26 April 2021

Macro Weekly

Week 17/2021

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Last week: Cases are on the way down in most rich countries, not all other

The virus

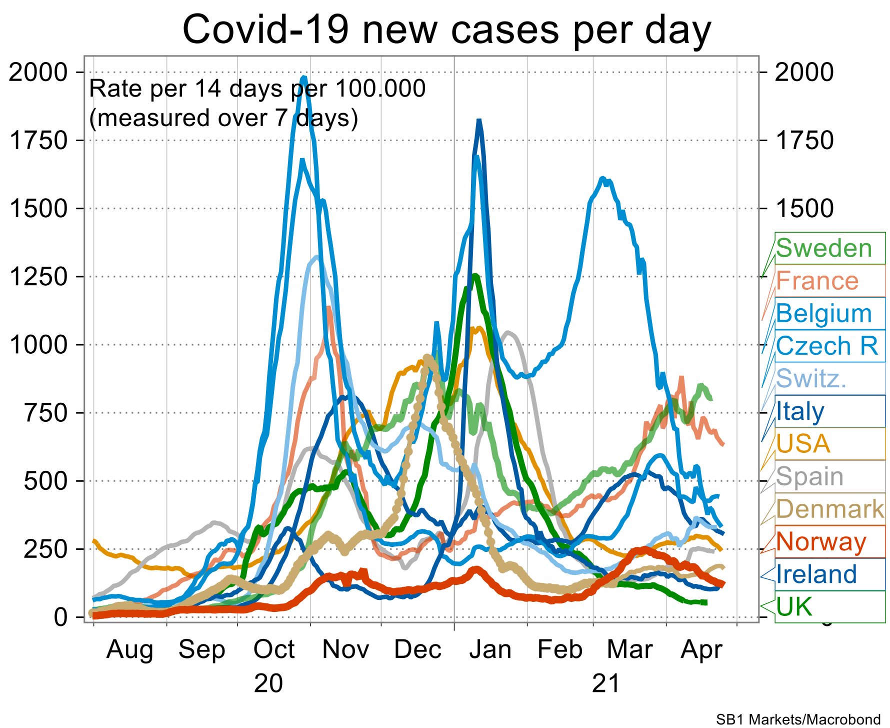
- **The 3rd wave** is on the way down in almost all rich countries again. Hospital occupancy in **Europe** has been is on the way up recently, but is now finally turning down, and it may be stabilising in the **US**, following a small uptick. However, **India** is in dire straits again, and economic activity will be hurt
- **Mobility** is rising almost everywhere in DM as the negative drag from corona restrictions/cautious behaviour are easing
- **In Norway**, the no. new cases are trending steadily down. A decline in new hospitalisations & hospital occupancy confirm the decline in new cases. Some local restrictions were eased last week too. Mobility has turned sharply up – and faster than the immunity increases due to vaccinations
- The **Johnson & Johnson vaccine** is re-approved by US authorities, and was authorised for use in EU as well. Most countries will start using it, at least for the older parts of the population.
- Almost all countries in Europe are now selectivity using **AstraZeneca's vaccine** (most for the 60y+), while Norway has 'lent' its stock of AZ doses to Iceland and Sweden. Norway has postponed a final decision on AZ till May but may decide on J&J this week (most likely a postponement to the final AZ decision)
- Last week, the **pace of vaccination** stayed at +/- 3% of the population in most EU countries, as in Norway. Vaccinations should accelerate further as the 'ordinary' deliveries form BioNTech/Pfizer is scheduled to increase substantially in May. In addition B/P will deliver large extra quantities from June

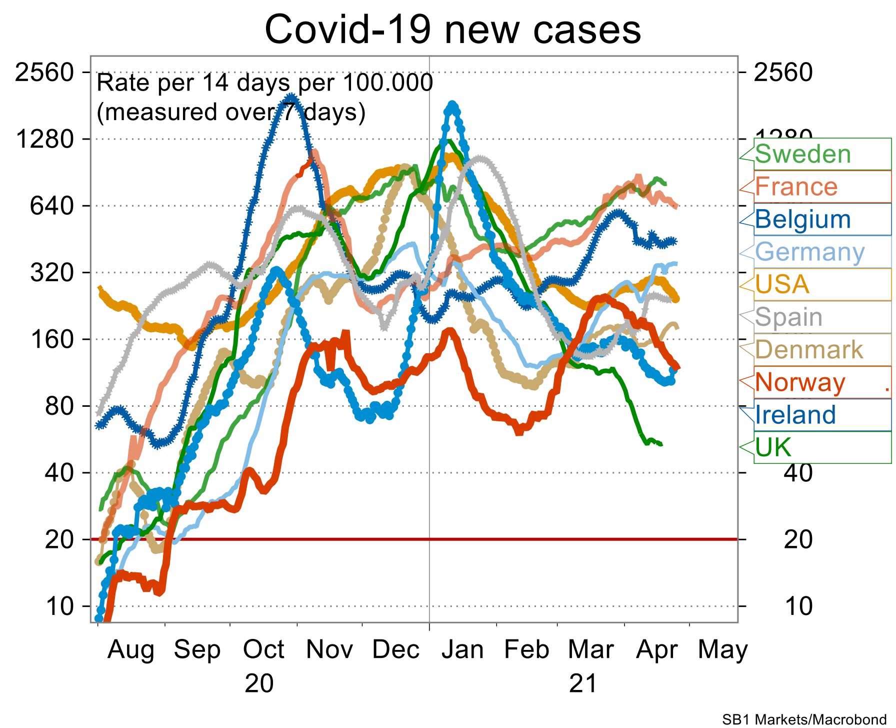
Last week: The economy – strong April PMIs

- **Preliminary April PMIs**
  - » Another strong month. **EMU** surprised on upside, both manufacturing & services, and the contraction in the service sector may have ended. The manuf. PMI further up, to another ATH. In the **US**, both manuf. & services up to another ATH! The **UK** PMIs both surprised on the upside, and both at 60, highest in 8 & 27 years!
  - » Orders are growing at a very rapid pace, delivery times have not increased faster than now anytime before, and input and output prices are rising faster than in 10 years or ever before.
- **USA**
  - » **Existing home sales** fell a tad more than expected, very likely because the inventory of unsold homes is empty! Prices rose another 2% in March, and prices are up 17% y/y – the steepest yearly lift ever! **New home sales** rose sharply to the best level since 2007, up 40% vs pre corona, and the inventory is very low. However, price inflation is moderate, just 6%
  - » **Jobless claims** fell further last week confirming a firmer labour market
- **EMU**
  - » The **ECB meeting** revealed nothing new, as expected. The bank will stick by its current policy (though they will be purchase bonds at a "significantly higher pace" in the next quarter). The PEPP is up for review at the June meeting which and, given a continued recovery, could spark a more hawkish tone from the bank
- **UK**
  - » **Retail sales** grew 5.8% in March, far more than expected, even without substantial easing of restrictions. Sales are 1.6% above the pre-pandemic level. And now, and the coming weeks restrictions are really being eased
- **Sweden**
  - » **House prices** are soaring, up 2% m/m in March, and 16%y/y. House price are appreciating much faster than apartment prices
- **Norway**
  - » **SSB's manufacturing survey** signals sharply increased optimism in Q1. The composite index in rose to 8 in Q4, from 4 in Q3, in line with our expectation. The index is signalling growth well above trend, even in oil related sectors are still lagging. Supply side factors rather than demand is limiting production, and the share of companies that reported lack of labour rose sharply to above average (the 2nd highest level since 2009)
  - » **Housing starts** slowed marginally m/m in March but are clearly trending up, alongside house prices, as usual. Other construction activity rose sharply in March (some large health/public sector projects), but has been trending down until now
  - » The inflow of **new jobless claims** remains slow – and total unemployment is probably declining (due to fewer part time unemployed)

Most rich countries on the way down, for the last time?

Germany, Spain, Switzerland & Canada are reporting more cases. Sweden at the top among DM





- The overall picture is clear: The no. of new cases are declining in most advanced (DM) economies. The situation in EM is mixed, and India is struggling with it's 2nd wave – with limited access to vaccines & hospital capacity
- Norway – and the rest of Europe – are now speeding up new vaccinations up to a 'US, UK' level, and from now on the rate of immunity will increase at a fast pace

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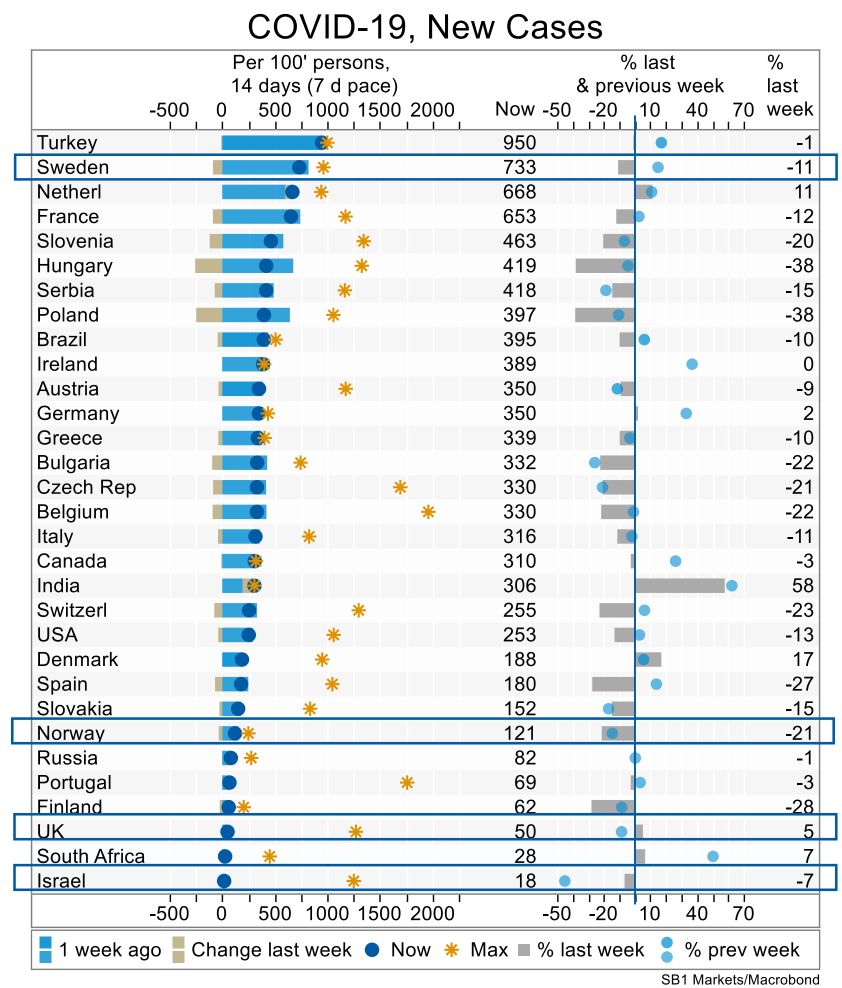
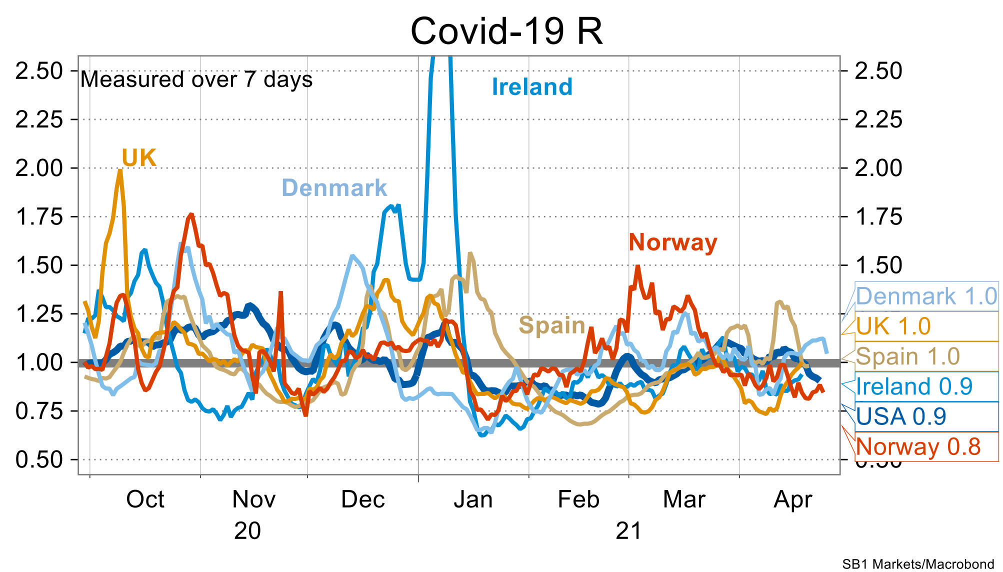
Most countries are reporting fewer cases again

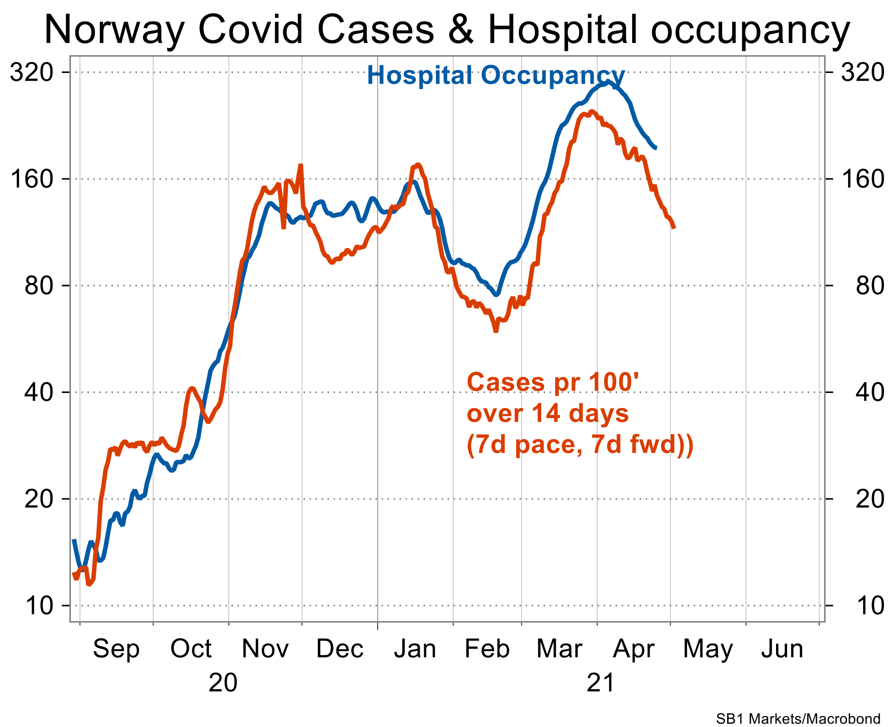
- **Turkey** is at the top of our list, followed by **Sweden, Netherlands and France**
  - » The no. of new cases dropped slightly in Sweden last week
- **In the UK** the number of new cases has stabilised at a very low level, following the partial reopening – and the vaccination campaign continued (albeit at a slower pace)
- The no. of cases in the US has turned down again, and hospital occupancy has flattened
- **Norway** reported a further decline in new cases last week. The R is well below 1
- In **Israel**, the virus has almost disappeared
- However, India is struggling with its second wave, and the no. of new cases is likely far higher than reported

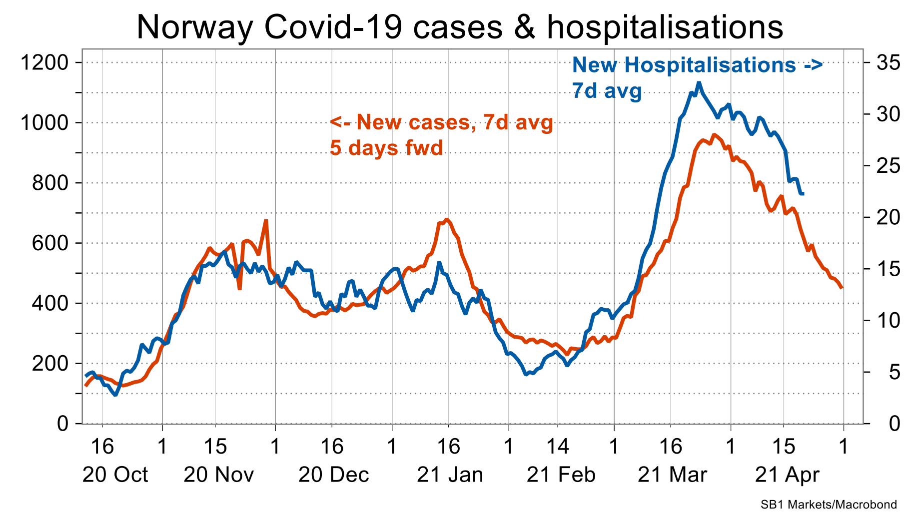


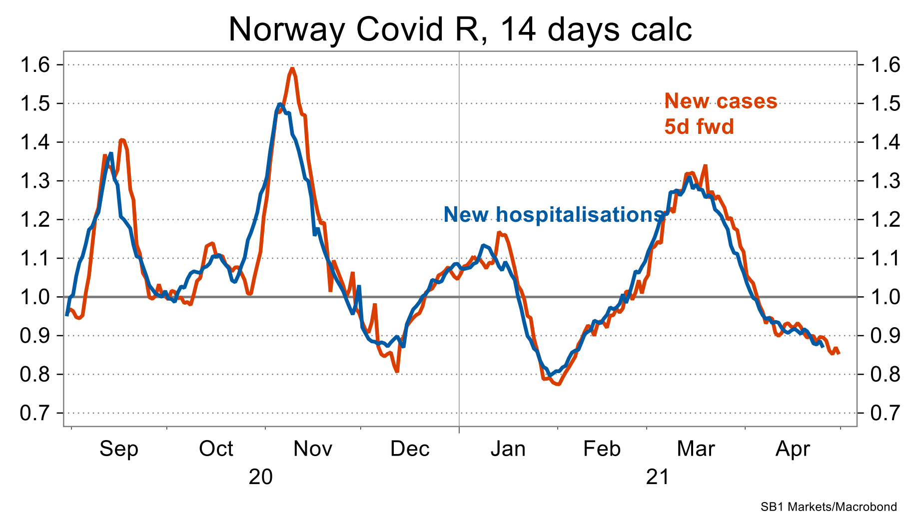


Norway: New cases and new hospitalisations down; confirm an R<<1 ☺

Hospital occupancy is declining rapidly too



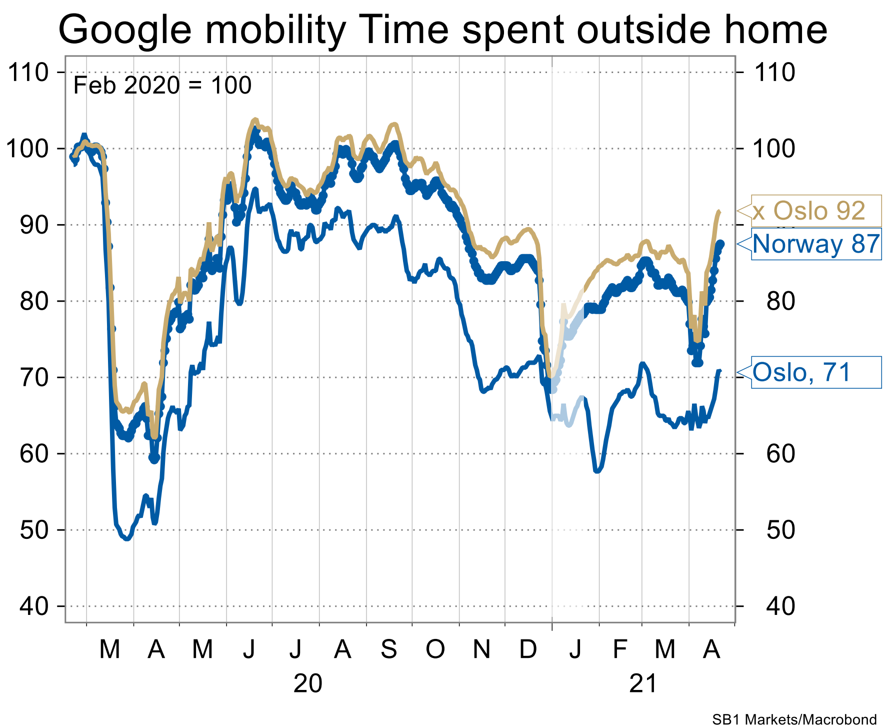




- Data of new hospitalisations are released with some days lag, but the trend is clearly down, even earlier than normal vs. the downturns in no. of new cases
- Even if the oldest part of the population now is vaccinated, 3.5% of the newly infected are hospitalized, which is higher than before! Blame the more aggressive mutants!

Mobility sharply on the way up, so far without more cases. Can it last?

More restrictions were eased last week



- Some 3% of the population is vaccinated per week, leaves room for more mobility without lifting the R

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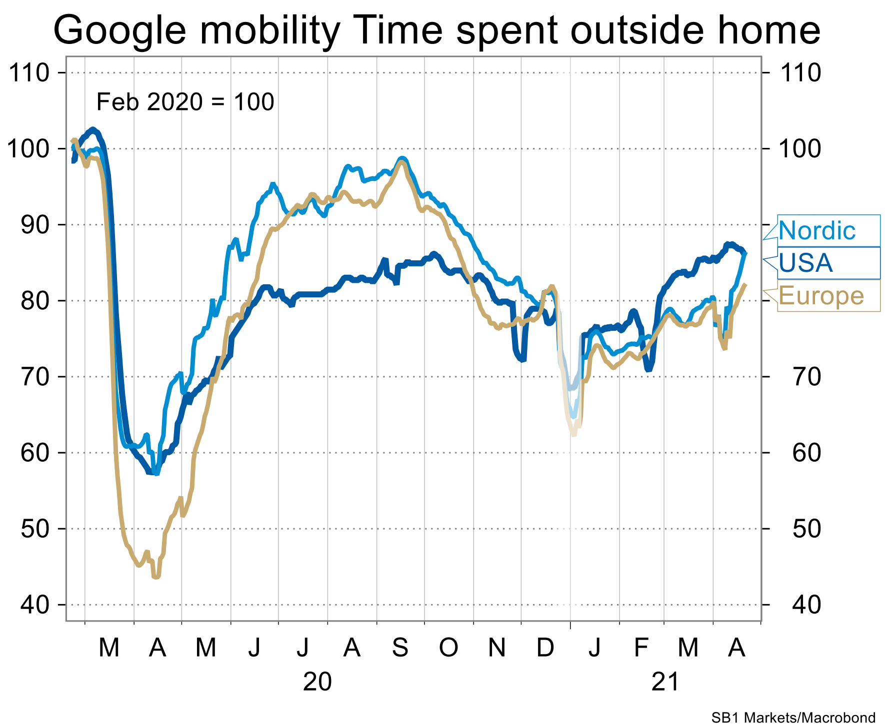
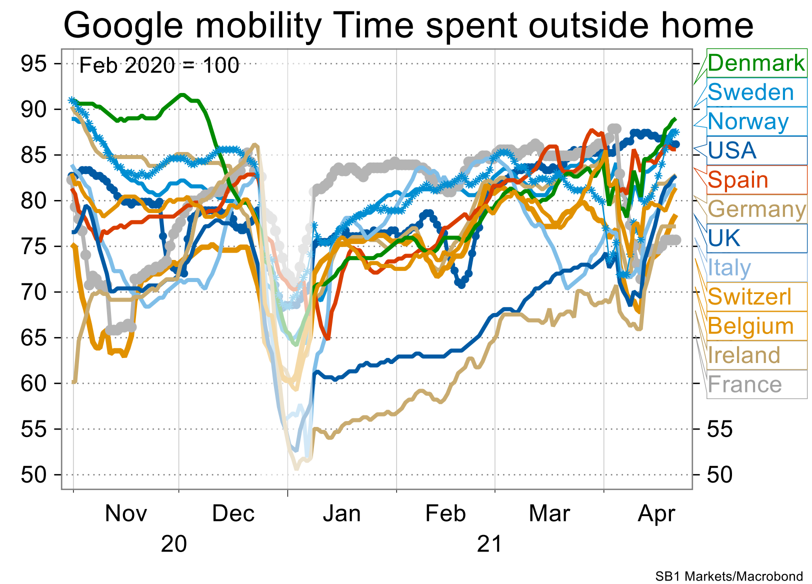
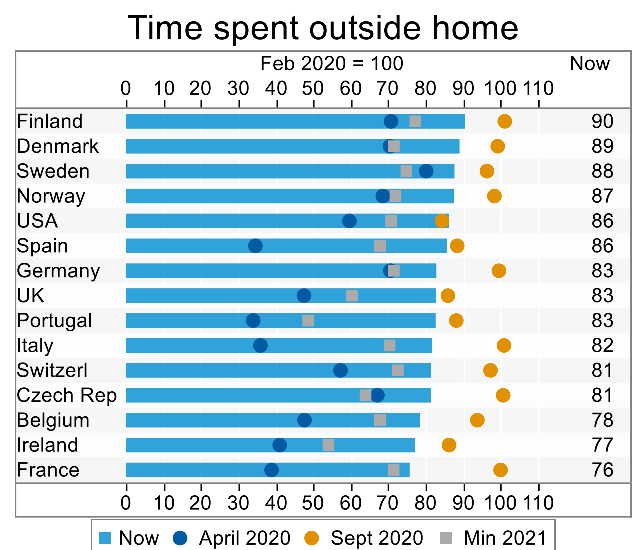
Mobility is trending up most places but not everywhere, the Nordics at the top

Time spent outside home is on the way up everywhere, and at the fastest pace in UK







- Mobility is on the way up again in France too

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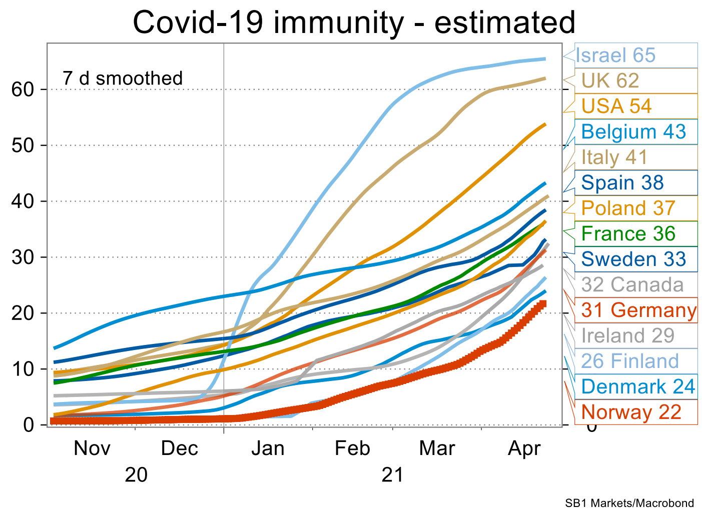
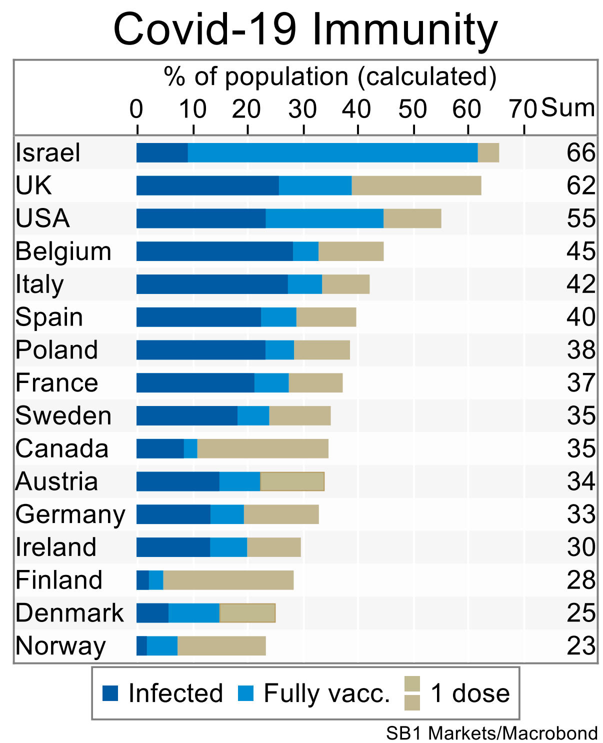
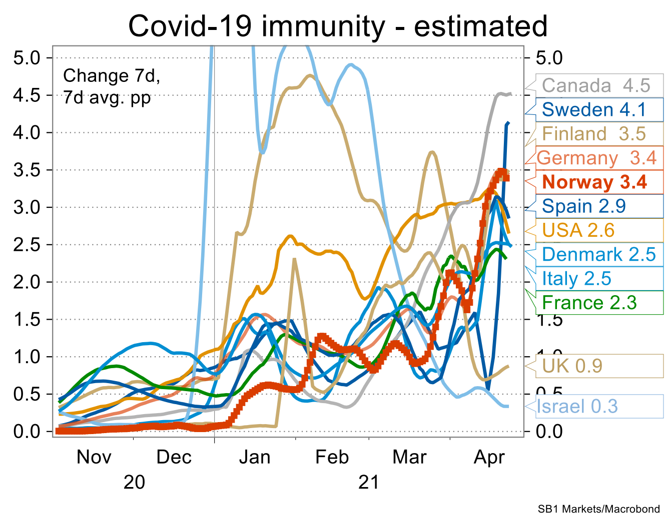
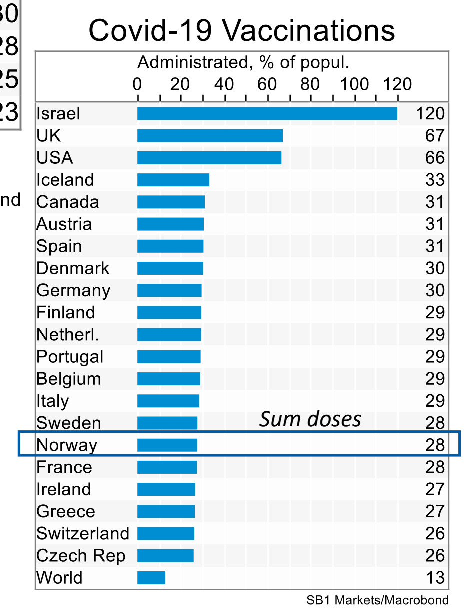
Vaccinations: EU/Norway are gaining more speed, 3% are inoculated per week

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



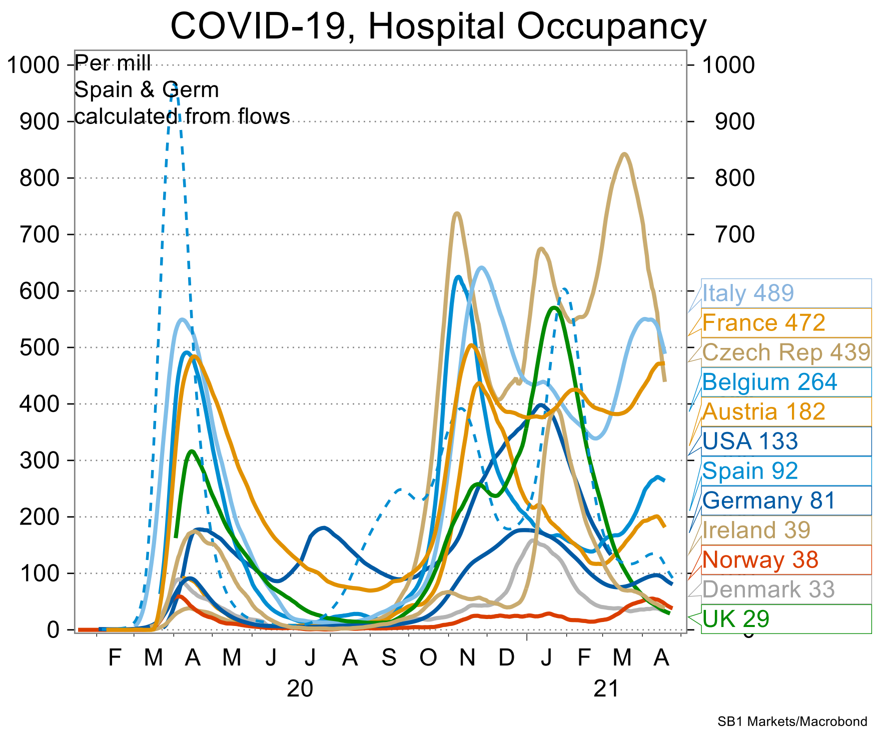


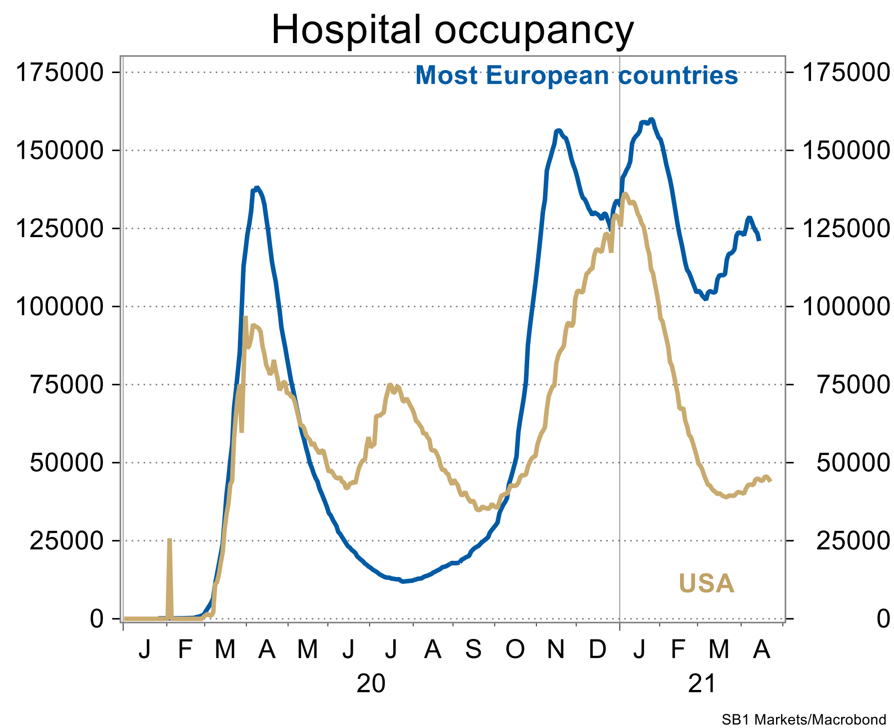




We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others

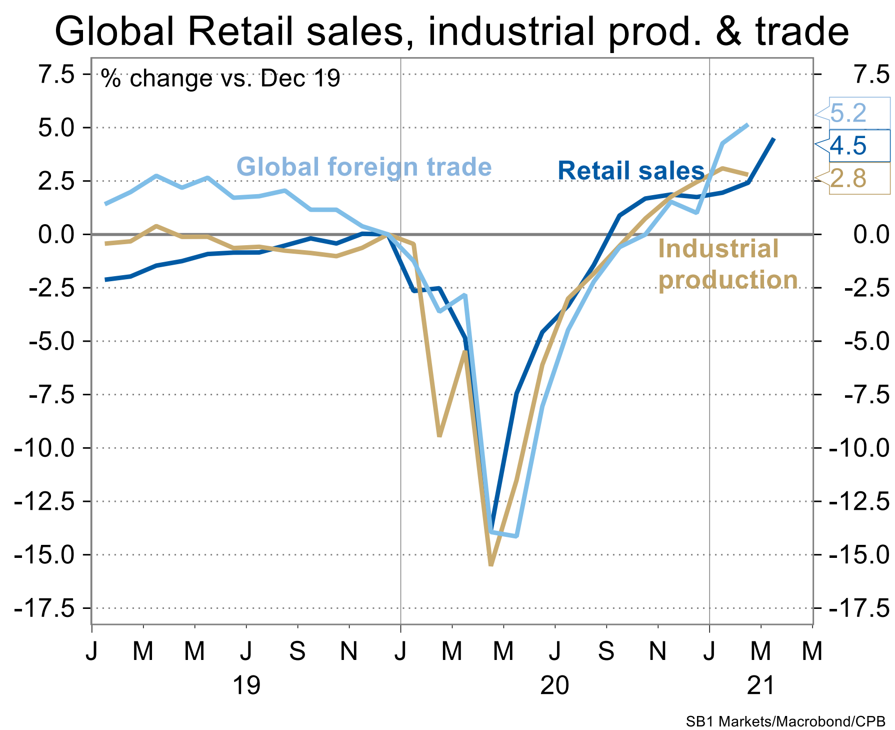
Hospitalisations have turned down in Europe, finally. US has flattened

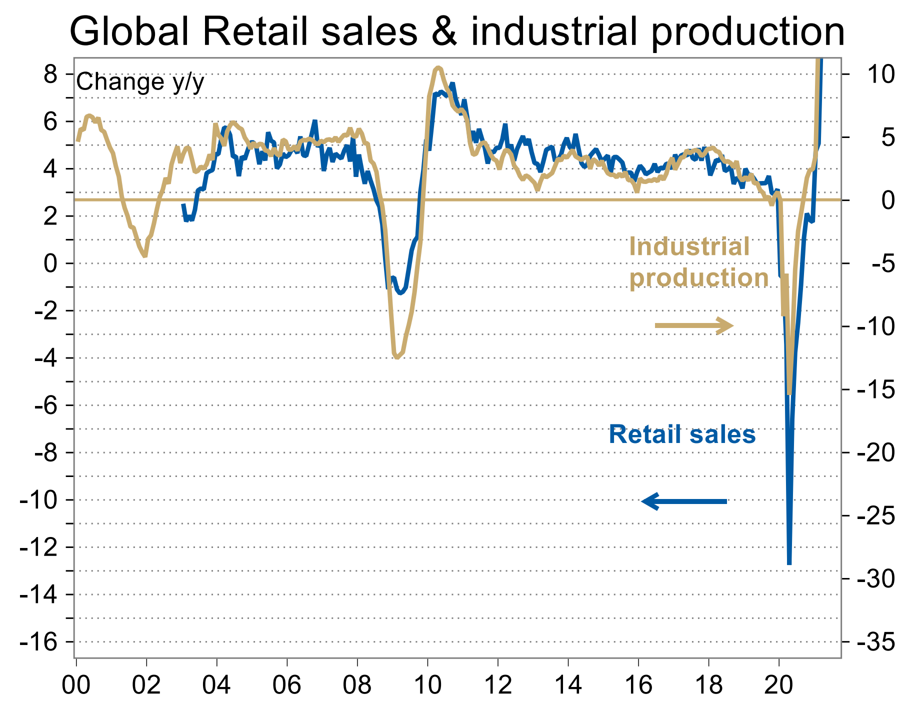




The recovery in the goods sector continues

…The latter due to a surprisingly decline in factory output in EMU and in the US. March will be better



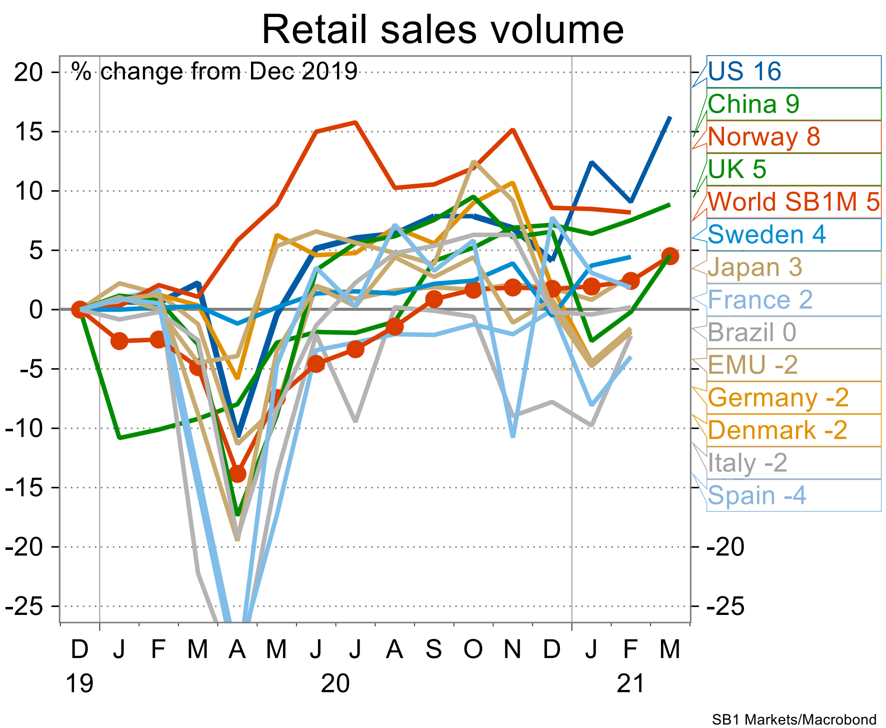


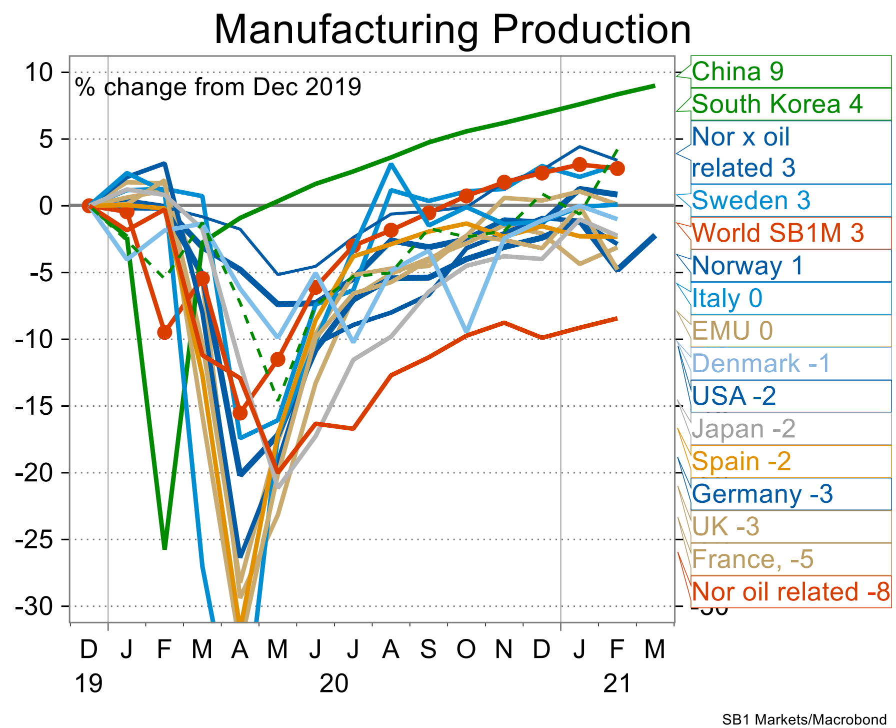
Memo: Keep in mind the different scales at the chart above

- **Retail sales** rose sharply in <u>March</u>, according to our very preliminary estimate, mostly due to the lift in US auto sales. Global sales are 4.5% above the pre-pandemic level
- **Manufacturing production** contracted marginally in <u>February</u>, but remains 2.8% above the pre-pandemic level
- **Global foreign trade** rose further in February, to 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 EMU & the US

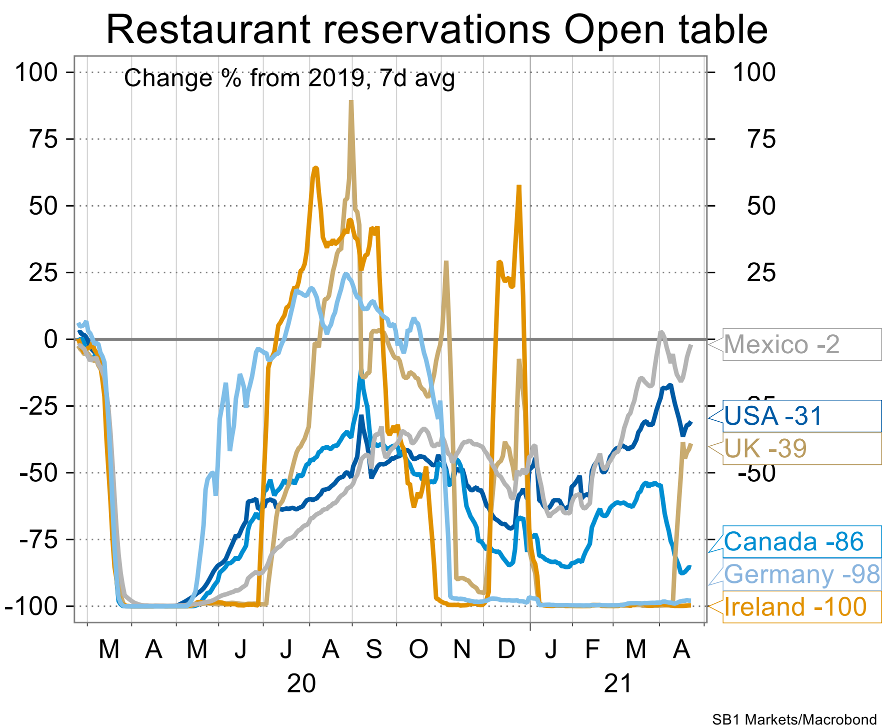


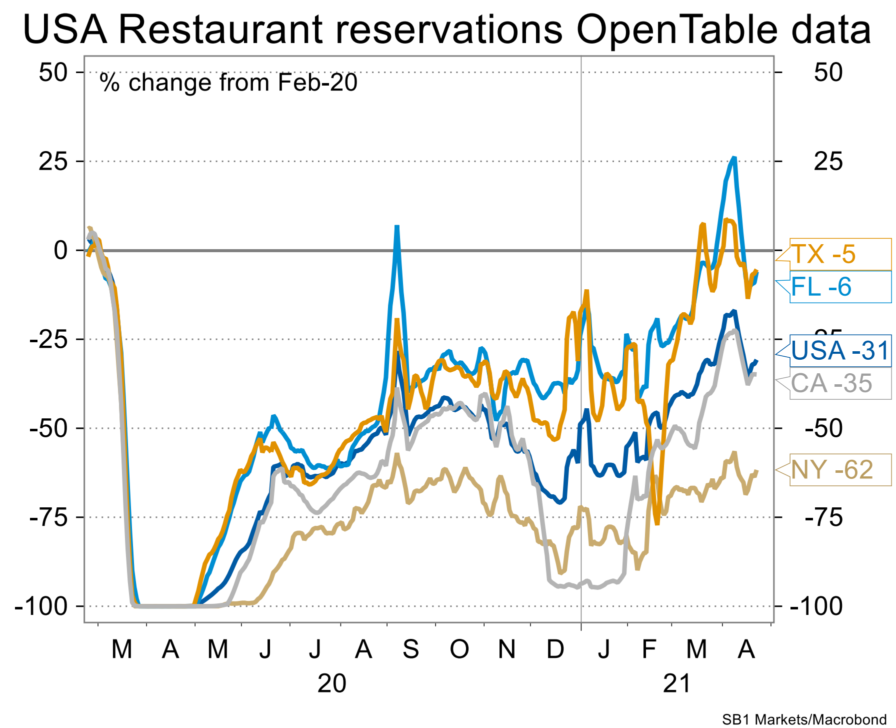


- Global manufacturing production very likely grew in March, witnessing the decent recovery in US, and continued growth in China

UK restaurants reopened last week. Less US bookings, very likely temporary

In March, total restaurant sales (including canteens, Mc D, take-away etc) were down 5% vs. Feb-20

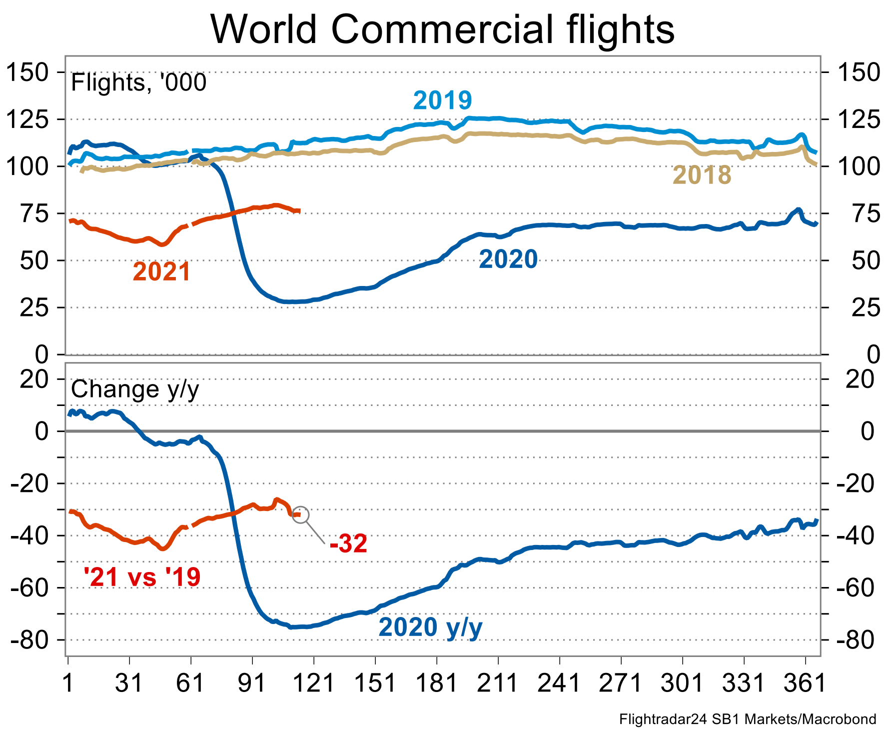


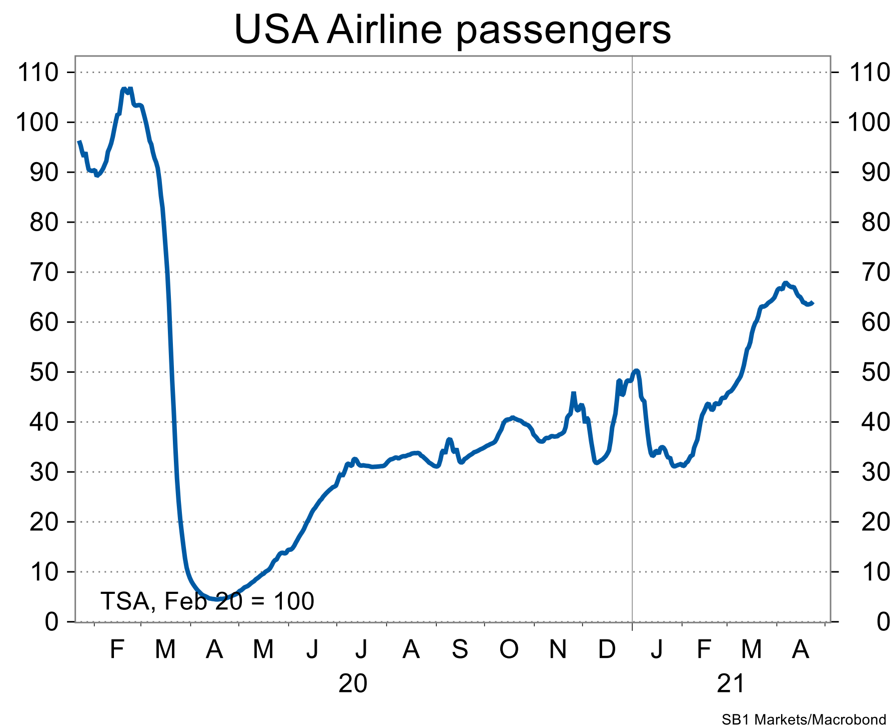


- Restaurants still closed in Germany

Global airline traffic is… stalling?? No further lift past two weeks

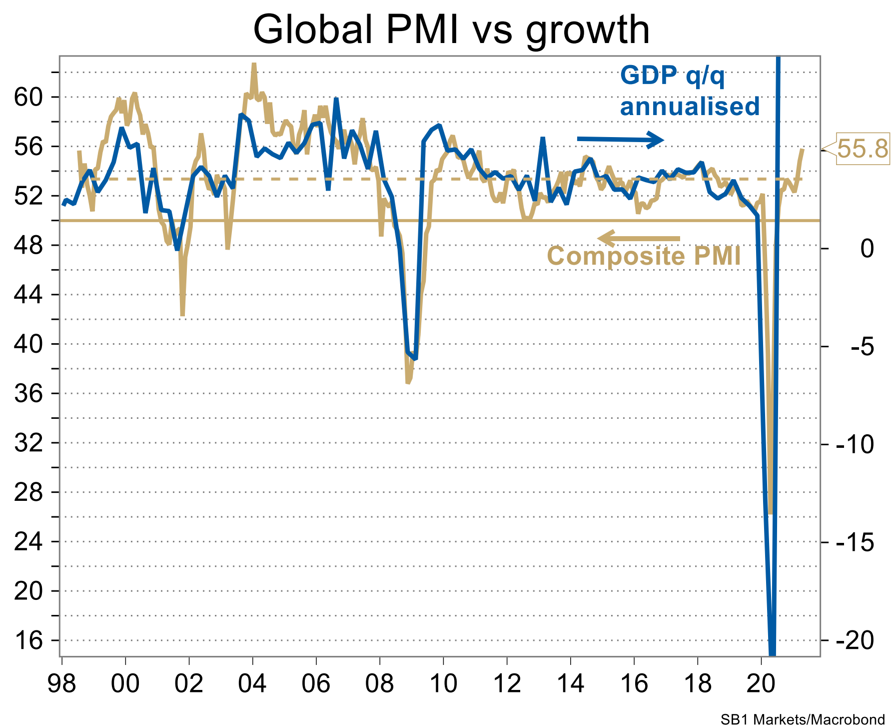
The no. of US passenger have stalled too, down 25% vs the pre-pandemic level

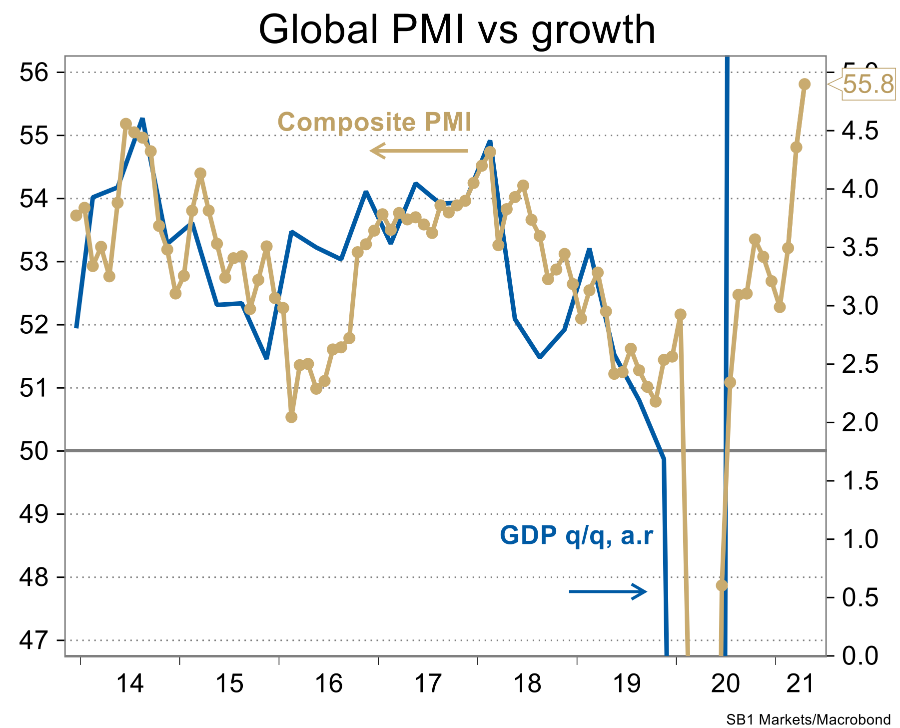




The global composite PMI likely further up in April, broad based. Best since 2010

We estimate a 0.5 – 1.5 p lift in the comp. PMI to 55.8 (centre est), signalling growth well above trend





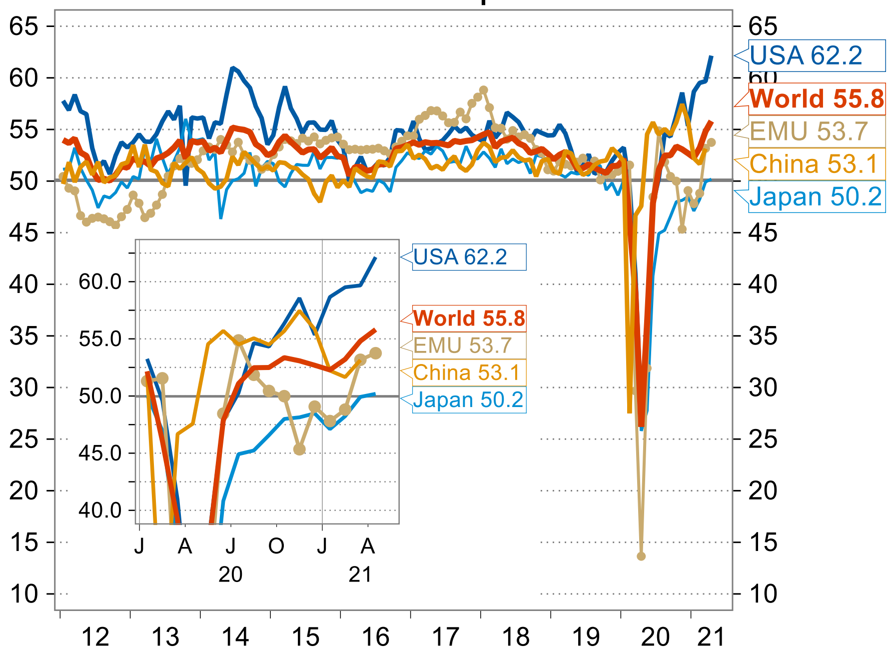
- **The global PMI** is rising rapidly to a far above average level – to the best level in more than 10 years
- The global growth outlook for Q2 is pretty good!

