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Macro Weekly

Week 16/2022

Harald Magnus Andreassen
Phone : (+47) 24 13 36 21
Mobile : (+47) 91 14 88 31
E-mail : hma@sb1markets.no

Tina Norden
Phone : (+47) 24 13 37 48
Mobile : (+47) 93 22 62 24
E-mail : tina.norden@sb1markets.no

SpareBank 1 Markets
Phone : (+47) 24 14 74 00
Visit address : Olav Vs gate 5, 0161 Oslo
Post address : PO Box 1398 Vika, 0114 Oslo

Highlights

The world around us

The Norwegian economy

Market charts & comments

Last week, part I

- **The War/Sanctions**
  - » We are awaiting news from the East front – and this week a new Russian campaign may start. No news on peace negotiations, probably because both parties think they have more to gain by continue the fight
  - » **Commodity prices** were mixed during the Easter week, oil prices rose, gas prices fell in Europe (but continued upwards in the US). Wheat price rose further and is almost back to the peak just after the Russian invasion
  - » More institutions are downgrading their **growth outlook** due to the conflict and its implications for supply chains
- **The virus**
  - » **Shanghai and a large number of other Chinese cities are** still more or less (or completely) closed down. China's zero tolerance strategy is obviously not cost free (and probably not feasible in the long run). Services, including retail sales, were badly hurt in March
  - » In the rest of the world, also in other Asian countries, mobility is on the way up, as the virus is on the retreat
- **Global auto sales**
  - » **Global sales** fell 12% in March, somewhat less than our initial estimate, as sales in China fell 'just' 18%. Sales fell in the US and Europe, and collapsed in Russia but kept up in most other Emerging Markets
- **China**
  - » **GDP** growth surprised at the upside in Q1, 1.6% (5.3% annualised) vs. expected 0.7%, and the annual rate climbed to 4.8% from 4.0% in Q4
  - » **Manufacturing production and investments** were in line with or above expectations in March. No impact of the fight against the virus?
  - » Well, **service production**, including **retail sales** fell sharply (3 - 4%)
  - » **New home sales** also declined, but are in a recovery mode (bottomed last Oct), and are 'just' down 20% from the peak in early 2021. **Housing starts** have stabilised, but are down 30%
  - » **Exports** stabilised in March following the decline in February (exports to Russia fell sharply, but that's not visible at the top line). The level is still very high. **Imports** fell further, and are slightly below the pre-pandemic trend path – but substantially lower than last spring. The **trade surplus** is close to record high
  - » **CPI inflation** is still close to 1%, even if **PPI prices** are up almost 9%
  - » **Credit growth** accelerated in March, and underlying growth is on the way up, but just because **local governments** are borrowing more at the bond market, probably not a signal of strength. **Reserve requirements** for banks were marginally cut last week. Yesterday**, PBoC** introduced lot of **other 'micro-measures'** to stimulate credit growth (which still is well above long-term nominal GDP (=income) growth!)

Last week, part II

- **USA**
  - **CPI prices** rose sharply in March, mostly due to a substantial hike in energy prices. However, the core CPI increased less than expected (0.3% m/m), as used auto priced fell almost 4% (these prices still are far above long term sustainable levels). However, inflation is broadening, and the lift in energy prices explains just half of the annual 8.5% inflation rate. PPI inflation was well above expectations, and companies reported very aggressive price hike plans in March. 10 y bond yields rose further last week, and are approaching 3%, as the real (TIPS) rate is closing in on the zero line!
  - **Retail sales** rose as expected in March, but in volume terms core goods continued downwards after the decline in February. The level is down from March last year (which was the peak). The challenge: total retail sales are up 27% (in nominal terms) from Feb-20!
  - **Manufacturing production** gained 0.9% in March, better than expected – and the underlying growth rate is at 5 – 6%. Capacity utilisation is at the highest level since 2008, according to the Fed. The companies themselves reported the highest rate ever (to ISM last Dec, must be even higher now)
  - **Small businesses (NFIB**) are very pessimistic vs the outlook, even if fewer than ever complain about sales or competition, now. Workers and inflation are their only worries these days. But that may of course (probably rightly) have a bearing on the outlook
- **EMU**
  - **The ECB** was less aggressive on the need for urgent rate hikes than expected, but may start lifting rates sometime in Q3 or Q4. The bank will conclude its QE programs before hiking, and has not yet decided whether or not to buy more bonds in Q3 (but QE buying will very likely end in Q3, and thereafter the ECB may start hiking). The bank stressed the low underlying cost pressure, with wage inflation at 2% or below – which will not generate too high inflation over time. In addition, the supply shock due to the Ukrainian war & sanctions would lower growth substantially. Rate expectations, bond yields and the Euro fell (but the long end of the curve was still up w/w)
  - **ZEW expectations** fell slightly more in April, even if the Dax has recovered. Face value, German investors and analysts expect a sharp downturn in their economy
- **Norway**
  - **CPI inflation** was lower than expected in March as the core was unch at 2.1% y/y, expected up to 2.4%. Food prices surprised at the downside, and they are still 2% lower than in Q4-2020. What a crisis! Electricity price rose less than we assumed and the headline rate 'just' accelerated 0.8 pp to 4.5%, expected up to 5.0%. However, electricity prices will probably increase further in April (but not by much, the government picks up most of the extra bill)
  - **Air traffic** rose 25% in March, but is still 32% below the 2019 level. April will be far better

The Calendar: US housing, Fed's beige book, the first April PMIs

Time	Count.	Indicator	Period	Forecast	Prior
Tuesday April 19					
08:00	NO	Trade Balance	Mar		84.2b
14:30	US	Building Permits	Mar	1829k	1859k
14:30	**US**	**Housing Starts**	**Mar**	**1741k**	**1769k**
Wednesday April 20					
08:00	NO	Housing starts	Mar		
11:00	EU	Industrial Production SA MoM	Feb	0.70%	0.00%
11:00	EU	Trade Balance SA	Feb		-7.7b
16:00	**US**	**Existing Home Sales**	**Mar**	**5.80m**	**6.02m**
20:00	US	Fed's Beige Book			
Thursday April 21					
06:00	SW	HOX Home prices	Mar		
08:00	**NO**	**Industrial Confidence**	**1Q**	**(5)**	**8.6**
11:00	EU	CPI YoY, final & details	Mar F	7.5%	7.5%
11:00	EU	CPI MoM	Mar F	2.5%	2.5%
14:30	US	Philadelphia Fed Business	Apr	20	27.4
14:30	US	Initial Jobless Claims	Apr-16	180k	185k
16:00	US	Leading Index	Mar	0.3%	0.3%
16:00	EU	Consumer Confidence	Apr A	-20	-18.7
Friday April 22					
02:30	JN	Manufacturing PMI	Apr P		54.1
02:30	JN	Services PMI	Apr P		49.4
08:00	UK	Retail Sales Inc Auto Fuel MoM	Mar	-0.3%	-0.3%
09:15	FR	Manufacturing PMI	Apr P	53.5	54.7
09:15	FR	Services PMI	Apr P	56.5	57.4
09:30	GE	Manufacturing PMI	Apr P	54.5	56.9
09:30	GE	Services PMI	Apr P	55.3	56.1
10:00	**EU**	**Manufacturing PMI**	**Apr P**	**54.7**	**56.5**
10:00	**EU**	**Services PMI**	**Apr P**	**55.0**	**55.6**
10:00	**EU**	**Composite PMI**	**Apr P**	**53.9**	**54.9**
10:30	UK	Manufacturing PMI	Apr P	54.0	55.2
10:30	UK	Services PMI	Apr P	60.0	62.6
15:45	**US**	**Manufacturing PMI**	**Apr P**	**58.0**	**58.8**
15:45	**US**	**Services PMI**	**Apr P**	**58.1**	**58.0**
15:45	US	Composite PMI	Apr P	57.7	57.7

- **April preliminary PMIs**
  - » The two countries that really made the news (on the downside) in March, **China & Russia**, do not publish preliminary PMIs, just the rich part of the world – which surprised at the upside in March. EMU is expected 1 p down in April, which seems reasonable – and the US unchanged, at a strong level
- **USA**
  - » **The housing market** is has not yet fallen apart, even if the mortgage rates are surging. Regrettably, March existing home sales covers deals mostly done in February, and the mortgage rate has climbed rapidly recent weeks. On the other hand, homebuilders do not report weaker demand for new homes
  - » **Fed's Beige book** will report a red hot economy, at least vs. the labour market, wages & prices. The bank will hike the signal rate by 50 bps in early May
- **EMU**
  - » **The presidential election in France** at Sunday could turn out to be an 'interesting' event – if Le Pen beats Macron. So far, Marcon has just a small lead in the polls, and far from reassuring
- **Norway**
  - » We expect **industrial confidence** to calm slightly down in the Q1 SSB survey, as some impacts of the war/sanctions will be captured

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

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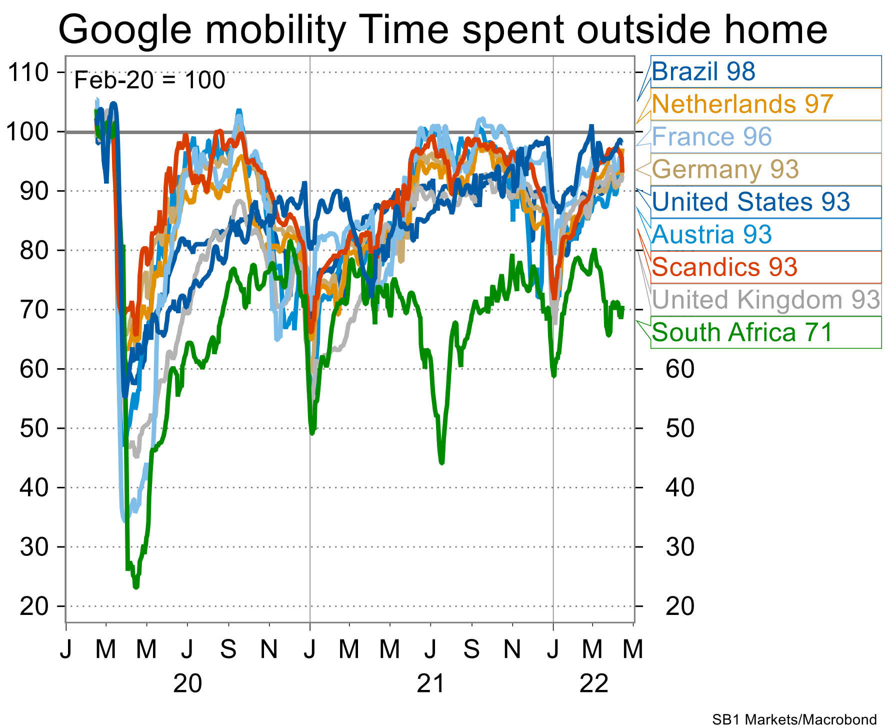
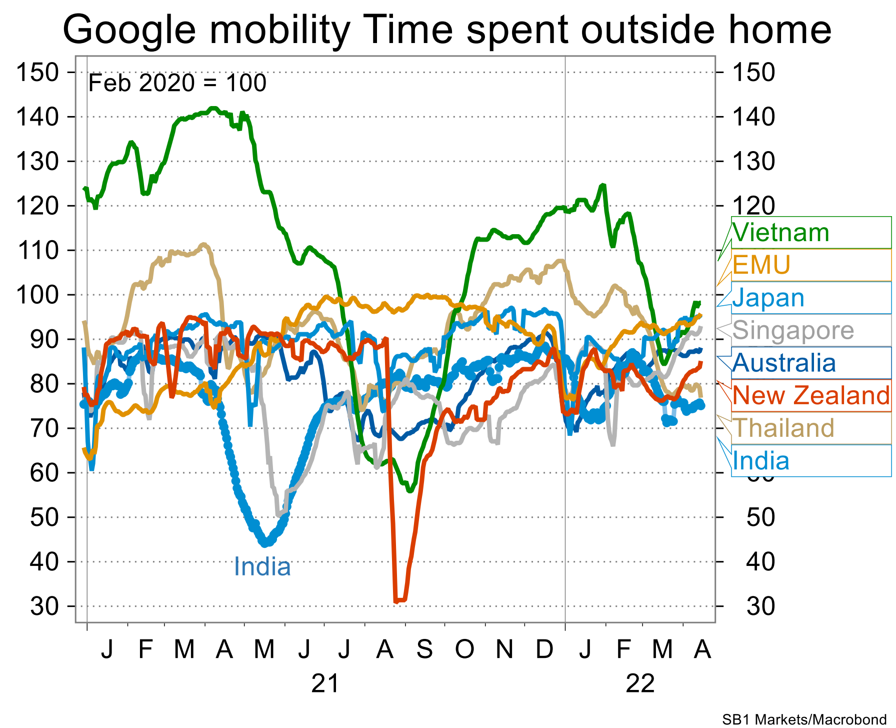
Mobility on the way up in the West, still some' challenges in the East (x Japan)

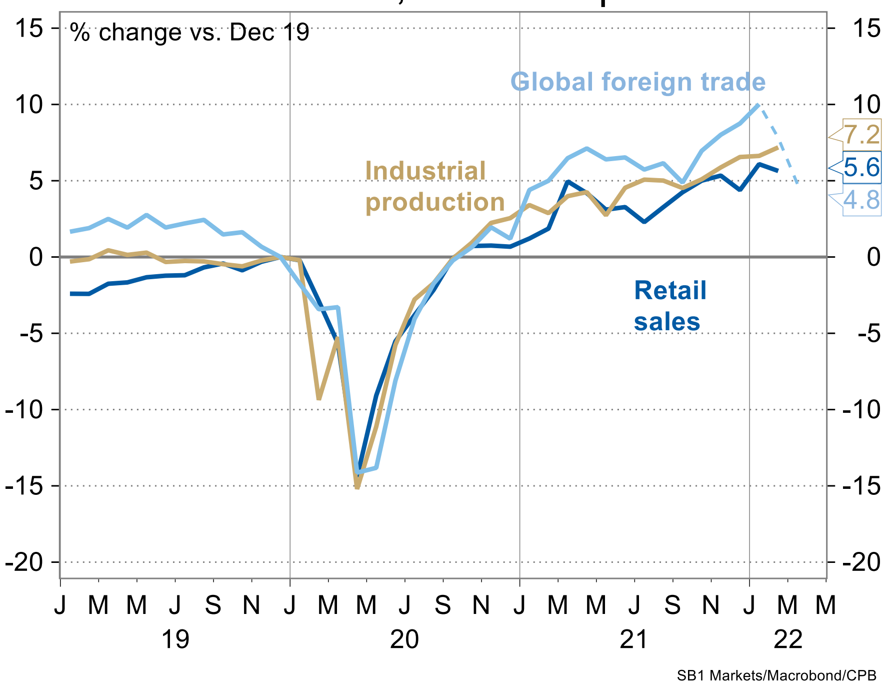




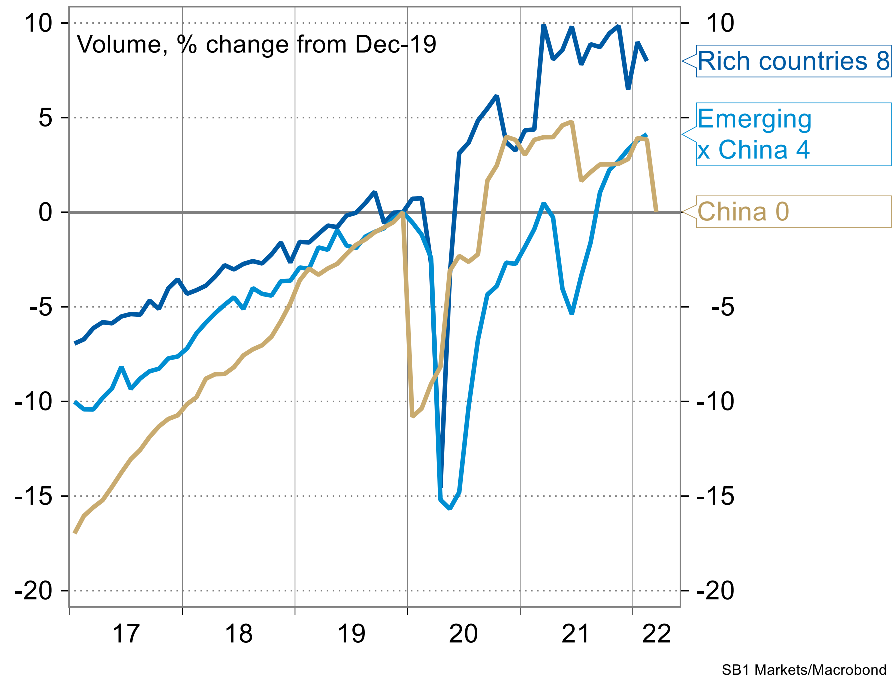
Global retail sales remained strong in February. Emerging markets on the way up

Industrial production on the right track too

Global Retail sales, industrial prod. & trade

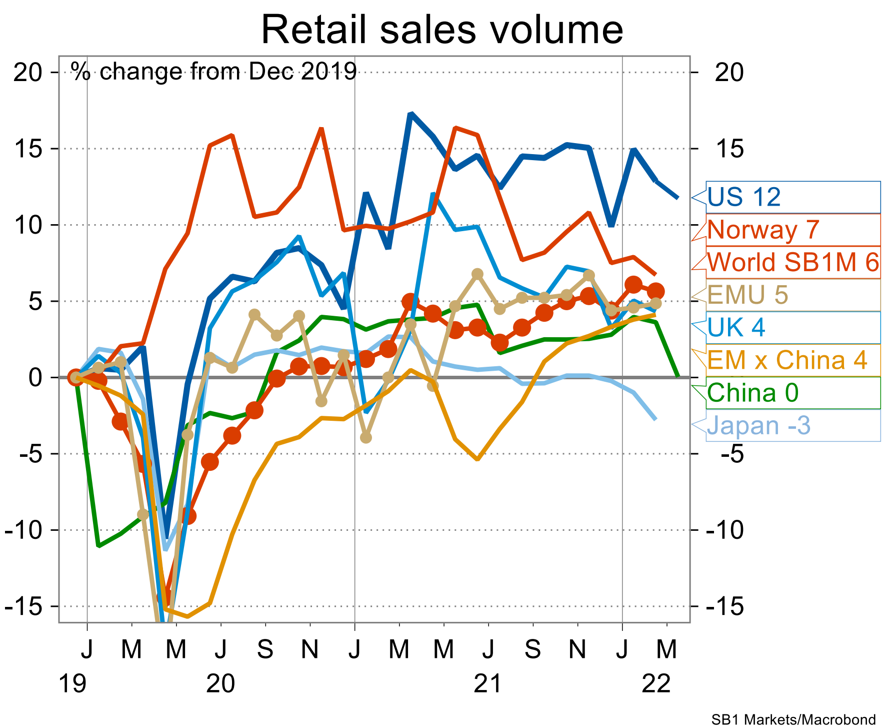


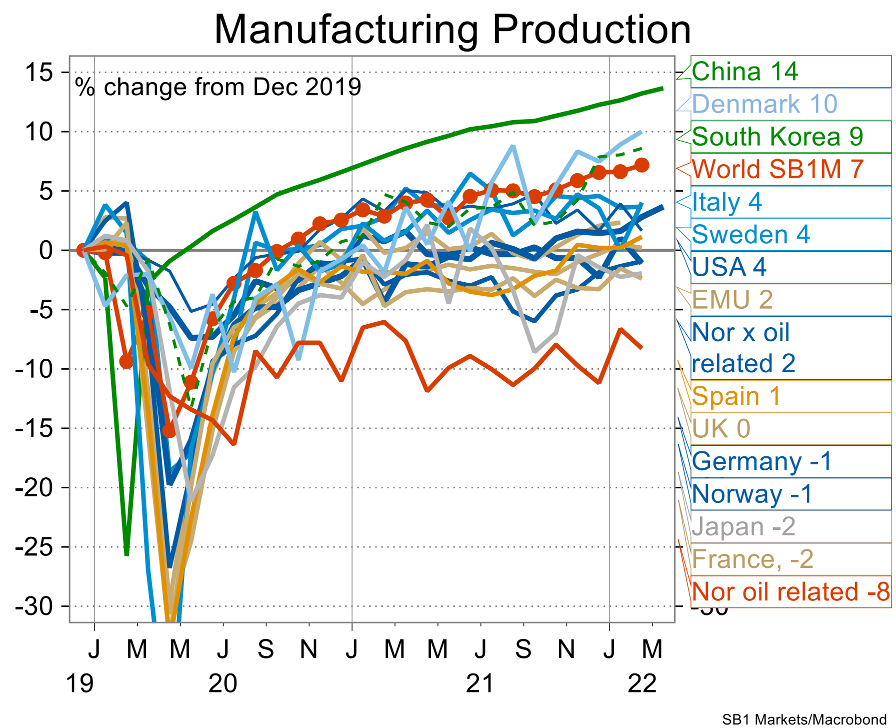
Retail sales



Retail sales are still trending up, thanks to EM x China

However, the trend is very likely down in the rich part of the world. Manufacturing prod. still OK

