12 April 2021

Macro Weekly

Week 15/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week 1: The 3rd (and last) wave is retreating

The virus

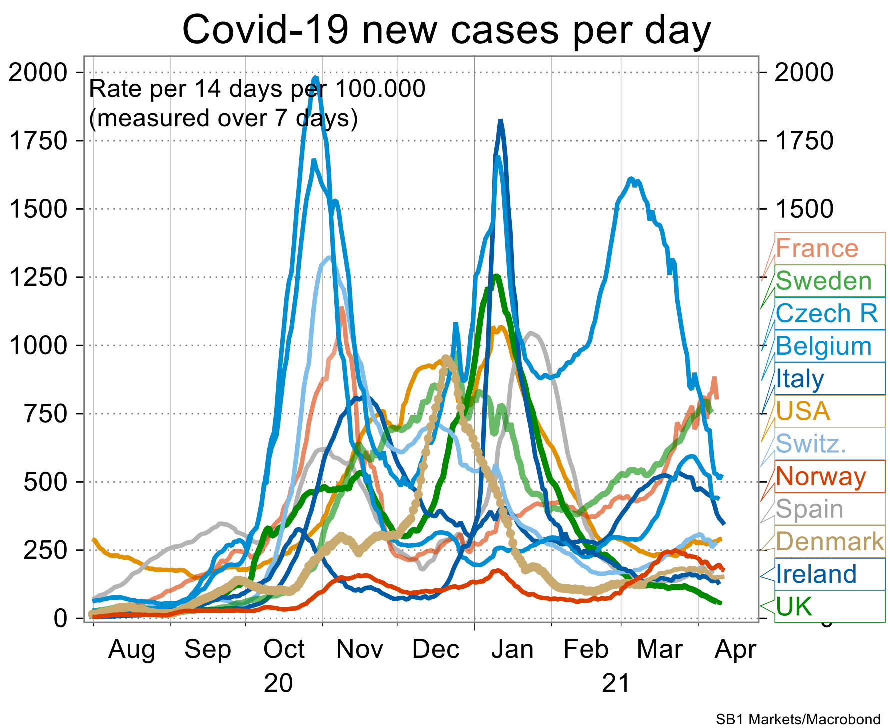
- During the past 2 – 3 weeks more and more countries have reported few new **Covid-19 cases**. Restrictions & lower mobility worked, once more, and vaccines are contributing substantially in the US & UK. Now, mobility is on the way up again most places – with France as a notable exception
- **Norway** is not an exception, as the no. of new cases is continuing down, confirmed by fewer new hospitalisations and last week finally a reduction in hospital occupancy too. However, the decline is not steep, and several new local outbreaks at new locations illustrate the infectiousness of the mutated virus. A significant increase in the pace of vaccination the coming weeks should make it more manageable to get the no. of new cases further down. Some local restrictions were lifted during the weekend.
- **The pace of vaccinations in EU/Norway** has gained speed recently, and should accelerate substantially the coming weeks as Pfizer ramps up its deliveries. The **Astra/Zeneca** vaccine has lost momentum in EU/Norway due to more serious/deadly blood clot cases found in several countries. There are some uncertainty vs. the Johnson & Johnson vaccine too (and vs. the Russian sputnik), as some (very) few blood clot cases (similar to the A/Z cases) have been reported in the US
- **The main risk going forward**: The vaccines are not able to cope will with **new variants of the virus** and that those previously infected with other strains of the virus will not be immune vs. new variants. The side effect risks (Astra/Zeneca & J&J) is probably acceptable in most countries

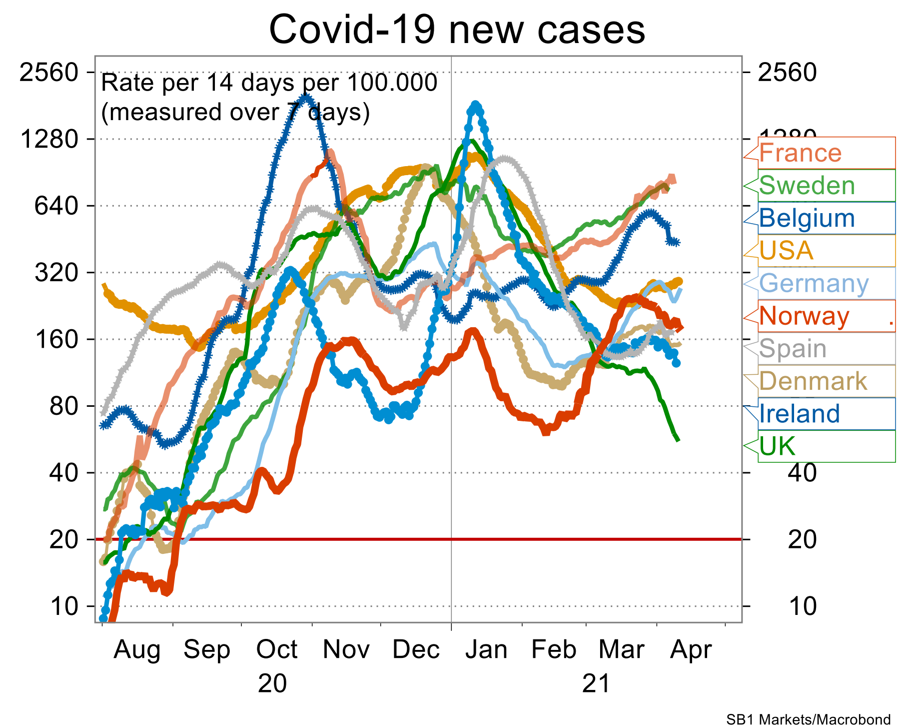
Last week: The economy – strong PMIs/ISM, US jobs report

- **Global**
  - **The composite global PMI** rose more than we assumed in March, by 1.6 p to 54.8, the highest level since 2014, confirming a continued recovery in the global economy into Q2. The lift was very broad based, and just some few countries reported PMIs below the 50-line, and both manufacturing and services are joining the party (x services in EMU). The details were just as 'exiting' as we assumed, with surging orders, delivery times and prices. Employment is on the way up too
  - **Global auto sales** probably reversed the Feb decline in March, but sales remain well below the Dec level due to the 20% decline in **EMU/UK** during the recent lockdowns. US contributed most on the upside in March, up to 5% above the 2019 level. Sales in **China** probably slowed, to 1% above the 2019 level. Global sales are 6% below
  - The **IMF** once more revised its growth forecasts upwards, and changed their story for advanced economies. No 'scaring' in the US, little elsewhere too. Emerging markets x China will not return to their pre-pandemic growth paths anytime soon, says the IMF, now. Some more cautious talk of need for eternal stimulus
- **China**
  - **Producer prices** rose much more than expected in March, and signal a significant upside for the US CPI (but not the Chinese) – which still accelerated somewhat in March
- **USA**
  - **Producer prices** rose much more than expected in March, and signal a significant upside risk for the CPI, at least the headline index, in addition to the base year impact (prices fell in March/April last year). **Unfilled vacancies** rose sharply in February, and has never been higher vs the no. of employed, somewhat strange given the still high unemployment rate/low employment rate.
- **EMU**
  - **Manufacturing production** probably fell sharply in February, as signalled by 3 of the big 4 that reported last week. Germany down 2%, France >4%. **Retail sales** very likely rose, based on positive reports from the main countries. **Producer prices** rose more than expected, but are not as elevated as in the US
- **Norway**
  - The main organisations at the labour market reached a deal on the wage negotiations, signalling a **2.7% wage increase** in 2021 vs. 2020, based on reasonable assumptions on local wage drift. The outcome is identical with the expectations among economist in labour market organisations but 0.3 pp above Norges Bank's forecast in the March MPR (even after a 0.4 pp upward revision, from 2.0%). The 2.7% assumed wage inflation well serve as a norm (or rather, a dictate) for the other wage negotiations the coming weeks
  - **Core CPI-ATE inflation** was stable at 2.7% in March, while the headline rate fell 0.2 pp to 3.1%. The core rate was in line with expectations (but slightly below ours). We expect inflation to slow substantially. Imported goods inflation should decline further due to the NOK appreciation,
  - **House prices** rose 1.15% in March, somewhat higher than our above consensus forecast, and 0.25% above NoBa's estimate. The transaction level is very high, and the inventory of unsold homes is still declining. However, the no. of new approvals may be on the way up, signalling a better housing market balance. Oslo prices fell in March, following the surge in February, 3m/3m up 20% vs 13% for the country in total
  - **Manufacturing production** fell less than expected in February following the sharp rise in January. The PMI, at the best level since 2017 (or 2007?), signals further growth. **Consumer confidence** surged in March, to well above an average level, to the best level since 2013

After some bad weeks, most countries are on the way down again

For the last time?? Hopefully, vaccinations are picking up speed, even in Europe



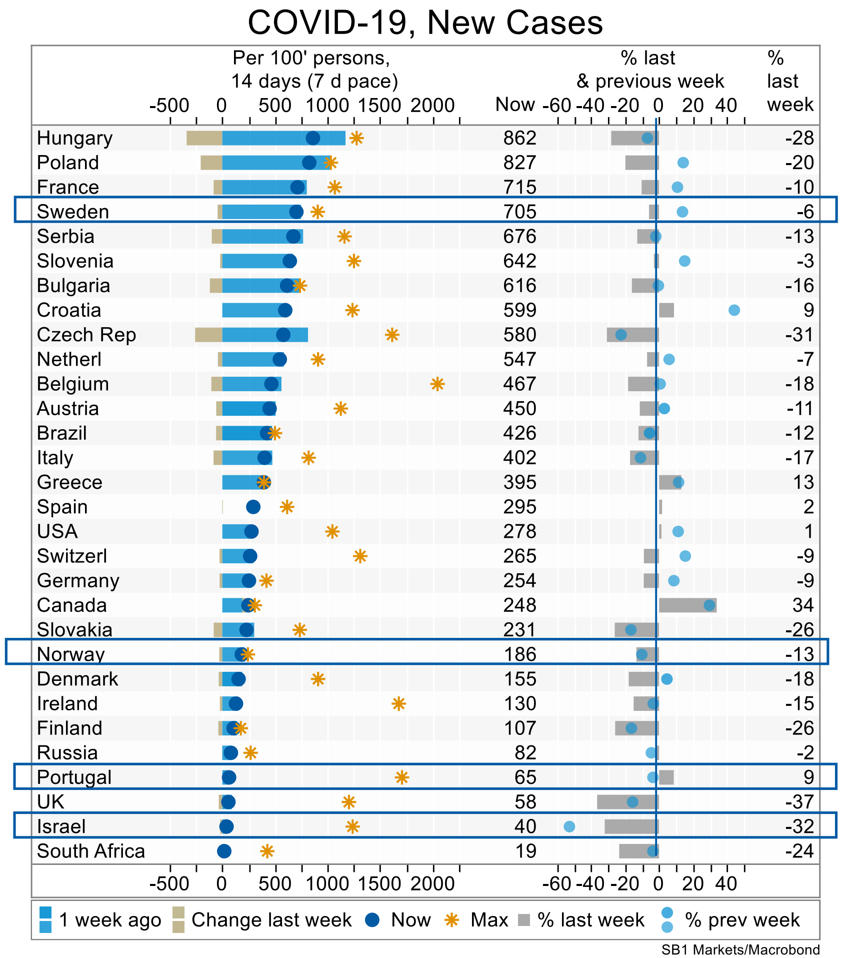


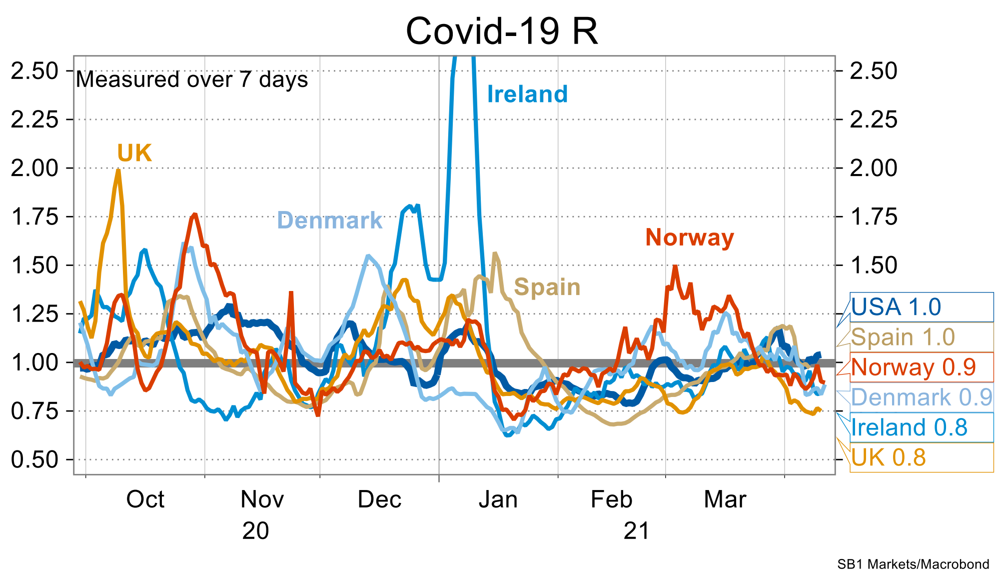
- The Easter holiday and somewhat more noise than normal in some countries reported no. of infections makes the analysis somewhat more uncertain
- The overall picture is still clear: The no. of new cases are declining in most DM economies
- New infections in **Norway are** steady on the way down, but at the current pace it will take 10 weeks before a 200 new cases per day threshold for easing most restrictions is reached (Equals 50 per 100' over 2 weeks, somewhat below the present level in the UK. This threshold is one of several possible criteria, hospitalisations will probably be much more important). A 2% – 3% vaccination pace per week the coming weeks, and even more in May/June will contribute significantly (if not 'compensated' by (likely) changes in behaviours)

Just some few are reporting growth in new cases!

3 weeks ago, most were on the upside!

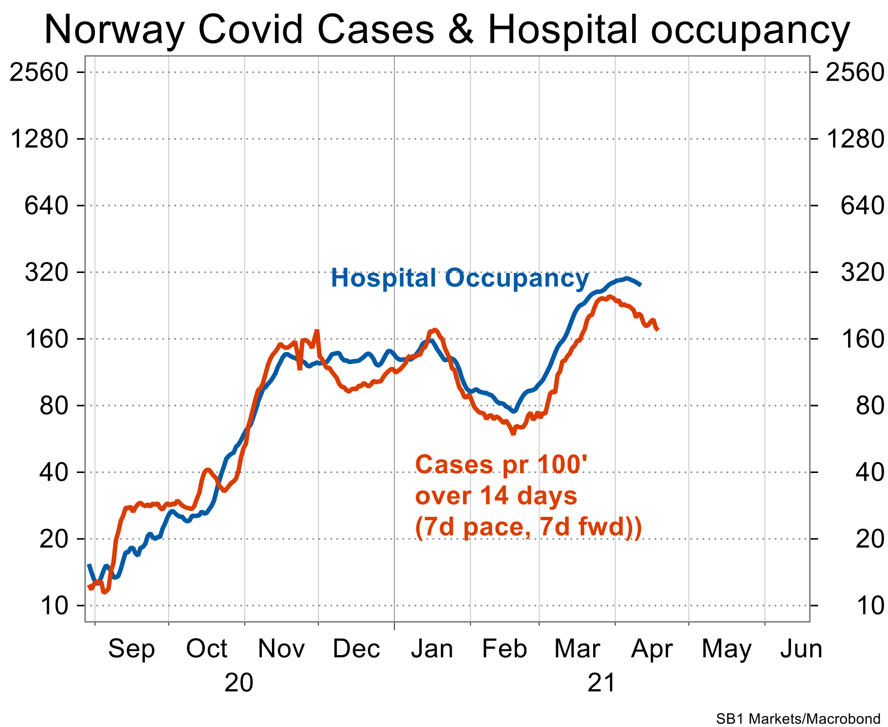
- **Hungary, Poland &** other **Eastern European** countries are at the top of the list, together with **France & Sweden**
  - » Recent data from France & Sweden have been more volatile than normal, and are probably more uncertain
- **In the UK** the number of new cases is still falling rapidly, and more restrictions will be eased today, cheers (though only outside the pub!). Mobility is on the way up. Some 60% of the population may now be immune
- The **US** has stabilised at a quite low level (at least the national total), even if mobility is increasing
- **Norway** reported a further decline in new cases last week. The R is below 1
- **In Israel,** the virus has almost disappeared

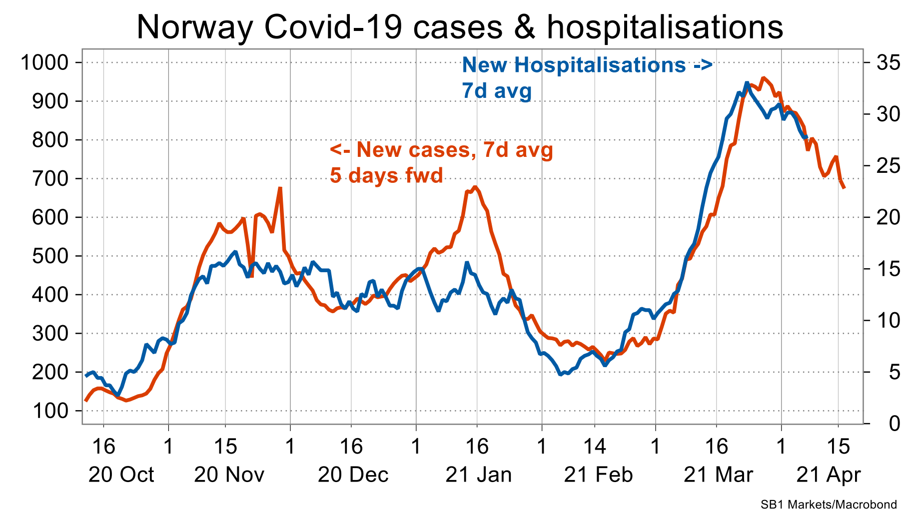


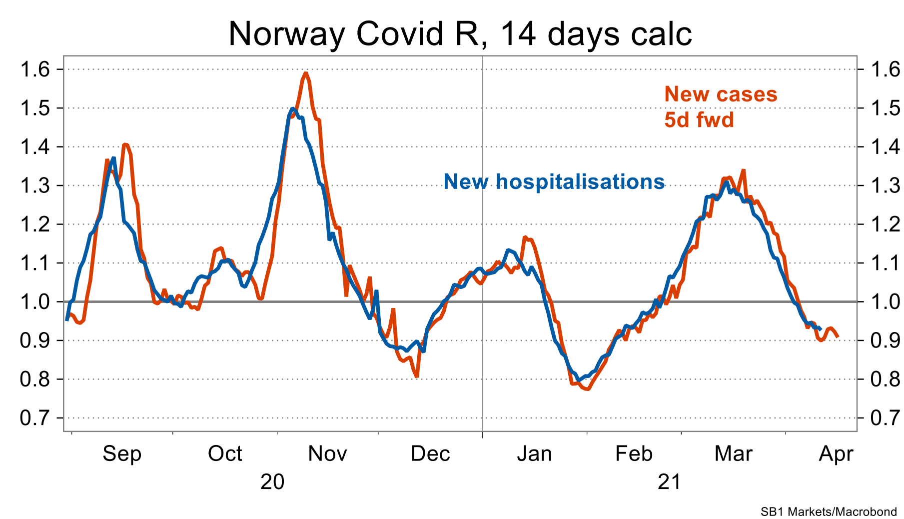


Norway: New cases and new hospitalisations down; No doubt, R<<1 ☺

Hospital occupancy has finally peaked too, as new cases & hospitalisations have fallen for 2-3 weeks



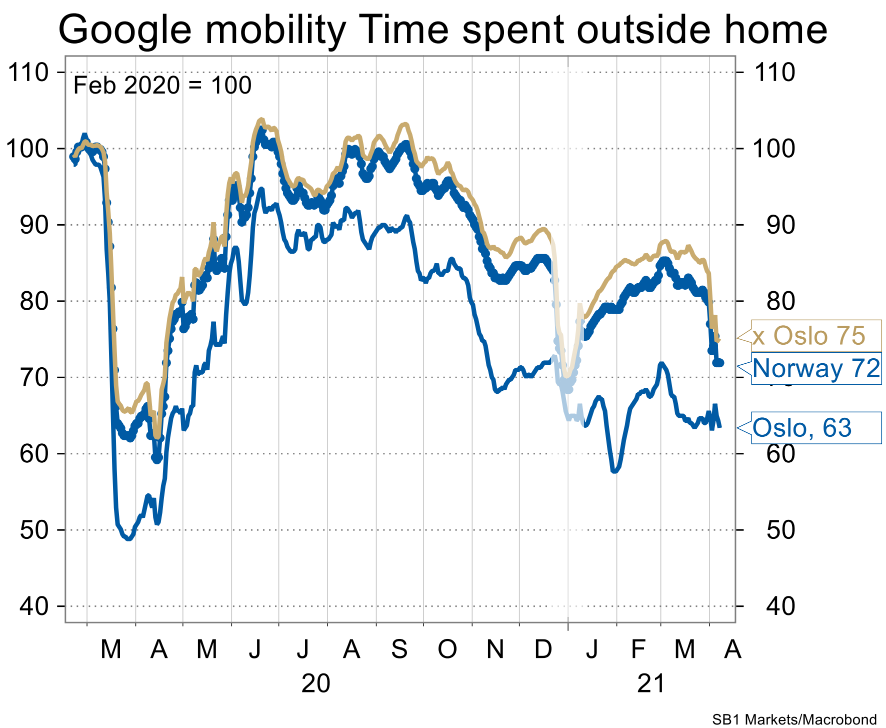




- Data for <u>new hospitalisations</u> are released with some days lag, but the trend is clearly down, even earlier than normal vs. the downturns in no. of new cases
- Even if the oldest part of the population now is vaccinated, 3.5% of the newly infected are hospitalized, which is not less than before! Blame the more aggressive mutants!

New restrictions (and the Easter…) have lowered mobility in Norway

Next week's data will yield a better picture. Restrictions will now be eased in several municipalities



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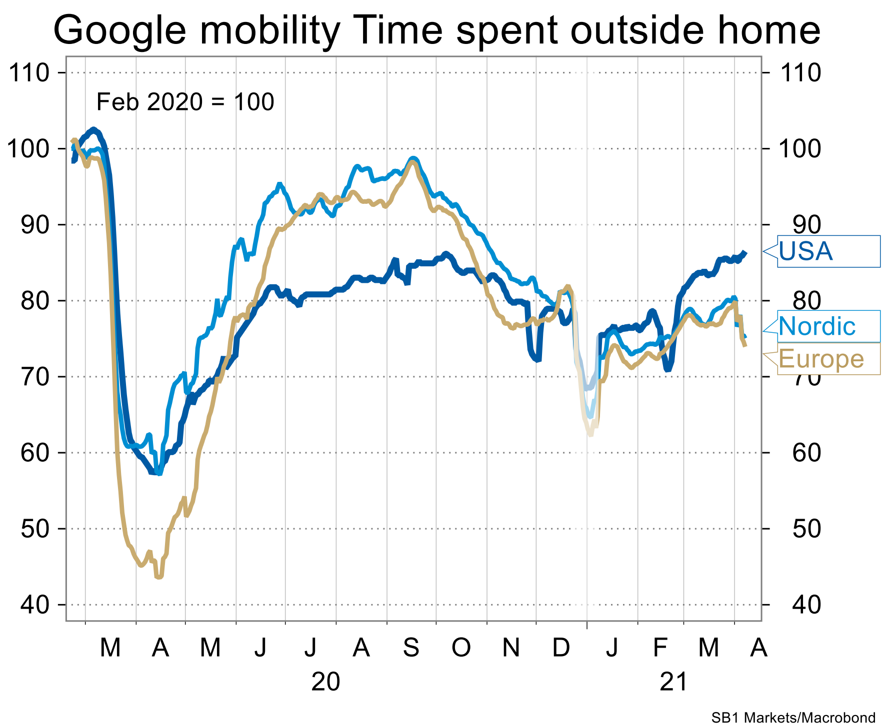
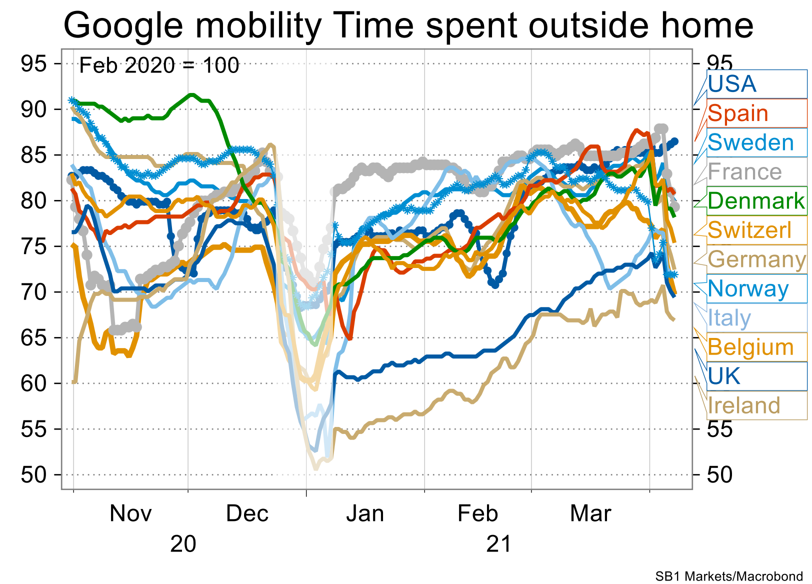
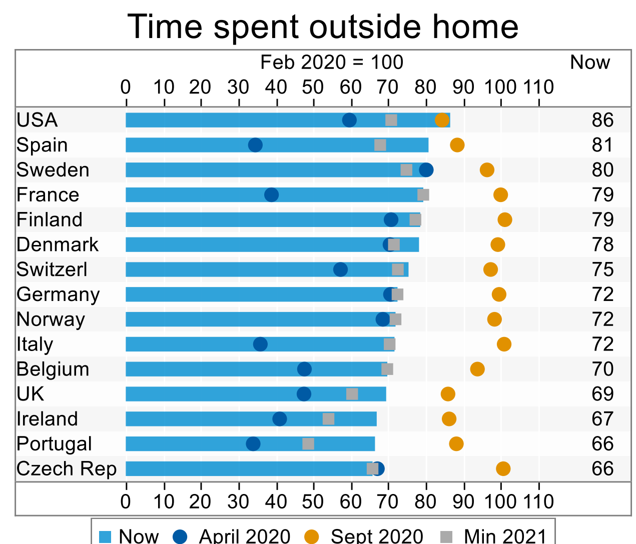
Mobility is trending up most places but not everywhere, France has tightened

The Easter have influenced recent data in Europe. US on their way up, at the top



- The last observation is probably influenced by the Easter holiday





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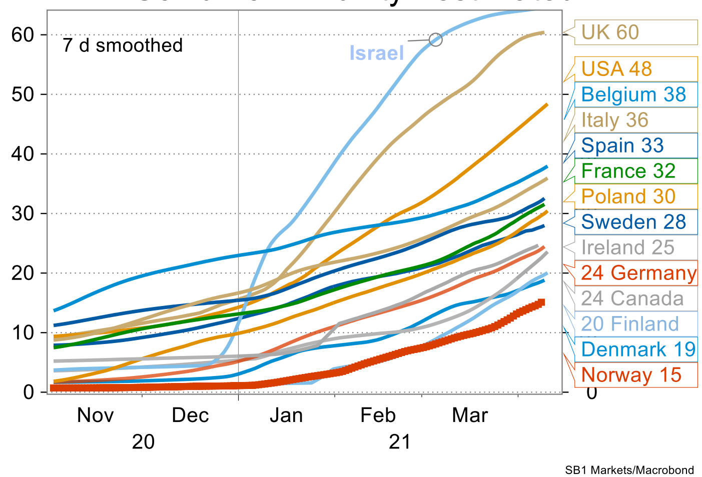
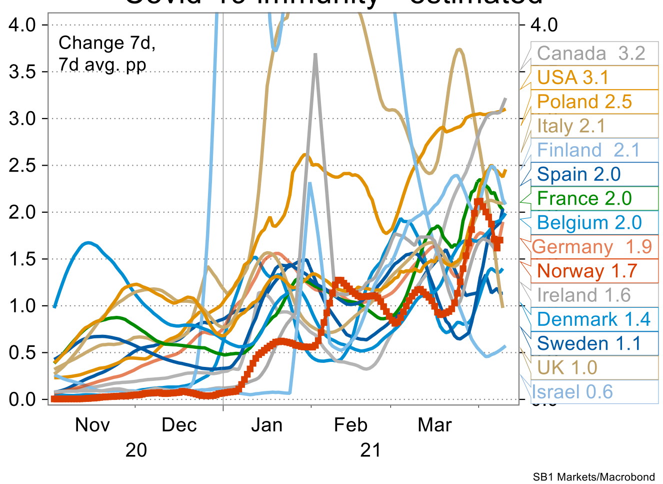
Vaccinations: EU/Norway are now finally speeding up

The US is keeping the pace up, 3% is getting the first shot per week. UK is slowing, from a high level

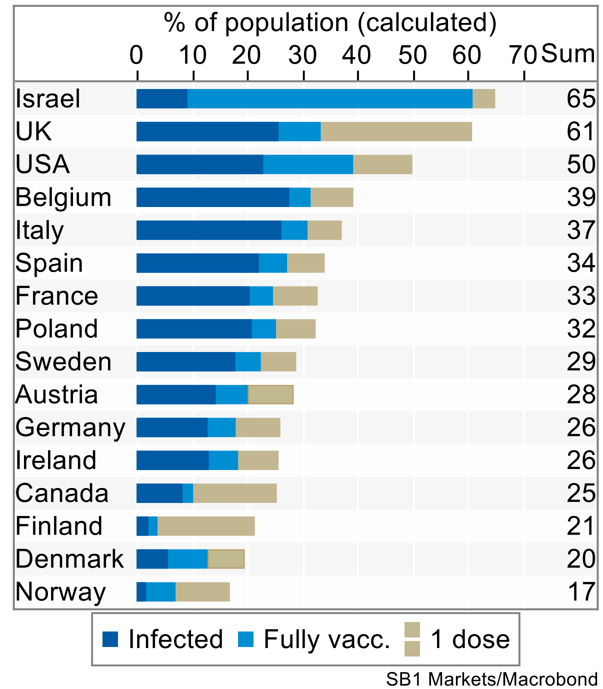
Covid-19 immunity - estimated



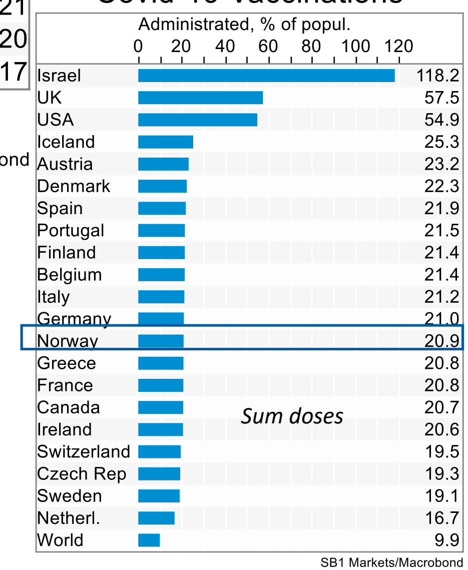
Covid-19 immunity - estimated



Covid-19 Immunity



Covid-19 Vaccinations



We calculate the infected rate by assuming a 0.66% 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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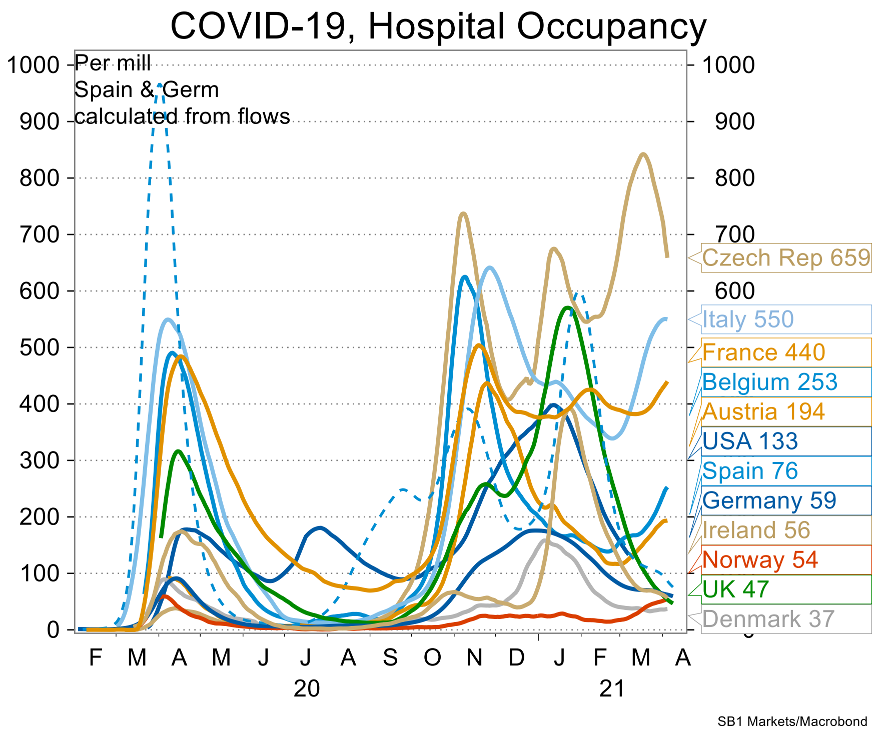
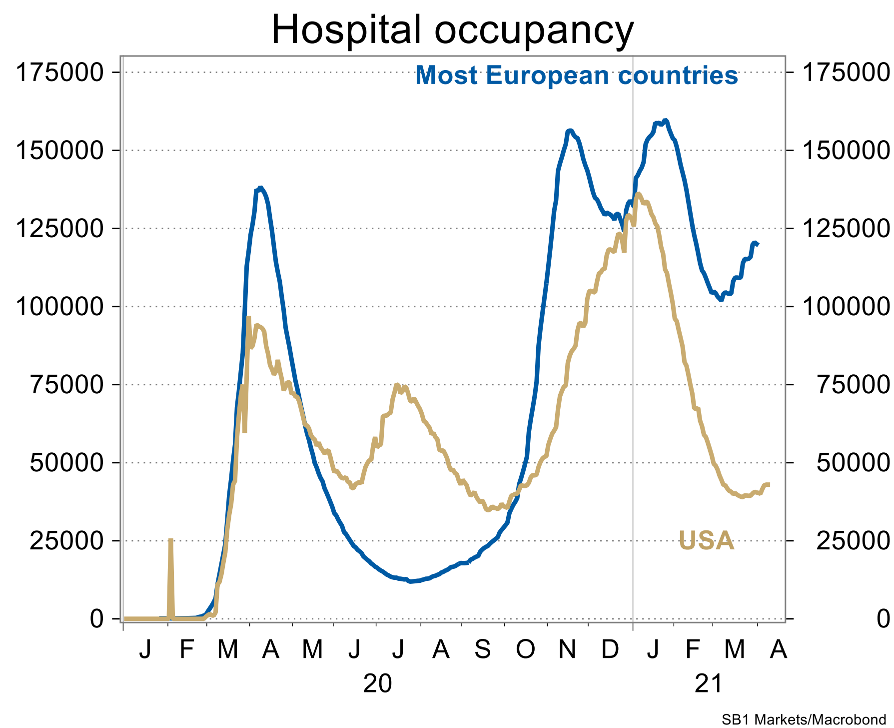
Hospitalisations on the way up again in Europe, mostly due to Italy (and France)

In the US, the no. of hospitalised persons has flattened, at a low level (as has no. of cases)

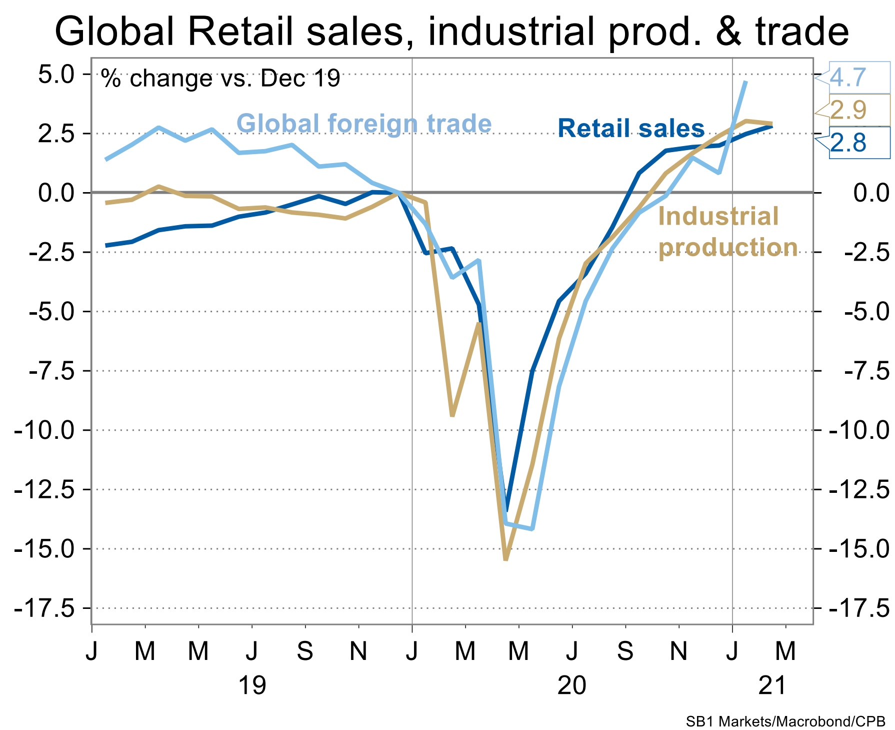


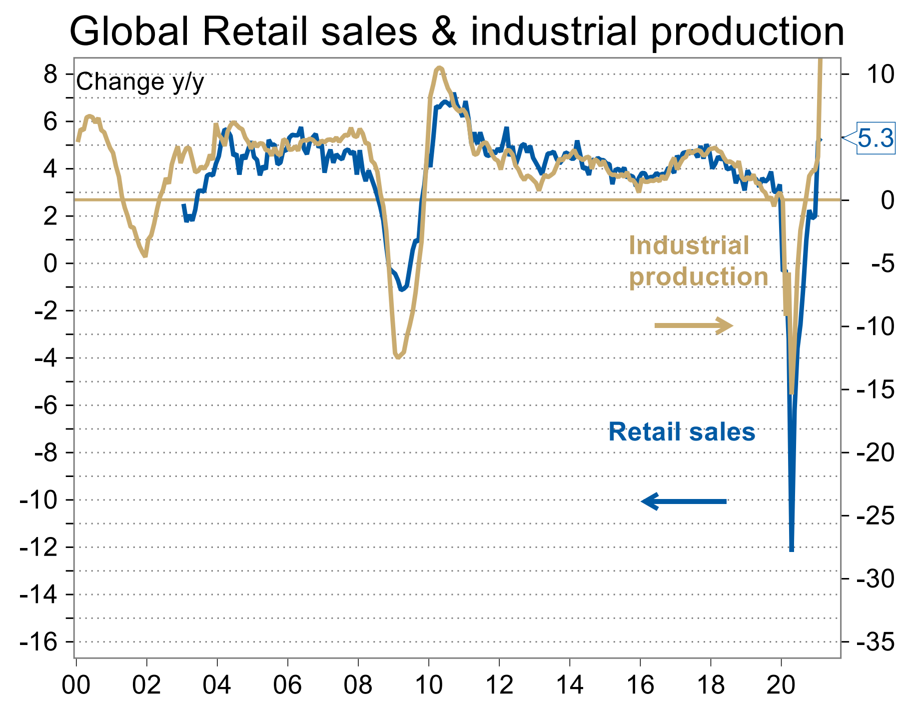


- Some increase in hospitalisations in Spain, Ireland too

Retail sales further up in February but manufacturing production probably down

.... The latter due to a surprisingly decline in factory output in EMU



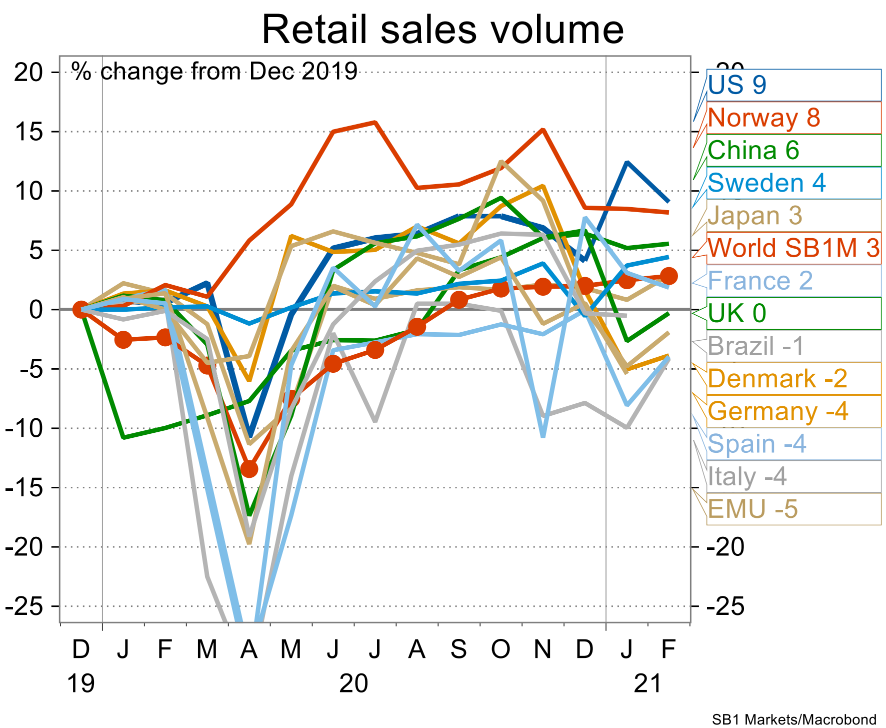


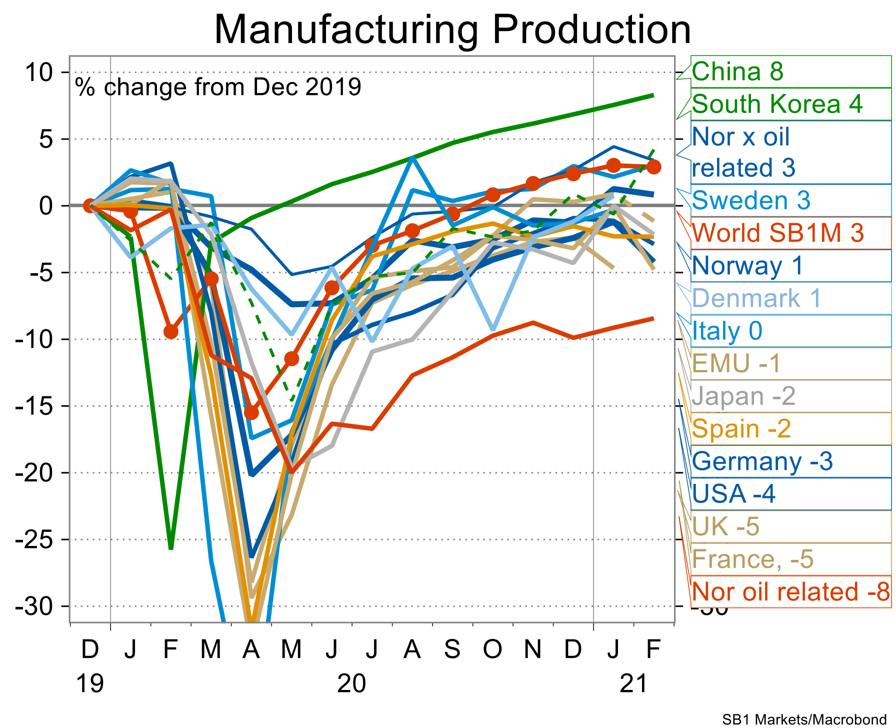
Memo: Keep in mind the different scales at the chart above

- **Retail sales** rose further in February, according to our preliminary estimate. Sales are 2.8% above the pre-pandemic level
- **Manufacturing production** probably contracted marginally, but remains 2.9% above the pre-pandemic level
- **Global foreign trade** rose sharply in January, to almost 5% above pre Covid, according to CBP in Netherlands

Volatile retail trade data, but trend is still up

Manufacturing production flattened in February due to the decline in the Euro area





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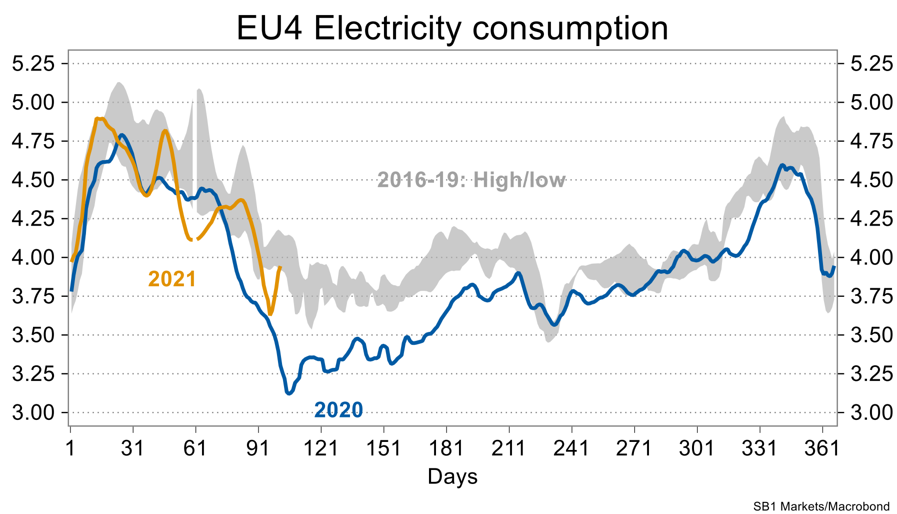
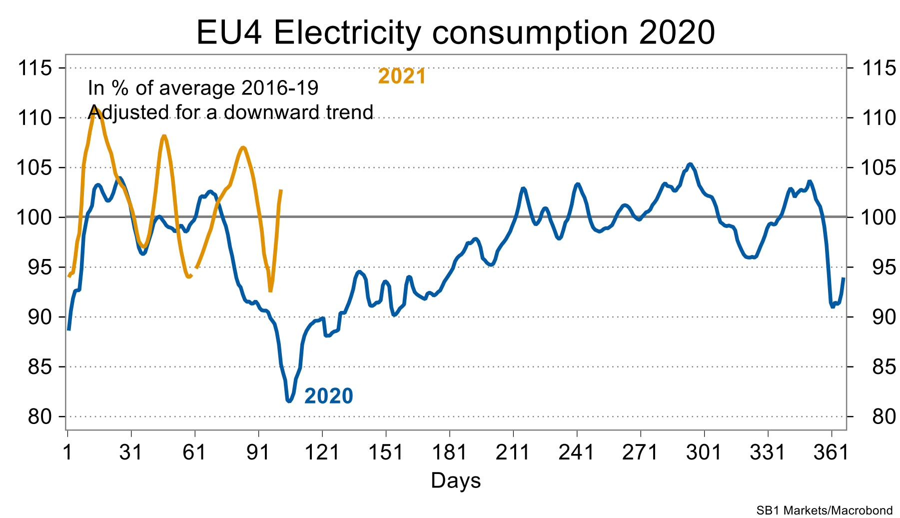
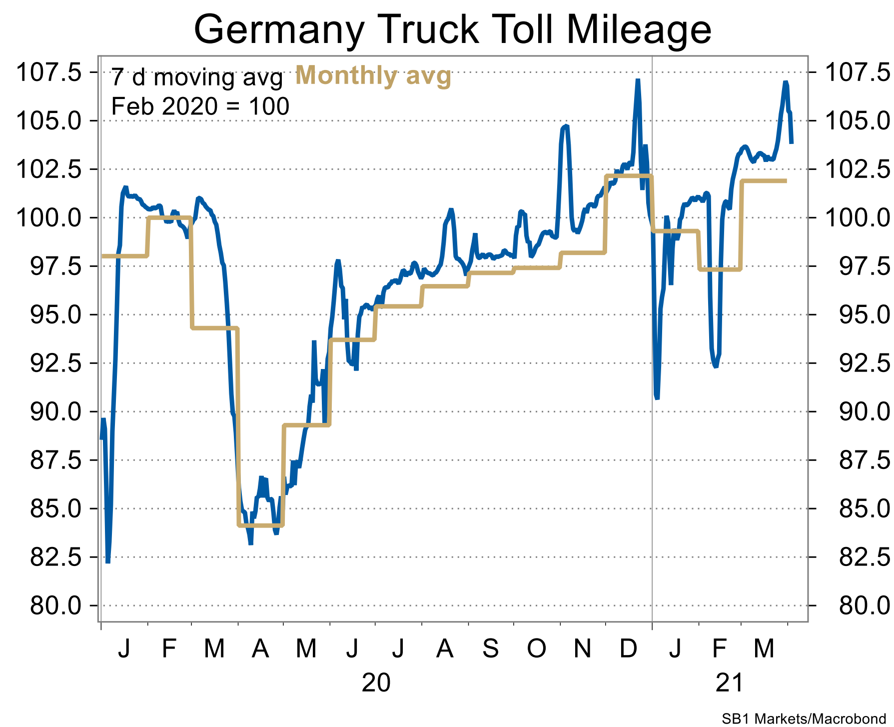
EMU: No signs of a slowdown in the 'goods' sectors, even if February was weak

Truck traffic & electricity consumption shows no signs of weakness



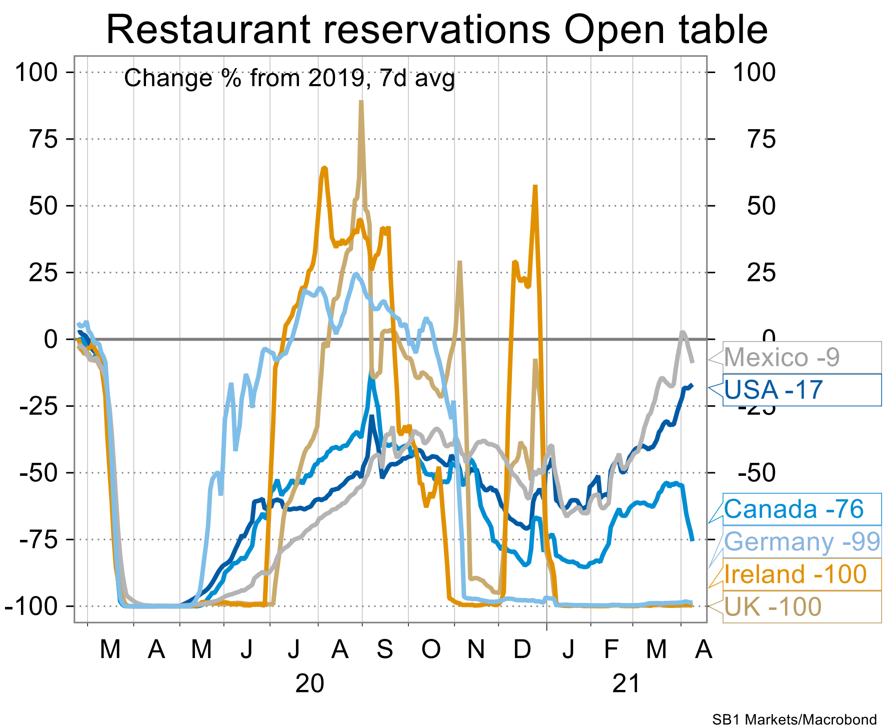


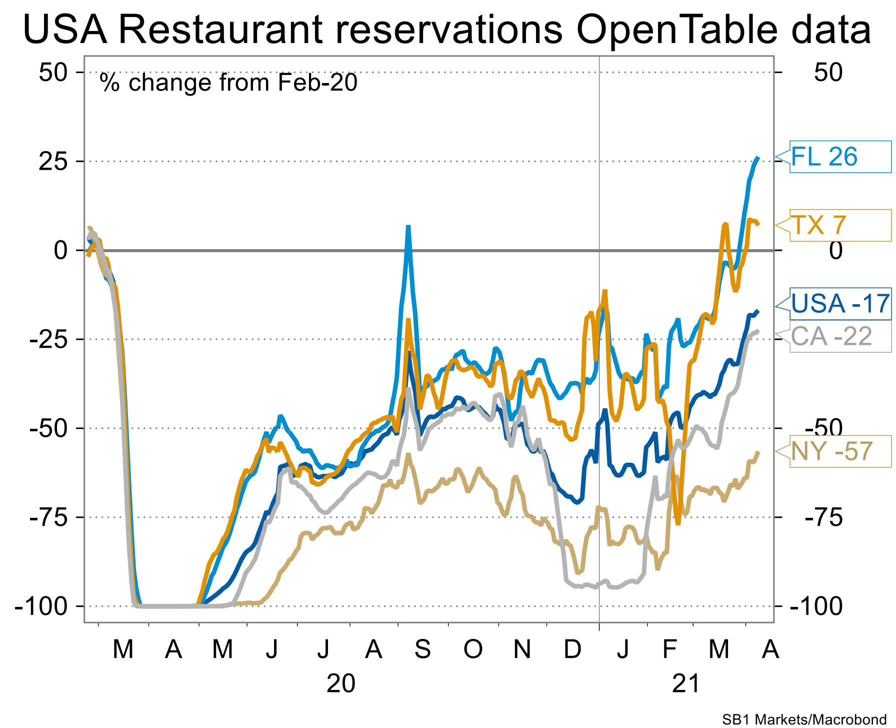


- Manufacturing production fell in Germany and very likely in the EMU in February (when trucking activity fell too). March – and so far April is much likely better

European restaurants still locked down, while the Americas is opening up

Some US states are <u>above</u> the Feb-20 level, US in total is down 17%, from -60% in January

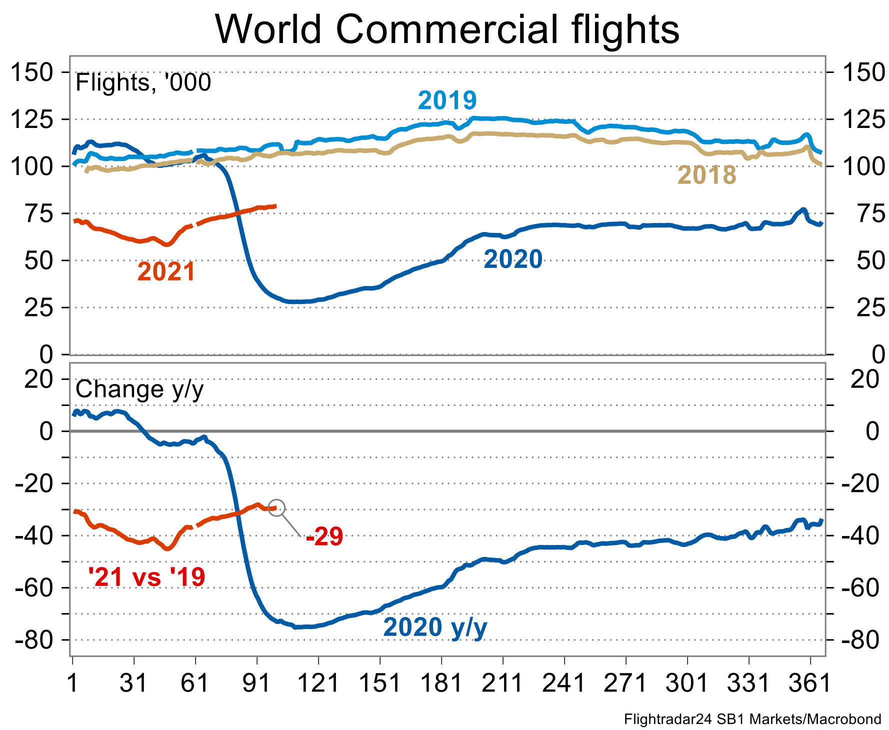


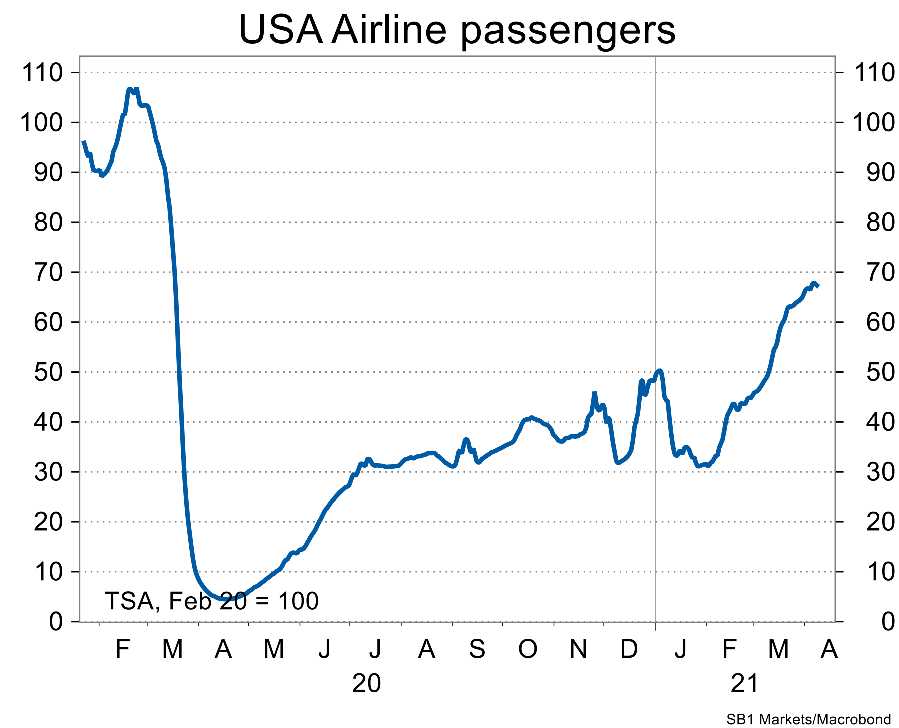


- Take-away and no-reservation restaurants not included in Open-Table restaurant reservation data

Global airline traffic is steadily climbing

Still 29% down vs. the pre-corona (2019) level. US passenger traffic down 33%, but up 115% vs Jan

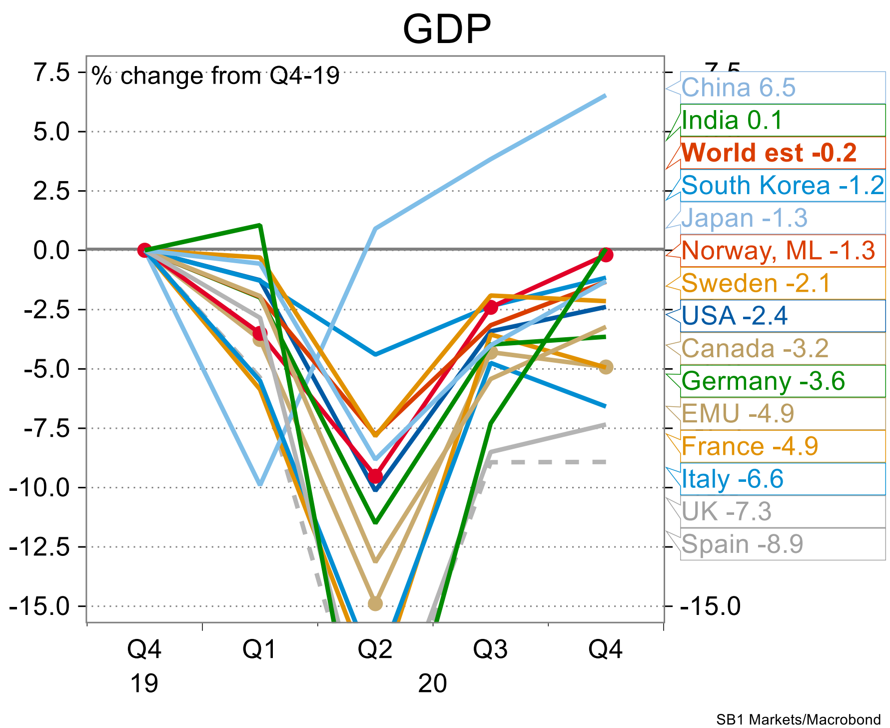


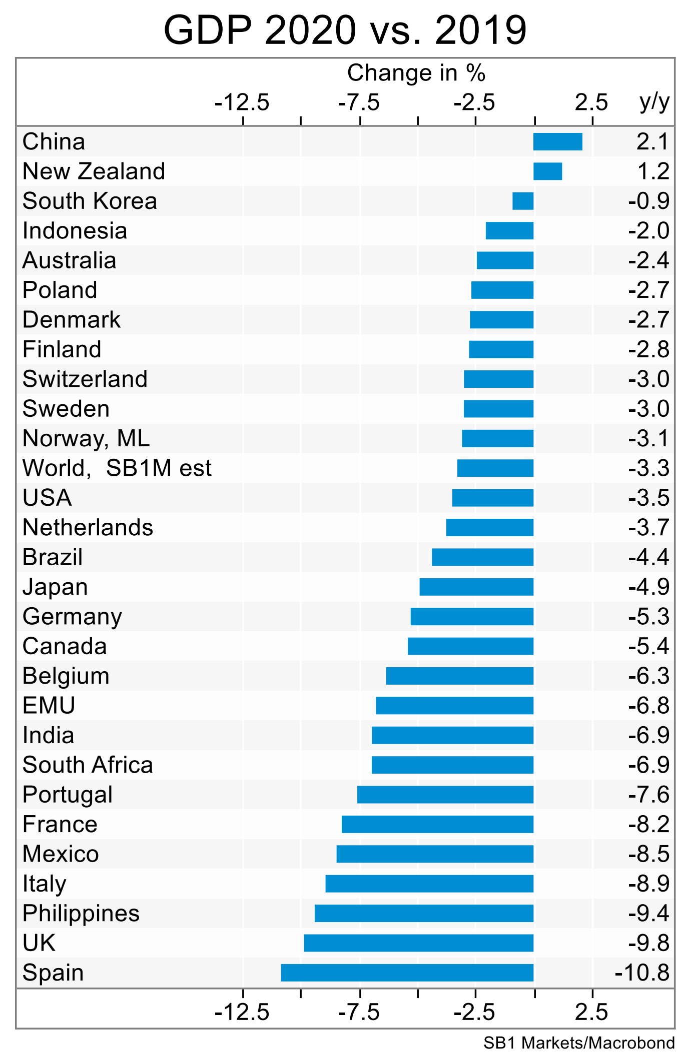


- US domestic traffic is down just 25% (scheduled seats), international traffic is down 50% (according to OAG/The Economist)

GDP fell slightly less than we expected last year (-3.3% vs. -3.4%)

& Q4 was just 0.2% below Q4 ’19. The V is confirmed. Even the IMF recognised that last week ☺

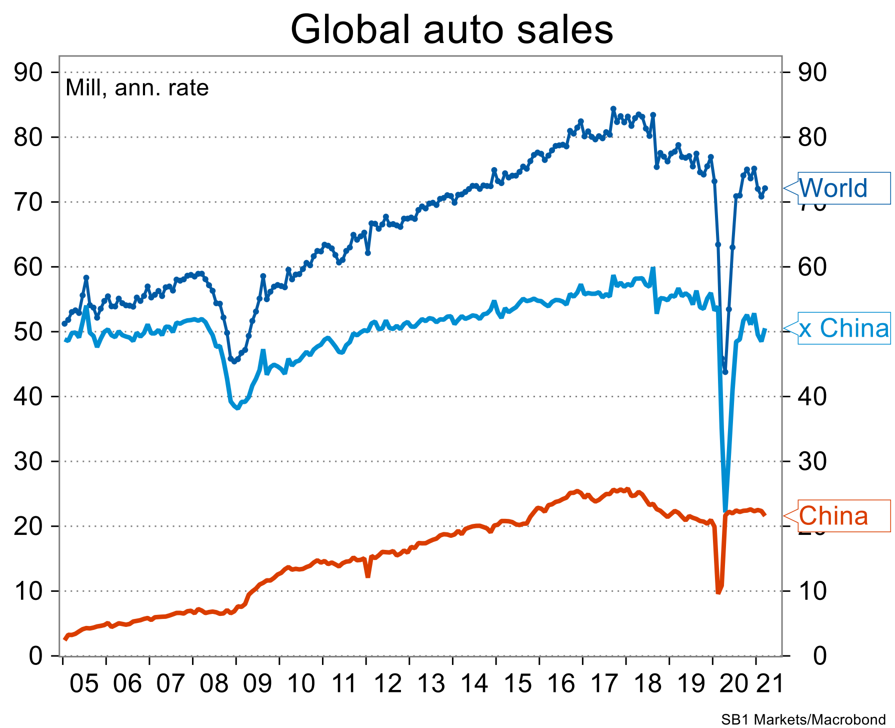


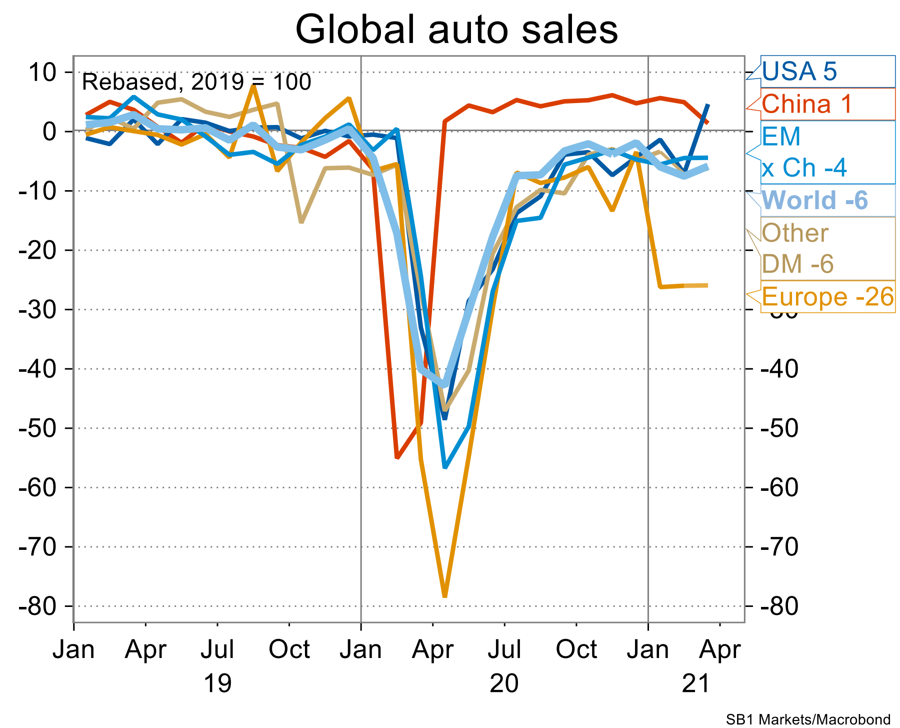


- We estimate that **global GDP** grew by an 8% pace in Q4 – more than double that of underlying trend growth, leaving global GDP down just 0.2% y/y. Last year GDP fell 3.3% (aligned with the most recent IMF estimate)
  - » China, India & the US have reported decent Q4 growth, alongside some Asian countries, UK & Norway – and most others. However, GDP fell in both France & Italy
- **In 2020,** China grew by 2.1%, New Zealand 0.2%, all others down
- **Sweden** -3.0%, **Norway** (Mainland) -3.1% and **US** -3.5%
- **EMU** contracted almost 7%, UK by 10% and Spain by 11%. What a year…

Global sales probably slightly up in March

US sales up, best since 2017, European (UK incl) sales still depressed, Chinese sales probably down

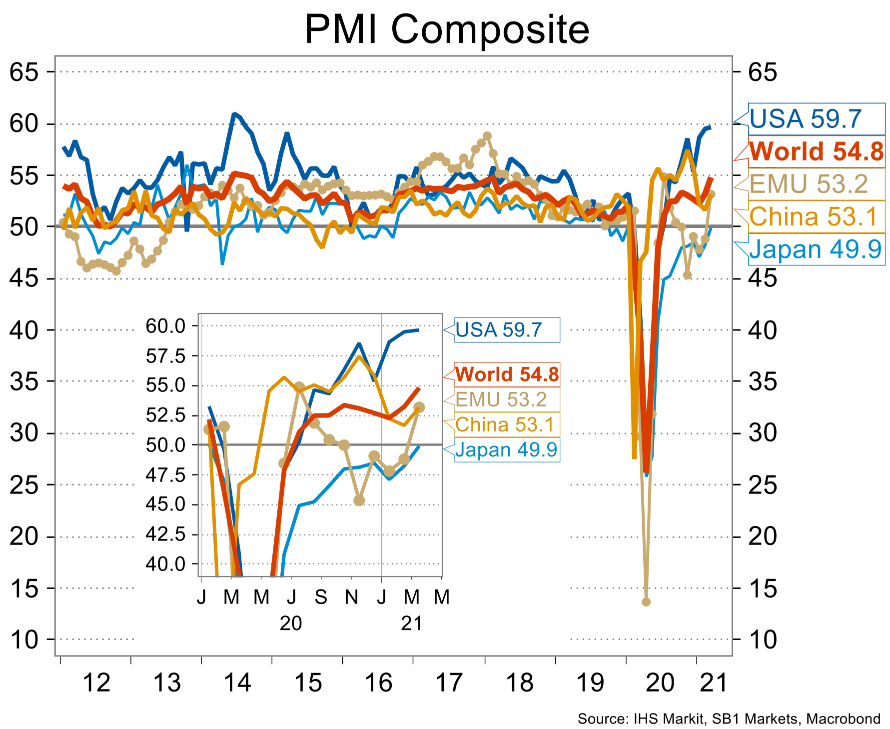


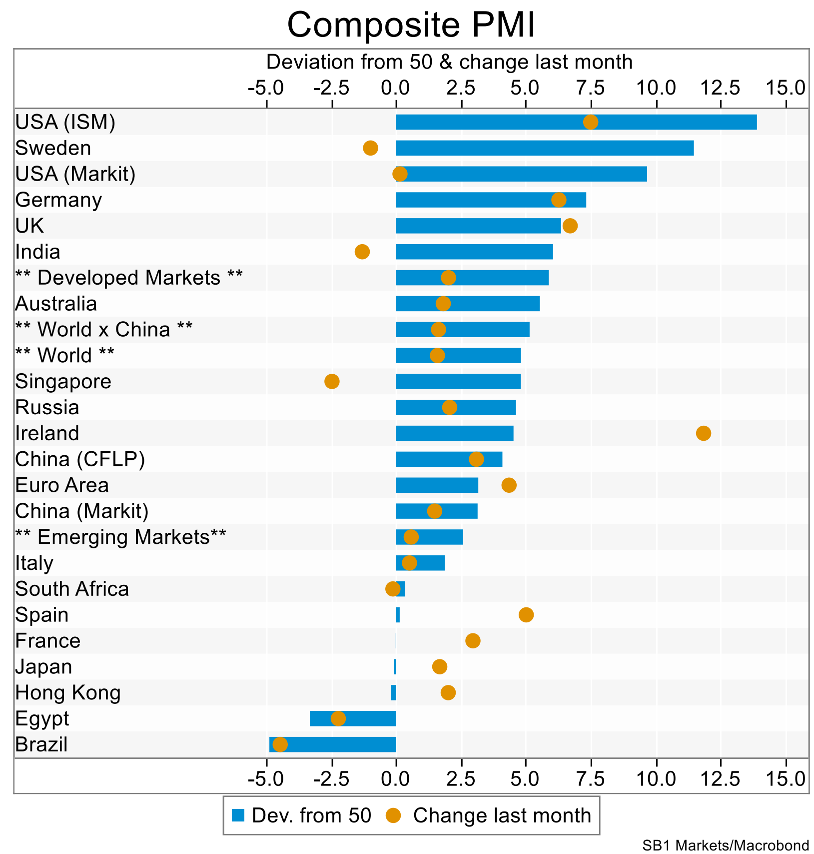


- Based on our preliminary estimates global auto sales rose by 1% in March, reverting the Feb decline
  - » Many countries have not yet formally reported, we have estimated sales in several countries based on often uncertain/conflicting media reports. In March, Indian sales are difficult to decipher
- Sales in US were strong, while sales in Europe was unchanged, down 25% vs the 2019 average
- Sales in China probably fell in March, but are still above the 2019 level
- Sales in EM x China rose in Feb and are 4% below the 2019 level

A broad strengthening in March – US, Sweden & Germany at the top

Just 3 countries clearly below the 50 line, and just 5 down m/m in March (out of 25 countries/regions)

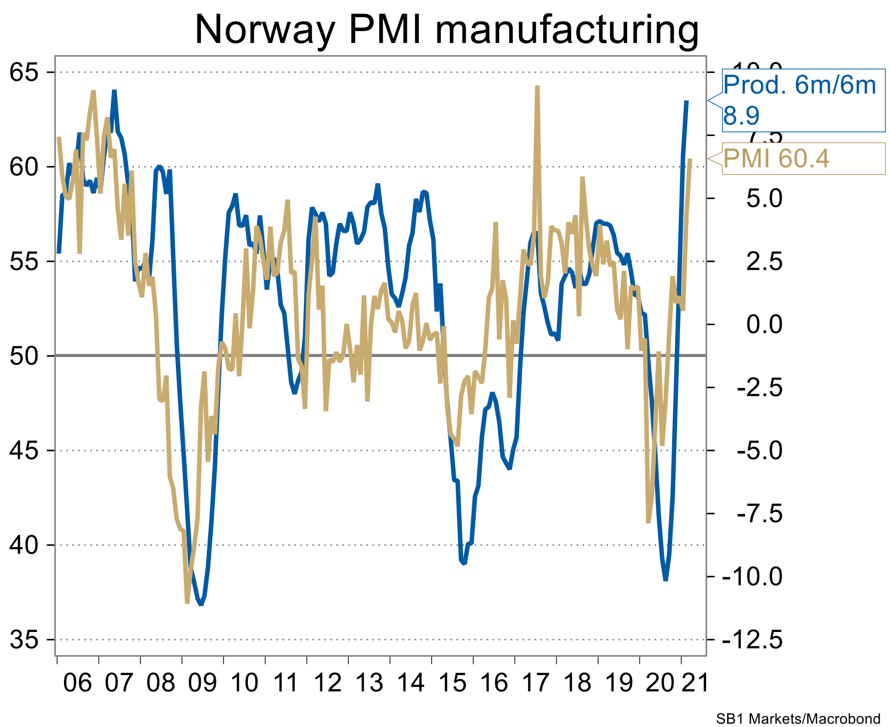


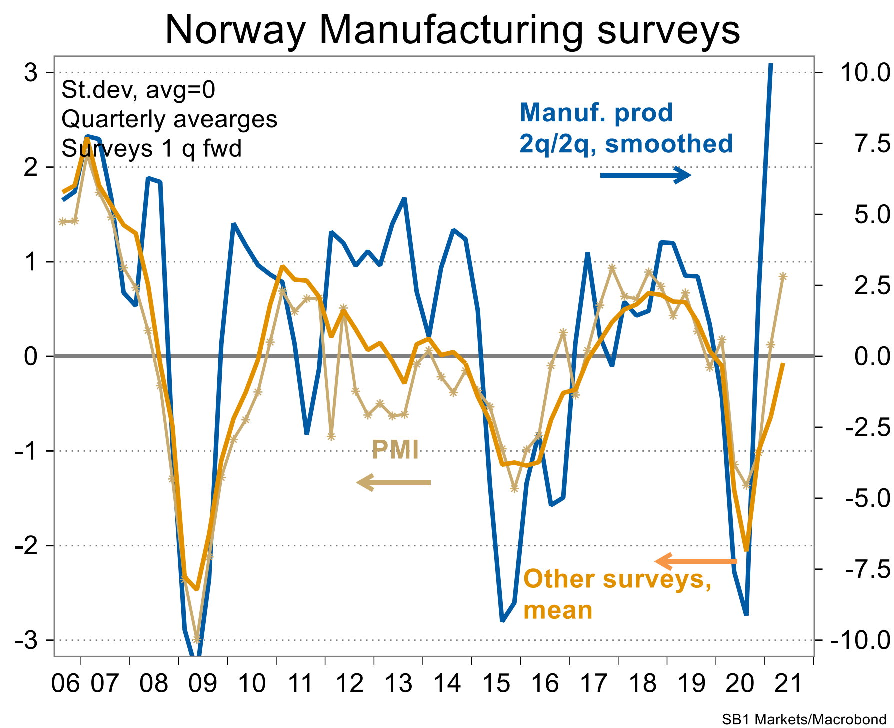


- 18 countries up, 5 down. 3 below the 50 line
- US, Sweden & Germany at the top
- Both of the China PMI data sets rose in March, and both a well above the 50 line
- Brazil a the bottom, due to continued (and larger) corona problems

Norwegian manufacturing PMI at highest level since July 2017 (or 2007)!

