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Macro Weekly

Week 4/2022

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Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week: Omicron is spreading rapidly but few patients in hospitals

.. At least in well vaccinated countries, and the pandemic is soon behind us?

- **The Omicron waves** are steep, high at the peak but very short lived – and far less harmful the previous variants
  - » **New cases** have fallen sharply in South Africa, and in UK the no. is down 50% over the past two weeks, and herd immunity is very likely reached, at least vs the current variant. Growth in new cases is still strong in Denmark, due to the new Omicron variant, the BA.2 mutation (which also is found in Sweden and India). It is very likely not more harmful than the original Omicron mutations but scientists are still on the case. Last week, 4.5% of the population tested positive in Denmark, and many cases are no doubt undetected – and the wave will very likely soon peak
  - » The real test now, is not the no. of positive tests but how many that need **hospital treatment. Data** from Denmark, UK and Norway are very encouraging, especially vs the need for **ICU beds and ventilators**, even if cases have been skyrocketing.
  - » **UK lifted all restrictions** last week – and Norway could have done the same. If not hospital demand surges the coming days, restrictions will at least be eased in Norway in early February
  - » **In the US**, the no. of new cases, hospitalised persons and demand for ICU beds may be peaking – though at high levels
  - » **China is still an unknown case.** The combination of a very contagious variant, with an R0 at 2.5 – 3 times Delta (and Delta managed 3 – 4 new infections per infected), few people that are immune due to previous infections, a vaccine that is not that effective, and a zero tolerance policy will require long lasting, extreme restrictions too succeed (if possible at all). Supply chain disruptions due to Chinese lockdowns may become a global challenge
  - » There are still many reports that many more patients **are admitted to hospitals with Covid, but due to other diagnoses**, and not due to Covid illness. Typically 50 – 60% of those counted as Covid patients are not admitted due to Covid which underscores the mildness of the Omicron variant
- Taken together, it seems **very likely that Omicron will not be able to create too much trouble** in countries with a high vaccination rate
  - » It is rather the opposite, as Omicron burns rapidly through the population without creating too much sickness and need for hospital support, even more immunity is build up, hopefully vs. future variants, at least vs. serious illness

Last week: The economy

- **USA**
  - **Both housing starts and building permits** were higher than expected in December – and both are trending up. Given strong demand for housing, **existing home sales & prices** rose in Dec, while the **inventory** fell to all time low, new building could have been even stronger. However, labour and material shortages are hampering construction activity
  - **Housing affordability** is now hurt both by the 30% lift in prices since before the pandemic, and now by a rapid climb in mortgage rates (mostly due to higher mortgage backed bond margins vs. government bonds)
  - The **NY Fed manufacturing empire survey** collapsed in January, to below an average level, while the **Philadelphia Fed survey** rose slightly, and remained far above an average level (+0.9 st.dev)
  - **The 10 y gov. bond yield** reached 1.90% at Wednesday, before ending the week at 1.75, up 3 bps from last Friday. The **10 y real rate** rose further, to -0.59% (peaked at -0.50), while inflation expectations fell. Stock markets fell sharply. The problem is that even a real rate at minus 0.59% may be too low to stabilise the economy over time. In addition, growth expectations may be exposed too. <u>The gap between growth expectations and the real rate may narrow further – leaving risk markets in a very exposed position (BTW, German 10 y gov bond yield briefly turned positive at Wednesday, for the first time in almost 3 years</u>
- **EMU**
  - **Inflation** was confirmed at 5%, the core at 2.6%. Measured over 2 years a 2.4 and 1.4% is not that frightening?
  - **Consumer confidence** has so far kept up well, far better than (the average of surveys) in the US – and was unch in January
- **UK**
  - **Wage inflation** has slowed measured y/y but underlying growth recent months have accelerated, and is now above 4%, well below a normal British level. Unemployment is heading down, and the no. of vacancies is record high, by far
  - **CPI price inflation** accelerated further, and more than expected in December. Energy is the main culprit but many other sectors are contributing as well
- **Norway**
  - **Norges Bank** revised (informally) its growth and inflation outlook upwards, and repeated that a March hike is very likely. Anybody surprised?
  - **SSB's manufacturing survey** fell marginally in Q4, and it is still signalling rapid growth in production, normally consistent with growth in Mainland GDP above par, and in corporate earnings. However, lack of inputs and labour became an even larger challenge in Q4
  - **Weekly unemployment** data confirm that ordinary unemployment rose marginally in December, while total unemployment, including part time unemployed, fell further. No Omicron crisis at the labour market
  - **Housing starts** are trending marginally down, while other construction ended 2021 at a remarkable strong note
  - **The trade surplus** was huge in December, due to gas exports. Both were probably at ATH (the eternal future included)

Time	Count.	Indicator	Period	Forecast	Prior
Monday Jan 24					
09:15	FR	Manufacturing PMI	Jan P	55.3	55.6
09:15	FR	Services PMI	Jan P	55.3	57.0
09:30	GE	Manufacturing PMI	Jan P	57.0	57.4
09:30	GE	Services PMI	Jan P	48.0	48.7
10:00	**EU**	**Manufacturing PMI**	**Jan P**	**57.5**	**58.0**
10:00	**EU**	**Services PMI**	**Jan P**	**52.0**	**53.1**
10:00	**EU**	**Composite PMI**	**Jan P**	**52.6**	**53.3**
10:30	UK	Manufacturing PMI	Jan P	57.6	57.9
10:30	UK	Services PMI	Jan P	54.0	53.6
15:45	**US**	**Manufacturing PMI**	**Jan P**	**56.8**	**57.7**
15:45	US	Services PMI	Jan P	54.8	57.6
Tuesday Jan 25					
10:00	GE	IFO Expectations	Jan	92.9	92.6
15:00	US	S&P House prices 20-City YoY	Nov	18.2%	18.4%
16:00	US	Conf. Board Consumer Confid.	Jan	112	115.8
Wednesday Jan 26					
06:00	SW	Valueguard HOX House prices	Dec		
14:30	US	Advance Goods Trade Balance	Dec	-$96.0b	-$97.8b
16:00	US	New Home Sales	Dec	765k	744k
20:00	**US**	**FOMC Rate Decision, press conf.**	**Jan-26**	**0.25%**	**0.25%**
Thursday Jan 27					
08:00	NO	LFS (AKU) Unemployment Rate	Nov	3.6%(3.5)	3.6%
08:00	**NO**	**Employees, regsister based**	**Dec**		
14:30	US	Initial Jobless Claims	Jan-22	258k	286k
14:30	US	Durable Goods Orders	Dec P	-0.5%	2.6%
14:30	US	Cap Goods Orders Nondef Ex Air	Dec P	0.2%	0.0%
14:30	**US**	**GDP Annualized QoQ**	**4Q A**	**5.3%**	**2.3%**
Friday Jan 28					
07:30	FR	GDP QoQ	4Q P	0.5%	3.0%
08:00	SW	Unemployment Rate SA	Dec	8.2%	8.3%
08:00	SW	Retail Sales MoM	Dec		0.9%
08:00	SW	GDP Indicator SA QoQ	4Q	1.1%	1.8%
08:00	**NO**	**Retail Sales W/Auto Fuel MoM**	**Dec**	**-0.3% (-1)**	**0.9%**
08:00	NO	Hotel guest nights	Dec		
09:00	SW	Economic Tendency Survey	Jan		117.1
10:00	GE	GDP SA QoQ	4Q P	-0.2%	1.7%
10:00	EU	M3 & credit	Dec		
10:00	**NO**	**NAV Unemployment Rate**	**Jan**	**2.7%(2.6)**	**2.2%**
11:00	EU	Economic Confidence	Jan	114.5	115.3
14:30	**US**	**Employment Cost Index**	**4Q**	**1.2%**	**1.3%**
14:30	US	Personal Income	Dec	0.5%	0.4%
14:30	US	Personal Spending	Dec	-0.5%	0.6%
14:30	**US**	**PCE Core Deflator MoM**	**Dec**	**0.5%**	**0.5%**
16:00	US	U. of Mich. Sentiment	Jan F	68.8	68.8
Sunday Jan 30					
02:30	CN	Manufacturing PMI	Jan	49.7	50.3
02:30	CN	Non-manufacturing PMI	Jan	49.8	52.7
Monday Jan 24					
00:50	JN	Retail Sales MoM	Dec	1.7%	1.2%
00:50	JN	Industrial Production MoM	Dec P	4.8%	7.0%

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The Calendar: Jan PMIs, FOMC, US ECI & GDP, Norw. unempl.

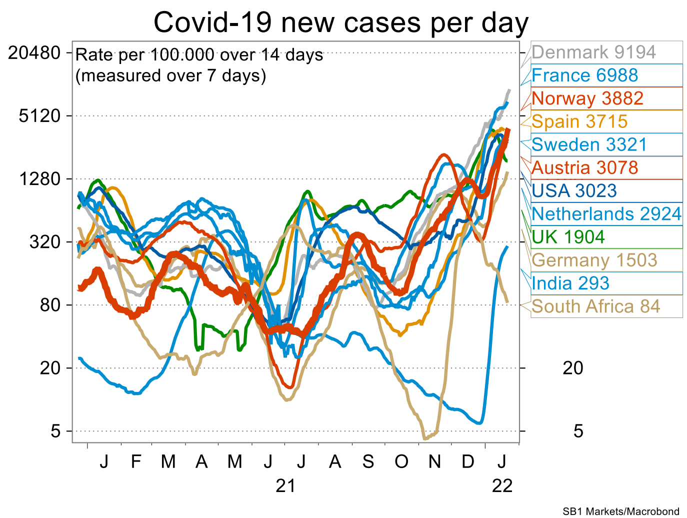
- **January preliminary PMIs**
  - In the **EMU**, the PMIs are expected further down, and by the most in the service sector due to the Omicron wave but are expected to remain well above the 50-line, except the services PMI in Germany. In the **USA** the PMI is expected more down but to remain at a higher level in the service sector than in the EMU (but below EMU in the manufacturing sector)
- **USA**
  - **The Employment Cost Index** is expected up 1.2% q/q (4.8% annual rate) in Q3, down from the 1.3% 'chock' in Q3 but still above a level which is consistent with 2% price inflation over time. Wage inflation will probably be the most important factor in the US economy & markets the coming months
  - **Fed's FOMC** will very likely not decide to start hiking now, but rather signal that a March hike is very likely. The bank could/should have started right away but Powell & co probably do not like to upset markets, especially after the recent setback. However, the wording in the press release, and the comments by Powell at the presser, will not be dovish (even if Powell clearly has been at the soft side vs the FOMC recently, witnessing the impact minutes from the meetings have had on markets). Some QT (reduction of the holding of bonds) remarks could be dropped but the FMOC will probably wait until March
  - **GDP** is expected up at a 5.3% pace in Q4 (1.3% not annualised), well below forecasts some weeks ago but far above the 2.3% growth rate recorded in Q3 – and of course a decent growth number
  - A lot of other important data points: Durable orders, house prices, new home sales
- **Norway**
  - **The NAV unemployment** rate will inch up in January, both for real (to 2.4% from 2.3%, seasonally adjusted), and due to the season (unadjusted 2.6% vs 2.2%, consensus 2.7%). NoBa expected a Jan seas.adj. rate at 3.0% in the Dec MPR (up from a 2.5% Dec forecast, vs. a 2.3% outcome). In addition, total unemployment, including part time unemployed very likely fell further to January from December! Thus, the fight against Omicron has so far not hurt the economy by much (expect for draining the budget once more). We expect a small tick down in the **LFS (AKU) unemployment** rate in November, and we assume that the **no. of employees** was flat in December
  - **Retail sales** probably fell slightly in December

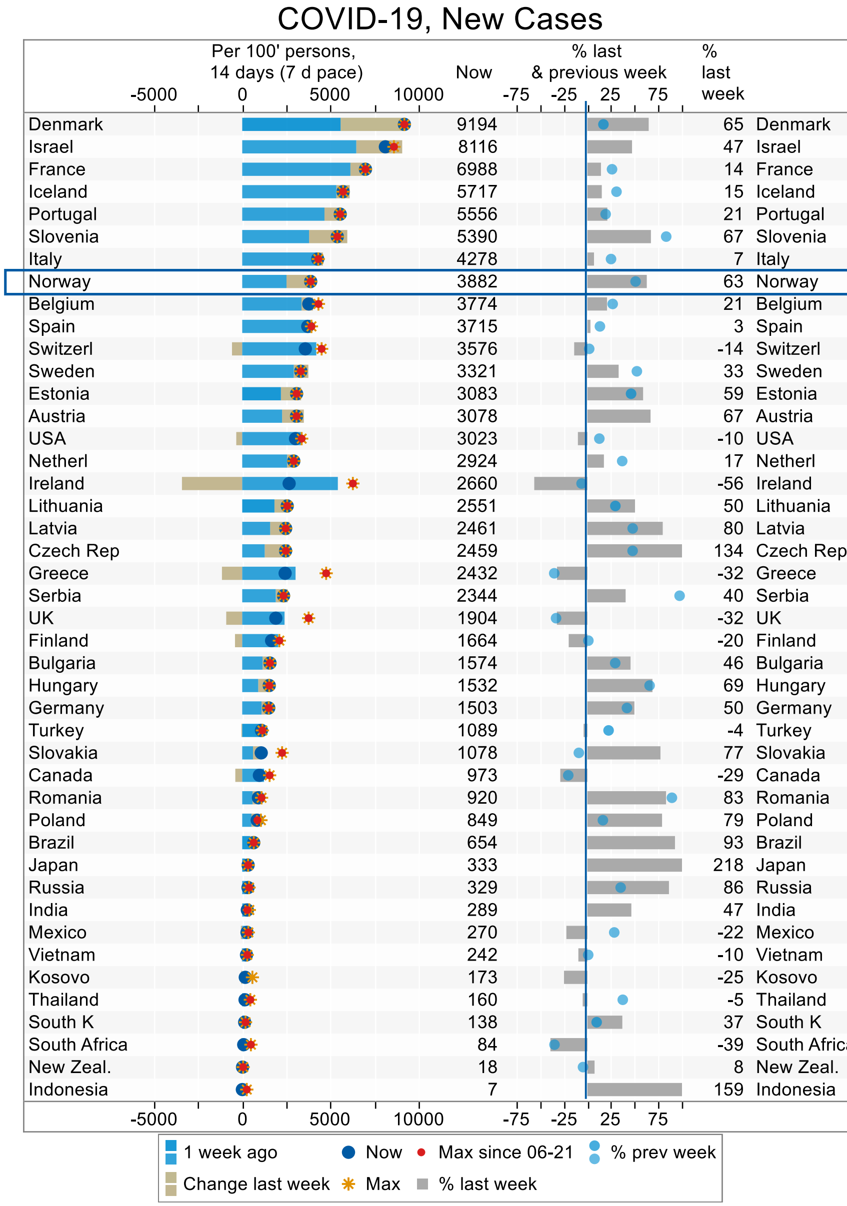
Sources: Bloomberg. SB1M est. in brackets. Key data are highlighted, **the most important in bold**

Last week: Most countries are reporting more cases

In Denmark 4.5% tested positive last week

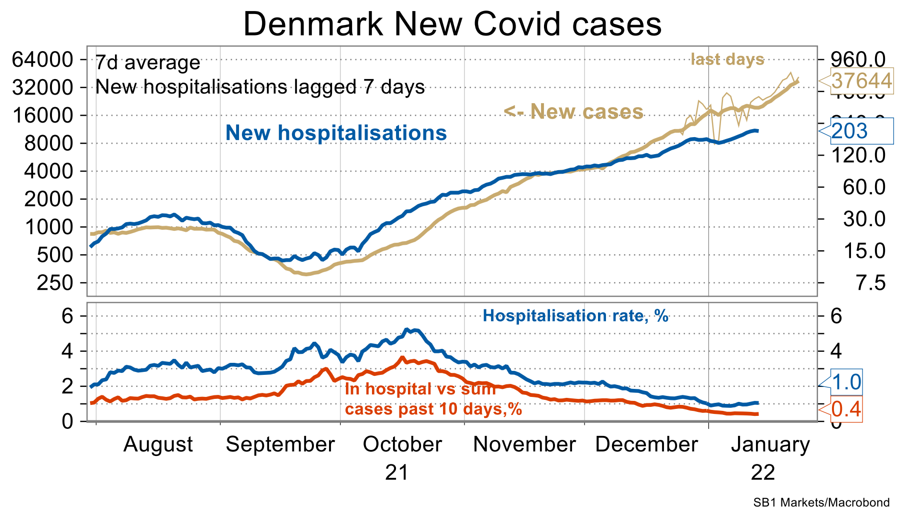
- … and no doubt there are many hidden cases
- In Demark, 1% are hospitalised but they stay at hospital just some 4 days and do not need ICU care. Many patients are is hospital with Covid, rather due to Covid. The hospital system is not stretched at all
- The no. of cases has fallen by 50% in UK, and the number of hospitalised persons and even more ICU patients are falling
- It remains to be seen if Emerging markets can repeat the trick
- China might be in the least favourable position. No immunity is build up through previous infections, and their vaccine is far from perfect. The zero tolerance policy is probably not possible, given the super-high R for the Omicron variant

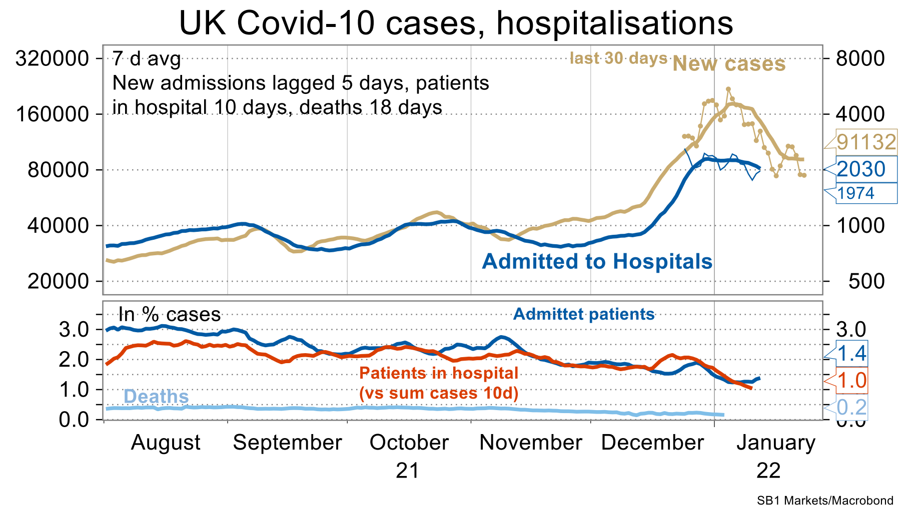


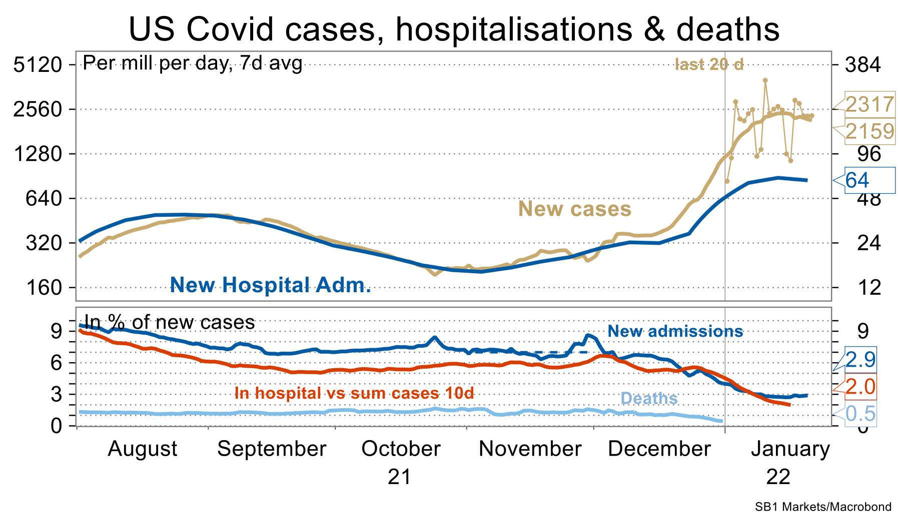


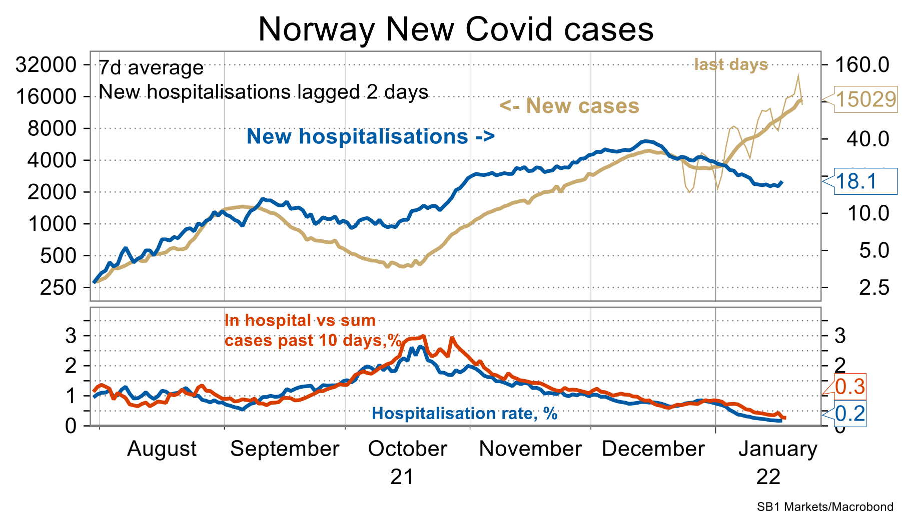
Denmark, Norway are reporting strong growth in new cases, a new variant around

However, so far no serious problems at hospitals (see next page). Cases are flattening i US, -50% in UK









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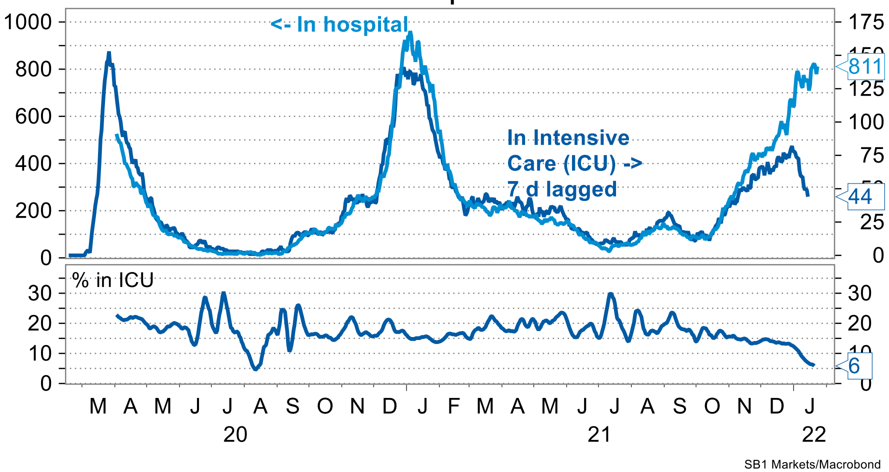
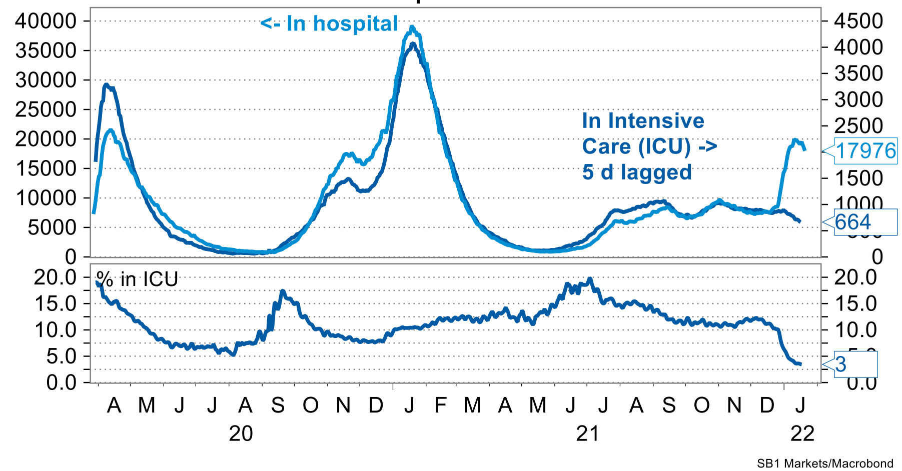
US hospitals are not over the hill, but IN Denmark, UK and Norway they are

The capacity is stretched in US, also for intesive care. But North European data are very encouraging

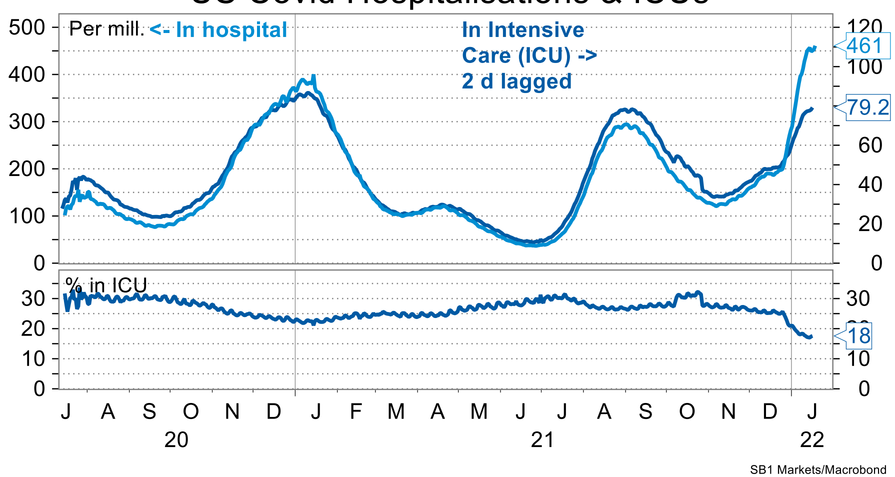
Denmark Covid Hospitalisations & ICUs



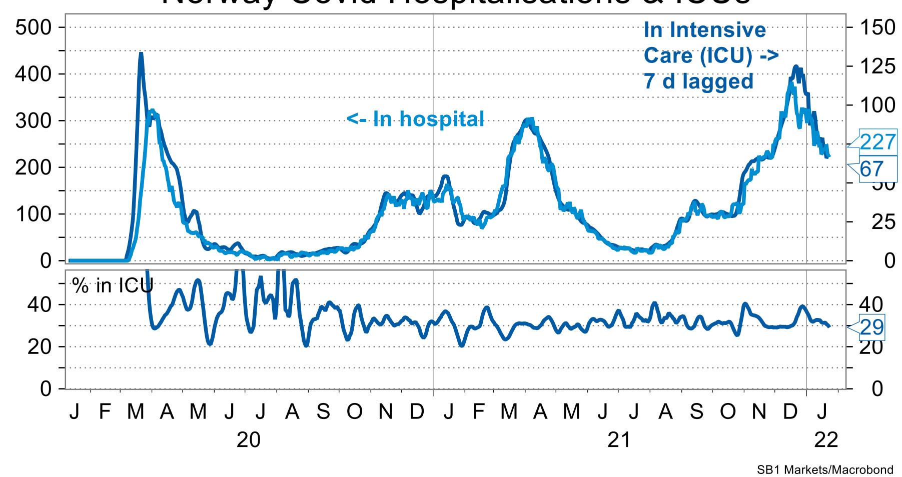
UK Covid Hospitalisations & ICUs



US Covid Hospitalisations & ICUs

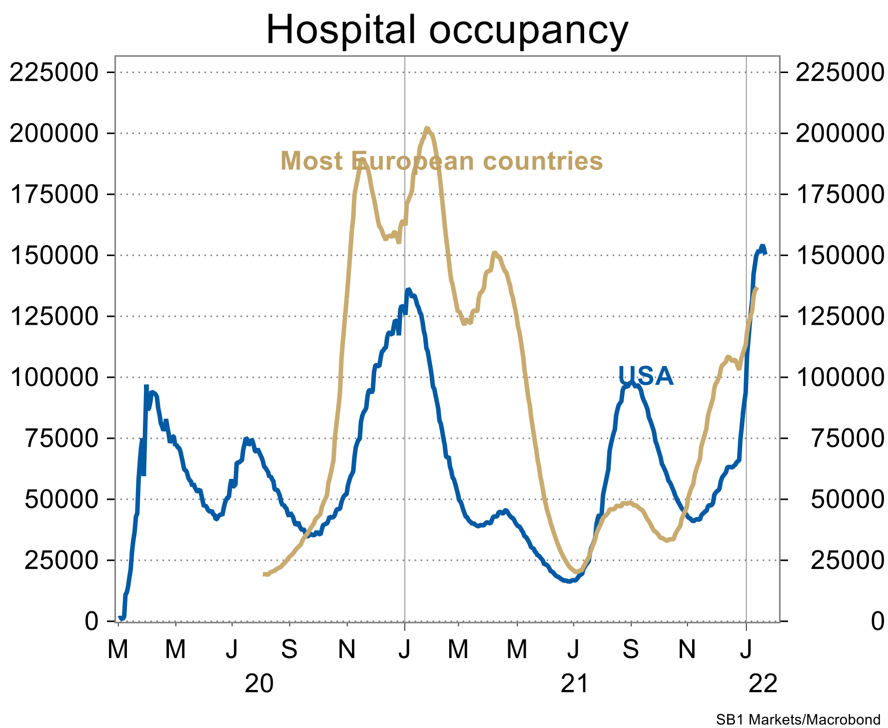


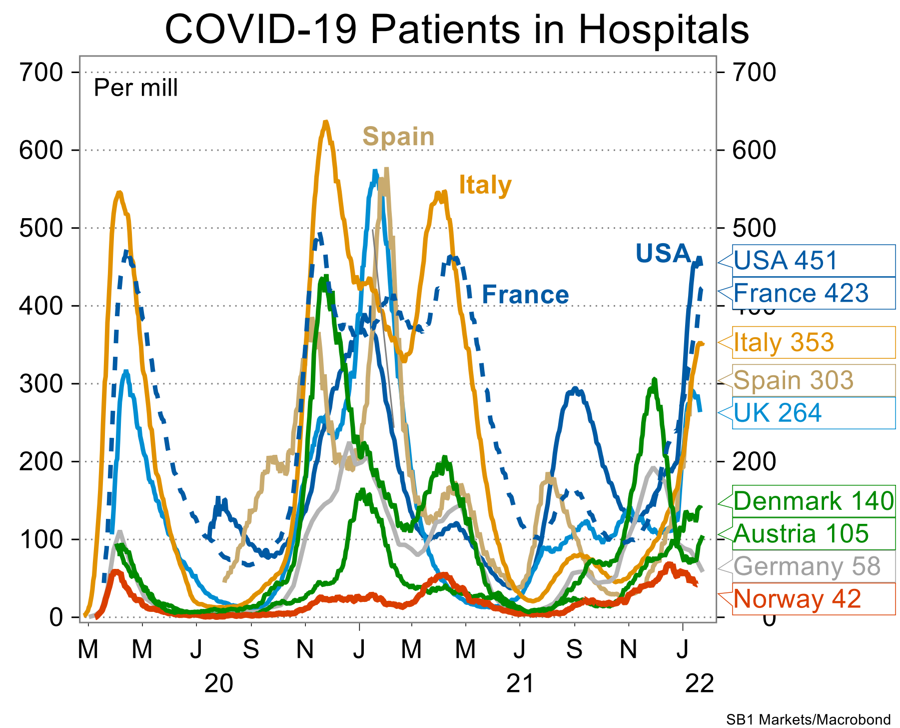
Norway Covid Hospitalisations & ICUs



More hospitalisation than ever before in the US (due to or with Covid)

Europe is still on the way up, Italy in the lead

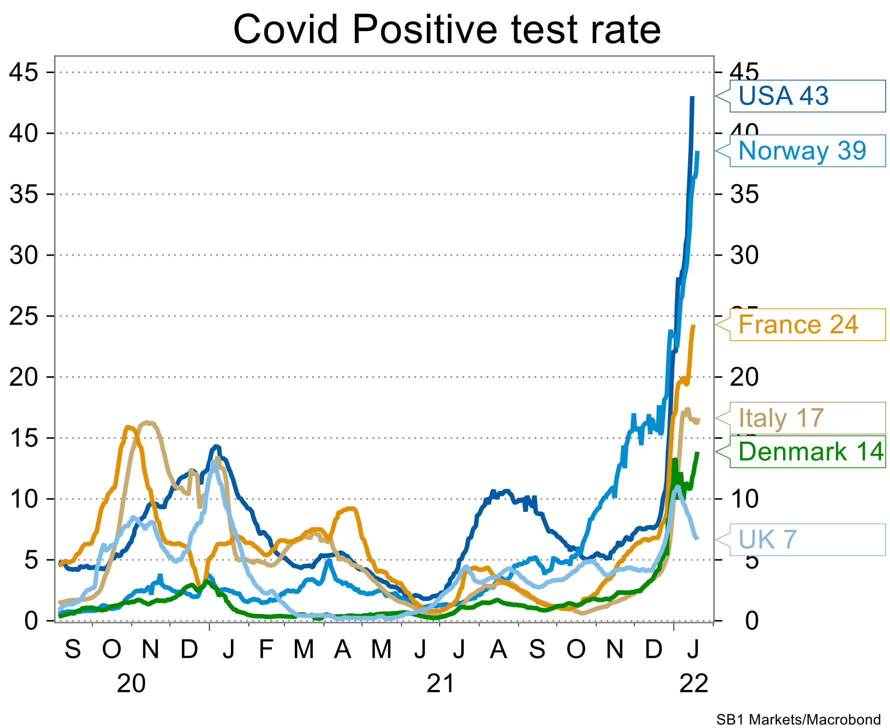




- Norway has still a very low number of hospitalised patients, and few in ICU beds – and the number of patients is declining

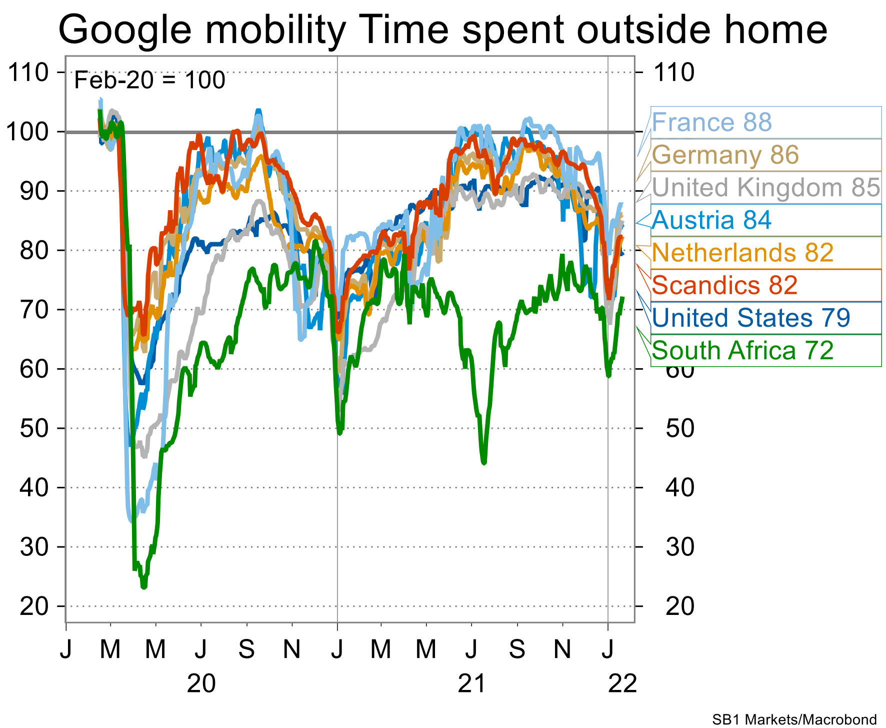
Some positivity rates are really high

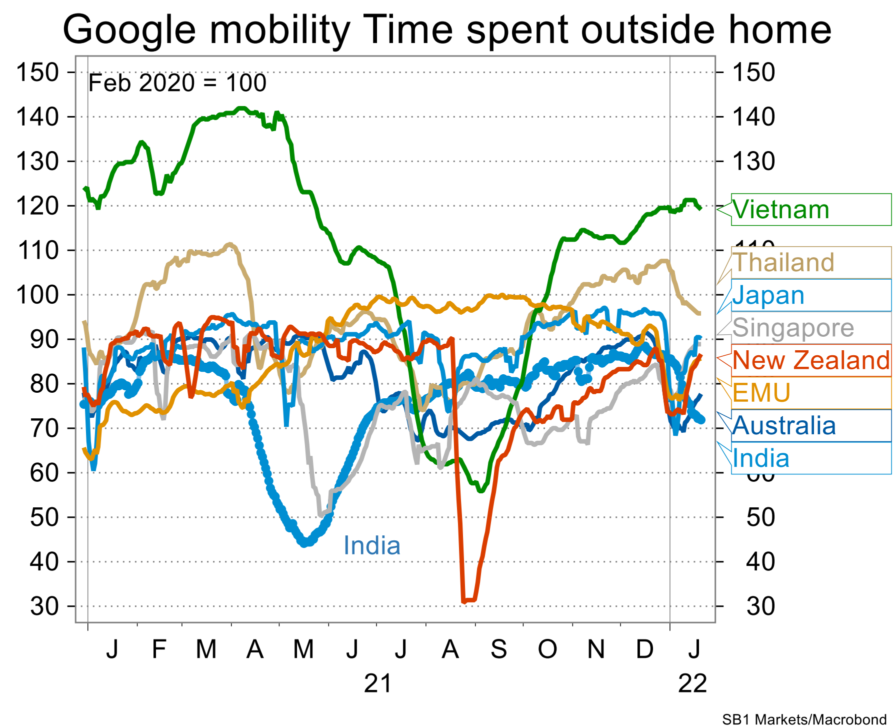
There are different explanations – and no clear conclusions vs. hidden infections



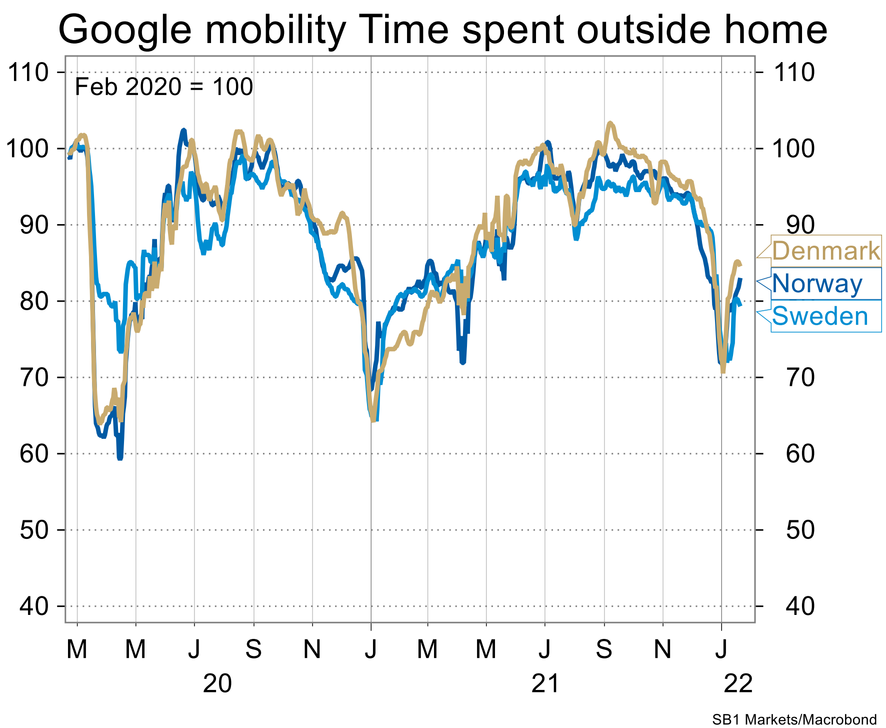
- However, if the no. of cases is falling sharply, like in the UK, a declining positivity rate is very encouraging!

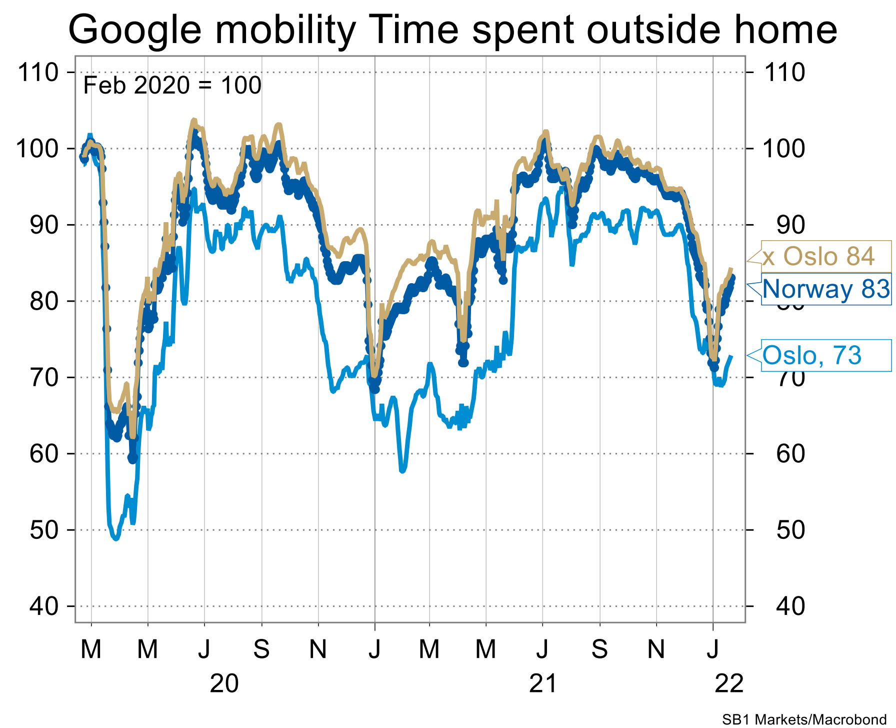
Mobility on the way up in the West, some challenges in the East?





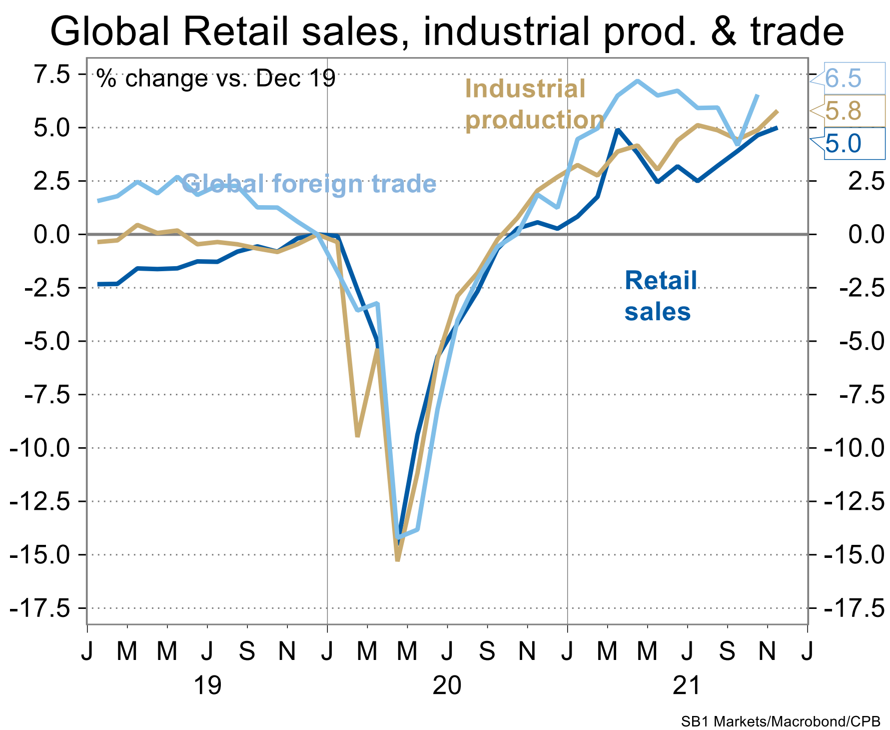
Less fear for Omicron in the Scandics as well – and some restrictions are eased

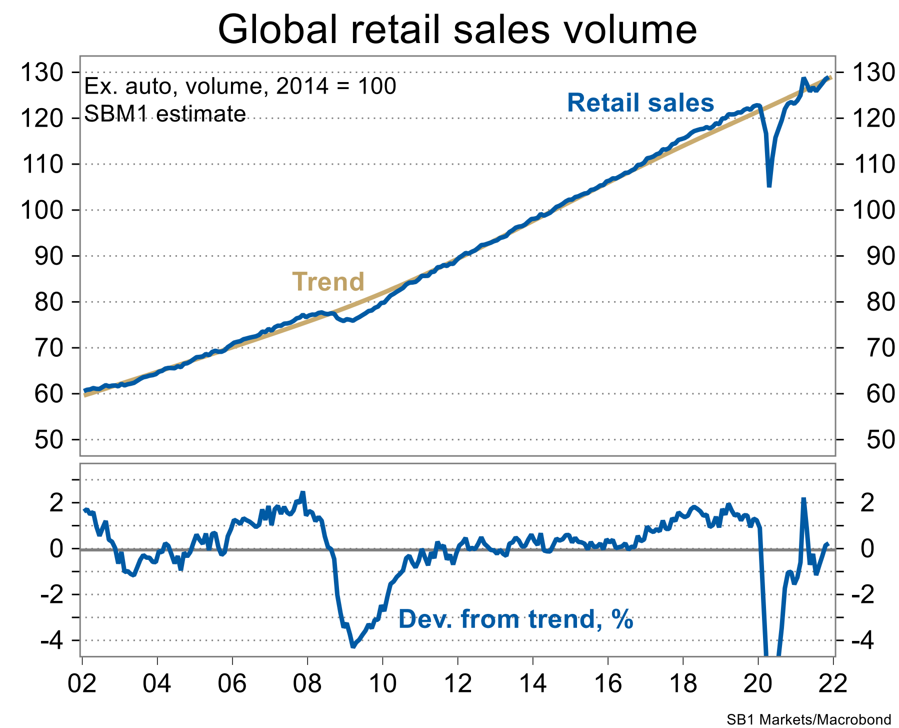




Global retail, industrial production has strengthened recent months

Global trade has flattened

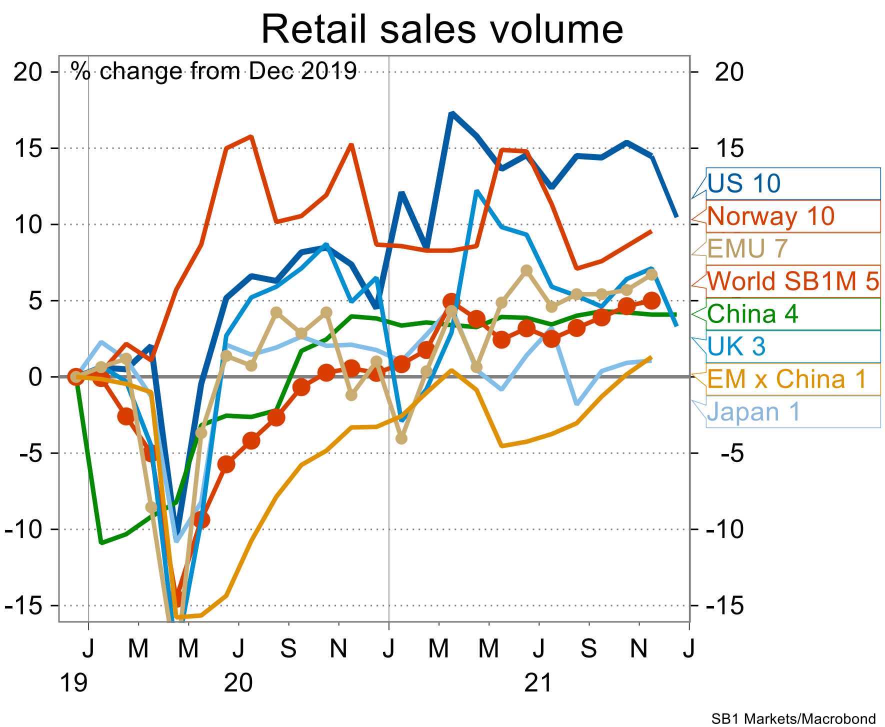


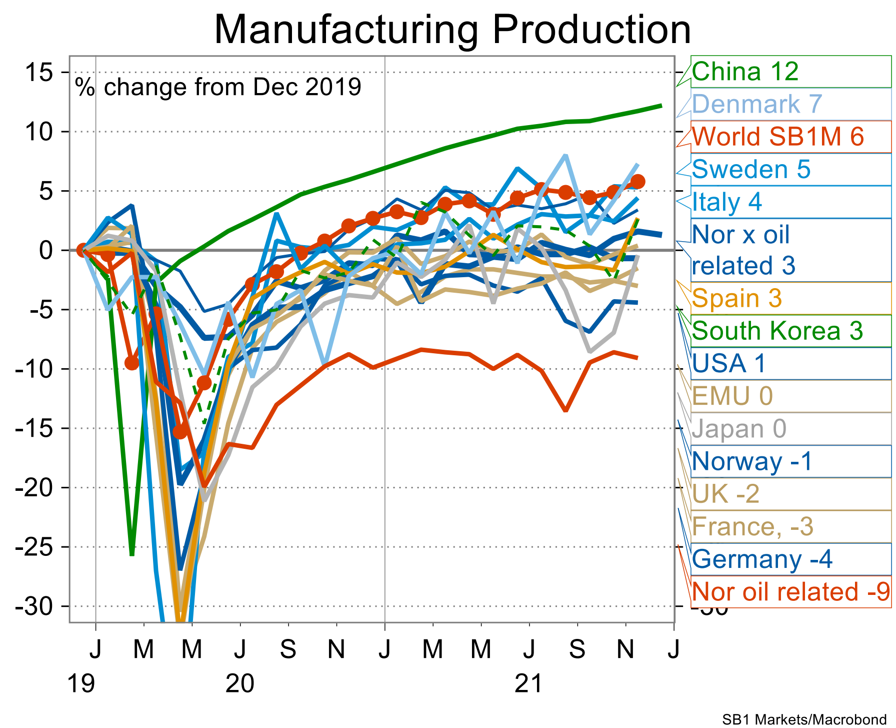


- **Global retail sales** rose at slower pace November, with slow/no growth. China & US on the downside, EMU surprised at the upside. Global sales (mostly excluding autos) are 5% above the pre-pandemic level
- **Global manufacturing production** has recovered since the summer, and growth was strong in both October and November – the latter due to 6 – 7% growth in both South Korea and Japan. Production is up 6% from Dec-19
- **Global foreign trade** rose sharply in October, following the setback in September (and several weak months since last May)

DM demand for consumer goods have peaked, EMs are recovering from a low lev.

The upside potential is large for Emerging Markets x China, and the recovery has started

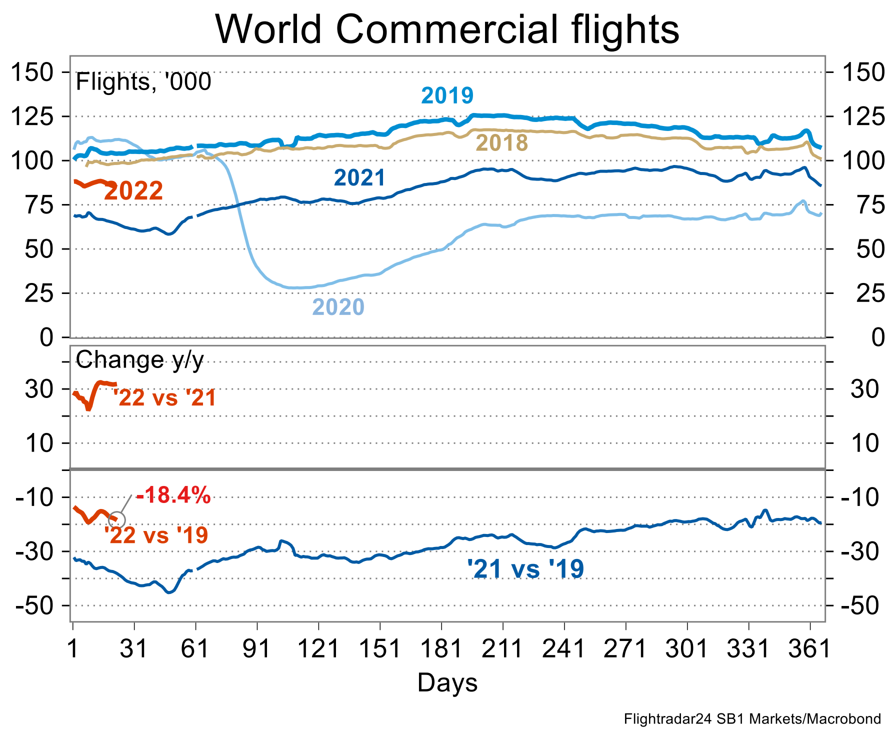


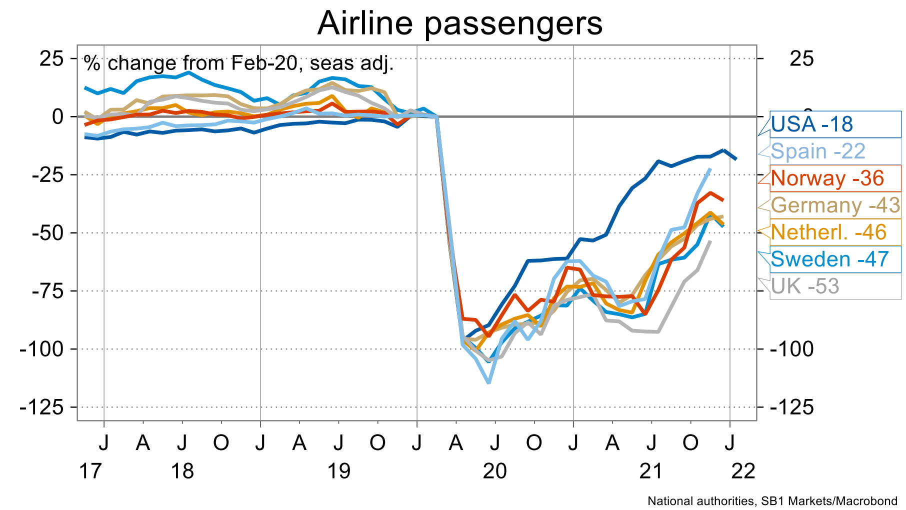


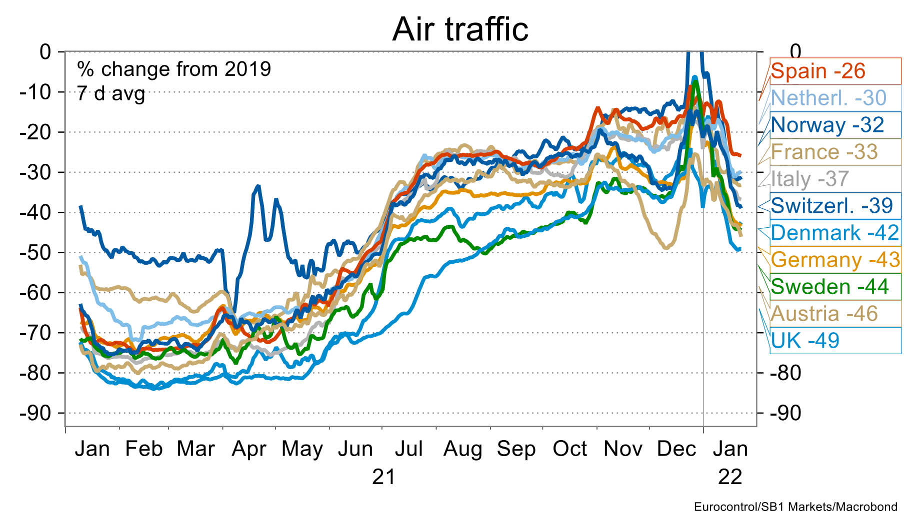
- **Retail sales** in Emerging Markets x China are recovering but is far below pre-pandemic trends
- **US retail demand is** fell sharply in December, however mostly due to another weak December for internet sales. A recovery in January? Still, the trend is flat, at the best – and the level too high
- **Manufacturing production** has been hampered by a deep decline in auto production, but this sector is now recovering. The manufacturing PMIs are still strong, and delivery times very likely easing

Global airline traffic down 18% vs the 2019 level (from -15 last week)

Omicron has not – at least not yet – killed global airline traffic. Some weakness in Europe though



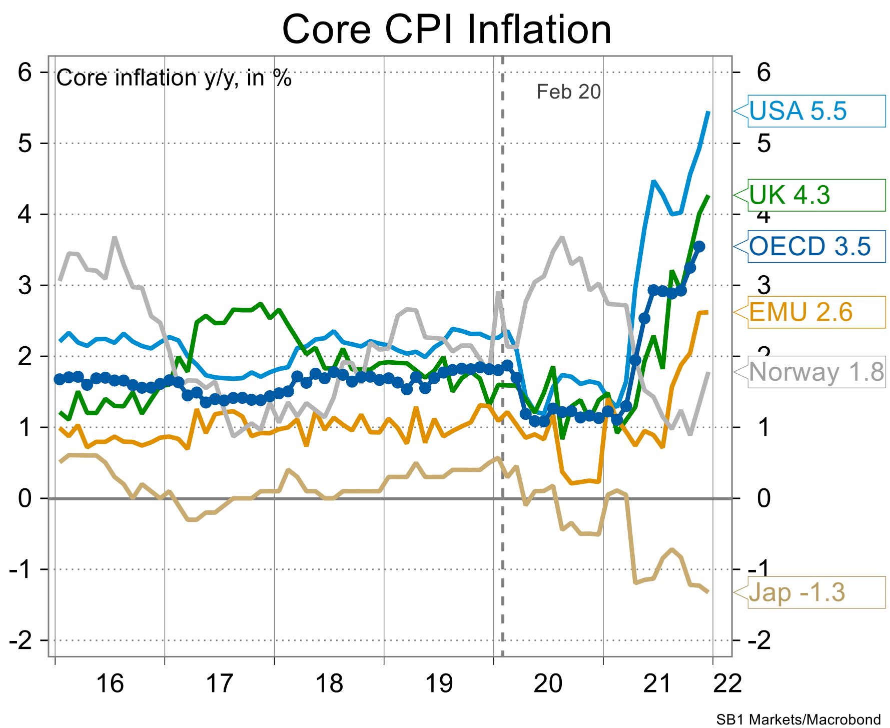


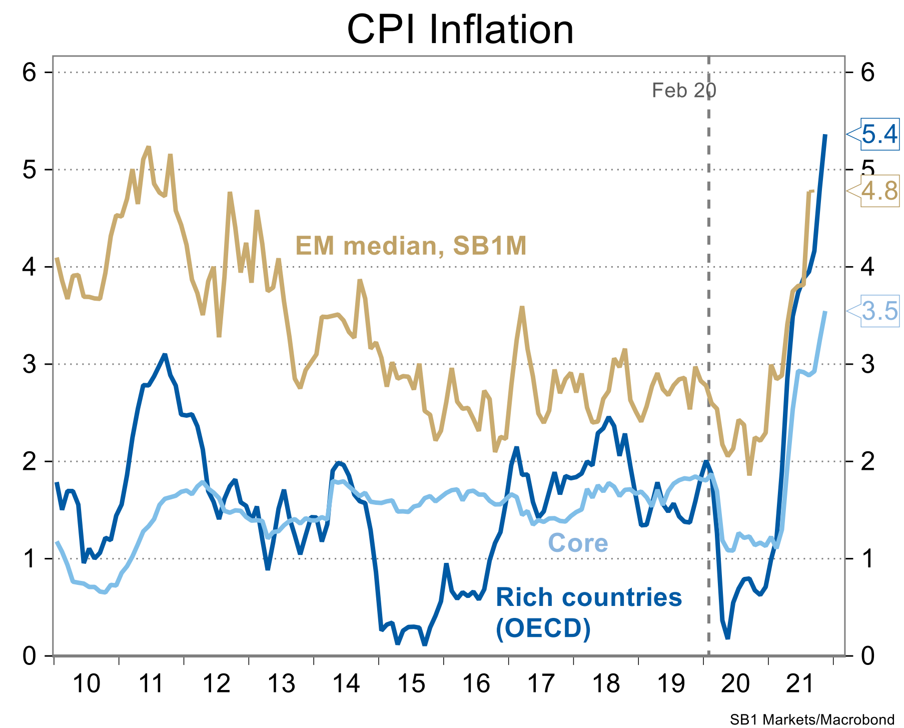


- Until November, strong growth in no. of passengers in Europe, and the gap vs the US was reduced
- The fight against the Delta reduced aircraft movements in Europe somewhat, and the Omicron may create more havoc for a while