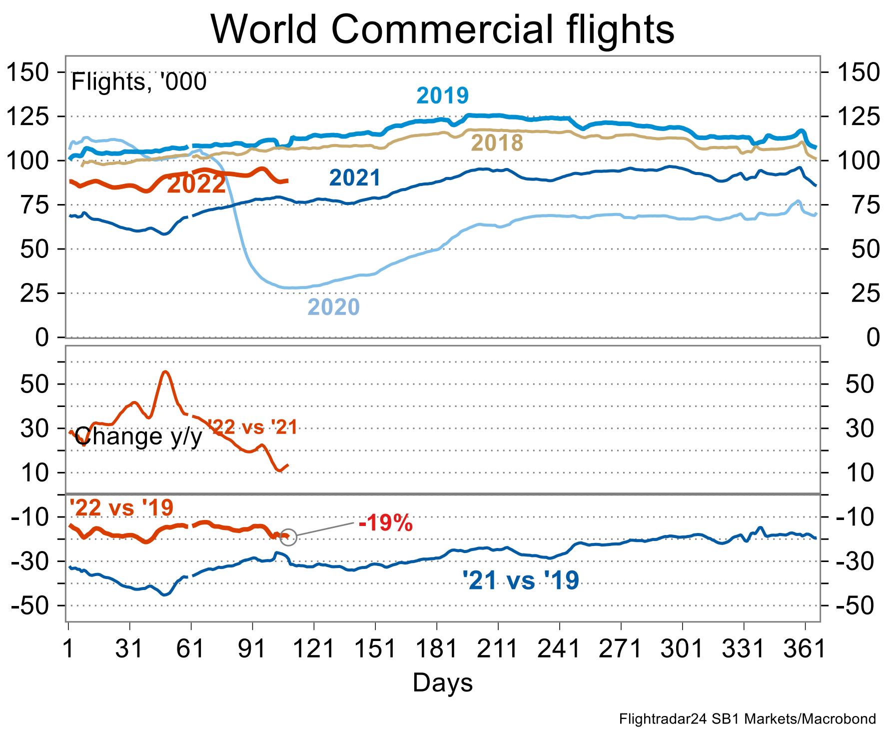


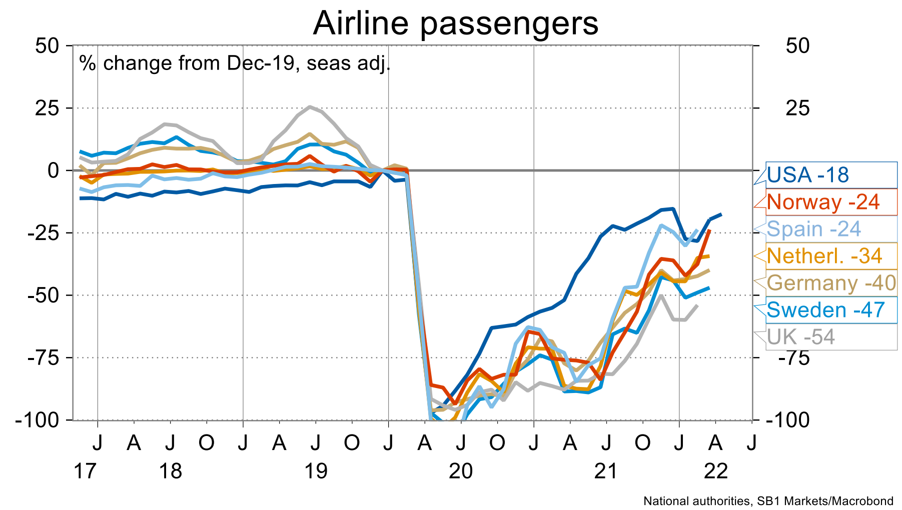


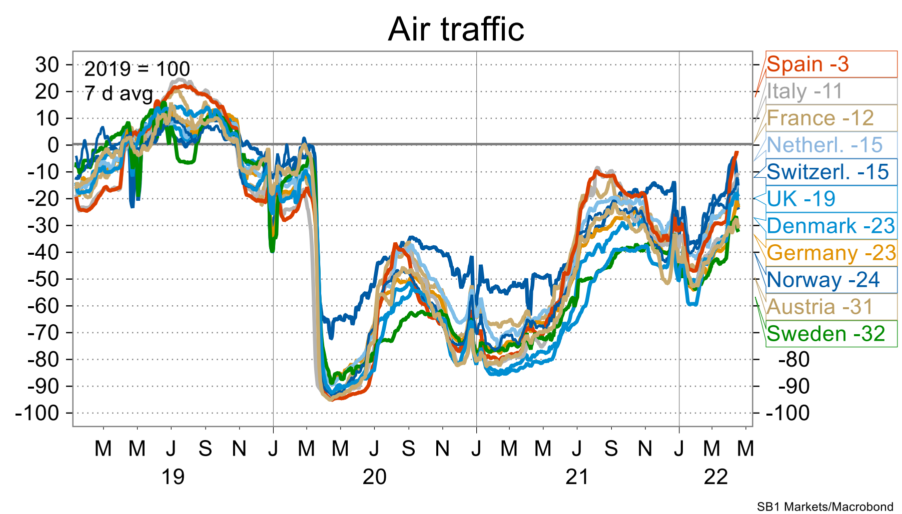
- **Retail sales** in Emerging Markets x China are recovering but is far below pre-pandemic trends
- **Manufacturing production** has been hampered by a deep decline in auto production. The manufacturing PMIs are down from the peak but aare still signalling growth above trend

Global airline traffic is descending, now 19% below 2019

Geopolitics? Trouble in China? Western Europe & US still on the way up







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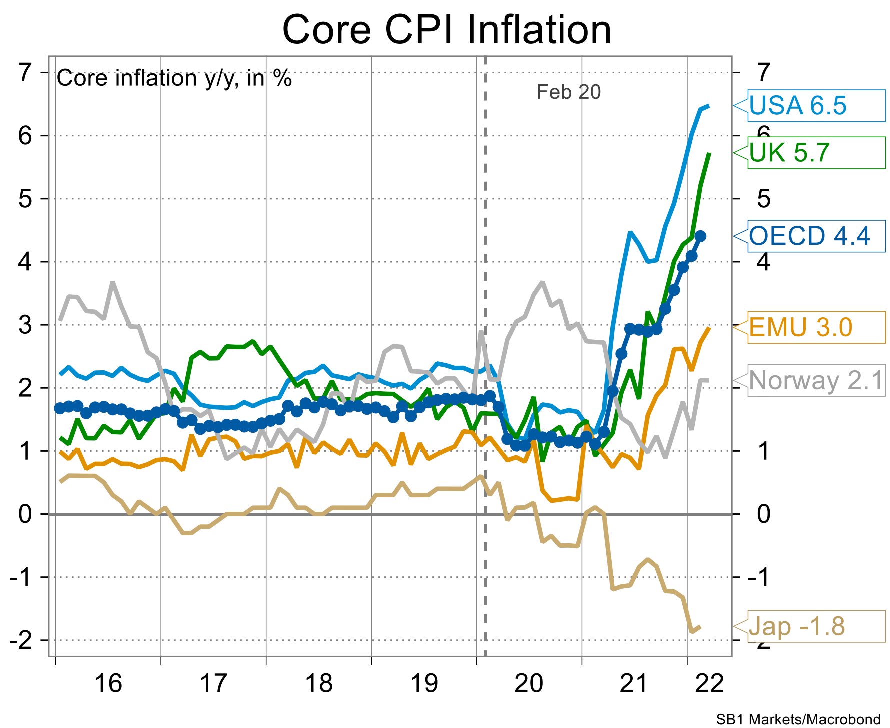
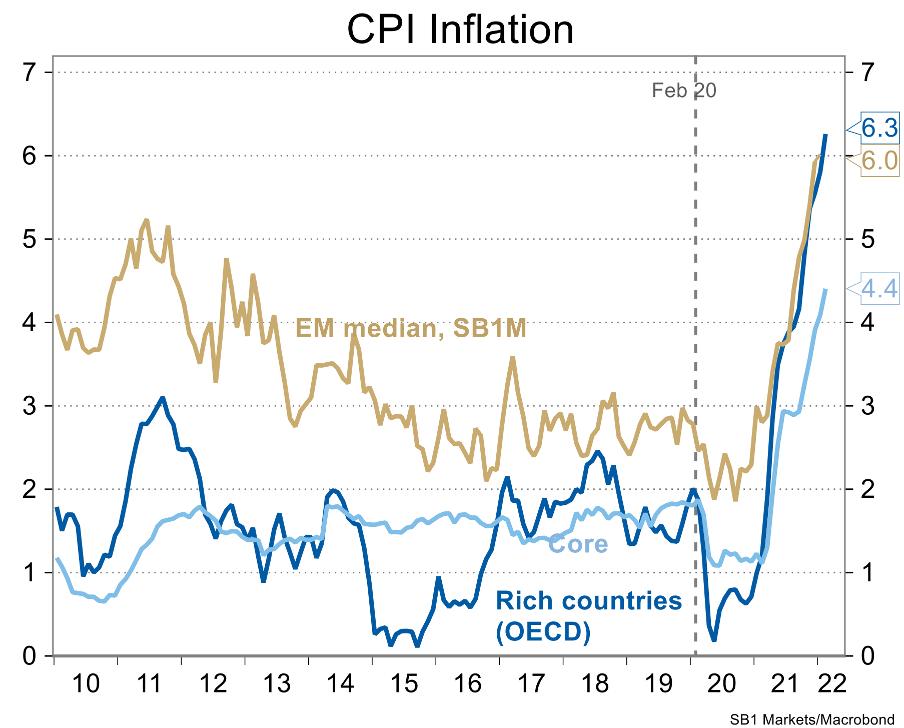
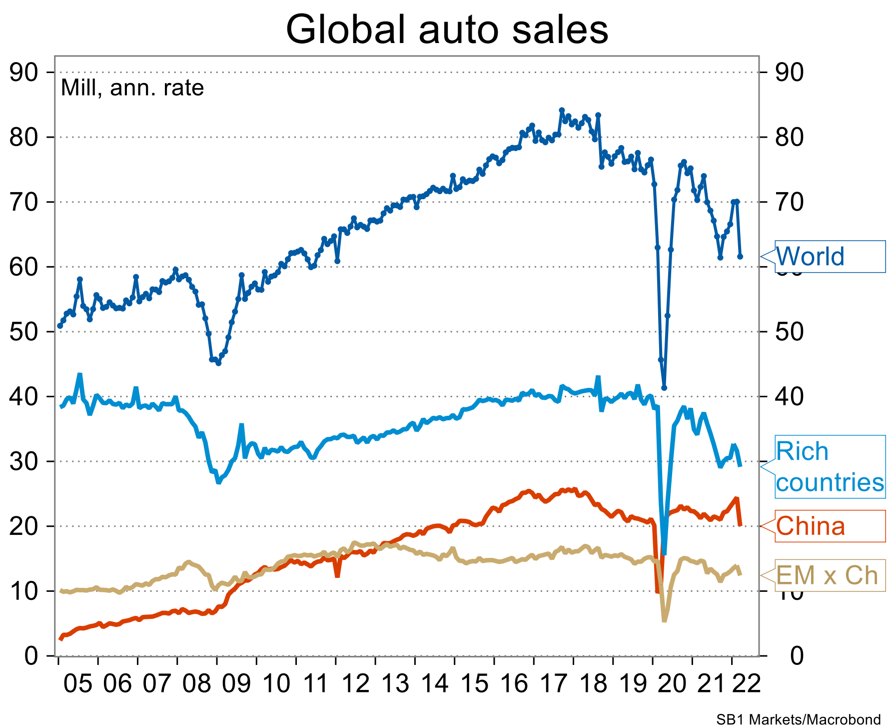
Inflation still rapidly on the way up

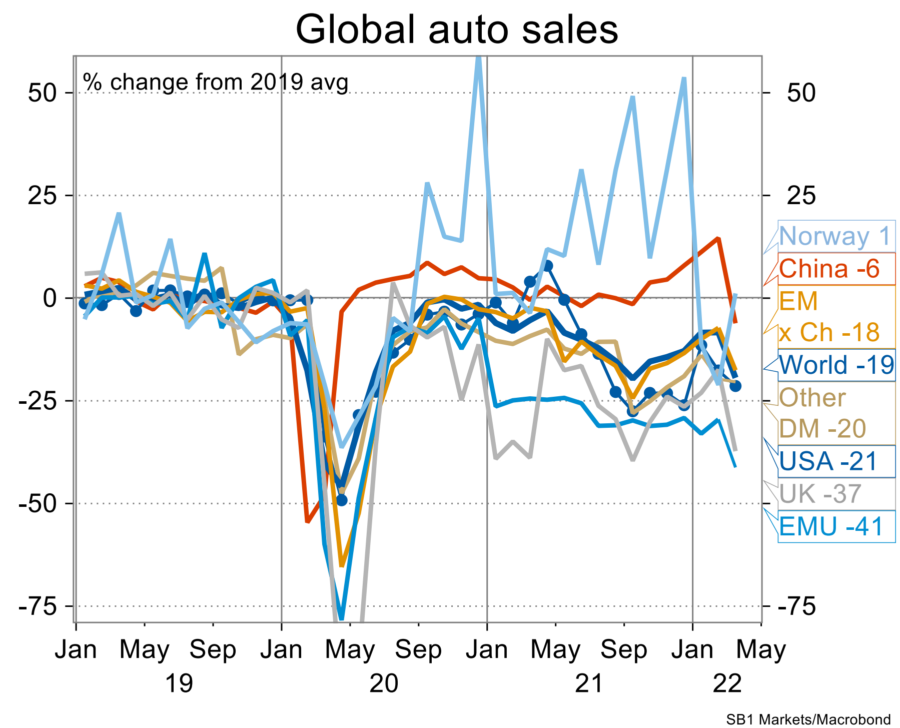
Energy prices the main culprit, but core inflation has turned up most places





Auto sales down 12% March, all regions contributed

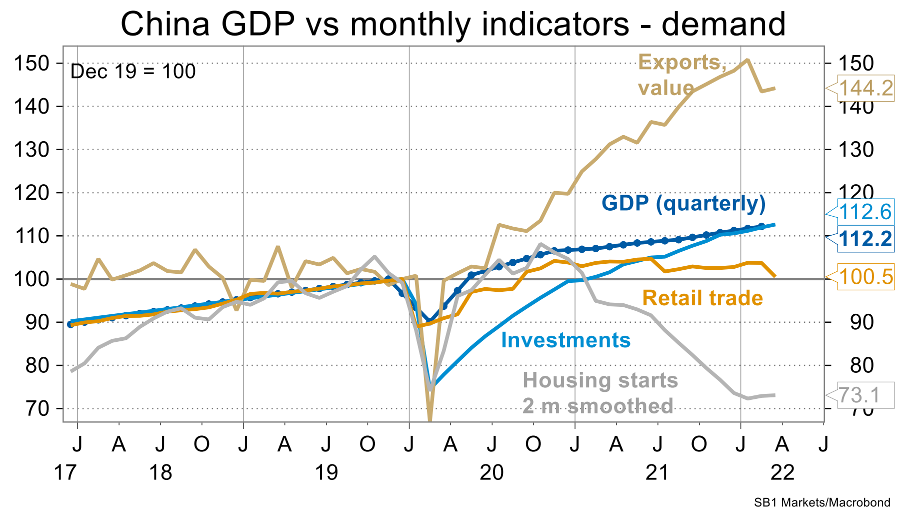


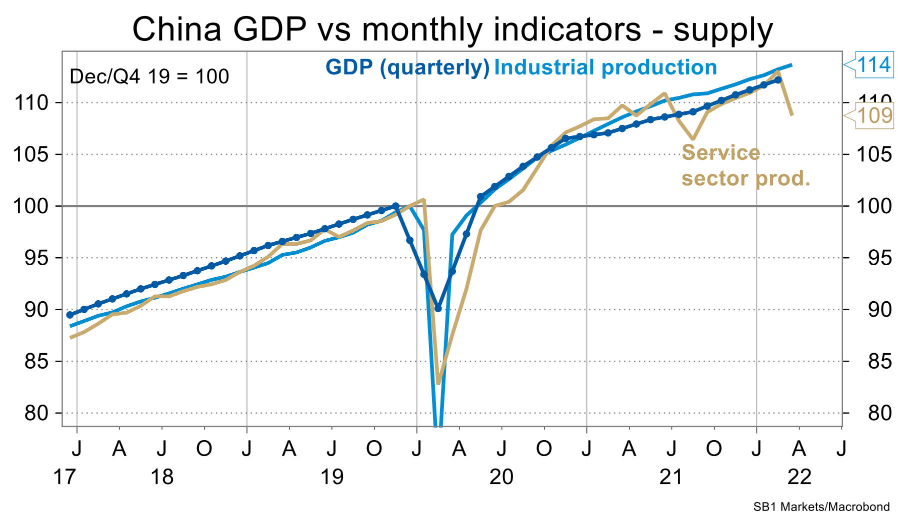


- **The decline in global sales** in March is rather unusual, driven by setbacks both in US, EMU, China and even more in Russia
- Sales in **China** fell less than we assumed last week (-18% vs -30%) – but still a substantial hit – and sales are down 6% vs. the 2019 level
- Sales in the **US** are down 21% vs the 2019 average, **EMU** is down 41% (!). Sales in the **UK** fell sharply as well, down 37% (vs 2019). Sales in Norway rose, and are equal to the (high) 2019 average
- **Auto production** very likely fell sharply too, we so far just have German data. Here, production fell by 35% m/m, according to prelim. Data. War & sanctions no doubt creates new challenges for the auto industry, and Europe will probably take the hardest hit

Q1 GDP far better than expected, but March not that strong

Retail sales and service sector production fell sharply in March, for obvious reasons



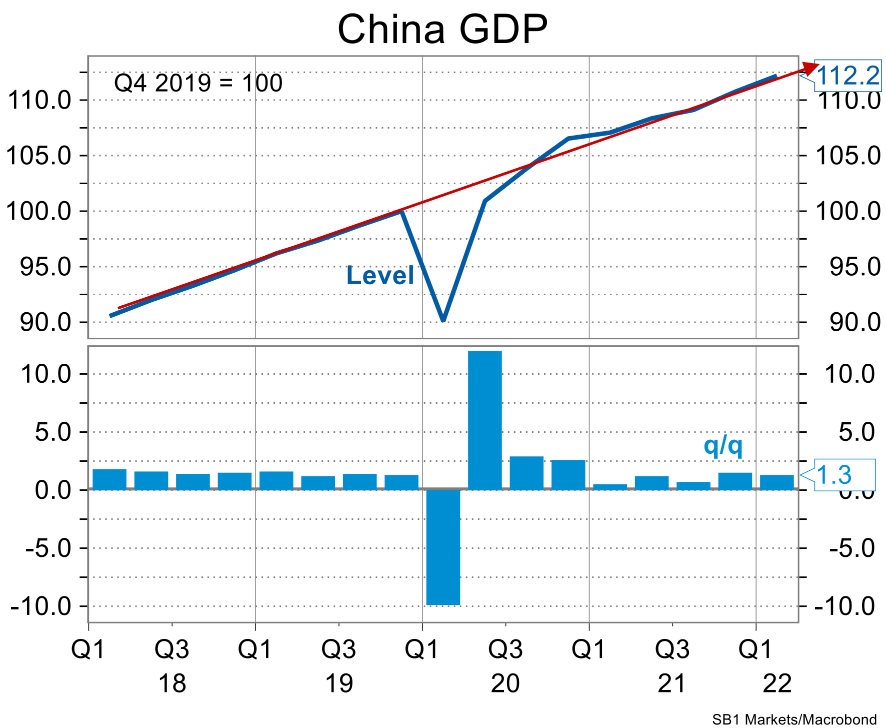


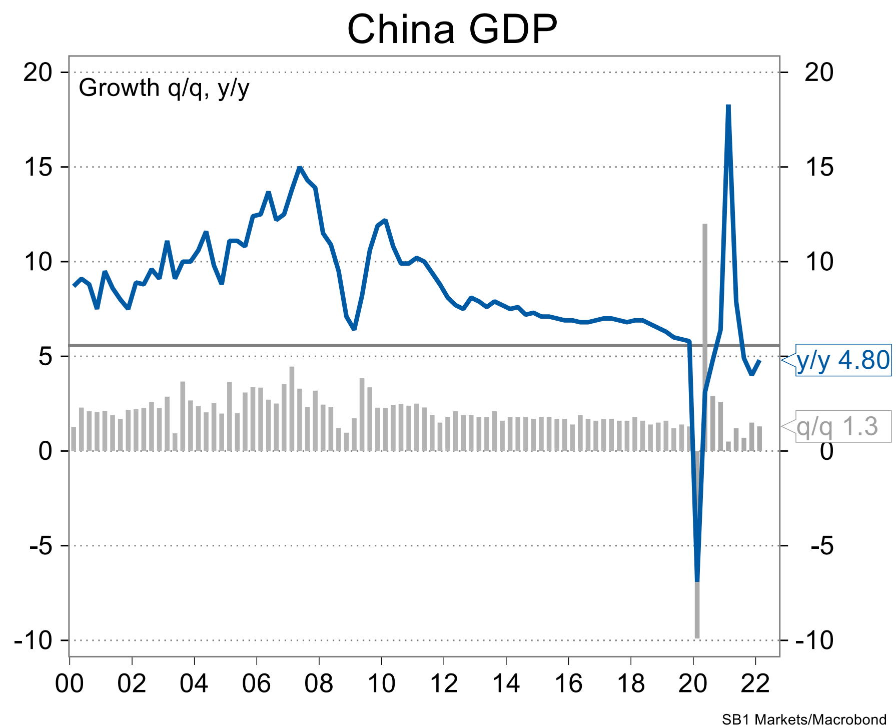
- **GDP** rose by 1.6% in Q1 (5.3% annualised), far better than expected (0.7%), and the annual rated accelerated to 4.8% from 4% (exp. 4.2%). GDP is back at the pre-pandemic trend
- **Industrial production** rose by 0.4% m/m in March, and by 5% y/y, as expected. Steel production is down 10% y/y, but was stable through Q1
- **Service sector production** declined 3.8% in March and was down 0.9%, as a large number of big cities were partially closed down due to the fight against the Omicron variant.
- **Retail sales** volumes fell almost 3% m/m in March, and nominal sales were down 3.5% y/y, slightly weaker than expected. **Auto sales** fell almost 20% m/m
- **Investments** grew by 0.6% m/m, and are up 9.3% in nominal terms YTD, 0.9% more than expected. In real terms growth is some 5 pp lower
- **New homes sales** fell in March, but is still trending up from the bottom in last October, but sales are still down 20% from the peak one year ago. The 100 largest builders report a far larger decline (50%+, Bloomberg). **Housing starts** have stabilised but are down 30% from the peak in late 2020. **New home prices** have flattened following a minor decline in H2, while **existing home prices** are still heading down at a 2.5% - 3% pace, and they are down 0.9% y/y.
- **Credit growth** accelerated in March, and growth is trending upwards again – but just due to heavy local government borrowing in the bond market. Probably not a sign of 'sound credit demand'. The reserve requirement for banks was cut marginally last week
- **Exports** fell sharply in Feb but stabilised in March. The level is still very high. **Imports** fell further in March, but volumes are not far below the pre-pand. trend path. The **trade balance** is close to record high, at more than 4% of GDP
- **CPI inflation** is still muted, close to 1%. **PPI infl**. is at 9%, still down from the peak