The Norwegian PMI rose to 60.4 in March from 57.4 (revised up 1.4 p)

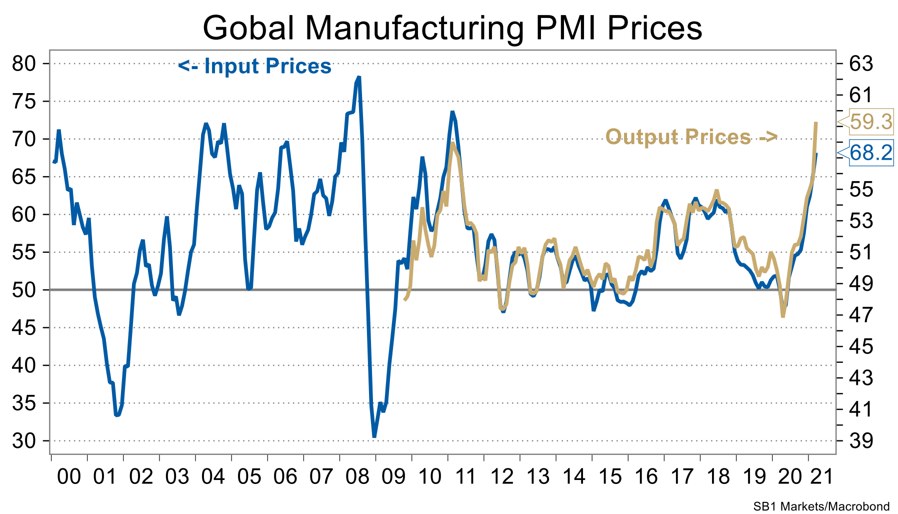


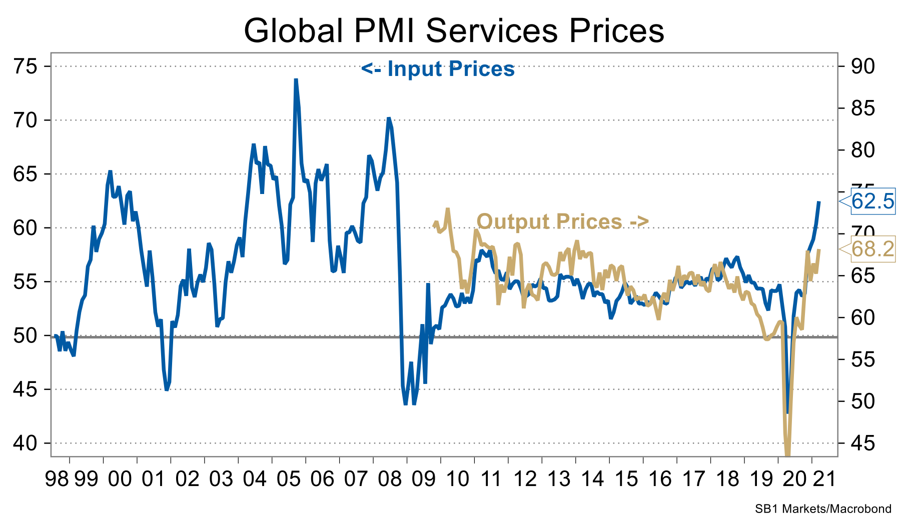


- The July 2017 spike at 64 was an outlier, we called it an summer holiday accident. The March-21 index may turn out to be an outlier too but given the sentiment abroad, and actual production growth recent month, <u>we doubt it is</u>
- **Production i**s on the rise; the three sub-indices, production, orders, and employment, are all above 60
- Also worth noting, **inventories fell and delivery times increased** (though uncertain if due to increased demand or Covid-related delivery problems – we guess a little bit of both)
- **Other surveys** have also turned up lately but the levels are still somewhat below average

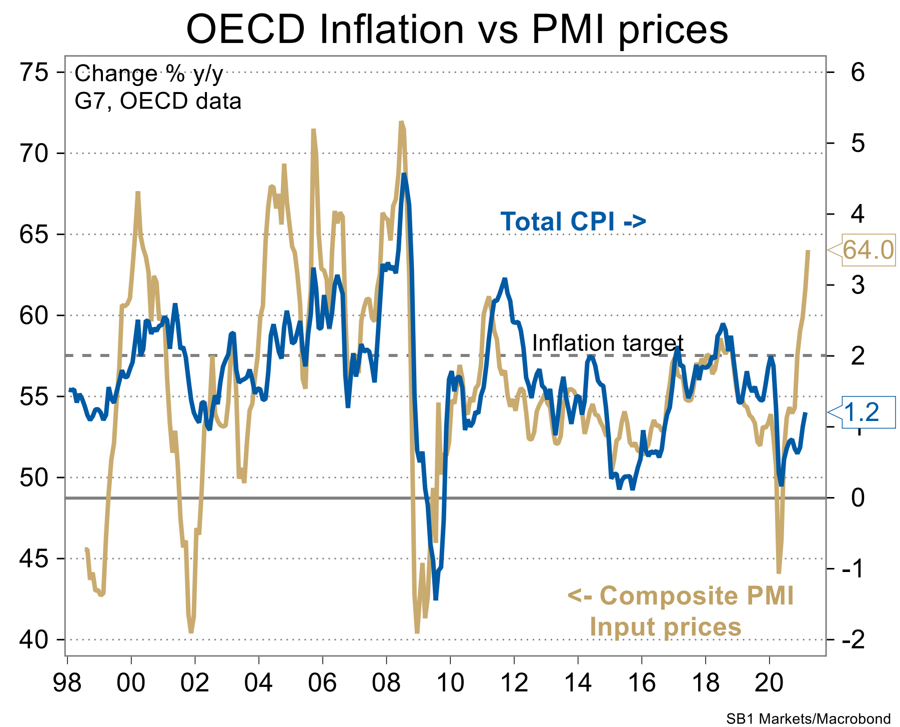
Businesses keep reporting even faster growth in input/output prices

CPI inflation seems to be the next stop





The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US



- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 1.2% in rich countries now, up to something quite different the coming months

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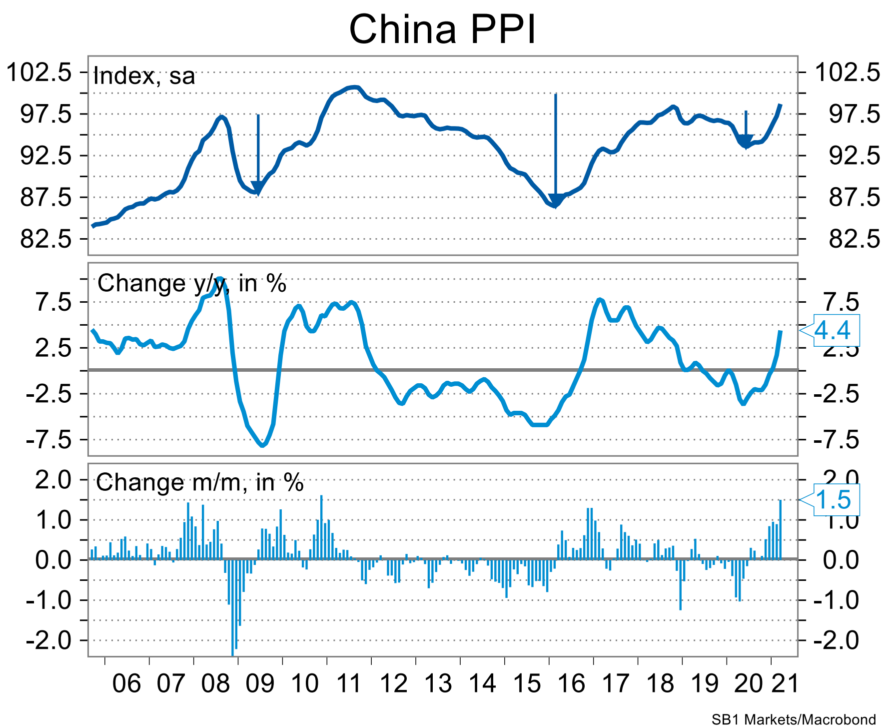
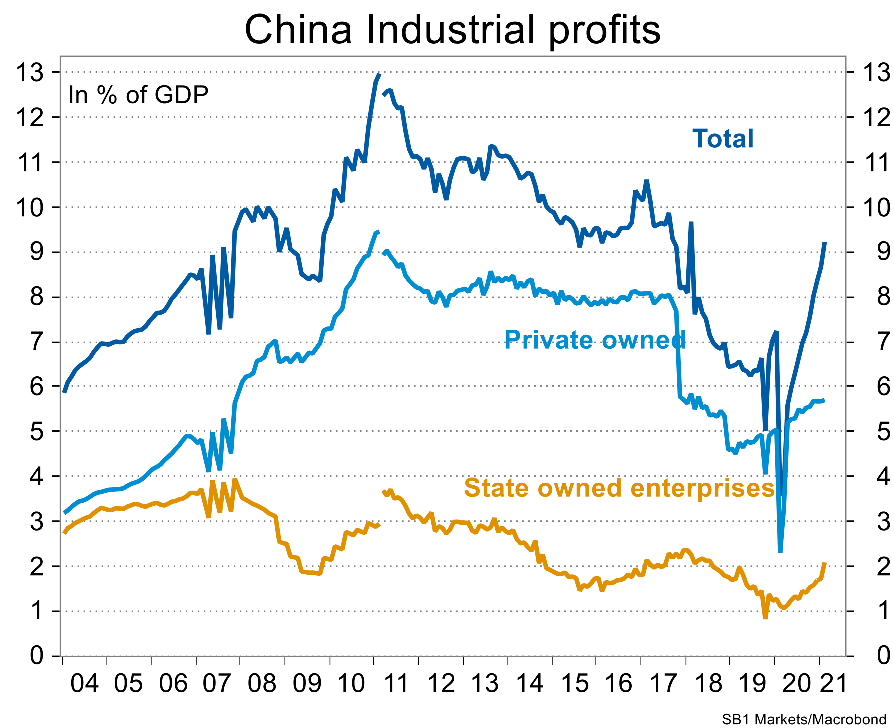
Factory gate prices are surging – will (the US) CPI follow in its tracks?

PPI up 1.4% m/m in March, up 4.4% y/y, expected 3.5%. And the impact will be felt around the world?

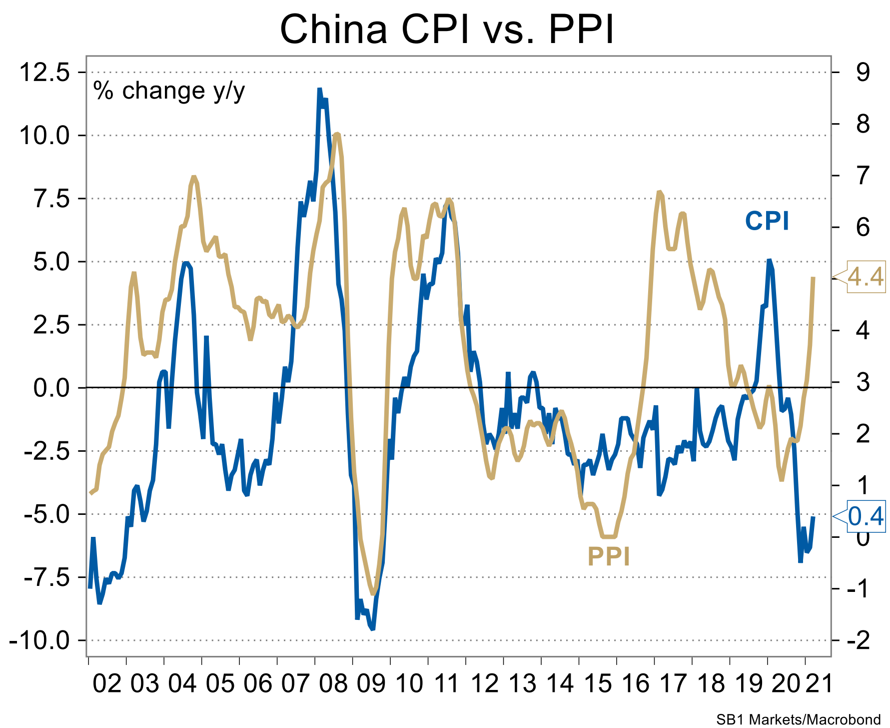


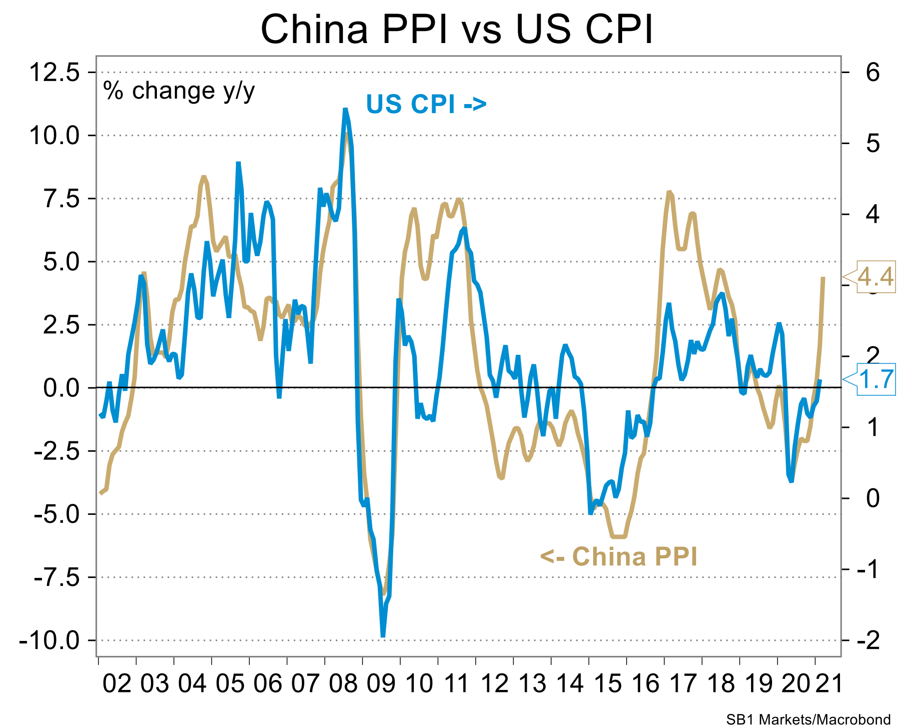


- The **PPI** peaked in late 2018 but prices just fell some 4%, some of it during the spring. During previous setbacks, PPI has fallen up to 13% (and never less than 8%). The rise in PPI in the last couple of months can largely be contributed to an increase in the price of commodities
  - » The correlation to Chinese CPI is not that strong. It is more important for other countries, check next page
- **Profits in privately owned industrial enterprises** fell by 50% in February '20. Profits rose to a normal level in April/May – if we label the profit level in 2019 and early 2020 as normal – at 5% of GDP – and now it has climbed to almost 6%
- **Profits in state owned enterprises profits** have now come back to around 2% - a level not seen since 2018

The Chinese PPI is even more important for the US CPI than for the Chinese CPI

… as food prices are important in the Chinese CPI but not in the Chinese PPI (nor in the US CPI)

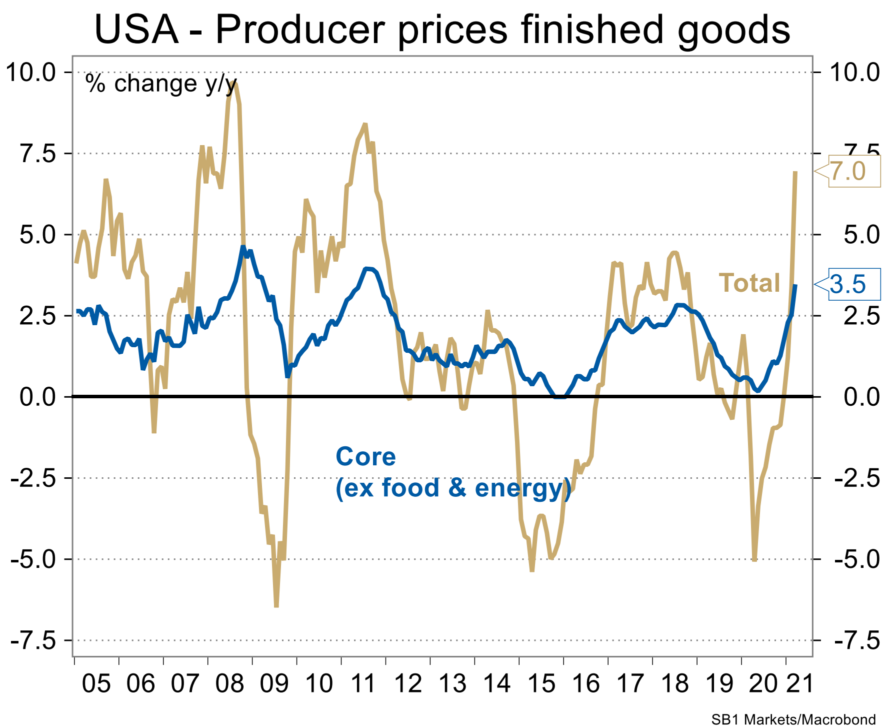


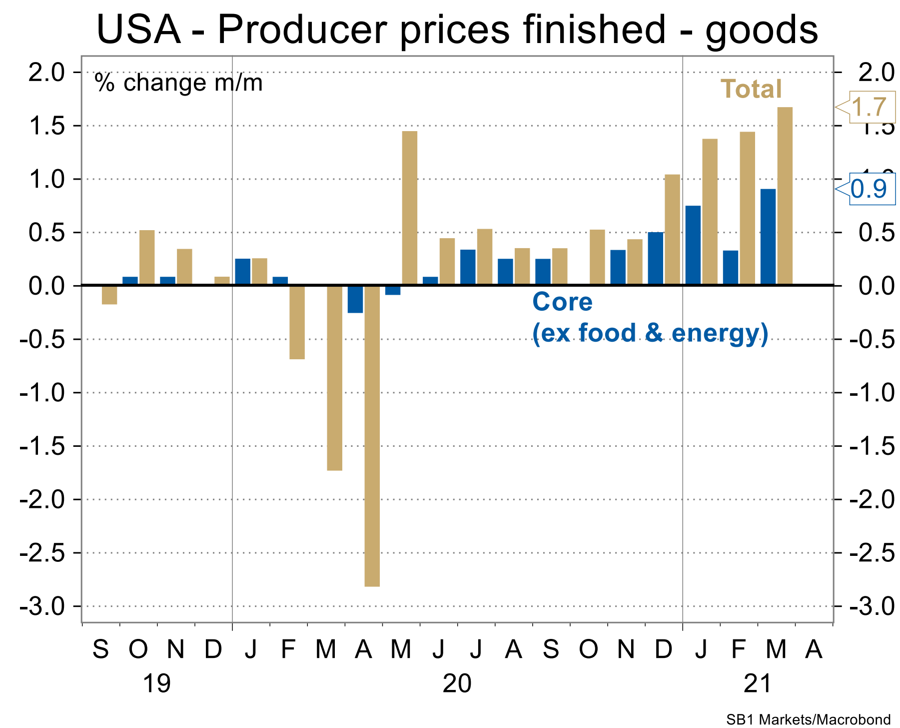


SpareBank 1 MARKETS

Producer prices sharply up, and much, much more than expected (of course)

Core producer prices up 0.9% m/m, 4.5 x more than expected (0.2%). 3.5% y/y. Total up 7% y/y

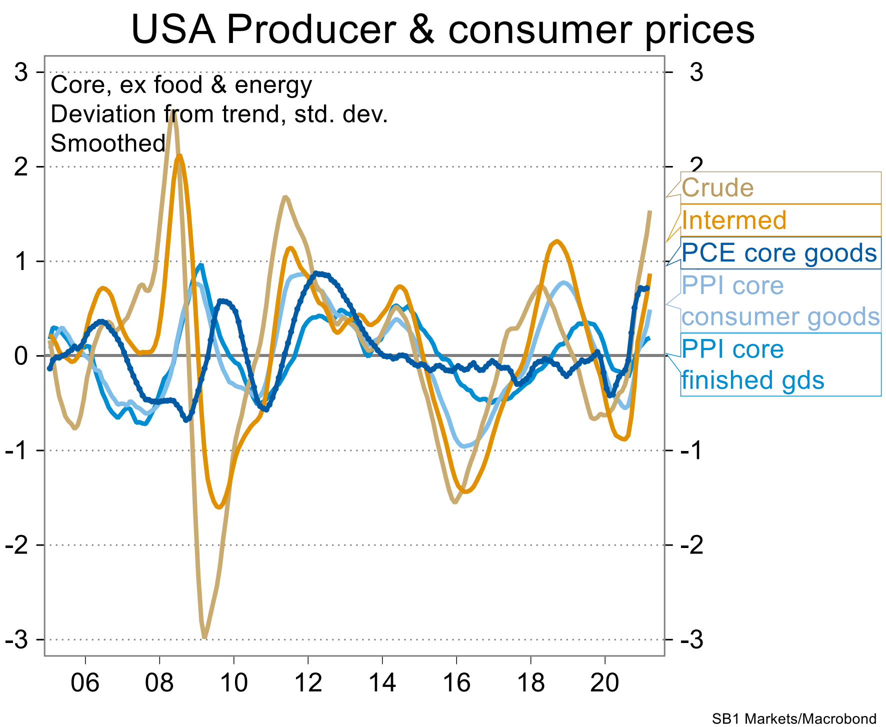


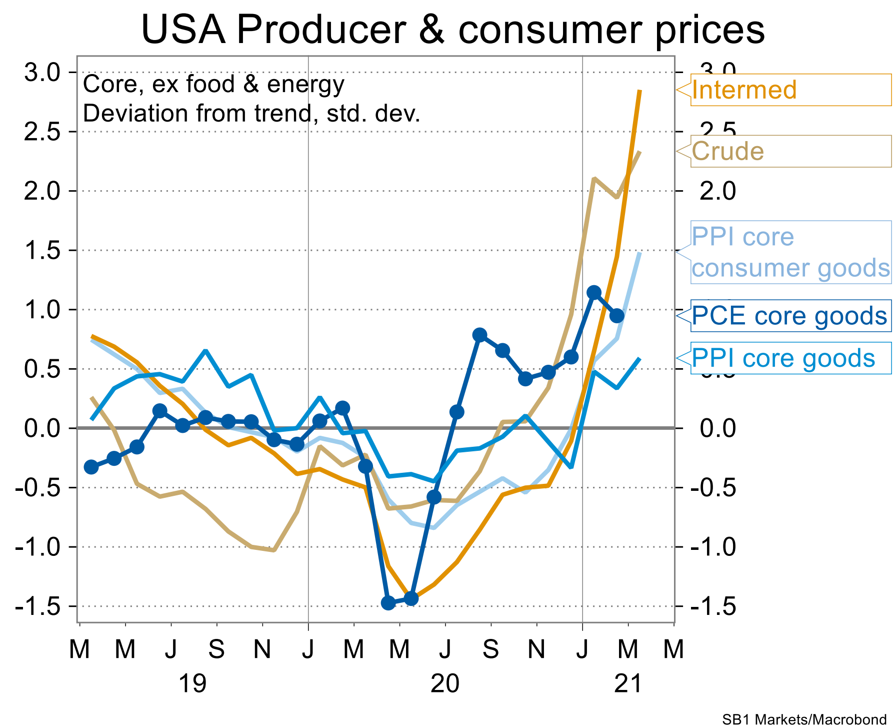


- **Core finished goods x food & energy** PPI rose 0.9% in Feb, up from 0.3% in Feb. The monthly increase was the largest since Oct-08, and the 5th largest since 1981. The annual rate is the highest in 10 years
- **Headline finished goods PPI** rose 1.7% m/m, due to higher food & energy prices + higher core prices, the highest growth since 2009 and the 4th highest since 1975. The annual rate climbed 3.6 pp to 7%. This price index is notoriously volatile, but the cycles are quite similar for the core PPI for goods
- **The 'official' total final demand PPI**, including services, rose by 1% (4.2% y/y), 0.5 pp more than expected. Even services were up 0.7% m/m
- The PPI confirm what business surveys have told us, no more, no less

It's not brewing, it's boiling: We have warned for several months

Crude & intermediate goods prices are on the way up too, finished goods to follow

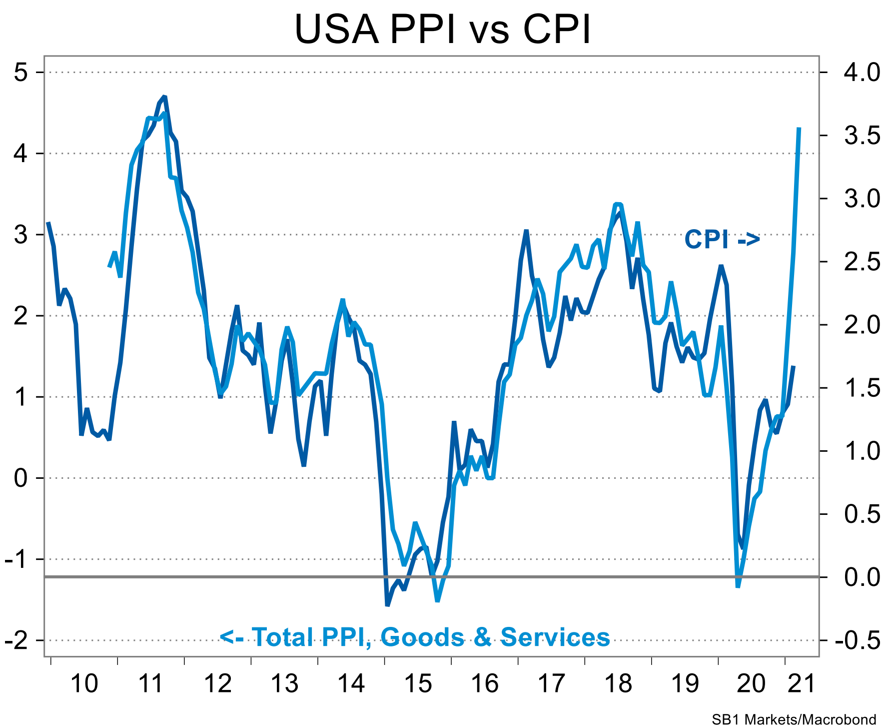


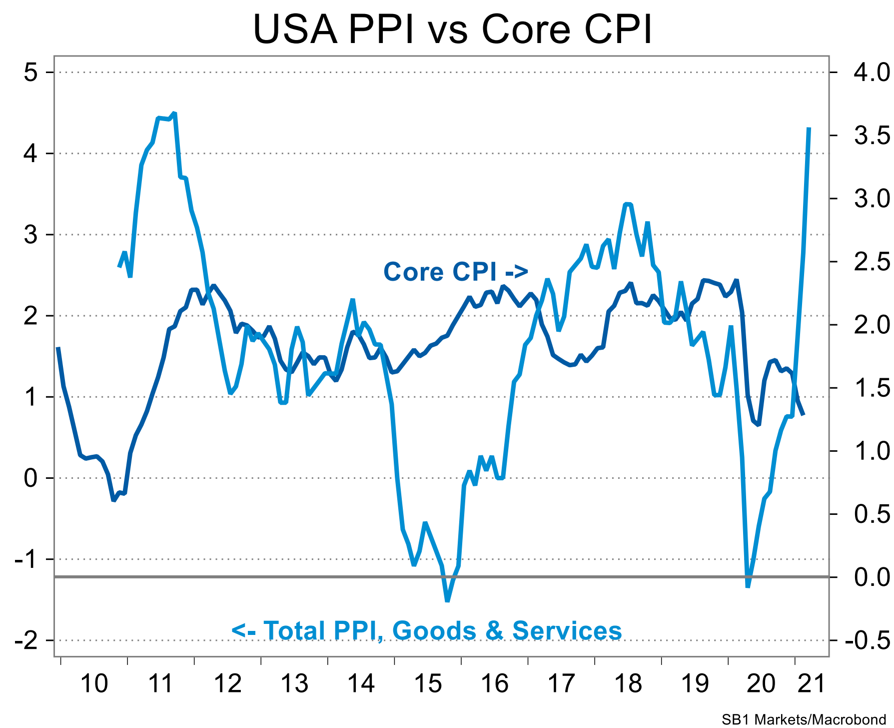


- Prices are on the way up, as are delivery times – and production is increasing rapidly. Hmm…
- However, consumer prices have been rising faster than indicated by finished goods prices. Thus, short term, probably not that much more price pressure from producer prices
- Looking forward however, the steep rise in crude prices (even ex food & energy), and now followed by intermediate goods prices are signalling higher consumer price inflation (crude goods are leading intermediate goods by 4 months, and consumer prices by 12 months)

The headline CPI is a done deal. The core CPI not

The headline PPI (goods & services) is very closely correlated to the headline CPI

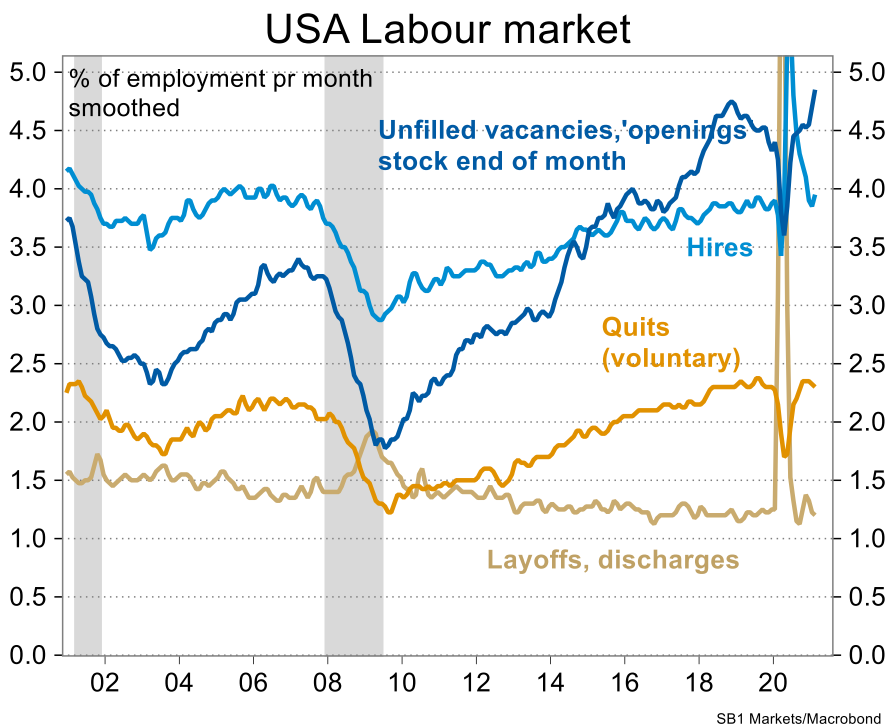




- A substantial acceleration in the **headline CPI** is all but inevitable, very likely to well above 3% y/y, and not just because prices fell sharply m/m last year, prices are accelerating m/m this spring
- However, the correlation to **core CPI** is much weaker, like correlation between say between PMI/ISM price signals & core CPI prices. For good reasons, central banks are focusing more on core price measure, than on the volatile headline index

Vacancies highest since January 2019, and the highest ever vs employment

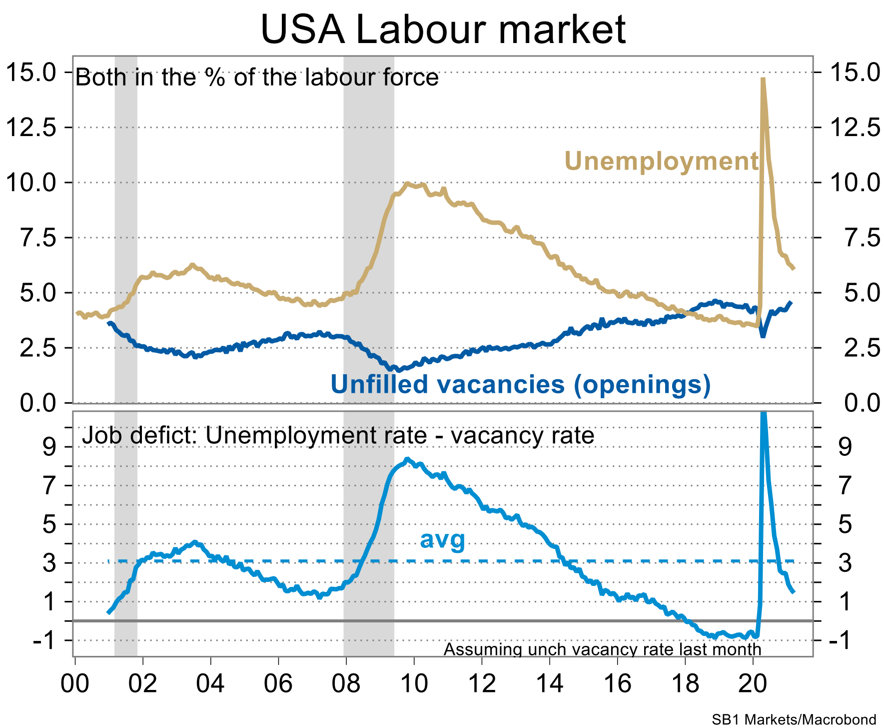
Job openings (unfilled vacancies) increased to 7.4 mill in Feb; expected 6.9 mill!

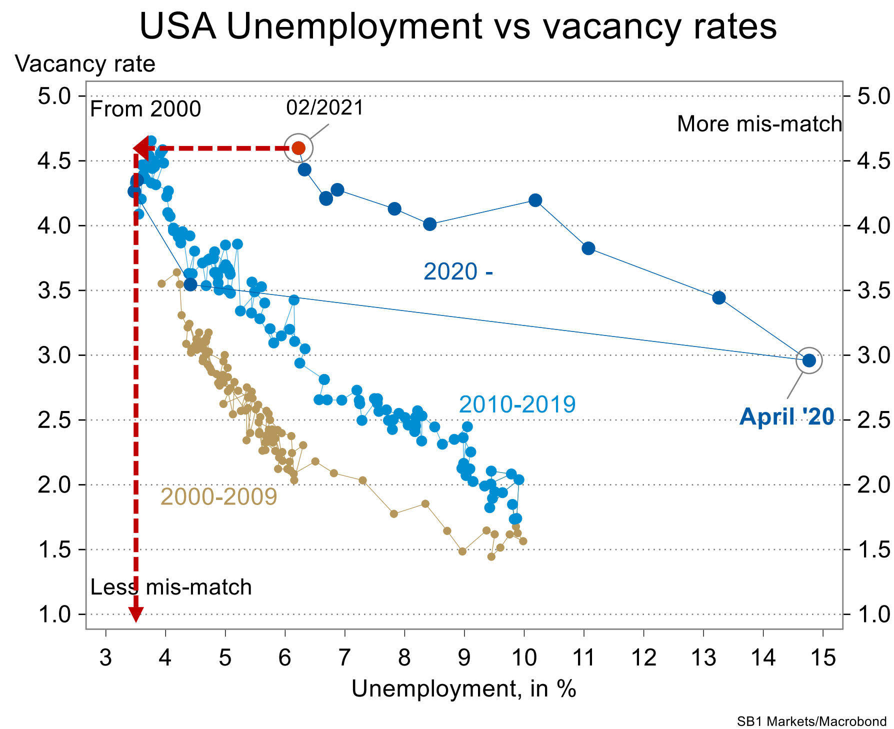


- The no. of **unfilled vacancies** rose more than expected in March, and is less than 3% below ATH (Nov-18), and to <u>the highest level ever in %</u> (of the no. of employed +unfillet vacancies; Measured in % of the labour force, the 2. highest ever). The vacancy share is far lower than normal vs. the unemployment rate
- **Businesses are hiring** at a very rapid pace, at almost 4% per month (although slower than when companies rehired big time in Q3 last year). Given the still low level of employment, no surprise
- Although **quits** are down in Feb, but still at a very high level, normally a sign of labour market strength as workers are leaving their jobs voluntarily, which is not that common in hard times
- **Layoffs** have almost fallen back to a normal low level. Given the close to normal level of layoffs, it is strange that the inflow of new jobless claims remain far above normal levels, check 2 pages forward
- **In sum:** <u>Signals a tight labour market</u>

Fewer vacancies vs. unemployment than normal

… as if the unemployment was 3.5% in February, and not above 6.2%

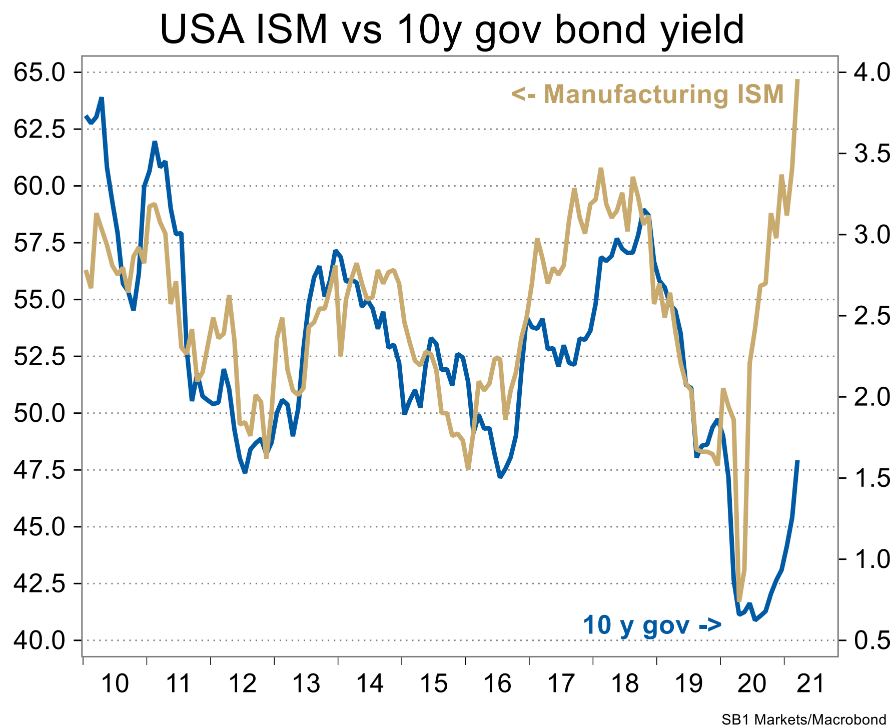


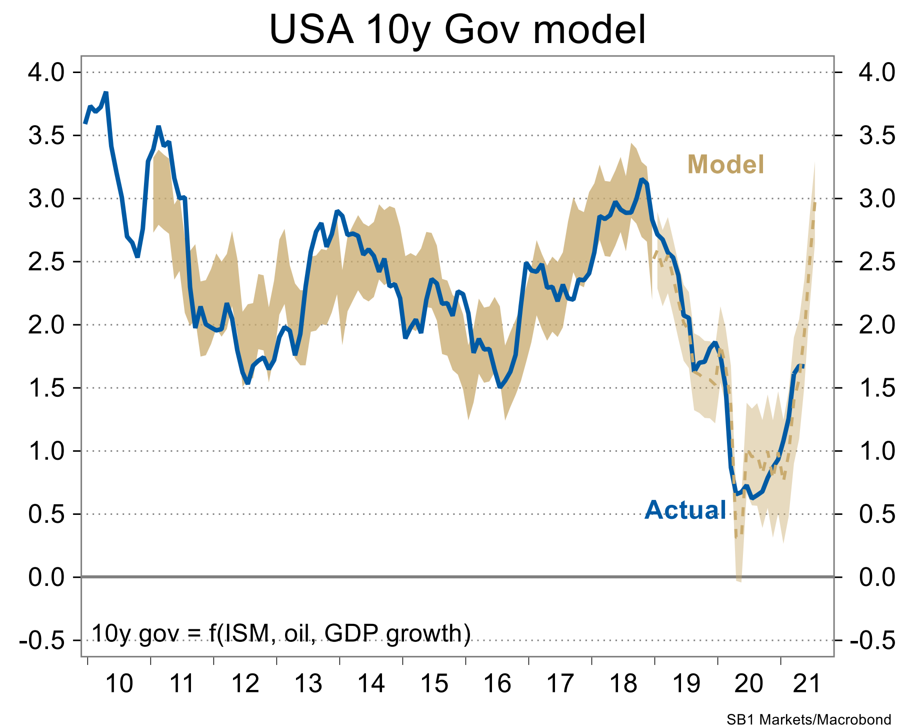


- Has the **UV "Beveridge" curve** moved outwards, once more, signalling a tight labour market, even if the unemployment rate is far above normal low levels – that is: The labour market tight 'for real' now?
- Or is the labour market in a temporary 'sour spot', as a large part of those who have withdrawn from the labour market last year say it is corona related. Will these workers return to the labour market, when the virus situation allows? Regrettably, many of these workers do not want to have a new job, they say

Houston: You may have a problem, we are up here already

If the recovery continues, a 3% 10 y US gov bond rate?





- These are not the best of models over time, but they have worked OK during the past 10 years low inflation environment
- If inflation turns up, that's another question (on the upside for yields, of course)

SpareBank 1 MARKETS

Inflation pro & con

Higher inflation is far from a done deal. Labour market dynamics will decide!

Higher inflation/higher inflation expectations

- Expansionary fiscal policy, especially in the US. Ultra low rates, quantitative easing continues in most countries
- Strong demand for goods both for consumption and investments
- Investment demand is above trend but will continue upwards the coming quarters
- Raw material markets are booming, as demand has been far stronger than expected
- Companies are reporting a rapid increase in delivery times & prices – and actual producer prices
- Producer prices are accelerating in several countries
- Consumer price inflation will very likely accelerate the coming months in US and some other countries
- Labour markets may be tighter than indicated by still a low employment/high unemployment rates, given the increase in vacancies
- At least in the US, **there are signals of higher wage inflation** (like in Norway, where Norges Bank has revised its forecast up, but still not enough)
- Corporate profits will soon come under pressure, higher prices the normal answer – and demand is still strong

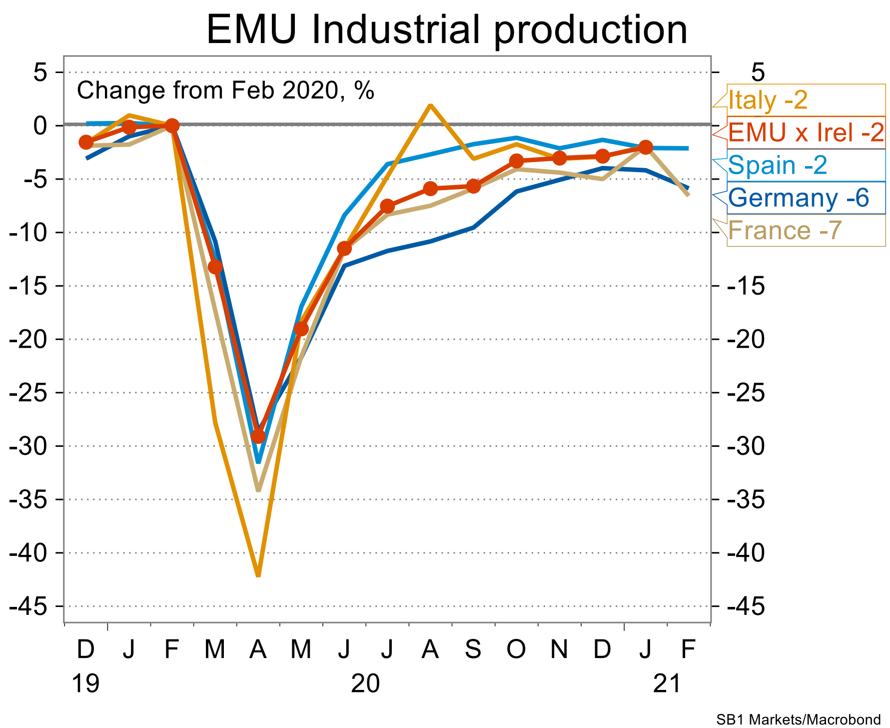
Still low inflation

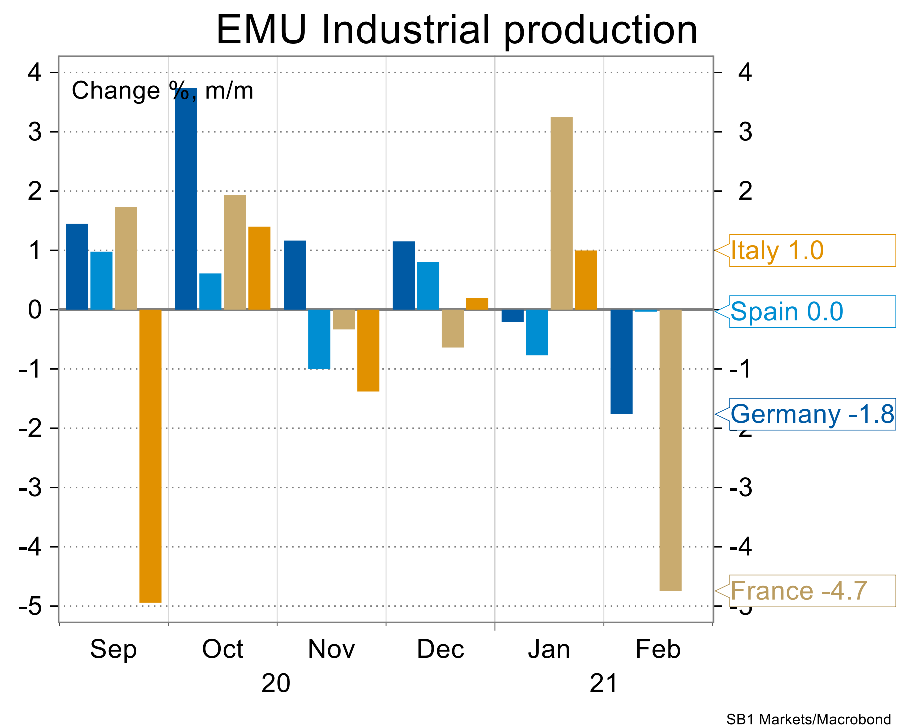
- The boom in the goods is close to the peak
  - » Spending on services will increase sharply while retail demand for goods will decrease as services soon will be allowed to operate normally again
- US employment is still >5% below the pre-pandemic level, and unemployment is still at 6%. The underutilisation of labour is even higher in Europe
- **Underlying cost inflation is muted, everywhere**
  - » **Wage inflation is still low**
  - » **Productivity growth may be accelerating**
- US profits have been kept well up during the virus crises, and businesses not no ‘need’ to increase margins to obtain normal profits
- Many Emerging economies do not yet have access to vaccines, and the economic recovery there will be far slower than among rich countries
- More mutants may arrive

SpareBank 1 MARKETS

Manufacturing production far weaker than expected in March

Germany down 1.8%, France 4.7%, both expected up 1% – 1.5%. Spain flat. EMU will decline subst.

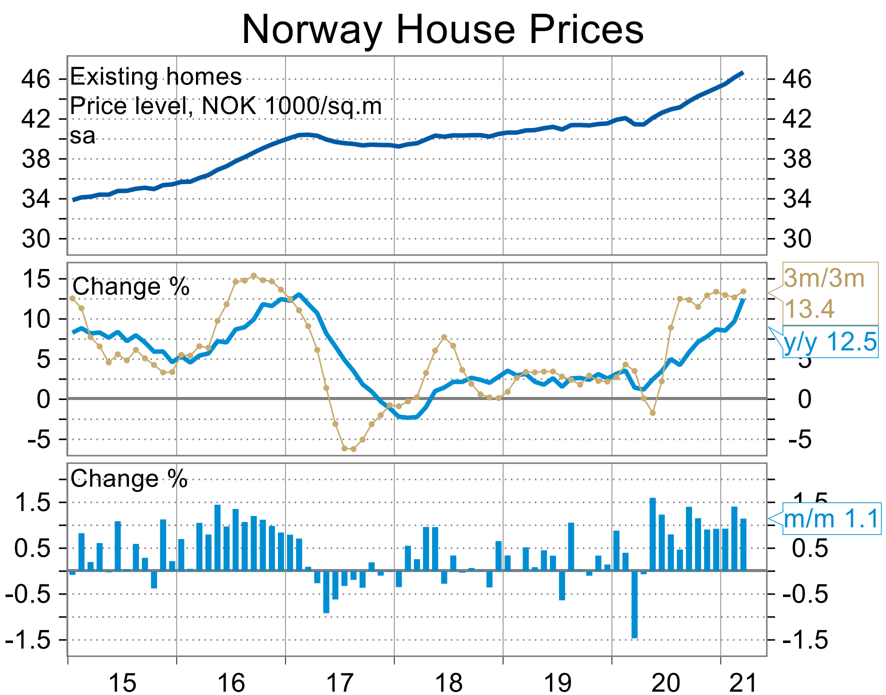




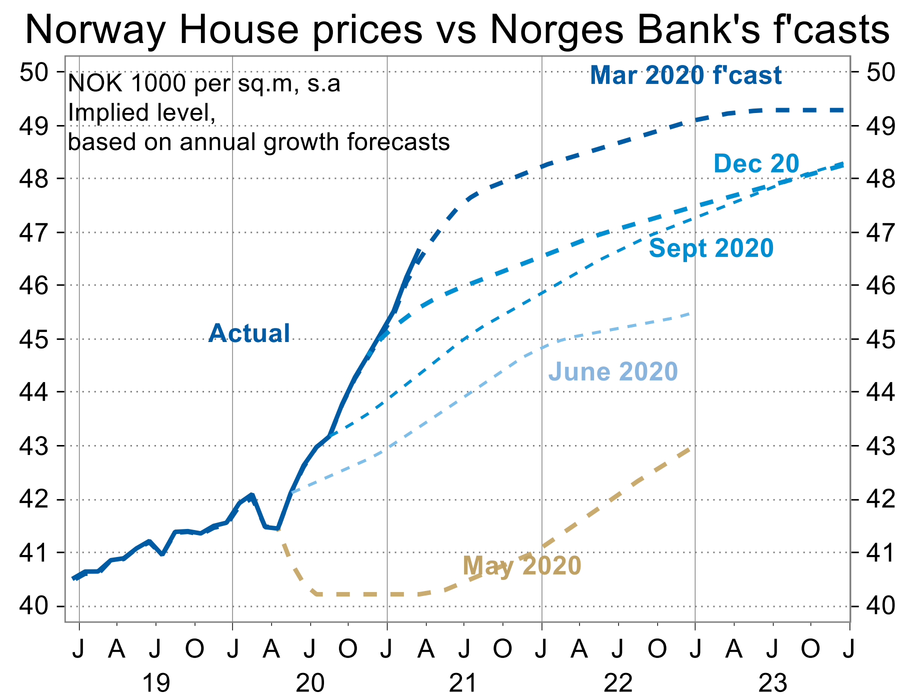
- The recent lockdowns have taken its toll on actual production
- At the same time, companies are reporting almost unprecedented strong growth to the PMIs and other surveys
- March – or April (or May?) will be far better!

