Macro Weekly

9 August 2021

Week 32/2021

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Highlights, corona update

The world around us

The Norwegian economy

Market charts & comments

Last week

The virus

- Most countries are still reporting **growth in new virus cases**, thanks to the Delta variant. However, growth has slowed in several countries past 3 weeks, and in UK and Netherlands, the no of cases has fallen sharply (by 50 – 75%!)
- In Europe, **hospitalisation & death rates** (CFRs) have fallen sharply and are low levels. That has not been the case in the US, suggesting diverging testing policies, and the no of hospitalisation & deaths have increased more. US will probably take the pole position in new cases as well (among rich countries) but growth in cases is actually slowing in the US as well
- **Norway** reports a substantial increase in new cases and a doubling of the no of hospitalised persons. Still there are very few (33 persons), and at the current pace of vaccination (again at top) the Delta variant will be defeated before hospitals are filled up
- **Mobility** has flattened/declined marginally last weeks. It may be due to the spread of the Delta variant

The economy, part I

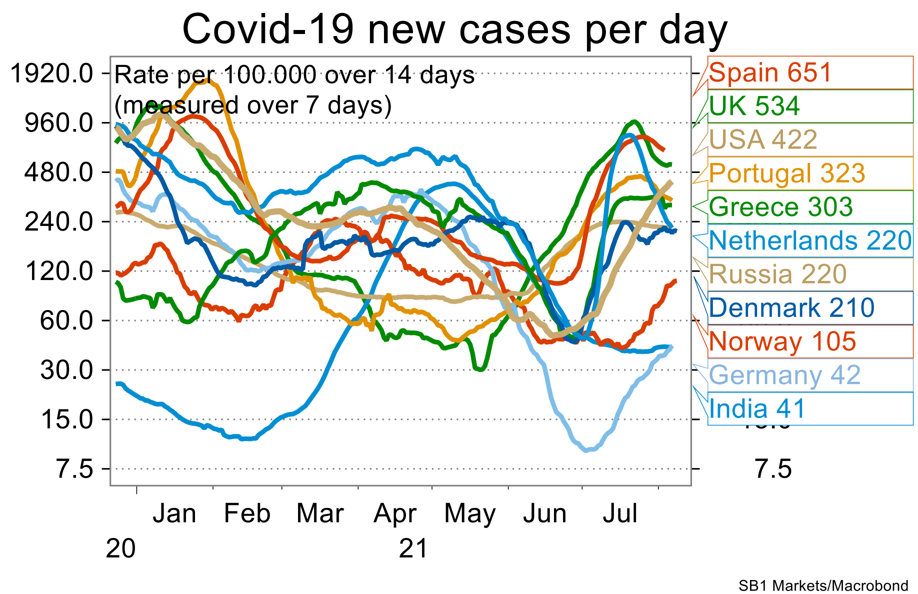
- **PMI/ISM**
  - **The global composite PMI** fell 0.9 p to 55.7 in July, 1 p better than we assumed and signal a 5% global GDP growth rate, well above the H1 pace, where Covid outbreaks hampered growth both in Europe and Asia. Chinese services surprised at the updside and the Indian PMI recovered substantially signalling 6% growth in July. Still, Emerging Markets are lagging Developed Markets seriously – for an obvious reason. Even so, the **EMs** are reporting growth close to trend, which is not bad given the virus challenge. Europe is growing rapidly in both manufacturing & services, as is the US – and the ISM services surprisingly rose to an ATH. The recovery is intact! The **Norwegian manufacturing PMI** rose 63.3, in practice the 2nd best level ever
  - **Delivery times** rose further but **price indices** may have peaked, which signals the CPI may be peaking as well – at high levels, in some countries
- **Auto sales**
  - **Global auto** sales fell further in July, due to a decline in sales in the US and the EMU. Sales fell by some 1% and are 11% below the 2019 average. Both Covid induced decline in demand in some countries as well as serious production cuts due to lack of critical data components, explains the setback. We think the supply is mostly to blame. **US** auto sales fell further, and are 13% below the 2019 avg level. Sales in the **EMU** did not recover, and remains 25% below. **UK** sales are down 22%. **China** has not yet officially reported, but media reports suggest a marginal decline, and sales are 3% down vs 2019, as in June. Sales in **India** probably rose to the highest level in 3 years! In total **EM x China** sales rose and are 6% below the 2019 level. **Norway** is the only DM country reporting higher sales, + 9% vs 2019 avg - even after a substantial decline in July.

Last week: The economy, part II

- **China**
  - » **Both exports and imports** fell in value terms in July, and probably in volume terms as well – and the very short term ‘trend’ is down for both in volume terms, signalling somewhat slower growth in demand for goods both domestically and globally. Still, both exports & imports are at high levels at some 7 – 10% above the pre-pandemic trend growth paths, and some slowdown is not surprising or a signal of serious weakness. Iron ore imports are falling sharply, as authorities have but brakes on steel production (2030 CO_2-targets – or to calm down construction?). Steel production and (apparent) domestic demand have fallen too. Oil imports are far below the pre-pandemic path. Are the strategic inventories filled up with cheap oil?
  - » **Headline CPI inflation** slowed in July, but less than expected, to 1.0%. Core inflation is accelerating somewhat, but remains low at 1.3% y/y
- **USA**
  - » **Employment** grew more than expected in July, **unemployment** fell more, and **wages** rose faster. The **participation rate** rose by 0.1 p but is just back to the April level – and the trend for the supply side at the labour market is close to flat, even if demand for labour in increasing rapidly and job vacancies are at record high level. Small businesses have never experienced more serious problems filling vacant positions than in July, and never before so many SMBs have planed to increase their wages (or prices, in June). Thus, the great conundrum remains unsolved: Why are workers not returning to the labour market? The next months will be extremely exciting: Something WILL turn up: More workers or higher wages? The outcome will decide ‘everything’. The 10 y gov bond yield rose 7 bps last week, and real rates by 10 bps. The stock market reached new ATHs – even if the oil price fell sharply, on demand concerns (Covid/transportation)
- **EMU**
  - **Retail sales** rose 1.5% in June, broad based (all big 4 were up). Sales are 6% above the pre-pandemic level, well above normal growth in EMU. Germany up 10% vs. Dec-10, Spain and Italy are down 1 to 2%
- **UK**
  - » **Bank of England** lifted its inflation forecast substantially and expressed concerns regarding spare capacity at the labour market after the pandemic. It signalled a moderate increase in interest rates the coming two years, and signalled a much earlier reversal of the QE program than indicated so far. Economists were more surprised than the market, but market rates rose some few bps (5), and the GBP strengthened
- **Norway**
  - » **LFS employment** rose by 1.5% to Q2 from Q1 but unemployment rose by 0.2 pp to 4.9% as labour force participation rose even more. Both the employment & the participation rate rise sharply. However, this is a survey, and data are volatile. More precise data out this week
  - » **House prices** fell 0.2% in July, some 0.6 pp below our’s, consensus & Norge Bank’s forecast. Prices have more or less flattened since April – and prices fell for the 4th month in row in Oslo (total down 1.7%), but prices are slowing/flattening everywhere. The market balance suggests higher prices in both Oslo and elsewhere, the inventory is low, and the transaction level is high
  - » **Domestic credit growth** accelerated somewhat in June, due to more credit to the household sector than we assumed. Still, an overall credit growth at 5.3% does not signal a full blown credit boom

The Delta variant is not exploding: UK, the Netherlands -50% to -75%

Some others are also reporting fewer cases – and growth is slowing most places, also in the US

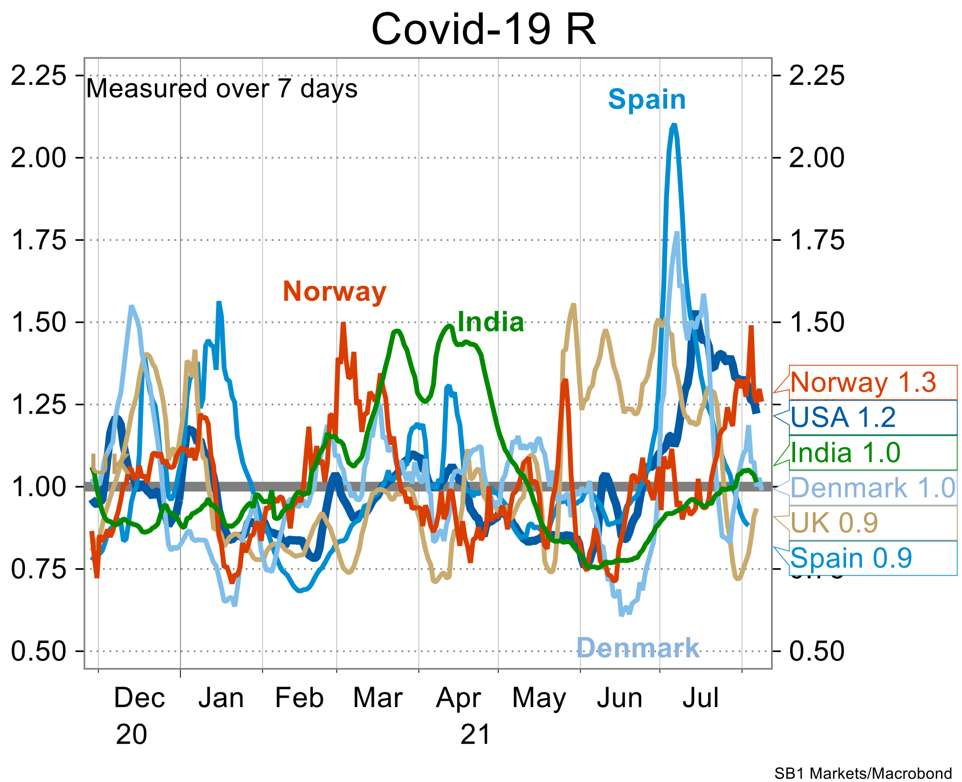


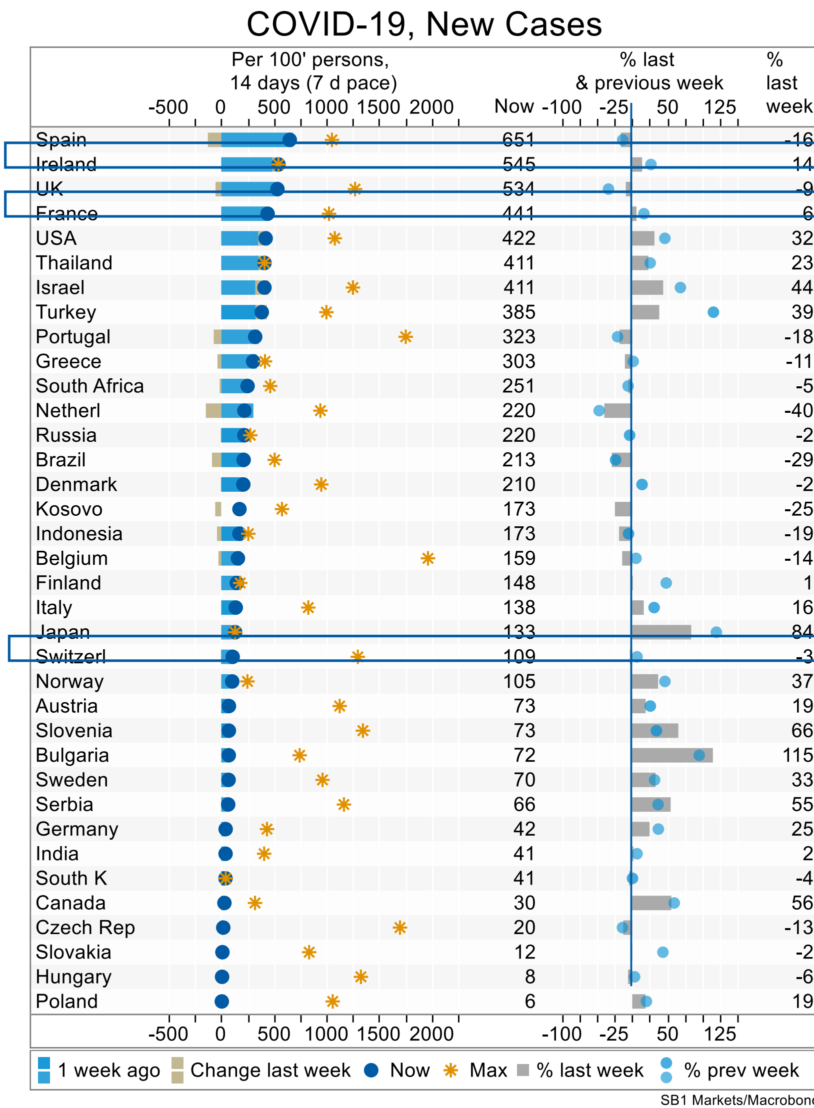
- … but the **US** will probably be in the lead in by a couple of weeks – and there hospitalisation & death rates are way above European rates, probably as more of the exposed part of the population is not yet vaccinated
- In **Europe**, the Delta outbreak has led to more hospitalisations and deaths but as hospitalisation/death rates have fallen sharply, there is not any health crisis yet
- The sharp decline in new cases in the **UK** and in the **Netherlands** may be due to a very high immunity rate. UK reports a 93% antibody rate among its adult population – and some behaviour may have been changed
  - » Most likely, the Delta outbreak in rich countries will not lead to a another health crisis that will hurt the economy by much, and nothing compared to the previous lockdowns
- The challenge is of course much larger in many **Emerging Markets** but even there the no. of new cases has peaked in some countries
- **Norway** is reporting a sharp increase in new cases and the number of hospitalised has doubled last week – still to just 33 persons
  - » At the present growth rate in new cases, 37% per week, it will take many weeks before we have serious trouble in the hospitals
  - » In mean time, the vaccines are being rolled out rapidly, and a sufficient immunity rate will very likely be reached before that happens

Source: Financial Times, June 20

Some few countries have turned down but most are still on the way up

The UK, Netherlands sharply down, but a majority of countries still on the way up. Spain at the top but has flattened





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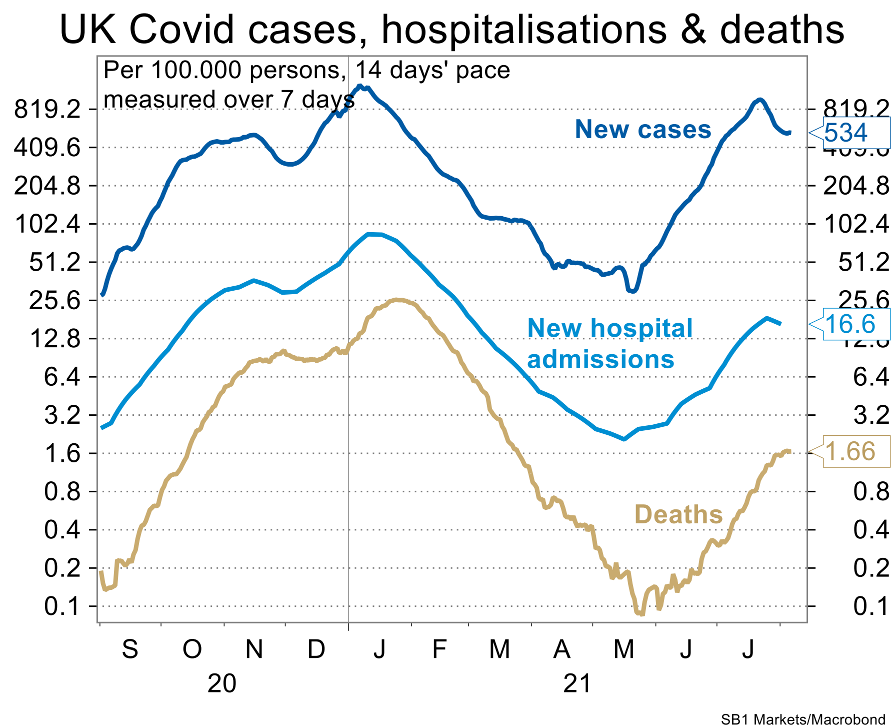
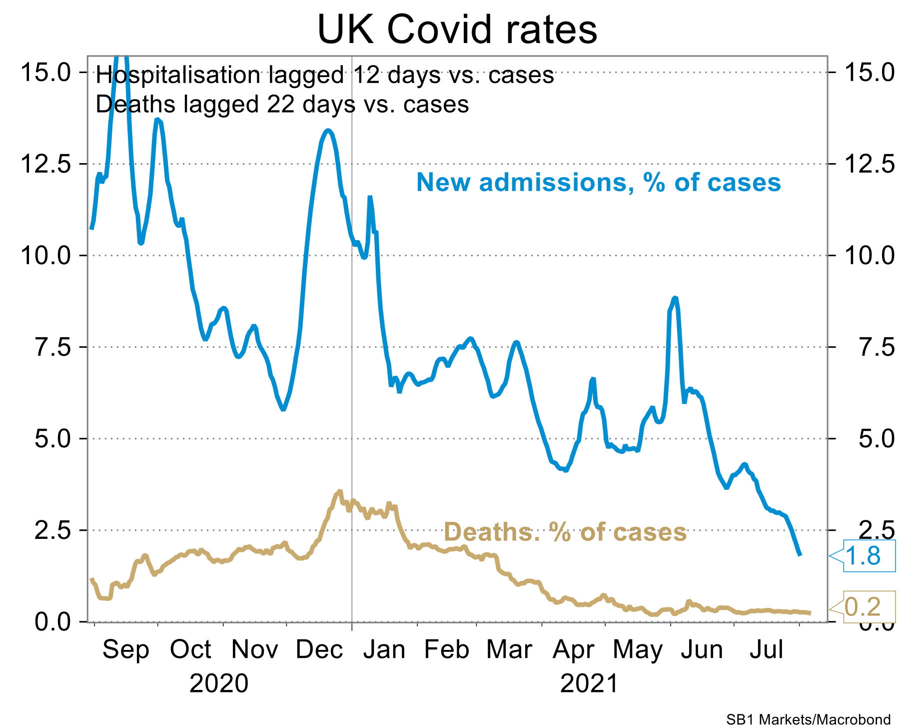
UK: Still a low level of hospital admissions & deaths but the direction is clearly up

The big news last two weeks: The number of new cases has fallen almost 50%!





- The no. of **new cases per day** peaked before it reached the Jan top – and has fallen 50% from the local peak – but stabilised last week
- The no. of daily hospital admissions has increased 9 times from the bottom in May, but the still just above 1/5th of the level in January, and the no. fell slightly the previous week. The no. of death is up more than 16 times, still at just 6% of the January level. Look for a decline the coming weeks
- The **hospitalization rate** has fallen sharply as both old persons and other risk groups are vaccinated, to 2% from 8%
- The **case fatality rate** (of those tested positive) has fallen even more, to 0.2% from close to 3% in Jan/Feb
- **Implication:** The Delta variant has spread like a wildfire but the number of infected will have to increase to very high levels before the UK will run into another health crisis – and now the curve has turned down. Perhaps because 93% of the adult brits have antibodies, according to a new survey
- Other European countries are reporting low hospitalisation & deaths rate, while the US is not (probably because testing is far below European levels), check next page

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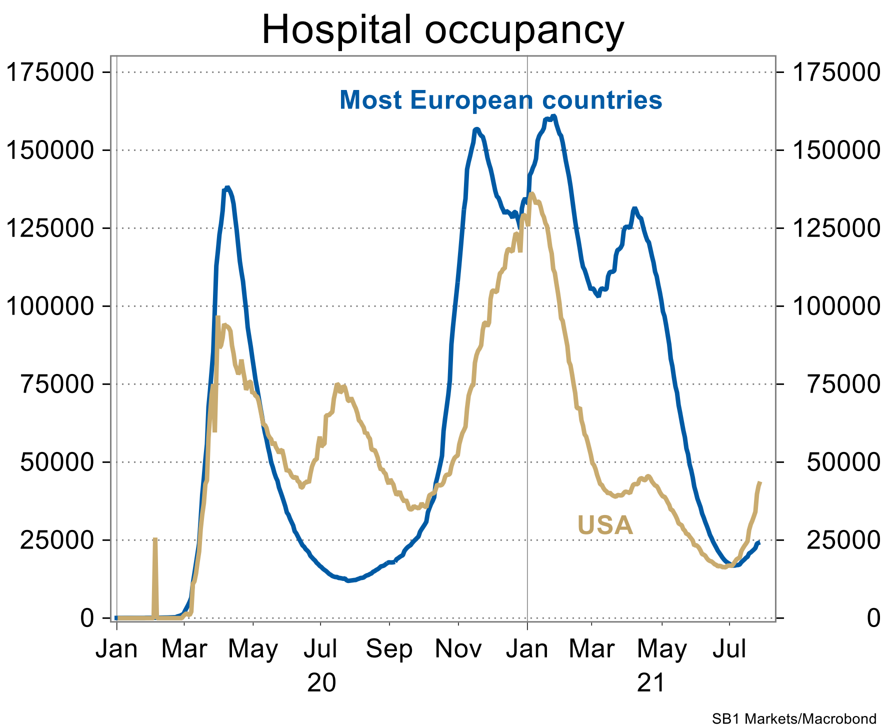
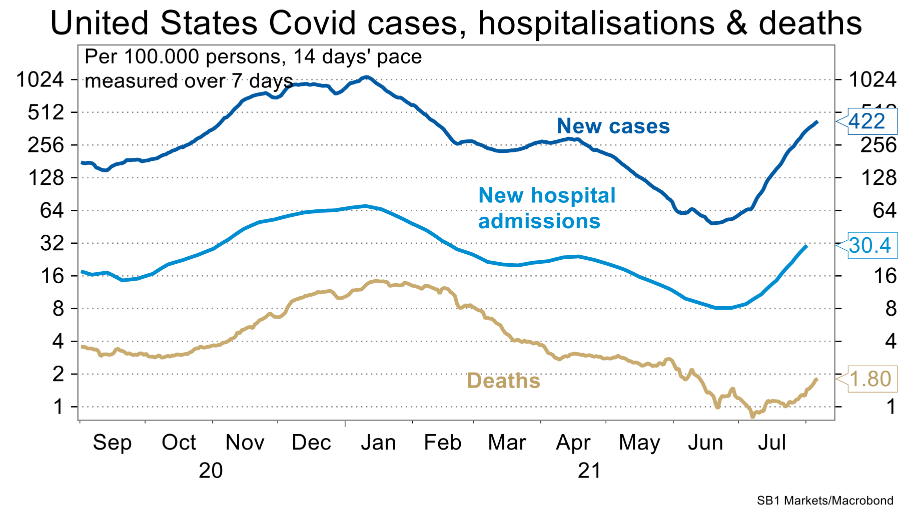
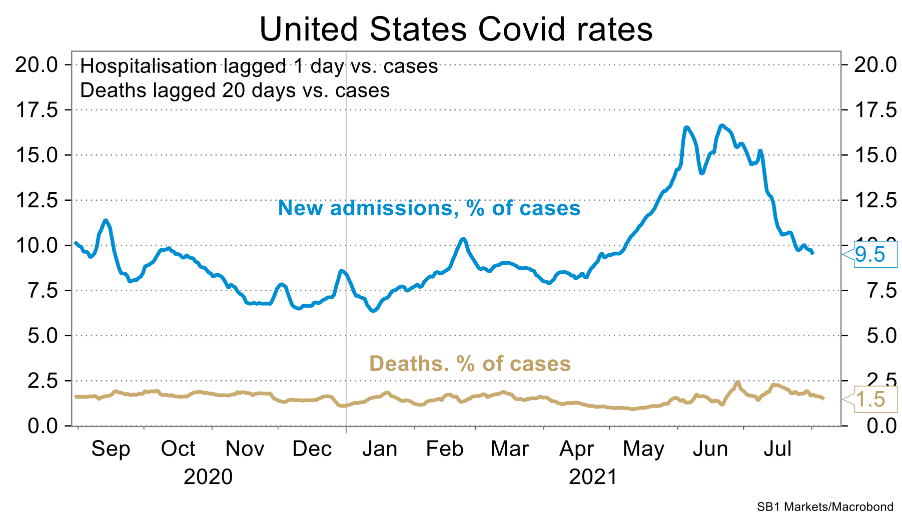
US may run into problems but stricter policies, more vaccinations will help?

Hospitalisation & death rates signal that the real number of new cases is relatively higher than in Eur.







- The hospitalisation rate is far higher
- The death rate (Case Fatality Rate) is 2 – 8 times higher than in Europe
- Thus, the no. of cases is very likely underreported vs. Europe

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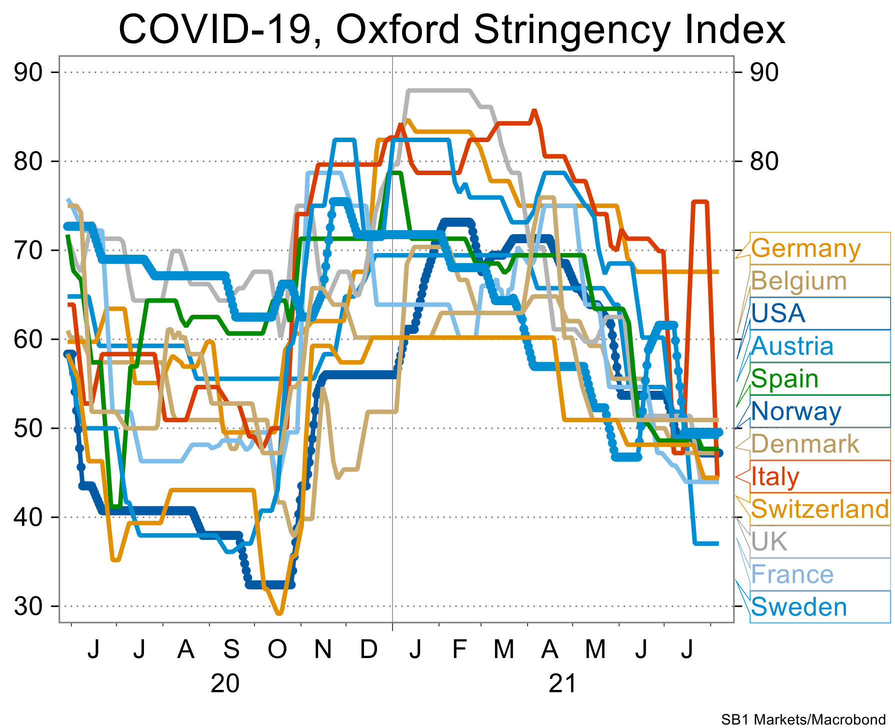
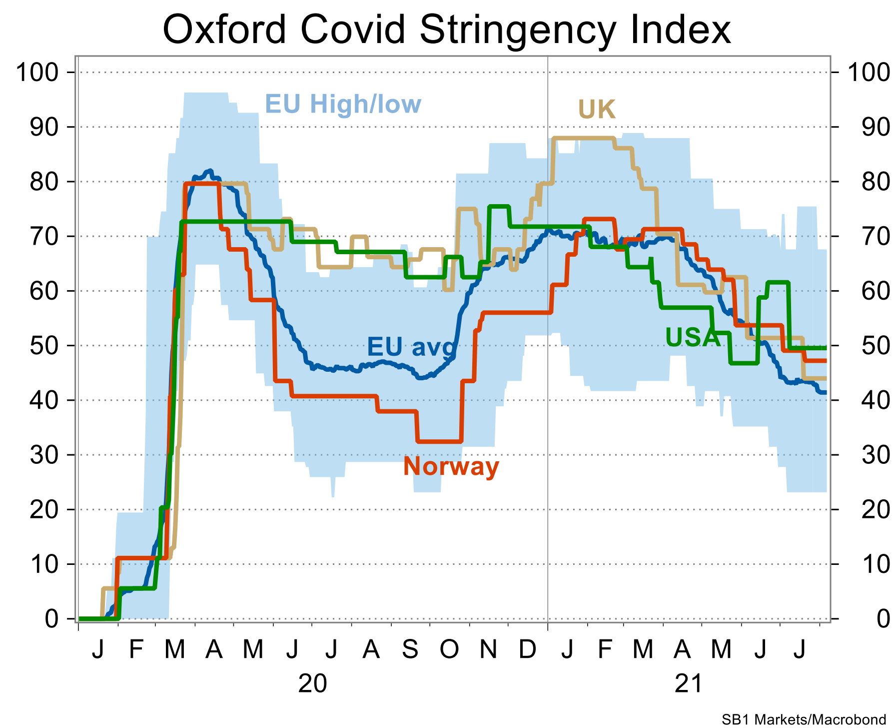
Restrictions are not tightened – and probably they will not





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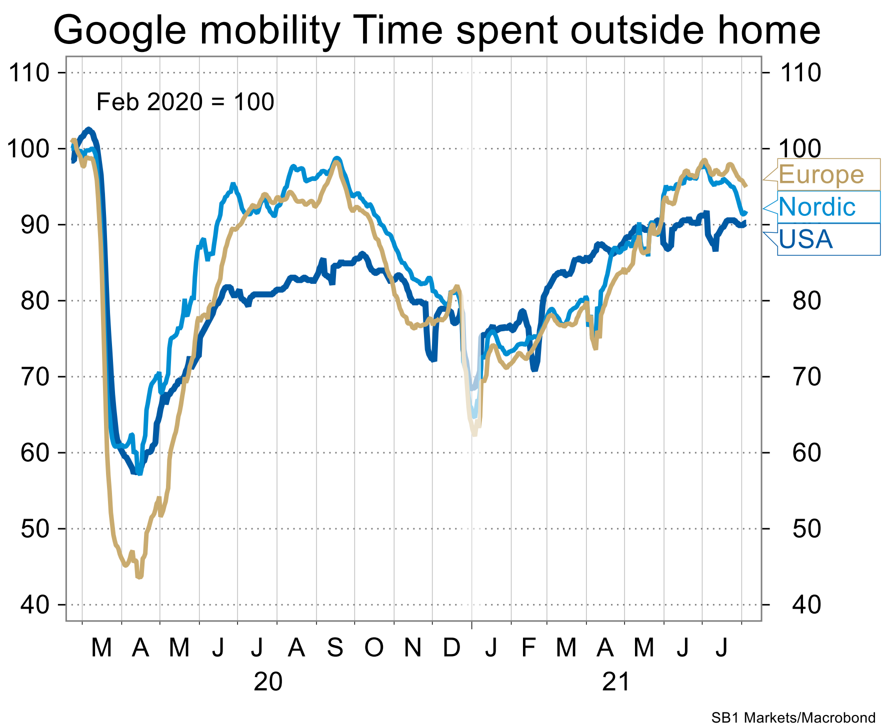
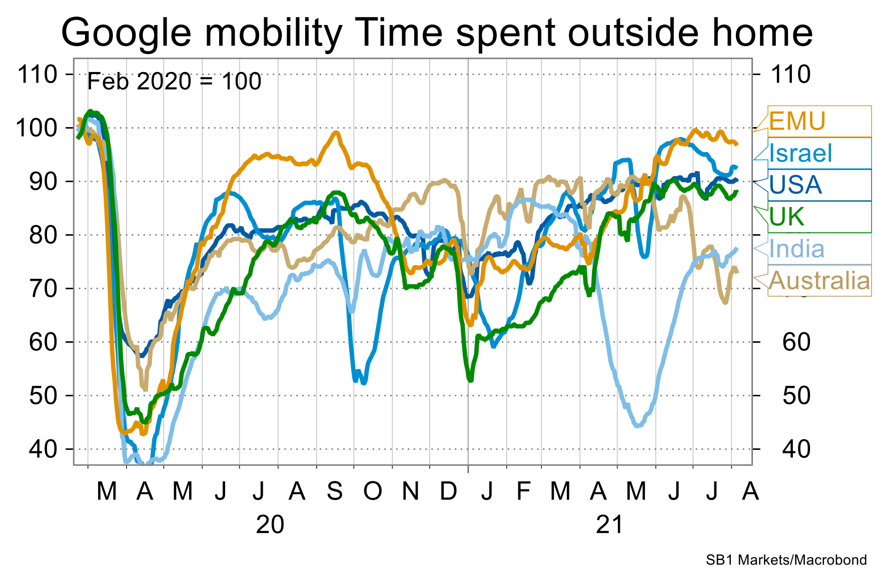
Are we seeing some impact of the Delta on mobility? Trends have flattened

Mobility sharply down in Australia after being attacked by the Delta virus





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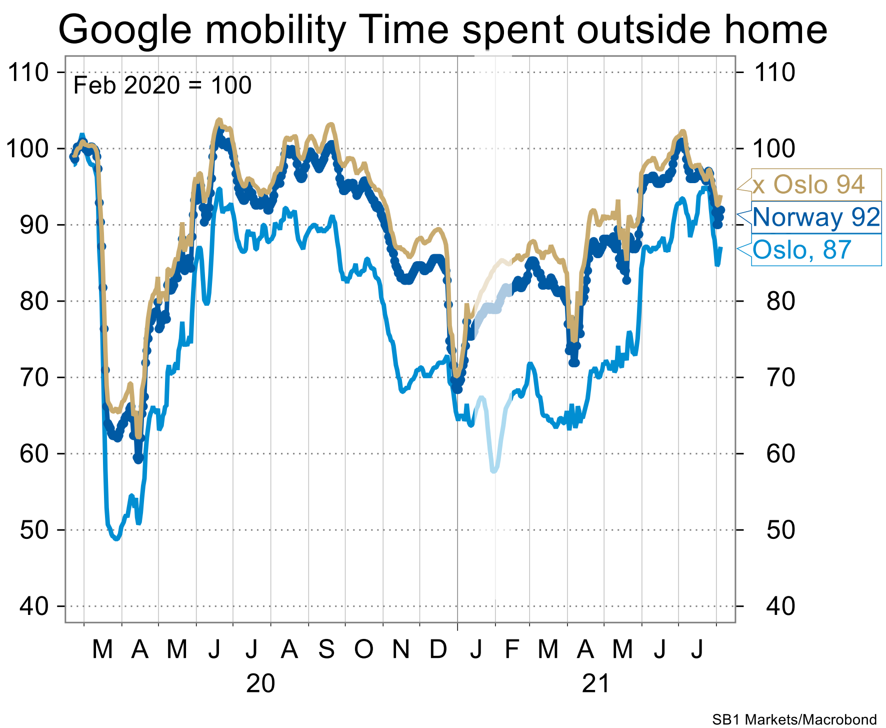
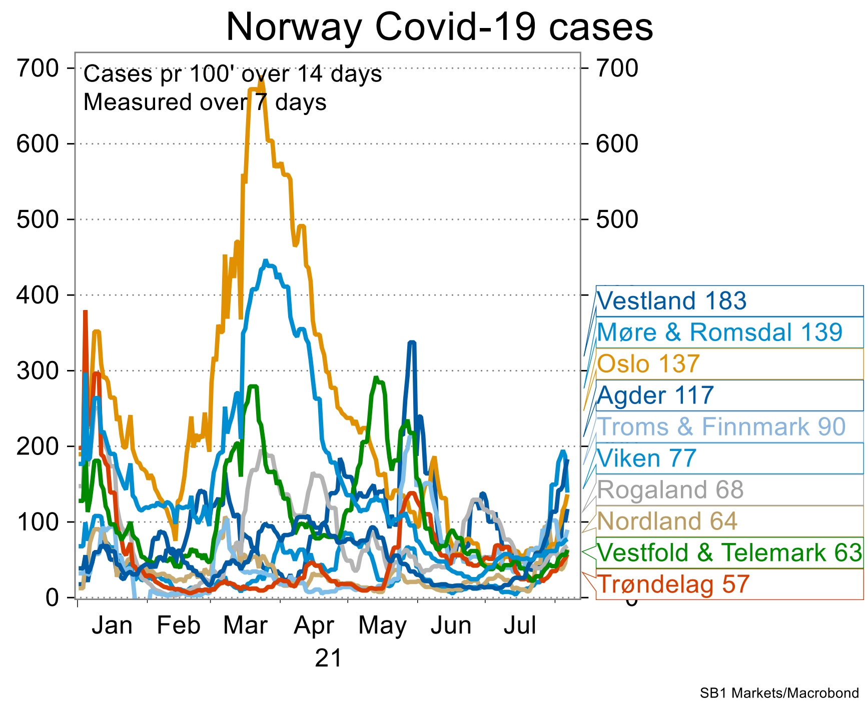
'Some' local cases – and sum cases sharply up last week too

Mobility further down last week, we doubt the Delta virus is to blame (but we are far from sure)





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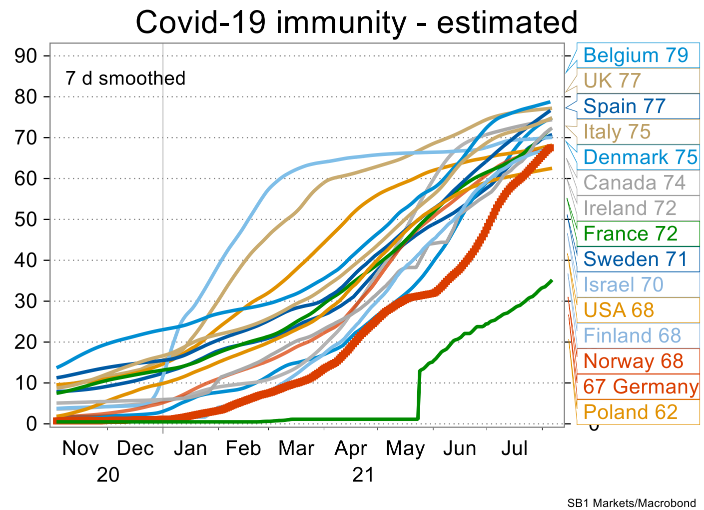
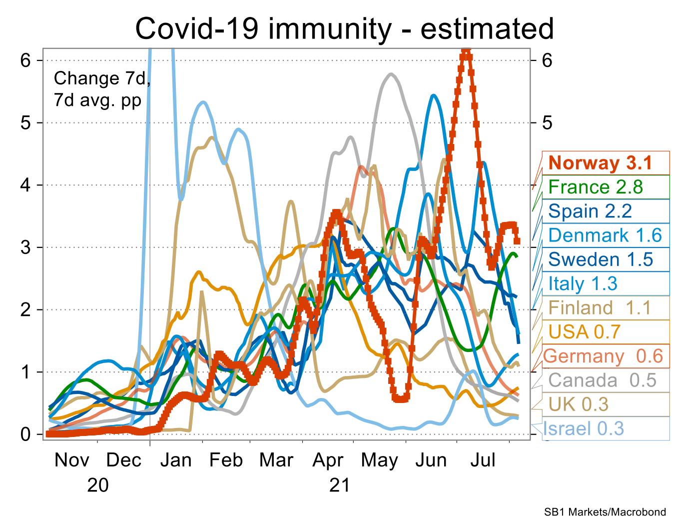
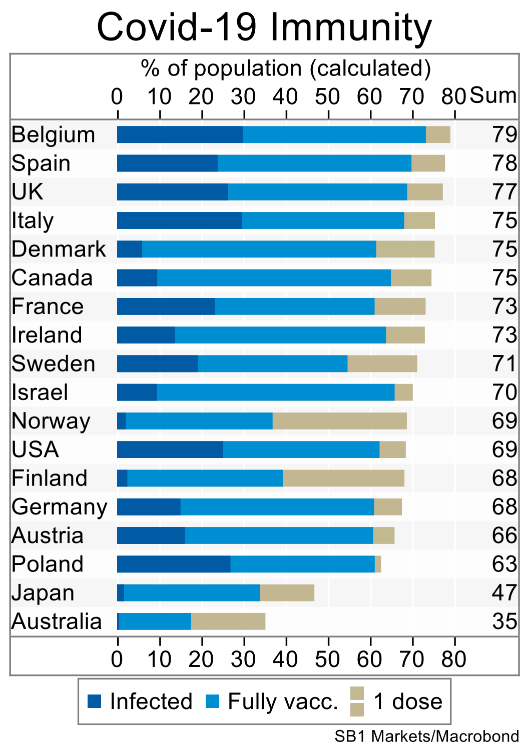
Vaccinations: EU/Norway are keeping the pace up better than the US/UK

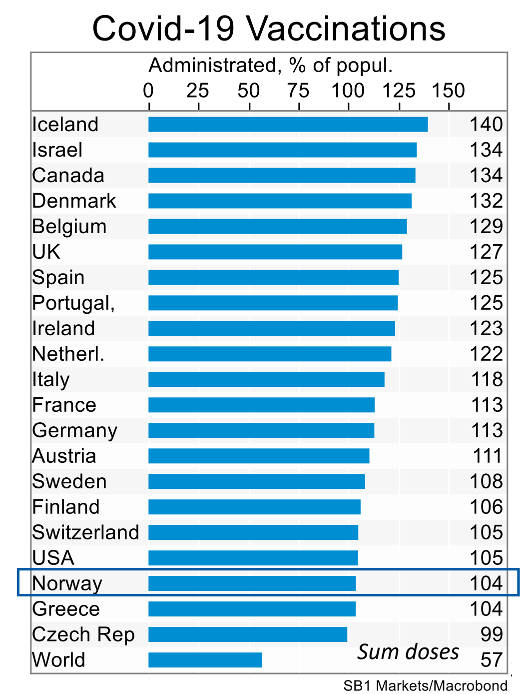
Even with high vaccination rates, the Delta variant is spreading rapidly. More vaccines needed







The weekly **antibody survey in the UK report a** 93% rate among the adult part of the population. The high immunity rate may at least partly explain the unexpected decline in the spread of the virus the past two weeks



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 (a conservative assumption)

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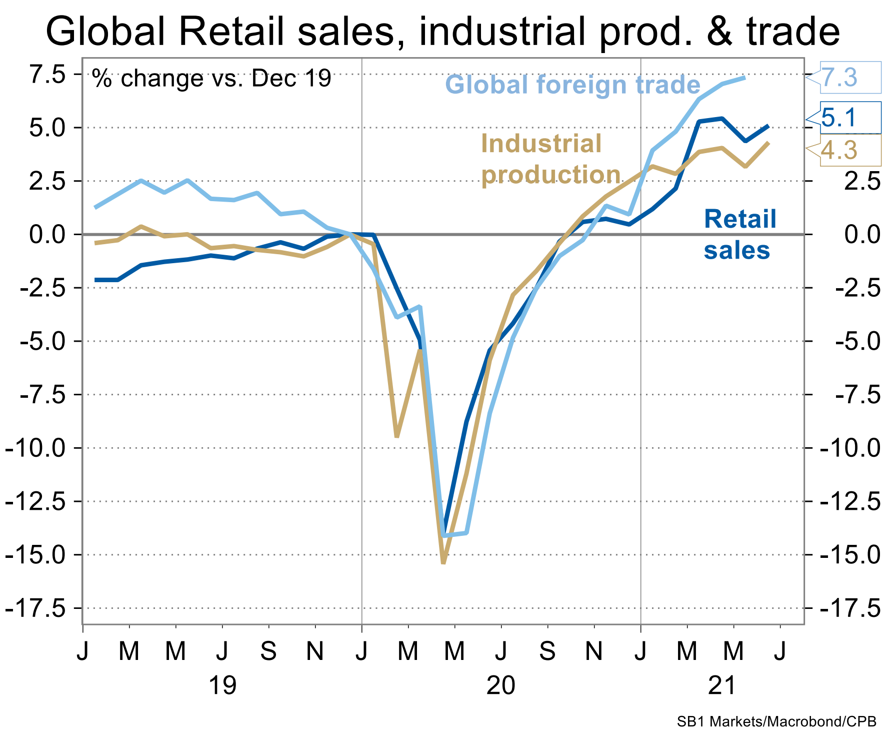
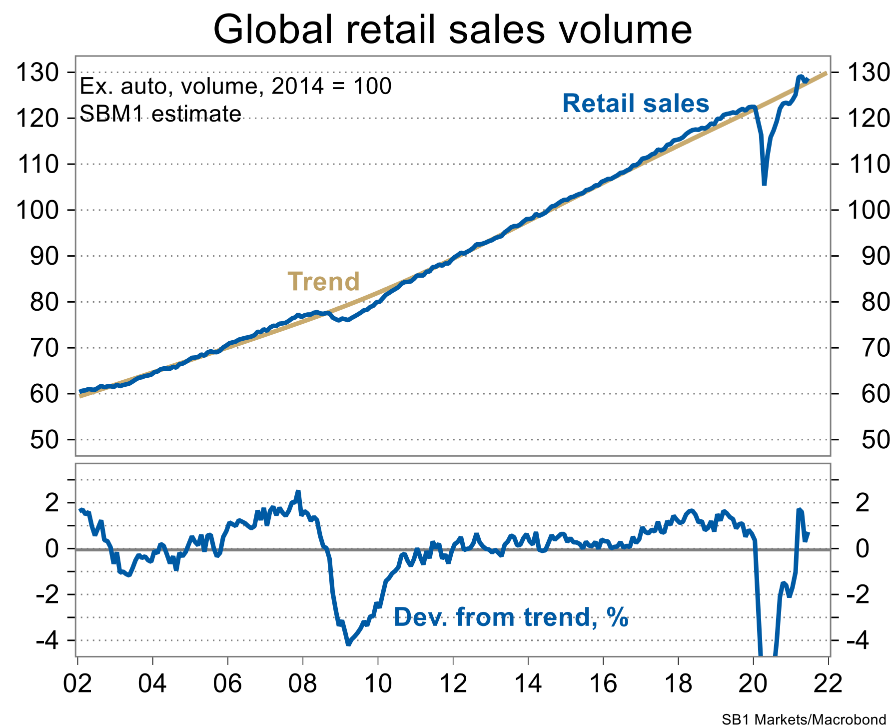
Global retail sales & manufacturing production up in June but has flattened?

The setback in some Emerging Mkts due to Covid/Delta partially to blame. And DM demand peaks?

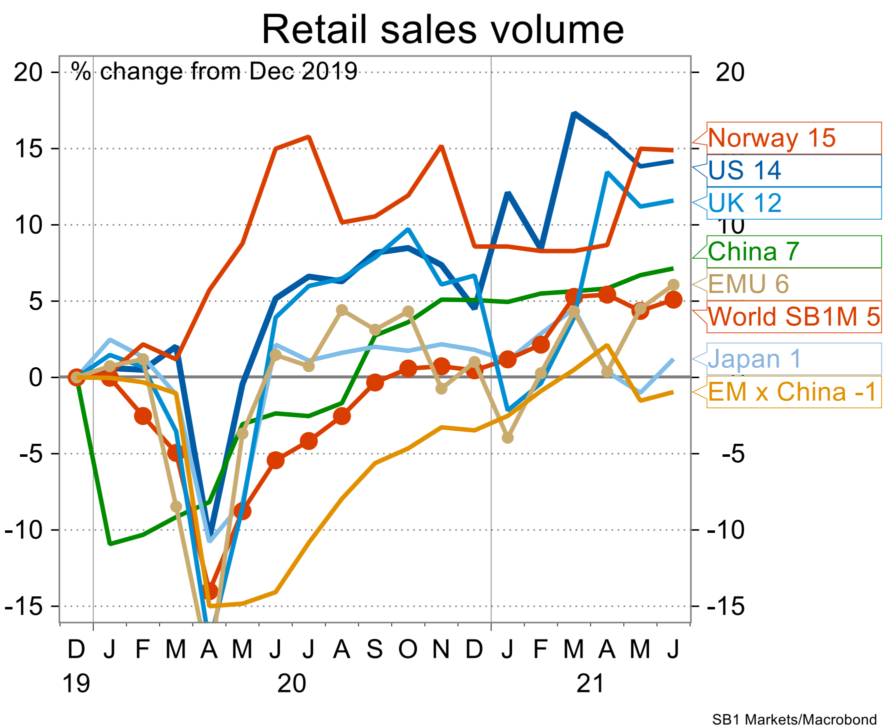


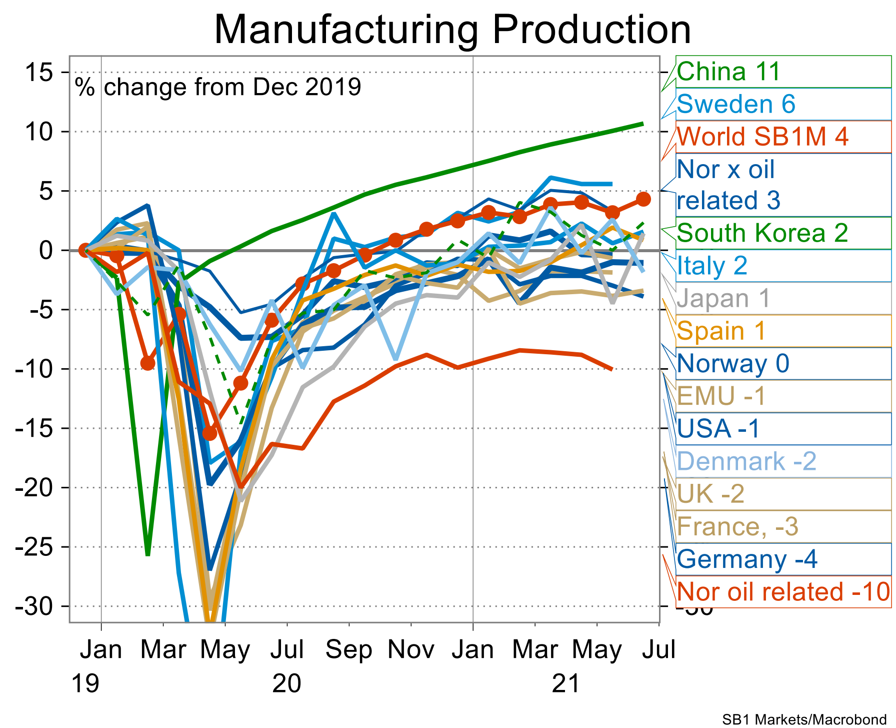


- **Retail sales** probably rose in June, according to our very preliminary forecast – but sales have flattened recent months, partly due to an assumed setback in India. The level is approx. 5% up vs the pre-pandemic level
- **Manufacturing production** probably rose too (a very preliminary estimate) – and may still be trending upwards. The level is some 4% above the pre-pandemic level. Trouble in India and in the auto industry globally have contributed at the downside
- **Global foreign trade** rose further in May, to 7.3% above the pre-Covid level, according to CBP in Netherlands – and the trend is straight upwards

So far, mostly good news in June, both for retail sales & manufacturing prod.

However, growth has clearly slowed for both

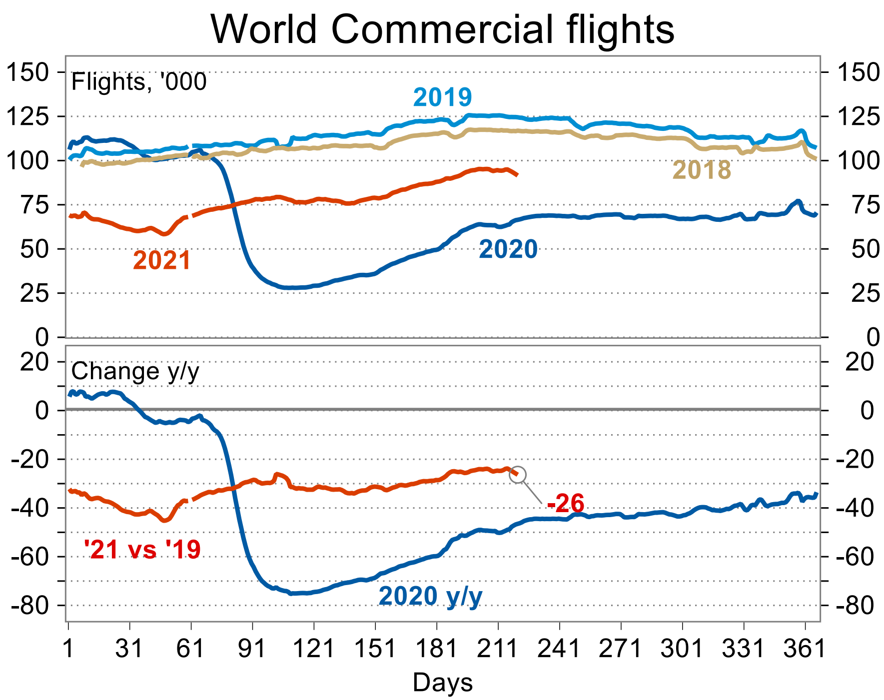




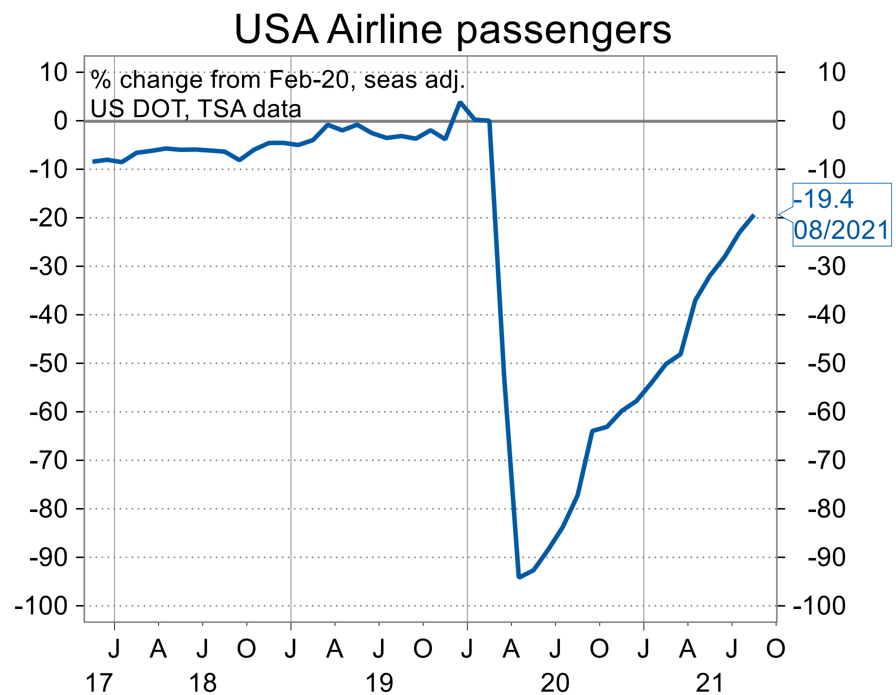
- Retail sales in emerging markets x China is the laggard – and not just due to (an assumed) weakness in India recent months

Global airline traffic has stalled – and fell last week. The Delta virus to blame

US airline traffic is still on the way up



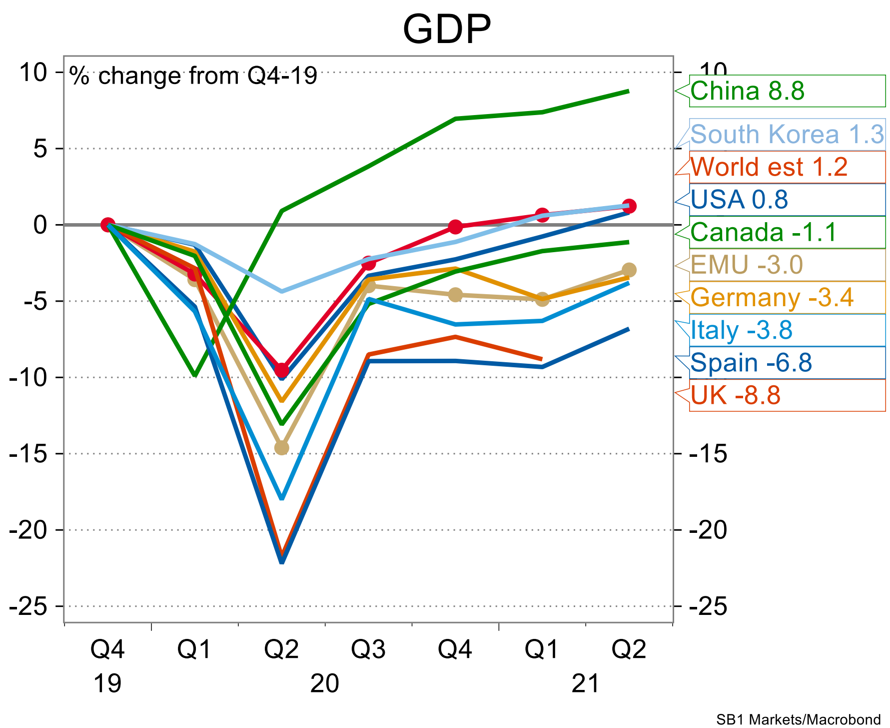
Flightradar24 SB1 Markets/Macrobond



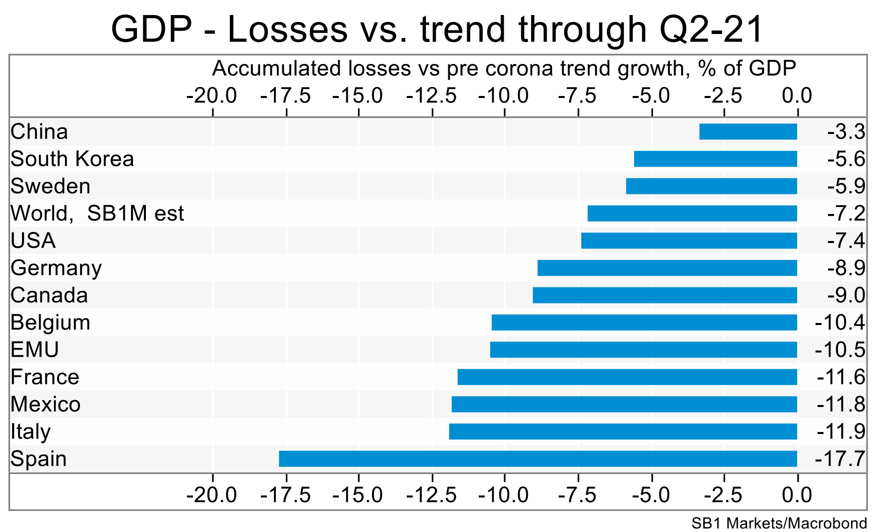
SB1 Markets/Macrobond

Global GDP probably slowed in Q2

… as we assume slower growth in Emerging Markets (which have not yet reported)

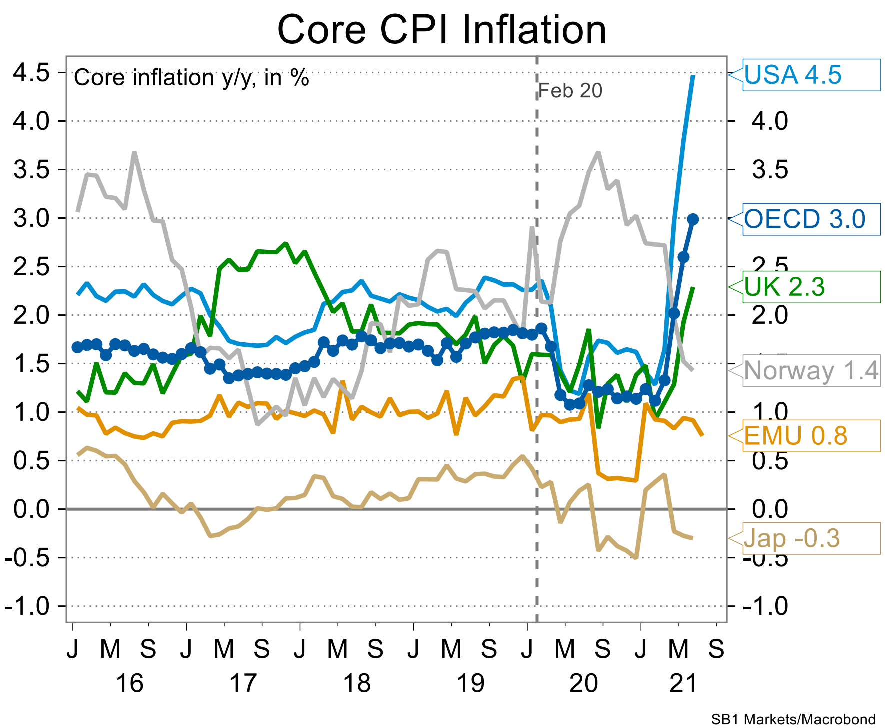


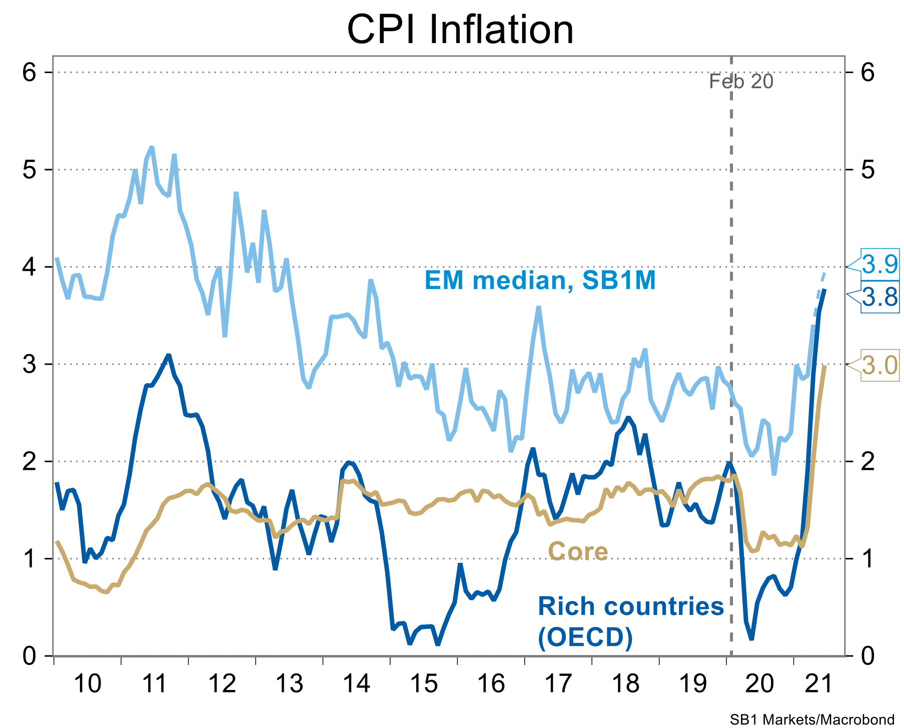
- Our preliminary estimate is a 2.4% global growth pace in Q2 (0.6%), down from 0.8% in Q1
  - » The uncertainty is larger than normal due to the Covid outbreak in many Emerging Markets that so far has not reported (especially India)
- The global GDP is above the pre-pandemic level, but still well below the pre-pandemic trend growth path
- The accumulated loss vs the pre-pandemic trend is some 7%
  - » **China** is in the lead, with the smallest loss, 3.3%
  - » **US** is down 7% (which is among the smallest losses in a US recession since WWII)
  - » **EMU** is down 11%; Germany -9%, Spain -18%



Inflation is on the way up, many places – and on average

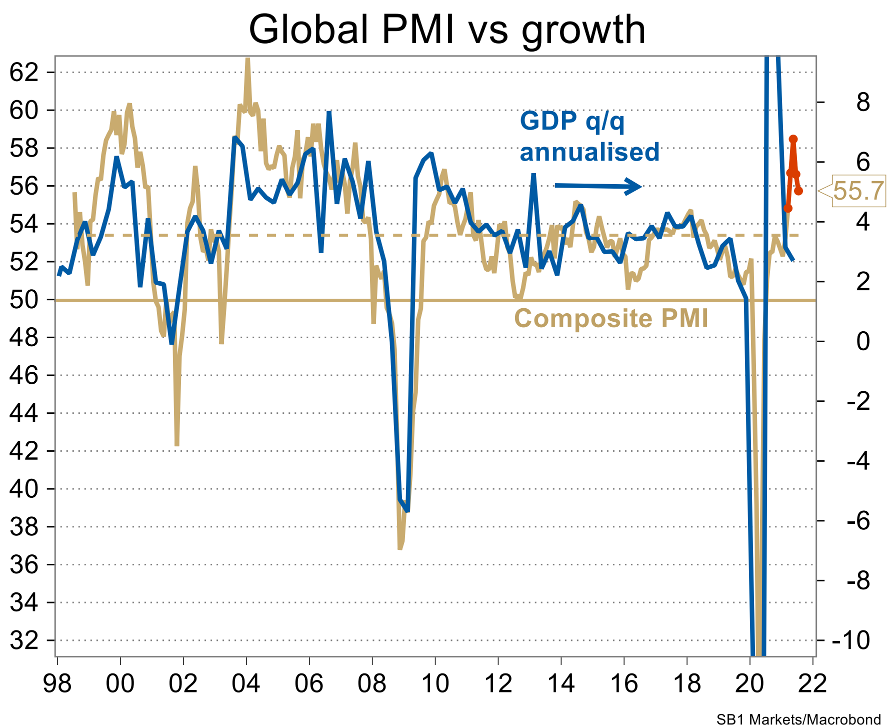
Energy prices the main culprit, core inflation not much up outside the US and UK (so far)

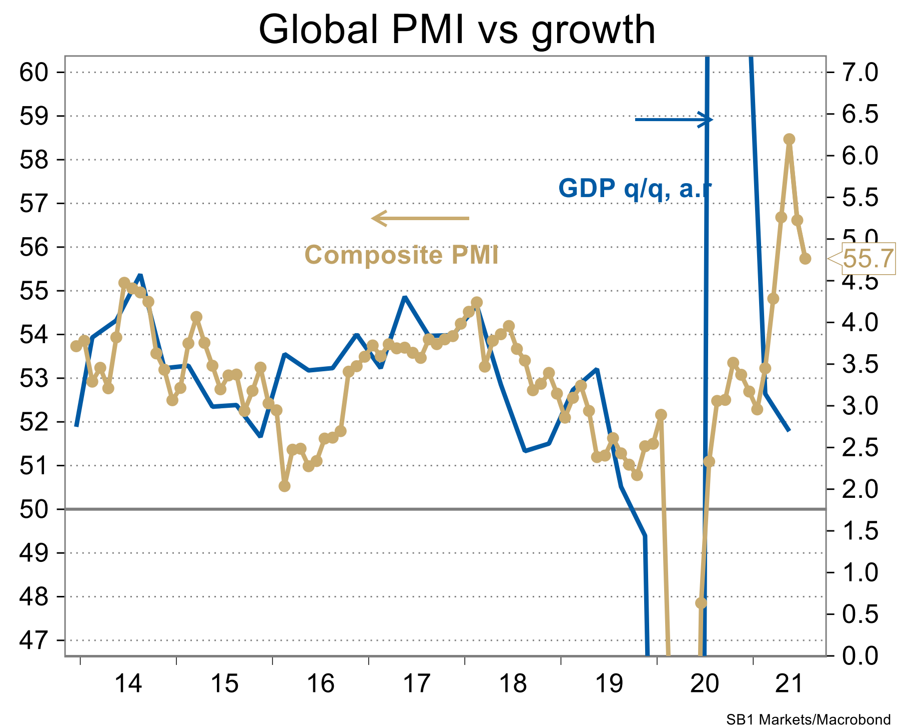




The global PMI fell further by 0.9 p to 55.7 in July, signals 5% global GDP growth

Emerging Markets are lagging but the Chinese service sector surprised on the upside

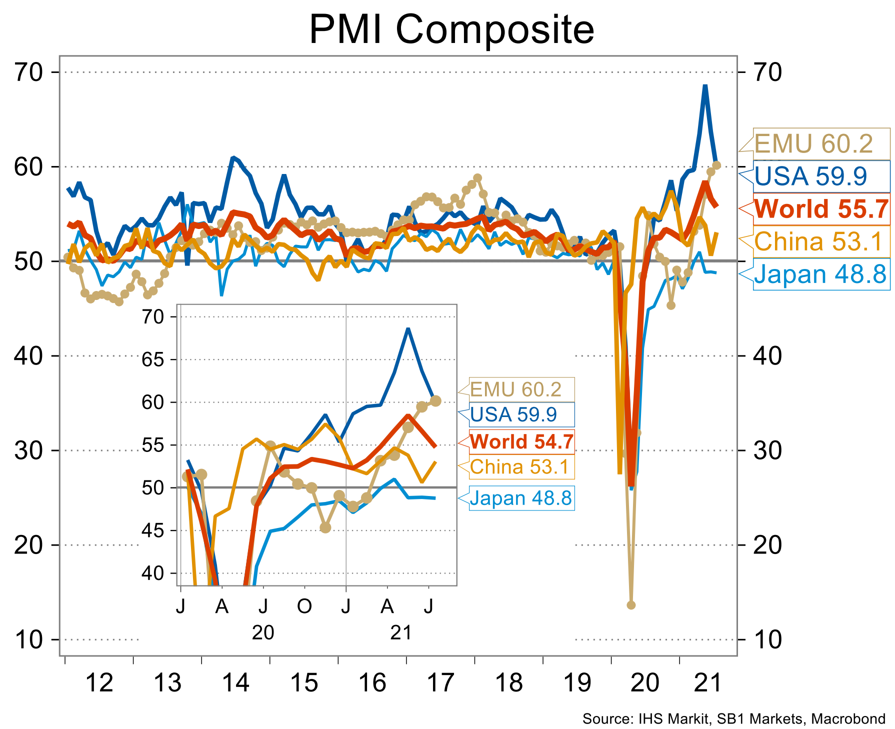


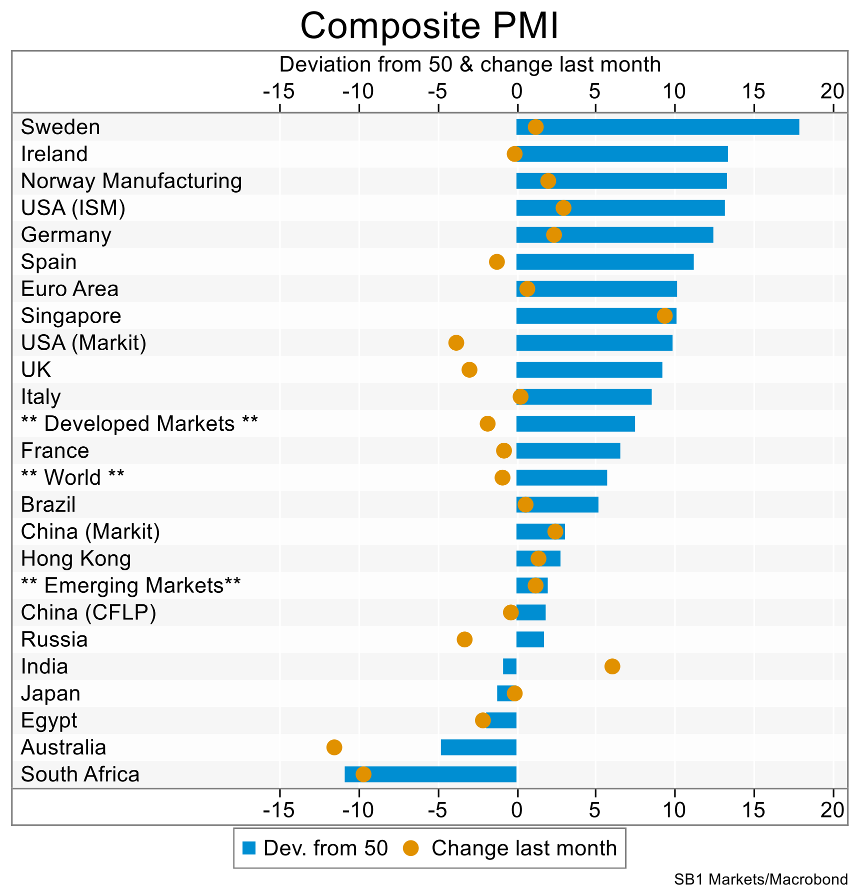


- **The global PMI** has peaked but it remains well above an average level, and signals higher than the (likely) growth in H1, where Covid outbreaks in Europe, and then in EMU dampened growth (and more than the current wave probably will do)
- **The Chinese PMIs** were mixed but Markit's service sector survey surprised at the upside – which 'saved' the global PMI, which fell 1 p less than we assumed!
- **The US PMI** was weaker but still close to 60, signalling almost 5% GDP growth. At the same time, the **ISM services** survey shot up to ATH!
- **The EMU PMI** rose a tad less the first reported but at 60.2, high growth is reported - a 4% growth signal
- **Emerging markets** are reporting far lower growth (vs trend growth) than the rich part of the world, very likely due Covid-19 challenges
- **Delivery times, input & output** prices are still increasing at a rapid pace but prices slower in July than in June

Rich countries in the lead, while Emerging Markets are growing far slower

The gap was reduced in July as PMIs in both China and India rose

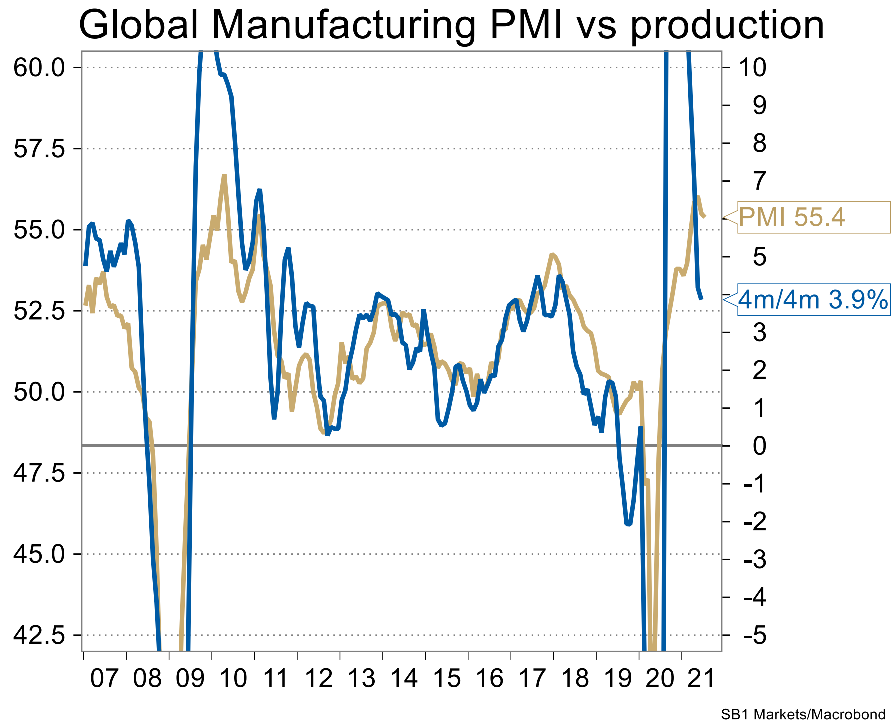


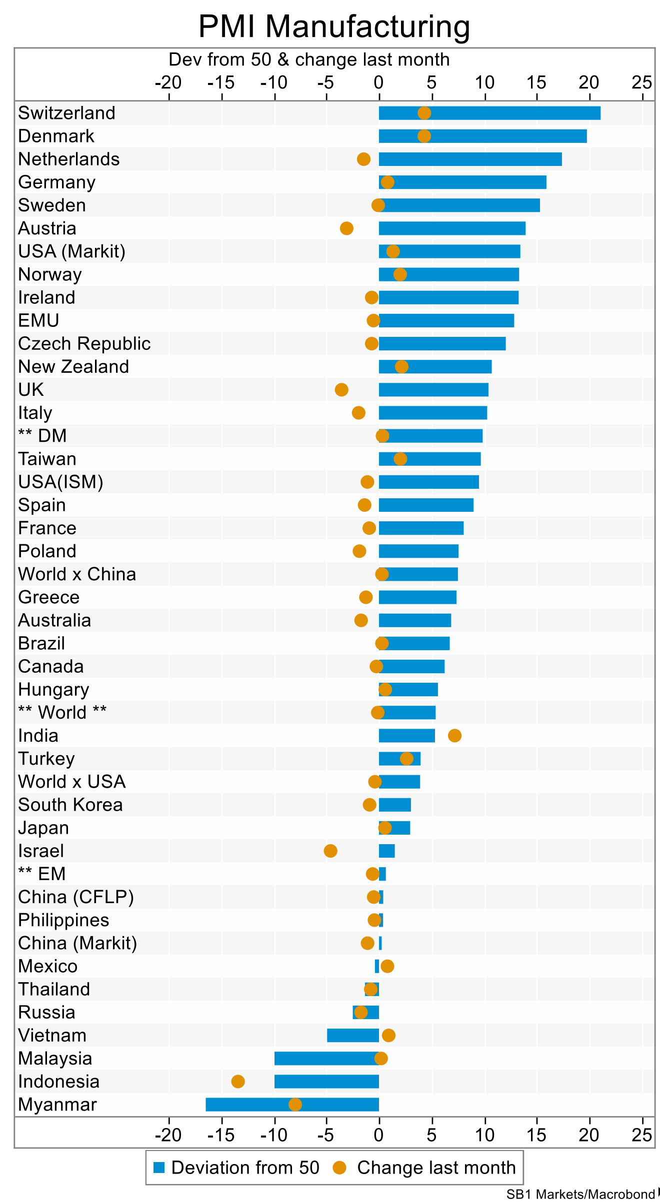


- 11 countries/regions up (from 9 in June), 11 down in June (from 16). 5 below the 50-line (from 3)
- Sweden, Ireland, US ISM and Germany at the top (+Norwegian manufacturing)
- The Chinese service sector PMI was far better than expected –and lifted the composite – and the global PMI!
- India recovered sharply but the composite index remained just below 50 (which still signals some 6% growth…)
- Even so, EM PMIs are far weaker than their peers in the rich part of the world (DM) – even if Australia fell sharply in July

Manufacturing PMI fell slightly, 80% are still above 50. Europe in the lead

The PMI fell by 0.1 p to 55.4 in July, still an unusually high level





The **global manufacturing PMI** was above our f'cast

- 35% of the countries/regions reported higher PMIs in July than in June (from 42)
- Almost 80% of countries reported a PMI> 50, marginally down vs. June
- The DM (rich countries) average at 59.8 is equal to ATH (in May), far above previous records – and way above the EM average at 50.7, the difference is far wider than anytime before. The main reason is obvious: Lack of access to vaccinations in most EMs
  - » European countries still dominates the upper part of the list
  - » India recovered smoothly in July, following the June drop – now signalling 5% GDP growth
  - » Indonesia reported the largest decline m/m amid the Covid-19 crisis

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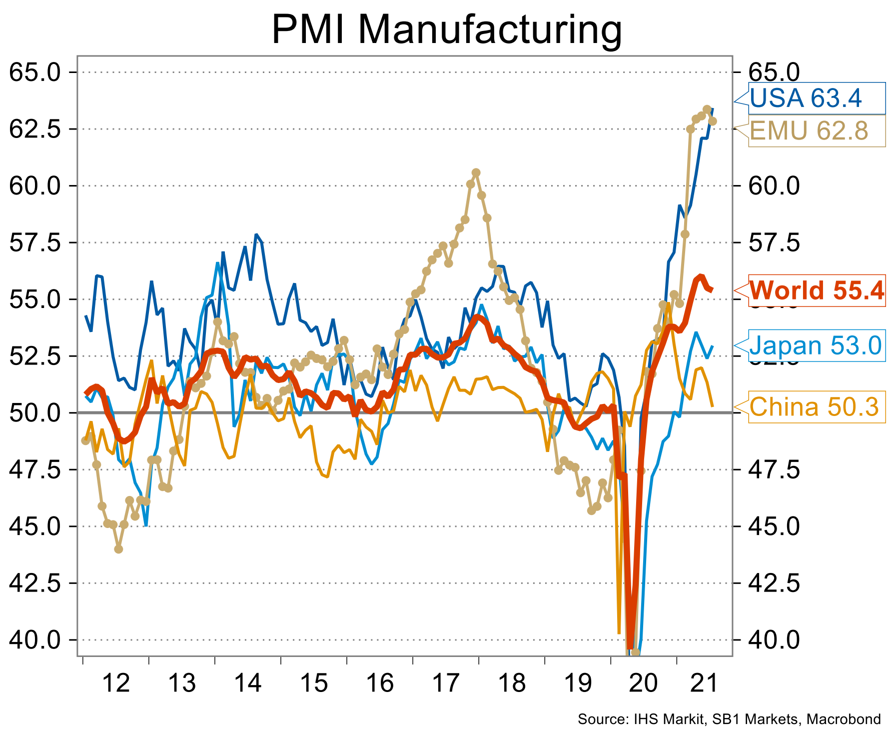
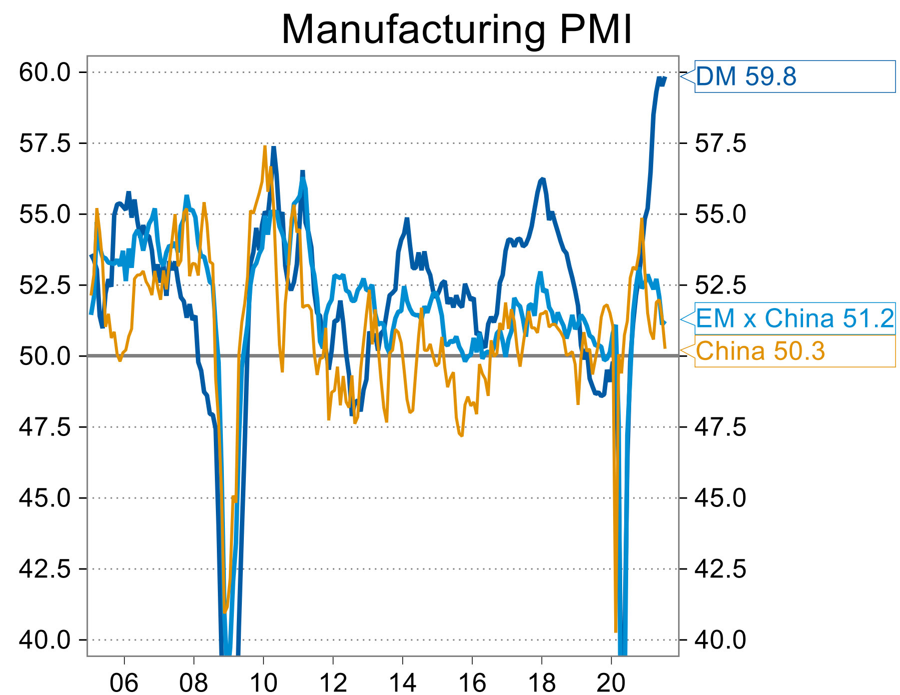
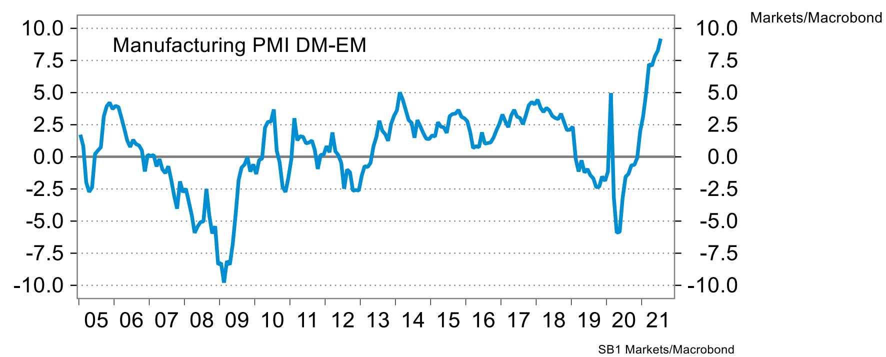
The boom in the manufacturing is broad, in rich countries. EM still below par

Emerging markets are lagging like never before – no doubt due to lack of access to vaccinations



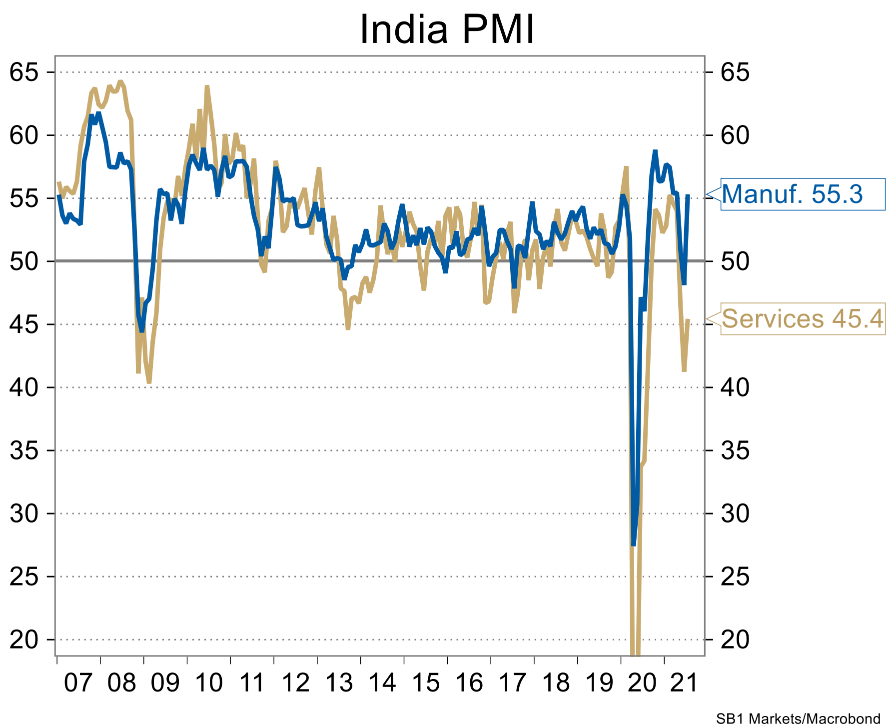


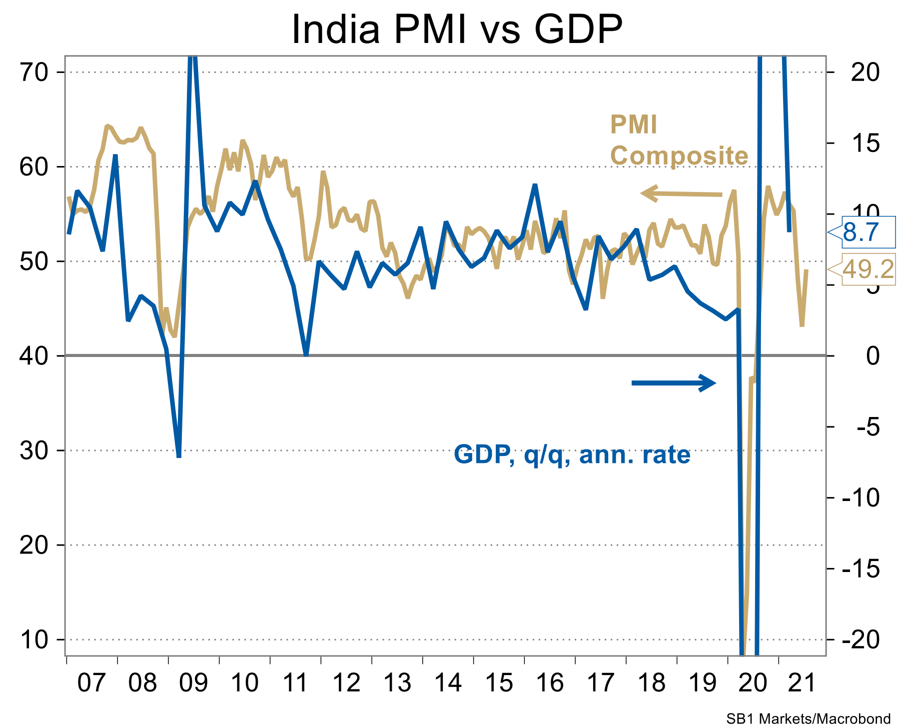


- The good news: This will not last forever, one day the population in poor countries will be vaccinated too – or will become immune after having contracted the virus
- In India, 2/3 of the population carry antibodies, research suggests (and the real death count may be at 10x the official estimate)
- The bad news: It will probably take several quarters for many EM to get a high immunity rate, at least through vaccinations

