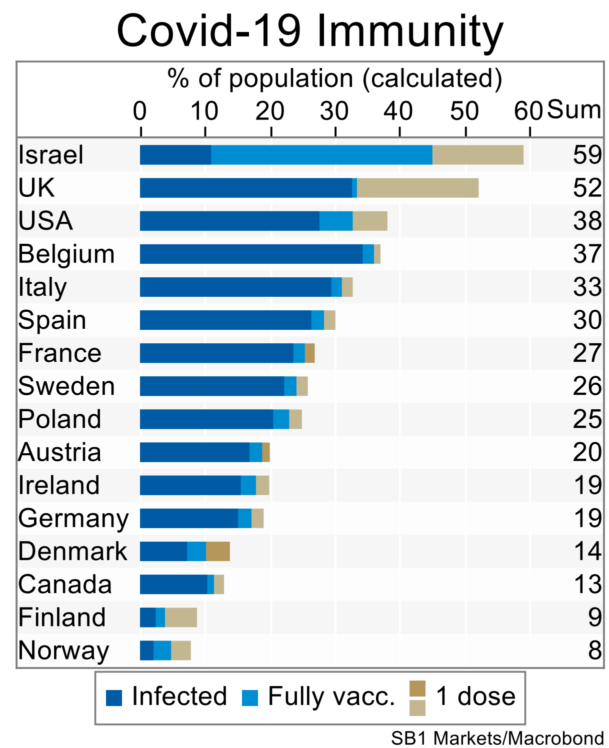


How to reach herd immunity? Through infections or vaccinations?

Vaccination is slowing down most places – and the pace is too low, except for Israel, UK & US







We calculate the infected rate by assuming a 0.5% infection fatality rate, and a 90% immunity from infection. We assume those who have been infected are vaccinated in line with others

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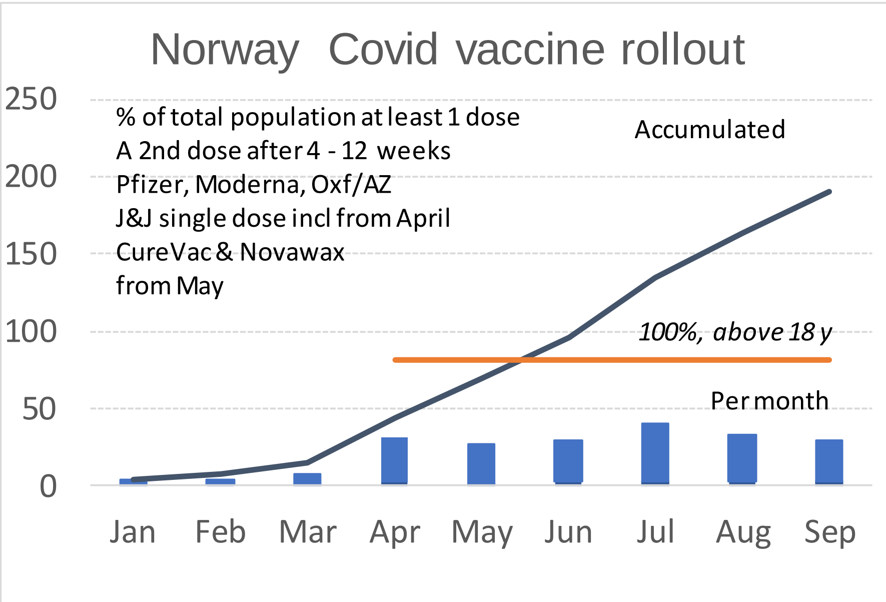
Pfizer and Astra/Zeneca: More doses are on the way. Will we get to 3% - 4%/w?

EU/Norway will receive more vaccines through Q2 – the adult pop. vaccinated before the summer?



The first shot per week % of popul	
Jan	1
Feb	1
Mar	2
Apr	7
May	6
Jun	6
Jul	9
Aug	7
Sep	6

- Norway may reach a pace of vaccination at 3% of the population per week in March (adjusted for offset for the 2nd dose) – <u>and substantially more during Q2</u>

- There is still substantial uncertainty vs. the availability of vaccines, both concerning global production volumes and the share EU/Norway will receive
- In the forecast vaccines from Pfizer, Astra/Zeneca, Johnson & Johnson are included as well
  - » Some few vaccines from CureVac & Novawax are included (EU has agreements with both of them)
- Norway <u>may</u> reach 100% coverage of the adult population by the end of Q2
- **However, immunity in the population will be lifted substantially before that**, reducing the 'R' proportionally by (1-immunity rate) for a given behaviour/social distancing. The impact is substantial, but if the starting point is an 'R' at 1.3, vaccines will not arrive fast enough
- Old/sick or persons in the risk groups are vaccinated by early Q2 at the latest– no doubt **reducing the hospitalisation & death rates substantially** (like we now see in Israel) making a higher infection level acceptable. However, mutated viruses are probably more aggressive, also vs. how sick the infected person gets

Data from FHI, VG, international media

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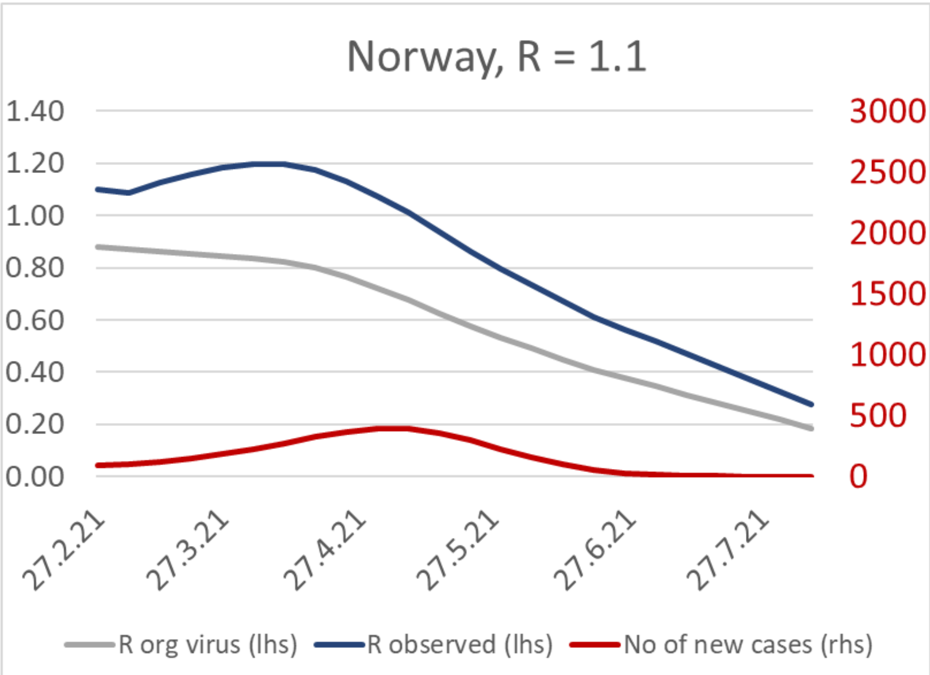
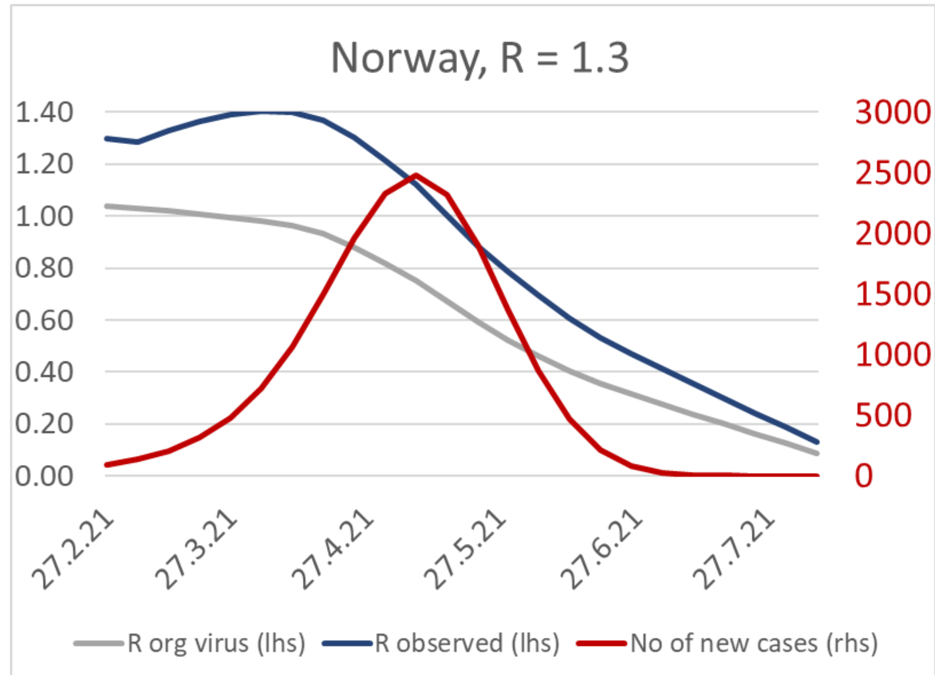
Just to illustrate the impact of an 'R' at 1.1 vs 1.3

The 'R' reproduction number is highly critical for the outcome the next few weeks





Model assumptions:
R = 1.1 (lhs) or 1.3 (rhs)
R^{mut}= 1.5 x R^{org}
50% of the infections now are due to a mutated virus
Vaccination: From 1.5%/week now, up to 5%/w in mid April
85% vaccine efficiency
9% are immune now, due to previous infection, vaccines
90 new cases per 100' over the past 14 days now (red line)

The margins are narrow the coming weeks:

If the R = 1.3: And behaviour is kept unchanged, a substantial increase in new cases, to 500 from 90, and as the elderly are vaccinated, a high but manageable for the hospital system

If the R =1.3: Not a favourable scenario – a 25 times increase in new cases to 2,500 until early May. Something will give before that

We do not know how we arrive there: But in June, the sun should shine

If the vaccines arrives according to an optimistic scenario…

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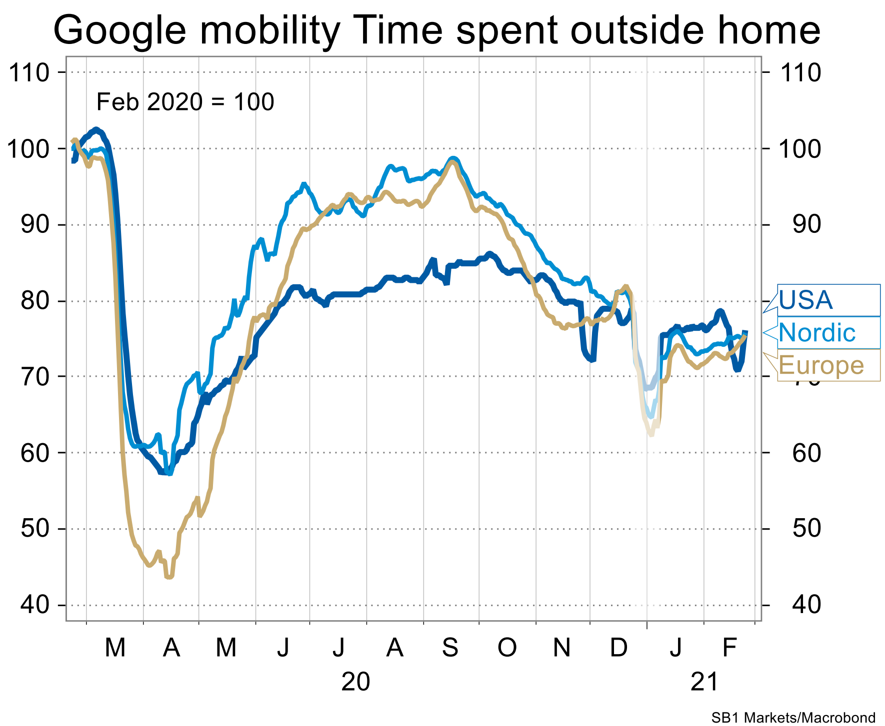
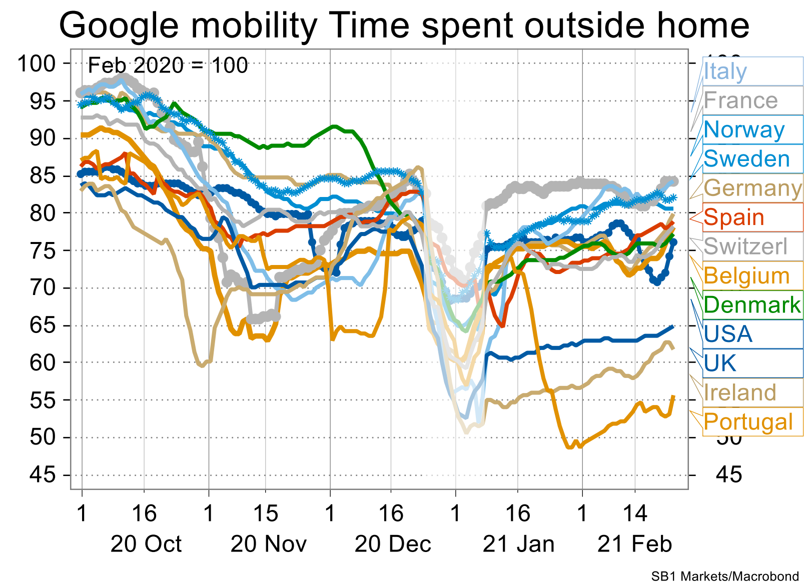
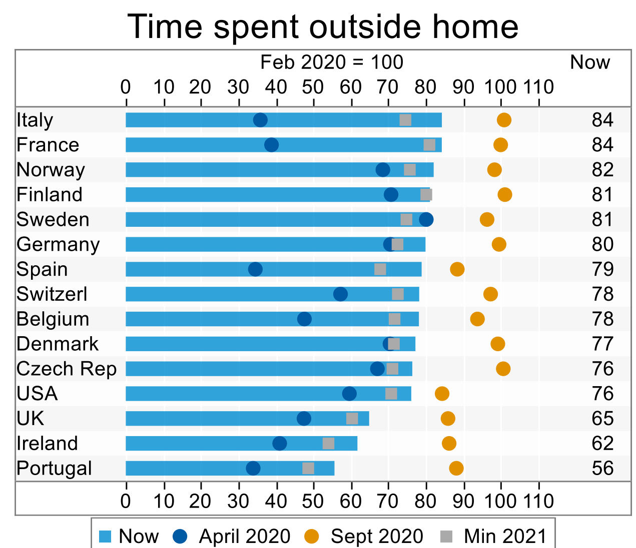
Mobility is still trending up most places - and the viruses are thriving again

Norway is still among the most open societies, at least measured vs. time outside home



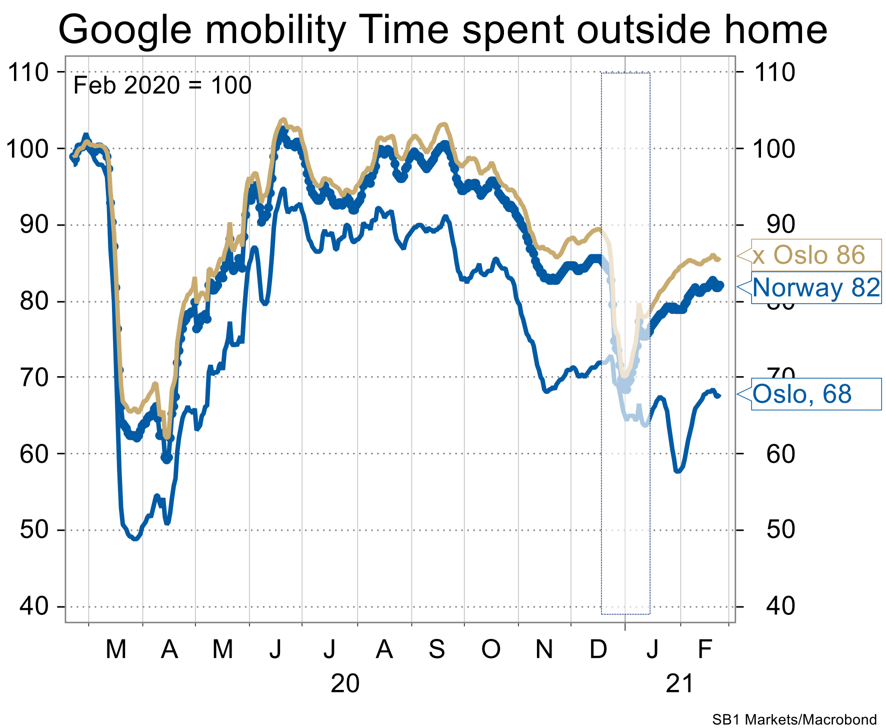
- UK, Ireland and Portugal are still staying more at home than others - but less than some weeks ago when the fight against the virus was more aggressive





Mobility on the way up again – and the 'R' is well above 1

Mobility is below the pre Xmas level but now the mutated viruses are rapidly gaining market share

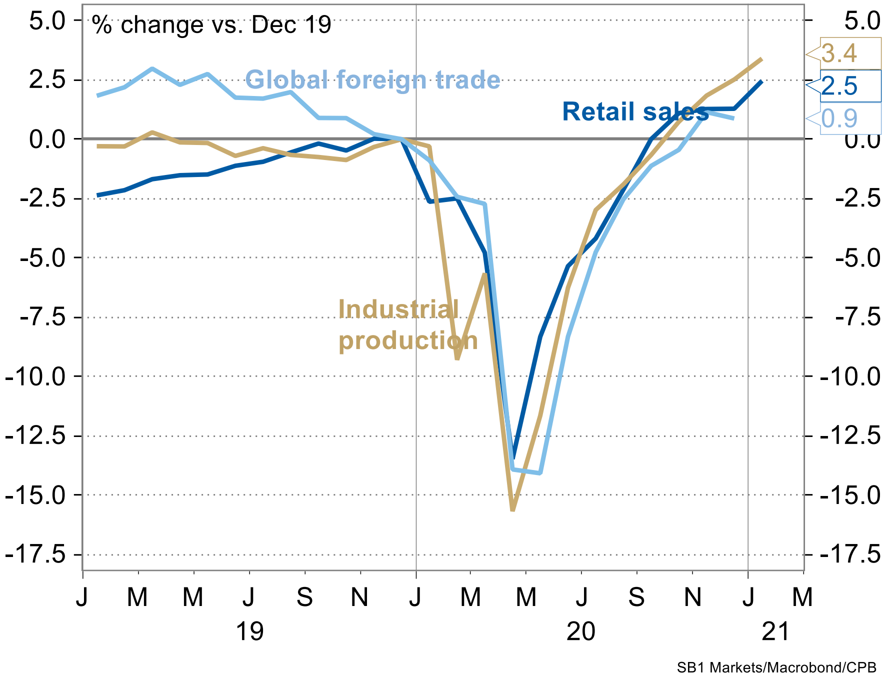


- Vaccinations are still running at very low levels, and as the mutated virus spreads rapidly, the observed R will increase further

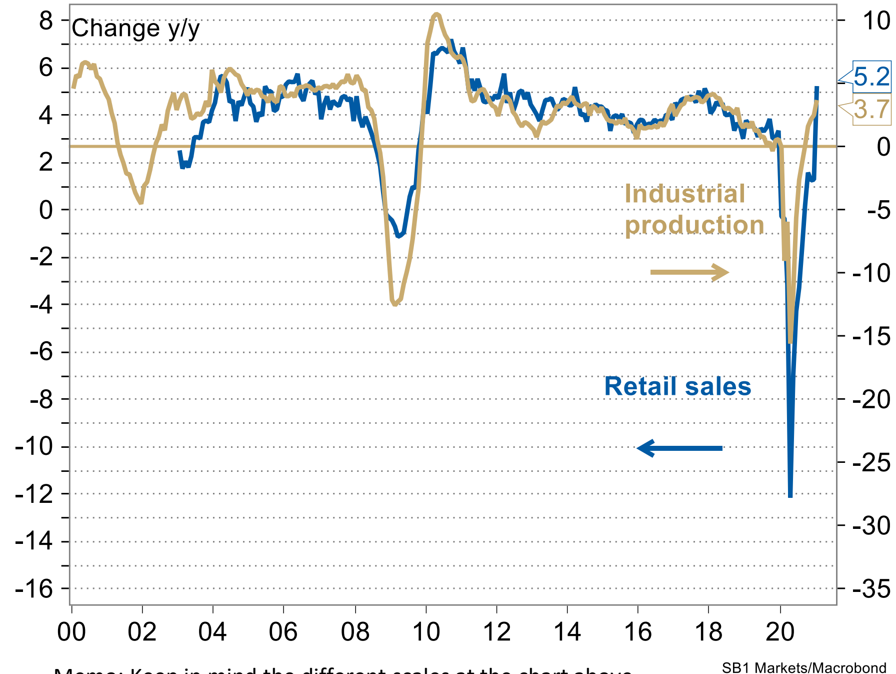
Both retail sales and industrial production up in January

Just few countries have reported Jan data but so far, so good

Global Retail sales, industrial prod. & trade



Global Retail sales & industrial production

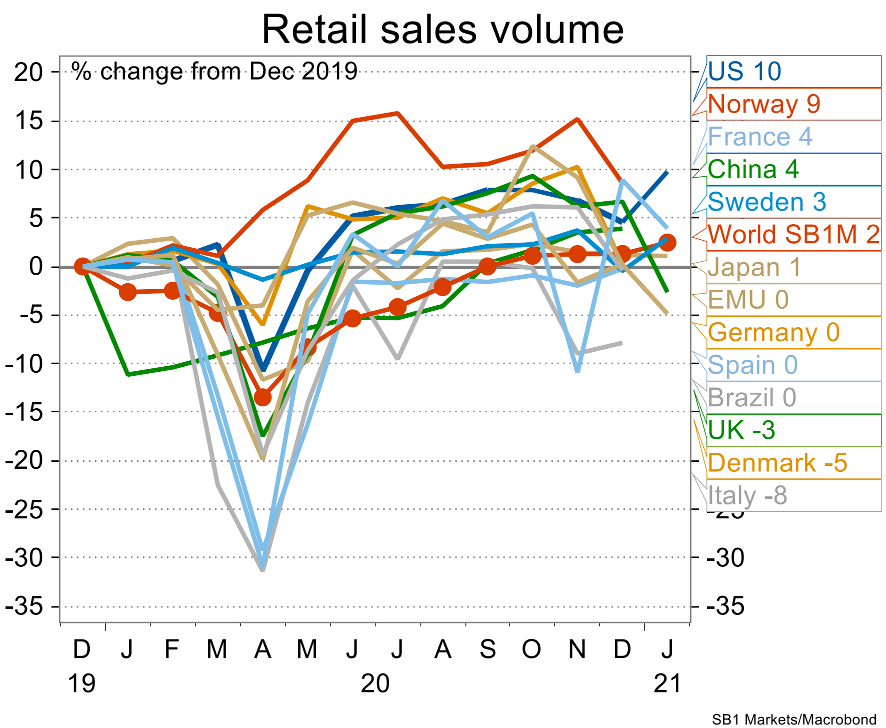


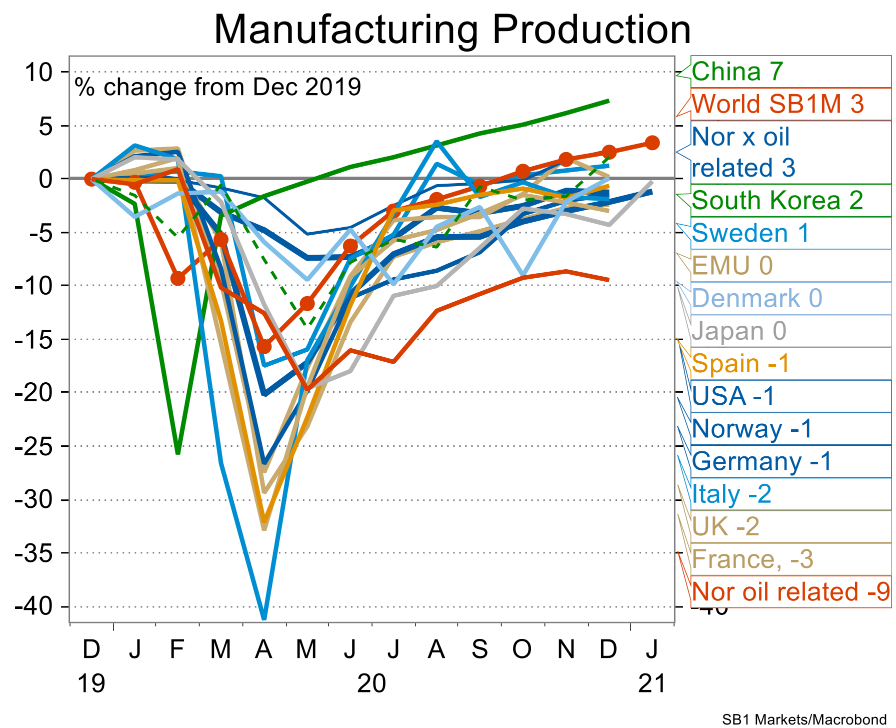
Memo: Keep in mind the different scales at the chart above

- **Retail sales** were flat in in Dec, following a small decline in Nov. Sales are 1% above the pre-corona level
- **Manufacturing production** probably climbed 1%, and is 2.6% above the pre-corona level, according to our estimates
- **Global foreign trade** rose 1.9% in November, and the level is 1.6% above the Dec-19 level – the gap is closed!!

Volatile retail trade data but the global trend is still upwards

Industrial production is still on a rapid way up too

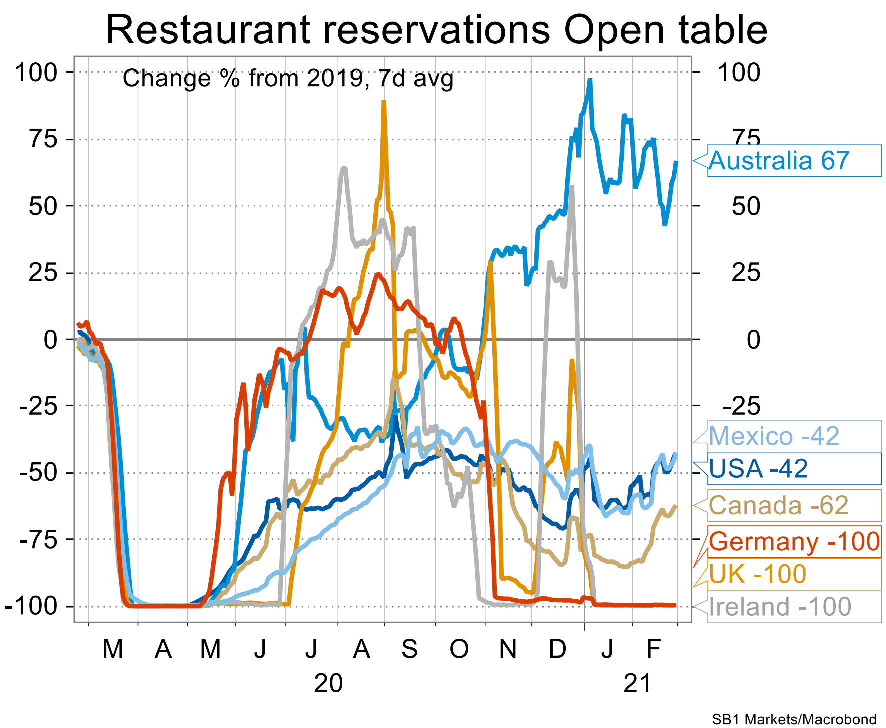


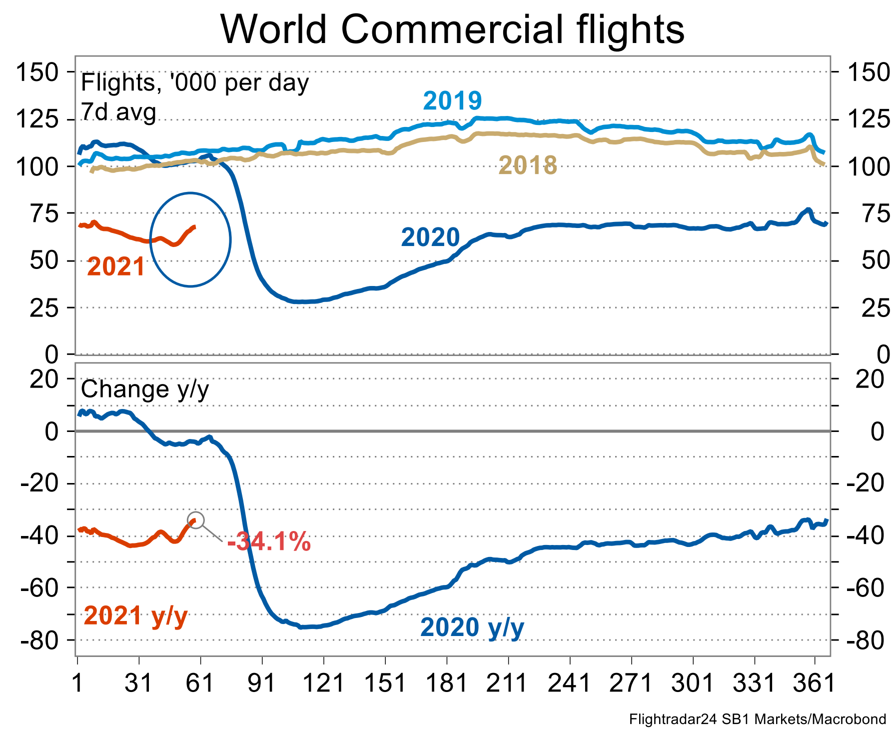


- Mixed retail sales in January: UK down 8%, US up 5% - but in sum most likely up
- We expect manufacturing production to climb further in January - the recovery is still intact

Airline traffic up last two weeks – just a coincident or something more?

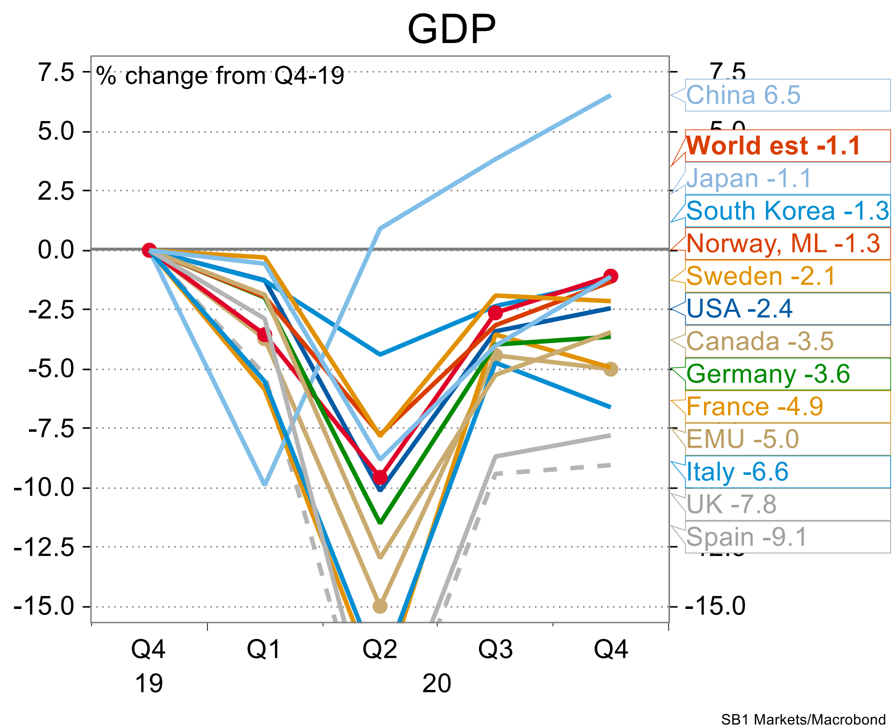
Looks like a significant change. In addition: Restaurants in the U.S. are gradually seeing more guests again

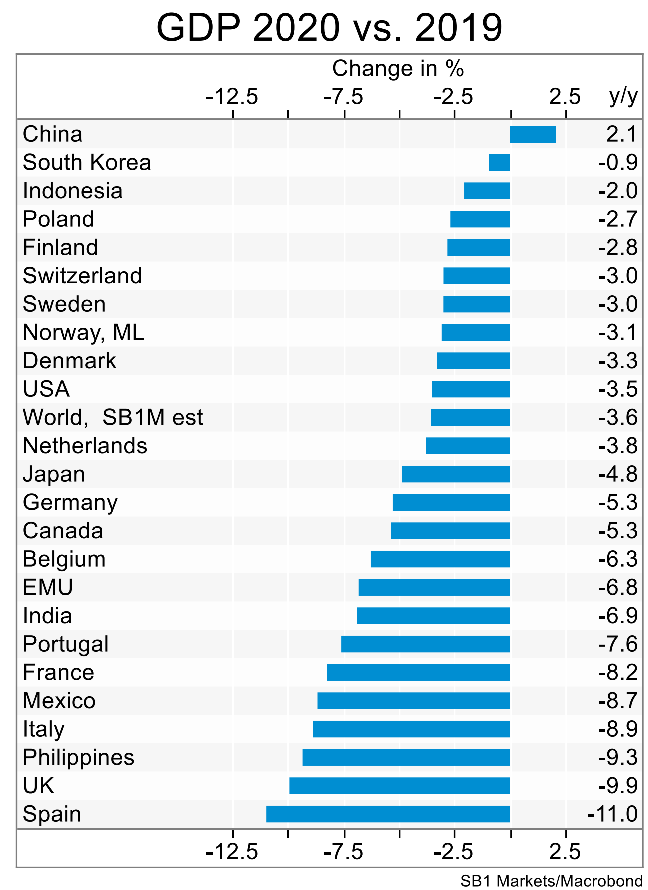




Growth slowed in Q4 but still grew above trend, at a 5%+ pace, 1.1% down y/y

GDP fell in EMU but most other countries/regions grew in Q4

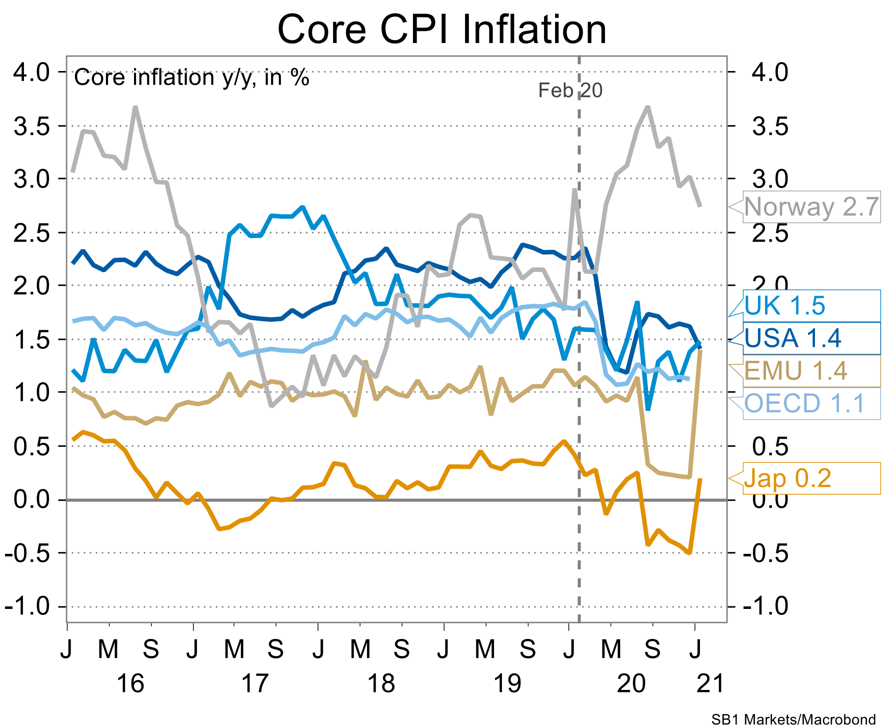


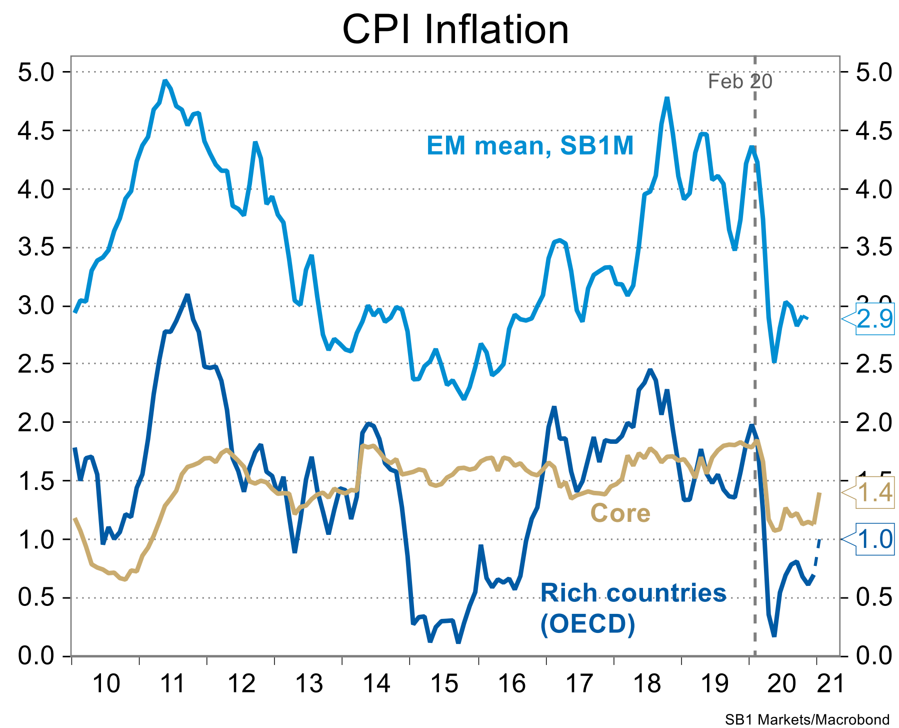


- We estimate that GDP grew by at least a 6% pace in Q4 – the double of underlying trend growth, leaving global GDP down 1.1% y/y. Last year GDP fell 3.6% (still an uncertain figure!)
  - » China & the US have reported decent Q4 growth, alongside some Asian countries, UK & Norway – and mot others. However, GDP fell in both France & Italy
- **In 2020,** China grew by 2.1%, all others down
- Sweden -3%, Norway (Mainland) -3.1% and US -3.5%
- EMU contracted almost 7%, UK by 10% and Spain by 11%. What a year…

Inflation has bottomed

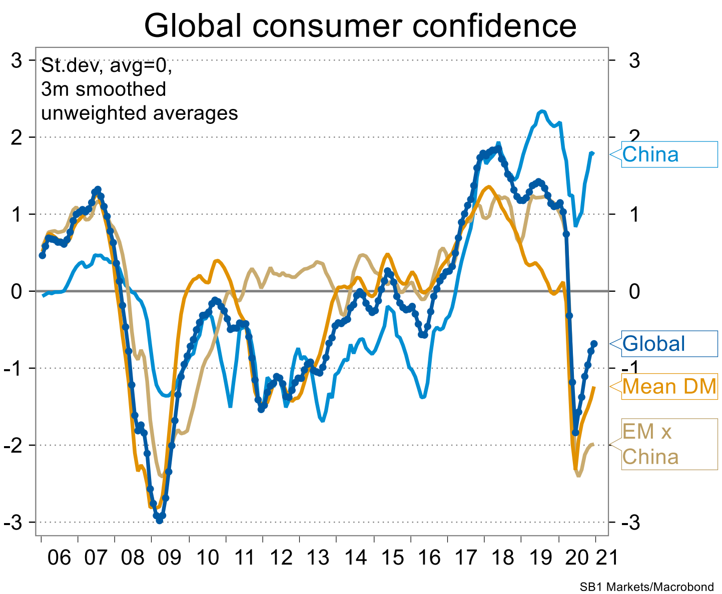
Inflation in the EMU shot up in Jan, and just not because of VAT hikes

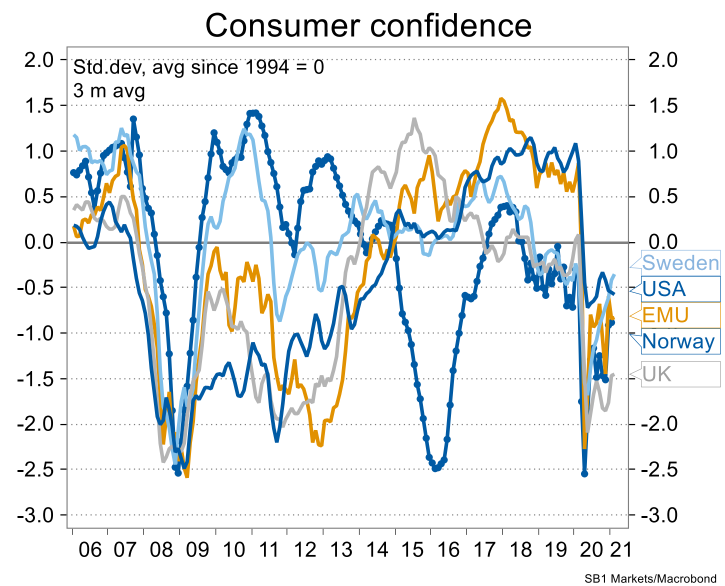


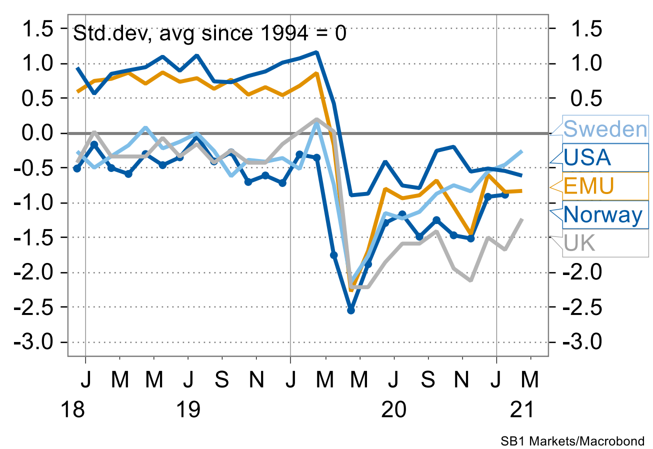


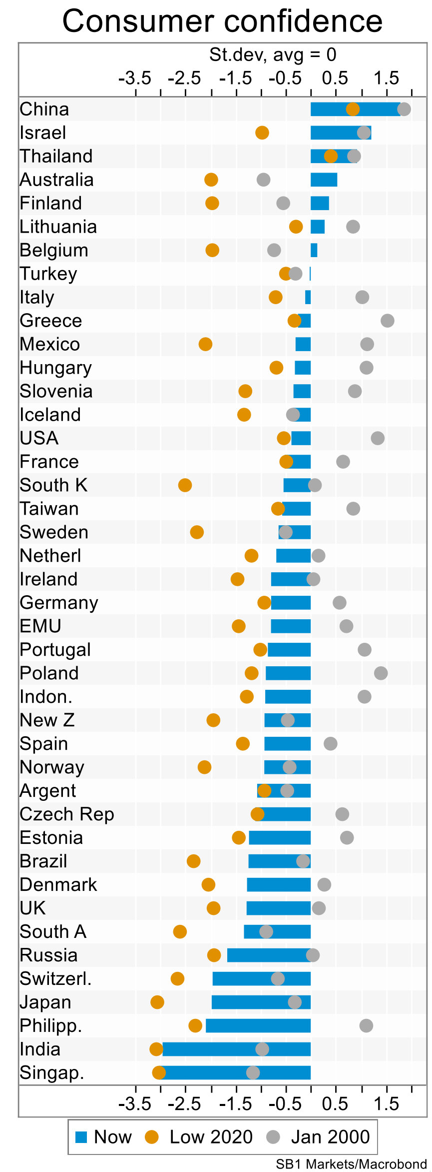
- The PMI also reports that the increase in raw material prices leads towards a lift in at least the headline inflation rate in the coming quarters

Consumer confidence is gradually recovering – but remains well below par





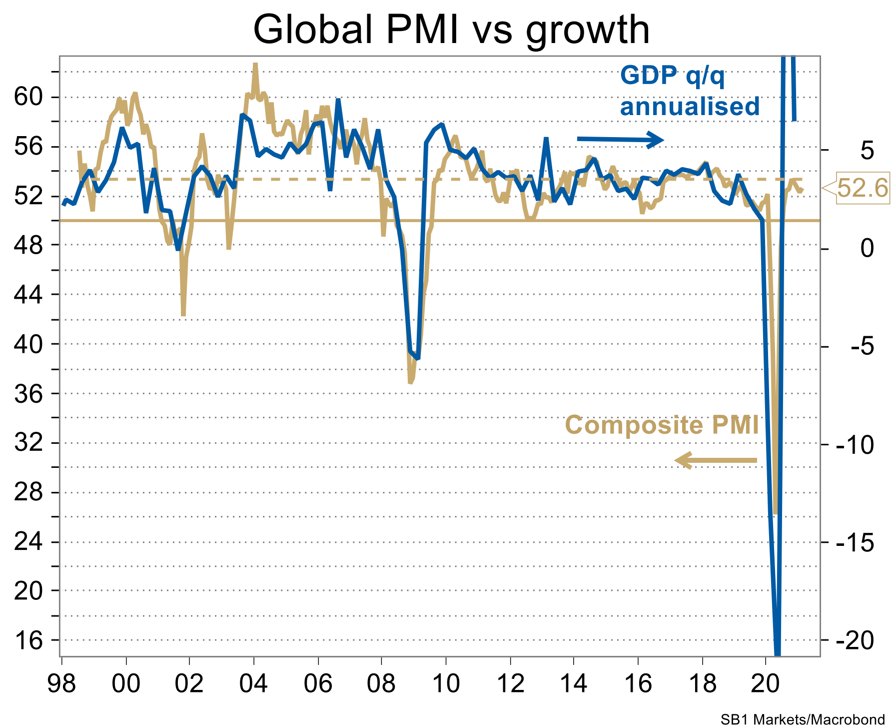


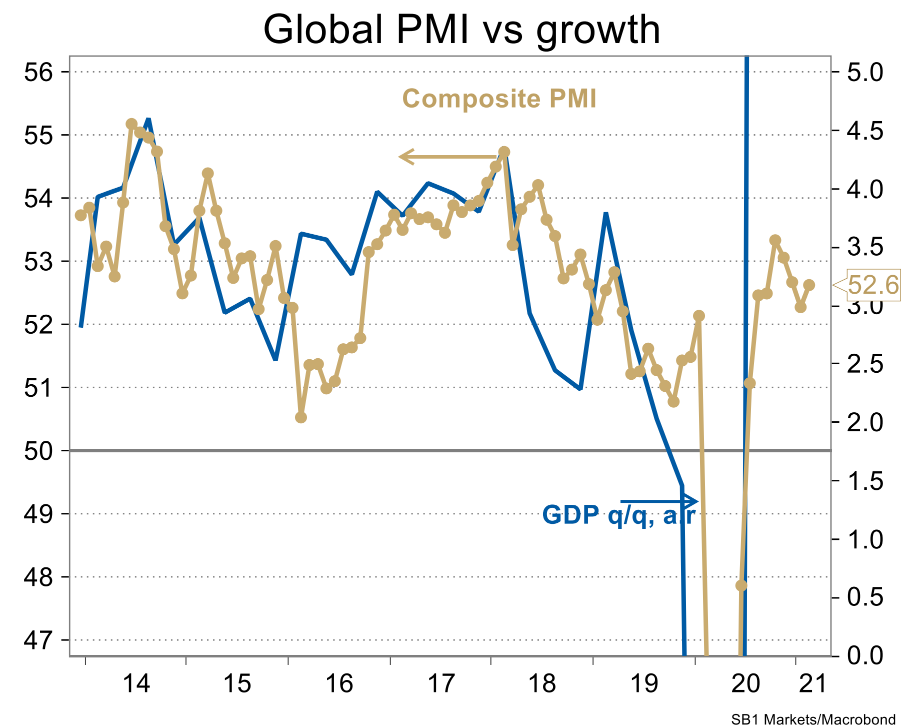


- In a large majority of countries, confidence is below par
- Barring a few countries, sentiment is above last year's low
- Sentiment is below the pre-pandemic level most places as well

The global composite PMI likely slightly up in February, broadly

We estimate a 0.3 – 0.4 p lift in the comp. PMI to 52.6, signalling growth close to trend





Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

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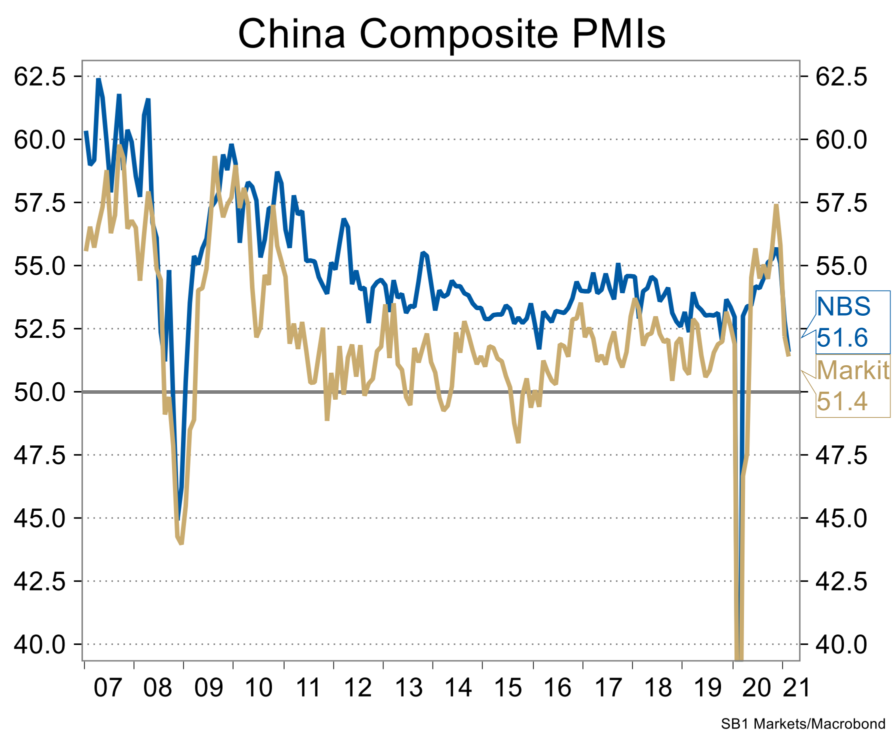
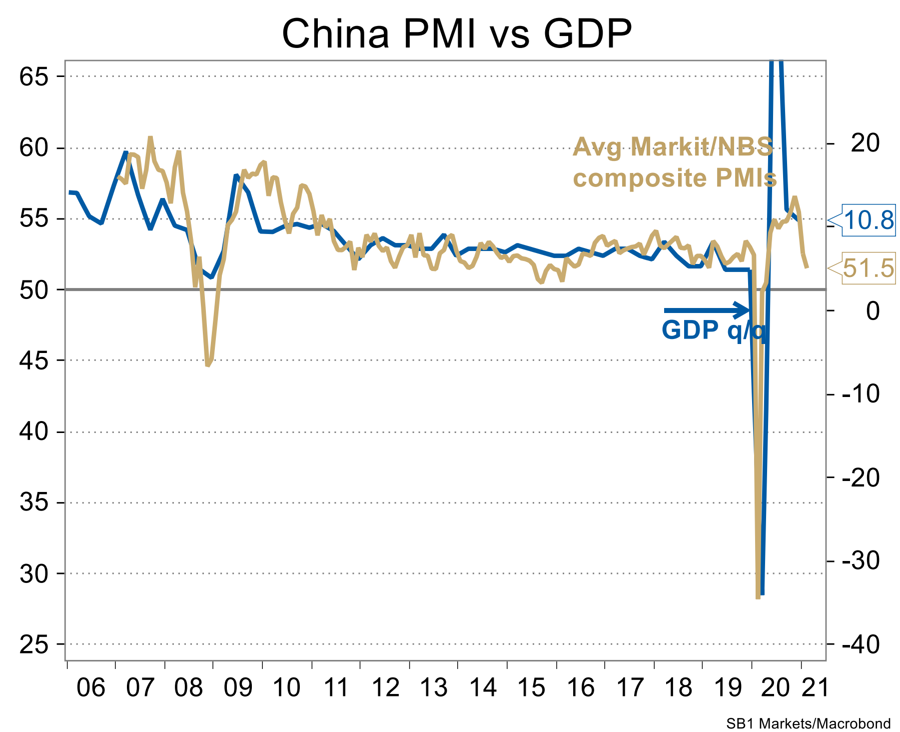
A further decline in PMIs in Feb, the Q2-Q4 recovery has run its course

The NBS composite PMI fell 1.2 p to 51.6, as both manuf. & services retreated. Markit manuf. -0.7 p

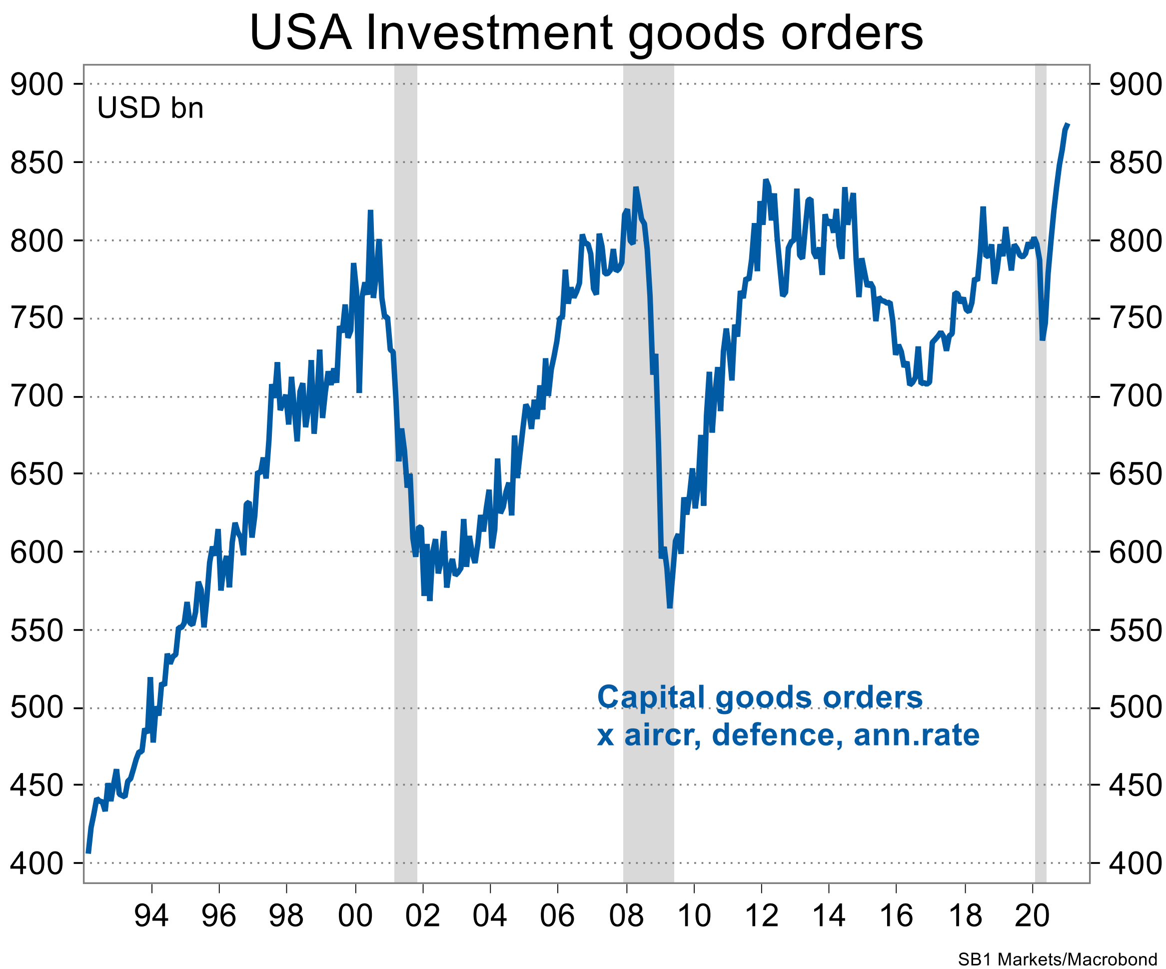




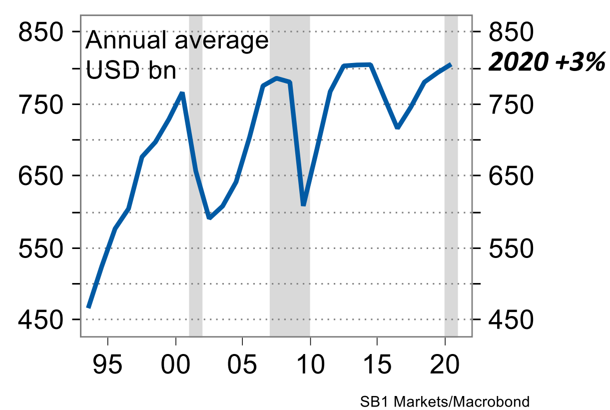
- The NBS manufacturing PMI fell by 0.7 p to 50.6, expected down 0.1 p. The service sector PMI fell by 1 p to 51.4
- Markit's manufacturing PMI declined by 0.7 pp to 50.9, expected down just 0.1 p.
  - » We assume Markits's services PMI fell at the same pace as in the NBS survey, and this estimate is included in the our forecast for the composite PMI index – a decline by 0.8 p to 51.2
- The average of the two composite PMIs fell to 51.5, which is 1 p below the 2012-2019 average
- The PMIs are signalling a 5 – 7% growth GDP growth rate, and that the sharp recovery Q2-Q4 has run its course
  - » Slower growth in exports explain some of the decline, but services are slowing more than exports

Investment orders: The most shallow & shortest downturn ever

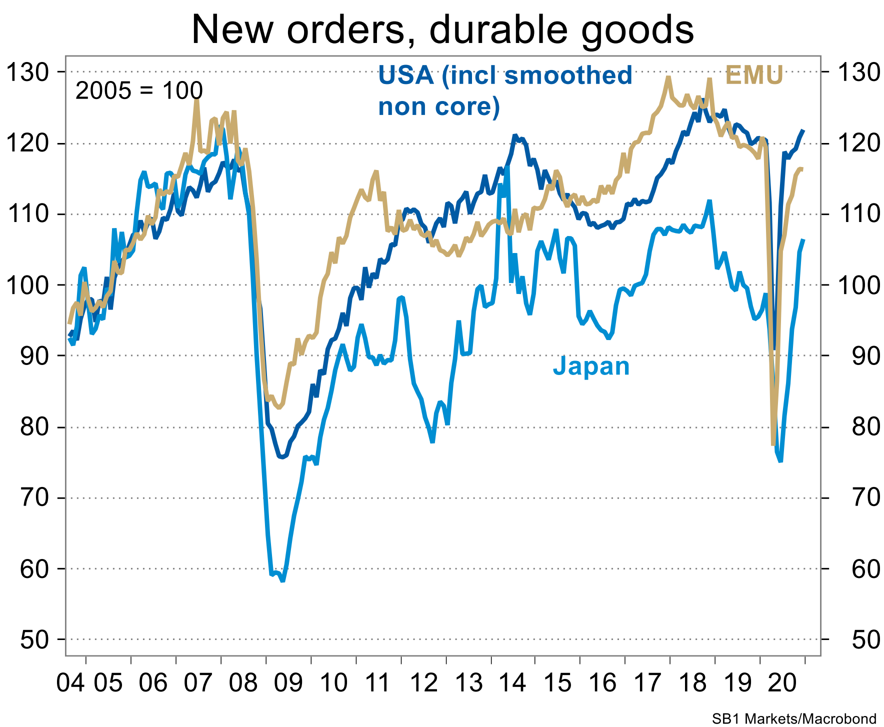
Can you spot if anything happened around 2020? Investment goods orders rose 3% from 2019

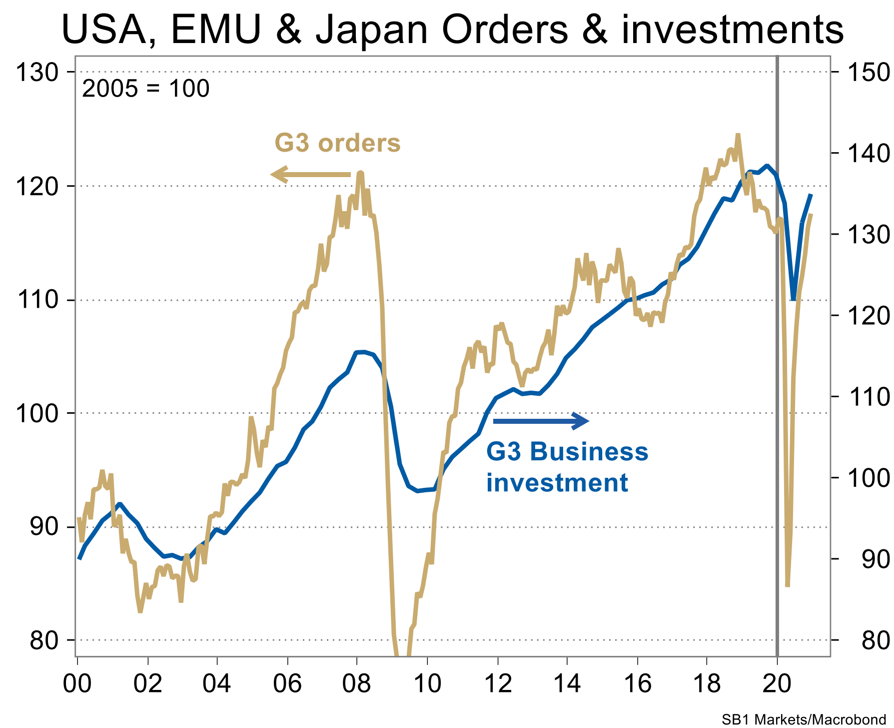


- The areas in the 'Vs' or 'Us' describe the aggregated losses during downturns
- Was the 'V' in the overall economy so sharp, that companies did not have time to react??
  » Usually, the decline in investment goods orders, as well as in actual business investments, are stretched out over time, typically one year or even more. Then it takes 1- 2 years to recover back up to the pre-recession level. Now, the decline lasted 2 months, and the recovery up to the pre-crisis level lasted just 3 months ☺



DM orders are back to a pre-corona level, investments nor far below

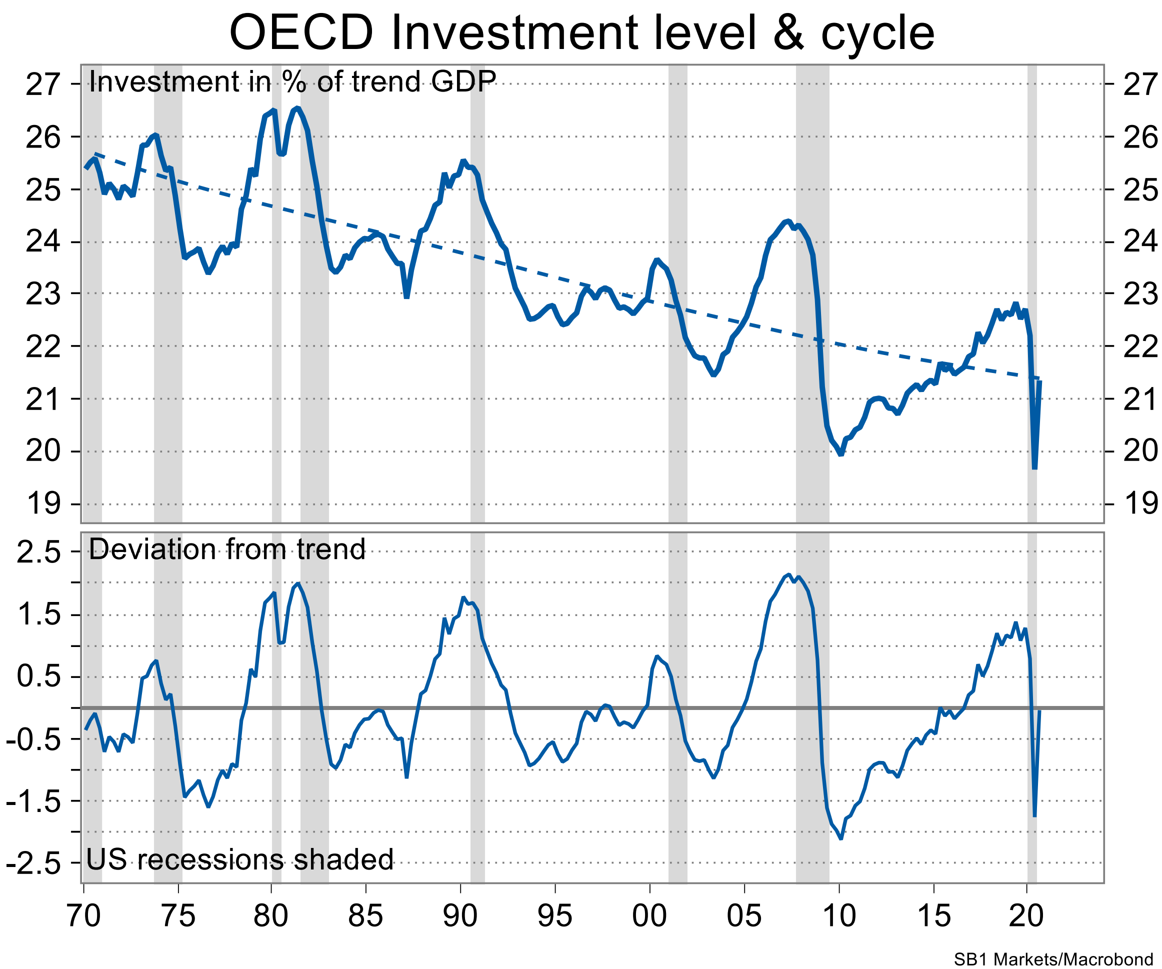




- Manufacturing order inflow were declining everywhere ahead of the corona crises. We assumed the cycle had matured, as profits were under pressure after the unemployment rate had reached the lowest level in decades and wage inflation had gained pace vs productivity, the investment levels were above long term trends, and the US trade wars had created uncertainty
- The decline in orders last March and April was unprecedented (over just two months) but so has the recover thereafter been too
- Business investments slowed pre-corona, fell marginally in Q4-19 and than sharply in Q1 and Q2-20. The recovery in Q3 was impressive, and investments rose further in Q4

The investment cycle: Back to trend in Q4?

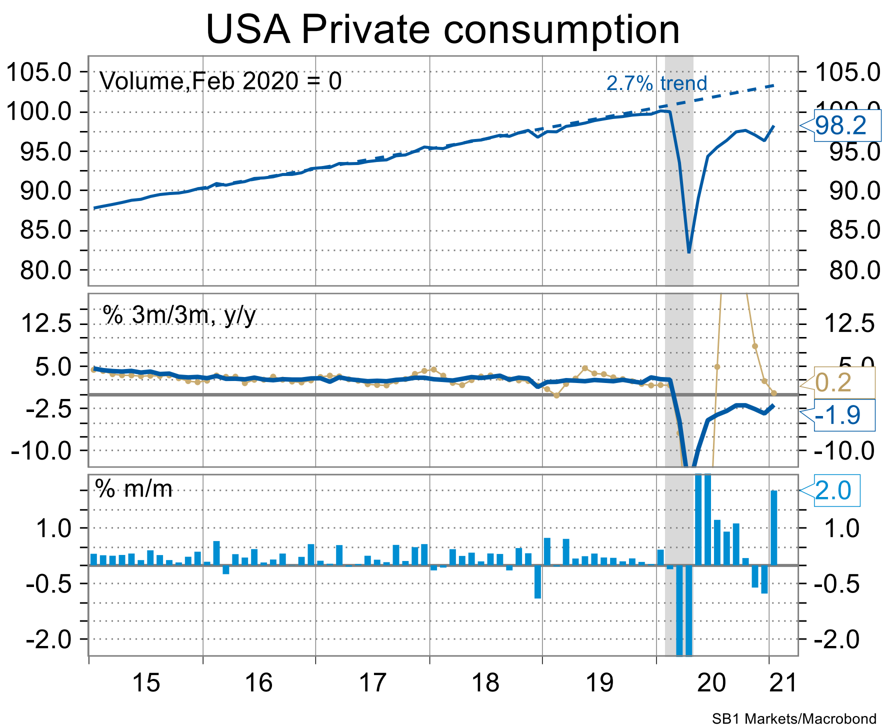
The most narrow 'V' we have ever seen, of course – the 'opening' is almost invisible

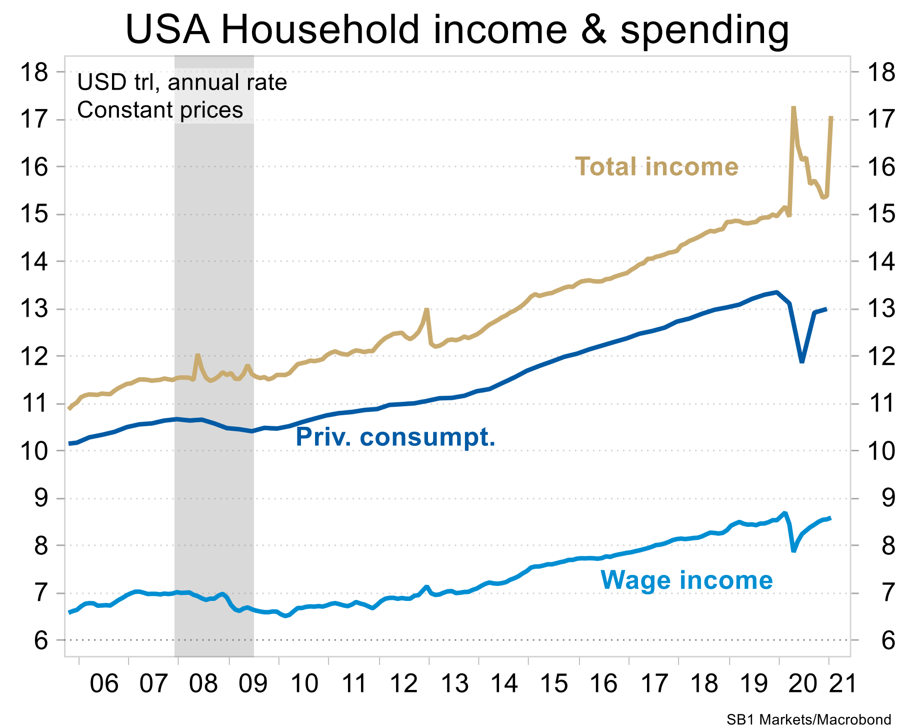


- Still some uncertainty of the Q4 figure, but our estimate should be in the ballpark

Consumption up 2%, disp. income up almost 10%, 80% of stimulus checks saved

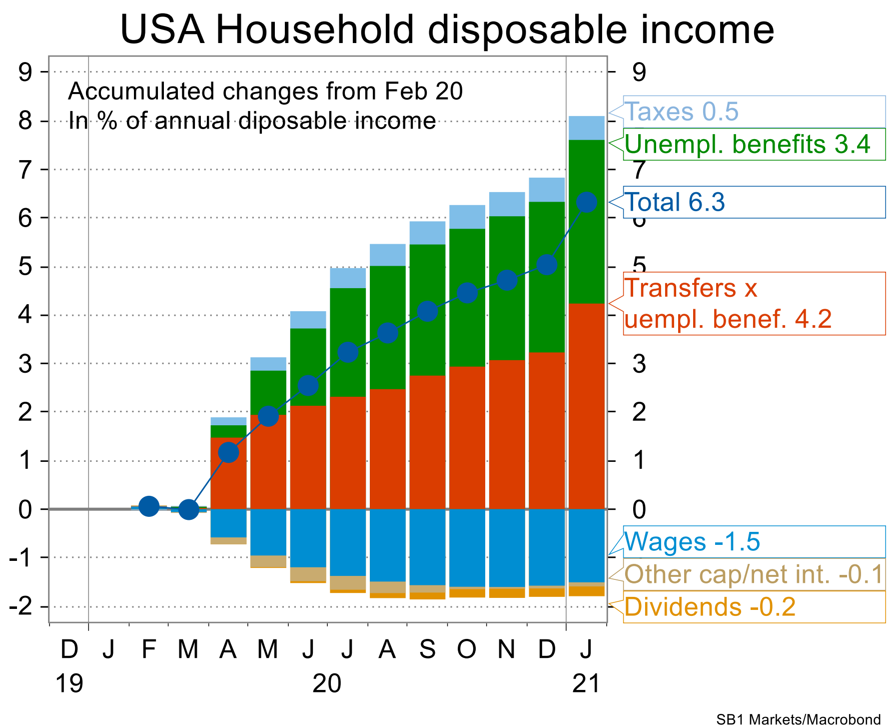
The wall of money is being built higher and higher – waiting to be spent?