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

Strong growth in both in the US, EMU & UK

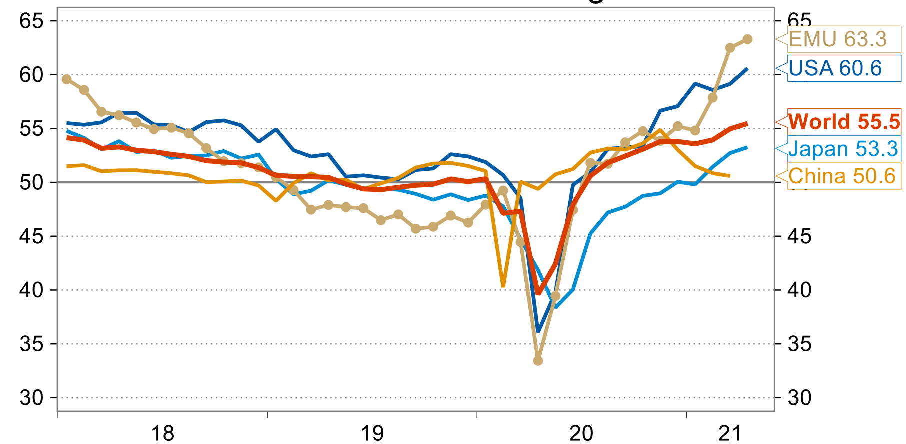
The US is still in the lead, and at very high level, 62.2, by far the best in the PMIs 13-year history

PMI Composite



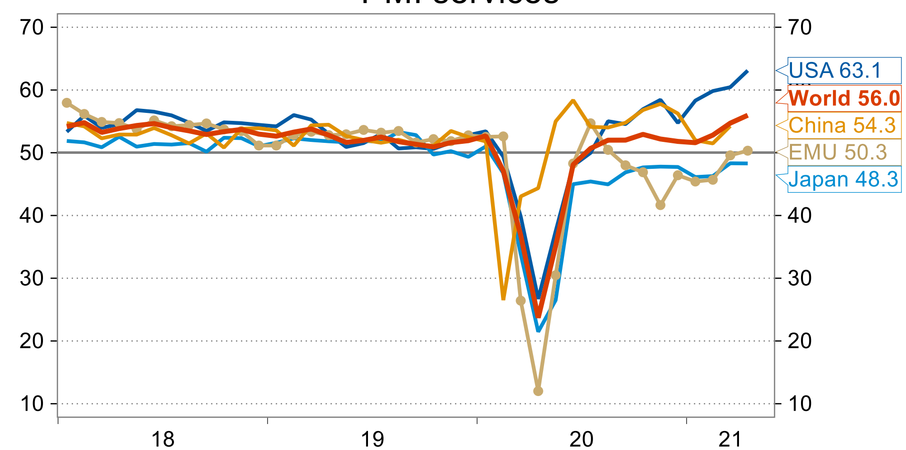
Source: IHS Markit, SB1 Markets, Macrobond

PMI Manufacturing



Source: IHS Markit, SB1 Markets, Macrobond

PMI services

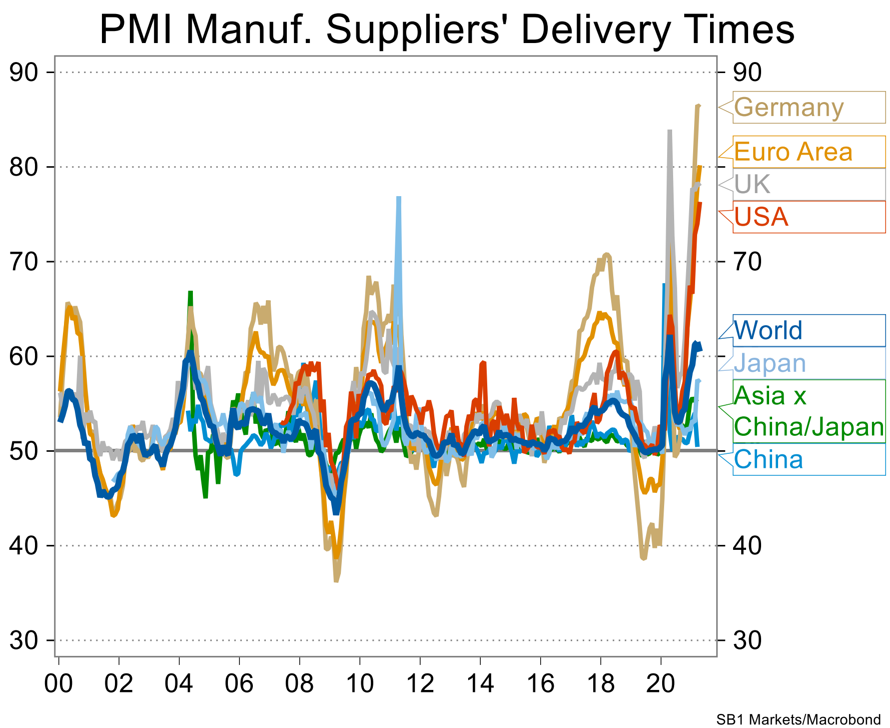


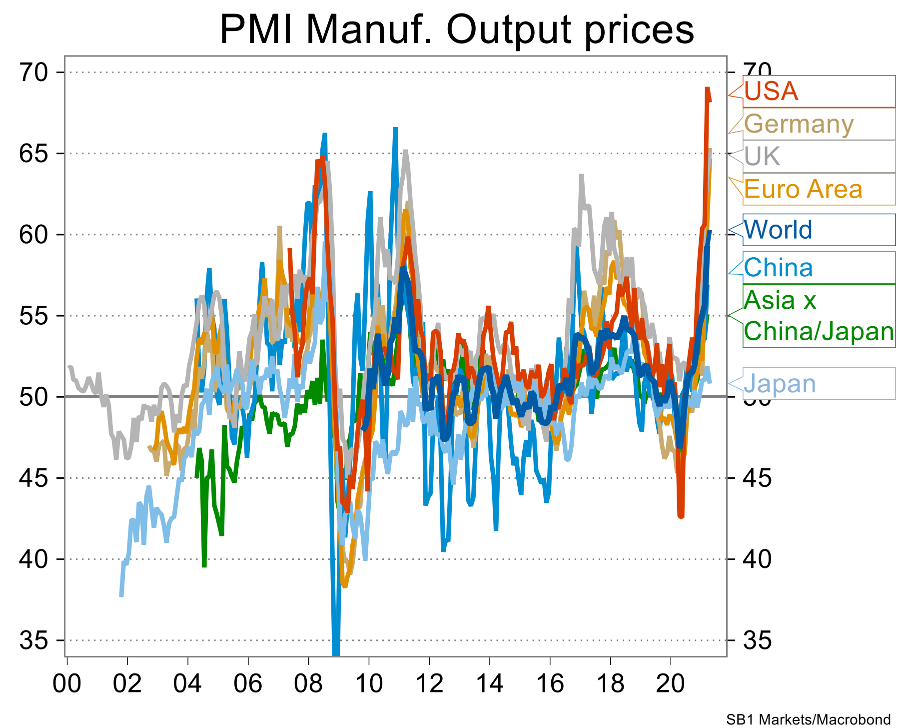
SB1 Markets/Macrobond

- Both manufacturing & services in the **US** report strong growth, with PMI levels at 60 – 63
- The PMIs in **EMU** rose sharply to, well above expectations. The manufacturing sector in the EMU is 'exploding', while services stabilised, the PMI climbed to above 50
- The UK PMIs surged, both the manufacturing & services, both at 60! No Brexit, Covid-19 challenges anymore?

Delivery times, prices are rising faster everywhere (and the fastest ever most places)

… and probably not mostly due to specific corona challenges – it's a booming activity, stupid!

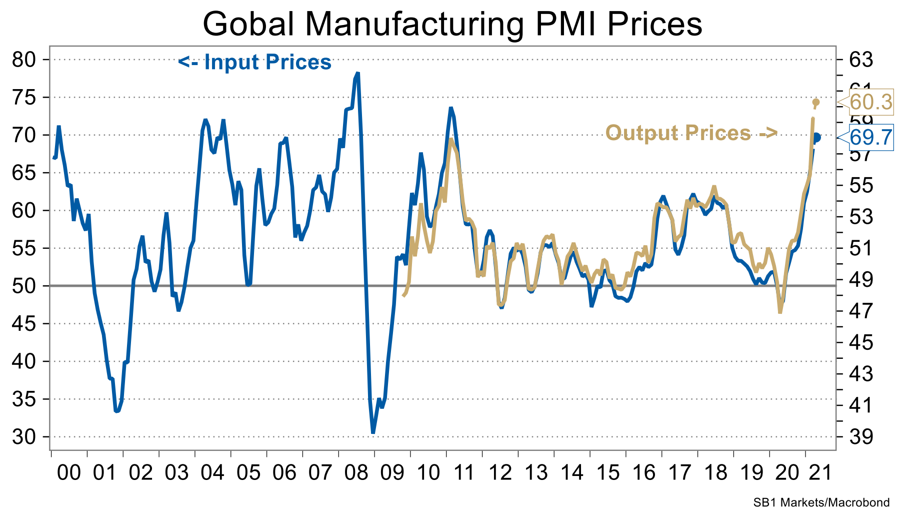


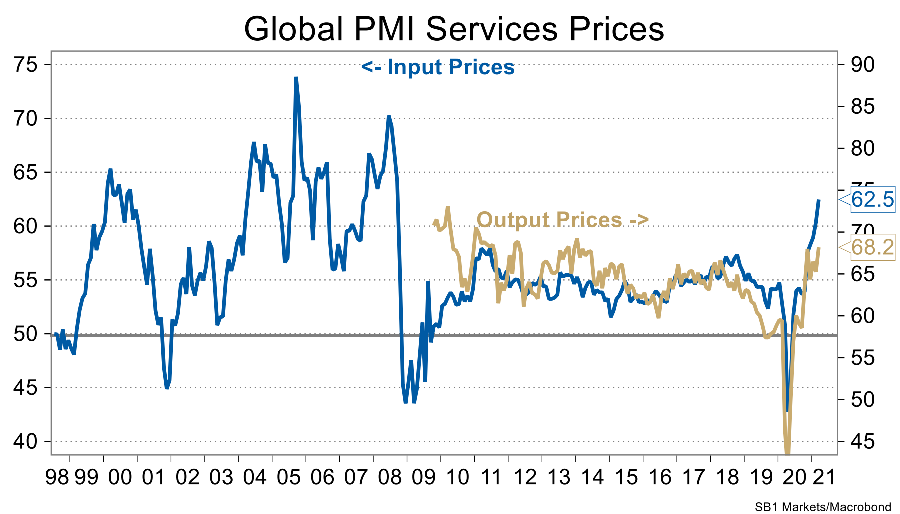


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) may have reached global all-time high in March. Germany/Europe is in the lead but also the UK and the US are reporting the most rapid increases in delivery times ever (barring covid-19 related trouble last April in the UK)
  - » **Brexit and partly the covid-19 surge** may explain some of the delivery problems in the UK, perhaps even in Germany – but production is surging too
- **The global manufacturing output price index** is at the highest level ever, as both the US, EMU, Germany, UK are reporting the fastest price rises ever
- **All together** – rapid growth, longer delivery times and higher prices look like something familiar

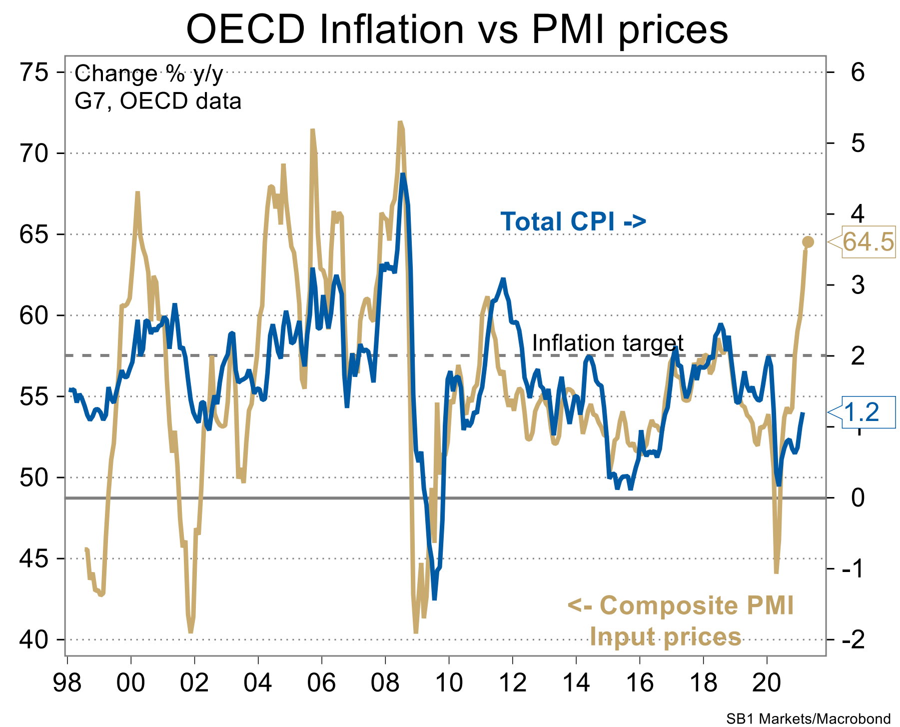
Businesses keep reporting even faster growth in input/output prices

CPI inflation seems to be the next stop





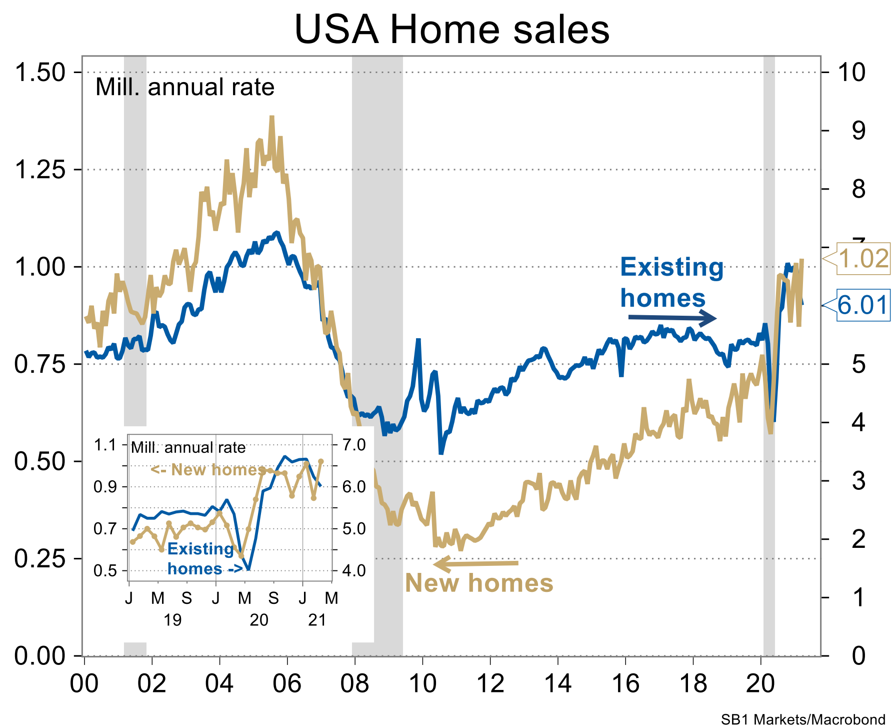
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

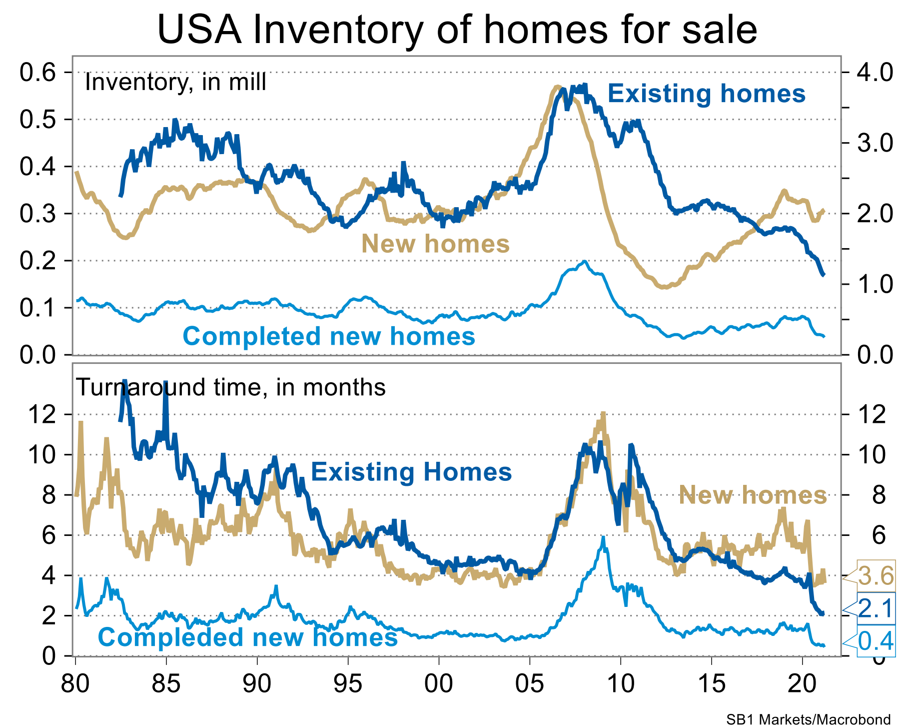


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 1.2% in rich countries now, up to something quite different the coming months
- Luckily, the correlation to **core inflation** is far less precise, as energy prices are the main driver for the up and downs in both the PMIs and in short term variations in headline inflation

New home sales recovered the Feb losses in March. Existing home sales down

… because there are no 2nd hand homes to buy, the inventory is ‘empty‘

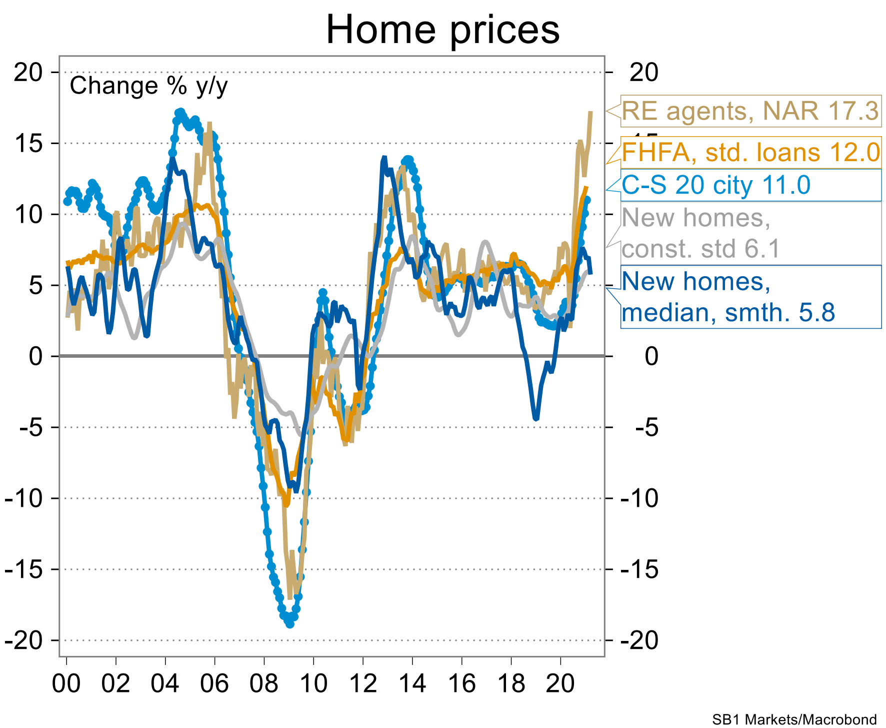


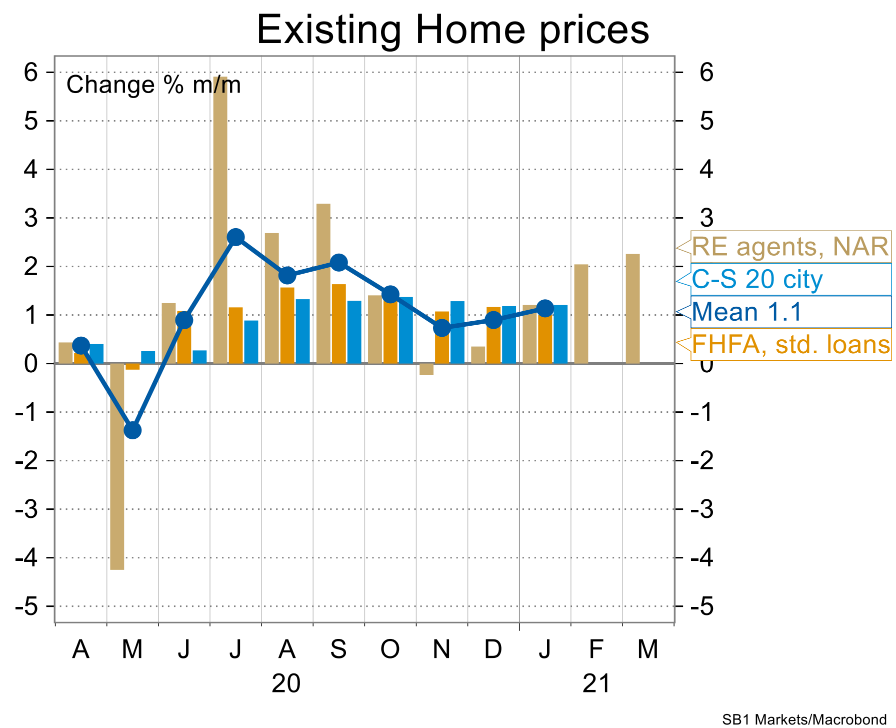


- **New home sales** rose to 1.02 mill’ (annualised rate) in March, from 775’ exp. 888’ – to the best level since 2007, up >40% vs. pre corona
  - The **inventory of unsold new homes** fell again, and the level is very low, especially for completed homes. The inventory equals 0.4 x the monthly sales pace, the previous bottoms were at 1 months sales. Prices are still up ‘just’ 6% - which is strange, given the 11%- 17% price appreciation for existing homes
- Sales of **existing homes** fell to 6.01 mill (ann. rate) in March from 6.24’, expected 6.22’. The sales level is still 10% above the pre-pandemic level. Sales are do doubt kept down due to an unprecedented lack of supply
  - **The inventory of unsold homes** fell further from a record low level, and equals just 2.1 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times 10 months.
  - **Prices** rose sharply, by 2% m/m, and 15.5% y/y, the 3rd highest print ever – which does not indicate that a ‘high’ mortgage rate is dampening the housing market

Realtors report another 2% m/m price hike, up 17.3%. Never seen that before…

So far in 2021, prices are increasing at 23% pace, in case you wondered

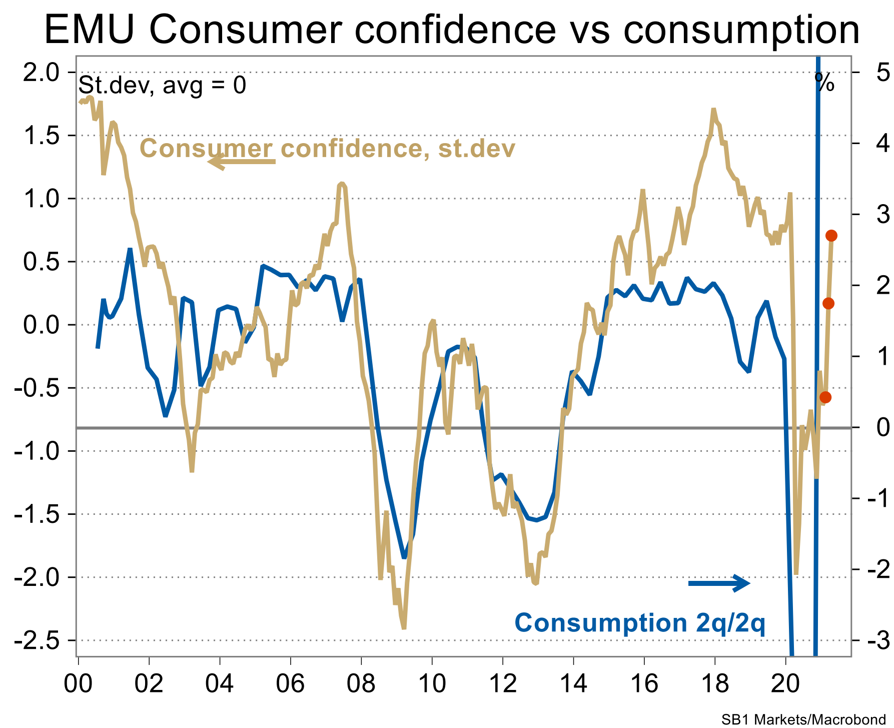


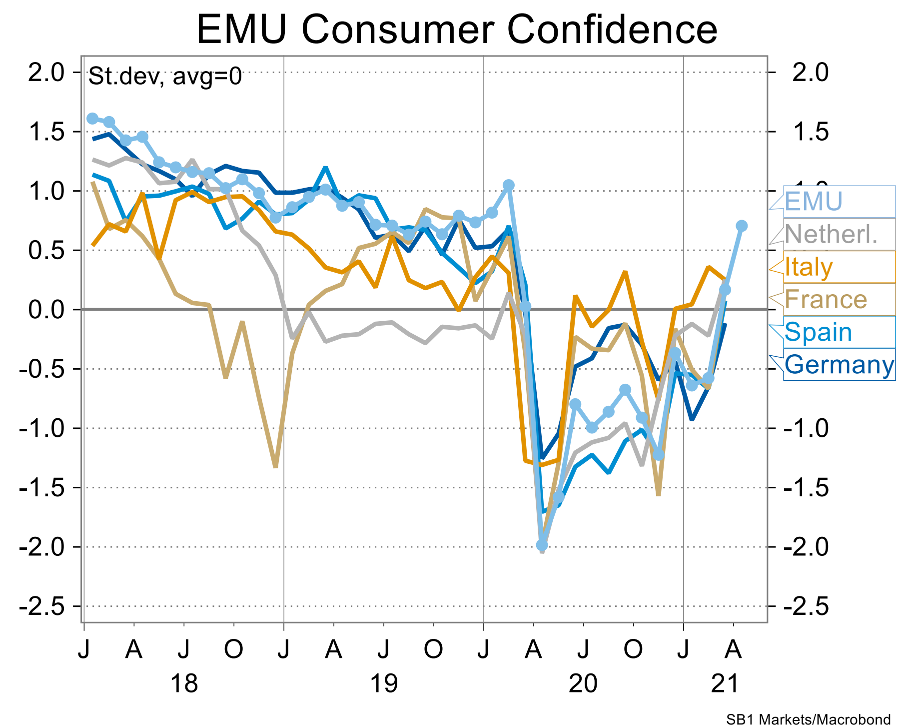


- Other, and better, price indices are reporting lower growth rates but all are reporting very rapid price increases since last spring/summer

Consumer confidence straight up in April too! Consumption will recover

The confidence up 0.5 st.dev to +0.7 above average, to the same level as in 2019!





- **The consumer confidence index** rose to -8.1 in April from -10.8 in March, expected just marginally down to 11. The index rose even more in March, and totally unexpected at that time too. The lift in the index the two past months have been the 2^{nd} strongest ever, just behind June last year – and this time without any substantial lifting of restrictions
- A consumer confidence at the present level has on average corresponded to a 3% growth in consumption
  - » However, consumption has been far 'weaker' than signalled by this confidence indicator since 2015. Thus, consumption growth is not granted even if the confidence levels is at an average level. In addition, the pandemic has created problems for all such correlations
- No country details yet
  - » Just Germany reported confidence below par in March. Italy has been above average since December. All are very likely above average in April

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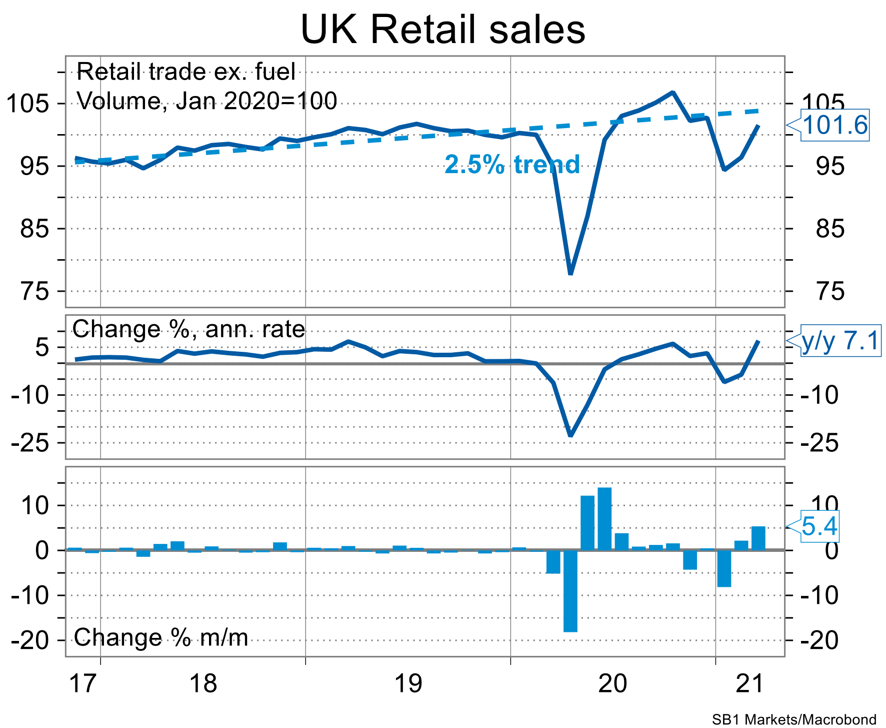
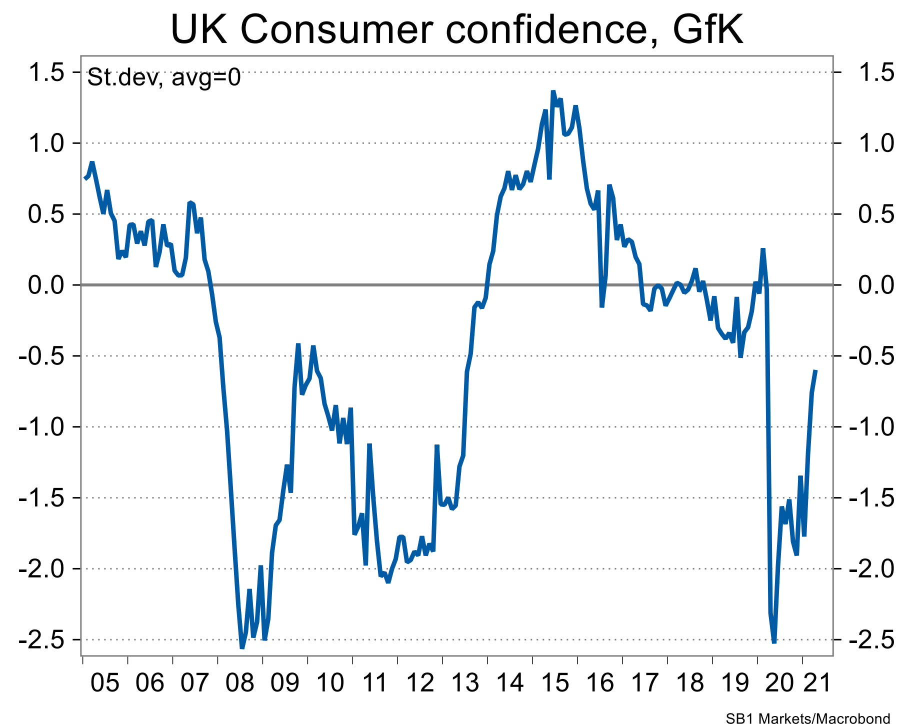
Retail sales up 5.4% in March, far exceeding expect. Sales are 1.6% above Feb-20!

… in the middle of the 'lockdown'





- **Despite Covid restrictions**, retail sales were up 5.4% m/m in March, up 7.2% y/y, following the 2% growth in February. Sales are 1.6 above the pre-pandemic level, and will likely grow further April as more restrictions have been lifted due to the very successful roll-out of vaccines. As a result, UK will become the first European country to truly open up society again
  - Clothing sales rose by 17.5%! Online sales were down 1.5 pp but remains high at 34.7% y/y
- **Consumer confidence** continued up in April. The level is still below normal – but the direction is set

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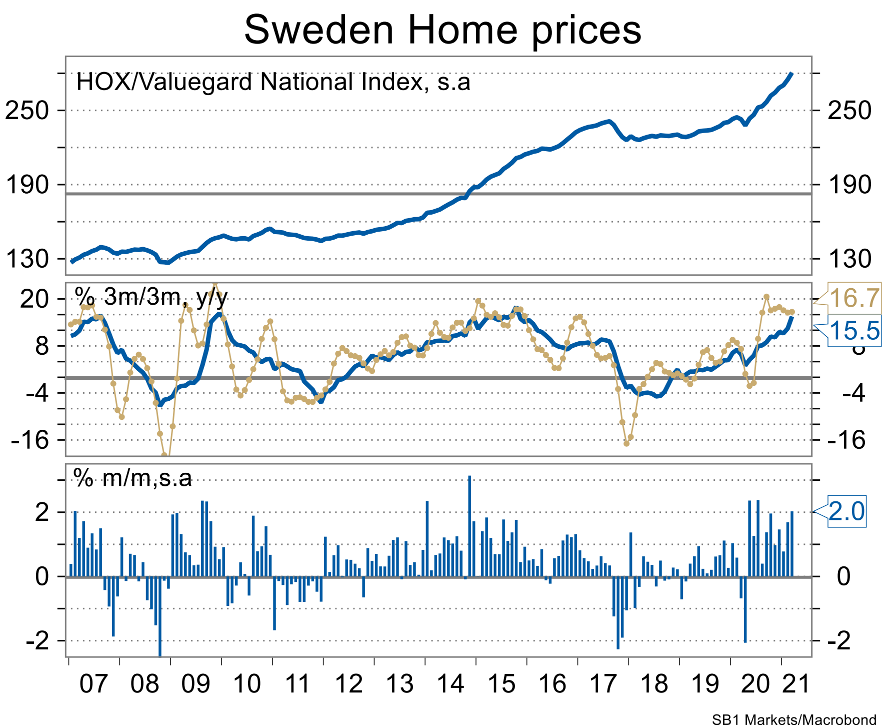
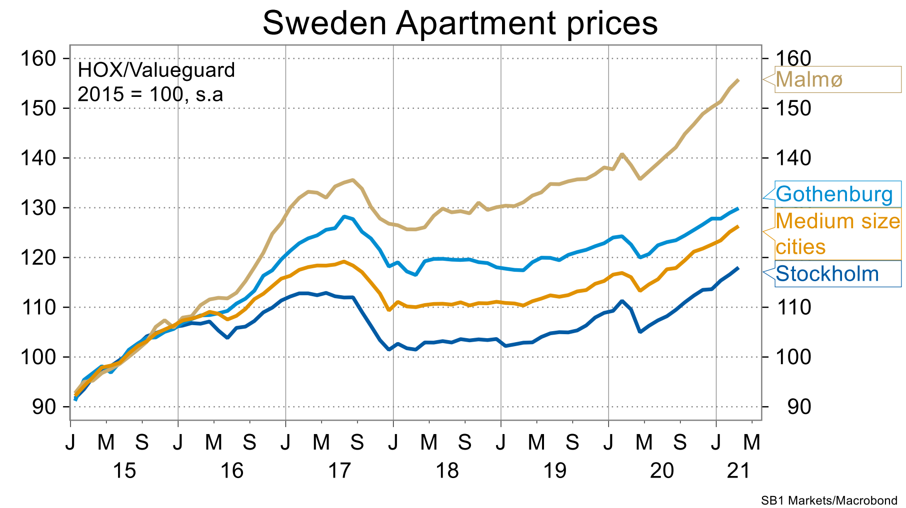
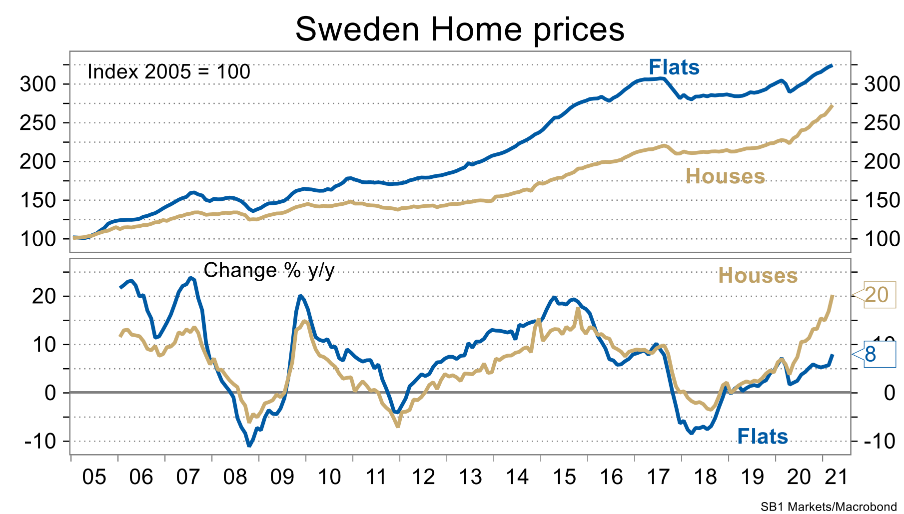
Swedish house prices up 2% m/m in March, 15.5% y/y!

Prices are rising everywhere – and houses MUCH faster than flats!



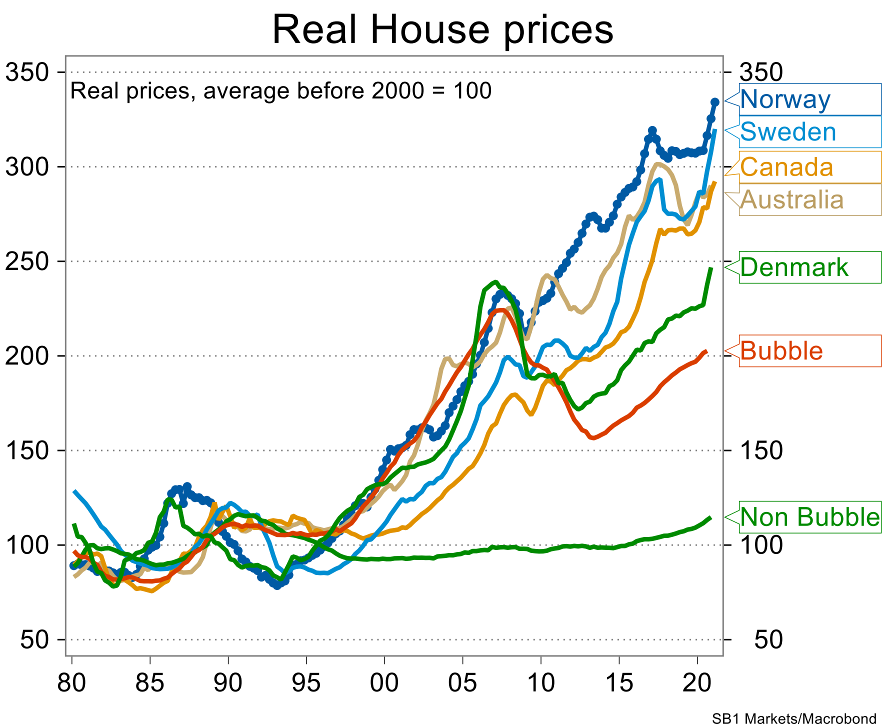


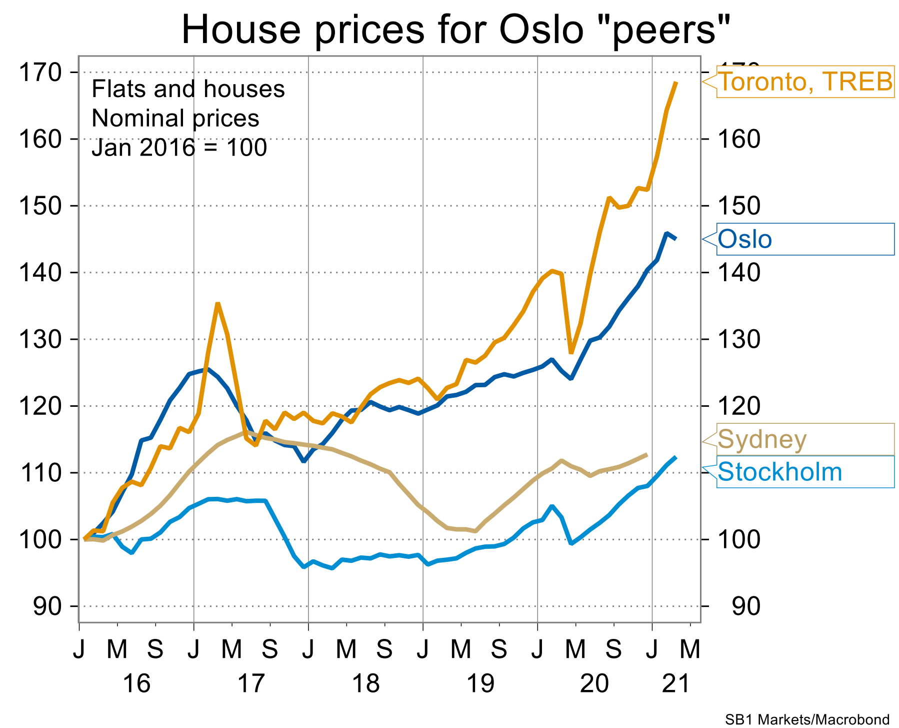


- In February, prices rose by 1.7%, 0.2 pp higher than initially reported
- Underlying price growth is (3m/3m) has slowed marginally, but is still at 17%, even higher than in Norway
- Prices are increasing fast everywhere - and faster for houses than flats

Zero-interest rates are just wonderful!

Prices are soaring in many countries – with the 'supercycle' countries in the lead

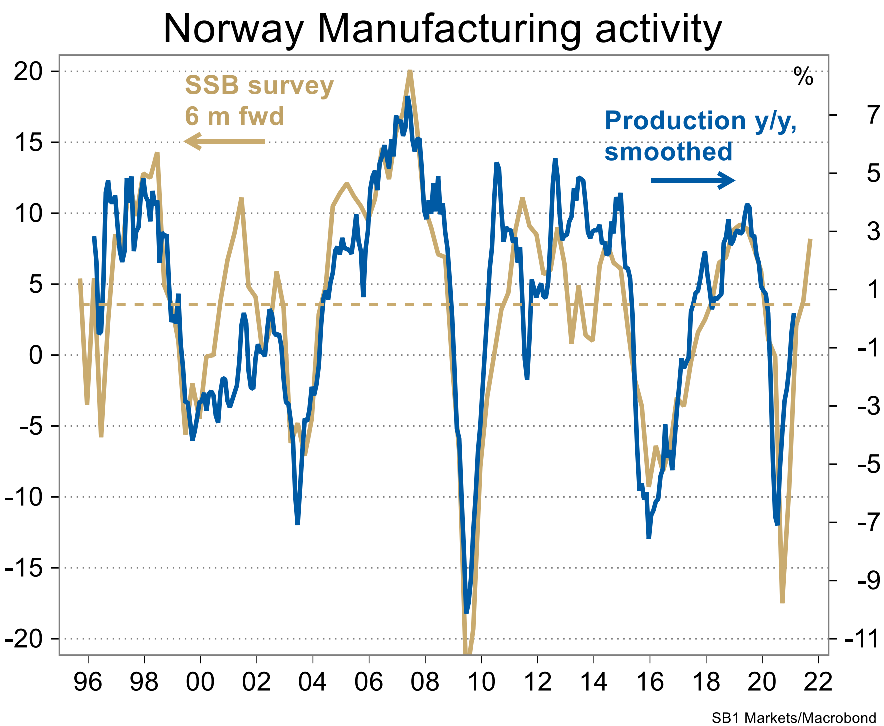


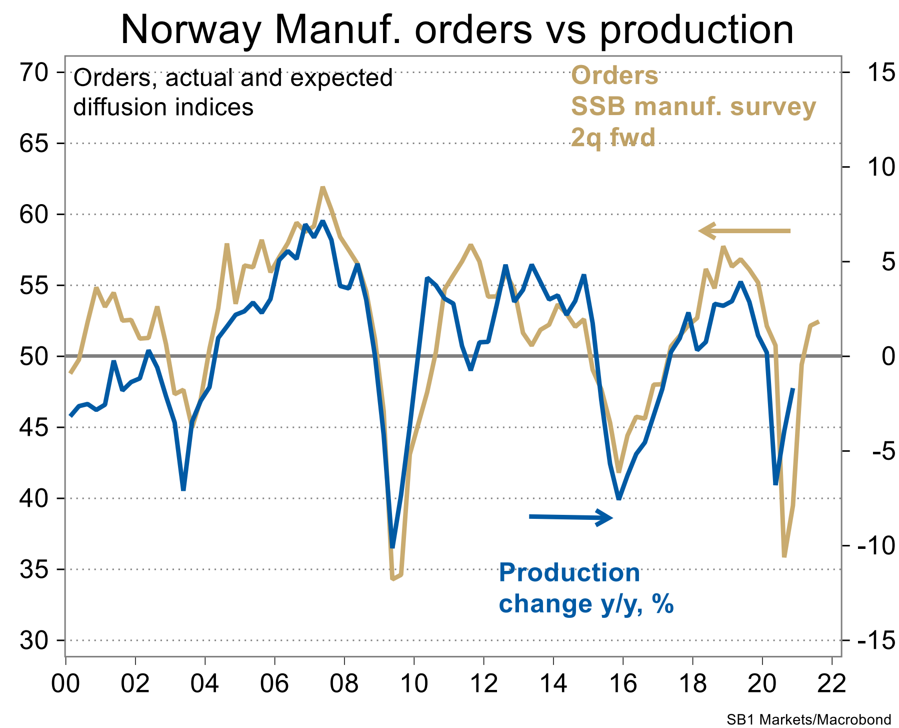


- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Almost all OECDs countries are reporting higher house prices over the previous years, just Ireland & Japan are in the downside

SSB's manufacturing survey signals increased optimism in Q1

Oil related still on the weaker side, others not. Demand is not a problem, supply is, labour incl.