Indian manufacturing sector back at full speed, services still in contraction mode

The comp. PMI up 6 p in July, reversing half of the 12.2 setback in May, June. At 49.2, 6% GDP-growth

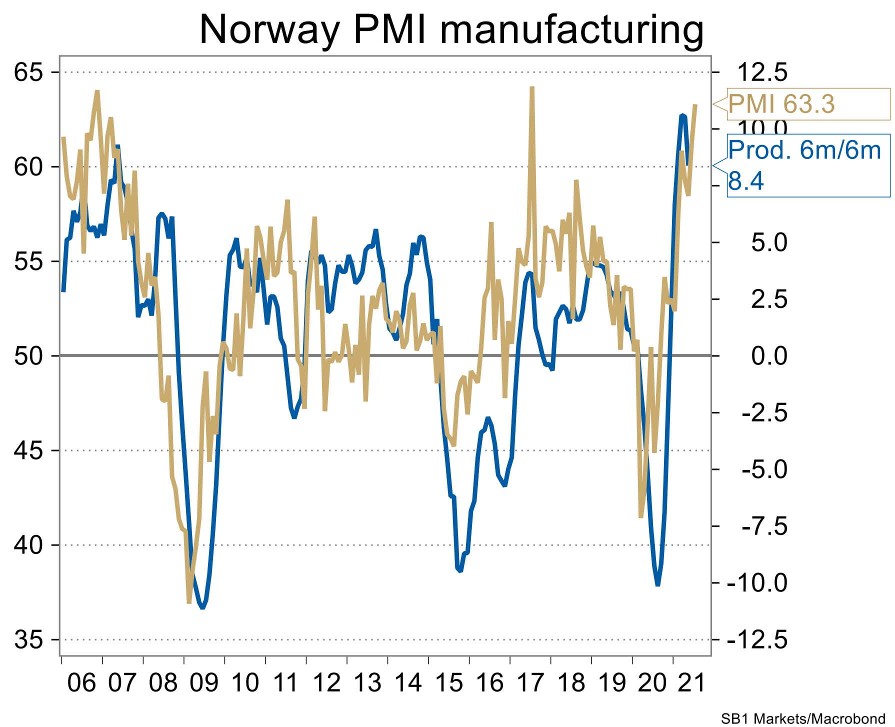


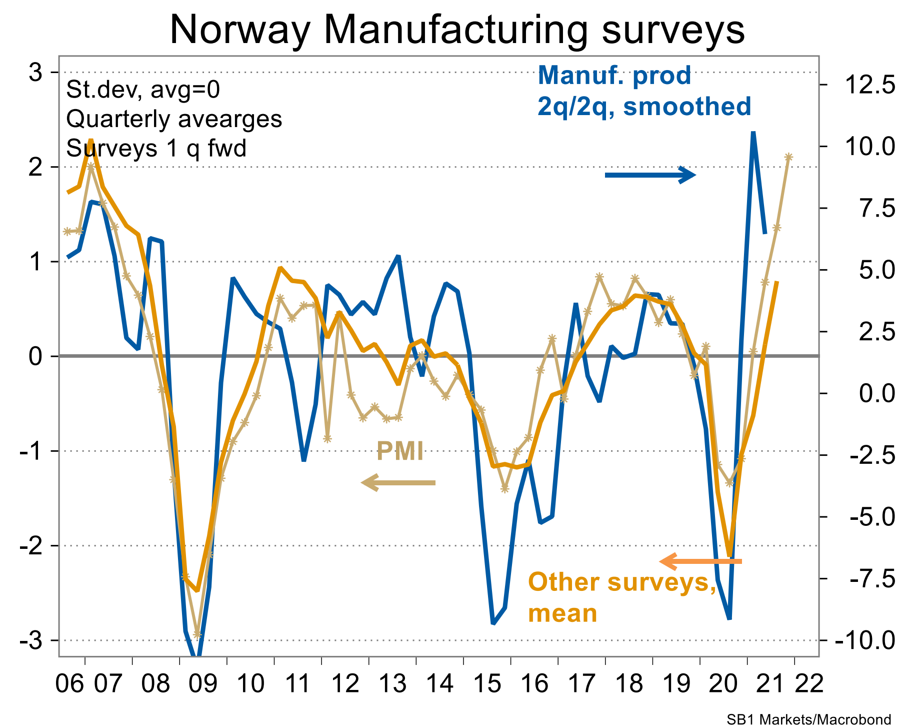


- **The manufacturing PMI** shot up by 7.2 p to 55.3 – to the same level as before the Delta virus wave in April/May
- **The services PMI** rose too, by 4.2 p but the level is still low at 45.4, vs the 55-level before the virus attack. Both domestic and foreign demand (tourism) is still weak
- The correlation between **PMI and GDP** is not that impressive but the 49.2 composite PMI signals at decent growth in GDP
- GDP rose by 8.7% (annualised) in Q1 (down from 43% in Q4), and is 2.7% up vs. Q4-19, beaten only by China. Still, GDP was almost 4.5% below the pre-pandemic trend path – and the gap very likely widened in Q2

Norwegian manufacturing PMI up to above 60 again – strong growth confirmed

The Norwegian PMI up 2 p in July, to 63.3 – among the best prints ever

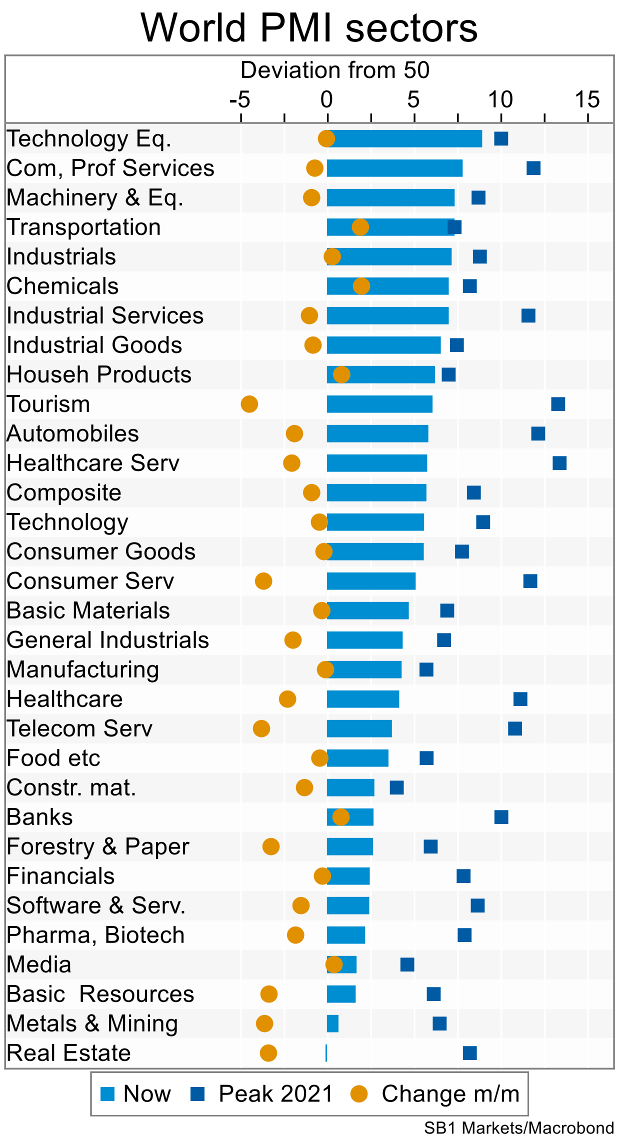


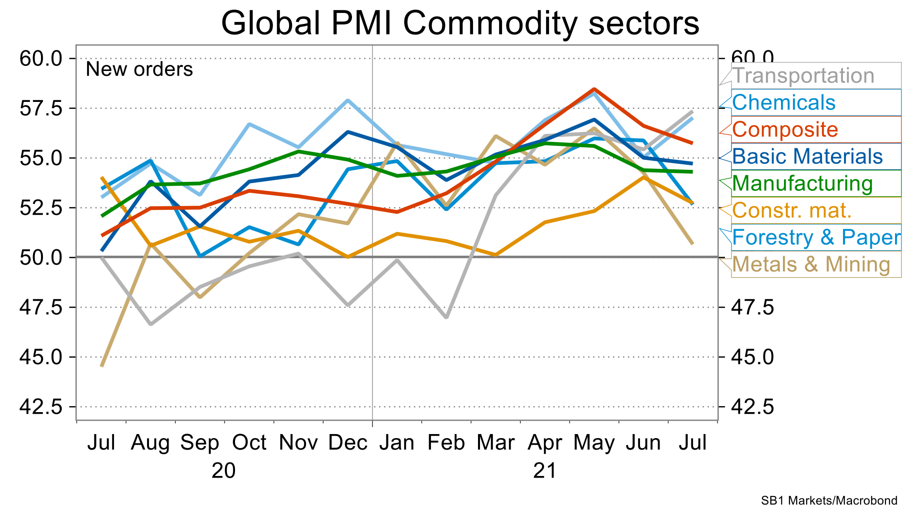


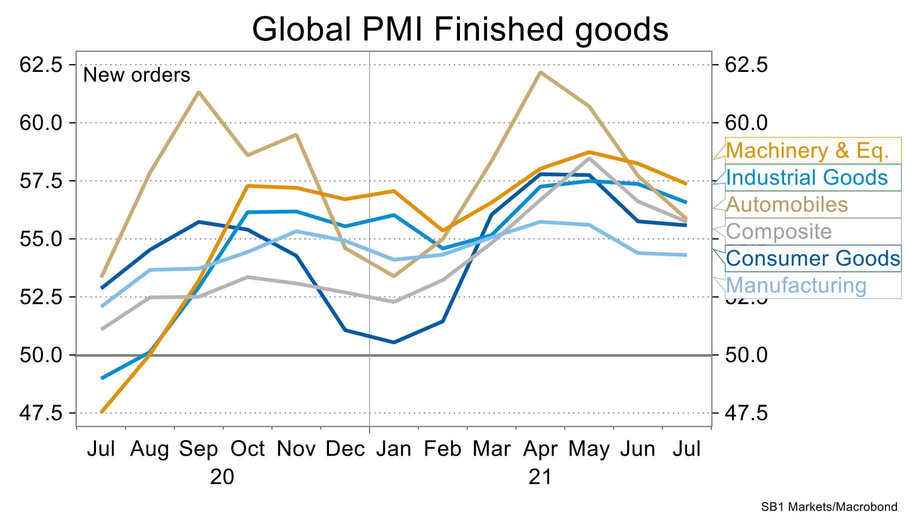
- The July PMI is volatile but the average of the recent months leaves no doubt: companies are reporting a rapid growth in activity
  - » The June index was revised up by 0.5 p to 61.3
- Other **surveys** have turned up lately to above-average levels
- **Actual production** is growing faster than since 1972, at least measured 6m/6m. However, that is due to a low starting point last year. The production level was marginally below the pre-pandemic level in May

Most sectors report slower growth in July – and almost all well down from peak

Metals & mining – normally a leading sectors has slowed sharply, and

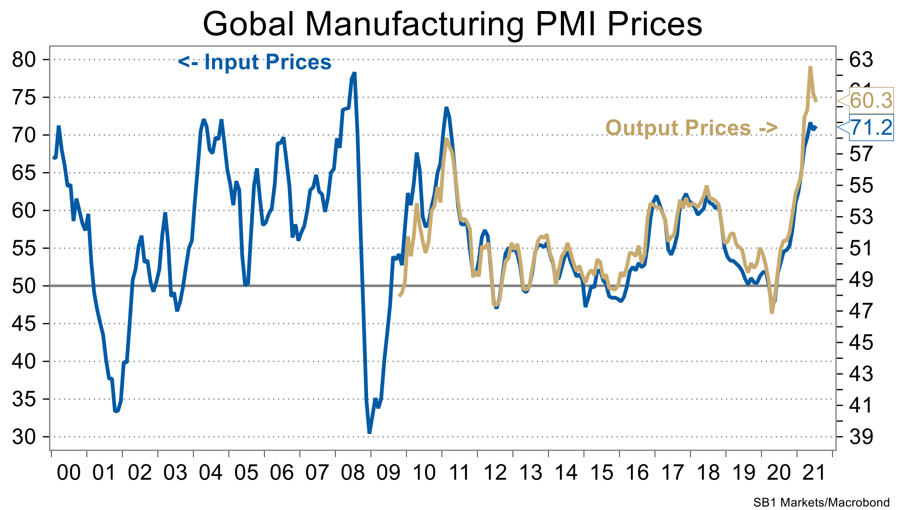


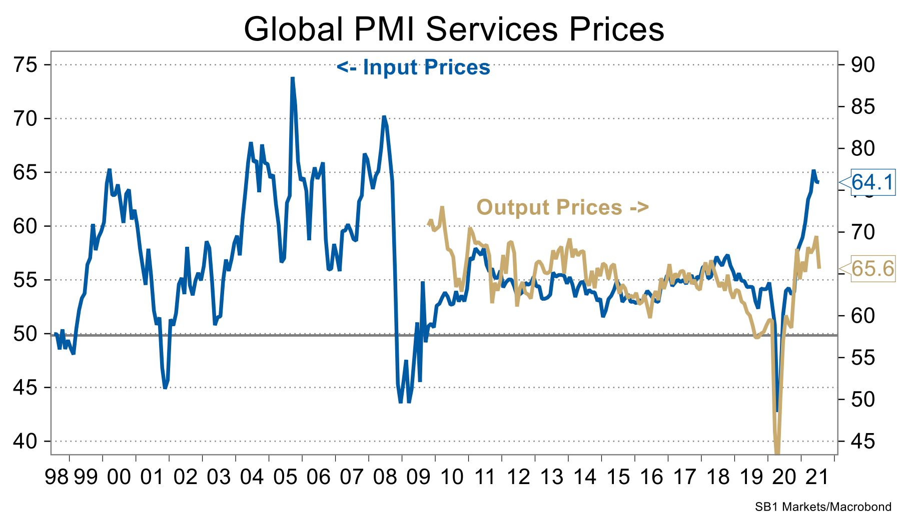


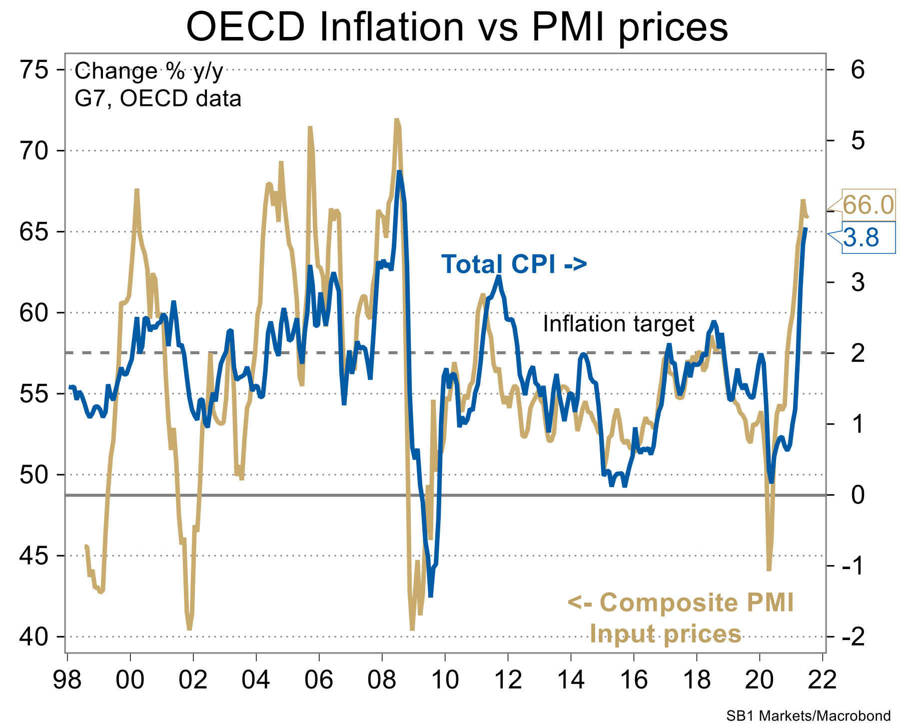


Businesses keep reporting rapid growth in input/output prices but a tad slower

Peak PMI price indices? Given the surge in CPIs, limited upside risk from here?





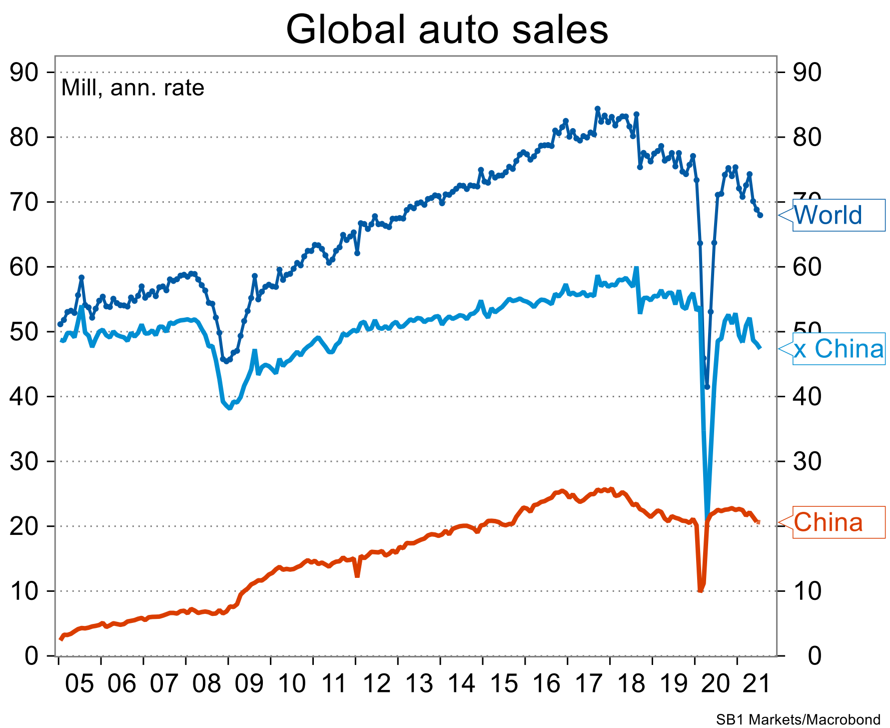


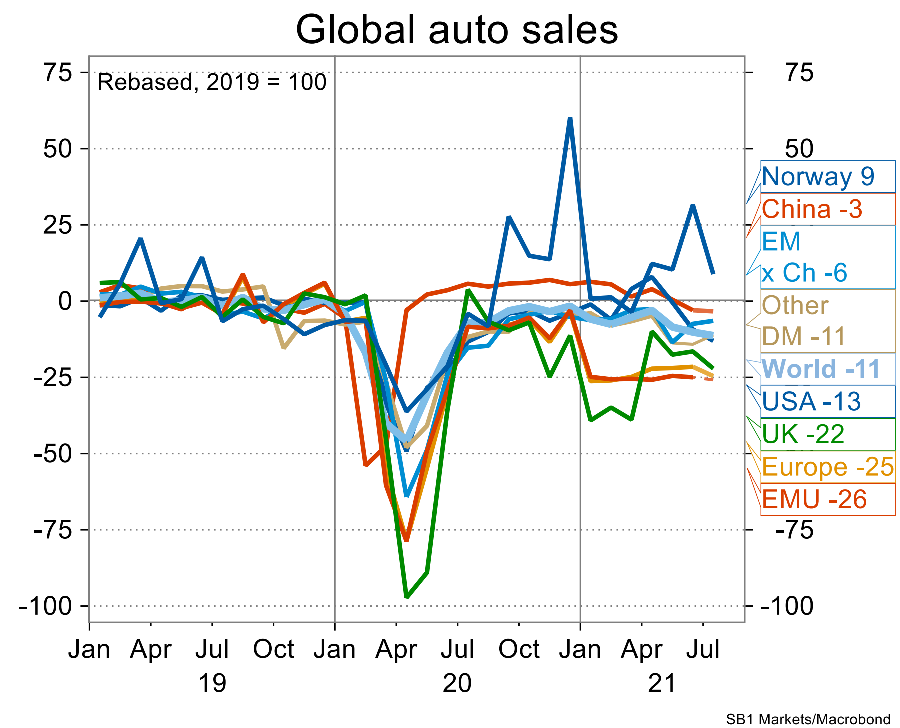
- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices – but the peak in price increases may be behind us
- The correlation to **actual CPI inflation** is not prefect but the PMIs do not signal limited upside risk to annual inflation rate
- The correlation to **core CPI** is far less impressive

SpareBank 1 MARKETS

Auto sales down most places in June – global sales down 4%, -12% vs pre-Covid

Semiconductor shortages at least partly to blame for lower sales, but Covid also to blame directly

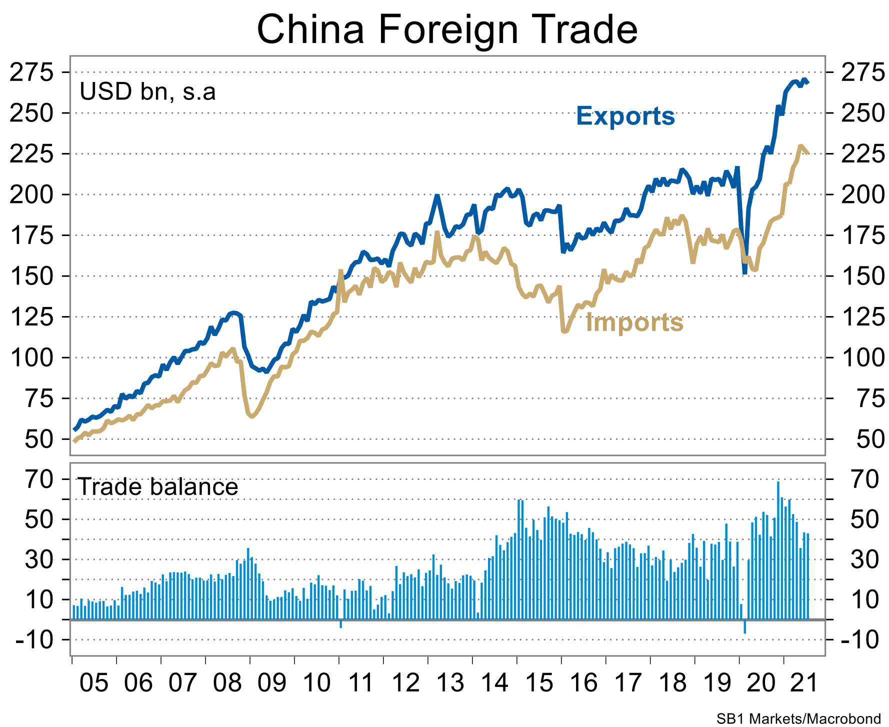




- **Global auto** sales fell further in July, due to a decline in sales in the US and the EMU. Sales fell by some 1% and are 11% below the 2019 average. Both Covid induced decline in demand in some countries as well as serious production cuts due to lack of critical data components, explains the setback. We think the supply is mostly to blame.
- **US** auto sales fell further, and are 13% below the 2019 avg level. Sales in the **EMU** did not recover, and remains 25% below. **UK** sales are down 22%. **Norway** is the only DM country reporting higher sales, + 9% vs 2019 avg - even after a substantial decline in July.
- **China** has not yet officially reported, but media reports suggest a marginal decline, and sales are 3% down vs 2019, as in June. Sales in **India** probably rose to the highest level in 3 years! In total **EM x China** sales rose and are 6% below the 2019 level.

Both exports & imports further down in July, levels still very high

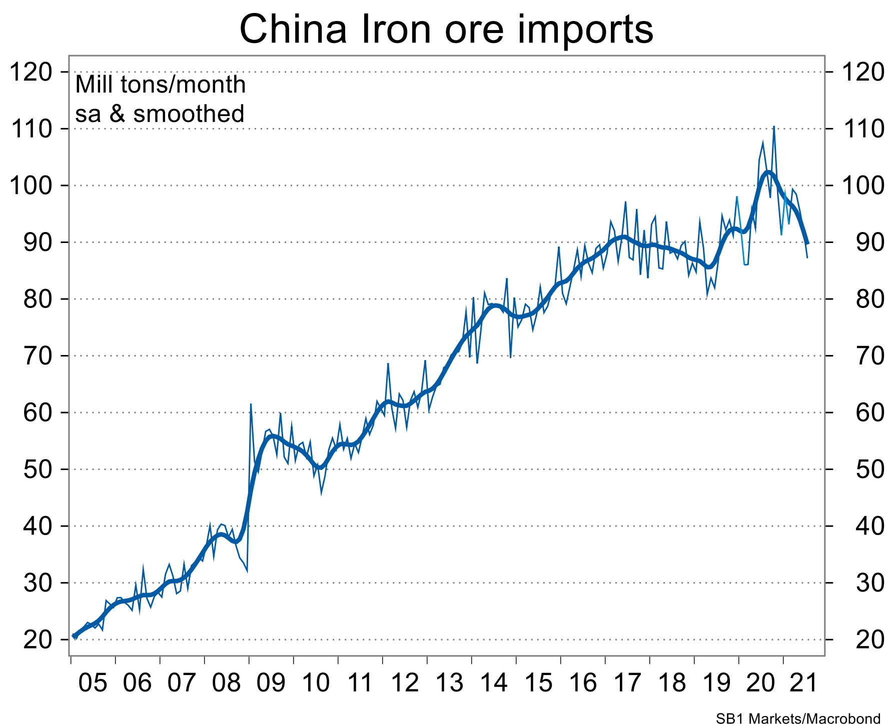
Signals some slowdown in global demand for goods

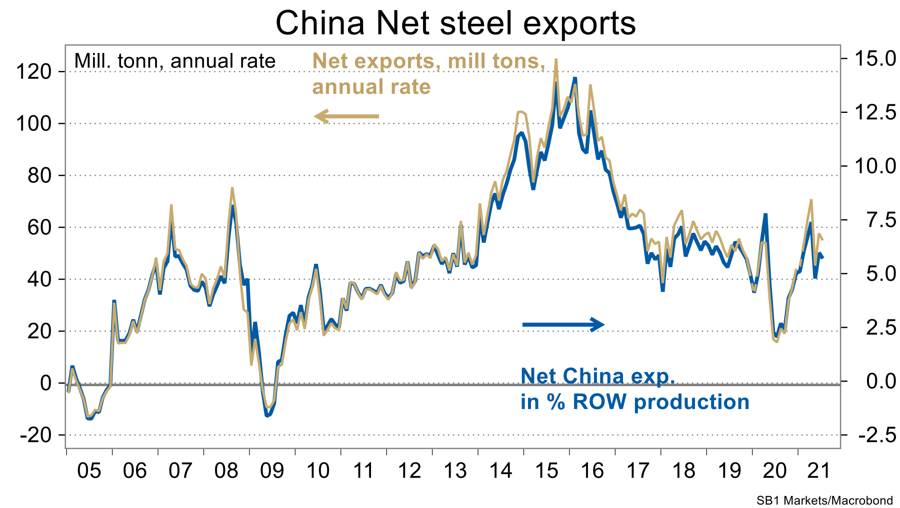


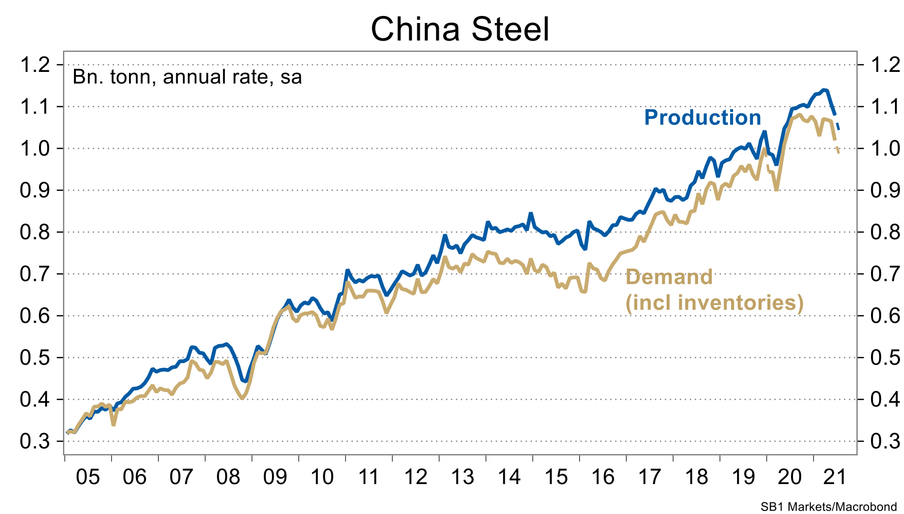
- **Exports** fell by 1.2% in USD terms in July. Exports are up 19% y/y, down from 32% in June, expected 20%. Exports probably fell in **volume terms** too – and volumes have fallen since the March peak, signalling some slowdown in global demand for goods. The level is still high, 10% above the pre-pandemic trend growth path
- **Imports** fell further by 1.2% too. Imports are up 28% y/y, down from 37% in June, expected up 34%. Import volumes very likely fell further as well but the decline is moderate and the level is high, at some 7% above the pre-pandemic trend growth path. Domestic demand is more than OK
- **Import prices** are up 17% y/y (in USD terms), mostly due to higher oil & commodity prices, **export prices** are up 7% (not flat in CNY terms)
- The **trade surplus** was close to unch. in July, at USD 43 bn (seas adj.), which is above the pre-pandemic level, but down from above USD 60 bn at the peak
- We stick to our analysis from the previous two months, growth in foreign trade volumes to slow substantially through rest of the year. Demand for goods in the rich part of the world will slow down when spending in services picks up, shortages of raw materials/intermediates will dampen production. Even if credit policy now may be turning expansionary, the lagged impact on the previous tightening may be felt in domestic demand

Iron ore imports sharply down, as domestic steel demand & production yield

Authorities have curbed steel production in order to bring CO_2 emissions down



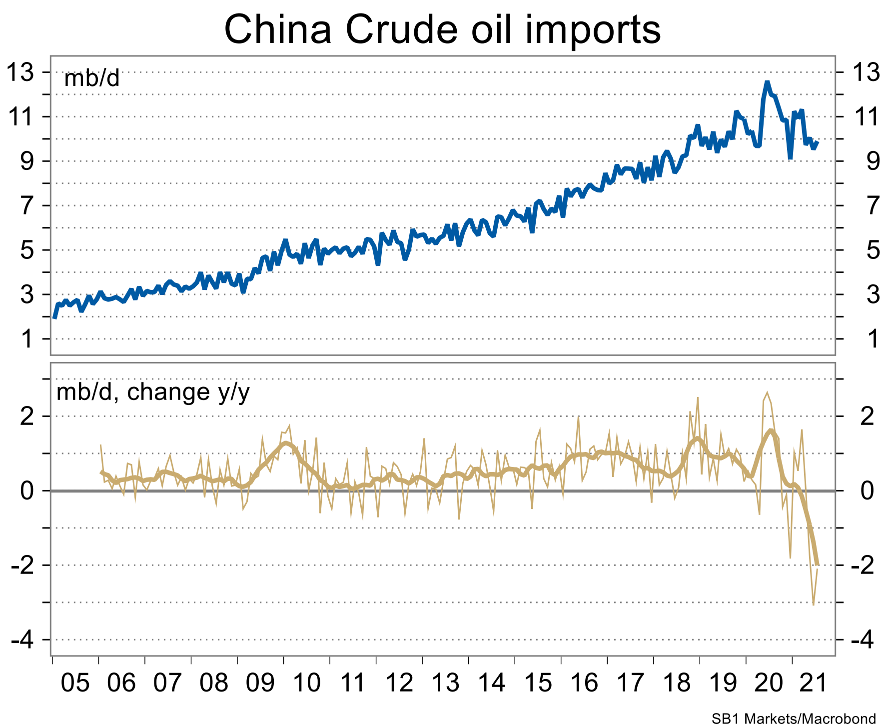


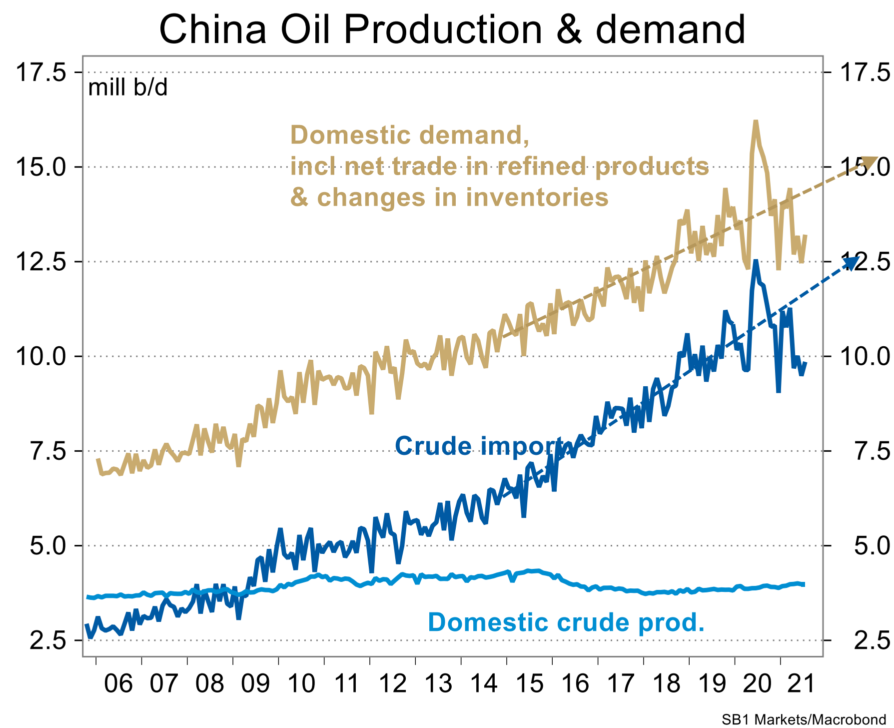


- July steel production figures are not yet published but preliminary reports signals a further decline as local authorities have imposed restrictions on steel production in order to reach 2030 CO2 emissions targets
  - » If these July preliminary data are correct, production will be cut by almost 10% since April
  - » Domestic demand (including changes in inventories) have fallen somewhat less as net exports have fallen slightly
- Iron ore import have fallen 10% since late last summer
- Predictably, steel prices are increasing, iron ore prices are falling

Oil imports far below pre-pandemic trend (and even level)

Imports were low in both past 4 months, according to Chinese data

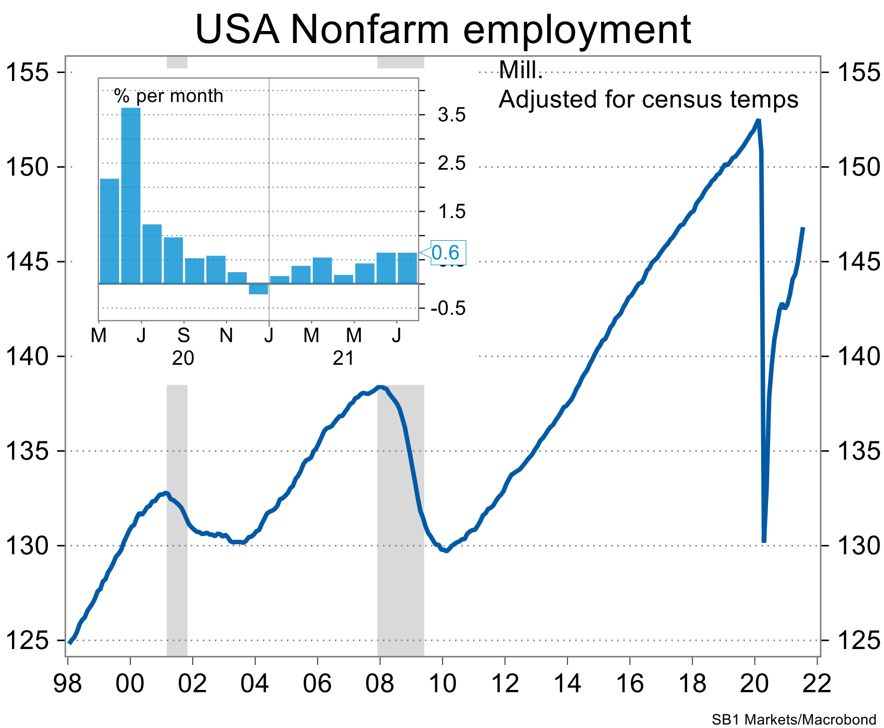


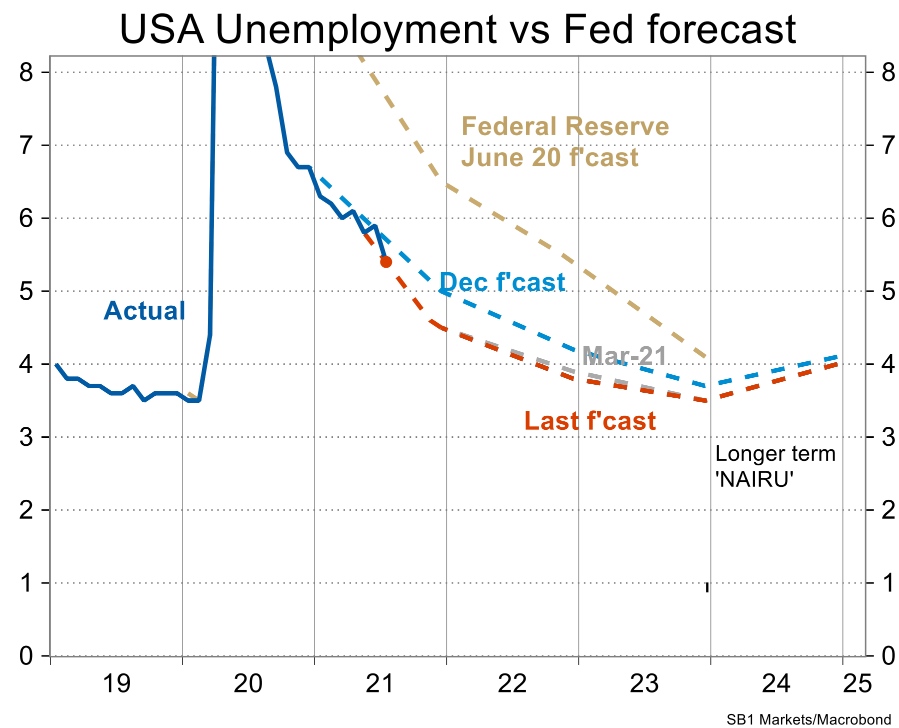


- Oil imports some 1.5 mill b/d below the pre-pandemic trend growth path

The labour market: Employment, hours, wages up. Participation not

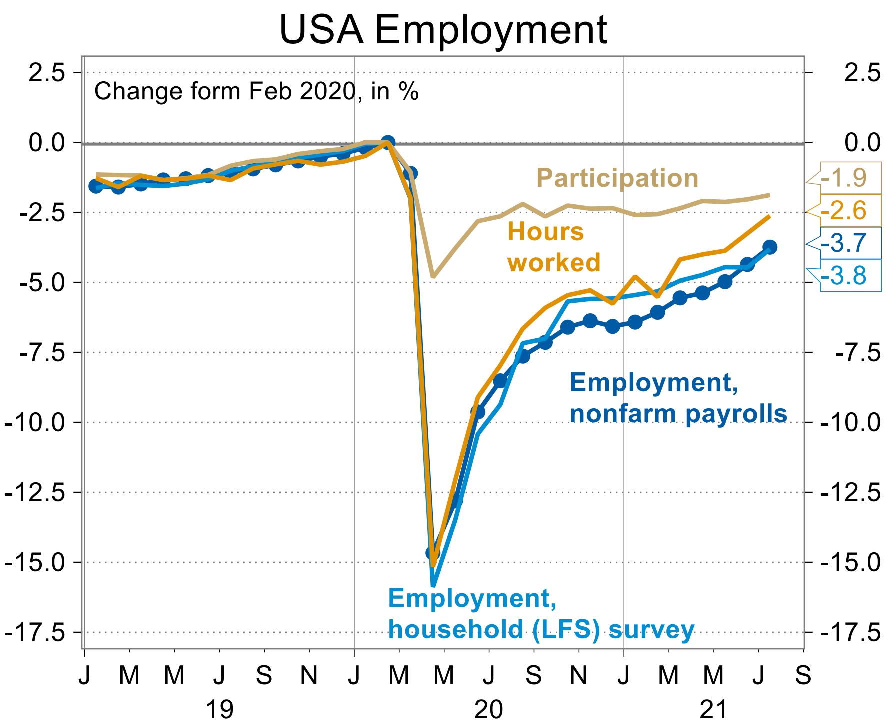
Unemployment fell back to downward trend. All in all: Signals less upside growth potential, infl. risk



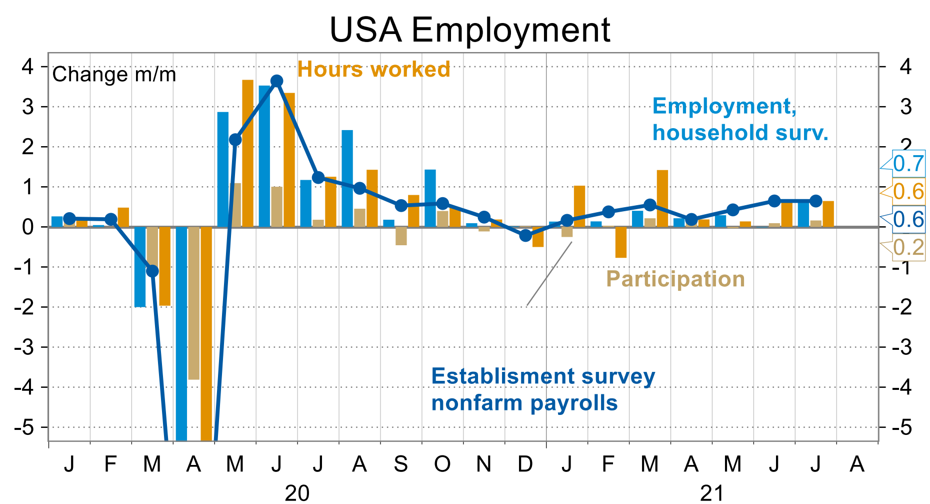


- **Employment** rose by 943' (0.6%), more than expected (845') – and much better than feared after the weak ADP report (+330'). Employment in restaurants, education in the lead in July too but both remain well below pre-pandemic levels. Total employment is still 3.8 % below the early 2020 level
- **The participation rate** rose by 0.1 pp in July, but the trend is still close to flat, the 'supply side' does not respond to higher demand for labour
  - » 1.6 mill. persons (unch from June, but down from 2.5 mill in May) report that they were prevented from looking for a job due to the pandemic. Last summer 5.2 mill persons were outside the labour market for that reason. However, the labour force participation has not increased since then - others have withdrawn! The gap between 9+ mill vacant positions and the 8.7 mill unemployed is unprecedented
- **Unemployment** fell by 0.5 pp to 5.4%, expected down to 5.7. However, as the rate surprisingly rose in June, it just fall back to the downwards trend, and in line with Fed's (implied) f'cast (from June). Unemployment is just 1.9 pp higher than before the pandemic
- **Average wages** rose by 0.4%, 0.1 pp more than expected. Even if employment is increasing in the low-paid sectors, the average wage is still increasing at a fast rate. A one time shift or something more? Small businesses are reporting new all time high in trouble filling vacant positions, record high wage increases!
- **The big worry is still the supply side: Why are not workers returning to work? If the do not (in droves) limited growth potential, risk for higher wage infl.**

Labour market is recovering rapidly. Except for the supply of labour



- **Labour market participation** rose marginally in June (in number, the rate was flat). The rate is down some 2.6% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 3.7% vs Feb '20, while **employment** measured by the **household survey** (LFS/'AKU') is 3.8% below. The **employment rate** is 4.4% below par, following a substantial lift in July
- **Sum hours worked** rose 0.6% in June (and June was revised up). The level is down 2.6% vs. Feb-20

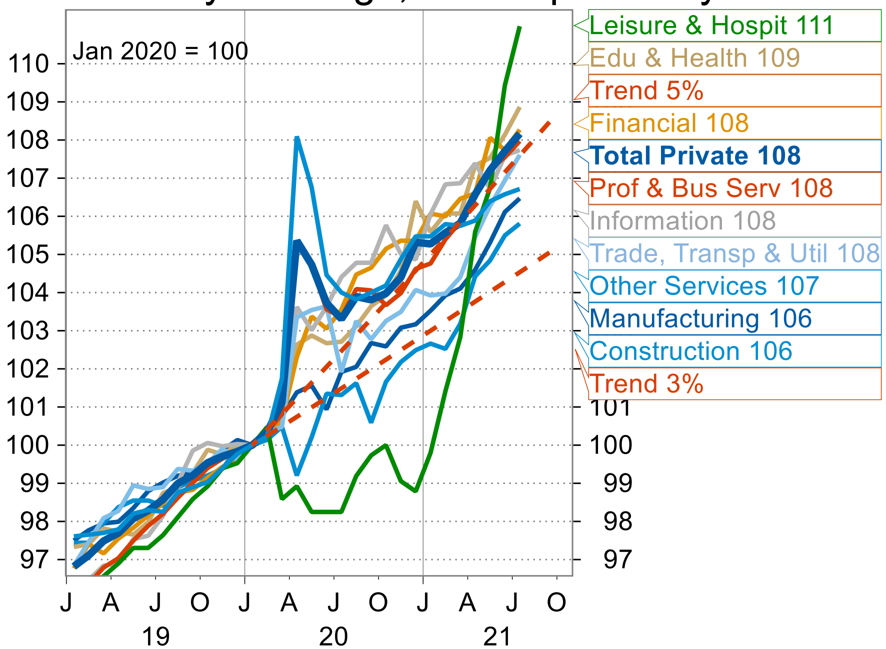


SB1 Markets/Macrobond

Wages are up 6% – 11% vs the pre-pandemic level

.. And well above the pre-pandemic growth path

USA Hourly earnings, non-supervisory workers



SB1 Markets/Macrobond

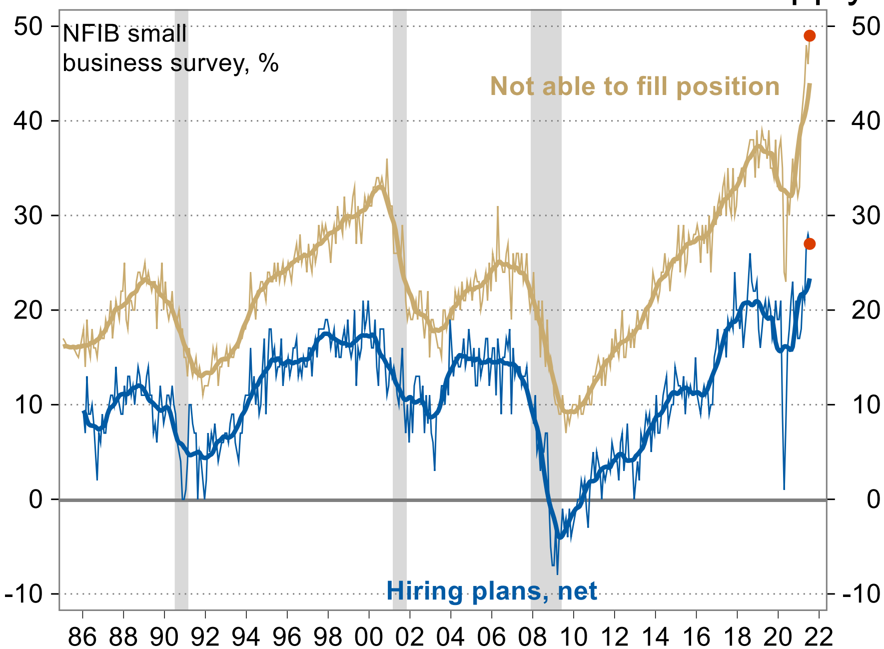
- Changes in the employment mix, even within sectors, still make these sectoral data uncertain
- However, it may be that these data reflects a real increase in wages recent months
  - » Say, why should the average wage in leisure & hospitality be 9% above the pre-pandemic level if wages in the sector have not increased quite broadly?
    - At least, it seems unlikely that higher paid staff has increased its share of total employment in the sector when wages have jumped by 12% (since last December)

- In the chart above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

Another ATH in difficulty filling positions in July, according to small businesses

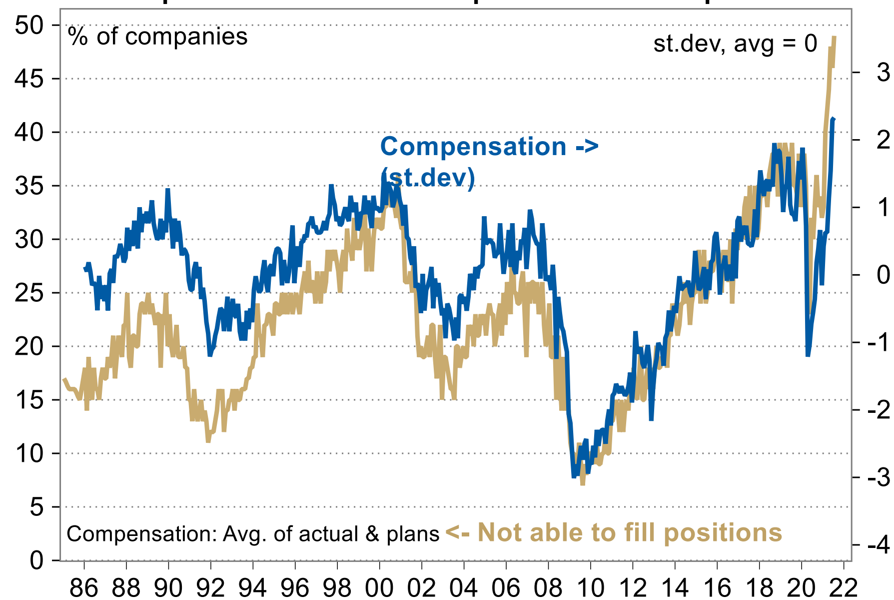
In addition, they plan to hire at a record pace – and they say are prepared to pay up, <u>more than ever</u>

USA Small businesses labour demand/supply



SB1 Markets/Macrobond

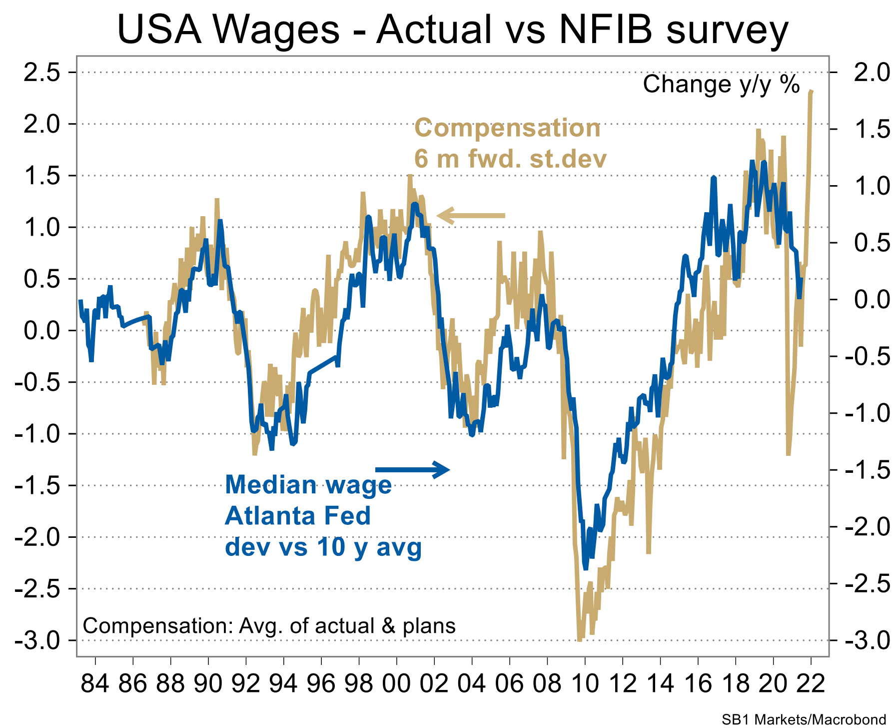
USA Small businesses, not able to fill positions vs compensation reports



SB1 Markets/Macrobond

- After a small decline in the **not-able-to-fill-position** index in June, this index surged to the highest level ever in July
- **Hiring plans** are extreme too – just at tad down from the June AHT in July
- And guess what – companies are reporting the most aggressive **wage increase plans** ever (data from 1986). The correlation to actual wage growth is pretty close, check the next page

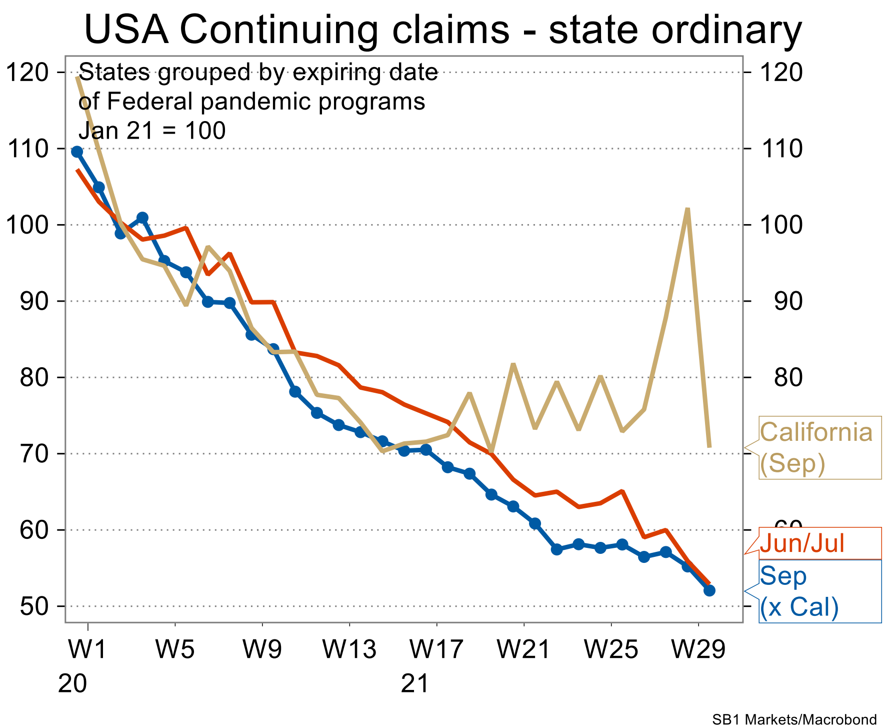
Wage inflation the obvious risk vs. inflation, growth, corporate earnings, short & long term interest rates, stock market multiples, credit spreads, real estate…

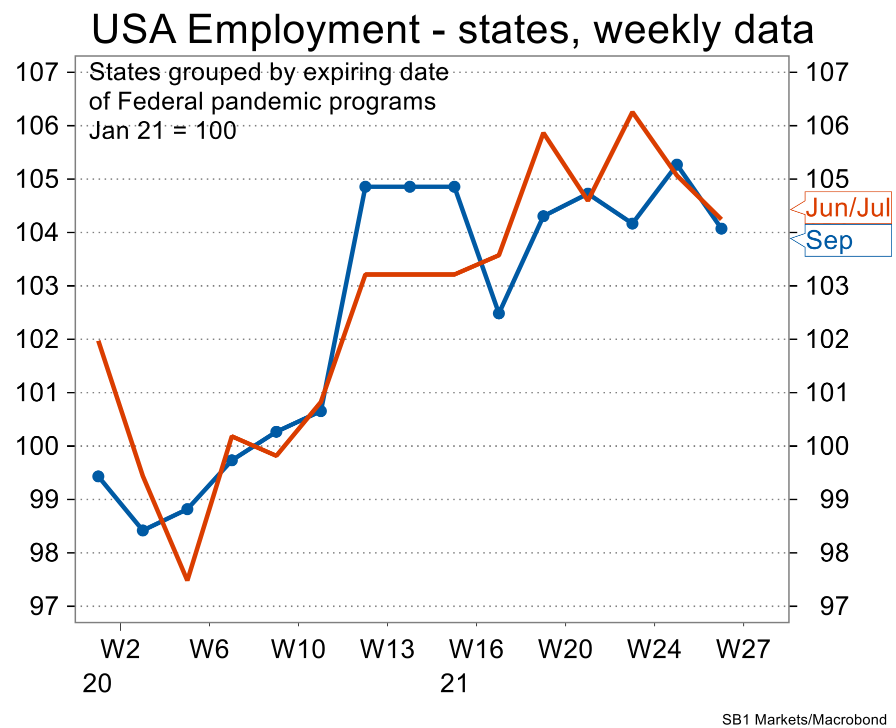


- Should wage inflation accelerate by 1 – 1.5 pp, inflation will drift above 2%, both in the short and medium term

Will the cancelling of pandemic federal benefit programs lift employment?

So far, no indication of that (volatile California data misled us last week)

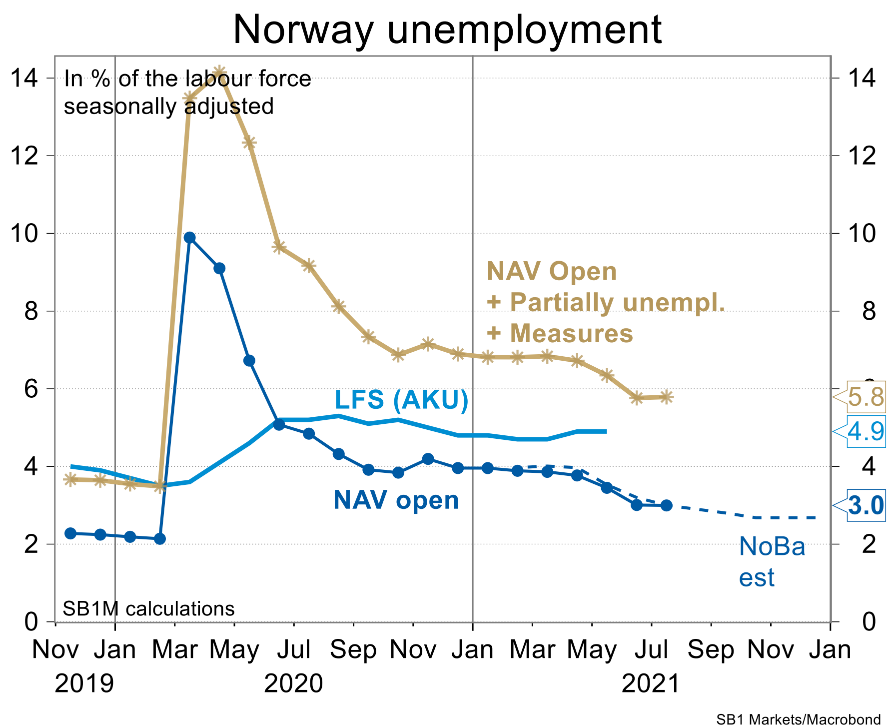


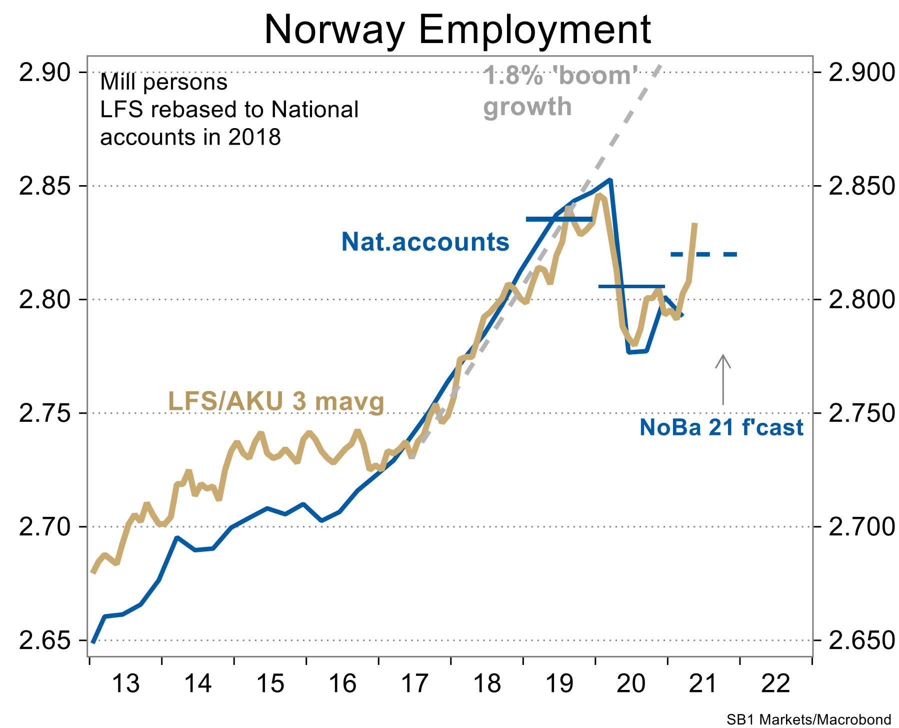


- 4 states dropped out of the federal unemployment benefit programs on June 12 (end of week 23), 8 states left June 19, and 10 states June 26, and 3 more states July 3 and 10 (week 27)
- We do not know what these former recipients do now – are they now trying to find a job?
- If we pool the 'early leavers' in one group, there has been a reduction in number of recipients of ordinary state benefits the past 3 weeks which may imply that those who lost their federal support also leave the dole. However, barring the volatile Californian data, the decline is more or less than same in those states that have not opted to leave before the programs expires, in September
- Weekly employment data (available just through week 26) do not indicate lift in employment in the early leaver states

LFS (AKU) employment +1.5% in Q2, almost back to the pre-pandemic level

Still ,the LFS unemployment up 0.2 pp, while the NAV fell

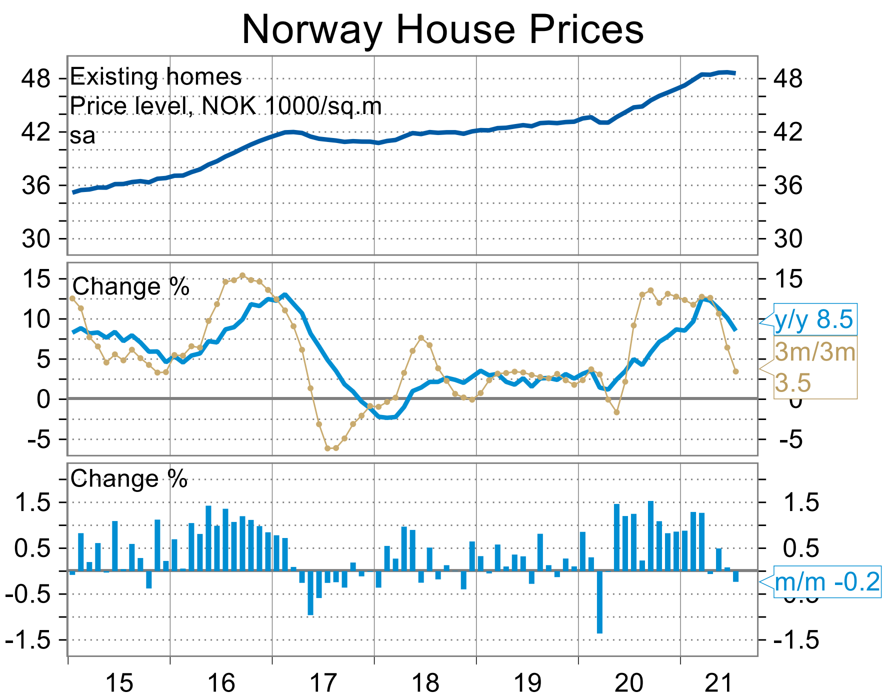




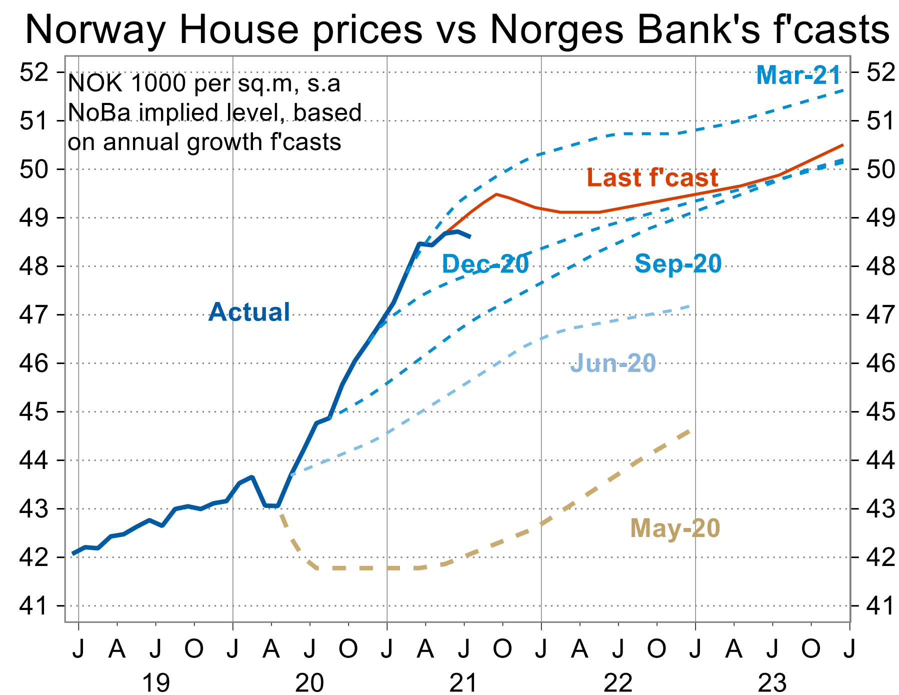
- **Employment** rose by 41’ persons in Q2 from Q1, or by 1.5%, the steepest quarterly rise ever. The level is just 0.3% below the pre-pandemic level. The LFS survey data are volatile. Q2 National accounts will give the final answer
- **Unemployment** rose to 4.9%, from a downward revised 4.7% in Q1 – as the participation rate rose sharply
- These LFS (AKU) data are more uncertain than normal 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

House prices have flattened since March but the market balance suggests <u>higher</u> prices

The impact of last year's lower rates are fading. *And now something else will turn up…*



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

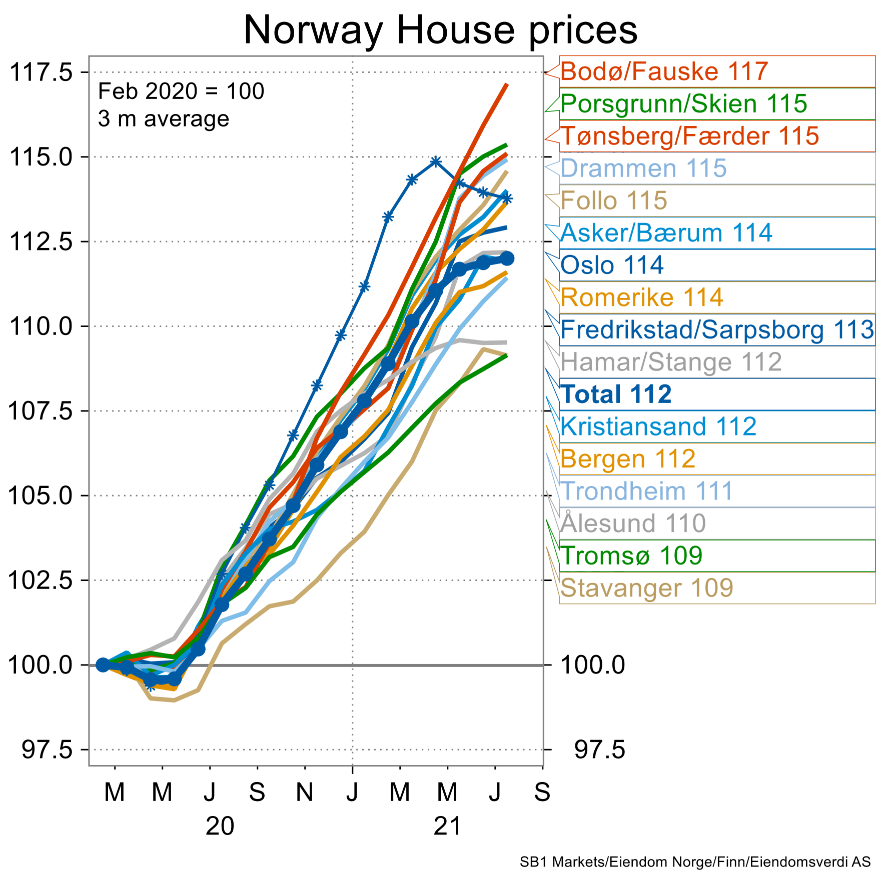


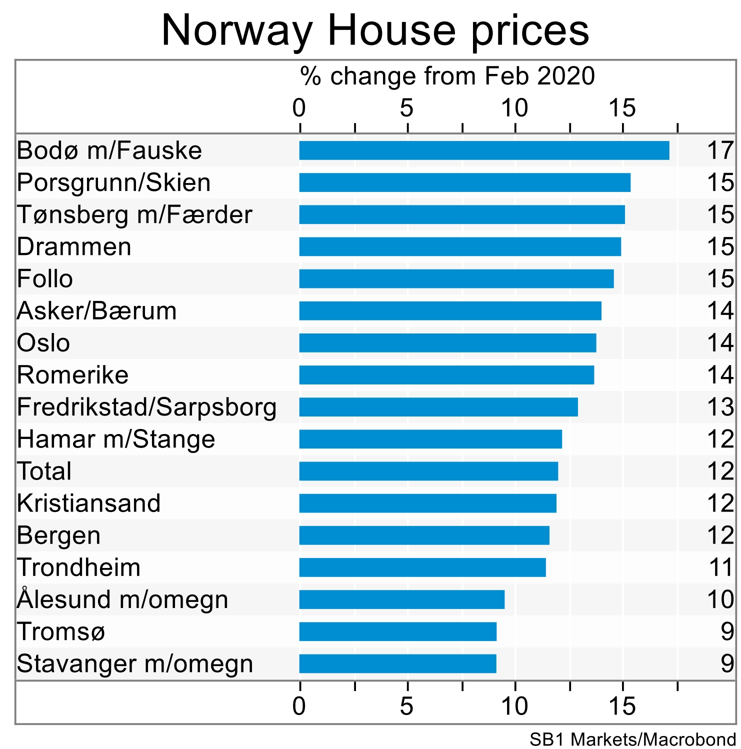
SB1 Markets/Macrobond

- **House prices** fell by 0.2% seas. Adj. in July, from a downward revised -0.1% in June. We expected +0.4%, NoBa 0.45%. Prices are up by 4% 3m/3m (annualised), down from above 12% in March. Prices are up 8.5% y/y, down from 10.1% in June
- **Oslo** prices fell for 5th month in row, in total by 2.7% (June was revised from a small lift to a small decline). Most other towns down (11), just 5 up Since before the pandemic, Bodø in the lead, followed by Porsgrunn/Skien, Tønsberg & Drammen. At the bottom the costal cities (x Bodø) from Kristiansand to Tromsø. Oslo is still above the national average
- The **number of transactions** was stable at a high level. The **inventory of unsold homes** fell further to a record low level
- Our Norway x Oslo **flow based price model** <u>signals 1% m/m price growth</u>, and <u>so does now the Oslo model </u>(from zero 3 months ago)
- House prices have fallen well below NoBa's f'cast. The impact for last year's interest rate cut is fading, and soon rates will start to increase

Through the pandemic: Bodø, Porsgrunn/Skien, Tønsberg in the lead

Drammen is ahead of Oslo too – but too early to conclude that the capital will be deserted?



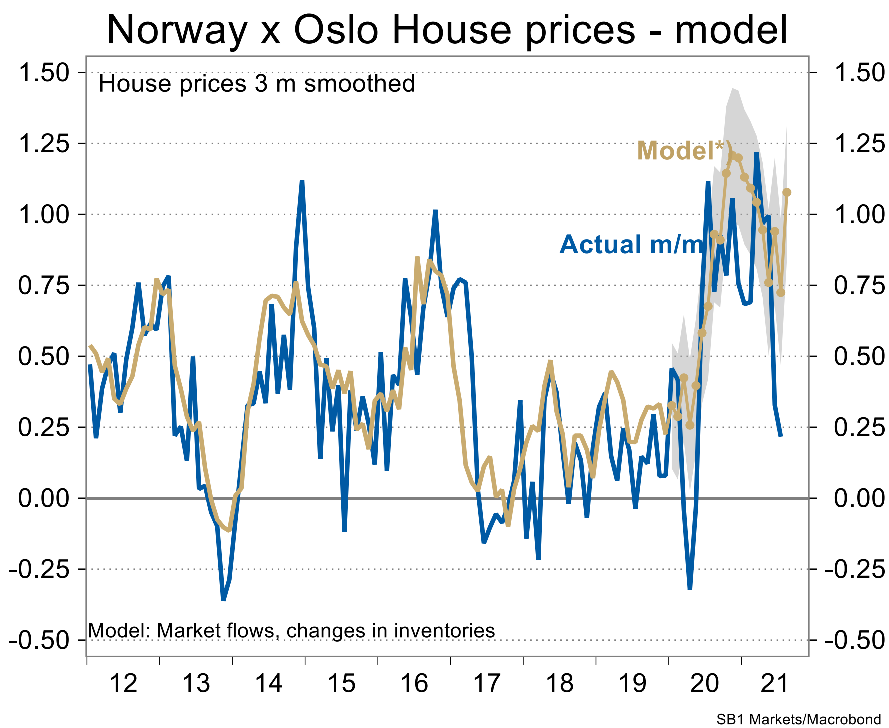


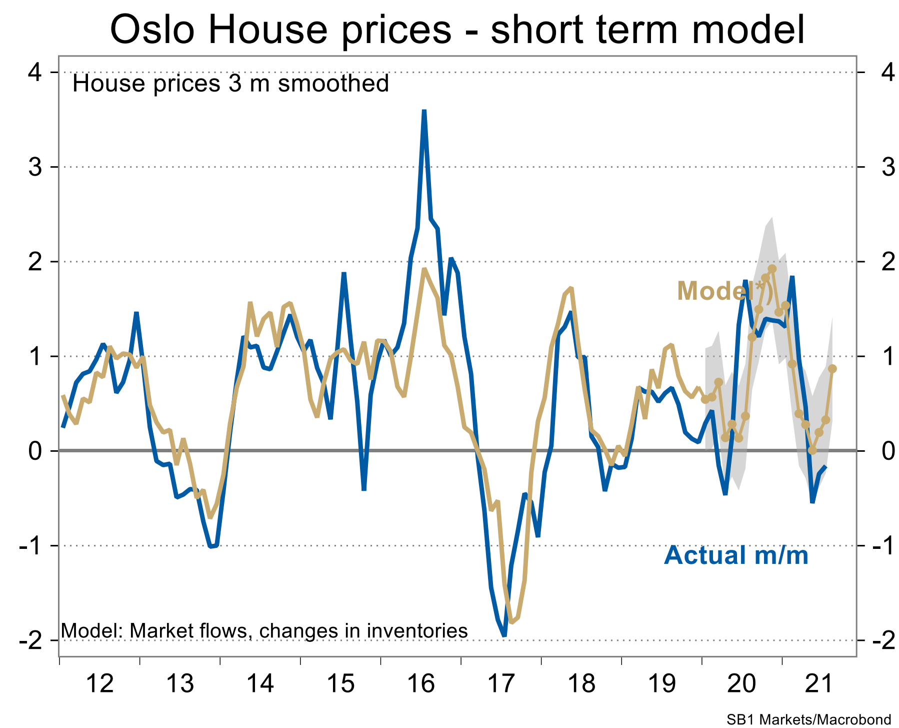
- Costal cities from Kristiansand to Tromsø (ex Bodø) at the bottom of the list

SpareBank 1 MARKETS

Short term market flows suggest higher prices, also in Oslo!

Our models has so far

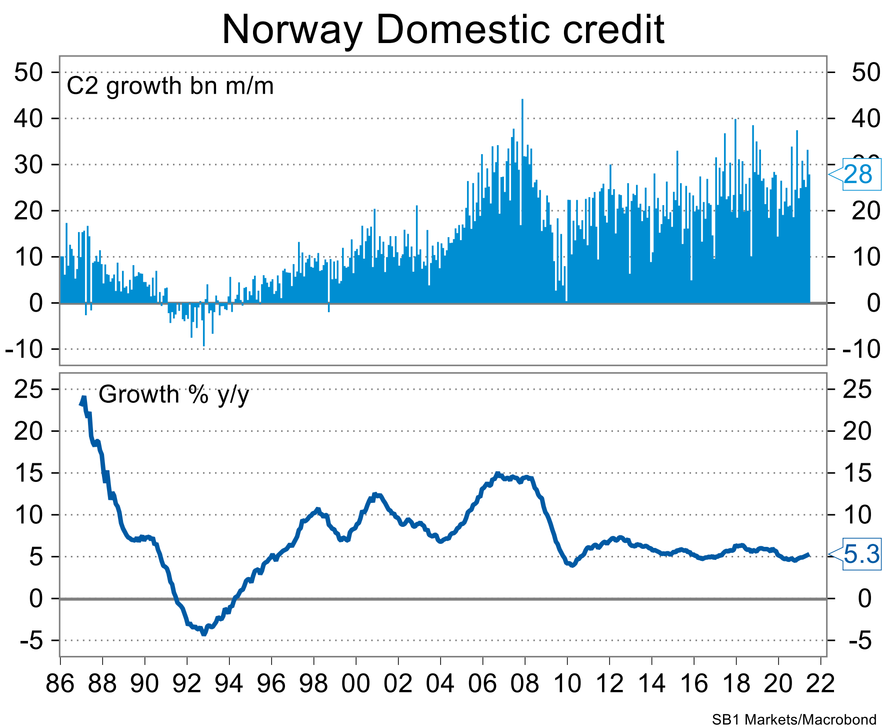


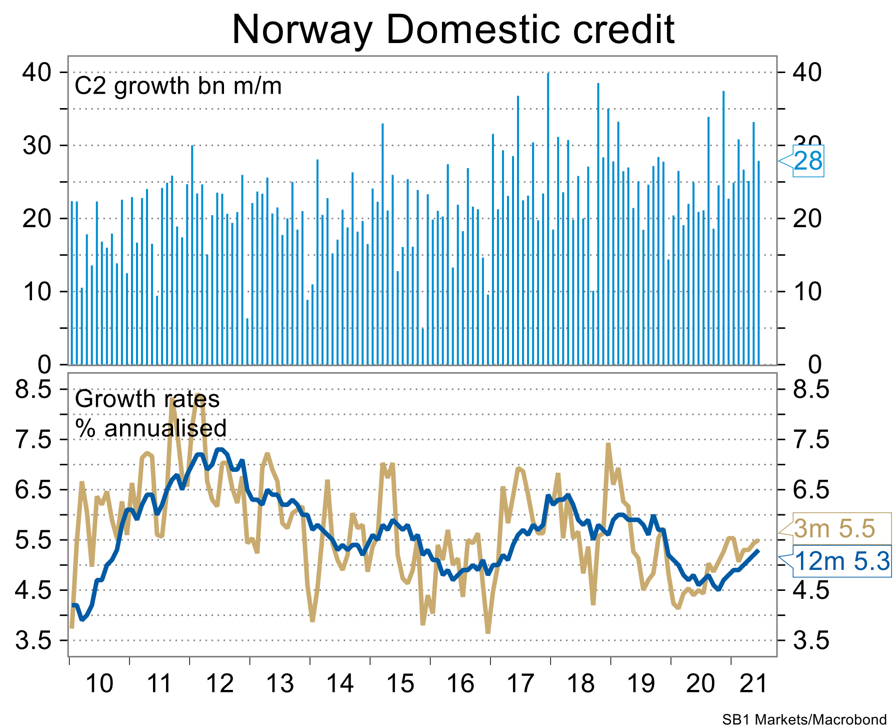


- Our **national x Oslo model** based on flows and the inventory signals a 1% growth in house prices per month (from 0.75% in June)
- Our **Oslo model** signals a 1% growth too (up from zero 3 months ago)
- *These models are not long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

Credit growth up to 5.3%, still no credit boom to been seen

Total domestic credit growth (C2) rose more than we expected, this time due to households



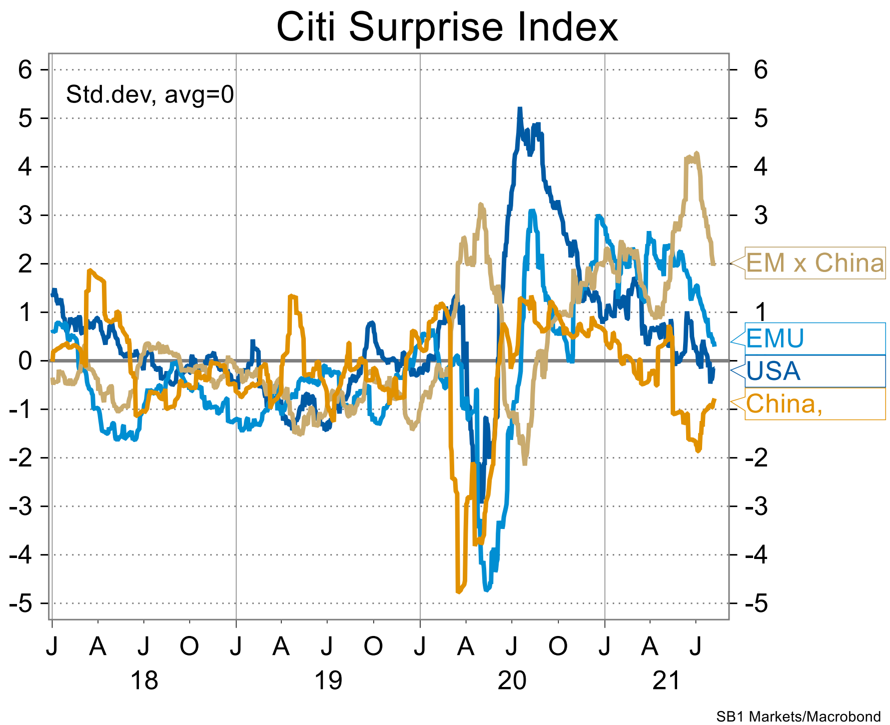


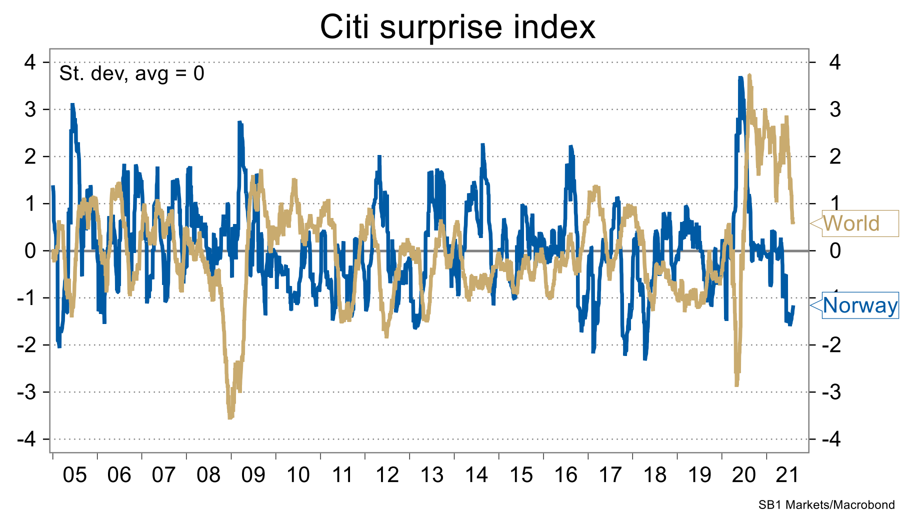
- **Total domestic debt** (C2) rose by NOK 28 bn in June, down from 32 bn in April, we expected NOK 25 bn. The annual growth rate accelerated 0.1 pp to 5.3%, we expected unch. We are not witnessing a any credit boom, even if growth is slowly accelerating. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 21 bn in June, up from 14 in May, the 2nd highest monthly increase. The annual rate climbed 0.1 to 5.2%, we expected a decline to 5%. June may have been an outlier, as the housing market is now slowing
- **Corporate C2 credit**, rose by just NOK 2 bn (up from 13 bn), we expected 8 bn. The annual growth rate was rose to 4.6% from 4.5%, we expected 4.9%. **Mainland corporations** increased their debt by 5.3% y/y (from 5.1%)
- **Local governments** borrowed heavily in June – NOK 5 bn, as in June. The annual growth rate is at 8.3%, up from 7.8% - way above income growth

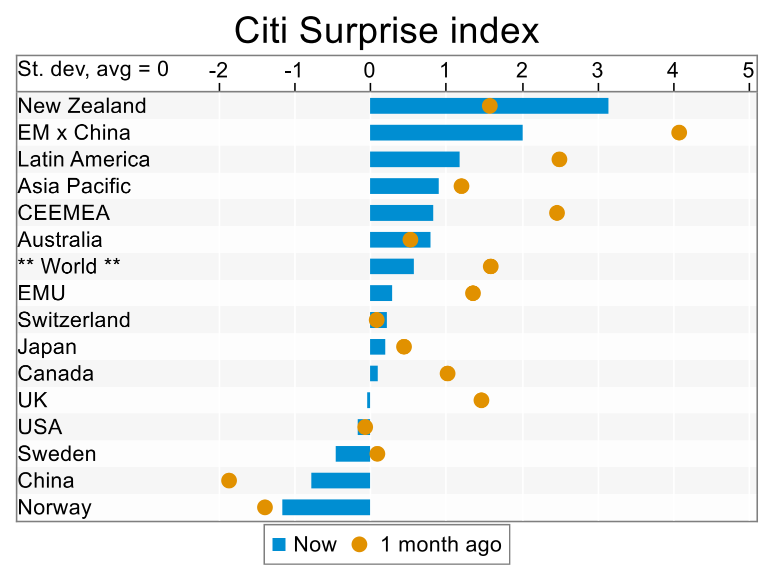
SpareBank 1 MARKETS

Growth surprises still on the upside but many countries are heading down

… according to Citi's surprise index. The US has fallen to below par; Sweden, China & Norway well bel.