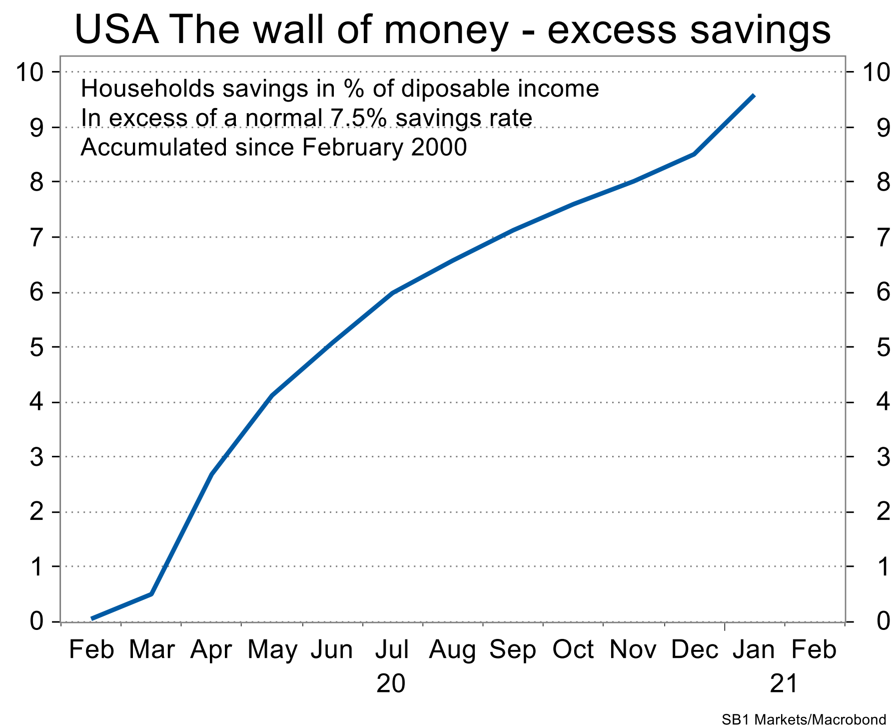




- **Private consumption rose by 2.0** % in real terms in Jan, more than reversing the decline in Nov & Dec. Consumption rose more than expected but is still down 1.8% from Feb last year (in real terms, -0.4% nominally)
- **Personal disposable real income** rose by 11% (in real terms), the 2nd larges increase, ever – mostly due to USD 600/person stimulus checks that were decided upon in Dec and paid out in Jan. In nominal terms, personal income (before taxes) rose 10%, as expected. The US Senate will now decide on the next corona relief bill, which includes a USD 1,400/person cash support, included in the 9% of GDP package. Very likely, it will be paid out in March – lifting household income by an unprecedented amount
- **The savings rate** got another boost in Dec, up to 20.5%, the 2nd highest ever. <u>If US households have an income problem due to the corona crisis, it is due to the distribution of change in income, definitively not the average change in income.</u>

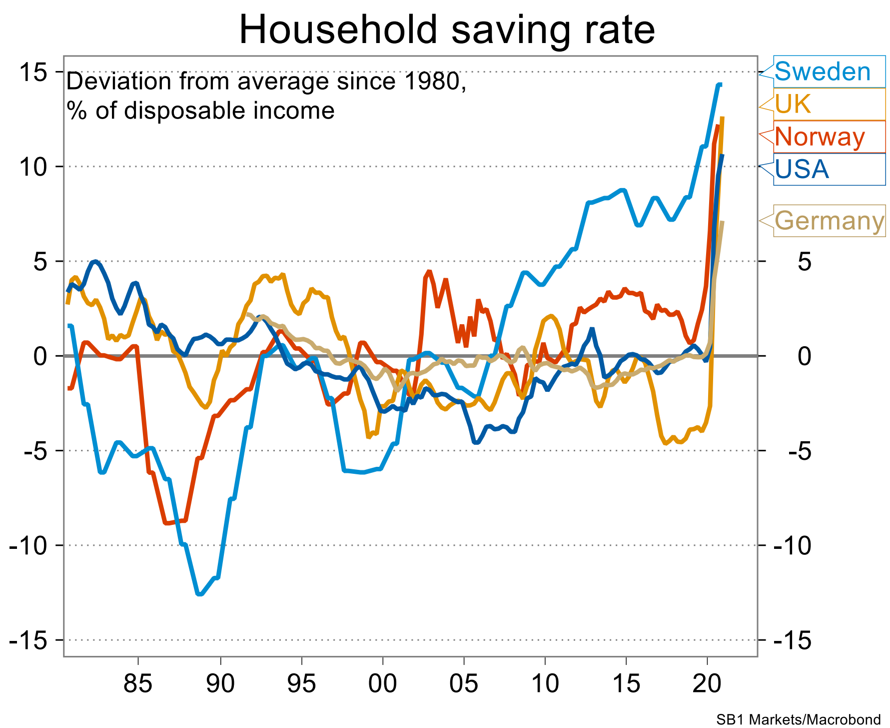
The wall of money: How it is built – and the hight





It is not just in America

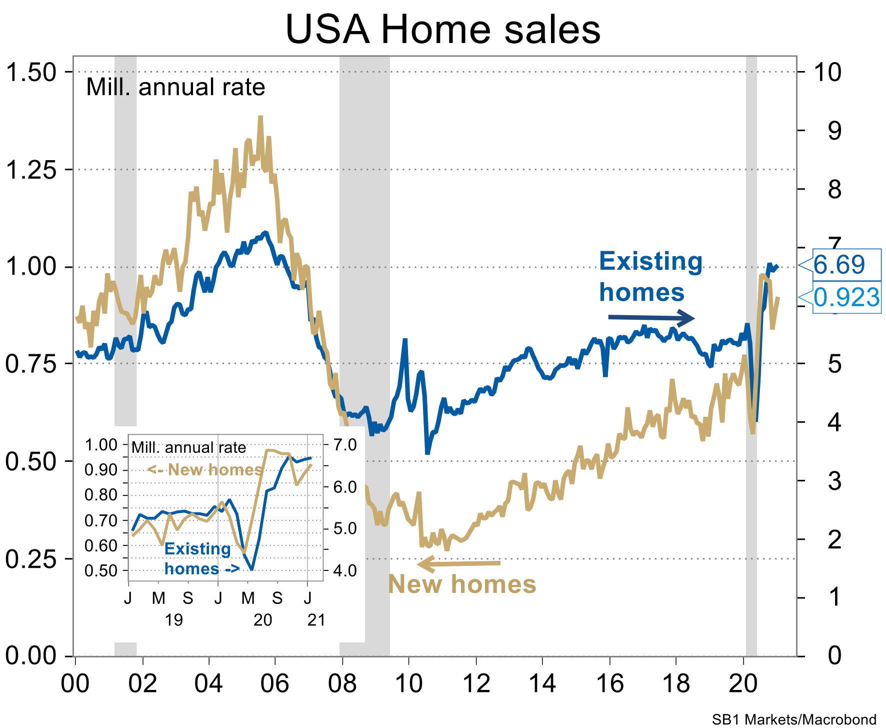
Household savings have soared almost everywhere as consumption of services have fallen sharply

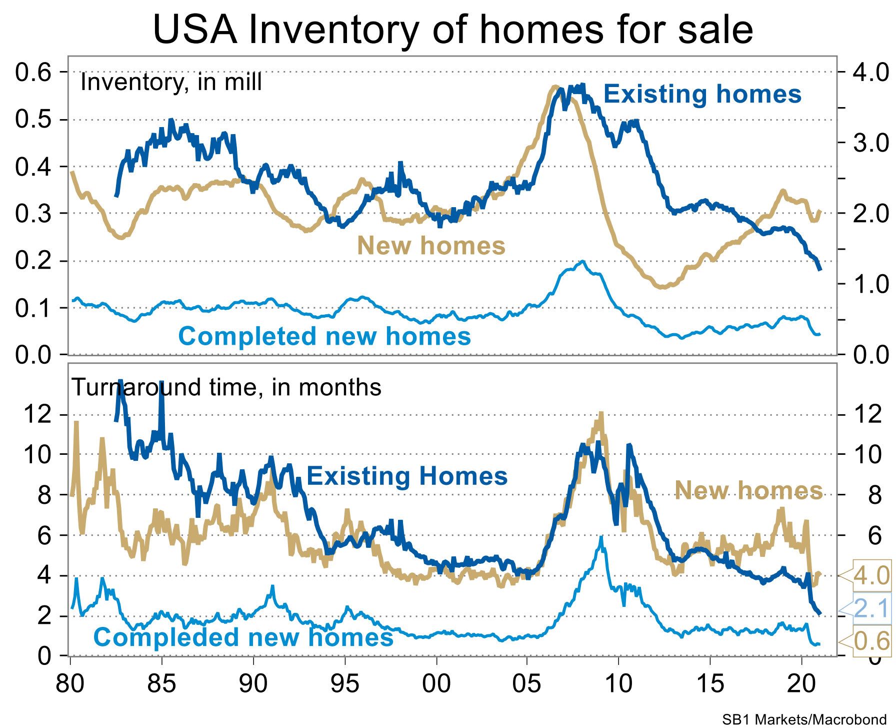


- We very much doubt these syncronised and unprecedented increases in savings are due to a monumental change in savings aspirations

New home sales up in Jan, almost 25% above the pre-pandemic level

The housing market is strong. The inventory of completed homes are at a very low level

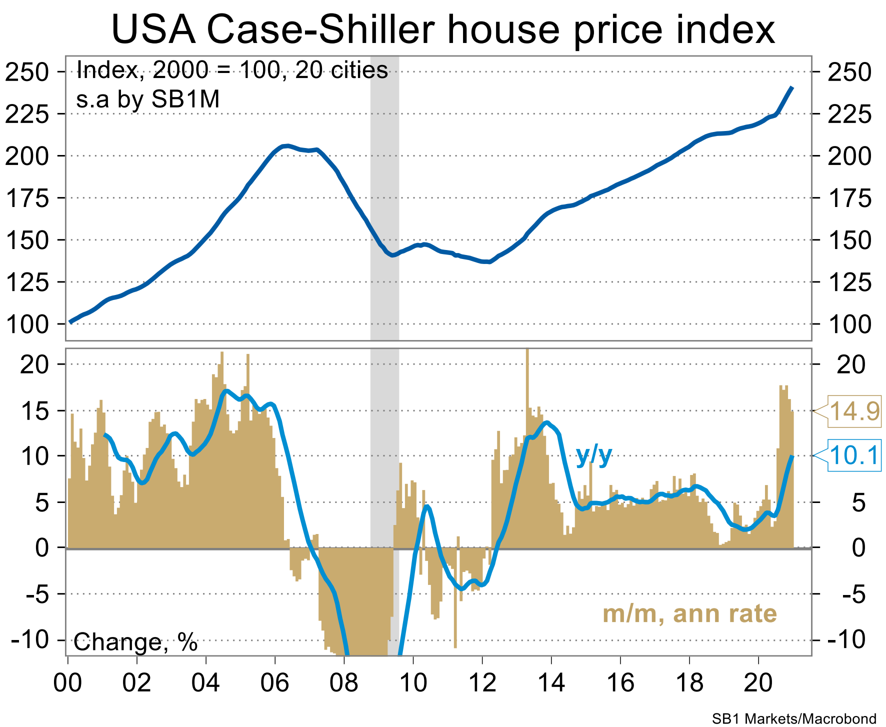


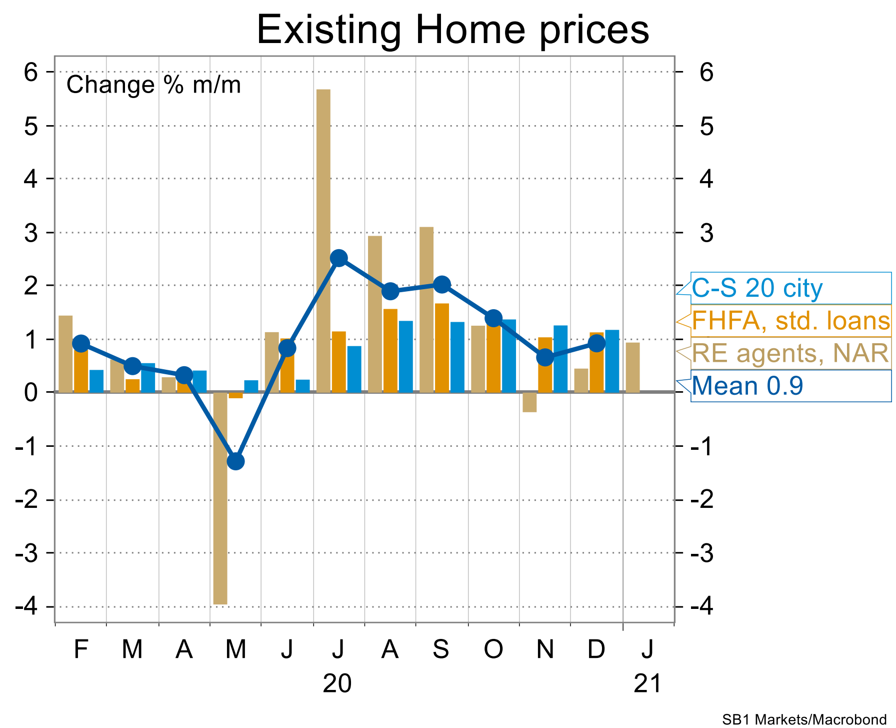


- **New home sales rose 38**' to ' 923' in January, expected 865' (and Dec was revised up by 40'). Sales are somewhat lower than in Aug – Oct last year but still at a high level – and far above the 2019 level. Few unsold completed homes at the market may dampen sales
- The **inventory of unsold new homes** rose somewhat as more projects were added to the sales list (buildings not yet started), while the no. of <u>unsold completed homes</u> was close to unch. at the lowest level ever, both the actual as well vs. sales of new homes
  - » Sales of **existing homes** have also flattened recently, at an unusually high level – while the inventory of unsold existing homes are far below anything seen before. Pending home sales fell in January, signaling a decline in existing home sales (the transaction) in February
- During the buildup of the housing bubble up to early 2006, both new and existing home inventories rose sharply, in fact all the way from 2001 – and sharply from 2004/2005. **We are clearly not there now, even if existing home prices are skyrocketing! New home prices are up 6.2%**

House price inflation is probably slowing, but very slowly

C-S prices up 15% m/m (a.r) in Dec, slightly down vs prev. months



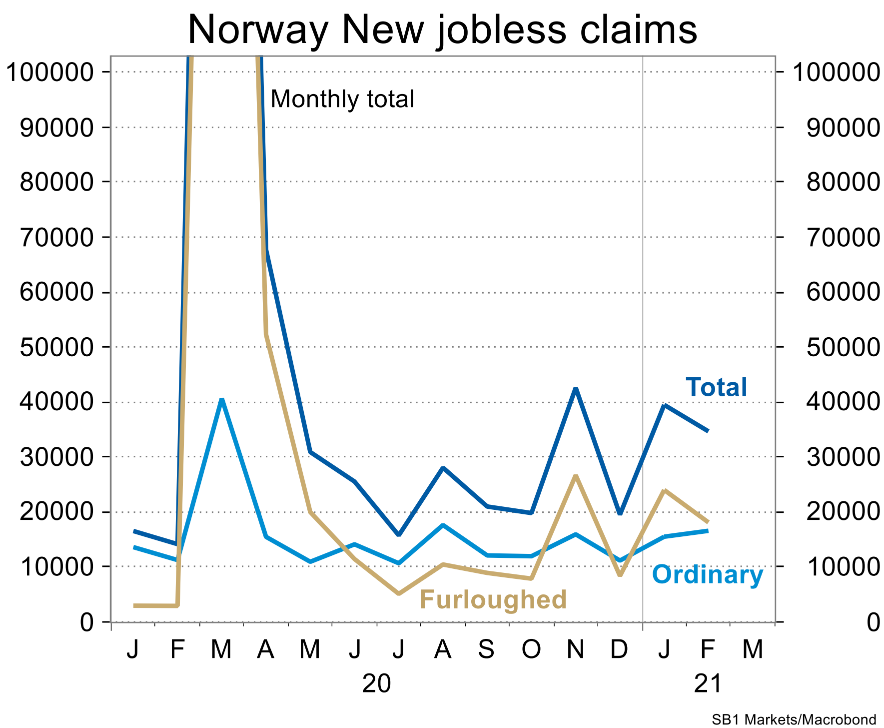


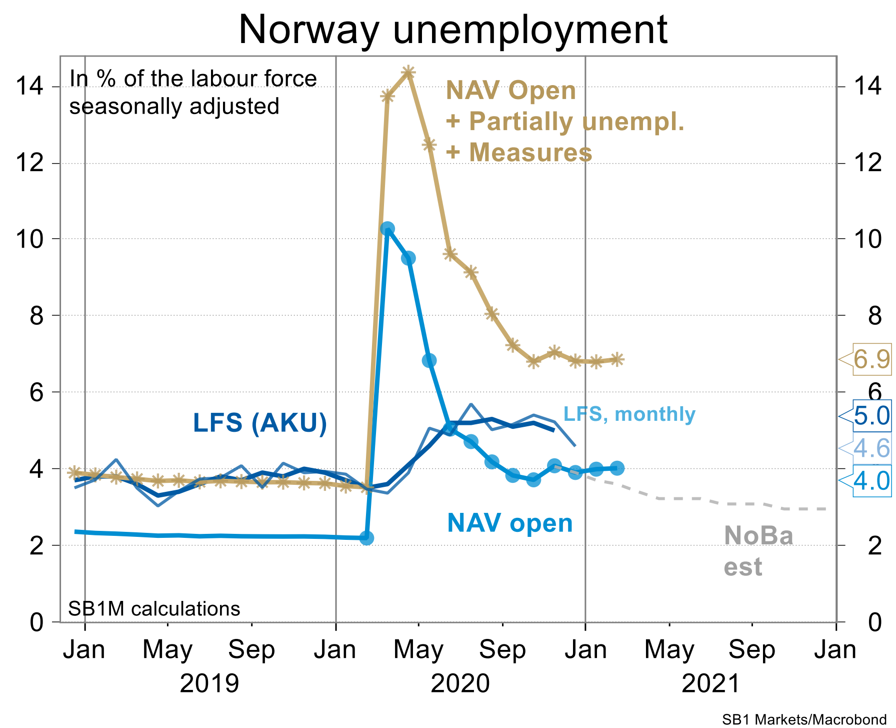
- S&P's Case/Shiller's price index rose 1.2% m/m in Dec (3 m moving avg), marginally slower than over the previous 3 months. The 5-month pace at 17% is just marginally below the ATHs in 2004 and 2005. A corona crisis was just what the housing market needed, at least was the decline in mortgage rates appreciated
  - » The annual growth rate climbed by 1 pp to 10.1%, expected to 9.9%. The miss is far smaller than during the previous 5 months; consensus has been totally off the mark, the rapid price inflation has been unexpected, even if realtors have been reporting rapid price growth since June
- Other price indices have also reporting a sharp increase from July onwards. In Dec the 'official' FHFA index rose by 1.1%

SpareBank 1 MARKETS

NAV unemployment stable in Feb, flat since Oct – but 0.4 pp above NoBa's f'cast

... even if 2% more than normal of the labour force has turned up at NAV past 4 months

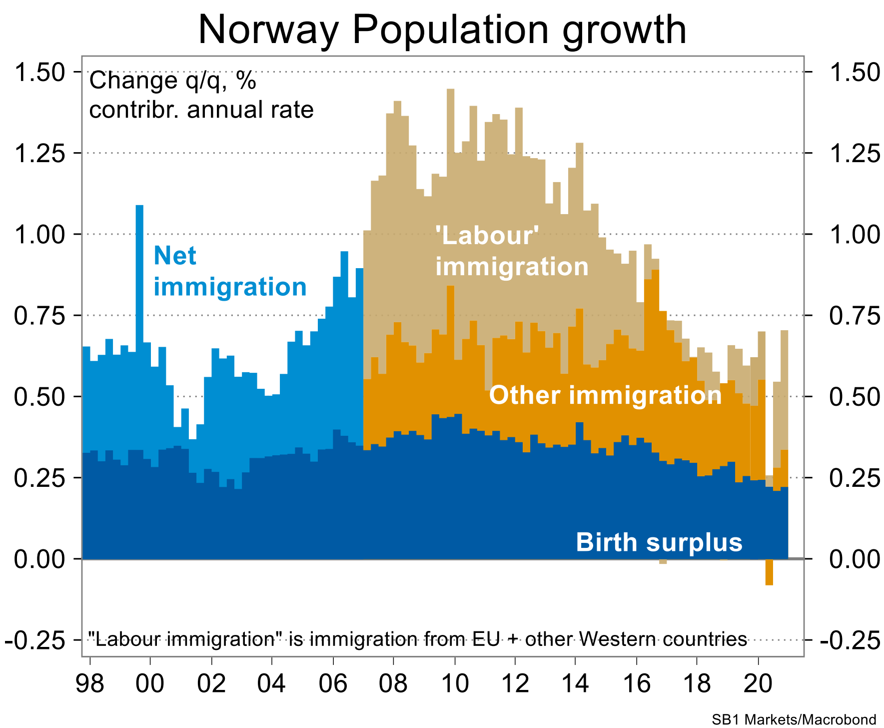


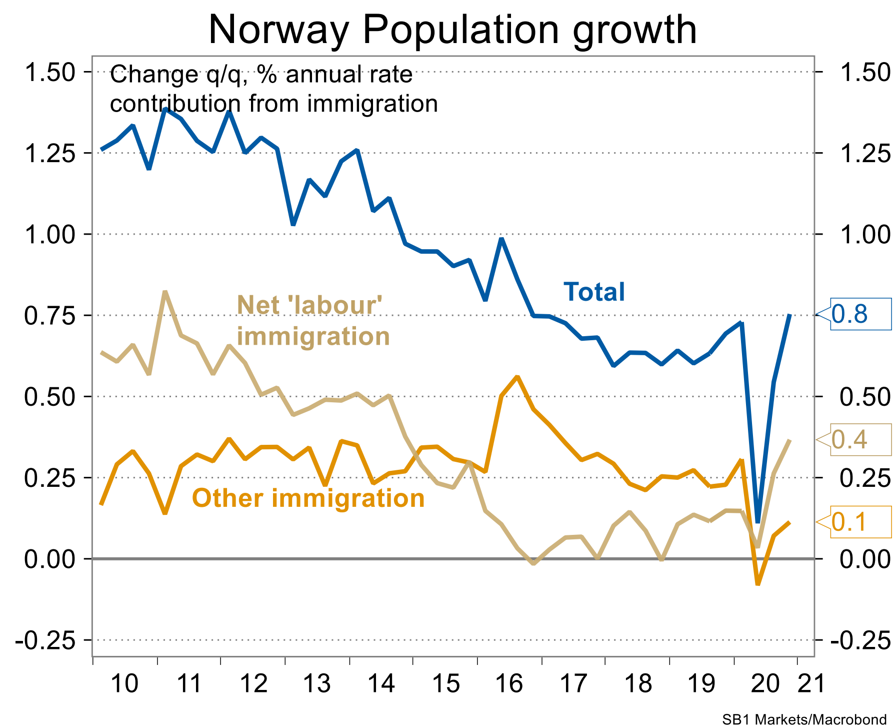


- **Open '<u>full time</u>' NAV unemployment**, which includes furloughed workers rose by 0.8' persons to 113.9' in February, we expected +3' (seas adj). The rate was unch at 4.0%, *<u>still 0.4 pp above NoBa's f'cast in the Dec MPR, the 'cost' of recent corona restrictions</u>*. Unempl. Is up 11' persons since October, or 0.3%. Including labour market measures total unemployment equalled 128.5, or up just 0.3' persons. (all data seas. adjusted)
- The number of **partially unemployed** rose by 1.5' to 66, leaving the grand total at 194', equalling 6.9% of the labour force. Before the corona crisis, this unemployment rate was at 3.8%. Since October, the number of partially unemployed has <u>fallen</u> by 9' persons. Thus the increase in total unemployment since October is just 2' persons
- Since November, 55' persons more than normal have **applied for claims** (above a 20' per month normal inflow these 4 months, data not seas. adj). This increase is no doubt due to the stricter corona restrictions imposed in early Nov, and then further in early & late Jan. <u>However, this substantial extra inflow has not materialised in a measurable increase in the no. of unemployed</u>

More labour immigration in Q4 – due to less x-border travel?

We did not expect more net immigration from Europe+. Will it last? Most likely not

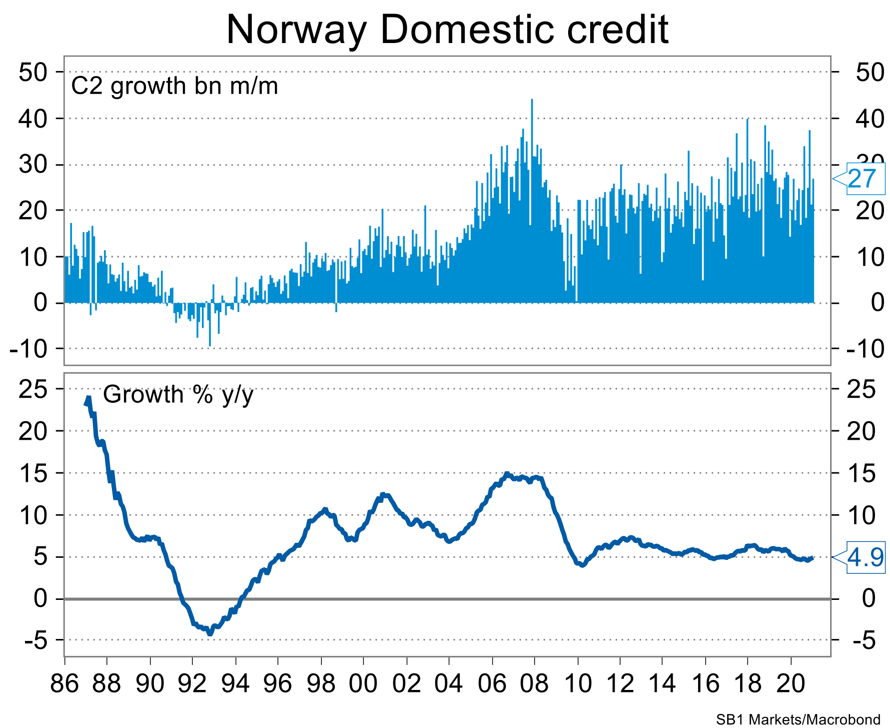


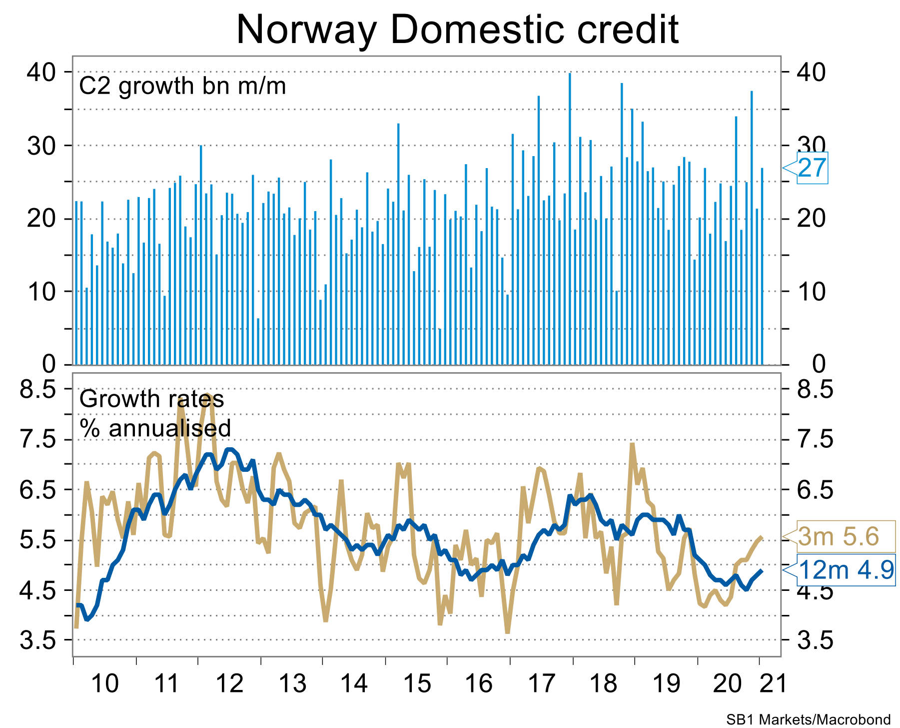


- Total population grew by just 23’ persons last year, the slowest growth almost 20 years – equalling 0.4%
  - » The birth surplus is steadily declining, and immigration fell to a low level, both for labour immigrants and other immigration
- However, in Q4, and partly in Q3, labour immigration has been quite high. Have more foreign workers chosen ‘to stay’, instead of travelling back and forth?
  - » Thus, population growth was rather strong in Q4, at a 0.8% annualised pace

Credit growth is slowly accelerating but no boom to be seen

Total domestic credit growth (C2) accelerated by 0.1 pp to 4.9%, as we expected – due to corporate borrowing

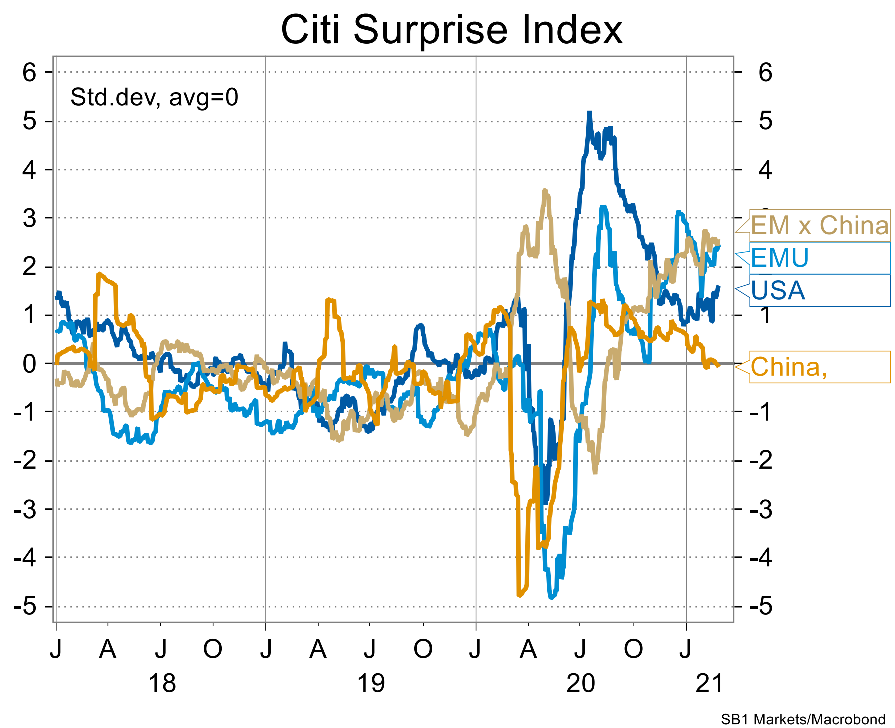


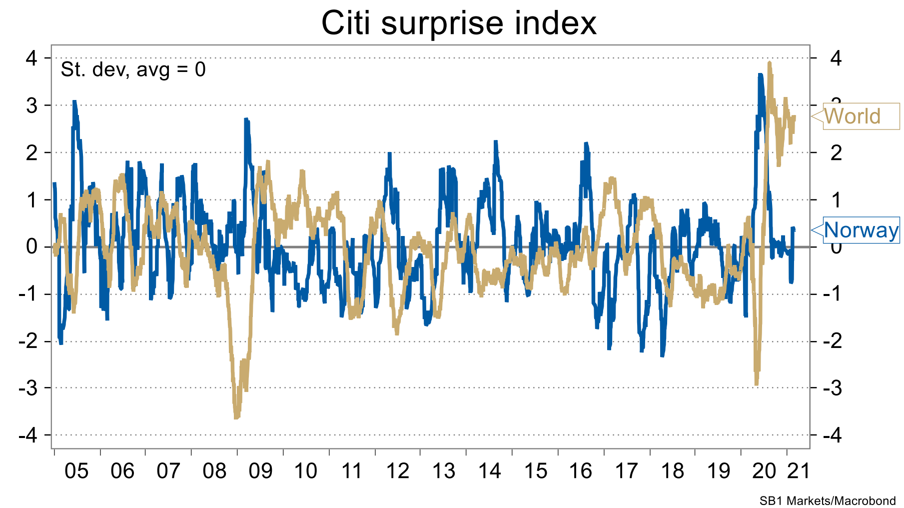


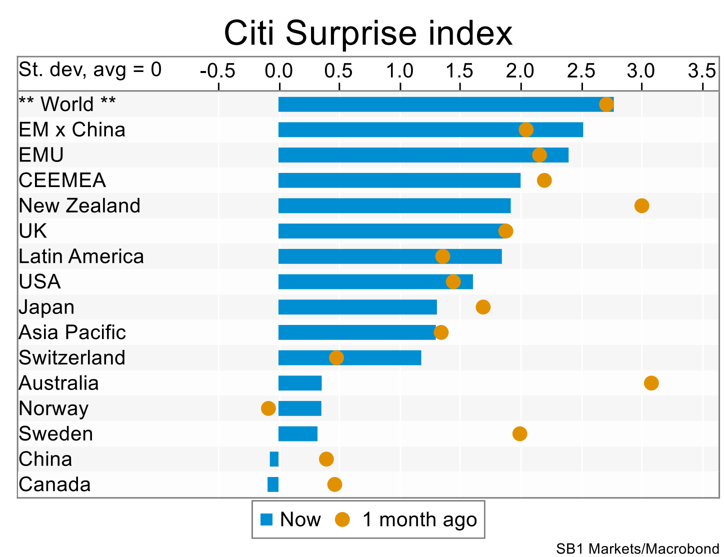
- **Total domestic debt** (C2) rose by NOK 27 bn in Jan, up from 20 bn in Dec, we expected NOK 26 bn. The annual growth rate climbed another 0.1 pp to 4.9%, in line with NoBa's est. <u>We are not witnessing a full scale credit boom, even if growth is accelerating slowly</u>
- **Household credit** rose by NOK 16 bn in Jan following the soft 12 bn in Nov, we expected 18 bn. The annual rate was unch at 4.9%. The underlying rate is slightly above 5%, somewhat higher than a reasonable estimate of long term nominal income growth
- **Corporate C2 credit**, rose by NOK 10 bn (up from 4 bn), twice as much as we expected. The annual growth rate accelerated to 4.2% from 3.7%. **Mainland corporations** increased their debt by 4.1% y/y vs Norges Bank's 3.2% forecast

SpareBank 1 MARKETS

Surprises are still on the upside, now even in Norway (and everywhere)





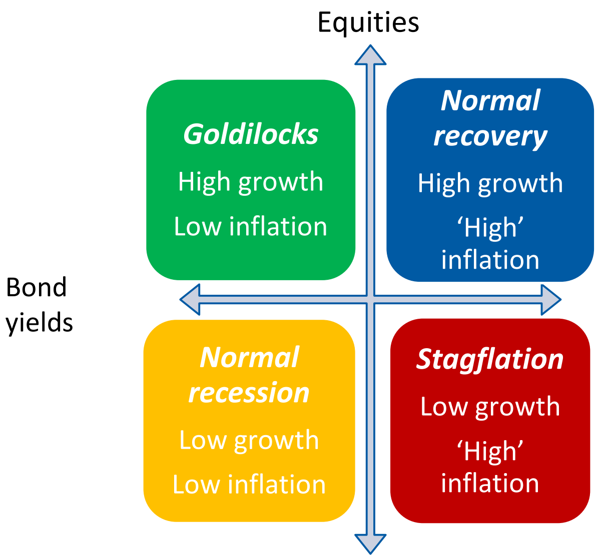


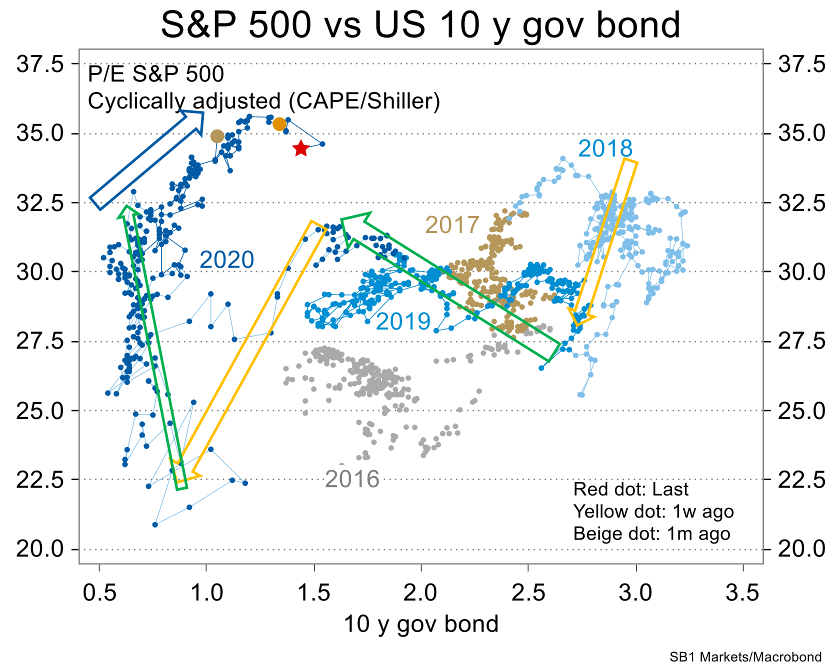
- **Almost all major countries/regions** are reporting data above expectations, except China
- The **Euro Zone** is still far up on the list, even if the economy has slowed. Expectations have been adjusted
- The **US** is well into positive territory too
- **Other EMs (x China)** are at the top of the list , well above their average level, and are on the way up
- **Norway** and **Sweden** close to the bottom

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

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

Towards the ‘bad’ stagflation corner last week/month – without any stagflation in sight. But rates were too low

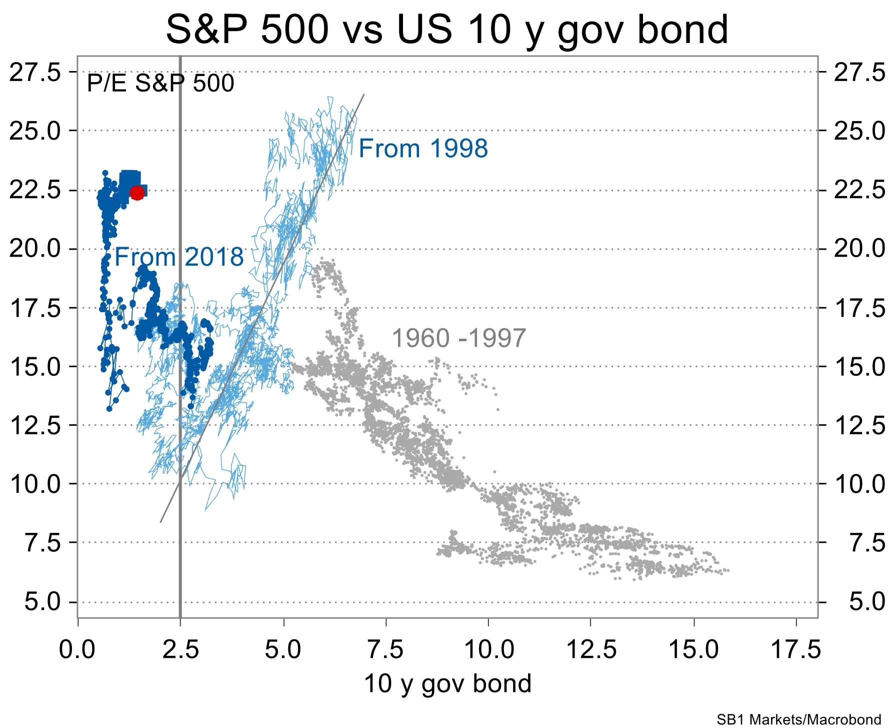


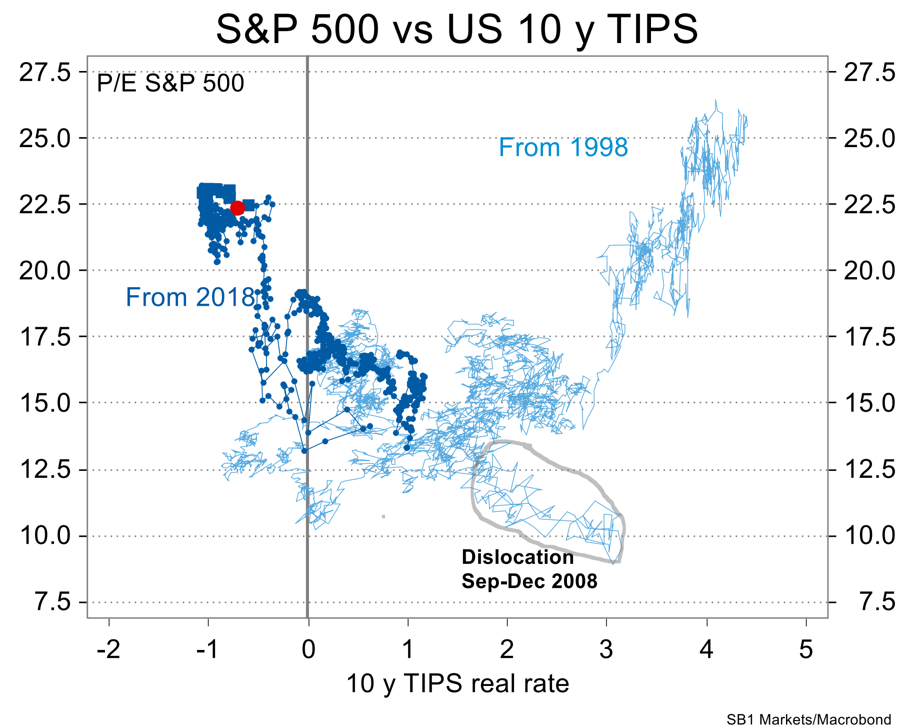


- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- Fed’s Powell last week reiterated that the bank will not hike its signal rate before the economy has recovered, unemployment brought down, and inflation has increased to above 2% and was expected to remain above 2% for a while – in order to boost growth and reduce inequality (by pushing wages higher). This is looking more like a normal ‘Recovery’ scenario, as interest rates at one stage most likely will have to normalise, and few believe the current rates are normal, at least not in the US. Then, interest rate expectations will trend higher – which they have been doing since last August
- Normally, a recovery trade (into the blue corner) should not be a big problem for the equity market. Yields are rising because growth in nominal incomes strengthen (both real growth & inflation)
- However, since H2 2018 bond yields have fallen, and the equity market has gained – and markets moved well into the ‘green corner’, as growth expectation have not fallen together with lower yields, as have been the norm, at least since 1998 (in the US), at least partly due to aggressive central bank actions
- Now, vaccines are underway, and fiscal policy is ‘running crazy’ (4+9% of GDP in budget stimulus), and the full scale economic recovery Powell stressed he was waiting for may come far earlier than the bank (understandingly) feared. The equity market has probably long time ago discounted a rapid recovery – without having to take into account the normalisation of interest rates, which is now taking place
- Suddenly, there are alternatives (sorry, Tina) for investors, even if yields still are way below reasonable growth expectations. Probably the best to hope, is unchanged equity market pricing (P/E-wise), but growing earnings will yield moderate returns as yields increase. The alternative is ‘normal multiples’ and ‘normal’ rates. Which is not a 22x 12m fwd P/E, or a 35x Shiller P/E – and not a 10 y bond rate at 1.4% - or even less a -0.7% 10 real TIPS bond yield

A longer term view: Equities vs bonds

Back to where we came from? A 2.5% nominal & and a zero real yield will still be unusually low





The Calendar

Global PMI/ISM. Auto sales. US labour market. EMU retail sales. Norw. retail sales, house prices

Time	Count.	Indicator	Period	Forecast	Prior
Monday Mar 1					
08:00	**NO**	**Retail Sales**	**Jan**	**(1%)**	**-5.7%**
08:00	NO	Hotel guest nights	Dec		
08:30	SW	PMI Manufactring	Feb		62.4
10:00	NO	PMI Manufactring	Feb	(52.0)	51.8
10:00	EC	PMI Manufactring	Feb F	57.7	57.7
10:30	UK	PMI Manufactring	Feb F	54.9	54.9
15:45	US	PMI Manufactring	Feb F	58.5	58.5
16:00	US	Construction Spending MoM	Jan	0.7%	1.0%
16:00	**US**	**ISM Manufacturing**	**Feb**	**58.6**	**58.7**
17:00	**WO**	**PMI Manufactring**	**Feb**	**(54.0)**	**53.5**
Tuesday Mar 2					
08:00	GE	Retail Sales MoM	Jan	0.5%	-9.6%
10:00	NO	NAV unemployment	week		
11:00	**EC**	**CPI Core YoY**	**Feb P**	**1.10%**	**1.40%**
	US	**Wards Total Vehicle Sales**	**Feb**	**16.20m**	**16.63m**
Wednesday Mar 3					
01:30	JN	PMI Services	Feb F		45.8
02:45	**CH**	**PMI Services, Markit**	**Feb**	**51.5**	**52**
08:00	NO	Trade balance	Jan		
08:00	NO	Households' savings rate	Q4	-12.9%	12.0%
08:00	NO	Current account	Q4		
08:30	SW	PMI Services	Feb	59.3	59.3
10:00	EC	PMI Services	Feb F	44.7	44.7
10:00	EC	PMI Composite	Feb F	48.1	48.1
11:00	**NO**	**House prices, MoM**	**Feb**	**(0.6%)**	**0.6%**
14:15	US	ADP Employment Change	Feb	183k	174k
15:45	US	PMI Services	Feb F	58.9	58.9
16:00	**US**	**ISM Services**	**Feb**	**58.7**	**58.7**
17:00	**WO**	**PMI Composite**	**Feb**	**(52.6)**	**52.3**
20:00	US	Fed Beige book			
Thursday Mar 4					
11:00	EC	Unemployment Rate	Jan	8.3%	8.3%
11:00	**EC**	**Retail Sales MoM**	**Jan**	**-1.3%**	**2.0%**
14:30	US	Initial Jobless Claims	Feb-27	755k	730k
Friday Mar 5					
08:00	GE	Factory Orders MoM	Jan	1.0%	-1.9%
14:30	**US**	**Change in Nonfarm Payrolls**	**Feb**	**180k**	**49k**
14:30	**US**	**Unemployment Rate**	**Feb**	**6.4%**	**6.3%**
14:30	US	Average Weekly Hours All	Feb	34.9	35
14:30	US	Trade Balance	Jan	-$67.4b	-$66.6b
Sunday Mar 7					
	CH	**Exports YTD YoY CNY**	**Feb**		

- **Global PMI/ISM**
  - » We expect a minor lift in the Feb **global PMI**, even if services in EMU are struggling, and the Chinese PMIs fell further. An **ISM** f'cast close to unch. at a very high level is reasonable, given local surveys
- **Auto sales**
  - » Several countries will report Feb auto sales during the week. **US sales** are expected slightly down, while **European sales** probably recovered from the nosedive in January (both due to the pandemic & tax changes)
- **China**
  - » January & February **foreign trade** data will be published next Sunday. So far exports have been very strong, and imports OK too
- **USA**
  - » Mobility in the US has increased, and restaurants increased their sales already in January – and **nonfarm payrolls** are expected up 180' in Feb. Still, unemployment is expected a tad up, following the unexpected large decline in Jan. Fed's **Beige book** will report mixed growth, but on the balance a more positive outlook than 6 weeks ago
- **EMU**
  - » **Retail sales** are expected down in January, following the 2% Dec gain. French sales fell again in January, and just a minor recovery is expected in German sales, which fell almost 10% in December
- **Norway**
  - » **Retail sales** fell even more than we expected in December, and we expect a modest recovery in January, even if almost 30% of the country was partly closed down the last week of the month. We expect sales to retreat when households can spend more on services/abroad through the year. <u>Data out now: Sales down 0.1% in Jan!</u> **Household savings** probably rose marginally in Q4.
  - » We expect a further deceleration in **house price** growth – but we still assume a 0.6% lift in February

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

Highlights

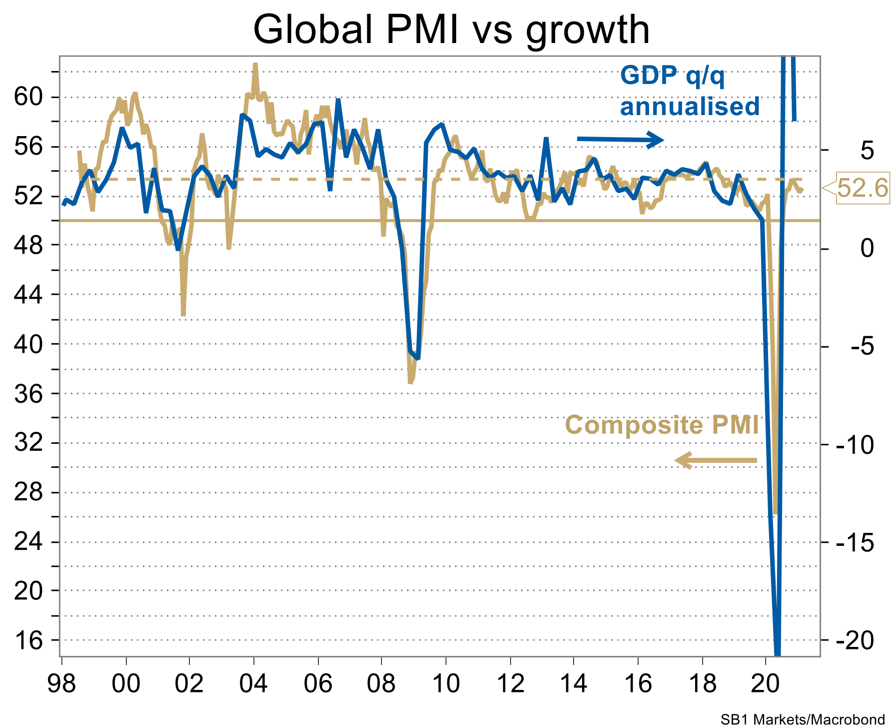
The world around us

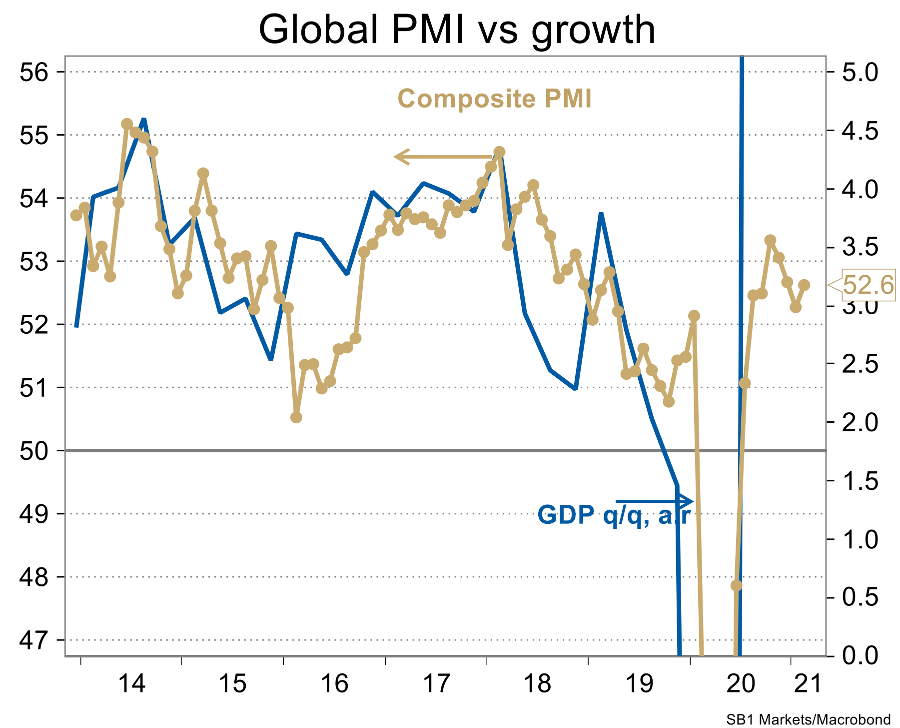
The Norwegian economy

Market charts & comments

The global composite PMI likely slightly up in February, broadly

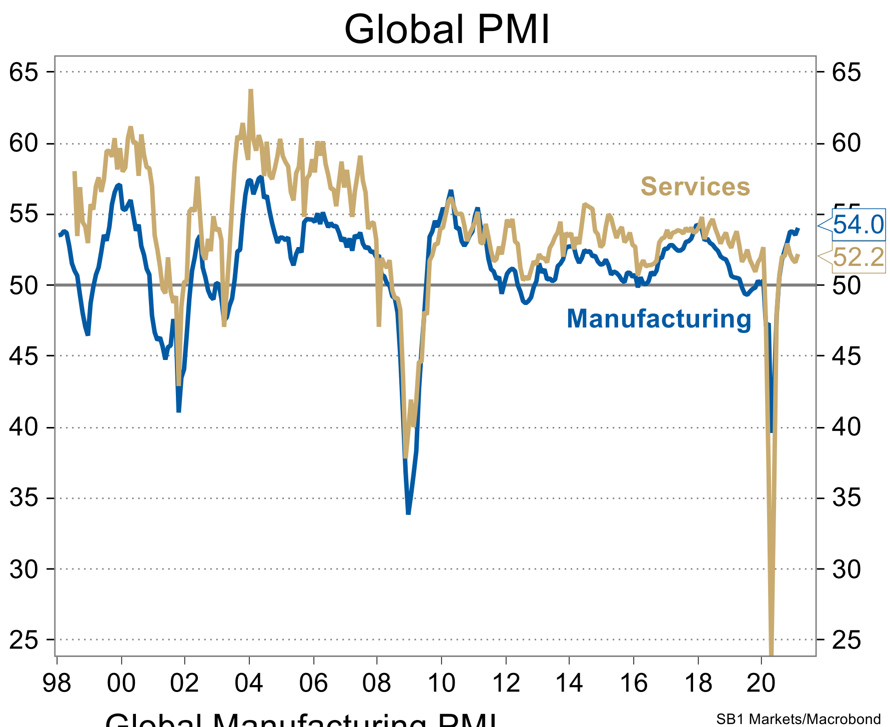
We estimate a 0.3 – 0.4 p lift in the comp. PMI to 52.6, signalling growth close to trend

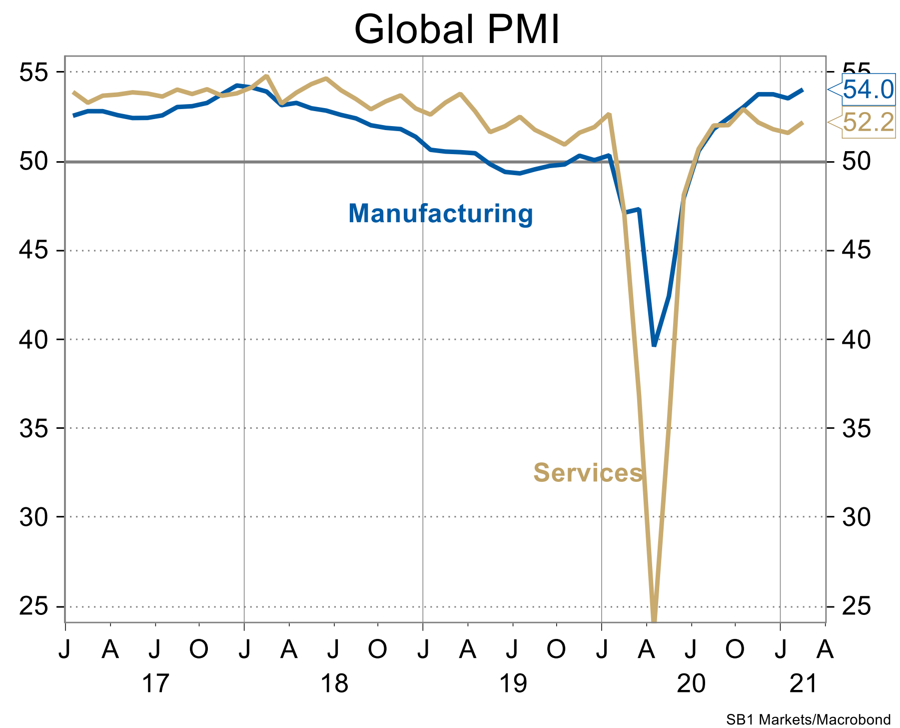


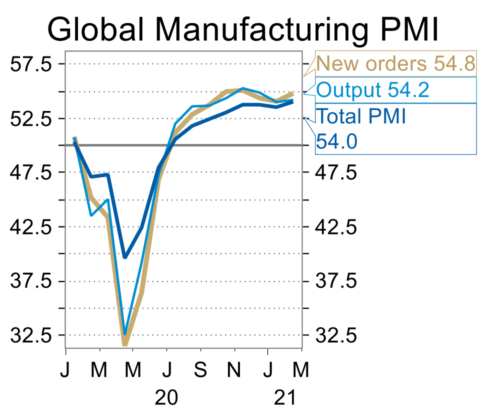


Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

Both manufacturing and services PMIs up in February



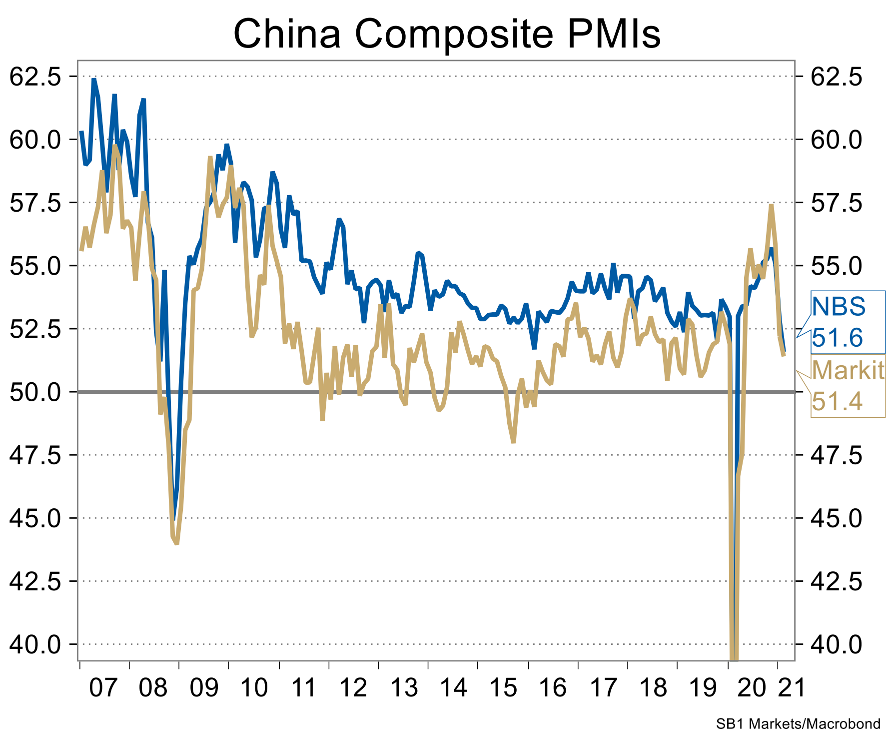


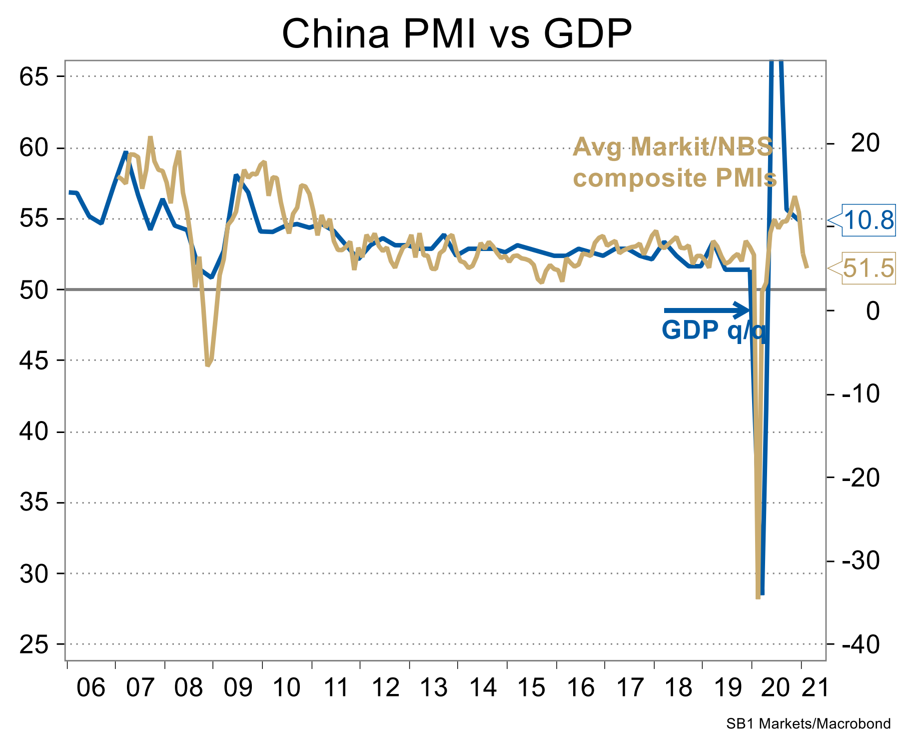


Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

A further decline in PMIs in Feb, the Q2-Q4 recovery has run its course

The NBS composite PMI fell 1.2 p to 51.6, as both manuf. & services retreated. Markit manuf. -0.7 p

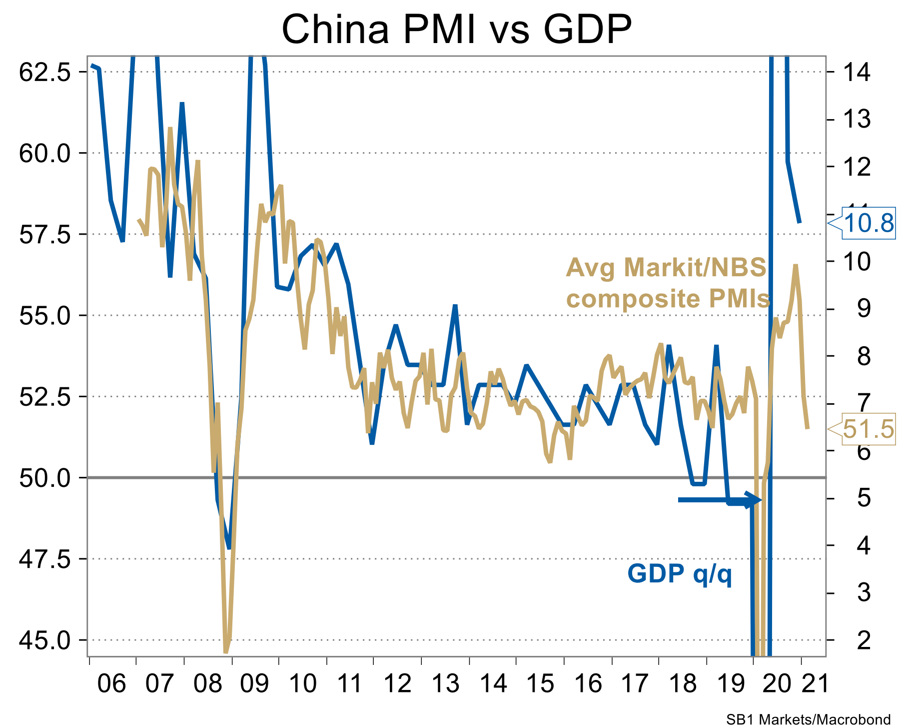




- The NBS manufacturing PMI fell by 0.7 p to 50.6, expected down 0.1 p. The service sector PMI fell by 1 p to 51.4
- Markit's manufacturing PMI declined by 0.7 pp to 50.9, expected down just 0.1 p.
  - » We assume Markits's services PMI fell at the same pace as in the NBS survey, and this estimate is included in the our forecast for the composite PMI index – a decline by 0.8 p to 51.2
- The average of the two composite PMIs fell to 51.5, which is 1 p below the 2012-2019 average
- The PMIs are signalling a 5 – 7% growth GDP growth rate, and that the sharp recovery in Q2-Q4 has run its course
  - » Slower growth in exports explain some of the decline, but services are slowing more than exports

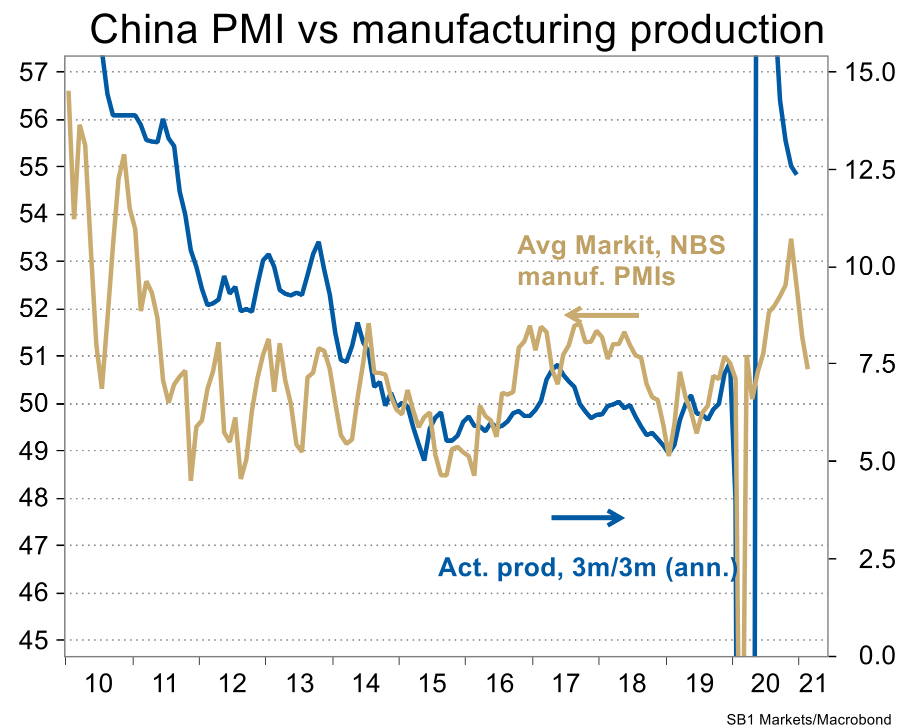
… a closer look, at 'normal' times: The PMIs are signalling a 5% - 7 % growth pace

GDP grew by 2.6% q/q in Q4 (10.8 annualised, 6.5% y/y). PMIs now signal more 'normal' growth rate



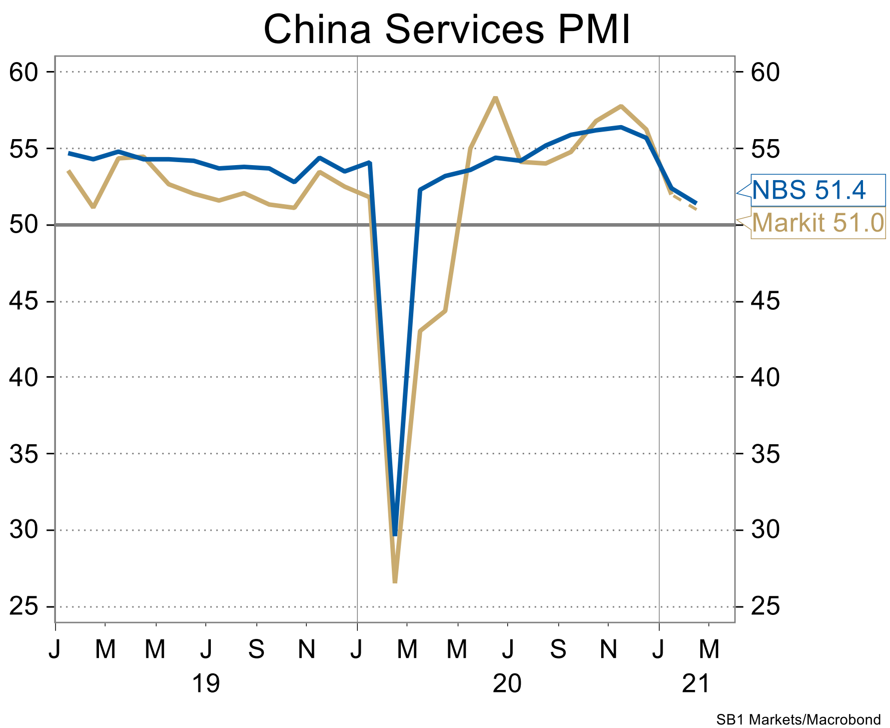
Both manufacturing PMIs down in Feb, the level is still not low