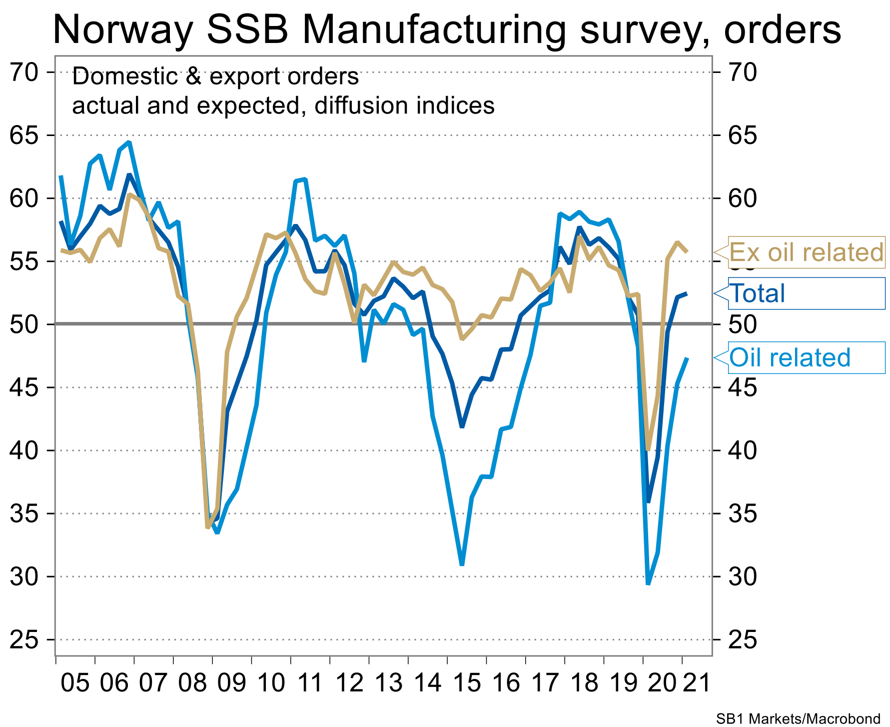


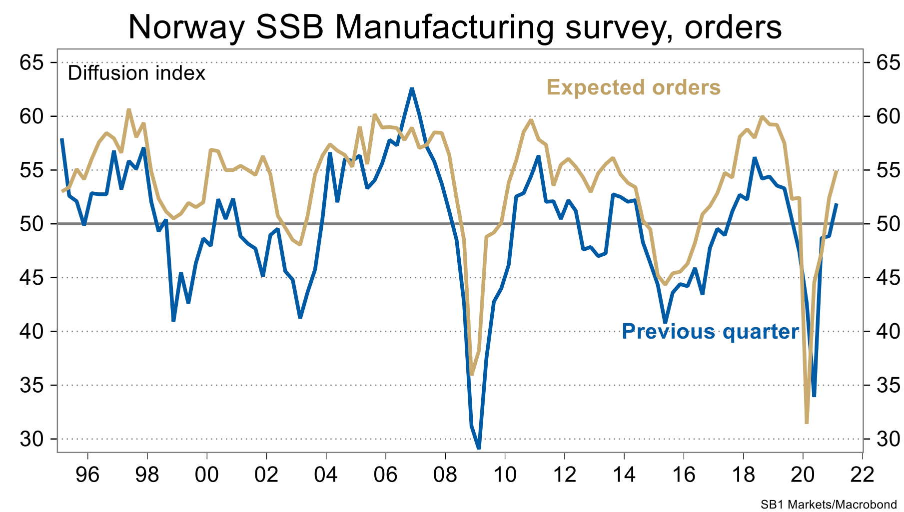


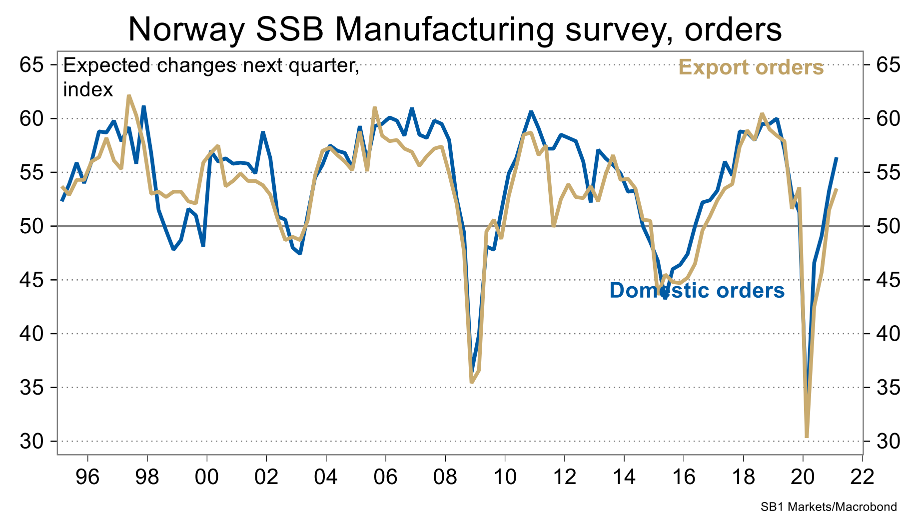
- The composite index in SSB's manufacturing survey rose to 8 in Q4, from 4 in Q3 (rev. up from 3.0), in line with our expectation, well above the 3.5 average level
  - The index signals growth above trend in the manufacturing sector, 3% GDP growth and strong growth in corporate earnings (from subdued levels last year). However, like for all surveys these days, it is more challenging than usual to translate survey data into growth rates
- Orders are recovering. Domestic orders are still stronger then foreign orders, but foreign orders improved in the 1st quarter
- ***Supply constraints are not yet serious but well above average, labour shortages included. Demand is less of a problem than normal***
- ***There are also reports of increased selling prices both at home and abroad***

Orders in the oil related industries heading upwards again

Both domestic & foreign orders are recovering, domestic orders the most

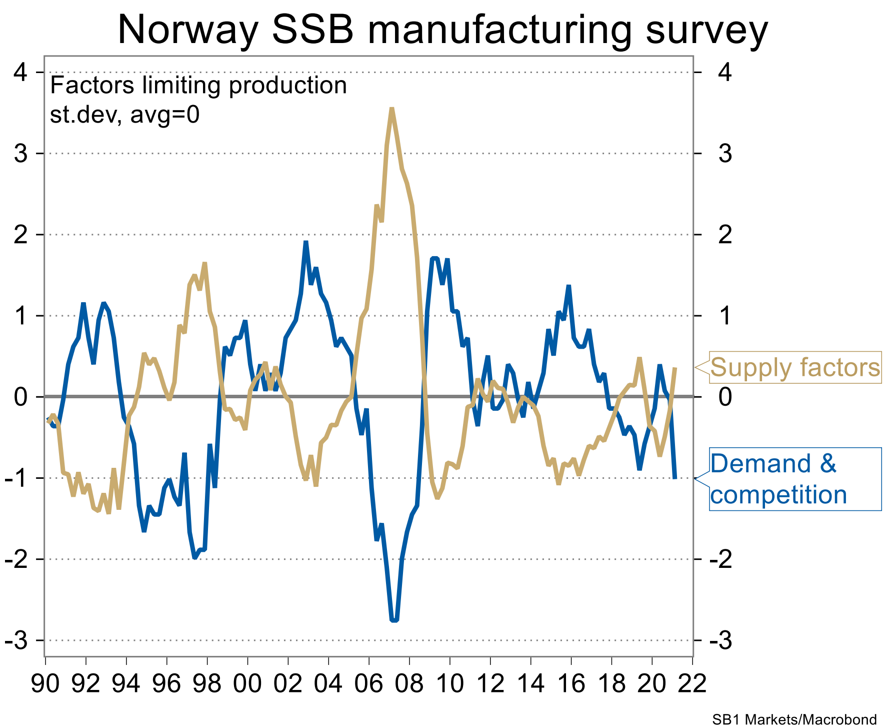


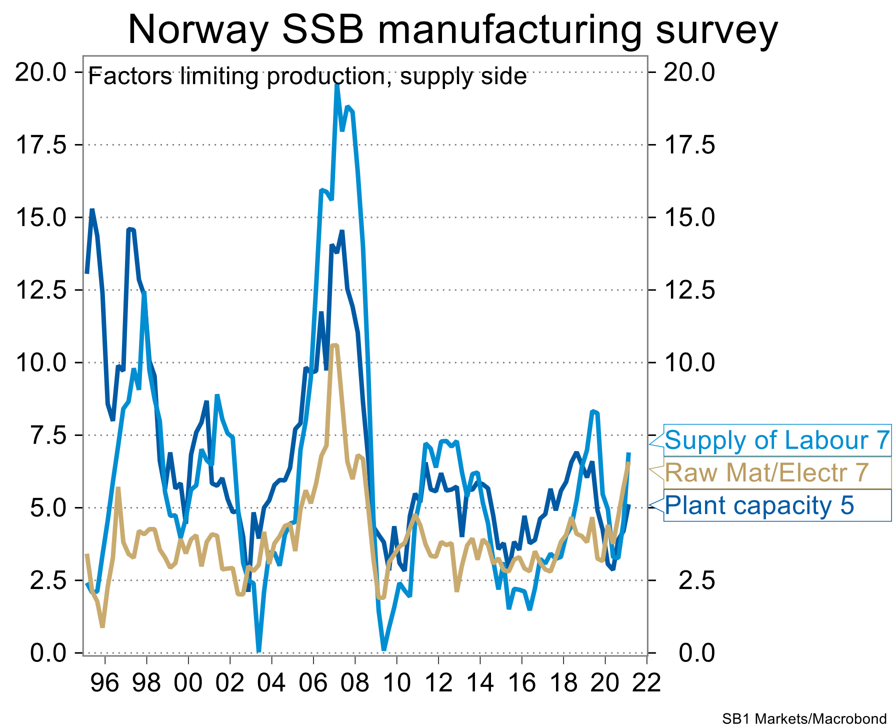




Limiting production: Supply factors are replacing demand factors

Fewer companies than since '09 report lack of demand as the limiting factor. Supply 2nd highest since '09

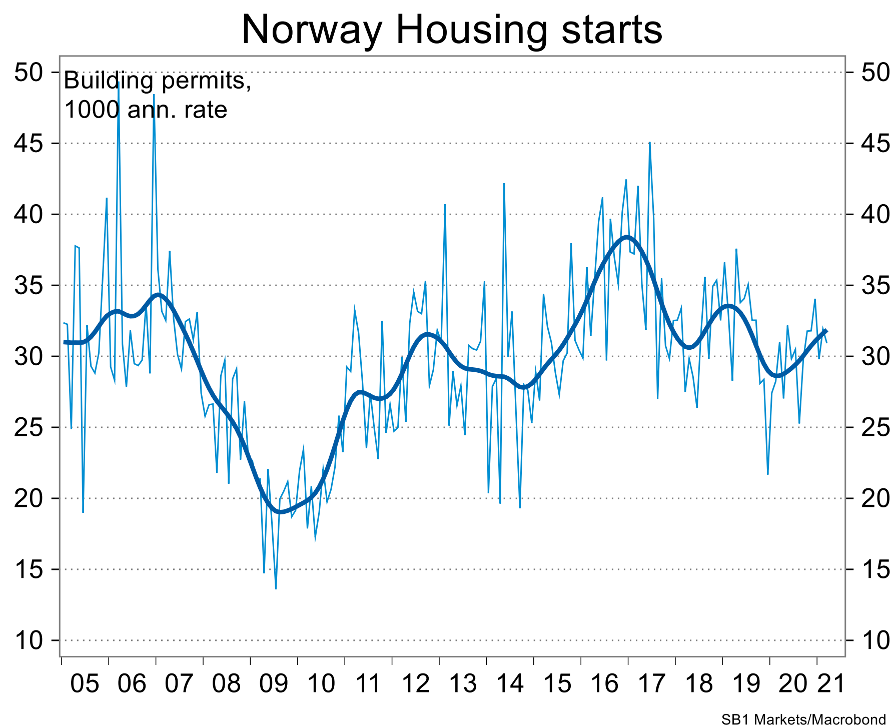


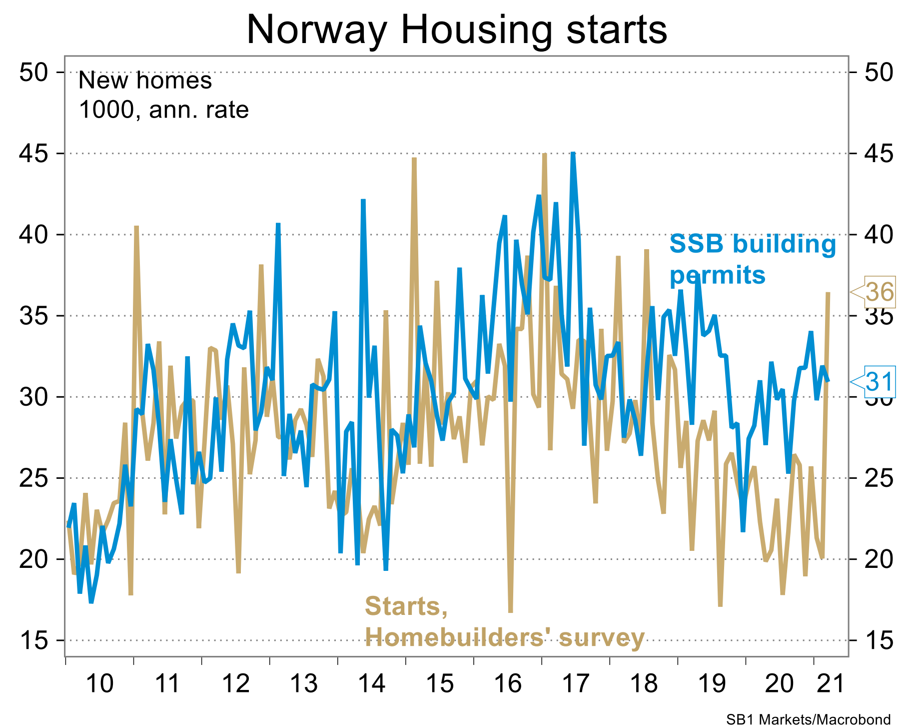


- More companies are reporting supply side factors as limiting production in fact the 2nd highest share since 2009! But still not that many than the average share
  - » More companies are reporting lack of labour, raw materials, plant capacity as limiting factors, lack of raw materials the highest since 2009
- Fewer, and now close to an average share of companies are reporting of demand/too much competition as a constraint in Q4.
- ***No demand crisis – and it never was during the pandemic***

SSB: Housing starts have turned up, amid steep increases in house prices

SSB reports starts (building permits) down 1’ to 31’ starts in March but the trend is up

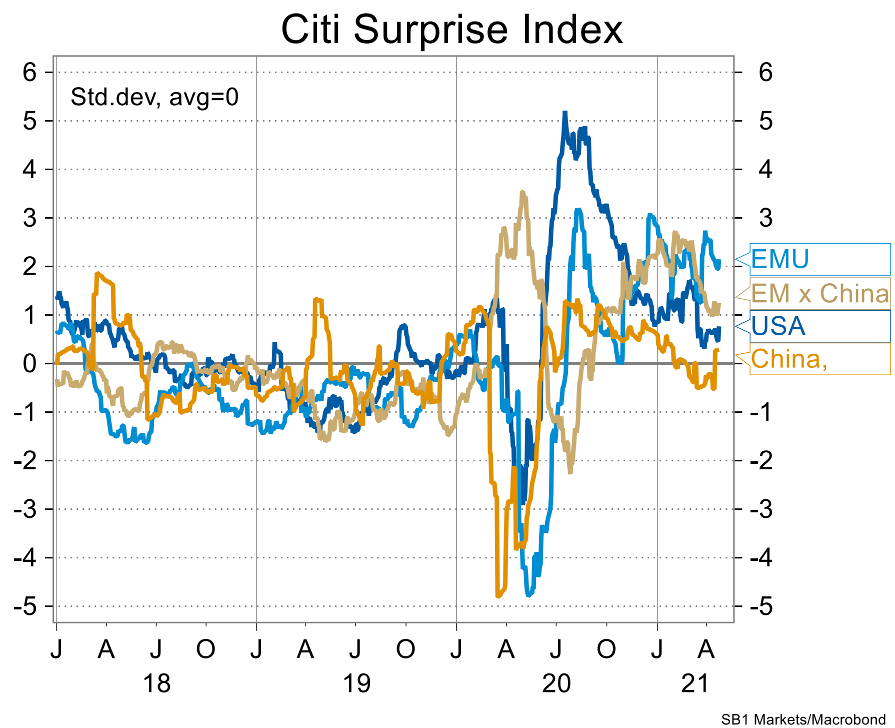


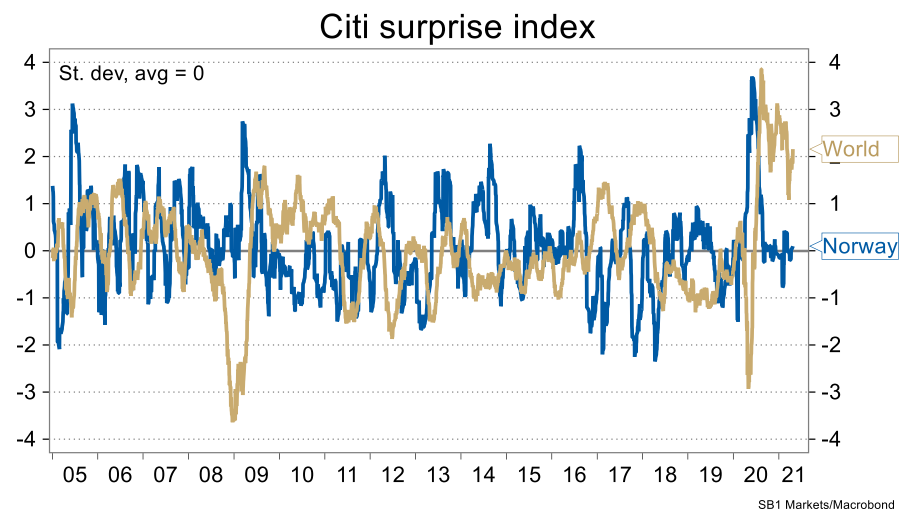


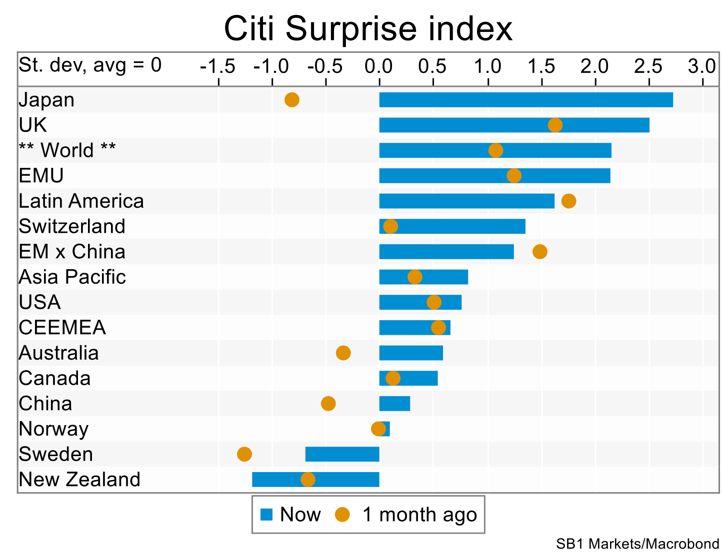
- Homebuilders reported an unusual lift in housing starts in March, following strangely low starts data, both vs. Homebuilders reported new home sales and vs. SSB building permits
- Student and nursing homes have explained some of the gap between SSB’s permits and Homebuilders’ starts

Surprises still on the upside, just Sweden and New Zealand on the downside

… according to Citi's surprise index. Japan at the top, together with UK & EMU







- **Japan, UK & EMU** at the top of the list, followed by Japan & Lat-Am
- The **US** surprise index stabilised last two weeks
- **China** recovered last week as March data were OK
- **Norway** is still in a neutral position, close to the bottom

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

The Calendar: Fed, Riksbank, retail sales & GDP figures on the menu + the ECI

Time	Count.	Indicator	Period	Forecast	Prior
Monday Apr 26					
10:00	GE	IFO Expectations	Apr	101.2	100.4
14:30	**US**	**Durable Goods Orders**	**Mar P**	**2.4%**	**-1.2%**
Tuesday Apr 27					
09:30	SW	Riksbank Interest Rate	Apr-27	0.0%	0.0%
09:30	SW	Unemployment Rate SA	Mar	8.8%	8.9%
15:00	US	S&P CoreLogic CS 20-City MoM	Feb	1.1%	1.2%
16:00	US	Conf. Board Consumer Conf.	Apr	112.0	109.7
Wednesday Apr 28					
01:50	JN	Retail Sales MoM	Mar	0.6%	3.1%
08:00	**NO**	**Retail Sales MoM**	**Mar**	**-6.0%**	**-0.3%**
09:30	SW	Retail Sales MoM	Mar		0.7%
14:30	US	Trade Balance, goods	Mar A	-$87.1b	-$86.7b
20:00	**US**	**FOMC Rate Decision**	**Apr-28**	**0.25%**	**0.25%**
Thursday Apr 29					
09:00	SW	Economic Tendency Survey	Apr		105.3
09:00	SW	Consumer Confidence	Apr		97.1
09:30	SW	GDP Indicator QoQ	1Q	0.5%	0.5%
11:00	EC	Economic Confidence	Apr	102	101
14:30	US	Initial Jobless Claims	Apr-24	555k	547k
14:30	**US**	**GDP Annualized QoQ**	**1Q A**	**6.5%**	**4.3%**
16:00	US	Pending Home Sales MoM	Mar	4.0%	-10.6%
Friday Apr 30					
01:50	JN	Industrial Production MoM	Mar P	-2.0%	-1.3%
03:00	CH	Non-manufacturing PMI	Apr	55.9	56.3
03:00	**CH**	**Manufacturing PMI, NBS**	**Apr**	**51.7**	**51.9**
03:00	CH	Composite PMI, NBS	Apr		55.3
08:00	**NO**	**Credit Indicator Growth YoY**	**Mar**	**(5.1%)**	**5.0%**
10:00	GE	GDP SA QoQ	1Q P	-1.5%	0.3%
10:00	**NO**	**Unemployment Rate**	**Apr**	**(4.2%)**	**4.2%**
11:00	EC	Unemployment Rate	Mar	8.3%	8.3%
11:00	EC	CPI Core YoY	Apr P	0.8%	0.9%
11:00	**EC**	**GDP SA QoQ**	**1Q A**	**-0.8%**	**-0.7%**
14:30	**US**	**Employment Cost Index**	**1Q**	**0.7%**	**0.7%**
14:30	US	Personal Income	Mar	20.0%	-7.1%
14:30	US	Personal Spending	Mar	4.3%	-1.0%
14:30	**US**	**PCE Core Deflator YoY**	**Mar**	**1.8%**	**1.4%**
16:00	US	U. of Mich. Sentiment	Apr F	87.5	86.5

- **China**
  - » The economy slowed in Q1 due to travel restrictions during the Lunar New Year holiday but gained speed in March, as the PMIs also captured. We expect the momentum continued into April, the first Chinese **PMIs** are out at Friday. Still, as the activity level is above the pre-pandemic trend, and some credit tightening is taking place we expect growth to slow somewhat from H2-21
- **USA**
  - » The interest rate and the QE program will remain unchanged at the **FOMC meeting** on Wednesday. The bank will recognise that the economy is recovering rapidly but even reports of price and wage pressures will not, at this point, influence policy. No policy analysis nor dot plot out at this meeting. But in June…
  - » **Q1 GDP** is expected up by 6%, with the main contribution from an 'explosion' in private consumption as some of the in sum USD 2.000 cheques were spent (but most of the unprecedented income transfer was spent).
  - » The March **Personal Income & spending**, and the **PCE price deflator** is out on Friday (derived from the Q1 data published at Thursday). Income will soar more than ever due the stimulus cheques, while spending rose sharply too. The annual growth in Fed's preferred price gauge is expected to increase sharply, both due to a higher m/m increase now, and because prices fell in March last year. Regardless, this will not concern the Fed
  - » What would and should concern the Fed, is wage inflation. Thus, the **Employment Cost Index (ECI)** is probably the most important US data point this week. So far, wage inflation has been kept in check but there are many signs that cost pressures are mounting. An unchanged Q1 quarterly growth at 0.7% (2.8% annualised) is expected
- **EMU**
  - » **GDP** probably fell in most countries in Q1, due to the impacts of 2nd/3rd wave as in Q4-20, consensus is at -0.8%. However, that's history now. The possibilities for reopening in Q2 and into Q3 as substantial parts of the population will be vaccinated is of course the main theme today
  - » **Core CPI inflation** is expected marginally down in April, to 0.8%
- **Sweden**
  - » At one stage the **Riksbank** too will have to change tack. But not yet
- **Norway**
  - » **Retail sales** have been hurt by the closure of non-food shops in Oslo and parts of Viken in parts of March. We are very uncertain how large setback will turn out to be, we assume something between 5% and 10%
  - » We expect ordinary **NAV unemployment** to increase marginally, seasonally adjusted but the no. of partially unemployed to decline
  - » **C2 credit growth** is accelerating but slowly. Corporate credit growth has turned more up than household credit.

Highlights

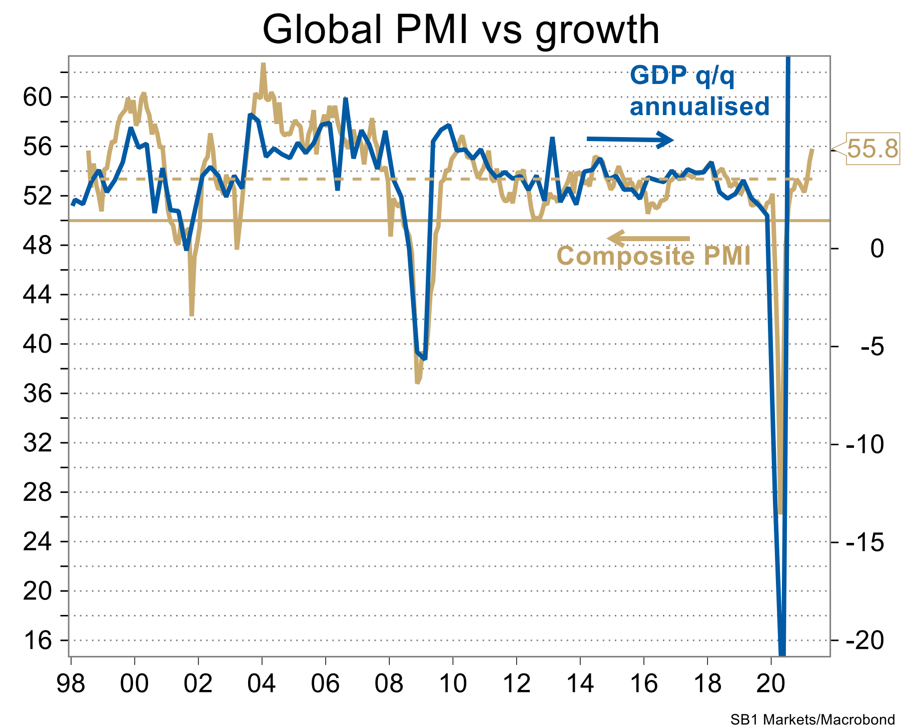
The world around us

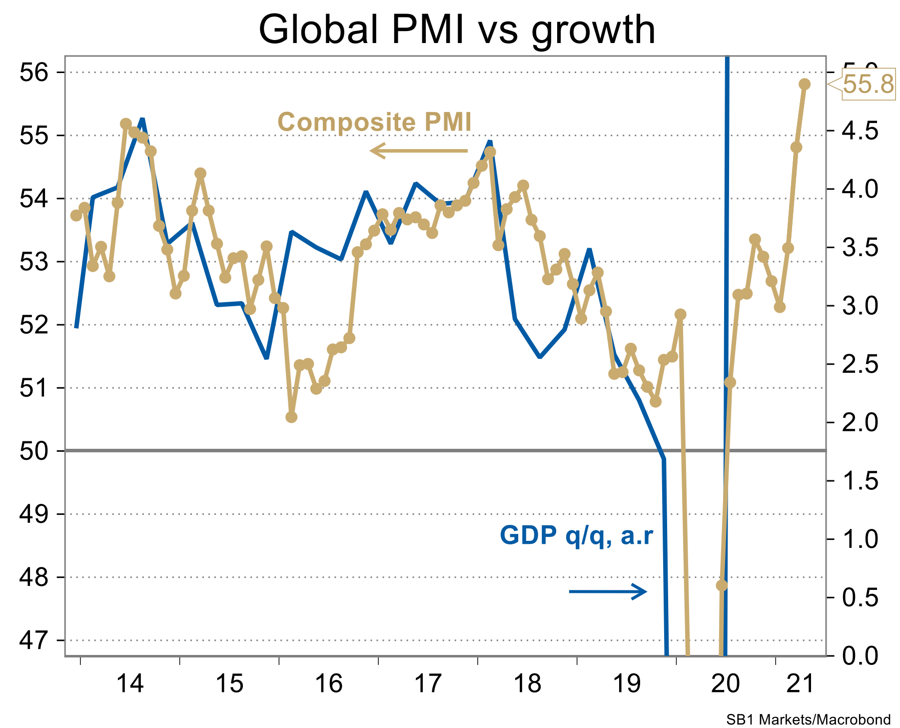
The Norwegian economy

Market charts & comments

The global composite PMI likely further up in April, broad based. Best since 2010

We estimate a 0.5 – 1.5 p lift in the comp. PMI to 55.8 (centre est), signalling growth well above trend



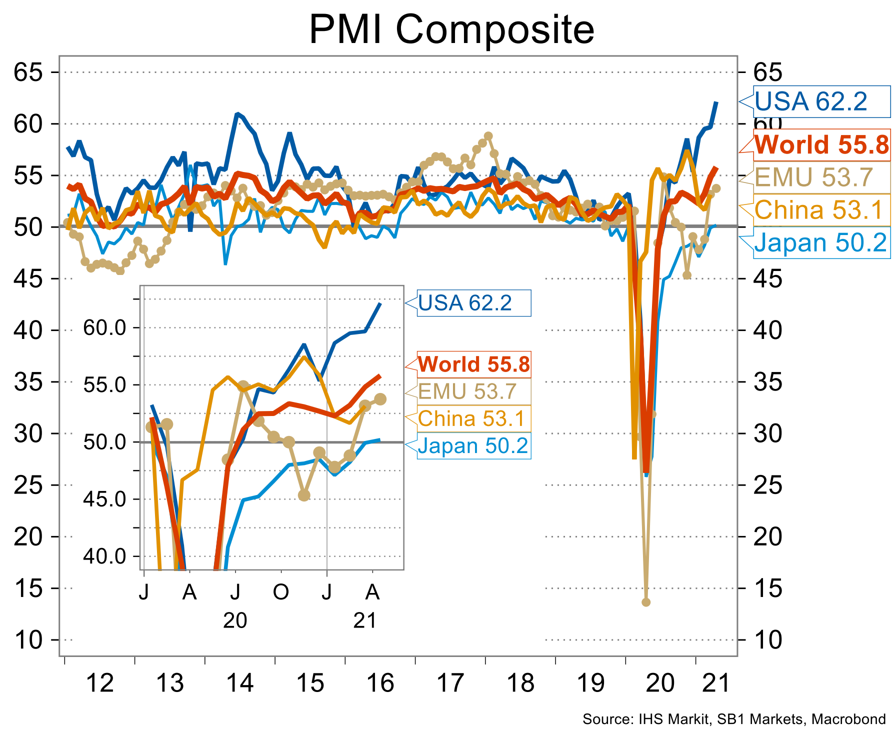


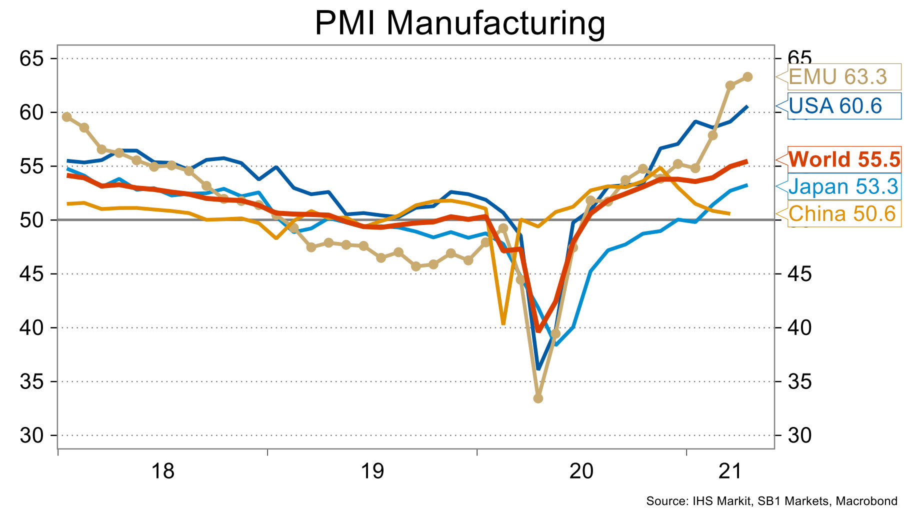
- **The global PMI** is rising rapidly to a far above average level – to the best level in more than 10 years
- The global growth outlook for Q2 is pretty good!

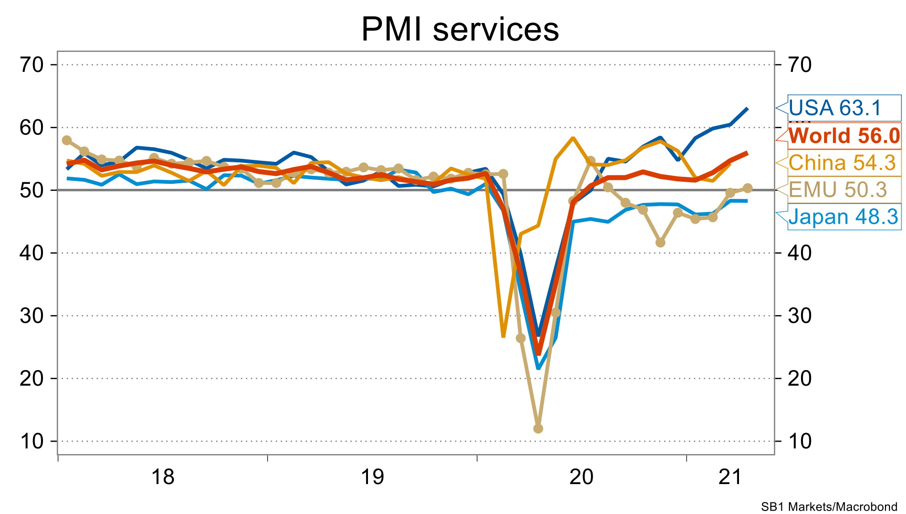
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

Strong growth in both in the US, EMU & UK

The US is still in the lead, and at very high level, 62.2, by far the best in the PMIs 13-year history



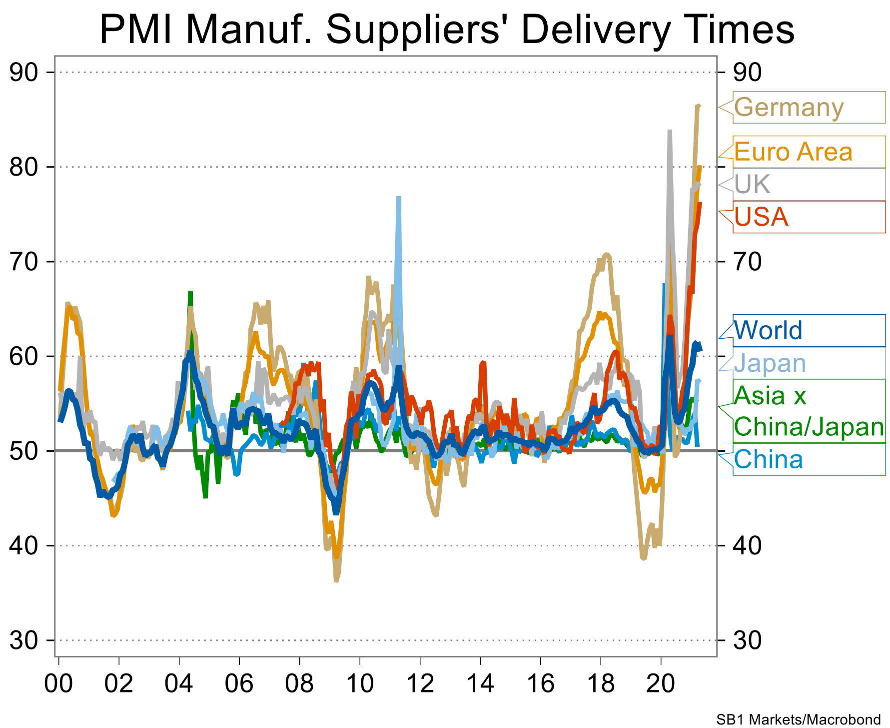


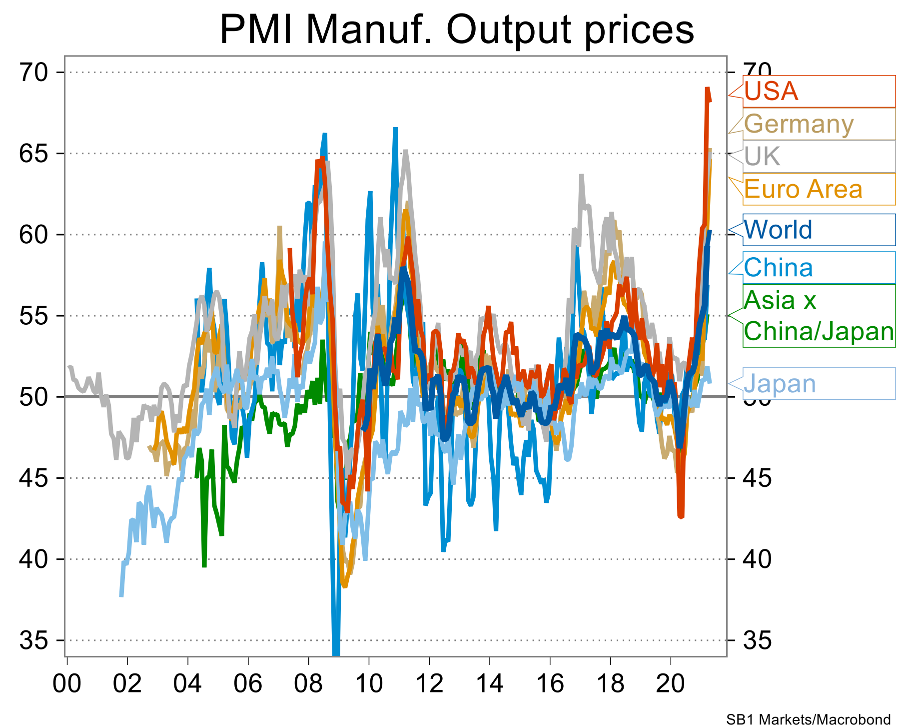


- Both manufacturing & services in the **US** report strong growth, with PMI levels at 60 – 63
- The PMIs in **EMU** rose sharply to, well above expectations. The manufacturing sector in the EMU is 'exploding', while services stabilised, the PMI climbed to above 50
- The UK PMIs surged, both the manufacturing & services, both at 60! No Brexit, Covid-19 challenges anymore?

Delivery times, prices are rising faster everywhere (and the fastest ever most places)

… and probably not mostly due to specific corona challenges – it's a booming activity, stupid!



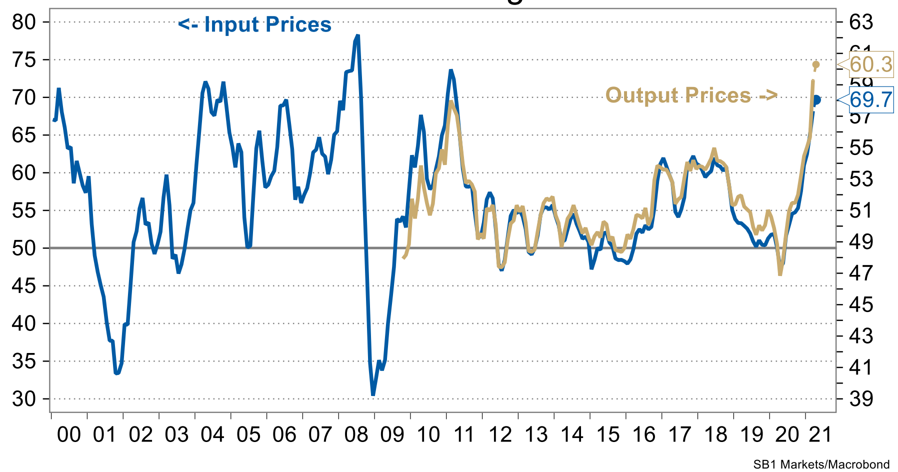


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) may have reached global all-time high in March. Germany/Europe is in the lead but also the UK and the US are reporting the most rapid increases in delivery times ever (barring covid-19 related trouble last April in the UK)
  - » **Brexit and partly the covid-19 surge** may explain some of the delivery problems in the UK, perhaps even in Germany – but production is surging too
- **The global manufacturing output price index** is at the highest level ever, as both the US, EMU, Germany, UK are reporting the fastest price rises ever
- **All together** – rapid growth, longer delivery times and higher prices look like something familiar

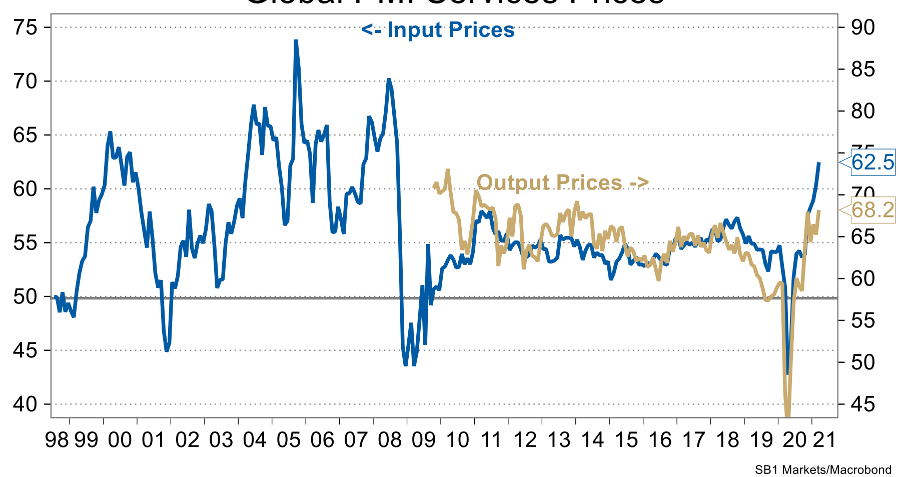
Businesses keep reporting even faster growth in input/output prices

CPI inflation seems to be the next stop

Gobal Manufacturing PMI Prices

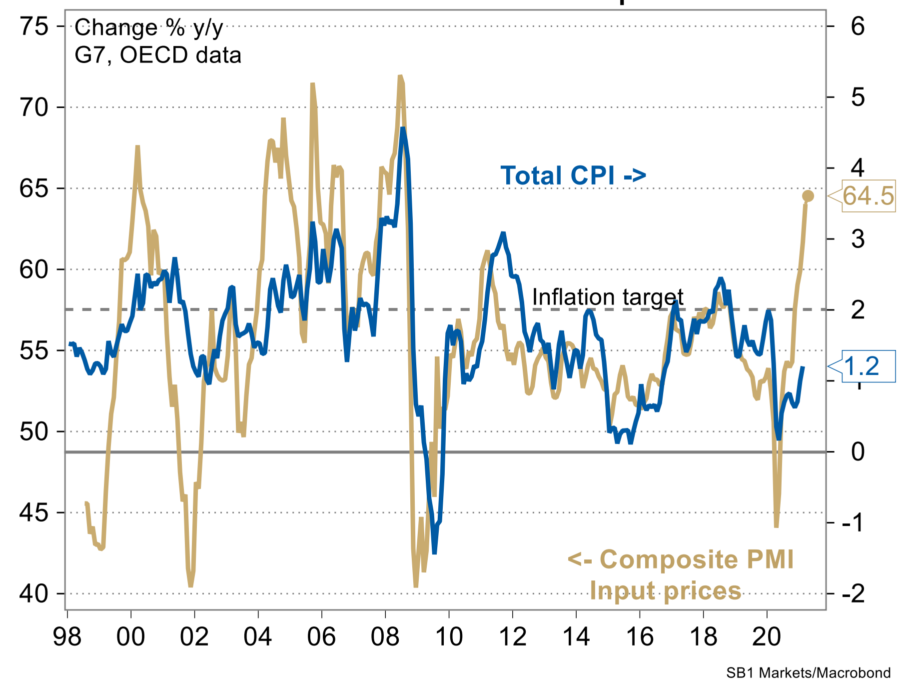


Global PMI Services Prices



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

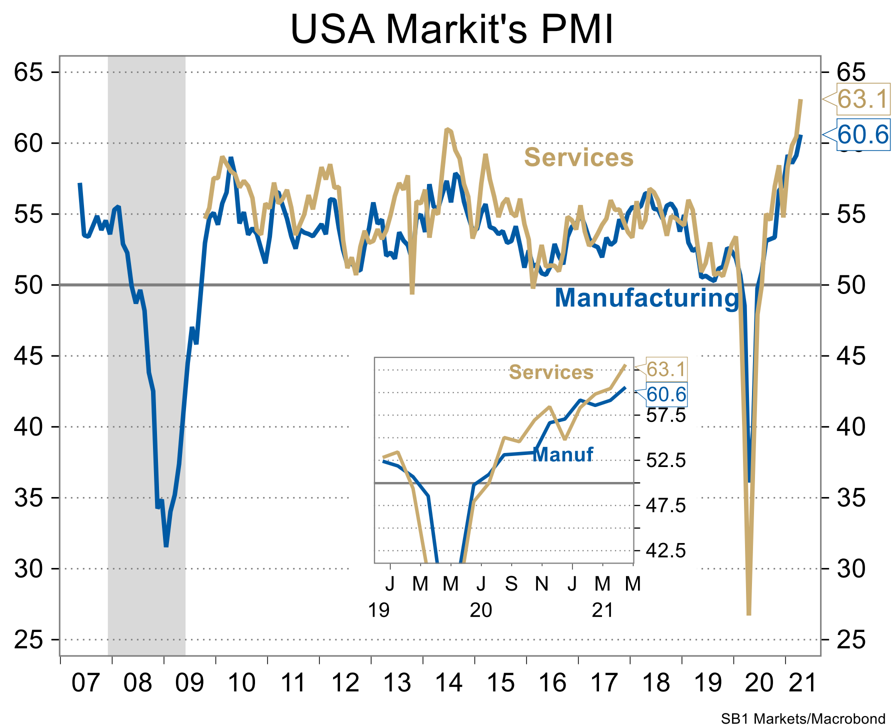
OECD Inflation vs PMI prices

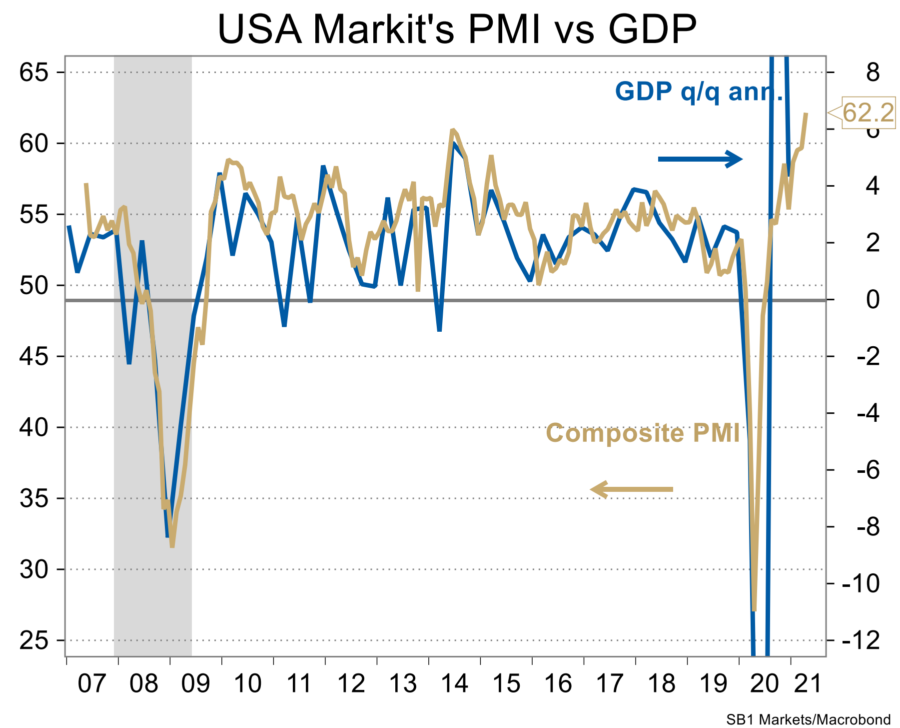


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 1.2% in rich countries now, up to something quite different the coming months
- Luckily, the correlation to **core inflation** is far less precise, as energy prices are the main driver for the up and downs in both the PMIs and in short term variations in headline inflation

The PMIs at 60+, ATH for both services & manuf., signal 6% growth into Q2

Both manufacturing & services PMIs rose further in April. The composite +2.5 p to 62.2, exp. 60.8

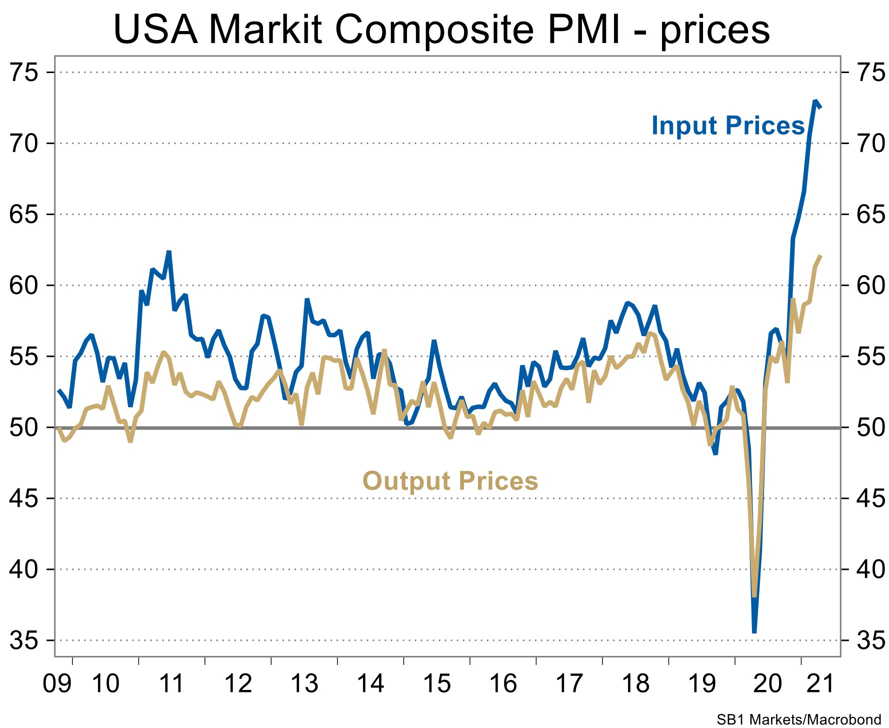




- Confirming a very strong reopening momentum in the US economy

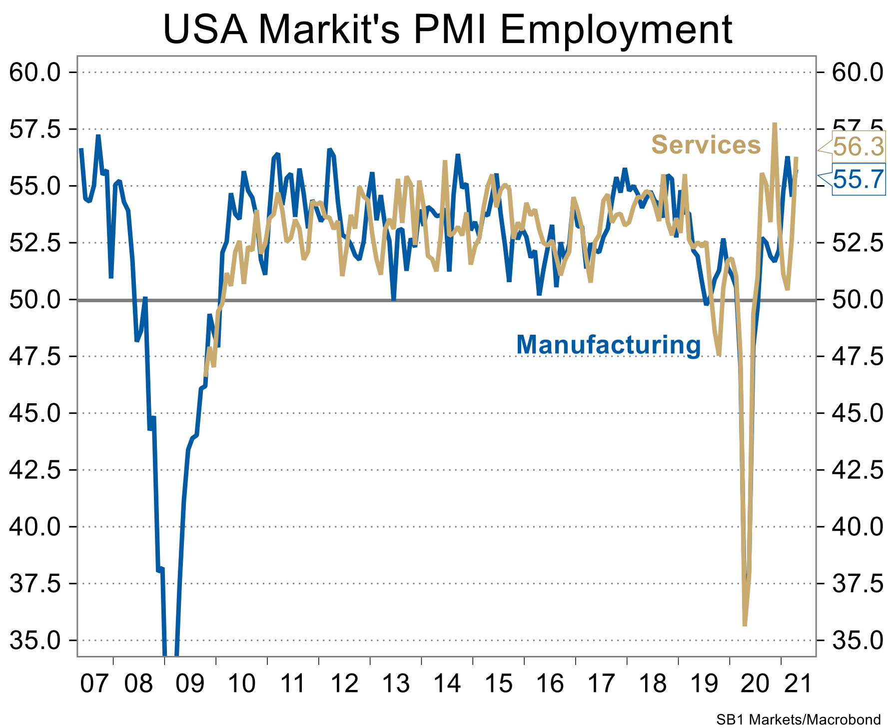
Markit's PMIs are reporting something special…

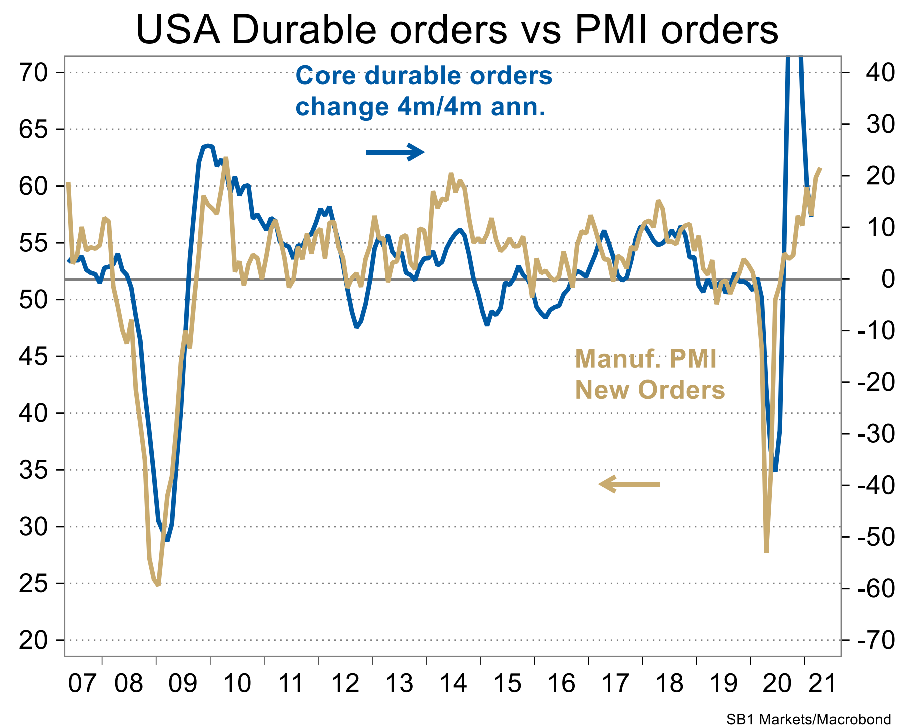
Short data series but these price indices signal that something is going on



Services are employing again, rapidly. Manufacturers too

… and new manufacturing orders are climbing faster than ever (almost, just April 2010 better)

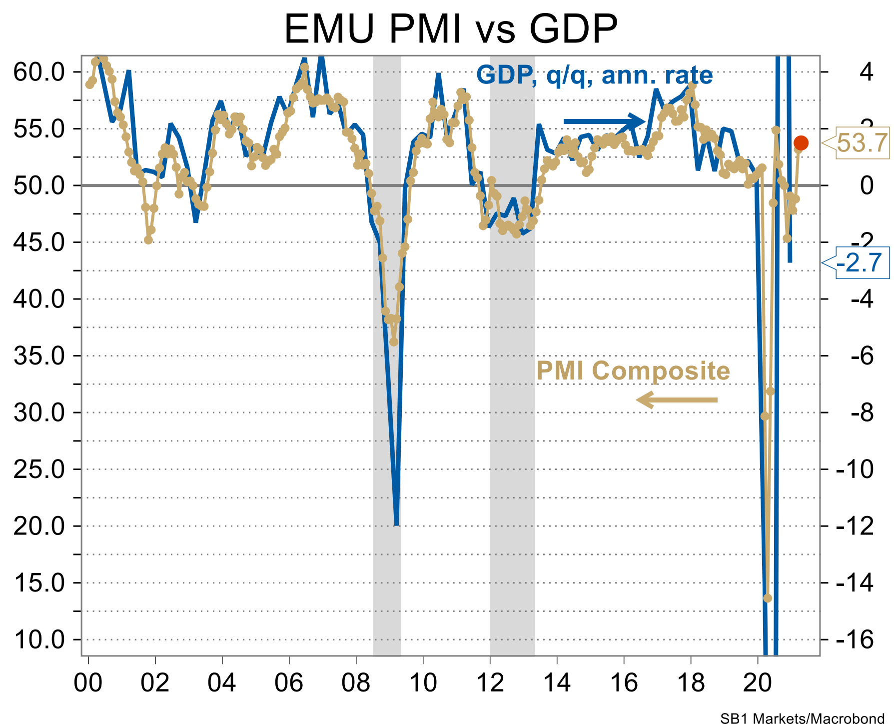


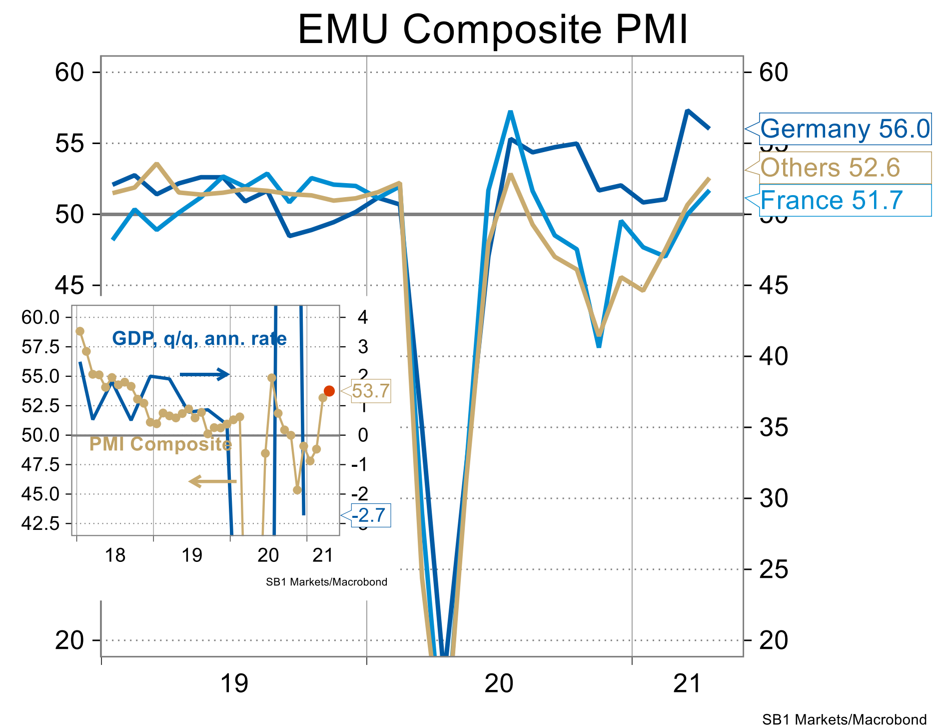


- We expect a surge in employment through Q2, as most services will re-open

The composite further up in April, +0.6 p to 53.5, expected down to 52.9

No big surprise, but growth confirmed, amid still ongoing Covid-19 measures

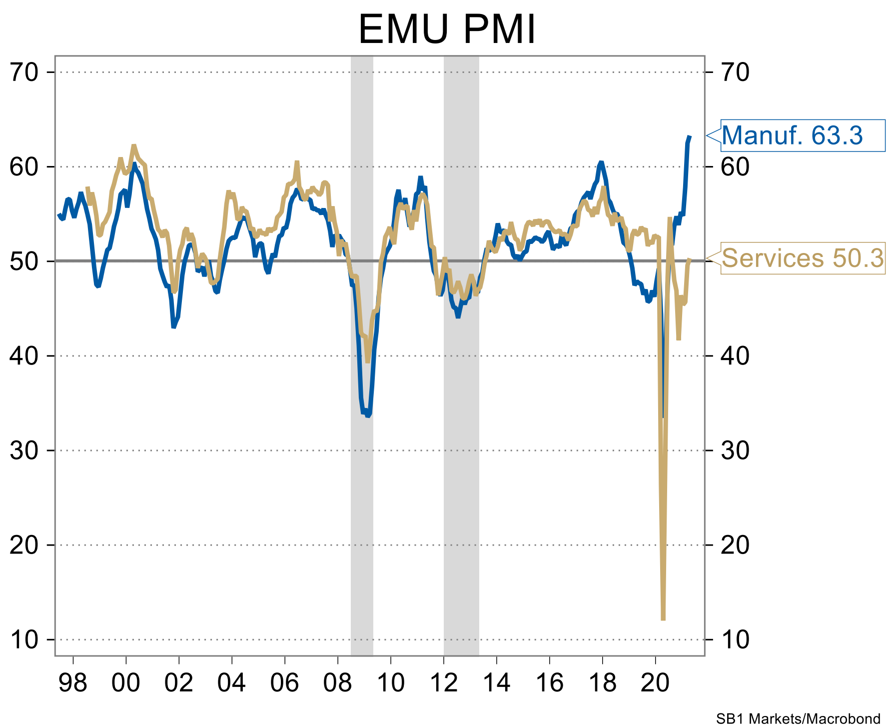


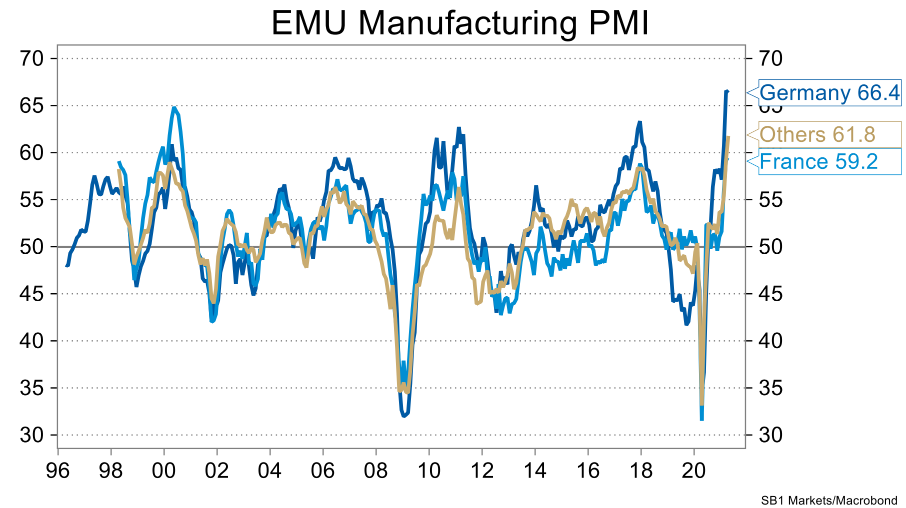


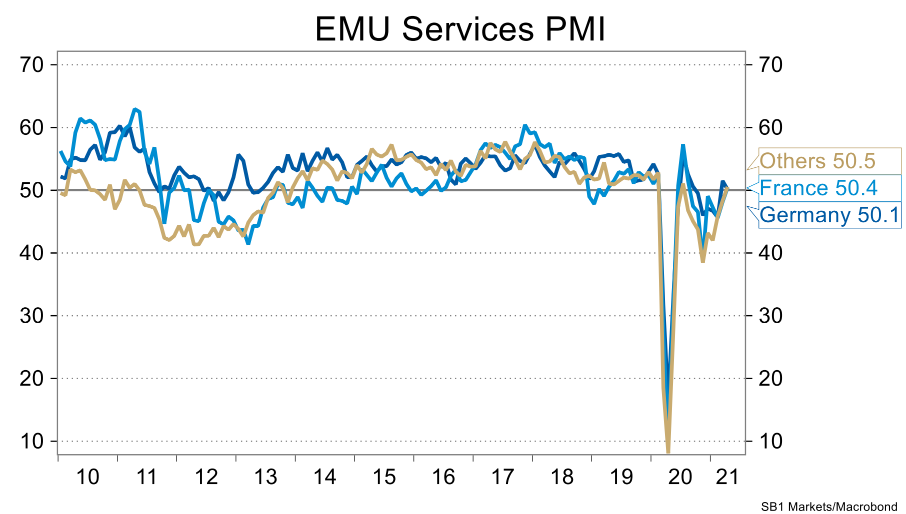
- **The composite PMI** at 53.7 signals a 1.5% pace of growth in GDP (or 0.4 % per quarter), as the corona restrictions do not bite as they used to
  - » The composite index rose in France and in the average of 'others' (Italy & Spain) but fell slightly in Germany, where the index remains strong at 56.
- More details the next pages

Manufacturing PMI highest ever, by far! And just not just thanks to Germany

The service sector is not blooming yet, but no further contraction in April, the serv. PMI up to 50.3



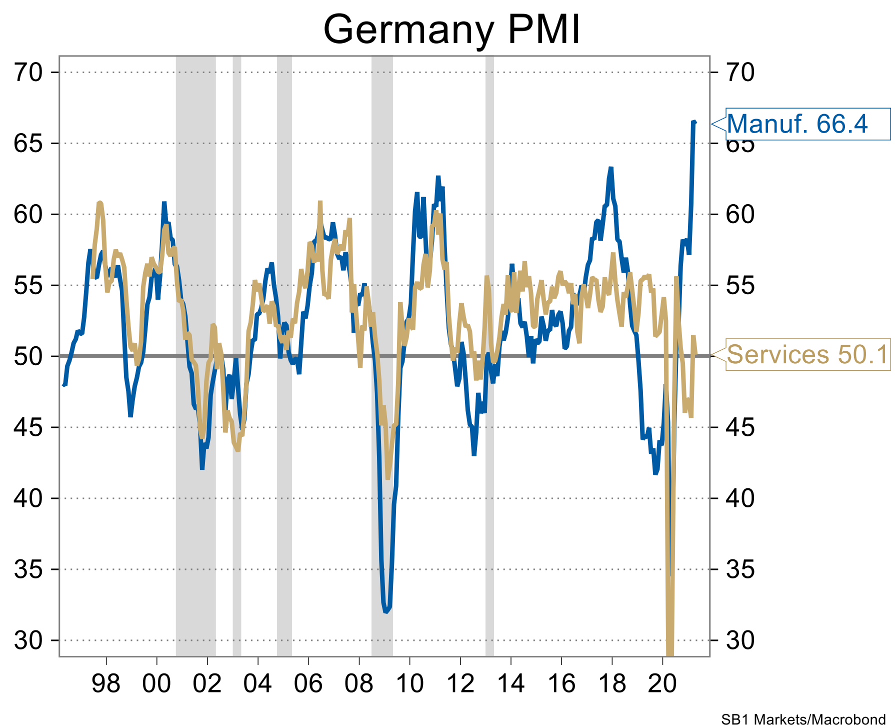


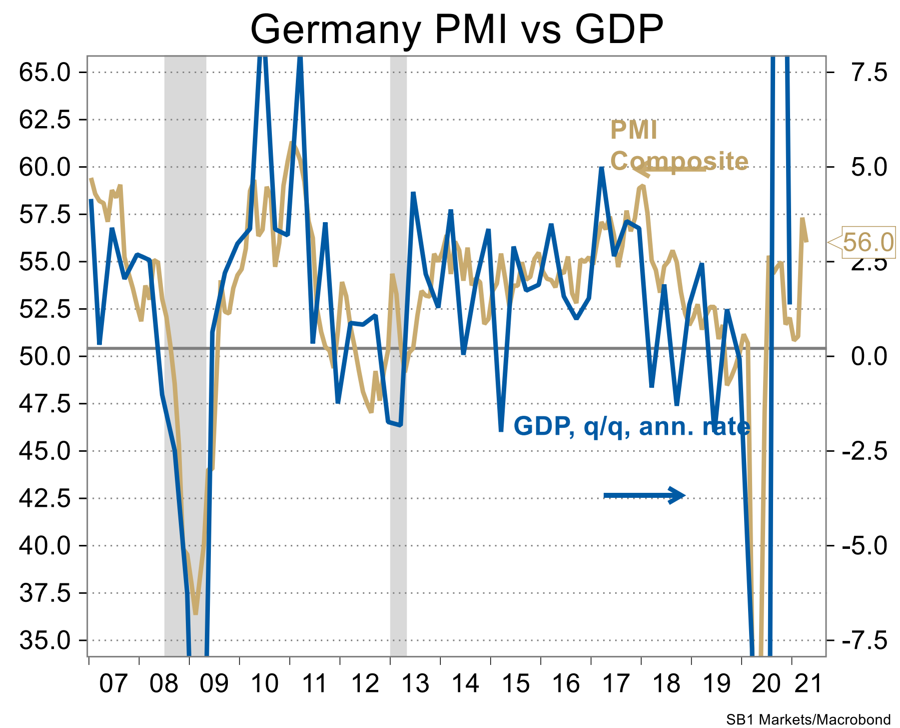


- The EMU manufacturing PMI rose by 0.8 p to 63.3, ATH
- Germany marginally down, to 66.4 (66.6 in March was ATH), France down 0.1 to 59.2, still at the best level since 2002, and others (Italy, Spain) climbed 2.5, up to ATH, by far!
- **Services** are not that fit of course but at least the contraction ended in April, as the PMI climbed 0.7 p to 50.3, expected down 0.5 p to 49.1. All countries marginally above the 50 line

Germany: Composite PMI down as both services and manuf. declined

However, manufacturing PMI still very strong, and services are not contracting. 3% GDP growth signal.