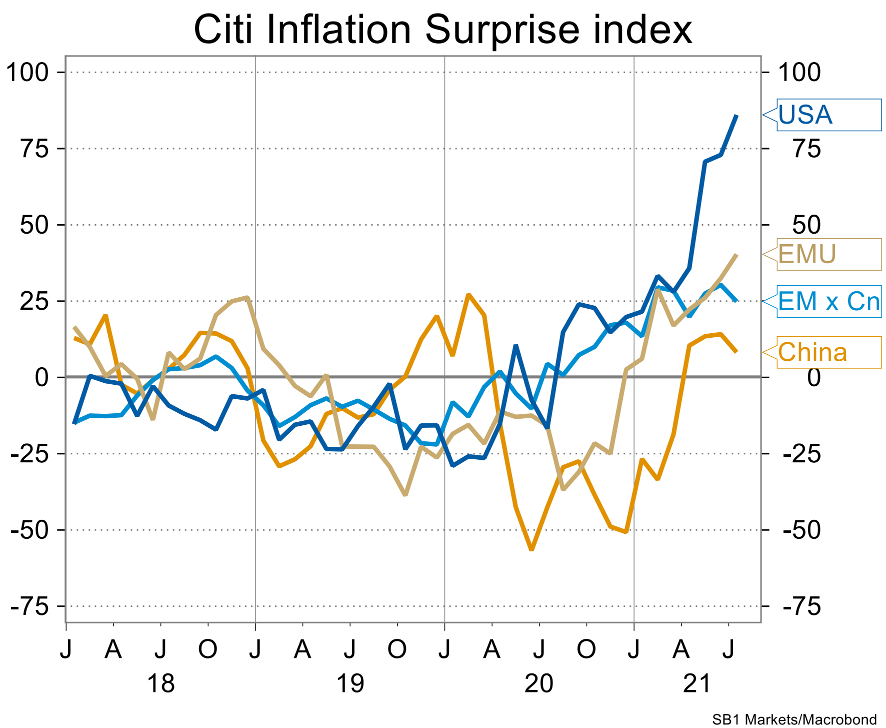


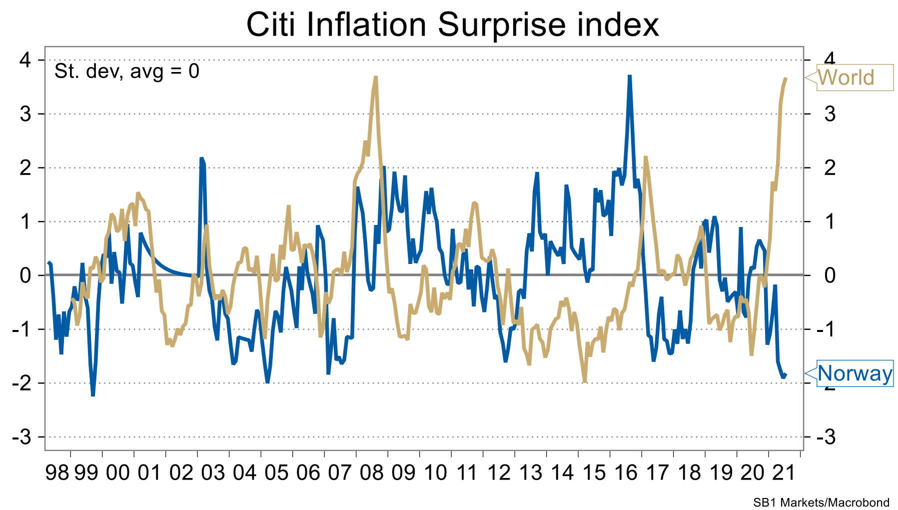
- **China** has recovered somewhat due to better than expected Q2/June data
- **Emerging Markets x China** are reporting better data than expected, but the positive surprise is diminishing
- The **EMU** is still surprising on the upside, but steadily less so
- The **US** surprise has fallen to below average
- **Norway** has surprised sharply on the downside recent weeks

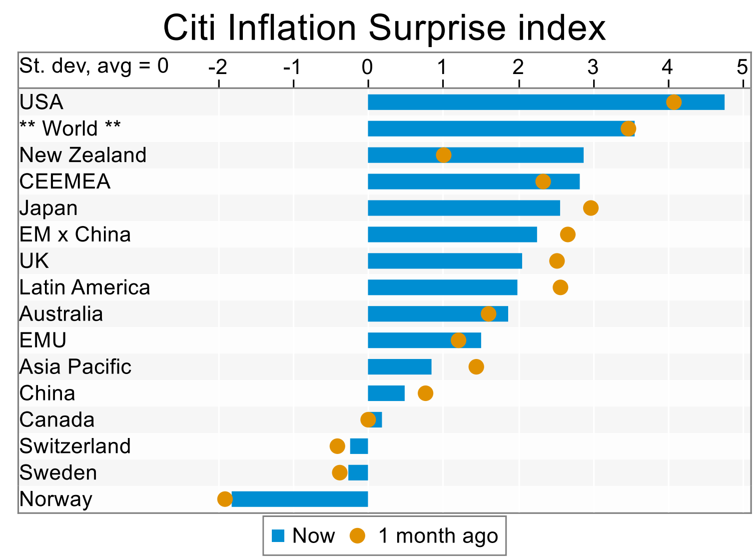
Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

Inflation surprises have been on the upside lately, almost everywhere

Just Norway, Sweden and Switzerland below par. US at the top, of course

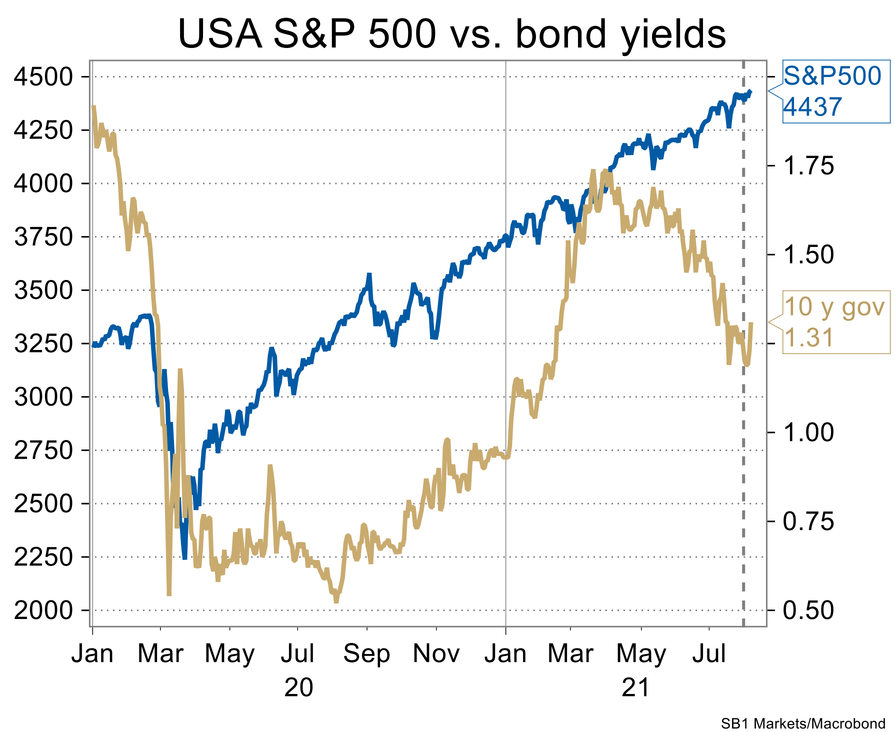


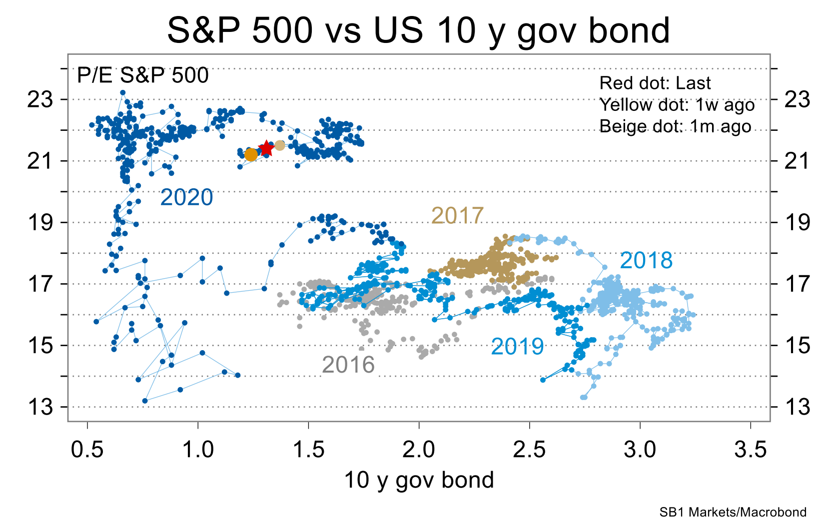


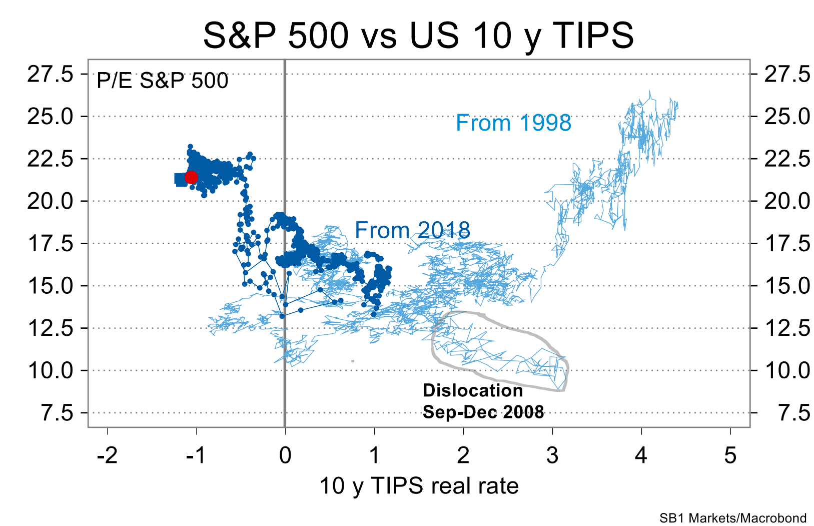


Surprise-indices measure the difference between economists' expectations and the actual outcome over a 3 month rolling window

Another S&P 500 record, up 0.2%. The 10 y bond yield up 8 bps to 1.31%

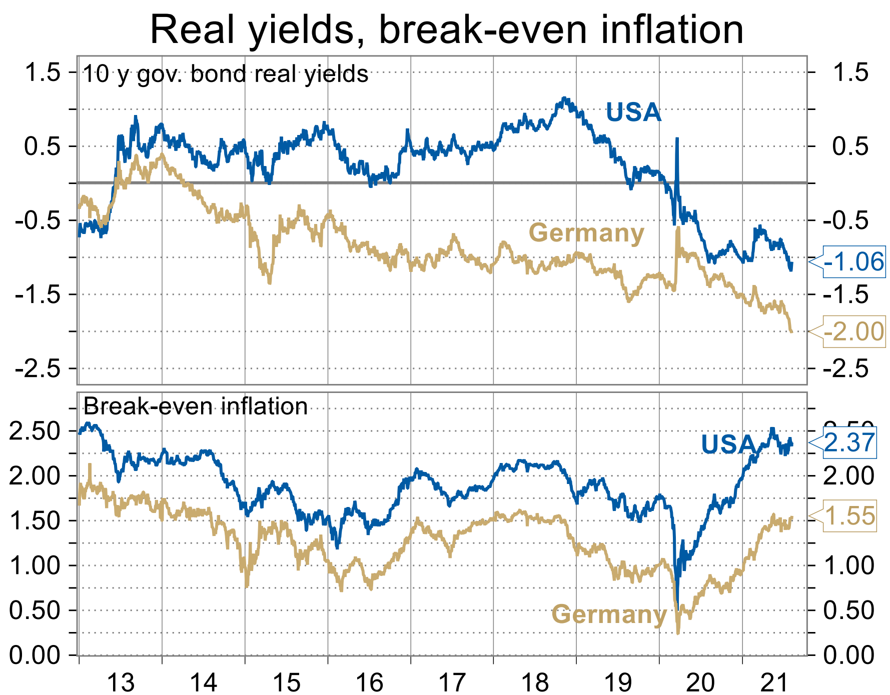


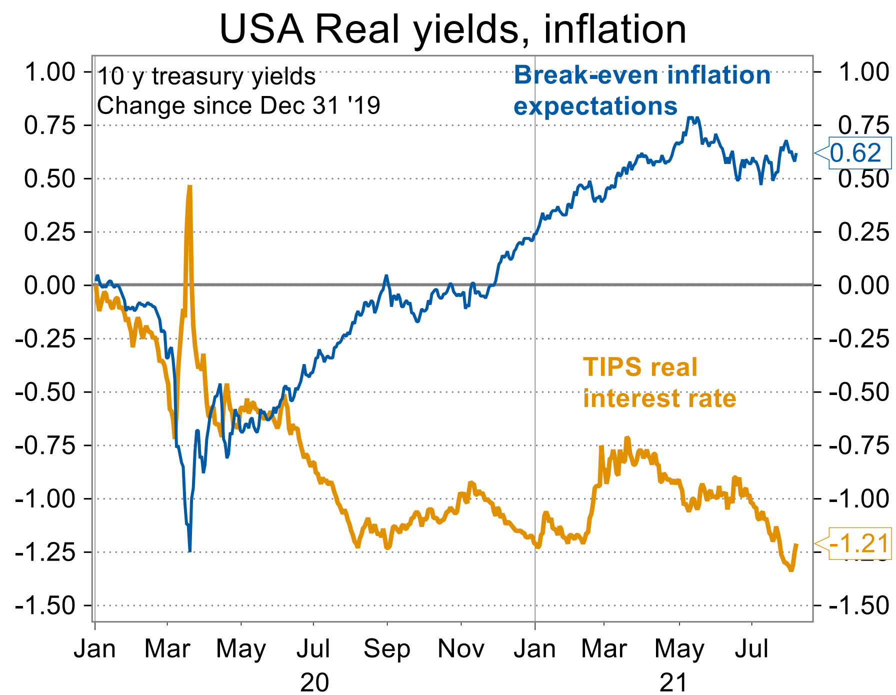




US 10 y gov real rates up 10 bps, following the prev. week's 16 bps collapse.

The level is still very low, at -1.06% - but in Germany the 10 y real rate is -2.00%, ATL (-2 bps last week)





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.31	0.07	-0.06	0.52
.. break-even inflation	2.37	-0.03	0.06	1.06
.. TIPS real rate	-1.06	0.10	-0.12	-1.19
Germany nominal bund	-0.45	0.00	-0.23	-0.65
.. break-even inflation	1.55	0.02	0.04	0.40
.. real rate	-2.00	-0.02	-0.27	-2.01

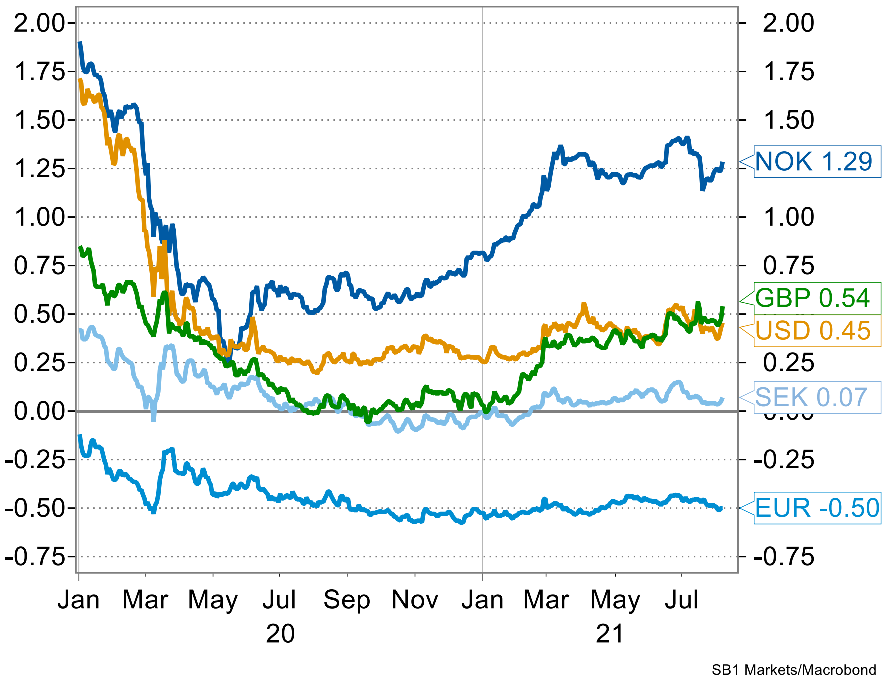
SB1 Markets/Macrobond

- What is going on, we asked no week ago?
  - » No major economic or central bank news
  - » No drama at the stock markets
  - » Commodity markets are stable/strong
- A strong US labour market report at Friday contributed to half of the net lift in interest rates last

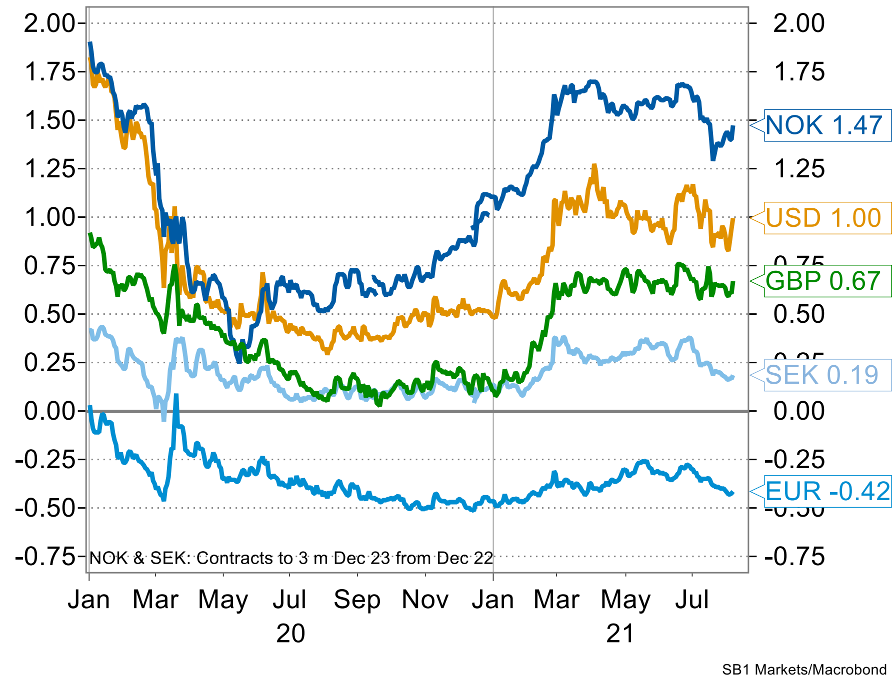
FRAs: Up almost everywhere last week

The Bank of England changed its outlook, and the US labour market strengthened

Dec 22 3m FRA rates



Dec 23 3m FRA rates



- The market expects both **BoE** and the **Federal Reserve** to hike next year
- Even if the Norwegian housing market has flattened, and economists are discussing whether **Norges Bank** will og should hike in September the market is fully discounting the Bank to start hiking

The Calendar: US inflation & labour costs, Chinese growth. CPI here

Time	Count.	Indicator	Period	Forecast	Prior
Monday Aug 9					
08:00	NO	Ind Prod Manufacturing MoM	Jun	(0.7)	-0.1%
08:00	GE	Trade Balance	Jun	13.5b	12.3b
Tuesday Aug 10					
08:00	NO	CPI YoY	Jul	2.8%	2.9%
08:00	**NO**	**CPI Underlying YoY**	**Jul**	**1.1%(1.3)**	**1.4%**
11:00	GE	ZEW Survey Expectations	Aug	55	63.3
12:00	US	NFIB Small Business Optimism	Jul	102	102.5
14:30	US	Nonfarm Productivity	2Q P	3.4%	5.4%
14:30	**US**	**Unit Labor Costs**	**2Q P**	**0.9%**	**1.7%**
Wednesday Aug 11					
06:00	SW	PES Unemployment Rate	Jul		3.7%
08:00	NO	Employment & wages	Q2		
14:30	US	CPI MoM	Jul	0.5%	0.9%
14:30	**US**	**CPI Ex Food and Energy MoM**	**Jul**	**0.4%**	**0.9%**
14:30	US	CPI Ex Food and Energy YoY	Jul	4.3%	4.5%
20:00	US	Monthly Budget Statement	Jul	-$231.5b	-$174.2b
Thursday Aug 12					
08:00	UK	Monthly GDP (MoM)	Jun	0.8%	0.8%
08:00	UK	GDP QoQ	2Q P	4.8%	-1.6%
08:00	UK	Manufacturing Production MoM	Jun	0.3%	-0.1%
10:00	**NO**	**Norges Bank lending survey**	**Q2**		
11:00	EC	Industrial Production SA MoM	Jun	0.0%	-1.0%
14:30	US	PPI Ex Food, Energy, Trade MoM	Jul	0.60%	0.50%
14:30	US	Initial Jobless Claims		375k	385k
Friday Aug 13					
09:30	SW	CPIF Excl. Energy YoY	Jul	0.5%	0.9%
16:00	US	U. of Mich. Sentiment	Aug P	81.2	81.2
Monday Aug 16					
01:50	JN	GDP SA QoQ	2Q P	0.2%	-1.0%
03:30	CH	New Home Prices MoM	Jul		0.4%
04:00	CH	Retail Sales YoY	Jul	10.9%	12.1%
04:00	**CH**	**Industrial Production YoY**	**Jul**	**7.9%**	**8.3%**
04:00	CH	Fixed Assets Ex Rural YTD YoY	Jul	11.3%	12.6%
During the week					
	CH	**Aggregate Financing CNY**	**Jul**	**1700.0b**	**3670.0b**

- **China**
  - » GDP grew more than expected in Q2, and June data were better than expected too. Still growth is very likely slowing, both due to lower growth in domestic and in foreign demand (for goods). The authorities have loosened monetary policy somewhat as credit growth has slowed. Surveys are down from the peak but so far not by much, neither vs. domestic nor foreign demand. July **credit data** will be available during the week, while the **rest of the monthly batch** is published early next Monday morning
- **USA**
  - » **Peak inflation?** Annual CPI inflation is expected moderately down in July – but it will remain far above normal levels, and not mostly due price cuts during the first month of the Covid-10 outbreak but due to very high – if not broad – increases in prices recent months. Companies are reporting very aggressive price plans (and they expect to lift wages sharply as well (more data on price plans this week)
  - » **Productivity, hourly compensation & unit labour cost** data are volatile and often substantially revised – but still among the very most important data from an economy, especially if there are inflation concerns. Unit labour costs (compensation – productivity) has increased much faster than normal, which they should not have if higher compensation per hour was due to cut in low-productivity, low-paid jobs
- **EMU**
  - » **Industrial production** very likely fell in June too, even if orders are soaring, and surveys are exceptionally strong
- **UK**
  - » **GDP** rose sharply in Q2, and a substantial part of the gap vs. the pre-pandemic level should be closed (GDP is also expected further up in June)
- **Norway**
  - » **Core CPI** inflation has fallen sharply, and as wage inflation remains moderate and the NOK stable, there are no strong upward price pressures – barring some impacts from higher inflation for some goods abroad
  - » We expect **Norges Bank's lending survey** to confirm moderate credit growth from the household sector, and no changes in credit standards, not vs. households or the business sector

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

Highlights

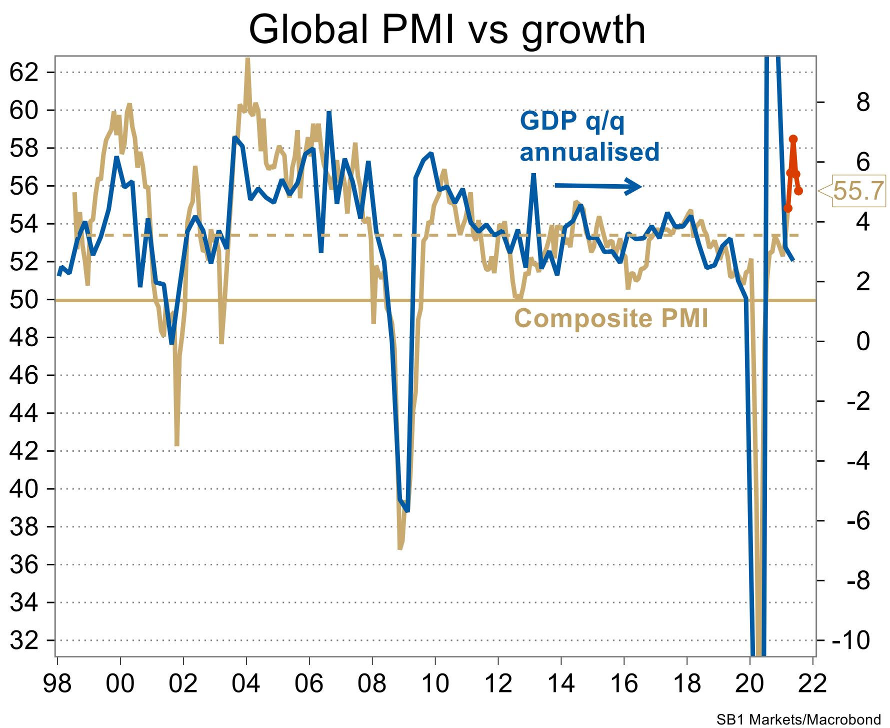
The world around us

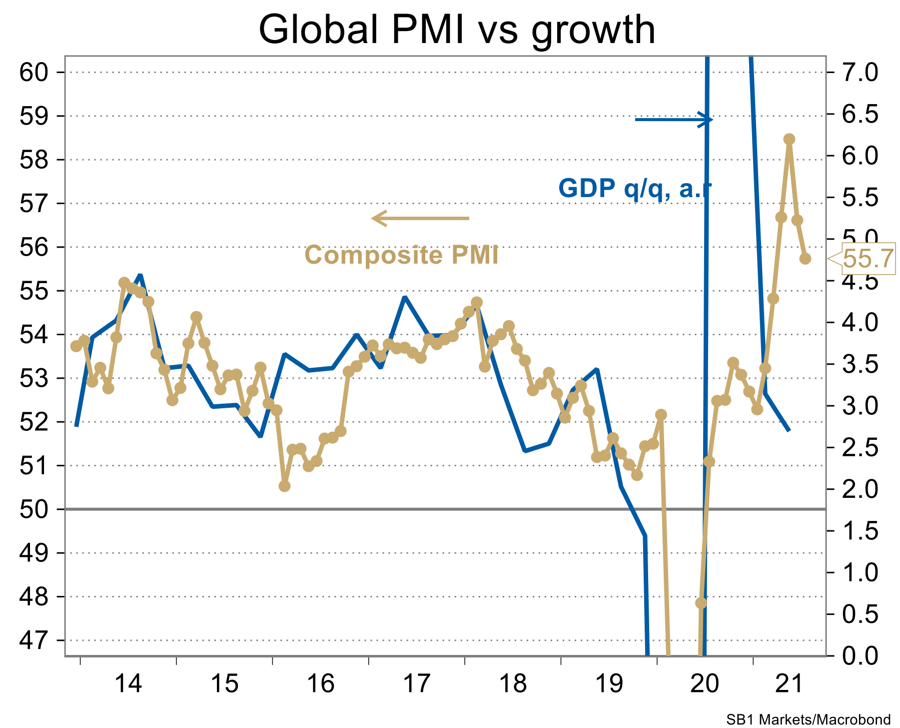
The Norwegian economy

Market charts & comments

The global PMI fell further by 0.9 p to 55.7 in July, signals 5% global GDP growth

Emerging Markets are lagging but the Chinese service sector surprised on the upside

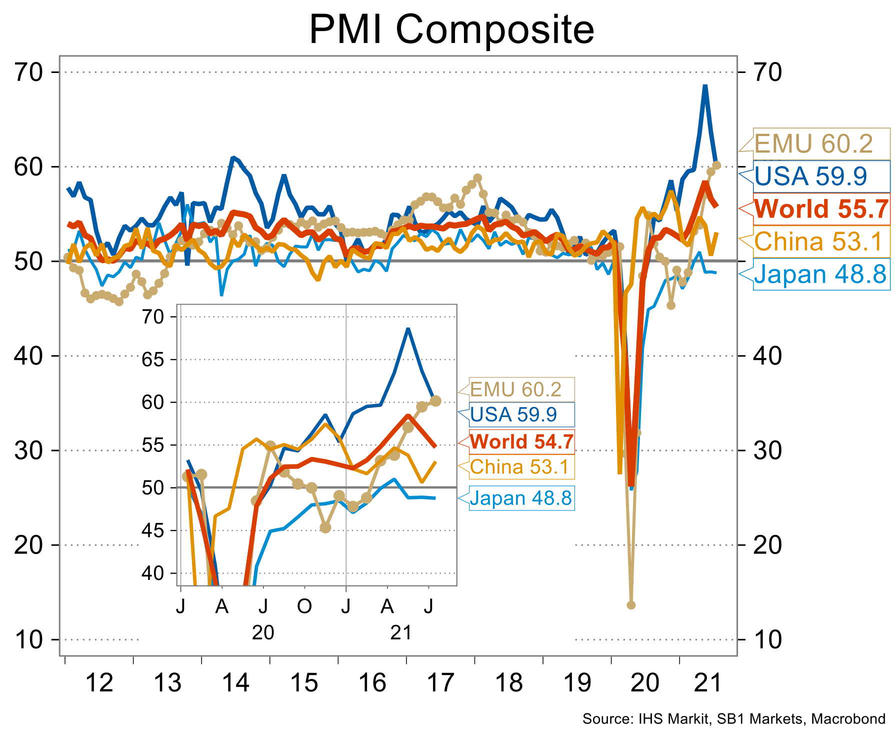


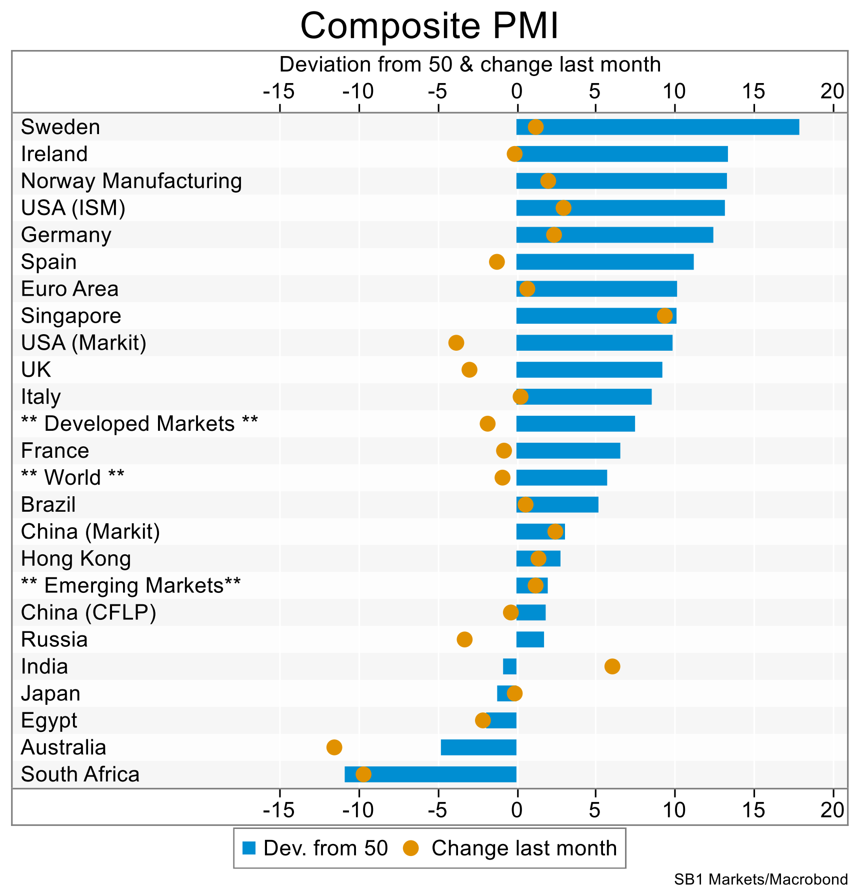


- **The global PMI** has peaked but it remains well above an average level, and signals higher than the (likely) growth in H1, where Covid outbreaks in Europe, and then in EMU dampened growth (and more than the current wave probably will do)
- **The Chinese PMIs** were mixed but Markit's service sector survey surprised at the upside – which 'saved' the global PMI, which fell 1 p less than we assumed!
- **The US PMI** was weaker but still close to 60, signalling almost 5% GDP growth. At the same time, the **ISM services** survey shot up to ATH!
- **The EMU PMI** rose a tad less the first reported but at 60.2, high growth is reported - a 4% growth signal
- **Emerging markets** are reporting far lower growth (vs trend growth) than the rich part of the world, very likely due Covid-19 challenges
- **Delivery times, input & output** prices are still increasing at a rapid pace but prices slower in July than in June

Rich countries in the lead, while Emerging Markets are growing far slower

The gap was reduced in July as PMIs in both China and India rose





- 11 countries/regions up (from 9 in June), 11 down in June (from 16). 5 below the 50-line (from 3)
- Sweden, Ireland, US ISM and Germany at the top (+Norwegian manufacturing)
- The Chinese service sector PMI was far better than expected –and lifted the composite – and the global PMI!
- India recovered sharply but the composite index remained just below 50 (which still signals some 6% growth…)
- Even so, EM PMIs are far weaker than their peers in the rich part of the world (DM) – even if Australia fell sharply in July

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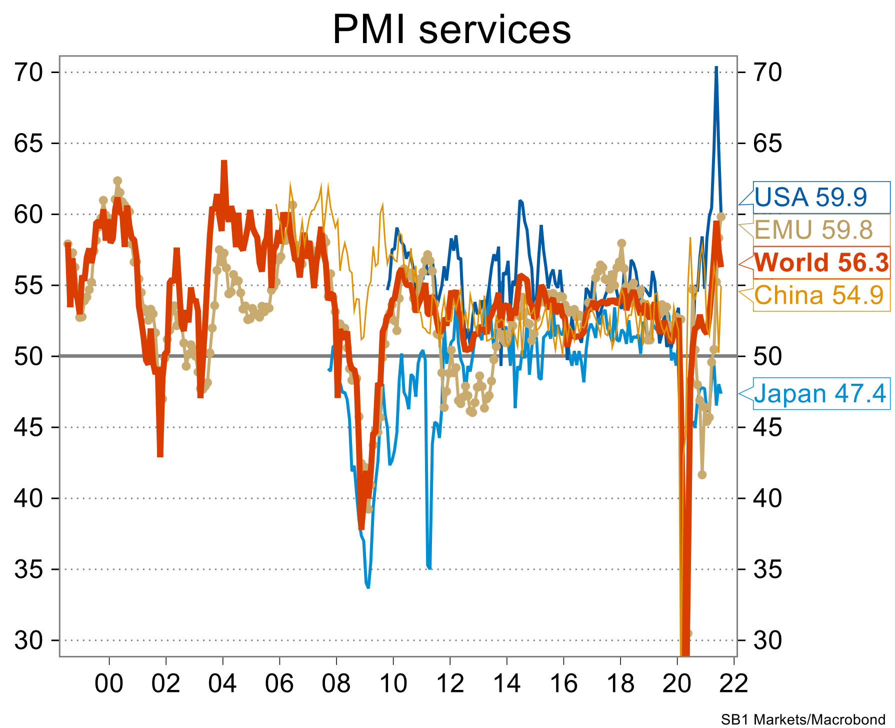
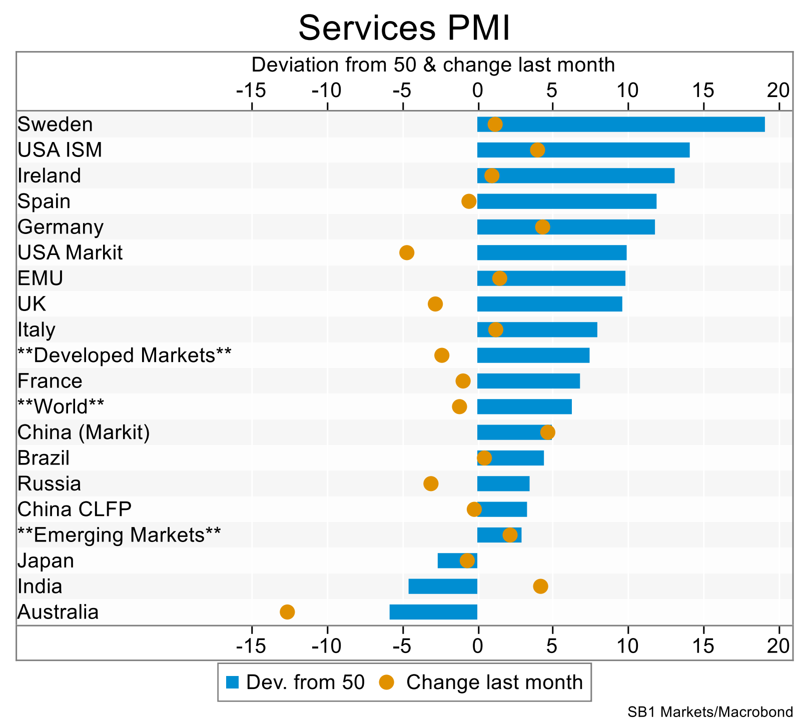
The service sector PMI -1.2 p to 56.2 in July, better than we assumed

Sweden still at the top. ISM services up to ATH. The Indian index up, still weak. EM avg. at 52.9, DM 57.5





- **The service sector PMI** fell 1.6 p less than we assumed, and the global print signals growth well above trend
- 10 countries/regions up (8 in June), 10 down (12); 3 below the 50-line (2), 18 above (19)
- The **US ISM** services index surprised sharply on the upside, up to an ATH, Markit's PMI fell (but is still strong). **EMU** further up
- The **Indian** service sector PMI rose sharply in June but remained well below 50. **Australia** hard hit by the Delta attack
- **EM services are** the weak link, very likely due to the Covid-19 challenges – even so at almost 53 (not a weak print) DMs at 57.5. The gap is large but narrower than in May/June (due to the partial recovery in India, the string Chinese print)

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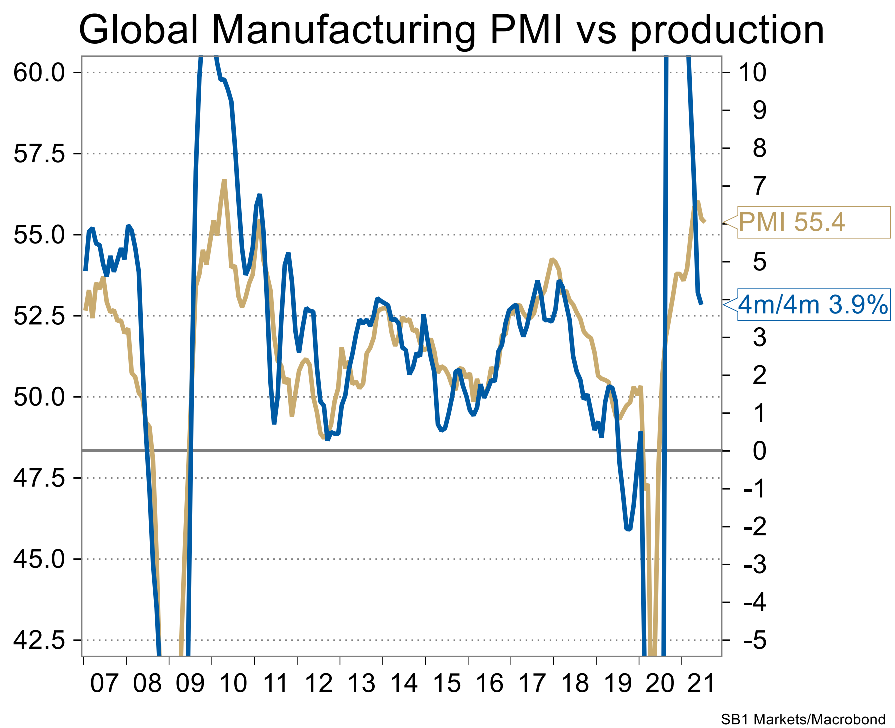
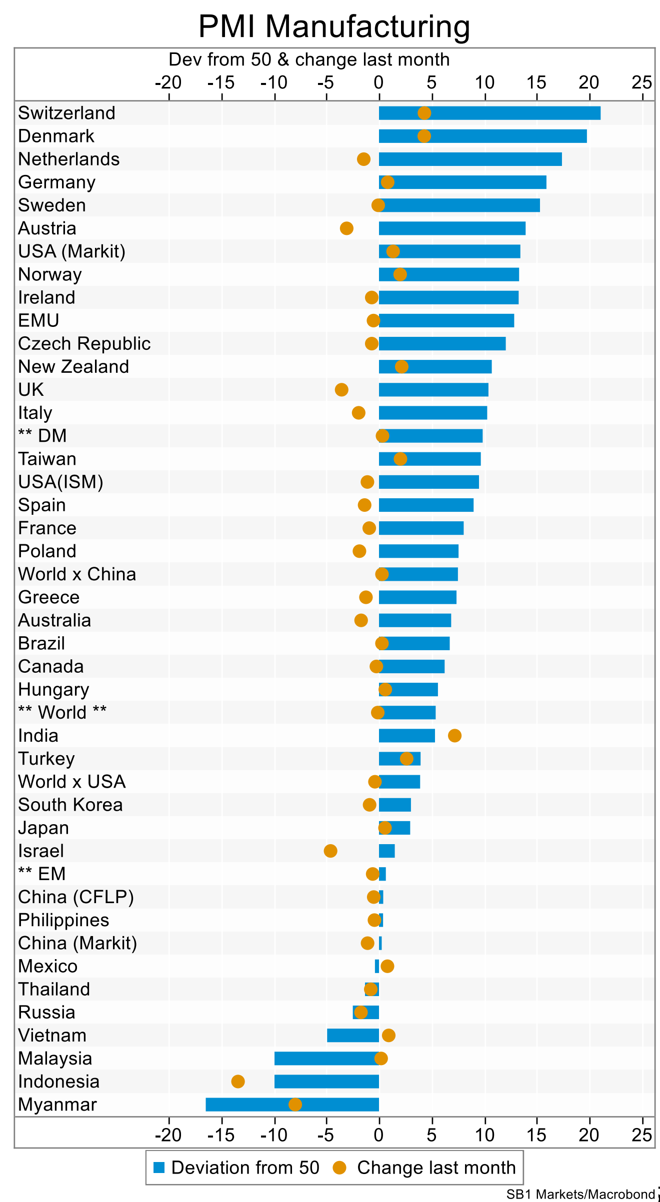
Manufacturing PMI fell slightly, 80% are still above 50. Europe in the lead

The PMI fell by 0.1 p to 55.4 in July, still an unusually high level





The **global manufacturing PMI** was above our f'cast

- 35% of the countries/regions reported higher PMIs in July than in June (from 42)
- Almost 80% of countries reported a PMI> 50, marginally down vs. June
- The DM (rich countries) average at 59.8 is equal to ATH (in May), far above previous records – and way above the EM average at 50.7, the difference is far wider than anytime before. The main reason is obvious: Lack of access to vaccinations in most EMs
  - European countries still dominates the upper part of the list
  - India recovered smoothly in July, following the June drop – now signalling 5% GDP growth
  - Indonesia reported the largest decline m/m amid the Covid-19 crisis

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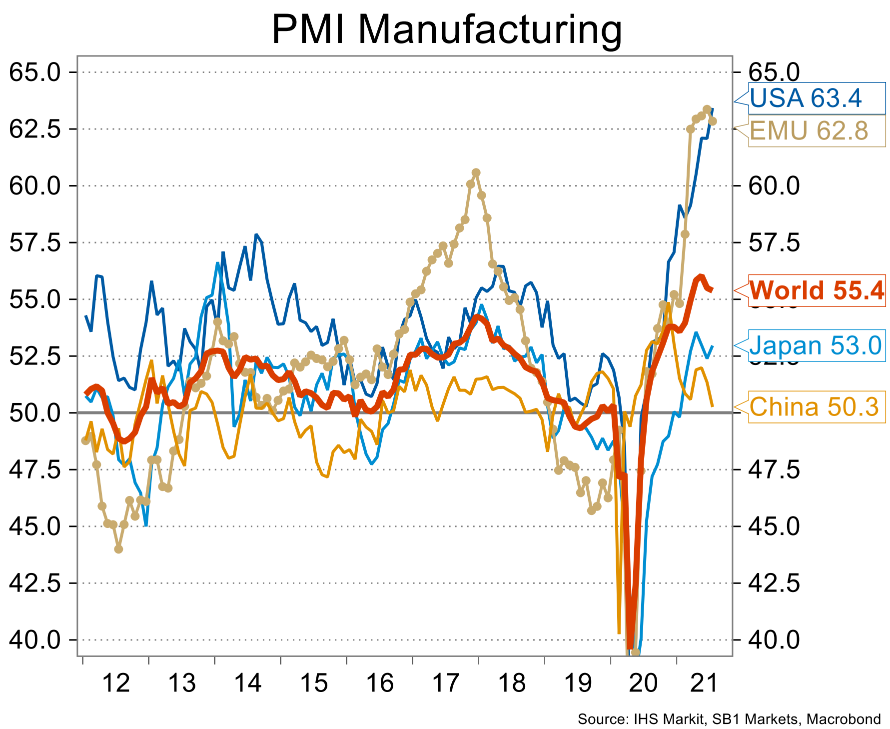
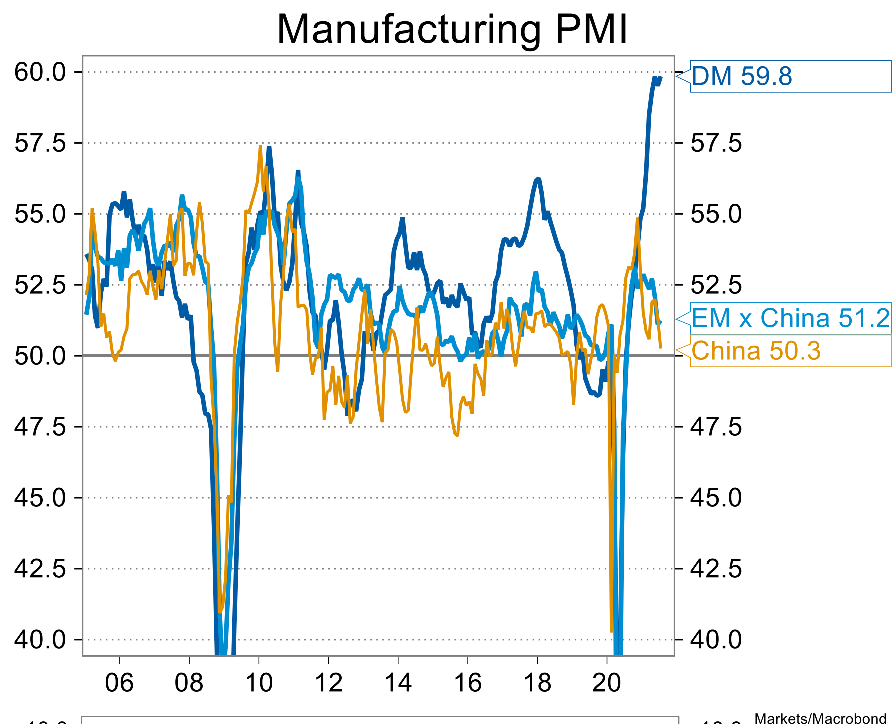
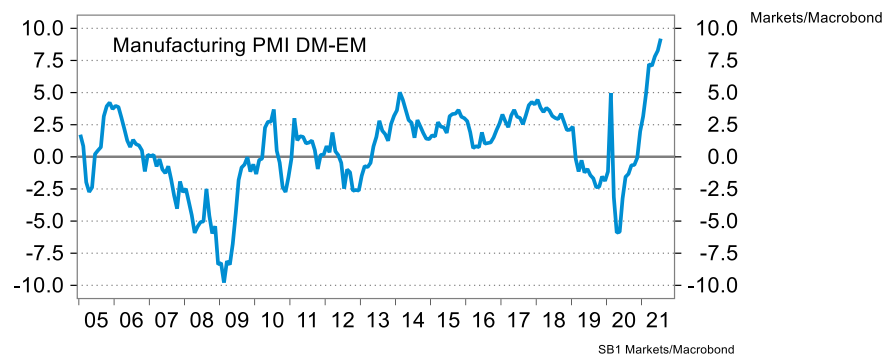
The boom in the manufacturing is broad, in rich countries. EM still below par

Emerging markets are lagging like never before – no doubt due to lack of access to vaccinations



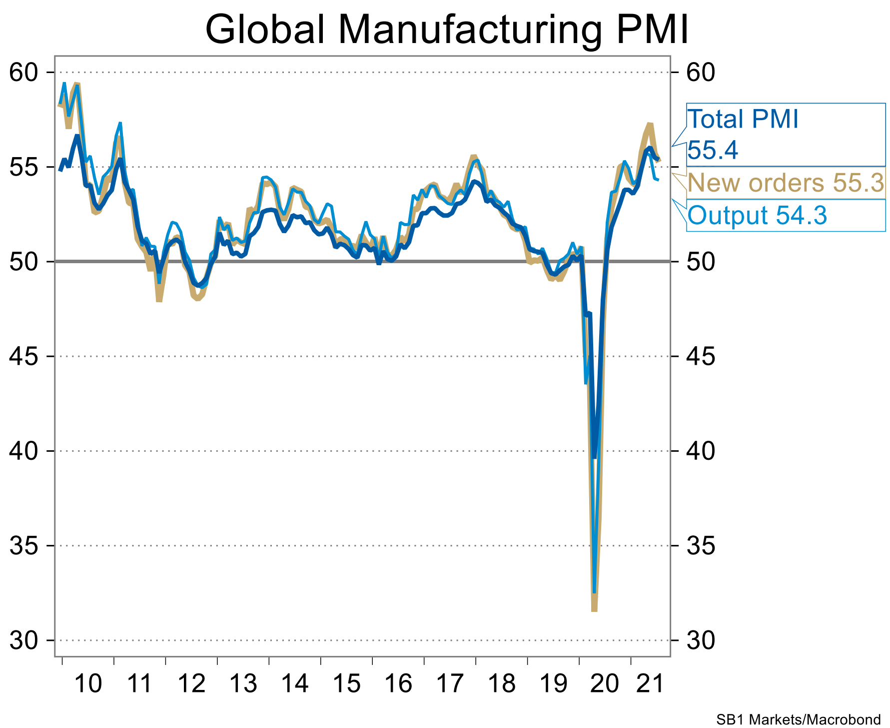


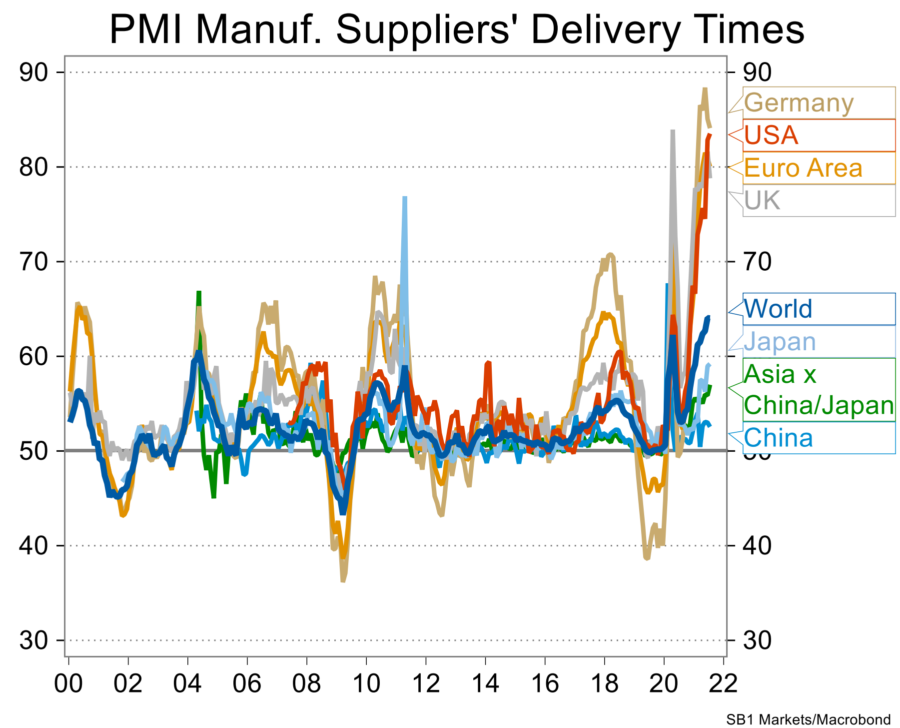


- The good news: This will not last forever, one day the population in poor countries will be vaccinated too – or will become immune after having contracted the virus
- In India, 2/3 of the population carry antibodies, research suggests (and the real death count may be at 10x the official estimate)
- The bad news: It will probably take several quarters for many EM to get a high immunity rate, at least through vaccinations

Orders, output grew at a slower pace in July

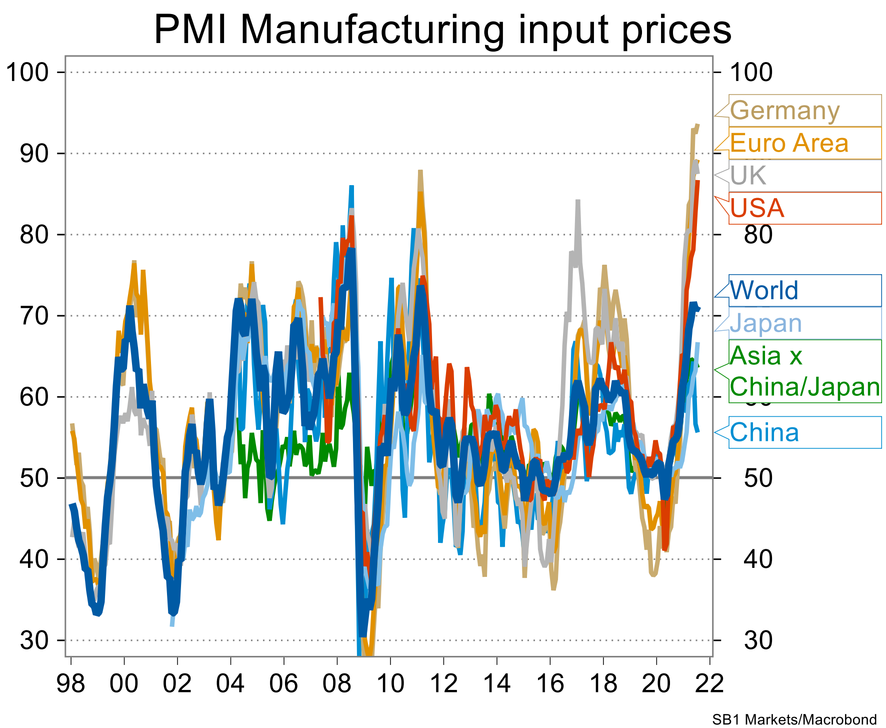
Still, manufacturers are still reporting strong growth. Global delivery times further up

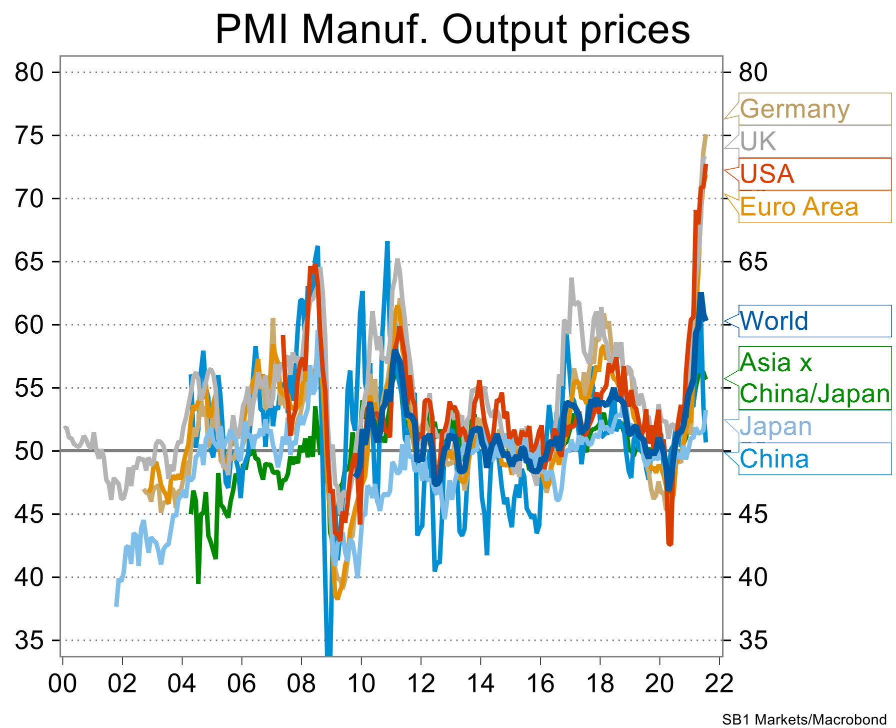




- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) rose further in July, to the highest level ever
  - » However, delivery times rose at a slower pace (but still very fast!) in Europe in July (as in June) – the first sign of some easing of supply chain problems??

Peak price increases? Both global manufacturing input & output prices down





- **Input prices** grew a tad slower in June and July but still close to the fastest pace since 2011, according to the companies
- **Output prices** grew at a slower pace too, but still far above anything we have seen before - data back to 2009 (but several countries are reporting the fastest increase even back to year 2000)
- The marginal slowdown global price indices in June and July is due to sharp decline price increases in **China**
- **Still, the overall picture is clear:** rapid growth, very long delivery times, many commodities in short supply, and higher prices look like something familiar

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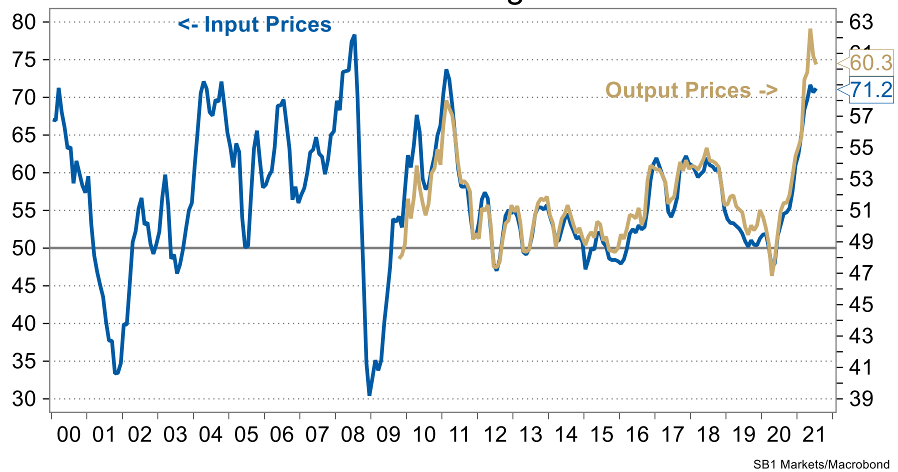
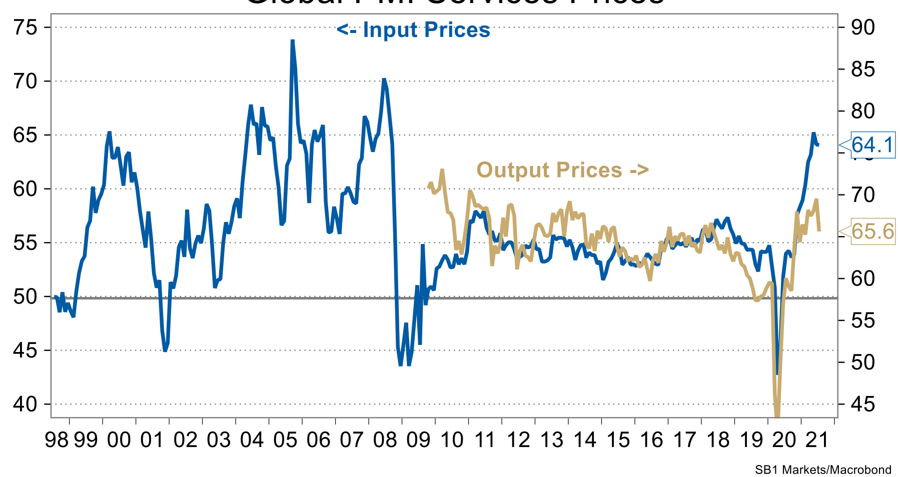
Businesses keep reporting rapid growth in input/output prices but <u>a tad slower</u>

Peak PMI price indices? Given the surge in CPIs, limited upside risk from here?

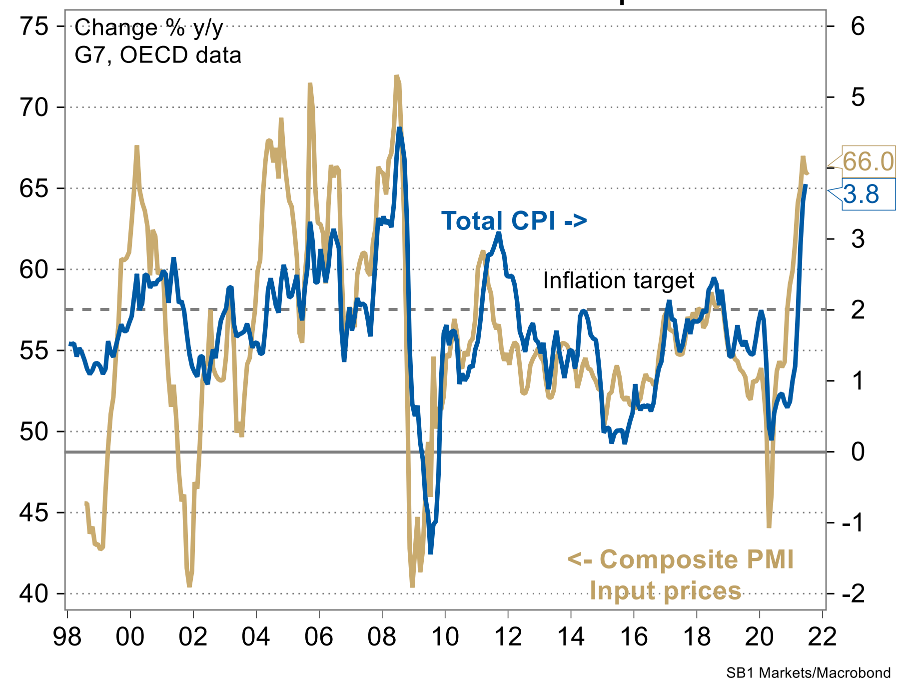
Gobal Manufacturing PMI Prices



Global PMI Services Prices



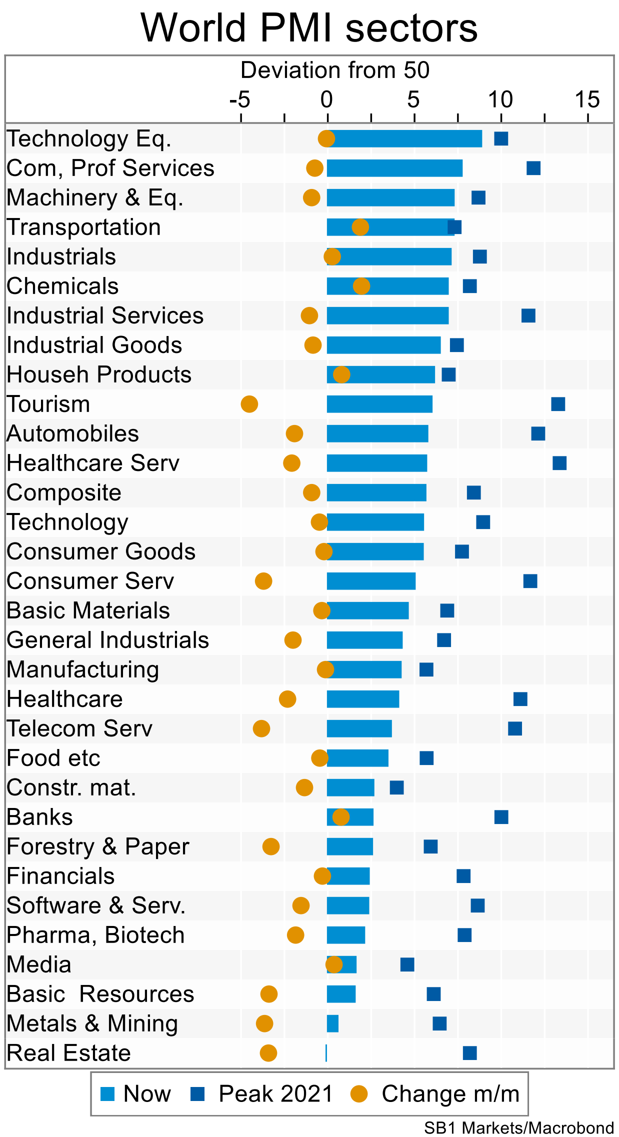
OECD Inflation vs PMI prices

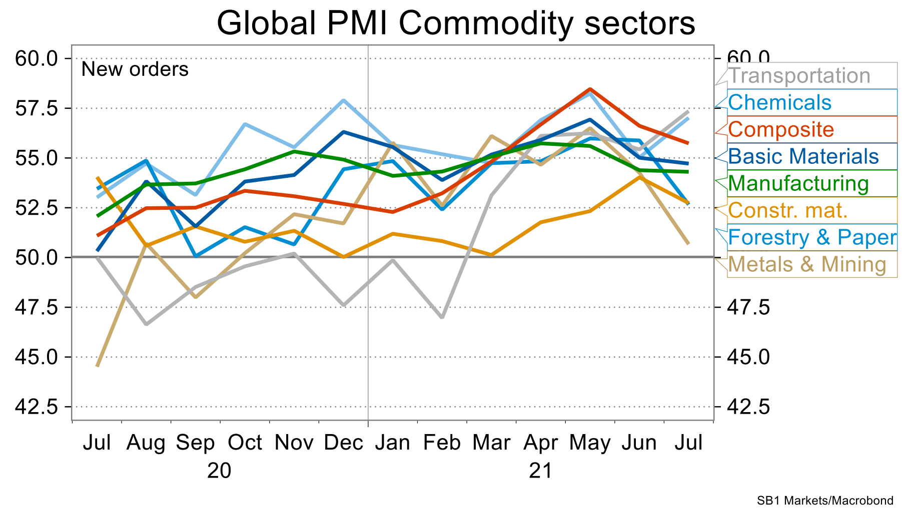


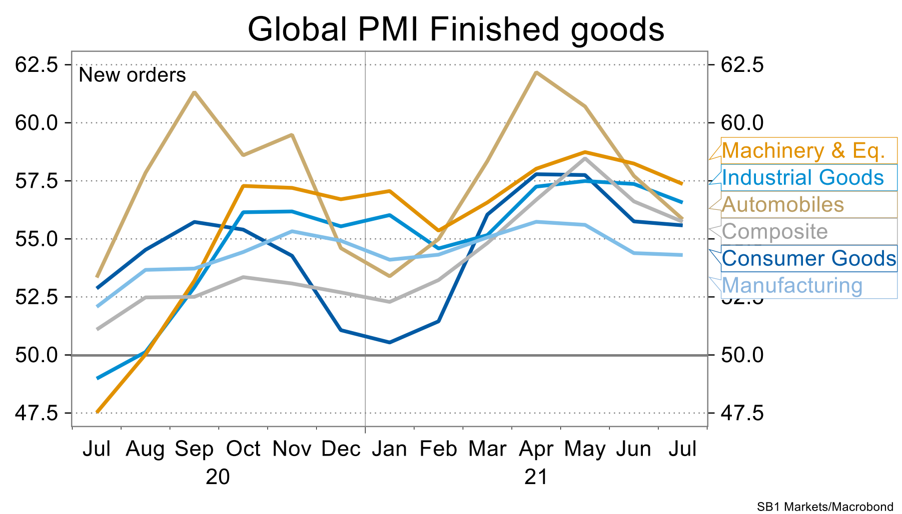
- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices – but the peak in price increases may be behind us
- The correlation to **actual CPI inflation** is not prefect but the PMIs do not signal limited upside risk to annual inflation rate
- The correlation to **core CPI** is far less impressive

Most sectors report slower growth in July – and almost all well down from peak

Metals & mining – normally a leading sectors has slowed sharply, and







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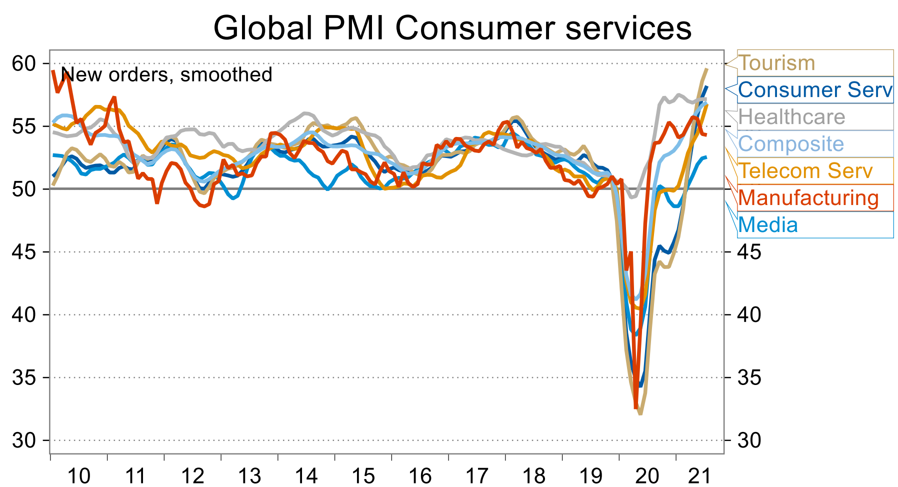
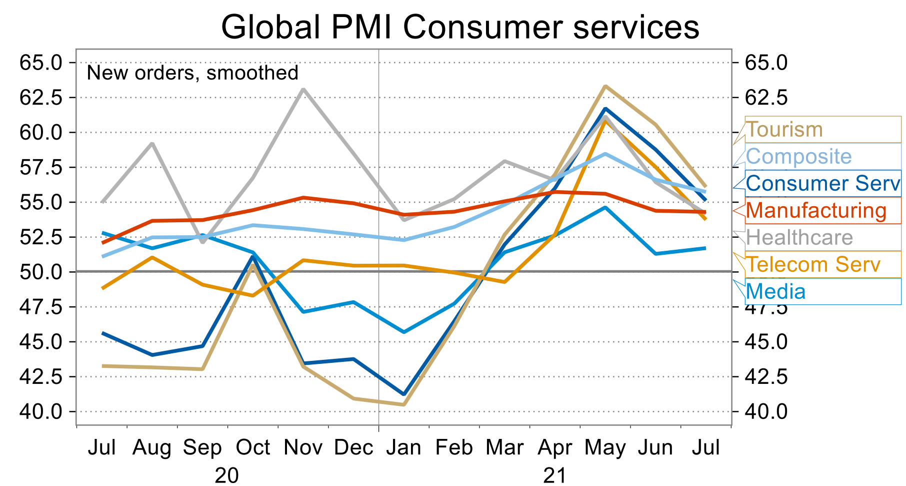
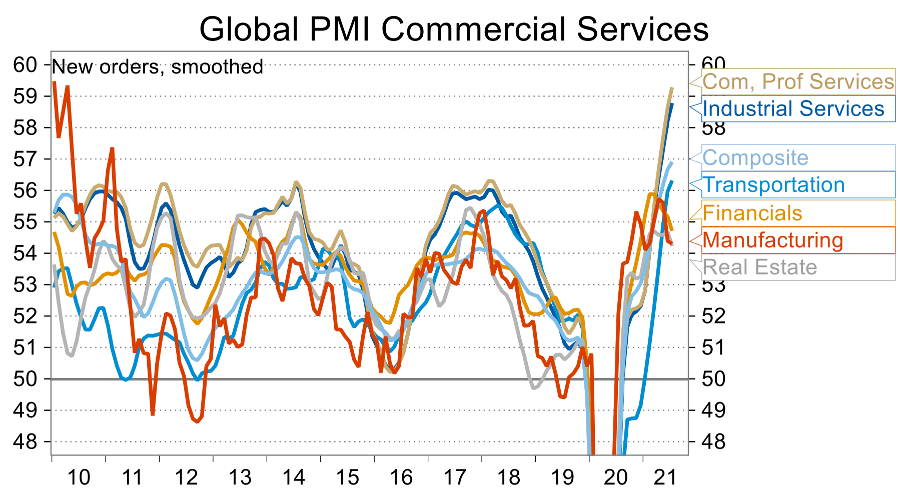
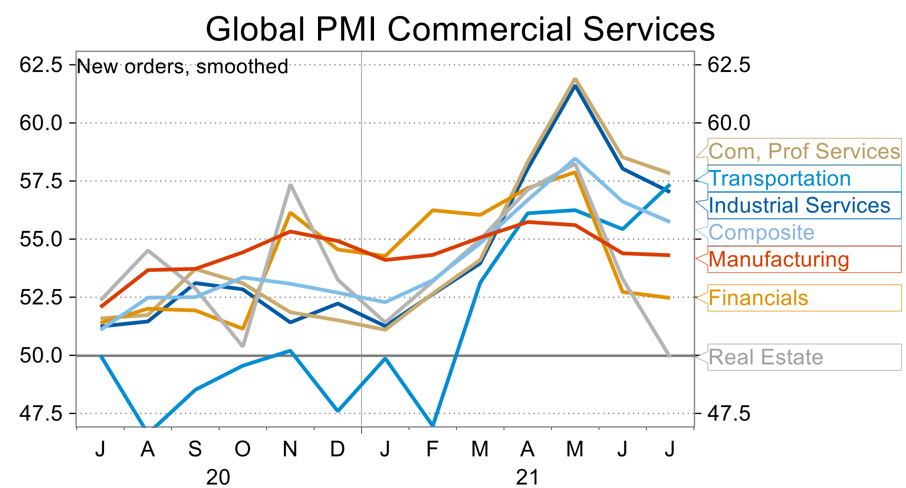
Services are reporting slower growth but far from slow

Except for real estate, partly media & finance



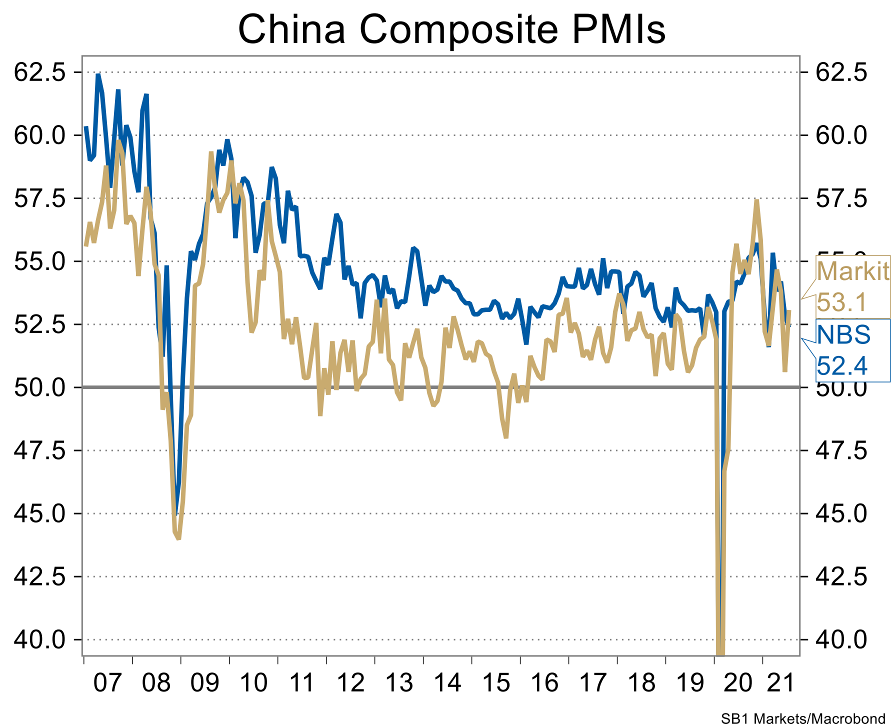


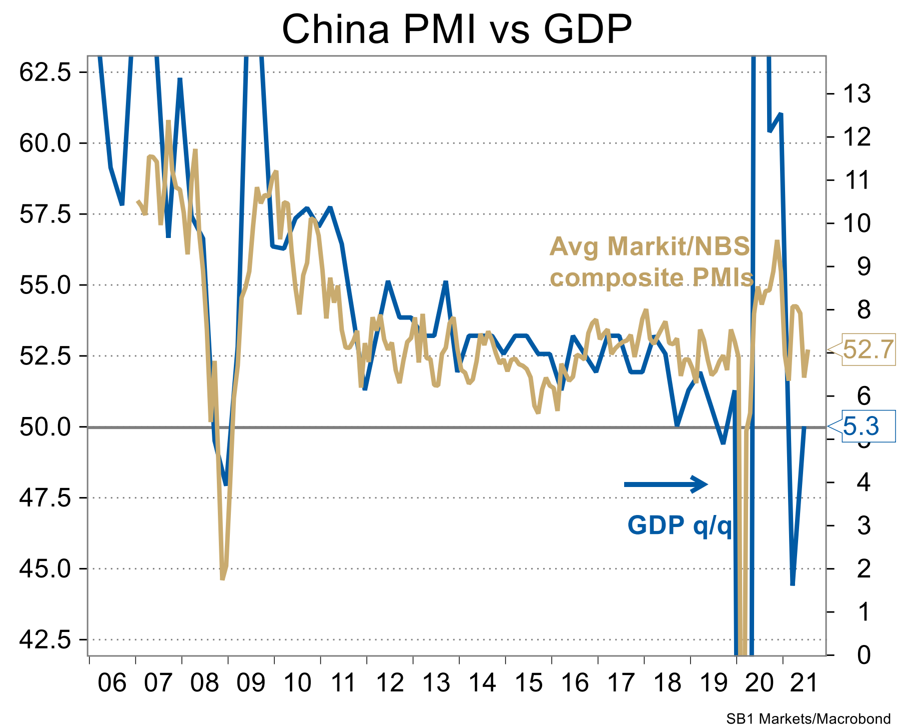




Mixed July surveys, but on average up – and the level signals higher growth in H2

Markit's index was far better than we assumed, as services surprised on the upside

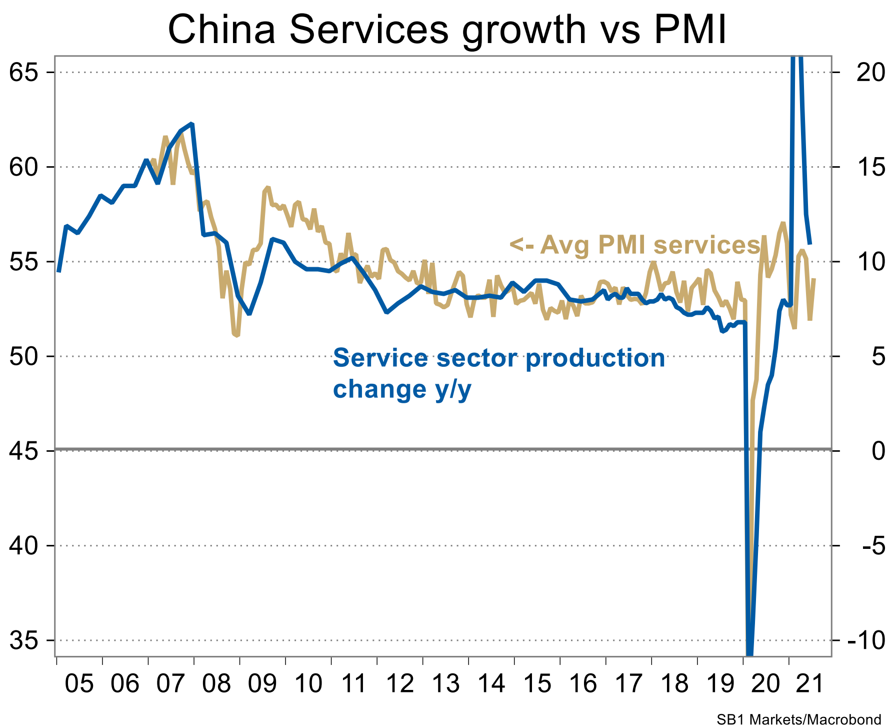


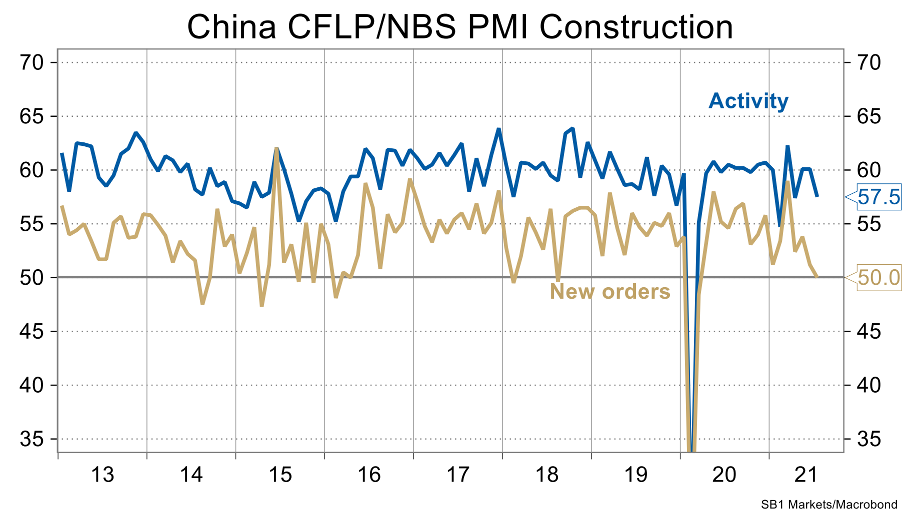


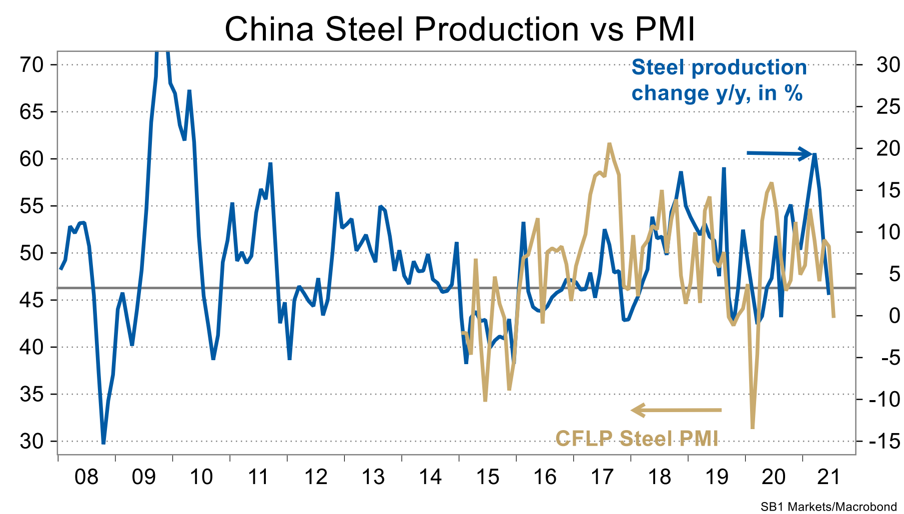
- The **NBS index** fell by 0.5 p to 52.4, below the average since 2012, expected down by 0.2 p
- **Markit's composite PMI** rose by 1.6 p 52.4, we assumed a 0.2 decline!
- Taken together, the two composite PMIs rose by 0.9 p to 52.7 which is close to the average level since 2012, signalling growth far better than the actual 3.6% GDP H1 reported rate

Services are reporting growth above trend – but construction, steel is slowing

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







- The service sector average PMI recovered more than half of the June loss in July and signal growth above trend. The uptick may be due a successful handling of the Delta variant in July. In August, some more trouble?

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

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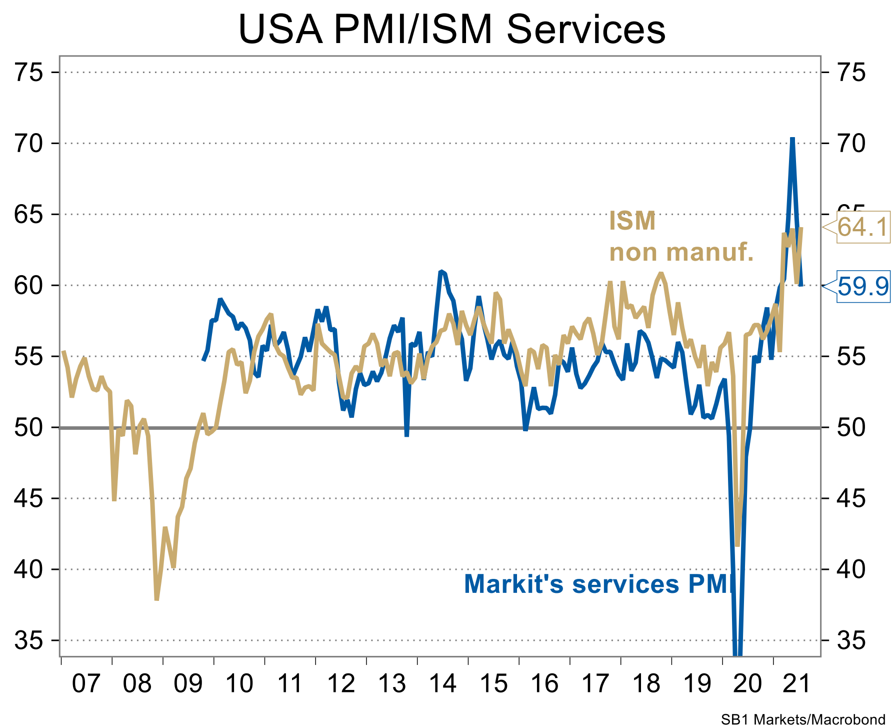
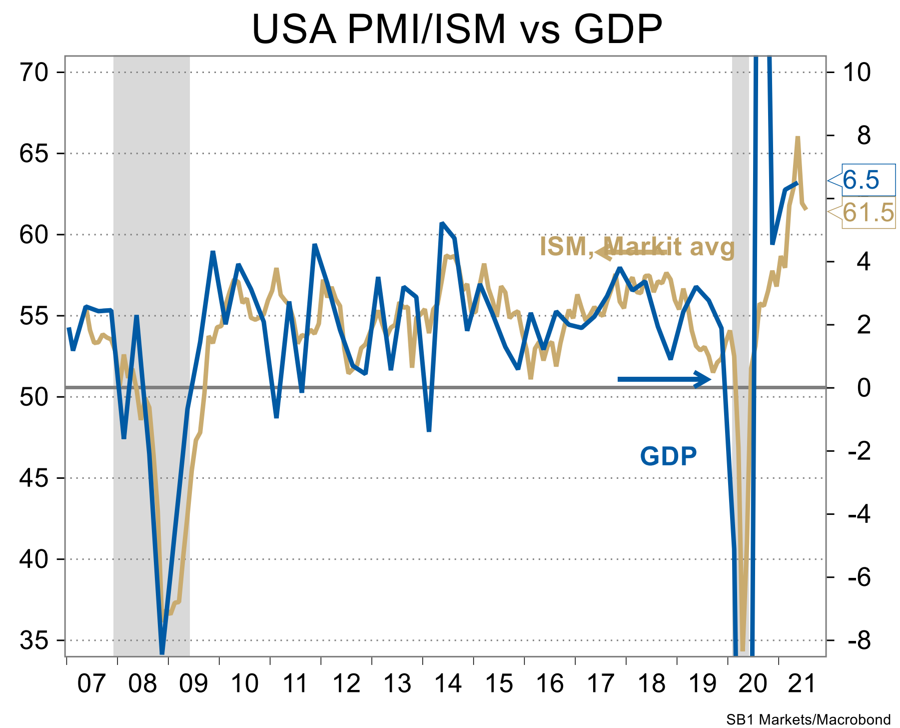
Services ISM reversed the June decline, rose to 64.1, to ATH!