House prices did not yield to signals of higher interest rates

Prices +1.1% m/m, we exp. 1.0%, NoBa exp. 0.9%, some economist an outright decline



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

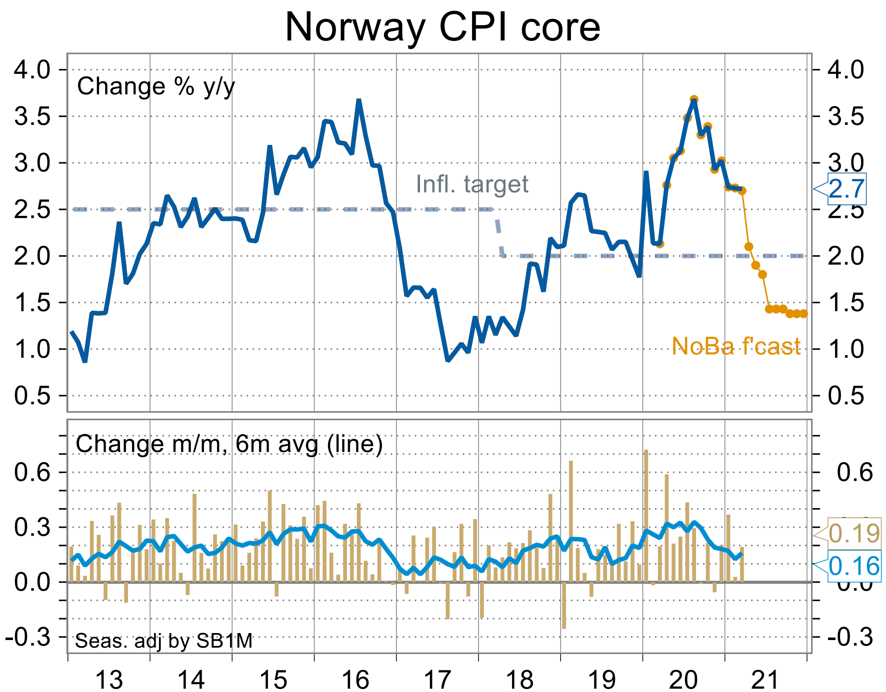


SB1 Markets/Macrobond

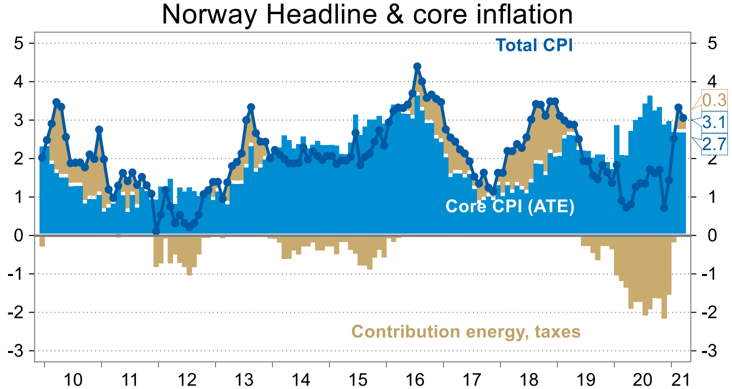
- **House prices** rose by 1.1% seas. adj in March, up from 1.4% in Feb (revised up by 0.1 pp). We expected 1.0%, NoBa 0.9%. The past 3m/3m, prices are up by 13%, annualised, stable since Dec. Prices are up 12.5% y/y, highest since early 2017. In April, possibly the highest annual rate since 2007 ☺
- All cities, but Oslo, reported higher prices m/m. Prices in Oslo declined by 0.8%, while Drammen saw the biggest price increase (+3.5%)
  - » Smoothed 3m/3m prices are up everywhere. Here, Oslo is at the top, at a 20% pace! Outer east towns at the bottom, still up 8% at an annual rate
- The **number of transactions** rose in March and the level is high. The **inventory of unsold homes** is sliding down again, and it is very low vs sales per month, even if more homes were put at the market
- **The prospect of higher interest rates is not biting on home buyers, not yet that is…**

Core inflation held steady at 2.7% in March, in line with consensus/NoBa

We expected an uptick to 2.8%. Headline inflation down 0.2 pp to 3.1%, we expected 3.6%



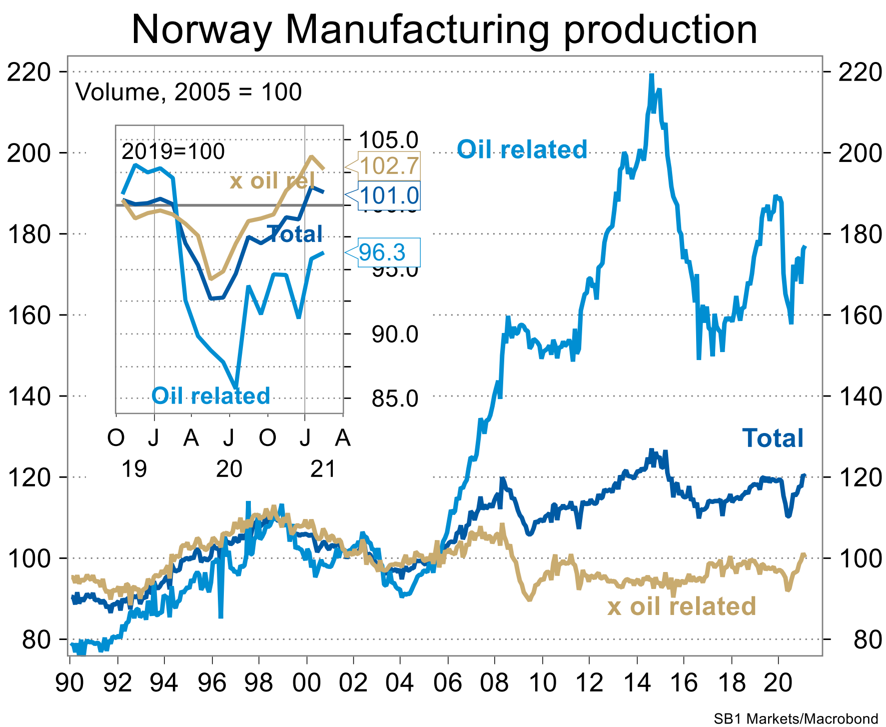
kets/Macrobond

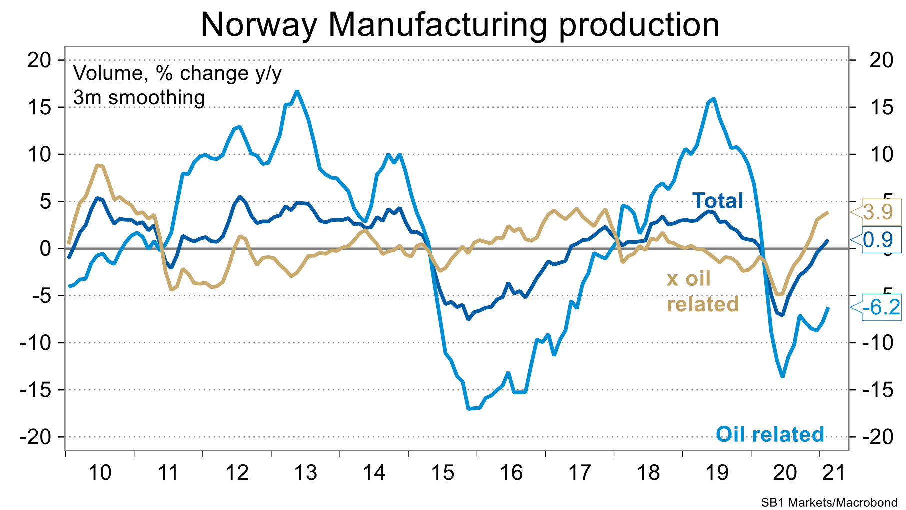


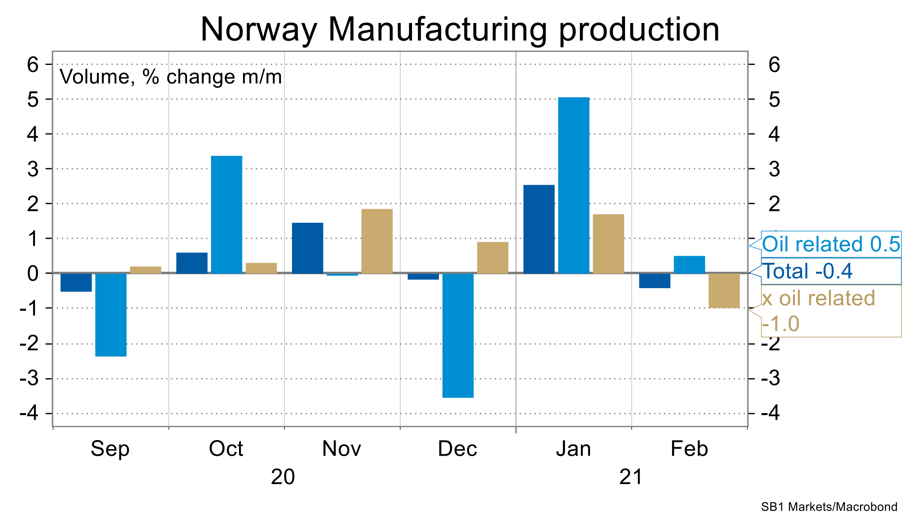
- **CPI-ATE** (ex. energy and taxes) inflation flat at 2.7% in March; in line with consensus & Norges Bank's f'cast, and slightly below our estimate (2.76 ☺)
  - » Prices rose 0.2% m/m (s.a), up from flat in Feb
  - » Inflation is below 2% for housing, clothing, alcohol, communication and airline tickets – others are still above
  - » Imported goods price inflation was up in Feb, but will recede further as NOK effect fades. Domestic services have slowed substantially
  - » Domestic inflation has slowed substantially but remains close to 3%
- **Total inflation** slowed 0.2 pp to 3.1% because energy prices fell (and more than we expected)
- **The price outlook**
  - » We expect inflation to slow the coming quarters as the NOK effect fades and wage inflation remains muted. Demand for goods will have to decline from a very high level, while the 'beaten down services' will probably not have pricing power anytime soon, even if demand should pick up steam during Q2/Q3
  - » Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. It's all about the Covid-19 impact on the real economy, and the outlook for the recovery

Manufacturing production down 0.4% in February, less than we expected

Production up 9% since last summer, non-oil production the highest in 9 years



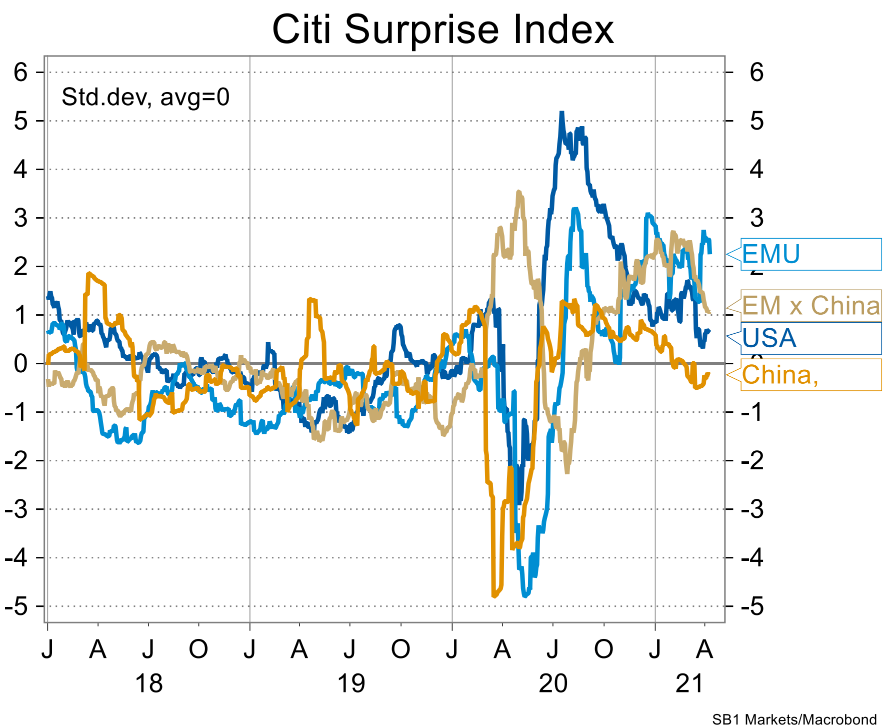


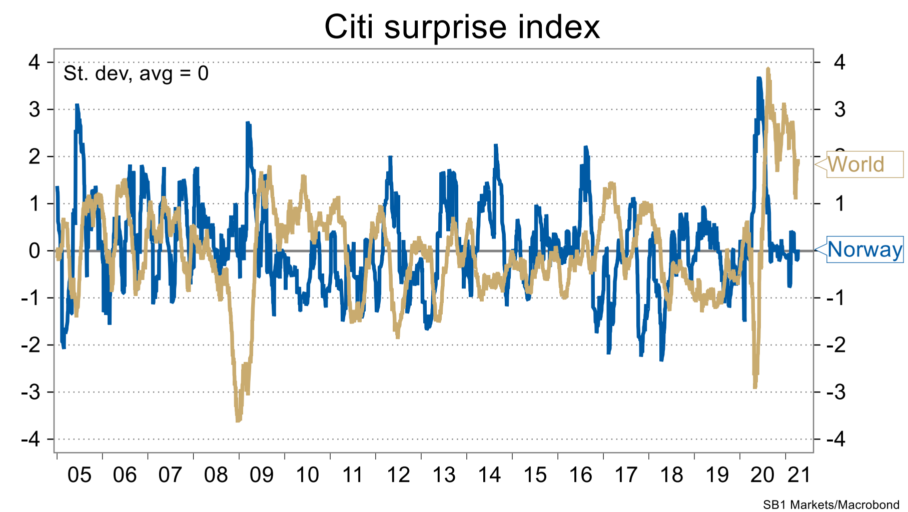


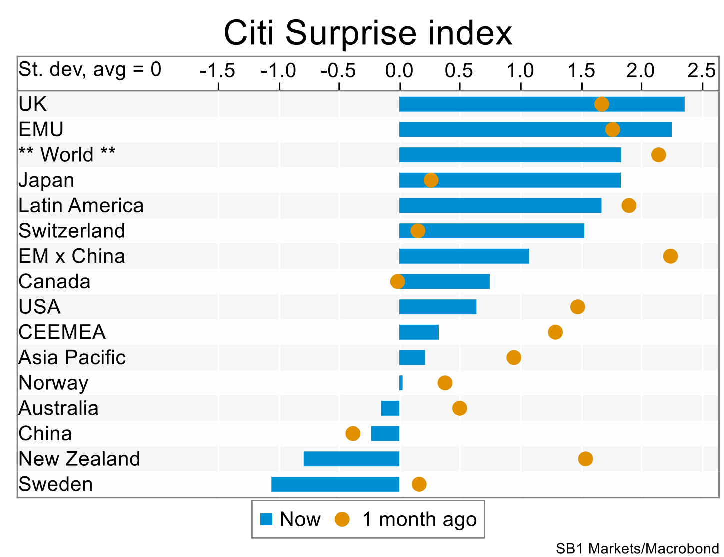
- Production has been at a steep upward trend since June, in total by 9%.
- Total production decreased by 0.4% m/m, we expected -1.2% following the 2.5% lift in January. Production is up 0.9% y/y (not smoothed, as on the upper right chart)
- Oil related production fell by 1% m/m, and is down 5.6% y/y
- Non-oil related production grew 0.5 % m/m, and up 3.5% y/y
- Surveys are recovering – and the PMI was very strong in March

The UK & EMU surprises most of all, on the upside. World average is strong too

In the US, expectations have come up, not that easy to beat them anymore







- **UK & EMU** at the top of the list, followed by Japan & Lat-Am
- The **US** surprise index stabilised last week
- **China and Sweden** at the bottom of the list
- Norway is still in a neutral position

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

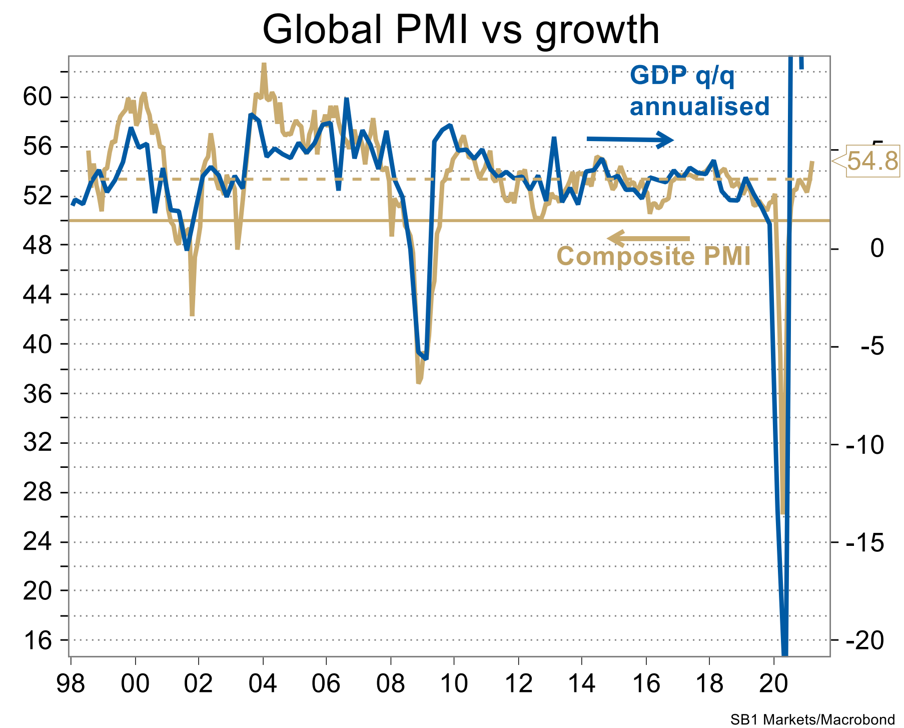
The Calendar: A packed schedule; A full China check, US inflation++ , NOK GDP

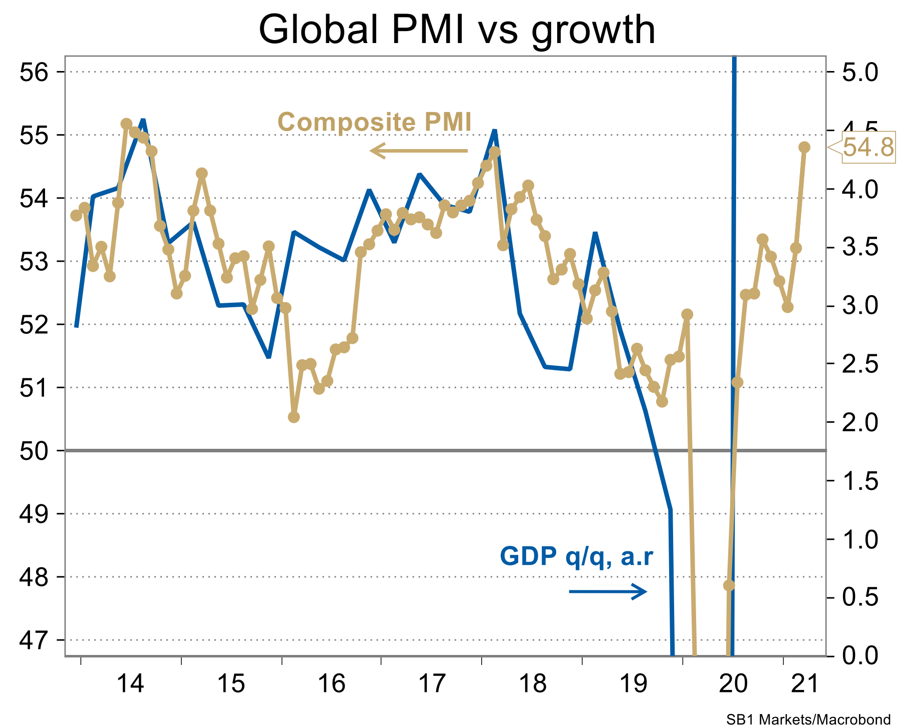
Time	Count.	Indicator	Period	Forecast	Prior
Monday Apr 12					
08:00	**NO**	**GDP Mainland MoM**	**Feb**	**-0.4%**	**-0.2%**
11:00	**EC**	**Retail Sales MoM**	**Feb**	**1.4%**	**-5.9%**
20:00	US	Monthly Budget Statement	Mar	-$660.0b	-$310.9b
Tuesday Apr 13					
	CH	Trade Balance	Mar	$51.15b	$78.17b
06:00	SW	Unemployment Rate	Mar		4.4%
08:00	UK	Industrial Production MoM	Feb	0.5%	-1.5%
08:00	UK	Manufacturing Production MoM	Feb	0.5%	-2.3%
08:00	**UK**	**Monthly GDP (MoM)**	**Feb**	**0.5%**	**-2.9%**
11:00	GE	ZEW Survey Expectations	Apr	79	76.6
12:00	US	NFIB Small Business Optimism	Mar	98	95.8
14:30	**US**	**CPI Ex Food and Energy MoM**	**Mar**	**0.2%**	**0.1%**
14:30	US	CPI YoY	Mar	2.5%	1.7%
Wednesday Apr 14					
09:30	SW	CPIF Excl. Energy YoY	Mar	1.3%	1.2%
11:00	**EC**	**Industrial Production SA MoM**	**Feb**	**-1.1%**	**0.8%**
20:00	US	Beige Book			
Thursday Apr 15					
08:00	NO	Trade Balance	Mar		25.1b
10:00	NO	Norges Bank Survey of Bank	Q1		
10:00	NO	Homebuilders, sales & starts	Mar		
14:30	**US**	**Initial Jobless Claims**	**Apr-10**	**700k**	**744k**
14:30	US	Empire Manufacturing	Apr	18.8	17.4
14:30	**US**	**Retail Sales Ex Auto and Gas**	**Mar**	**6.30%**	**-3.30%**
14:30	US	Philadelphia Fed Business	Apr	40	51.8
15:15	US	Industrial Production MoM	Mar	2.6%	-2.2%
15:15	**US**	**Manufacturing Production**	**Mar**	**4.0%**	**-3.1%**
16:00	US	NAHB Housing Market Index	Apr	84	82
Friday Apr 16					
03:30	CH	New Home Prices MoM	Mar		0.4%
04:00	**CH**	**GDP SA QoQ**	**1Q**	**1.4%**	**2.6%**
04:00	CH	GDP YoY	1Q	18.3%	6.5%
04:00	CH	Fixed Assets Ex Rural YTD YoY	Mar	27.0%	35.0%
04:00	**CH**	**Retail Sales YoY**	**Mar**	**28.0%**	
04:00	CH	Industrial Production YoY	Mar	18.0%	
11:00	EC	CPI Core YoY	Mar F	0.9%	0.9%
14:30	US	Building Permits	Mar	1750k	1682k
14:30	US	Housing Starts	Mar	1606k	1421k
16:00	US	U. of Mich. Sentiment	Apr P	89	84.9
During the week					
	CH	**Aggregate Financing CNY**	**Mar**	**3700.0b**	**1710.0b**
	CH	New Yuan Loans CNY	Mar	2300.0b	1360.0b
Sunday Apr 18					

- **China**
  - » The week is packed with data out of China. **GDP** is expected up 'just' 1.4% q/q in Q1 (5.6% annualised), down from 2.6% (10.8%) in Q4, most likely due to the muted New Year celebration. Activity is already above the pre-pandemic growth path, and growth should eventually slow anyway. The **monthly indicators** were mixed in February, with weak **retail sales** but OK **industrial production**. **Exports** were impressively strong, and **imports** do not signal any domestic weakness. Forget official annual 'silly' growth rates, just check the activity level, and monthly seas. adj. growth rates. **Credit growth** has recovered in the past couple of months, and China has since asked banks to curtail growth – as there is no need for stimulating the economy with strong credit growth. March numbers should not be heavily affected, but loans for the remainder of the year may be
- **USA**
  - » **CPI inflation** has so far been muted but that will change the coming months, partly due to base effects as prices fell sharply m/m in March/April last year but more importantly because prices are increasing faster m/m, now. The monthly lift in the various US PPIs (including core measures, check out in this report) were at once in a decade levels, the Chinese PPI soars too (and it's closely correlated to the US CPI), and all business surveys are signalling unusual rapid price increases. We still try to focus at the underlying inflation mechanisms, like wage and productivity growth, but are not sure markets will do the same, especially as core inflation very likely will accelerate the coming months. Inflation may turn out to be the most important topic in 2021/22.
  - » **Manufacturing Production** hit a rough patch in February, partly due to harsh wither weather, but all arrows are pointing steeply upwards and the recovery no doubt continued in March. The first April manufacturing survey will show some moderation, at least the **Philadelphia Fed Survey**, as the level in March was the best since 1981. The **small business survey** (NFIB) may reveal that companies plan to increase wages faster, as they are not able to fill a record high no. of open vacancies. **Retail sales** are for good reasons expected to come in very strong as another round of stimulus cheques were distributed in March; vaccines have been administered in large quantities so that the virus is more or less under control; and February's winter storms were a matter of the past
- **EMU**
  - » **Retail sales** are expected up 1.4% in Feb, following the 6% drop in Jan. France reported a further decline, other countries a partial recovery (and the risk is on the upside vs. consensus). Manufacturing production fell Feb, even if surveys are more upbeat the ever. The coming months will be better!
- **Norway**
  - » We expect **Mainland GDP** to decline by 0.4% in Feb (in line with consensus but slightly above NoBa's -0.5% f'cast. Local lockdowns reduced activity in shops, restaurants, hotels & transport. Manufacturing production fell, following the Jan surge, as did electricity production. Foreign trade was probably close to neutral.
  - » We will be surprised if the **Bank Lending Survey** reveals any weakness in households' demand for credit

The global composite PMI even better than assumed, up to 54.8, best since '14

The global index added 1.6 p, and signals GDP growth well above trend

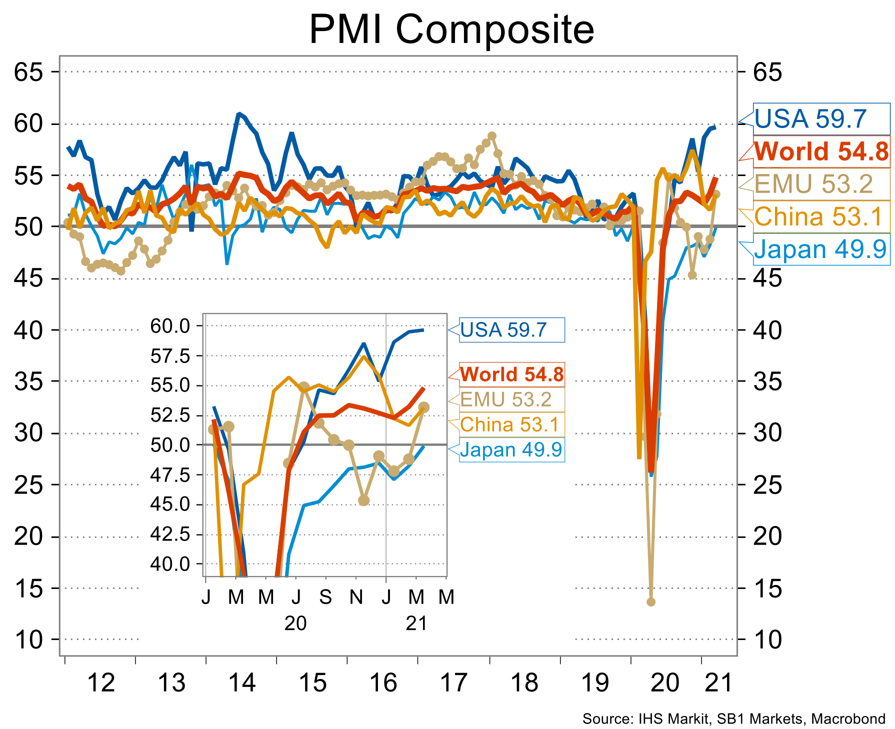


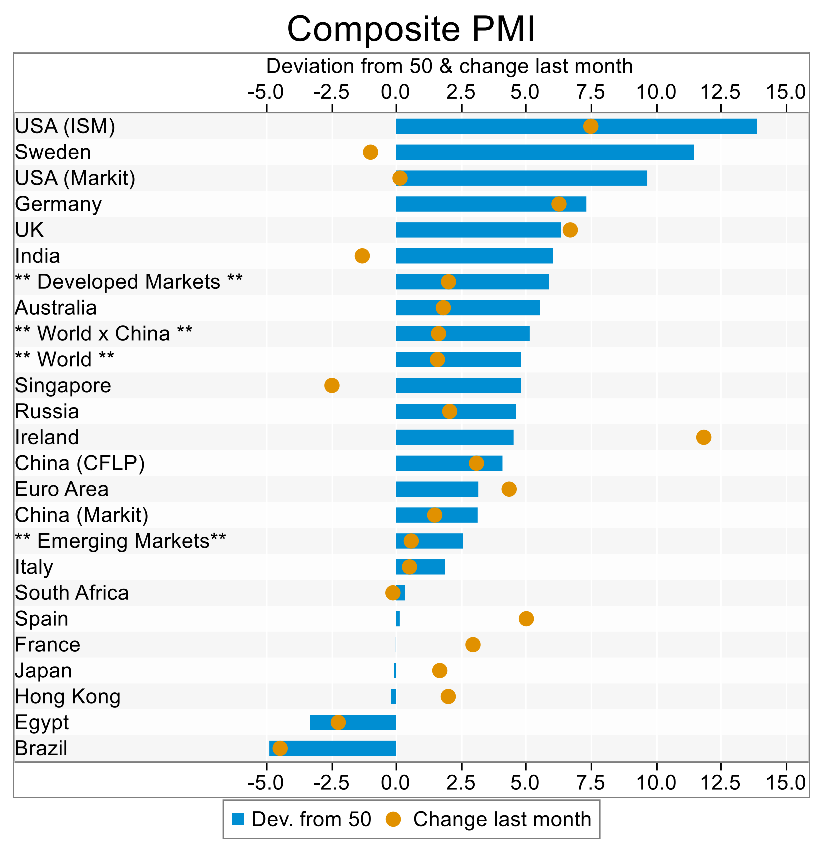


- **The global PMI** is trending upwards amid the 3rd Covid wave, and is at the best level since mid 2014!
- Both services and manufacturing contributed to the substantial March lift

A broad strengthening in March – US, Sweden & Germany at the top

Just 3 countries clearly below the 50 line, and just 5 down m/m in March (out of 25 countries/regions)

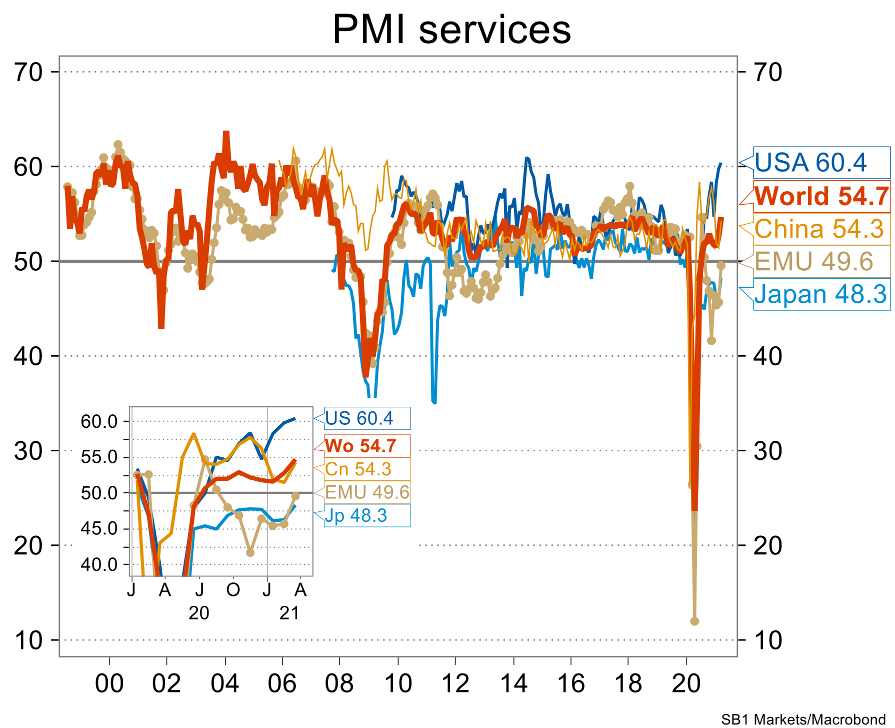


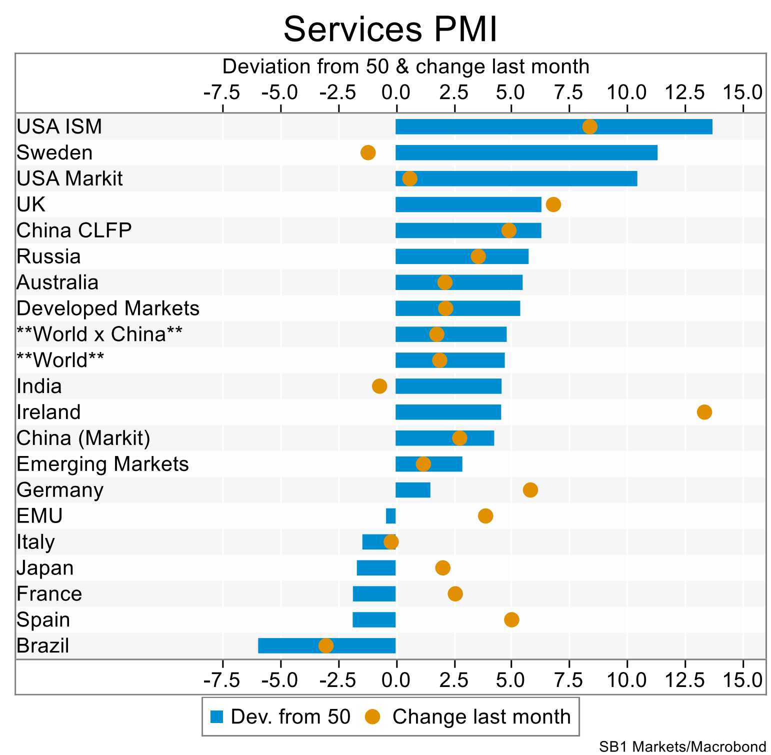


- 18 countries up, 5 down. 3 below the 50 line
- US, Sweden & Germany at the top
- Both of the China PMI data sets rose in March, and both a well above the 50 line
- Brazil a the bottom, due to continued (and larger) corona problems

The service sector PMI +2p to 54.7 in March

US/Sweden at the top. Still weak signals from several European countries – and Brazil. Guess why?

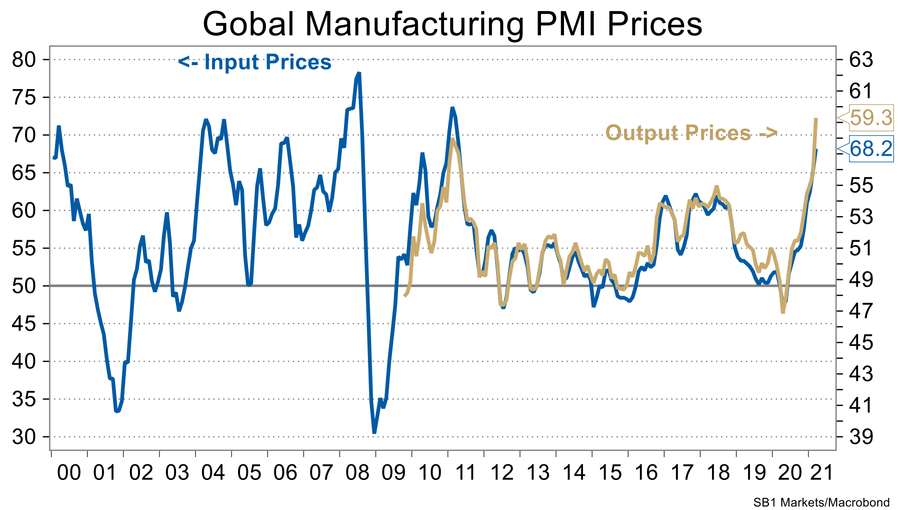


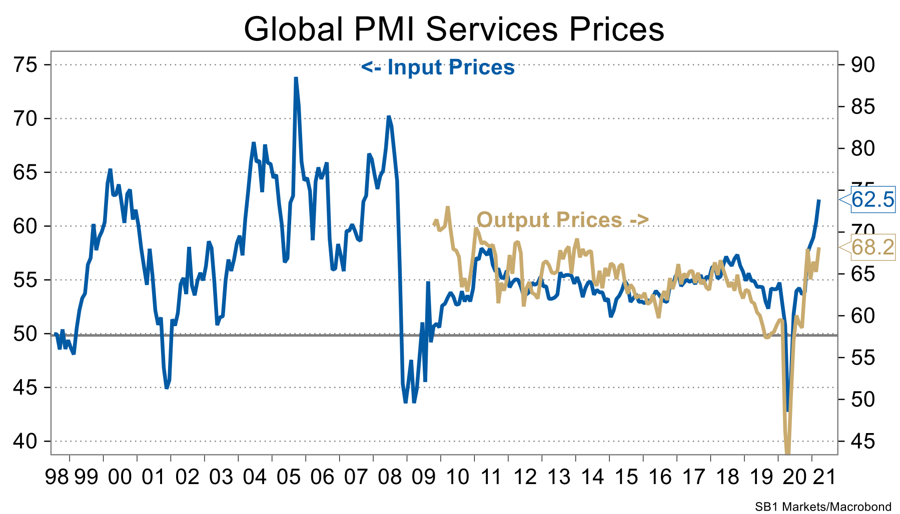


- 17 countries/regions up, 4 down; 6 below the 50 line, 15 above – and global index 54.7, well above the past 10 y average
- Both the Chinese PMIs fell too, but both remained above 50, and do not signal any contraction
- Besides Brazil, Spain, France & Italy are at the bottom, and below the 50 line, together with Japan. However, both Spain, France and Japan headed up in March

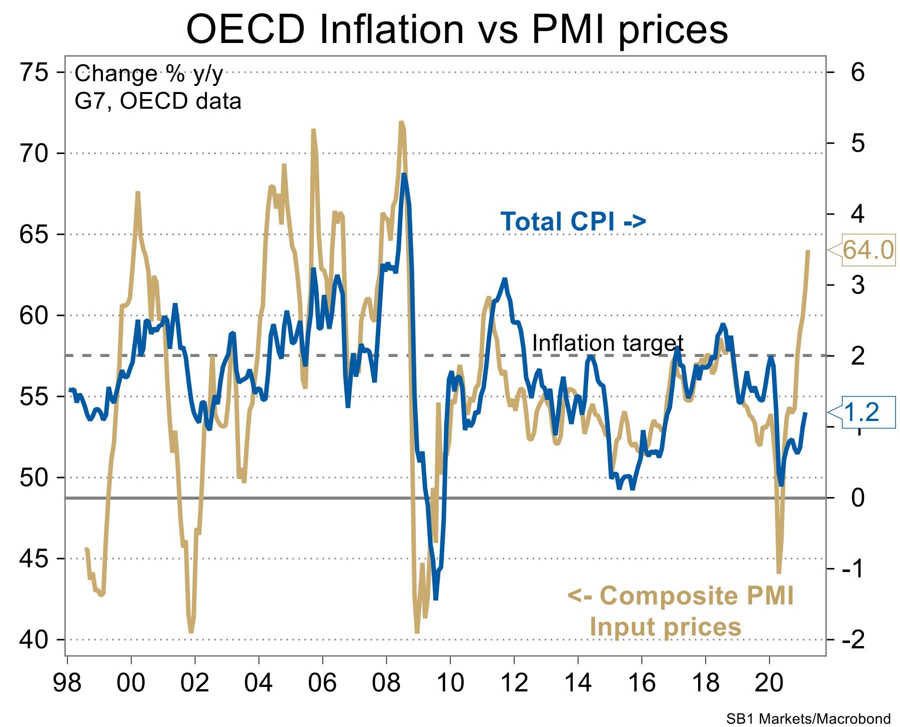
Businesses keep reporting even faster growth in input/output prices

CPI inflation seems to be the next stop





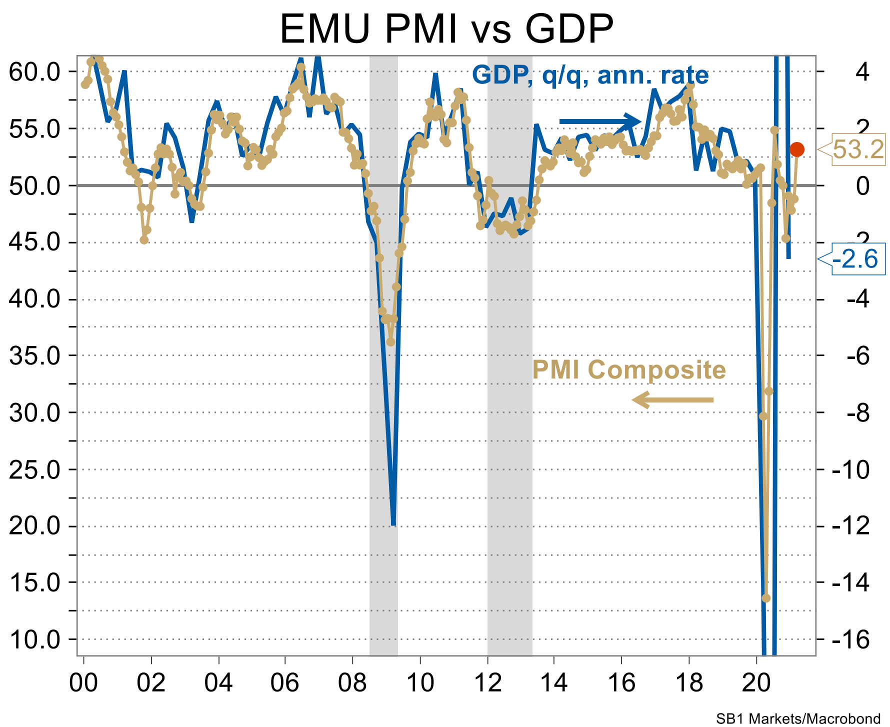
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

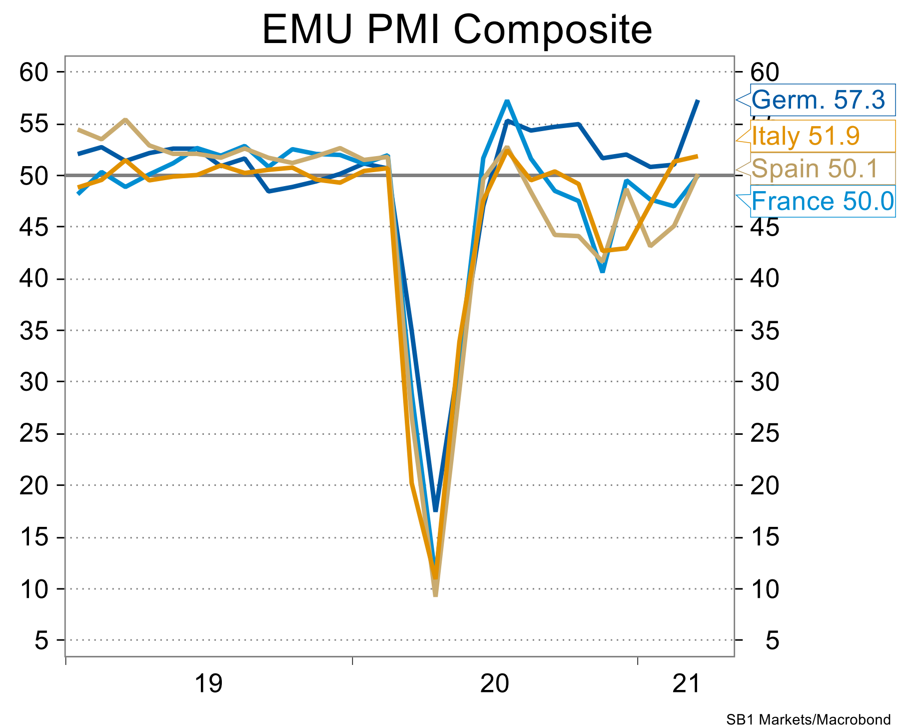


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 1.2% in rich countries now, up to something quite different the coming months

Final March PMI better than prelim. estimate – signals growth in the Eurozone

The composite revised up 0.5 p vs. prelim. est. Services are still below 50, manufacturing above

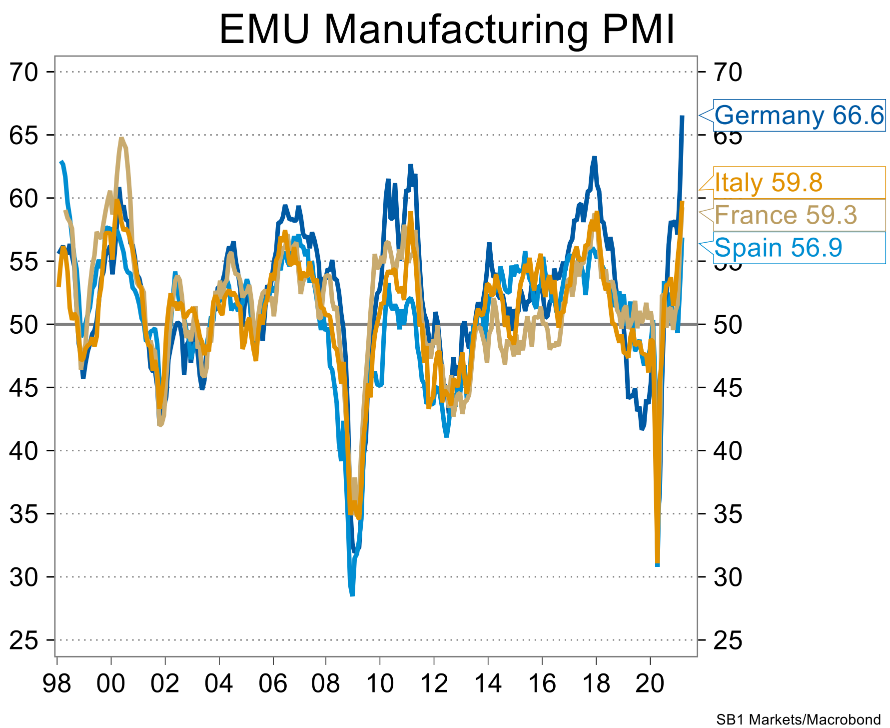


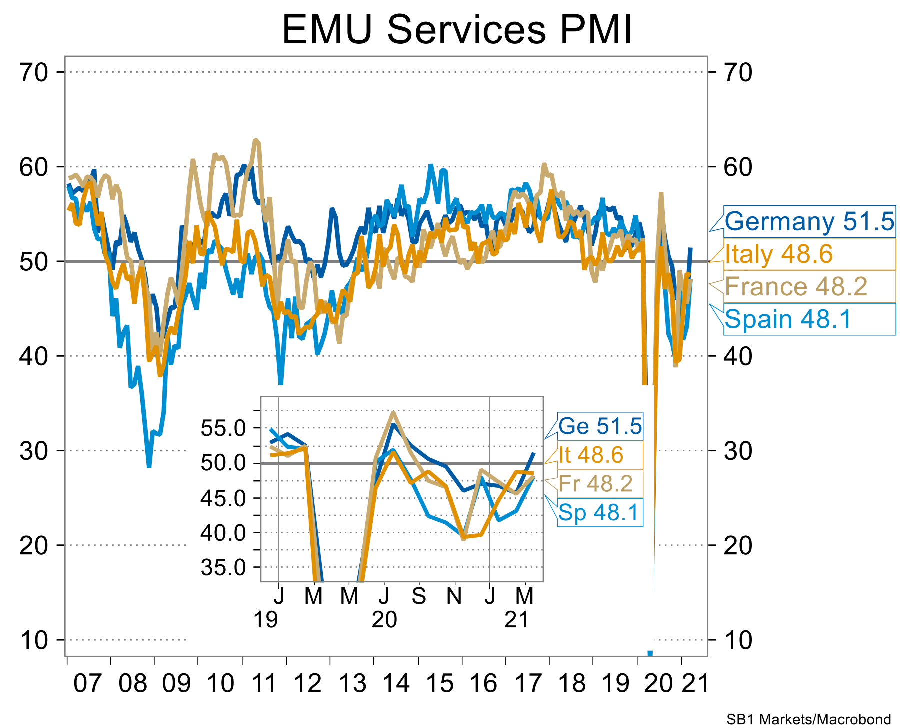


- The final **composite PMI** rose to 53.2 from 48.8 in February, an unusual large jump
  - » The Composite PMI is at or above 50 in all of the big four economies
  - » The PMI was higher than the initial estimate, and now signals some 1% growth in GDP
  - » GDP fell by 0.6% in Q4 (2.4% annualised), more than signalled by the PMIs. We take the March PMI more as a signal that the 3rd wave has not killed the Eurozone economy (like the UK PMI signals)

As we've been saying: service sector won't recover until virus recedes

It all hangs on access to vaccines in EU (…which has not been impressive thus far)

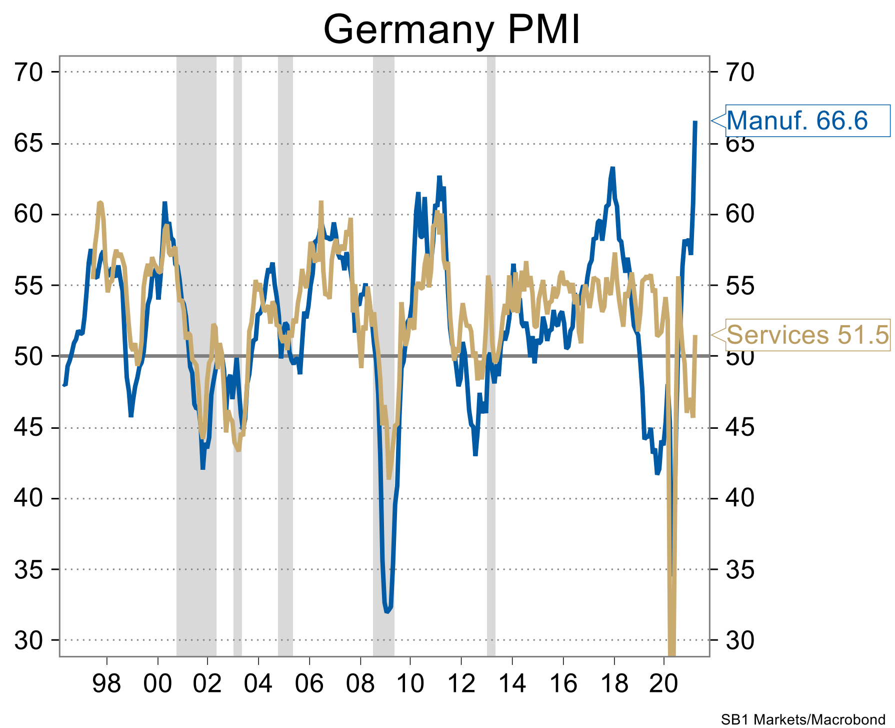


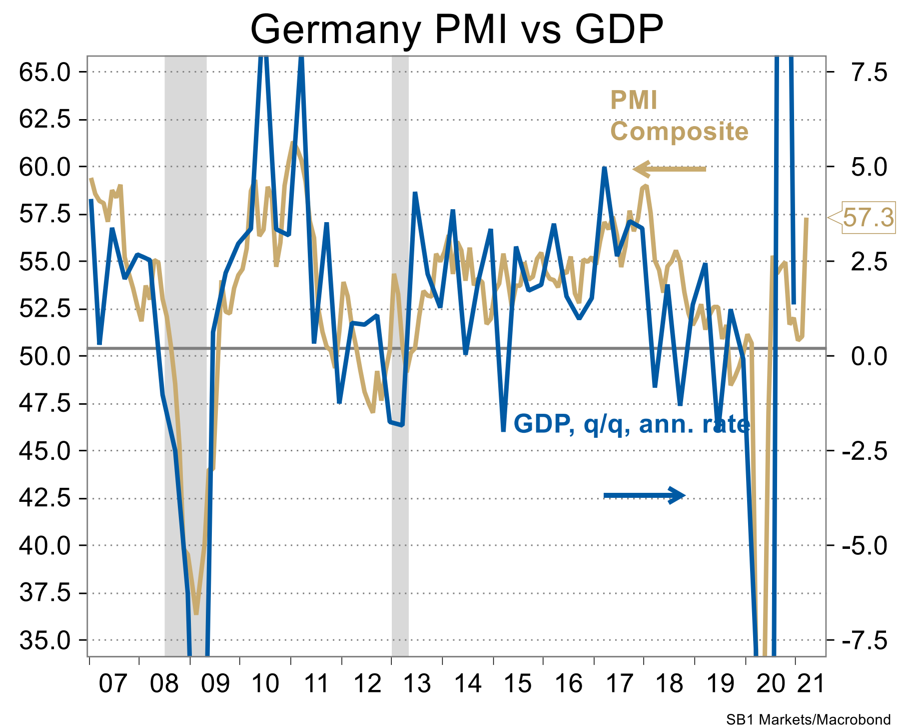


- Even though the **services PMIs** increased in three of the big four economies in the EMU in March, Germany is the only one of the four in which the service sector is not still contracting (the only other country in the EMU with service sector growth is Ireland). The PMIs rose by 5.8 p in Germany, 5.0 in Spain, and 2.6 p in France, while it fell 0.2 p in Italy
- **The manufacturing PMIs** rose and are very strong in all the four major EMU countries: up 5.9 p in Germany, 3.2 p in France, 2.9 p in Italy, and 4.9 p in Spain. All are now well above the 50-line and all at or above the flash estimate – and all at or close to ATH of which Germany far above previous records

Germany: Record strong manufacturing PMI confirmed

Service PMI better than flash estimate following eased virus restrictions





- The PMI now signals close to 4% growth in GDP. The final outcome of 57.3 was slightly higher than the flash est. (+0.5 p)
- Germany has been in a lockdown since the beginning of Nov. Travel restrictions have been imposed on travellers from countries where virus mutations dominate. Before Easter, some restrictions were eased and that seems to have had an instant effect on activity and future outlook is now at a record high

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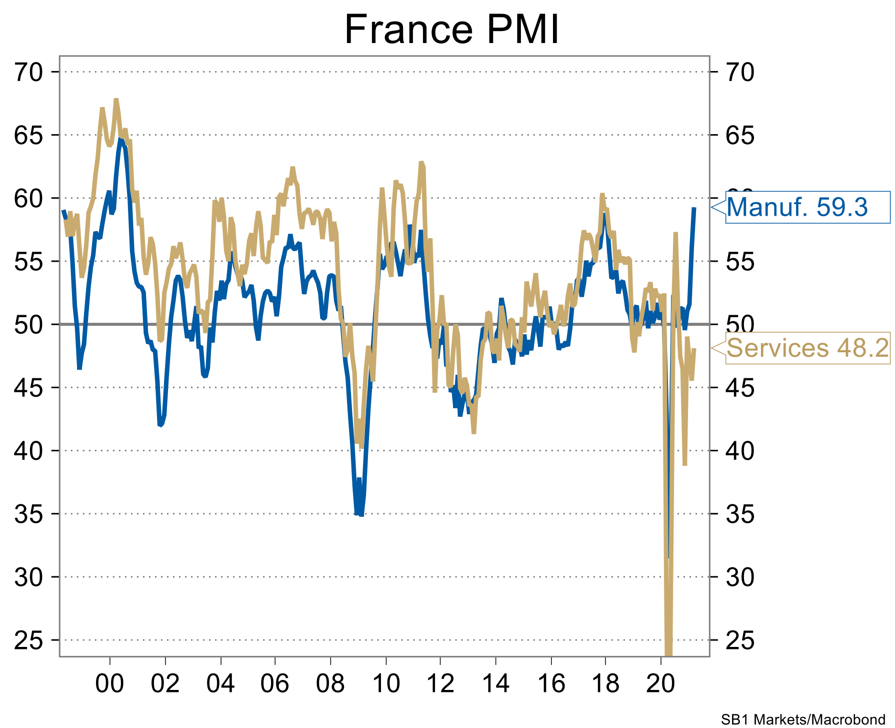
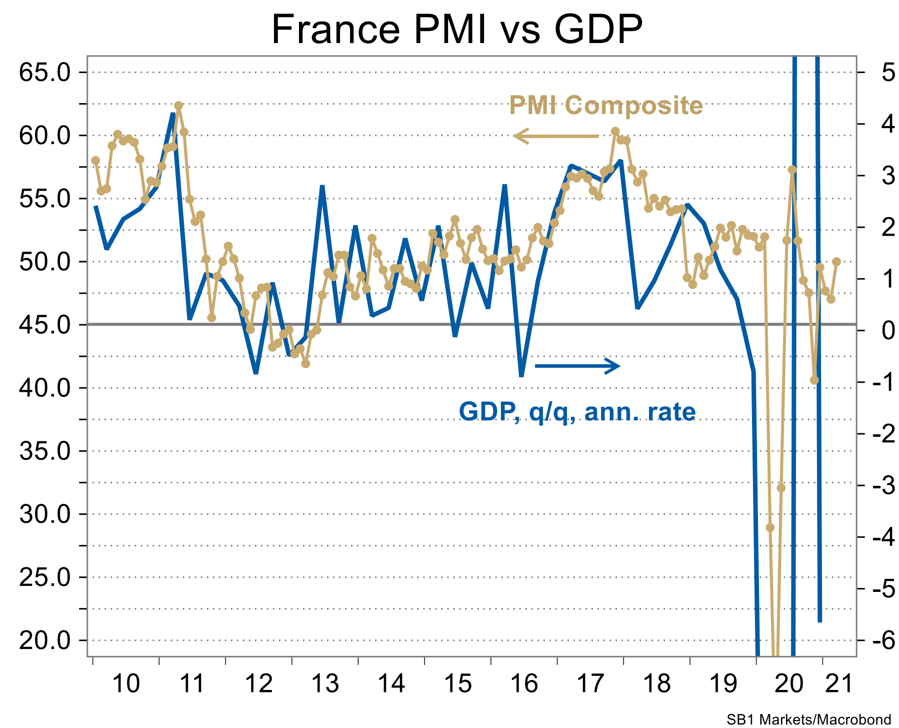
France: March PMI much better than first reported, despite tighter restrictions

Manufacturing and Service PMIs both higher than preliminary estimate





- **The service sector** index at 48.2, albeit still in contraction territory, is far better than the flash estimate of 47.8, and is up from 45.6 in Feb. Covid restrictions, we assume mostly due to travel restrictions as a result of the mutated virus, hampered activity in hotels & restaurants
- **Manufacturing PMI** climbed another 3.2 p to 59.3 in March – which is also 0.5 p higher than Markit's flash estimate. Survey also showed that input costs are rising, and now sales prices are rising too
- The **composite PMI** is now at the 50-line (flash est. 49.5), which signals a 1.5% GDP growth
- Businesses reported 2nd strongest outlook vs. the current stance in the economy since 2012

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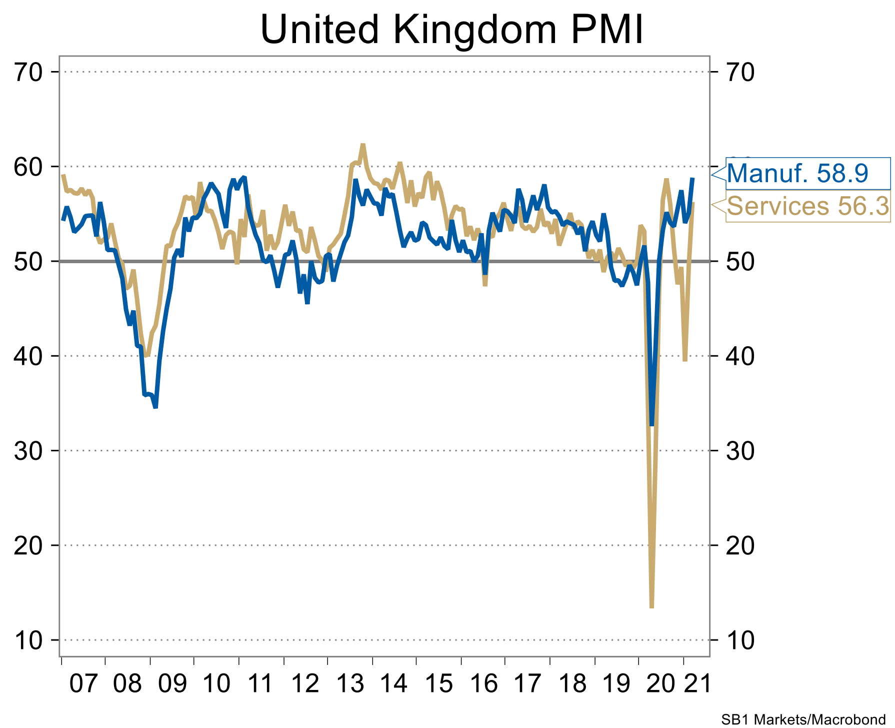
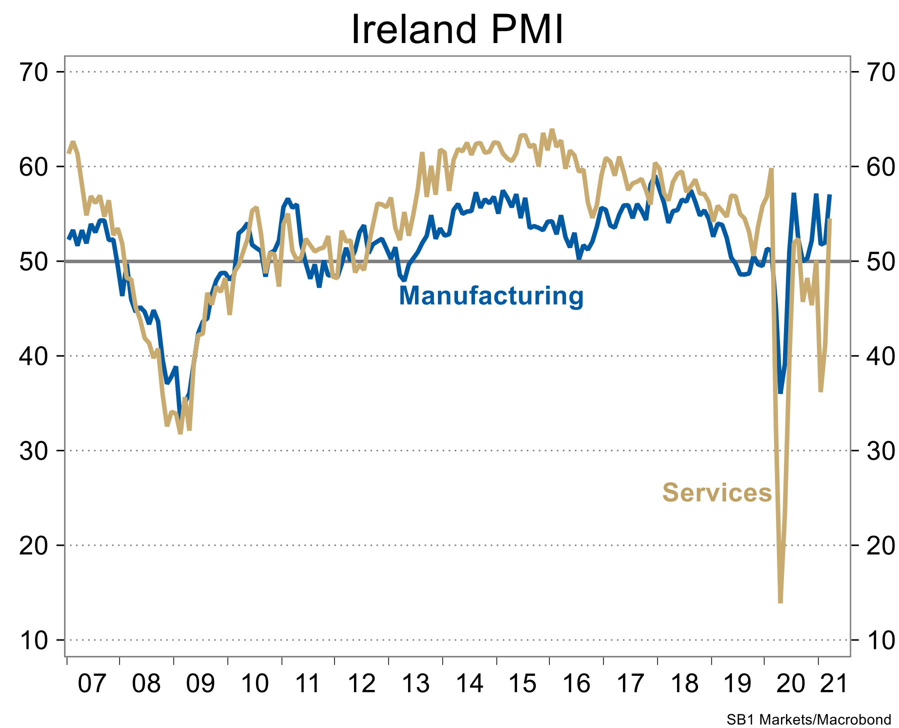
UK & Ireland back on the growth track

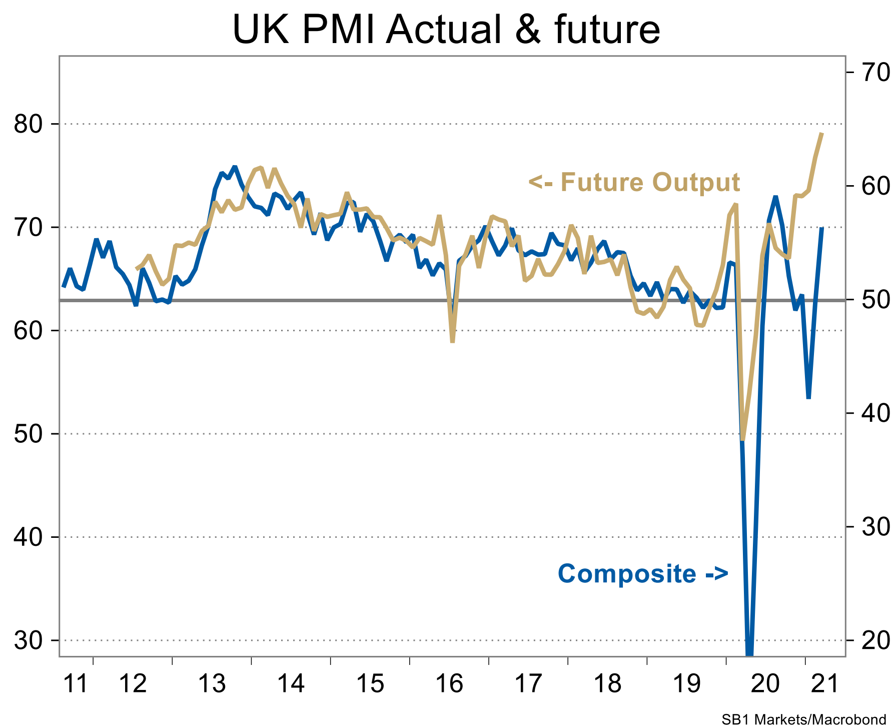
UK services rose 6.8 p to 56.3 in March, manufacturing up to 58.9. Strong growth in Ireland too

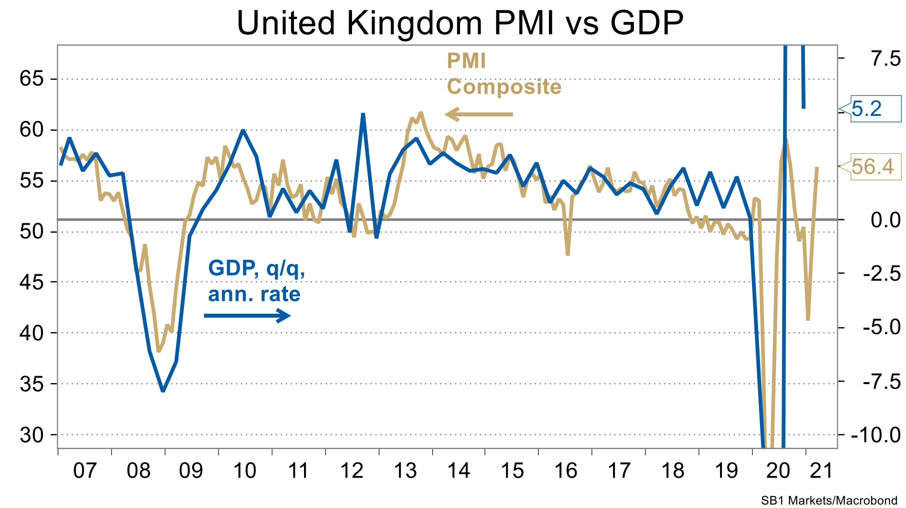


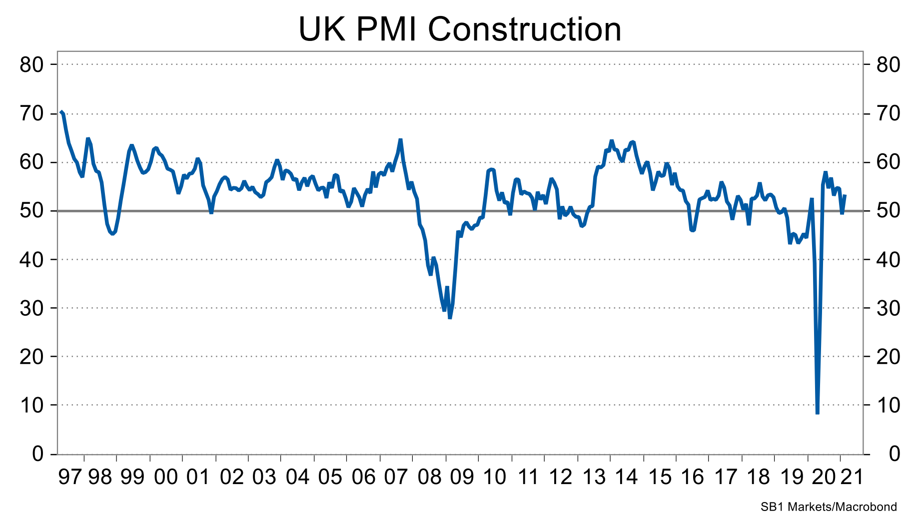


UK: A continued sharp rise in optimism – vaccination is indeed paying off

A (volatile, and not leading…) future index increased further – to the highest level ever



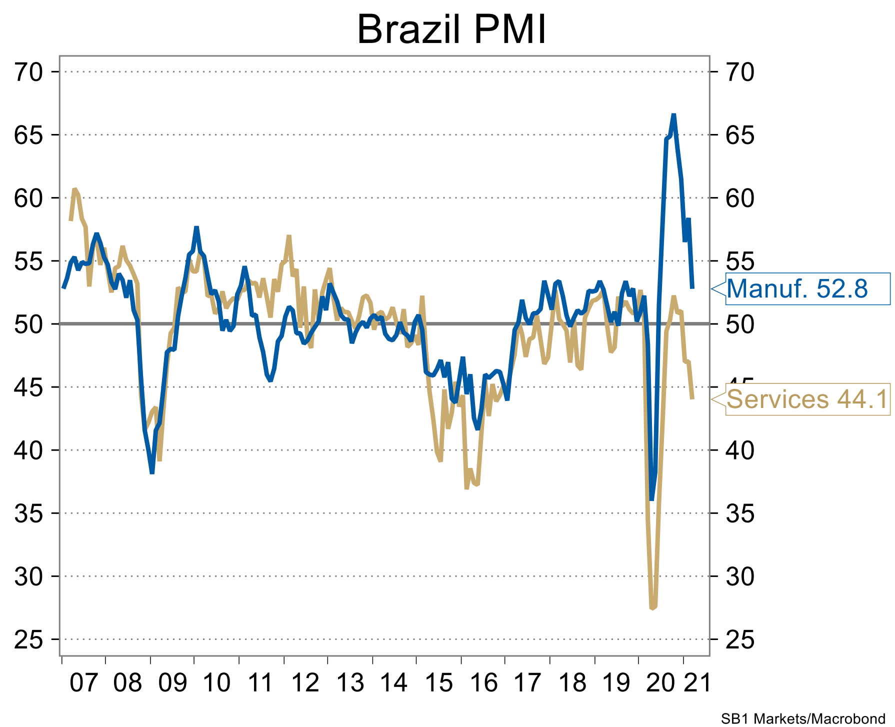


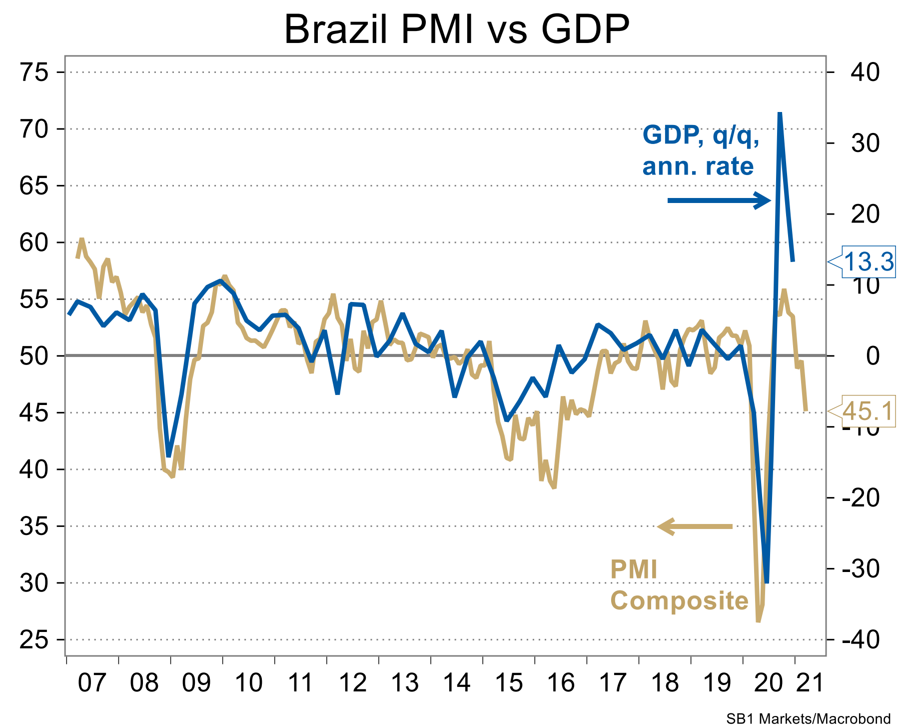


- The service PMI rose 6.8 p in March; 0.2 p lower than the prelim. number, but still a strong print
- The manufacturing PMI was up 0.3 p, and construction is above the 50-line again, and like in many other countries, managers are reporting increased price pressure
- <u>The PMIs now signal a GDP growth of about 2.5%</u>

The virus is wreaking havoc with the Brazilian economy, again

Composite PMI fell to 45.2 in March from 49.6. Services are struggling, manufacturing slowing

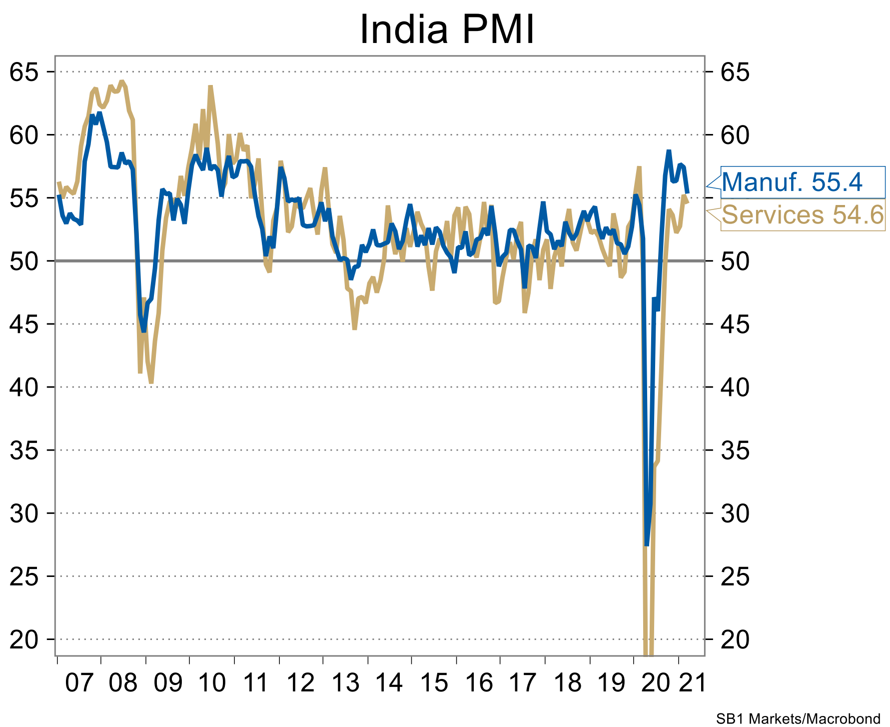


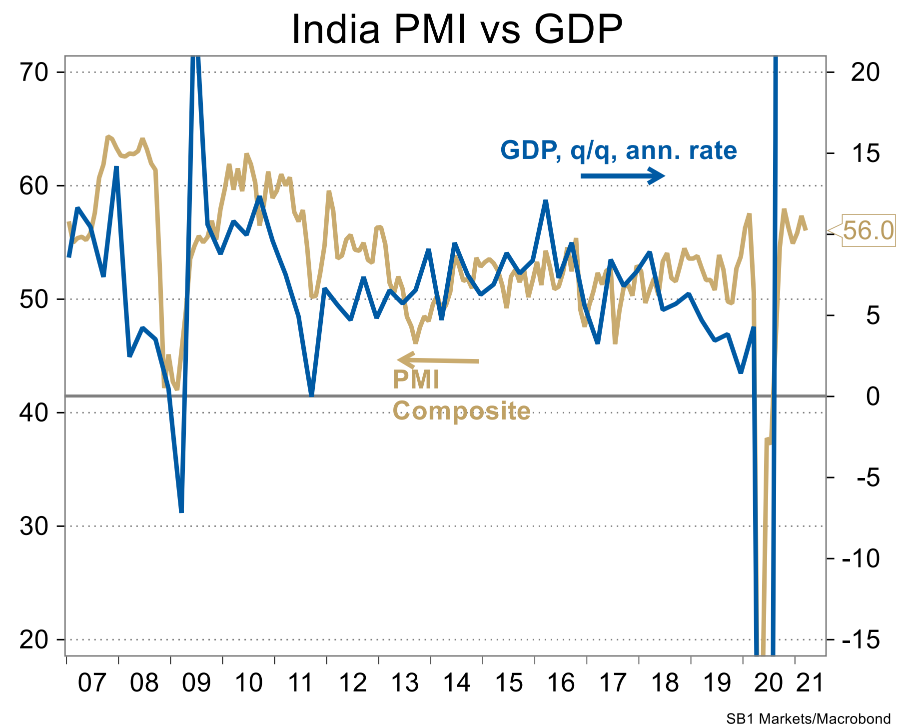


- Manufacturing PMI fell by 6.4 p to 52.8 from 58.4
- The service sector PMI was down 3 p to 44.1; it is all Covid related of course
- Orders are falling, costs are rising, and jobs are shed… not exactly a rosy picture