Inflation may be peaking ~~now~~ soon – at a high level

Energy prices the main culprit, but core inflation has turned up more places





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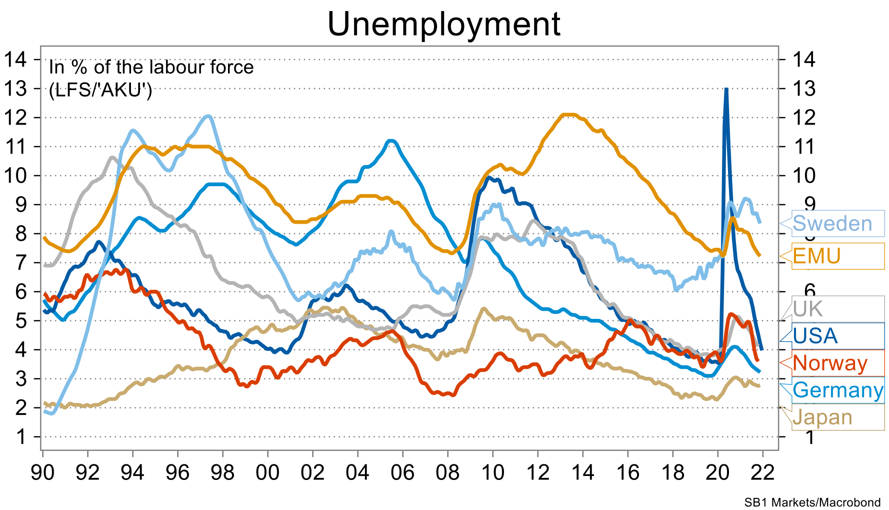
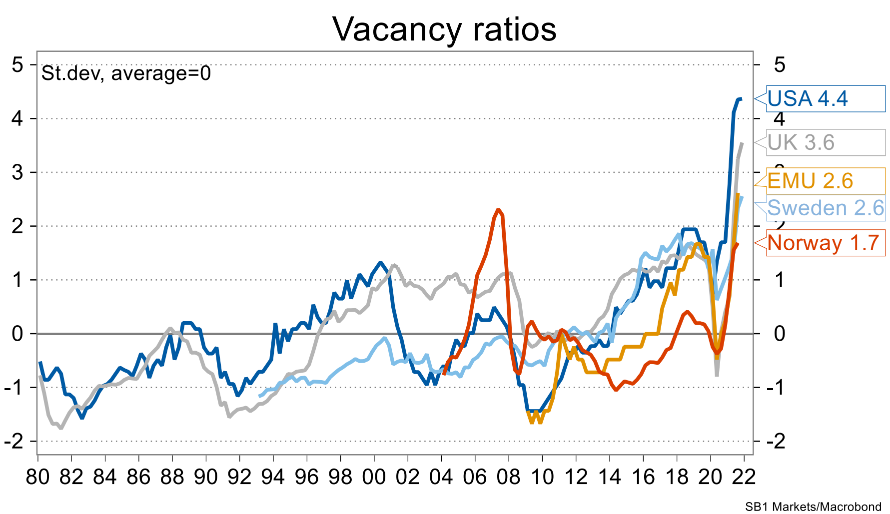
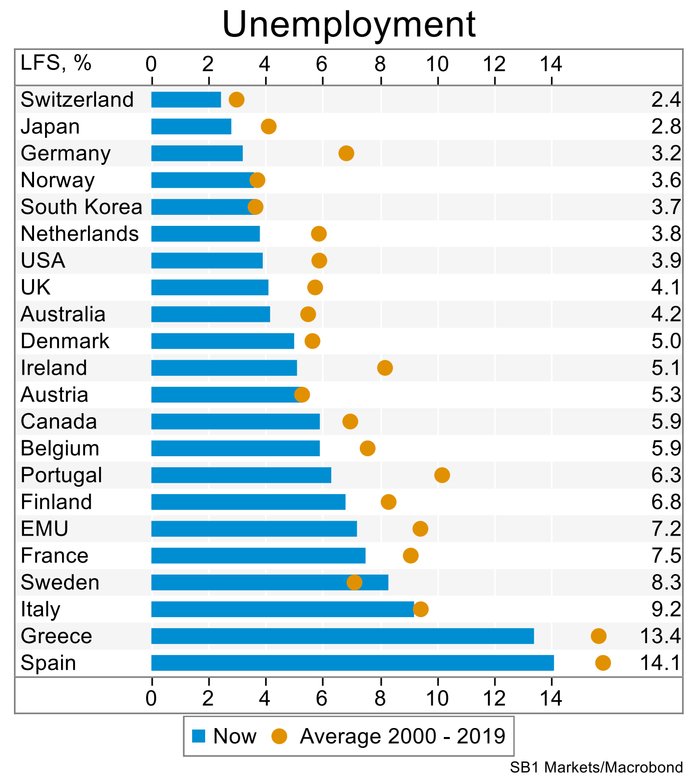
Unemployment on the way down everywhere, as unfilled vacancies soar

Unemployment higher than normal in just 1 of 22 countries, in Sweden



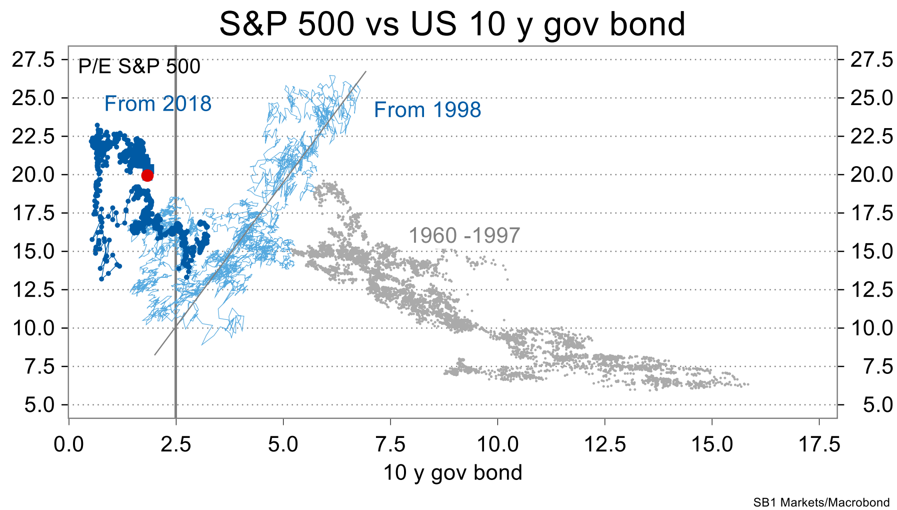


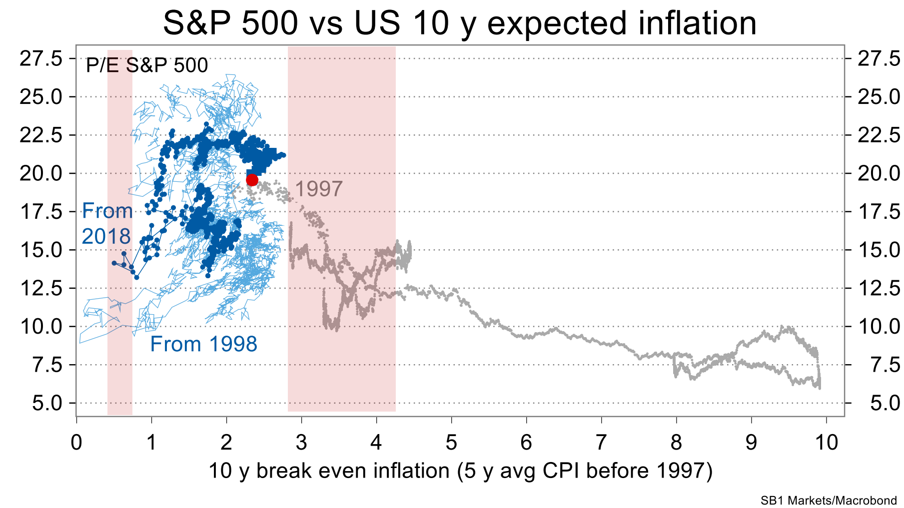


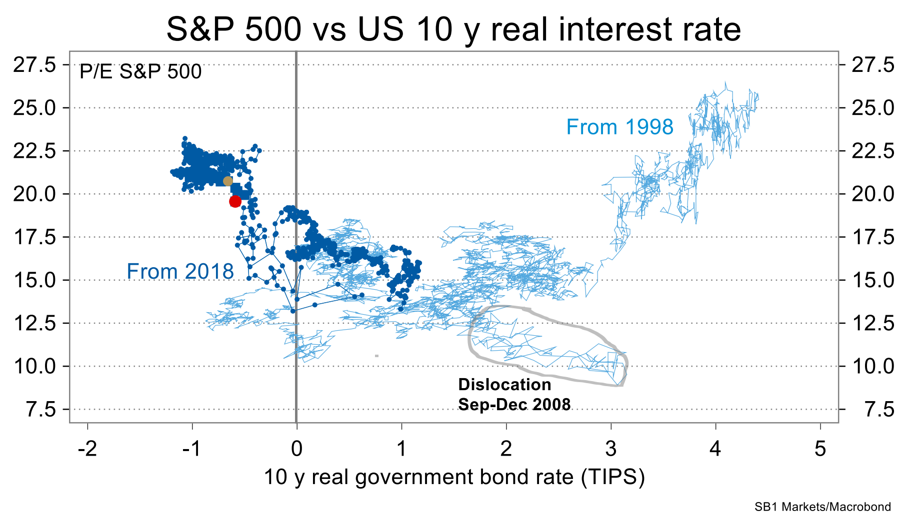
- At the same time, **vacancy rates** are record high or among the highest ever 'everywhere' – Sweden included

Bonds vs. equities: What's next?

Are we leaving the Goldilocks corner for the real (and much tougher) world?

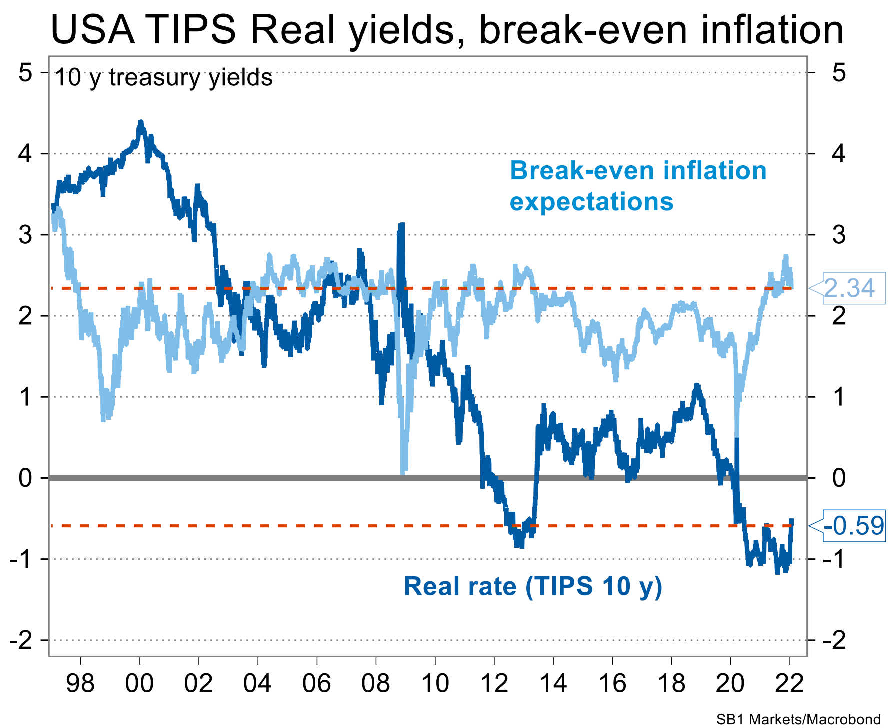


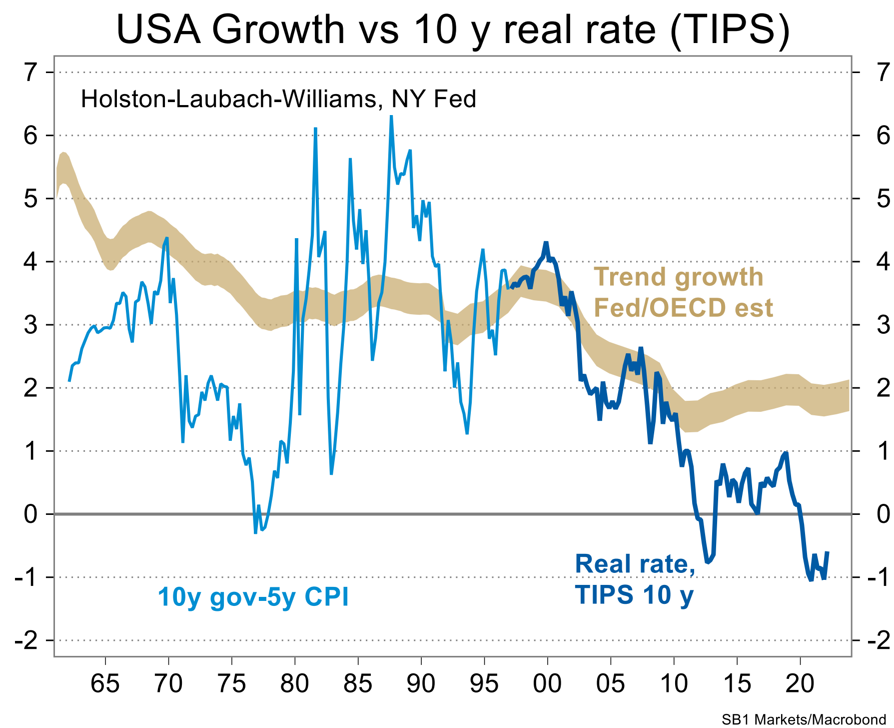




- **Expected inflation**
  - » ***If its not too low or too high: No problem***
    - 'Real' expected earnings are unaffected, higher inflation implies stronger growth in earnings, and vice versa
  - » ***If its too low or too high: A problem***
    - Something is rotten: Deflation or far too high inflation. The economy is not stable. Risk are increasing, earnings are exposed
- **Expected long term real interest rates**
  - » ***Low real rates normally not good news, high rates were OK***
    - Real rates were low when the economy was weak, the outlook uncertain
    - High real rates when the economy was booming, with high P/Es
  - » **Since 2018:** real rates have been low (and falling sharply) even if the economic outlook has been OK
    - Central banks wanted to lift growth, inflation was anyway not a problem – we entered the 'Goldilocks' corner'
    - The RISK now: Very low real rates may not stabilise the economy, and inflation has become too high
    - . WHERE IS THE WAY OUT?? Higher real rates, lower growth expectations and lower multiples?

What if the gap between growth expectations and the real rate narrows further?

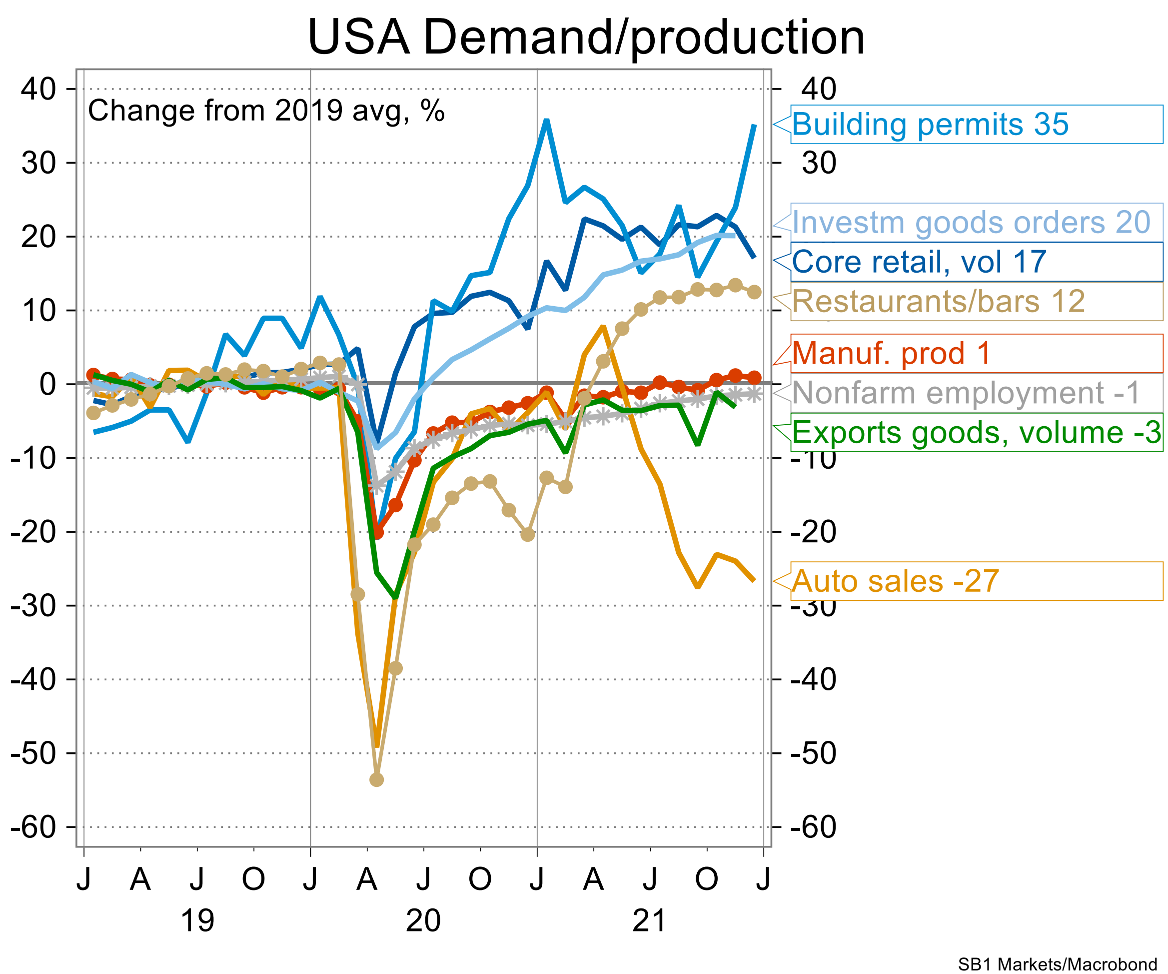




- Something is happening: The 10 y real TIPS rate is on the way up, now by 60 bps from the ATH last year

Big picture: Growth is slowing as the economy as 'normalised'

The upside now: Auto production & exports



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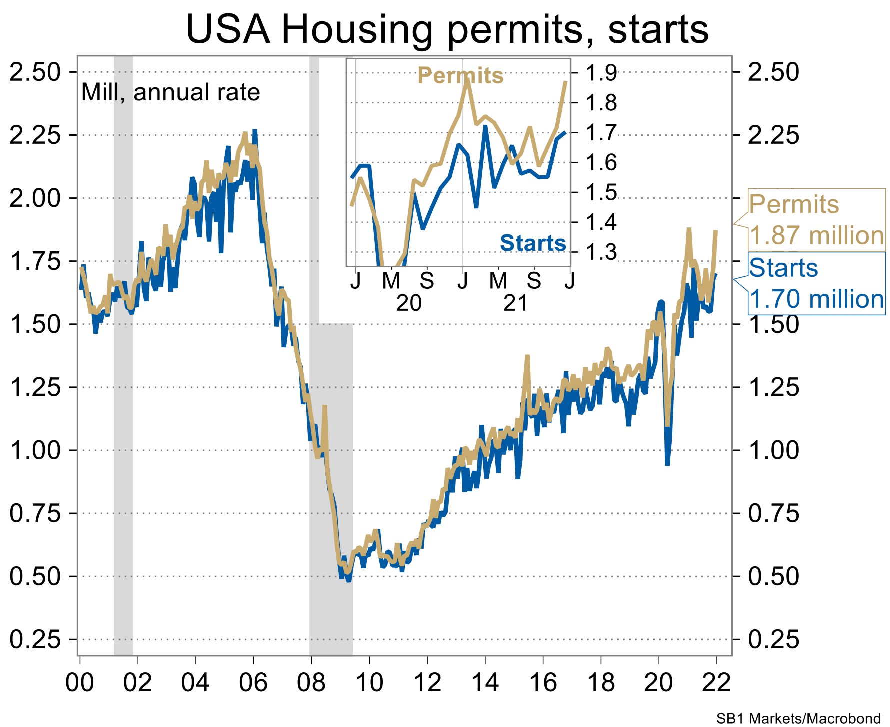
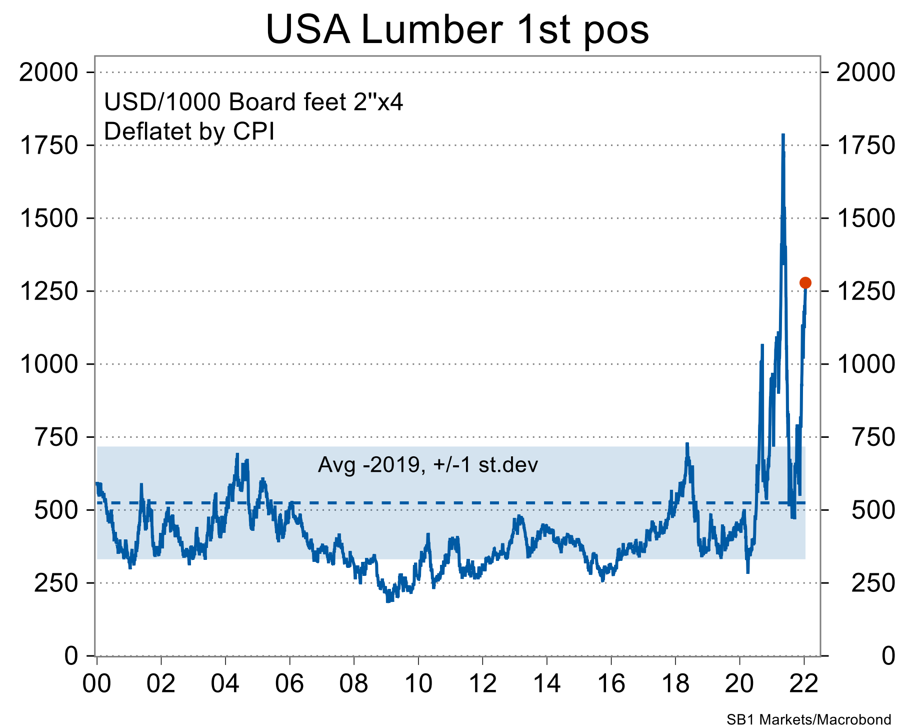
Housing starts, and even more building permits up again (as are lumber prices)

Starts lower than the strong 2nd hand market normally would imply

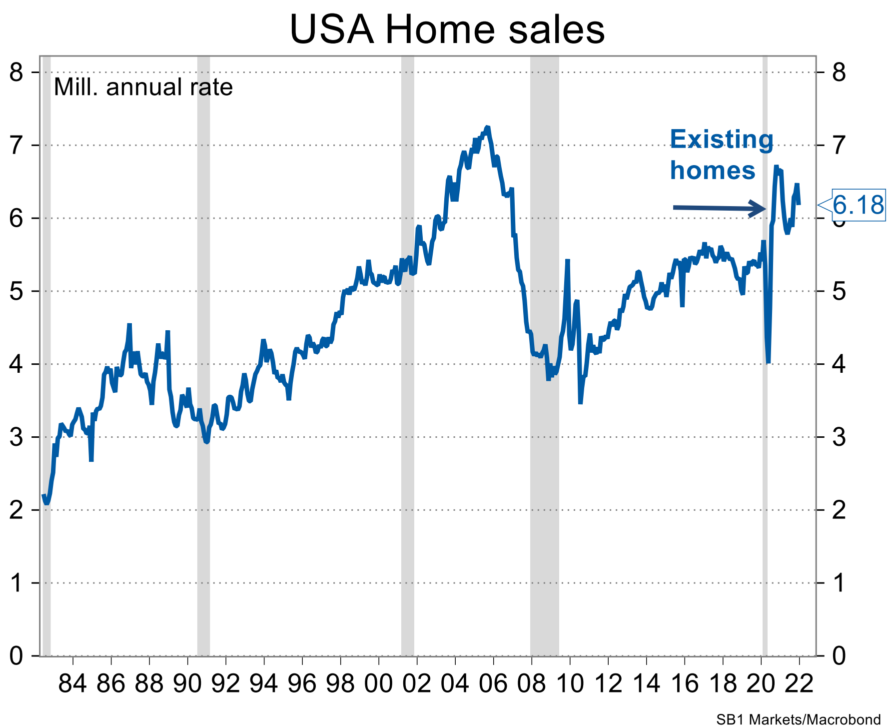


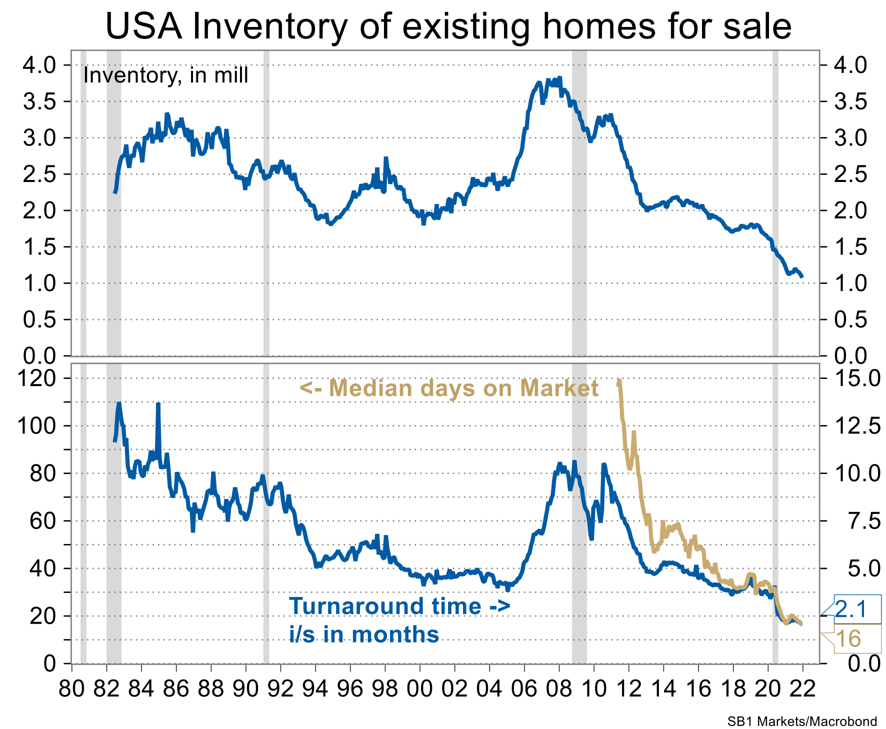


- **Housing starts** rose to 1.70 mill in Dec, from 1.68 mill in Nov, expected down to 1.65 mill. Starts have been more or less flat through 2021 but Nov & Dec was the 2nd & 3rd best months!
- **Building permits** rose to 1.87 mill, up from 1.71 in Nov, expected slightly down. The Dec print is the 2. best since 2006
- **Given the strong end of the year, the trend is still slightly up.** The level is some 10 – 15% above the pre-pandemic level. However, given the incredible strong existing home market, and soaring prices, starts should normally have strengthened further, amid still very low mortgage rates and a recovering economy
- **Supply & capacity problems and higher cost** in the building sector may explain the lack of response. Lumber (2''x4) prices have shot up recent weeks

Existing home sales down in December, the inventory at ATL

Prices inflation has slowed but remains at 15.7% y/y

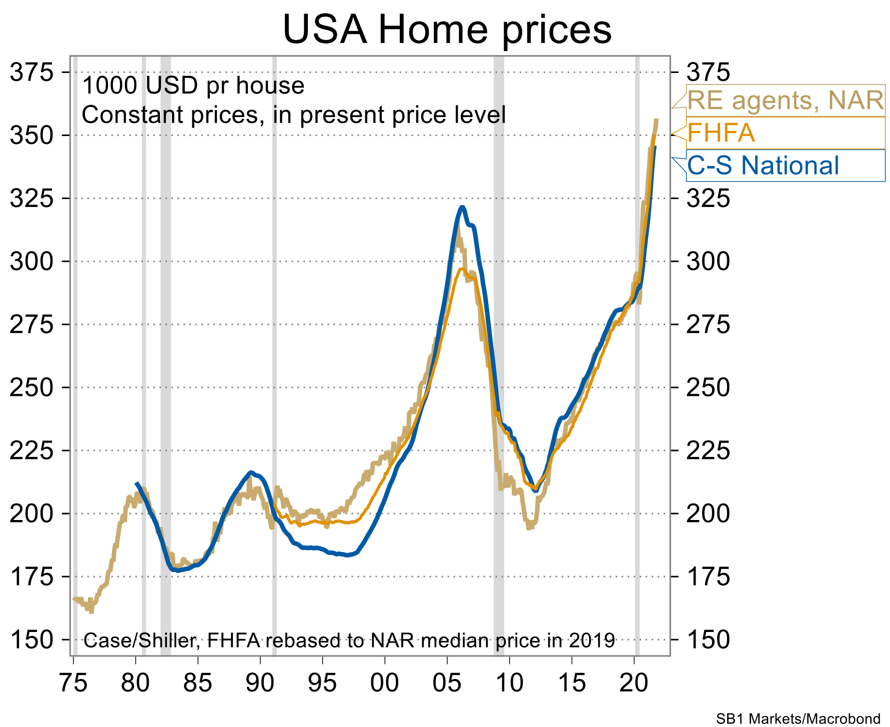


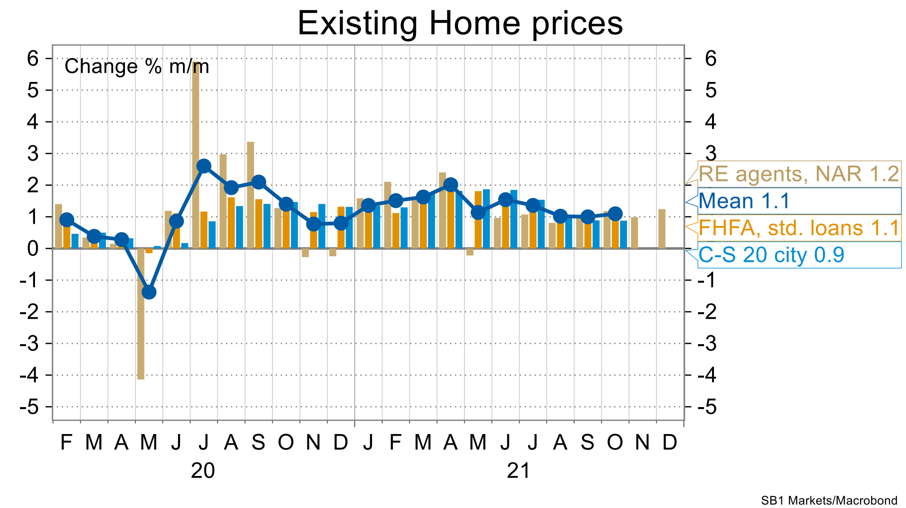


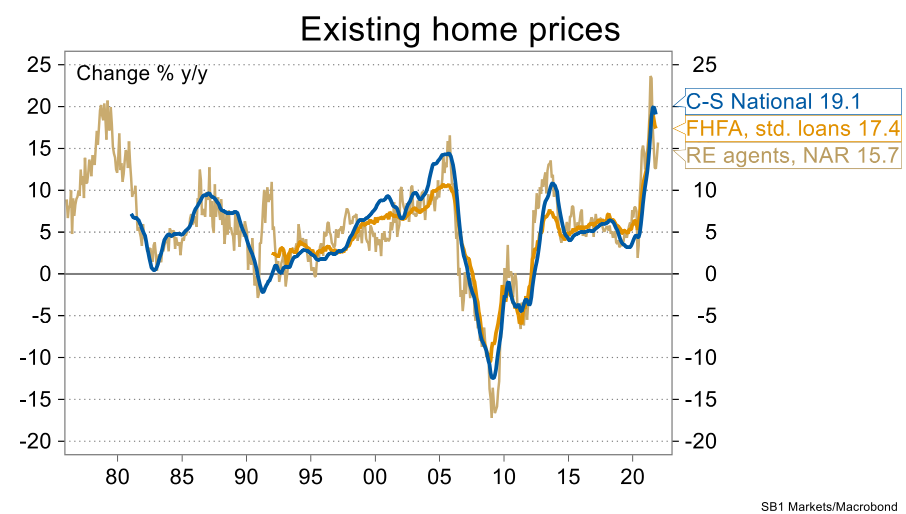
- Sales of **existing homes** fell marginally to 6.18 mill (ann. rate) in December, from 6.48'', expected down to 6.41''. Sales are down 8% from the local peak in late 2020, but are 15% above the pre-pandemic level – and not that far below the ATH level at 7.26 mill in Sept 2005
- **The inventory of unsold homes** fell further in Dec, to another ATL. The inventory equals 2.1 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months. The median time on the market for those homes sold is just 16 days, down from 30 days before the pandemic (and 120 days in 2011!)
  - » The low inventory level is very likely hampering sales
- **Prices** rose 1.2% m/m in Dec, up from 1.0% in Nov. The annual rate accelerated almost 1.7 pp to 15.7%. At the peak, prices were up 23% y/y

Existing home prices still on the way up but not faster

Prices rose 1.2% m/m, higher than the average recent months



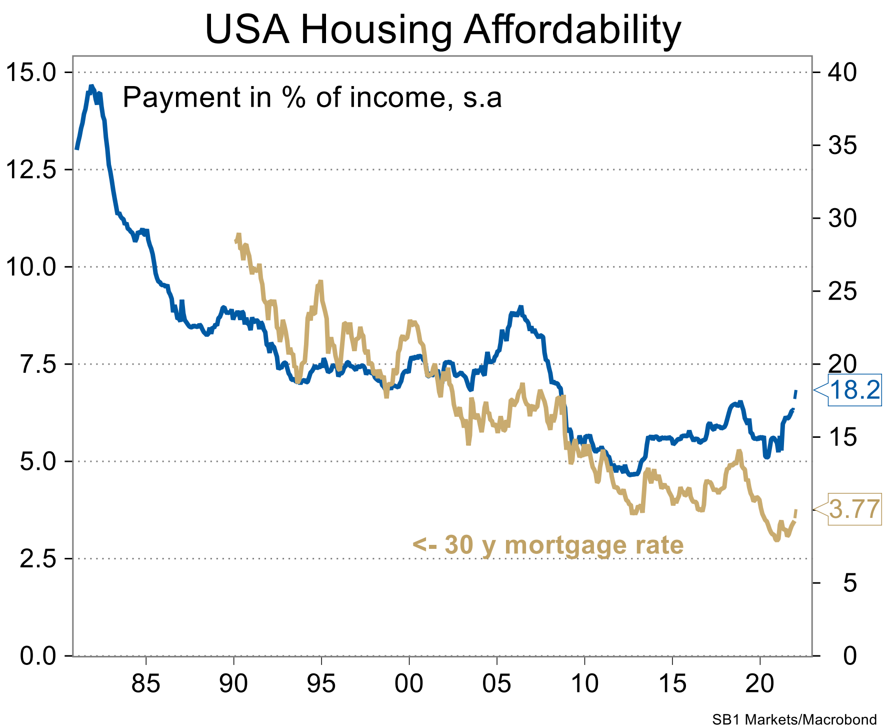


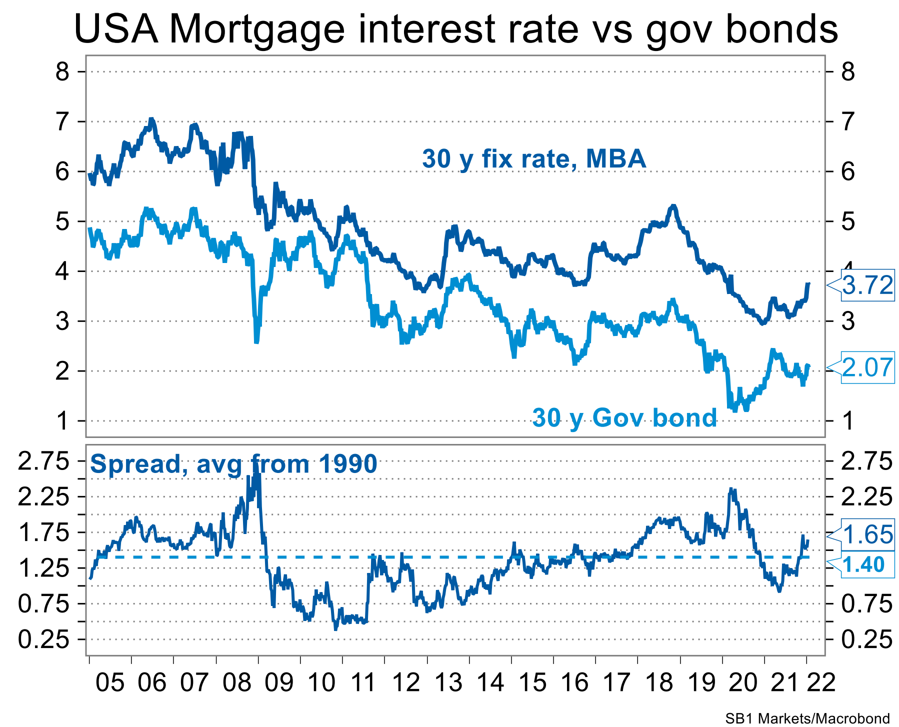


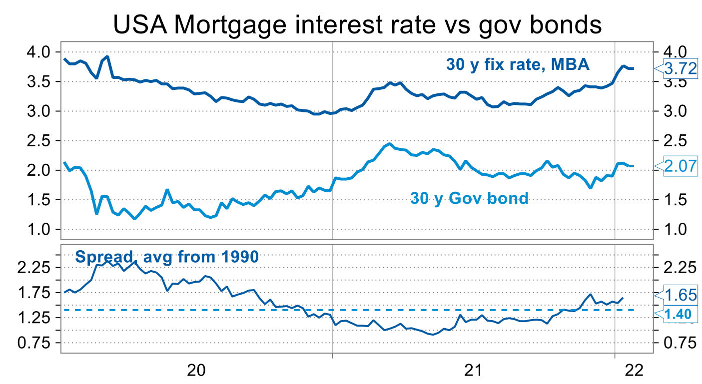
- **Prices** rose 1.2% m/m in Dec, according to the realtors – up from 1.0% in Oct. The annual rate rose to 15.7% from 14.0 (marginally revised up)
- **Other price indices** confirm a red hot housing market; prices are rising extremely fast – but the peak rate of housing inflation is very likely behind us

Prices are up 30% since before the pandemic, the mortgage rate on par

So the affordability is not where it used to be. That is, it is still lower than anytime before 2008





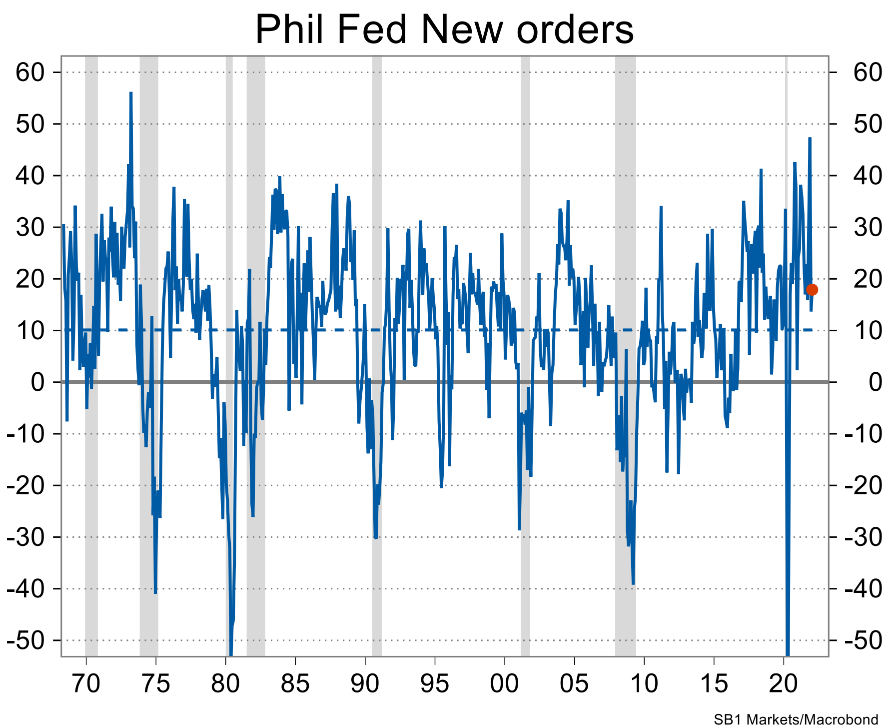


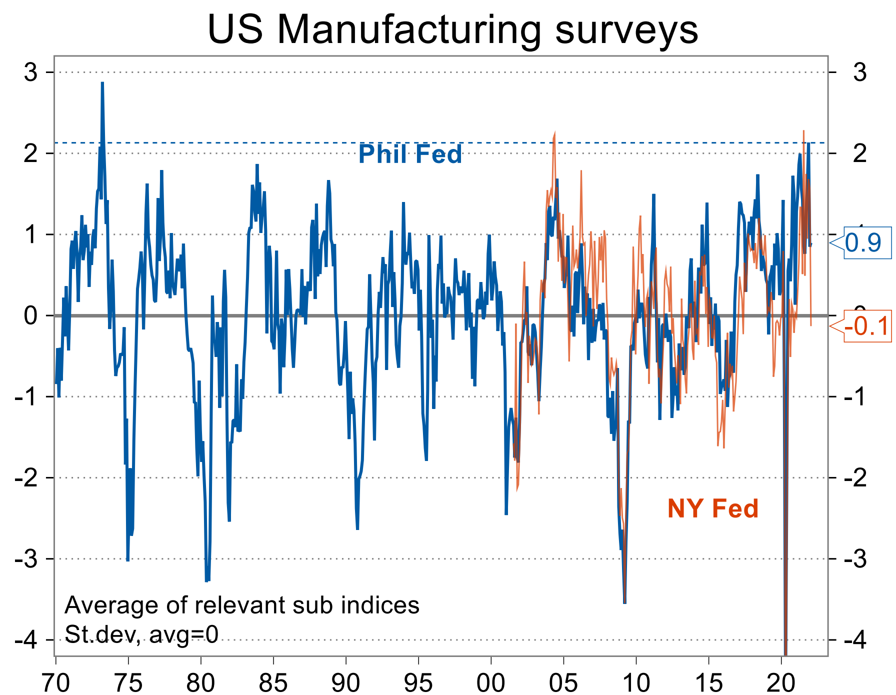
- **The 30 y fixed mortgage** rate has climbed more than the 30 y Gov bond rate (which is still lower than in Feb-21. The spread has widened to 165 bps from 91 at the bottom last spring
- The Federal Reserve is now rapidly **tapering off its buying of mortgage backed bonds**, and the minutes from the Dec FOMC meeting revealed that the committee was inclined to reduce the stock of mortgage backed bonds as soon as possible after the first interest rate hike, which very likely will take place in March
- The central bank has funded most of the housing marked during the pandemic, at least until mortgage lending shot up during last year

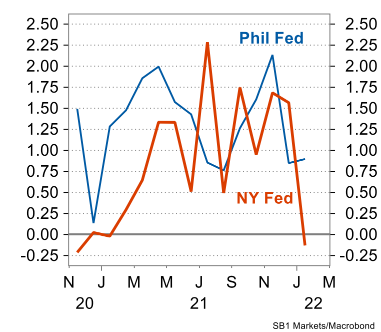
SpareBank 1 MARKETS

Philadelphia Fed's manufacturing survey marginally up, NY Fed' sharply down

… to below to an average level. Phil Fed 0.9 st.dev above avg





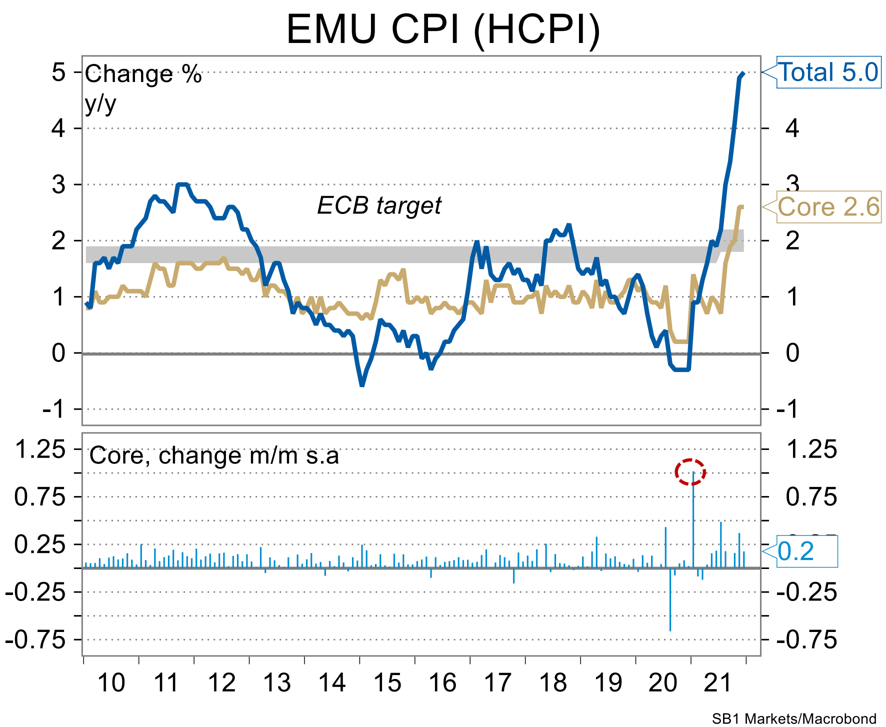


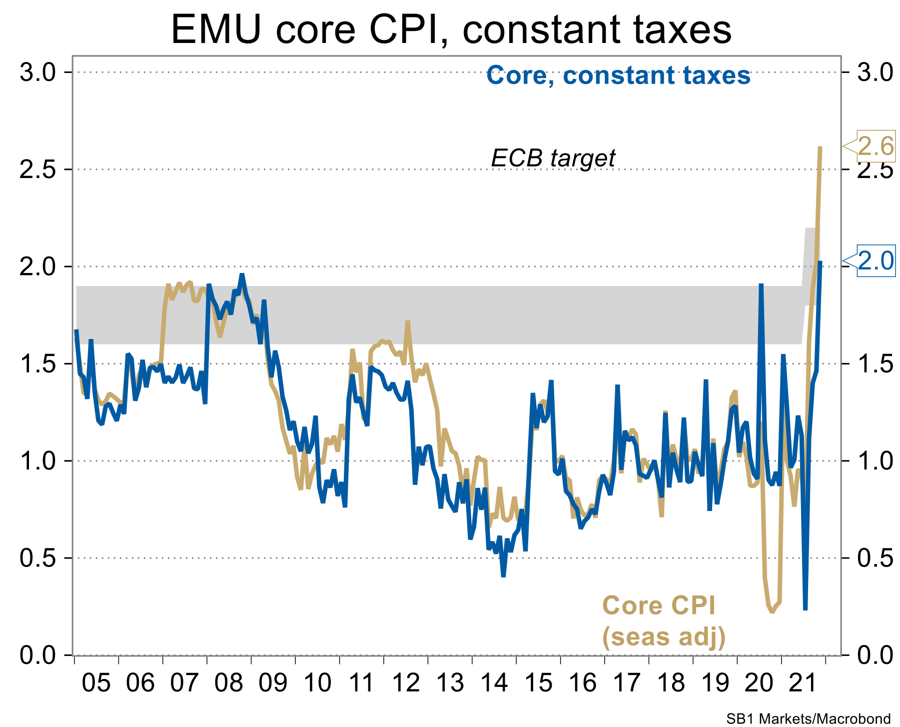
- Phil Fed: 23.2 in Dec, up from 15.3 in Nov, expected 19.8
- NY Fed: -0.7 in Dec, from 31.9 in Nov, expected 25.0
- No reason stated for the rather unusual decline in the NY Empire Manufacturing Survey January. However, optimism remained elevated

SpareBank 1 MARKETS

Eurozone inflation confirmed up 0.1 pp 5.0% in Nov

Core inflation flat at 2.6%, well above the target. But just wait until the January data are out ☺

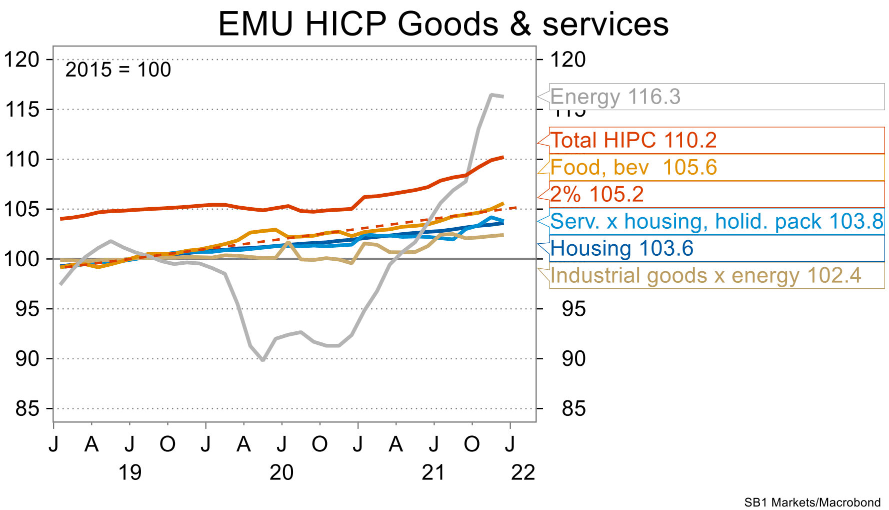


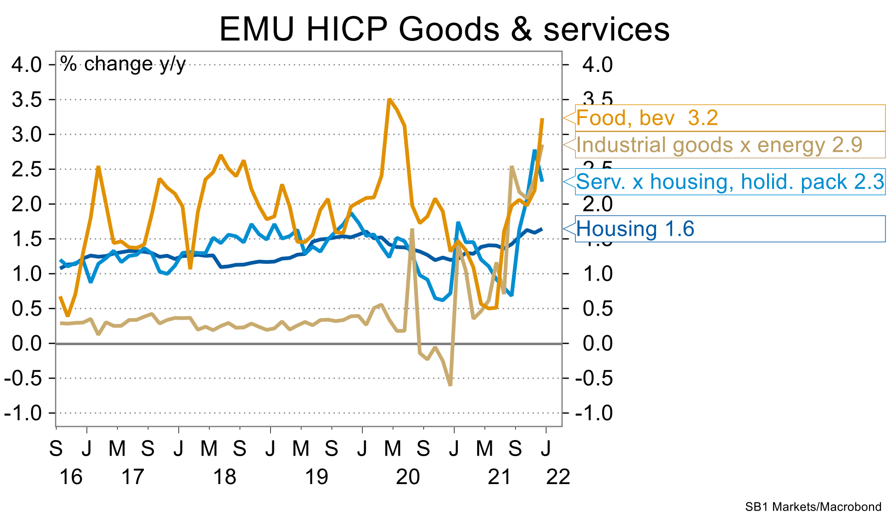


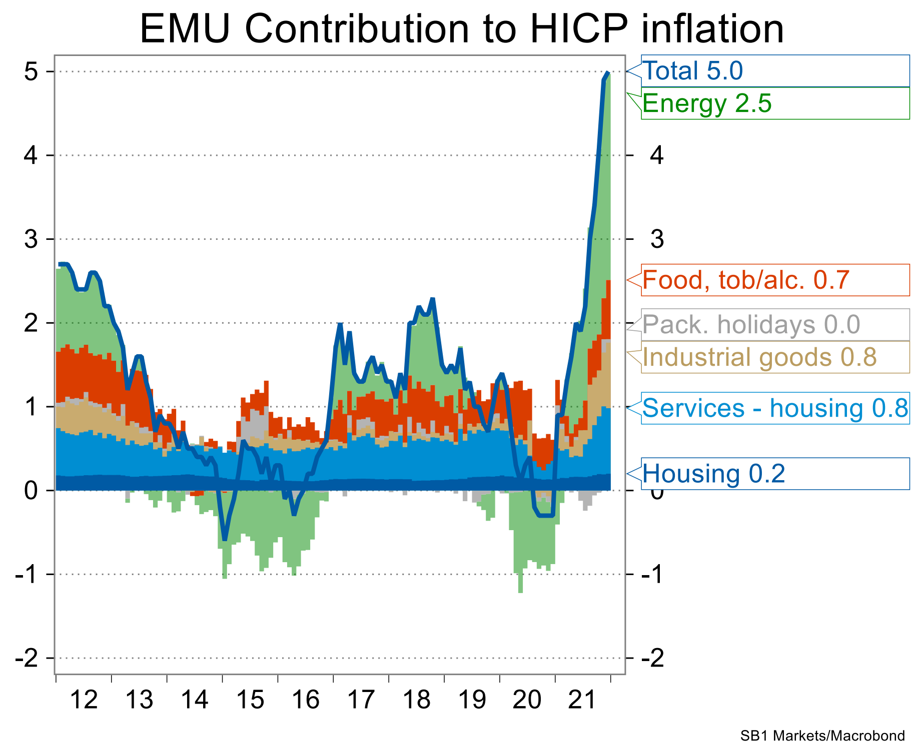
- **The headline HICP** rose 0.3% m/m. Energy prices fell by 0.2% - but they are still up 26% y/y
  - » The annual rate at 5.0% is far above ECB's inflation target – but prices are just up 2.4% over the past 2 years (in average). Last Dec the headline CPI was down 0.3% y/y
- **Core prices** rose 0.4% m/m, and the annual was unch at 2.6%. Again, one year ago, annual inflation was just 0.2%, and the average over the past 24 months is just 1.4%
  - » The core CPI rate will decline substantially in January, as prices rose 1% m/m in Jan-21 (left chart, red circle)
  - » Food and beverage prices rose 0.6% m/m, while services ex. recreation/holidays declined by 0.4%
- **Adjusted for changes in taxes**, the core was unch at 2.0% y/y in Dec, according to Eurostat. Over the past year this index has been very volatile, and we are far from sure this calculus is correct now

Energy remains main culprit, not that much to worry about elsewhere

Other prices are up more than 2.5% y/y but mostly from a low level last autumn



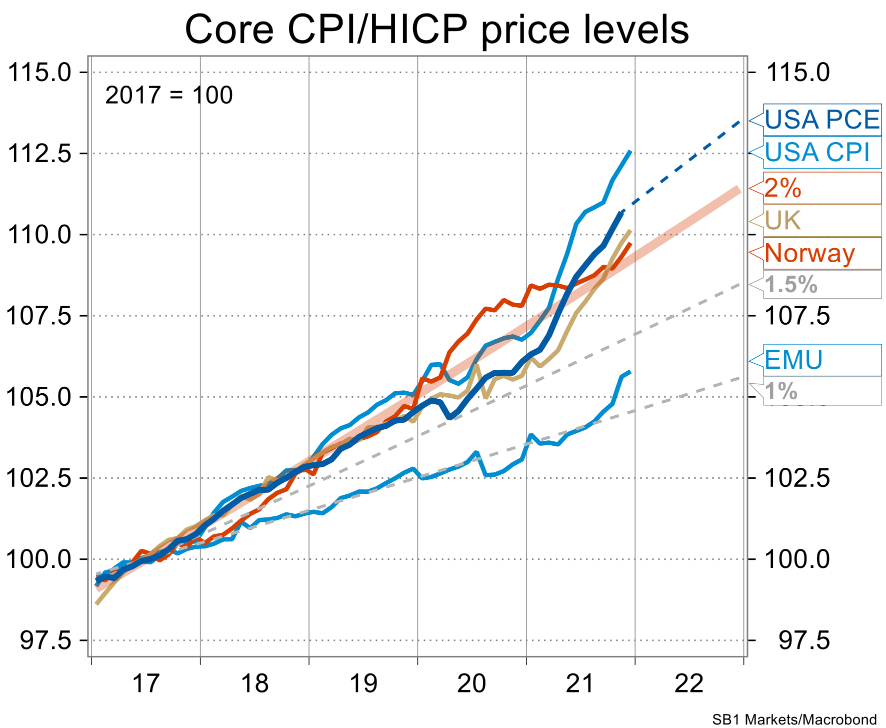




- Energy prices fell slightly in December – and are up 26% y/y
- Some other prices are rising faster y/y too, but mostly due to dips in prices one year ago

The EMU & the ECB do not have the same challenges as USA & the Fed

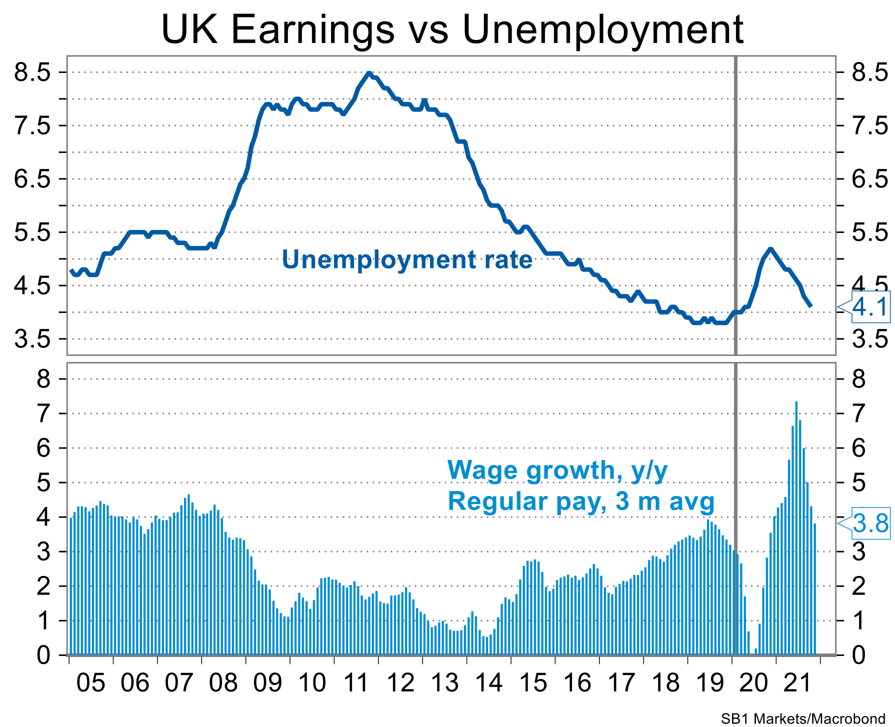
While UK may be positionend inbetween.