Markit's service sector down to 59.9 – and the manuf. ISM down. Sum of all -0.4 to 61.5, -> 6% GDP?

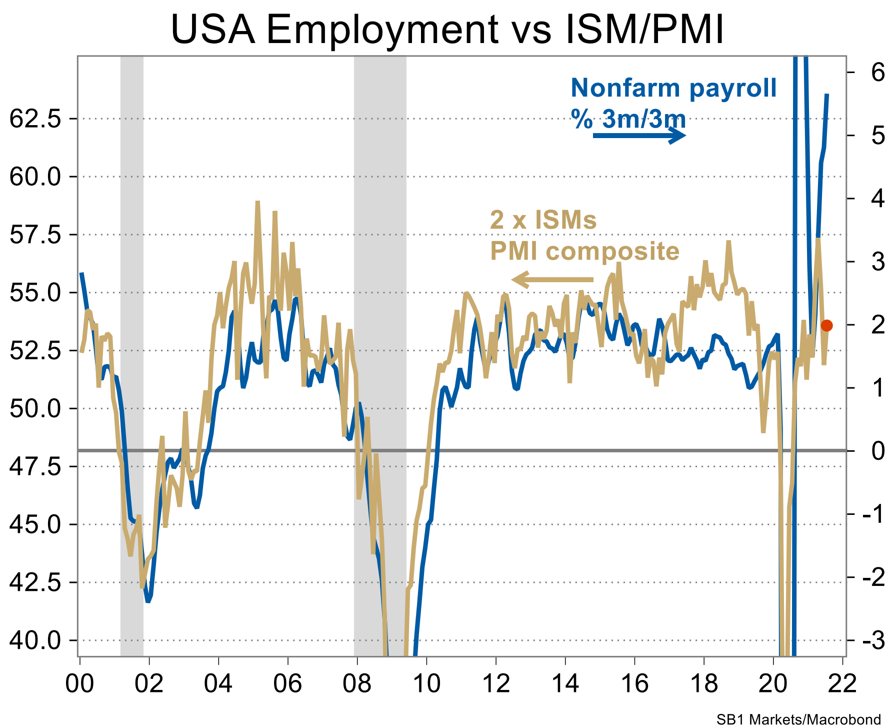




- **Services ISM** out of the blue rose 4 p to 64.1, to a new ATH, expected unch. following the 3.9 p drop in June to 60. 17 of 18 sectors reported growth, none a decline.
- Some sectors are reporting serious labour shortages, and some larger wage increase. Shortages of many types of products
- **Markit's service sector** was confirmed further down
- Together with their manufacturing indices, the **PMI/ISMs** signal some 6% GDP growth in Q3, marginally below the actual growth in Q2 (6.5%)
- **Prices indices** are soaring, for input prices as well as output prices (in Markit's PMI)

PMI/ISM: The employment indices are still low

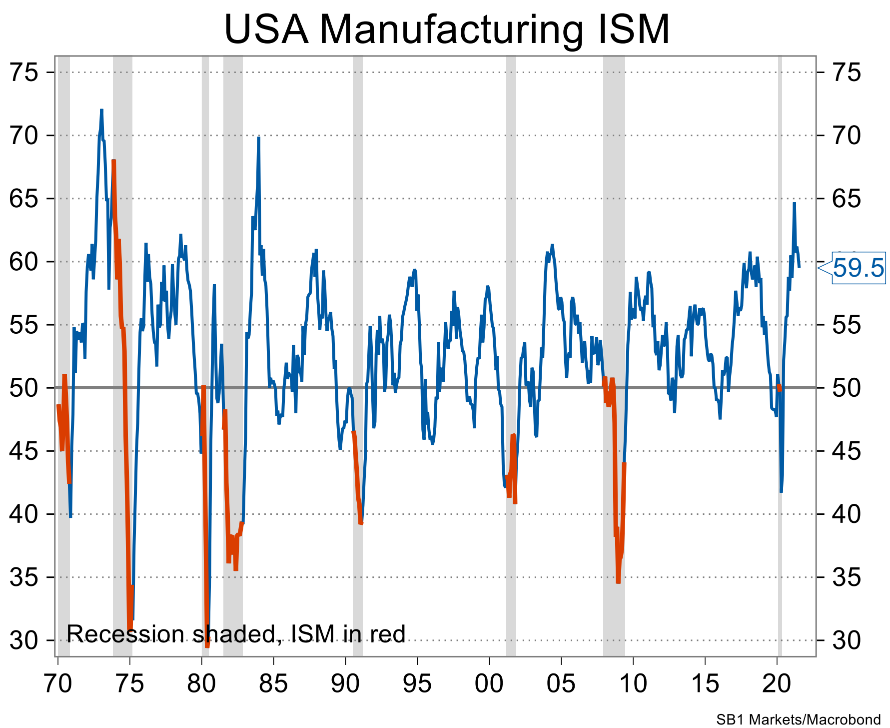
The PMI index reported slower growth, the ISM indices higher but both at ‘far too low’ level

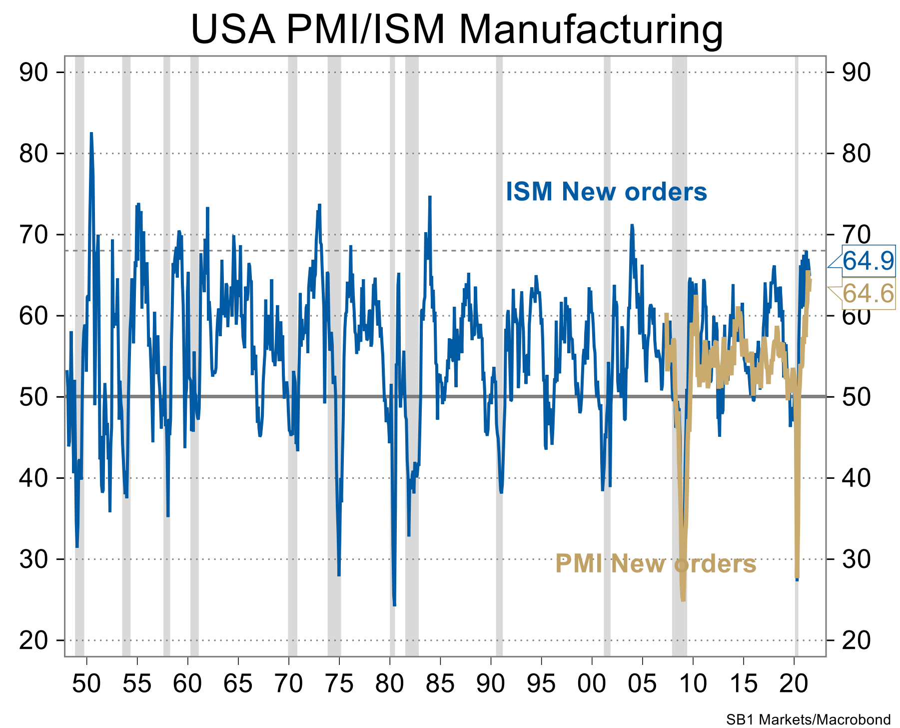


- **Actual employment** growth was strong in July, and the 3m/3m expansion equalled a 5.7% pace
- The average of PMI & ISM employment indices rose to somewhat above an average level in July – a 2% growth rate - but given the still substantial shortfall in employment vs the pre-pandemic level, that’s far too weak – confirming that companies have difficulties filling vacant positions

Manufacturing ISM below expectations, but level is still solid

The ISM fell 1.1 p to 59.5, exp. +0.2 p. Price pressure eased but remains extreme. Employment up





- The ISM total index fell further in July, the 4th decline in row. ISM is still signalling unusual rapid growth in manufacturing production
  - » In June, 17 of 18 manufacturing sectors reported growth, as in July. One down, textile mills
- The new orders fell slightly but is still very high at 64.9
- 51 commodities (from 52) are up in price, just copper and lumber down
- 36 commodities were reported in short supply, the highest no. ever, up from 26 in June. Still, some businesses reported that they expected supply chain challenges to ease somewhat in H2, and delivery times rose marginally slower than in June. Labour shortages are still wide-spread, especially in the transportation sector

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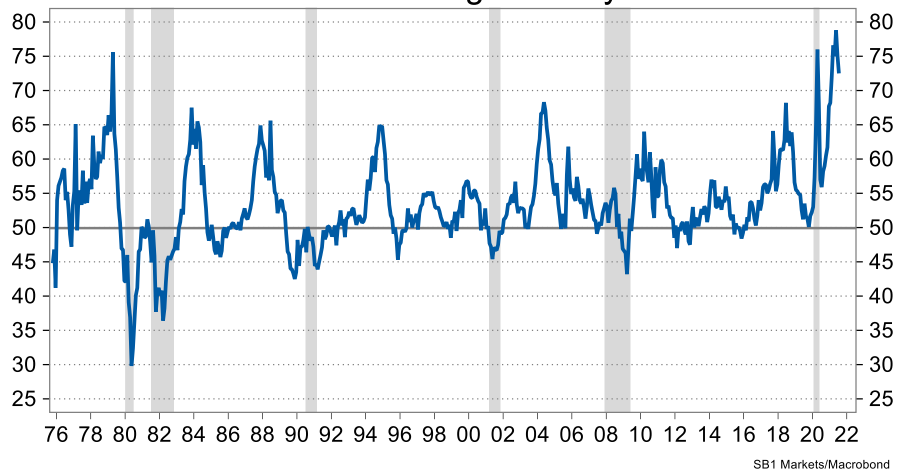
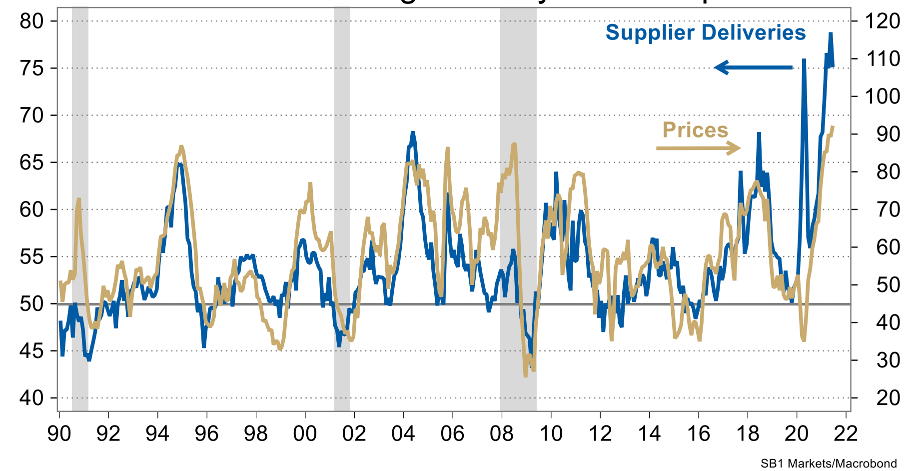
Delivery times rose marginally slower – but still extremely fast

Price are rising very rapid too but a tad slower than in June

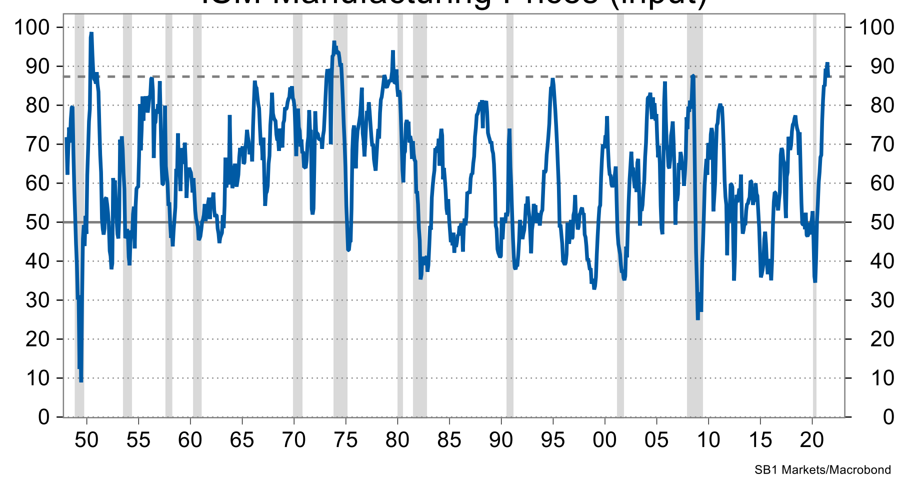
ISM Manufacturing Delivery times



ISM Manufacturing Delivery times vs prices

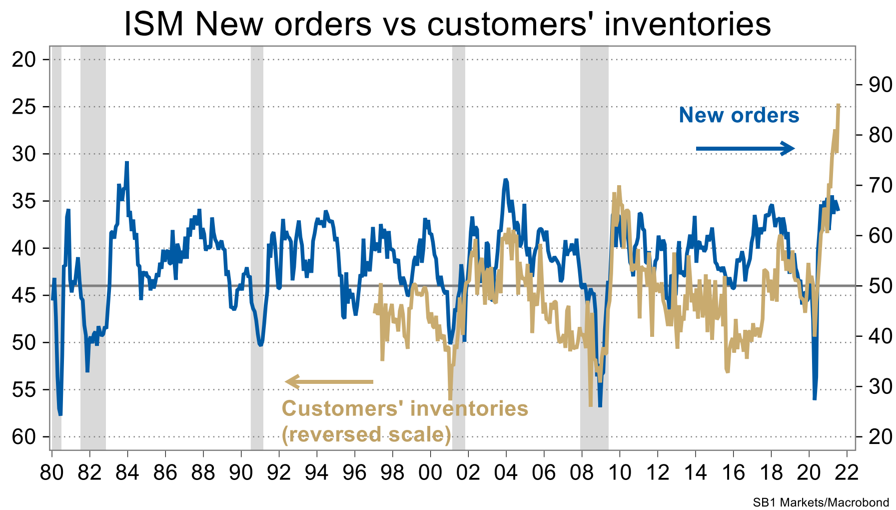


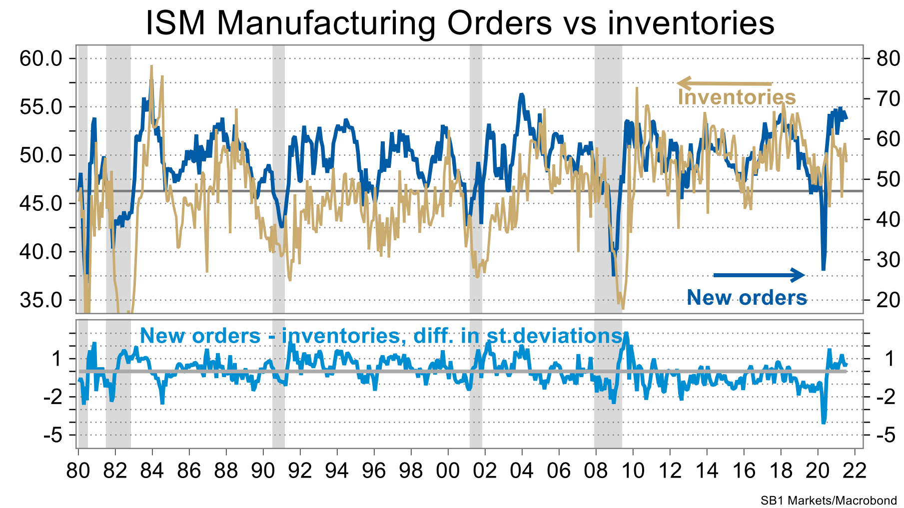
ISM Manufacturing Prices (input)



Customers inventories are 'emptied' – signals strong orders for a while still

Manufacturers are reporting that their customers' inventories are collapsing, like never before

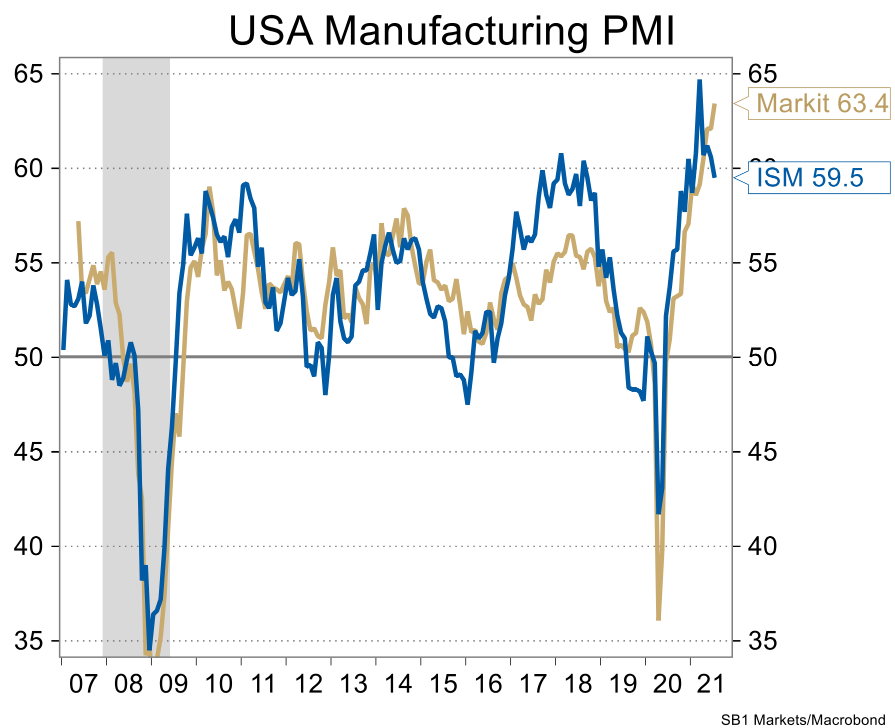


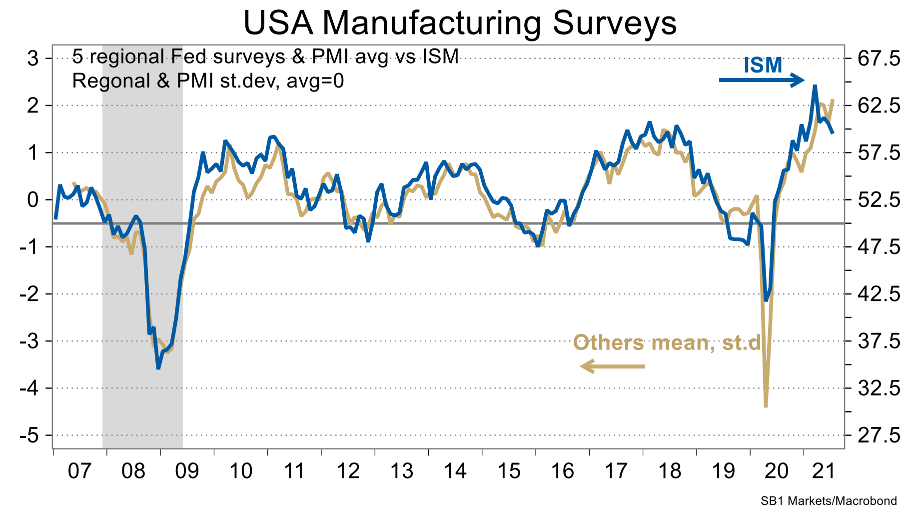


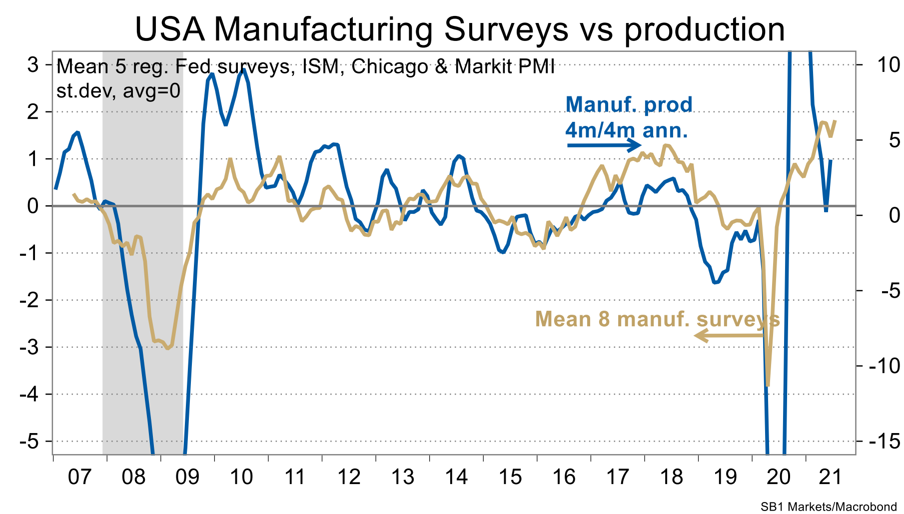
- The only 'soft' spot: Manufacturers' own inventories are not declining

Other manuf. surveys rose to ATH (on average) in July

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



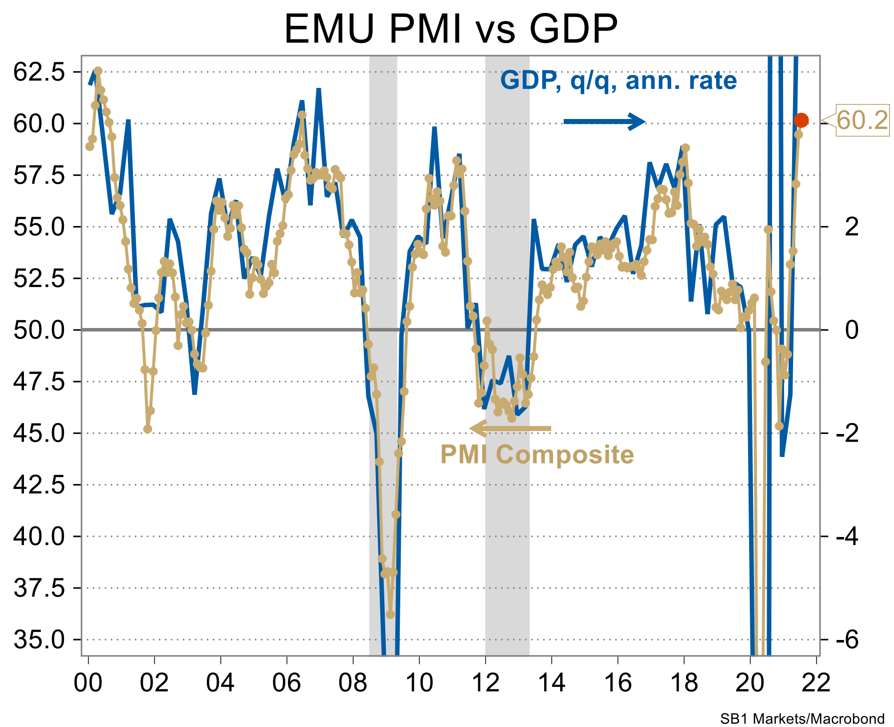


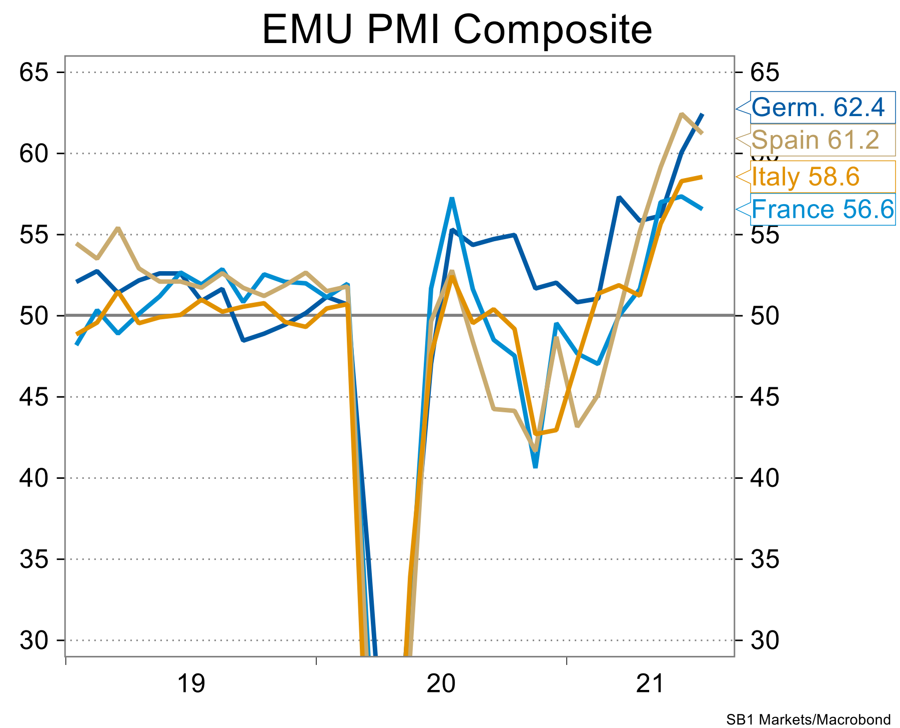


- Actual manufacturing production is on the recovery track but has not yet reached the pre-pandemic level
- We expect a continued growth the coming months. The inflow of core durable goods orders are above the pre-corona level
  - » Both exports and investments will probably climb further while goods consumption in the US probably has peaked, at a high level

The July PMI confirmed further up (but 0.2 less than first reported)

The services index rose sharply but a tad less than the prelim. estimate.

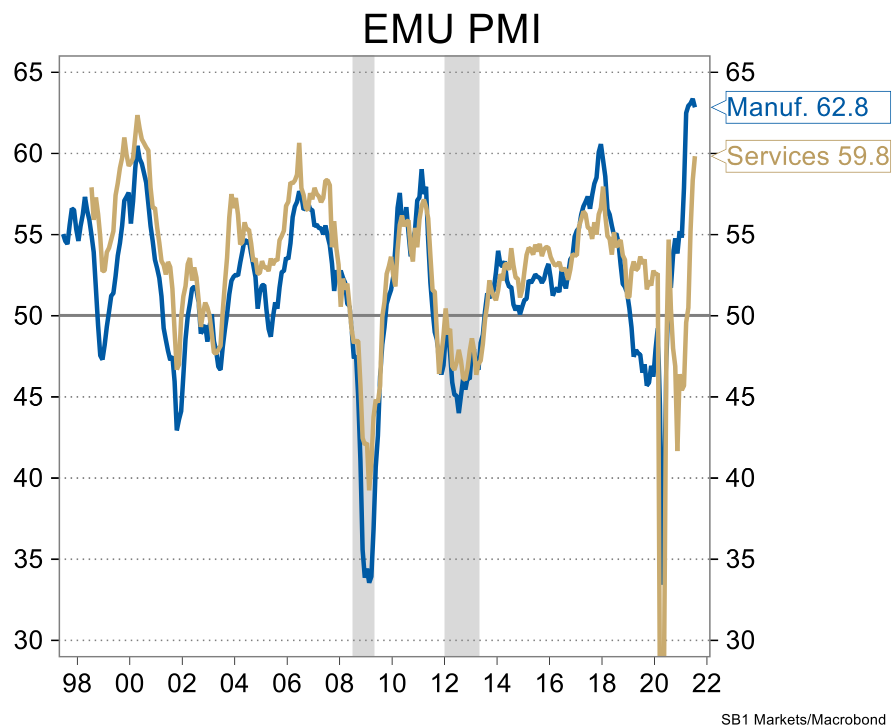


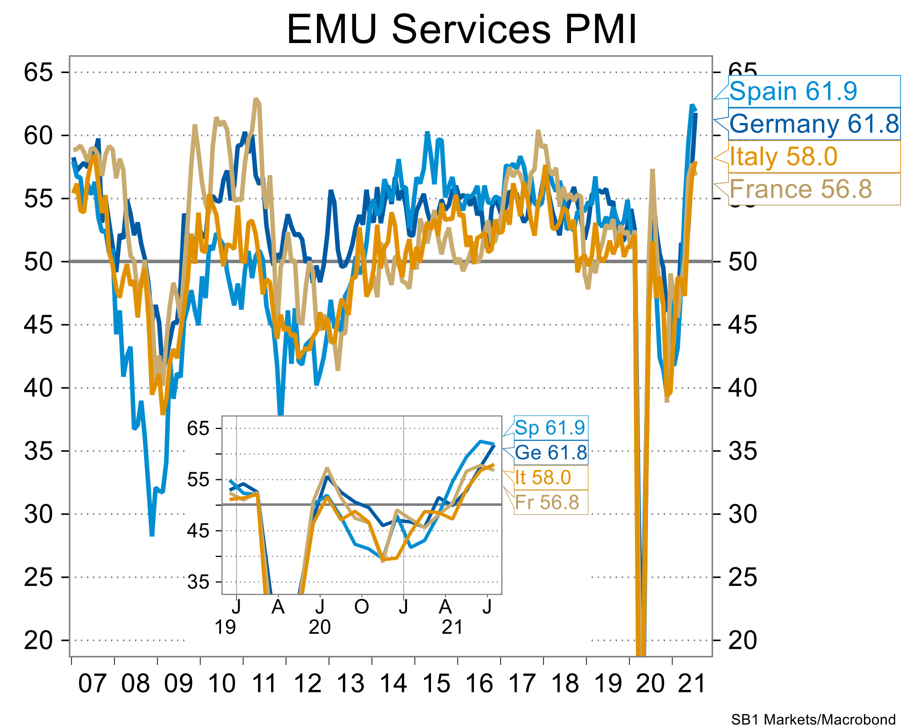


- **Spain** and **France** reported a small decline in their composite PMIs, **Germany** a substantial increase
- The final **composite PMI** rose to 60.2 from 59.5 (0.2 p below the flash estimate), and signals a 4% GDP growth pace
- GDP rose by 6 8.3% in Q2 (2% not annualised) more than signalled by the PMIs

Services report strong growth as more restrictions were eased in July

Manufacturing sector still rock solid – but growth may have peaked

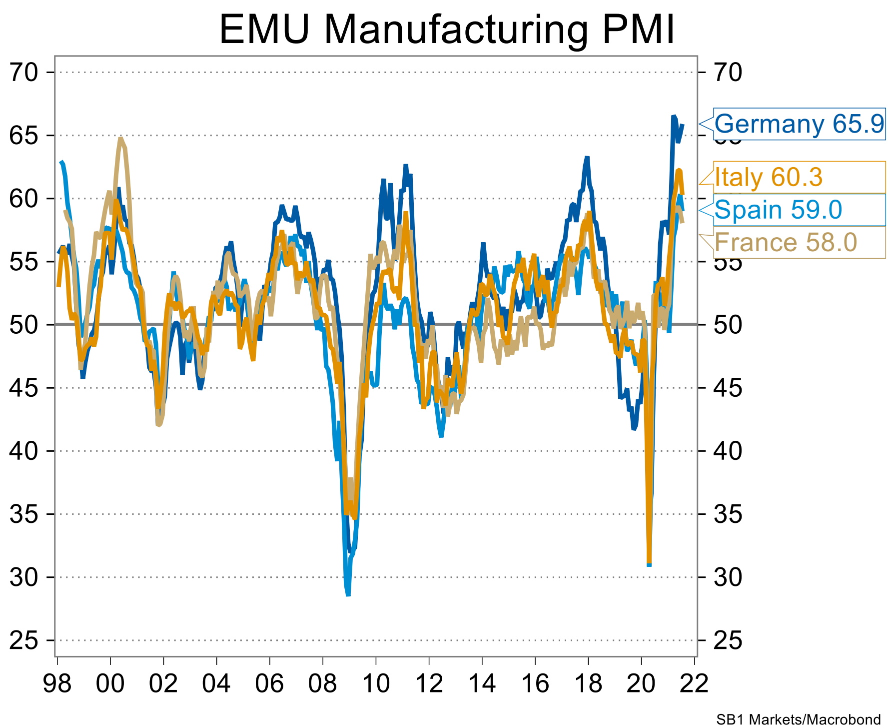


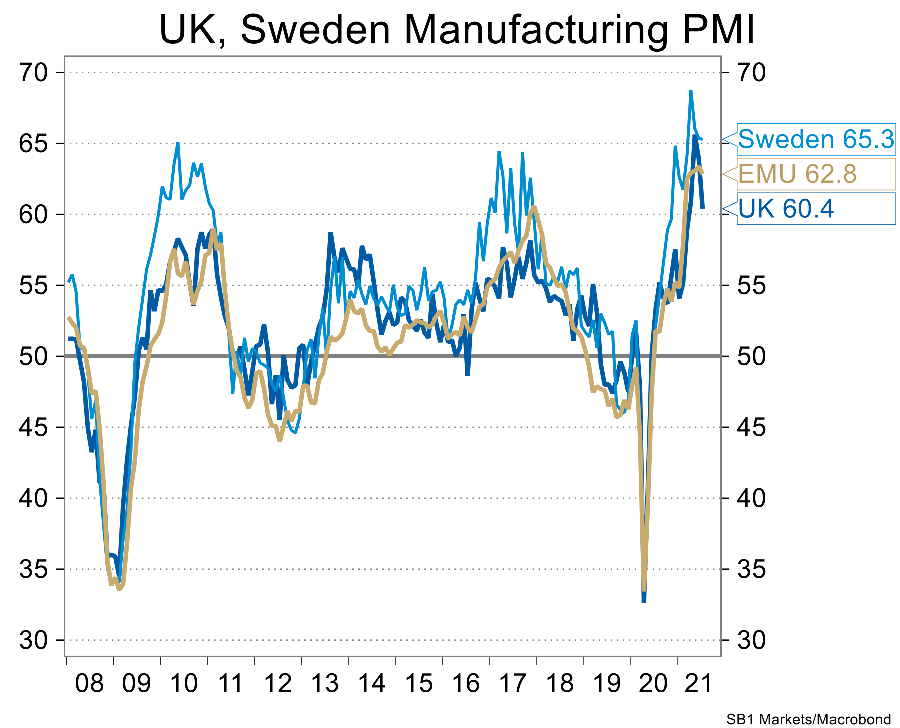


- The **services PMIs** came in below the preliminary estimate/expectations at 59.8, vs the 60.4 initial estimate, up from 58.3
- **The Eurozone manufacturing PMI** was down 0.6 p to 62.8, 0.2 better than the first estimate
- The levels are extremely high, signalling growth well above trend

Eurozone manufacturing recovery is rock solid. Sweden even better, UK slowed

The EMU PMI was down 0.5 p to 62.8 in July. All four main countries close to or above 60!

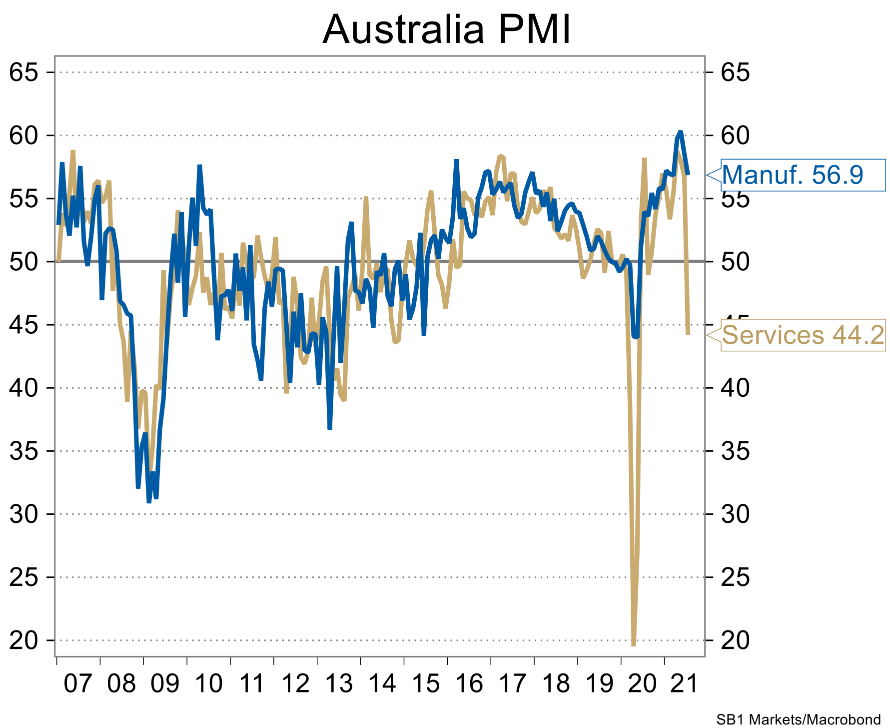


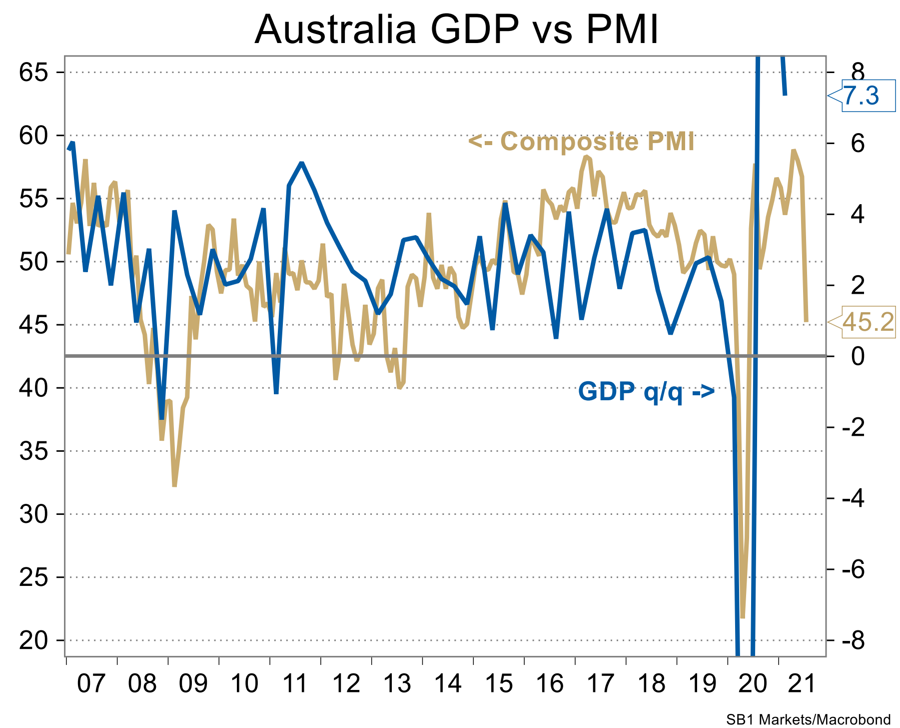


- Swedish PMI down 0.1 p, while the UK PMI was down 3.5 p. Both still very strong

Australian services hit by a Delta attack. However, no deep crisis yet

A decline in GDP cannot be ruled out but the PMIs do not yet signal a contraction

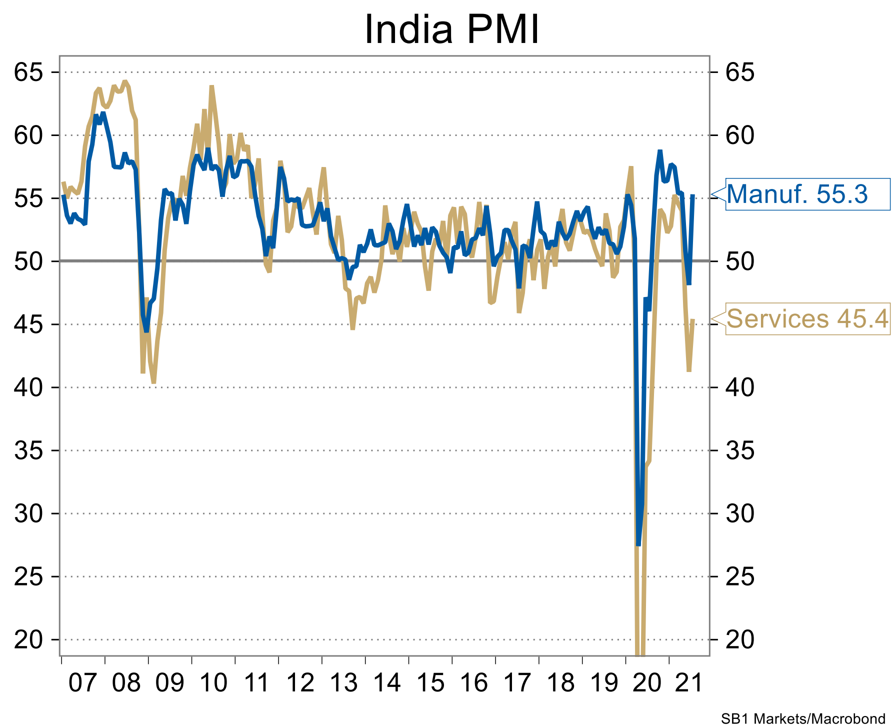


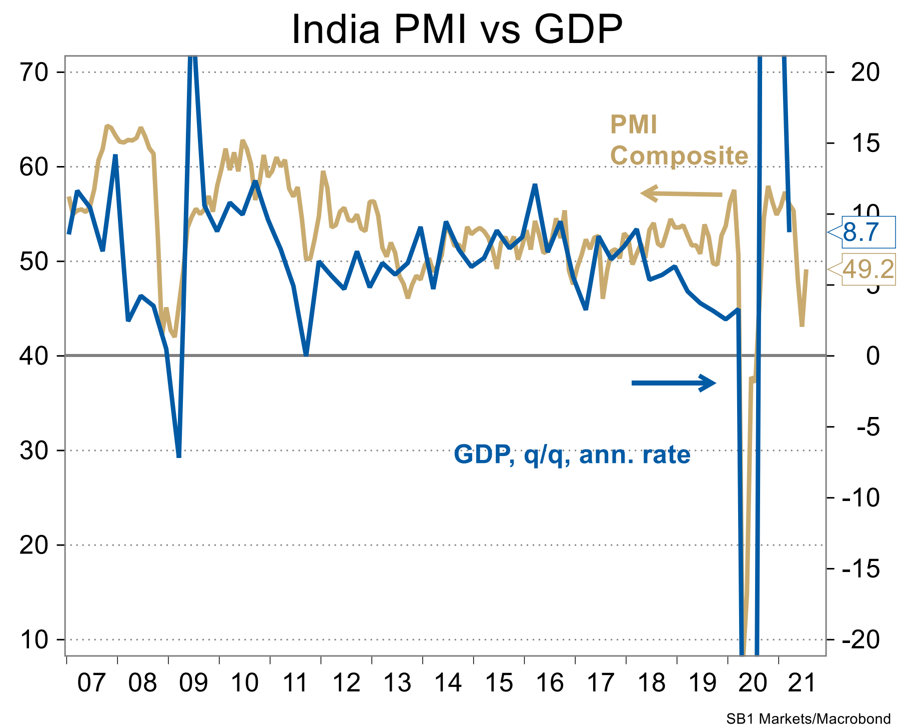


- The service sector PMI fell by 12.6 p to 44.2 – for obvious reasons, harsh virus restrictions have been imposed. The PMI level is still far above the bottom last spring, at below 20
- The manufacturing sector is still reporting unusual strong growth
- The composite PMI at 45.2 signal low growth but not necessarily a decline in GDP
  - » Disclaimer: The correlation between PMI and GDP is not that impressive

Indian manufacturing sector back at full speed, services still in contraction mode

The comp. PMI up 6 p in July, reversing half of the 12.2 setback in May, June. At 49.2, 6% GDP-growth

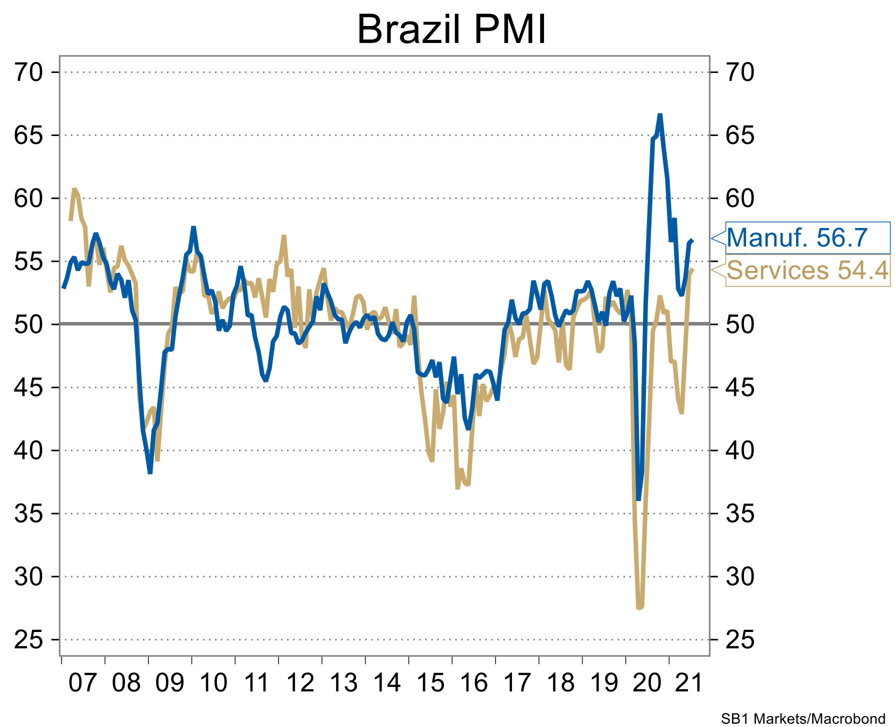


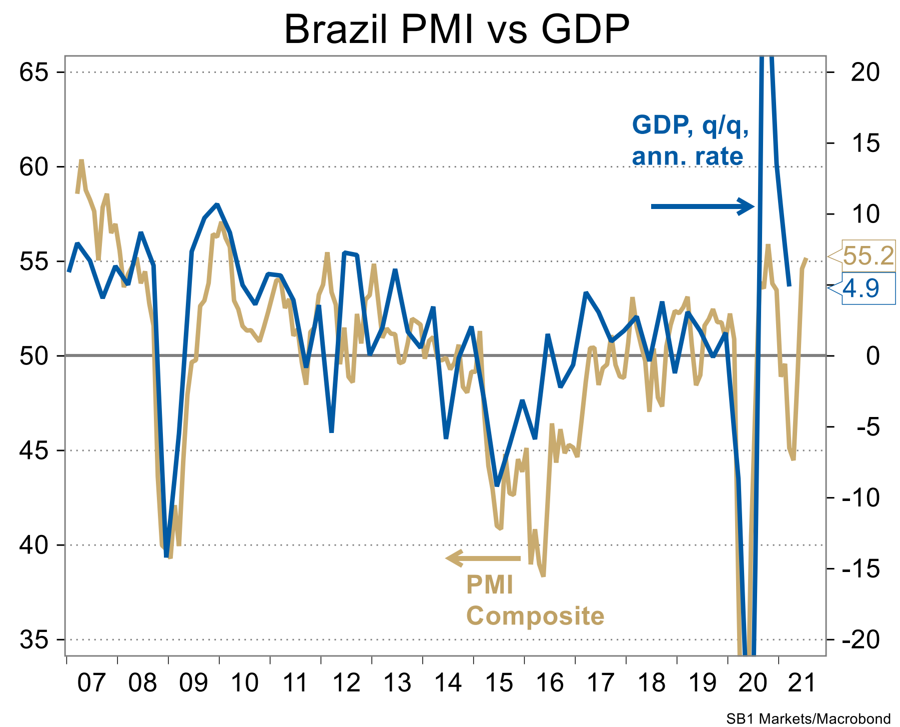


- **The manufacturing PMI** shot up by 7.2 p to 55.3 – to the same level as before the Delta virus wave in April/May
- **The services PMI** rose too, by 4.2 p but the level is still low at 45.4, vs the 55-level before the virus attack. Both domestic and foreign demand (tourism) is still weak
- The correlation between **PMI and GDP** is not that impressive but the 49.2 composite PMI signals at decent growth in GDP
- GDP rose by 8.7% (annualised) in Q1 (down from 43% in Q4), and is 2.7% up vs. Q4-19, beaten only by China. Still, GDP was almost 4.5% below the pre-pandemic trend path – and the gap very likely widened in Q2

The Brazilian PMI up in July, signals >5% GDP growth!

Eased restrictions and cont'd vaccination lifted the PMI by 0.6 p after the 5.7 p June surge – to 55.2

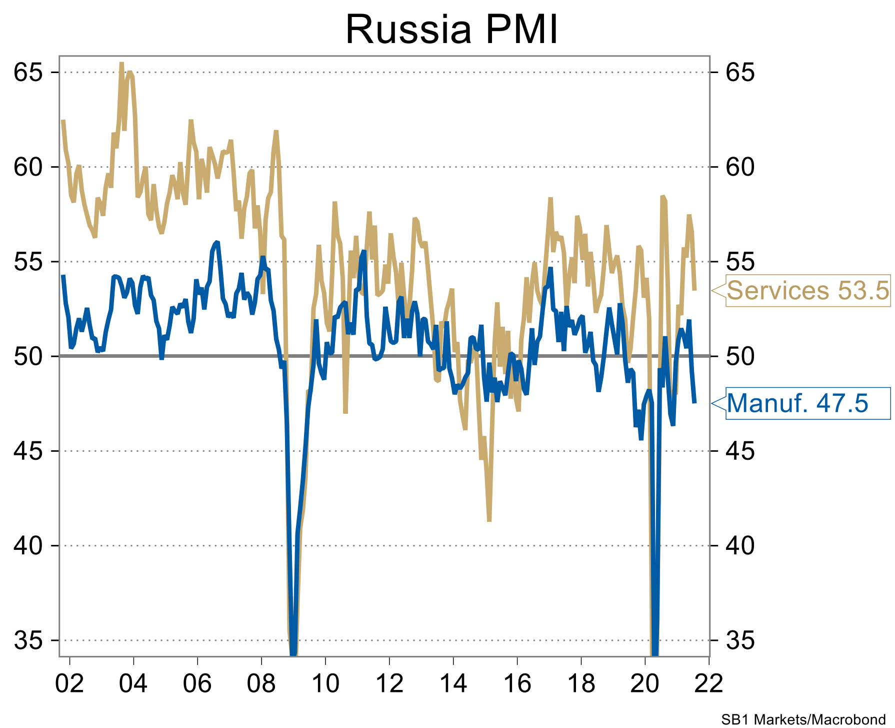


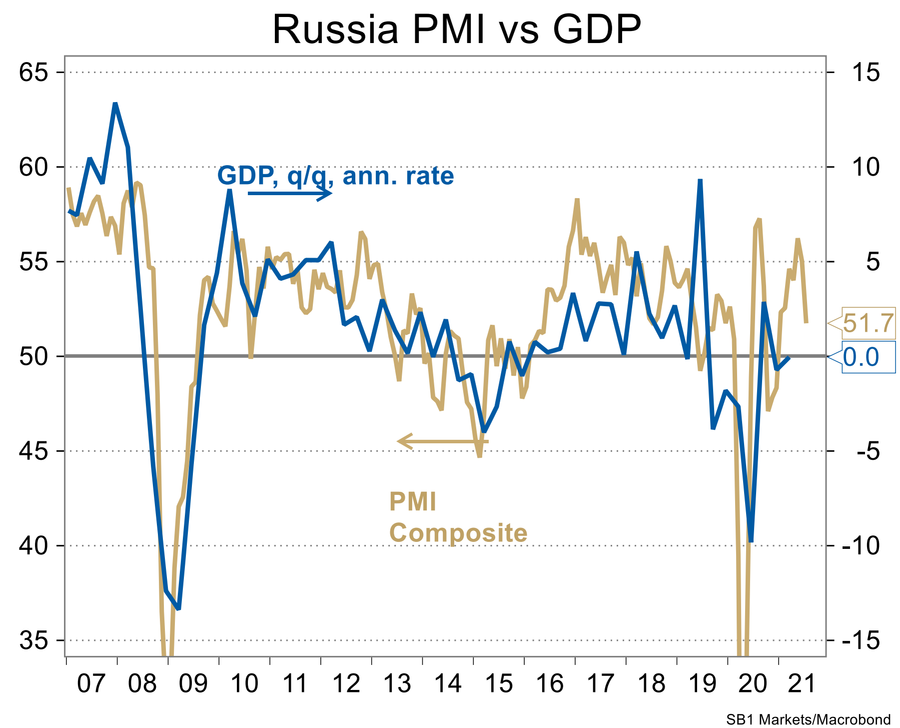


- **Manufacturing PMI** increased by 0.3 p to 56.7. Orders are rising, production is rising, costs are rising, and so are selling prices
- **The service sector PMI** was up 0.5 p to 54.4; as restrictions were eased, the service sector rebounded – here as everywhere else
- **The PMIs** signal some 6% pace growth in GDP into Q3 (while the PMI signalled zero growth in Q2)
- **GDP** grew more than expected in Q1, by 4.9% (the PMI signalled zero!) and the GDP level is back to the Q4-2019 level, among the best on our list (just China, India, South Korea are above). GDP is just 1.3% below the very weak pre-pandemic growth path

Russia's manufacturing sector further down in contraction mode

Services PMI down to, still at a decent level. The composite index signals just 2% growth

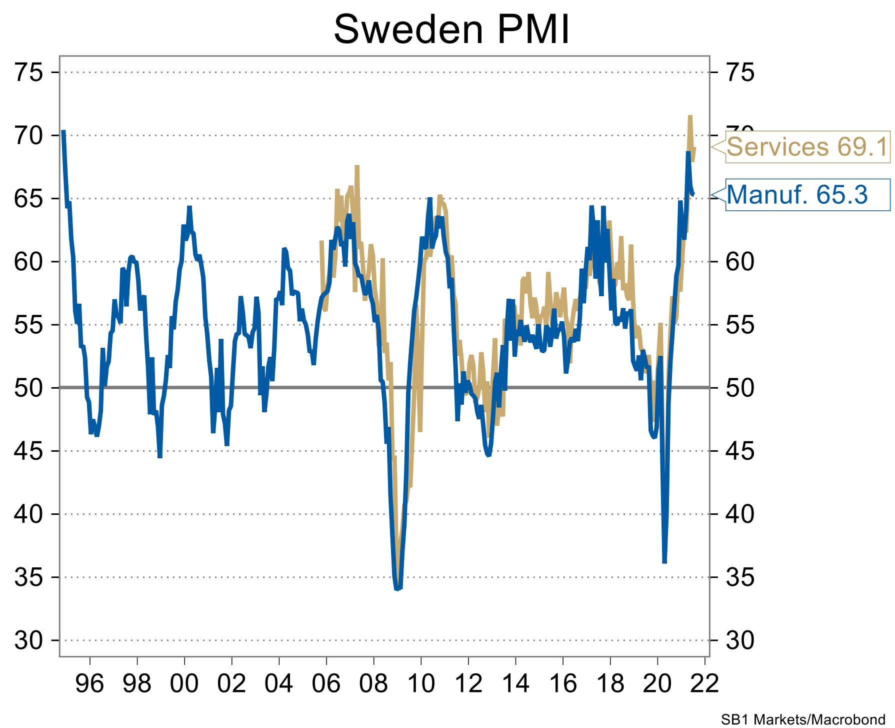


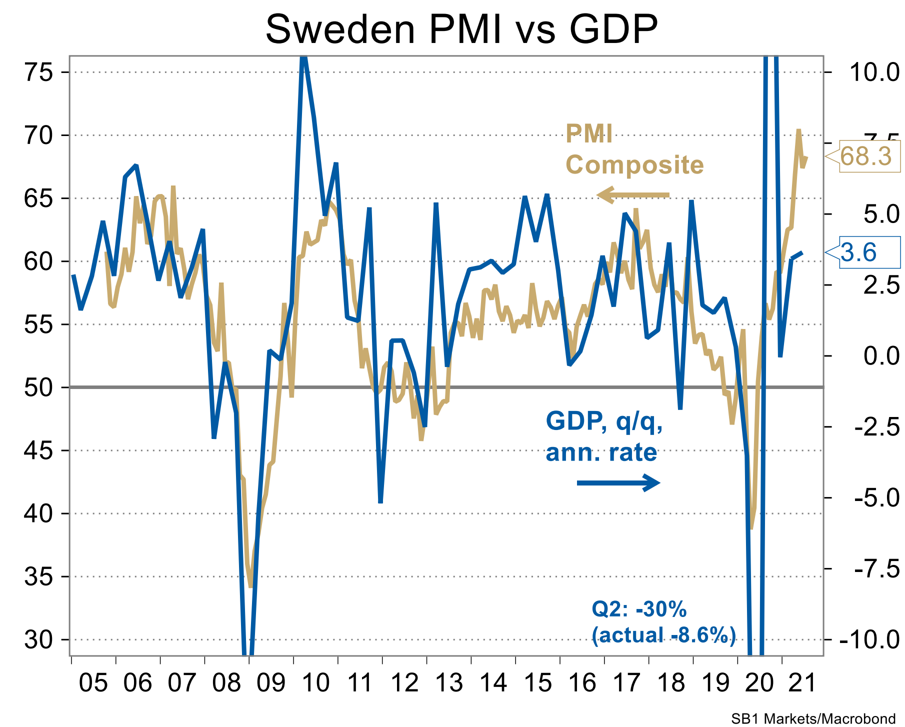


- **Manufacturing PMI** fell 1.7 p to 47.5 in July
- **The service sector PMI** declined 3 p to 53.5
- **The composite PMI at** 51.5 signals GDP growth at 2% (at best) vs the 5% growth signal in June
- **GDP** was close to flat in both Q4 and Q1 – and it is still 1.6% below the pre-Covid level

The composite PMI up again in July, at an incredible 68.3 strong growth signalled

The services index rose, manufacturing sector slowed just marginally

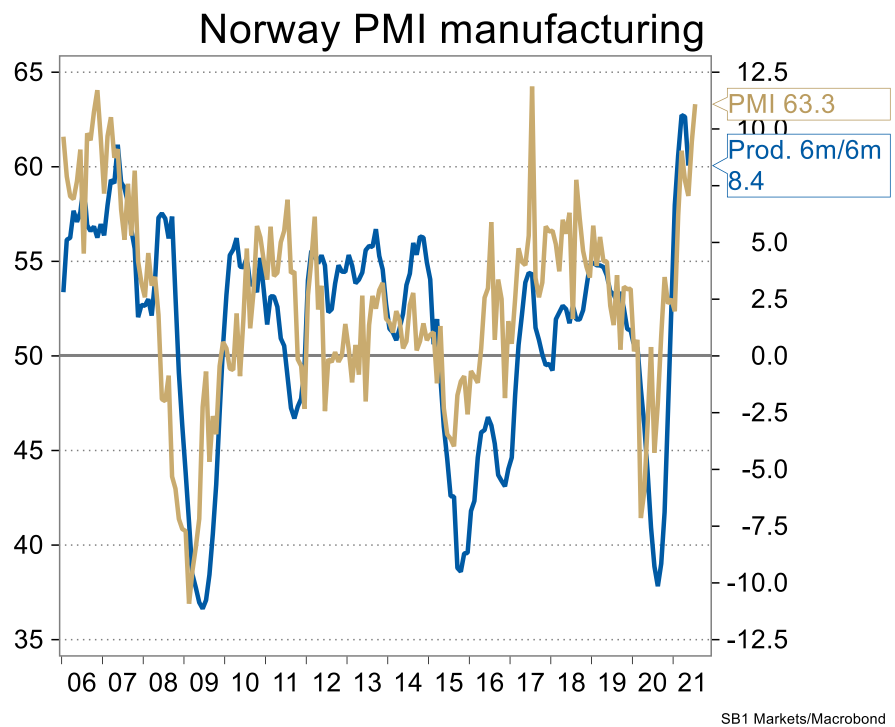


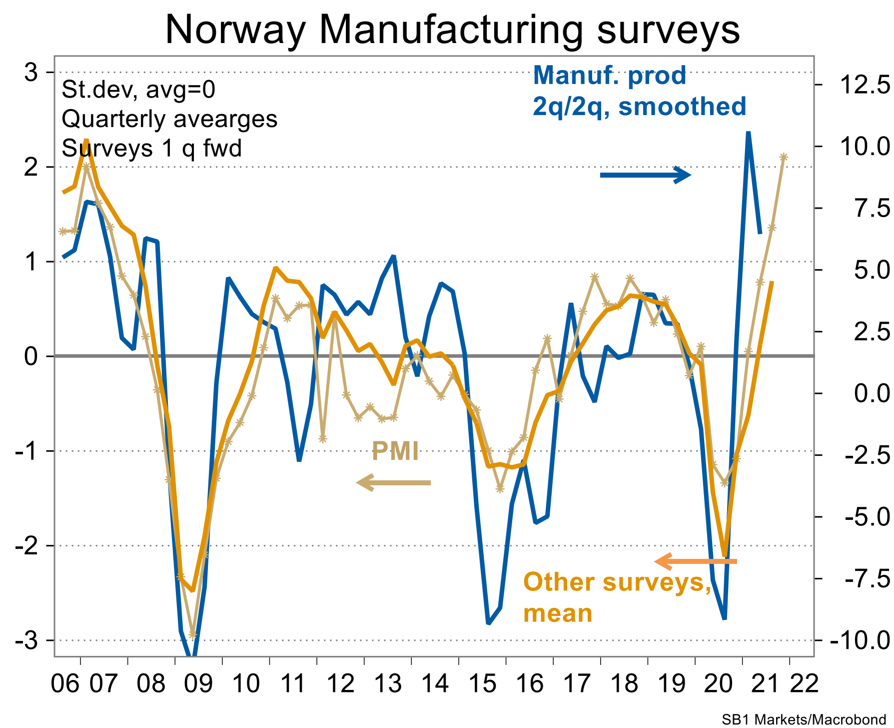


- The **PMI** has gone from record to record for several months, but retreated by 4.4 p in June before recovering 1.4 p in July
- **GDP** grew at a 3.6% pace in Q2, somewhat more than expected
- **The Riksbank** is still buying bonds, and says it expects to keep the signal rate at zero until 2024. We are not so sure…

Norwegian manufacturing PMI up to above 60 again – strong growth confirmed

The Norwegian PMI up 2 p in July, to 63.3 – among the best prints ever

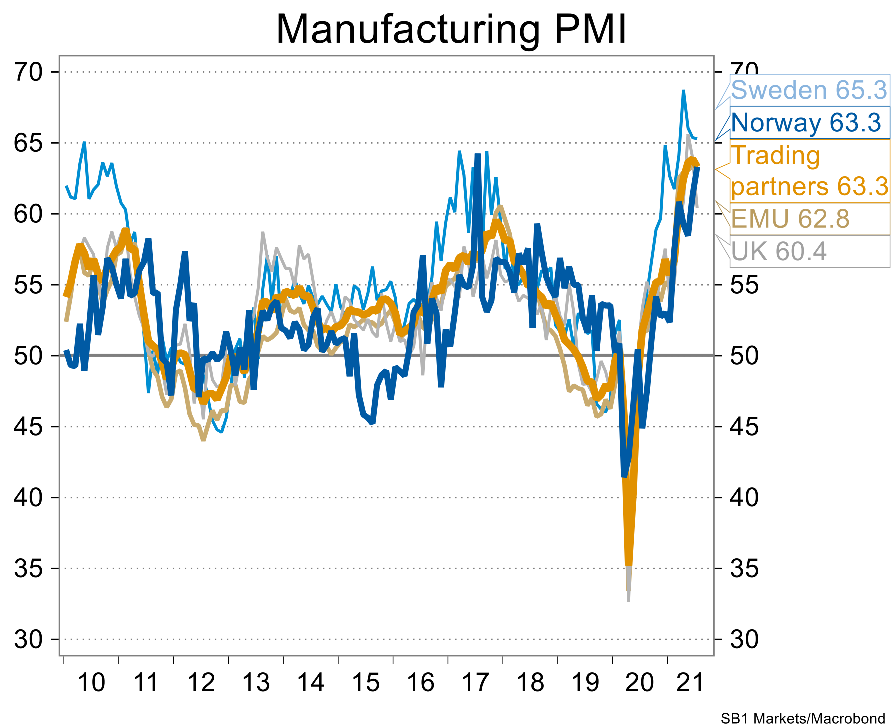


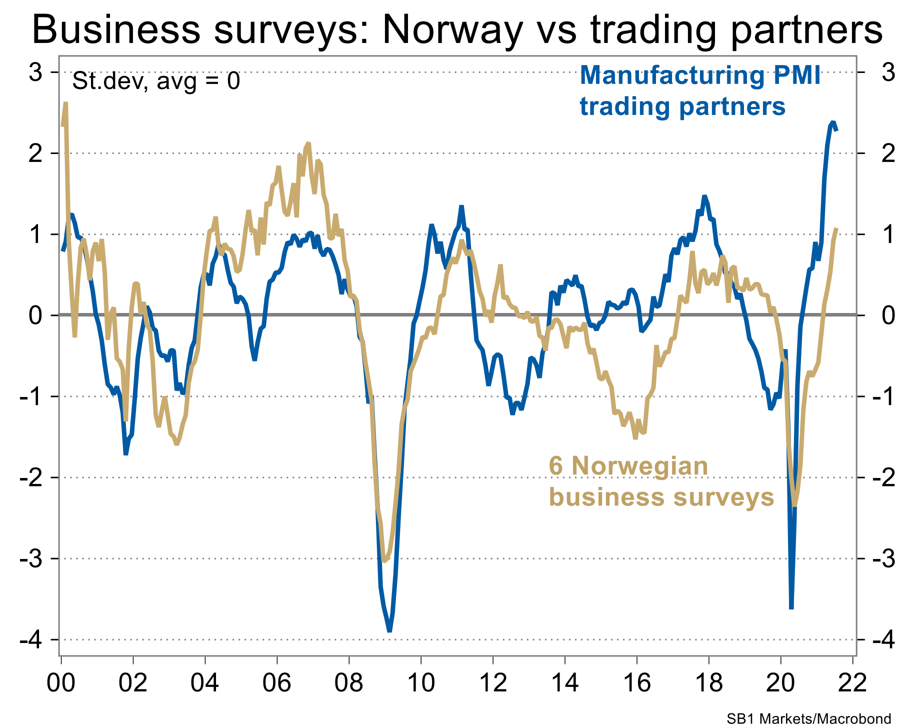


- The July PMI is volatile but the average of the recent months leaves no doubt: companies are reporting a rapid growth in activity
  - » The June index was revised up by 0.5 p to 61.3
- Other **surveys** have turned up lately to above-average levels
- **Actual production** is growing faster than since 1972, at least measured 6m/6m. However, that is due to a low starting point last year. The production level was marginally below the pre-pandemic level in May

Norwegian manufacturers lagged their peers on the way up

… but now they have closed the gap





- The downturn in oil investments (until now) is very likely the explanation why Norway lagged somewhat

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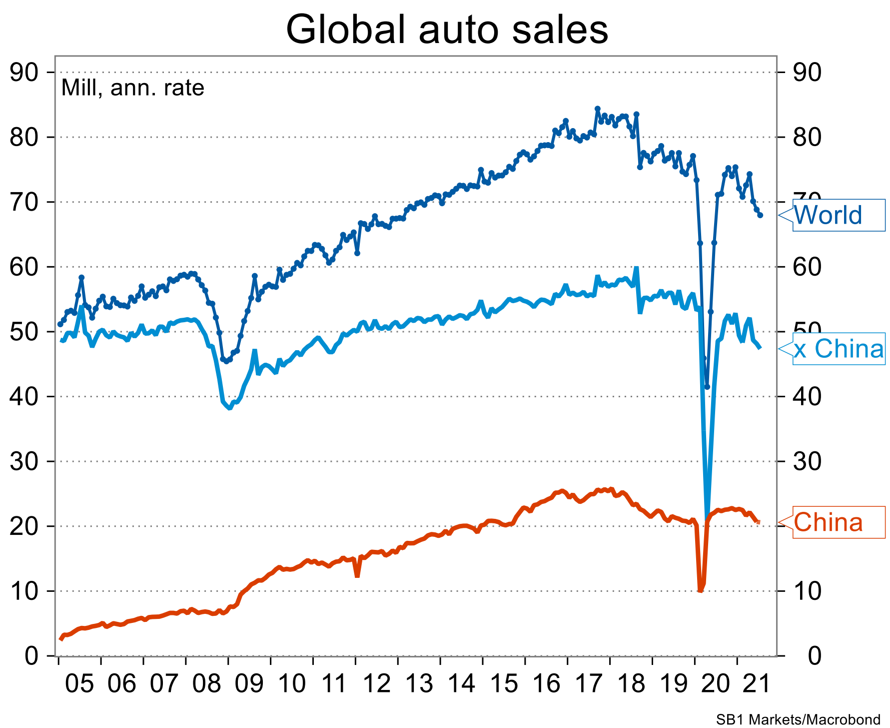
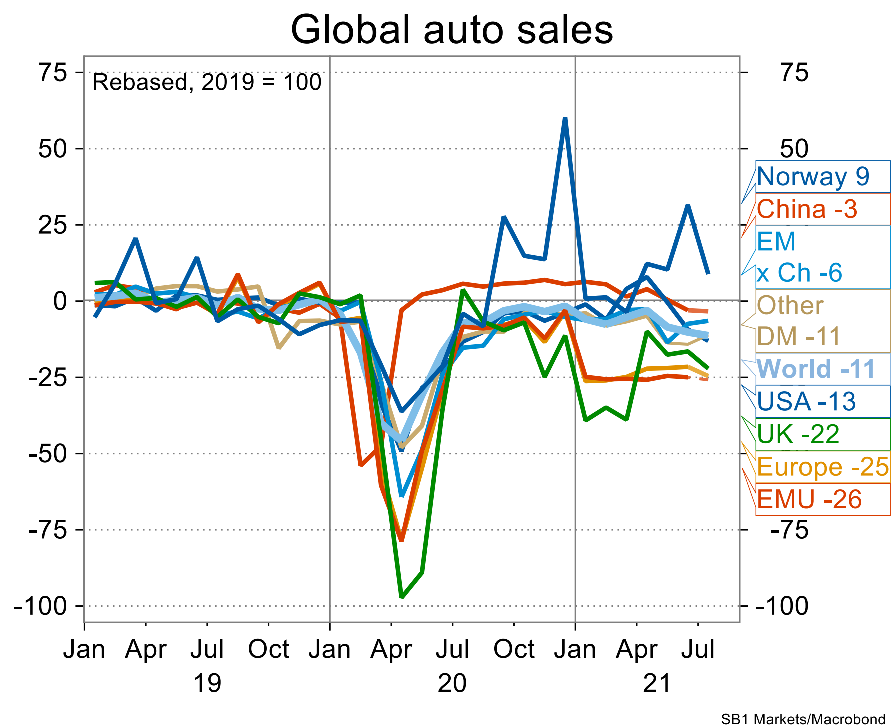
Auto sales down most places in June – global sales down 4%, -12% vs pre-Covid

Semiconductor shortages at least partly to blame for lower sales, but Covid also to blame directly

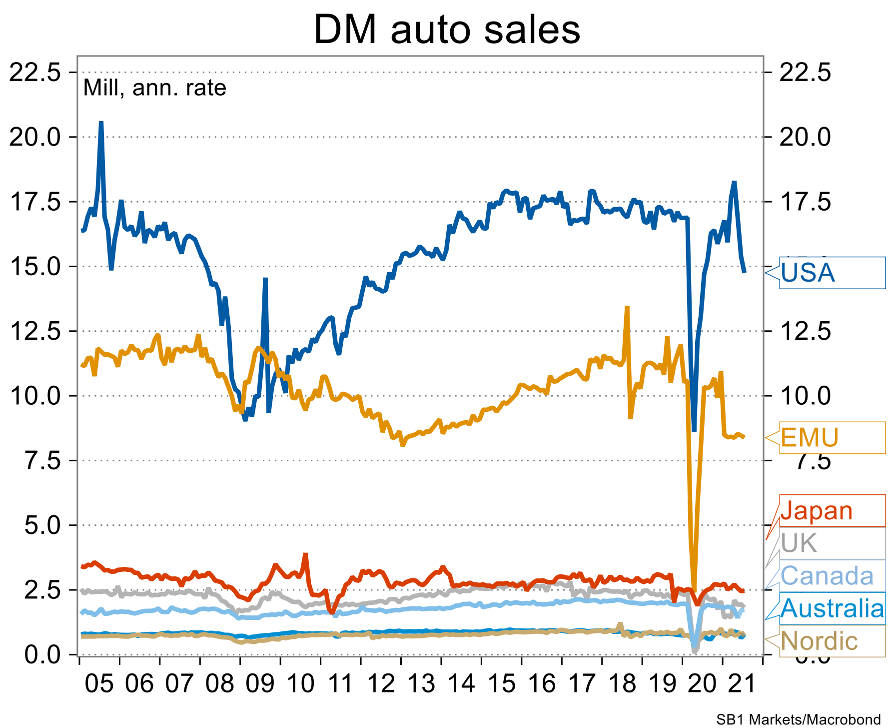


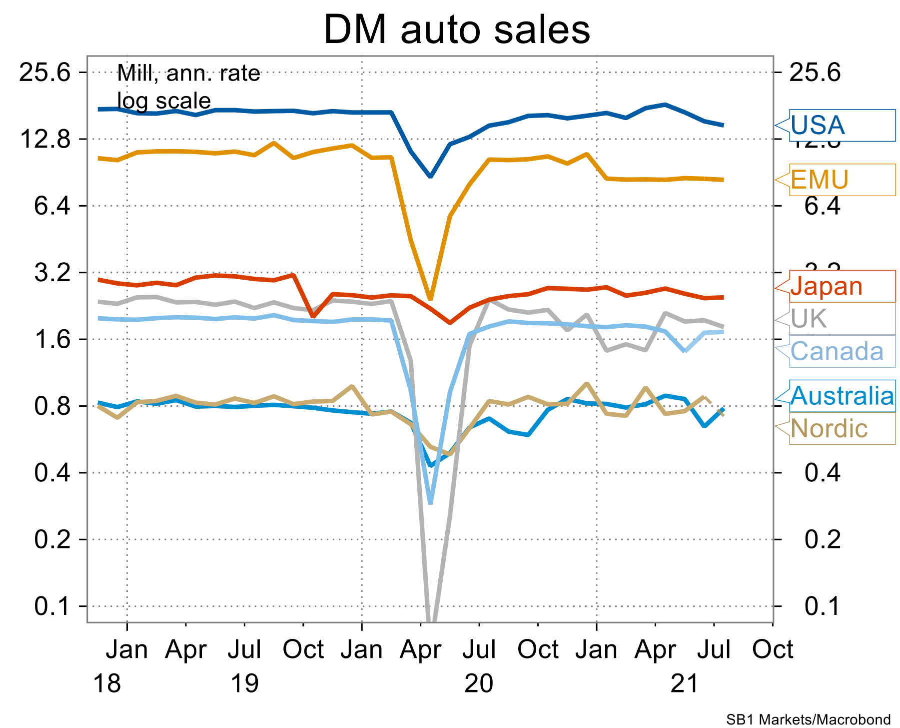


- **Global auto** sales fell further in July, due to a decline in sales in the US and the EMU. Sales fell by some 1% and are 11% below the 2019 average. Both Covid induced decline in demand in some countries as well as serious production cuts due to lack of critical data components, explains the setback. We think the supply is mostly to blame.
- **US** auto sales fell further, and are 13% below the 2019 avg level. Sales in the **EMU** did not recover, and remains 25% below. **UK** sales are down 22%. **Norway** is the only DM country reporting higher sales, + 9% vs 2019 avg - even after a substantial decline in July.
- **China** has not yet officially reported, but media reports suggest a marginal decline, and sales are 3% down vs 2019, as in June. Sales in **India** probably rose to the highest level in 3 years! In total **EM x China** sales rose and are 6% below the 2019 level.