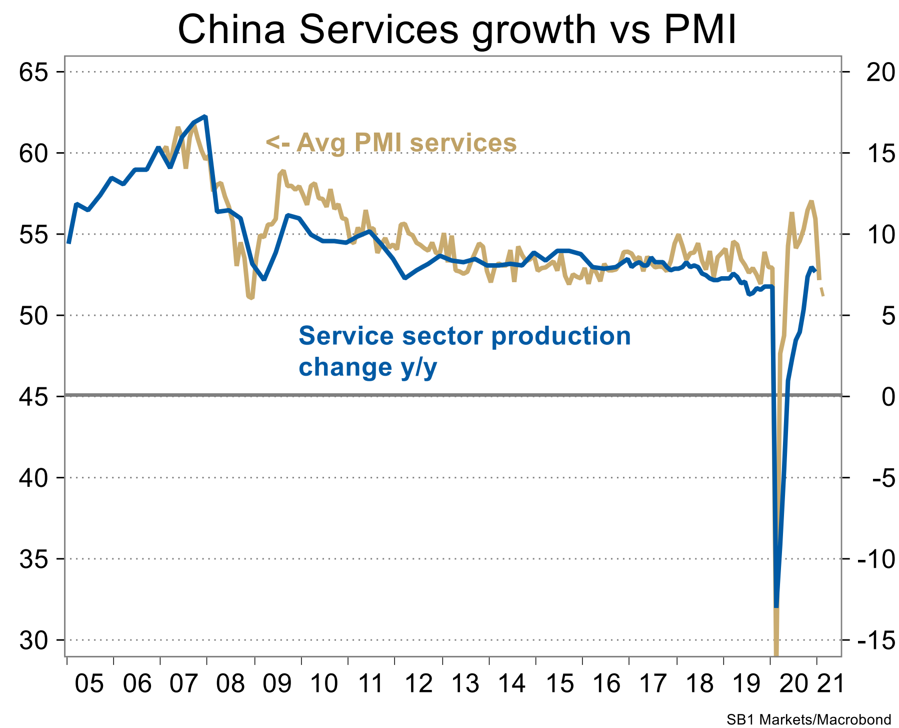
The PMIs are signalling growth above trend in the manufacturing sector



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

Service sector PMIs signal growth below normal





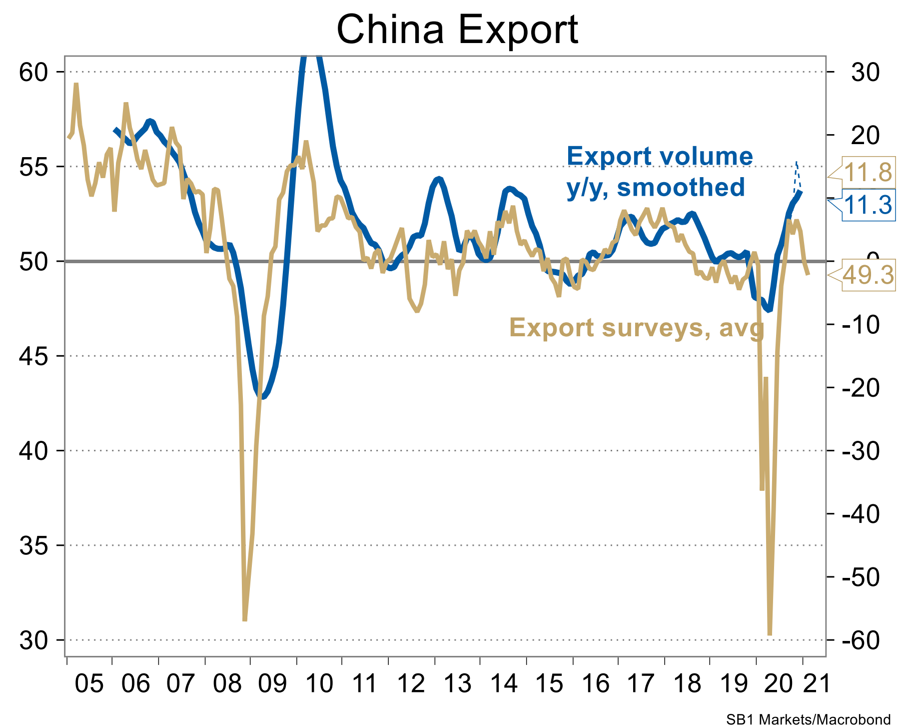
Domestic orders PMI still OK, export orders PMI on the weak side

The export order PMI is below an average level, signaling a slowdown in exports – but not a setback

- Domestic orders are growing at a brisk pace, however at tad slower in May and June than in April
- The total order indices are well above 50
  - » At the chart to the right we have made a rough estimate of a domestic order index (which is not published)

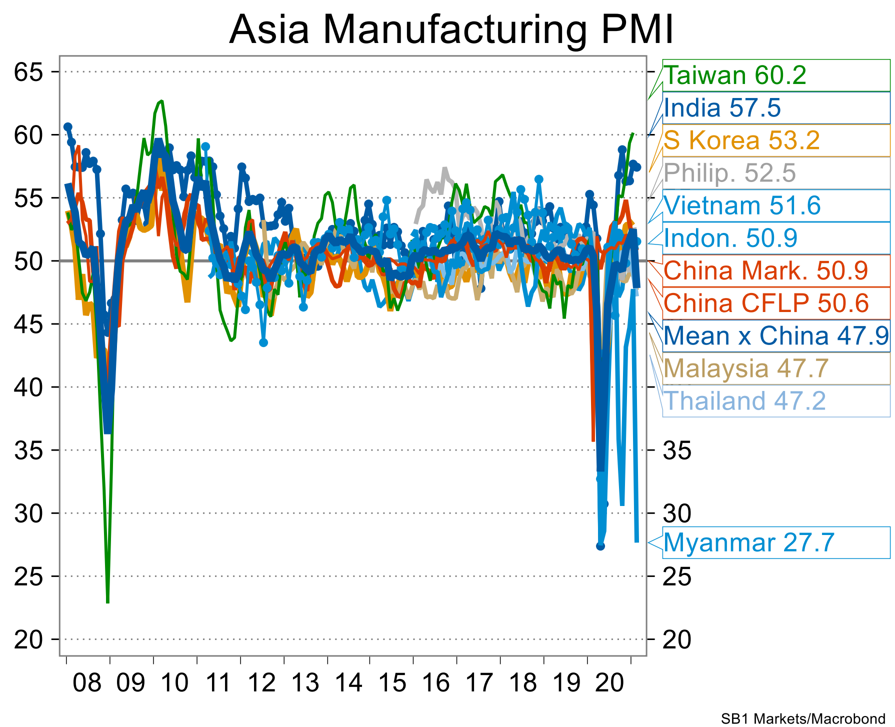
Surveys signals an export slowdown

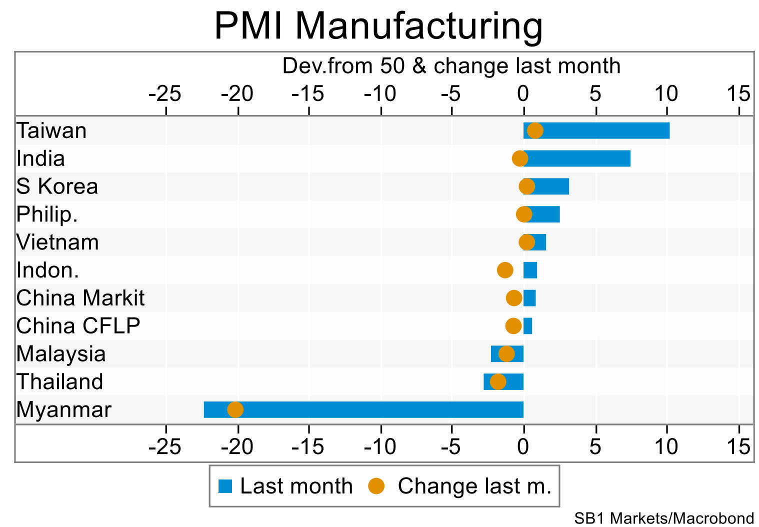
Following a rapid growth through last year

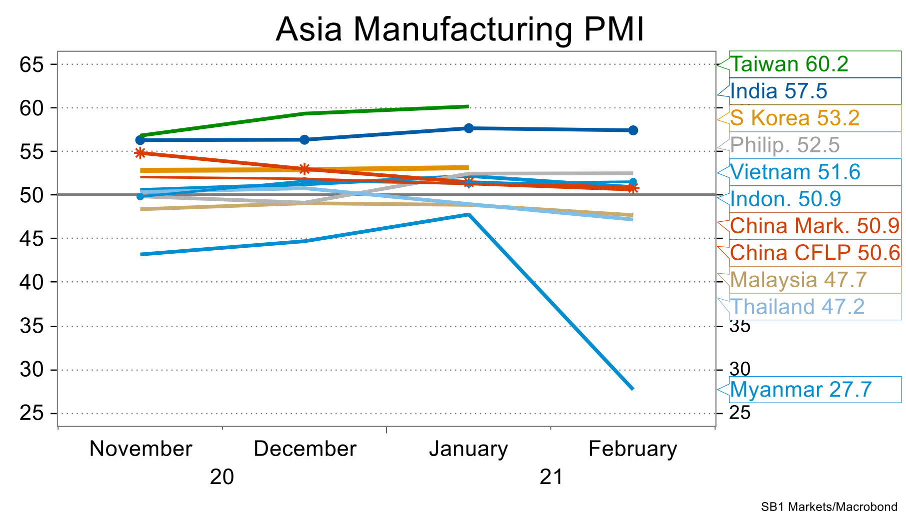


More Asian PMIs more down than up, but most are above the 50 line

A sharp setback in Myanmar, very likely due to the social unrest after the military coup



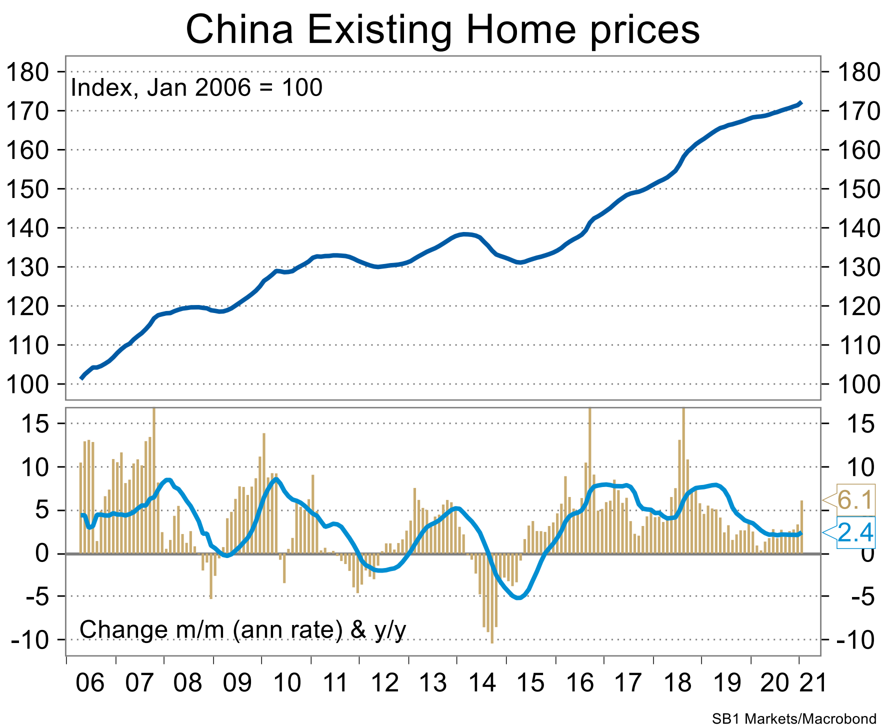


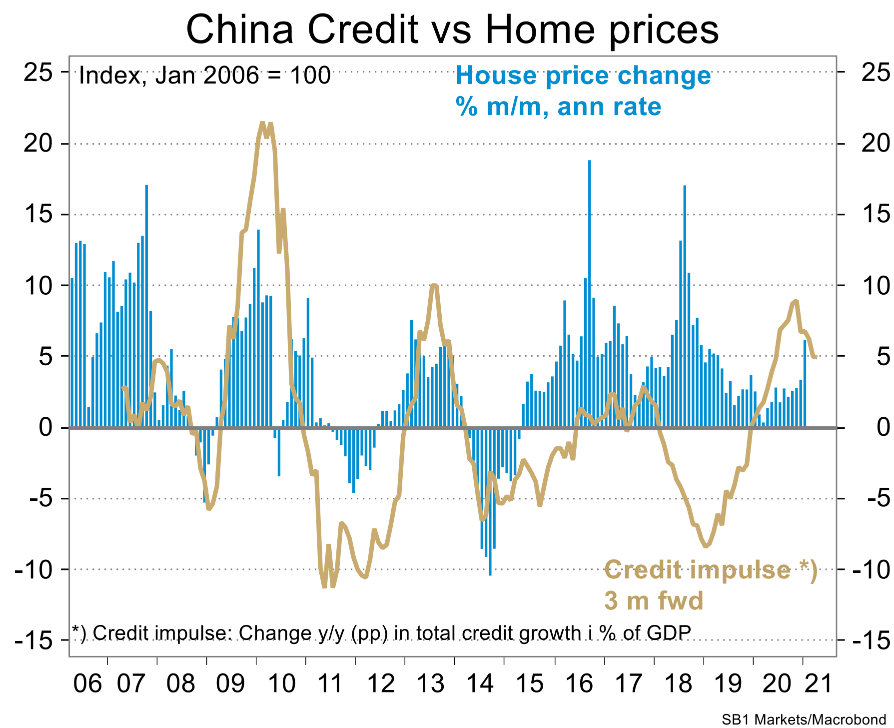


- Both Malaysia and Thailand are reporting PMIs below 50 too – but others are above
- Some countries have not yet reported their Feb PMIs

House price inflation is accelerating, but not reason for a drastic credit tightening

Prices up 6.1% m/m in Jan (annualised), the highest in two years. Annual rate is still low at 2.4%

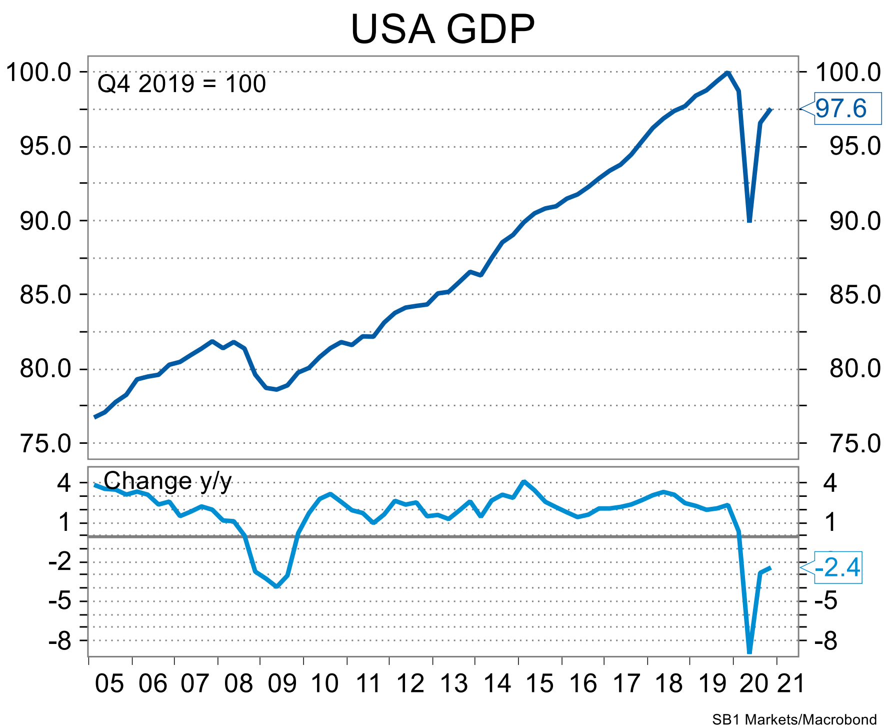


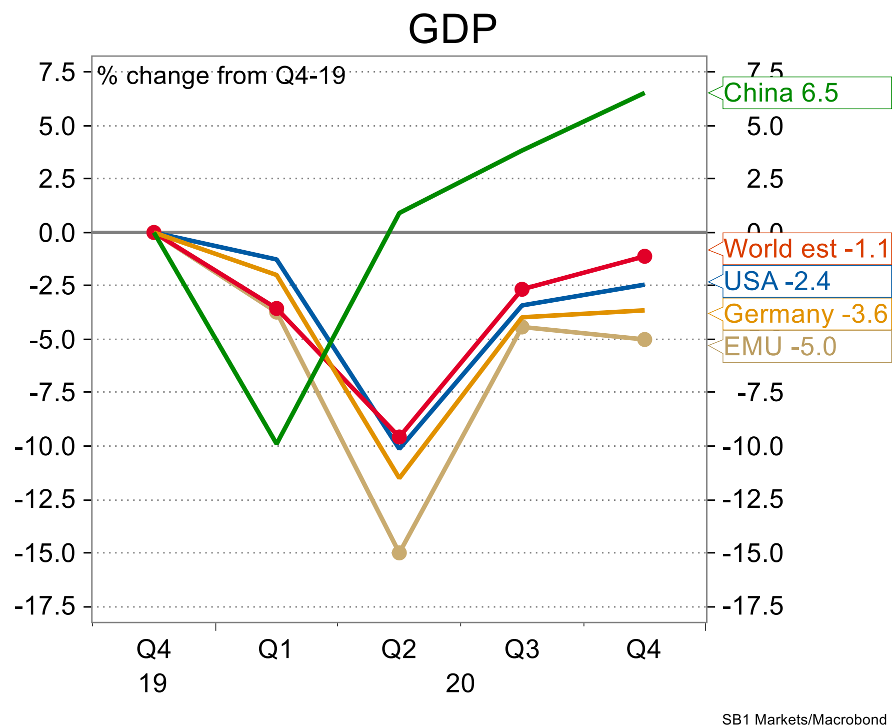


- The acceleration to a 6.1% pace in Jan, from 3.4% in Dec, is substantial but not that unusual
- However, it would also be unusual if this was just a one-off, but the cycles are rather persistent
- Credit policy has been supportive, until now. Credit growth is now slowing, and the credit impulse (change in credit growth vs GDP) will probably turn negative measured y/y (and is already negative measured over a shorter time span)

Q4 GDP revised marginally up, up 1% (4.1% annualised), down 'just' 2.4% y/y

Smaller revisions than normal – none of which are important

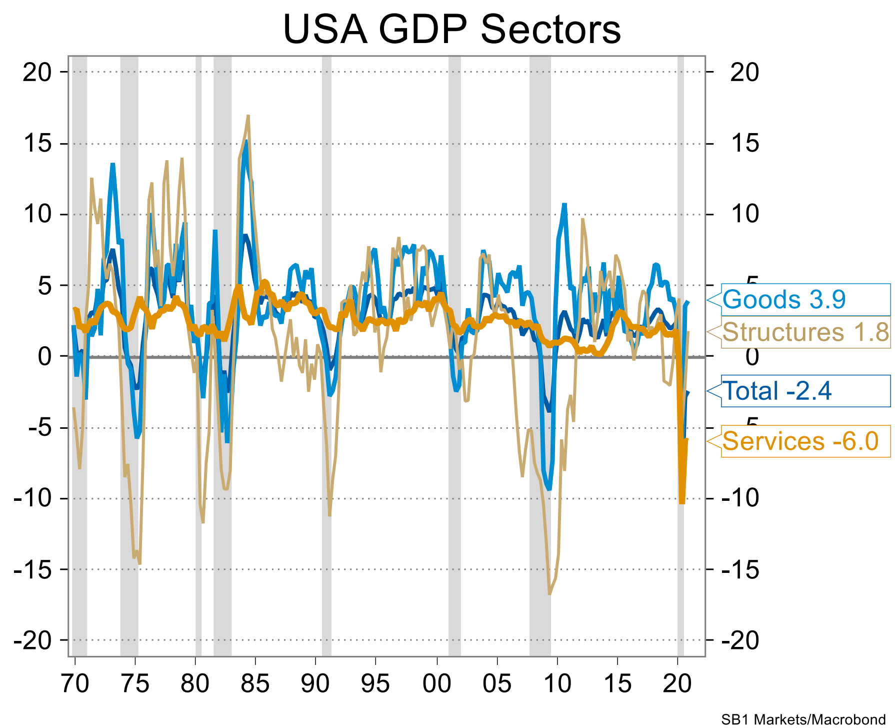


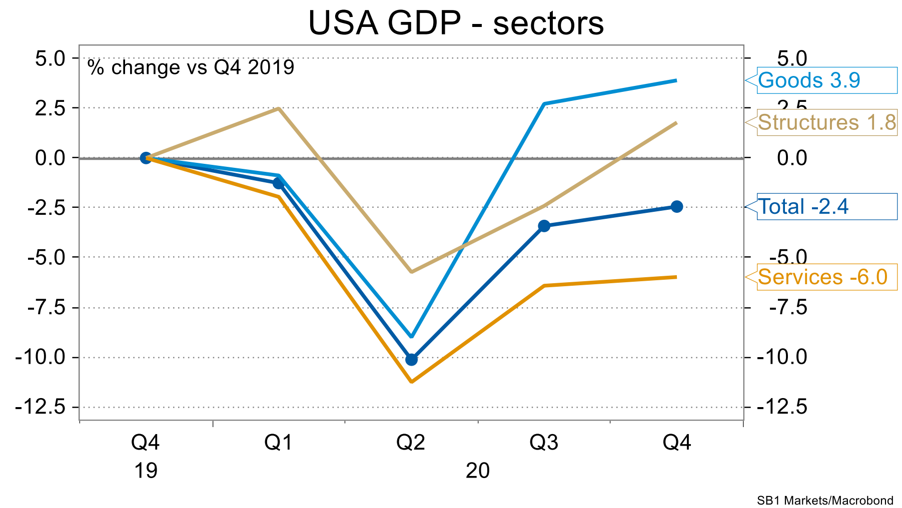


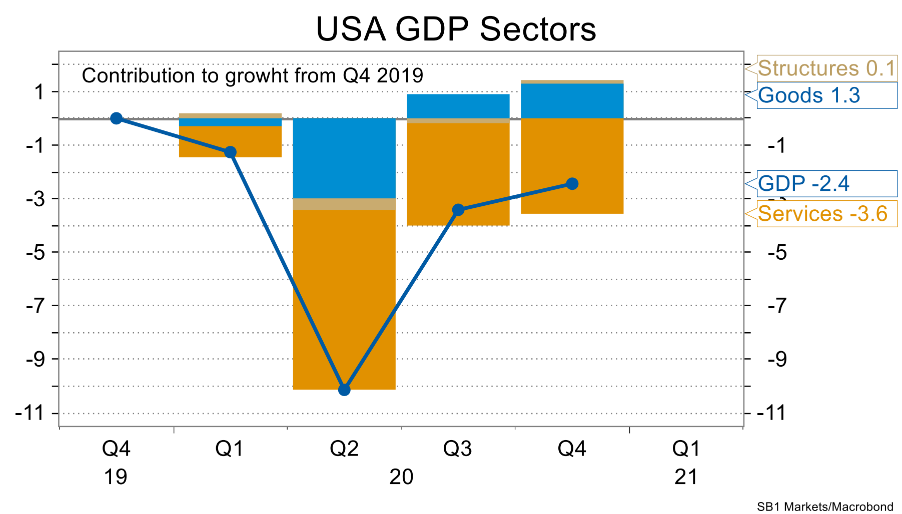
- **The revision** was slightly smaller than expected, 0.1 pp vs 0.2 pp
- **The Q4 GDP level** was down 2.4% y/y, and some 4.5% below the pre-pandemic growth path. However, since activity clearly was above trend one year ago, with the unemployment at the lowest level in 50 years, and profits under pressure, the **output gap** is lower, we assume some 3%
- **Last year** GDP fell by 3.5%, the most since 1946 following the demobilisation after WWII. But that's all history
- **In Q4**, GDP was 1.9% above the 2020 average – which is 'growth for free' in 2021
- **A further recovery is of course very likely** – with both timing and strength mostly decided by the virus (incl. mutations) & pace of vaccinations. We assume growth will accelerate from sometime in Q2 due to a reopening of most of the closed down parts of the service sector (hotels/restaurants/transport/education). If so, growth will slow again through H2

A quite unusual recession, not an 'economic' recession but the virus version

The downturn in services explains the downturn in the economy, and not the usual suspects



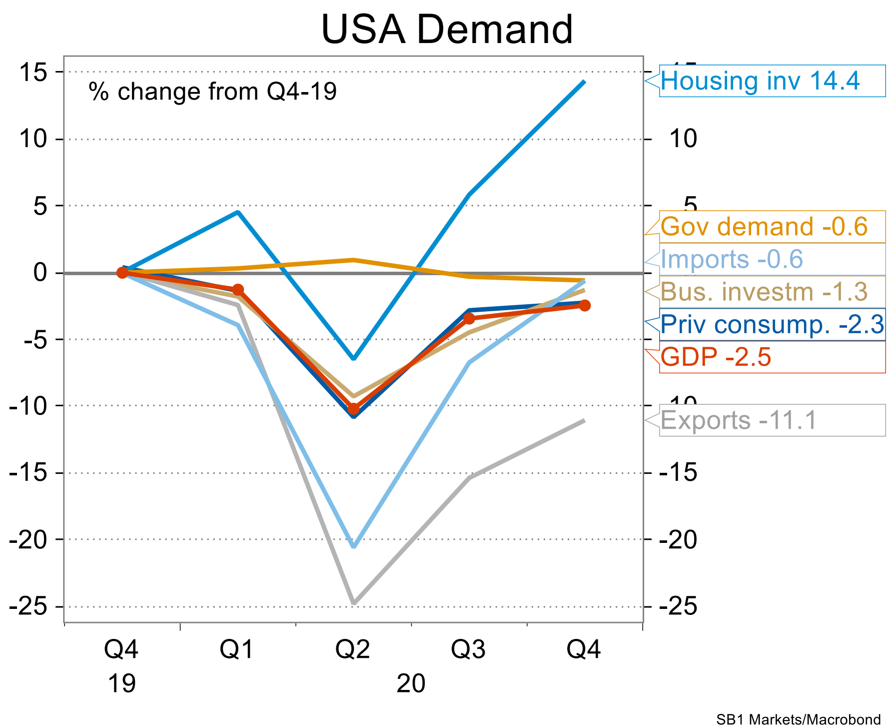


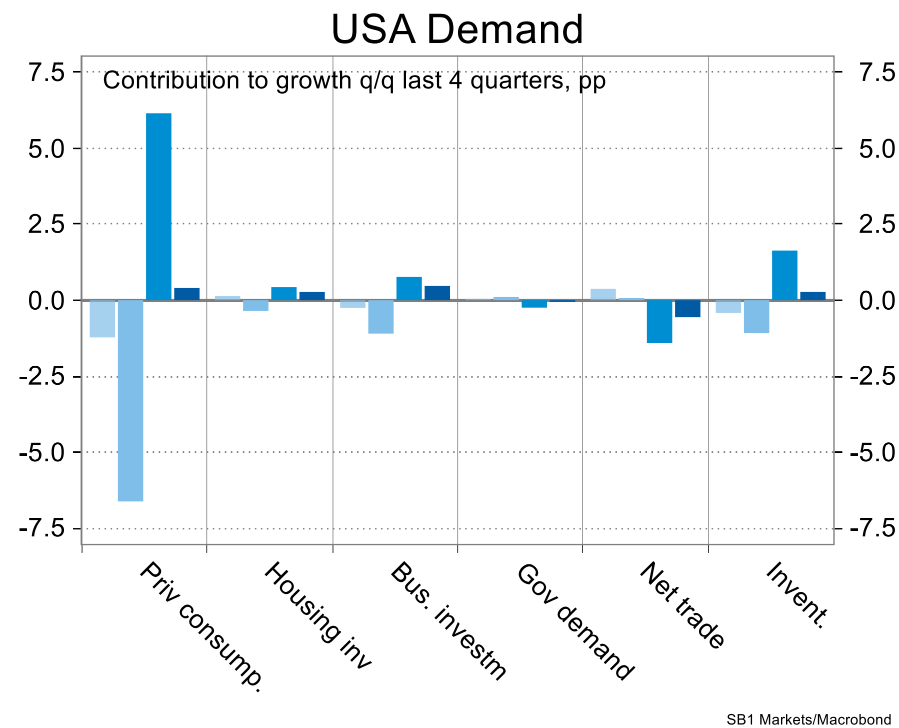


- Normally goods, including structures, are the main culprit, the volatile element in the economy. Now it is services – and services only
- And the recovery will of course be driven by services in the coming quarters, as soon as the virus is brought under control

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

Business investments recovered pretty well trough H2, now down just 1.3% y/y

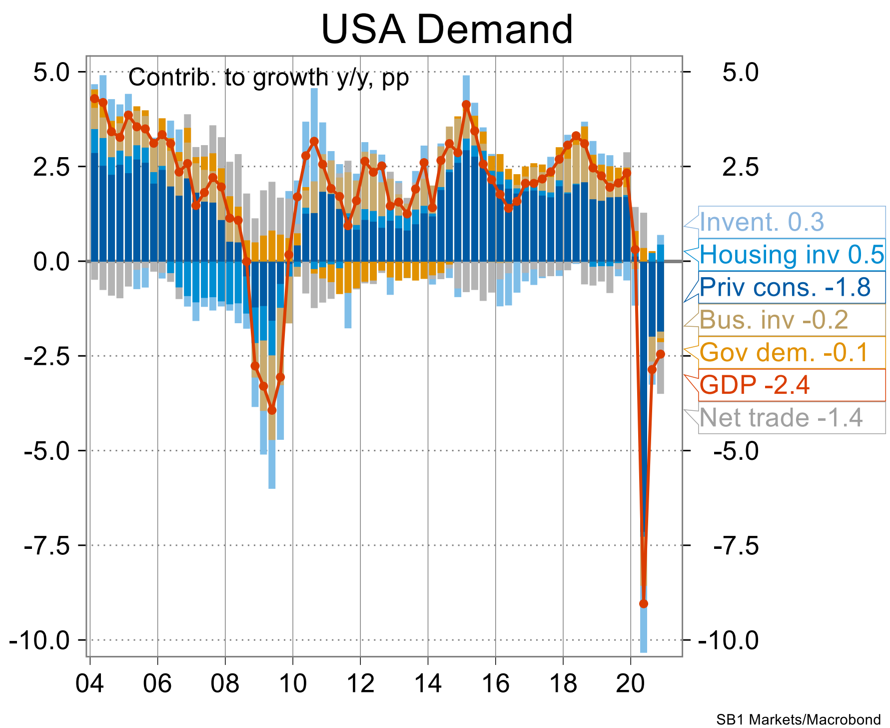


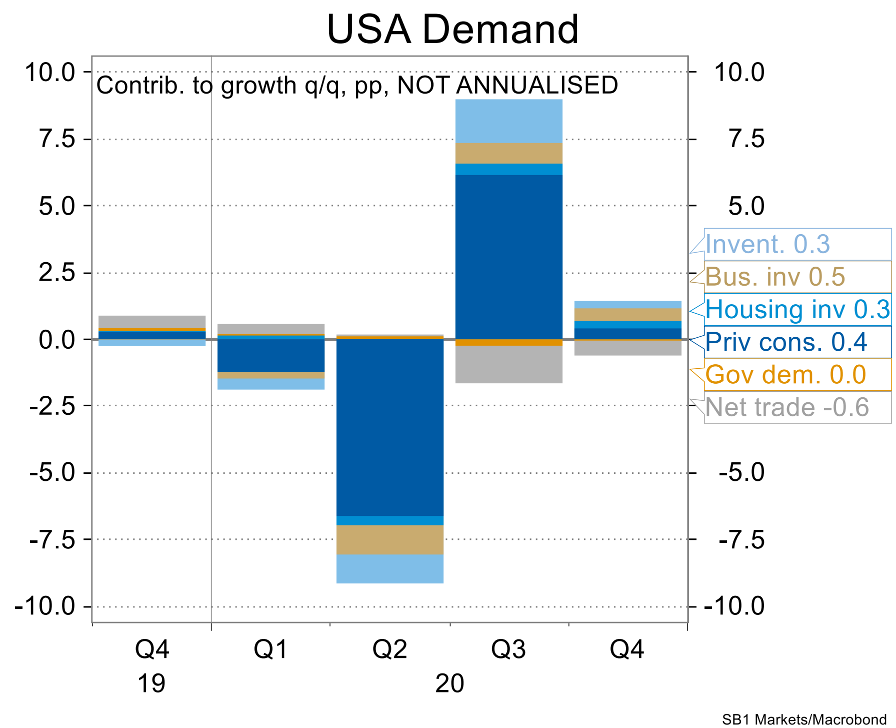


- **Private consumption** contributed most to the shortfall vs. expectations in Q4 – but was still up 2.4% q/q. Consumption is down 2.3% y/y. It contributed to ¾ of the overall volatility in GDP last year
- **Housing and business investments** grew further in Q4. Housing investments are up 14% y/y, while business investments are down just 1.3%!
- **Exports** rose 22% in Q4, but **imports** grew even faster at 30% (due to strong growth in demand for goods) - and **net trade** deducted 2.3 pp from growth (0.5 pp not annualised)
  - » Measured y/y exports are down 11% y/y, while imports are down just 0.6%! Thus, **net trade** deducted 1.4 pp from GDP growth y/y in Q4
- *Check the charts on the next page too*

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

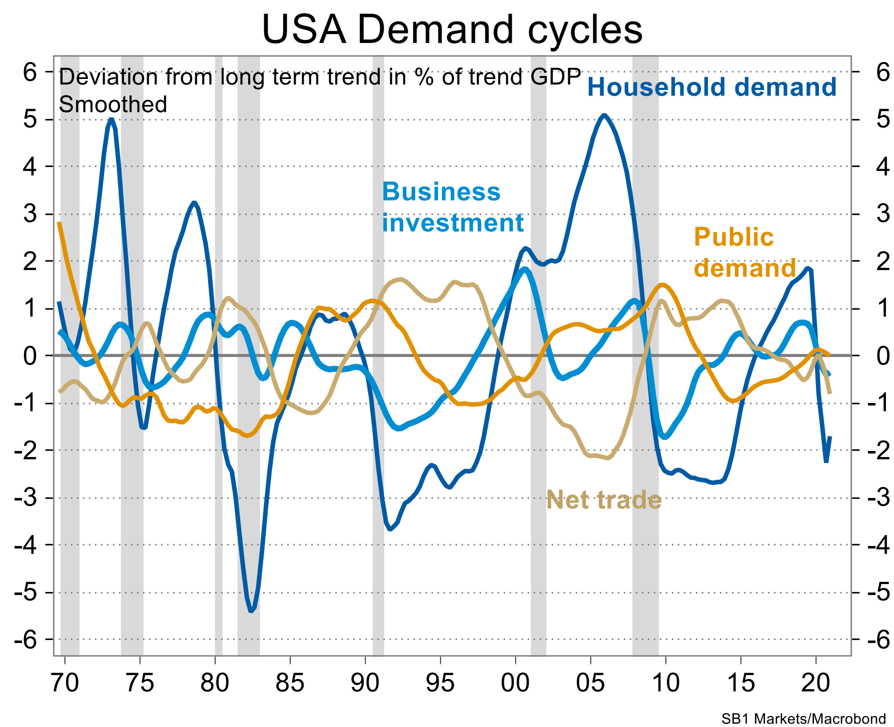
Just net trade contributed on the downside through H2

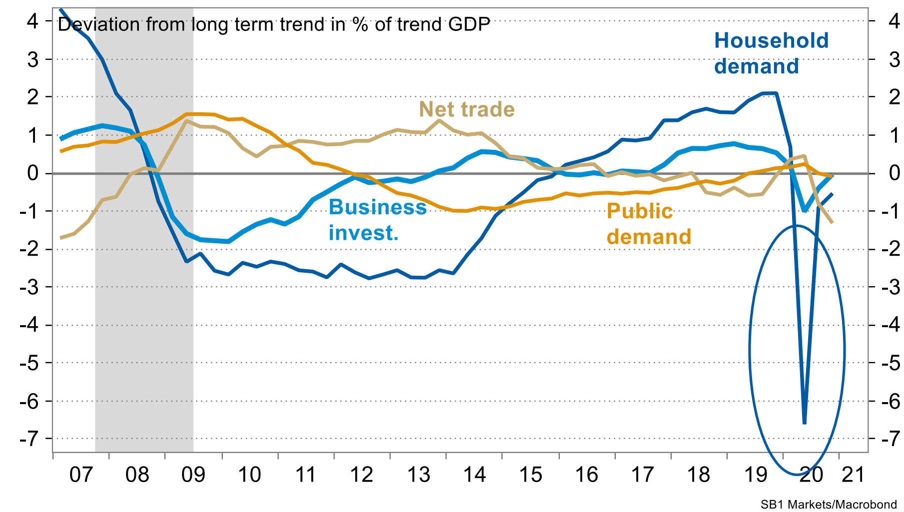


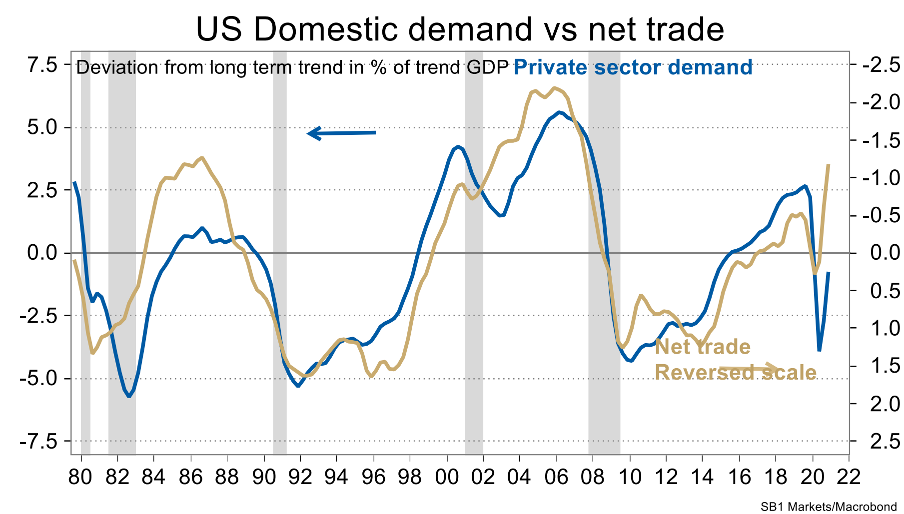


A private consumption cycle. Or rather, a virus cycle…

A shallow business investment downturn. Net trade is far too weak, but will probably not correct short term



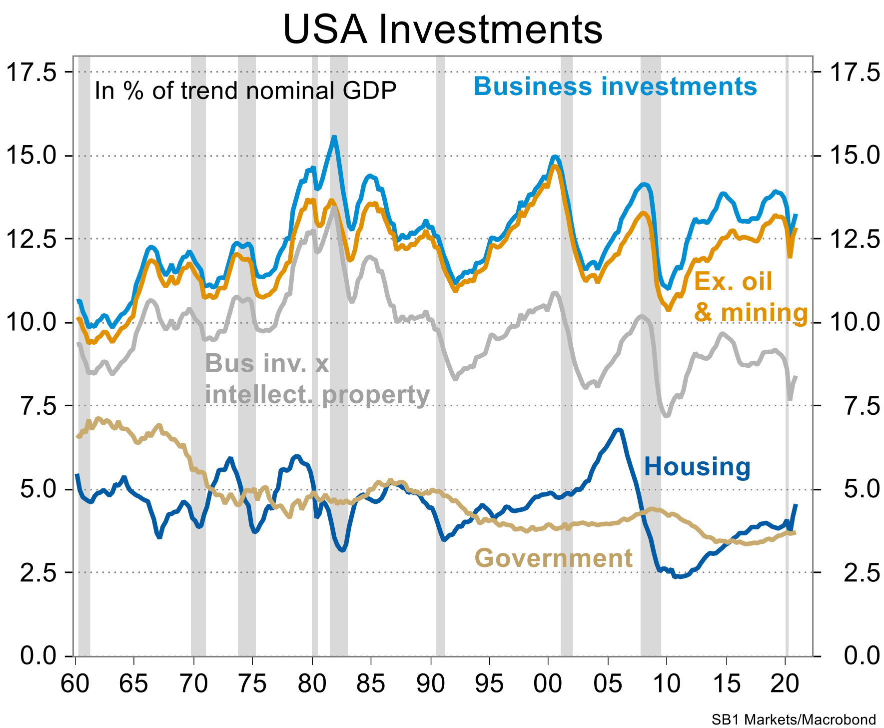


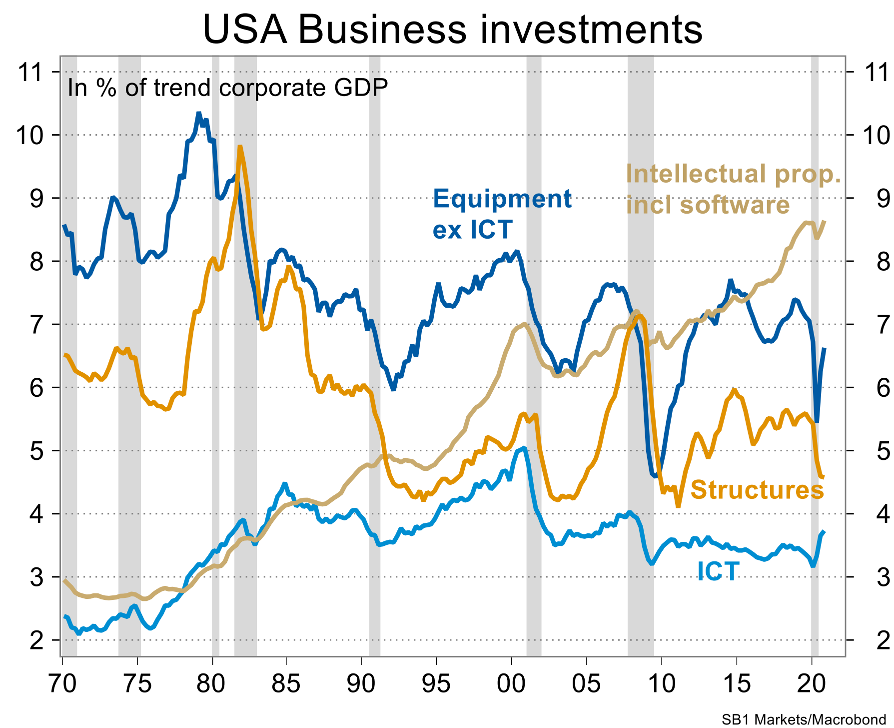


- *Check more on the household some few pages forward*

Investments: Back on trend in Q4. A mini ICT investment boom due to corona?

All sorts of investments rose in Q4, even structures

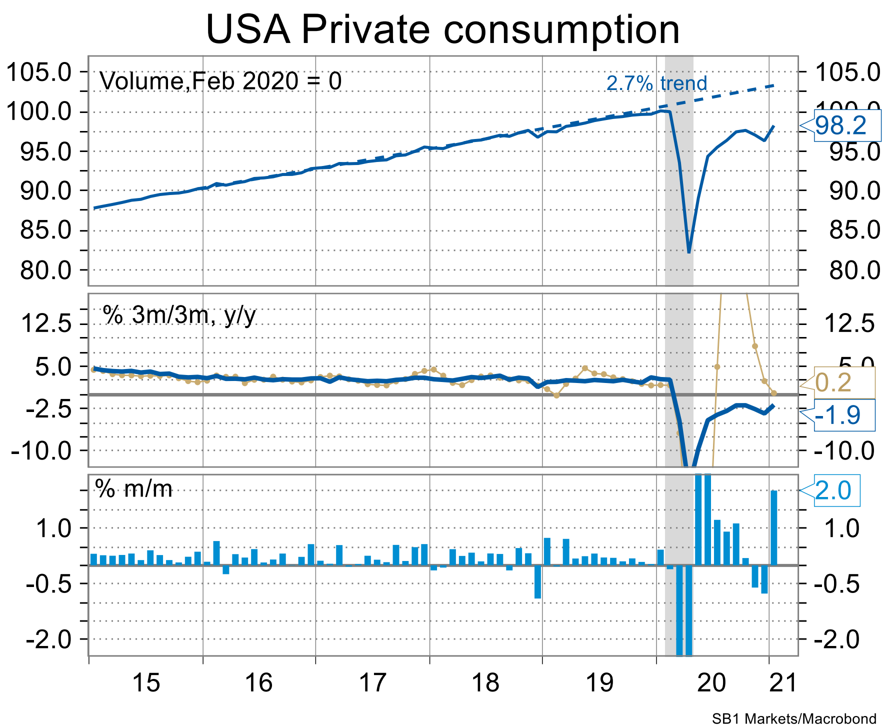


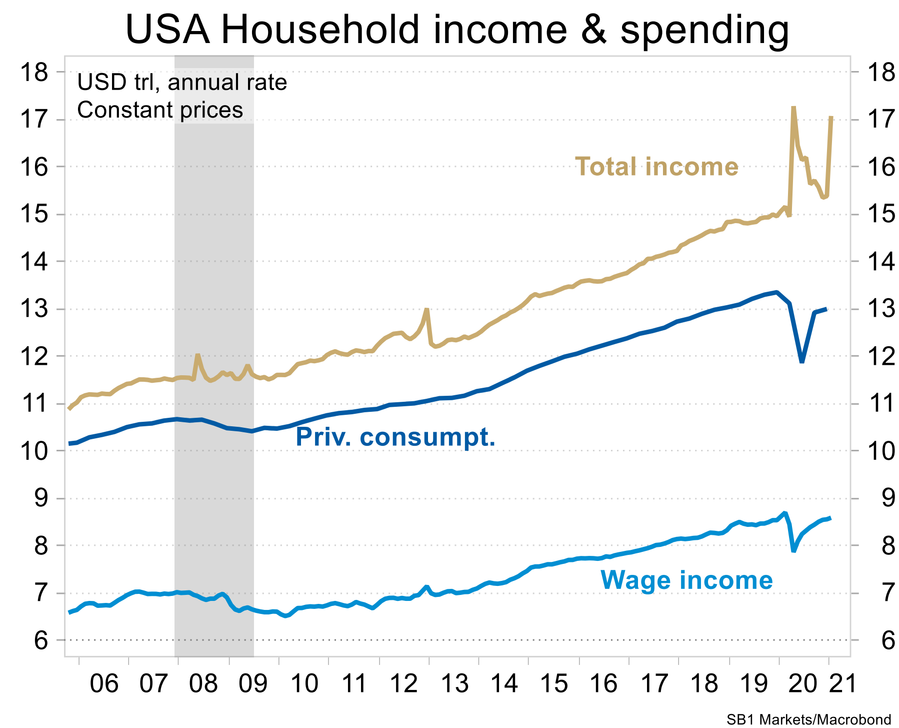


- Business investments are down just 1.3% y/y (in volume terms, 0.6% in nominal terms)
  - » ICT investments are up 18% in nominal terms, the highest growth rate since early 1980 – and ICT investments vs corporate GDP is highest since 2007 but still far below the 2000 level. There were good reasons to accelerate ICT investments in 2020, we assume. However, the accumulated increase in ICT capital is not that impressive, as the upturn has been short (so far), and the level is not that far above normal – investments were low during the quarters preceding the pandemic
  - » Investments in structures are below a normal level, while IP/software seems to be a one way bet – upwards. However, one day…
- Housing investments rose sharply in Q4 too – housing investments are well above the long term trend (our assessment)
- Government investment as share of GDP is on the way up – but probably still too low

Consumption up 2%, disp. income up almost 10%, 80% of stimulus checks saved

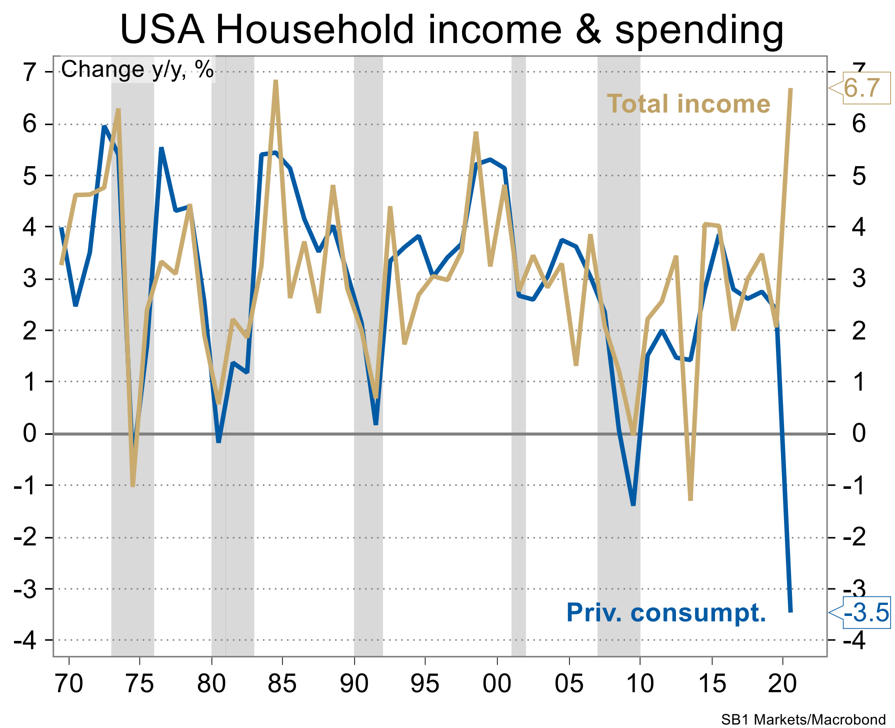
The wall of money is being built higher and higher – waiting to be spent?

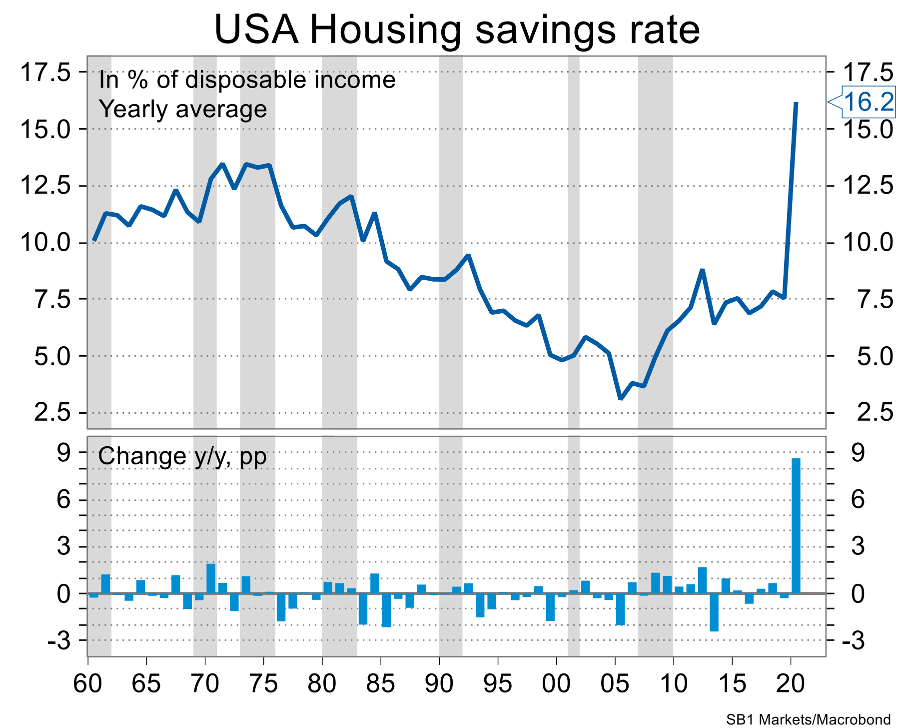




- **Private consumption rose by 2.0** % in real terms in Jan, more than reversing the decline in Nov & Dec. Consumption rose more than expected but is still down 1.8% from Feb last year (in real terms, -0.4% nominally)
- **Personal disposable real income** rose by 11% (in real terms), the 2nd larges increase, ever – mostly due to USD 600/person stimulus checks that were decided upon in Dec and paid out in Jan. In nominal terms, personal income (before taxes) rose 10%, as expected. The US Senate will now decide on the next corona relief bill, which includes a USD 1,400/person cash support, included in the 9% of GDP package. Very likely, it will be paid out in March – lifting household income by an unprecedented amount
- **The savings rate** got another boost in Dec, up to 20.5%, the 2nd highest ever. <u>If US households have an income problem due to the corona crisis, it is due to the distribution of change in income, definitively not the average change in income.</u>

2020: Never seen such a decline in consumption
– and not such an increase in income, since 1984. Or a 9 pp lift in savings

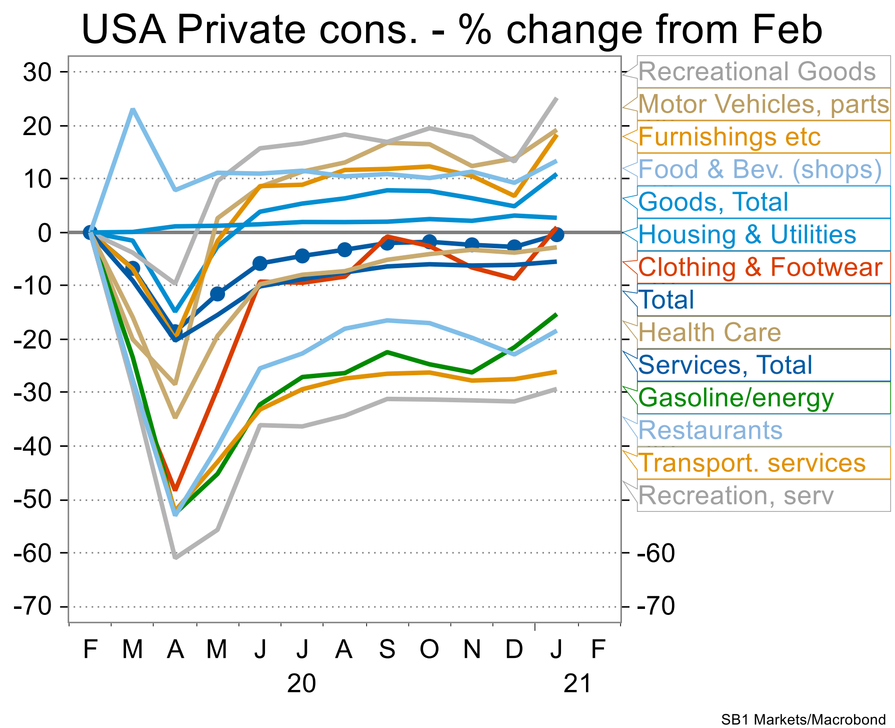


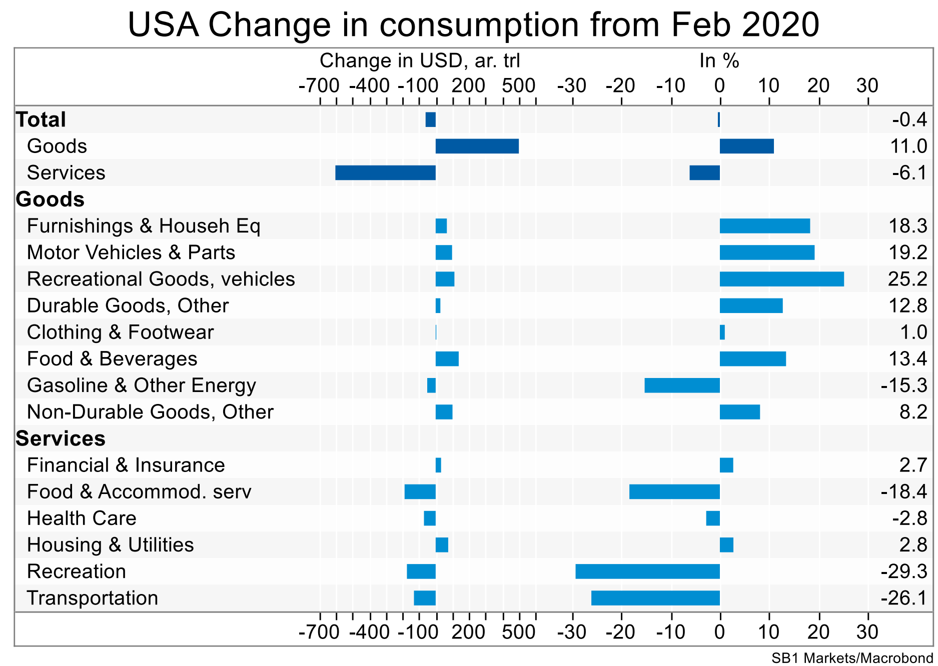


- And we have never ever seen a 16% savings rate or a 9 pp lift from the previous year
  - » The extra savings equal USD 1,600 bn, almost as much as Biden's proposed stimulus plan. If both are spent next year…
- Savings are not up because households do not dare spending them but rather because money cannot be spent where households want to spend them
- Economically, and in aggregate, households are extremely well positioned for spending more in 2021, as soon as the virus is gone!

Following two weak months, a broad recovery in January

In value terms, consumption of goods is 11% higher than pre corona, services are down 6%

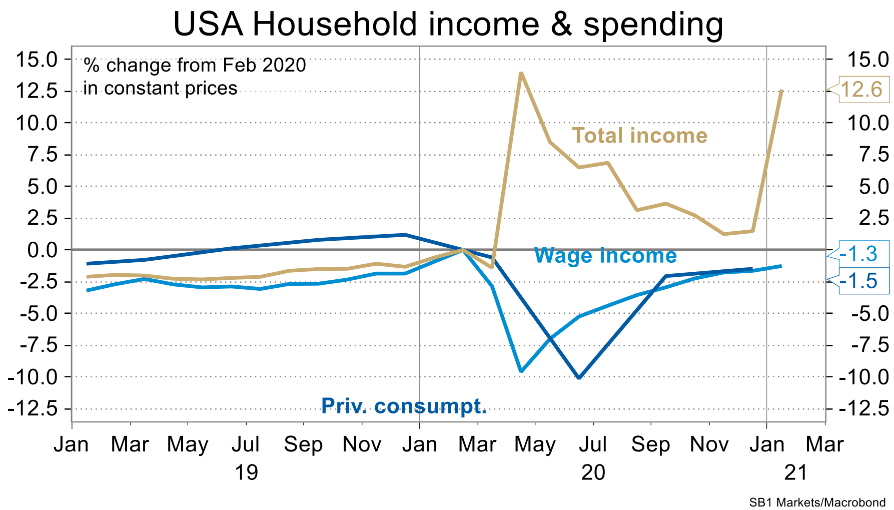


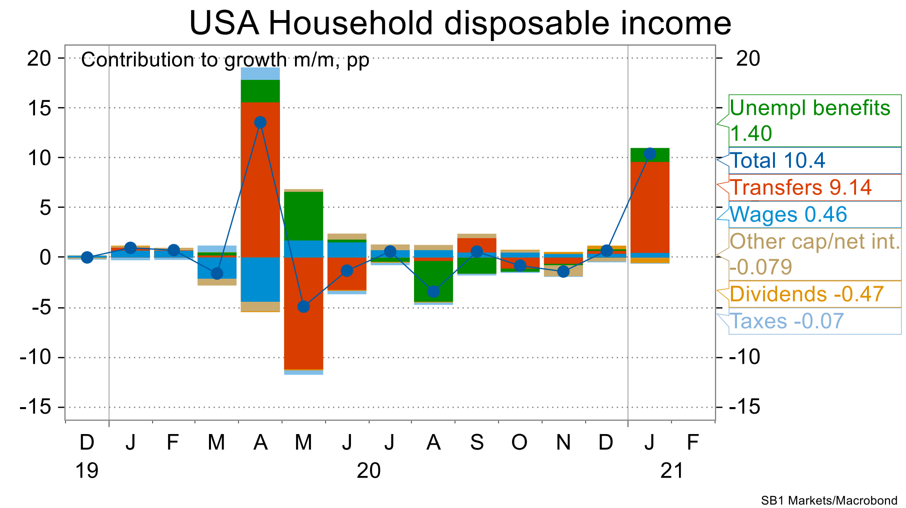


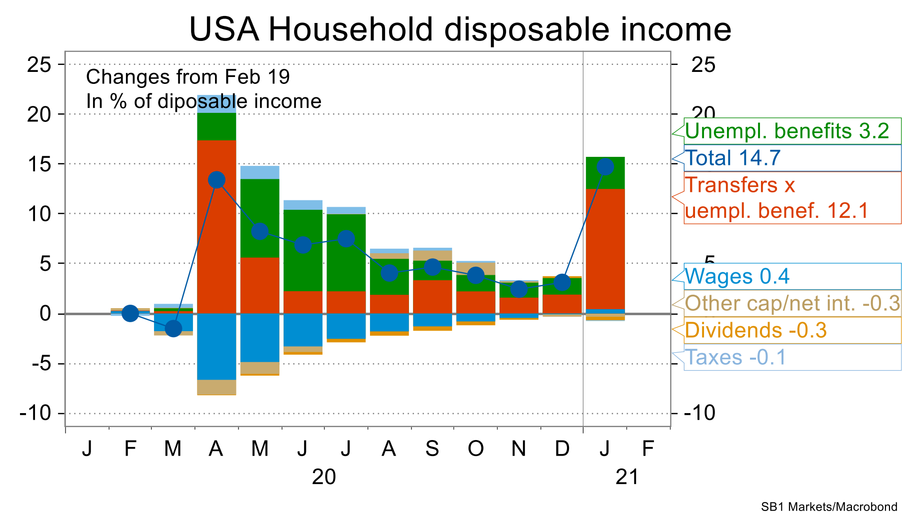
- Growth in **consumption of goods** has been driven by food & beverages (at home), autos (2nd hand), recreational vehicles (!), while gasoline is sharply down – all in value terms
- **Consumption of services** is down 6% vs Feb 2020, due to an 18% – 29% shortfall in restaurants/hotels, recreational services, transport – of course dramatic for companies in these industries (and their employees!)
  - » In Jan, consumption rose for all the corona exposed sectors
- Will consumers return to more normal spending habits, i.e. go to restaurants, theatres, parks, go travelling, go to schools etc. when it is safe and allowed? We are still very confident that's the case, and that it will not take that many months to see the first impacts

A 2nd spike in household income, the 3rd is in the making

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



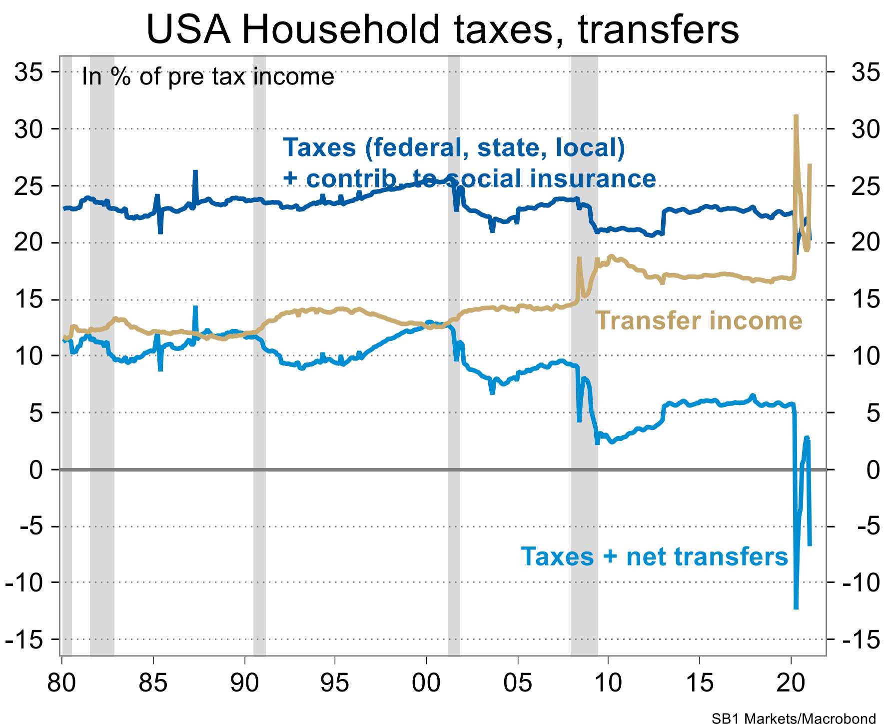


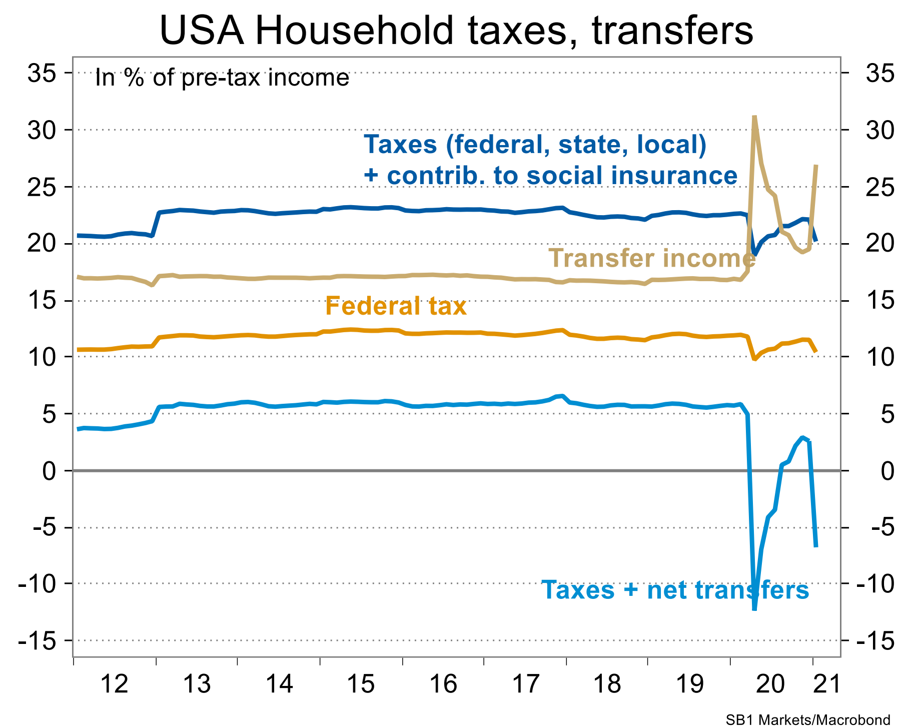


- **Household disposable income** rose by 10.4% nominally in Jan, the 2. highest growth ever. The stimulus checks explained most of it, but even the more generous unemployment benefits contributed
- Since before corona: Households have – in aggregate – been overcompensated big time by government support
- Household disp. income is up 14.7% from Feb 2020
  - » Wage income (incl. supl.) is slightly above the Feb level, even if hours worked still is far below – it's the lower paid that have lost their jobs. The others have increased their wage income substantially
  - » Unemployment benefits are up equalling 3.2% of disp. income
  - » Other transfers are up equalling 12.1% of disp. income
  - » Government transfers have in sum been much larger than the decline in wages and other market-based incomes
- All these extra incomes have been saved, as it has not been possible to spend them where consumers wanted

Transfers from the government is at record high levels

Even the average tax rate fell sharply in Jan (due to changes in the income mix)

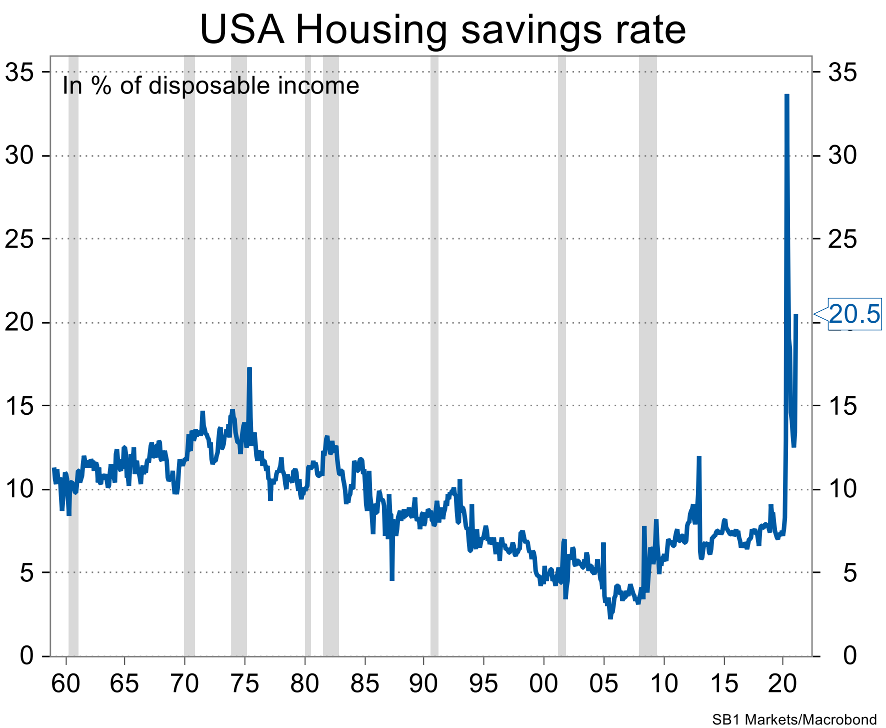


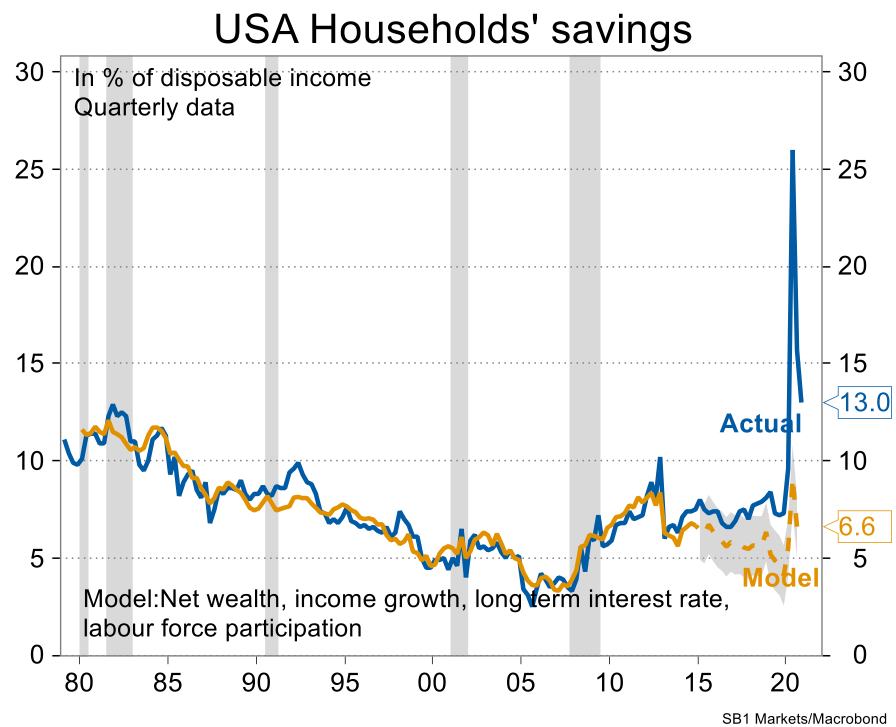


- The Federal government is supporting households by paying out 7% more in transfers to households, than households pay in federal taxes. It used to be +6% (and even that was insufficient to fund the government's other expenses)