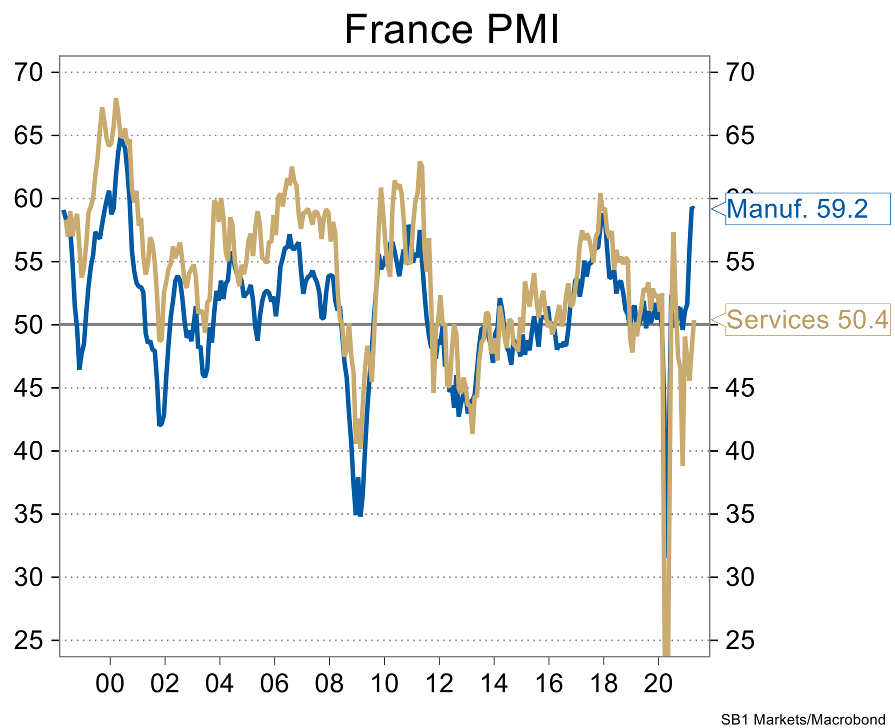


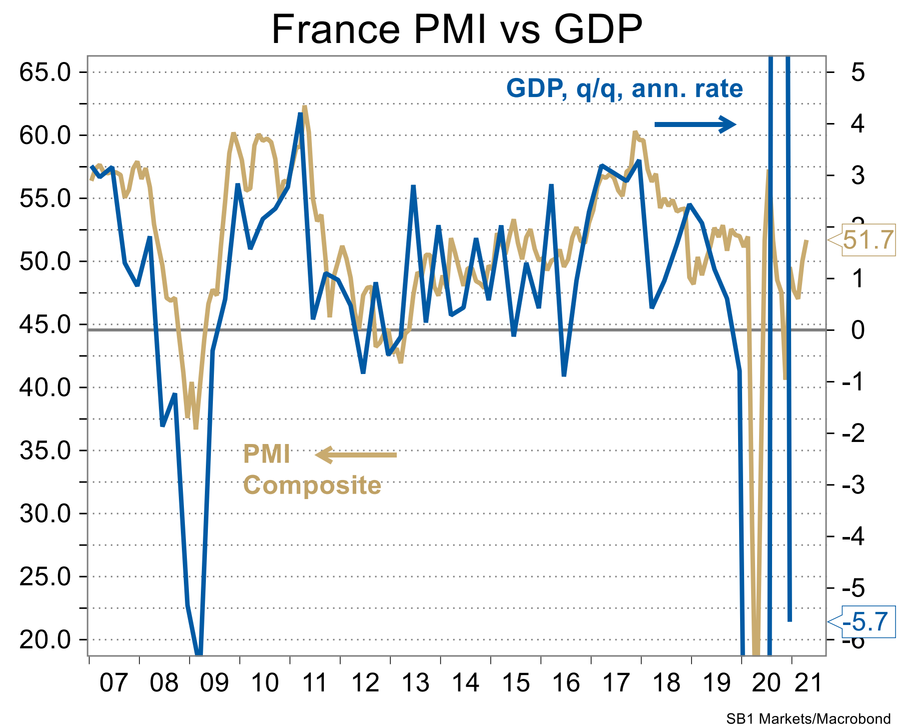
- **The prelim. manufacturing PMI** fell 0.2 p to 66.4, and remains at an elevated level - far above previous observations in the history of the PMI. There were also reports of increased input prices, here as everywhere else, and employment is ticking up in order to increase capacity and meet demand
- **The service sector PMI** fell 1.4 p to 50.1 and the sector is still (barely) expanding. Businesses cited virus restrictions as reason for headwind
- **The composite index** was down 1.3 p to 56, a tad weaker than expected but still far above average, signalling a 3% growth pace
- Germany has been in a **partial lockdown** since the beginning of Nov, and some easing of restrictions were done in March, but remaining restrictions are still in place and a national "emergency brake" law has been decided upon

SpareBank 1 MARKETS

France: Services are stabilising is spite of new restrictions. Manufact. is blooming!

The composite PMI up 1.7 p to 51.7, expected down to 49.4, signalling 3% GDP growth

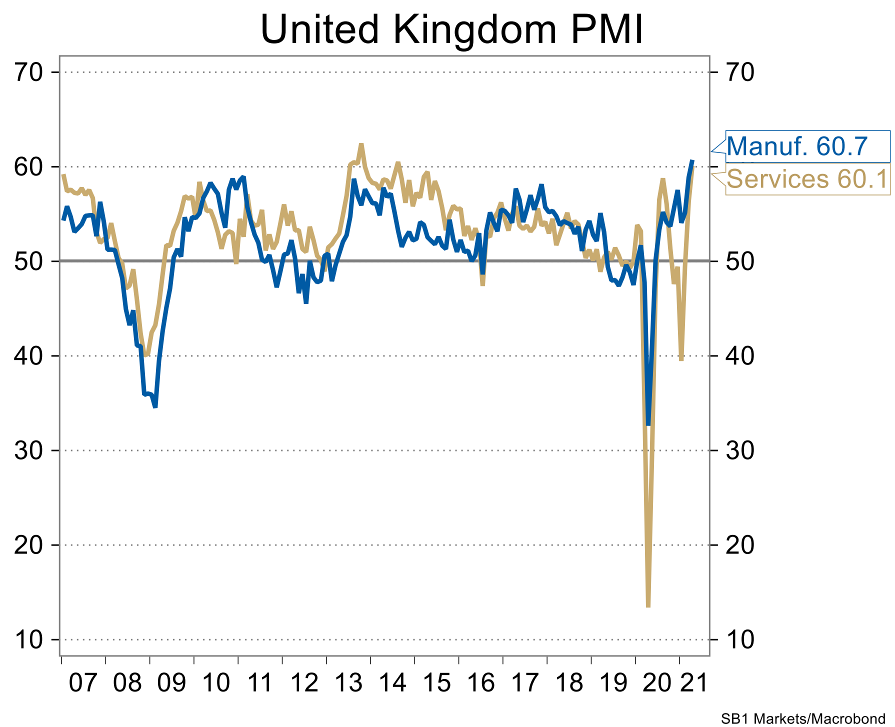


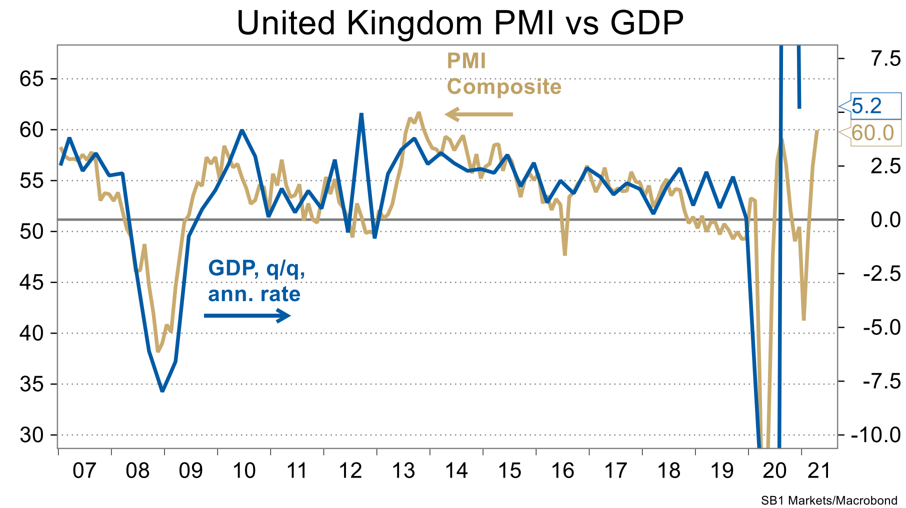


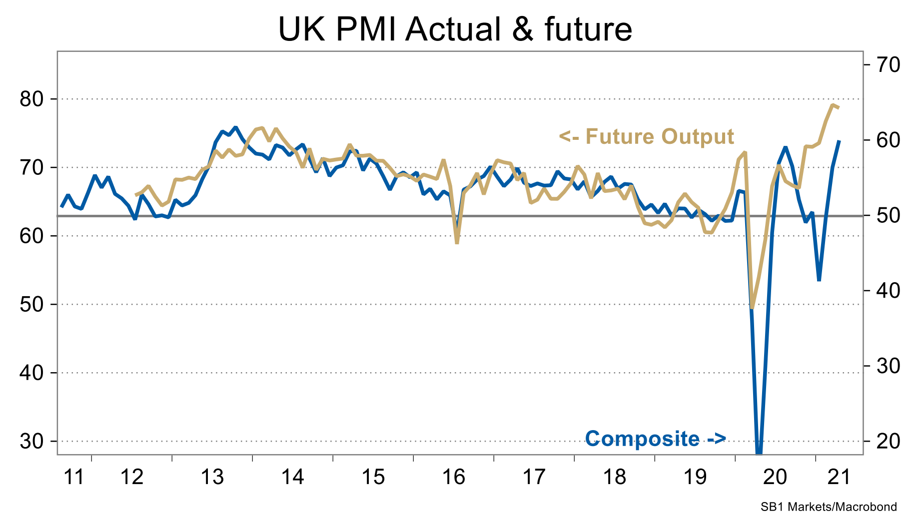
- **The composite** PMI was far better than expected but not strong. However, given restrictions not that bad
- The **service sector** index was up by 2.2 p to 50.5 (by the way, as we assumed one month ago). Given the current speed of vaccination, the coming months will be far, far better
- **Manufacturing PMI** fell 0.1 p (less than expected) to 59.2, from the best print since 2002
- Overall **input cost inflation,** accelerated at the fastest pace since Jan-18, while the prices of input in the manufacturing sector have not risen faster since 2011

The UK PMIs further up, at 60 not far below ATH – signals strong growth

Both manufacturing & services are reporting rapid growth in activity in April. No Brexit, covid angst





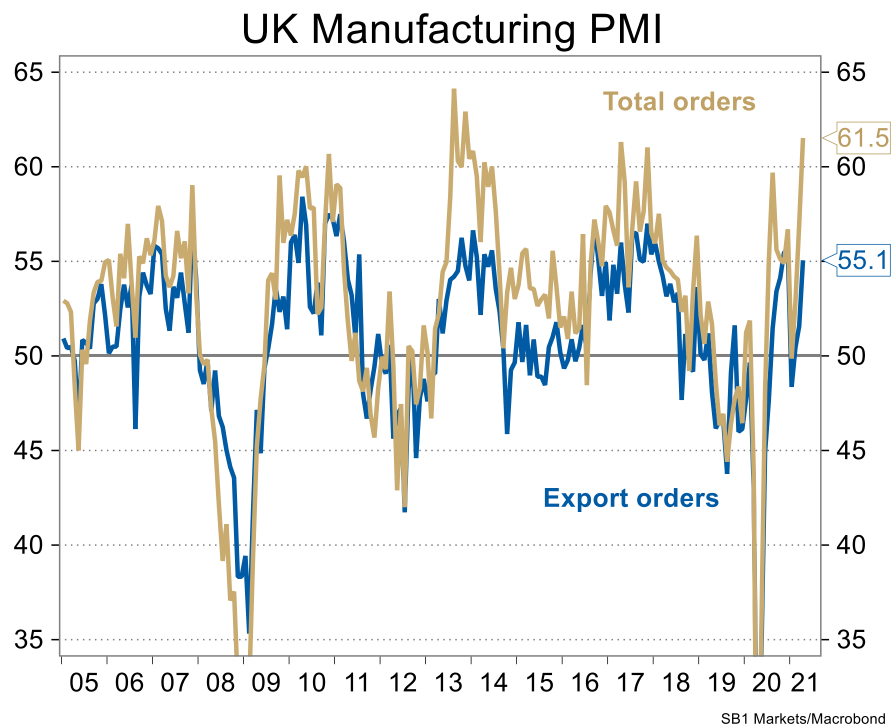


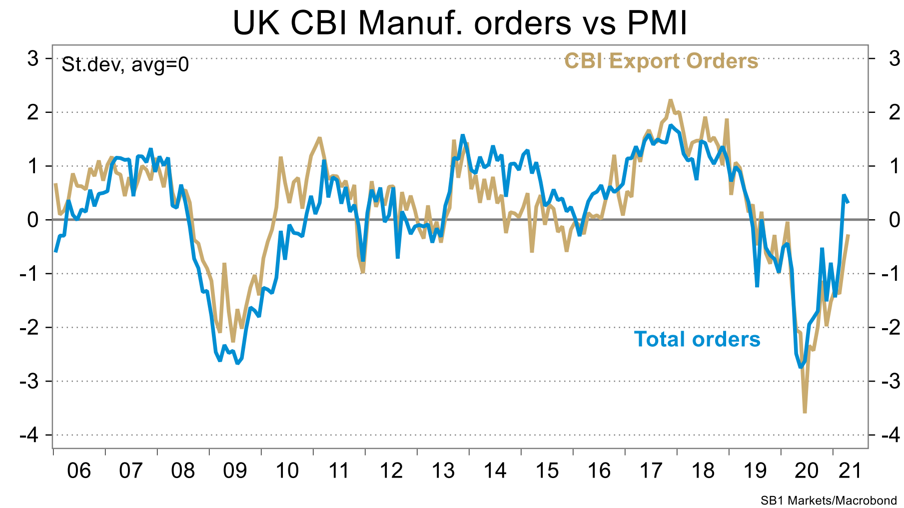
- **The composite PMI** rose 3.4 p to 60.0, 1.9 pp above expectations!
- **The manuf. PMI** up 1.8 p to 60.7, the best level since 1994
- **Services PMI** increased by 3.8 p to 60.1, well above expect. & the highest level since 2013. The UK vaccination strategy is paying off, according to Markit's respondents
- In addition: Companies are still extremely positive vs. **the outlook** – may be due to both the low starting point; GDP is still down 7.9% (!!) vs Feb 20, and the strong short term momentum

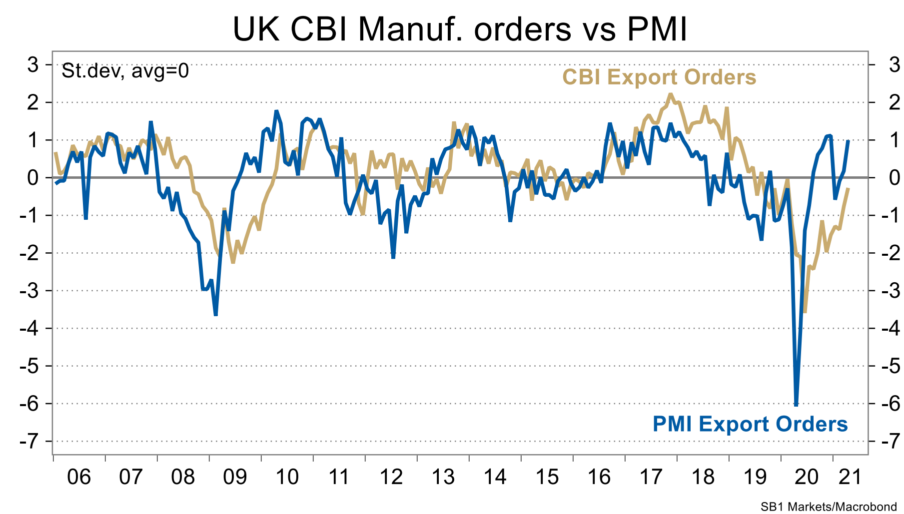
SpareBank 1 MARKETS

Export orders are on the way up, in spite of Brexit & Covid challenges in UK/EMU

Some UK exporters have reported Brexit trouble, but no signs of a broad setback

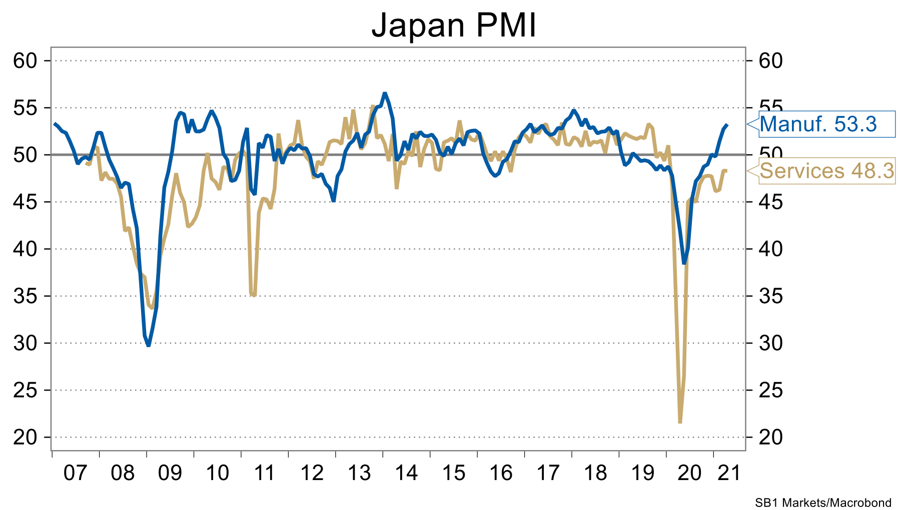


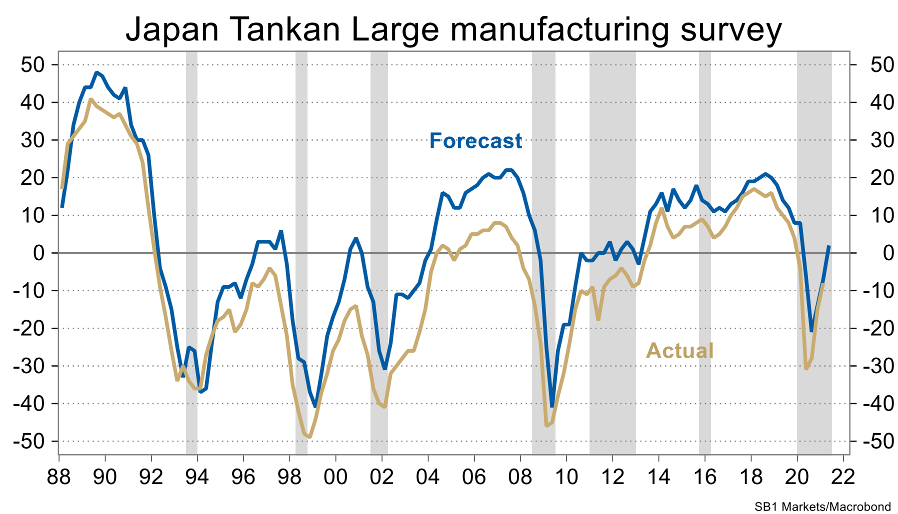


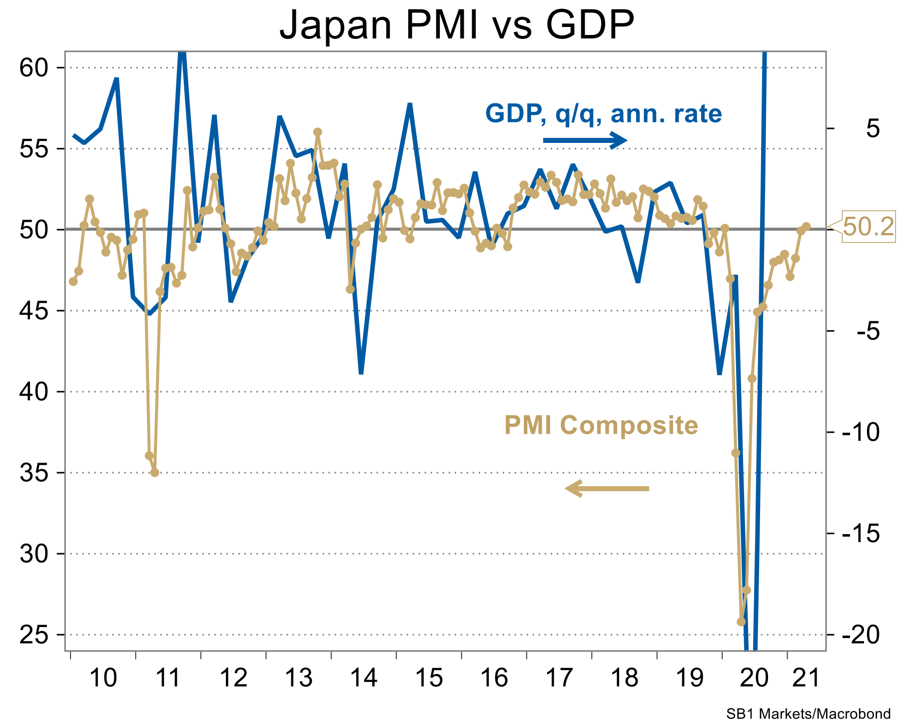


No real recovery in Japan yet, surveys are still in contraction mode

Manuf. PMI up 0.5 p to 53.3, services PMI flat at 48.3, the composite up to 50.2



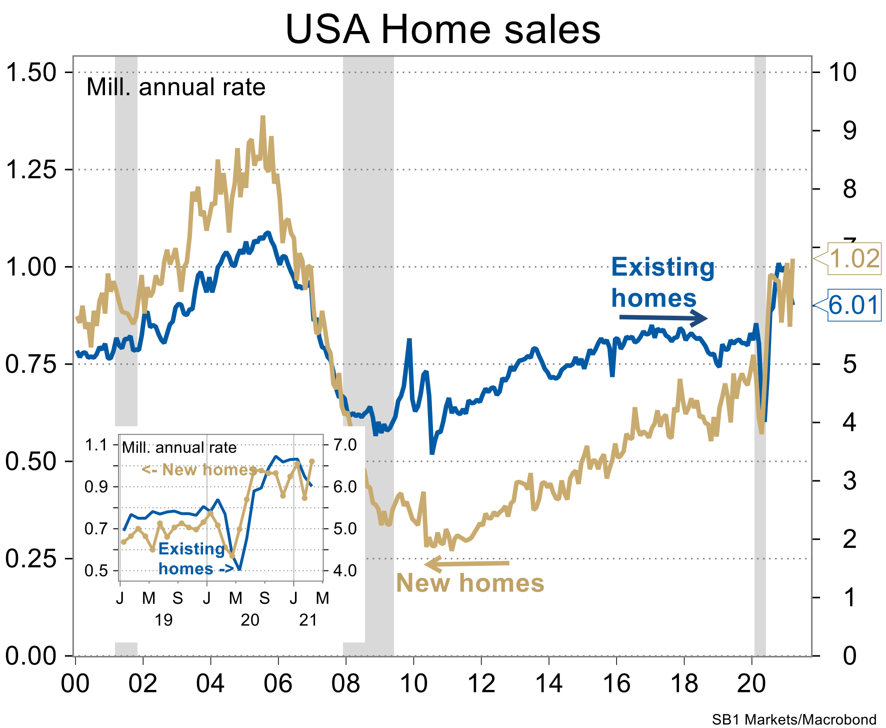


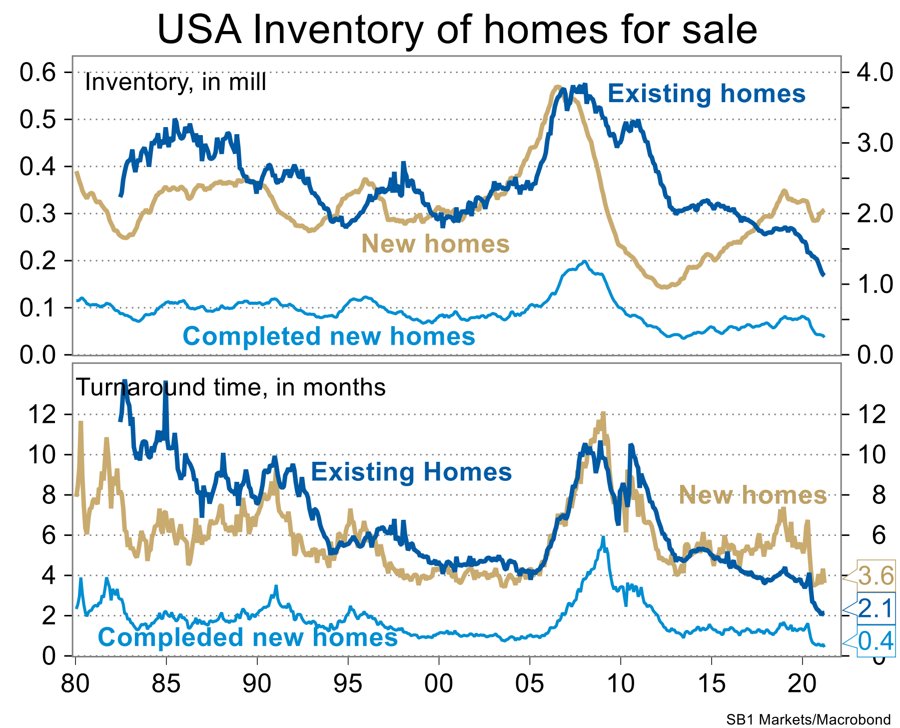


- The composite PMI at 50.2 signals zero growth in GDP but the correlation is not impressive

New home sales recovered the Feb losses in March. Existing home sales down

… because there are no 2nd hand homes to buy, the inventory is 'empty'



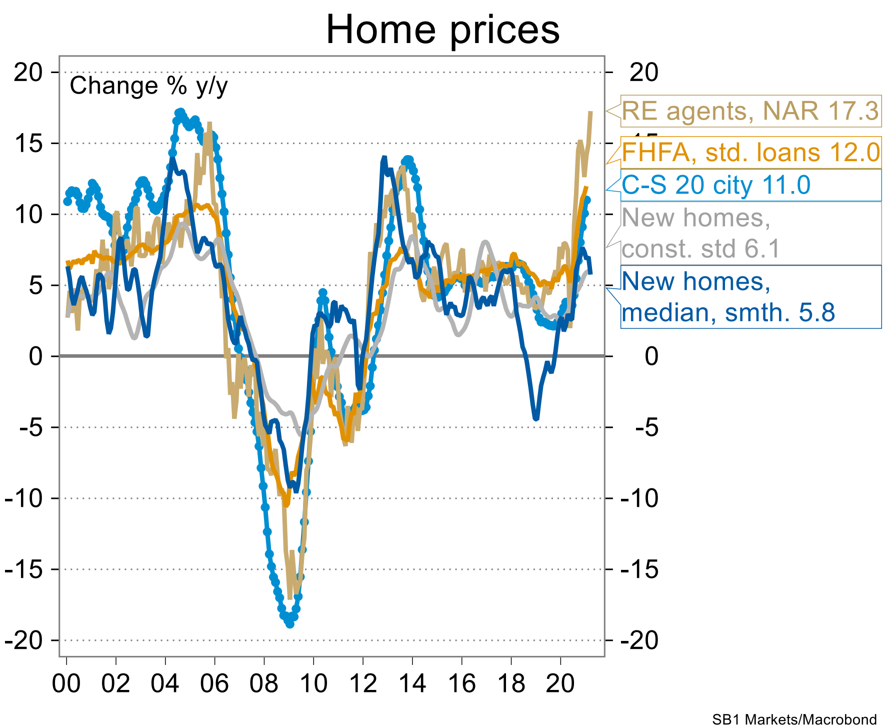


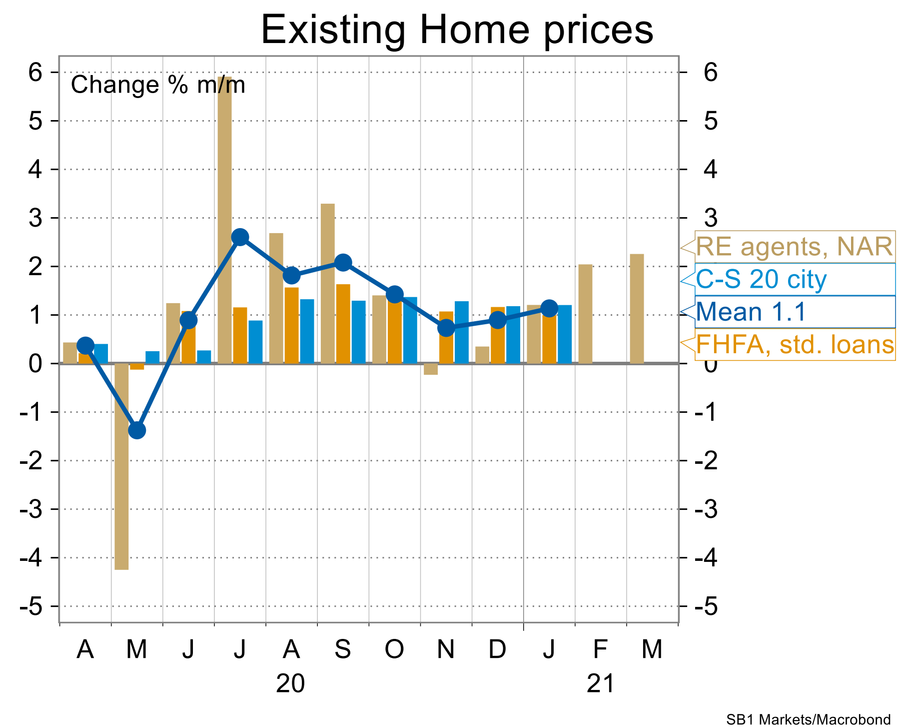
- **New home sales** rose to 1.02 mill' (annualised rate) in March, from 775' exp. 888' – to the best level since 2007, up >40% vs. pre corona
  - » The **inventory of unsold new homes** fell again, and the level is very low, especially for completed homes. The inventory equals 0.4 x the monthly sales pace, the previous bottoms were at 1 months sales. Prices are still up 'just' 6% - which is strange, given the 11%- 17% price appreciation for existing homes
- Sales of **existing homes** fell to 6.01 mill (ann. rate) in March from 6.24', expected 6.22'. The sales level is still 10% above the pre-pandemic level. Sales are do doubt kept down due to an unprecedented lack of supply
  - » **The inventory of unsold homes** fell further from a record low level, and equals just 2.1 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times 10 months.
  - » **Prices** rose sharply, by 2% m/m, and 15.5% y/y, the 3rd highest print ever – which does not indicate that a 'high' mortgage rate is dampening the housing market

SpareBank 1 MARKETS

Realtors report another 2% m/m price hike, up 17.3%. Never seen that before…

So far in 2021, prices are increasing at 23% pace, in case you wondered



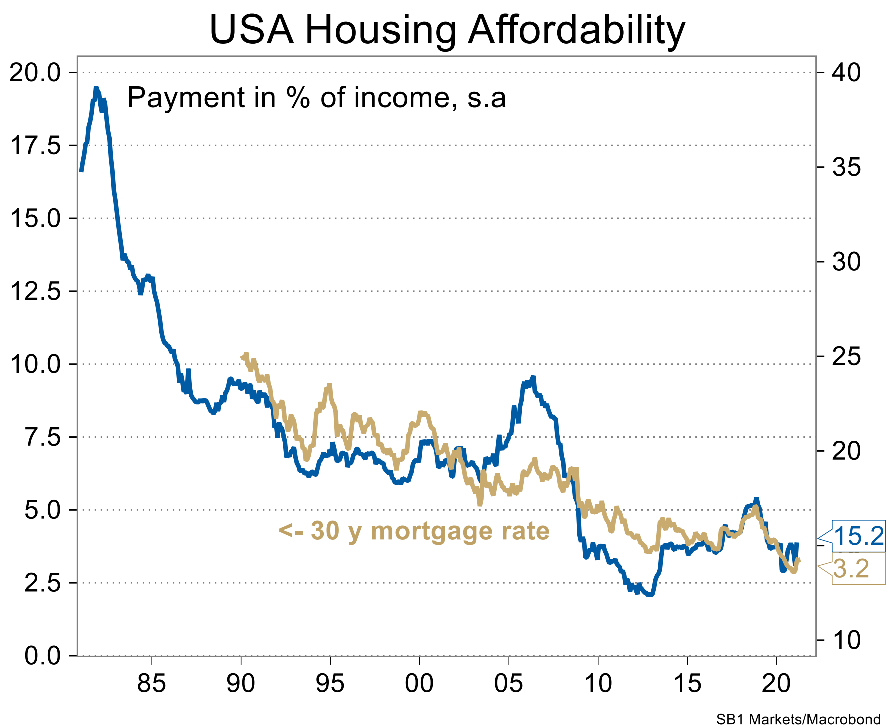


- Other, and better, price indices are reporting lower growth rates but all are reporting very rapid price increases since last spring/summer

SpareBank 1 MARKETS

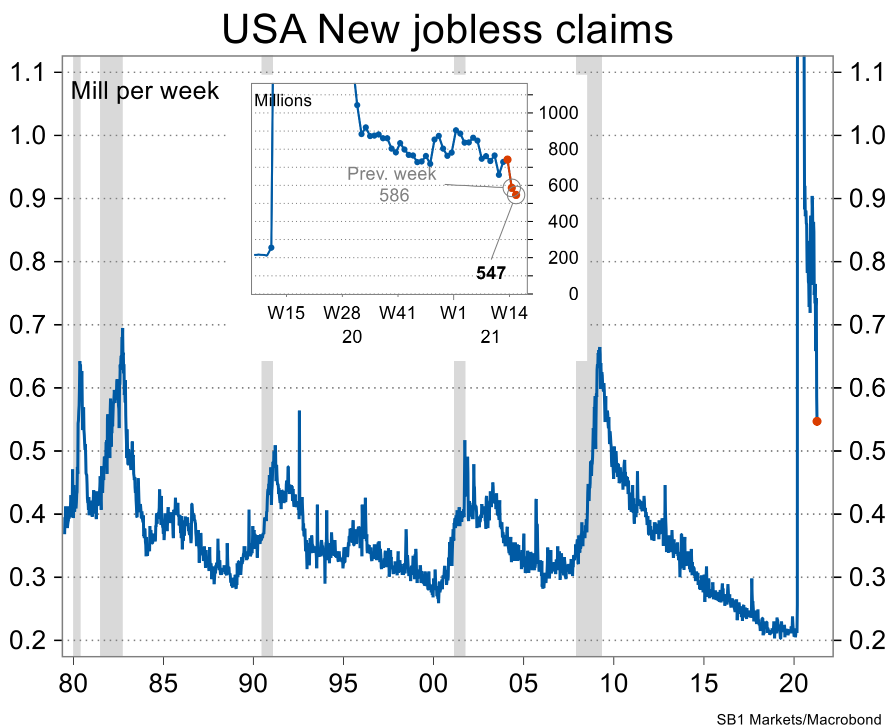
Homes are still very affordable, because the mortgage rate is so low!

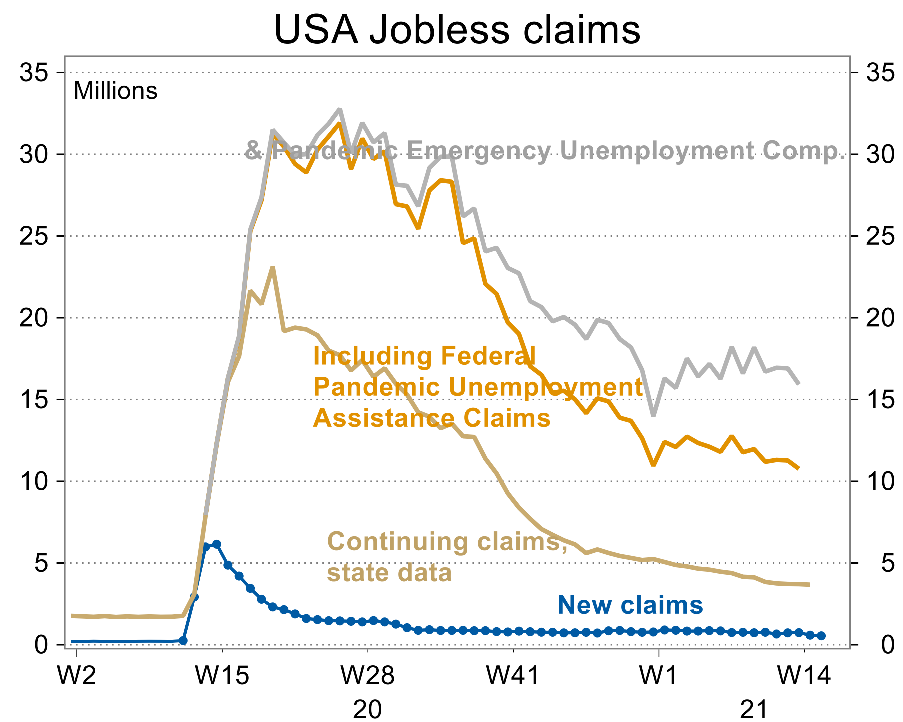
The recent rise in interest rates is so far minimal



Jobless claims continue to fall as economy opens up

New claims 200’ less than just two weeks ago



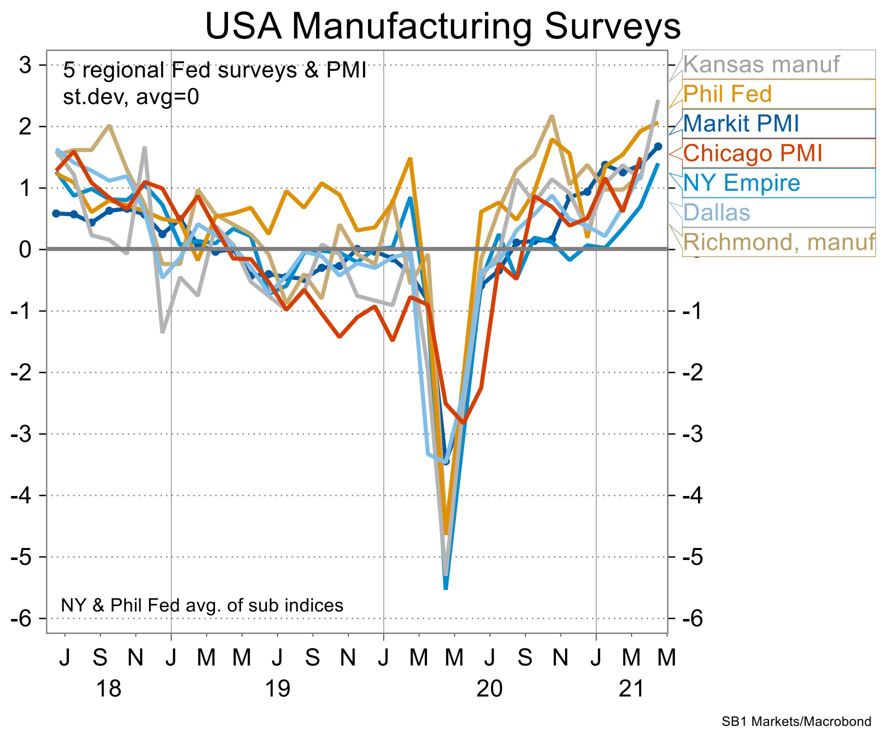


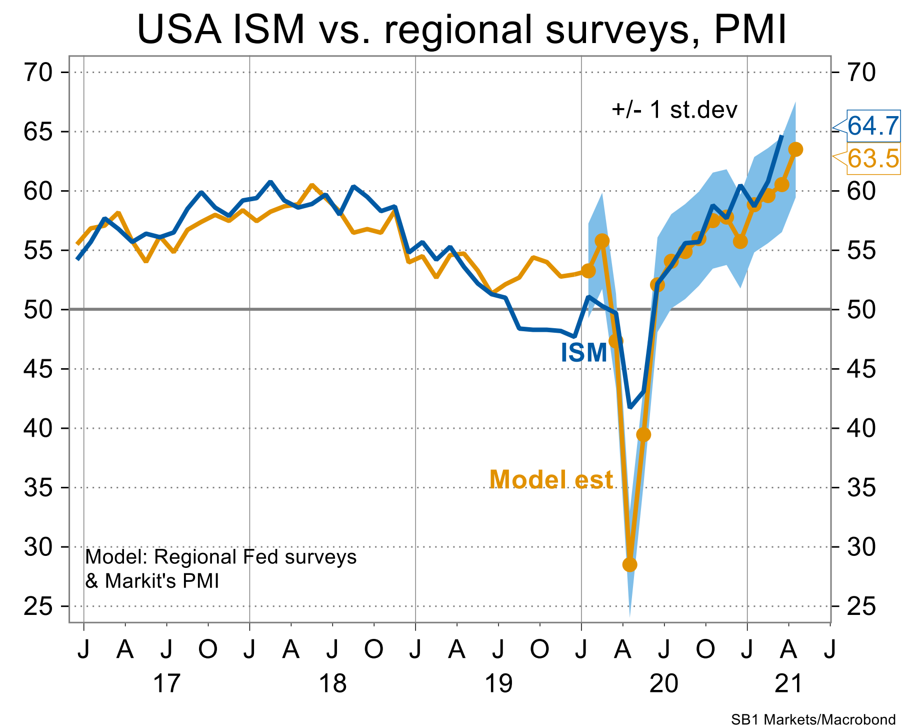
- **New claims** at 547’, down from 586’ (expected 617’)
- **Continuing claims** were slightly down from the previous week, and are trending downward, while applications for the Pandemic support programs rose slightly
- We still find it somewhat strange that the no. of vacancies are close to record high, and companies are reporting they are not able to fill them. Are jobless benefits too attractive?

SpareBank 1 MARKETS

April manufacturing surveys so far: Straight up!

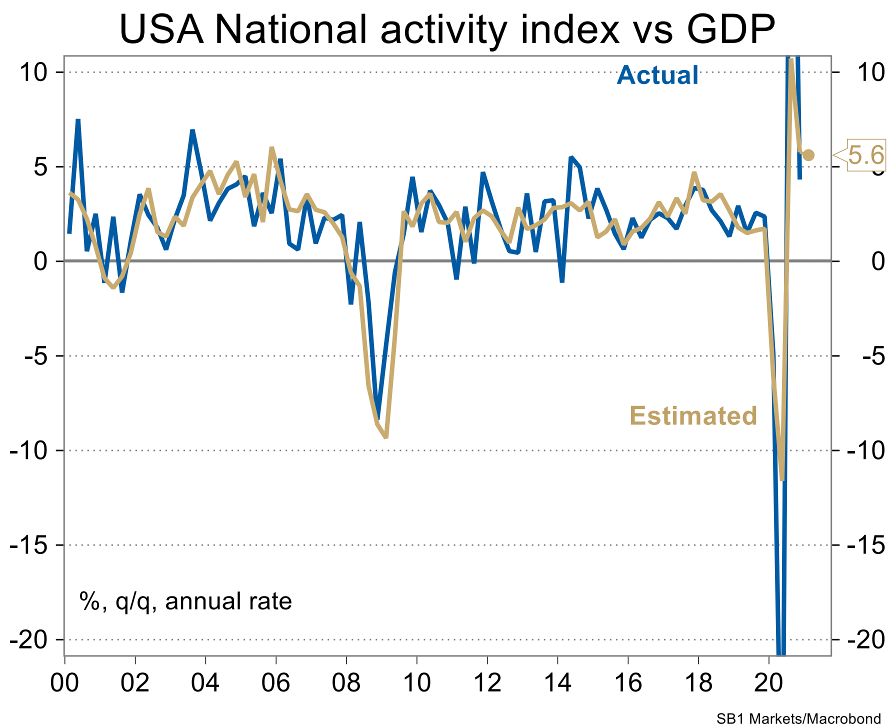
If ISM will climb further is another question, the index was very strong in March, best since 1983!