DM sales: EMU is still down 20 – 25% vs. last Dec/pre-pandemic sales

Sales in UK are down 22% vs the 2019 average – and is has been sliding down since April





- The decline in the Europe is very likely mostly due to weak demand during the 2nd/3rd wave, at least initially. Slow sales in July may also be due to lack of supply

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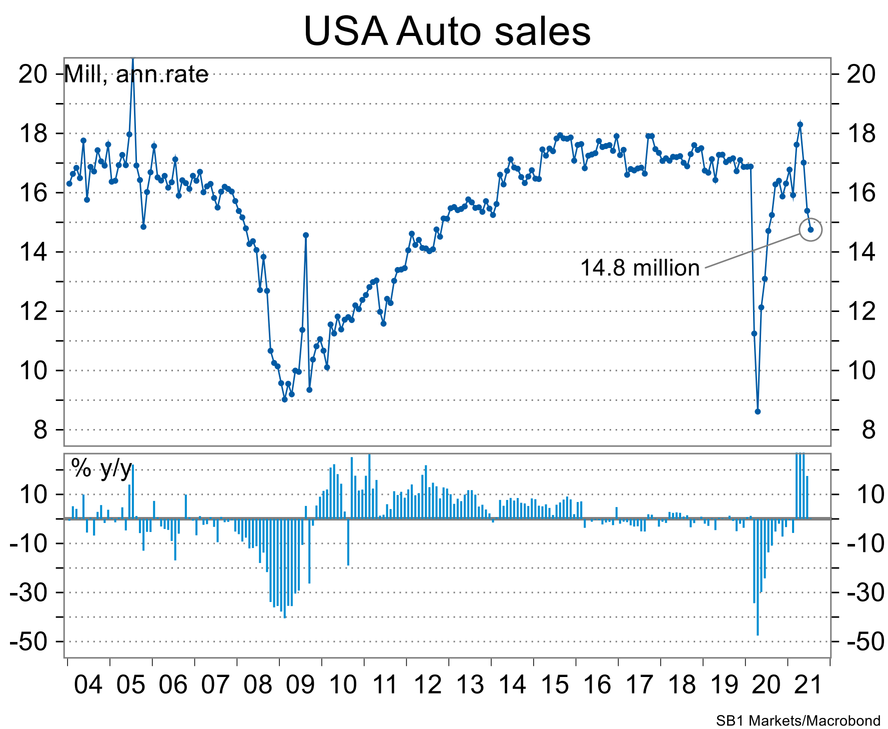
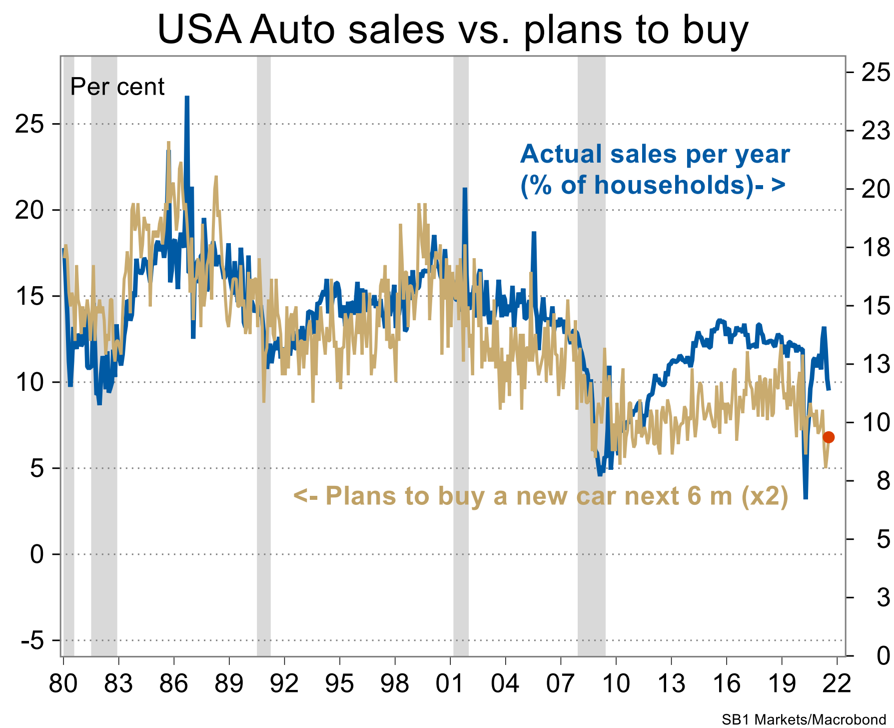
US auto sales further down in July, no doubt just due to lack of supply

Sales down to 14.8 mill from 15.4 in June, expected 15.6. Production cuts due to lack of data chips

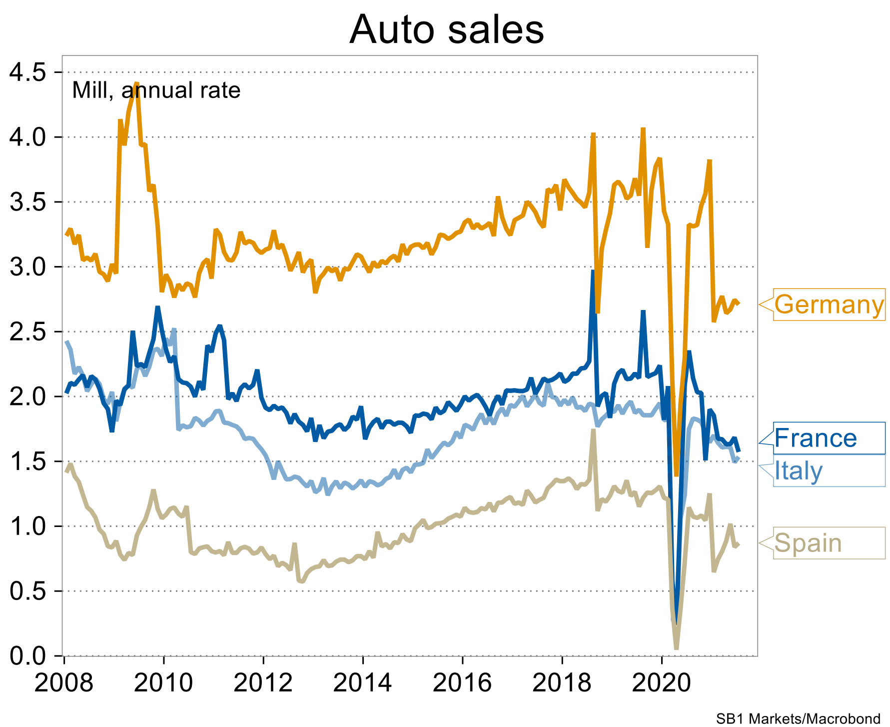


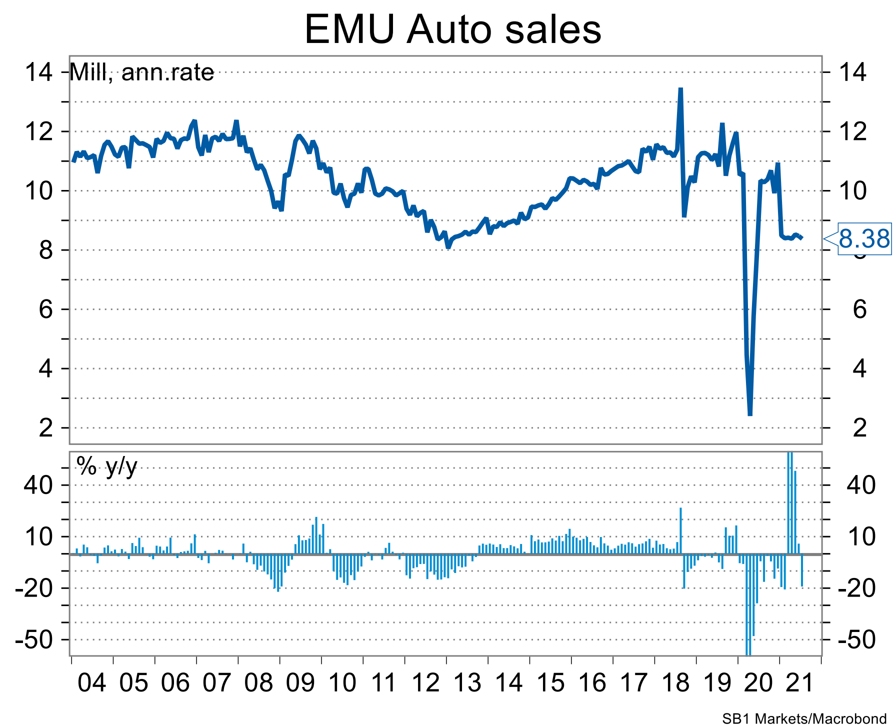


- Households have revised their plans for buying a new car substantially down recent months probably has they have observed that there are delivery challenges
- Demand for cars is still strong, as the 2nd hand market is emptied and used car prices have soared
  - » New car prices are up too, and probably not just due to higher material costs

EMU: Auto sales still in the doldrums, a further decline in July

Sales fell marginally in Germany, somewhat more in France. Spain & Italy less up – and the total down

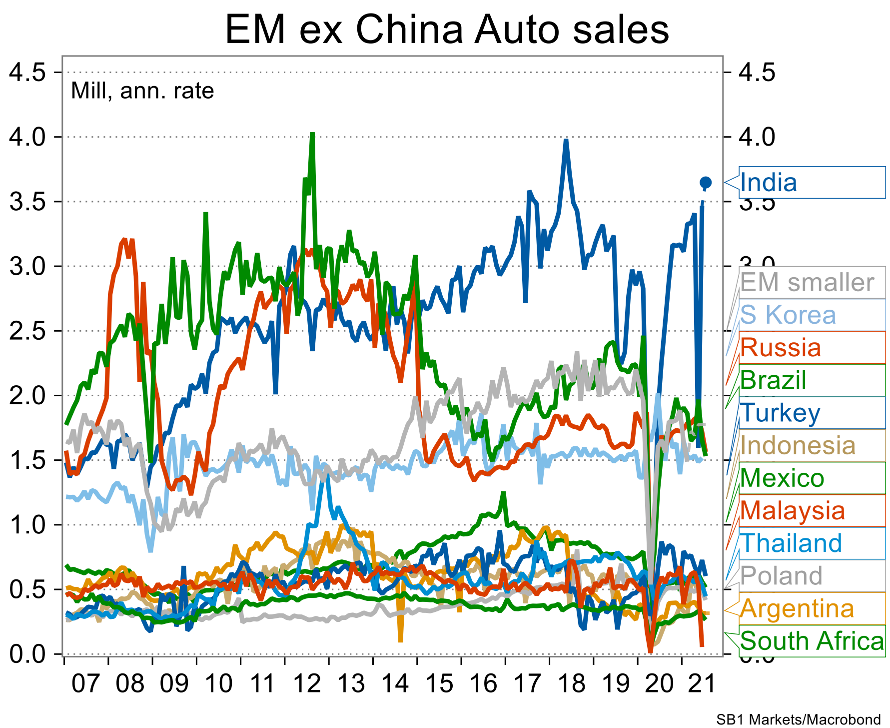


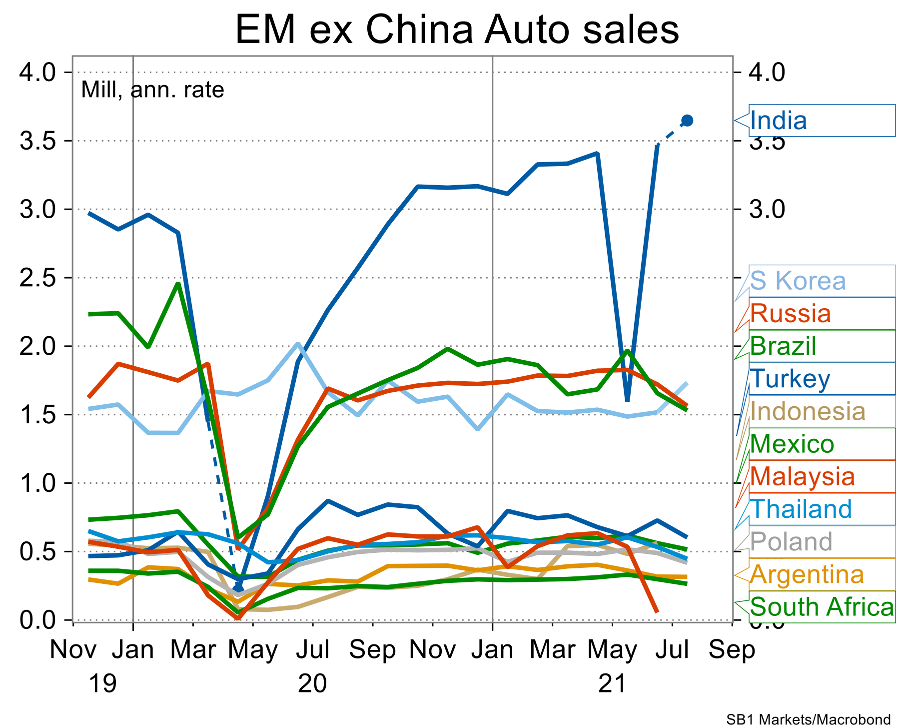


- Sales are still down some 20% vs. the level in H2 last year – and 25% vs. the 2019 level!
- There are serious production challenges in the European auto industry due to lack of data components.
- However demand has very likely been the main reason for decline in sales in H1 – as lockdowns have made it challenging to buy cars. We expected sales to rise when restrictions were eased – but so far that has not been the case

EM: Indian auto sales has more than fully recovered – the best since 2018

Sales down in Brazil and Russia – and others more down than up too in July

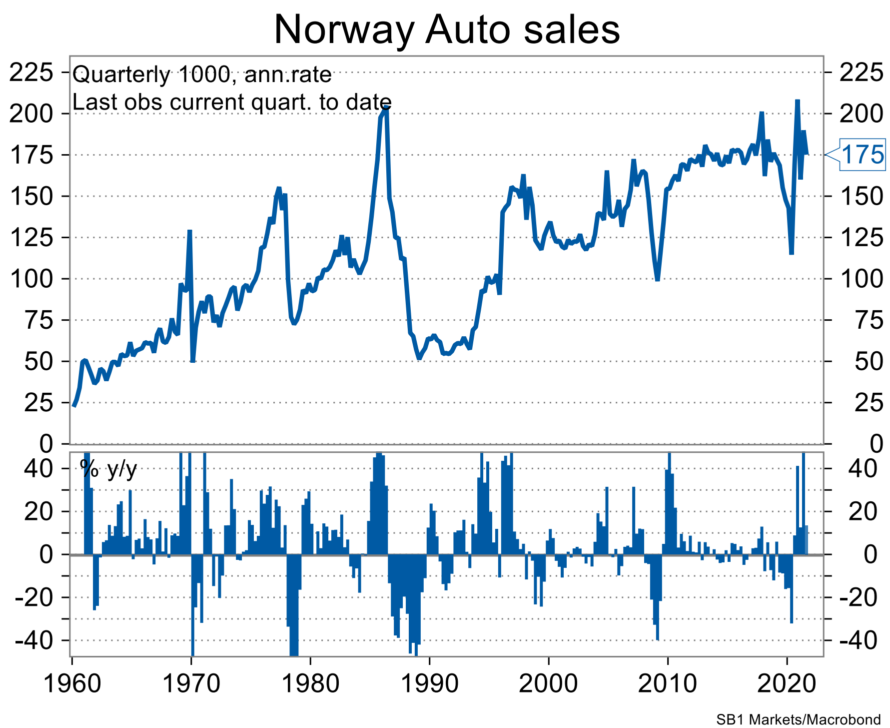


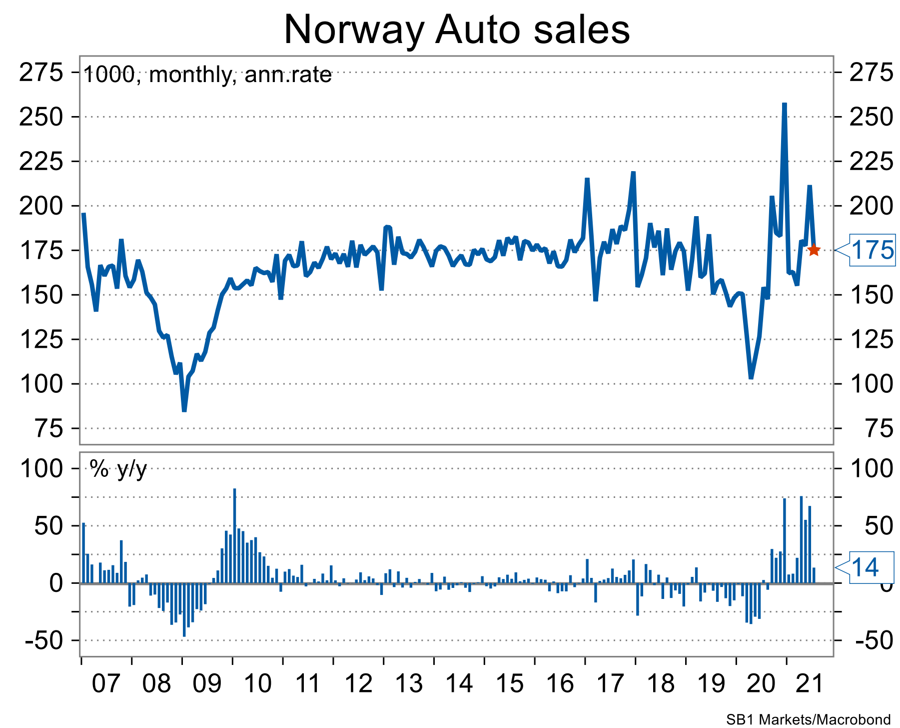


Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

Norway: Auto sales sharply down in July from a strong June

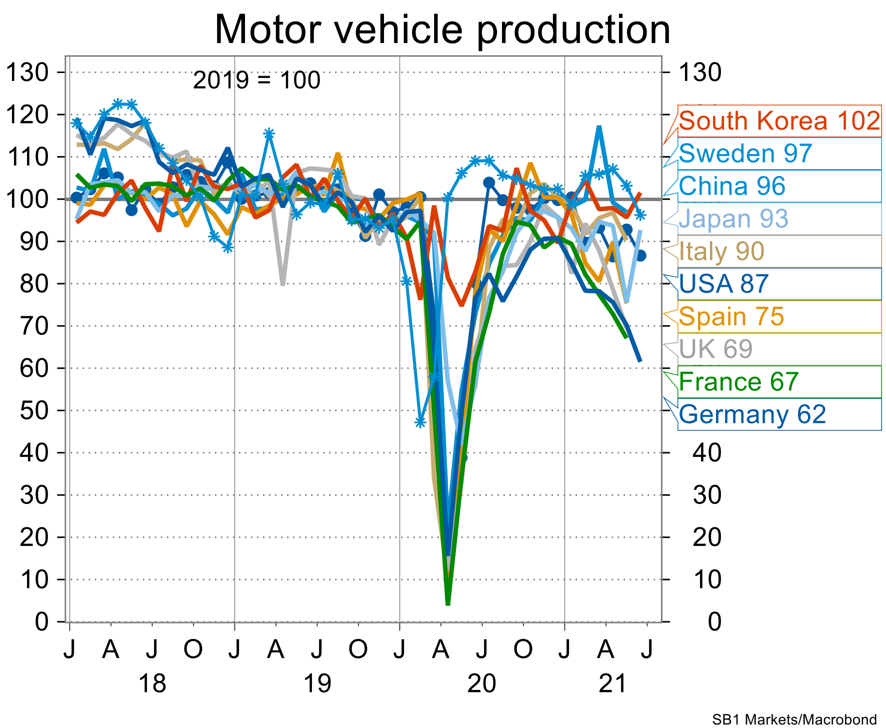
Sales fall back to a 'normal' level in July, 175' (annual rate)





Auto production down most places – and most in Europe (x Sweden)

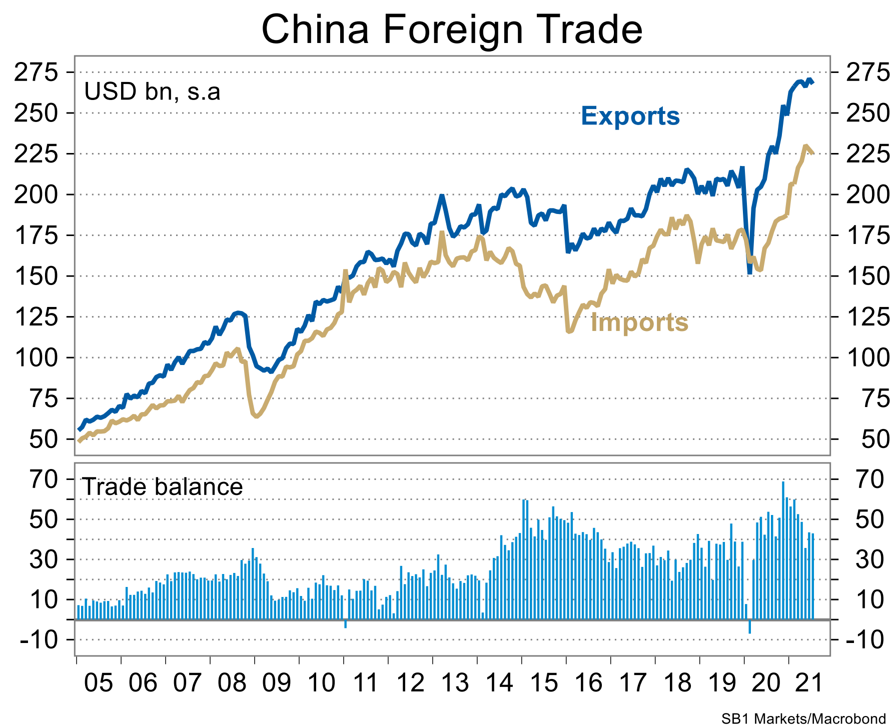
Lack of data chips mostly to blame, but in Europe demand probably has been weak as well



- There is probably a substantial upside in auto production the coming quarters, both as demand recovers where is weak but even more because data chips one sday will be produced in sufficient volumes

Both exports & imports further down in July, levels still very high

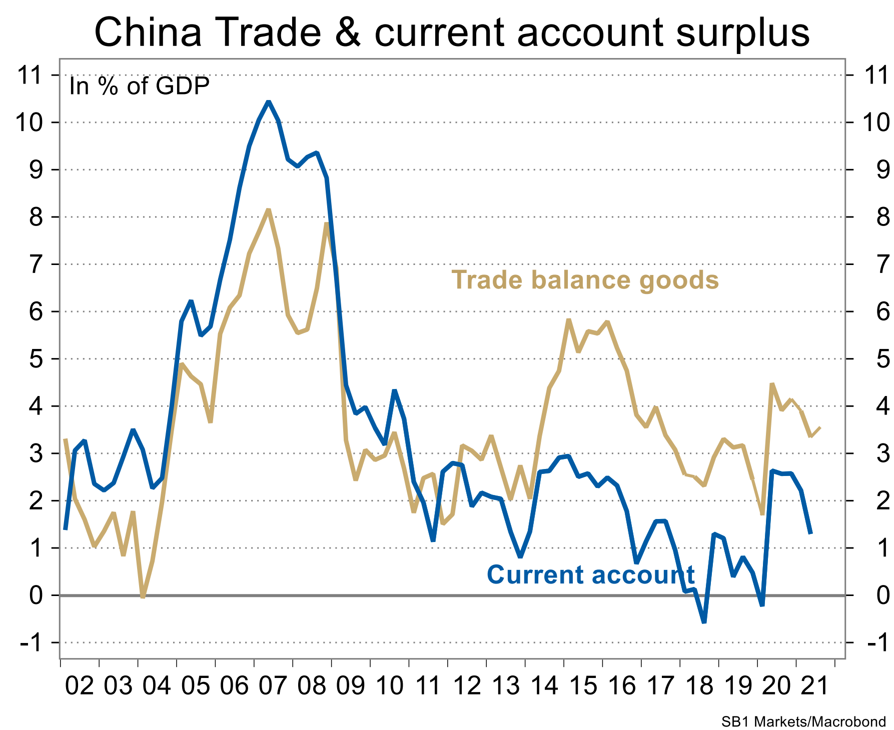
Signals some slowdown in global demand for goods

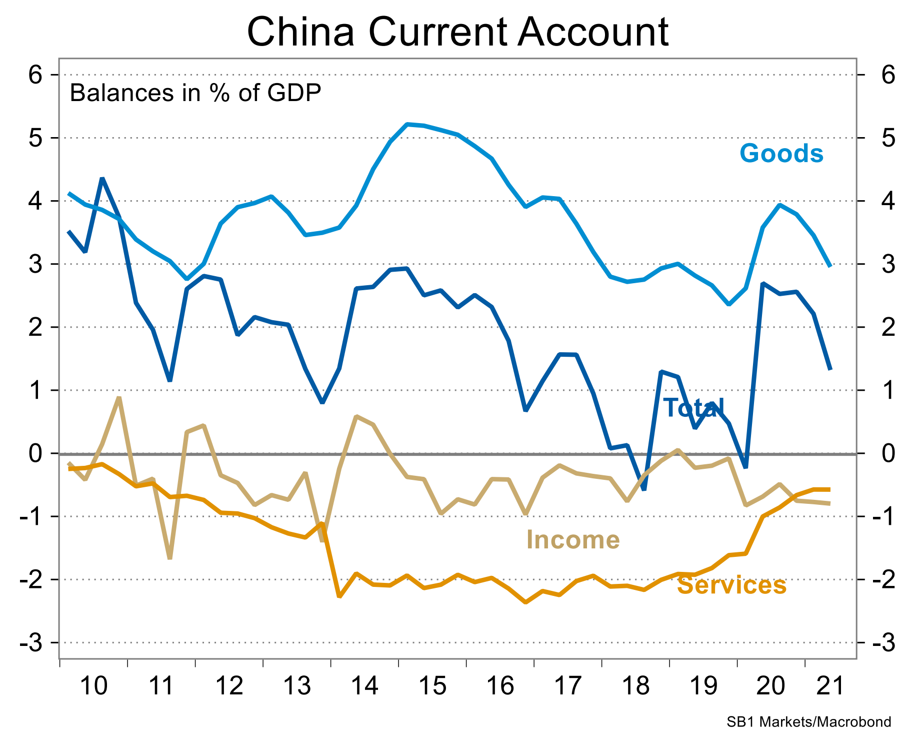


- **Exports** fell by 1.2% in USD terms in July. Exports are up 19% y/y, down from 32% in June, expected 20%. Exports probably fell in **volume terms** too – and volumes have fallen since the March peak, signalling some slowdown in global demand for goods. The level is still high, 10% above the pre-pandemic trend growth path
- **Imports** fell further by 1.2% too. Imports are up 28% y/y, down from 37% in June, expected up 34%. Import volumes very likely fell further as well but the decline is moderate and the level is high, at some 7% above the pre-pandemic trend growth path. Domestic demand is more than OK
- **Import prices** are up 17% y/y (in USD terms), mostly due to higher oil & commodity prices, **export prices** are up 7% (not flat in CNY terms)
- The **trade surplus** was close to unch. in July, at USD 43 bn (seas adj.), which is above the pre-pandemic level, but down from above USD 60 bn at the peak
- We stick to our analysis from the previous two months, growth in foreign trade volumes to slow substantially through rest of the year. Demand for goods in the rich part of the world will slow down when spending in services picks up, shortages of raw materials/intermediates will dampen production. Even if credit policy now may be turning expansionary, the lagged impact on the previous tightening may be felt in domestic demand

China runs a 'modest' surplus at the current account – at 1% - 2% of GDP

The C/A surplus was above 10% of GDP in 2007 – but close to zero before the pandemic

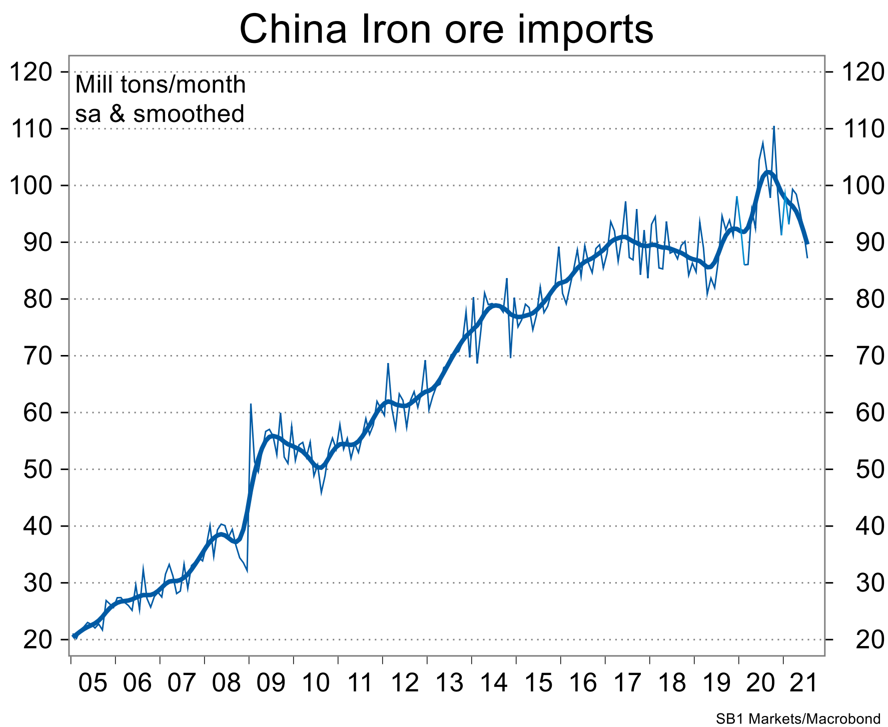


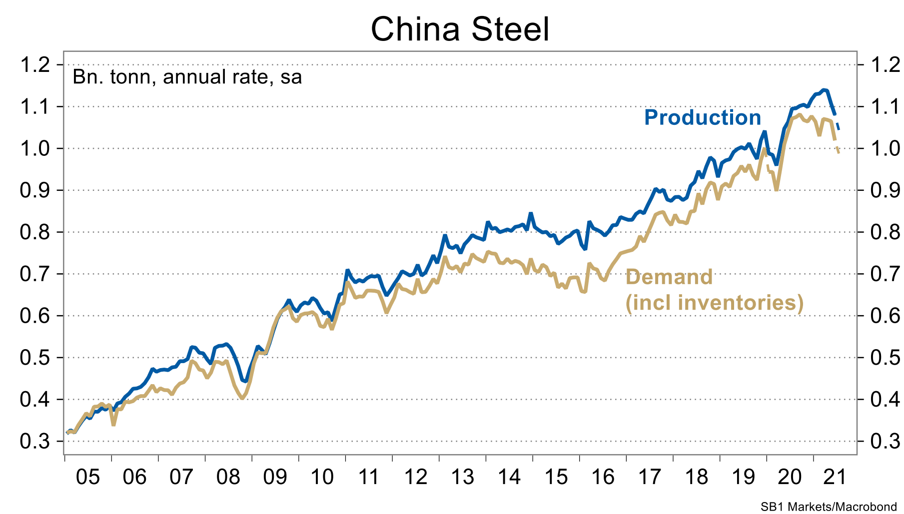


- The trade surplus in goods is 3% of GDP
- In services, China runs a 0.5% deficit, down from -2% in 2015 – 2019 (but from zero 10 years ago). For the time being, the Chinese do not travel abroad (and we do not visit them either)
- China runs a marginal deficit in net (mostly capital) income from abroad, 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 sharply down, as domestic steel demand & production yield

Authorities have curbed steel production in order to bring CO_2 emissions down

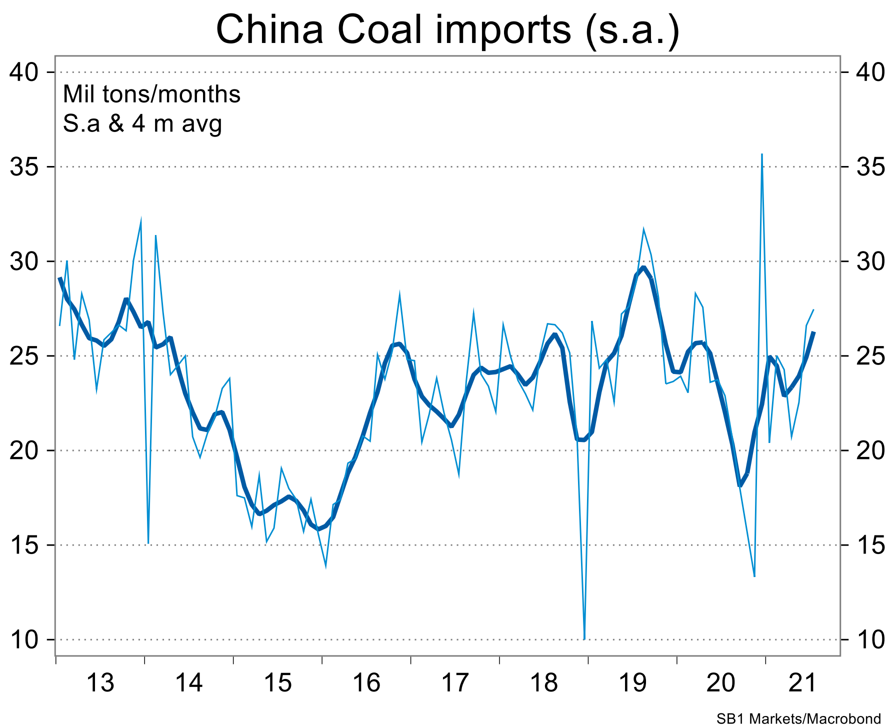




- July steel production figures are not yet published but preliminary reports signals a further decline as local authorities have imposed restrictions on steel production in order to reach 2030 CO2 emissions targets
  - » If these July preliminary data are correct, production will be cut by almost 10% since April
  - » Domestic demand (including changes in inventories) have fallen somewhat less as net exports have fallen slightly
- Iron ore import have fallen 10% since late last summer
- Predictably, steel prices are increasing, iron ore prices are falling

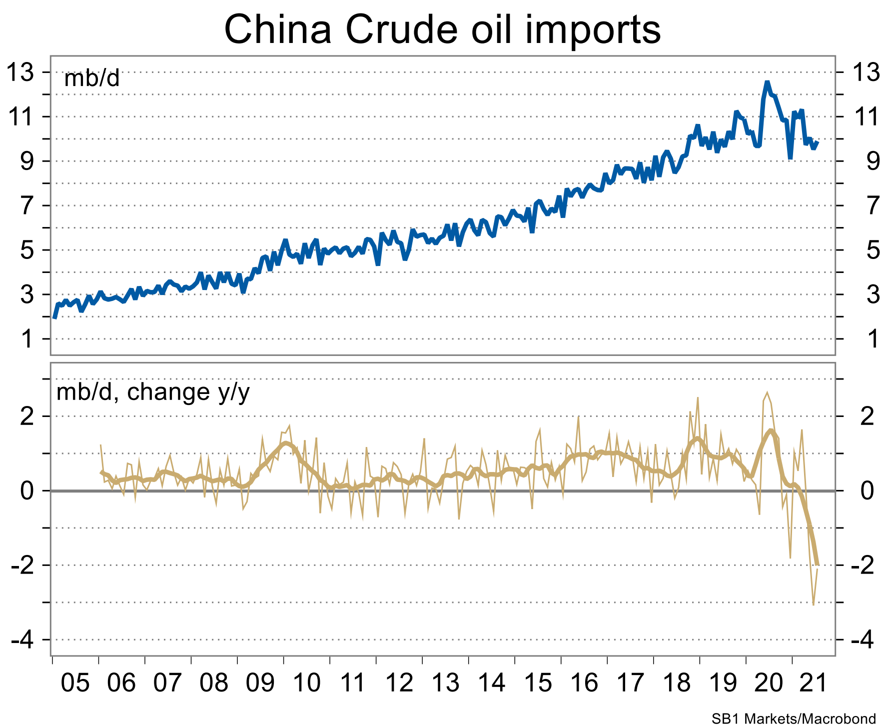
Coal imports have been trending flat since 2016

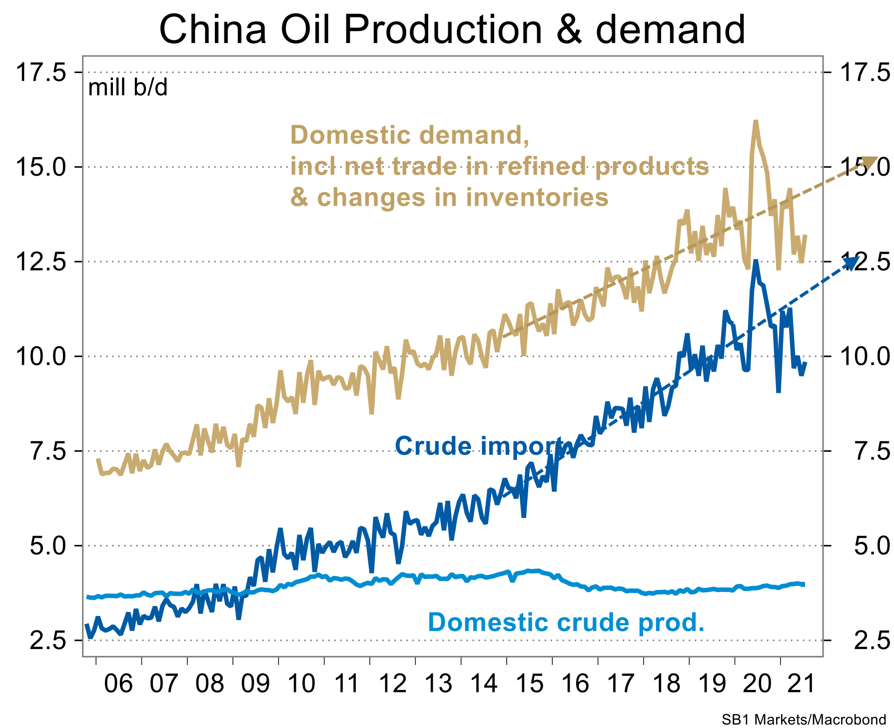
...and imports were marginally up in June



Oil imports far below pre-pandemic trend (and even level)

Imports were low in both past 4 months, according to Chinese data

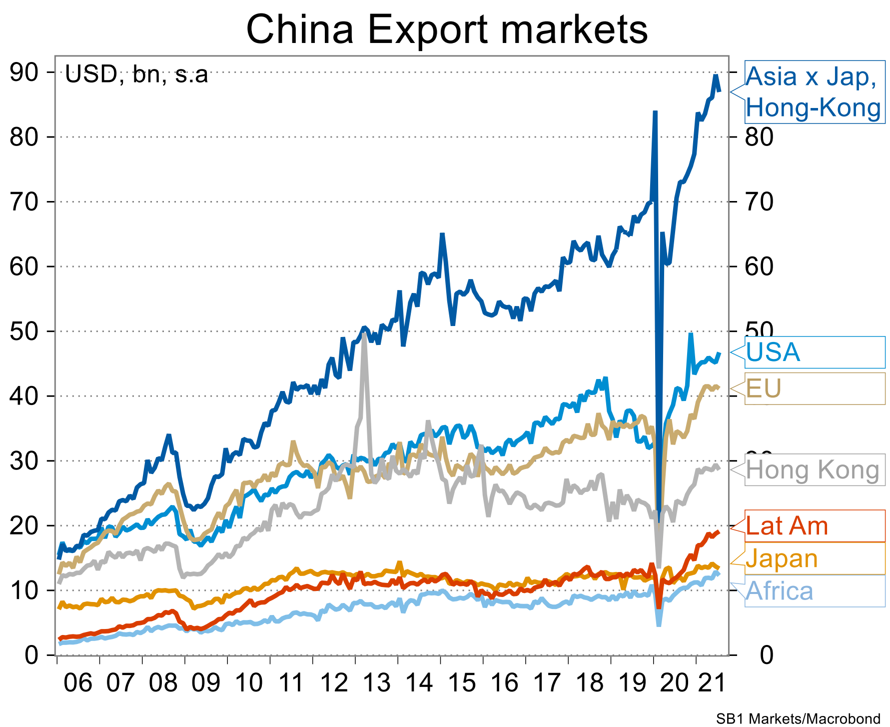




- Oil imports some 1.5 mill b/d below the pre-pandemic trend growth path

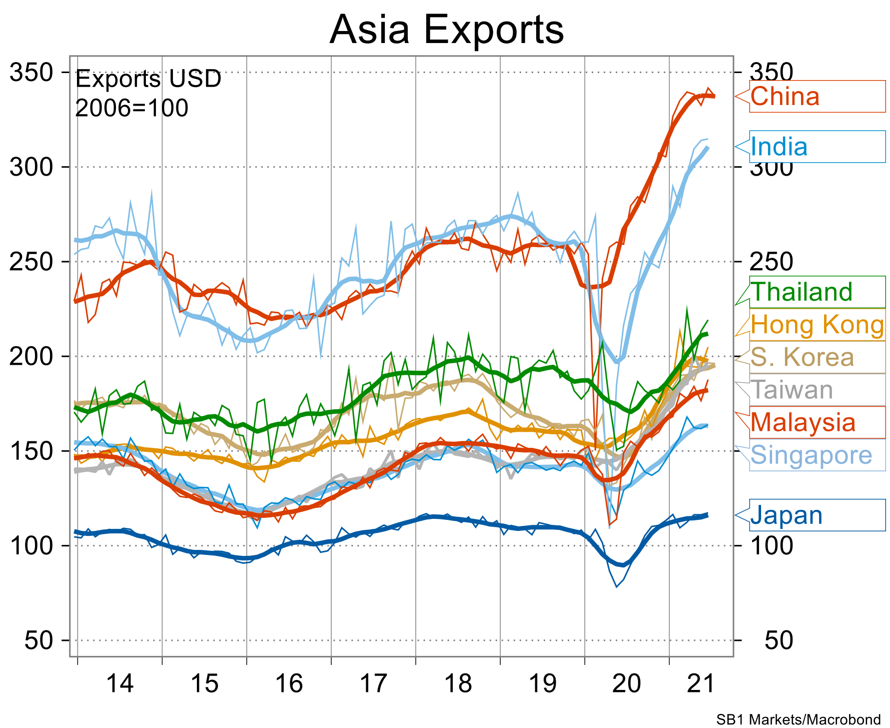
Chinese exports to 'all countries' up (but some signs of flattening to US/EU)

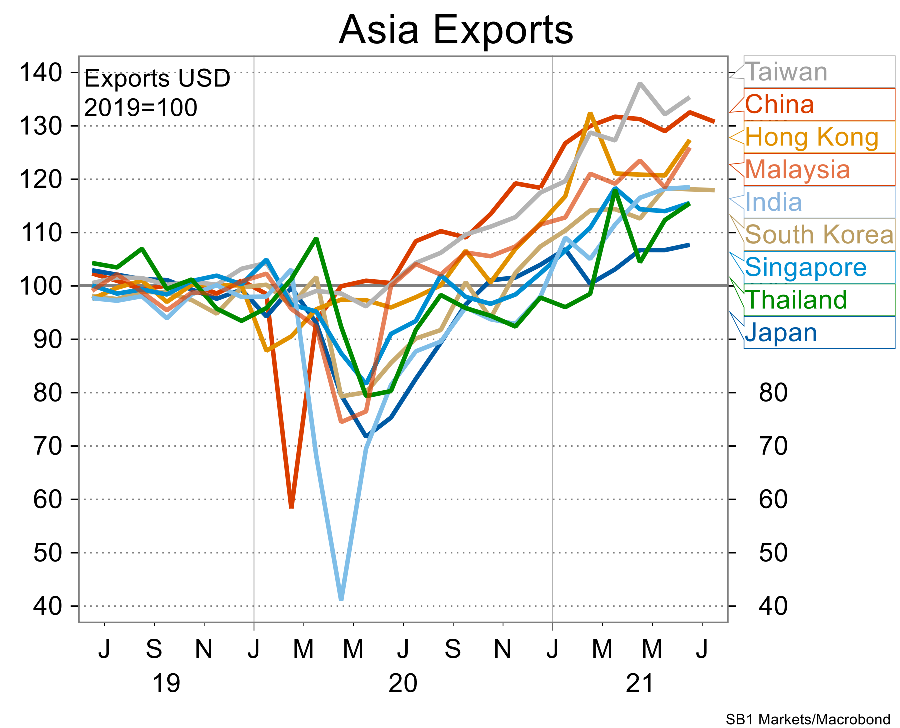
The recovery in exports through the pandemic has so far been impressive



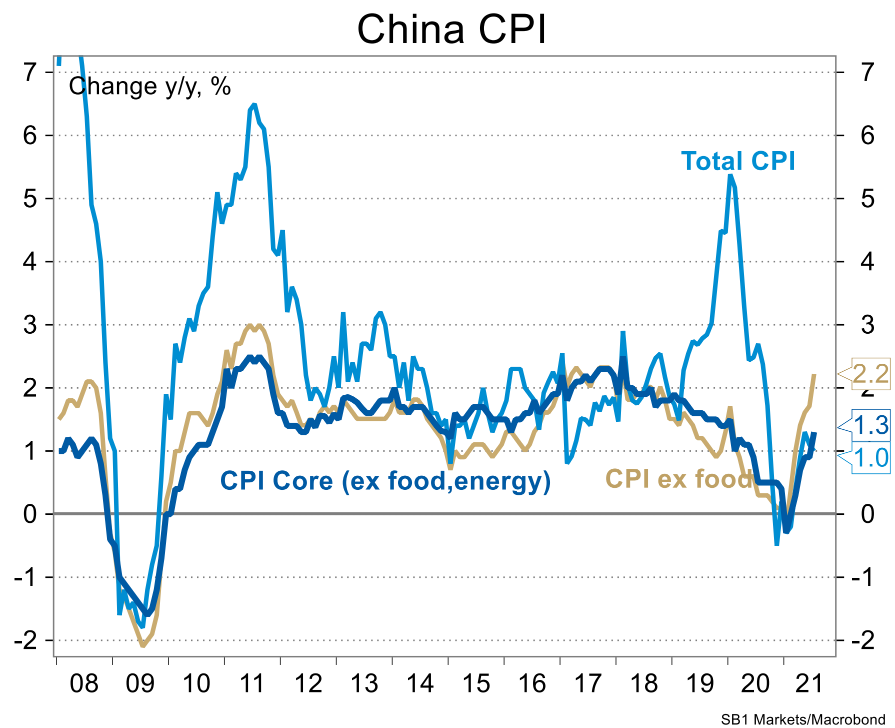
- Some slowing in exports to US, EU, Hong Kong, Japan – but not to rest of Asia or Africa

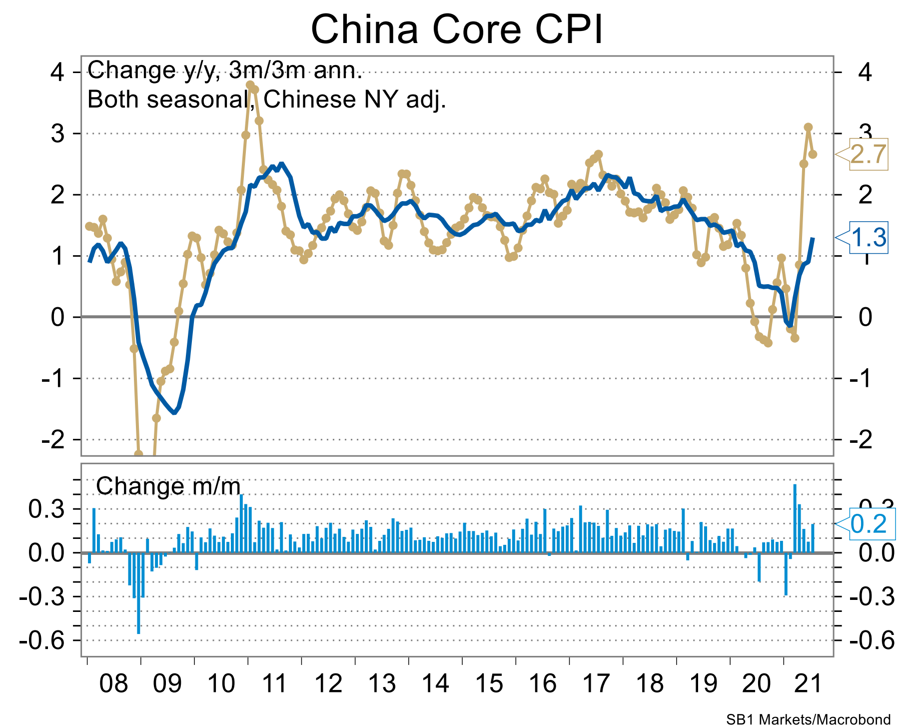
China is not alone: Asian exports are slowing somewhat





Chinese total inflation below consensus, as food prices fell. Core at 1.3% y/y

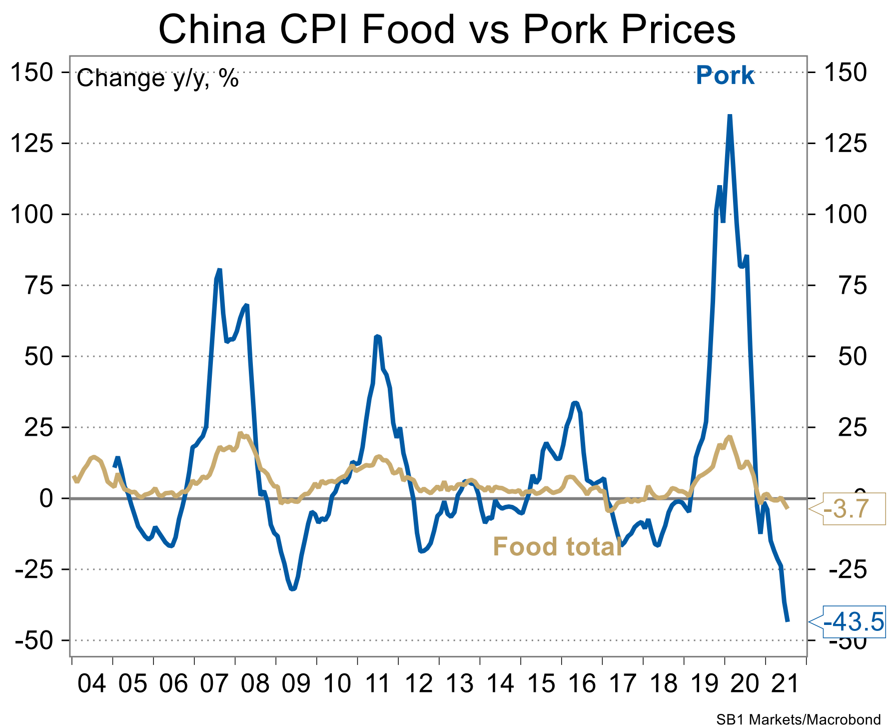


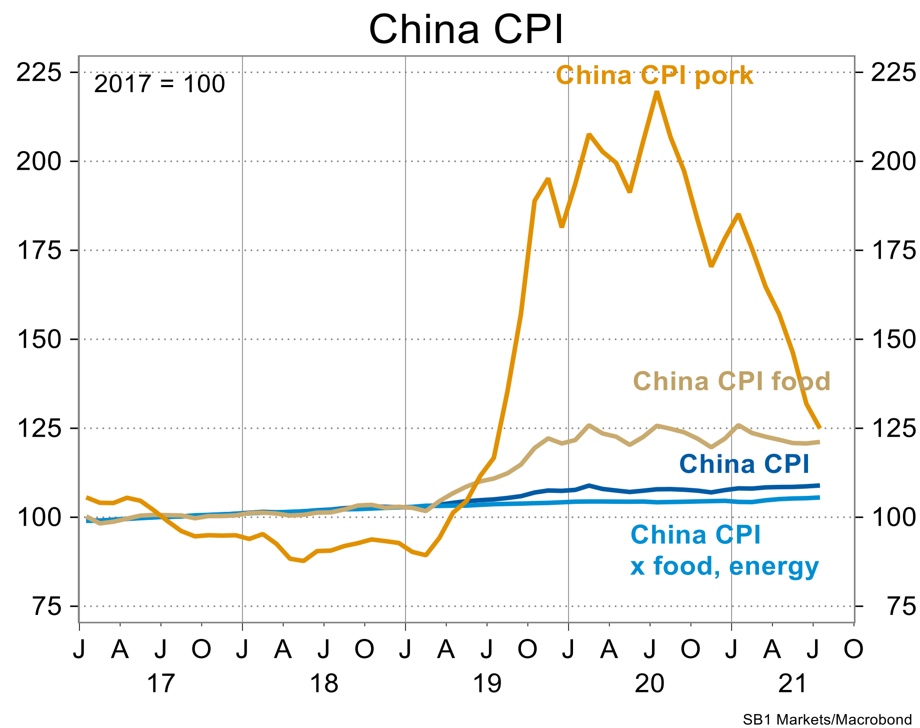


- **Total annual CPI** growth fell from above 5% in early 2020 to -0.2% in Feb. In July, CPI was up 1.0% y/y, down 0.1 pp from June, expected down to 0.8%
- **Food prices** rose by 0.2% m/m, even if pork prices fell further by 5%. Food prices are down 3.7% y/y. Pork prices are falling rapidly following the doubling of prices due to the 'pig massacre' (swine flu) last year but prices are still up 25% vs. the level before the flu, and will probably continue to decline some more over time. The CPI ex food is up 2.2% y/y – however with an unavoidable contribution from energy
- **The core, ex food & energy price index rose 0.2** m/m, and is up 1.3% y/y, up from 0.9% in June. Prices are accelerating, measured 3m/3m prices are up at a 2.7% pave, the highest in more than 10 years
- Inflation is up but is still moderate, at least measured y/y. **Monetary policy** will not respond to actual inflation data if inflation is not really high or low, the real economy and the credit market is more important

Pork prices down 5% m/m in July, keeping food inflation in check

Pork prices are down 44%, from the peak. They are still 25% higher than before the swine flu



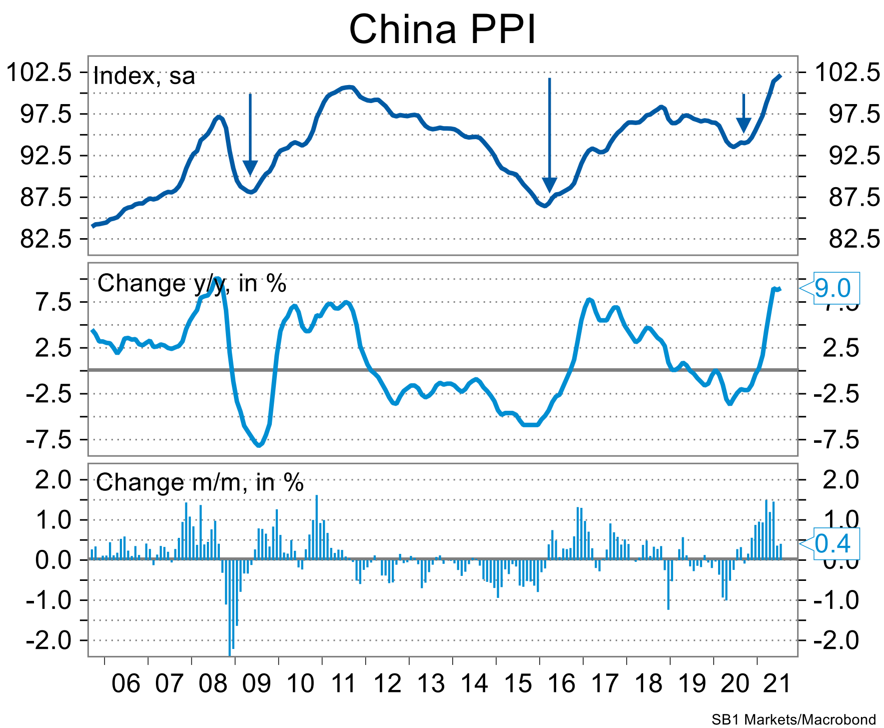


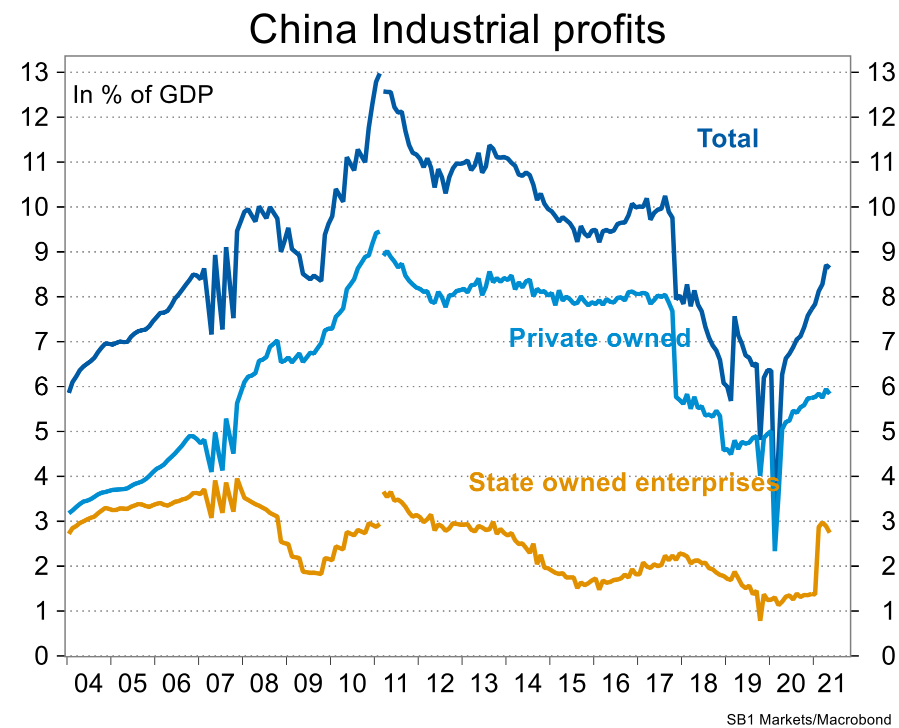
- Food prices rose by 0.2% m/m in July but are down 3.7% y/y – due to the 44% decline in pork prices

SpareBank 1 MARKETS

Factory gate prices are stabilising as authorities try to curb commodity prices

PPI up 'just' 0.4% m/m in July – but up 9 % y/y, 0.4 pp above expectations

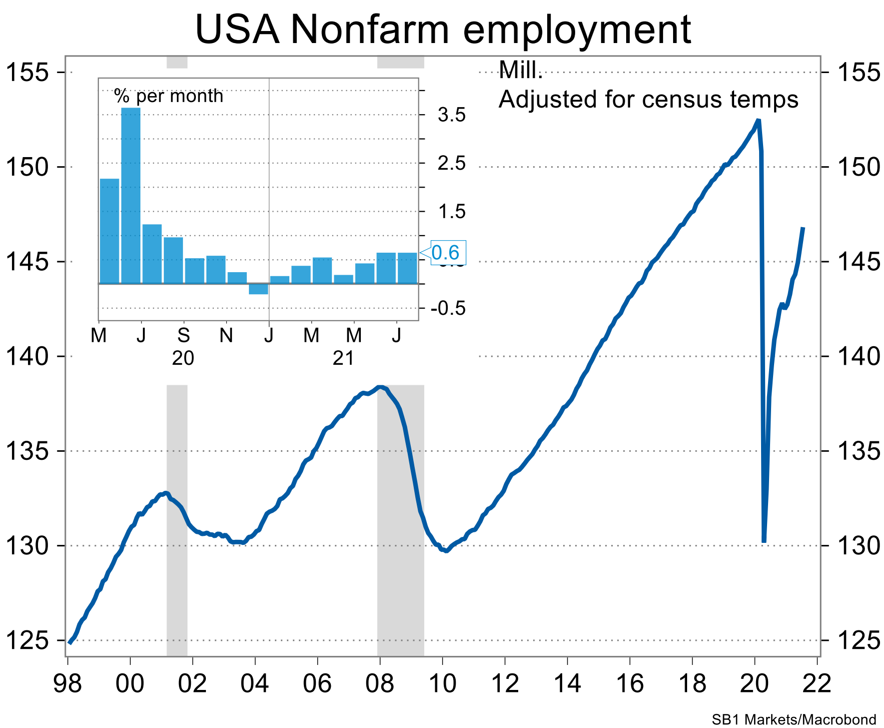


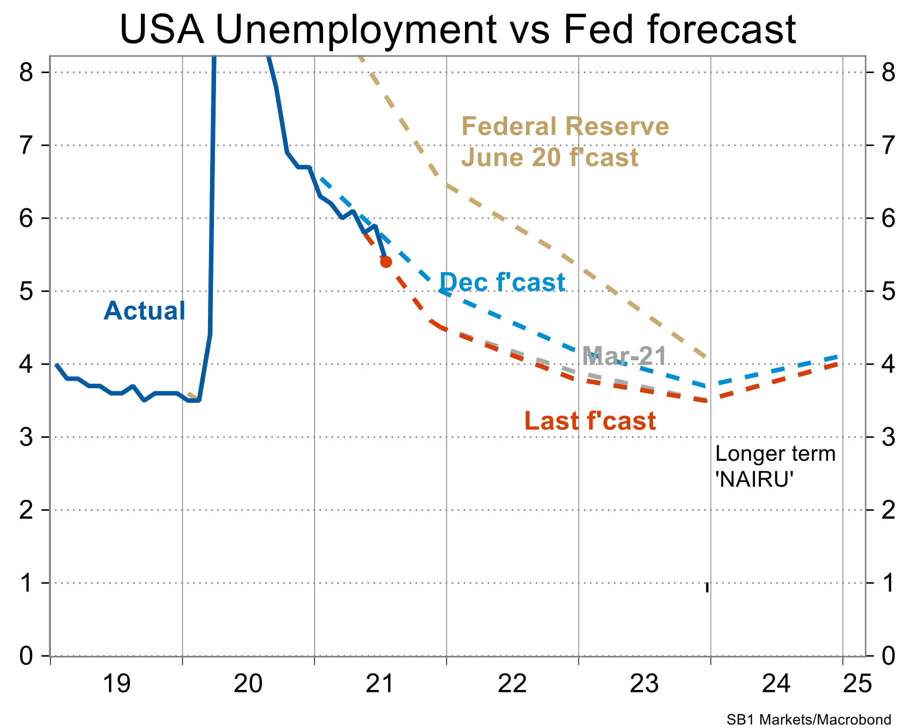


- **The rise in PPI** in the last few months can largely be contributed to an increase in commodities prices
  - » The correlation to Chinese CPI is not that strong. It is more important for other countries, like the US CPI
- **Profits in privately owned industrial enterprises** fell by 50% in February '20. Profits rose to a normal level in April/May '20 – if we label the profit level in 2019 and early 2020 as normal – at 5% of GDP – and now it has climbed to 6%
- **Profits in state owned enterprises profits** have now come back around 3% - a level not seen since 2013 (however, there is something strange in these data…)

The labour market: Employment, hours, wages up. Participation not

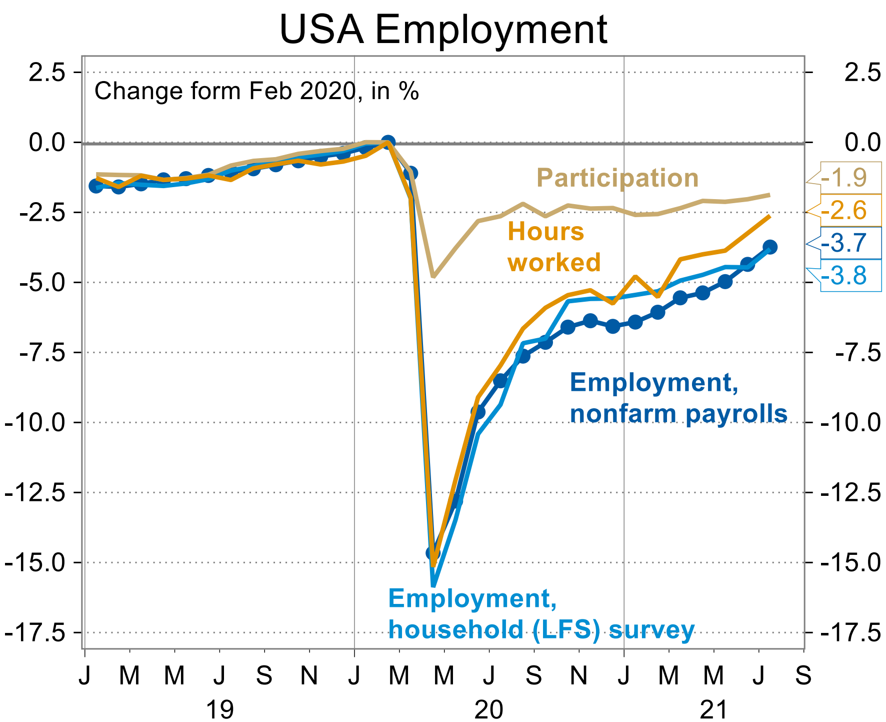
Unemployment fell back to downward trend. All in all: Signals less upside growth potential, infl. risk



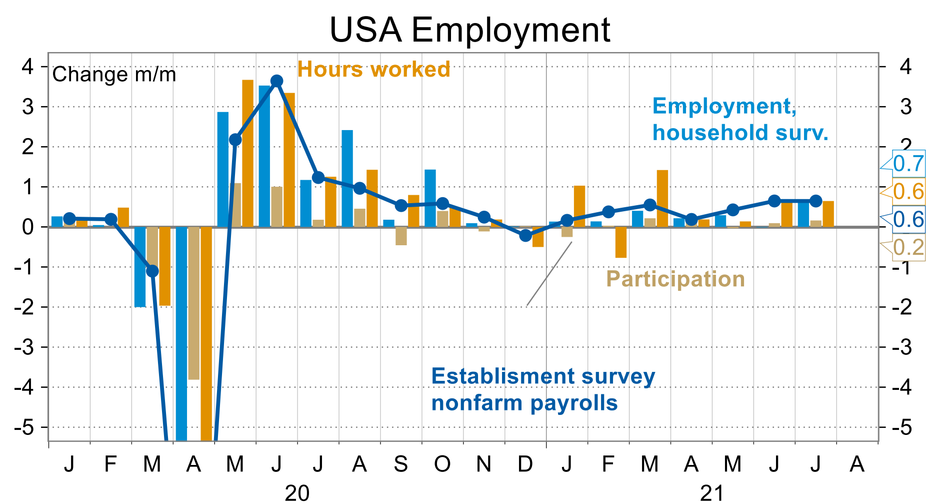


- **Employment** rose by 943' (0.6%), more than expected (845') – and much better than feared after the weak ADP report (+330'). Employment in restaurants, education in the lead in July too but both remain well below pre-pandemic levels. Total employment is still 3.8 % below the early 2020 level
- **The participation rate** rose by 0.1 pp in July, but the trend is still close to flat, the 'supply side' does not respond to higher demand for labour
  - » 1.6 mill. persons (unch from June, but down from 2.5 mill in May) report that they were prevented from looking for a job due to the pandemic. Last summer 5.2 mill persons were outside the labour market for that reason. However, the labour force participation has not increased since then - others have withdrawn! The gap between 9+ mill vacant positions and the 8.7 mill unemployed is unprecedented
- **Unemployment** fell by 0.5 pp to 5.4%, expected down to 5.7. However, as the rate surprisingly rose in June, it just fall back to the downwards trend, and in line with Fed's (implied) f'cast (from June). Unemployment is just 1.9 pp higher than before the pandemic
- **Average wages** rose by 0.4%, 0.1 pp more than expected. Even if employment is increasing in the low-paid sectors, the average wage is still increasing at a fast rate. A one time shift or something more? Small businesses are reporting new all time high in trouble filling vacant positions, record high wage increases!
- **The big worry is still the supply side: Why are not workers returning to work? If the do not (in droves) limited growth potential, risk for higher wage infl.**

Labour market is recovering rapidly. Except for the supply of labour

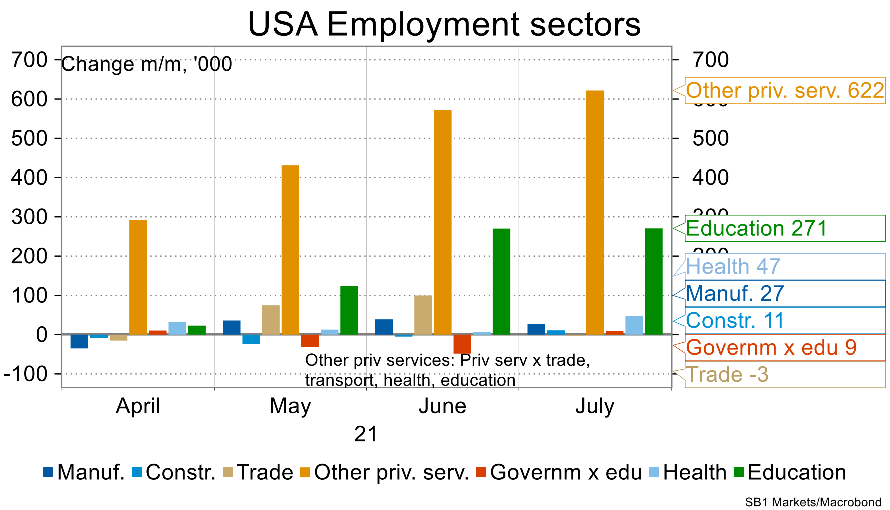


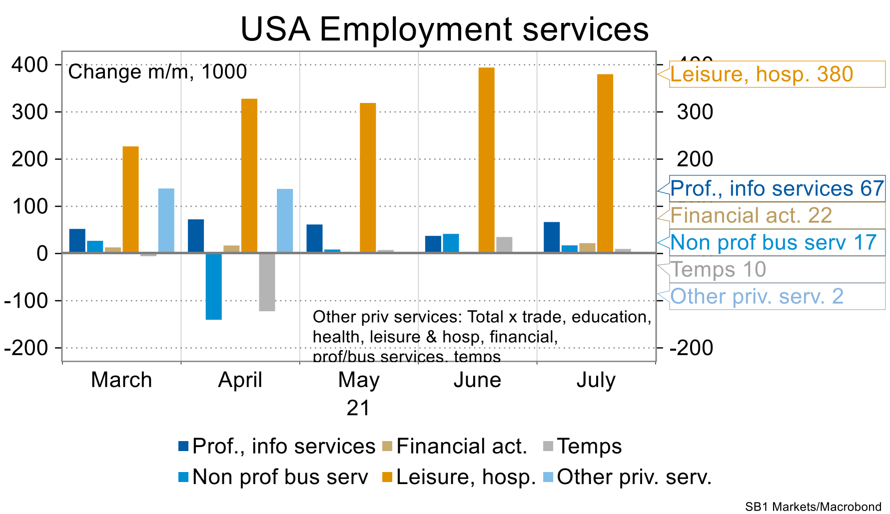
- **Labour market participation** rose marginally in June (in number, the rate was flat). The rate is down some 2.6% below the pre-corona level, which is lowering the unemployment rate by the same amount
- **Nonfarm payrolls** are down 3.7% vs Feb '20, while **employment** measured by the **household survey** (LFS/'AKU') is 3.8% below. The **employment rate** is 4.4% below par, following a substantial lift in July
- **Sum hours worked** rose 0.6% in June (and June was revised up). The level is down 2.6% vs. Feb-20



SB1 Markets/Macrobond

In July: Leisure & hospitality, education in the lead another month

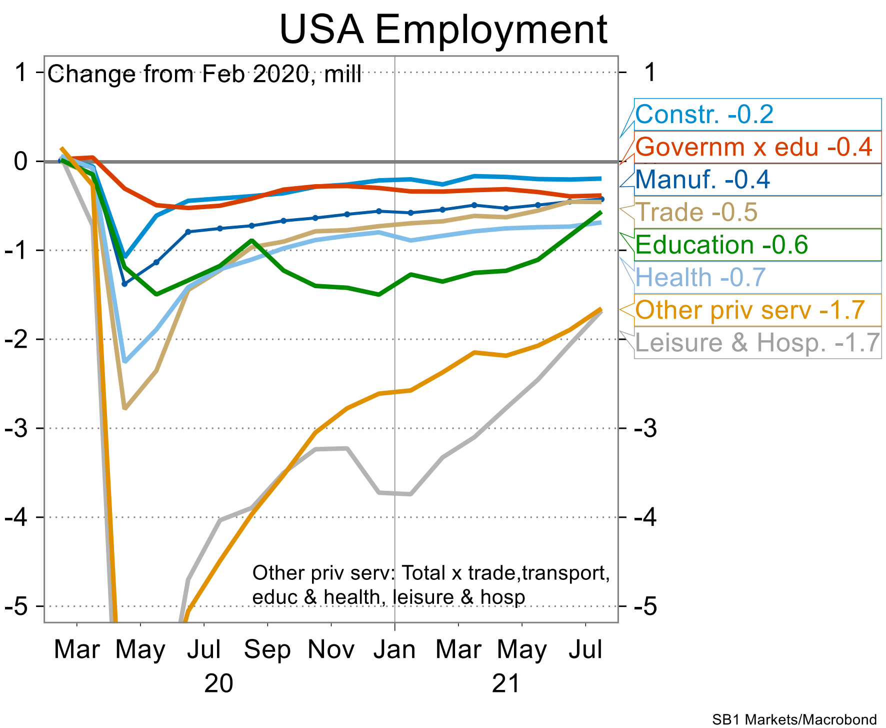


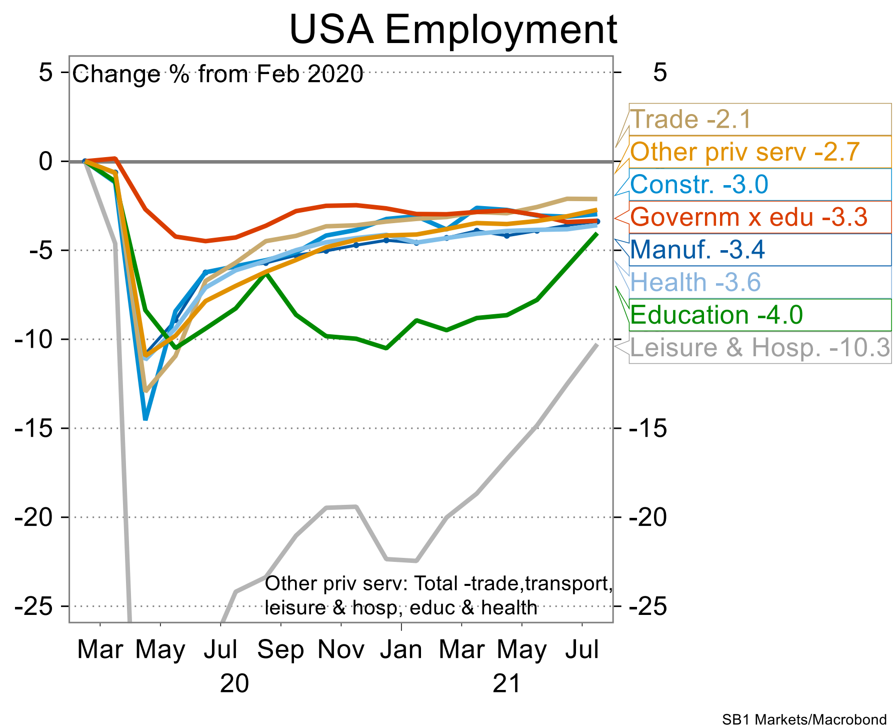


- **Last month**
  - » **Leisure & hospitality** (restaurants ¾ of the total, hotels, parks, gambling, arts++) added 380' workers, following the 343' June lift
  - » **Education** (private & public) added 271', as in June (+2.0% each month) as more schools were opened
  - » **Other private services** added more jobs too
  - » **Manufacturing & trade** added 24' jobs, down from above 100 in June. Employment in the auto industry fell again, as production probably was cut due to lack of components
  - » **Construction** sector employment is growing slowly
  - » Employment in **Government** (ex education) rose by 9'

From Feb-20: No sector is back yet, not even trade

4 mill jobs in leisure/hospitality, education & other services are still 'missing'

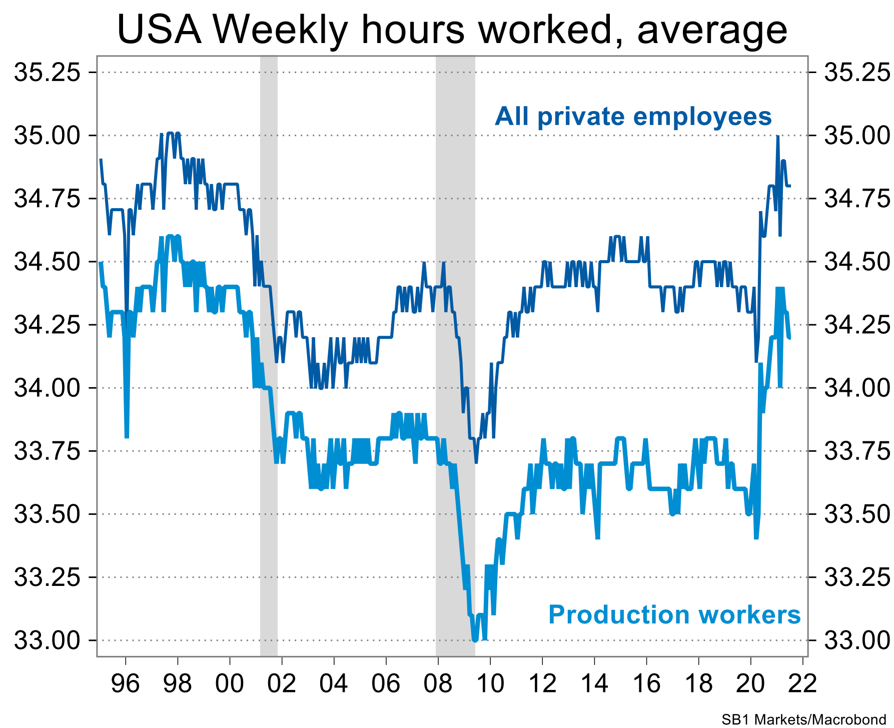


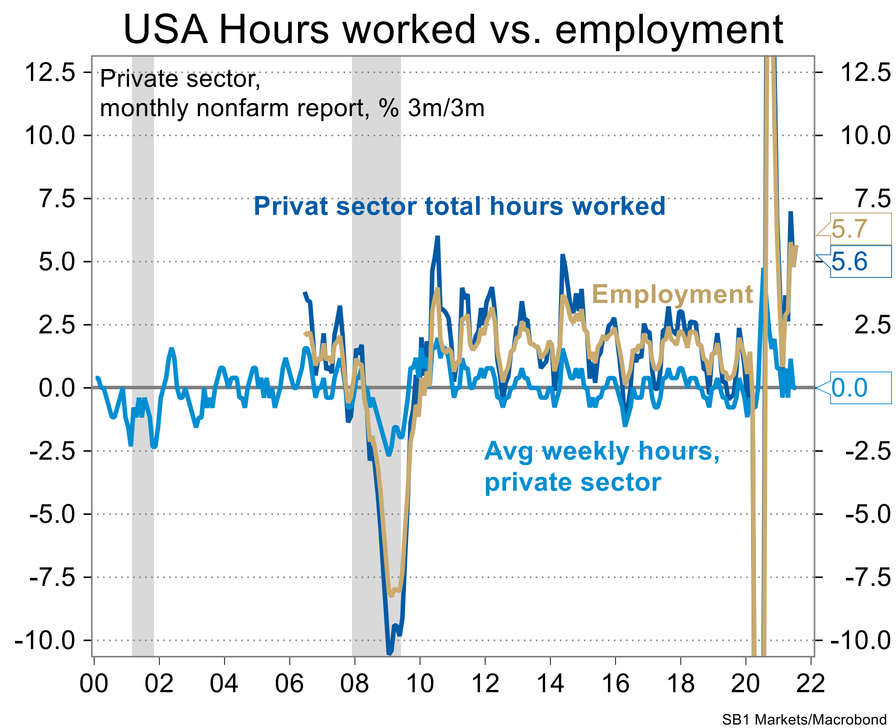


- **From February last year**
  - » No main sector is above the pre-pandemic level, not even retail trade, even if sales are up double digits!
  - » **Manufacturing** is down 3.4% (0.4 mill), **trade & transport** -2.1% (0.5 mill), **construction** -3.0% (0.2 mill)
  - » **Education** is down 4% (0.6 mil), many schools are still closed
  - » **Leisure & hospitality** is down 10.3% (1.7 mill)
  - » Even **government employment** x education is down 3.3% (0.4 mill), which is rather remarkable

Average weekly hours flat in July – at a high level

Total hours worked are up 5.6% 3m/3m, due to growth in employment

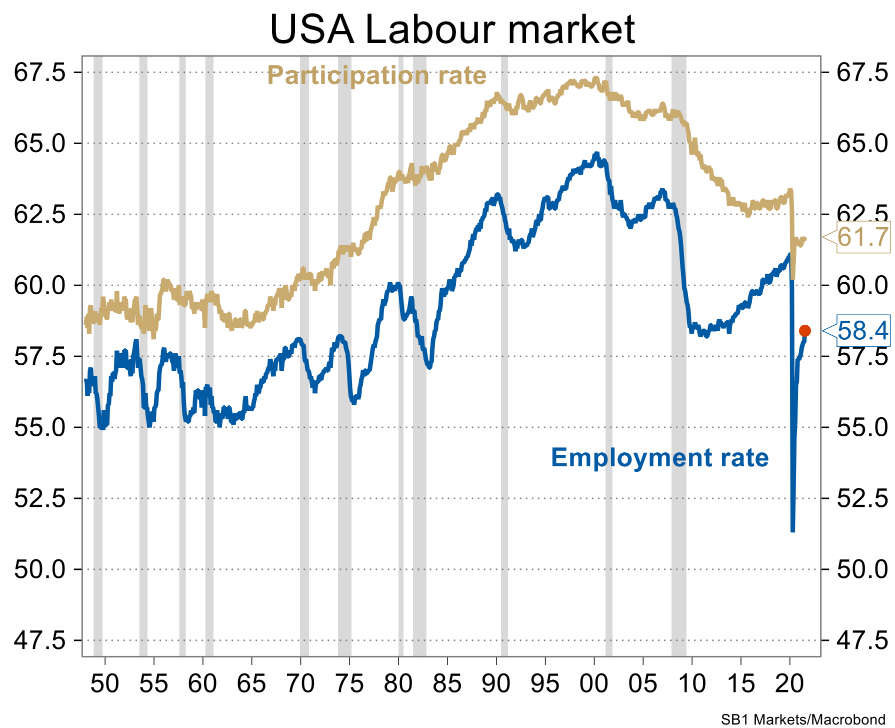


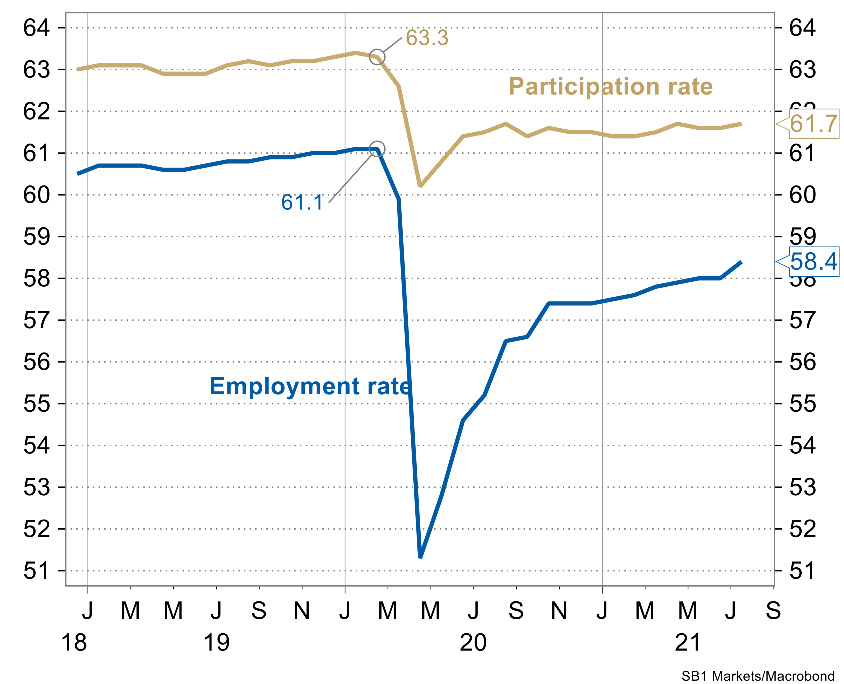


- The lift in average weekly hours early in the pandemic was mostly due to employees with few working hours lost their job first
- Average weekly hours are up 1.2% from before the pandemic

The participation rate is close to flat, even if demand for labour is strong

The participation up 0.1 p in July, back to the April level

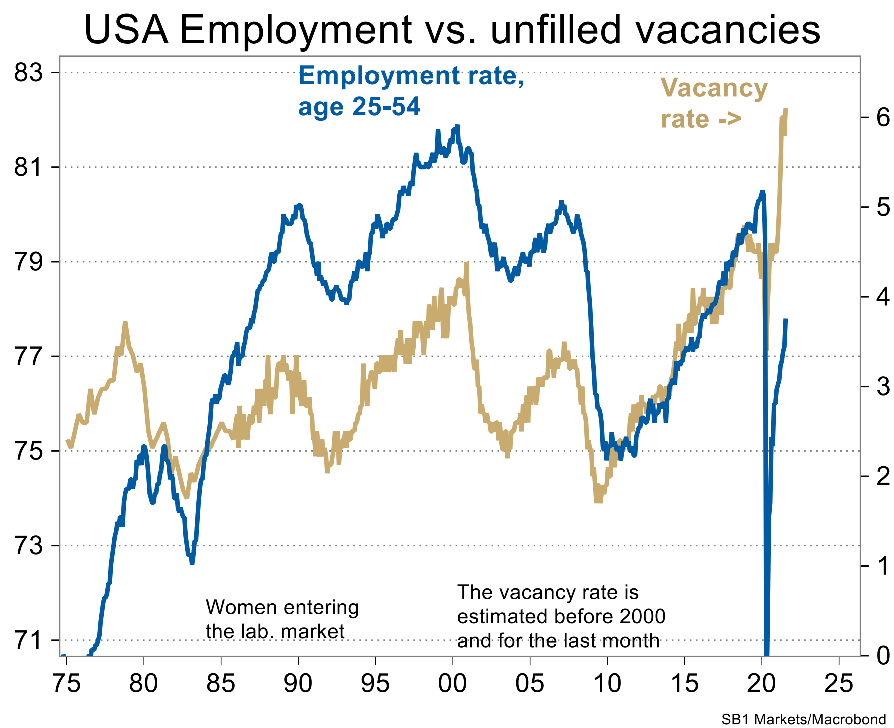


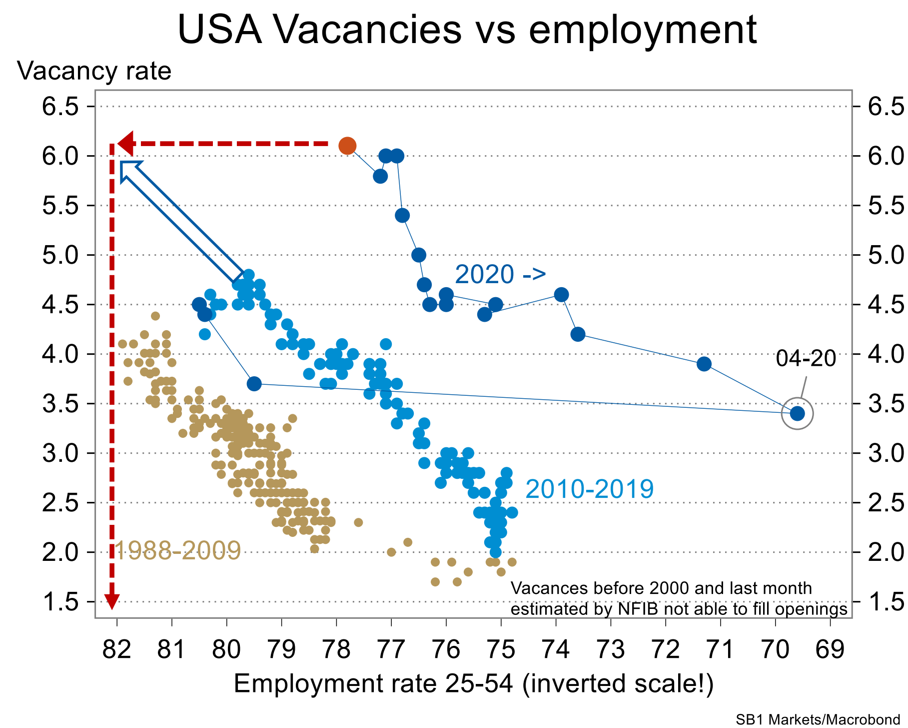


- The initial decline in the participation rate was Covid-19 related, and it may still be. In July 1.6 mill. persons responded that they did not search for work (and thus were excluded from the work force) for Covid-19 related reasons (like fear of the virus, lack of work opportunities, parents having to stay home to take of their children as schools were closed etc, not because their job was closed down. These 1.6 mill persons equal 1% of the labour force, and represents a reserve but it has fallen rapidly recent months, without lifting the overall participation rate!
- **So, the conundrum remains:** Have most of those 'temporary covid leavers' permanently left the labour market – or has others left the market at the same pace as the 'temp leavers' have returned – and if so temporary, or permanently. And even just as important: Why have those who report they are searching for a job (and being counted as unemployed), not been able/willing to fill more of the 9+ mill vacant positions?

The real conundrum: Why are not more of the vacant positions filled?

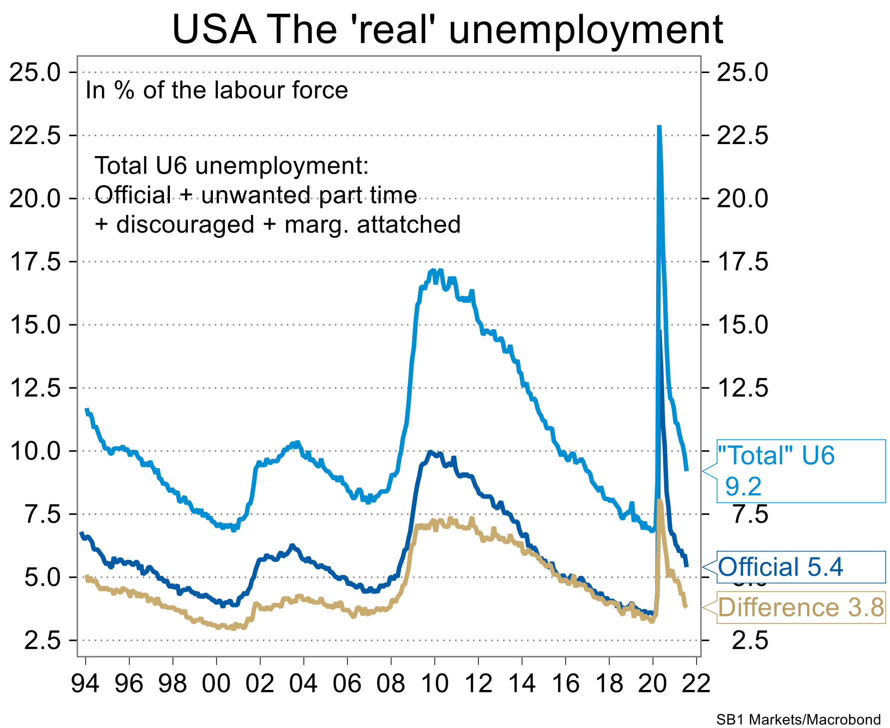
... given the high number of vacancies

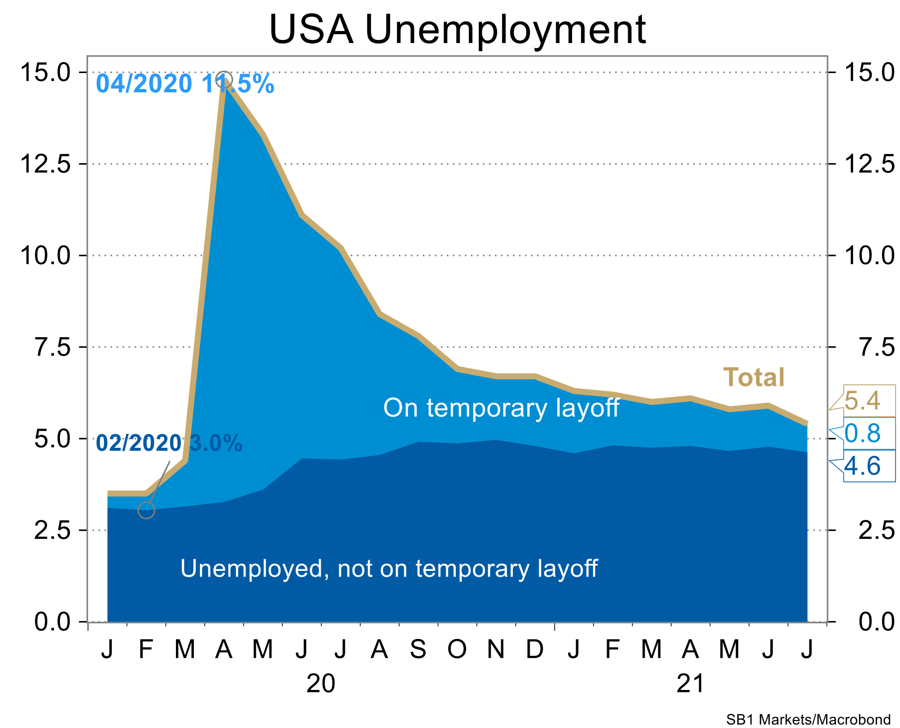




- We can still hope that the extra federal unemployment schemes are to blame – but so far we not have any safe evidenvce of that (se the two next pages)
- It may be due to the virus, it is still hanging around
- Work preferences may have changed – some will not return to the labour market, even among those in the prime age (chart above)
- The next few months will give us extremely important information!