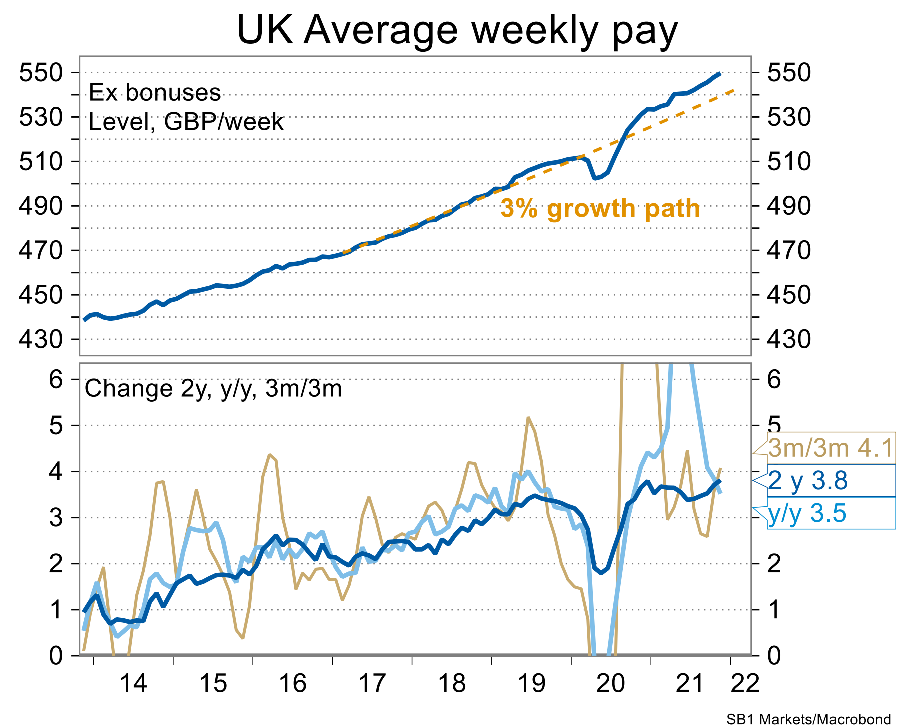


- Spot the huge difference over time between EMU and the others (here USD, UK & Norway)

Unemployment is falling further, down to just marginally above the pre-p level

And now wage inflation is accelerating somewhat (even if annual growth rates are slowing)



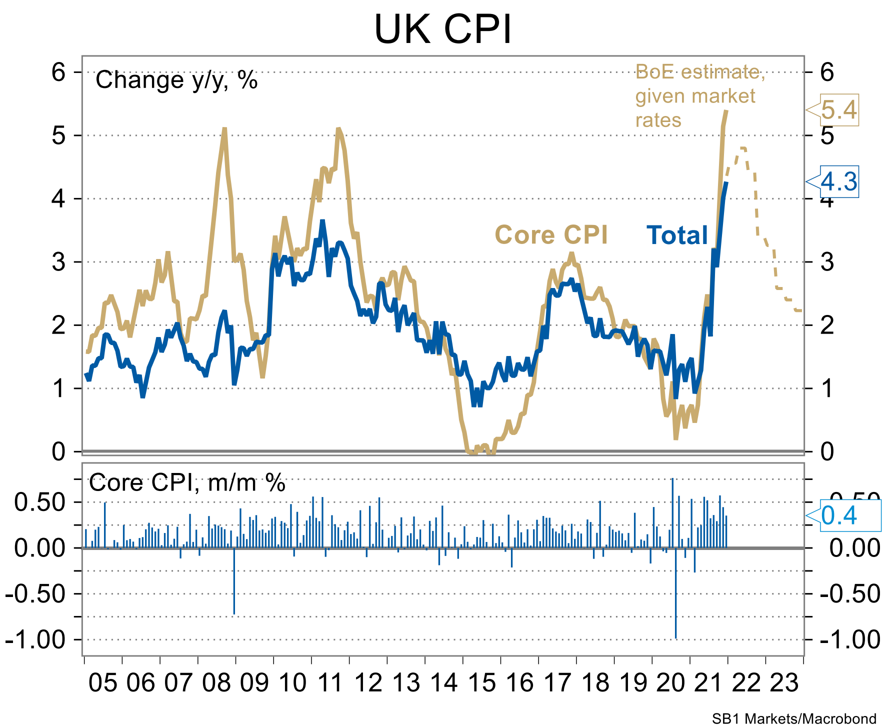


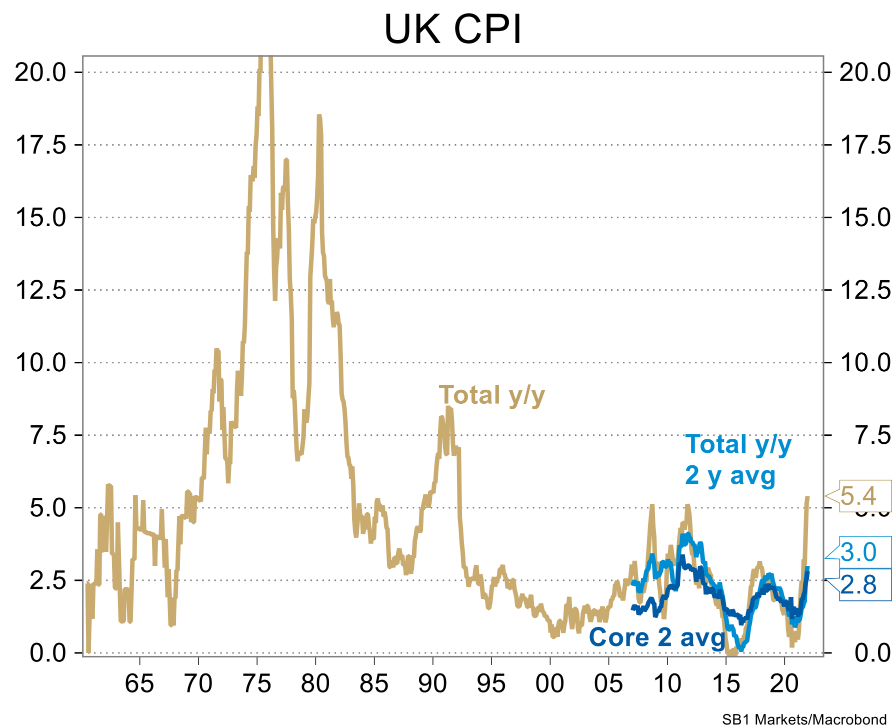
- The **'LFS/ILO' unemployment rate** fell 0.1 pp to 4.1%, expected unch. Unemployment is just 0.1 pp higher than before the pandemic
- **Annual wage growth** (regular pay) decreased to 3.5% in Nov from 3.8% in Oct (the 3 m avg to 3.8% from 4.3%, as expected). Including bonuses, wages are up 3.5% too
  - » Over the 2 past years, wage are up 3.8% in average. Over the past 6 months (3m/3m) wage are up 4.1%
- Prior to the pandemic, wage inflation was slightly above 3% – which was substantial higher than over the years before: at 1 – 2½ %

SpareBank 1 MARKETS

Inflation at 5.4%, well above BoE's f'cast, the core rate up to 4.3%

The headline rate 0.1 pp above consensus, the core 0.3 pp above

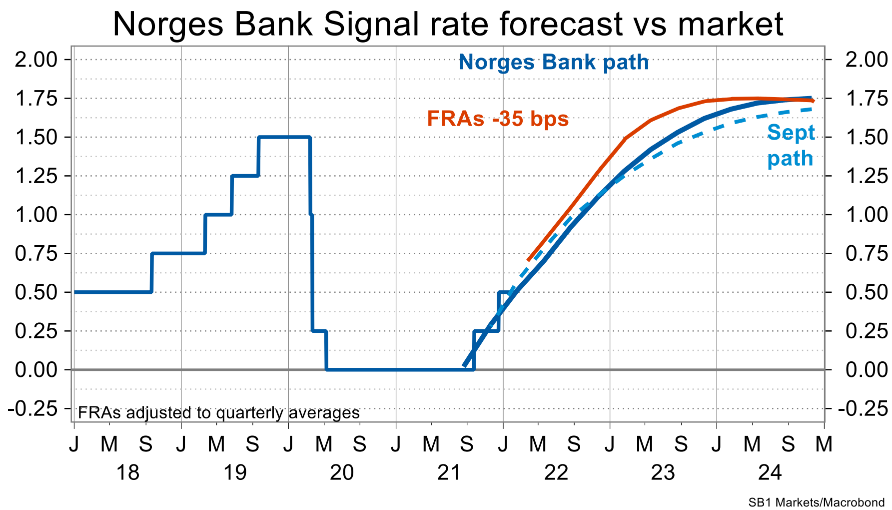


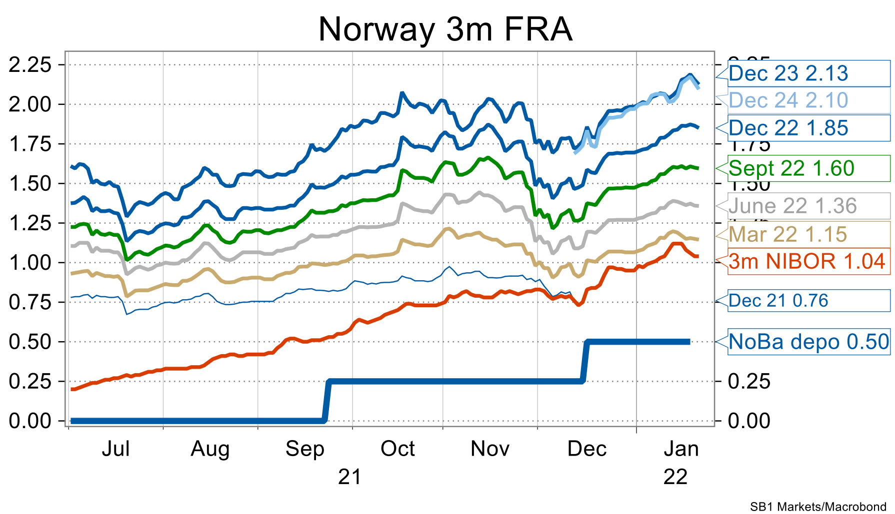


- **Both the total CPI** & the core CPI rose 0.4% m/m, and the core rate well above expectations. The annual rates are the highest since the early 1990'ies. Measured over the past 3m/3m the core index is up more than 5%
- **Measured over 2 years**, headline is up 3%, and the core is up 2.8%, which illustrates the base effects on the present much higher y/y rates. Still, inflation is higher than BoE's 2% target, anyway how we calculate it!
- **Transport** has lifted CPI by 1.6 pp. 2nd hand cars are sharply up, as are fuel prices
- **Housing, included energy**, has lifted the CPI by 1 pp. Still, there are many other contributors left…

Norges Bank confirmed the plan, a next hike in March

The bank is not in doubt about the next step, and the market expects a further lift in the rate path



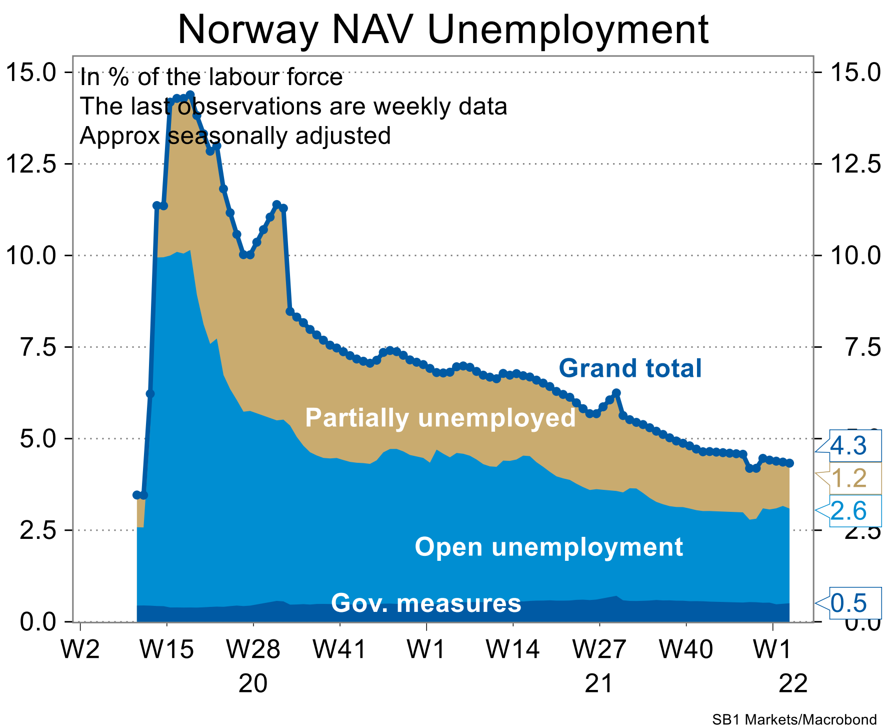


- **Key policy rate** was kept unchanged at 50 bps, as everybody expected
- Norges Bank recognises that unemployment has increased less than the Bank expected in mid December (and it has fallen if partially unemployed are included), and states '*that relaxation of containment measures will likely contribute to a continued economic upswing. Underlying inflation has risen more than expected and is now close to the target*. (…) *Monetary policy is expansionary*'. (…) *the policy rate will most likely be raised in March*

- FRA-rates have climbed sharply since before the December interest rate hike (which was just partly expected), mostly in line with higher interest rate expectations abroad
  - » A March hike is fully priced into the FRA-curve, even with a 40 bps expected NIBOR spread (now at 44 bps)
  - » We assume a 35 bps NIBOR spread is discounted from June onwards, the market expect, hikes in June, September and December, up to 1.5%, all with 'full' certainty
  - » NoBa signalled a 1.11% average signal rate in Q4 (and 1.28% in Q1-23). The market is now 20 bps ahead of NoBa in Q3, and the gap widens in 2023

NAV total unemployment is still drifting down, in spite of Omicron restrictions

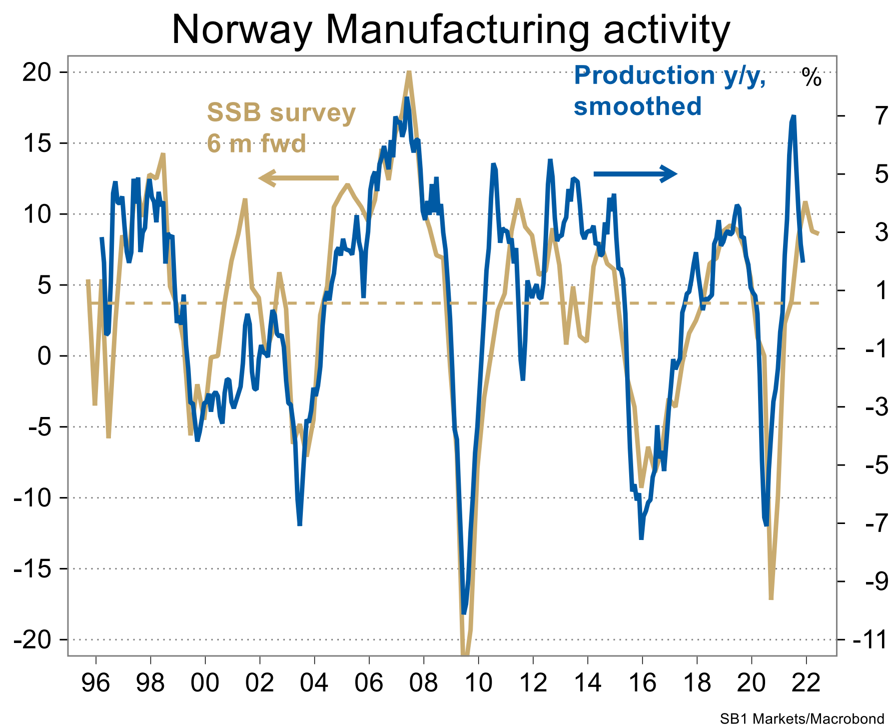
… which were substantially eased two weeks ago

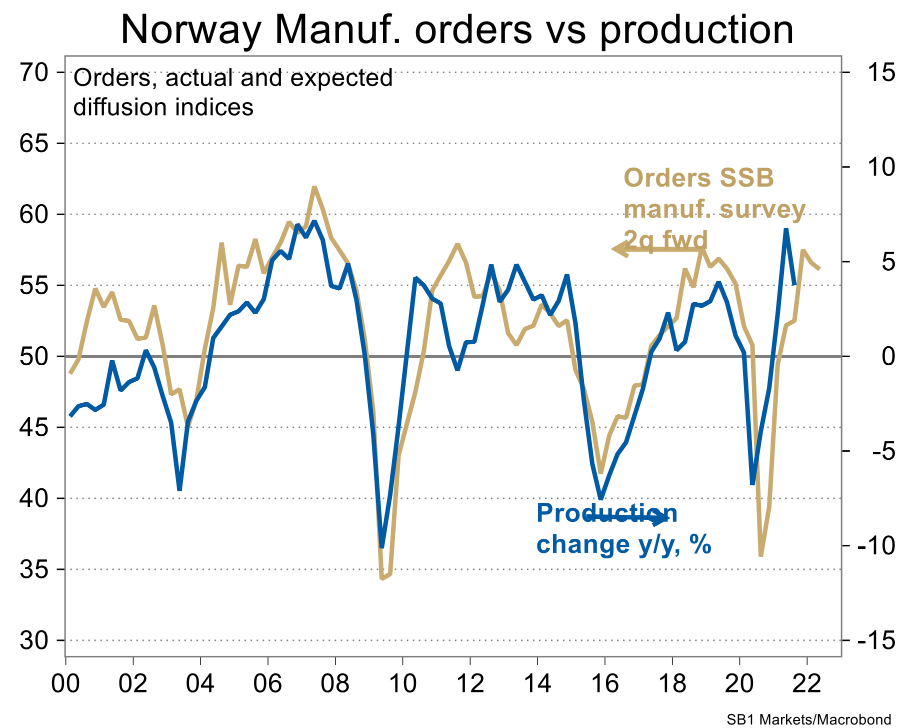


- The no. of **full time unemployed** is marginally up but including the part time, **total unemployment** is heading down
- And now restrictions are eased vs restaurants, that were hit by the measures decided in mid December

SSB's manufacturing just marginally down in Q4, increased supply limitations

Signals growth well above trend the coming months, broad based

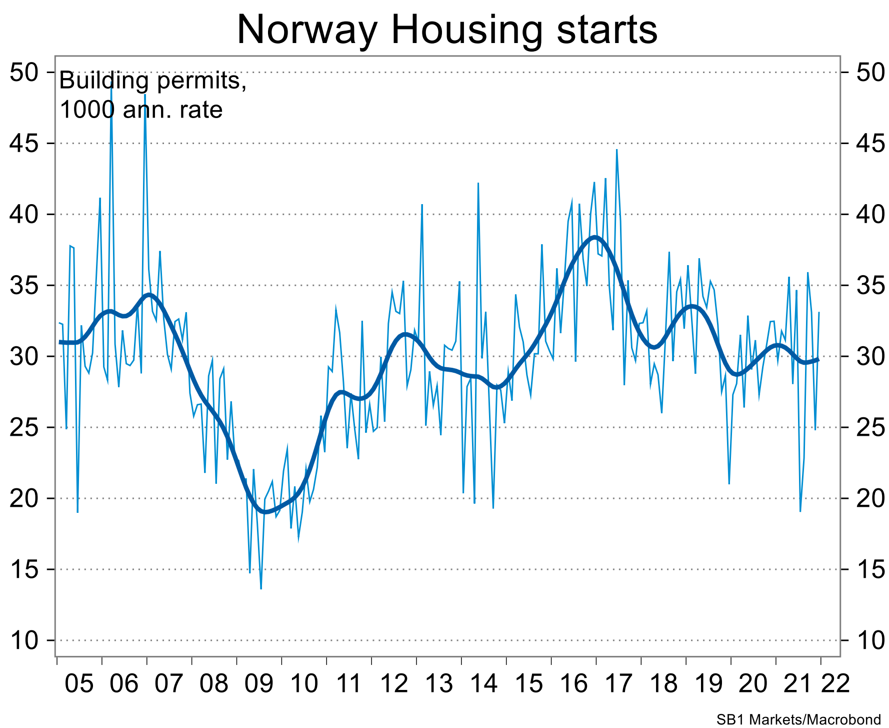


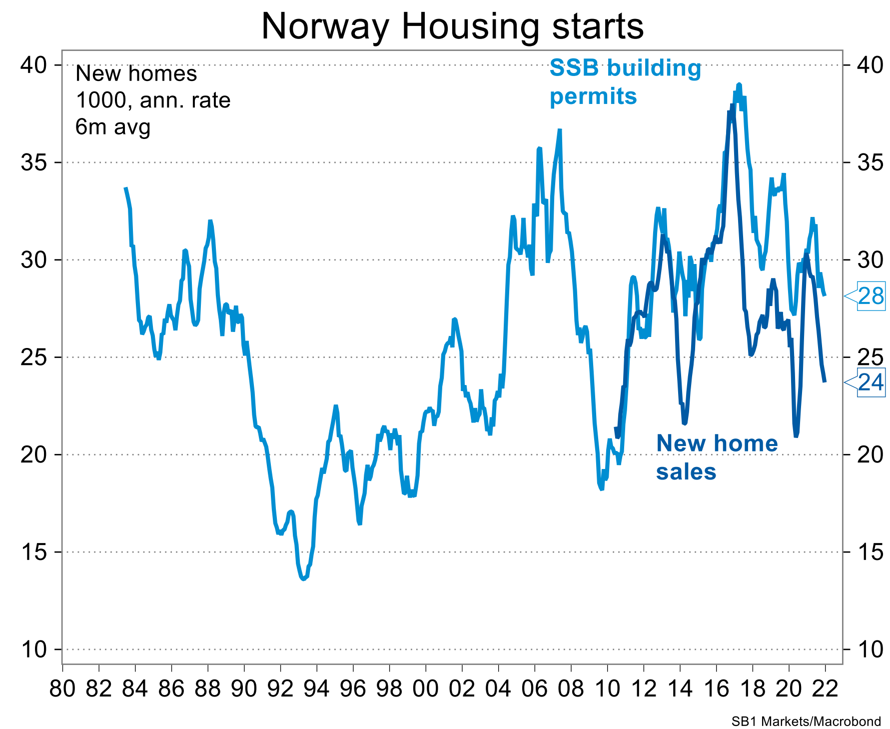


- The composite index in SSB's manufacturing survey fell 0.2 p to 8.6 in Q4, we expected a decrease to 7. The level is 5 p above the average (or +0.7 st.dev above avg)
  - » The index signals growth well above trend in production, 3½ GDP growth and – together with the oil price, a 40% growth in 12 m expected corporate (OSEBX) earnings, though below analyst's current 58% growth estimate
- Orders are growing rapidly but marginally slower in Q4 – no significant differences between foreign and domestic orders, oil realated or other sectors
- ***Supply constraints the most serious since 2008. Demand/competition is far less of a problem than normal***
- ***Companies are reporting they expect prices to rise faster than ever (data from 1990)***

SSB: Housing permits up in December but trend slightly down in H2

Permits up to 33' from 25' in Nov - in average a pretty normal figure

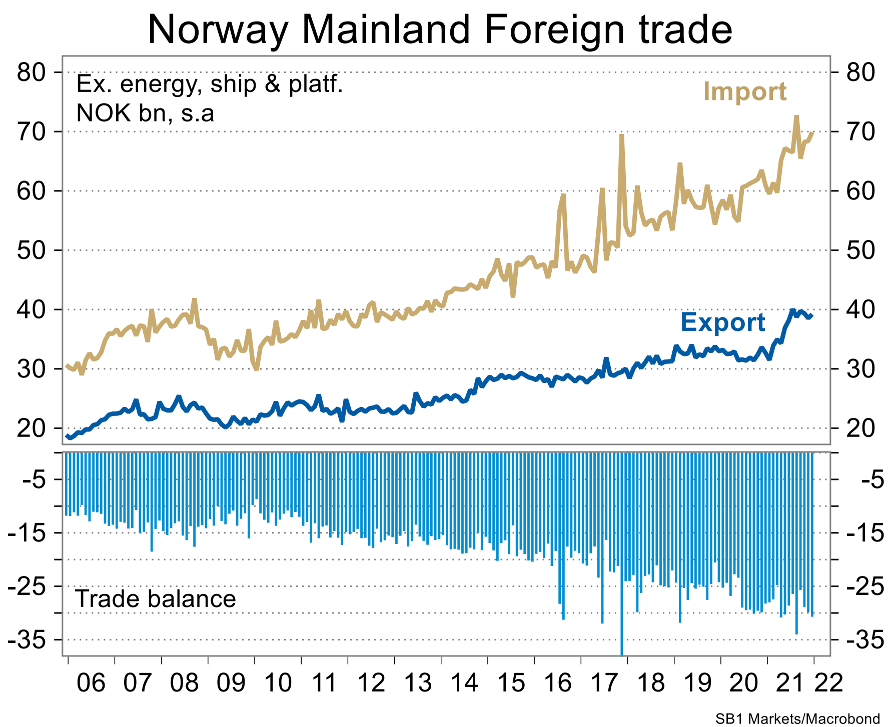


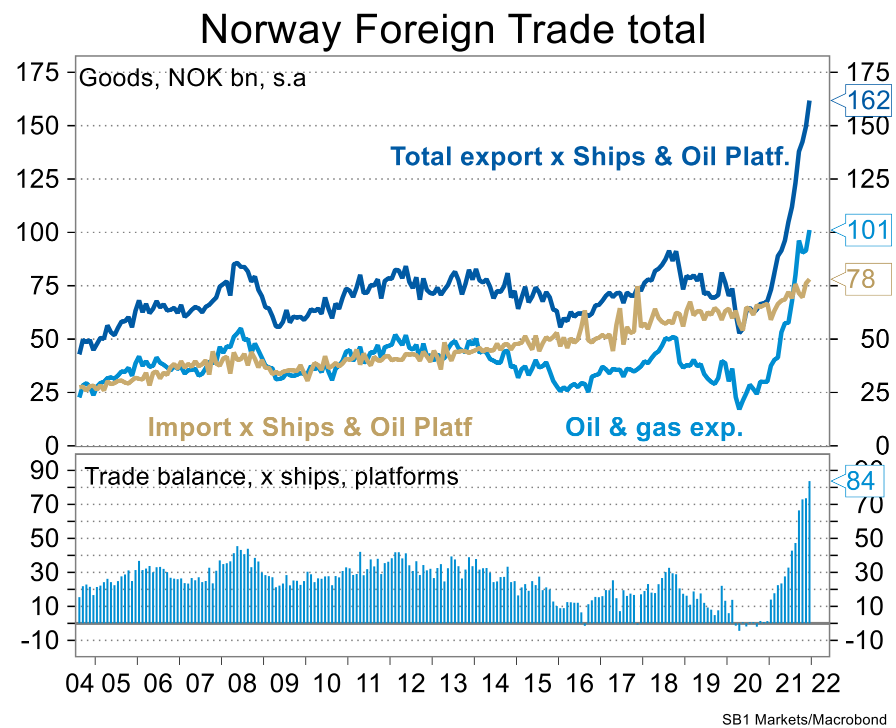


- The average no. of permits the past 6 months at 28', clearly above the estimate from the Homebuilders at 24'. However, student homes are nurseries are not included in data from the Homebuilders

Another ATH trade surplus, driven by gas exports

Total surplus at NOK 84 bn, approaching 30% of (Mainland) GDP!

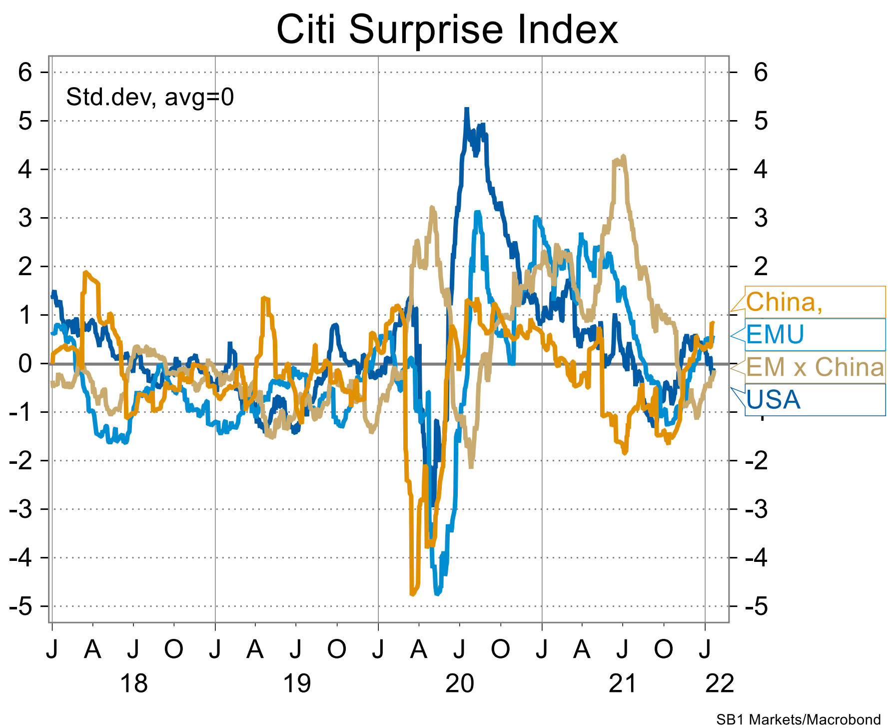


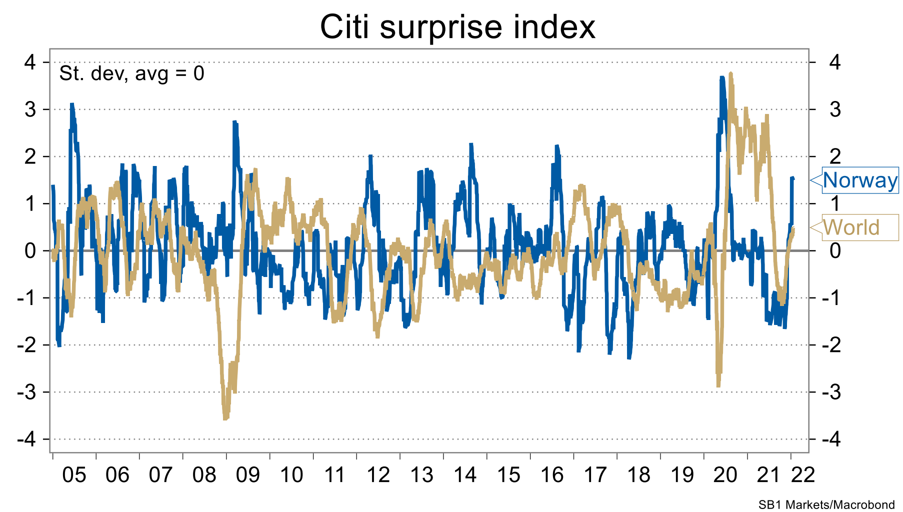


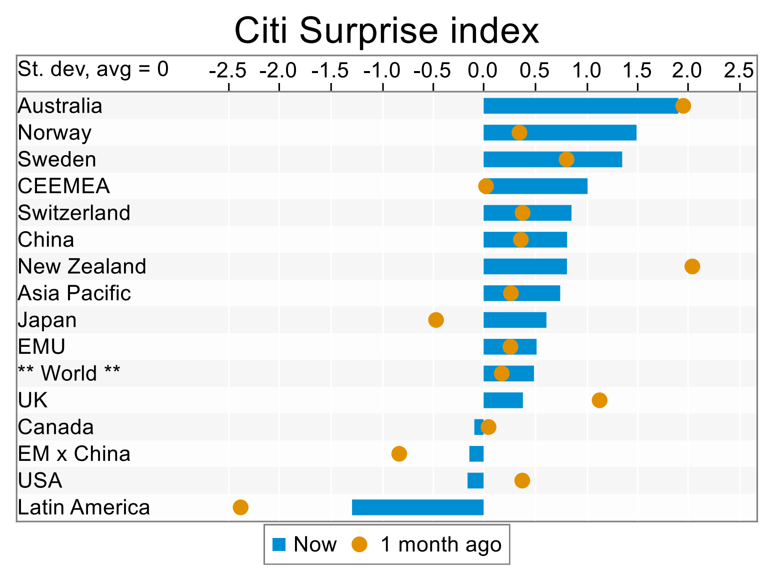
- **The <u>Mainland (non energy) trade deficit in goods</u>** rose marginally to NOK 31 bn
- **Non-energy exports** has been trending slowly down recent months but rose slightly in December. Exports are up 20% vs the level one year ago – and since before the pandemic
- **Imports** added some few bn an remains at 10% growth path
- **Gas exports** fell slightly due a decline in gas prices. Oil exports rose marginally, and sum oil & gas fell slightly, seas. adjusted – fell slightly, to NOK 91 bn. So far in Dec, gas prices have climbed rapidly, and most likely the value of gas exports will grow substantially
- **The trade surplus in goods** (ex ships/platforms) was flat at NOK 73, an enormous amount – more than 26% of Mainland GDP!
- **The government's extra revenues** from oil and gas exports (and direct ownership) the past 3 months may equal NOK 150 bn, which will be transferred to the oil Fund

The global surprise index further up and slightly above par

Both EMU, China above. US below average, EM x China is soon back up to an average level agian







- **Norway** was surprising sharply on the downside through most of 2021, according to Citi. But in early December we crossed the zero line, and now we have suddenly moved up to the upper part of the list

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

Highlights

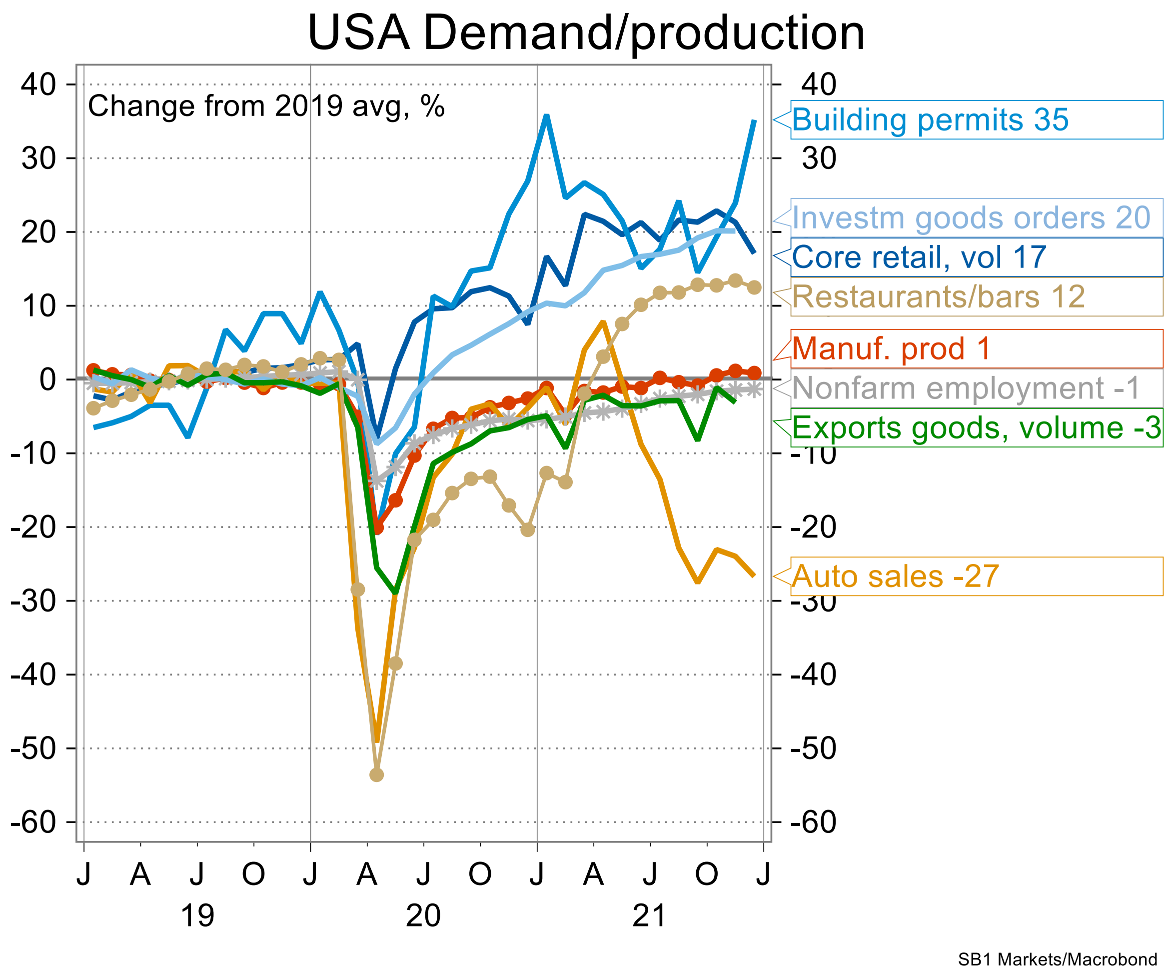
The world around us

The Norwegian economy

Market charts & comments

Big picture: Growth is slowing as the economy as 'normalised'

The upside now: Auto production & exports



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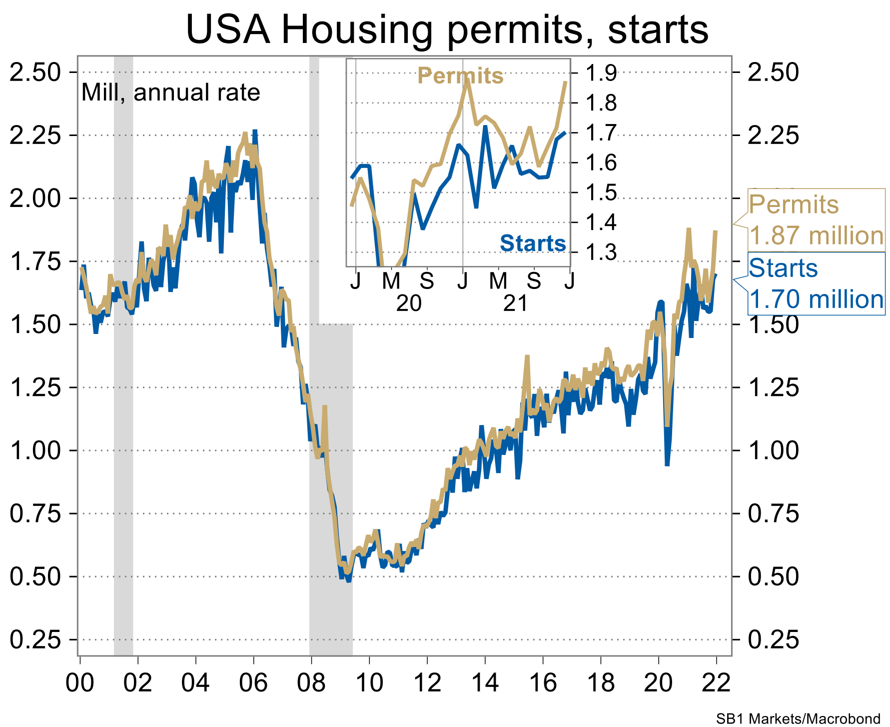
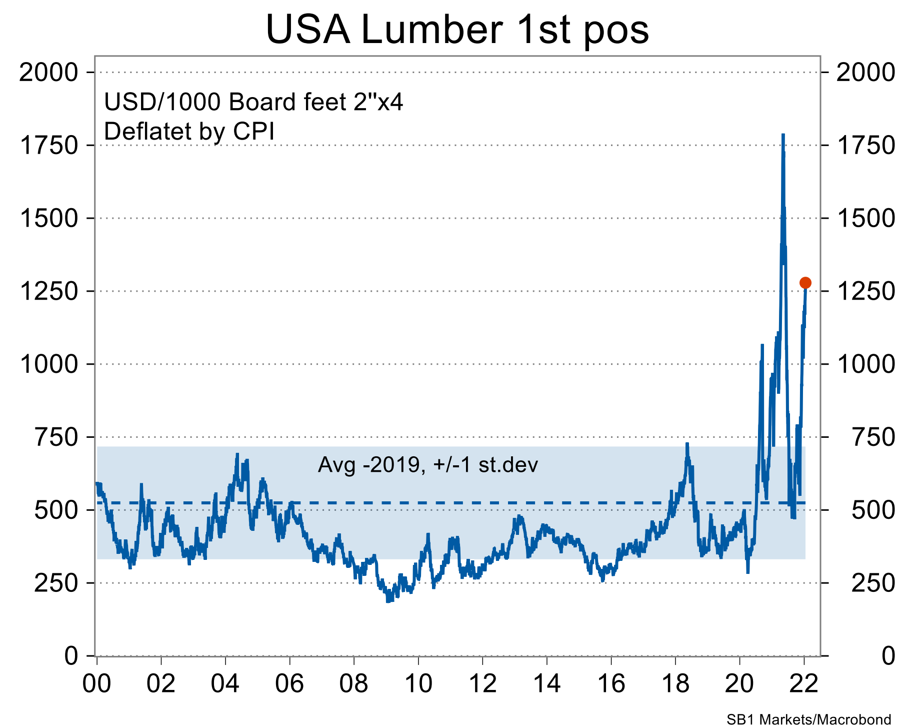
  - » Auto sales and production are way below normal levels

Housing starts, and even more building permits up again (as are lumber prices)

Starts lower than the strong 2nd hand market normally would imply





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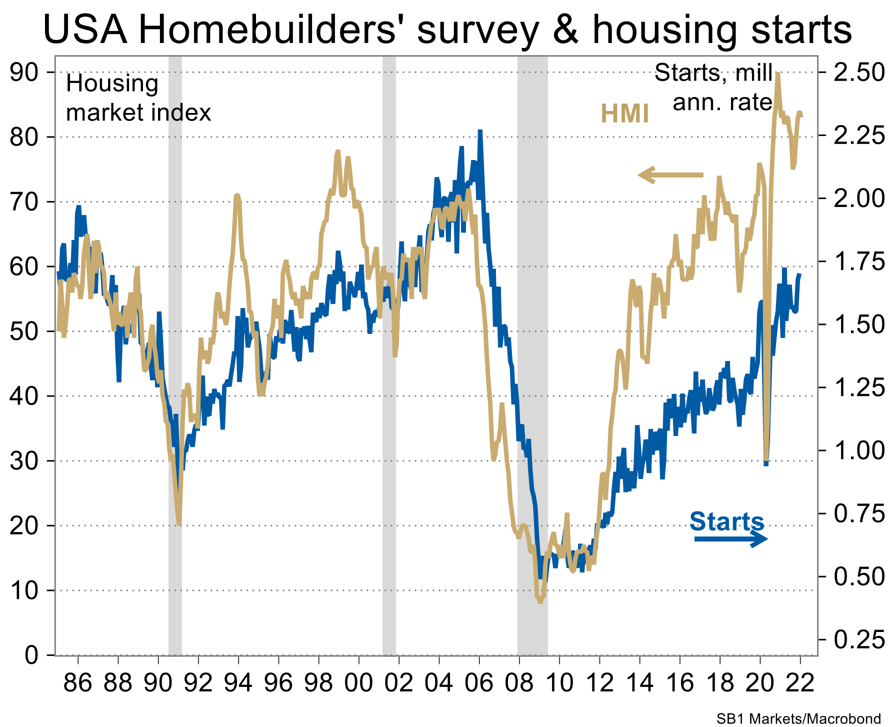
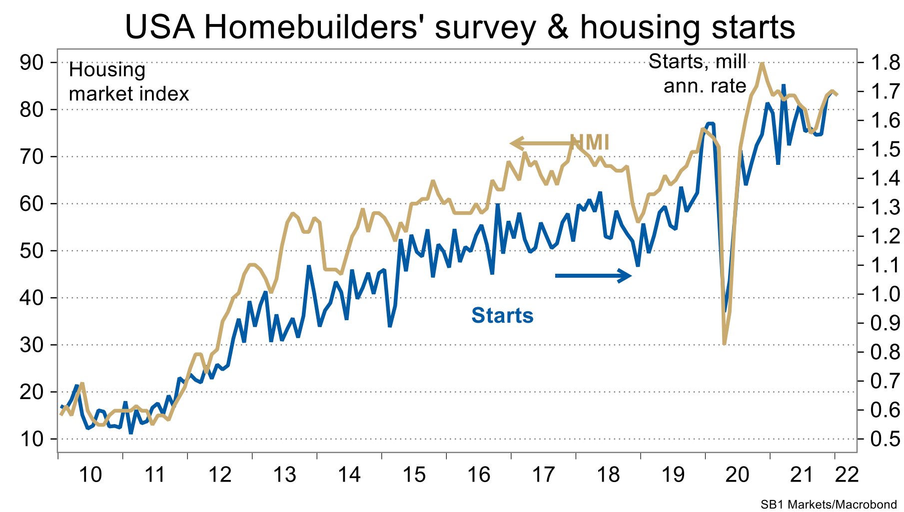
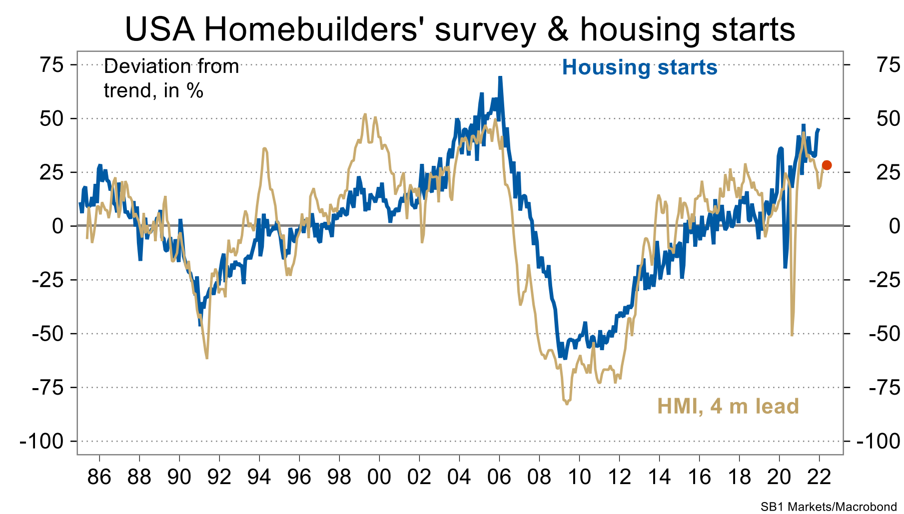
- **Given the strong end of the year, the trend is still slightly up.** The level is some 10 – 15% above the pre-pandemic level. However, given the incredible strong existing home market, and soaring prices, starts should normally have strengthened further, amid still very low mortgage rates and a recovering economy
- **Supply & capacity problems and higher cost** in the building sector may explain the lack of response. Lumber (2’’x4) prices have shot up recent weeks

Homebuilders’ market index one tick down, the level is high…

Still, the index does not signal an further increase in housing starts



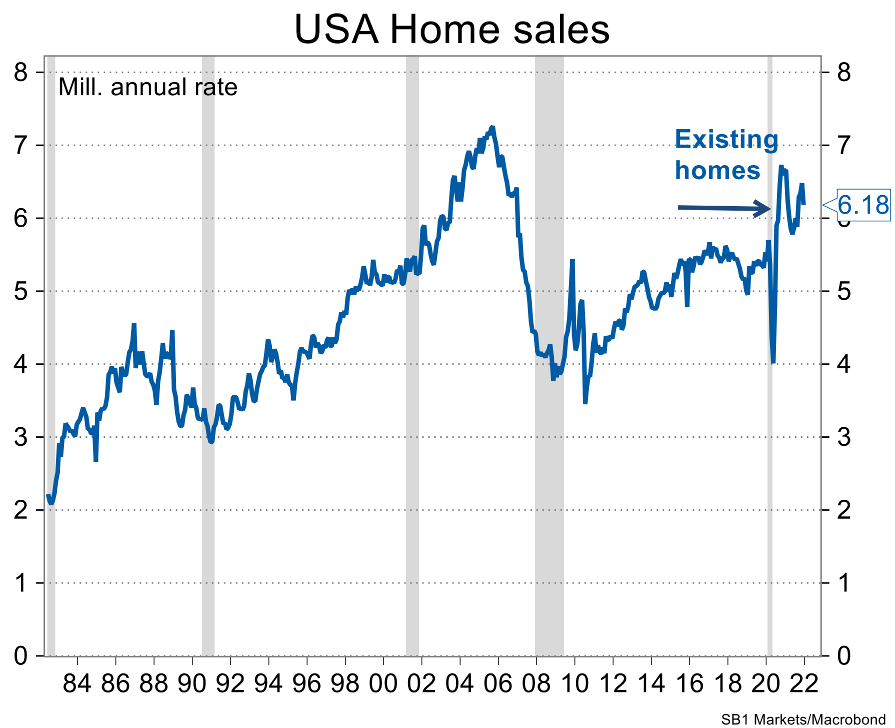


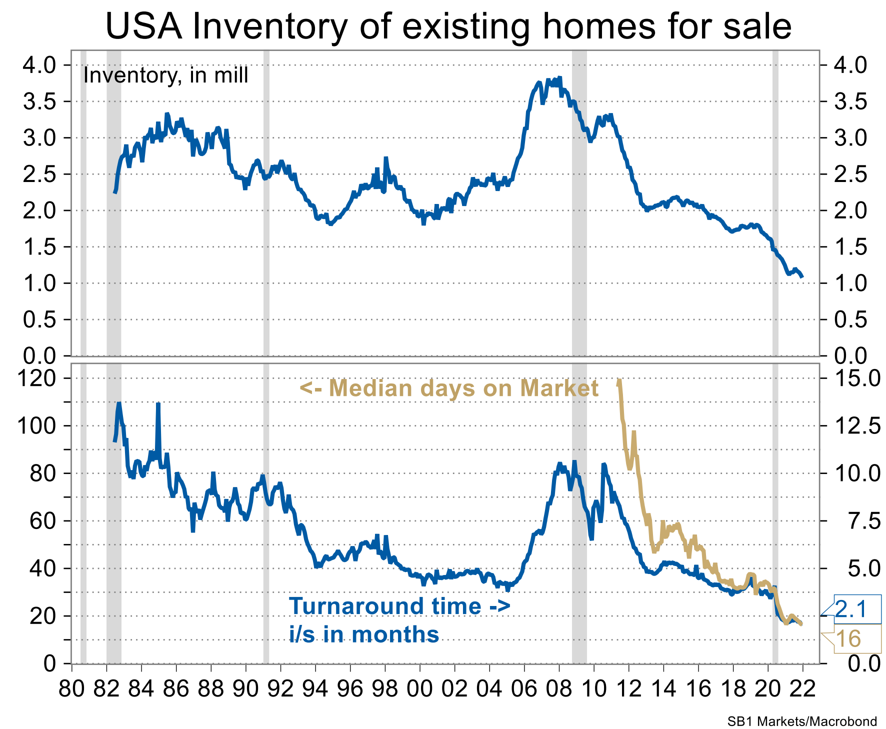


- **The Homebuilders’ Housing Market Index** lost 1 p to 83 in Jan, expected unch. The level is high but still down from 90 last Nov
- **Rising material prices, supply chain and labour shortages are still** creating challenges for the home builders, according to the NAHB – but those shortages may have peaked (even of lumber prices are soaring again!)
- <u>Even if the index level is very high, the HMI does not signal higher housing starts, ref. the chart on the bottom right</u>

Existing home sales down in December, the inventory at ATL

Prices inflation has slowed but remains at 15.7% y/y

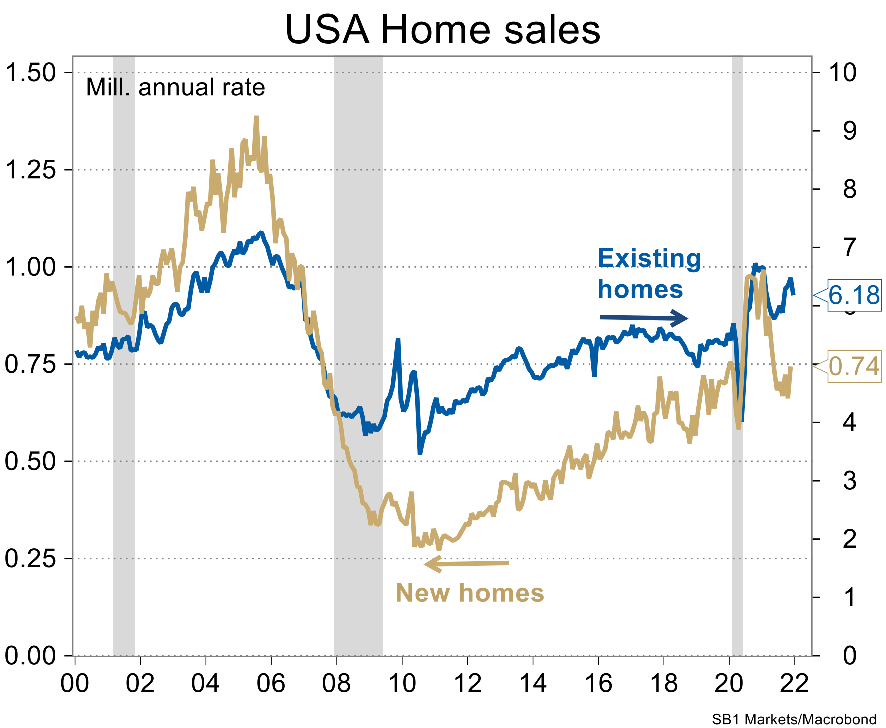




- Sales of **existing homes** fell marginally to 6.18 mill (ann. rate) in December, from 6.48'', expected down to 6.41''. Sales are down 8% from the local peak in late 2020, but are 15% above the pre-pandemic level – and not that far below the ATH level at 7.26 mill in Sept 2005
- **The inventory of unsold homes** fell further in Dec, to another ATL. The inventory equals 2.1 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times it has been as high as 10 months. The median time on the market for those homes sold is just 16 days, down from 30 days before the pandemic (and 120 days in 2011!)
  - » The low inventory level is very likely hampering sales
- **Prices** rose 1.2% m/m in Dec, up from 1.0% in Nov. The annual rate accelerated almost 1.7 pp to 15.7%. At the peak, prices were up 23% y/y

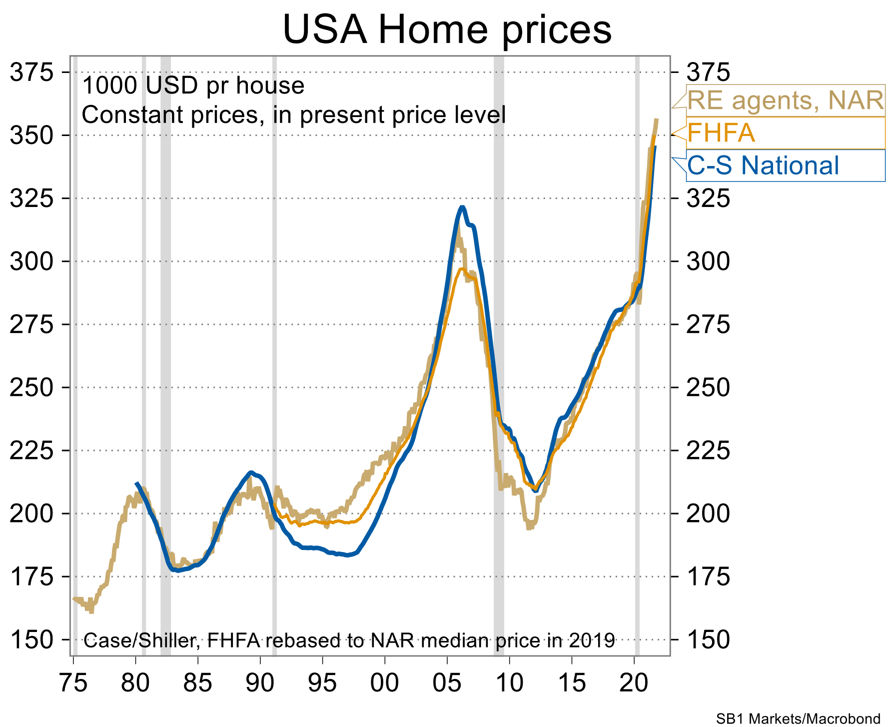
Existing home sales heve kept up better than new home sales

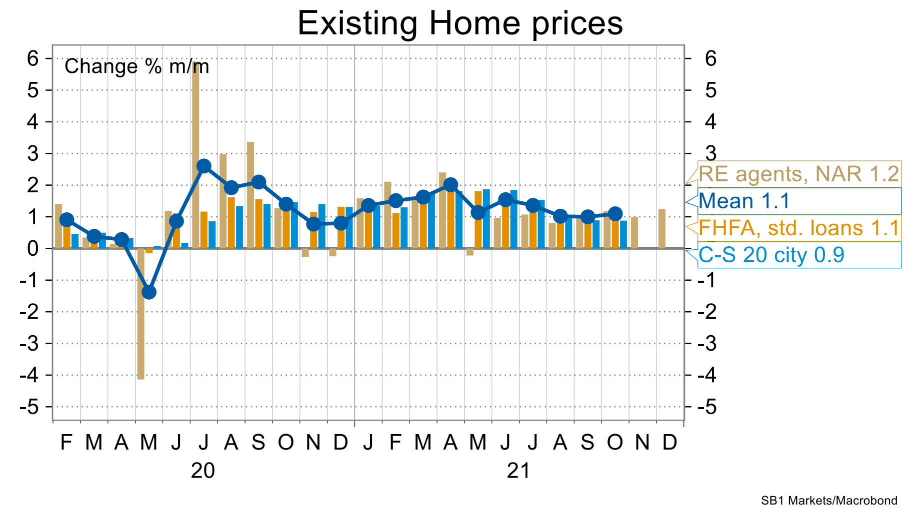
Most likely because the supply of new homes have been kept down on lack of supply

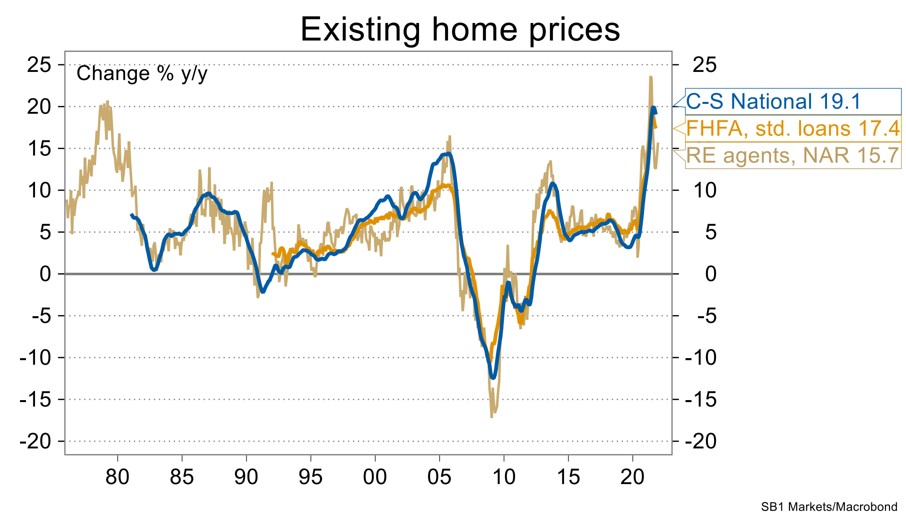


Existing home prices still on the way up but not faster

Prices rose 1.2% m/m, higher than the average recent months



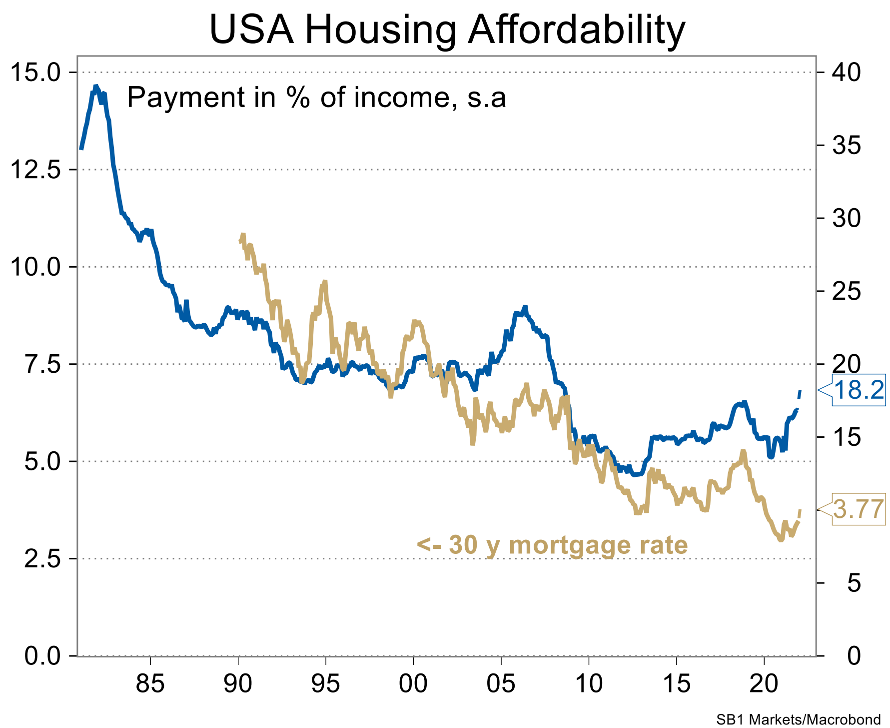


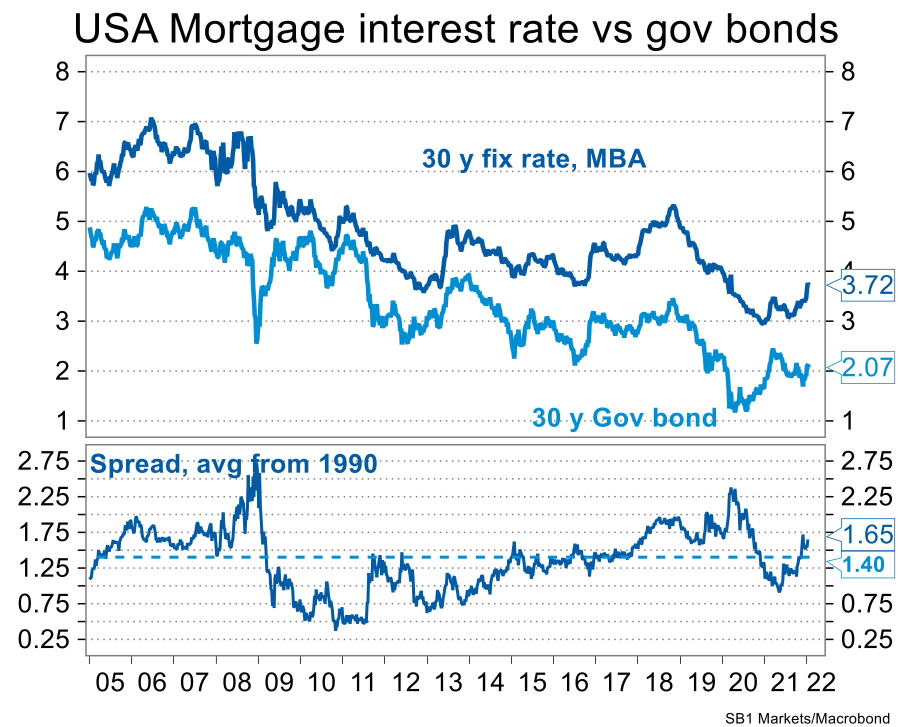


- **Prices** rose 1.2% m/m in Dec, according to the realtors – up from 1.0% in Oct. The annual rate rose to 15.7% from 14.0 (marginally revised up)
- **Other price indices** confirm a red hot housing market; prices are rising extremely fast – but the peak rate of housing inflation is very likely behind us