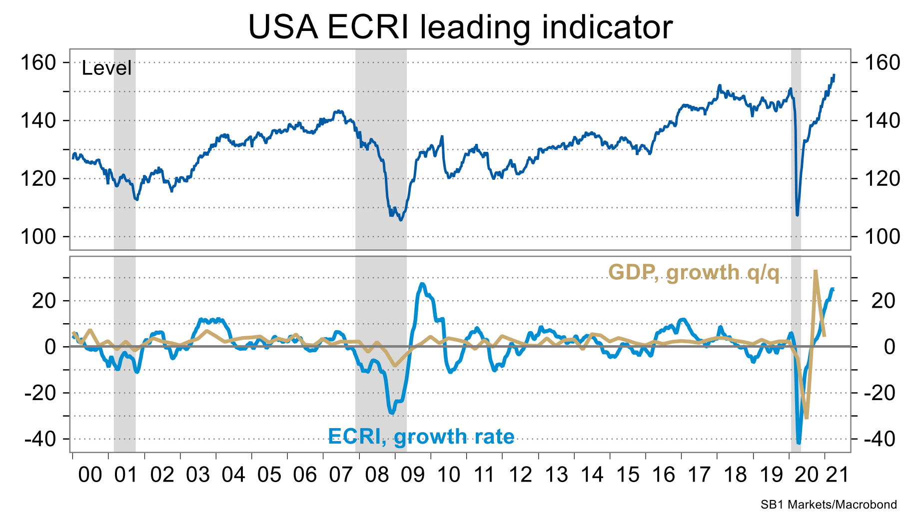


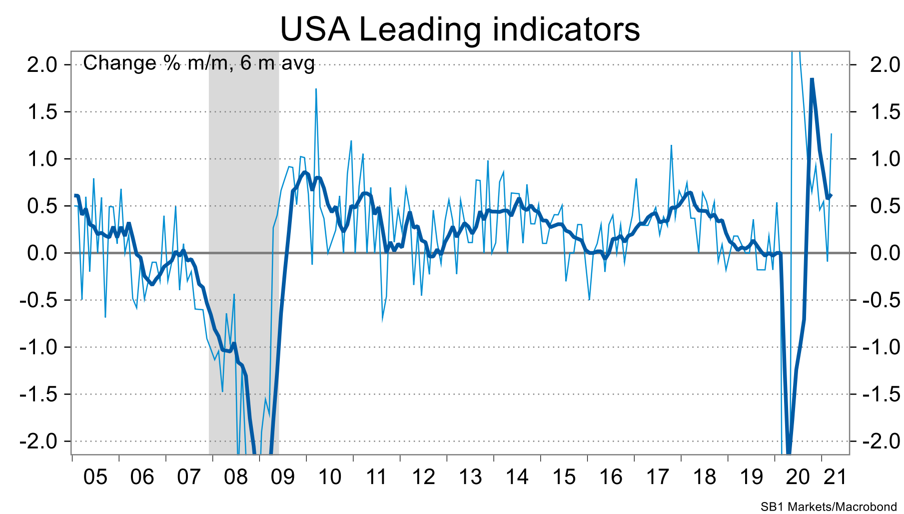


The nat. activity index, ECRI leading indicator and LEI all confirm strong growth

No signs of growth slowing at the end of Q1

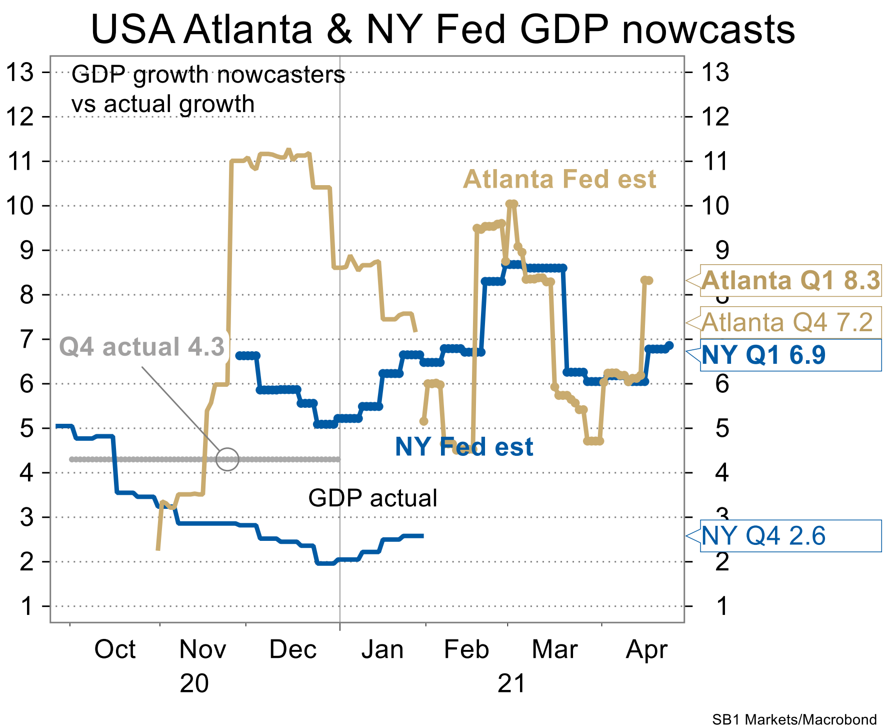


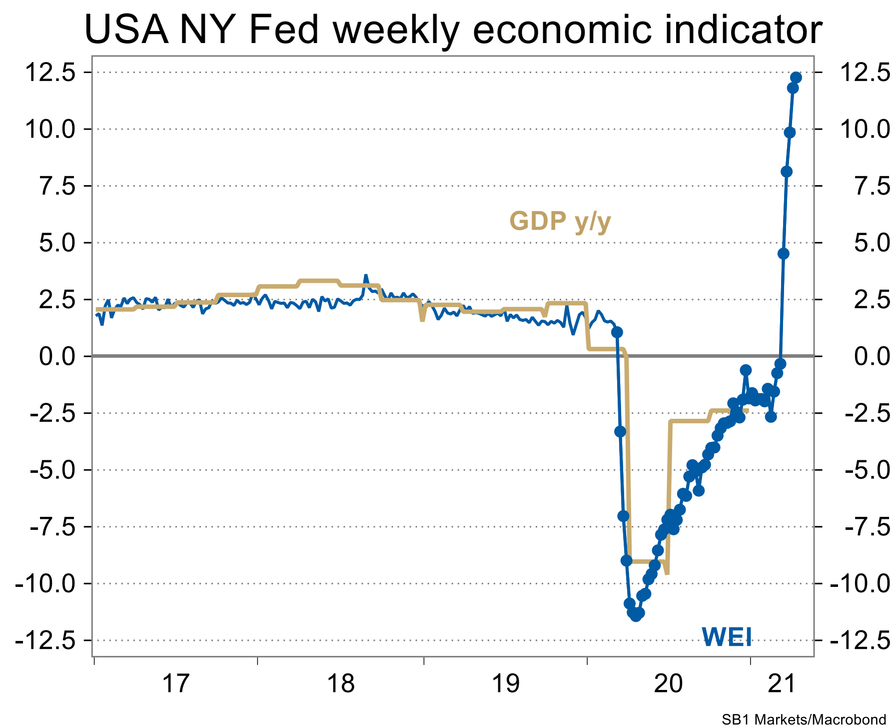




The nowcasters say 7% – 8% growth in Q1, economists expect 6.5%

Growth forecasts have been nudged up the past two weeks



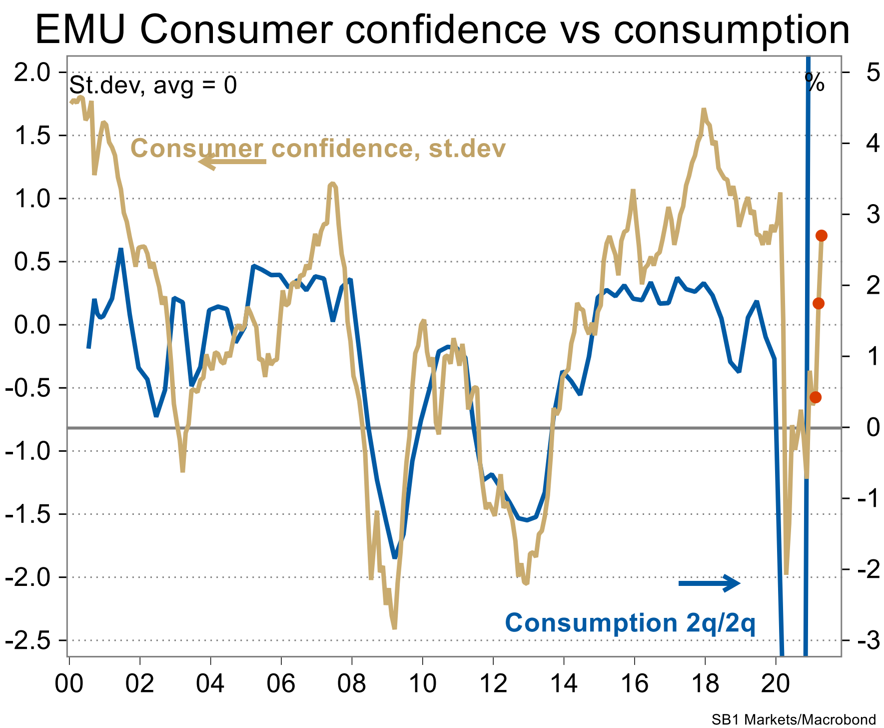


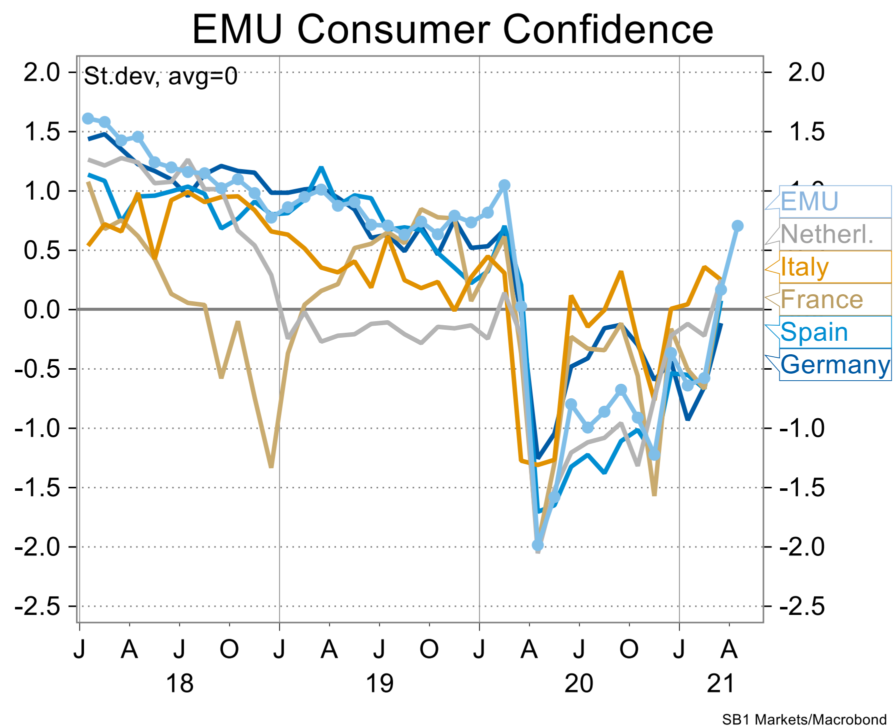
- Atlanta Fed says 8.3% growth in Q1 (annualised, 2.1% 'actual')
- NY Fed hints at 6.9%
- NY Fed's weekly y/y economic indicator up in the sky (vs. last year 10%+ nosedive)

SpareBank 1 MARKETS

Consumer confidence straight up in April too! Consumption will recover

The confidence up 0.5 st.dev to +0.7 above average, to the same level as in 2019!

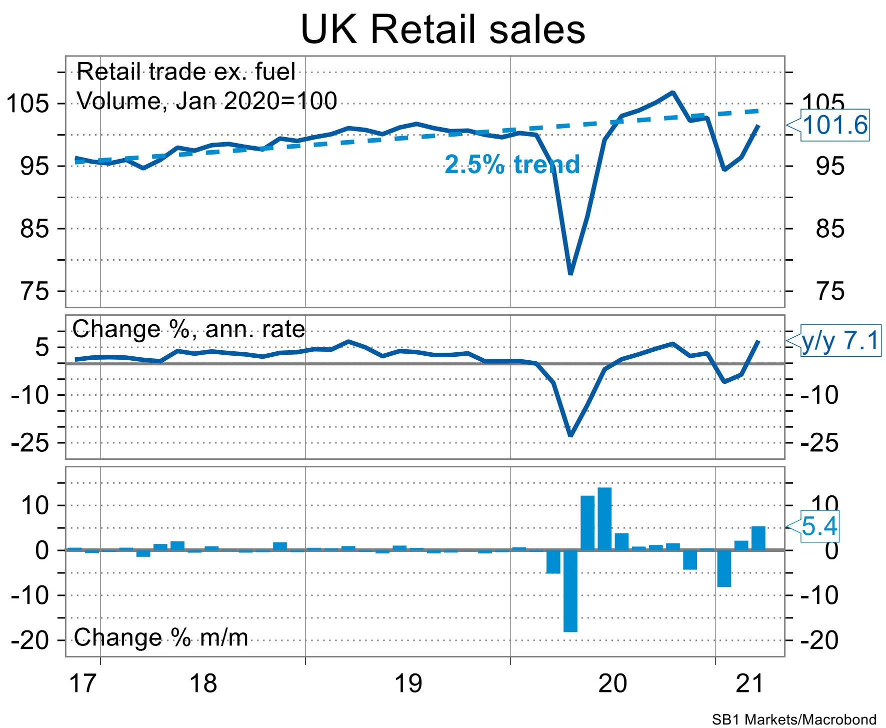


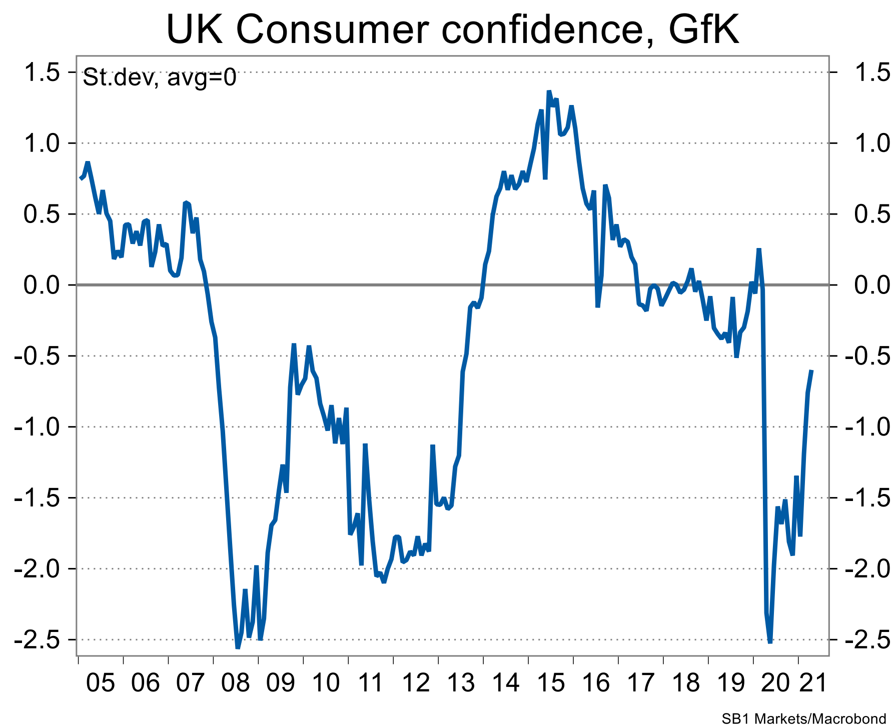


- **The consumer confidence index** rose to -8.1 in April from -10.8 in March, expected just marginally down to 11. The index rose even more in March, and totally unexpected at that time too. The lift in the index the two past months have been the 2nd strongest ever, just behind June last year – and this time without any substantial lifting of restrictions
- A consumer confidence at the present level has on average corresponded to a 3% growth in consumption
  - » However, consumption has been far 'weaker' than signalled by this confidence indicator since 2015. Thus, consumption growth is not granted even if the confidence levels is at an average level. In addition, the pandemic has created problems for all such correlations
- No country details yet
  - » Just Germany reported confidence below par in March. Italy has been above average since December. All are very likely above average in April

Retail sales up 5.4% in March, far exceeding expect. Sales are 1.6% above Feb-20!

... in the middle of the 'lockdown'

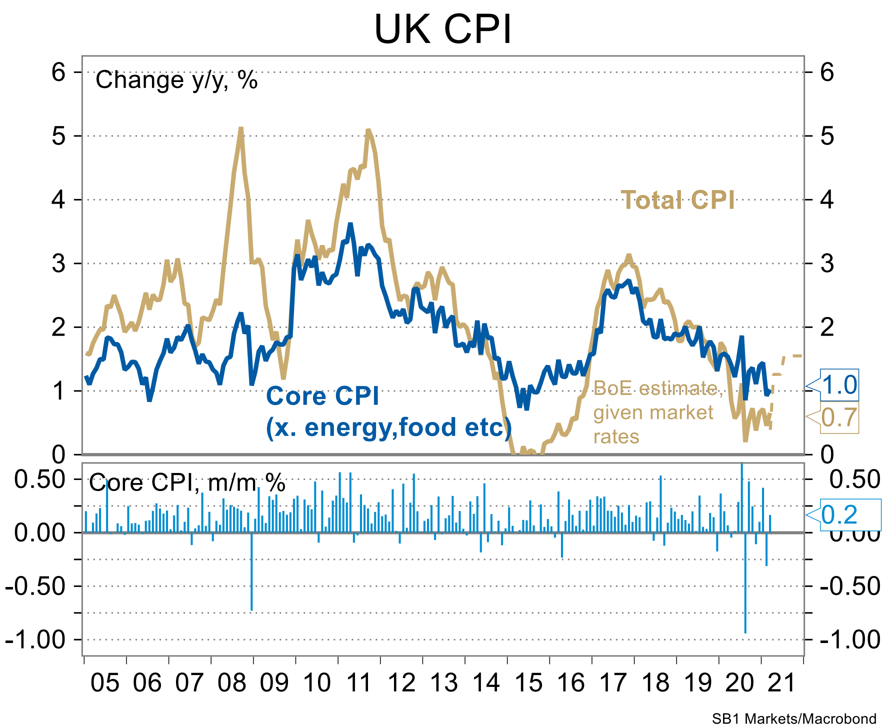


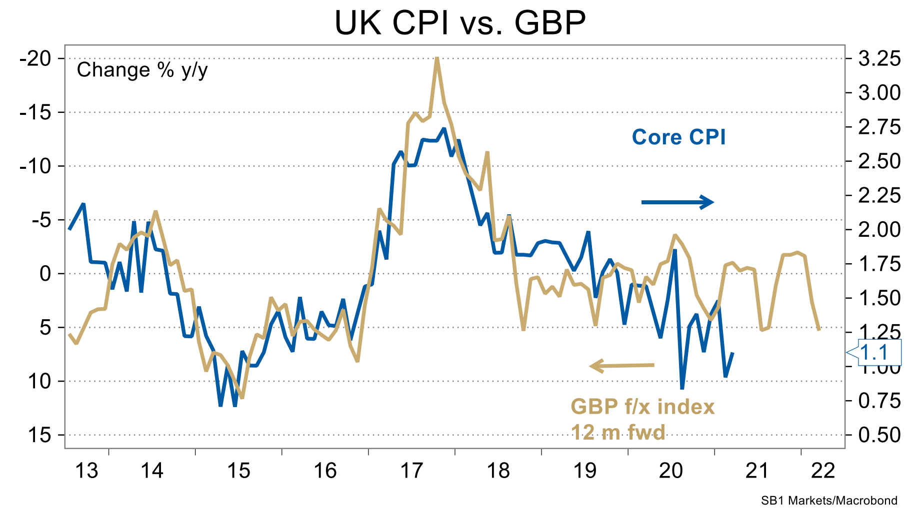


- **Despite Covid restrictions**, retail sales were up 5.4% m/m in March, up 7.2% y/y, following the 2% growth in February. Sales are 1.6 above the pre-pandemic level, and will likely grow further April as more restrictions have been lifted due to the very successful roll-out of vaccines. As a result, UK will become the first European country to truly open up society again
  - Clothing sales rose by 17.5%! Online sales were down 1.5 pp but remains high at 34.7% y/y
- **Consumer confidence** continued up in April. The level is still below normal – but the direction is set

UK inflation still in check – and way too low

CPI inflation up to 0.7% y/y – slightly below expectations at 0.8%. Core 0.1 pp to 1.0%



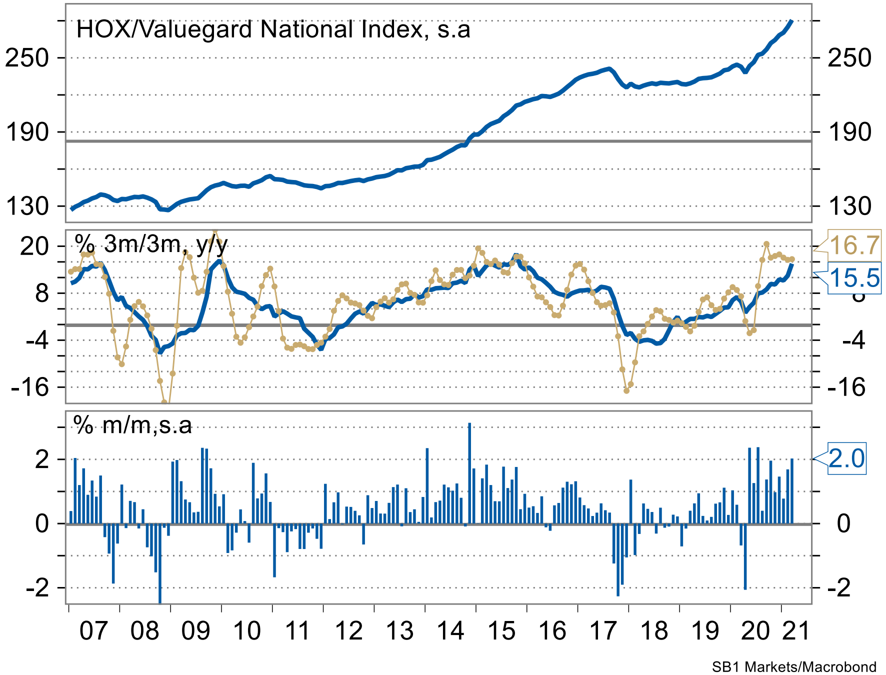


- Annual **CPIH** (including housing) inflation, accelerated by 0.2 pp to 1.1% in March. The largest contributions were from transport, fuels and clothing, while the price for food fell
- Our simple f/x based model indicates that the impact from the GBP depreciation in 2018 is fully recognised; the slowdown in the UK economy is more important now

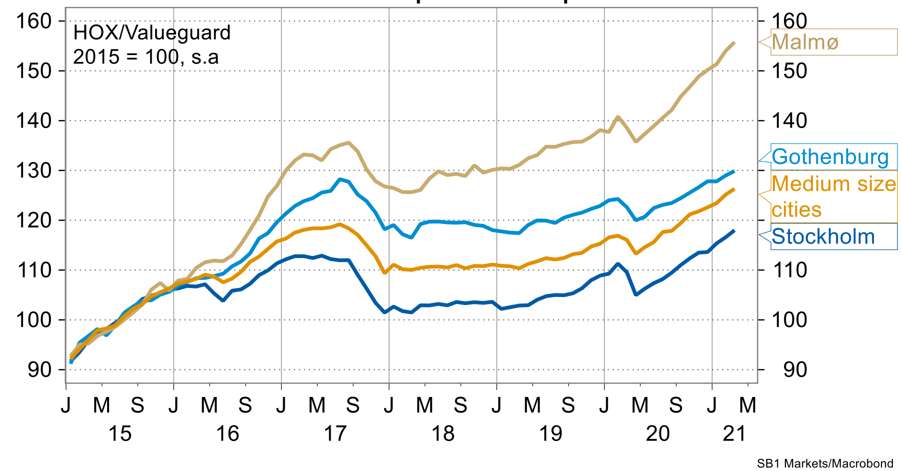
Swedish house prices up 2% m/m in March, 15.5% y/y!

Prices are rising everywhere – and houses MUCH faster than flats!

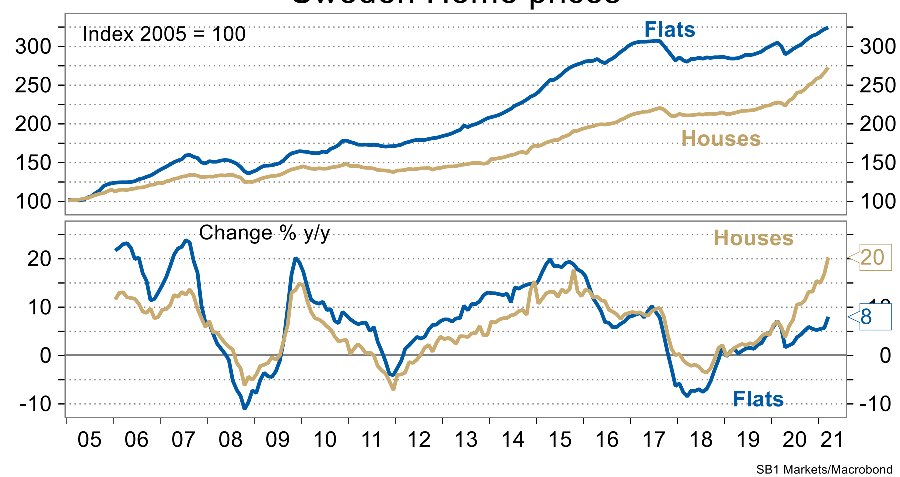
Sweden Home prices



Sweden Apartment prices

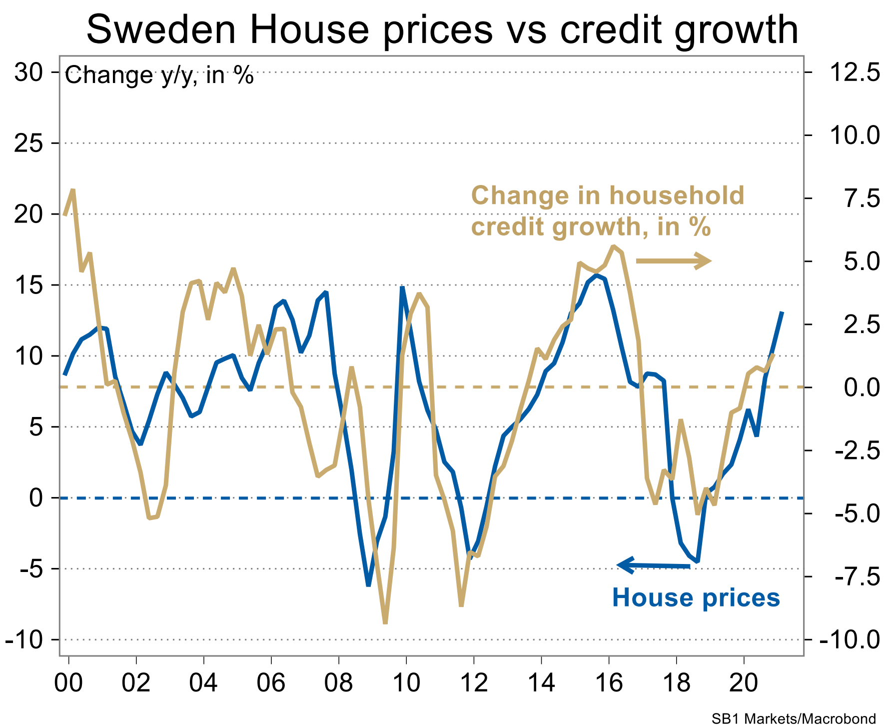


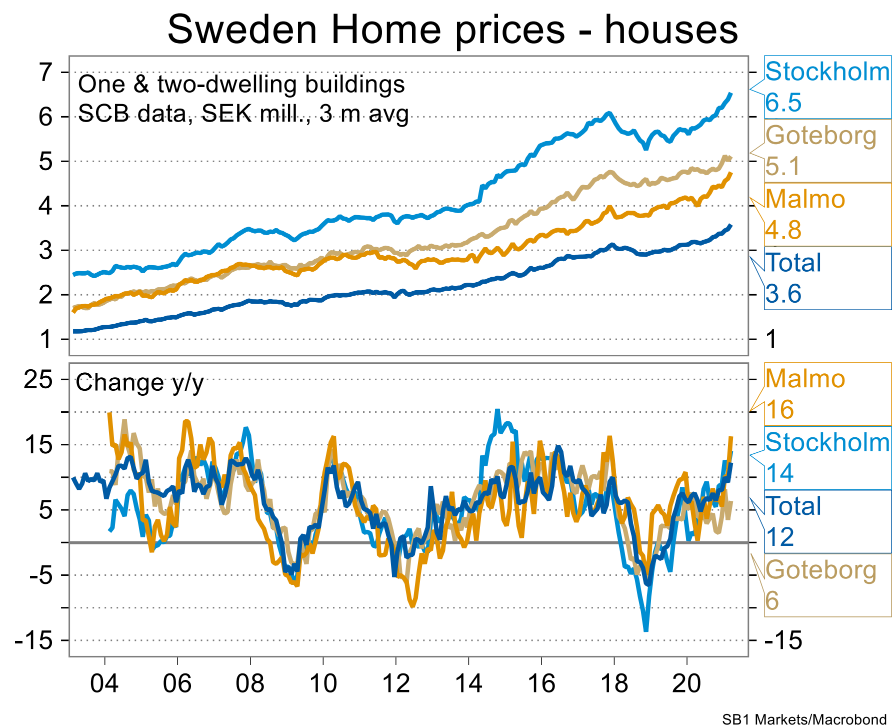
Sweden Home prices



- In February, prices rose by 1.7%, 0.2 pp higher than initially reported
- Underlying price growth is (3m/3m) has slowed marginally, but is still at 17%, even higher than in Norway
- Prices are increasing fast everywhere - and faster for houses than flats

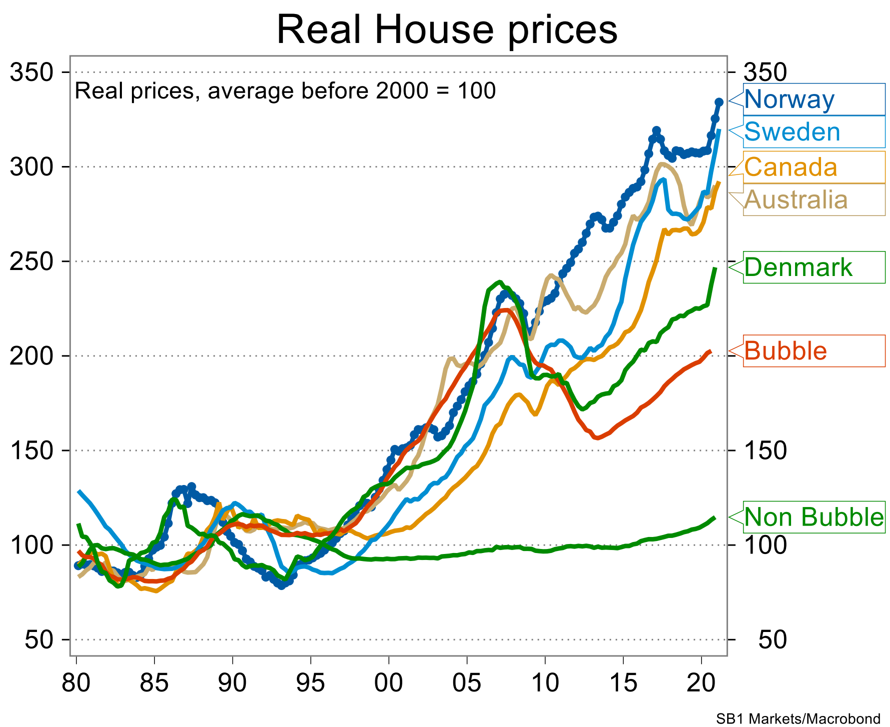
House prices inflation accelerates, as does credit growth

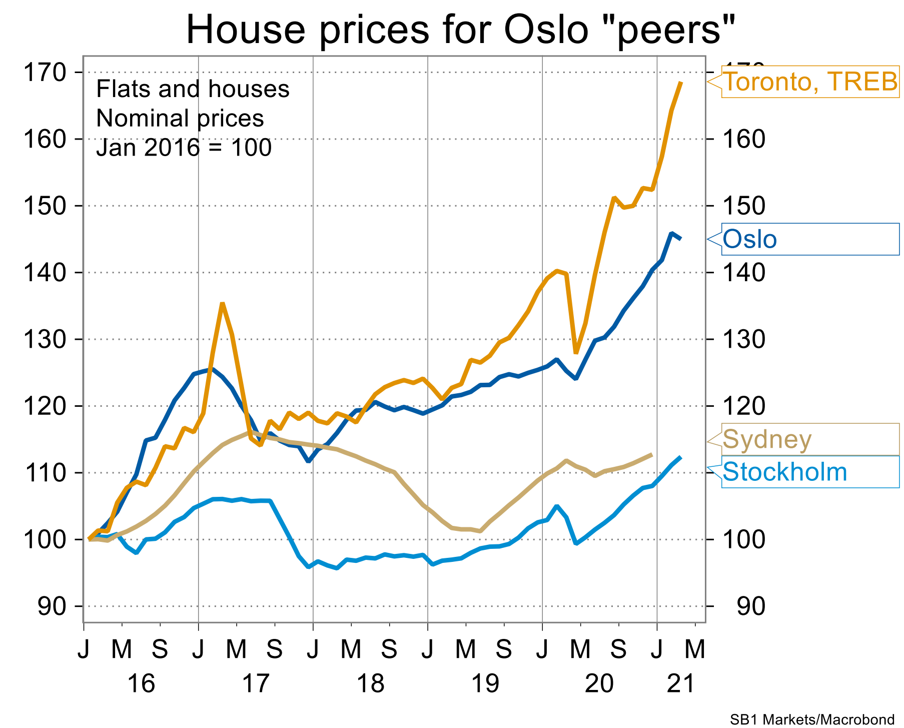




Zero-interest rates are just wonderful!

Prices are soaring in many countries – with the 'supercycle' countries in the lead

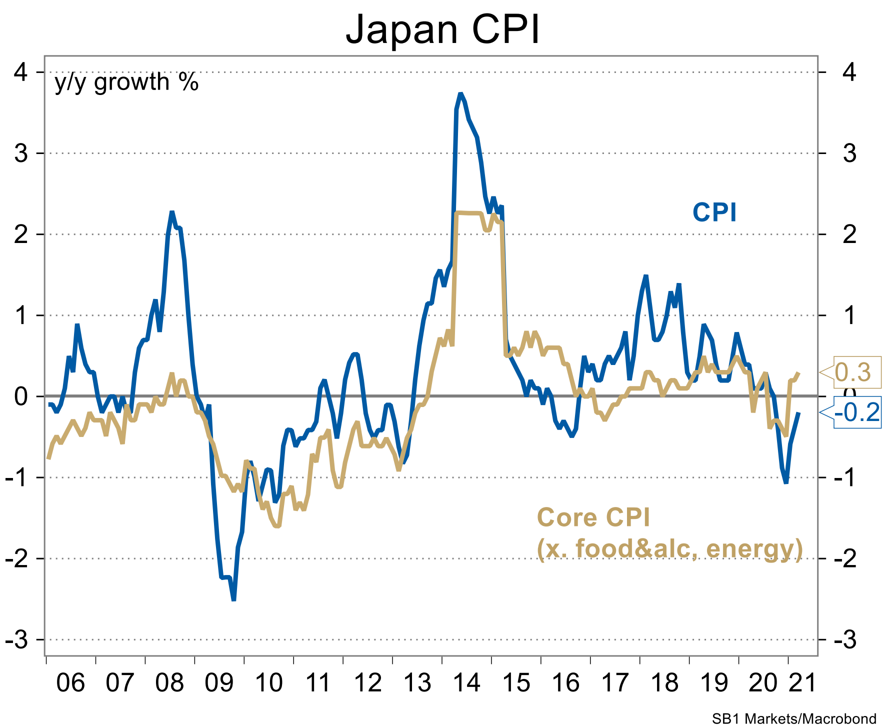


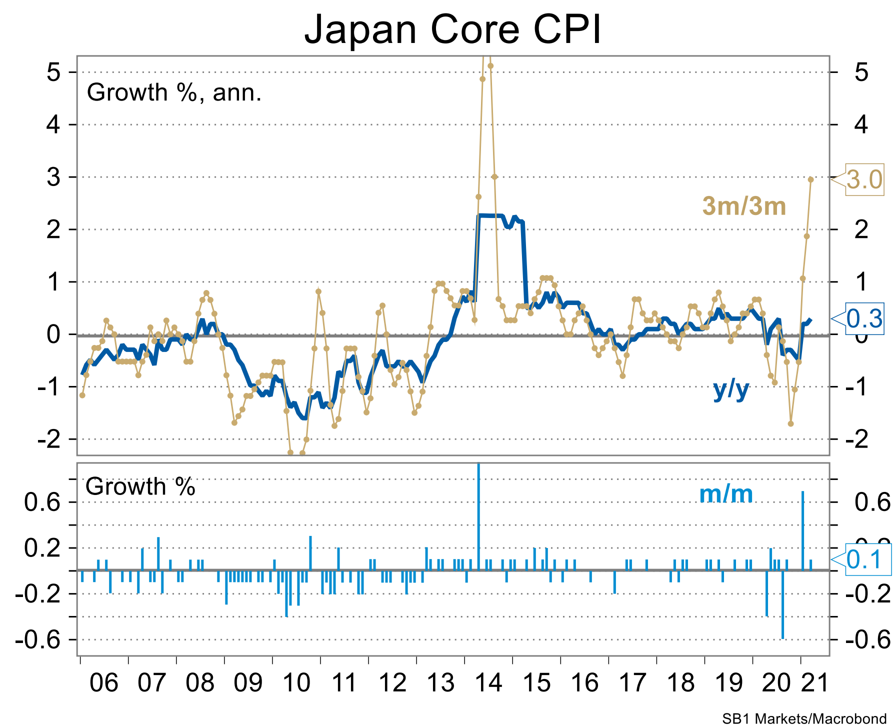


- Real house prices are at high levels in both Australia, Canada, Norway, and Sweden
- Almost all OECDs countries are reporting higher house prices over the previous years, just Ireland & Japan are in the downside

Headline CPI still in the negative

Falling prices a result of Covid restrictions putting a clamp on activity





- Core CPI (ex food, energy) rose by 0.1% m/m, increasing the y/y rate to 0.3% from 0.2%
- Total CPI was up by 0.2%, but is still below zero, at 0.2% despite rising energy prices
- <u>Anyway, Bank of Japan has not succeeded in bringing inflation up to the 2 % target…</u>

Highlights

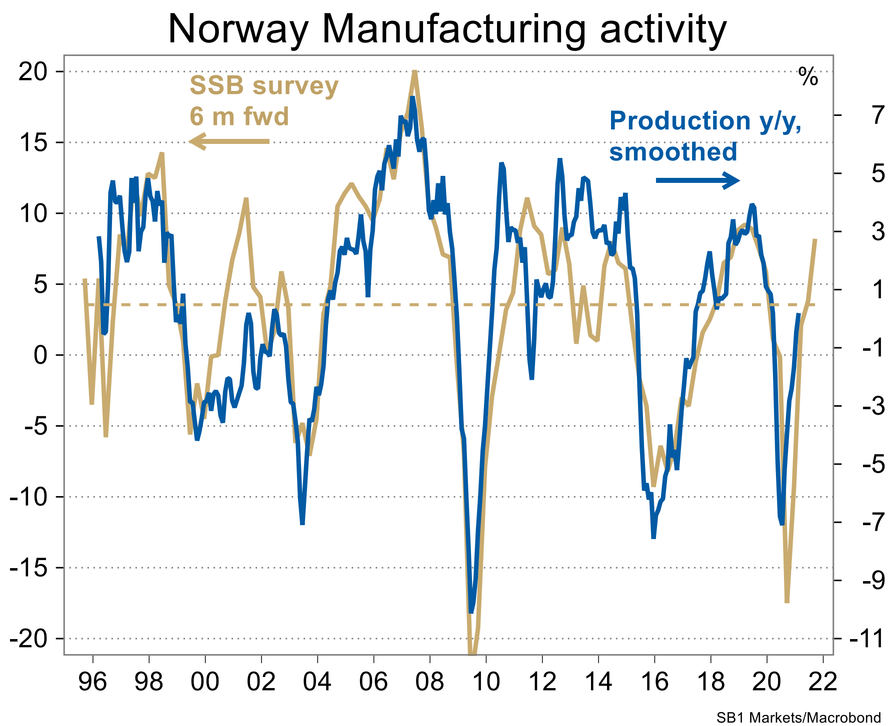
The world around us

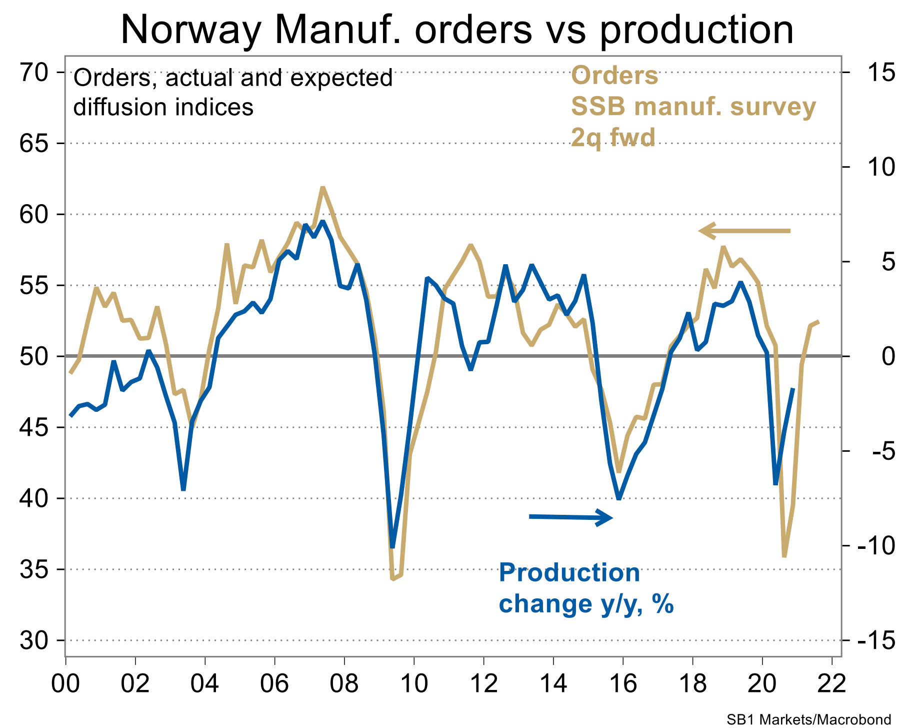
The Norwegian economy

Market charts & comments

SSB's manufacturing survey signals increased optimism in Q1

Oil related still on the weaker side, others not. Demand is not a problem, supply is, labour incl.

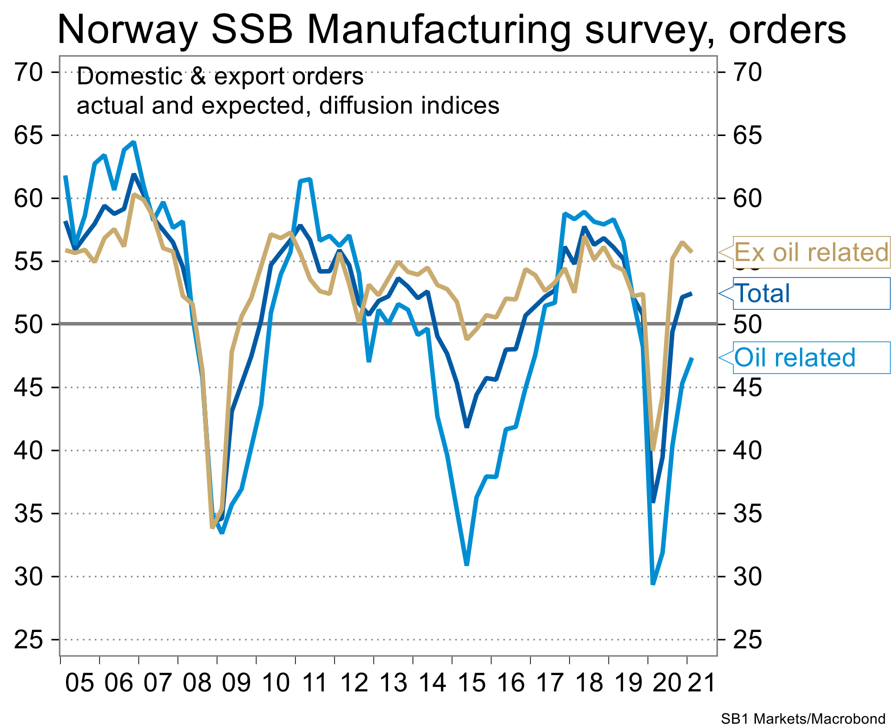


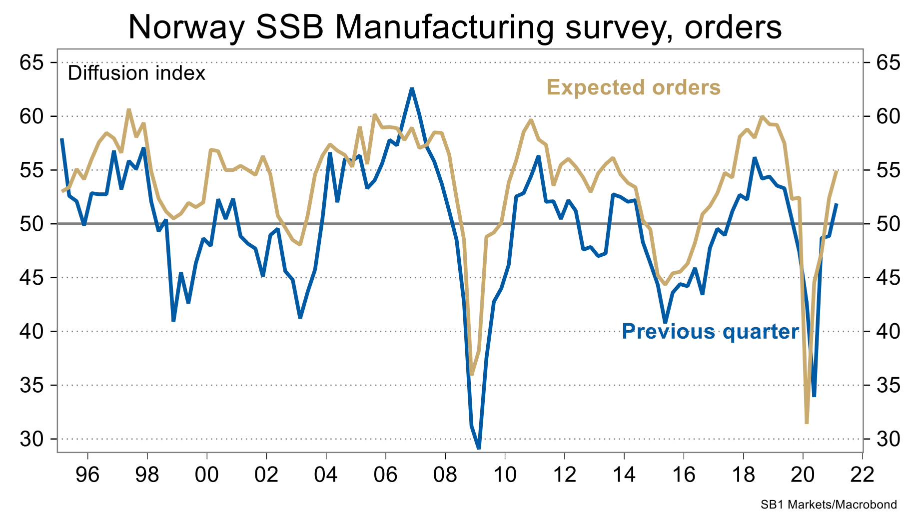


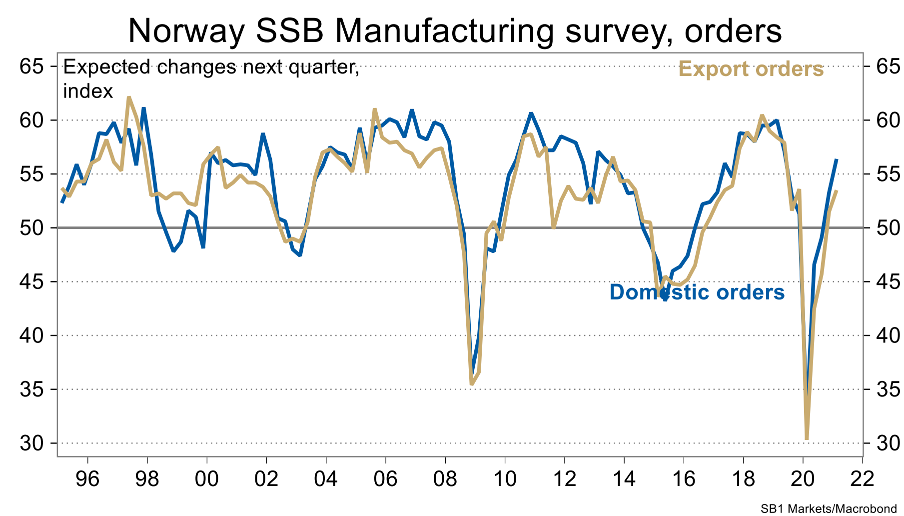
- The composite index in SSB's manufacturing survey rose to 8 in Q4, from 4 in Q3 (rev. up from 3.0), in line with our expectation, well above the 3.5 average level
  - » The index signals growth above trend in the manufacturing sector, 3% GDP growth and strong growth in corporate earnings (from subdued levels last year). However, like for all surveys these days, it is more challenging than usual to translate survey data into growth rates
- Orders are recovering. Domestic orders are still stronger then foreign orders, but foreign orders improved in the 1st quarter
- ***Supply constraints are not yet serious but well above average, labour shortages included. Demand is less of a problem than normal***
- ***There are also reports of increased selling prices both at home and abroad***

Orders in the oil related industries heading upwards again

Both domestic & foreign orders are recovering, domestic orders the most

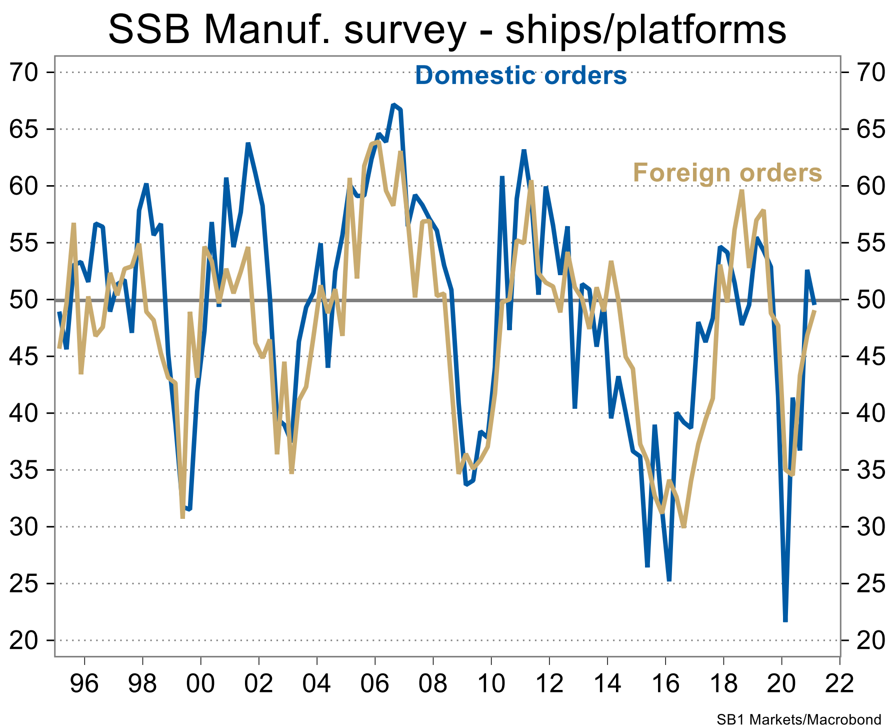






Oil related: Domestic orders are still outperforming export orders…

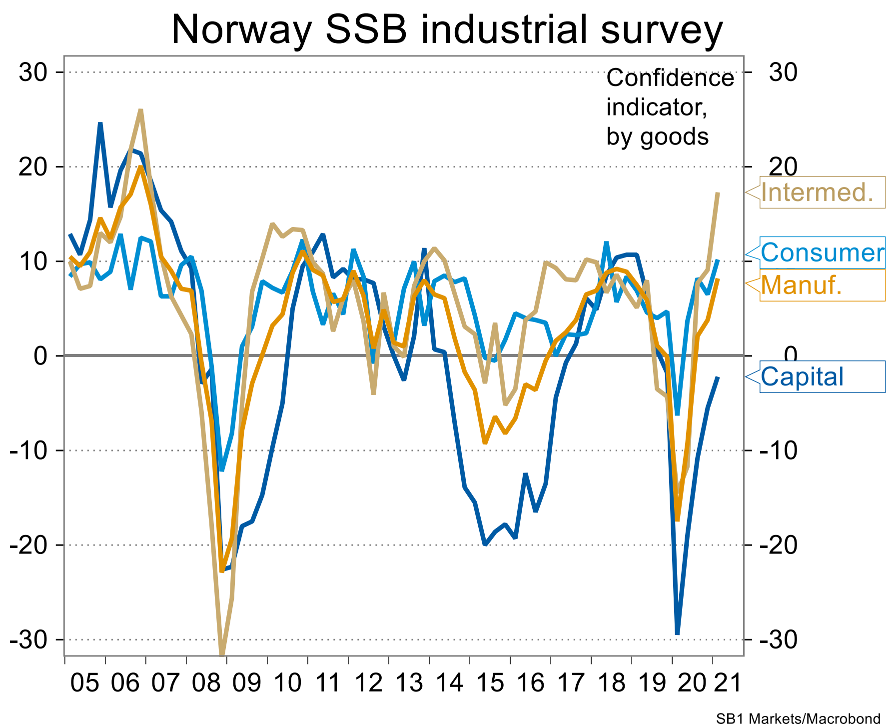
…but by less than in Q4

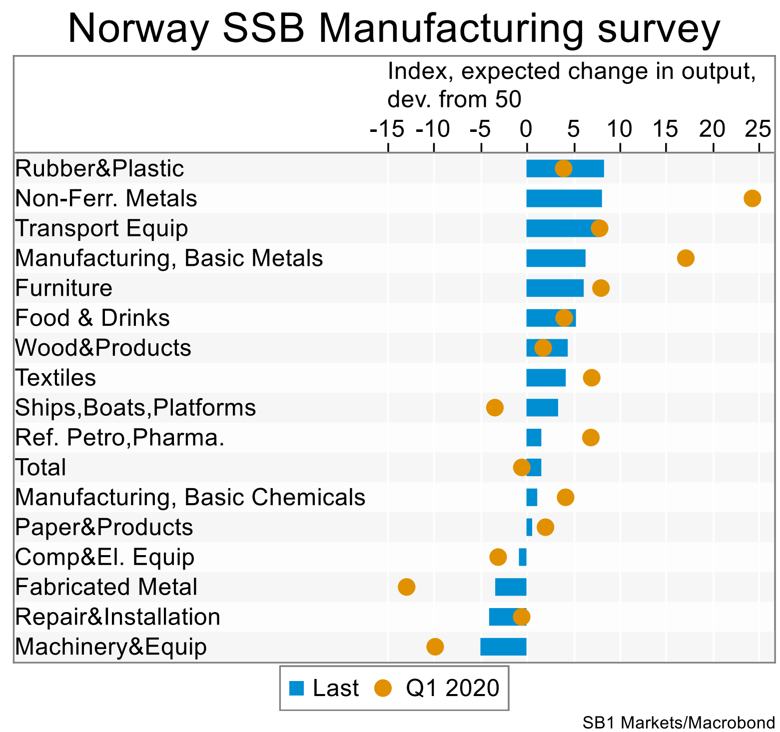


- Domestic orders declined to 49.5 from 52.6, while foreign orders were up 2.7 p

Capital goods the weakest link (much oil related), intermediates best since ‘07

Manufacturers are reporting higher growth in production than in Q1-20 but mixed sector wise

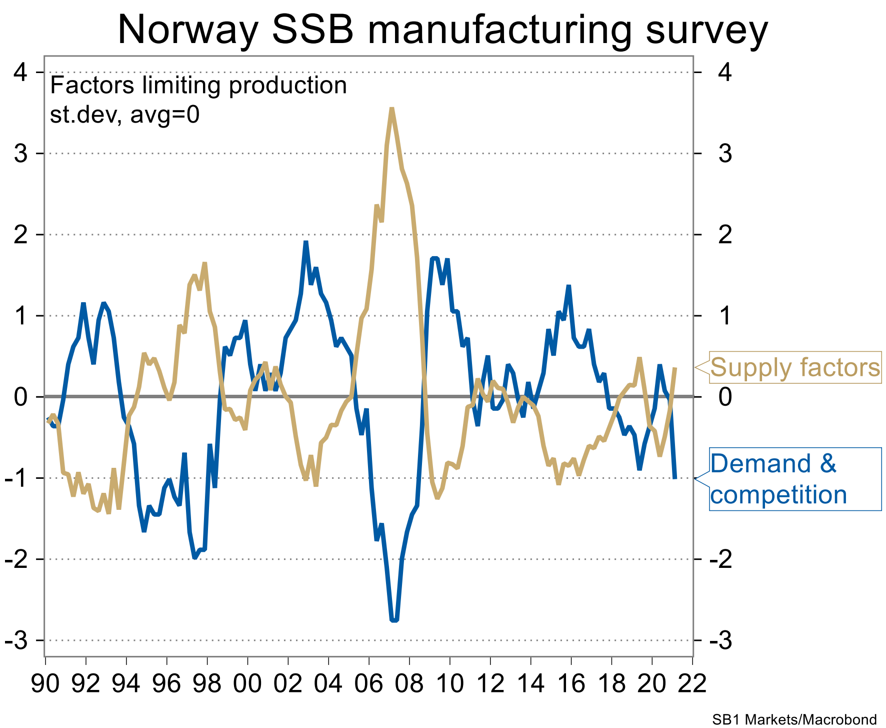


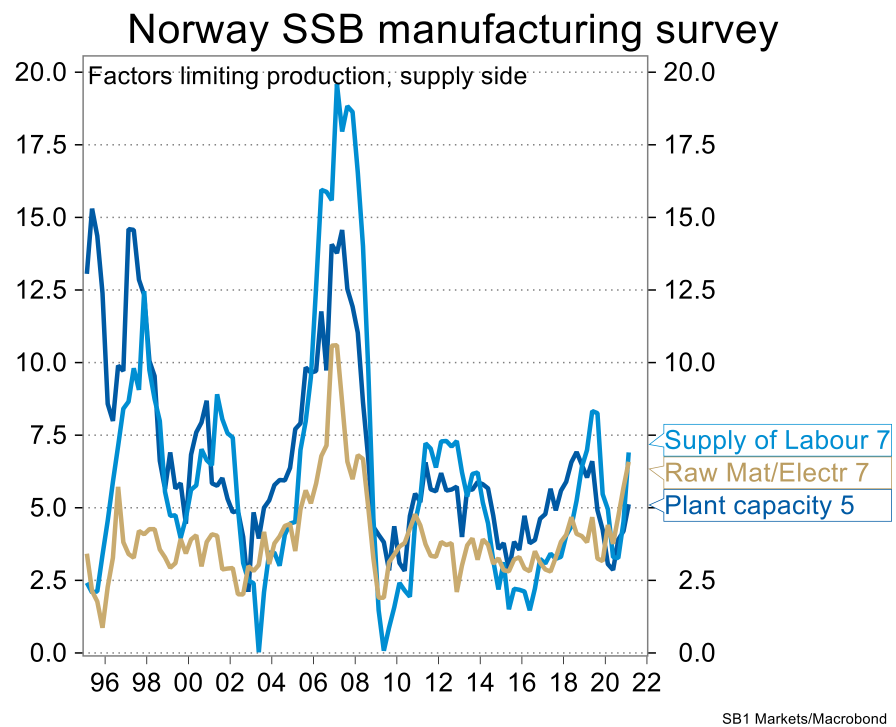


- The downturn in oil-related industries started before the corona virus hit

Limiting production: Supply factors are replacing demand factors

Fewer companies than since '09 report lack of demand as the limiting factor. Supply 2nd highest since '09