Grand total employment is falling sharply

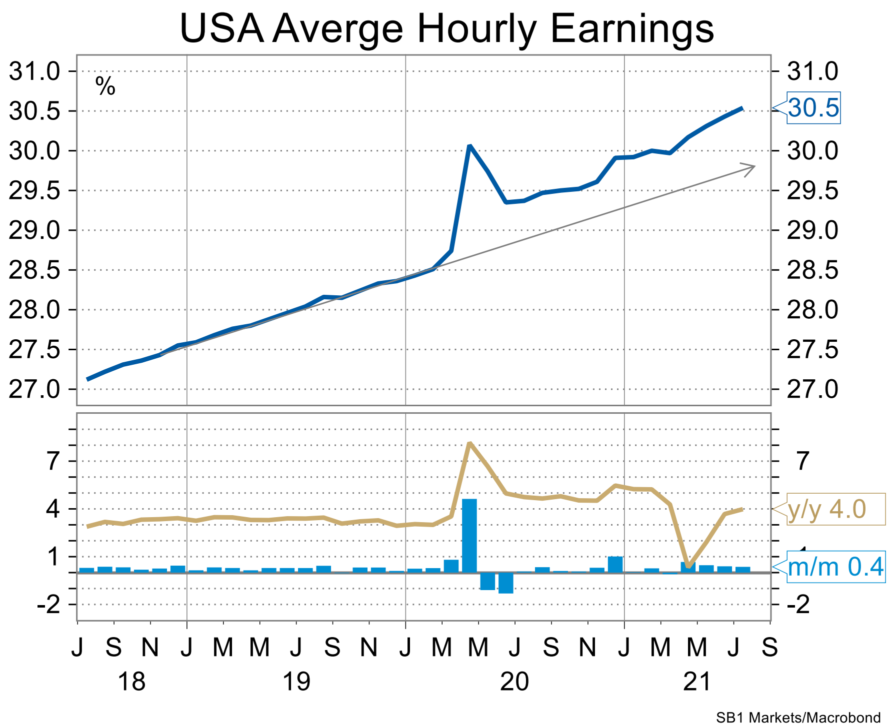




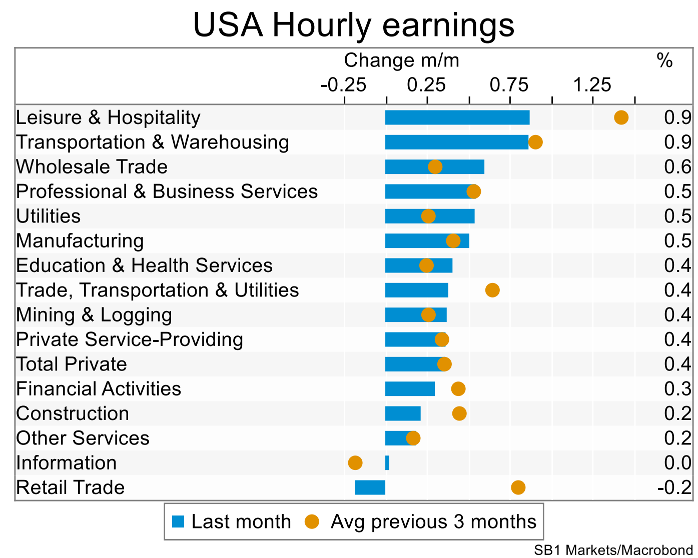
- In June, the ordinary **unemployment rate** fell by 0.5 pp to 5.4%. Both temporary and 'ordinary' unemployment fell
- **The 'total' unemployment rate fell 0.6% to 9.2%.** This rate includes workers in unwanted part time positions or those who do not search for work because no work is available anyway, even if they want a job. (We assume the 1.6 mill workers that are not searching for work due to Covid are included in these figures, even if there are some differences in definitions)
- **The 3.8% difference** to the ordinary unemployment rate is far below the average since 1994, and far below levels seen in 'bad times' – but still above the spread during booming time levels – which implies here are some labour reserves here

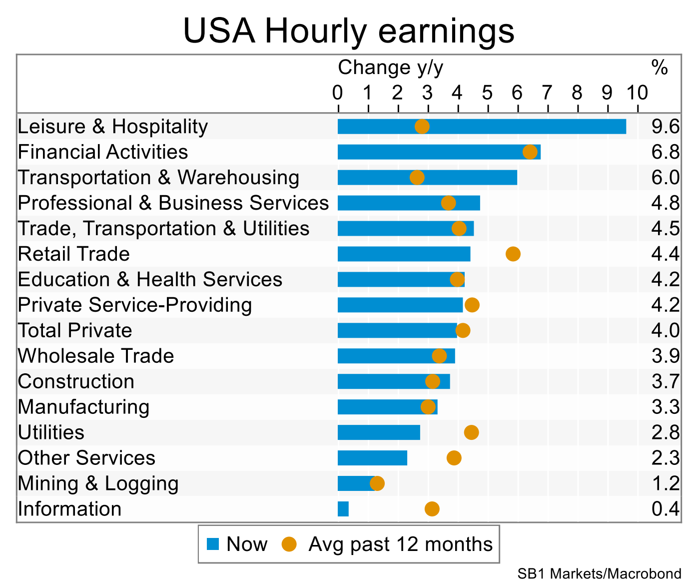
The average wage up 0.4% in July, 0.1 pp more than expected, 4% y/y

The July wage level is 2.9% above the pre-pandemic trend path



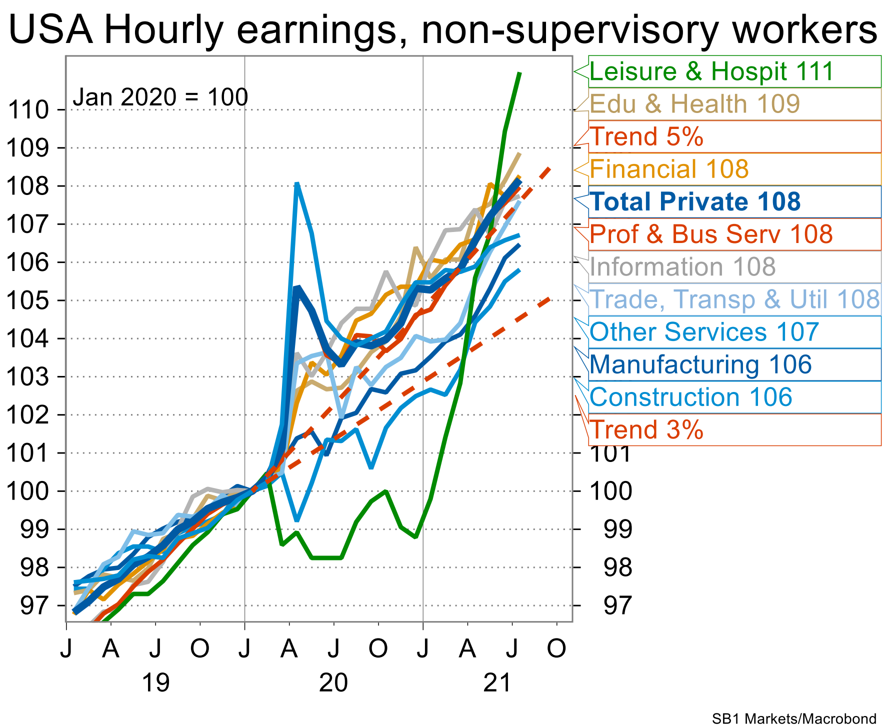
- We are still sceptical to over-interpret average wage data, also at the sectoral level, as employment mix has changed sharply between sectors and probably within sectors
- However, in both April, May, June & July wage increases have been strong, given than most of the increase in employment has been in the <u>low paid sectors</u> – which should have taken the average level <u>down</u>
- In July – as over the previous months, wages shot up in leisure & hospitality and in transportation & warehousing





Wages are up 6% – 11% vs the pre-pandemic level

.. And well above the pre-pandemic growth path

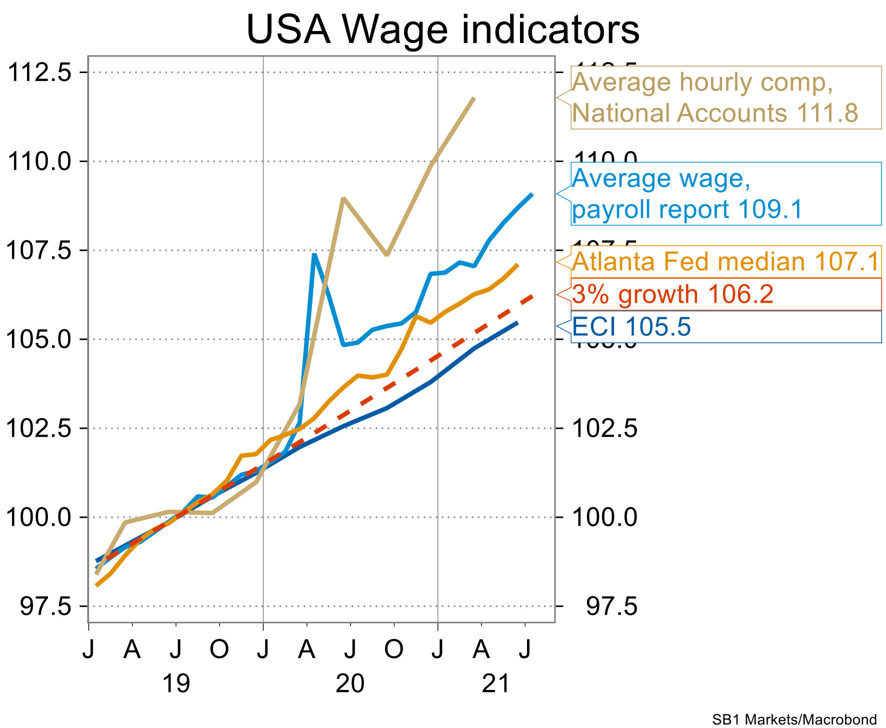


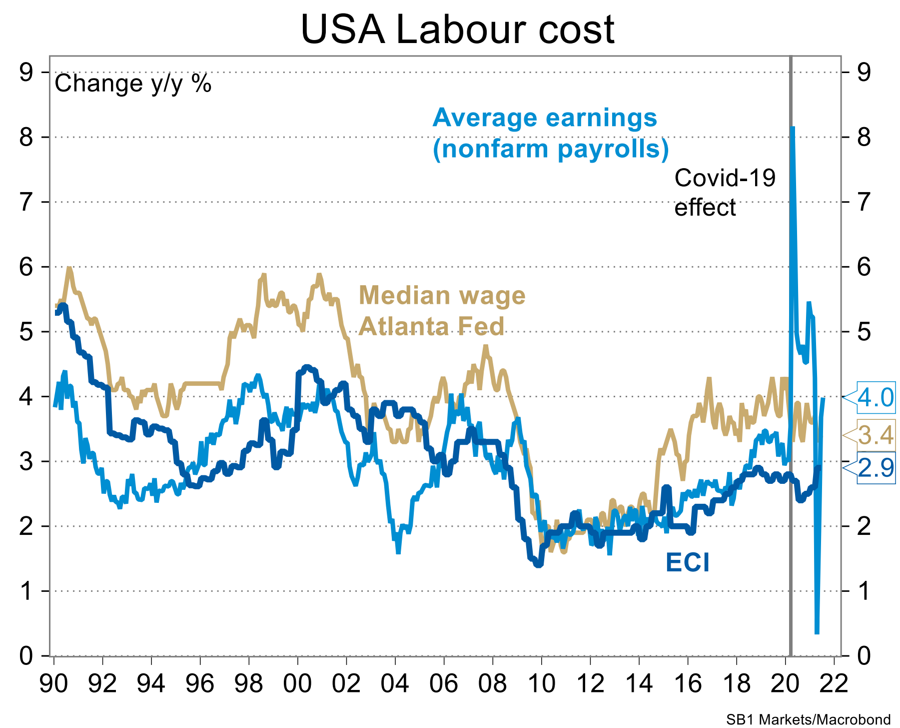
- Changes in the employment mix, even within sectors, still make these sectoral data uncertain
- However, it may be that these data reflects a real increase in wages recent months
    - » Say, why should the average wage in leisure & hospitality be 9% above the pre-pandemic level if wages in the sector have not increased quite broadly?
        - At least, it seems unlikely that higher paid staff has increased its share of total employment in the sector when wages have jumped by 12% (since last December)

- In the chart above, wages for non-supervisory workers are shown. When all employees are included, growth is slightly lower in most sectors

Mixed wage indicators: Another check this week – hourly compensation

… but the ‘average wage indicators’ are still probably influenced by changes in the employment mix

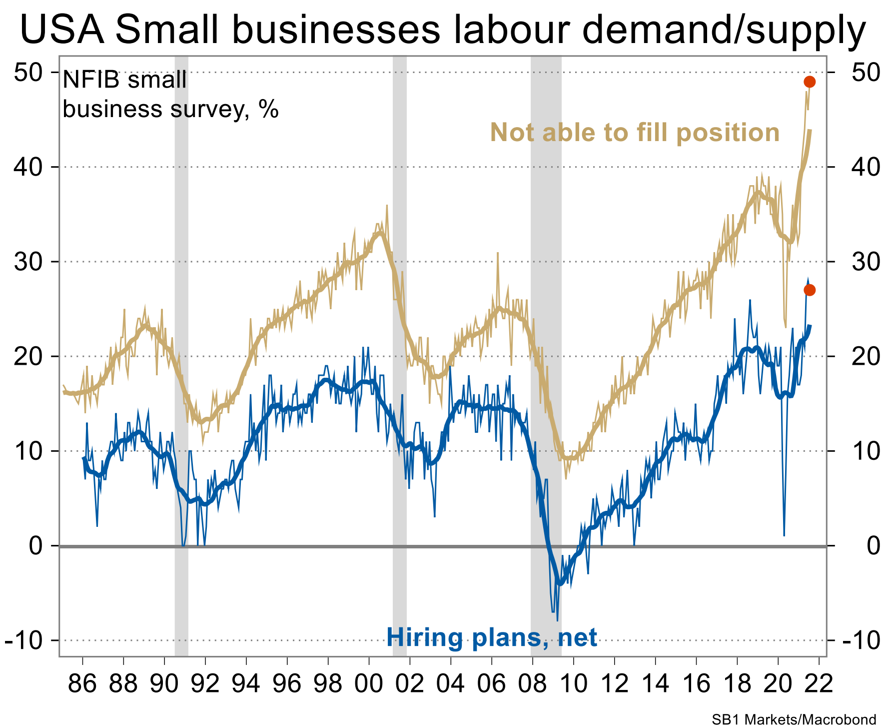


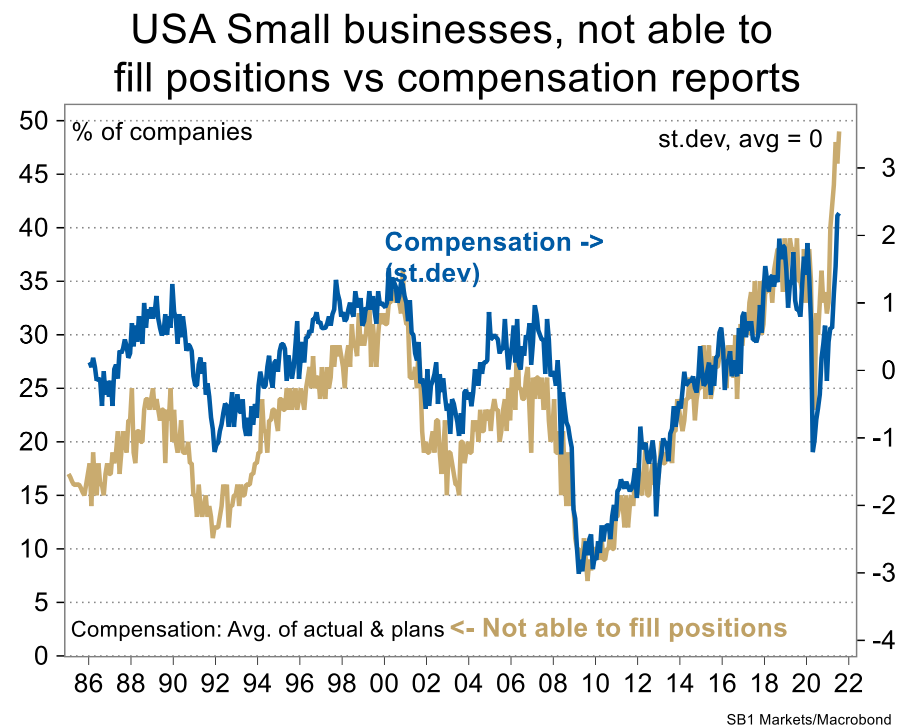


- **The Employment cost index** is up 5.5% vs. the 2019 average, implying an average increase by less than 3% p.a over the past two years
- Average earnings in the **monthly payrolls report** are up 9.1% vs. 2019, or approx. 4% p.a.
- Average **total compensation** as estimated by **National Accounts** are up 11.8% vs 2019 or by 5.7% p.a. This measure is the most volatile – but over time the ‘correct’ result
- **Atlanta Fed’s** survey of median wages are up 7.1% vs 2019 or close to 3.5% in average – with no sign of acceleration
- We still put most emphasis on the ECI and the Atlanta Fed’s median wage measure – but we cannot ignore the National Account data after some few quarters. Neither can the Federal Reserve. (And the surge in average compensation per hour has not been compensated by higher productivity, which it should have, if the low paid, low productive workers have not yet returned to the labour market

Another ATH in difficulty filling positions in July, according to small businesses

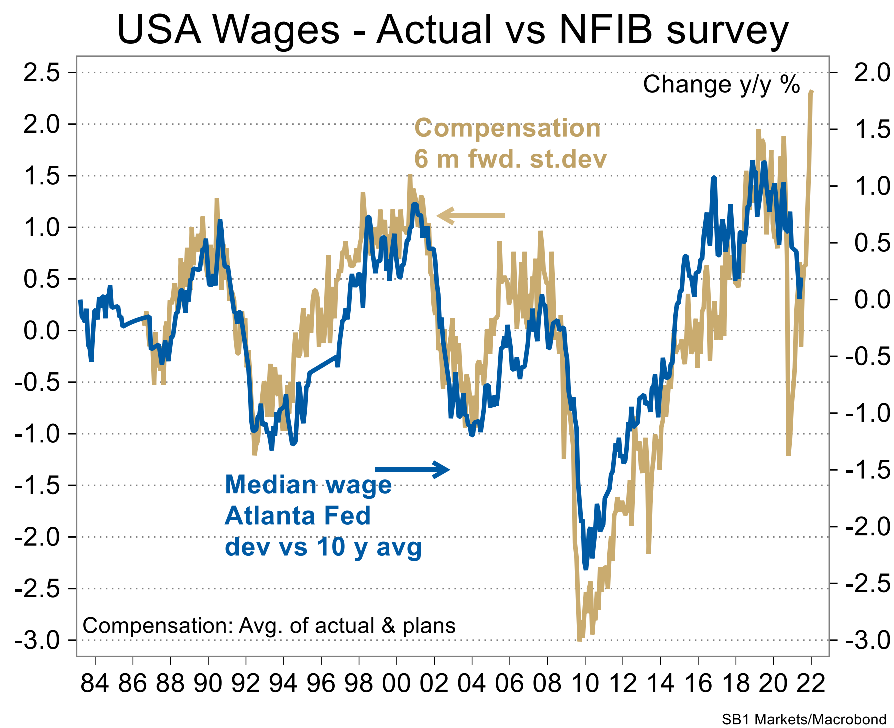
In addition, they plan to hire at a record pace – and they say are prepared to pay up, more than ever





- After a small decline in the **not-able-to-fill-position** index in June, this index surged to the highest level ever in July
- **Hiring plans** are extreme too – just at tad down from the June AHT in July
- And guess what – companies are reporting the most aggressive **wage increase plans** ever (data from 1986).
  The correlation to actual wage growth is pretty close, check the next page

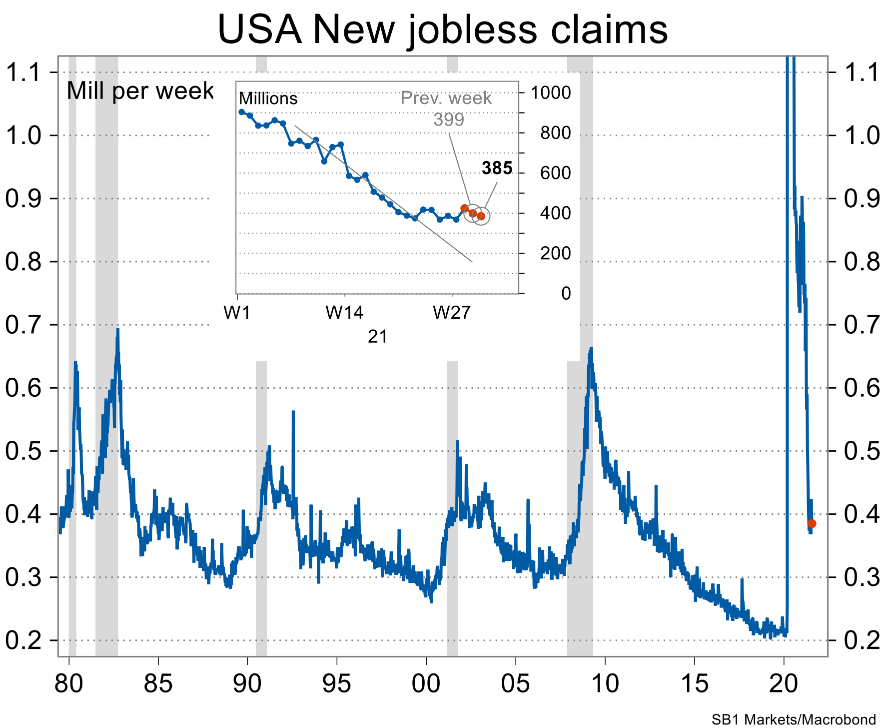
Wage inflation the obvious risk vs. inflation, growth, corporate earnings, short & long term interest rates, stock market multiples, credit spreads, real estate…

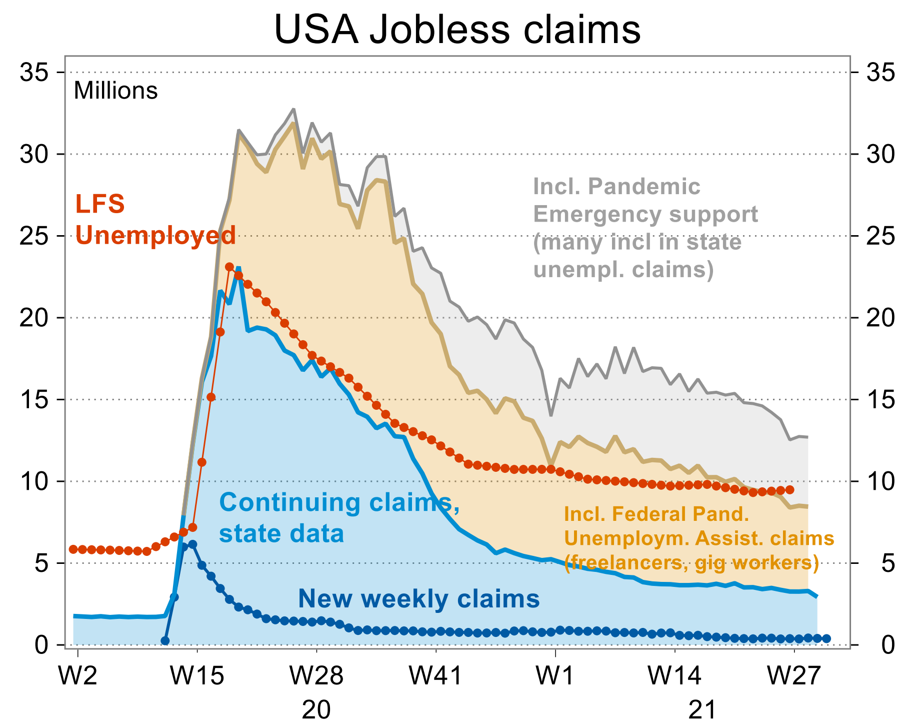


- Should wage inflation accelerate by 1 – 1.5 pp, inflation will drift above 2%, both in the short and medium term

New jobless remain at a high level but continued claims sharply down

... and now due to fewer claims in 'non-leaver' states

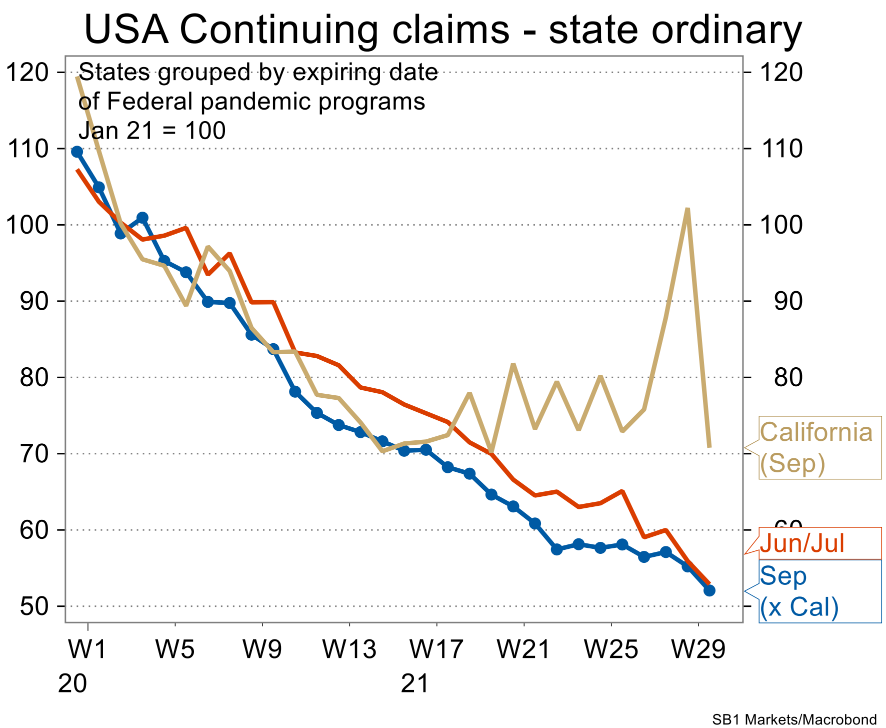


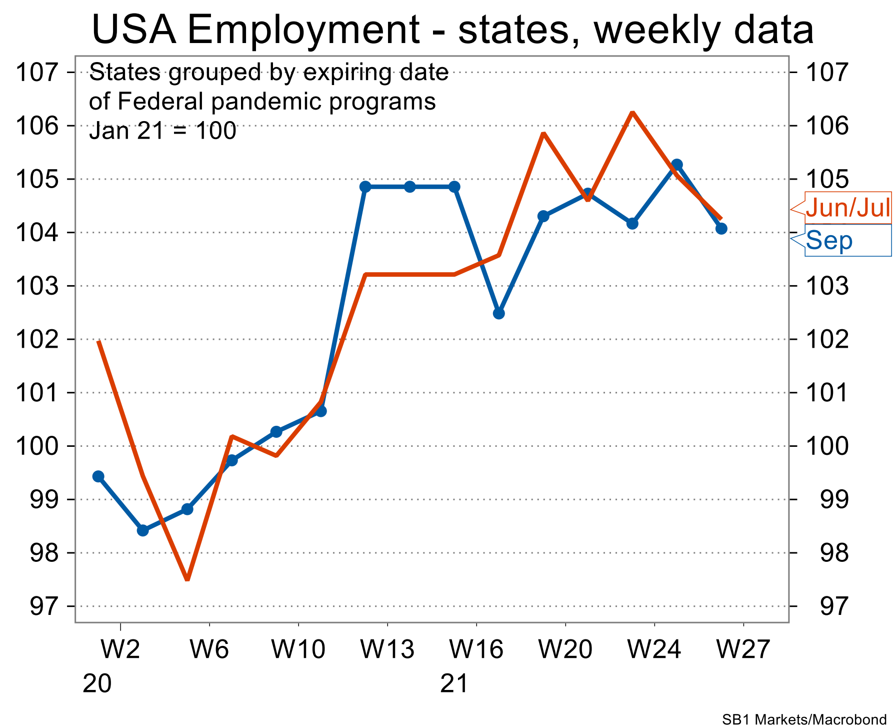


- **New jobless claims** fell by 14' last week (week 30) to 385' – and higher than expected once more. The inflow is still high given all other indicators of demand for labour
- **Ordinary continuing claims** fell sharply the previous week (week 29), by 366' to 2.93 mill – mostly due to a steep decline in California. The number of recipients of extra federal pandemic benefits were close to unchanged in week 28 – but during the previous weeks the no of recipients have fallen by 1.6 mill to 9.4 mill. All of these millions will lose this support in September. What will they than do??
- As many have received both state and federal support, the downscaling of the federal programs could have led to a decline in the no of recipients of ordinary state support (the extra federal support made it more attractive to remain unemployed). Check next page

Will the cancelling of pandemic federal benefit programs lift employment?

So far, no indication of that (volatile California data misled us last week)

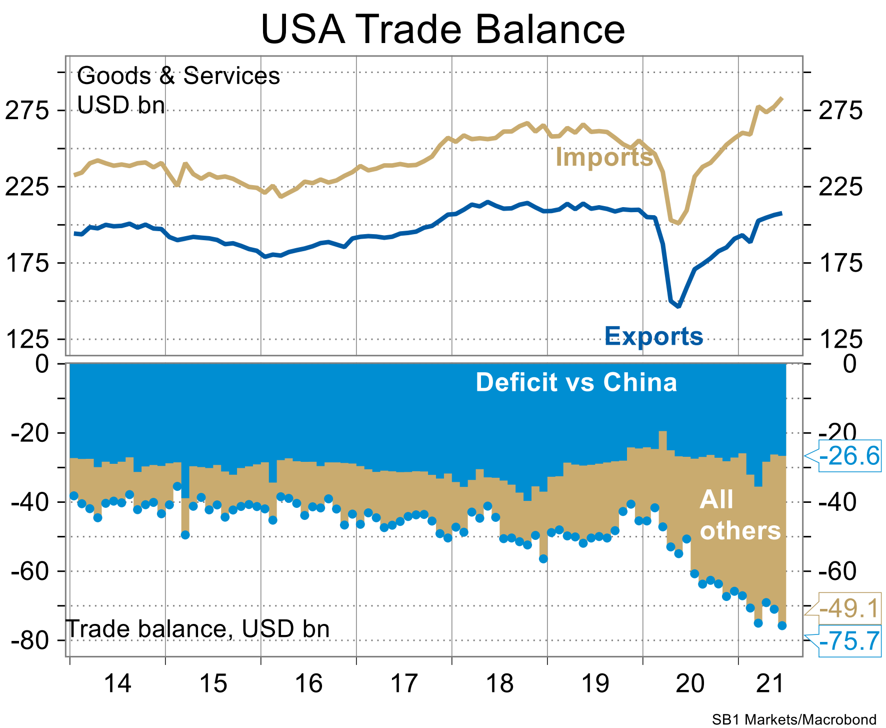


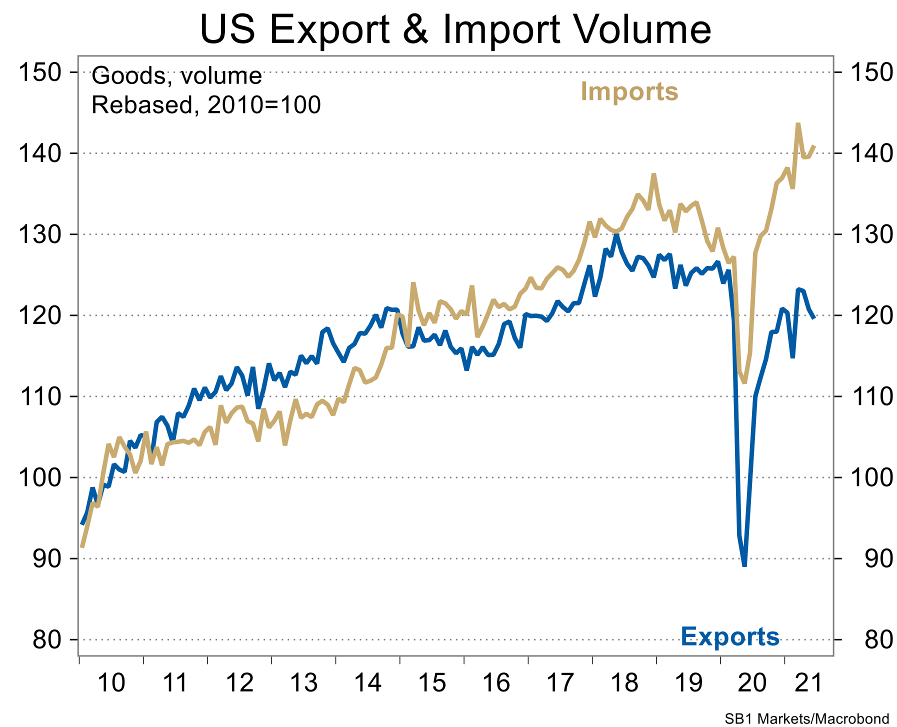


- 4 states dropped out of the federal unemployment benefit programs on June 12 (end of week 23), 8 states left June 19, and 10 states June 26, and 3 more states July 3 and 10 (week 27)
- We do not know what these former recipients do now – are they now trying to find a job?
- If we pool the 'early leavers' in one group, there has been a reduction in number of recipients of ordinary state benefits the past 3 weeks which may imply that those who lost their federal support also leave the dole. However, barring the volatile Californian data, the decline is more or less than same in those states that have not opted to leave before the programs expires, in September
- Weekly employment data (available just through week 26) do not indicate lift in employment in the early leaver states

The trade deficit up to ATH in June, brisk domestic demand to blame

Trade deficit up to USD 76 bn, from 71 bn in May. But now domestic demand for goods will slow?

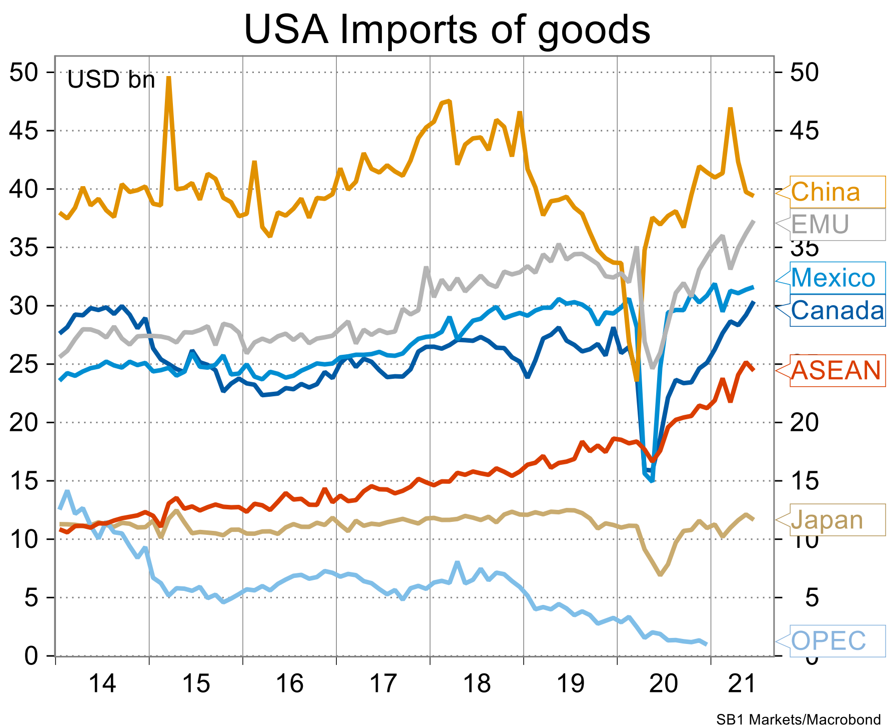


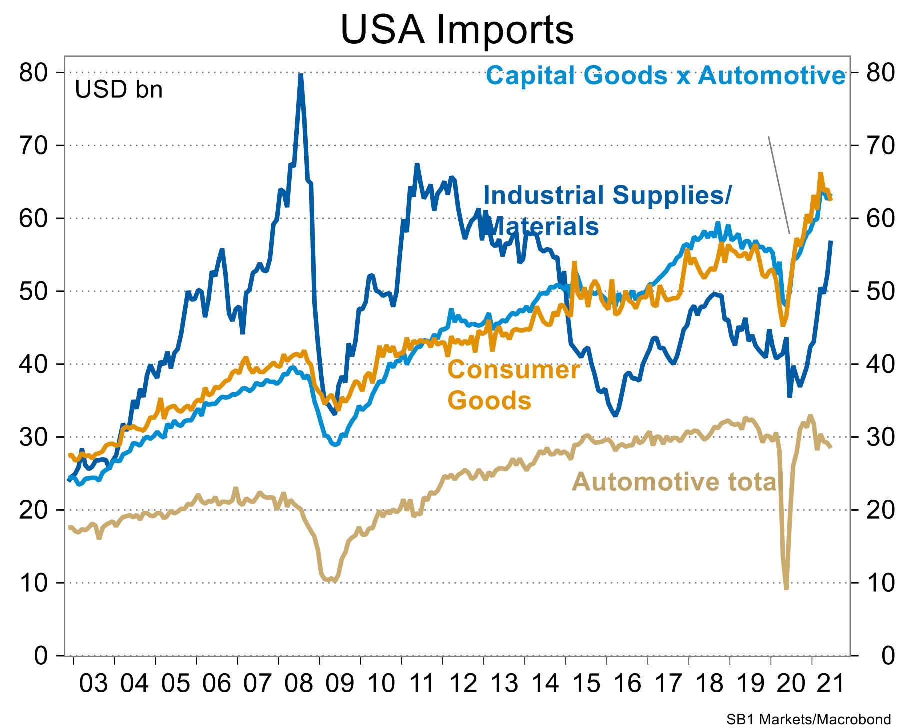


- **Exports** rose by 0.6% m/m, and are now slightly above the pre-pandemic level (in value terms). In volume terms, exports of goods fell 1% in June, and are 4% down from early 2020
- **Imports** rose by 2% m/m, and 12% above the early 2020 level. In volume terms, the **imports of goods 11% above**! The main reason for the surge in imports is no doubt strong demand for goods in the U.S. We expect household demand for goods to slow in H2, from the present very high level, and many of US' trading partners should increase their demand for US goods, and one day for services
- **The trade deficit** is trending upwards, also measured in % og GDP, now at close to 4%, up from less than 3% before corona
  - **The deficit vs China** is almost at the same level as when Trump became president in 2016. However, the total deficit vs. other countries has increased, also before corona

Capital goods imports up in April, all others down but none are week (x auto)

Imports from China sharply down m/m – from a high level

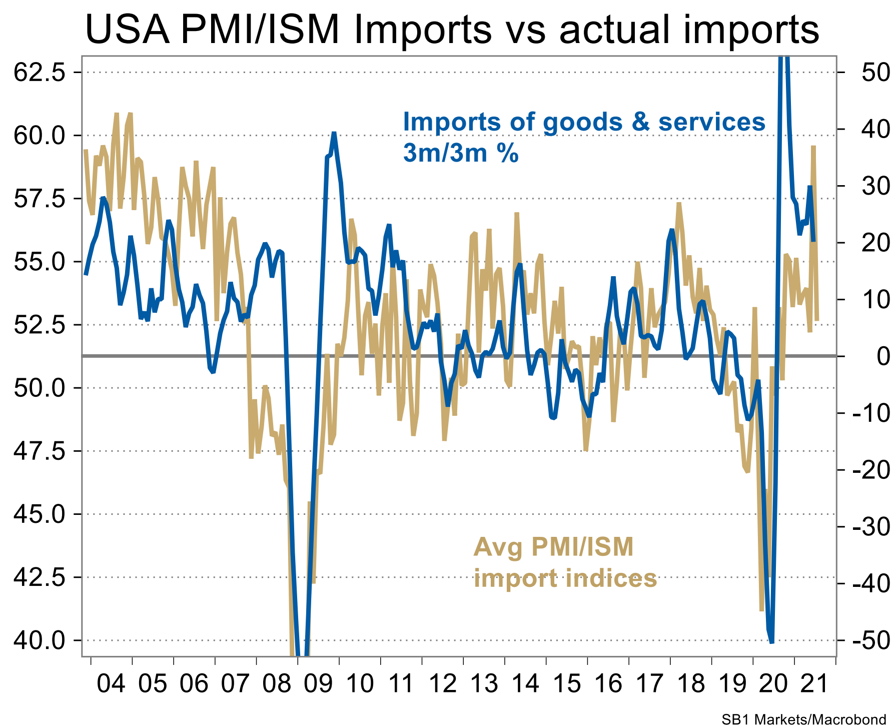




- **Imports from regions:**
  - » Imports from China are back at 2019-levels
  - » Export from ASEAN (the minor Asians) are very strong too
  - » Exports to US from EMU are sharply up, and higher than before the pandemic
- **Imports by type of goods:**
  - » Auto imports are low, very likely due to production problems abroad due to lack of semiconductors
  - » Consumer goods import a tad down in the past 3 months, in tandem with a small decline (from a very high level) in retail sales

PMI/ISM signal slower growth in imports

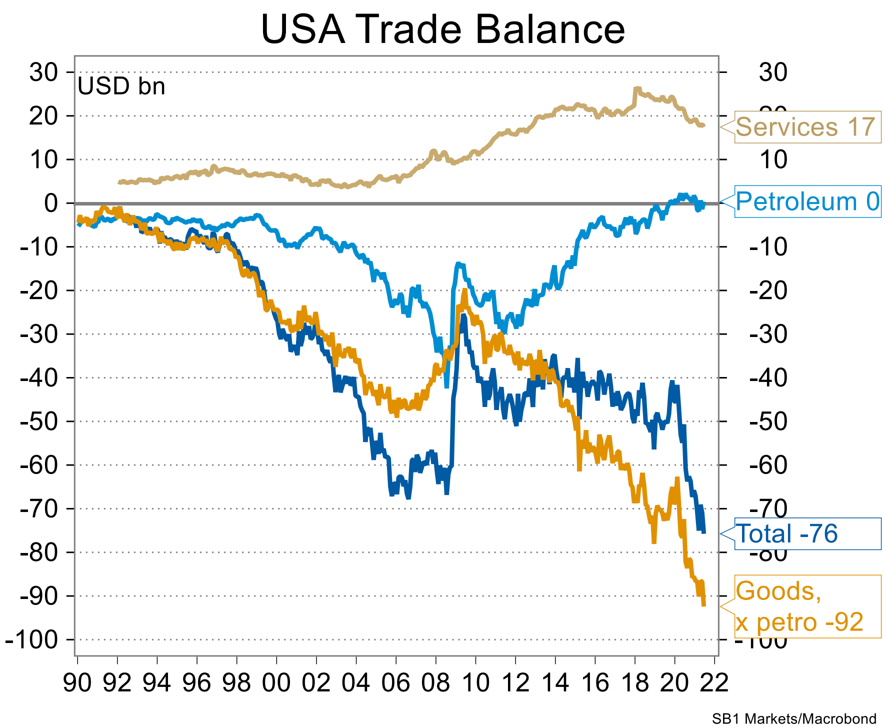
… following the surge. Consumption of goods will have to slow – taking some import down

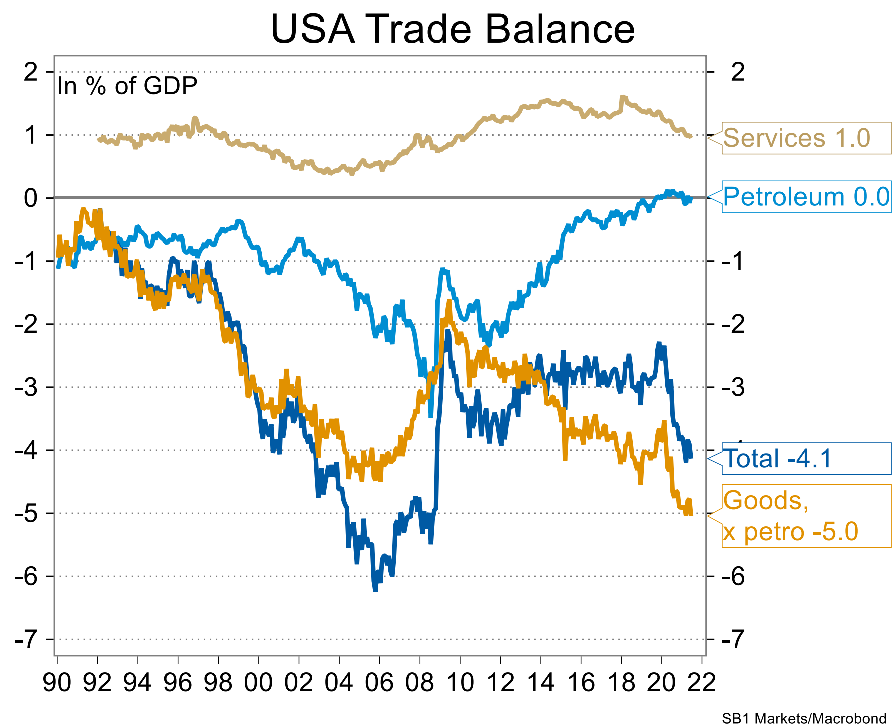


- However, actual import have so far kept up well

Goods deficit very high, even in % of GDP

Surplus in services keeps narrowing

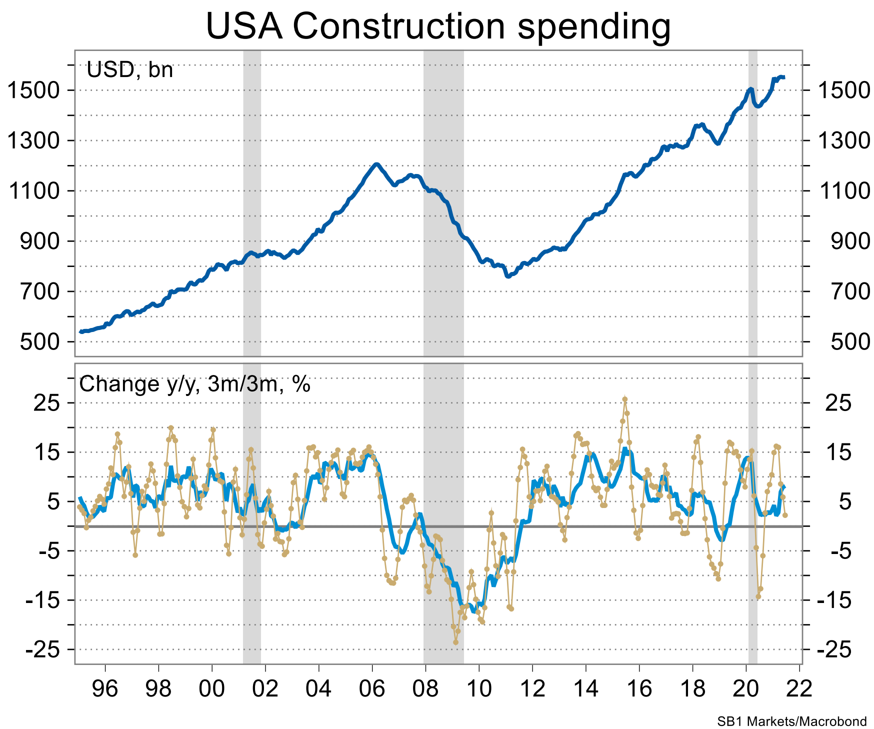


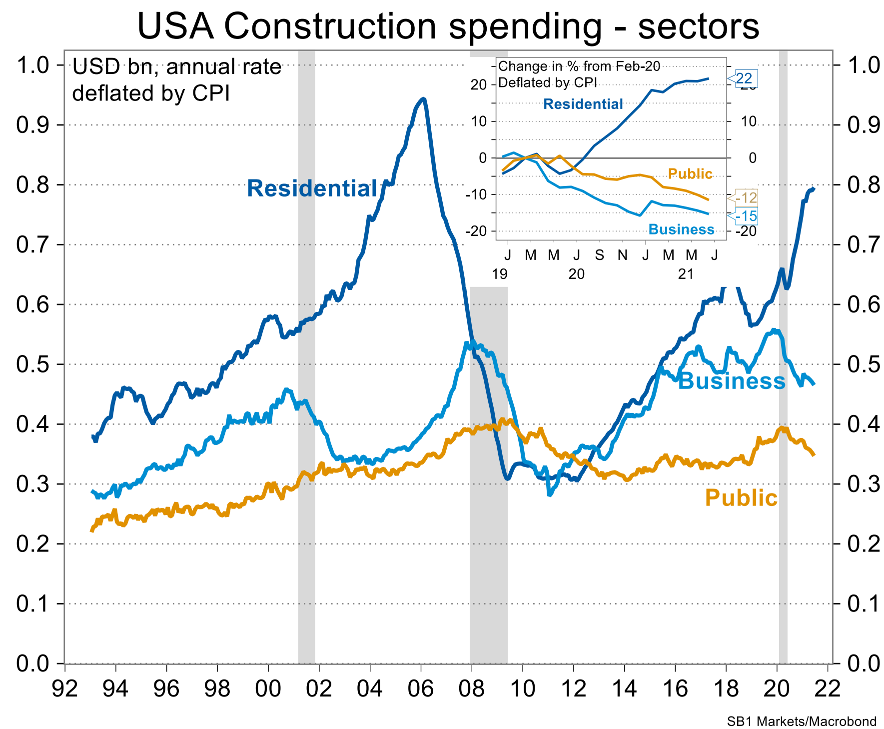


- **The goods x petro products** deficit was at USD -92bn in June. The deficit equals 5.0% of GDP
  - » Before the corona virus hit, the trade deficit in goods was narrowing, as growth in the US slowed (and imports fell, which is normal)
  - » The petroleum trade deficit has become at surplus of +1 bn, from -30 bn/m in 2012!
- **The US runs a surplus in services** at USD 17 bn, equalling 1% of GDP, but it is trending 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. The deficit has widened from 2.5 in early 2020 – as domestic demand has been stronger in the US than abroad

Growth in construction spending is slowing

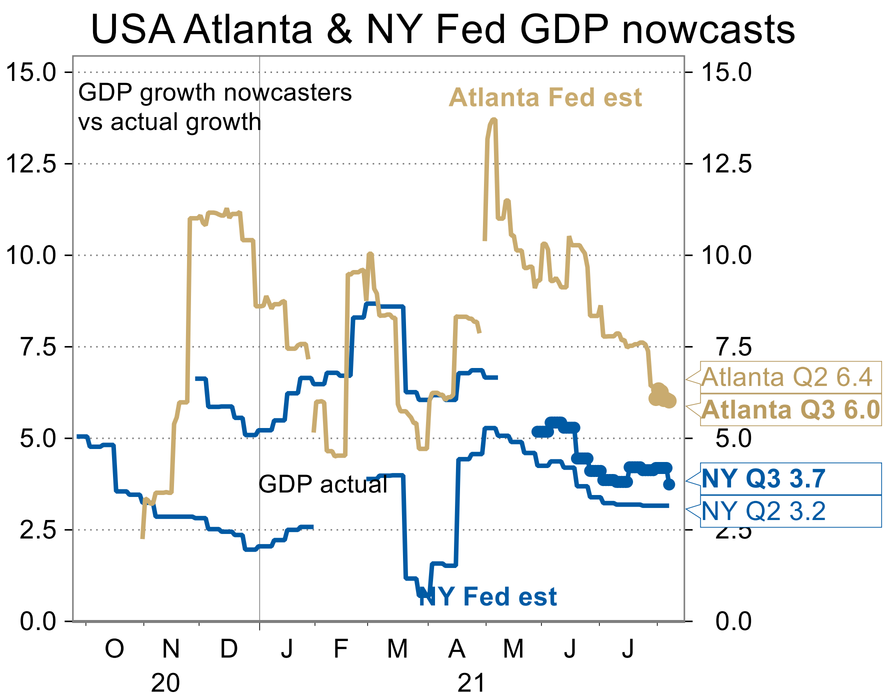
Will businesses start to build again? Public construction is sliding down too



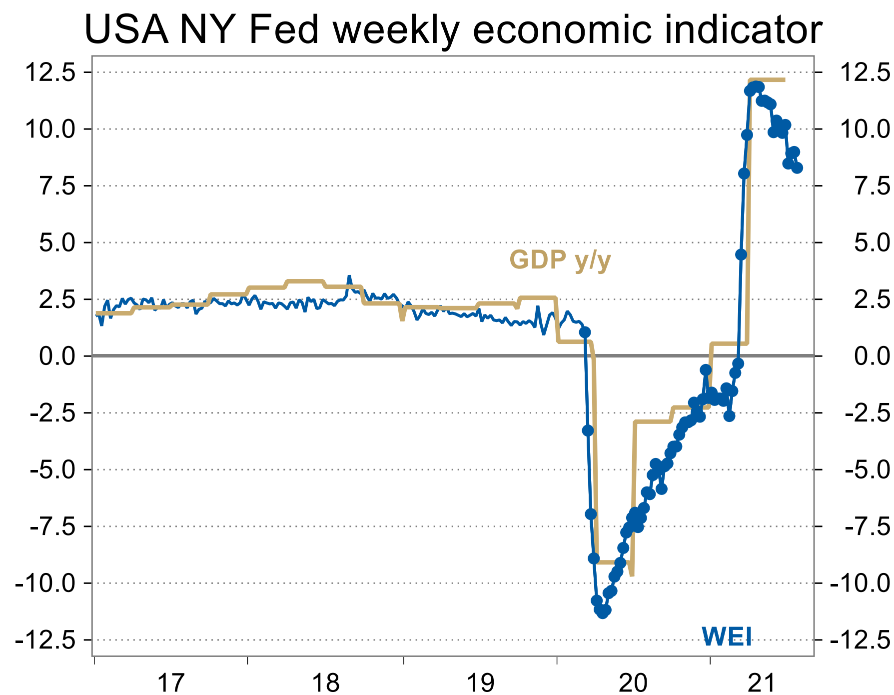


- The Covid crisis was not deep in the aggregated construction sector, and not long either – construction spending is well above the pre-pandemic level, in nominal terms, and marginally up if deflated (by a 12 m smoothed CPI). Growth has slowed recent months
  - » Construction spending rose by 0.1% in June, less than consensus at 0.5%
- The lift in overall construction spending since before the pandemic is just due to the a surge in **residential construction** but growth has slowed somewhat last months – still up 1% in June
- **Businesses** have reduced their construction investments sharply since early 2020 – and spending is still declining, down 0.7 % in June
- Spending on **public projects** is also heading rapidly downwards – down 1.2% in June. The infrastructure package may help stabilising/lifting these investors

The nowcasters signal 4% to 6% GDP growth in Q3



SB1 Markets/Macrobond

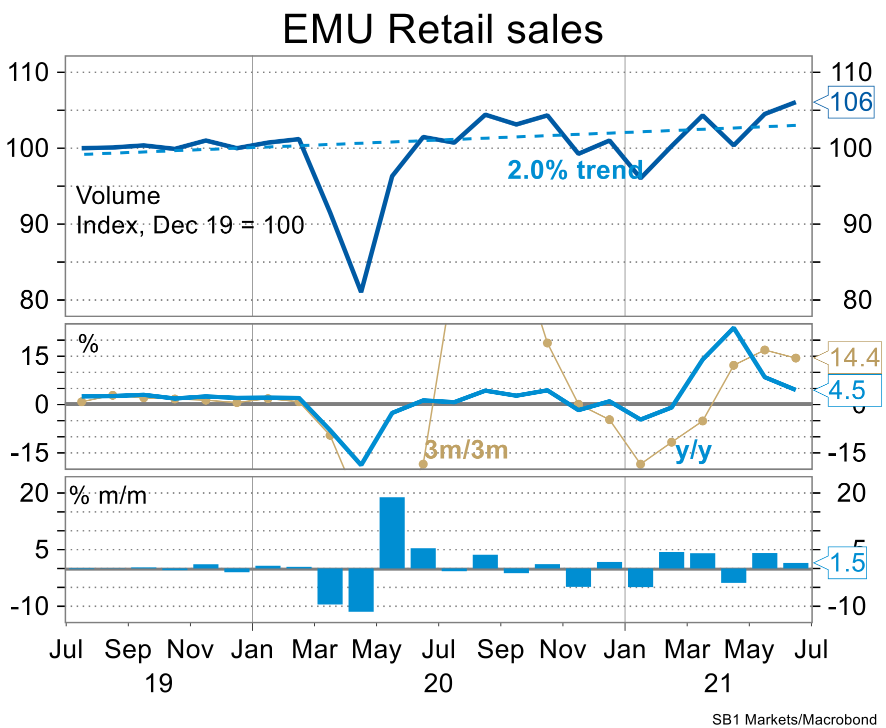


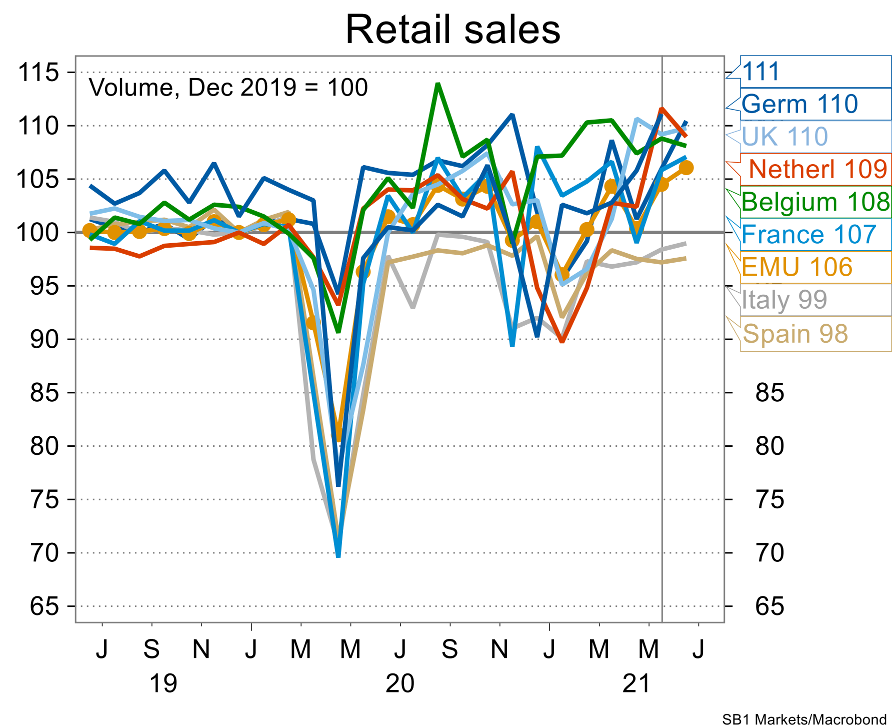
SB1 Markets/Macrobond

SpareBank 1 MARKETS

Eurozone retail sales further up in June – to 6% above the pre-pandemic level

Retail sales up 1.5% m/m in June, 0.1 pp less than expected. All big 4 contributed on the upside

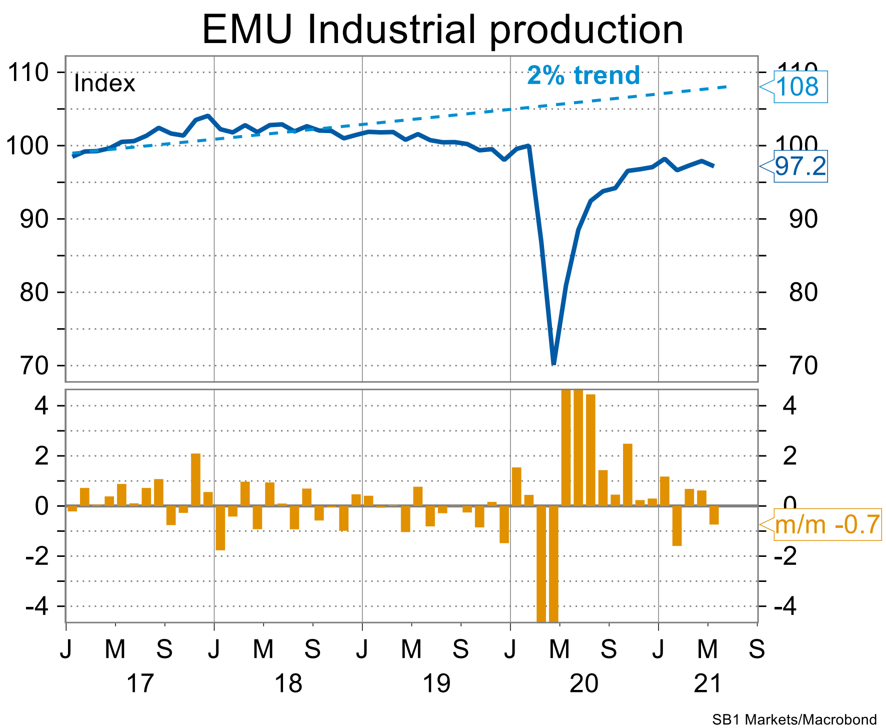


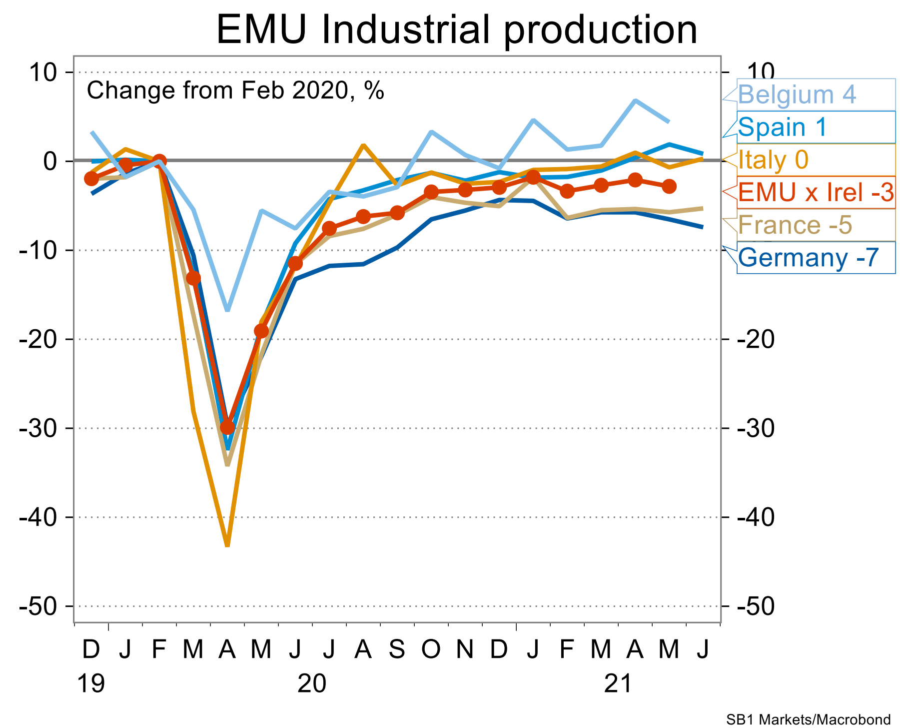


- German sales are 10% above the Dec-19 level, among the best. Probably partly because Germans have stayed at home
- … which probably explains why sales are still below the pre-pandemic level in both Italy and Spain

June another lost month: Industrial production probably further down

Production is still 3% below the pre-pandemic level

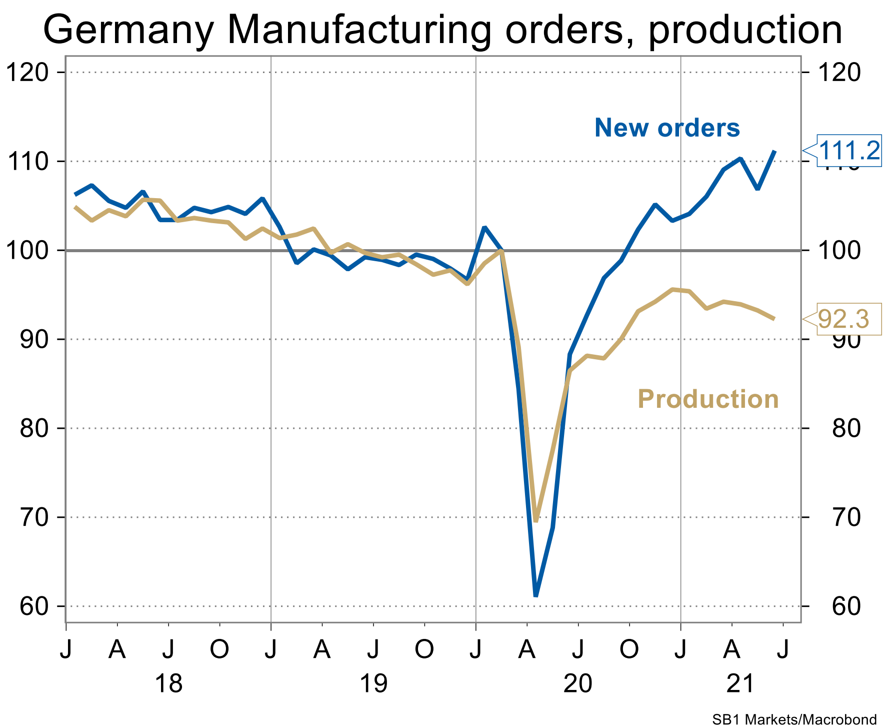




- **Industrial production** probably fell slightly (we expect -0.3%) in June as both Germany and Spain reported a small decline, more than the upticks in France and Italy compensates for. One month ago we expected a solid increase
  - » Auto production very likely contributed substantially on the downside in June too (like in Germany)
- **Order inflow** indicates higher production the coming months
- **Surveys** are also signalling very strong growth the coming months

German orders up 4% in June, and are 11% above the pre-corona level

Production will have to follow suit?? We have said so for a while. And production fell in June too…



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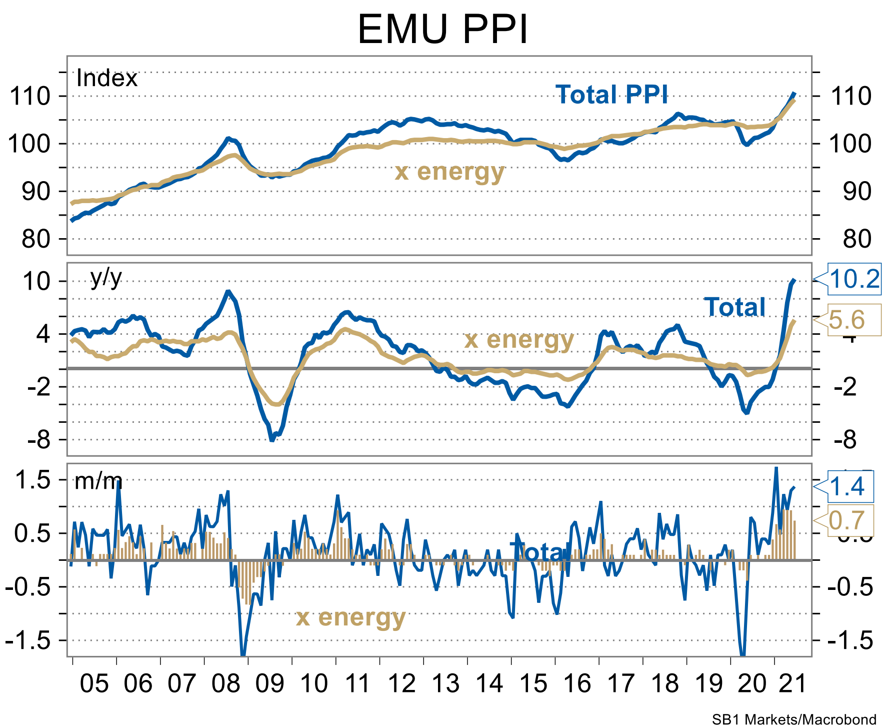
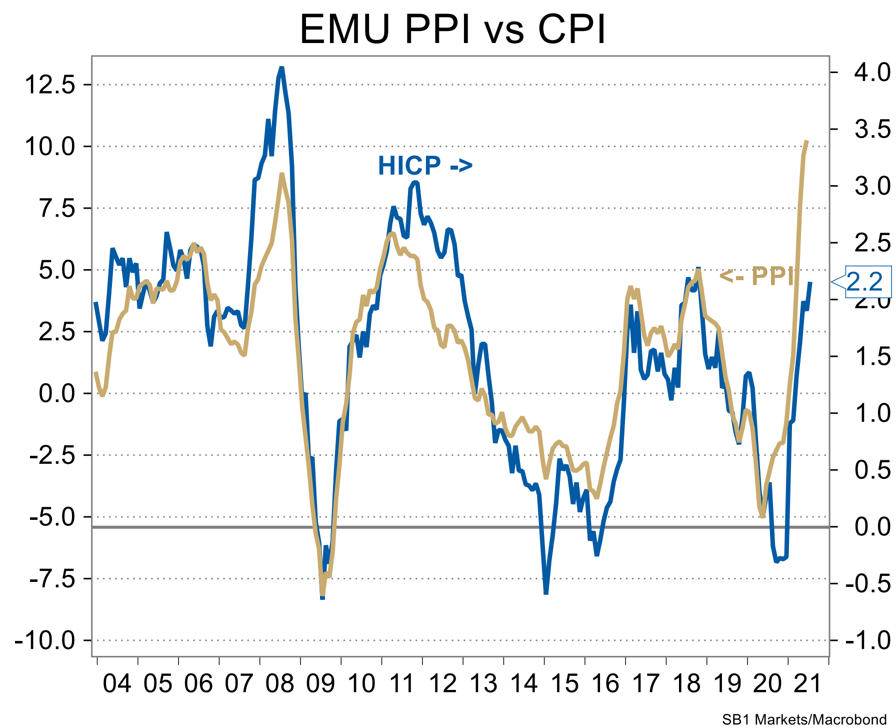
A steep increase in producer prices signals 'somewhat' higher CPI inflation

PPI up to 1.4% m/m in June, up 10.2% y/y – 0.1 pp higher than expected. A 3% CPI y/y in the cards?

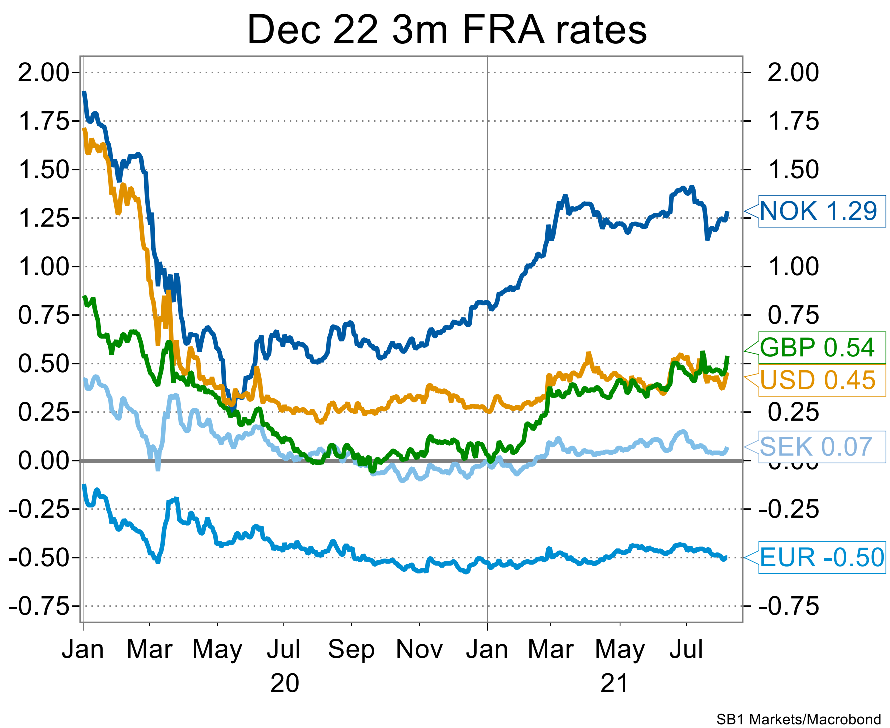




- The PPI ex energy added 0.7% in June, and is up 5.6% y/y, the highest level on record – data from 2000

Bank of England is talking about it: Some modest tigtening is likely…

A hawk left in June (Haldane) but then the doves brushed up their feathers



- No changes in the policy now: The bank rate unch at record low 0.1%, and all but one MPC member wanted the QE gov bond target to remain unch at GBP 875 bn
- However, the Bank lifted its inflation forecast substantially, and it is more uncertain on how much spare capacity there is at the labour market after the pandemic
- The Bank agrees with marked expectations that interest rates may have to be lifted the coming two years
- And just as important: Previously BoE has stated that it will continue reinvesting 'QE-bonds' that matures before the bank rate has reached 1.5% - now the Bank will not reinvest matured bonds after the bank rate has reached 0.5%. At 1.5%, the Bank will actively start selling out from their holdings
- A more hawkish signal than expected. Interest rates rose (but not more than 5 bps), the pound strengthened

Highlights

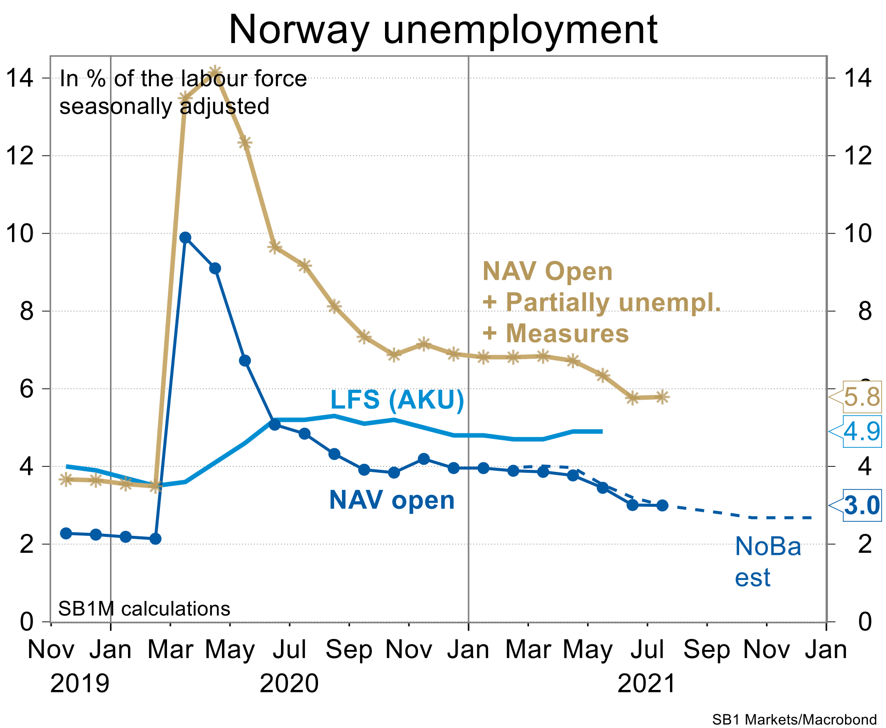
The world around us

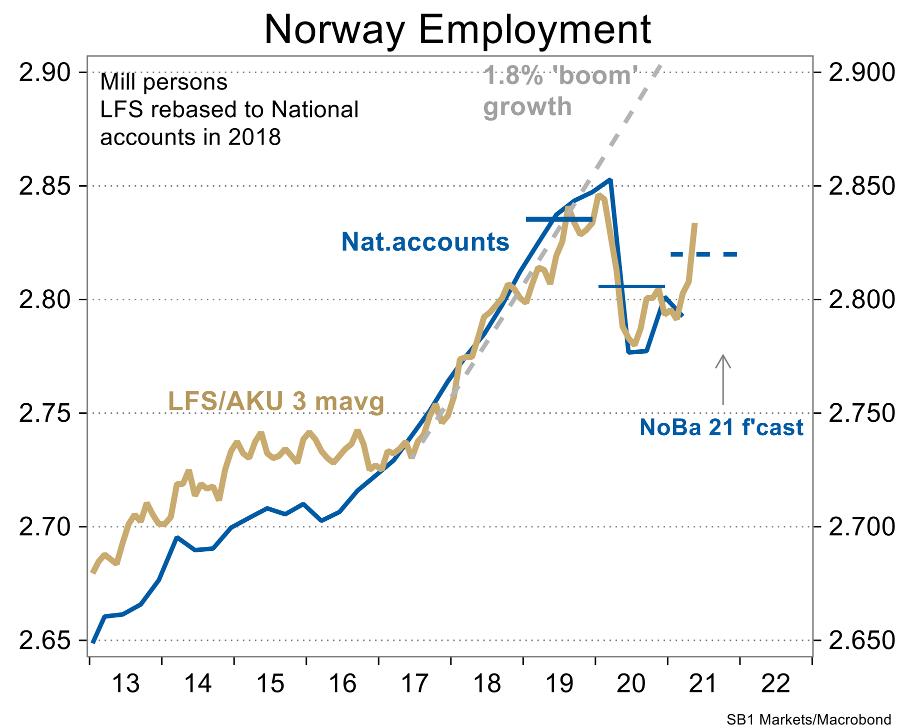
The Norwegian economy

Market charts & comments

LFS (AKU) employment +1.5% in Q2, almost back to the pre-pandemic level

Still ,the LFS unemployment up 0.2 pp, while the NAV fell

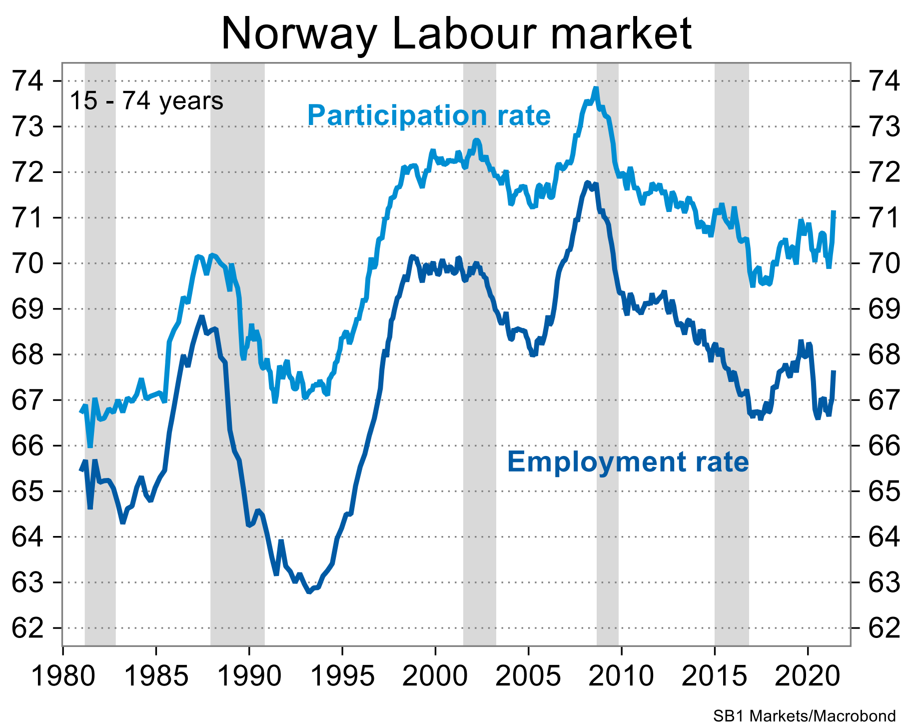


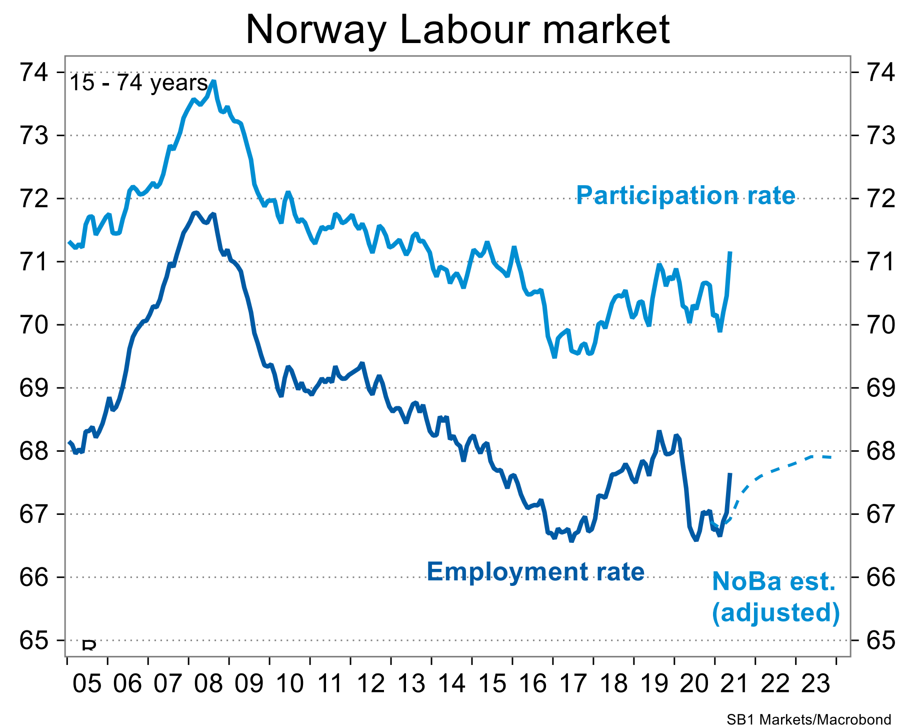


- **Employment** rose by 41’ persons in Q2 from Q1, or by 1.5%, the steepest quarterly rise ever. The level is just 0.3% below the pre-pandemic level. The LFS survey data are volatile. Q2 National accounts will give the final answer
- **Unemployment** rose to 4.9%, from a downward revised 4.7% in Q1 – as the participation rate rose sharply
- These LFS (AKU) data are more uncertain than normal 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

Wow, the participation rate back up to the pre-oil ‘crisis’ 2013 level

The employment rate rose sharply as well, and is well ahead of NoBa’s f’cast

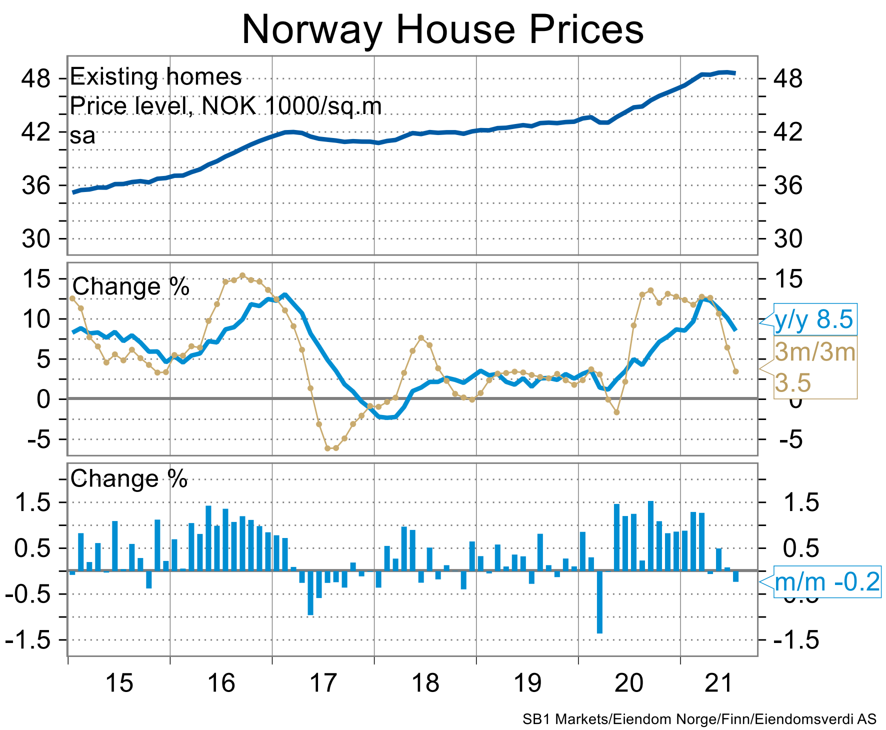


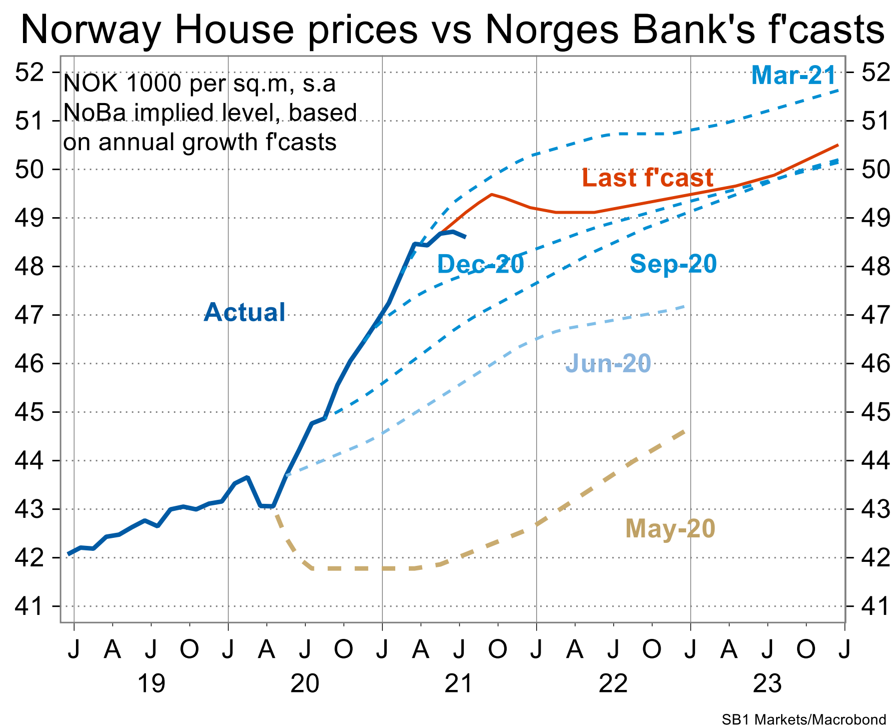


- But, but, but: These LFS survey data are volatile – and the revision of the stats from 2021 increases the uncertainty as well
  - » Still, at face value these data are of course very encouraging
- Due to the revision, we have not tried to decipher detailed data, like age groups etc
- NoBa’s employment rate is calculated via National Account Employment data, not the LFS – and we assume that the Nat. Acc. will report a somewhat less impressive lift in employment – even if we forecast a Q2 GDP growth at some 1.7% - and a June GDP level 0.9% above the pre-pandemic level

House prices have flattened since March but the market balance suggests <u>higher</u> prices

The impact of last year's lower rates are fading. *And now something else will turn up…*

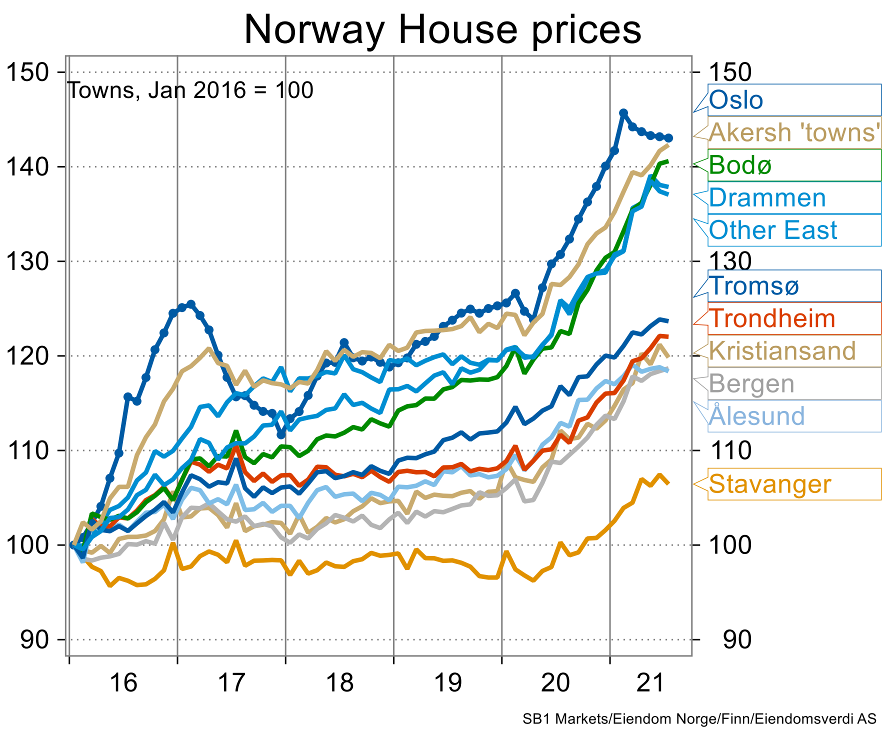


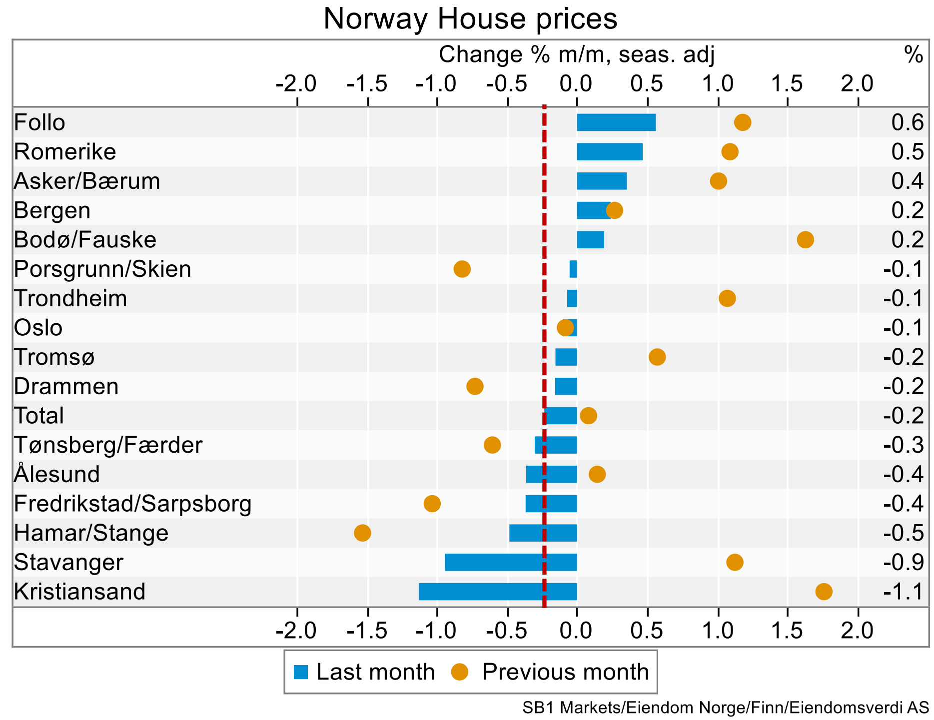


- **House prices** fell by 0.2% seas. Adj. in July, from a downward revised -0.1% in June. We expected +0.4%, NoBa 0.45%. Prices are up by 4% 3m/3m (annualised), down from above 12% in March. Prices are up 8.5% y/y, down from 10.1% in June
- **Oslo** prices fell for 5th month in row, in total by 2.7% (June was revised from a small lift to a small decline). Most other towns down (11), just 5 up Since before the pandemic, Bodø in the lead, followed by Porsgrunn/Skien, Tønsberg & Drammen. At the bottom the costal cities (x Bodø) from Kristiansand to Tromsø. Oslo is still above the national average
- The **number of transactions** was stable at a high level. The **inventory of unsold homes** fell further to a record low level
- Our Norway x Oslo **flow based price model** <u>signals 1% m/m price growth</u>, and <u>so does now the Oslo model </u>(from zero 3 months ago)
- House prices have fallen well below NoBa's f'cast. The impact for last year's interest rate cut is fading, and soon rates will start to increase

Oslo prices down in July too, by 1.8% since February

Follo, Romerike, Asker/Bærum at the top in July, Stavanger and Kristiansand at the bottom

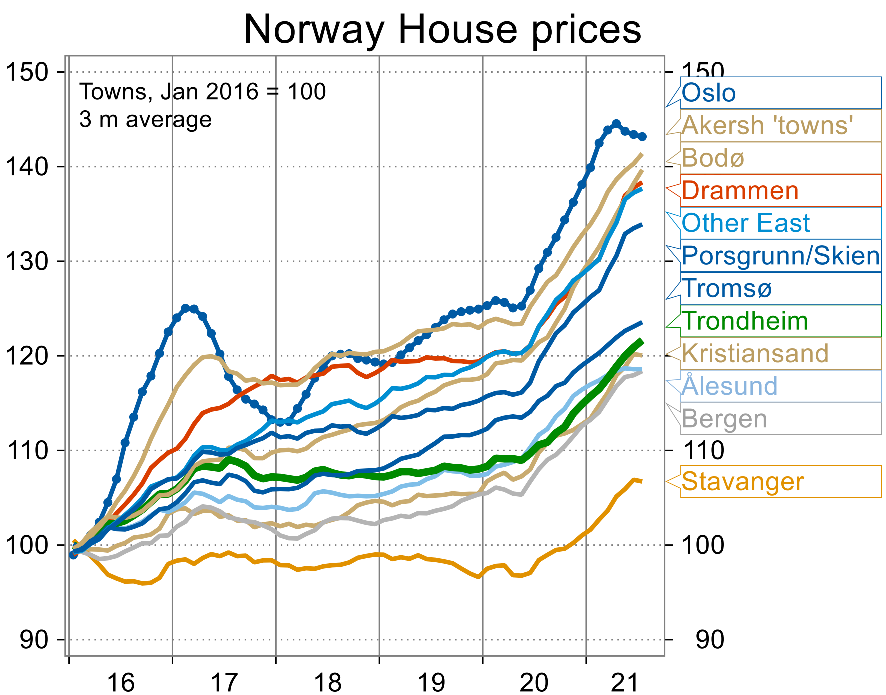




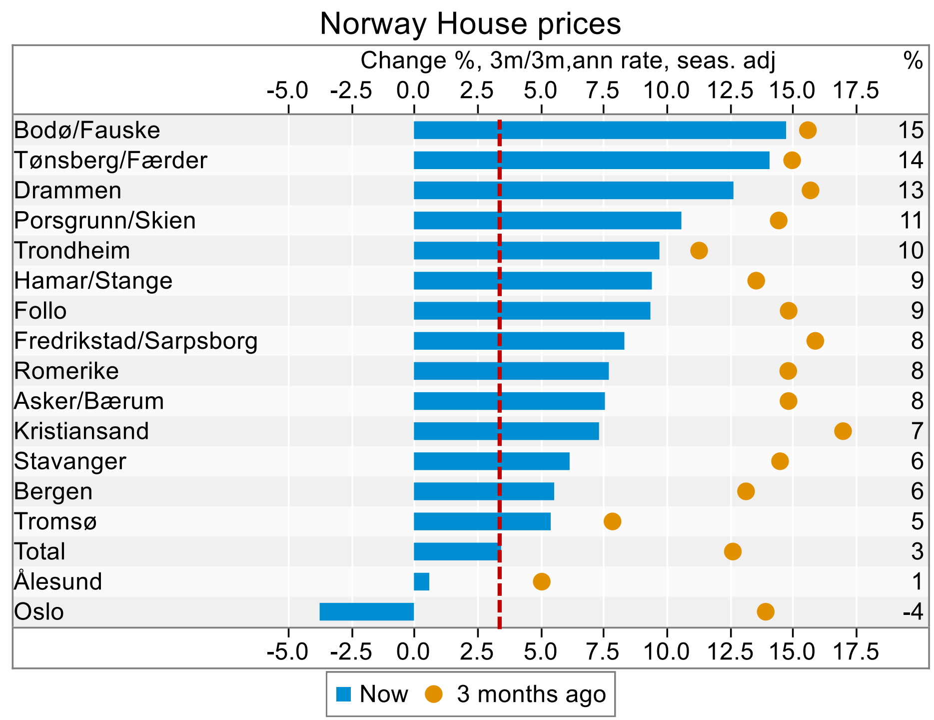
- In July: 5 cities up (from 11); 11 down (from 5)
- Oslo initially reported a small increase in June, it is now revised to a small decline (-0.1%) – and prices have fallen each month since February

Price inflation is slowing everywhere

Oslo at the bottom of the list, 3m/3m down a 4% pace. Ålesund flat. Bodø/Fauske in the lead, +15%



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS



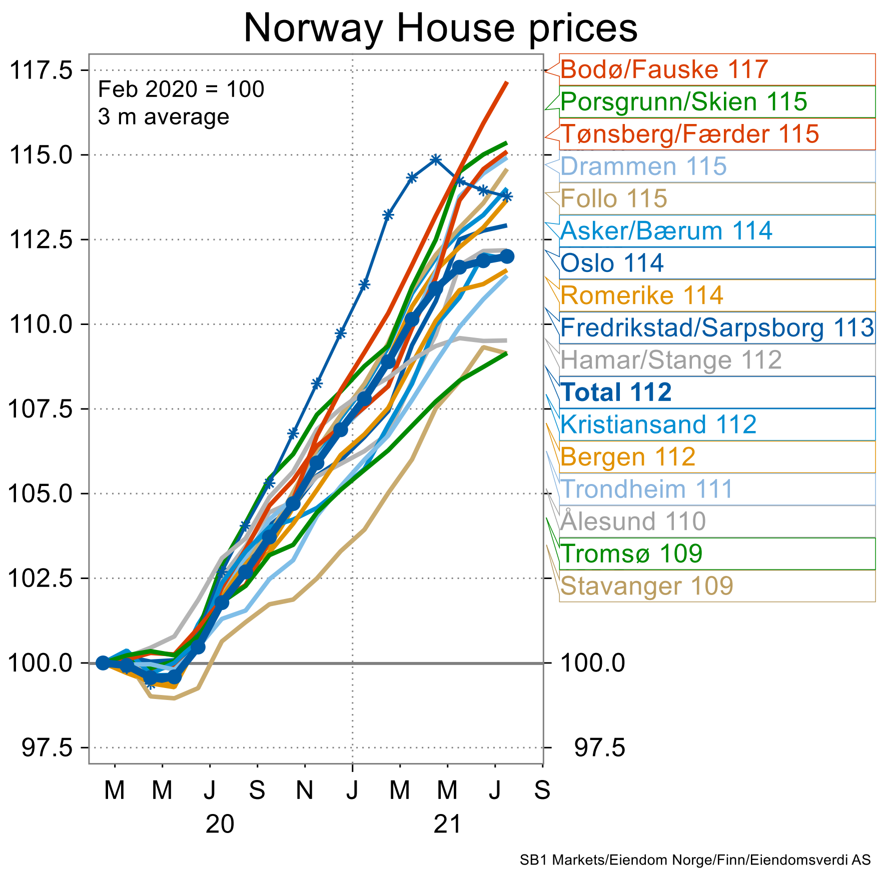
SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

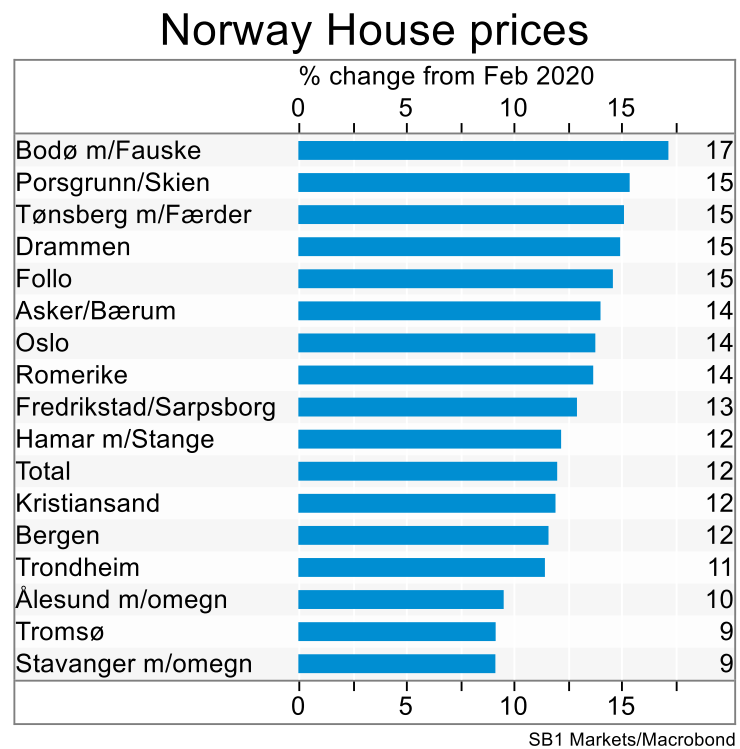
- From 2016:
  - » Oslo in the lead, together with Asker/Bærum/Follo ('towns' close to Oslo), Bodø and Drammen
  - » Stavanger has been the weakest town, but is now heading upwards again – faster than the national average, but slower than most other Norwegian towns recent months
  - » Bergen, Ålesund, Kristiansand, Trondheim at the lower part of the list too

SpareBank 1 MARKETS

Through the pandemic: Bodø, Porsgrunn/Skien, Tønsberg in the lead

Drammen is ahead of Oslo too – but too early to conclude that the capital will be deserted?