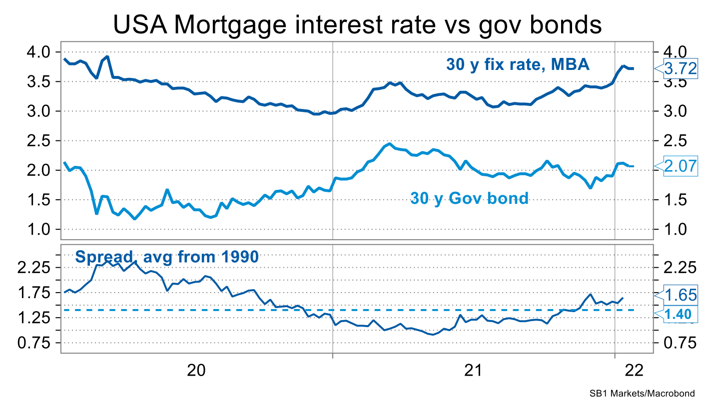
Prices are up 30% since before the pandemic, the mortgage rate on par

So the affordability is not where it used to be. That is, it is still lower than anytime before 2008



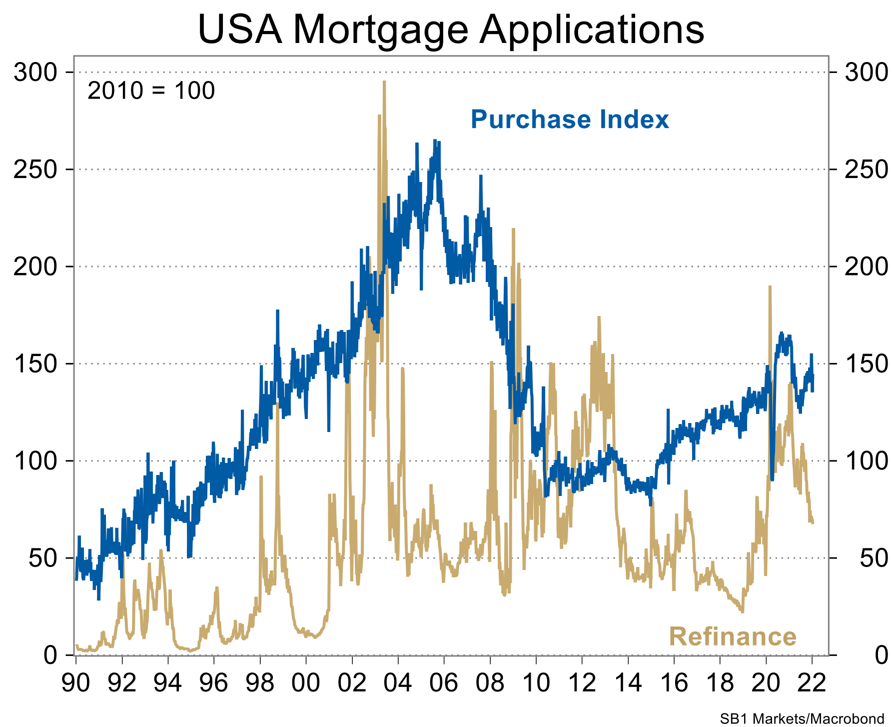


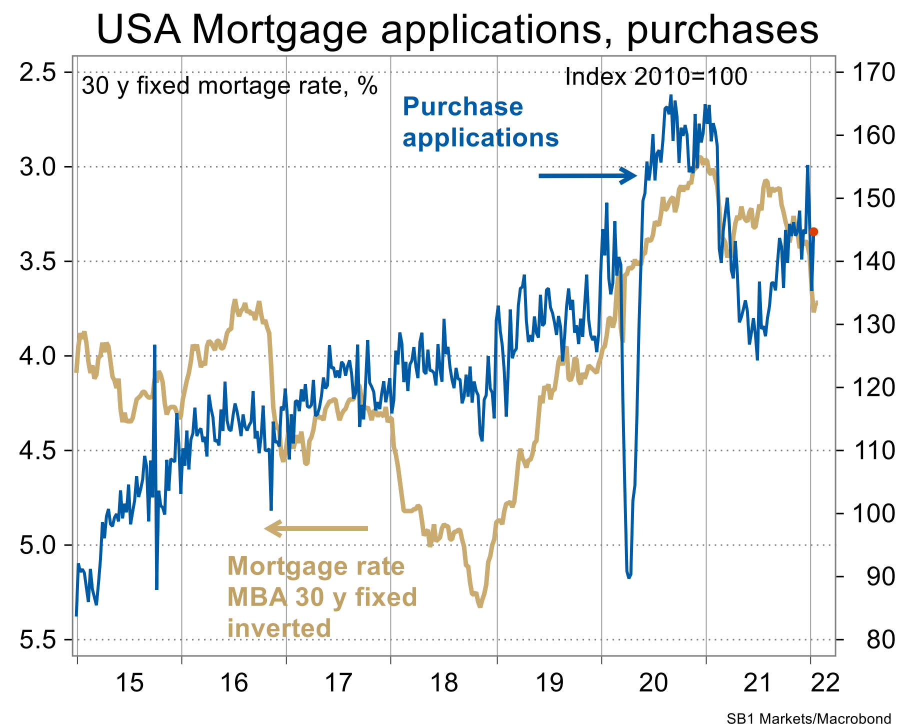
- **The 30 y fixed mortgage** rate has climbed more than the 30 y Gov bond rate (which is still lower than in Feb-21. The spread has widened to 165 bps from 91 at the bottom last spring
- The Federal Reserve is now rapidly **tapering off its buying of mortgage backed bonds**, and the minutes from the Dec FOMC meeting revealed that the committee was inclined to reduce the stock of mortgage backed bonds as soon as possible after the first interest rate hike, which very likely will take place in March
- The central bank has funded most of the housing marked during the pandemic, at least until mortgage lending shot up during last year



Mortgage rates are up – but demand for new mortgages still stong

So far, home buyers have not become freaked out of the 80 bps lift in long term mortgage rates

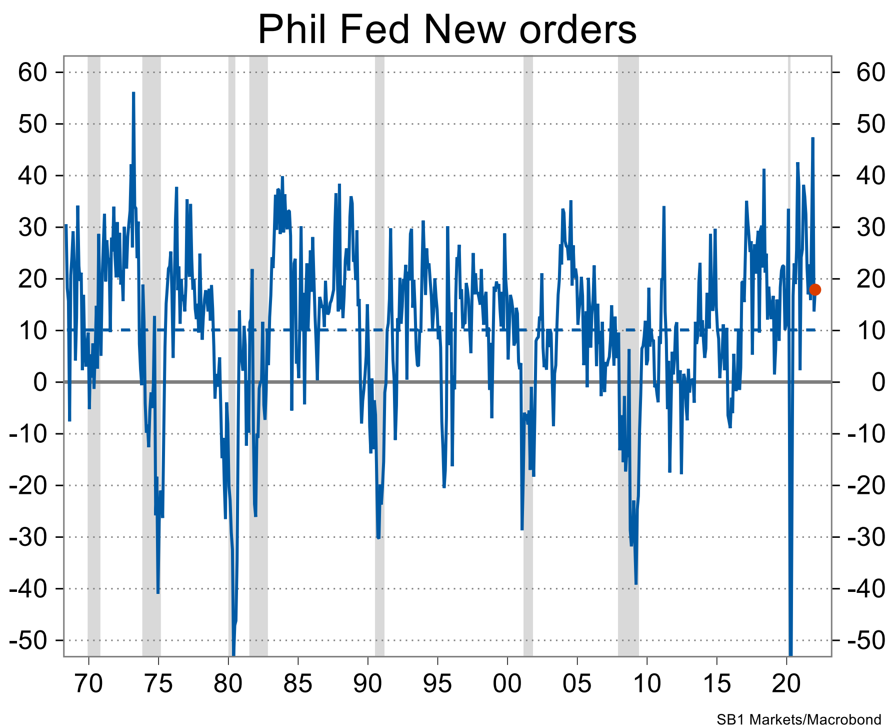


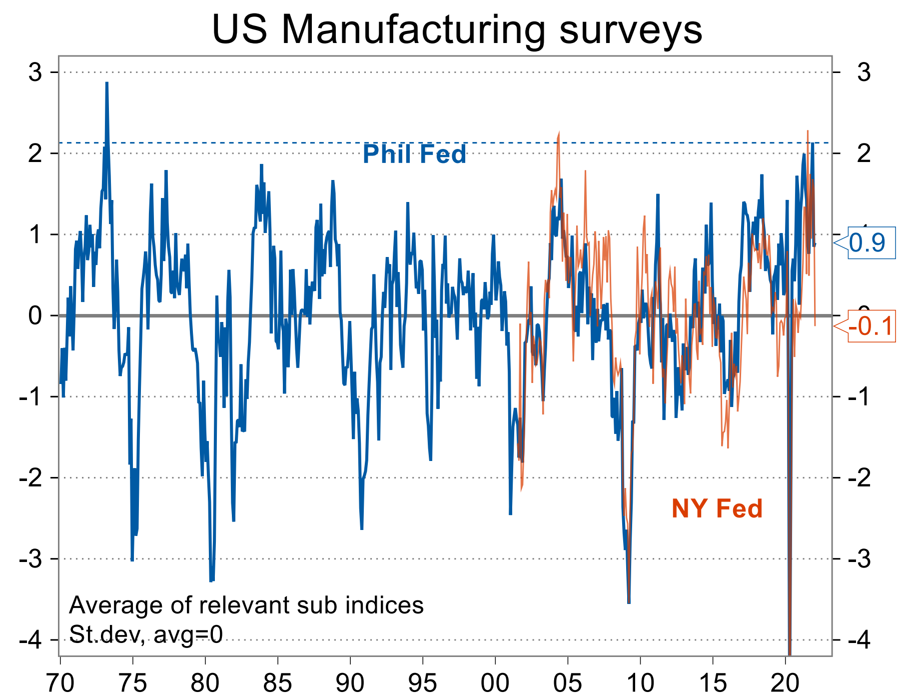


- Demand for new mortgages rose marginally last week but has not responded to the 40 bps decline in the 30-year mortgage rate since March – the no. of applications has fallen
- Demand for new mortgages (for buying, not refinancing) is not closely correlated to mortgage rates but the increase in demand last year was influenced by the steep decline in mortgage rates

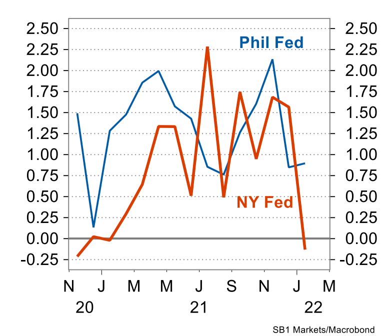
Philadelphia Fed’s manufacturing survey marginally up, NY Fed’ sharply down

… to below to an average level. Phil Fed 0.9 st.dev above avg

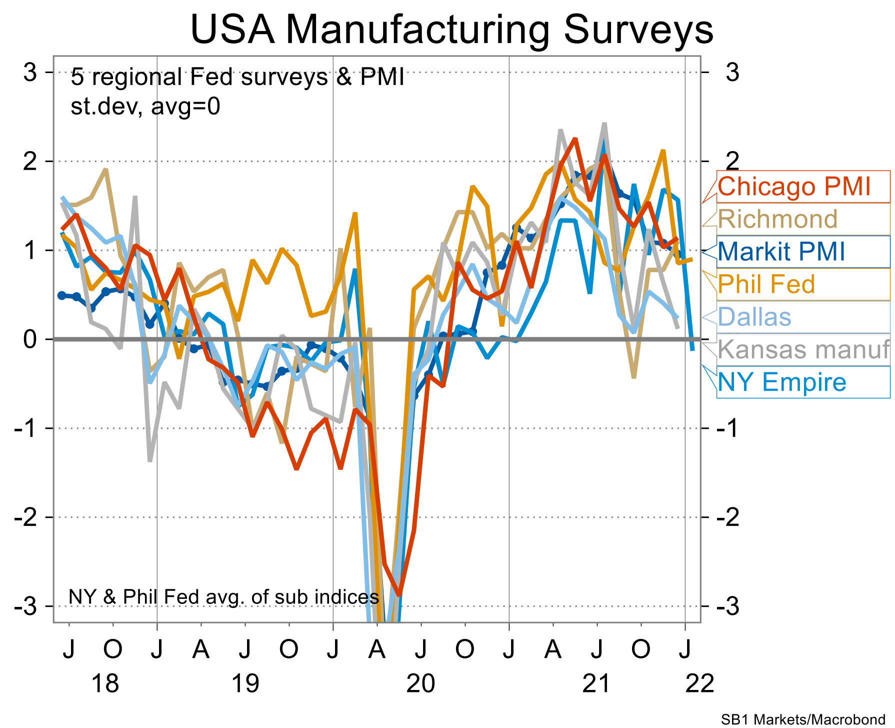


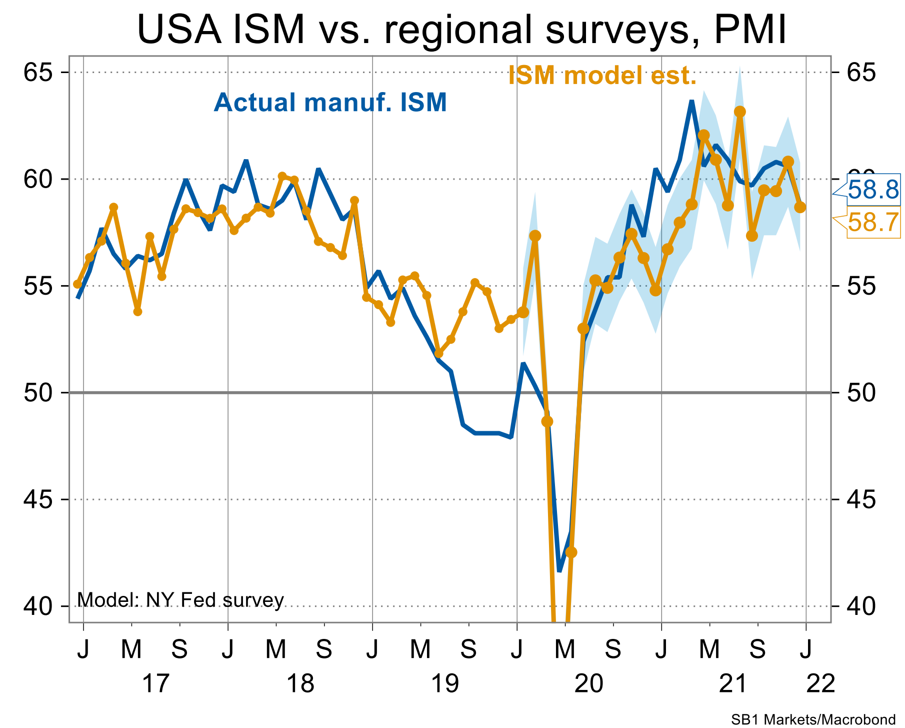


- Phil Fed: 23.2 in Dec, up from 15.3 in Nov, expected 19.8
- NY Fed: -0.7 in Dec, from 31.9 in Nov, expected 25.0
- No reason stated for the rather unusual decline in the NY Empire Manufacturing Survey January. However, optimism remained elevated



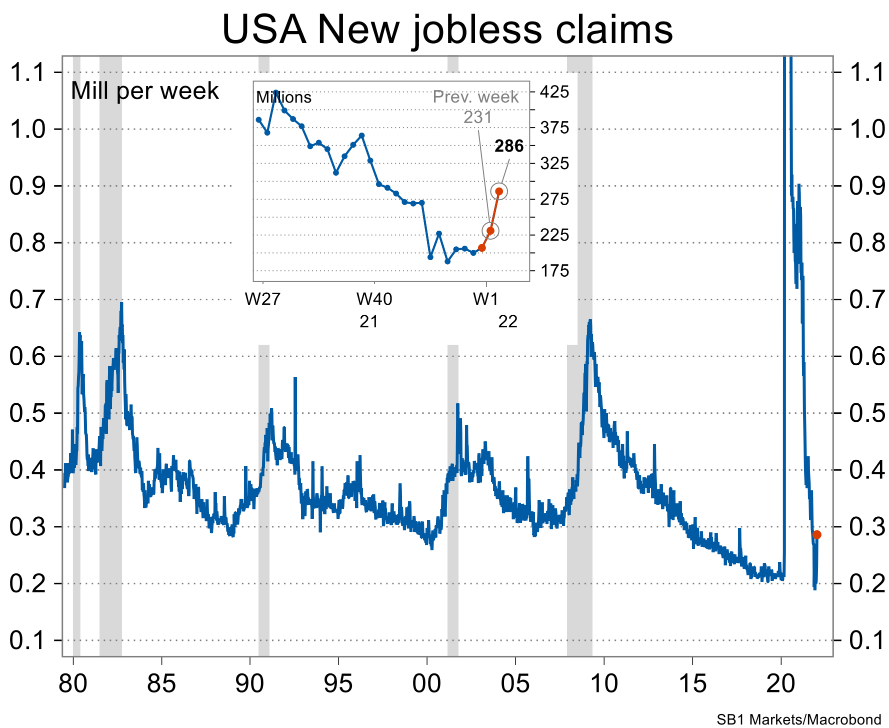
Manufacturing surveys so far in January: 1 slightly up, 1 sharply down

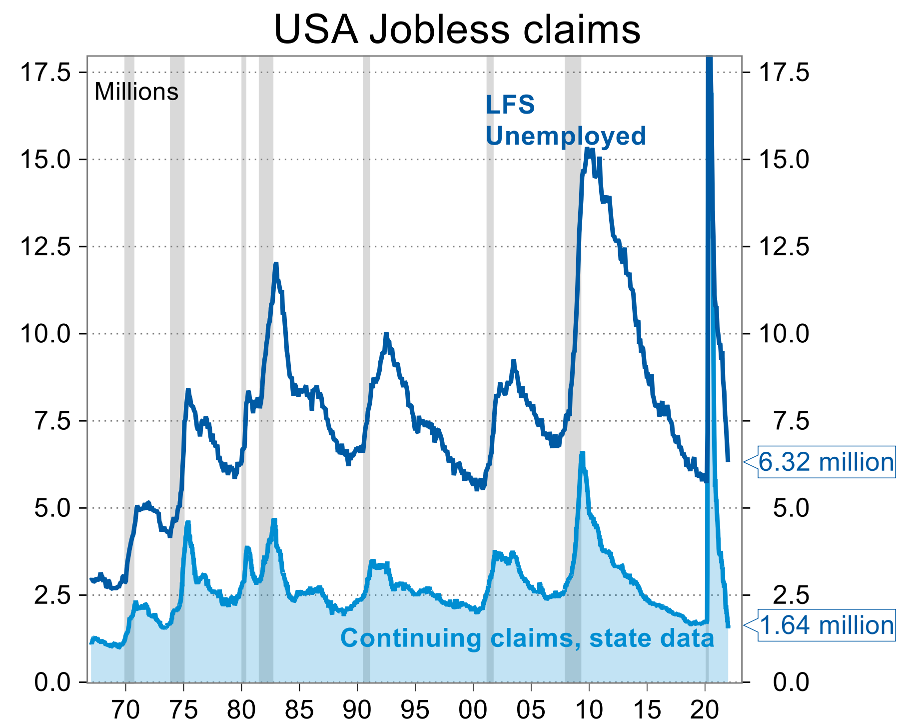




- … and then in sum a lower ISM index

Jobless claims sharply up last week, probably due to Omicron measures/impacts

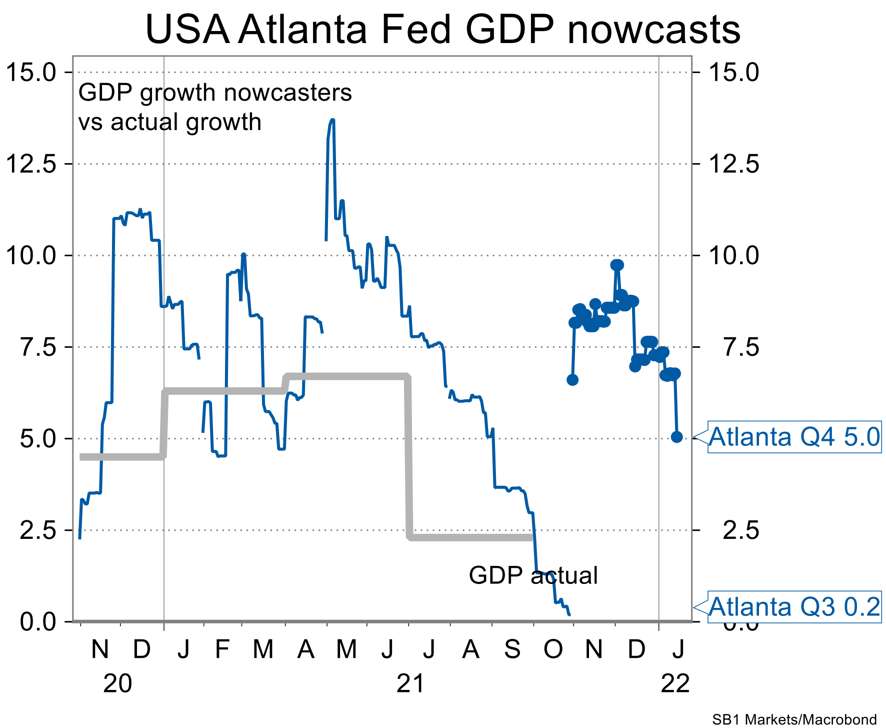


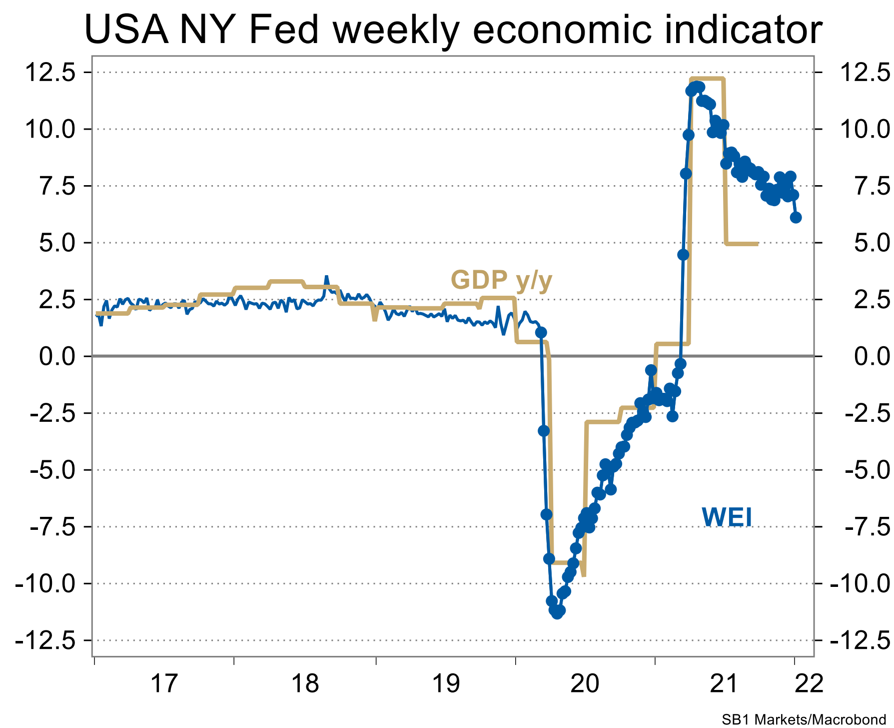


- **New jobless claims** rose to 286' in week 2 from 231' the previous week – the 2nd week in row with visible increase. The level is still low
- **Ordinary continuing claims** rose by 84' in week 1, to 1.64 mill. The level is still the lowest since 1973!
- The increase in **new claims** may of course signal some 'real' trouble at the labour market but most likely some temporary disturbances, like the impact of the omicron variant

Atlanta Fed's nowcaster suggests close to 5% growth in Q4, down from 8+

The weak retail sales report, a the decline in manufacturing production lowered the GDP f'cast





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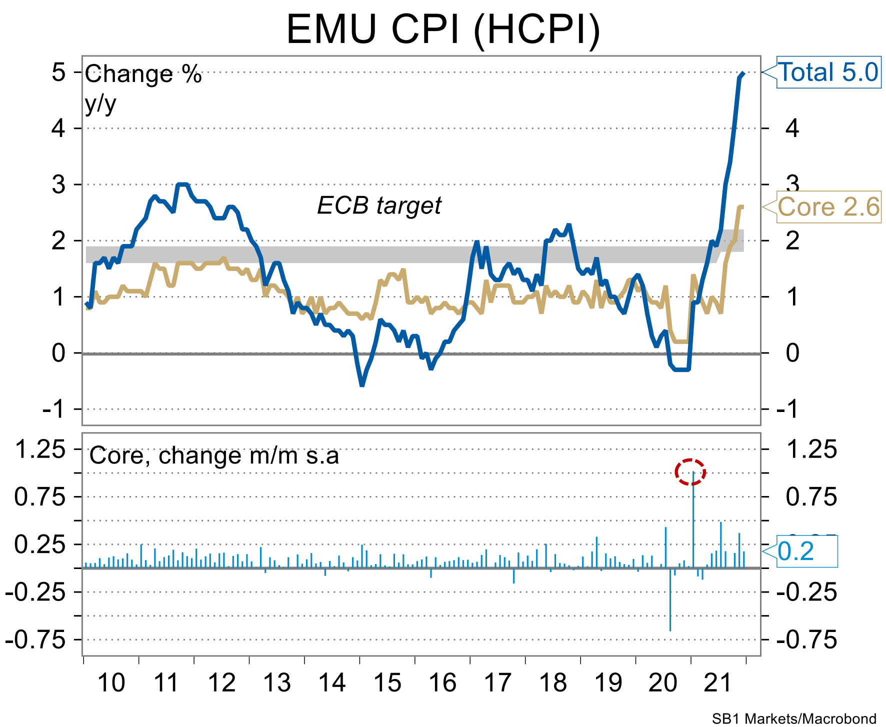
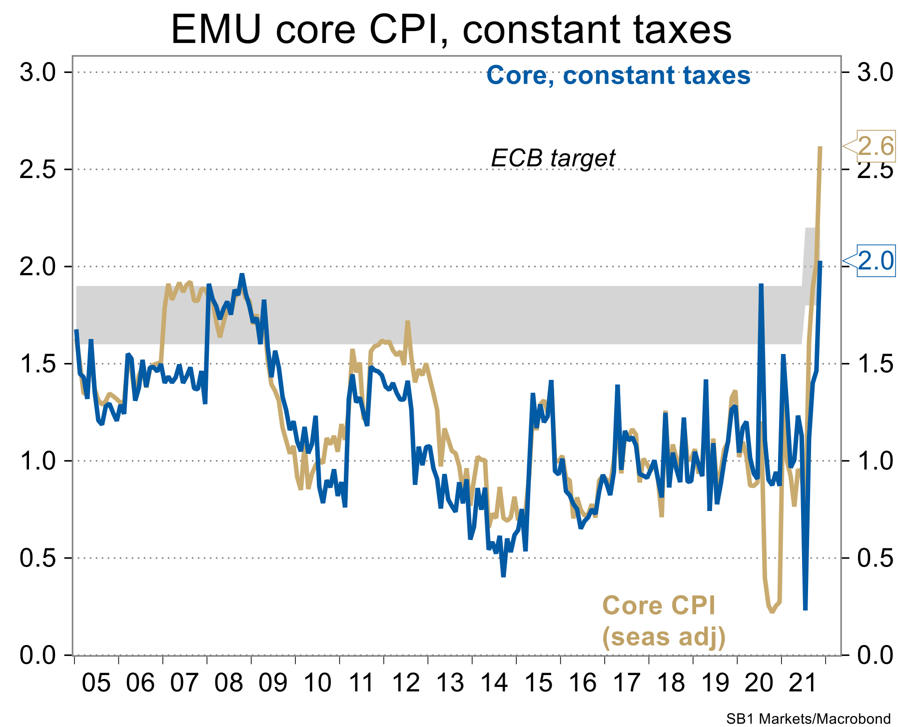
Eurozone inflation confirmed up 0.1 pp 5.0% in Nov

Core inflation flat at 2.6%, well above the target. But just wait until the January data are out ☺





- **The headline HICP** rose 0.3% m/m. Energy prices fell by 0.2% - but they are still up 26% y/y
  - » The annual rate at 5.0% is far above ECB's inflation target – but prices are just up 2.4% over the past 2 years (in average). Last Dec the headline CPI was down 0.3% y/y
- **Core prices** rose 0.4% m/m, and the annual was unch at 2.6%. Again, one year ago, annual inflation was just 0.2%, and the average over the past 24 months is just 1.4%
  - » The core CPI rate will decline substantially in January, as prices rose 1% m/m in Jan-21 (left chart, red circle)
  - » Food and beverage prices rose 0.6% m/m, while services ex. recreation/holidays declined by 0.4%
- **Adjusted for changes in taxes**, the core was unch at 2.0% y/y in Dec, according to Eurostat. Over the past year this index has been very volatile, and we are far from sure this calculus is correct now

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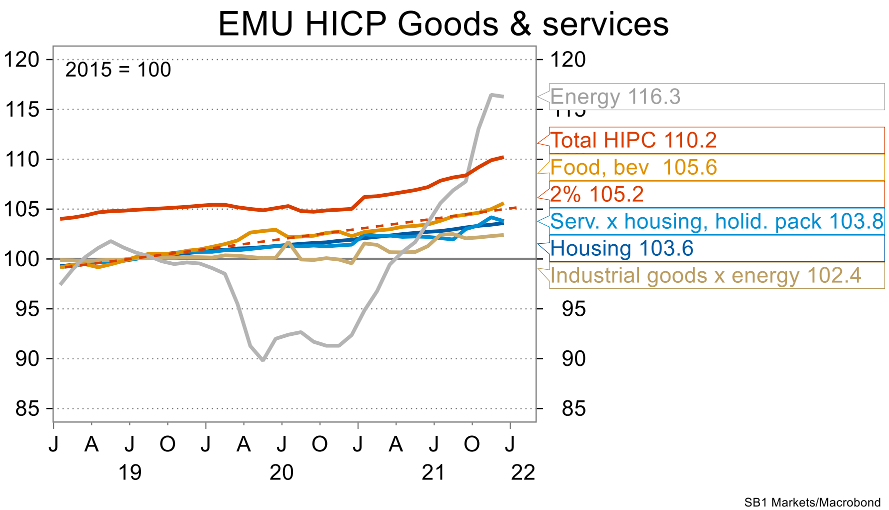
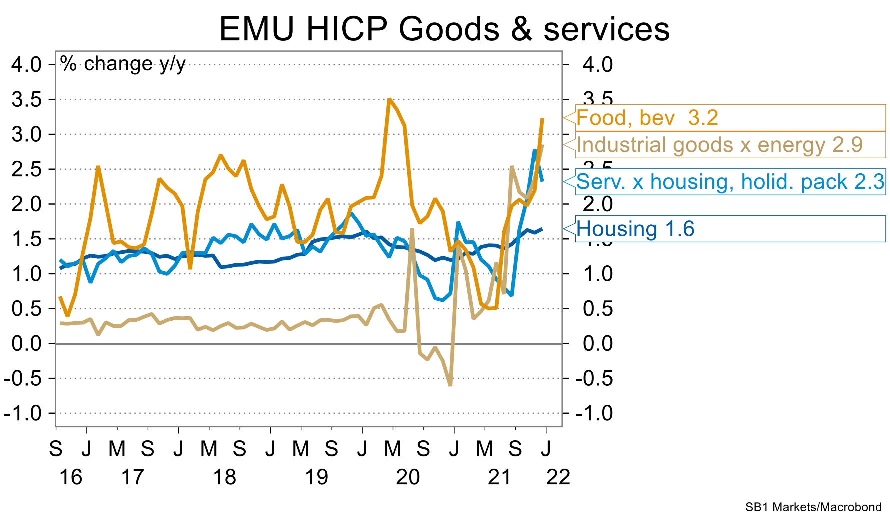
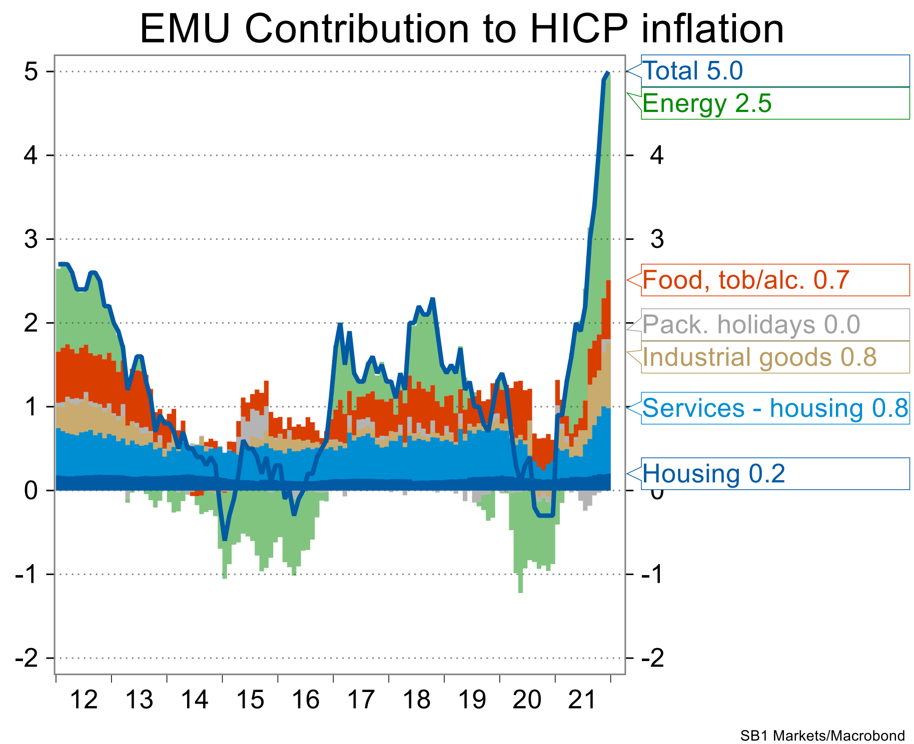
Energy remains main culprit, not that much to worry about elsewhere

Other prices are up more than 2.5% y/y but mostly from a low level last autumn

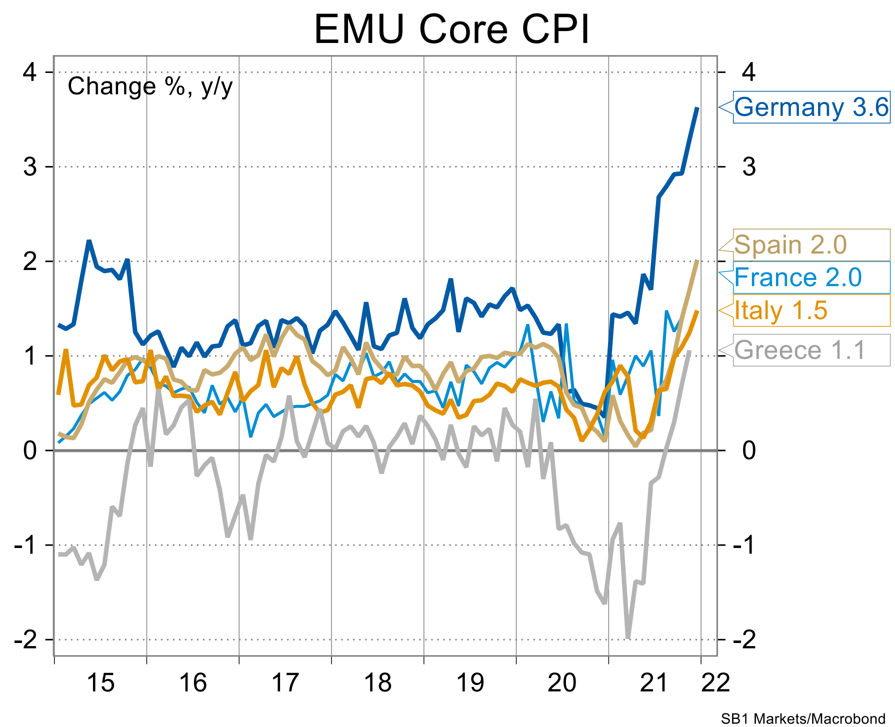


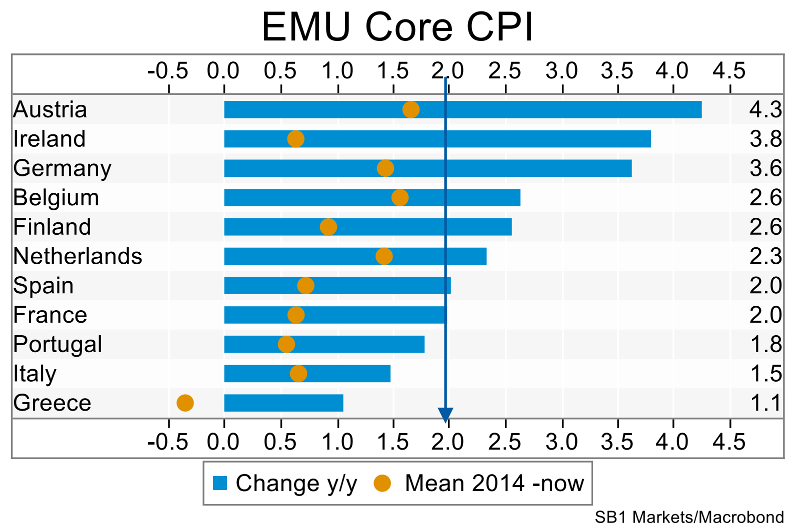


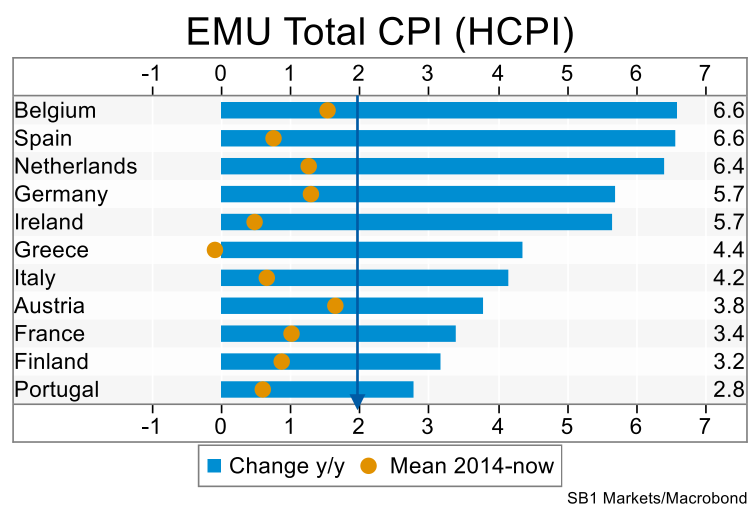


- Energy prices fell slightly in December – and are up 26% y/y
- Some other prices are rising faster y/y too, but mostly due to dips in prices one year ago

Core inflation now above 2% in a majority of countries



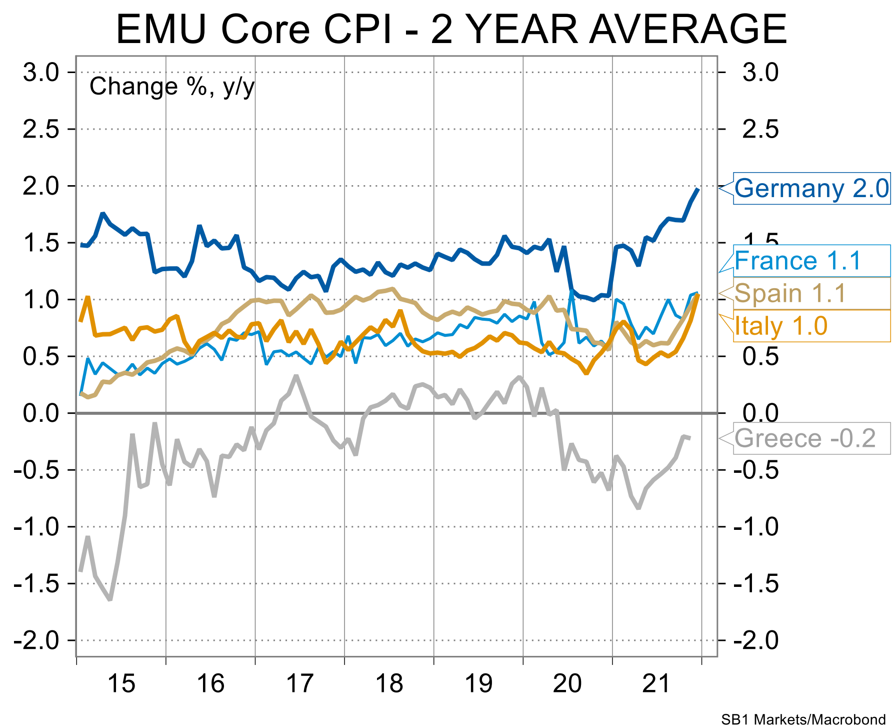


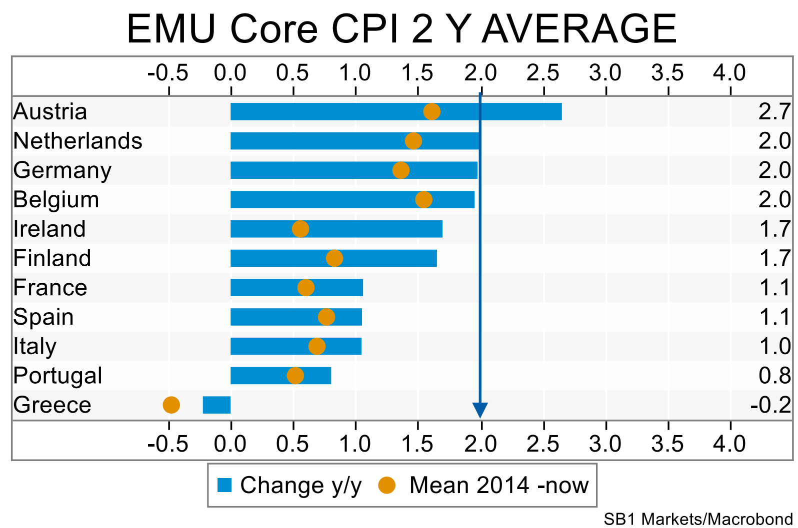


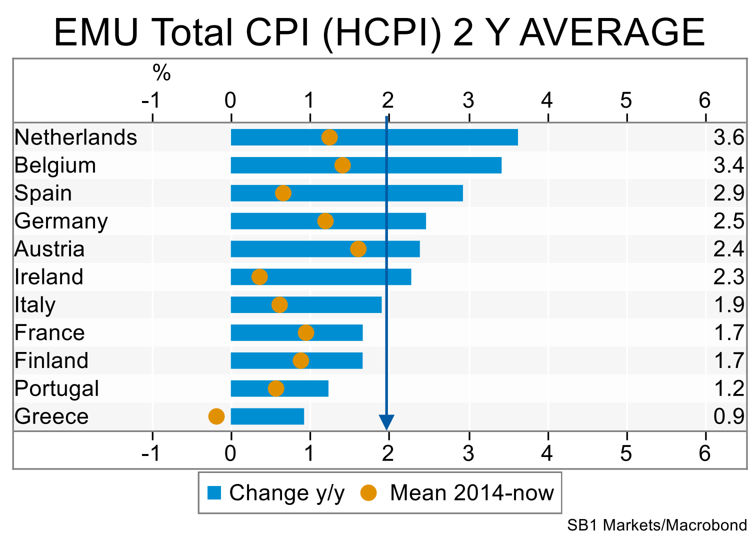
- The base effect is substantial: *Check next page*

Over the 2 PAST YEARS: A bit more nuanced picture!

Core inflation below 2% almost everywhere – just Austria above







- The base effect is substantial. In Germany the average core inflation over the **two past years** is 2.0% - but total inflation is up 2.5% due to the lift in energy prices (down from 2.7% in Nov)

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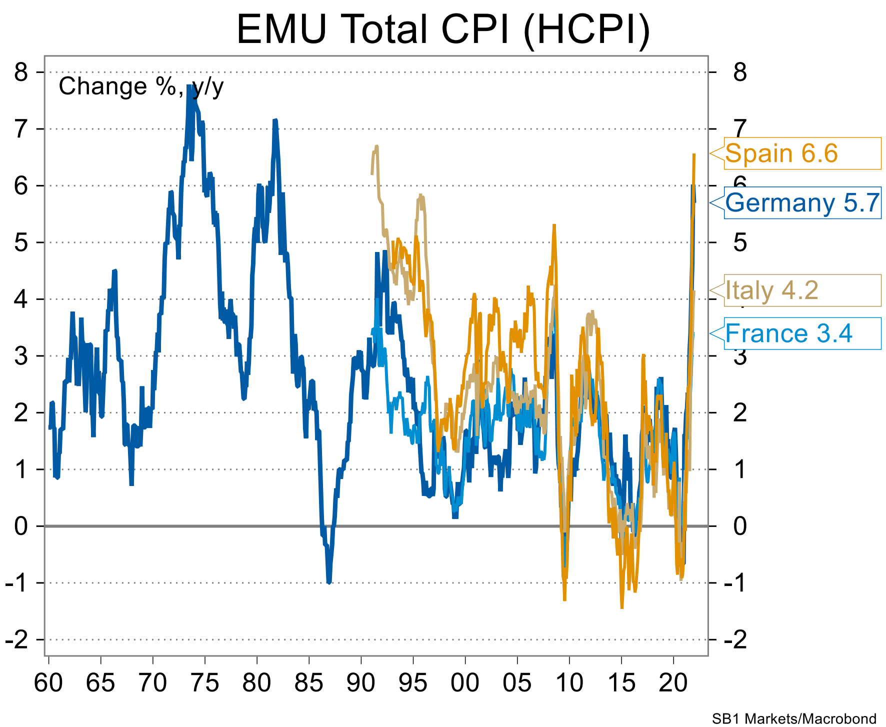
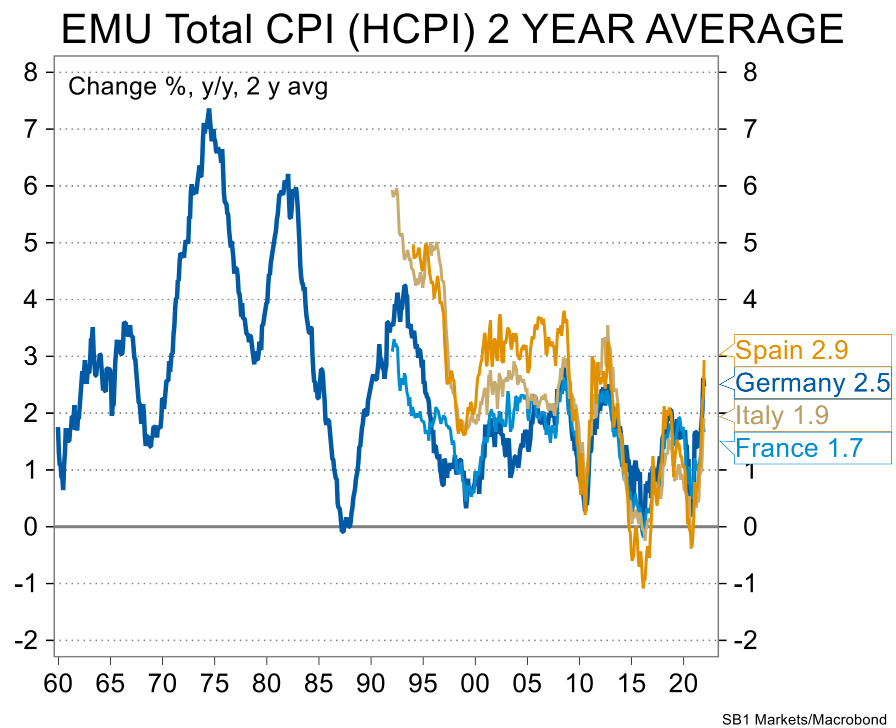
German inflation is the highest since 1980 but not that dramatic over past 2 years

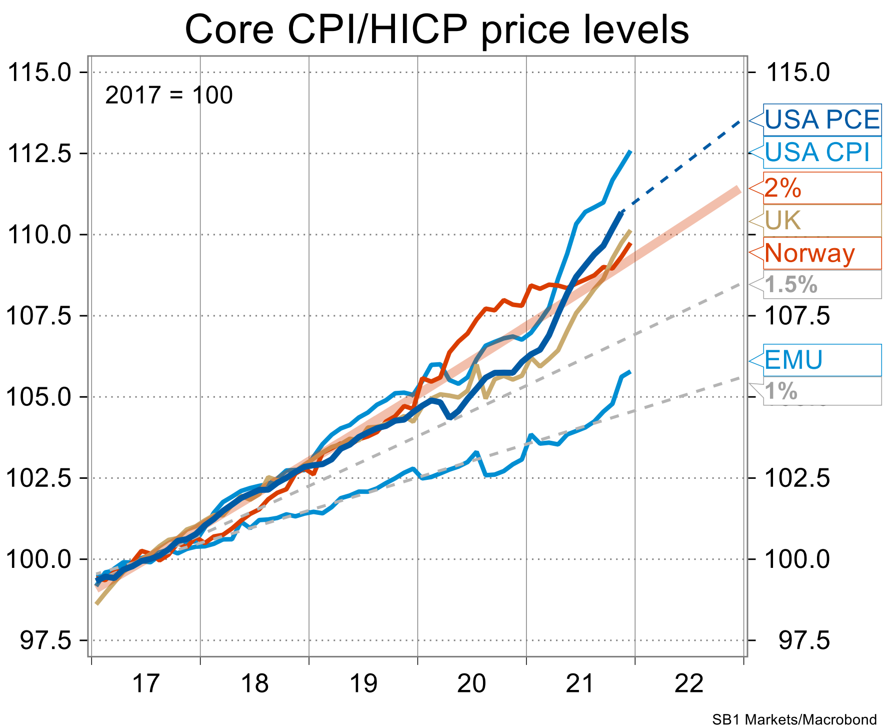
Still, the 6% inflation rate is making headlines in Germany (the HICP is at 5.7%)





The EMU & the ECB do not have the same challenges as USA & the Fed

While UK may be positionend inbetween.