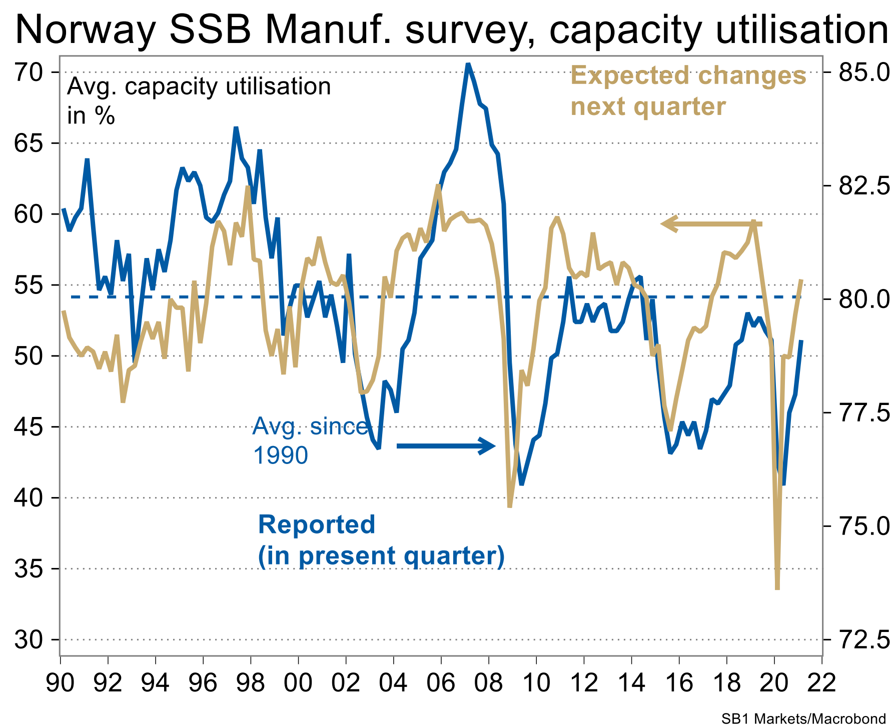


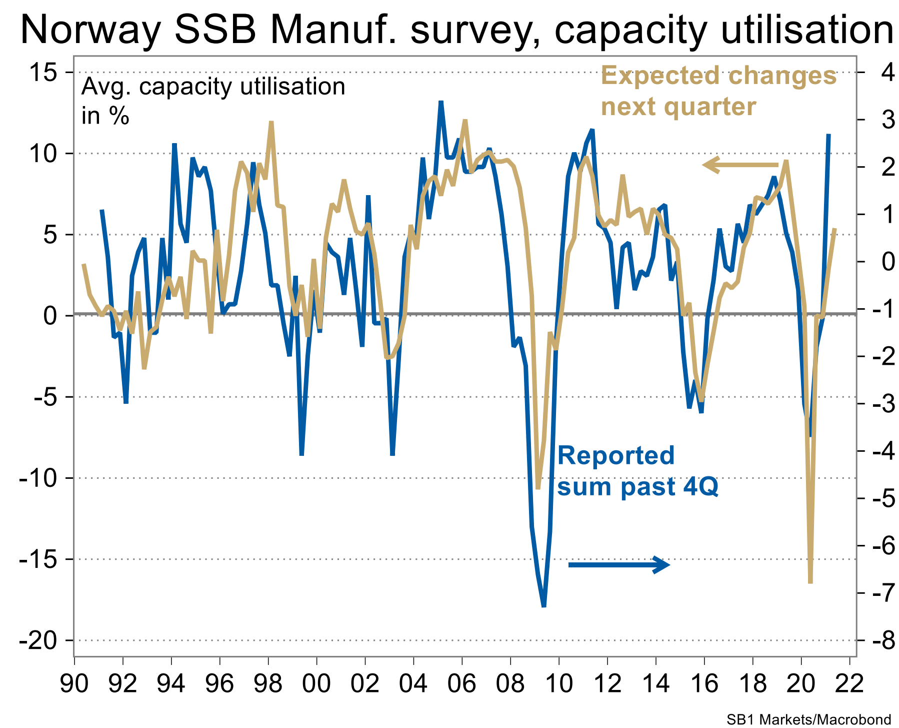
- More companies are reporting supply side factors as limiting production in fact the 2nd highest share since 2009! But still not that many than the average share
  - » More companies are reporting lack of labour, raw materials, plant capacity as limiting factors, lack of raw materials the highest since 2009
- Fewer, and now close to an average share of companies are reporting of demand/too much competition as a constraint in Q4.
- ***No demand crisis – and it never was during the pandemic***

SpareBank 1 MARKETS

Reported capacity utilisation sharply up, still not high – more to come

Labour shortages up to above average but still below the 2019 local peak



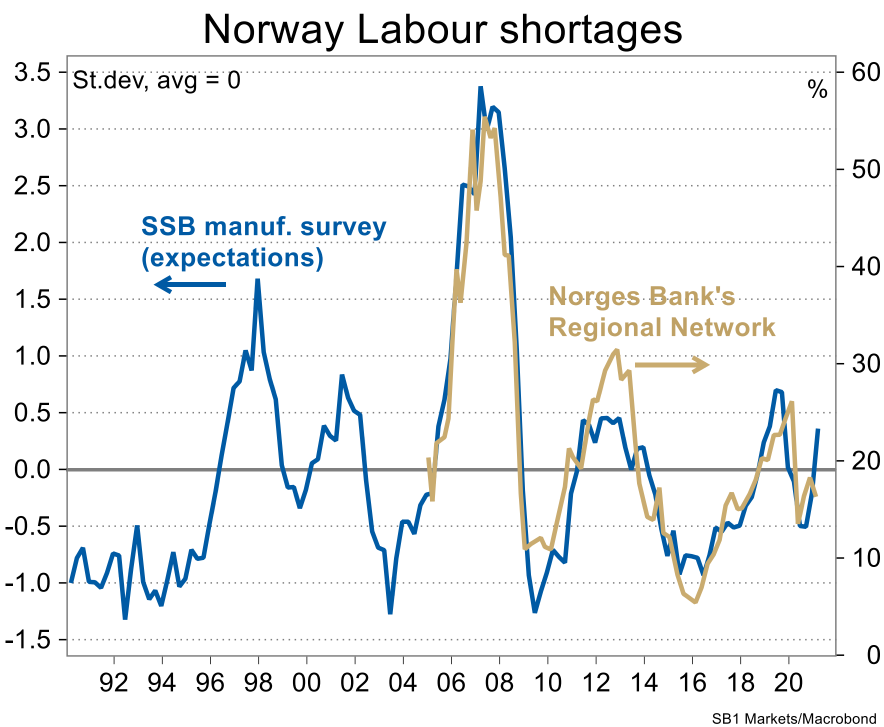


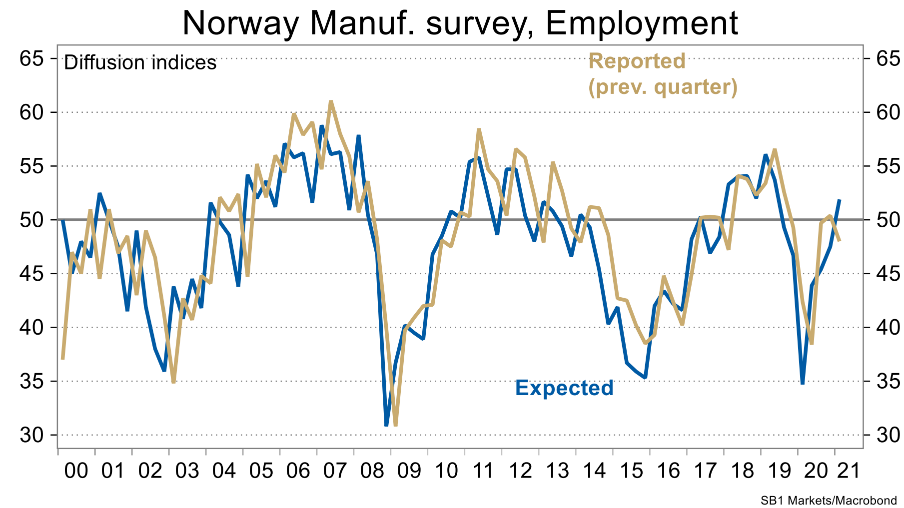
- The lift in capacity utilisation to Q1 from Q4 was among the 2nd highest since 2004 (just Q3-20 was better)
- Companies expect a higher capacity utilisation in Q2, and they are usually right

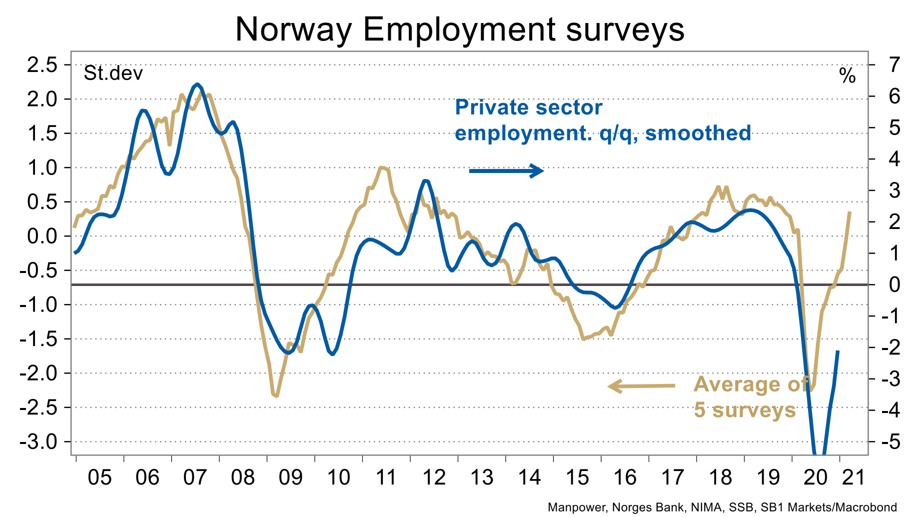
SpareBank 1 MARKETS

Labour shortages up to above average but still below the 2019 local peak

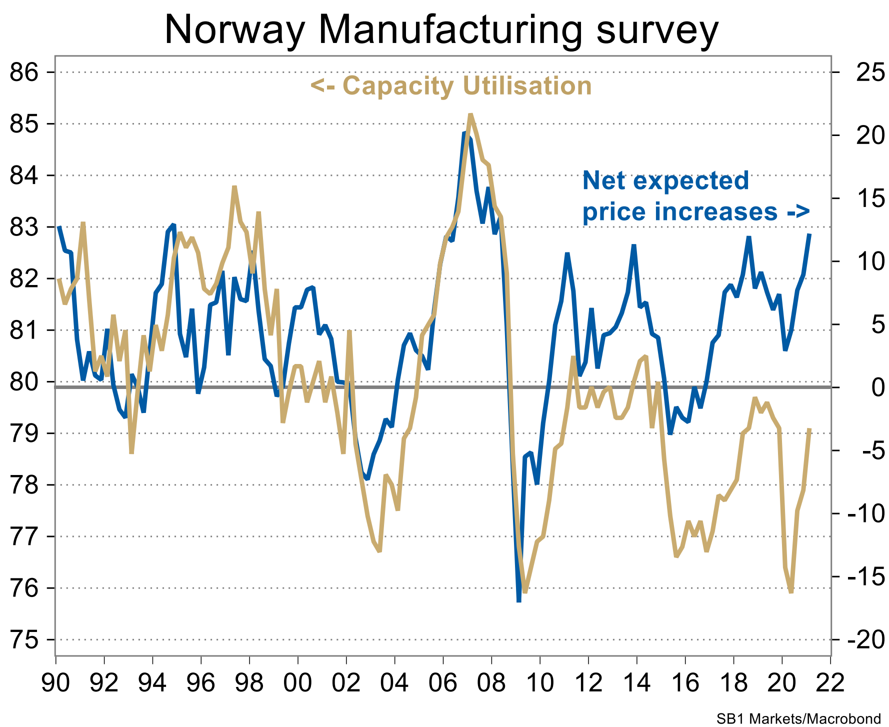
Manufacturers cut slightly in their workforce in Q4, plan to employ more





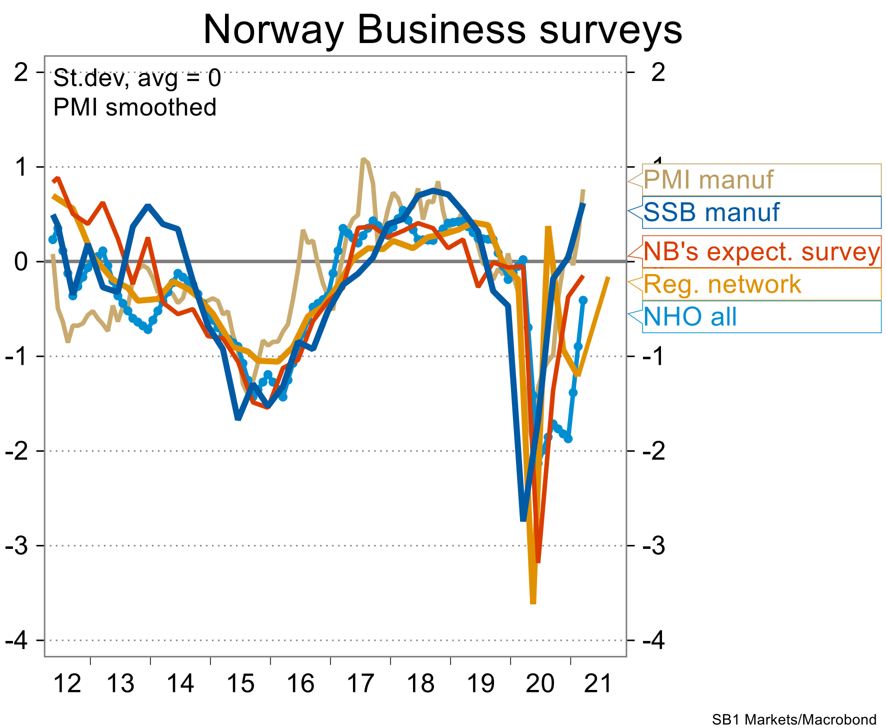


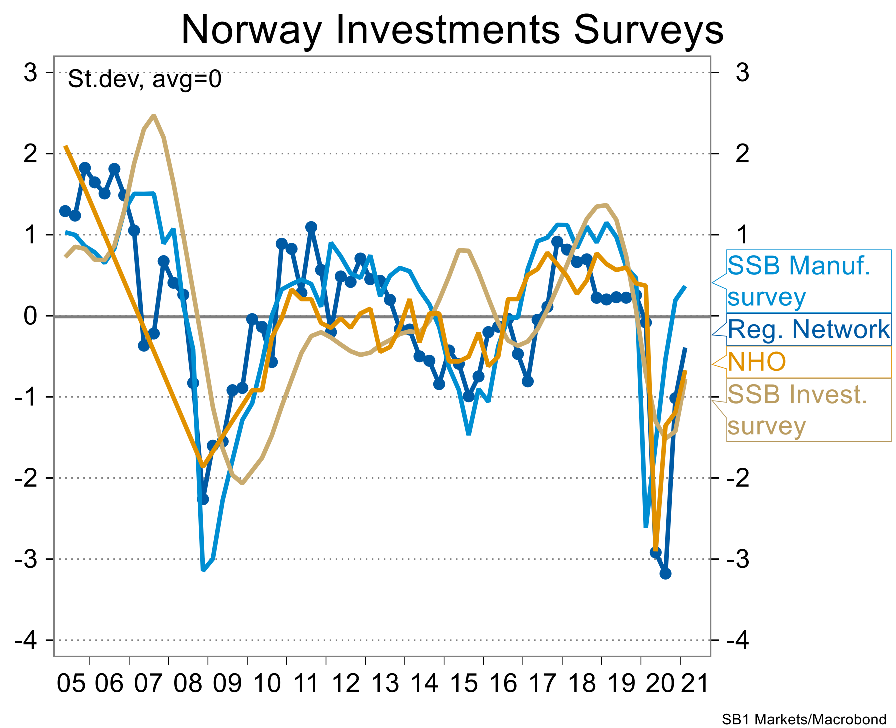
Prices are expected up, at the fastest pace since 2009



Surveys: On the way up, on average still average

SSB's manufacturing survey, and the PMI at the top. Investments plans up, but not above avg, on avg.

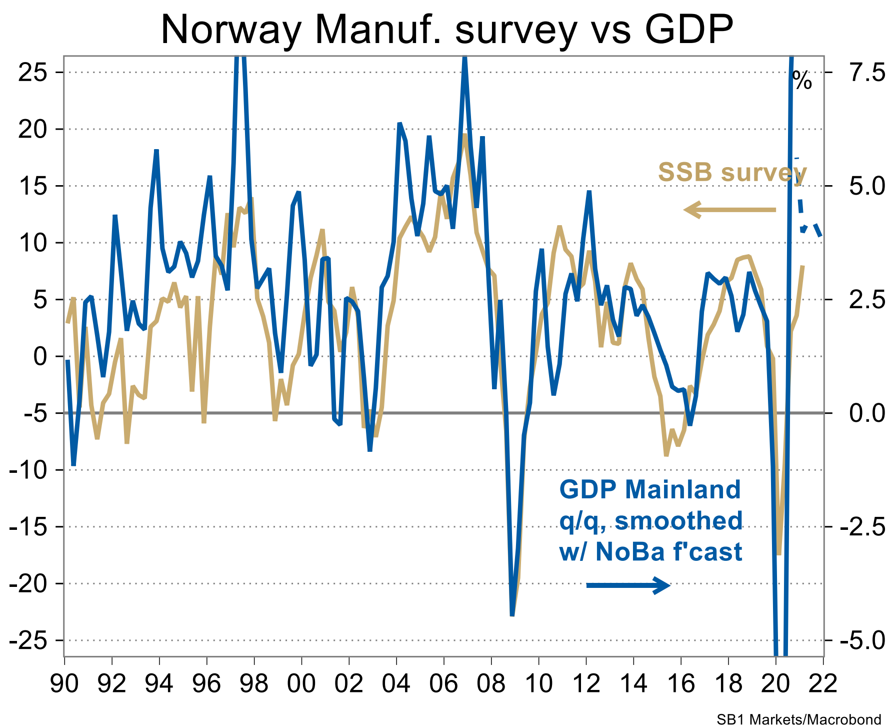


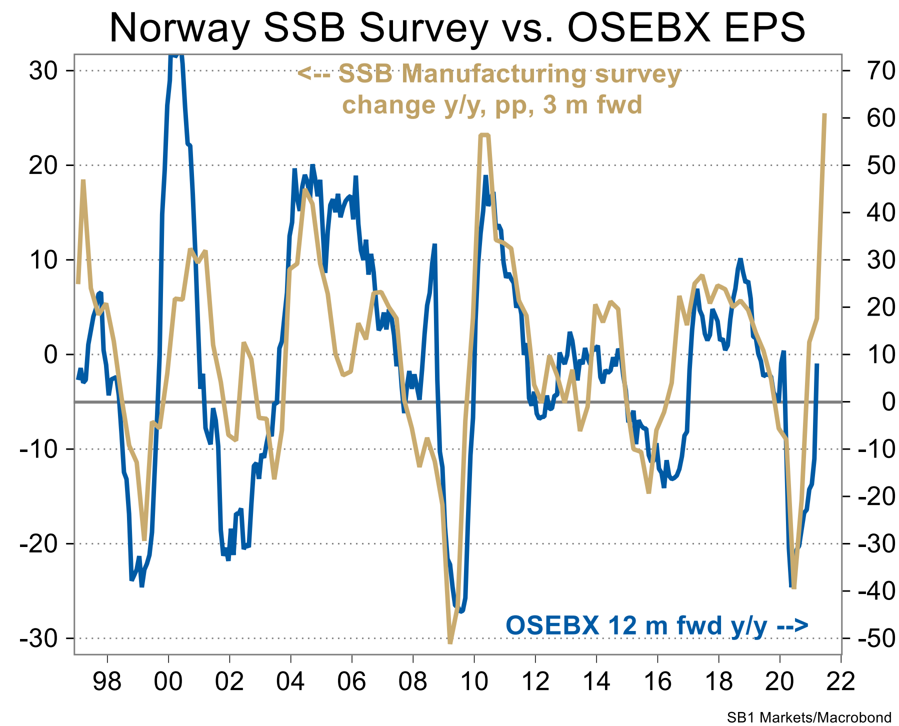


- In the current manufacturing survey, companies upgraded their **investment plans marginally,** and they are now signalling an above average growth.
- Other surveys are still signalling no growth or growth below average (A zero standard deviation on the charts above implies average growth)

SSB's manufacturing survey signals 3% GDP growth, and a very high EPS growth

However, take care when applying these relationships, given a special (corona) starting point

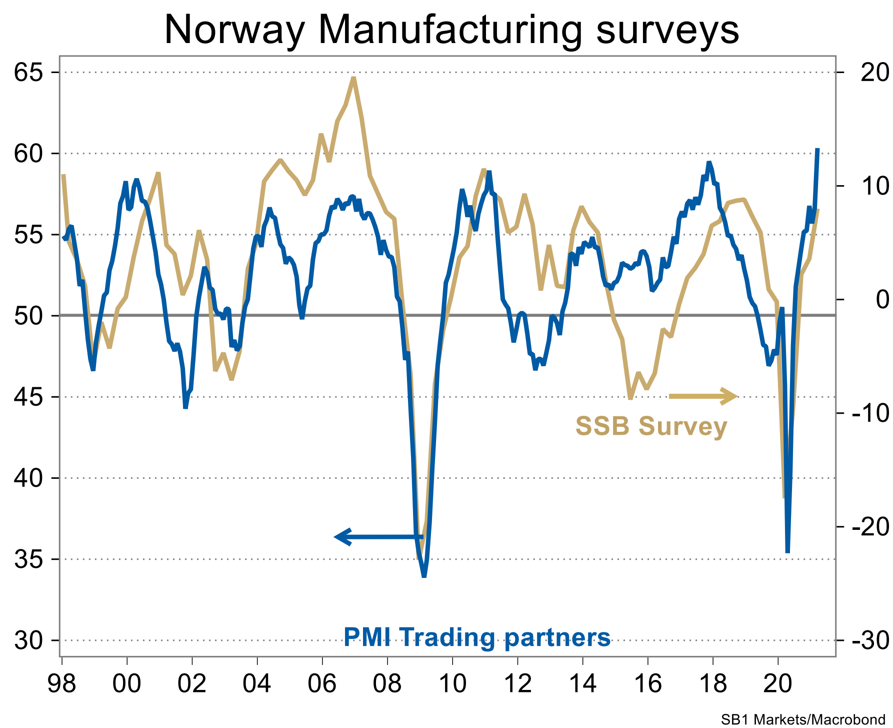


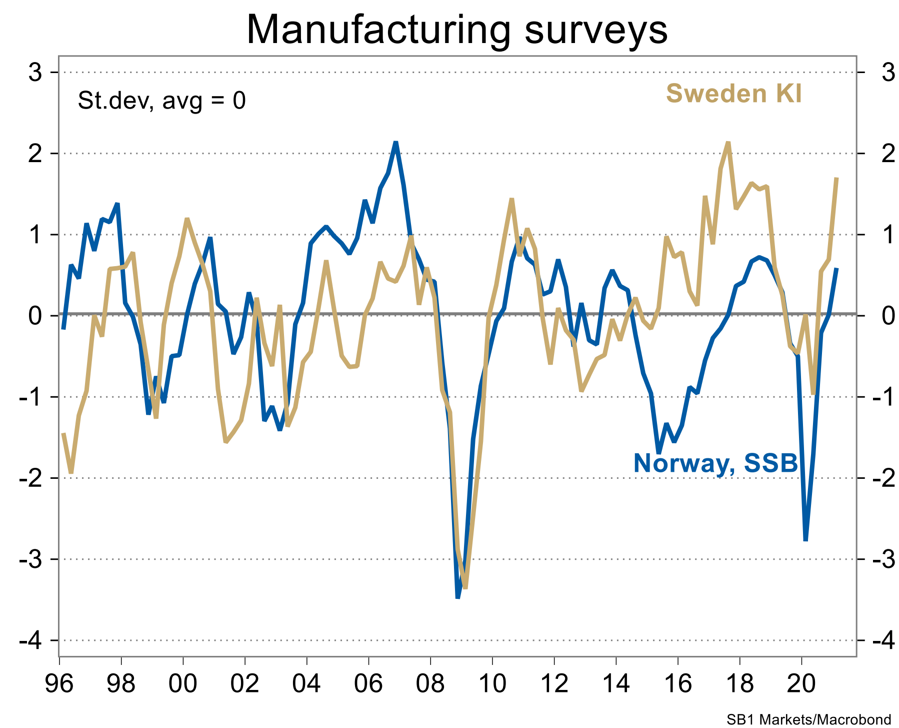


- Our simple EPS-model is not perfect when oil prices are volatile

Norwegian manufacturers are less upbeat than their foreign peers

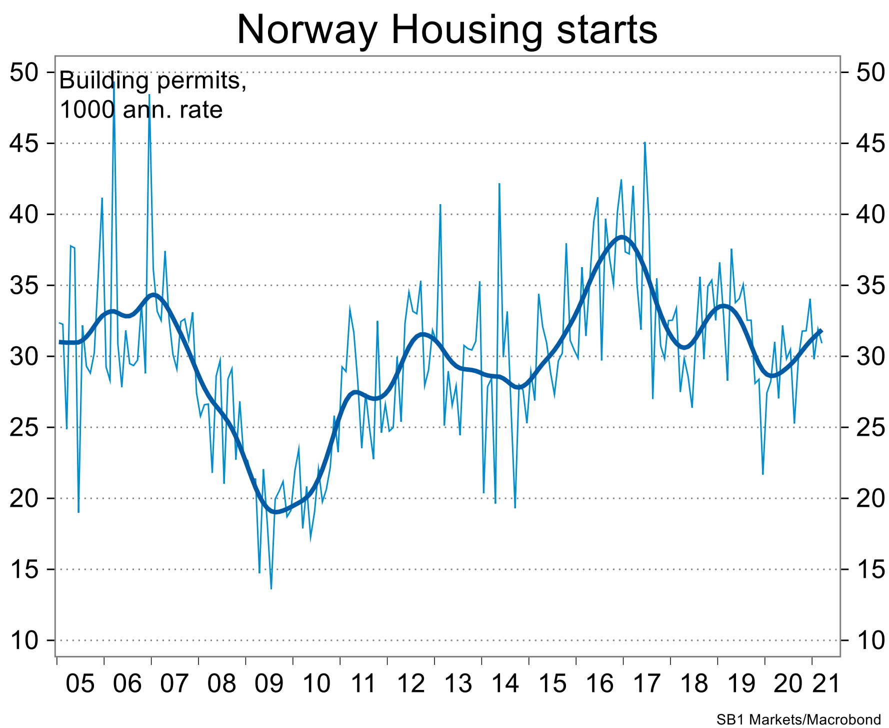
… but are lagging somewhat

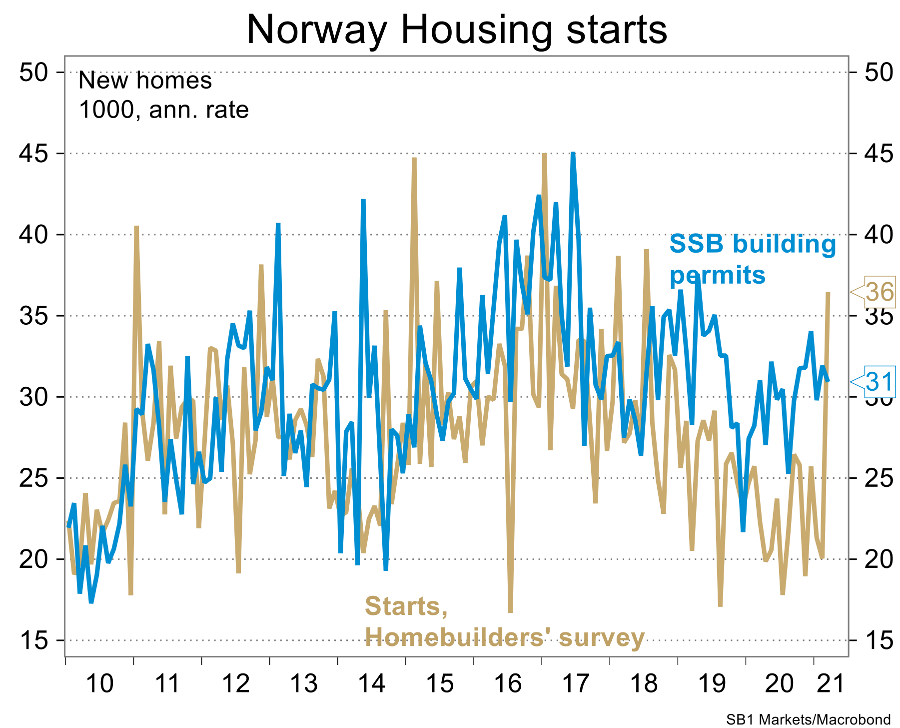




SSB: Housing starts have turned up, amid steep increases in house prices

SSB reports starts (building permits) down 1’ to 31’ starts in March but the trend is up





- Homebuilders reported an unusual lift in housing starts in March, following strangely low starts data, both vs. Homebuilders reported new home sales and vs. SSB building permits
- Student and nursing homes have explained some of the gap between SSB’s permits and Homebuilders’ starts

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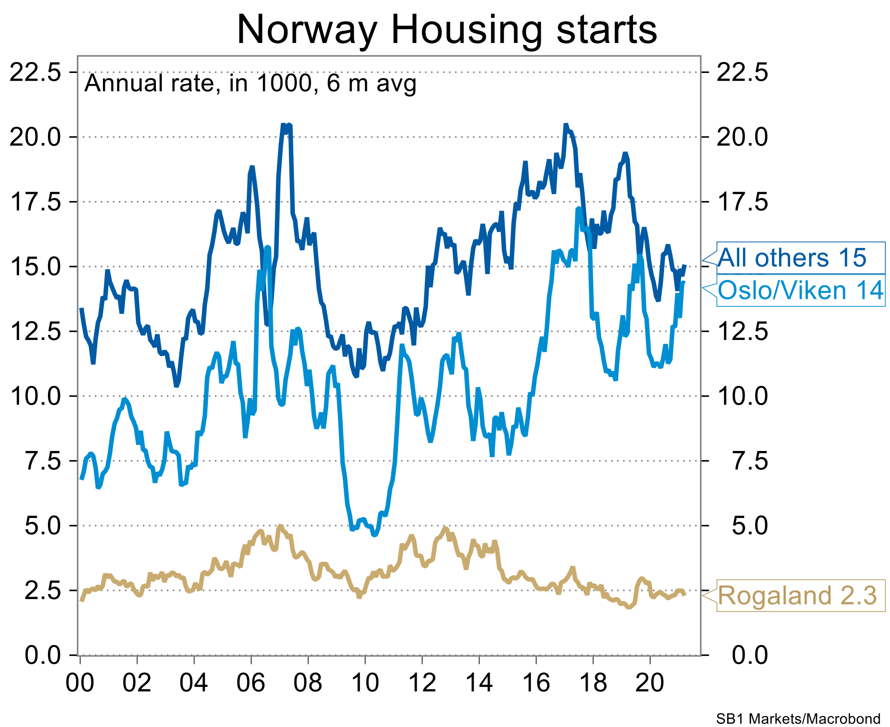
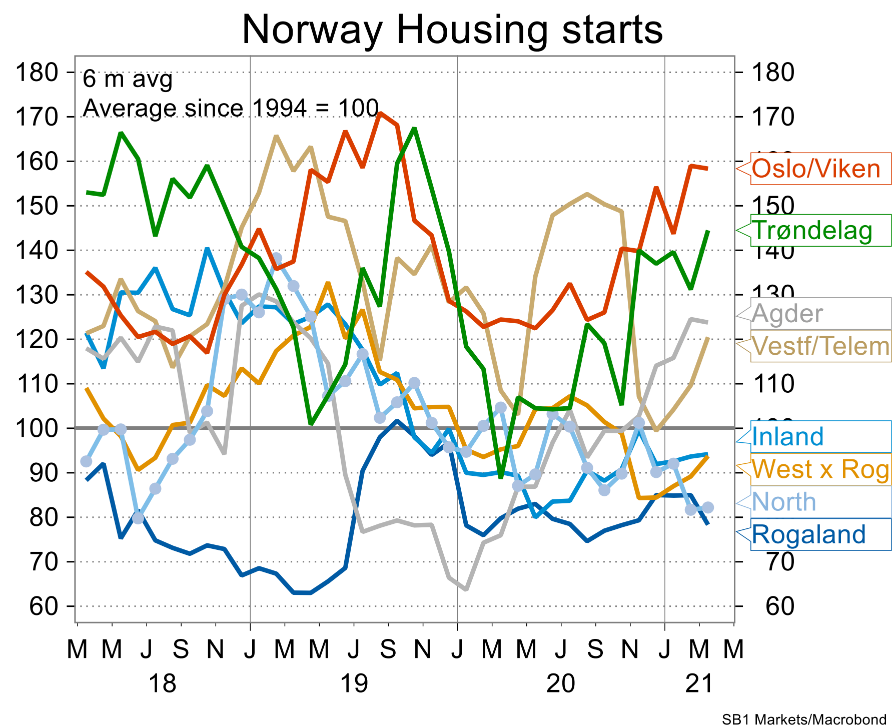
Starts are picking up speed in Oslo/Viken to 60% above the 25 y average

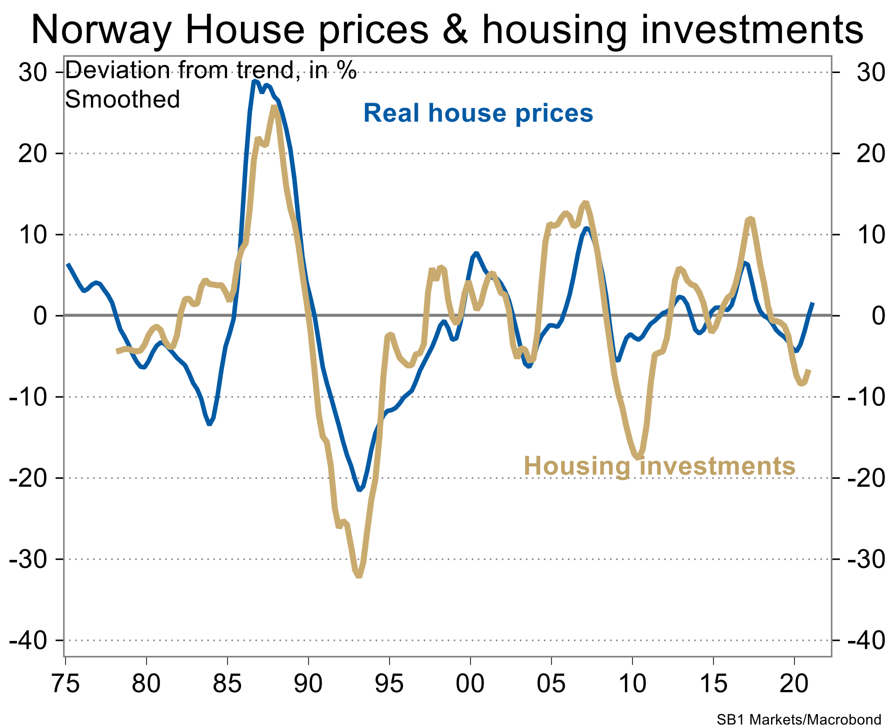
Starts up in Trøndelag too, and in Agder. Starts below par in Rogaland, Vestland, North & Innlandet

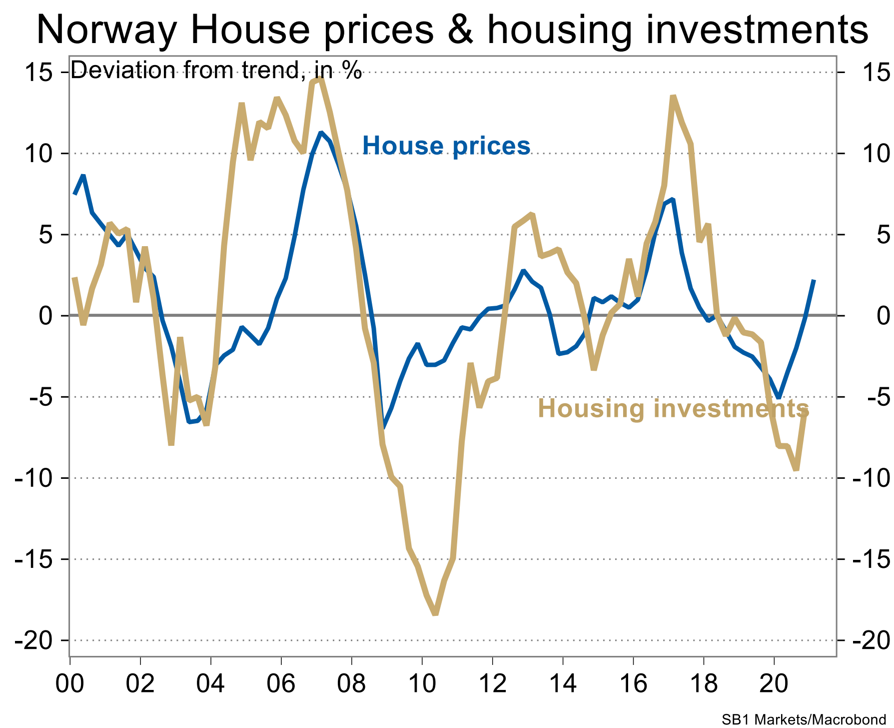




Housing starts/investments normally in tandem with house prices, no surprise

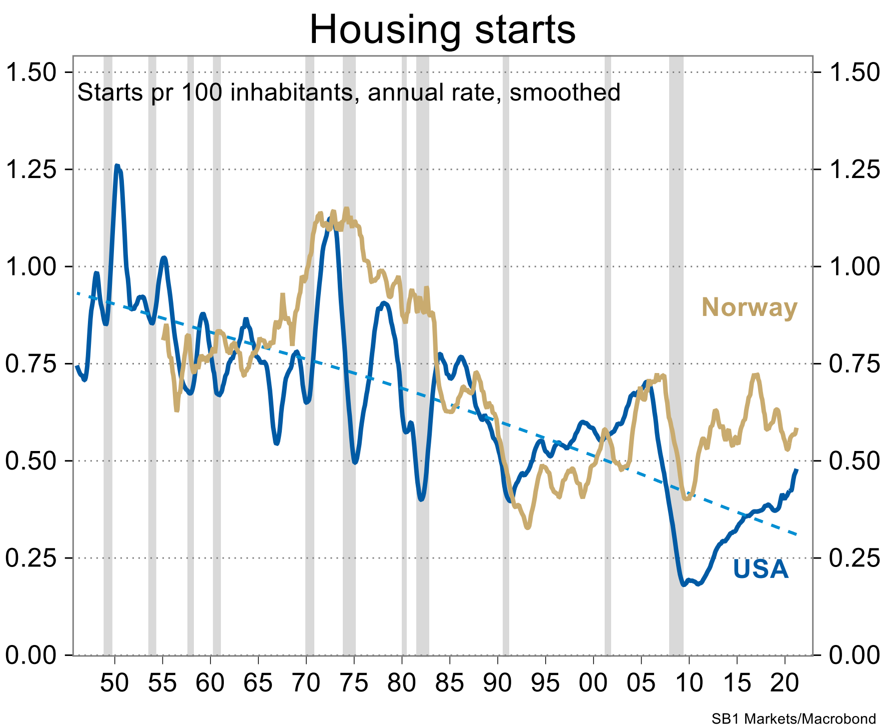
And now prices have turned sharply up; housing starts/housing investment will follow

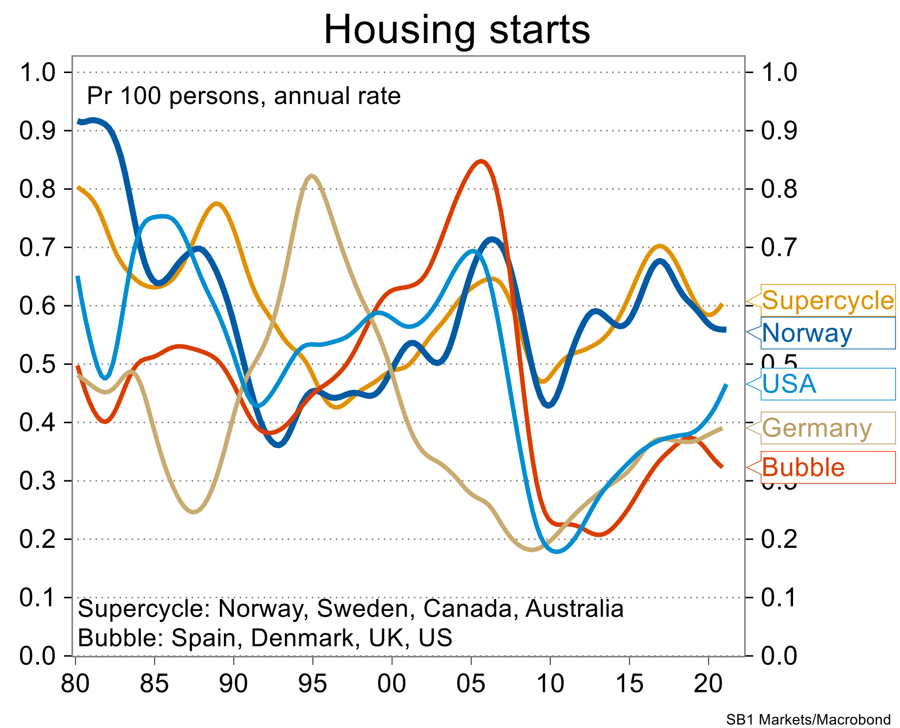




Home building in Norway has been high vs. most other countries

However, Norwegian housing starts are in line with other ‘super-cycle’ countries

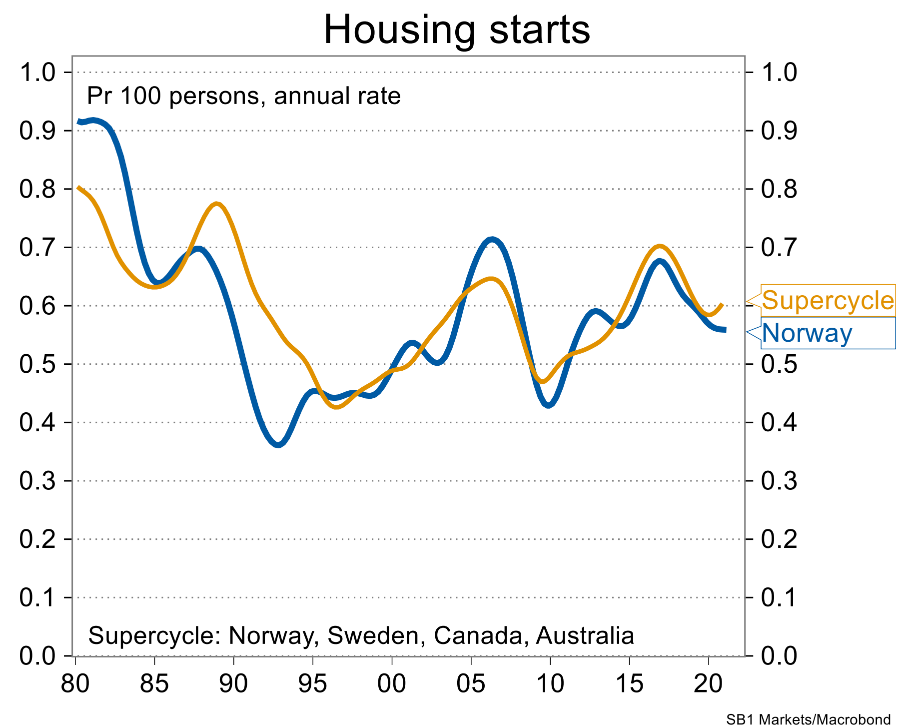




- The housing start cycles among the super-cyclicals (Australia, Canada, Norway, Sweden) have been closely correlated the past decades (for a better picture, flip to the next page). Since 2017, starts fell in both Australia, Sweden and Norway, and more modestly in Canada. We guess the boom in the 2nd hand house markets in these countries will stimulate new starts – which we just now are seeing
- House prices and debt inflation are higher and rental yields are lower in these super-cycle countries than other DMs. We guess it’s because interest rates have been too low for too long, as rates fell more or less to the same level as in countries that actually needed a strong monetary stimulus after 2008 housing market/financial/real economy crisis

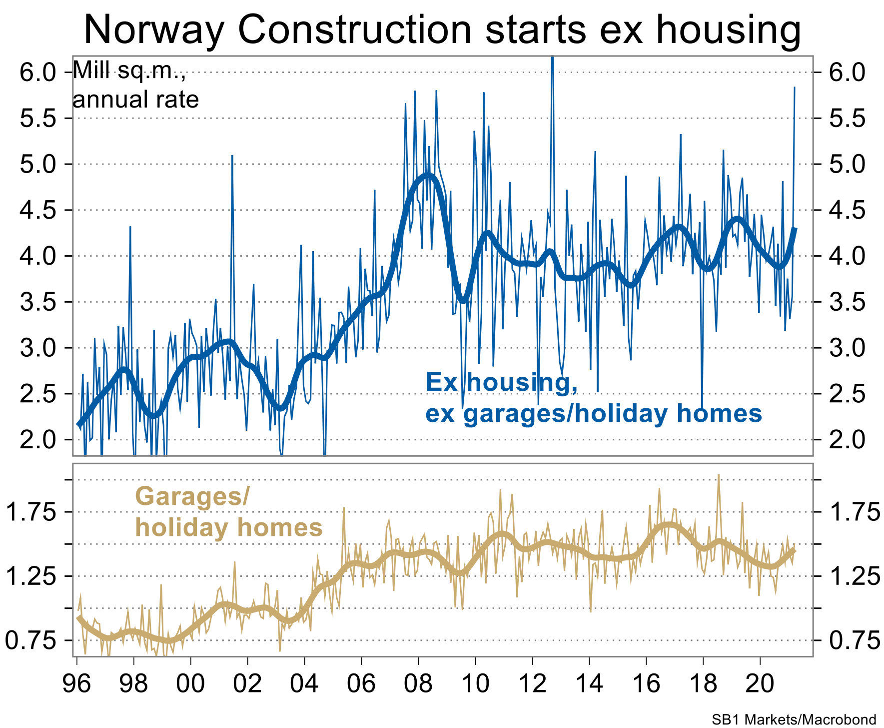
Check the brothers in arms!

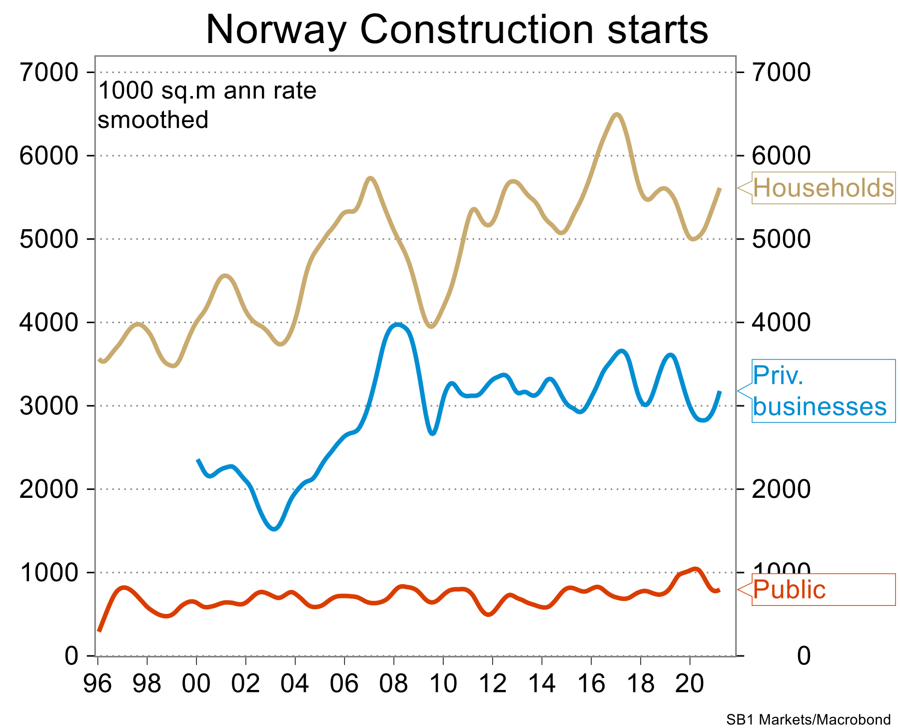
Seems improbable, doesn't it?



