10 May 2021

Macro Weekly

Week 19/2021

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Highlights, corona update
The world around us
The Norwegian economy
Market charts & comments

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

The virus

- **The 3rd wave** is on the way down in almost all rich countries, followed by a decline in the no. of hospitalisations and even more in the no. deaths – down to very low levels everywhere
- **Mobility** is rising almost everywhere in DM as the negative drag from corona restrictions/cautious behaviour are easing
- **In Norway**, the no. new cases flattened last week, as many restrictions are eased and mobility is on the way up. The level of new infections is low, and the no. of hospitalised patients is low, and even a substantial increase in new cases will pose any treat to the hospital system. As the vaccination process moves on, and the immunity rate is increasing steadily, it will be tempting to open up further, at least if the new outbreaks are 'local' and can be contained, as they are now
- The **pace of vaccination** stayed at +/- 3% of the population in most EU countries, as in Norway last week. Norway will not be able to speed up before larger quantities of vaccines from BioNTech/Pfizer arrives in June, as we will probably not allow AstraZeneca or J&J's vaccines (the Government will probably receive a recommendation today)
- **India** is still struggling, but as mobility has fallen sharply the past three weeks, and the growth in new cases has slowed almost to zero (but we know too little about testing policy/capacity to judge these infection data properly – and the underreporting is of course anyway massive)

The Economy, part I

- **PMI/ISM**
  - **The global composite PMI** rose more than we assumed in April, to the best level since 2010, signalling growth far above trend. Both **manufacturing & services** contributed. The **US** is the lead (both the PMIs & ISMs), just beaten by **Sweden**. **China** is reporting growth well above trend too. **European** services are still lagging but are in aggregate not contracting anymore, and the manufacturing sector is reporting record high growth – and is close to the global lead (ahead of US). The Indian PMIs were surprisingly strong, and the EM average rose further. **Norwegian manufacturers** are thriving too. Delivery times are surging like never before. Businesses are reporting unusual to record high price increases
- **Auto sales**
  - Global auto sales probably rose further in April. US sales climbed to the highest level in several years. UK sales rose too, but EMU sales were probably flat, at a low level. Sales in India (surprisingly) kept up, according to media reports, at the highest level in many years. Sales in other EMs seems to have kept up too

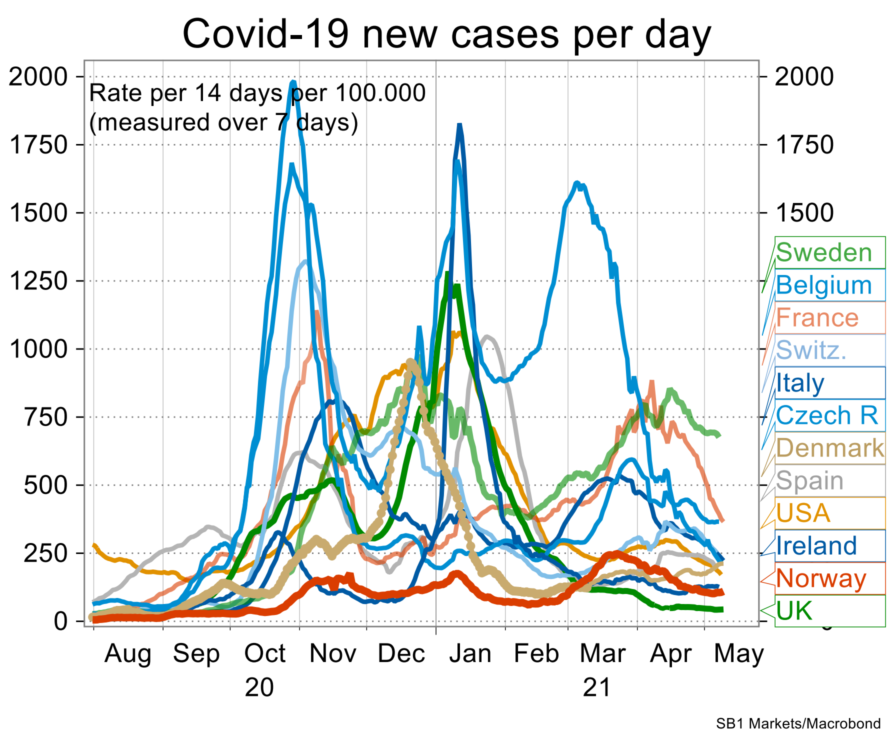
Last week: The economy, part II

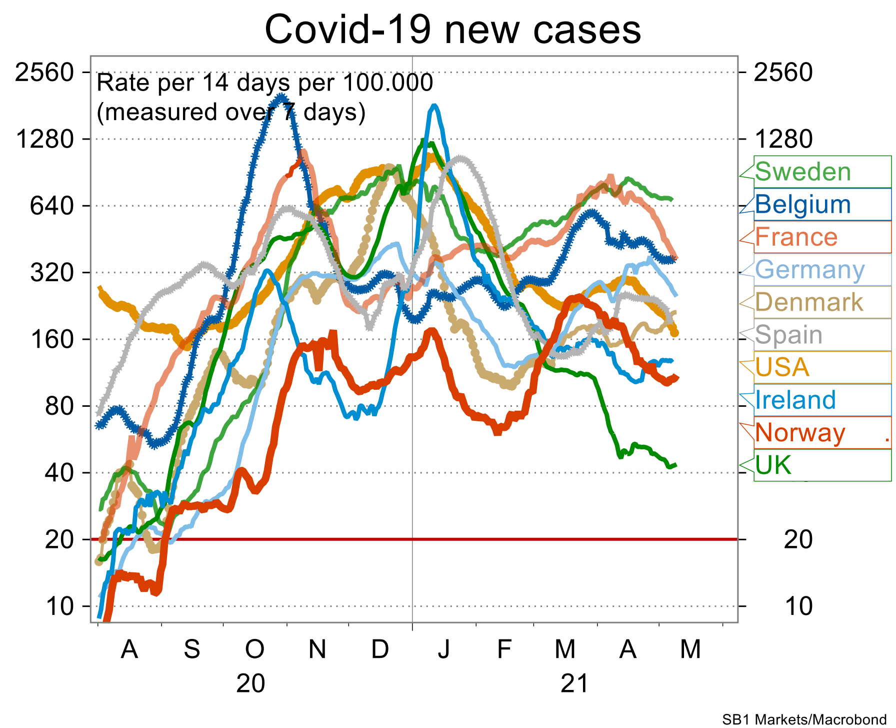
- **China**
  - Both **exports and imports** rose further in April, and in both value & volume terms, trade flows are far above the pre-pandemic trend. No signs of any slowdown in China or abroad. The trade surplus fell slightly
- **USA**
  - **Nonfarm employment** missed forecasts big time in April, 266' vs. expected 987'. Leisure/hospitality added more than 300' jobs but other sectors were far weaker than expected. **Unemployment** rose by 0.1 pp to 6.1%, expected down to 5.8%. **Wages rose** far more than expected but so far wage inflation is kept in check (based on all wage indictors). Given all information we have at hand, it seems unlikely that demand for labour slowed sharply in April. **The vacancy rate** is record high, and companies are not able to fill them, like never before. The 'generous' unemployment benefit, in average above USD 600/week, may dampen supply. In addition, 2.8 mill workers say they are not able to work due to covid-19. We expect supply to strengthen the coming months but the labour market could turn out to be very tight after the pandemic too. Bond yields fell 10 bps on the weak report, but quickly recovered to the pre-report level
  - **Productivity growth** may be accelerating but data are very uncertain during the pandemic.
- **EMU**
  - **Retail sales** rose more than expected in March, to 2% above the pre-pandemic level, even if Italy and Spain are still below (at least partly due to fewer tourists).
  - Several country data implied a modest increase in manufacturing production in March, in spite excellent surveys
- **UK**
  - **Bank of England** left the policy rate unchanged (of course), will continue the QE program even if the economic forecasts were revised sharply up
- **Norway**
  - **Norges Bank** kept the policy rate and the rate path unchanged, as expected. The economic outlook was still uncertain, but not substantially anymore
  - **House prices** fell by 0.1% in April, down from +1.4% in March. We expected +0.9%, Norges Bank 0.8%. Prices fell in 10 of 16 cities, and rose significantly just in 2, Kristiansand & Stavanger. Our flow based national model signals 1% m/m price growth but the Oslo model zero growth
  - **LFS (AKU) unemployment** rate is slowly declining, and employment is slowly in the way up
  - **Industrial production** was up 0.7% in March. The increase in March was mostly driven by metals, chemicals, and refined petro. Non-oil related production is now at the highest level in 10 years, +5% vs. the pre-pandemic level. Oil-related manufacturing production fell – and is 9% lower than before corona. (Of which corona is not mostly to blame)

SpareBank 1 MARKETS

Almost all rich countries are on the way down

Denmark against the flow, and some may have flattened, like Norway. The level is not high anywhere





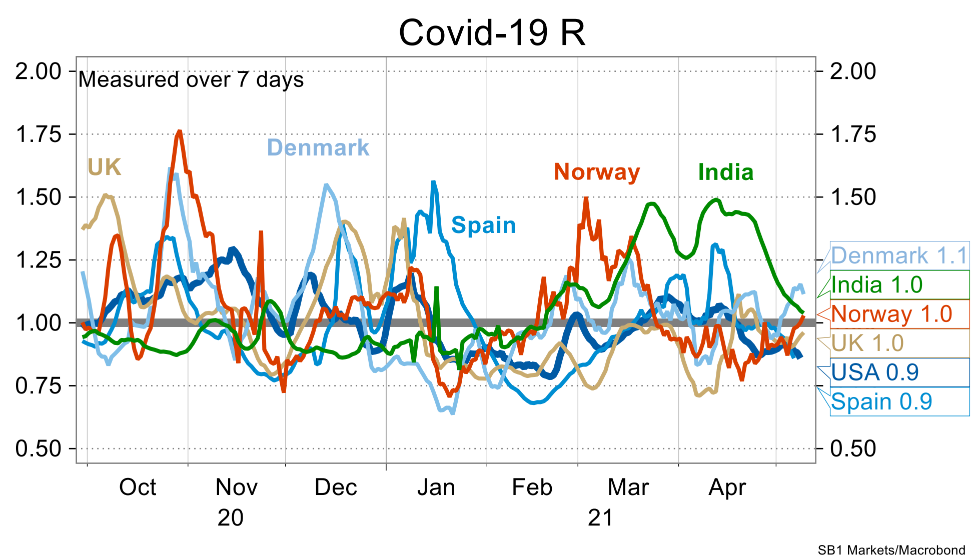
- The number of hospitalised has fallen in all rich countries, and the no. of deaths has fallen even more. In Sweden, deaths are at 1/6th of the level in January, even if the no. of new cases is almost the same. It pays off to vaccinate the most exposed part of the population
- Norway – and the rest of Europe – have come up to speed in vaccinations and the rate of immunity is increasing at a fast pace
- The situation in EM is mixed, and India is struggling with it's 2nd wave – with limited access to vaccines & hospital capacity, but at least growth in new cases is slowing rapidly, and will reach zero this week?

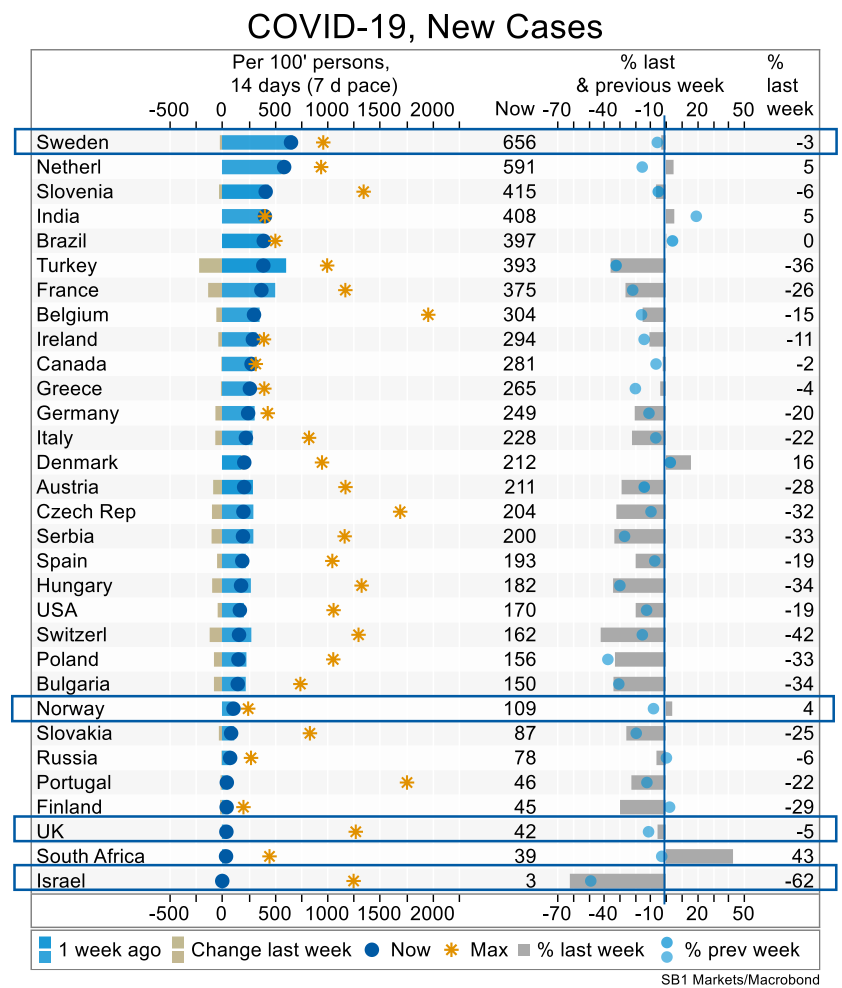
SpareBank 1 MARKETS

Just some very few countries are reporting more cases. India has stabilised

(but we have not analysed Indian testing policy/capacity)

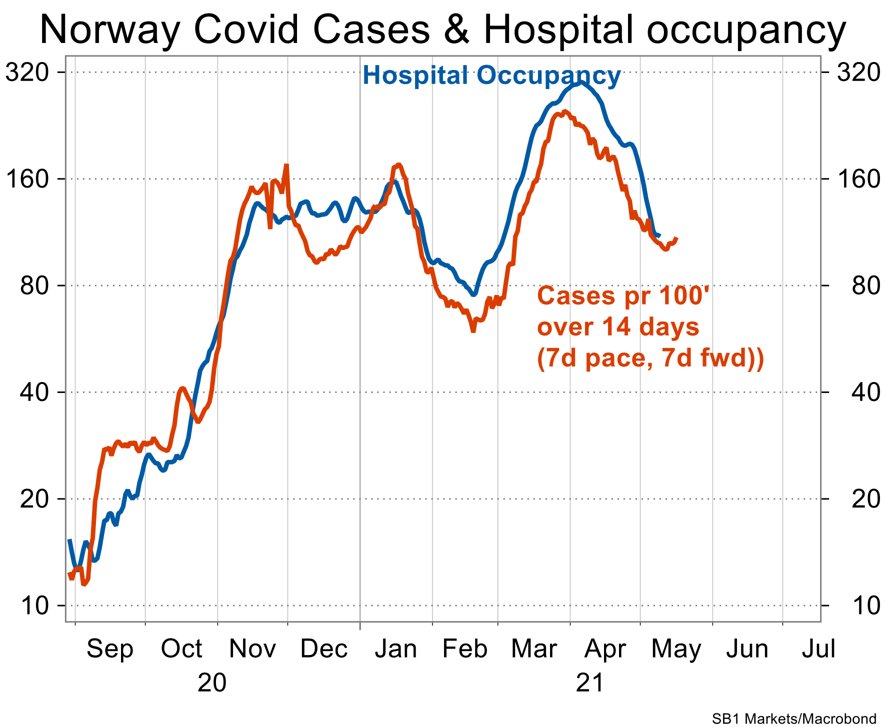
- **The broad decline in new cases continues, and almost all rich countries are reporting fewer cases**
- **Sweden** is at the top among rich countries at our list, with 6 times more cases per day than in Norway. The no. of new cases are on the way up again in Denmark, but the level is not high
- **Netherlands, Brazil, Turkey, and France** are all up high up too
- In **Norway** the no. of cases has flattened (and rose slightly last week), following a substantial decline. So far, some few local outbreaks are to blame, and they are probably under control
- **US, UK** are steady reporting fewer cases
- In **Israel**, the virus has almost disappeared
- However, **India** is struggling with its second wave, and the no. of new cases is far higher than reported. However, growth in new case has slowed almost to zero

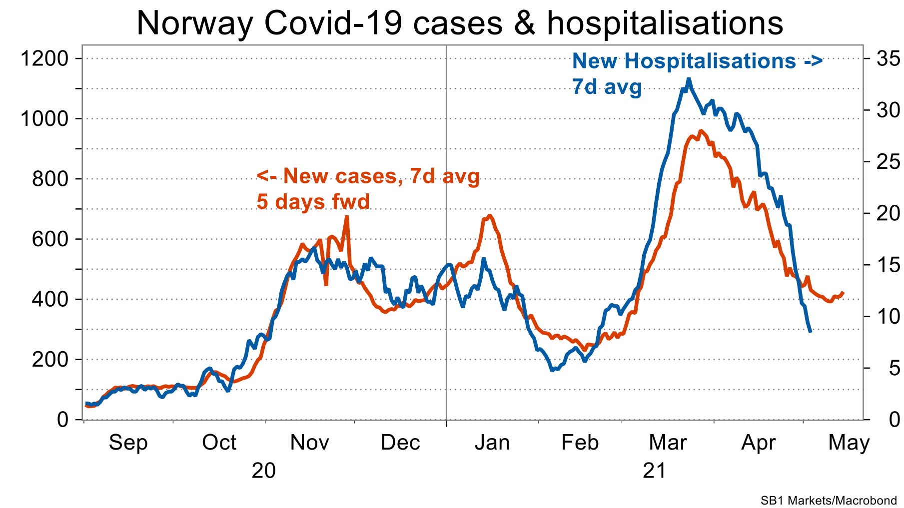


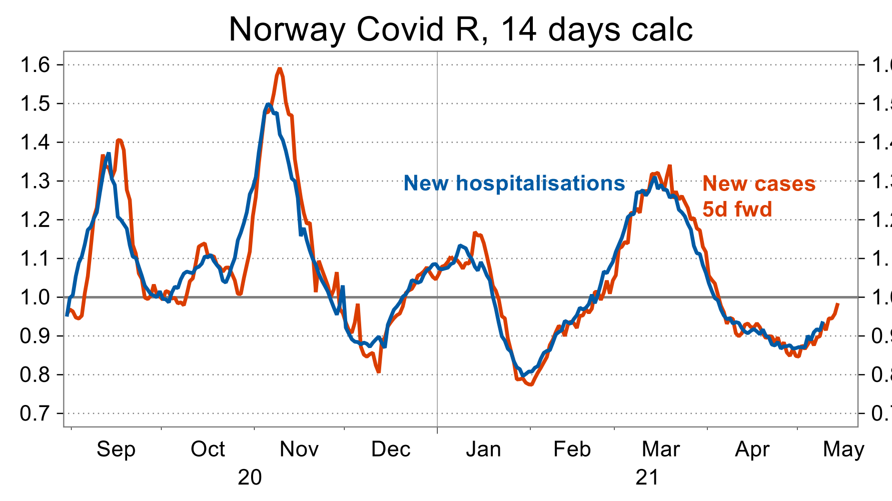


Norway: New cases are flattening out, the level is not worrisome

Restrictions are eased, mobility is on the way up. On the other hand, the immunity level is increasing





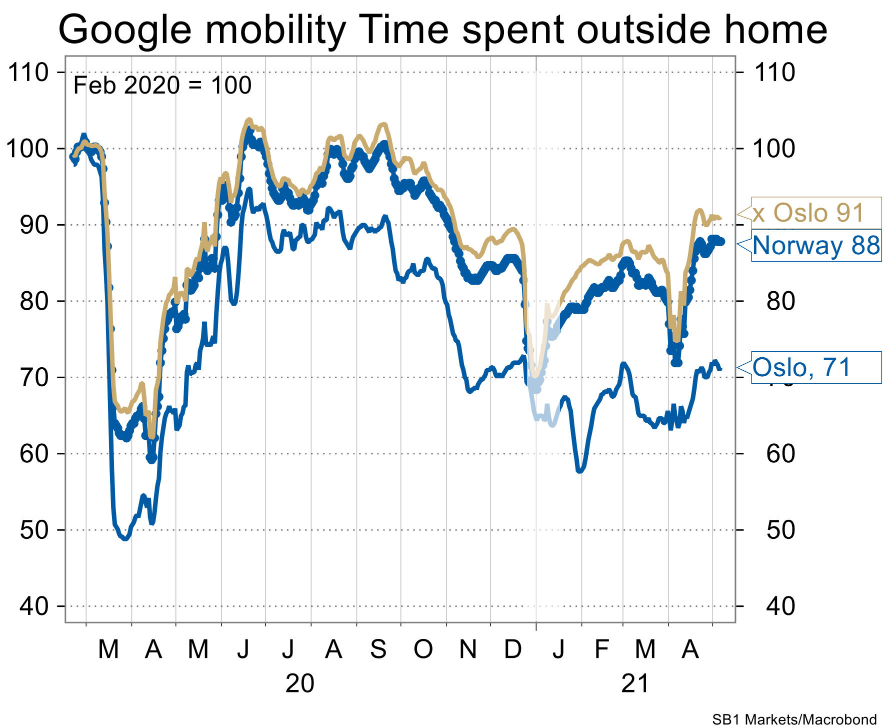


- It will be an interesting tug of war… However, even if the no. of new cases should increase considerably, it is a long way to go before it would pose any treat vs. the hospital system.
- If so, just wait for the vaccines to do their job

Data of <u>new hospitalisations</u> are released with some days lag, but the trend is clearly down, and the share of newly infected that are hospitalised is finally declining

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

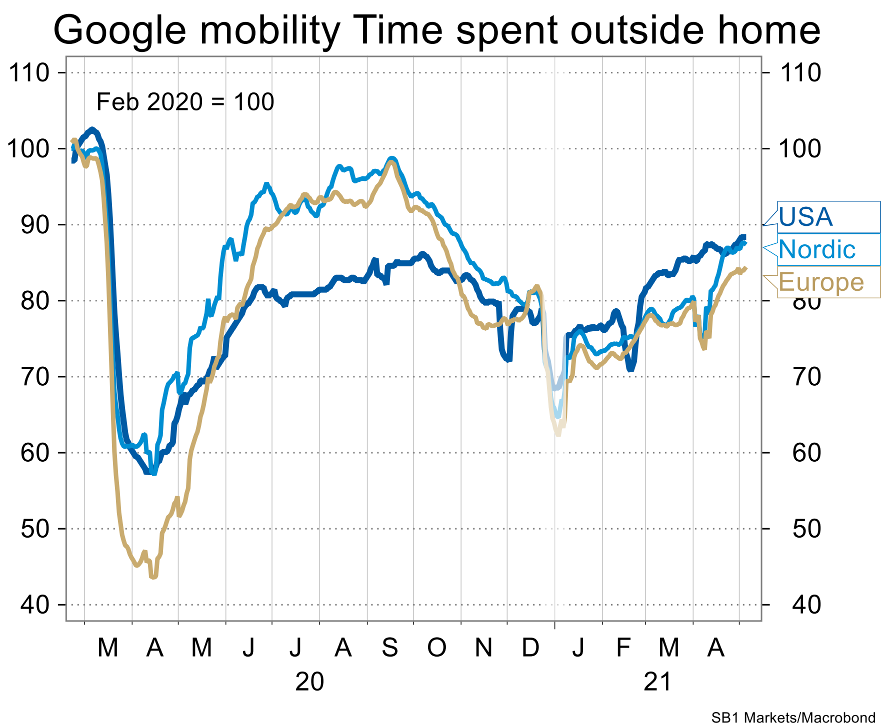
More restrictions were eased last week

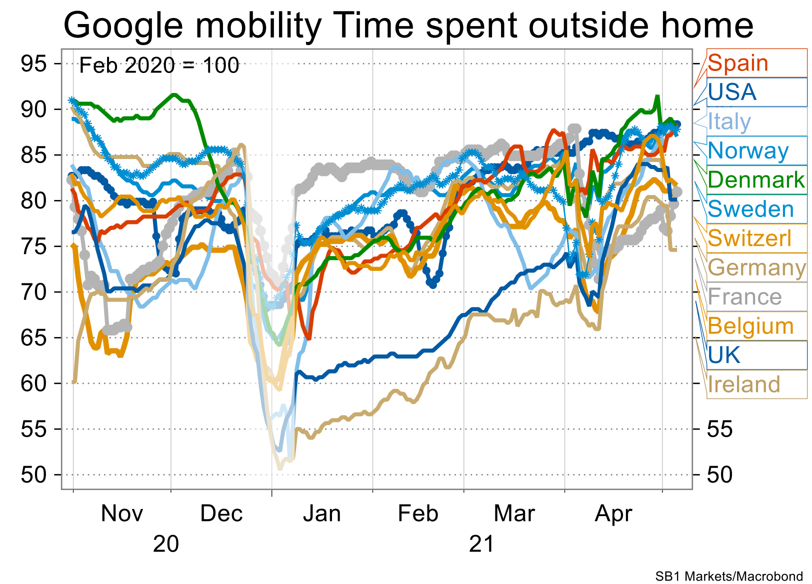


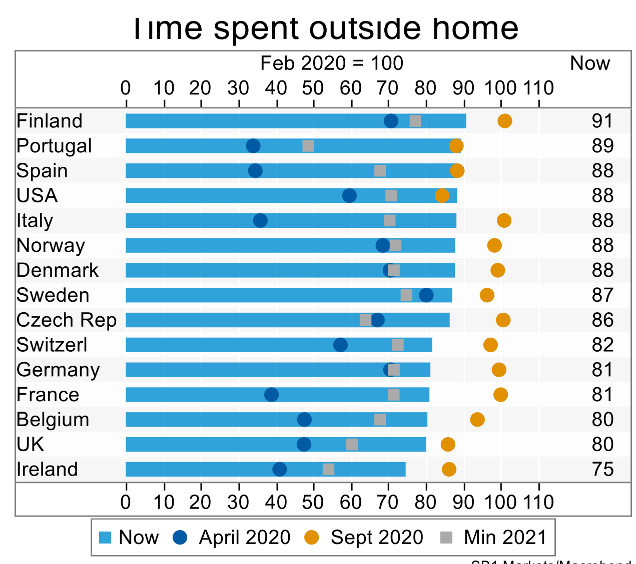
- Some 3% of the population is vaccinated per week, leaves room for more mobility without lifting the R

Mobility is trending up everywhere

Time spent outside home is on the way up in all rich countries – even in France, from a low level

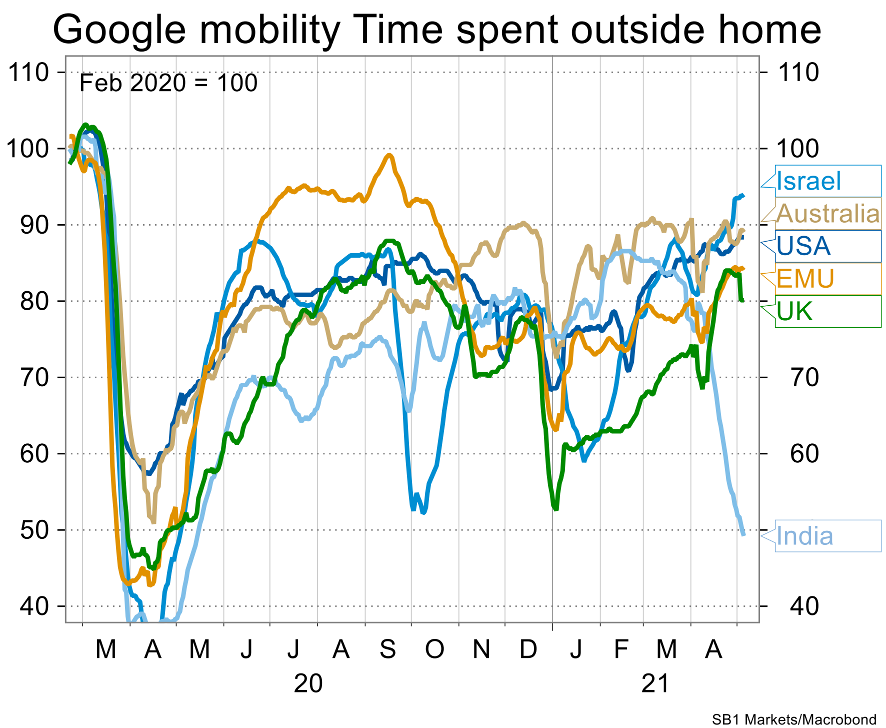






- Mobility still some 10% – 15 % below par – which illustrates the substantial social & economic upside potential in the coming months
  - » In Q1, mobility was 25% below a normal level
- Some noice in the data around May 1st and bank holidays (like in the UK & Ireland)

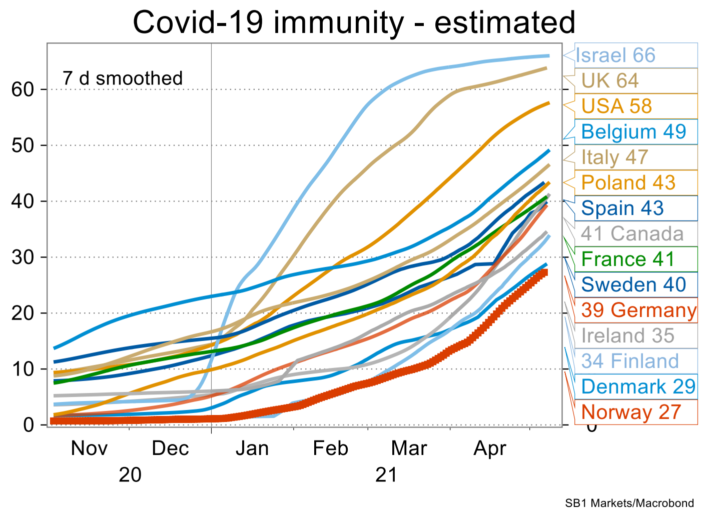
Israel & Australia at the mobility top, India has fallen rapidly to the bottom

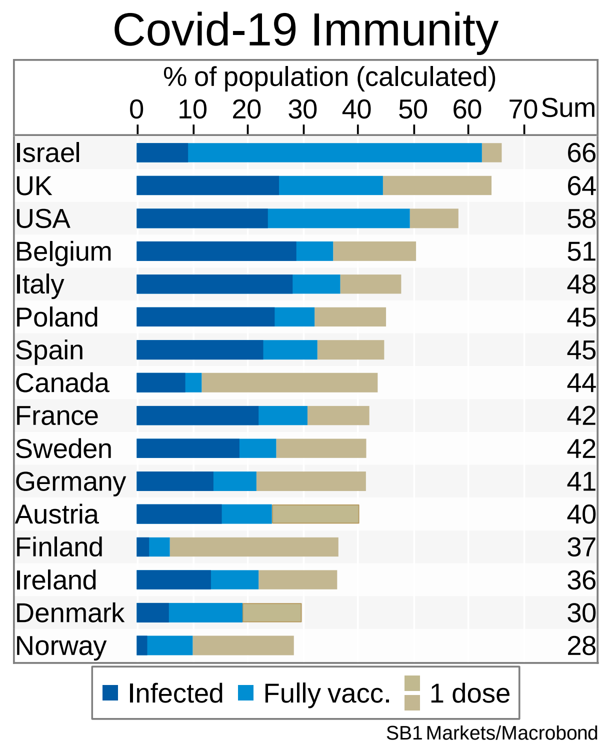


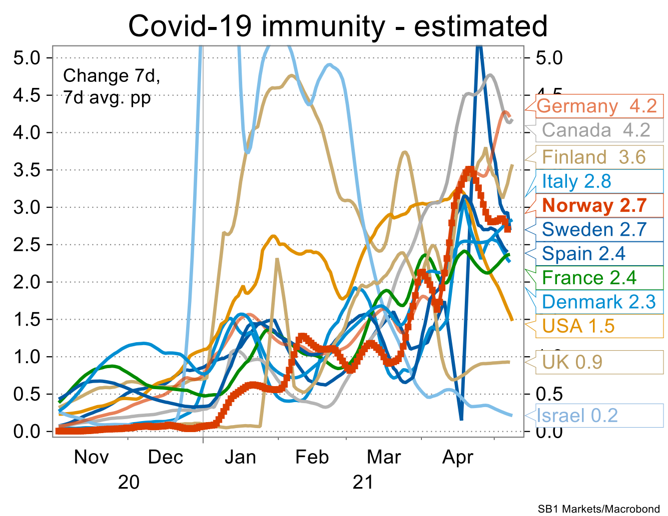
- Mobility in Vietnam, South Korea, and Japan is even higher than in Israel

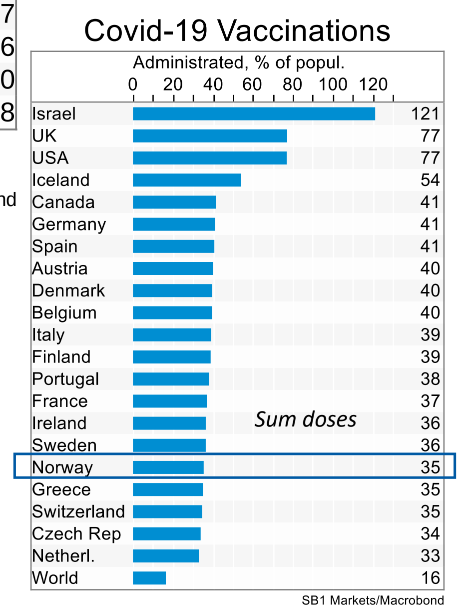
Vaccinations: EU/Norway are gaining more speed, 3% are inoculated per week

The US is slowing to 1.5%, UK remains below 1% - from high levels





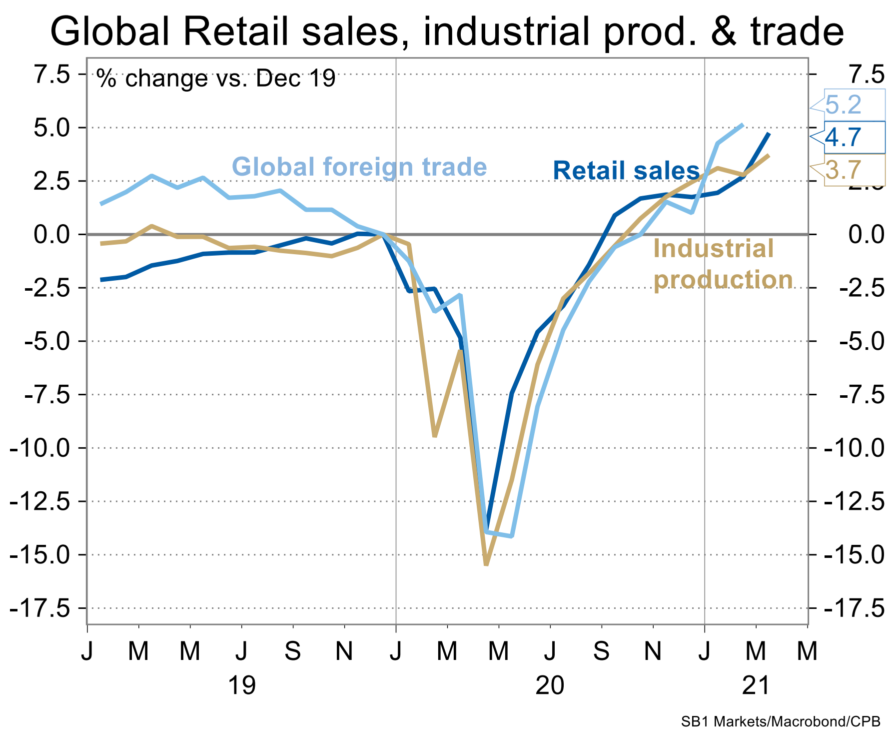


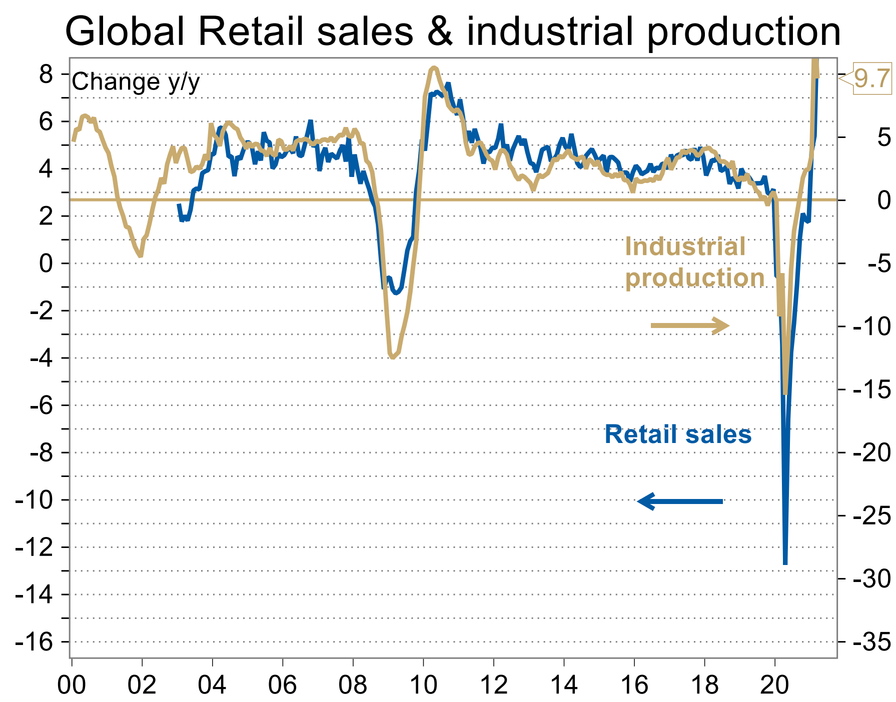


We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others

The recovery in the goods sector continues – level up 4% – 5% vs pre Covid

Both retail sales & industrial production sharply up in March. Global trade was strong in February



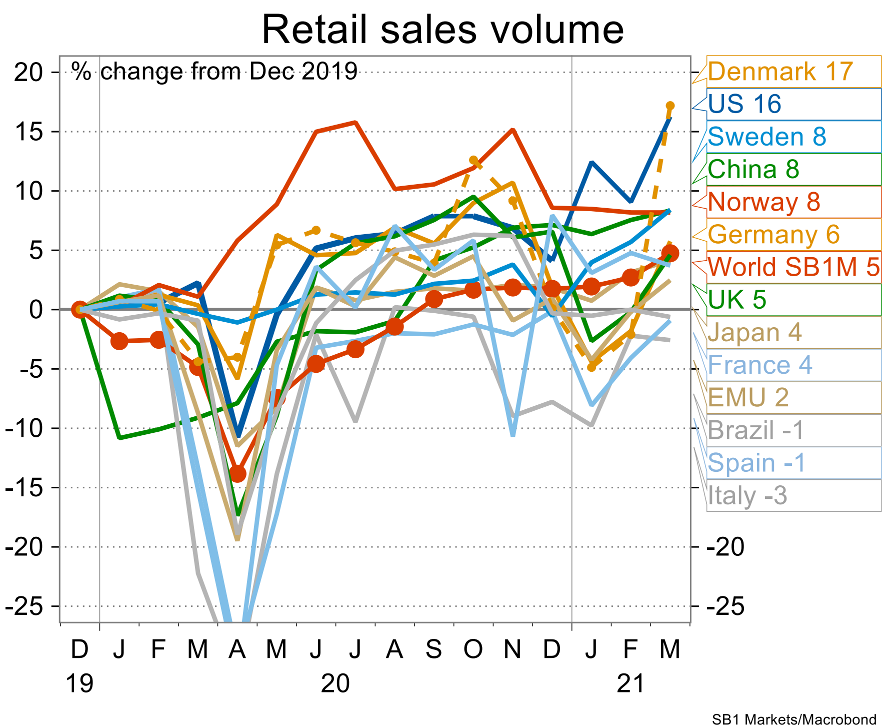


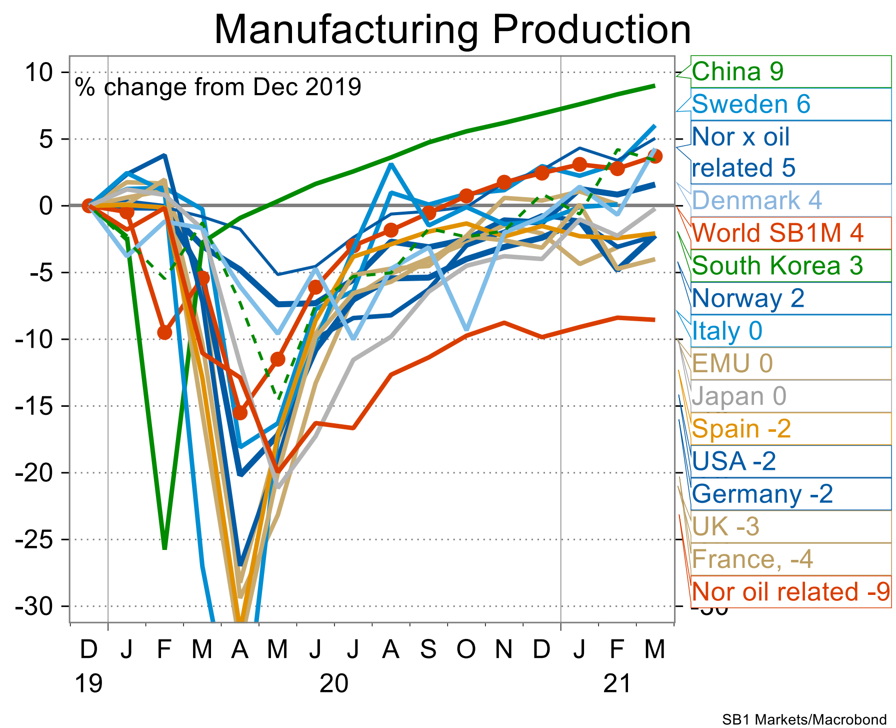
Memo: Keep in mind the different scales at the chart above

- **Retail sales** rose sharply in March, mostly due to the lift in US retail sales (ex. autos!). Global sales are 4.5% above the pre-pandemic level
- **Manufacturing production** rose more than 1% in March (prelim. estimate), and is up 4% vs. Dec-19
- **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 Feb due to the decline in EMU & the US, up again in March

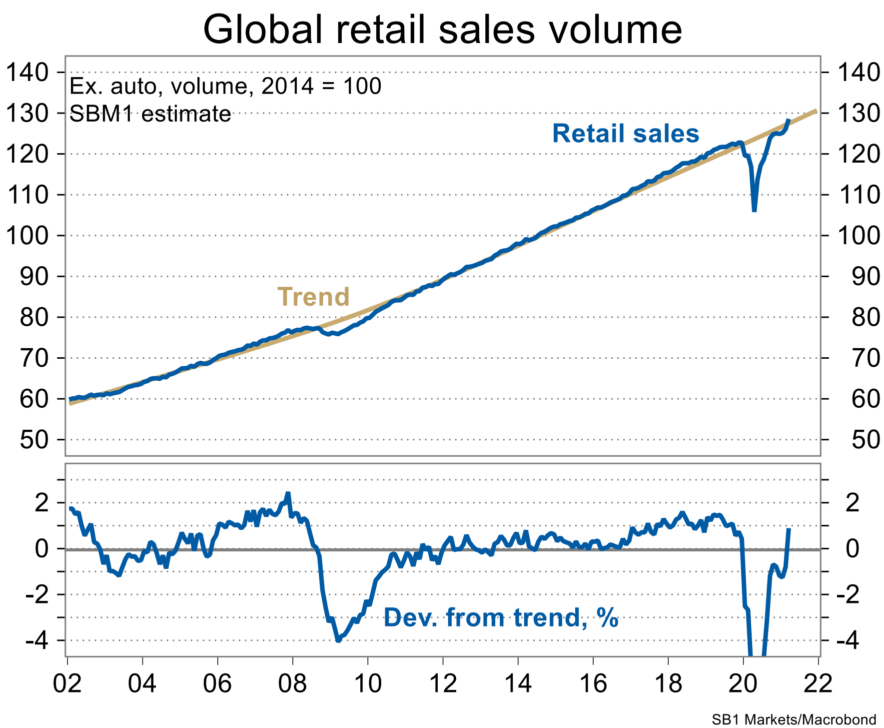


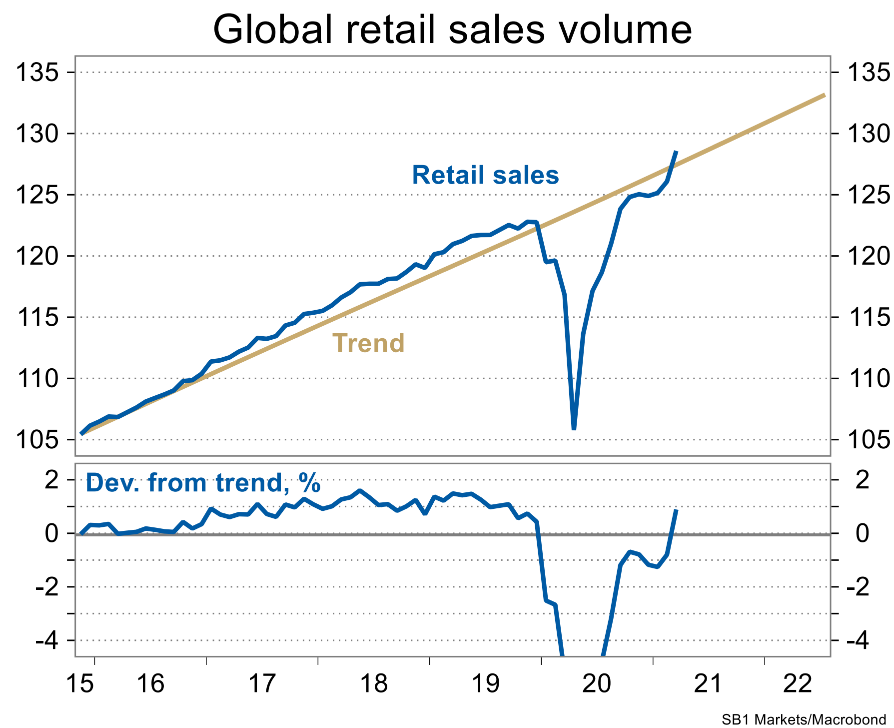


- Global manufacturing production grew some 1% in March
- Retail sale rose much more, following some weaker months where sales in several European countries fell during the 3rd wave

Global retail sales probably at or above long-term trend – but likely not far above

Thus, no reason to expect a sharp post pandemic setback, globally

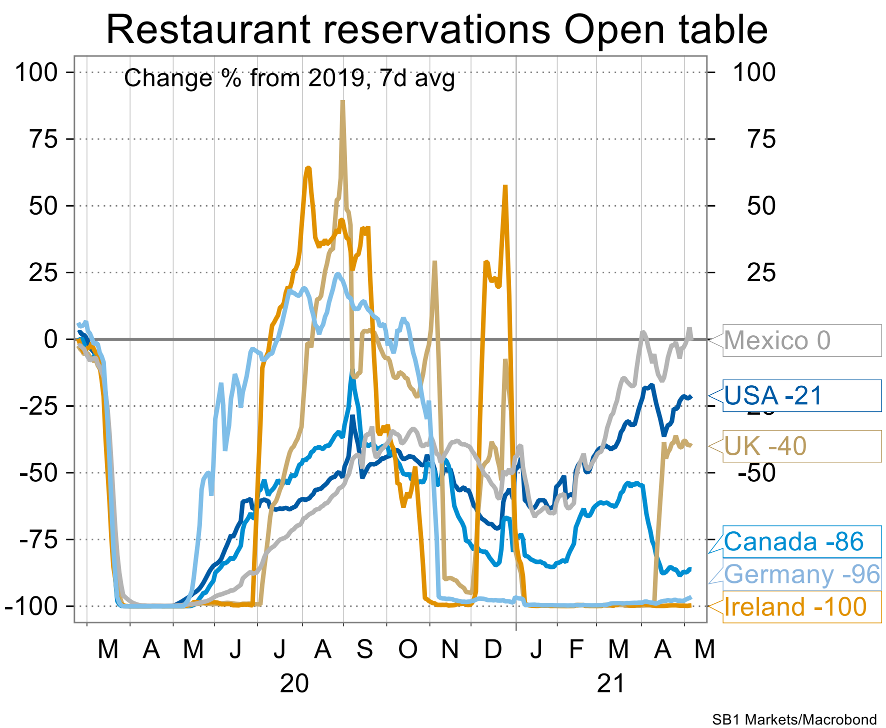


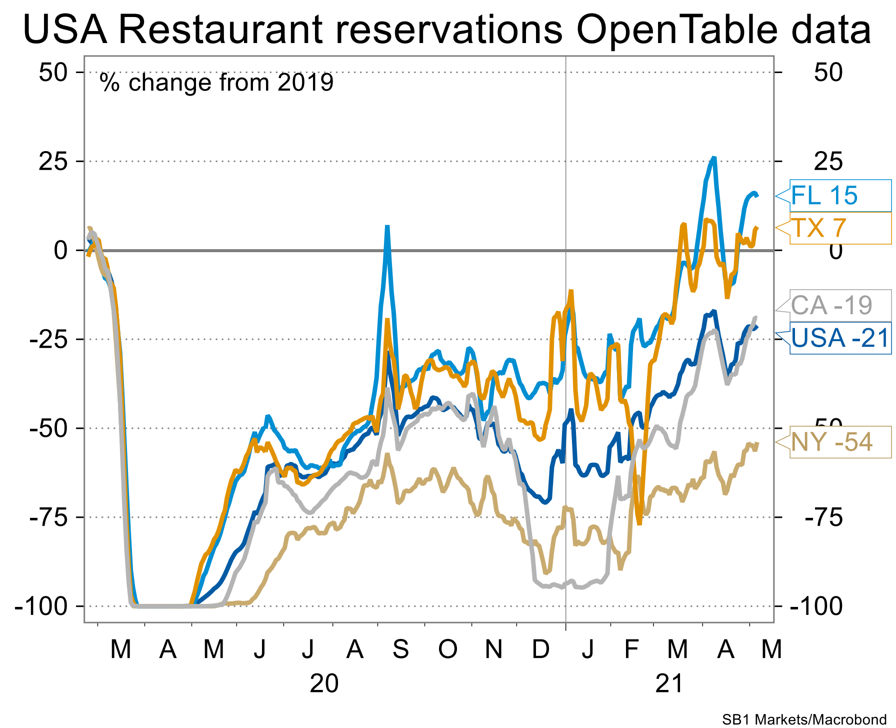


- In several rich countries sales will have to normalise, though (and as Europe now reopens retail sales earlier than most services, that would go for most rich countries, barring Japan)

Some restaurants are still closed, more are opening up

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

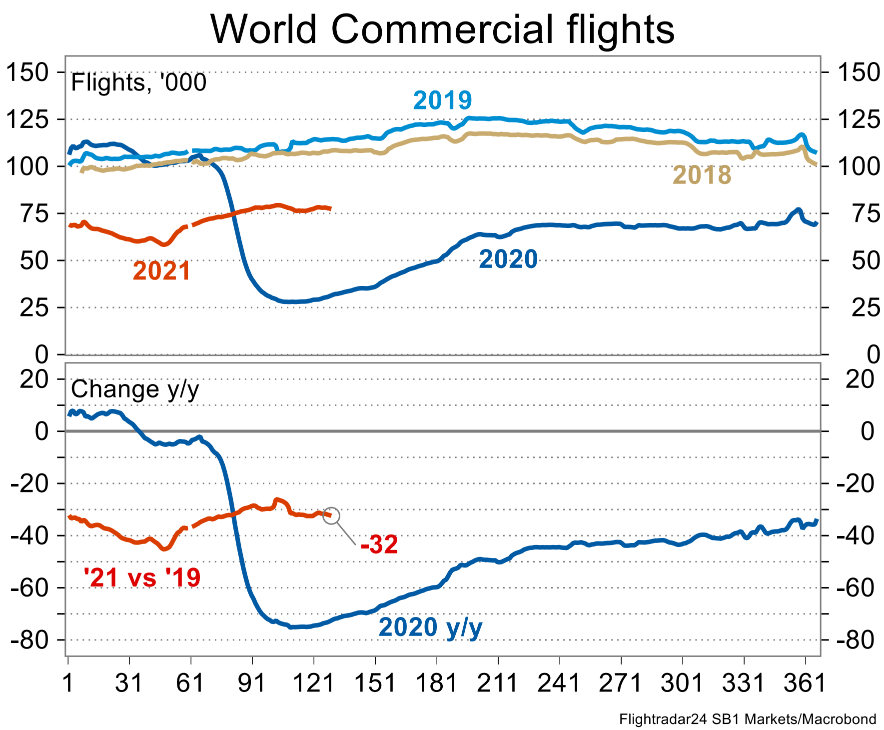


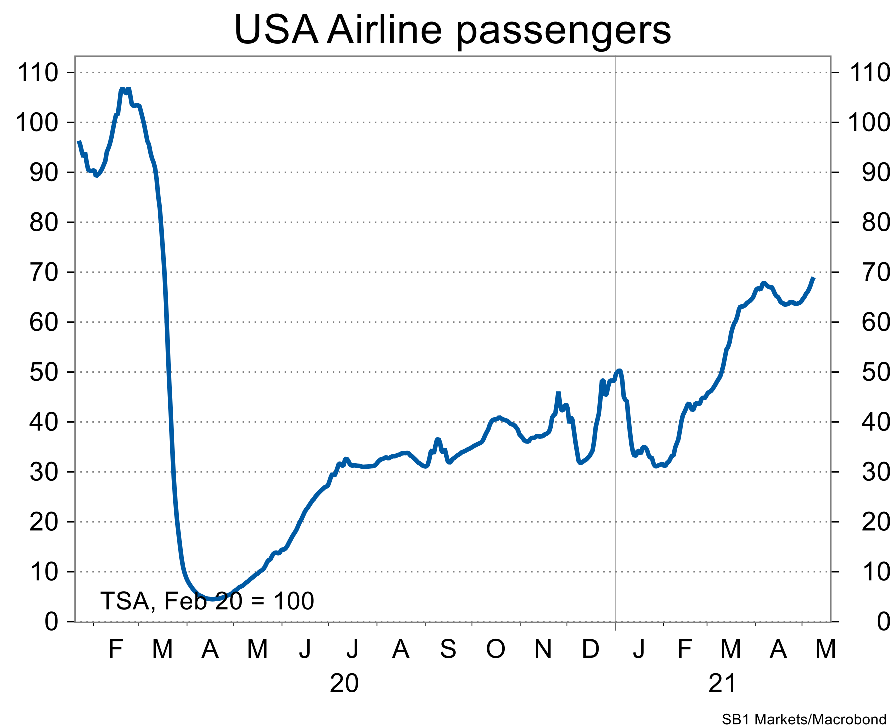


- Restaurants still almost closed in Germany and fully closed in Ireland, at least those who are tracked by Open Table

Global airline traffic is… stalling?? No further lift past 4 weeks

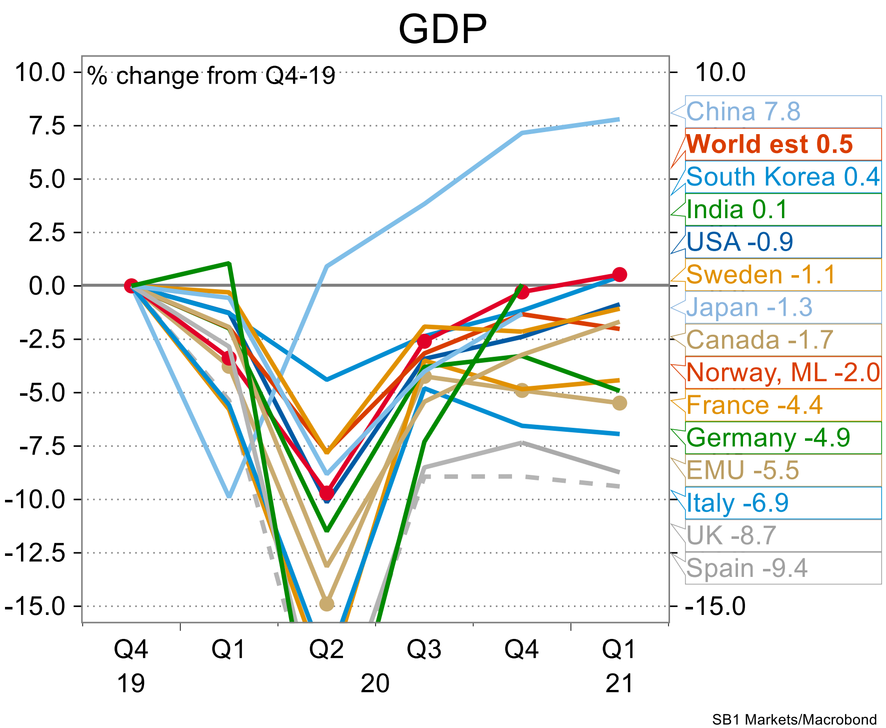
The Indian/Asian Covid wave at least partly to blame? More US airline passengers

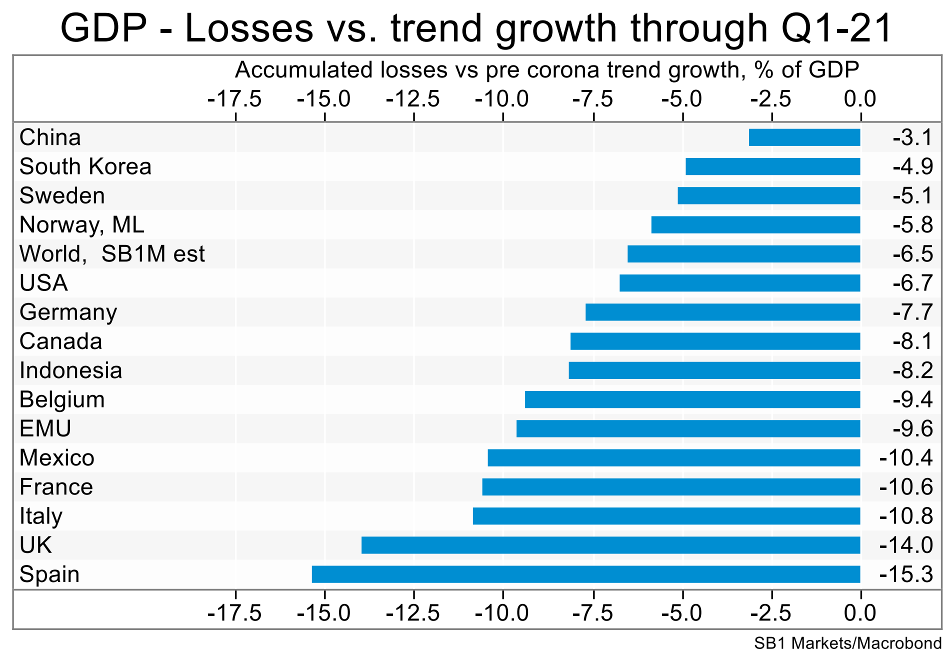




A 3½ % global GDP growth pace in Q1, level 0.5% above the Q4-19 level

China in the lead, US only down 1.1% vs Q4-19. EMU down 5.5%

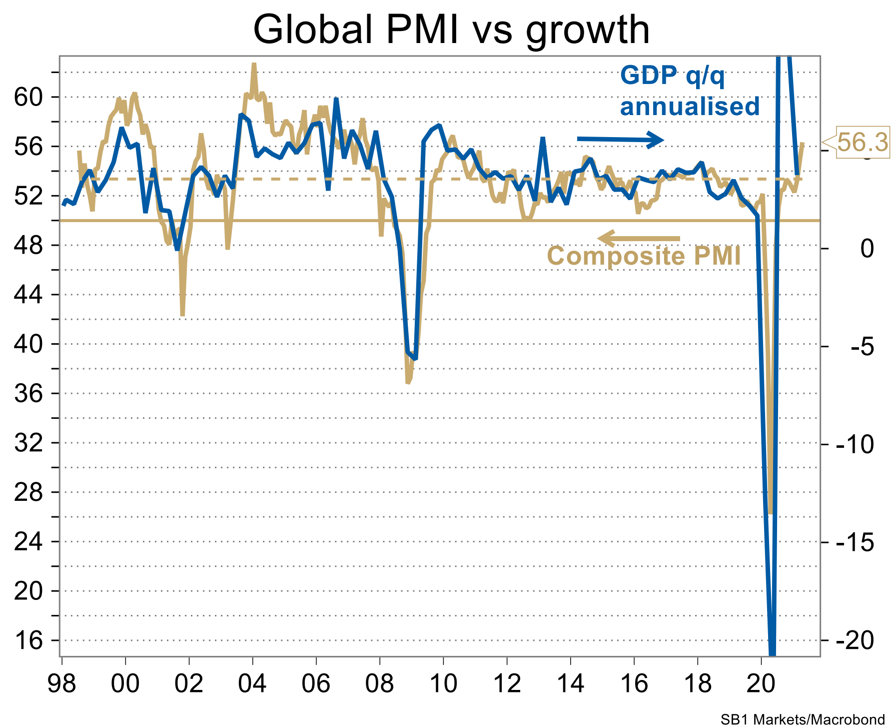


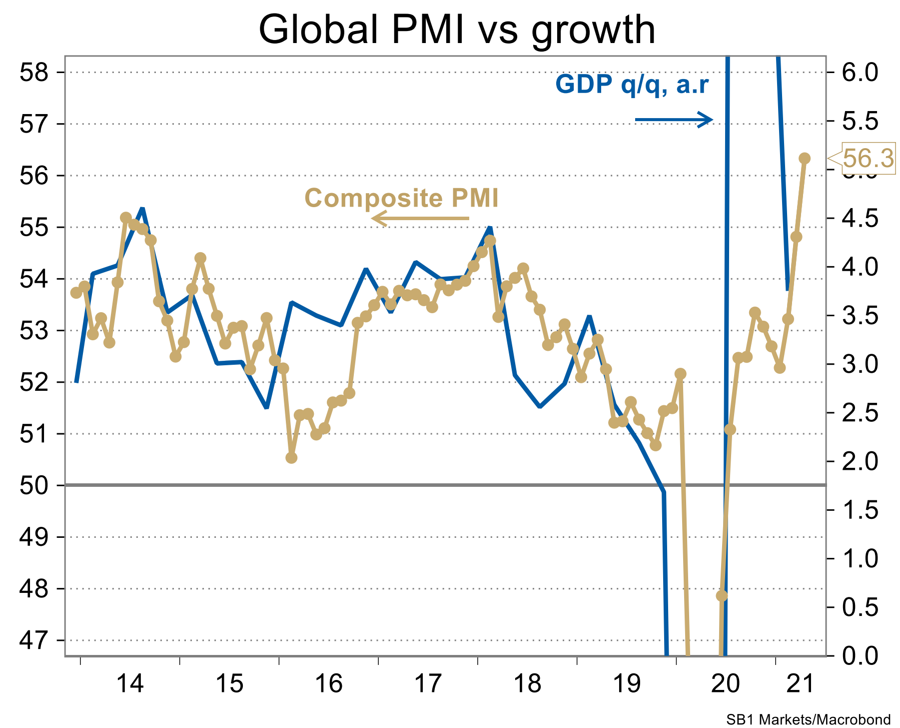


- Following an 8% growth pace in Q4, we estimate 4% growth through Q1 (1% not annualised)
  - » GDP growth in **China** slowed to a 'trickle' (a 2.4% pace…), and GDP in the **EMU** contracted further
  - » In the **US**, GDP grew at a 6.4% pace, up from 4.3% in Q4 – and the level is just 0.9% below GDP in Q4-19
  - » **Sweden** surprised on the upside in Q1, and is just 1.1% below the Q4-19 level
- We expect a far higher growth rate in Q2, as China returns to a more 'normal' growth rate, and Europe (at least) partially reopens
- *Q1 for **Norway & UK** in the charts above are our forecasts!*

The global comp. PMI even better than we assumed, up to 56.3, best since ‘10

The global index added 1.5 p, and signals GDP growth far above trend

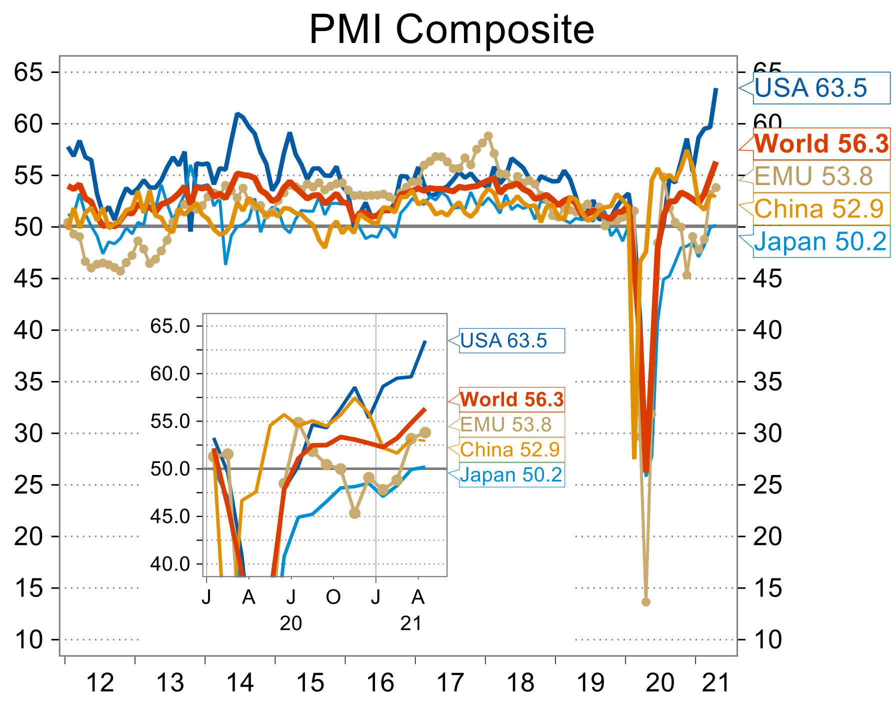


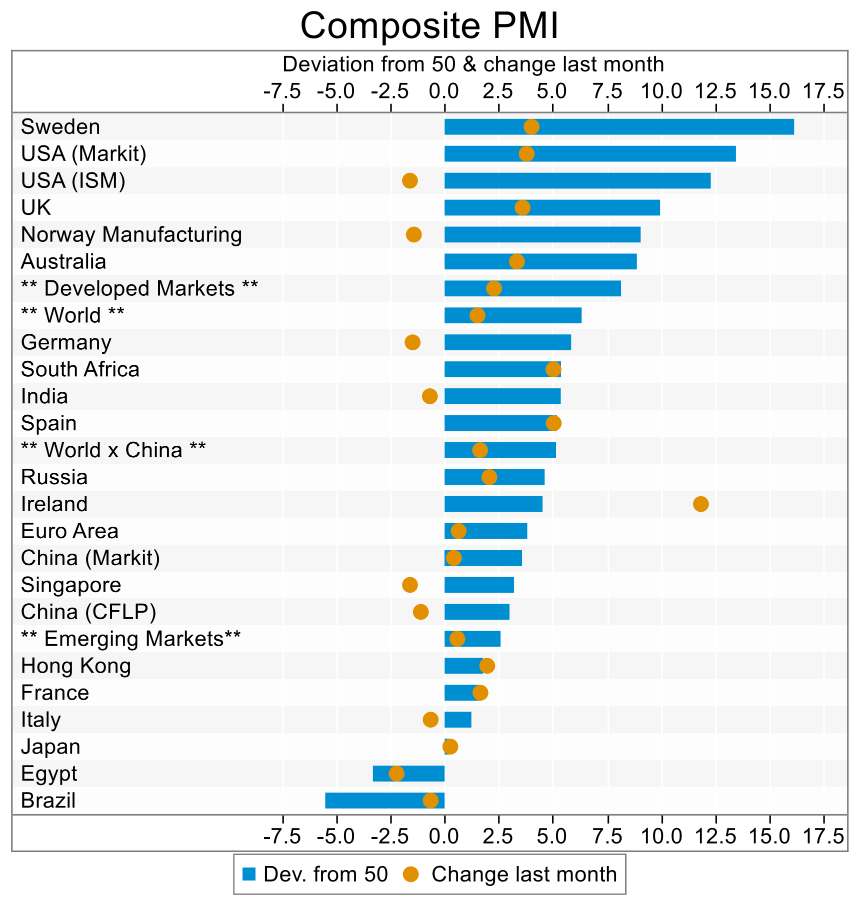


- We assumed a +1 p lift to 55.8, 0.5 p lower than the outcome
- Both services and manufacturing contributed on the upside

A broad strengthening in April – Sweden in the pole position again; US, UK follow

Just 2 countries below the 50 line

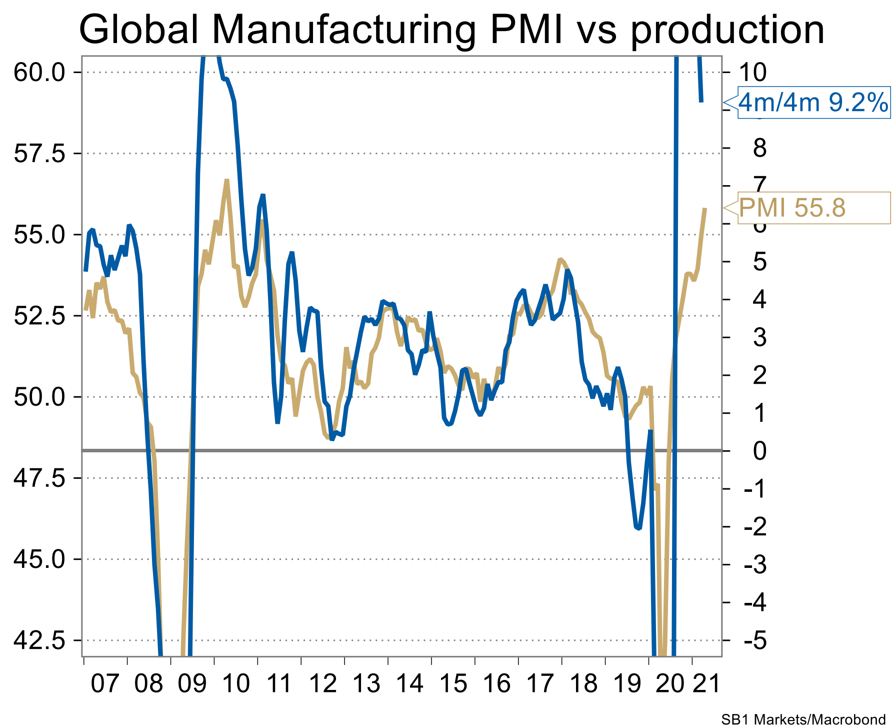


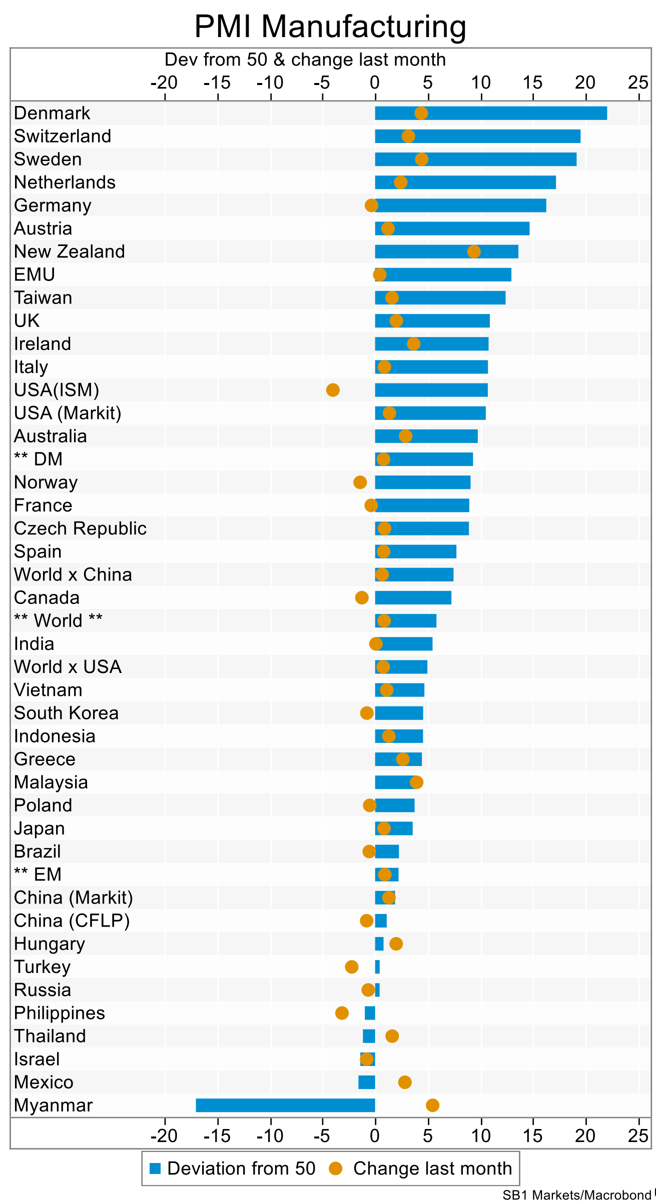


- 17 countries/regions up, 9 down. 2 below the 50 line
- Sweden, US & UK at the top. India still strong, in April
- The Chinese PMIs mixed, Markit's up, NBS' down
- Brazil a the bottom, due to continued corona problems

Manufacturing PMI climbs, 90% are above 50, a further recovery signalled

The PMI rose by 0.8 p to 55.8 in April, to the best level in 10 years



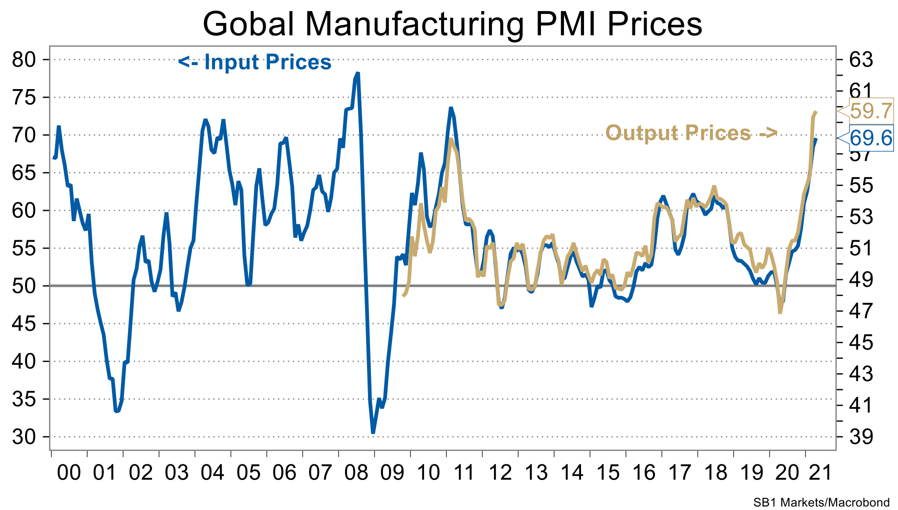


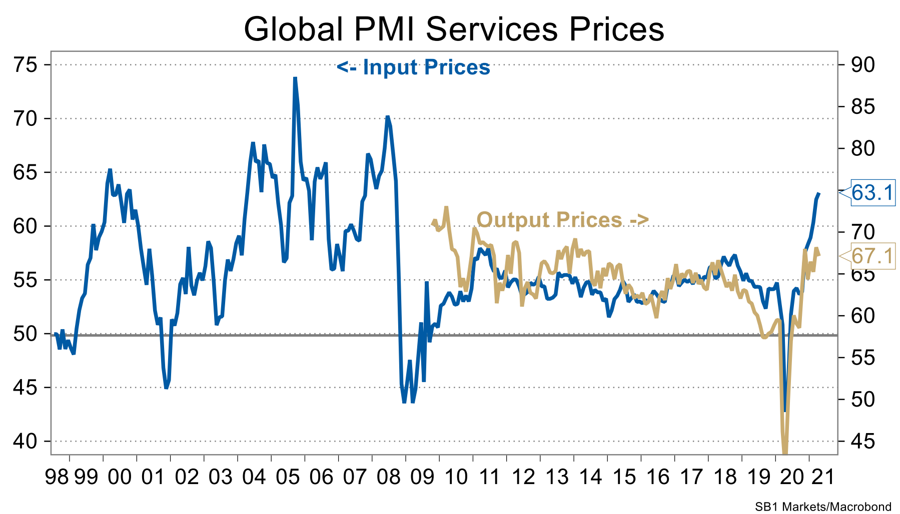
- The global manufacturing PMI rose 0.8 p to 55.8 in April, slightly above f'cast
  - » 70% of the countries/regions reported higher PMIs in April than in March
  - » Almost 90% of countries reported a PMI> 50, the highest proportion since 2018
- **European** countries at the top at a record high level. The **US** PMI rose further, while the ISM index surprisingly fell by 4 p, but remains above 60
- The **Chinese** manuf. PMIs were mixed but still signals growth above trend

SpareBank 1 MARKETS

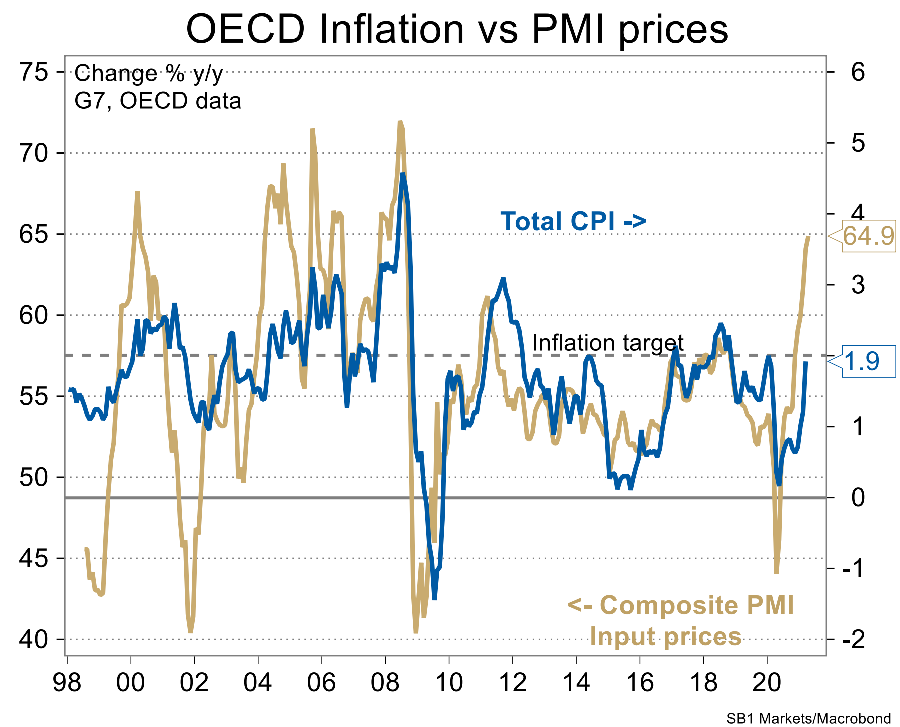
Businesses keep reporting even faster growth in input/output prices

Higher CPI inflation unavoidable, at least short term





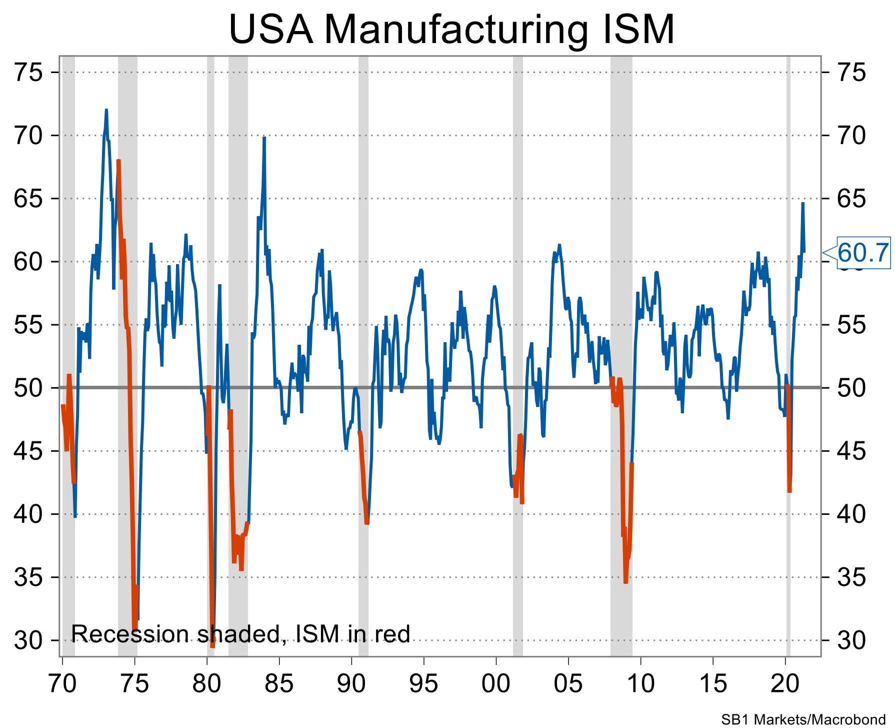
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and US

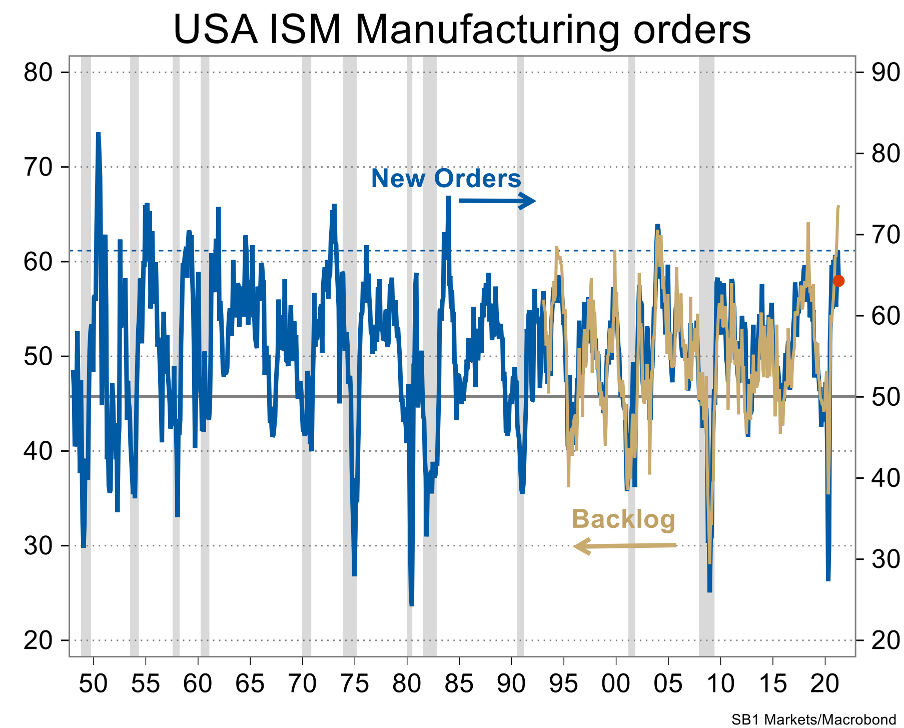


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 1.9% in rich countries in March
- The correlation to core CPI is far less impressive. Check more on the real inflation engine here

Manufacturing ISM 4 p down, still at 60.7 in April, signalling strong growth

Delivery times are rising faster than ever, and prices have been rising faster just once, in 1979





- **Demand** is strong: Order index fell by 3.7 p in April to still a very high level 64.3, signalling unusual rapid growth in orders. The increase in the backlog at ATH
- **Activity** is increasing broadly: All 18 industries reported growth, none reported a contraction, quite unusual
- **Delivery times** are increasing broadly: <u>17 out of 18 industries reported slower deliveries</u>, none faster. And no one can blame winter storms anymore…
- **Prices** are soaring: <u>52 groups of commodities were up in price m/m</u>, down from 56 in March. <u>1 commodity was down in price, propylene</u>. All 18 sectors are reporting higher input prices. 25 commodities are in short supply. The price index rose, to the 2^{nd} highest level ever, just July 1979 higher
- **Inventories** among manufacturers' customers are <u>falling faster than ever</u>
- **Employment:** 13 industries reported higher employment, 2 reported a decrease

ISM: WHAT RESPONDENTS ARE SAYING

We have never seen anything like this before. *Covid is not mentioned*

- "The current electronics/semiconductor shortage is having tremendous impacts on lead times and pricing. Additionally, there appears to be a general inflation of prices across most, if not all, supply lines." (Computer & Electronic Products)
- "Upstream producers/suppliers are back online and working towards full rates. Demand is outpacing supply and will continue into the third quarter, when the supply chain is expected to be refilled. Supply/demand should be more balanced in Q3/Q4, but demand will continue as customers run hard to meet their demand and rebuild inventory." (Chemical Products)
- "Continued strong sales; however, we have had to trim some production due to the global chip shortage. Hasn't affected inventories greatly yet, but a continued decrease will begin to reduce available inventories if we don't recover chip supply shortly." (Transportation Equipment)
- "Business is picking up as restaurants open." (Food, Beverage & Tobacco Products)
- "Oil production has been steady, along with market prices and capital expenditures." (Petroleum & Coal Products)
- "Steel prices are crazy high. The normal checks on the domestic steel mills are not functioning — imported steel is distorted by the Section 232 tariffs." (Fabricated Metal Products)
- "It's getting much more difficult to supply production with materials that are made with copper or steel. Lots of work on the floor, but I am worried about getting the materials to support." (Electrical Equipment, Appliances & Components)
- "Market capacity in most areas is oversold, with no realistic improvement on the horizon. In fact, it appears that demand will continue to strengthen, leading to more significant disruptions." (Furniture & Related Products)
- "In 35 years of purchasing, I've never seen everything like these extended lead times and rising prices — from colors, film, corrugate to resins, they're all up. The only thing plentiful at present, according to my spam filter, is personal protective equipment [PPE]." (Plastics & Rubber Products)
- "The metals markets remain very challenging at best. Shortages of raw materials have increased, especially in aluminum and carbon steel. Prices continue to rapidly increase. Transportation and trucking [are] also a big challenge." (Primary Metals)
- "Demand continues to be very strong. Supply chain delays hamper our availability and ability to sell more." (Machinery)

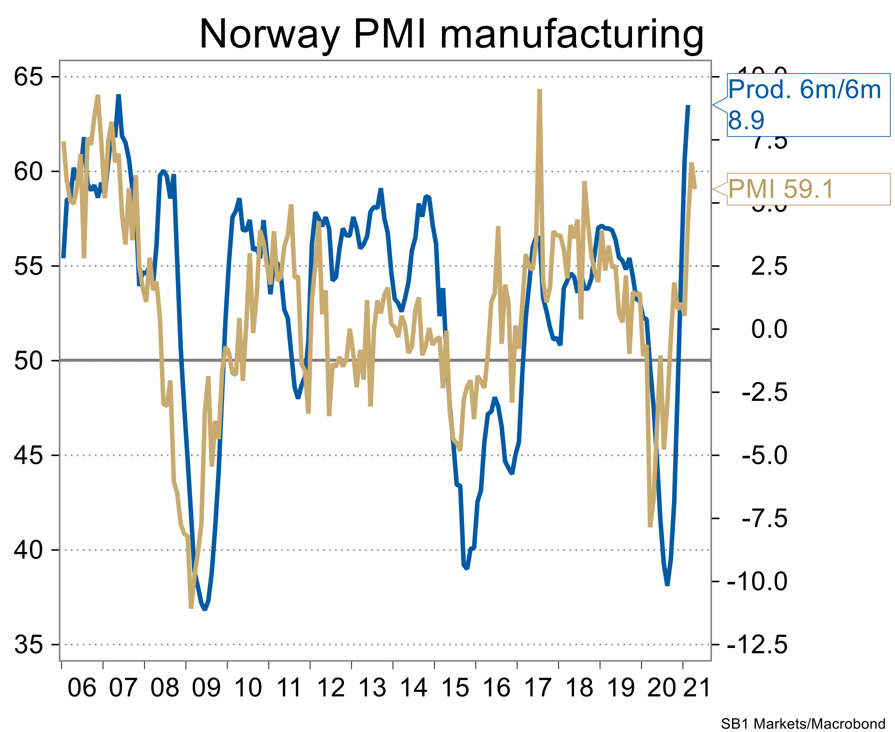
Is the decline in the ISM due to somewhat slower demand or overall supply/capacity constraints?