- Spot the huge difference over time between EMU and the others (here USD, UK & Norway)

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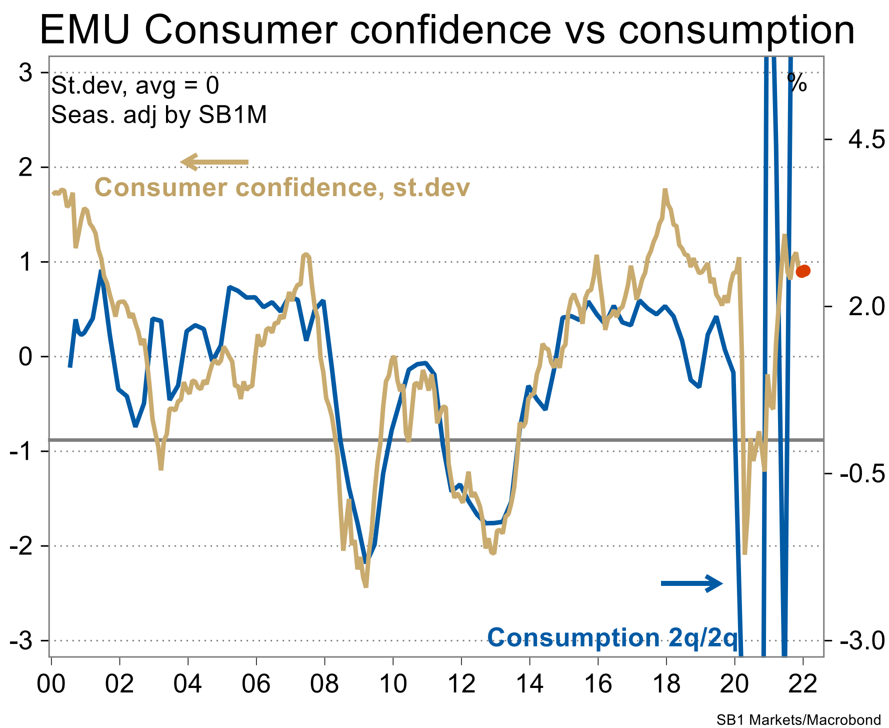
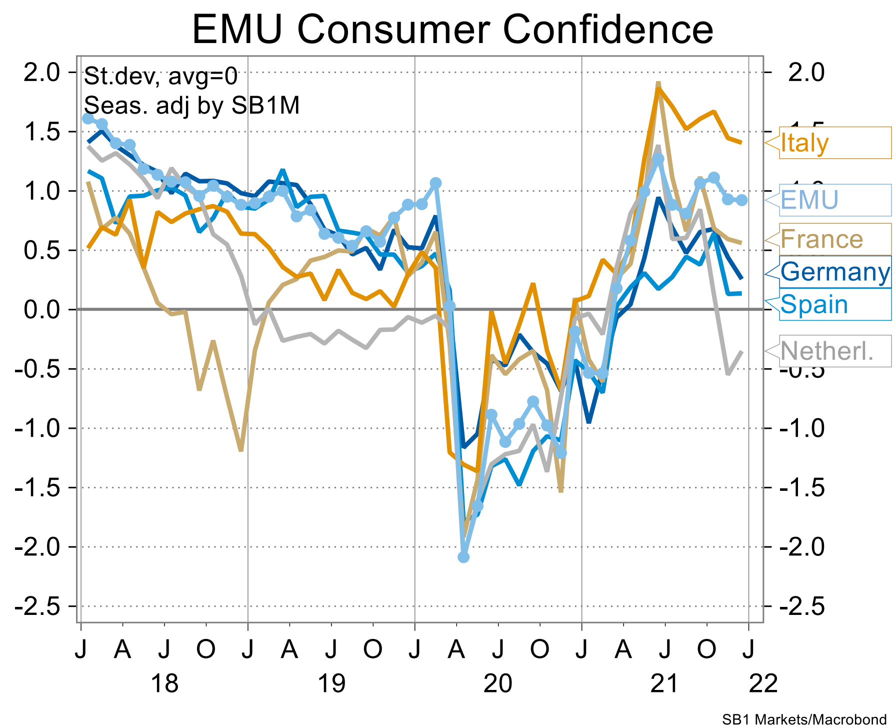
The fight against the virus has not brought consumer confidence down

The level is now 0.9 st.dev above average – and better than before the pandemic

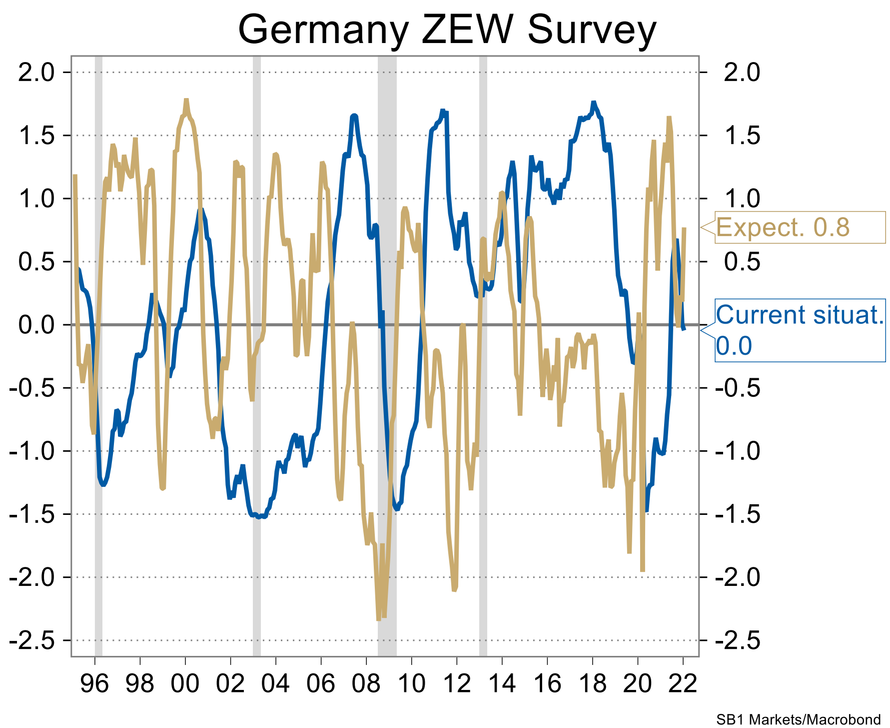




- **The consumer confidence index** was unch to unch in January too

Analysts, investors more confident: ZEW expectations sharply up in January

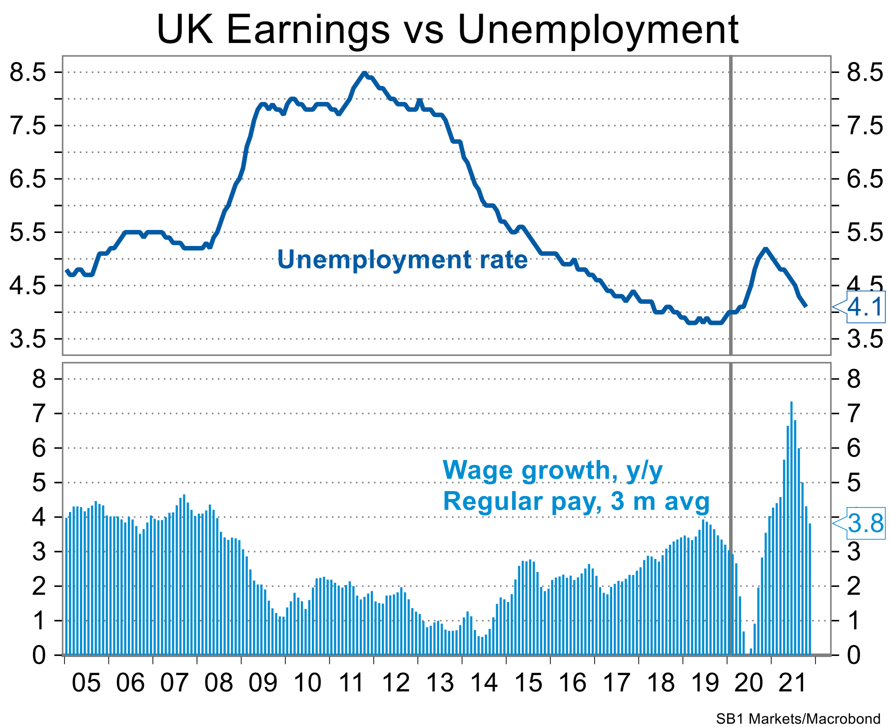
Light in the end of the Omicron tunnel: ZEW signals hope of growth well above trend

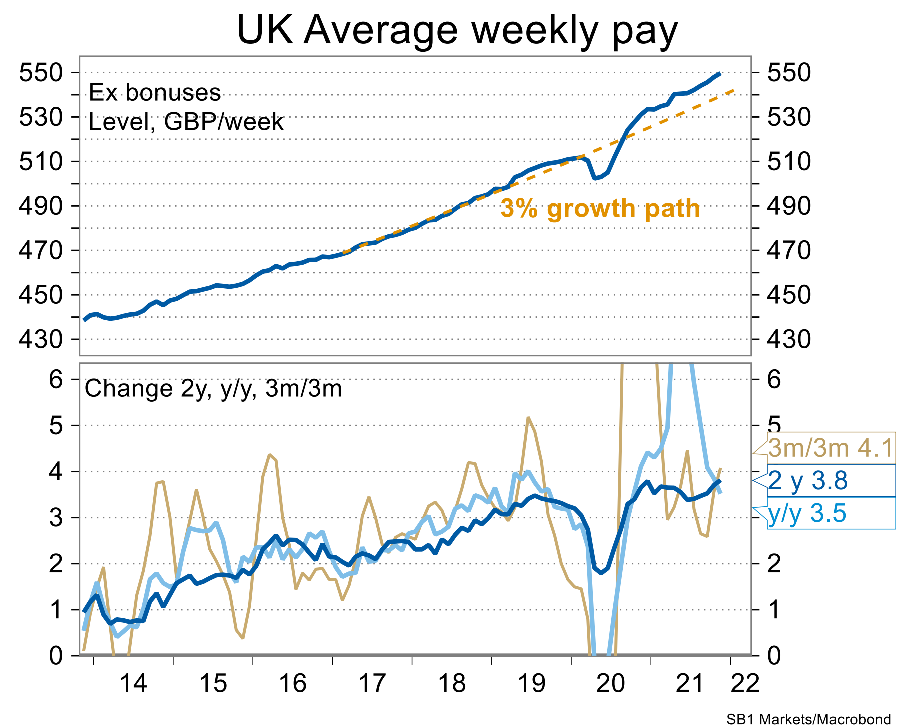


- The **ZEW expectation** index jumped to 51.7 (+0.8 st.dev above avg) in January from 29.9 (0.2) in Dec, expected up to 32.5 (0.3). The correlation to actual growth is not that close but a ZEW print at the present level normally signals growth well above trend
- **Assessment of the current situation** declined fell just marginally, and remained at an <u>average</u> level, which is not that bad given the decline in GDP in Q4 due to Covid measures

Unemployment is falling further, down to just marginally above the pre-p level

And now wage inflation is accelerating somewhat (even if annual growth rates are slowing)

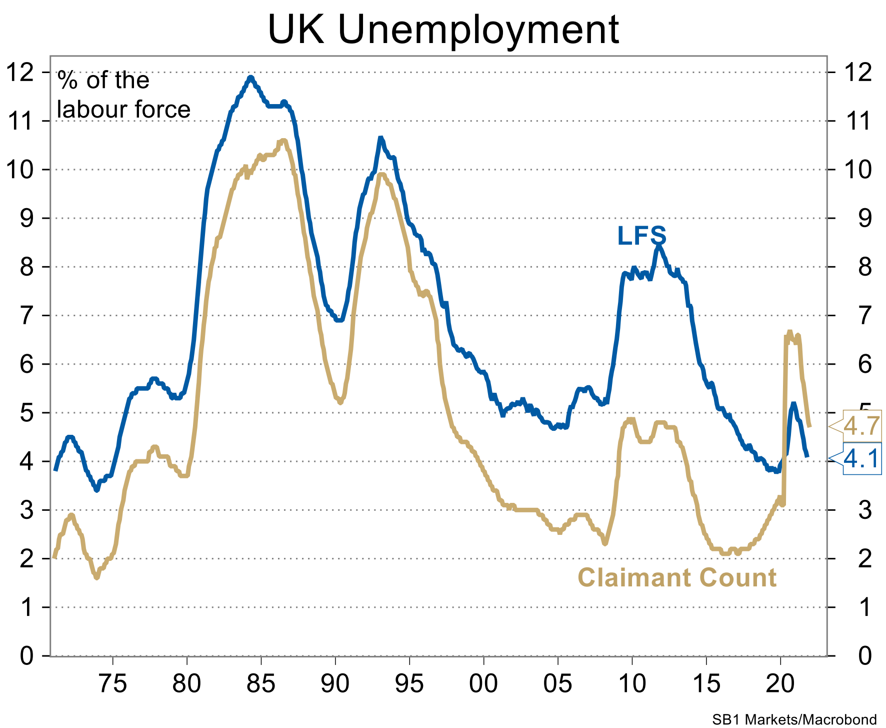


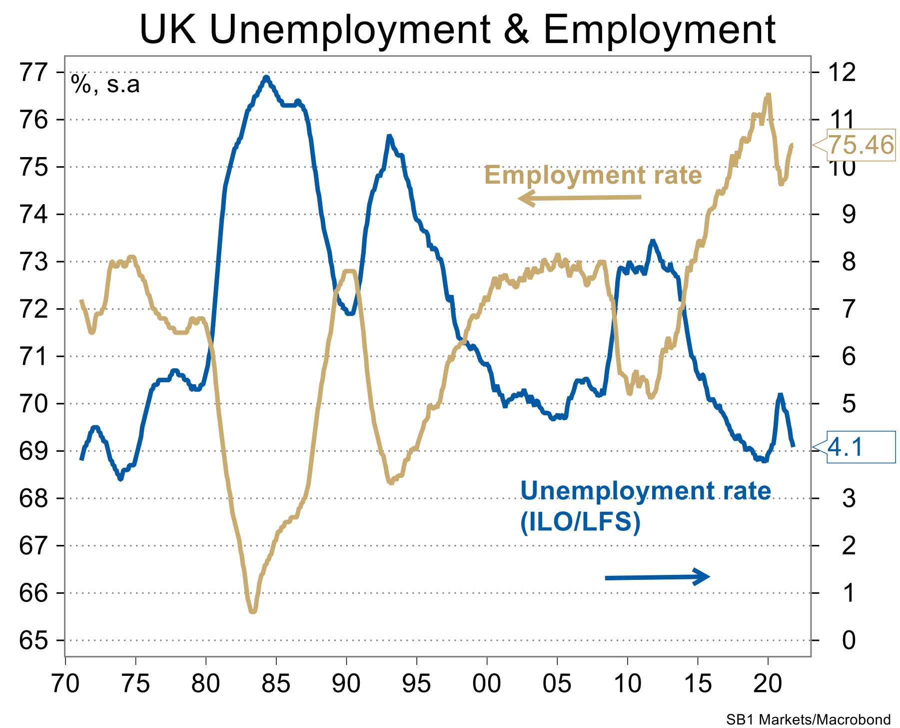


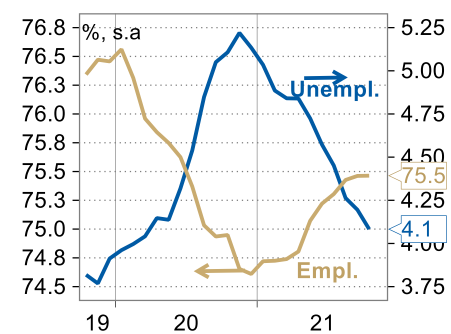
- The **'LFS/ILO' unemployment rate** fell 0.1 pp to 4.1%, expected unch. Unemployment is just 0.1 pp higher than before the pandemic
- **Annual wage growth** (regular pay) decreased to 3.5% in Nov from 3.8% in Oct (the 3 m avg to 3.8% from 4.3%, as expected). Including bonuses, wages are up 3.5% too
  - » Over the 2 past years, wage are up 3.8% in average. Over the past 6 months (3m/3m) wage are up 4.1%
- Prior to the pandemic, wage inflation was slightly above 3% – which was substantial higher than over the years before: at 1 – 2½ %

‘Open’ unemployment at 4.7%, sharply down since the spring but still ‘high’

The employment rate is still 1.1 down (1.4%) vs. Feb-20

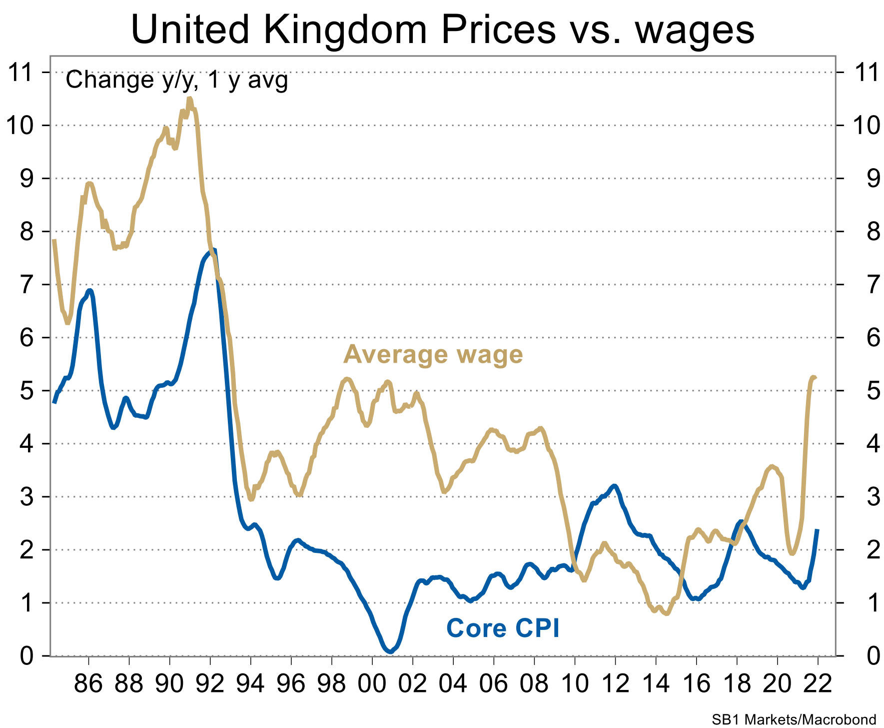






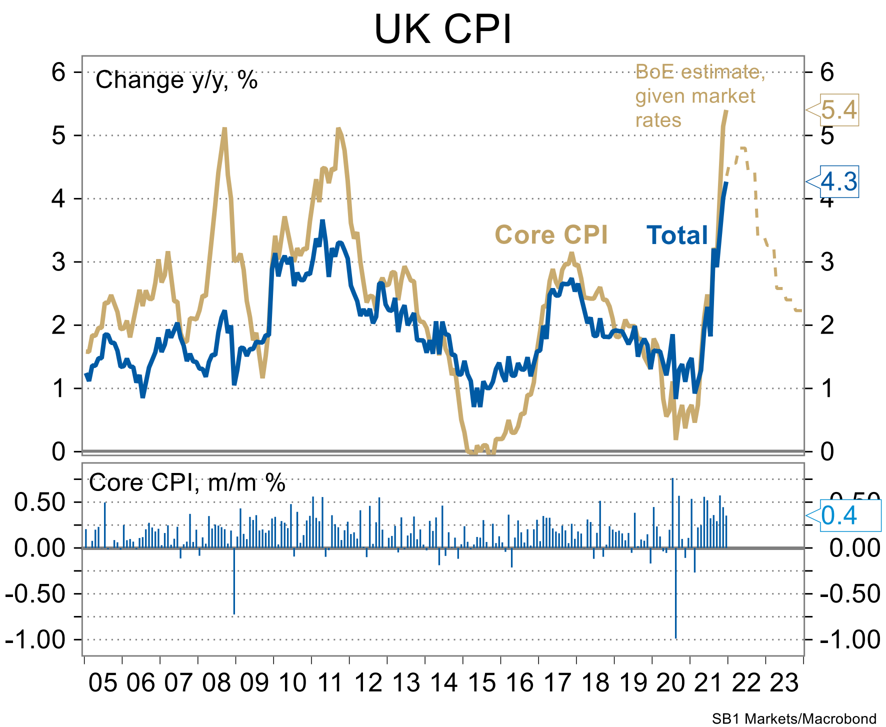
No close short term correlation between wages and prices

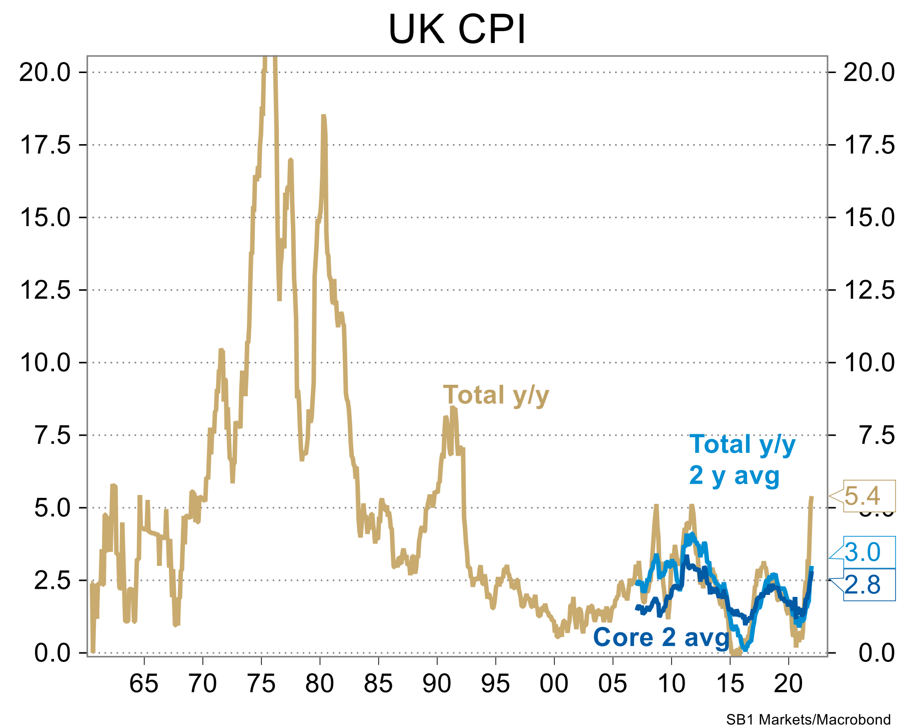
But over time, wages are the main driver



Inflation at 5.4%, well above BoE's f'cast, the core rate up to 4.3%

The headline rate 0.1 pp above consensus, the core 0.3 pp above

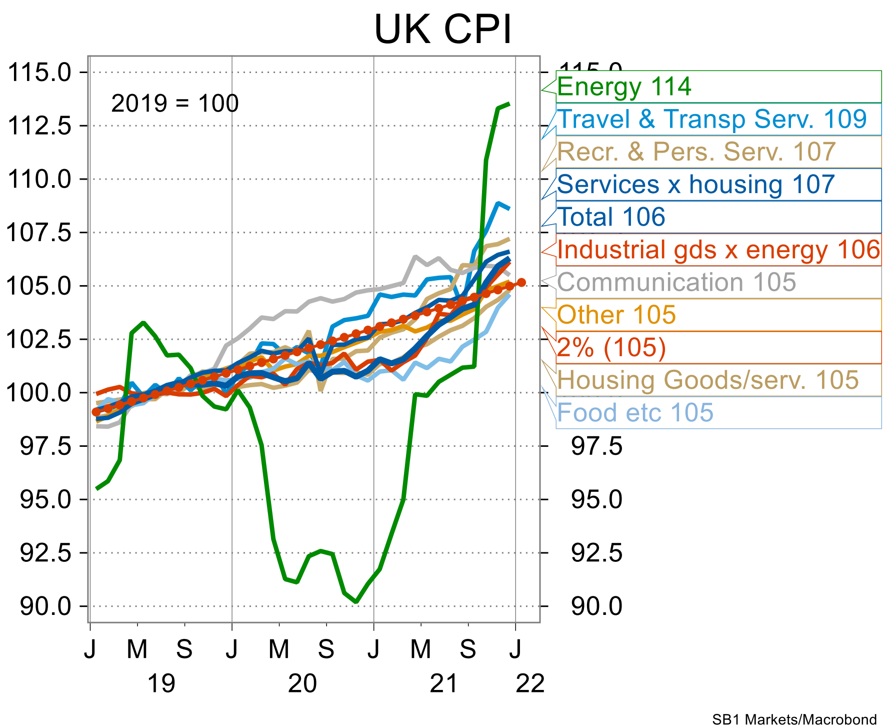


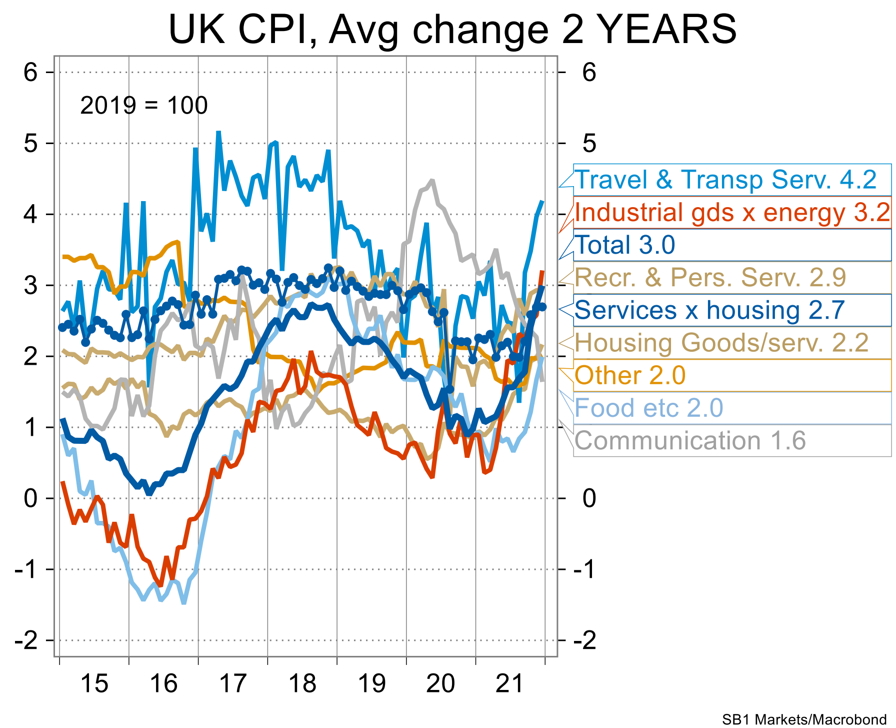


- **Both the total CPI** & the core CPI rose 0.4% m/m, and the core rate well above expectations. The annual rates are the highest since the early 1990'ies. Measured over the past 3m/3m the core index is up more than 5%
- **Measured over 2 years**, headline is up 3%, and the core is up 2.8%, which illustrates the base effects on the present much higher y/y rates. Still, inflation is higher than BoE's 2% target, anyway how we calculate it!
- **Transport** has lifted CPI by 1.6 pp. 2nd hand cars are sharply up, as are fuel prices
- **Housing, included energy**, has lifted the CPI by 1 pp. Still, there are many other contributors left…

Energy a culprit but many prices are accelerating, now

Measured over 2 years, inflation is not that high – *but recent monts prices have been accelerating*

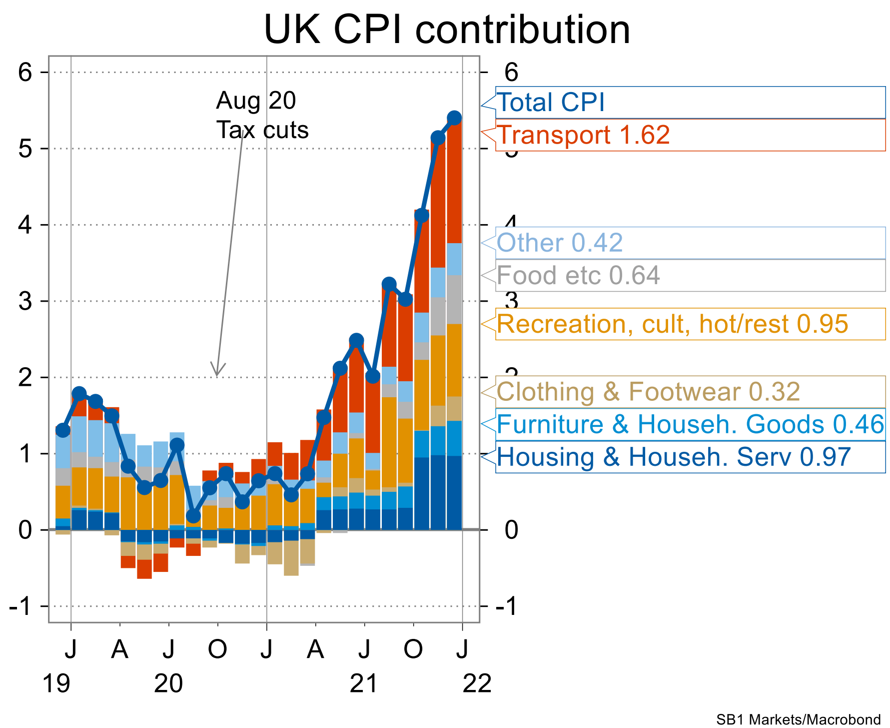




- **Energy prices** are up 24% y/y, rather modest vs. the lift in spot gas and electricity prices

Transport, housing, recreation/hotels/restaurants the main contributors

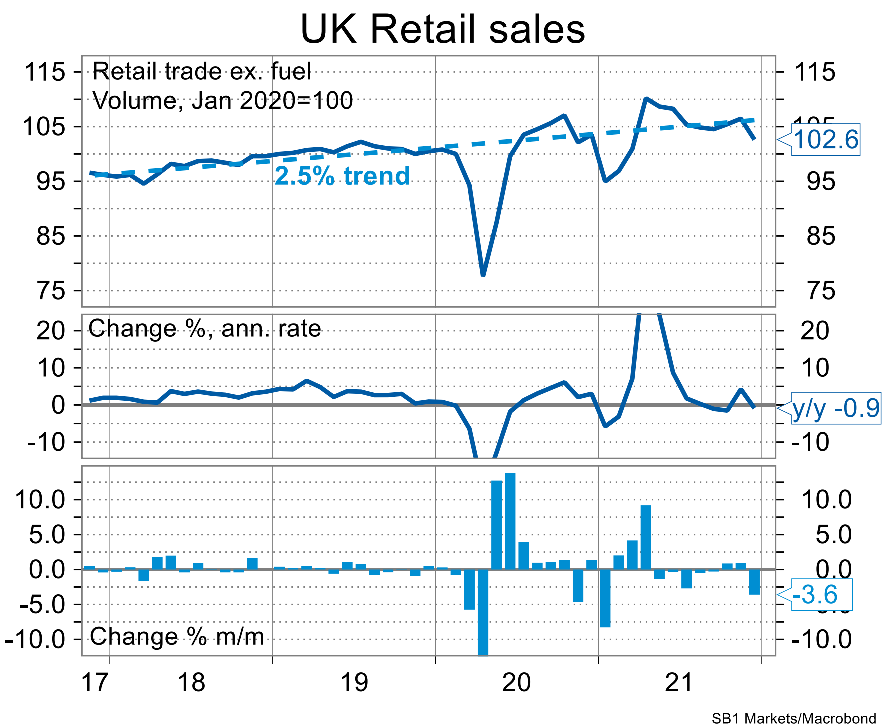
Within transport and housing, the energy component is the main culprit. But….

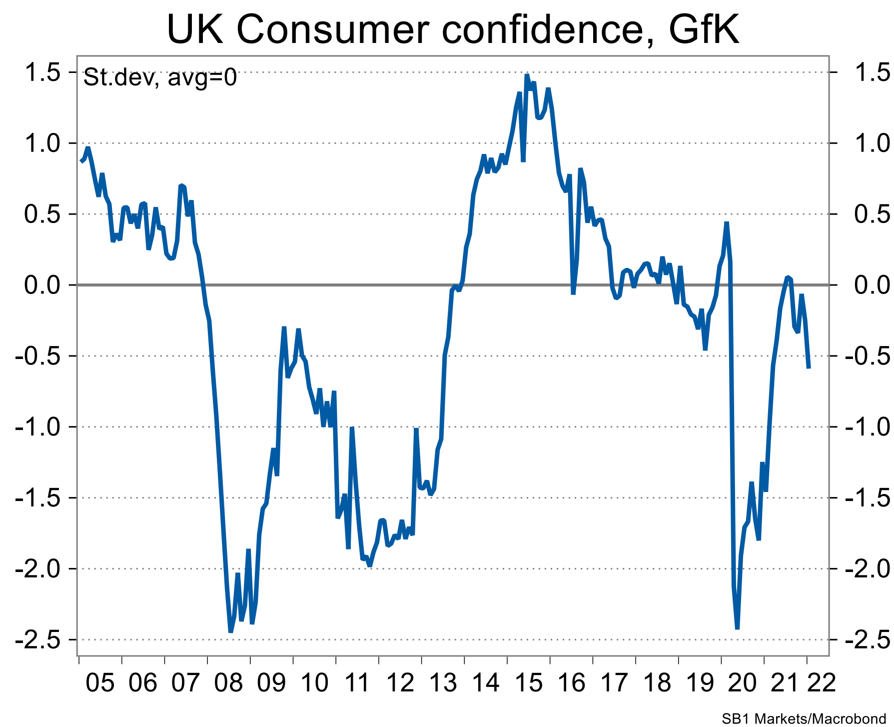


- **Energy prices** are up 22% y/y, rather modest vs. the lift in spot gas and electricity prices
  - » Residential energy is included in housing in the charts above

Dec retail sales hard hit by Omicron measures/changes in behaviour, down 3.6%

Sales were expected down 0.8%. Consumer confidence fa





- **Retail sales** peaked last April, and by November the gradual decline had brought sales almost down to the pre-pandemic 2.5% growth path
  - » The outbreak of the Omicron virus may explain the sudden decline in sales December
- **Consumer confidence** has remained close to an average recent months – until early January. However, the level is not low and we expect that the lifting of all restrictions last week will lift the mood in February. And probably consumption as well

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Highlights

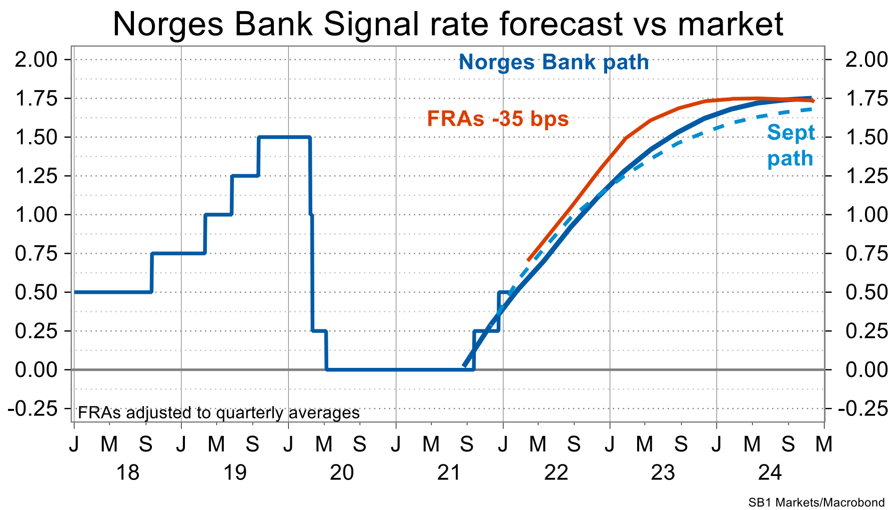
The world around us

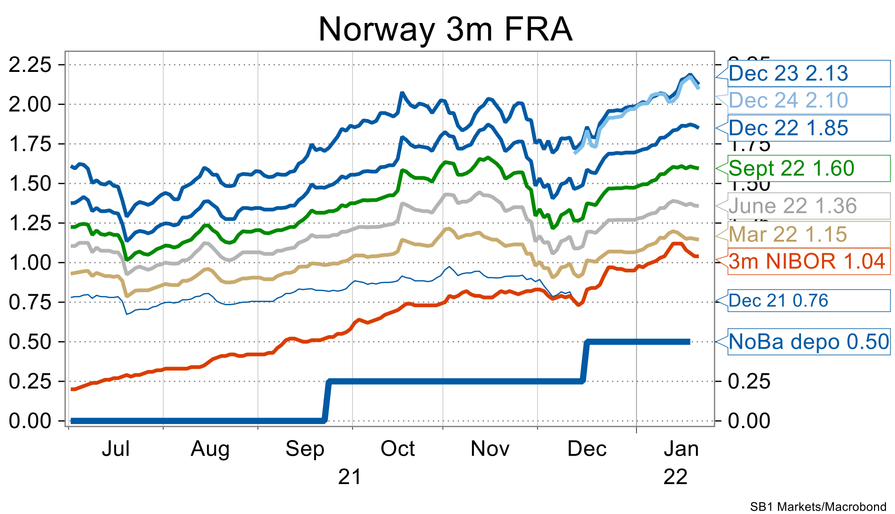
The Norwegian economy

Market charts & comments

Norges Bank confirmed the plan, a next hike in March

The bank is not in doubt about the next step, and the market expects a further lift in the rate path



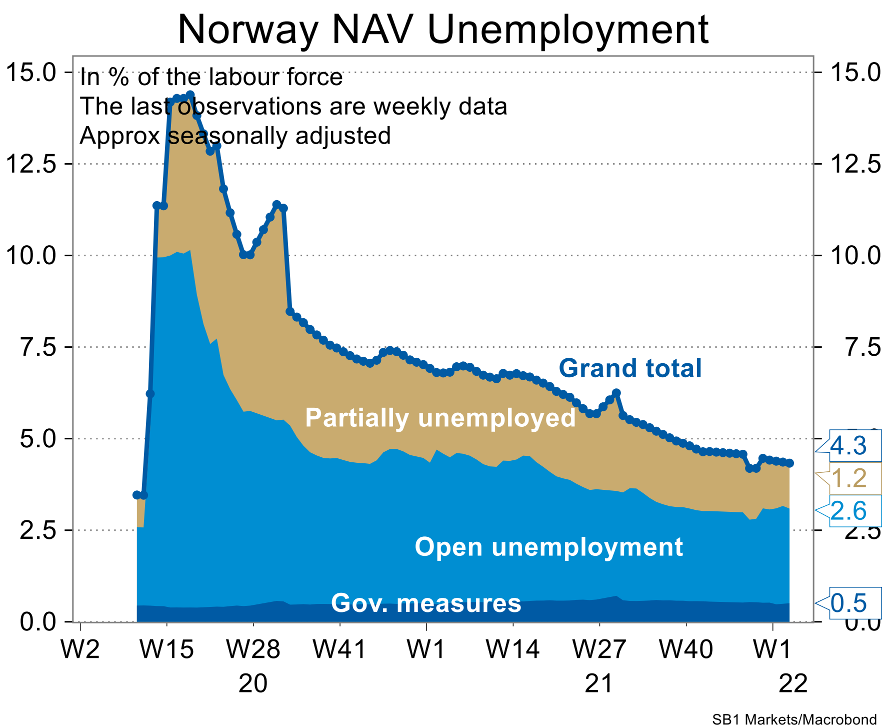


- **Key policy rate** was kept unchanged at 50 bps, as everybody expected
- Norges Bank recognises that unemployment has increased less than the Bank expected in mid December (and it has fallen if partially unemployed are included), and states '*that relaxation of containment measures will likely contribute to a continued economic upswing. Underlying inflation has risen more than expected and is now close to the target*. (…) *Monetary policy is expansionary'*. (…) *the policy rate will most likely be raised in March*

- FRA-rates have climbed sharply since before the December interest rate hike (which was just partly expected), mostly in line with higher interest rate expectations abroad
  - » A March hike is fully priced into the FRA-curve, even with a 40 bps expected NIBOR spread (now at 44 bps)
  - » We assume a 35 bps NIBOR spread is discounted from June onwards, the market expect, hikes in June, September and December, up to 1.5%, all with 'full' certainty
  - » NoBa signalled a 1.11% average signal rate in Q4 (and 1.28% in Q1-23). The market is now 20 bps ahead of NoBa in Q3, and the gap widens in 2023

NAV total unemployment is still drifting down, in spite of Omicron restrictions

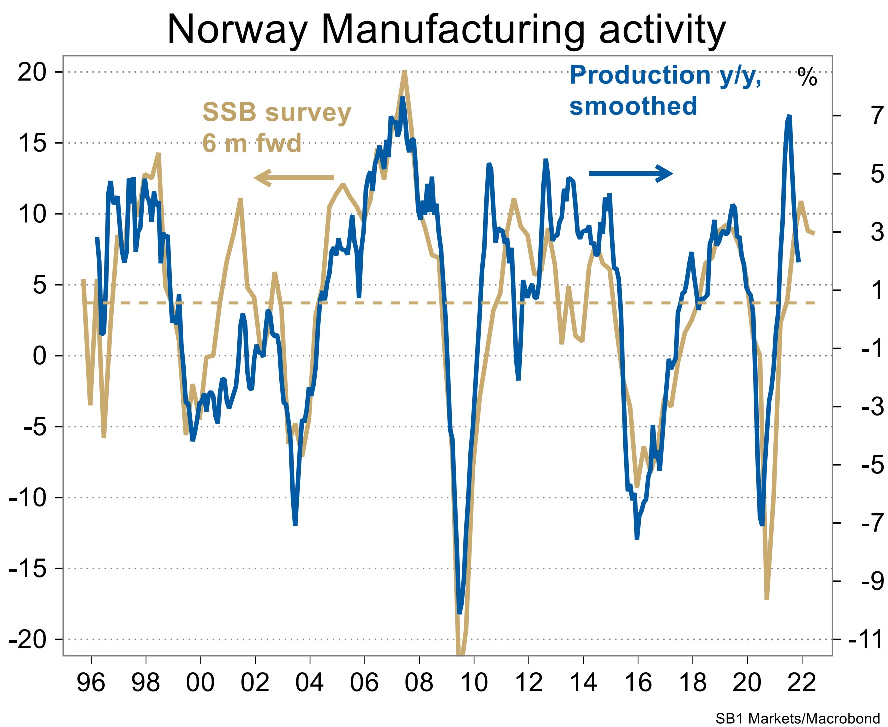
… which were substantially eased two weeks ago

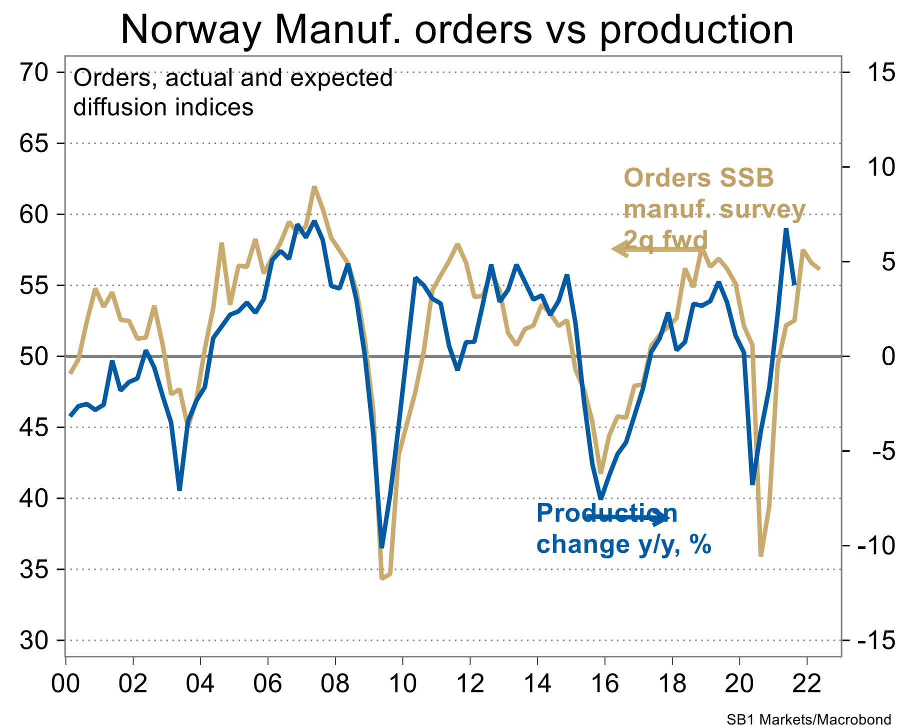


- The no. of **full time unemployed** is marginally up but including the part time, **total unemployment** is heading down
- And now restrictions are eased vs restaurants, that were hit by the measures decided in mid December

SSB's manufacturing just marginally down in Q4, increased supply limitations

Signals growth well above trend the coming months, broad based

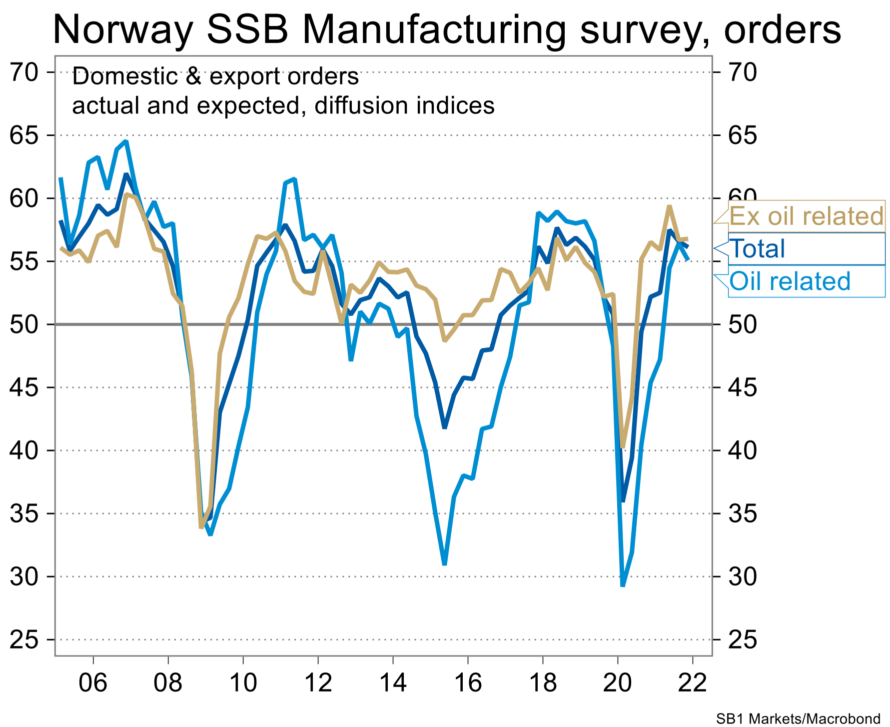


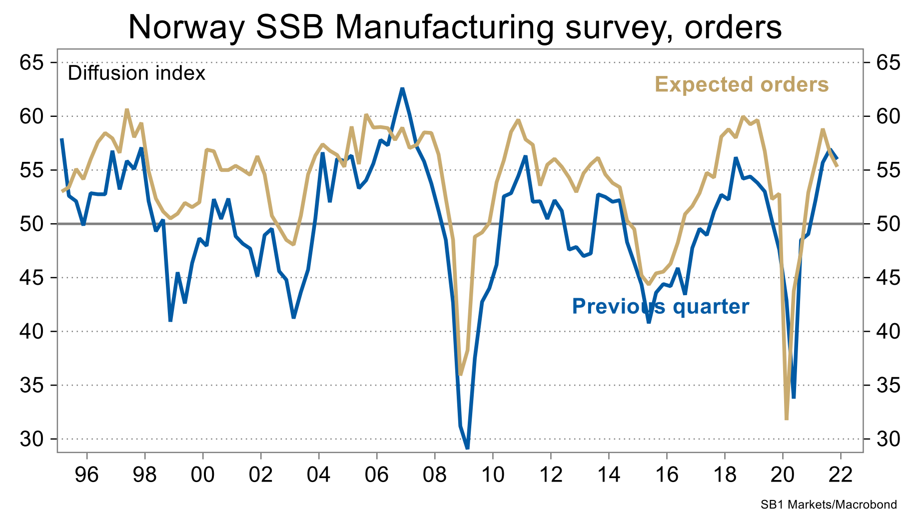


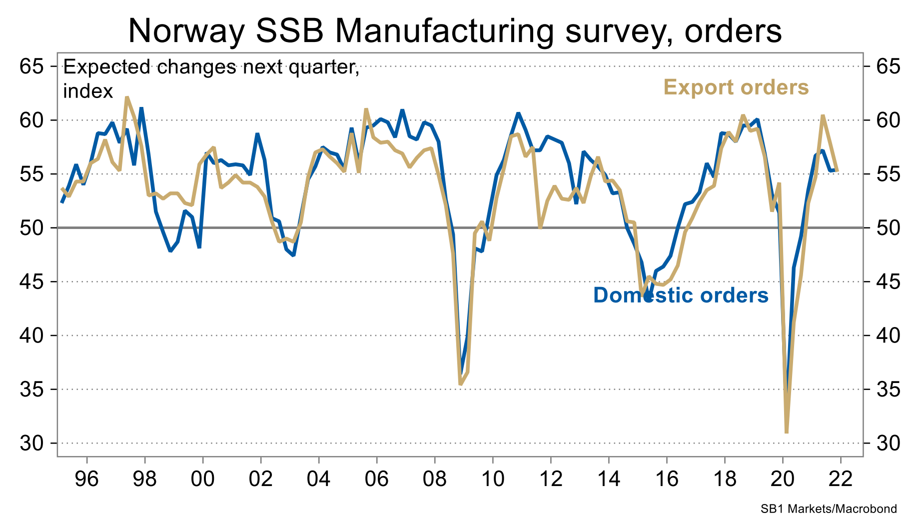
- The composite index in SSB's manufacturing survey fell 0.2 p to 8.6 in Q4, we expected a decrease to 7. The level is 5 p above the average (or +0.7 st.dev above avg)
  - » The index signals growth well above trend in production, 3½ GDP growth and – together with the oil price, a 40% growth in 12 m expected corporate (OSEBX) earnings, though below analyst's current 58% growth estimate
- Orders are growing rapidly but marginally slower in Q4 – no significant differences between foreign and domestic orders, oil realated or other sectors
- ***Supply constraints the most serious since 2008. Demand/competition is far less of a problem than normal***
- ***Companies are reporting they expect prices to rise faster than ever (data from 1990)***

Order growth still OK but a tad slower in Q4

No difference between oil related and other sectors

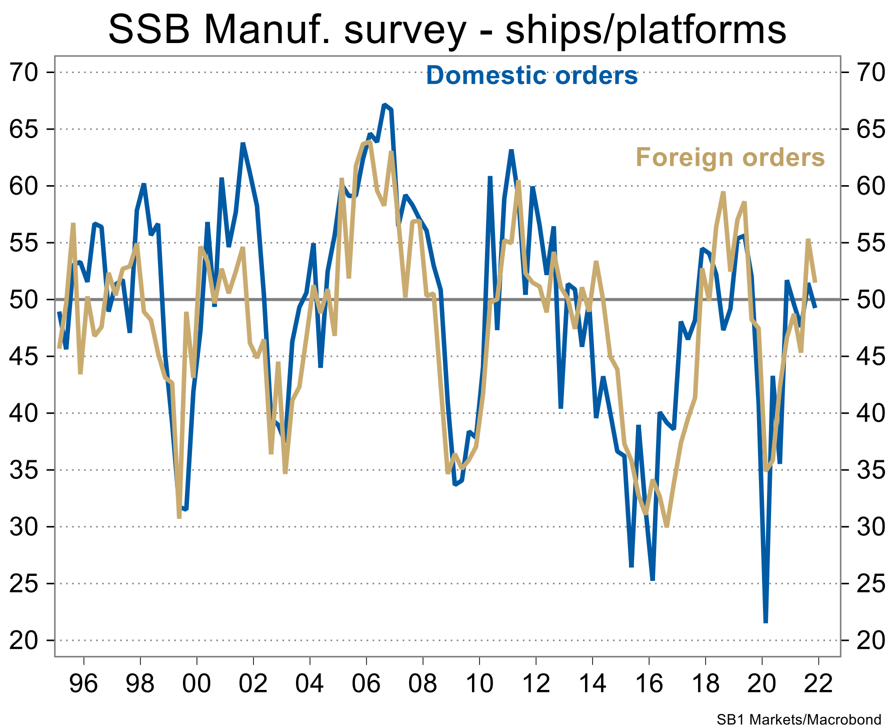






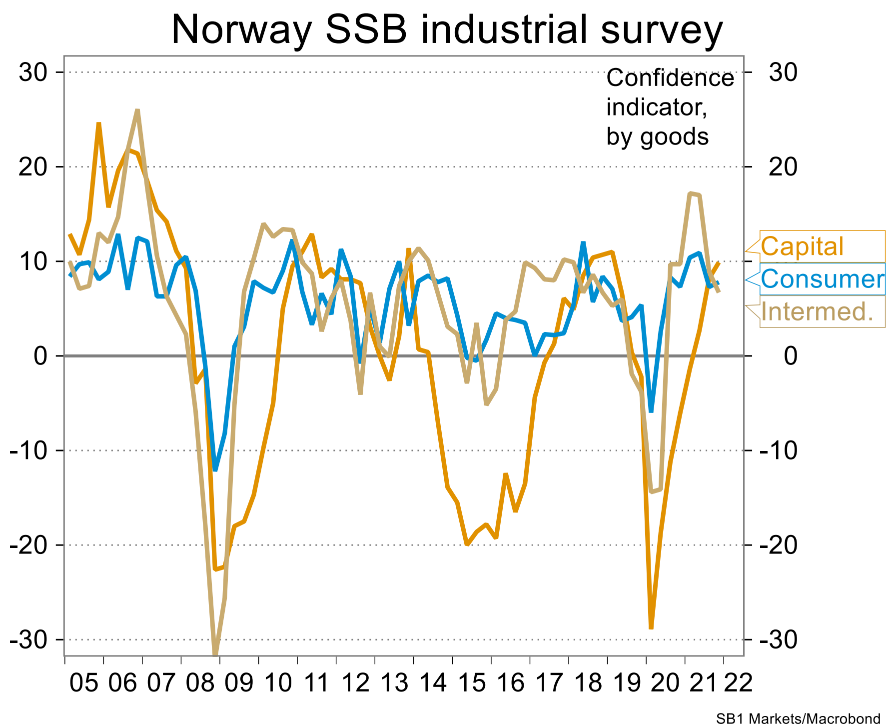
Ships/platforms: Orders have recovered but not further in Q4

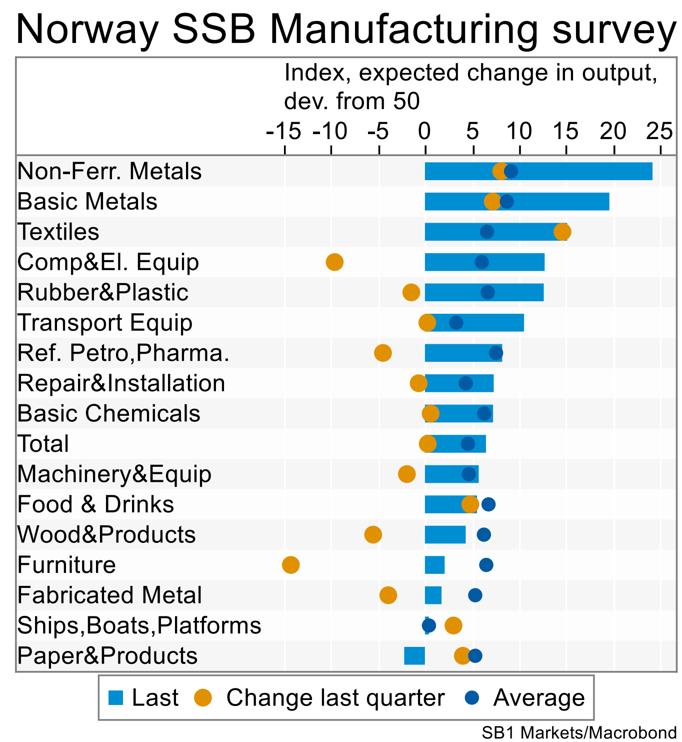
We expect more to come from home the coming quarters (or years)



Capital goods producers report stronger growth, intermediate slower

Balanced up/down last quarter. Most sectors report growth above average. Just one sector contracts

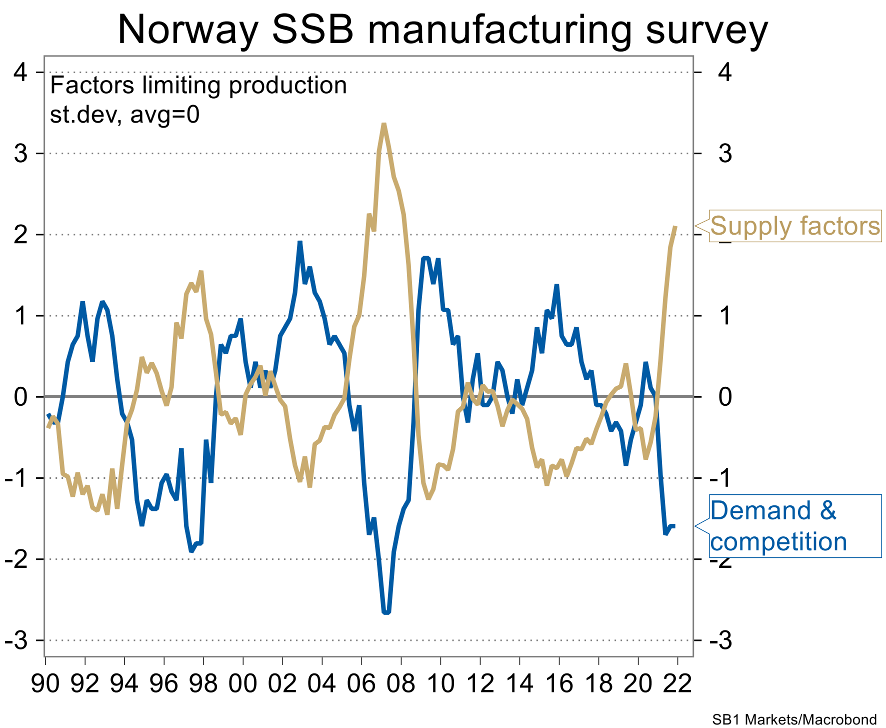


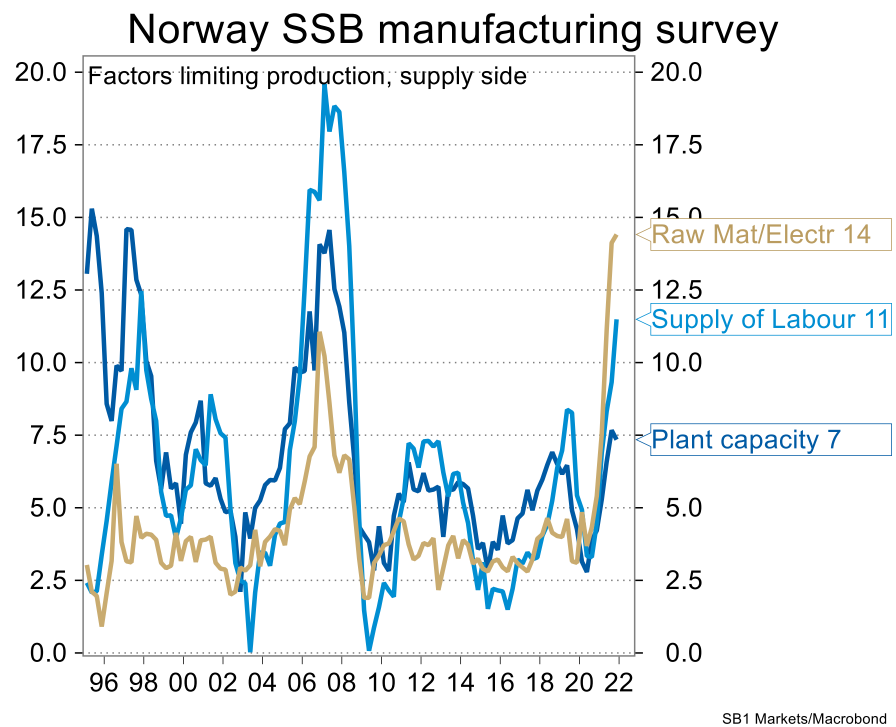


- Paper and products the only sector below the 50 line

Limiting production: Supply factors far above average, demand far below

As if we were in a booming economy…

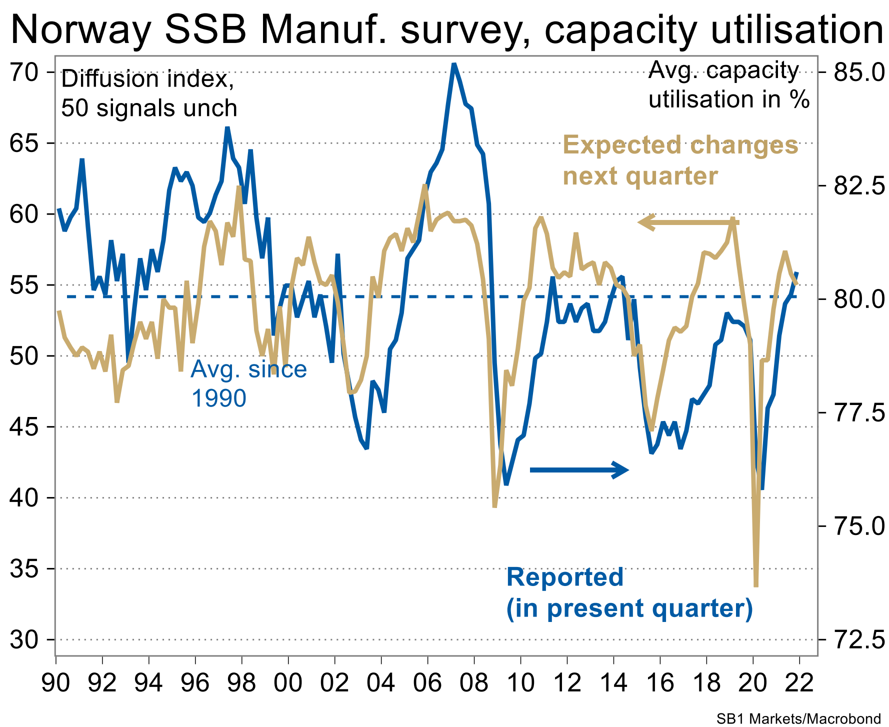


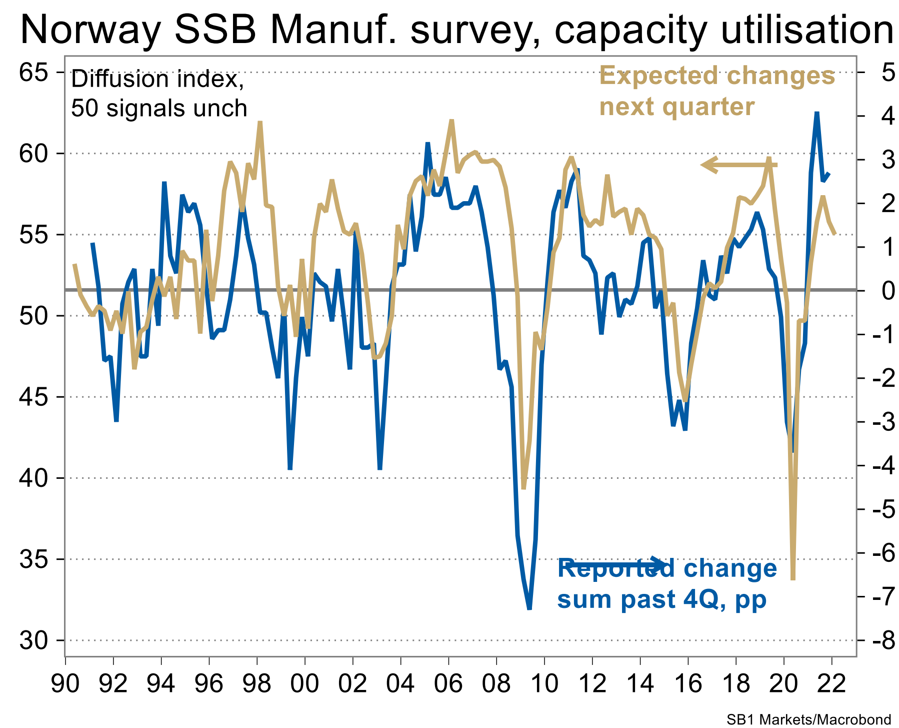


- More companies are reporting supply side factors as limiting production, up to the highest share since 2008
  - » More companies are reporting that lack of raw materials/electricity as a limiting factor than anytime before
  - » More companies are reporting supply of labour and plant capacity as limiting factors than since 2008
- Far fewer companies than normal are reporting lack of demand or competition as limiting factors but the share has not fallen further the past two quarters
- ***No demand crisis – and it never was during the pandemic***

Reported capacity utilisation further up – and now it is above an average level

A tad fewer companies expect an increase in utilisation in Q4

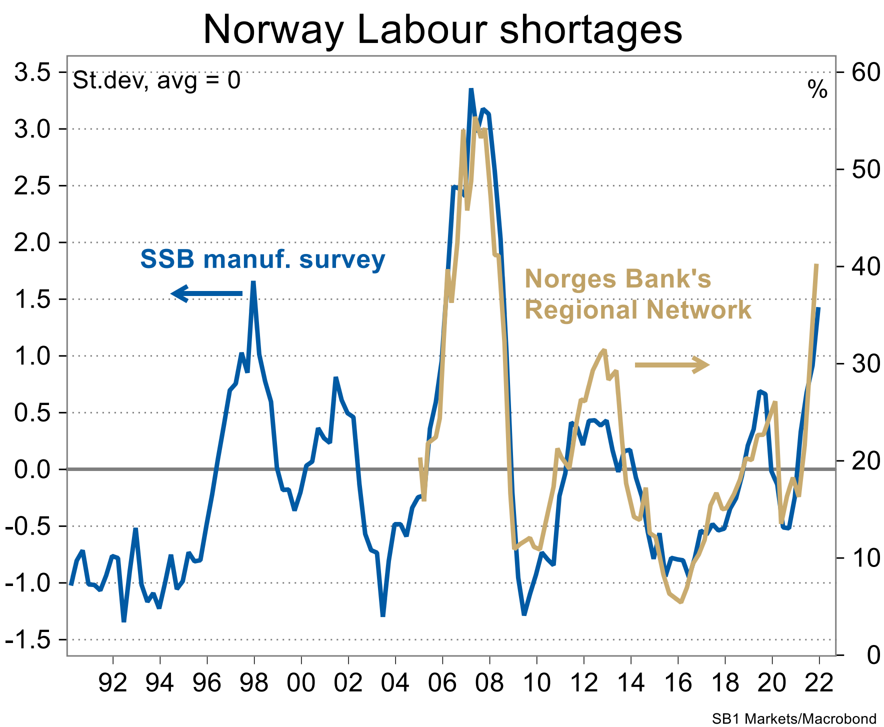


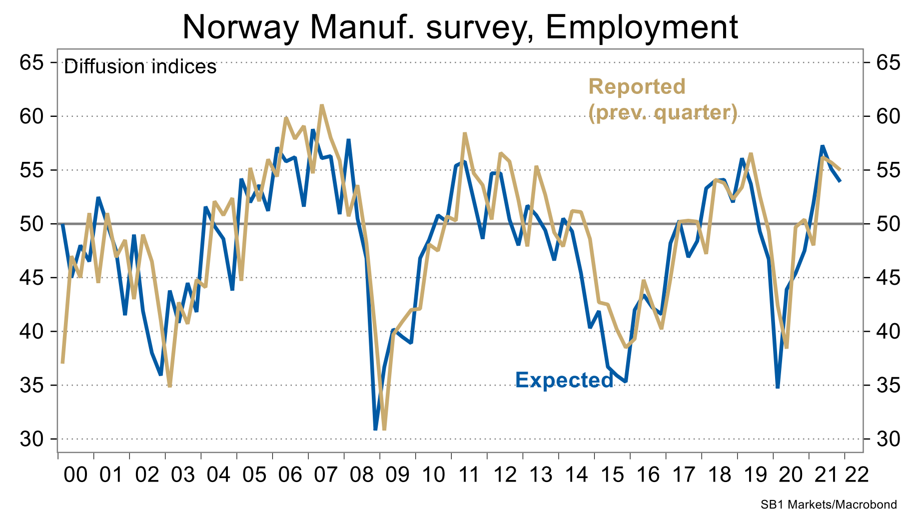


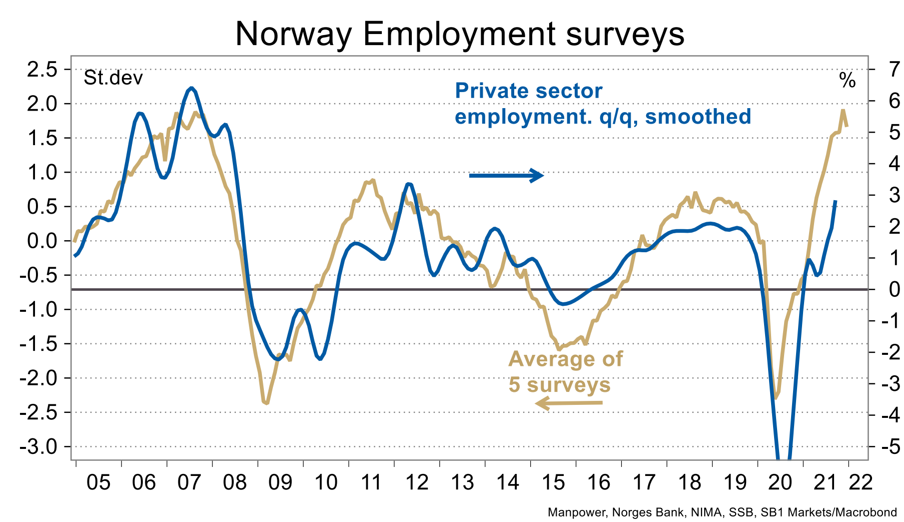
- The lift in capacity utilisation recent quarters have been impressive – from a low level last spring
- Companies expect a higher capacity utilisation in Q4, and they are usually right