A (healthy) hike in non-residential starts in March, following several weak months

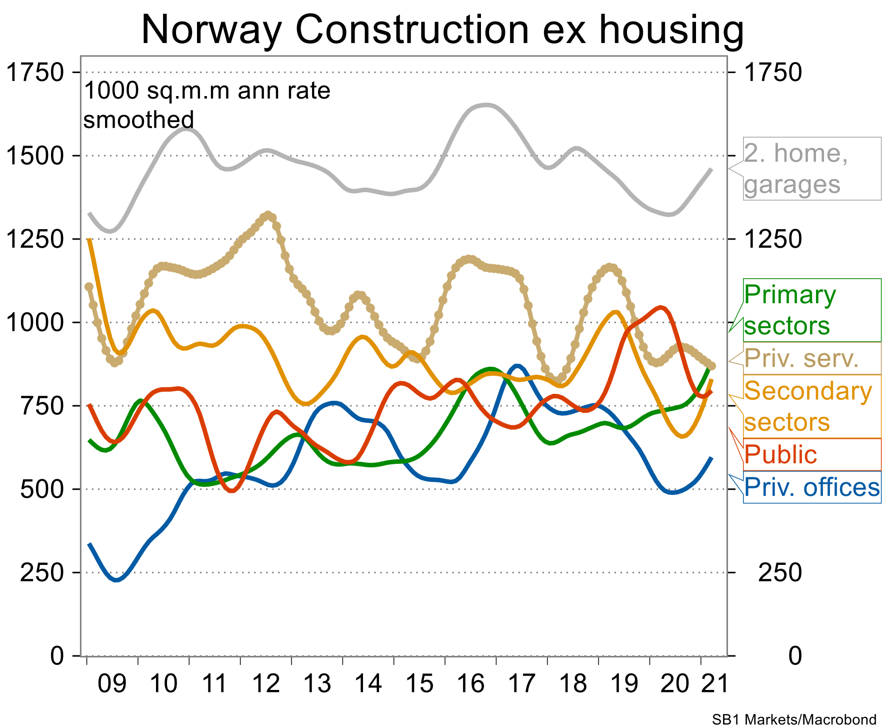
Health (Oslo), some other public buildings, and more private sector offices in March

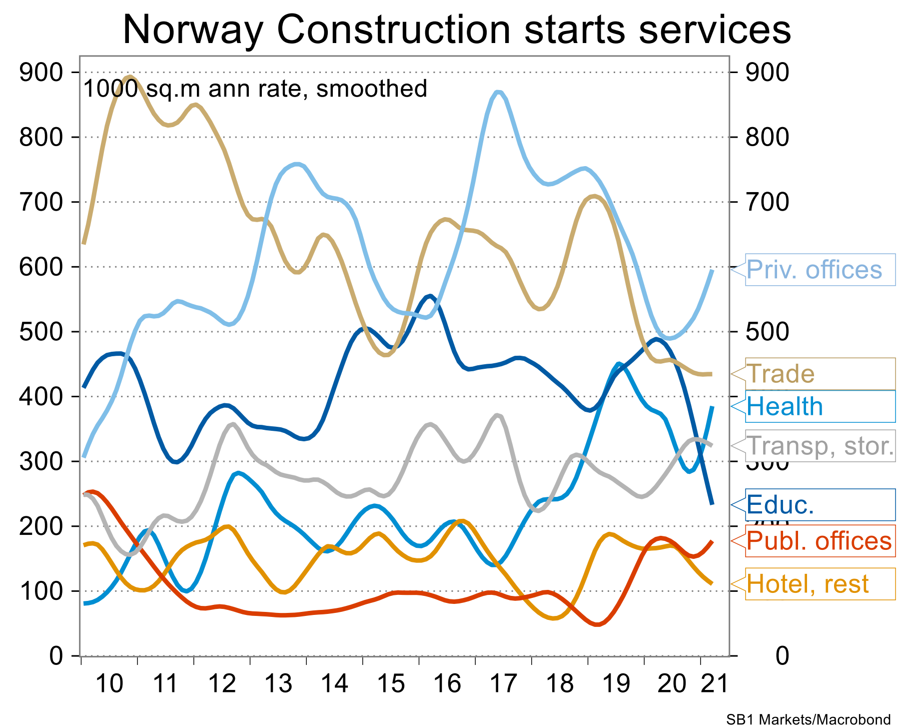




- **Construction starts ex housing & garages/cabins** peaked in early 2019, and have been trending clearly down, at least until now, there some large projects lifted total starts to the 2nd highest level ever (and lifted our mechanical trend substantially)
  - » **Private non-residential starts** have increased somewhat recent months, from a rather low level
  - » **Public sector construction starts** have been trending down due to education but a large health project in Oslo is now contributing of the upside, as well as public sector offices in Vestland
- **Construction starts of cabins/garages** is heading up, following a decline from the peak in 2016. Given the surge in demand for second homes, that's not surprising. The level is still slightly below the past 10-year average

Volatile details: Private offices, health turn up; Education sharply down





- Transport (incl. storage) is on the way up. Manufacturing may be flattening

Public on the chart to the left, and at the previous page: Construction starts in public administration, education and health

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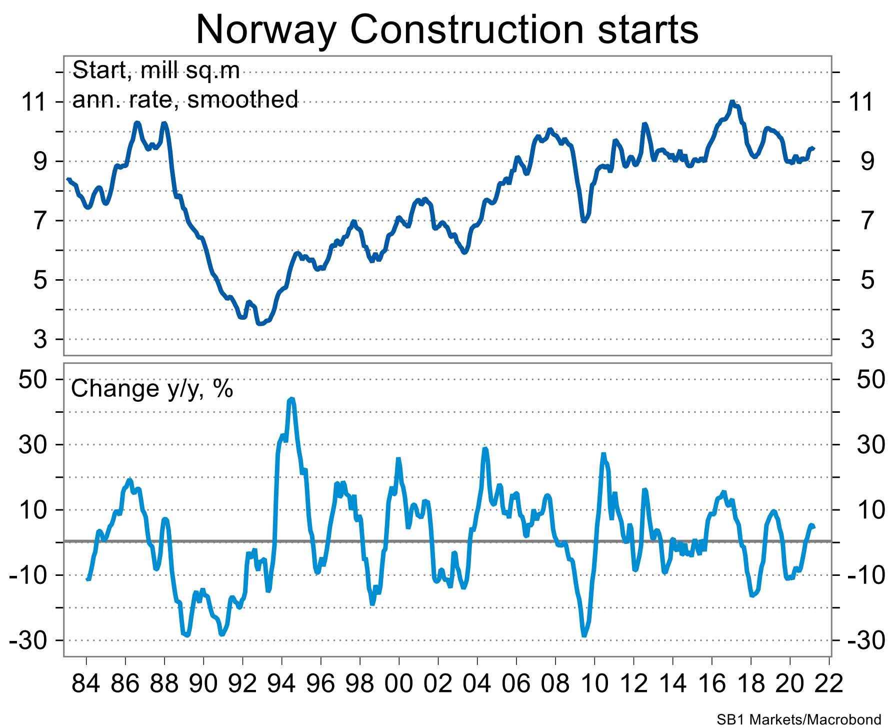
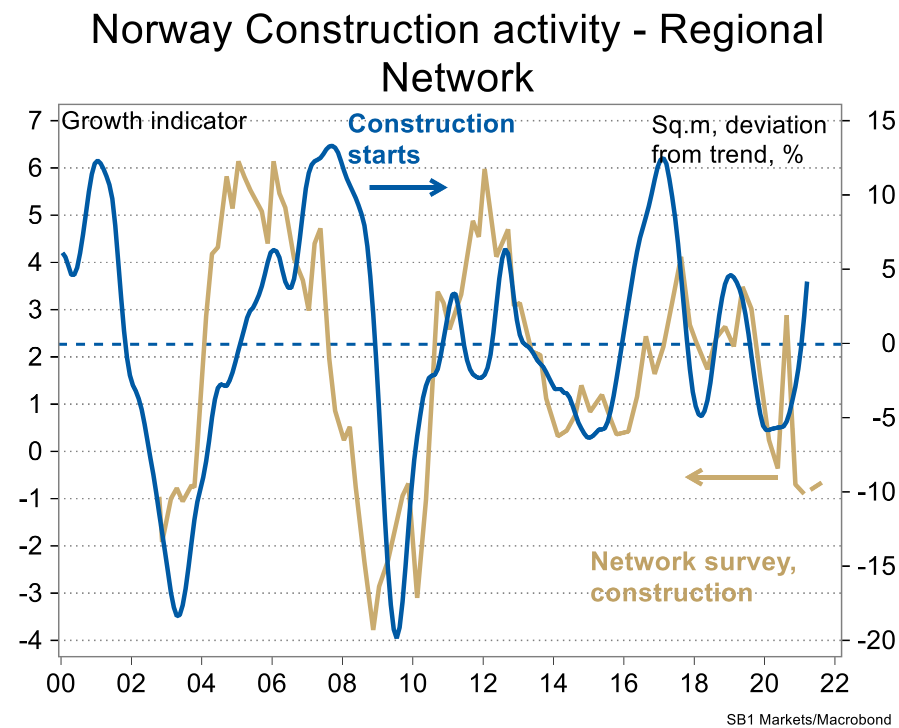
The Q1 NoBa Regional Network signals weak construction activity

Network report/expect activity below par. Actual data not that weak

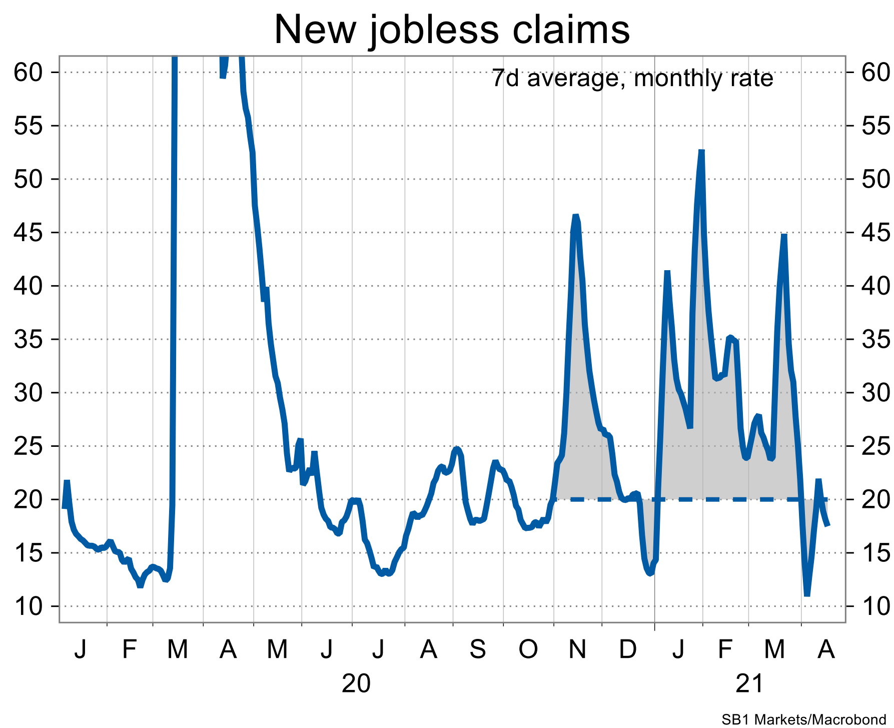


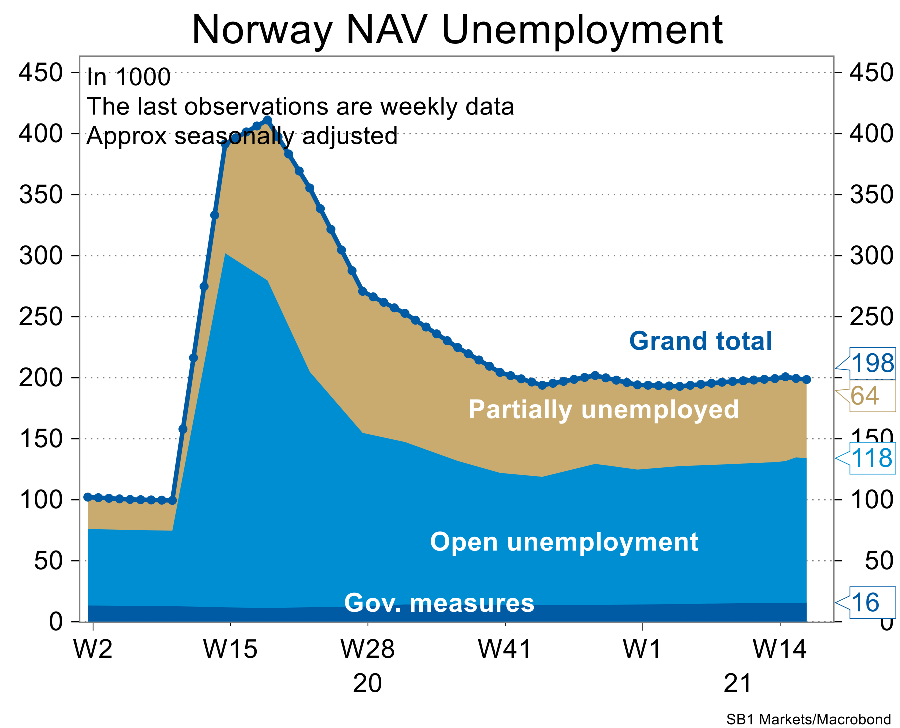


- Actual starts are marginally up y/y, residential up, non-residential down. The level is below average over the past 15 years, and below our mechanical trend

A continued low inflow of new jobless claims after Easter

Total unemployment is probably trending slowly down again – and it is unchanged from last autumn





- The last 5½ months new jobless claims have been 45’ higher than ‘normal’ (some 20’ per month)
- Still, the remaining stock of jobless claims is up by less than 5’

Highlights

The world around us

The Norwegian economy

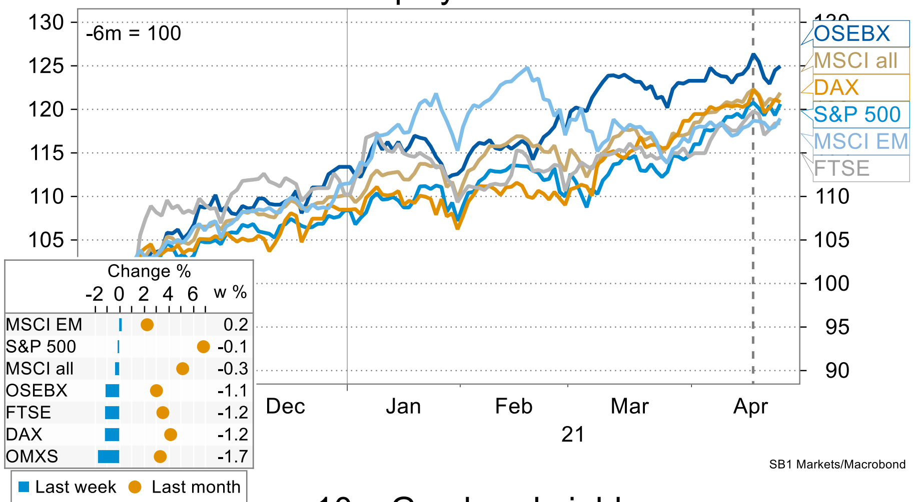
Market charts & comments

SpareBank 1 MARKETS

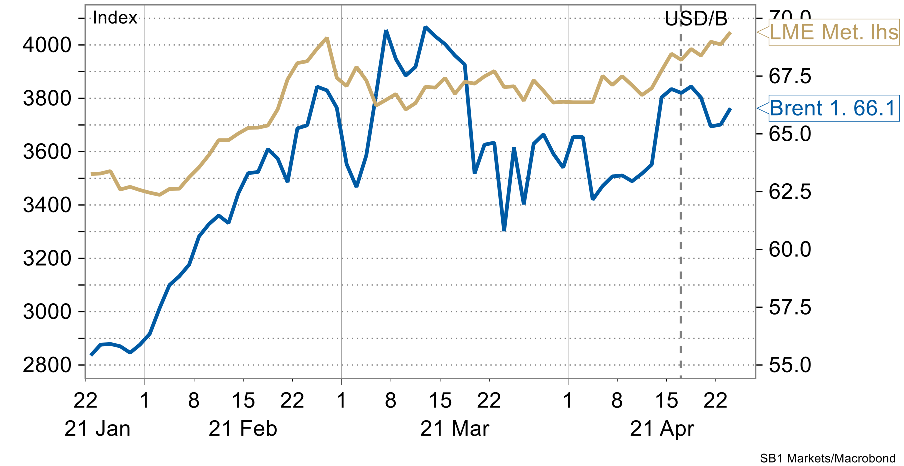
DM stock markets down (US close to flat), bonds mixed – mostly down

Yields mostly down, and the USD continues down. No growth scare: Metals are still on the way up

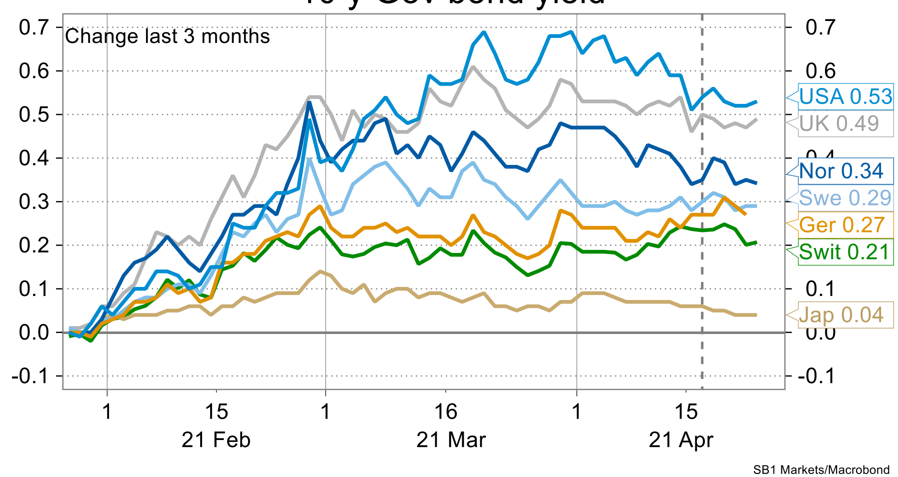
Equity Indices



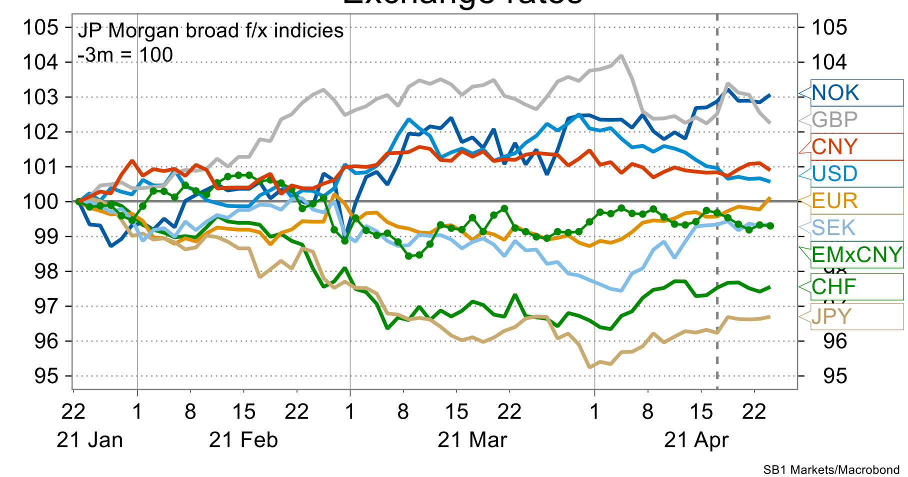
Oil vs. metals



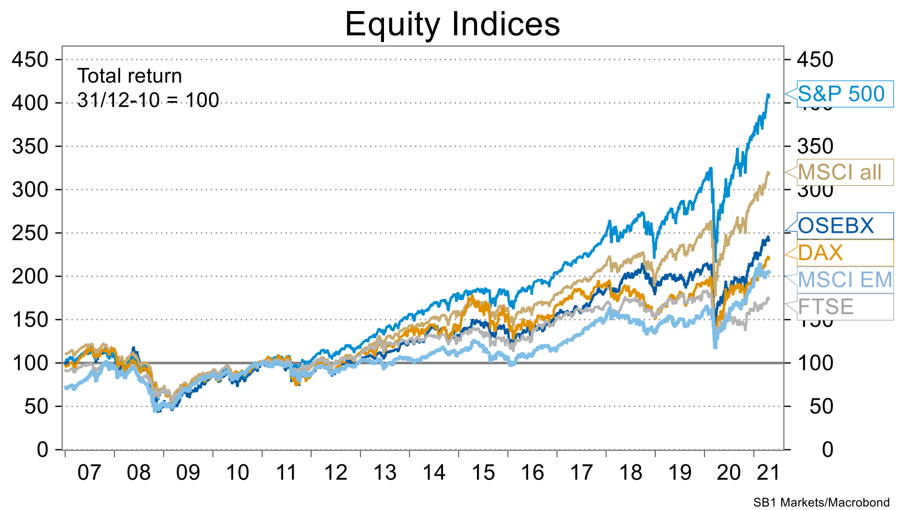
10 y Gov bond yield

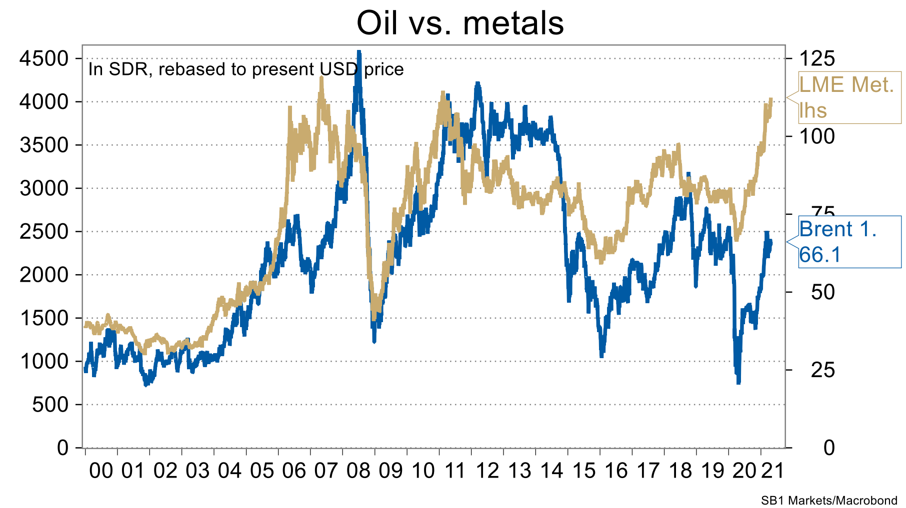


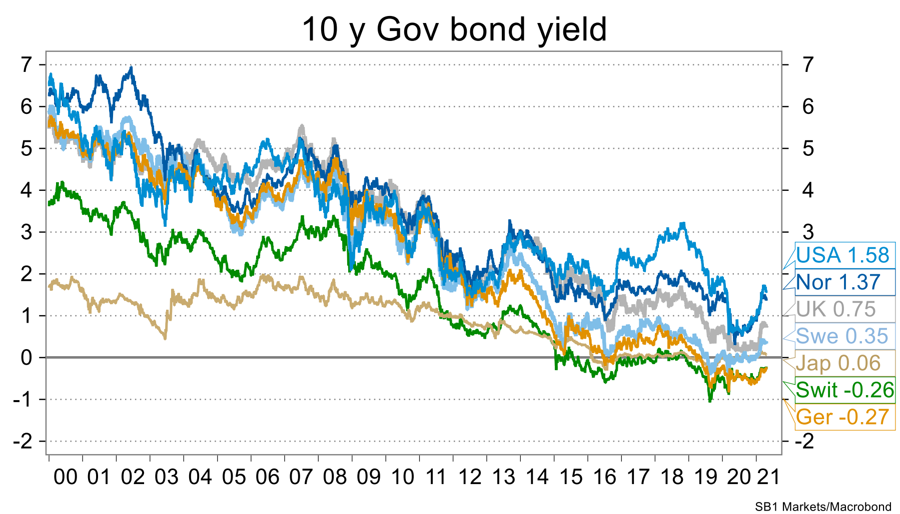
Exchange rates

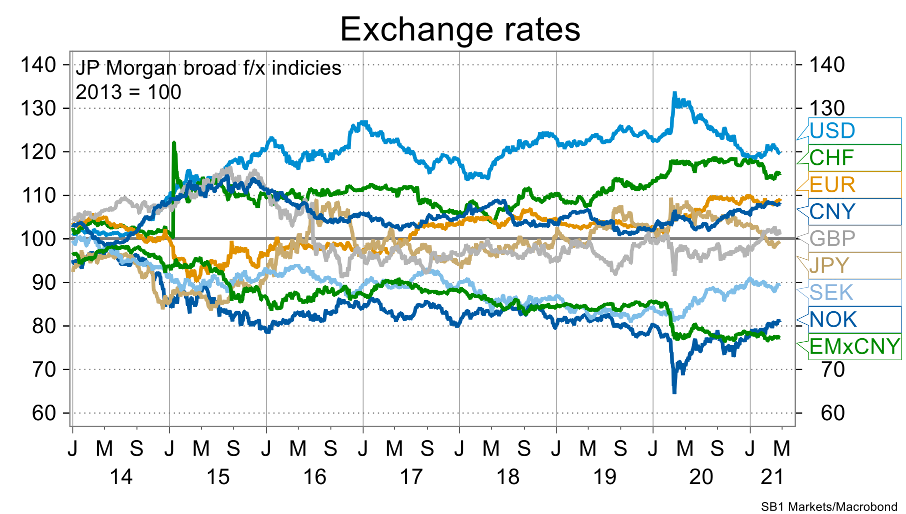


Falling yields is a conundrum – we still think the trend is your friend in this case



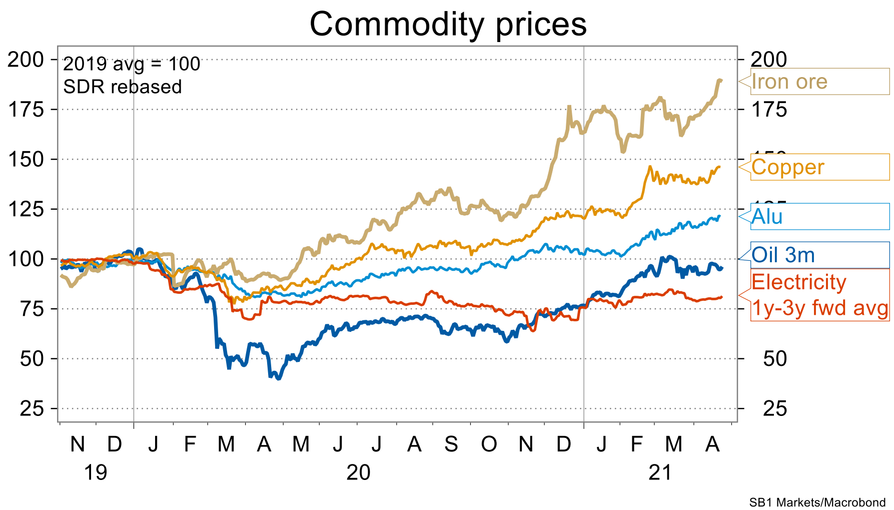


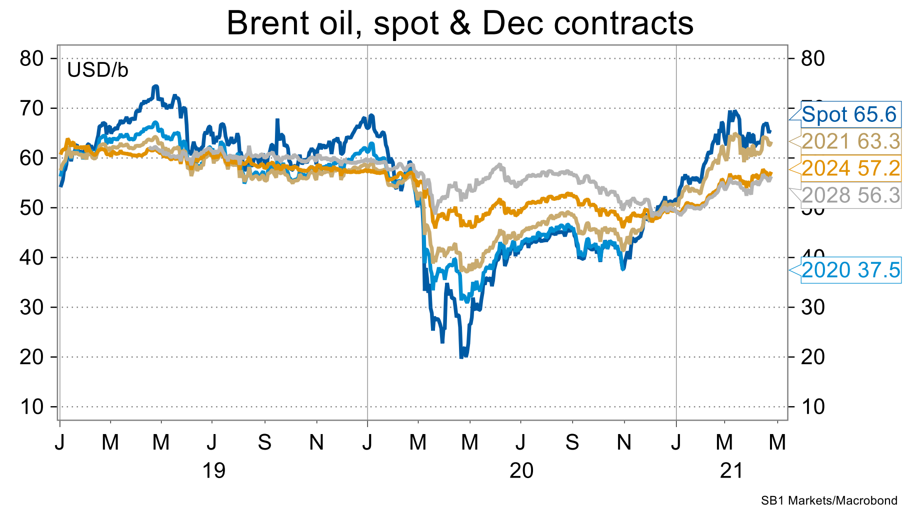


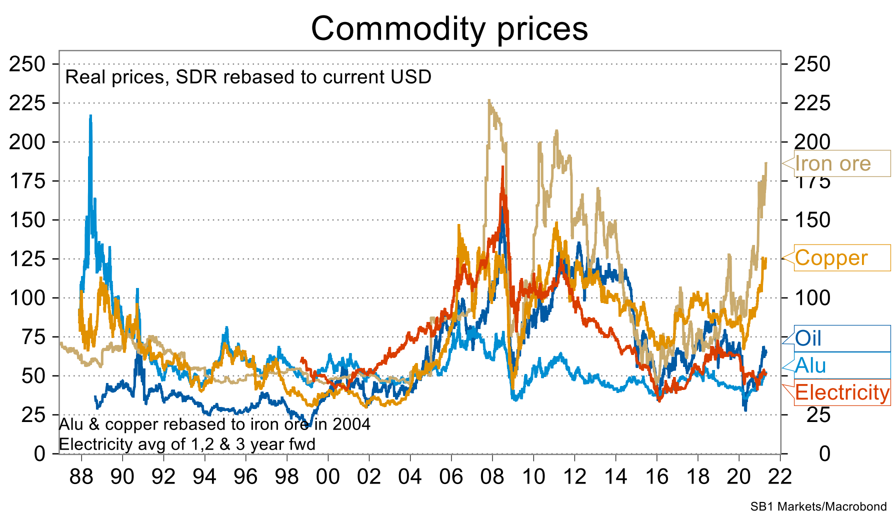


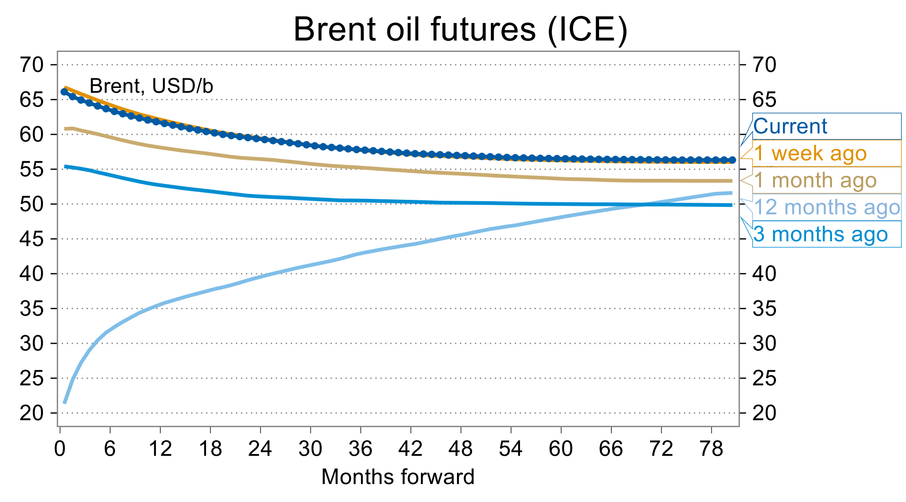
SpareBank 1 MARKETS

Commodity prices stronger during the week

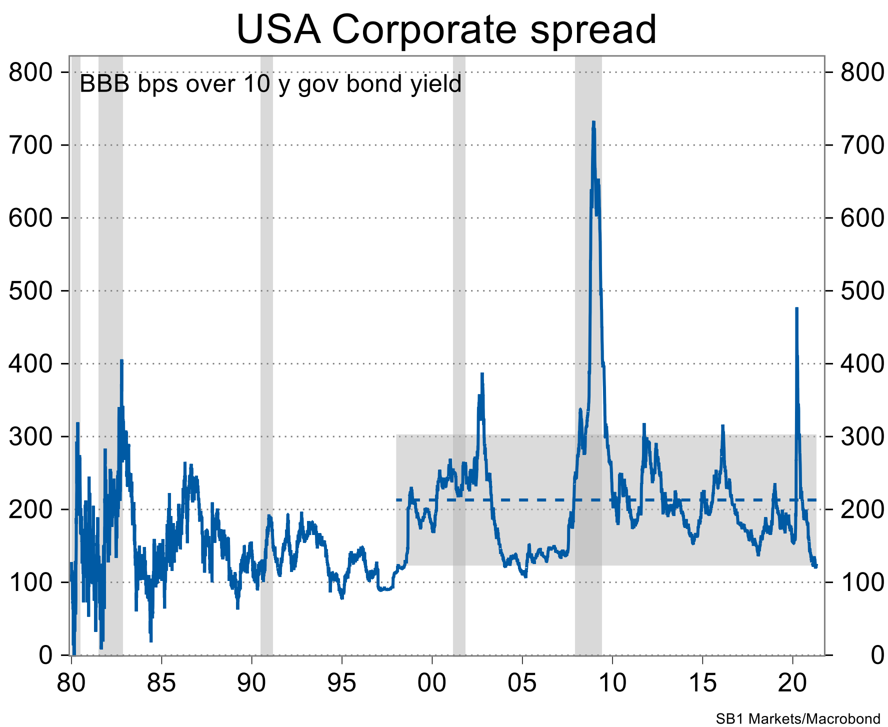


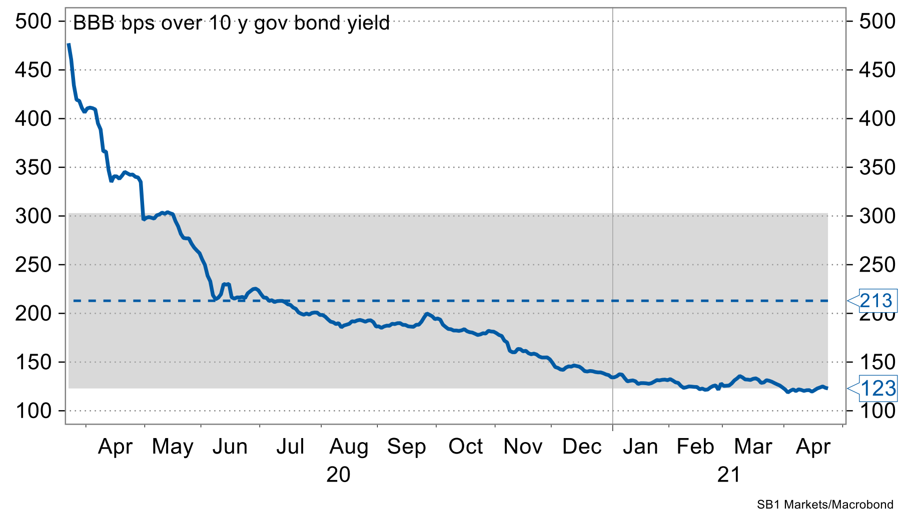


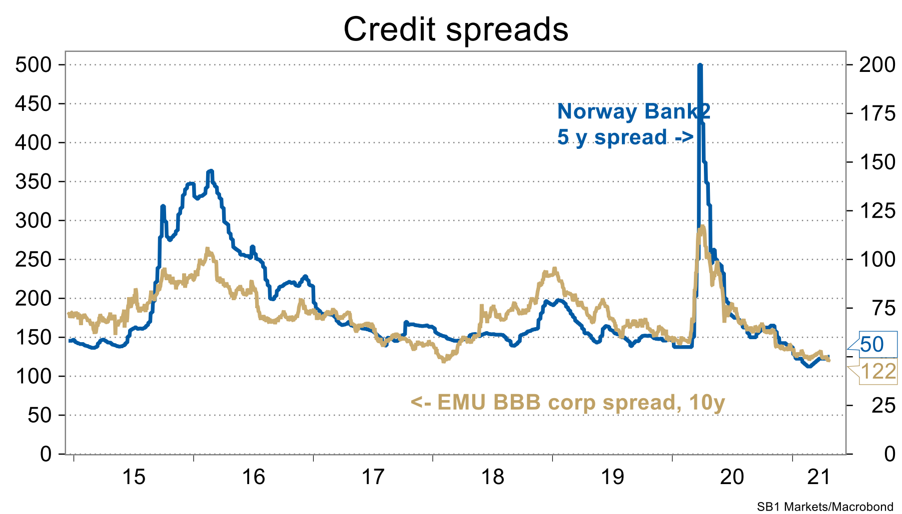




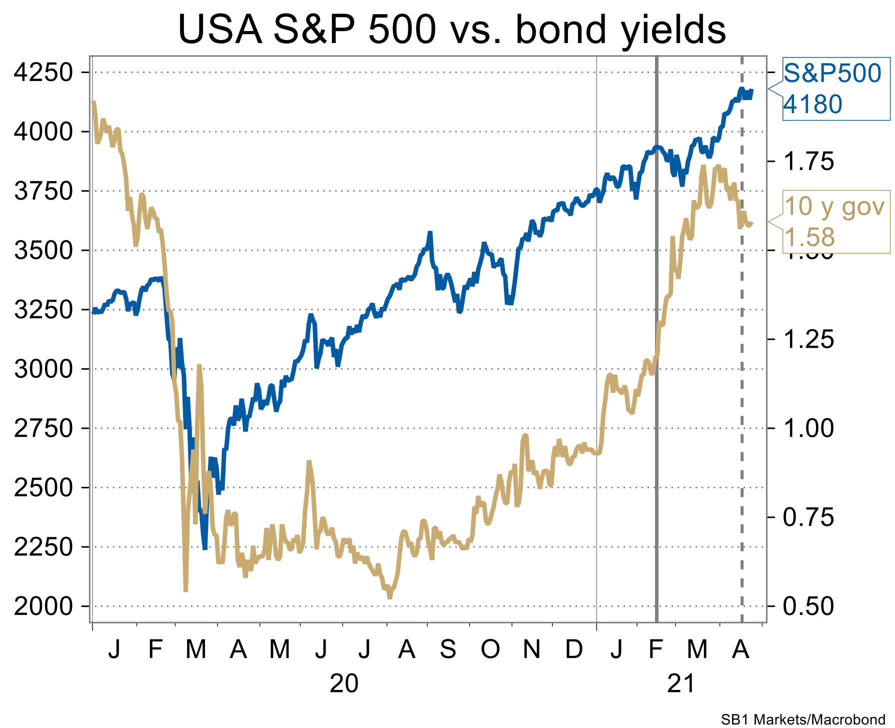
Credit spreads have flattened, at low levels – and rose marginally last week

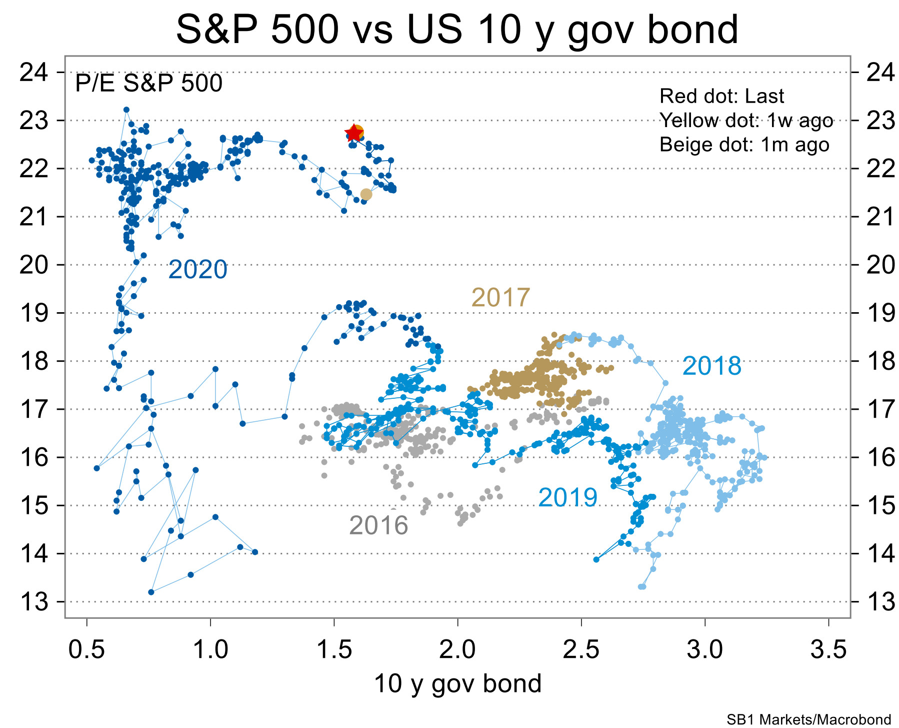






S&P 500 & yields close to unchanged last week

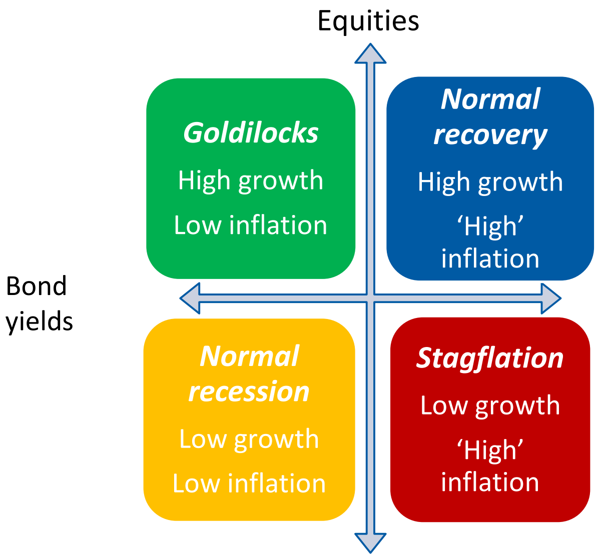


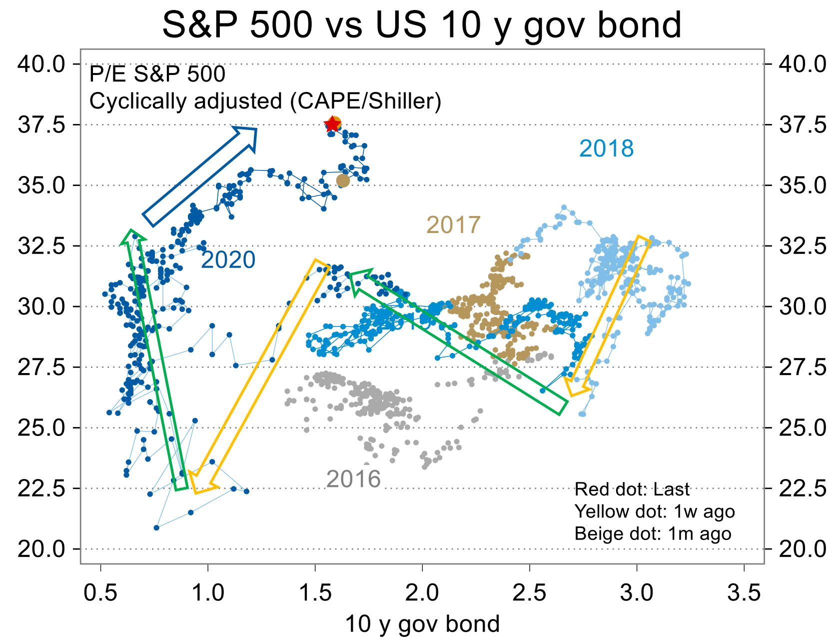


SpareBank 1 MARKETS

A long term view: Back to the 'Goldilocks corner' again

But will markets remain there? Actual wage/price inflation dynamics will in the end decide. And not the Fed…





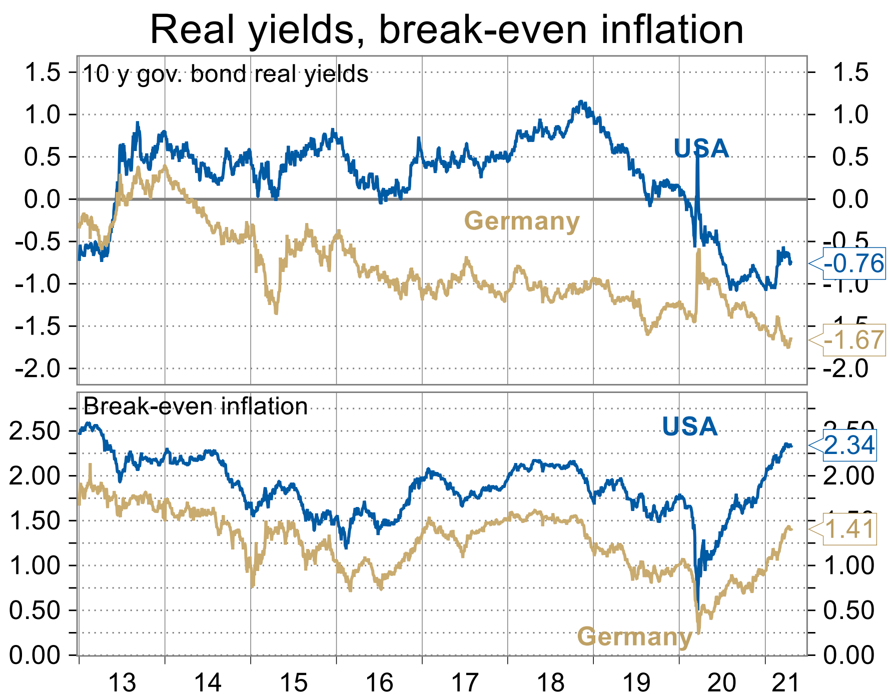
SB1 Markets/Macrobond

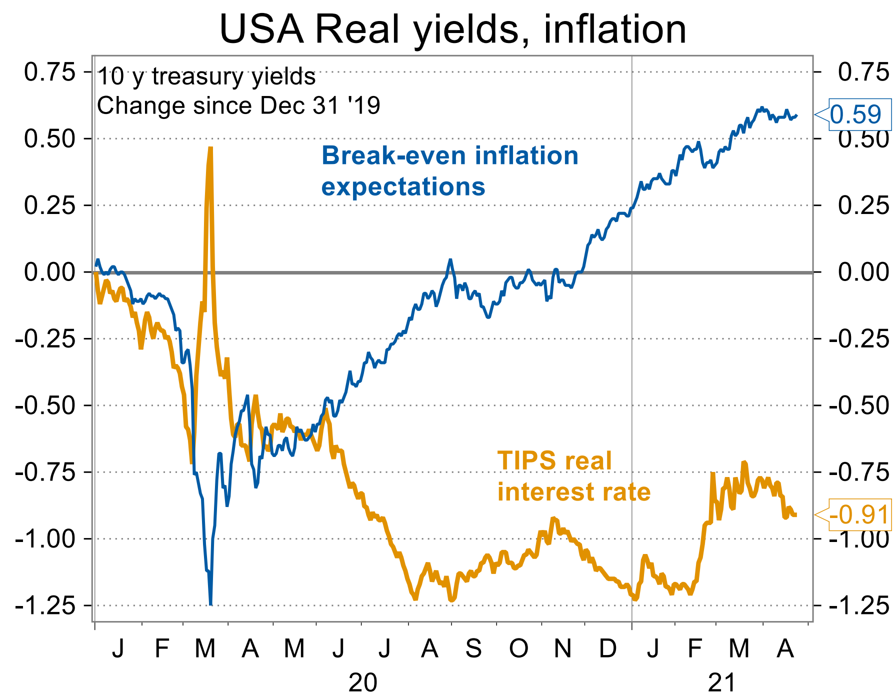
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets

- **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 23x 12m fwd P/E, or a 37x Shiller P/E – and not a 10 y bond rate at 1.5 – 1.7% - or even less a -0.77% 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

No changes in yields, real rates nor inflation expectations last week

Inflation expectations have flattened recent weeks – but is probably still trending upwards





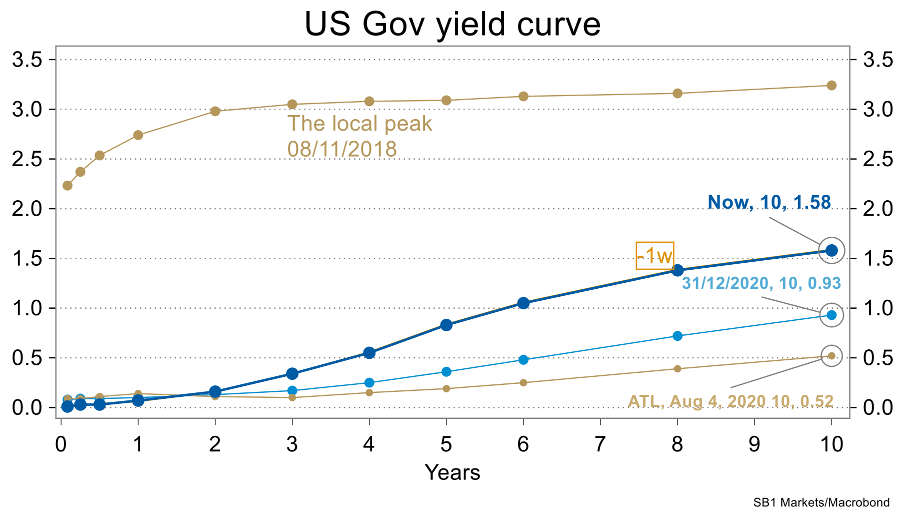
US & Germany 10 y Gov bond yield

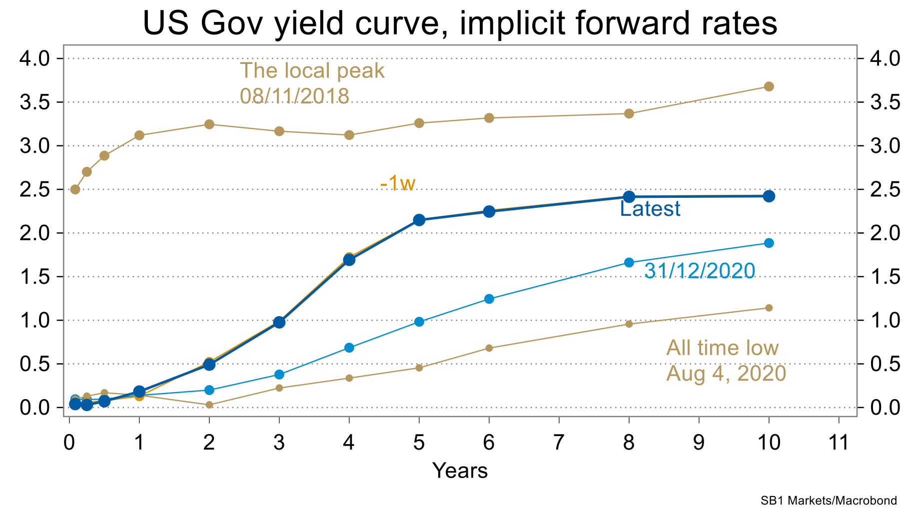
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.58	-0.01	-0.05	0.52
.. break-even inflation	2.34	-0.02	0.05	1.06
.. TIPS real rate	-0.76	0.01	-0.10	-1.08
Germany nominal bund	-0.26	0.01	0.08	-0.65
.. break-even inflation	1.41	0.01	0.10	0.40
.. real rate	-1.67	0.00	-0.02	-1.76

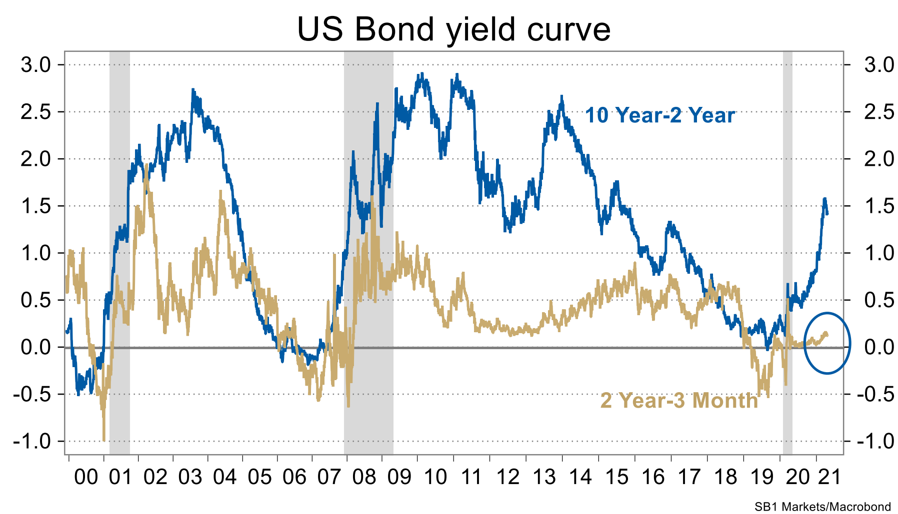
SB1 Markets/Macrobond

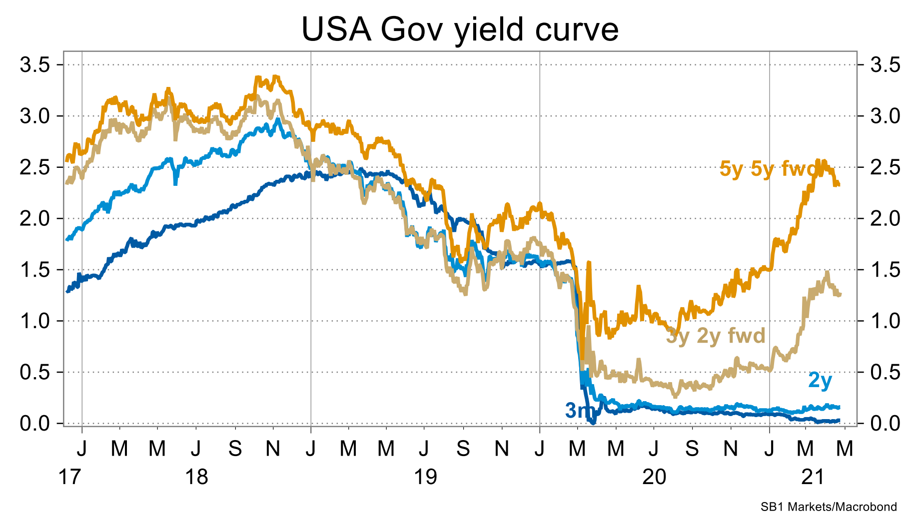
No changes in the US yield curve last week

It is not just the Fed talking the short end of the curve down



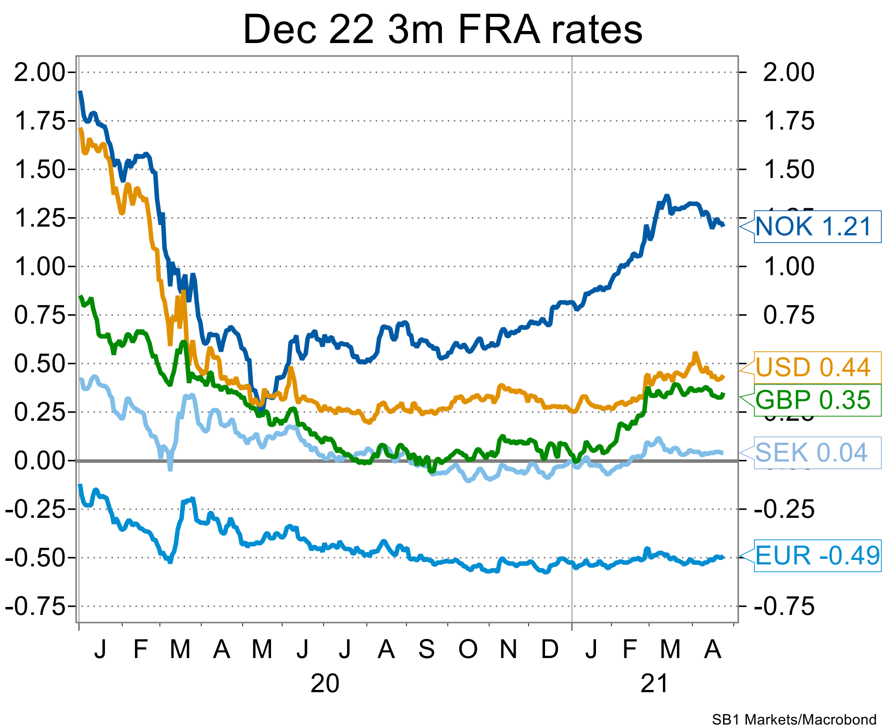


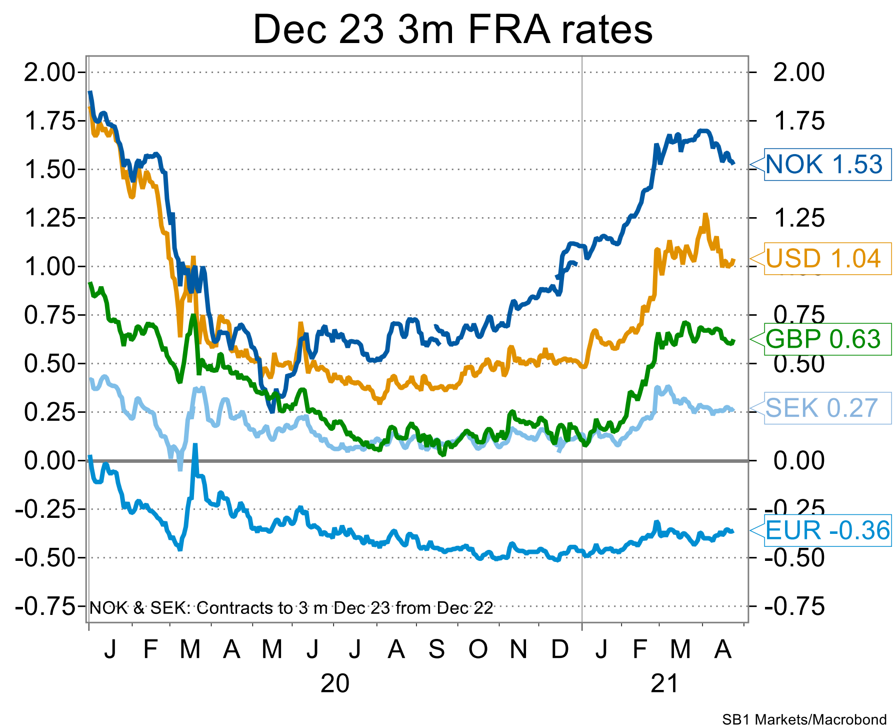




SpareBank 1 MARKETS

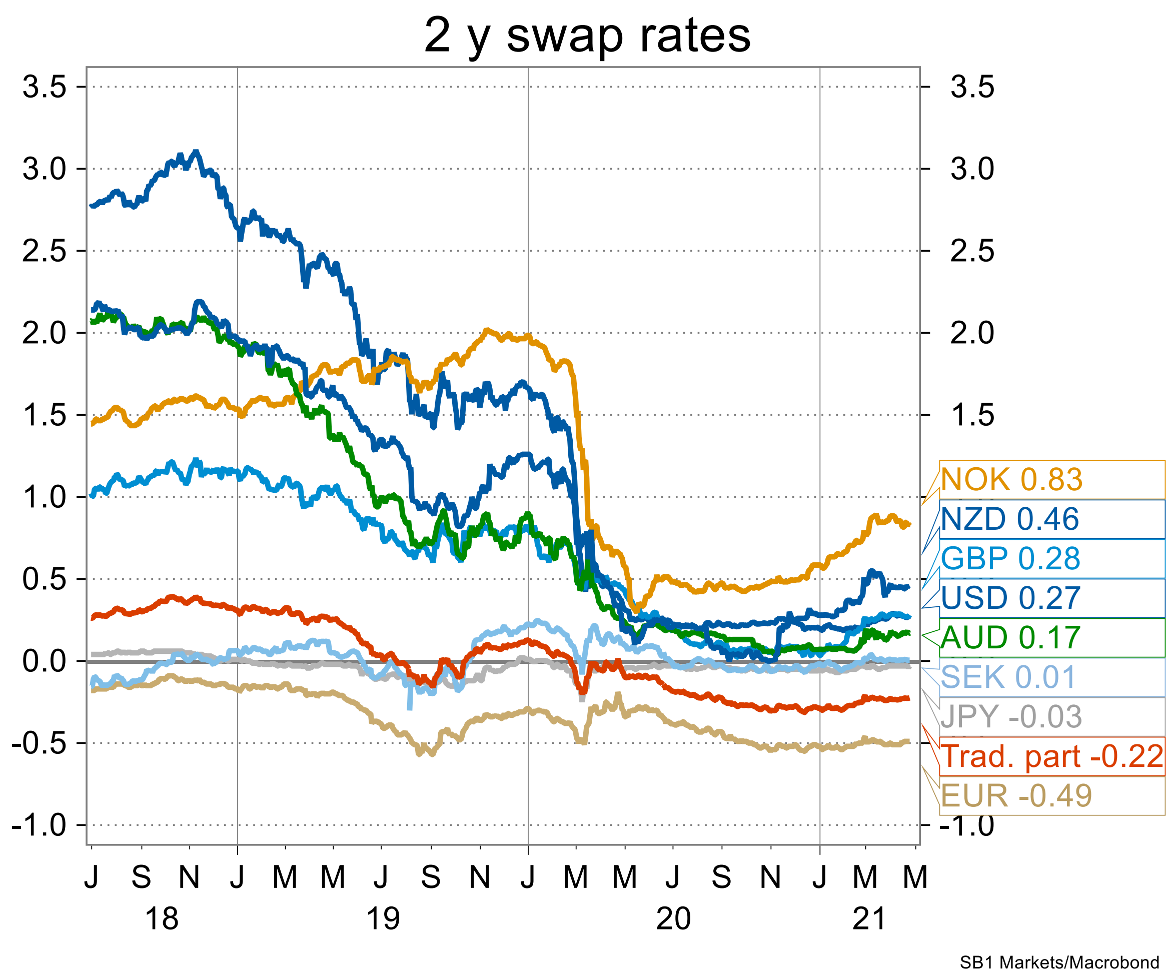
Interest rate expectations: Sort of a flattening last week