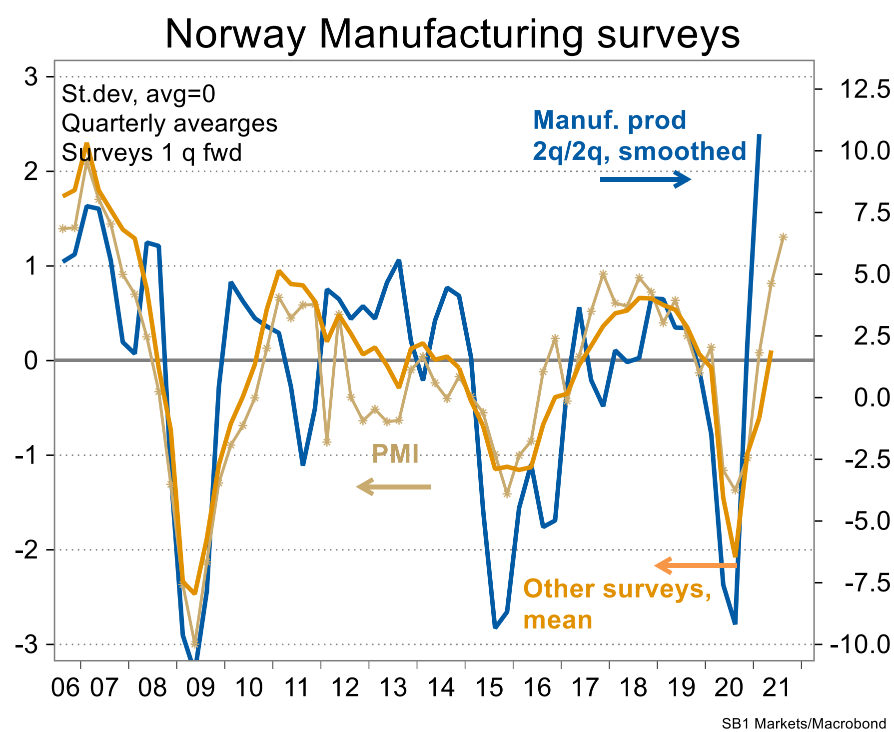
Source: ISM report on business

SpareBank 1 MARKETS

Norwegian manufacturing PMI slightly down to 59.1 in April – still a high level

The Norwegian PMI fell 1.4 p to 59.1, we expected 60



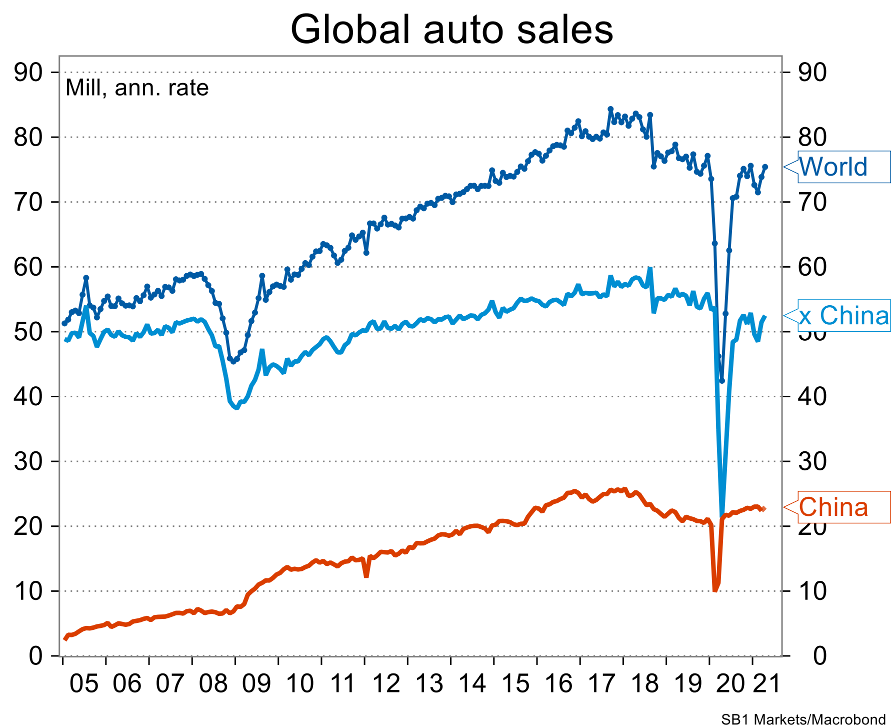


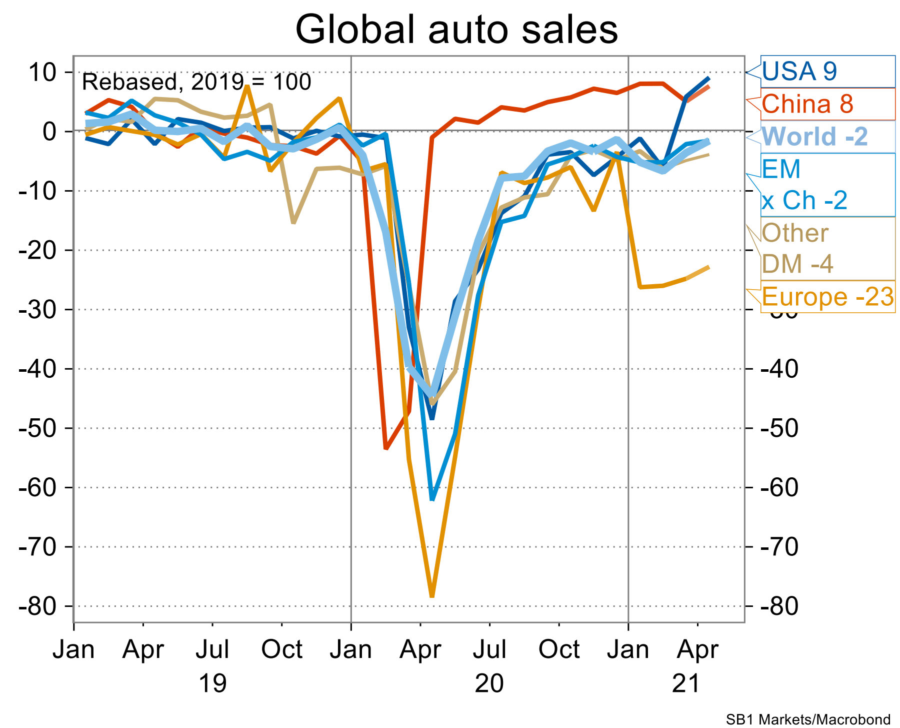
- The three sub-indices, production, orders, and employment were all down, but all remain above 56
- Also worth noting, **inventories fell and delivery times increased again** in April (same story for March)
- **Other surveys** have turned up lately but the levels are still somewhat below average

SpareBank 1 MARKETS

Global auto sales probably further up in April. Chips problems ahead?

US sales up, best since 2005. EMU sales flat, UK up, China probably up – and even India OK

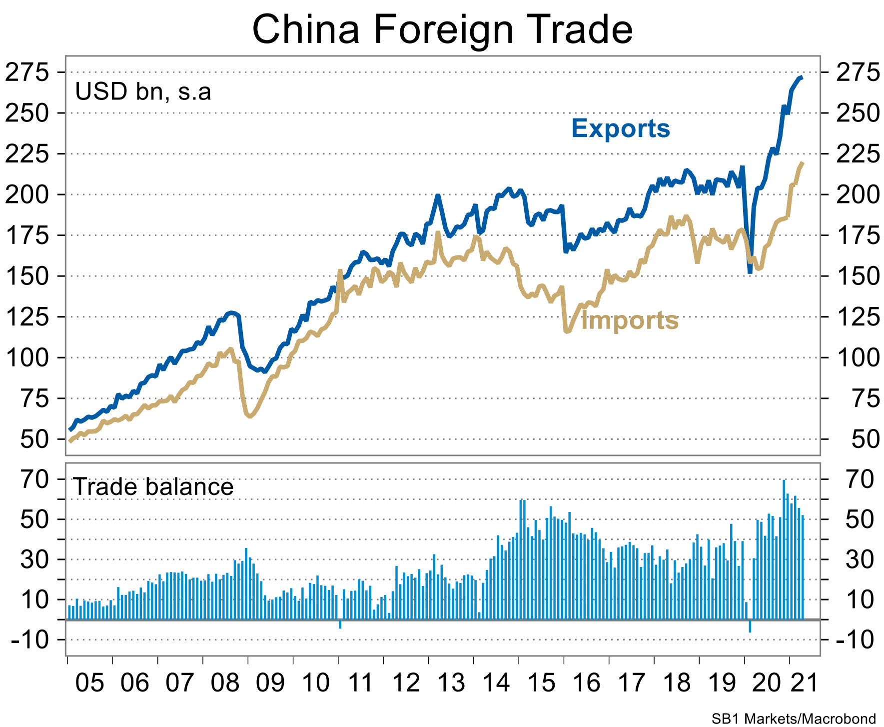




- Based on our preliminary estimates **global auto sales** rose by 2% in April – to the same level as in April '20. Some countries have not yet reported
- Sales in **US** rose to the highest level since one month in 2005 – and among the best on record
- Sales were flat at a low level in **EMU** but sales in **UK** recovered to the level in late 2020, some few per cent below the 2019 average
- Sales in **China** probably rose in April, and are still above the 2019 level
- Sales in **EM x China** probably rose in April too (but we are still lacking data from several countries)
- Lack of **data chips** is now becoming a serious problem for many auto producers. Among others, **Ford** has signalled dramatic cuts, by 50% in Q2 and 20% for 2021. Specific production problems (fires), as well as a too little capacity in the parts of the semi-conductor industry are to blame

Both exports and imports are still on the way up – should slow soon?

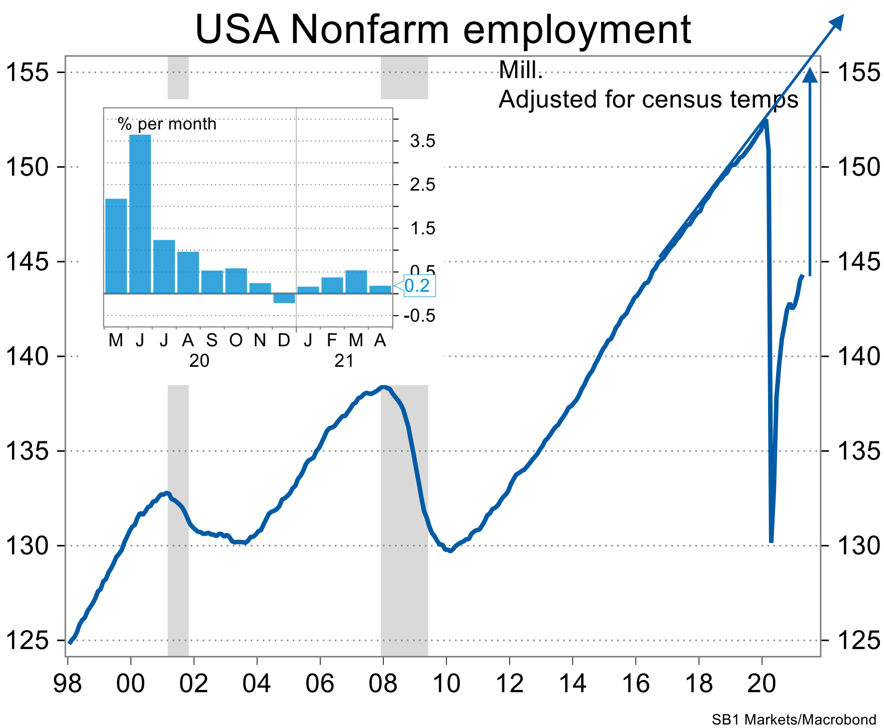
So far no signs of any slowdown in the global or the Chinese economy

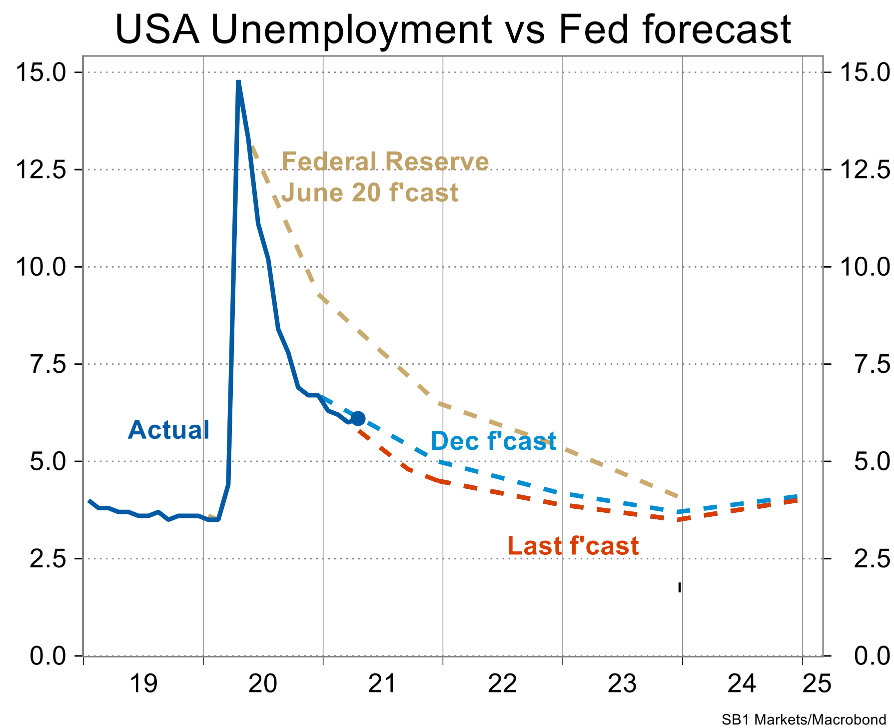


- **Exports** rose by just 0.3% in April (and by 8% from Dec) to another ATH. (Annual growth rates are irrelevant due the slump last spring). In **volume terms** exports very likely kept up too. Exports are far above any reasonable trend path, by at least 15%. Global demand for goods is strong
- **Imports** rose some 1% (and by 16% from Dec) to another ATH. In **volume terms** (our price assumptions last 4 m) the lift is less impressive, as we assume import prices have been rising sharply recent months – but imports volumes are record high and probably some 10% above the pre-pandemic growth path. Domestic demand is more than OK
- The **trade surplus** has fallen recent months, down to approx. USD 50 bn, still somewhat above the pre-pandemic level
- We expect growth in foreign trade volumes to slow substantially through rest of the year. Demand for goods in the rich part of the world will come down when spending in services increase, shortages of raw materials/intermediates will dampen production, and the Chinese are tightening credit policy

Payrolls surprise on the downside in biggest miss ever – up 266', exp 978'!

Is participation held back by too lucrative benefits? Or is it just the virus keeping folks at home?





- **Employment** rose by 266' (0.2%), far less than expected, and March was revised down by 146'. Restaurants, education in the lead in March but both remain far below pre-pandemic levels. The employment rate is 5.2% below the Feb-20 level, equalling 8.5 mill jobs.
- **Unemployment** rose 0.1 pp to 6.1%, expected down to 5.8%, and is above Fed's recent (implied) f'cast. Unemployment is 'just' 2.7 pp higher than before the pandemic but the participation rate has fallen by 2.1% (1.6 pp), lowering the measured unemployment rate substantially. Still, the underemployment rate fell sharply in April
  - Almost 2.8 mill. persons (down from 3.7 mill in March) report that they had withdrawn from the labour force (and were not searching a job) for corona related reasons. Many of these – but very likely not all – probably do want to return to the labour market, when possible. Just 40% of the 2.8 mill report they want a job but we are not sure what their answers imply
- **The Federal Reserve** will remain dovish the coming months, whatever labour market & inflation data may turn up

Labour market indicators: Where are we now? At least until last Friday…

Or: Is it likely that Friday's employment report reflects the 'real' situation in the labour market?

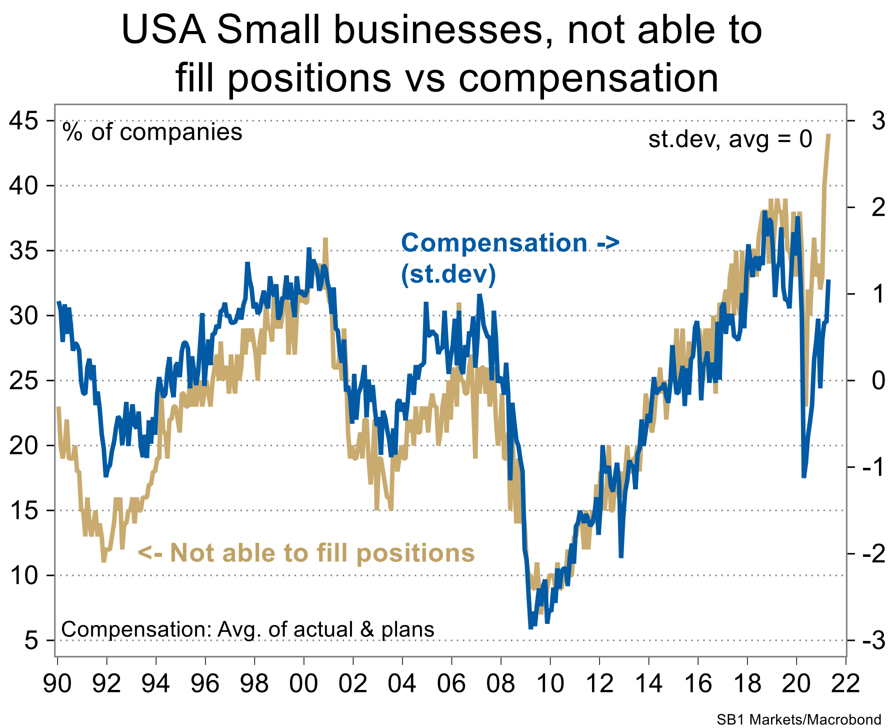
	Strong demand indicators	Weak demand indicators
Strong supply indicators (participation rate 'too' high)	**4 green 3 red** **High GDP growth** **High GDP level** **High employment growth** Medium unemployment **A high participation rate** **Many vacancies but not hard to fill** **Employment surveys strong** Jobs easy to get (Cons. Conf) Accelerating wage growth	**½ green 7 red** **Slow GDP growth** (GDP level undecided, likely low) **Low employment growth** **Higher unemployment** (The participation rate undecided) **Few vacancies, and very easy to fill** **Employment surveys weak** **Jobs very hard to get** **Slowing wage growth**
Low supply indicators (participation rate 'too' low or lower than people really 'want', over time)	**5 green 1 red** (GDP growth undecided) (GDP level undecided, most likely low) (Employment growth undecided) **Unemployment rate very low** **A low participation rate** **Vacancies very high, and very hard to fill** **Employment surveys (most likely) strong** **Jobs very easy to get** Accelerating wage growth	**2 green 5 red** **Low GDP growth** **GDP level low** **Very low employment growth** Medium unemployment **A low participation rate** **Few vacancies but not that easy to fill** **Employment surveys weak** **Jobs medium to hard to get** Medium wage growth

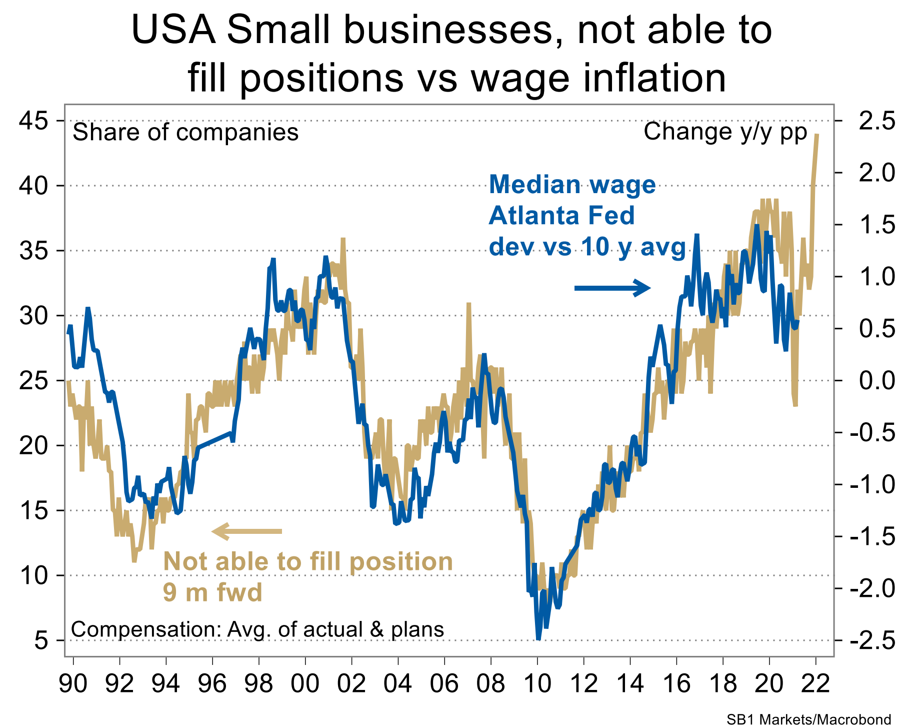
- We are no doubt in the **«strong demand»** quadrants, at least based on growth rates, vacancies and ability to fill them
- The **actual participation** is lower than normal, and most likely lower than people 'want' – and some 2.8 mill (1.8%) say they are unable to work for Covid-19 related reasons. In addition, generous unemployment benefits may not stimulate many unemployed to search for jobs
- **What to look for:** Changes in voluntary labour market leavers (no. of people not able to work due to Covid), fewer cont. claims, and wage indicators

What was our assessment of data ahead of the April employment report?
Green: Yes, it is like this today
Grey: Neutral (we are not sure or undecided in this quadrant)
Red: No, that is not the case now
Bold: A high confidence assessment,
non bold counts as ½ when summing up

Wage inflation will increase, if labour supply does not increase sharply

No wage inflation shock yet but something might happen





SpareBank 1 MARKETS

Why lasting inflation cannot be created out of thin air (that is, without wage inflation?)

Because the margins can never increase by much, over time! Labour costs drive inflation

- In macro, that is all economic activity in a nation aggregated, inflation equals the increase in prices of all goods and services sold to end users (to consumption or investments)
- In a closed economy (or the world), an increase in prices can per definition only be decomposed into – or explained by the following factors
  - » Higher depreciation costs
  - » Higher wage costs (per unit produced, equals growth in wages - growth in productivity)
  - » Higher surplus or product taxes (like a VAT), higher interest rate costs
  - » Higher corporate profits after tax
- So, if higher raw material or intermediate goods prices are pushing up the end user price level (like we do experience now) or finished goods/services producers increase their margins, the bottom line - profits – will increase if no other element in the «P&L» is changed
- However, while short term ups & downs in energy/raw material prices explain a substantial part of short term changes in end user prices (like the CPI), they do not by themselves 'explain' higher inflation over a longer period, for two reasons
  - » Raw material/supply shortage cycles are always short lived. The oil price is up 3x y/y but it is rather unlikely to triple once more. Or at least not for a 3rd time. Alas, the cost push (the margin expansion) is temporary, not permanent
  - » Higher end user prices equals higher corporate profits (either among raw material producers, intermediate goods producers or among producers of final goods & services), if nothing else changes. If higher profit margins are the reason for a continued and substantial increase in the price level, a continued and substantial increase in the profit margin is needed. That has never happened before – and will not happen – basically because capitalism (competitions) works

Corporate costs & margins		Prices + 4%	
US Domestic corporates, 2019	Now	Short term	*Long term*
Value added *	**100.0**	***104.0***	***104.0***
- Capital depreciation, 16%	16.0	16.0	16.6
= Net value added	**84.0**	***88.0***	***87.4***
- Wages	60.0	*60.0*	*60.0*
- Product taxes - subsidies, 8%	8.0	*8.3*	*8.3*
= Net operating surplus	**16.0**	***19.7***	***19.0***
- Net interest payments, transfers	2.0	2.0	2.1
= Corporate profit before tax	**14.0**	***17.7***	***17.0***
- Taxes, 15%	2.1	*2.7*	*2.5*
= Corporate profits after tax	**11.9**	***15.0***	***14.4***
Change in corp pre tax profits, % of VA		*3.7*	*3.0*

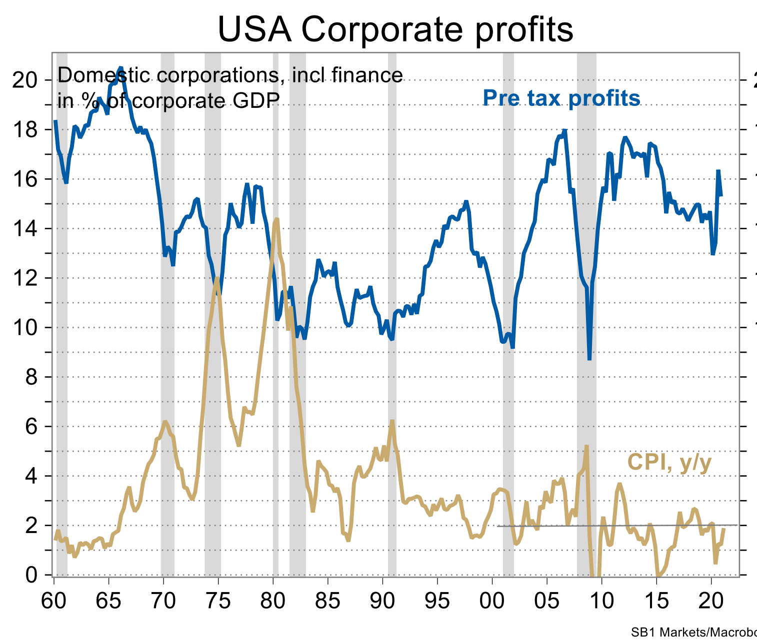
** equals corporate GDP, equals value goods & services sold to end users*

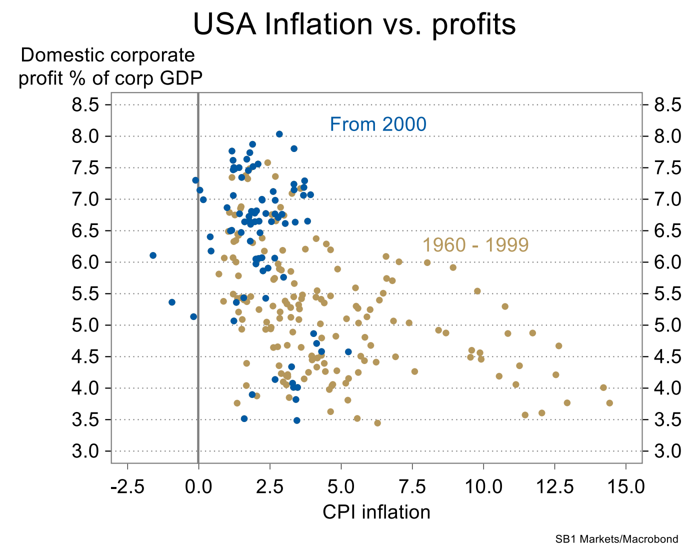
- Profit margins typically equals 10% – 20 % of corporate GDP (14% in the US domestic corporates, 2019). In order to push the price level up by 4% extra (say 2 pp up over 2 years) without higher wage growth, the US pre-tax profit rate will increase by 3.7 pp to 17.7% from 14% (somewhat less over time as depreciation and interest rate costs will increase, nominally)
  - » A close to 4 pp lift in the macro profit rate from the present level seems very unlikely
  - » In fact, there is no lasting positive correlation between inflation and corporate profits (charts next page)
- So what drives inflation? The unit labour wage costs! Wage costs are more than 4x larger than profits, and an increase in real wages by 1 pp (that is above growth in companies selling prices) cuts the profits share by 0.6 pp, or by 4.2%

SpareBank 1 MARKETS

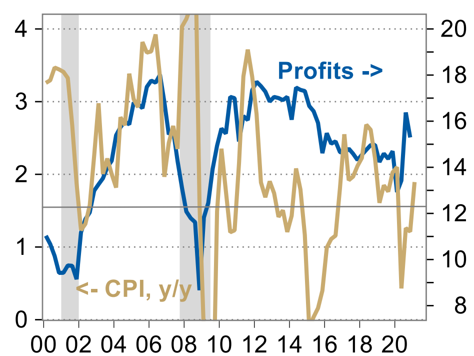
Historically: If anything; High inflation, low profits

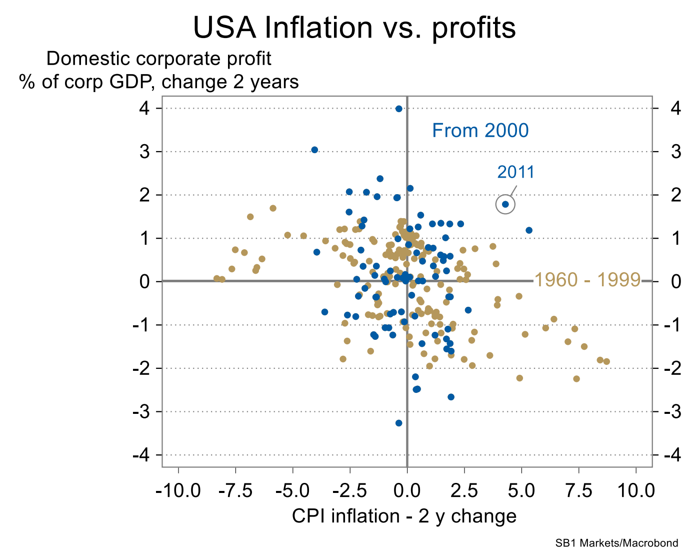
Since 2000; No correlation on average – but some positive correlation in 2004-6, 2010-11





- Higher inflation does not support corporate profits, even if the companies are able to sell their products at a higher price. Why?
- *Because everything else is NOT equal*

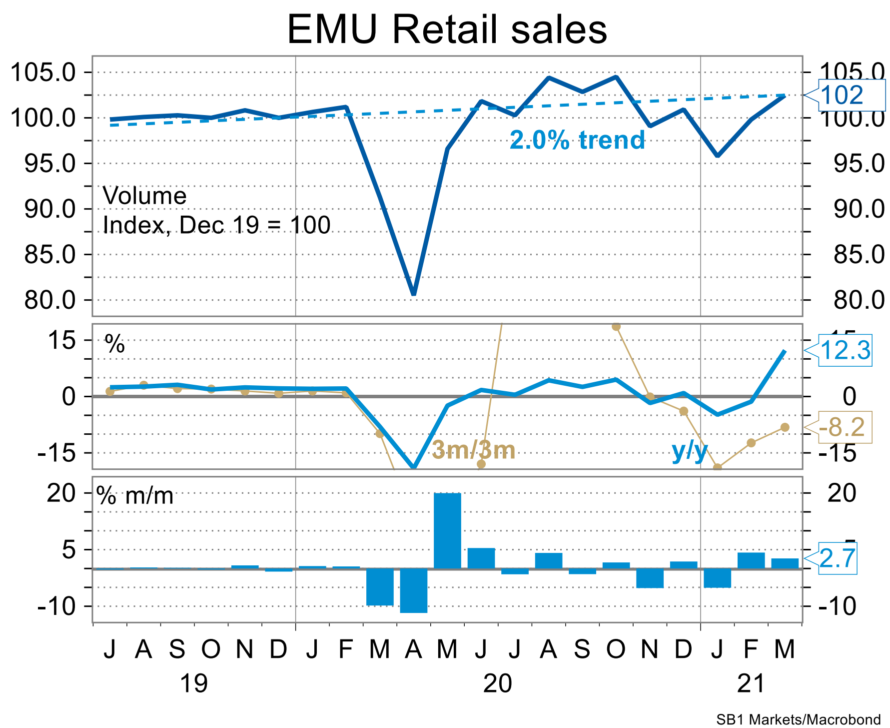


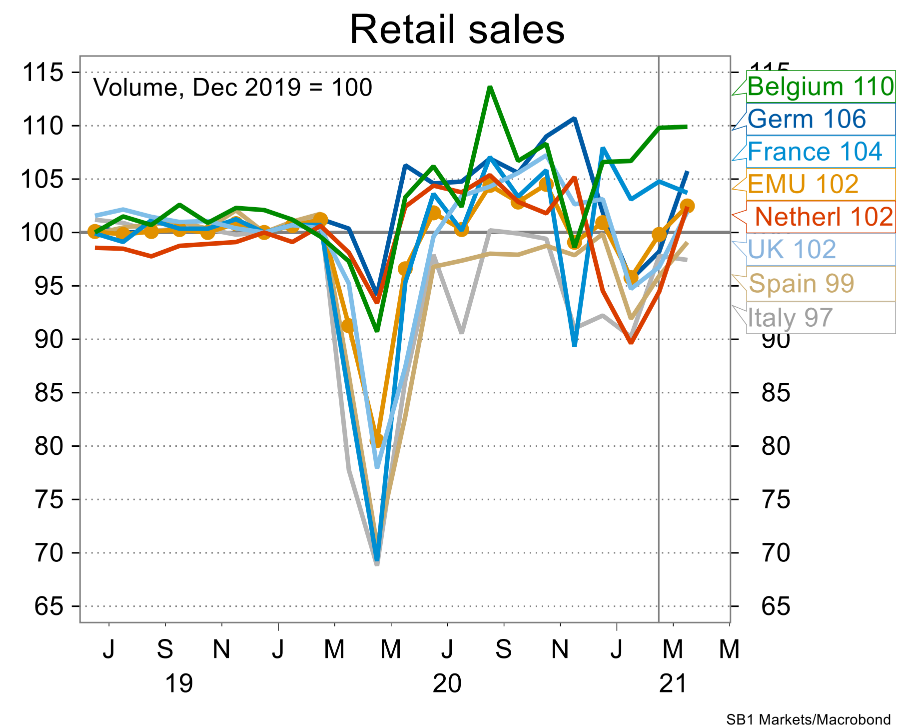


SpareBank 1 MARKETS

Eurozone retail sales back on pre-Covid trend in March, and 2% above p-p level

Sales rose 2.7%, better than the expected up 1%-1.5%, and Feb revised sharply up

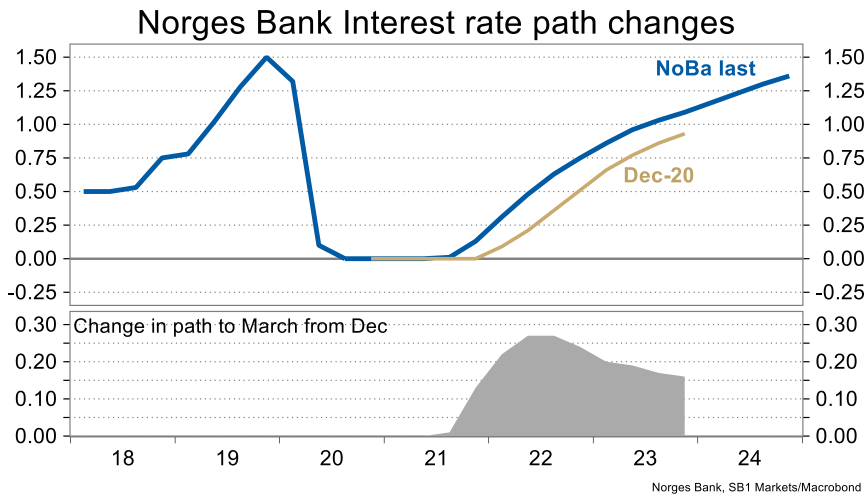


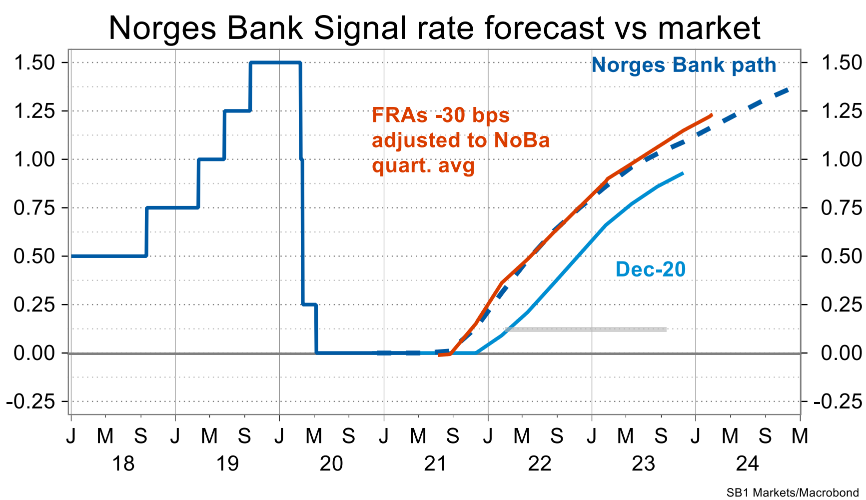


- Sales were up 2.7% m/m, and the Feb figure was revised up by 1.2 pp to 4.2%.
- Sales fell by 1.0% in France, and was flat in Belgium - but rose elsewhere: 8.8% in Netherlands, 7.7% in Germany, Spain 3.3%. Italy has not yet reported, but most likely contracted 0.4%
  - » Sales in Spain & Italy remain the pre-pandemic level. Lack of foreign tourist probably explains much of the shortfall. Sales are higher elsewhere
- Countries in which the restrictions were eased in March saw large increases in retail sales (naturally), contributing to a higher EMU average. Online sales also saw an increase of 37%

No news from Norges Bank, but the risk is no more *substantial*

The bank kept the policy rate and the rate path unchanged, as expected



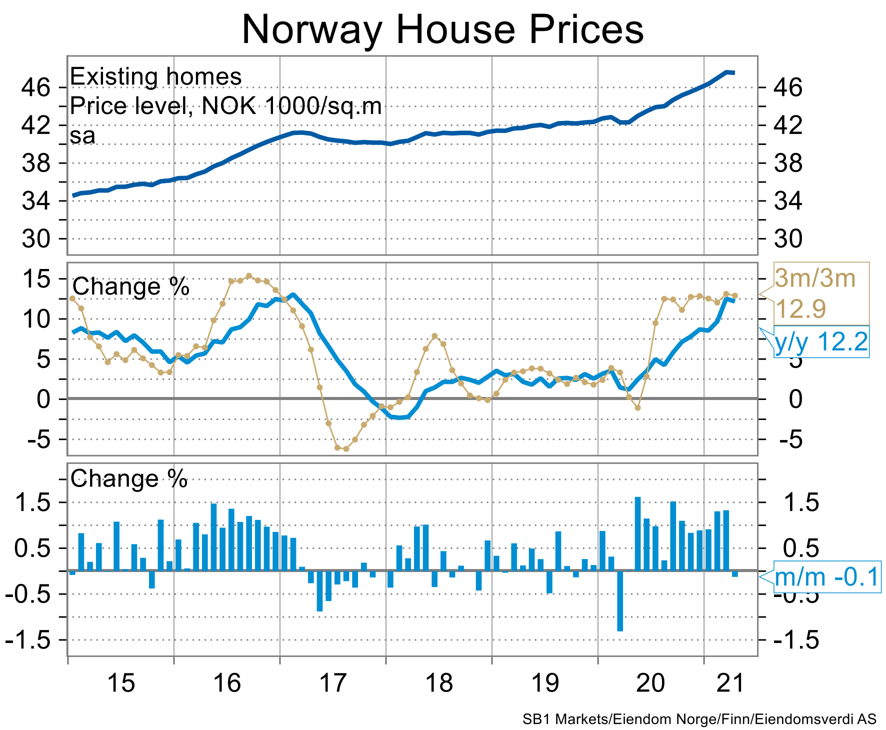


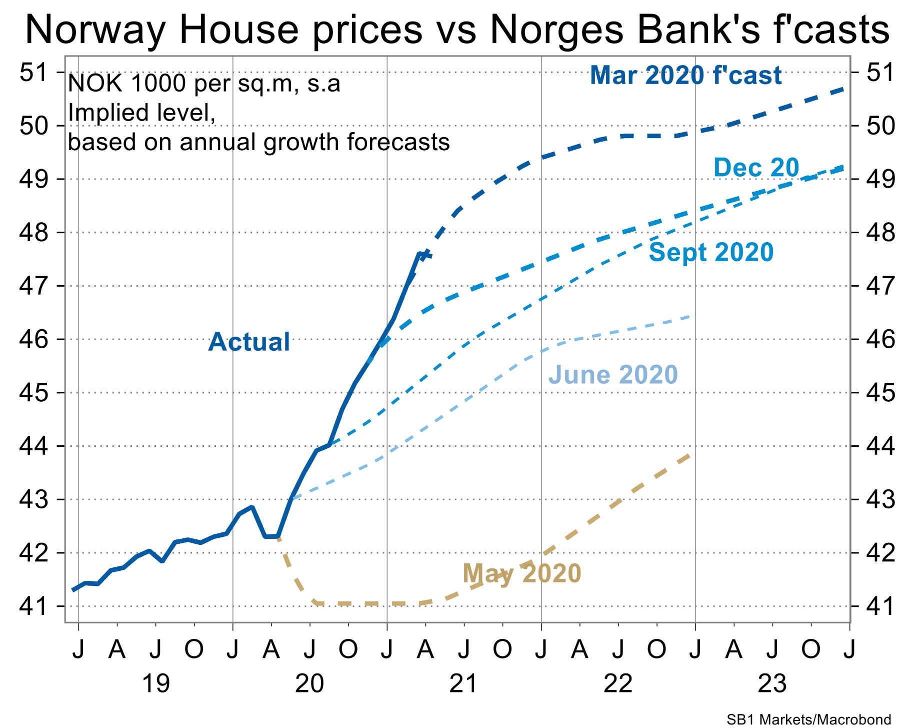
- Norges Bank kept the **key policy rate** unchanged at 0%, as expected. No new MPR at this meeting, and the press release revealed nothing new – first hike to come in H2, they said
- In the March MPR, NoBa indicated a **50% chance for a hike in Sept-21,** and given a hike in Sept, a 25% chance of another hike in Dec. No hike in Sept will mean that a Dec hike is evident very likely
- The bank keeps stressing the uncertainty regarding the virus, vaccines and the impact on the economy - still need for expansionary policy. However, in March the bank noted that there is was a '*substantial uncertainty*', now there is just '*uncertainty*', which in our vocabulary implies less uncertainty
- Currently, the market is spot on Norges Banks rate path until the end of 2023.
- We expect domestic demand for services to recover rapidly as soon as the virus is brought under sufficient control and restrictions eased, and that the bank will start hiking in September. However, the bank does not lift the interest rate further in June – even if we think that most likely, that will be the final outcome

SpareBank 1 MARKETS

House prices down in April, didn't the market stand even the talk about higher rates?

Prices down 0.1% in April, we expected +0.9%! A broad slowdown. In April, that is



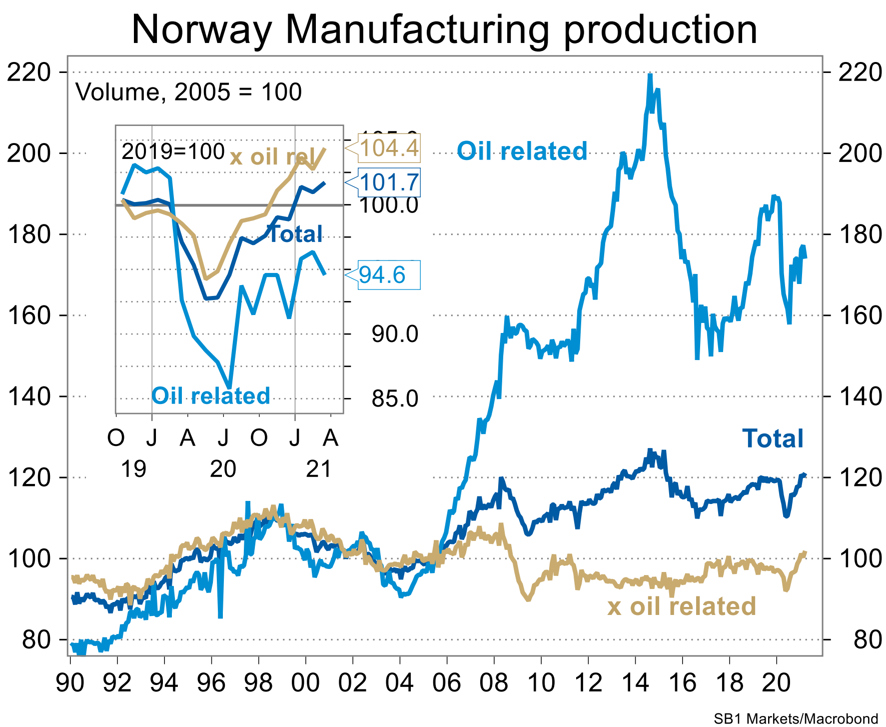


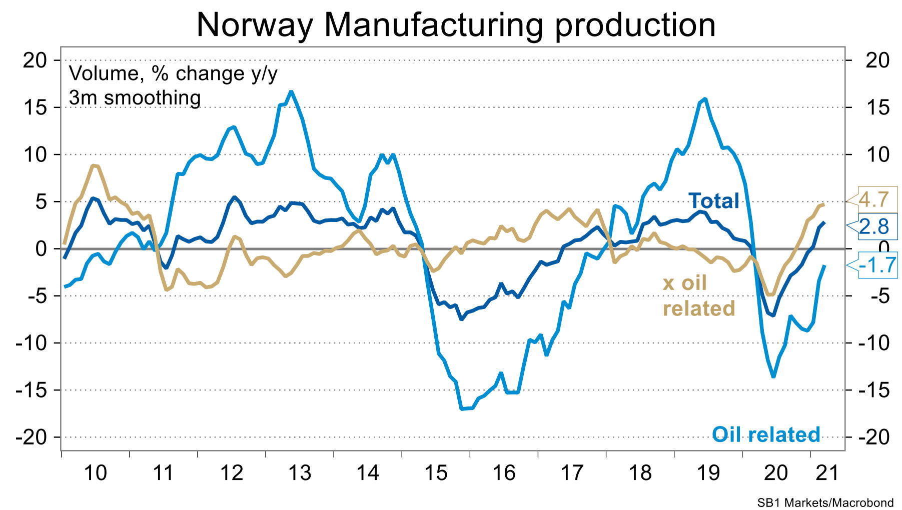
- **House prices** fell by 0.1% seas. adj in April, down from +1.4% (rev from 1.1%) in March. We expected 0.9%, NoBa 0.8% - and prices are now below NoBa's March path! Prices are still up by 13% 3m/3m (annualised), stable since Dec. Prices are up 12.2% y/y
- 10 of 16 cities down, just 2 significantly up; Kristiansand and Stavanger. Prices in Oslo fell for the 2nd month in row, by 0.2%
  - » Smoothed 3m/3m prices are up everywhere. Oslo by 14%. Bergen, Trondheim, Tromsø & Ålesund at the bottom, both m/m & 3m/3m
- The **number of transactions** rose in April and the level is high. The **inventory of unsold homes** fell further to a record low level
- Our national **flow based price model** signals 1% m/m price growth, the Oslo model zero growth
- Should house prices flatten from here: Less pressure on **Norges Bank** to start normalising its signal rate in the early autumn

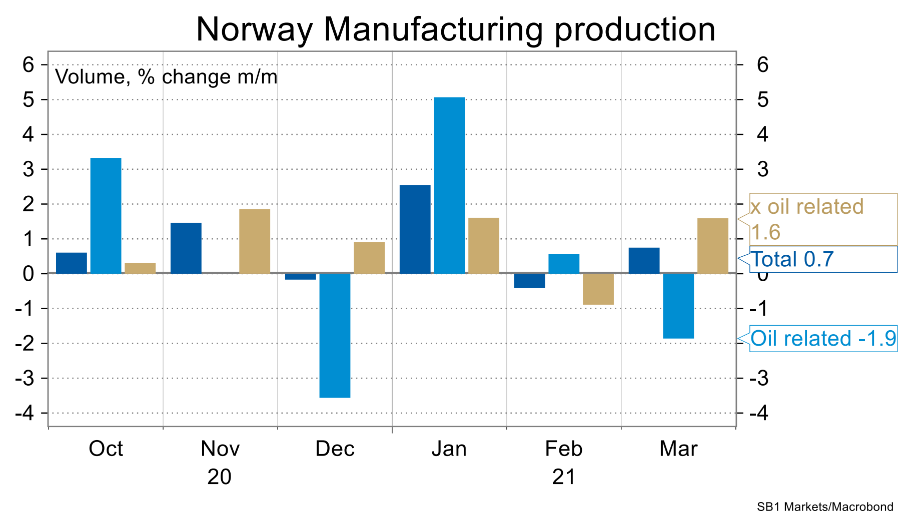
SpareBank 1 MARKETS

Manufacturing production up 0.7% in March, we expected 1.0%

Production up 9.7% since last summer, 2 % vs. pre covid, non-oil production the highest in 10 years



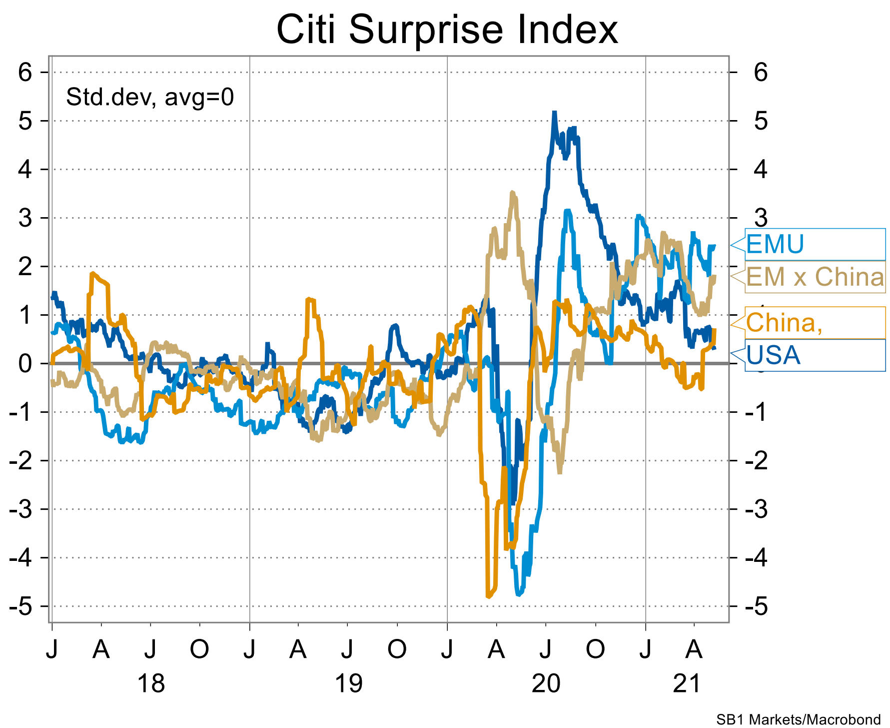


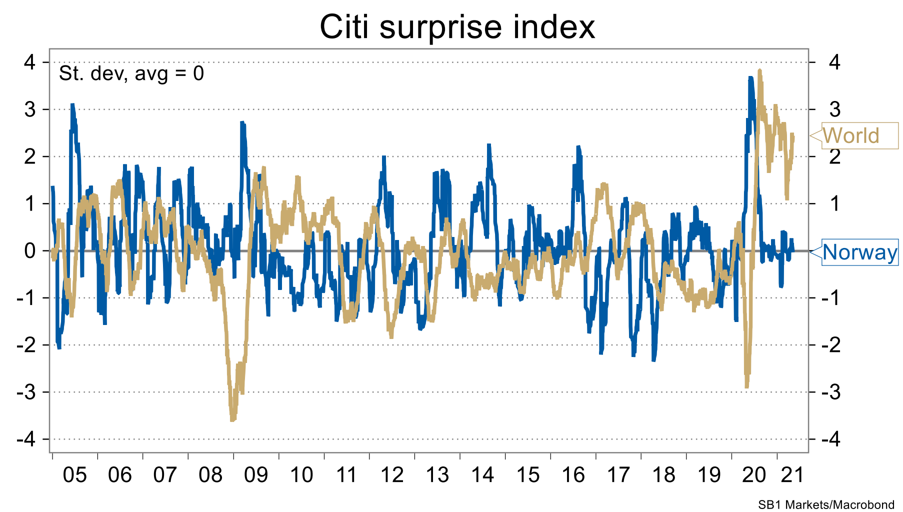


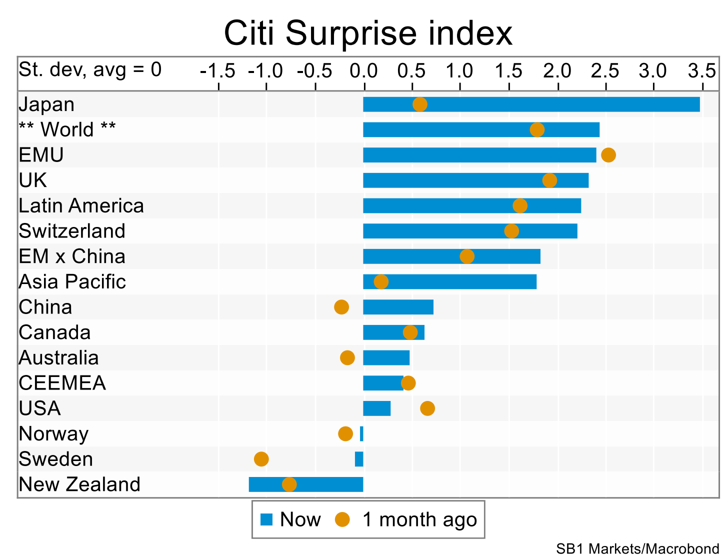
- Production has been at a steep upward trend since May, up over 9%. The increase in March was mostly driven by metals, chemicals, and refined petro
- Total production increased by 0.7% m/m, we expected 1.0% following the 0.4% drop in February. Production is up 2% vs. pre pandemic
- Oil related production fell by 1.9% m/m, and is down 9% vs. p-p (but up vs. last March) while non-oil related production grew 1.6 % m/m, and up 5% both vs. p-p and y/y
- Surveys are signalling a further recovery, even if the PMI fell 1 p in April (More on the PMI here)

Surprises heavily on the upside again

... 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 Lat-Am
- The **US** surprise index stabilised last two weeks
- **China** has recovered as March and April data (so far) have been 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: China in April, US CPI, Norw. CPI, GDP

Time	Count.	Indicator	Period	Forecast	Prior
Monday May 10					
08:00	NO	CPI YoY	Apr	3.1'(2.9)	3.1%
08:00	**NO**	**CPI Underlying YoY**	**Apr**	**2.1'(2.3)**	**2.7%**
Tuesday May 11					
03:30	CH	CPI YoY	Apr	1.0%	0.4%
03:30	CH	PPI YoY	Apr	6.5%	4.4%
11:00	GE	ZEW Survey Expectations	May	72.0	70.7
12:00	**US**	**NFIB Small Business Optimism**	**Apr**	**101.8**	**98.2**
16:00	US	JOLTS Job Openings	Mar	7500k	7367k
Wednesday May 12					
06:00	SW	PES Unemployment Rate	Apr		4.0%
08:00	**NO**	**GDP Mainland MoM**	**Mar**	**-0.4 (-0.3)**	**-0.5%**
08:00	**NO**	**GDP Mainland QoQ**	**1Q**	**-0.7 (-0.7)**	**1.9%**
08:00	UK	GDP (MoM)	Mar	1.50%	0.4%
08:00	UK	GDP (QoQ)		-1.60%	1.3%
08:00	UK	Manufacturing Production MoM	Mar	1.00%	1.3%
09:30	SW	CPIF Excl. Energy YoY	Apr	1.60%	1.4%
10:00	NO	Housebilders' survey, starts	Apr		
11:00	EC	Industrial Production SA MoM	Mar	0.80%	-1.0%
14:30	**US**	**CPI Ex Food and Energy MoM**	**Apr**	**0.3%**	**0.3%**
14:30	US	**CPI Ex Food and Energy YoY**	Apr	2.3%	1.6%
14:30	**US**	**CPI YoY**		3.6%	2.6%
20:00	US	Monthly Budget Statement	Apr		-$659.6b
Thursday May 13					
14:30	US	Initial Jobless Claims	May-08	500k	498k
14:30	US	PPI Ex Food, Energy, Trade MoM	Apr	0.4%	0.6%
Friday May 14					
14:30	**US**	**Retail Sales Advance MoM**	**Apr**	**1.0%**	**9.8%**
15:15	US	Industrial Production MoM	Apr	1.2%	1.4%
15:15	US	Capacity Utilization	Apr	75.2%	74.4%
15:15	**US**	**Manufacturing Production**	**Apr**	**1.7%**	**2.7%**
16:00	US	Business Inventories	Mar	0.3%	0.5%
16:00	US	U. of Mich. Sentiment	May P	90.1	88.3
During the week					
	CH	Aggregate Financing CNY	Apr	2250.0b	3340b
	CH	New Yuan Loans CNY	Apr	1575.0b	2730b
Monday May 17					
03:30	CH	New Home Prices MoM	Apr	--	0.4%
04:00	CH	Fixed Assets Ex Rural YTD YoY	Apr	20.0%	25.6%
04:00	**CH**	**Retail Sales YoY**	**Apr**	**25.0%**	**34.2%**
04:00	**CH**	**Industrial Production YoY**	**Apr**	**9.9%**	**14.1%**
14:30	US	Empire Manufacturing	May	23.0	26.3
16:00	US	NAHB Housing Market Index	May		83.0
Tuesday May 18					
01:50	JN	GDP Annualized SA QoQ	1Q P	-4.5%	11.7%

- **China**
  - » **April real economy data** (retail sales, industrial & services production, investment) should confirm decent growth, and that Q2 growth will recover from the slow Q1 but not an acceleration from here. The activity level is high, shortages of raw materials and some policy tightening are solid argument for somewhat slower growth
- **USA**
  - » We know that annual **inflation rates** will climb rapidly in April, so focus on the monthly changes, both for the **CPI & the PPI**. Business reports are extreme, of course
  - » **Small businesses** have already reported unprecedented problems filling their record high vacancies, and hiring plans remain intact, and that they have increased wages and will continue to do so, much faster than normal. More details on sales etc this week
  - » **Retail sales** are expected to remain elevated in April, following the almost 10% lift in March, funded by (a small part of) the stimulus cheques, we presume. Auto sales are reported up. The coming months, we expect sales to come closer to a long term trend. Now sales are at least 10% above
  - » **Manufacturing production** is expected sharply up in April, to above the pre-pandemic level for the first time. Surveys are 'crazy' but lack of supply may soon hamper production
- **EMU**
  - » **Industrial production** will probably climb some 0.5%, less than we assumed until last week. Lack of supply may already dampen activity, like in the auto industry
- **Norway**
  - » We assume that **Mainland GDP** fell further in March, due to Covid restrictions – and that GDP fell by 0.7% in Q1. However, what happens or not in March or April, does not have any impact on our assessment of the activity level in H2
  - » Annual **core CPI** inflation is expected sharply down in April, to 2.3% from 2.7% in March. We forecast 'normal' price increases in April but prices rose sharply in April last year (0.6% s.a) and this trick will not be repeated now

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

Highlights

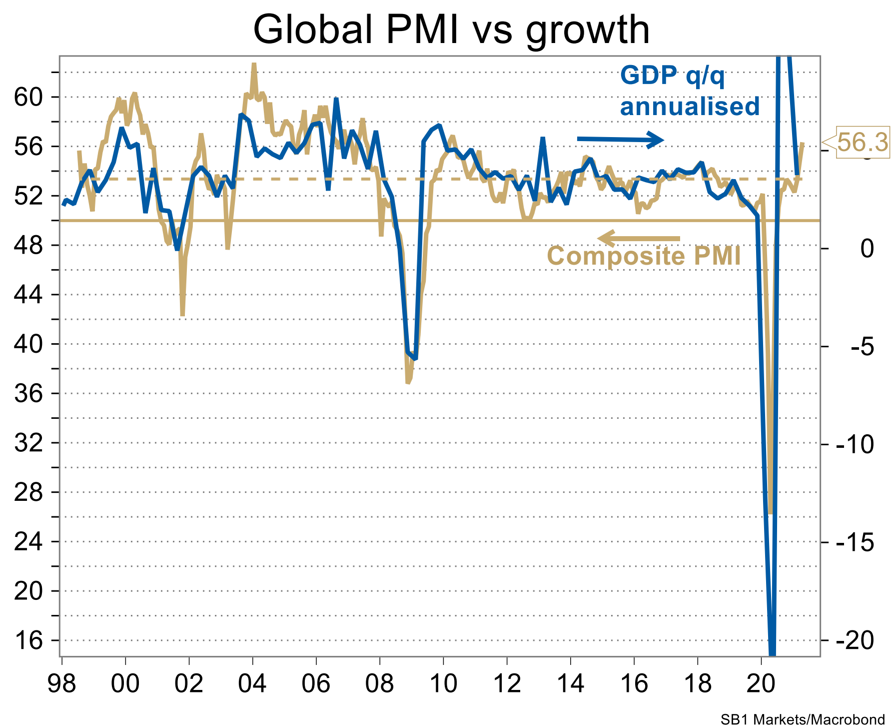
The world around us

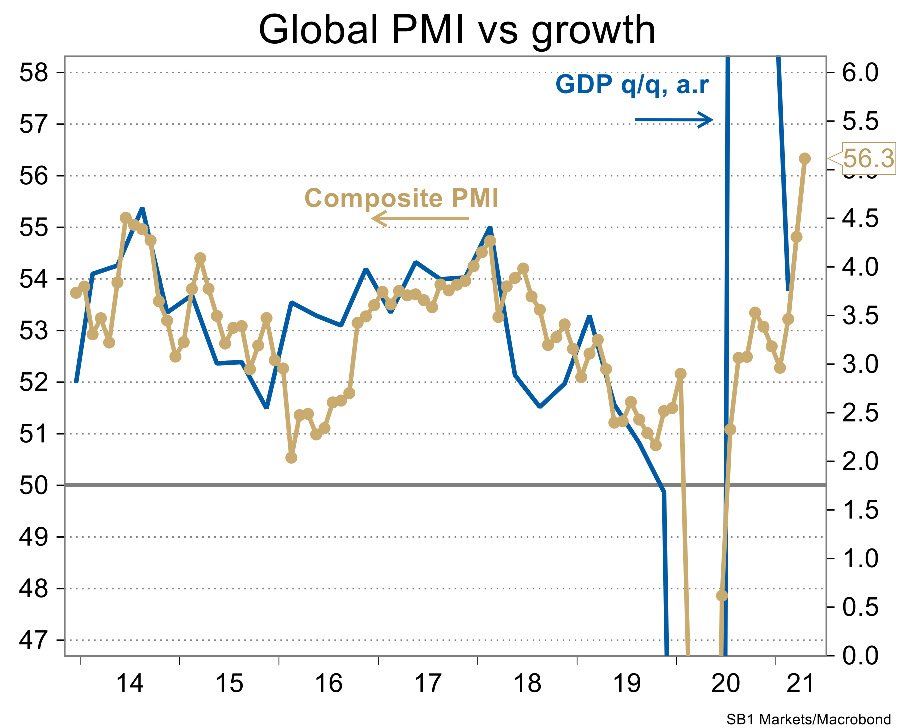
The Norwegian economy

Market charts & comments

The global comp. PMI even better than we assumed, up to 56.3, best since '10

The global index added 1.5 p, and signals GDP growth far above trend

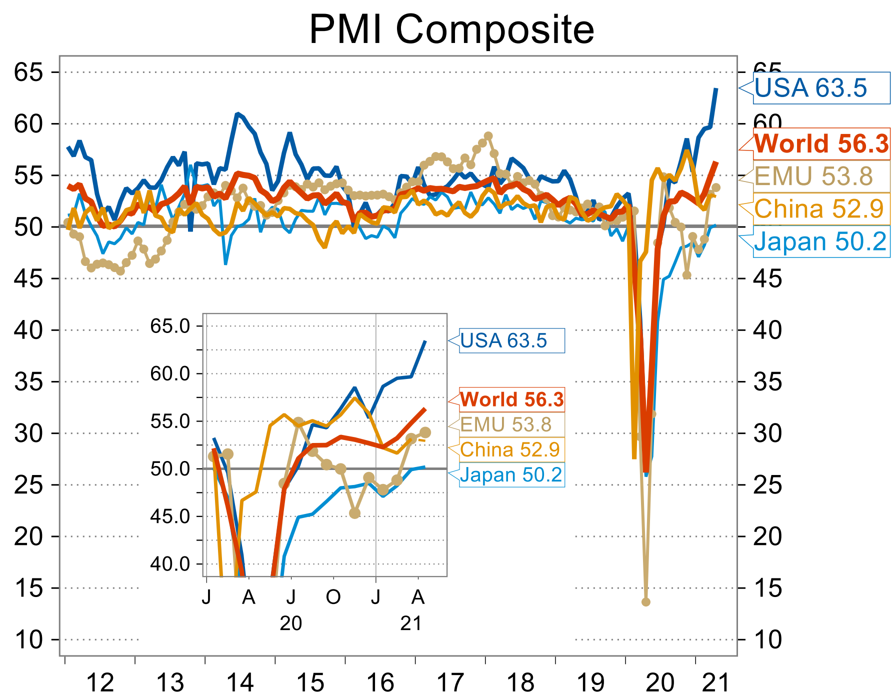




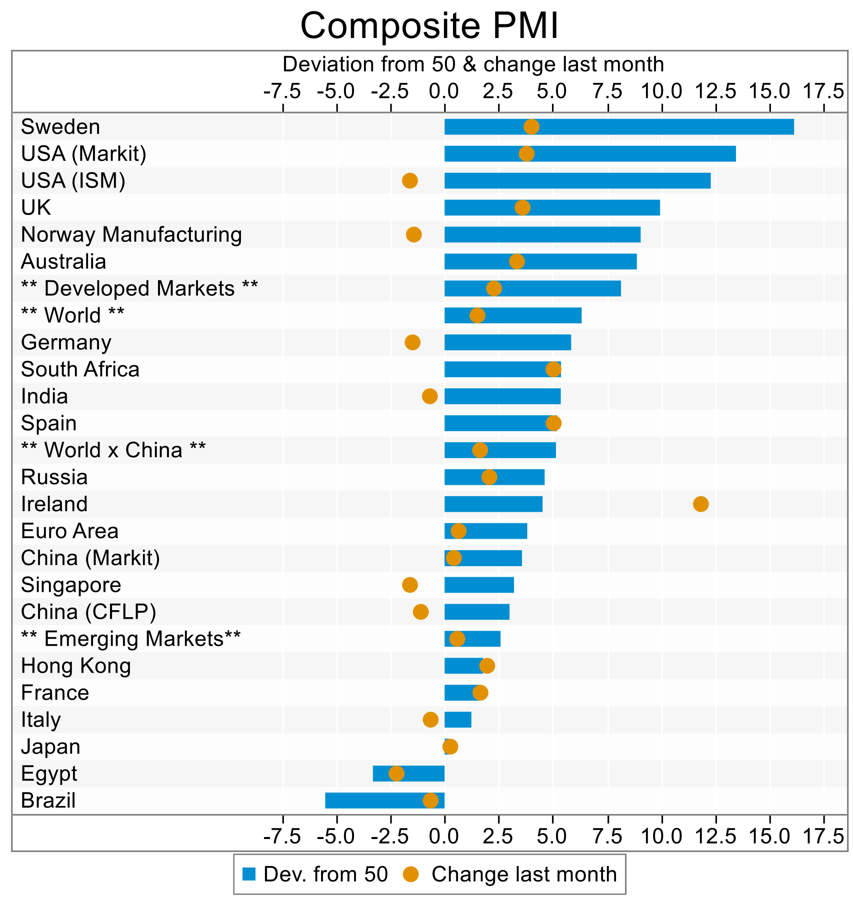
- We assumed a +1 p lift to 55.8, 0.5 p lower than the outcome
- Both services and manufacturing contributed on the upside

A broad strengthening in April – Sweden in the pole position again; US, UK follow

Just 2 countries below the 50 line



Source: IHS Markit, SB1 Markets, Macrobond

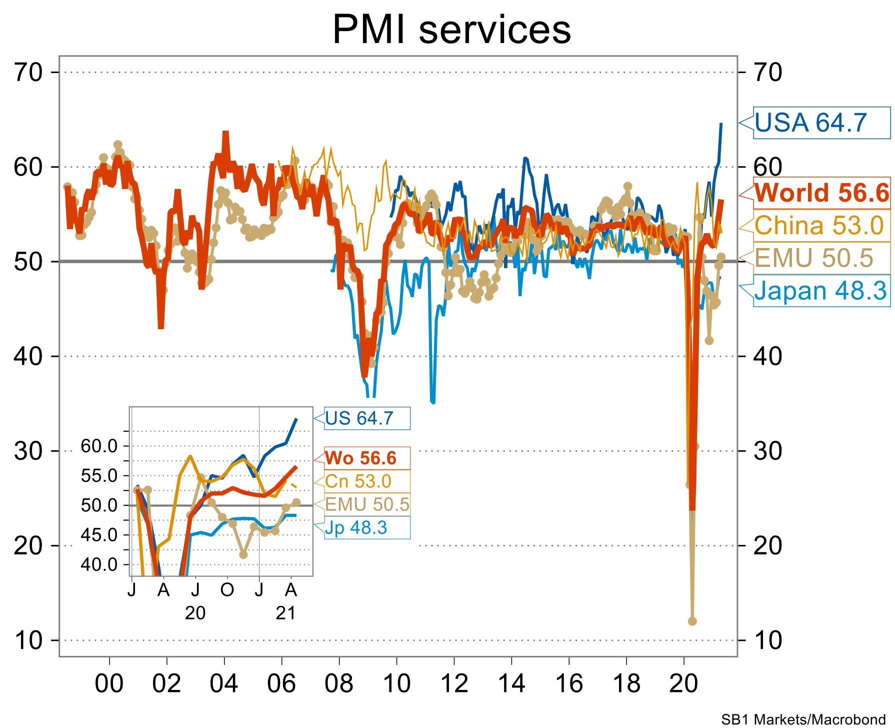


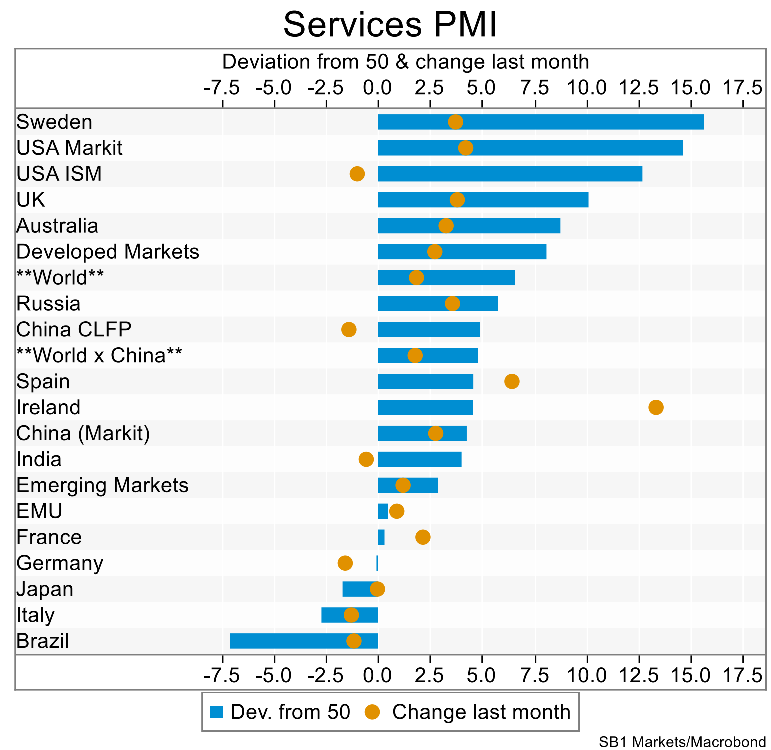
SB1 Markets/Macrobond

- 17 countries/regions up, 9 down. 2 below the 50 line
- Sweden, US & UK at the top. India still strong, in April
- The Chinese PMIs mixed, Markit's up, NBS' down
- Brazil a the bottom, due to continued corona problems

The service sector PMI +1.8p to 56.6 in April, best since ‘07

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

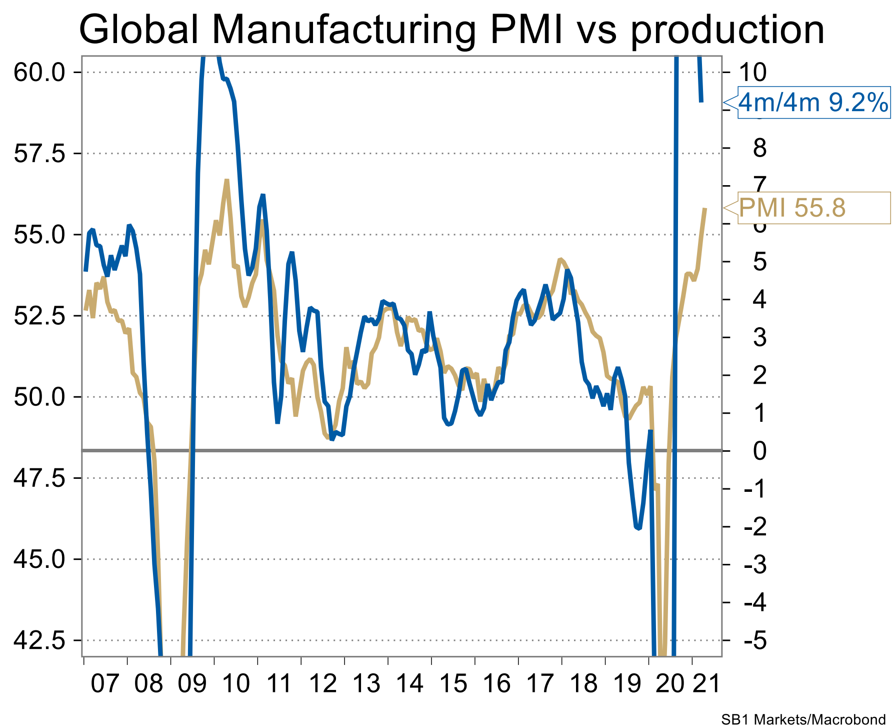


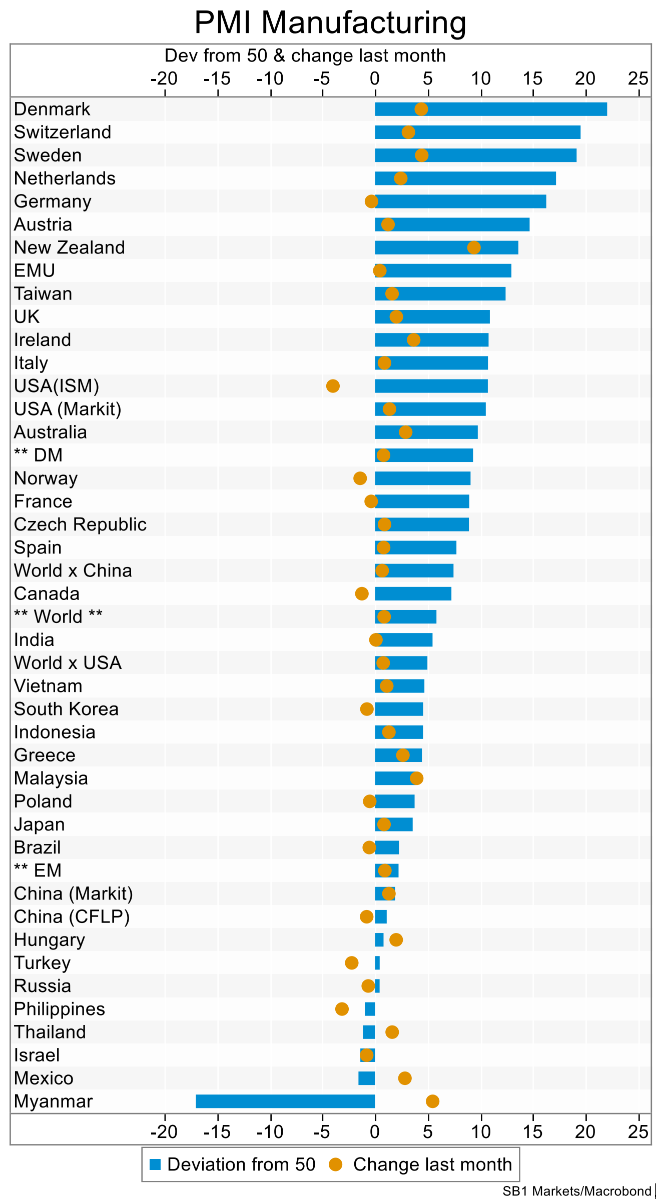


- The service sector PMI rose 0.7 p more than we assumed, and signals a brisk ongoing recovery in services
- 13 countries/regions up, 6 down; 3 below the 50 line, 17 above
- Mixed in the US: Markit’s up, ISM down – but both at extreme levels
- Services in Spain surprised on the upside, big time
- Besides Brazil, Germany, France & Italy are at the bottom, and below the 50 line, together with Japan.