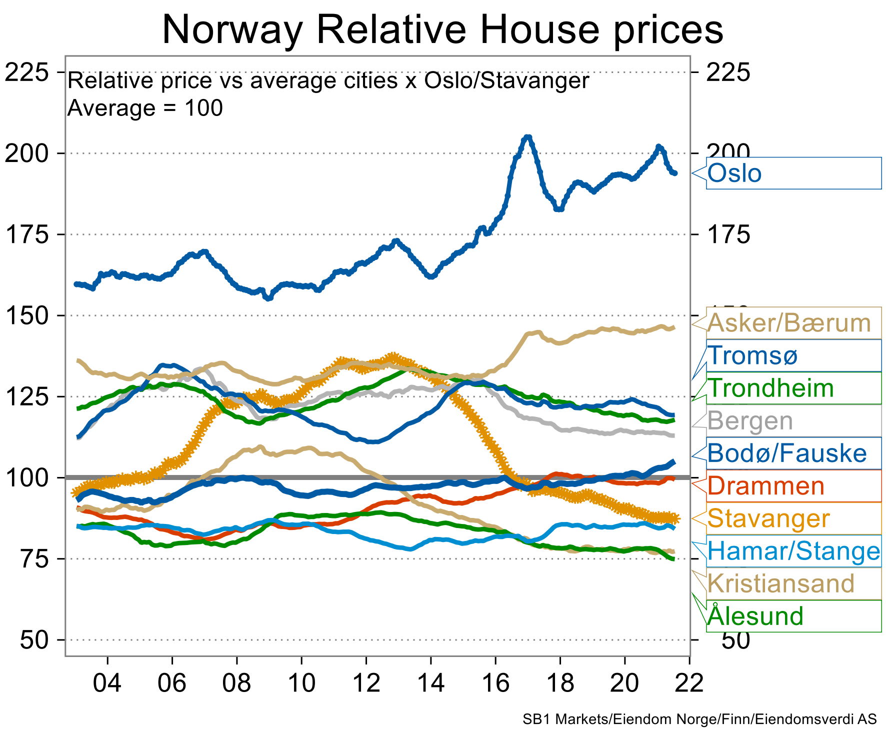


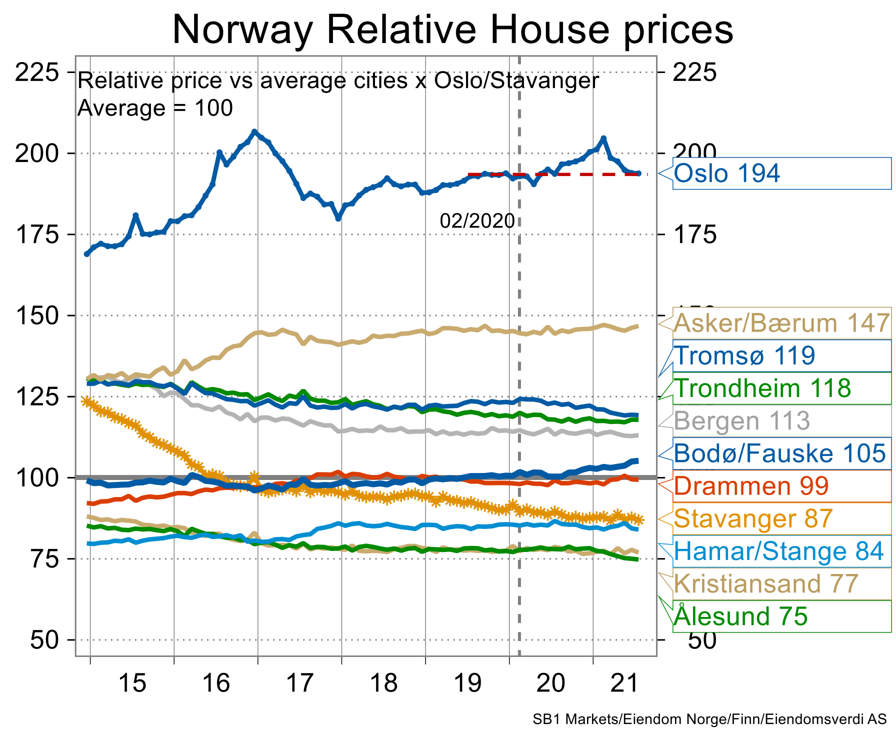


- Costal cities from Kristiansand to Tromsø (ex Bodø) at the bottom of the list

Oslo relative prices back to the pre-pandemic level

The costal cities Stavanger – Tromsø (x Bodø) are trending down. Hamar (w/Stange) soon above Stvg?

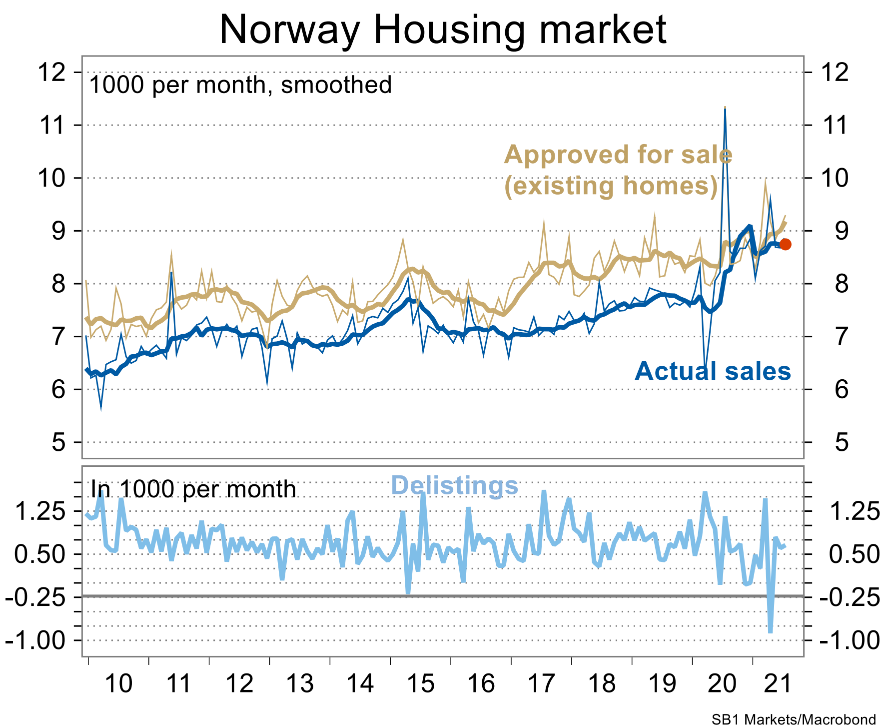


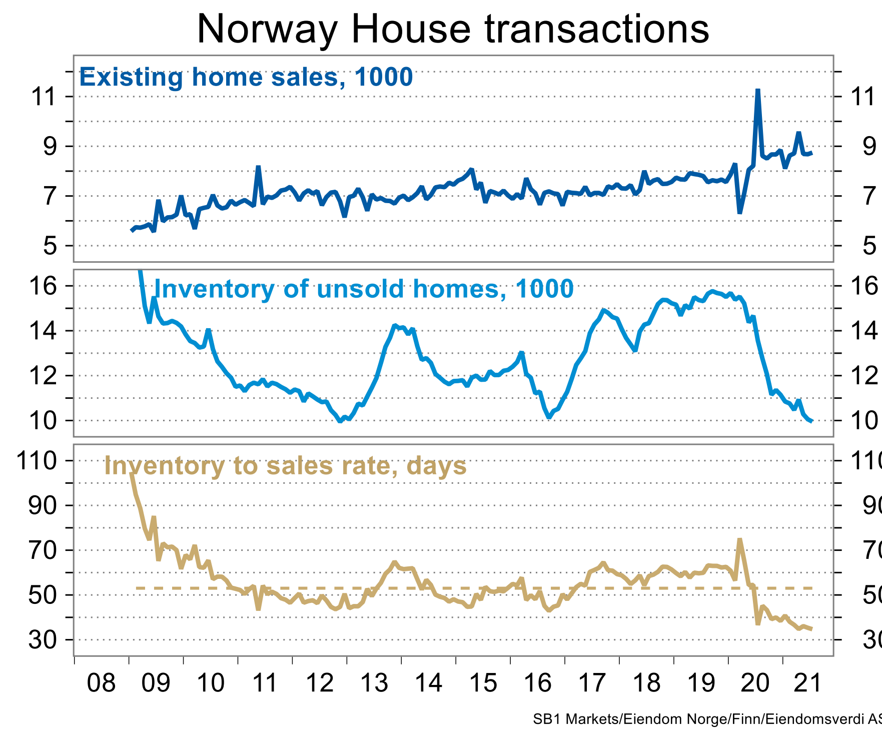


- Housing starts in Stavanger are still not lower than normal. It is still profitable to build, even at 'Hamar/Stange' prices!

The no. of transactions remains high, and the inventory is still shrinking

The inventory is at ATL, both actual & vs sales

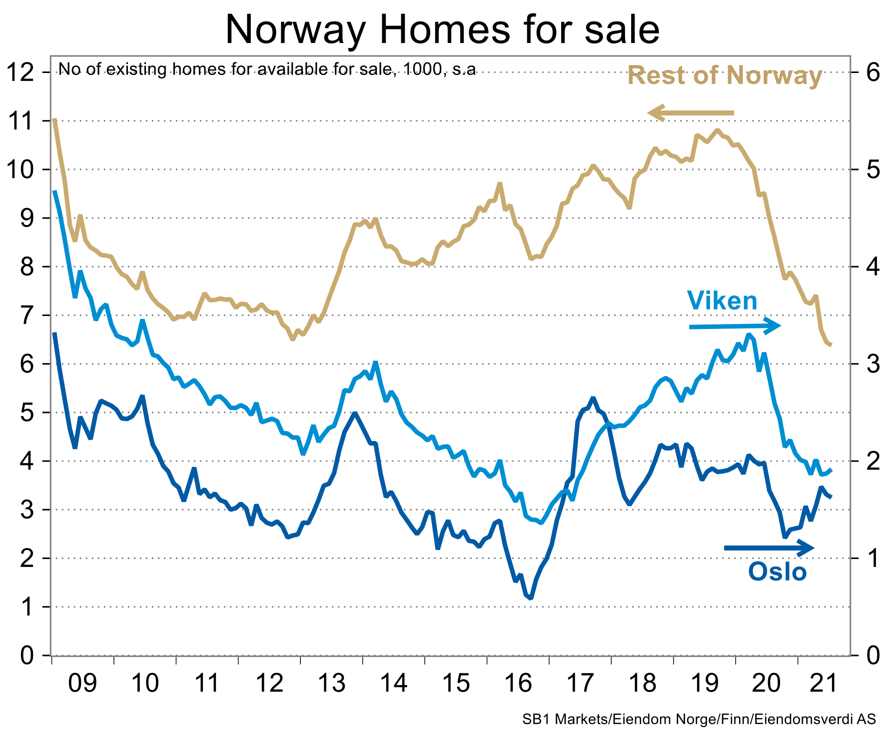


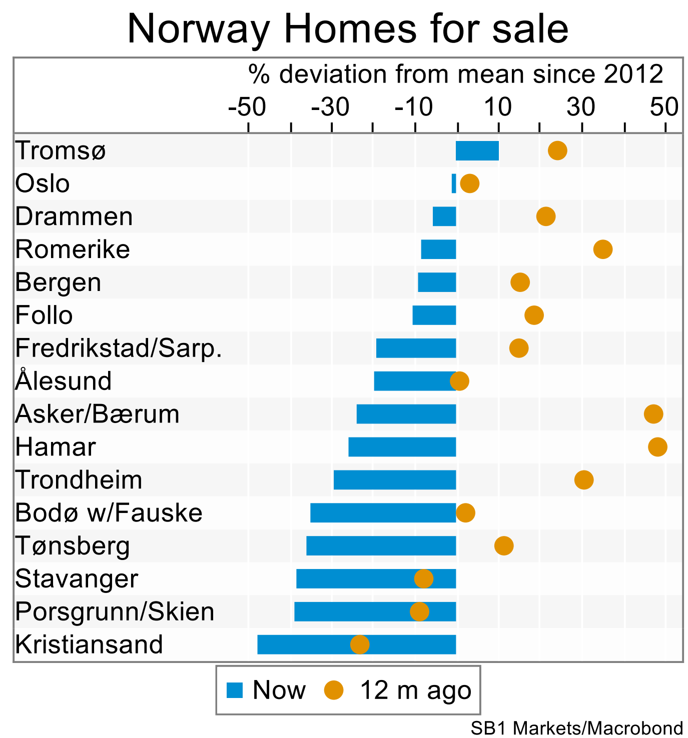


- **The number of transactions** remains well above the pre-corona level- and was close to flat vs July
- The **supply of new existing homes for sale (approvals)** rose in June, and the trend up
- **The number of delistings** was at normal level in June
- The **inventory of unsold homes** fell further in July, and is almost 40% down vs. the pre-pandemic level, and at the lowest level on record
- The **inventory/sales ratio** has contracted sharply too, and is at ATL, by far. The **turnover time** was 35 days in July vs an avg. of 53 days.
- The **actual time on market** for those homes sold was up 1 day to 38 days, well down from more than 60 days last spring (the avg. is at 43 days)

The inventory in Oslo isn't increasing anymore, it's flat in Viken, down elsewhere

In addition, the inventory is lower than normal everywhere – except in Oslo & Tromsø

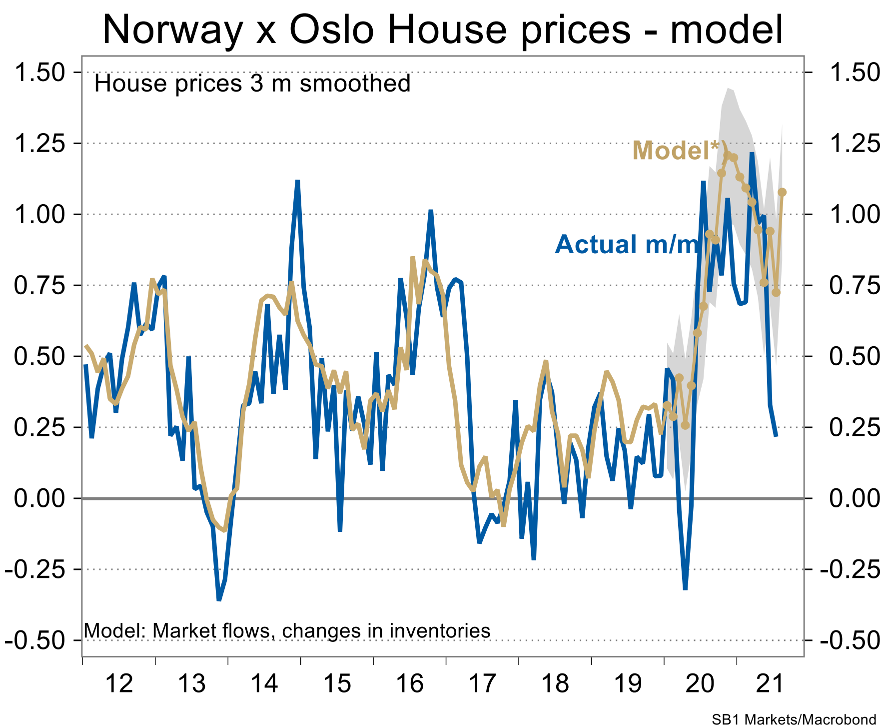


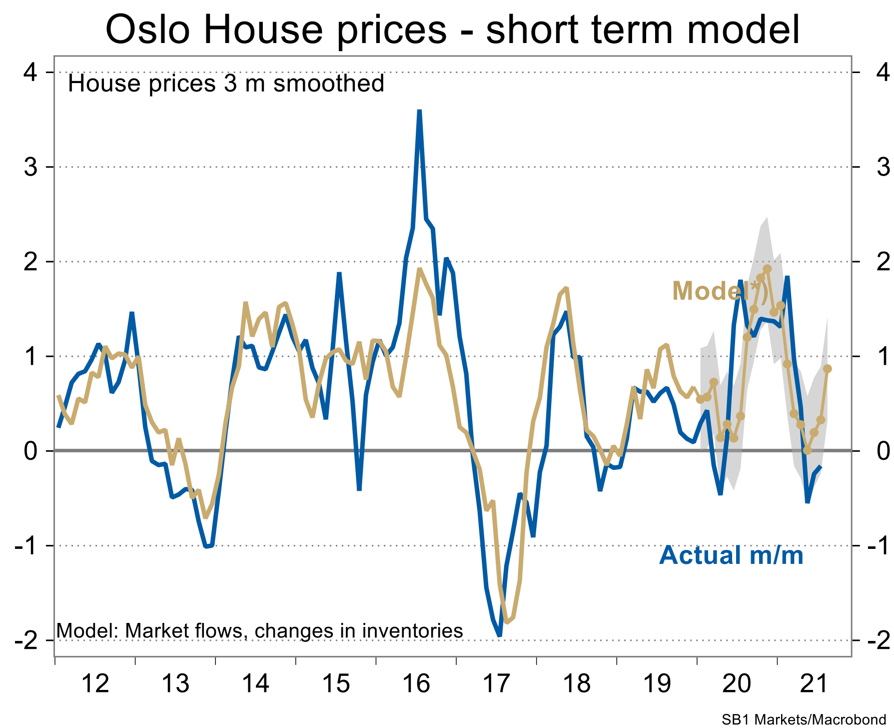


- The inventory is lower than the average since 2012 everywhere, except Tromsø, and it is smaller than one year ago everywhere

Short term market flows suggest higher prices, also in Oslo!

Our models has so far



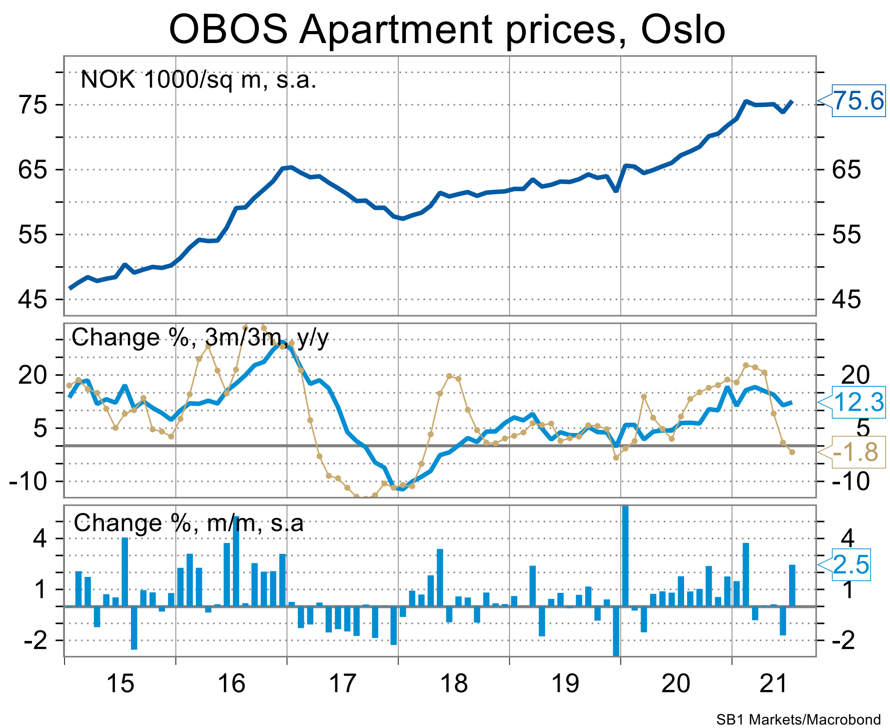


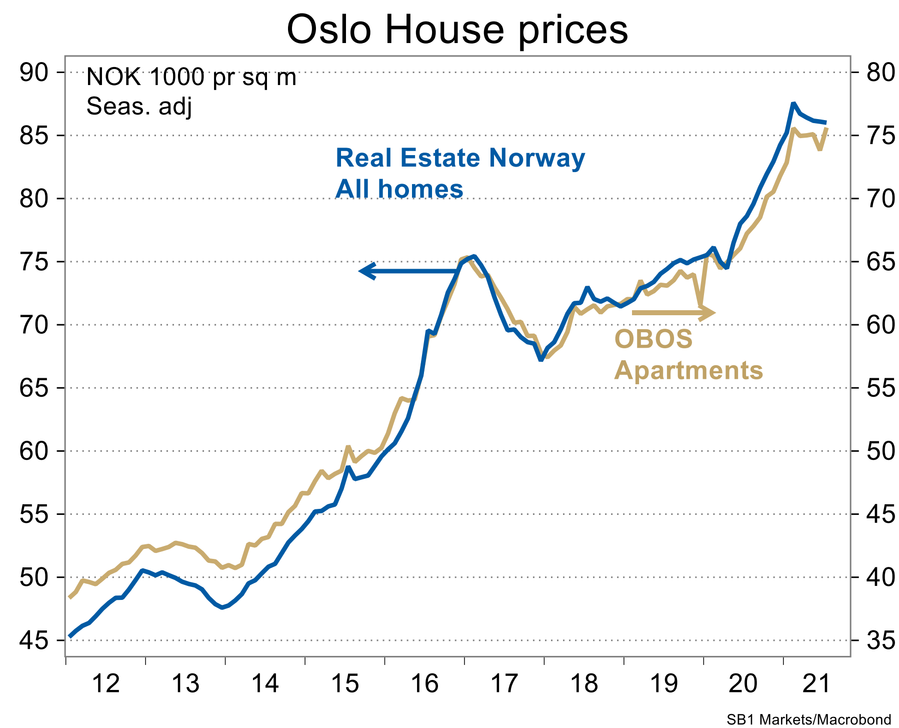
- Our **national x Oslo model** based on flows and the inventory signals a 1<u>% growth in house prices per month</u> (from 0.75% in June)
- Our **Oslo model** signals a 1% growth too (up from zero 3 months ago)
- *These models are <u>not</u> long term price models, just short term price models based on flows of (existing) houses approved for sale actual sales & changes in inventories*

SpareBank 1 MARKETS

OBOS apartment prices up 2.5% in July following the 1.8% June drop

Prices are back to the Feb ATH – but still up 12.3% y/y. Realtors reported another decline, -2% vs Feb



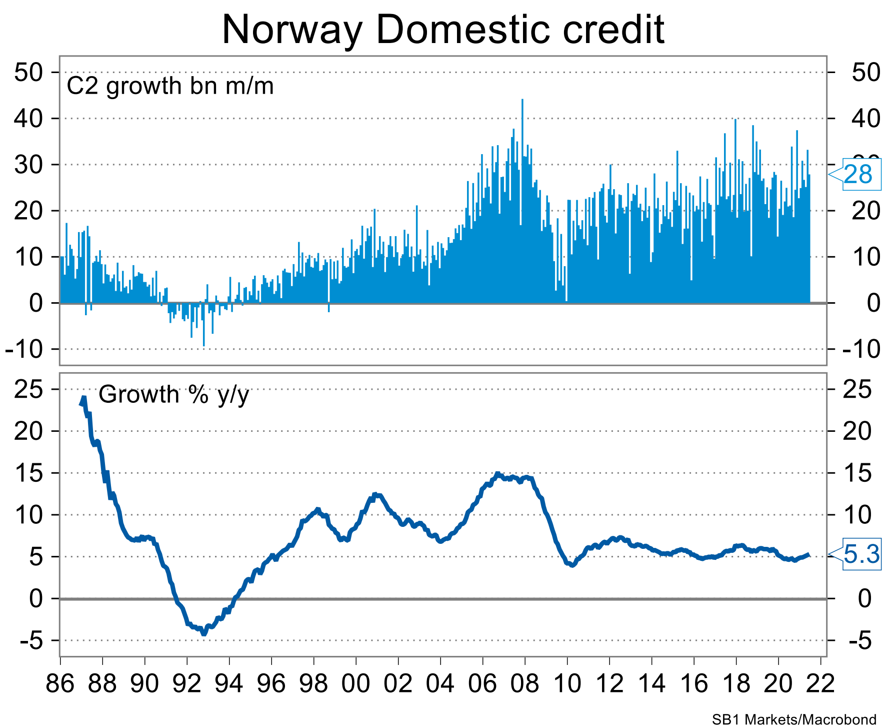


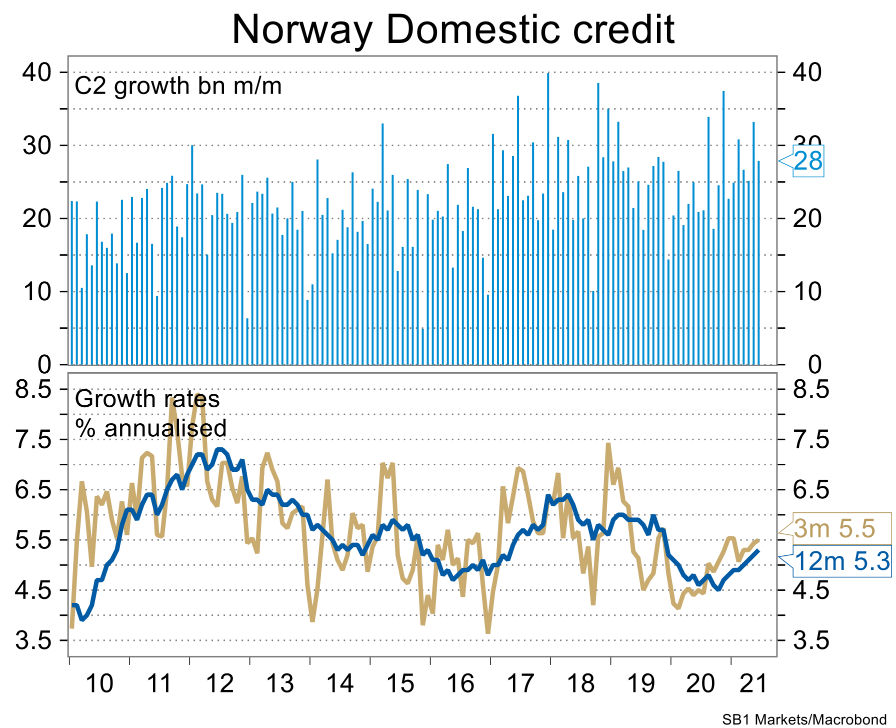
- The parallel change in both co-op & total house prices in Oslo signal a real turning point in the market

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

Credit growth up to 5.3%, still no credit boom to been seen

Total domestic credit growth (C2) rose more than we expected, this time due to households

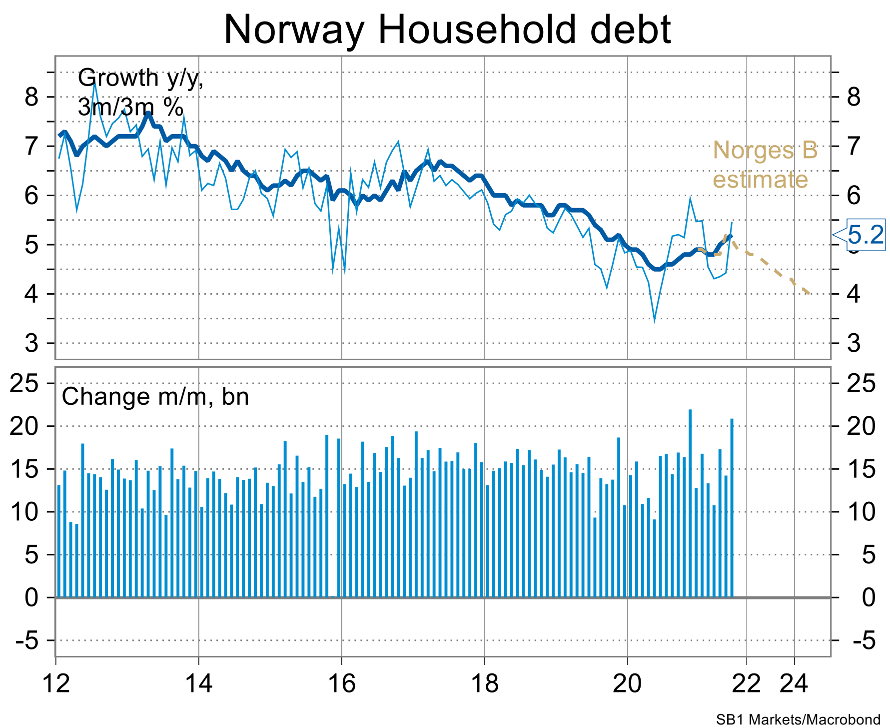


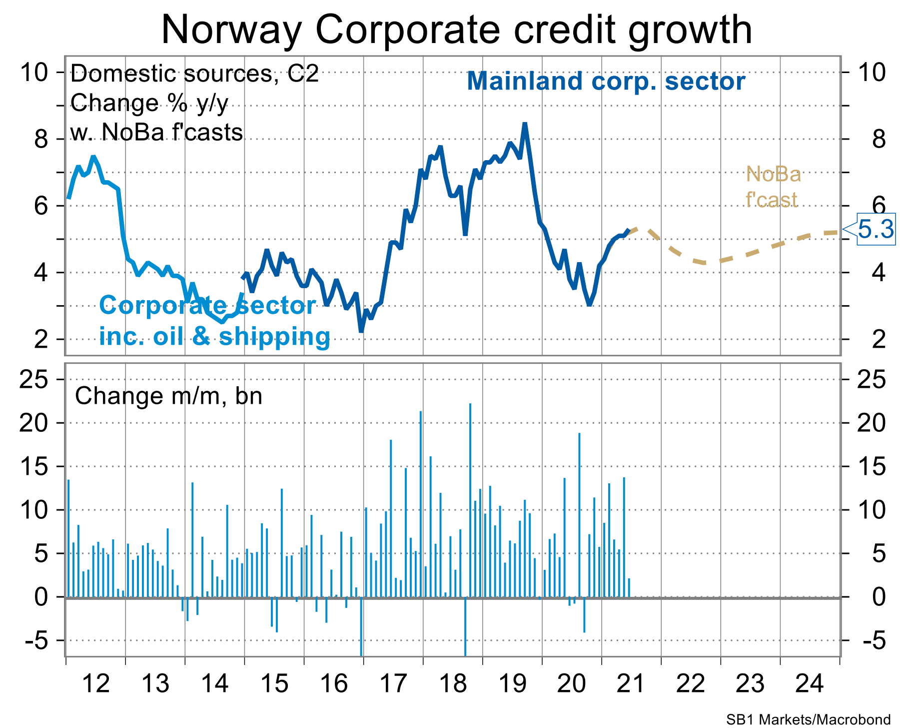


- **Total domestic debt** (C2) rose by NOK 28 bn in June, down from 32 bn in April, we expected NOK 25 bn. The annual growth rate accelerated 0.1 pp to 5.3%, we expected unch. We are not witnessing a any credit boom, even if growth is slowly accelerating. However, debt levels are high, especially for the household sector
- **Household credit** rose by NOK 21 bn in June, up from 14 in May, the 2nd highest monthly increase. The annual rate climbed 0.1 to 5.2%, we expected a decline to 5%. June may have been an outlier, as the housing market is now slowing
- **Corporate C2 credit**, rose by just NOK 2 bn (up from 13 bn), we expected 8 bn. The annual growth rate was rose to 4.6% from 4.5%, we expected 4.9%. **Mainland corporations** increased their debt by 5.3% y/y (from 5.1%)
- **Local governments** borrowed heavily in June – NOK 5 bn, as in June. The annual growth rate is at 8.3%, up from 7.8% - way above income growth

Strong growth in household credit but just in June

Corporate credit growth is accelerating if not in June

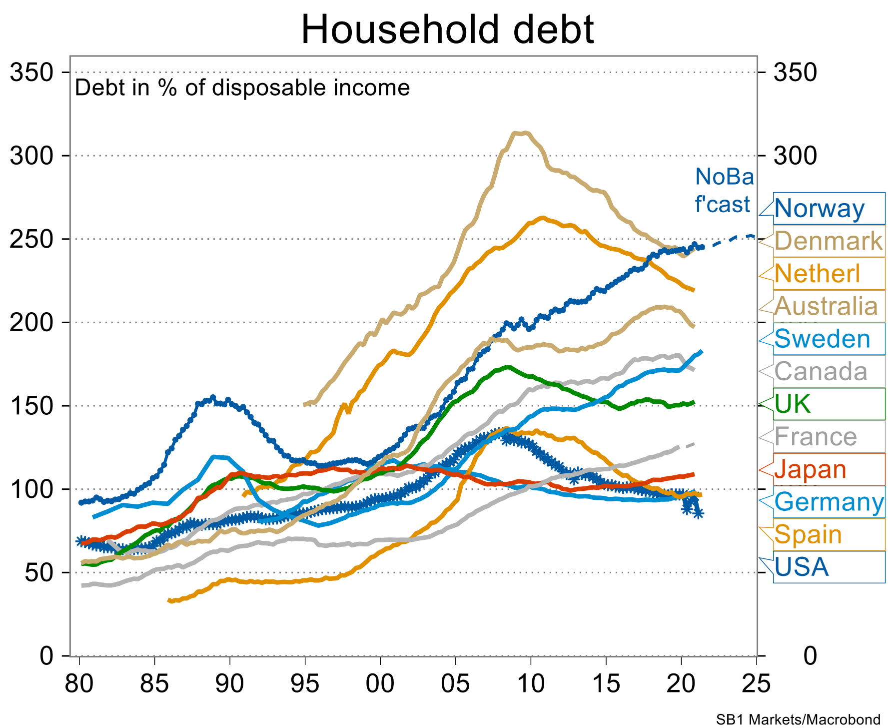


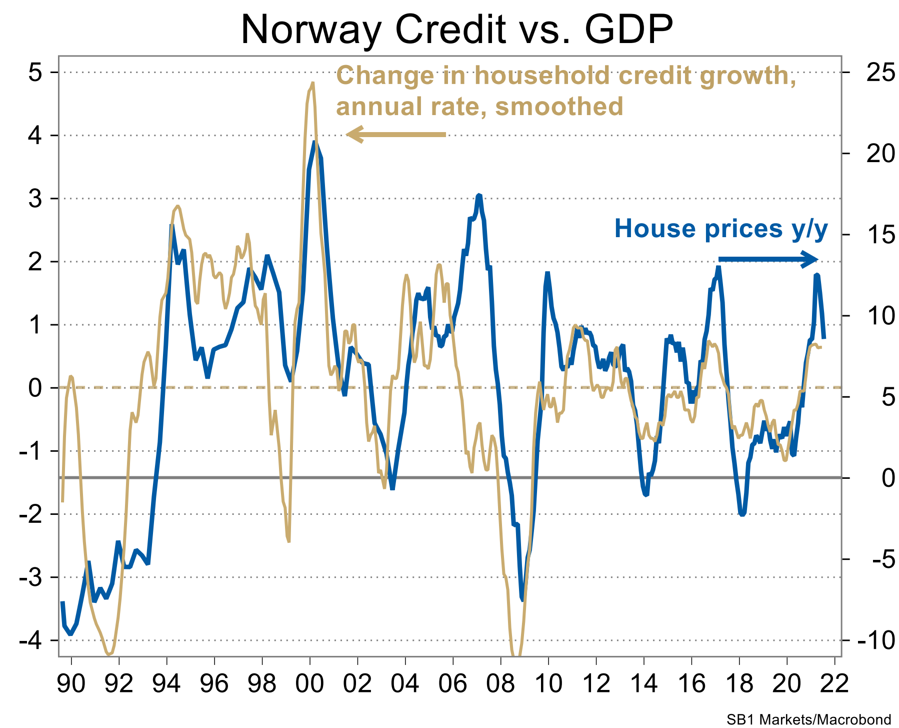


- Following a mild slowdown during the corona spring, **household credit** growth has now recovered. The annual rate was 5.2% in June, up from 5.1% in May, and 4.5% last summer. In June, household debt rose by NOK 21 bn, the second highest ever (but not in %), well above our expectations. Norges Bank expect growth to slow from here
- Monthly growth in **corporate credit** slowed through 2019 but accelerated during last year, and further until May but was lower than we expected in June, at NOK 2 bn for Mainland companies. The y/y rate still rose 0.3 pp to 5.3%

The household debt/income at ATH. We are no. 1 (or tied with Denmark?)

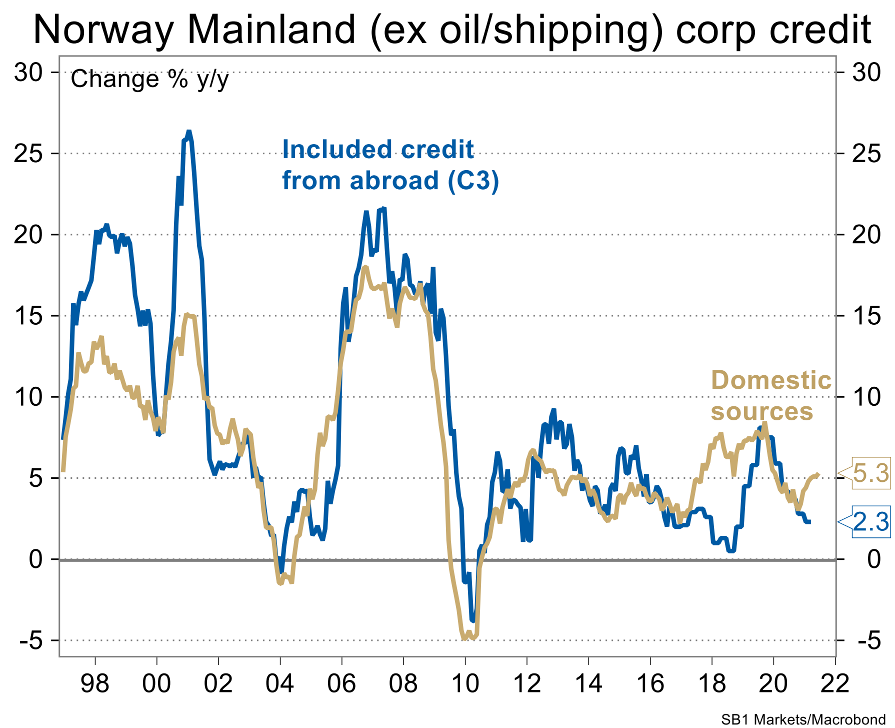
What if the housing market slows (as already does)?

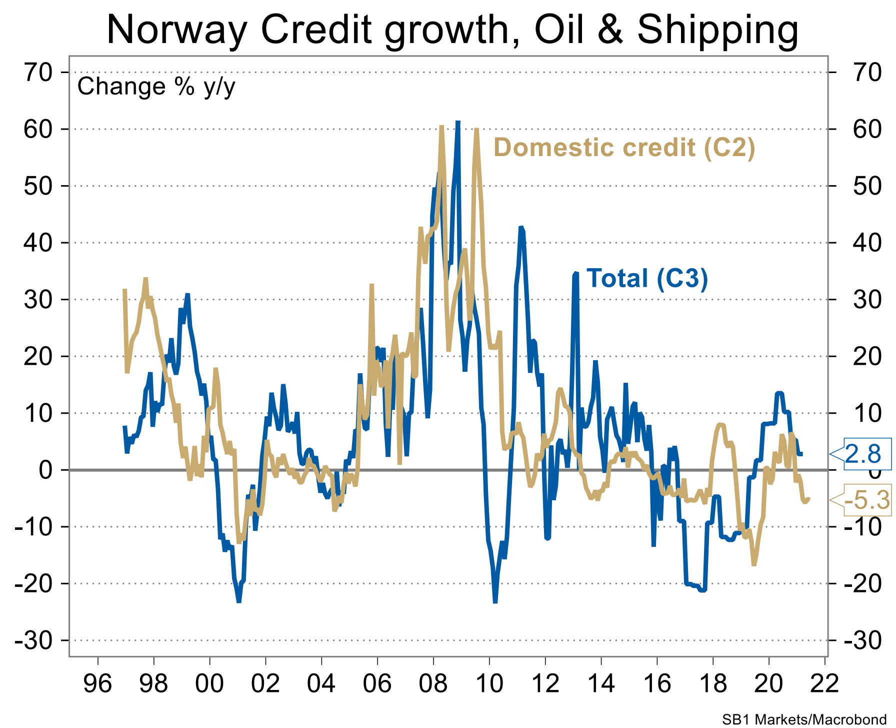




- Norwegians households' debt steady been growing faster than income but just marginally since early 2018
  - » Debt/income ratios in many countries have been influenced policy measures vs. households during the pandemic (like the decline in the debt/income ratio in the US due to the temporary surge in household income
- *Changes* in credit growth is usually correlated to economic growth and asset markets – including the housing market
  - » A slow retreat in the debt ratio will probably be healthy in the long run, and if it is gradual, it will not be too painful - even not for the housing market
  - » If credit growth slows less than 1 pp per year, that is – say from a 5% growth rate to 4% next year, and then down to 3% etc.
- <u>*If house price inflation slows to below 5% – and very likely it will – credit growth should slow from the present 5% pace*</u>

Mainland corporates are reducing the debts abroad, boosts domestic credit

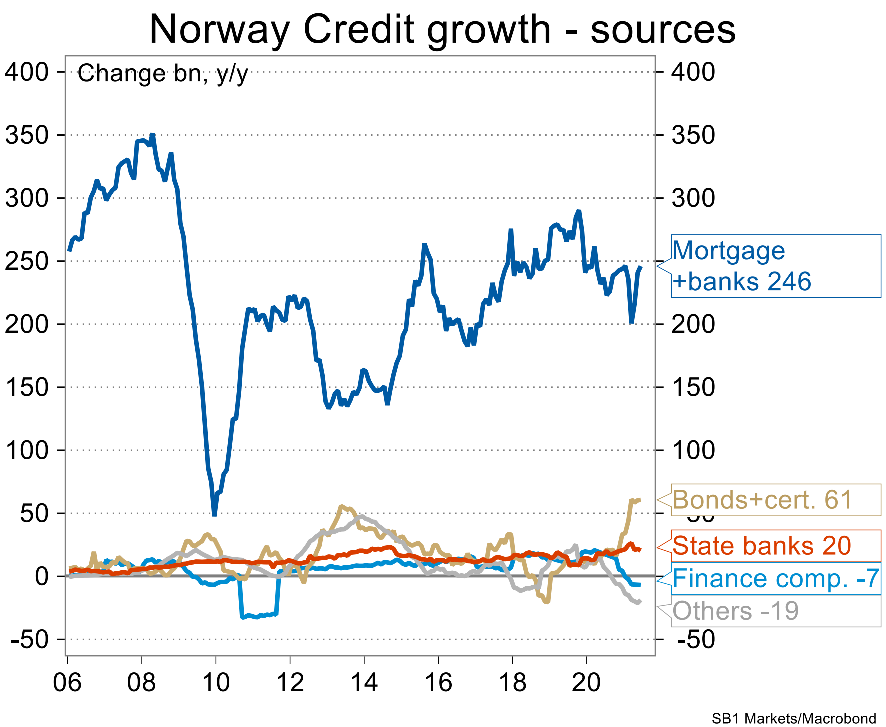


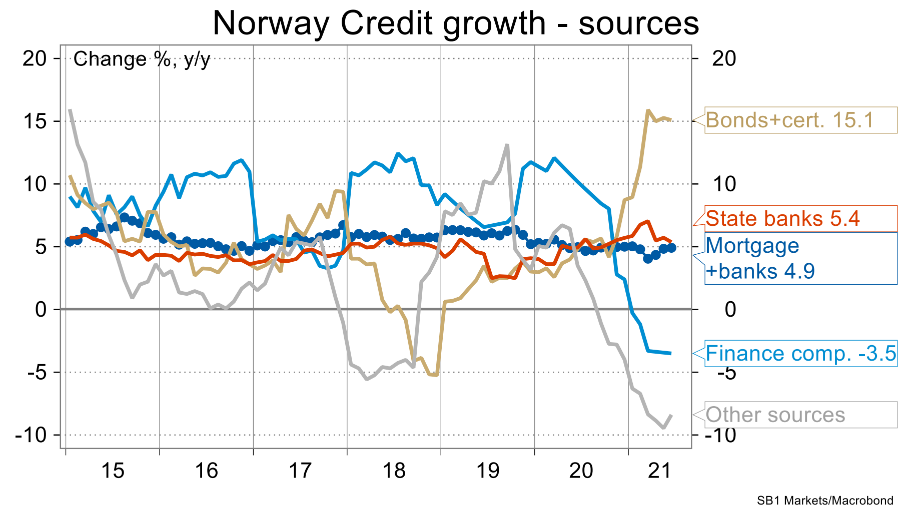


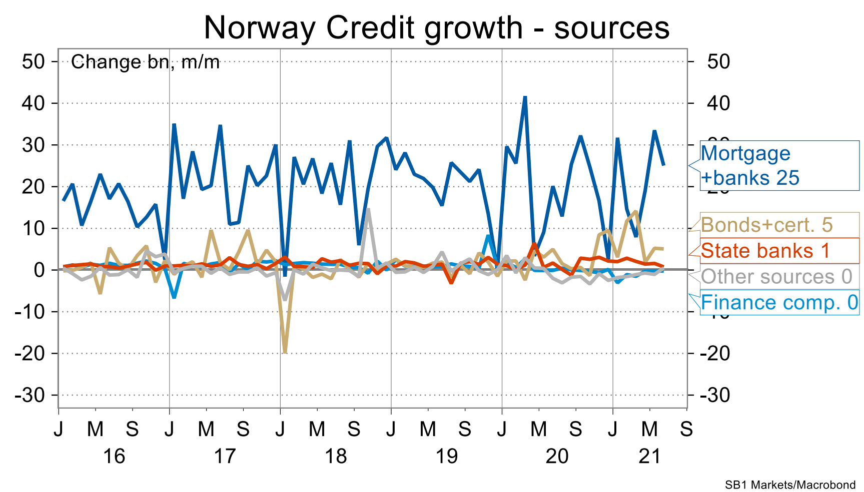
- While domestic credit supply to **Mainland businesses** have accelerated, their total debt, including credit from foreign sources, have slowed further, at least until Q1
- **Oil and shipping** is moving the opposite way, borrowing more abroad, paying down debt in Norway

Bond borrowing has slowed somewhat m/m but still up NOK 60 bn y/y (15%)

Still, banks and their mortgage institutions are totally dominating the domestic credit market





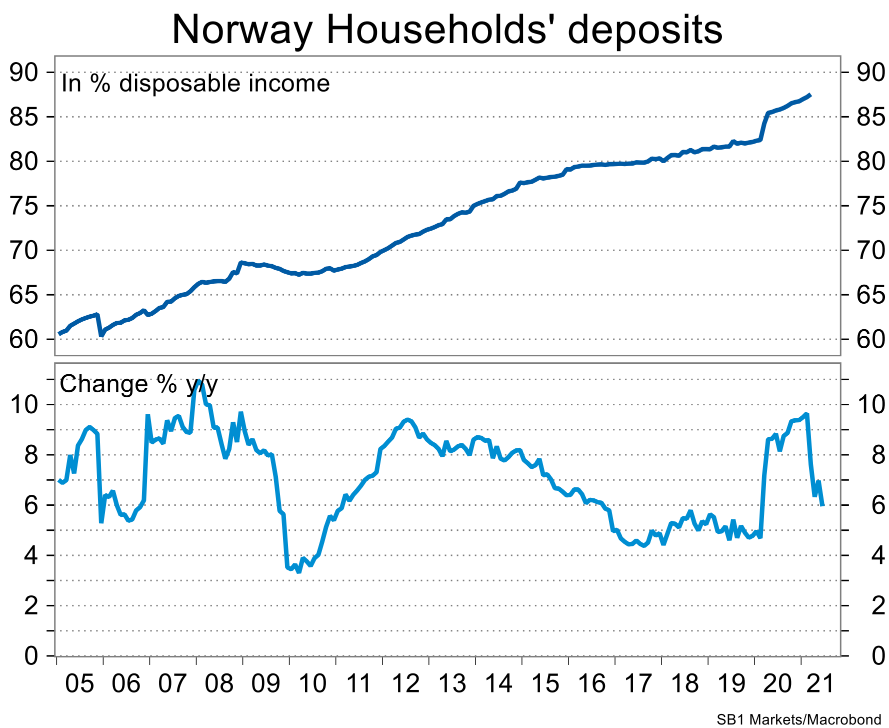


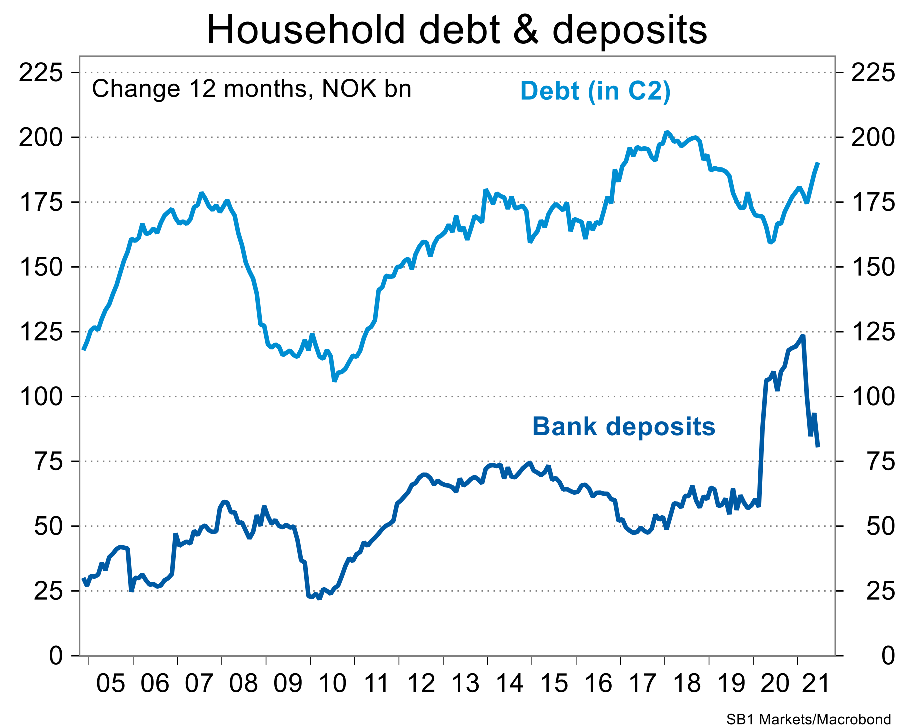
- Net issuance of bonds (to non-financial sector) is up NOK 60 bn (15%)y/y, highly unusual – but growth may have peaked – monthly growth has at least slowed
- Banks/mortgage companies are up NOK 246 bn (4.9%) y/y
- Finance companies and 'others' are reducing their lending
  - » Both insurance/pension funds as well as Statens Lånekasse, Eksportkreditt is included in our residual 'others', but just the sum of SL & Eksportkreditt is down

The seasonally adjusted 'sum of the parts' credit supply do not exactly equal changes in the total C2 seasonally adjusted. Consumer banks are included in 'banks and mortgage companies'

Households' bank deposits are still growing faster than normal but not by much

Deposits are growing at a 6% speed, higher than the pre-pandemic 5% pace – following the lift in '20





- Households' deposits are now growing by some 6%, 2 pp more than in the years before the pandemic
- Households' debts are growing at some 5% but since debt is far larger than deposits, measured in NOK, household debt is growing much faster than their deposits - and the gap is widening again

Highlights

The world around us

The Norwegian economy

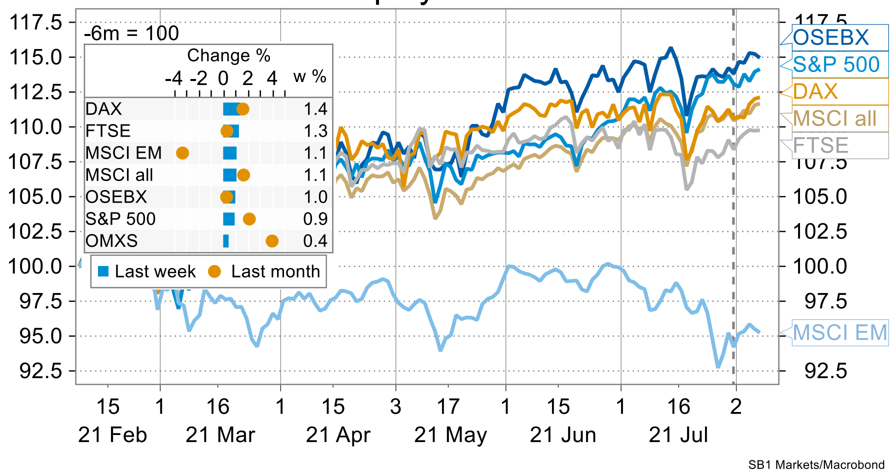
Market charts & comments

SpareBank 1 MARKETS

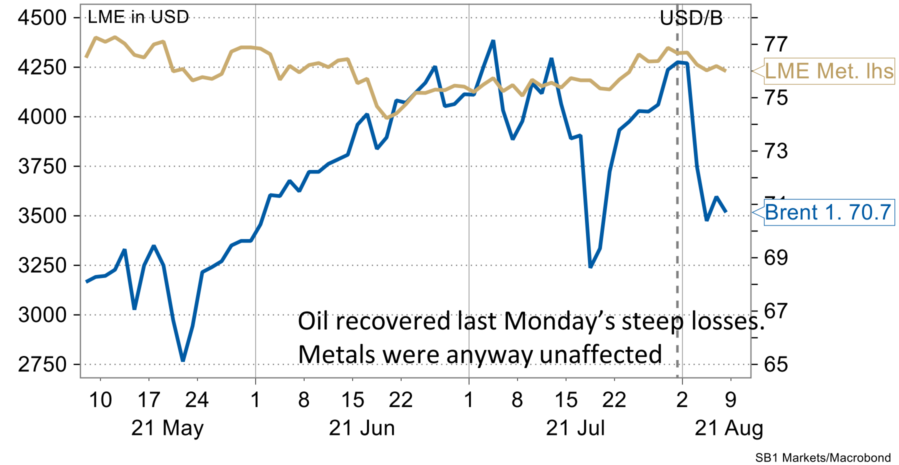
Most equity markets up, US to ATH. Bond yields up

The oil price down, reportedly due to covid/travel restriction fears, NOK still stable. Metals just marg. down

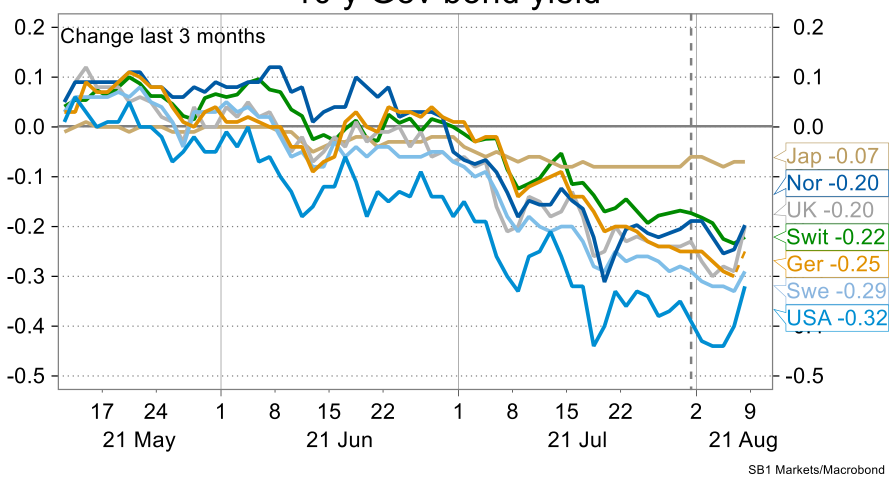
Equity Indices



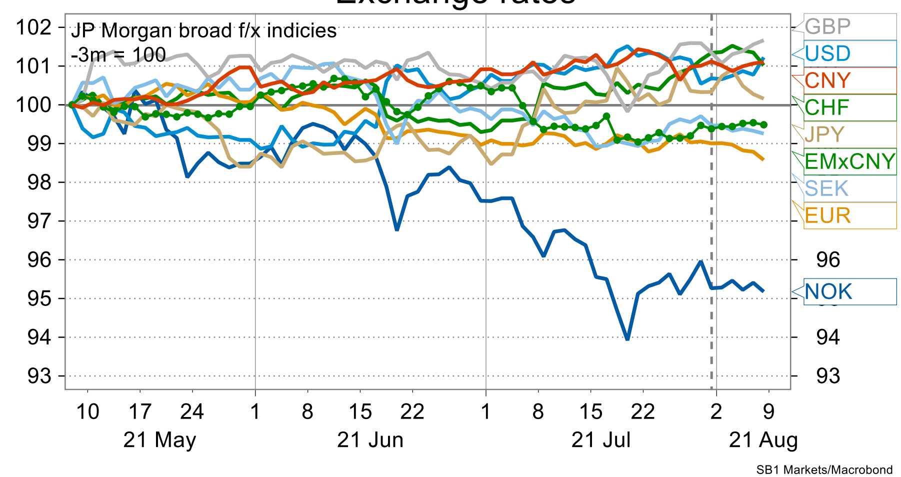
Oil vs. metals



10 y Gov bond yield



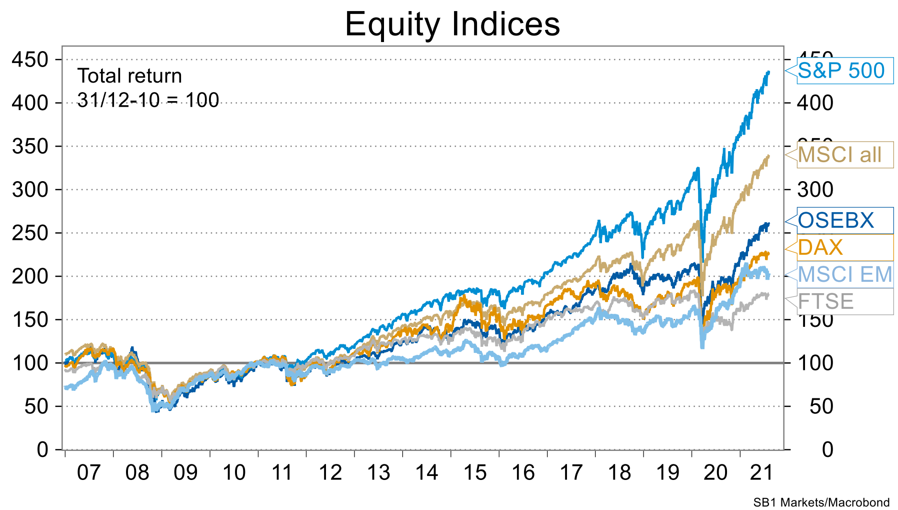
Exchange rates

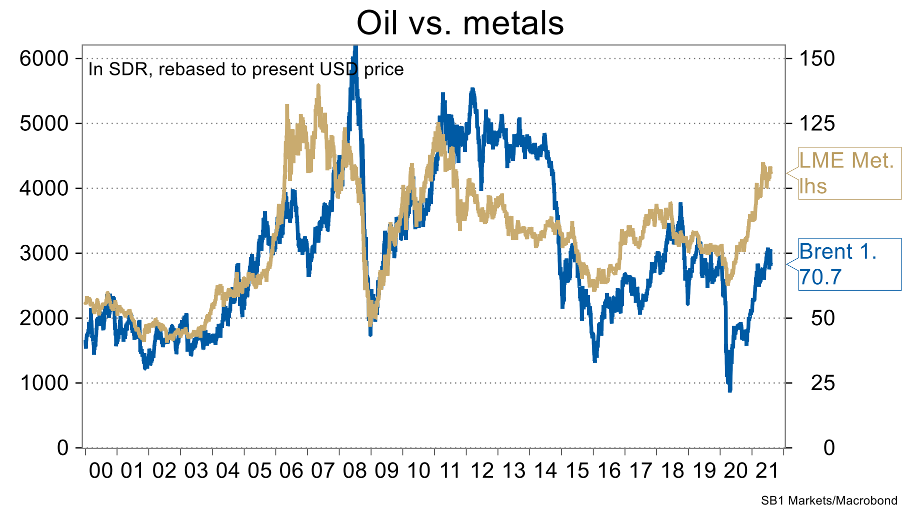


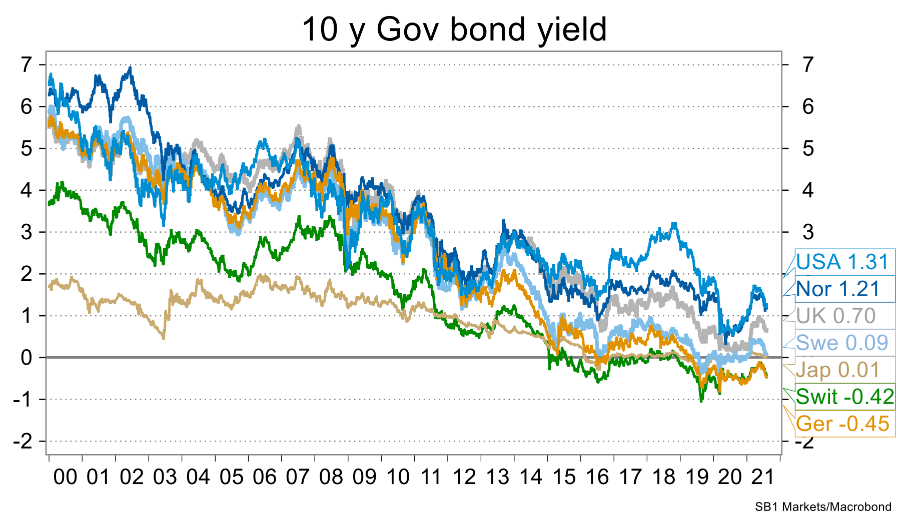
SpareBank 1 MARKETS

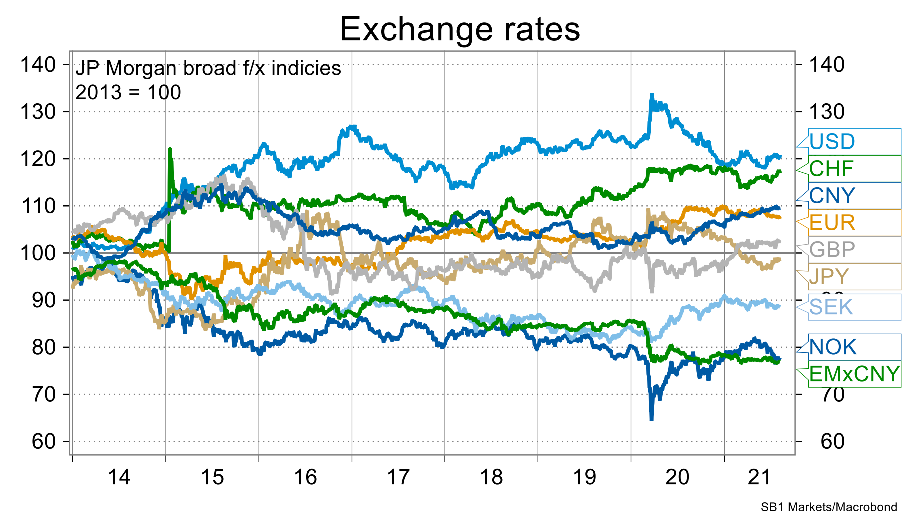
The big picture: Strong stock & commodity markets

Still, yields are heading down everywhere. The CNY is steady climbing, other EM f/x, NOK weaker





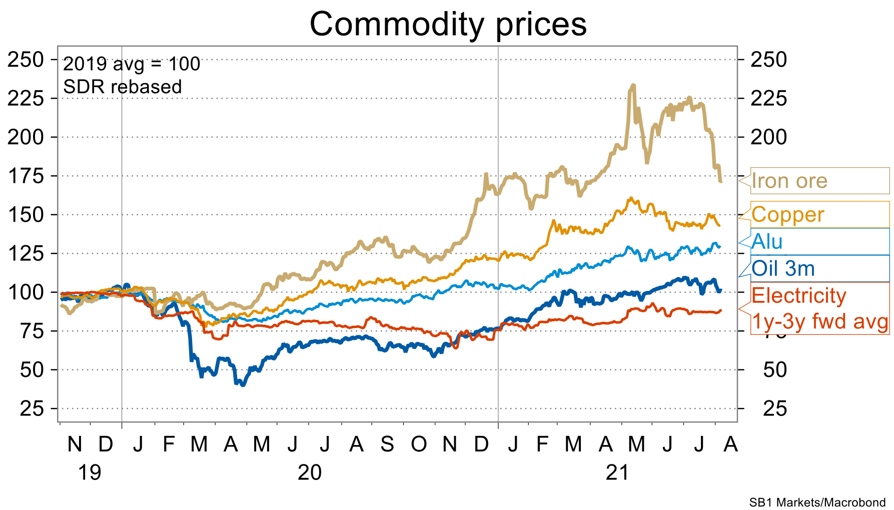


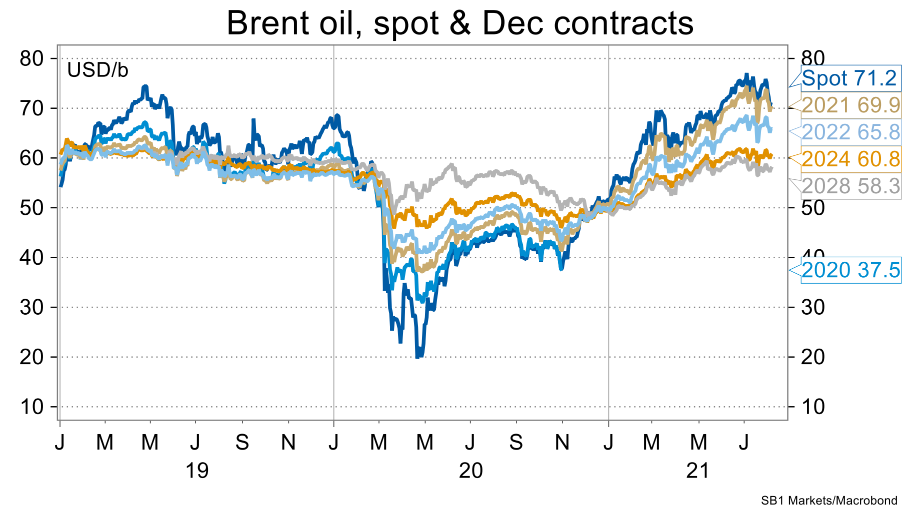


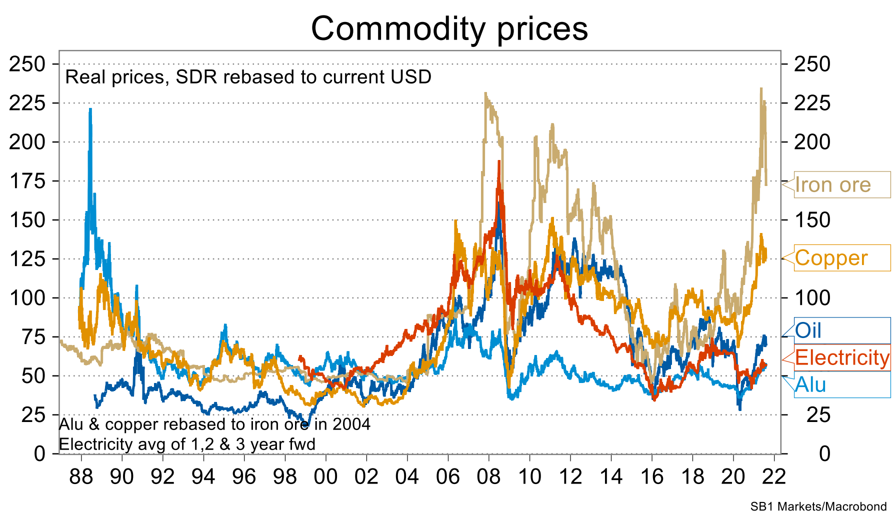
SpareBank 1 MARKETS

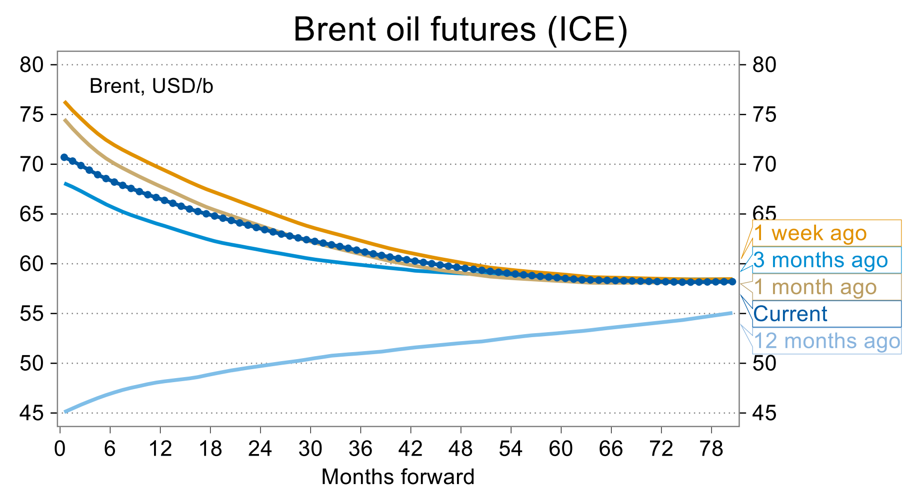
Iron ore prices further down as China tries to slow steel production

Copper down as well – and the short end of the oil curve sharply down on covid/travel restr. fears?