In sum: The official GDP figure was far better than expected but services (including retail sales) were hit by the fight against Omicron, as the PMI surveys indicated. However, the PMIs also signalled slower growth in the manufacturing sector so far not seen in the official data

Q1 GDP up 1.3%, 0.6 pp more than expected! The annual rate 4.8% (exp. 4.2%)

No virus hit to be seen in the official GDP data – even if some impacts are visible in other statistics

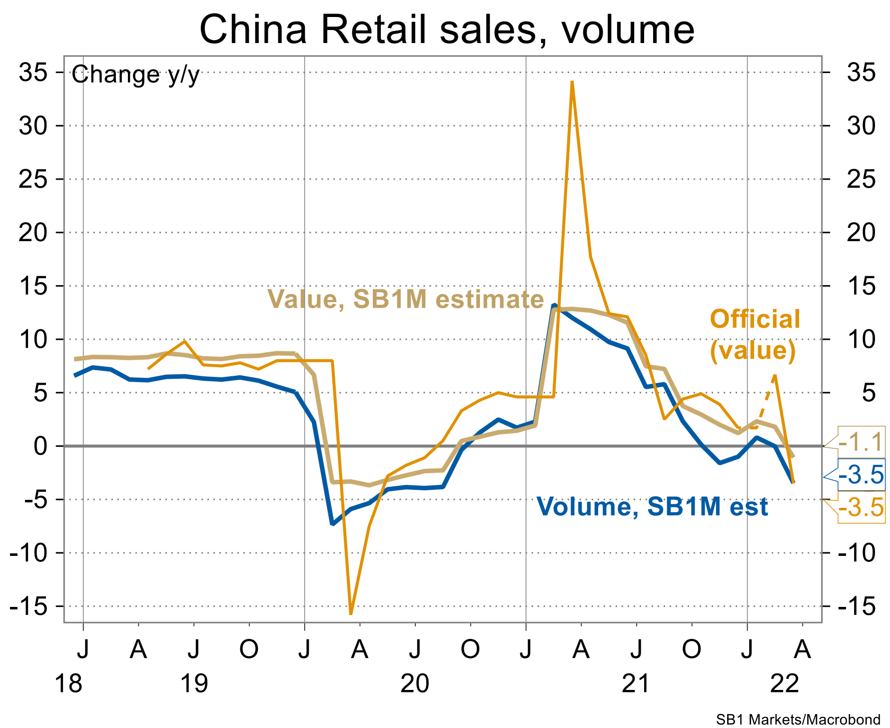


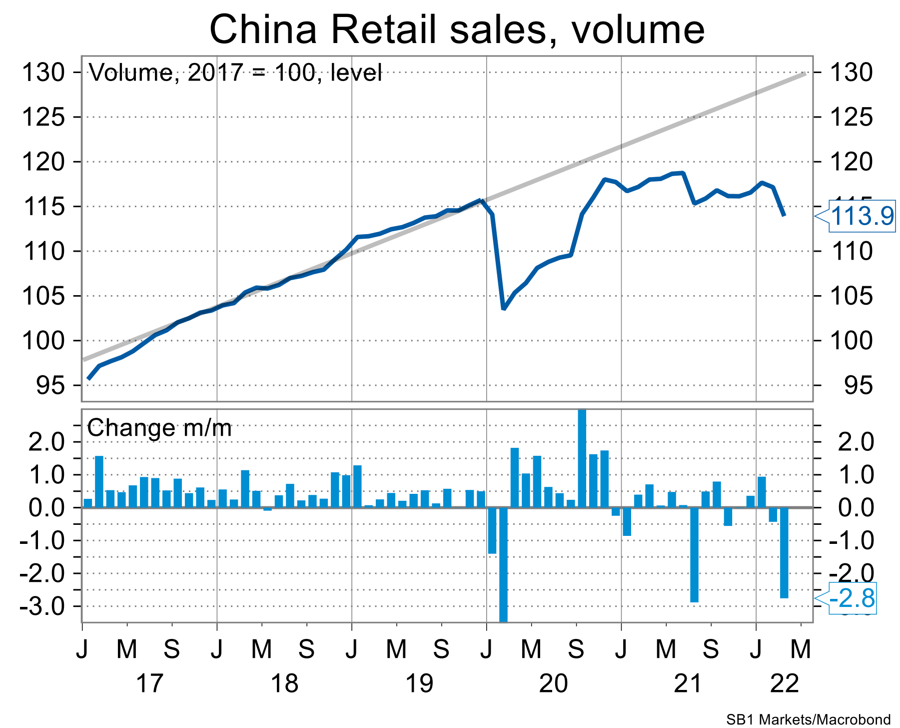


- The **annual growth rate** accelerated from 4.0% in Q4, and far more than expected
- **A 1.3 % q/q rate** equals a 5.3% annualised growth pace. GDP reached the pre-pandemic growth path in Q4-20, and remained there in Q1-22. Not many others have managed that
- We do not yet have details for the demand side in Q1, but consumption very likely not accelerate

Confusing retail sales data all over the place – but March anyway at the weak side

Revisions up last month, and down now. The last revision seem to be closer to the ball

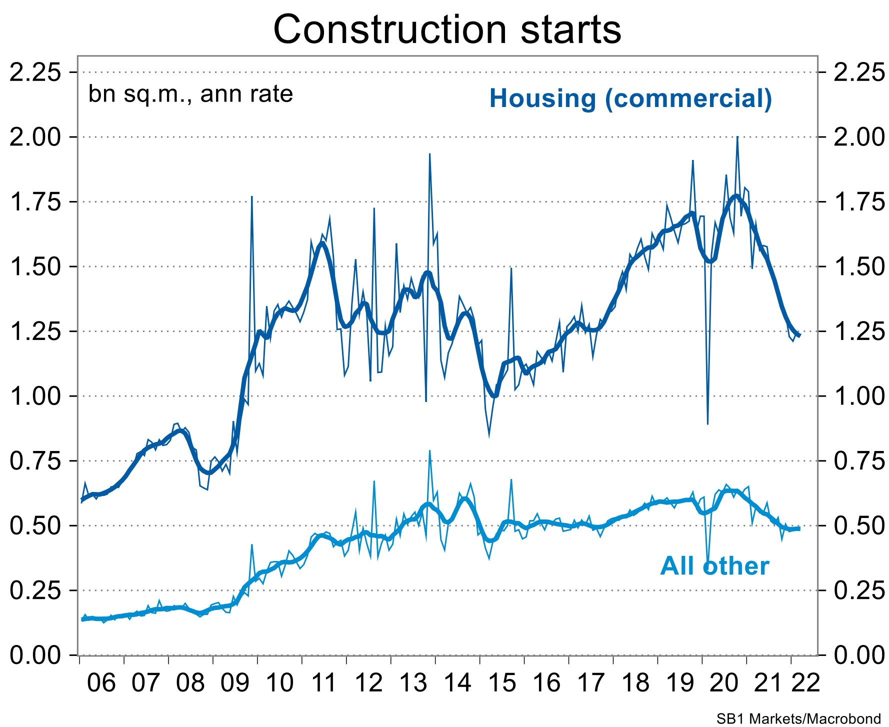


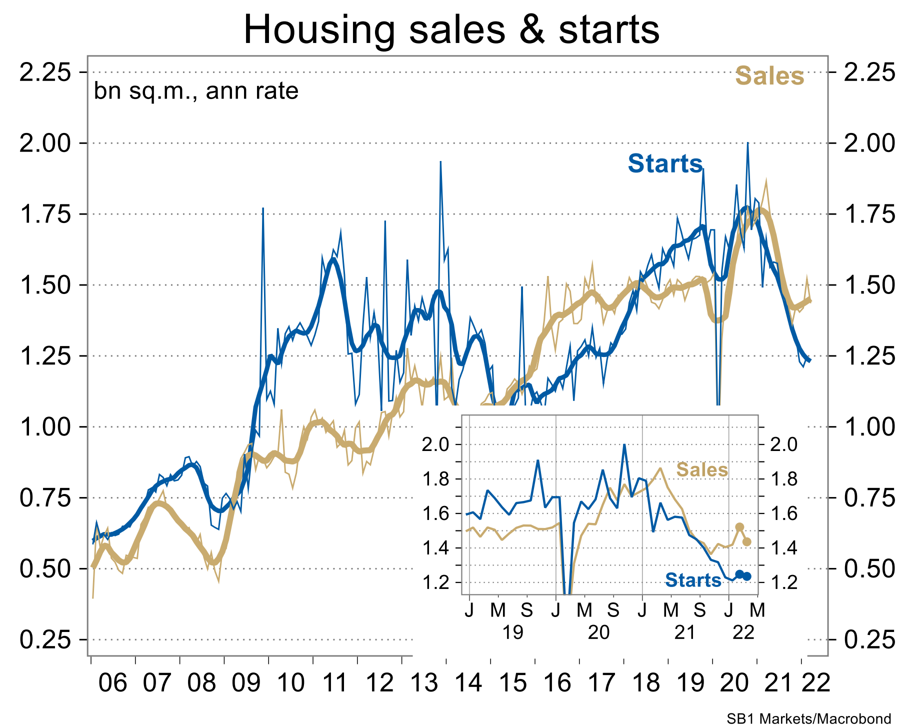


- **Official nominal retail sales** were down 3.5% y/y in March, slightly weaker than expected
- Sales fell 1.9% m/m in **nominal terms**, we assume -2.8% in **real terms**. The partial lockdowns in a large number of cities is no doubt to blame
- **A revision** of sales data for last July and some of the following months lowered the 2021 trajectory substantially but brought the different sales measures closer to each other – and if the current data are correct (we are far from sure), sales are more than 10% below the pre-pandemic growth path

New homes sales down in March but bottomed last autumn

Housing starts have stabilised, but fell slightly in March. Starts are down 30 from the ATH in Q4-30

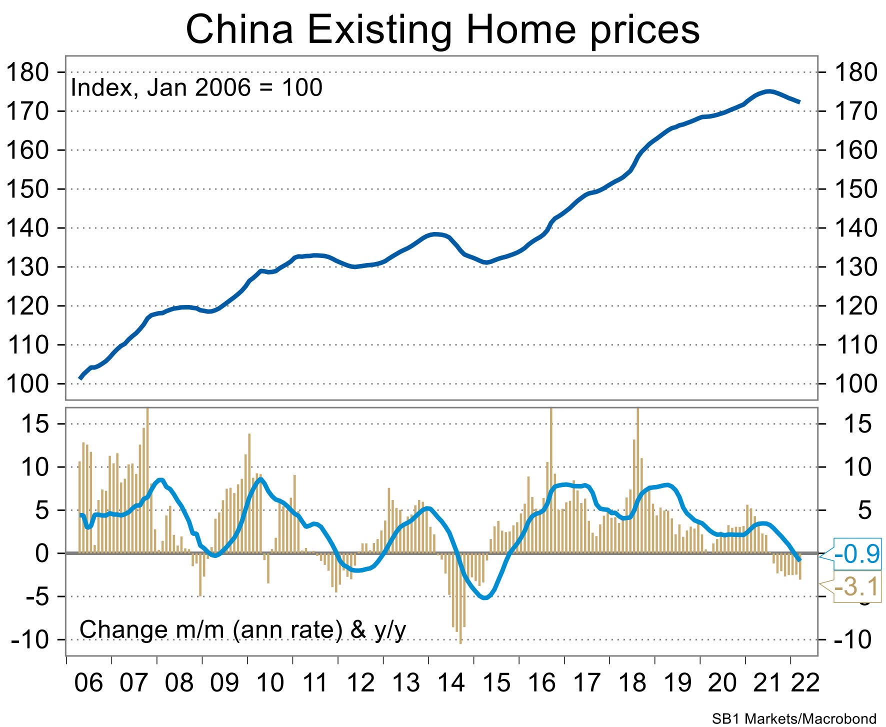


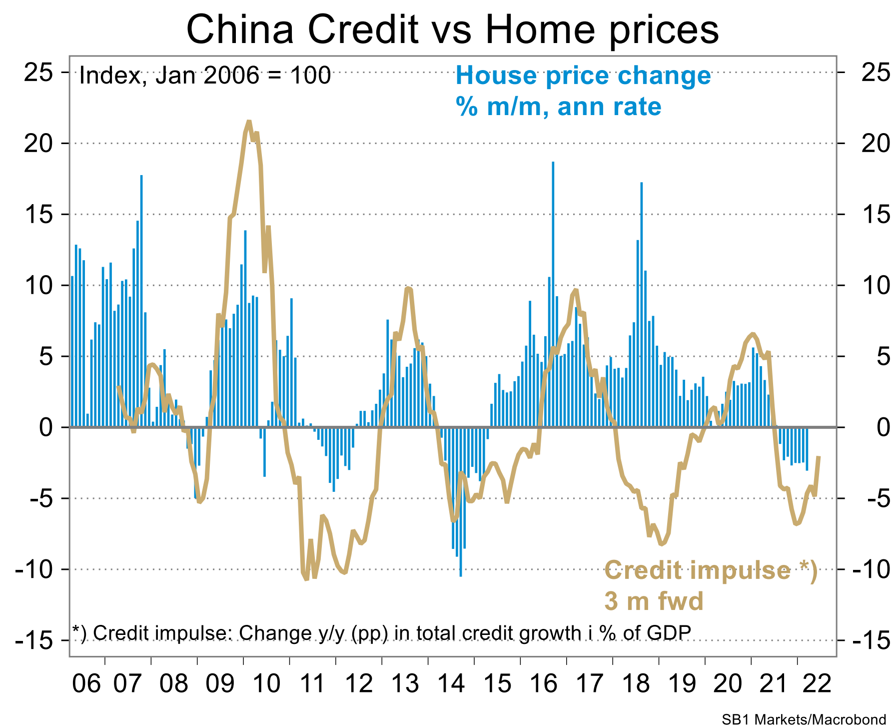


- **Big picture: New home starts** have fallen by almost 30% from early 2021, after the spectacular recovery from Q2-2020, following the 'sudden death' in Q1-20, due to the virus. New home sales fell less, some 20%, and are now slowly on the way up again even if they fell somewhat in March. Sales have been running faster than recent months starts, indicating a reduction in the inventory
- **Non-residential construction starts** have flattened recent months, following a 25% decline since mid 2020. Both housing & non-residential starts are at the lowest level since 2017
- The decline in **construction starts** has been <u>among the largest ever, but we are witnessing signs of stabilisation</u>

House prices fell at a faster rate in March, still no panic?

Prices fell for the 7th month in row, and are down 0.9 y/y

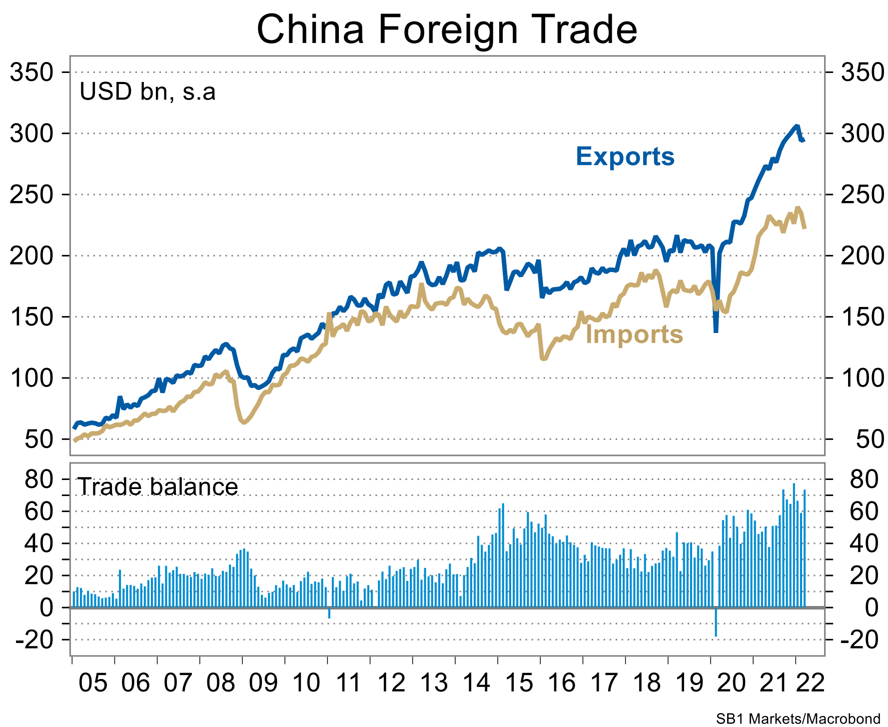




- **Existing home prices** peaked last July, and have fallen at a 2 – 3% pace since then – and by 3.1% (annualised) in March. Prices have turned negative measured y/y
- **New home prices** also fell last autumn but not as fast as existing home prices, and they rose in January but turned slightly down in February & March. Price are still up 0.6% y/y. These price data are official reported in official statistics. Some builders report deep price cuts to reduce the inventory and secure financing, and analysts have questioned the reliability of the official data
- **Credit growth** accelerated marginally during last year, however mostly due to increased borrowing from local governments
- **The Evergrande crisis** has probably not shaken home buyers. XXXX New home sales have increased since last autumn, without deep cuts in preces. As long as household demand for housing stays up (for whatever motive, living there, for let or as an investment (without seeking rental income), investments in new homes will be kept up

Exports stabilised in March, imports further down

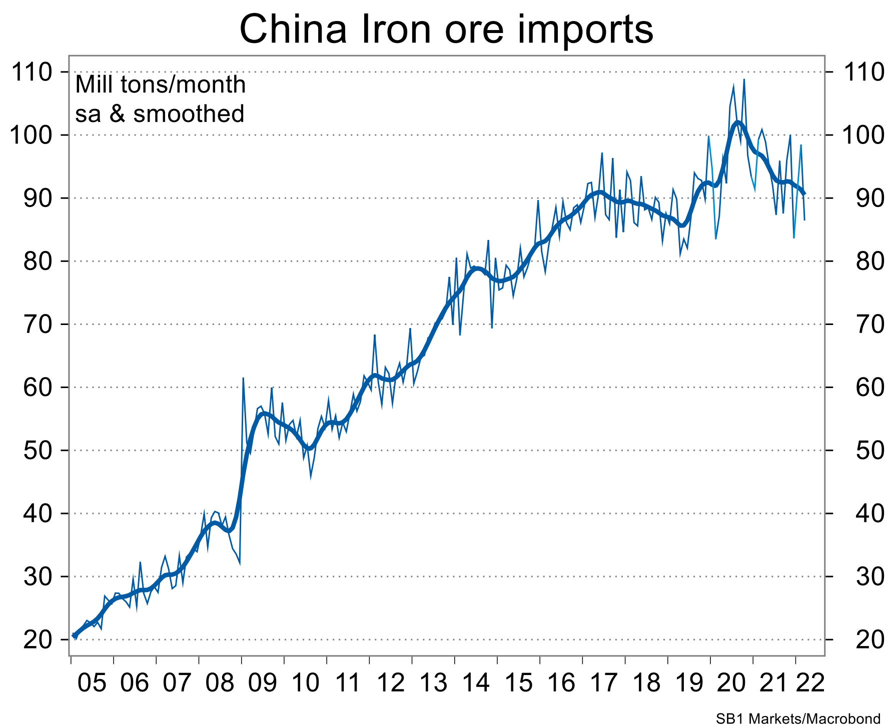
The trade surplus remains at a very high level