Manufacturing PMI climbs, 90% are above 50, a further recovery signalled

The PMI rose by 0.8 p to 55.8 in April, to the best level in 10 years

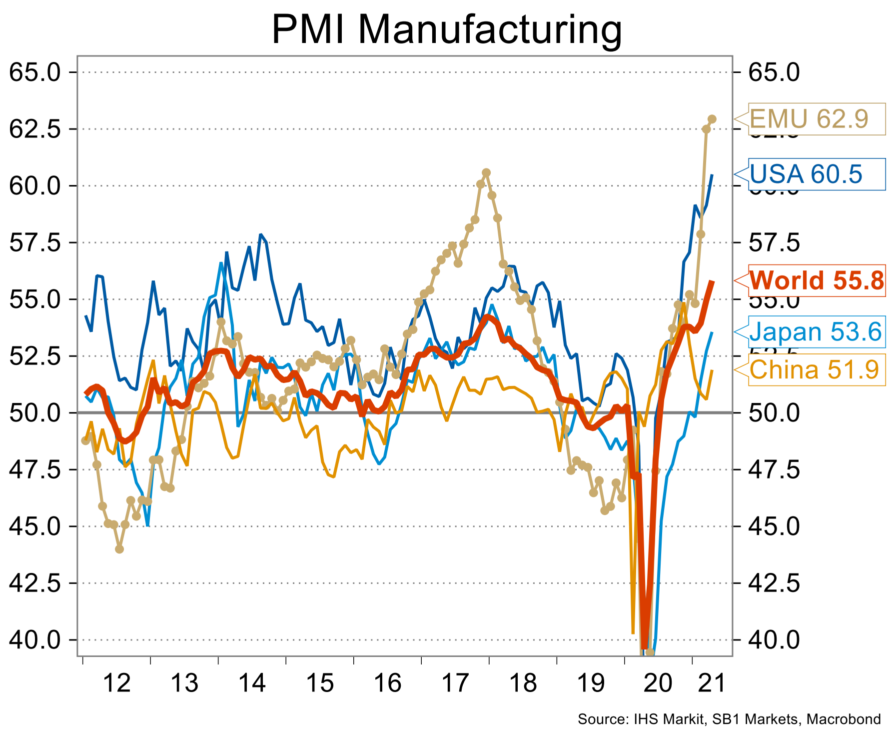


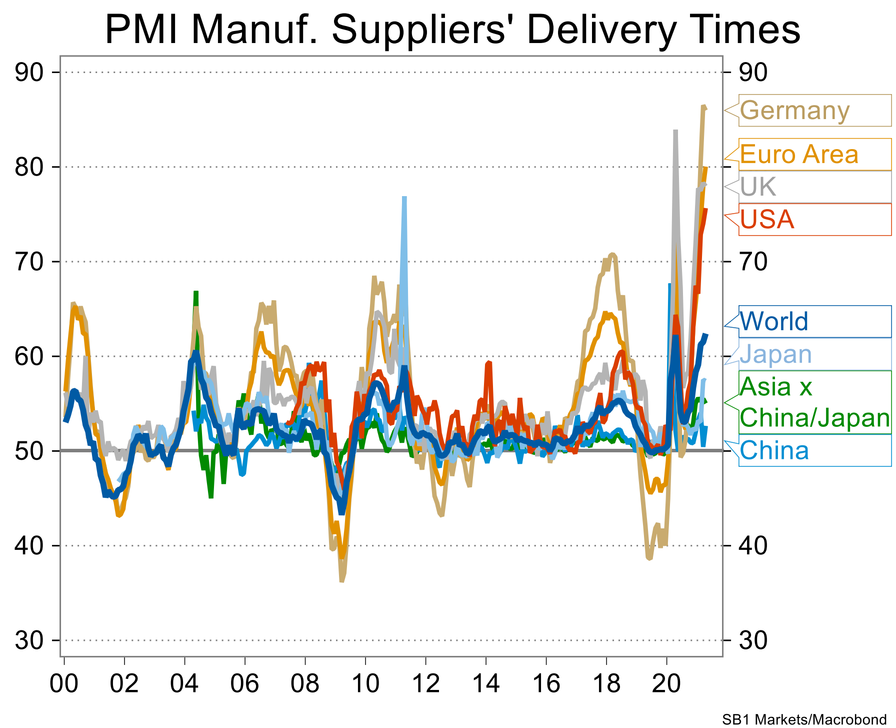


- The global manufacturing PMI rose 0.8 p to 55.8 in April, slightly above f'cast
  - » 70% of the countries/regions reported higher PMIs in April than in March
  - » Almost 90% of countries reported a PMI> 50, the highest proportion since 2018
- **European** countries at the top at a record high level. The **US** PMI rose further, while the ISM index surprisingly fell by 4 p, but remains above 60
- The **Chinese** manuf. PMIs were mixed but still signals growth above trend

The boom in the manufacturing sector is broad, Europe in the lead

… and delivery times are surging!

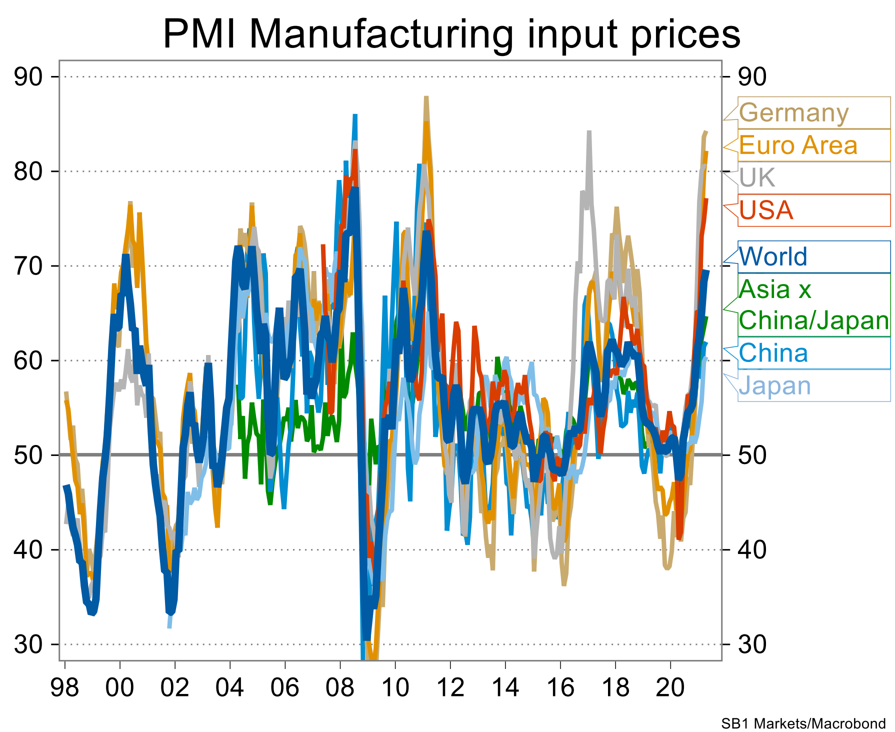


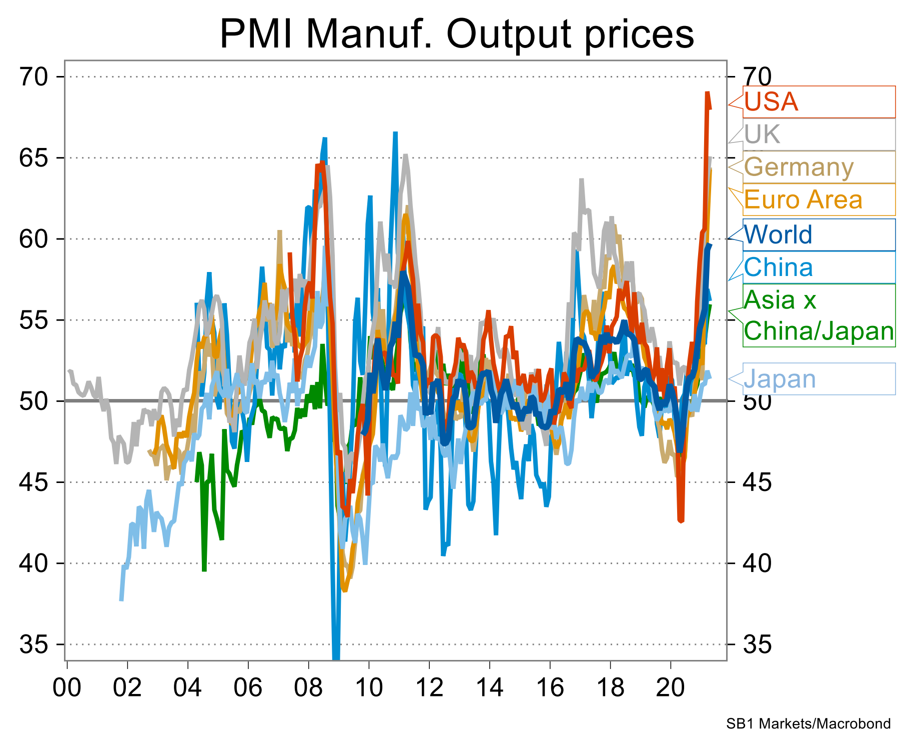


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) rose further in April, to the highest level ever. One year ago delays were entirely due to corona related supply chain challenges – and prices tumbled. Now, some of the delays may be somewhat corona related but demand is very strong

Prices are rising faster everywhere (and output prices the fastest ever most places)

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





- **Input prices** are climbing at the fastest pace since 2011, according to the companies
- **Output prices** are rising faster than ever - data back to 2009 (but several countries are reporting the fastest increase even back to year 2000)
- **All together** – rapid growth, longer delivery times and higher prices look like something familiar – *check the next page!*

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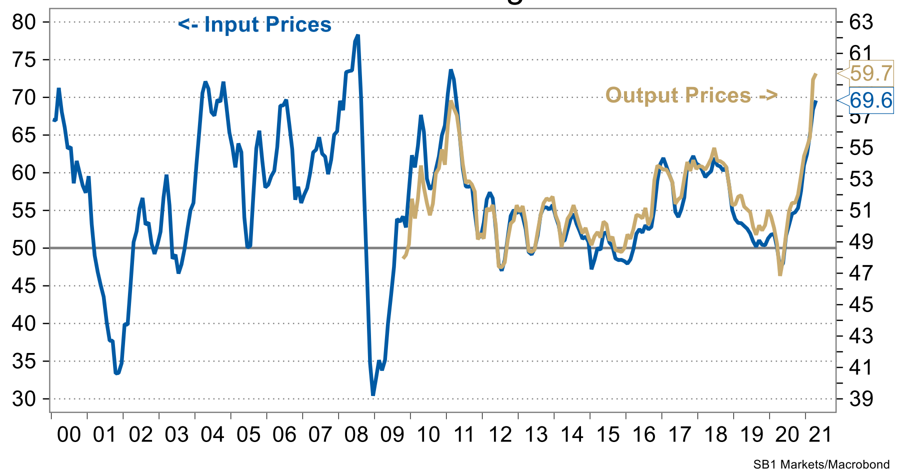
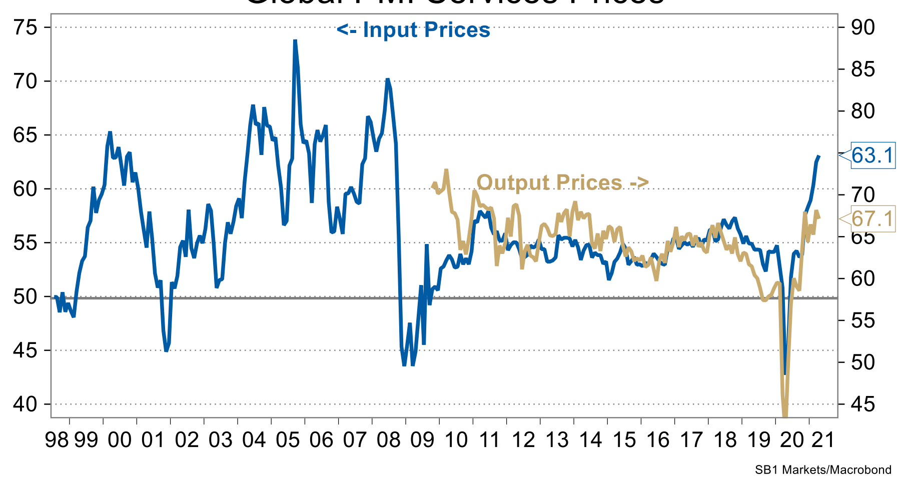
Businesses keep reporting even faster growth in input/output prices

Higher CPI inflation unavoidable, at least short term

Gobal Manufacturing PMI Prices

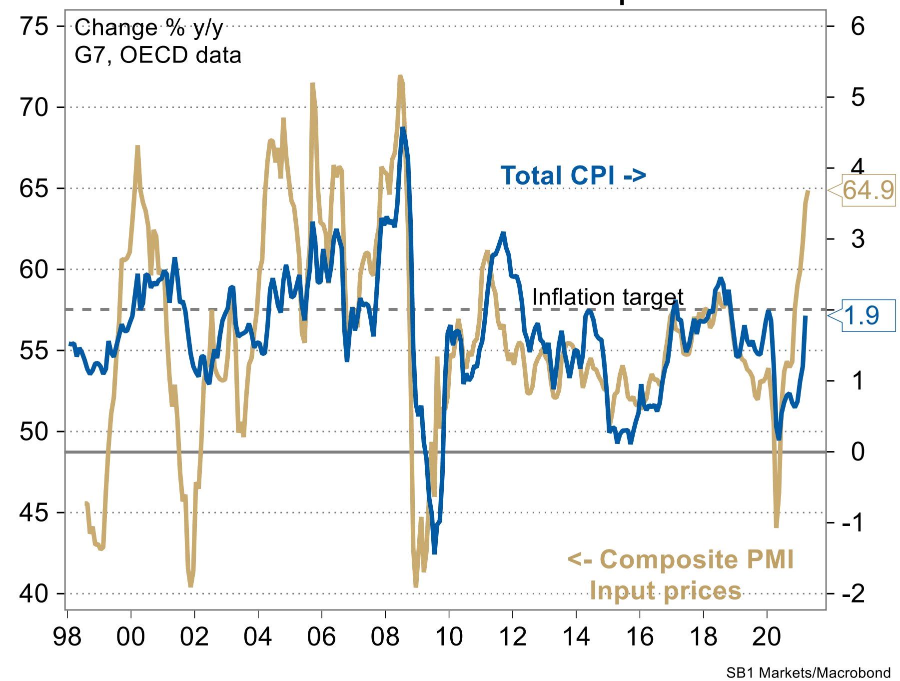


Global PMI Services Prices



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

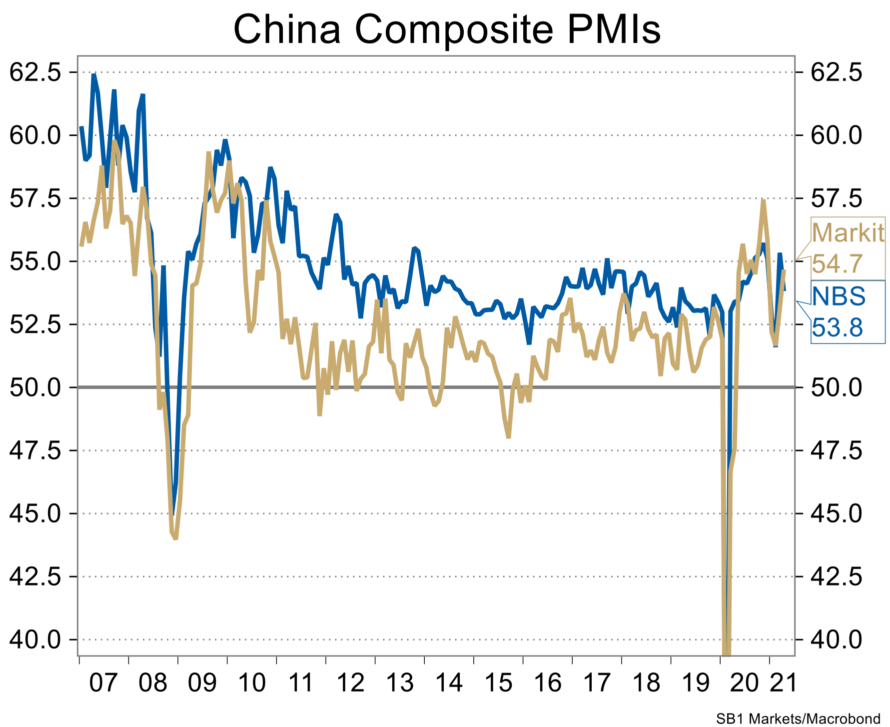
OECD Inflation vs PMI prices

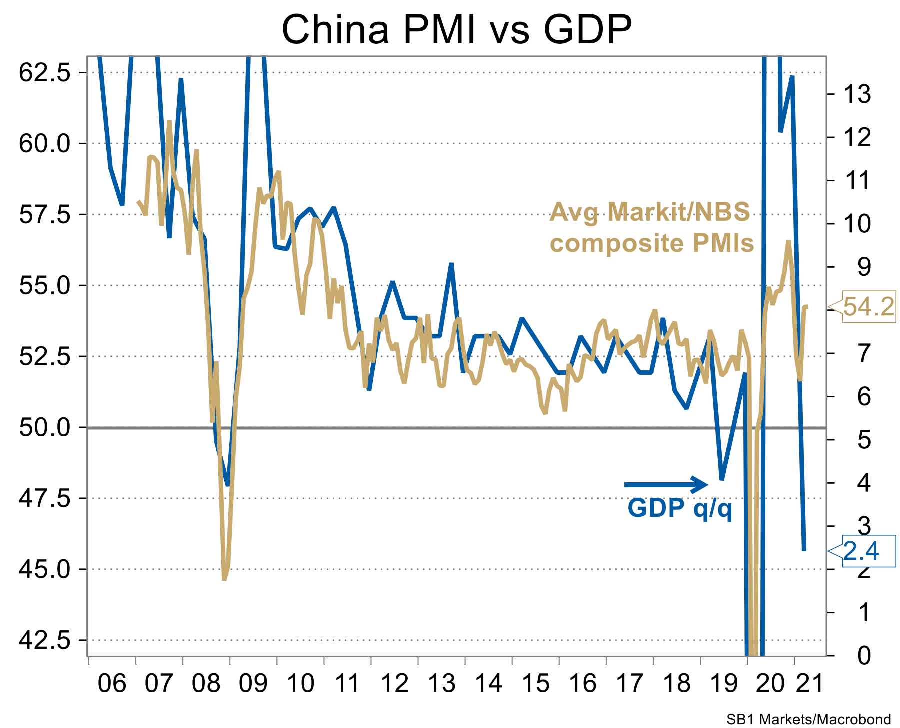


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices
- The correlation to **actual CPI inflation** is not prefect, but the PMI price indices are signalling a lift in headline inflation, from 1.9% in rich countries in March
- The correlation to core CPI is far less impressive. Check more on the real inflation engine here

Mixed April PMIs, growth well above trend is still signalled

NBS' composite PMI down, Markit's PMI just as much up. A 8% GDP growth signalled

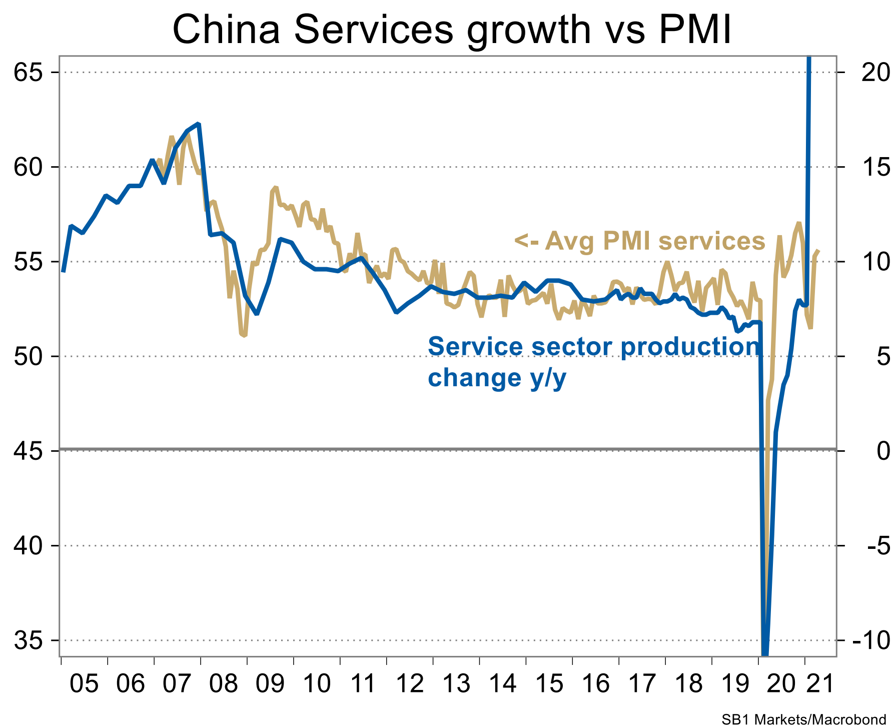


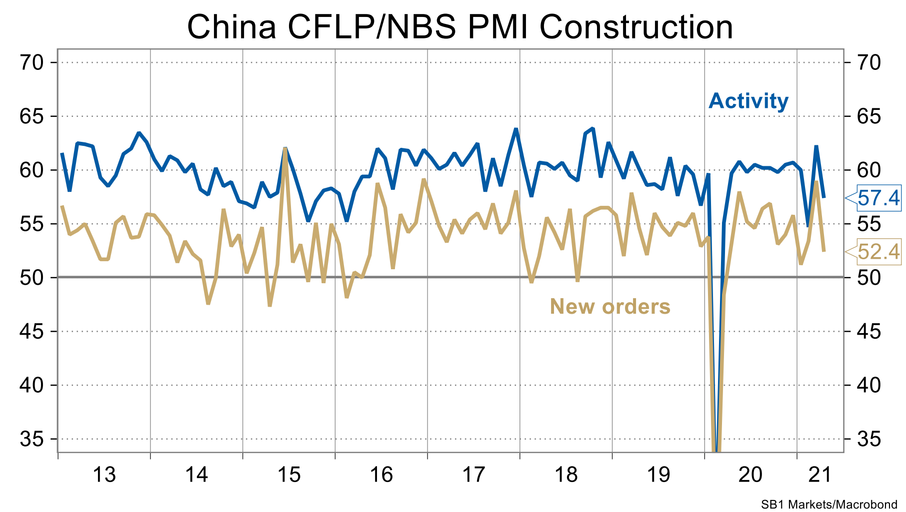


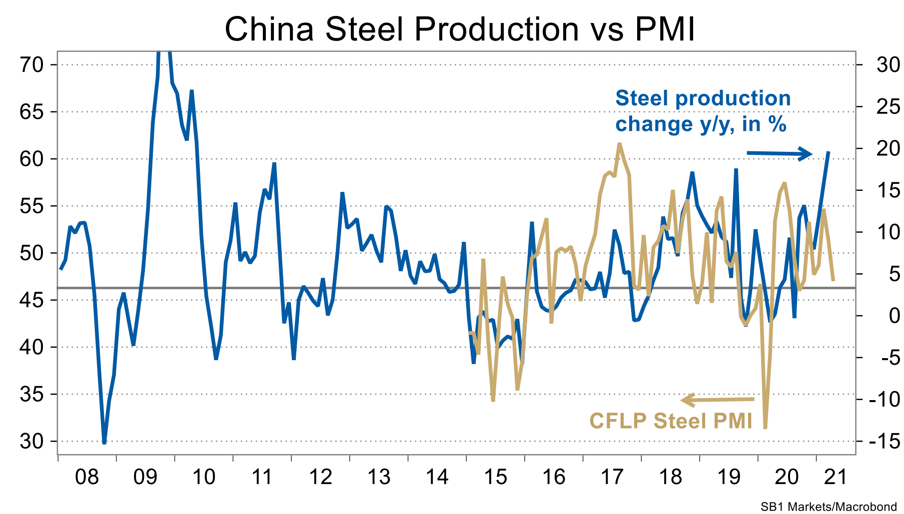
- GDP was substantially weaker than expected in Q1 (up just 0.6% q/q), mostly due to travel restrictions during the NY holidays. Activity accelerated in March
- The **April PMI average** was flat at high level (54.2) due to a lift in Markit's PMI, both manufacturing and even more services, while the NBS' composite declined
- We expect GDP growth to accelerate in Q2 from the low level in Q1, but followed by a gradual slowdown in H2
  - » The activity level is above the pre-pandemic trend
  - » Credit policy is tightened

Services are still reporting growth far above trend

The construction & steel PMIs fell, and both are slightly below average







- Activity in the service sector was back at the pre-pandemic trend in March, following a weak February (very likely due to Lunar New Year holiday travel restrictions) – and companies report strong growth in April as well, far better than expected

The last PMI services observation is based on the change in the NBS survey

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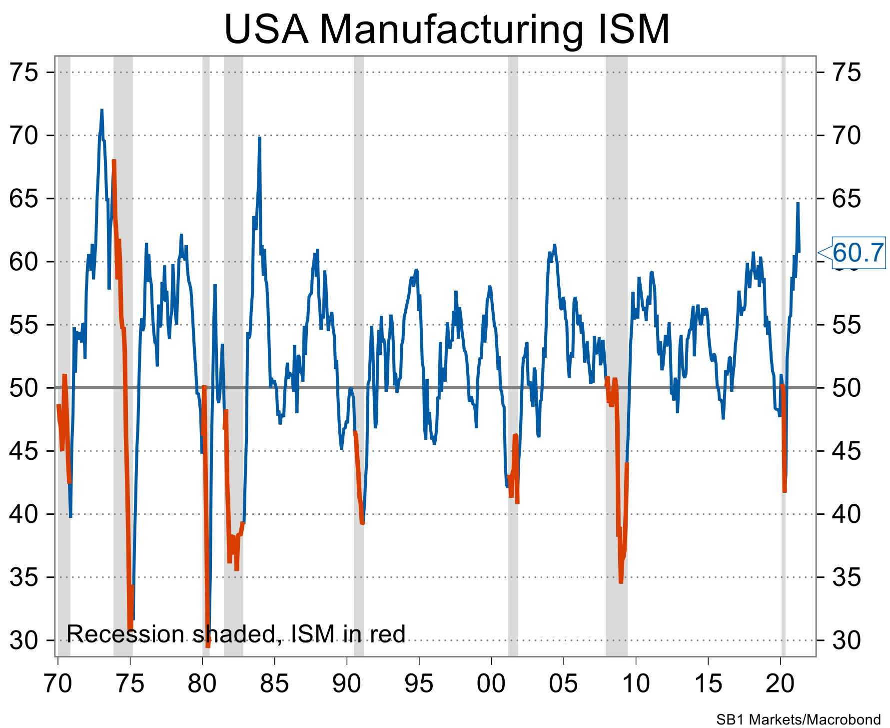
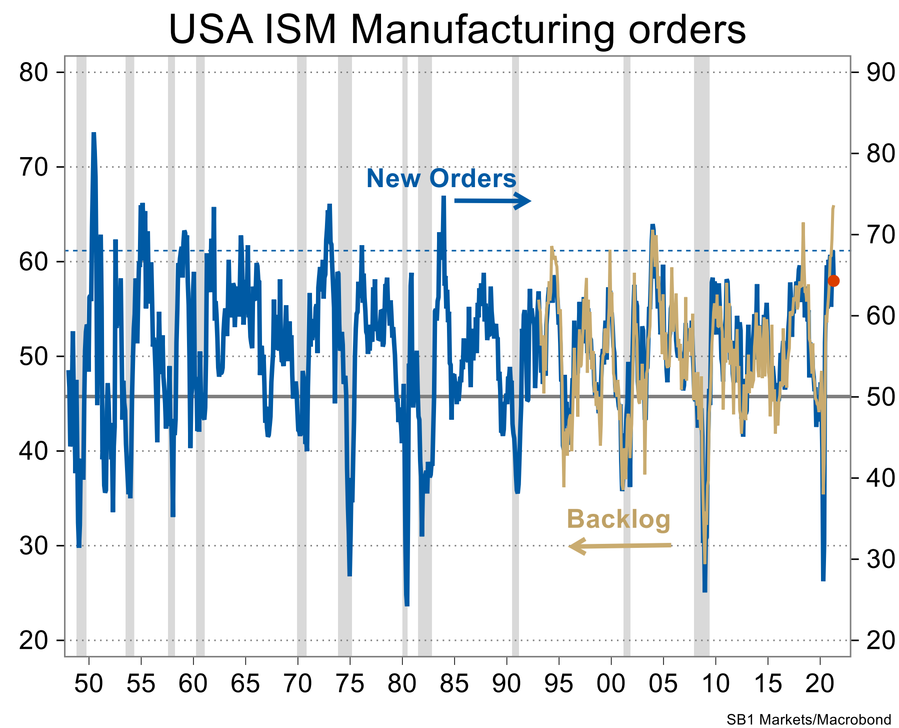
Manufacturing ISM 4 p down, still at 60.7 in April, signalling strong growth

Delivery times are rising faster than ever, and prices have been rising faster just once, in 1979





- **Demand** is strong: Order index fell by 3.7 p in April to still a very high level 64.3, signalling unusual rapid growth in orders. The increase in the backlog at ATH
- **Activity** is increasing broadly: All 18 industries reported growth, none reported a contraction, quite unusual
- **Delivery times** are increasing broadly: 17 out of 18 industries reported slower deliveries, none faster. And no one can blame winter storms anymore…
- **Prices** are soaring: 52 groups of commodities were up in price m/m, down from 56 in March. 1 commodity was down in price, propylene. All 18 sectors are reporting higher input prices. 25 commodities are in short supply. The price index rose, to the 2nd highest level ever, just July 1979 higher
- **Inventories** among manufacturers' customers are falling faster than ever
- **Employment:** 13 industries reported higher employment, 2 reported a decrease

ISM: WHAT RESPONDENTS ARE SAYING

We have never seen anything like this before. *Covid is not mentioned*

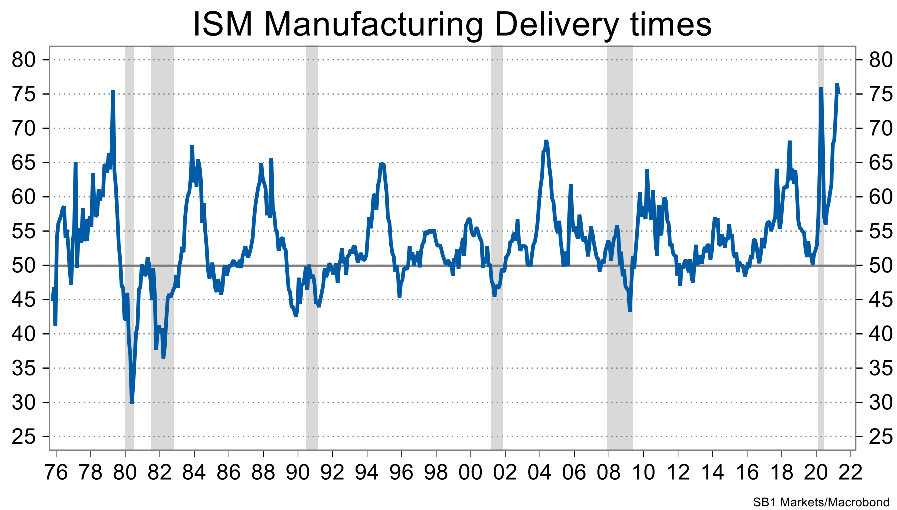
- "The current electronics/semiconductor shortage is having tremendous impacts on lead times and pricing. Additionally, there appears to be a general inflation of prices across most, if not all, supply lines." (Computer & Electronic Products)
- "Upstream producers/suppliers are back online and working towards full rates. Demand is outpacing supply and will continue into the third quarter, when the supply chain is expected to be refilled. Supply/demand should be more balanced in Q3/Q4, but demand will continue as customers run hard to meet their demand and rebuild inventory." (Chemical Products)
- "Continued strong sales; however, we have had to trim some production due to the global chip shortage. Hasn't affected inventories greatly yet, but a continued decrease will begin to reduce available inventories if we don't recover chip supply shortly." (Transportation Equipment)
- "Business is picking up as restaurants open." (Food, Beverage & Tobacco Products)
- "Oil production has been steady, along with market prices and capital expenditures." (Petroleum & Coal Products)
- "Steel prices are crazy high. The normal checks on the domestic steel mills are not functioning — imported steel is distorted by the Section 232 tariffs." (Fabricated Metal Products)
- "It's getting much more difficult to supply production with materials that are made with copper or steel. Lots of work on the floor, but I am worried about getting the materials to support." (Electrical Equipment, Appliances & Components)
- "Market capacity in most areas is oversold, with no realistic improvement on the horizon. In fact, it appears that demand will continue to strengthen, leading to more significant disruptions." (Furniture & Related Products)
- "In 35 years of purchasing, I've never seen everything like these extended lead times and rising prices — from colors, film, corrugate to resins, they're all up. The only thing plentiful at present, according to my spam filter, is personal protective equipment [PPE]." (Plastics & Rubber Products)
- "The metals markets remain very challenging at best. Shortages of raw materials have increased, especially in aluminum and carbon steel. Prices continue to rapidly increase. Transportation and trucking [are] also a big challenge." (Primary Metals)
- "Demand continues to be very strong. Supply chain delays hamper our availability and ability to sell more." (Machinery)

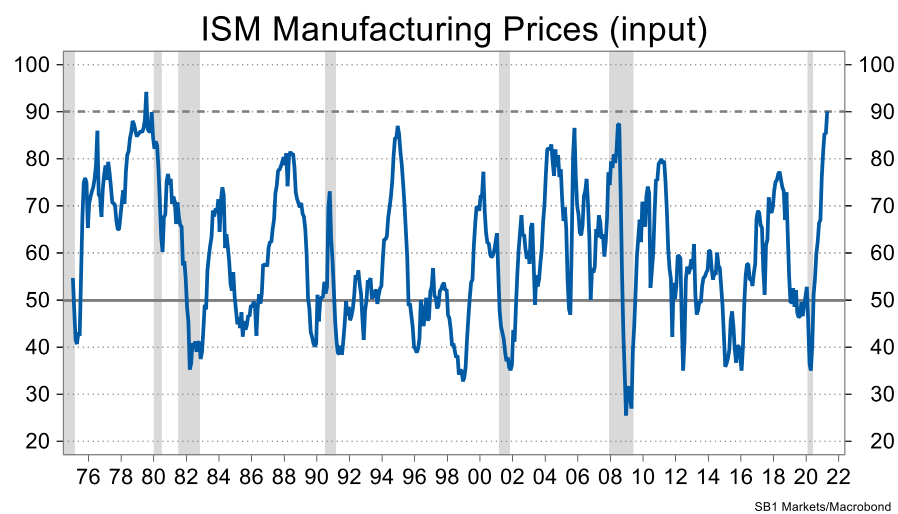
Is the decline in the ISM due to somewhat slower demand or overall supply/capacity constraints?

Source: ISM report on business

This is not like April last year; Then delivery times ‘exploded’ too, but prices fell

Now, prices are not falling…

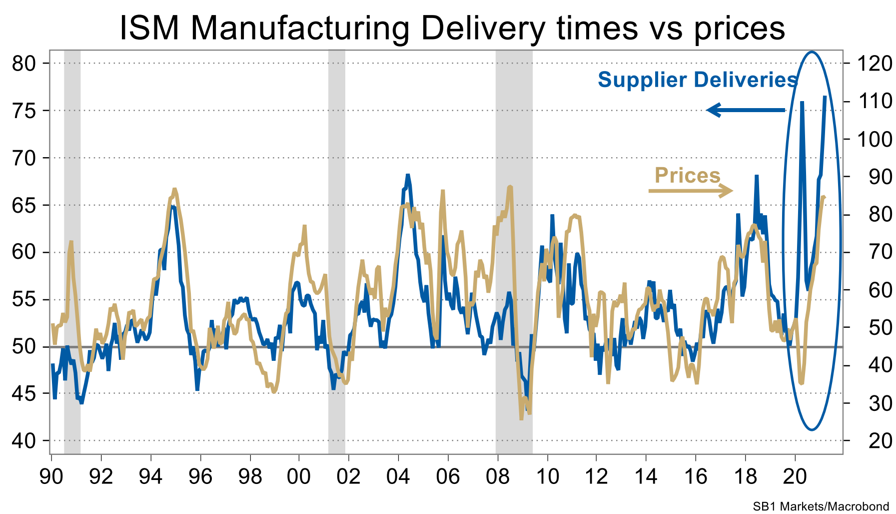


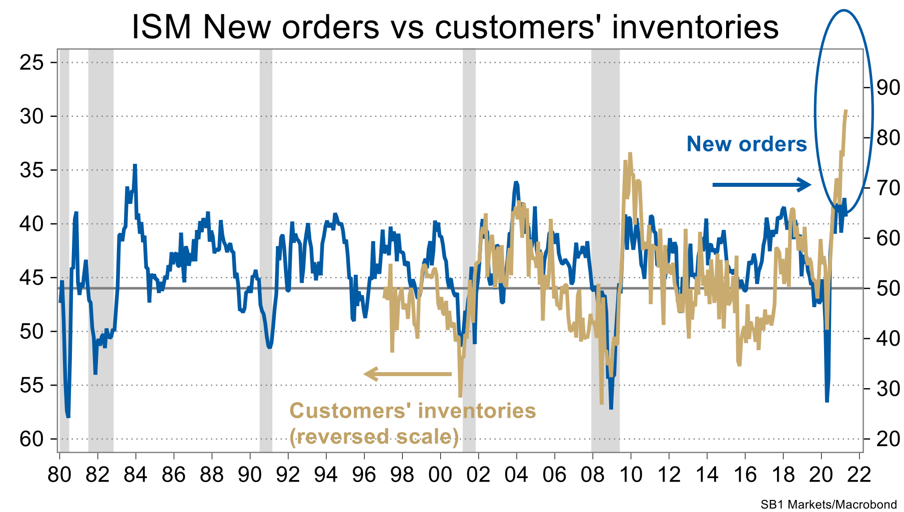


- Last spring, specific corona related **supply chain challenges** were clearly to blame for the rapid increase in delivery times. Orders & prices collapsed at the same time, and employment was sharply cut
- Now, **brisk growth in demand** (like an unusual growth in orders, and the fastest decrease in manufacturers’ customers’ inventories ever) is no doubt an important factor for the lack of supply. In addition some corona related trouble (perhaps mostly due to a surprising rapid recovery in demand?) may explain some of the bottlenecks
- The **unusual broad, and rapid increase in input prices** signals a rapid increase in producer prices for finished goods, and thereafter for consumer goods
- The **service sector ISM** sends identical signals for services, input prices are surging. Check here

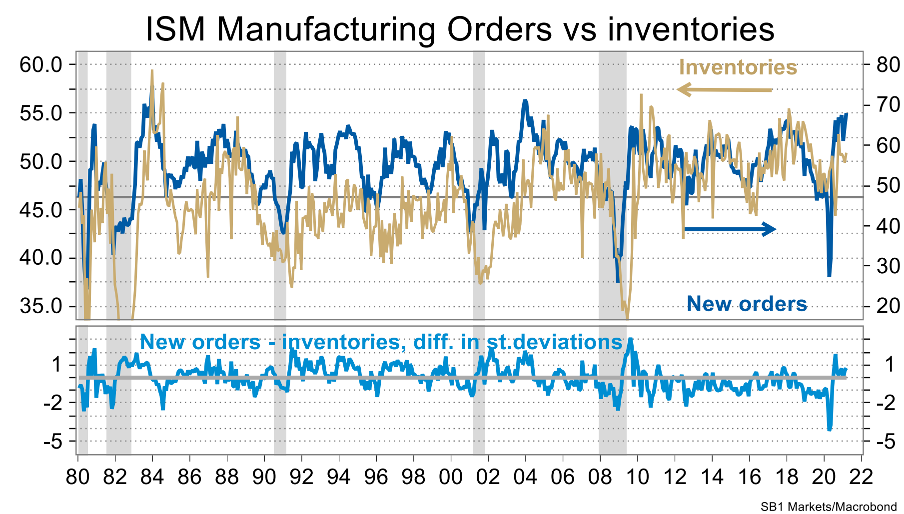
Delivery times & prices soar, as customers inventories are totally 'emptied'

Then, orders will normally come in rather strong



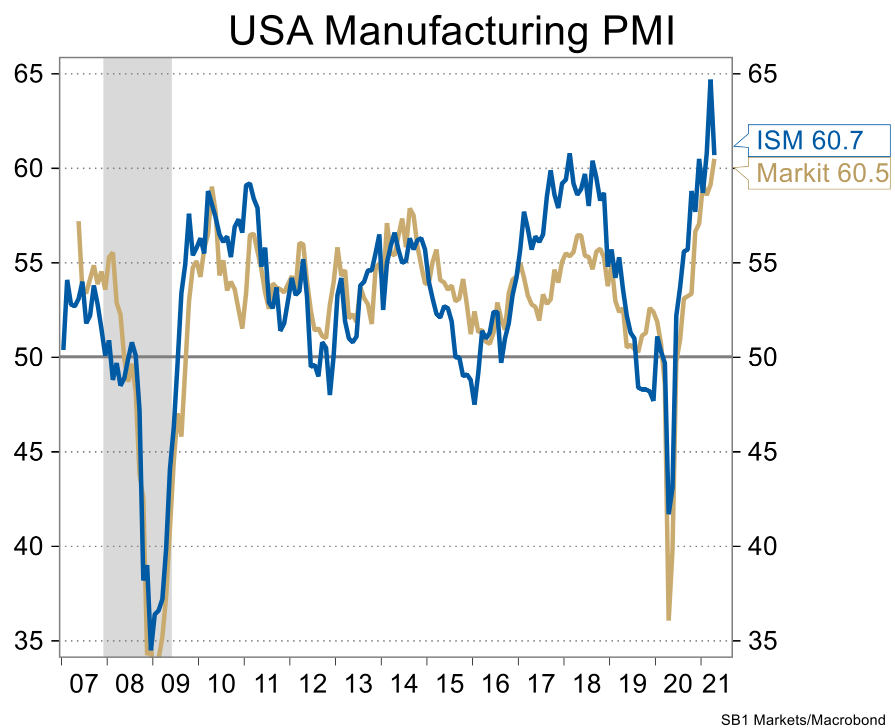


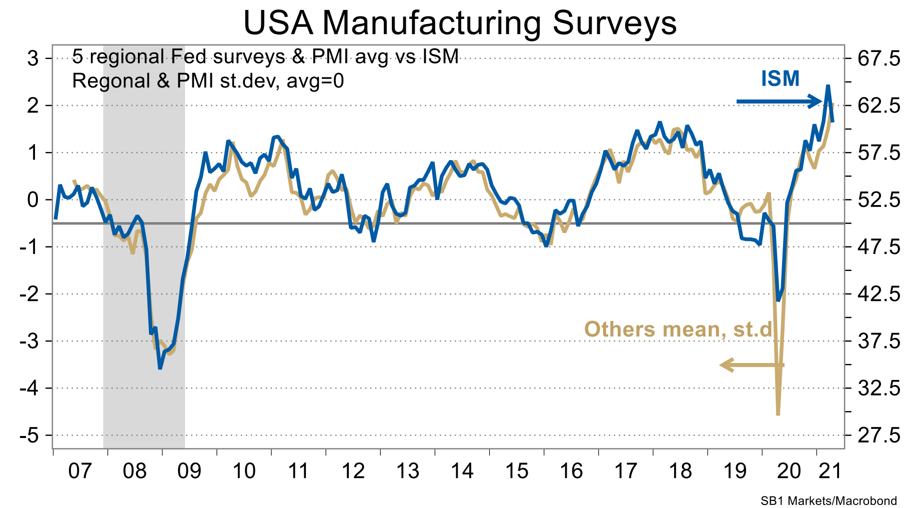
- The only 'soft' spot: Manufacturers' own inventories are not declining

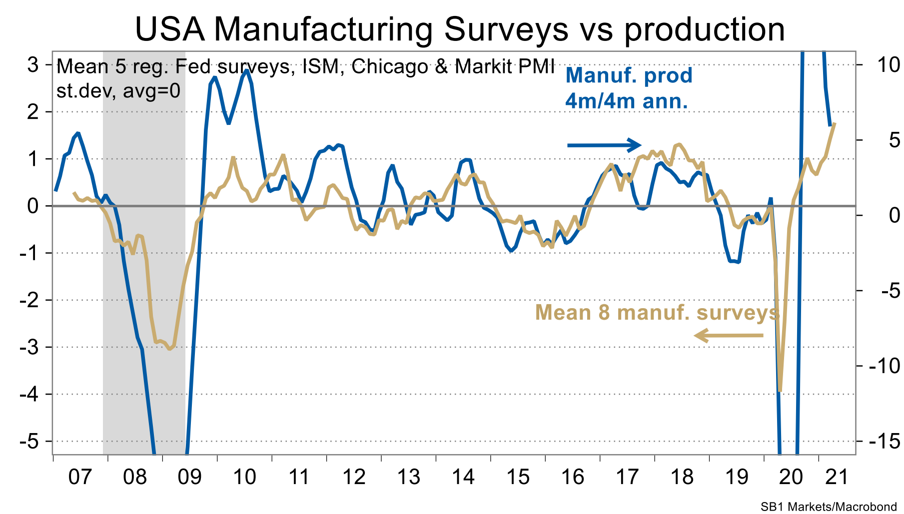


Other manuf. surveys sharply up too, on avg at ATH (data from ’07)

In sum, all the surveys signal a continued expansion in the manufacturing sector







- Markit’s PMI was confirmed up to the best level ever, though 0.2 below the initial estimate, to 60.5
  - » Other regional surveys in average rose sharply
- Actual manufacturing production is on the recovery track but was some 2.5% below the pre-corona level in March
- We expect a continued growth the coming months. Core durable goods orders are above the pre-corona level and goods consumption is strong. Supply problems the only threat short/medium term

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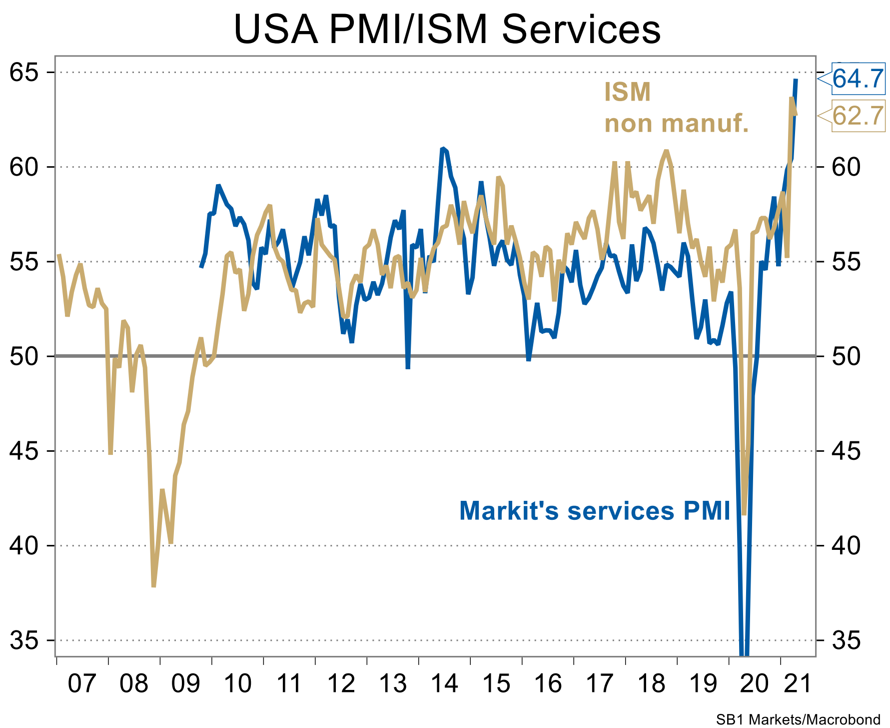
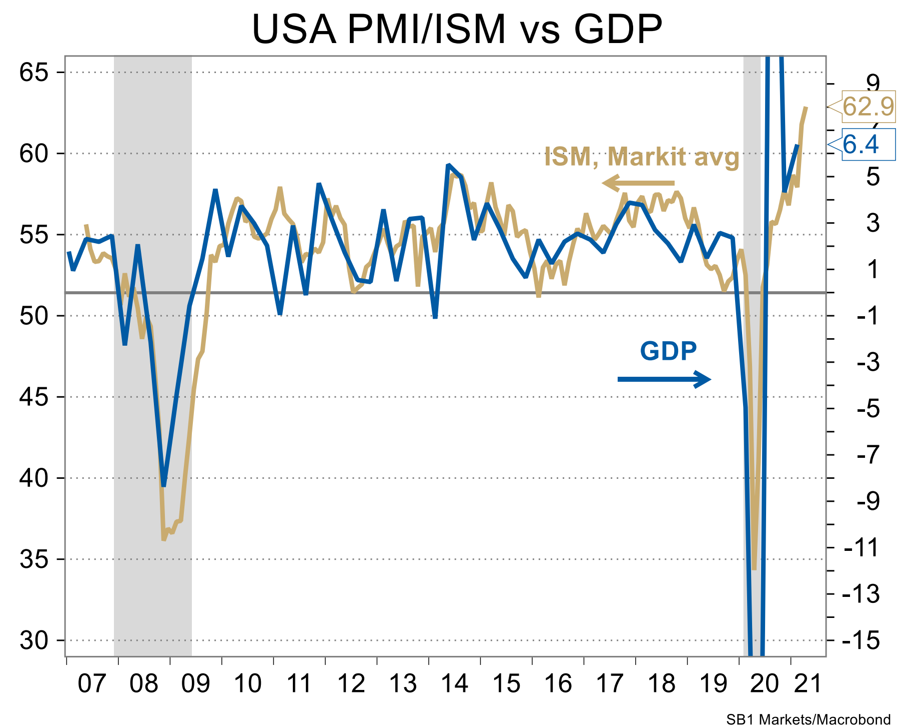
Services are reporting extreme growth too. The composites: 8% GDP growth

Markit's service sector much stronger then first reported, up to 64.7 from 60.4. ISM marginally down

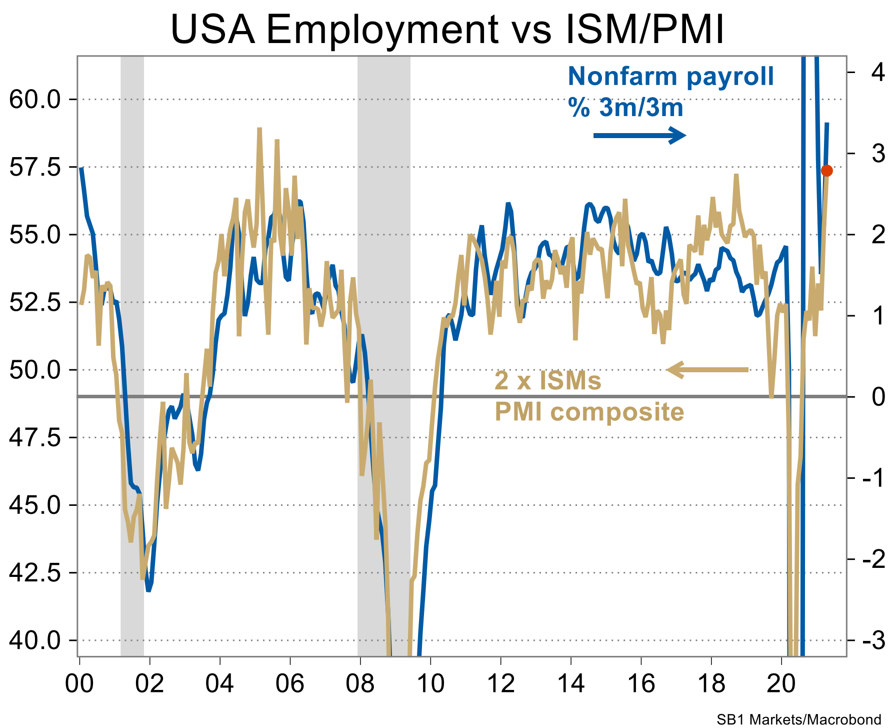




- **Markit's service sector** index was 1.6 p better than the preliminary estimate, signalling strengthening through April. The level is record high, of course by far
- **Services ISM** fell 1 p to 62.2, expected further up following the steepest rise ever to ATH in March
- Together with their manufacturing indices, the **PMI/ISMs** signal some 8% GDP growth into Q2. Does not seem unreasonable
- Companies are signalling strong growth in **employment**
- **Prices indices** are soaring, for input prices as well as output prices (in Markit's PMI)

PMI/ISM: Companies did not report slow employment growth in April

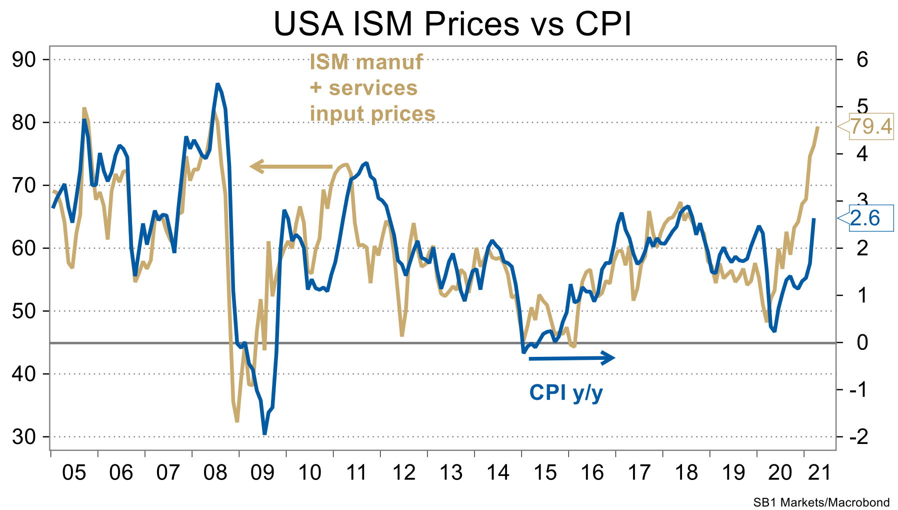
... In fact, they reported the 3rd fastest growth since 1987

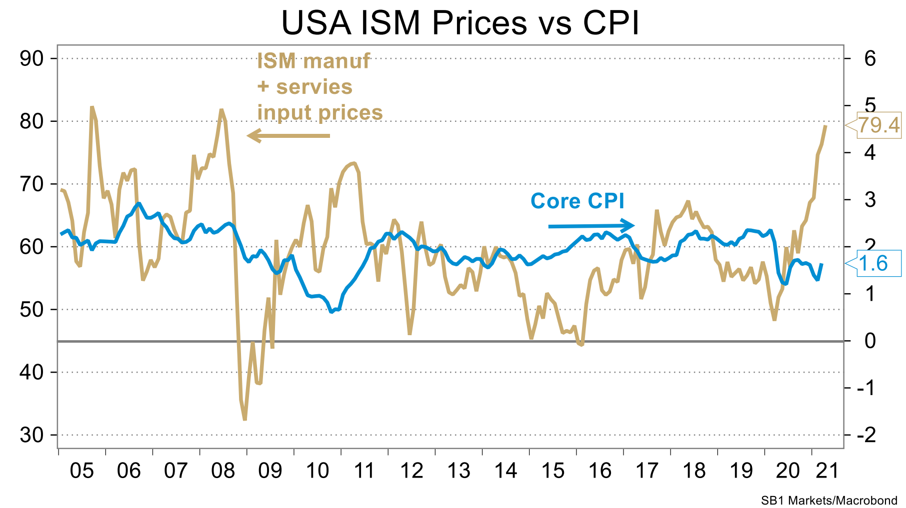


- **Actual employment** growth slowed substantially in April– totally out of the blue.
- However, given the PMI/ISMs and all other business surveys, and the number of vacant positions we have few arguments at hand that demand for labour collapsed last month
- Much more on the nonfarm payroll report here

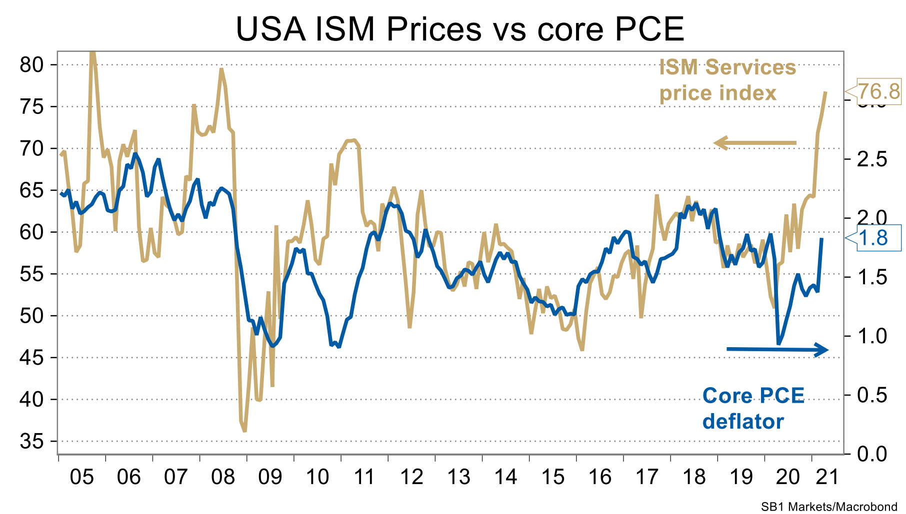
ISM has sent a clear message, at least for the headline CPI. But…

The Services ISM is signaling higher core (PCE) inflation too (though correl. has not always been tight)





- The correlation between price indices in the ISM (or PMI) business surveys and the core CPI is far weaker than between these indices and the total CPI
  - » Energy prices are much more volatile than other prices are rapidly incorporated into consumer prices
- The Fed – and other central banks – are surely right <u>not</u> to focus on the volatile headline CPI, but more on the core CPI and even more on underlying cost pressures in the economy
  - » Wage inflation is so far modest but given the signals from the business sector, wage inflation is probably on the way up
  - » If so, central banks will have far more difficult decisions to make



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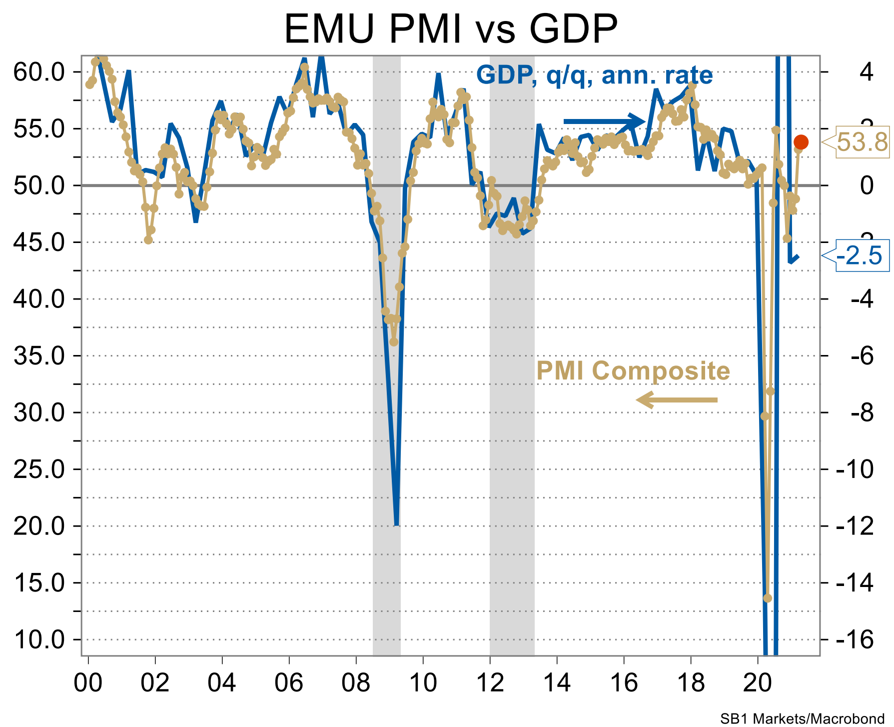
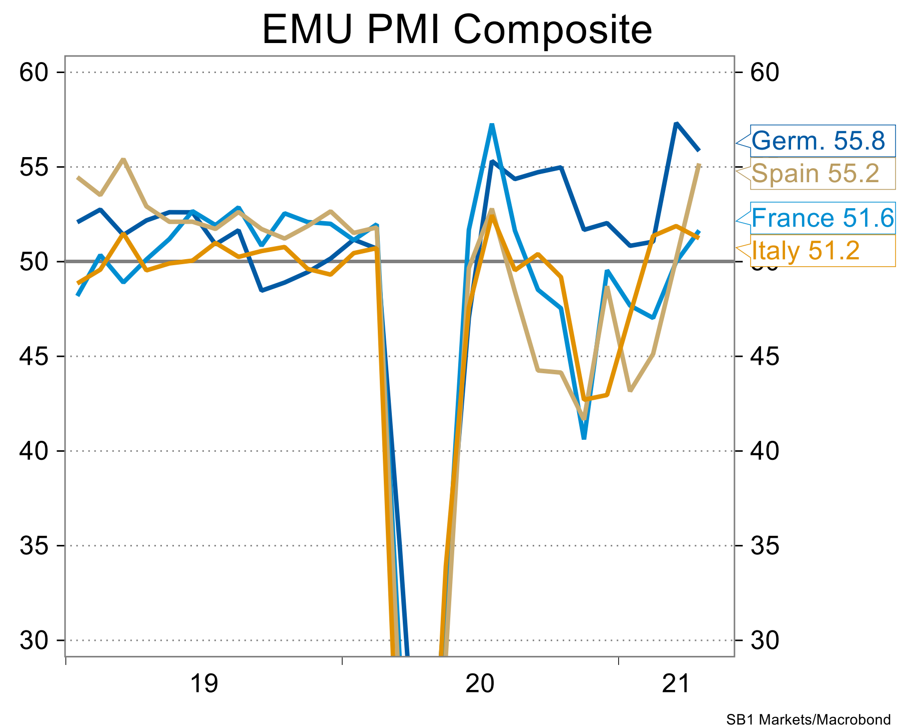
The April PMI up, and a tad more than the prelim. estimate

Services crept up above the 50 line, and the manufacturing is reporting the highest growth ever

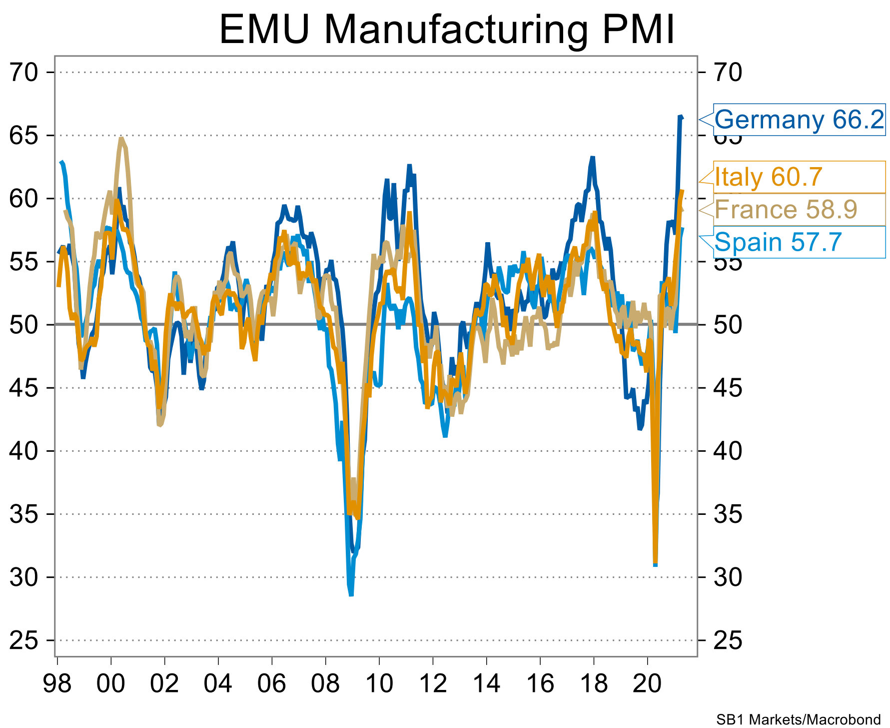


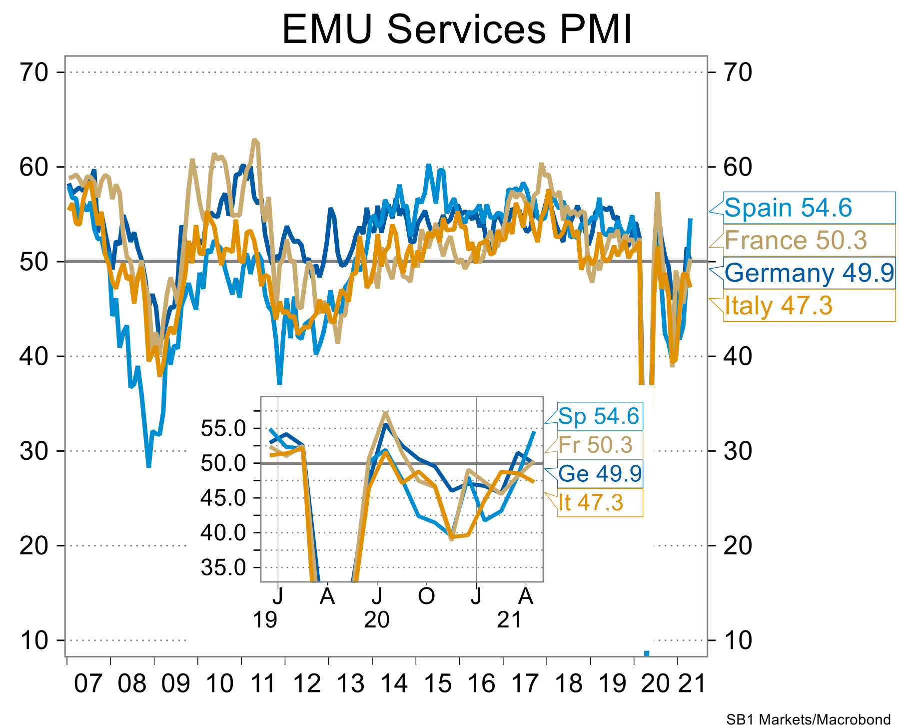


- The final **composite PMI** rose to 53.8 from 53.2
- The Composite PMI is at or above 50 in all of the big four economies
  - » The PMI was higher than the initial estimate, and now signals some 1.6% growth in GDP
  - » GDP fell by 0.6% in Q4 (2.4% annualised), more than signalled by the PMIs. We take the April PMI more as a signal that the 3rd wave has not killed the Eurozone economy (like what the UK PMIs signal)

Strong Spanish service PMI puts EMU service PMI above the 50-line

Manufacturing sector very strong across the board





- The **services PMIs** came in below the preliminary estimate/expectations in three of the big four economies in the EMU in April – only Spain surprised on the upside. The PMI fell in Italy and Germany and the sector is contracting in these countries. The PMIs fell by 1.6 p in Germany, and 1.2 p in Italy, while it rose 6.5 p in Spain, and 1.1 p in France from the previous month. EMU service index at 50.5 in April
- **The manufacturing PMIs** fell marginally in two out of four major EMU countries, but the level is still rock solid everywhere: down 0.4 p in Germany, down 0.4 p in France, up 0.9 p to **record high** in Italy, and up 0.8 p in Spain. German PMI still close to ATH, while the Netherlands and Austria also posted Manuf. PMIs at ATHs in April

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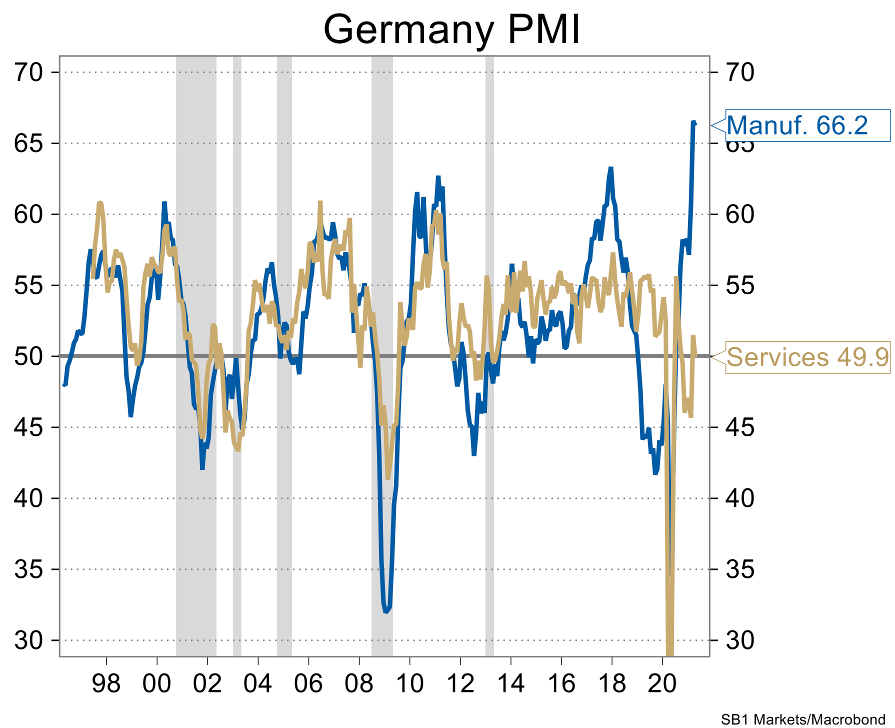
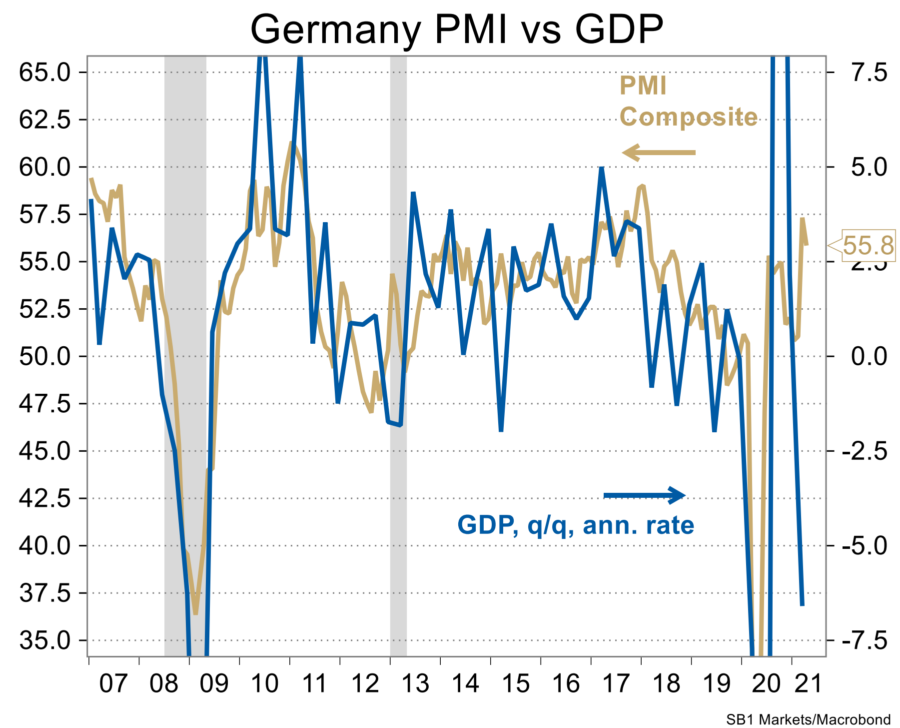
Germany: Record strong manufacturing PMI confirmed