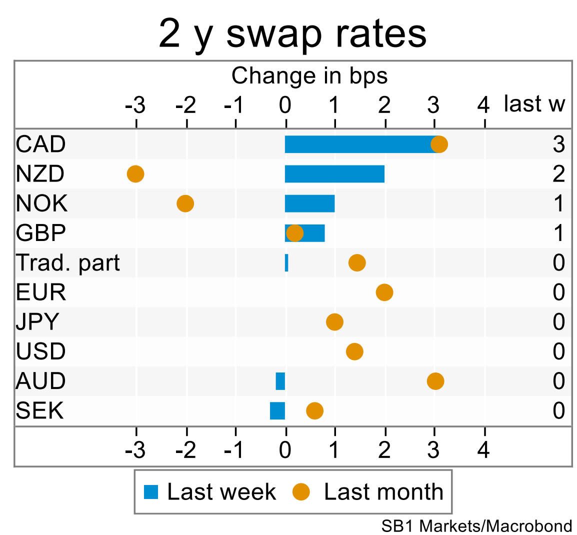




A small lift the 2 y swap rates

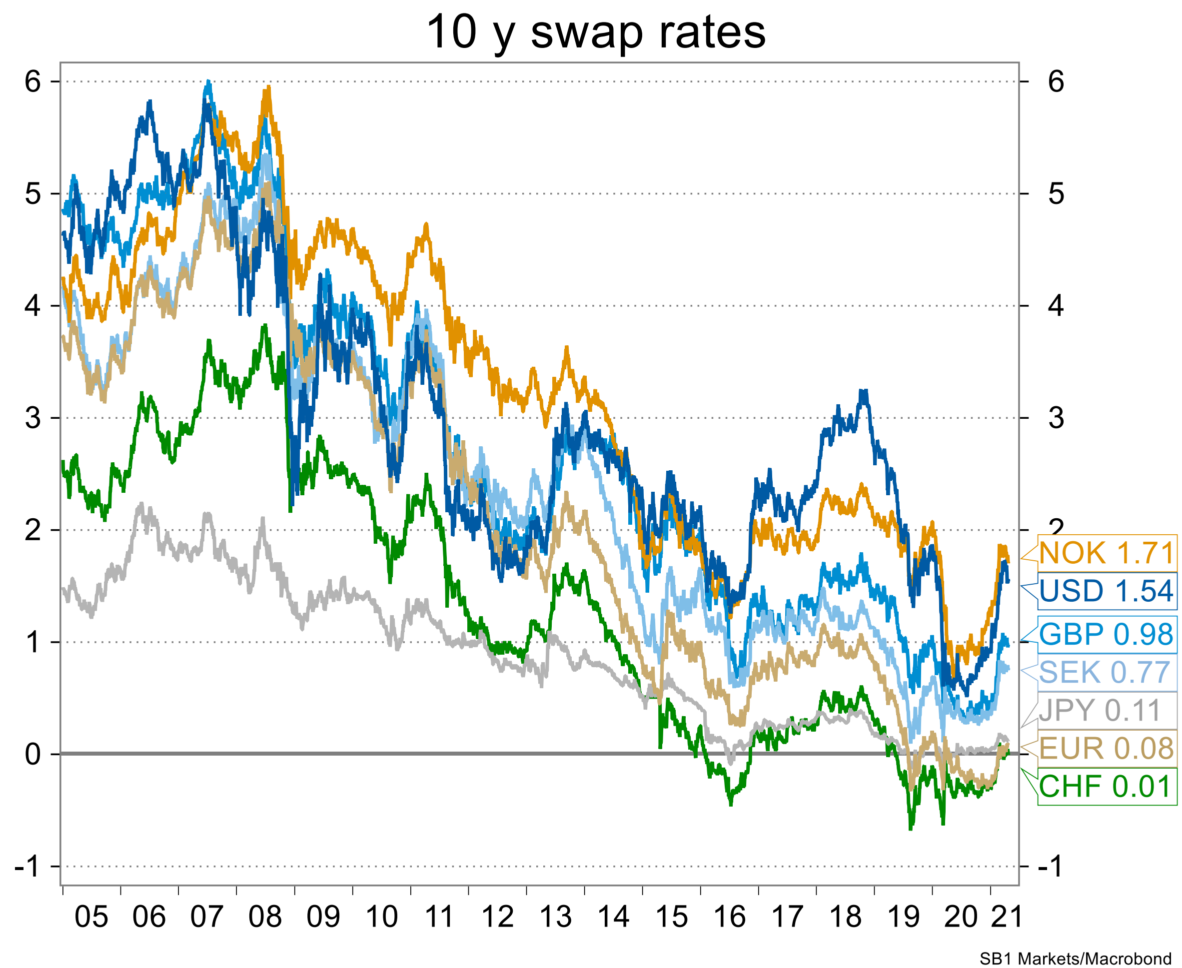
CAD rates most up due to hawkish signals from the Bank of Canada

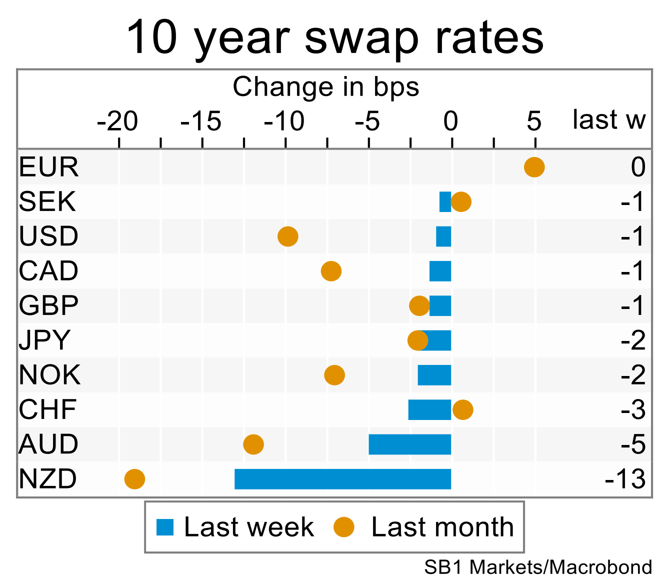




10 y swap rates down: NZD, AUD the most

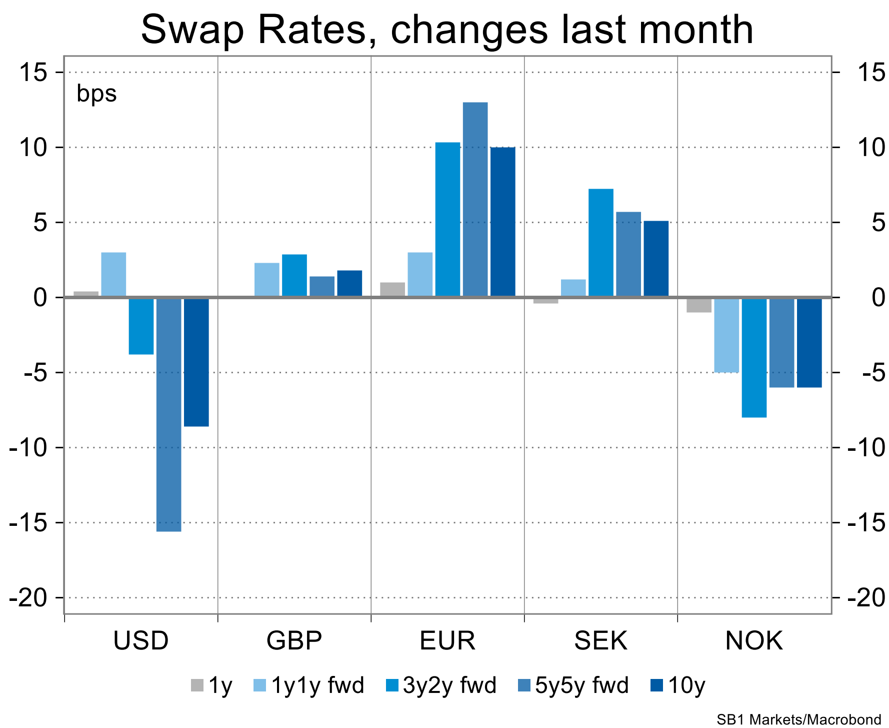
Even CAD down, despite Bank of Canada decision to scale down the QE program somewhat

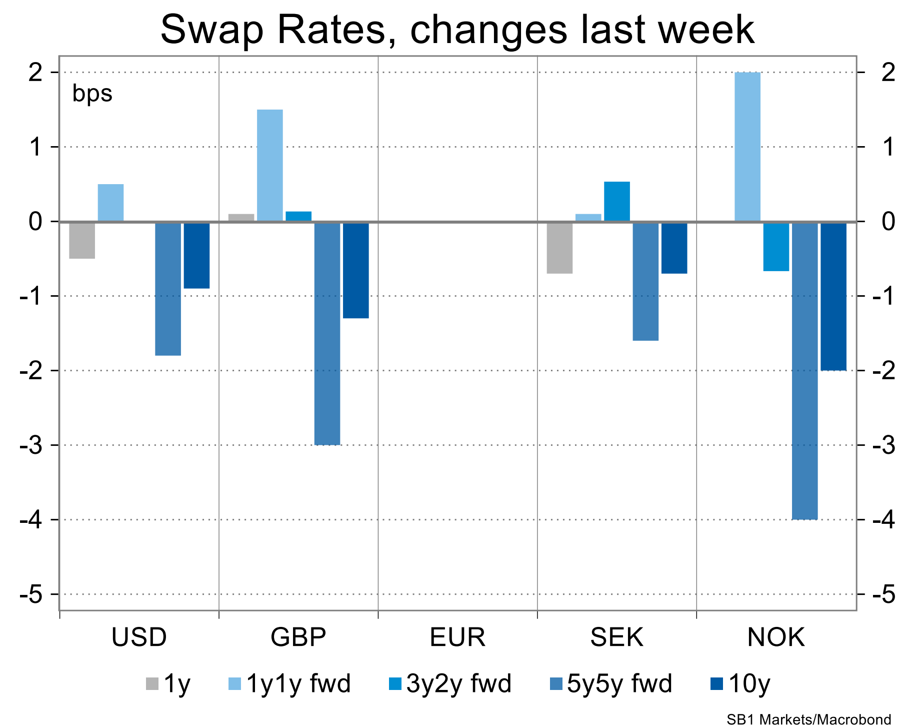




Swap rates: Small changes last week – more up than down

The EUR curve unchanged last week

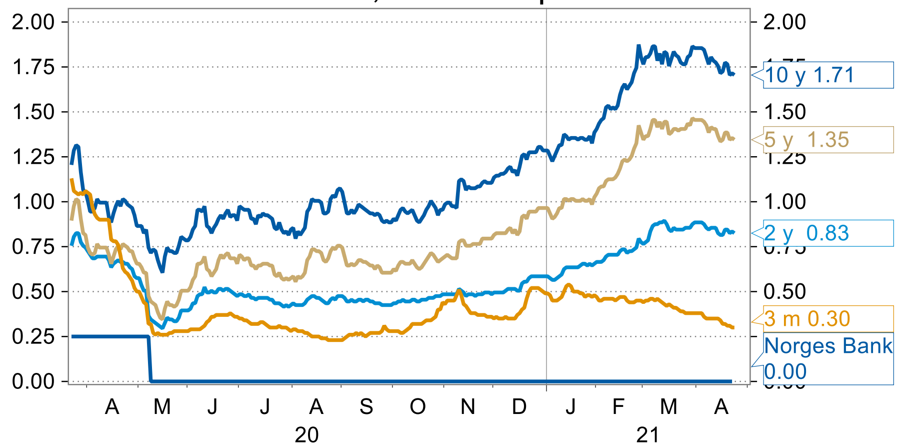




NOK rates marginally down across a the curve

NOK 10 y at 1.71; down 15 bps since late March, still up 120 bps vs last May all time low

NIBOR, NOK swap rates



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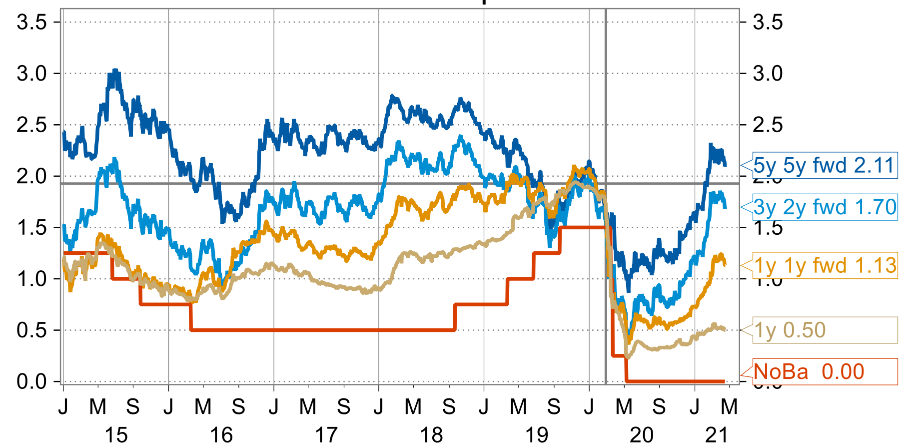
NOK Swap rates



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Norway - yield spread, 10 y swap -3m NIBOR

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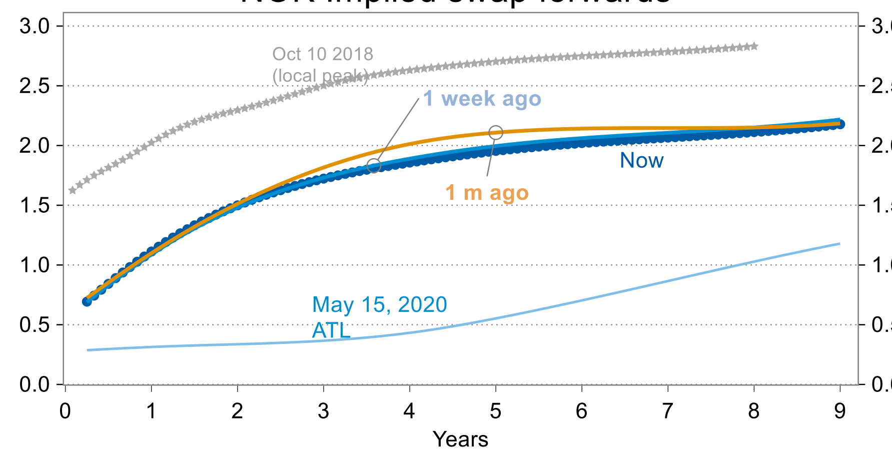
NOK Implied swap forwards



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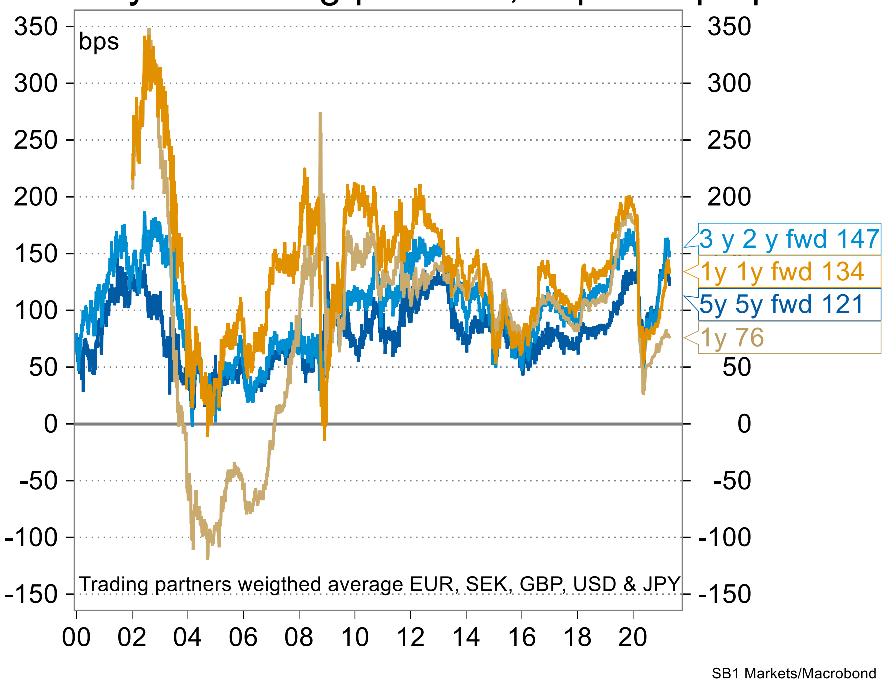
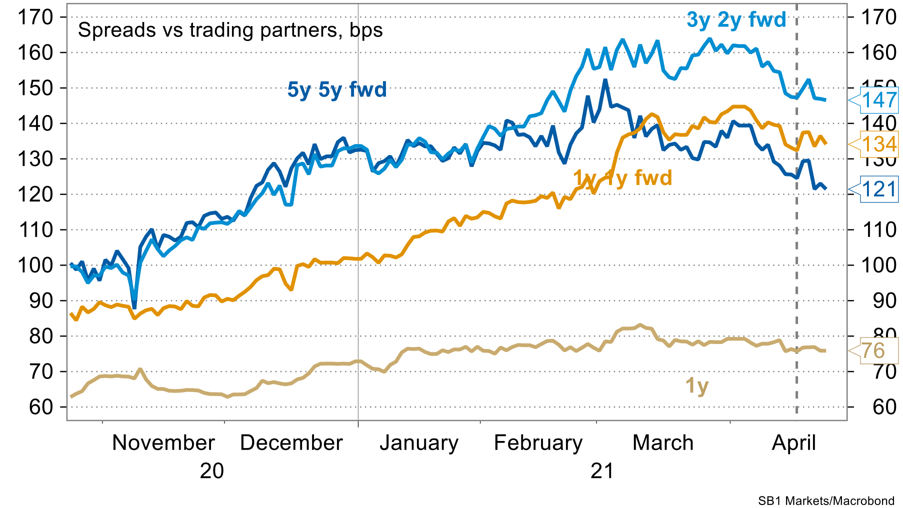
Forward spreads fell last week, all over the curve

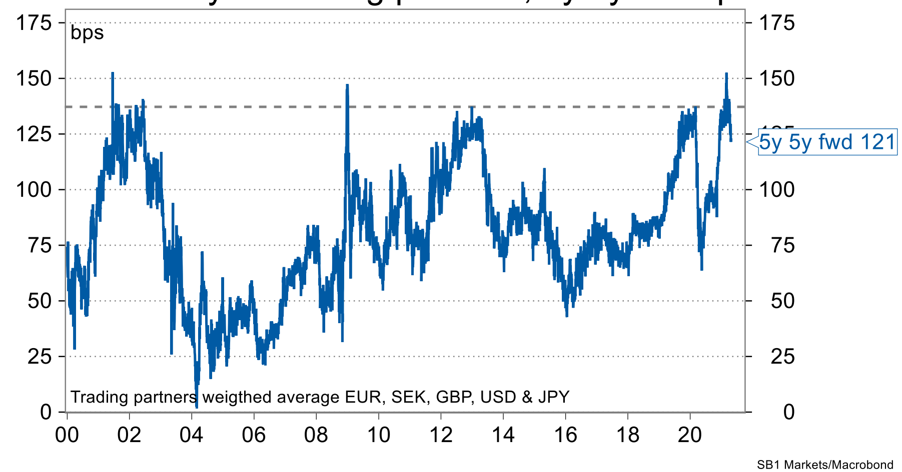
The 5y 5y fwd spread is at the same level as in early Dec – the level was high enough

Norway vs trading partners, impl swap spreads

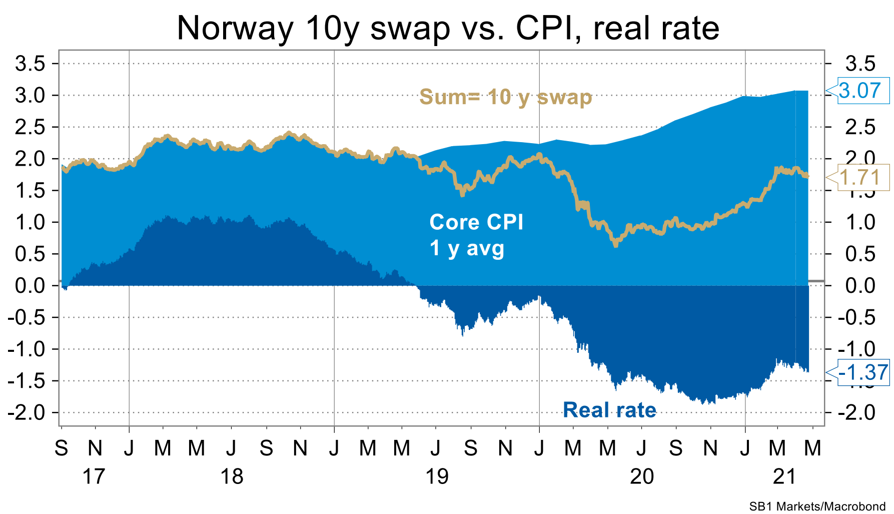




Norway vs trading partners, 5y 5y fwd spread

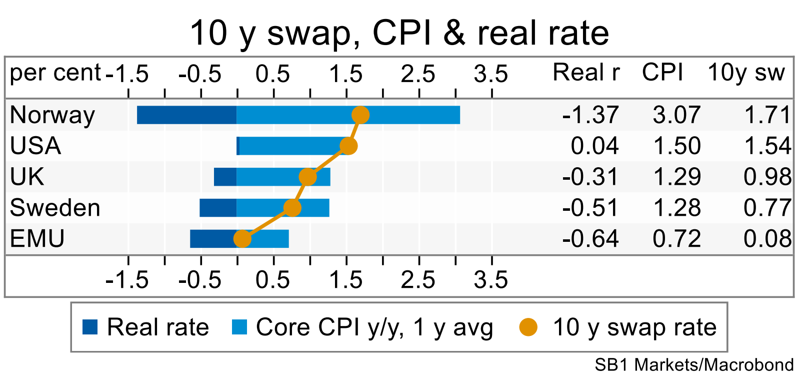


Negative (actual) real interest rates most places – NOK at the bottom



NOK 10 y swaps are drifting upwards

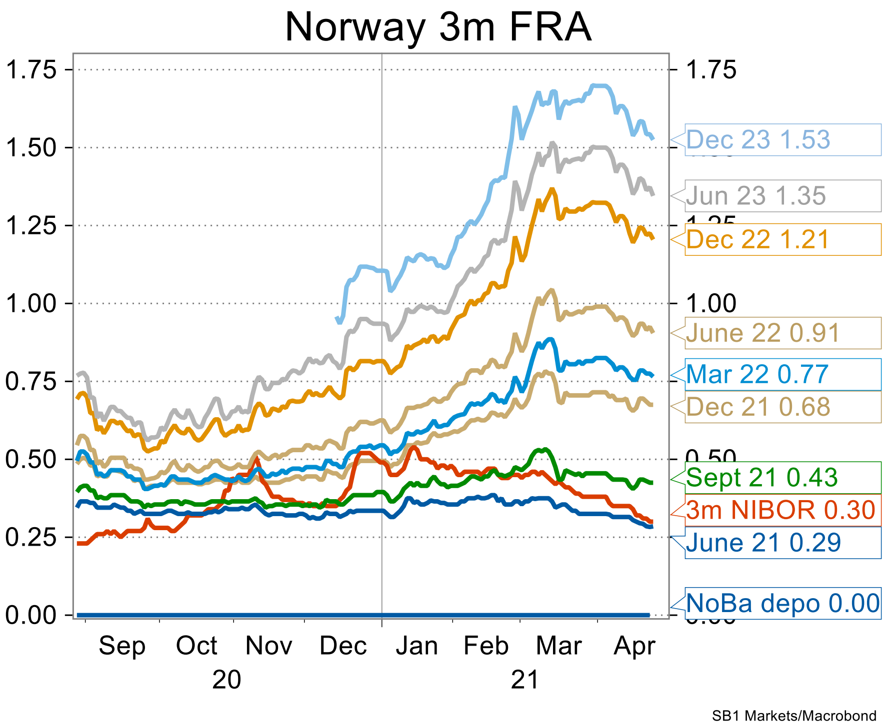
- The **10y NOK swap rate** fell 2 bps to 1.71%, NSHAS
- **The real rate**, after deducting 3.1% average core CPI inflation over the 2 past years equals -1.4%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 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)
  - » 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

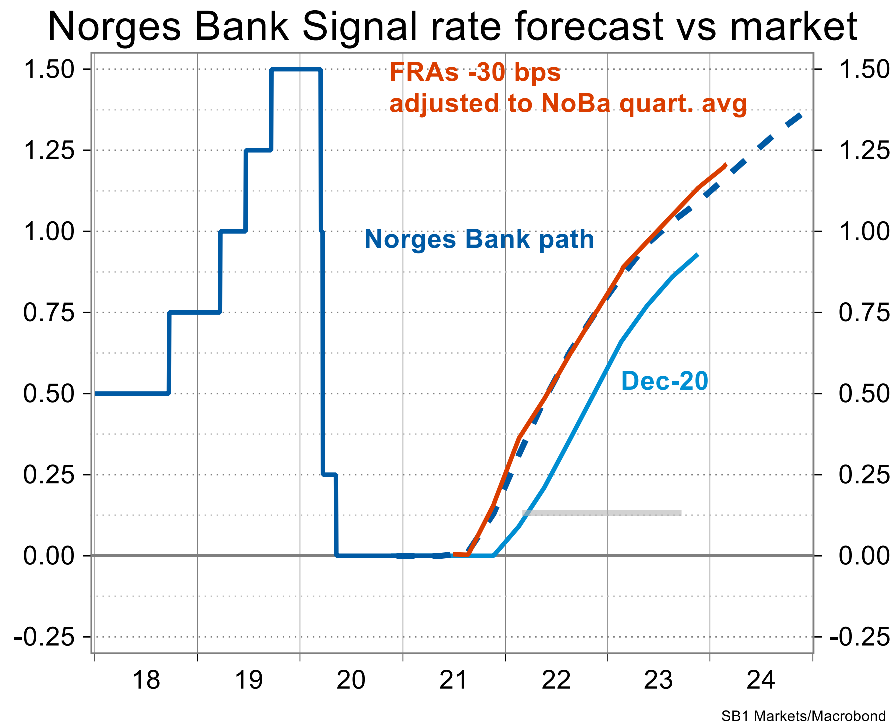


NOK real rates among the lowest, as inflation is at the top

- **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 ranking
- **Real rates** among our trading partners, at ranging between 0.0% and -0.6% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.4% is an outlier at the downside, even if the nominal rate is the highest**

The FRA rates are trending down, like abroad. Still a Sept hike discounted



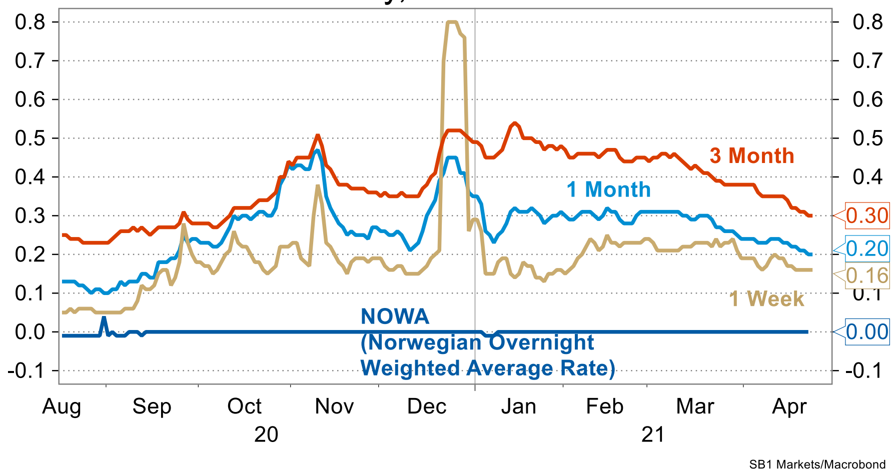


- The NoBa 23 Sept meeting is one weak after the Sept 3 m FRA IMM fixing date. If NoBa hikes to 0.25% on Sept 23, the average NoBa rate during the Sept-21 FRA contract period will be 0.23%. Assuming a 30 bps NIBOR spread the actual 0.43% Sep FRA-rate equals a 0.13% NoBa deposit rate. If so, almost a 60% probability for a Sept hike is discounted, marginally above what NoBa signalled in its March MPR (50%)
- The Dec-21 FRA at 0.68%, and a 30 bps NIBOR spread, yields a 0.38% 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 slightly above 0.30%. That implies a 20% probability for a 2nd hike in H2, again close to NoBa's path. A second hike in March-22 (if not in Dec) is almost fully discounted

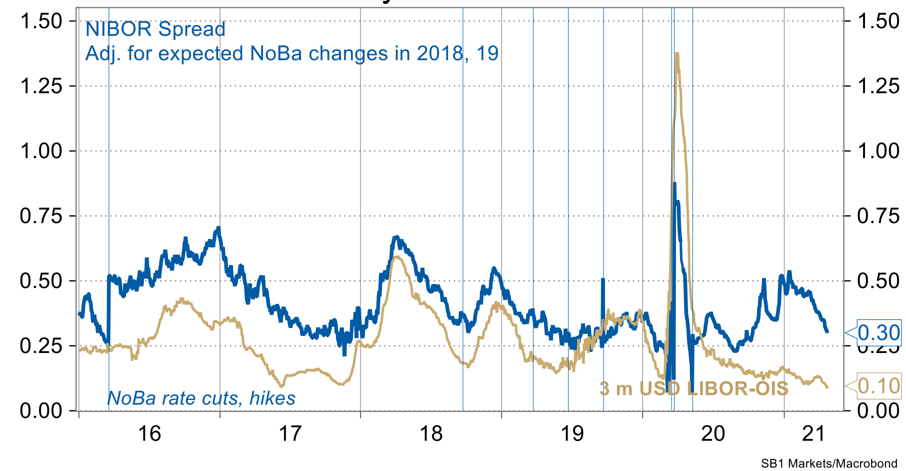
3m NIBOR -2 bp to 0.30%, and the June FRA is also down 1 bp to 0.29%!!

The NIBOR spread has normalised!

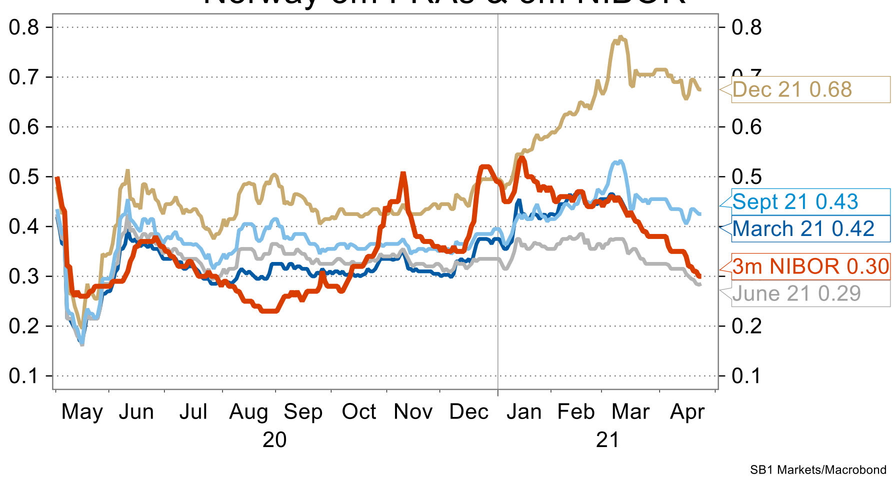
Norway, NIBOR rates



Money market friction



Norway 3m FRAs & 3m NIBOR



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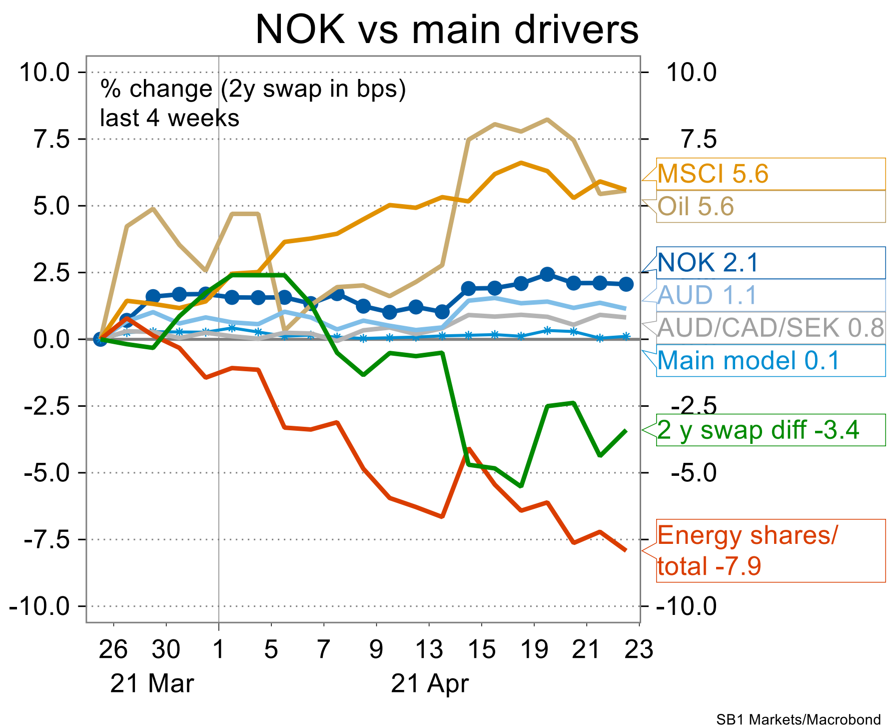
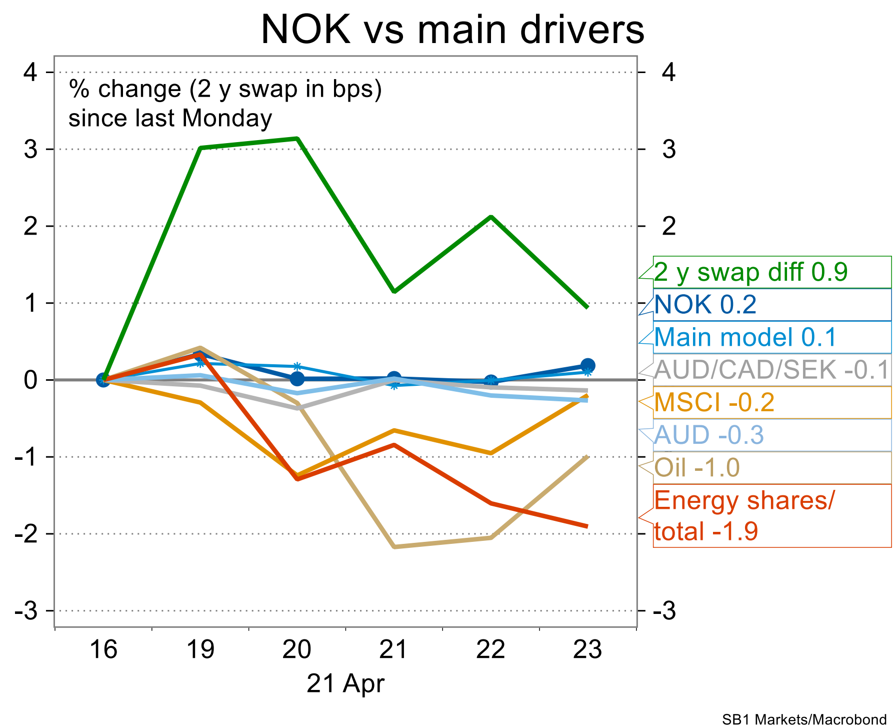
NOK marginally up, almost all by itself

The NOK index up 0.2% last week, our model signalled 0.1% - even if the oil price fell



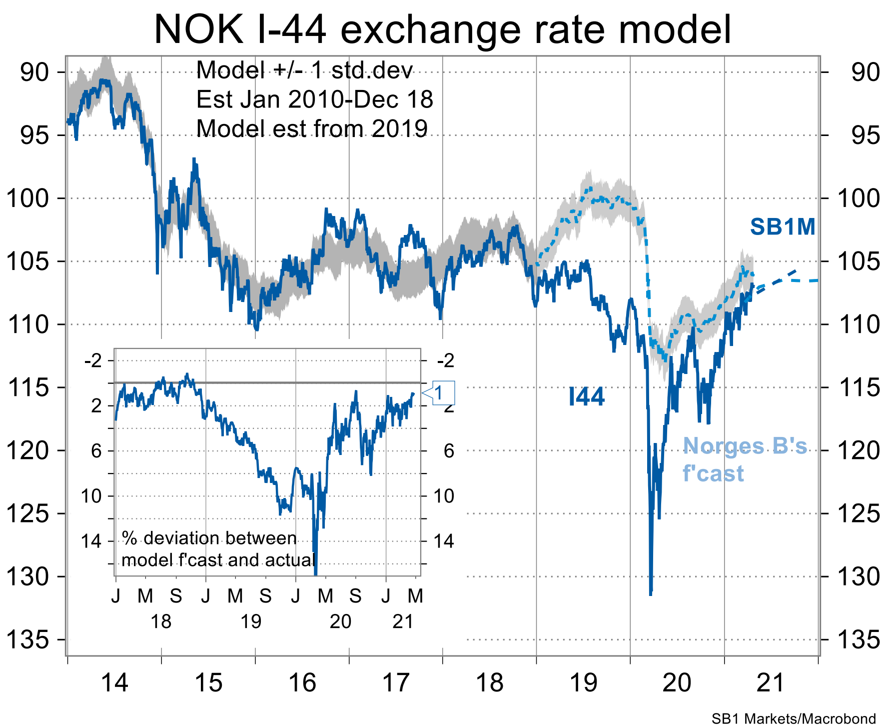


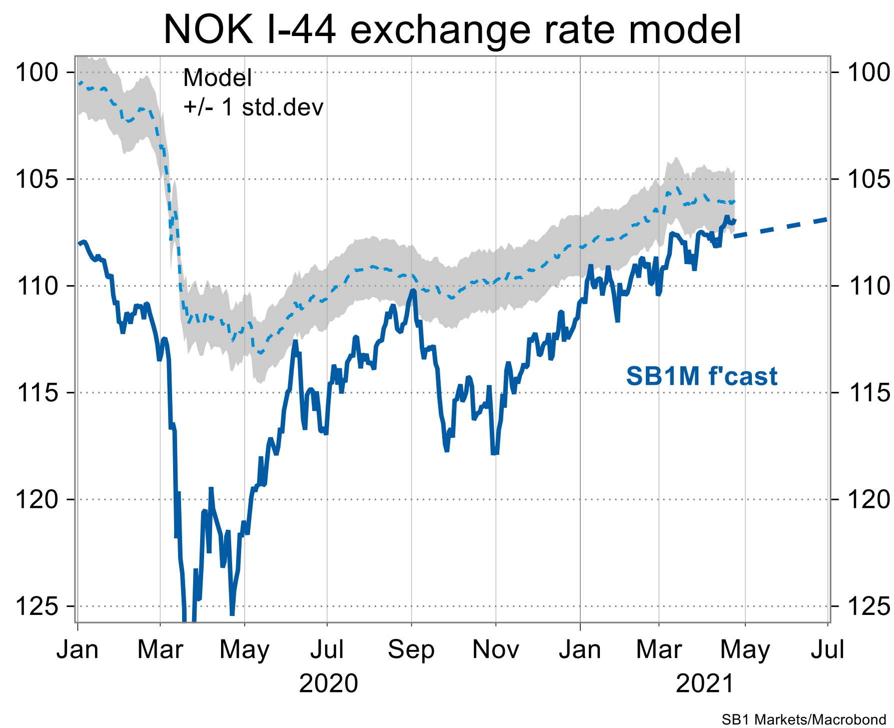
In sum, the NOK is still a moderate buy

- The NOK is 1% weaker than suggested by our standard model
- The NOK is 2-3% ‘weaker’ than the global stock market vs the correlation between the two since beg. of 2020
- The NOK is 6% weaker than our AUD/CAD/SEK-model, our ‘super-cycle peers’, predicts
- On the other hand, the NOK is far (14%) stronger than a model which includes global energy companies equity prices (vs the global stock market)

At this and the following pages we have swapped Norges Bank’s I44 index for JP Morgan’s broad NOK index for the last 25 observations. The I44 has an earlier closing time than the ‘official’ closing time for fx crosses, which is the same as for JP Morgan’s indices. 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

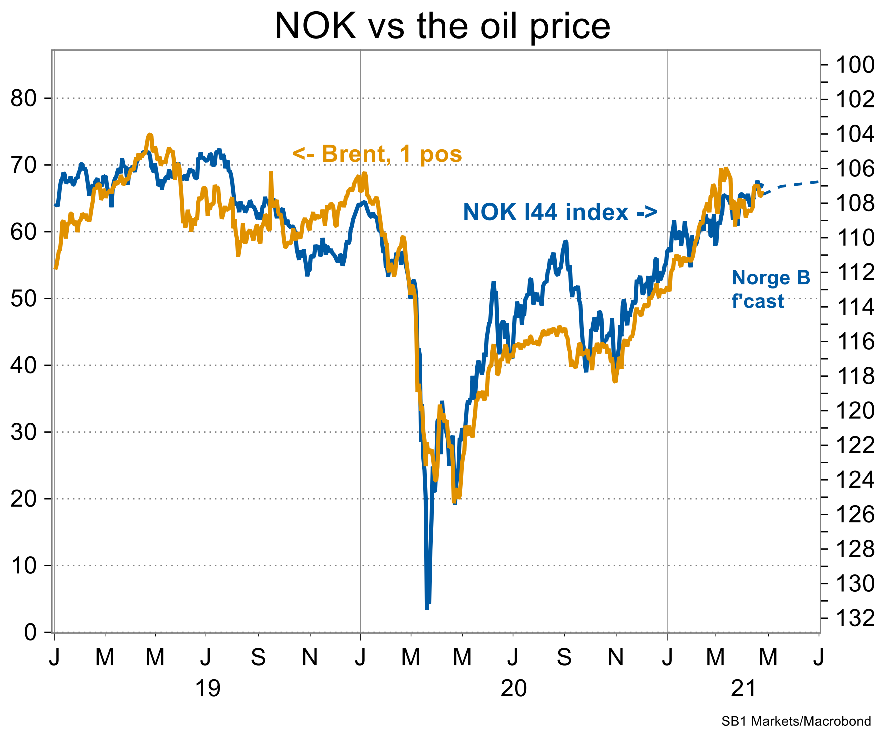
NOK still 1% below our main model estimate

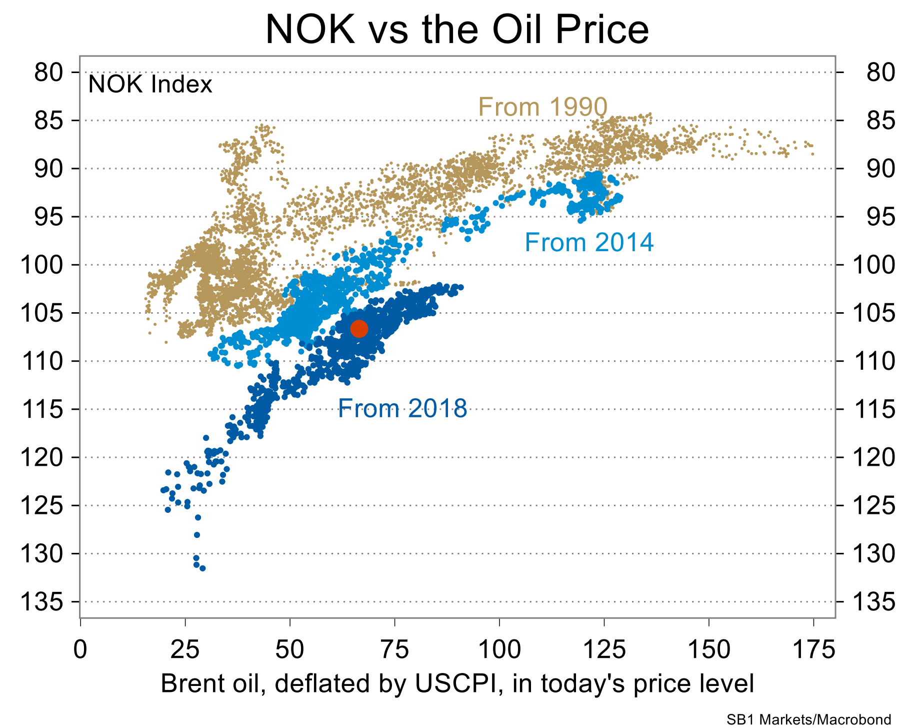




NOK marginally up, oil marginally down

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

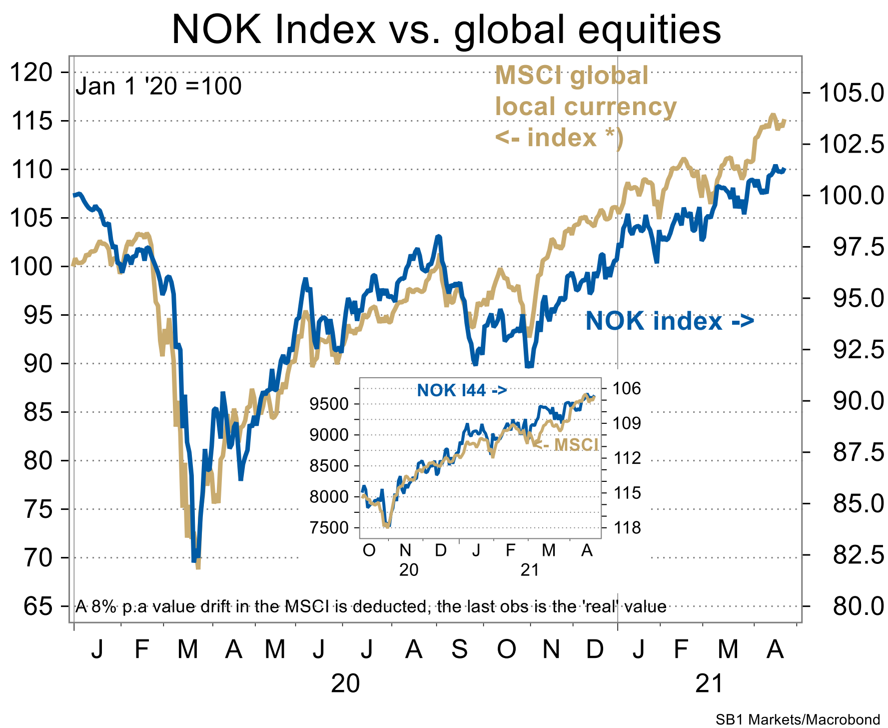


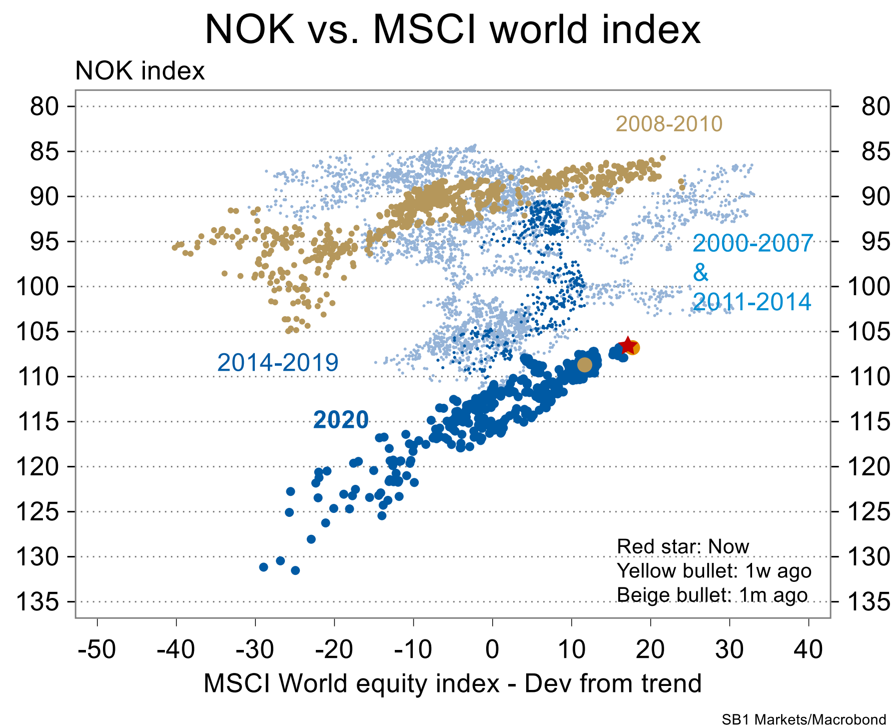


- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

Global stock markets and NOK up

Except for Sept., NOK and global equities since early last year. The gap is at some 2-3%

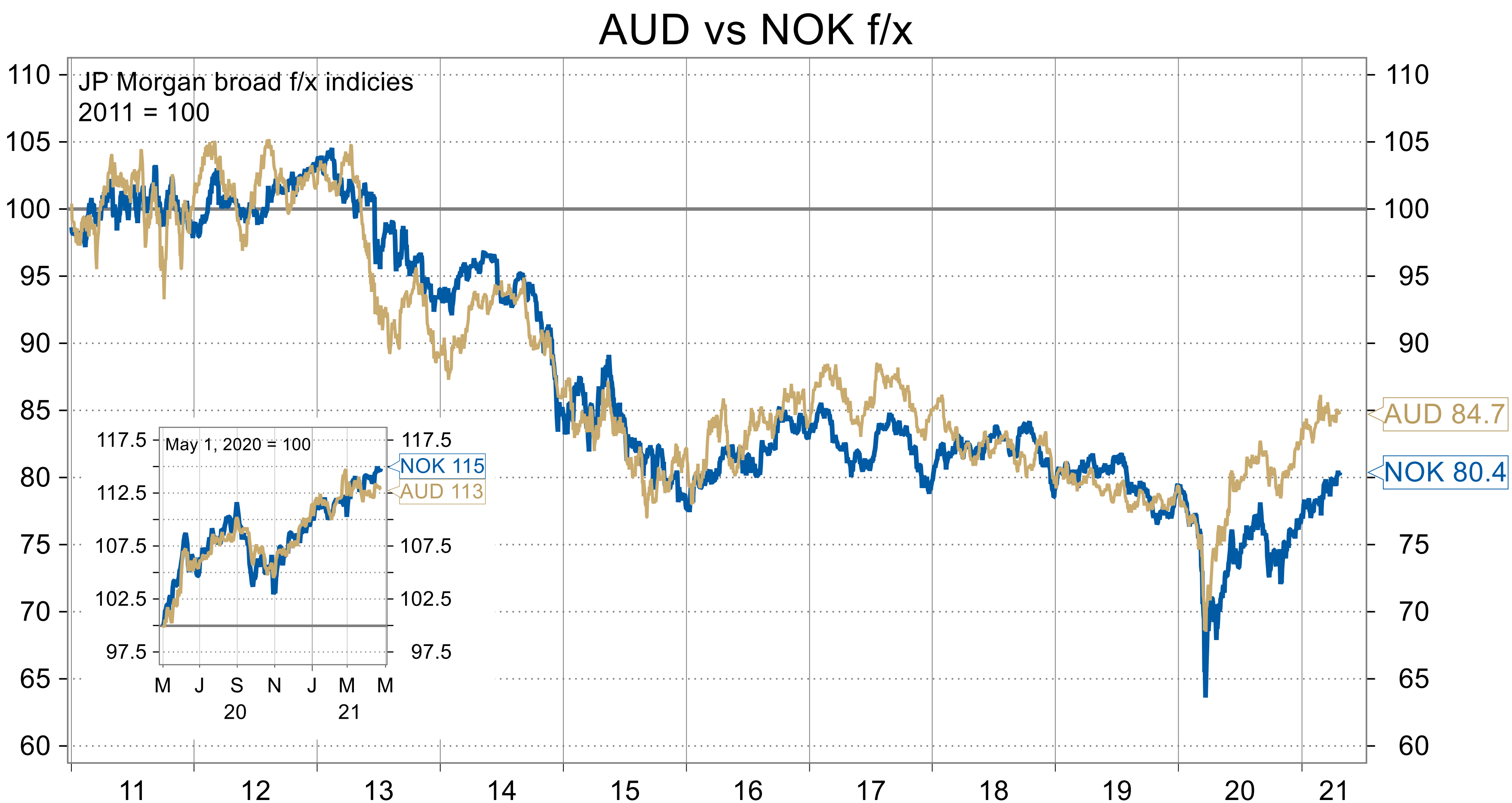




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the two has been pretty closely correlated from time to time
  - Now, the NOK is somewhat 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).
- 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 up 0.2%, the AUD down 0.3%

Both are up 13-15% since May 1 – but the NOK still 5% weaker than AUD since last spring



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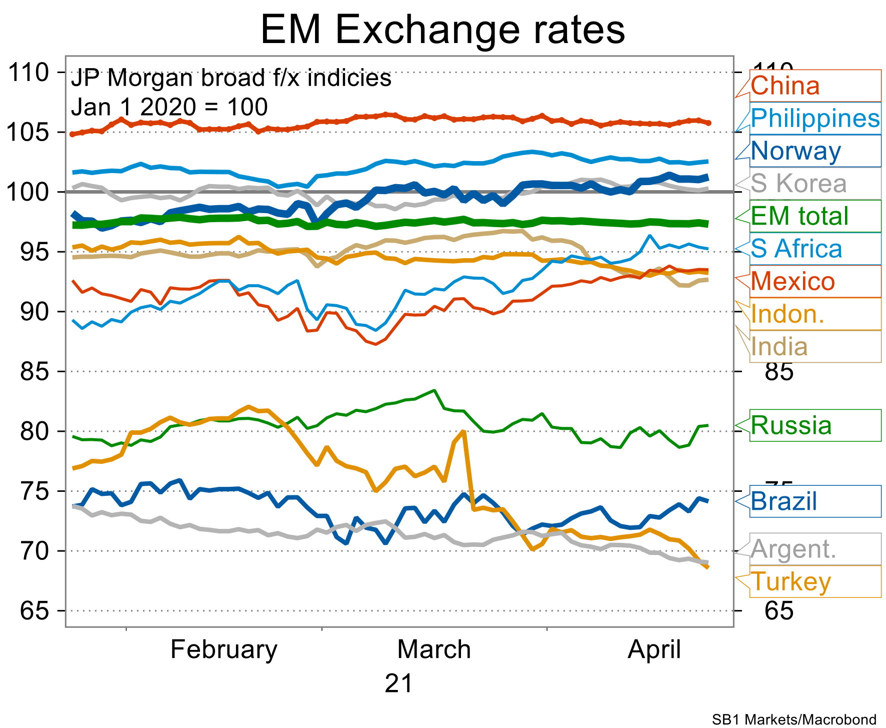
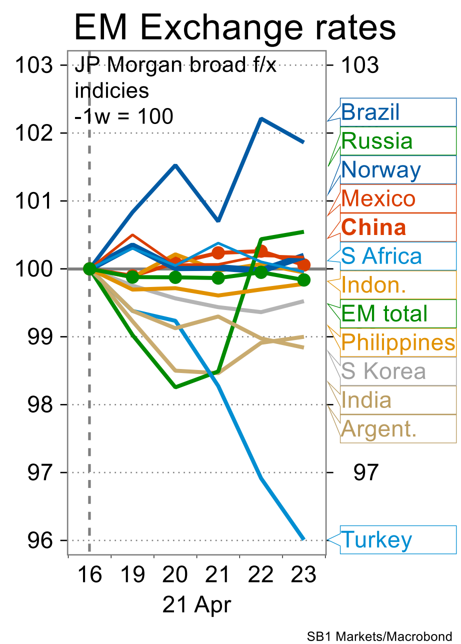
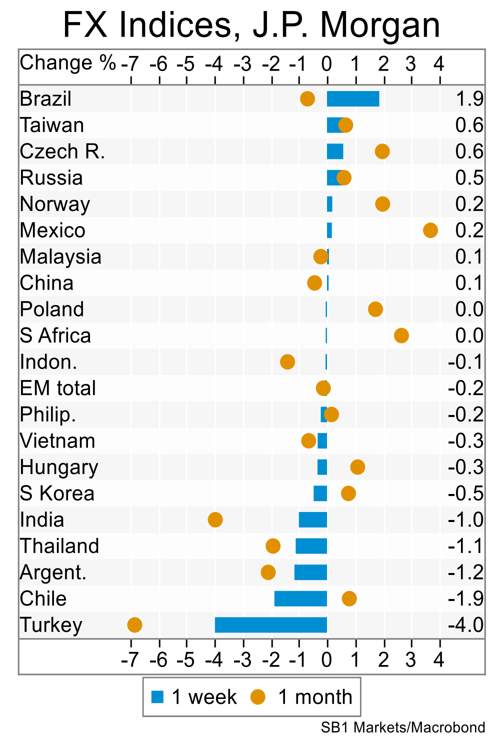
More down than up in EM currencies

Turkey once again the weakest link in the chain







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