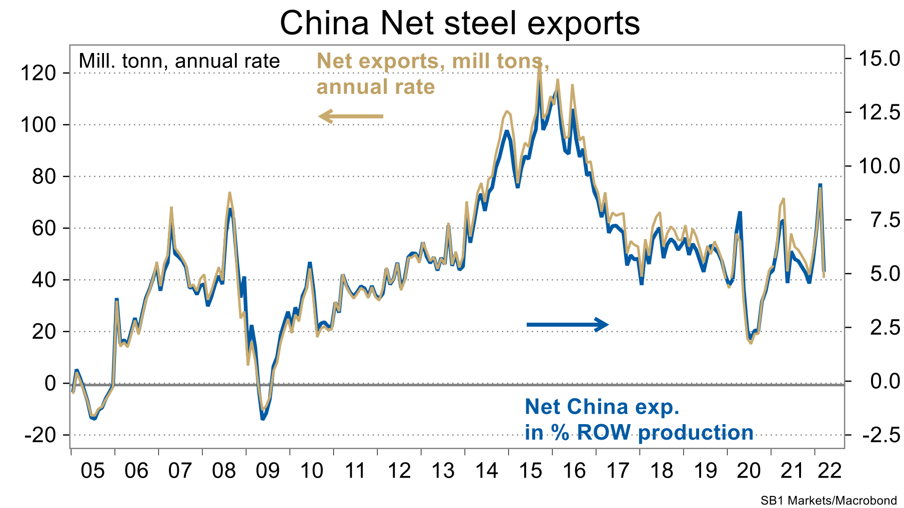


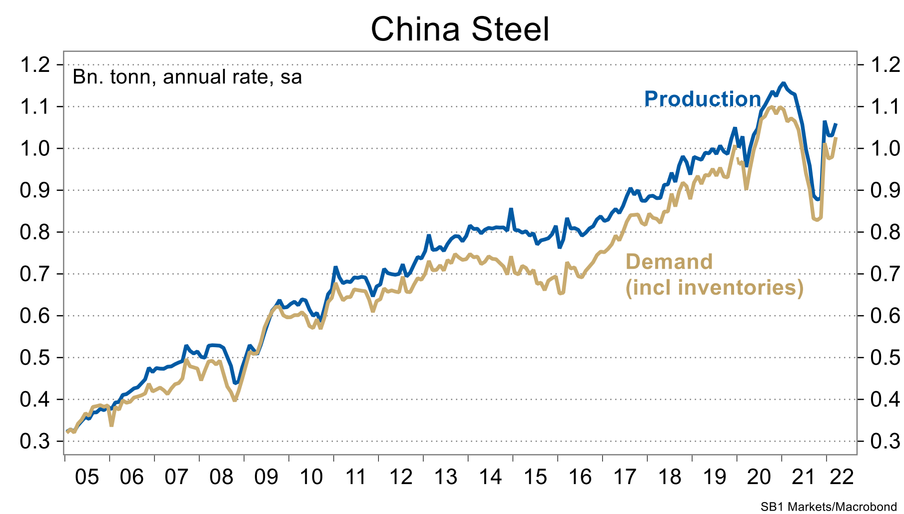
- **Exports** grew by 0.5% in USD terms in March (our seas adj), and are up 15% y/y, 2 pp better than expected. Export volumes probably fell slightly, following a substantial decline in Jan & Feb. Still export volumes are still very strong, check next page too. Prices are up 13% y/y
- **Import** values fell by 5.5% m/m in March, and are flat y/y, down from 10% y/y, almost 9 pp below expectations (that were very optimistic). Import volumes very likely declined substantially, and volumes are down 12% from the peak in Q2 last year, and are slightly below the pre-pandemic trend (check next page). Oil imports have flattened, coal and iro ore imports are down. In value terms, electric & electronics goods imports are still increasing rapidly
- The **trade surplus** was at USD 47 bn was 27 bn higher than expected (and above USD 70 bn seas. adj.), one of the largest ever
- The **fight against the Omicron** variant may have influenced trade activity in both February and March (the big decline in exports came in Feb)
- <u>The decline in imports confirms a softening of domestic demand, both retail sales and investments. So far, the slowdown is modest, in imports too, and within the ‘normal ups and downs in activity. Exports may soften as demand for goods in the rich part of the world slows</u>

Iron ore imports are still trending down, down 10% since late 2020

Steel production has stabilised, although almost 10% below the peak in early 2021

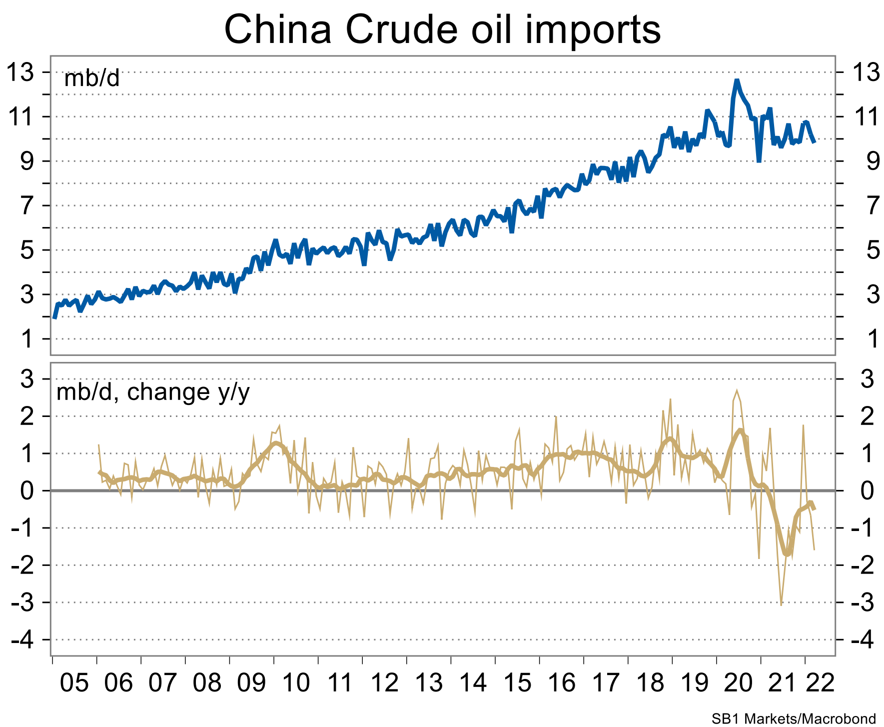


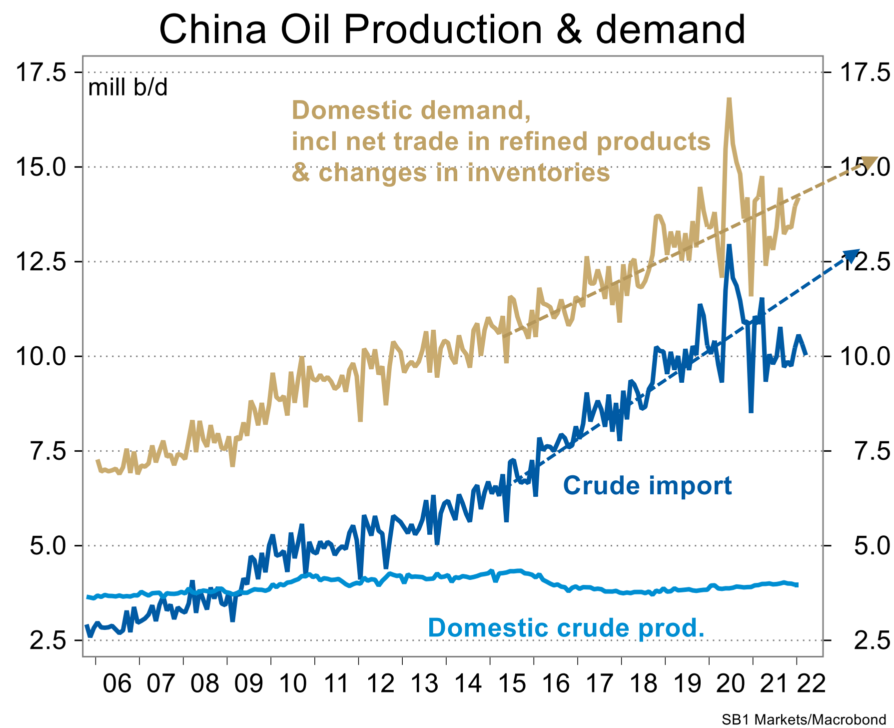




- **Production and domestic demand** (incl. inventories) fell sharply in Q2-Q3 last year – by 25% – due to public regulations and probably the setback in the construction sector
- Activity recovered sharply in December – and was stable through Q1

Oil imports have flattened, at best

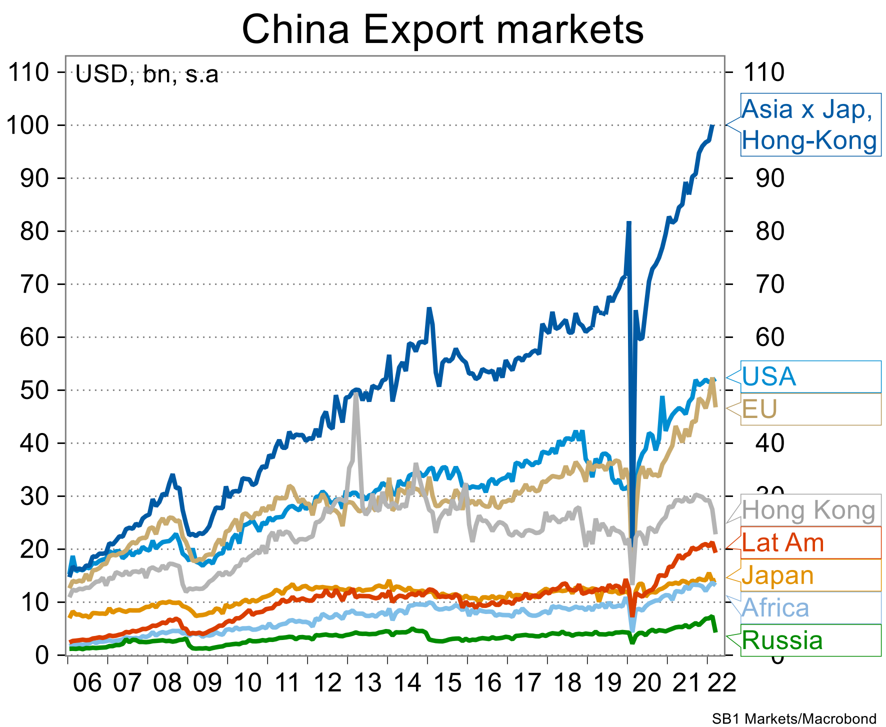




- 4 years without growth in oil import or domestic demand is rather surprising?
- Some inventory/reserve building/drawdowns may explain short term deviations but not the stabilisation since 2018

Chinese exports to all corners of the world sharply up but not in March

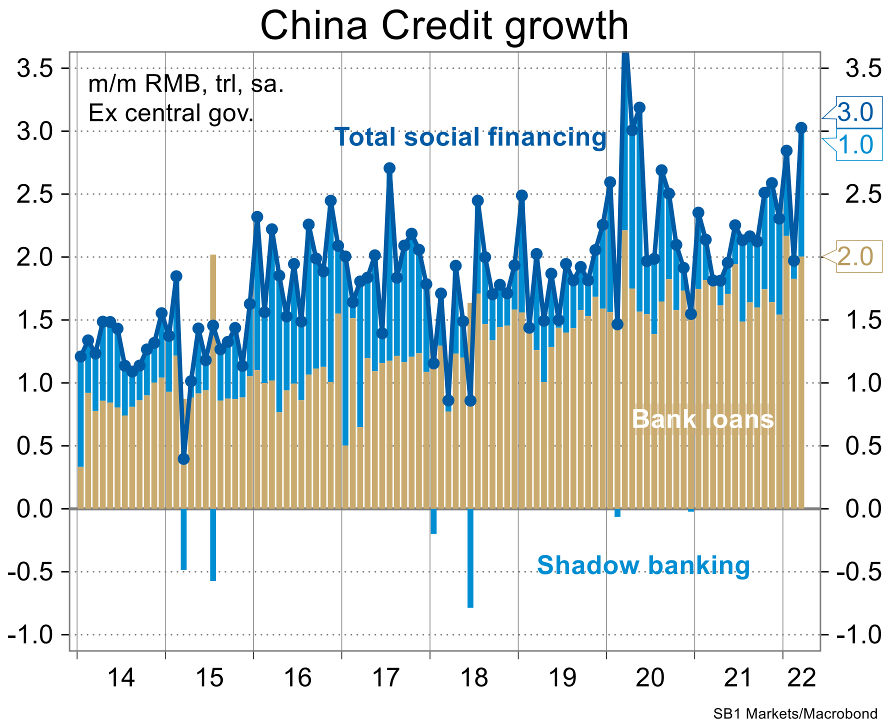
Less exports to Hong Kong and Russia in March. Russia is anyway an unimportant trading partner

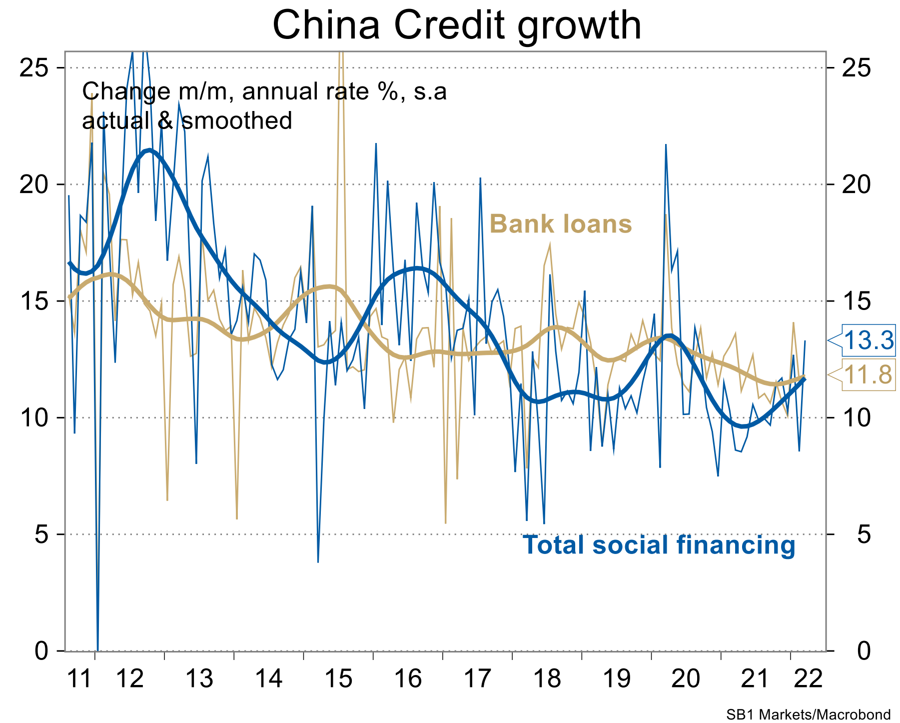


- Some slowing in exports to Hong Kong, Japan – and to rest of Asia recent months

Credit growth accelerated in March, to the highest speed in 2 years

Bank lending remains stable but local governments are borrowing more at the bond market

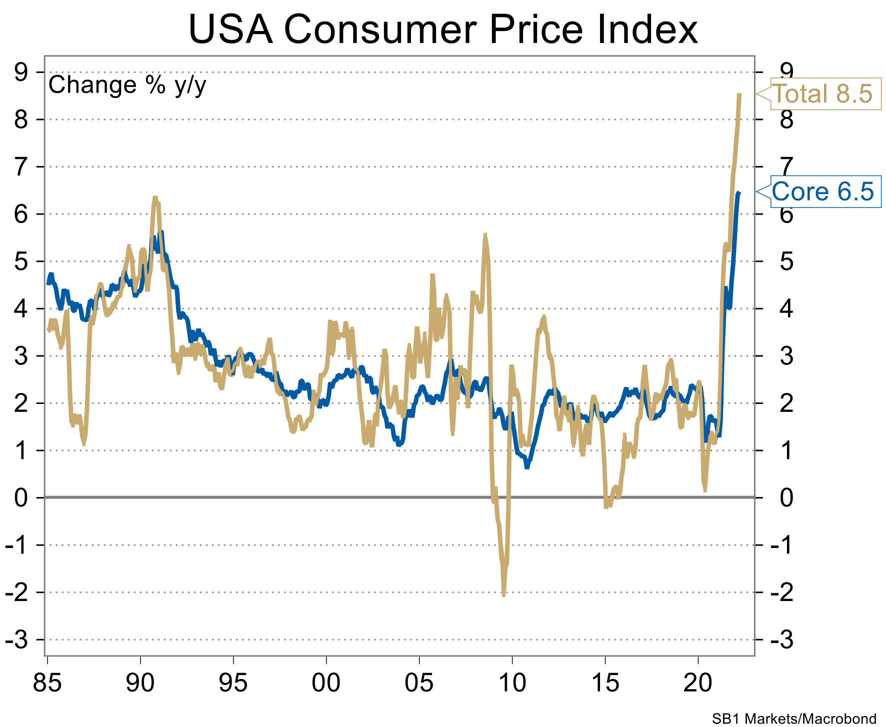


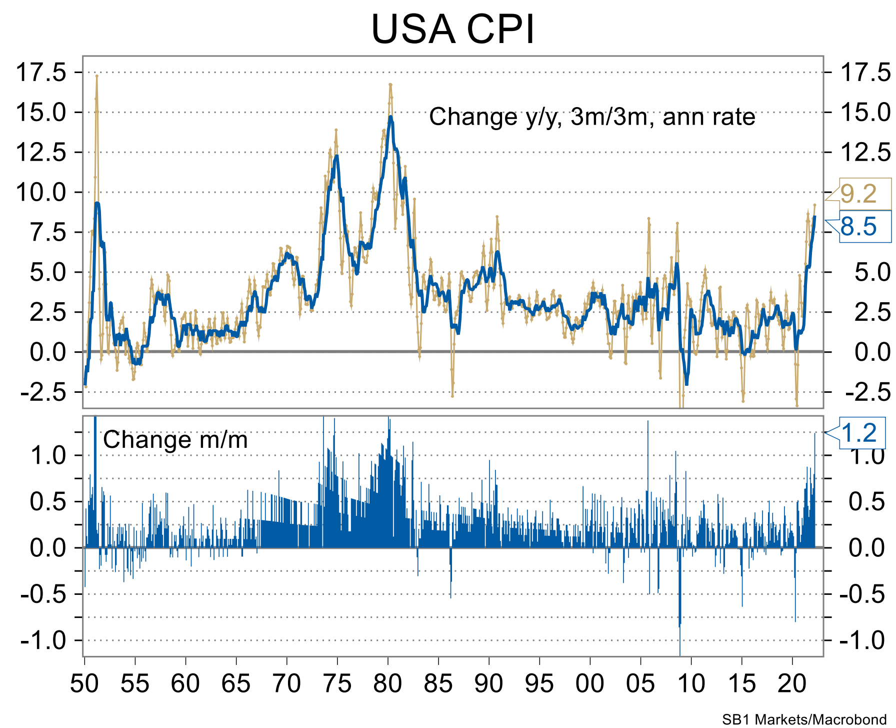


- **Total credit** grew at a 13.3% pace in March (m/m, seas. adj. annualised), up from 10.0% in Feb. The underlying growth at 12% is well above the trend growth in nominal GDP (say some 7 – 8%). The annual rate accelerated 0.4 pp to 10.5%. Growth is still down y/y but underlying growth is accelerating
- **Total credit** rose by RMB 4.5 trl, expected 3.6 trl (not seas. adj). The 'core' total social credit (total ex central gov bonds & corporate equites) grew by 3.0 trl (seas adj), up from 2 trl in Feb – and the highest monthly growth rate since March 2020 – and the 3rd highest ever (in RNB terms)
  - **Bank loans** rose by RMB 1.9 trl, s.a, or at a 11.8% annualised pace, somewhat above expectations. February was revised up significantly. The annual rate is still sliding down, now at 11.5%
  - **Shadow banking credit** rose by RMB 1.2 trl, well above the average growth rate through last year, and the annual growth rate is below 10%. **Local governments have been** responsible for most of the increase in credit outside banks recent months. Less revenues from sale of land, and public financing of unfinished building projects may explain the steep increase in debt (25% y/y)

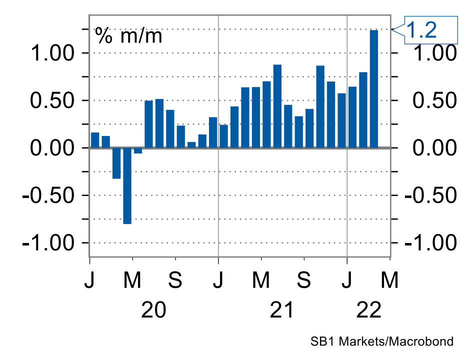
Headline inflation accelerates further due to higher energy prices, core slowed

Inflation is broadening further, as demand >> supply. At the same time, some ‘transitory’ retreat?