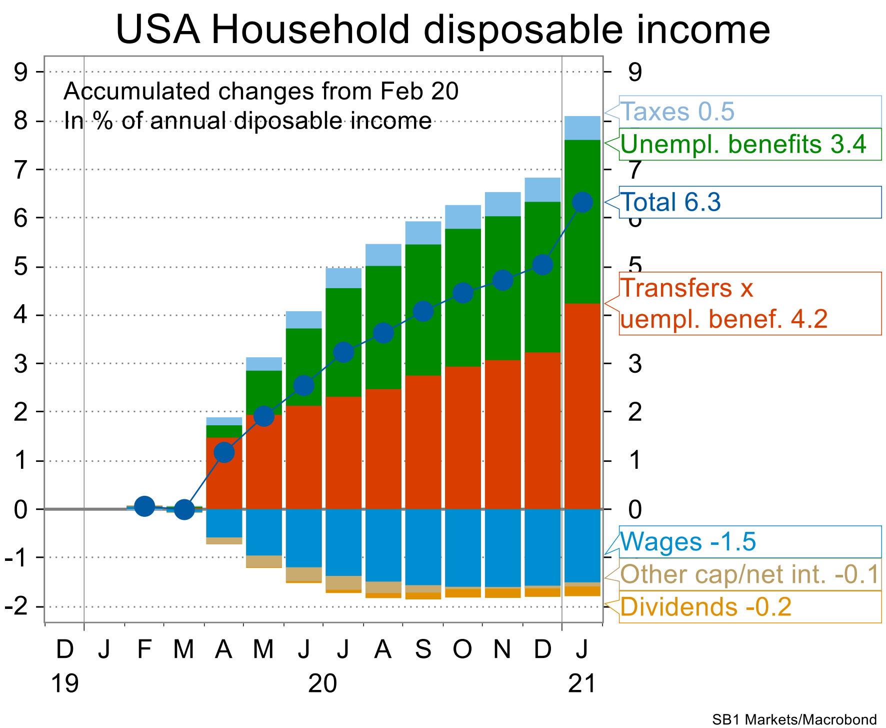
The wall of money – flow wise: Saving at 20% of disposable income

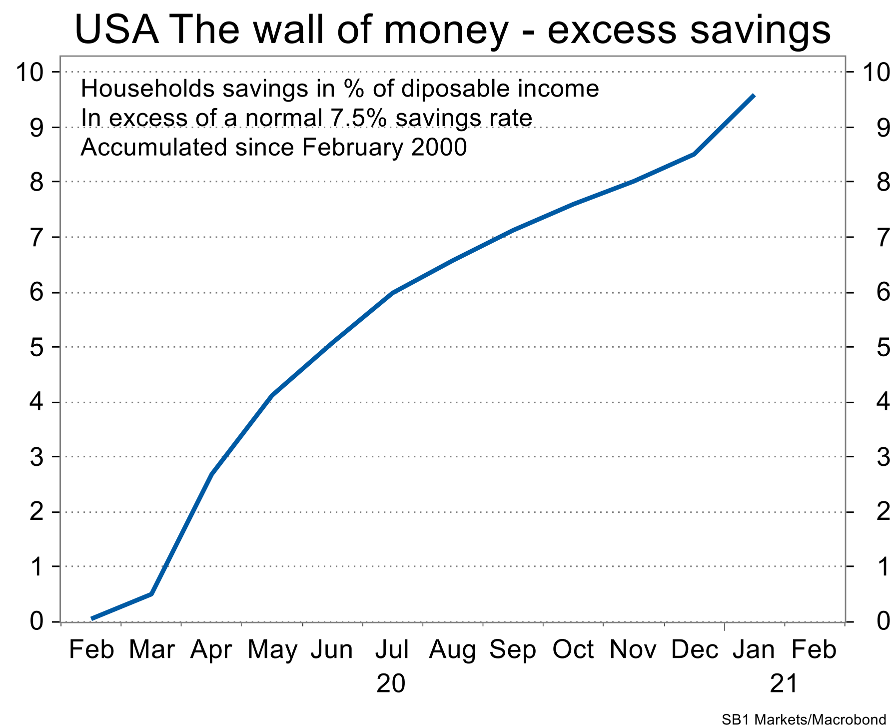
No normal model can of course explain the extreme lift in household savings. Just the virus





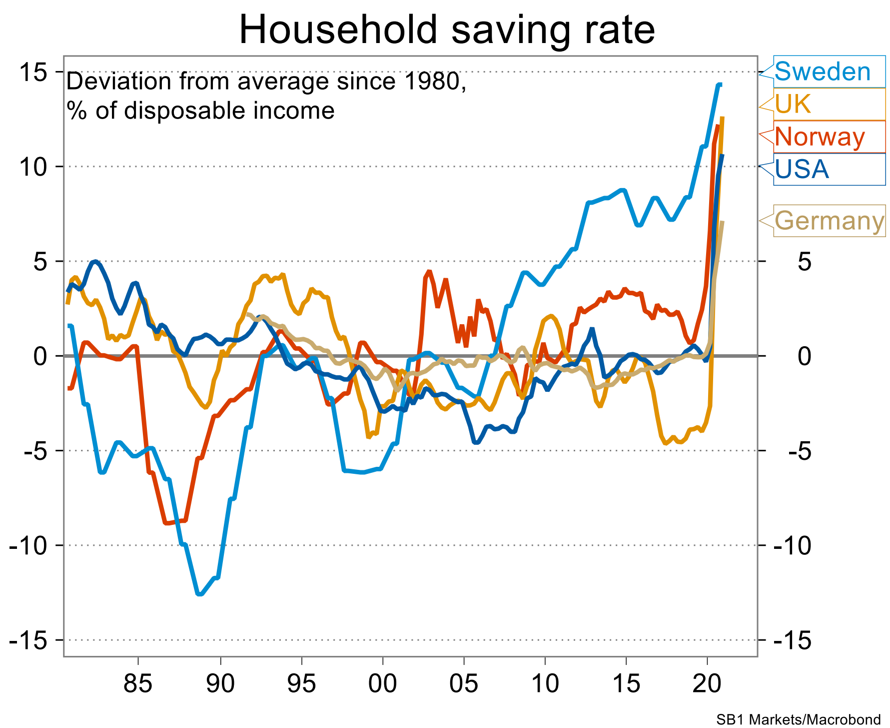
The wall of money: How it is built – and the hight





It is not just in America

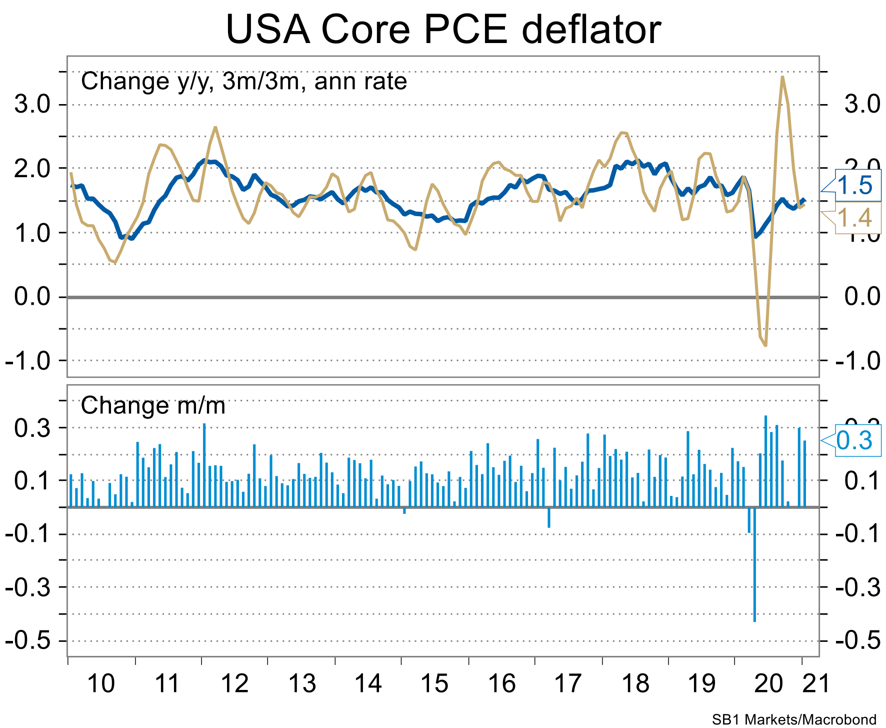
Household savings have soared almost everywhere as consumption of services have fallen sharply

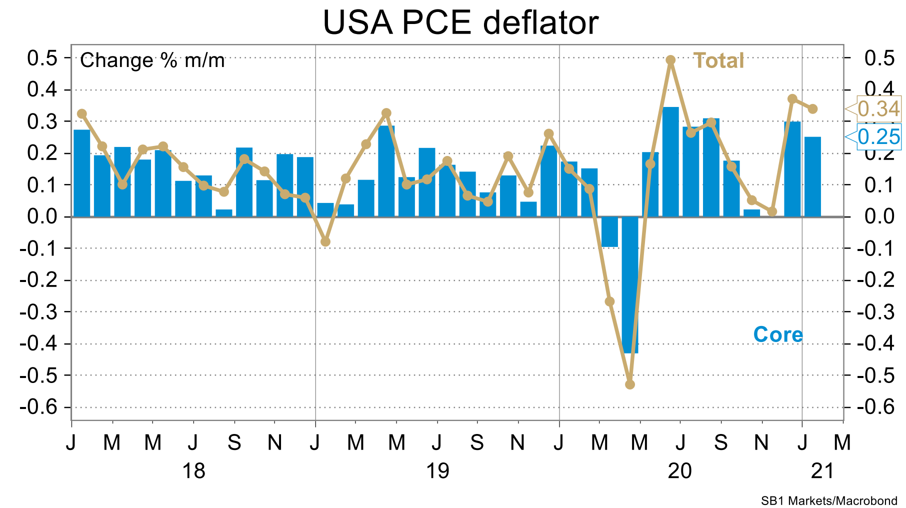


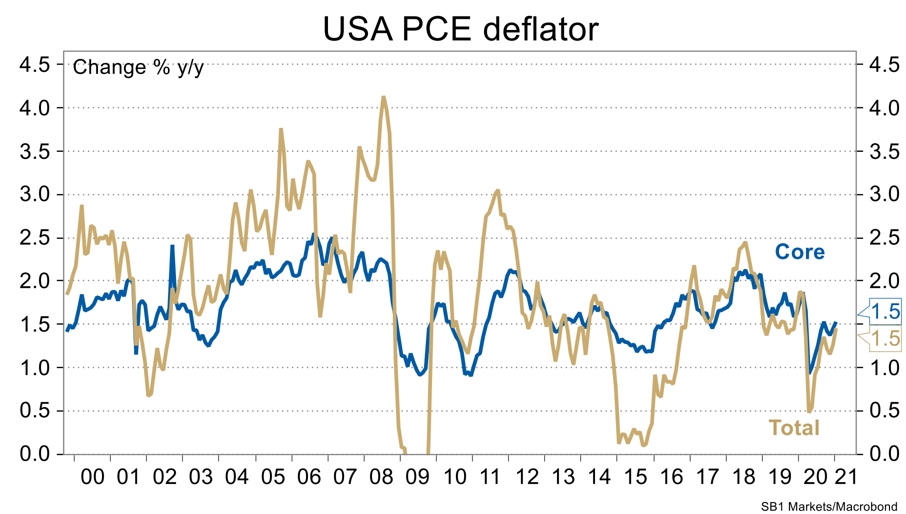
- We very much doubt these syncronised and unprecedented increases in savings are due to a monumental change in savings aspirations

Core consumer prices (PCE) up 0.3% m/m, once again

Prices rose more than expected, but core still at just 1.5% y/y



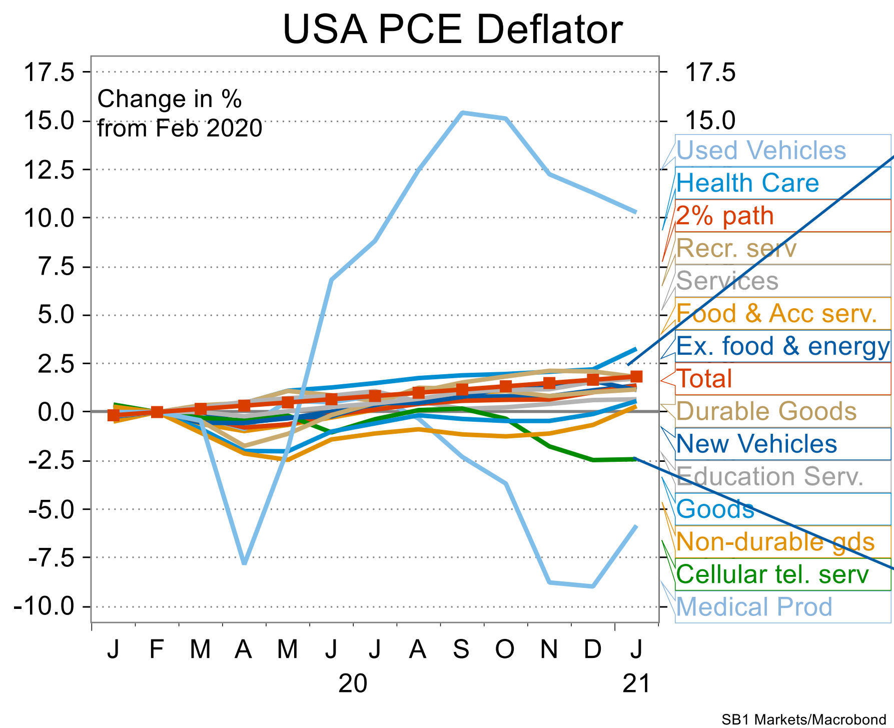


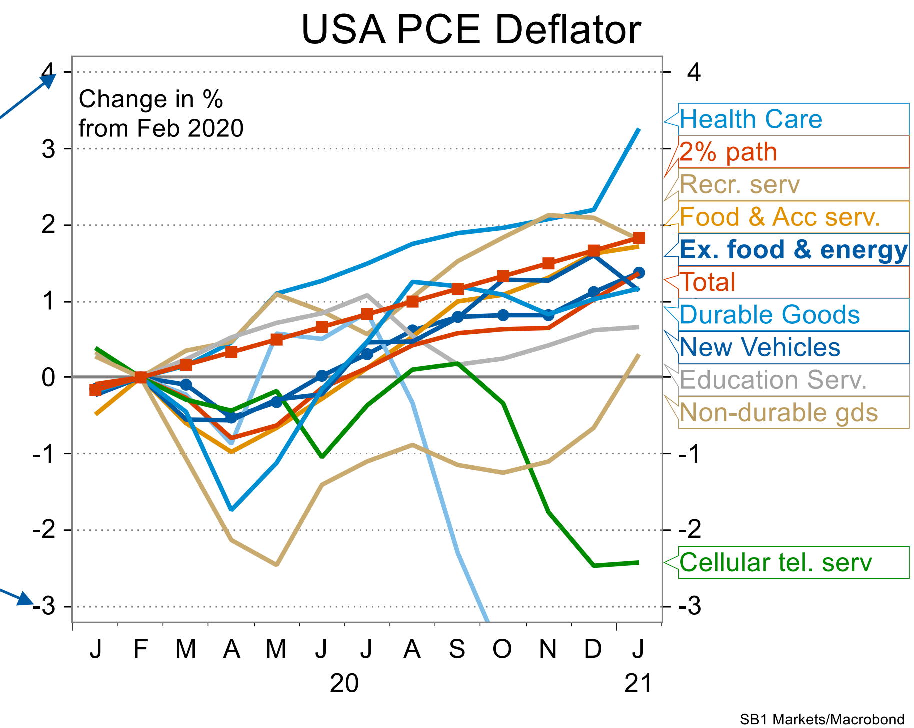


- **The core price deflator** rose 0.3%, expected up 0.1%. The annual inflation rate rose 0.1 pp to a still low rate at 1.5%
- **Total PCE deflator** rose 0.3% too, and the annual rate rose 0.1 pp to 1.5%

Health care up, a one-off hike in physicians charges + more fees to port. managers

Since, February the underlying inflation rate has equalled 1.5%

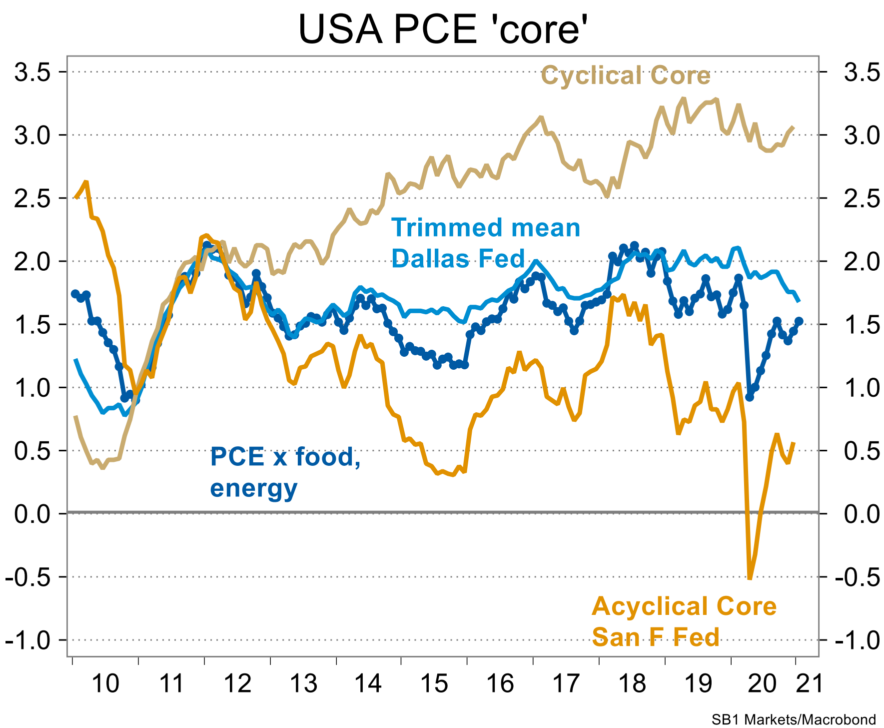




- The unusual hike in health costs are due to higher payments to physicians
- Medical products have fallen sharply – and cell services are becoming cheaper again

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

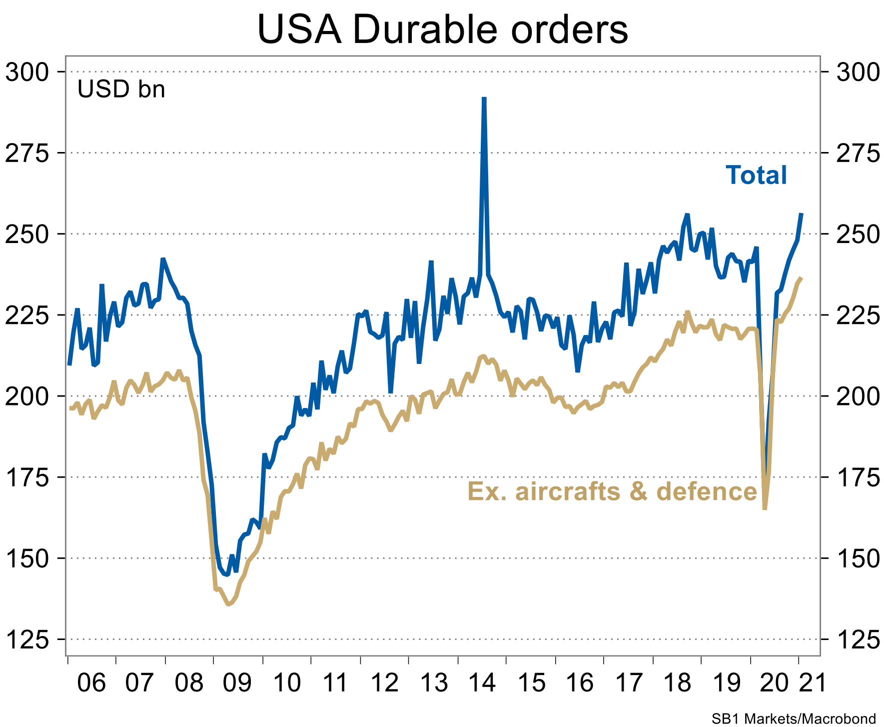
Cyclical core PCE inflation at 3.1% - the acyclical index at 0.6%

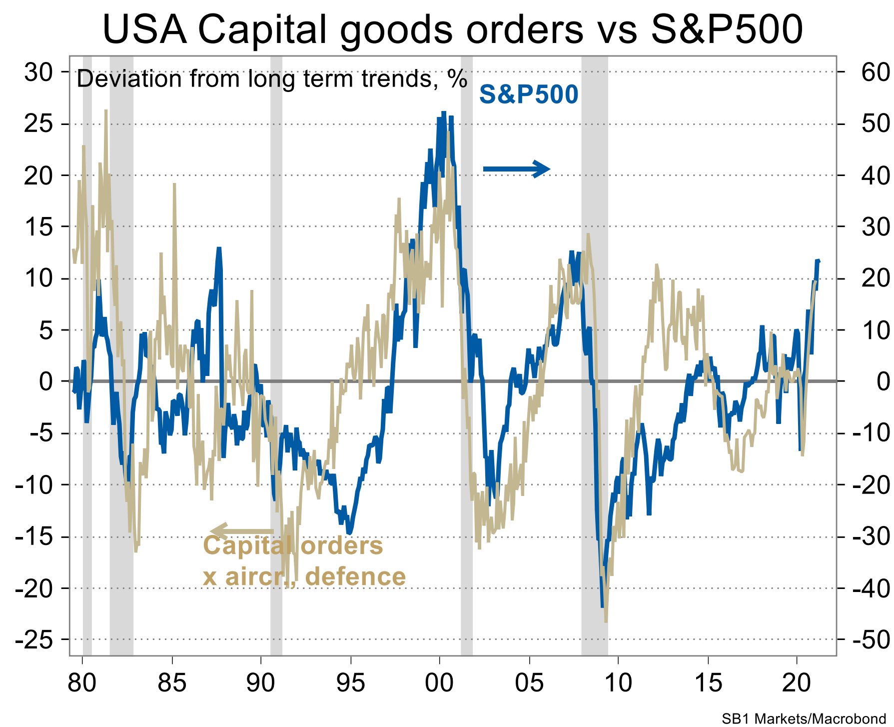


- It's hard to move the acyclical (non-cyclical) components of the PCE deflator
- The trimmed mean has fallen to 1.7%

Durable orders are surging! Business investments very likely sharply up in Q1 too

Stronger growth than expected in Jan, history revised upw. – levels far above pre corona, except aircr.

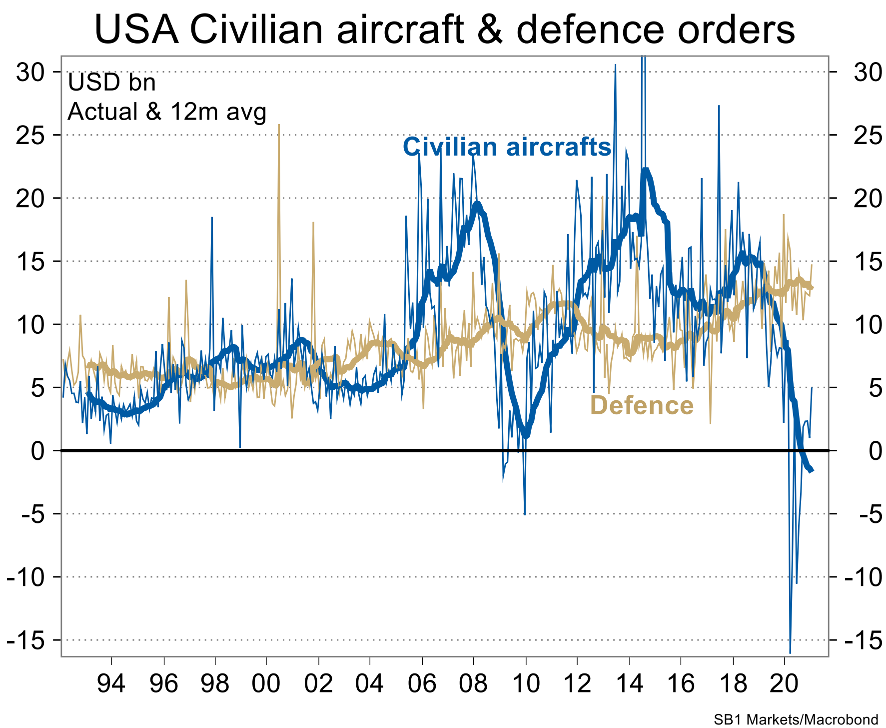




- **Total durable orders** up 3.4% in Jan, expected +1.5%. Dec revised up 0.7pp. Inflow the 3rd highest ever, and 6% above the pre-corona level, even included a 3% drag from still very low aircraft orders
- **Core orders** (ex aircrafts & defence) rose by 0.8%, probably in line with expectations. The level is 7% up from last Feb, & ATH
- **Core investment goods orders** rose 0.5%, as expected - and the level is spectacularly strong – up 9% vs. the level in early 2020. In 2020, orders rose by 3% vs. the 2019 level!! *(Check the 'long' history 3 pages forward)*
  - » Business investments 13.8 % in Q4, and are down just 1.3% y/y! This was not a normal investment recession

Boeing orders have taken a huge hit, now back in (net) plus

The net order inflow is still very low, for sure

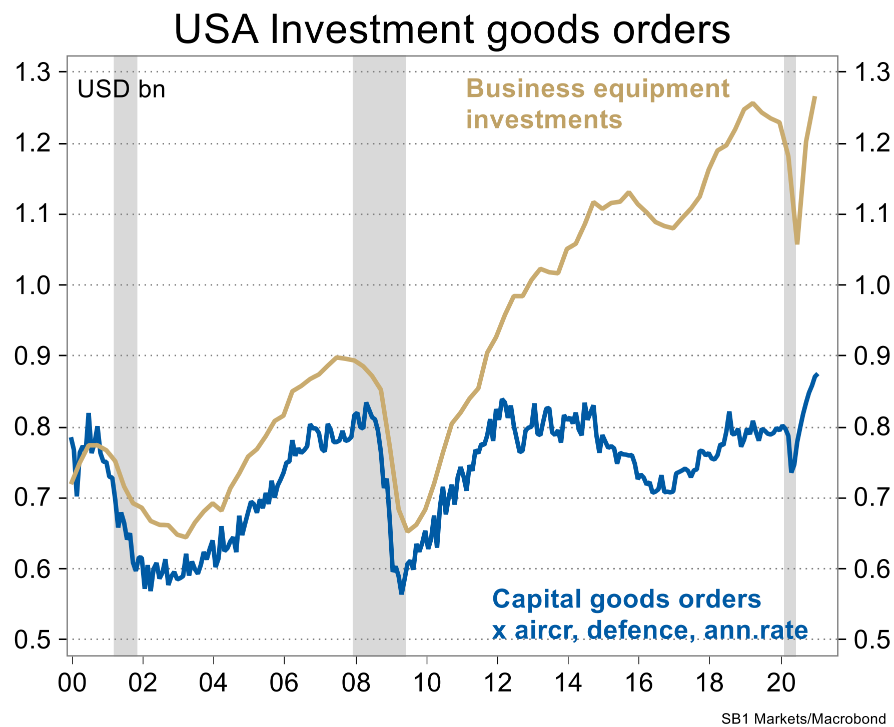


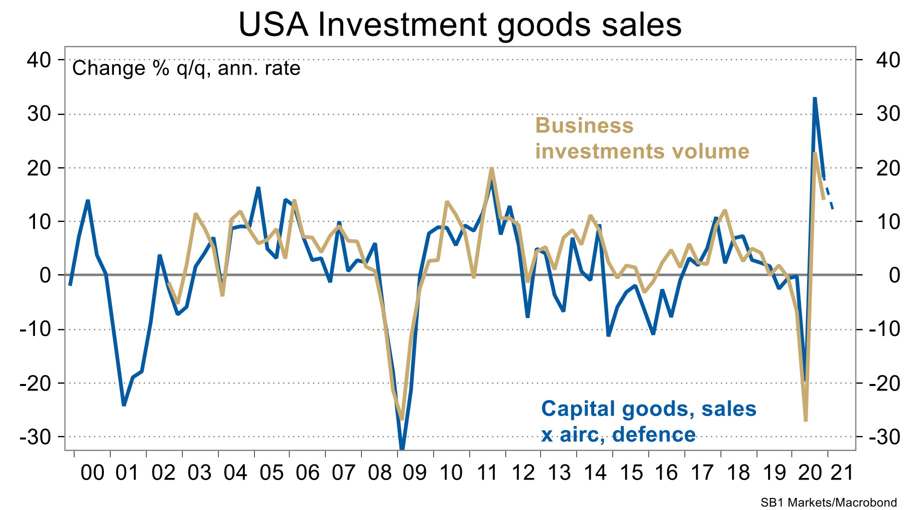
- Compared to 'normal' turbulence in this industry, the weakness over the past 3 quarters is not surprising at all – even if the USD 40 bn net cancellations to August from March were unprecedented

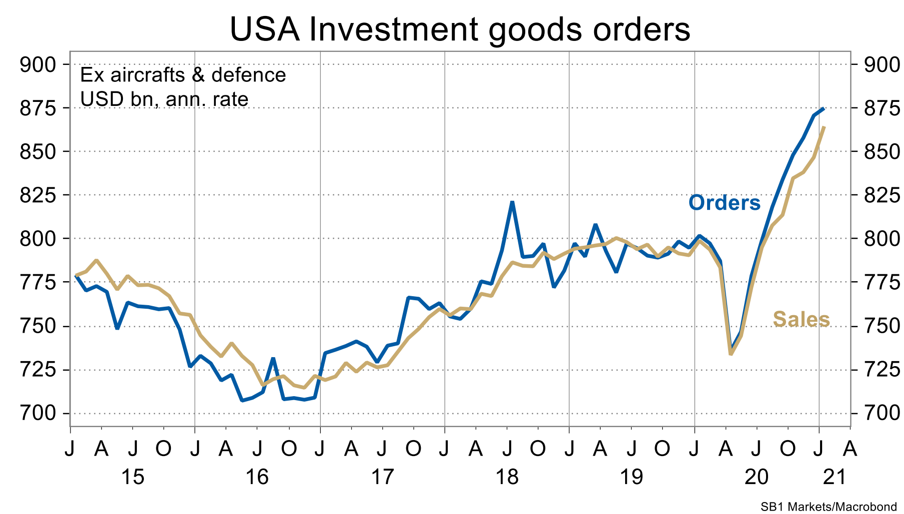
SpareBank 1 MARKETS

Core capital goods orders & sales rose further in Jan, 10% above pre-corona level!

In 2020, orders rose by 3% from 2019. The gap in the 'V' is invisible, with a relevant x-axis



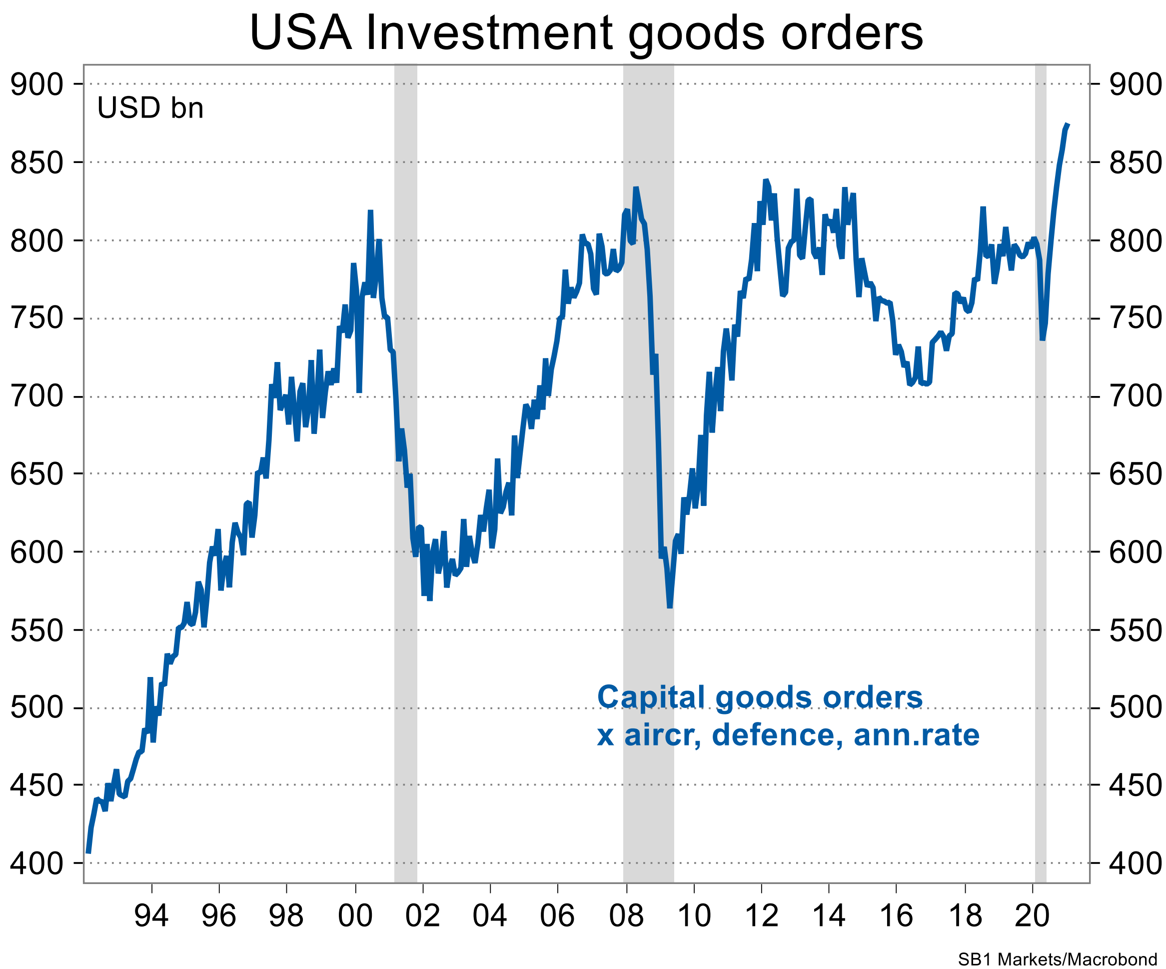




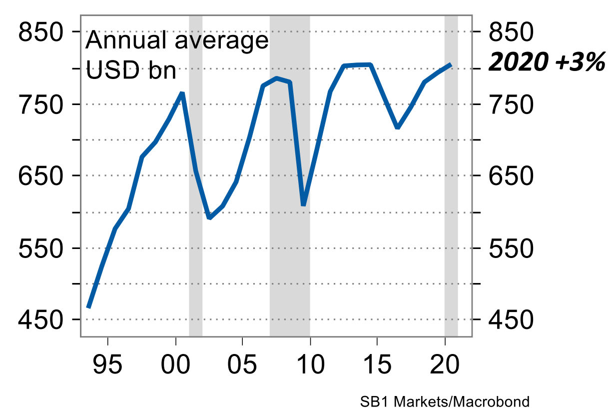
- Business inventories rose by 13.8% in Q4, and surveys signal a further increase in business investments (check 2 p fwd)

Investment orders: The most shallow & shortest downturn ever

Can you spot if anything happened around 2020? Investment goods orders rose 3% from 2019

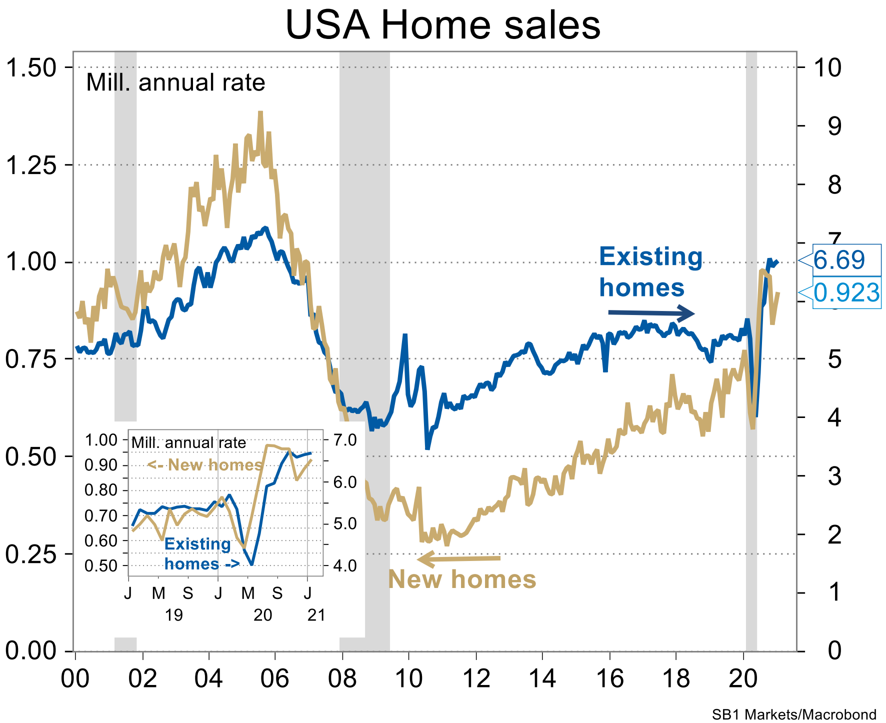


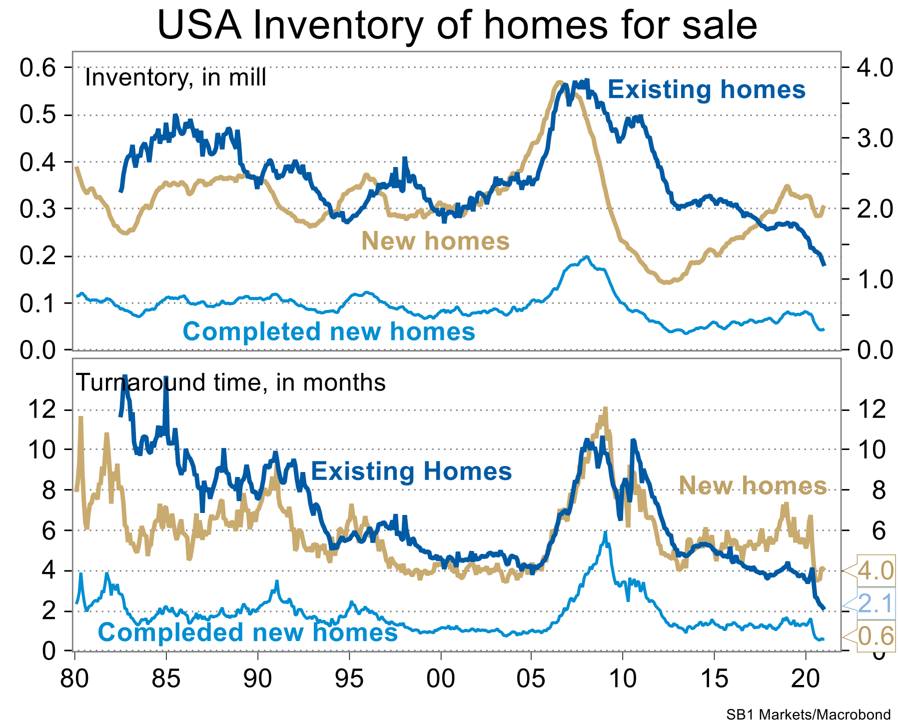
- The areas in the ‘Vs’ or ‘Us’ describe the aggregated losses during downturns
- Was the ‘V’ in the overall economy so sharp, that companies did not have time to react??
  - » Usually, the decline in investment goods orders, as well as in actual business investments, are stretched out over time, typically one year or even more. Then it takes 1- 2 years to recover back up to the pre-recession level. Now, the decline lasted 2 months, and the recovery up to the pre-crisis level lasted just 3 months ☺



New home sales up in Jan, almost 25% above the pre-pandemic level

The housing market is strong. The inventory of completed homes are at a very low level

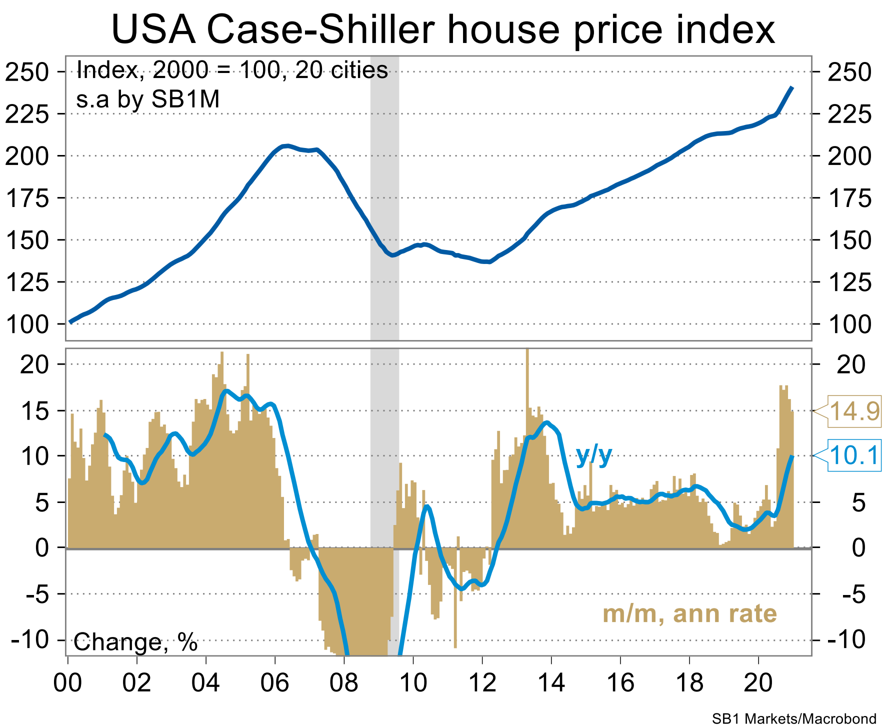


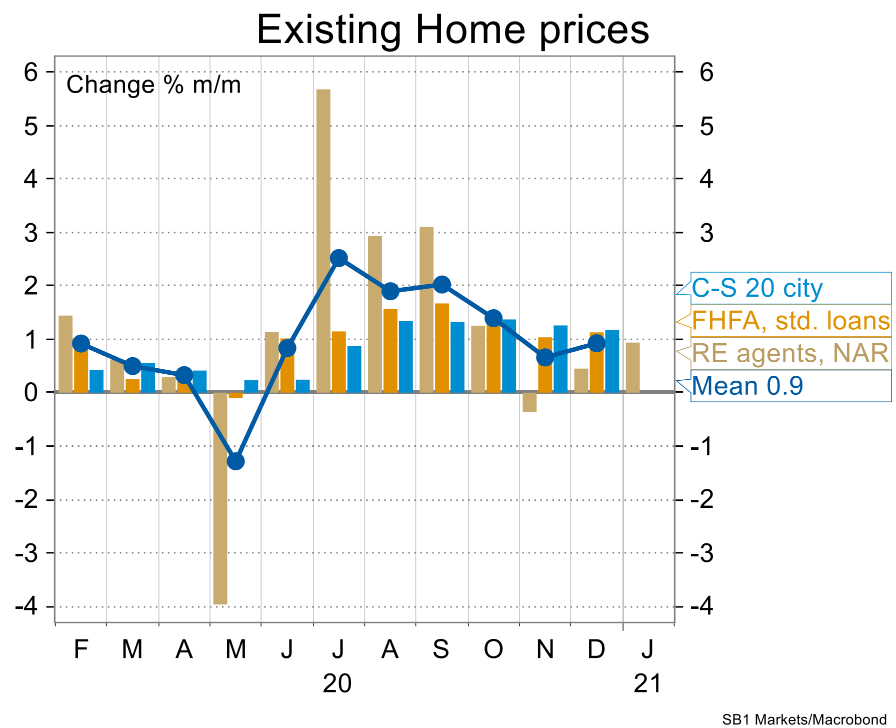


- **New home sales rose 38**' to ' 923' in January, expected 865' (and Dec was revised up by 40'). Sales are somewhat lower than in Aug – Oct last year but still at a high level – and far above the 2019 level. Few unsold completed homes at the market may dampen sales
- The **inventory of unsold new homes** rose somewhat as more projects were added to the sales list (buildings not yet started), while the no. of unsold completed homes was close to unch. at the lowest level ever, both the actual as well vs. sales of new homes
  - » Sales of **existing homes** have also flattened recently, at an unusually high level – while the inventory of unsold existing homes are far below anything seen before. Pending home sales fell in January, signaling a decline in existing home sales (the transaction) in February
- During the buildup of the housing bubble up to early 2006, both new and existing home inventories rose sharply, in fact all the way from 2001 – and sharply from 2004/2005. **We are clearly not there now, even if existing home prices are skyrocketing! New home prices are up 6.2%**

House price inflation is probably slowing, but very slowly

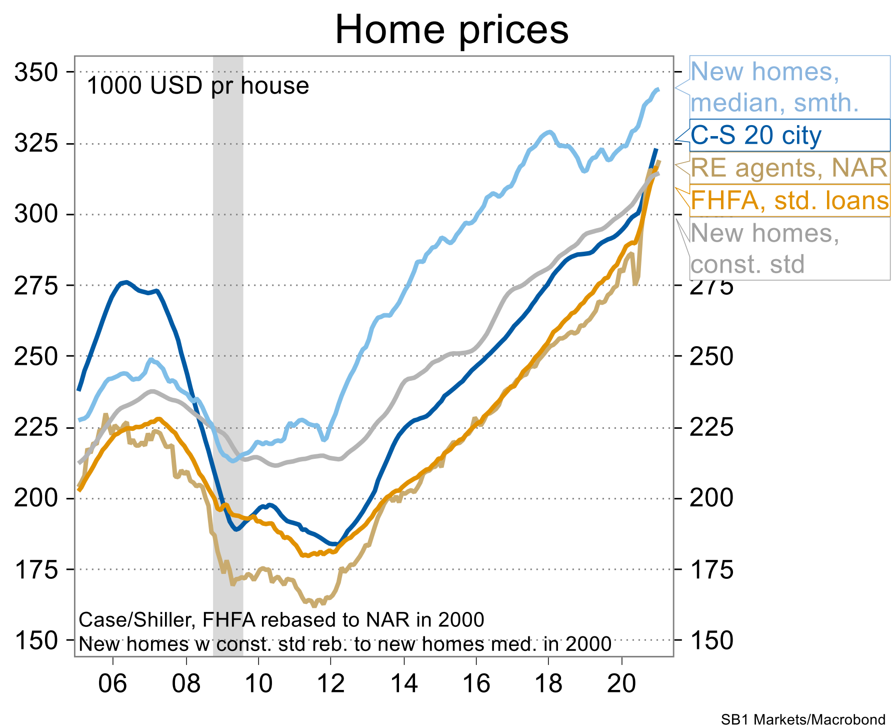
C-S prices up 15% m/m (a.r) in Dec, slightly down vs prev. months

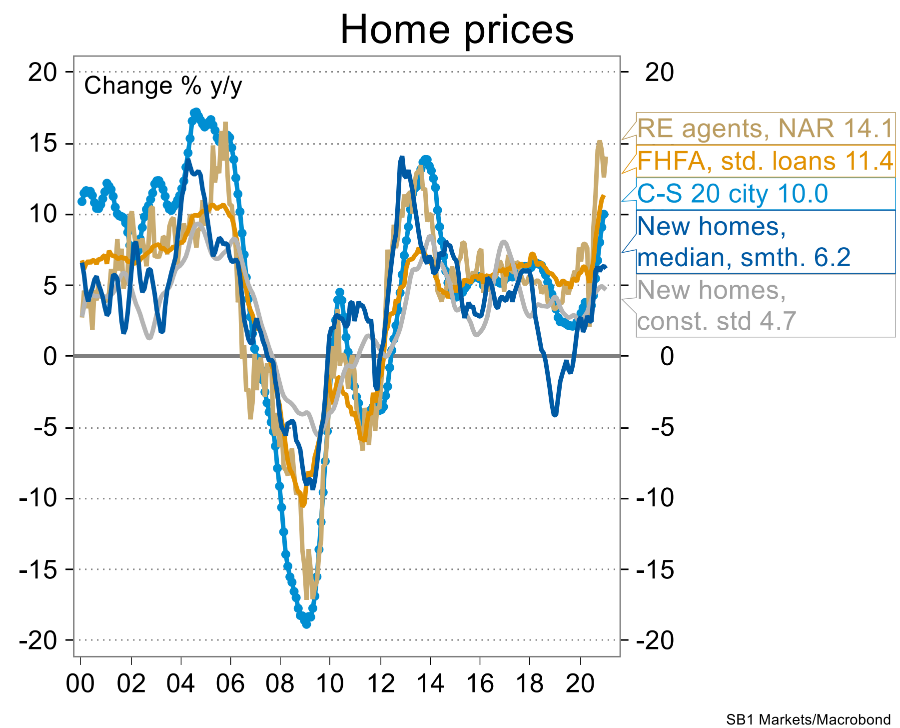




- S&P's Case/Shiller's price index rose 1.2% m/m in Dec (3 m moving avg), marginally slower than over the previous 3 months. The 5-month pace at 17% is just marginally below the ATHs in 2004 and 2005. A corona crisis was just what the housing market needed, at least was the decline in mortgage rates appreciated
  - » The annual growth rate climbed by 1 pp to 10.1%, expected to 9.9%. The miss is far smaller than during the previous 5 months; consensus has been totally off the mark, the rapid price inflation has been unexpected, even if realtors have been reporting rapid price growth since June
- Other price indices have also reporting a sharp increase from July onwards. In Dec the 'official' FHFA index rose by 1.1%

New home prices are starting to move too, up 6% y/y (came in at 3% last month)

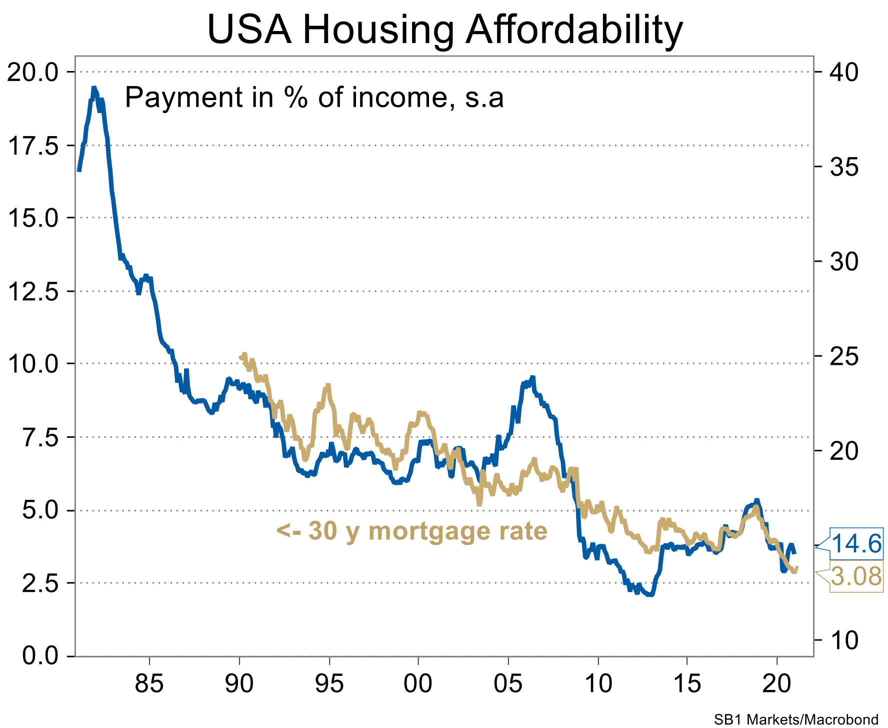




- Existing home prices are up at least 10% y/y
- New home prices just up some 5% – 6% (5% standard adjusted)

Homes are still very affordable, because the mortgage rate is so low!

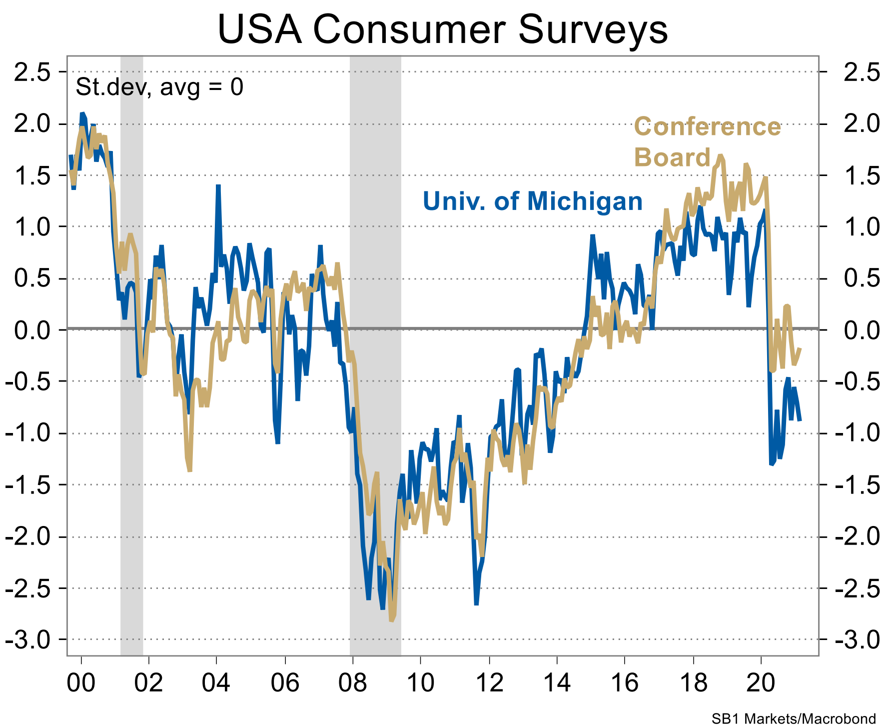
BTW, it was not high mortgage rates that killed the housing market in 2006. It was oversupply

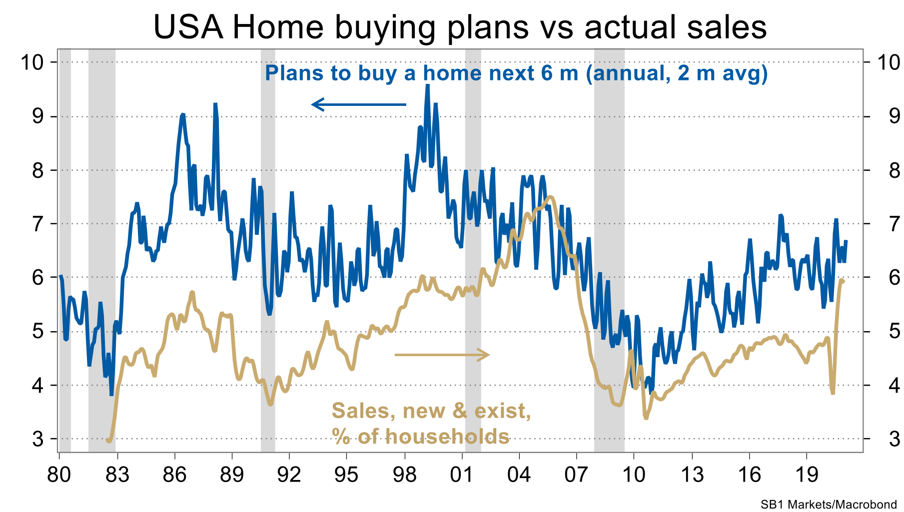


- Induced by too high prices

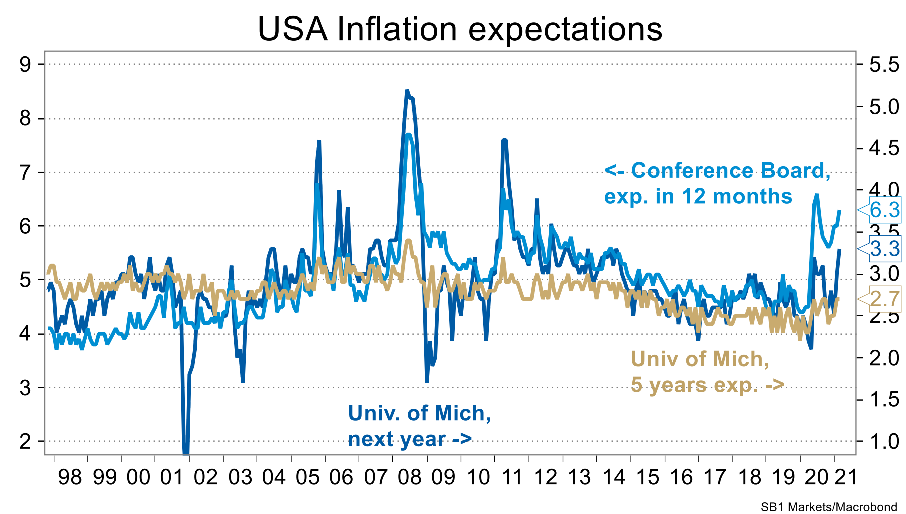
Consumer confidence marginally up or down in Feb, depending on whom you ask

Conf. Board's consumer confidence a tad up, Univ of Mich sentiment down. Inflation expect. up!



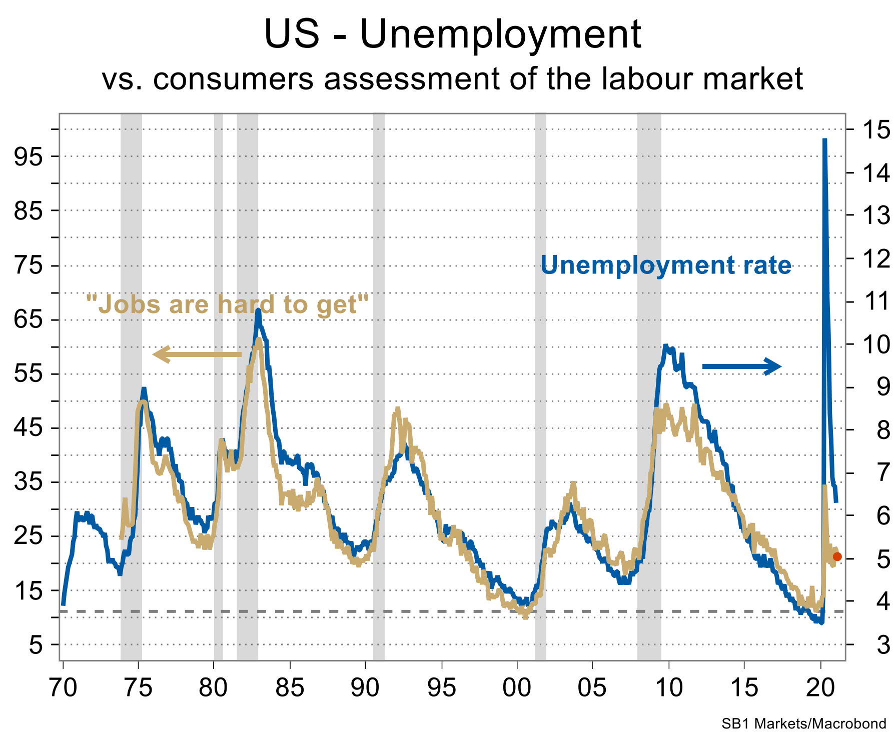


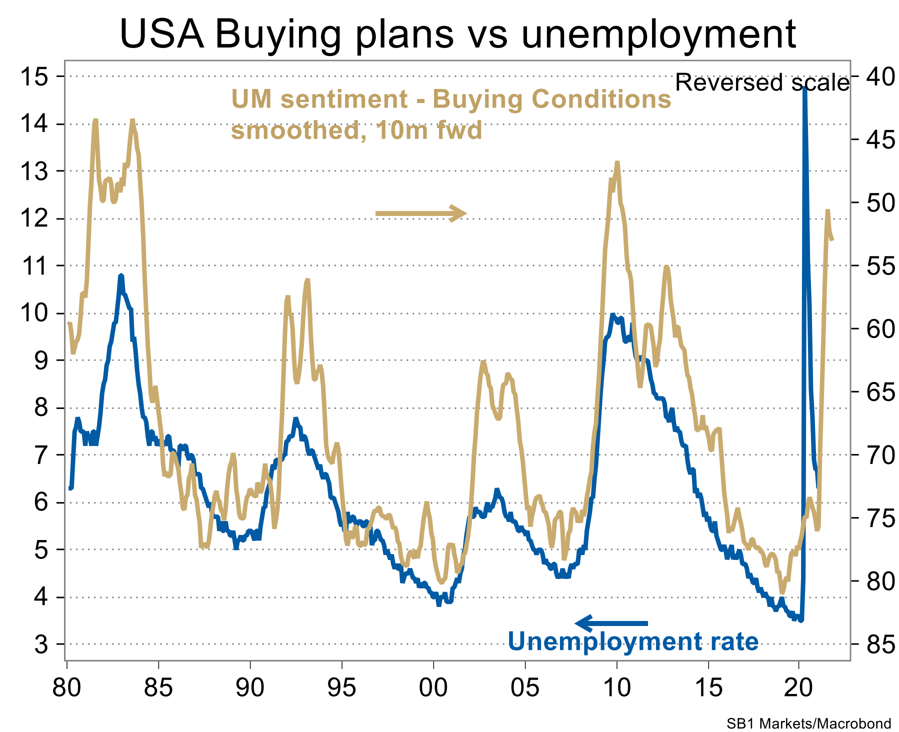
- Both the assessment of the **current situation and expectations** rose, according to Conf. Board
- **Inflation expectations** are have increased sharply in recent months, and are far above average levels, especially for the coming year
- **Jobs are quite easy to get**, as if the unemployment rate was 5%, not like the actual 6.3% rate, according to the survey
- House buying plans are still upbeat, and actual sales are strong
- **Univ. of Michigan's sentiment** was slightly higher than first reported, but still declined in February



The labour market is not that bad, households report

Their assessment normally corresponds to a 5.0% unemployment. Actual unempl. 6.3%

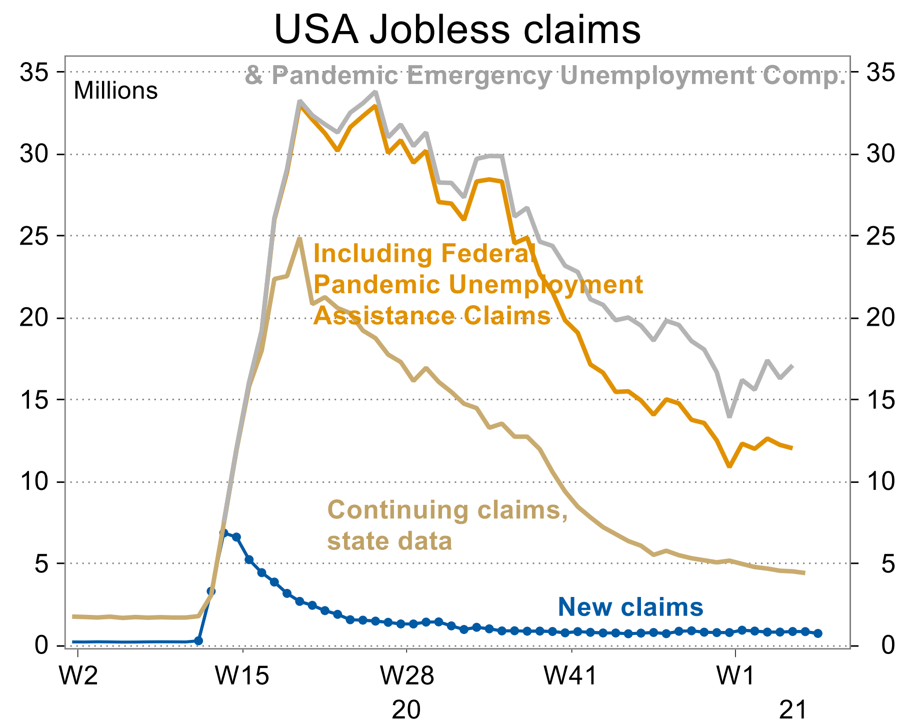




- On the other hand: The measure of buying conditions from UoM are at very low level (the scale is reversed on the chart to the right) – usually not a good sign

A new jobless claims drop last week, due to the winter storm?