Service PMI shows sector back in contraction territory amid 3rd corona wave





- The final outcome of 55.8 was slightly lower than the flash est. (-0.2 p), and down from 57.3 in March. This is largely due to the lower activity in the service sector. The PMI now signals close to 3% growth in GDP
- Germany has been in a lockdown since the beginning of Nov. Travel restrictions have been imposed on travellers from countries where virus mutations dominate. Tighter restrictions in April to battle the 3rd Covid wave took its toll on the service sector

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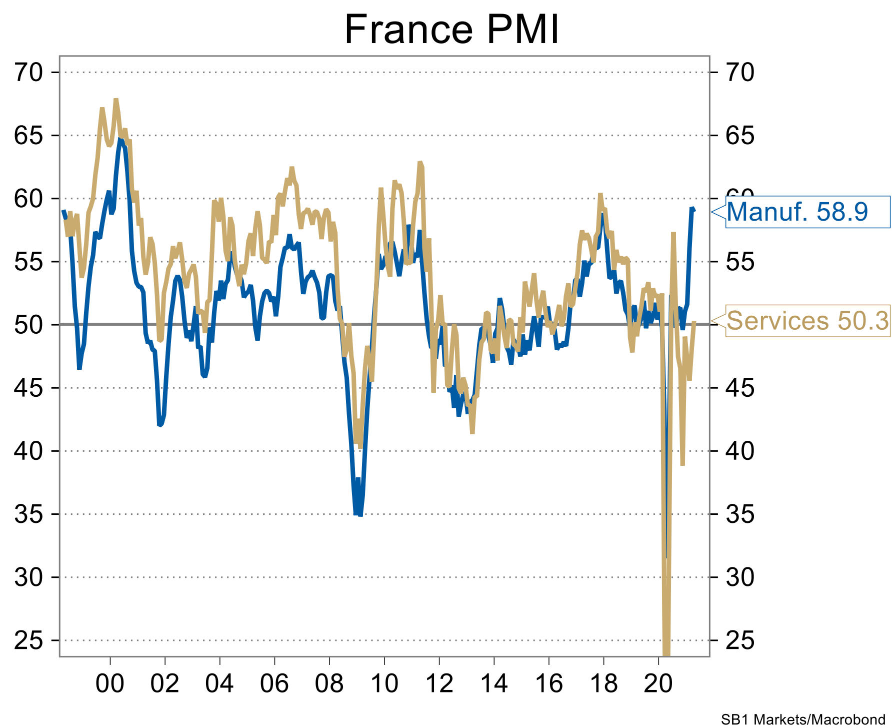
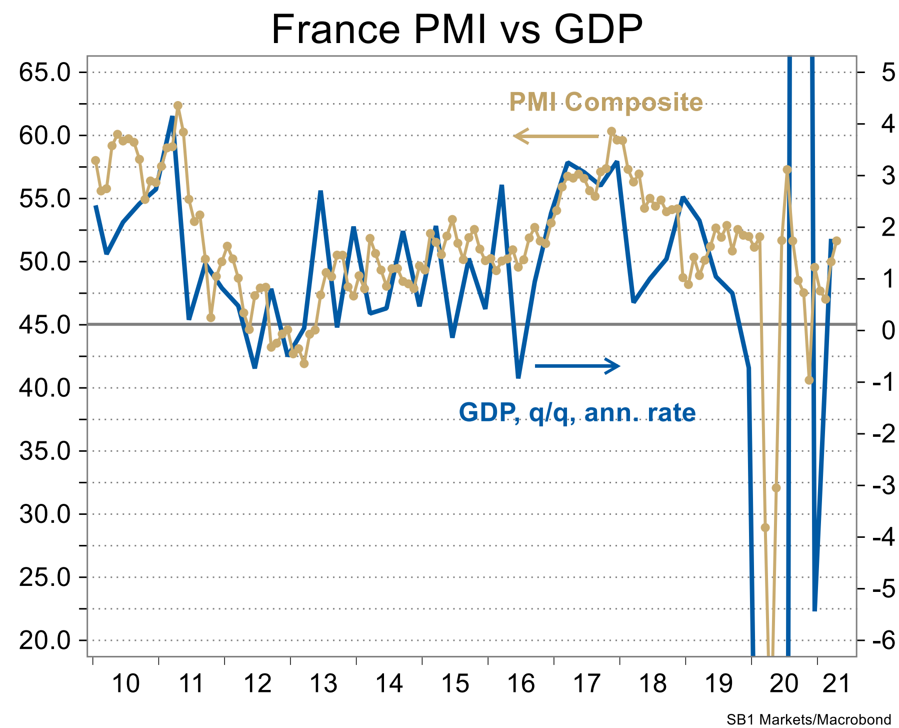
France: PMIs slightly below expectations/flash est., but economy still expanding

Even the service sector is expanding despite strict Covid restrictions





- **The service sector** index came in at 50.3, which is 0.1 p lower than the flash estimate, but it is up from 48.2 in March. Covid restrictions still hindered activity in hotels & restaurants, which showed a continued contraction last month
- **Manufacturing PMI** fell 0.4 p to 58.9 in April – which is 0.3 p lower than Markit's flash estimate. Survey also showed that input costs are rising at the fastest pace since 2011, and now sales prices are rising too
- The **composite PMI** is now at the 51.5, which signals a 1.8% GDP growth
- Businesses reported a strong outlook, increasing employment, and… increasing costs

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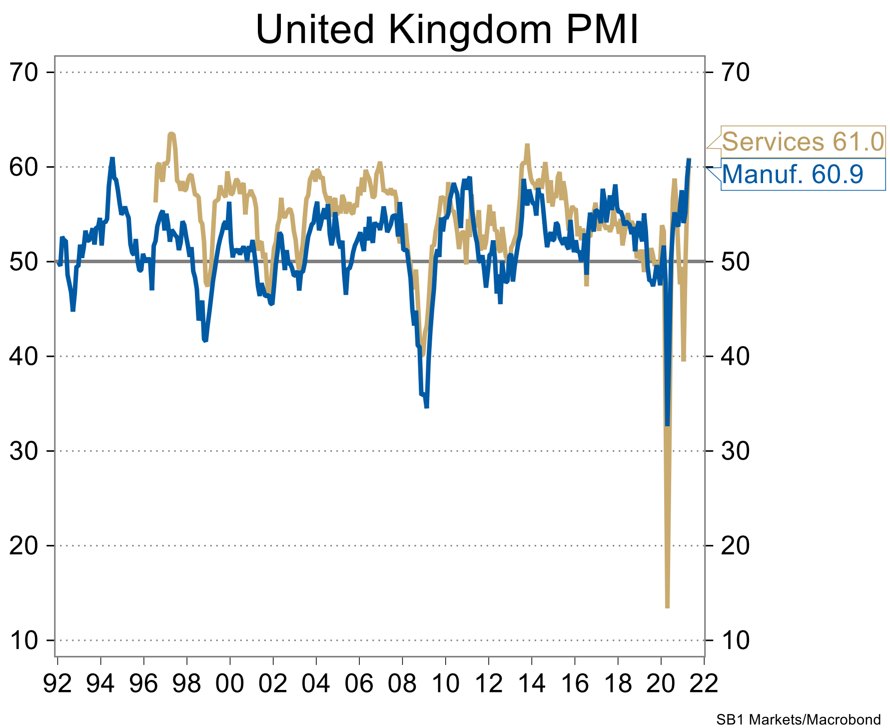
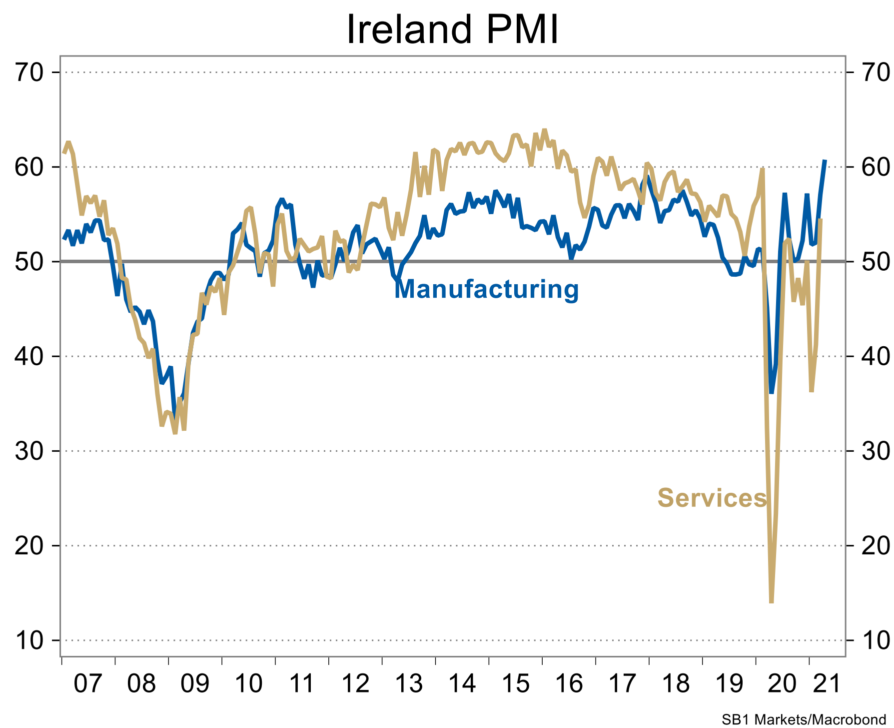
UK & Ireland posting strong PMIs for April – vaccinations did the trick

UK services rose to 60.1 from 56.3, manufacturing up 1 p to 60.9. Strong growth in Ireland too



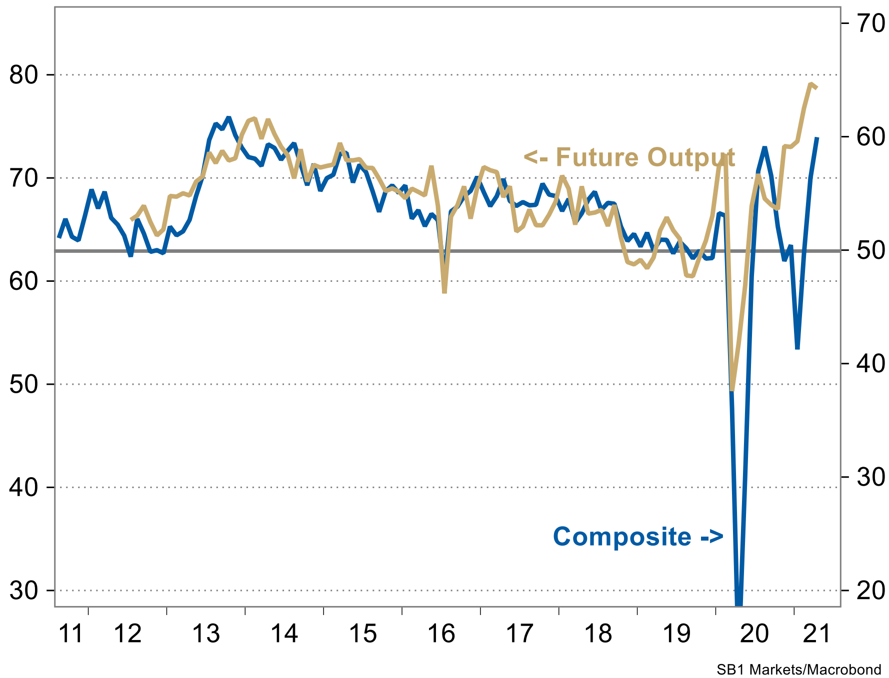


- The manufacturing PMIs are at or close to ATHs
- Services too, in the UK

The composite PMI close to ATH, signalling 4% GDP growht

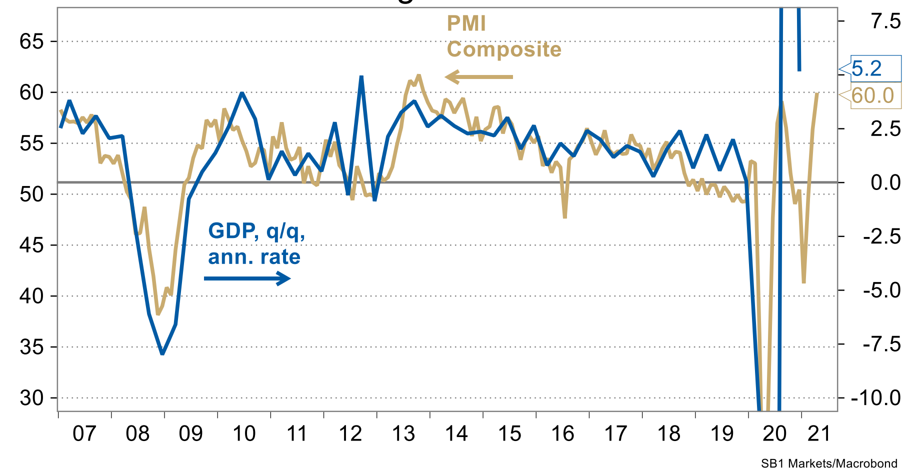
Construction PMI highest since Sept 2014

UK PMI Actual & future

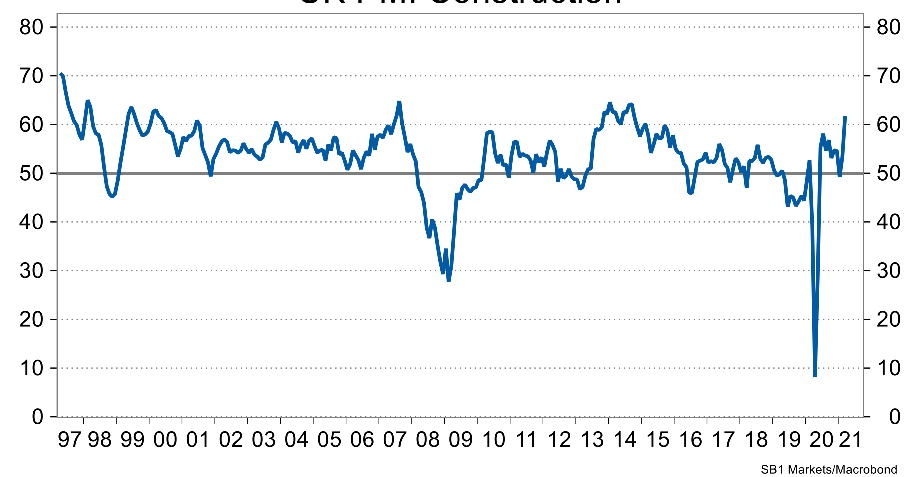


- Businesses remain optimistic about the future and the outlook index is still at levels far above what we have ever witnessed before
- The composite PMI rose to 60 from 56.4 – highest since Nov 2013
- <u>The PMIs now signal a GDP growth of about 4%</u>

United Kingdom PMI vs GDP

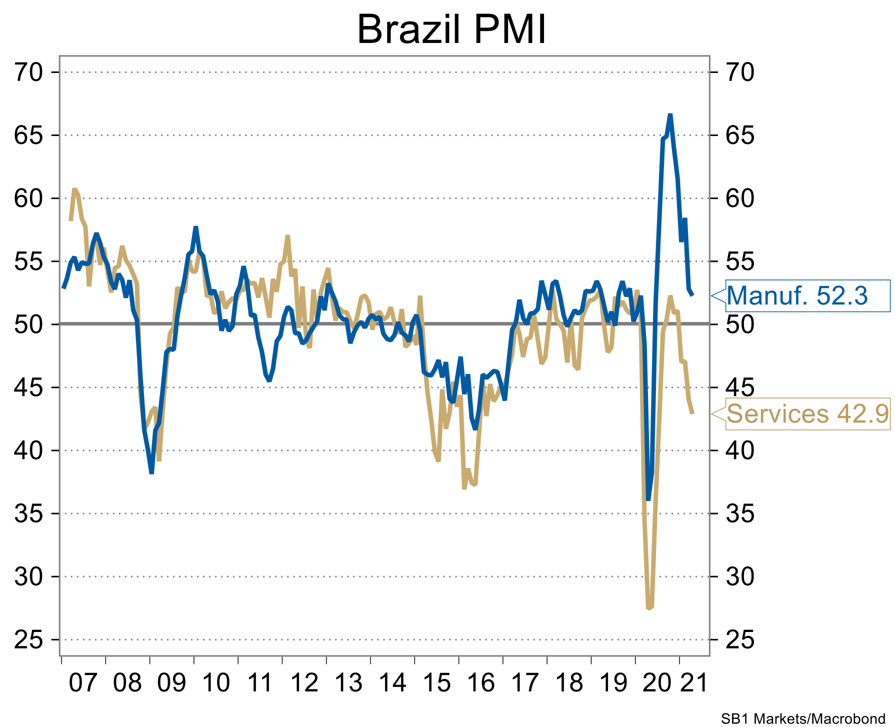


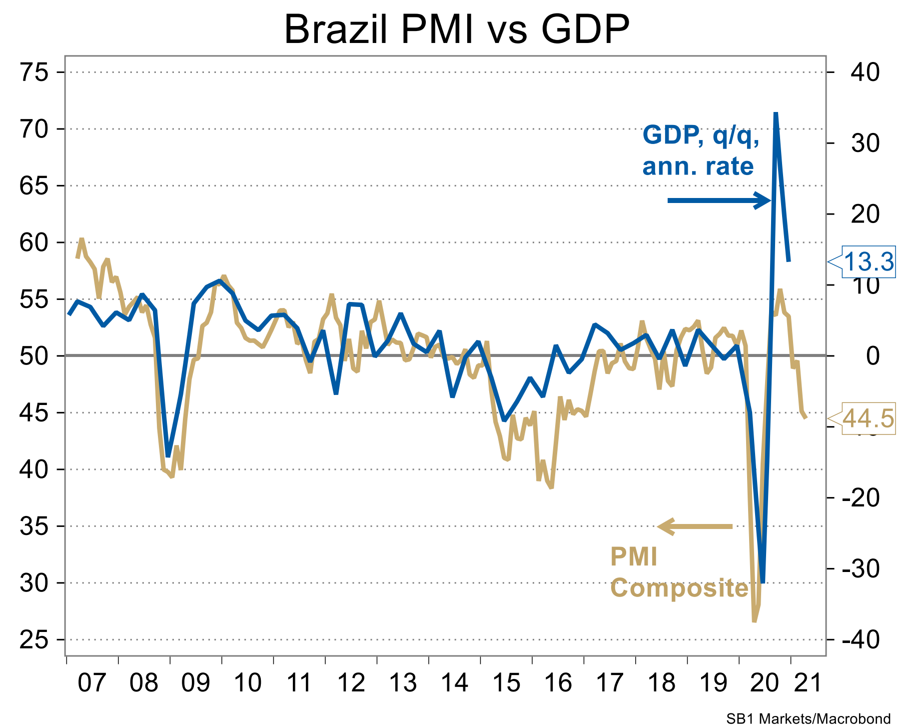
UK PMI Construction



The virus still holds a tight grip on Brazilian services

Composite PMI fell to 44.5 in April from 45.1. Services under pressure, manufacturing is slowing

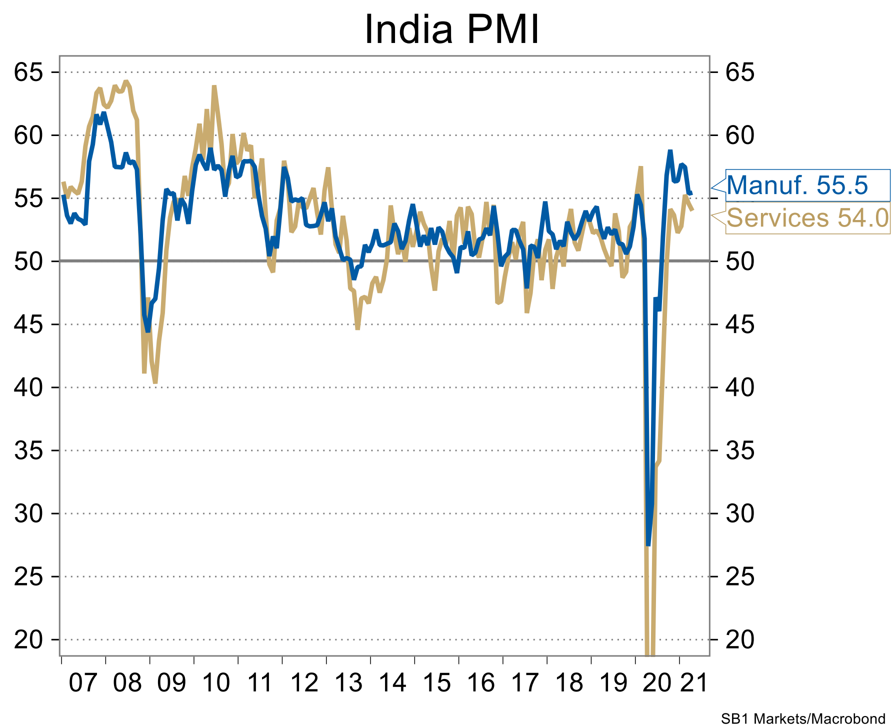


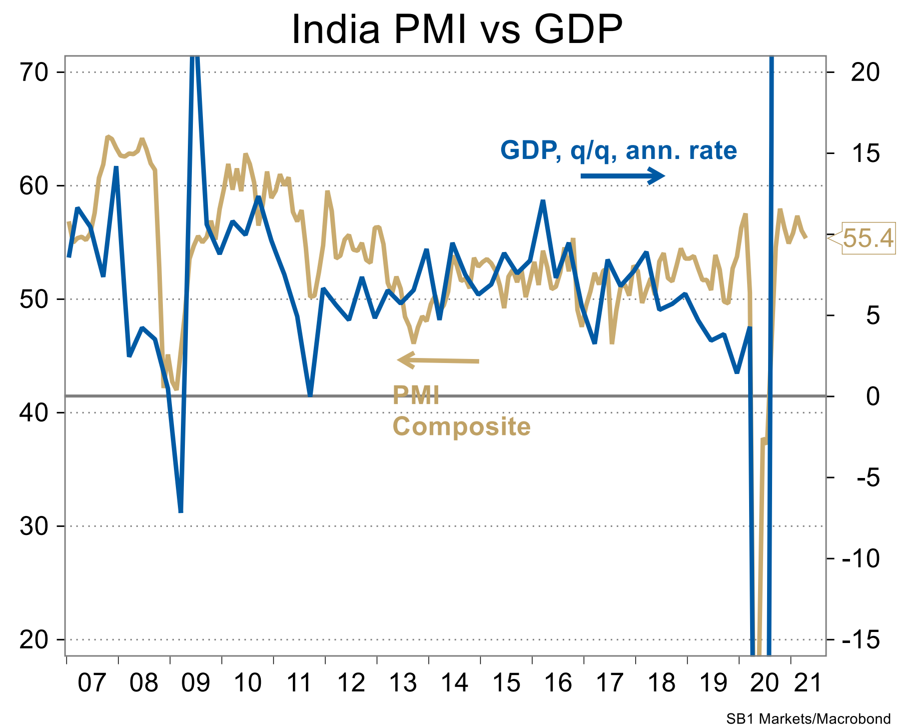


- Manufacturing PMI fell by 0.5 p to 52.3
- The service sector PMI was down 1.2 p to 42.9; it is all Covid related of course
- Orders are falling, costs are rising, but employment in the manufacturing sector increased in April (jobs in the service sector are still being shed of course)

The composite PMI down in April, but surprisingly little given virus circumstances

The recovery continues with at 10% growth pace, according to the PMIs. That's not possible??

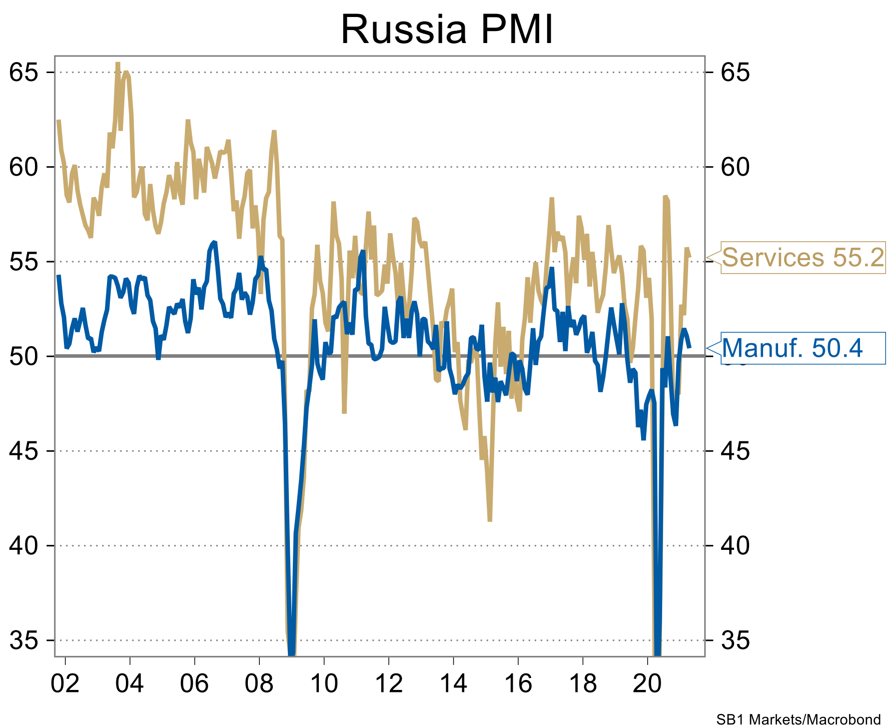


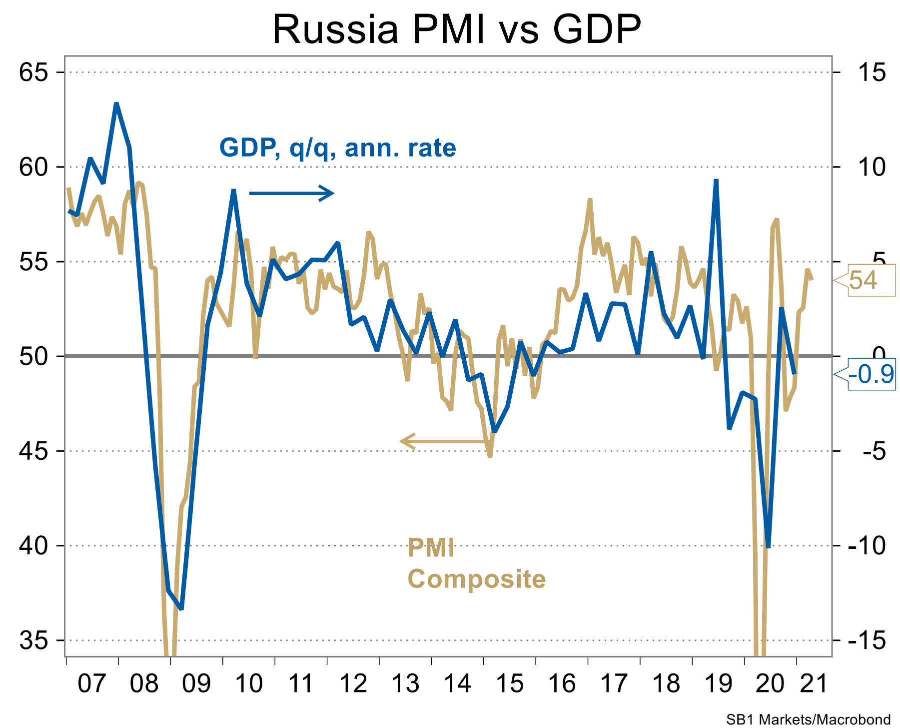


- **The manufacturing PMI** rose 0.1 p to 55.5 in the midst of India's 2nd and seemingly devastating wave
  - » Manufacturing cost inflation running very high, according to Markit. New export orders increased too, for the 8th consecutive month
- **The services PMI** was just down 1.3 p and remained at a high level – 54 – in April. Given covid data, media reports, and a steep decline in mobility, this is a rather surprising number. Is it relevant?? We doubt
- **GDP** grew by 8% in Q4 (36% annualised), and is 0.1% up vs. Q4 2019. We assume growth was strong in Q1 as well. However, vs a trend growth rate at some 5%, the output gap was still substantial in Q1
- **Q2** will probably be a greater challenge, even if the April PMIs were much better than feared. Mobility is sharply down, and some economic activity will be hurt

Russia's PMIs still signalling strong growth

While actual growth so far has been less than muted…

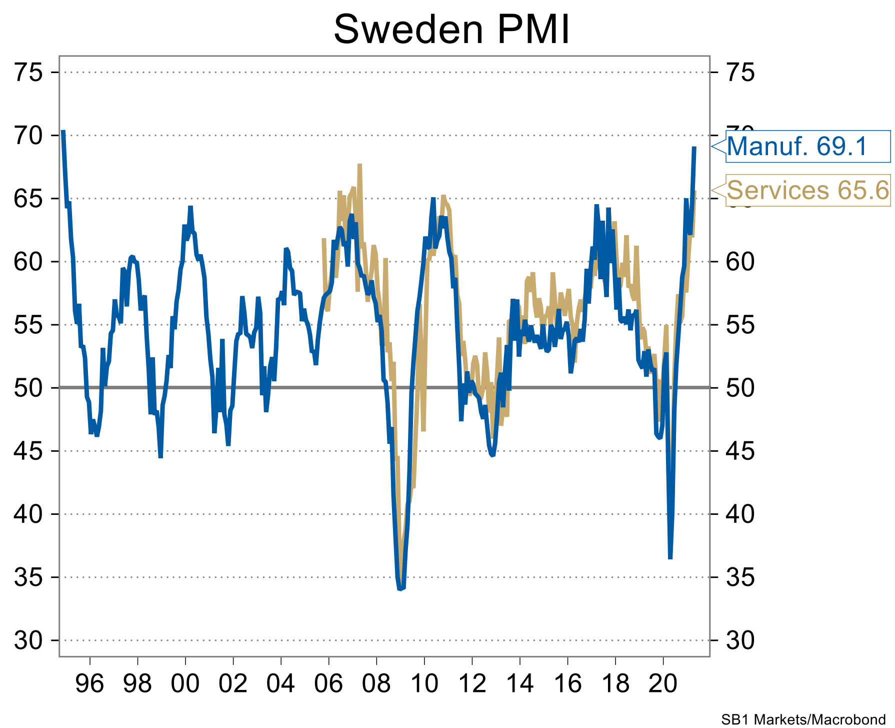


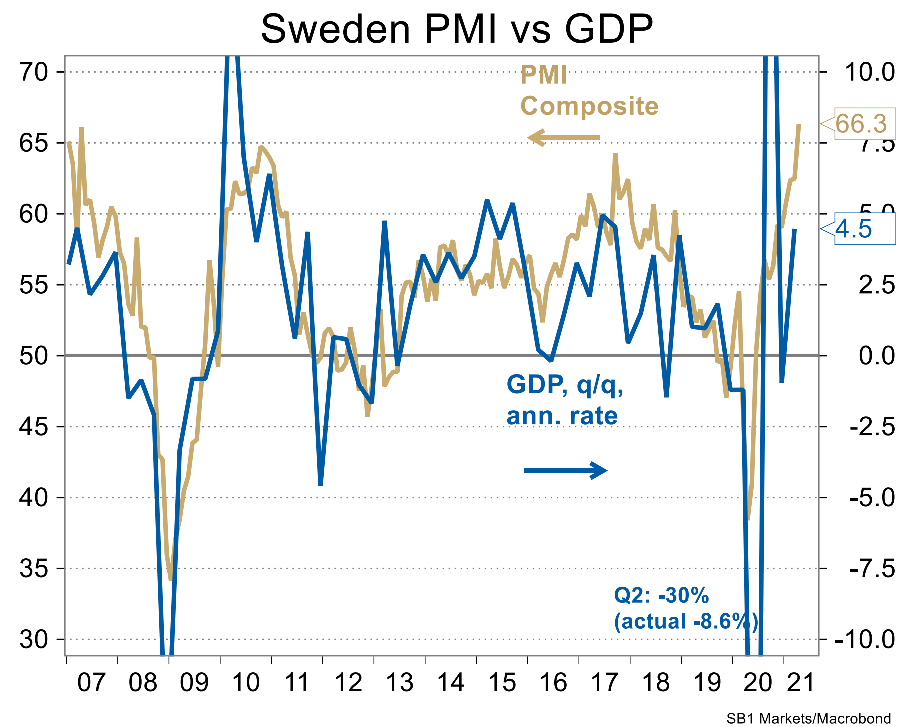


- Manufacturing PMI marginally down to 50.4 in April from 51.1 a month ago
- The service sector PMI marginally down to 55.2 in April – and it remains well above an average level

PMIs sky high in April – the composite up to ATH 66.3, signalling 8% GDP growth!

The manufacturing Index at 69.1 best since the initial survey Nov '94

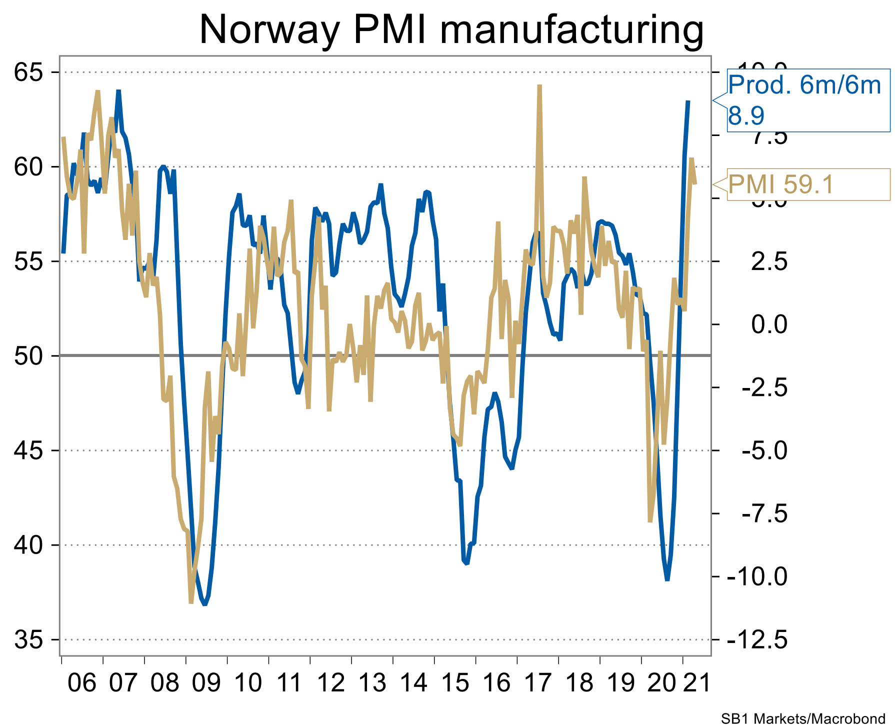


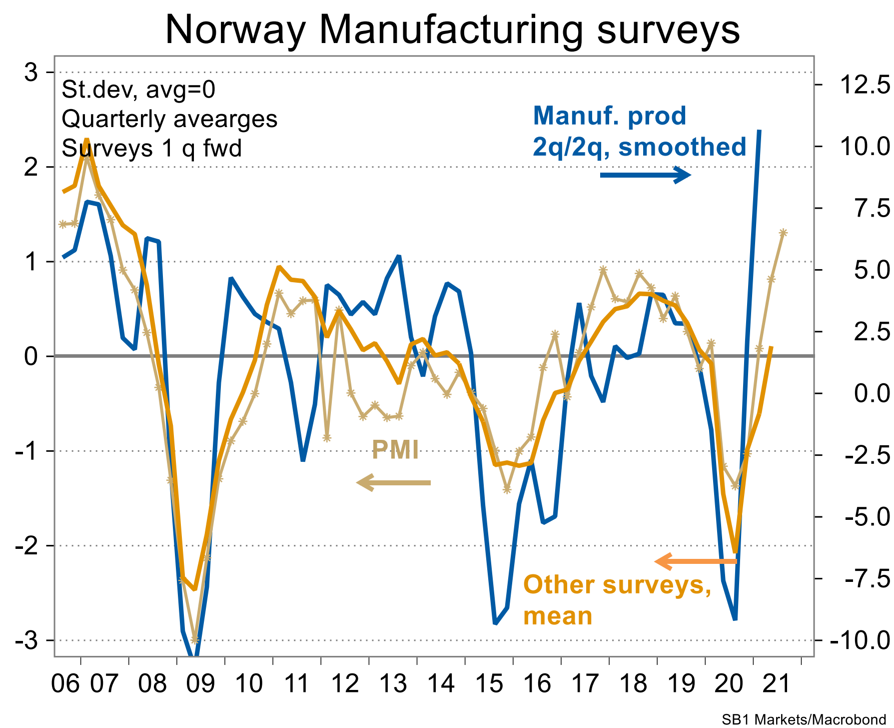


- The **PMI** has gone from strength to strength for several months, at is – at another ATH – now signalling some 8% GDP growth. The recent decline in the some service sectors is solely due to the 3rd Covid wave, which has hit Sweden hard. However, in April Services were up 4.3 p to an ATH at 65.6 (and no weakness have been seen the previous months either)
- **GDP** grew at a 4.5% pace in Q1, according to preliminary data
- The Riksbank is still buying bond, and says it expects to keep the signal rate at zero until 2024. We are not so sure…

Norwegian manufacturing PMI slightly down to 59.1 in April – still a high level

The Norwegian PMI fell 1.4 p to 59.1, we expected 60

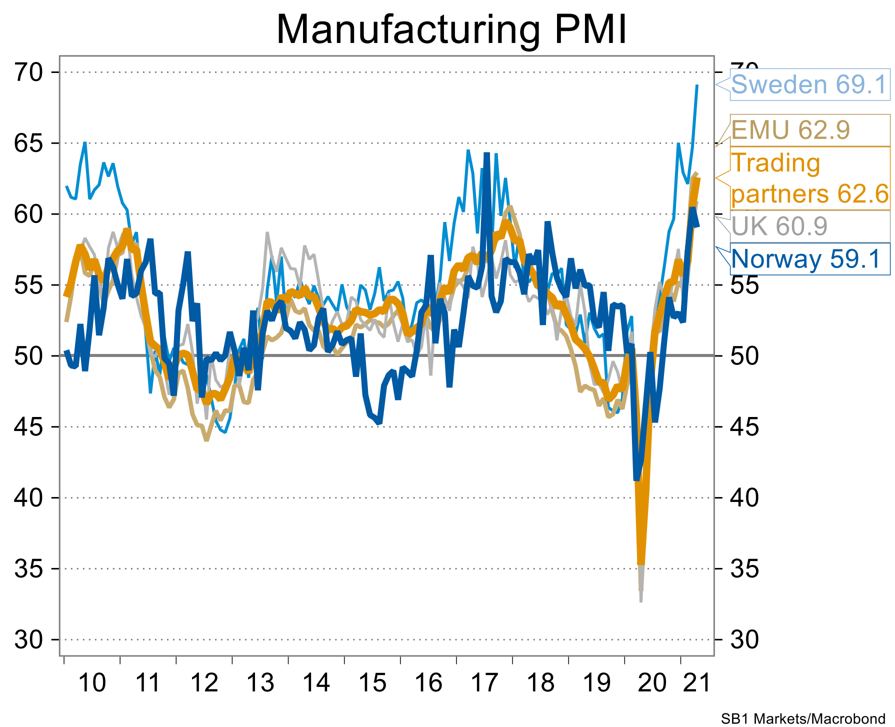


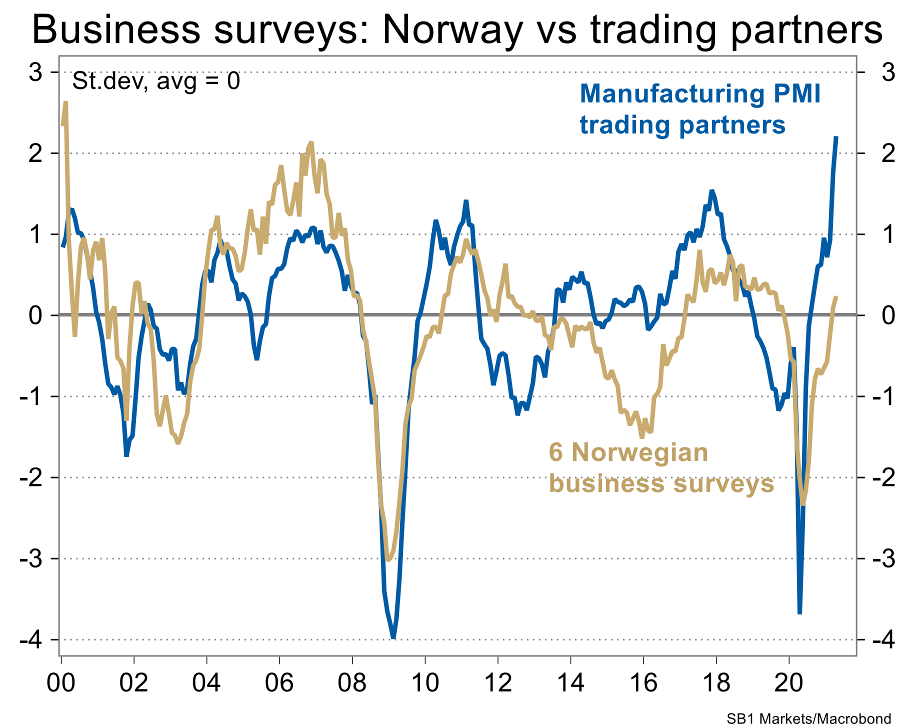


- The three sub-indices, production, orders, and employment were all down, but all remain above 56
- Also worth noting, **inventories fell and delivery times increased again** in April (same story for March)
- **Other surveys** have turned up lately but the levels are still somewhat below average

Norwegian manufacturers follow others upwards

… Other (and less updated) surveys are still lagging





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

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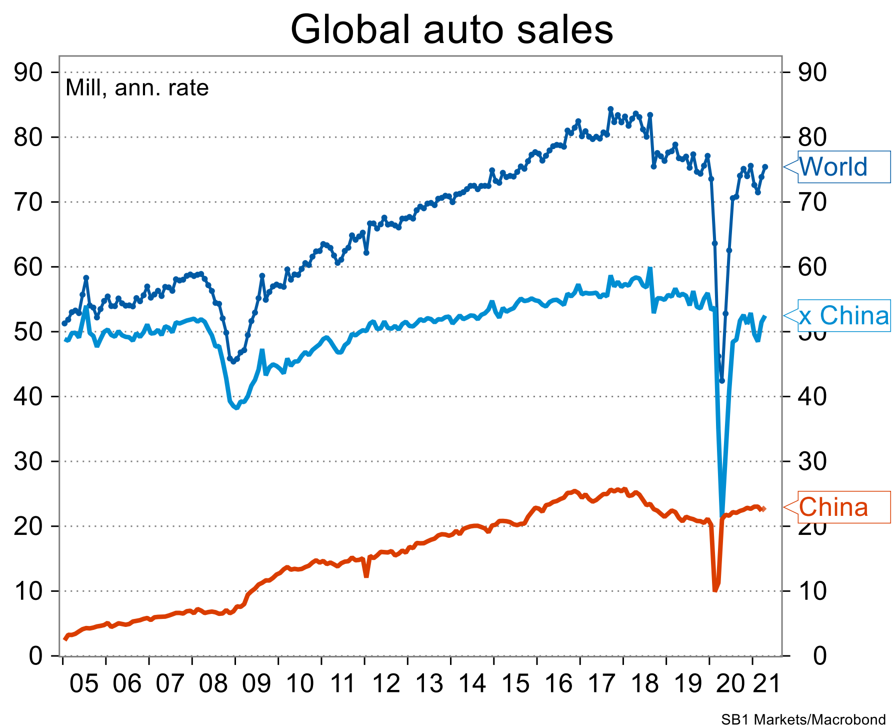
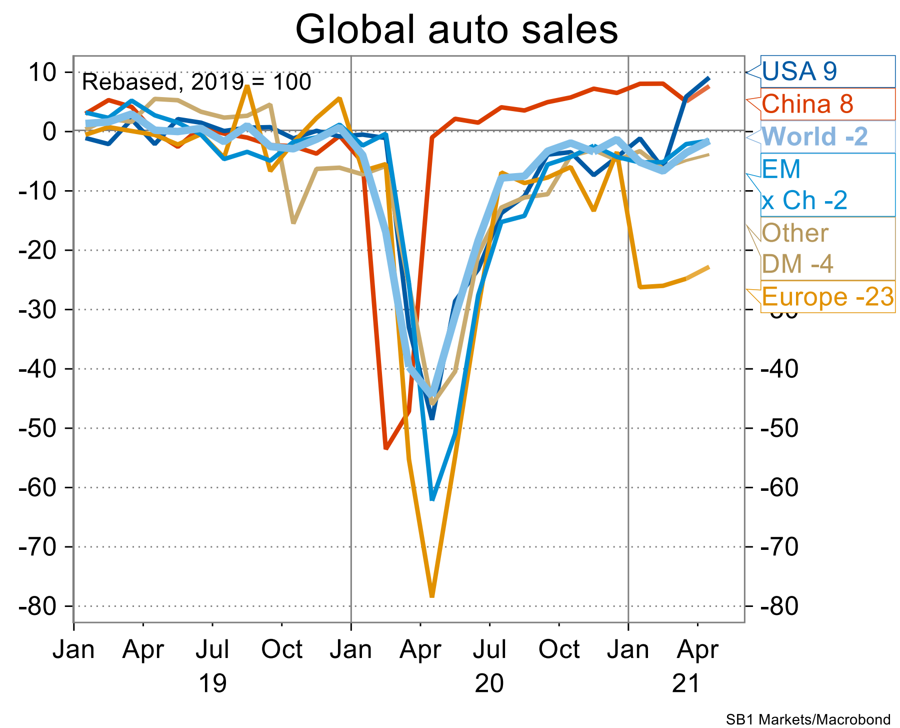
Global auto sales probably further up in April. Chips problems ahead?

US sales up, best since 2005. EMU sales flat, UK up, China probably up – and even India OK

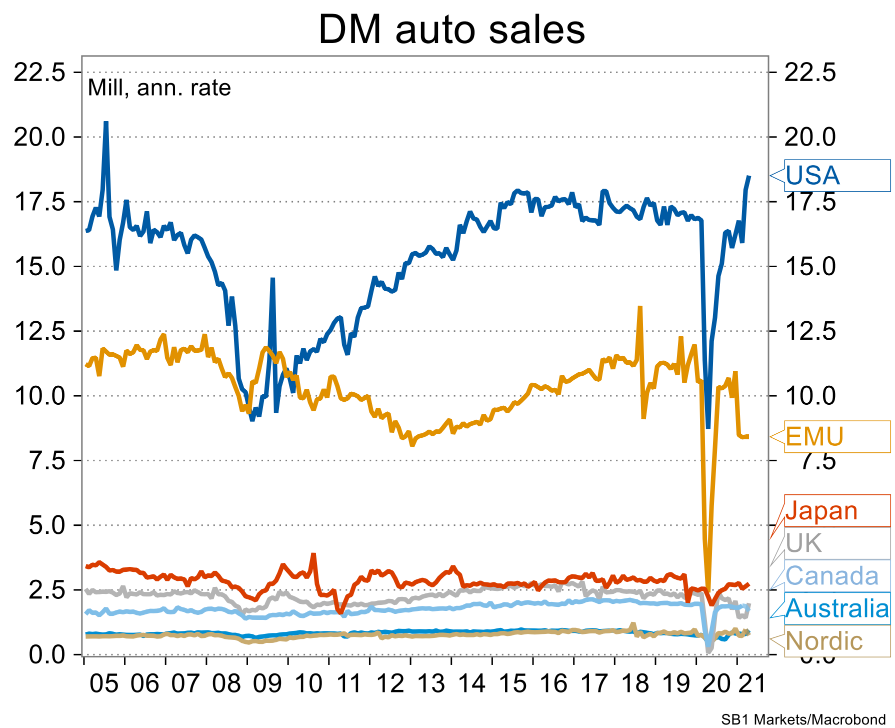


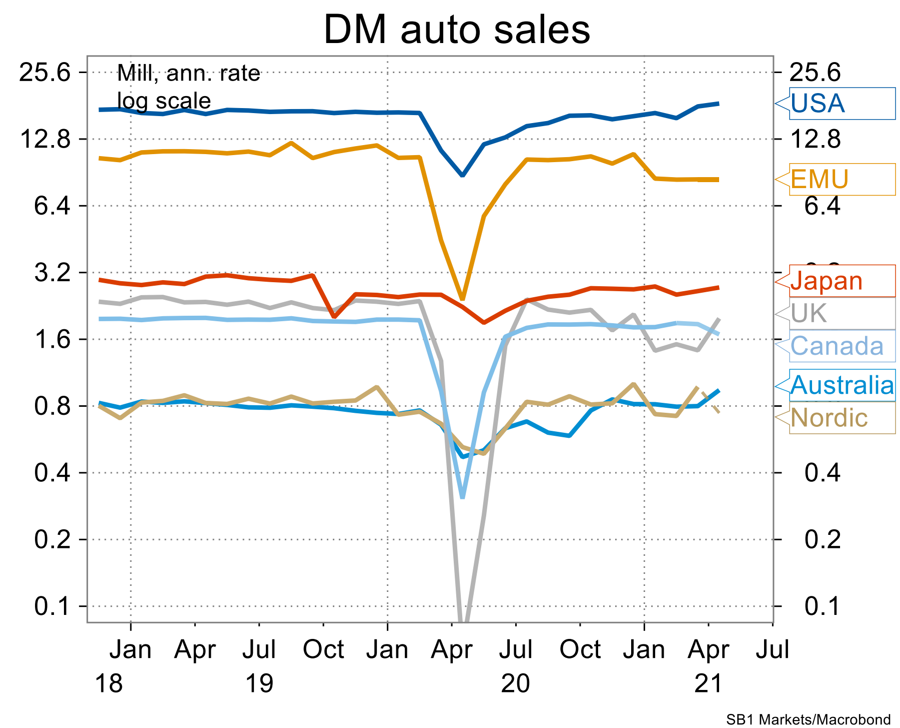


- Based on our preliminary estimates **global auto sales** rose by 2% in April – to the same level as in April '20. Some countries have not yet reported
- Sales in **US** rose to the highest level since one month in 2005 – and among the best on record
- Sales were flat at a low level in **EMU** but sales in **UK** recovered to the level in late 2020, some few per cent below the 2019 average
- Sales in **China** probably rose in April, and are still above the 2019 level
- Sales in **EM x China** probably rose in April too (but we are still lacking data from several countries)
- Lack of **data chips** is now becoming a serious problem for many auto producers. Among others, **Ford** has signalled dramatic cuts, by 50% in Q2 and 20% for 2021. Specific production problems (fires), as well as a too little capacity in the parts of the semi-conductor industry are to blame

DM sales: EMU is still down 25% vs. last Dec/pre-pandemic sales

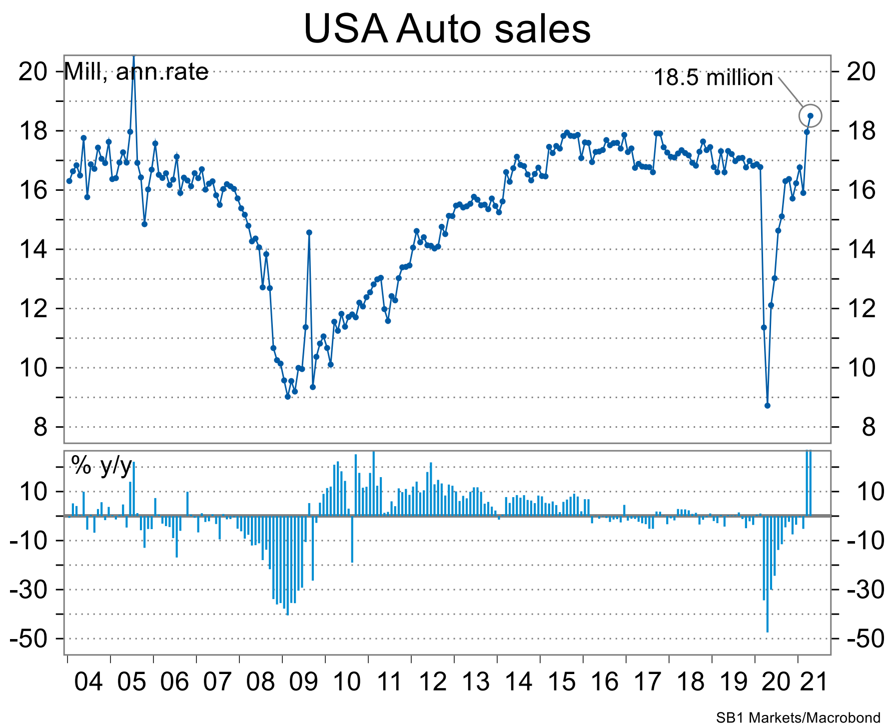
Sales in UK (probably) rose sharply, and is almost back to the Dec/p-p level

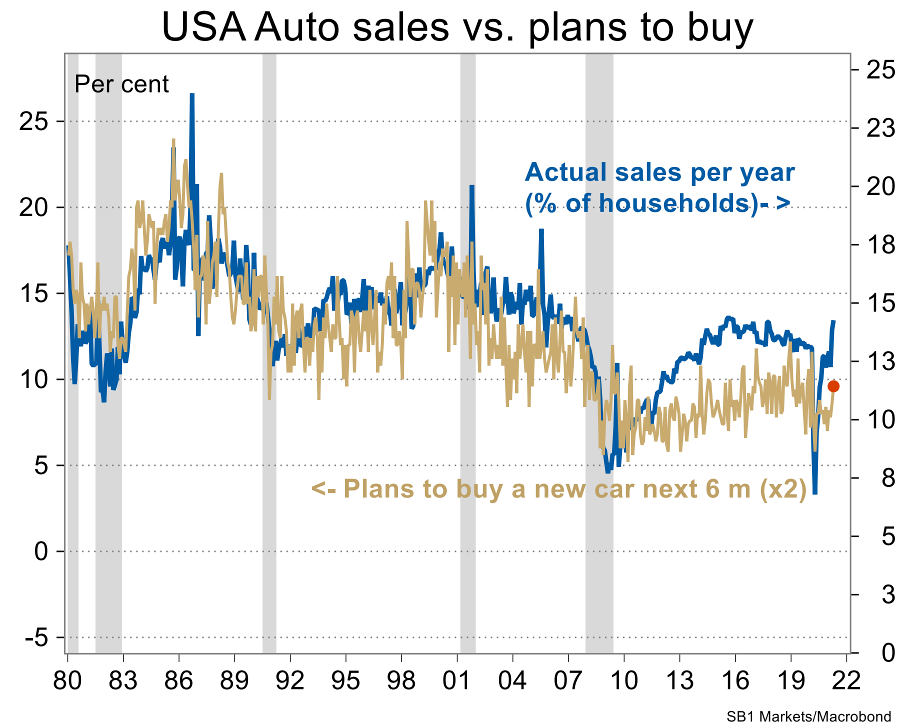




US auto sales further up in April – to the best level in 16 years

Sales up to 18.5 mill, from 17.9 mill, above expectations. Some more stimulus cheques spent?

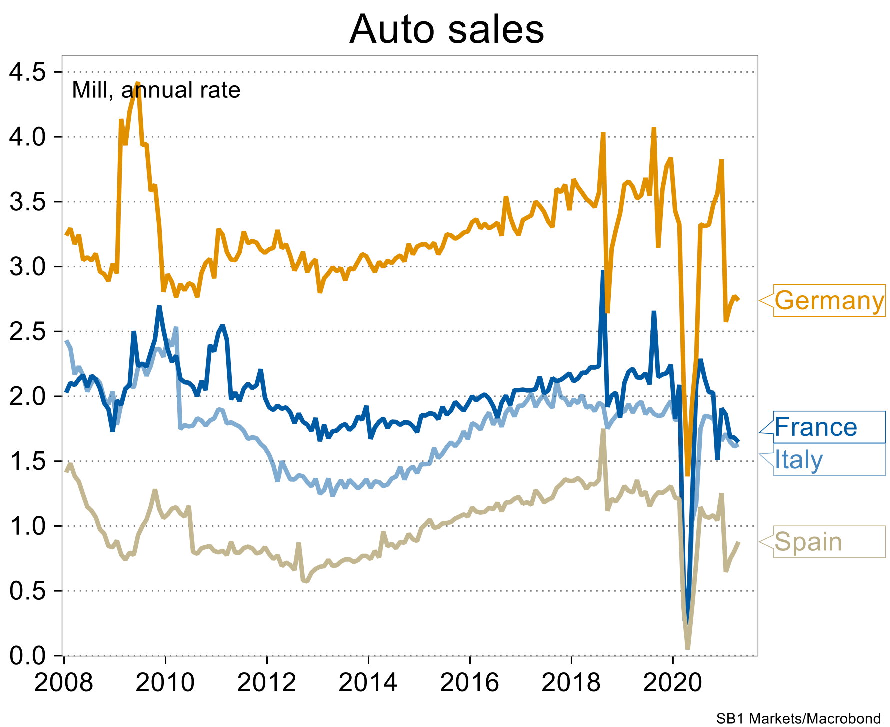


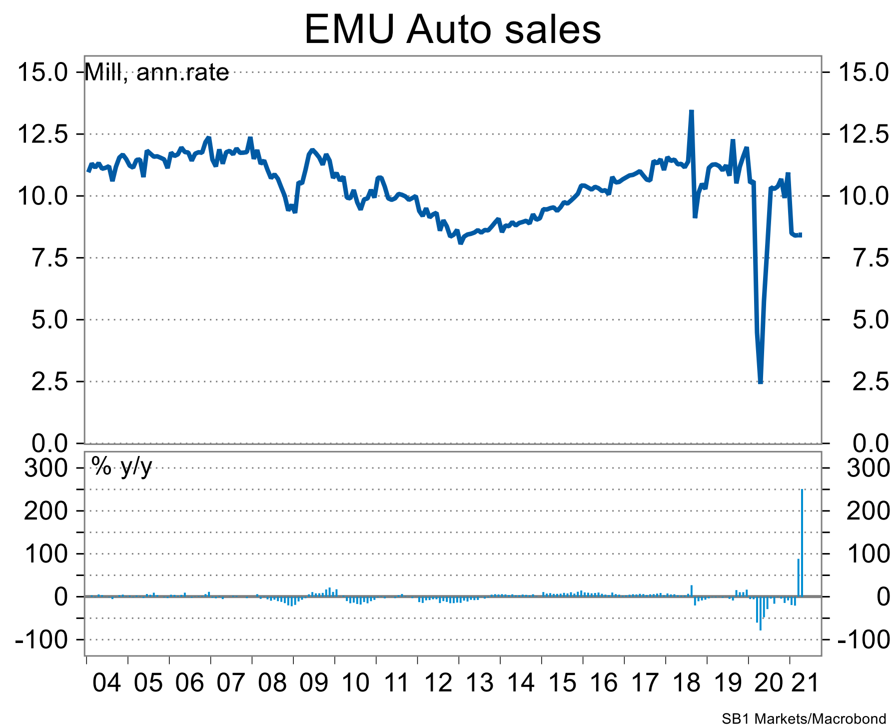


- Sales were trending down before the pandemic but a brisk recovery has brought sales up to 9% above the 2019 average – and among the best sales on record (if not per capita). Sales rose by 3% m/m
- The second round of stimulus cheques no doubt contributed to the lift in auto sales March & April
- Households are <u>not</u> reporting aggressive plans for buying a new car, but the share rose sharply in April, according to the Conference Board

EMU: Auto sales close to flat in April, Spain up, others not. Sum still down +20%

Only Spain up – but sales are low here too





- In December, auto sales were back at the pre-pandemic level – but sales fell sharply in January, and fell further in February and March, and sales remained at a low level in April
  - » A 250ish % annual growth rate in April does not help much, of course
- The lockdowns have really been felt
- The next challenge: Production problems due to lack of data chips

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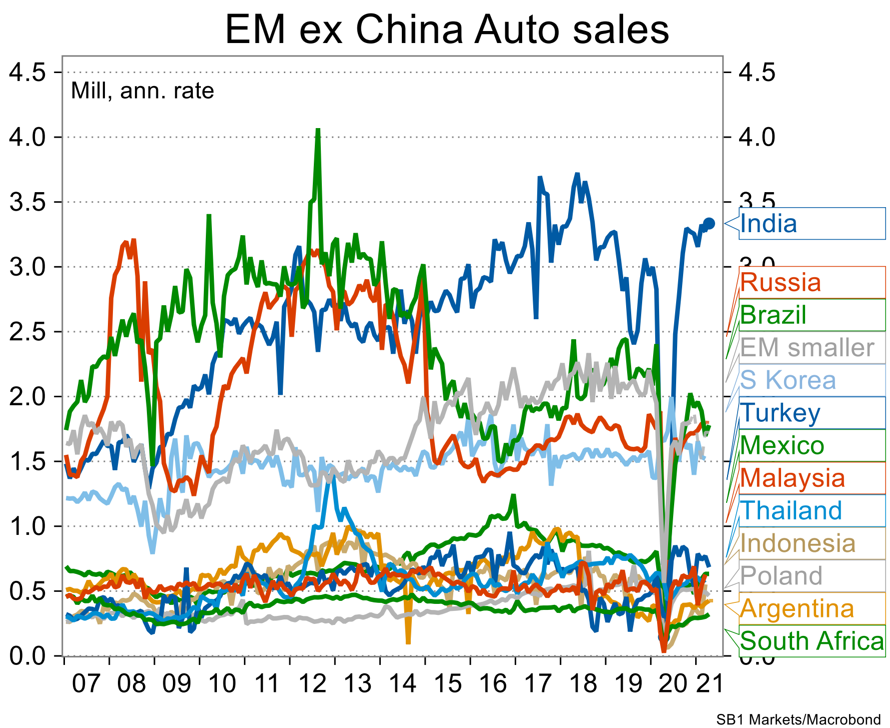
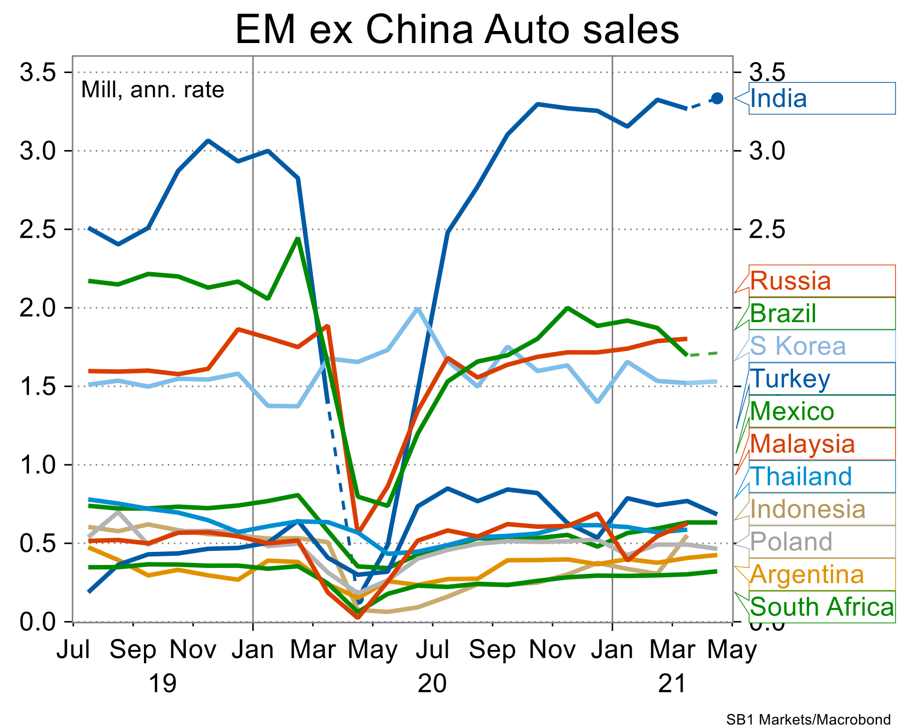
EM: What, auto sales up in India? At least based on media reports

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

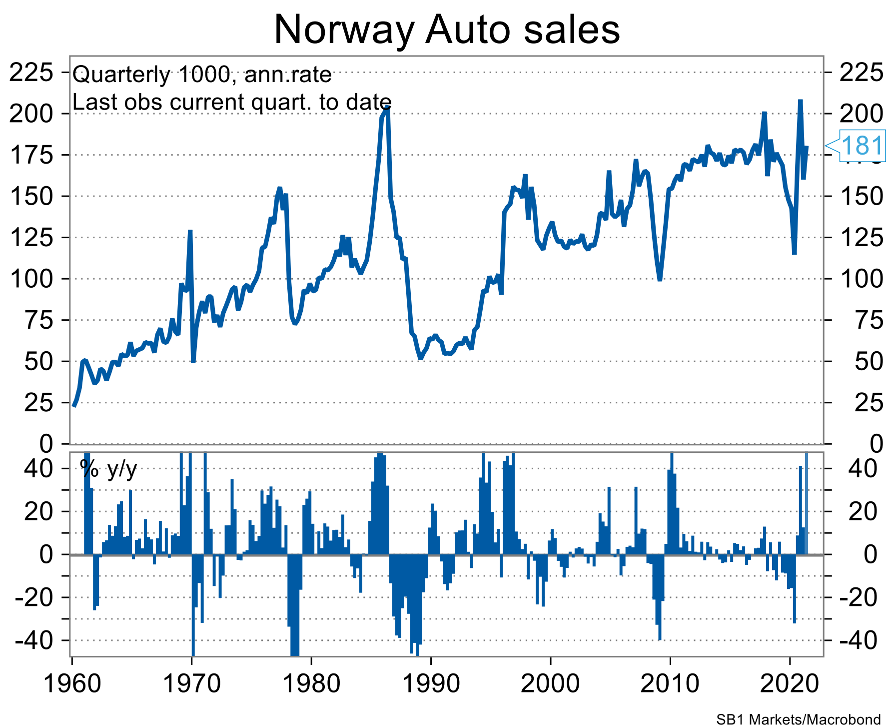


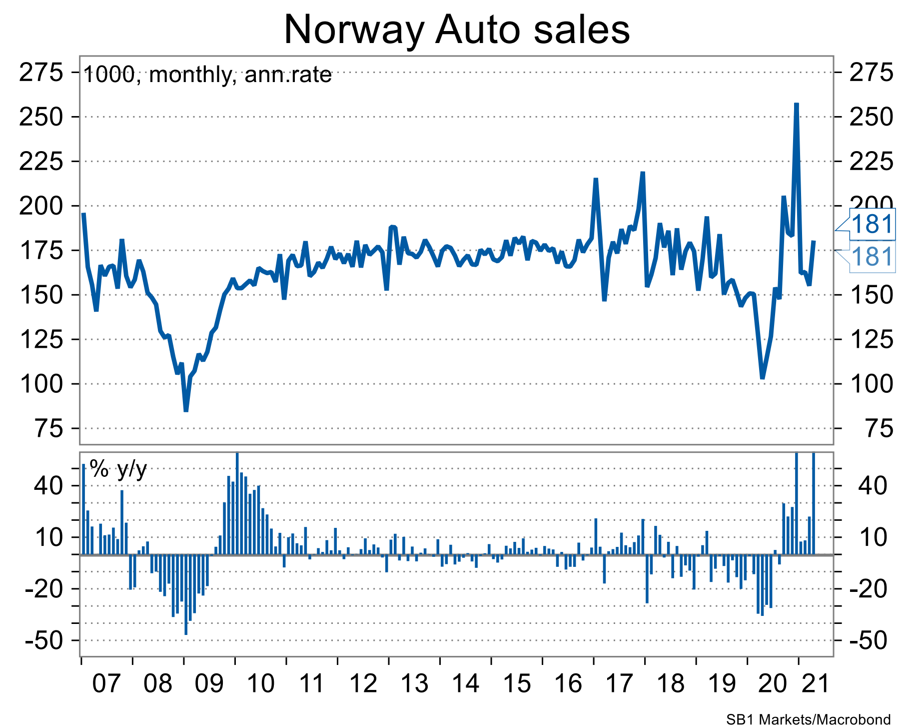


- Sales in India were probably the best since 2018, well above the pre-pandemic level, if media reports turn out to be correct (and they are often not precise)

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

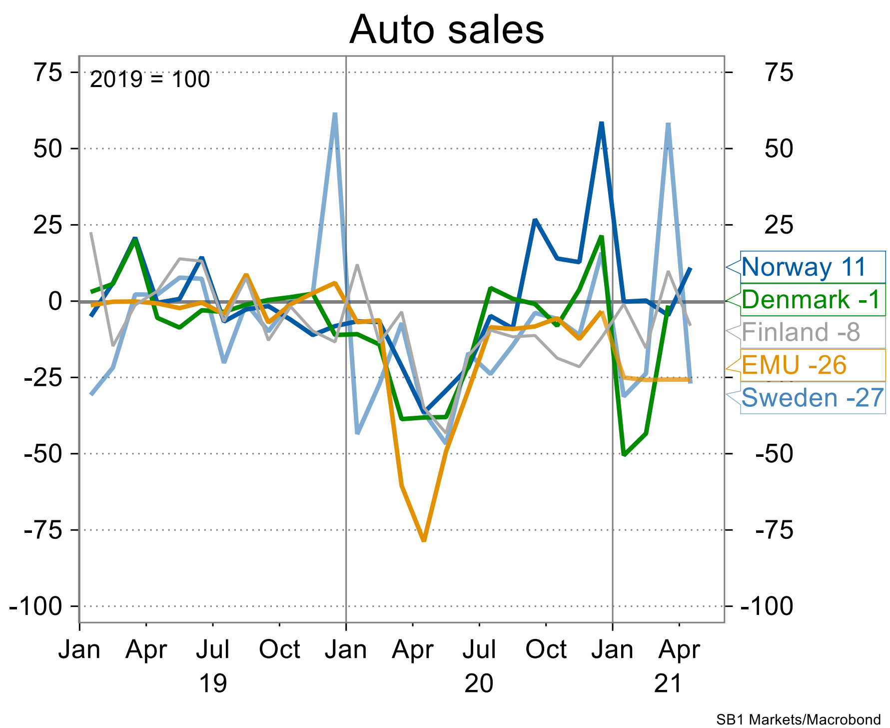
Norway: Auto sales up in April, back to a 'normal' level





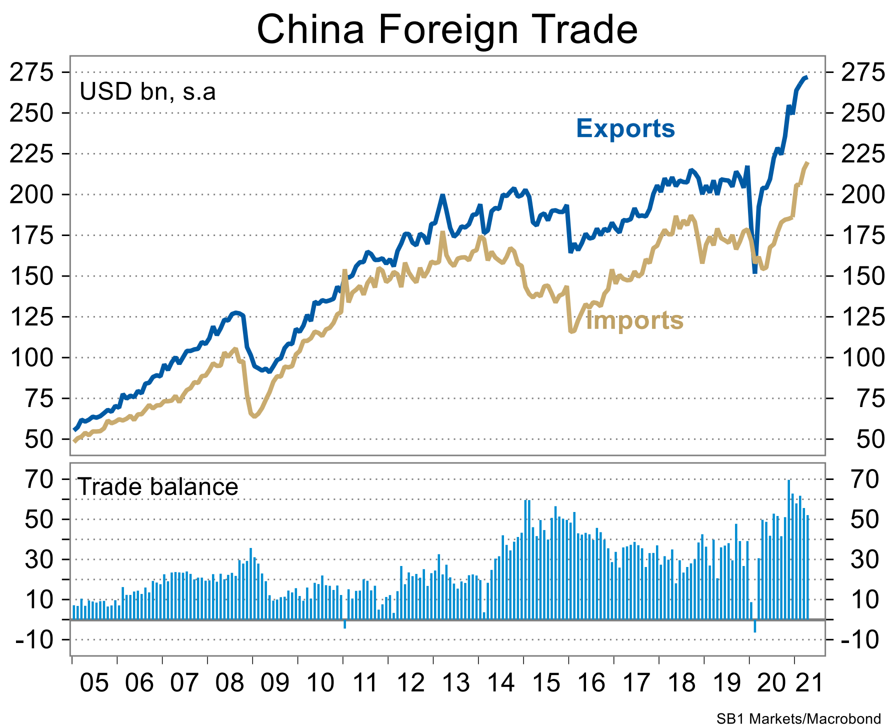
The Nordics: Auto sales have recovered – still volatile

Sales in Demark fell during the lockdown, recovered in March (and probably further in April)



Both exports and imports are still on the way up – should slow soon?