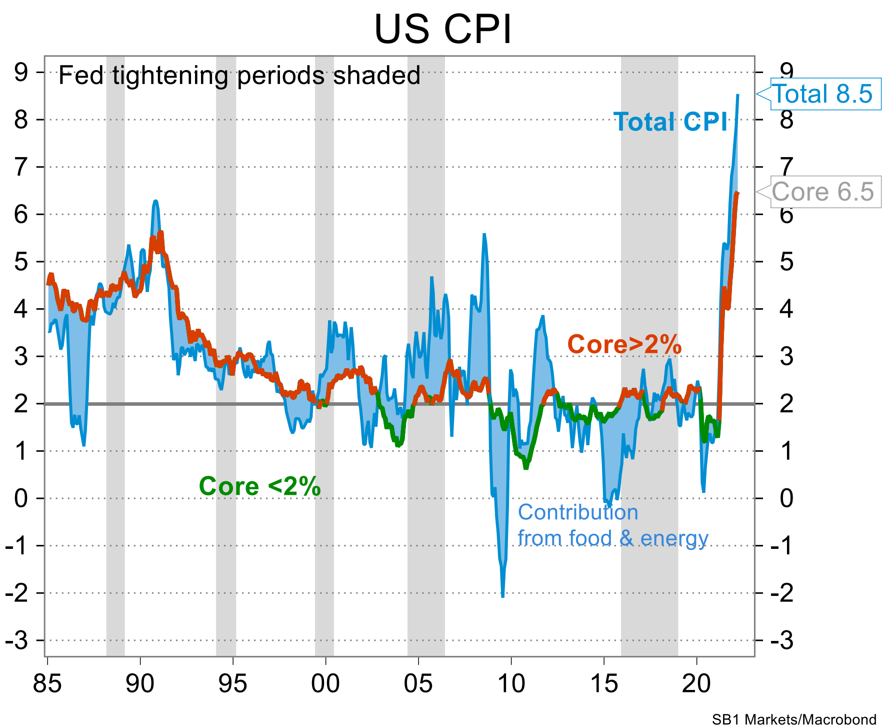


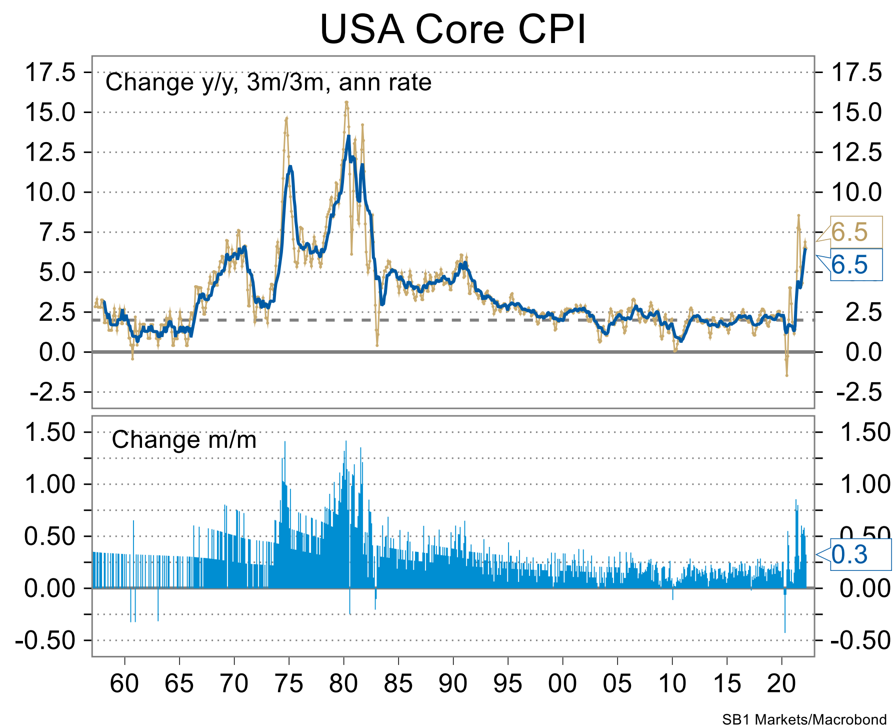
- **Headline CPI rose** 1.2% m/m in March, as expected. The annual rate accelerated 0.6 pp to 8.5%, one tenth above expectations – and the highest since 1982. The 3m/3m rate is at 9.2%
- **Energy prices** rose 11% m/m, lifting the CPI by 0.95%. The energy component of the CPI is up 32% up y/y, contributing 2.2 pp to the headline CPI growth
- **Used auto prices** are heading down, contributing to the ‘low’ growth in core prices, up 0.3% m/m
- However, <u>price inflation broadened further in March</u>. Cleveland Fed’s **trimmed median CPI** accelerated 0.2 pp to 7.1% (6 m pace), another ATH (with data from 1983). <u>Other breadth measures tell the same story</u>
- **Surveys** report further price increases the coming months. The base effect may soon become hard to beat vs the annual rate, prices rose rapidly during the spring last year – and the annual rate ‘must’ soon peak, if energy prices do not explode from here



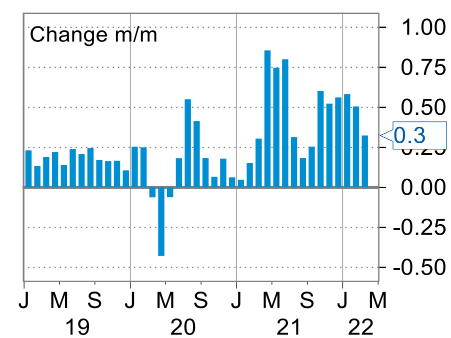
Core inflation also at the highest level since early 1980'ies

However, prices rose 'just' 0.3% in March, less than the expected 0.5%





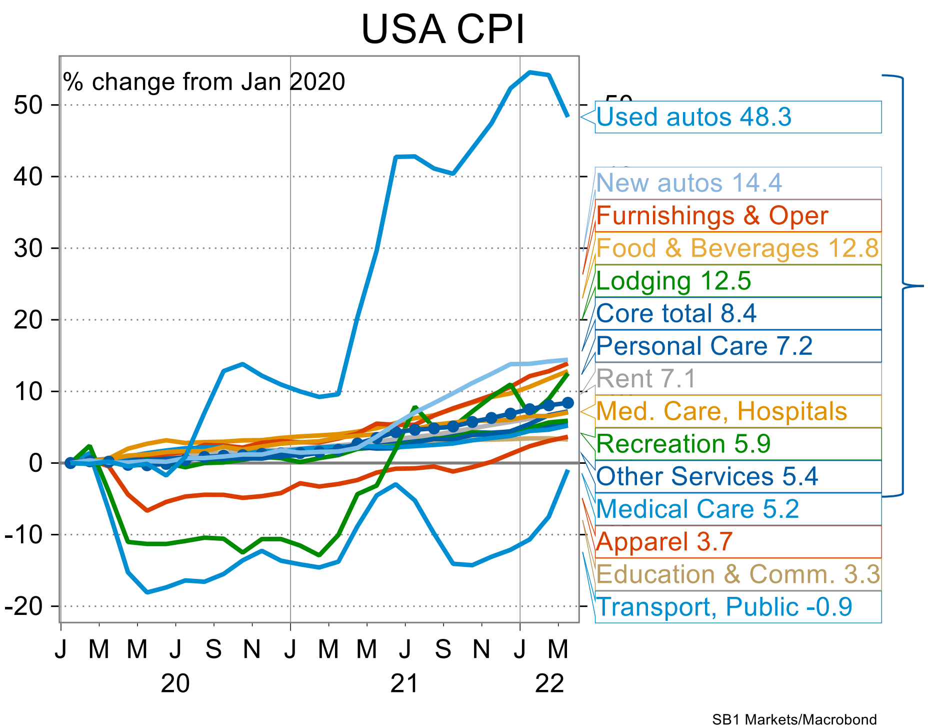
- **The 3rd wave: Core prices** rose rapidly during the summer of 2020, during last spring and now for the 3rd time. The increase in March was 'modest' though. Still, the annual rate accelerated 0.1 pp to 6.5%, expected up to 6.6% . The 3m/3m rate also at 6.5% (down 0.4 pp)
- **Peak inflation?** In April last year core prices rose 0.8%, and very likely prices will not increase at that pace in April this year. If so, the annual rate will come down, perhaps substantially – to 6.0%....

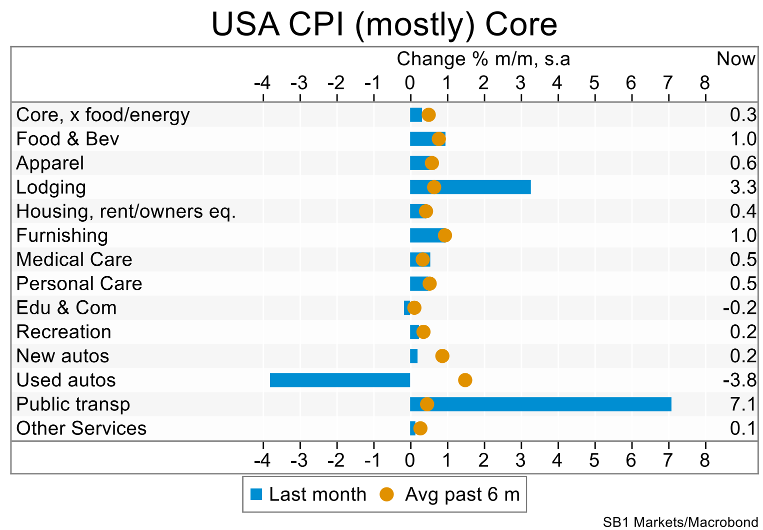


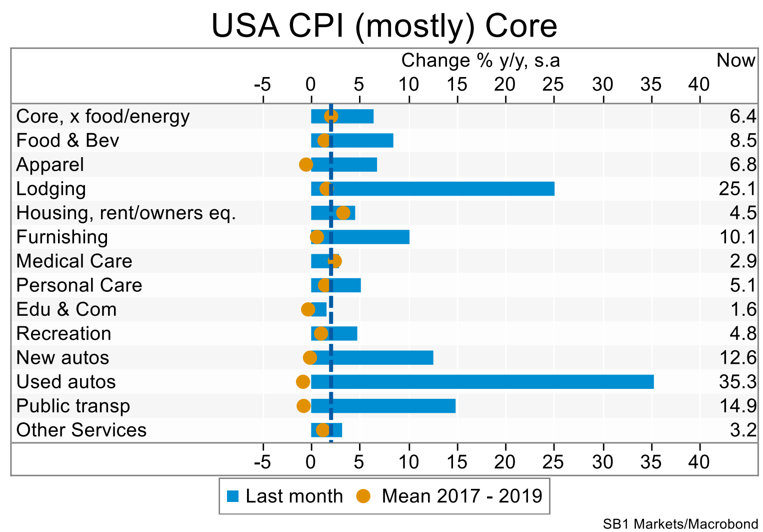
SpareBank 1 MARKETS

Just (super high) used car prices down in March, 3.8% lower

The downside is substantial. However, other prices are not slowing, y/y rates are just incredible!



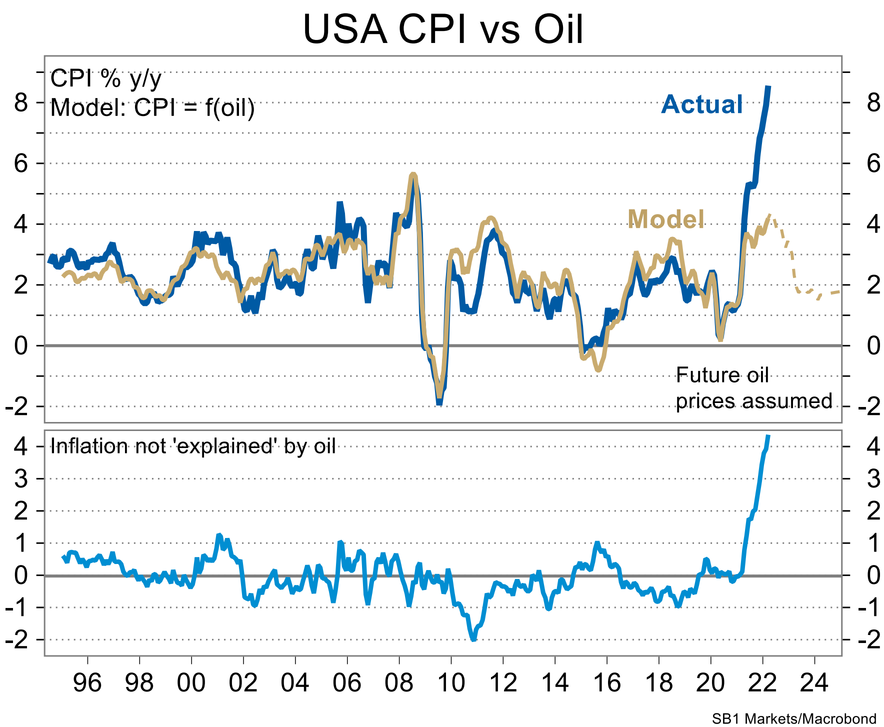


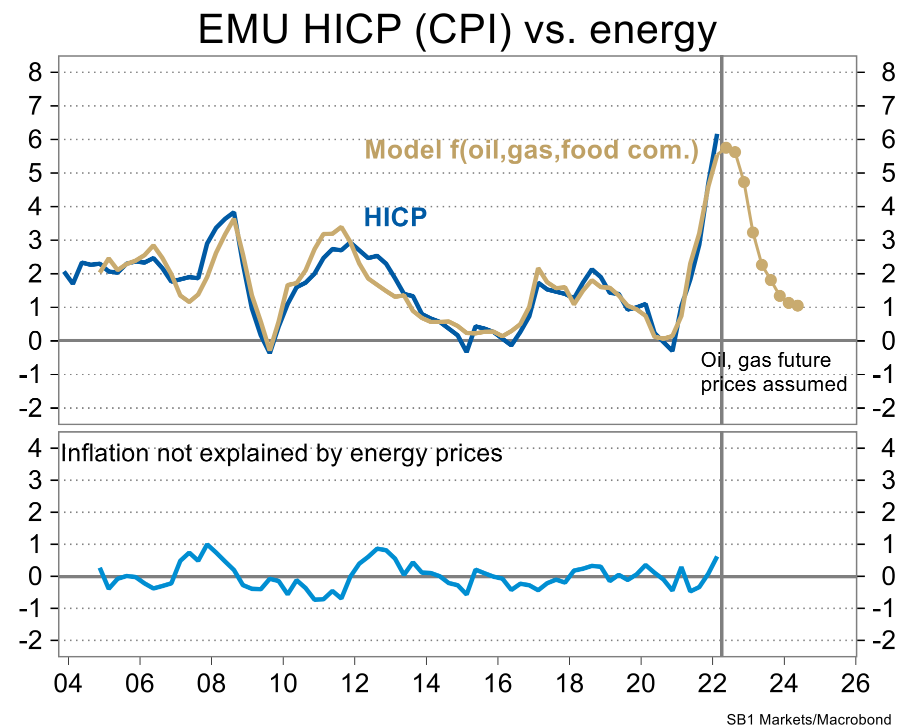


- Most sectors report growth above 2% from before the pandemic, just public transport (airfare tickets), education & communication, and apparel below)
  - » All sectors but education & communication are up more than 2% y/y
- One day: A huge downside not only for used auto prices, but some for new autos & furnishings as well

If it just was energy, CPI would have been up 4%. The problem is the next 4 pp

CPI is up 4 pp more than explained by the oil price, unprecedented. In EMU, nothing but oil/gas!



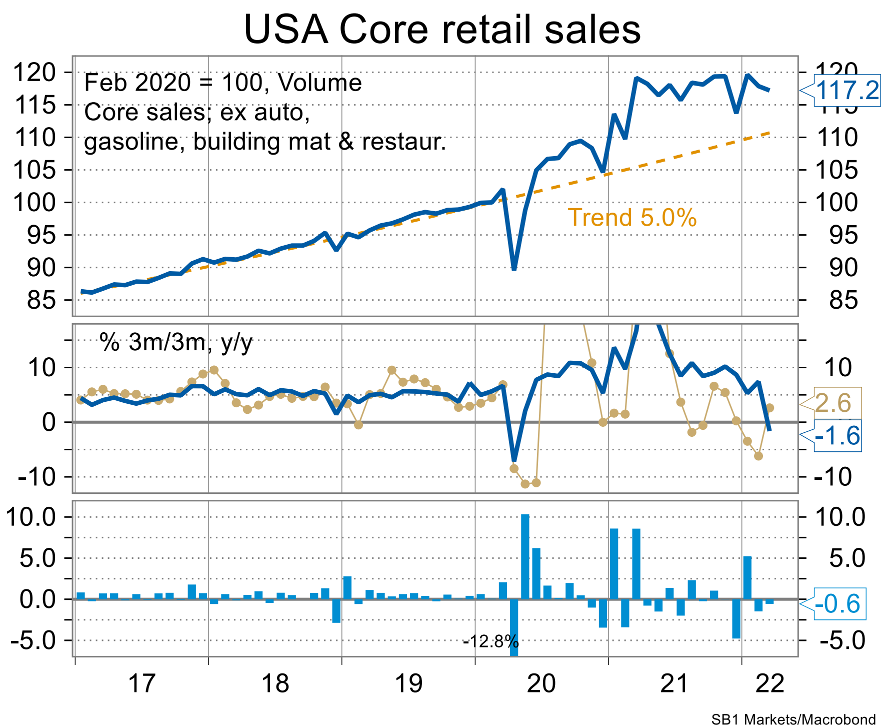


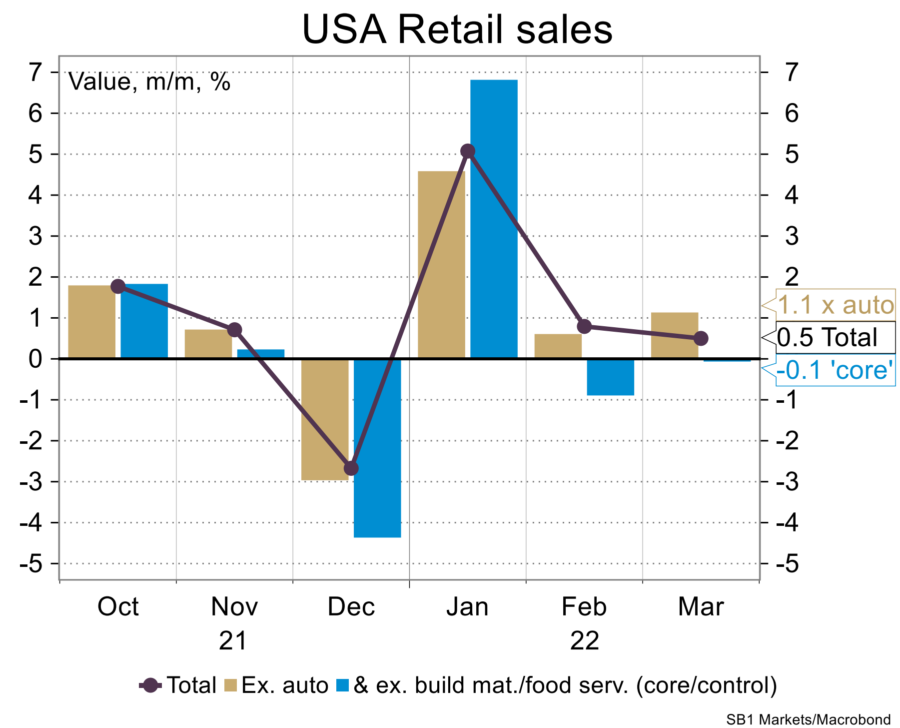
- **Oil price cycles** have explained some 80% of the changes in the US CPI growth the past 30 years, which for practical purposes, is “everything”
  - In our model we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influenced inflation which correlates to the oil price. The current model residual, at almost 4 pp is totally unprecedented, at least vs the past
  - If the oil price stabilises at USD 110/b, the models signals a 1 pp lift in the headline CPI
- **In EMU**, the CPI acceleration recent months can be fully explained by the increase in energy prices – and if oil/natural gas prices stabilise at current levels (Friday’s prices, that is), inflation is now close to the peak, and the annual growth rate will return to below 2% in early 2022. Had energy prices returned to a ‘normal’ level, inflation would have collapsed now! At least according to our model

SpareBank 1 MARKETS

Retail sales down in volume terms in March too, trend close to flat

Sales are still far above pre-pandemic trend paths. Total sales are up 25% in value terms vs Feb-20