New claims have been trending slowly up since late last autumn, but fell by 111’ last week

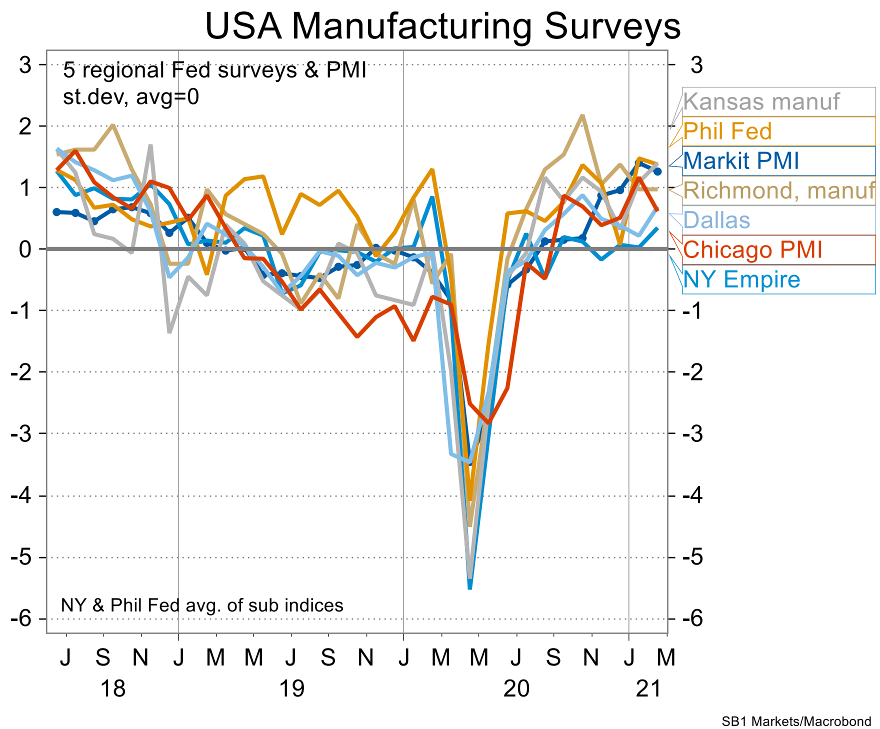


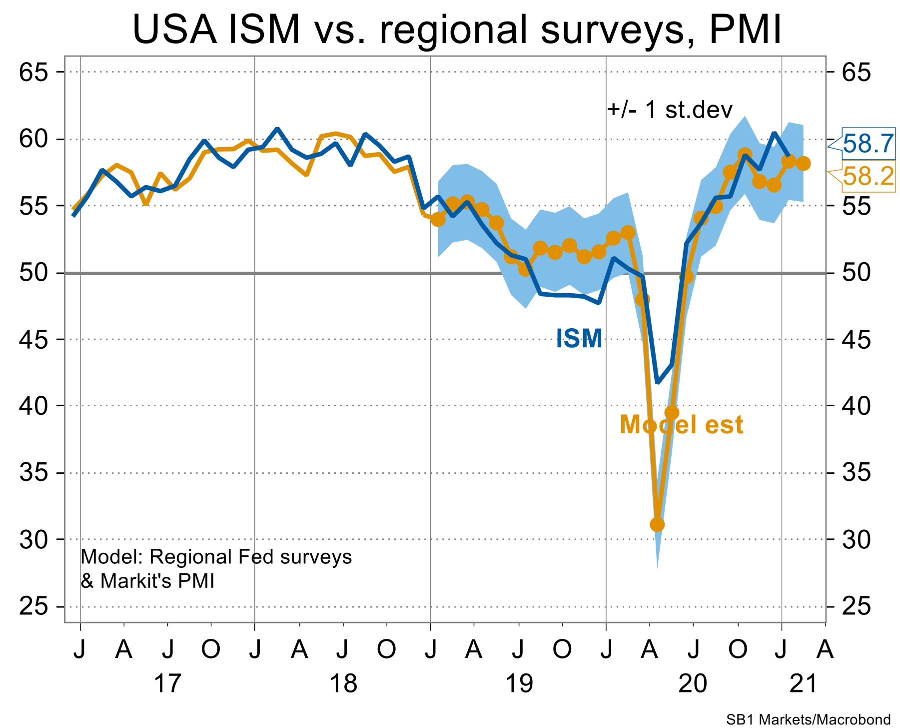
- New claims fell by 111’ to 730’, and the previous week was revised down by 20’ – in sum far better than expected. Most likely, the winter storms have prevented applicants for turning up – and following harsh weather some are normally laid off. So, we take last week’s number with a grain of salt
  - » Anyway: The inflow is far above anything “normal”, signalling still serious ‘turbulence’ at the US labour market
- Pandemic unemployment programs’ claims rose, as expected, following the extension of these programs from the start of 2021

SpareBank 1 MARKETS

Mixed February regional manufacturing surveys, the avg. marginally down

… but the level is still strong – and signals an ISM index not far below 60 (expected 58.6)

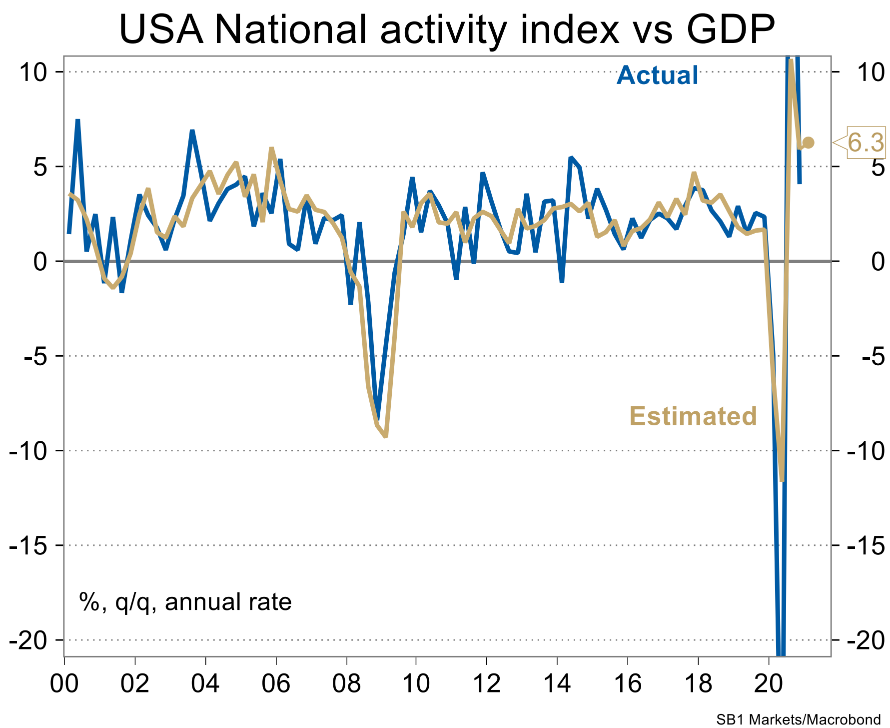


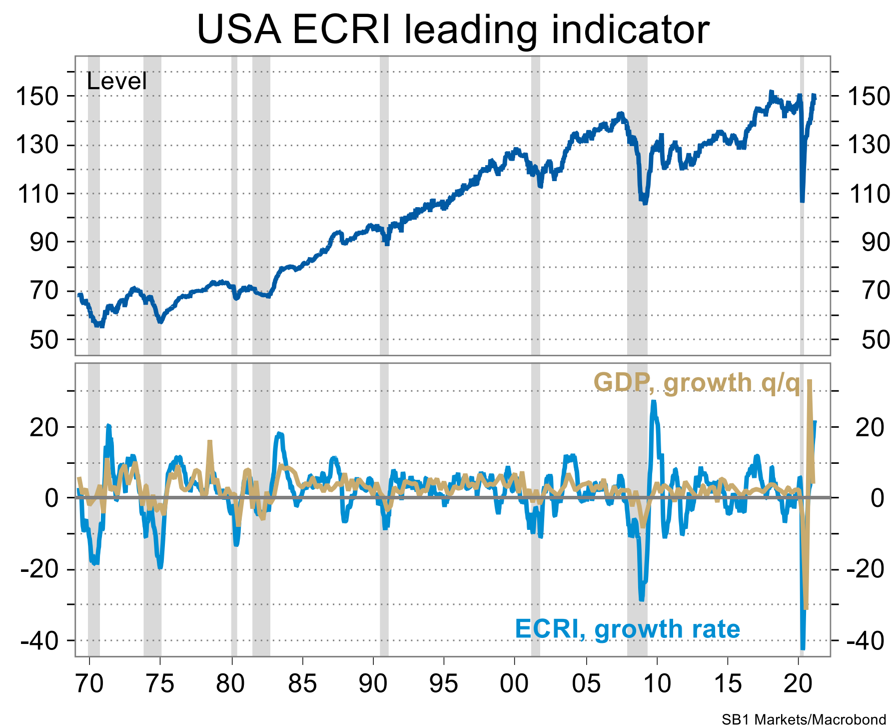


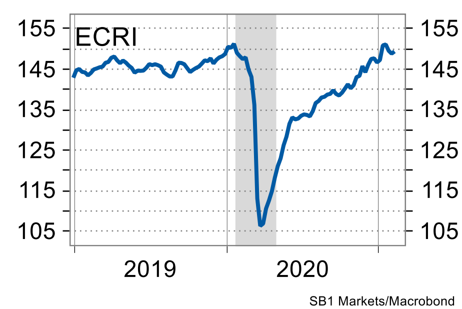
- Chicago PMI fell more than expected in February, as did both Philadelphia Fed's and Markit's national index
- NY, Dallas & Kansas Fed's indices rose

The national activity index, ECRI leading indicator confirm cont. growth

No signs of growth slowing to below trend growth in Q1

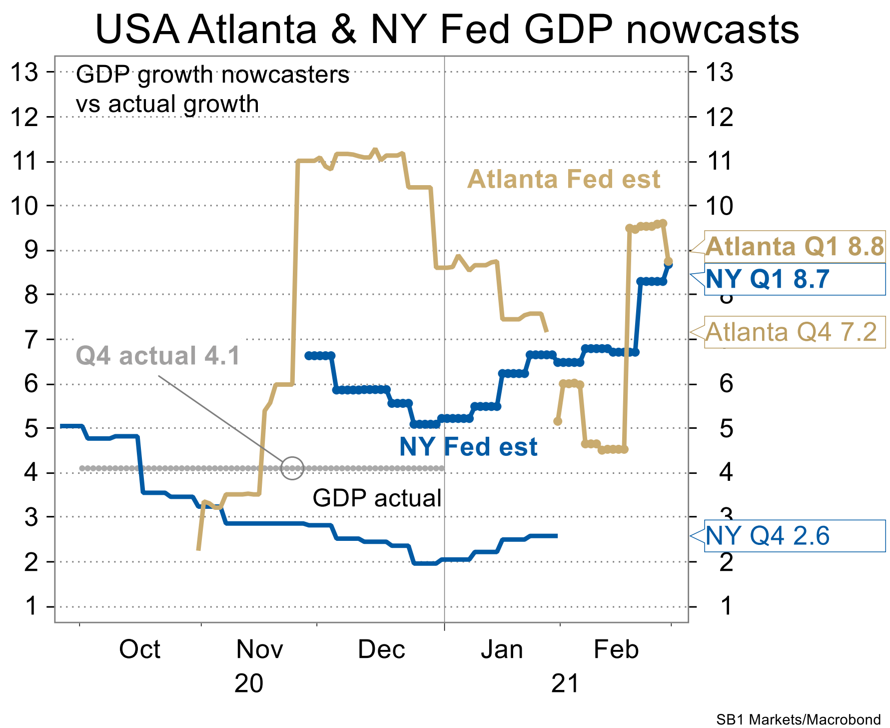


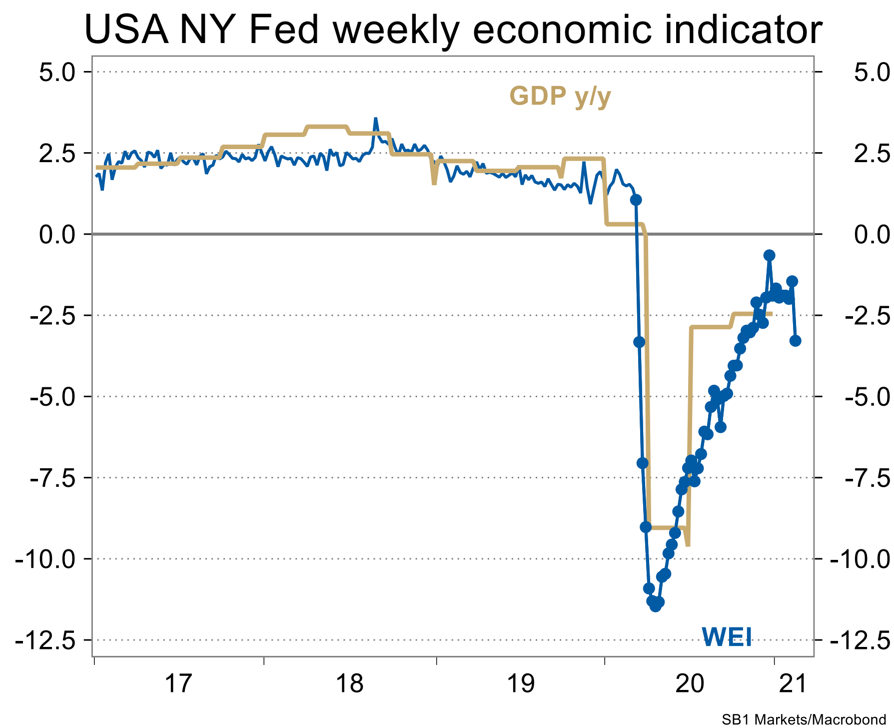




Q1 GDP towards 10%? At least according to (most of) Fed's nowcasters

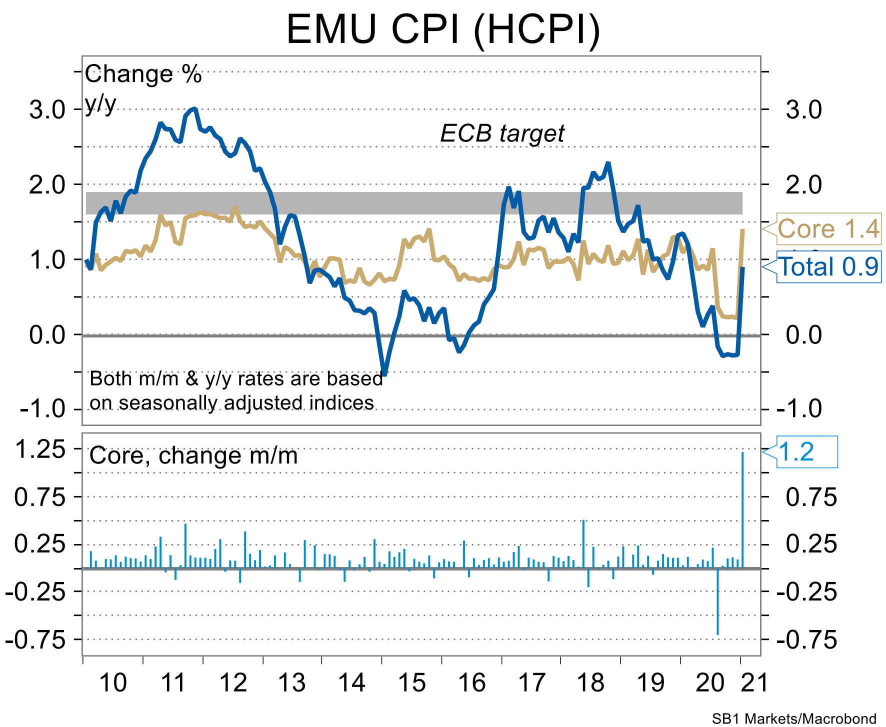
NY Fed's weekly GDP indicator does not signal a further narrowing of the gap vs. pre corona

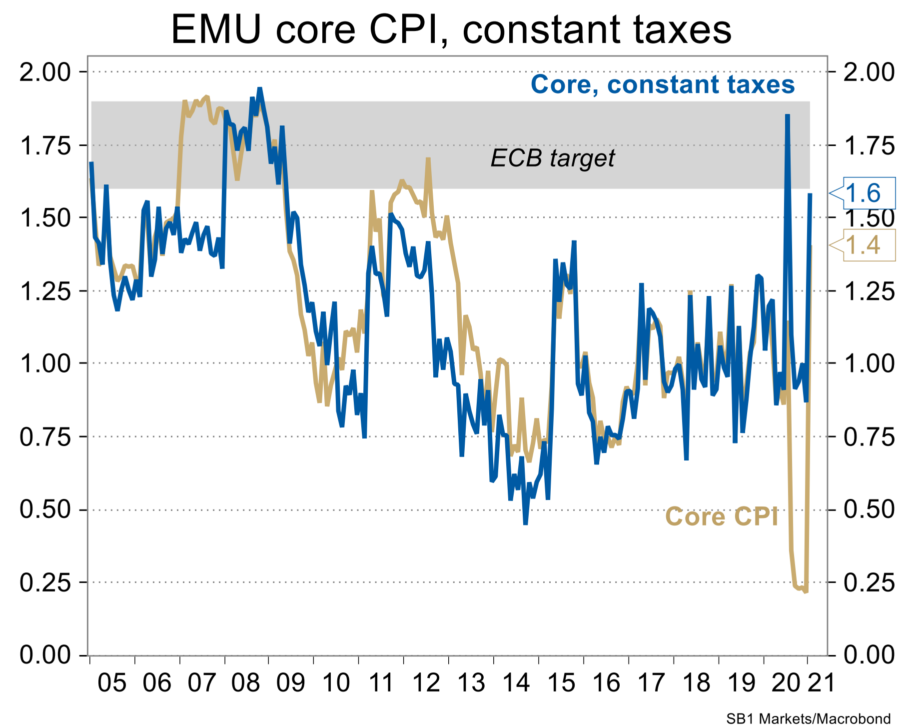




Inflation confirmed sharply up, core y/y up 1.2 pp to 1.4%

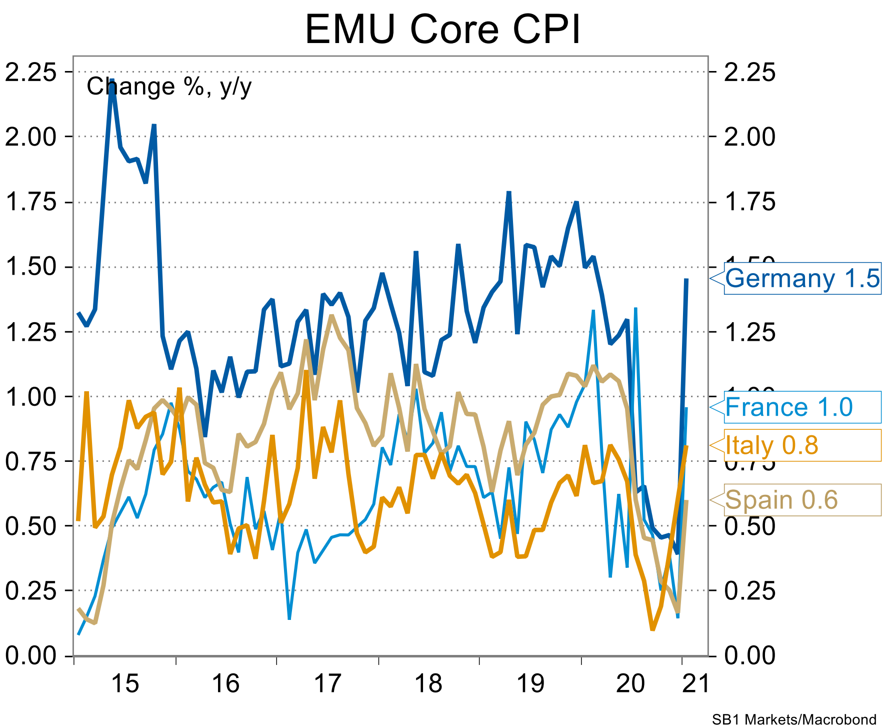
The only surprise in the final report: Tax increases contributed less than we assumed, clothing more

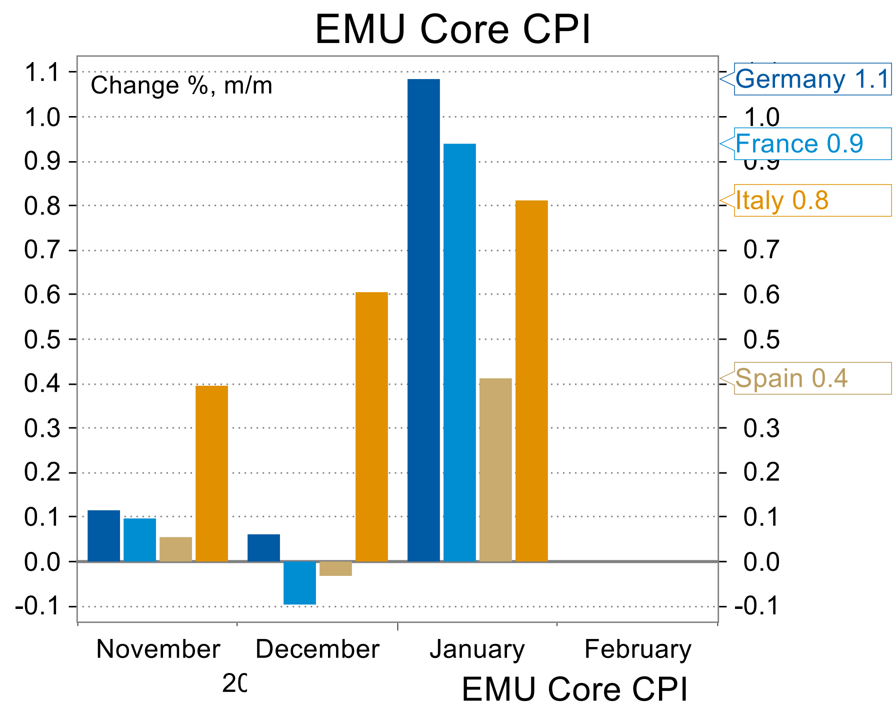


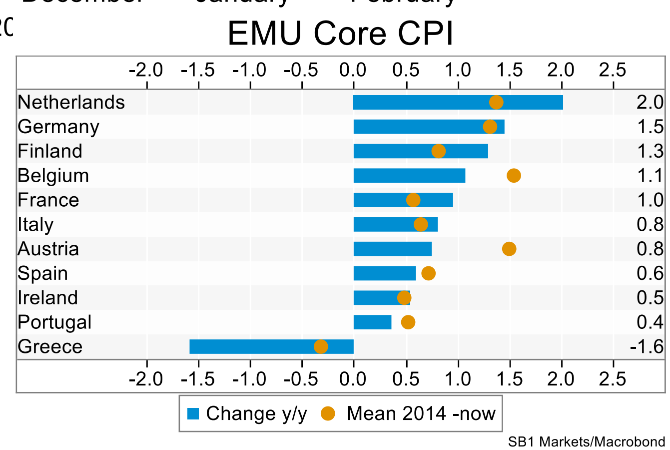


- In January, core prices rose by 1.2% m/m and the annual rate shot up to 1.4% from 0.2%. Core inflation rose in all the major countries, the most in Germany and the Netherlands. The German VAT rate was normalised, following a 3 pp cut since last summer
  - » Even so, the **core, constant taxes CPI** rose sharply in Jan, up by 0.7% m/m, and the annual rate accelerated by 0.5 pp to 1.4% y/y, far higher than we assumed. If the calculation is correct, other factors have contributed as well: Transport services, and food prices rose by 0.4%
  - » **Clothing prices** fell far less than normal in Jan (and thus rose 4% m/m seas adj.) because seasonal sales were postponed in many countries due to lockdowns. Other prices rose as well. Core prices will very likely decline substantially in Feb or March
- Headline HICP was 0.9% y/y in January, up from -0.3% in Dec! Energy prices rose – and will soon contribute to higher inflation

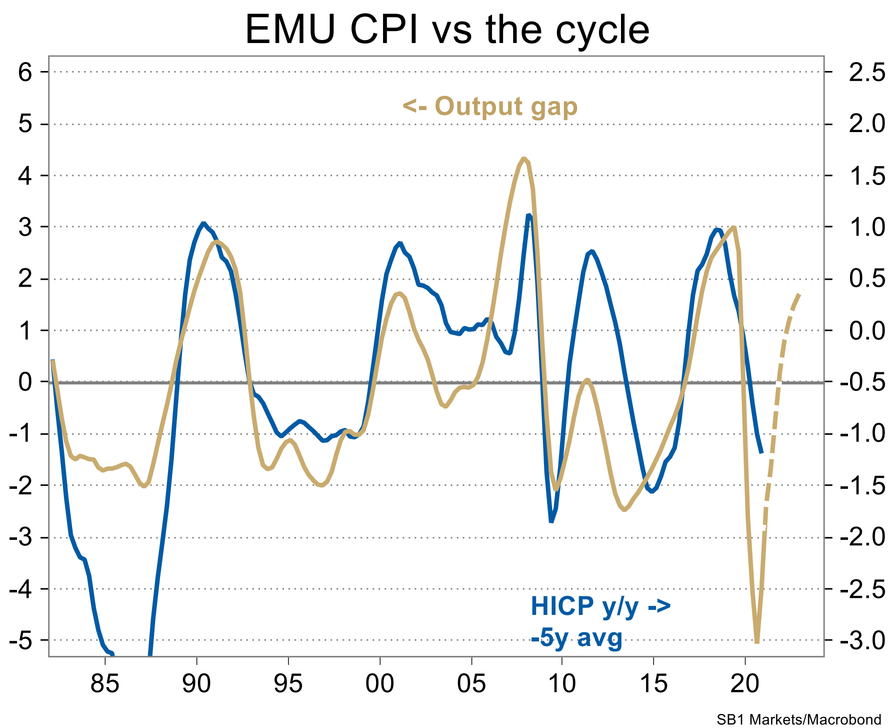
Core inflation up everywhere





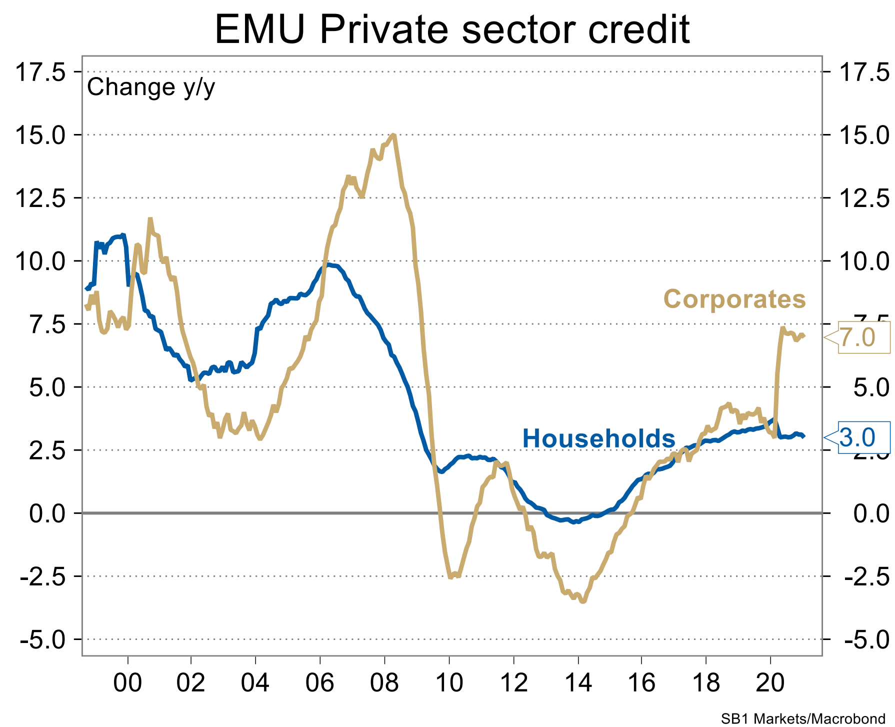


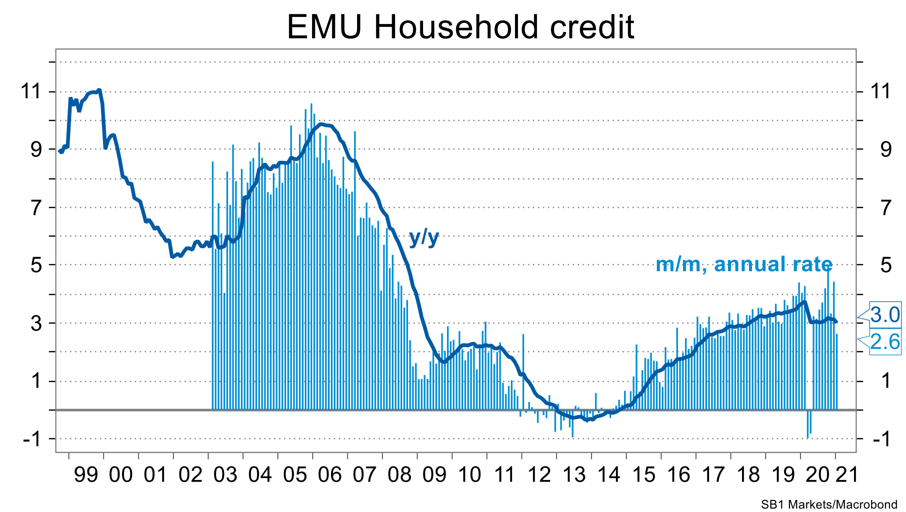
EMU inflation: The business cycle is the driving force!

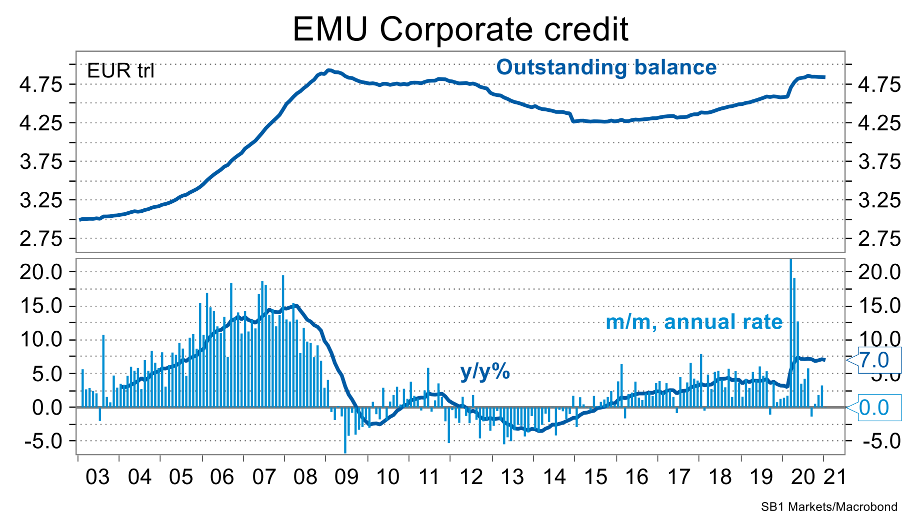


Slow credit growth in January. Lockdowns to blame?

Over the past year, no credit squeeze, household credit +3%, business borrowing +7%

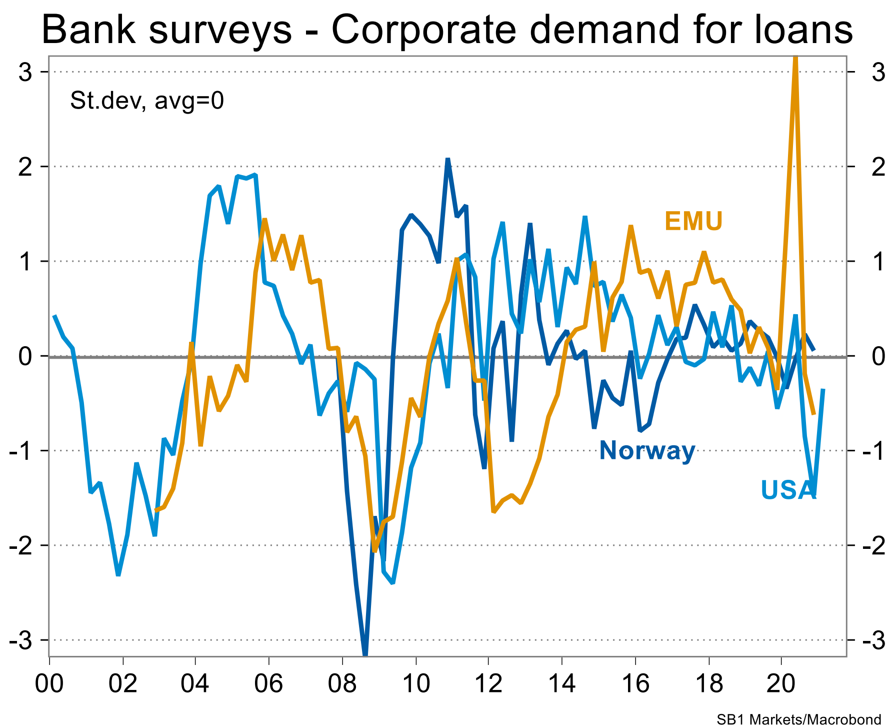


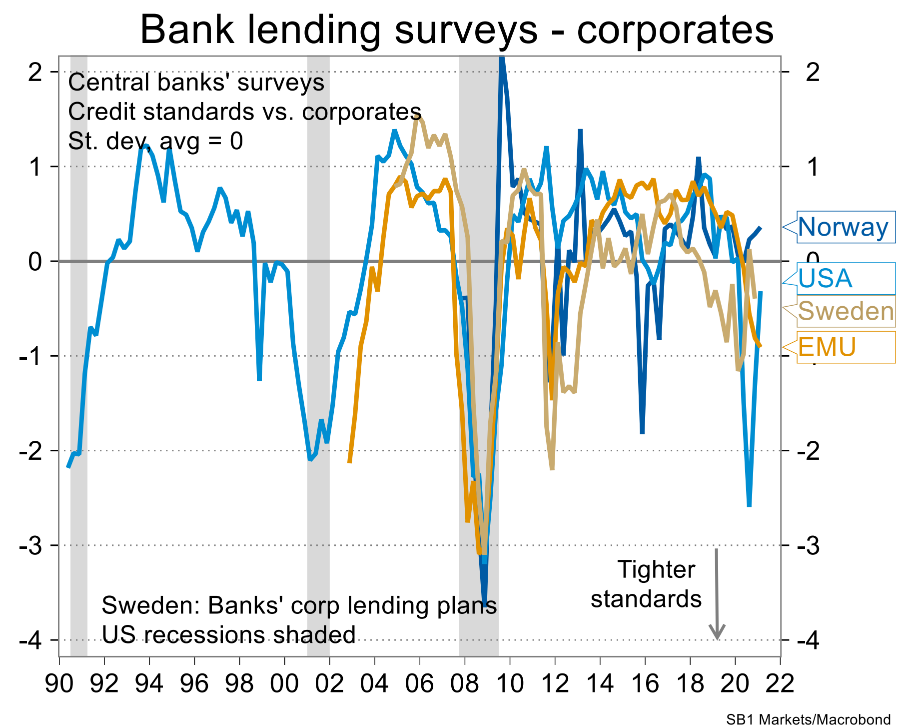




- Household credit grew at a 2.6% pace m/m in January, while business credit was unch vs. Dec
- Household credit is growing some 3% y/y
- During last spring the corporate sector increased its debts by 3% – 4%, as a part of corona support programs but growth slowed late last autumn. The annual growth rate has still been stable at 7%

EMU banks are reporting weaker corporate demand, and are tightening

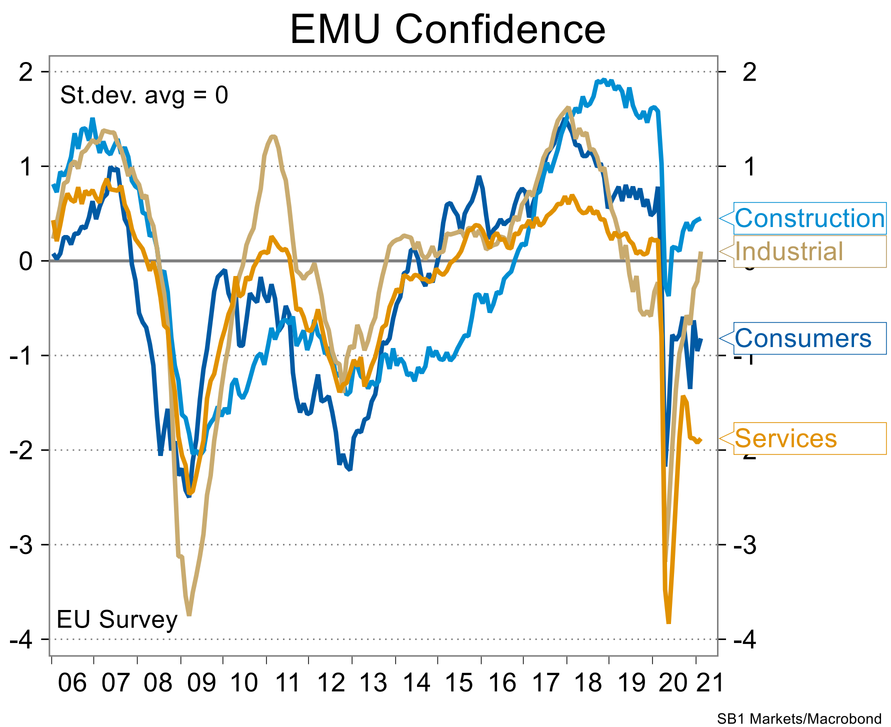


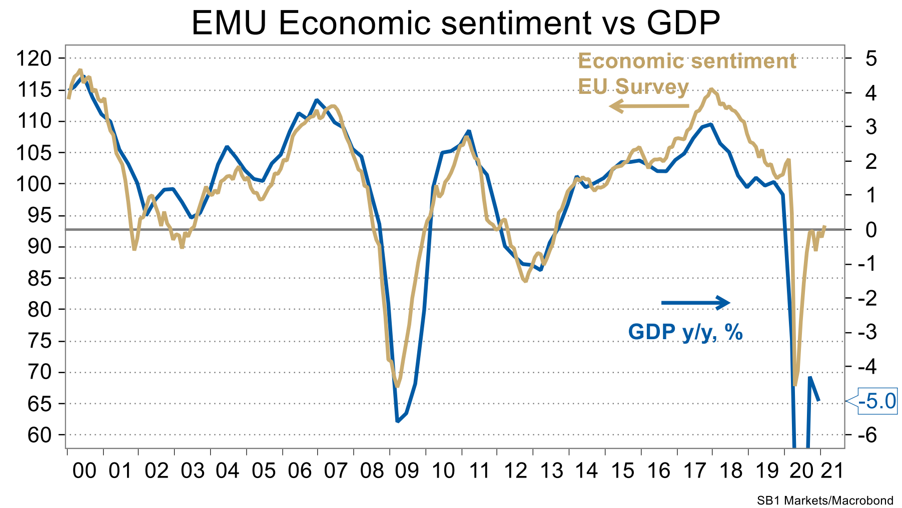


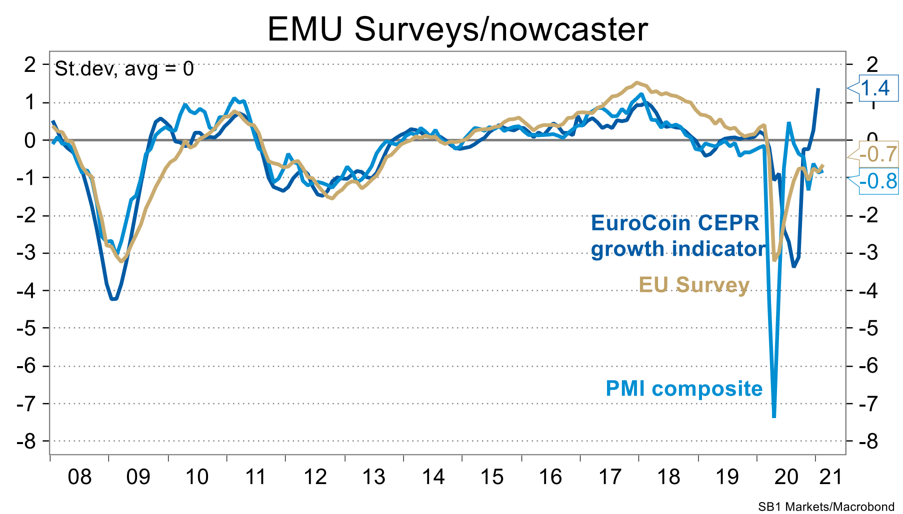
- Less need for credit for a while among Euro Zone businesses, following last spring's hike?
- Banks in the US are reporting signs of stabilizing corporate demand for credit, and are not tightening credit standards, at least not by much

EU economic sentiment marginally better than expected in February

… due to a sharp increase in the manufacturing sector. Still, no GDP growth signalled



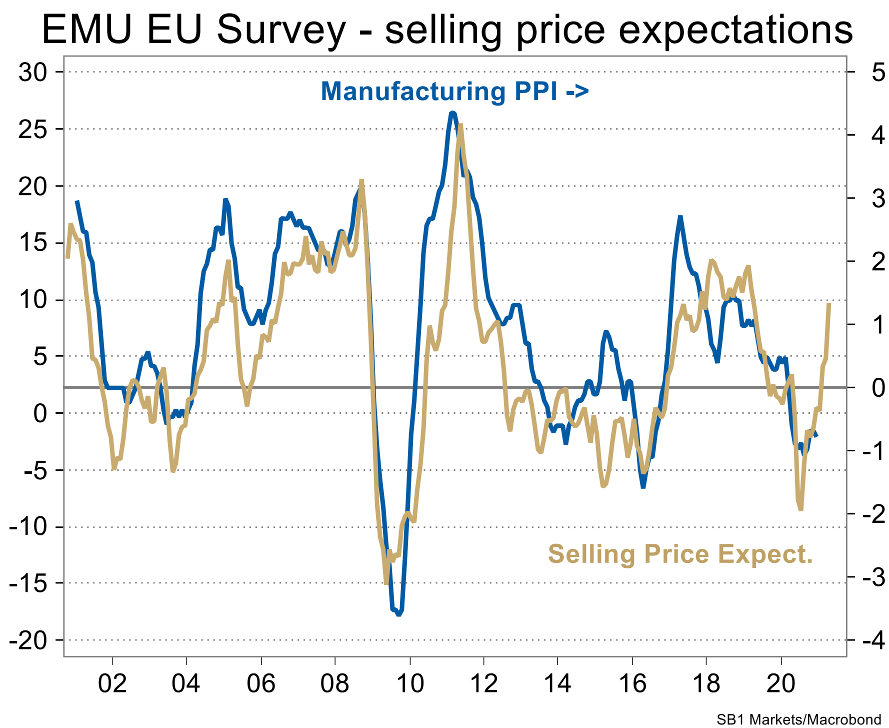




- The confidence survey rose to 93.4 from 91.5 in Jan, expected up to 91.6 – 92
  - The survey is 0.7 st.dev below average, signalling close to zero GDP growth.
  - Construction and manufacturing signal above trend growth, while services are still struggling. Consumer confidence well below trend too
  - This survey has been useless to calibrate quarterly (q/q) growth rates during the pandemic. The same goes for most other surveys (like the PMI/ISMs)
  - Still, these surveys do not signal any disastrous setback in Q1

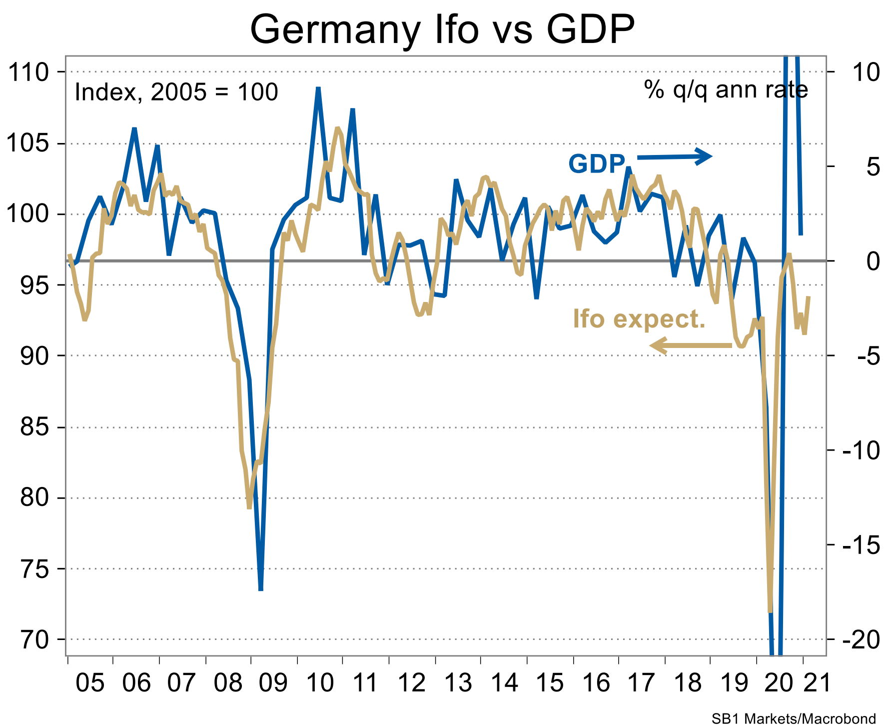
Just for the record: Another survey saying prices are on the way up

No drama in the EU survey but it confirms all other surveys



Ifo up in February, best since October, still signals a decline in Q1 GDP

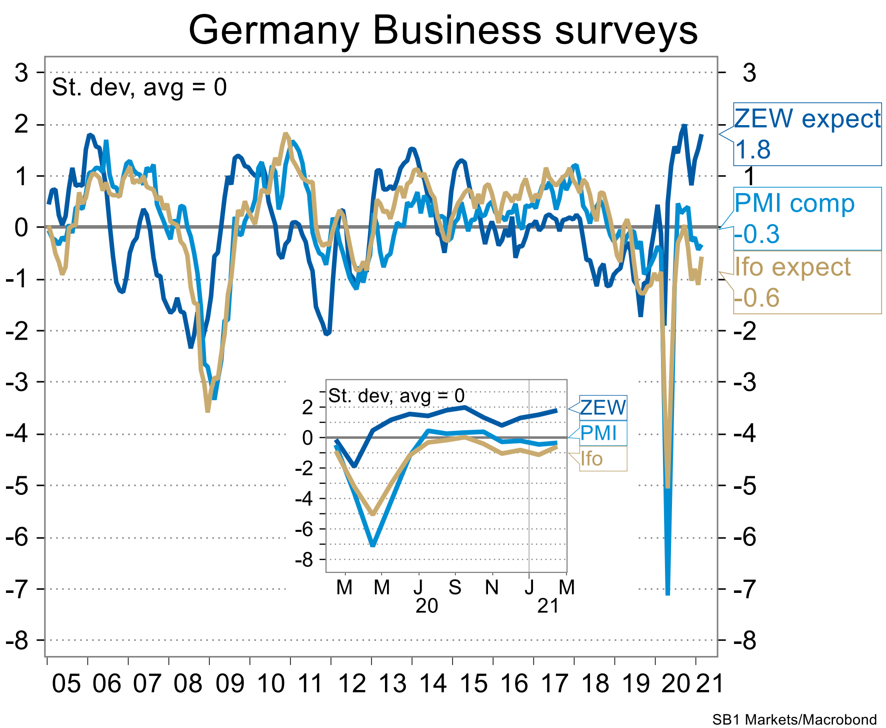
The expectation index rose 3.5 p to 94.2, expected up 0.5 p.



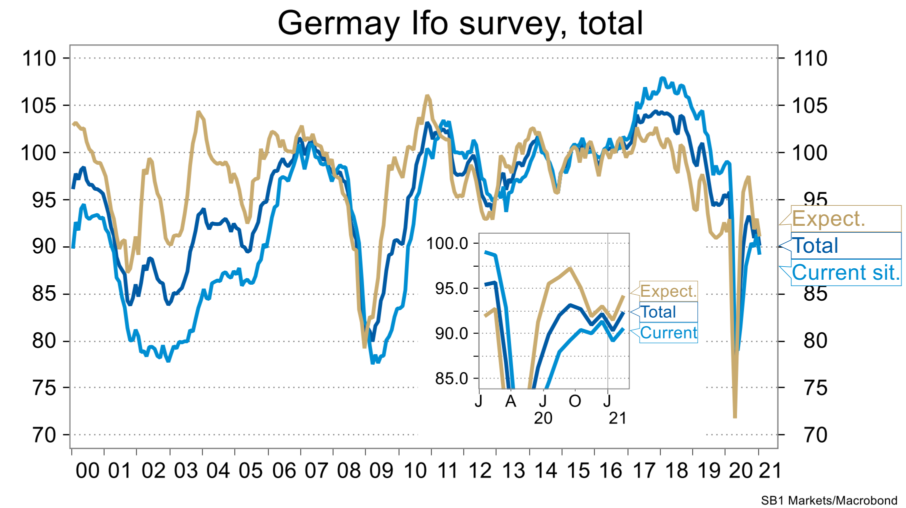
- The current situation slightly better too in February

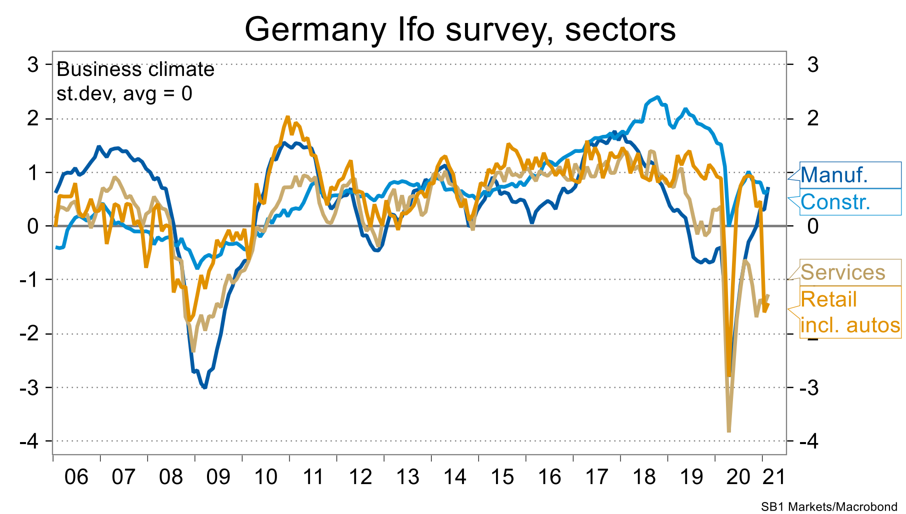
The (locked down) sectors are complaining, manufacturing & construction OK

Retail and other services are not that happy, for goods reasons



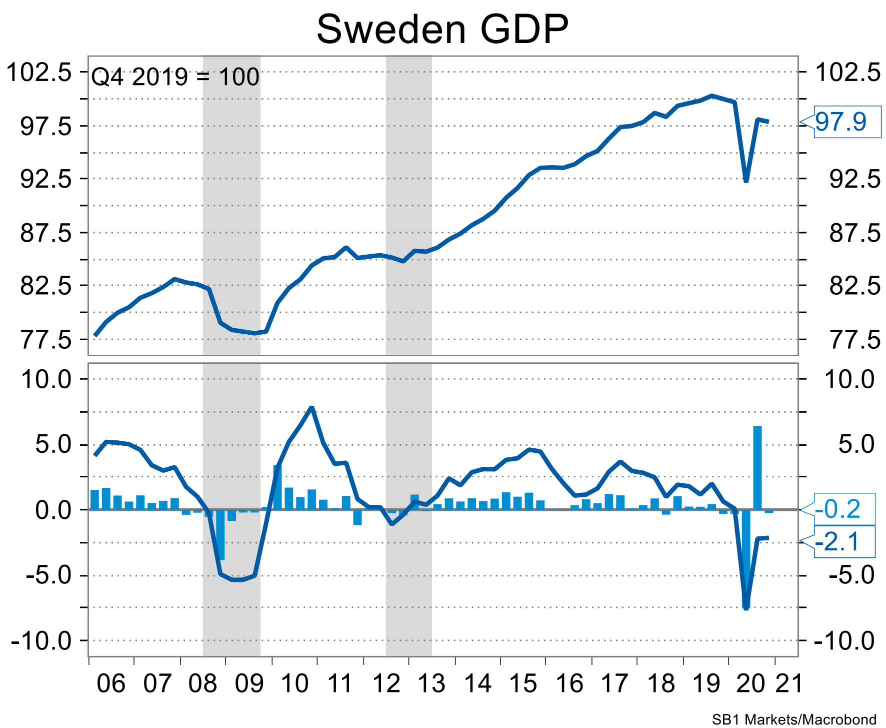
- The ZEW expectation survey (which is a survey among economists and investors, not a business survey) is the most upbeat
- The PMIs has fallen to 0.3 st.dev below average in Jan, from above average in October
- The IFO remains 0.6 st.dev below par
- **The average of the 3 surveys still indicates <u>growth</u> in the German economy**





GDP ~~grew~~ fell by ~~0.5%~~ 0.2 q/q in Q4, still ~~2.6%~~ 2.1% below Q4 2019

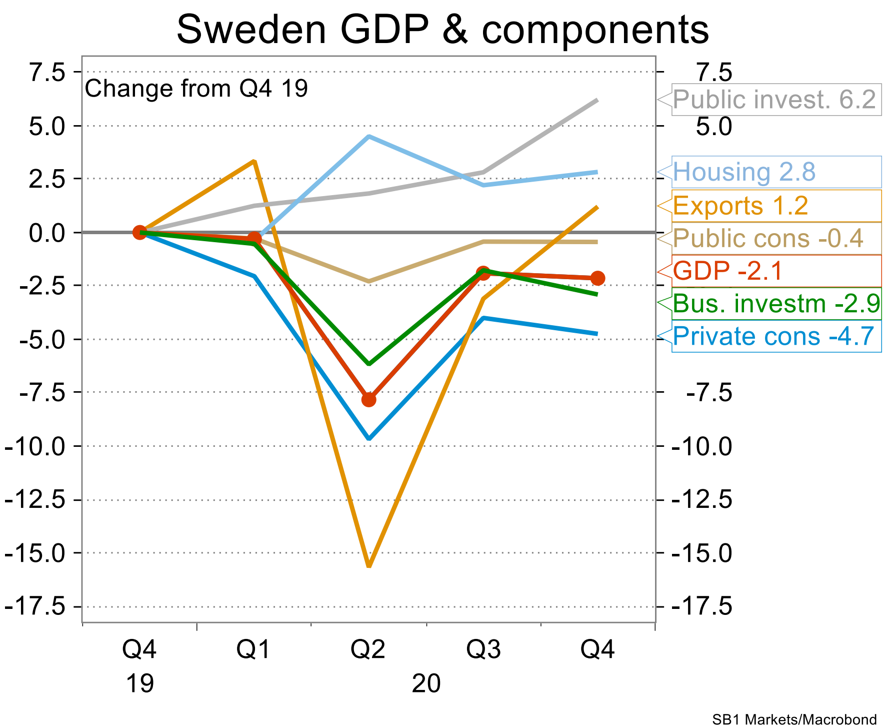
Q4 growth was revised down by 0.7 pp, but Q3 was revised up more – and the Q4 'gap' revised down

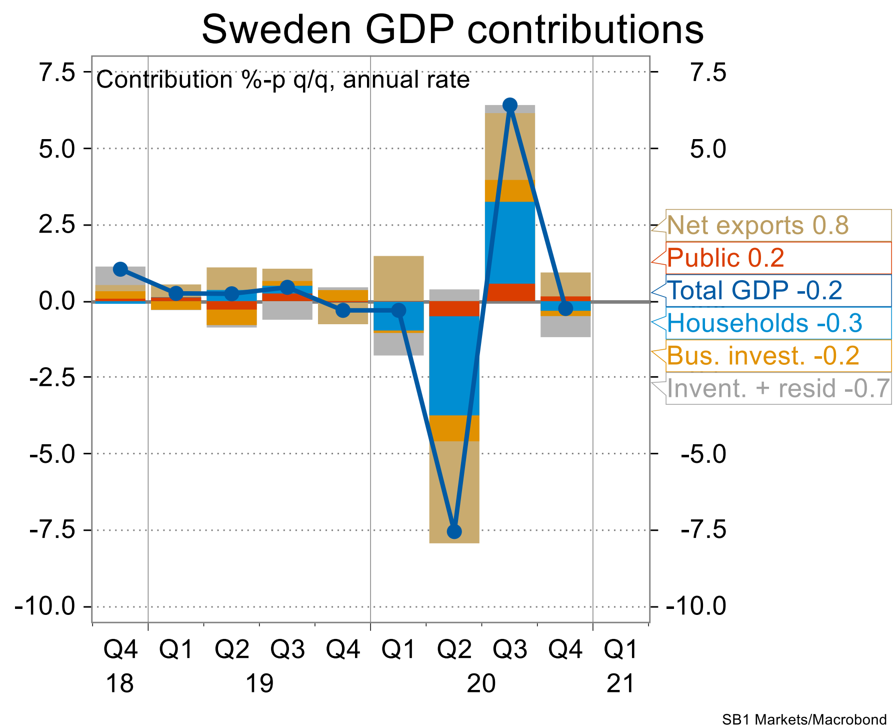


- GDP declined by 3.0% last year, vs 2019, one of the better in the rich part of the world

Private consumption (services) still weak – and so are business investments

Exports, housing and public investments run the show





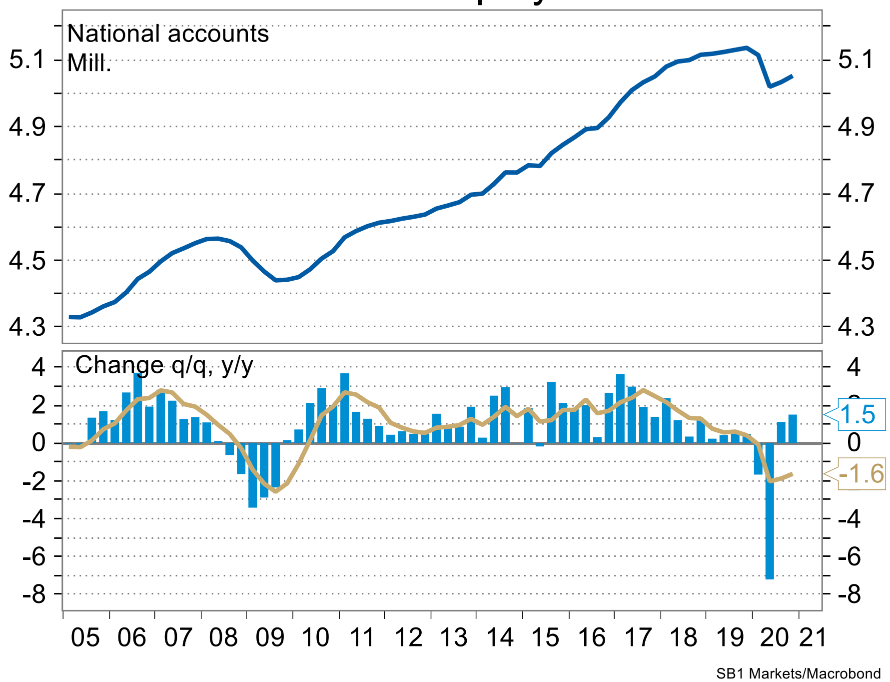
- In Q4, households' consumption of services rose, while goods fell (confirming the drop in retail sales in Dec, which was reversed in Jan)
- Inventories the main drag in Q4, no negative impact on the outlook (rather the opposite)

SpareBank 1 MARKETS

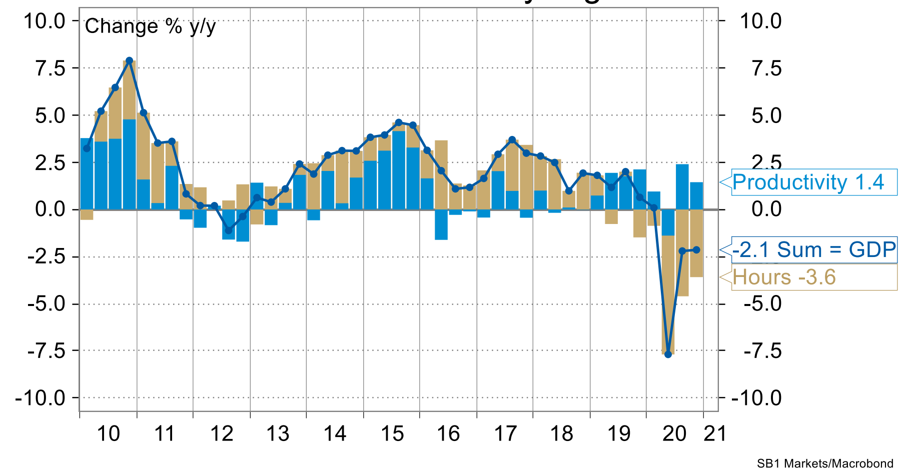
Productivity has been kept up – and hours worked are still down 3.6%

Employment on the way up, down 1.6 y/y (i.e. some labour sharing)

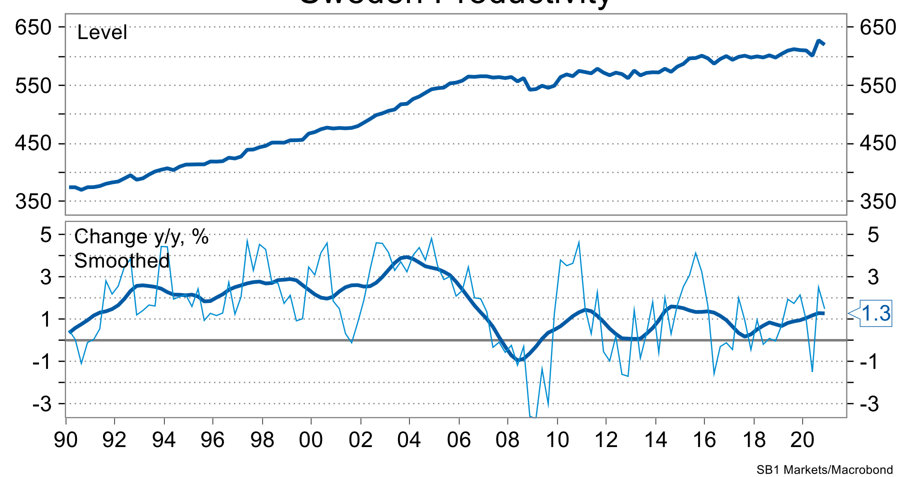
Sweden Employment



Sweden Productivity & growth

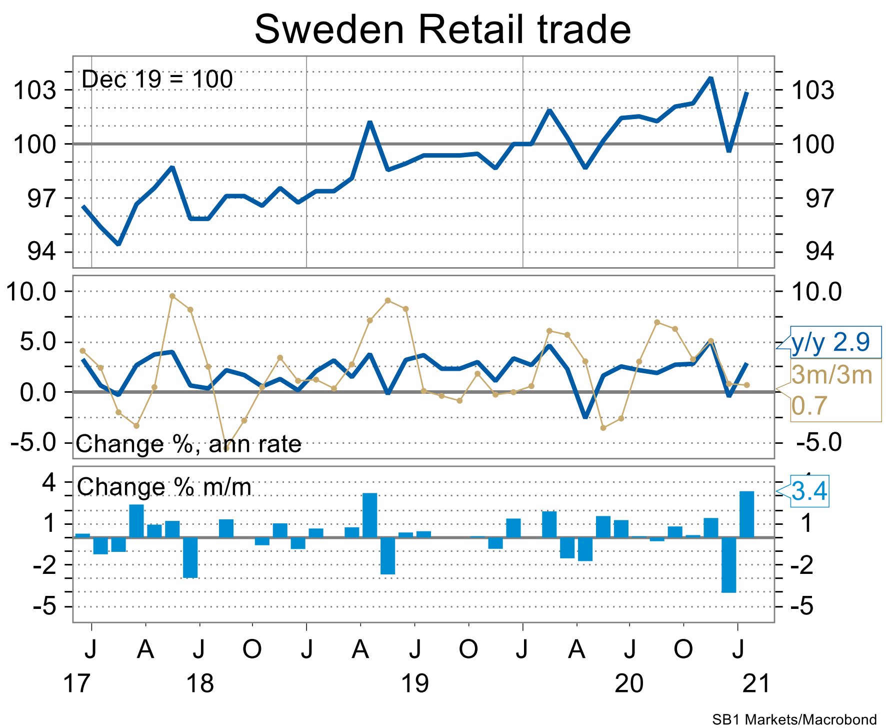


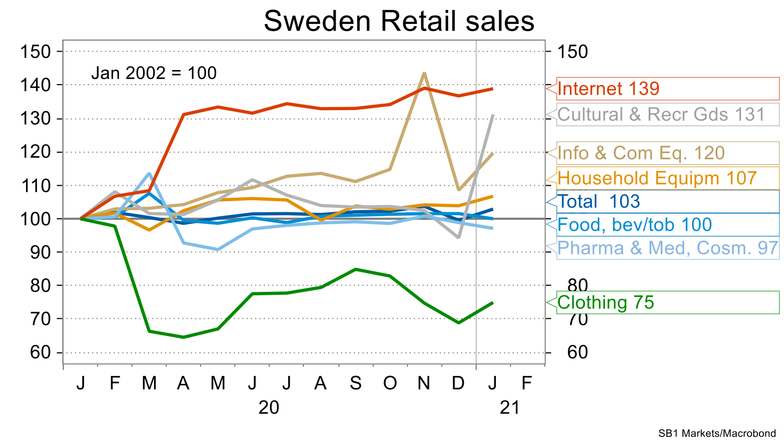
Sweden Productivity

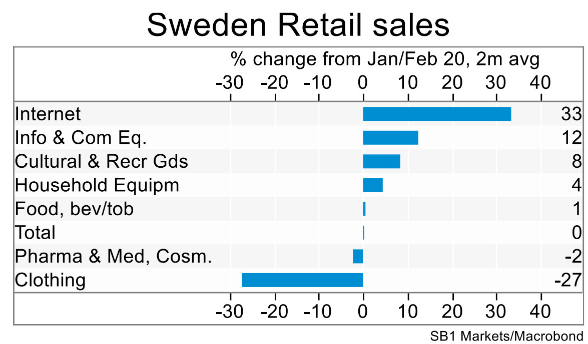


Retail sales recovered in January, sport equipment through the roof!

Sales rose by 3.4% m/m, expected +1.4%, reversing most of the 4% setback in December



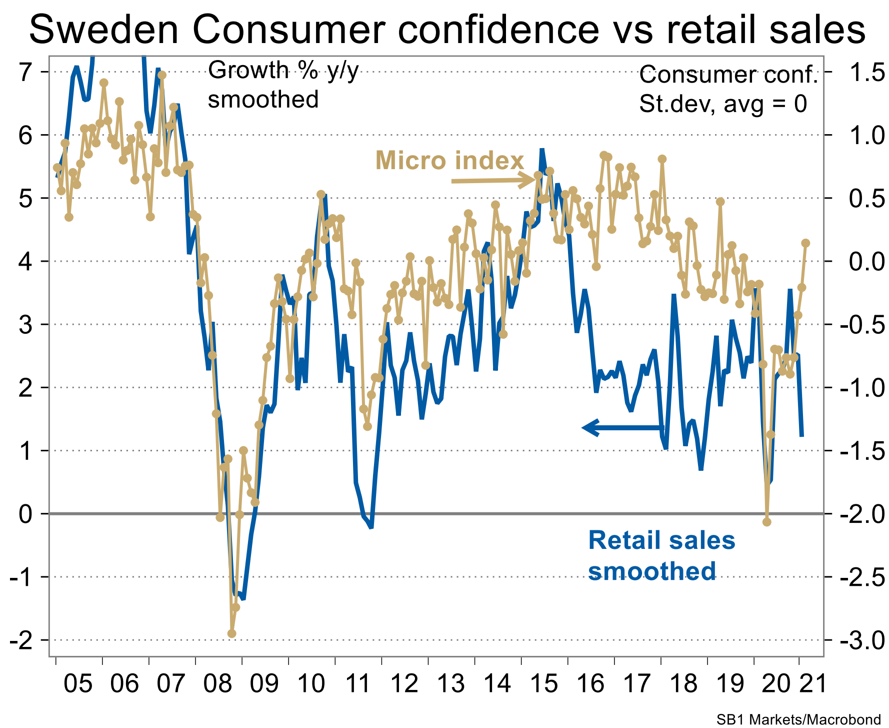


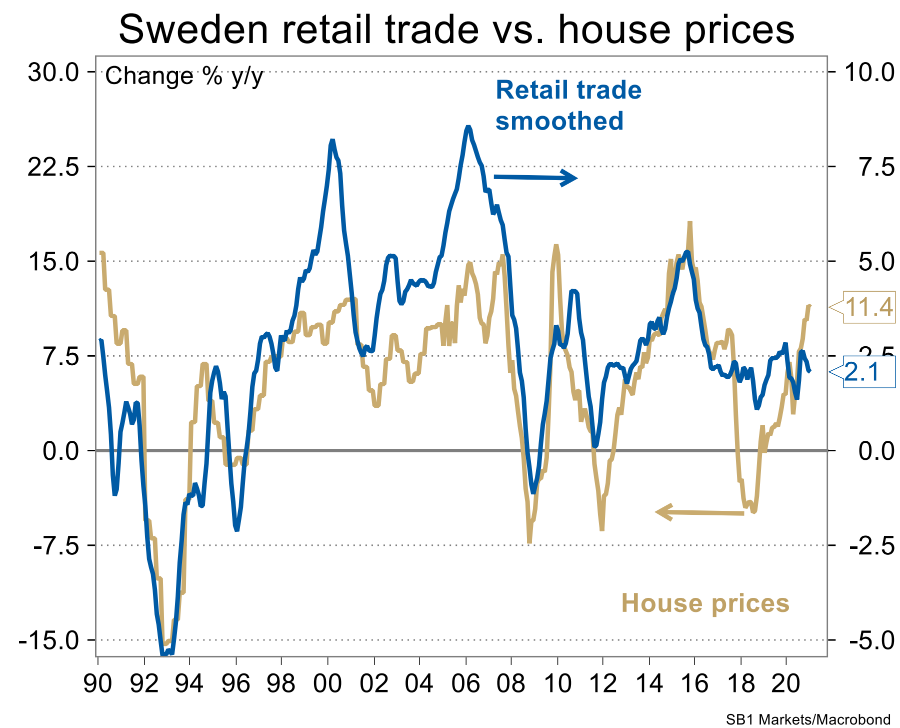


- The decline in Dec was revised by 0.9pp to -4%. Thus, Dec & Jan was substantially better than expected. Retail sales are 3% above the pre-corona level
  - » Restrictions were implemented in December, and mobility declined somewhat – while mobility rose in Jan, and sales recovered
- Huge sectoral differences. Clothing down 30 % vs Jan/Feb. Internet sales up 34%, info/communication +23%. Food sales are flat.
- In January, a strange lift in recreational goods – up more than 30%. **Sport equipment/bicycles up 50% m/m** – and the level is unprecedented.

Consumer confidence straight up in February, to above average

Don't worry, be happy. Retail sales are OK, the housing market is booming

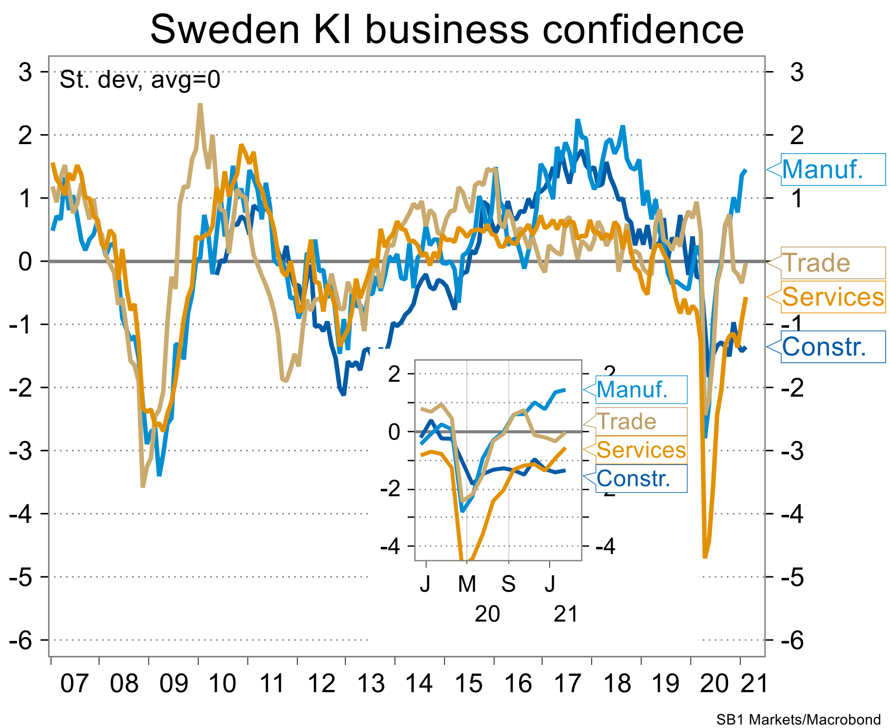


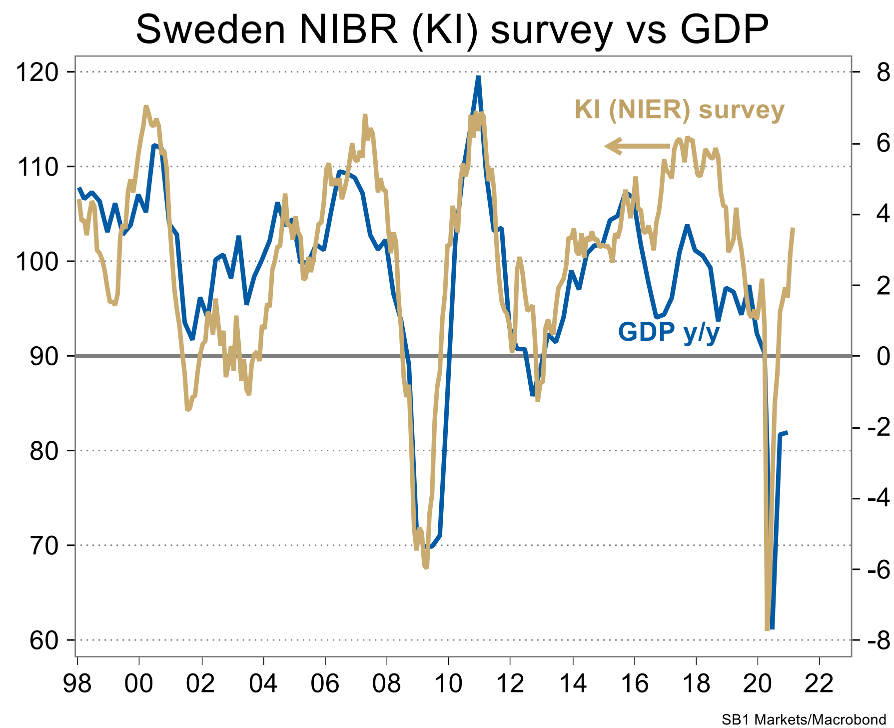


- Over the past 4 years, the correlation between stated confidence and actual spending has waned. Even so, during 2020, the relationship may have strengthened
- Confidence has recovered, alongside retail sales (though some volatility in Dec/Jan) - and a booming housing market signals that households are not worried.
- However, service consumption remains weak, in Sweden as elsewhere

KI business survey further up in February, manufacturing very strong!