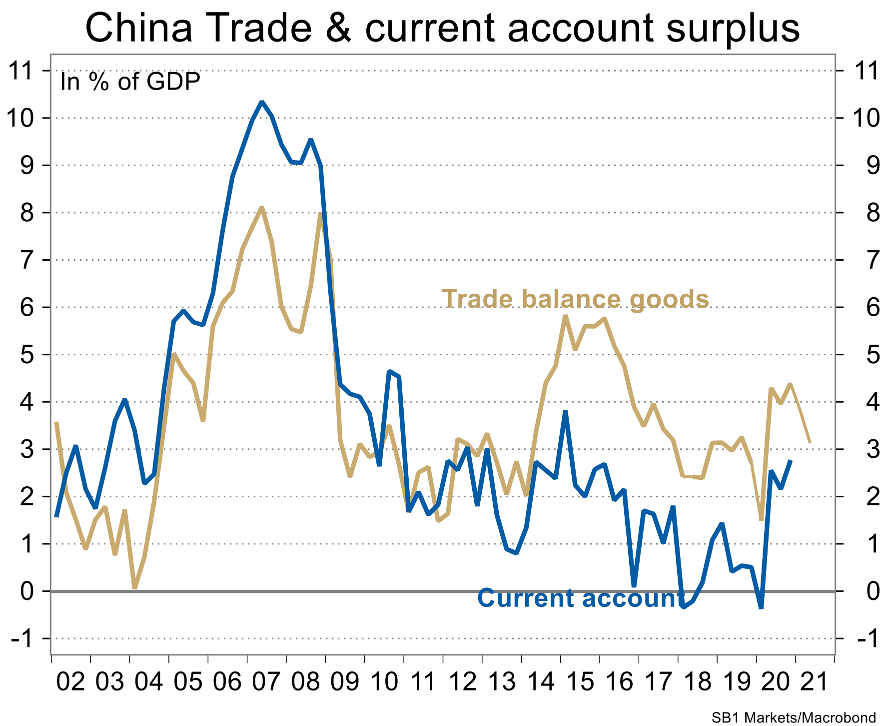
So far no signs of any slowdown in the global or the Chinese economy

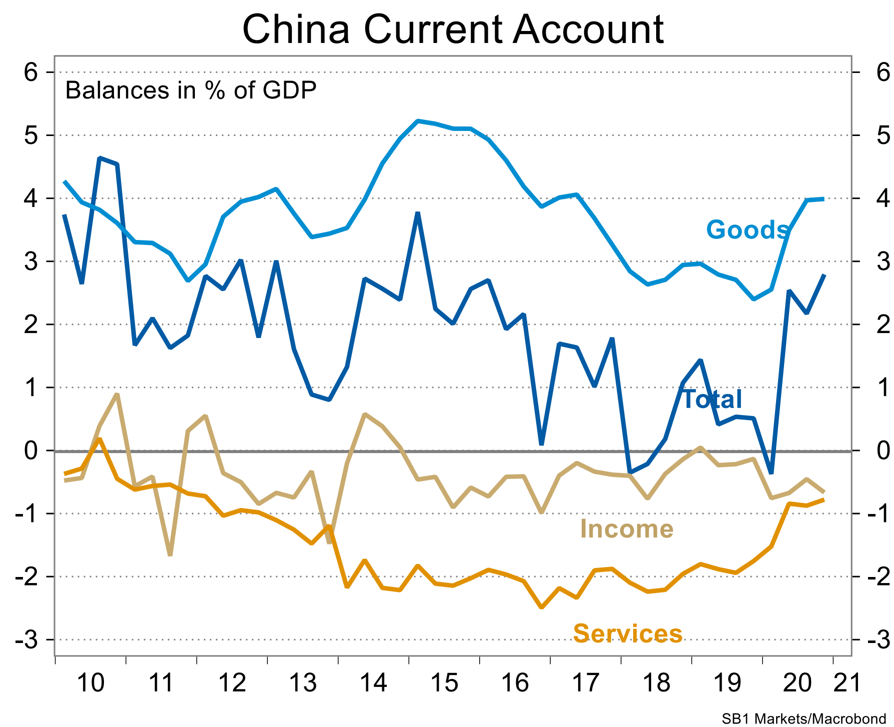


- **Exports** rose by just 0.3% in April (and by 8% from Dec) to another ATH. (Annual growth rates are irrelevant due the slump last spring). In **volume terms** exports very likely kept up too. Exports are far above any reasonable trend path, by at least 15%. <u>Global demand for goods is strong</u>
- **Imports** rose some 1% (and by 16% from Dec) to another ATH. In **volume terms** (our price assumptions last 4 m) the lift is less impressive, as we assume import prices have been rising sharply recent months – but imports volumes are record high and probably some 10% above the pre-pandemic growth path. <u>Domestic demand is more than OK</u>
- The **trade surplus** has fallen recent months, down to approx. USD 50 bn, still somewhat above the pre-pandemic level
- We expect <u>growth in foreign trade volumes to slow substantially</u> through rest of the year. Demand for goods in the rich part of the world will come down when spending in services increase, shortages of raw materials/intermediates will dampen production, and the Chinese are tightening credit policy

China runs a 'modest' surplus at the current account – at 2% - 3% of GDP

The C/A surplus was above 10% of GDP in 2007

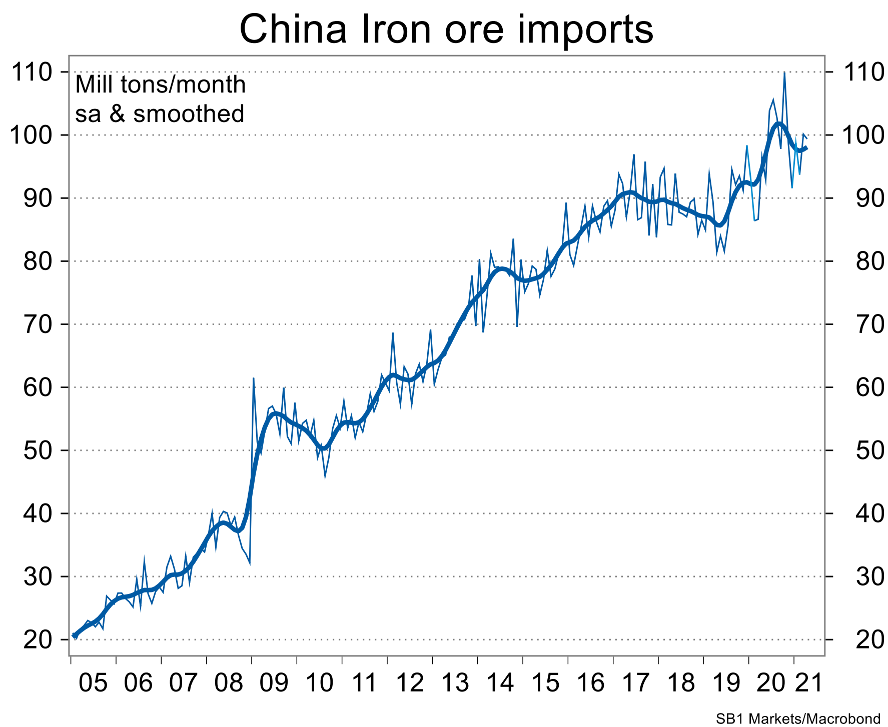




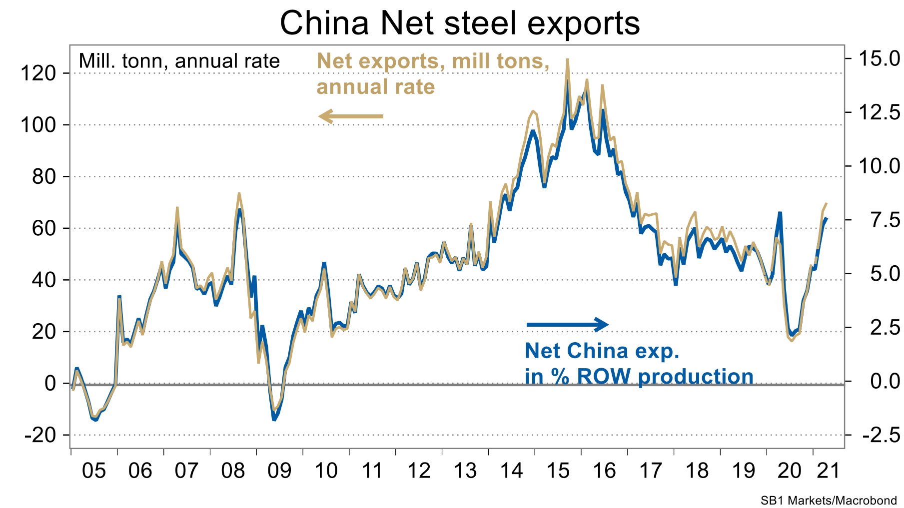
- The trade surplus in goods is now at 3% - 4% of GDP
- In services, China runs a 1% deficit, down from -2% in 2015 – 2019 (but from zero 10 years ago). For the time being, the Chinese do not travel abroad (and we do not travel there either)
- China runs a marginal deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds; foreigners are investing in profitable production capacity in China

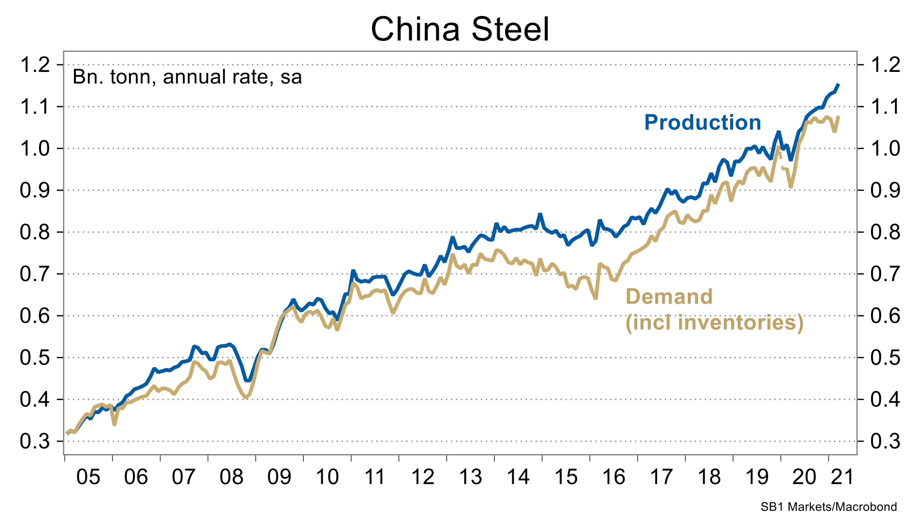
Iron ore imports have stabilised recent months, production still on the way up

Growth in domestic demand has slowed, and net steel exports have strengthened



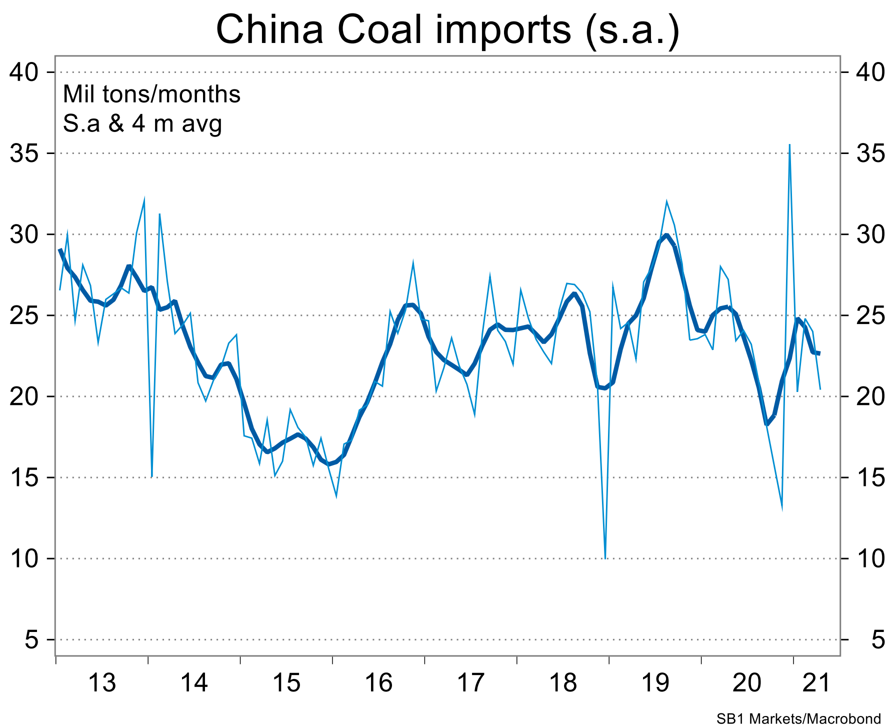
- Can the increase in steel production continue? Does not seem reasonable





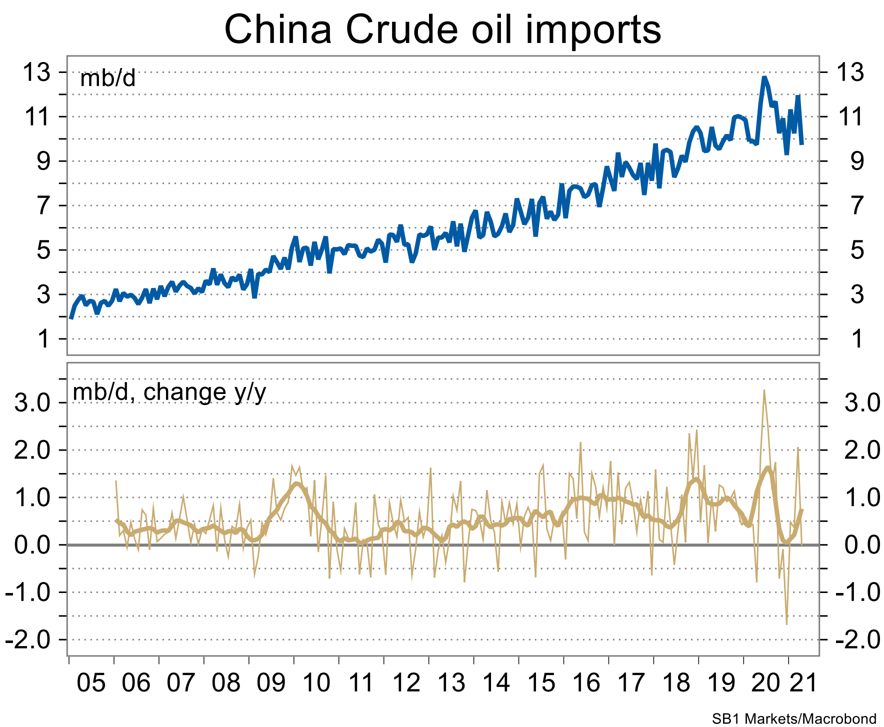
Coal imports have been trending flat since 2016

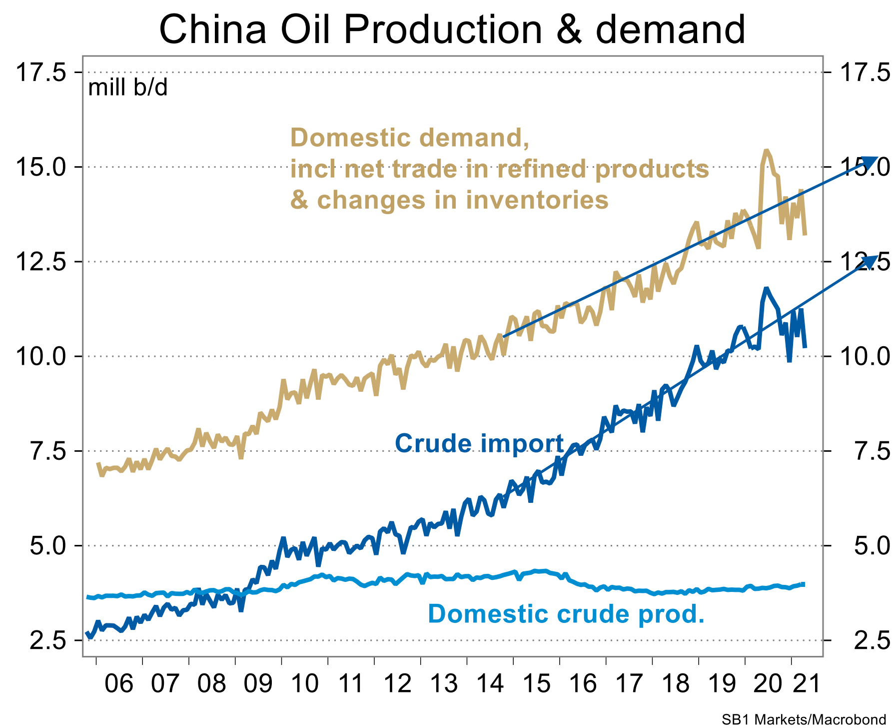
… and the past months have been on the weak side



Oil imports down in April, may be slowing…

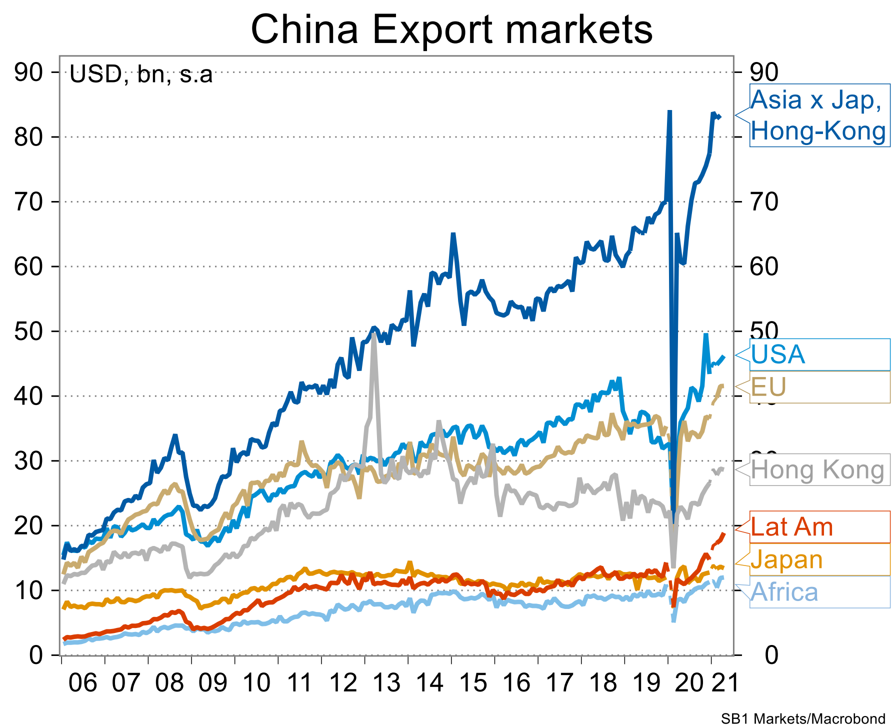
But it is most likely still at rising trend





Chinese exports to ‘all countries’ up, and a further lift in exports the US in Jan/Feb

Exports to other countries in Asia strong too



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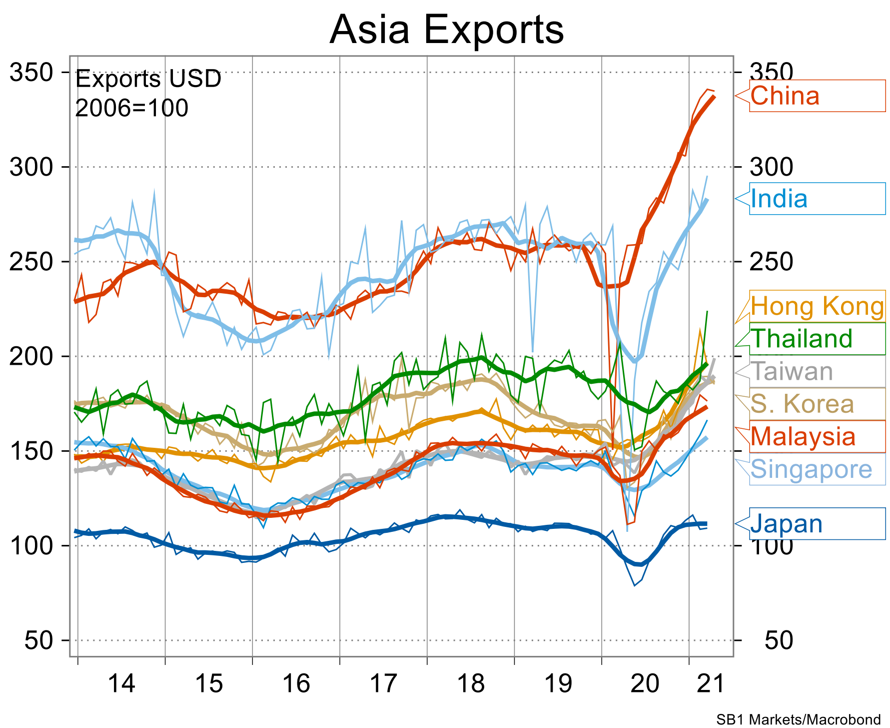
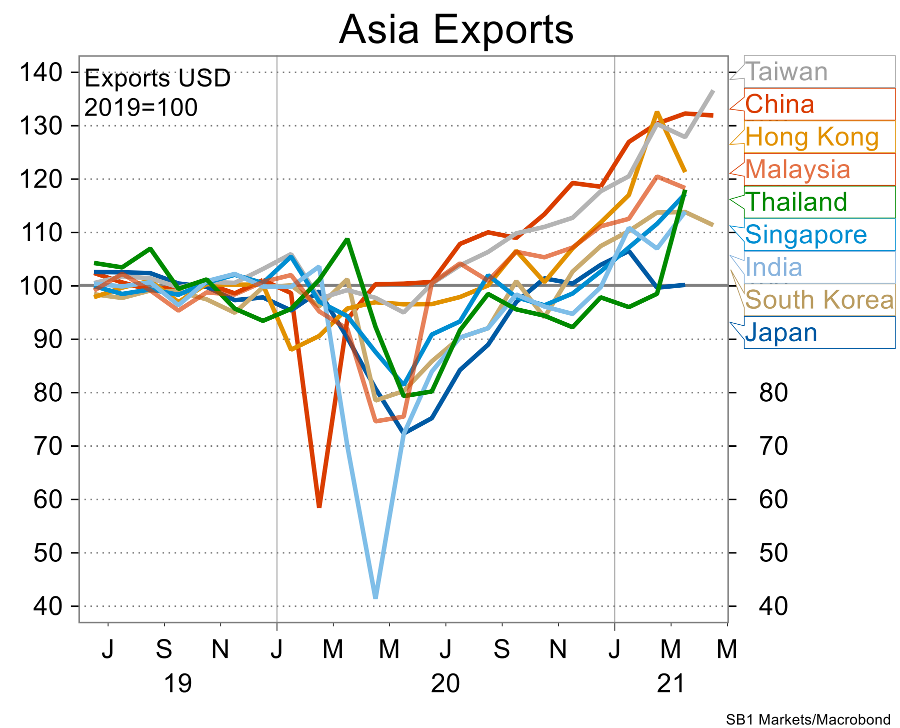
Asian exports are on the way up everywhere

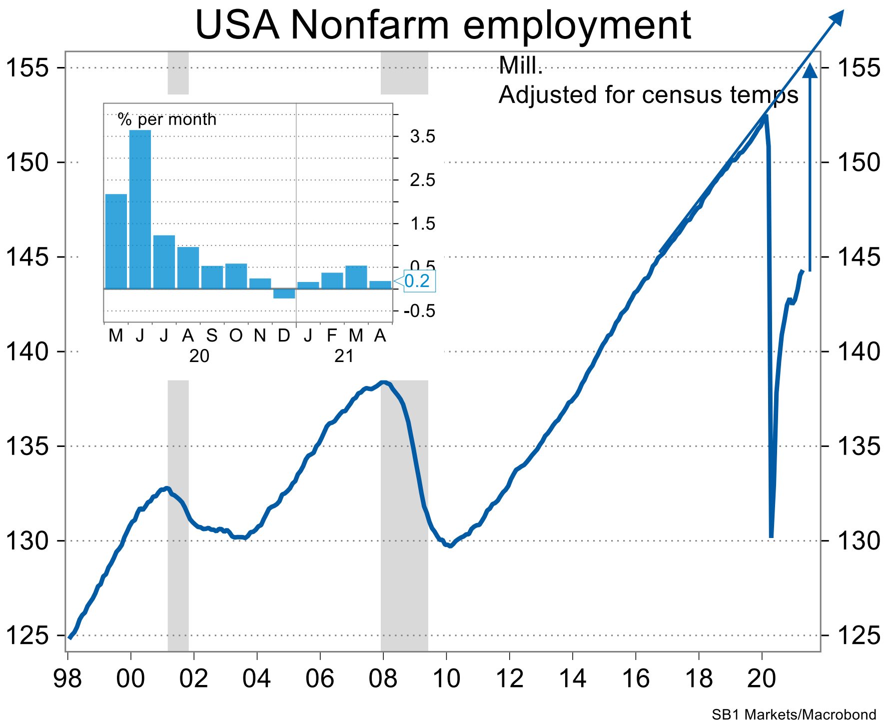
(except Japanese exports)

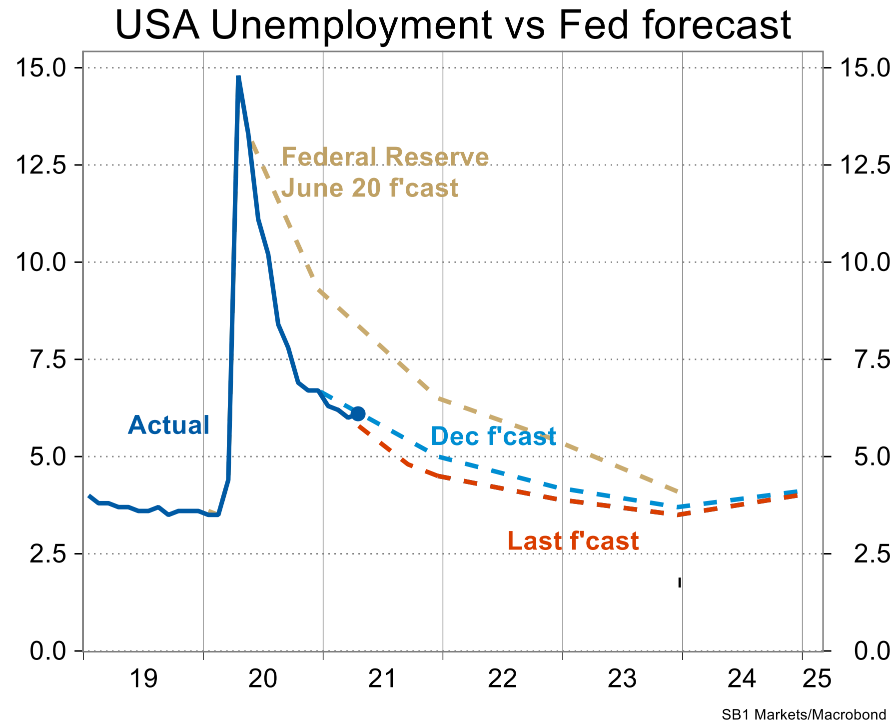




Payrolls surprise on the downside in biggest miss ever – up 266’, exp 978’!

Is participation held back by too lucrative benefits? Or is it just the virus keeping folks at home?





- **Employment** rose by 266’ (0.2%), far less than expected, and March was revised down by 146’. Restaurants, education in the lead in March but both remain far below pre-pandemic levels. The employment rate is 5.2% below the Feb-20 level, equalling 8.5 mill jobs.
- **Unemployment** rose 0.1 pp to 6.1%, expected down to 5.8%, and is above Fed’s recent (implied) f’cast. Unemployment is ‘just’ 2.7 pp higher than before the pandemic but the participation rate has fallen by 2.1% (1.6 pp), lowering the measured unemployment rate substantially. Still, the underemployment rate fell sharply in April
  - » Almost 2.8 mill. persons (down from 3.7 mill in March) report that they had withdrawn from the labour force (and were not searching a job) for corona related reasons. Many of these – but very likely not all – probably do want to return to the labour market, when possible. Just 40% of the 2.8 mill report they want a job but we are not sure what their answers imply
- **The Federal Reserve** will remain dovish the coming months, whatever labour market & inflation data may turn up

Labour market indicators: Where are we now? At least until last Friday…

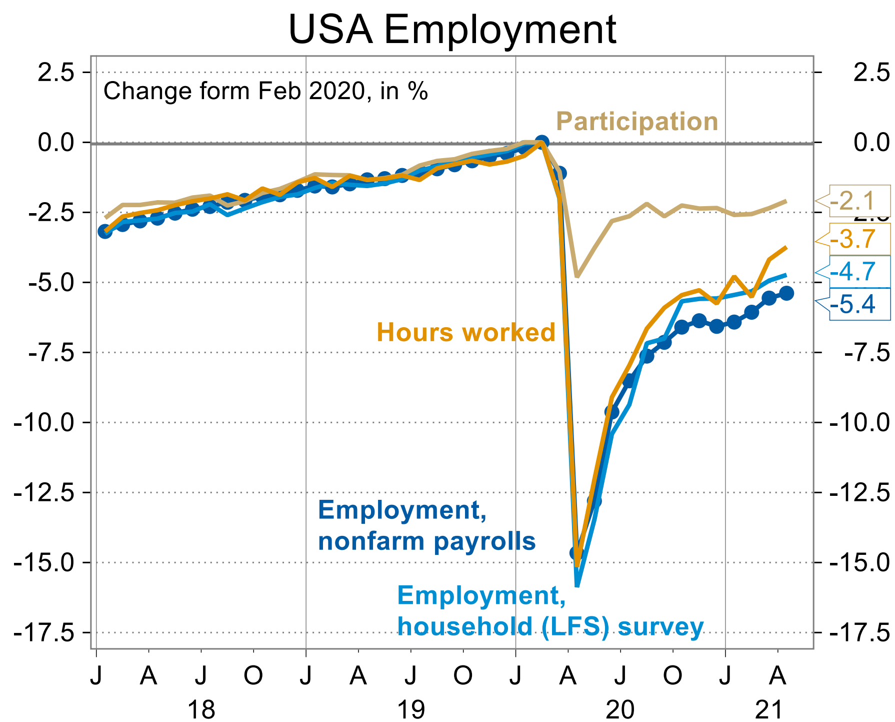
Or: Is it likely that Friday's employment report reflects the 'real' situation in the labour market?

	Strong demand indicators	Weak demand indicators
Strong supply indicators (participation rate 'too' high)	**4 green 3 red** **High GDP growth** **High GDP level** **High employment growth** Medium unemployment **A high participation rate** **Many vacancies but not hard to fill** **Employment surveys strong** Jobs easy to get (Cons. Conf) Accelerating wage growth	**½ green 7 red** **Slow GDP growth** (GDP level undecided, likely low) **Low employment growth** **Higher unemployment** (The participation rate undecided) **Few vacancies, and very easy to fill** **Employment surveys weak** **Jobs very hard to get** **Slowing wage growth**
Low supply indicators (participation rate 'too' low or lower than people really 'want', over time)	**5 green 1 red** (GDP growth undecided) (GDP level undecided, most likely low) (Employment growth undecided) **Unemployment rate very low** **A low participation rate** **Vacancies very high, and very hard to fill** **Employment surveys (most likely) strong** **Jobs very easy to get** Accelerating wage growth	**2 green 5 red** **Low GDP growth** **GDP level low** **Very low employment growth** Medium unemployment **A low participation rate** **Few vacancies but not that easy to fill** **Employment surveys weak** **Jobs medium to hard to get** Medium wage growth

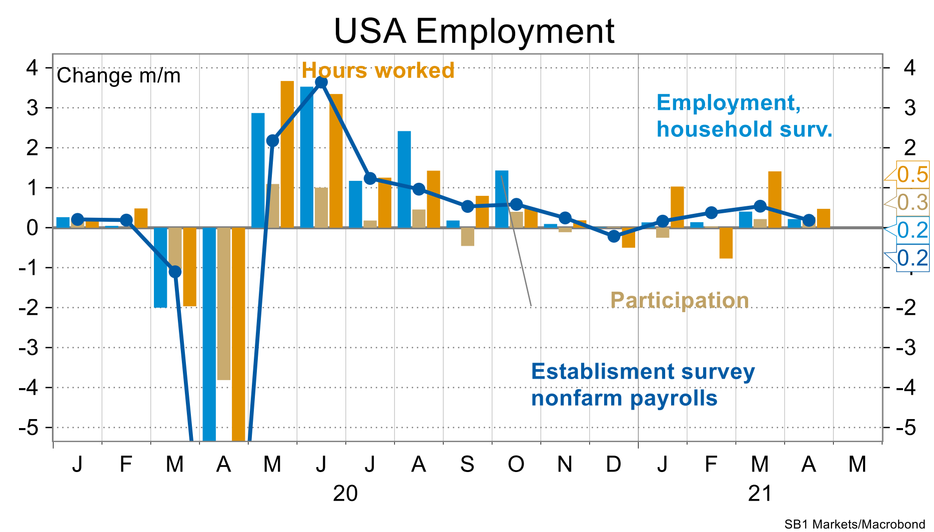
- We are no doubt in the **«strong demand»** quadrants, at least based on growth rates, vacancies and ability to fill them
- The **actual participation** is lower than normal, and most likely lower than people 'want' – and some 2.8 mill (1.8%) say they are unable to work for Covid-19 related reasons. In addition, generous unemployment benefits may not stimulate many unemployed to search for jobs
- **What to look for:** Changes in voluntary labour market leavers (no. of people not able to work due to Covid), fewer cont. claims, and wage indicators

What was our assessment of data ahead of the April employment report?
Green: Yes, it is like this today
Grey: Neutral (we are not sure or undecided in this quadrant)
Red: No, that is not the case now
Bold: A high confidence assessment,
non bold counts as ½ when summing up

Labour market activity is on the way up, still far below the starting point

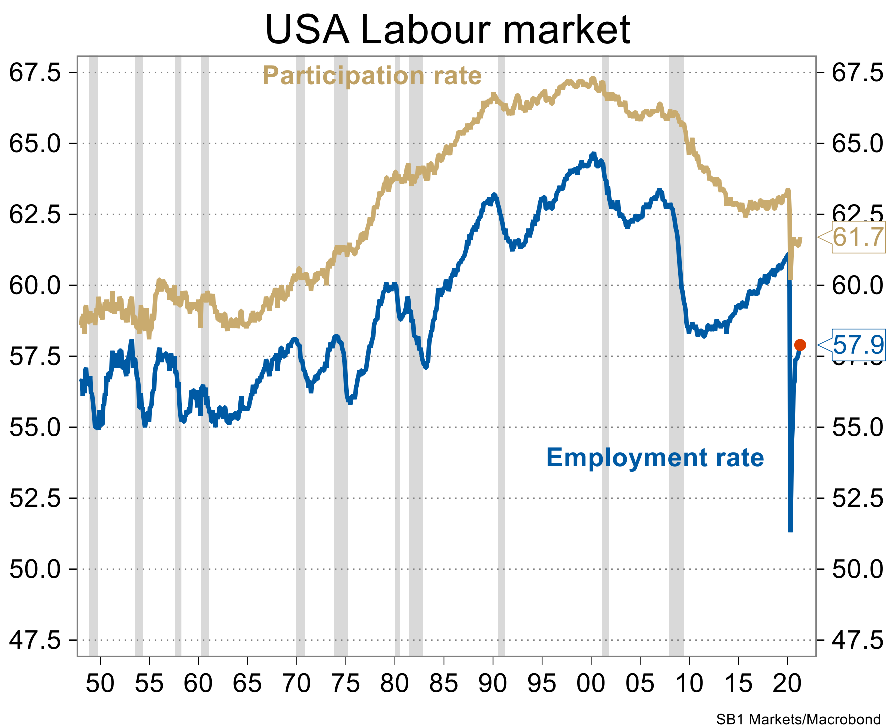


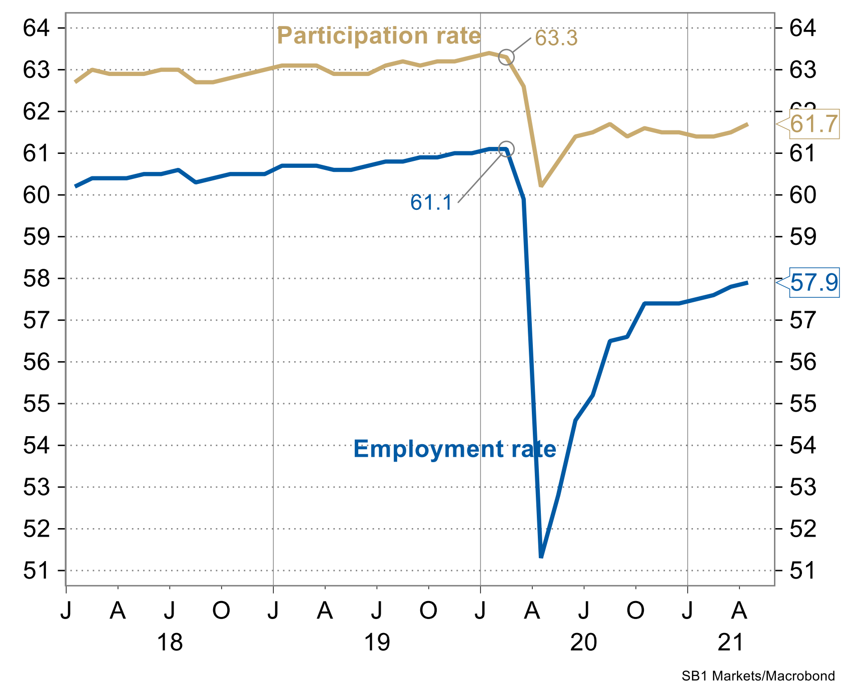
- **Labour market participation** rose in both March and April, and the rate is down some 2.5% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 5.4% vs Feb '20, while employment measured by the **household survey** (LFS/'AKU') is 4.7% below the pre-pandemic level
- **Sum hours worked** jumped 0.5% in April as average weekly hours rose, following a 1.4% increase in March. Still down 3.7% vs. Feb-20



Employment & participation rate up in March

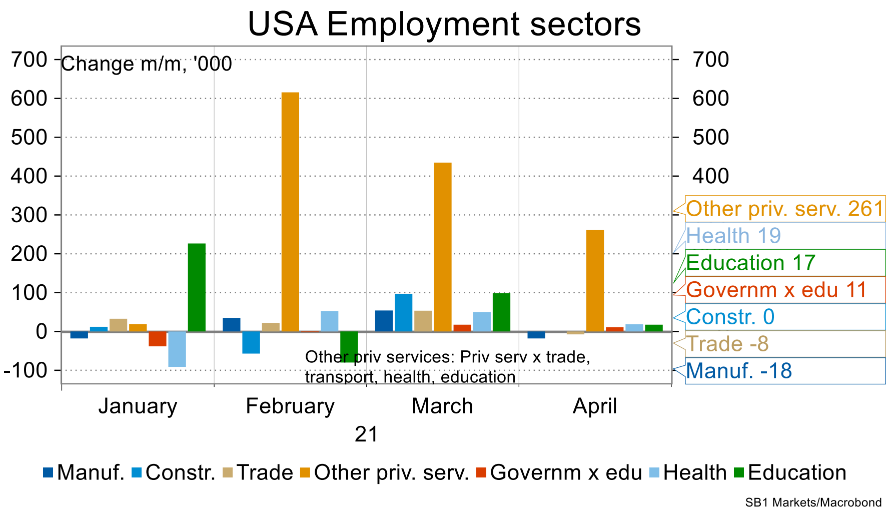
The participation rate is down 2.5% (-1.6 pp), the employment rate is down 5.2% (-3.2 pp)

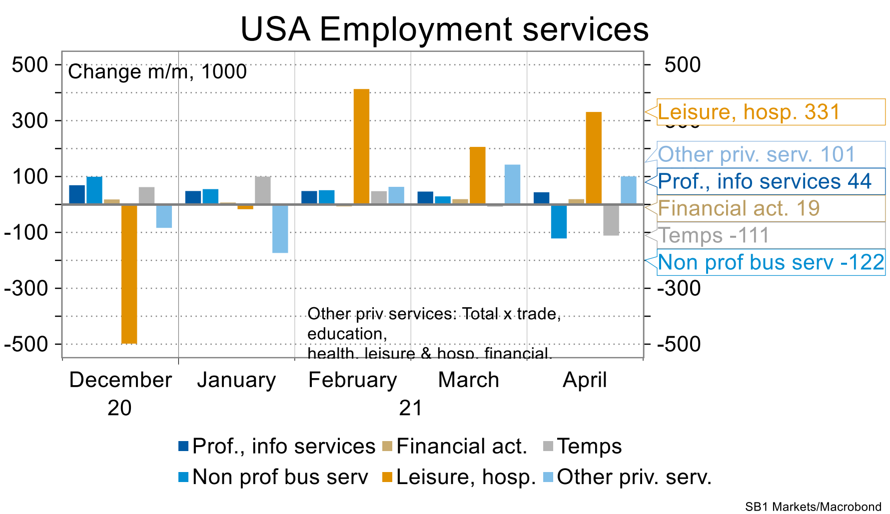




- The decline in the participation rate is corona related, at least it was initially. In March 2.8 mill. persons responded that they did not search for work (and thus were excluded from the work force) for corona related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, not because their job was closed down), down from 3.7 mill in March, and down from 9.7 mill last May. These 2.8 mill persons equal 1.8% of the labour force, and represents a substantial potential for labour supply
  - » Some 40% of these 2.8 mill outside the labour market say they want a job, and 60% do not want job. However, we are unsure what these answer implies
- The number of unfilled vacancies is high, small businesses are unable to fill vacant positions like never before, households state that it is not hard to find a job (see graphs further out in this report)

Leisure/hosp., education up in April, Manufacturing jobs down



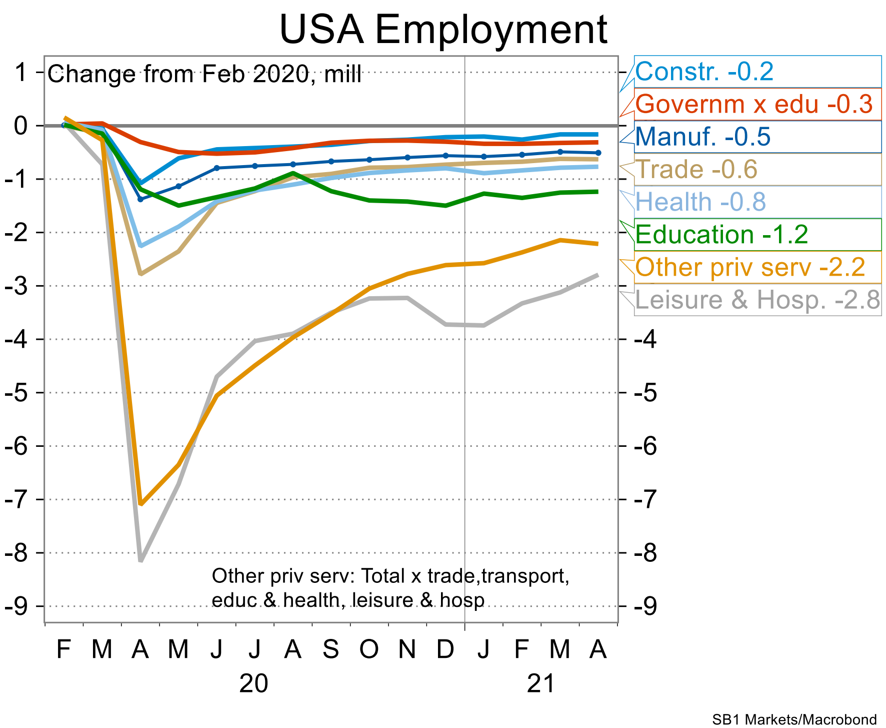


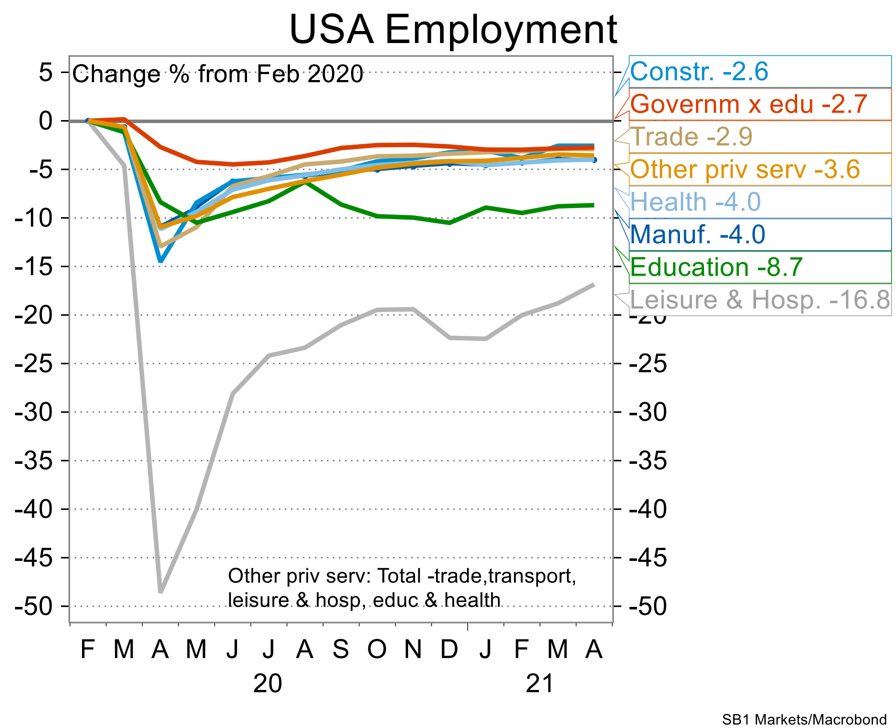
- **In March**
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 331’ workers, +2.4%, following the 2.1% March lift
  - » **Education** (priv & public) added 17’ jobs as more schools reopened but far less than in March (almost 100’)
  - » **Other services** added more jobs too
  - » **Manufacturing & trade** shed 26’ jobs, due to a decline in employment in the auto industry, very likely due to supply problems (data chips, auto sales are very high)
  - » **Construction** jobs were unchanged, supply of lumber and other construction materials may hamper growth
  - » Empl. in **Government** increased by 11’
  - » **Temps** jobs were down by 111’

Government employment adjusted for temporary 2020 census workers

From Feb-20: No sector is back yet. Leisure/hosp & education the big losers

...But leisure/hospitality is gaining speed as the economy gradually reopens. Education just slowly up

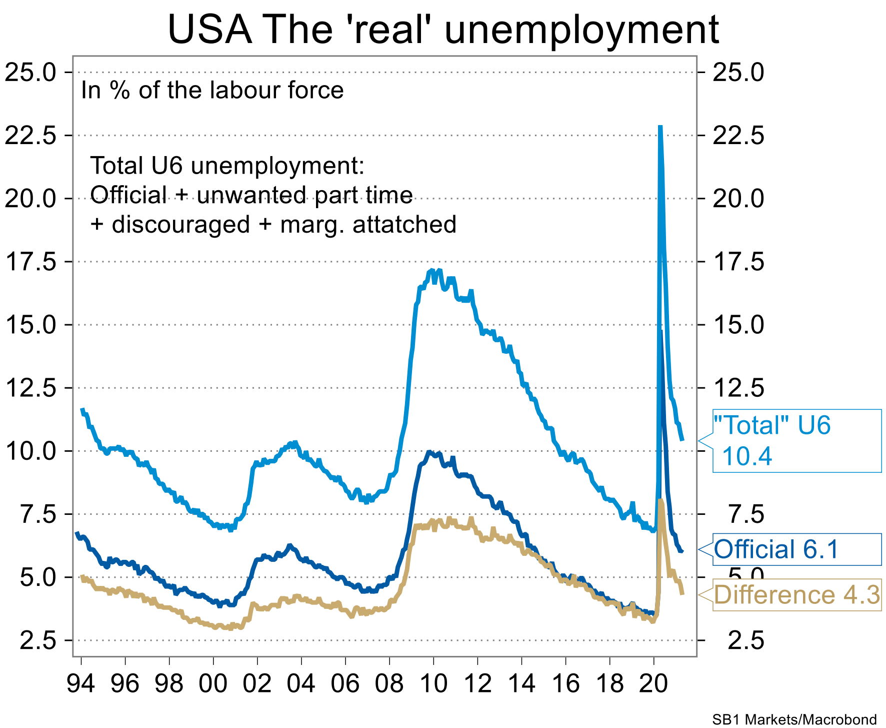


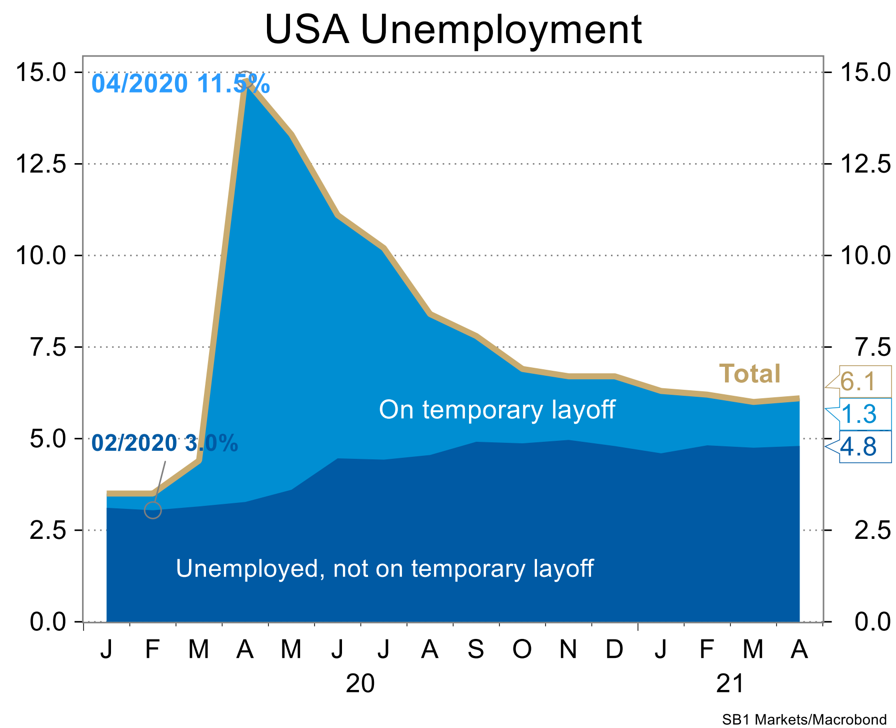


- **From February last year**
  - » No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits!
  - » **Manufacturing** is down 4.0%, **trade & transport -**2.9%, **construction** -2.6%
  - » **Education** is down 9%, many schools are closed
  - » **Leisure & hospitality** is down 17%
  - » Even **government employment** x education is down 2.7% (adjusted for temp census workers), which is remarkable in an economic downturn

Unemployment surprisingly up in April, due to a increase in the participation rate

The 'real' unemployment rate (including involuntary part-time, etc) still fell further

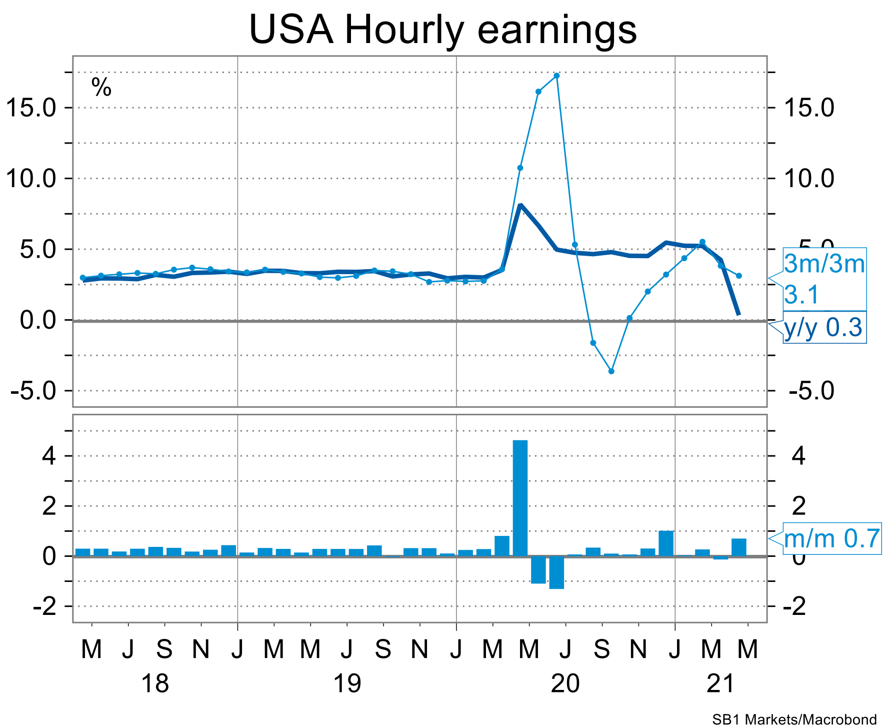




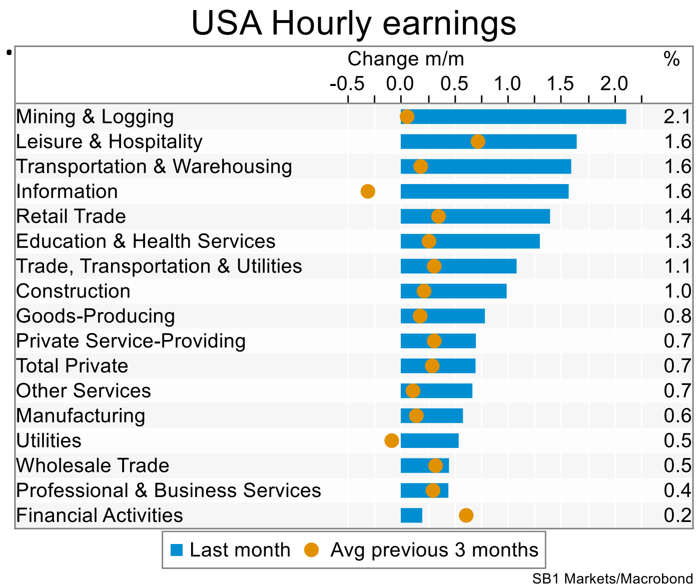
- **The 'total' unemployment rate** fell 0.3 pp to 10.4%. This rate included workers at unwanted part time or do not search for work because to work is available anyway.
- **The difference** to the 6.1% ordinary unemployment rate at 4.3% is lower than the average since 1994, and far below levels seen in 'bad times – but still above booming time levels
- In April, the **unemployment rate** rose by 0.1% to 6.1% both due to an increase in the no. of 'permanently' unemployed and more workers being temporary laid off. The latter is rather surprising

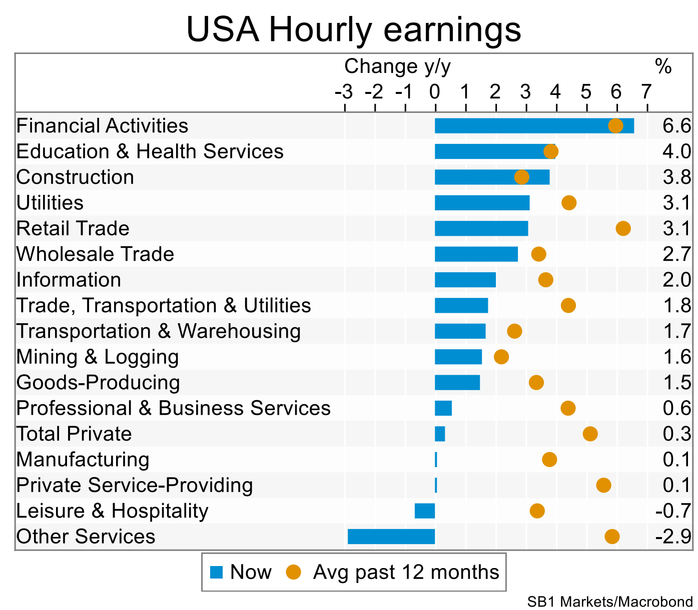
The average wage up in April, even if low paid workers returned to work

Average wages up 0.7% m/m, too early to call high wage infl.



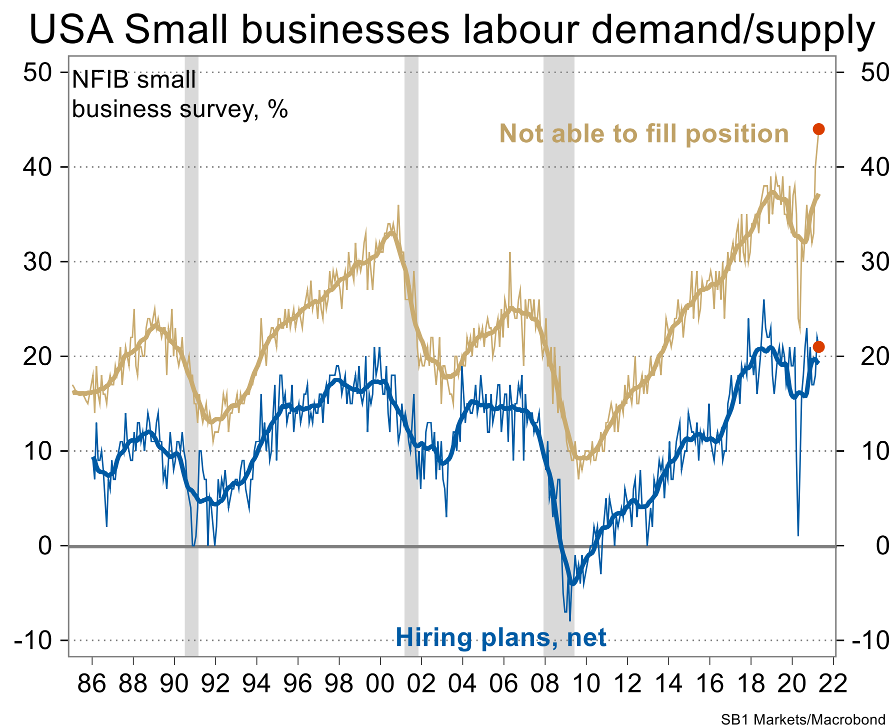
- We are still sceptical to over-interpret average wage data, also at the sectoral level as employment mix has changed sharply between sectors and probably within sectors
- However, in April wage increases were higher than expected, and high in most sectors, even if employment grew, especially in the lower paid leisure/hospitality sector. Here wages grew by 1.6%
- More on wage costs and inflation here

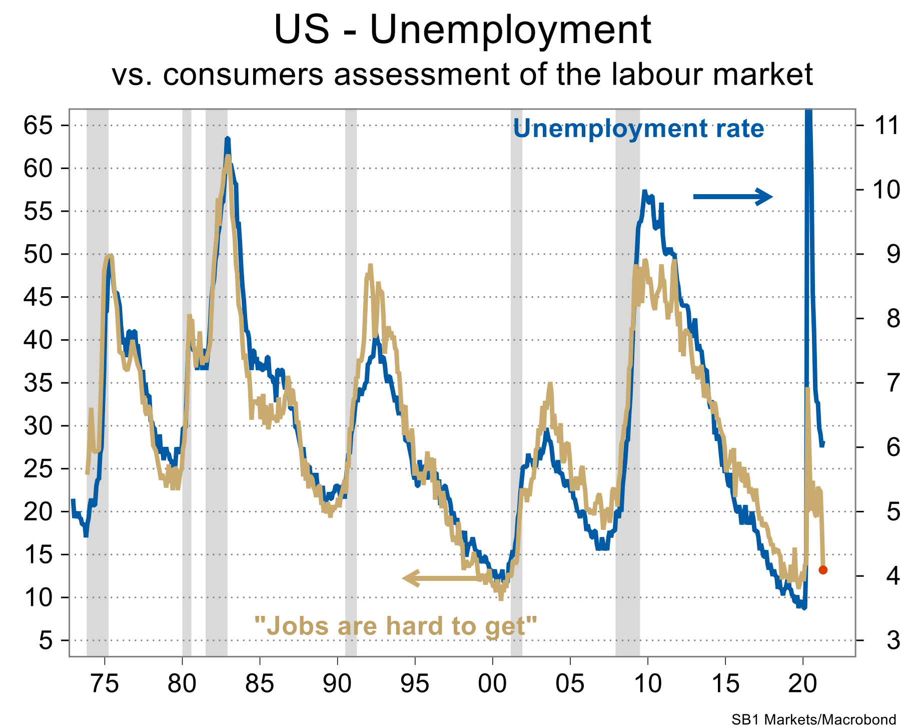




Small businesses: More companies than ever are not able to fill positions

... and hiring plans are not far below ATH (which is not that surprising), according to the NFIB

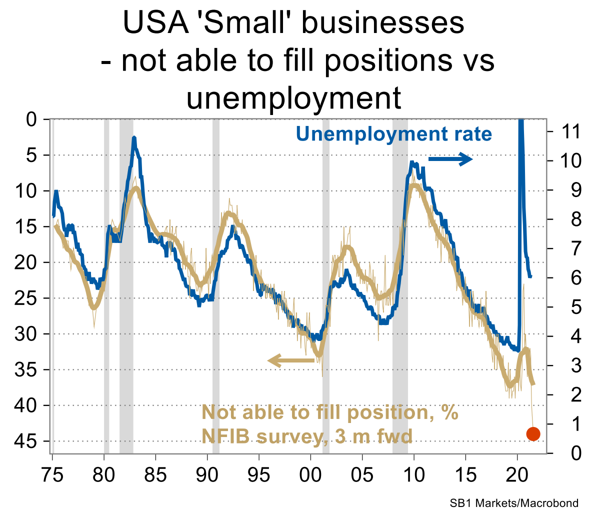


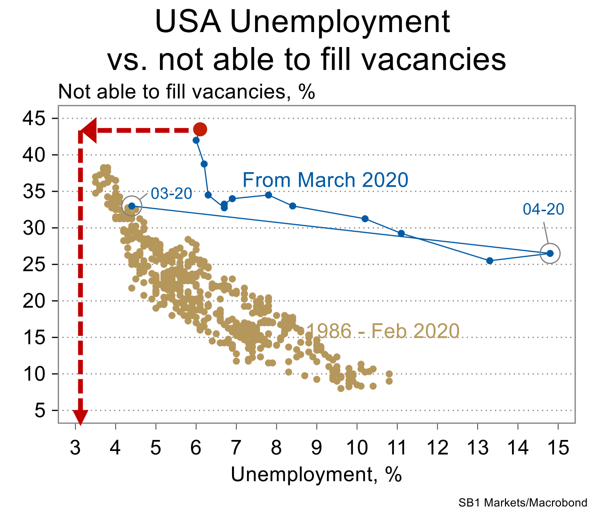


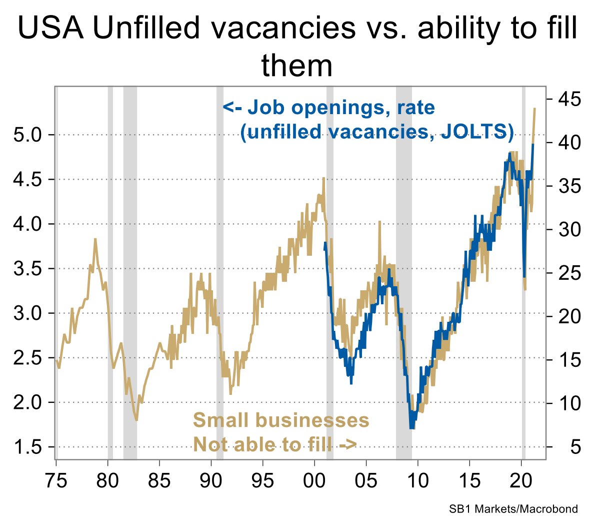
- SMBs are not able to fill vacancies: The share of companies not able to fill vacancies rose further in April, to the 3rd ATH in row
- Households report that jobs are not hard to get at all – as if the unemployment were 4% (or 3.5% if we compare the two data series over the past 15 years)

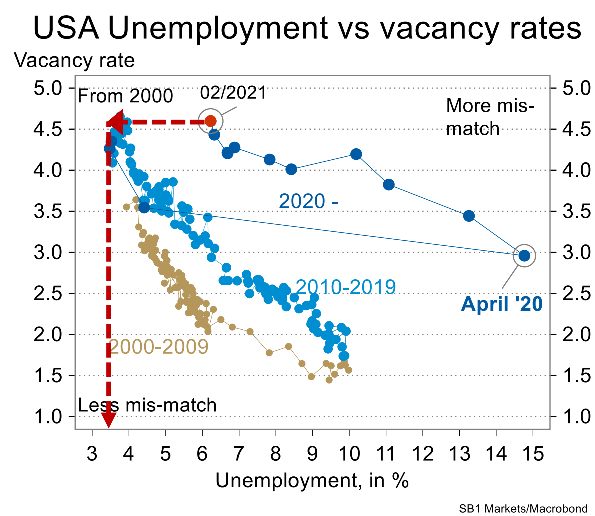
Some x-checks: The labour market looks to be very tight

No. of unfilled vacancies is record high, as if the unemployment were 3.5%







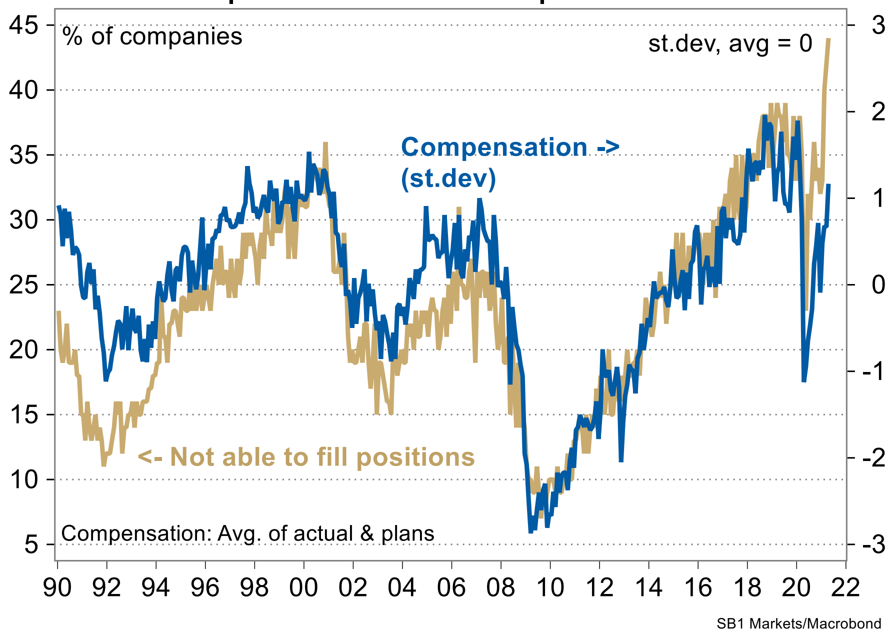


- The **official (JOLTS) vacancy** rate is record high
- The share of small companies reporting that they are **not able to fill vacancies** is record high
- The official vacancy rate is closely correlated to SMB's report on ability to fill positions – which strengthen the confidence in both data points
- <u>These data signal a 3% – 3.5% unemployment rate</u>
- The Unemployment/Vacancy curve may have moved outwards again, as it did in 2010, implying a higher **mis-match** at the labour market
- All other employment surveys are strong or record strong

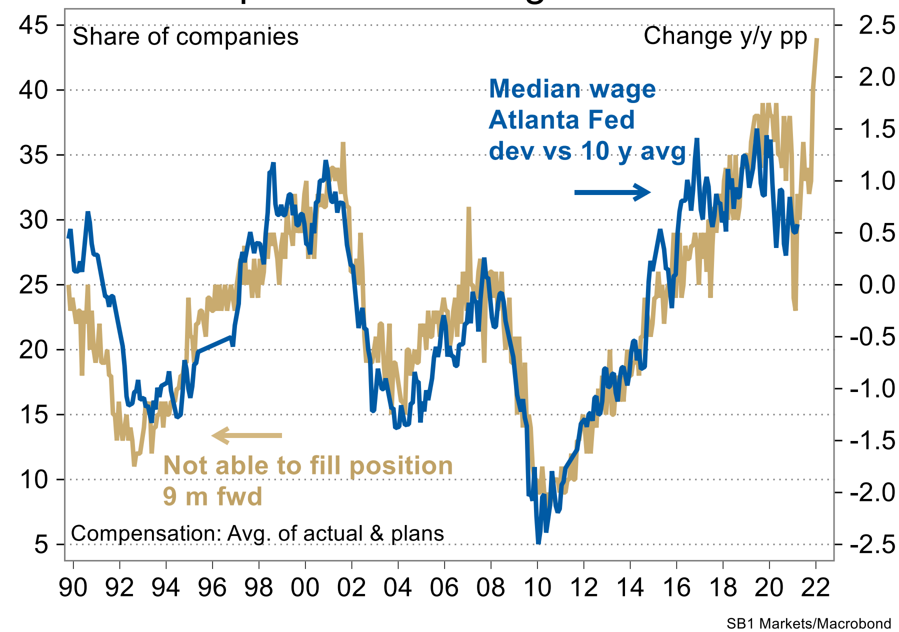
Wage inflation will increase, if labour supply does not increase sharply

No wage inflation shock yet but something might happen

USA Small businesses, not able to fill positions vs compensation

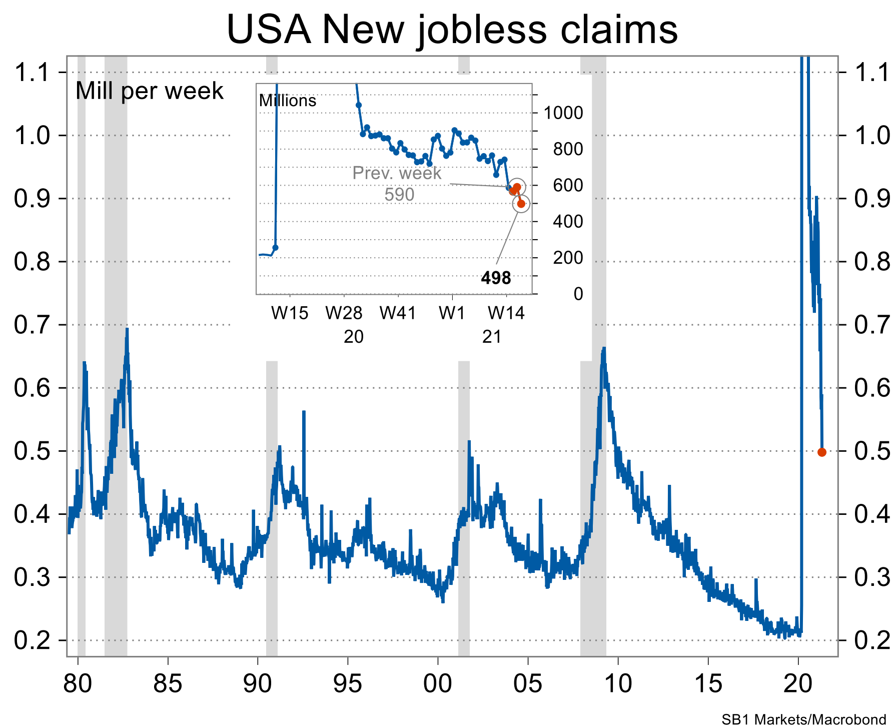


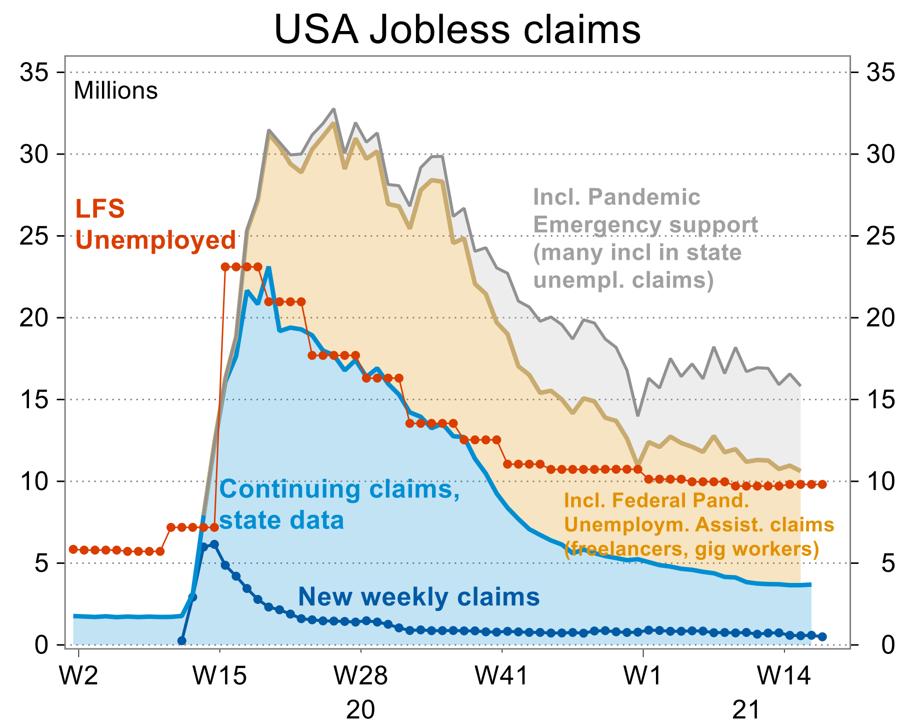
USA Small businesses, not able to fill positions vs wage inflation



Jobless claims continue to fall as economy opens up

…and claims fell all across the country

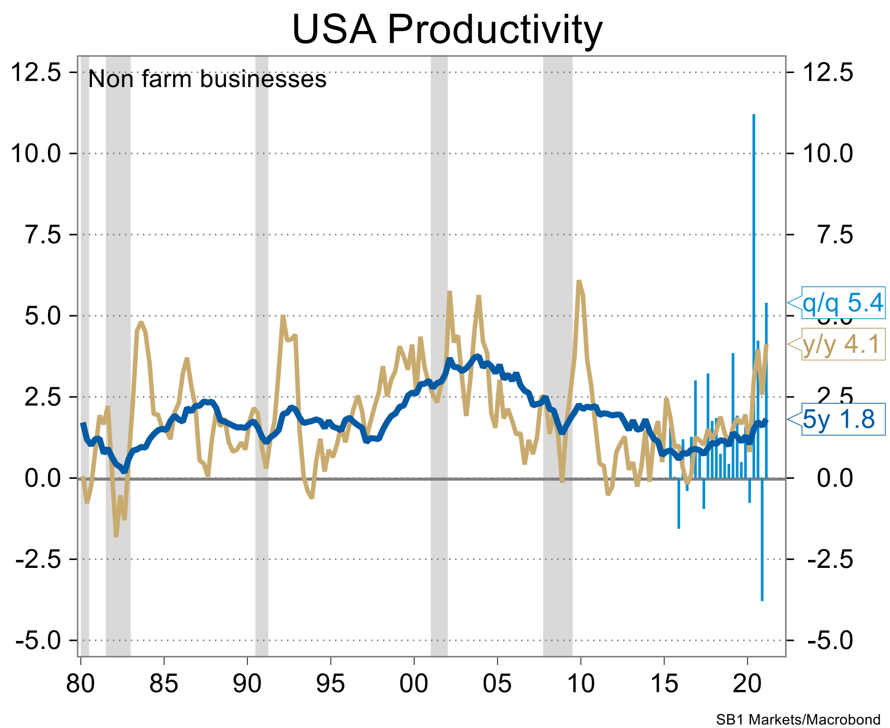


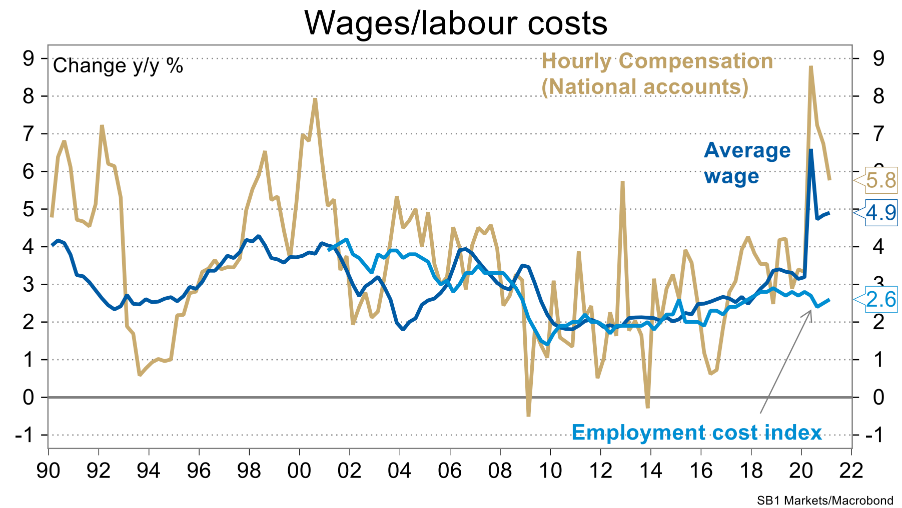


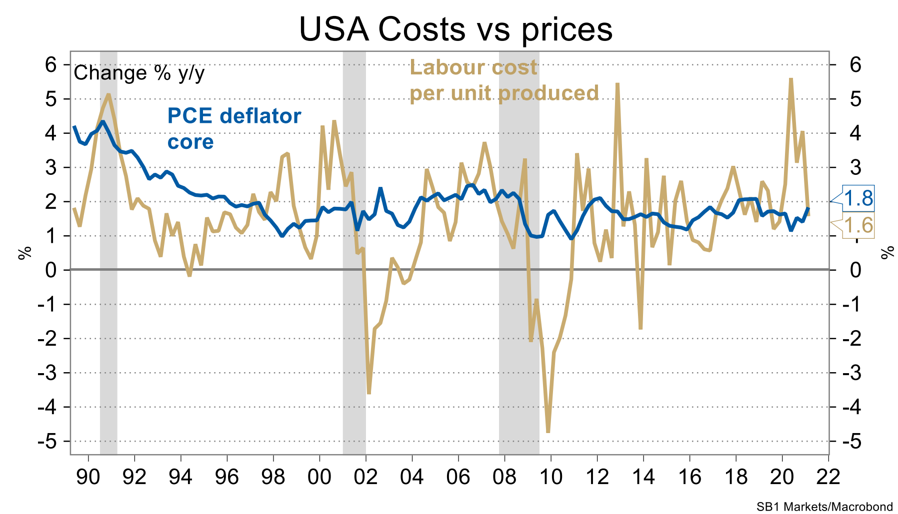
- **New claims** at 498', down from 590' (revised up from 566', expected 540')
- **Continuing claims** was up by 70' from prev. week, while the applic. for the two pandemic support programs also declined slightly (the week before that).
  - The **Pandemic Unemployment Assistance** extends federal support to freelancers & gig workers who are not covered by state unemployment schemes. The federal **Pandemic Emergency Unemployment Compensation** adds USD 300/week to state programs, which on average pays somewhat above USD 318/week, and can be paid for a longer period (so these claims are partly included in the ordinary state benefit receivers). Both programs run until September
  - Those who receive both ordinary state and emergency program support, receives north of USD 600/week, equalling some USD 15/hour for a full time job, way above the 7/h minimum wage
- **The debate is of course heating up**: Do the 'generous' unemployment programs make it too attractive to stay on the dole, instead of trying to find a job? The record high no. of unfilled vacancies & the record high share of companies reporting that that are not able to fill vacancies, signal that something is 'wrong'.
- **Two states** have decided to say no, thank you to the federal support programs from June, while at least 5 others are contemplating doing the same, in order to push more unemployed back to the labour market

Wild productivity & labour cost data; still challenging to decipher

Q1 productivity up 4.1% y/y, hourly compensation up 5.8% - and labour cost per unit prod. up 1.6%







- These very important National Account data are now more or less meaningless when evaluating the underlying trends in productivity, hourly labour costs or unit labour costs due the large changes in the composition of the employees and production (even if unit labour cost should not have been influenced, but they very likely are)
- Both **productivity and hourly labour cost inflation** has accelerated but we are not sure that is the underlying trend. Both may have accelerated for real during the pandemic, which also was the trend before the pandemic. The most relevant wage data does not signal an acceleration
- **Unit labour cost** fell in Q1, and the annual rate fell to 1.6% from 4% in Q4

SpareBank 1 MARKETS

Why lasting inflation cannot be created out of thin air (that is, without wage inflation?)