Labour shortages further up, still below the 2008 peak

Manufacturers and other sectors reports very aggressive hiring plans

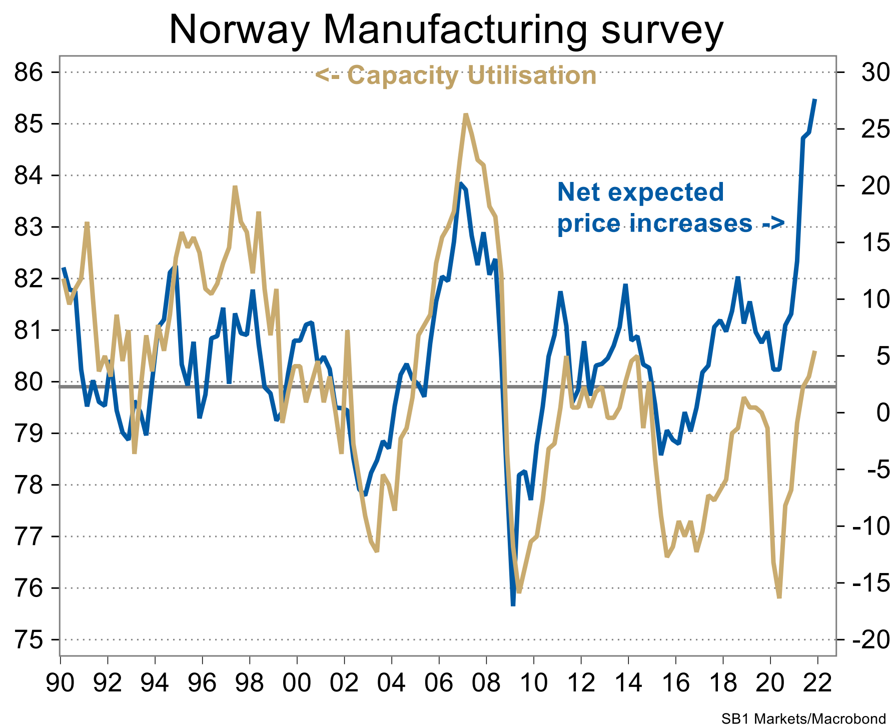






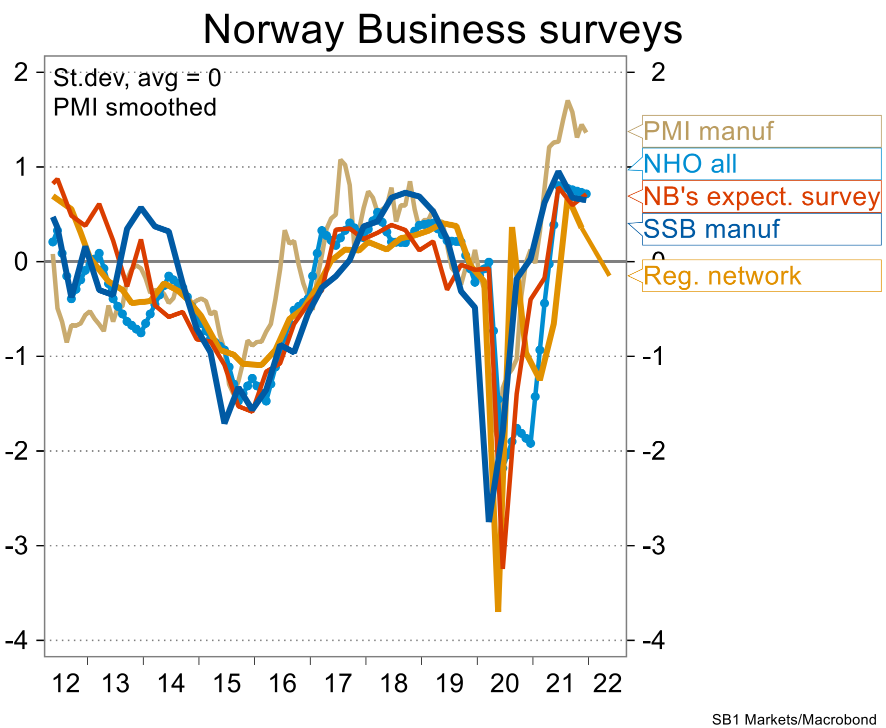
- Employment surveys are signalling a substantial acceleration of employment growth

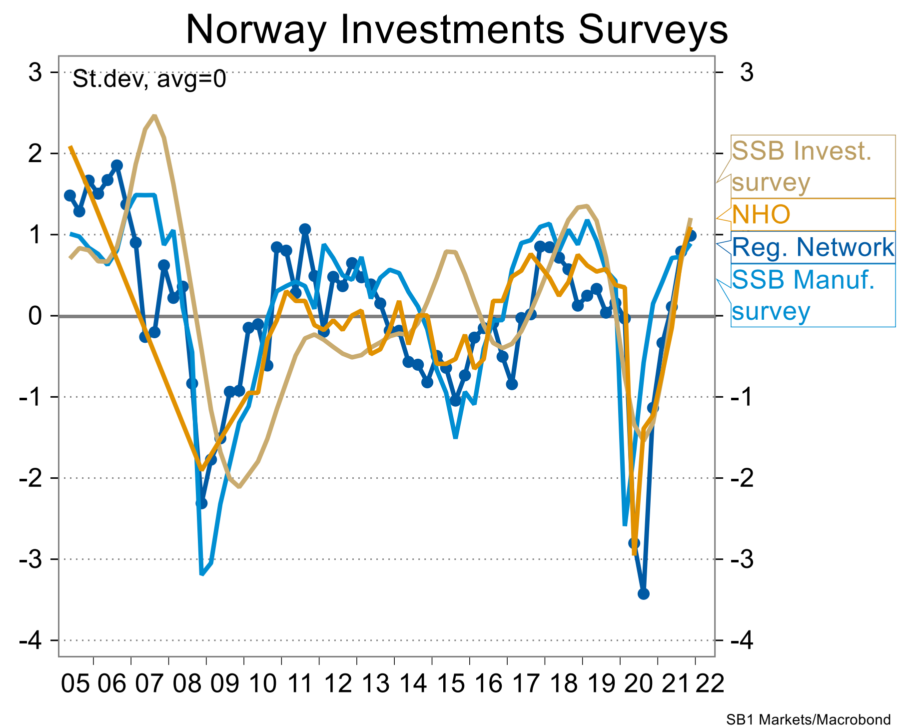
Prices are expected straight up, here too, and even more so in Q4



- Prices are expected up far more than suggested by the reported capacity utilisation

Surveys: Peak growth is behind us, strong growth still reported

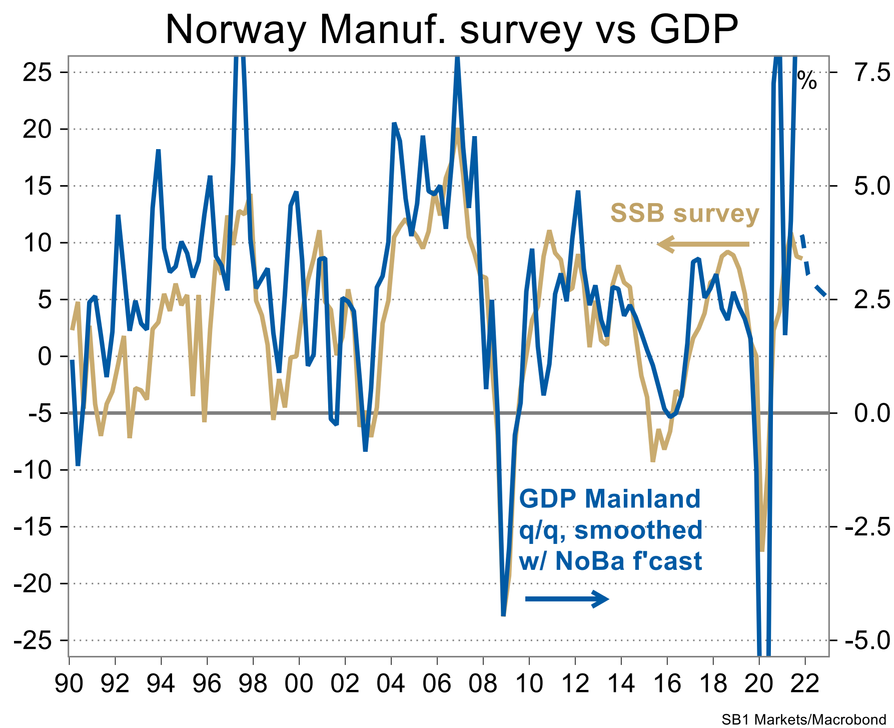


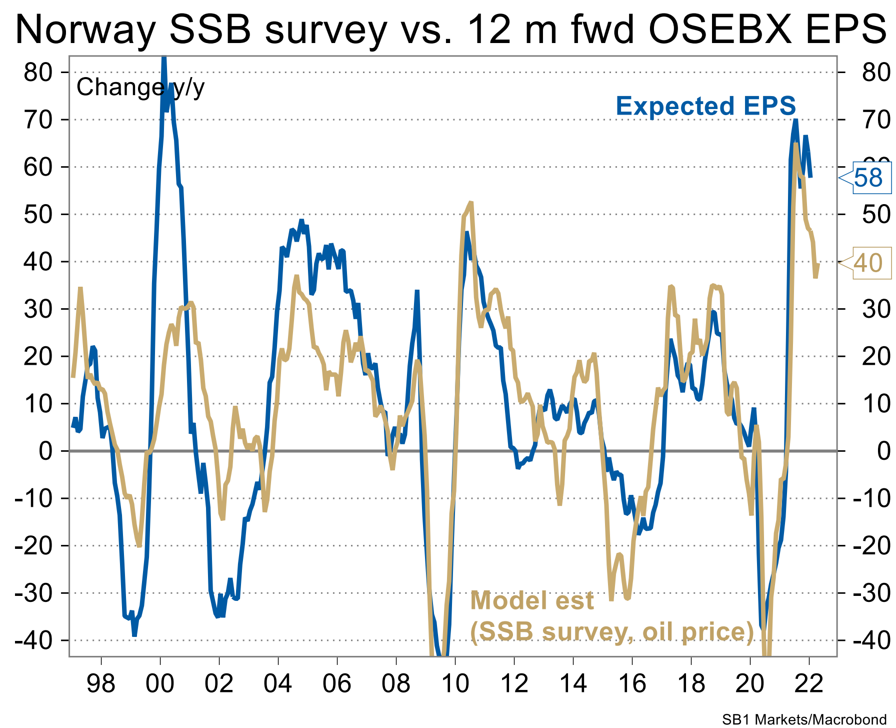


- In the current manufacturing SSB survey, companies upgraded their **investment plans** further, signalling growth in investments far above a normal level
- Other surveys are signalling investment growth at the same level

SSB's manufacturing survey signals 3½ % GDP growth, and still strong EPS growth

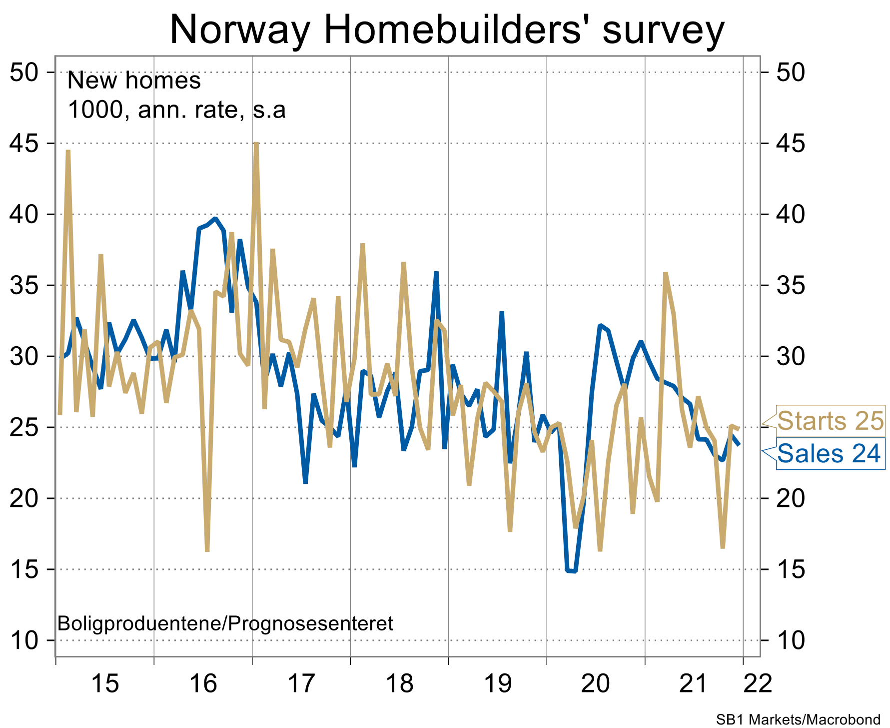
… but lower growth than the current 12 m EPS f'cast

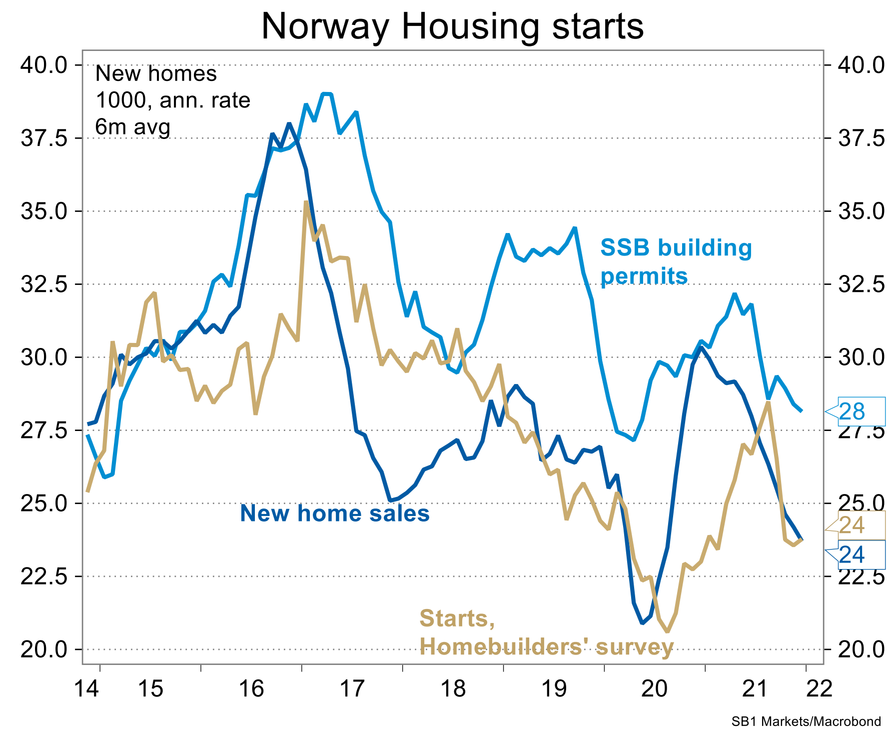




New home sales, starts have been trending down – but sales have stabilized?

Sales/stars are not far below at 'normal' level – and population growth has slowed substantially

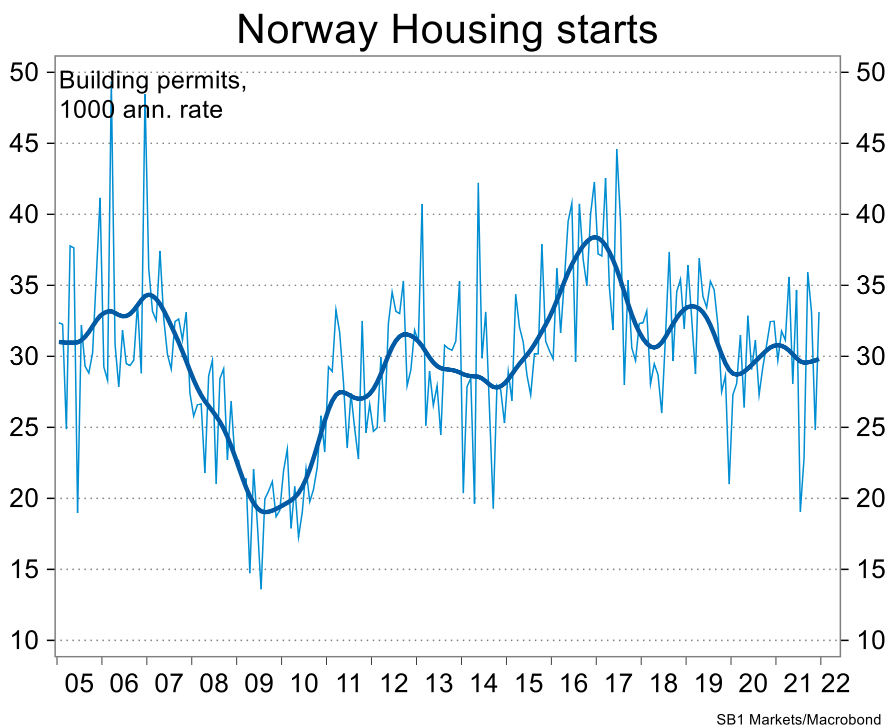


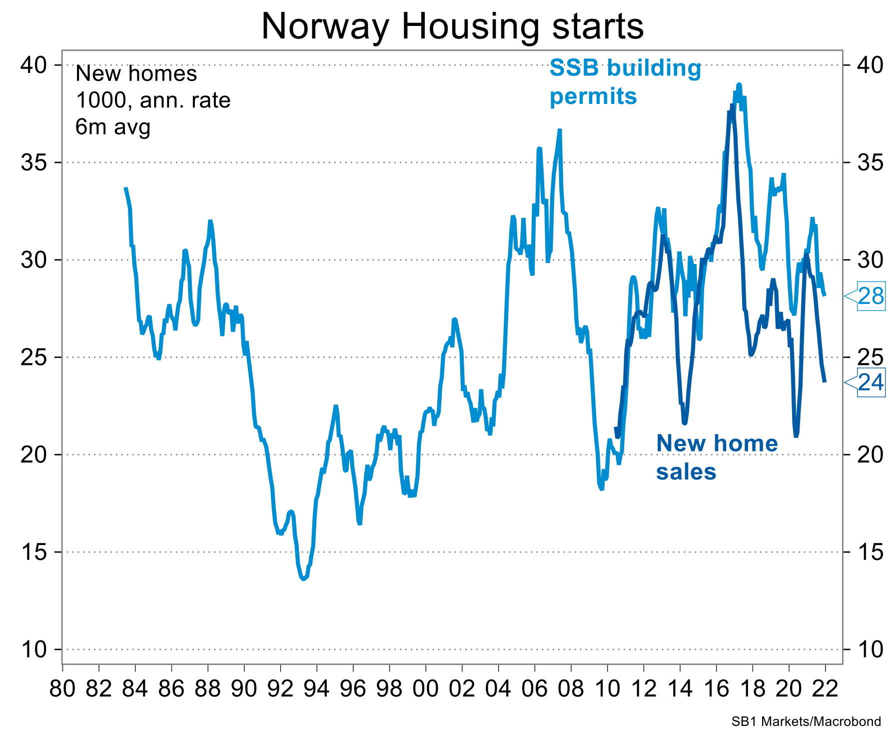


- **Boligprodusentene (Home builders)** blame higher material cost and now also high land costs for the decline in sales, not an unreasonable hypothesis (but strangely enough, higher interest rates were not mentioned). However, as existing home prices are substantially up over the past year, new homes are probably still competitive
- **SSB** also reports a decline in housing starts, down to some 28' annualised – which is not a low level!

SSB: Housing permits up in December but trend slightly down in H2

Permits up to 33’ from 25’ in Nov - in average a pretty normal figure

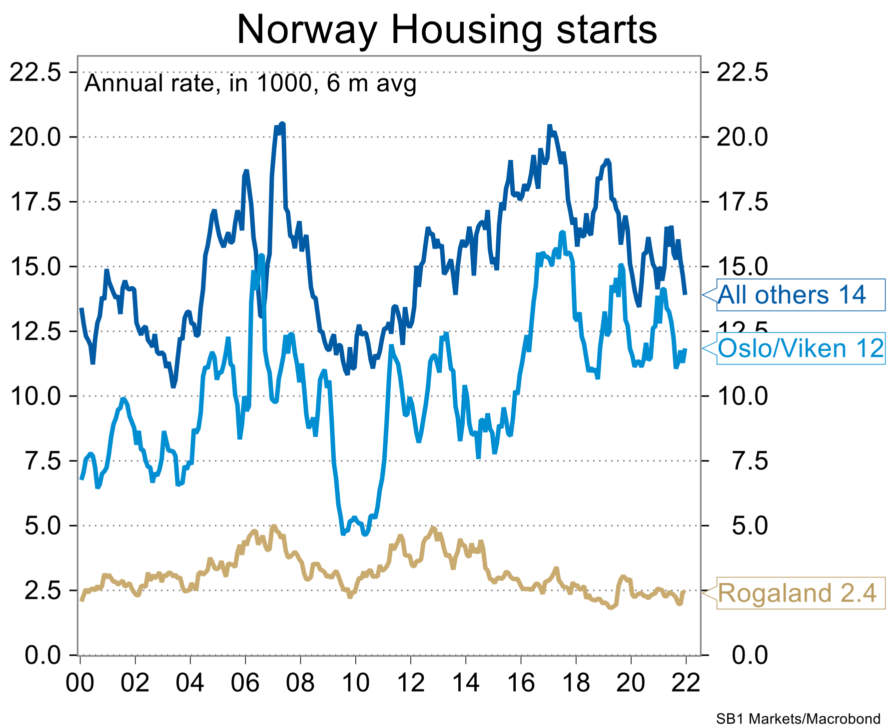


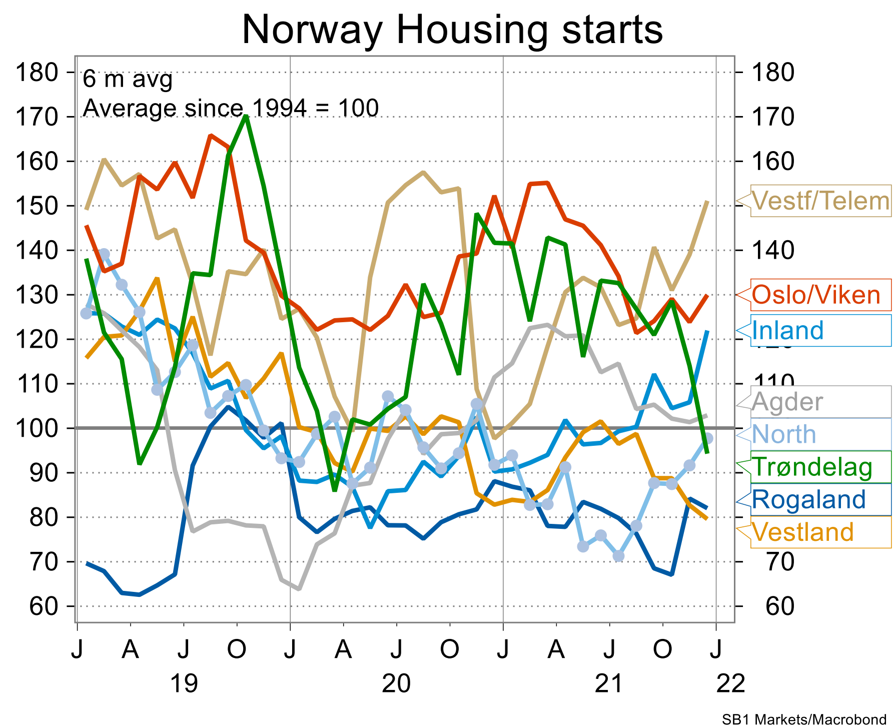


- The average no. of permits the past 6 months at 28’, clearly above the estimate from the Homebuilders at 24’. However, student homes are nurseries are not included in data from the Homebuilders

More housing starts in sharply Vestfold & Telemark, Innland, and in the North

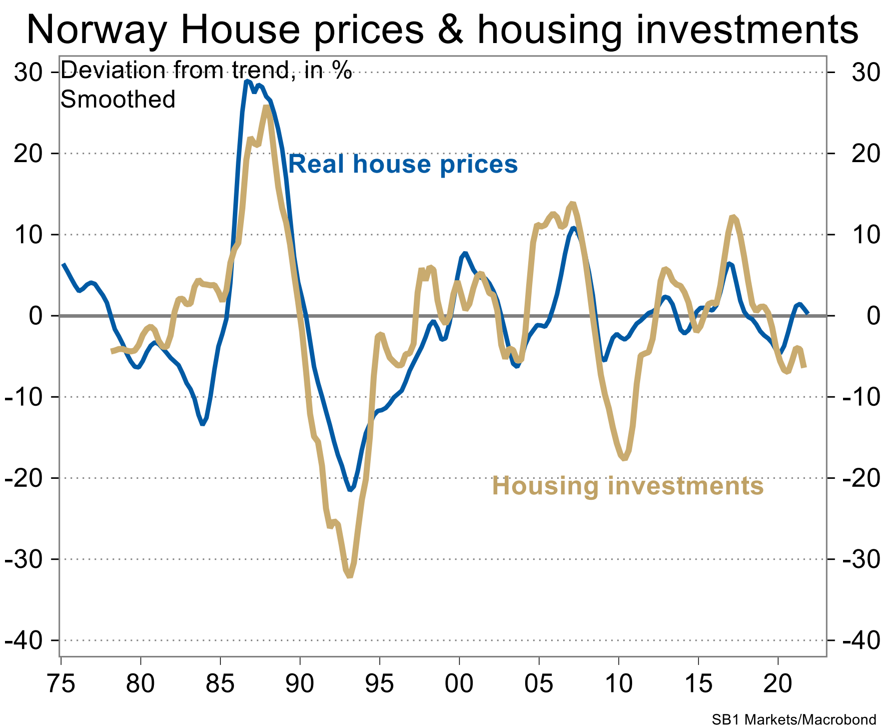
Rogaland is trending flat, others have softened, Oslo and Viken included

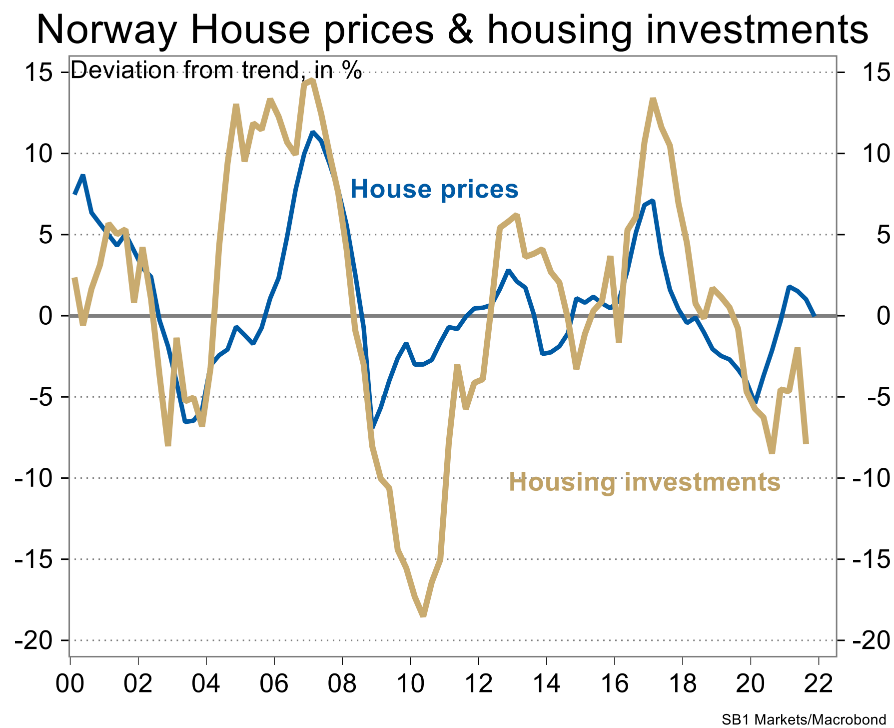




Housing starts/investments normally in tandem with house prices, no surprise

Now prices have slowed – and starts are yielding too?

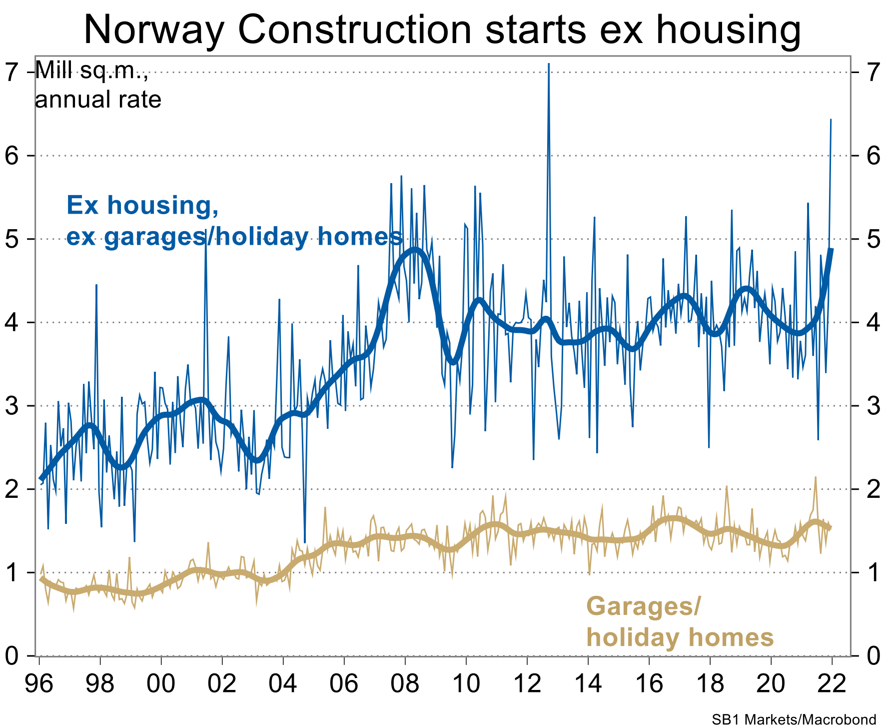


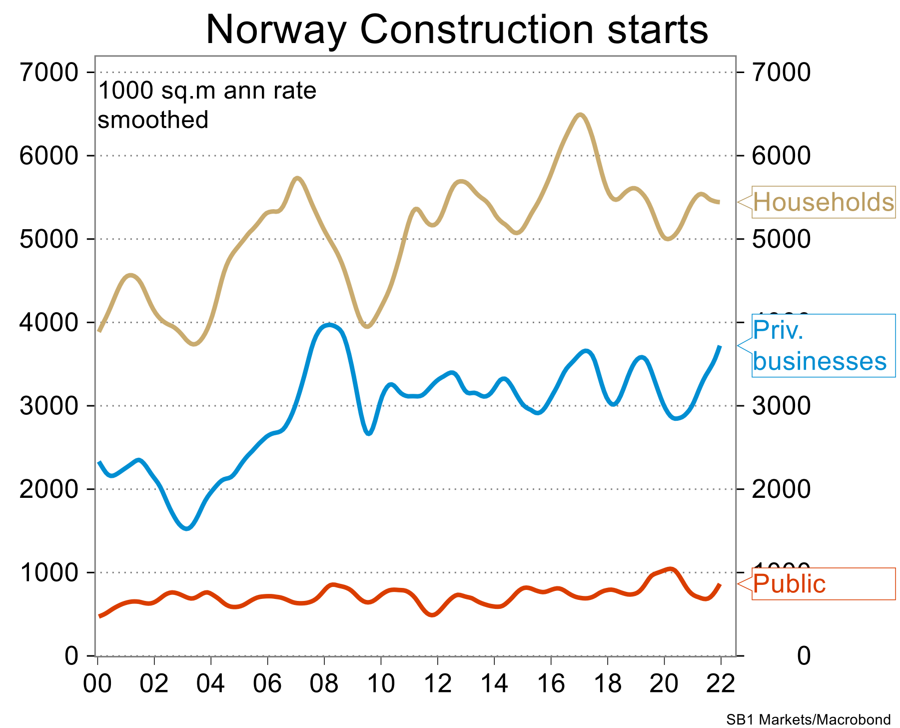


- .. At least until recently

Non-residential construction through the roof in December

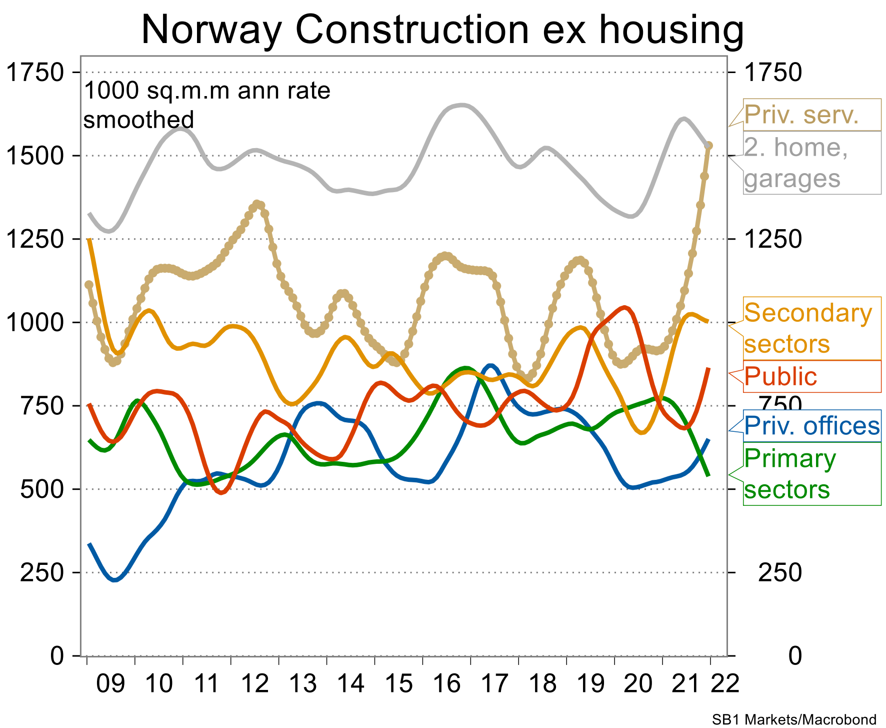
Transport, trade, health, sharply up in Dec (or Nov)

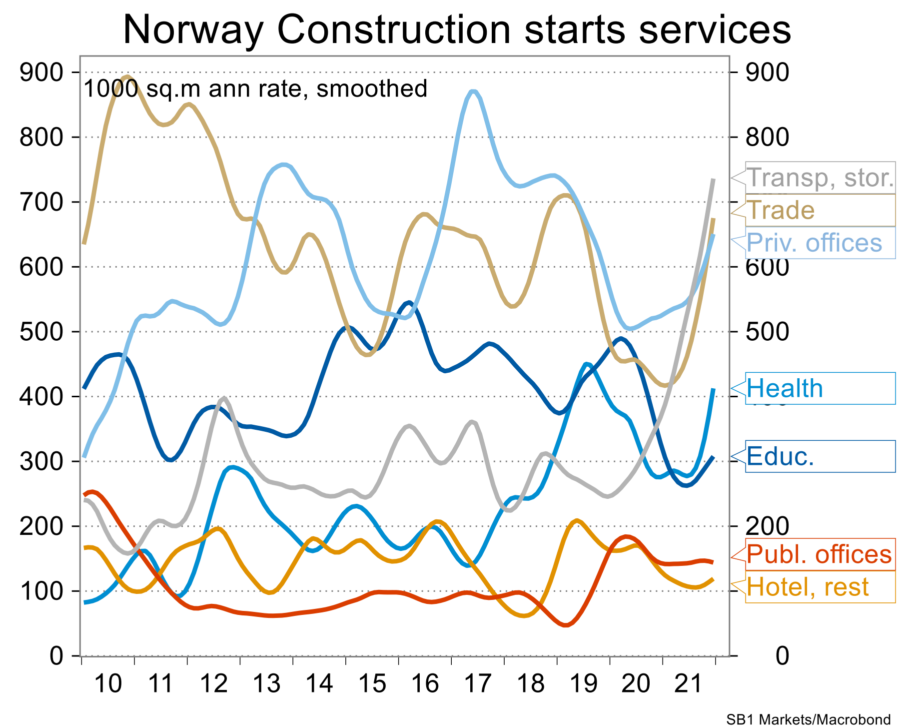




- **Construction starts ex housing & garages/cabins** are very volatile, short term, influenced by single projects
  - » **Private non-residential starts** up in H2, however heavy influenced by new projects added in Dec
  - » **Public sector construction starts** have fallen almost 50% since early 2020 but a strong Dec print – due to a health project in Møre and Romsdal – saved the day for H2
- **Construction starts of cabins/garages** are have climbed 30 – 40% from early 2020 – but have slowed somewhat recently

Volatile construction details: Transport, trade, private offices, health up

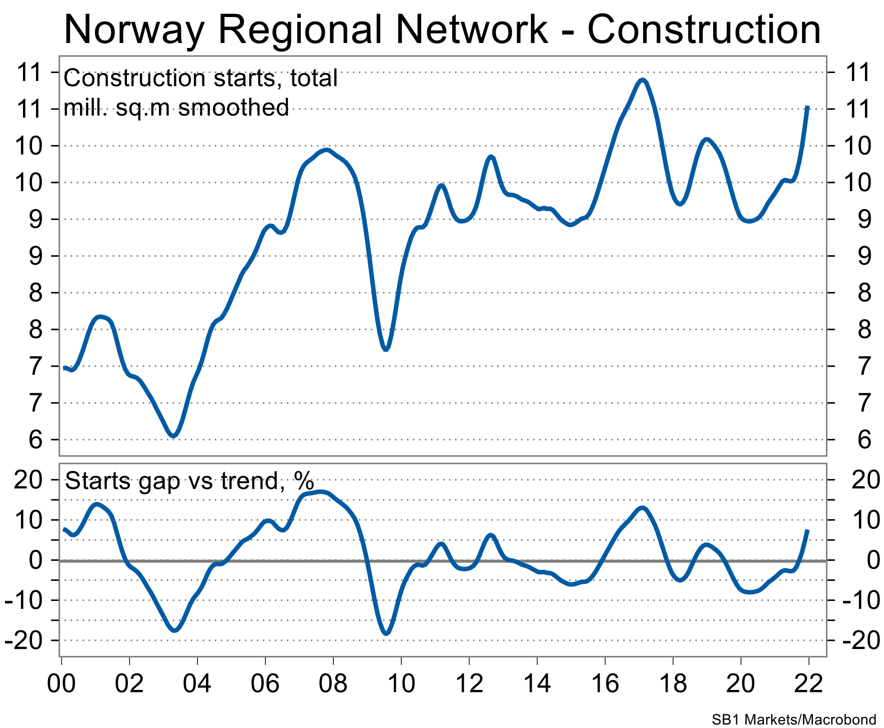


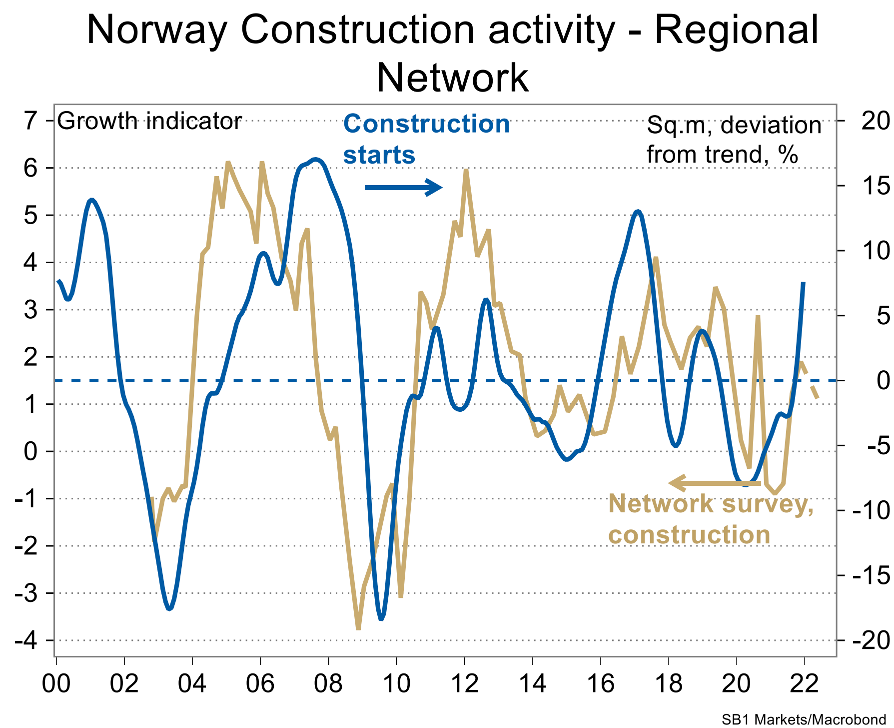


Public on the chart to the left, and at the previous page: Construction starts in public administration, education and health

The Q4 NoBa Regional Network signalled moderate growth

…and not a surge like in December

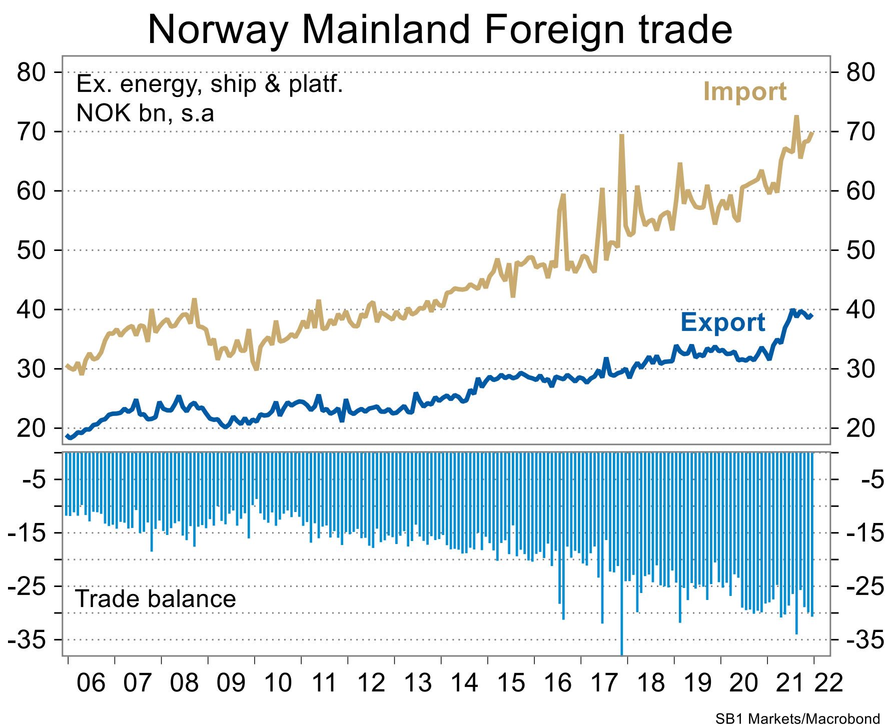


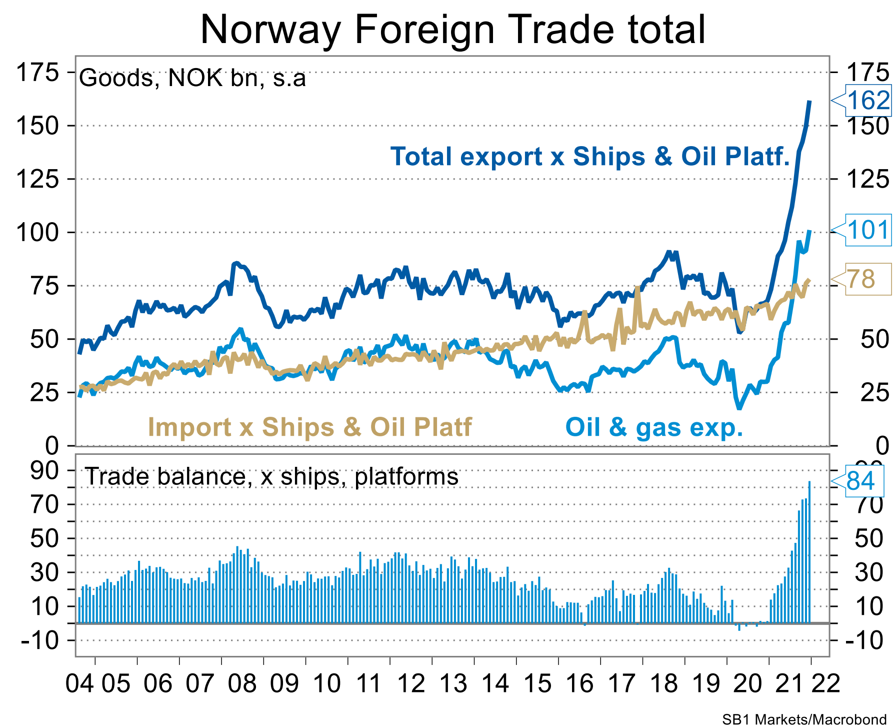


- The 'long term' trend is down since early 2017. At least until December

Another ATH trade surplus, driven by gas exports

Total surplus at NOK 84 bn, approaching 30% of (Mainland) GDP!

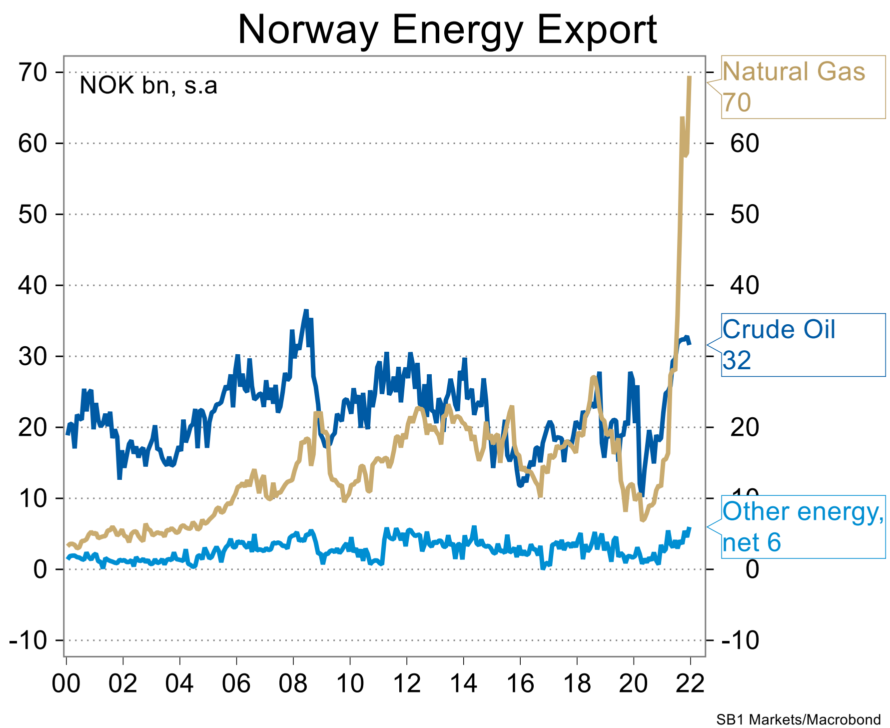


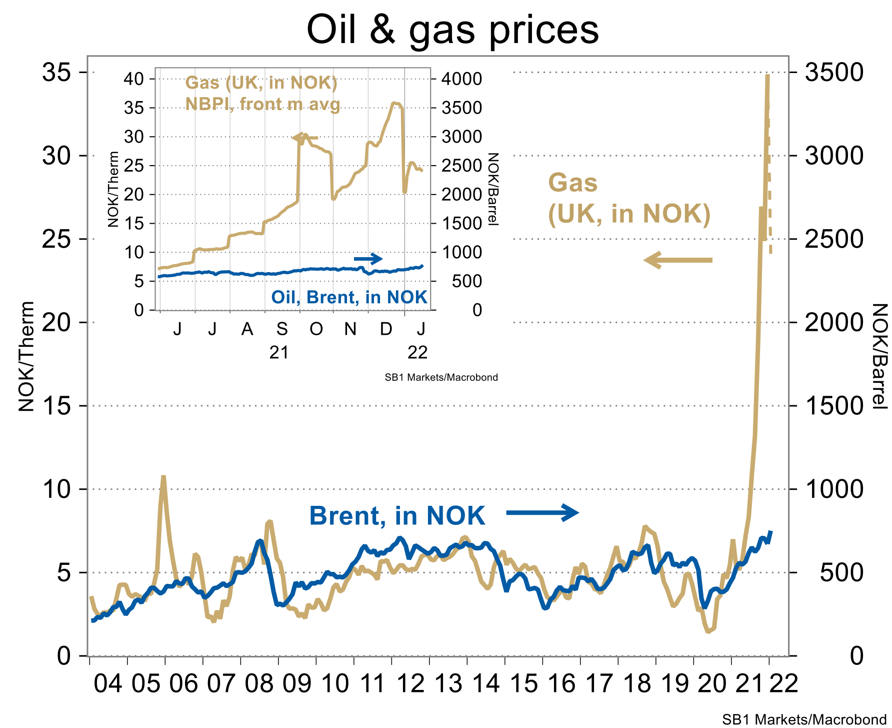


- **The Mainland (non energy) trade deficit in goods** rose marginally to NOK 31 bn
- **Non-energy exports** has been trending slowly down recent months but rose slightly in December. Exports are up 20% vs the level one year ago – and since before the pandemic
- **Imports** added some few bn an remains at 10% growth path
- **Gas exports** fell slightly due a decline in gas prices. Oil exports rose marginally, and sum oil & gas fell slightly, seas. adjusted – fell slightly, to NOK 91 bn. So far in Dec, gas prices have climbed rapidly, and most likely the value of gas exports will grow substantially
- **The trade surplus in goods** (ex ships/platforms) was flat at NOK 73, an enormous amount – more than 26% of Mainland GDP!
- **The government's extra revenues** from oil and gas exports (and direct ownership) the past 3 months may equal NOK 150 bn, which will be transferred to the oil Fund

Gas exports up to ATH (even with the eternal future included?)

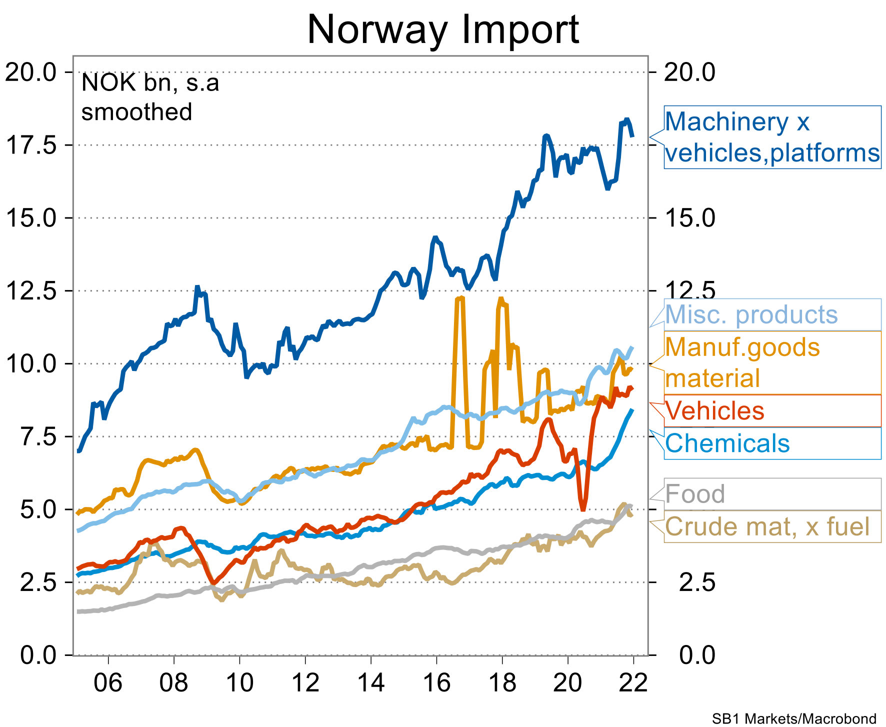
Gas exports are extreme, equalling more than 20% of GDP!

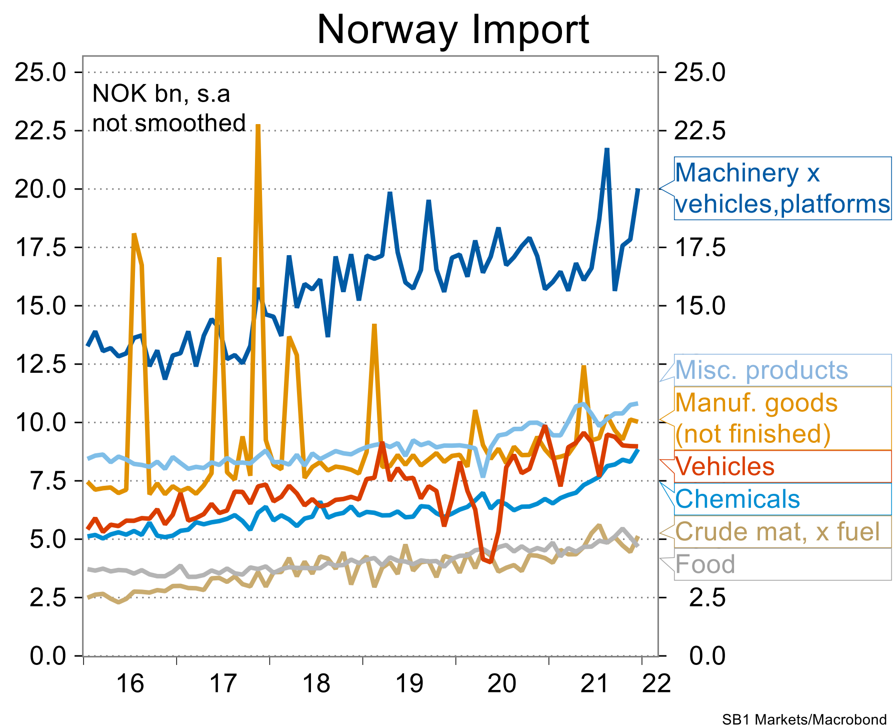




- **British gas** prises rose sharply in December, to another ATH, up 40% from November. (The NBPI at the charts to the right, the average for each month, calculated from the start of the month, the front month, check the small chart inserted). So far in January, prices have fallen sharply, by 30%, to the lowest level since last September (but still 4 x a normal price level!) The future market signals a further decline through the spring. Gas prices are now totally uncorrelated to oil prices, which is rather unusual (but is has happened before, like in late 2005)
- Measured in NOK, the **oil price** was at ATH (Dec average). Even so, **crude oil** exports fell marginally (in NOK bn) – but remained at a high level

Most imports are trending upwards

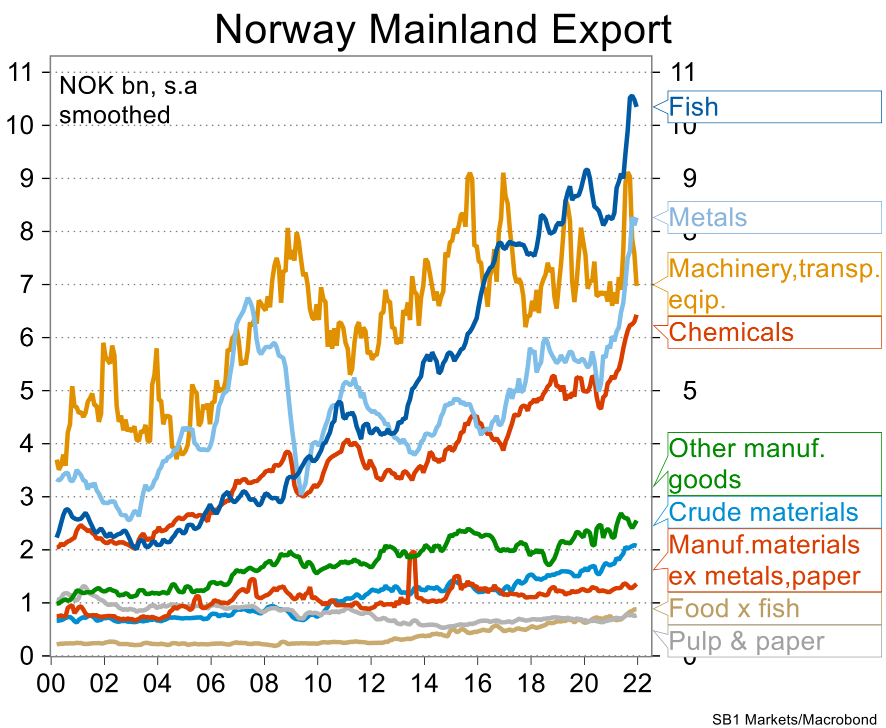


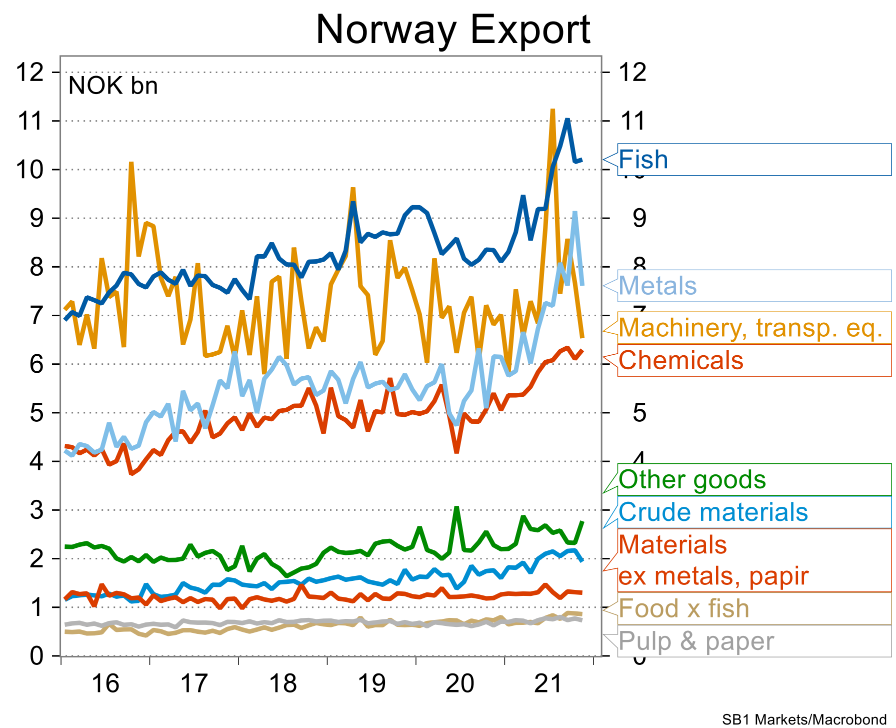


- The spikes in imports of manufactured goods are due to unfinished platforms or ships

Fish exports are surging, metals, chemicals sprinting upwards too

Exports of machinery & transport eq. sharply down recent months trend flattish since 2017



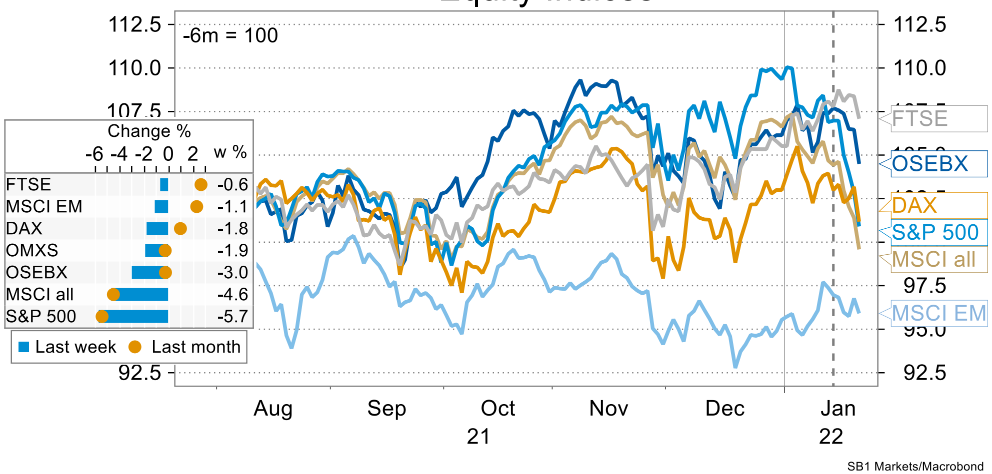


SpareBank 1 MARKETS

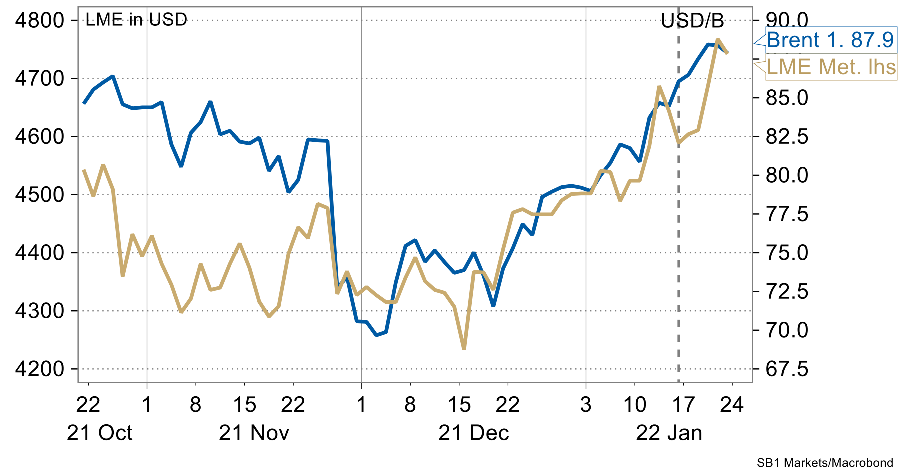
SELL, especially ‘growth’ in the US, but S&P500 down 5.7% last week

Bond yields reached a cycle peak at Wednesday before retreating. Commodities did not yield!