The overall index well above an avg level, signalling a 4% GDP growth rate, even if services are lagging

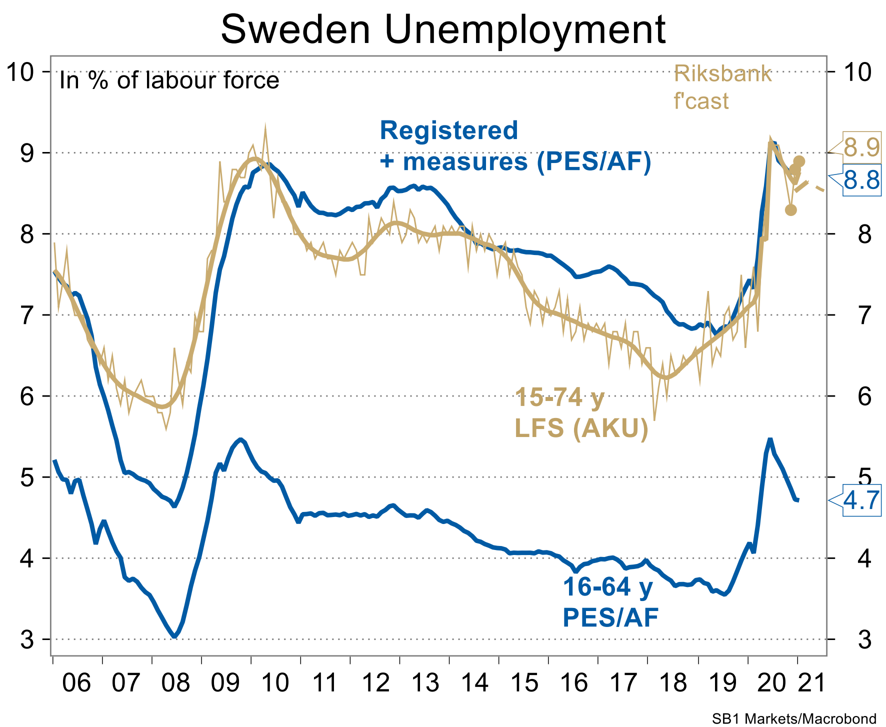


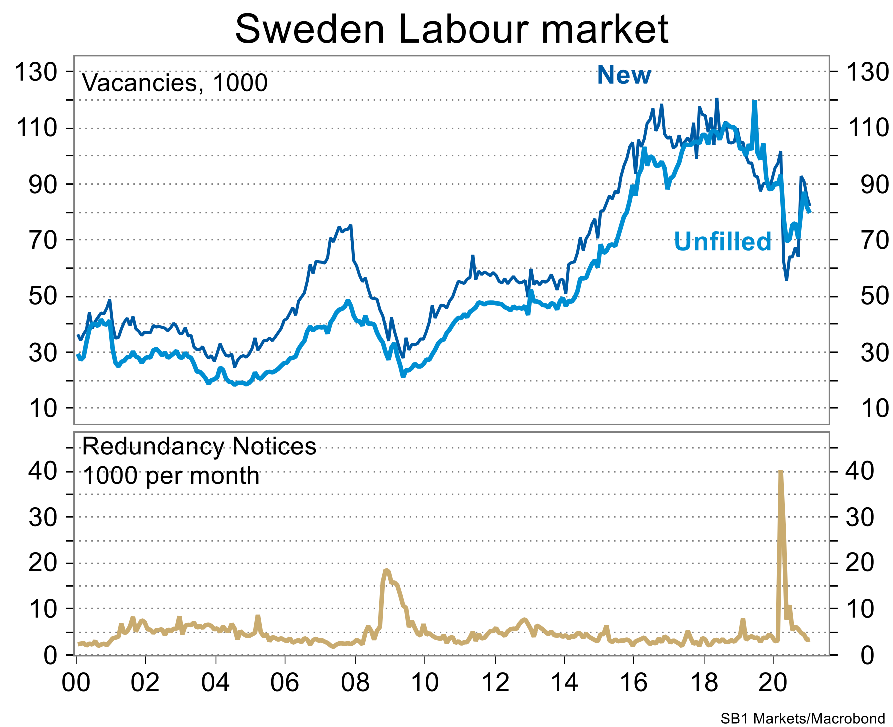


- **The composite index** rose to 103.9 from 100.9 (rev from 100), or by 0.3 st.dev to 0.4 st.dev, far better than expected. The index signals almost 4% GDP growth – but the index has been a tad too upbeat recent years. Still a strong print, confirming the PMIs (Sweden is reporting the best PMIs in the world, these days.)
  - » Still the Riksbank is very concerned about the impact of the corona crisis (that is not over yet, though) and buys large quantities of government bonds
- The **service sector** index rose sharply in February, but remains below an average level (but just 0.5 st.dev). Construction not upbeat either, in spite the housing market upturn, a bit strange
- **Manufacturing** is booming! **Trade** reports activity & outlook in par, which signals normal growth

LFS unemployment further up in January but revisions make data uncertain

New survey method, definitions & calculations makes especially employment data 'useless'

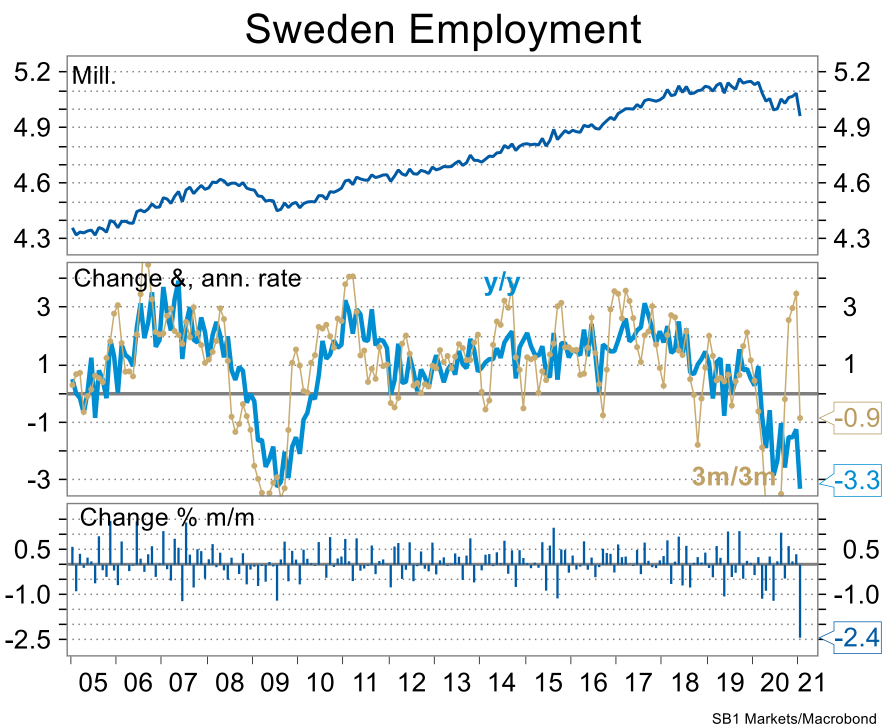


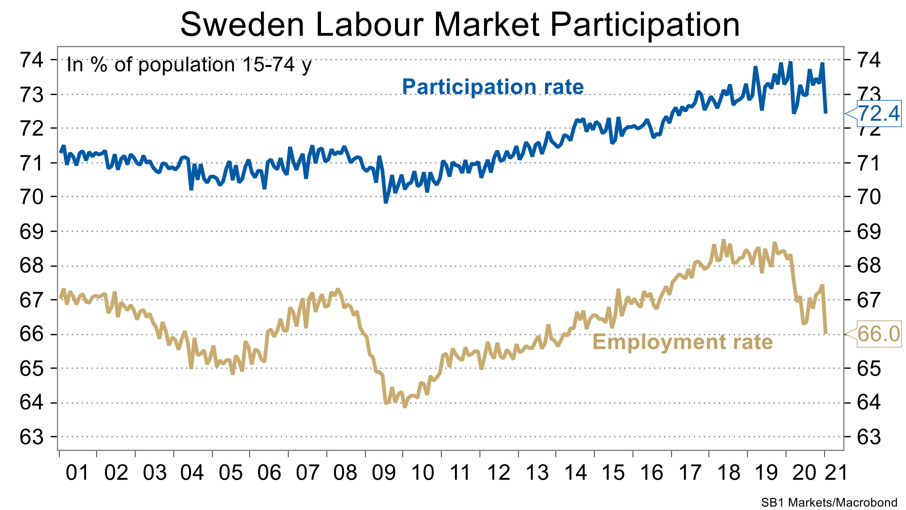


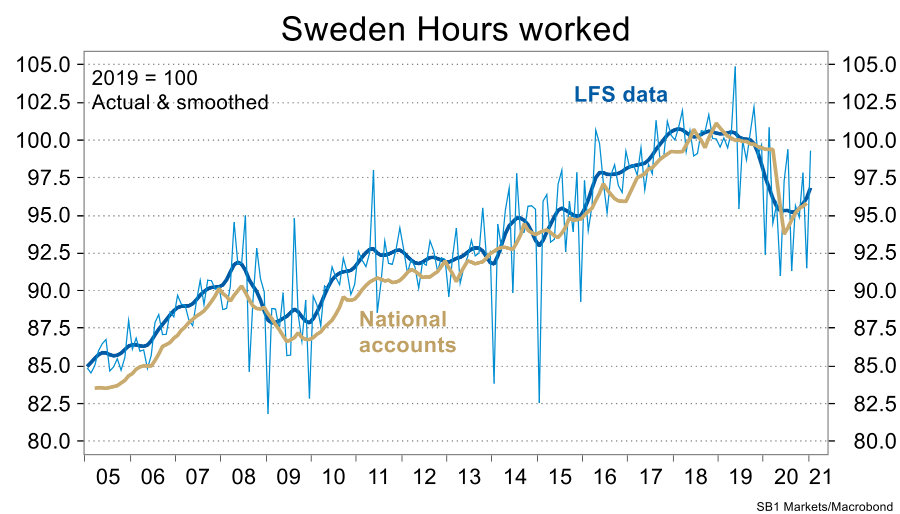
- The seasonally adjusted unemployment rate rose 0.1 p to 8.9% - probably. The whole LFS apparatus is revised (EU standards) and the old and new method is not yet directly comparable
- Registered unemployment has inched down past 6 months, by 0.7 pp to 4.7%. Incl. labour market measures, unemployment has fallen somewhat less, and it is at 8.8%
- The number of new and unfilled vacancies fell last spring, recovered last autumn but is now inching down again

Some 90’ of the 120’ (2.5%!) drop in employment due to method revisions

… probably. Participation excessively down too. Hours worked probably closer to the ball



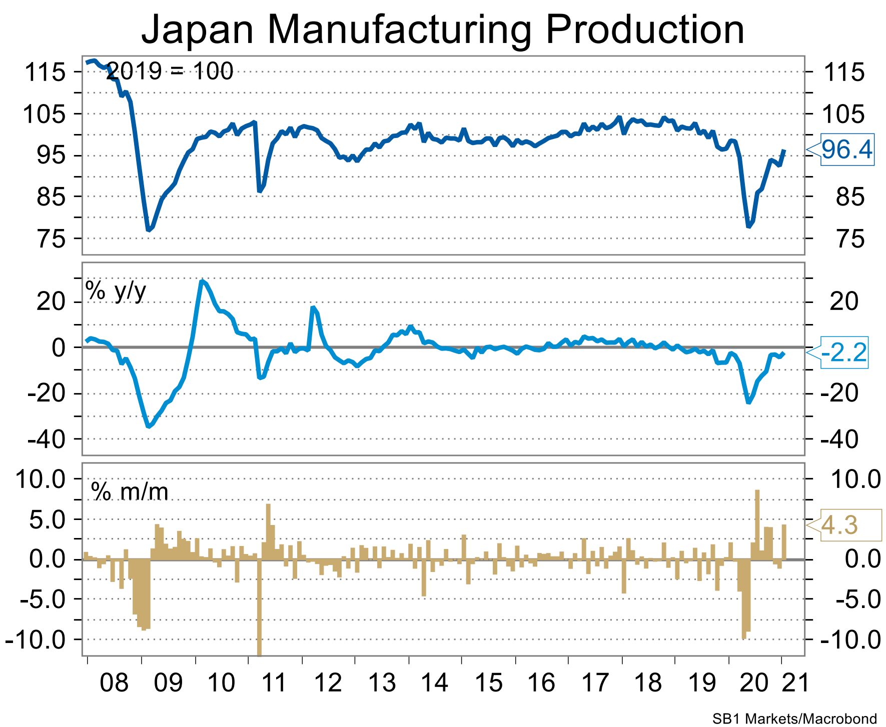


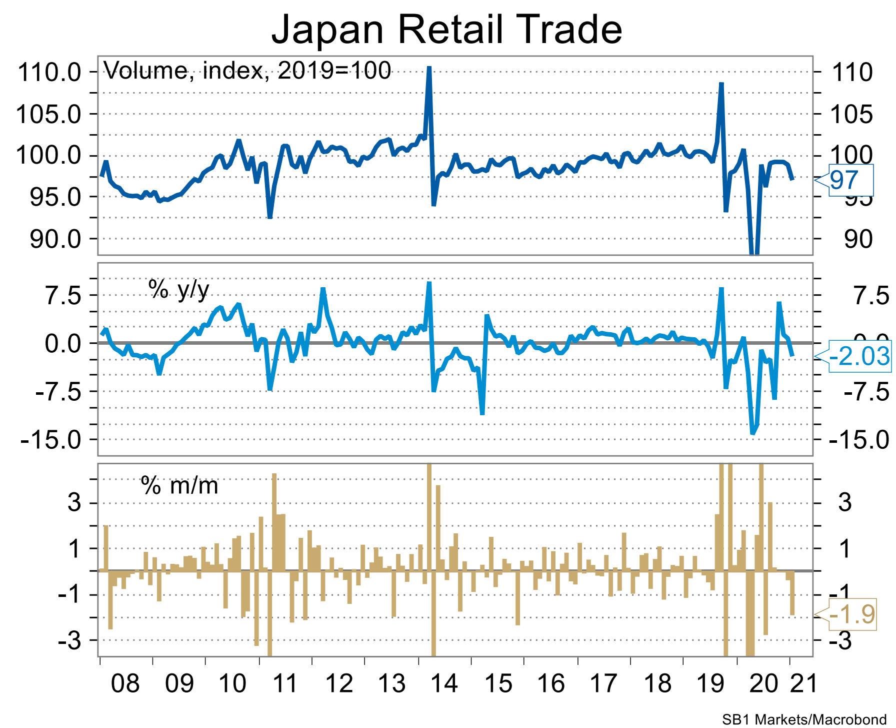


- Employment is most likely down some 2% from before corona, hours worked are down 3.5%

Manuf. production up 4% in January, still almost 4% below 2019 average

However retail sales fell sharply, by 2% - and is 3% below the 2019 average





- **Manufacturing production** was expected up by 3.9%, so no surprise. **Surveys** do not signal strong growth – but a continued recovery. Order inflow was very strong in December, both domestically and from abroad
- **Retail sales** dropped 1.9% in January, expected down 1.3%, following some stable months. January sales are down 2% y/y, and that is an OK description – somewhat below the pre-corona level (but at this level the previous months)

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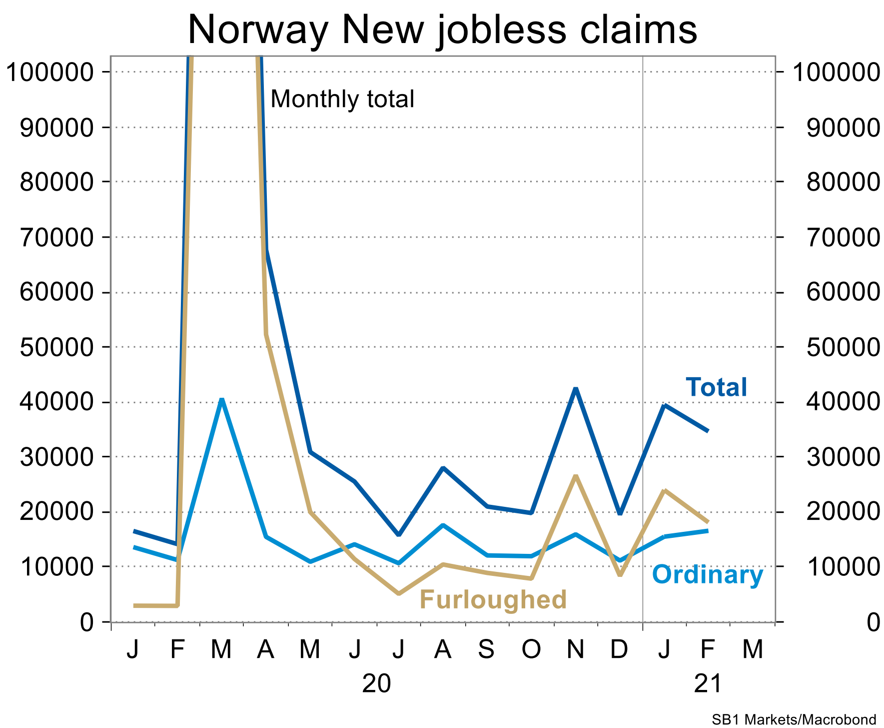
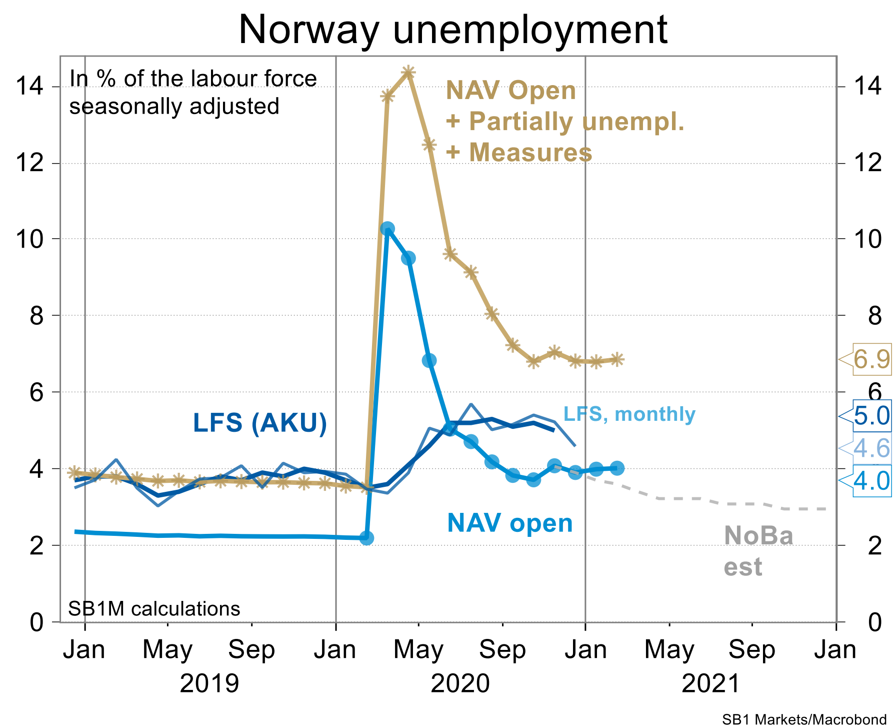
NAV unemployment stable in Feb, flat since Oct – but 0.4 pp above NoBa's f'cast

… even if 2% more than normal of the labour force has turned up at NAV past 4 months



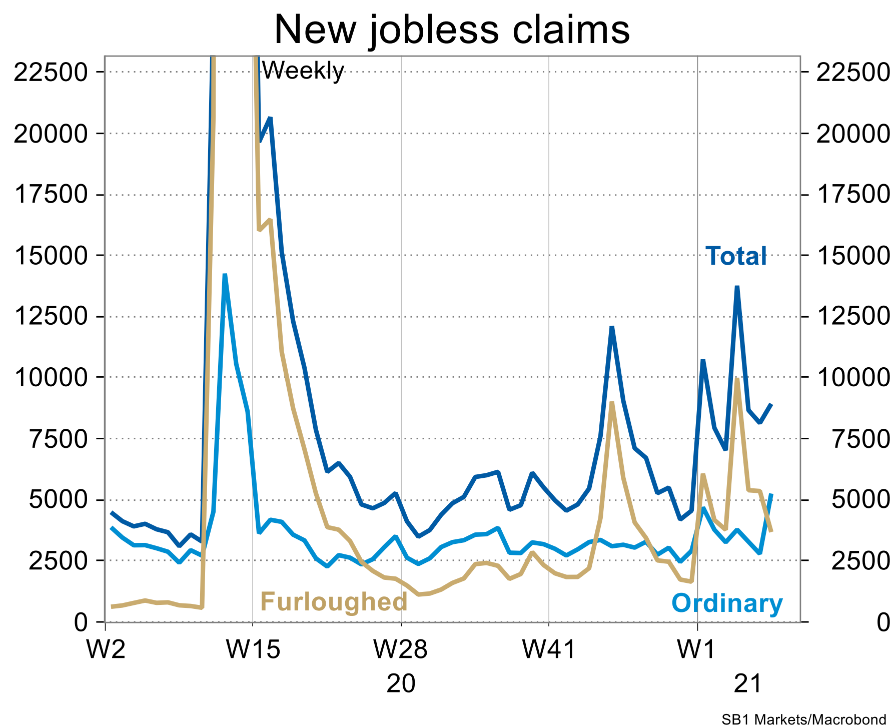


- **Open '<u>full time</u>' NAV unemployment**, which includes furloughed workers rose by 0.8' persons to 113.9' in February, we expected +3' (seas adj). The rate was unch at 4.0%, *<u>still 0.4 pp above NoBa's f'cast in the Dec MPR, the 'cost' of recent corona restrictions</u>*. Unempl. Is up 11' persons since October, or 0.3%. Including labour market measures total unemployment equalled 128.5, or up just 0.3' persons. (all data seas. adjusted)
- The number of **partially unemployed** rose by 1.5' to 66, leaving the grand total at 194', equalling 6.9% of the labour force. Before the corona crisis, this unemployment rate was at 3.8%. Since October, the number of partially unemployed has <u>fallen</u> by 9' persons. Thus the increase in total unemployment since October is just 2' persons
- Since November, 55' persons more than normal have **applied for claims** (above a 20' per month normal inflow these 4 months, data not seas. adj). This increase is no doubt due to the stricter corona restrictions imposed in early Nov, and then further in early & late Jan. <u>However, this substantial extra inflow has not materialised in a measurable increase in the no. of unemployed</u>

SpareBank 1 MARKETS

More new jobless claims since November, some 55' above 'normal'

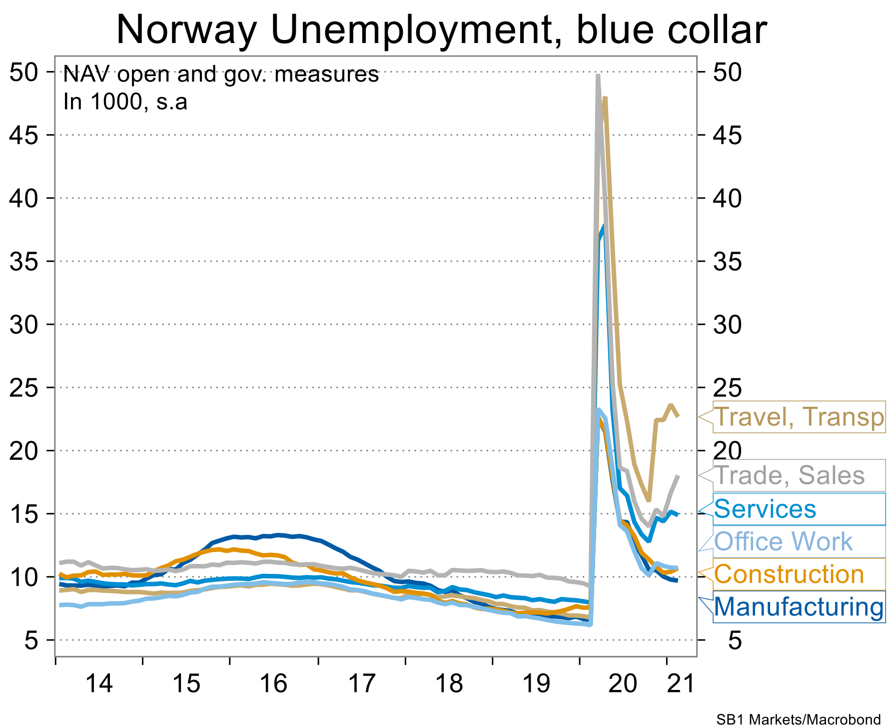
The restrictions imposed in November, in early & late January, has sent more workers to NAV

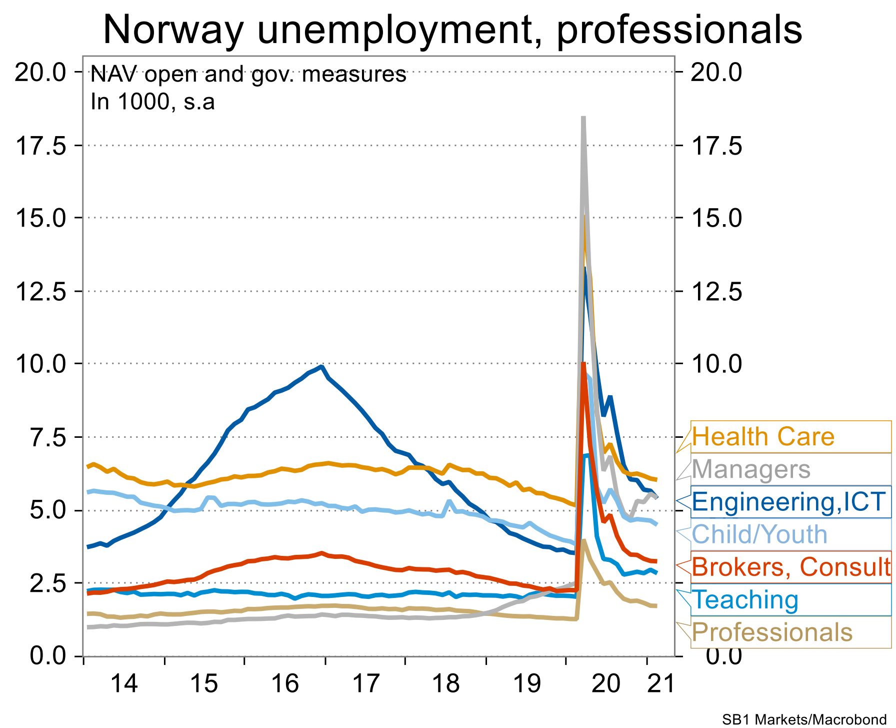


- Of the extra inflow of some 55.000 persons (almost 2% of the labour force), just 2' remains at the dole (=the total increase in unemployment since October, seasonally adjusted)
- Towards the end of February, the no. of new furloughed workers slowed substantially, while more ordinary, unemployed job seekers turned up

In February, more unemployed only among trade/sales workers

As some shops were closed in and outside Oslo, and in Bergen. Most other sectors down

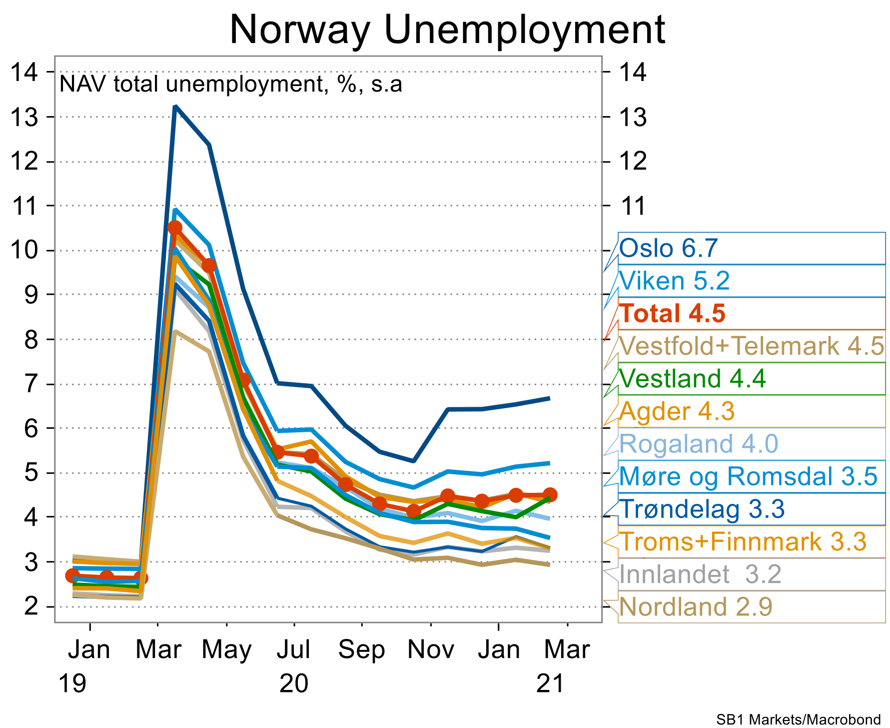


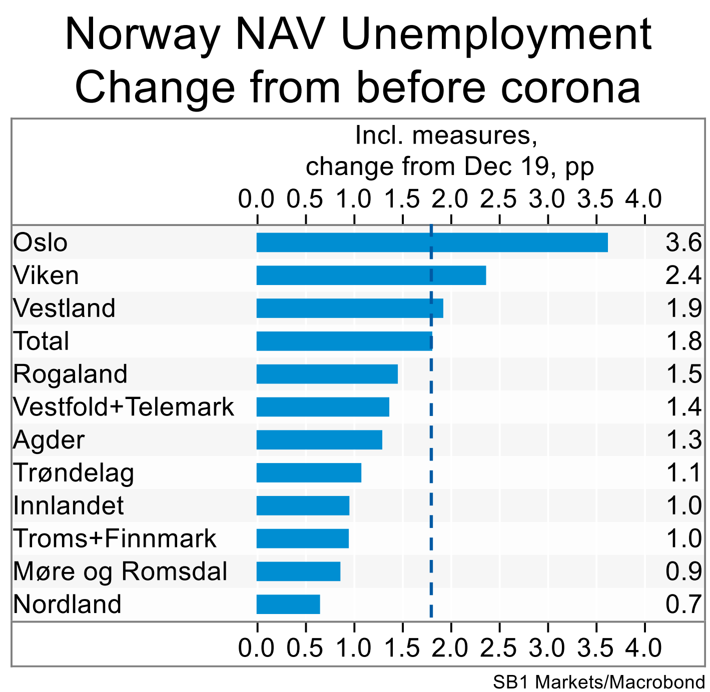


- We deem the risk for a wide-spread increase in unemployment in other sectors due to the 2nd wave – like we saw during March & April 'panic' – to be very low – barring a full scale lockdown

Unemployment up in Oslo, Viken and Vestland (we assume Bergen)

Due to closure of some shops in these areas. Elsewhere, unemployment fell in February

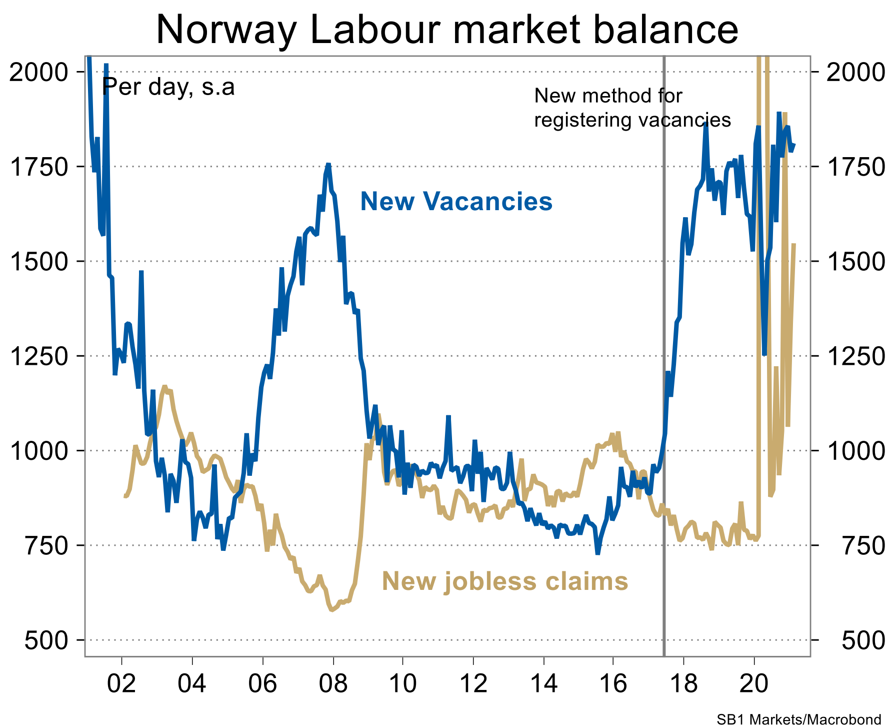


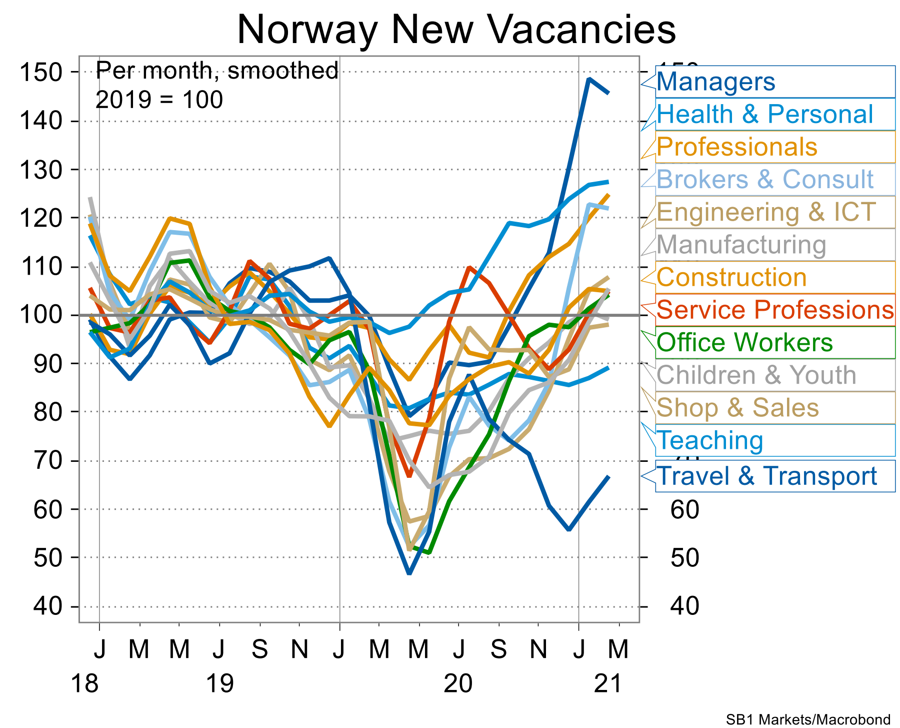


- **Oslo** is by far the hardest hit, unemployment is up by 3.6 pp since before corona, and the level is at 6.7% (not included partially unemployed)
  - » And that of course explains why house prices in Oslo have climbed faster than any other place in Oslo last year ☺
  - » Well, it probably better explains why the rental market in Oslo has weakened substantially

More new claims but also many new vacant positions

The ‘2nd wave’ has not reduced demand for labour in other sectors than travel/transp & services

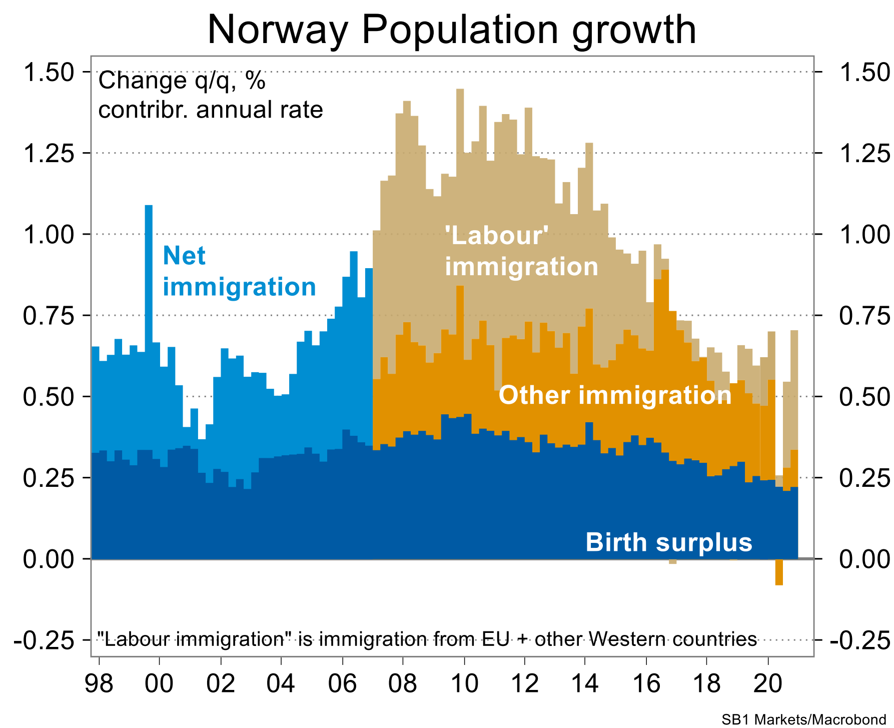


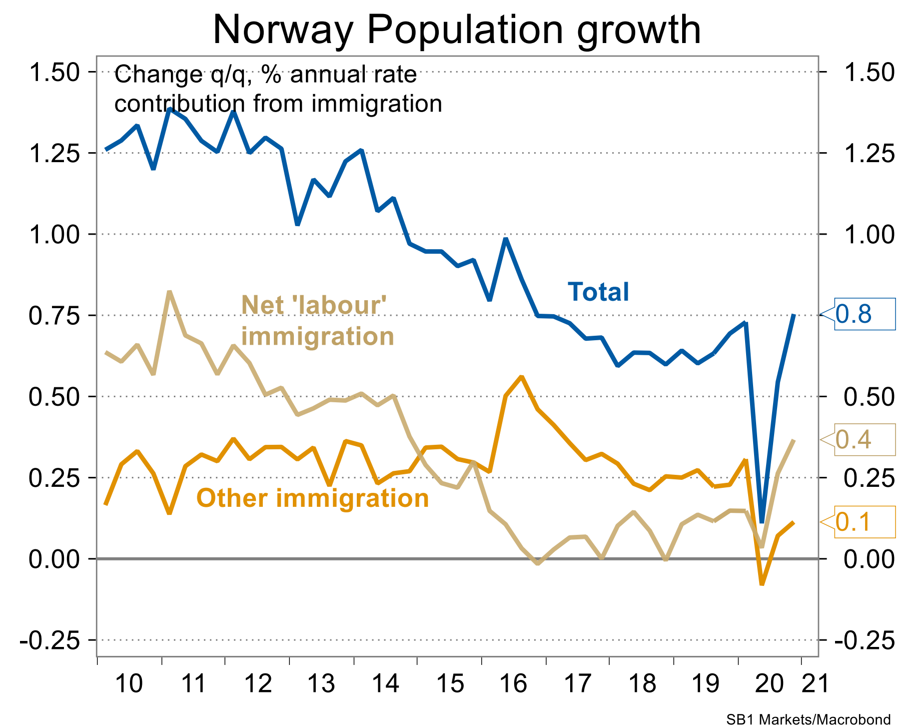


- We have made a preliminary adjustment of the 2020 vacancy data due to a NAV reporting error which have led to under reporting of new positions through the year. NAV reports that the no. of new vacancies is at the same level in January 2021 as one year ago
  - » Vacancies per types of jobs are not adjusted
- New jobless claims are not seasonally adjusted through 2020 – and the data points are very uncertain

More labour immigration in Q4 – due to less x-border travel?

We did not expect more net immigration from Europe+. Will it last? Most likely not





- Total population grew by just 23’ persons last year, the slowest growth almost 20 years – equalling 0.4%
  - » The birth surplus is steadily declining, and immigration fell to a low level, both for labour immigrants and other immigration
- However, in Q4, and partly in Q3, labour immigration has been quite high. Have more foreign workers chosen ‘to stay’, instead of travelling back and forth?
  - » Thus, population growth was rather strong in Q4, at a 0.8% annualised pace

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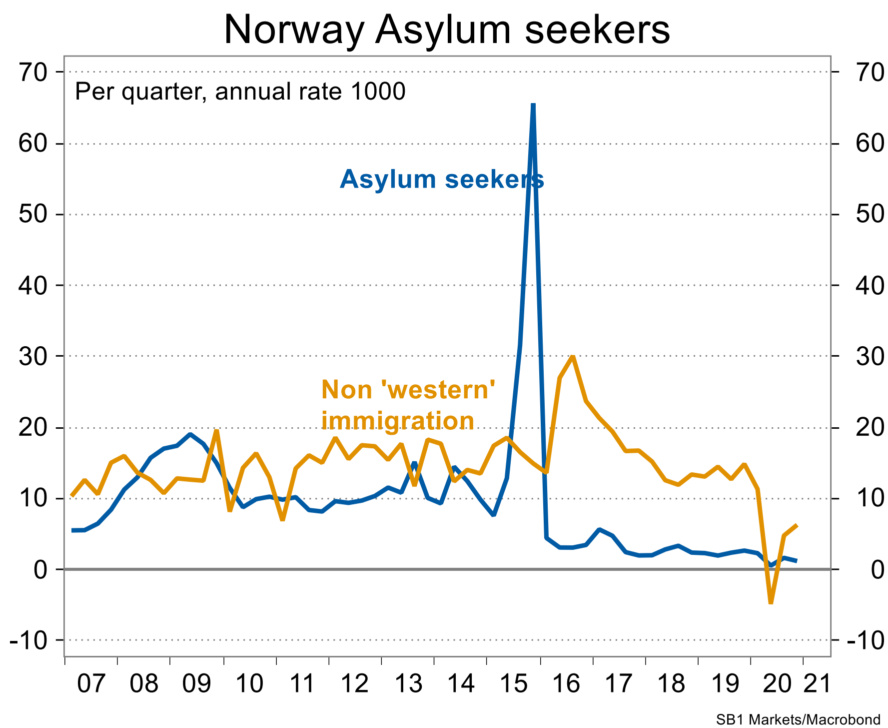
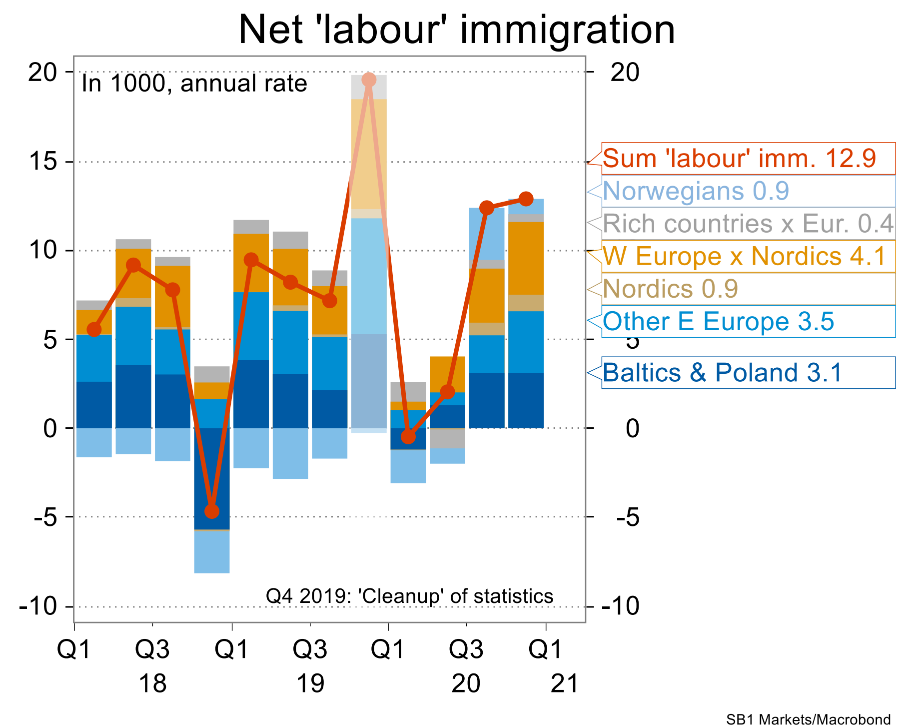
Non ‘western’ immigration low last year, more ‘labour’ immigration in Q3/Q4

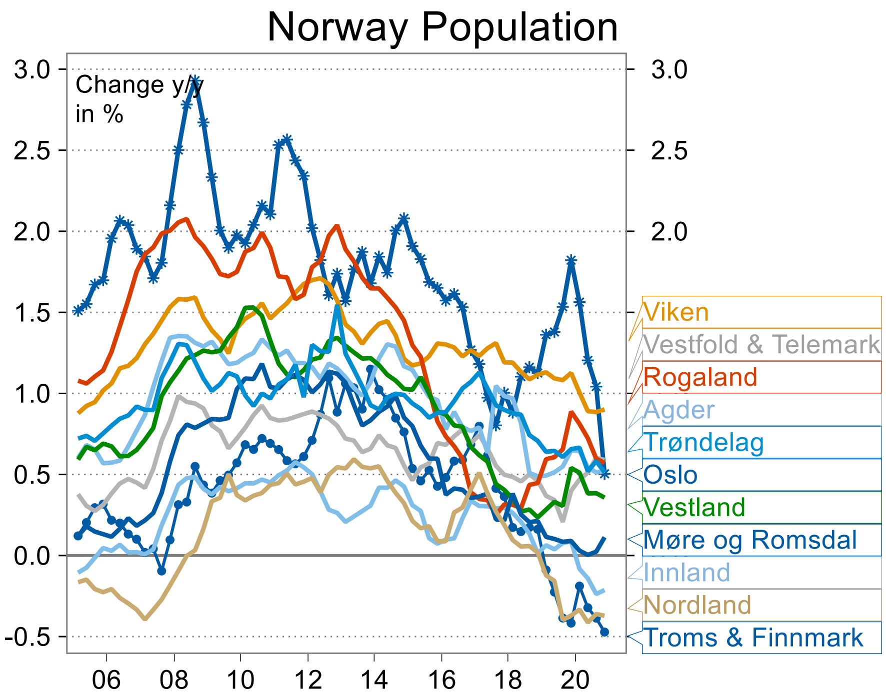


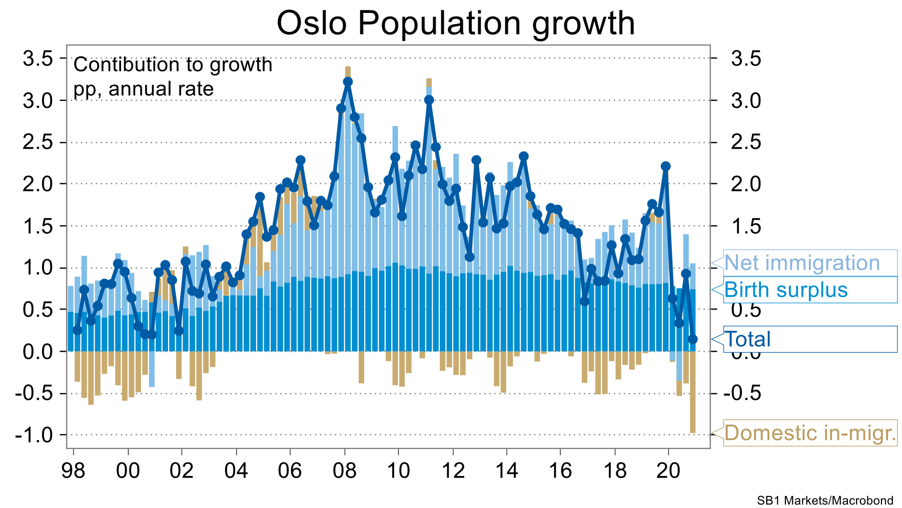


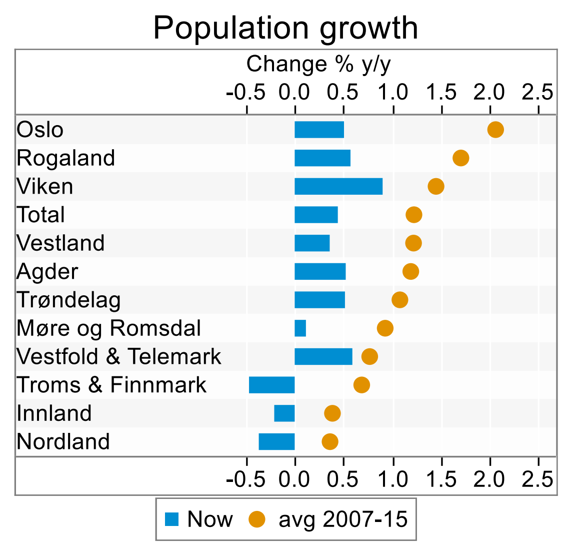
- Growth in non-western immigration fell back to ‘normal’ before corona, following the ‘Syrian’ surge in 2016. During the corona quarters, non-western immigration fell to the lowest level ‘ever’ in 2020
  - » The inflow of asylum seekers fell further, from a low level
- Immigration from European countries rose to higher level than before corona in Q3 and Q4 – and not due to more immigration from the Baltics & Poland or the Nordics but from other European countries, both East & West. A less weak labour market in Norway compared to most other countries may explain the inflow – and the need for staying in Norway due to travel restrictions
- More Norwegians returned from abroad in Q3/Q4

A sudden stop in Oslo, a large net domestic out migration

Slower growth most other places too – and a faster decline in the North and in the Innland





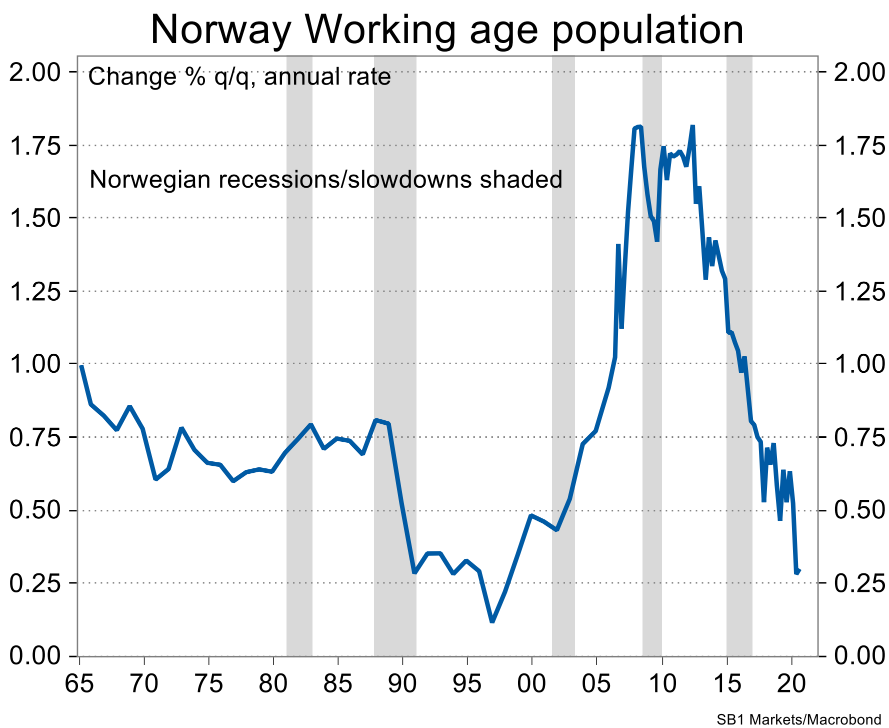


- To 2018 from 2012/13, population growth slowed in most regions – but the least in Viken (Akershus kept up best). Following a mini immigration wave in 2019, growth is slowing sharply in Oslo, and the population almost contracted in Q4, both due to less net immigration from abroad, and a substantial out migration to other parts of Norway
- Population growth has cooled substantially in all other regions, to below 2010-2015 levels. <u>Due to accelerated domestic out migration, population is falling rapidly in the 2 northern counties, as well in the Innland county</u>

These figures are not adjusted for a change in popul. stats in Q4-19

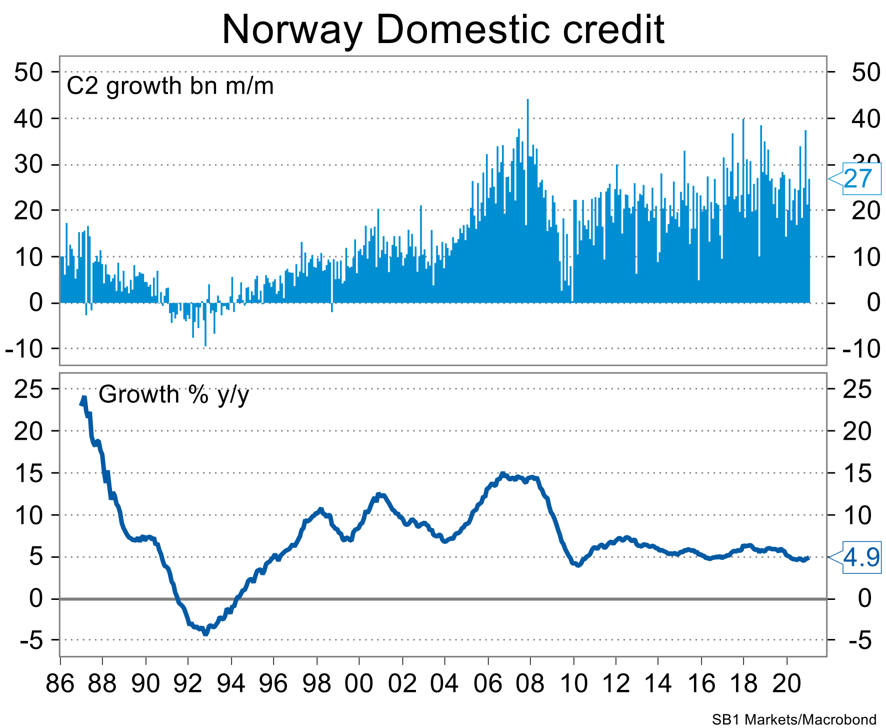
Working age population growth has fallen to the lowest level since late 90'ies

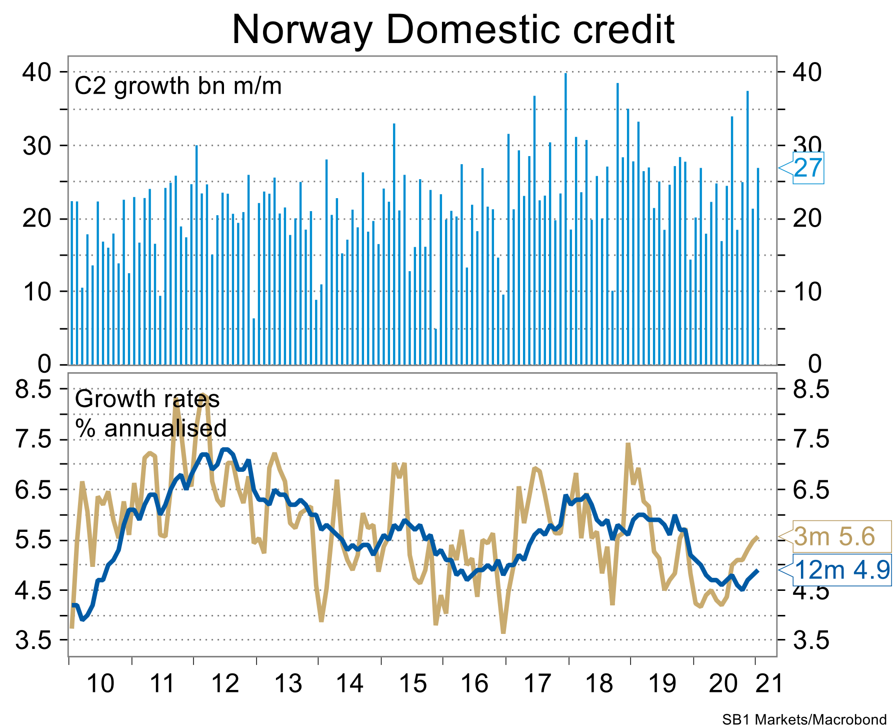
Growth at 0.3% last year. At the peak some few years ago: 1.7%



Credit growth is slowly accelerating but no boom to be seen

Total domestic credit growth (C2) accelerated by 0.1 pp to 4.9%, as we expected – due to corporate borrowing

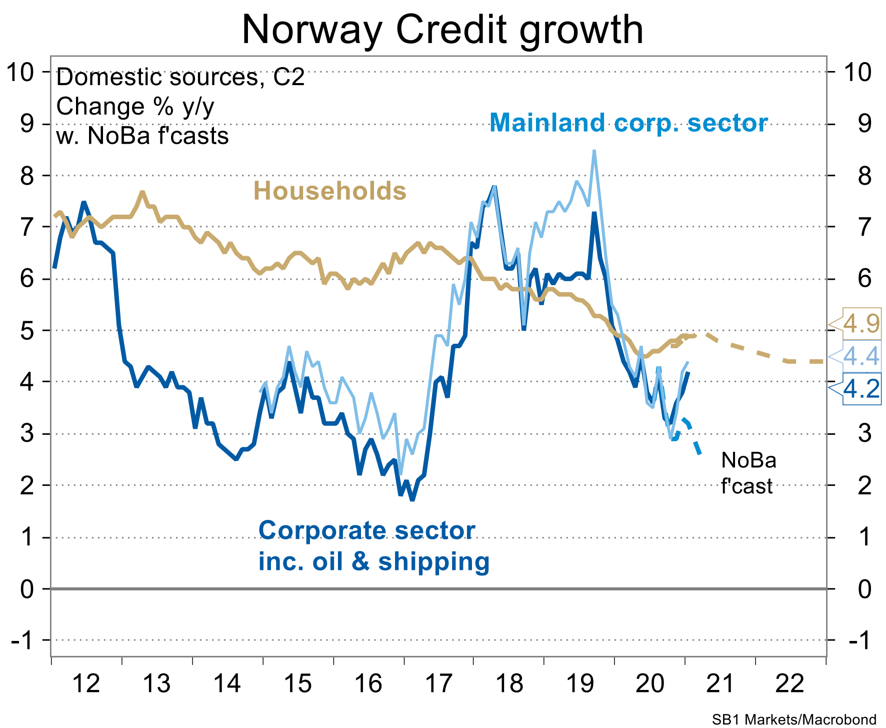


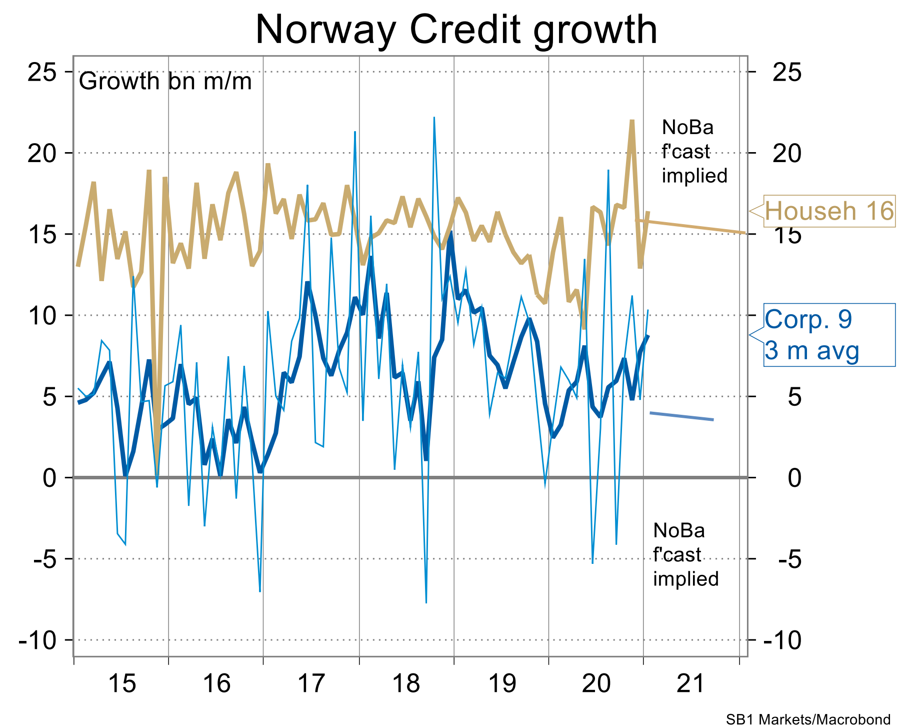


- **Total domestic debt** (C2) rose by NOK 27 bn in Jan, up from 20 bn in Dec, we expected NOK 26 bn. The annual growth rate climbed another 0.1 pp to 4.9%, in line with NoBa's est. <u>We are not witnessing a full scale credit boom, even if growth is accelerating slowly</u>
- **Household credit** rose by NOK 16 bn in Jan following the soft 12 bn in Nov, we expected 18 bn. The annual rate was unch at 4.9%. The underlying rate is slightly above 5%, somewhat higher than a reasonable estimate of long term nominal income growth
- **Corporate C2 credit**, rose by NOK 10 bn (up from 4 bn), twice as much as we expected. The annual growth rate accelerated to 4.2% from 3.7%. **Mainland corporations** increased their debt by 4.1% y/y vs Norges Bank's 3.2% forecast

Moderate growth in household debt in Dec/Jan, more credit to businesses

Underlying growth on the way up for both sectors



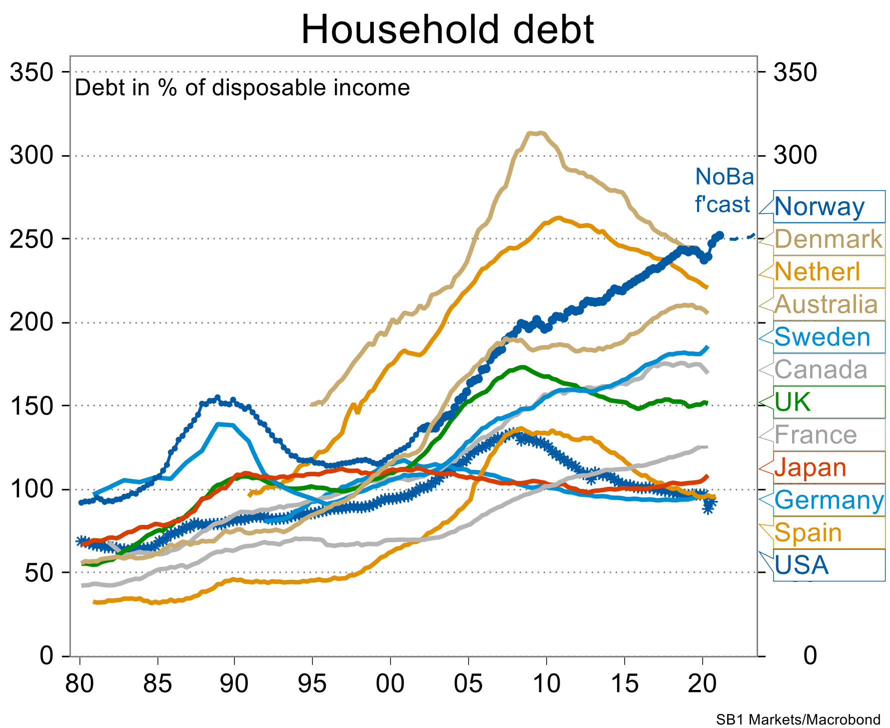


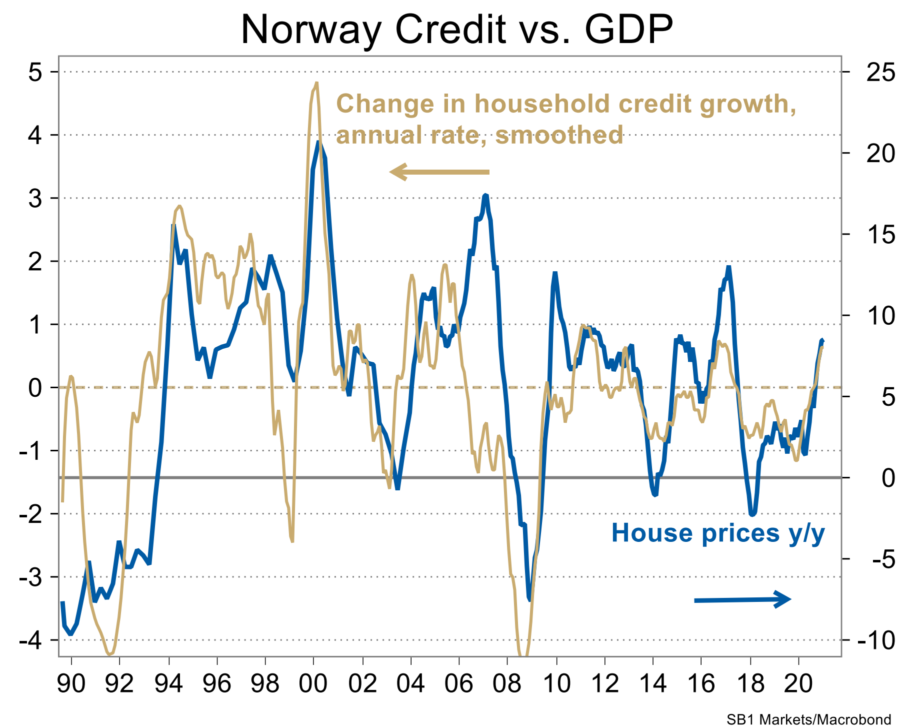
- Following a mild slowdown during the corona spring, **household credit** growth has recovered, and the annual rate is now 4.9%, up from 4.5% last summer. Underlying growth recent months is above 5% - but there is no "take off". Annual growth is in line with NoBa's Dec forecast
  - » Consumer credit 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
- Monthly growth in **corporate credit** slowed through 2019 but has accelerated during last year – and the annual rate tilted up in Q4, to well above 4%. Underlying growth has increased to well above 5%. Norges Bank revised up its growth forecast sharply in the Dec MPR, from a rapid contraction m/m to a moderate growth. Still, corp credit grew faster than NoBa's f'casts in both Nov, Dec & Jan

SpareBank 1 MARKETS

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!*

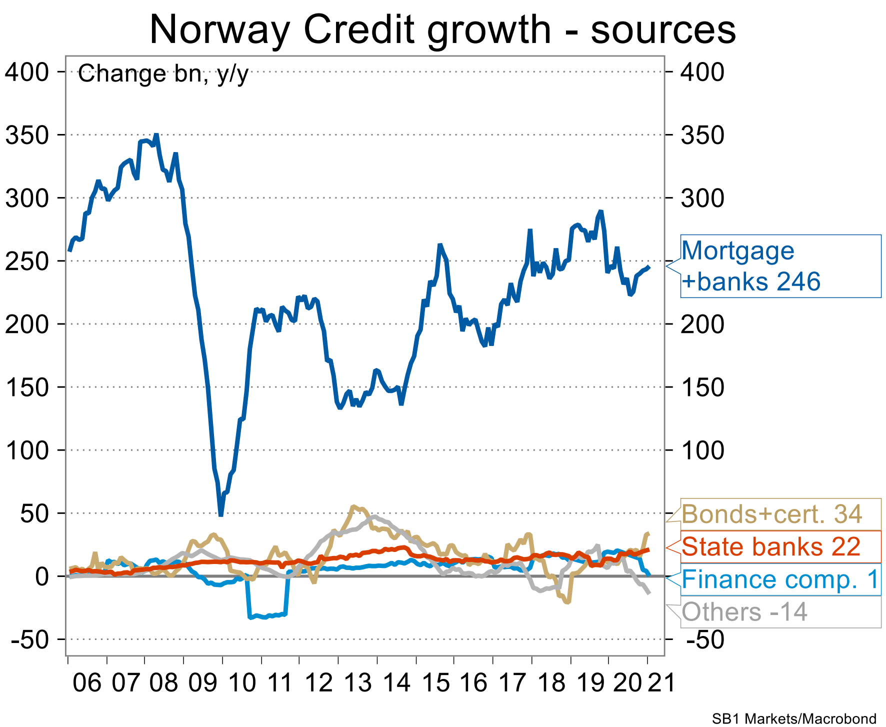


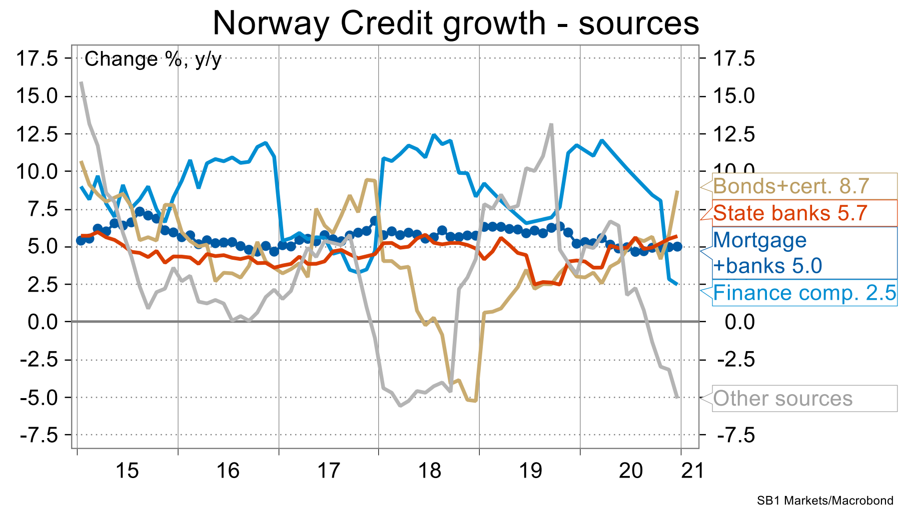


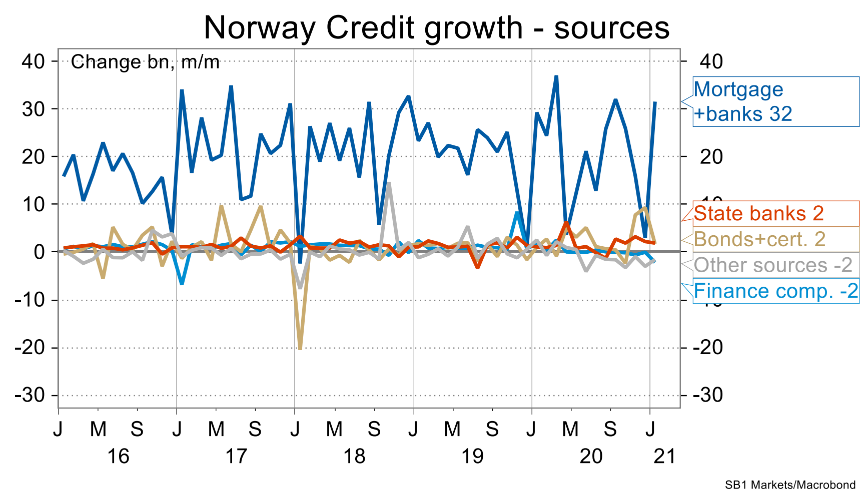
- Norwegians households' debt has been growing slower than household disposable income since late 2018, for the first time in 30 years (barring some minor turbulence in 2008/09). A small decline in household income lifted the debt ratio in Q3
- A slow retreat will be healthy in the long run, and if it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

Bank lending has been slowing but is strengthening now

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





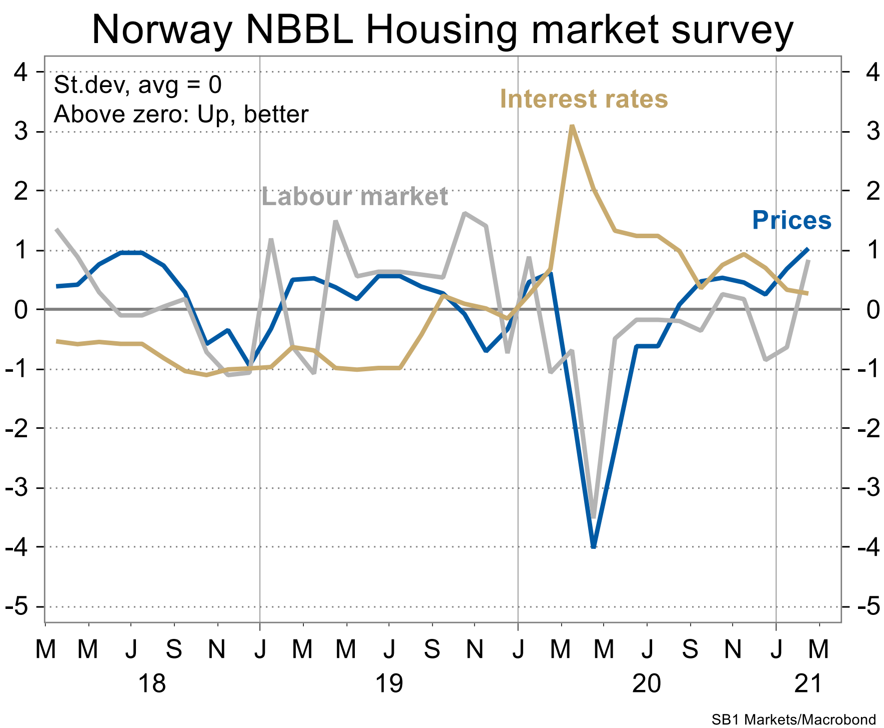


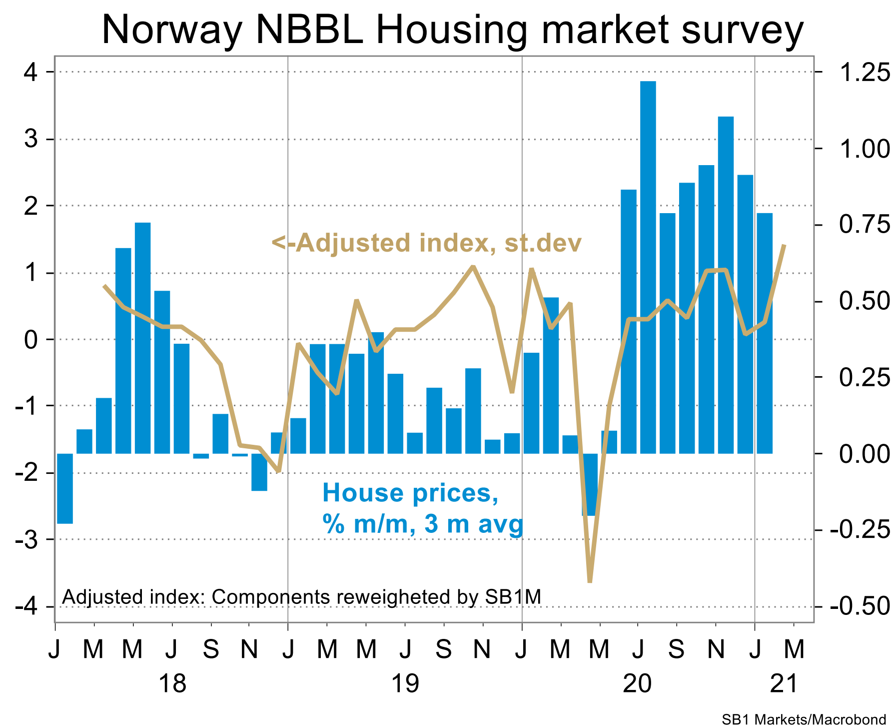
- Net issuance of bonds have increase recently too – the stock is up almost 9% y/y
- Consumer credit banks are counted as banks in these statistics
- The seasonally adjusted 'sum of the parts' seasonally adjusted credit supply do not exactly equal changes in the total C2 seasonally adjusted.