Because the margins can never increase by much, over time! Labour costs drive inflation

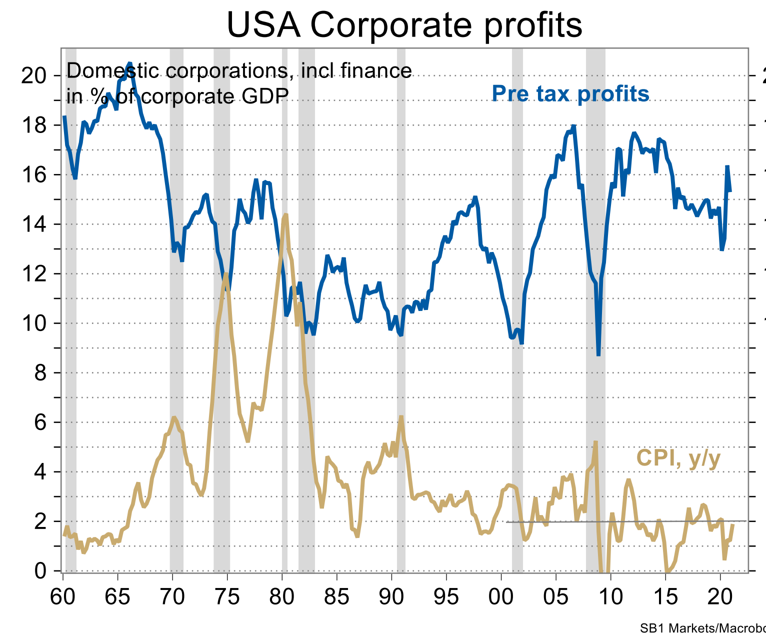
- In macro, that is all economic activity in a nation aggregated, inflation equals the increase in prices of all goods and services sold to end users (to consumption or investments)
- In a closed economy (or the world), an increase in prices can <u>per definition</u> only be decomposed into – or explained by the following factors
  - » Higher depreciation costs
  - » Higher wage costs (per unit produced, equals growth in wages - growth in productivity)
  - » Higher surplus or product taxes (like a VAT), higher interest rate costs
  - » Higher corporate profits after tax
- So, if higher raw material or intermediate goods prices are pushing up the end user price level (like we do experience now) or finished goods/ services producers increase their margins, the bottom line - profits – will increase <u>if no other element in the «P&L» is changed</u>
- However, while short term ups & downs in energy/raw material prices explain a substantial part of short term changes in end user prices (like the CPI), they do not by themselves 'explain' higher inflation over a longer period, for two reasons
  - » Raw material/supply shortage cycles are always short lived. The oil price is up 3x y/y but it is rather unlikely to triple once more. Or at least not for a 3rd time. Alas, the cost push (the margin expansion) is temporary, not permanent
  - » Higher end user prices equals higher corporate profits (either among raw material producers, intermediate goods producers or among producers of final goods & services), <u>if nothing else changes</u>. If higher profit margins are the reason for a continued and substantial increase in the price level, a <u>continued and substantial increase</u> in the profit margin is needed. <u>That has never happened before – and will not happen</u> – basically because capitalism (competitions) works
- Profit margins typically equals 10% – 20 % of corporate GDP (14% in the US domestic corporates, 2019). In order to push the price level up by 4% extra (say 2 pp up over 2 years) <u>without higher wage growth</u>, the US pre-tax profit rate will increase by 3.7 pp to 17.7% from 14% (somewhat less over time as depreciation and interest rate costs will increase, nominally)
  - » A close to 4 pp lift in the macro profit rate from the present level seems very unlikely
  - » <u>In fact, there is no lasting positive correlation between inflation and corporate profits</u> (charts next page)
- So what drives inflation? <u>The unit labour wage costs! Wage costs are more than 4x larger than profits, and an increase in real wages by 1 pp (that is above growth in companies selling prices) cuts the profits share by 0.6 pp, or by 4.2%</u>

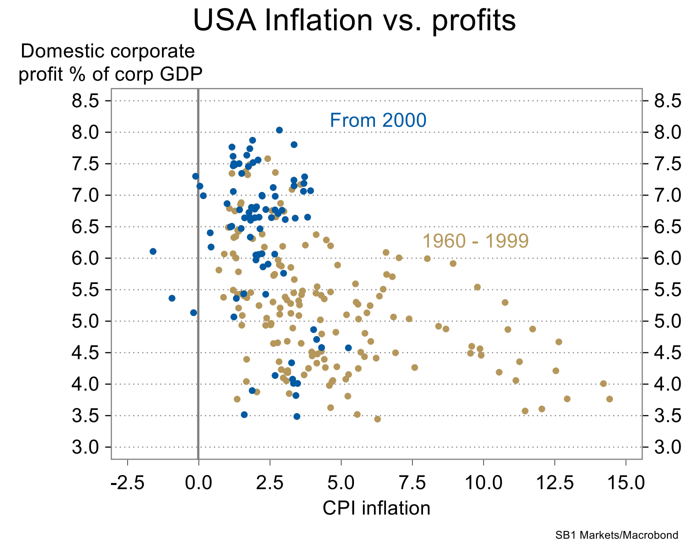
Corporate costs & margins		Prices + 4%	
US Domestic corporates, 2019	Now	Short term	*Long term*
Value added *	**100.0**	***104.0***	***104.0***
- Capital depreciation, 16%	16.0	16.0	16.6
= Net value added	**84.0**	***88.0***	***87.4***
- Wages	60.0	*60.0*	*60.0*
- Product taxes - subsidies, 8%	8.0	*8.3*	*8.3*
= Net operating surplus	**16.0**	***19.7***	***19.0***
- Net interest payments, transfers	2.0	2.0	2.1
= Corporate profit before tax	**14.0**	***17.7***	***17.0***
- Taxes, 15%	2.1	*2.7*	*2.5*
= Corporate profits after tax	**11.9**	***15.0***	***14.4***
Change in corp pre tax profits, % of VA		*3.7*	*3.0*

** equals corporate GDP, equals value goods & services sold to end users*

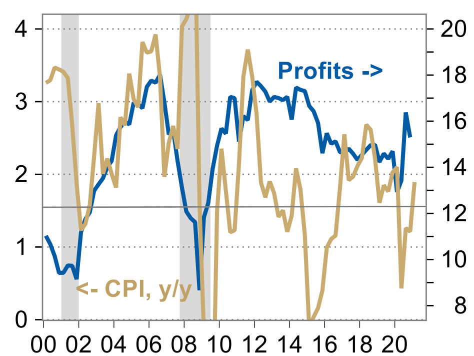
Historically: If anything; High inflation, low profits

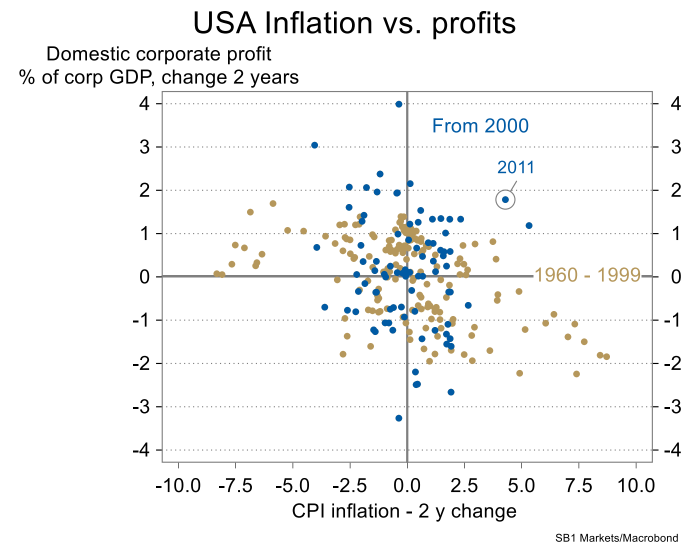
Since 2000; No correlation on average – but some positive correlation in 2004-6, 2010-11





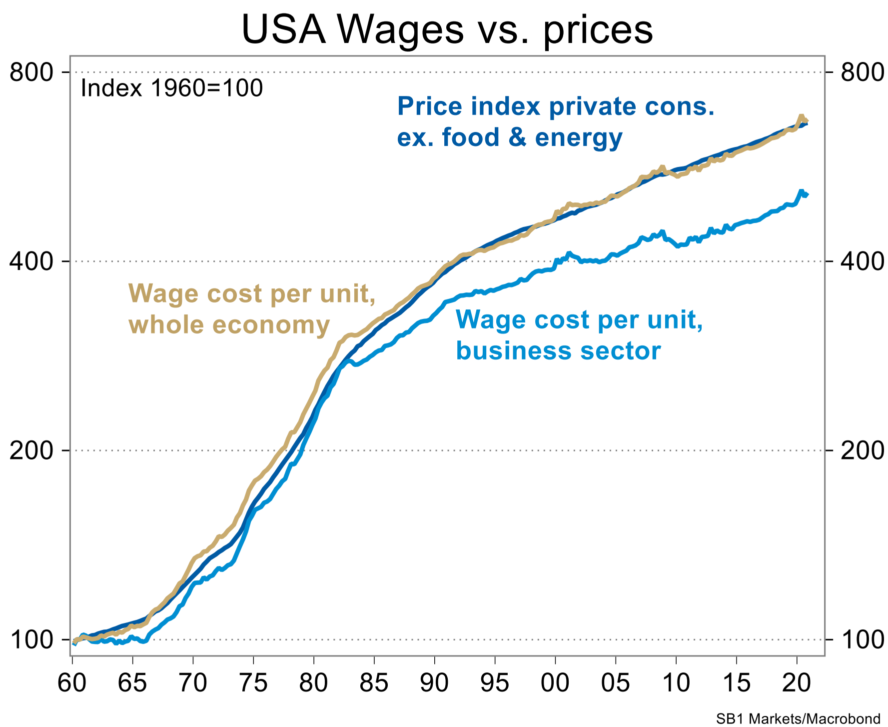
- Higher inflation does not support corporate profits, even if the companies are able to sell their products at a higher price. Why?
- *Because everything else is NOT equal*

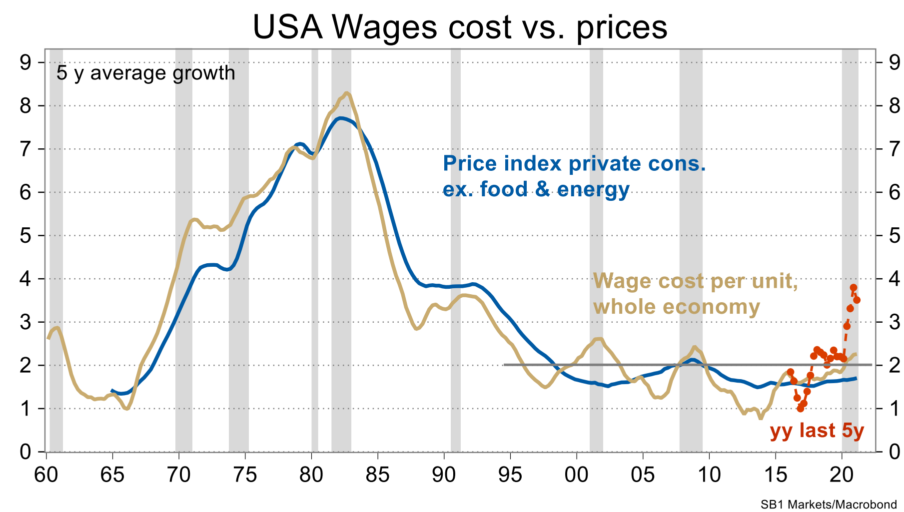


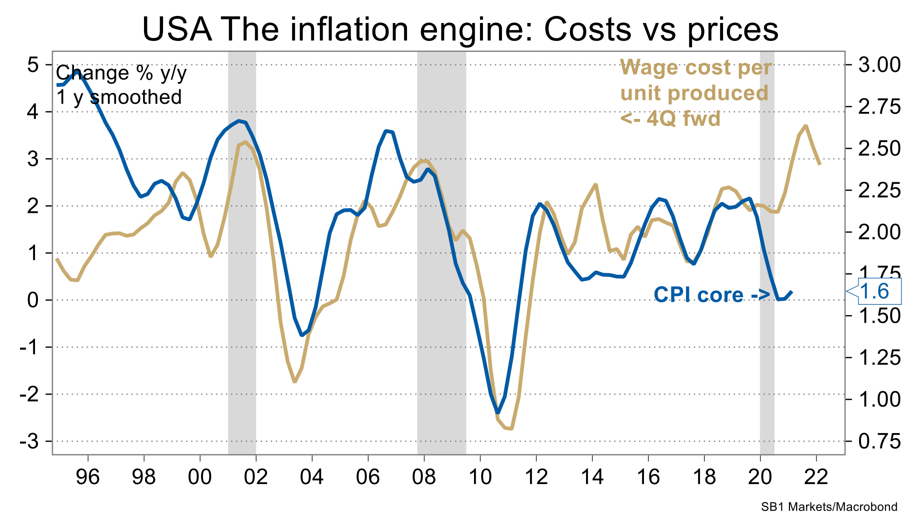


Da capo: Wage costs are driving the price level & inflation cycles

Before corona: Unit wage costs were drifting upwards to above 2%, but has not accelerated (for real)



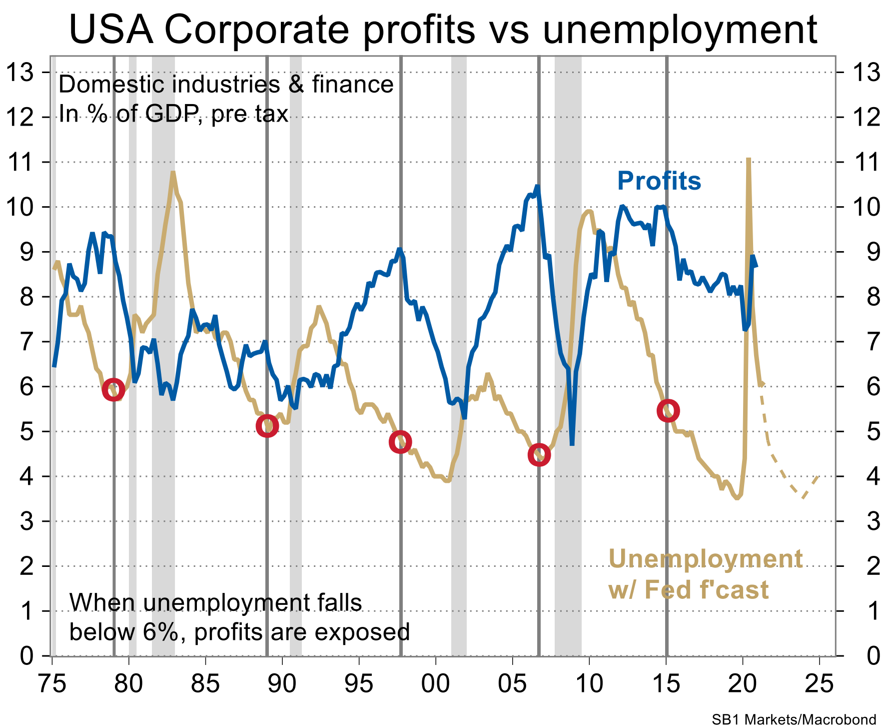


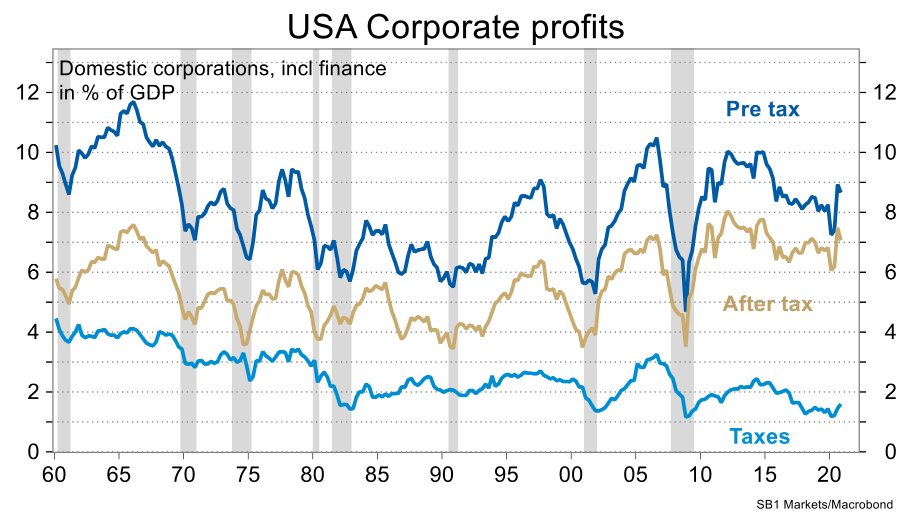


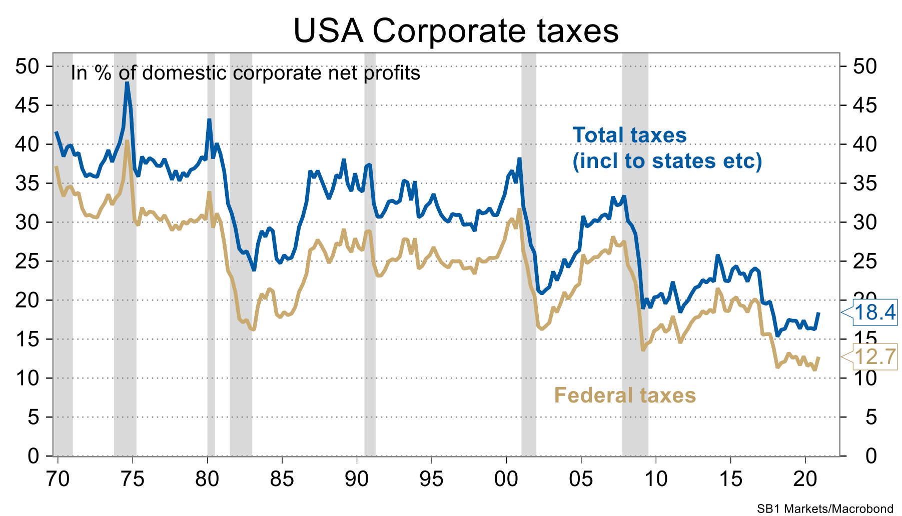
- Wage costs are clearly leading inflation cycles – and over time, wage cost level equals the price level
- The rapid increase in ULC through last year was very likely not 'for real', even if the ULC in principle should have been neutral vs the employment mix, as both average wages and average productivity should have changed at the same pace.
- We deem the ECI to yield the best description of wage inflation now

Profits were under pressure ahead of corona – as usual when unemploym. falls

… and now unemployment is falling sharply again. And taxes will be increased somewhat



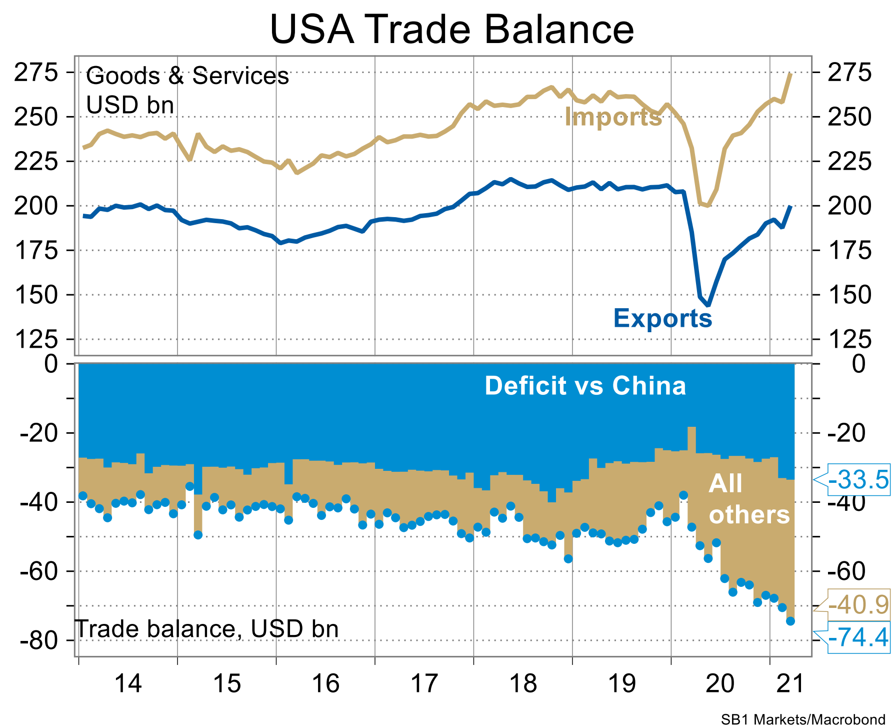


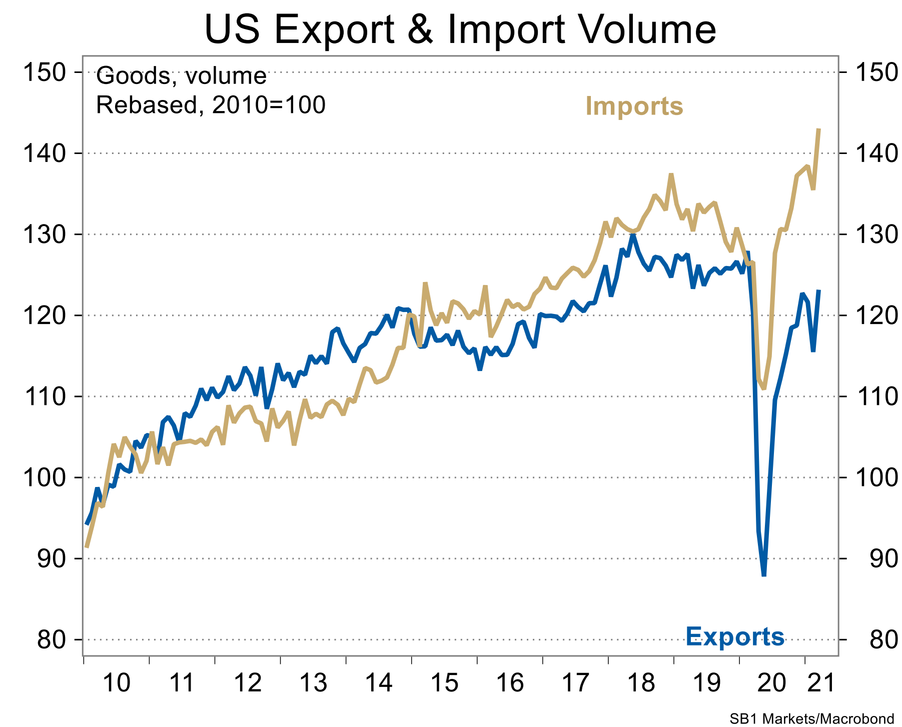


- Profits have been kept up during the pandemic by unprecedented transfers from the government (equalling up to 4% of GDP)

Deficit hits yet another high as the value of imports increased more than exports

Trade deficit up to USD 74 billion in March, up from 71 billion in Feb, as expected. Another ATH

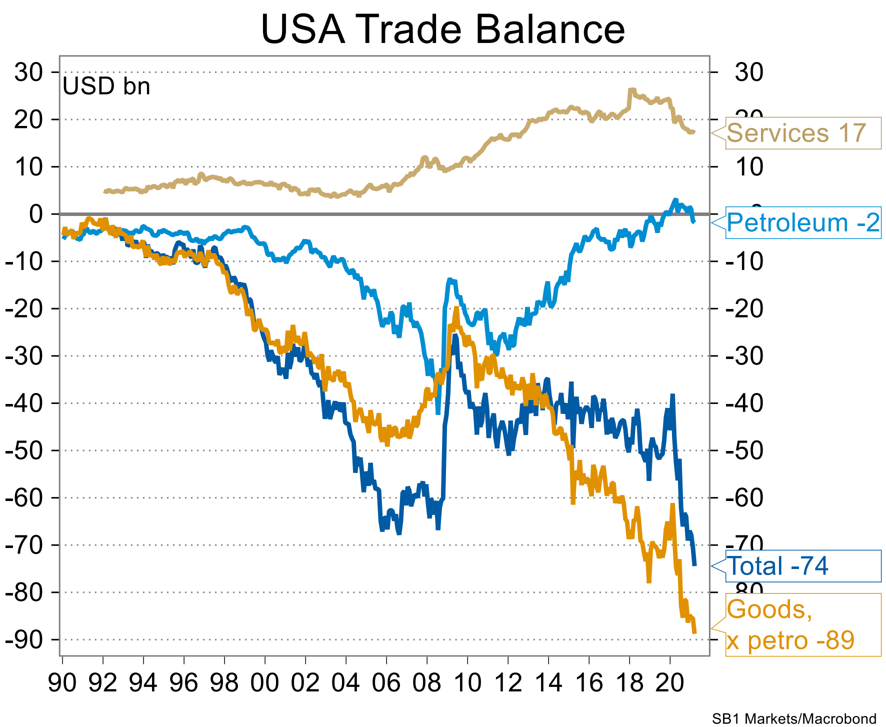


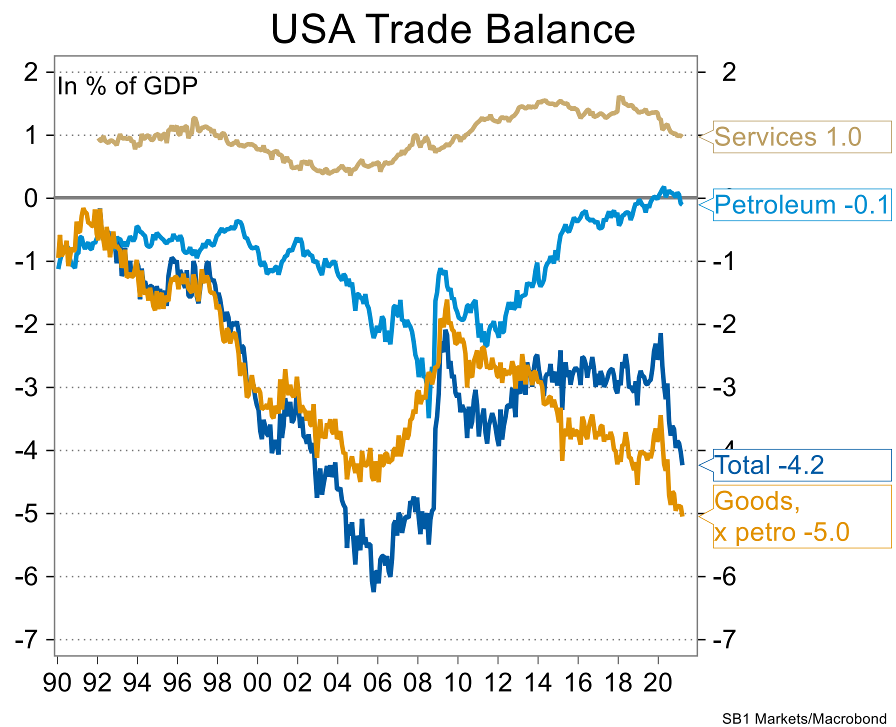


- Exports rose by 6.6% m/m, and are still 4% below the pre-pandemic level (in value terms). In volume terms, exports of goods are down 3%
- Imports increased by 6.3% in March, and remains above the early 2020 level. In volume terms, the imports of goods are 13% above! The reason is no doubt strong demand for goods in the U.S
- The deficit vs China is almost at the same level as when Trump became president. However, the total deficit vs. other countries has exploded

Goods deficit at ATH even in % of GDP

Surplus in services keeps narrowing

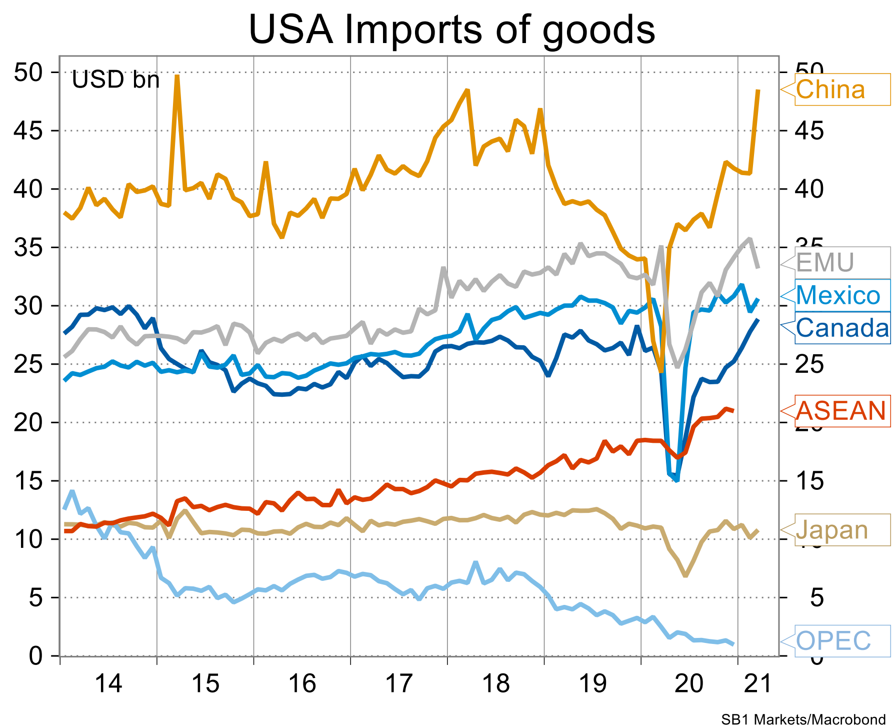


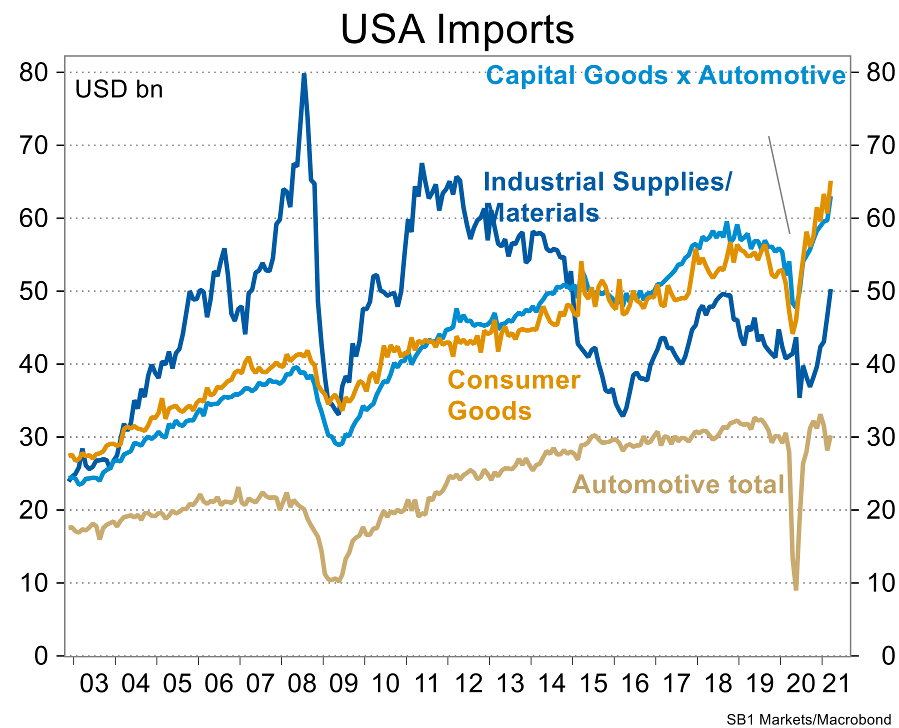


- The goods x petro products deficit was at USD -89 bn in March, another ATH, or 5.0% of GDP (ATH high too)
  - » Before the corona virus hit, the trade deficit in goods was narrowing, as growth in the US slowed (and imports fell, which is normal)
  - » The petroleum trade deficit is now at -2, from -30 bn/m in 2012!
- The US runs a surplus in services at USD 17 bn, equalling 1% of GDP but is trending sharply down (and the downturn started well before corona)
- The total trade deficit equals 4.1% of GDP, well below the record at 6.2% in late 2005, thanks to the shale oil revolution

All imports up in March - Auto imports only marginally due to supply issues

Imports from most areas are back to pre-Covid levels

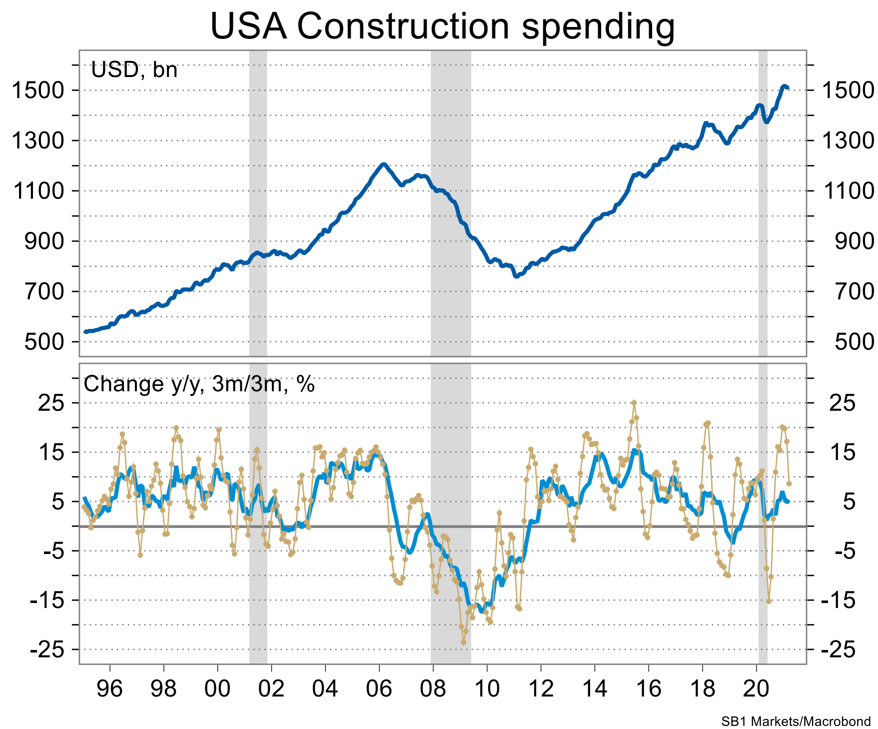


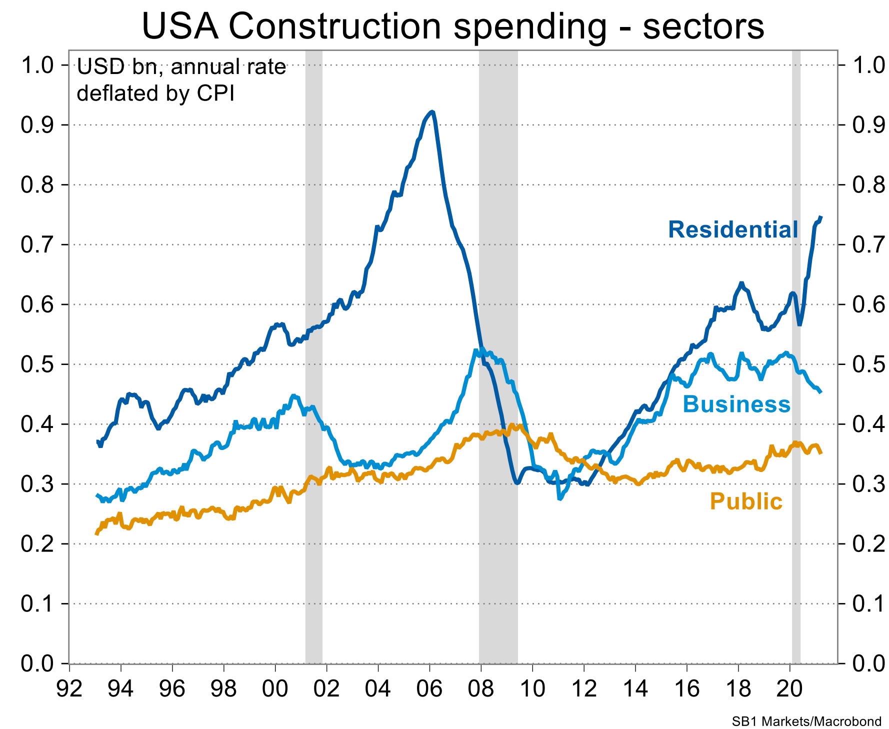


- Imports from China are back at 2018-levels – and exports are even stronger
- Export from ASEAN (the minor Asians) are very strong too
- Exports to US from EMU are also back to a pre-corona level, and so are Canadian exports

Construction spending trends up; housing growa faster than businesses contracts

Will businesses start to build again? Public construction is sliding down too

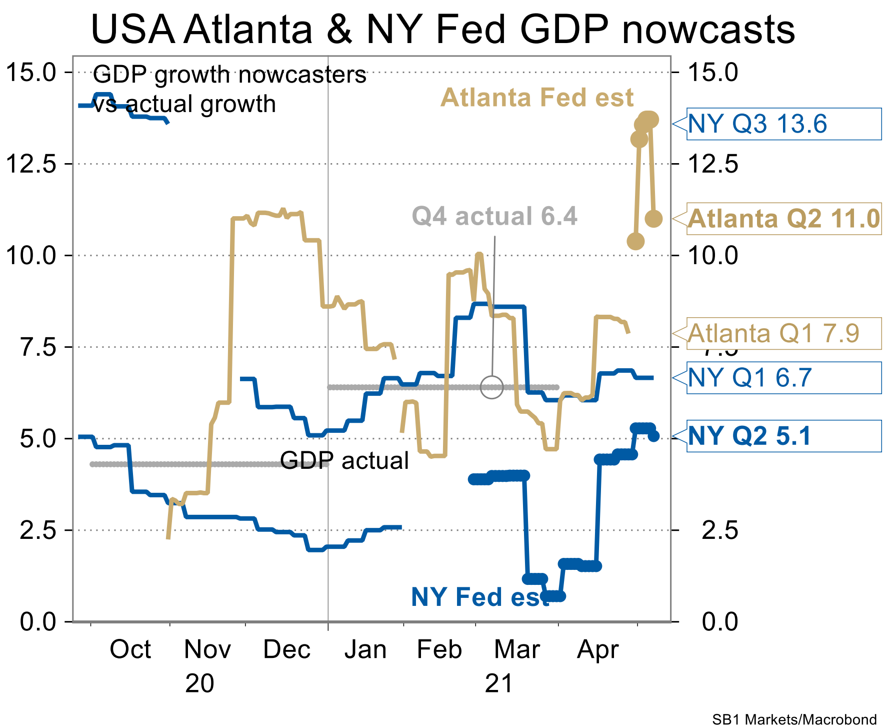


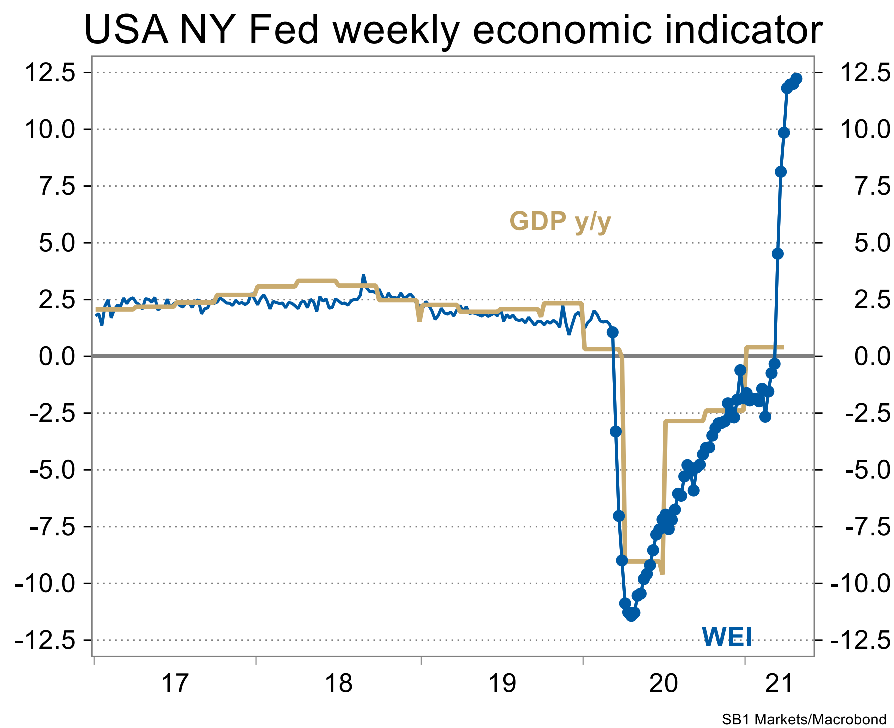


- The Covid crisis was not deep in the construction sector, and not long either – the level is far above the pre-pandemic level
- Construction spending was up 0.2% in March, less than expected (1.9%), and is up 5.3% y/y
- Residential construction is increasing rapidly. Up 1.7% m/m, and more than 20% y/y. Given the low inventory of housing for sale, this trend is likely to continue in the coming months – if lumber for building is available. Anyway, the value of construction will increase, as building costs are soaring, due to the shock to lumber prices (and higher cost for other building materials too)
- Spending on public projects is sliding, down 1.5% m/m

The nowcasters signal 5% to … 11% GDP growth in Q2

Friday's job report shaved 2.5% from Atlanta Fed's Q2 GDP growth estimate, still at 11%

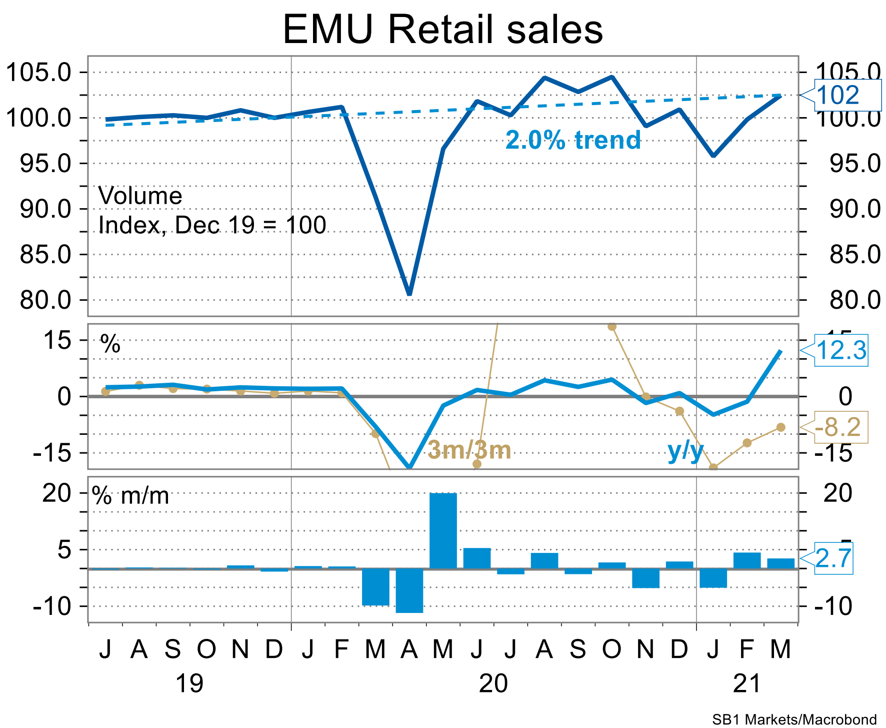


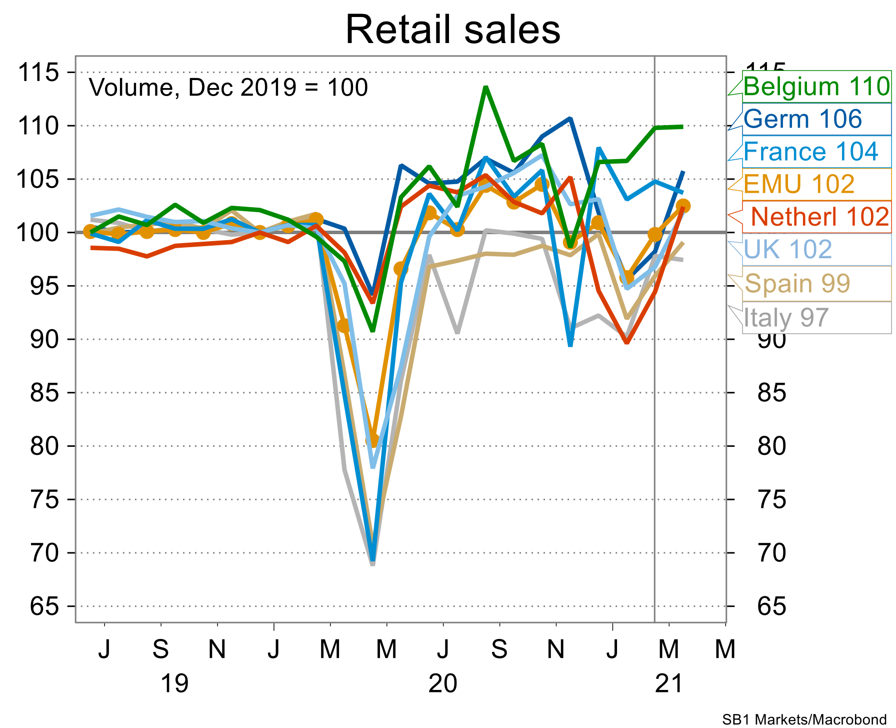


- NY Fed hints close to 7%
- NY Fed's weekly y/y economic indicator up in the sky (vs. last year 10%+ nosedive), implying a 8% growth pace in Q2
- The PMI/ISM signal a 8% growth pace

Eurozone retail sales back on pre-Covid trend in March, and 2% above p-p level

Sales rose 2.7%, better than the expected up 1%-1.5%, and Feb revised sharply up

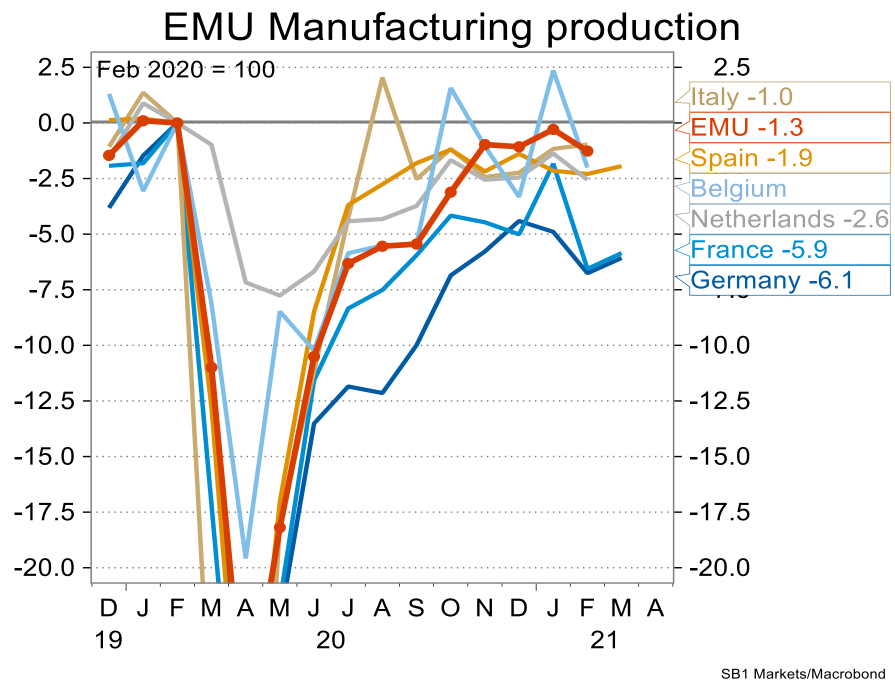


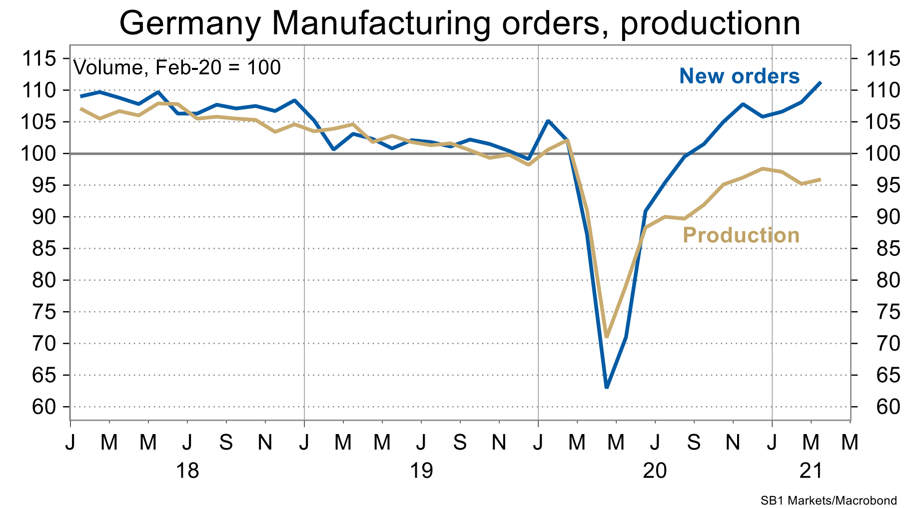


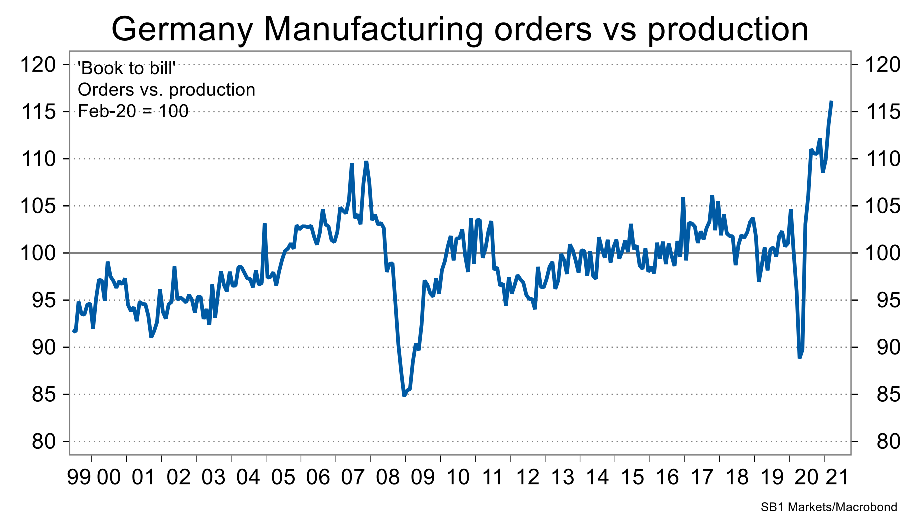
- Sales were up 2.7% m/m, and the Feb figure was revised up by 1.2 pp to 4.2%.
- Sales fell by 1.0% in France, and was flat in Belgium - but rose elsewhere: 8.8% in Netherlands, 7.7% in Germany, Spain 3.3%. Italy has not yet reported, but most likely contracted 0.4%
  - » Sales in Spain & Italy remain the pre-pandemic level. Lack of foreign tourist probably explains much of the shortfall. Sales are higher elsewhere
- Countries in which the restrictions were eased in March saw large increases in retail sales (naturally), contributing to a higher EMU average. Online sales also saw an increase of 37%

EMU industrial production probably up 0.5% in March, level still well below p-p

Moderate March growth in France and Germany (0.7%), less in Spain (0.3%)





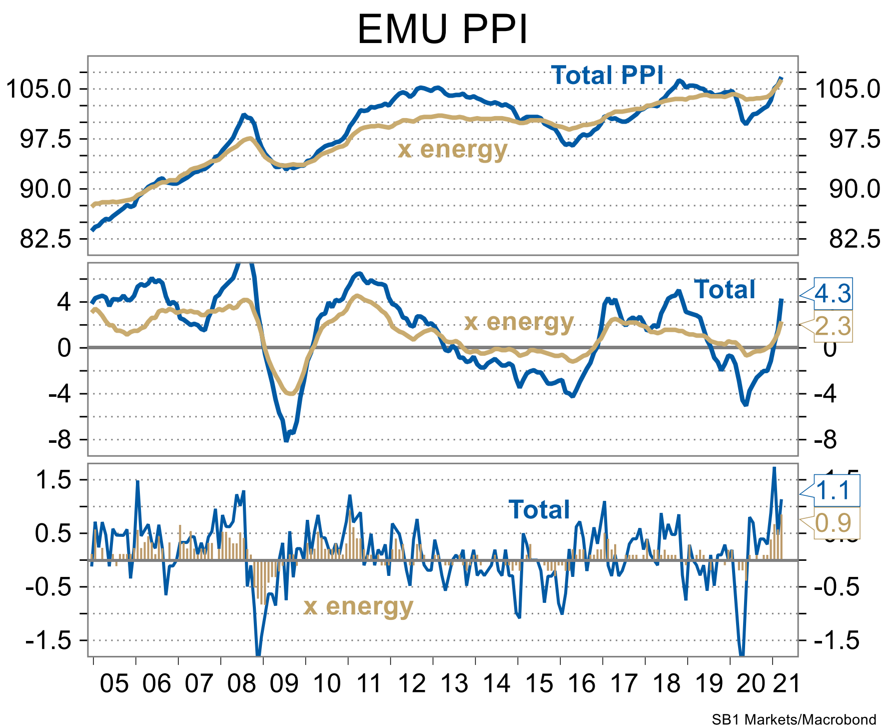


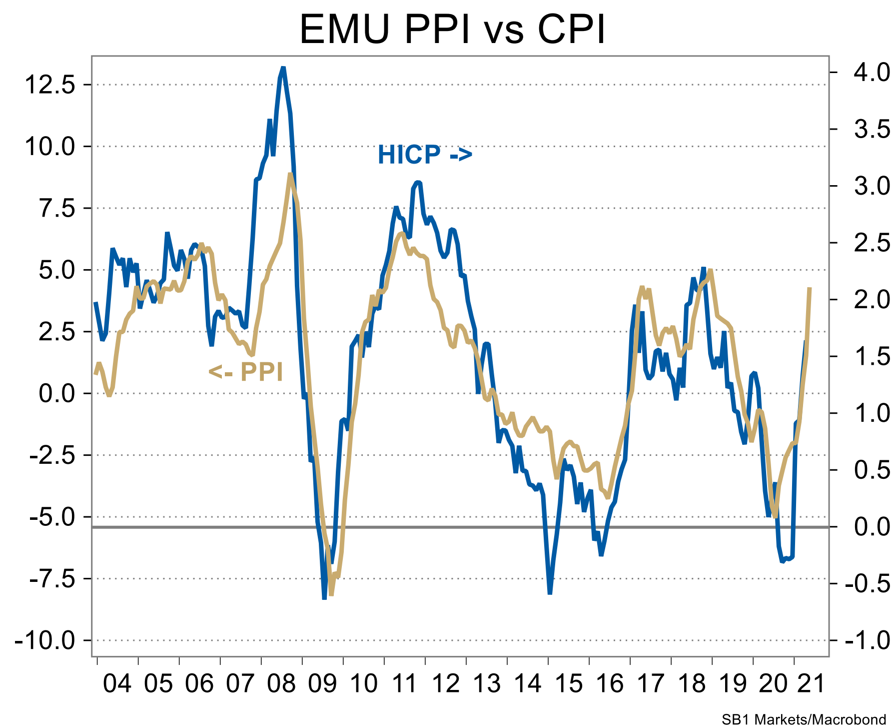
- **German manufacturing orders** rose 3% in March, expected up 1.7% - and are now almost 10% above the pre-pandemic level.
- **German manufacturing production** grew by 0.7% but is still 6.1% below (both are measured in constant prices)
  - » This discrepancy is unusual
- Manufacturing figures out of the Eurozone has been mixed lately, despite very optimistic surveys. It is likely that that the diverging data at least is a result of supply chain issues

German total industrial production, including energy production and construction was up 2.5% m/m, expected +2.3%. Construction was up 10.8%, mostly due to a previous decline but construction activity was all time high in March)

PPI sharply up in March, both total & core

PPI up to 1.1% m/m, up 4.3% y/y, expected 4.5%. Signals somewhat higher CPI inflation

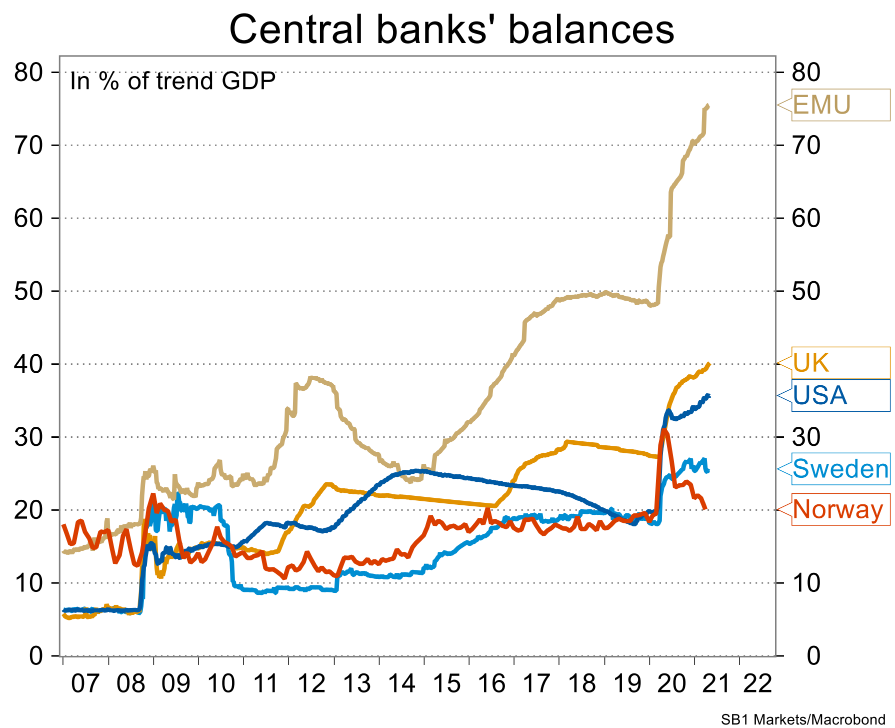




- PPI ex energy up 0.9%, the fastest increase in 10 years and is up 2.3% y/y, highest since 2017

Optimistic Bank of England holds policy ‘unchanged’

…but will buy assets at a slower pace!



- The Bank left the **interest rate at 0.1%** and maintained the target for asset purchases at £895
- **Outlook very upbeat**– vaccine news and size of U.S. stimulus package considered most important update since Feb. GDP growth for 2021 was revised up by 2.25 pp to 7.25%, while the 2022 f’cast was revised down by 1.5 pp to 5.75%
- *“New Covid cases in the United Kingdom have continued to fall, the vaccination programme is proceeding apace, and restrictions on economic activity are easing. Reflecting these developments, GDP is expected to rise sharply in 2021 Q2... Consumer spending is also supported by households running down over the next three years around 10% of their additional accumulated savings ”*
- **Inflation** is expected to be above the 2% target in ‘21 and return to 2% in ‘22
- **Yields** of UK government bonds were down 2-3 bps after the press conference

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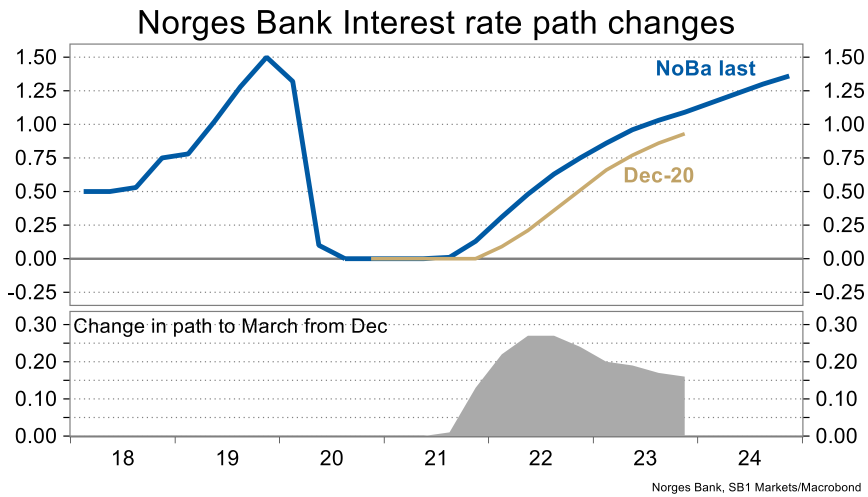
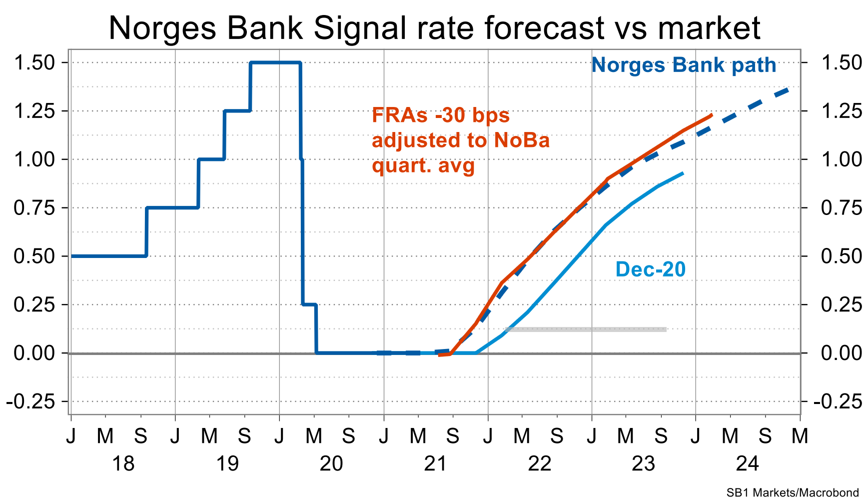
No news from Norges Bank, but the risk is no more *substantial*

The bank kept the policy rate and the rate path unchanged, as expected

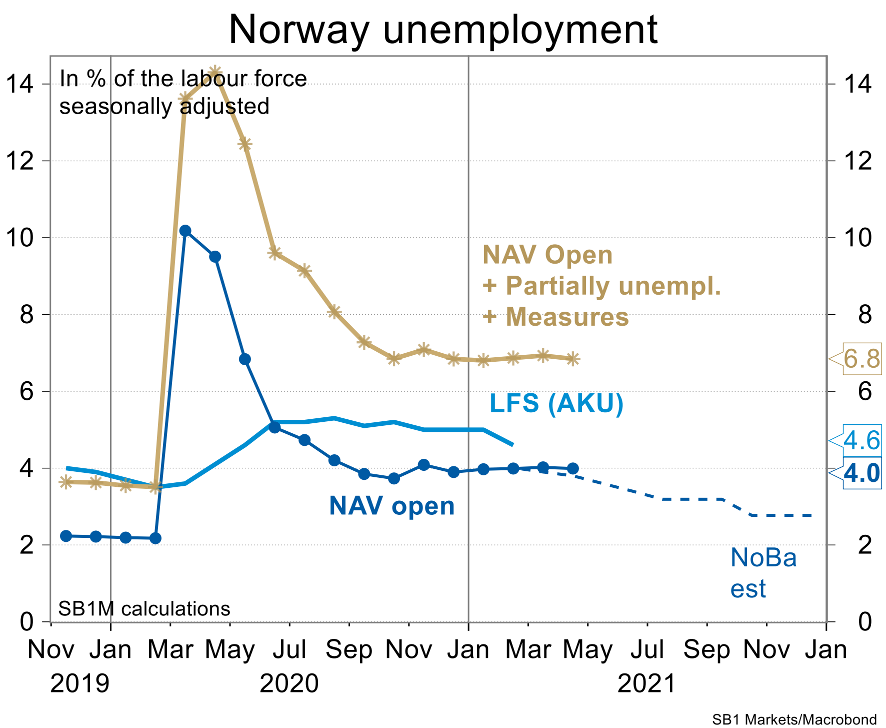


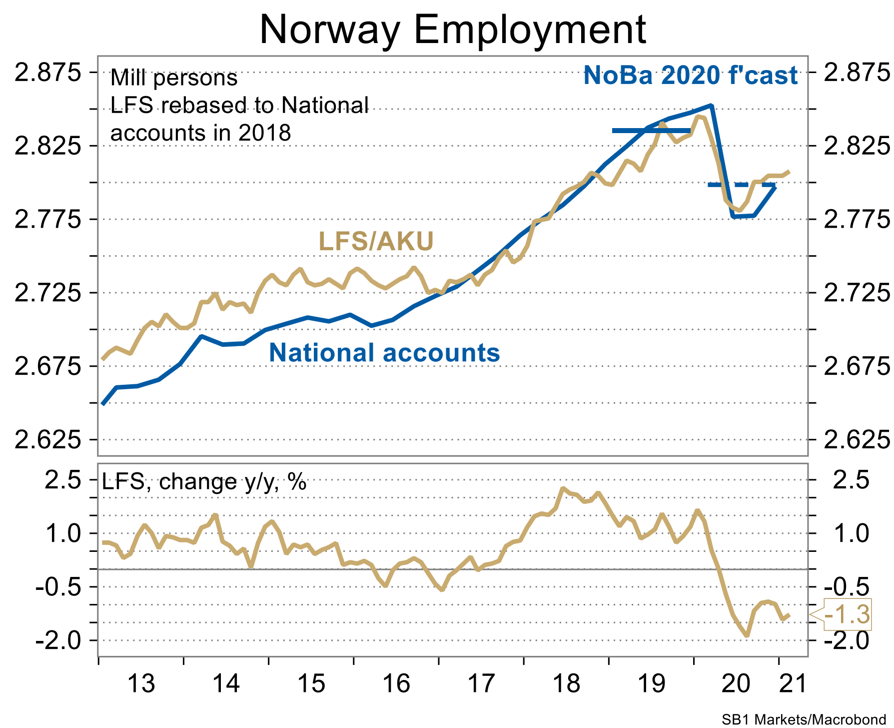


- Norges Bank kept the **key policy rate** unchanged at 0%, as expected. No new MPR at this meeting, and the press release revealed nothing new – first hike to come in H2, they said
- In the March MPR, NoBa indicated a **50% chance for a hike in Sept-21,** and given a hike in Sept, a 25% chance of another hike in Dec. No hike in Sept will mean that a Dec hike is evident very likely
- The bank keeps stressing the uncertainty regarding the virus, vaccines and the impact on the economy - still need for expansionary policy. However, in March the bank noted that there is was a '*substantial uncertainty*', now there is just '*uncertainty*', which in our vocabulary implies less uncertainty
- Currently, the market is spot on Norges Banks rate path until the end of 2023.
- We expect domestic demand for services to recover rapidly as soon as the virus is brought under sufficient control and restrictions eased, and that the bank will start hiking in September. However, the bank does not lift the interest rate further in June – even if we think that most likely, that will be the final outcome

LFS (AKU) unemployment (probably) down, employment slowly up

The revised LFS statistic does not alter the grand picture of the labour market

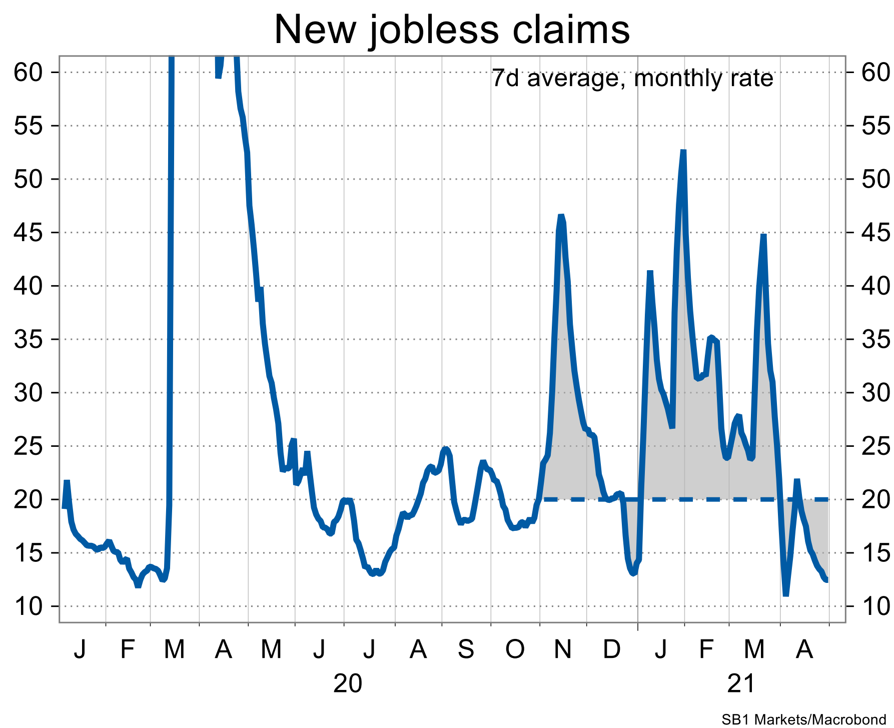


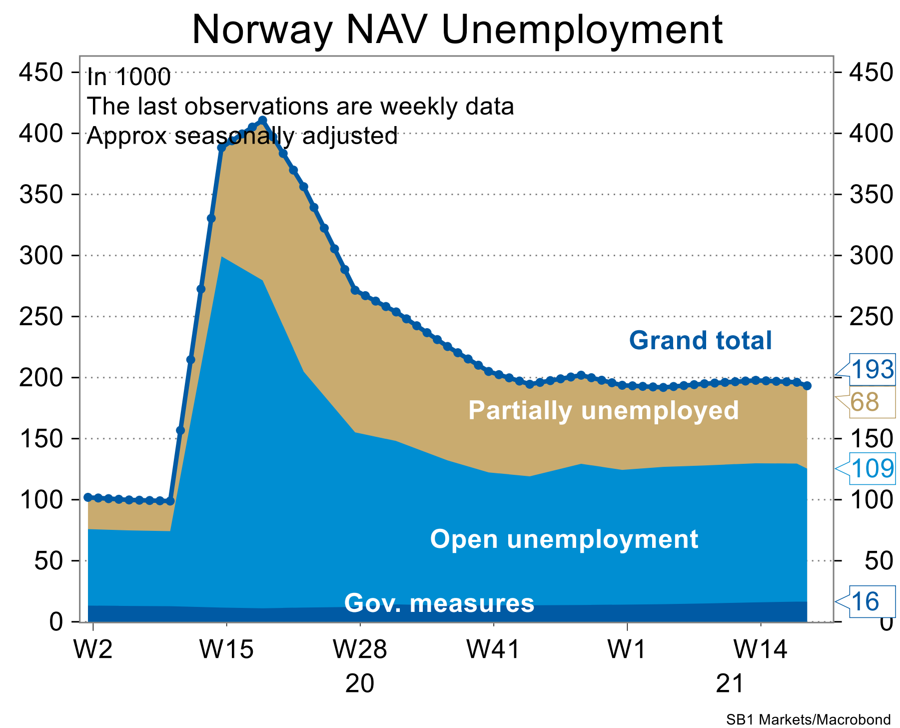


- **Employment** rose by 0.1% to February from Nov-20 (3 m avg), but it is still 1.3% below the level 1 year ago.
- **Unemployment** fell from 5% in November to 4.6% in February (3 m avg), according to seas. adjusted monthly data. The rate is trending down – and the decline the past 3 months is significant
- These LFS (AKU) data are more uncertain than normally due to a substantial revision of the survey, like in most other European countries. It seems like SSB has done a good job adjusting for substantial breaks in the data for the most important series. We will dig deeper in the LFS the coming months

New jobless claims fall sharply, and NAV unemploym. probably down into May

The increased inflow of new jobless claims from last October to March did not lift unemployment

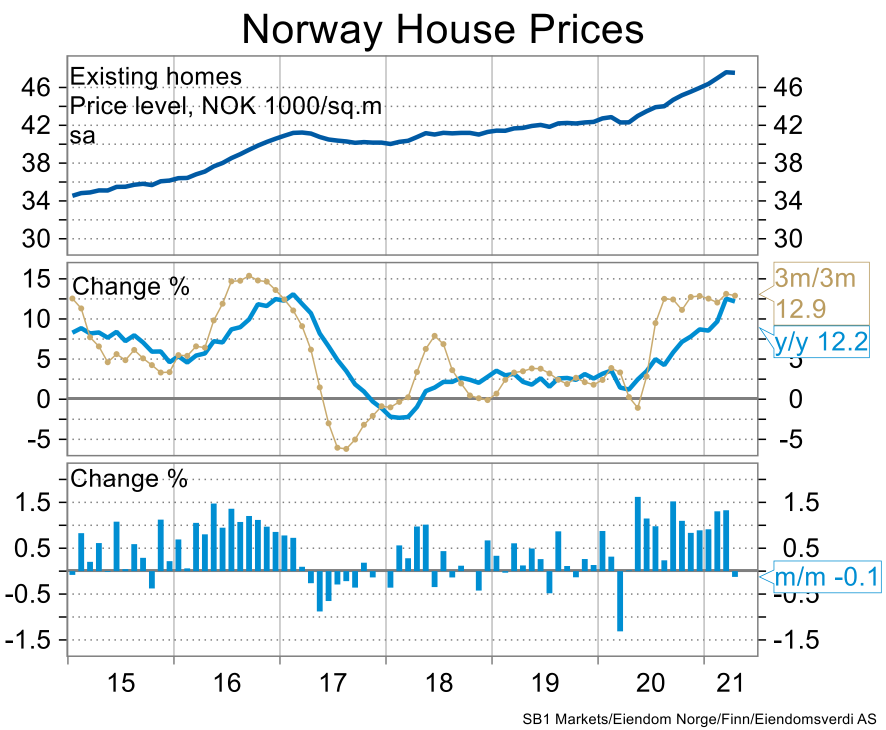


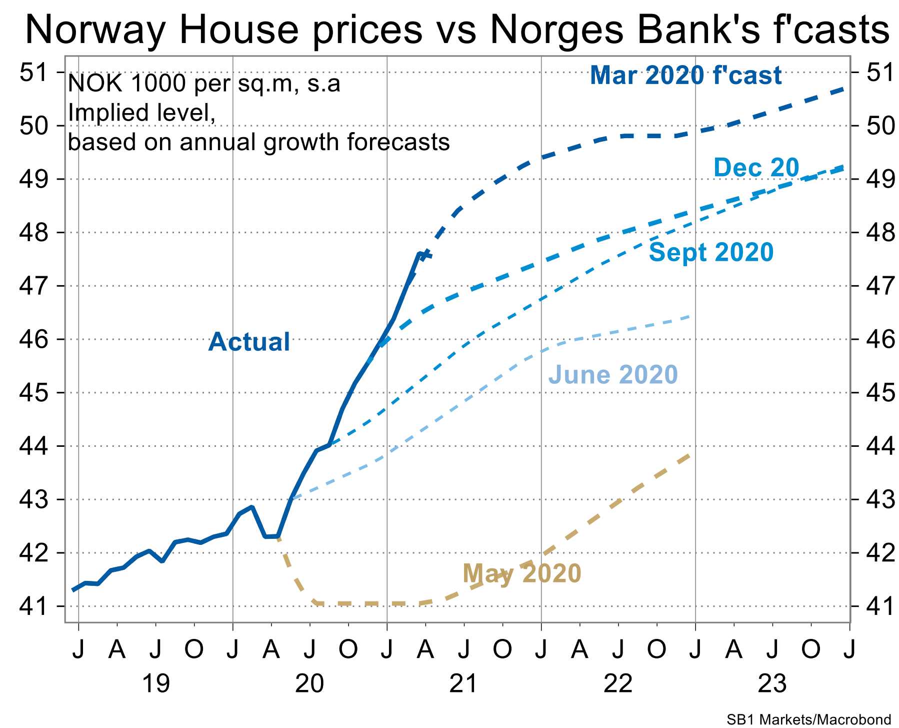


SpareBank 1 MARKETS

House prices down in April, didn’t the market stand even the talk about higher rates?

Prices down 0.1% in April, we expected +0.9%! A broad slowdown. In April, that is

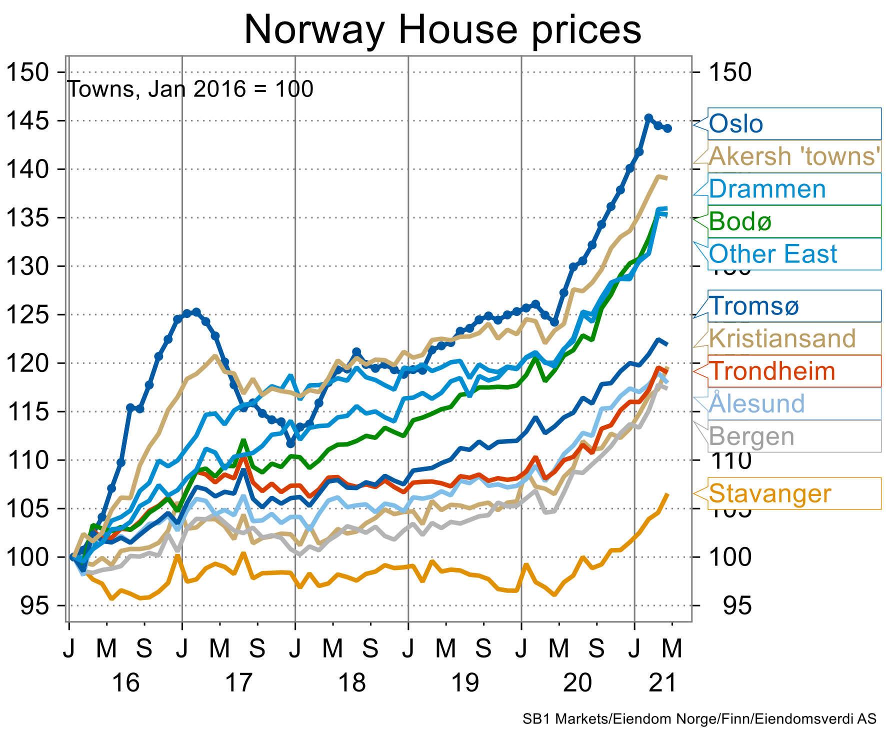


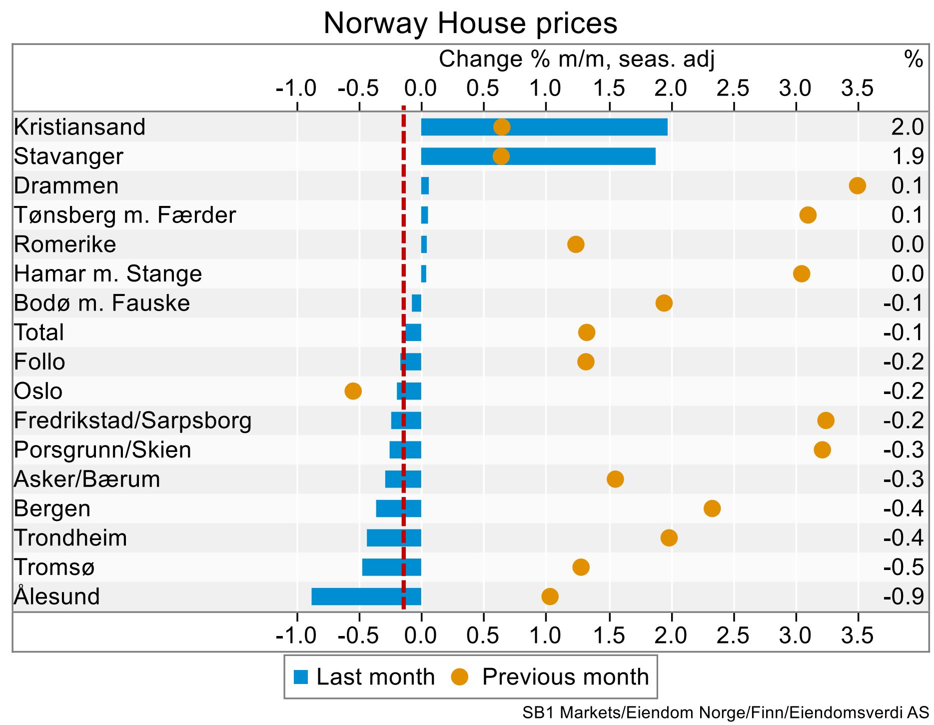


- **House prices** fell by 0.1% seas. adj in April, down from +1.4% (rev from 1.1%) in March. We expected 0.9%, NoBa 0.8% - and prices are now below NoBa’s March path! Prices are still up by 13% 3m/3m (annualised), stable since Dec. Prices are up 12.2% y/y
- 10 of 16 cities down, just 2 significantly up; Kristiansand and Stavanger. Prices in Oslo fell for the 2nd month in row, by 0.2%
  - » Smoothed 3m/3m prices are up everywhere. Oslo by 14%. Bergen, Trondheim, Tromsø & Ålesund at the bottom, both m/m & 3m/3m
- The **number of transactions** rose in April and the level is high. The **inventory of unsold homes** fell further to a record low level
- Our national **flow based price model** signals 1% m/m price growth, the Oslo model zero growth
- Should house prices flatten from here: Less pressure on **Norges Bank** to start normalising its signal rate in the early autumn

Stavanger & Kristiansand (normally at the bottom of the list) sharply up in April

Most other places: Prices fell – and most in Bergen, Trondheim, Tromsø & Ålesund

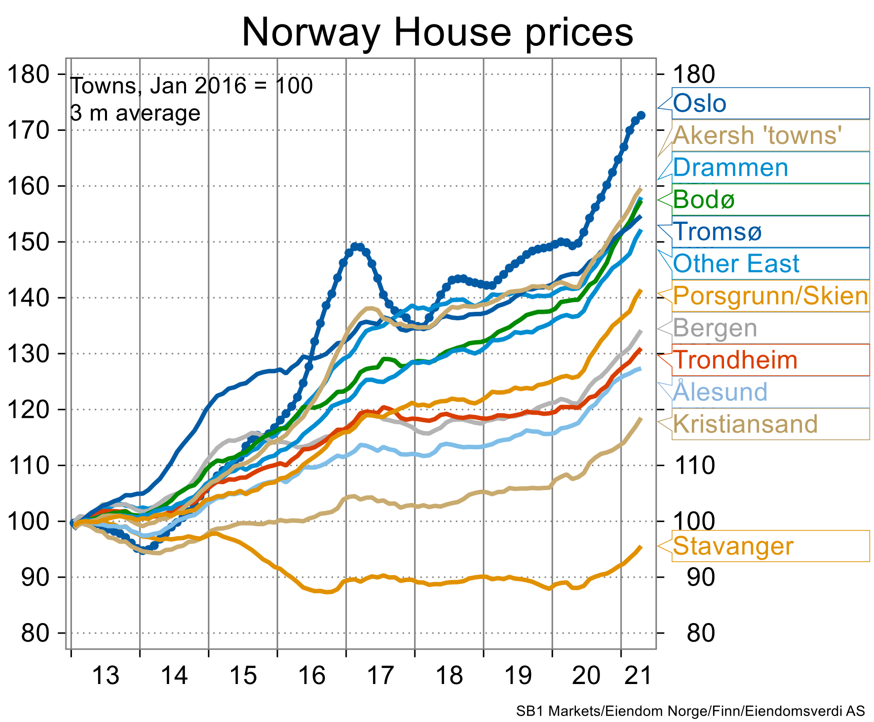


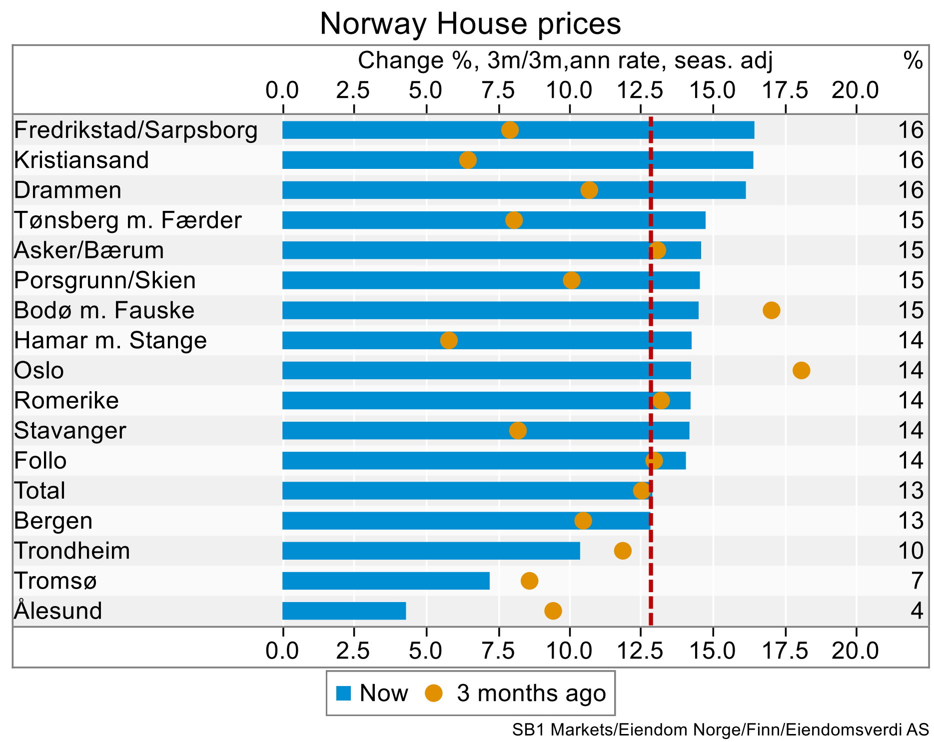


- 10 towns down; 4 marginally up (≤ 0.1%); 2 towns in the S/SW up 1.9 -2.0%. Oil related?