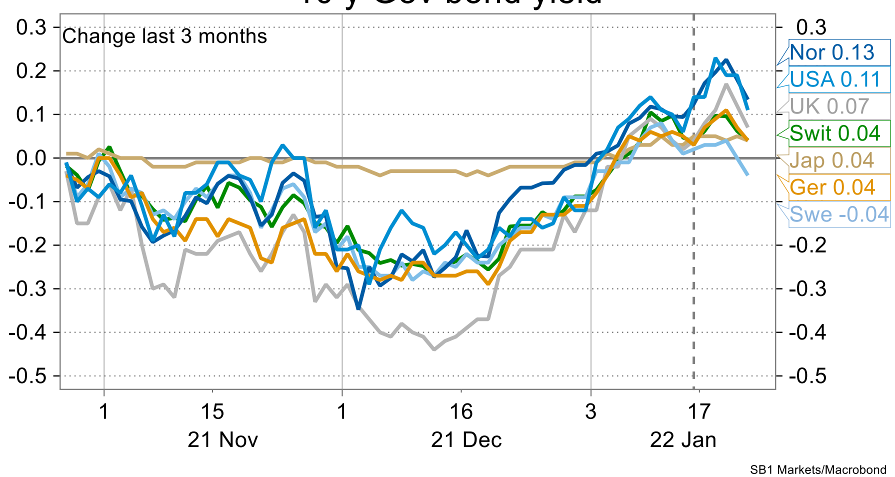
Equity Indices



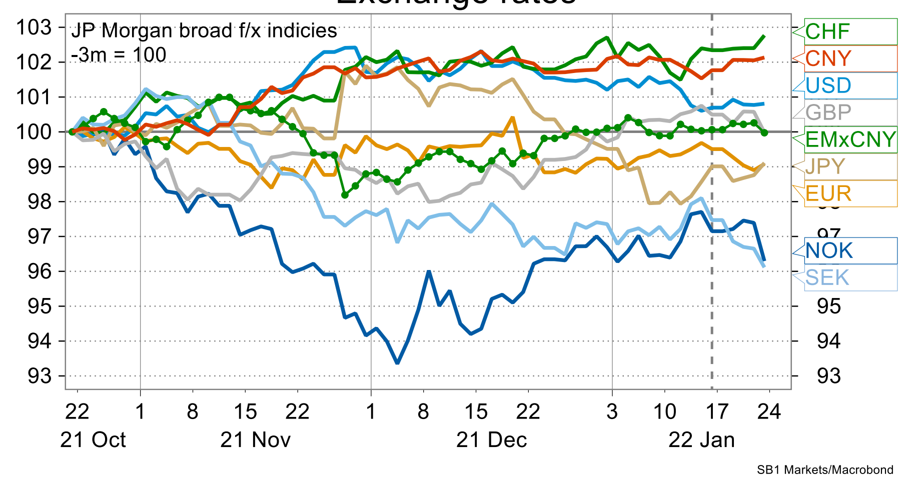
Oil vs. metals



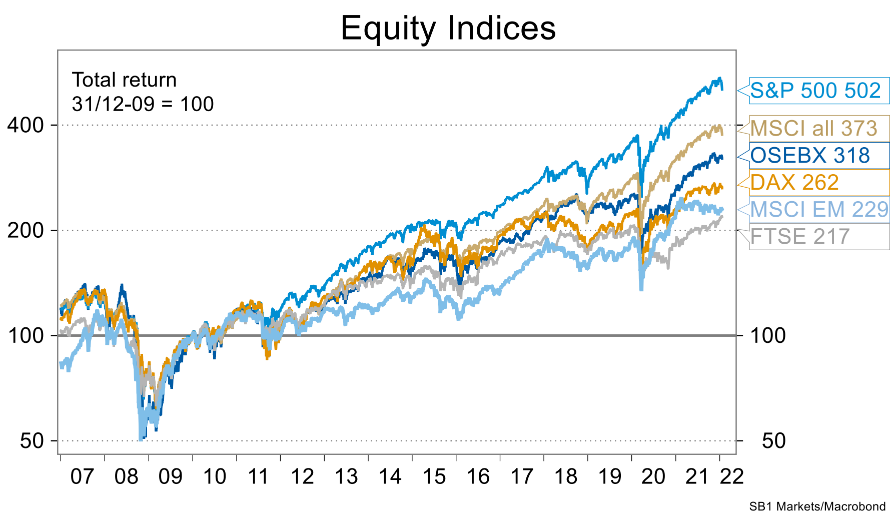
10 y Gov bond yield

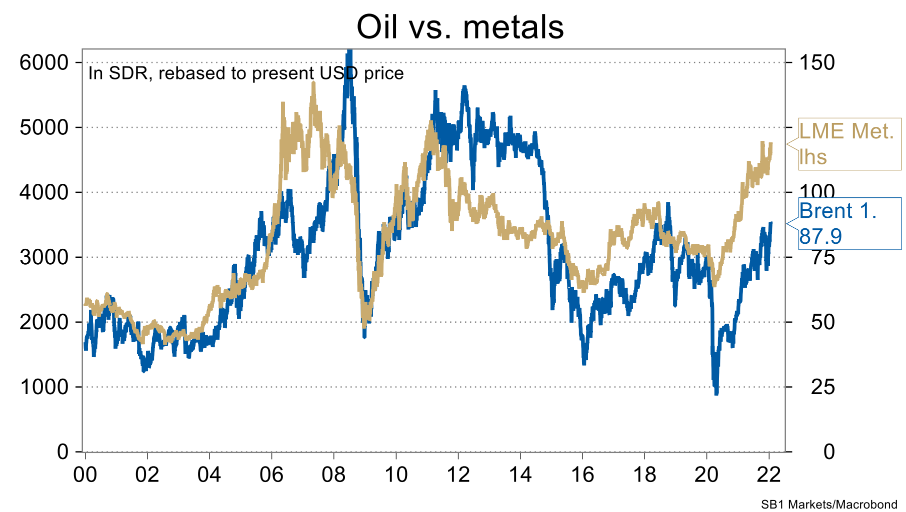


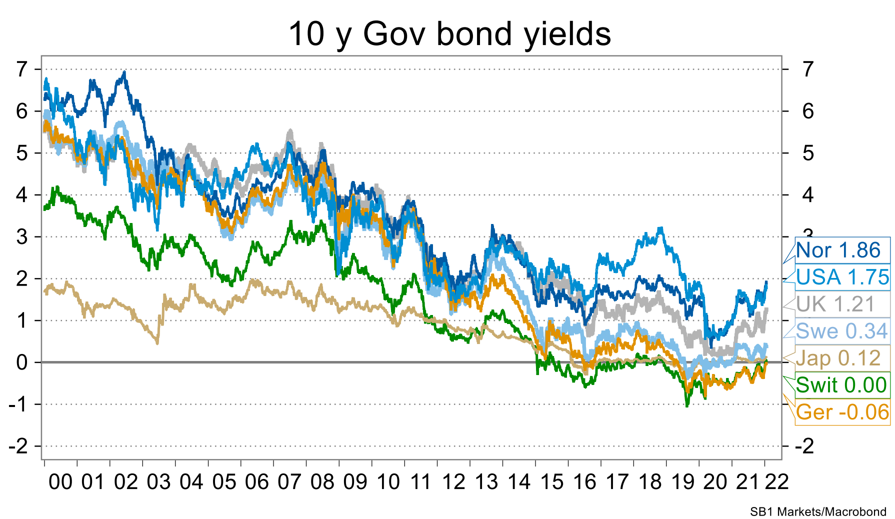
Exchange rates

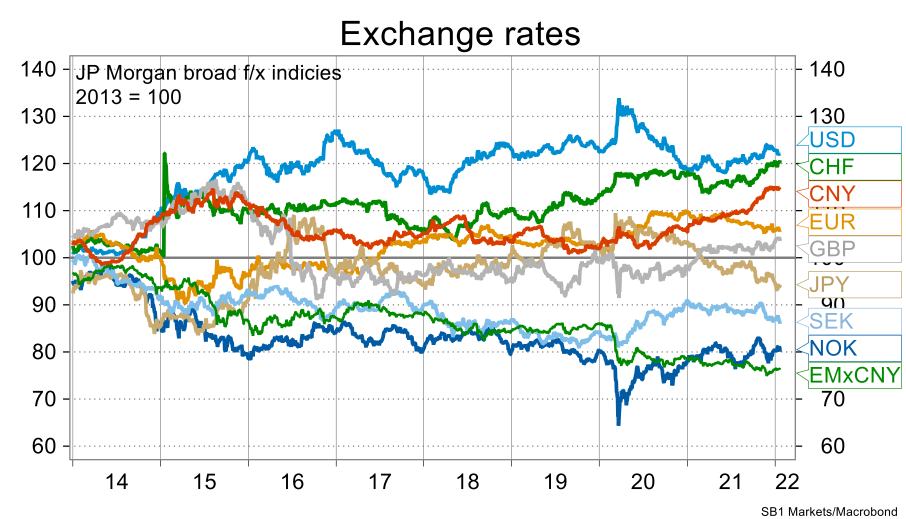


The big picture: Who is flying the highest?





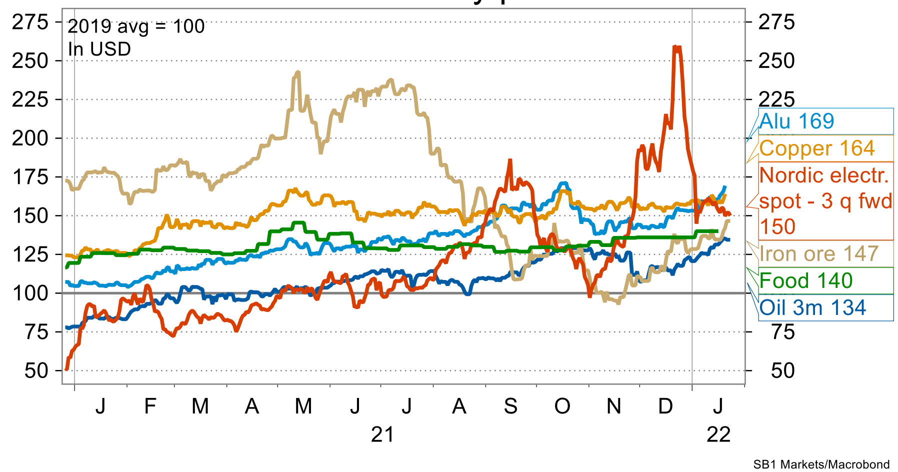




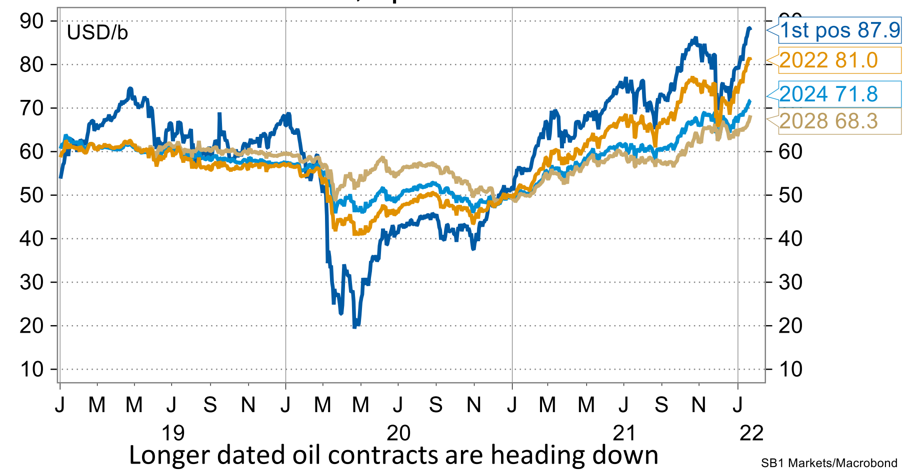
SpareBank 1 MARKETS

Commodities up last week, including the whole oil price curve

Commodity prices



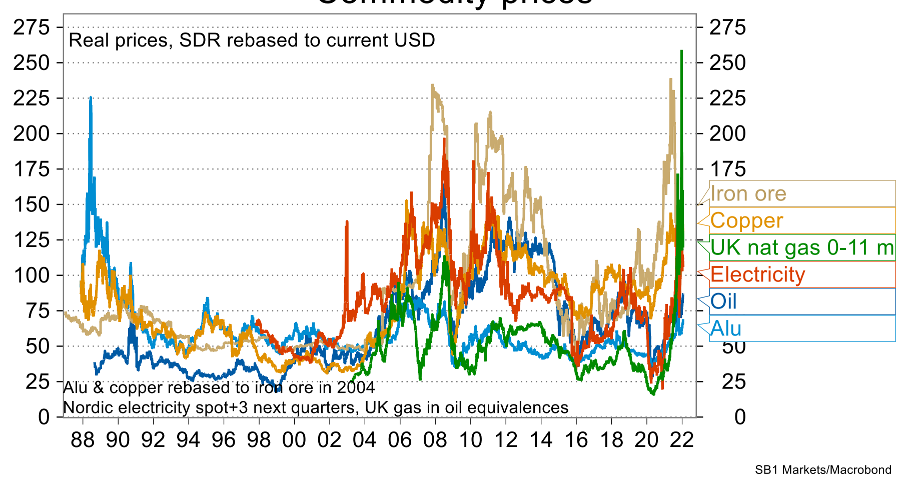
Brent oil, spot & Dec contracts



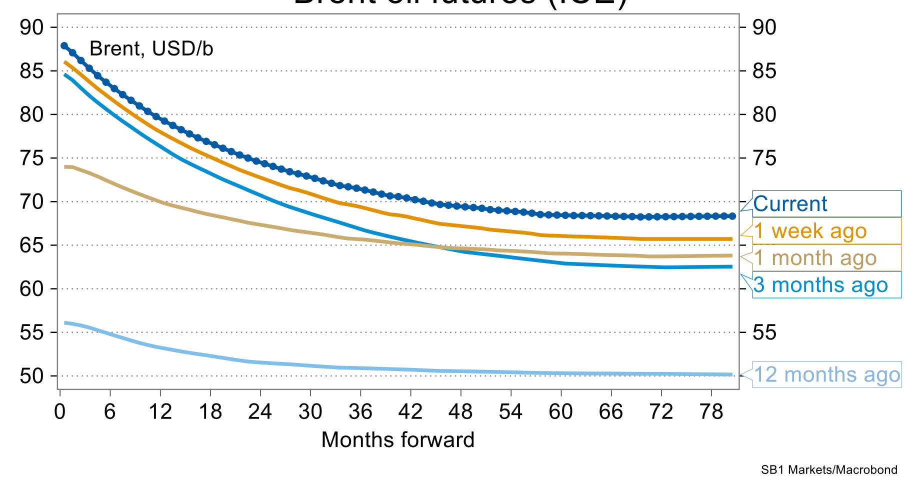
Longer dated oil contracts are heading down

The short end of the curve sharply up recent weeks

Commodity prices

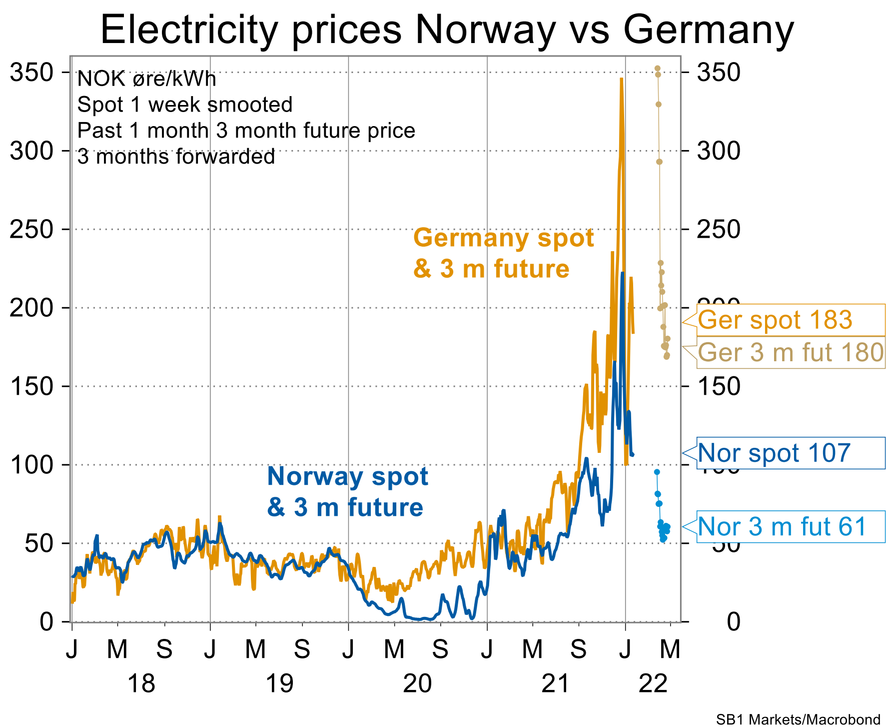


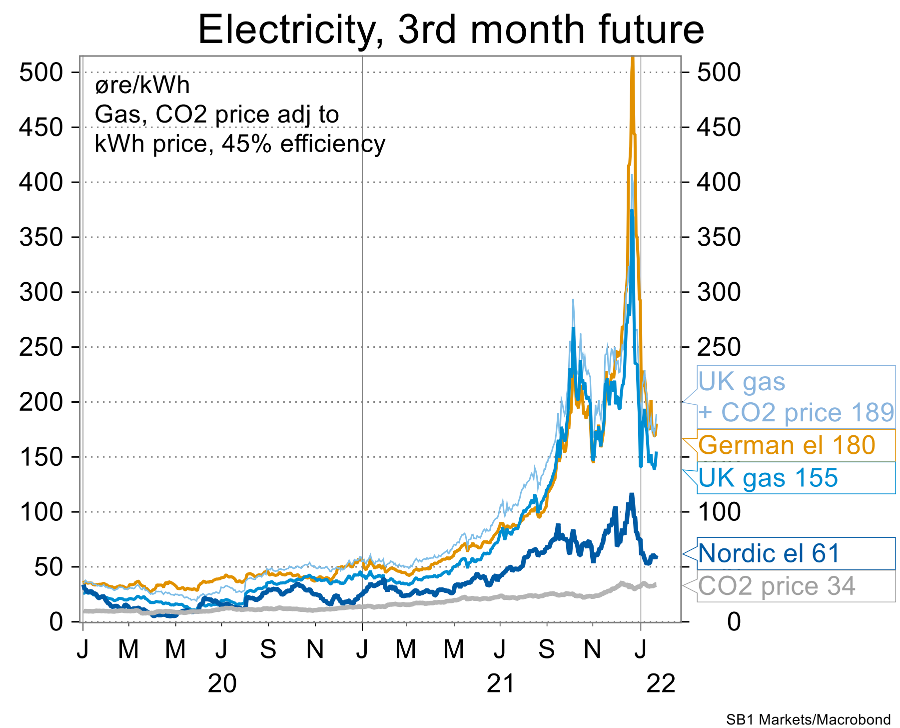
Brent oil futures (ICE)



European energy markets are still volatile, and prices are high

… but still well down from the peaks

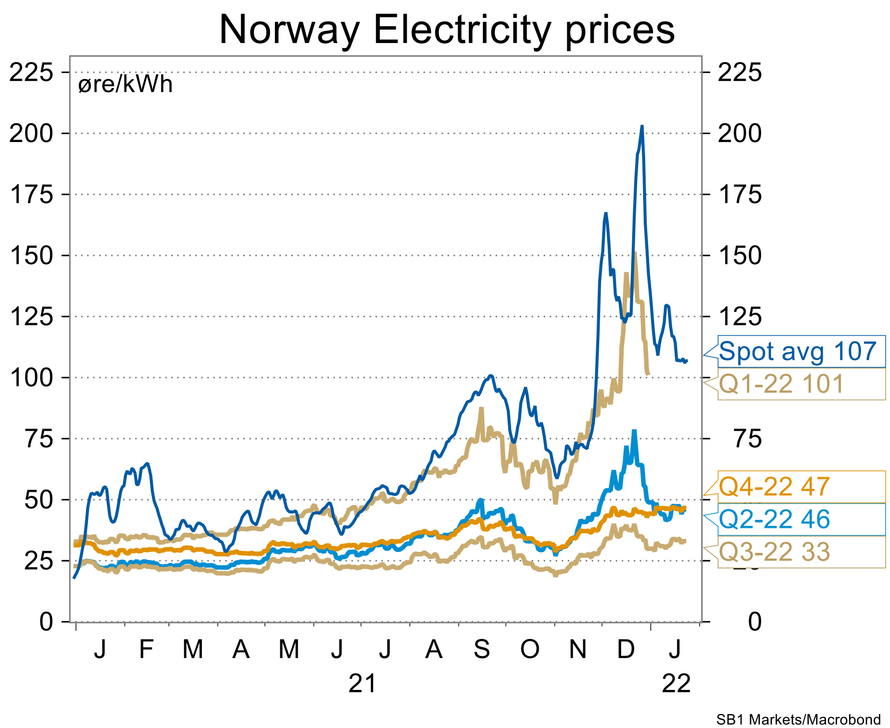


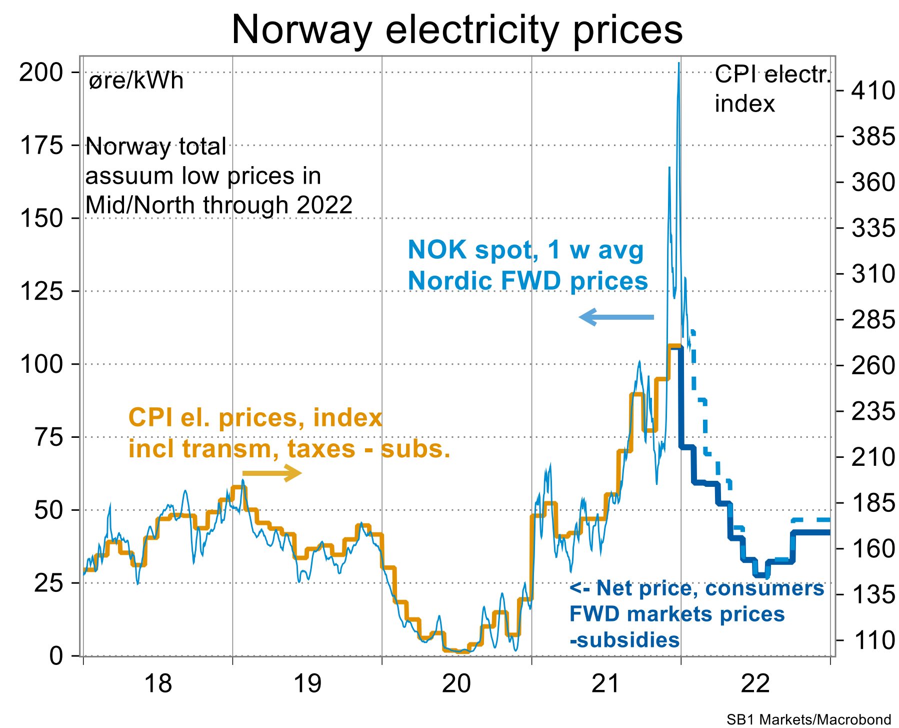


- Future European prices have fallen sharply recently but remains far above normal levels – and far above Nordic prices

Norwegian electricity prices have come down, and future prices are falling as well

But given recent volatility: the outcome is quite uncertain





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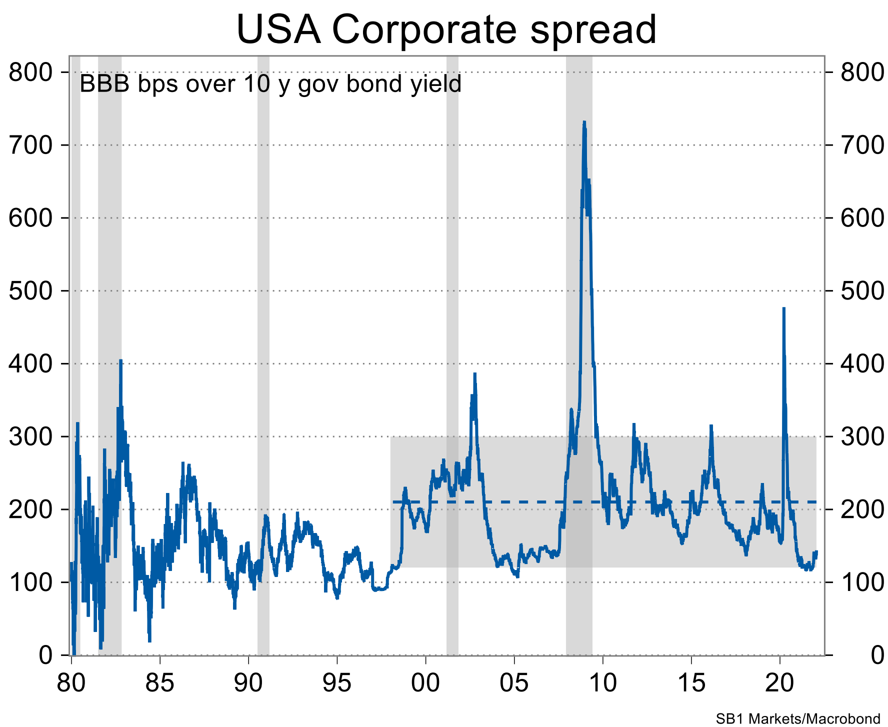
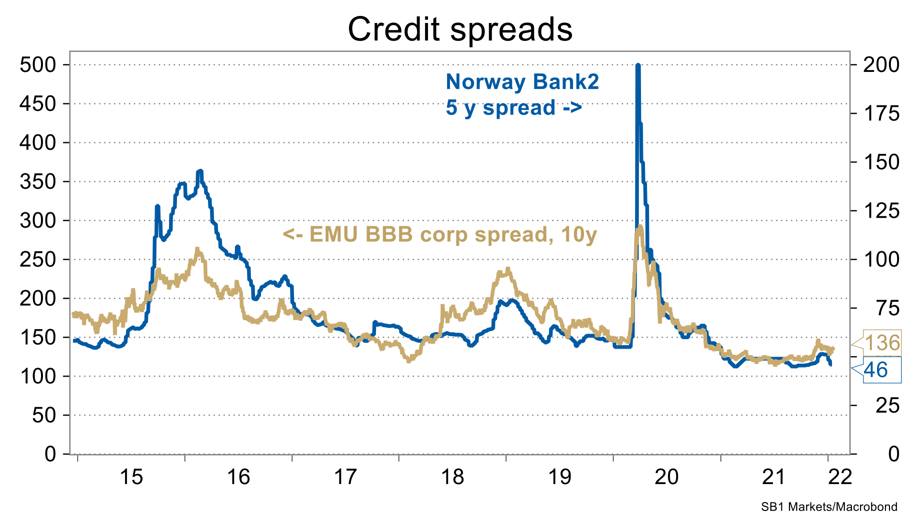
Credit spreads abroad visibly up last week – risk off

Norwegian spreads have narrowed the past 3 weeks. The next leg is upwards?





The NOK Bank2, 5y spread narrowed 2 bps to 48 bps

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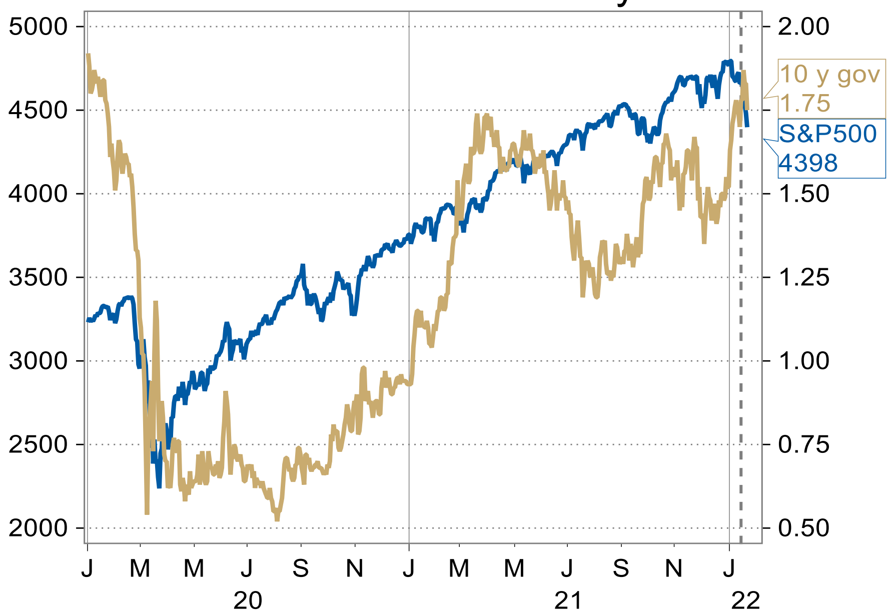
S&P 500 down 5.7% (and in total 8.4%), the 10 y bond yield touched 1.90%

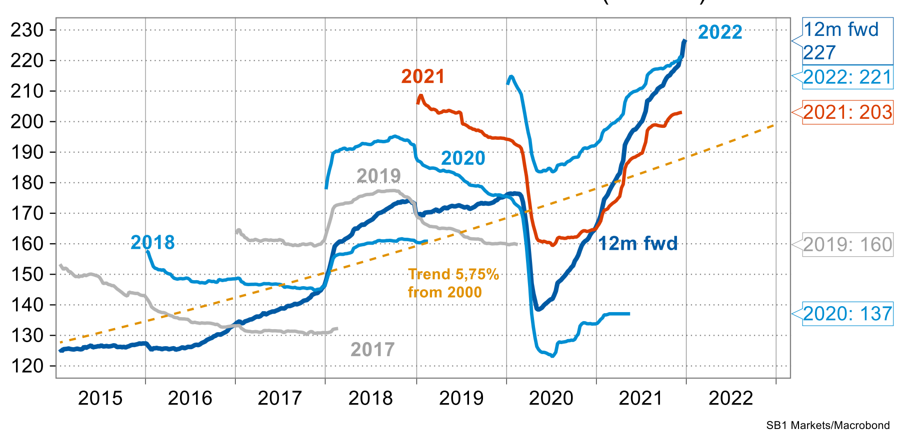
... before closing Friday at 1.75%. The 12 m fwd PE has fallen to 19.7x from 23 at the peak

USA S&P 500 vs. bond yields

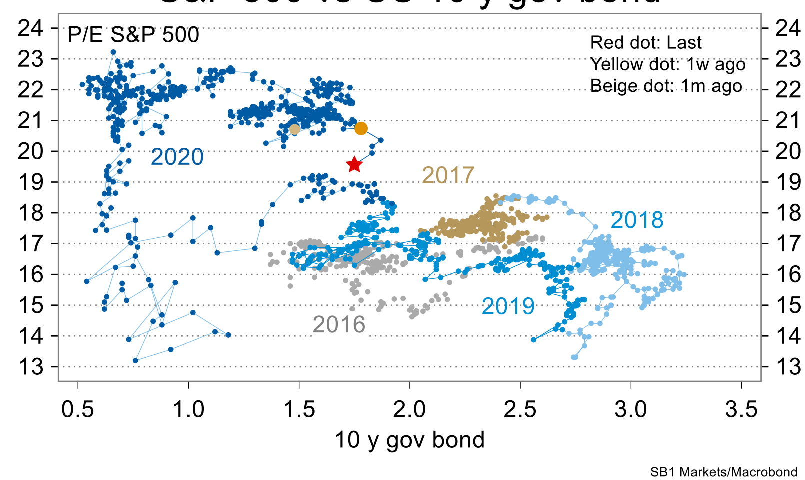


USA S&P 500 vs. bond yields

Annual S&P 500 EPS consensus (Factset)

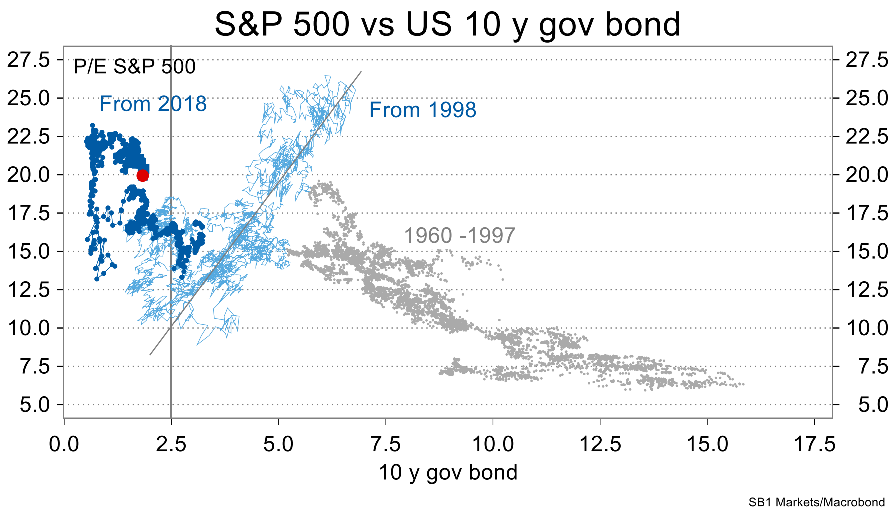


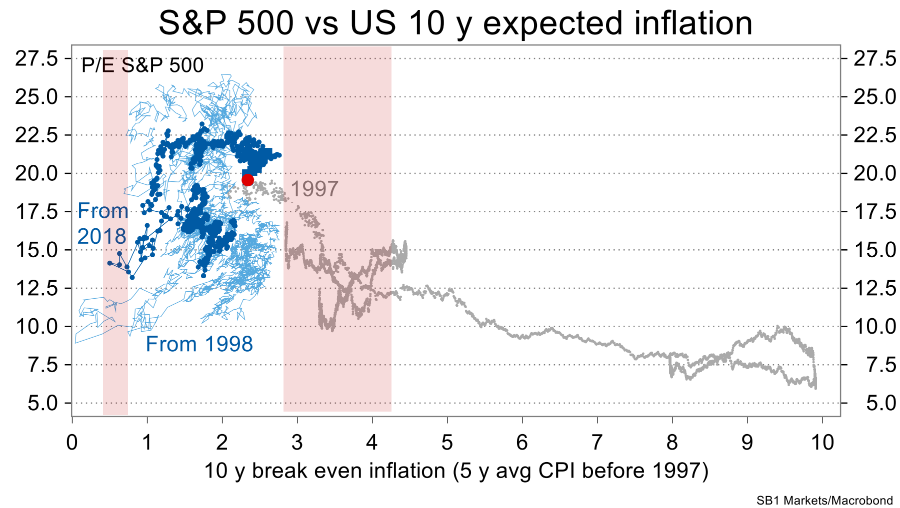
S&P 500 vs US 10 y gov bond

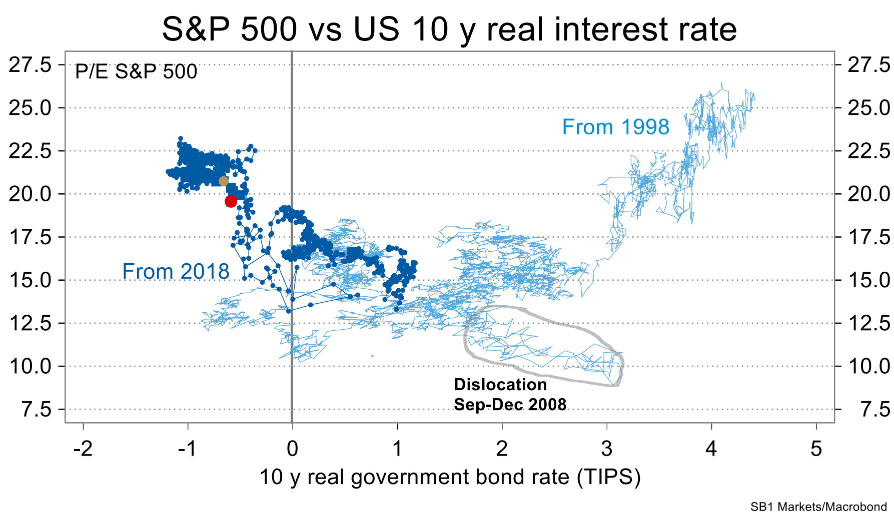


Bonds vs. equities: What's next?

Are we leaving the Goldilocks corner for the real (and much tougher) world?

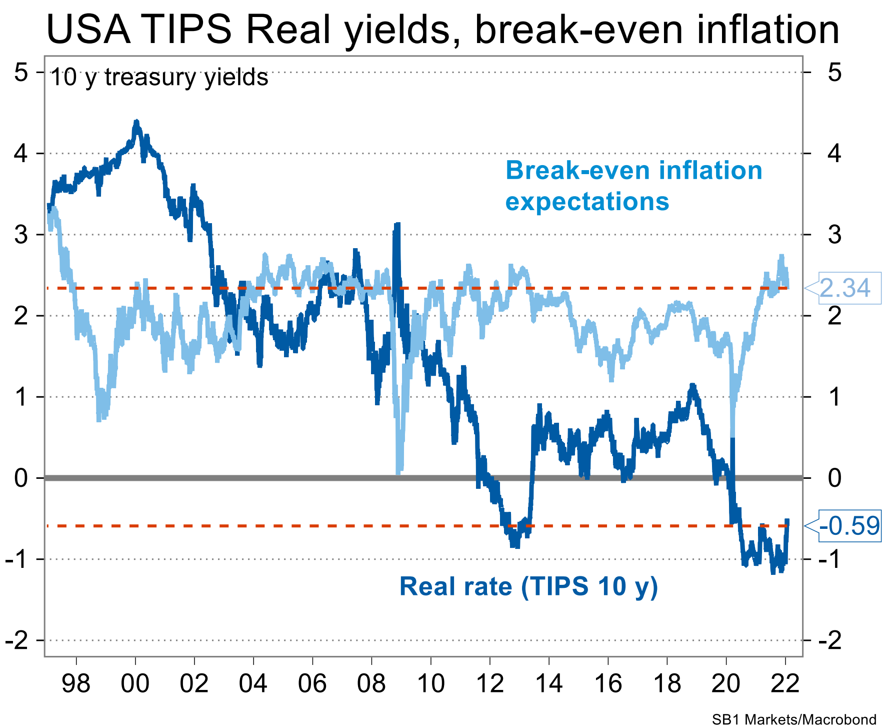


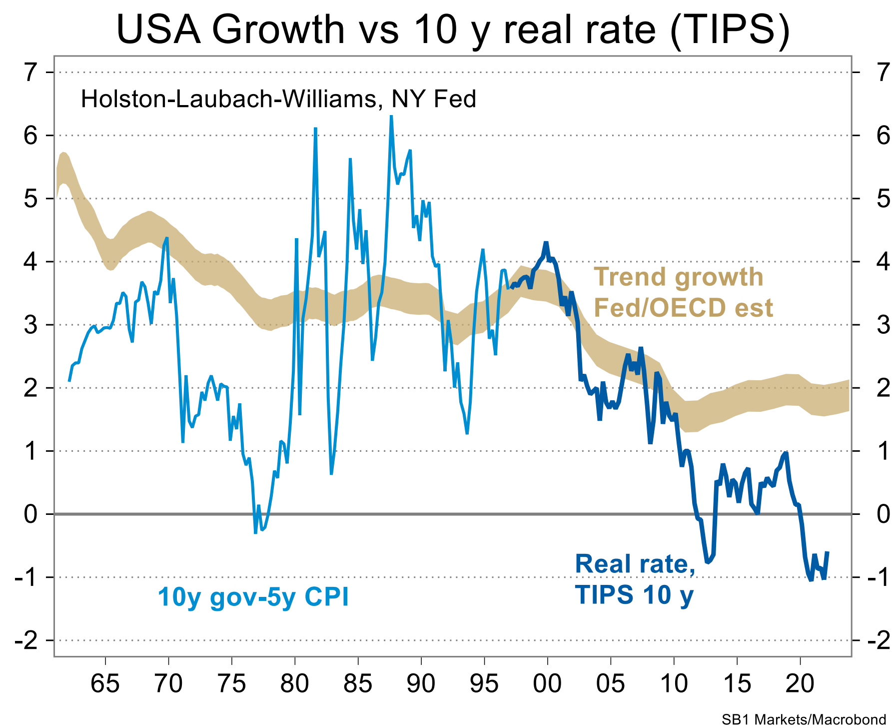




- **Expected inflation**
  - » ***If its not too low or too high: No problem***
    - 'Real' expected earnings are unaffected, higher inflation implies stronger growth in earnings, and vice versa
  - » ***If its too low or too high: A problem***
    - Something is rotten: Deflation or far too high inflation. The economy is not stable. Risk are increasing, earnings are exposed
- **Expected long term real interest rates**
  - » ***Low real rates normally not good news, high rates were OK***
    - Real rates were low when the economy was weak, the outlook uncertain
    - High real rates when the economy was booming, with high P/Es
  - » **Since 2018:** real rates have been low (and falling sharply) even if the economic outlook has been OK
    - Central banks wanted to lift growth, inflation was anyway not a problem – we entered the 'Goldilocks' corner'
    - The RISK now: Very low real rates may not stabilise the economy, and inflation has become too high
    - . WHERE IS THE WAY OUT?? Higher real rates, lower growth expectations and lower multiples?

What if the gap between growth expectations and the real rate narrows further?

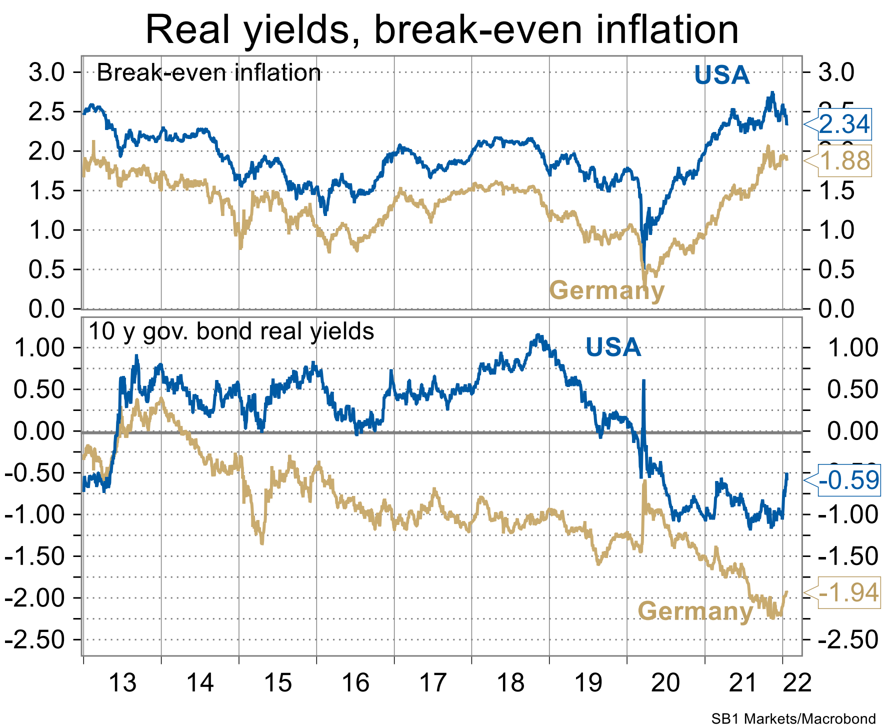


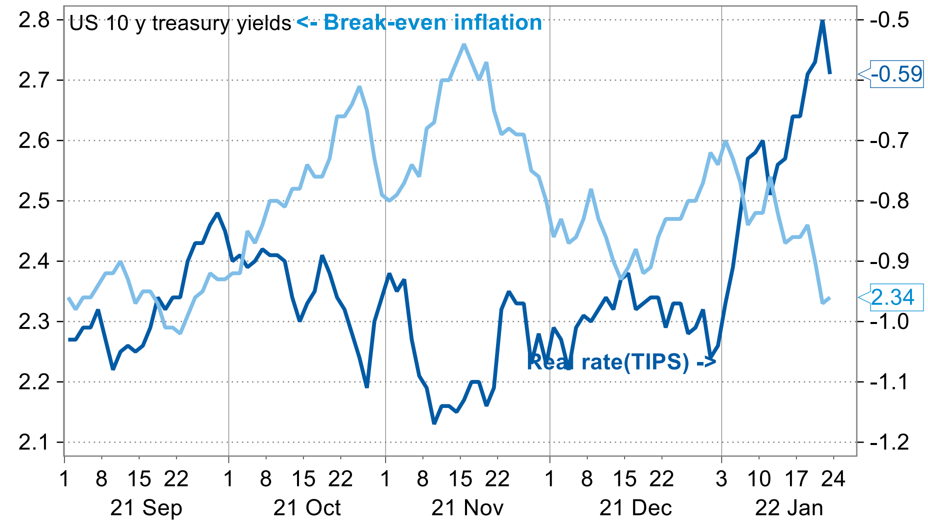


- Something is happening: The 10 y real TIPS rate is on the way up, now by 60 bps from the ATH last year

US real rates up to -50 bps at Wednesday, down to -59 at Friday, still 7 +bps w/w

A substantial lift since late last year. Even so, the real rate is still extremely low





US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.75	-0.03	0.27	0.52
.. break-even inflation	2.34	-0.10	-0.10	1.06
.. TIPS real rate	-0.59	0.07	0.37	-1.19
Germany nominal bund	-0.06	0.01	0.29	-0.65
.. break-even inflation	1.88	-0.04	0.05	0.40
.. real rate	-1.94	0.05	0.24	-2.26

SB1 Markets/Macrobond

- **The 10 y TIPS real rate** has climbed 60 bps from the ATL last year
- **Long term inflation expectations fell sharply last week – by 10 bps to 2.34%. The 5y 5y** fwd break-even fell 11 bps to 1.98, below 2% for the first time since March last year. Market is acknowledging that the Fed will not let inflation run away forever. (However, the 5 y break-even is a 2.7%, way above Fed's target. So more action needed?)
- **The German 10y inflation expectation** is close to 2%, which must be high enough. The real rate is -1.94%, up 32 bps from the bottom, still terrible low
- **The nominal 10 y (Bund) yield** closed Friday at -0.06% , but was above zero at Thursday(+0.01%), for the first time since April 2019!

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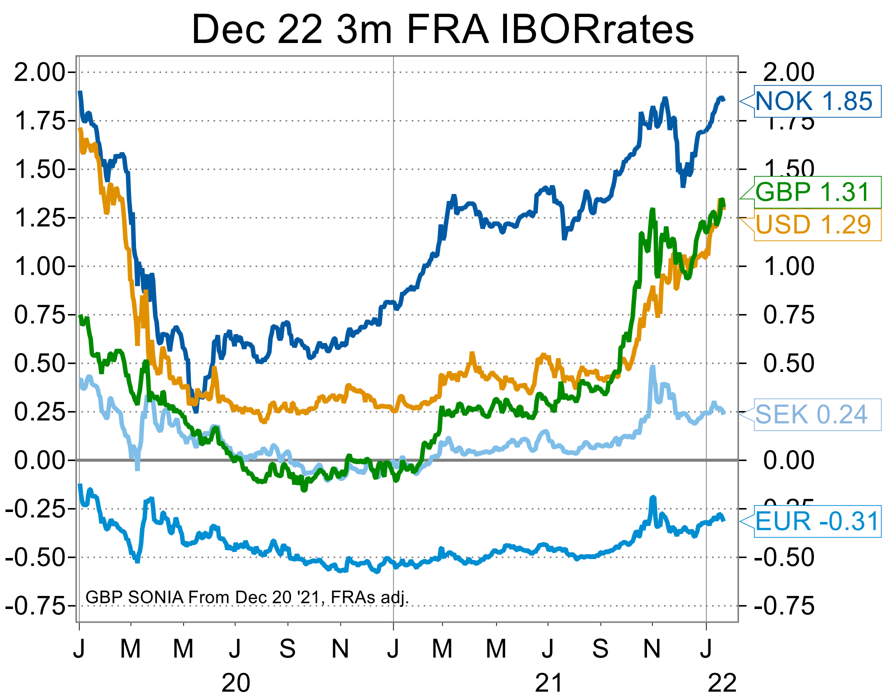
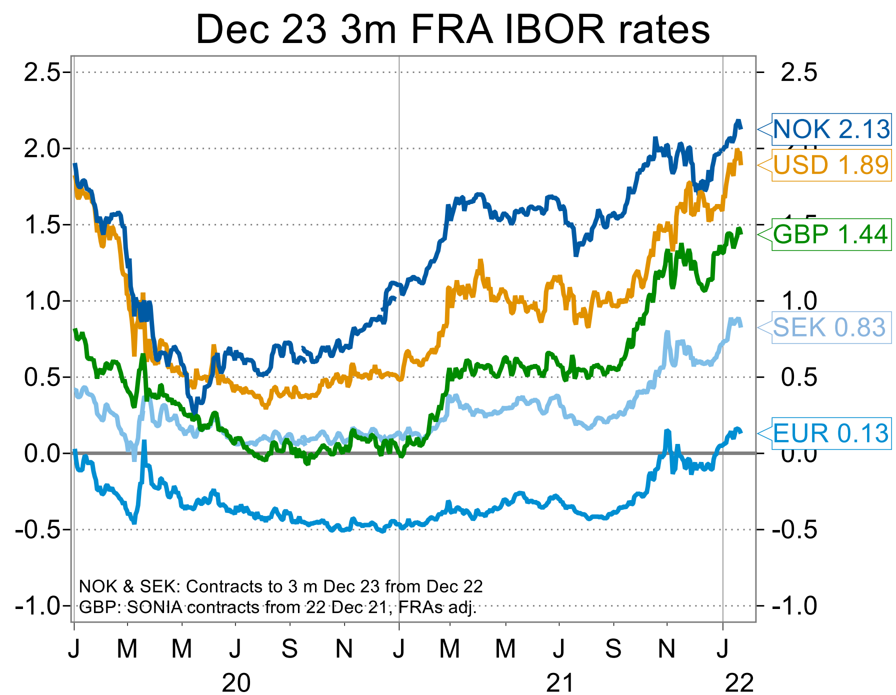
FRAs: The direction is still upwards



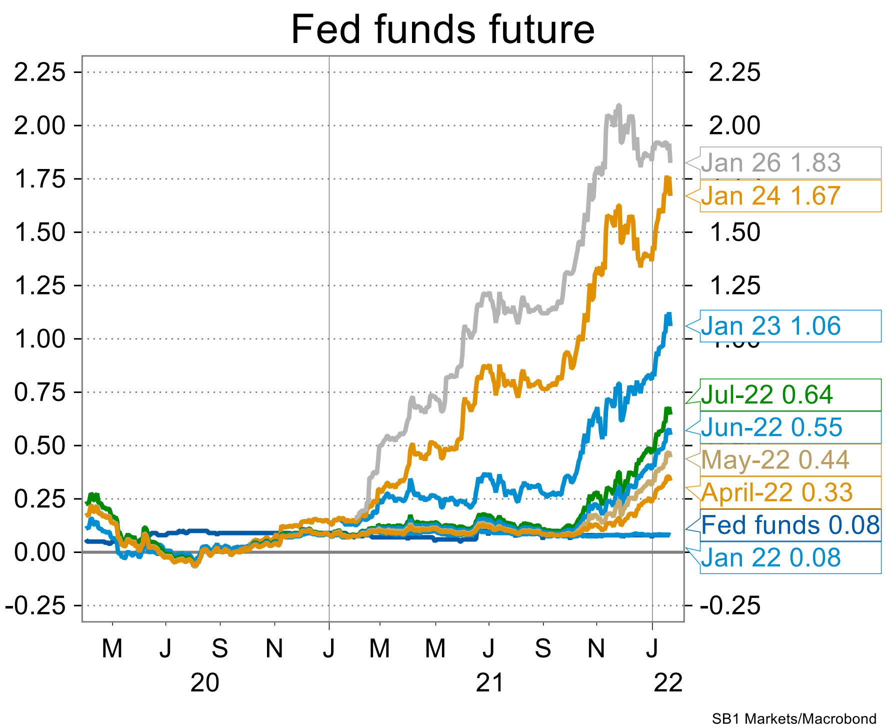
SB1 Markets/Macrobond

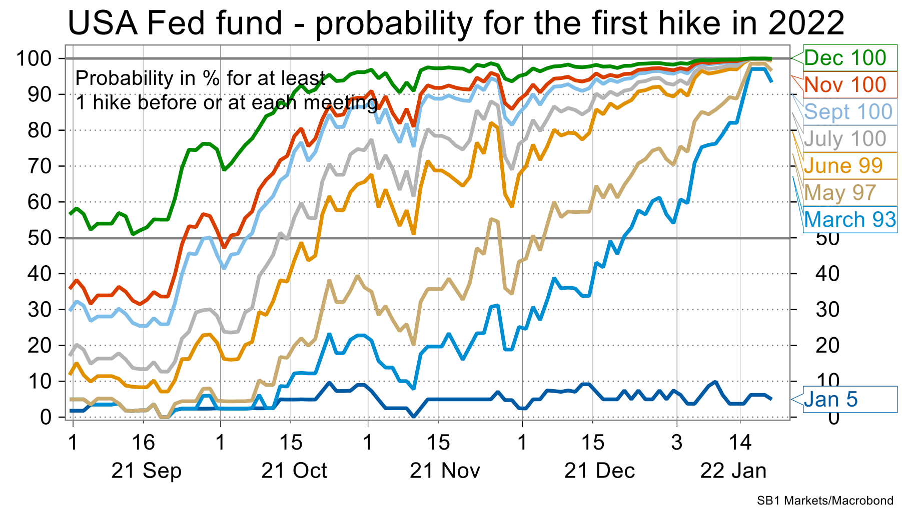


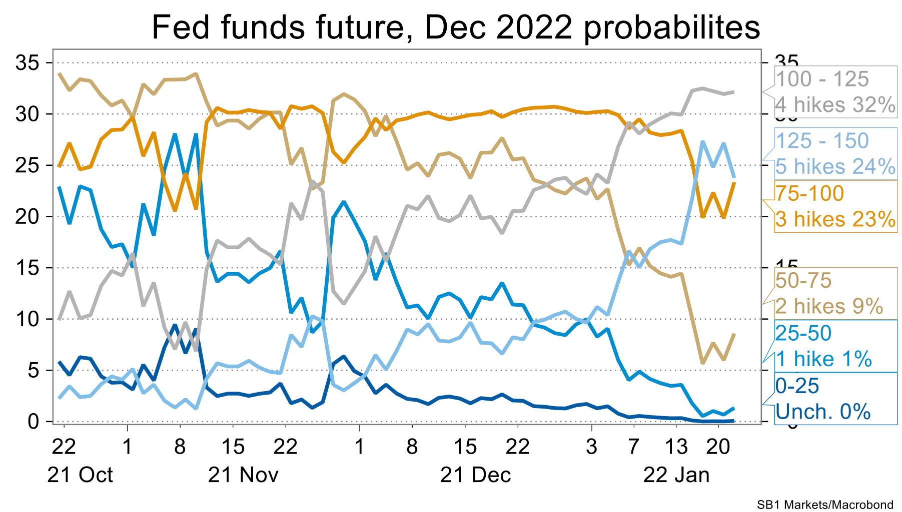
SB1 Markets/Macrobond

A March hike is a done deal (only a stock market collapse, a war) can stop the Fed