SpareBank 1 MARKETS

NBBL Housing Market Survey: The best outlook ever!

Households expect a more rapid price inflation than ever before (though data just from 2018)



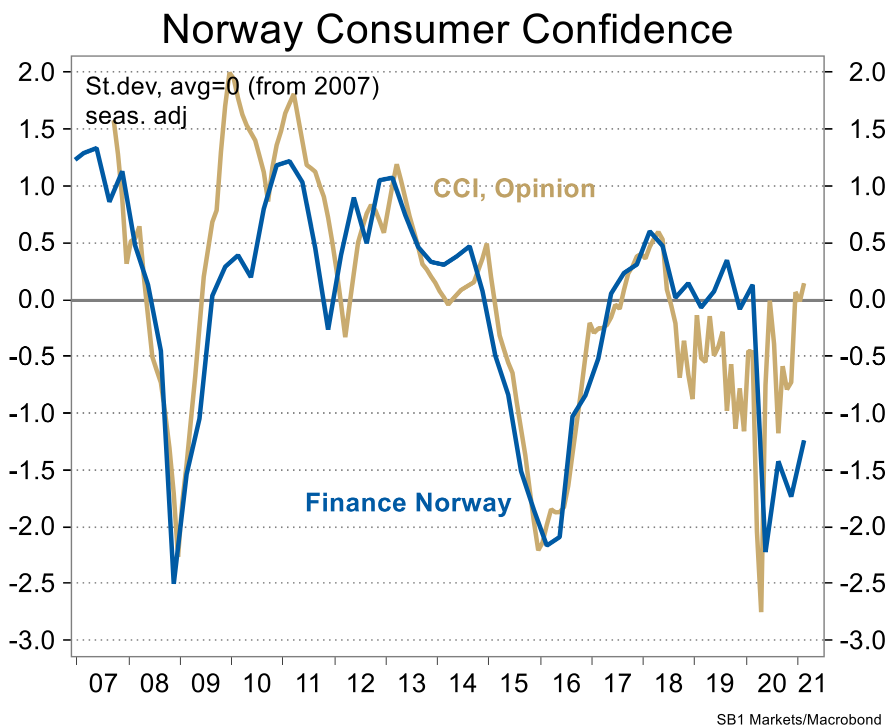


- The share of households expecting higher house prices rose further in the February survey, to the highest level in this survey's short history. All the bad feelings from last year's brutal downturn are wiped away
- The assessment of the labour market strengthened
- Households are gradually nudging up their interest rate expectations – but there are still fewer than average since 2018 who expect higher rates

We have adjusted the assessment of the labour market in August 2019, and reweighted the index to take different amplitudes for the 3 sub-indices into account.

Consumer confidence has recovered, further up in Feb according to Opinion's CCI

A small uptick in February – to marginally above an average level



- Finans Norge's index is still far below an average level, the gap is unusually large

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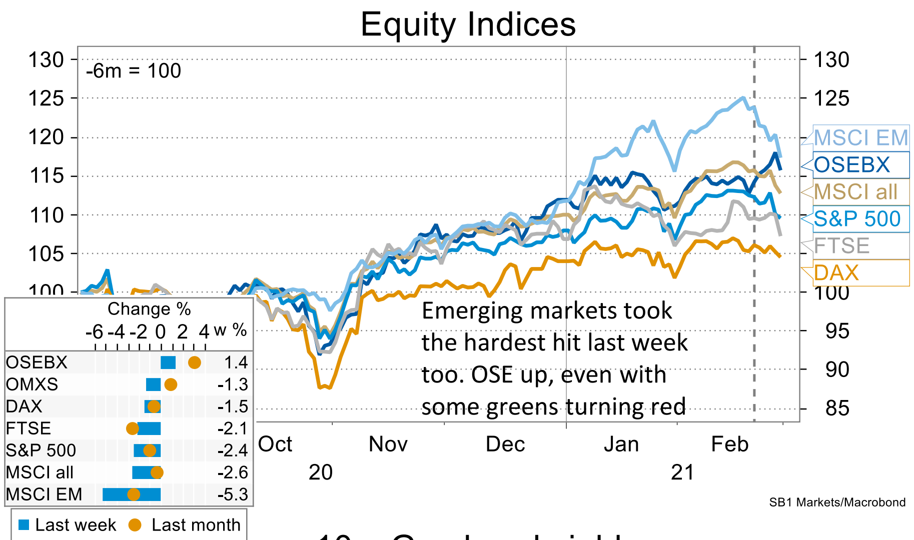
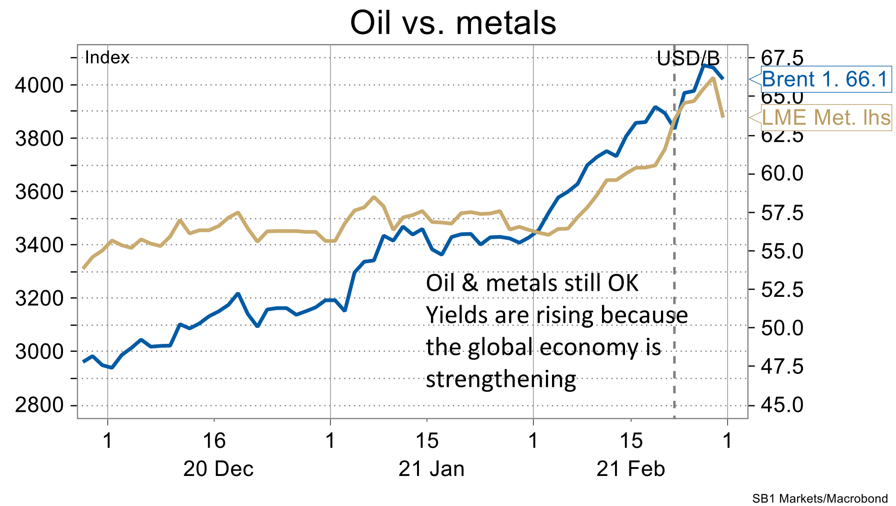
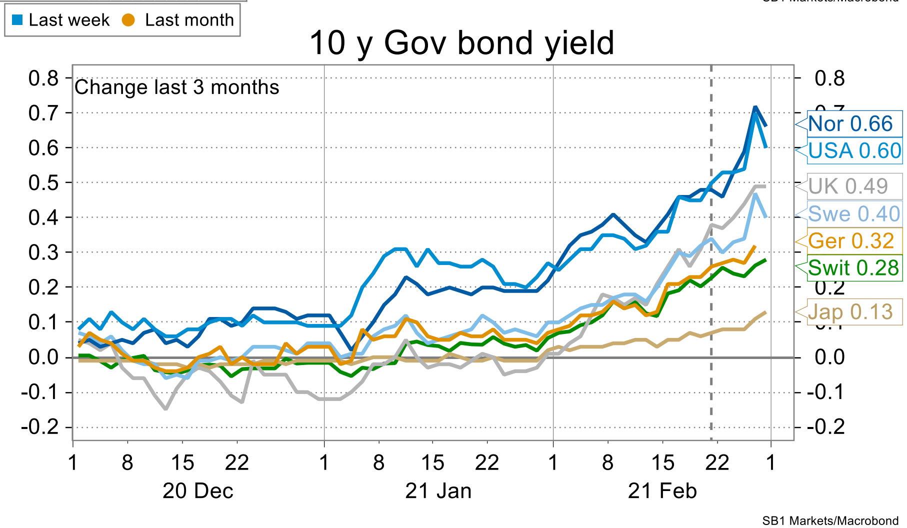
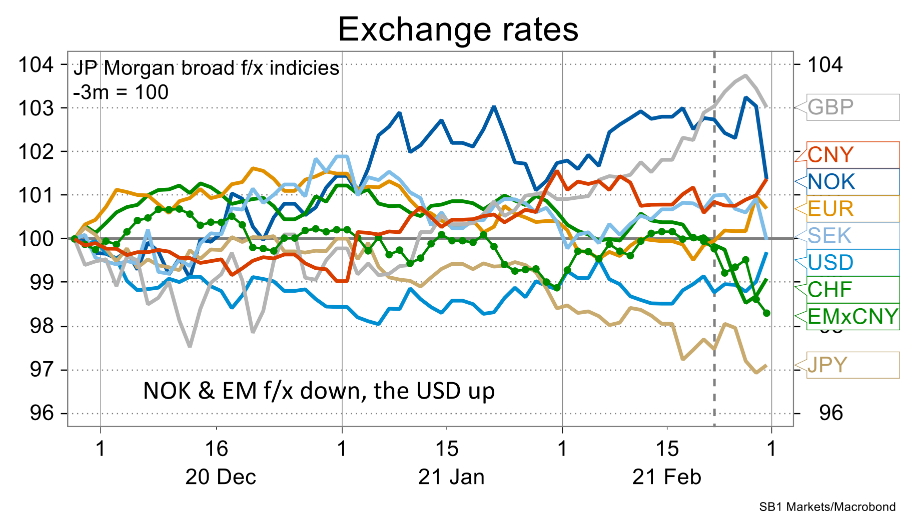
Usually, higher bond yields are good news for risk markets

But the US 10y 40 bps rise through Feb was too much of a good thing. Still, oil, metals OK – growth is OK

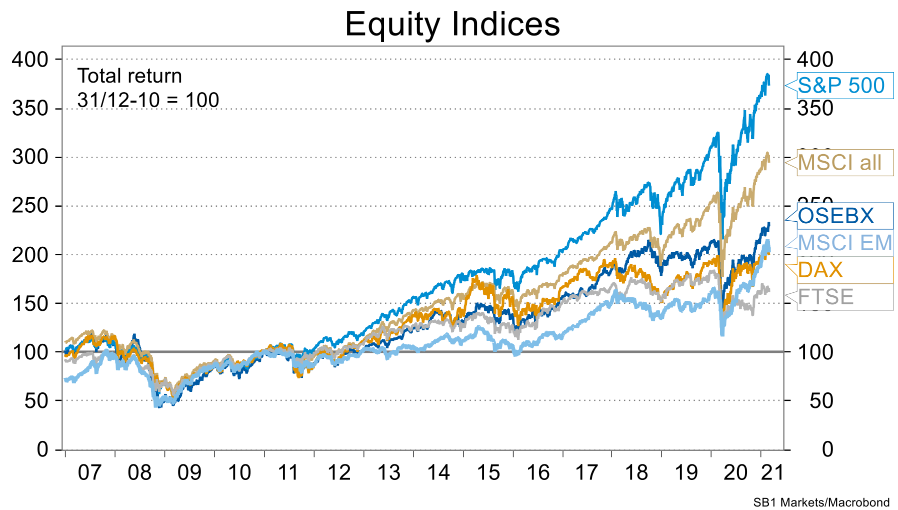


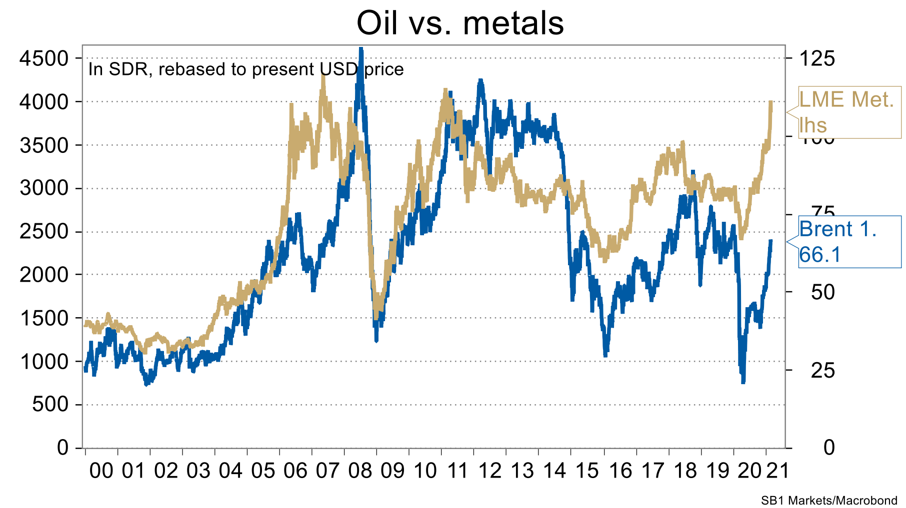


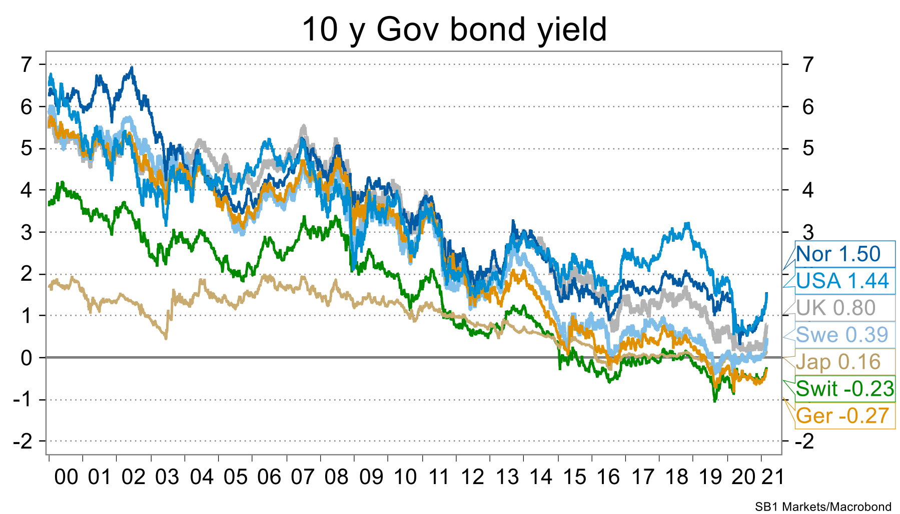


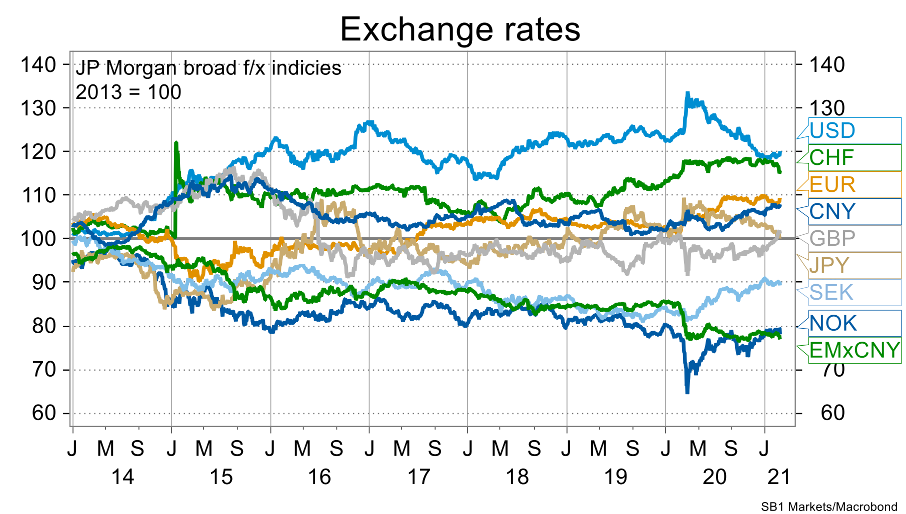


What happens when economies actually open fully?



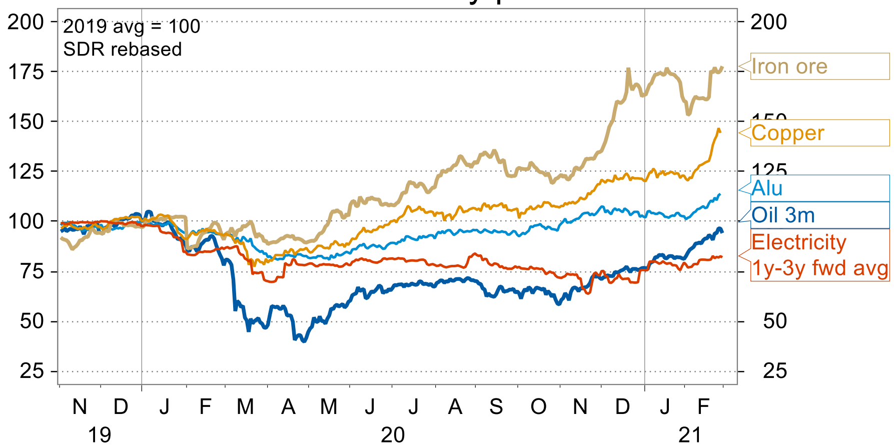






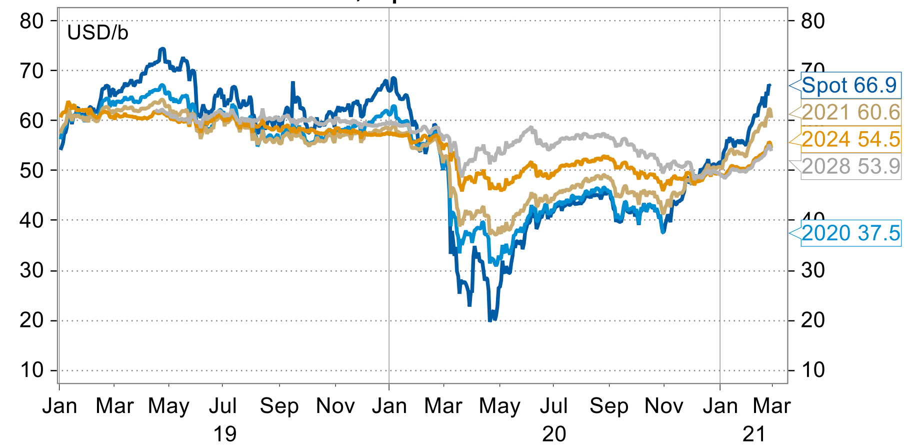
Commodities up. Oil up across the curve as inventories are declining

Commodity prices



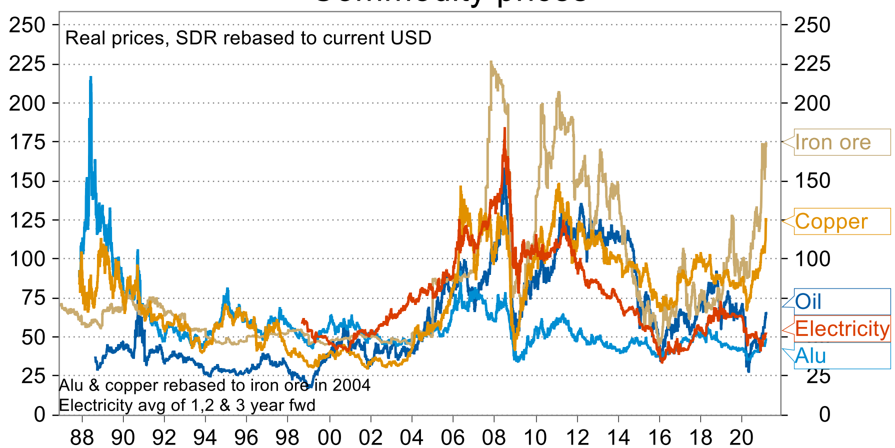
SB1 Markets/Macrobond

Brent oil, spot & Dec contracts



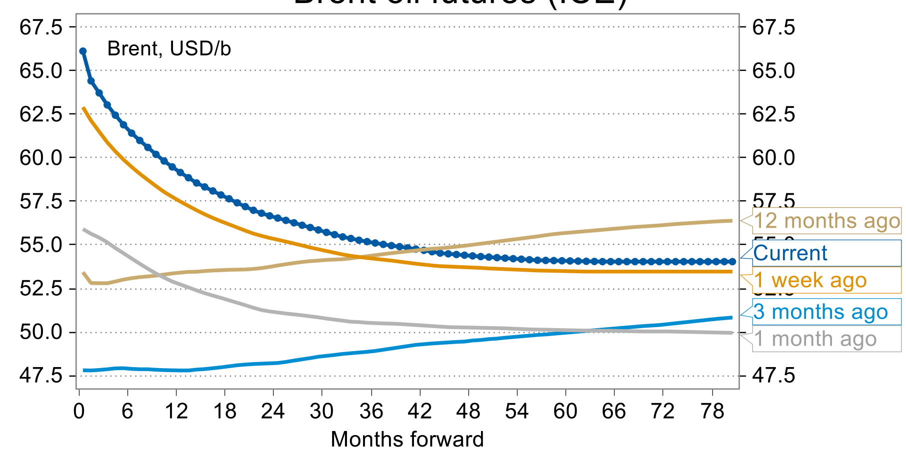
SB1 Markets/Macrobond

Commodity prices



SB1 Markets/Macrobond

Brent oil futures (ICE)



SB1 Markets/Macrobond

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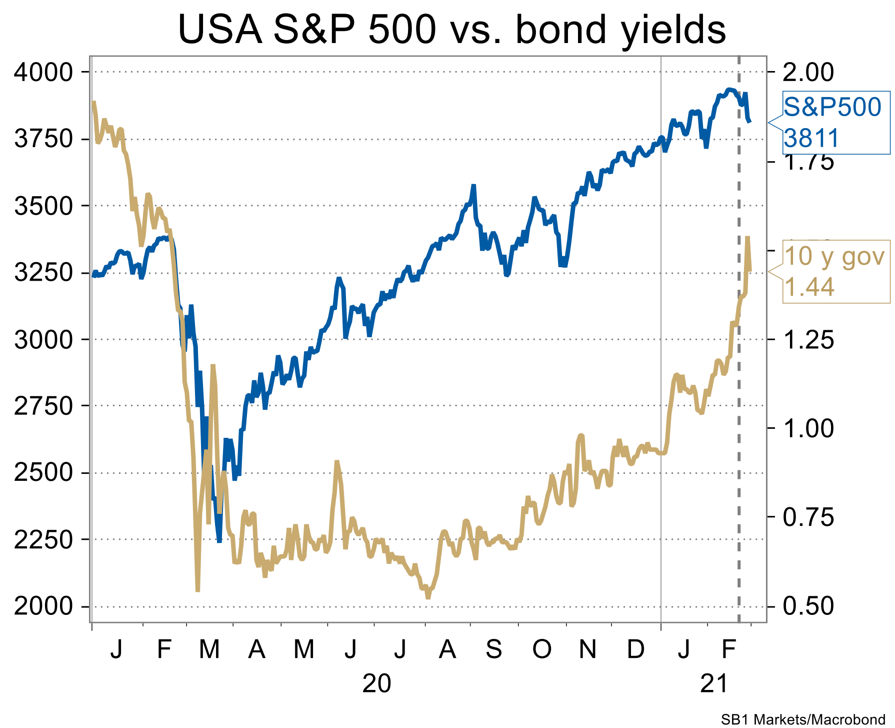
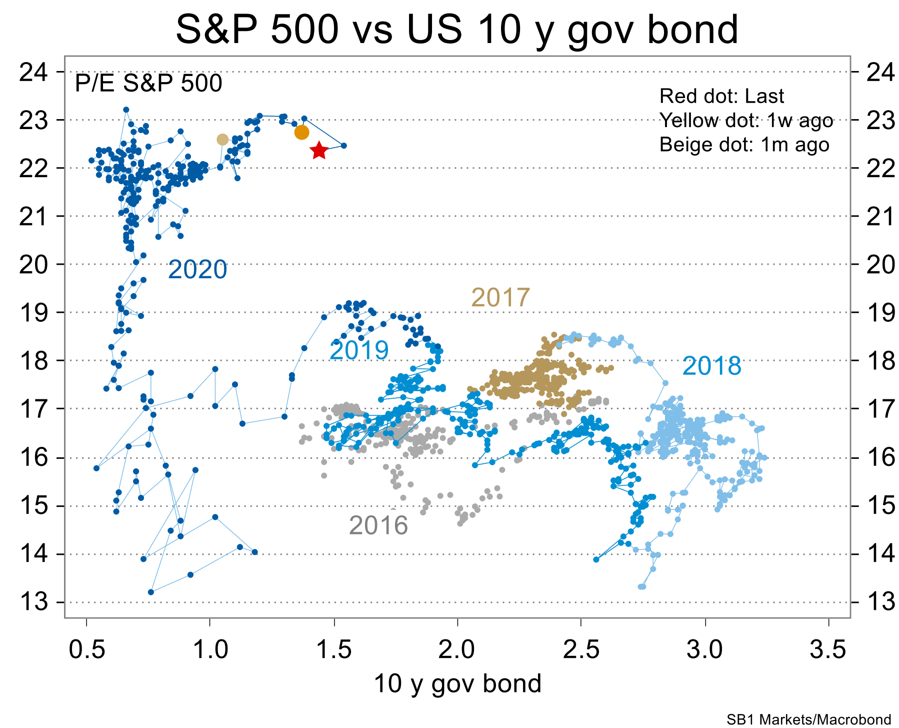
Yields are surging, the 10 y up 10 bps to 1.44% - while stocks were in the red

S&P500 down 2.5%, following the 0.7% drop last week.

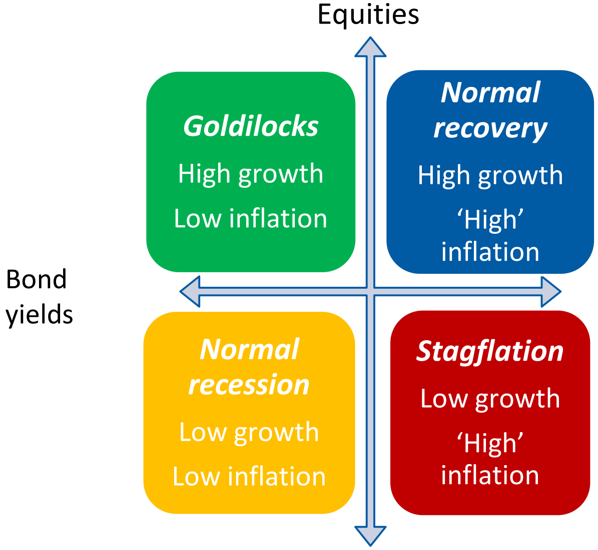


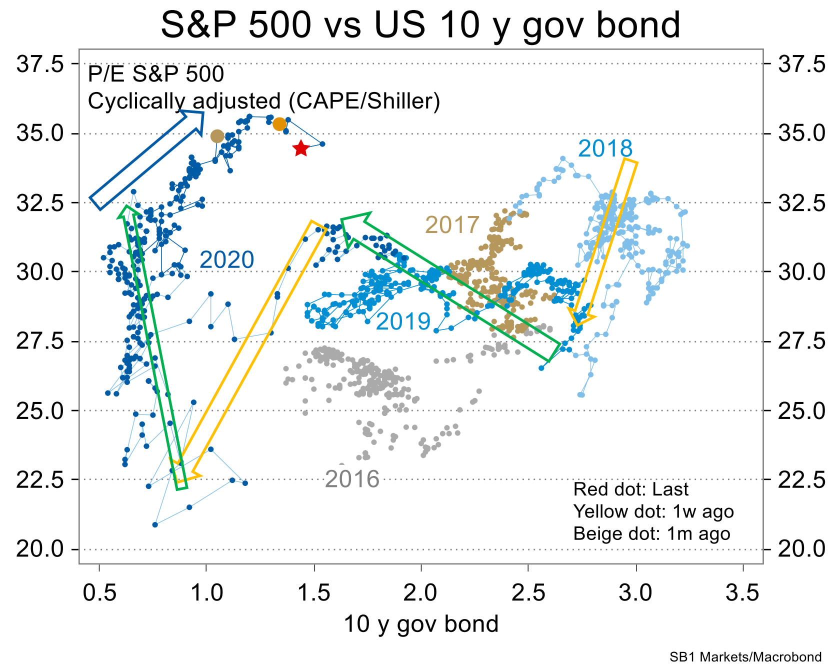


- Since the through in yields in early August, 95 bps ago (10 y gov), the stock market has climbed almost 20%. Higher bond yields are not a disaster for stocks. In fact, over the past 20+ year the correlation between bond and equity return have been quite consistent, the stock market has gained when yields rose and vice versa. Changes in growth expectations were dominant for both markets, not fears of too high inflation

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

Towards the 'bad' stagflation corner last week/month – without any stagflation in sight. But rates were too low

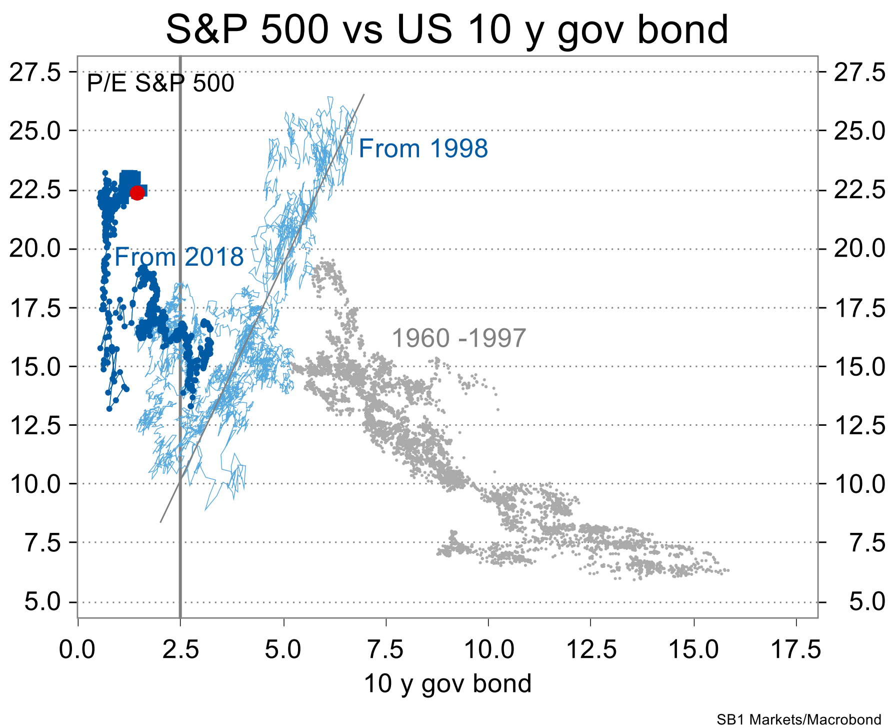


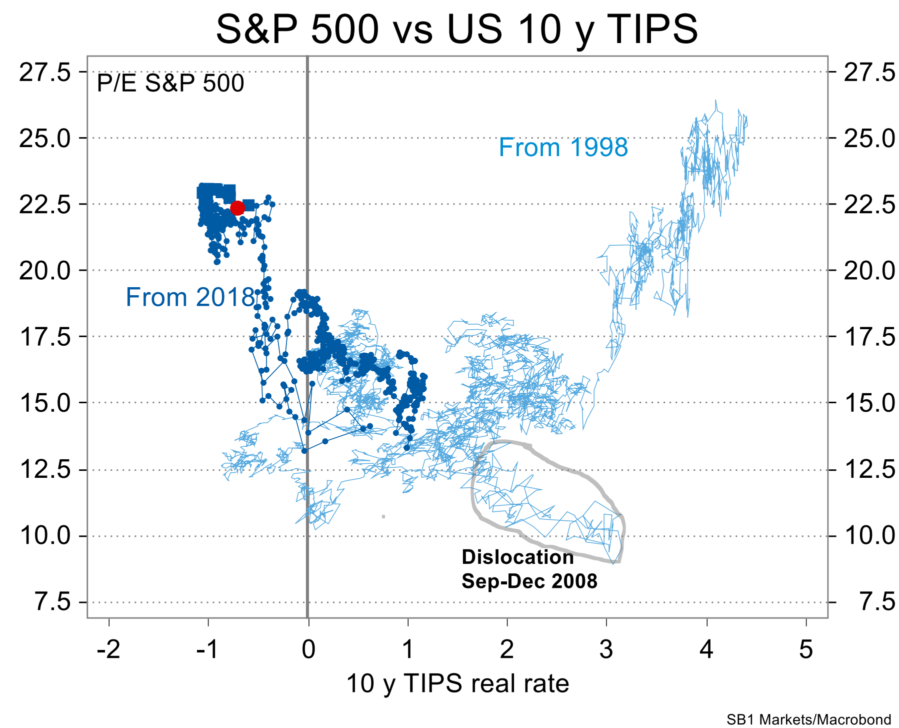


- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- Fed's Powell last week reiterated that the bank will not hike its signal rate before the economy has recovered, unemployment brought down, and inflation has increased to above 2% and was expected to remain above 2% for a while – in order to boost growth and reduce inequality (by pushing wages higher). This is looking more like a normal 'Recovery' scenario, as interest rates at one stage most likely will have to normalise, and few believe the current rates are normal, at least not in the US. Then, interest rate expectations will trend higher – which they have been doing since last August
- Normally, a recovery trade (into the blue corner) should not be a big problem for the equity market. Yields are rising because growth in nominal incomes strengthen (both real growth & inflation)
- However, since H2 2018 bond yields have fallen, and the equity market has gained – and markets moved well into the 'green corner', as growth expectation have not fallen together with lower yields, as have been the norm, at least since 1998 (in the US), at least partly due to aggressive central bank actions
- Now, vaccines are underway, and fiscal policy is 'running crazy' (4+9% of GDP in budget stimulus), and the full scale economic recovery Powell stressed he was waiting for may come far earlier than the bank (understandingly) feared. The equity market has probably long time ago discounted a rapid recovery – without having to take into account the normalisation of interest rates, which is now taking place
- Suddenly, there are alternatives (sorry, Tina) for investors, even if yields still are way below reasonable growth expectations. Probably the best to hope, is unchanged equity market pricing (P/E-wise), but growing earnings will yield moderate returns as yields increase. The alternative is 'normal multiples' and 'normal' rates. Which is not a 22x 12m fwd P/E, or a 35x Shiller P/E – and not a 10 y bond rate at 1.4% - or even less a -0.7% 10 real TIPS bond yield

A longer term view: Equities vs bonds

Back to where we came from? A 2.5% nominal & and a zero real yield will still be unusually low





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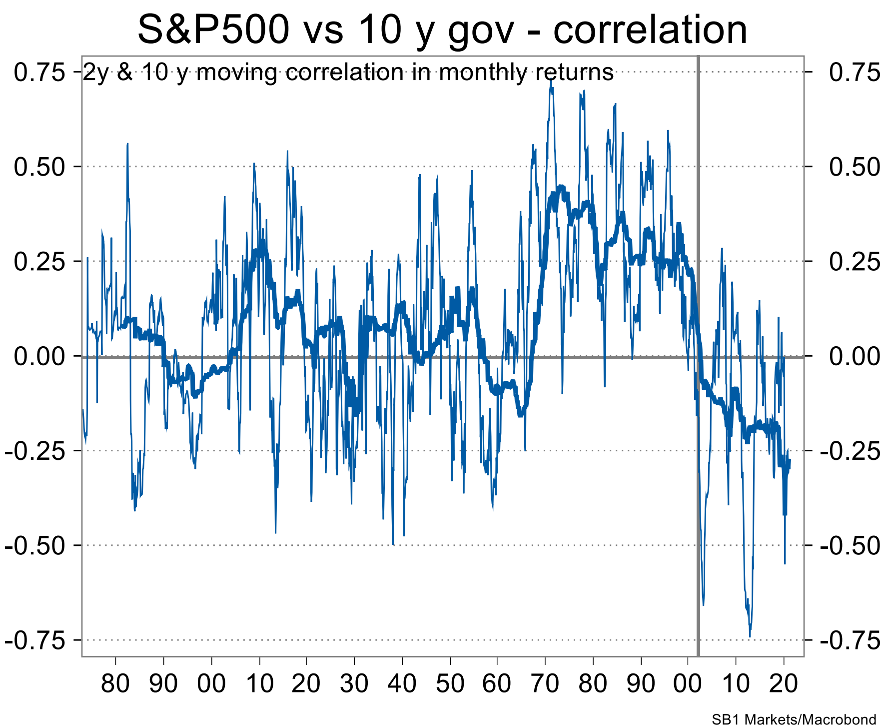
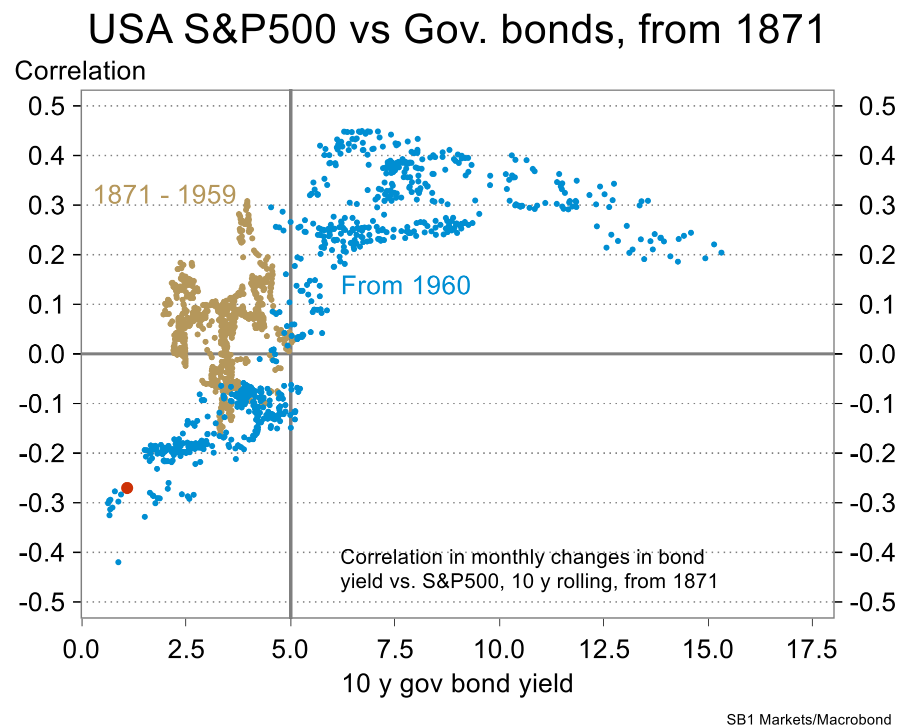
Bonds vs. equities: The correlation is not stable!

The past 20 years: A quite consistent negative correlation (in returns, check the previous page)

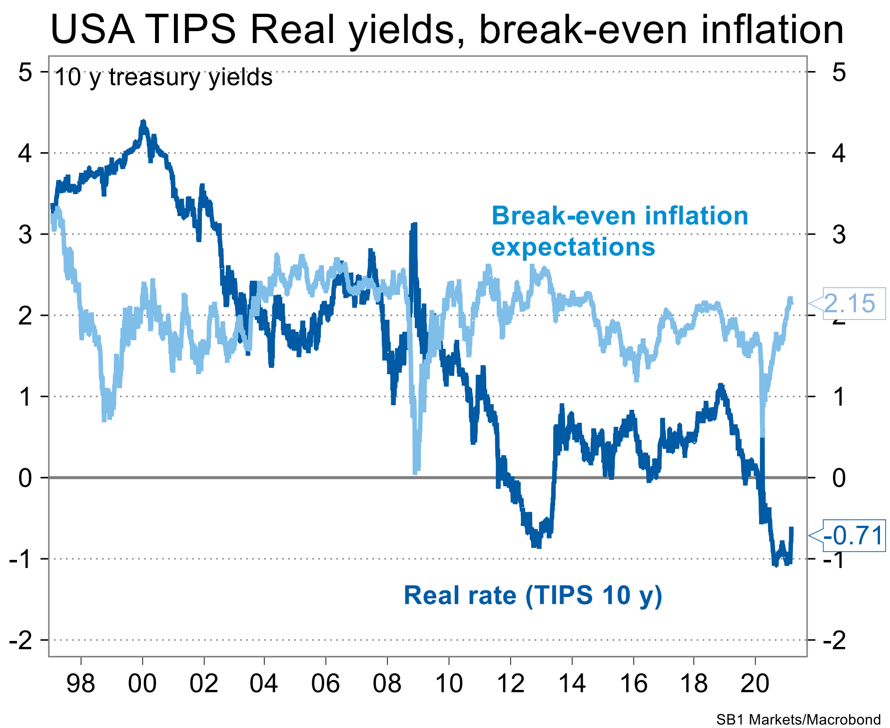


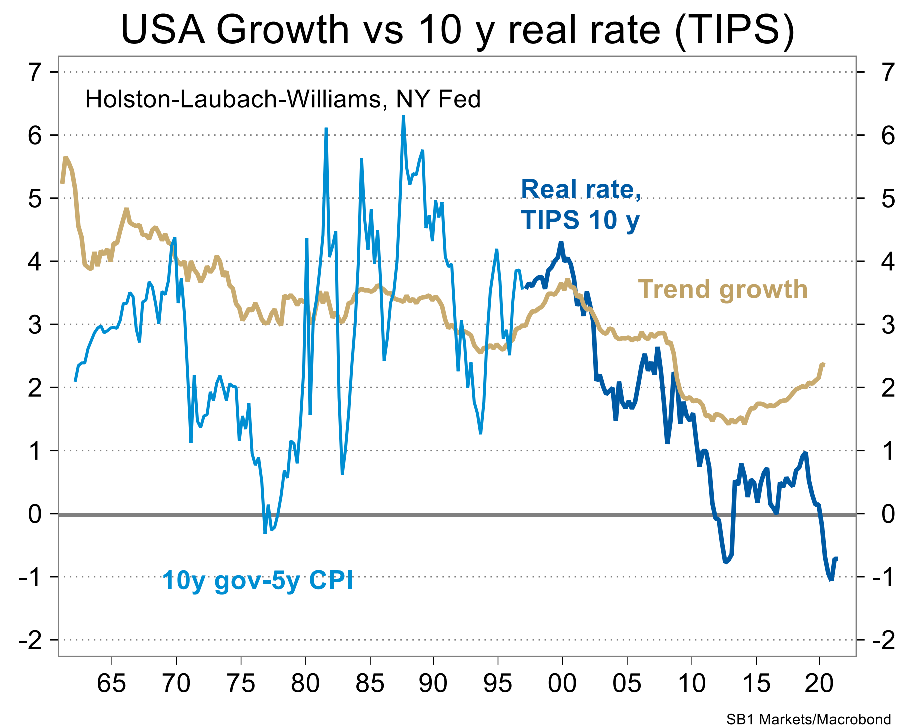


* Since 1998: Higher bond yields -> a stronger equity market

Record low real rates – and decent growth expectations!

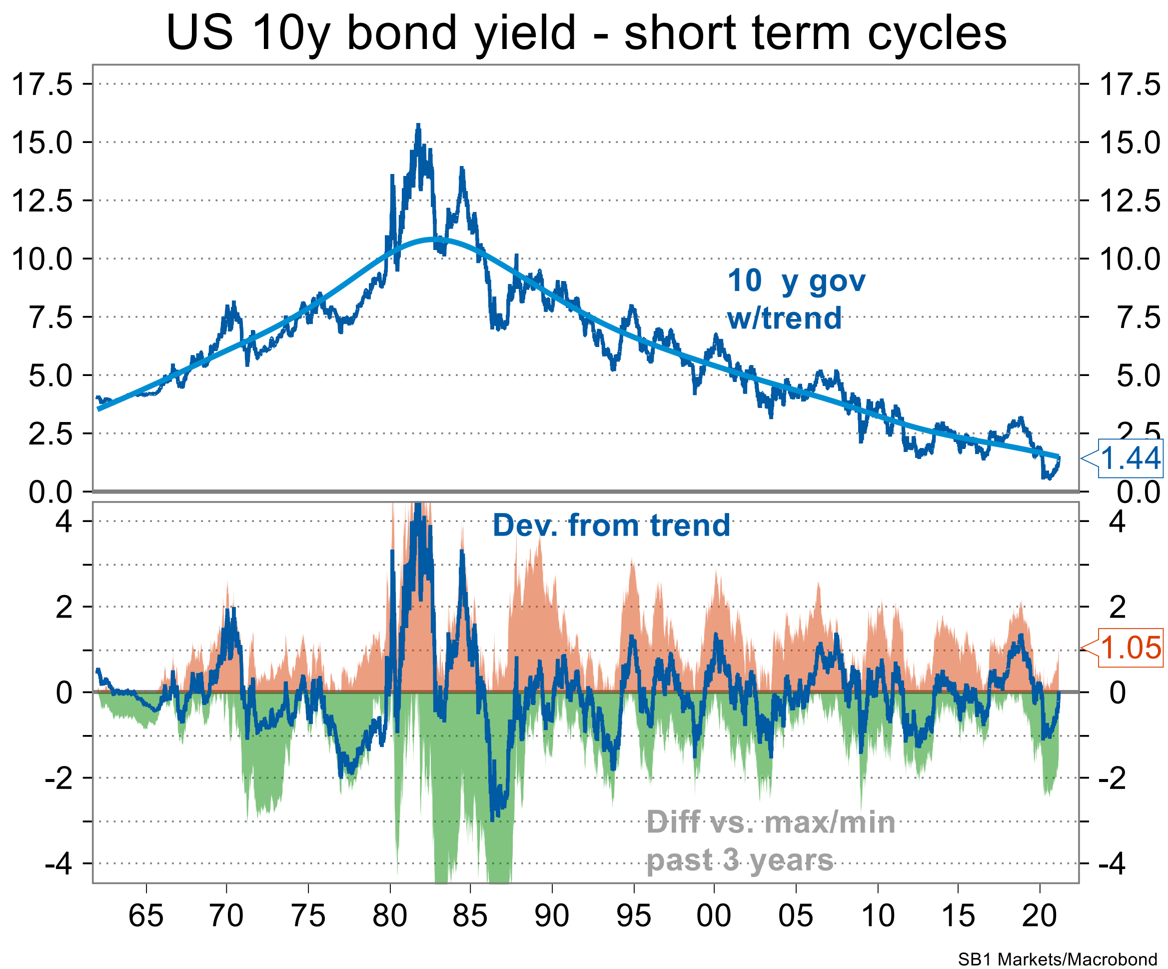
Optimal for risk markets! Real rates are still very low. But what if they continue upwards??





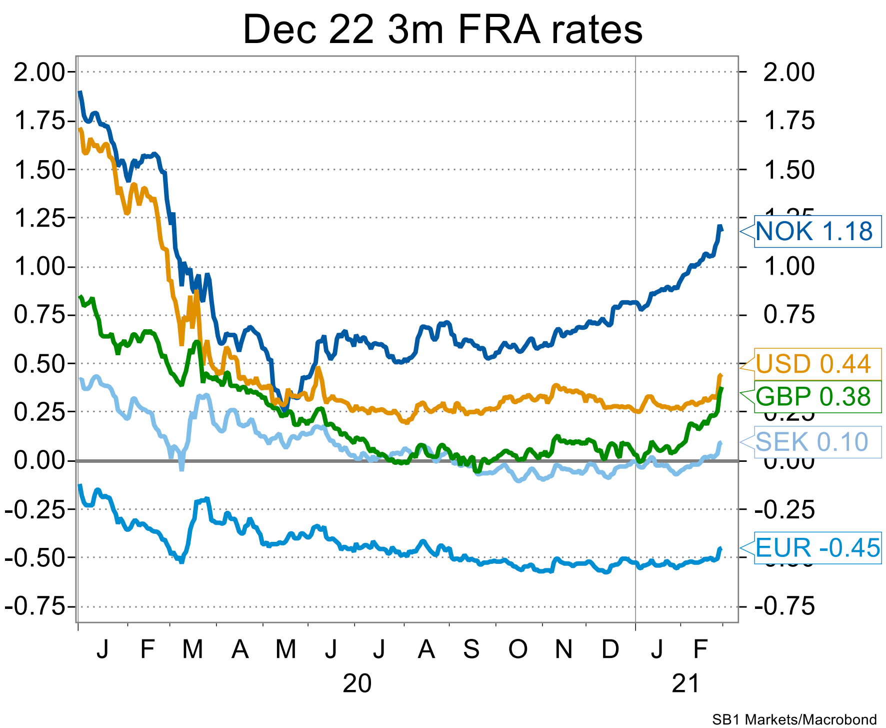
Some 'smaller' bond yield cycles: -200 bps/+200 bps vs recent peaks/troughs

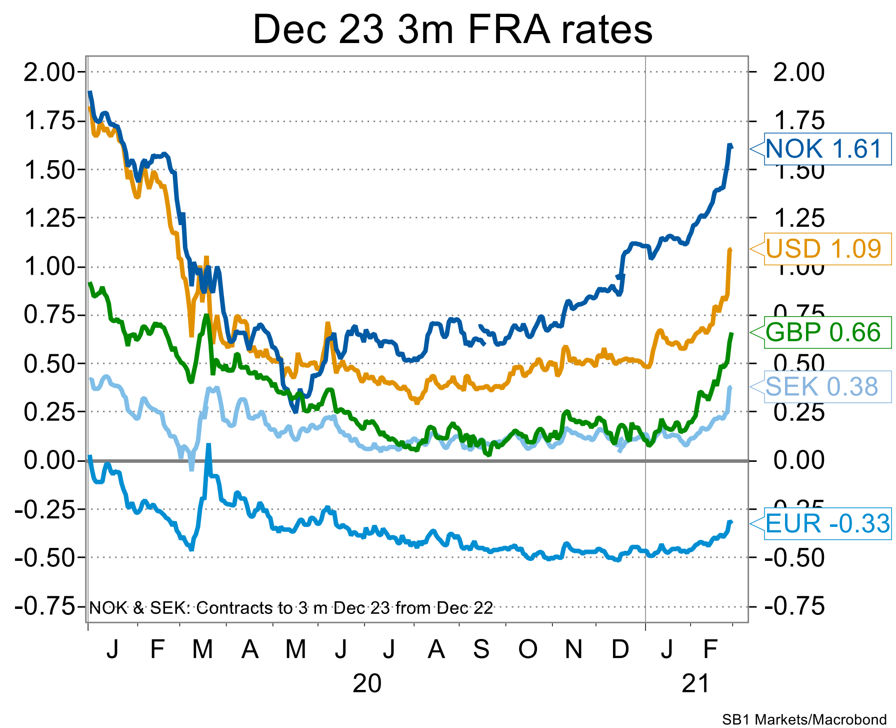
We may soon half-way through a 'normal' correction – but there is more than 100 bps more to go ☺



Interest rate expectations: Norway in the lead – but others are following suit

Some microscopical lifts in the Dec 22 contracts in SEK & EUR. More visible in the Dec 23 contracts





- And rates are sharply up in UK & US – with Sweden in between EUR and the rest of us

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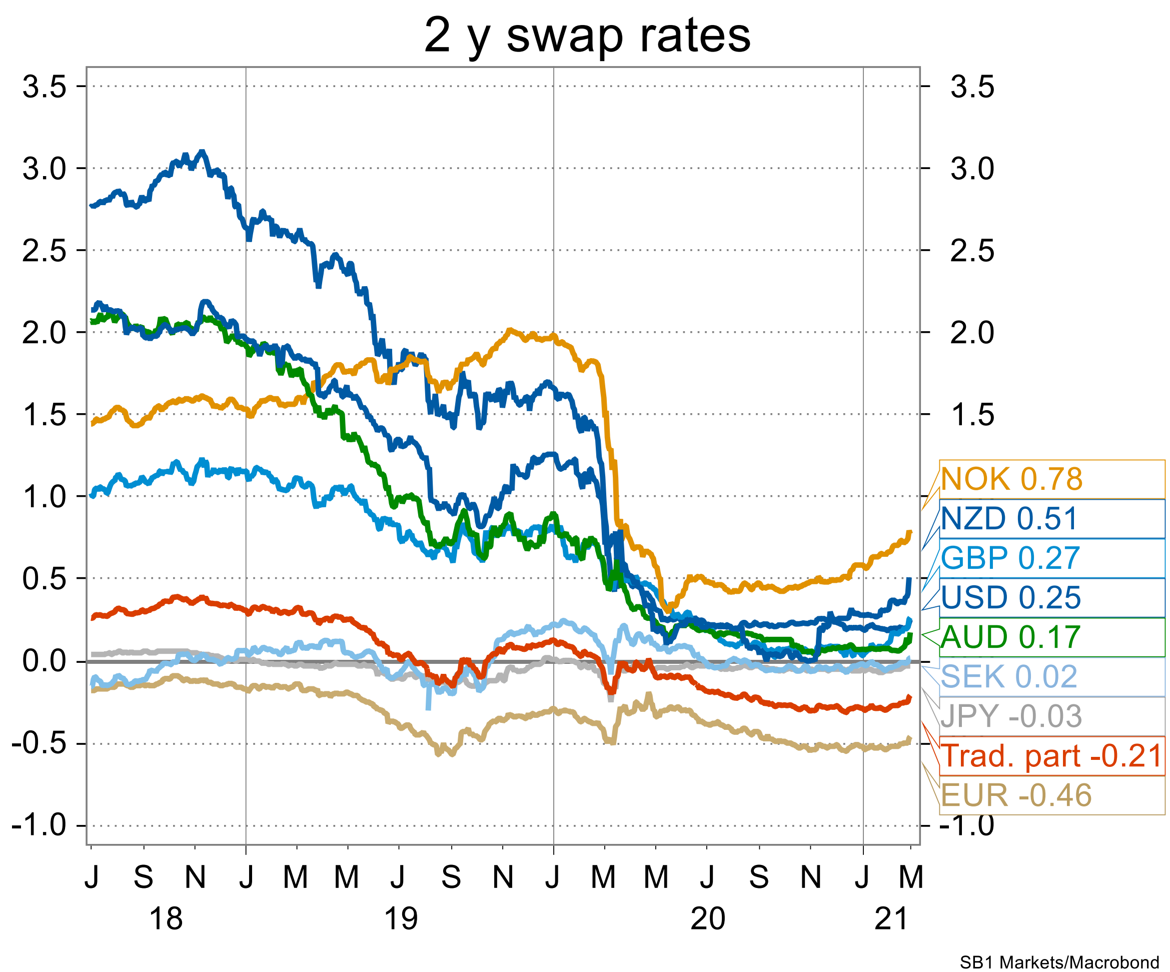
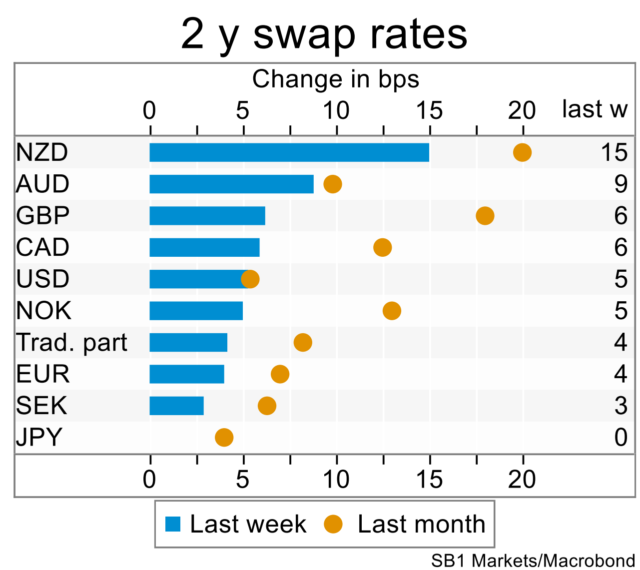
2y swap rates on the way up, NOK & NZD rates at the front

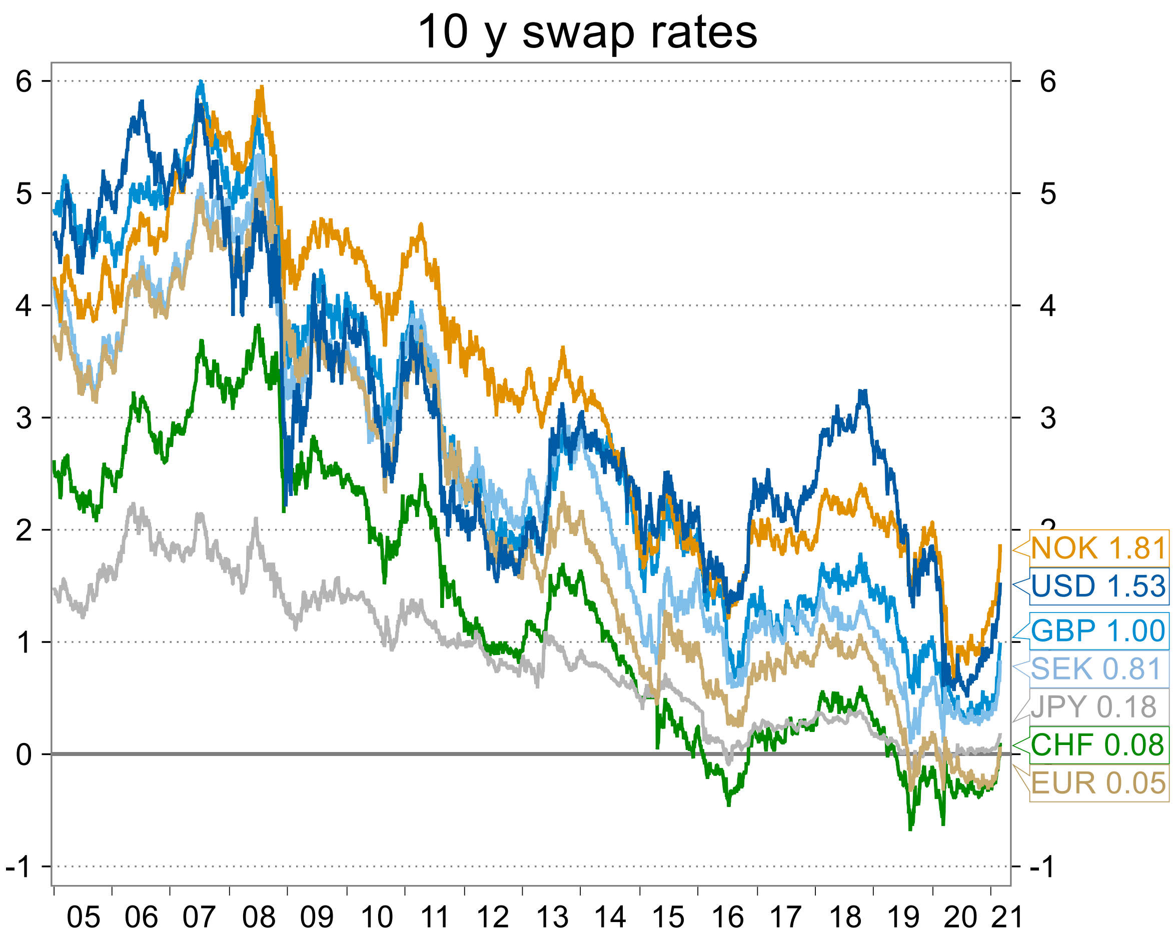
None down last week, and all up last month

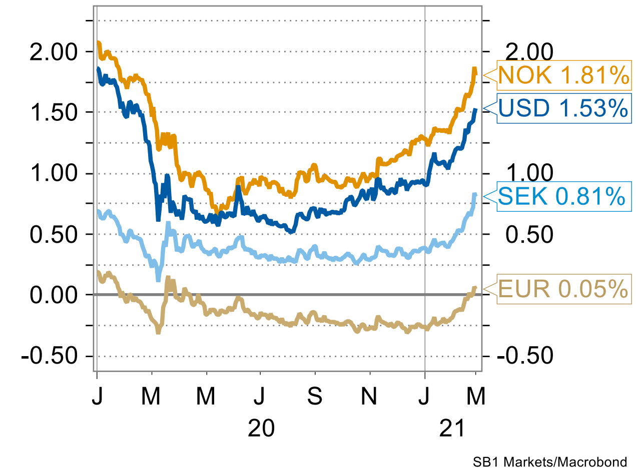


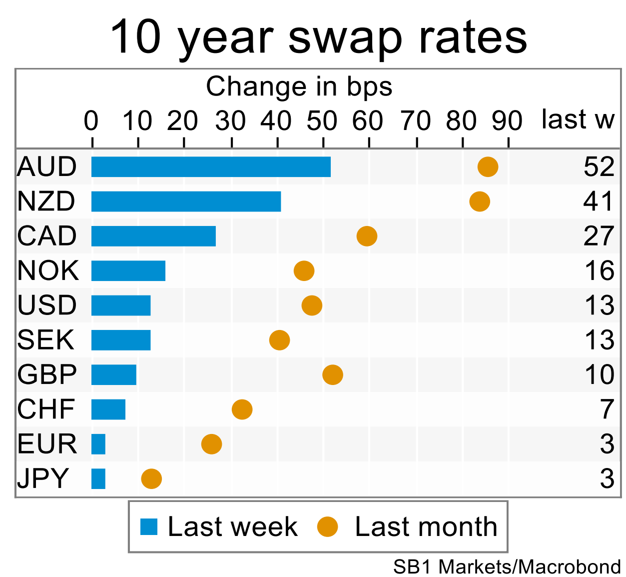


A further hike in long term rates last week, with the ‘super-cyclicals’ in the lead

Australian 10 y swaps up 52 bps in one go!



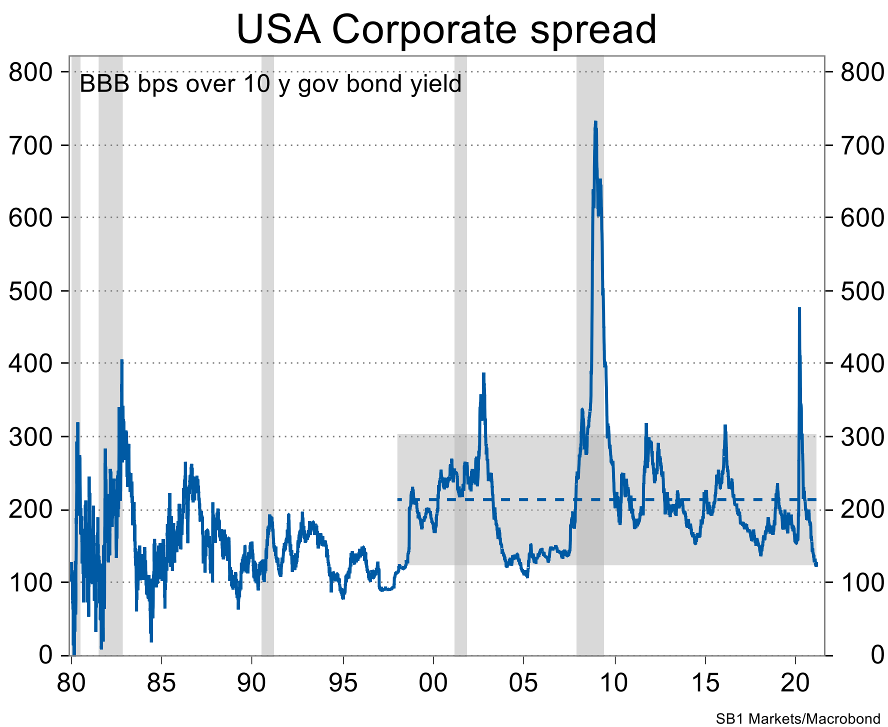


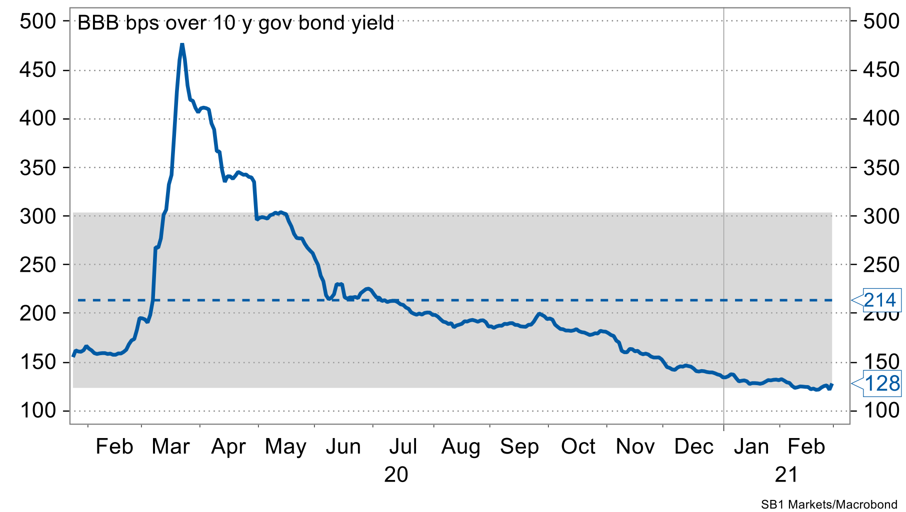


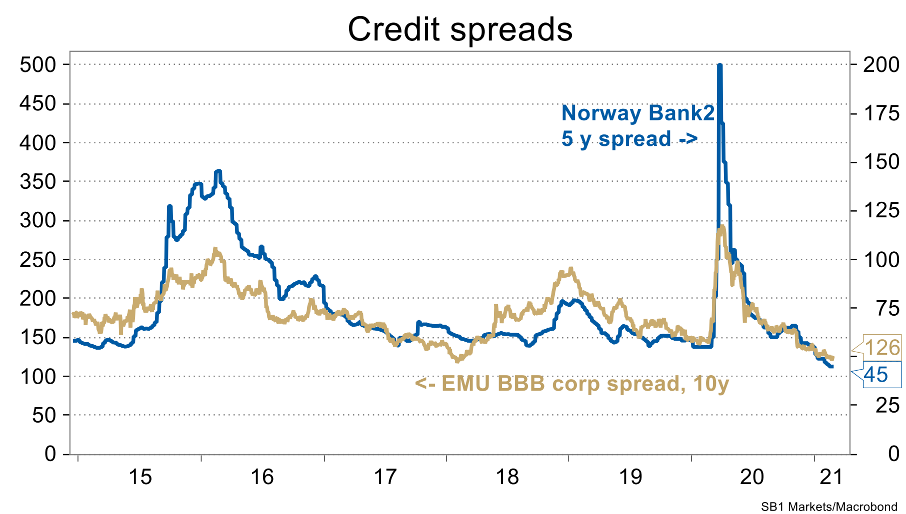
However, even EUR rates added some few points (and they are up 25 bps from the bottom)

US credit spread widened marginally last week

Credit spreads haven't been lower since 2005!