Smoothed 3 months, no drama: All up, average at 13%.

Oslo still above the nat. avg but not at the top. Bergen, Tr.heim, Tromsø, Ålesund at the bottom

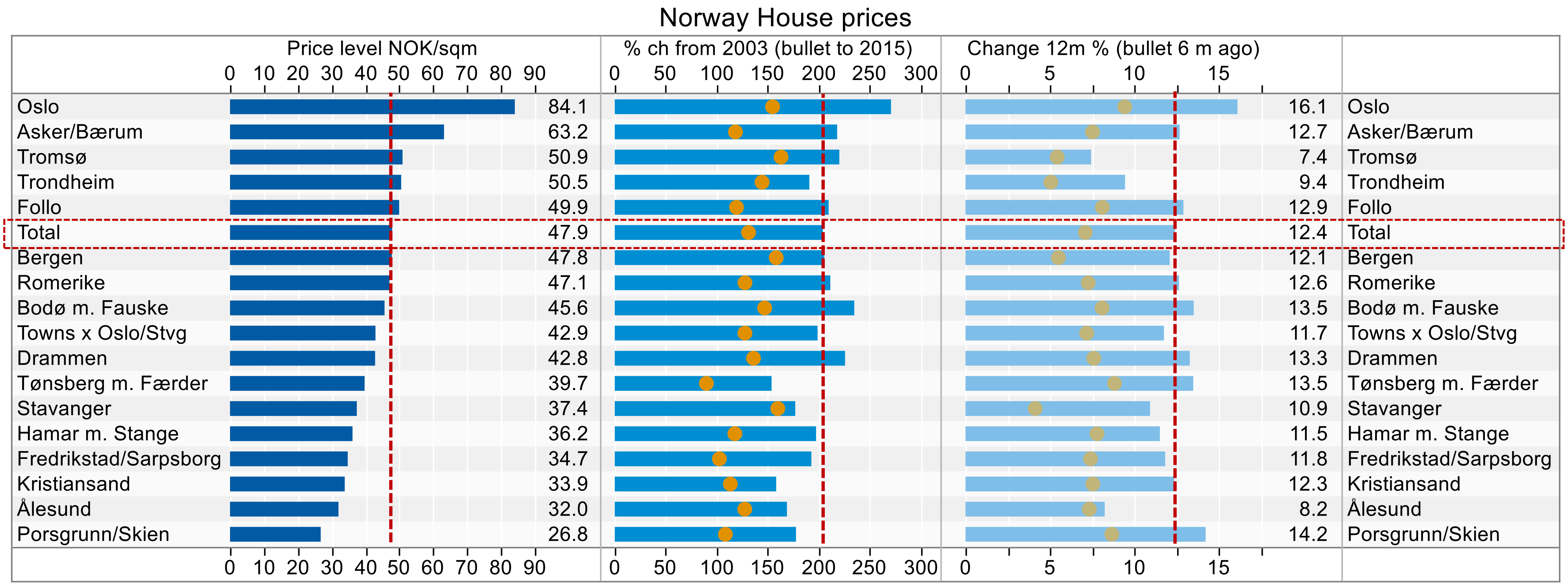




- From 2014:
  - » Oslo in the lead, together with Asker/Bærum/Follo ('towns' close to Oslo), and Drammen. Bodø and Tromsø at the next places
  - » Stavanger has been the weakest town, but is now heading upwards again
  - » Modest price increases in Kristiansand and Ålesund – next to Stavanger at the bottom, are at least partly explained by the downscaling of the oil sector (as of course is the case with Stavanger as well)
  - » Trondheim and Bergen is at the lower part of the list too

Oslo in the lead past 12 months, up 16.1% - but the boom is broad!

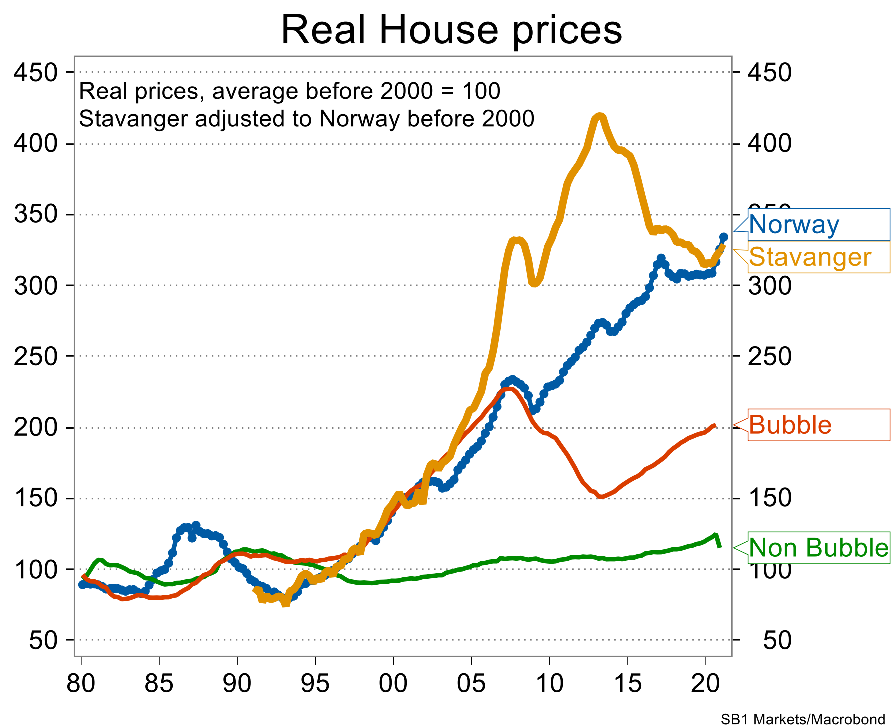
But the weakest chain in the link last 12 months is Tromsø at 7.4%. Stavanger is up 10.9%

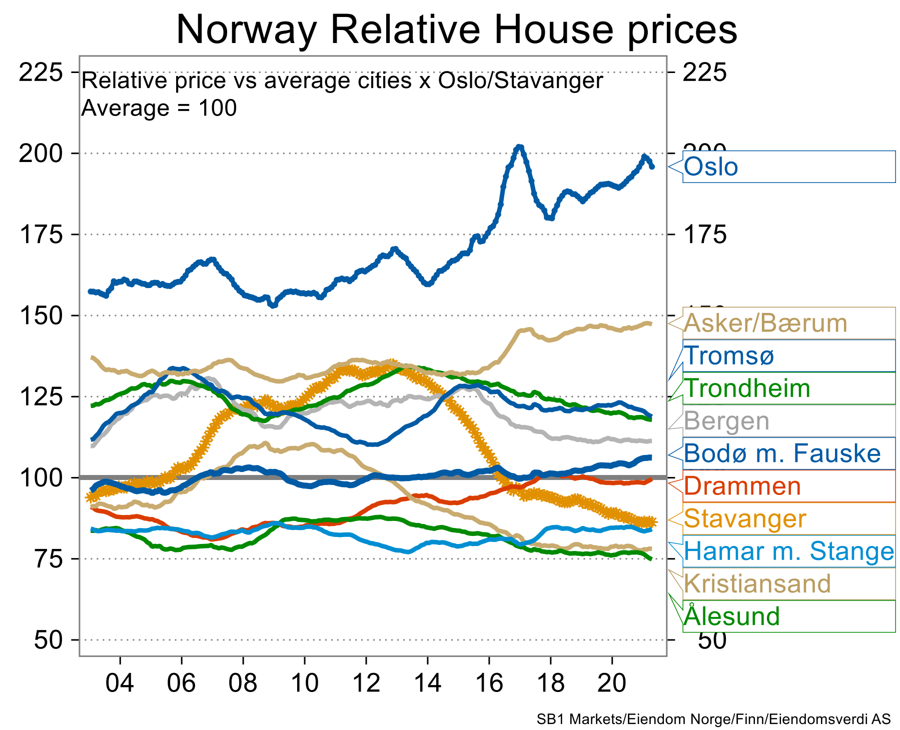


SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

The Stavanger case: Could it happen elsewhere?

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

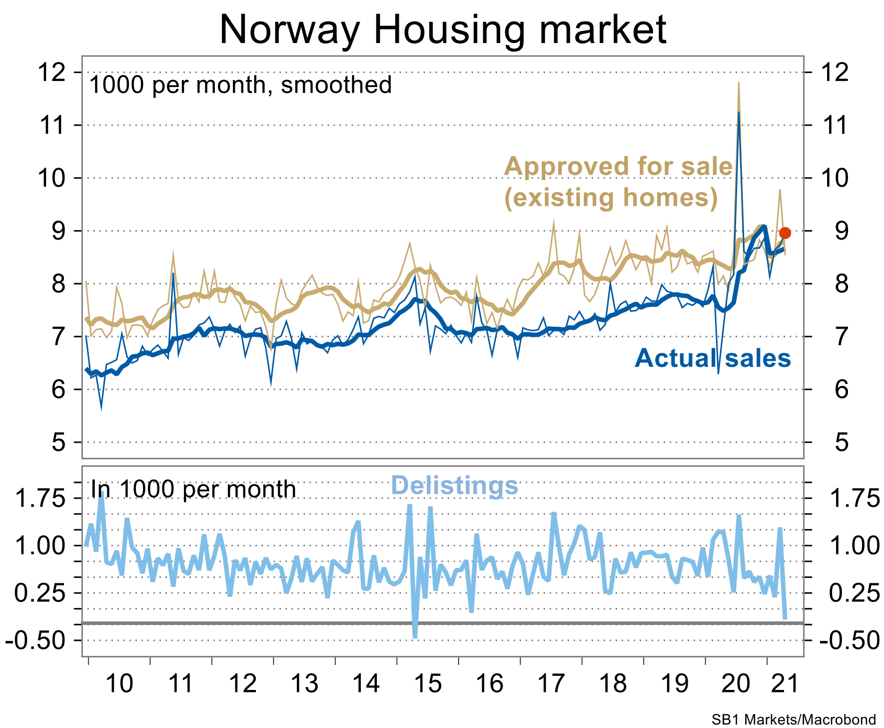


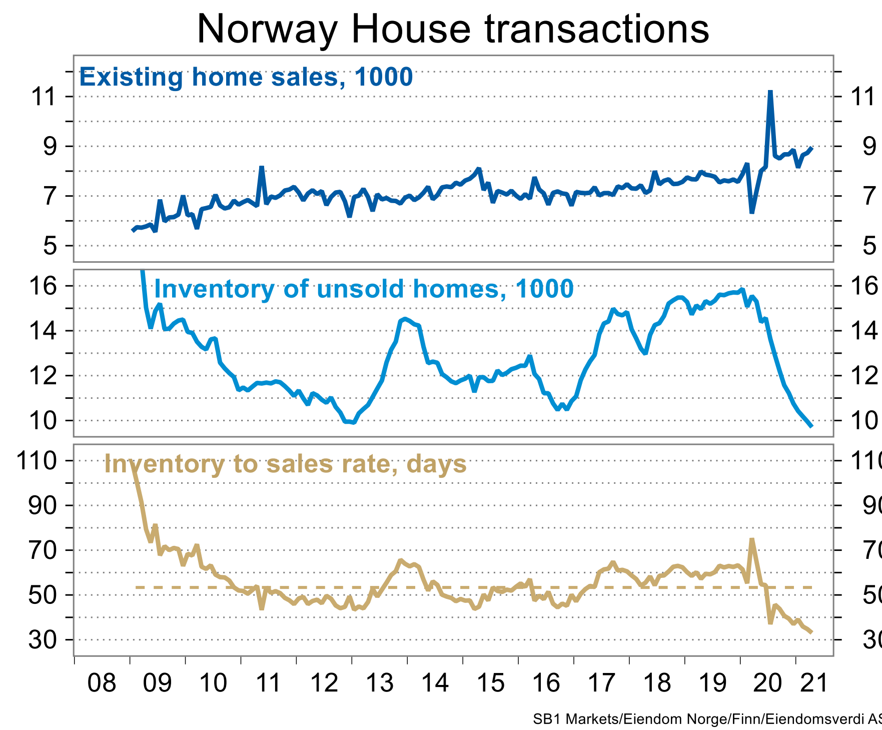


- Housing starts in Stavanger are still not lower than normal. It is still profitable to build!

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

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

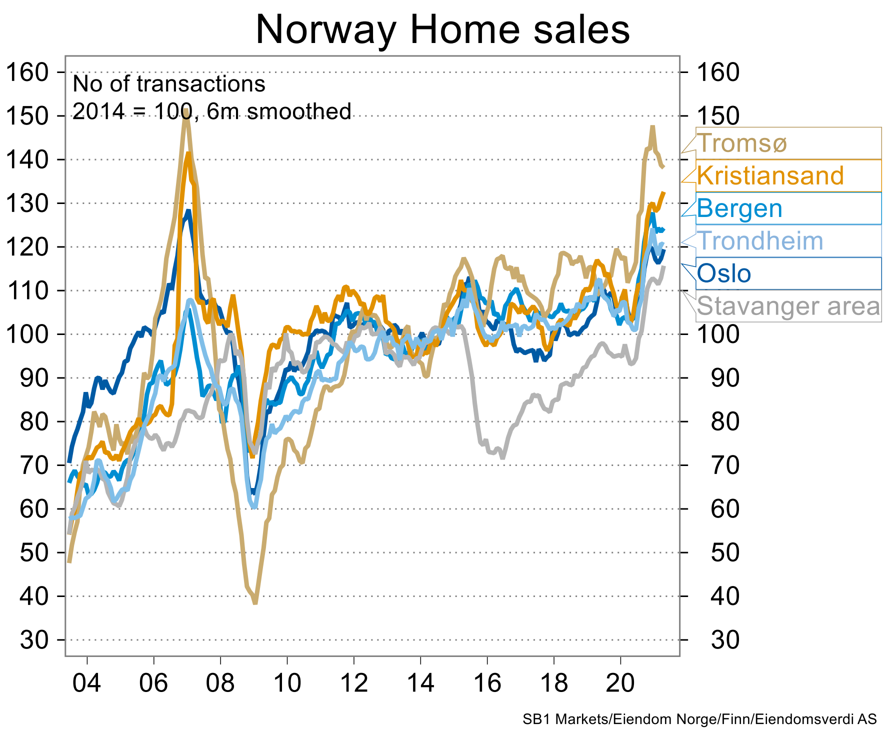


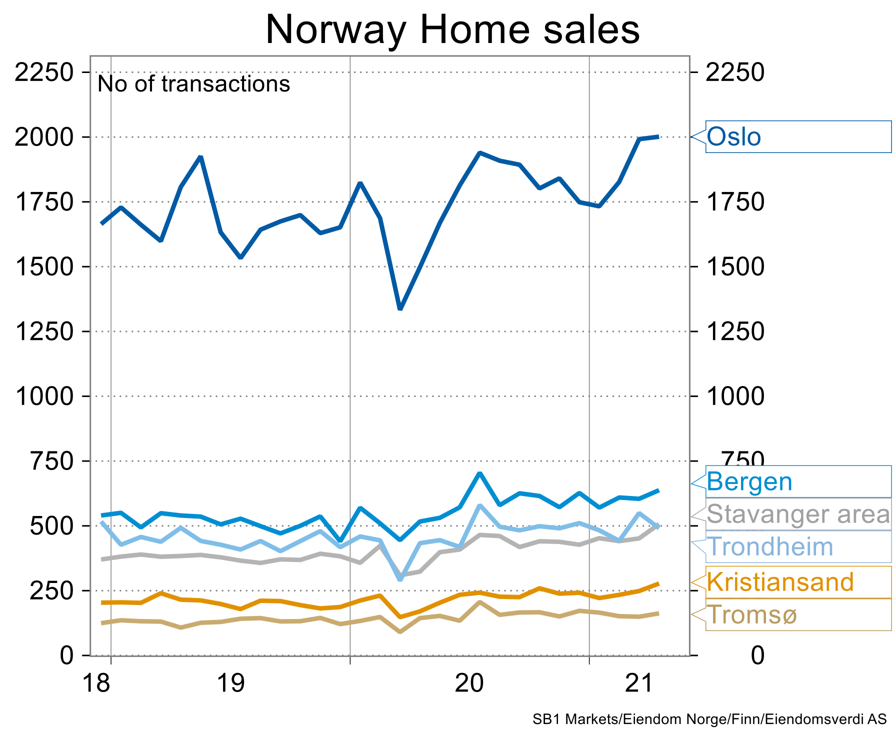


- **The number of transactions** remains well above the pre-corona level, and rose further in April
- The **supply of new existing homes for sale (approvals)** fell more than 10% in April (from a very high level in March)
- **The number of delistings** fell sharply in April , from a high level in March (however, the seasonal adjustment is rather uncertain)
- The **inventory of unsold homes** fell further in April, and is 40% down vs. the pre-pandemic level, and lowest on record (data back to 2009)
- The **inventory/sales ratio** has contracted sharply too, and is at ATL, by far. The **turnover time** was 33 days in March vs an avg of 54 days. The **actual time on market** for those homes sold was 42 days, well down from more than 60 days last spring (the avg is at 45 days)

Number of transactions remains high

Last year, sales have increased more in Tromsø than elsewhere

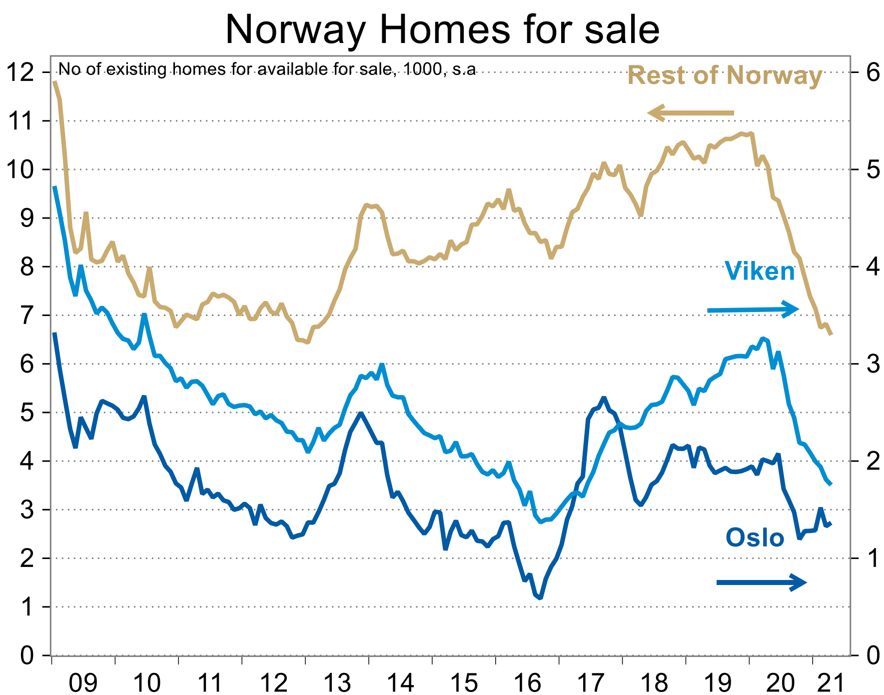




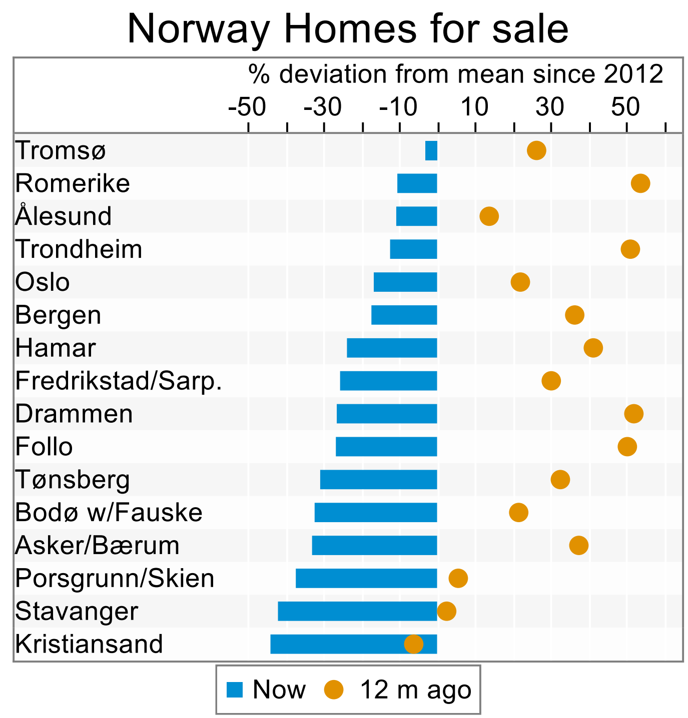
- Also, in Tromsø the inventory of unsold homes is larger than ‘normal’ compared to other towns, and over the last year, prices have appreciated the least among Norwegian towns

The inventory in Oslo is increasing marginally, while it is falling elsewhere

The inventory is lower than normal everywhere



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

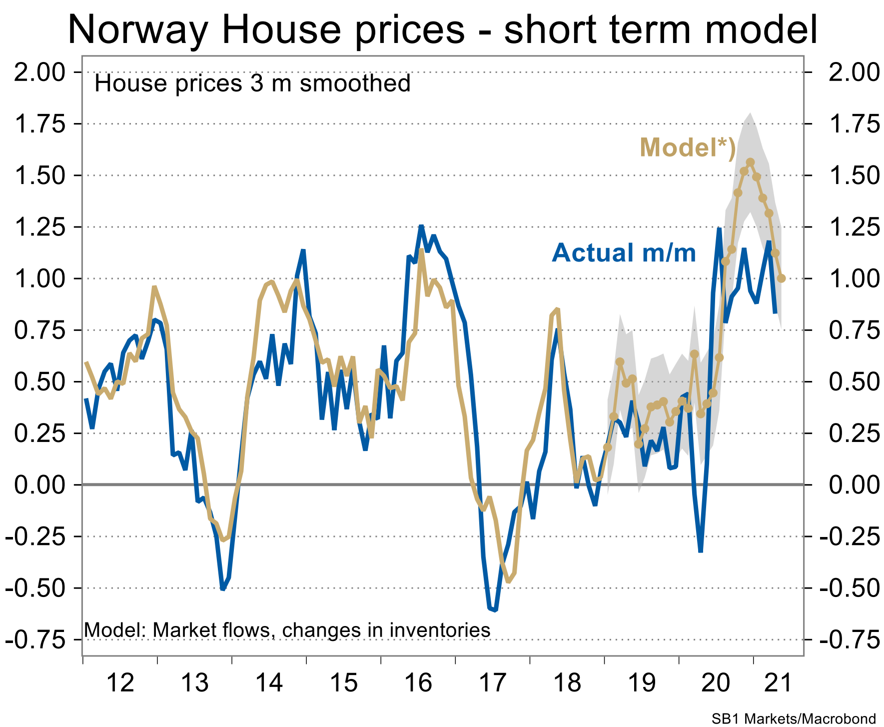


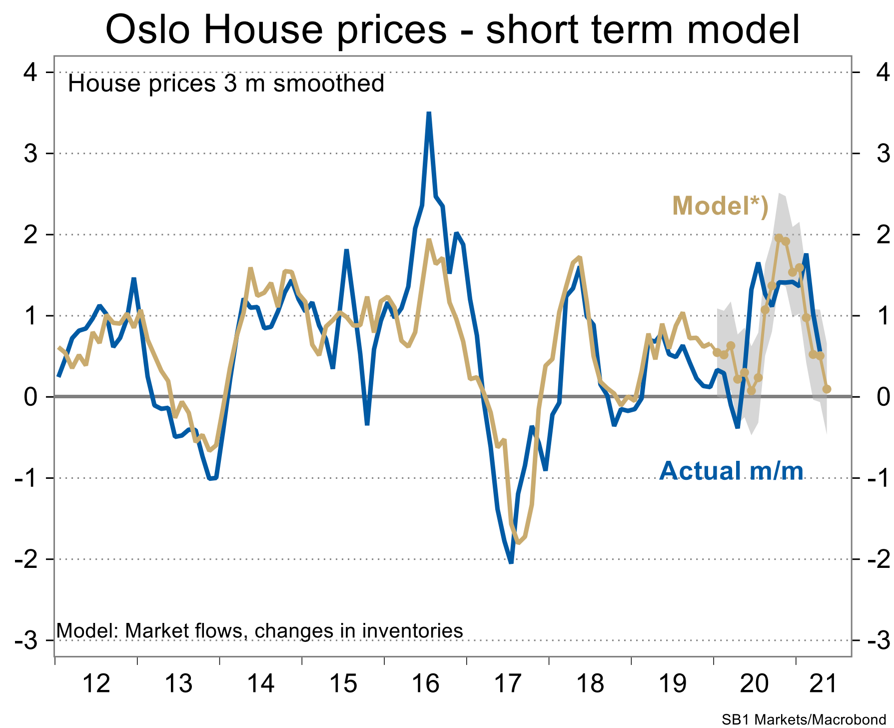
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Short term market flows suggest continued price growth – outside Oslo

However, the models signal lower growth than some months ago

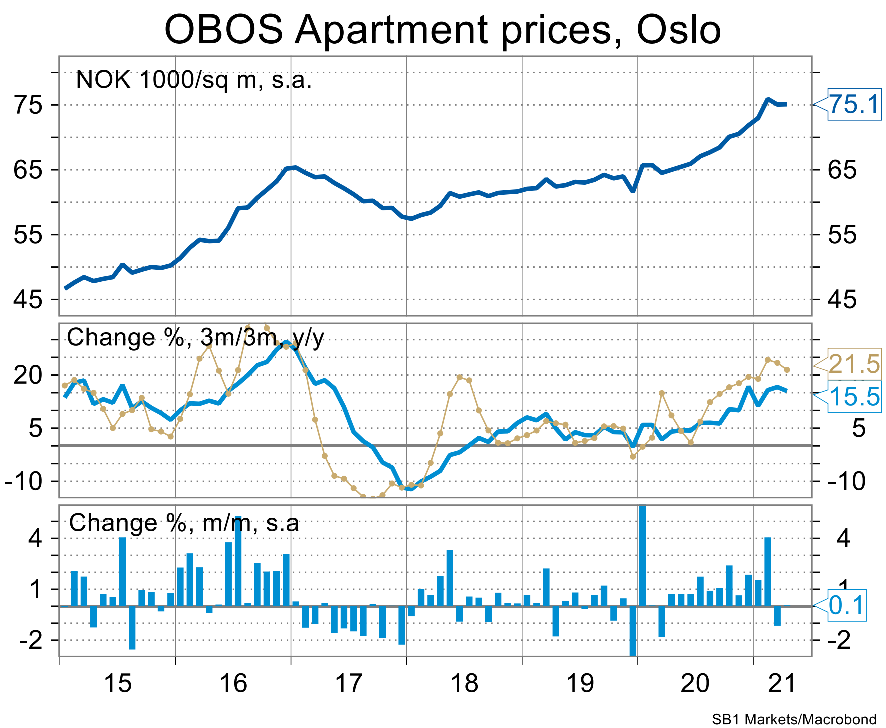


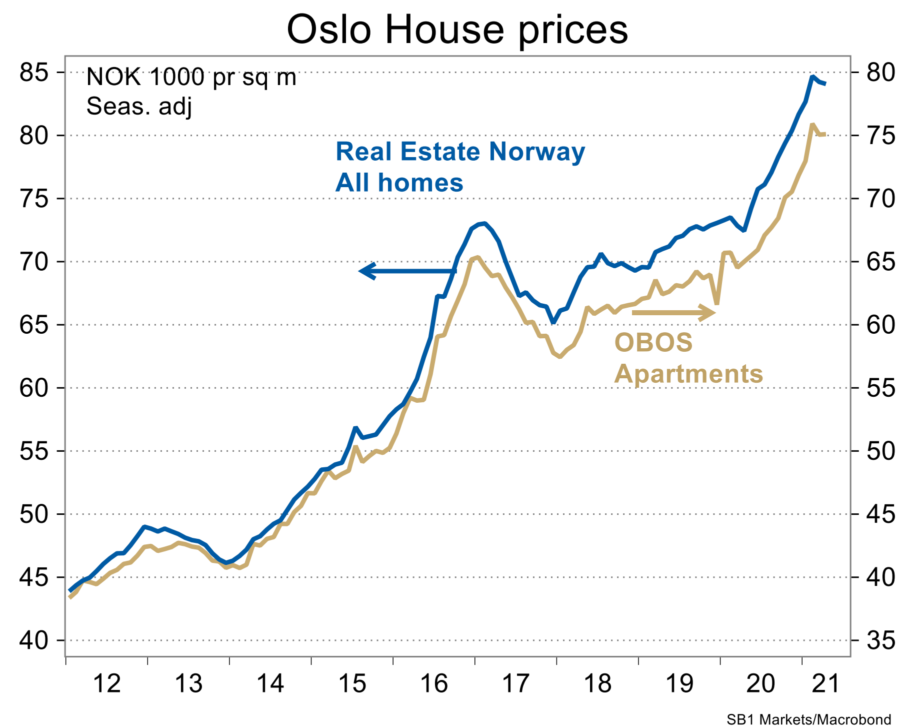


- Our **Norwegian model** based on flows and the inventory signals a 1% growth in house prices per month
  - » However, the model was to optimistic during the latter part of 2020 and into 2021
- Our **Oslo model** signals no growth in prices
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale and actual sales*

OBOS apartment up 0.1% in April, following the 1% March decline (seas adj.)

The underlying growth has slowed too. To 21.5% (3m/3m)



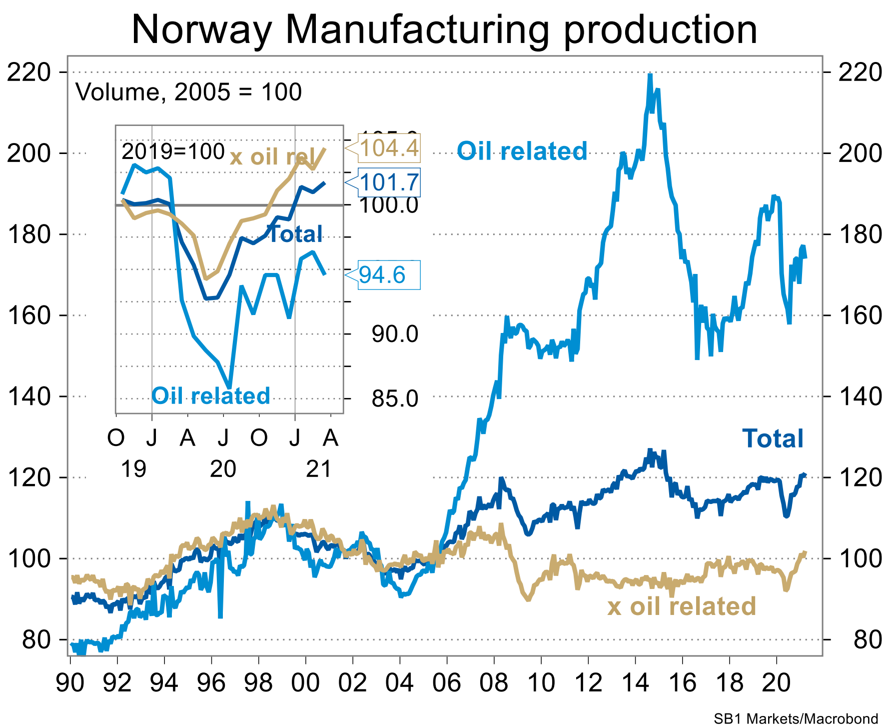


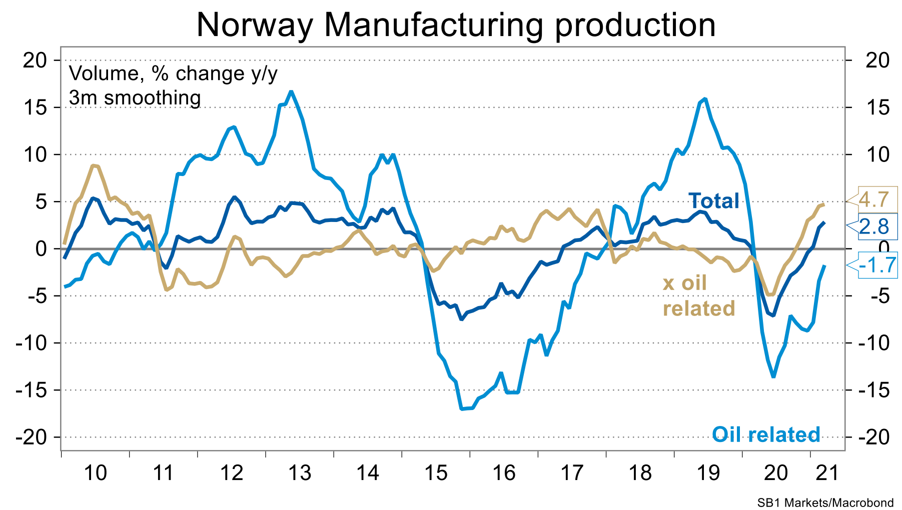
- Still, the parallel change in both co-op & total house prices in Oslo may signal a real turning point in the market

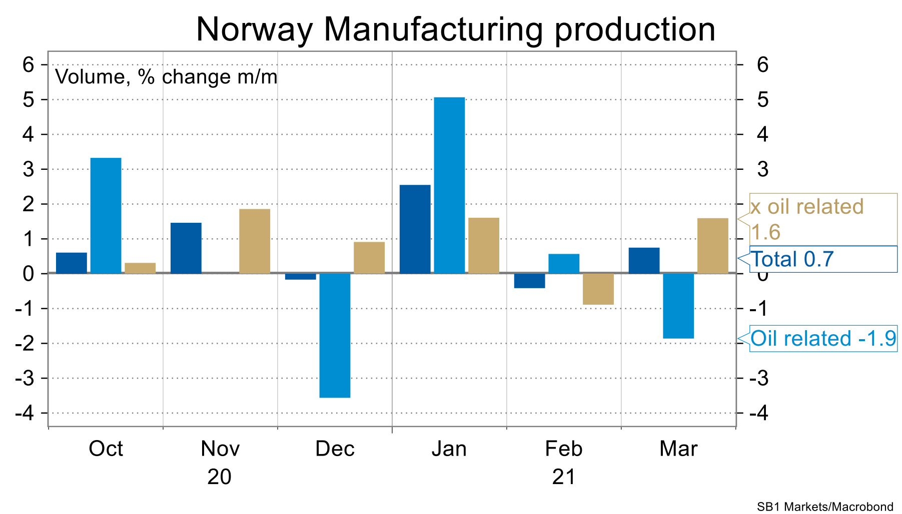
Co-op apartment prices follow the overall Oslo market quite closely, the average price level is some 6% lower than total Oslo market

Manufacturing production up 0.7% in March, we expected 1.0%

Production up 9.7% since last summer, 2 % vs. pre covid, non-oil production the highest in 10 years



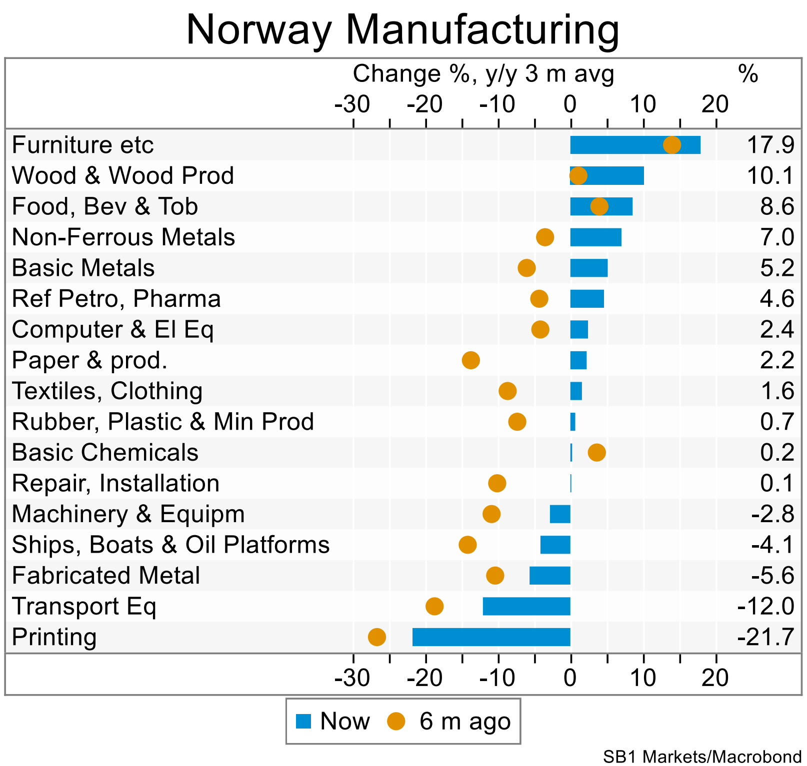


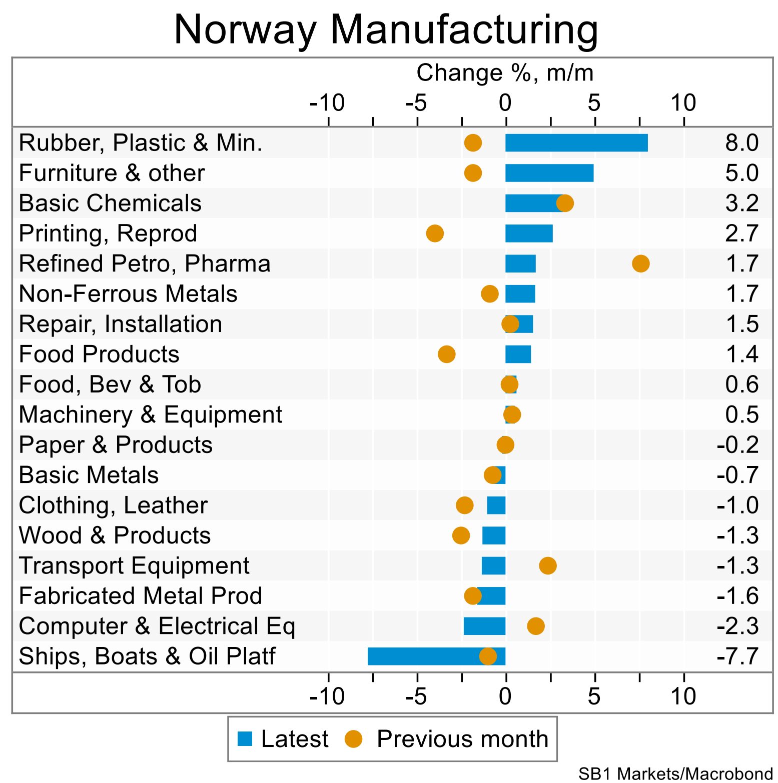


- Production has been at a steep upward trend since May, up over 9%. The increase in March was mostly driven by metals, chemicals, and refined petro
- Total production increased by 0.7% m/m, we expected 1.0% following the 0.4% drop in February. Production is up 2% vs. pre pandemic
- Oil related production fell by 1.9% m/m, and is down 9% vs. p-p (but up vs. last March) while non-oil related production grew 1.6 % m/m, and up 5% both vs. p-p and y/y
- Surveys are signalling a further recovery, even if the PMI fell 1 p in April (More on the PMI here)

Mixed between sectors m/m, and now 70% are up y/y

And 10 of the sectors are up m/m

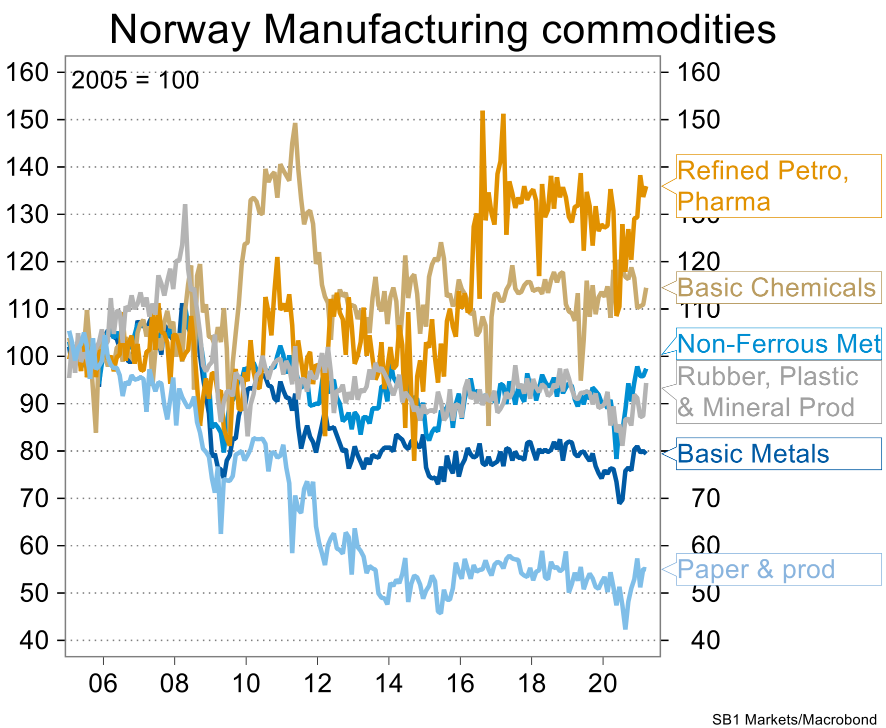


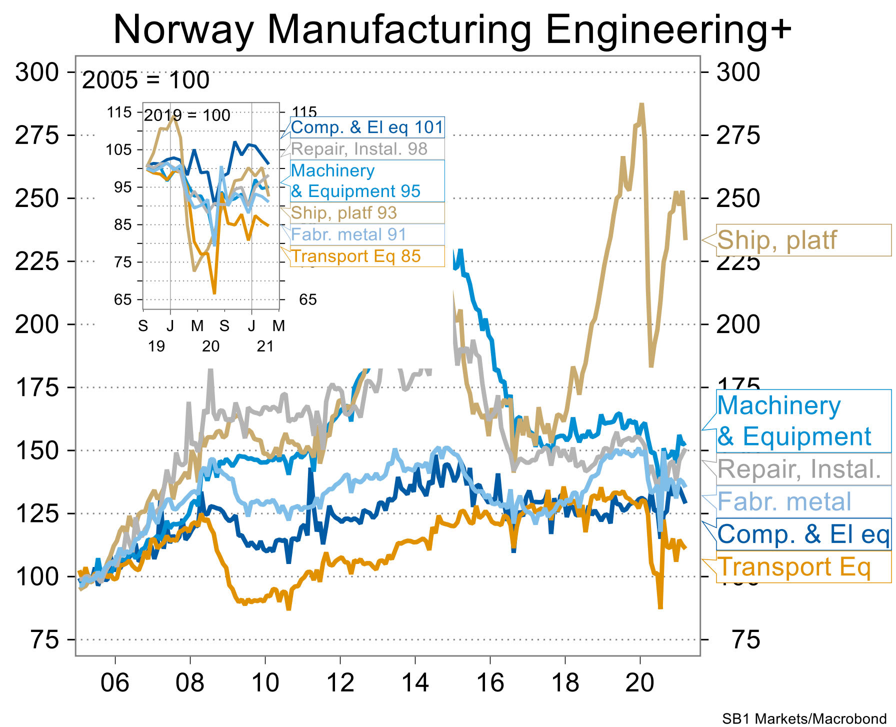


SpareBank 1 MARKETS

Commodities stronger in March

Engineering (and oil related) industries mostly weaker

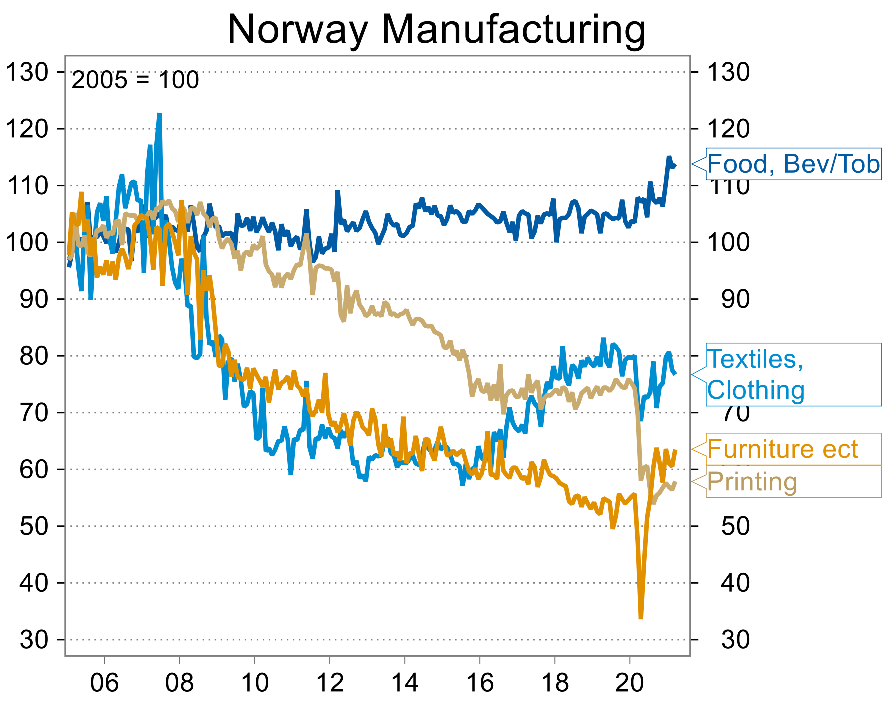




- Production of ships & platforms was incredibly strong in 2018/19, then fell 30% in H1 last year but has now recovered sharply since last e summer. The industry down 7.7% in March, after a lift of 2.4% in Feb. Repairs & installations and Machinery & equipment were up by 1.5% and 0.5% m/m respectively. The rest were down
  - » Corona measures, supply chain challenges probably explained parts of the drop during the spring
- Commodities have all recovered from the spring through, and after a sideways development for a couple of months, March turned out to be a strong month. Rubber, plastic and minerals were up 8%, while chemicals production increased by 3.2%

Food and beverage production somewhat down but is still strong

... and will remain high until borders are opened



SB1 Markets/Macrobond

- The food and beverage industry was up 0.6% in March, while Furniture was up 5.0% and printing increased by 2.7%
- Clothing was down 1%

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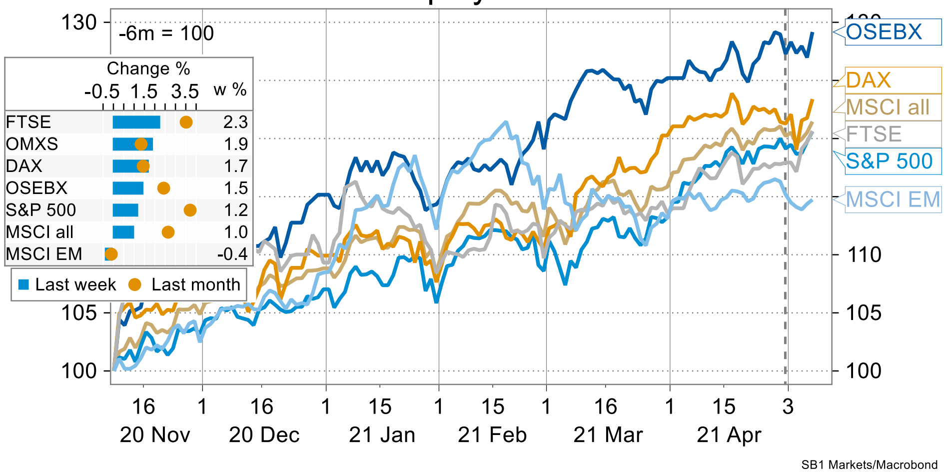
SpareBank 1 MARKETS

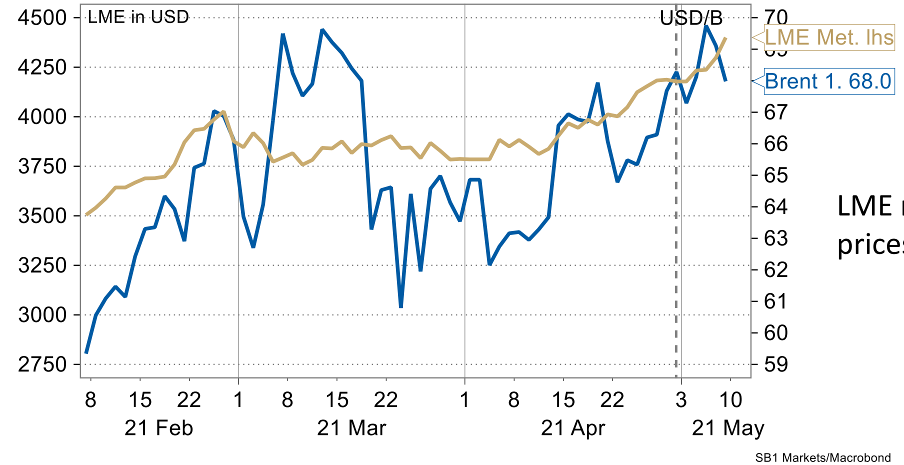
Risk on but bond yields still down. The USD sharply down

Emerging markets' stock markets are lagging, others are booming, as are metals. Still, yields down last week

Equity Indices

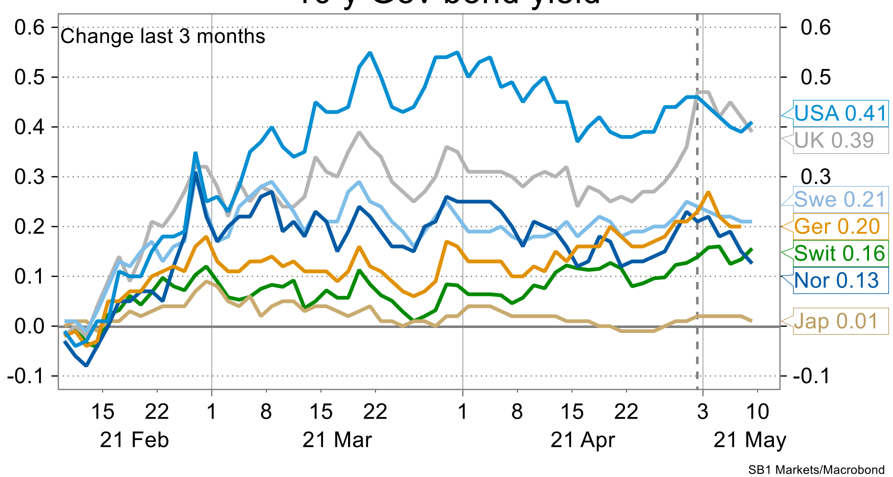


Oil vs. metals



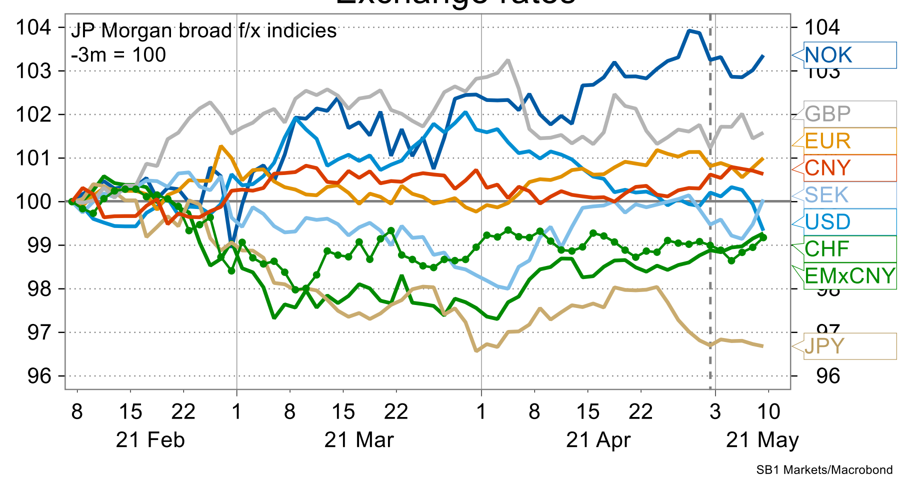
LME metal prices at ATH

10 y Gov bond yield



US bonds yields 'collapsed' on Friday's weak job report, but ended the day up. Most bonds yields down w/w

Exchange rates



The USD fell sharply at Friday, and is down 3% from late March

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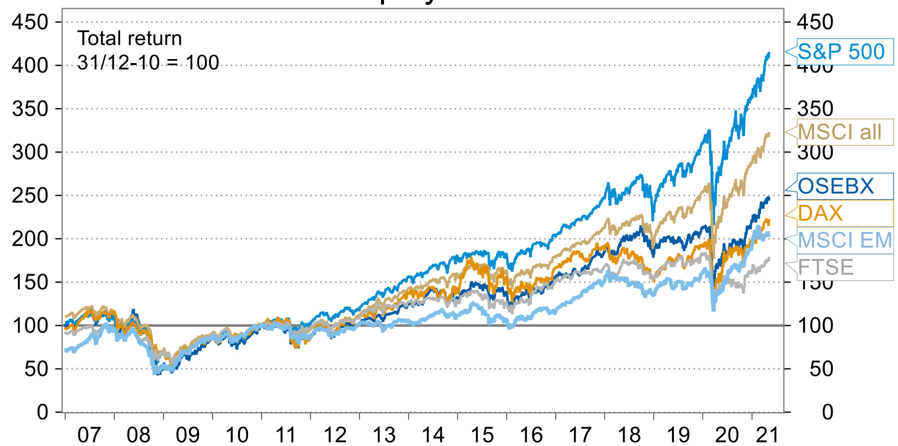
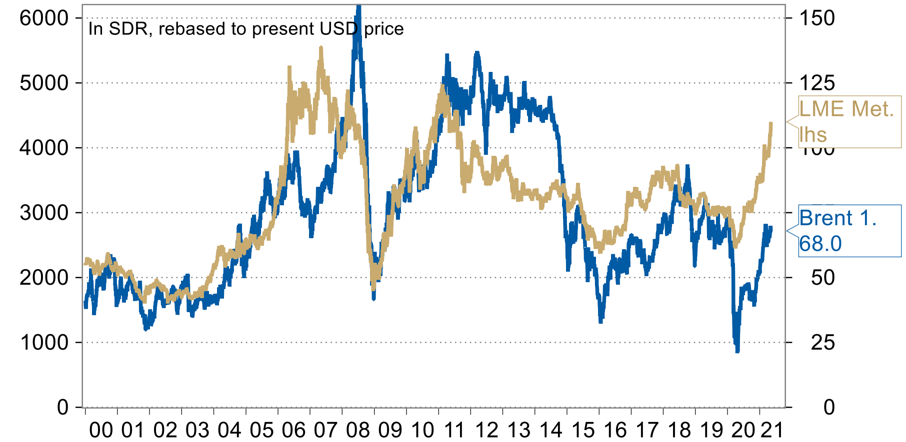
The big picture: Strong stock markets, commodity prices record high

... The latter in nominal USD, at least. The real price, in SDRs is still below the 2007 peak

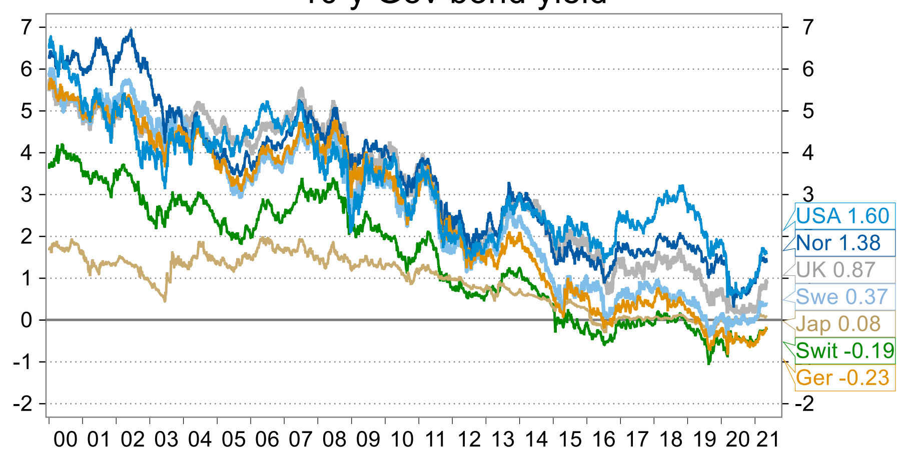
Equity Indices



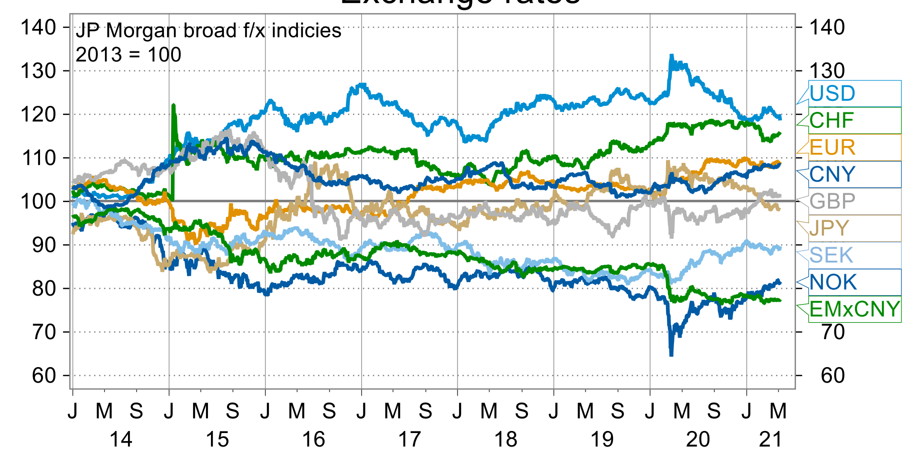
Oil vs. metals



10 y Gov bond yield

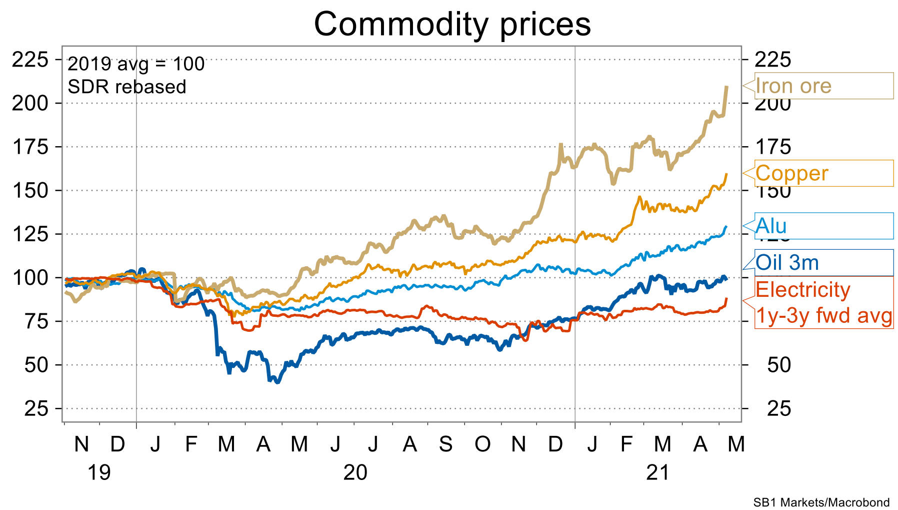


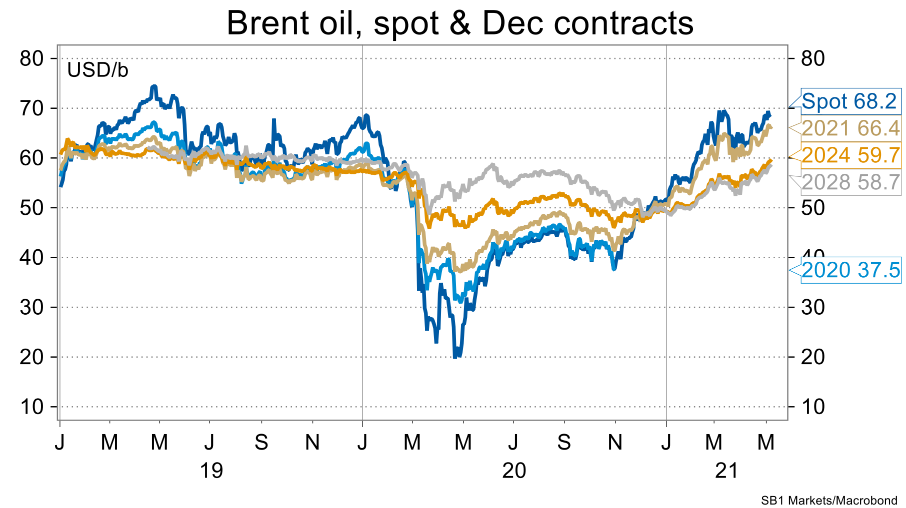
Exchange rates

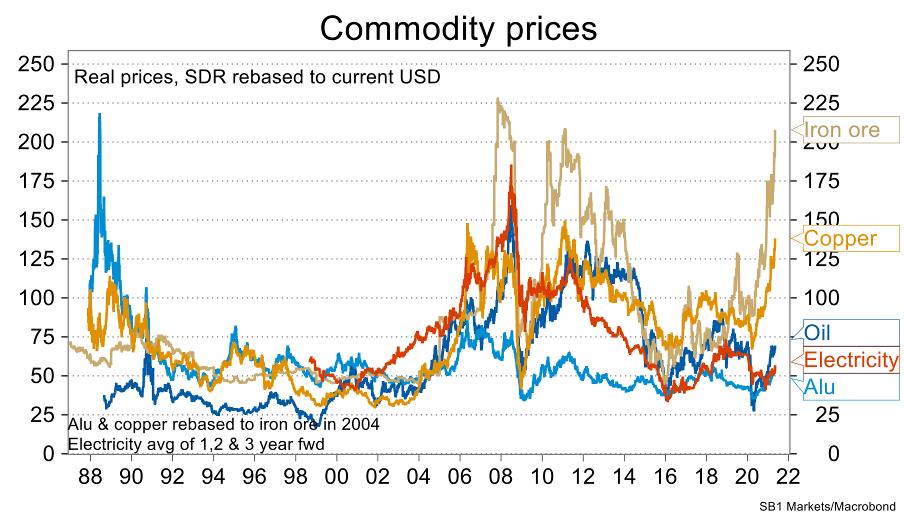


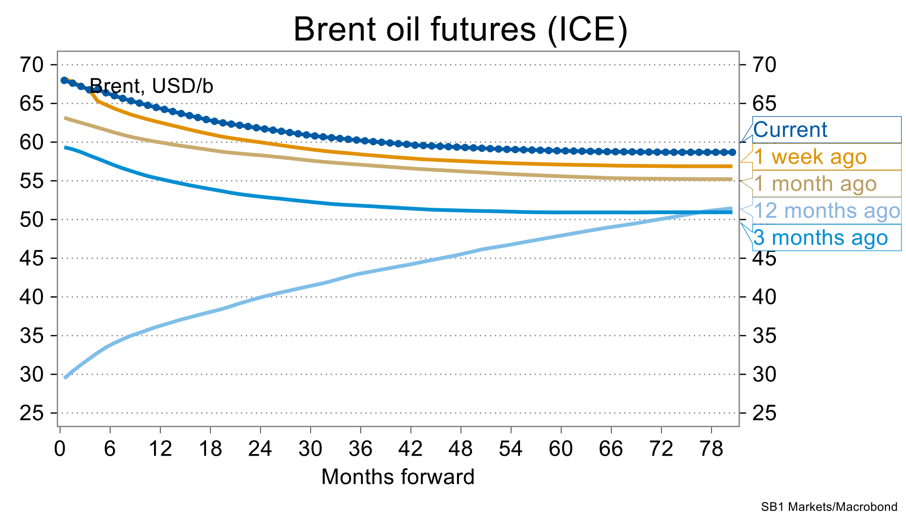
Iron ore, copper prices are surging to ATHs (not inflation adjusted)

And close to ATH, measured in real SDRs (common currency). The oil price is drifting up too

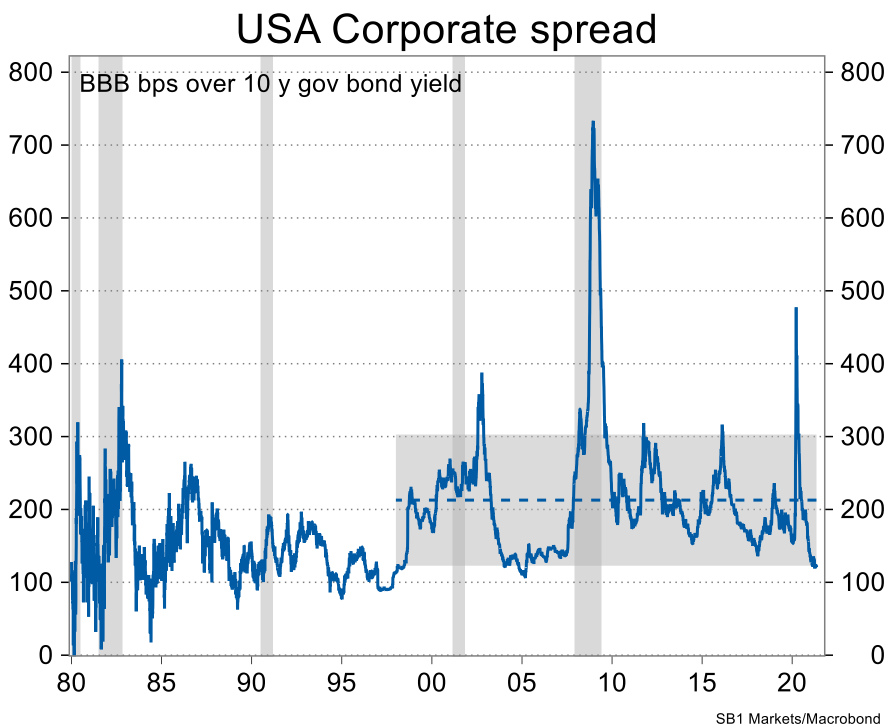


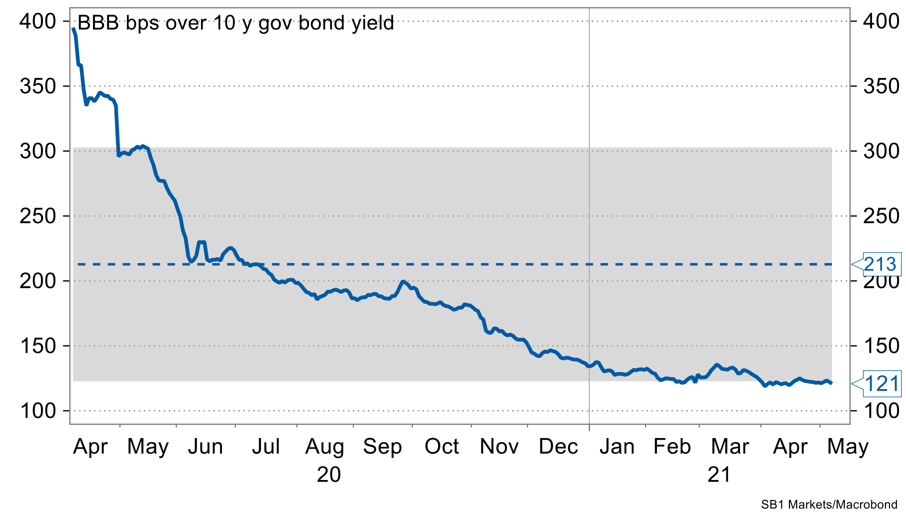


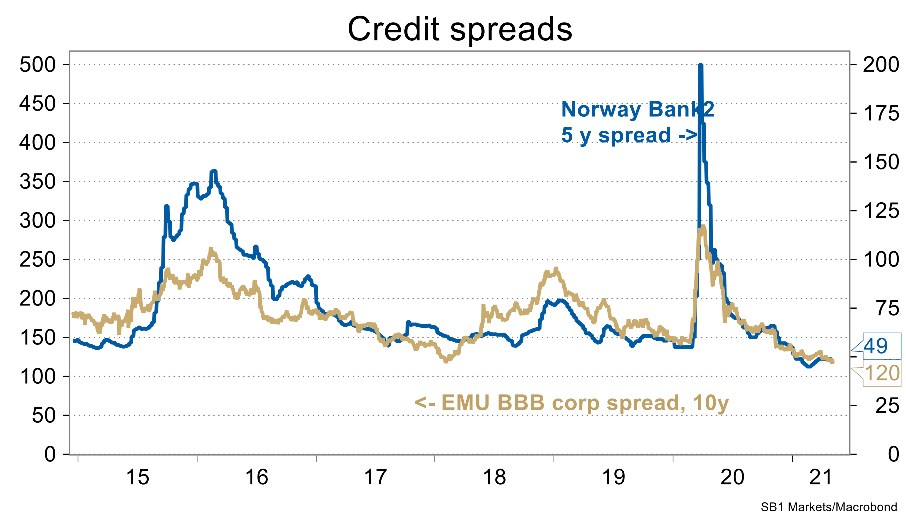




Credit spreads have flattened, at low levels

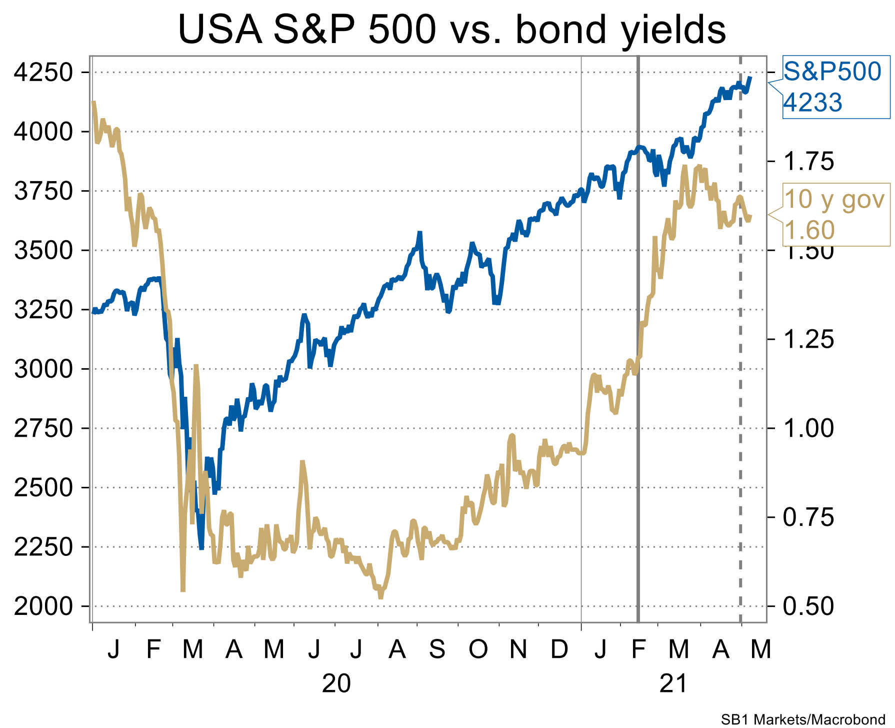


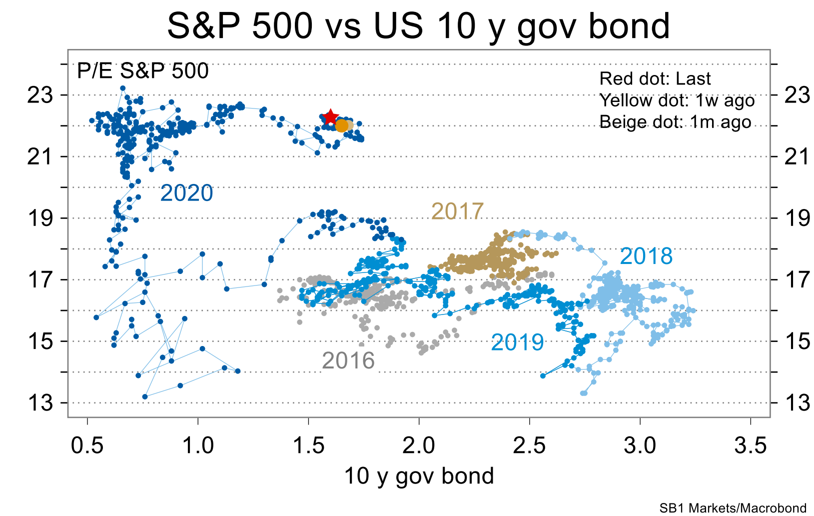


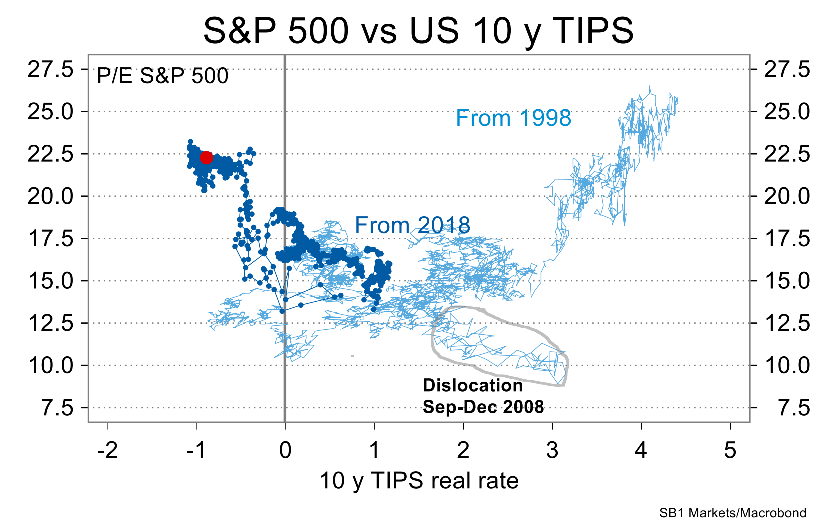


S&P 500 in the end up 1.2%, the 10 y bond yield down 5 bps

(but was down 10 bps more just after the far weaker than expected jobs report on Friday)







- The market is moving back into the 'Goldilocks' corner, with lower yields & higher equity valuations
- .. Supported by lower real yields and inflation expectations that are not (yet) dangerous