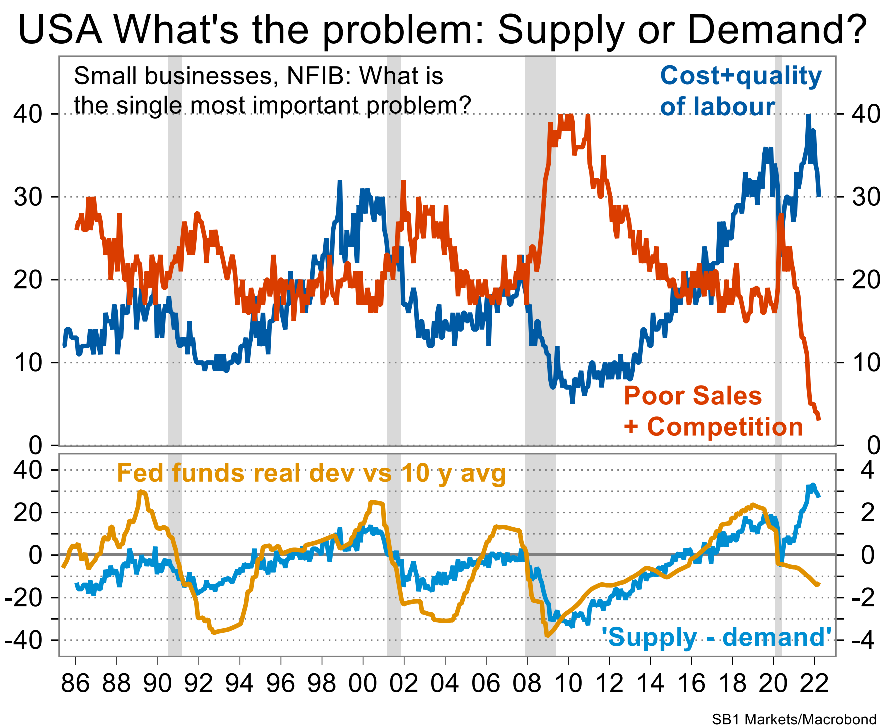


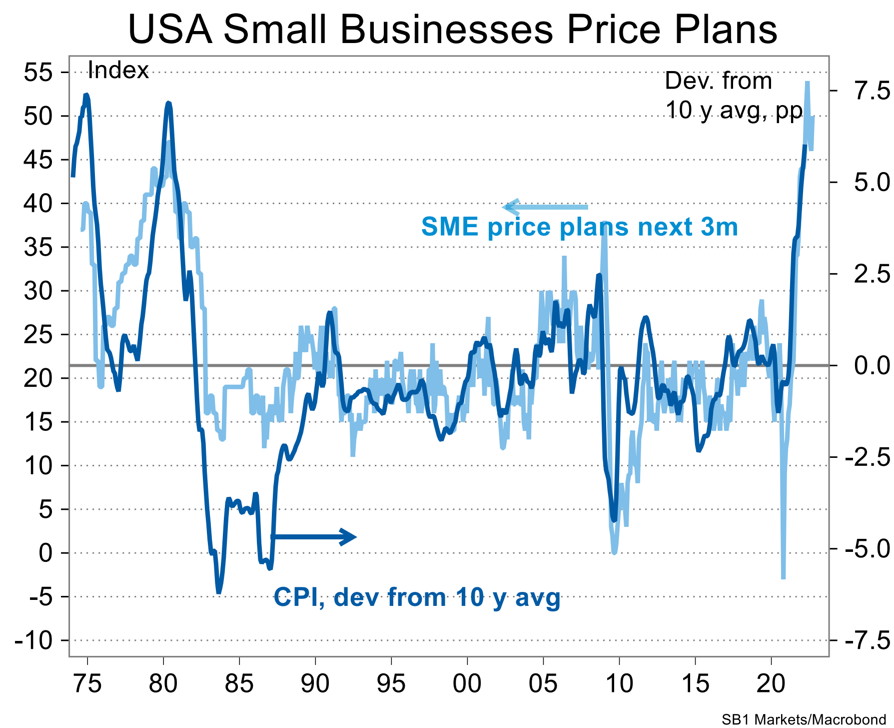


- **Total nominal sales** rose 0.5% in March (expected 0.6%), down from down from upward revised 0.8% in February (initially reported up 0.3%). Thus, Feb/March was above expectations. Total nominal sales are up 25% – vs. the Feb 2020 level
- **Core sales of goods** (=control group, excludes autos, gasoline, building materials & restaurants) fell 0.1% in March (as expected) following the 0.9% decline in February (revised up from -1.2%)
- In **volume terms** we estimate a 0.6% decline in core sales in March following a 1.5% decline in February. Core sales are down y/y (March last year was the peak)
- **Consumption of goods** is very likely above a sustainable level, and we still expect sales to decline the coming months/quarters – even if a substantial part of the adjustment already has taken place (vs. a long term growth path)

Sales are fantastic, labour supply is still the challenge

More companies (and close to a record high share) plans to lift their selling prices

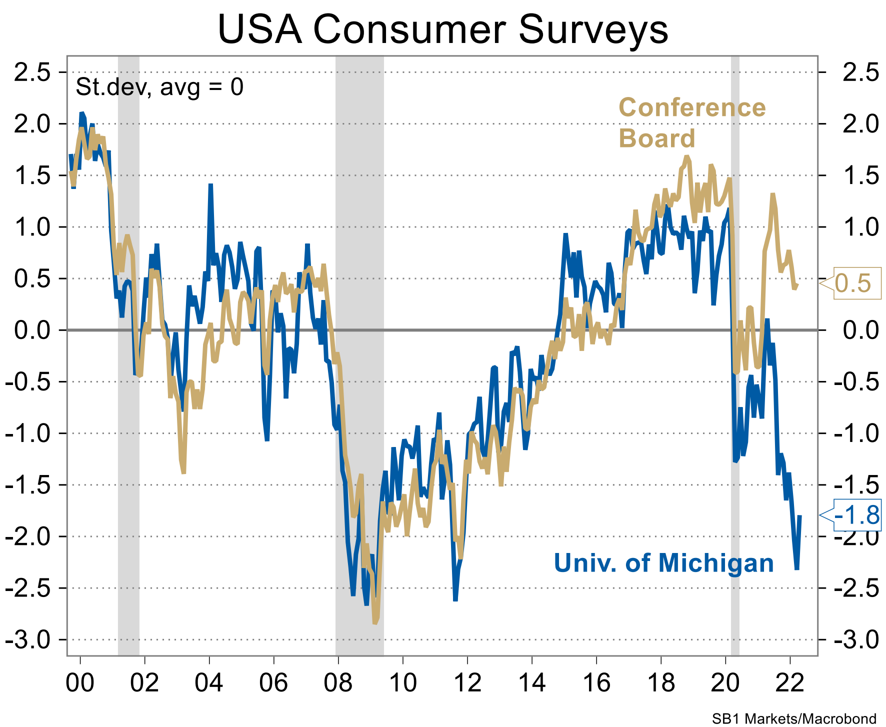




- The share of SMEs that plan to hike their **selling prices** gained 3 pp to 50%, an extreme print, check the chart to the right!
- The **'demand surplus'** has widening from a high level since early 2021 –and the Fed's started their tightening campaign one month ago, far later than normal vs the cycle – '*the bank is far behind the curve*'

Univ. of Mich. consumer sentiment up in April, still very low

Inflation is a major concern, for good reasons. Still, sentiment is far below any fair 'model estimate'

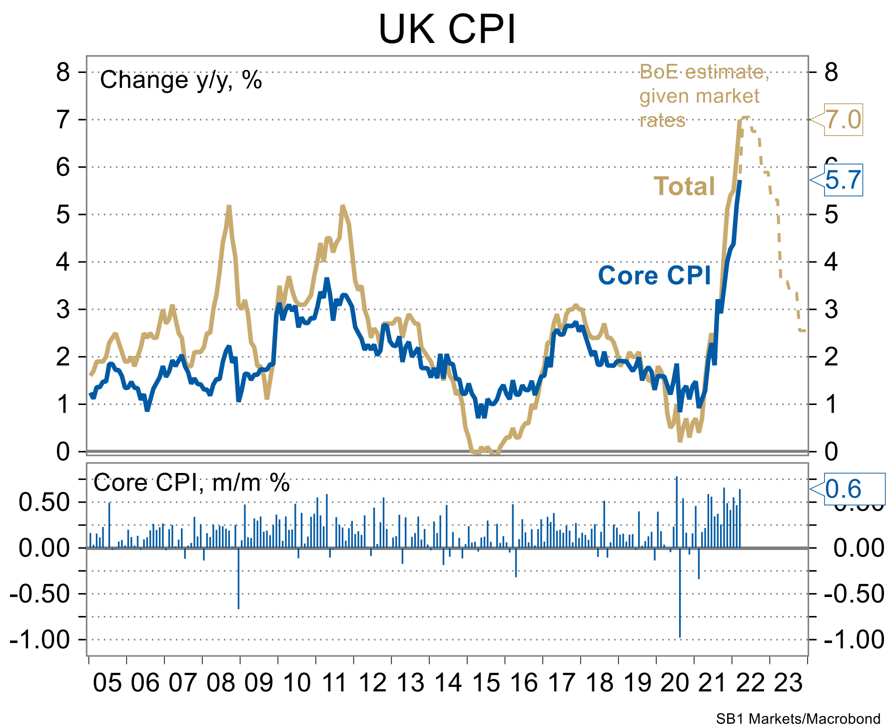


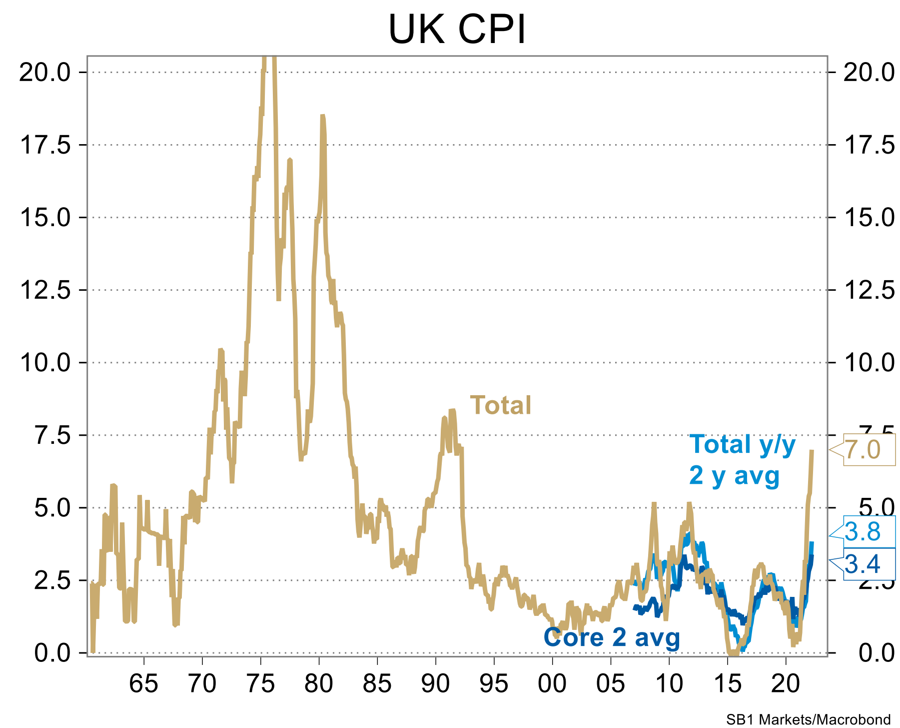
- **University of Michigan's consumer sentiment rose to 65.7 in April from 59.4 in March, expected further down to 59.0. The index climbed to -1.8 st.dev below average, from -2.3**
  - » Households' assessment of the current situation increased just marginally, but expectations rose sharply, to -1.2 st.dev, from -2.0
- **2 of the other 3 consumer surveys** we are following report a confidence level far below average levels, but both of these two recovered in March or April
- Just Conference Boards measure is still above average (at +0.5 st.dev) in March
- Sure, inflation is a HUGE worry, the stock market is wobbling (but still at a high level), and mortgage rates are on the way up (but are still at a low level). Even if some flags are red, it is not possible to explain the current extremely bad mood among households by any standard model
  - » Unemployment is close to record low, and the housing market is going strong. Covid is not included in the model, but the pandemic is on a rapid retreat in the US too
- The risk: The UM survey often has been an early bird in the cycle, and the survey may be 'right'

SpareBank 1 MARKETS

Inflation up to 7.0%, the core to 5.7%, 0.2 - 0.3 pp above expectations (again)

The core up 0.6% m/m, as is the 'new normal' these days

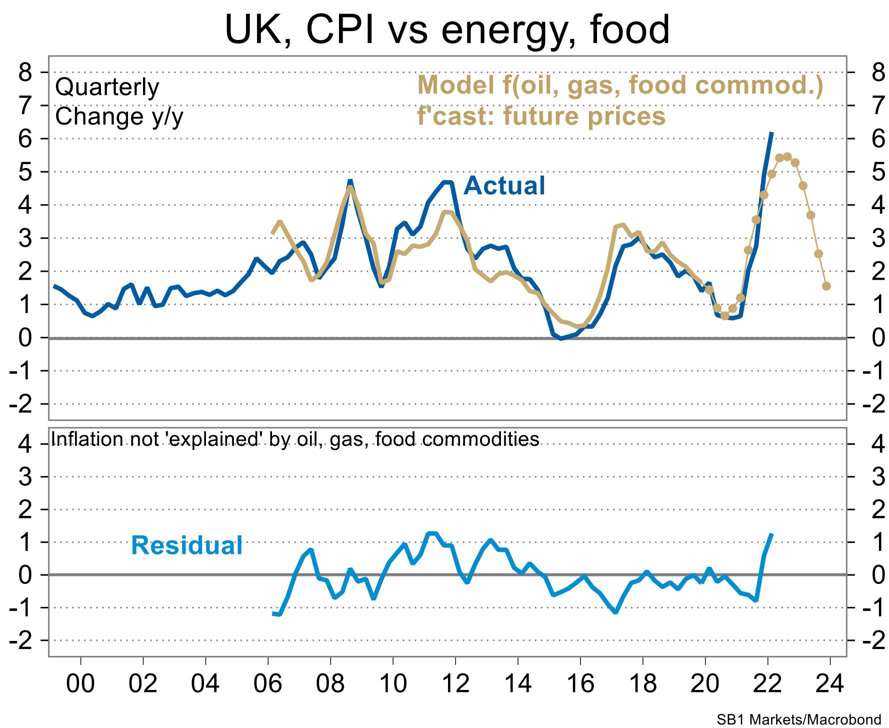


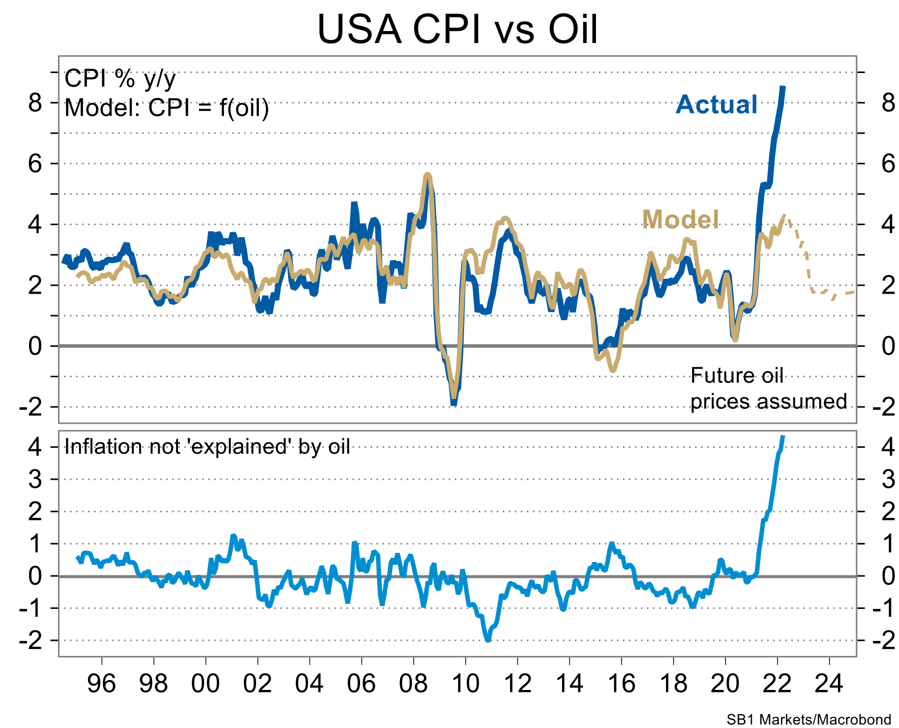


- **The total CPI** rose 1.0% m/m. The annual rates for both the headline and the core are the highest since the early 1990'ies. Measured over the past 3m/3m the core index is up 6.2%
  - **Measured over 2 years**, headline is up 3.8%, and the core is up 3.4%, which both illustrates the base effects from low inflation last year but also that inflation is well above BoE's 2% target, anyway how we calculate it!
- **Energy has lifted the headline rate by 1.8 pp. Other goods, also excluding food & autos are sharply up, contributing just as much has energy!**
- **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…

Oil and gas prices may still explain the surge in UK inflation

Our model covers (in principle) all impacts of higher energy prices

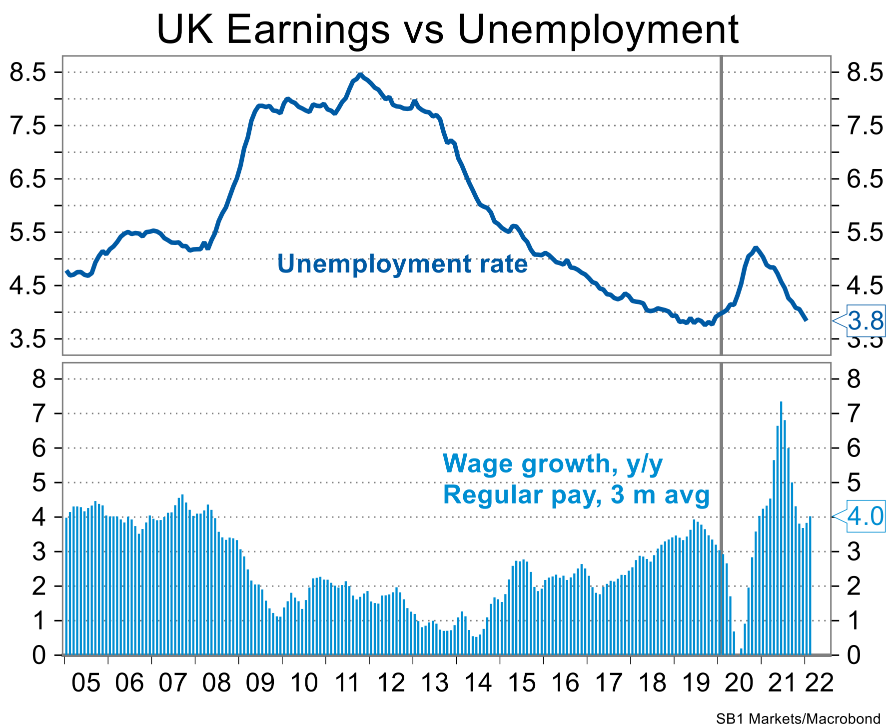


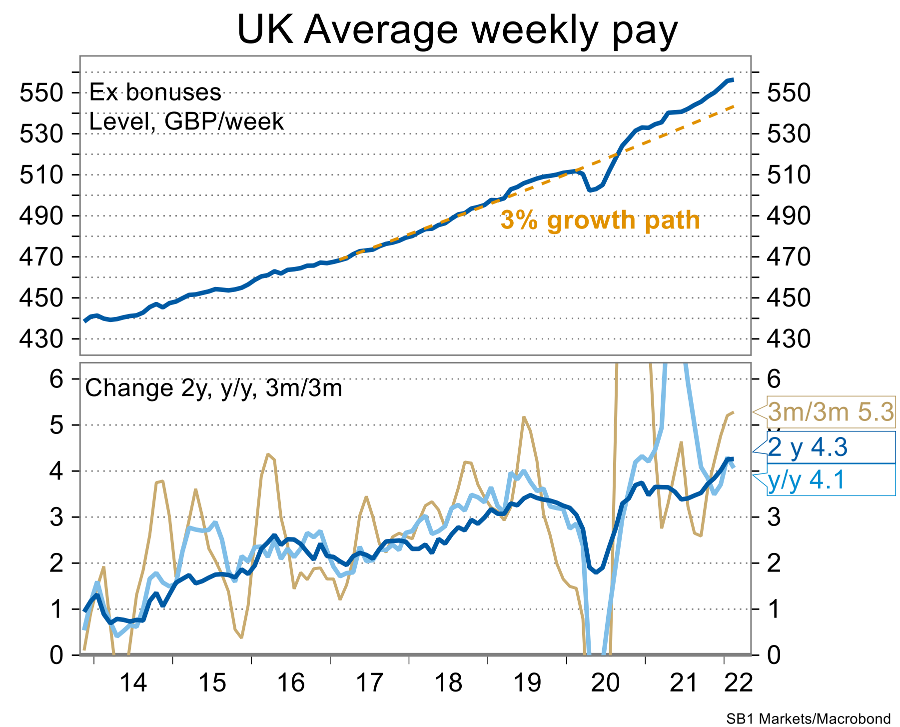


- The contrast to US inflation is striking, even if the annual headline rates are quite similar

Unemployment is trending down - to just marginally above the pre-p level

Wage inflation is accelerating, the pace is now above 5% (regular pay), and 8% (including bonuses)