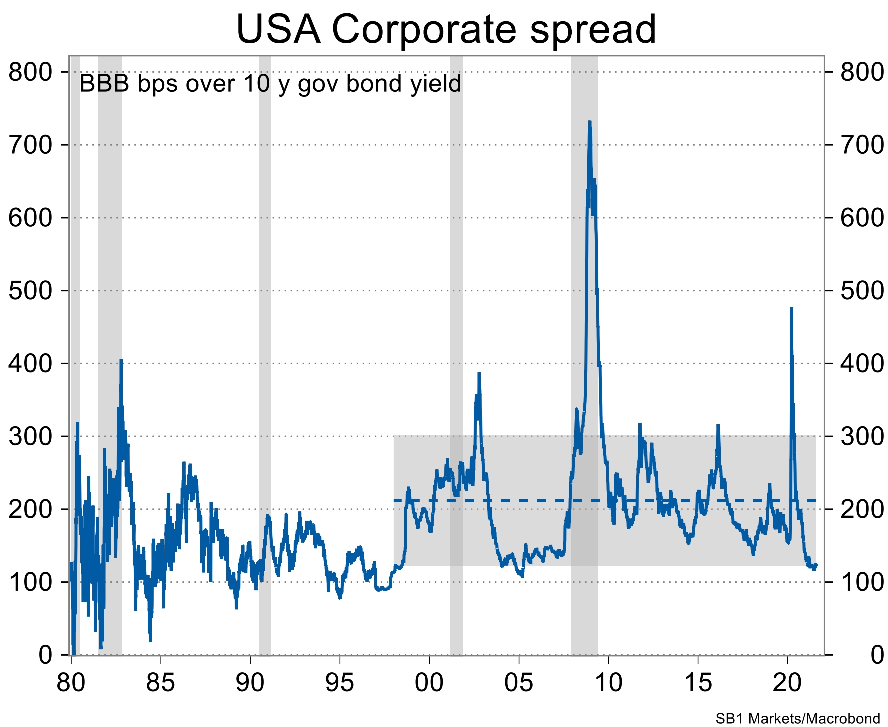


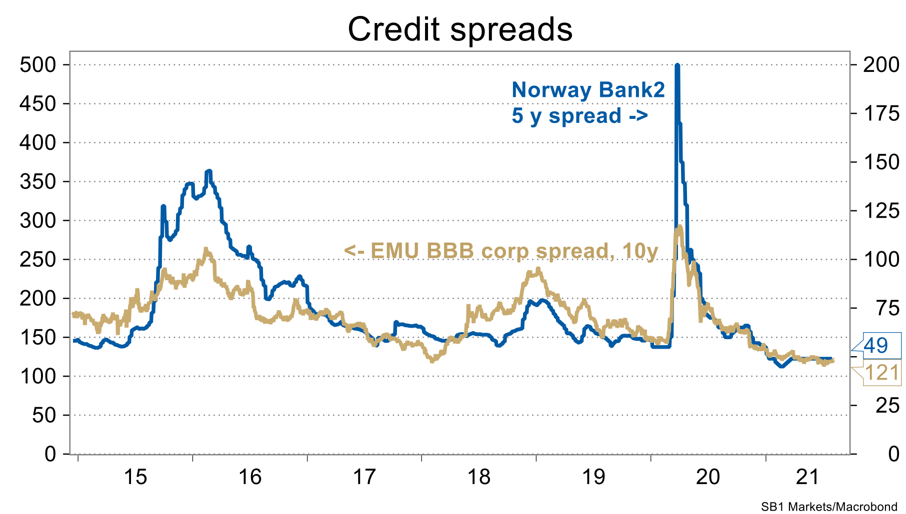




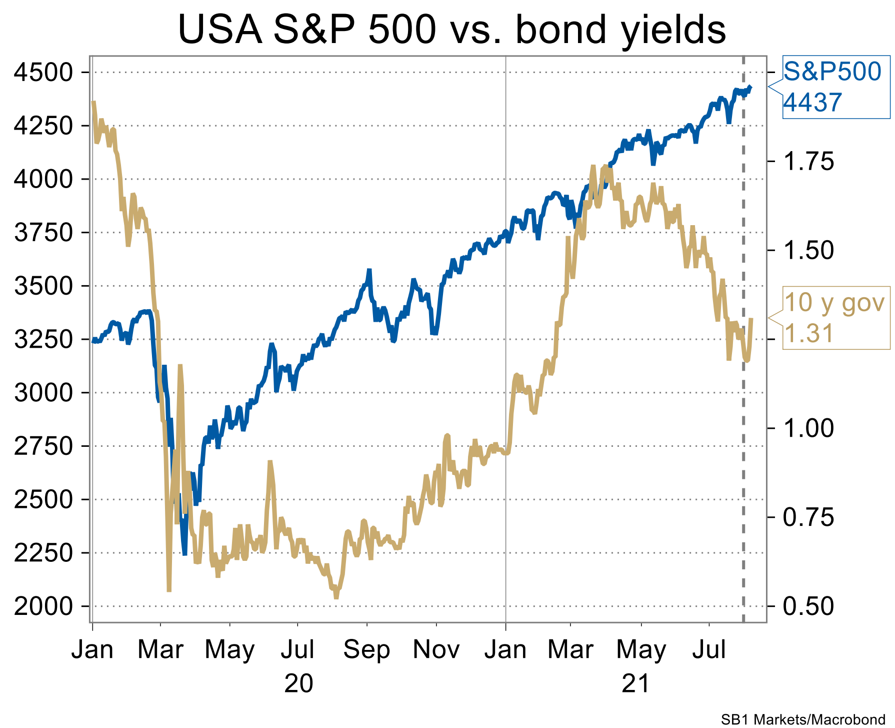
The US BBB credit spread are stable, and a low

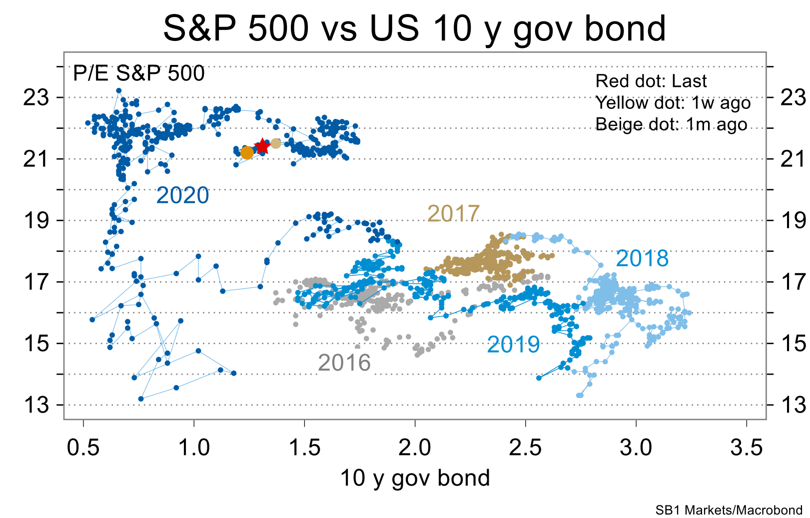
Spreads are stable in Europe as well

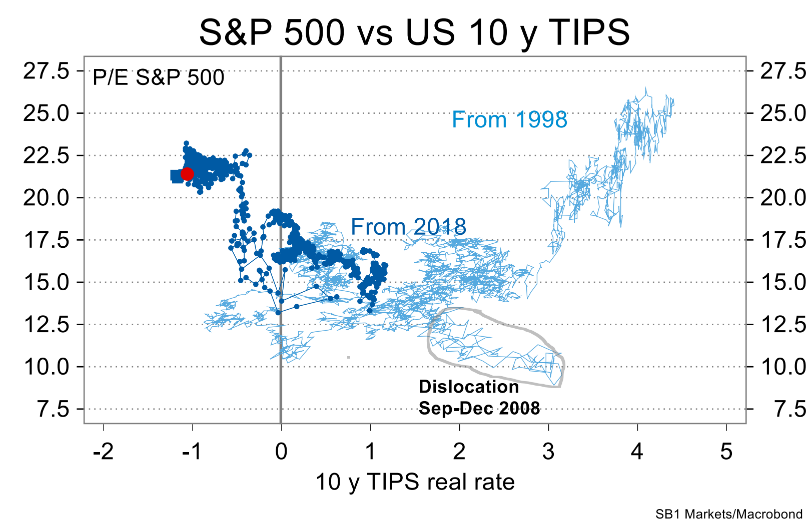




Another S&P 500 record, up 0.2%. The 10 y bond yield up 8 bps to 1.31%

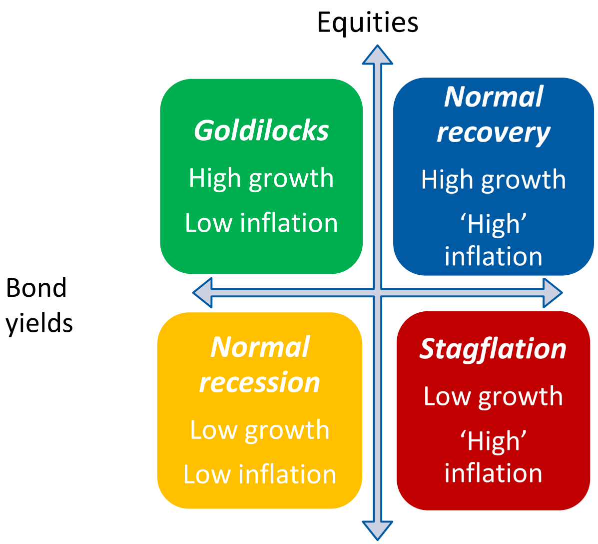


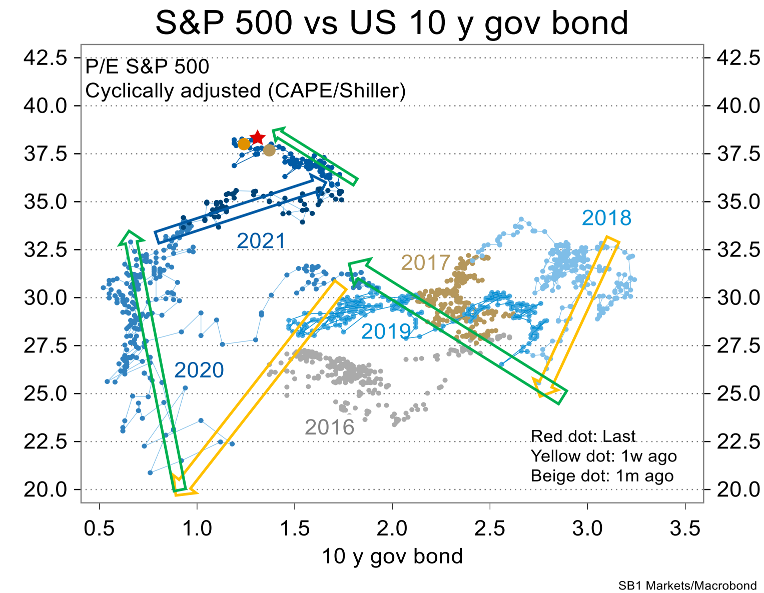




Still well into the 'Goldilocks corner'

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

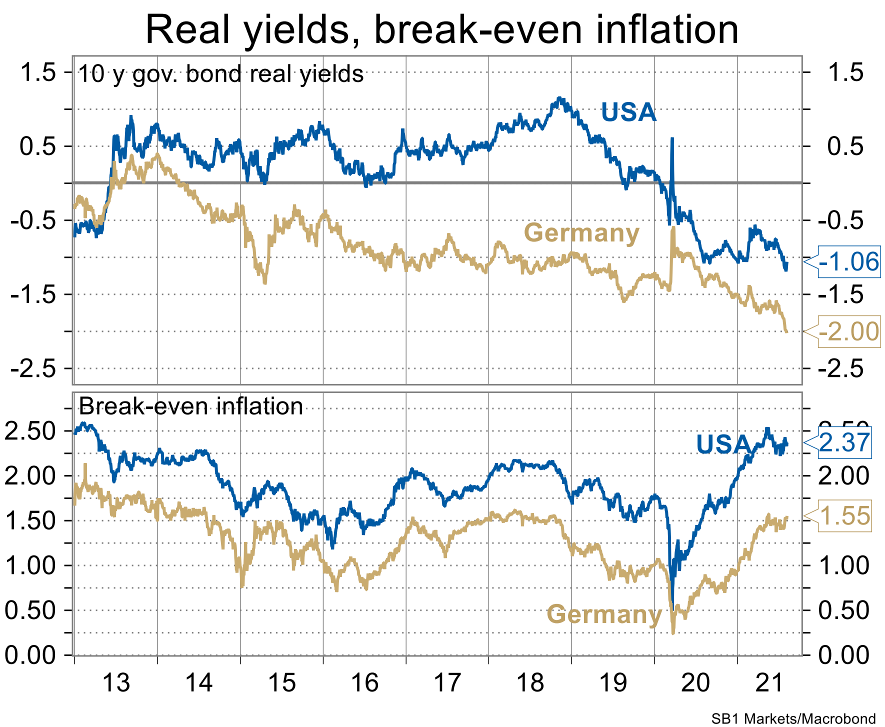


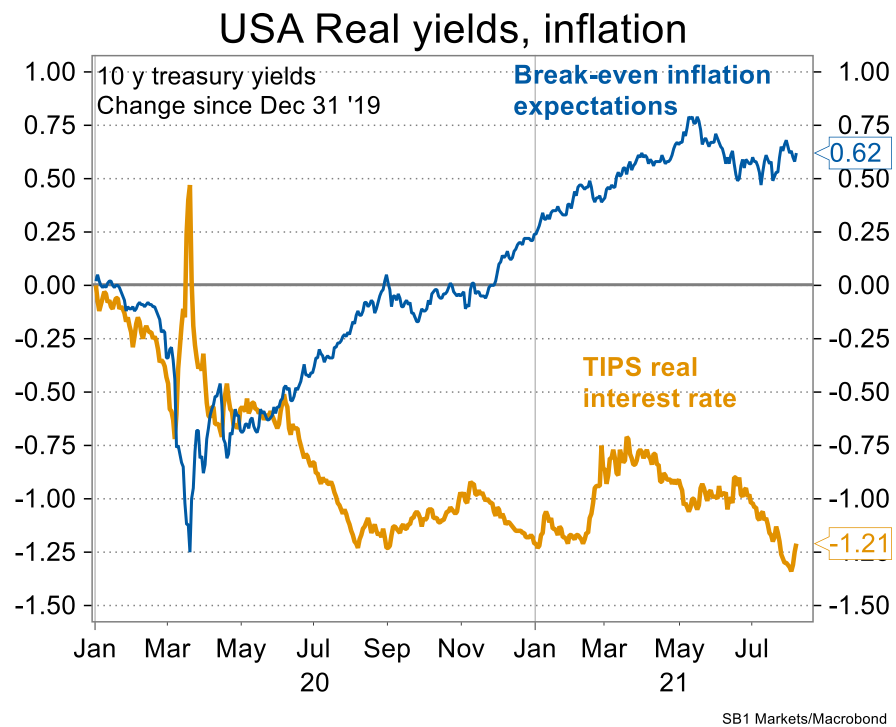


- Usually, we have associated drifts towards the 'green corner' - low inflation and solid growth at the same time - as a <u>temporary</u> sweet spot for markets
  - » Interest rates have climbed 100 bp+, and stock valuations have kept up or climbed (like the Shiller PE). Still, we deem the current yield level to qualify for the "Goldilocks" corner (especially the real bond yield, check the chart on the previous page). Where to go from here?
- The inflation/growth mix will decide:
  - » If 'nothing' happens, we can stay in this Green quadrant. Raw material prices normalise, wage inflation is kept in check because the US labour supply finally returns to normal. Inflation turned out to be transitory, profits are OK, yields remain low
  - » If the labour supply in the US does not yield, wage inflation will very likely accelerate
    - <u>If companies are able to increase their selling prices</u>, profits will be kept up, but higher inflation well very likely push the Fed to tighten monetary policy, which is challenging for high multiples. Move to the blue quadrant. However, after a while profits will anyway come under pressure. The stock market will be rewarded with lower profits & lower multiples (it will resemble the Red corner, before moving to the Yellow)
    - <u>If companies are not able to increase their selling prices</u>, inflation will be kept in check but profits will decline rapidly. A 2% lift in wages, cuts profits by well above 10%. That's the Yellow corner

US 10 y gov real rates up 10 bps, following the prev. week's 16 bps collapse.

The level is still very low, at -1.06% - but in Germany the 10 y real rate is -2.00%, ATL (-2 bps last week)





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.31	0.07	-0.06	0.52
.. break-even inflation	2.37	-0.03	0.06	1.06
.. TIPS real rate	-1.06	0.10	-0.12	-1.19
Germany nominal bund	-0.45	0.00	-0.23	-0.65
.. break-even inflation	1.55	0.02	0.04	0.40
.. real rate	-2.00	-0.02	-0.27	-2.01

SB1 Markets/Macrobond

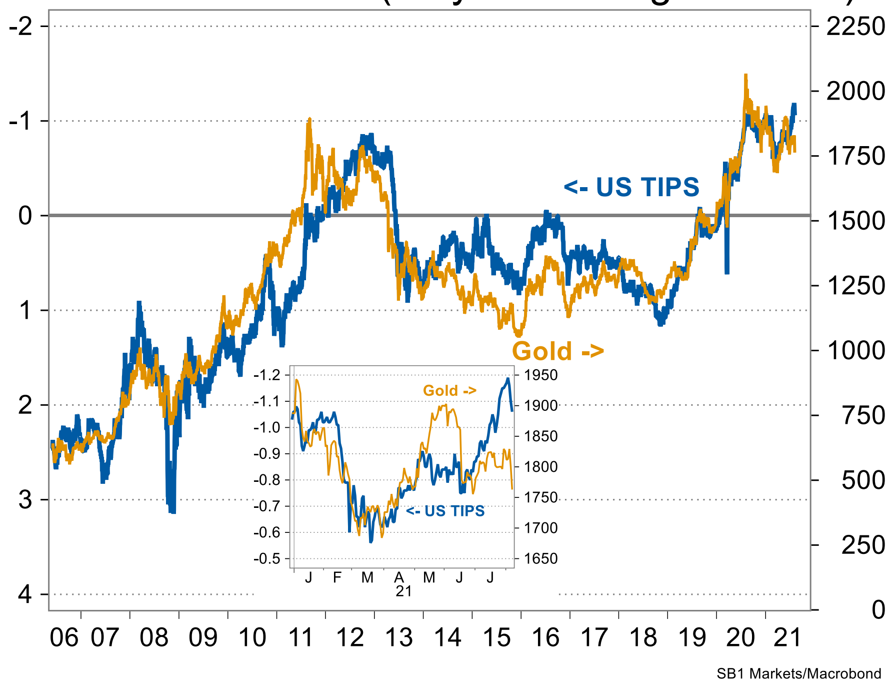
- What is going on, we asked no week ago?
  - » No major economic or central bank news
  - » No drama at the stock markets
  - » Commodity markets are stable/strong
- A strong US labour market report at Friday contributed to half of the net lift in interest rates last

SpareBank 1 MARKETS

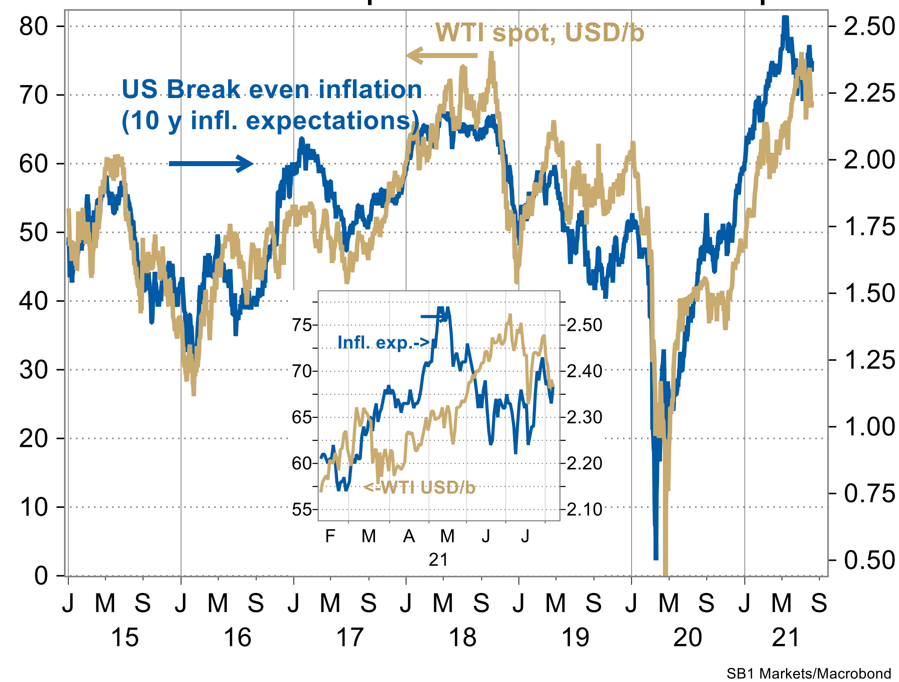
Gold ⇔ –TIPS real rates. Oil ⇔ Inflation expectations

However, the links between the two pairs have not been that close recent weeks – but last week…

Gold vs. US TIPS (10 y real rate gov bonds)



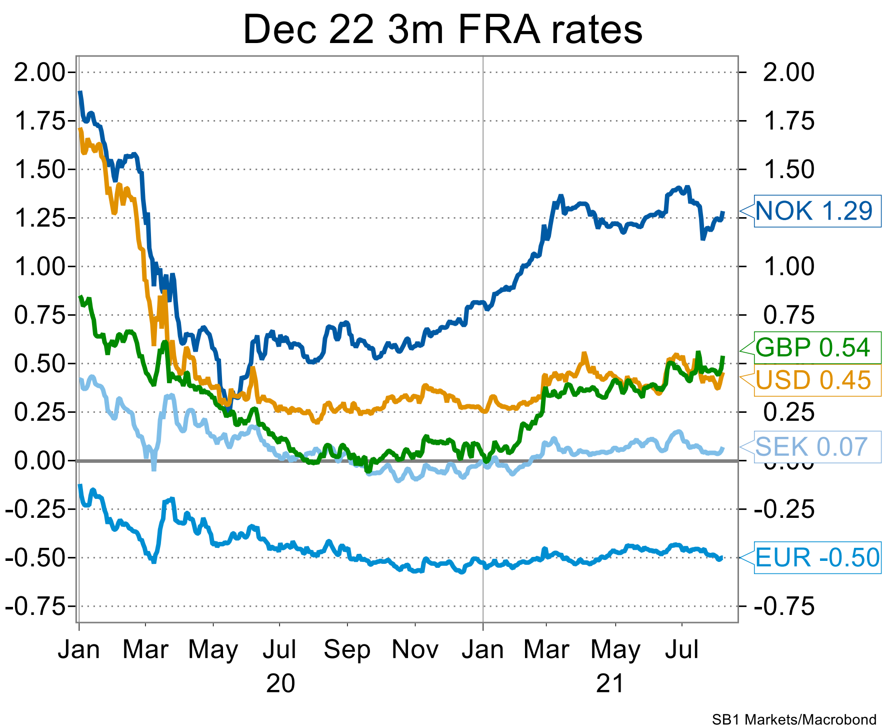
USA Inflation expectations vs. the oil price

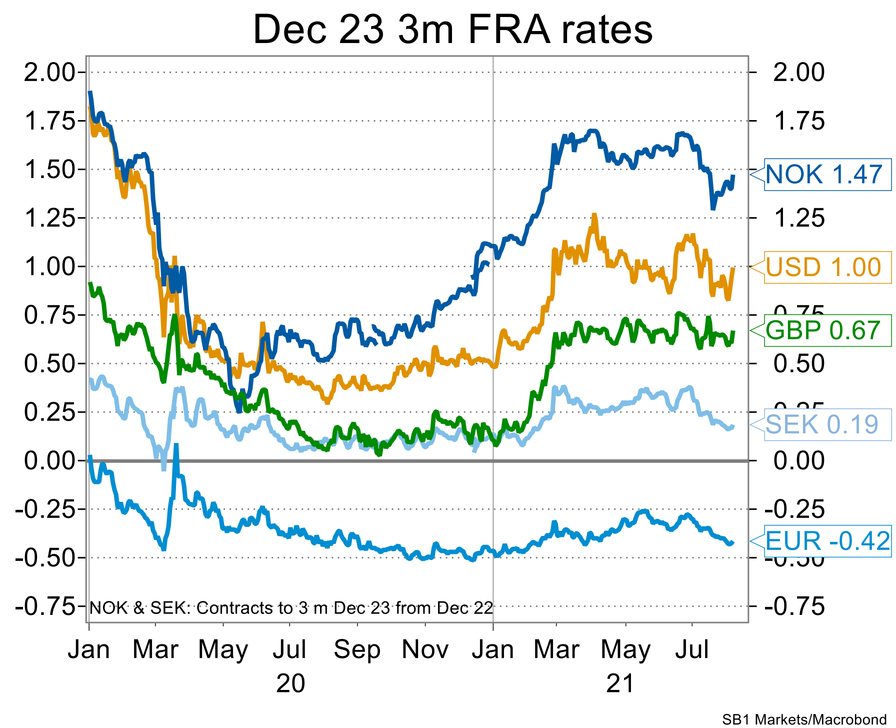


- The pairs moved together the normal way again
  - » Real rates up -> the gold price down
  - » The oil price down -> long term inflation expectations down

FRAs: Up almost everywhere last week

The Bank of England changed its outlook, and the US labour market strengthened

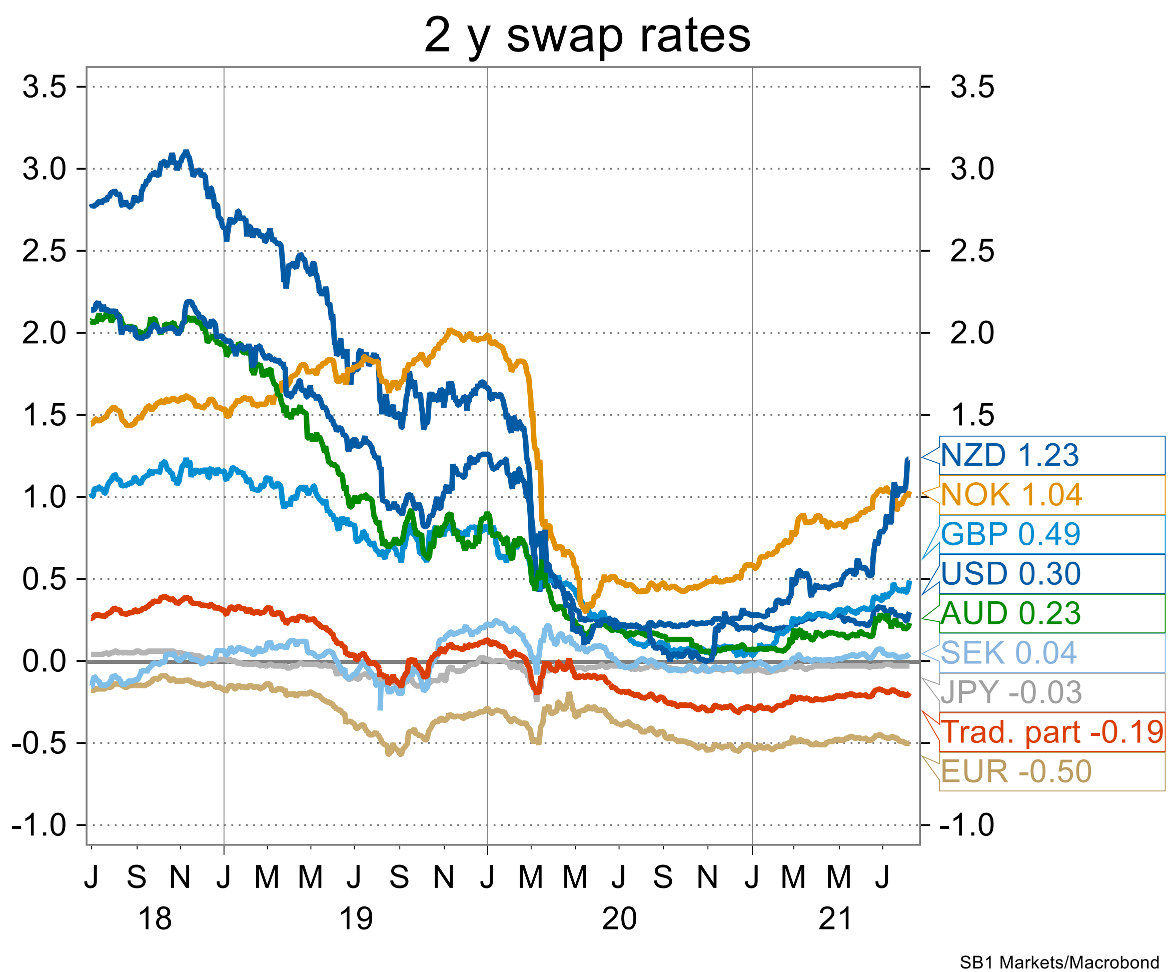


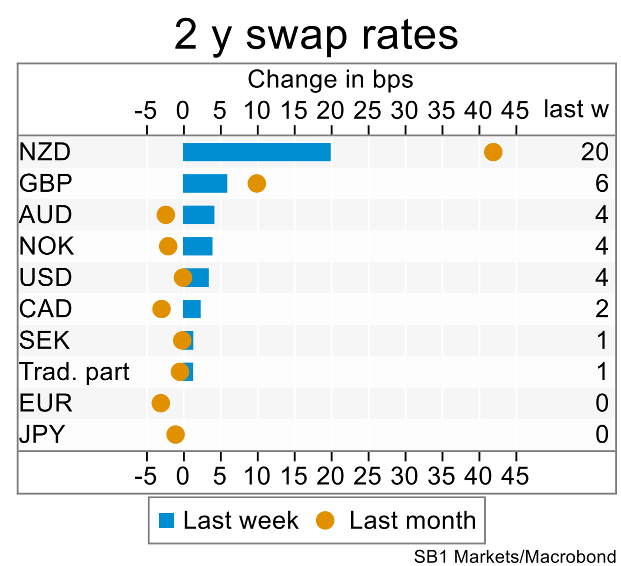


- The market expects both **BoE** and the **Federal Reserve** to hike next year
- Even if the Norwegian housing market has flattened, and economists are discussing whether **Norges Bank** will og should hike in September the market is fully discounting the Bank to start hiking

Short rates flat or up everywhere last week

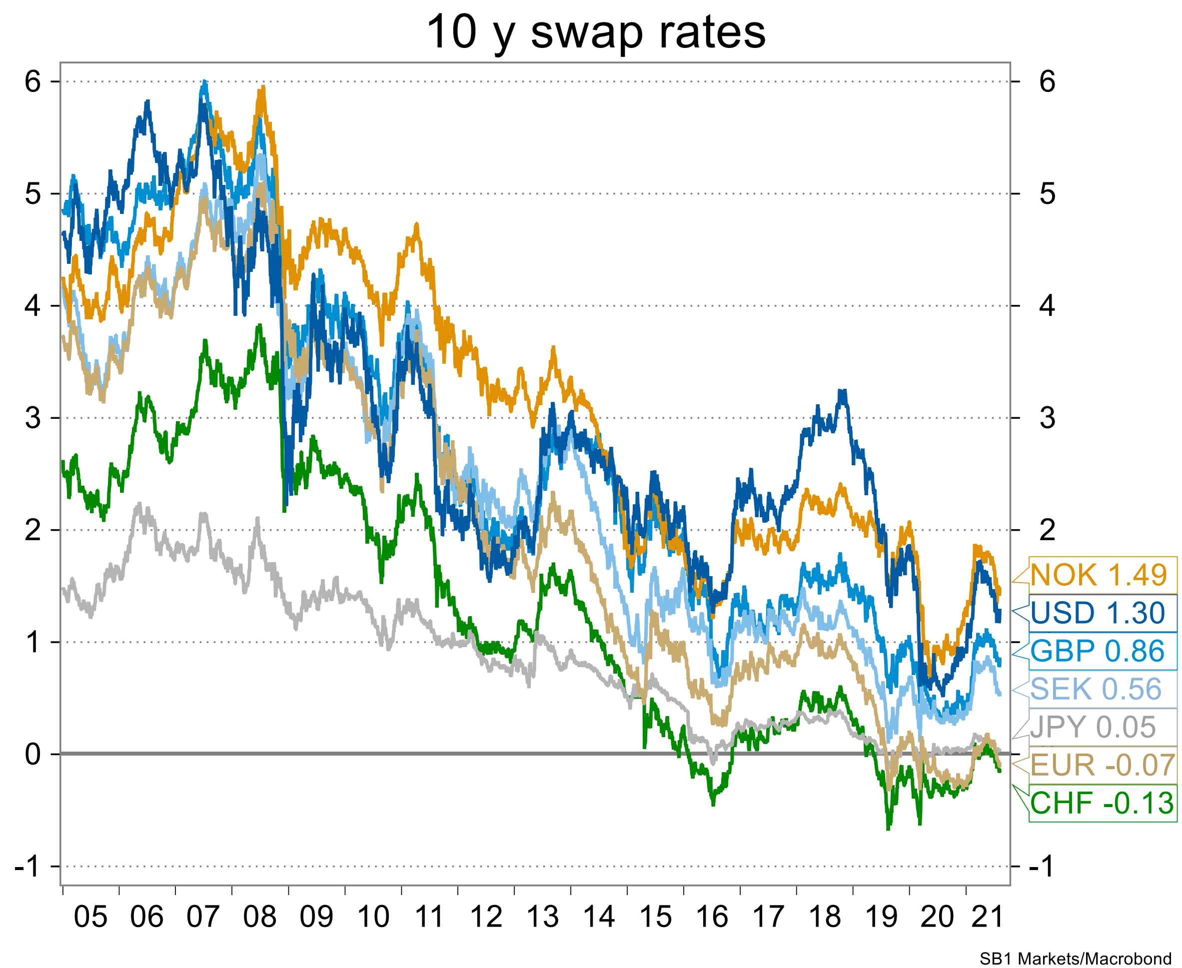
And most in NZD & GBP. NZRB is expected to hike pretty soon, and more than NoBa

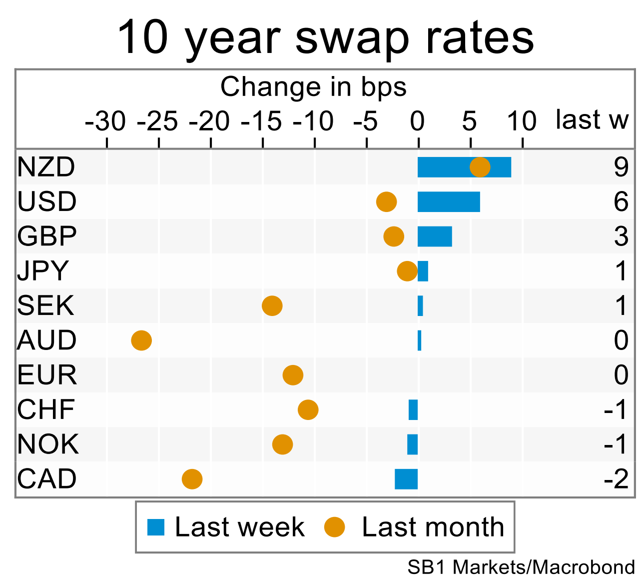




The long end of the curve mixed but more up than down

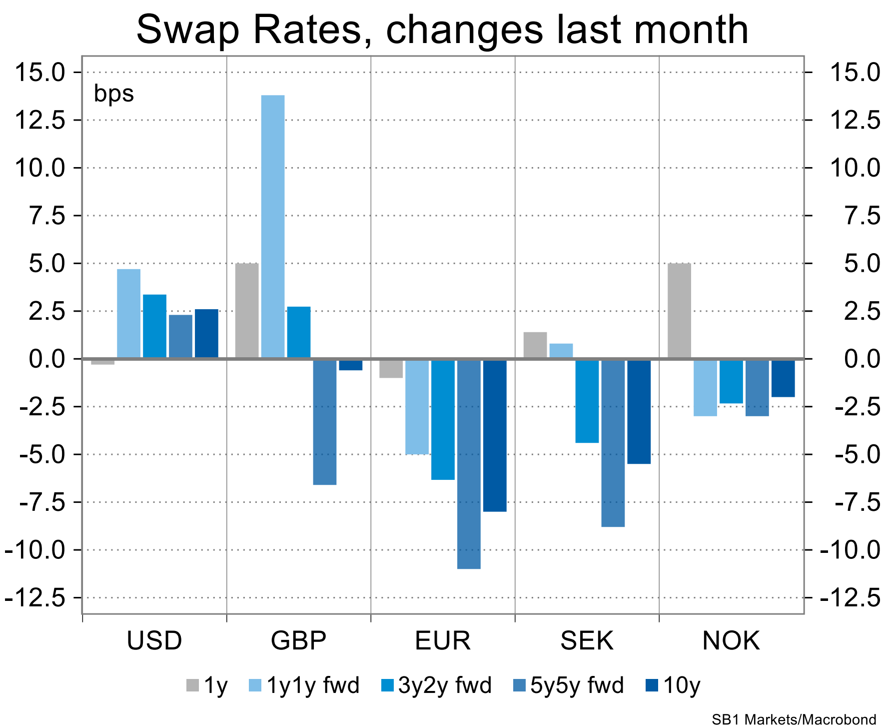
A small reversal of recent declines in the US

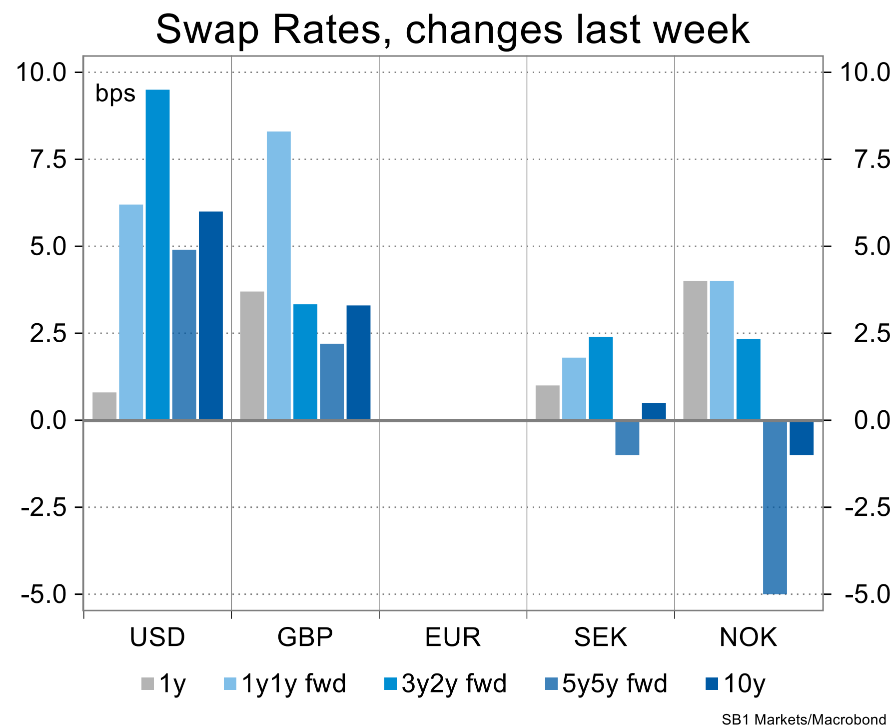




Mixed curve changes last week: US/UK (and NZD) up, EUR flat, NOK twisted

Bank of England 'lifted' the 1y 1y fwd by 14 bps by its hawkish signal

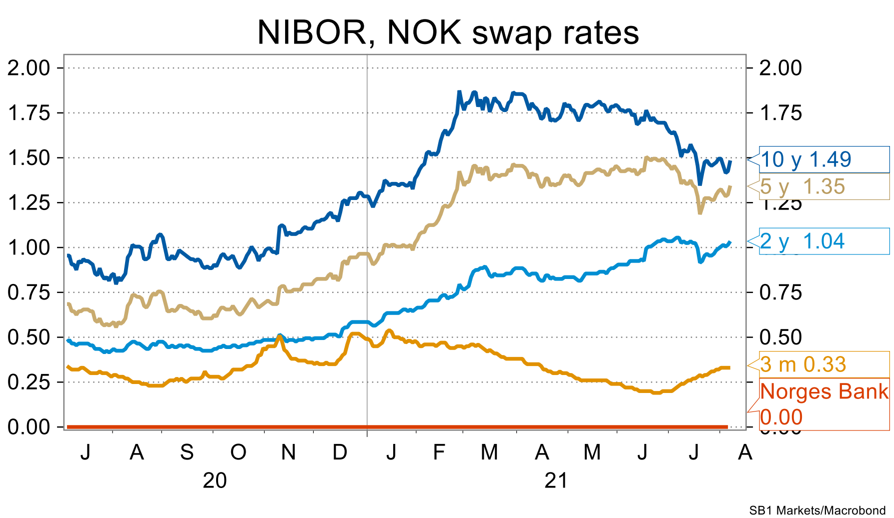


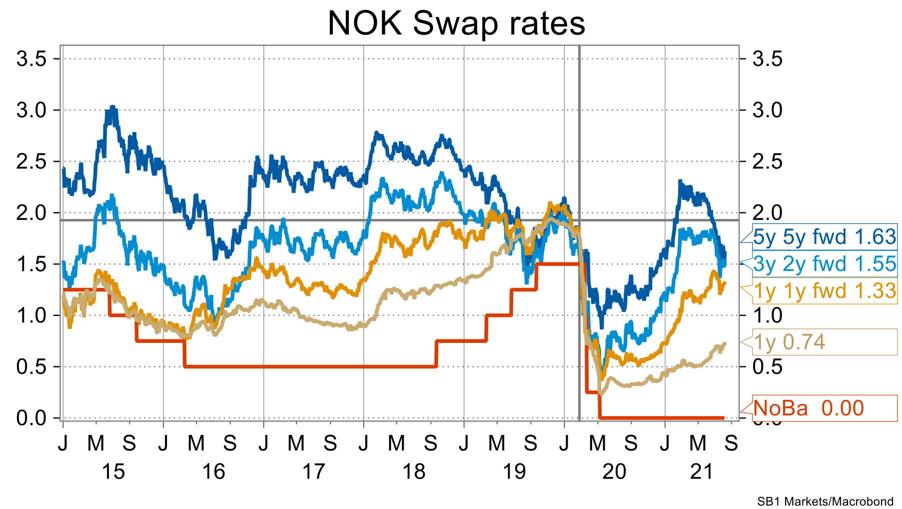


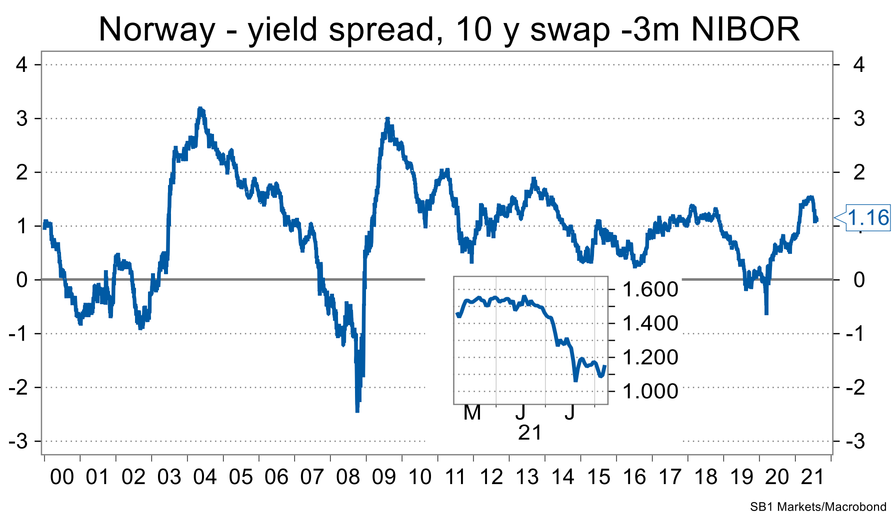
- No net changes in the EUR last week (first down, then equally up)

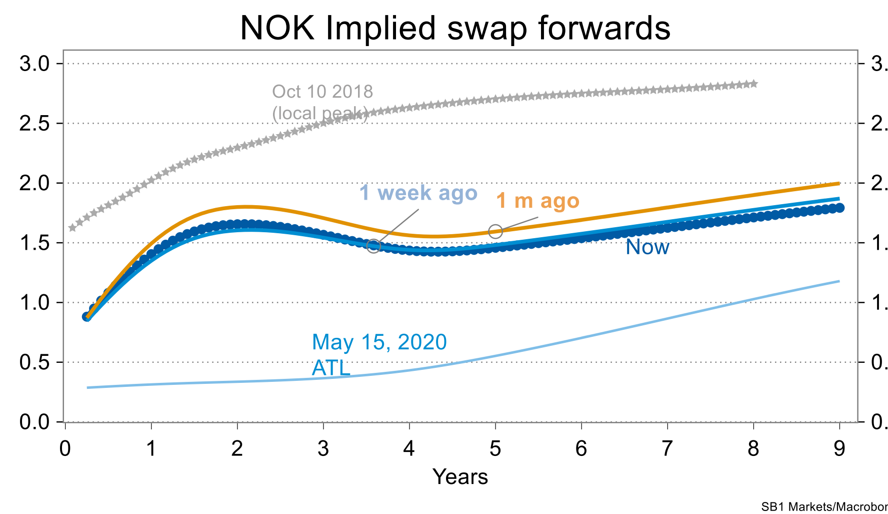
Mixed: The short end up, the long end down

The 5y 5y fwd down by another 5 bps





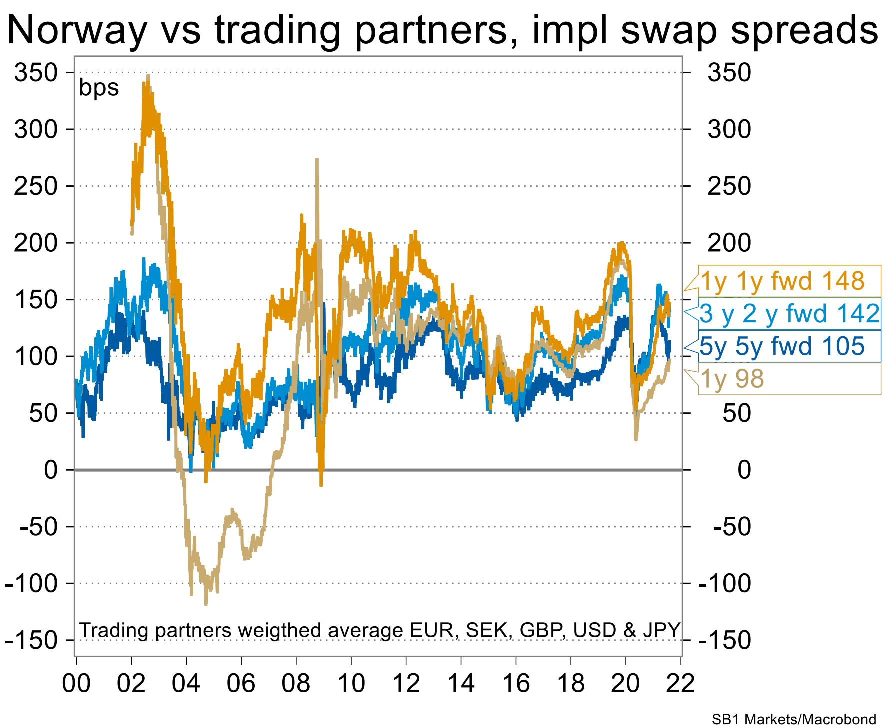


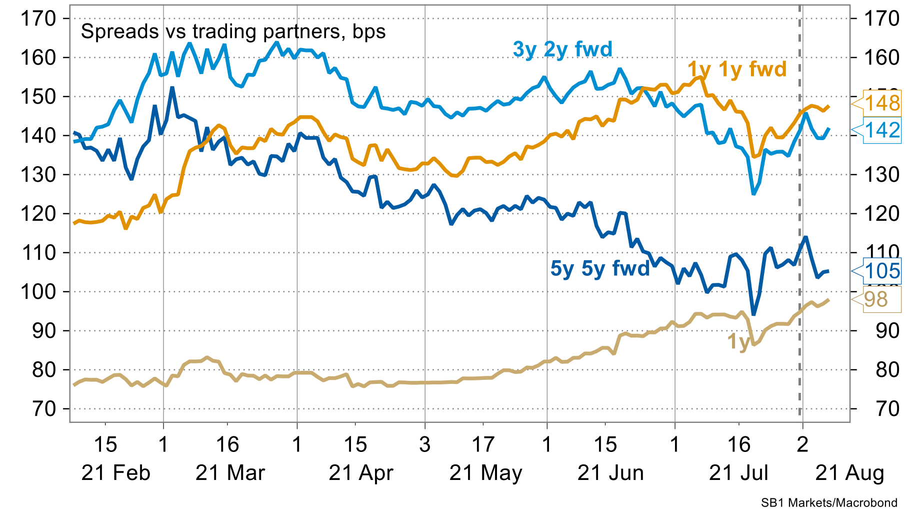


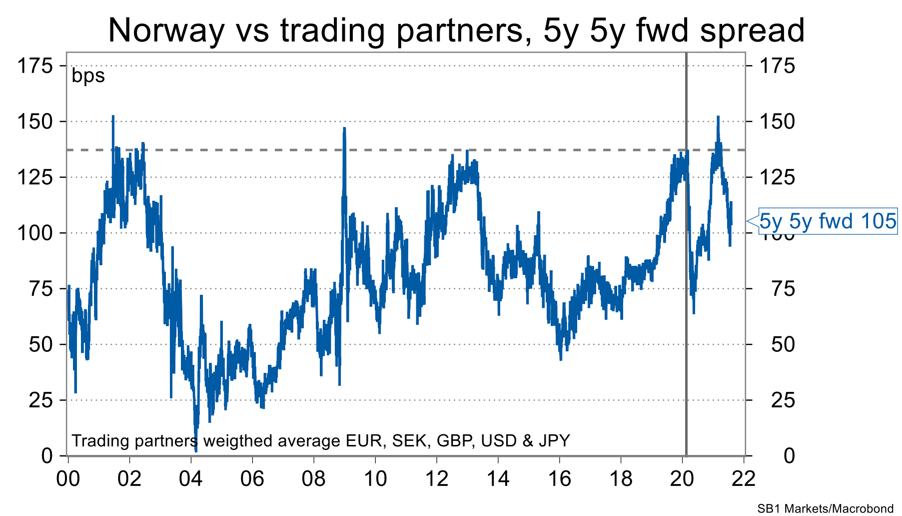
SpareBank 1 MARKETS

Forward spreads up in the short end, down in the long end of the curve

The LFS report (Friday) was strong but the housing market seems to be cooling

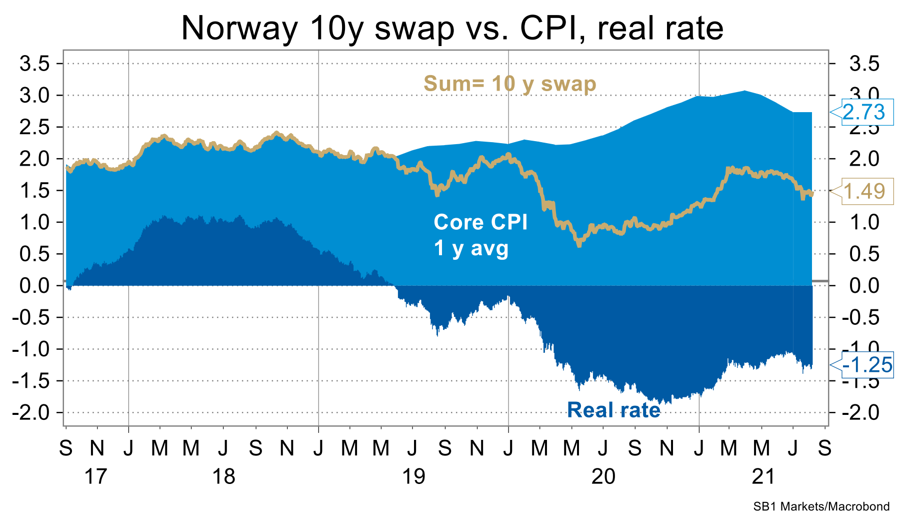






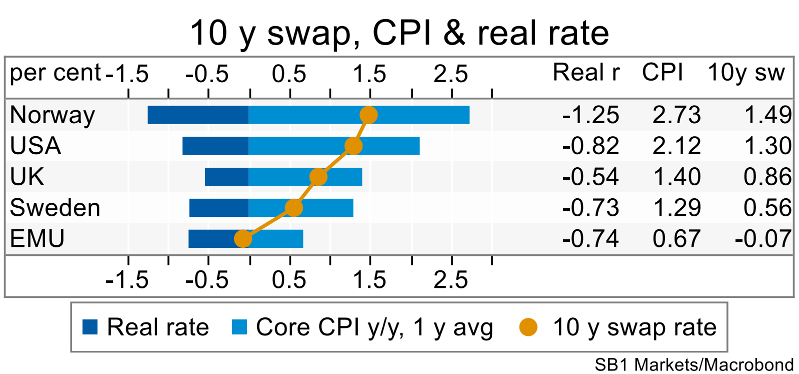
SpareBank 1 MARKETS

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



NOK 10 y swaps have flattened

- The **10y NOK swap** rate down 1 bp to 1.49% - and the trend has been down since March
- **The real rate**, after deducting a 2.7% average core CPI inflation over the 2 past years equals -1.3%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 2 y avg at 2.7%
  - » On the other hand, barring economists' in academia & finance, nobody else believe in the 2% inflation target. Other economists say 2.5% as to leaders in labour market organisations, business leaders 3.5% and households 3.7% (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



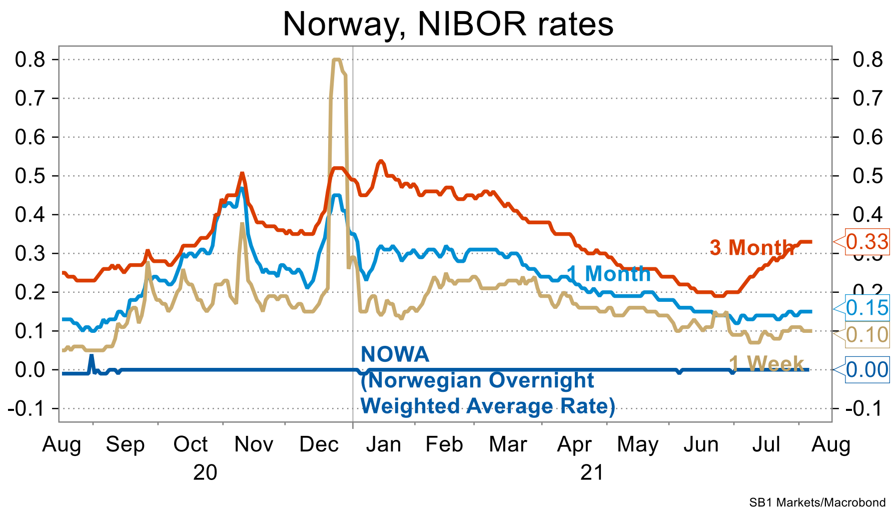
per cent	Real r	CPI	10y sw
Norway	-1.25	2.73	1.49
USA	-0.82	2.12	1.30
UK	-0.54	1.40	0.86
Sweden	-0.73	1.29	0.56
EMU	-0.74	0.67	-0.07

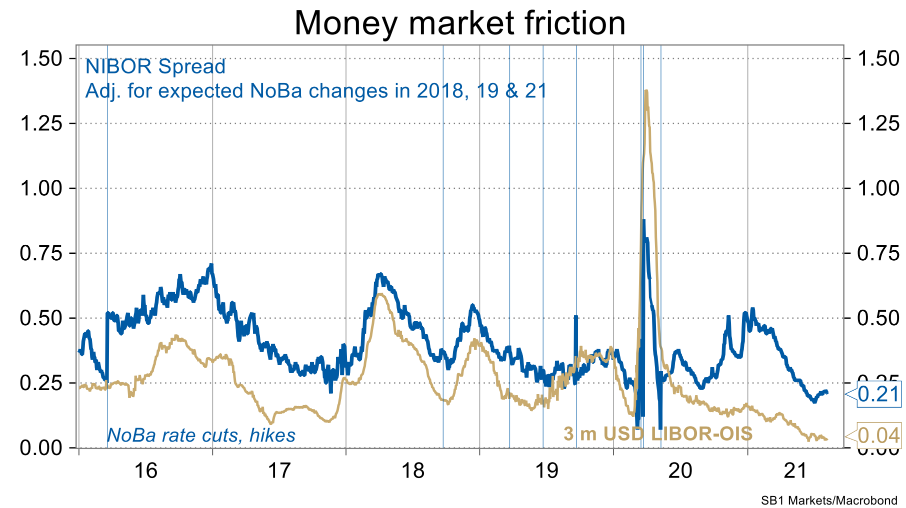
NOK real rates among the lowest, as inflation is at the top

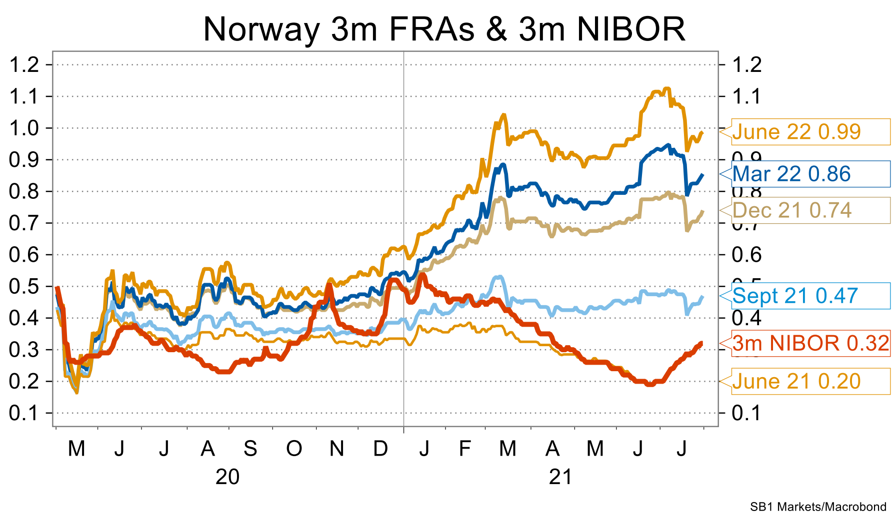
- **Inflation** among main trading partners varies between 0.7% to 2.1% (measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US at the top, the latter is now climbing rapidly
  - » Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- **Real rates** among our trading partners, and ranging between -0.5% and -0.8% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.3% is still an outlier on the downside, even if the nominal rate is the highest**

3 m NIBOR 3 bp up to 0.33%, the 'real' NIBOR spread probably stabilised

The market is still discounting a NoBa hike in September



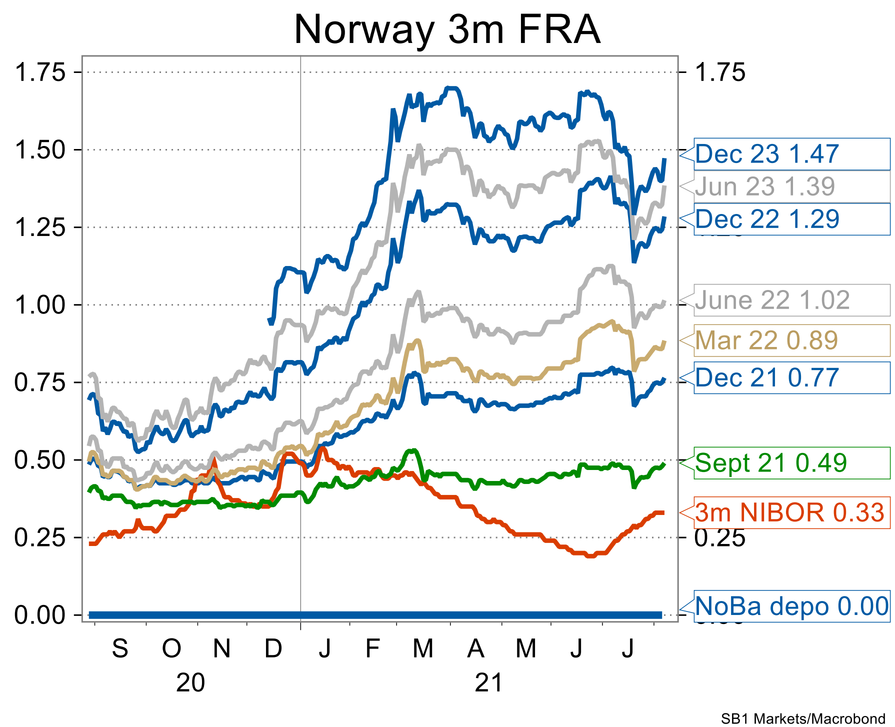


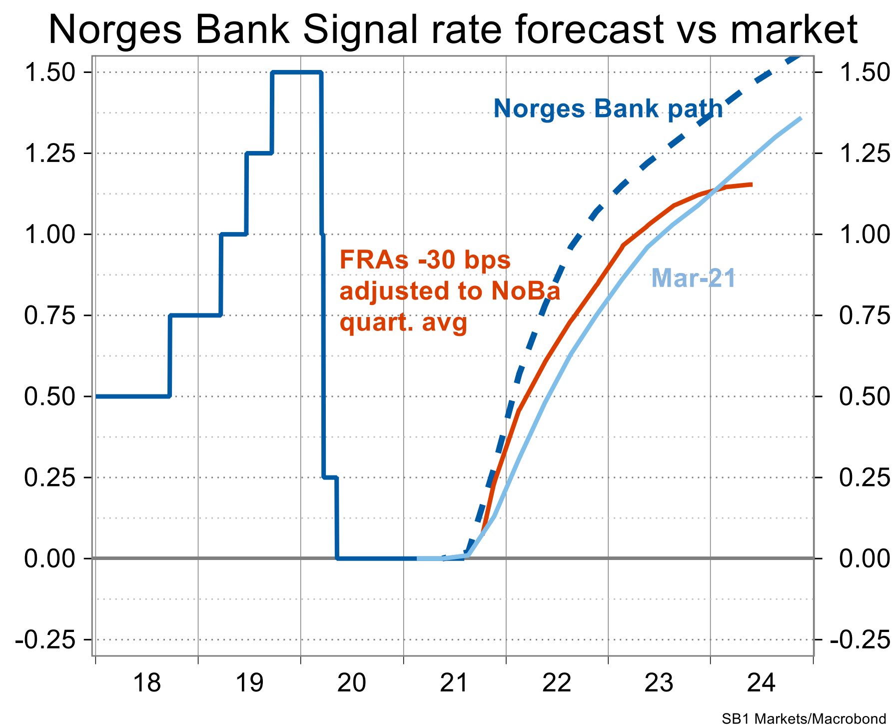


- The LIBOR OIS spread is still low, and it has fallen a couple of bps even if the Fed has tried to mop up excess liquidity in the money market by heavy use of reversed repos
- The Sept-21 3 m contract at 0.47% bps is 15 bps above the current 3 m NIBOR. Thereafter the 3 m NIBOR will climb by 2 bps per week until NoBa stops hiking the signal rate by 25 bps per quarter (if the low NIBOR spread remains unchanged)
- Last week the 'real' spread may have contracted 1 bps to 21 bps, as we assume the market is fully discounting a NoBa hike in September. We expect the spread to drift upwards the coming months

3m FRA rates up 2 - 6 bps, still well below NoBa's June path

Still, the market is fully pricing in a September hike and most likely a Dec lift as well





- The market is still betting on a NoBa hike in Sept – and more than fully if the NIBOR spread remains at 0.22 bps (check next page). A 30 bps spread is assumed, a the implied probability falls to 79%
- The Dec-21 FRA at 0.77%, after deducting a Q4 liquidity premium at 7 bp, implies an 95% probability for a 2nd hike in December if the spread remains at the current 21 bps. However, if the spread is assumed to be 30 bps, just a 60% probability is discounted (in June, NoBa assumed a 35 bps spread)

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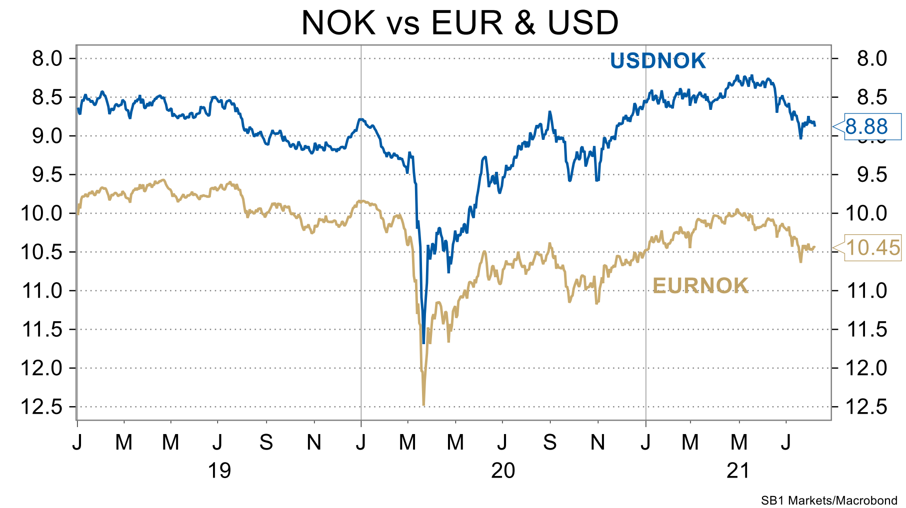
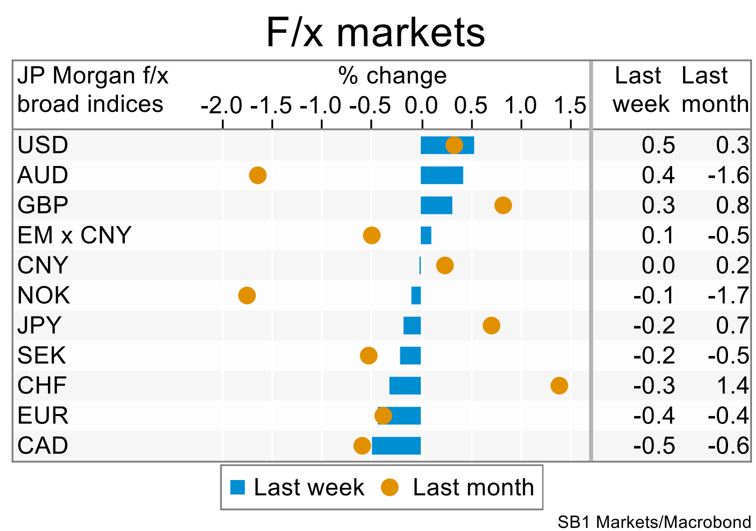
The USD up together with USD rates

NOK the big loser over the past 4 weeks, followed by AUD



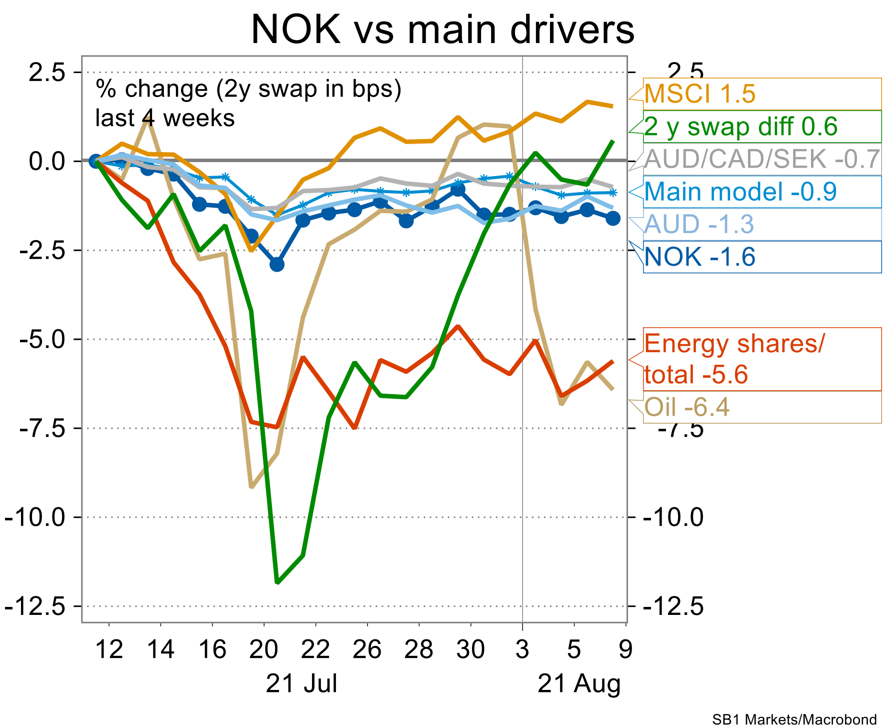
- The GBP rose further, supported by the hawkish Bank of England

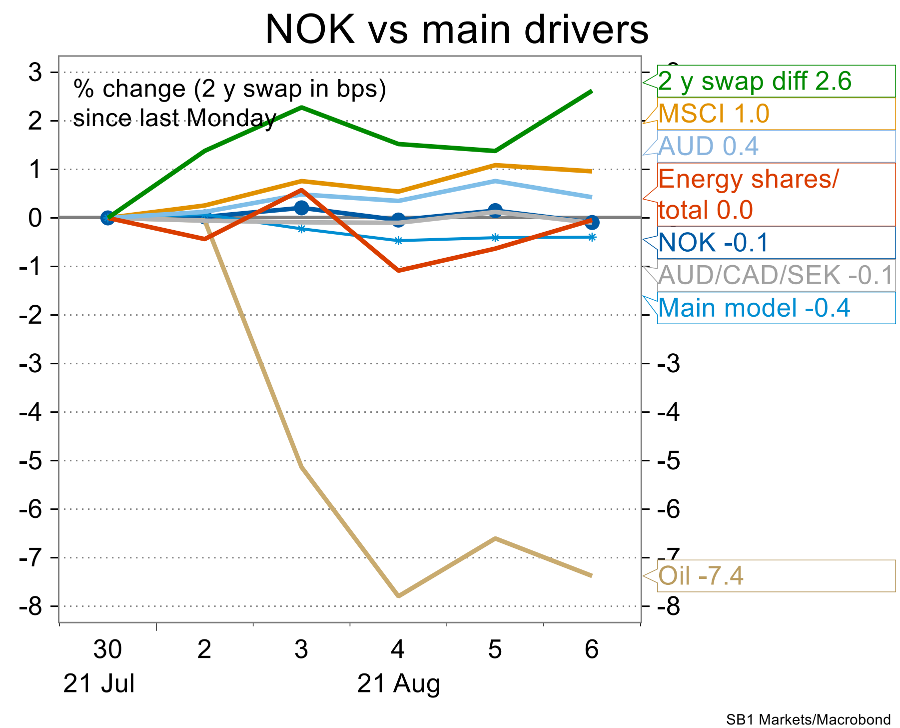


JP Morgan f/x broad indices	Last week	Last month
USD	0.5	0.3
AUD	0.4	-1.6
GBP	0.3	0.8
EM x CNY	0.1	-0.5
CNY	0.0	0.2
NOK	-0.1	-1.7
JPY	-0.2	0.7
SEK	-0.2	-0.5
CHF	-0.3	1.4
EUR	-0.4	-0.4
CAD	-0.5	-0.6

The oil price sharply down (covid/travel restrictions) but the NOK was stable

Our model said -0.4%, while the NOK fell just 0.1%. NOK rates, the AUD, global stocks supported OK





The status vs. the normal drivers:

- ***The NOK is 8% weaker than suggested by our standard model (unch)***
- The NOK is 7% 'weaker' than the global stock market vs the correlation between the two since beg. of 2020 (from 6.5)
- The NOK is 10% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch)
- NOK is far (9%) stronger than a model which includes global energy companies equity prices (vs the global stock market) (unch)

After been neutral vs NOK from May, we turned positive in early July, as the gap vs. our models had widened. *So far without any success*

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

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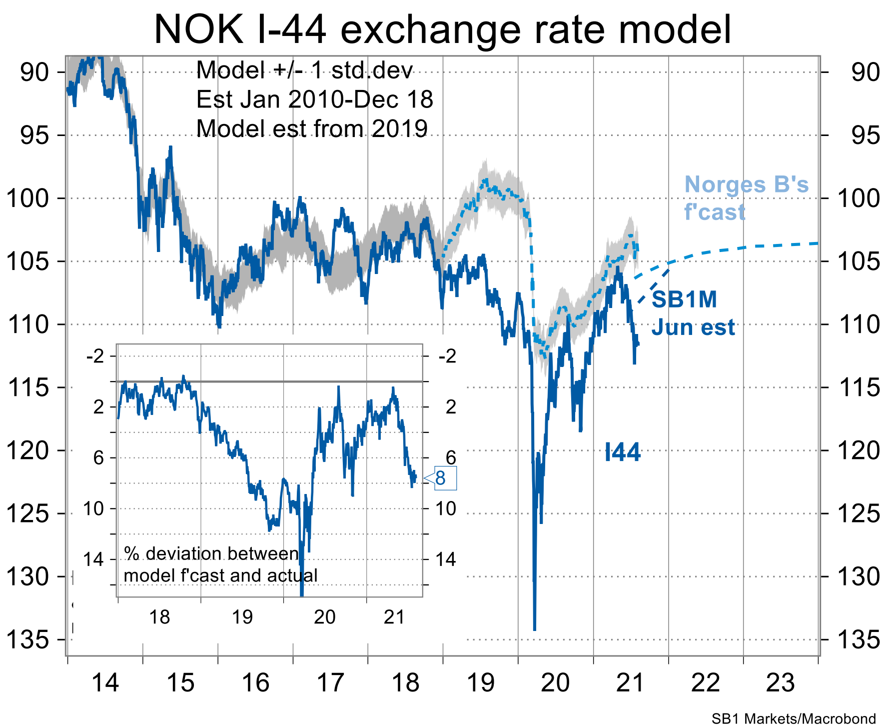
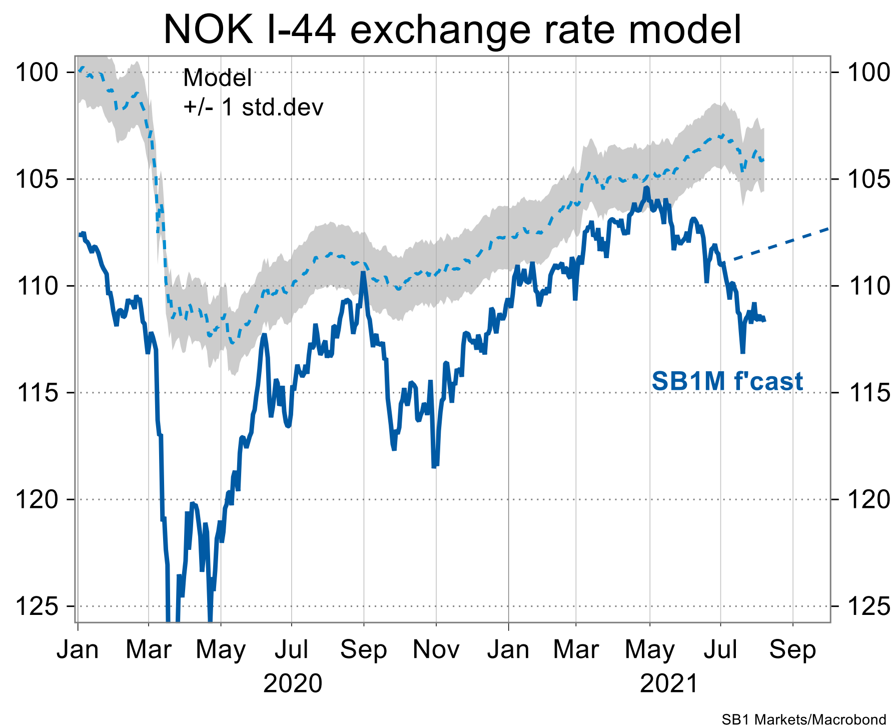
NOK 8% below our model estimate!





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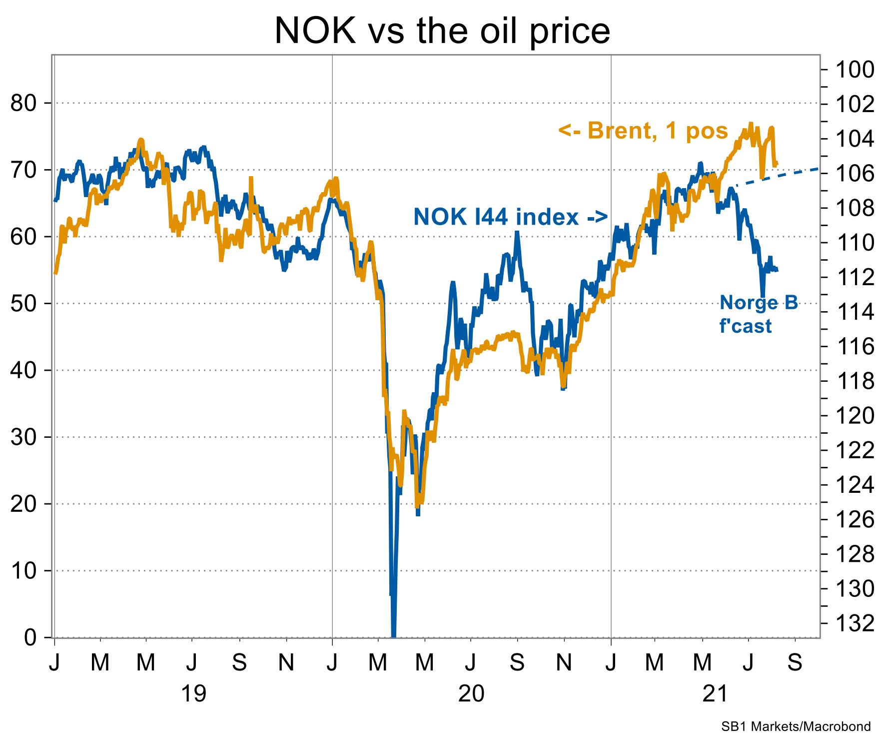
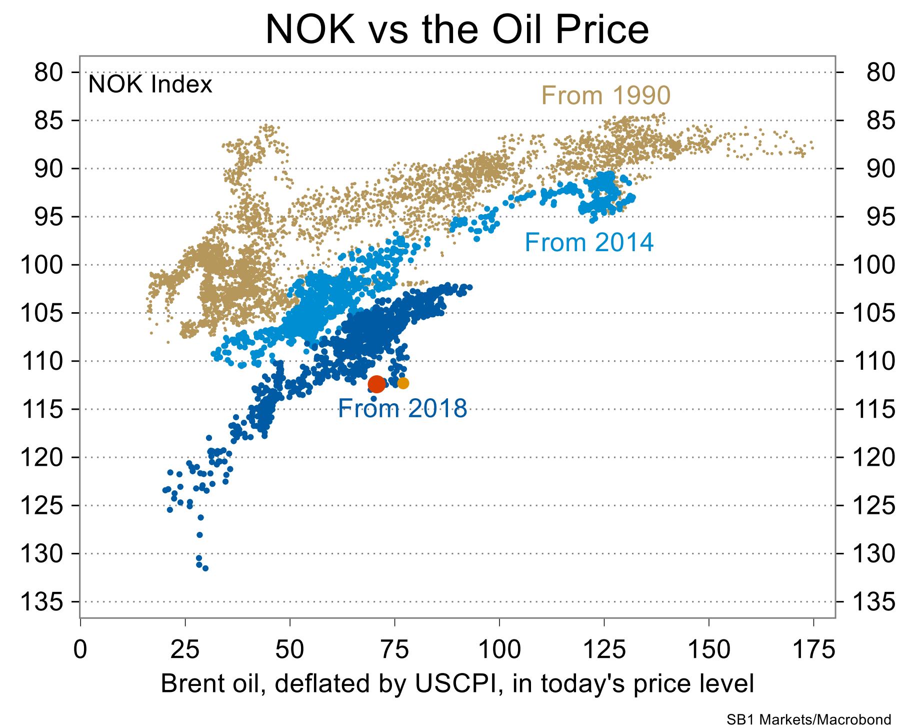
Oil sharply down, NOK not

NOK is still on the weak side vs the oil price





- NOK is still correlating quite closely to the oil price but at a lower level than before 2018 – and now the NOK is weak even vs the past 3 years' relationship
- 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

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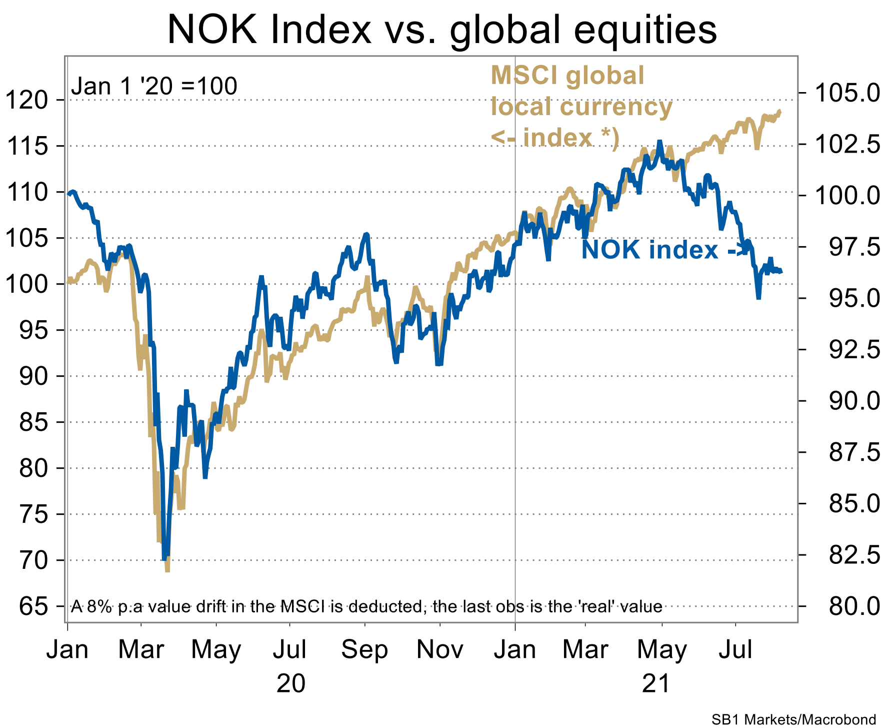
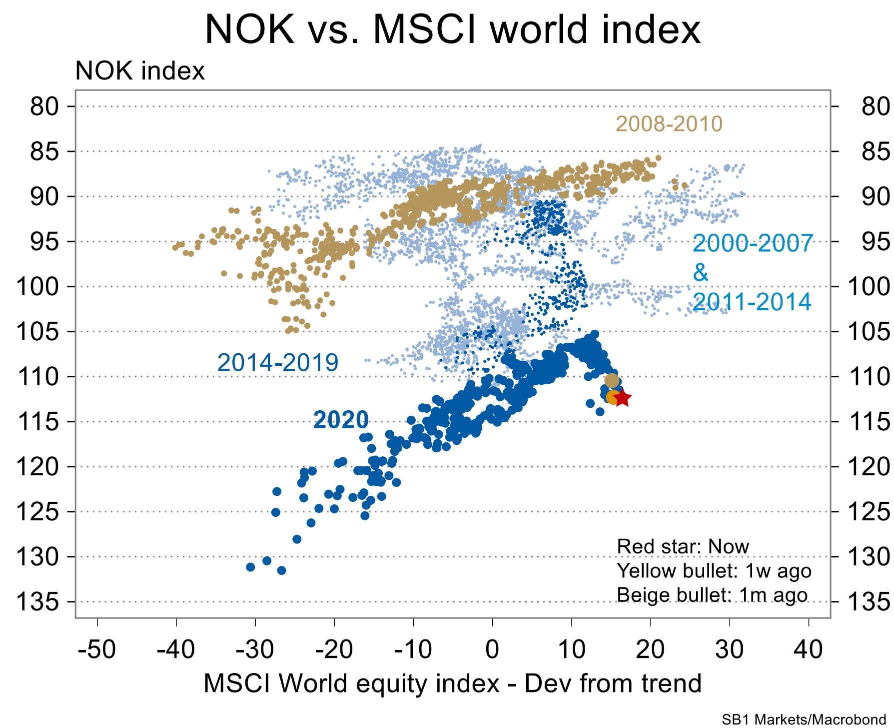
The global stock market up, the NOK marginally down

NOK has lost some 7% vs. global stocks over the past months/weeks, another short term high

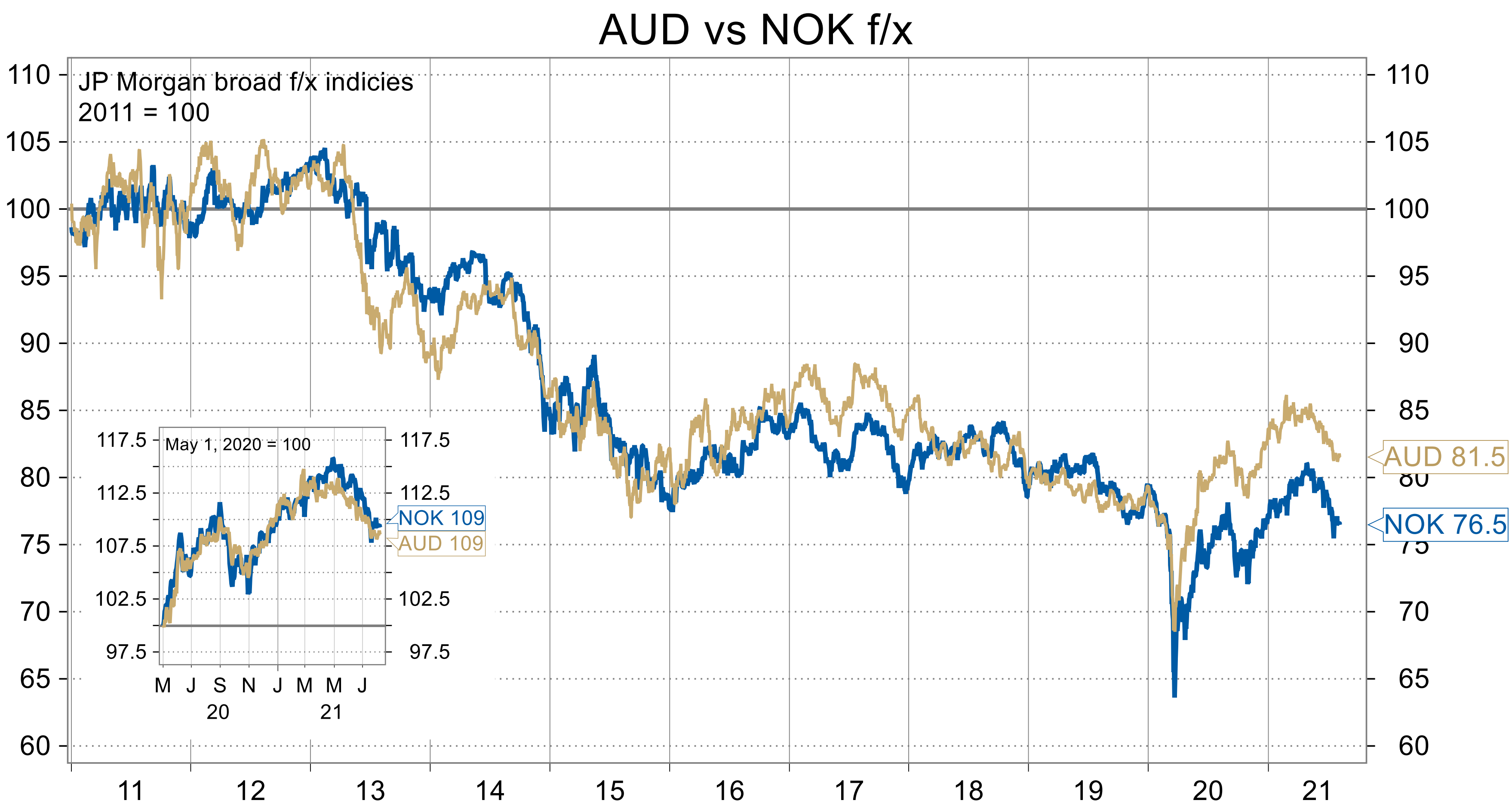




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the two has been pretty closely correlated from time to time
  - Now, the NOK is somewhat weaker than 'normal' vs the stock market as the NOK lost ground in mid Sept, based on the link between the NOK and MSCI since Jan 2020).
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund are larger than the value of the remaining oil & gas reserves. Has the market 'finally' (and rather sudden) come to the same conclusion? We doubt. It's probably a "risk on, risk off" world, where many risky asses move in tandem, more than usually

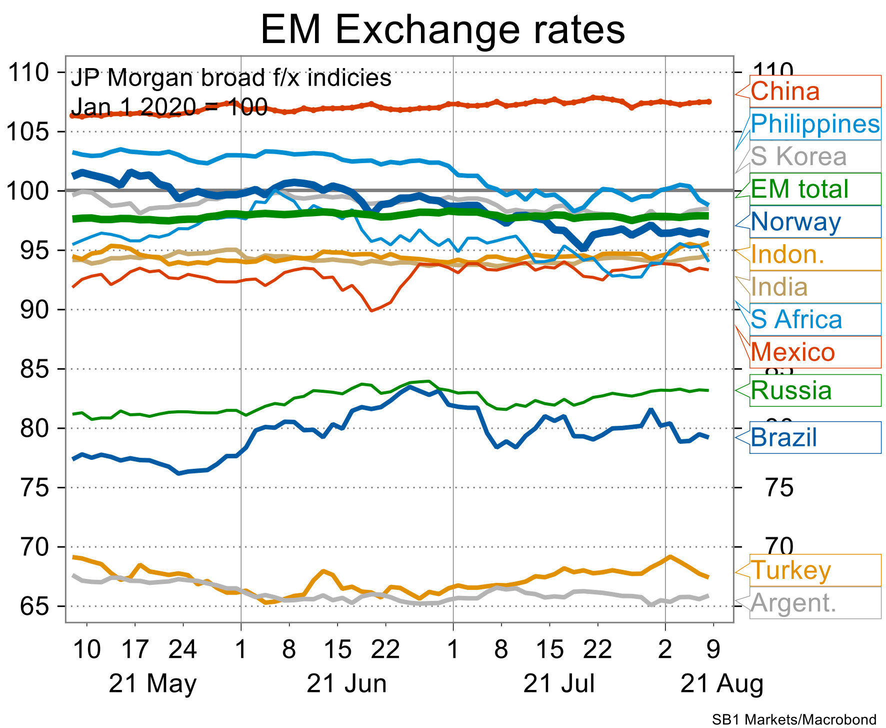
NOK & AUD still dancing extremely tight

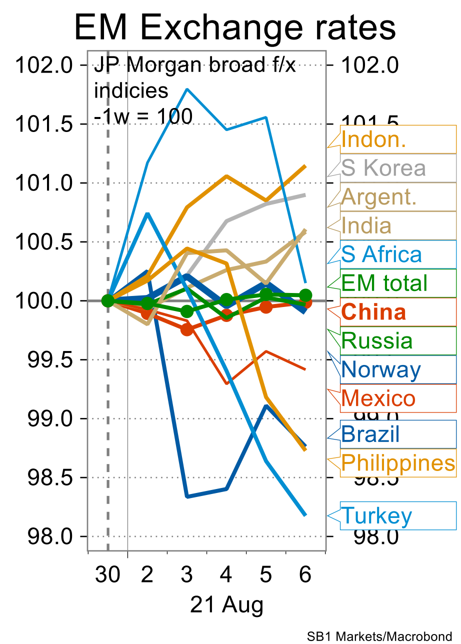
…but the NOK is still 6% weaker than AUD since last spring

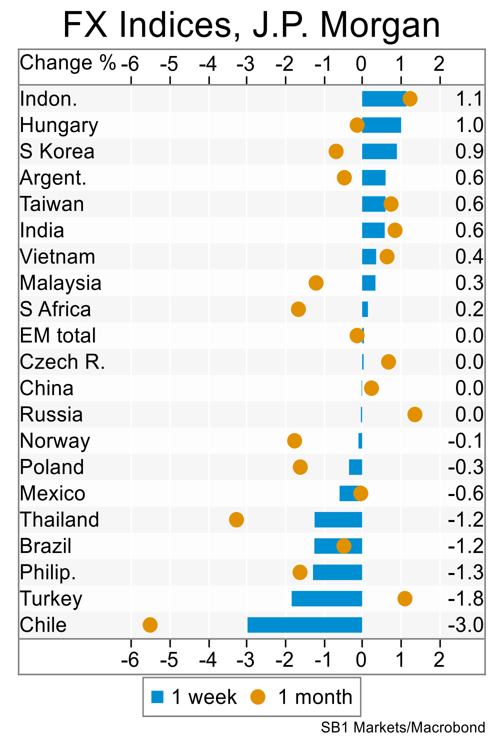


SB1 Markets/Macrobond

Mixed in the EM f/x universe last week too, without any clear pattern







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