However, rate expectations fell slightly from early 2023 onwards







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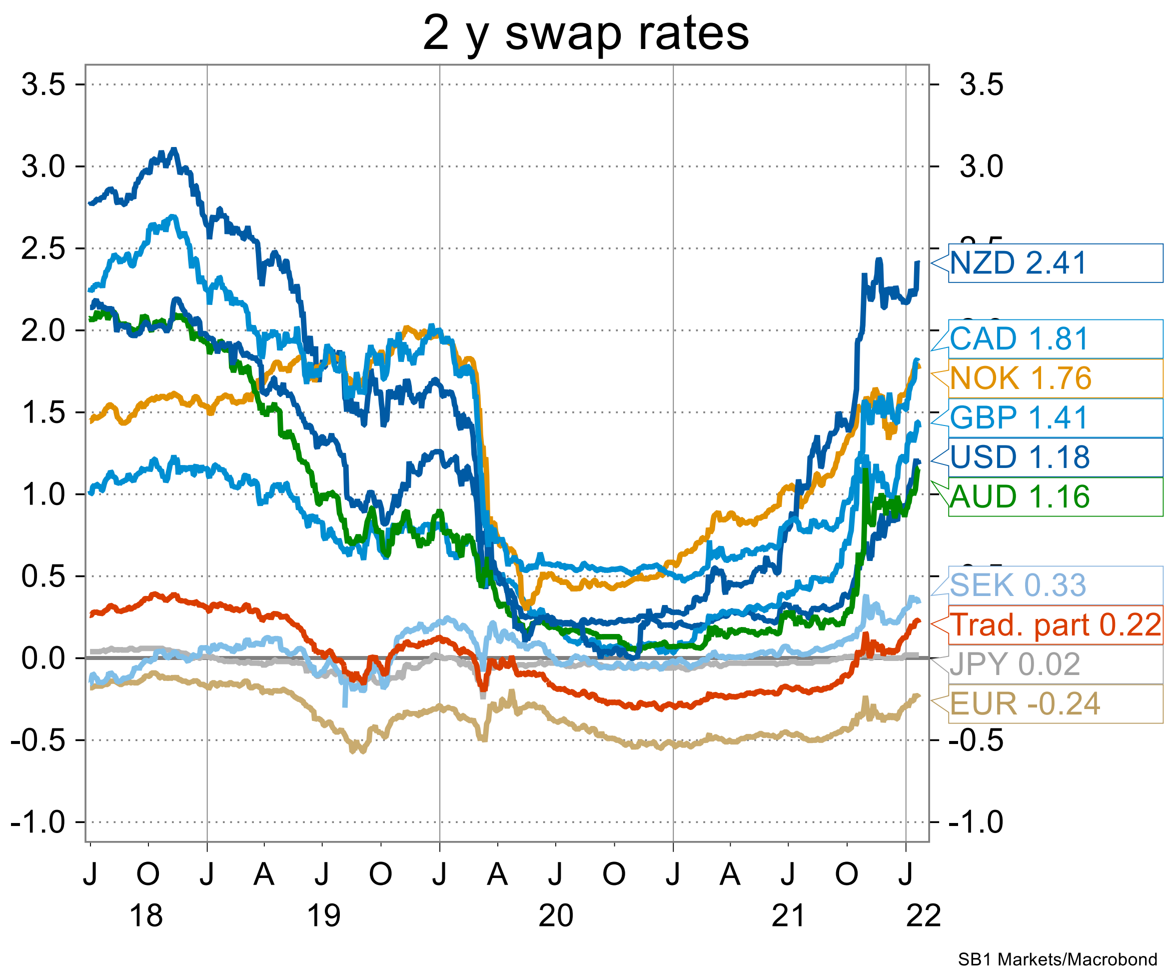
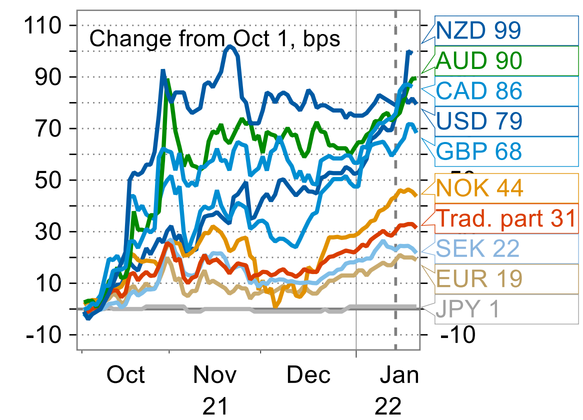
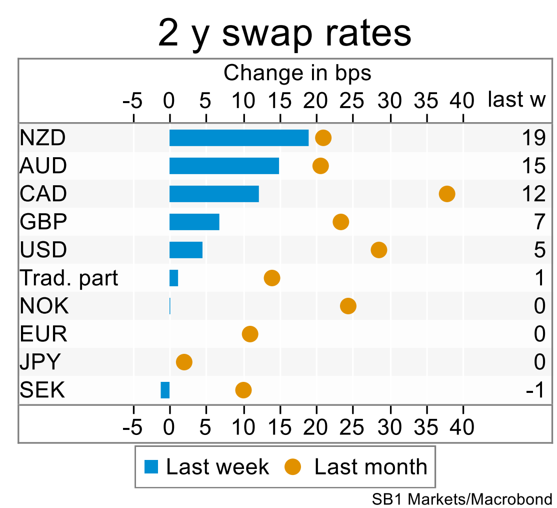
Short term rates up most places, the most in NZD, AUD, CAD

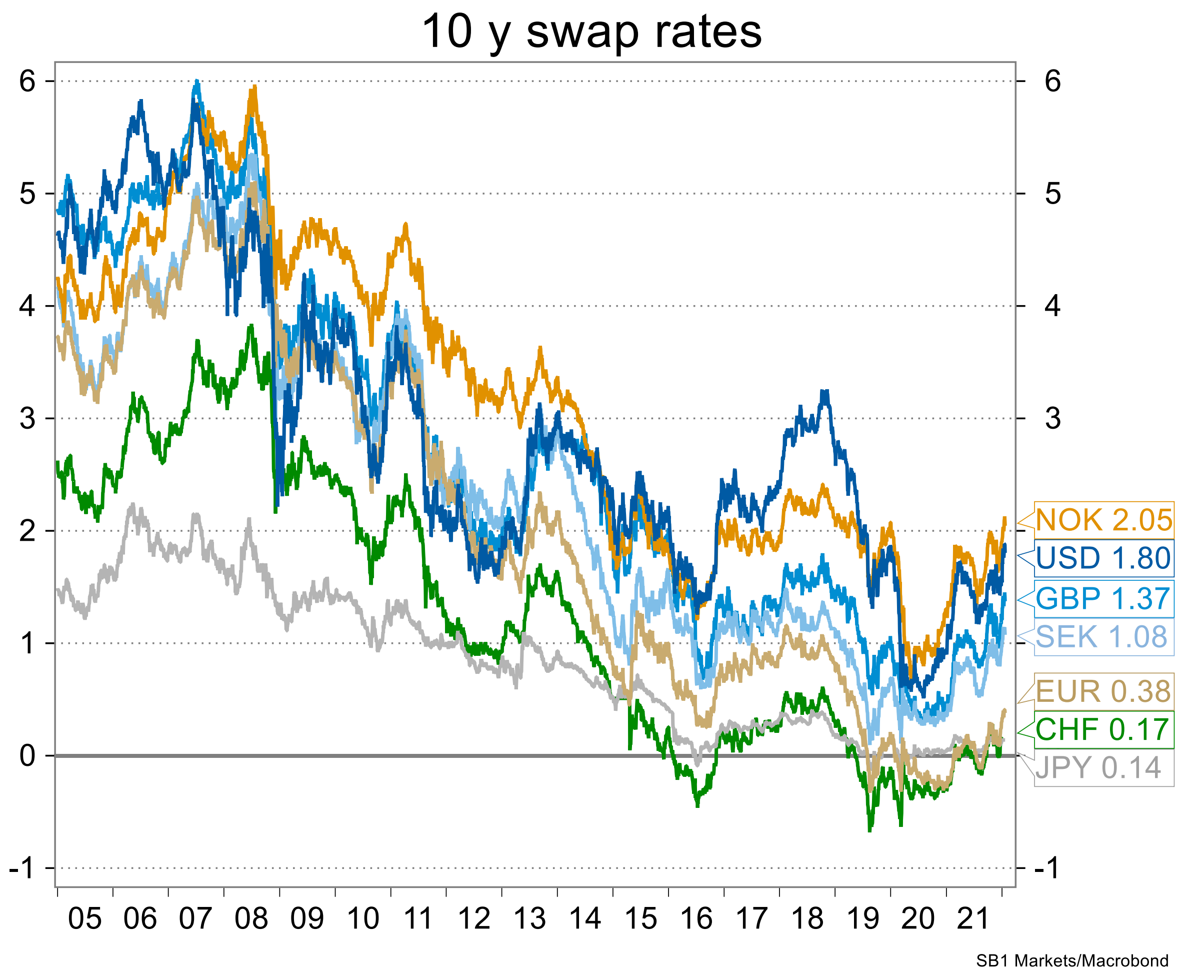
USD rates further up too – even if rates fall somewhat at Friday

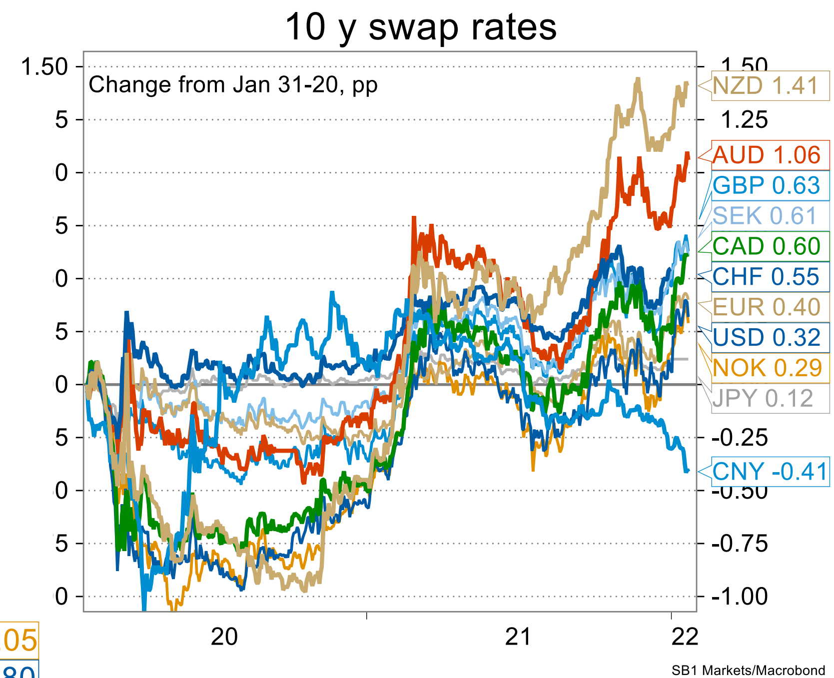


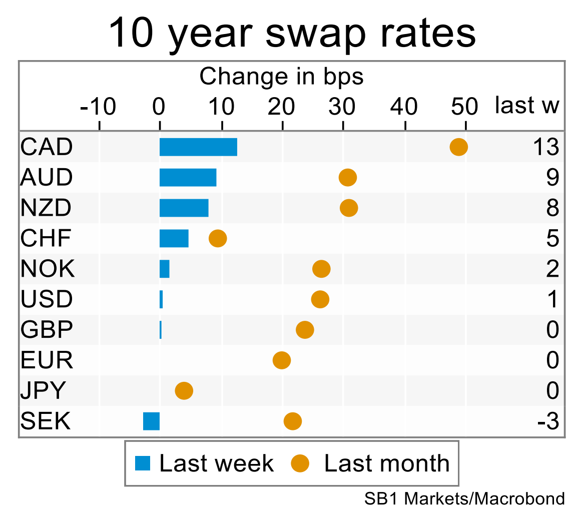




Mostly up again last week – and the trend is set?

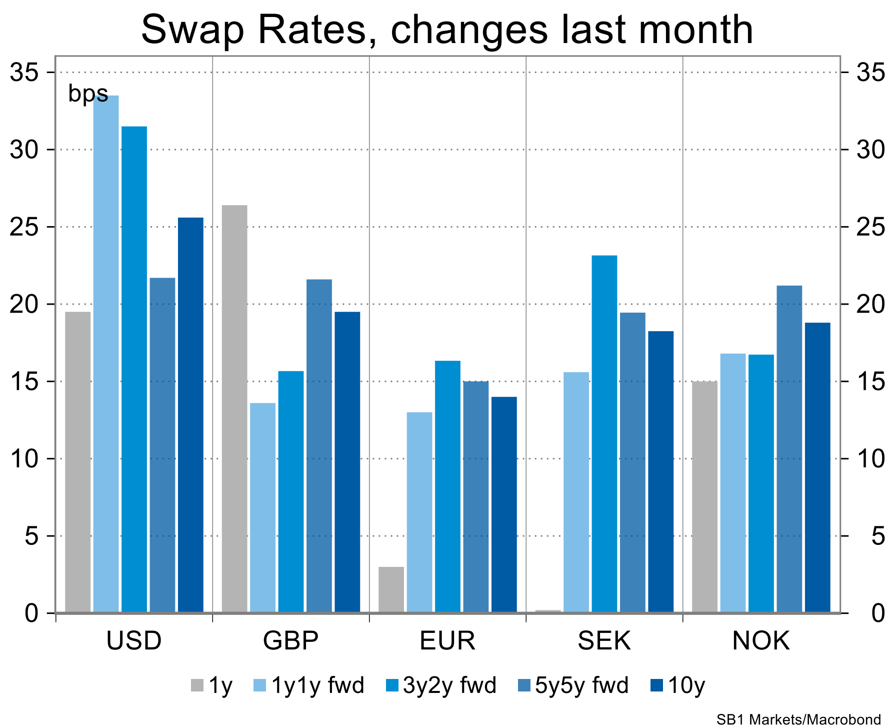


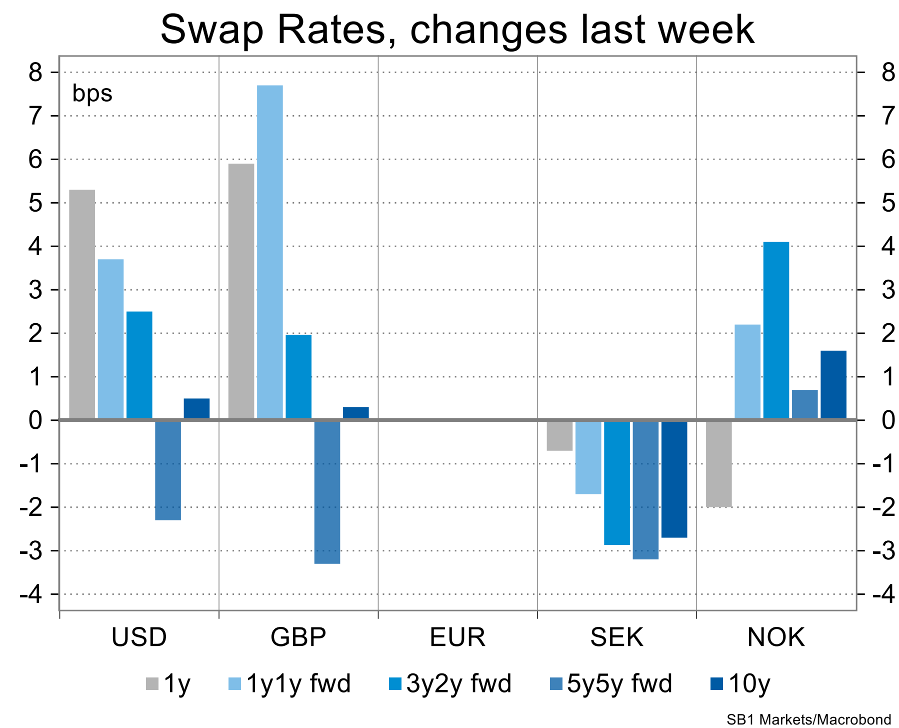




Another lift in the short end in USD, GBP – not elsewhere

Small changes in the long end – barring a decline in SEK





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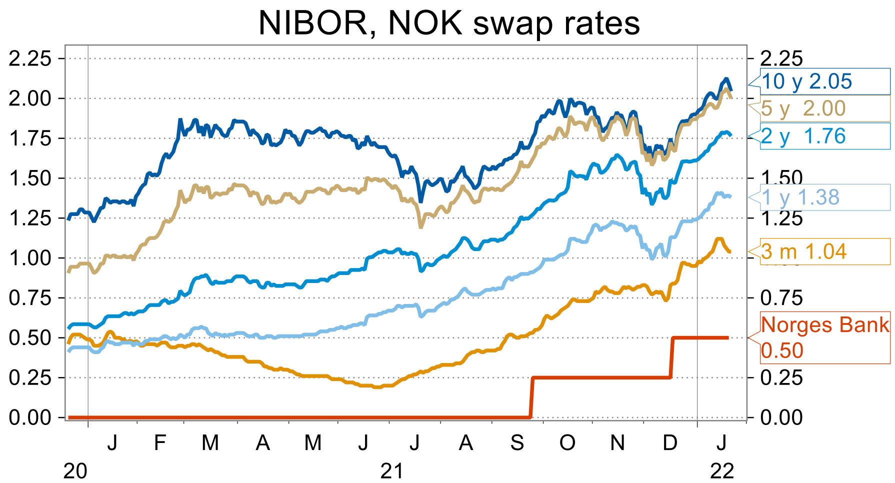
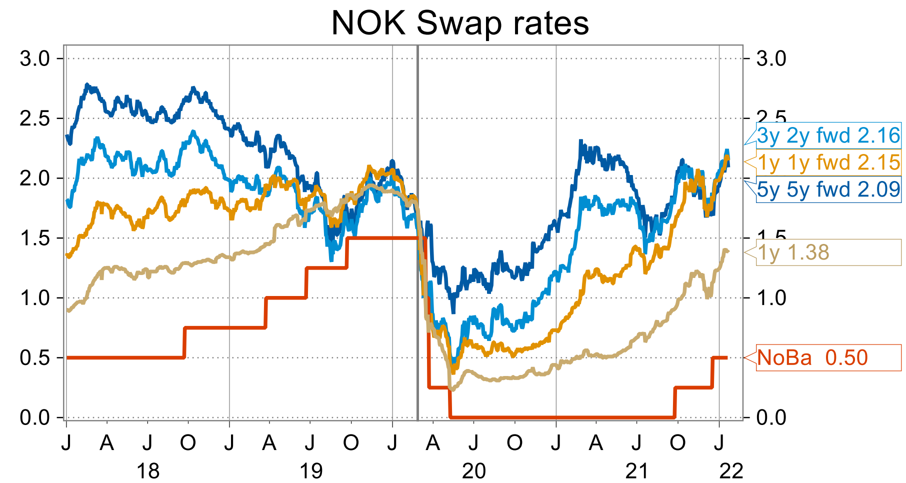
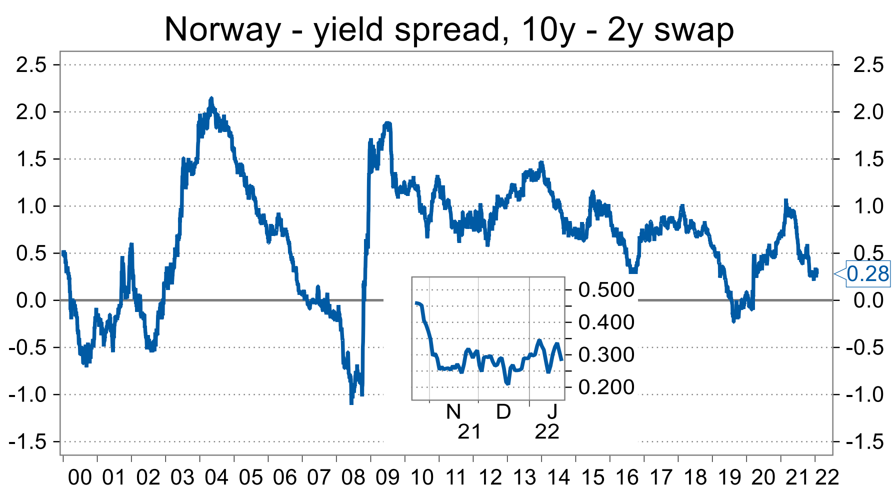
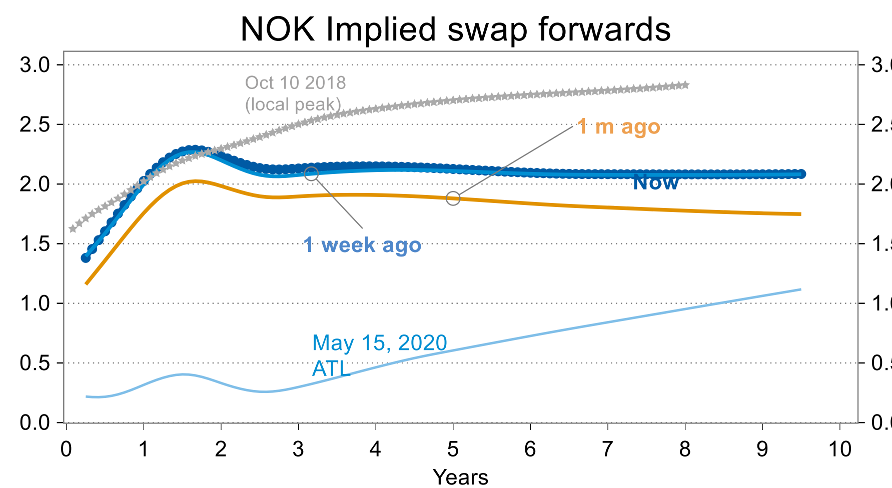
The short end of the curve took a break, the long end slightly up

The implied forward curve peaks at 1.5 – 2 year



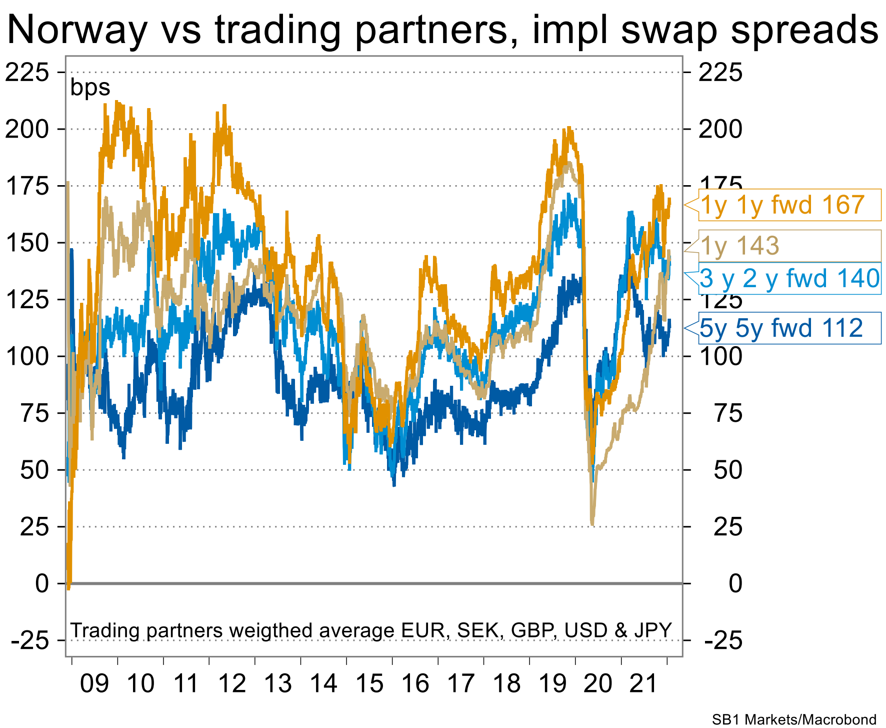


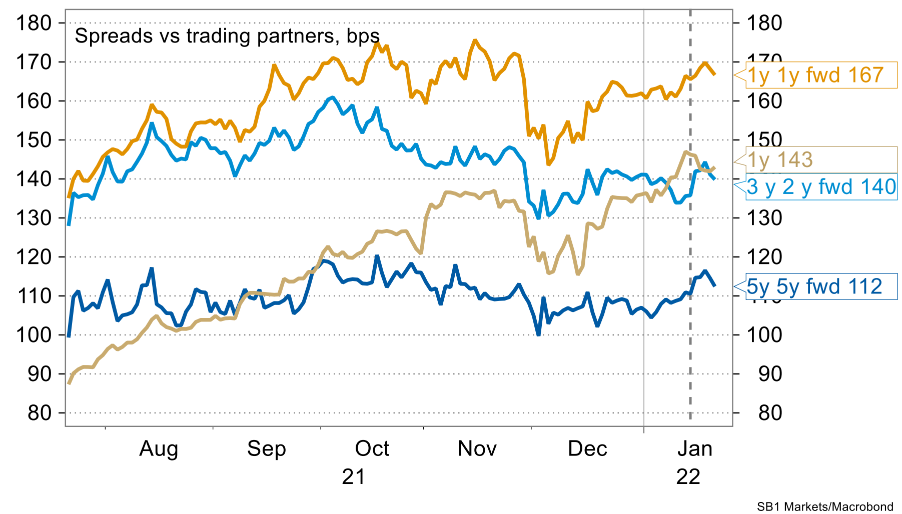


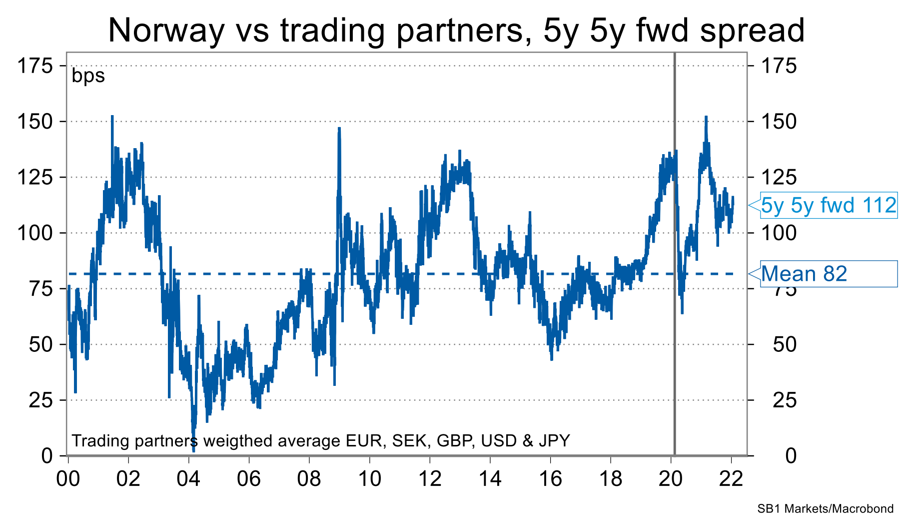


Spreads marginally out last week, barring the very short end

Spreads are at the high side – but we do not have a short term narrowing case

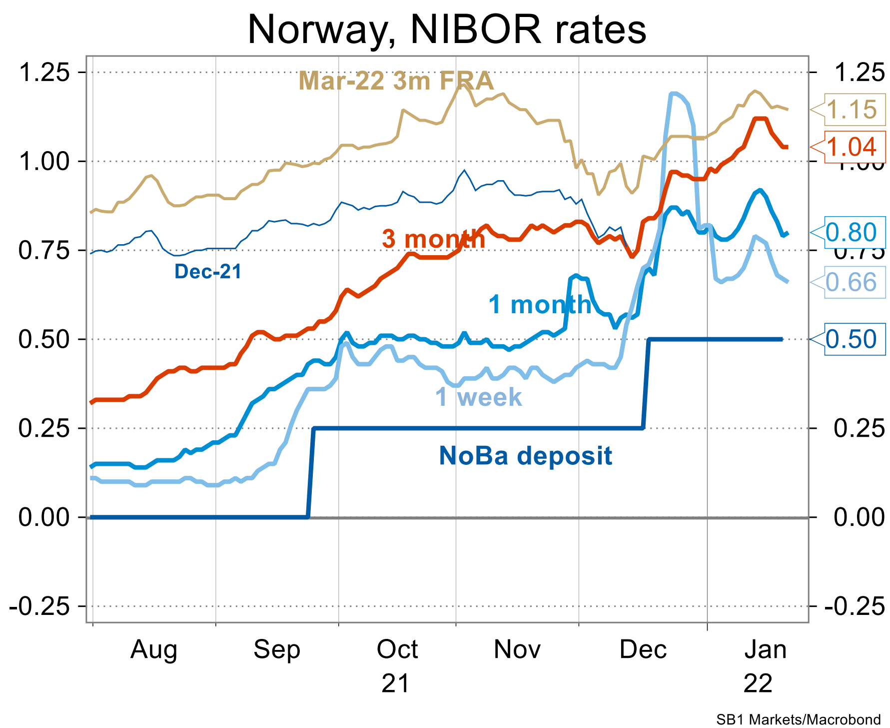


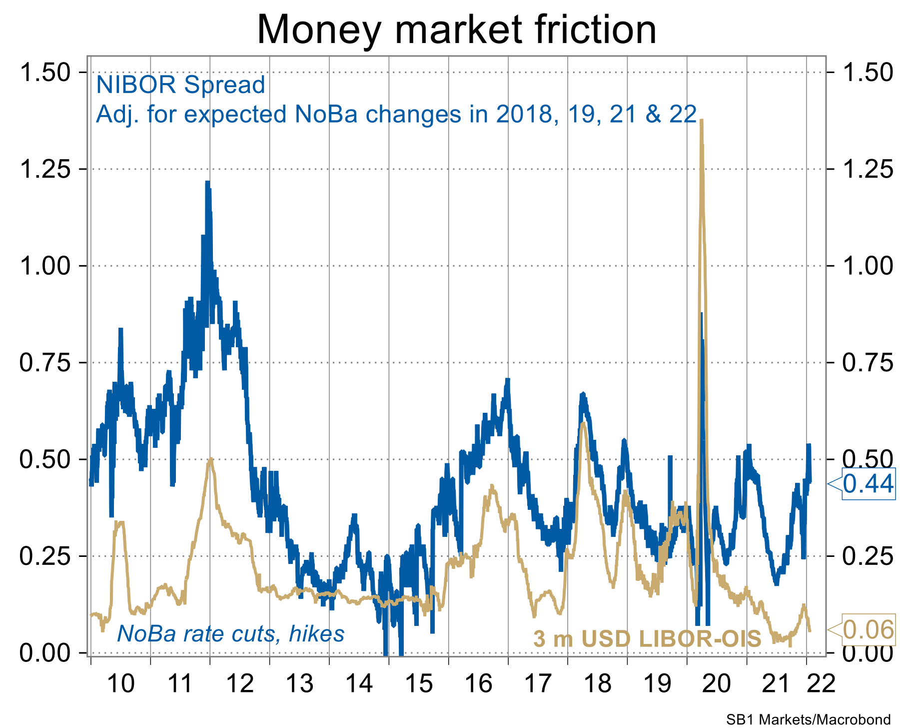




The 3m NIBOR finally down, by 8 bps to 1.04%

The NIBOR spread at 44 bps, if we take a NoBa March hike for granted

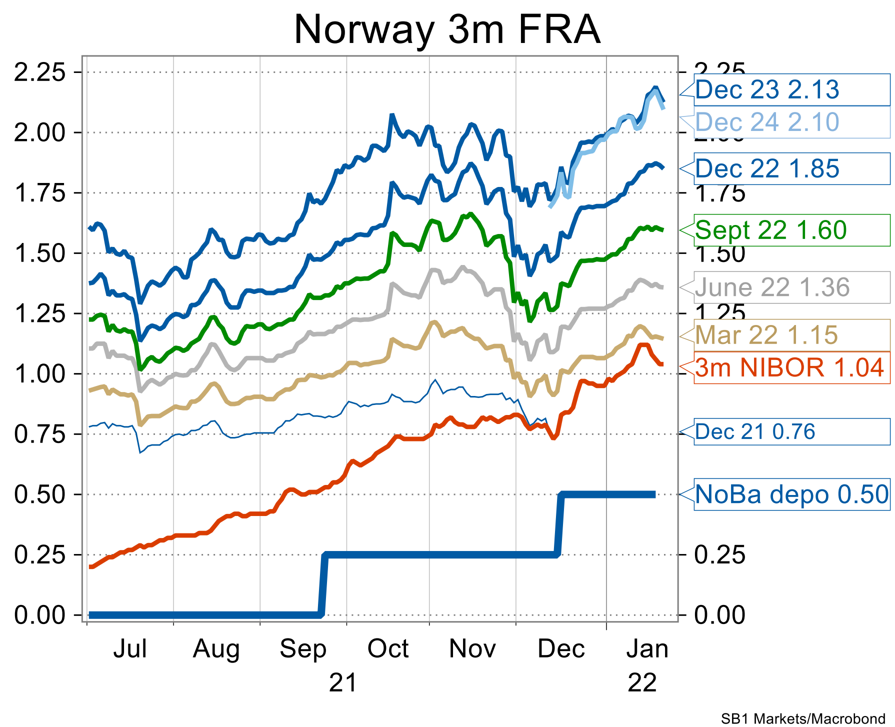


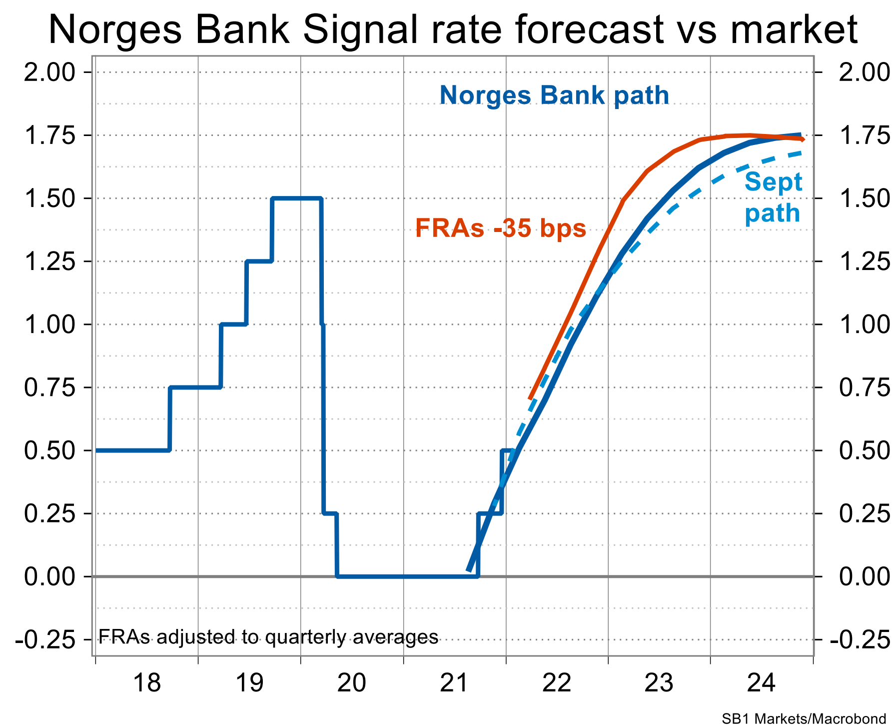


- The **3 m NIBOR** has been at elevated level recent weeks but the market calmed down when NoBa offered an F-loan to banks last week – as we expected the bank to do
- The **USD LIBOR-OIS spread** rose to 13 bps from 4 bps from October to end of December. Now it is back to 6 bps, not far above a record low level

FRAs mixed, all down at Friday, but the longer dated up w/w

The FRA path is well above NoBa's Dec interest rate path





- Market FRAs are now discounting a steeper interest rate path than NoBa presented in December – <u>or the expected NIBOR spread widened substantially</u>
- If NoBa hikes March 24, the average NoBa rate will be 0.73% in the March FRA period
- Thus, the **March-22 3 m** contract at 1.15% implies 100% probability with a 42 bps NIBOR spread – or less than 100% of the expected spread is higher
- **NoBa's path** implied a 75% probability for a March hike, which we thought was a bit to cautious. So does the Bank? A March hike was strongly signalled last week

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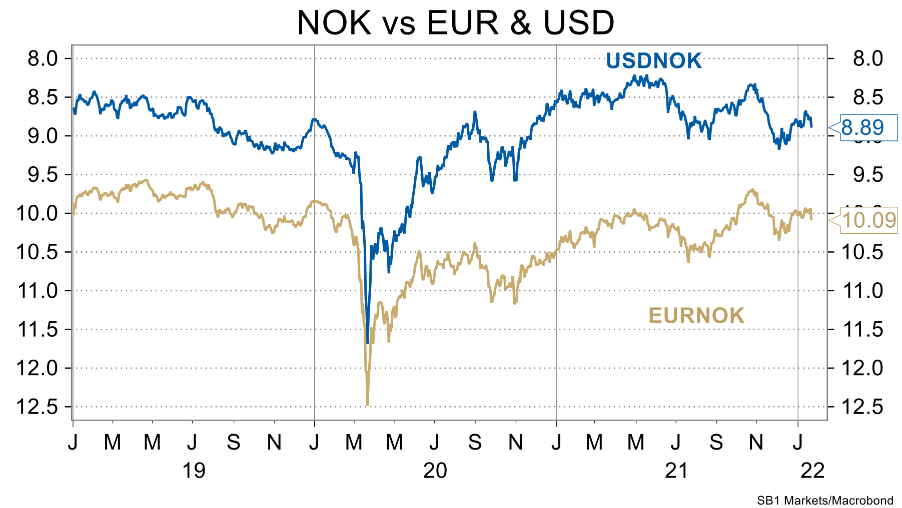
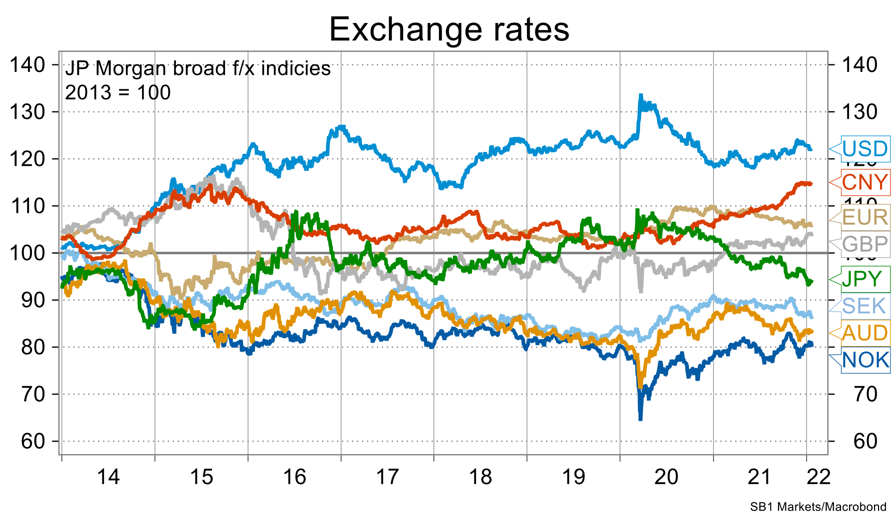
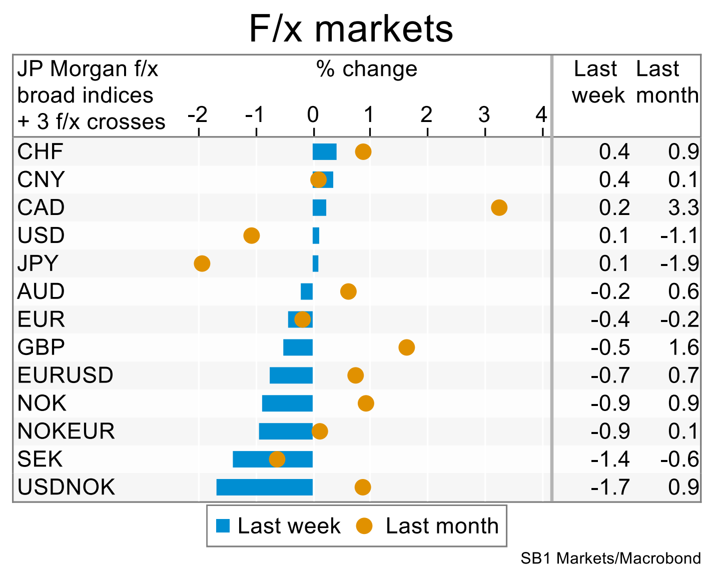
NOK, SEK the dogs last week. The CHG, CNY in the lead. USD marginally up

The EUR fell 0.4%



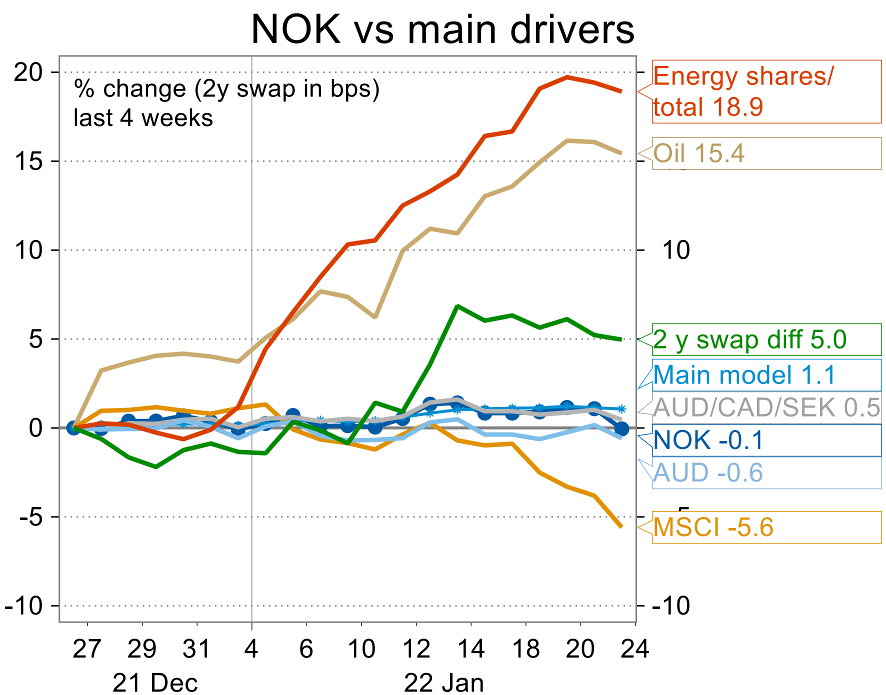


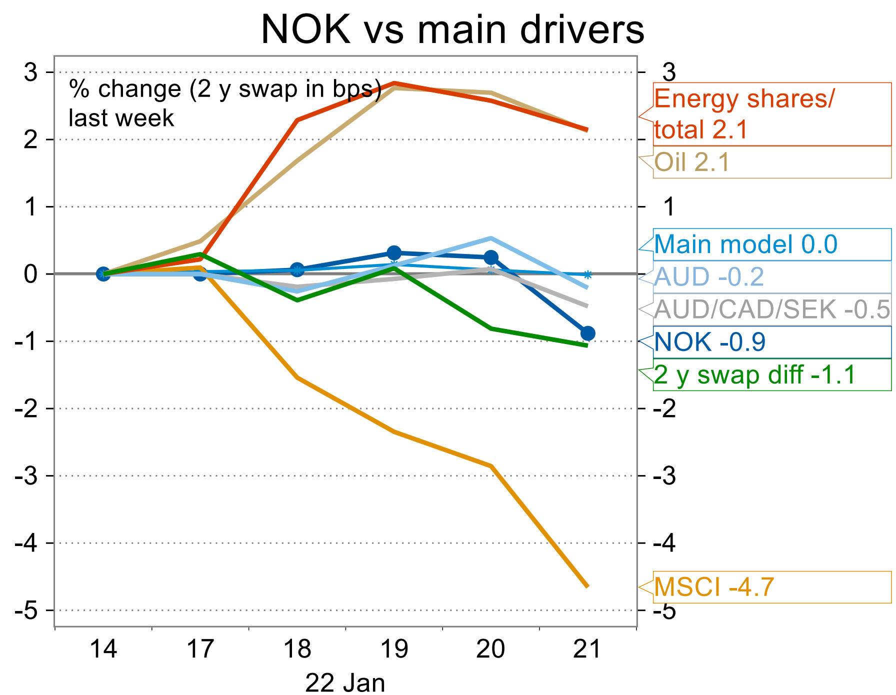


JP Morgan f/x broad indices + 3 f/x crosses	Last week	Last month
CHF	0.4	0.9
CNY	0.4	0.1
CAD	0.2	3.3
USD	0.1	-1.1
JPY	0.1	-1.9
AUD	-0.2	0.6
EUR	-0.4	-0.2
GBP	-0.5	1.6
EURUSD	-0.7	0.7
NOK	-0.9	0.9
NOKEUR	-0.9	0.1
SEK	-1.4	-0.6
USDNOK	-1.7	0.9

NOK down 0.9% last week, our model signalled unchanged, oil a stronger NOK

The global stock market fell almost 5%, and 'risk off' did probably not support the NOK





The status vs. the normal drivers:

- ***The NOK down 0.9%. The level less then 2.7% below the model est (from -2%)***
- The NOK is 5% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (unch). The AUD fell just 0.2% last week
- NOK is (5%) stronger than a model which includes global energy companies equity prices (vs the global stock market), but less than last week (from 6%)

At this and the following pages we have swapped Norges Bank's I44 index for JP Morgan's broad NOK index and rebased it to the current index value for the I44. The I44 has an earlier closing time than the 'official' closing time for f/x crosses. There are no substantial difference between these two indices over time

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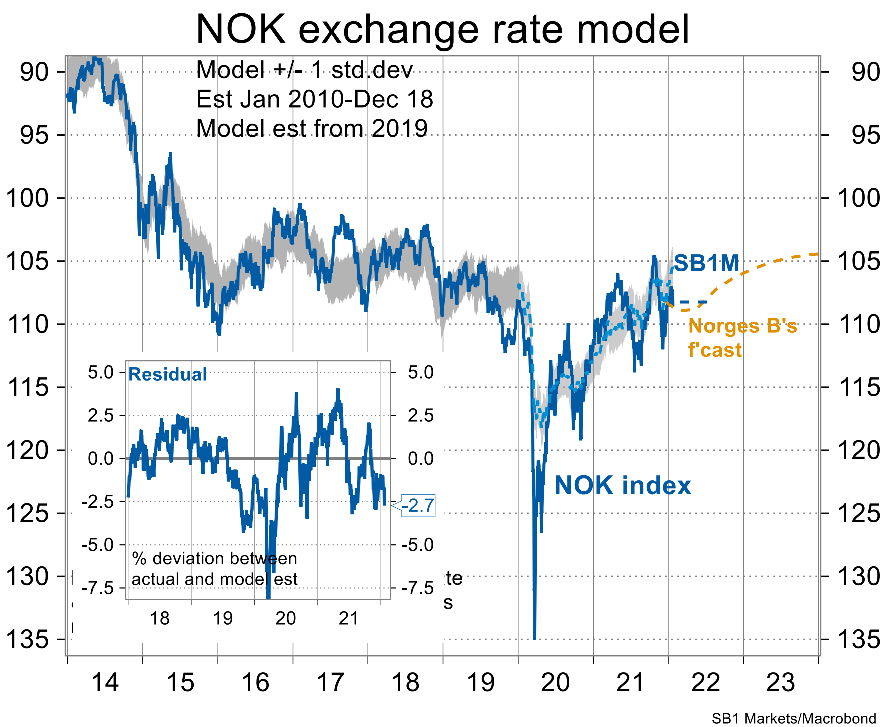
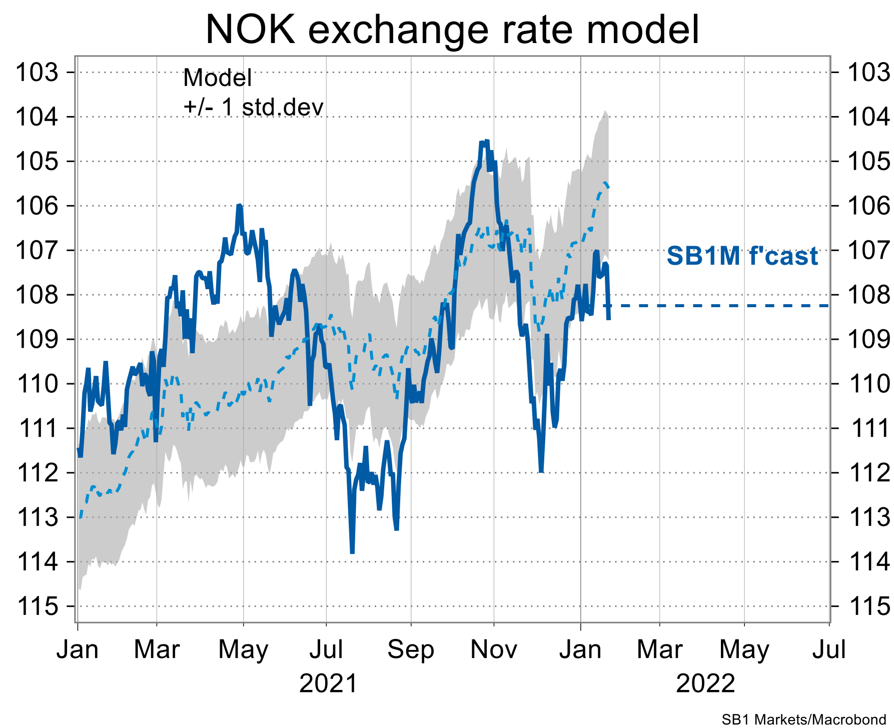
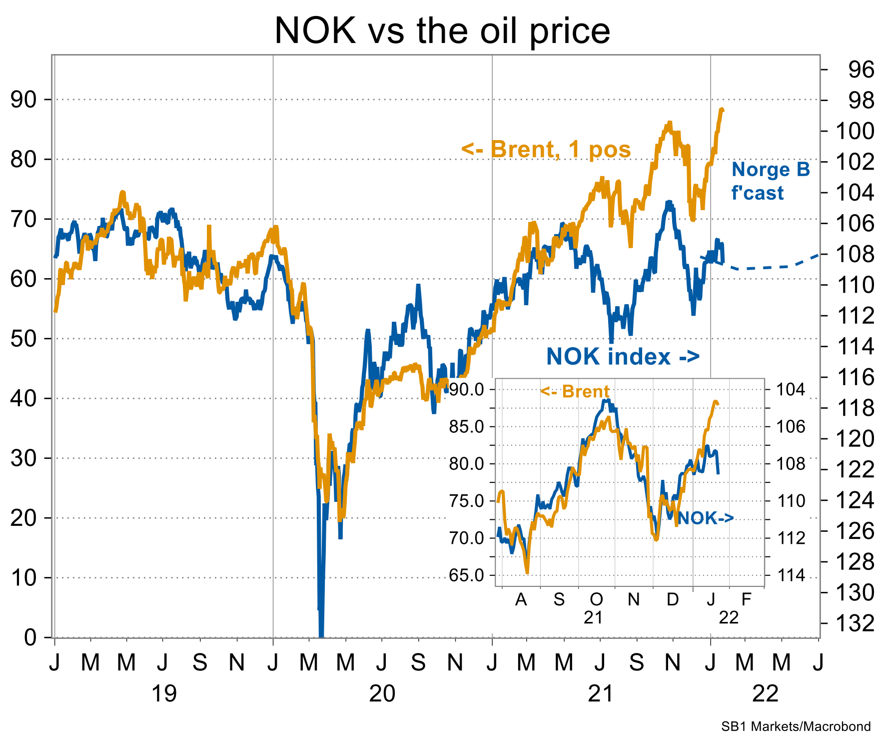
NOK lags our model again, by 2.7%, up from 2% the previous week

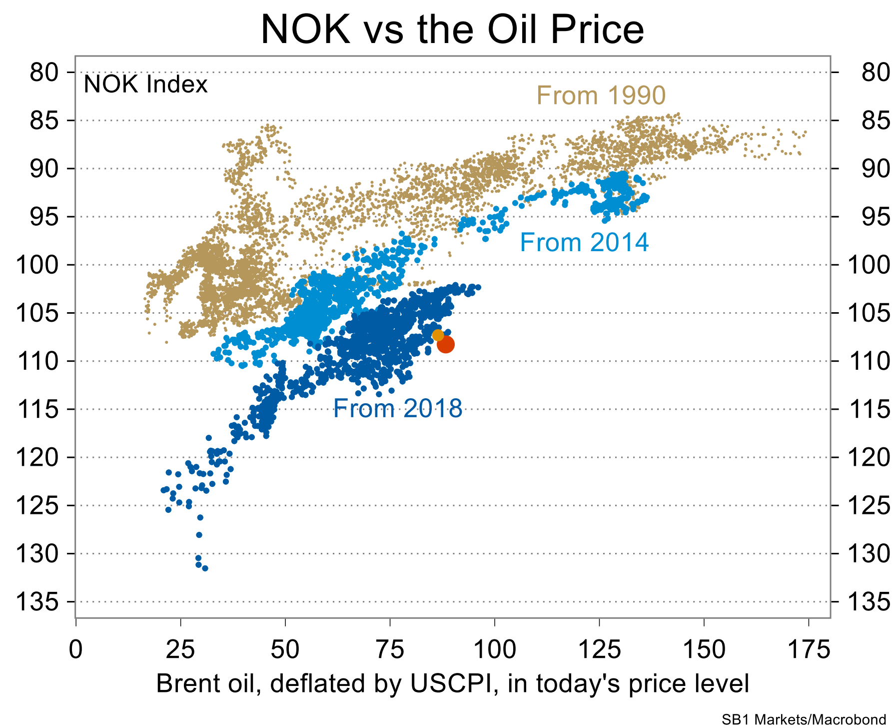




NOK down, even if the oil price rose further

…in sympathy with most risk markets?





- 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 4%, as a partial effect. Within a broader model, the impact is smaller

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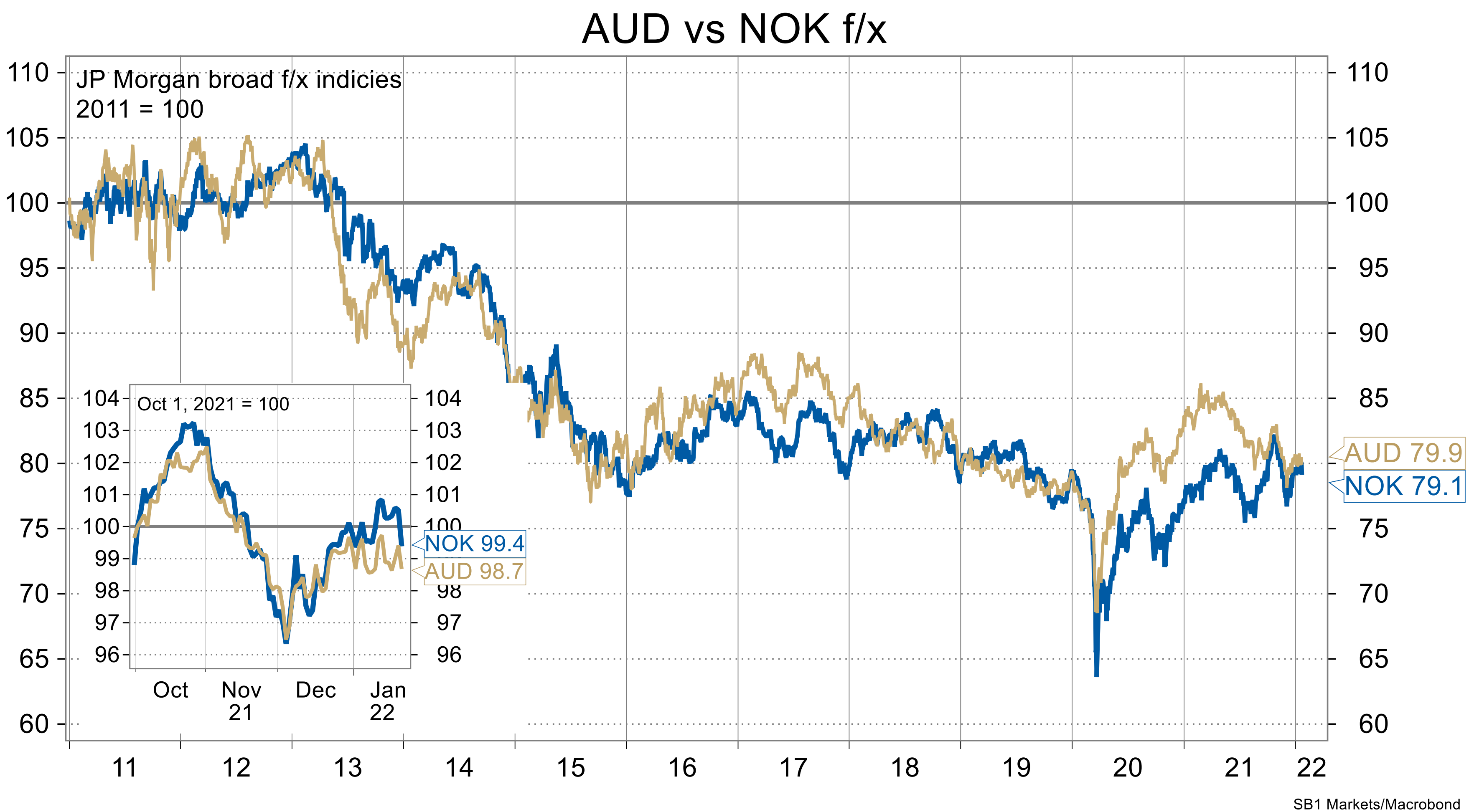
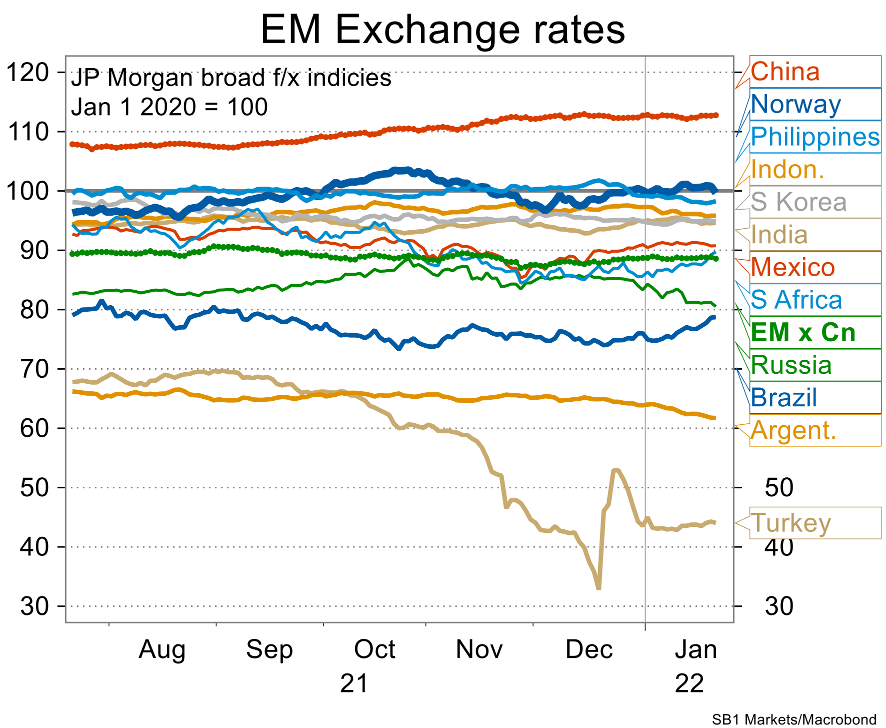
NOK weaker than the AUD last week but we are dancing as tight as anybody can

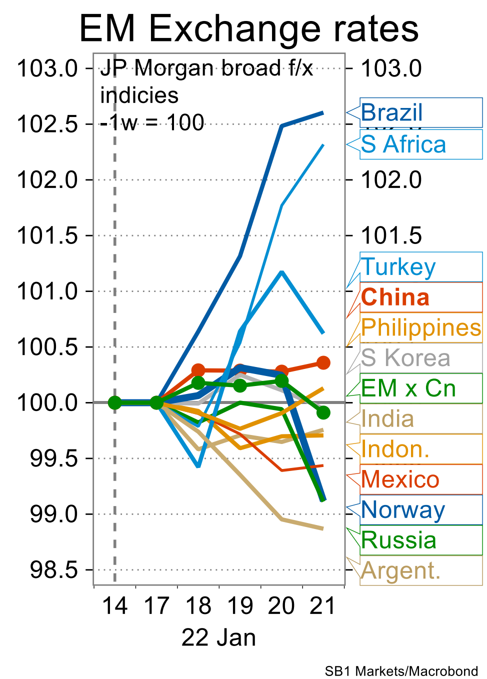


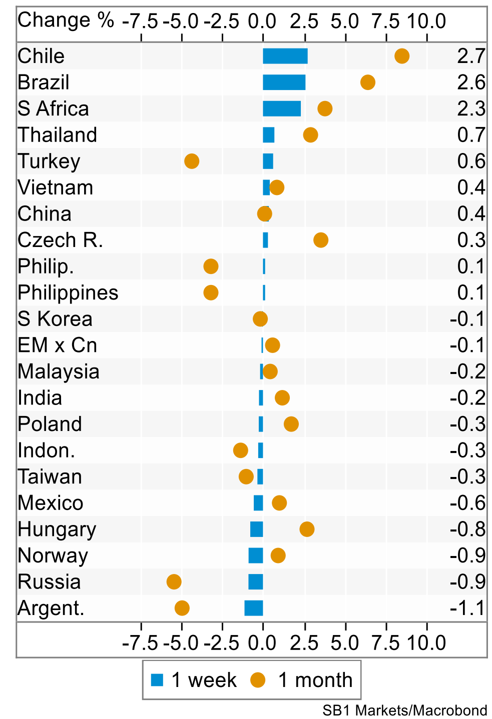
The two f/x indices are back to the 2011 parity (vs each other, from which they never since have deviated much)

The Russian rouble in trouble, mixed elsewhere in the EM f/x universe

The typical raw material currencies: Chile, Brazil & South Africa sharply up last week







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