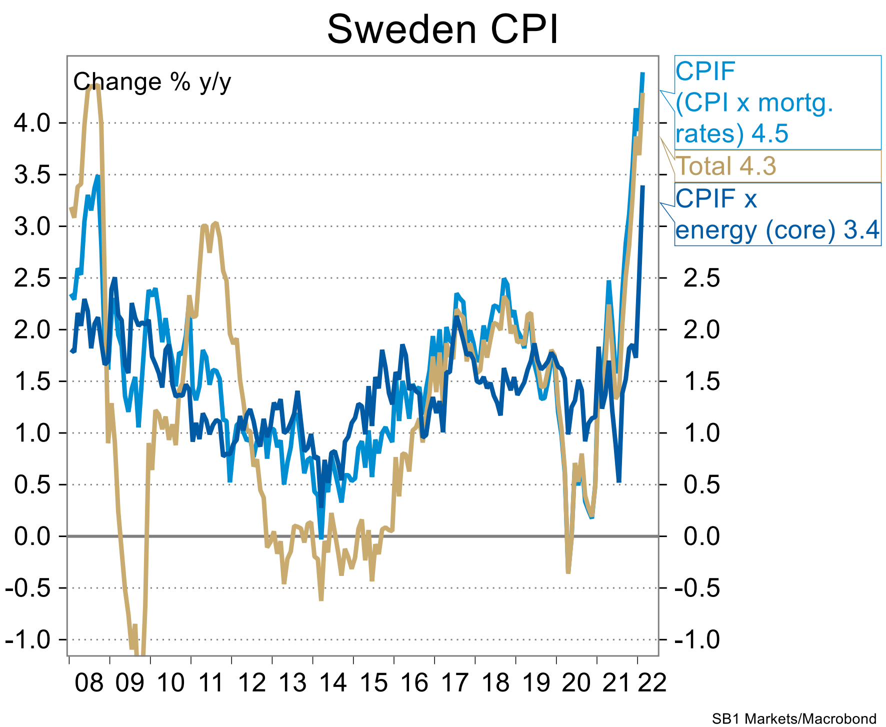


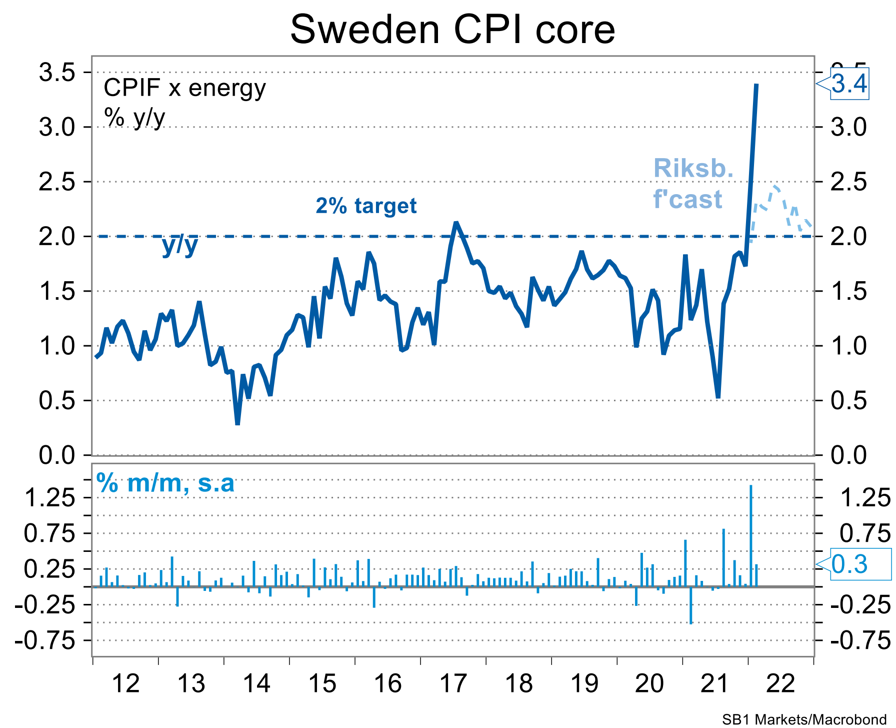


- **Annual wage growth** (regular pay, 3 m avg) accelerated 0.2 pp to 4.0% in February, as expected. Not smoothed, wages were up 4.1% (unch). The underlying 3m/3m rate rose further, now at 5.3%
- **Including bonuses**, total wages are up 5.4%, and underlying 3m/3m growth equals 8%!
  - Over the 2 past years, total weekly pay is up 4.7% in average
- Just before the pandemic, wage inflation was approx 3% (total pay) to 4% (regular pay) – but just between 2 and 3% the preceding years. Thus, the current wage inflation rates are well above the British 'norm'
- The **'LFS/ILO' unemployment rate** fell to 3.8% in January, from 3.9% in December – just marginally above (the 2. decimal) above the pre-pandemic level

Inflation is exploding, here too. Headline +0.6 p to 4.3%, the core 0.9 pp to 3.4%

… and 0.3 pp higher than expected. Still, core prices just up 0.3% m/m, following the 1.4% Jan jump…

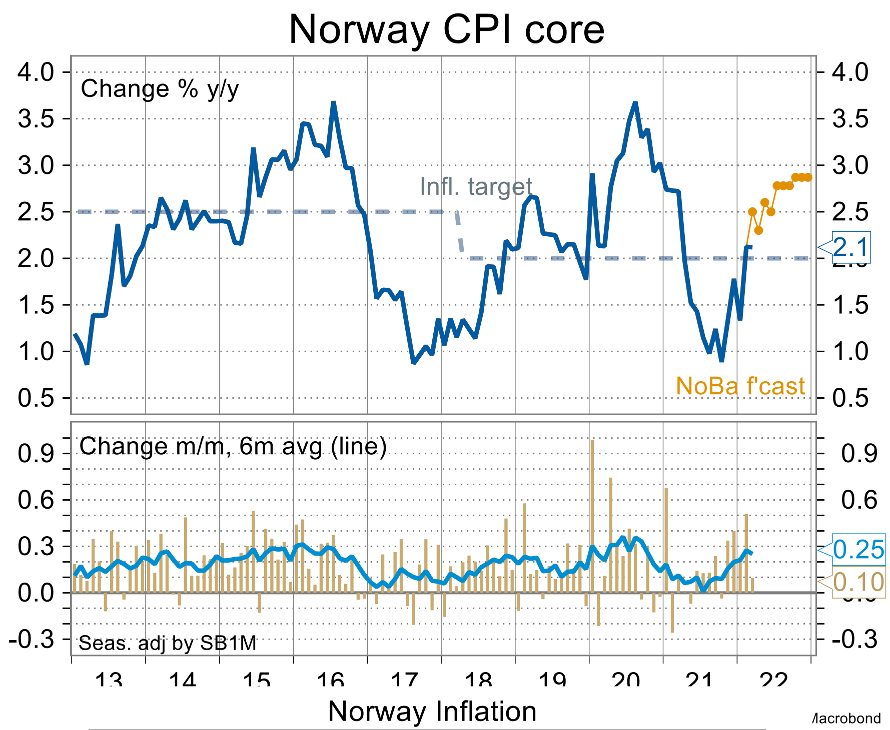


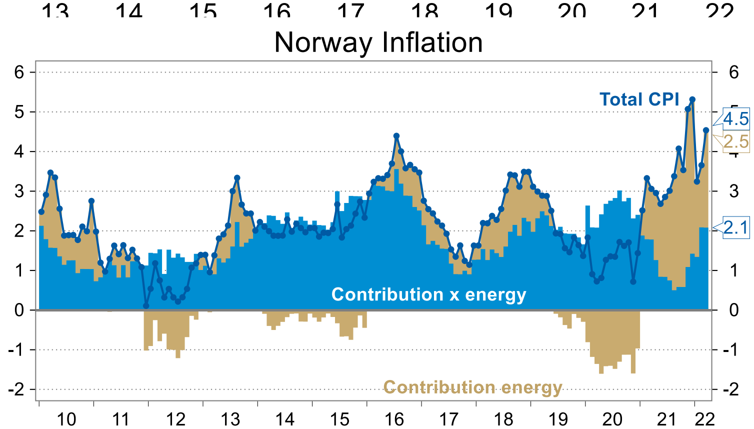


- **CPI-F x energy, the 'real core'**, rose 0.3% in February (seas. adj). The annual rate shot up because prices fell 0.5% m/m last February. Still, inflation has accelerated sharply, and the rate is now 1.1 pp higher than the Riksbank expected!
  - Why is inflation so high? Food prices up 4% y/y, furnishings 4.9%, hotels & restaurants 4.4%
  - All other measures of underlying inflation is sharply up – and at the highest level in some 30 years
  - The Riksbank will have to revise its inflation forecast sharply - and then to announce that the signal rate can be lifted before H2-2024. The market expect 3 XXX hikes in 2022, and 3 more in 2023 (rate expectations rose by 3 – 5 bps XXX on Monday, following the CPI report
  - Still, inflation is pretty well explained by the increase in electricity prices
- **Headline inflation** also accelerated, and not because energy prices accelerated

Inflation further up in March but less than feared

Headline inflation up 0.8pp to 4.5% but the core unch at 2.1%, as food prices fell!

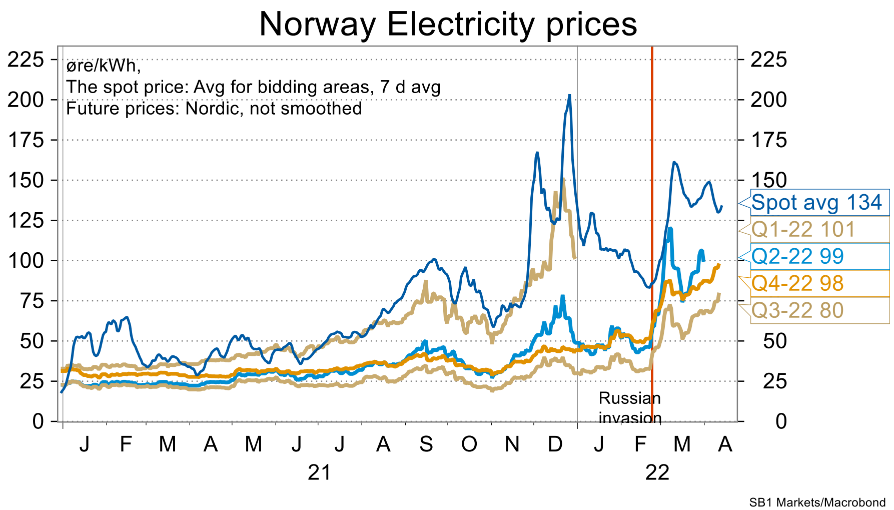


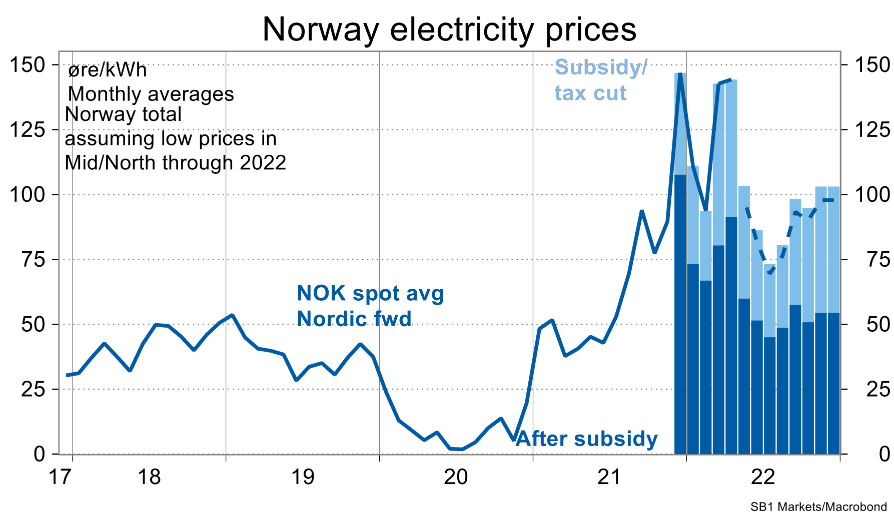


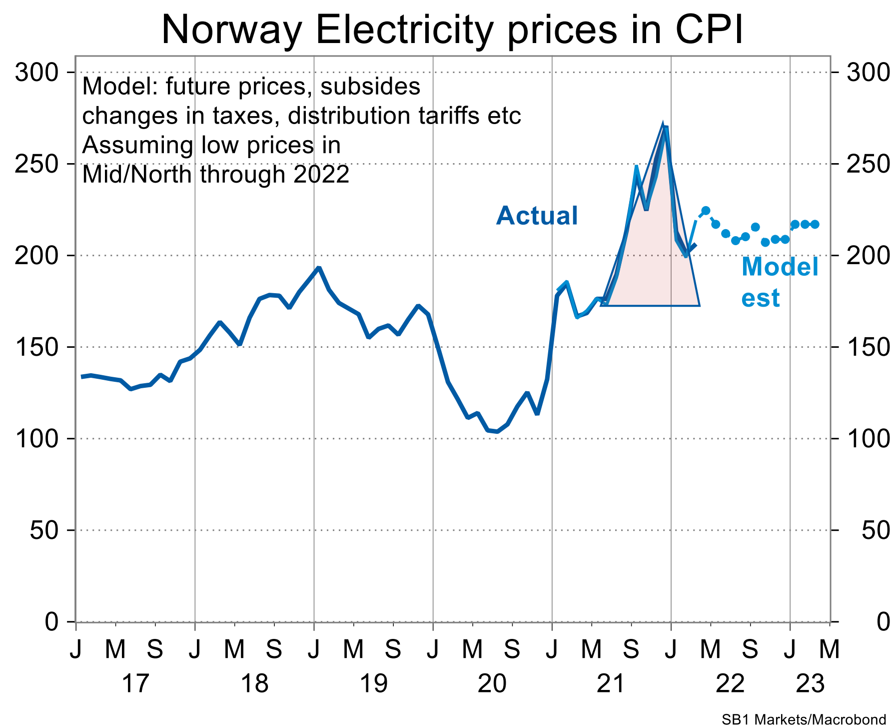
- **Total inflation** was expected up to 5.0%. Energy prices contributed by 2.5 pp, all other elements by 2.1%
  - Electricity prices rose 2.5%, according to SSB. We estimated a 10% increase, an unusual miss
  - On the other hand, gasoline prices rose more than our model indicated, by 18% m/m! However, now prices are on the way down again
- **CPI-ATE** (ex. energy and taxes) rose 0.1 pp m/m, and the annual rate was unch at 2.1%, expected up to 2.4% (consensus & SB1M) or 2.5% (Norges Bank)
  - **Food prices** fell 0.7%, and contributed most at the downside vs. our estimate. Food prices are now 2% below the level in Q4-2020 (and they are down y/y – while most consumers think food prices have been soaring!)
  - Prices on **imported goods** declined by 0.4% in March, but are still 2.1% y/y, while **domestically produced** goods & services were up 0.4% m/m and 2.1% y/y
  - **Core inflation** is running above 2% in just 5 sectors, and is on par or below in 9 sectors. Of the 5 at the upside, 2 are probably explained by the pandemic, airfare tickets and hotels & restaurants
- **The outlook**
  - **The electricity bill** will remain high but the current future prices for the rest of 2022 do not signal higher prices. However, since before the war in Ukraine, el.prices have increased substantially, lifting our CPI estimate by 0.4 pp
  - **Core inflation** surprised at the downside in March but we expect the core CPI to remain to accelerated somewhat through 2022
- **So what?**
  - **The uncertainty** is still large both vs energy & food prices, as well has other impacts of the war in Ukraine
  - **Wage inflation** may in the end surprise on the upside in a tight labour market, but so far the wage negotiations have delivered exactly the expected outcome
  - **Norges Bank** revised its inflation forecasts substantially upwards in March, and the actual CPI does not warrant a further upward revision

Electricity prices up in March but the total bill less than we assumed

Future prices are still drifting upwards but subsides will eventually pick up most of the bill



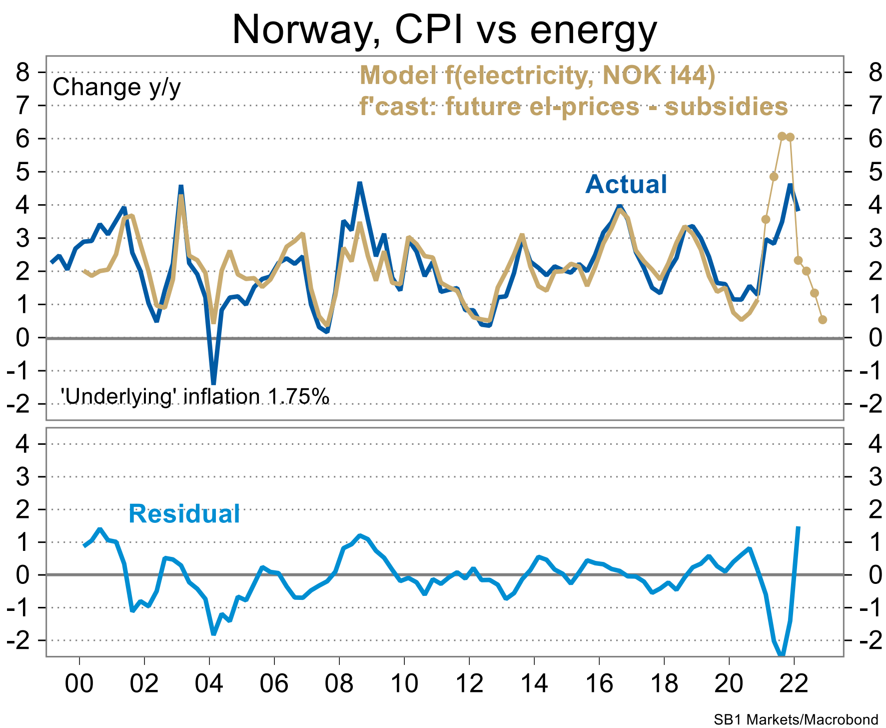




- We assumed a 10% m/m increase in the electricity index in the CPI in March, well above the actual 3% increase. In April, we expect a further increase, partly due to a reversal of the temporary cut in the electricity tax
- The cost of the unprecedented surge in electricity prices, represented by the area of the triangular above, equals a 30% extra cost, above a 'normal' high price level (like in 2018-19), <u>or 1¼ % of one year's disposable income</u>
  - » <u>… if future prices do not climb sharply from here – and they are on the way up (However, the impact is limited, as the government subsidies cover 80% of the extra bill)</u>

So far, electricity explains the most – even if inflation in Q1 was a tad 'too high'

Electricity prices explain almost all of the ups and downs in Norwegian CPI inflation

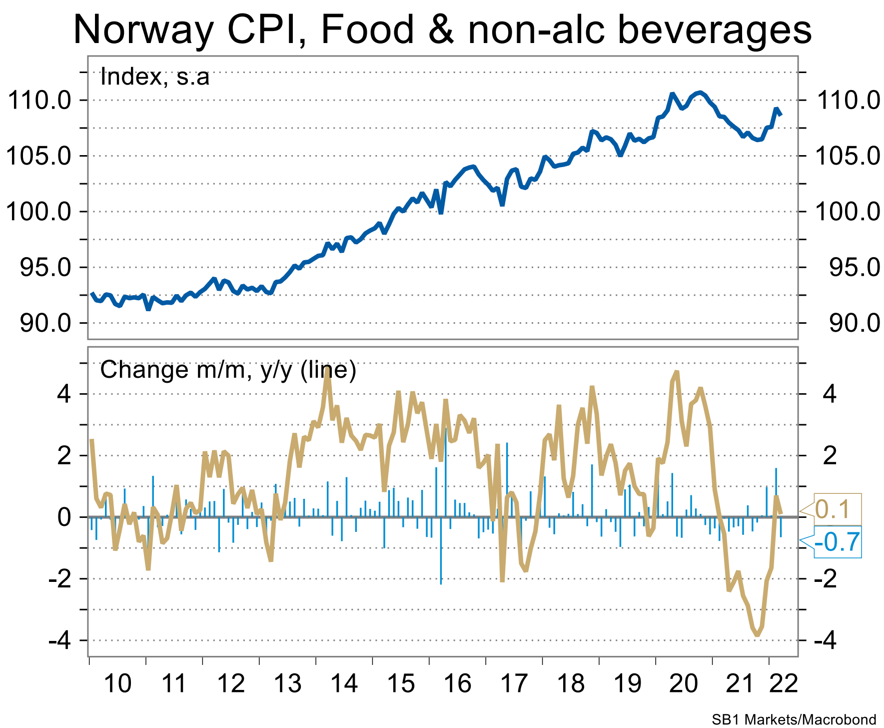


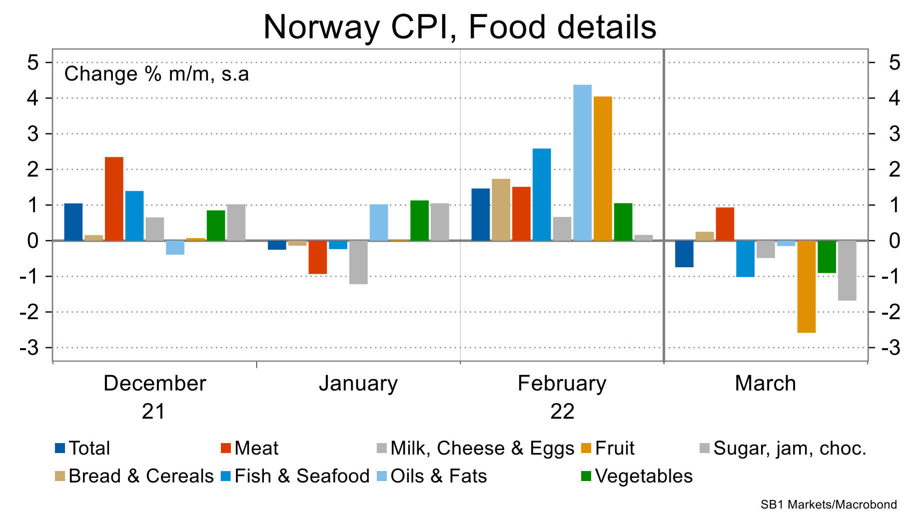
- Still, in Q1 inflation was significantly higher than our model predicted
  - » On the other hand, actual inflation was well below the model forecatst through 2021