Composite down in March, but still a strong print

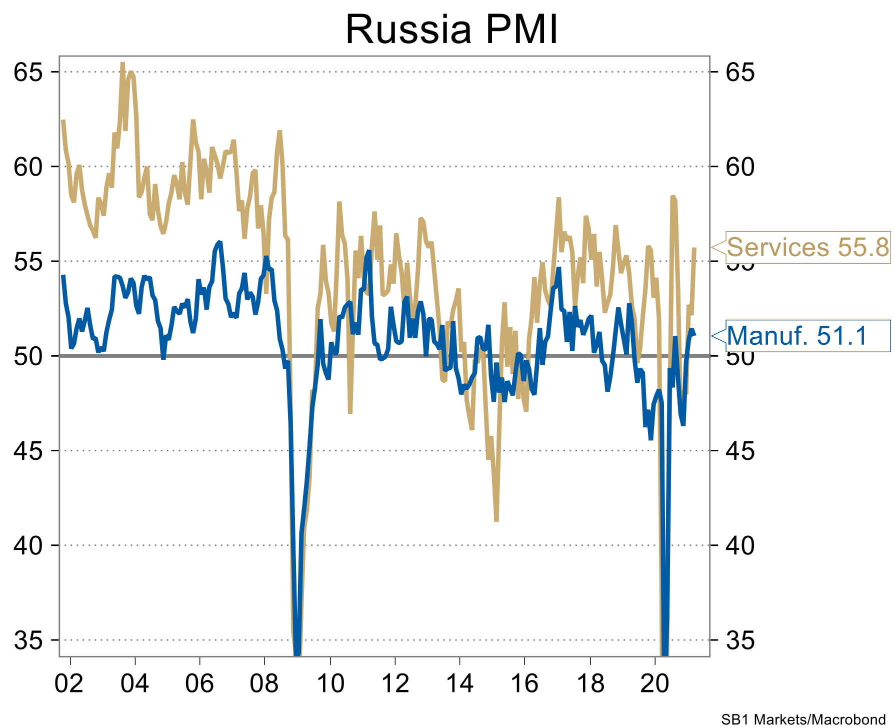
The recovery continues with at 10% growth pace, according to the PMIs

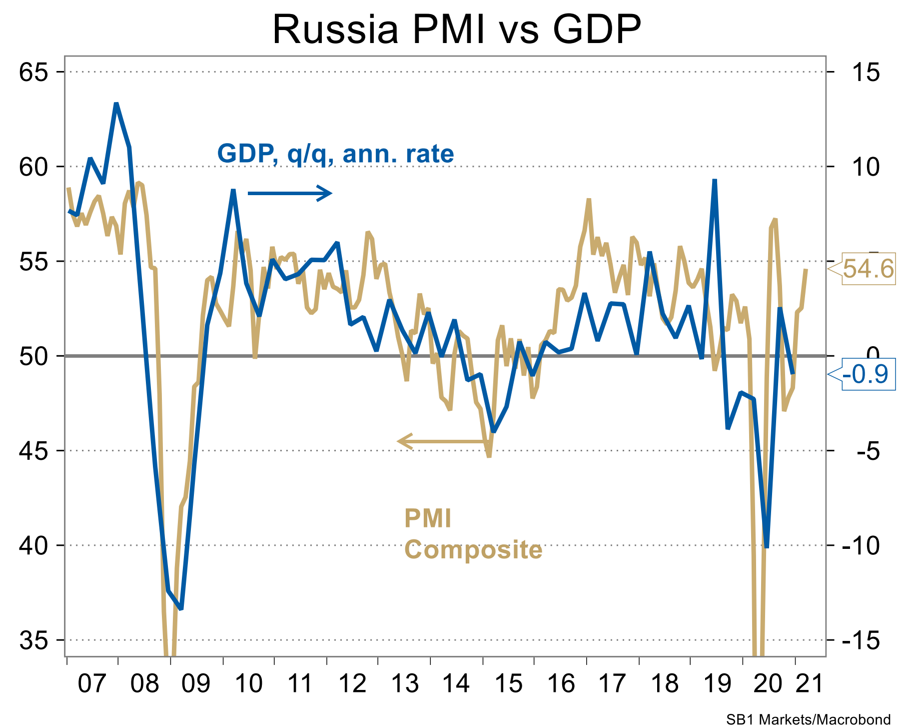




- The manufacturing PMI fell 2.1 p, but a print of 55.4 still indicates strong growth. The services PMI was down 0.7 p to 55.3 in March
- No corona trouble, at least according to official figures, GDP grew by 8% in Q4 (36% annualised), and is 0.1% up vs. Q4 2019. Vs a normal growth rate at some 5%, the output gap is still substantial
  - » Manufacturing cost inflation running very high, according to Markit. New orders increased too, for the 6th consecutive month

Russia's (volatile) services lifted the composite PMI, decent growth signalled

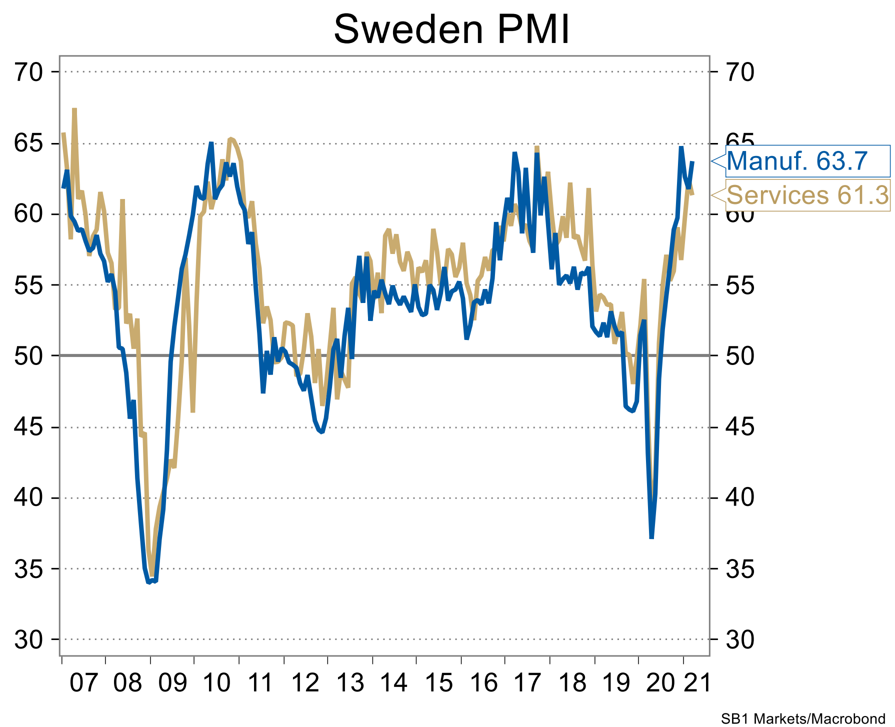


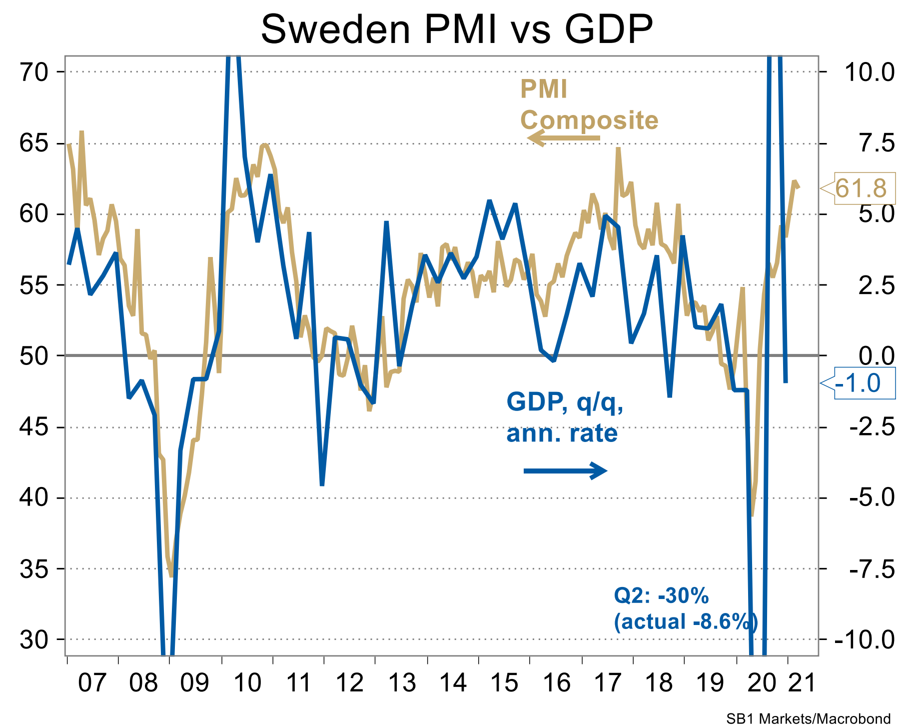


- Manufacturing PMI marginally down to 51.1 in March
- The service sector PMI shot up to 55.8 from 52.2

A decline in services pulls Swedish composite PMI down – still at a high level

Manufacturing PMI up 2 p to 63.7 in March. Services down 1.2 p to 61.3





- The Swedish PMI has been very strong for some time and is now signalling some 6% GDP growth. The recent decline in the service sector is solely due to the 3rd Covid wave, which has hit the country especially hard relative to neighbouring countries
- In November, the Riksbank expected another downturn due to the corona outbreak, and turned the QE tap further. So far the fear does seem to be warranted (as we not believe that the incremental lift in the QE program explains the continued strength in the Swedish economy), even if GDP fell by 0.2% in Q4 (1% annualised). In Q1, the Swedish economy very likely will grow again (check here)

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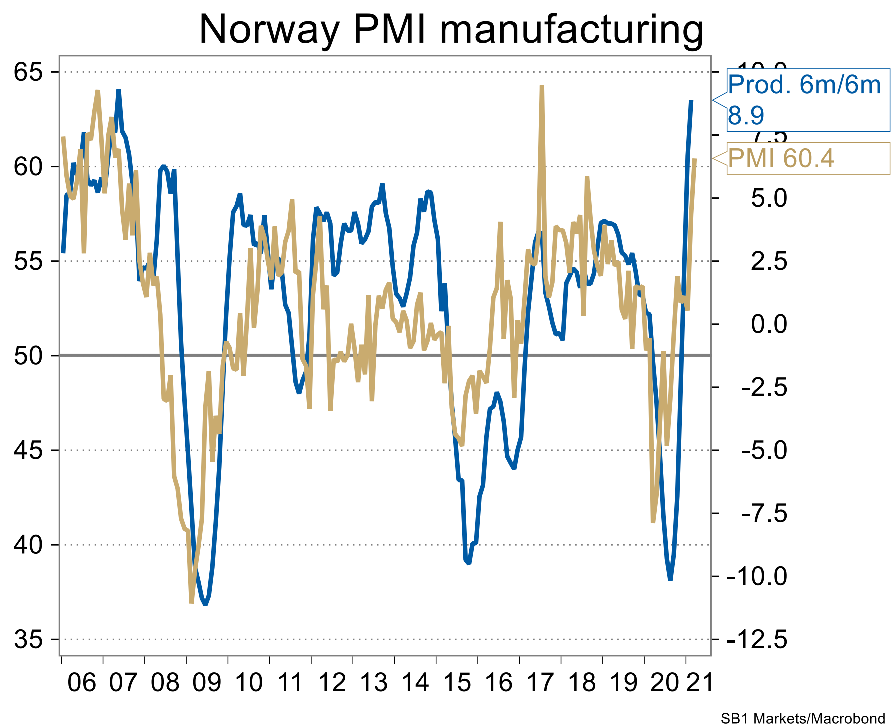
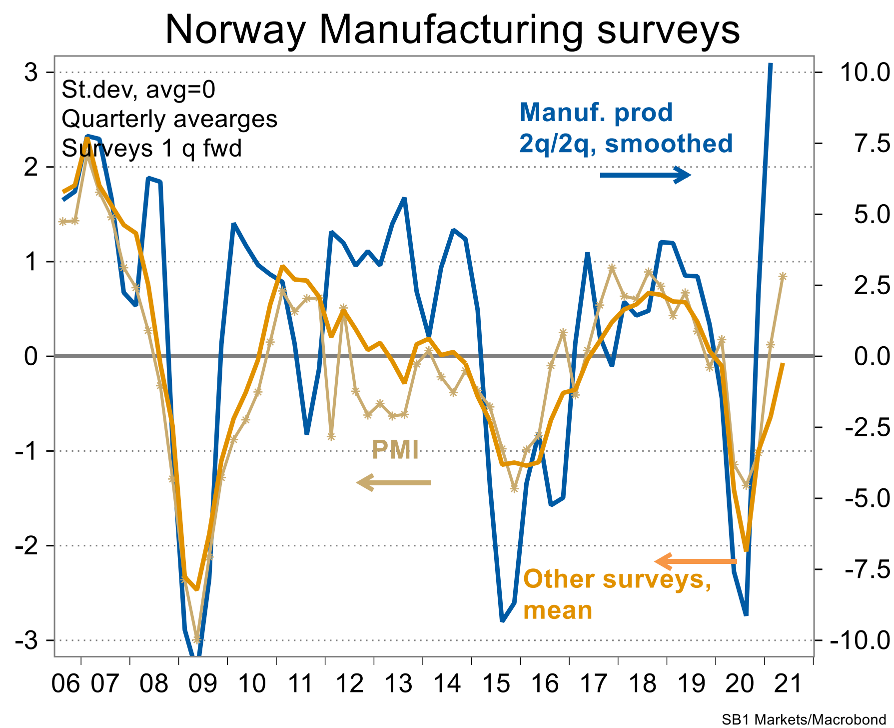
Norwegian manufacturing PMI at highest level since July 2017 (or 2007)!

The Norwegian PMI rose to 60.4 in March from 57.4 (revised up 1.4 p)

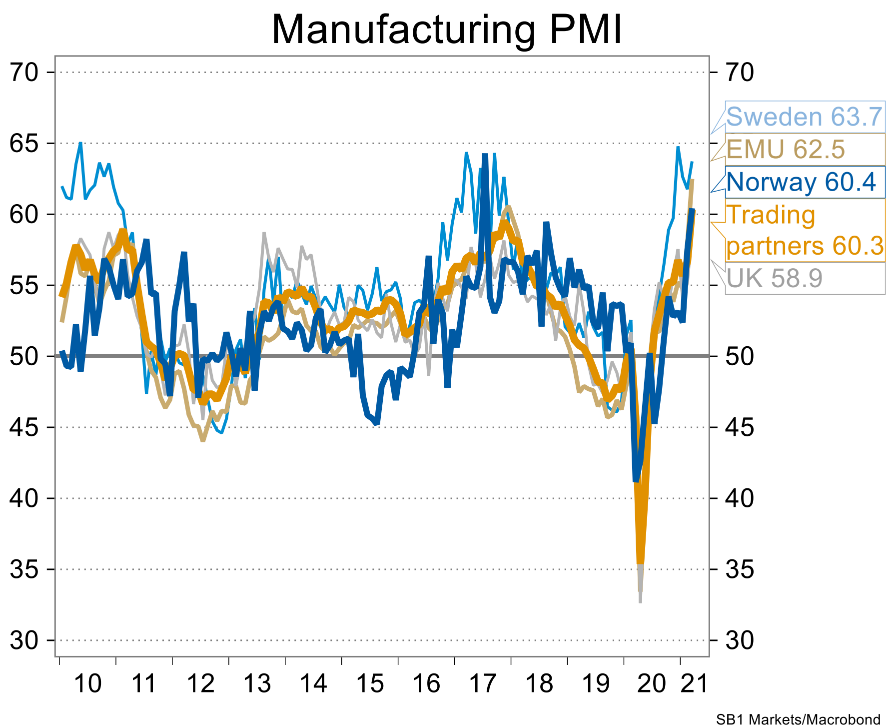




- The July 2017 spike at 64 was an outlier, we called it an summer holiday accident. The March-21 index may turn out to be an outlier too but given the sentiment abroad, and actual production growth recent month, <u>we doubt it is</u>
- **Production i**s on the rise; the three sub-indices, production, orders, and employment, are all above 60
- Also worth noting, **inventories fell and delivery times increased** (though uncertain if due to increased demand or Covid-related delivery problems – we guess a little bit of both)
- **Other surveys** have also turned up lately but the levels are still somewhat below average

Norwegian manufacturers follow others upwards, the PMI joined the others

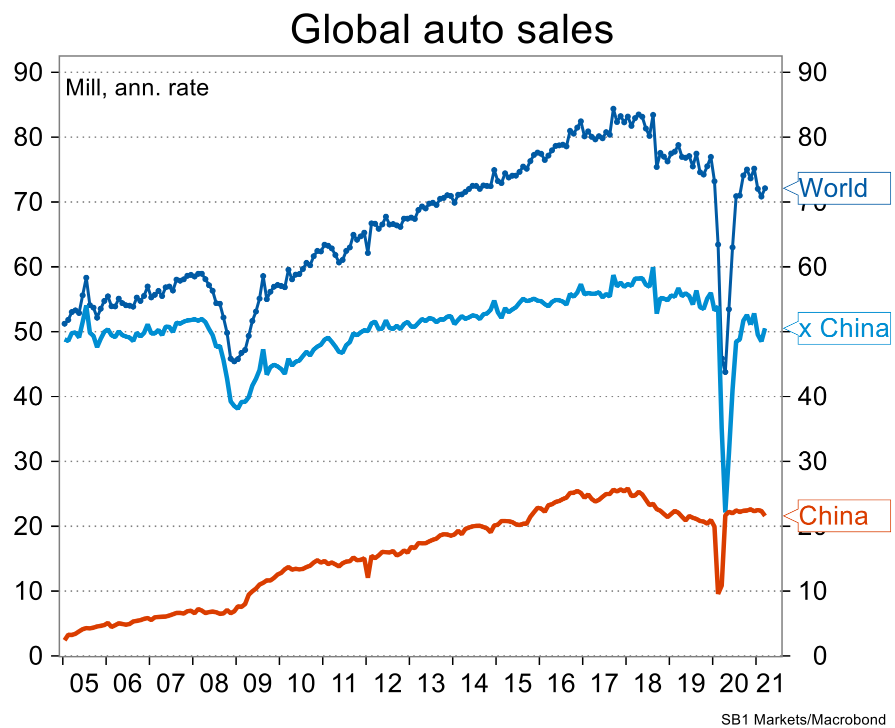
… Other (and less updated) surveys are still lagging

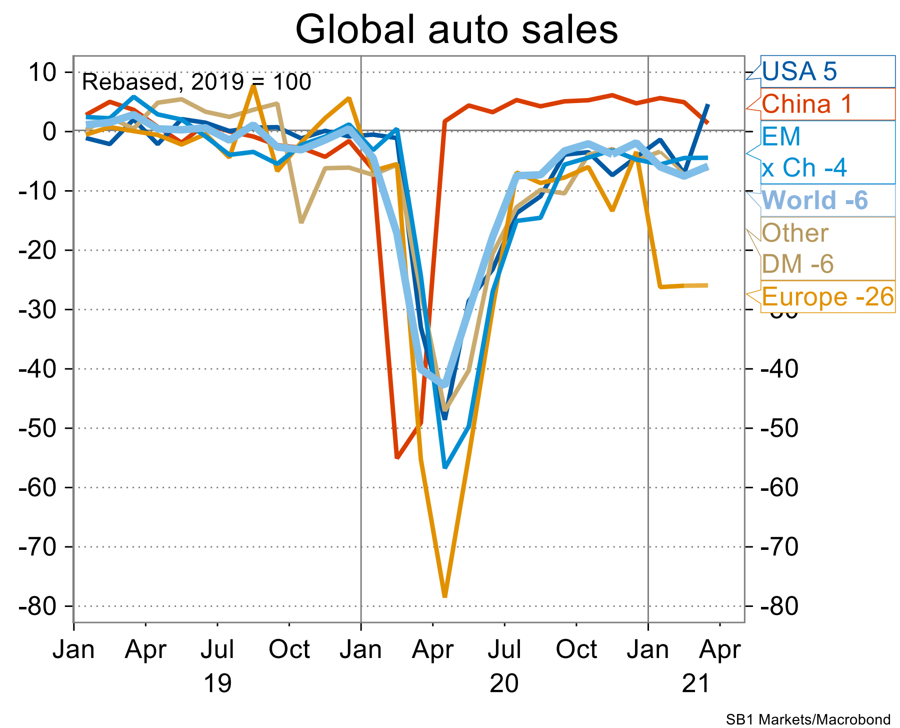


- The downturn in oil investments is probably the best explanation for Norway lagging our trading partners somewhat

Global sales probably slightly up in March

US sales up, best since 2017, European (UK incl) sales still depressed, Chinese sales probably down





- Based on our preliminary estimates global auto sales rose by 1% in March, reverting the Feb decline
  - » Many countries have not yet formally reported, we have estimated sales in several countries based on often uncertain/conflicting media reports. In March, Indian sales are difficult to decipher
- Sales in US were strong, while sales in Europe was unchanged, down 25% vs the 2019 average
- Sales in China probably fell in March, but are still above the 2019 level
- Sales in EM x China rose in Feb and are 4% below the 2019 level

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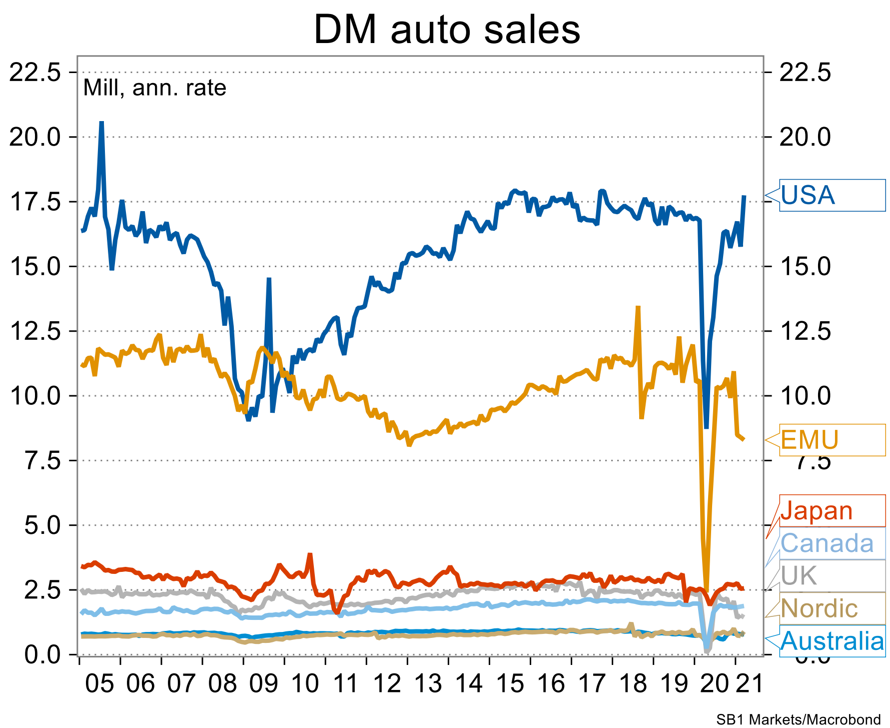
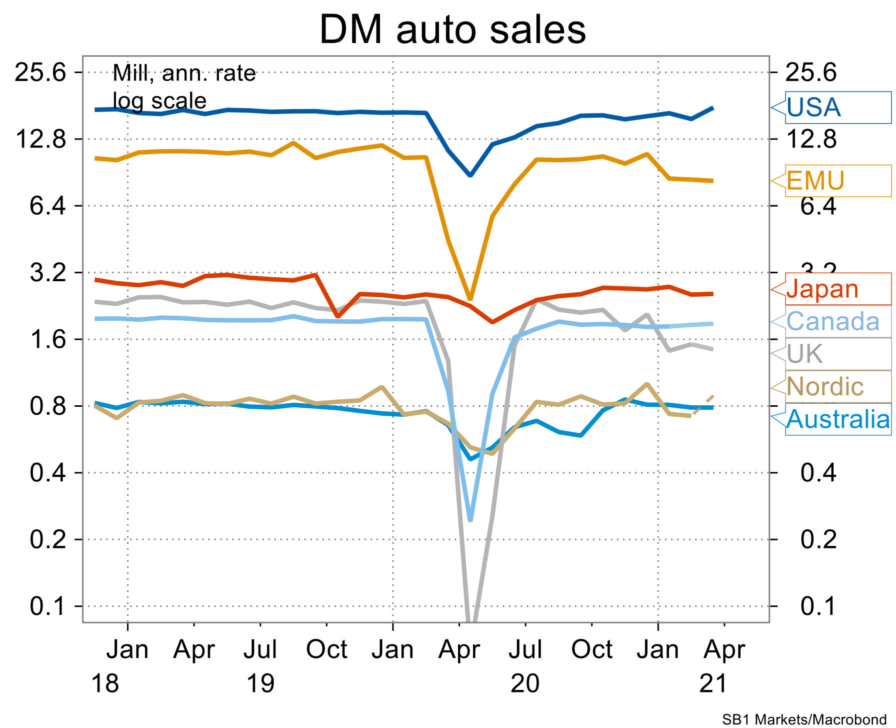
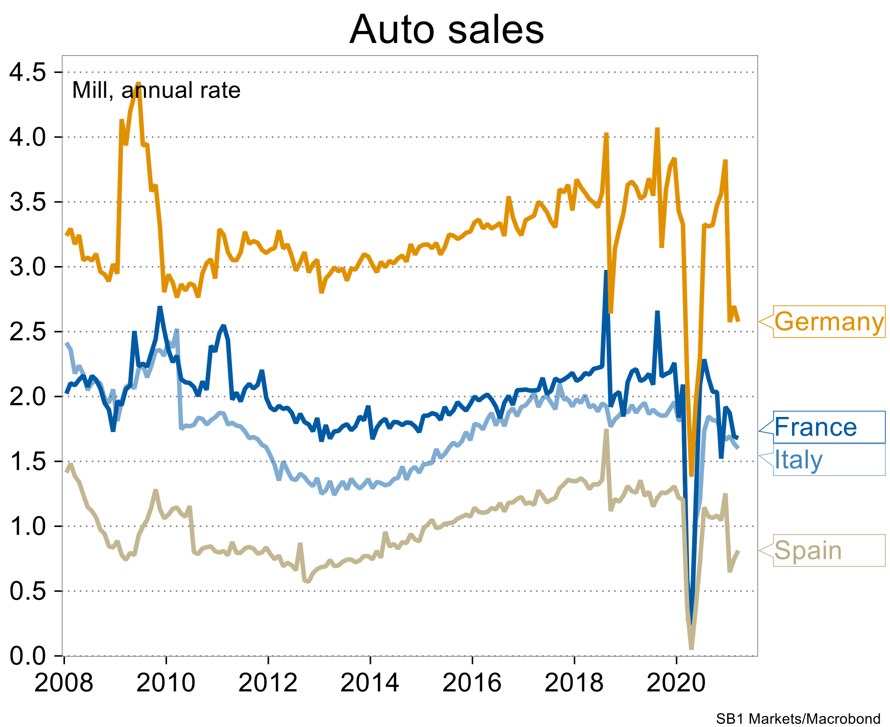
DM sales: EMU & UK sharply down recent months, strong US sales in March

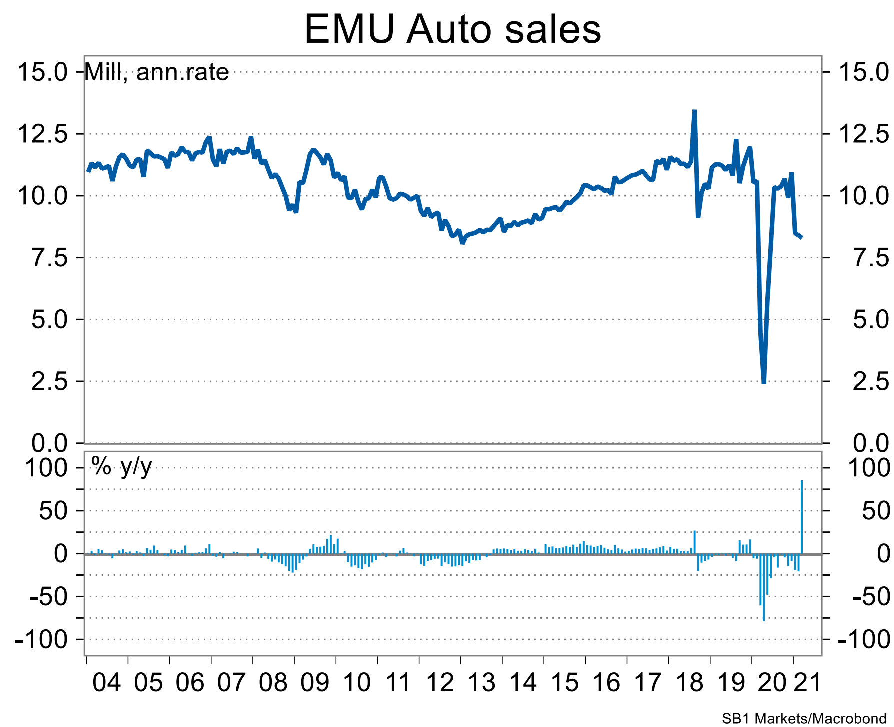




EMU: March sales down, just Spain on the upside

Q1 a disaster, very likely due to lockdowns

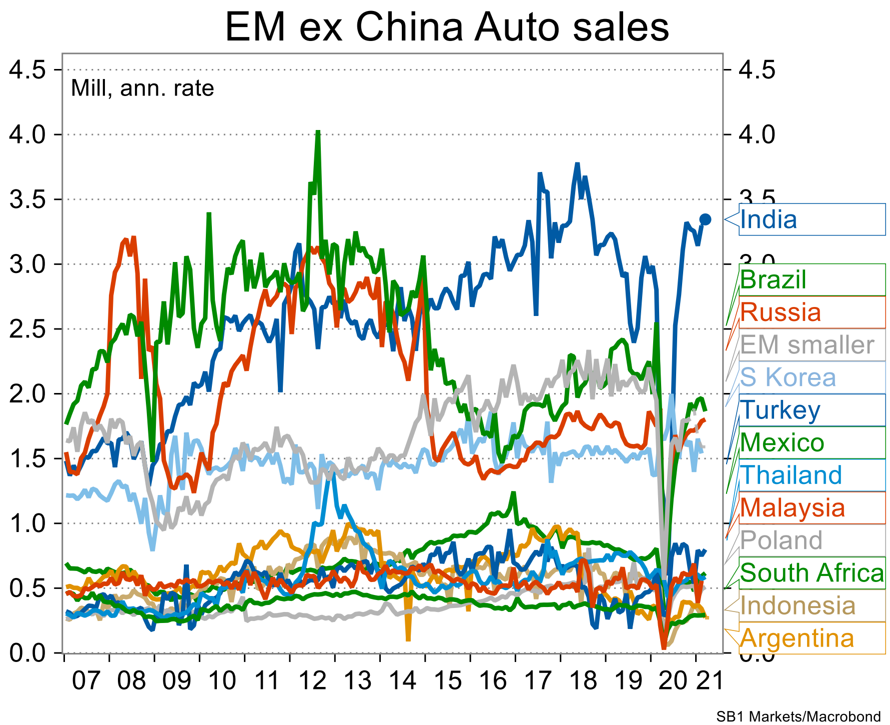


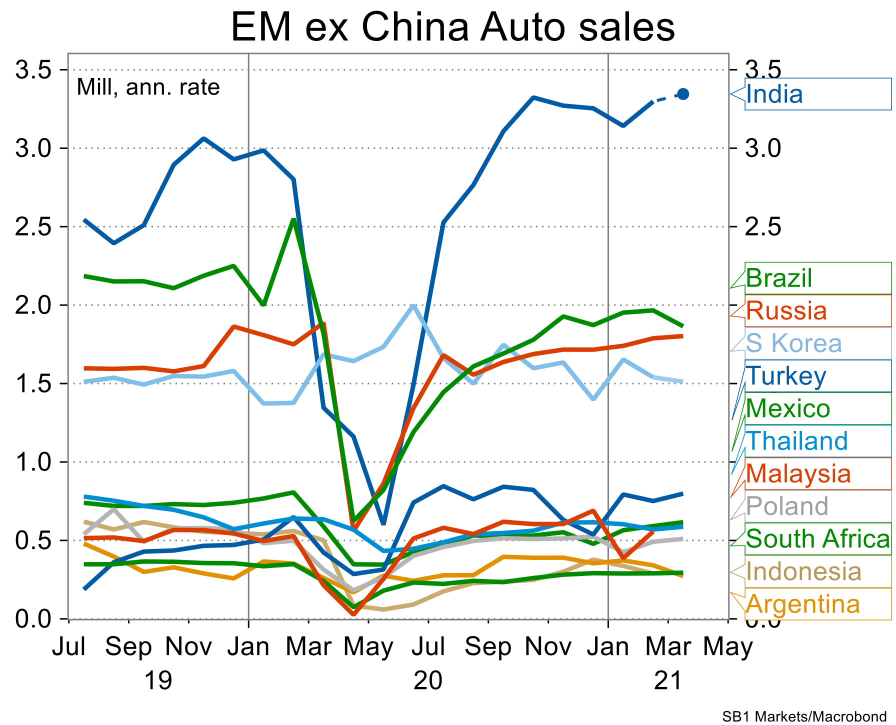


- In December, auto sales were back at the pre-pandemic level – but sales fell sharply in January, and fell further in February and March, dragged down by Germany and Spain

EM: (Probably) strong Indian sales, Brazil & Russia on the way up too

In sum, sales are almost back to the same level as in early 2020



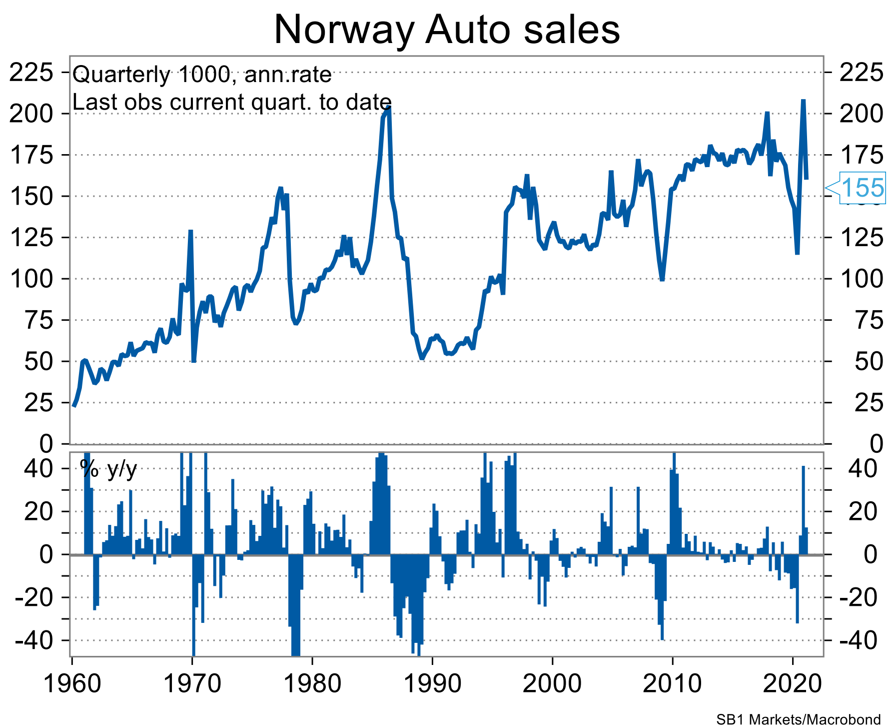


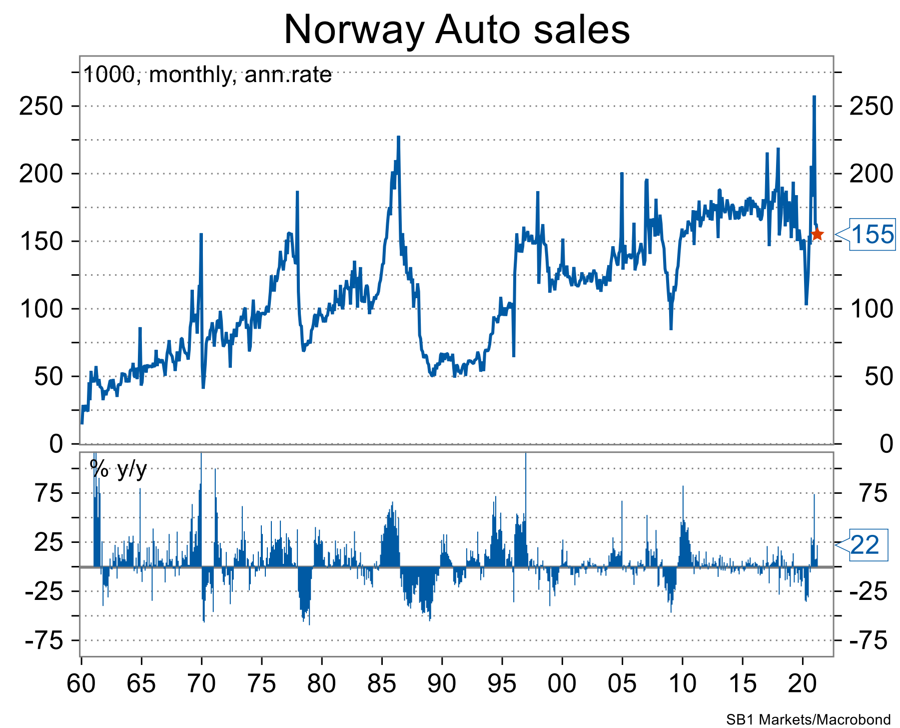
- Sales in India were probably the best since 2018, well above the pre-pandemic level!

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

Norway: ‘Low’ auto sales Q1, following the Dec surge, March at 155’

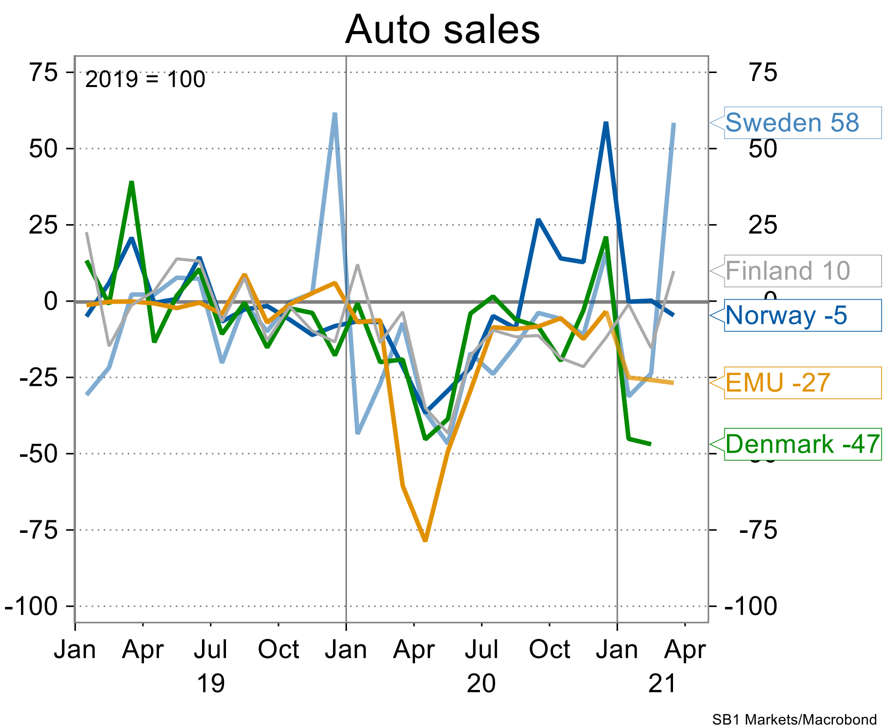
The December rush probably partly due to tax increases from January





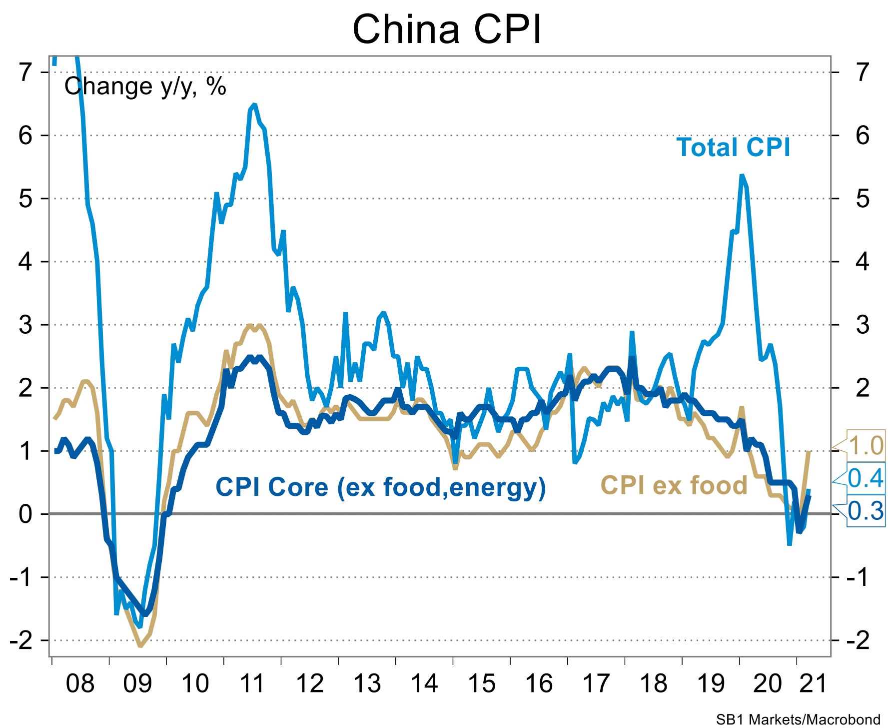
The Nordics: Mixed auto sales in March, Sweden straight up

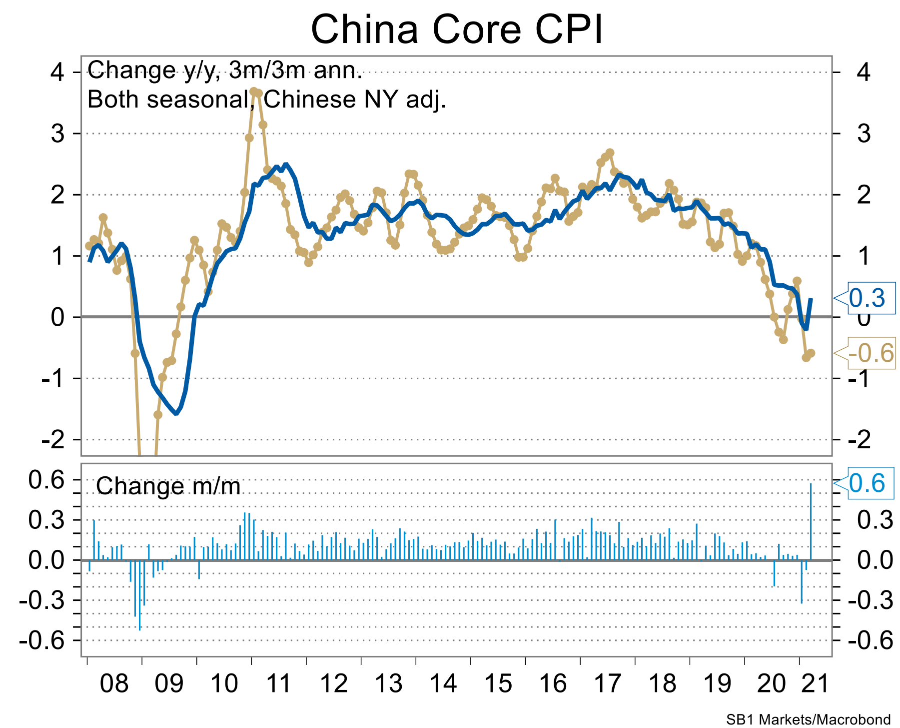
Sales in Demark have been low during the lockdown, no March data reported yet



Chinese inflation has returned, albeit modest. CPI up 0.4% y/y

Core CPI up 0.6% m/m, and up to 0.3% y/y





- **Total annual CPI** growth fell from above 5% in early 2020 to -0.2% in Feb, and now up to 0.4% in March. The steep decline in headline CPI is mostly due to a partial reversal of the ultra high pork prices last year. In March, they did contribute further on the downside, but the March figure was 0.1 pp above what the marked had expected
- **Food prices** fell by 1.1% m/m as pork prices fell 3.5%. Food prices are down 0.7% y/y. However, the latter is trending down following the 130% price increase due to the 'pig massacre' (swine flu), and prices are still up almost 100%, and will probably continue to decline substantially over time
- **The core, ex food & energy price index** rose by 0.6% m/m, and is up 0.3 y/y, from zero in Feb
- Low inflation support real income growth. **Monetary policy** will not respond at low inflation per se, the real economy is more important

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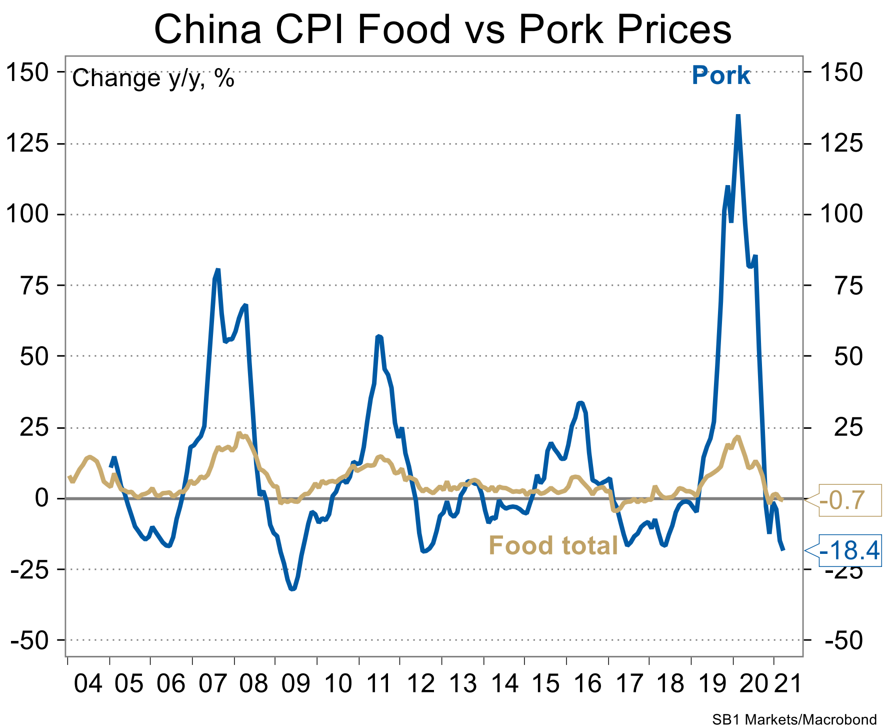
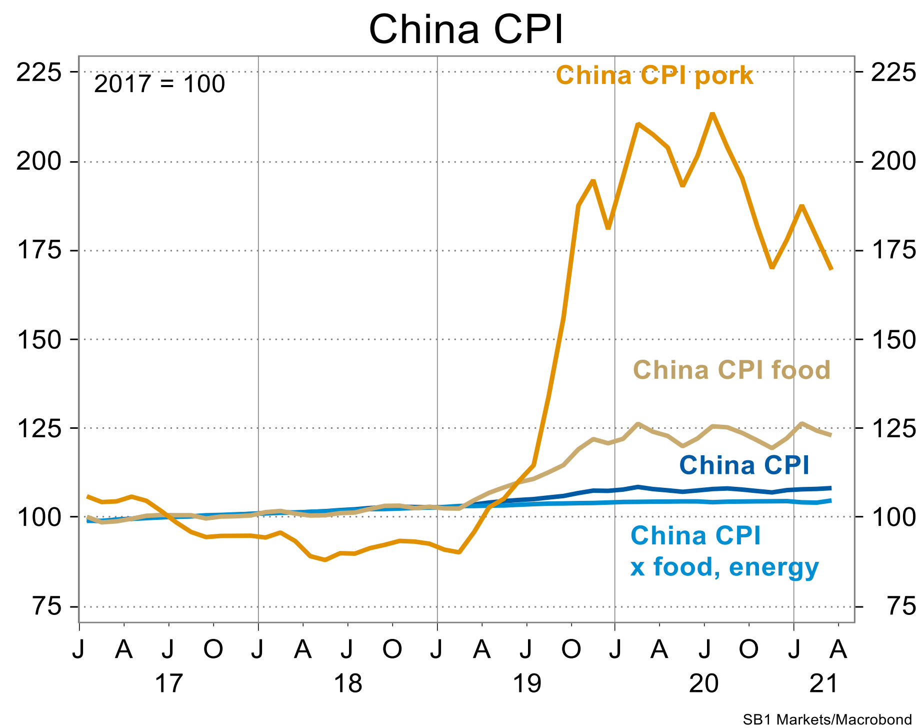
Pork prices down 3.5% in March, still far above a normal level

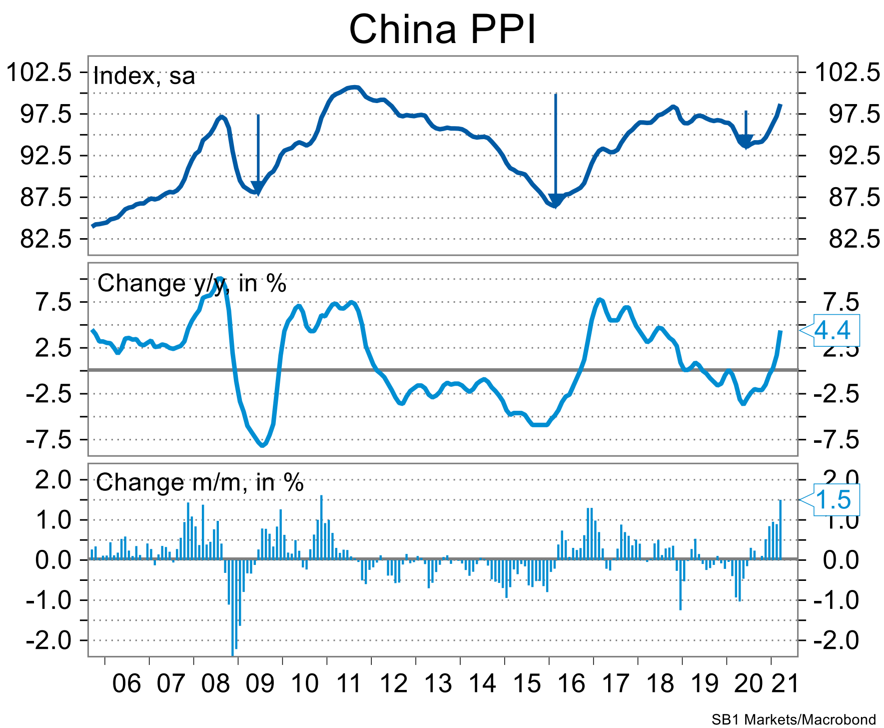
Pork prices will most like decline substantially, taking both overall food prices, and the total CPI down

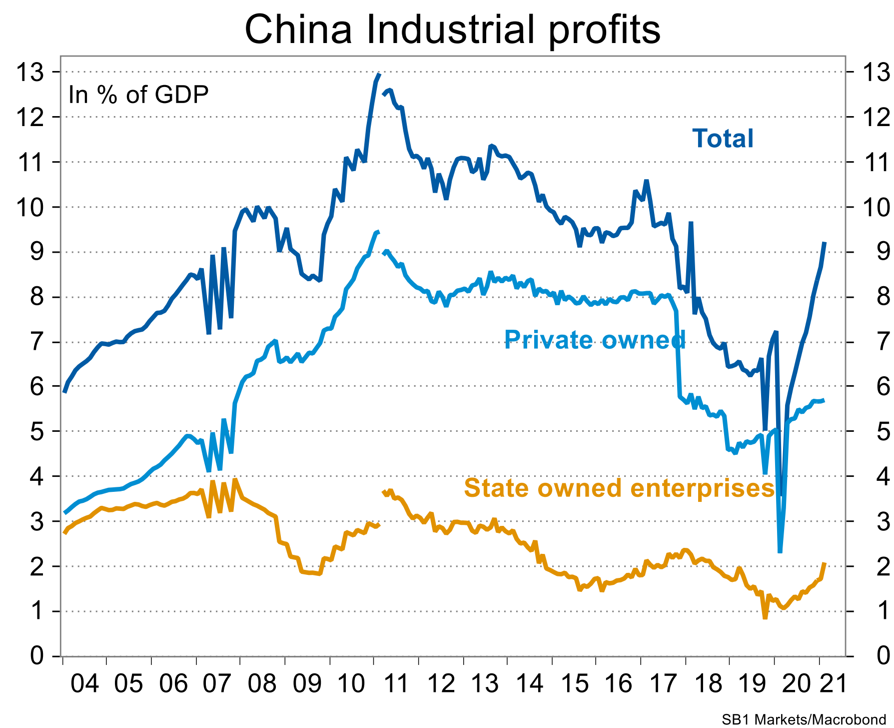




Factory gate prices are surging – will (the US) CPI follow in its tracks?

PPI up 1.4% m/m in March, up 4.4% y/y, expected 3.5%. And the impact will be felt around the world?

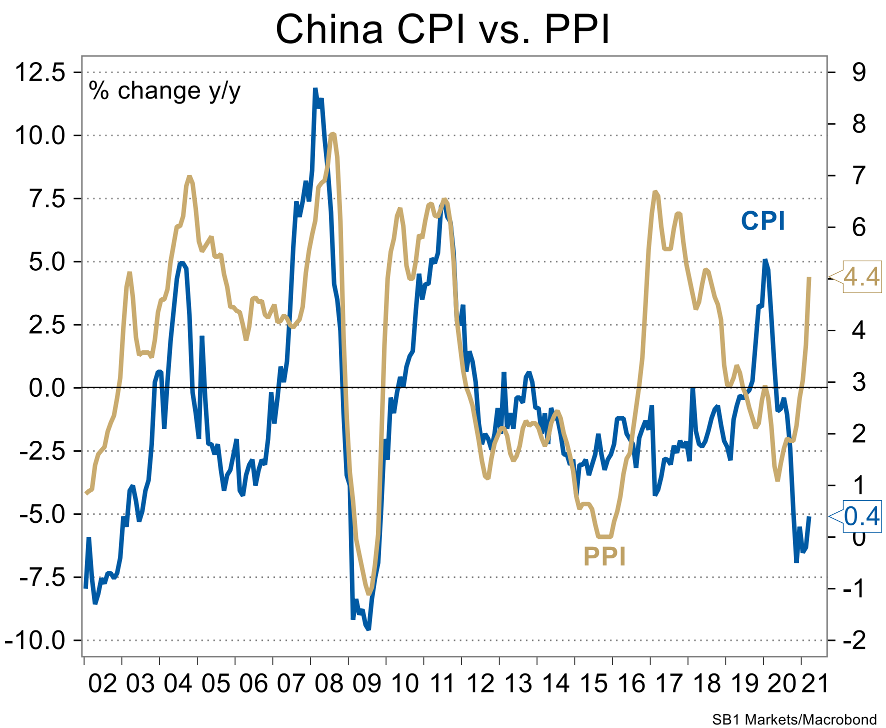


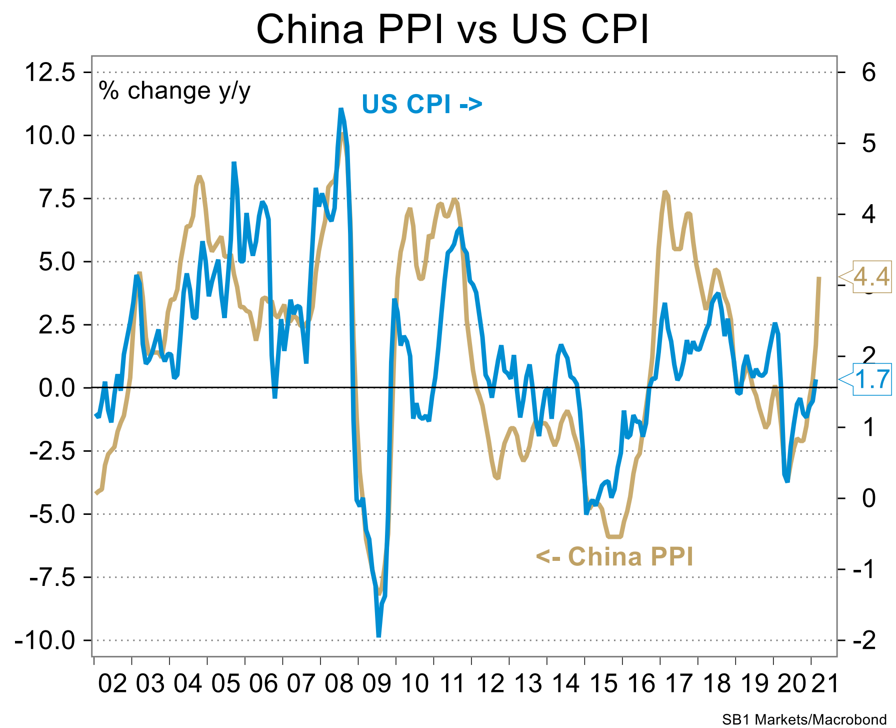


- The **PPI** peaked in late 2018 but prices just fell some 4%, some of it during the spring. During previous setbacks, PPI has fallen up to 13% (and never less than 8%). The rise in PPI in the last couple of months can largely be contributed to an increase in the price of commodities
  - » The correlation to Chinese CPI is not that strong. It is more important for other countries, check next page
- **Profits in privately owned industrial enterprises** fell by 50% in February ‘20. Profits rose to a normal level in April/May – if we label the profit level in 2019 and early 2020 as normal – at 5% of GDP – and now it has climbed to almost 6%
- **Profits in state owned enterprises profits** have now come back to around 2% - a level not seen since 2018

The Chinese PPI is even more important for the US CPI than for the Chinese CPI

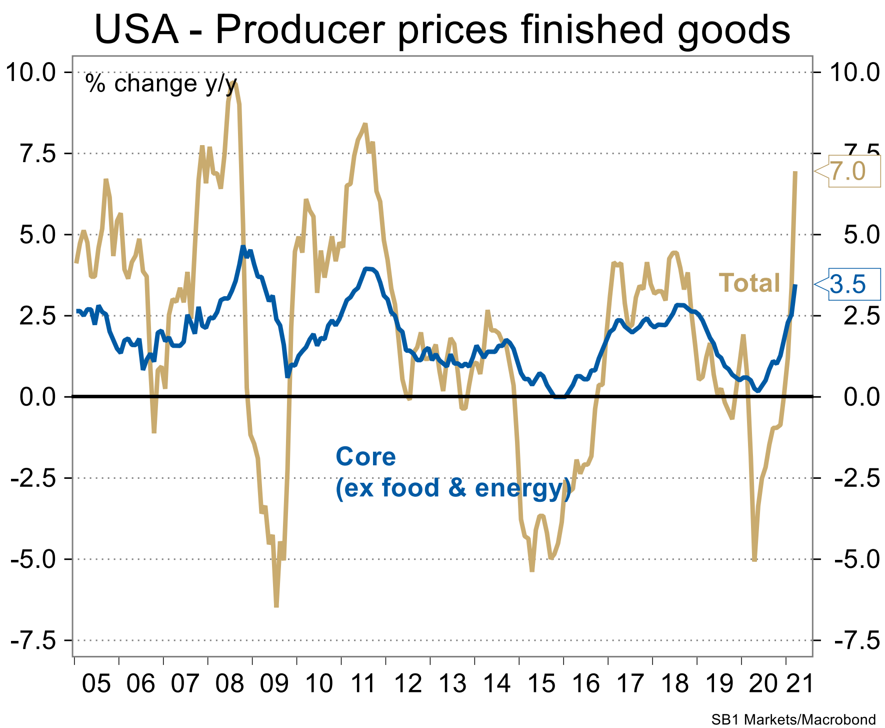
… as food prices are important in the Chinese CPI but not in the Chinese PPI (nor in the US CPI)

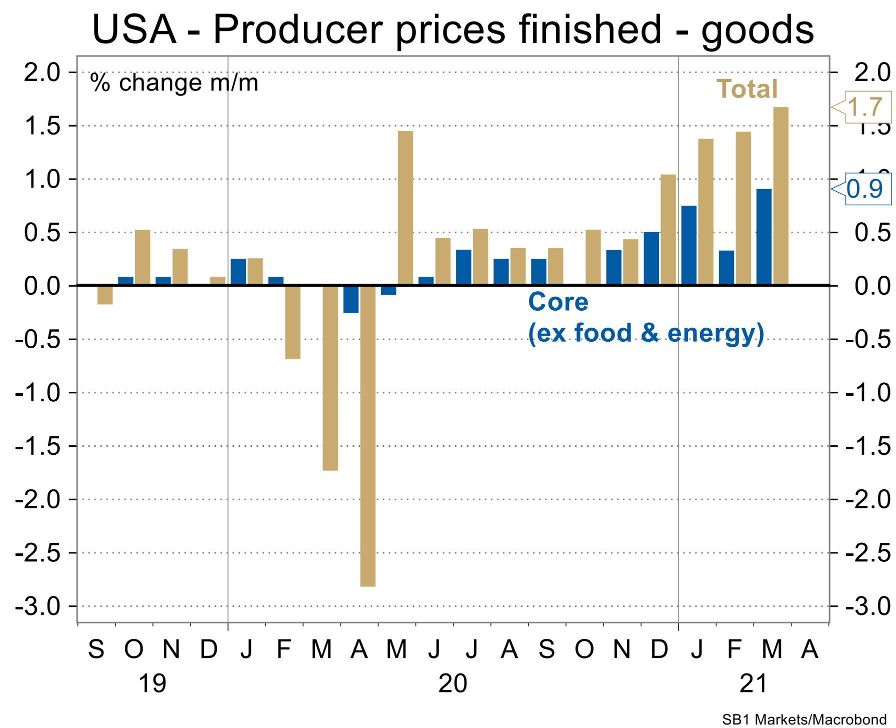




Producer prices sharply up, and much, much more than expected (of course)

Core producer prices up 0.9% m/m, 4.5 x more than expected (0.2%). 3.5% y/y. Total up 7% y/y

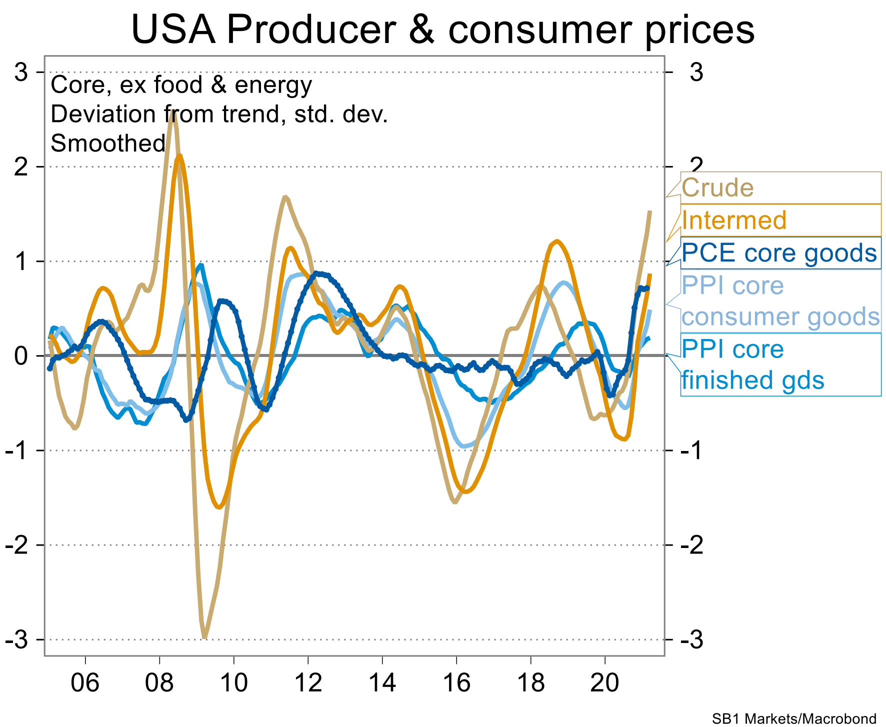


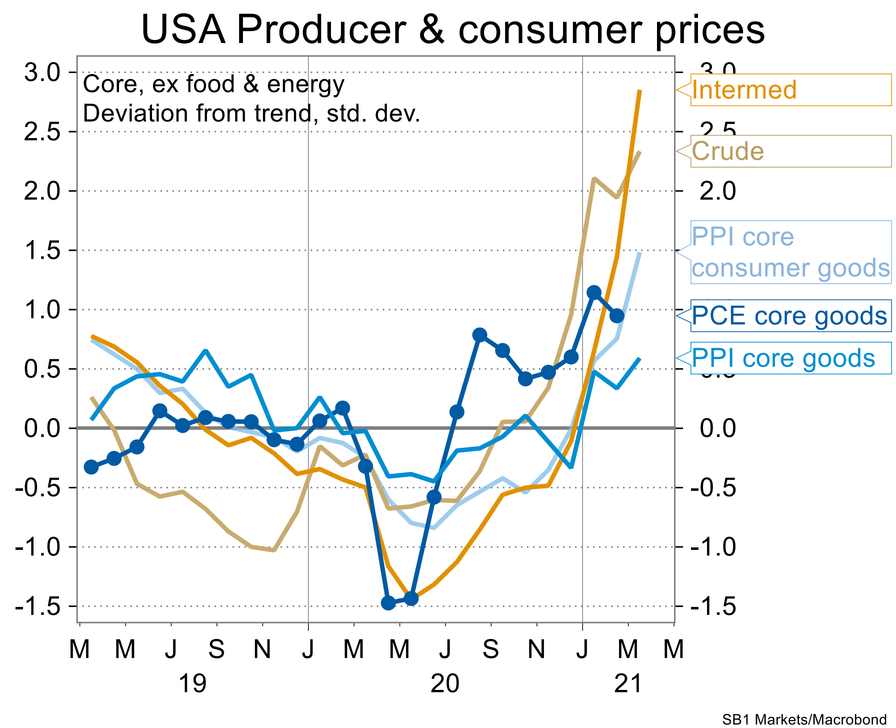


- **Core finished goods x food & energy** PPI rose 0.9% in Feb, up from 0.3% in Feb. The monthly increase was the largest since Oct-08, and the 5th largest since 1981. The annual rate is the highest in 10 years
- **Headline finished goods PPI** rose 1.7% m/m, due to higher food & energy prices + higher core prices, the highest growth since 2009 and the 4th highest since 1975. The annual rate climbed 3.6 pp to 7%. This price index is notoriously volatile, but the cycles are quite similar for the core PPI for goods
- **The 'official' total final demand PPI**, including services, rose by 1% (4.2% y/y), 0.5 pp more than expected. Even services were up 0.7% m/m
- The PPI confirm what business surveys have told us, no more, no less

It's not brewing, it's boiling: We have warned for several months

Crude & intermediate goods prices are on the way up too, finished goods to follow

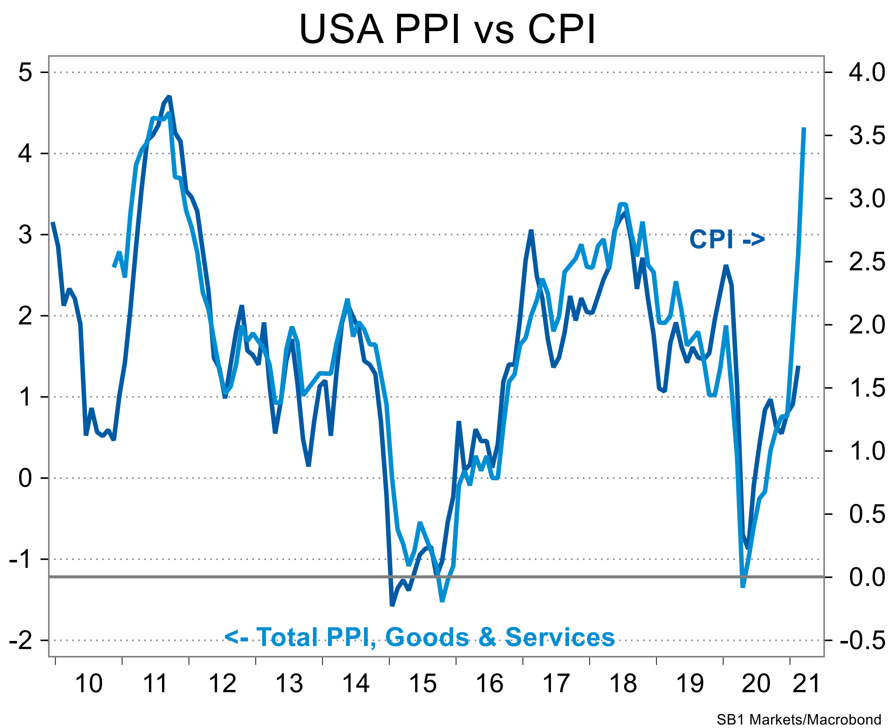


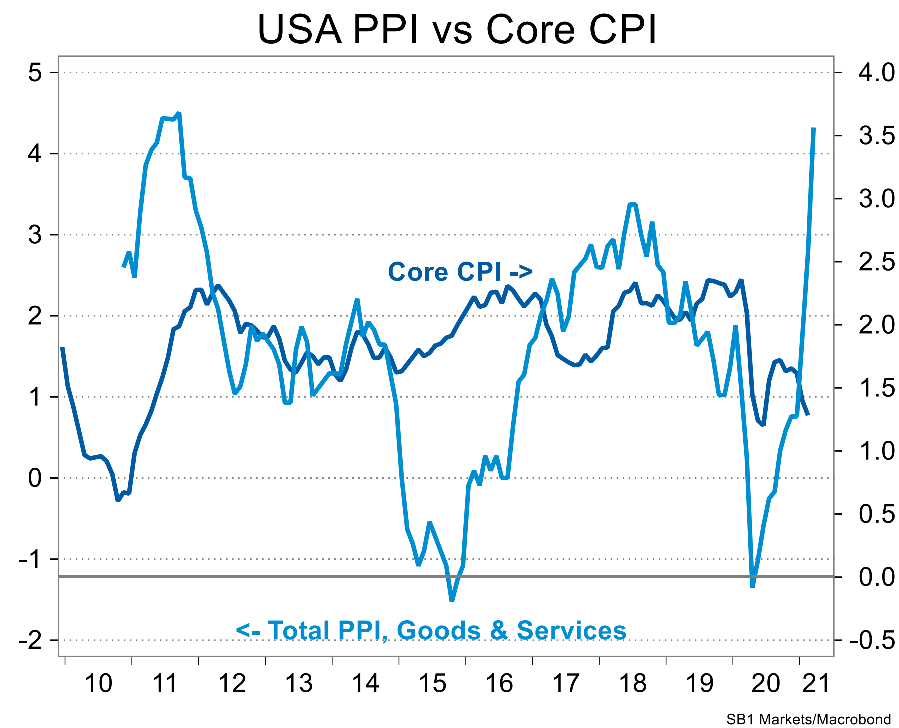


- Prices are on the way up, as are delivery times – and production is increasing rapidly. Hmm…
- However, consumer prices have been rising faster than indicated by finished goods prices. Thus, short term, probably not that much more price pressure from producer prices
- Looking forward however, the steep rise in crude prices (even ex food & energy), and now followed by intermediate goods prices are signalling higher consumer price inflation (crude goods are leading intermediate goods by 4 months, and consumer prices by 12 months)

The headline CPI is a done deal. The core CPI not

The headline PPI (goods & services) is very closely correlated to the headline CPI





- A substantial acceleration in the **headline CPI** is all but inevitable, very likely to well above 3% y/y, and not just because prices fell sharply m/m last year, prices are accelerating m/m this spring
- However, the correlation to **core CPI** is much weaker, like correlation between say between PMI/ISM price signals & core CPI prices. For good reasons, central banks are focusing more on core price measure, than on the volatile headline index

Inflation pro & con

Higher inflation is far from a done deal. Labour market dynamics will decide!