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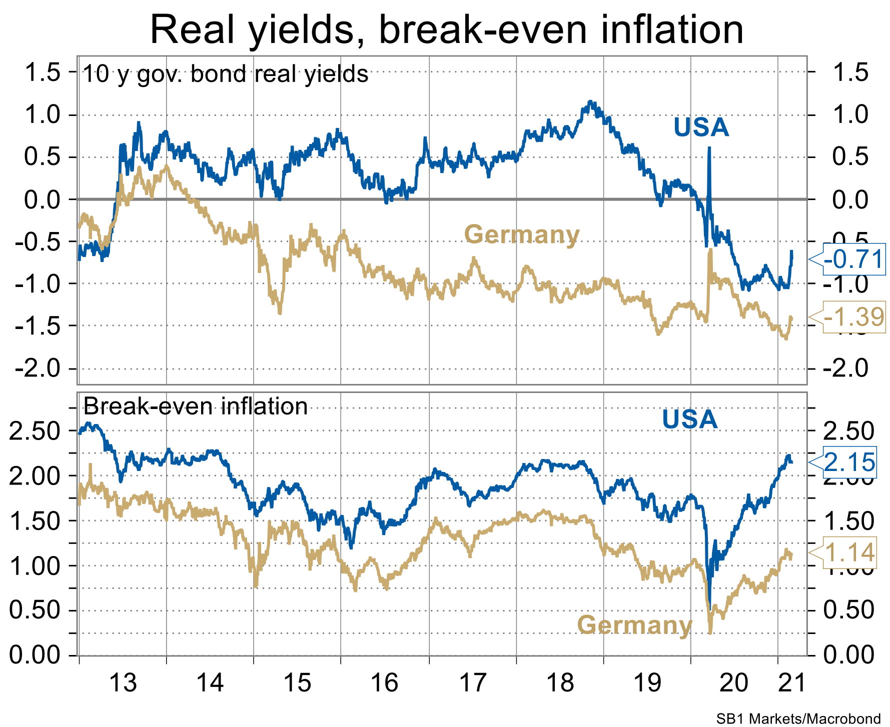
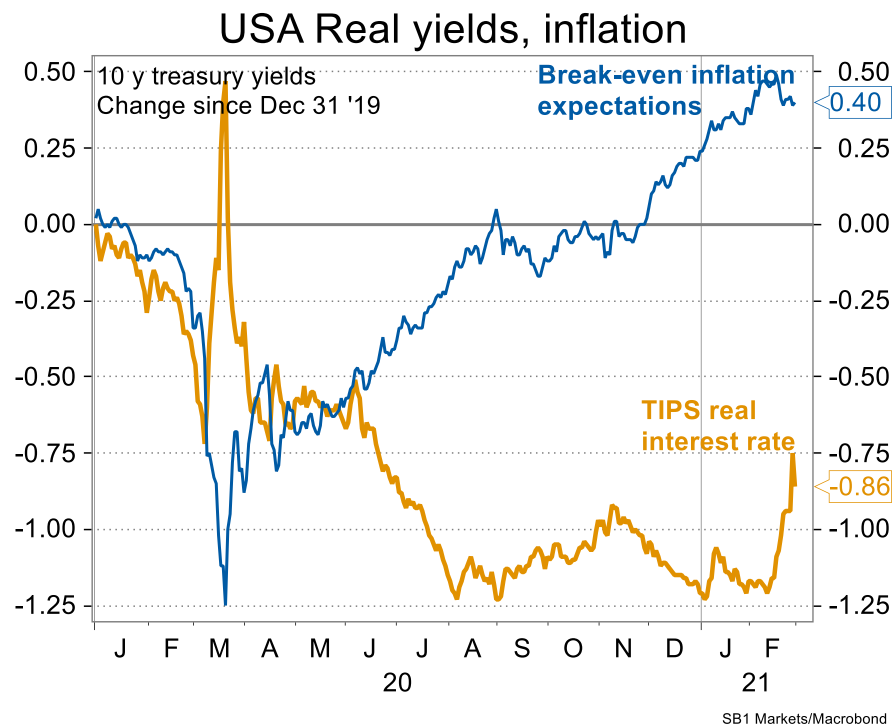
Has the (ridiculously low) real rate cycle turned? *US TIPS up 40 bps from the bott.*

Last week's interest rates 'shock' was more due to higher real rates, not higher inflation expect.

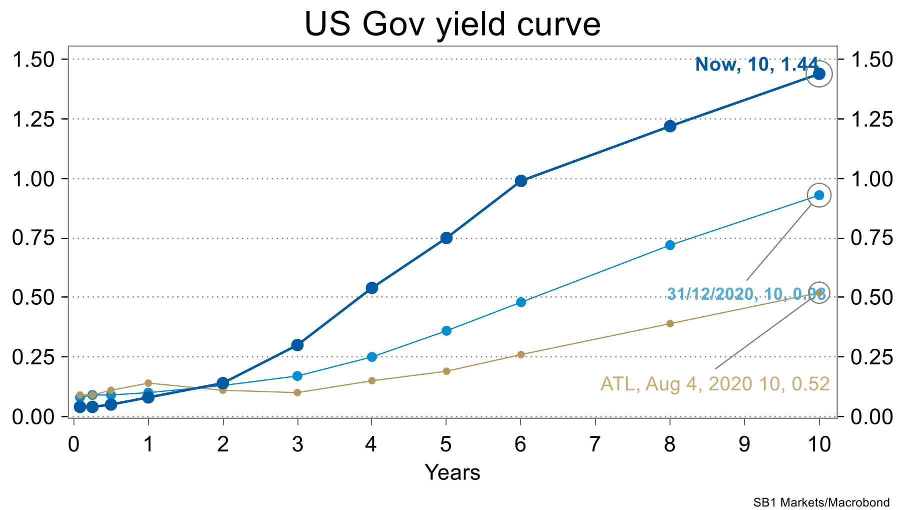


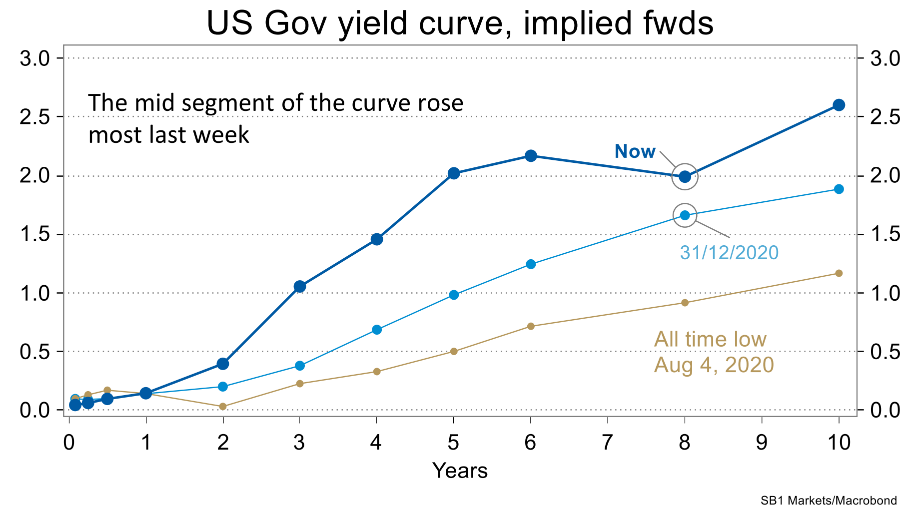


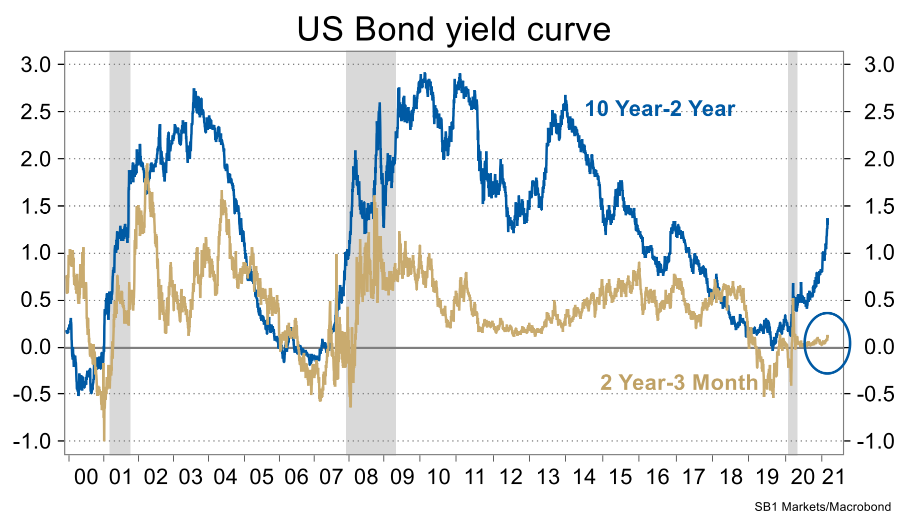
- **US 10 y <u>+14 bps to 1.44%</u>** (was up to 1.55% intraday Thursday)
  - » Inflation expectations up 1 bp to 2.15%. Has fallen by more 10 bps from the local peak 2 weeks ago, but is still up some 40 bps since Nov
  - » The TIPS real rate rose further by 9 bps to -0.71% following the 21 bps hike the previous week. The level is still far too low (we think)
- **Germany 10y +<u>8 bps to -0.25%</u>**
  - » Inflation expectations up 6 bps to 1.14%
  - » Real rate +2 bps -1.39% - but up 25 bps from the bottom in early February. The level is still far too low (we think)

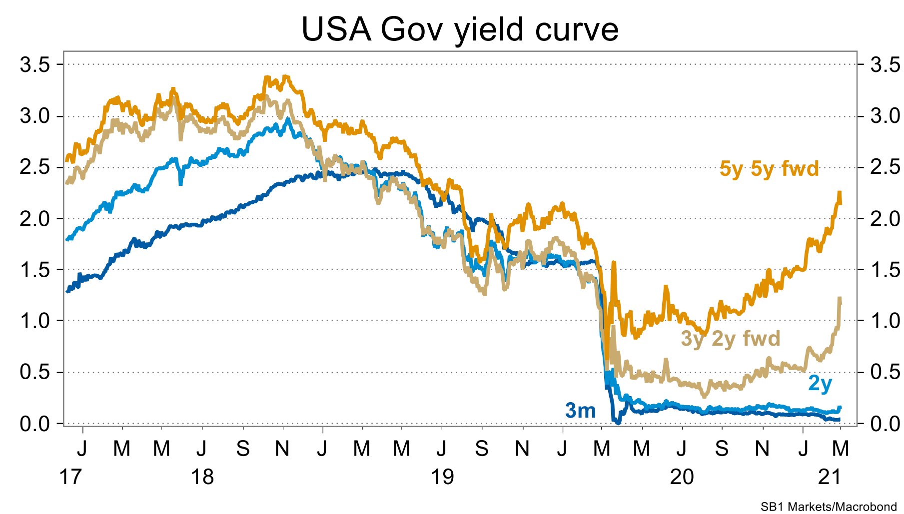
The short end of the US yield curve is not fully anchored anymore

Even if Powell & Co. insist that rates will be kept low as long as needed. Sure, but for how long?



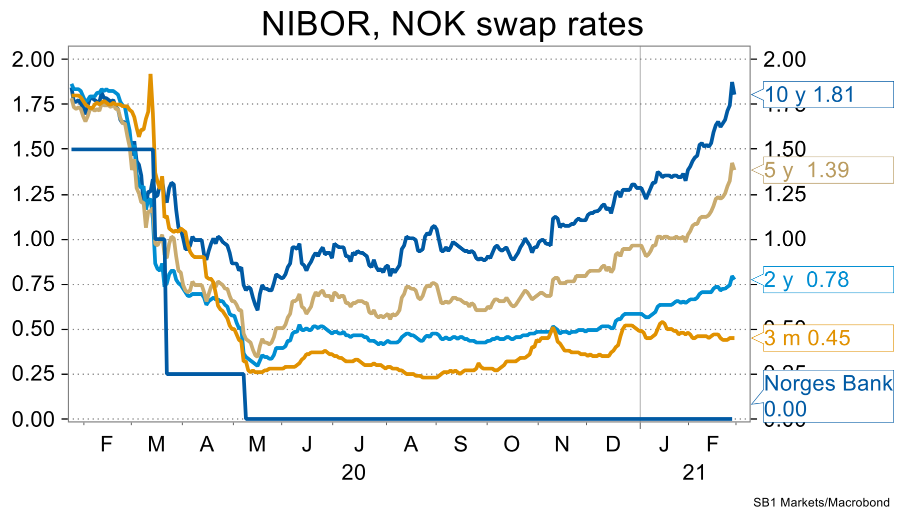




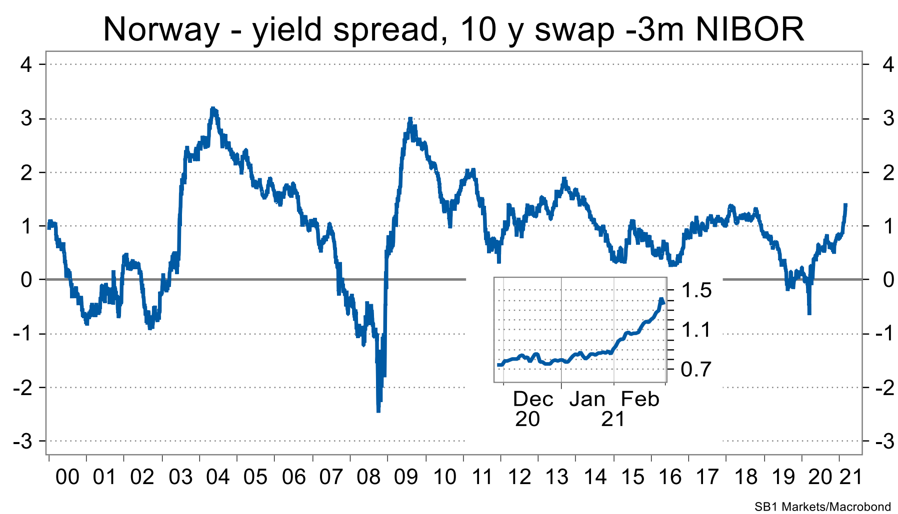


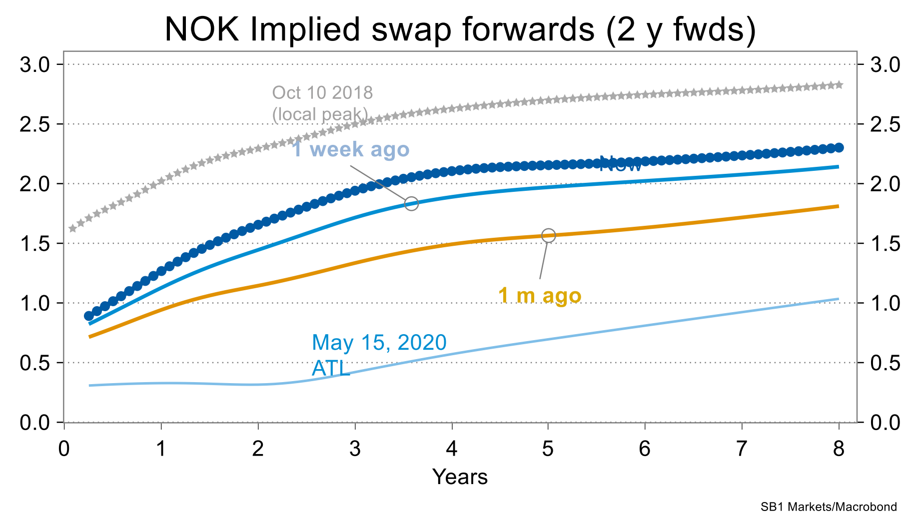
NOK rates climbed further last week

NOK 10 y swap +16 bp to 1.81%; up 130 bps vs May all time low



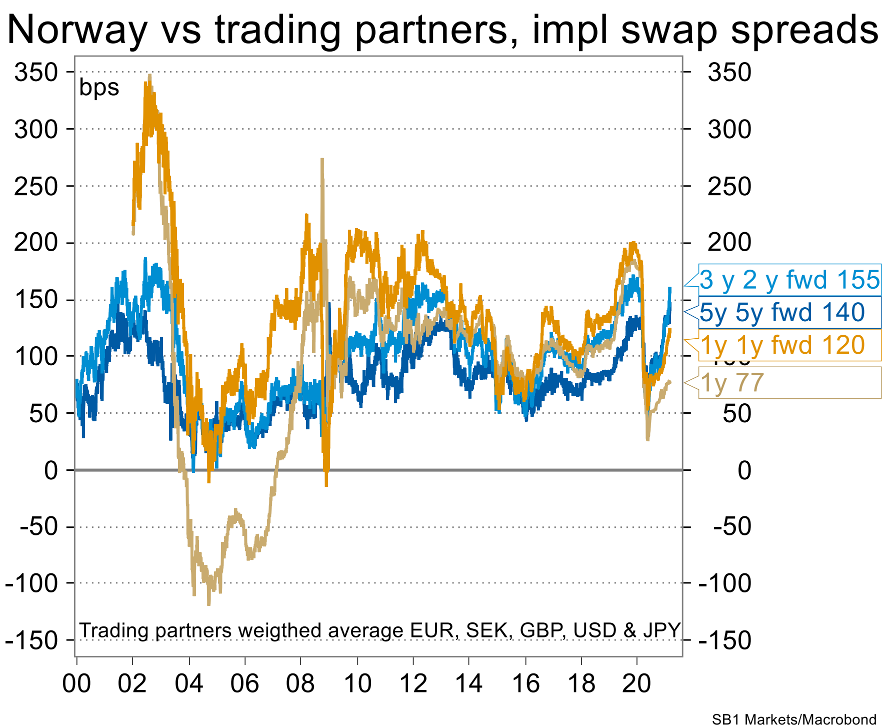
- The 10 y swap rate is now on par with the level in early 2020, before the corona virus hit, even if the first half of the curve is well below
- Last week, the mid segment of the curve rose the most

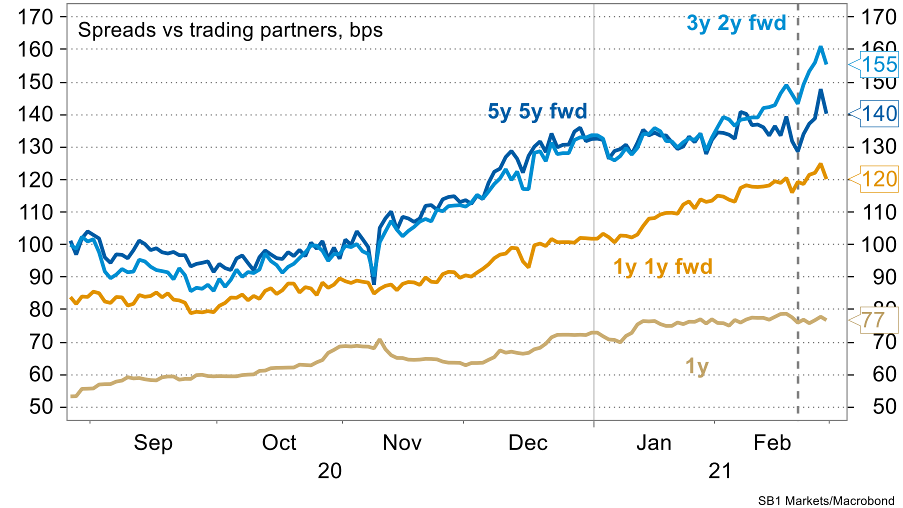


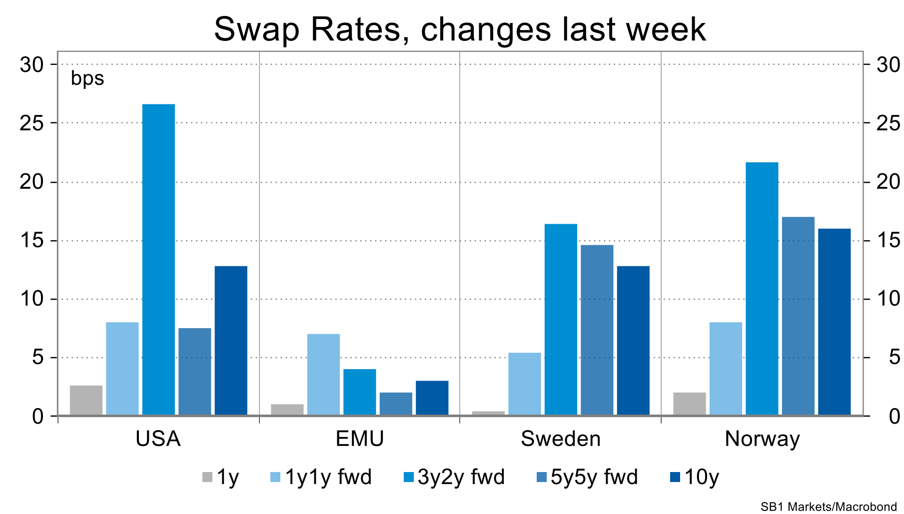


Norway in the lead again, spreads widened all over

The 5y 5y fwd spread at 140 bps is close to record high. Probably little upside

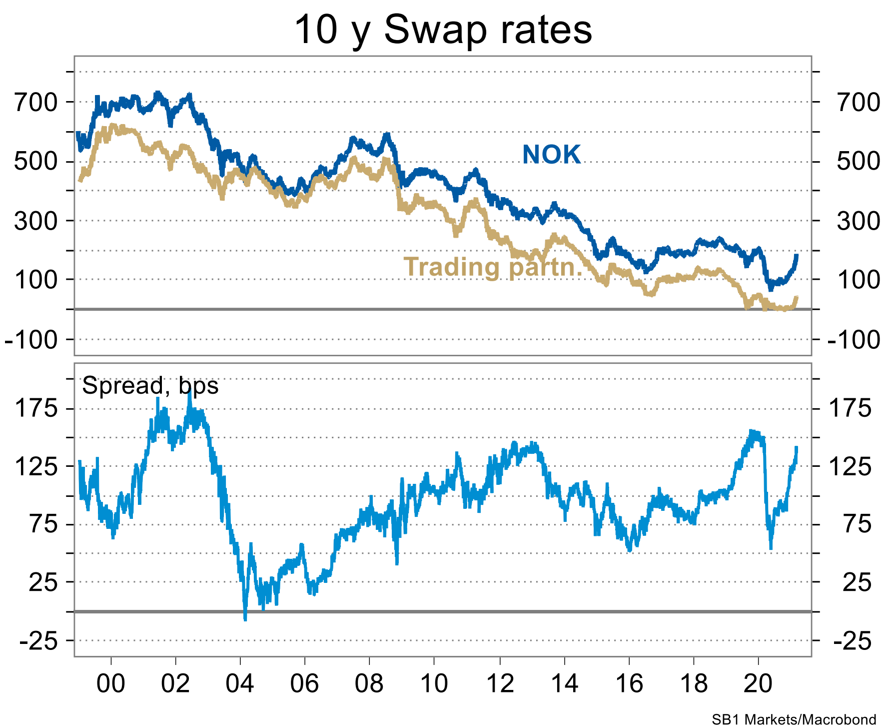


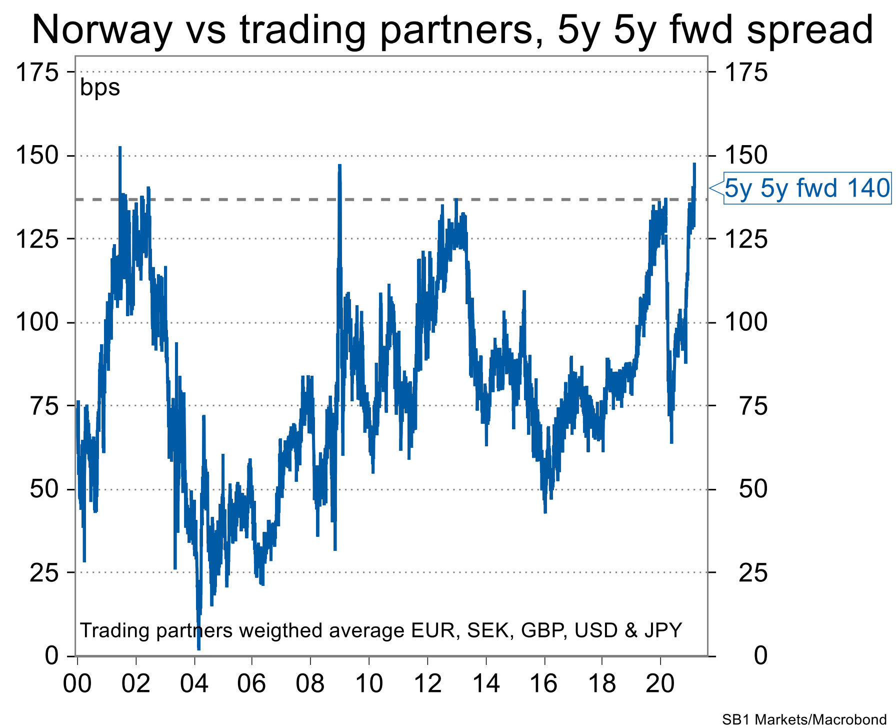




- Interest rates rose sharply further in US, UK, Sweden and Norway last week, less so in the Euro zone.
- The implied spreads between NOK rates and trading partners' rose, from 2 year onward
- In the long end, the spread is very high vs. history, while spreads on the first half have been substantially higher

The 5y 5y fwd spread up to close to record high levels again





- How much inflation will Norway have, over time?
- How much faster growth will Norway deliver, over time?
- Thus, how much higher interest rates will Norway need, over time?

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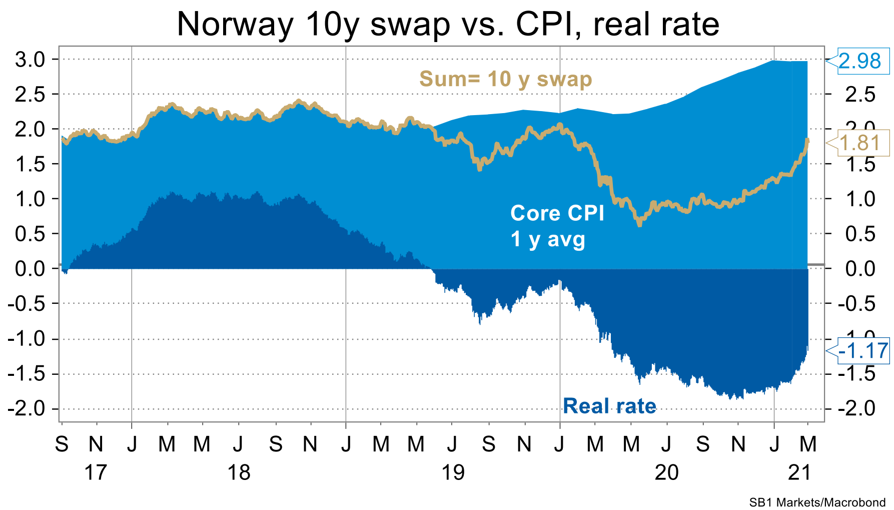
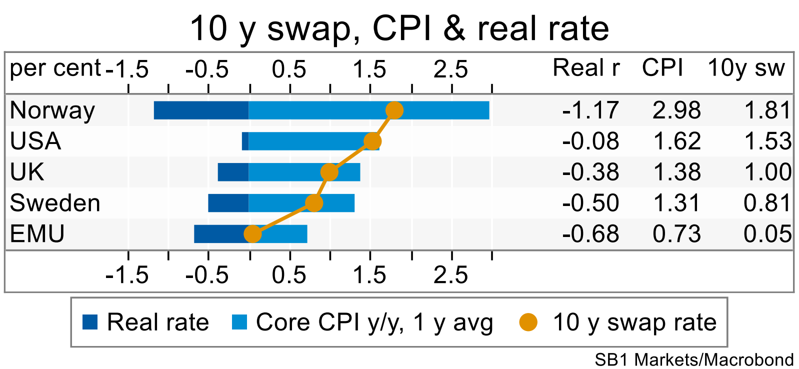
Negative (actual) real interest rates everywhere – NOK at the bottom



NOK 10 y swaps are drifting upwards

- The **10y NOK swap rate** has climbed by 130 bps since the bottom in May, to 1.81%!
- **The real rate**, after deducting 3% average core CPI inflation over the 2 past years still equals -1.17%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 3%
  - » On the other hand, barring economists' in academia & finance, nobody else believe in the 2% inflation target. Other economists say 2.5%, business leaders 3.5% and households 3.8% (in 2 to 3 years' time)
  - » In seems unreasonable to revise expected inflation to below 2.5% - and in may in fact be that it is even higher than 3% among many decision makers



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

- **Inflation** among Norway and our main trading partners varies between 0.73% to 2.98% (here again 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 -0.1% to -0.7% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.2% is an outlier at the downside, even if the nominal rate is the highest**

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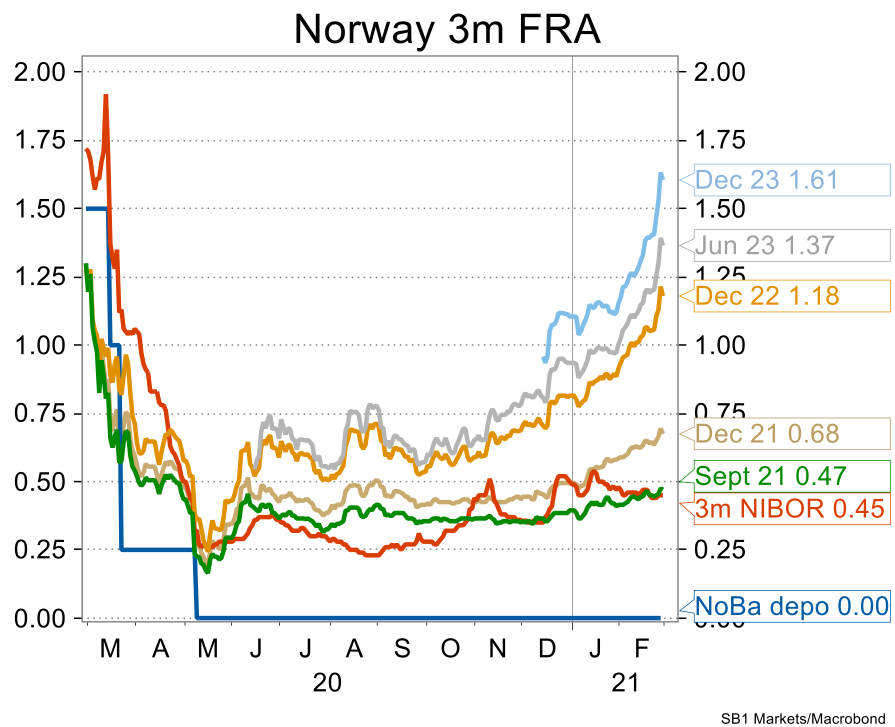
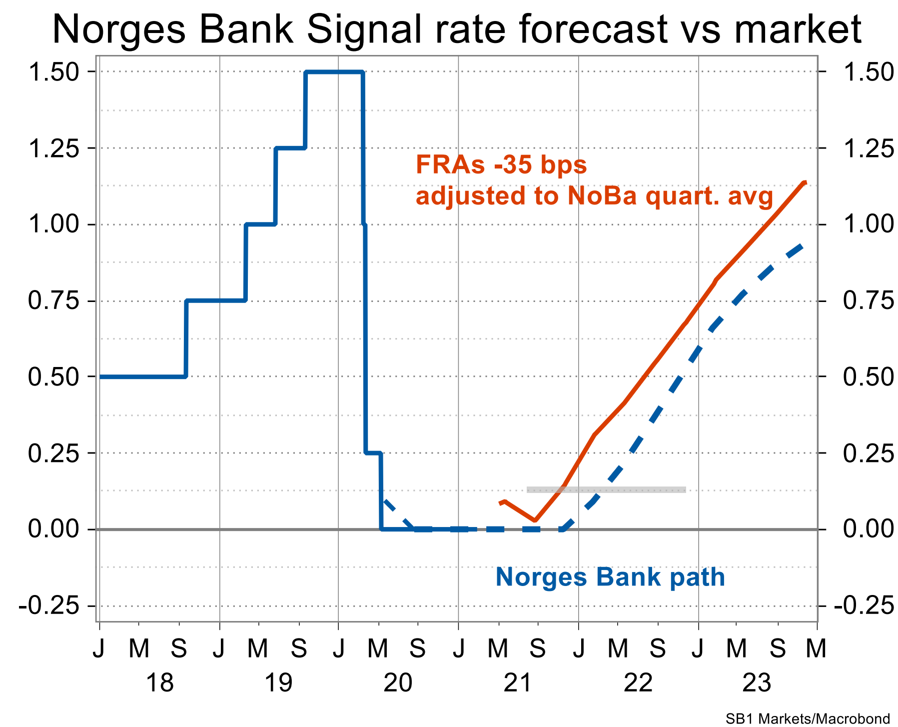
The FRA-curve is steepening rapidly, up 15 – 20 bps last week, 50 bps so far in '21

Most likely, just really bad virus/vaccine news will dampen rate expectations

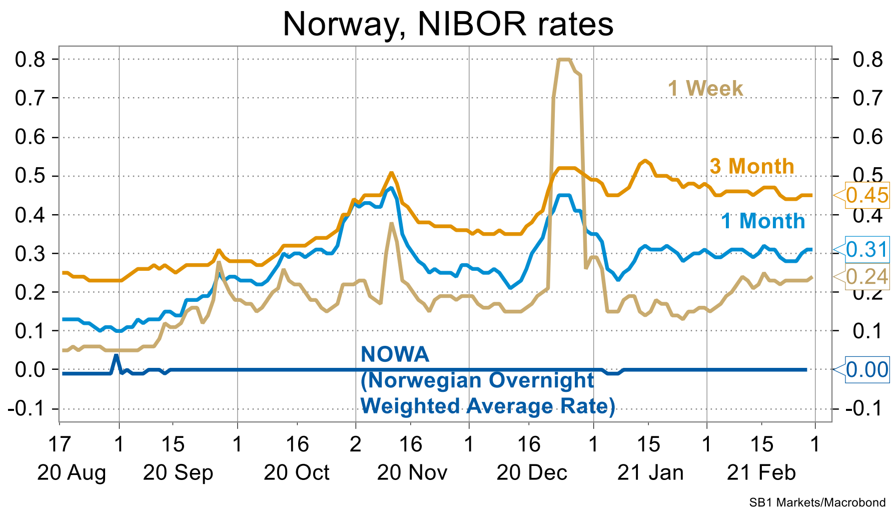


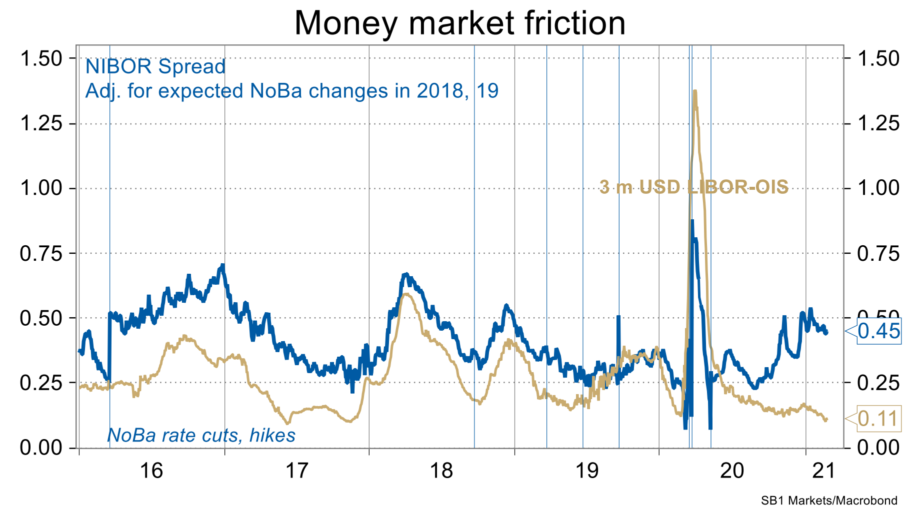


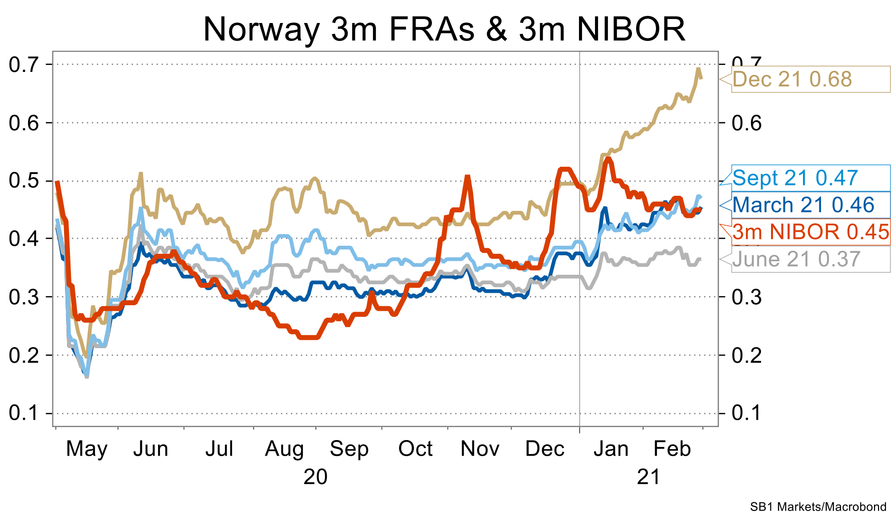
- The FRA-curve is now above Norges Bank's Dec interest rate path
- Norges Bank will present its new path March 18. We expect another lift, the 4th in row, both due to foreign and domestic factors

NIBOR have flattened, market expect a ‘high’ spread vs NoBa through Q2

The March 3 m FRA at 0.46%, and June at 0.37% signal that market do not expect 30-35 bps anymore



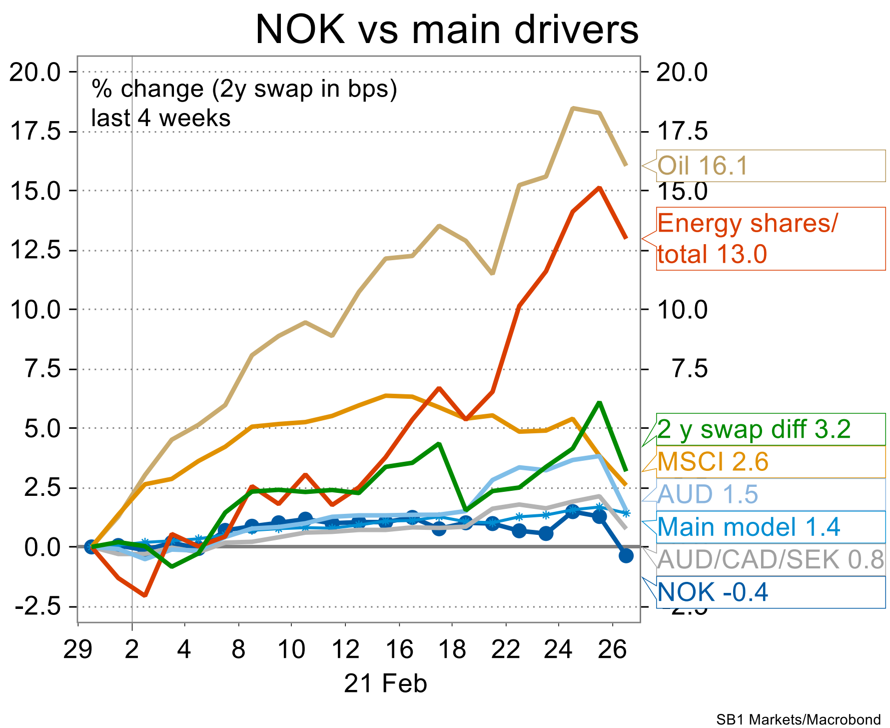


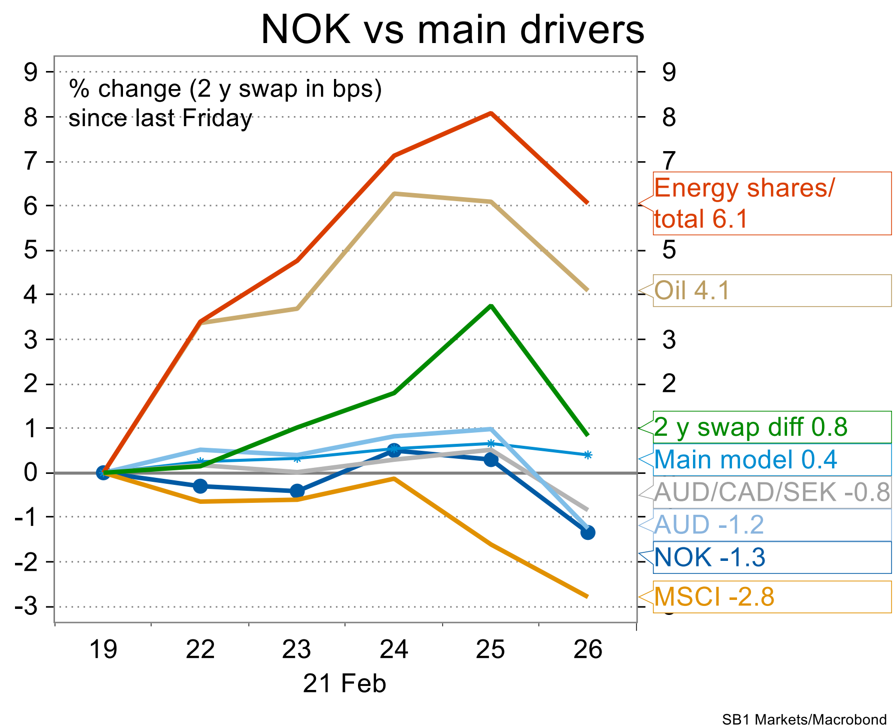


- **The 3m NIBOR** was flat last week but the spread vs. the NoBa deposit rate remains larger than ‘normal’
- Now, the **FRA rates implies** that market participants expect that the spread will remain higher than the ‘normal’ 30 – 35 bps
  - » However, the spread has been far from stable, though mostly driven by LIBOR-OIS spread in dollar market. The present gap between the spreads are larger than normal

NOK followed AUD, global equities down, in spite of another lift in oil/energy sh.

Risk off – NOK down





In sum, the NOK is still a buy:

- The NOK is 4% weaker than suggested by our standard model
- The NOK is 4% '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 'super-cycle peers'
- On the other hand, the NOK is far (9%) stronger than a model which includes global energy companies equity prices (vs the global stock market)

At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index for the last 25 observations. The I44 has an earlier closing time than the 'official' closing time for fx crosses, which is the same as for JP Morgan's indices, and JP Morgan's index correlates closer to the 'official' main NOK fx crosses. There are no substantial difference between these two indices over time. AUD etc. are JP Morgan data

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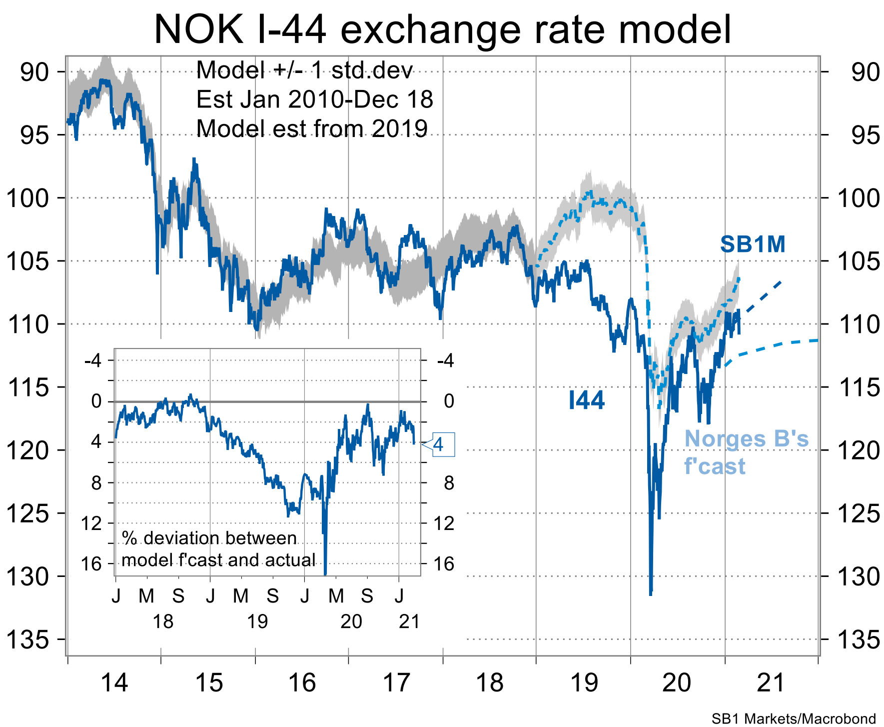
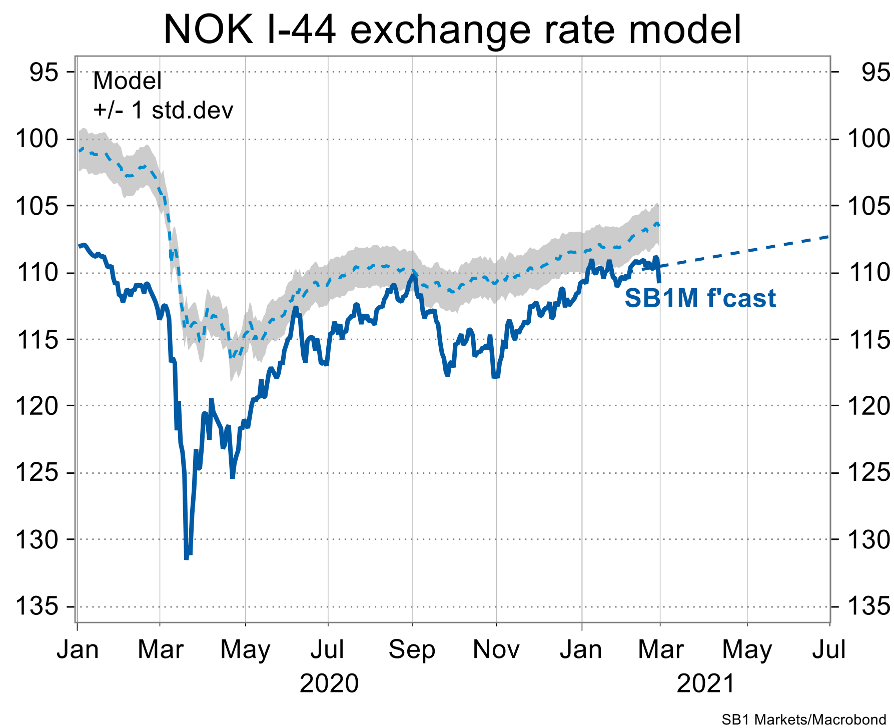
NOK I44 down 1.4%, our model said +0.4%

The NOK is suddenly 4% below our model forecast





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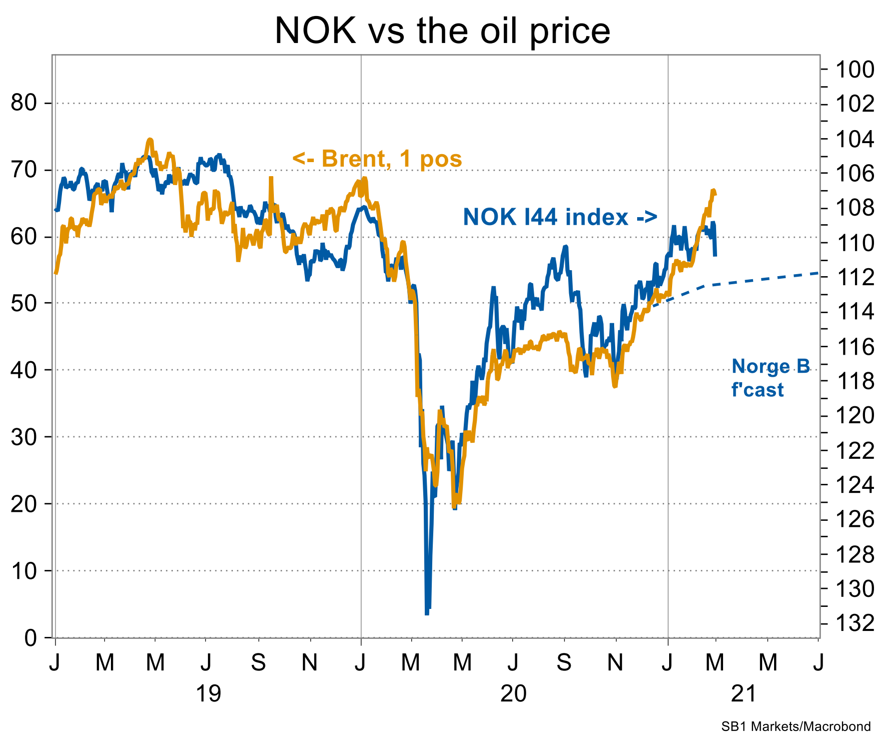
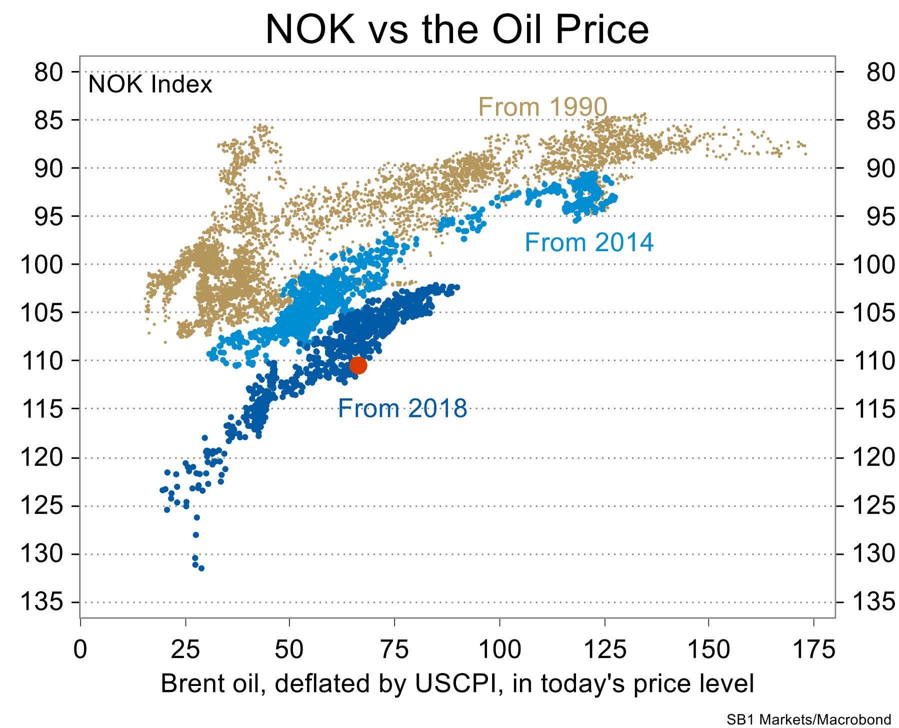
Oil up, NOK down. Not the most dominant pattern

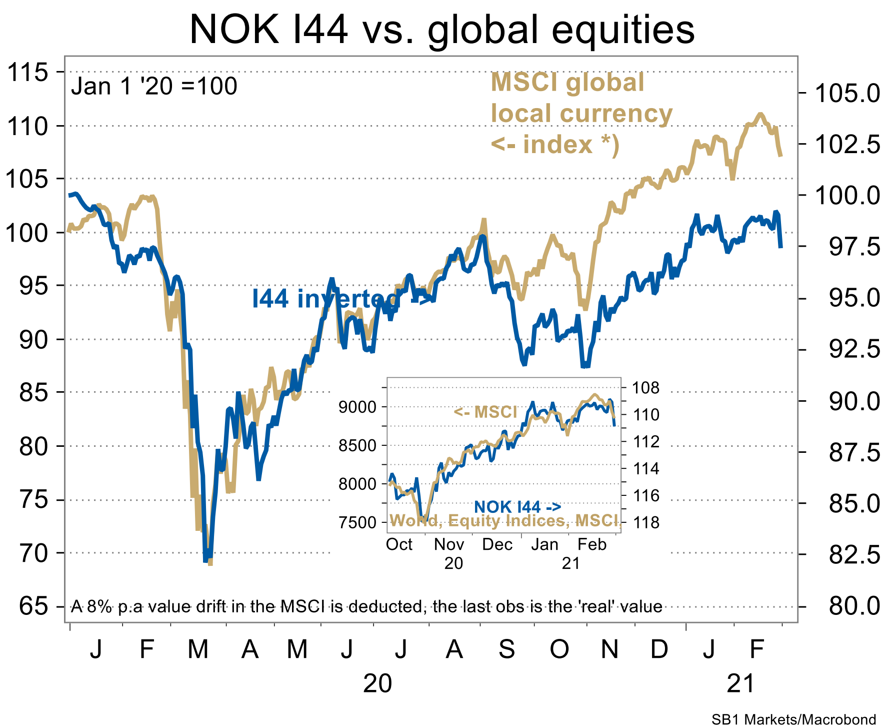
The oil price far up in the 60'ies, and above the pre-pandemic level. Thank you, Saudi & Russia

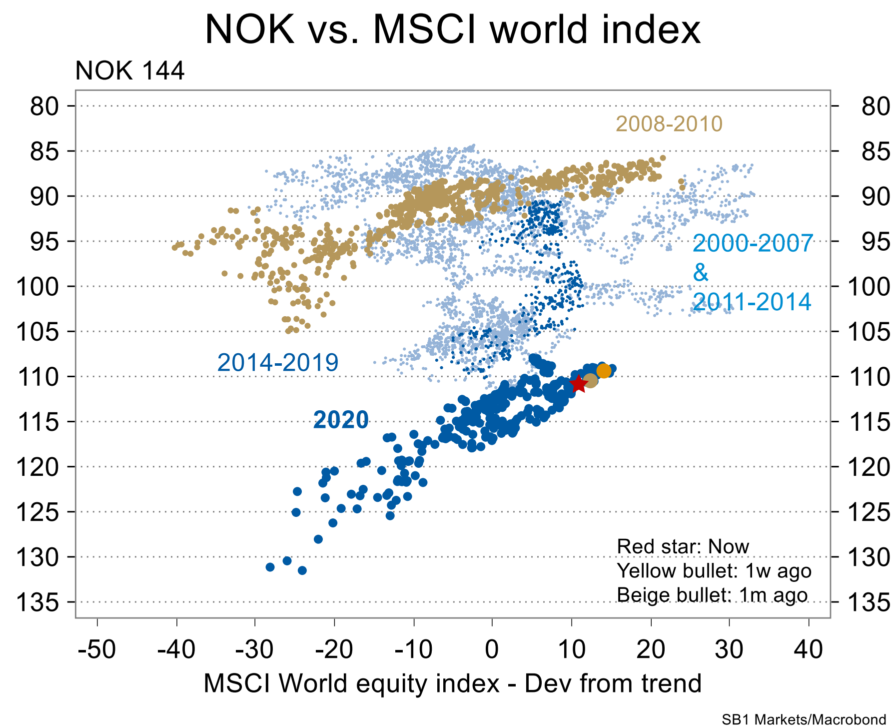




Shit happens, global equities & NOK down last week

Except for Sept. NOK and global equities have walked in tandem last year. In Sept, NOK 'lost' 5%

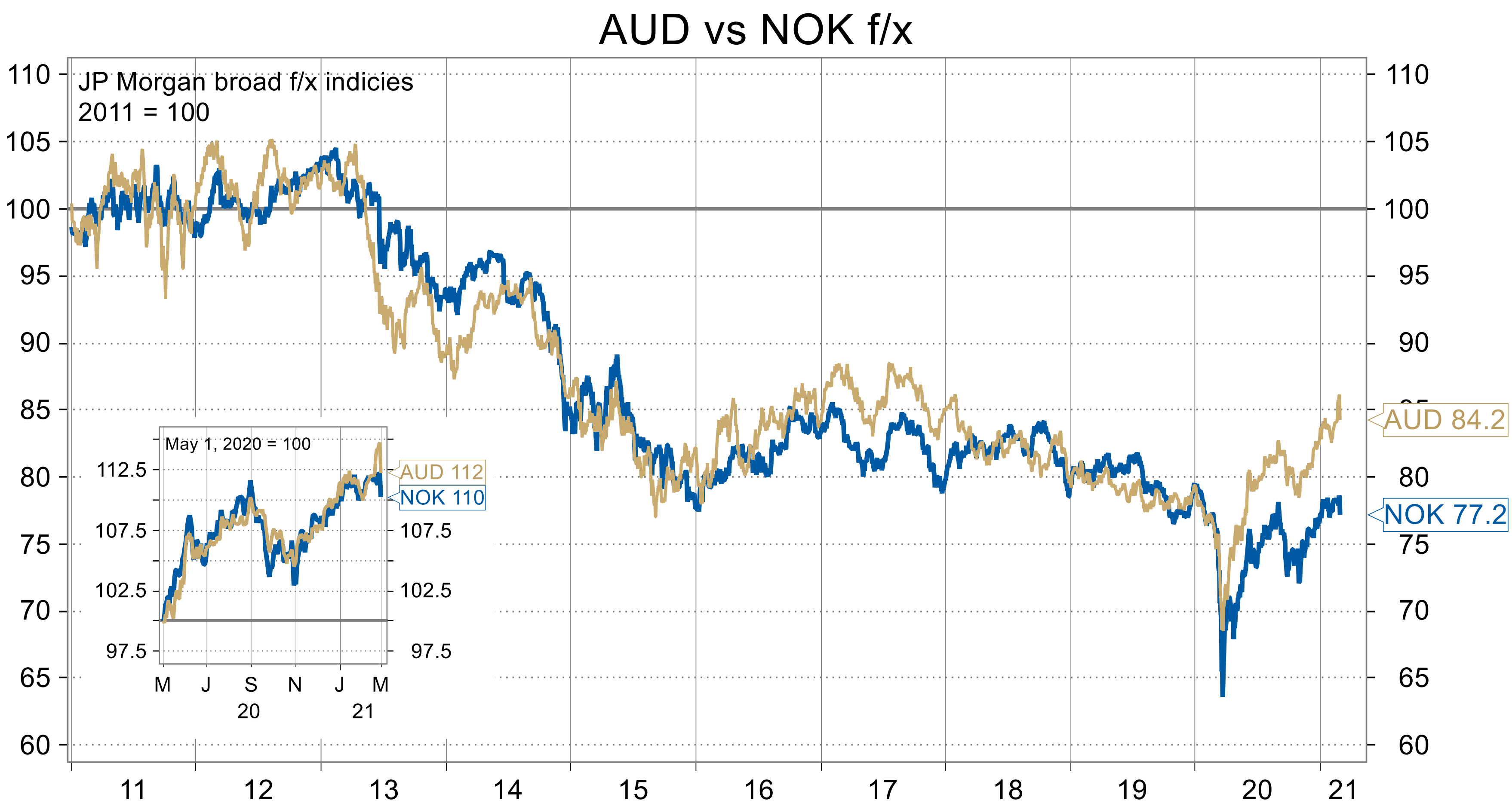




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the two has been pretty closely correlated from time to time
  - » Now, the NOK is more than 4% weaker than 'normal' vs the stock market as the NOK lost ground in mid Sept, based on the link between the NOK and MSCI since Jan 2020). However, at one stage we will have to recalibrate the scales, as equities are trending upwards 6 – 8% per year
- 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? We doubt. It's probably a "risk on, risk off" world, where many risky asses move in tandem, more than usually

Hey Aussie, are you leaving us behind again?

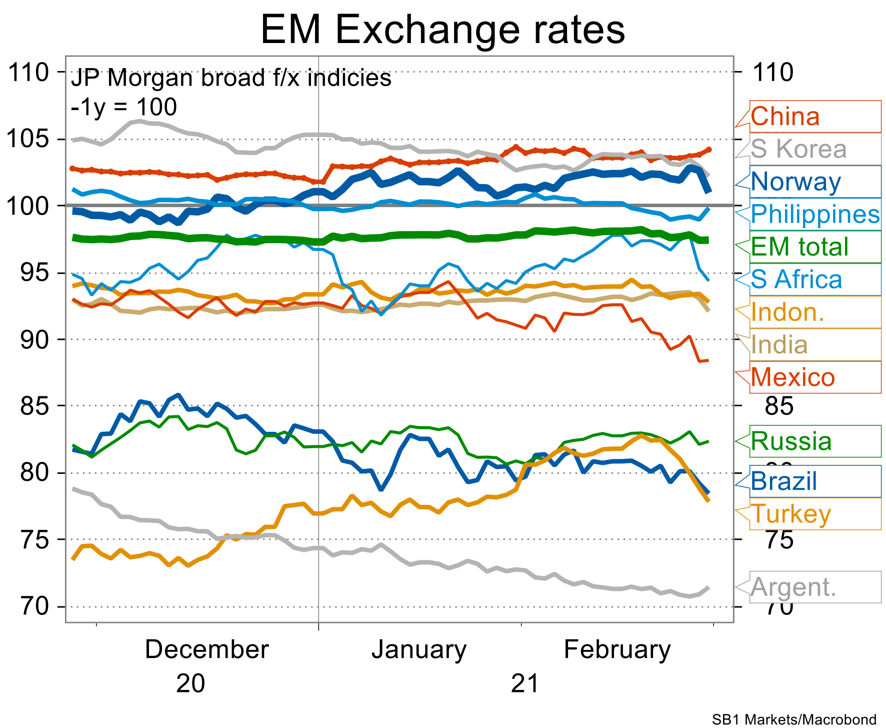
Well, AUD fell last week, as did the NOK. But the previous week gain was not reversed

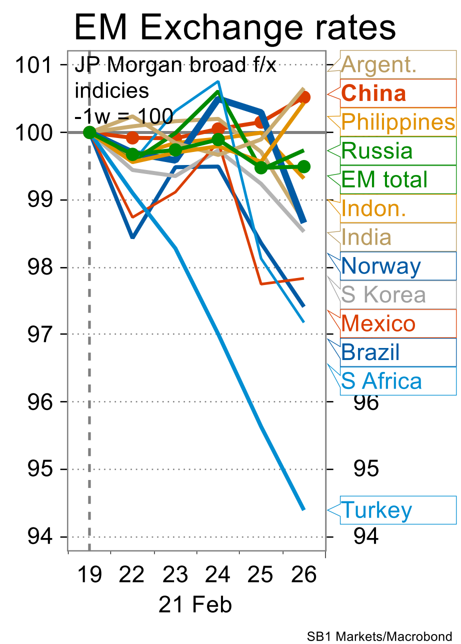


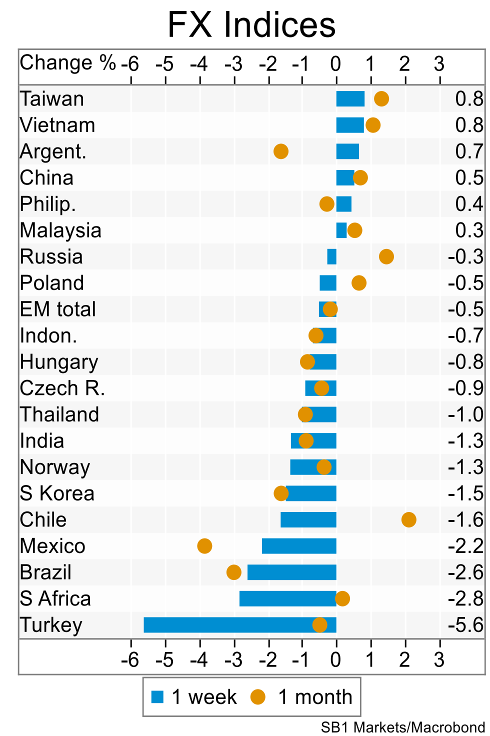
SB1 Markets/Macrobond

Who can stand higher US bond yields – and risk market turbulence? Not all…

A broad decline in EM currencies last week – but China prevailed. And Argentina ☺







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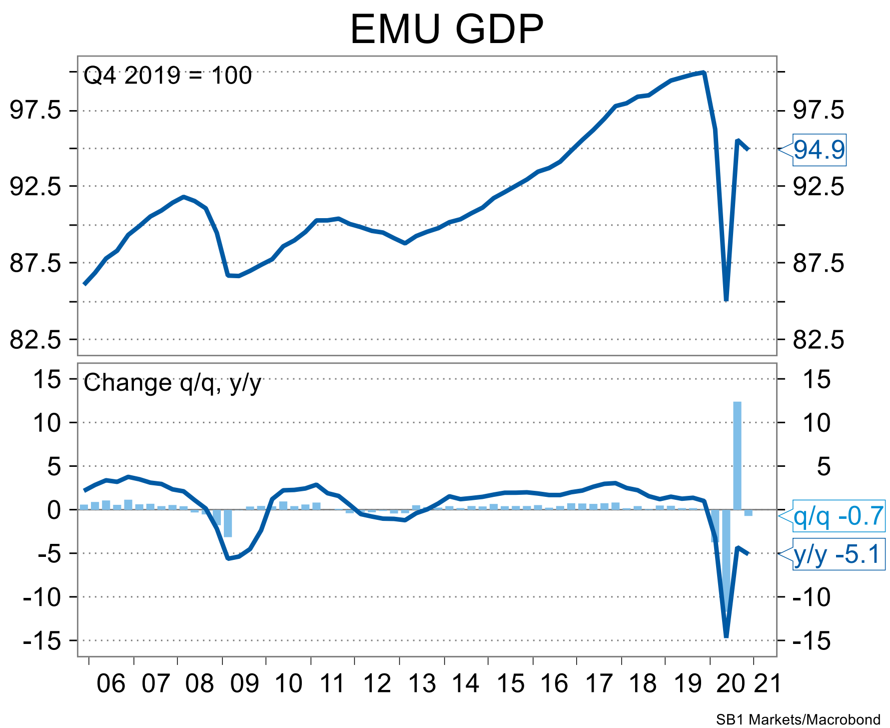
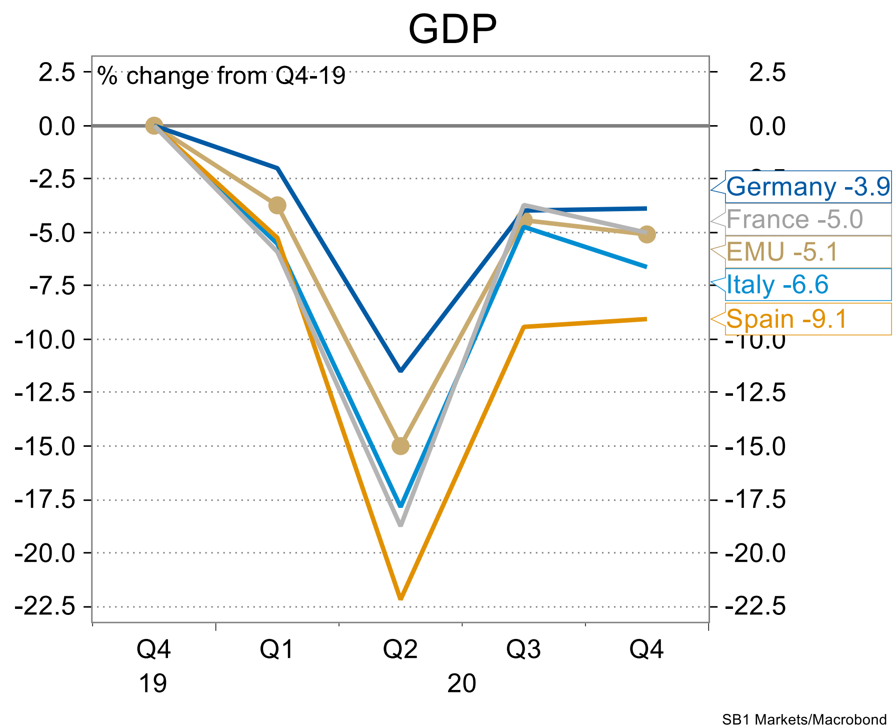
SpareBank 1 MARKETS

GDP down 0.7% in Q4 – still better than consensus at -1.2% (we expected -0.5%)

Euro Area GPD fell by 6.8% in 2020, and GDP is still 5.1% below the pre-corona level





- Some weeks ago, EMU GDP was expected down several pp, with we thought was too pessimistic
  - » GDP grew by 0.1% q/q in Germany, 0.4% in Spain, and GDP decreased by 1.3% q/q in France, -2.0% in Italy, and -4.3% in Austria
  - » France, Germany, Spain and Italy was down 3.9%-9.1%% from Q4 '19.
  - » No demand details yet