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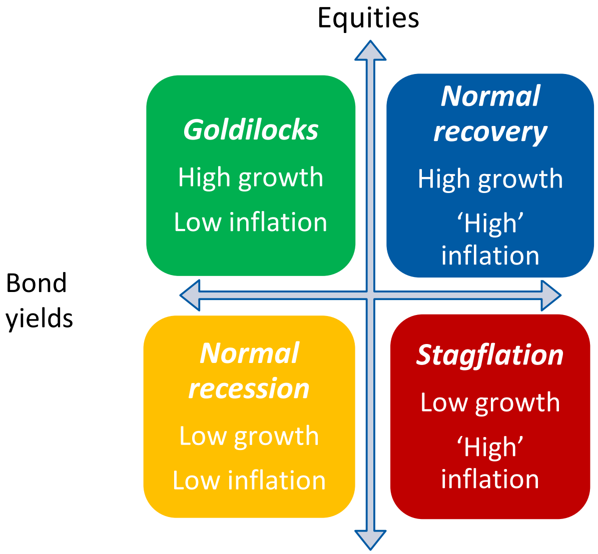
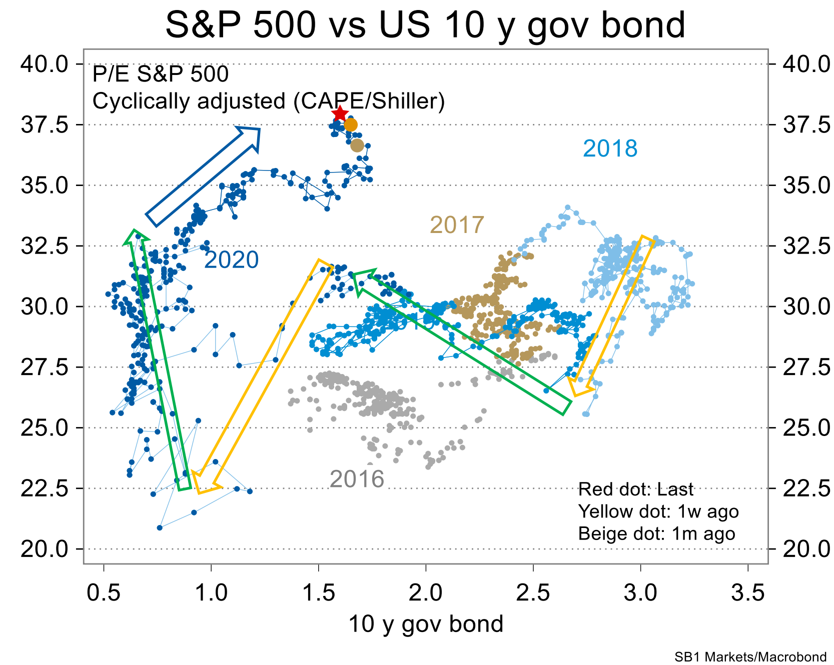
A long term view: Back to the 'Goldilocks corner' again

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



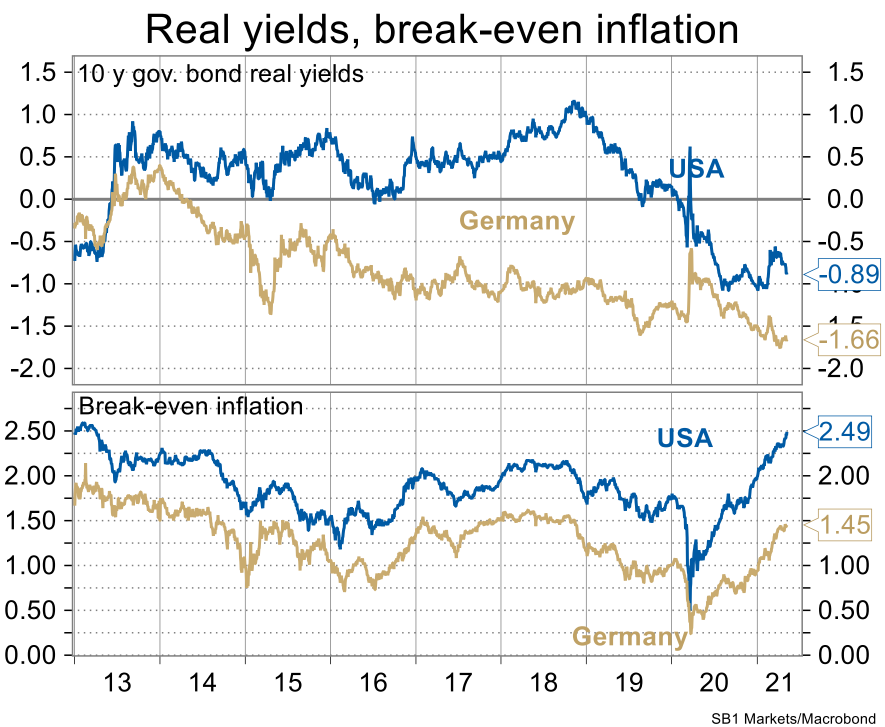


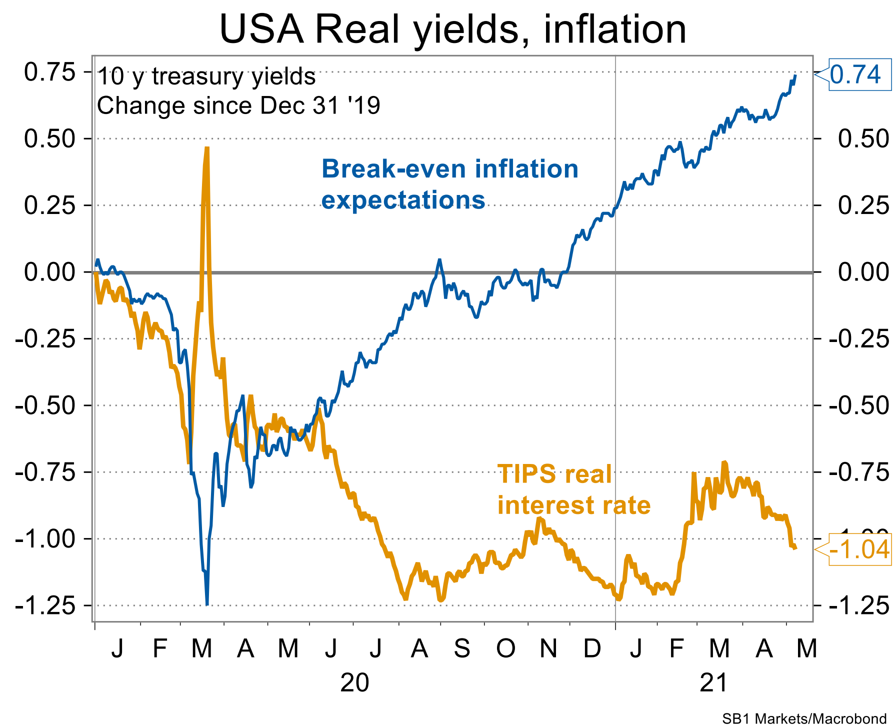
- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a temporary sweet spot for markets

- **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

Inflation expectations further up, still not a major concern for the Fed

But if this trends continues for some more months… US real rates are 'collapsing'





US & Germany 10 y Gov bond yield

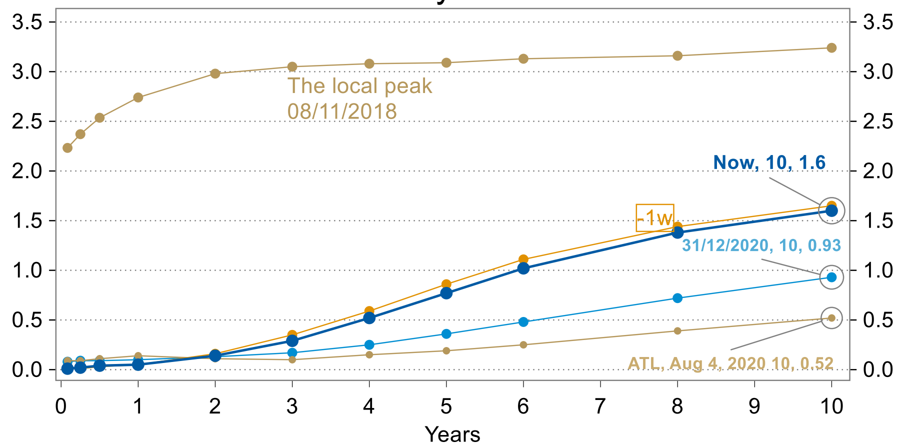
	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.60	-0.05	-0.08	0.52
.. break-even inflation	2.49	0.08	0.15	1.06
.. TIPS real rate	-0.89	-0.13	-0.23	-1.08
Germany nominal bund	-0.21	-0.01	0.12	-0.65
.. break-even inflation	1.45	-0.01	0.03	0.40
.. real rate	-1.66	0.00	0.09	-1.76

SB1 Markets/Macrobond

- The 10y break even expected inflation is not at 2.49%, The 5y CPI based break even is at 2.65%, which signal an expected PCE inflation rate well above 2.0% the coming 5 years in average
- Inflation expectations in Germany are heading upwards too
- German real rates are still trending upwards, from a very low level

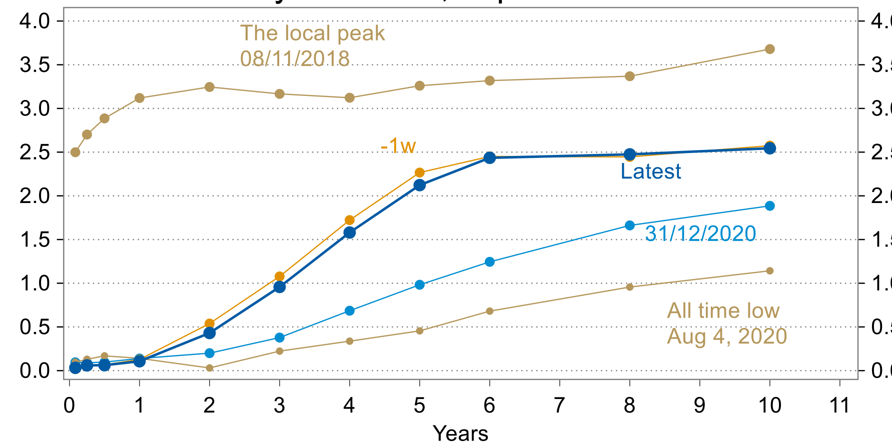
A minor shift upwards/steepening og the yield curve last week

US Gov yield curve



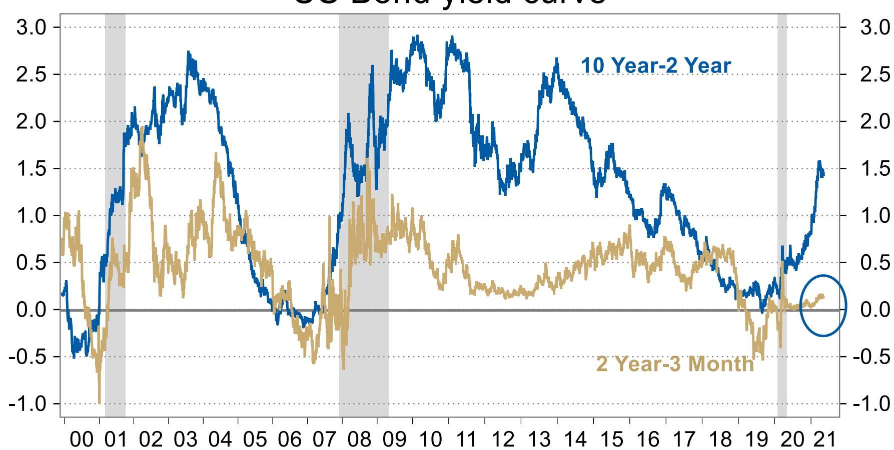
SB1 Markets/Macrobond

US Gov yield curve, implicit forward rates



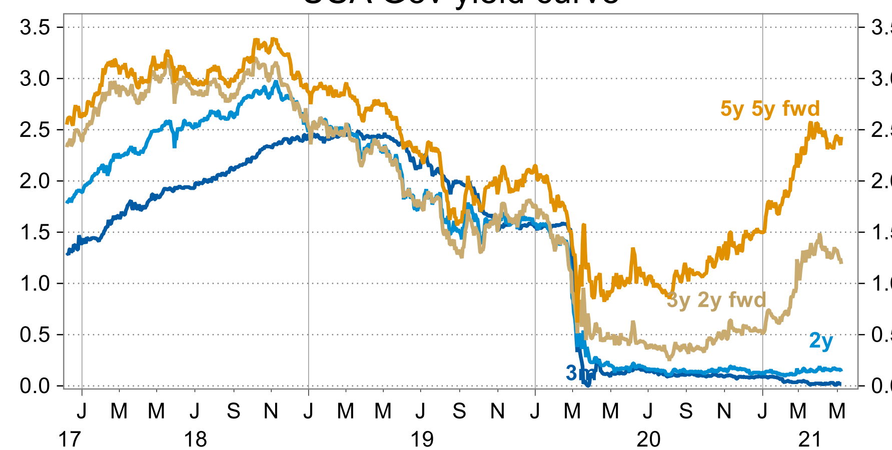
SB1 Markets/Macrobond

US Bond yield curve



SB1 Markets/Macrobond

USA Gov yield curve



SB1 Markets/Macrobond

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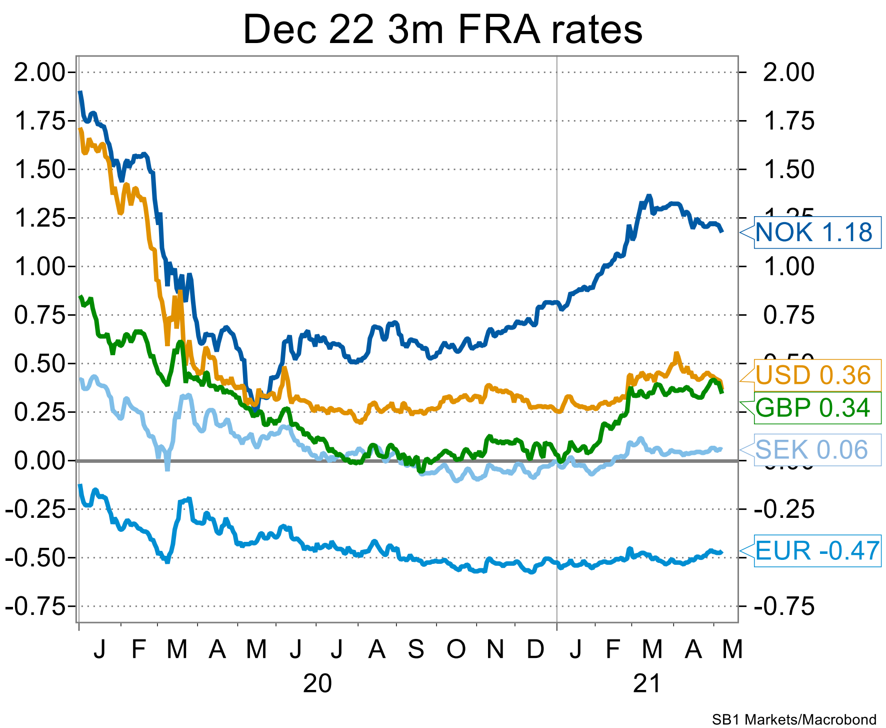
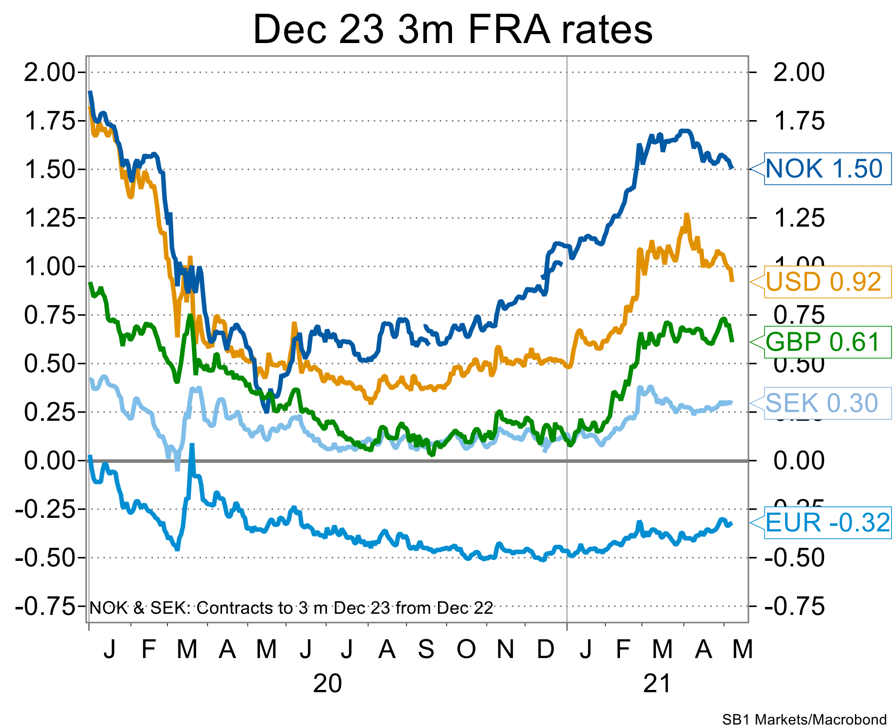
Interest rate expectations: Down most places last week, most in the US

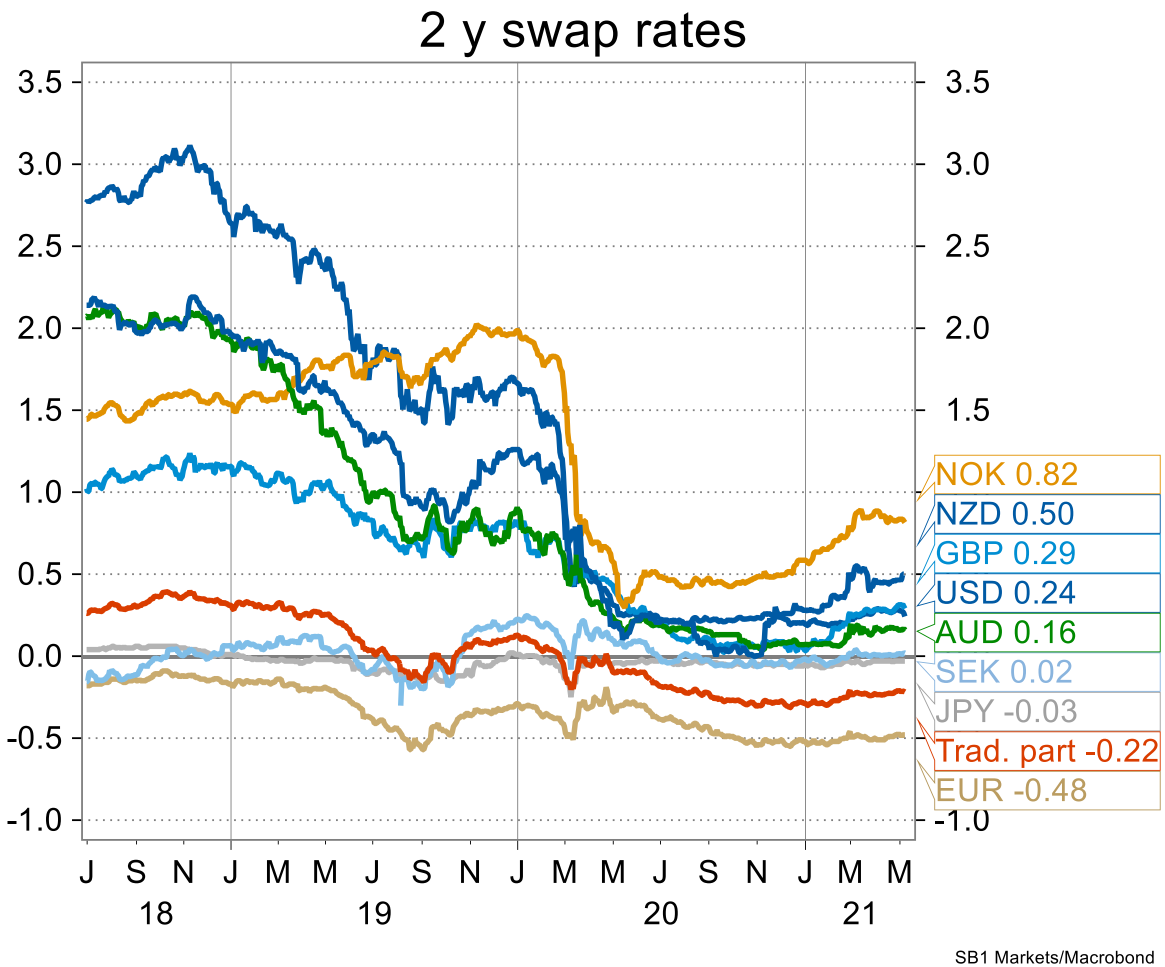
Still, a Fed hike is priced into the curve by Q4-22. EUR rates close to flat

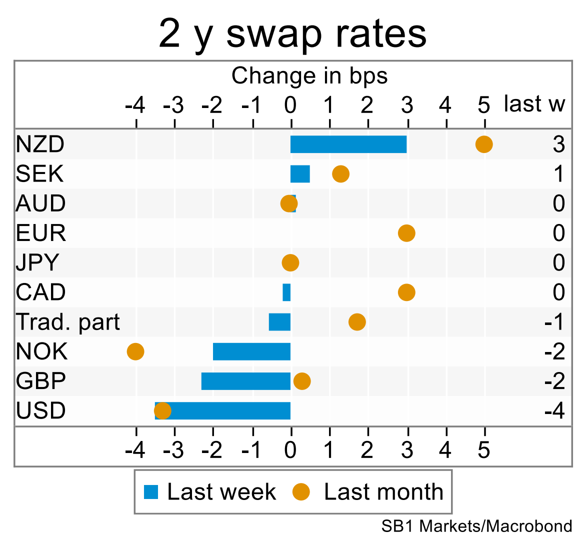




Most short term swap rates down, but EUR rates flat, SEK rates up

US rates fell the most, and mostly due to the weak jobs report at Friday





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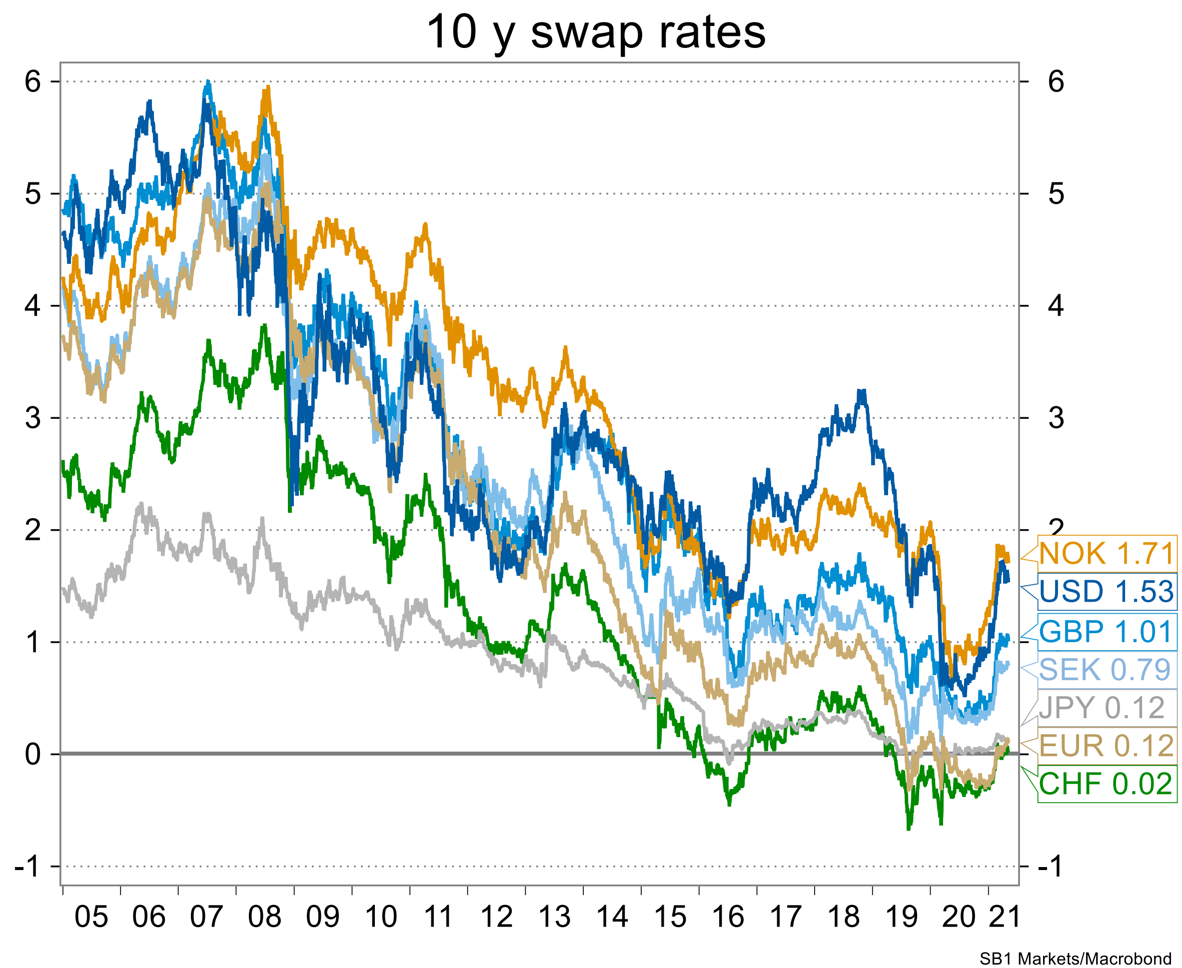
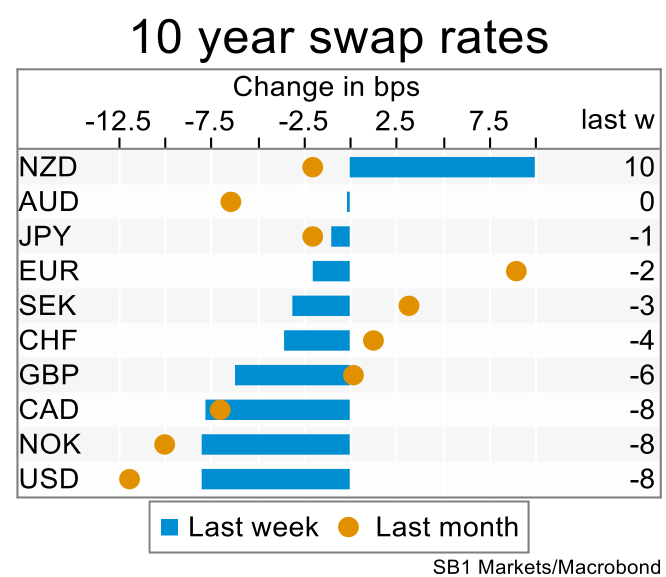
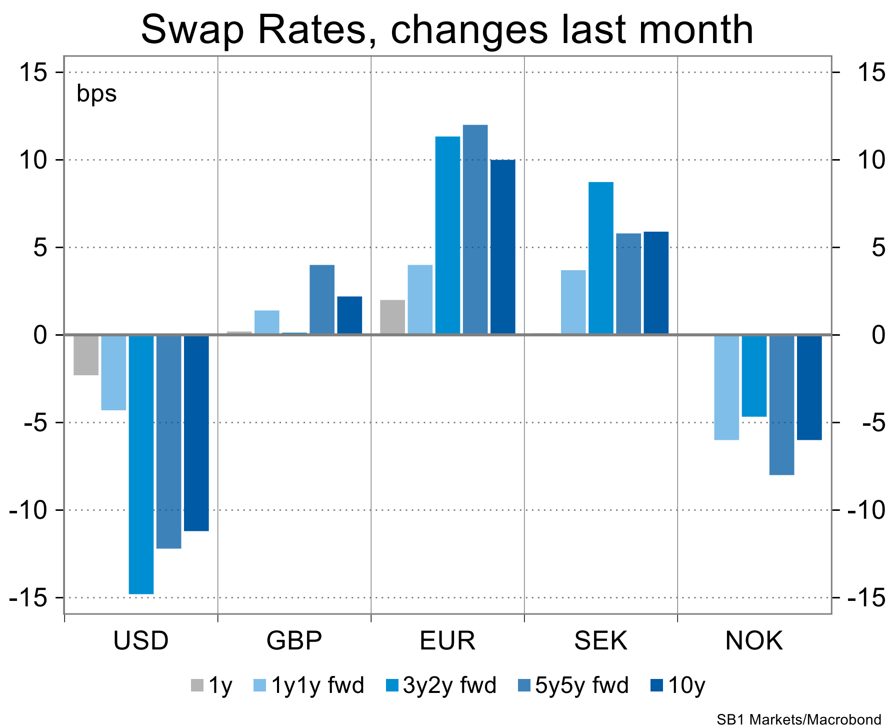
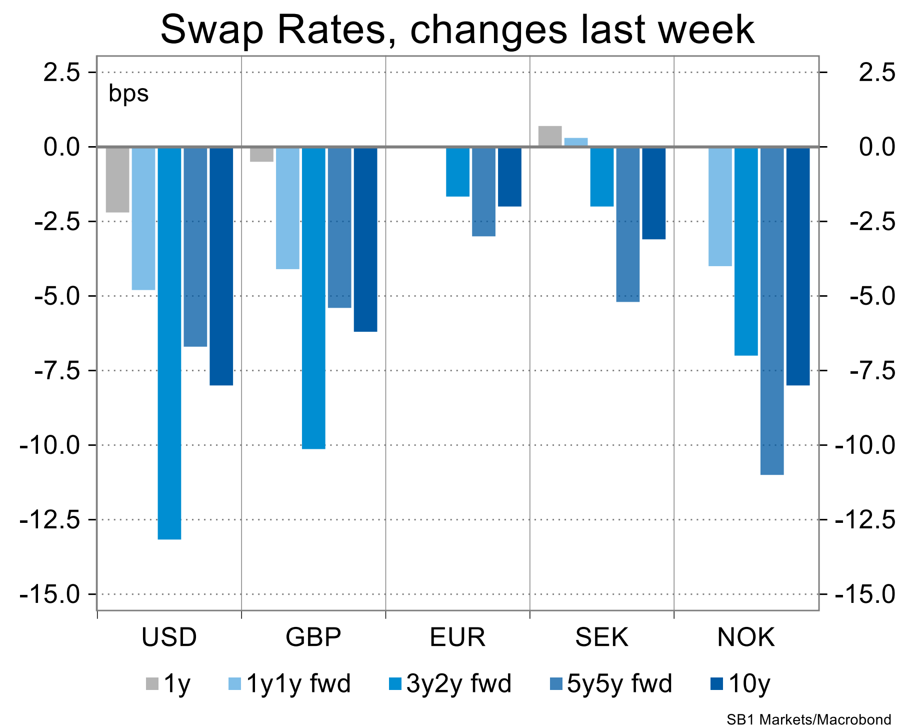
10y swap rates up: Almost all down, EUR rates the least (x those down under)





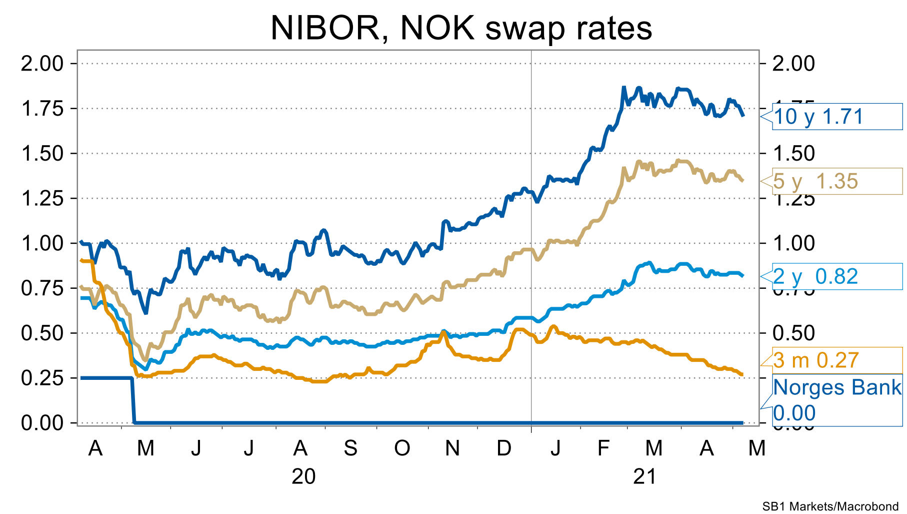
Down everywhere last week, almost all over the curve

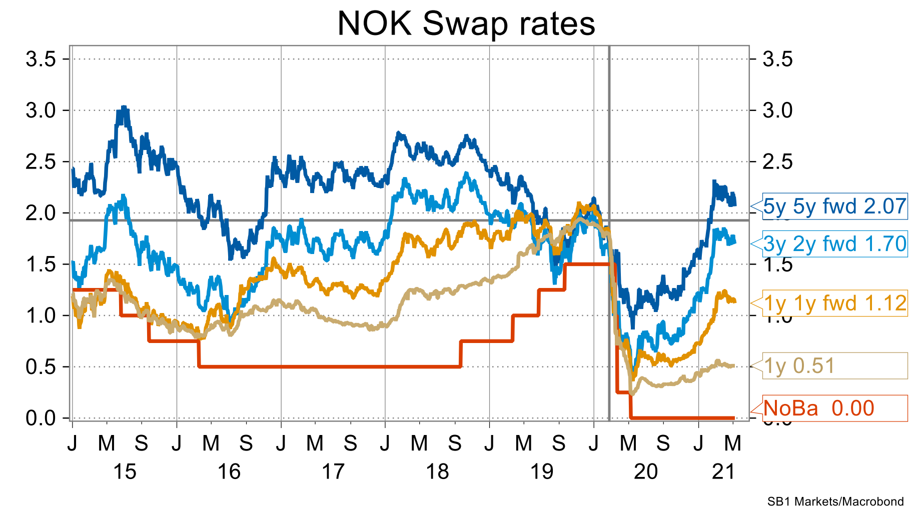


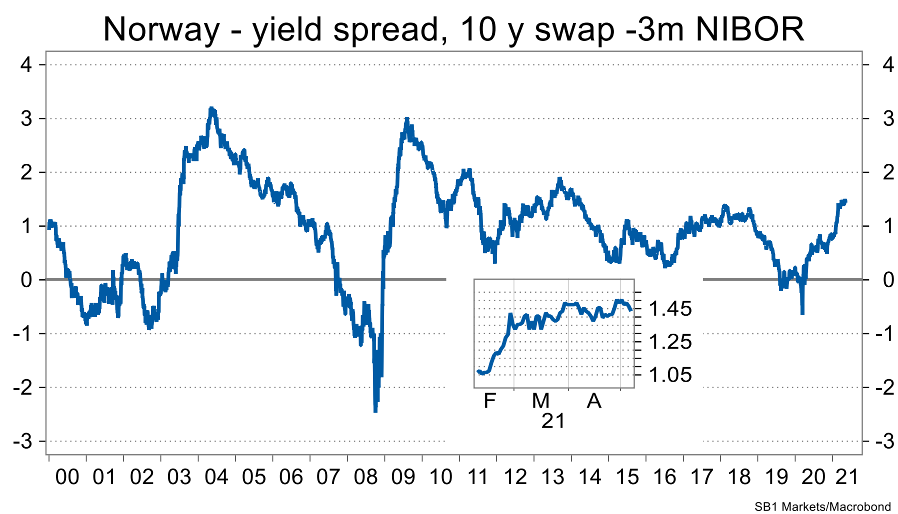


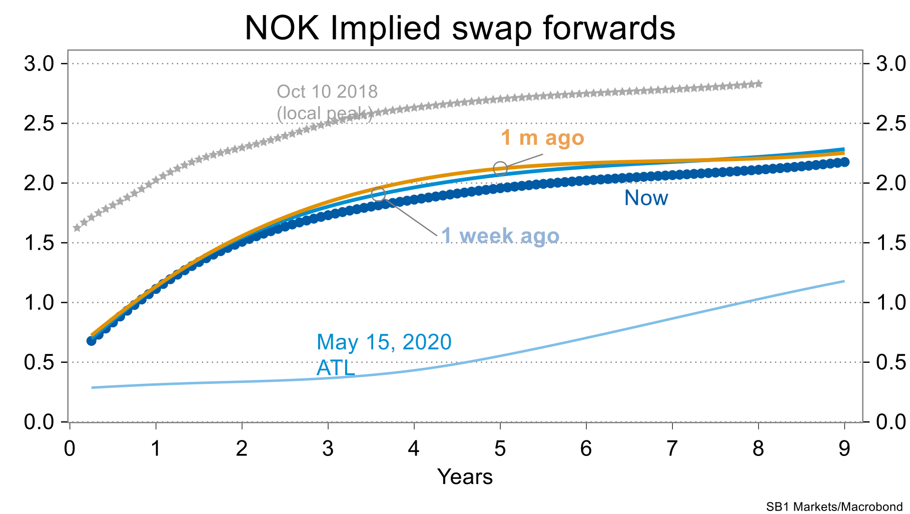
NOK rates are trending DOWN

NOK 10 y at 1.71%, reversing the previous week increase



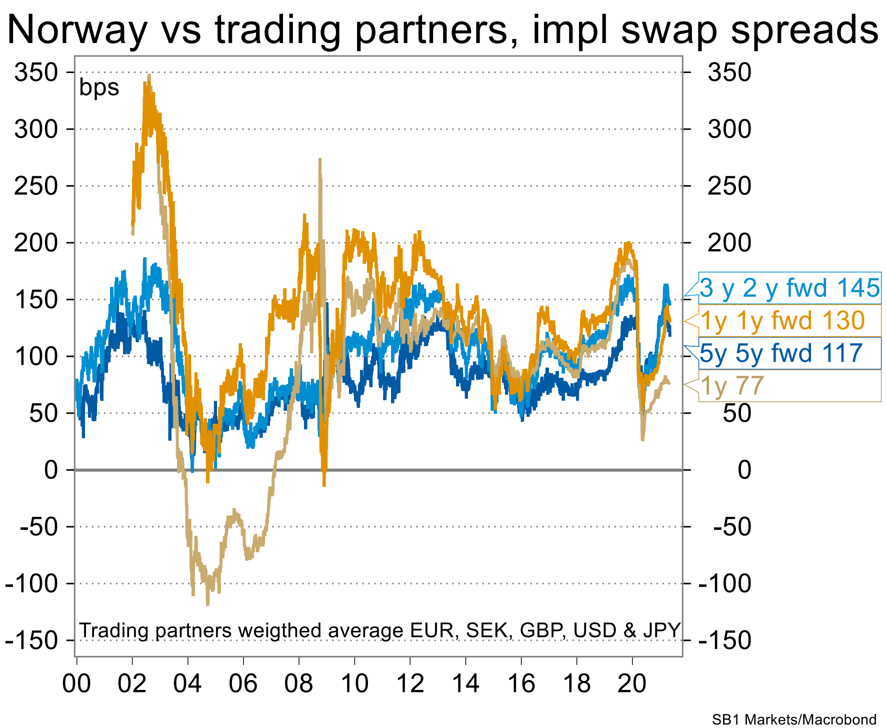


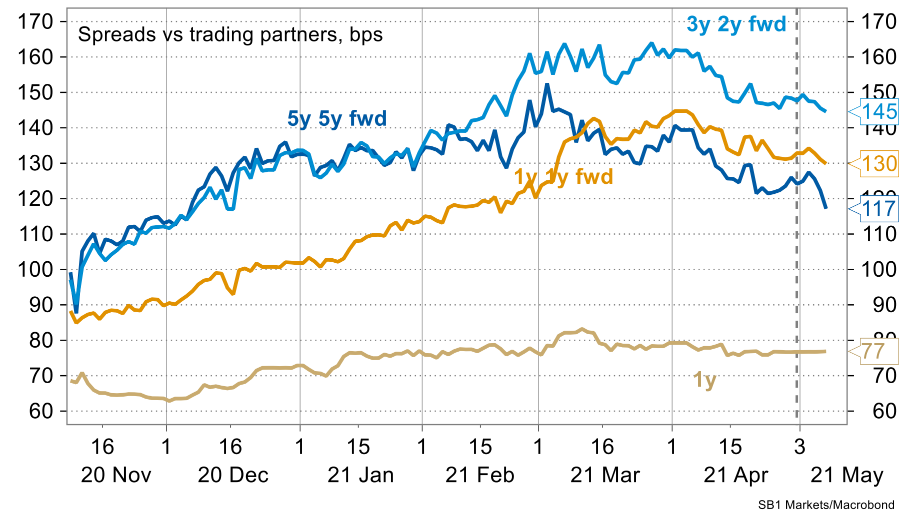


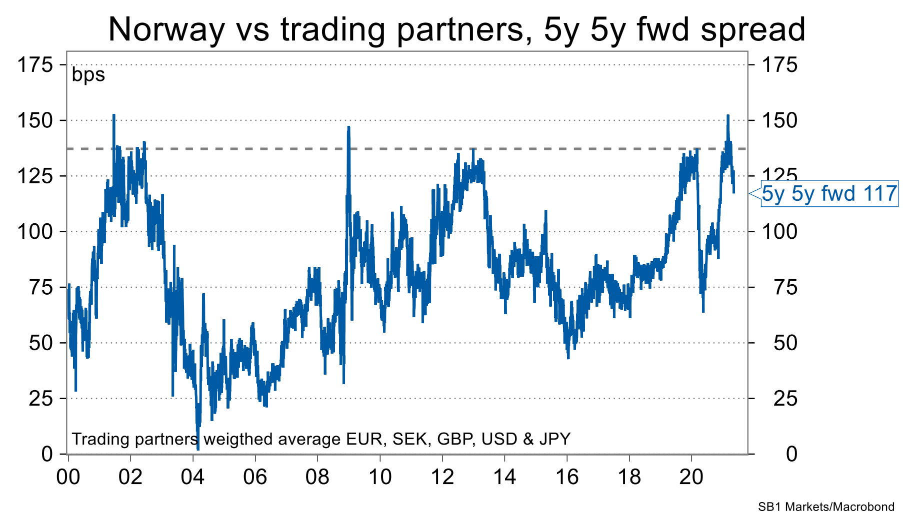


Forward spreads vs trading par. sharply down last week – and are trending down

The decline last week may have been influenced by the April decline in home prices







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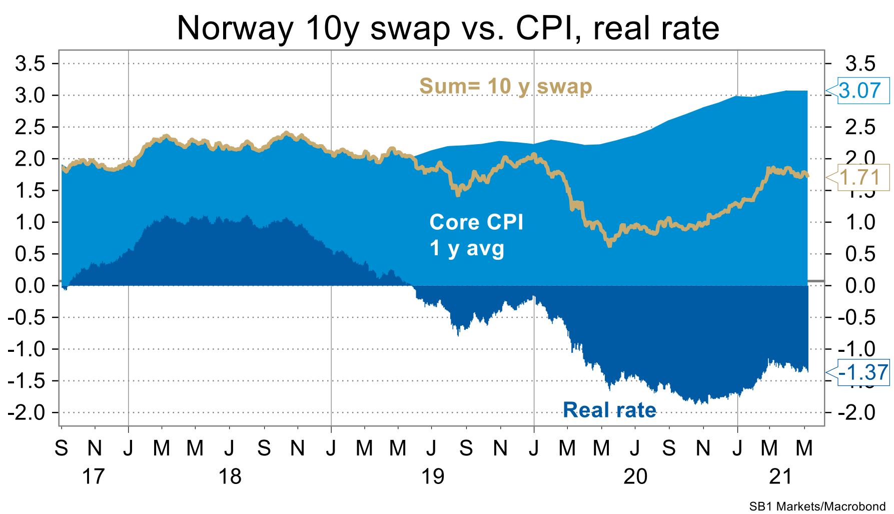
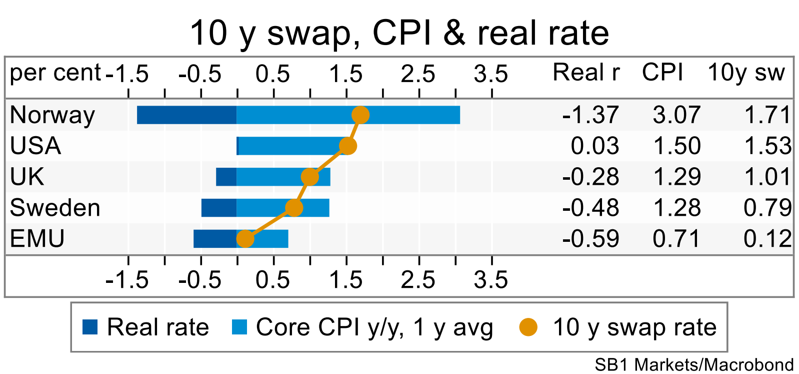
Negative (actual) real interest rates most places – NOK at the bottom



NOK 10 y swaps are drifting upwards

- The **10y NOK swap rate** down 8 bps to 1.71%
- **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, and 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**

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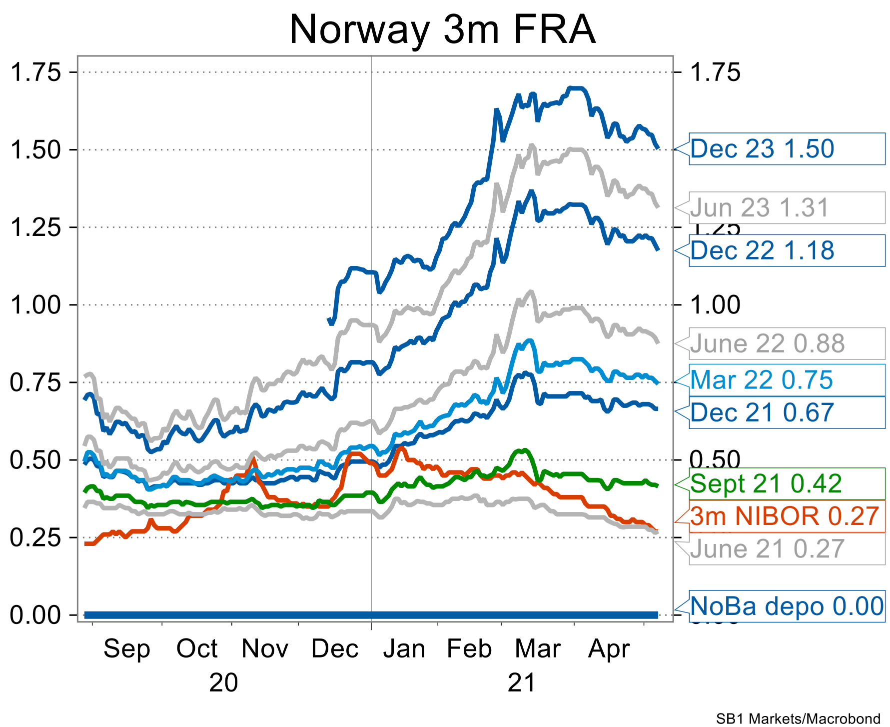
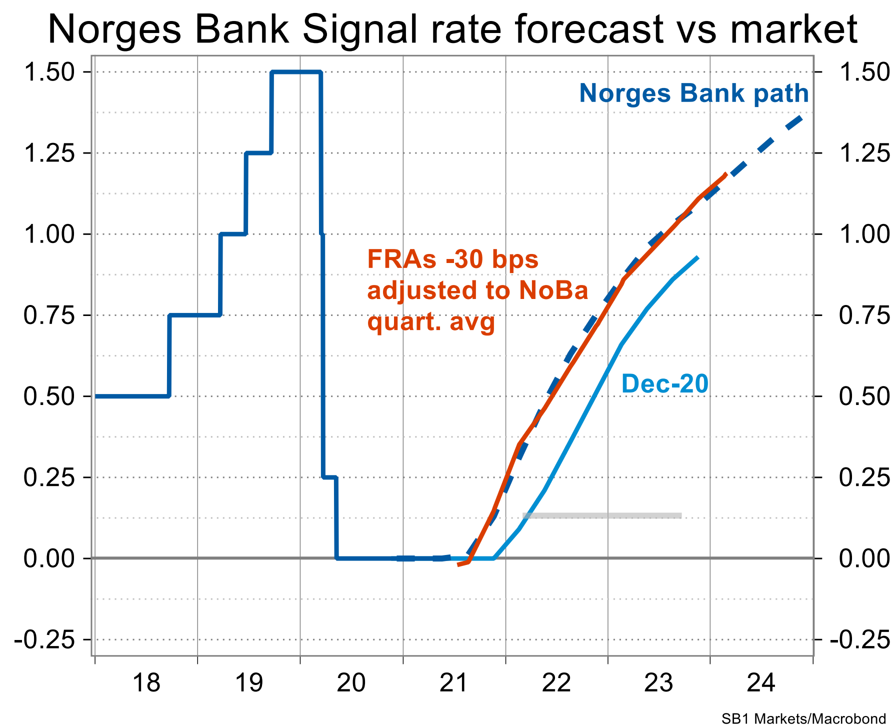
FRAs are trending down, the trajectory is identical to NoBa's March path

Longer dated FRA are down more than 20 bps since late March. Without much weak Norw. data





- 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 0.42% Sep FRA-rate equals a 0.12% NoBa deposit rate. If so, a little above 50% probability for a Sept hike is discounted, marginally above what NoBa signalled in its March MPR (50%)
- The Dec-21 FRA at 0.67%, and a 30 bps NIBOR spread, yields a 0.37% NoBa rate. However, the Dec FRA is normally some 5 – 8 bps 'too high' due to year liquidity adjustments at banks. We deduct this extra liquidity premium, and assumes market's 'real' NoBa expectation at 0.30%. 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

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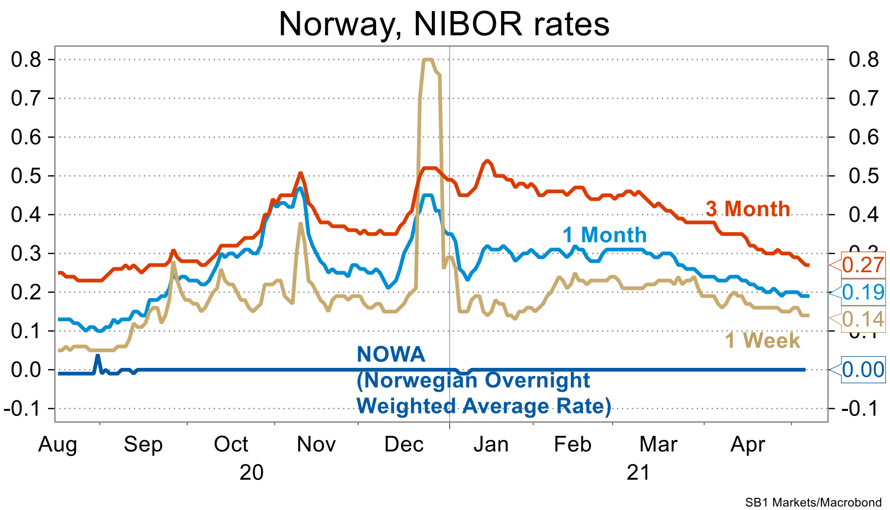
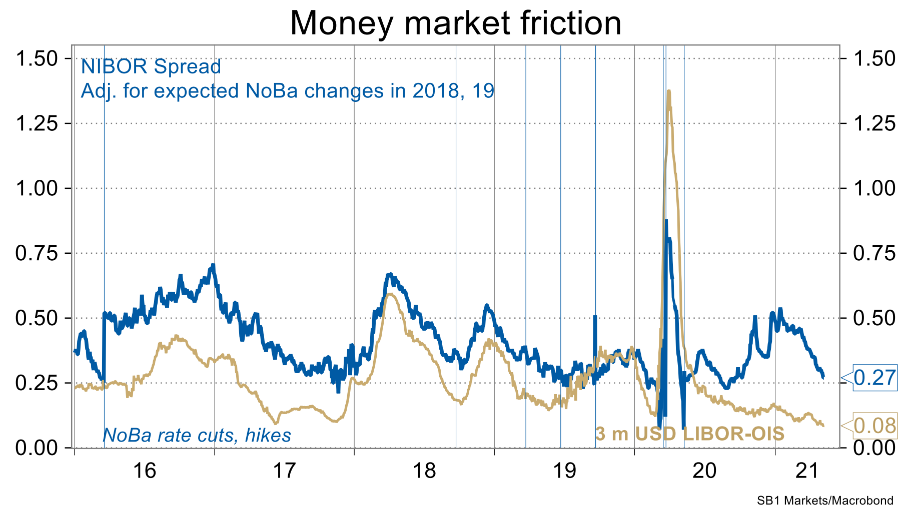
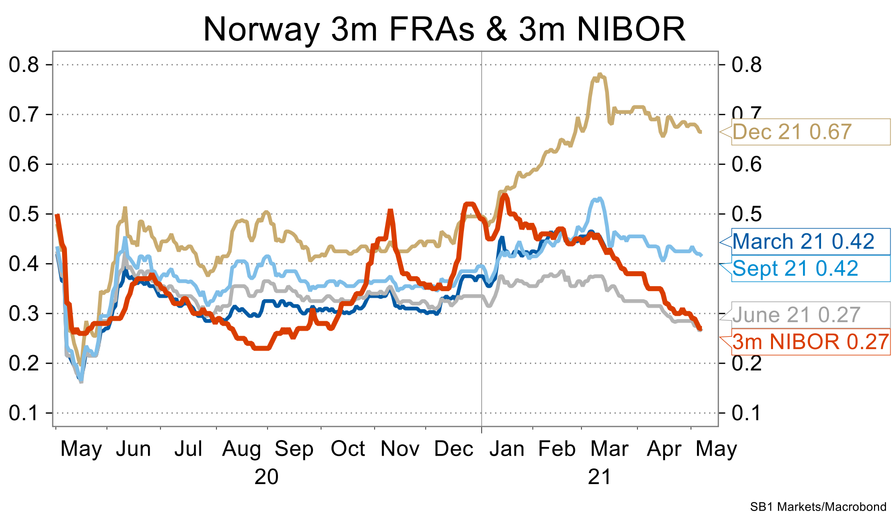
The NIBOR spread is falling sharply: 3m NIBOR -3 bps to 0.27%!

The June contract down to the same level. The spread has not often been lower







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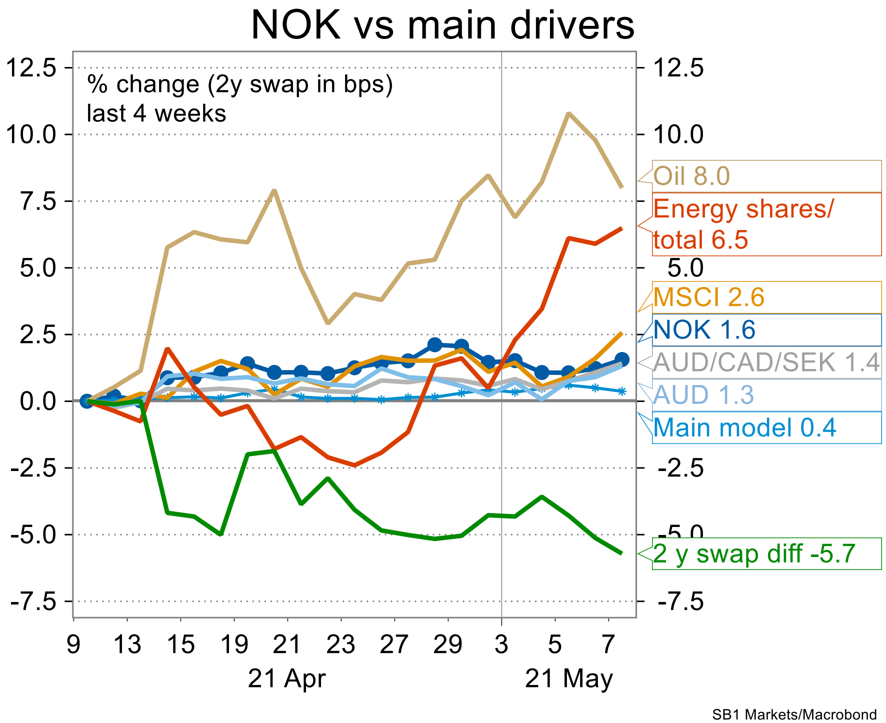
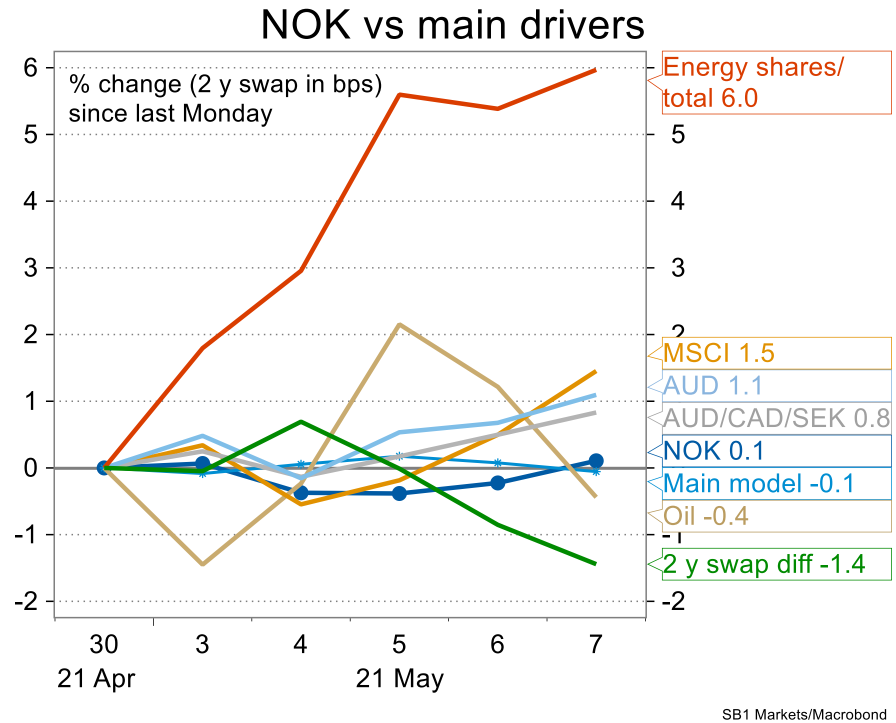
The NOK is fair priced, we have turned to a neutral recommendation

There may still be some upside, but risk markets are not cheap, and the oil price will not climb forever





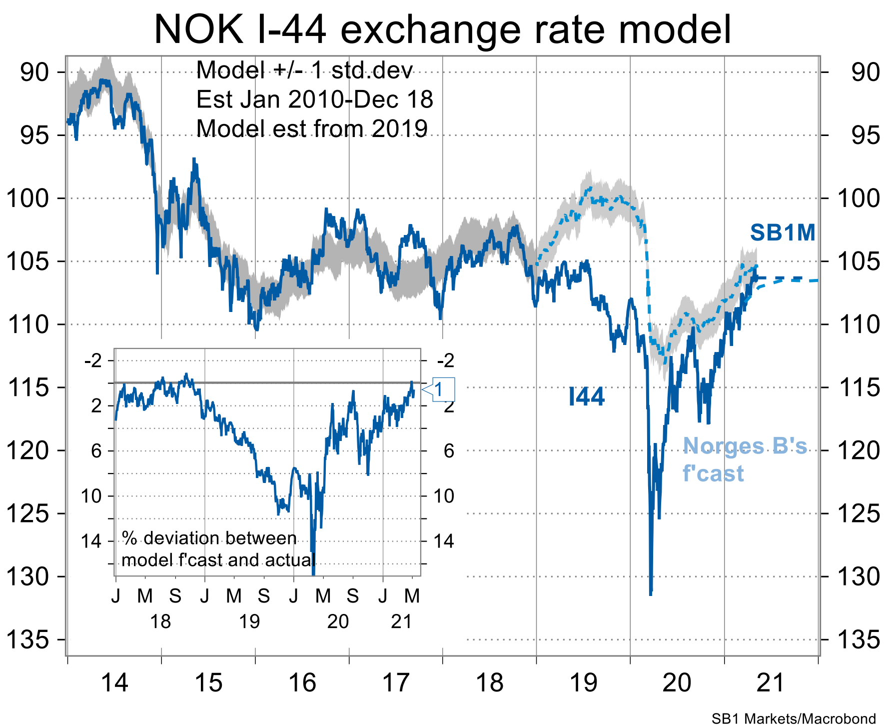
Last week: NOK up 0.1%, our model signalled -0.1%, as the oil price & int. rate differential fell. However global equities, our f/x peers, and energy shares gave support at the upside. The status vs. the normal drivers:

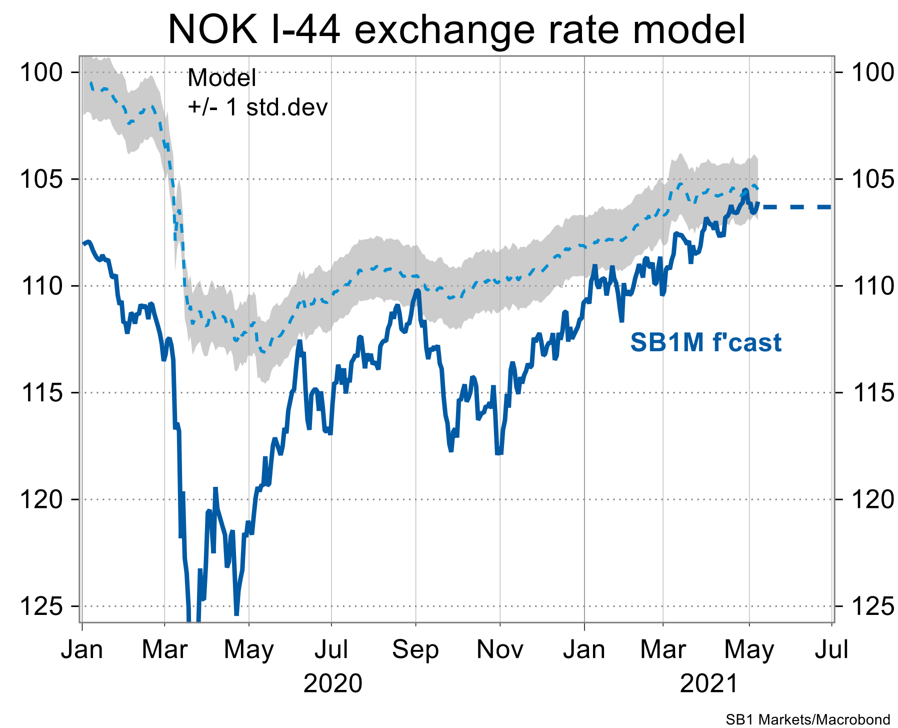
- The NOK is 1% weaker than suggested by our standard model
- The NOK is 2% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020
- The NOK is 8% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts
- On the other hand, the NOK is far (12%) stronger 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 less than 1% below our main model estimate

The gap has closed. NOK needs more support from here. Will it get it? Not so sure…





- The NOK is above the pre-pandemic level and in line with our workhorse model

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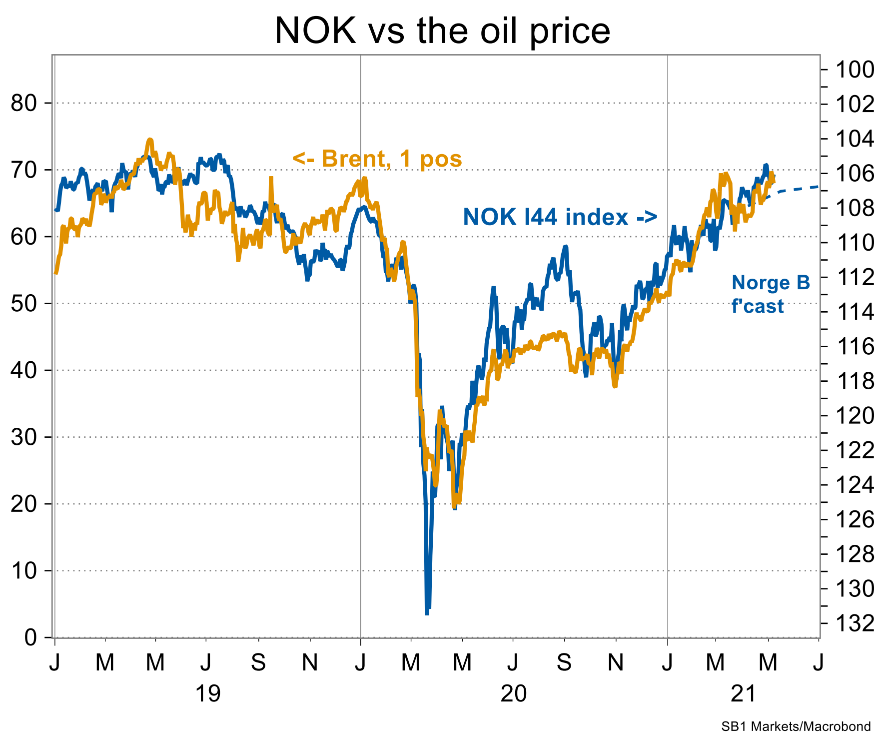
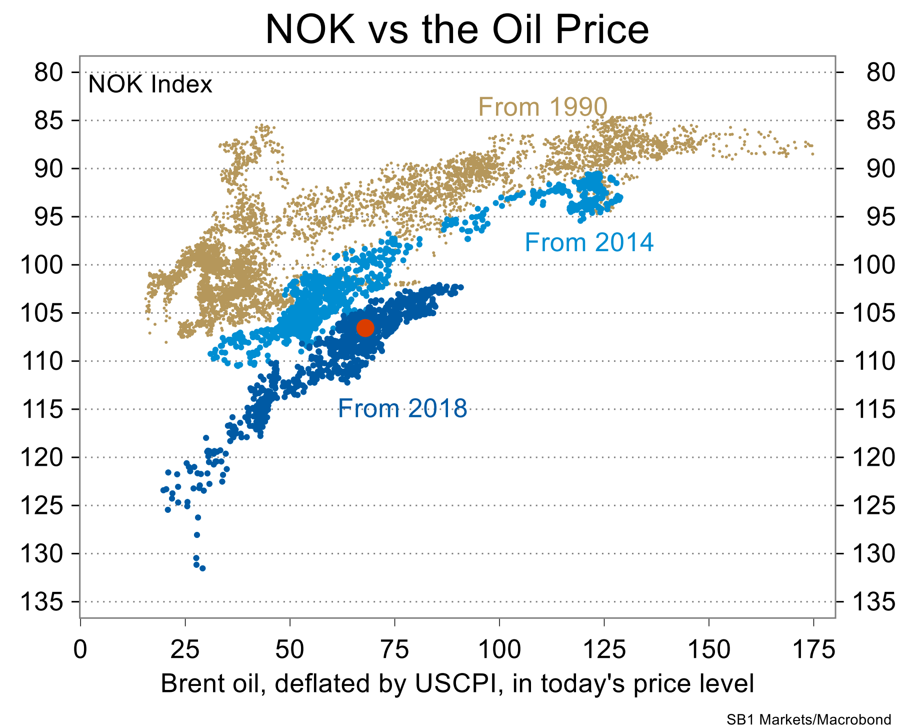
NOK marginally up, oil marginally down

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

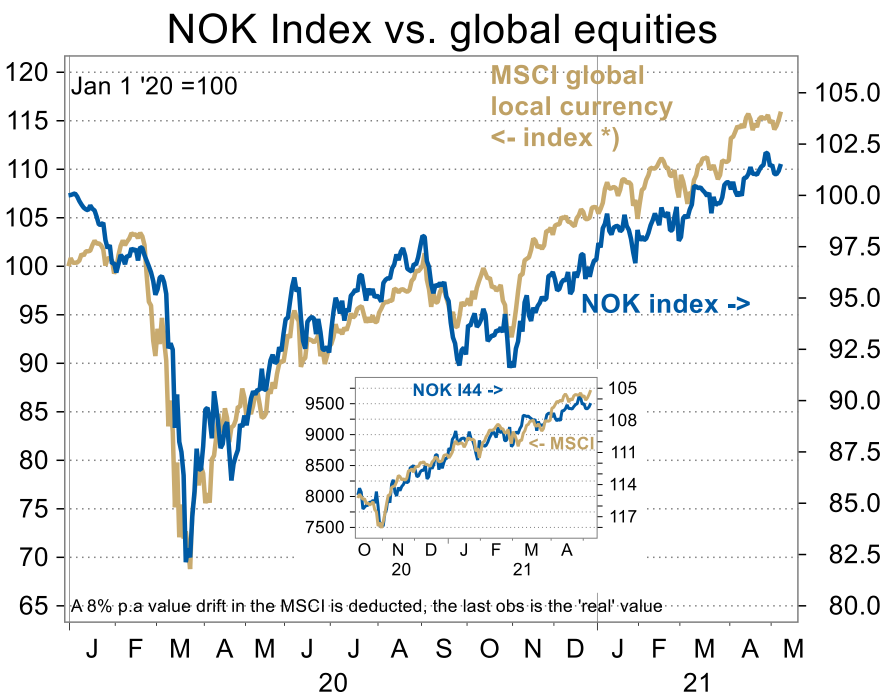


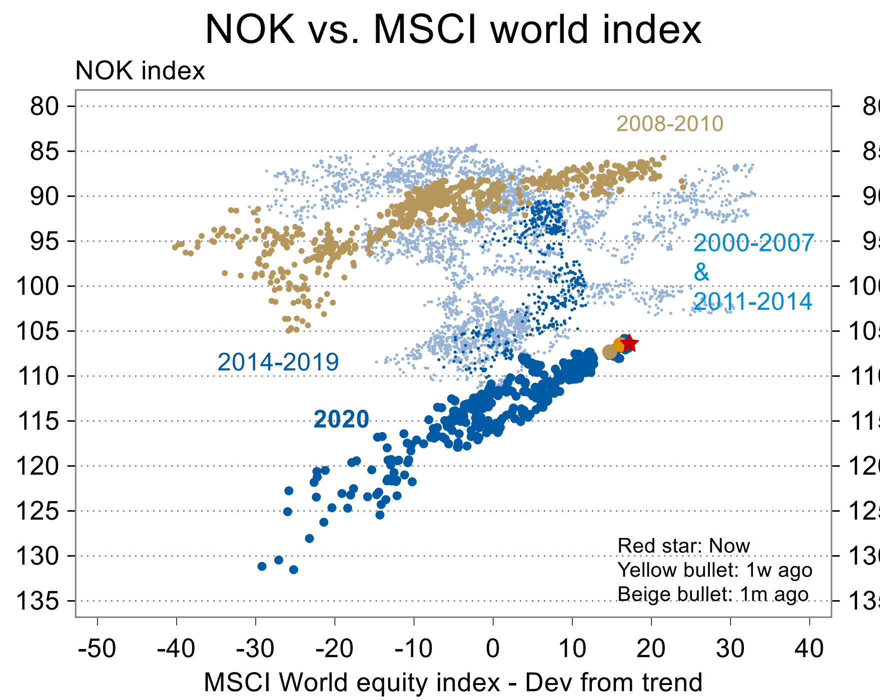


- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

Global stock markets strengthened last week, ‘more’ than the NOK

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





- 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

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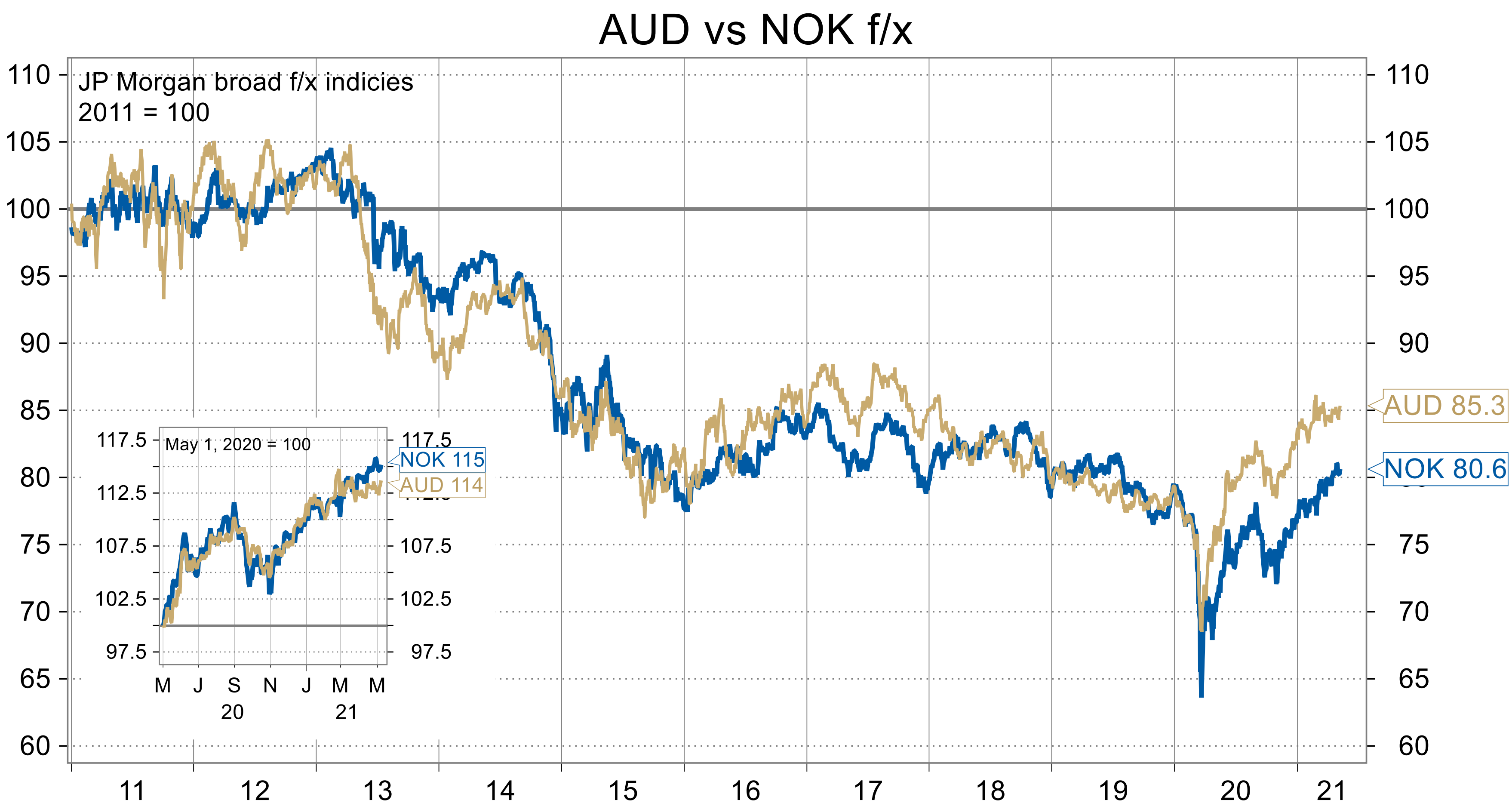
NOK still in tandem with the AUD – the AUD a tad stronger last week

Both are up 16-15% since May 1 – but the NOK still 5.5% weaker than AUD since last spring



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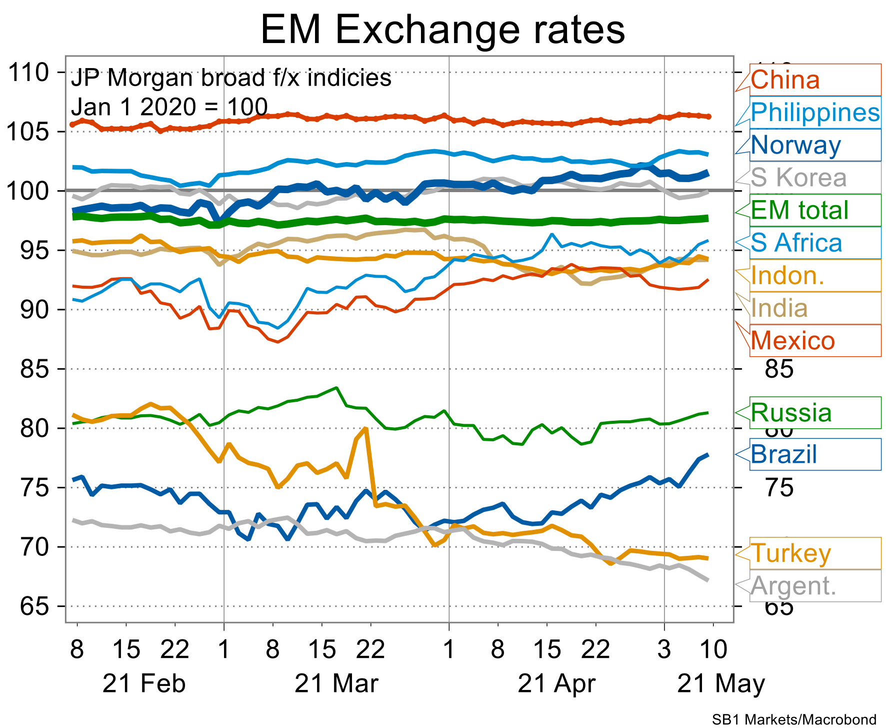
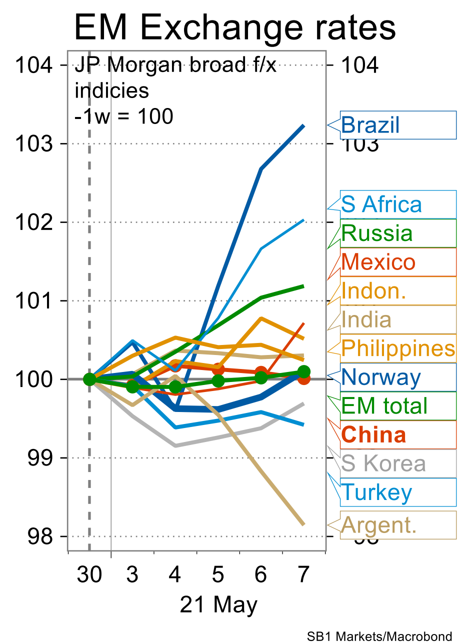
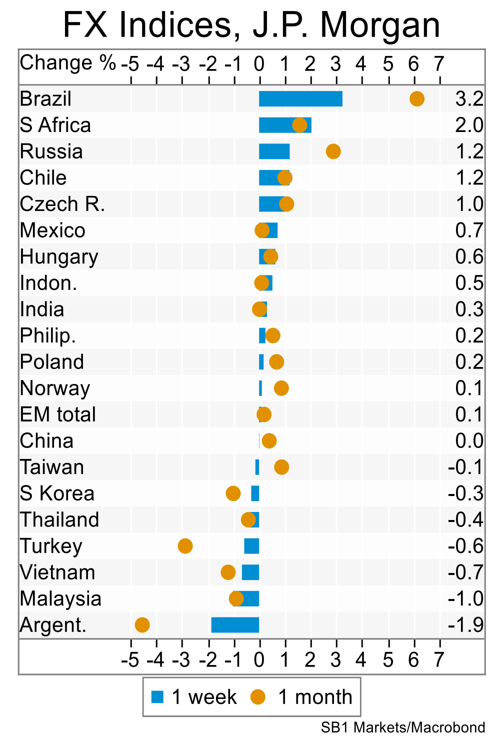
Brazils real is recovering (amid fewer Covid cases). So is the Indian rupee

Turkey and Argentina are not following any recovery path







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