Higher inflation/higher inflation expectations

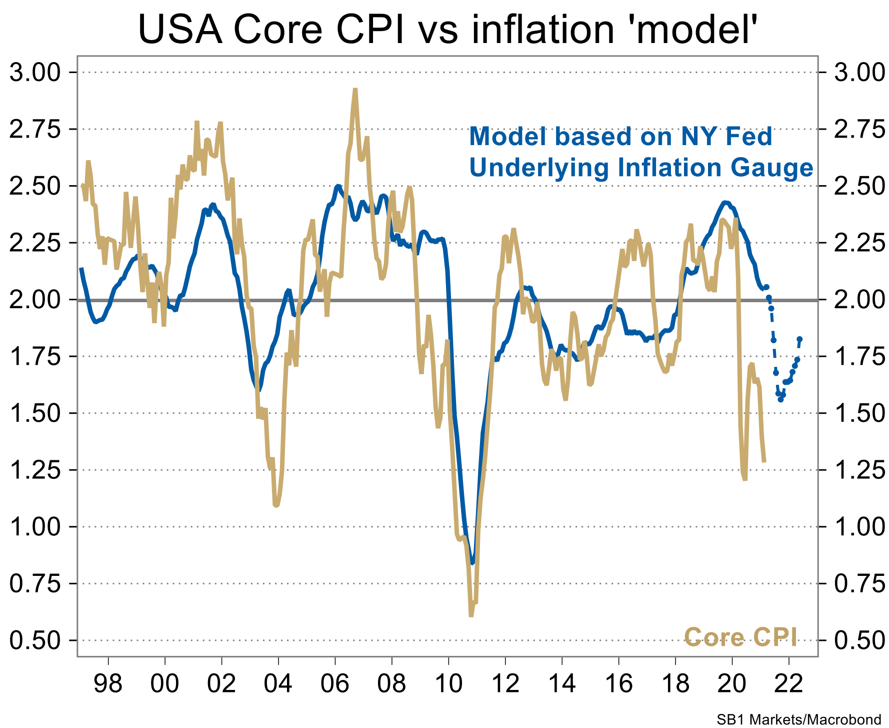
- Expansionary fiscal policy, especially in the US. Ultra low rates, quantitative easing continues in most countries
- Strong demand for goods both for consumption and investments
- Investment demand is above trend but will continue upwards the coming quarters
- Raw material markets are booming, as demand has been far stronger than expected
- Companies are reporting a rapid increase in delivery times & prices – and actual producer prices
- Producer prices are accelerating in several countries
- Consumer price inflation will very likely accelerate the coming months in US and some other countries
- Labour markets may be tighter than indicated by still a low employment/high unemployment rates, given the increase in vacancies
- At least in the US, **there are signals of higher wage inflation** (like in Norway, where Norges Bank has revised its forecast up, but still not enough)
- Corporate profits will soon come under pressure, higher prices the normal answer – and demand is still strong

Still low inflation

- The boom in the goods is close to the peak
  - » Spending on services will increase sharply while retail demand for goods will decrease as services soon will be allowed to operate normally again
- US employment is still >5% below the pre-pandemic level, and unemployment is still at 6%. The underutilisation of labour is even higher in Europe
- **Underlying cost inflation is muted, everywhere**
  - » **Wage inflation is still low**
  - » **Productivity growth may be accelerating**
- US profits have been kept well up during the virus crises, and businesses not no ‘need’ to increase margins to obtain normal profits
- Many Emerging economies do not yet have access to vaccines, and the economic recovery there will be far slower than among rich countries
- More mutants may arrive

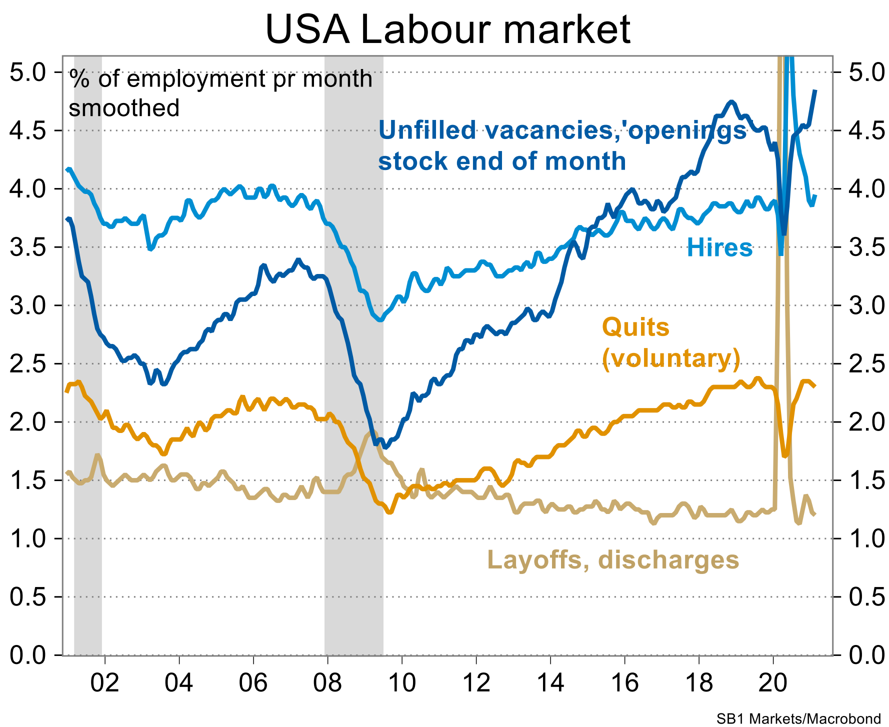
Fed's price model: No warning sign yet

Fed's Underlying Inflation Gauge (UIG) does signal higher inflation, but still well below 2%



Vacancies highest since January 2019, and the highest ever vs employment

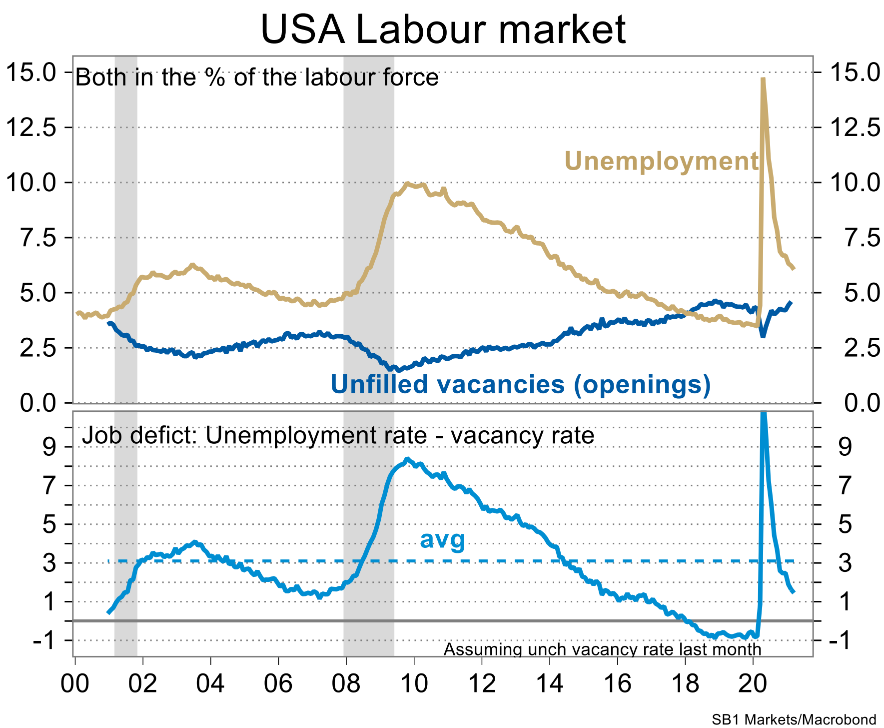
Job openings (unfilled vacancies) increased to 7.4 mill in Feb; expected 6.9 mill!

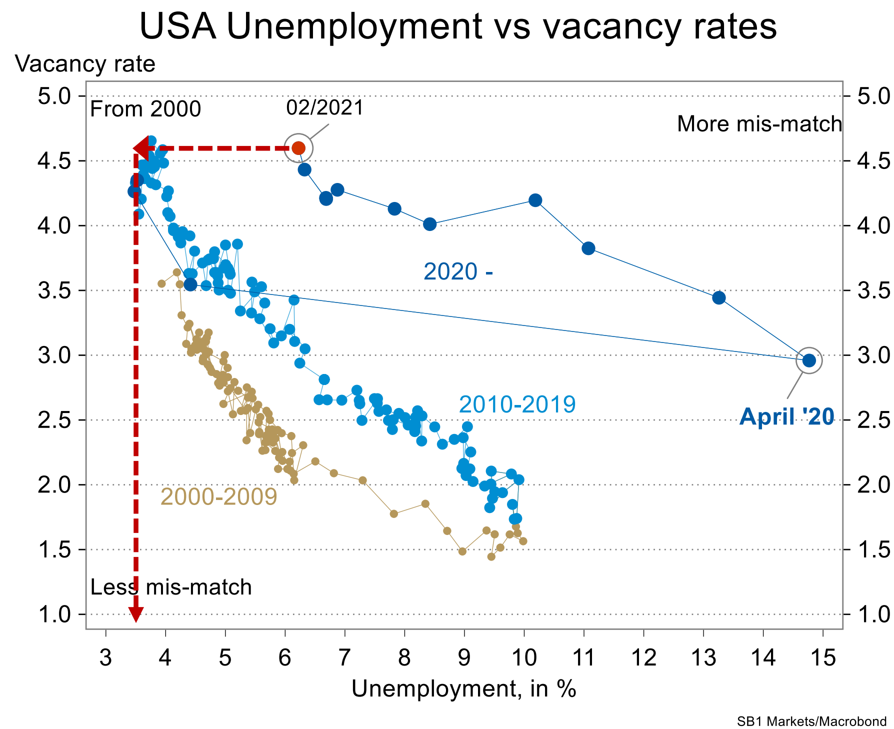


- The no. of **unfilled vacancies** rose more than expected in March, and is less than 3% below ATH (Nov-18), and to the highest level ever in % (of the no. of employed +unfillet vacancies; Measured in % of the labour force, the 2. highest ever). The vacancy share is far lower than normal vs. the unemployment rate
- **Businesses are hiring** at a very rapid pace, at almost 4% per month (although slower than when companies rehired big time in Q3 last year). Given the still low level of employment, no surprise
- Although **quits** are down in Feb, but still at a very high level, normally a sign of labour market strength as workers are leaving their jobs voluntarily, which is not that common in hard times
- **Layoffs** have almost fallen back to a normal low level. Given the close to normal level of layoffs, it is strange that the inflow of new jobless claims remain far above normal levels, check 2 pages forward
- **In sum:** Signals a tight labour market

Fewer vacancies vs. unemployment than normal

… as if the unemployment was 3.5% in February, and not above 6.2%





- Has the **UV "Beveridge" curve** moved outwards, once more, signalling a tight labour market, even if the unemployment rate is far above normal low levels – that is: The labour market tight 'for real' now?
- Or is the labour market in a temporary 'sour spot', as a large part of those who have withdrawn from the labour market last year say it is corona related. Will these workers return to the labour market, when the virus situation allows? Regrettably, many of these workers do not want to have a new job, they say

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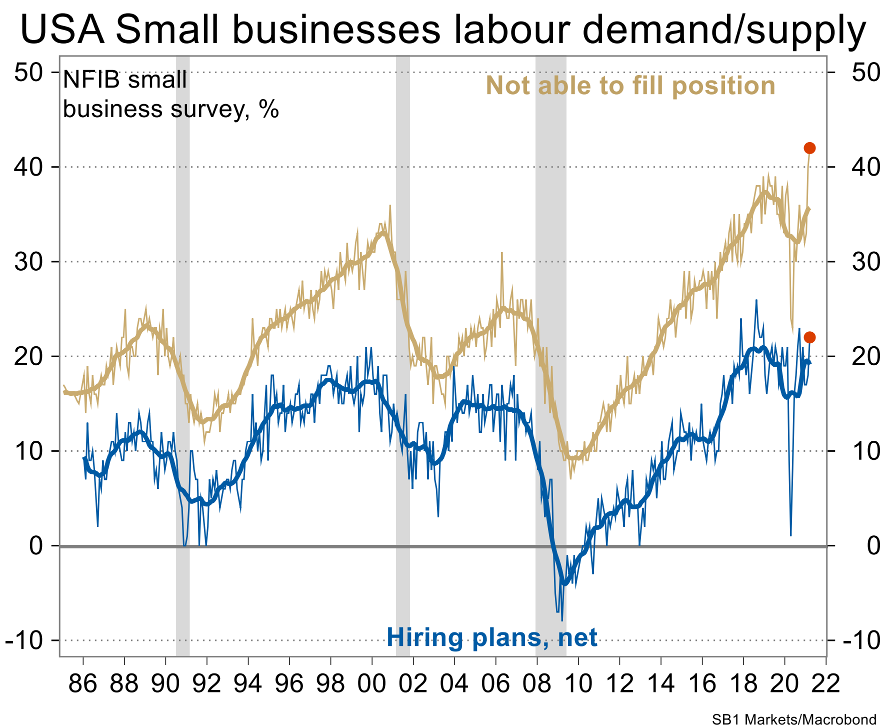
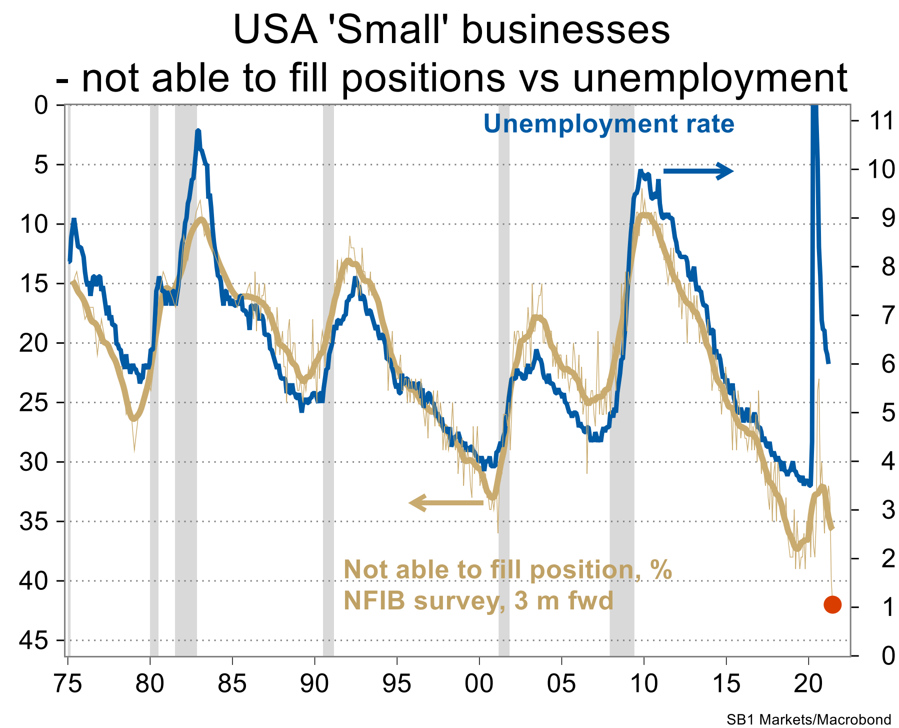
Small businesses have never before had more problems filling vacant positions…

… as if the unemployment were far lower than the actual 6% rate

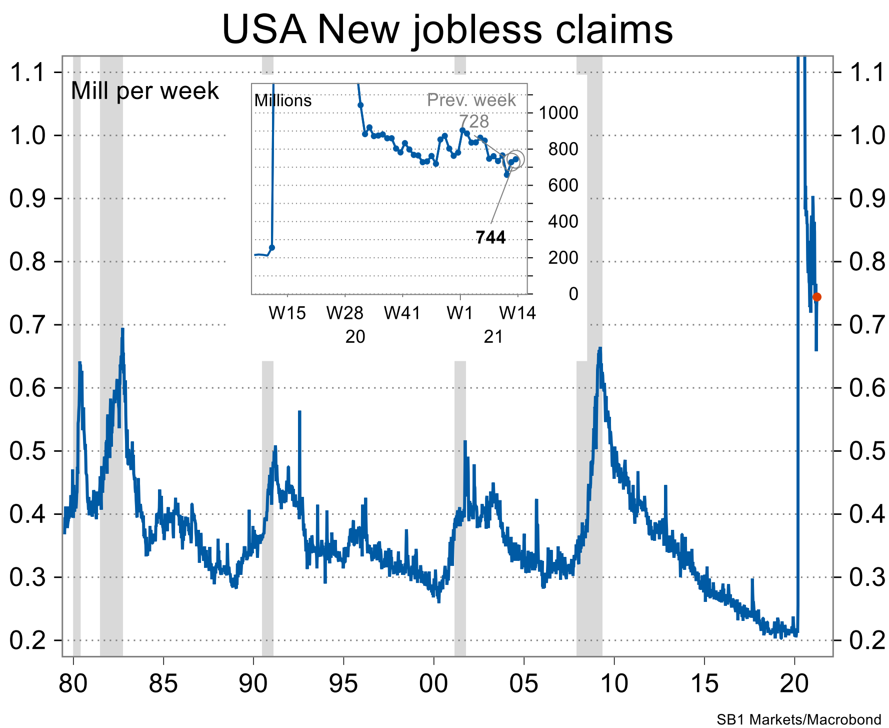


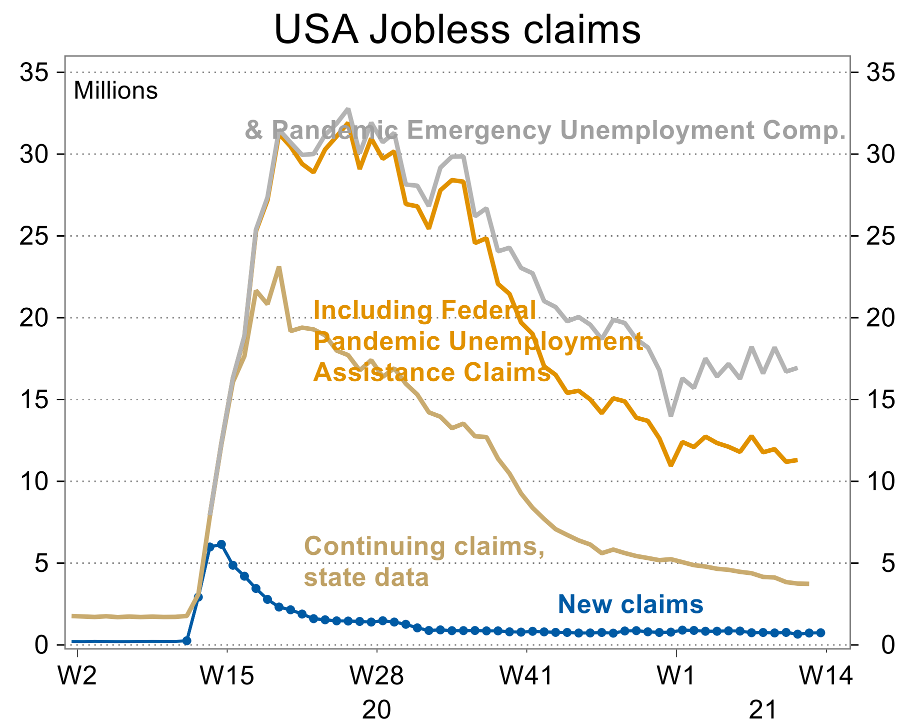


- The recent spike in the share of companies that are **not able to fill their vacancies** is spectacular, given that actual employment is some 9 million lower than before corona; And perhaps even more strange, given the official unemployment rate is still 6% - as these workers should be available for other jobs
- **Hiring plans** rose again in March, and are still very aggressive and small business owners reported in Feb that they expected to lift wages faster than normal - new data from the small business owners survey this week

Jobless claims up last week too but the trend is still down

The level is still higher then at earlier peaks during recessions

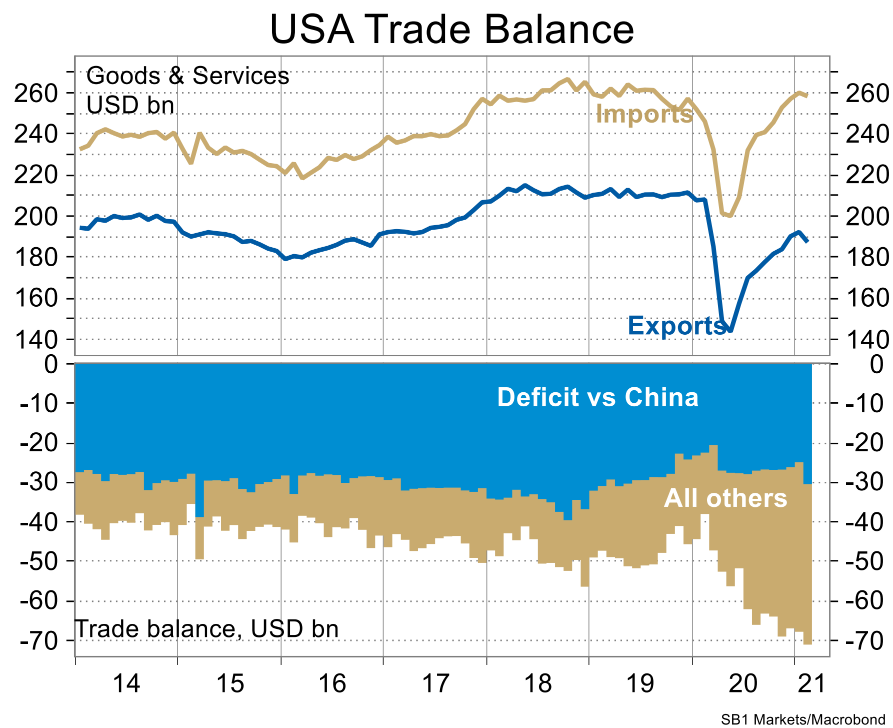


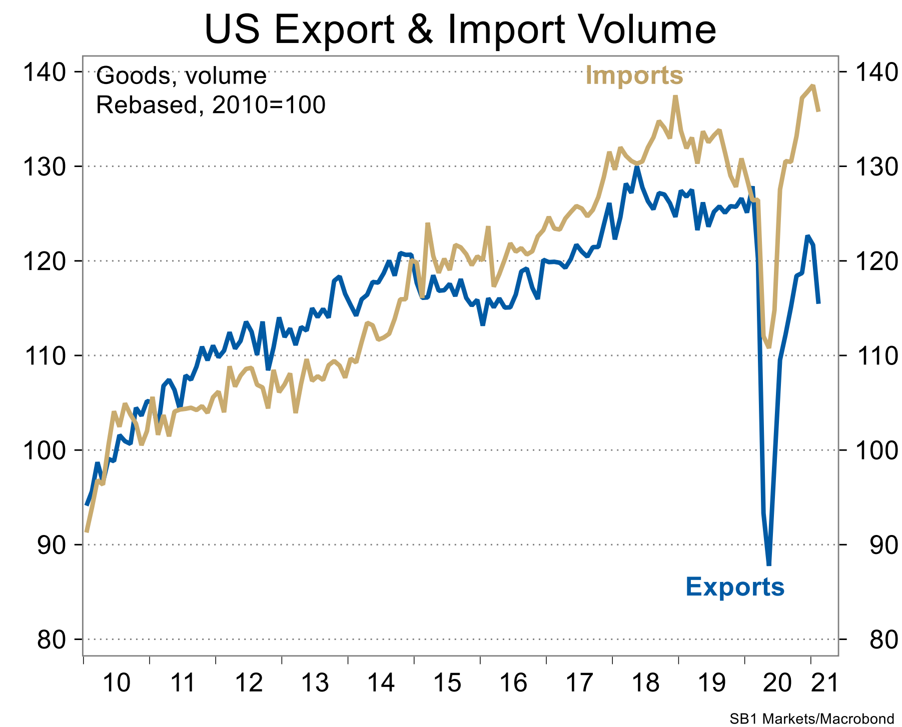


- **New claims** up 719' last week from 658' the previous week (expected 675')
- **Continuing claims** are trending downward, at least the ordinary claims. Including the Pandemic support programs the conclusion is more uncertain
- We still find it somewhat strange that the flow of new jobless claims are far higher than ever before (except last spring), as there are few layoffs, the no. of vacancies are close to record high, and companies are reporting they are not able to fill them. Are jobless benefits too attractive?

Deficit hits new high as exports fell in February

Trade deficit now stands at USD 71 billion, up from 68 billion in January





- The overall trade deficit of goods & services shot up to an ATH of USD 71 bn in Feb (expected 70.5)
- Exports fell by 2.6%, and are still 10% below the pre-pandemic level. In volume terms, exports fell by 5% in Jan
- Imports decreased by 0.7% in Feb, and remains slightly above the early 2020 level. In volume terms, the level is 7% above! The reason is no doubt strong demand for goods in the U.S
- The deficit vs China is almost at the same level as when Trump became president. However, the total deficit vs. other countries has exploded.
- The huge increase in the overall deficit over the last year is a reflection of the strong increase for goods in the US

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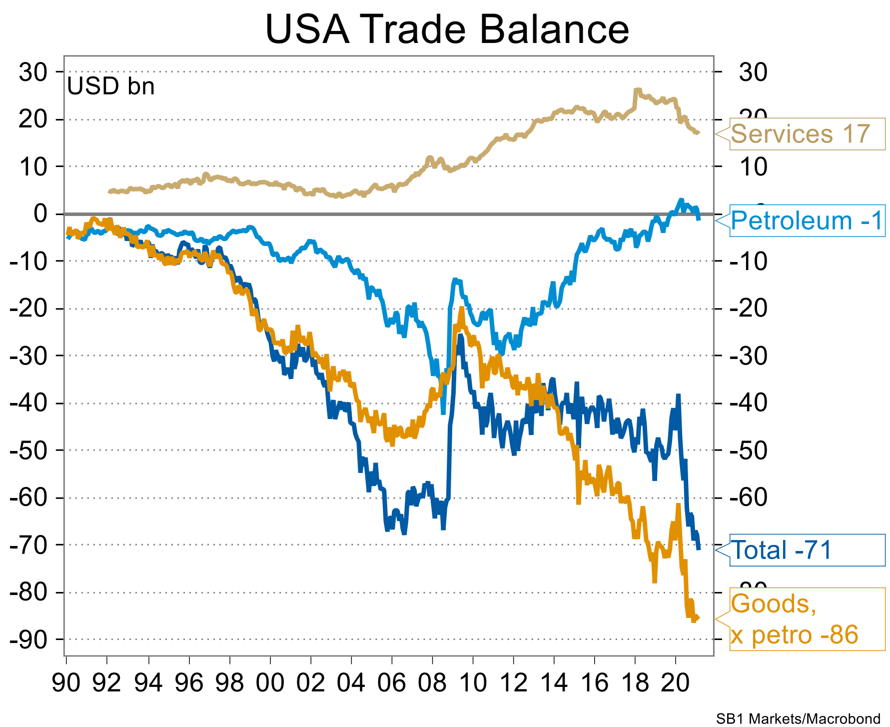
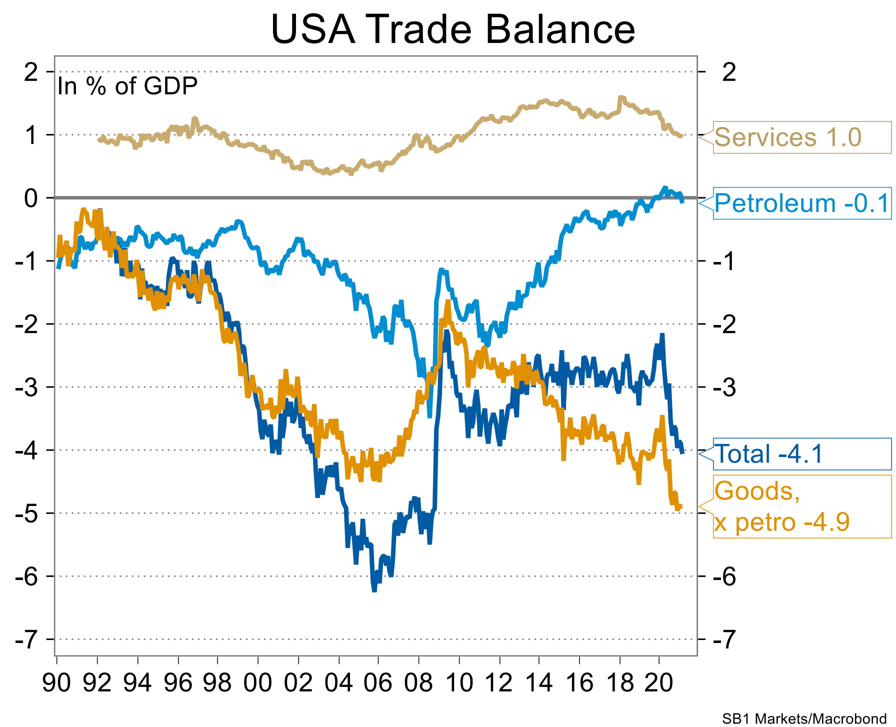
Goods deficit at ATH and the petroleum deficit is back (barely)

Surplus in services keeps narrowing and is falling rapidly

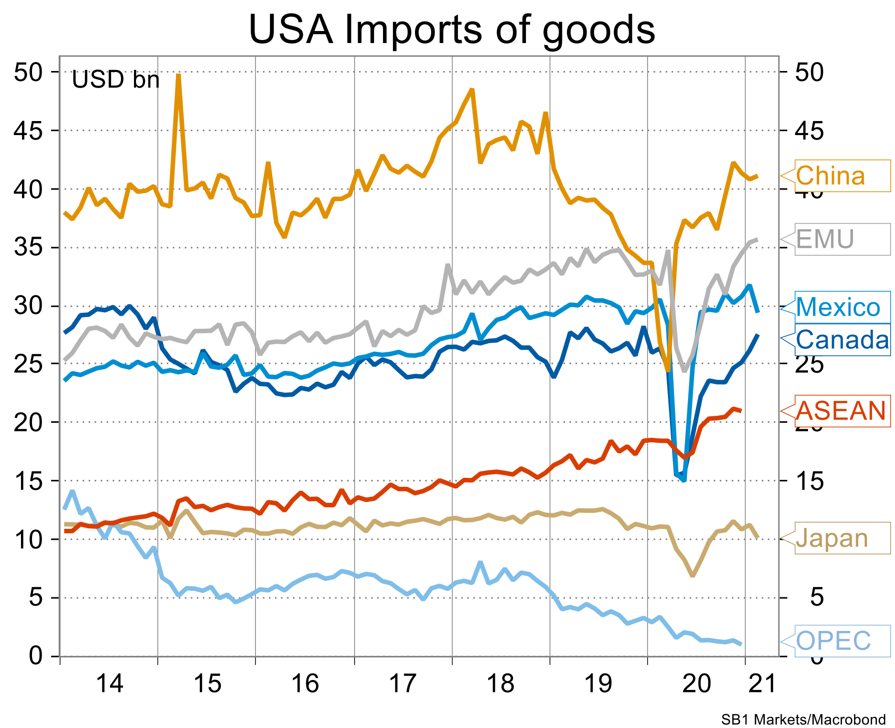


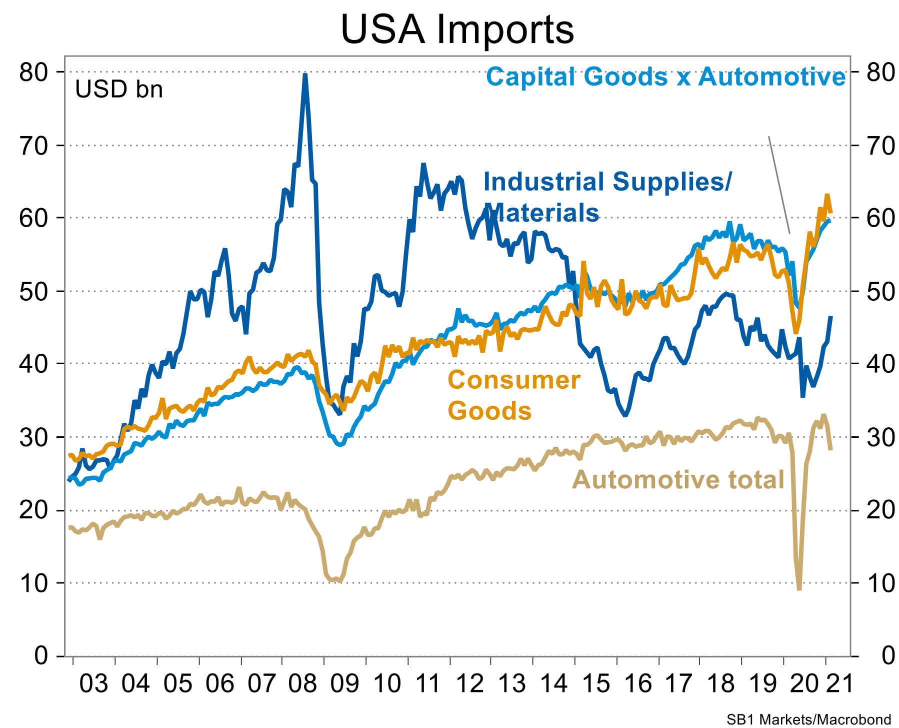


- The goods x petro products deficit was at USD -86 bn in Feb, close to the Nov ATH, or 4.9% of GDP, which is also ATH!
  - Before the corona virus hit, the trade deficit in goods was narrowing, as growth in the US slowed (and imports fell, which is normal)
- The petroleum trade deficit is now at -1, from -30 bn/m in 2012!
- The US runs a surplus in services at USD 17 bn, equalling 1% of GDP but is trending sharply down (and the downturn started well before corona)
- The total trade deficit equals 4.1% of GDP, well below the record at 6.2% in late 2005, thanks to the shale oil revolution

Auto imports sharply down in Feb – supply driven, lack of semi-conductors

Imports from most areas are back to pre-Covid levels





- Imports from China are well above the pre-corona level – and exports are even stronger
- Export from ASEAN (the minor Asians) are very strong too.
- Exports to US from EMU are also back to a pre-corona level, while Canadian exports are still lagging

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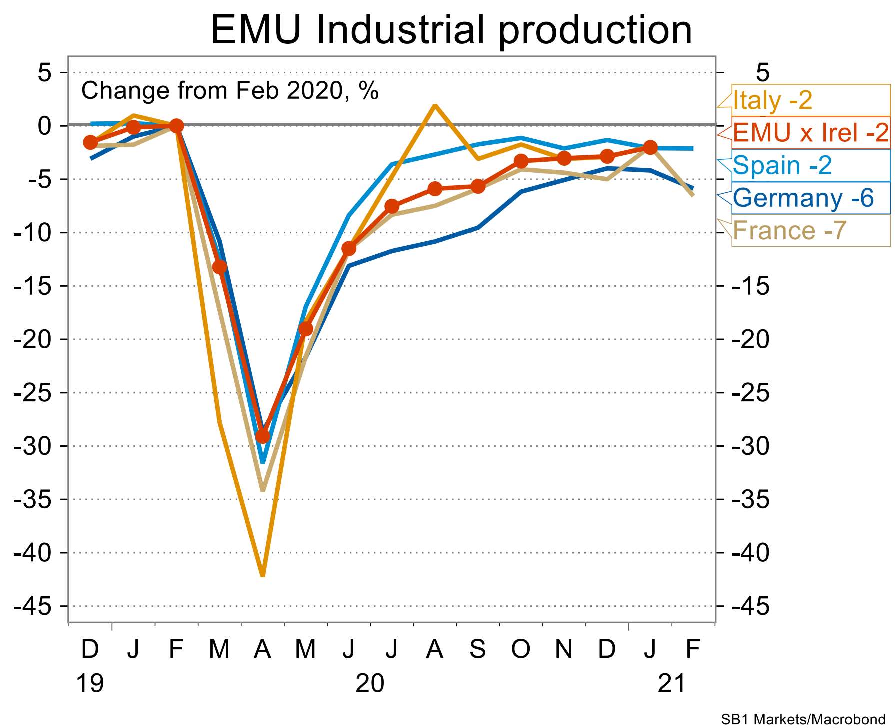
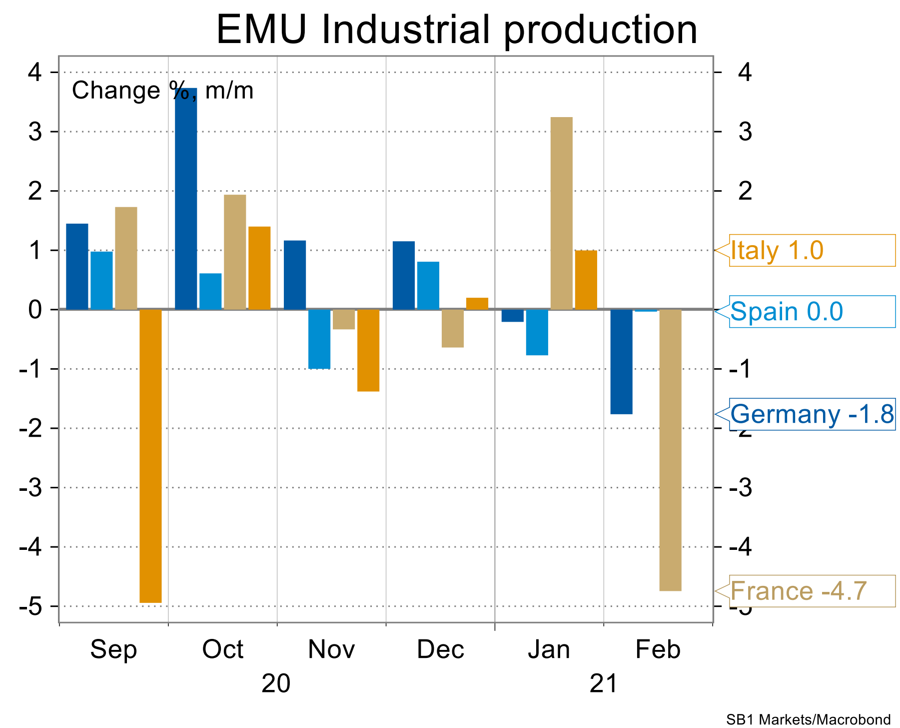
Manufacturing production far weaker than expected in March

Germany down 1.8%, France 4.7%, both expected up 1% – 1.5%. Spain flat. EMU will decline subst.





- The recent lockdowns have taken its toll on actual production
- At the same time, companies are reporting almost unprecedented strong growth to the PMIs and other surveys
- March – or April (or May?) will be far better!

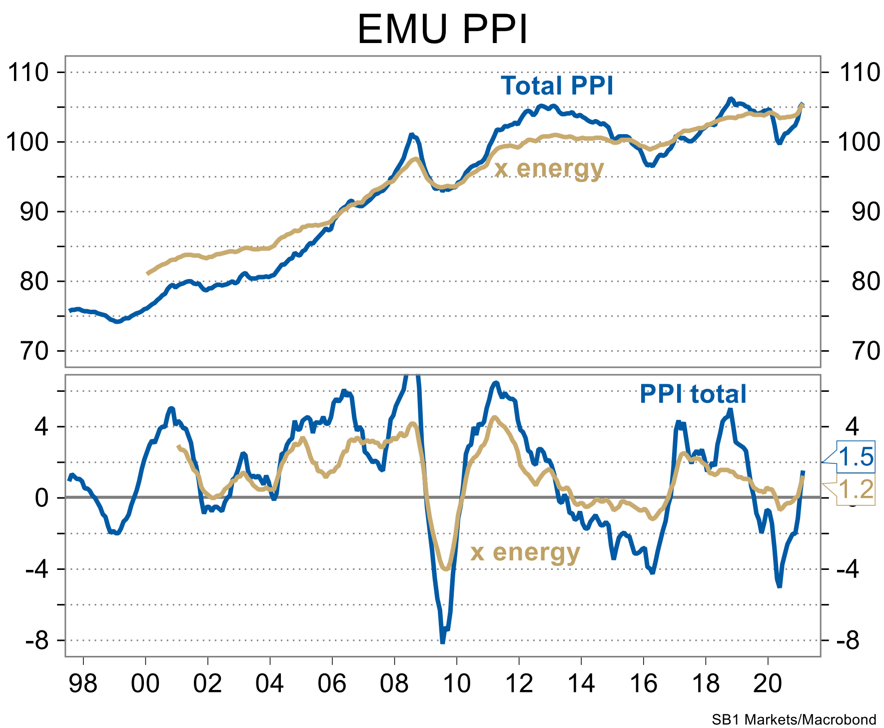
German orders up 1.2% in February, 6% above pre corona

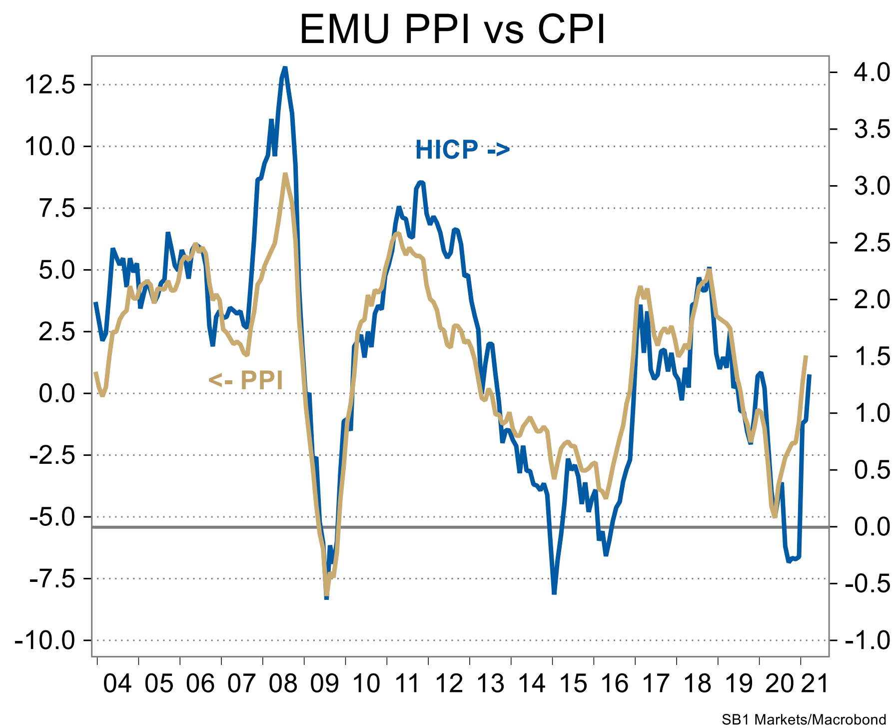
Production down 0.5% and is still 4% below early 2020 level

- Signals a recovery in actual production the coming months. As the record strong manufacturing surveys

PPI up, still not in the red zone

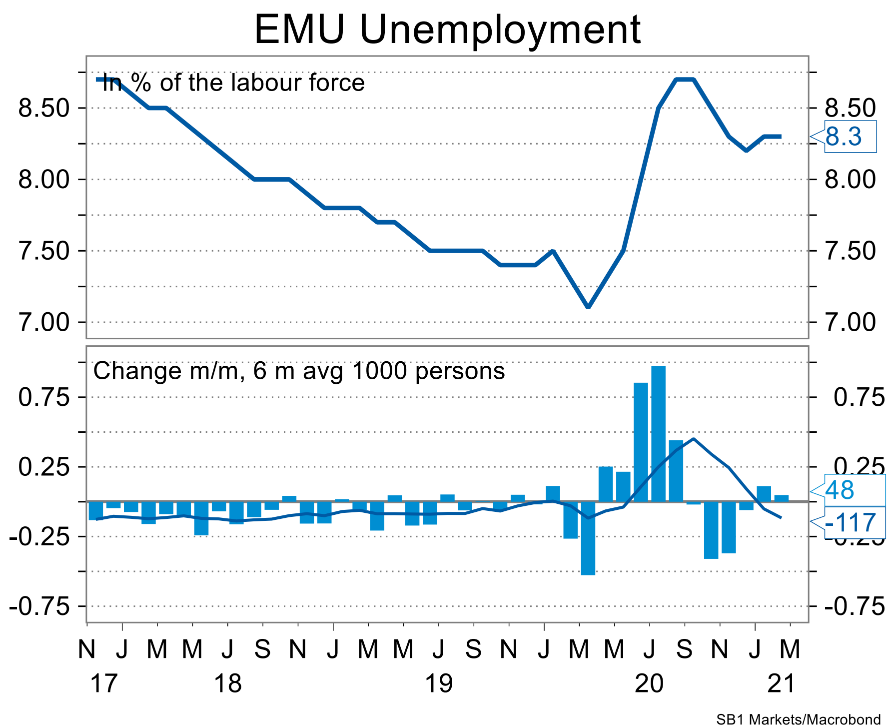
PPI up to 1.5%, from prev. reported zero, expected up to 1.3%. Does not signal much higher CPI infl.

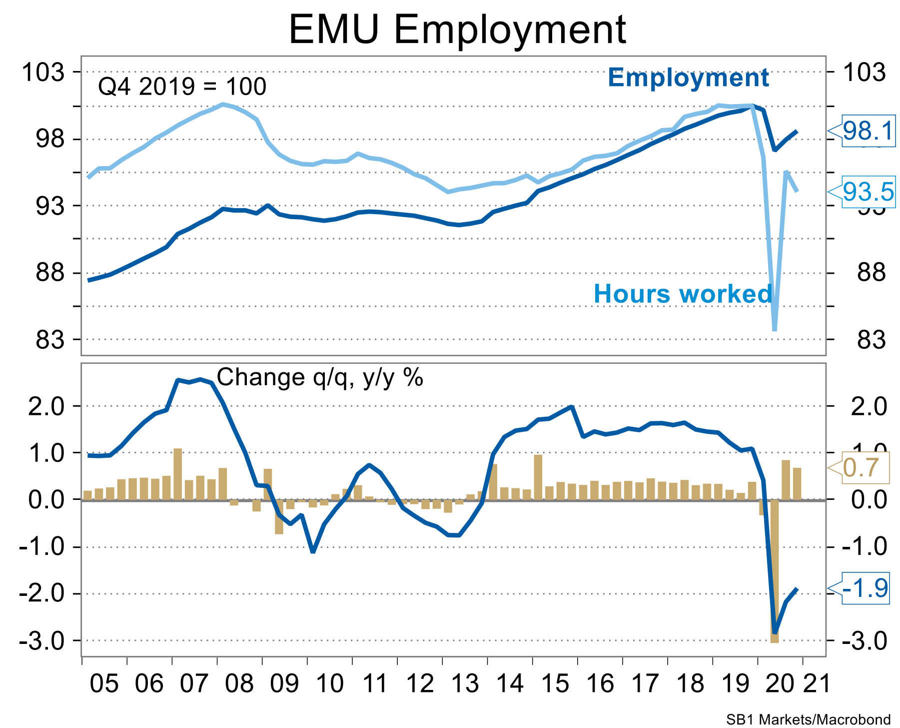




Unemployment steady at 8.3% in February (Jan revised up to 8.3% from 8.1%)

Unemployment stats are probably still ‘useless’, due to gov. employment subsidies/furlough schemes





- The number of unemployed is now 1.9 million higher than in February 2020
  - » In Europe, companies are partly paid to take care of their workers during the lockdown. These government employment programmes makes unemployment stats useless as a gauche of real demand for labour (but the impact on household income is better mirrored by unempl. rates)
  - » Moreover, those who are furloughed are not counted as unemployed the first 3 months in the labour force surveys (like in the Norwegian ‘AKU’)
- The best proxy for the real unemployment rate, at least vs. demand for labour, is the number of hours worked. In Q4, they were down 6.5%, while the no. of employed was down just 1.9% - as average working hours were cut substantially

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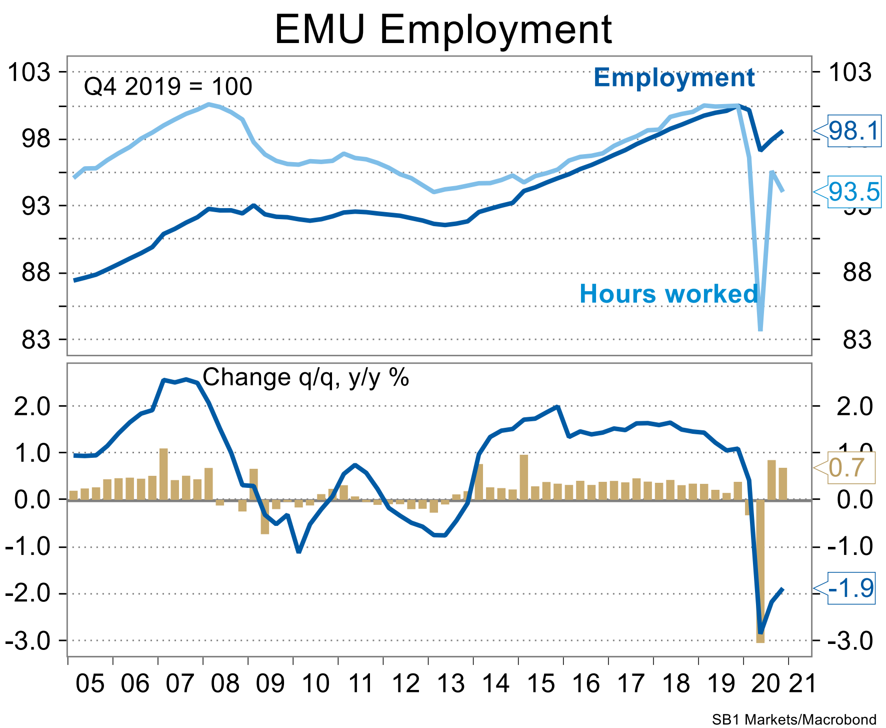
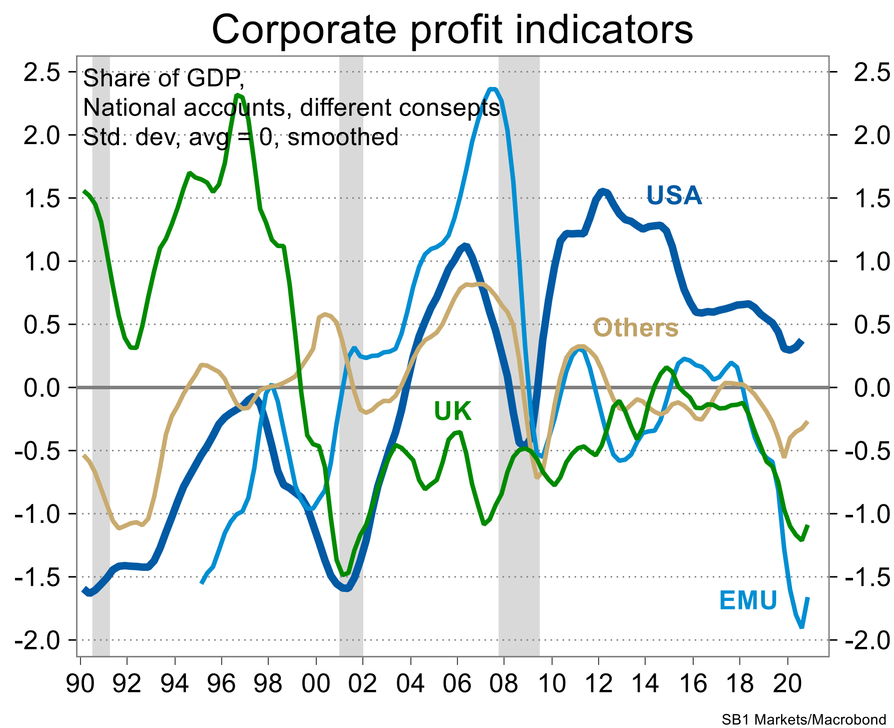
Employment up in Q4, down 1.9% y/y, hours worked down 6.5% y/y

Public measures (wage subsidies) makes employment data somewhat irrelevant

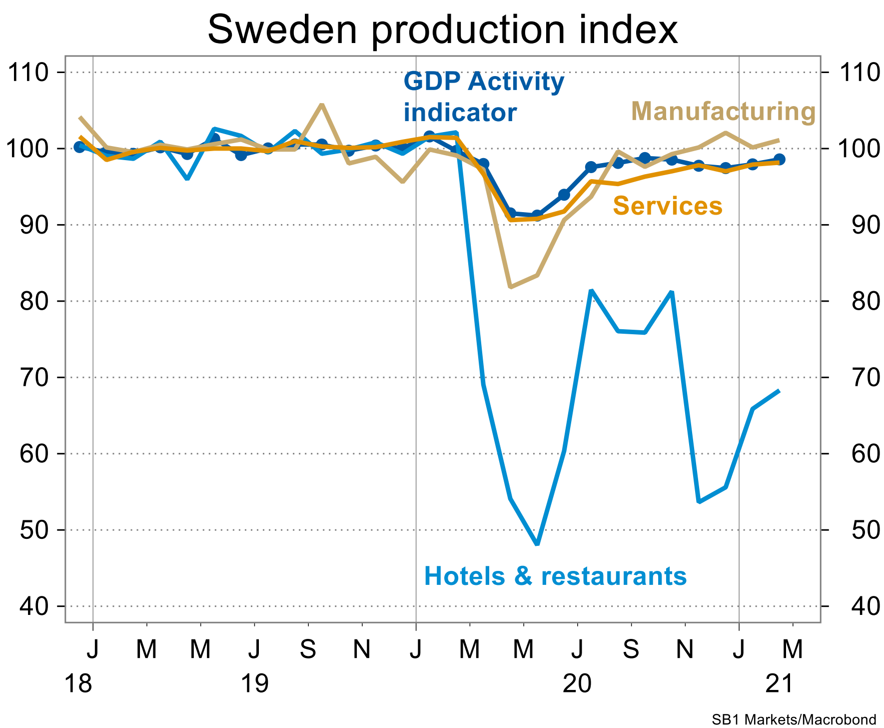


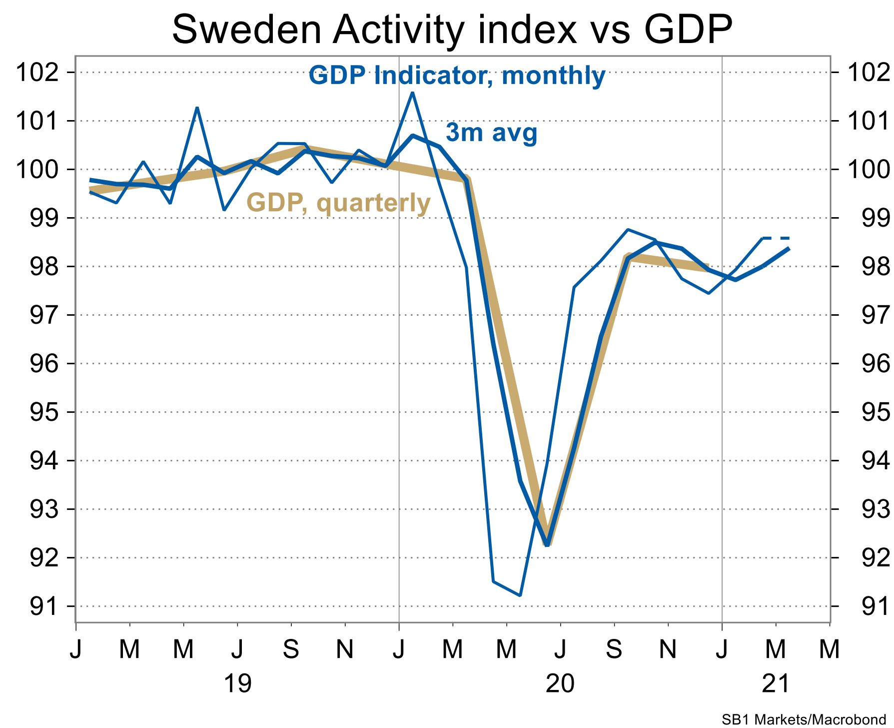


- Employment was up 0.7% q/q in Q4, while hours worked were down by 1.6%
- The 6.5% hours worked data point is the best to assess the downturn at the labour market
- Our EMU profit indicator (which is rather rudimentary), signals a deep decline in profits last year
  - » However, some important data, that are normally not important but may be so now, are missing from the calculation

Activity increased further in February, probably GDP growth in Q1

Even without further growth in March, GDP will increase by 0.4% (1.6% annualised) in Q1

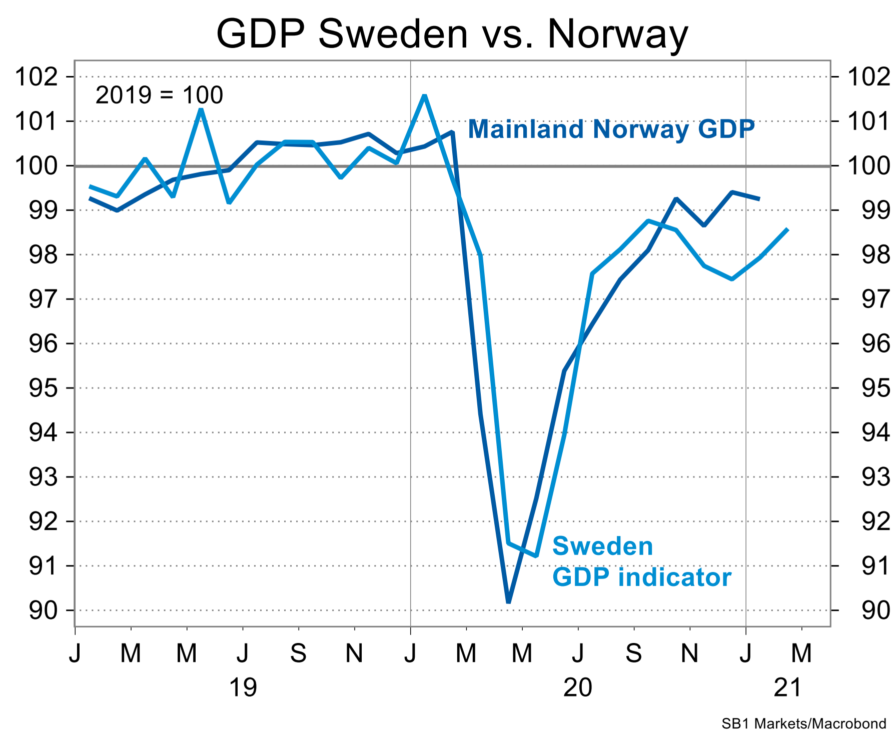




- Hotels & restaurants and some other services are still sharply down, while manufacturing is above the 2019 level

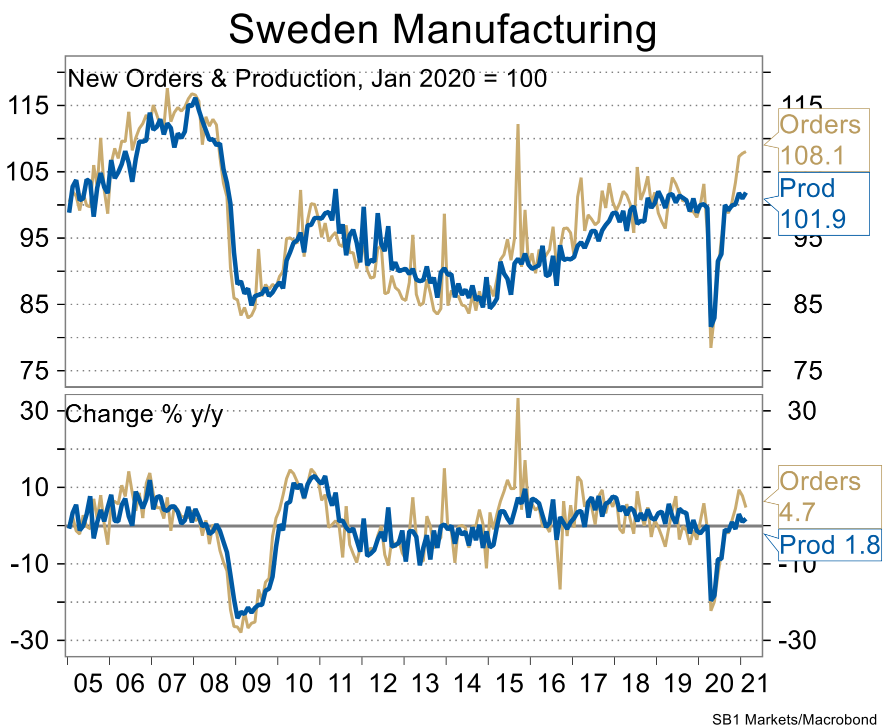
Spot the difference

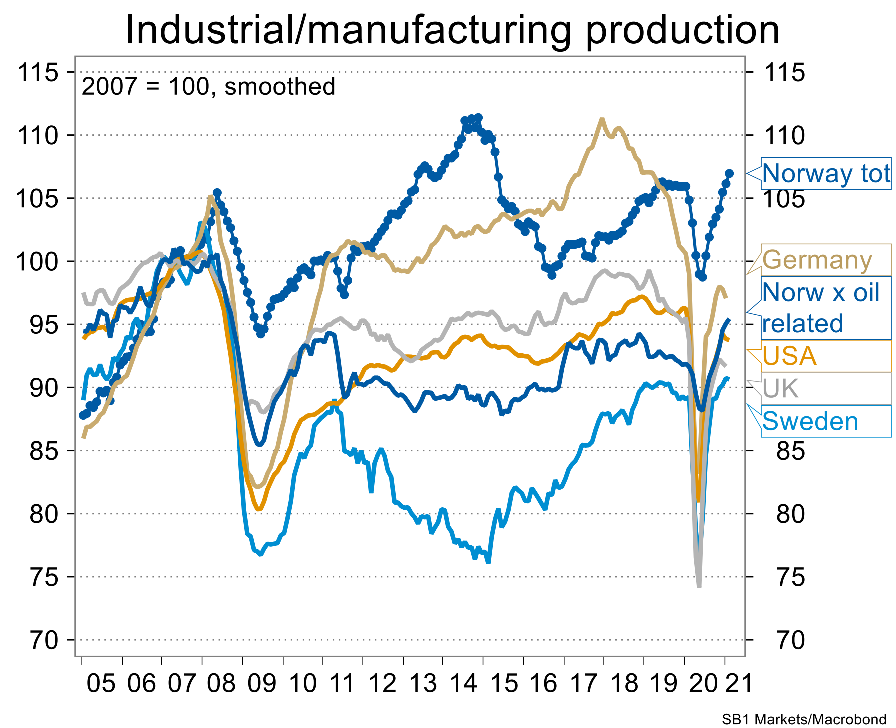
Not much to write long reports on



Industrial production up 1%, orders up 0.7% in February

Production is 1.9% above the pre-corona level, orders 5%. Strong surveys are confirmed

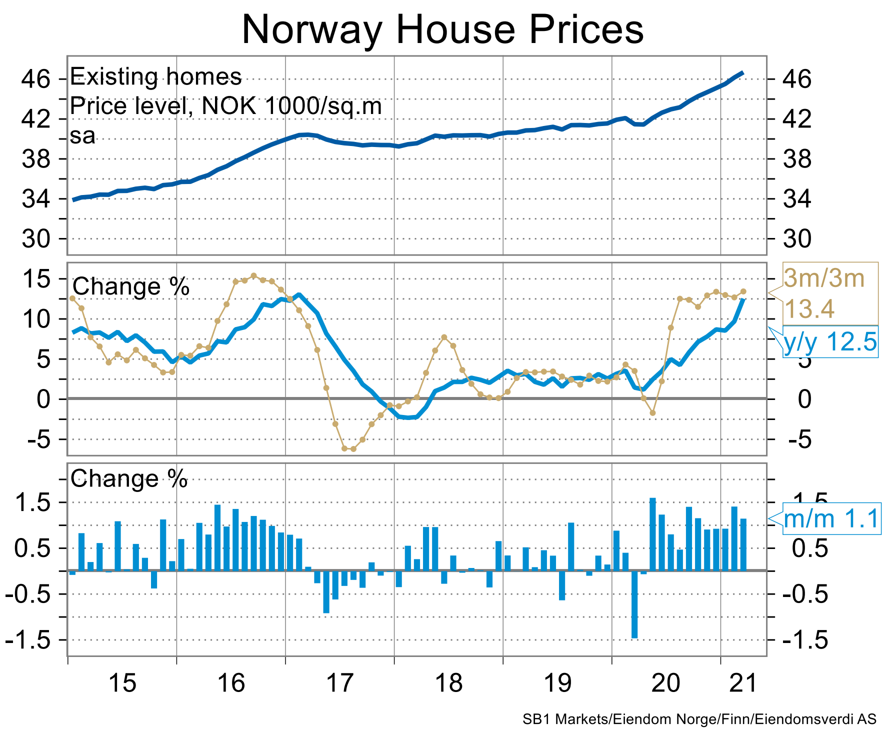


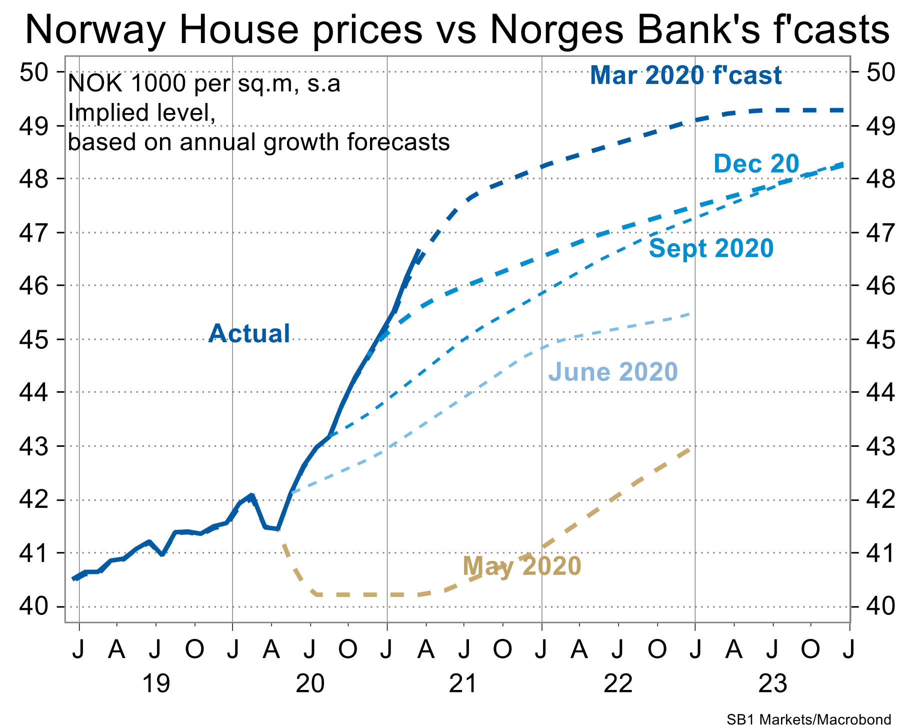


- Production will very likely continue upwards the coming months
- Long term, manufacturing production in Sweden has not been that impressive

House prices did not yield to signals of higher interest rates

Prices +1.1% m/m, we exp. 1.0%, NoBa exp. 0.9%, some economist an outright decline

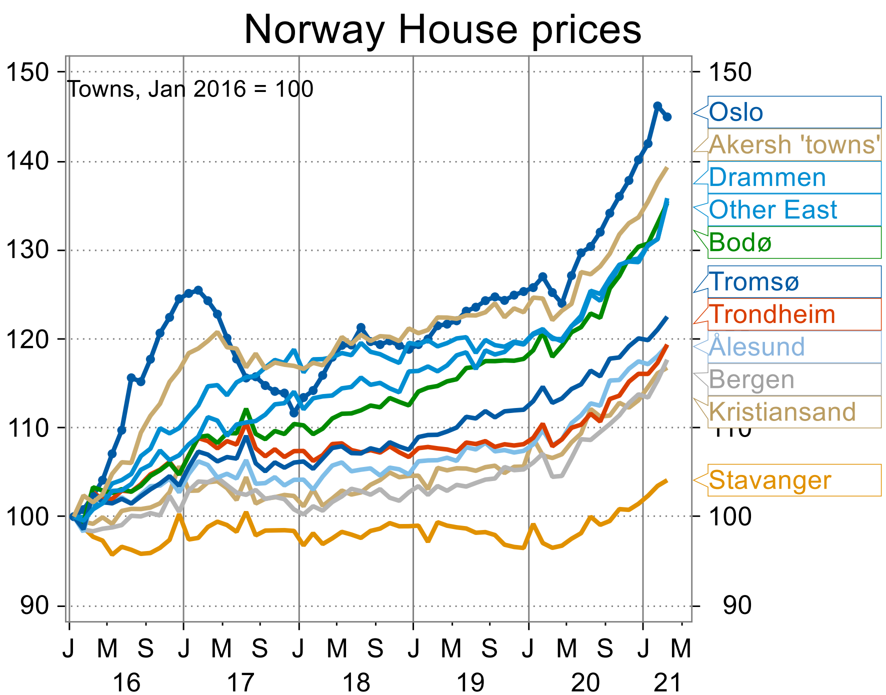




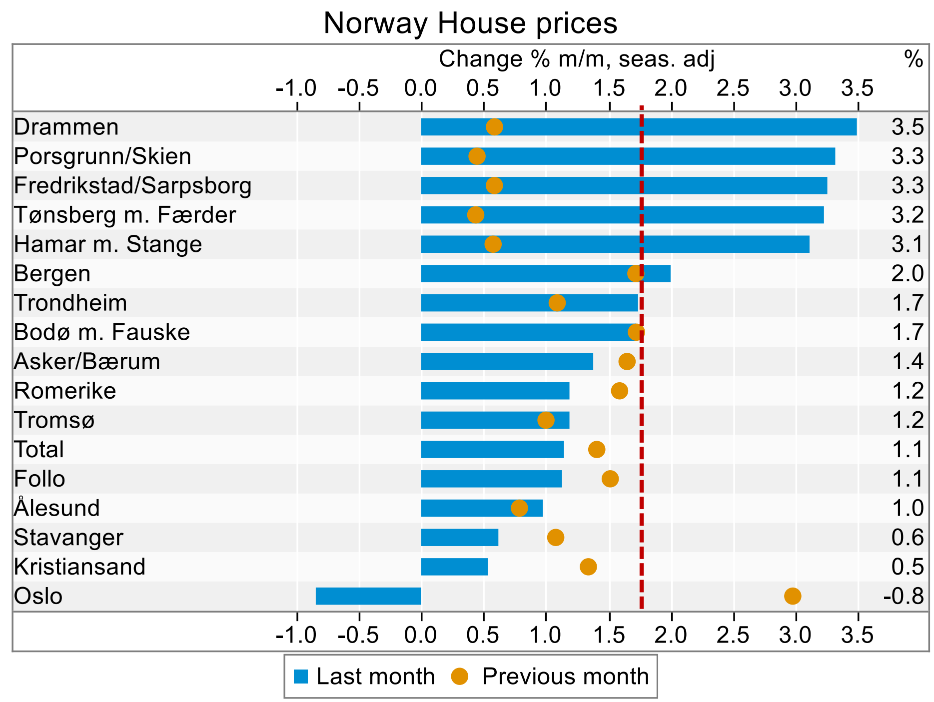
- **House prices** rose by 1.1% seas. adj in March, up from 1.4% in Feb (revised up by 0.1 pp). We expected 1.0%, NoBa 0.9%. The past 3m/3m, prices are up by 13%, annualised, stable since Dec. Prices are up 12.5% y/y, highest since early 2017. In April, possibly the highest annual rate since 2007 ☺
- All cities, but Oslo, reported higher prices m/m. Prices in Oslo declined by 0.8%, while Drammen saw the biggest price increase (+3.5%)
  - » Smoothed 3m/3m prices are up everywhere. Here, Oslo is at the top, at a 20% pace! Outer east towns at the bottom, still up 8% at an annual rate
- The **number of transactions** rose in March and the level is high. The **inventory of unsold homes** is sliding down again, and it is very low vs sales per month, even if more homes were put at the market
- **The prospect of higher interest rates is not biting on home buyers, not yet that is…**

Prices down 0.8% in Oslo m/m, but up everywhere else

In February, prices in Oslo rose by 3%, the average is still 1.1% up!



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



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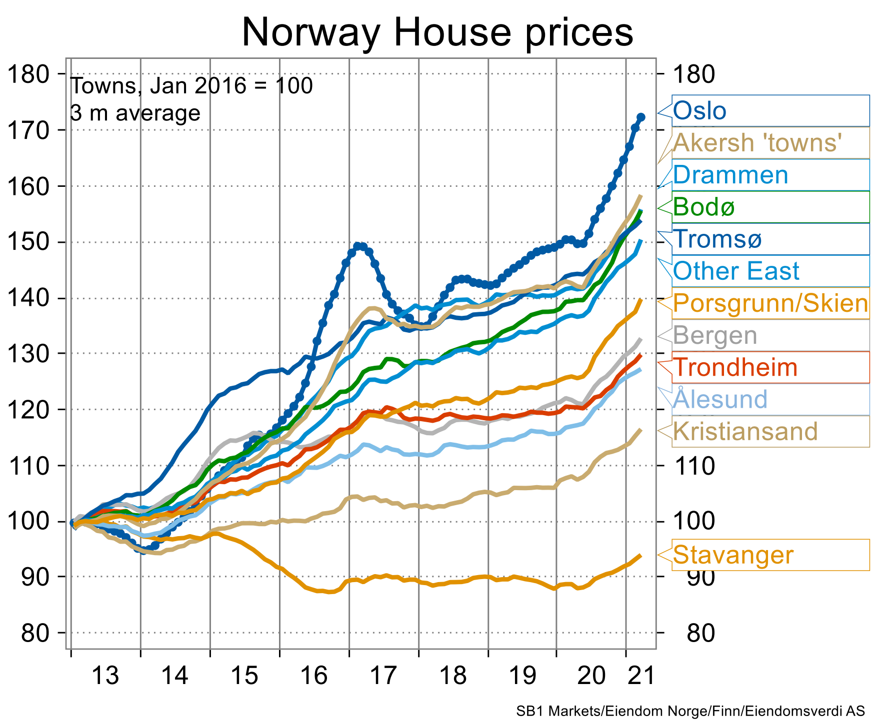
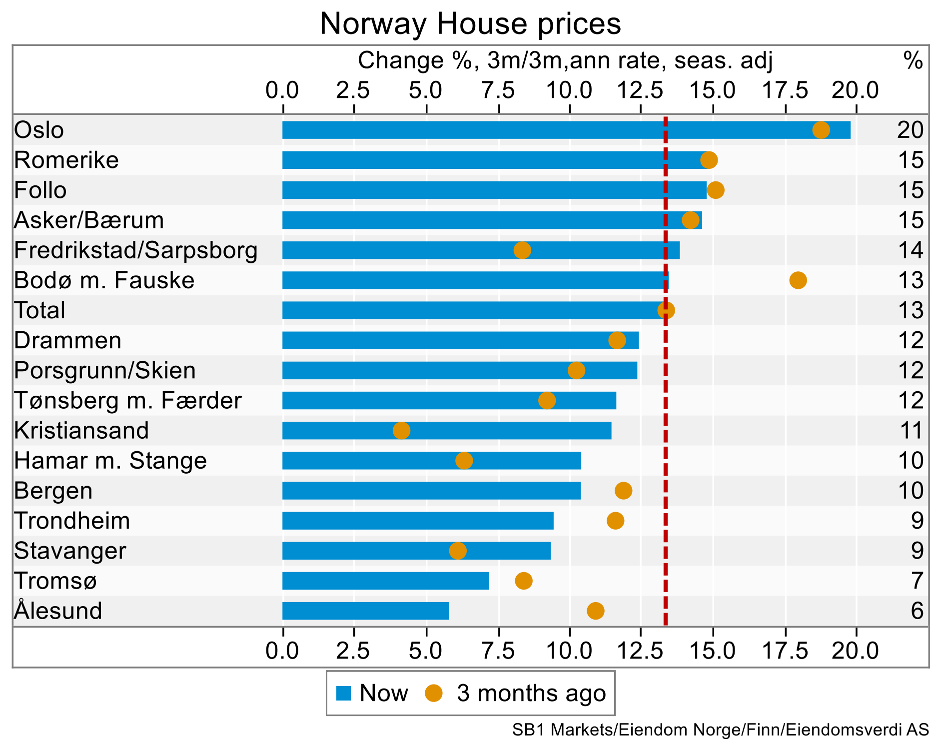
Recent months; measured 3m/3m: All up, average at 13%.

Oslo at the top, +20%! The national average at 13%. Ålesund at the bottom at 6%.

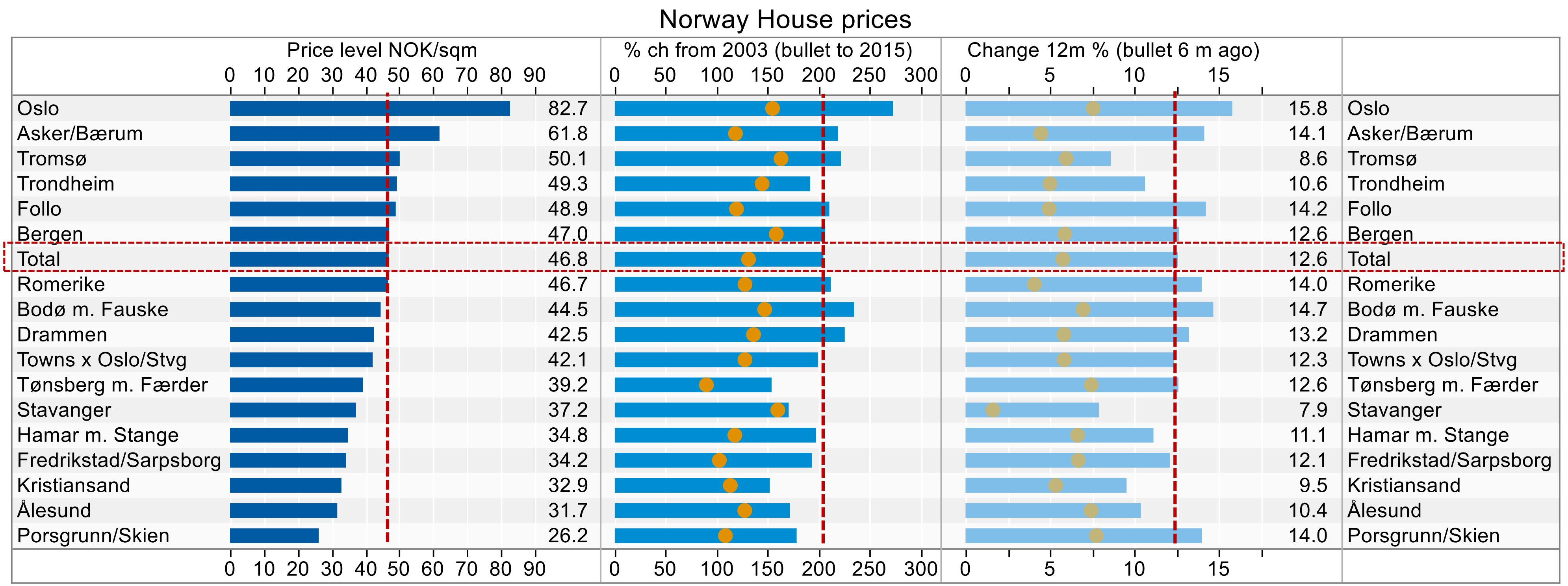




- Recent years: Stavanger is perhaps best described as flat, recent years, even if prices have climbed since last spring.
  - » All others are up – with Oslo in the lead vs the early 2016 price level
  - » Akershus (now a part of Viken) 'towns' close to Oslo are not far behind Oslo, neither is Drammen
  - » Bodø and Tromsø then follow
  - » Kristiansand and Ålesund – next to Stavanger at the bottom, is at least partly explain by the downscaling of the oil sector (as of course is the case with Stavanger as well)

Oslo in the lead past 12 months, up 15.8% - but the boom is broad!

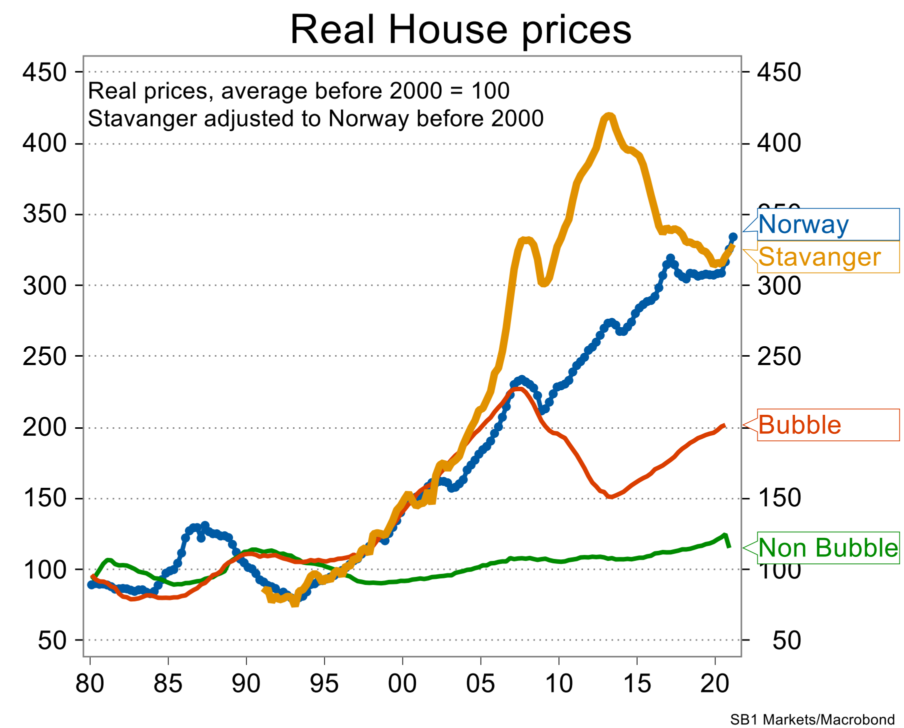
But the weakest chain in the link through last year, Stavanger, is up 7.9%

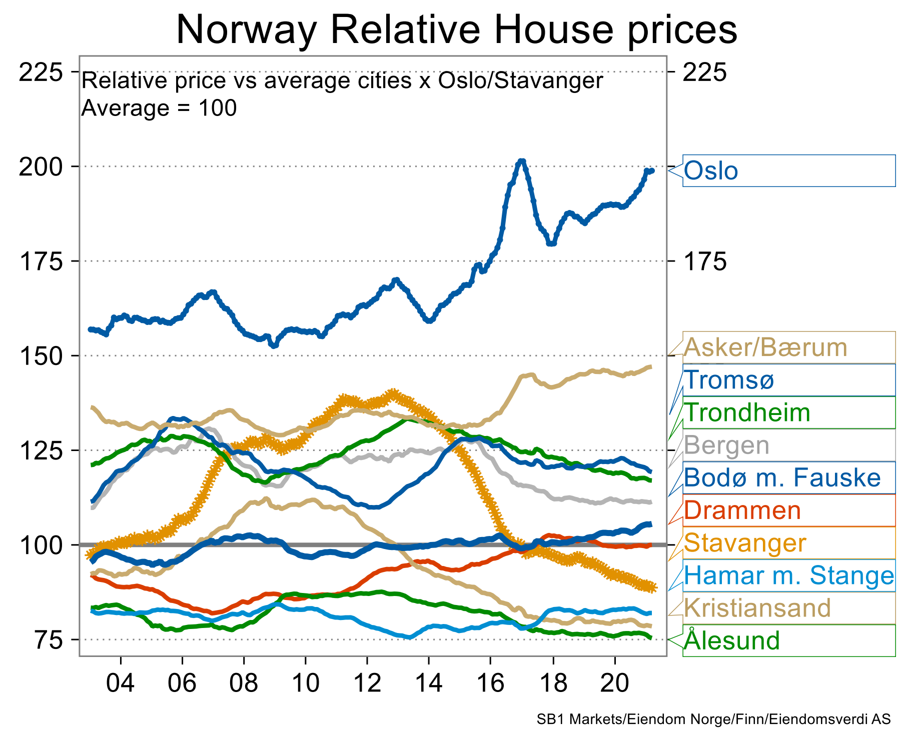


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

The Stavanger case: Could it happen elsewhere?

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





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

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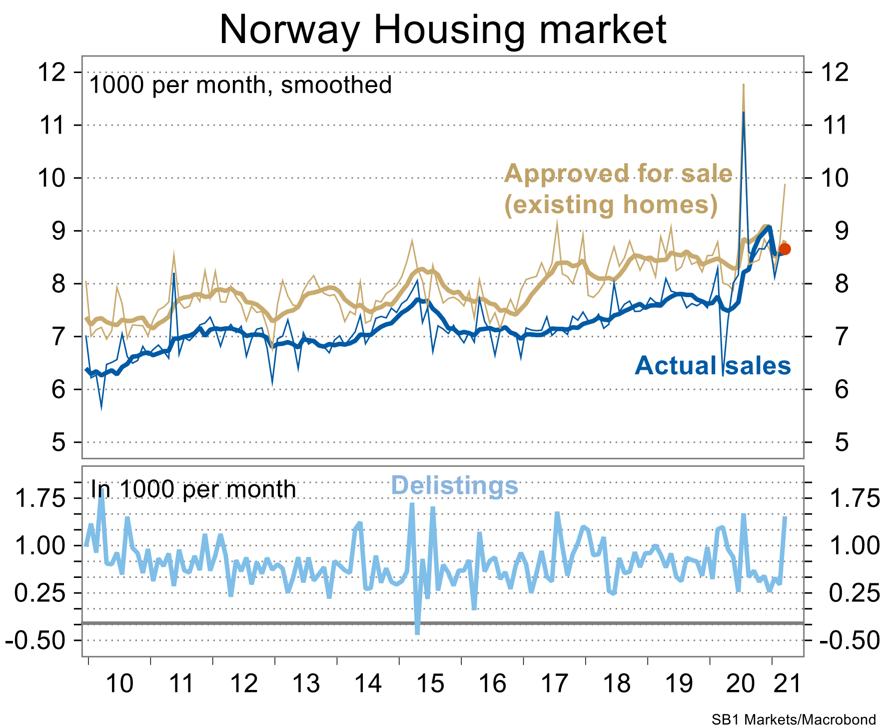
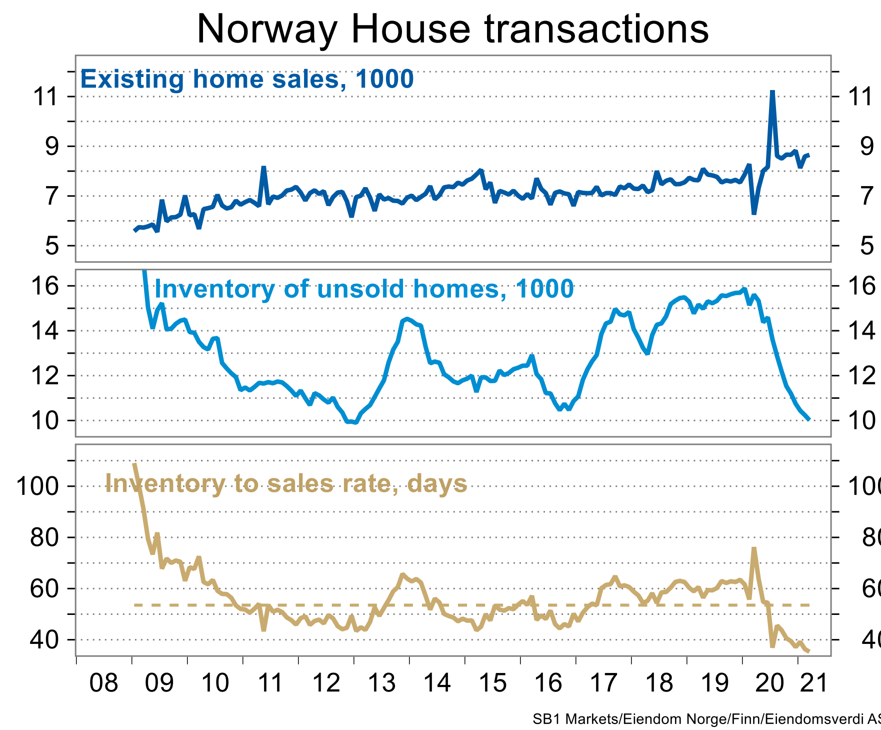
The no. of transactions up and inventories further down in March

The inventory is not far above previous troughs – and is still falling, albeit slower

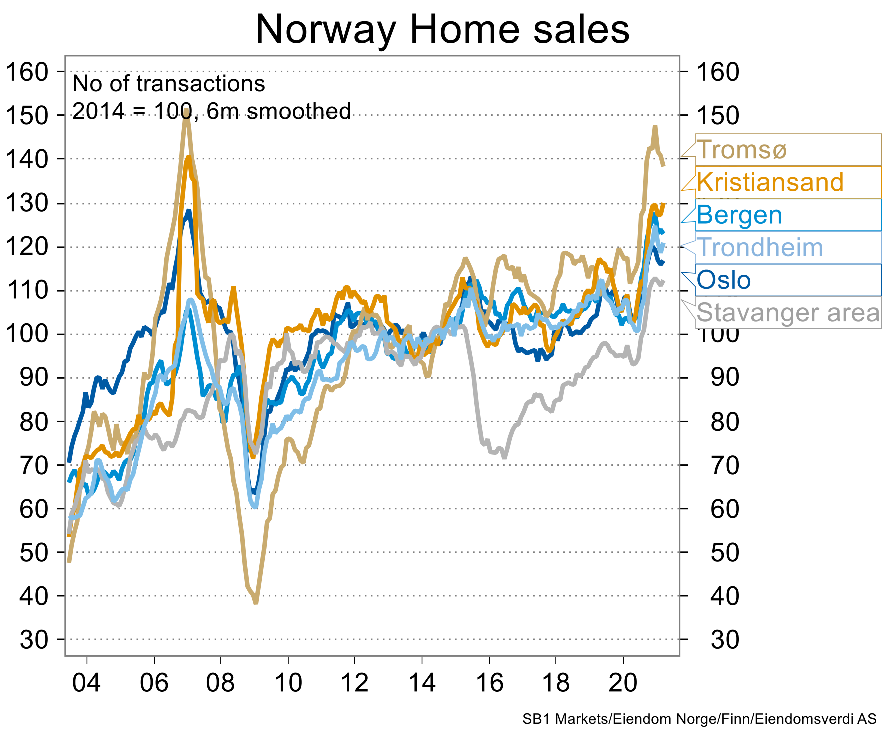


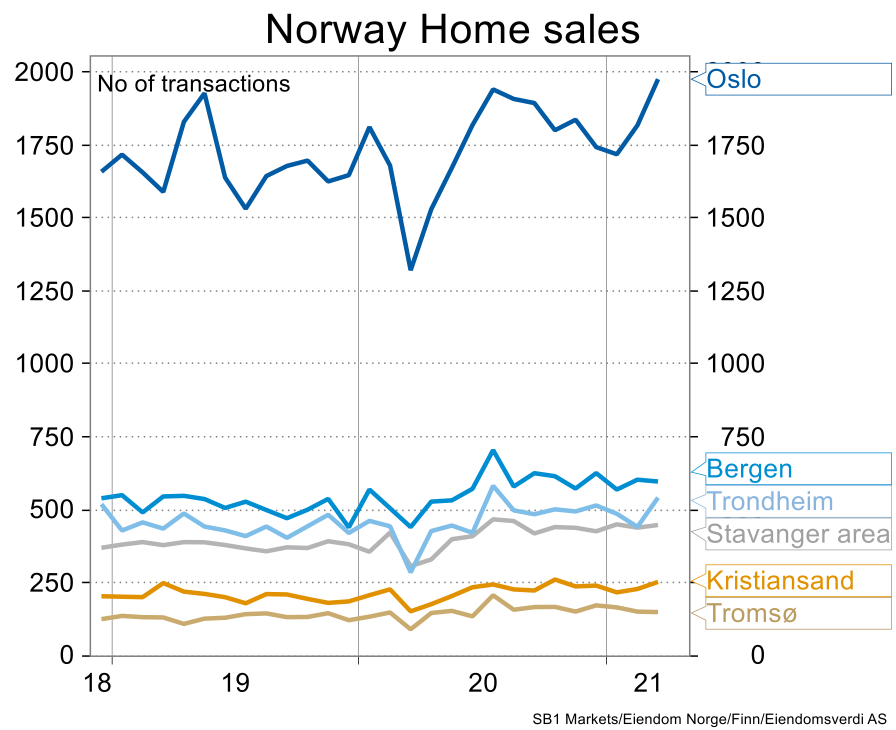


- **The number of transactions** remains well above the pre-corona level, and rose marginally in March
- The **supply of new existing homes for sale (approvals)** rose more than 10% in March, to 2nd highest level ever (only July 2020 above)
- **The number of delistings** rose sharply in March to an above normal level (however, the seasonal adjustment is rather uncertain)
- The **inventory of unsold homes** fell further in March at a level 30% down vs. the pre-pandemic level, and down to the local bottom in late 2012
- The **inventory/sales ratio** has contracted sharply too, and is at ATL. The **turnover time** was 35 days in March vs an avg of 54 days. As more homes that have been at the market for a while now are sold, the **average time on market for homes sold** is still high, at 45 days, close to avg. Time on the market will very likely decline rapidly the coming months, as even the shelf warmers are accepted by eager buyers

Number of transactions remains high – particularly in Oslo

Last year, sales have increased more in Tromsø than elsewhere



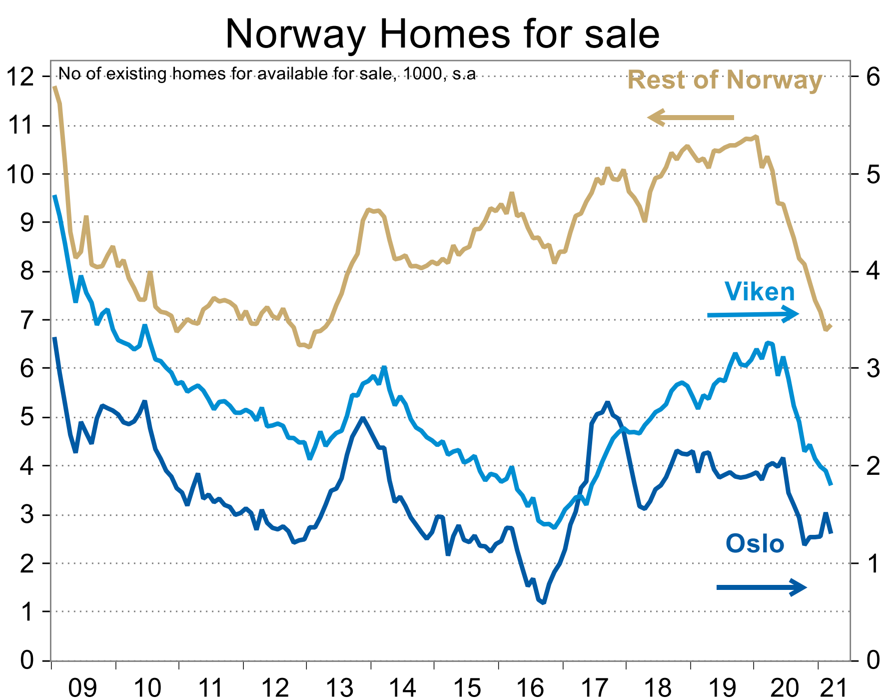


- Also, in Tromsø the inventory of unsold homes is larger than 'normal', and over the last year, prices have appreciated the least among Norwegian towns

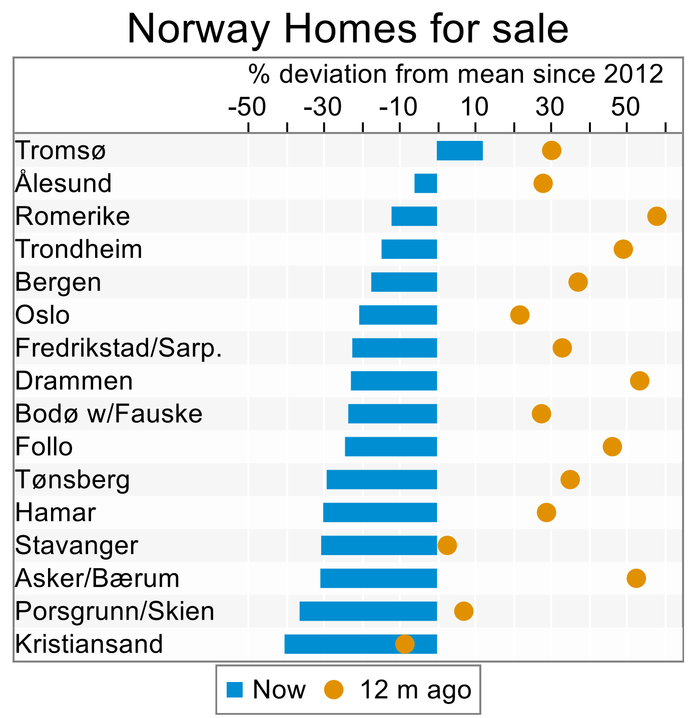
SpareBank 1 MARKETS

The inventory is falling everywhere, and is lower than normal almost everywhere

… and Tromsø is the only town with a higher inventory vs the average since 2012



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

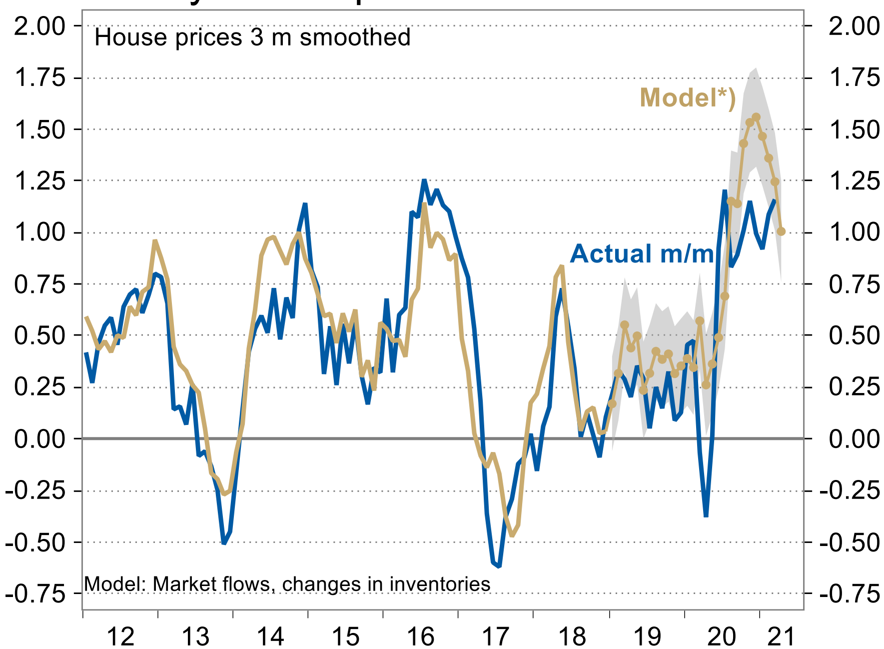


SB1 Markets/Macrobond

Short term market flows suggest continued rapid price growth

However, the model signals a slower growth now than it did over the past months

Norway House prices - short term model

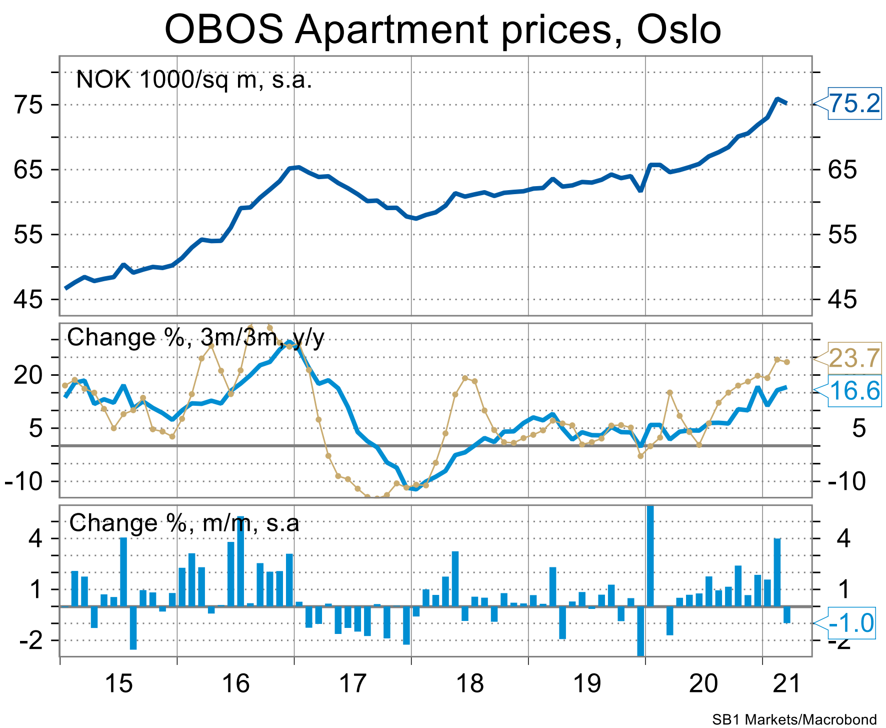


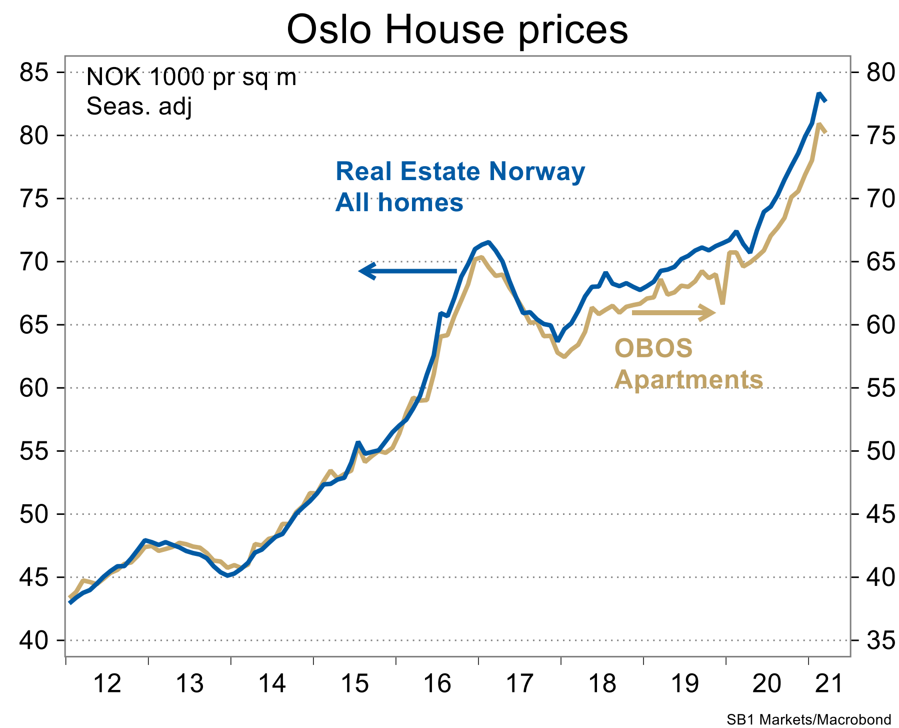
SB1 Markets/Macrobond

- The model based on flows and the inventory signals a 1% growth in house prices
  - » However, the model was to optimistic during the latter part of 2020 and into 2021 (but not in March)
- *This is* <u>*not*</u> *a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

OBOS apartment down 1% in March, close to the overall market

However, OBOS prices rose by 4% in February – and the 1.5% Feb/March average is still very strong

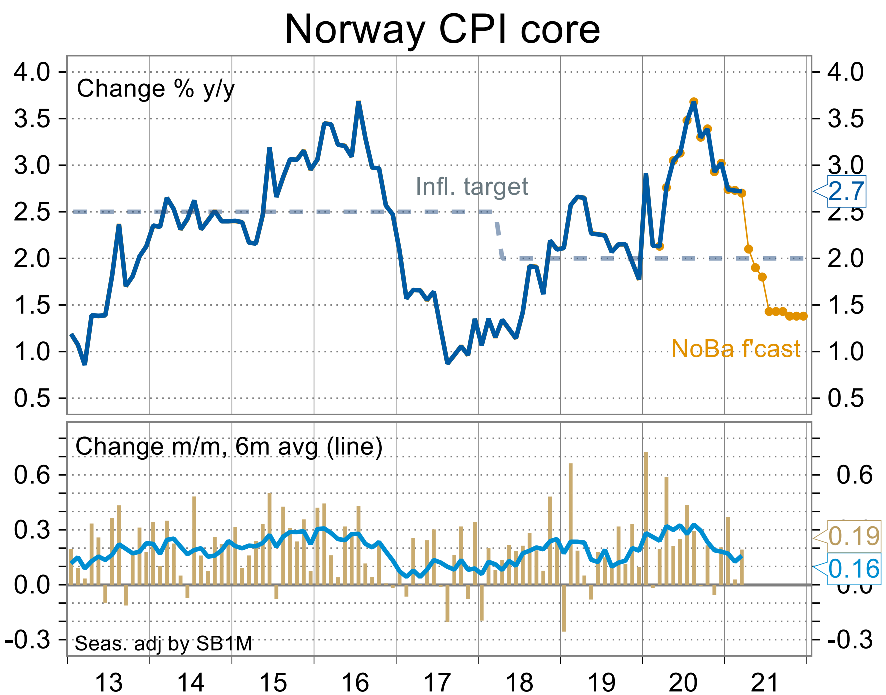


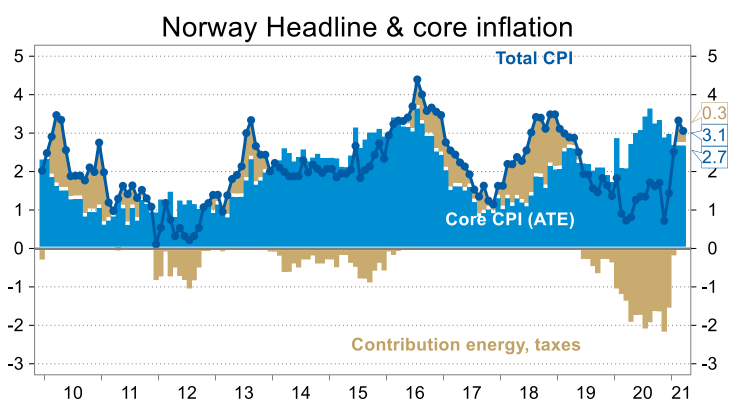


- Co-op apartment prices follow the overall Oslo market quite closely, the average price level is some 6% lower than total Oslo market

Core inflation held steady at 2.7% in March, in line with consensus/NoBa

We expected an uptick to 2.8%. Headline inflation down 0.2 pp to 3.1%, we expected 3.6%





- **CPI-ATE** (ex. energy and taxes) inflation flat at 2.7% in March; in line with consensus & Norges Bank's f'cast, and slightly below our estimate (2.76 ☺)
  - » Prices rose 0.2% m/m (s.a), up from flat in Feb
  - » Inflation is below 2% for housing, clothing, alcohol, communication and airline tickets – others are still above
  - » Imported goods price inflation was up in Feb, but will recede further as NOK effect fades. Domestic services have slowed substantially
  - » Domestic inflation has slowed substantially but remains close to 3%
- **Total inflation** slowed 0.2 pp to 3.1% because energy prices fell (and more than we expected)
- **The price outlook**
  - » We expect inflation to slow the coming quarters as the NOK effect fades and wage inflation remains muted. Demand for goods will have to decline from a very high level, while the 'beaten down services' will probably not have pricing power anytime soon, even if demand should pick up steam during Q2/Q3
  - » Anyway, CPI inflation will not have any material impact on Norges Banks and monetary policy the coming months. It's all about the Covid-19 impact on the real economy, and the outlook for the recovery

SpareBank 1 MARKETS

Lower food & airline ticket prices, rent than expected

Prices of airfare, food, and clothing surprised on the upside

		Change m/m, seas. adj			Change y/y			Contribution, pp		
Mar-21	Weight	Out-	SB1M	Dev.	Last	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	13.0	0.5	0.2	0.3	2.0	1.6	1.7	0.07	0.20	0.04
Alcohol, tobacco	4.3	0.2	0.2	0.0	1.3	1.4	1.4	0.01	0.06	0.00
Clothing, footwear	4.9	-1.8	0.2	-2.0	0.3	-2.0	1.2	-0.09	-0.10	-0.10
Housing x. energy	20.5	0.1	0.1	0.0	0.8	0.9	0.9	0.03	0.19	0.01
Furnishing	6.8	0.9	0.4	0.6	7.0	7.6	6.7	0.06	0.52	0.04
Health	3.2	0.6	0.0	0.6	2.7	3.3	2.6	0.02	0.11	0.02
Transp. ex. gas, airl. tick	12.0	-0.2	0.3	-0.4	5.2	5.0	5.0	-0.02	0.60	-0.05
Airline tickets	1.0	-1.6	0.0	-1.6	-13.3	-16.9	-13.6	-0.02	-0.17	-0.02
Communication	2.5	0.2	0.2	-0.0	1.9	2.2	2.3	0.00	0.06	-0.00
Recreation, culture	11.2	0.5	0.3	0.2	4.2	5.3	4.8	0.06	0.59	0.02
Education	0.5	-	-	-	2.1	2.1	2.1		0.01	0.00
Restaurants, hotels	5.9	0.3	0.3	0.0	2.9	3.0	2.9	0.02	0.17	0.00
Other	8.7	0.1	0.2	-0.1	3.1	3.1	3.2	0.01	0.27	-0.01
CPI-ATE	94	**0.2**	**0.2**	0.01	**2.7**	**2.7**	**2.8**			
Norges Bank est.			**0.1**		**2.7**		***2.7***			
Imported	34	-0.1	0.2	-0.3	3.8	3.8	4.1	-0.02	1.29	-0.08
Domestic	60	0.4	0.2	0.2	2.1	2.1	2.0	0.22	1.28	0.09
Energy, housing	4	-5.7	-3.0	-2.7	41.0	37.6	42.7	-0.21	1.35	-0.10
Energy, transport	2	0.1	3.0	-2.9	0.1	1.9	4.1	0.00	0.04	-0.06
CPI Total	100	**-0.2**	**0.1**	-0.3	**3.3**	**3.1**	**3.6**	-0.17	3.06	-0.31
Change m/m based on seasonally adjusted data (calc by SB1M)										
Sum of parts does not necessarily add up to totals										
Norges Bank m/m s.a. estimate is implied, calc by SB1M										

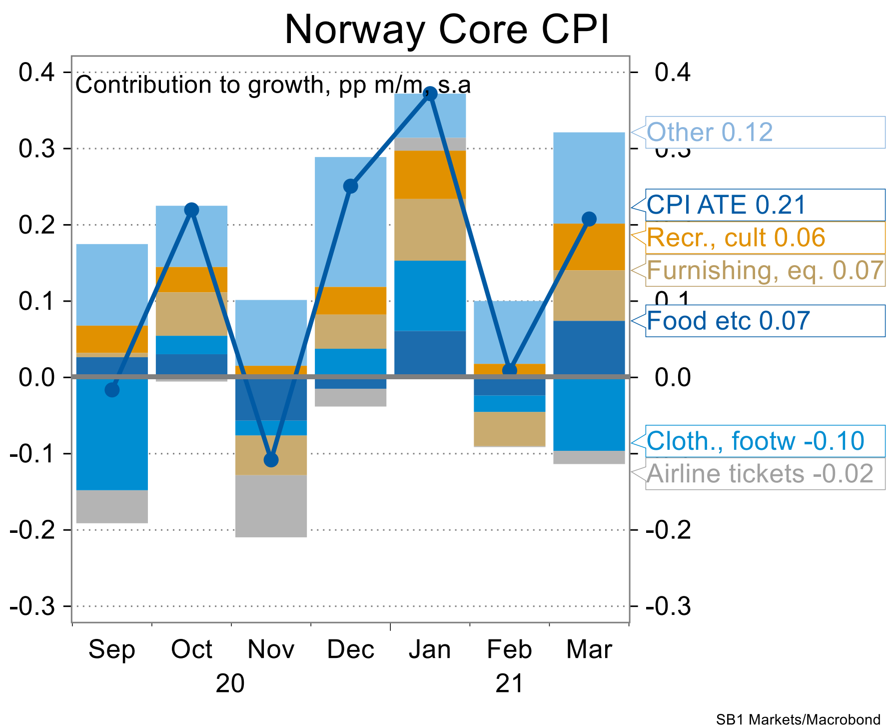
- Food price inflation is down to 1.6%, and below our f'cast
- Clothing prices fell sharply, by 1.8% m/m, and are down 2% y/y
- Furniture/hardware/equipm. prices are up 7.6% y/y!
- Transport ex. gas/airline – mostly cars – rose 5.0% y/y
- Airline ticket prices fell 1.6% m/m, to the extent they are measurable
- Prices of books rose following the decline in Feb, plants up 9%, recreation in sum up 5.3% y/y
- Restaurant/hotel prices are up 3%

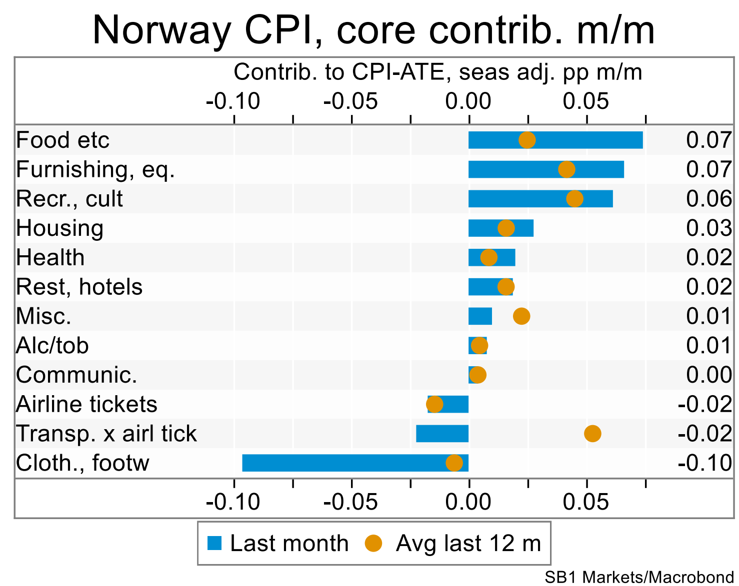
- **CPI-ATE up 2.7% y/y, 0.04 pp below our expectations**
- Prices on imported goods fell by 0.1%, mostly due to lower clothing prices
- Prices on domestically produced goods & services rose by 0.4% m/m. The annual rate at 2.1% is low, according to Norwegian standards
- Electricity prices fell more than expected, gasoline prices rose less. Electricity is up 38% y/y
- **… and the headline inflation came in at 3.3%, equal to our estimate**

Monthly changes are seasonally adjusted by SB1 Markets. The weighted sum of the components does not necessarily sum exactly up to the total, and deviations m/m and y/y do not necessarily add up. Norges Bank m/m s.a. estimate is implied, calculated by us. Sources: SSB, Norges Bank, SB1 Markets calculations

Clothing and (some very few) airline tickets, and other transport cheaper

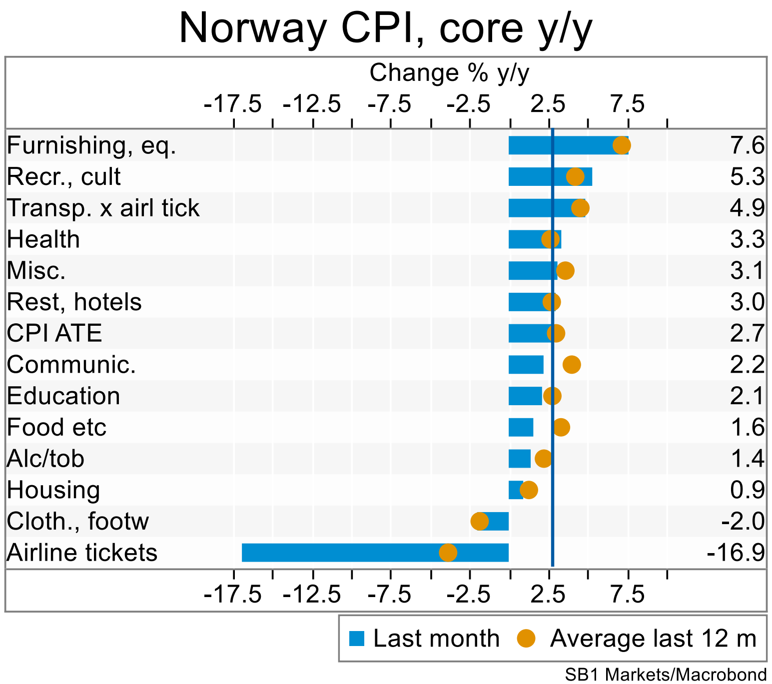
Other goods & services up in March – but none by much (ex. furnishing, equipment)

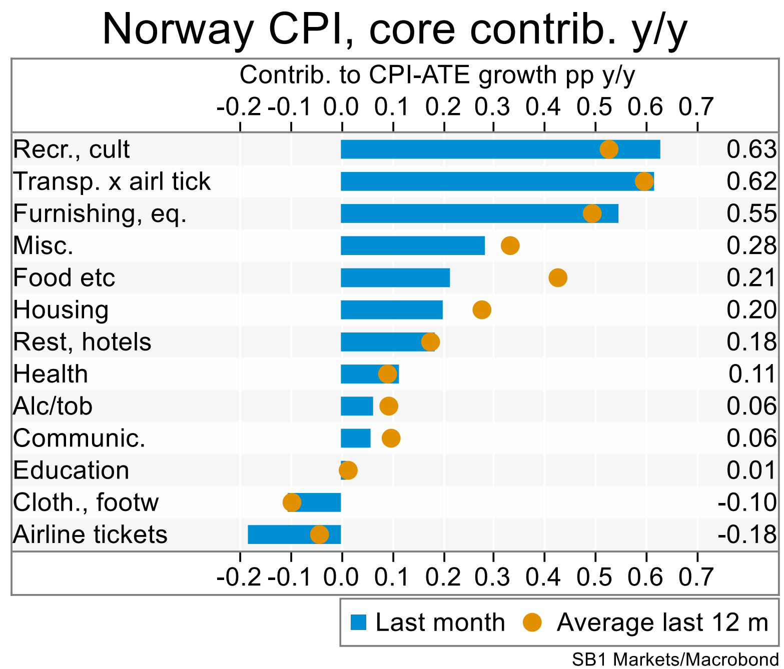




6 sectors report inflation above 2%, 2 are close to 2%, 4 clearly below

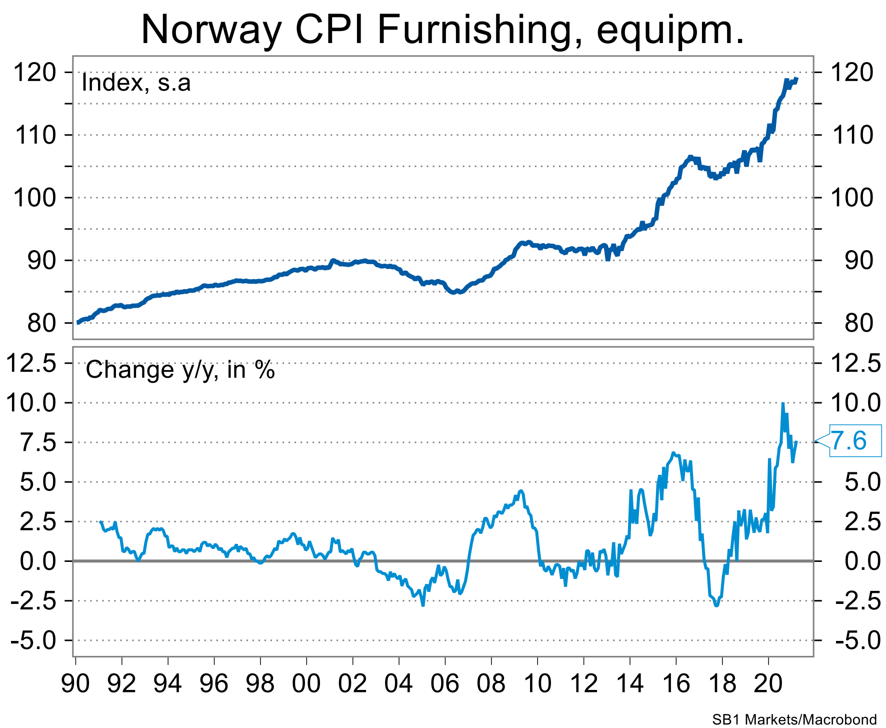
Food inflation is slowing; Clothing, rents, alcohol, communication & airfares << the 2% infl. target

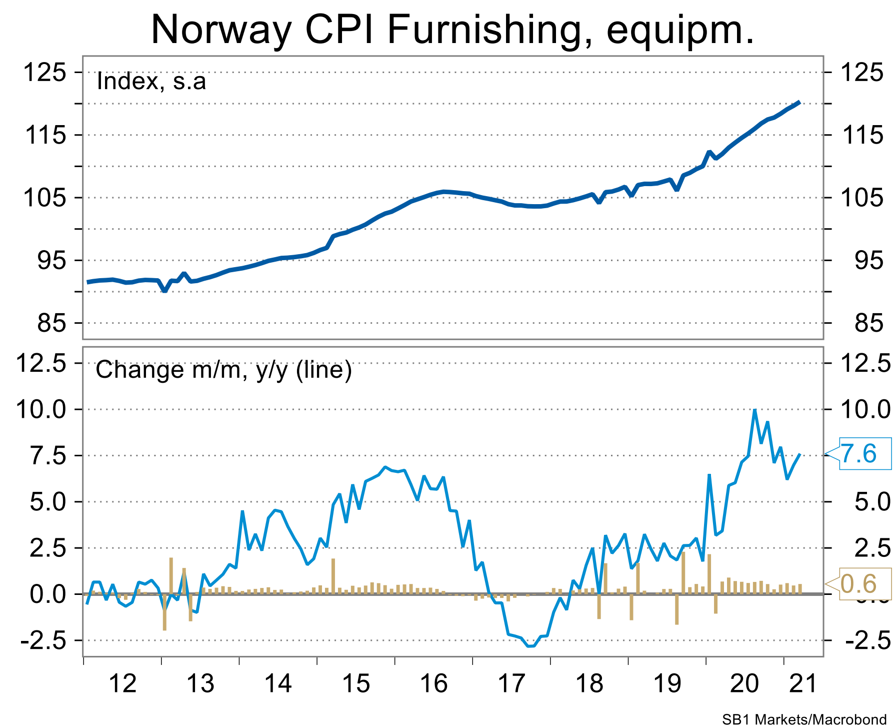




Furnishing prices up 0.4% m/m, 7.6% y/y, still heading down

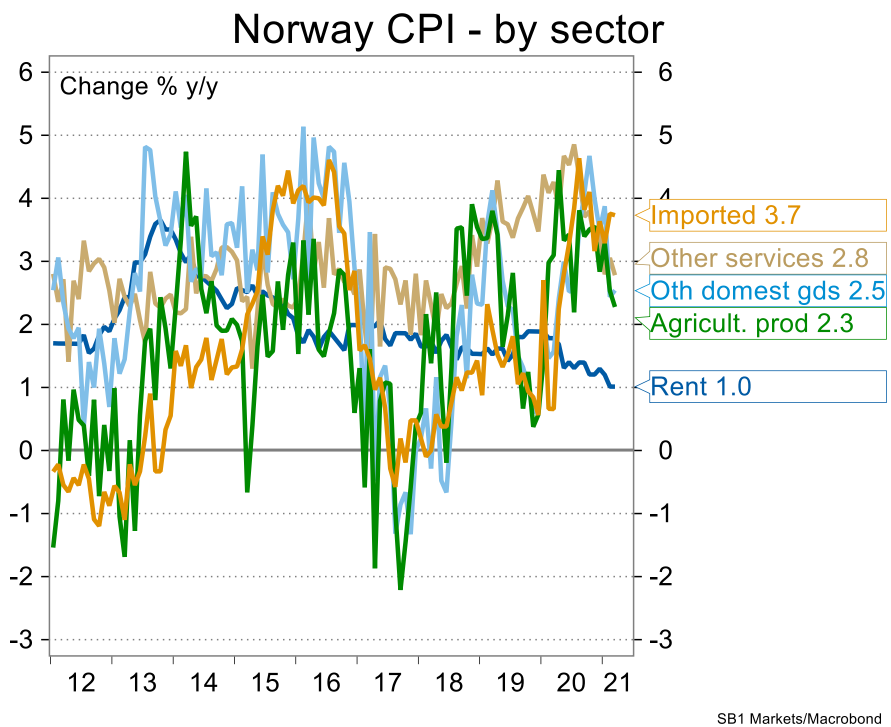
We expect furnishing price inflation to taper further off, even if demand is strong

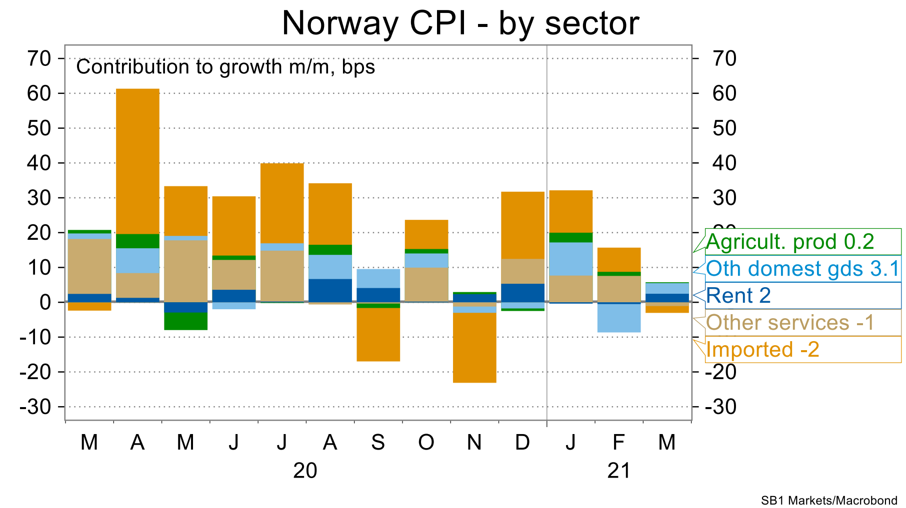


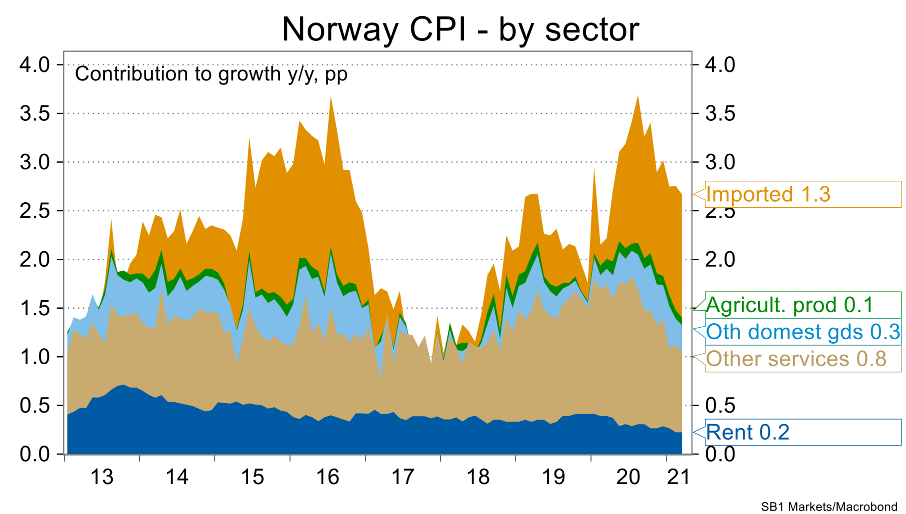


Imported goods prices up 0.2% m/m – and are up 3.7% y/y

Should shrink with a stabilisation/strengthening of NOK. Domestic inflation has slowed substantially



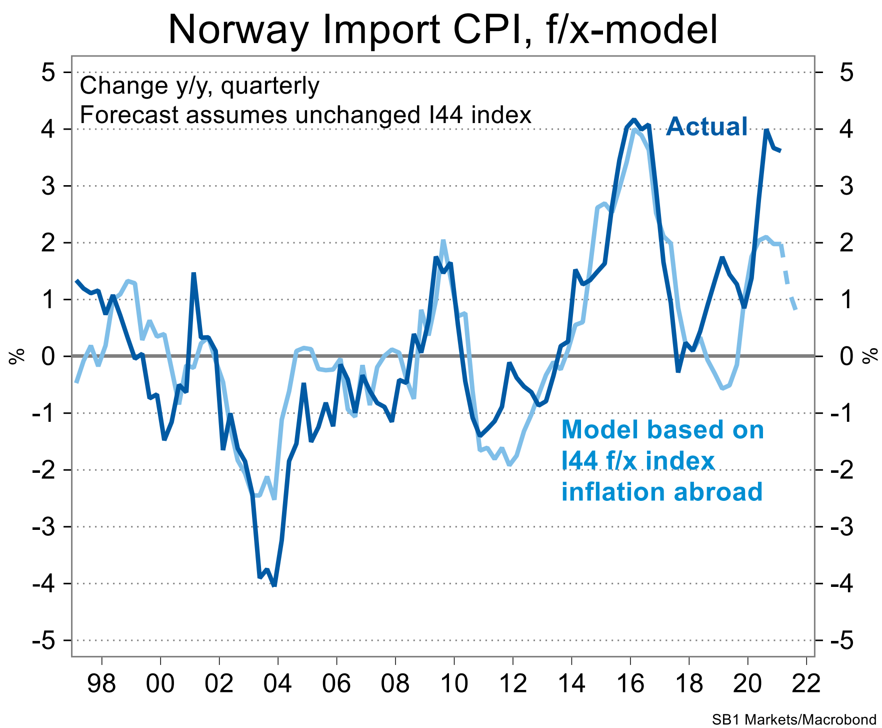


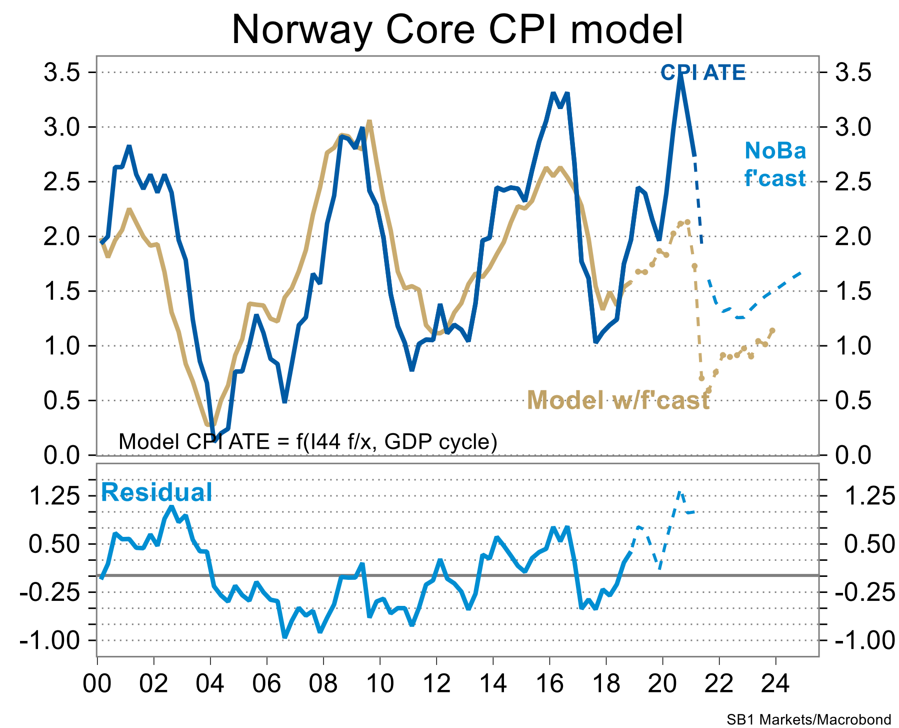


- Domestic services inflation has slowed during the corona crisis

Imported goods prices: Too much up now? Should come down, soon

Our total core CPI model is not calibrated for a huge decline in GDP, but the sign is probably correct



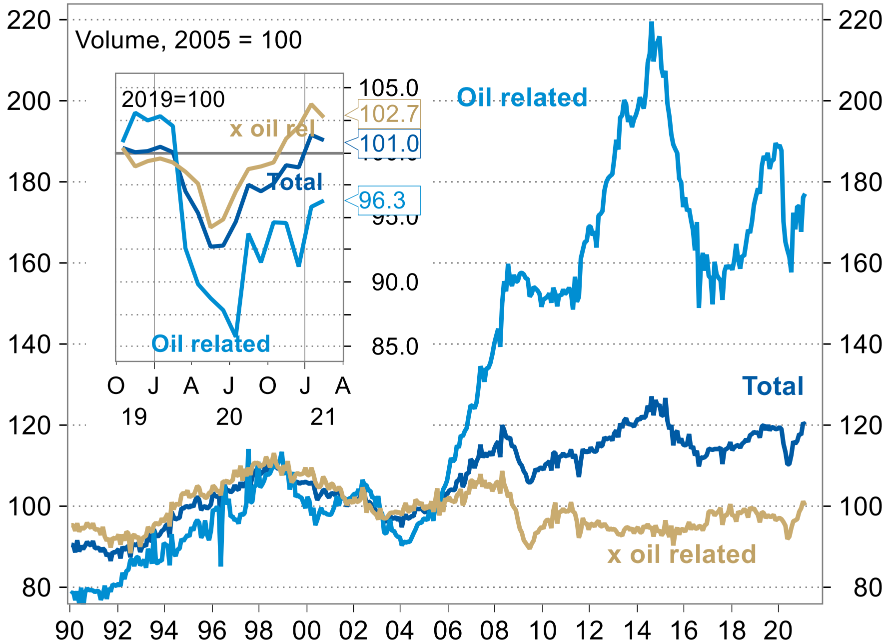


- The NOK steep depreciation in early 2020 has no doubt been driving **imported inflation** up. It usually takes a few months before these impacts are reflected in the CPI. Closed borders/supply chain challenges due to Covid-19 may have contributed to the lift in import prices too, and more importantly: the strong growth in demand for some goods (like sport equipment/furniture)
  - » Still, given moderate inflation abroad and a stabilisation of the NOK exchange rate, we expect imported inflation to slow the coming months – and quarters
- Domestic inflation will be kept in check due to low wage inflation – and total inflation will come down, as signalled by our **total core CPI** model (to the right)

Manufacturing production down 0.4% in February, less than we expected

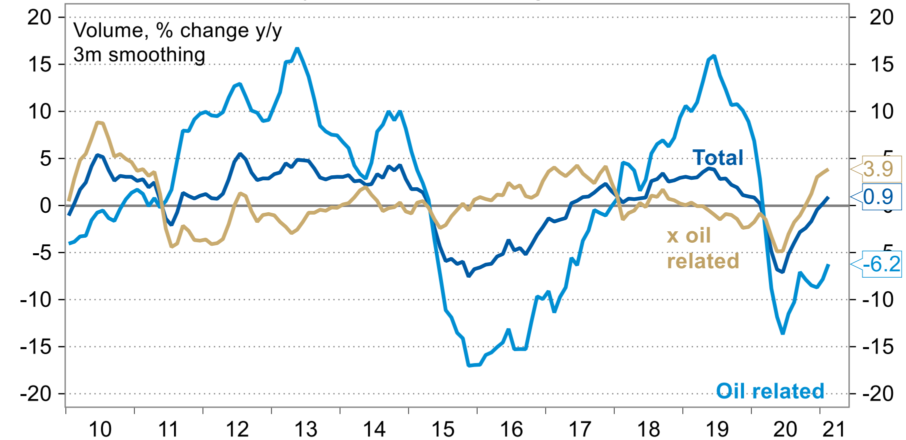
Production up 9% since last summer, non-oil production the highest in 9 years

Norway Manufacturing production



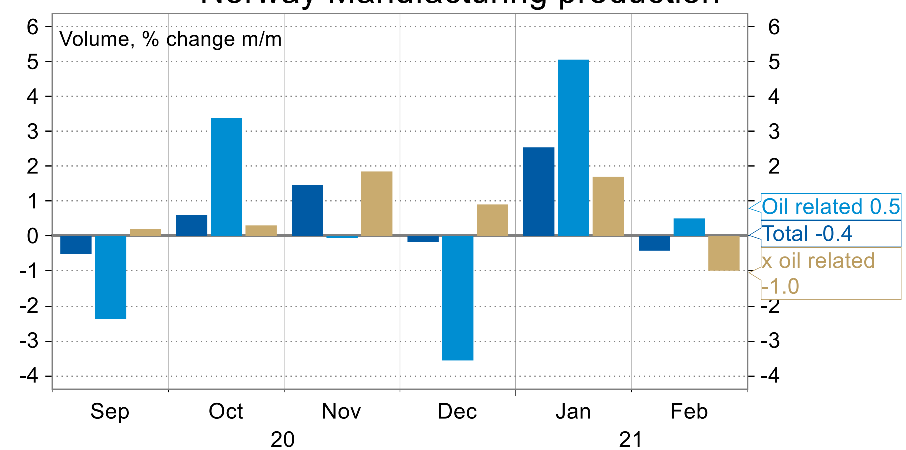
SB1 Markets/Macrobond

Norway Manufacturing production



SB1 Markets/Macrobond

Norway Manufacturing production

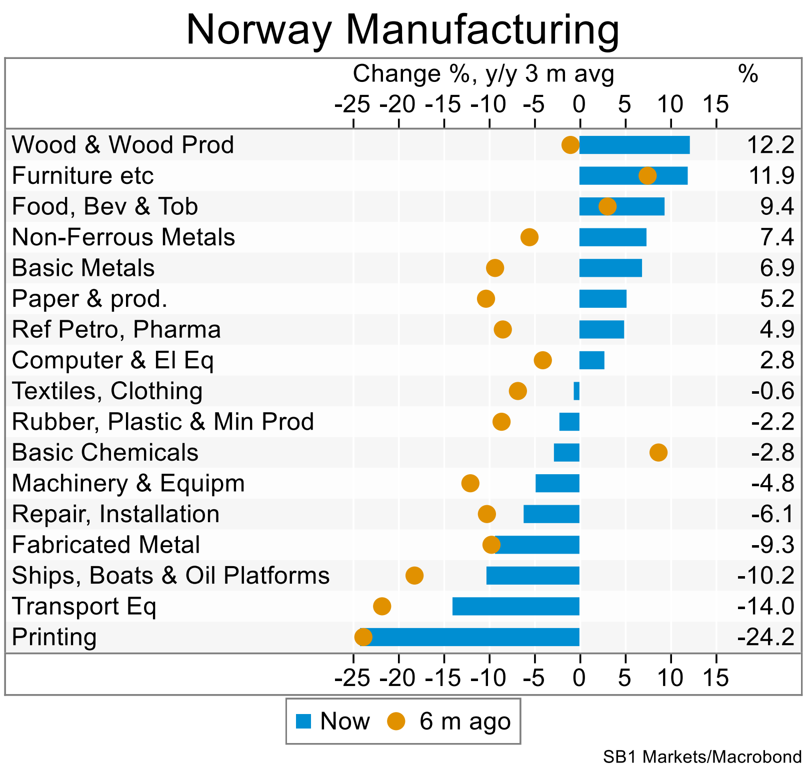


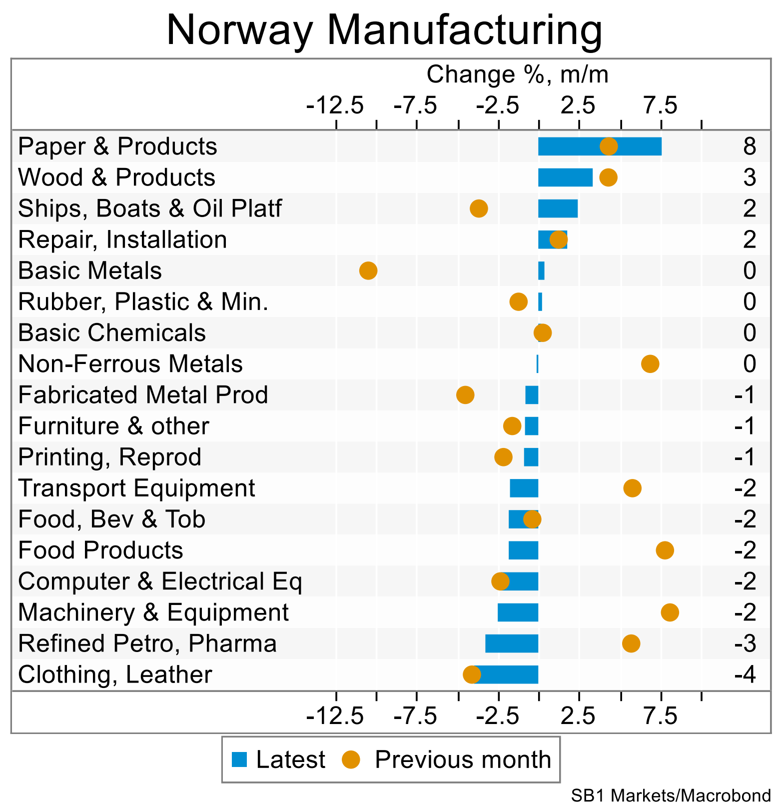
SB1 Markets/Macrobond

- Production has been at a steep upward trend since June, in total by 9%.
- Total production decreased by 0.4% m/m, we expected -1.2% following the 2.5% lift in January. Production is up 0.9% y/y (not smoothed, as on the upper right chart)
- Oil related production fell by 1% m/m, and is down 5.6% y/y
- Non-oil related production grew 0.5 % m/m, and up 3.5% y/y
- Surveys are recovering – and the PMI was very strong in March

Mixed between sectors m/m, and now half are up y/y

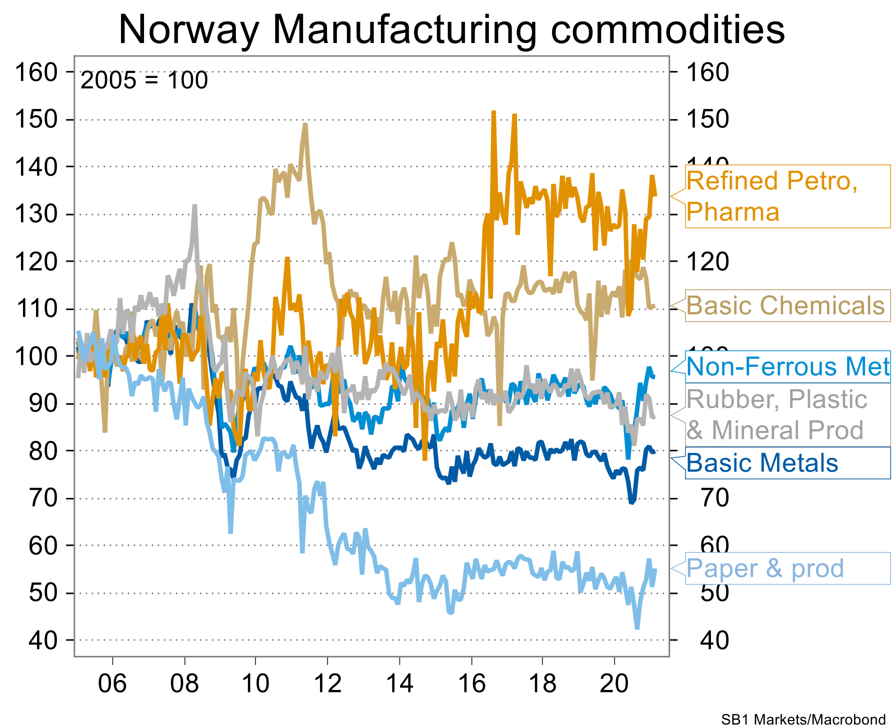
…but only 6 of the sectors are up m/m

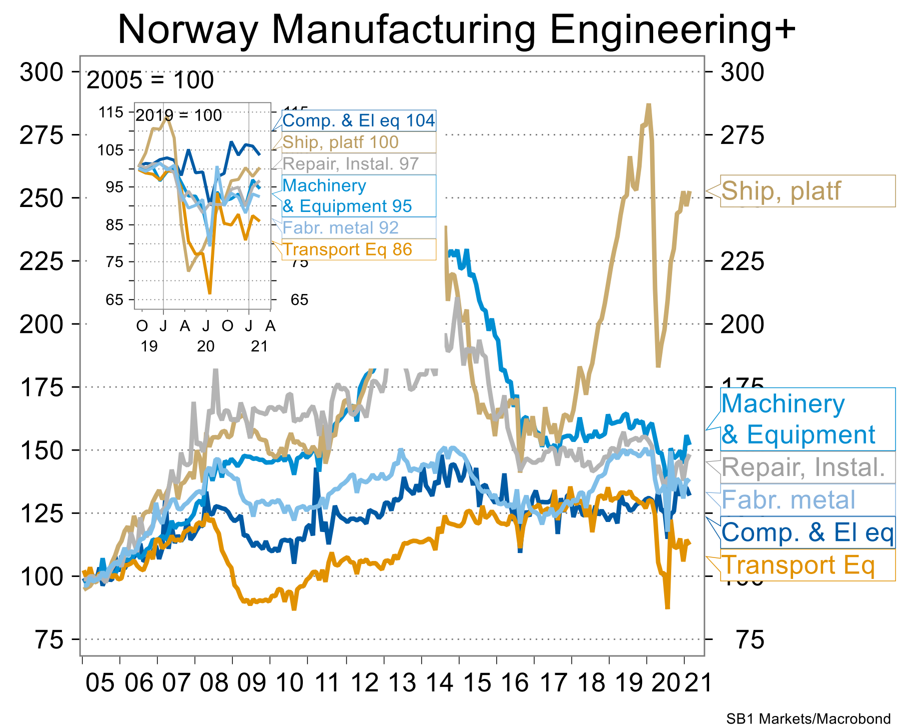




Engineering (and oil related) industries mostly weaker in February

Commodity sectors flat/down

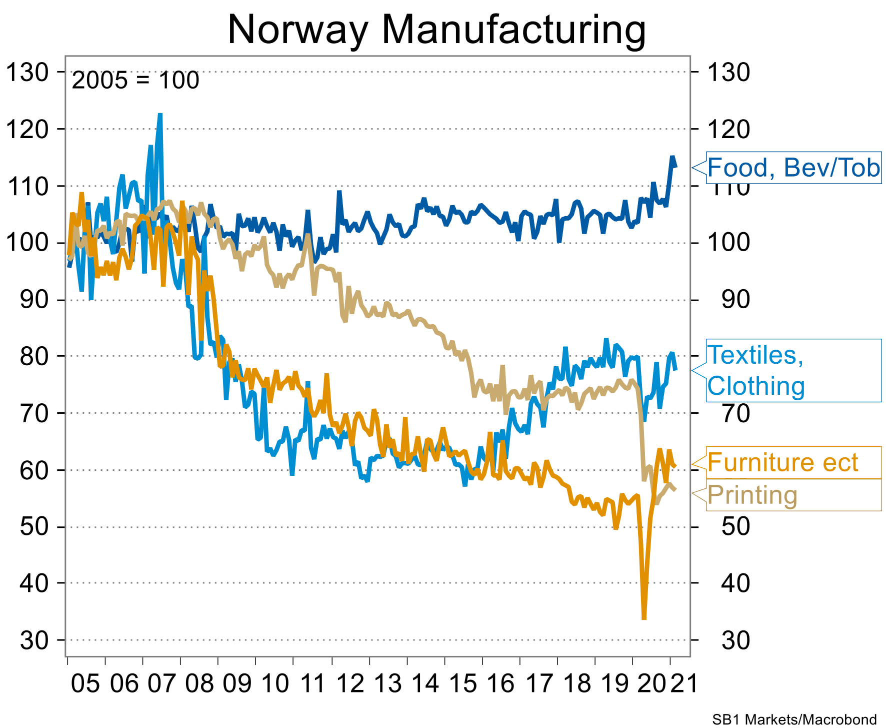




- Production of ships & platforms was incredibly strong in 2018/19, then fell 30% in H1 last year but has now recovered sharply since last e summer. After a decline in January, the industry was up 2.4% in Feb. Repairs and installations were up 2.1% m/m. The rest were down
  - » Corona measures, supply chain challenges probably explained parts of the drop during the spring
- Commodities have all recovered from the spring through, but have declined/been flat for the last couple of months

Food and beverage production somewhat down but is still strong

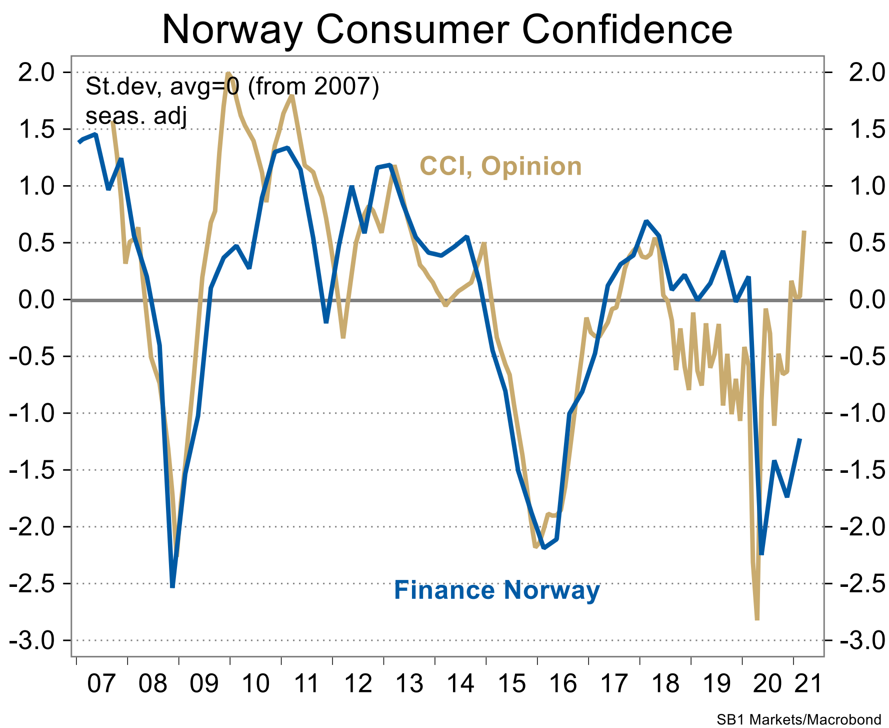
... and will remain high until borders are opened



- The food and beverage industry declined 1.8% in February
- Furniture, clothing, and printing all slightly lower

Consumer confidence sharply up in March, according to CCI

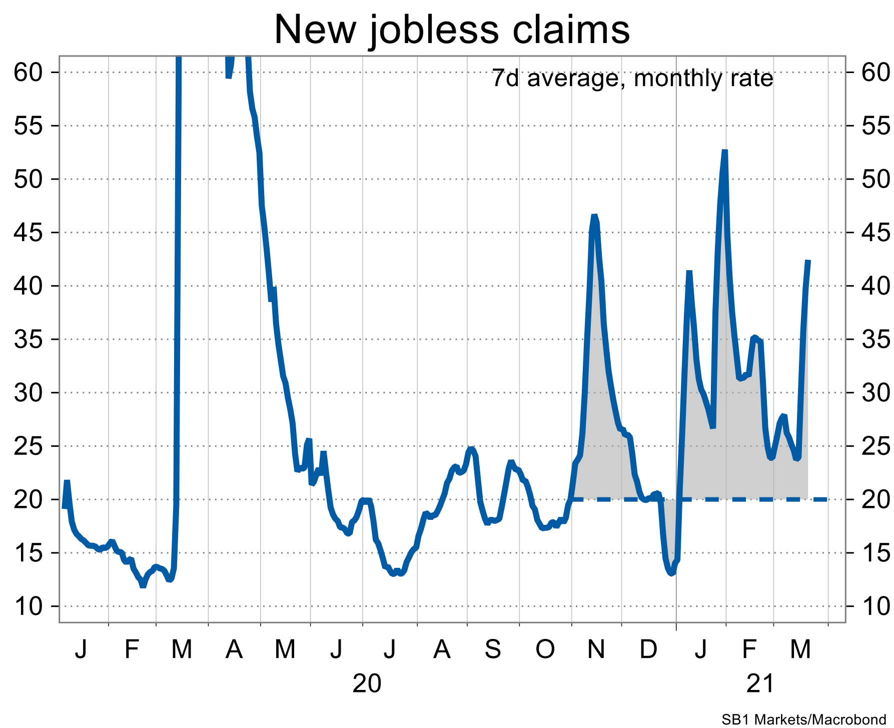
The index rose more then 0.6 st.dev, to 0.6 above an average level, best since 2013

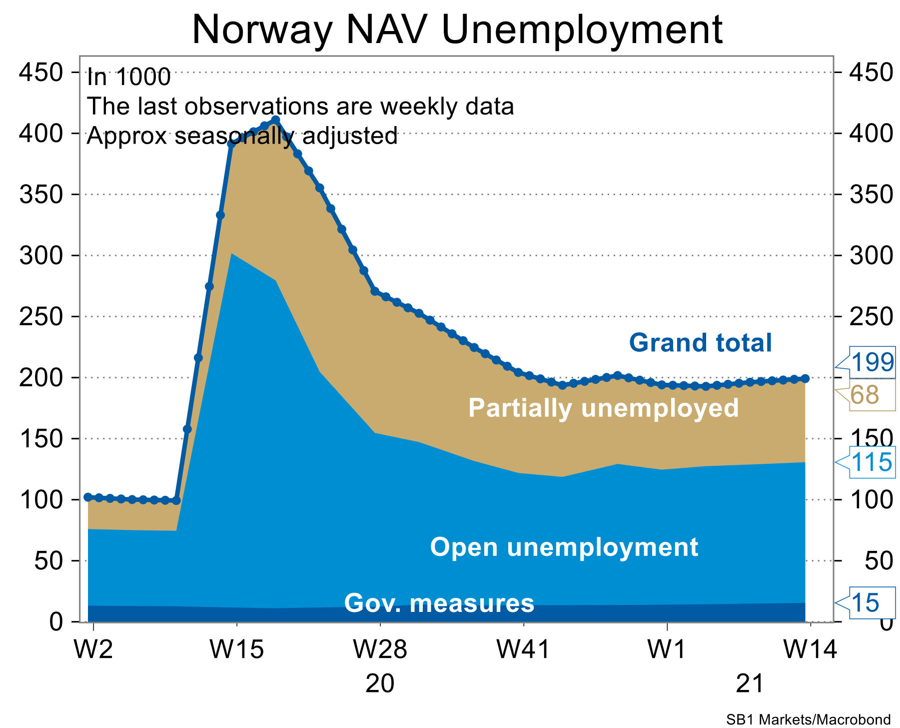


- ... even if tighter corona restrictions were decided
- Finans Norges confidence quarterly survey was far weaker in Q1 (data from Jan/early Feb)
- Even so, the lift in Opinion's monthly, and more volatile survey, does not temper our optimistic view on the recovery in demand for services as soon as the virus/restrictions allow!

More temporary layoffs due to new restrictions

Still, the increased inflow of new jobless claims since last October has not materially lifted unempl.





- The last 5 ½ months new jobless claims have been 45' higher than 'normal' (some 20' per month)
- Still, the remaining stock of jobless claims is up by just 5' – and there are no signs of any explosion in April

Highlights

The world around us

The Norwegian economy

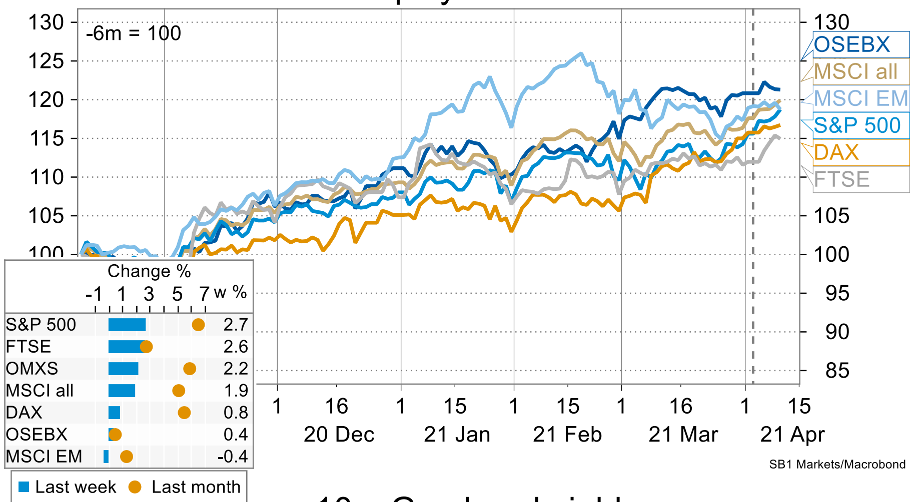
Market charts & comments

SpareBank 1 MARKETS

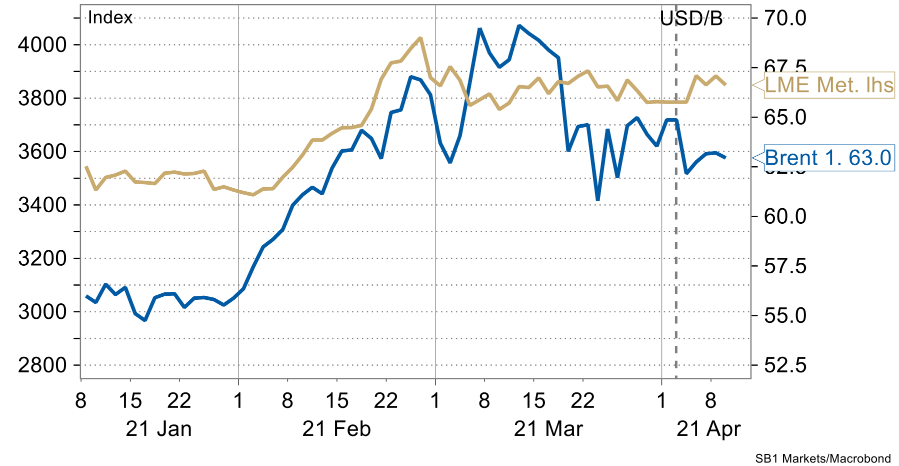
Equities in the green and bond yields reversed Easter's hikes

Metals still stable. Oil & the NOK down

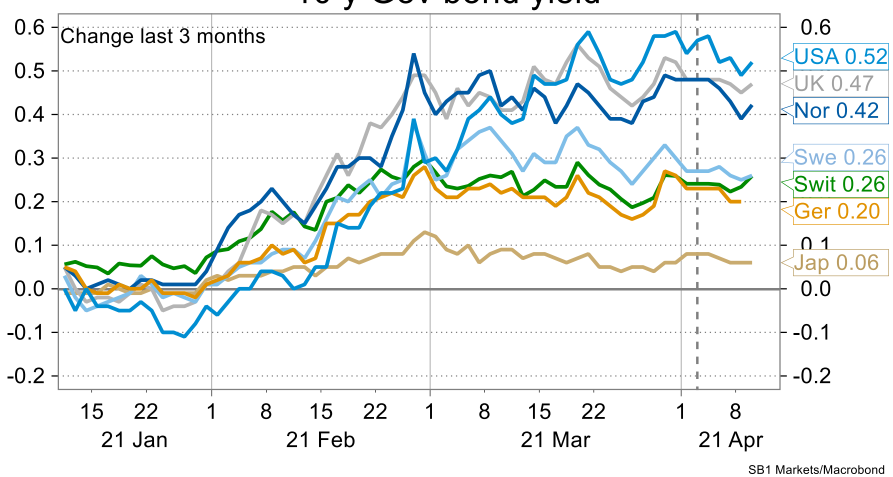
Equity Indices



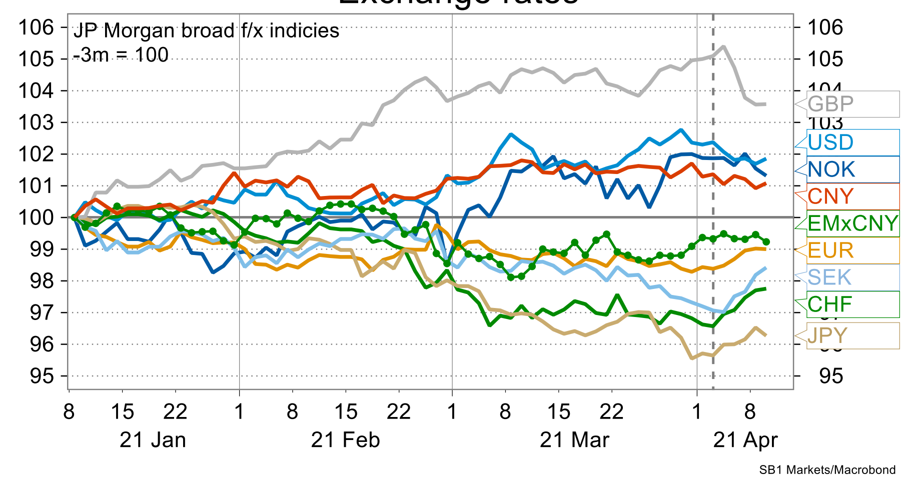
Oil vs. metals



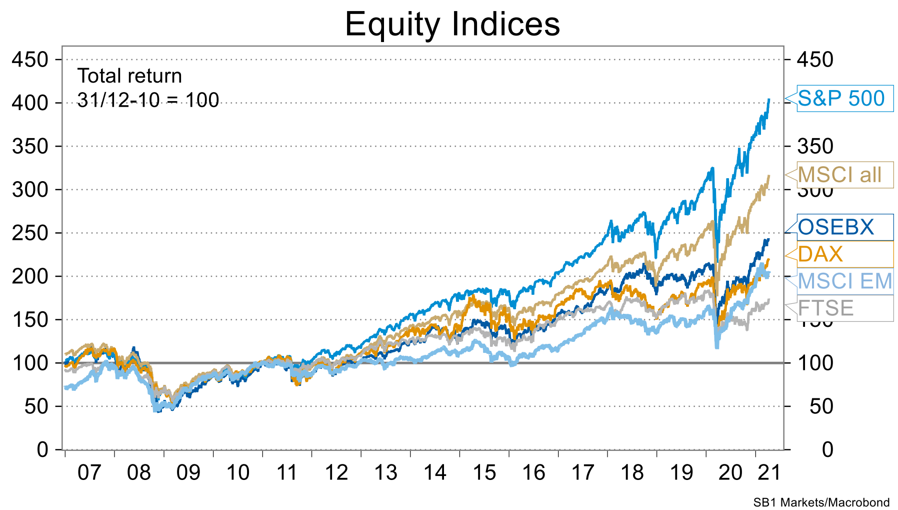
10 y Gov bond yield

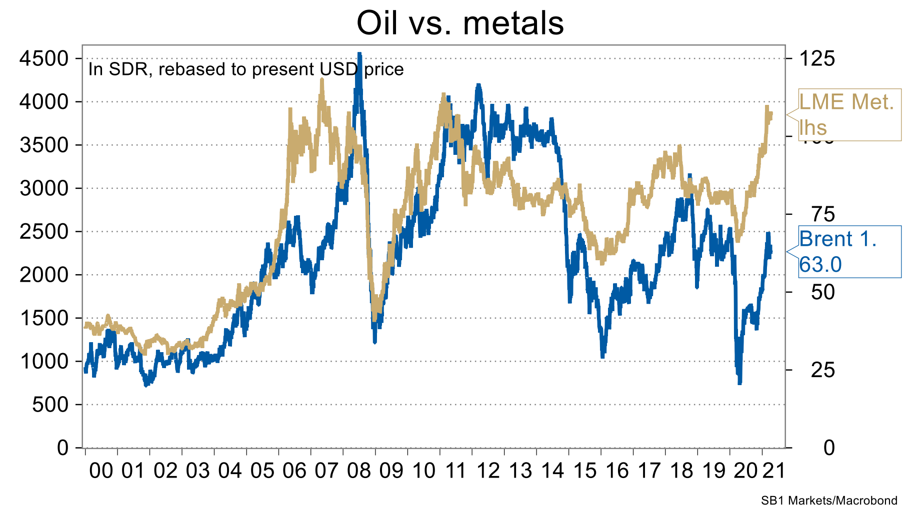


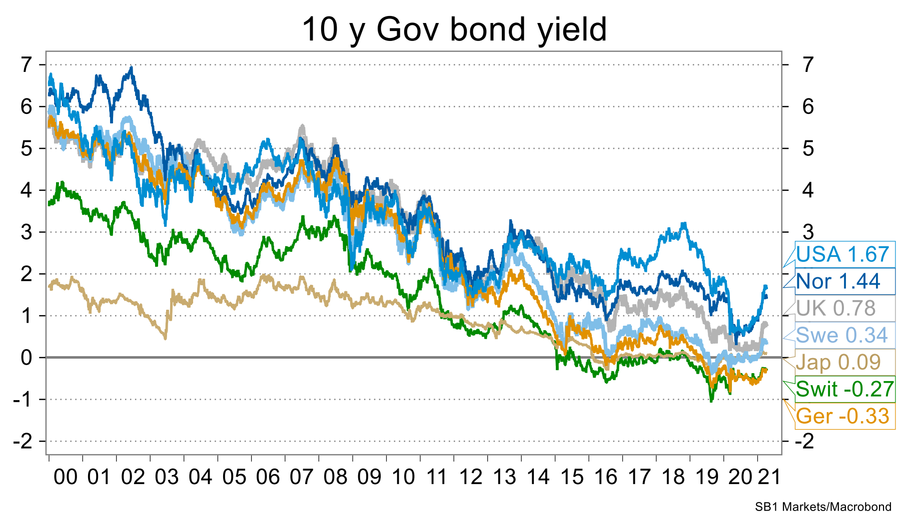
Exchange rates

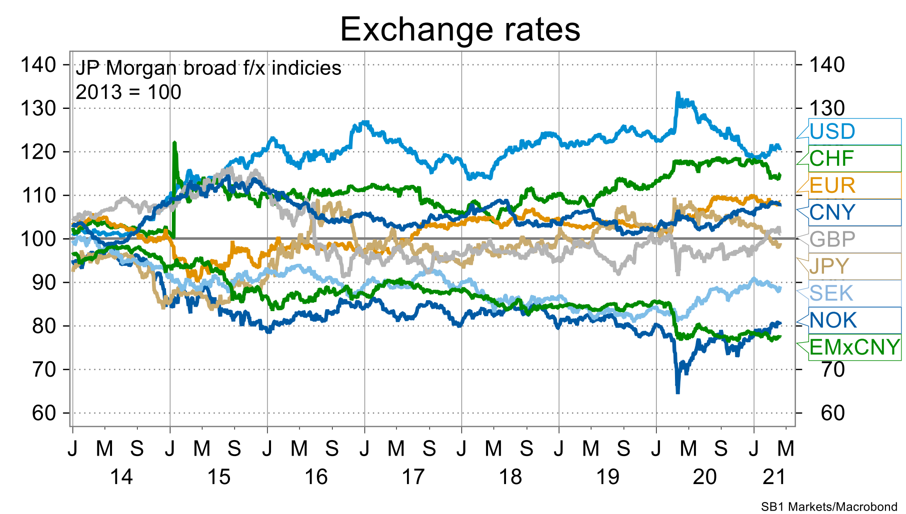


Positive growth expectations: the trend for longer yields and commodities is up

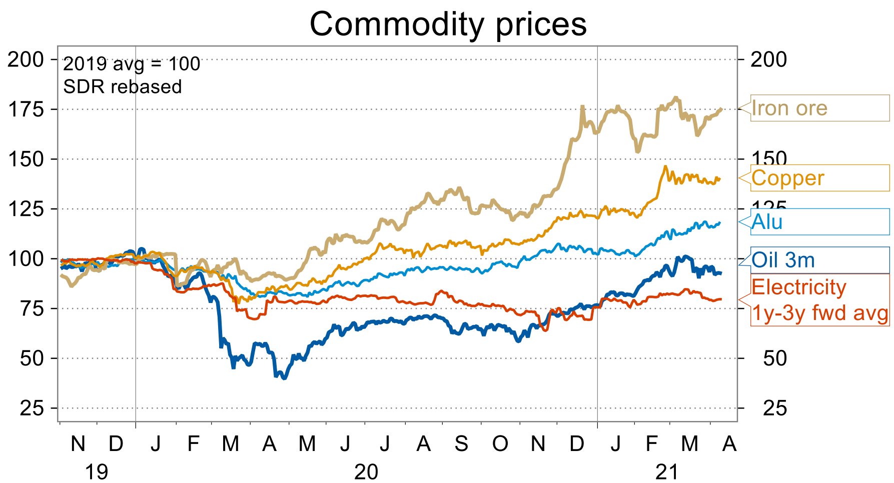


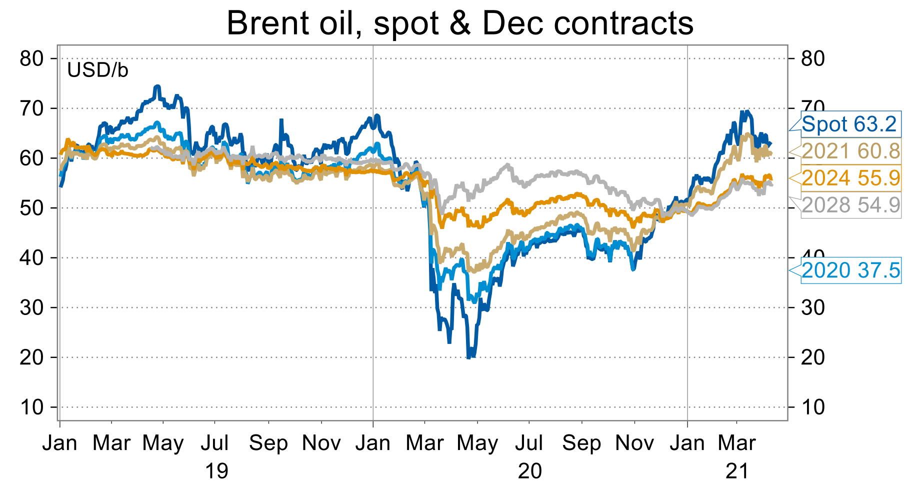


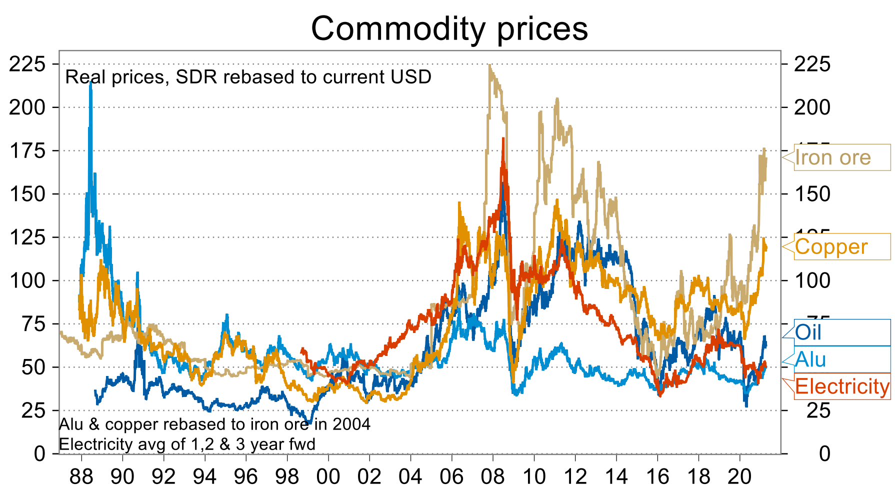


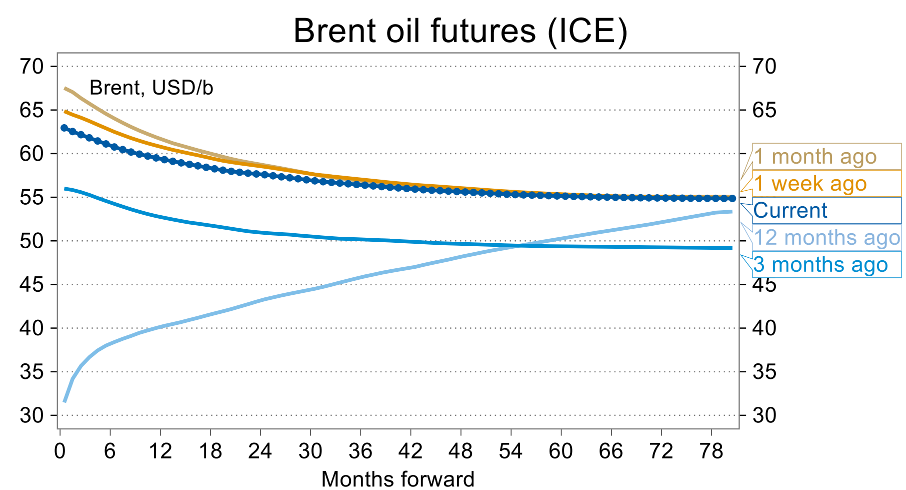


Commodity prices have stabilised – iron ore up last week – oil is slipping



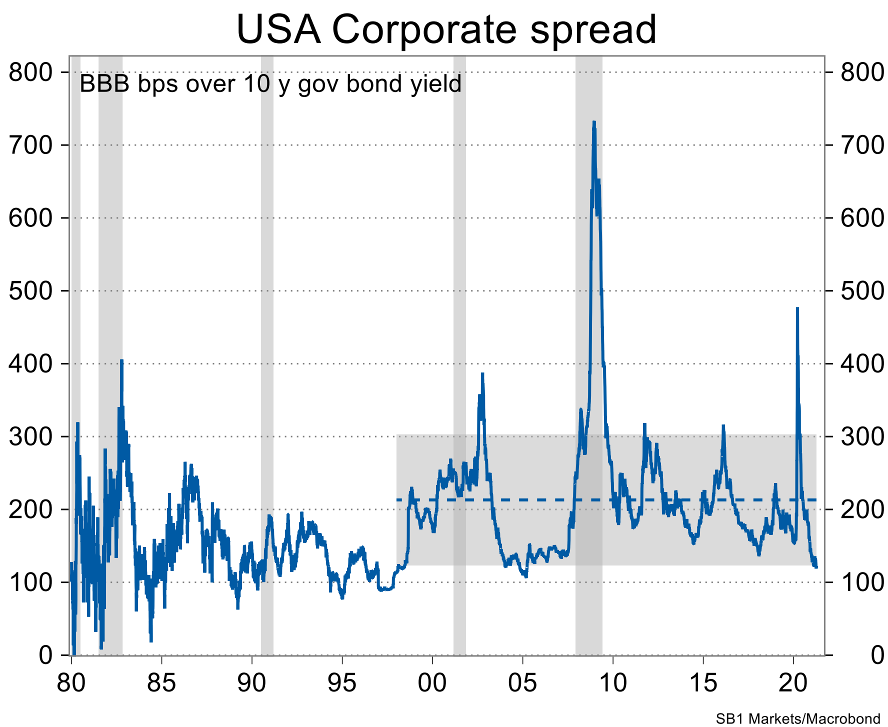


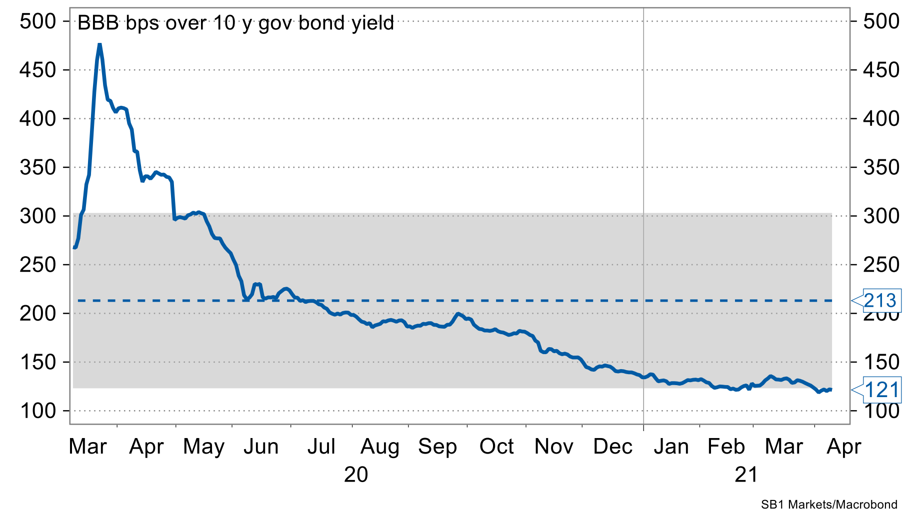


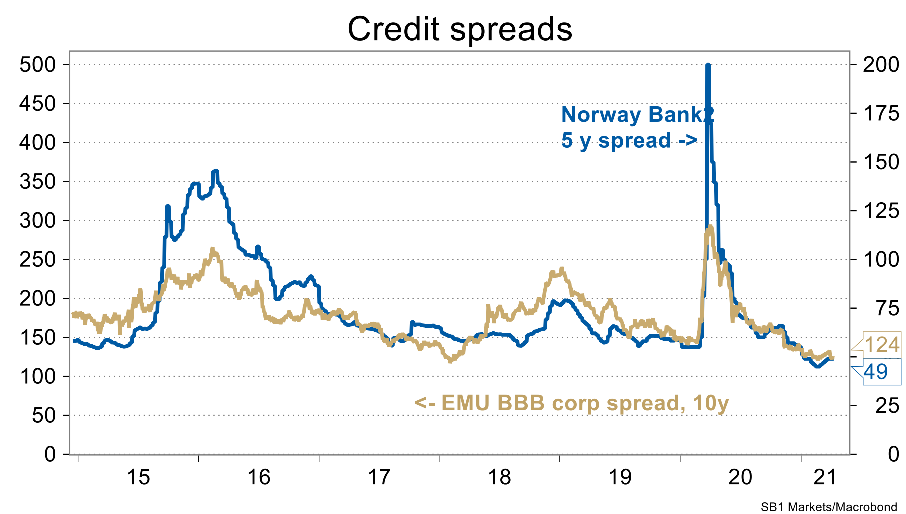


SpareBank 1 MARKETS

Credit spreads abroad have fallen recent weeks, Norwegian bank spreads not

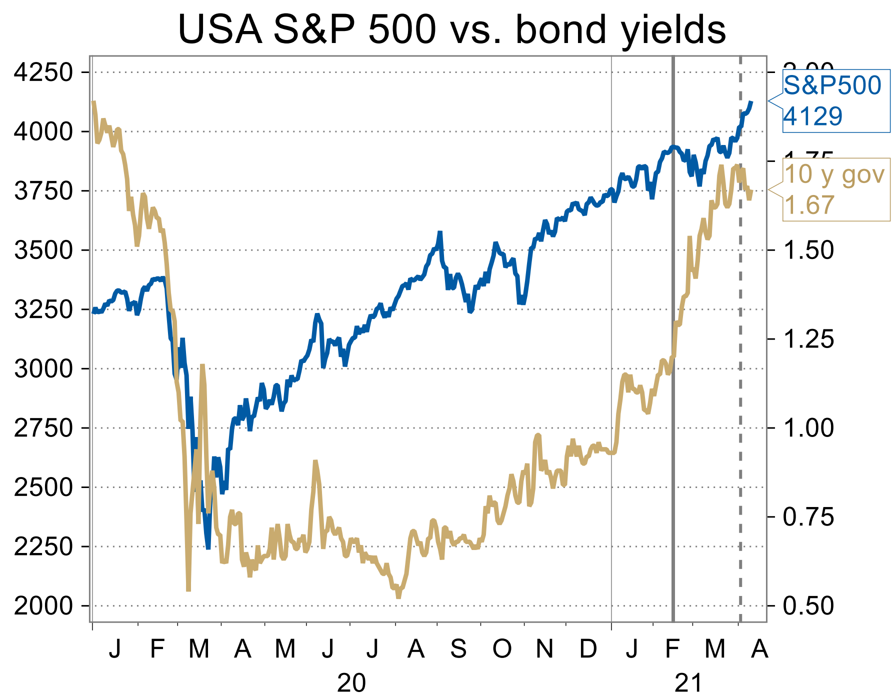






Towards the Goldilocks corner again: Stocks up, yields down

… not due to good inflation news, just another reassurance from the Fed that rates will not be hiked



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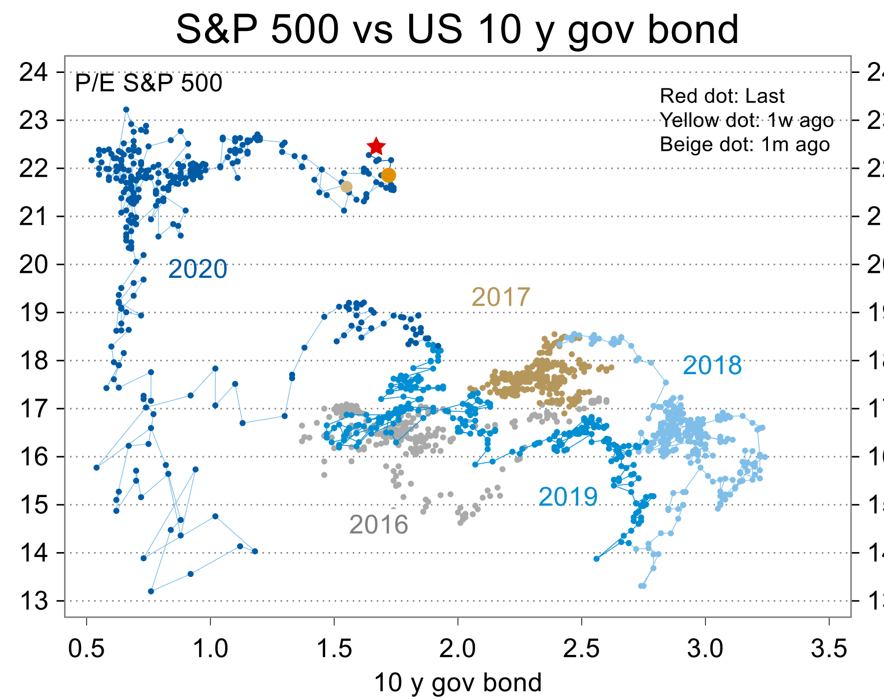

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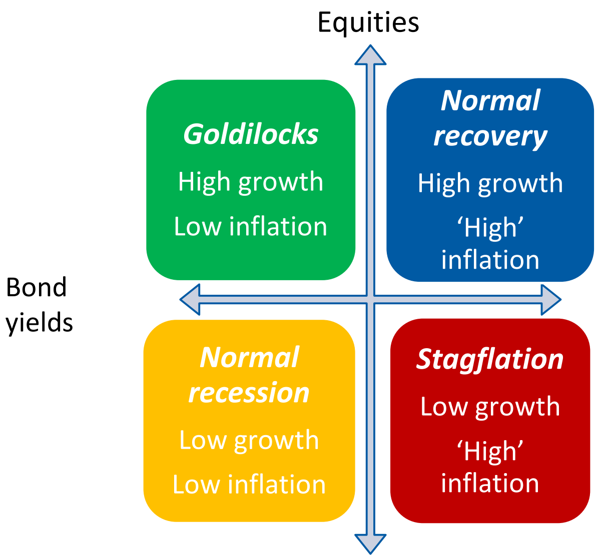
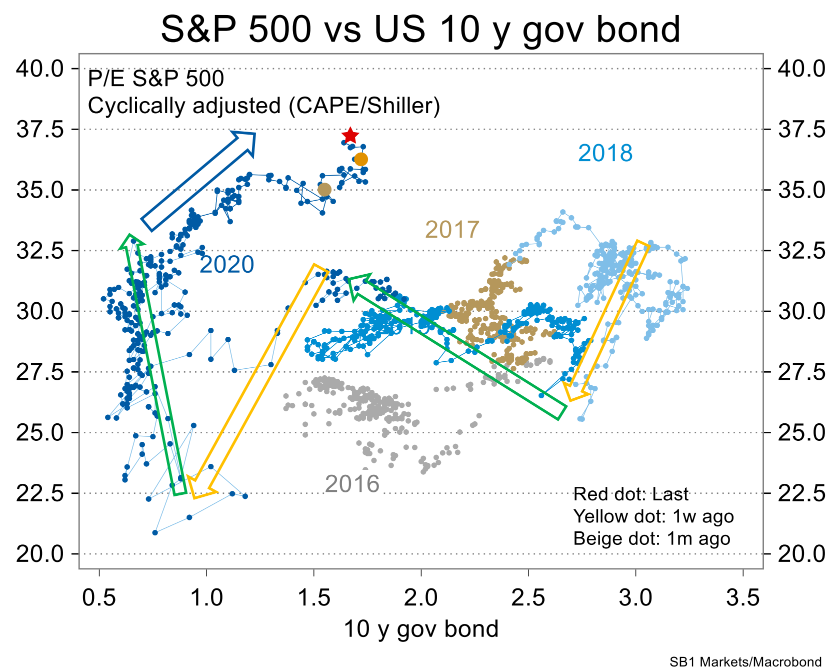
A long term view: From the 'Goldilocks corner', where to go?

The stock market is still tolerating a steady increase in bond yields



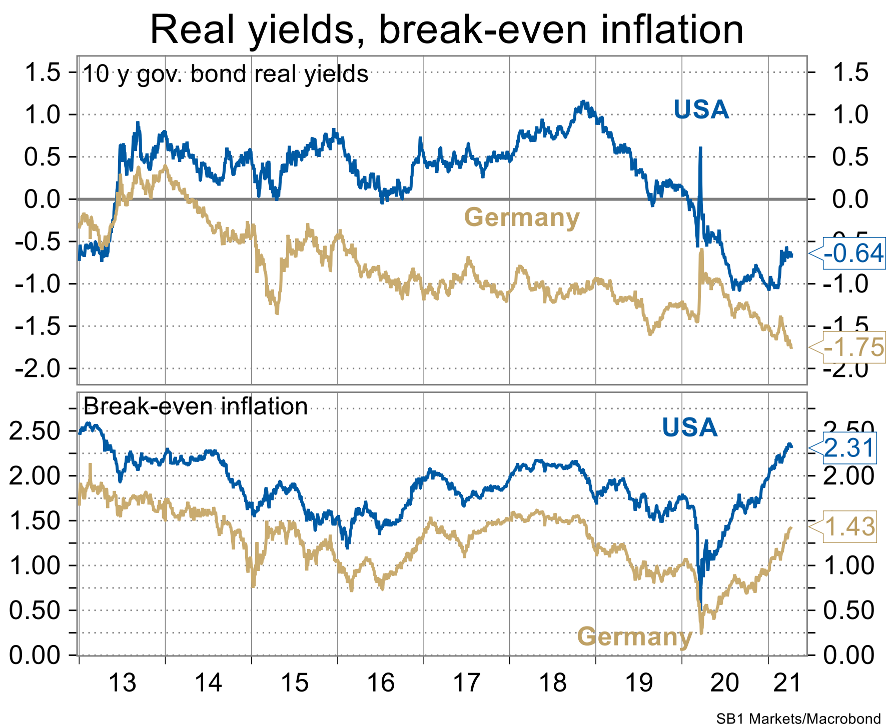


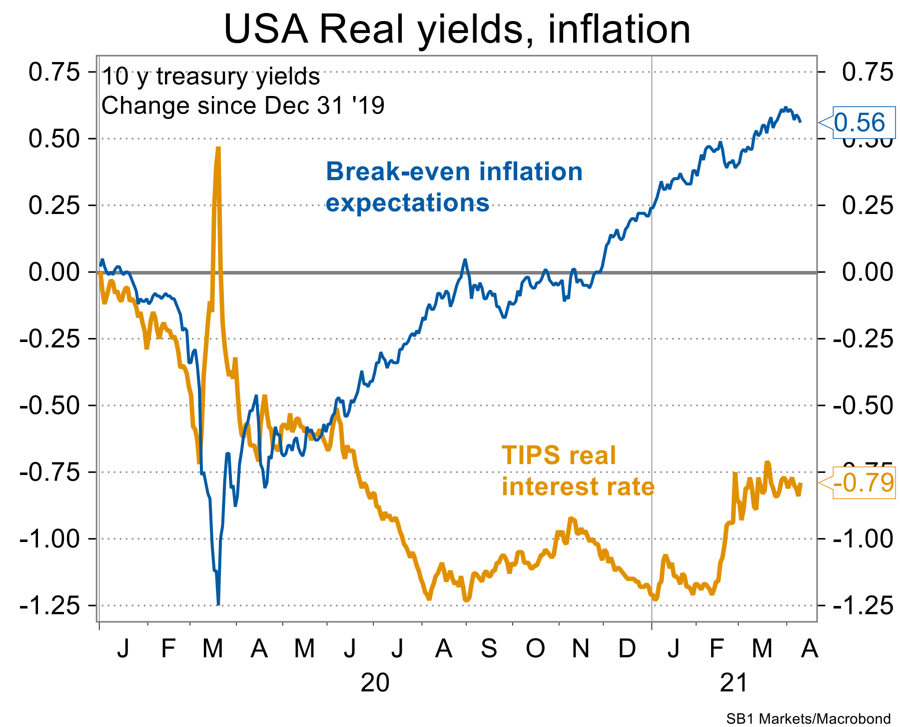
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets

- **The FOMC/Powell** has reiterated that the bank will not hike its signal rate before the economy has recovered, unemployment is brought down, and inflation has increased to above 2% and is expected to remain above 2% for a while – and that the bank plans to keep the Fed funds rate at zero at least until 2024. A modest increase in bond yields in a such positive growth environment without the Fed hiking could be associated with a move towards the recovery corner, which is positive for stock markets too… if the starting point were in the normal recession (yellow) corned, low yields & cheap equities
- However, since H2 2018 bond yields have fallen, and the equity market has climbed – and markets moved well into the 'green corner', as growth expectations have not fallen together with lower yields, as has 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). The Fed had to revise its growth forecast sharply. The equity market has for a long time discounted a rapid recovery – without having to take into account the normalisation of bond yields, 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 for, is unchanged equity market pricing (P/E-wise), but growing earnings will yield moderate returns even as yields increase. The 2nd best 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 1.72% - or even less a -0.55% 10 real TIPS bond yield
- The 3rd alternative, which is not good at all: The stagflation scenario, the red corner. At the least, the probability has increased recent months. And the Fed did not calm these fears last week, by giving some nods to the market. Thus, markets may start to fear central banks are running crazy too. It has happened before

Inflation expectations a tad down – but we think the trend is still intact

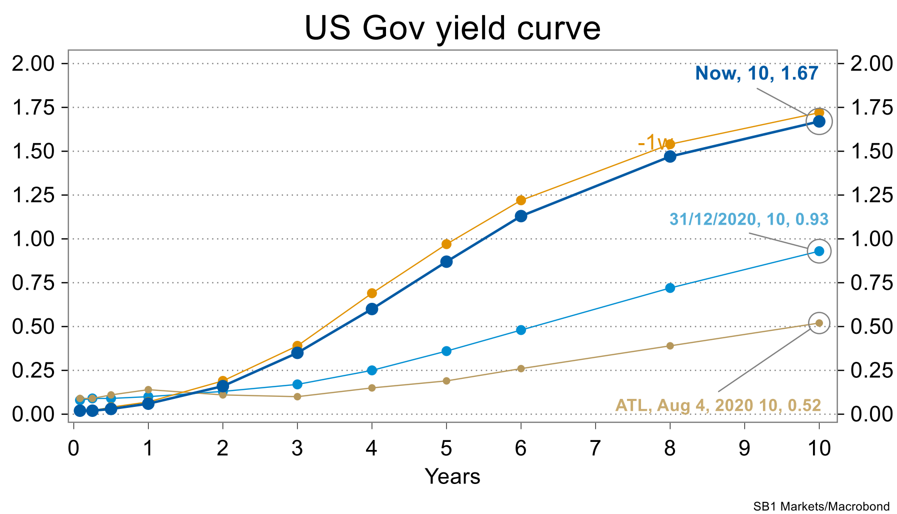
A 10 y US break-even inflation rate at 2.31% is not low. The German 10 y real rate at -1.75% is at another new ATL

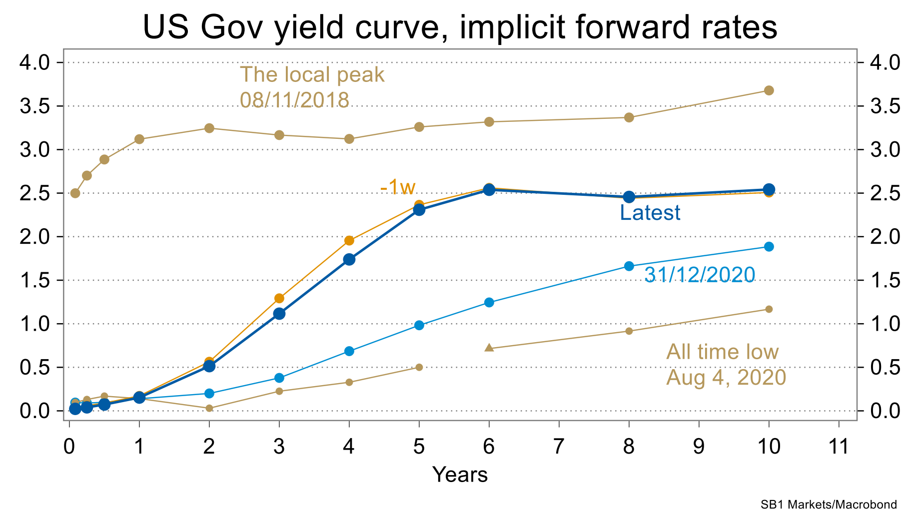


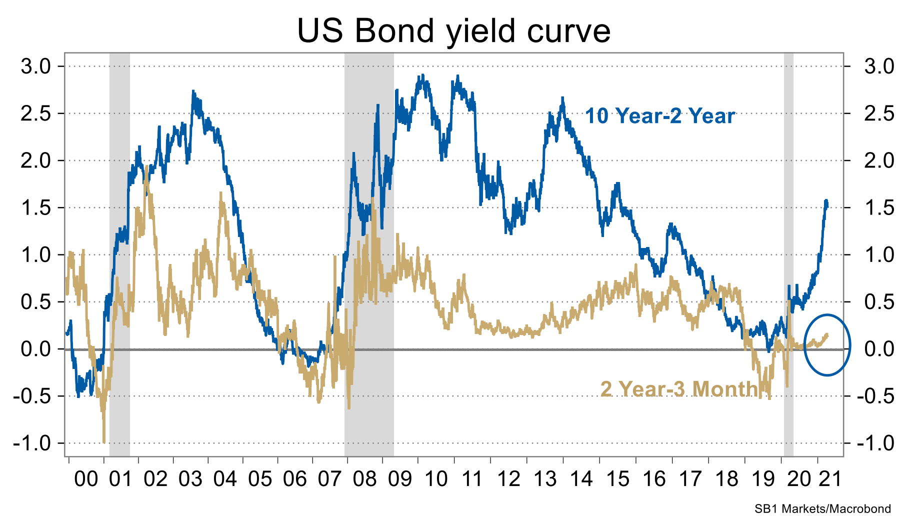


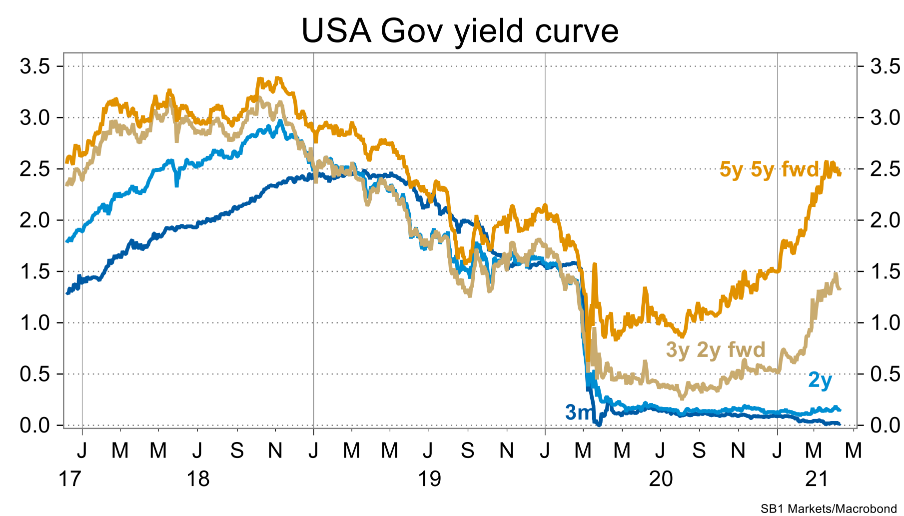
- **US 10 y <u>down 5 bps 1.67%</u>**
  - » Inflation expectations 5 bps to 2.31%, **still close to high since 2013**
  - » The TIPS real rate flat at -0.64 – **<u>up by 46 bps since mid Feb, still very low</u>**
- **Germany <u>10y flat at 0.30%</u>**
  - » Inflation expectations +4 bp to 1.45%, **highest since 2018, still at a low level vs. ECB's inflation target**
  - » Real rate -5 bps to -1.75%, **another ATL**

A downward shift in the US, most (implied) at the 2 – 5 y segment









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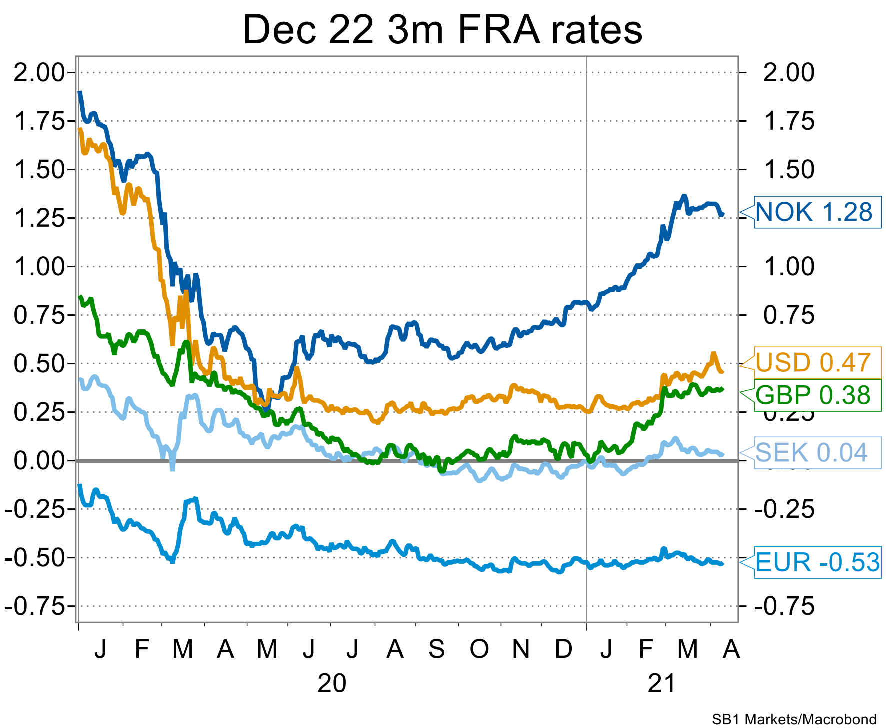
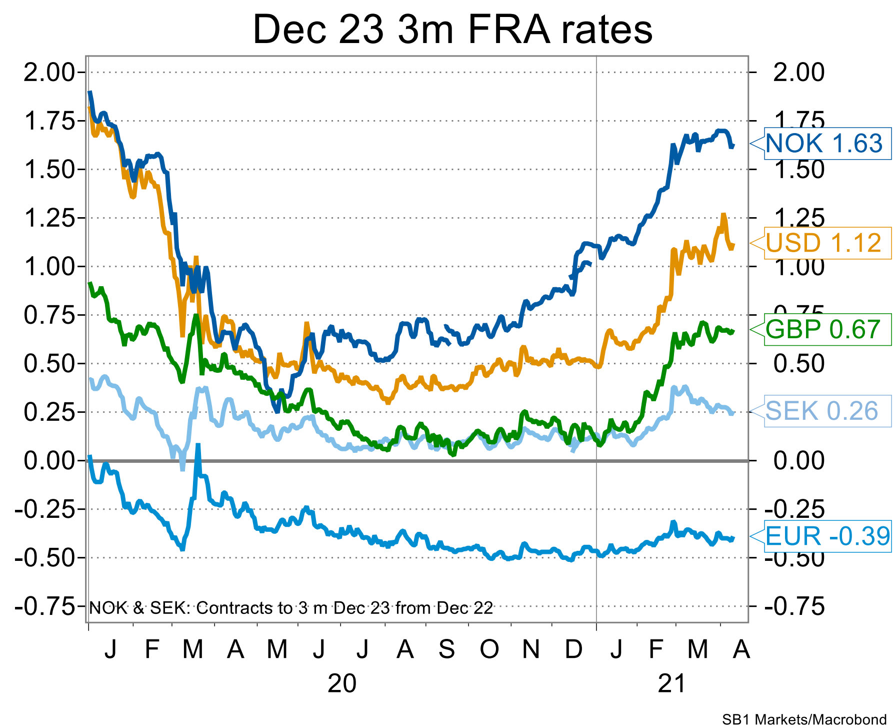
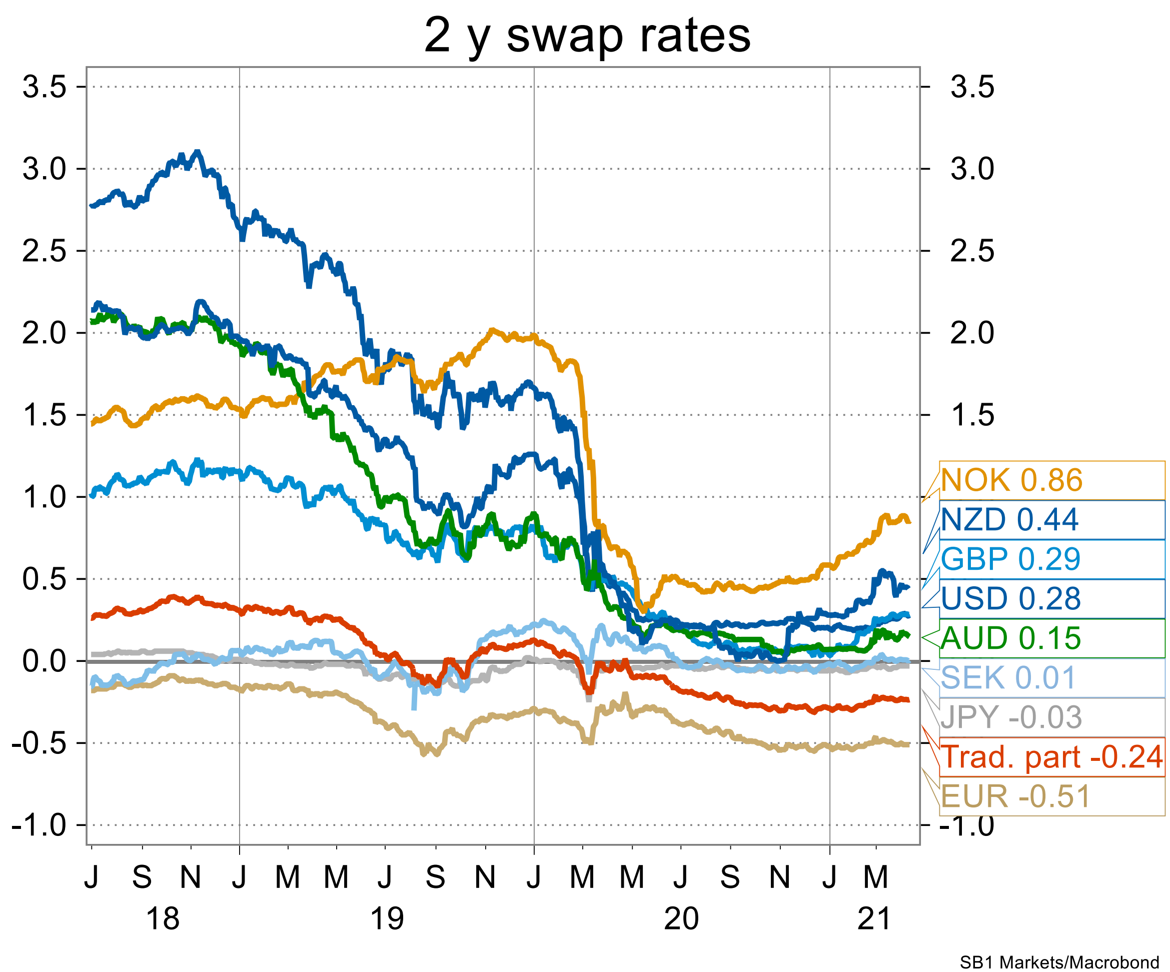
Interest rate expectations: USD & NOK FRAs down

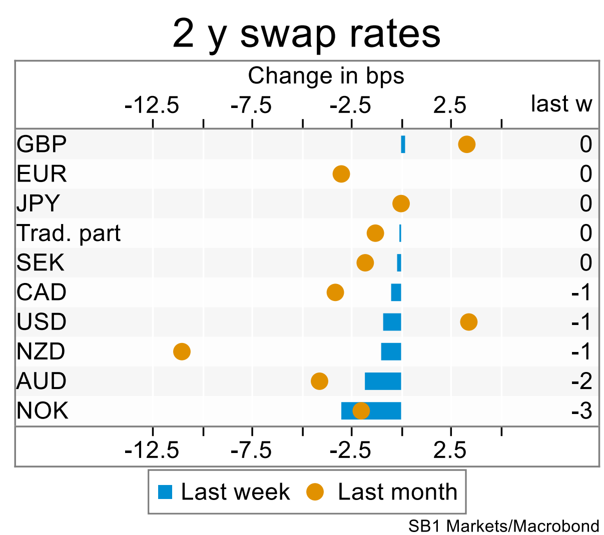
Did the Federal Reserve manage to talk rates down? Data were not on the weak side



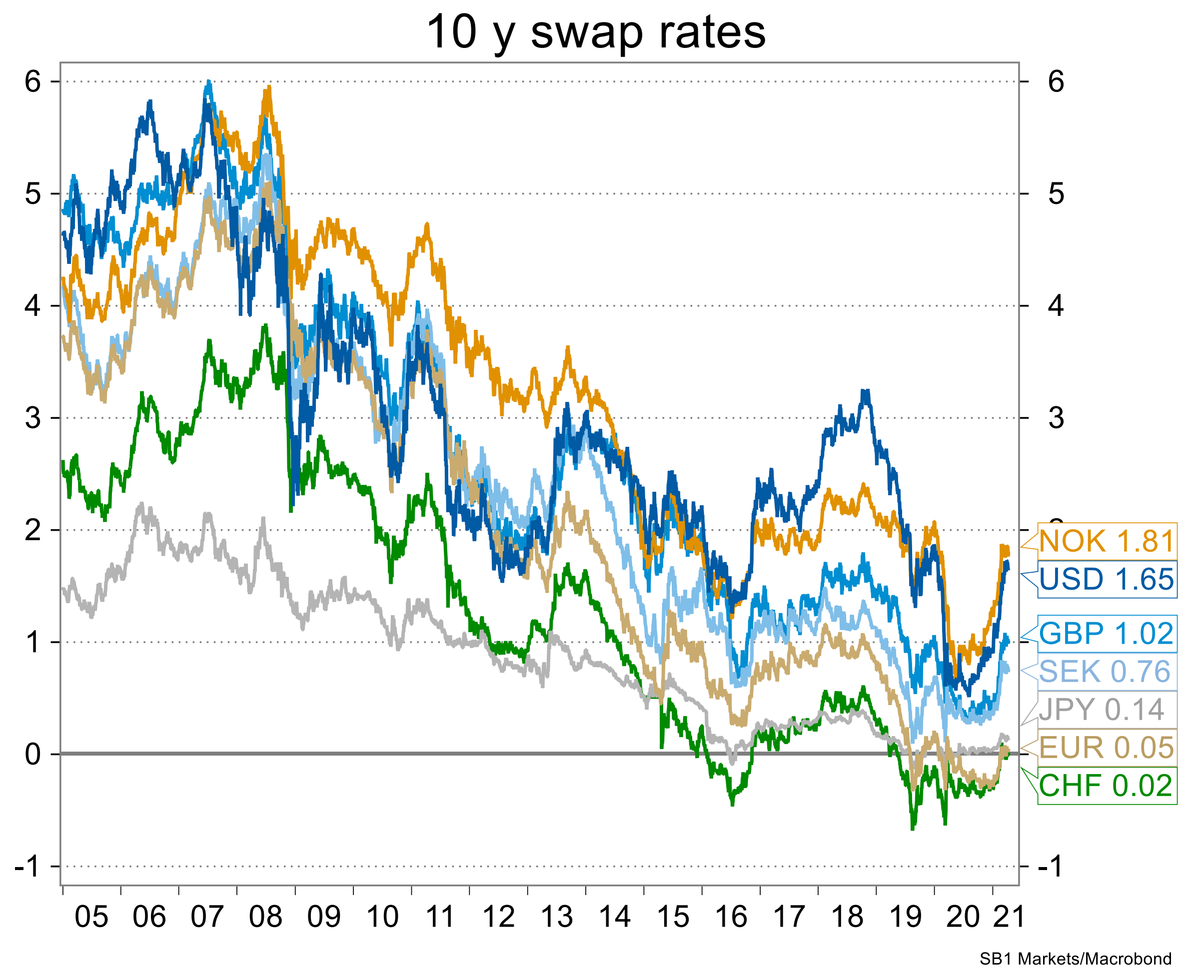


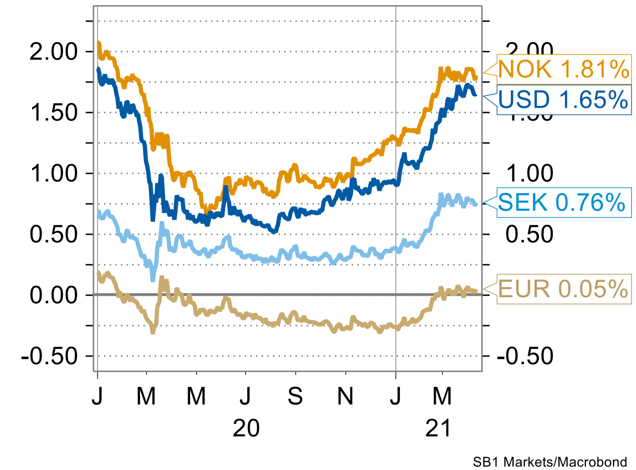
2y swap rates slightly down almost everywhere w/w

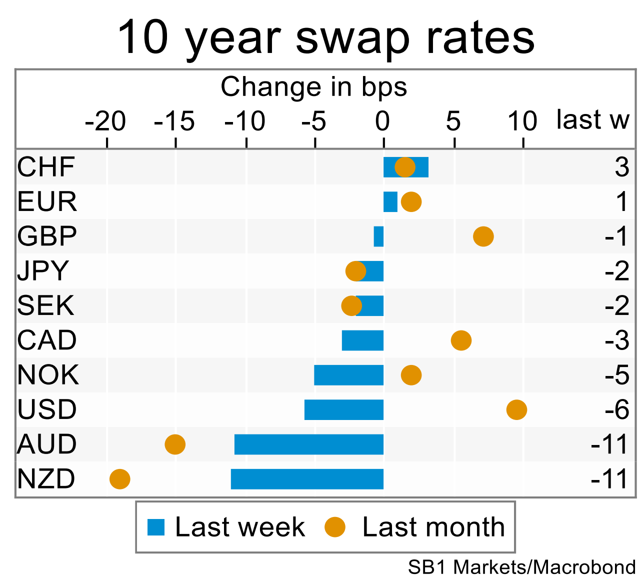




A pause, 10 y swap rates mostly down

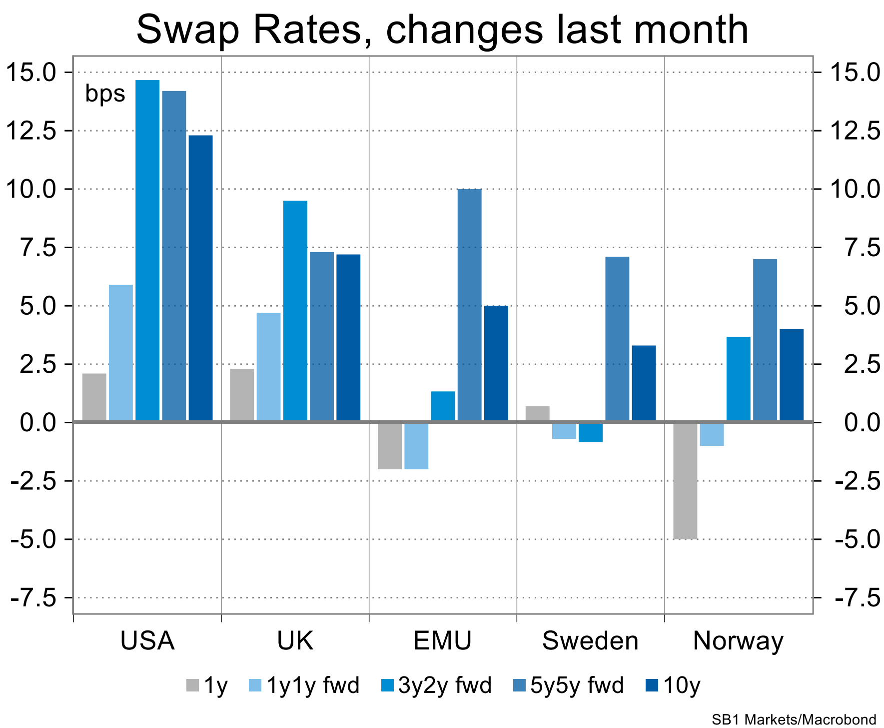


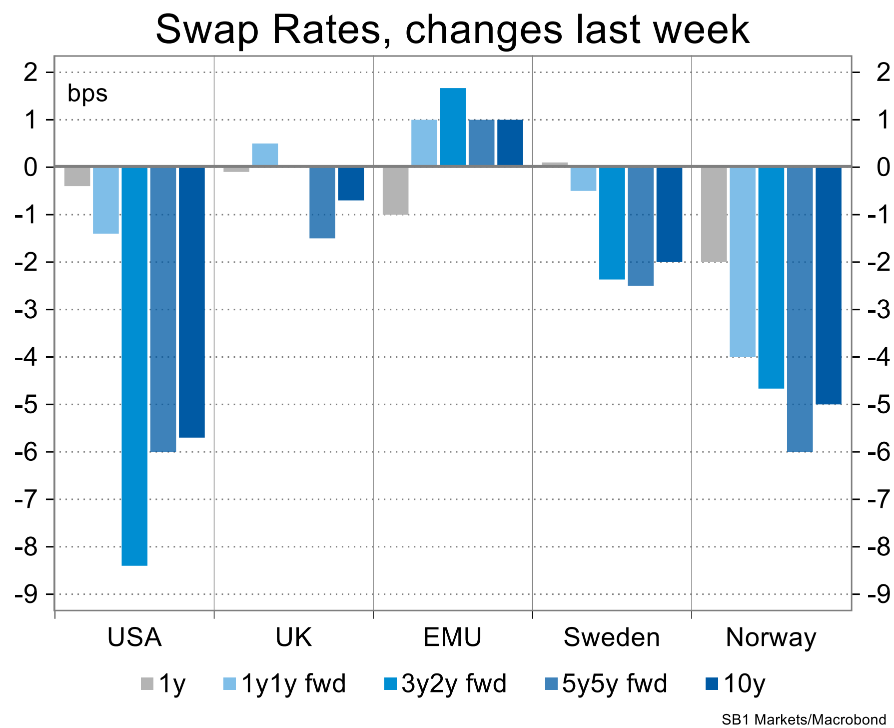




Swap rates: NOK rates followed US rates down last week

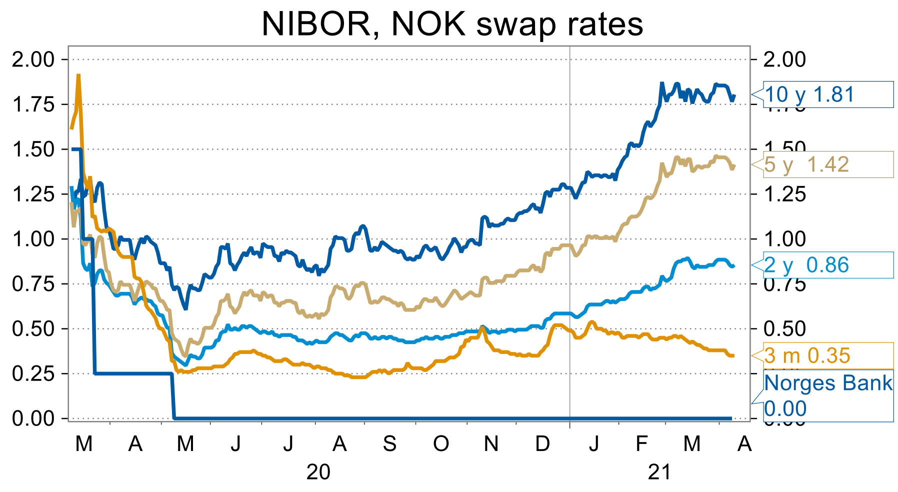
Just rates in the Euro area up last week. Not that usual these days

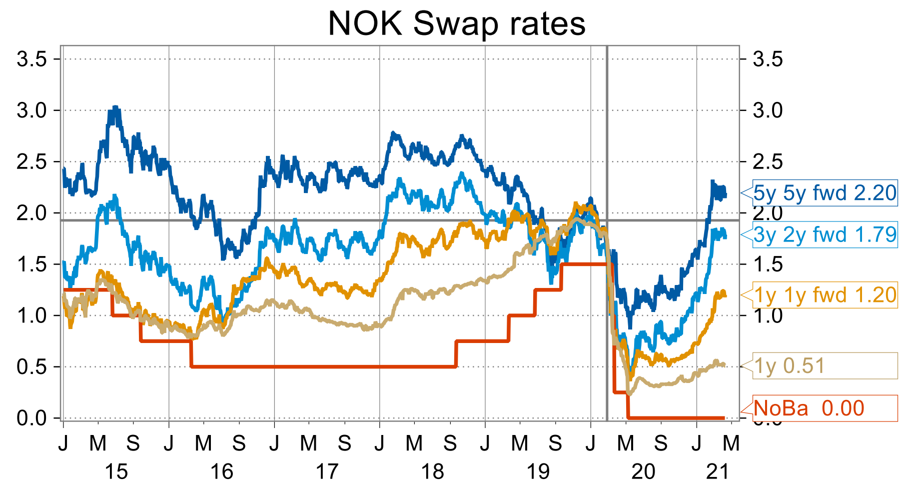


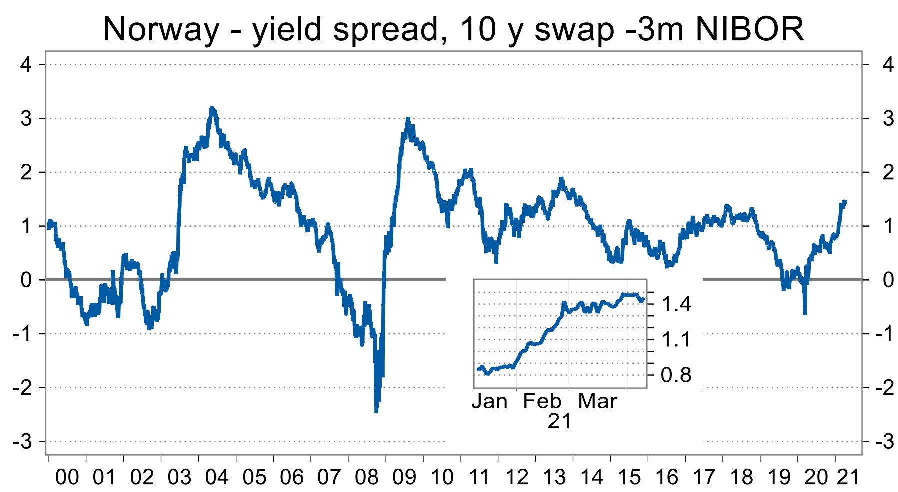


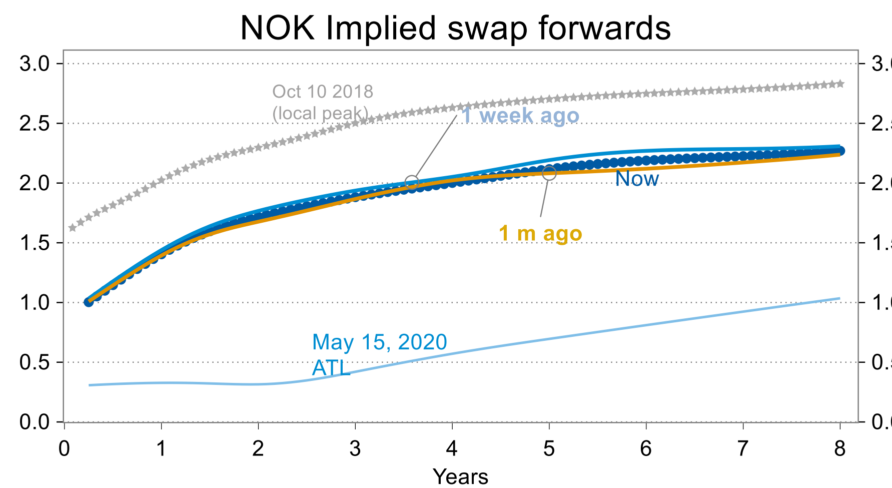
NOK rates have flattened, fell last week

NOK 10 y at 1.81%; up 130 bps vs May all time low





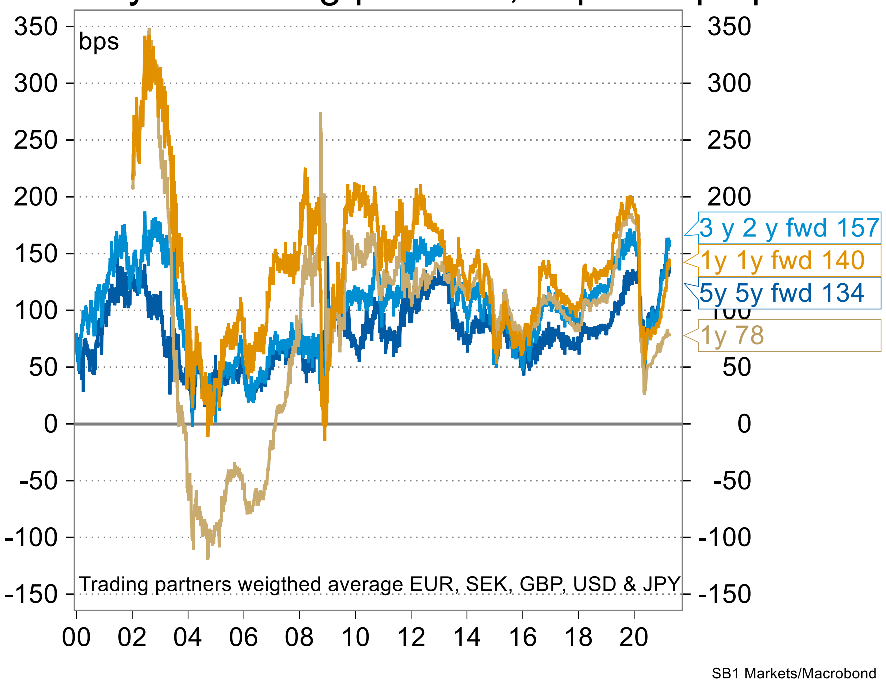


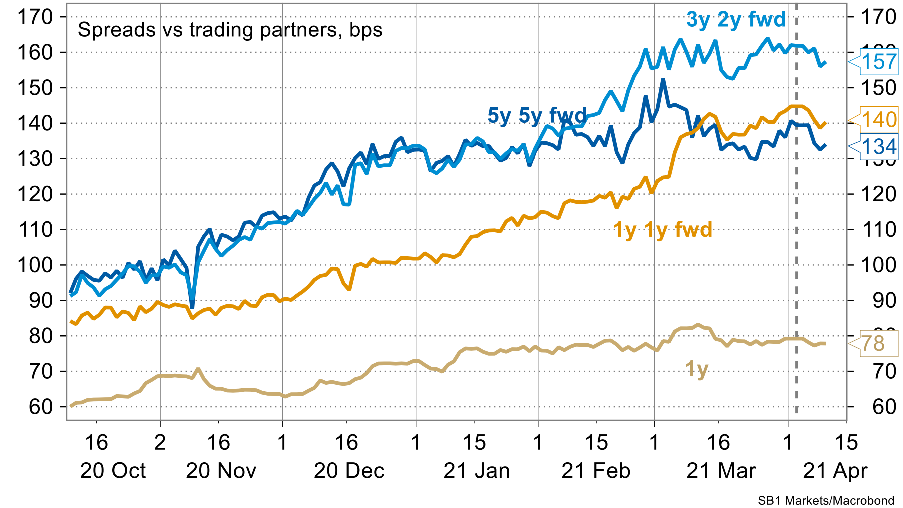


Forward spreads fell last week, all over the curve

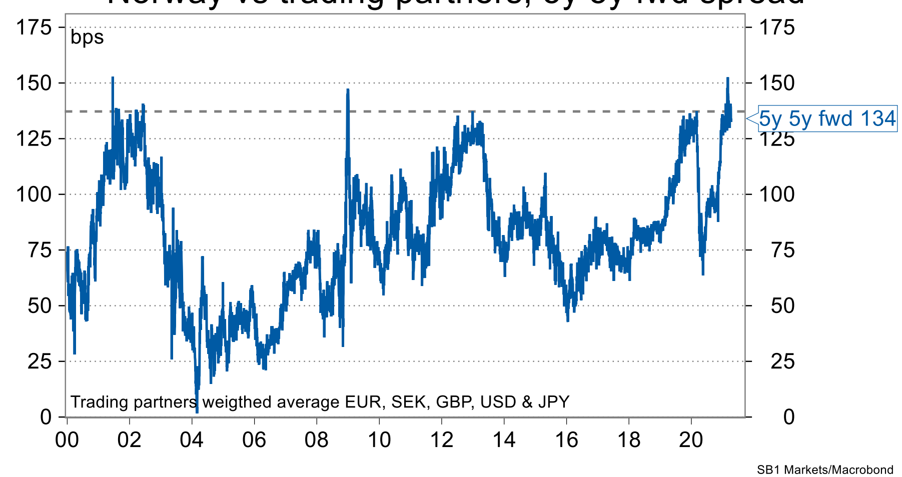
The 5y 5y fwd spread is at the same level as in late Dec – the level was high enough

Norway vs trading partners, impl swap spreads





Norway vs trading partners, 5y 5y fwd spread



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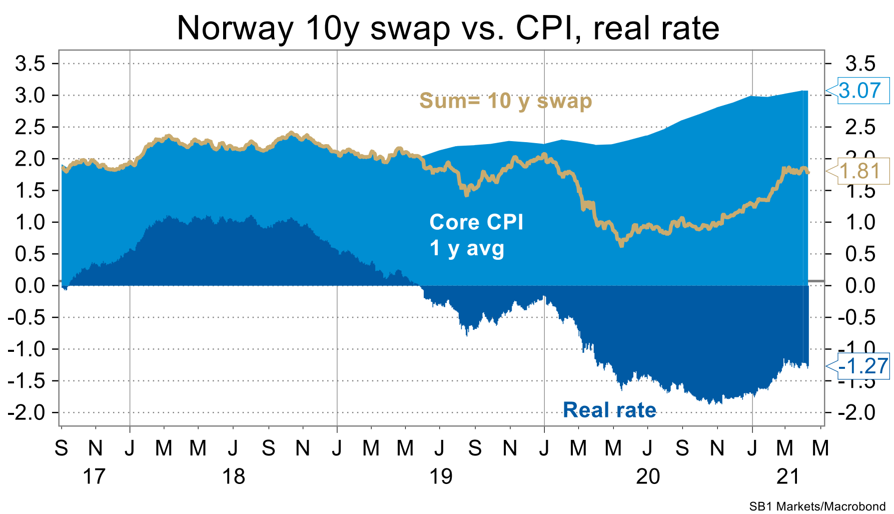
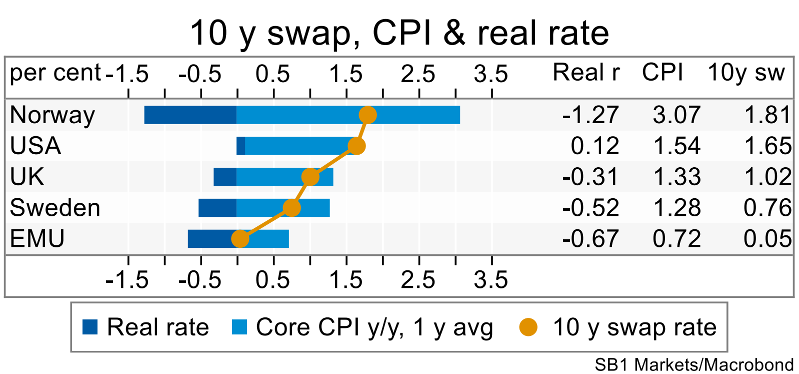
Negative (actual) real interest rates most places – NOK at the bottom



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%, even after a 5 bps drop last week
- **The real rate**, after deducting 3.1% average core CPI inflation over the 2 past years equals -1.3%
  - » 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 3.1%
  - » 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)
  - » <u>In seems unreasonable to assume an expected inflation below 2.5% - and in may in fact be that it is even higher than 3% among decision makers in the private sector</u>

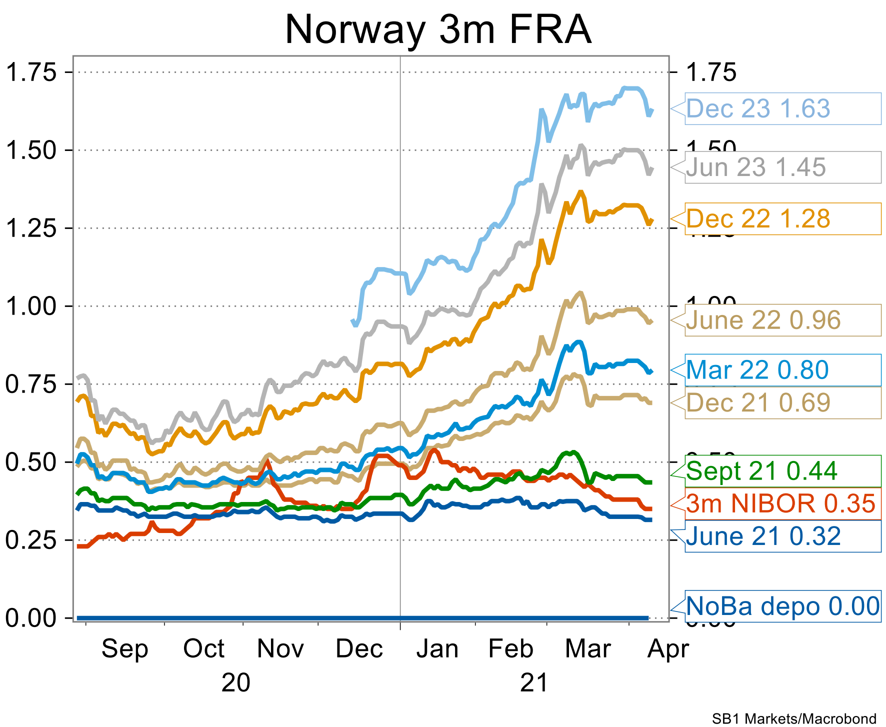


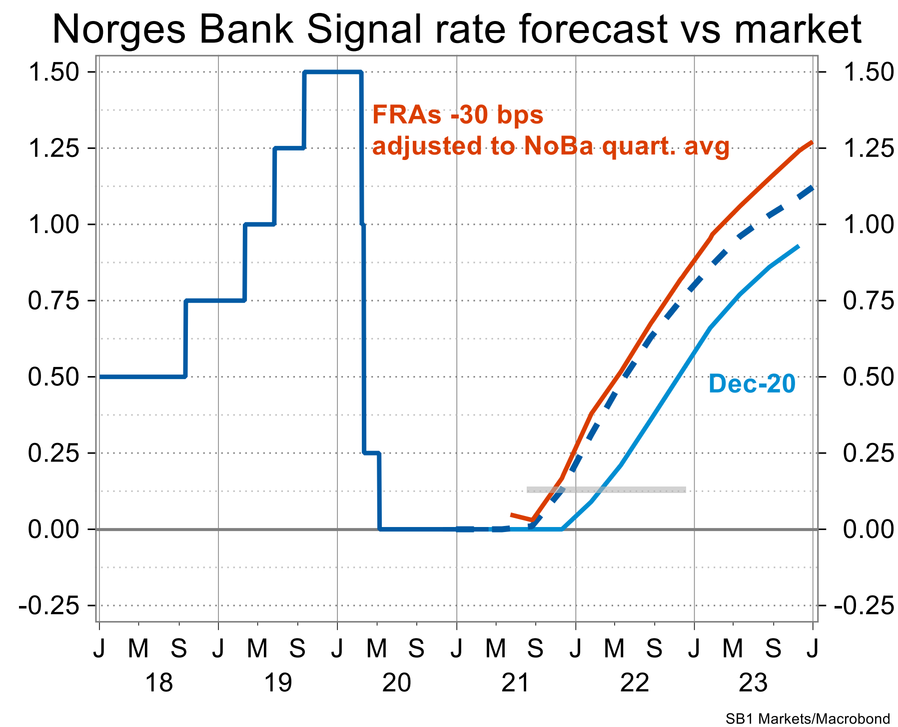
NOK real rates among the lowest, as inflation is at the top

- **Inflation** among Norway and our main trading partners varies between 0.7% to 3.1% (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 <u>ranking</u>
- **Real rates** among our trading partners, at ranging between 0.1% and -0.7% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.3% is an outlier at the downside, even if the nominal rate is the highest**

The short end of the FRA curve has stabilised, 56/44 for a Sept hike

Longer dated sharply down last week



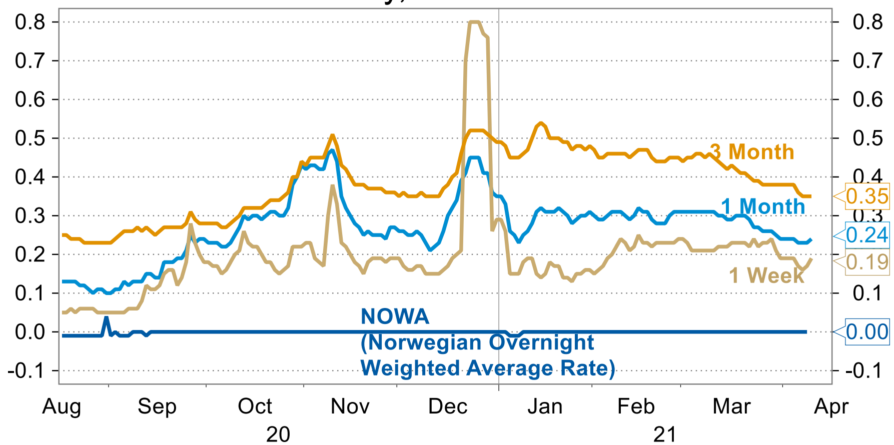


- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate during the Sept-21 FRA contract period will be 0.23%. Assuming a 30 bps NIBOR spread (revised from 33 bps, see next page), the actual 0.44% Sep FRA-rate equals a 0.14% NoBa deposit rate. If so, a 56% probability for a Sept hike is discounted, very close to what NoBa signalled in its March (50%)
- The Dec-21 FRA at 0.69%, and a 30 bps NIBOR spread, yields a 0.39% NoBa rate. However, the Dec FRA is normally some 5 – 8 bps 'too high' due to year liquidity adjustments at banks. We deduct this extra liquidity premium, and assumes market's 'real' NoBa expectation at 0.32%. That implies a 30% probability for a 2nd hike in H2, marginally above to NoBa's path. A second hike in March-22 (if not in Dec) is fully discounted

The 3 m NIBOR is still trending down, now to 0.35%, and the June FRA is at 0.32%

The NIBOR spread may still be some few bps too wide, but by and large, the spread has normalised

Norway, NIBOR rates



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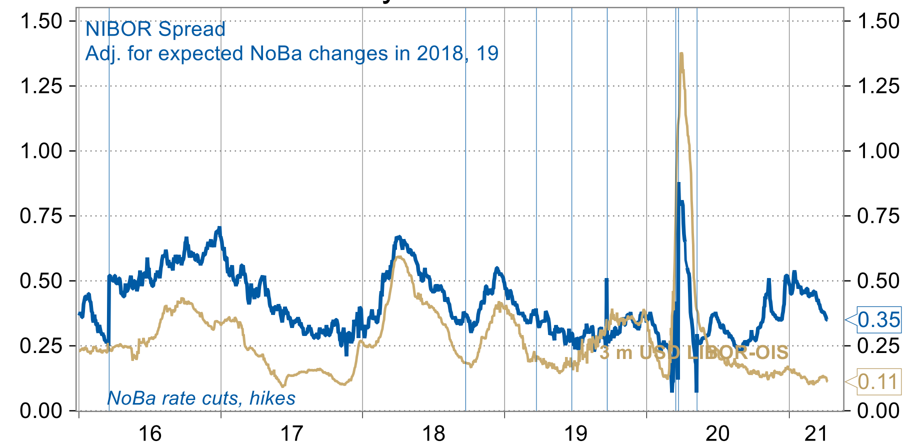
Money market friction



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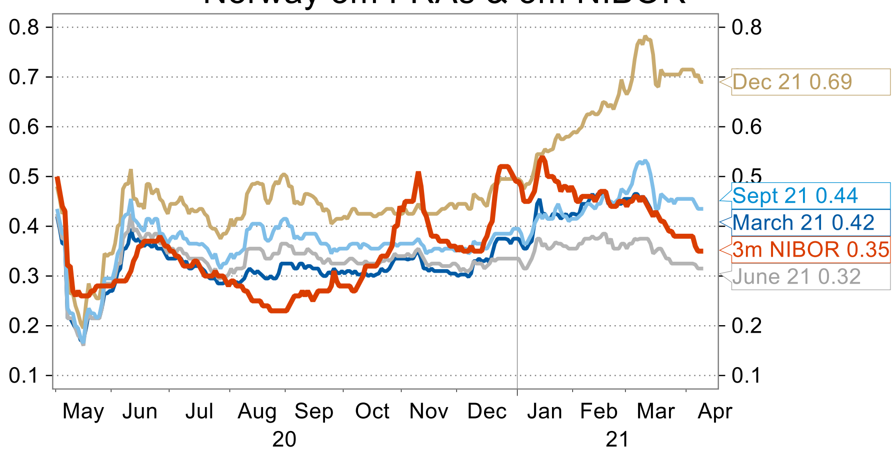
Norway 3m FRAs & 3m NIBOR



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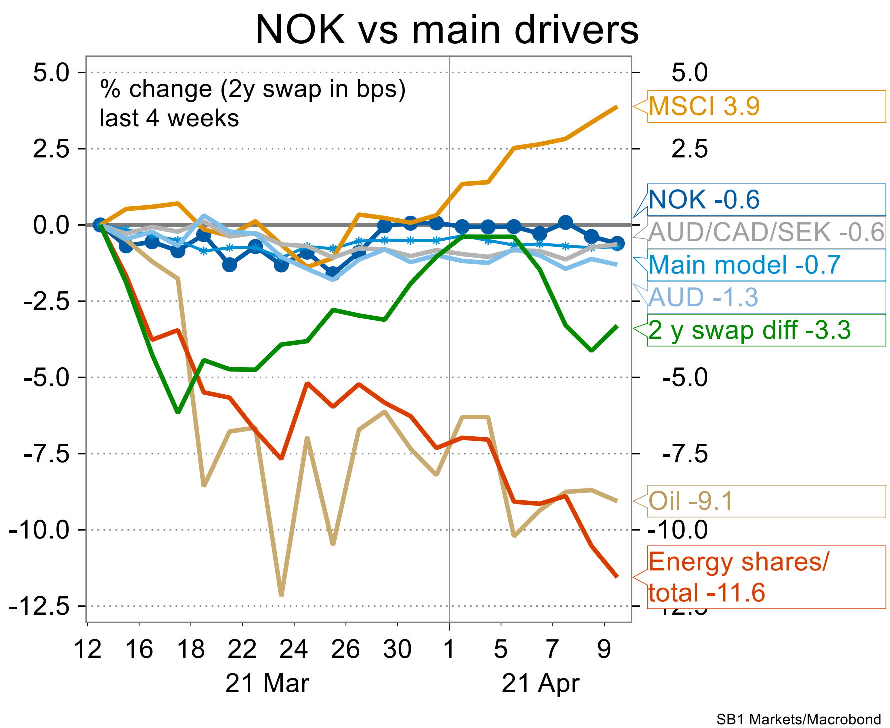
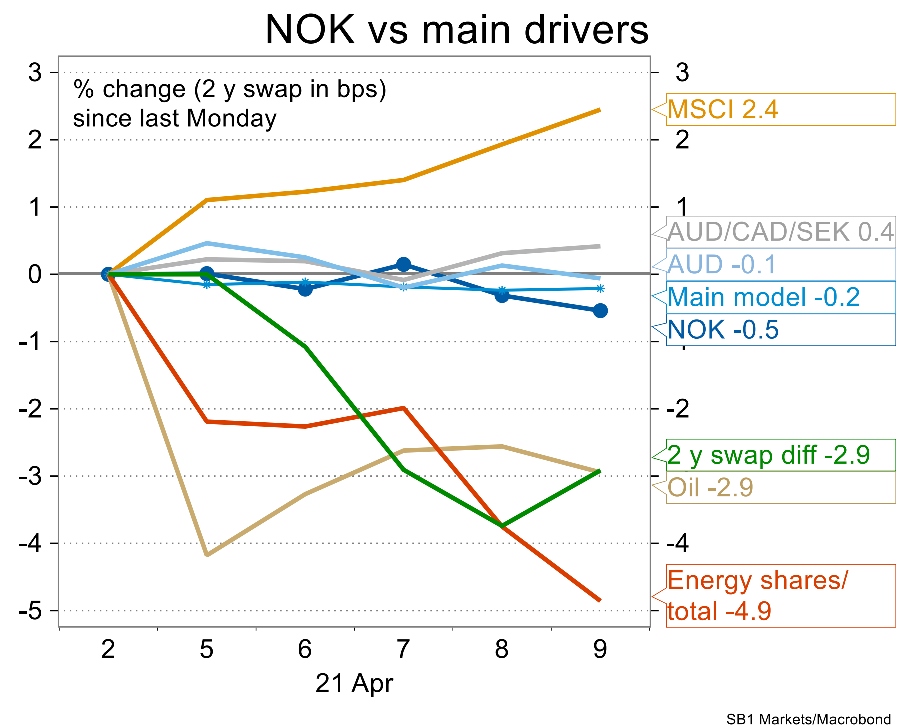
NOK down with the oil price; Support from our f/x peers, stocks not sufficient

The NOK index down 0.5% last week, a tad more than our model signalled





In sum, the NOK is still a buy:

- The NOK is 2% <u>weaker</u> than suggested by our standard model
- The NOK is 6% '<u>weaker</u>' (from 3% last week!) than the global stock market vs the correlation between the two since beg. of 2020
- The NOK is 6% <u>weaker</u> than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts
- On the other hand, the NOK is far (12%) <u>stronger</u> 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. Thus, JP Morgan's index correlates closer to the 'official' main NOK fx crosses. There are no substantial difference between these two indices over time. JPM ind. is used for other f/x too

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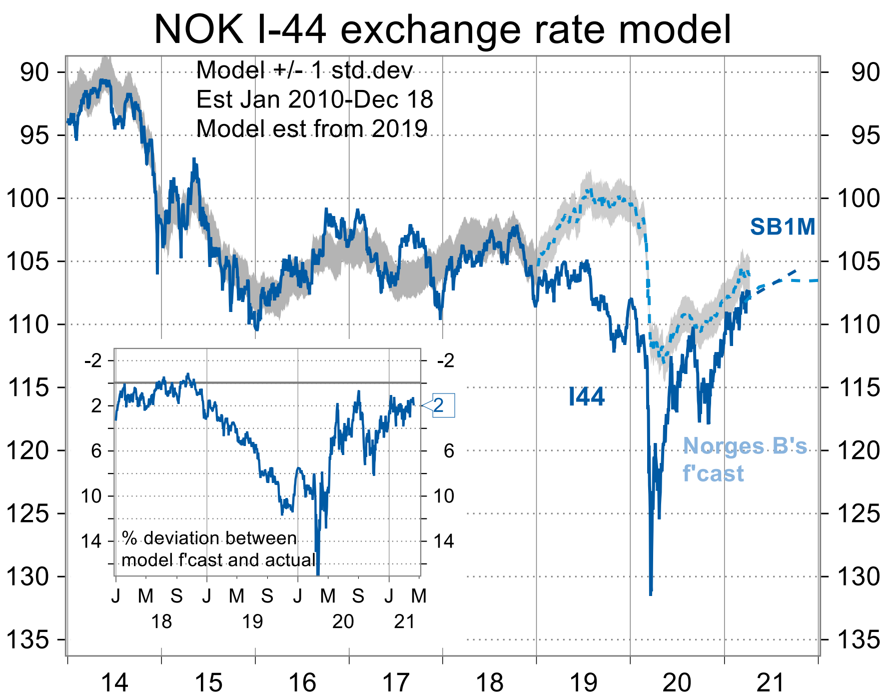
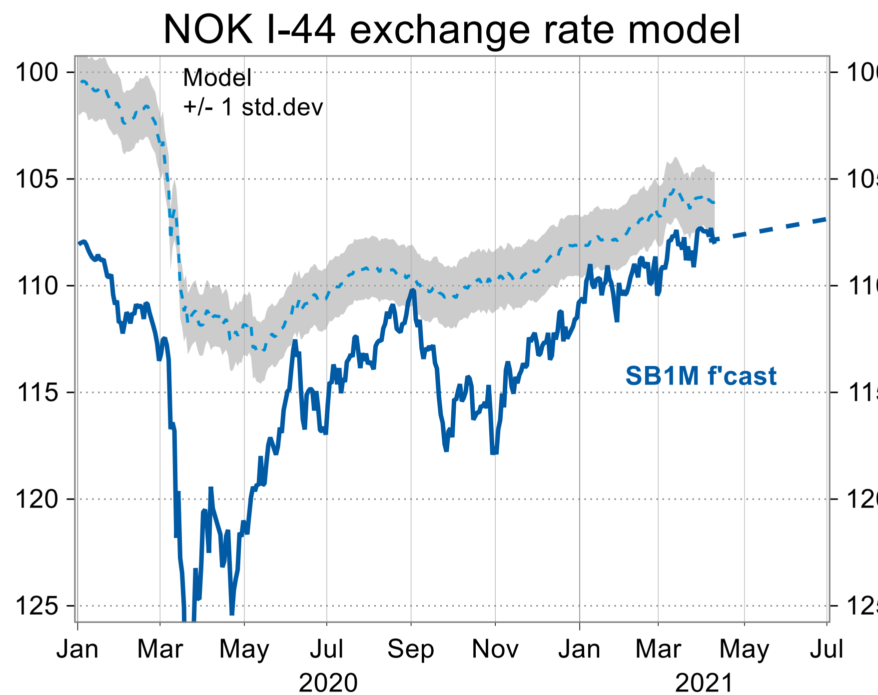
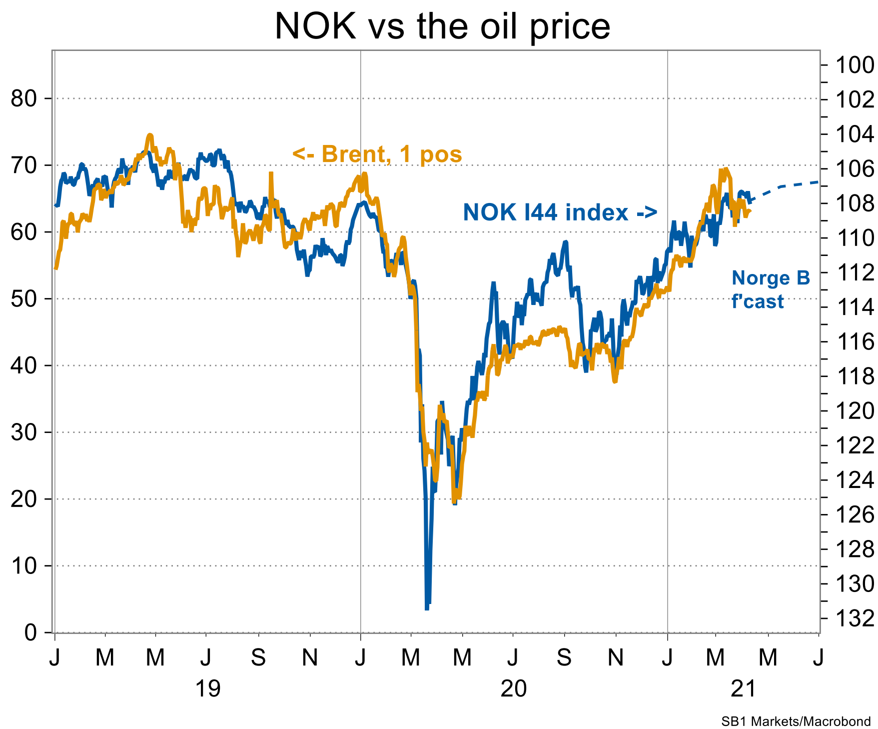
NOK 2% below our main model estimate

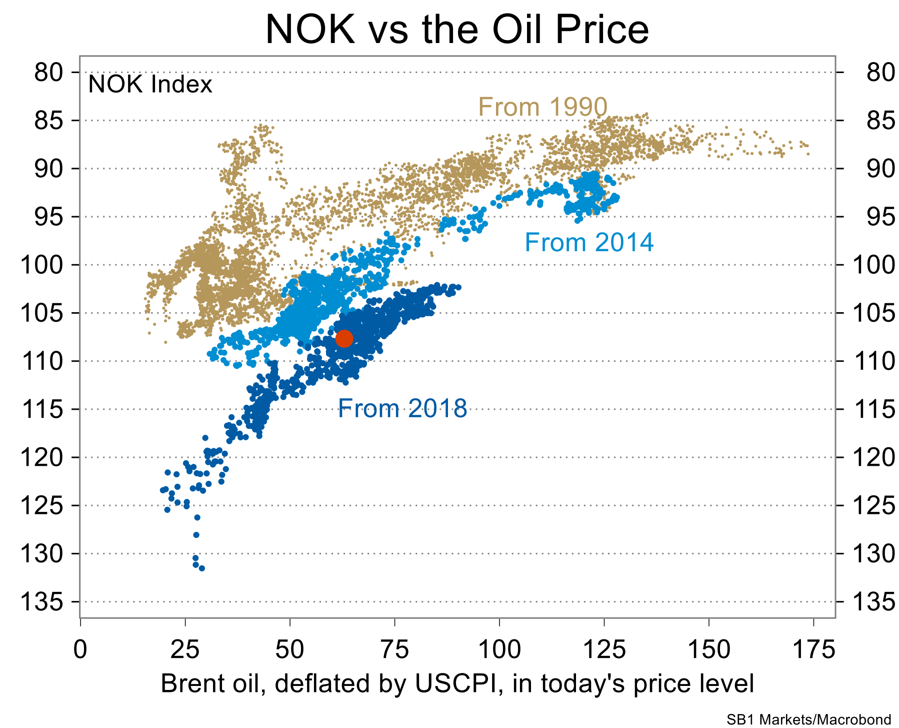




Oil down, NOK down (but not by much)

NOK is still correlating quite closely to the oil price but at a lower level than before 2018

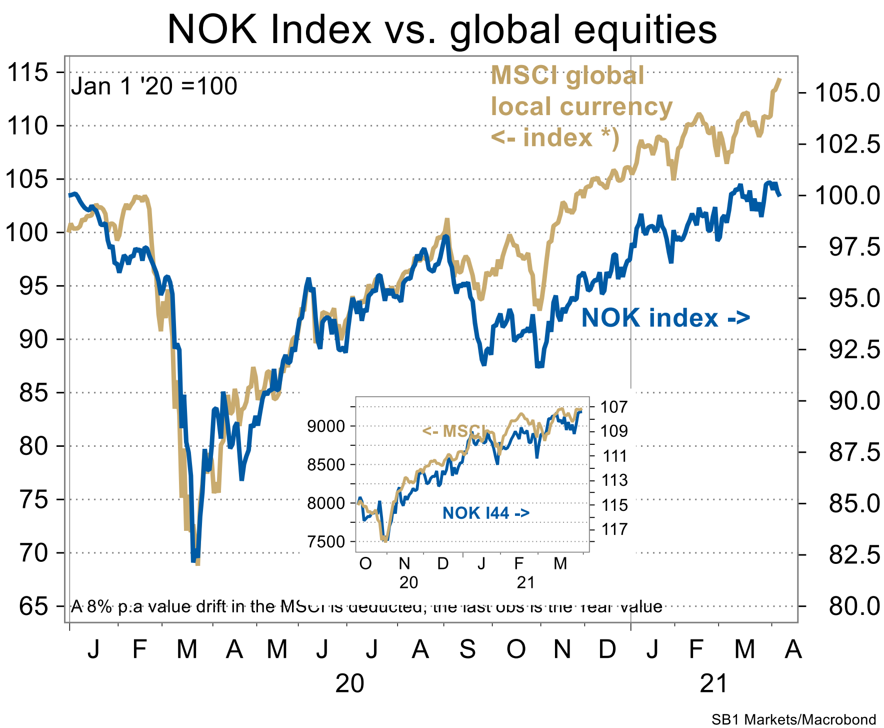


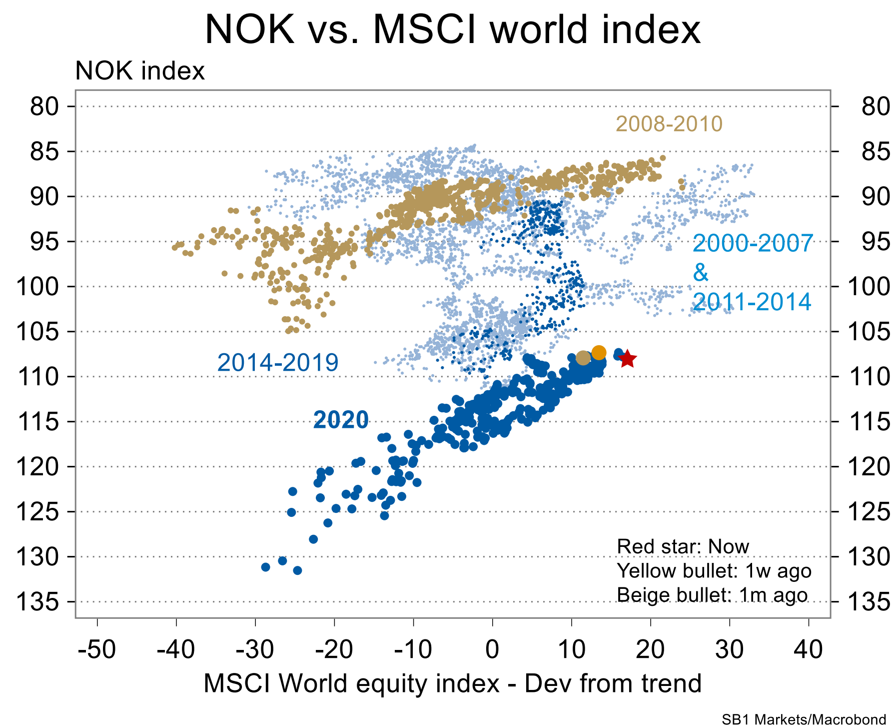


- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

What? Global stock markets sharply up but the NOK down

Except for Sept., NOK and global equities since early last year. The 'gap' widened to 6% from 3%

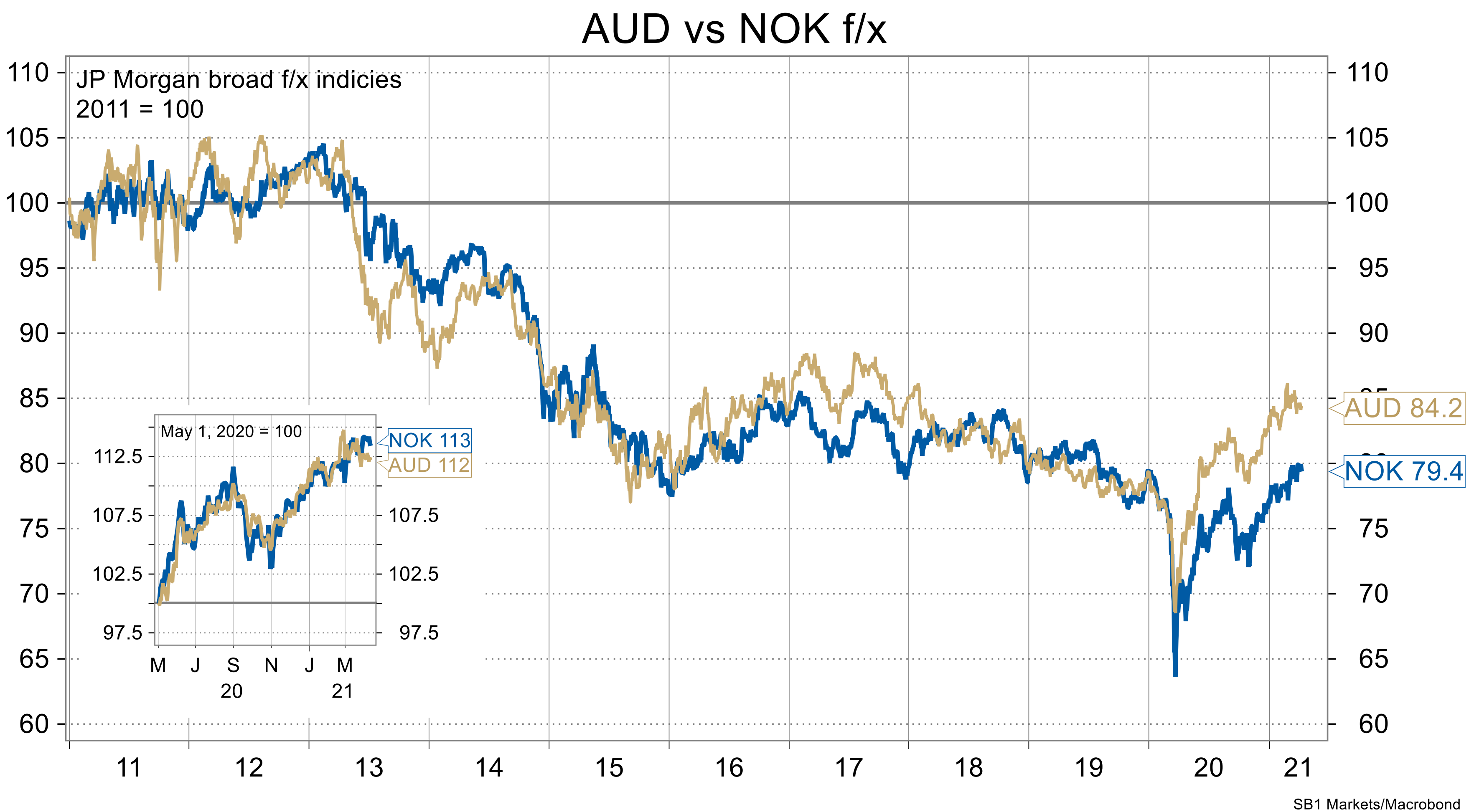




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the 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

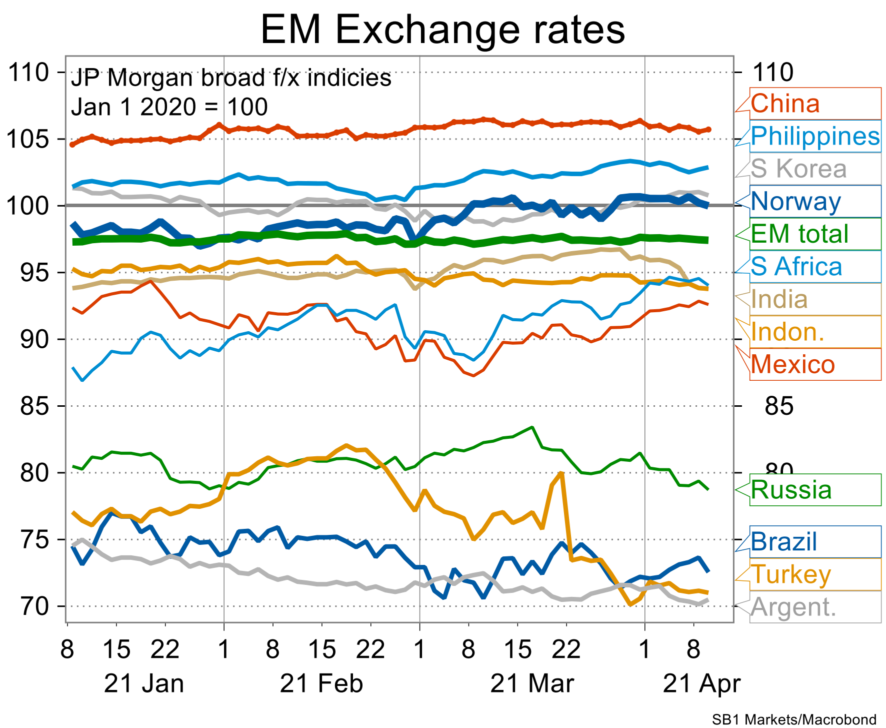
NOK down 0.5% while the Aussie dollar was down 0.1%

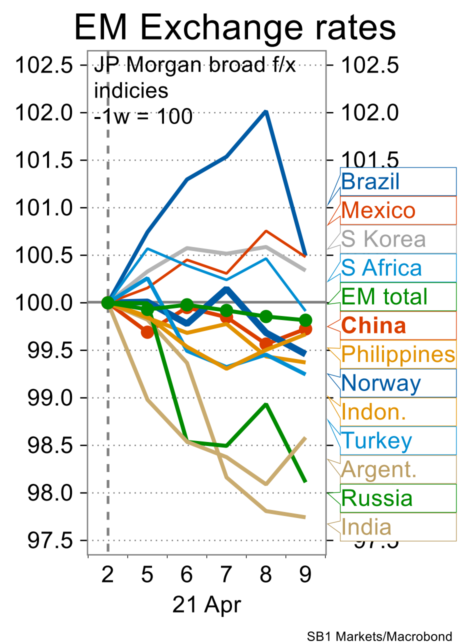
Both are up 12-13% since May 1 – but the NOK still 6% weaker than AUD since last spring

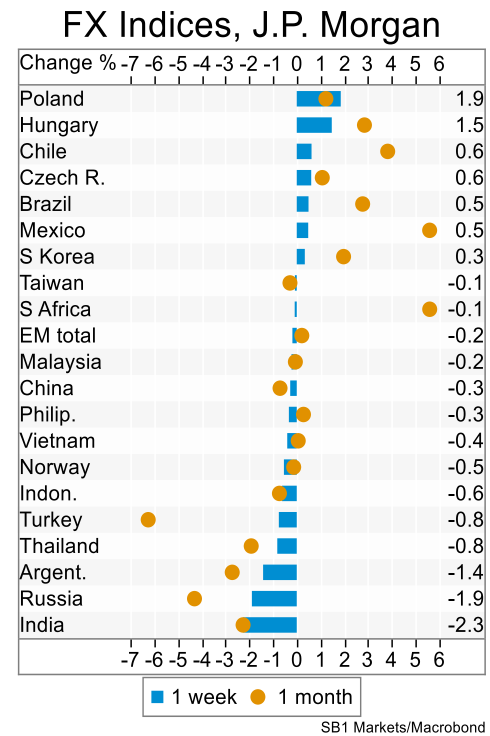


More down than up last week

The Chinese CNY is trending slowly down







- The Russian rouble is still very weak, as is the Brazilian real even if raw material prices have soared

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