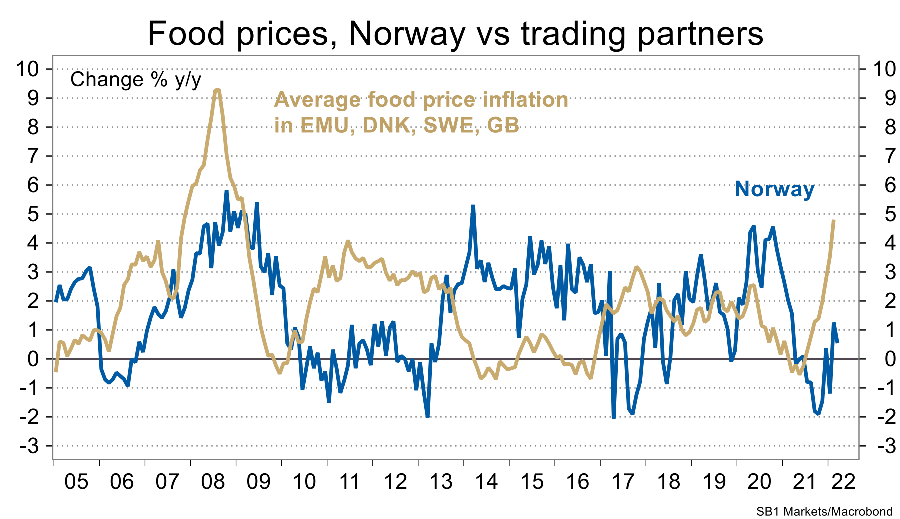
- .. And the current headline inflation rate is close to what the model suggest (it is higher in Q1 but has been lower the previous 4 quarters

Food prices down 0.7% in February, and are 2% below the peak price level in '20

… while people 'feel' that food prices are much higher than ever before



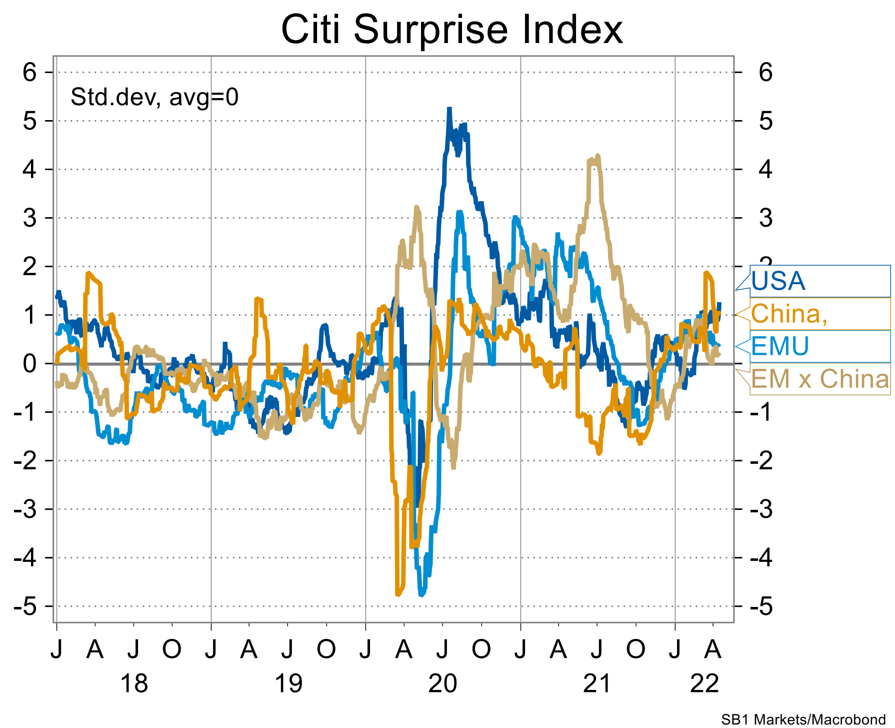


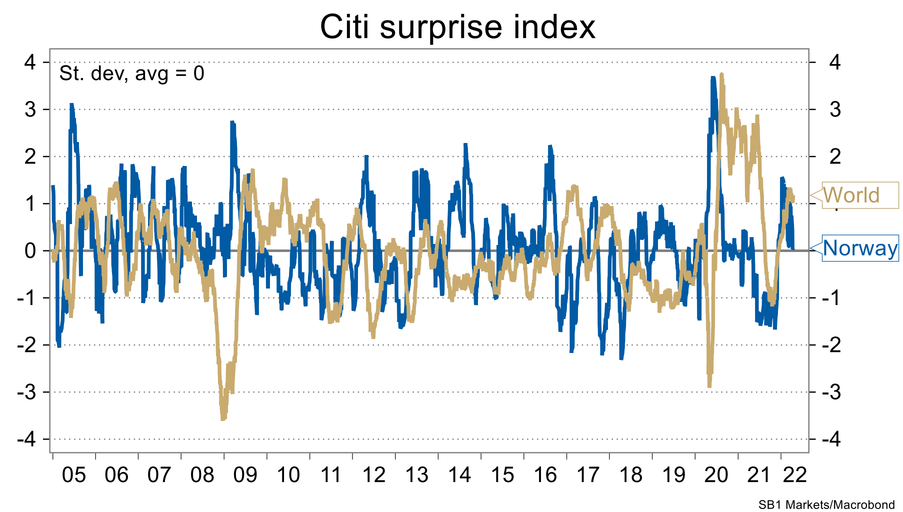


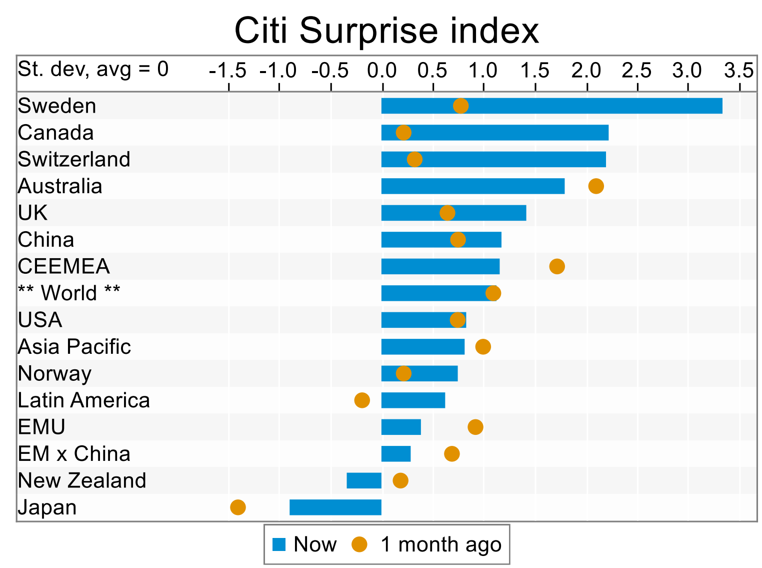
- **The bi-annual negotiation** between the large producers and retail sales chains resulted in higher price increases than normally in February but a part of this lift was reversed in March – broad based
- **Norwegian food prices** fell by almost 4% to last November from the autumn in 2020. Over the past 4 moths, food prices have climbed 2%. Thus prices are still 2% below the Q4-2020 level. In between time, wages are up some 5%. The wage adjusted food bill is down 7%! Prices are up 0.1% y/y (0.5% ex taxes). Guess you didn't know ☺
- **Food price inflation is accelerating abroad but Norwegian CPI food prices** are not correlated with food prices among our European neighbours. The NOK exchange rate explains quite a lot

The world is surprising at the upside. At least so far…

Just Japan (and New Zealand) at the downside vs expectations







- **Norway** was surprising sharply on the downside through most of 2021, according to Citi. But in early December we crossed the zero line, and shot up in January – and we are still well above average

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

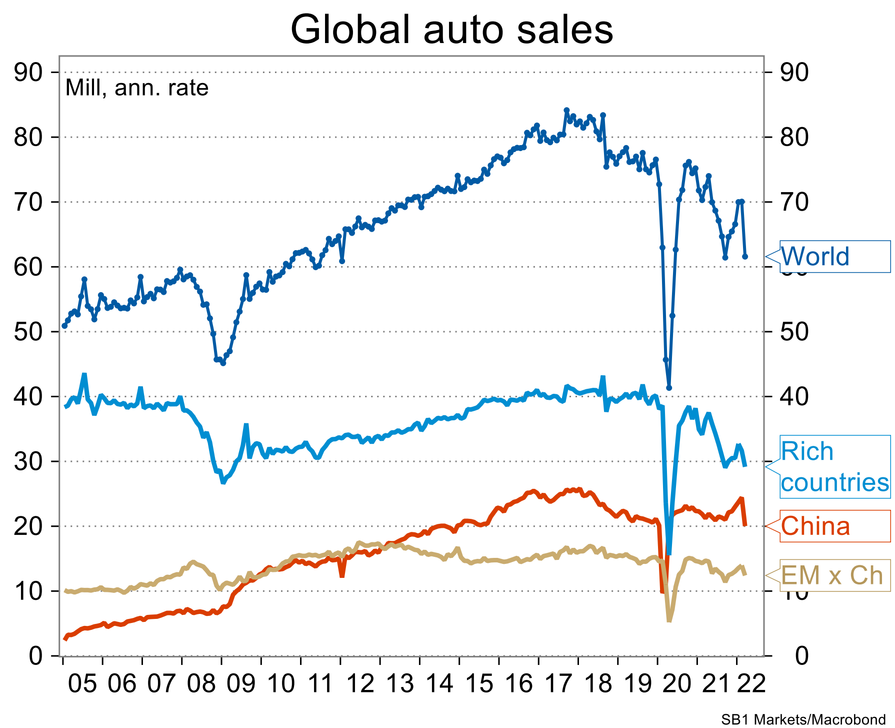
Highlights

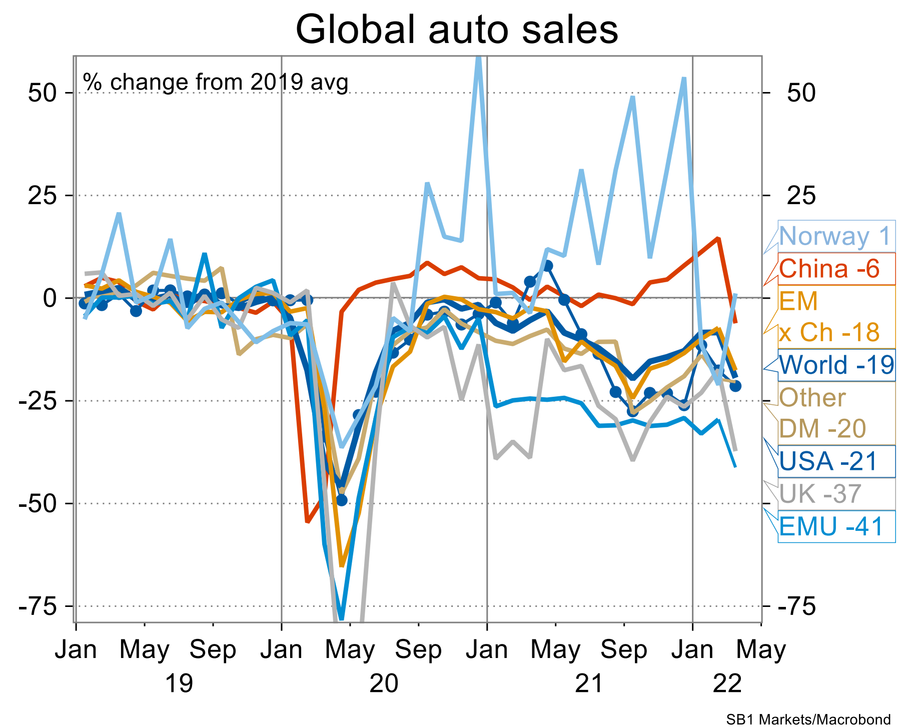
The world around us

The Norwegian economy

Market charts & comments

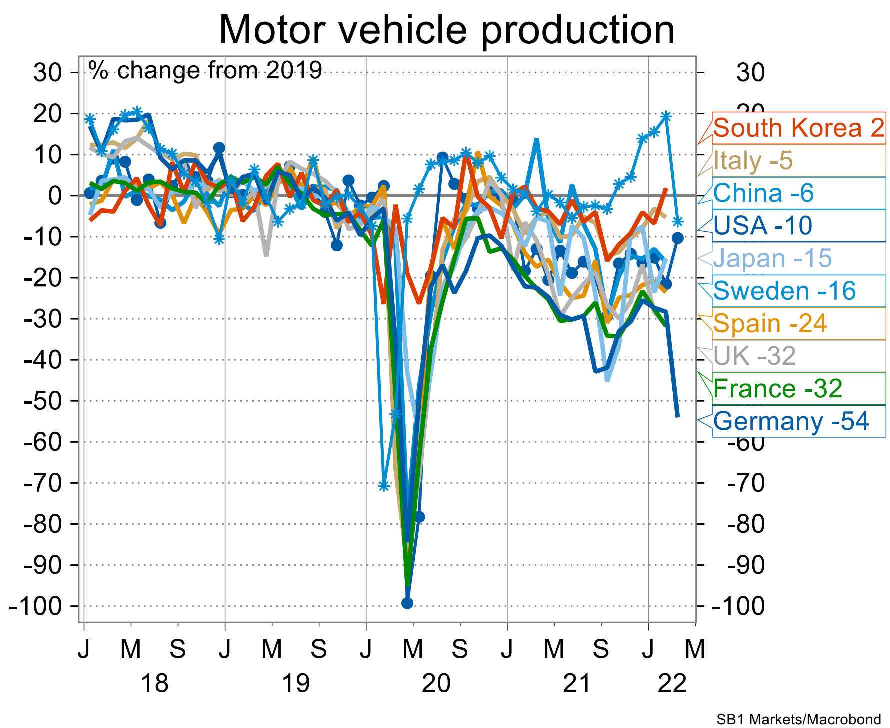
Auto sales down 12% March, all regions contributed





- **The decline in global sales** in March is rather unusual, driven by setbacks both in US, EMU, China and even more in Russia
- Sales in **China** fell less than we assumed last week (-18% vs -30%) – but still a substantial hit – and sales are down 6% vs. the 2019 level
- Sales in the **US** are down 21% vs the 2019 average, **EMU** is down 41% (!). Sales in the **UK** fell sharply as well, down 37% (vs 2019). Sales in Norway rose, and are equal to the (high) 2019 average
- **Auto production** very likely fell sharply too, we so far just have German data. Here, production fell by 35% m/m, according to prelim. Data. War & sanctions no doubt creates new challenges for the auto industry, and Europe will probably take the hardest hit

US auto production up in March – but sharply down in China & Germany



- The war in Ukraine may lead to more supply chain challenges for the auto industry like lack of Ukrainian neon gas for semiconductor production or car parts from Ukraine

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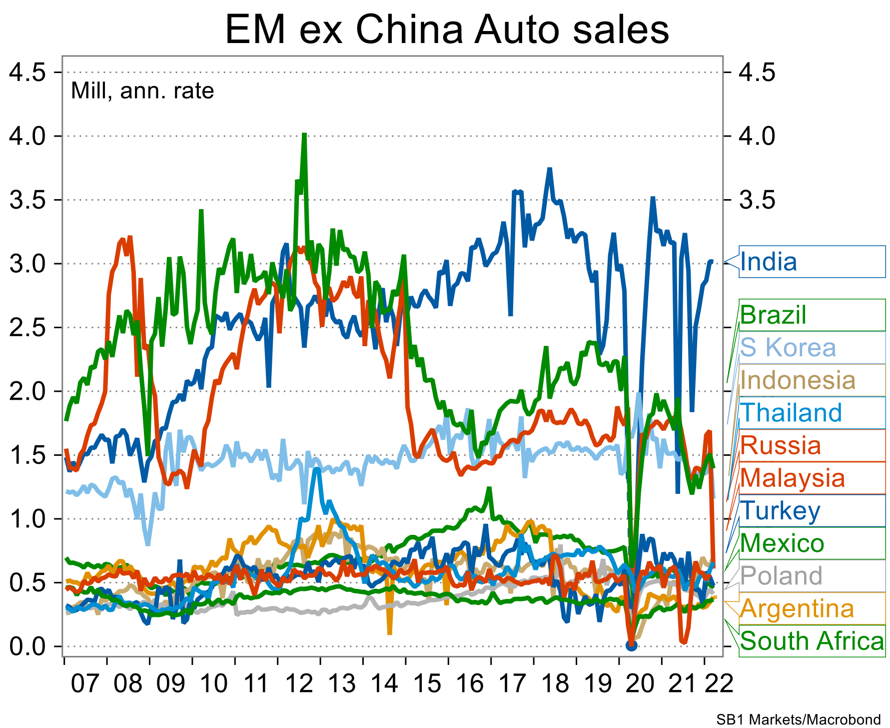
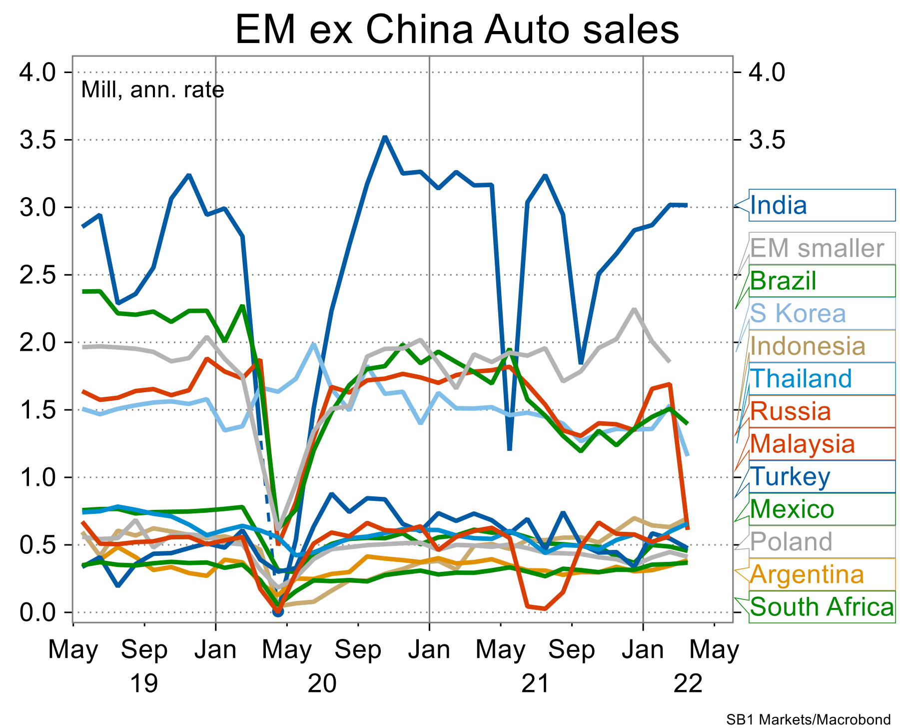
EM: Russian sales collapsed, more down the up elsewhere – but no drama

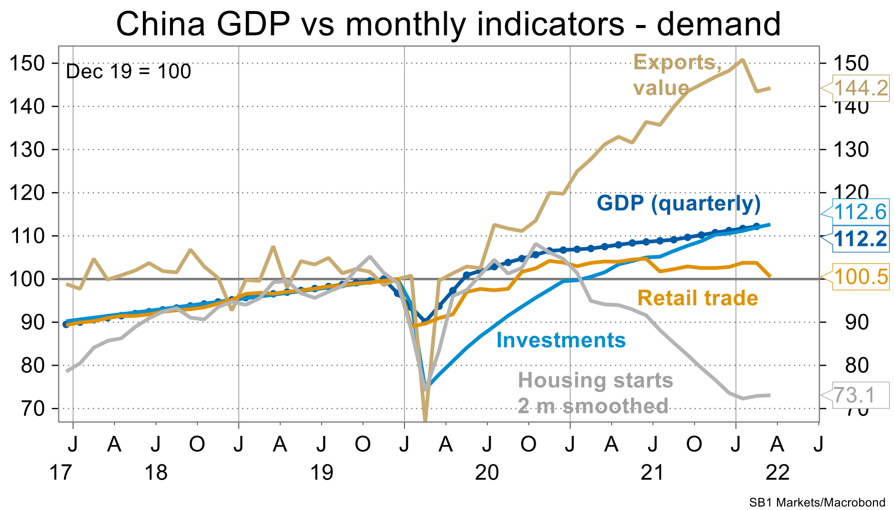


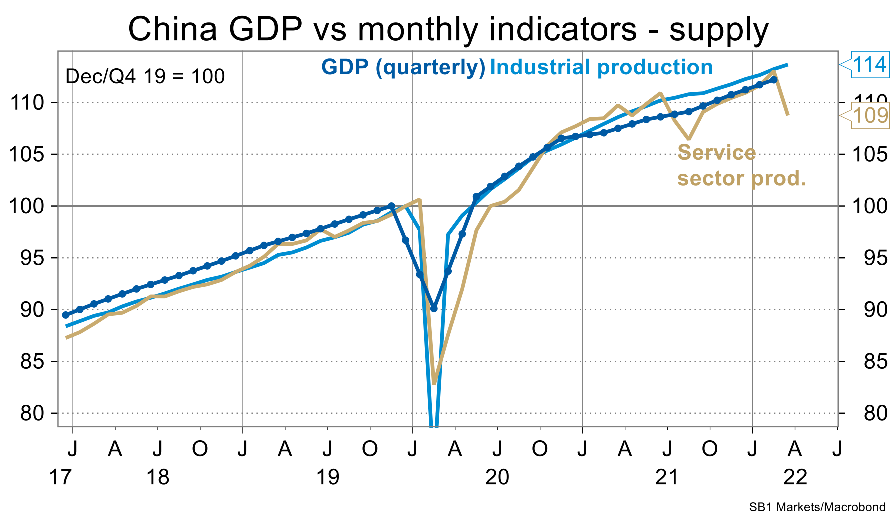


Not all countries have reported yet, and for some countries we have just plugged in figures from media reports that are not always correct

Q1 GDP far better than expected, but March not that strong

Retail sales and service sector production fell sharply in March, for obvious reasons



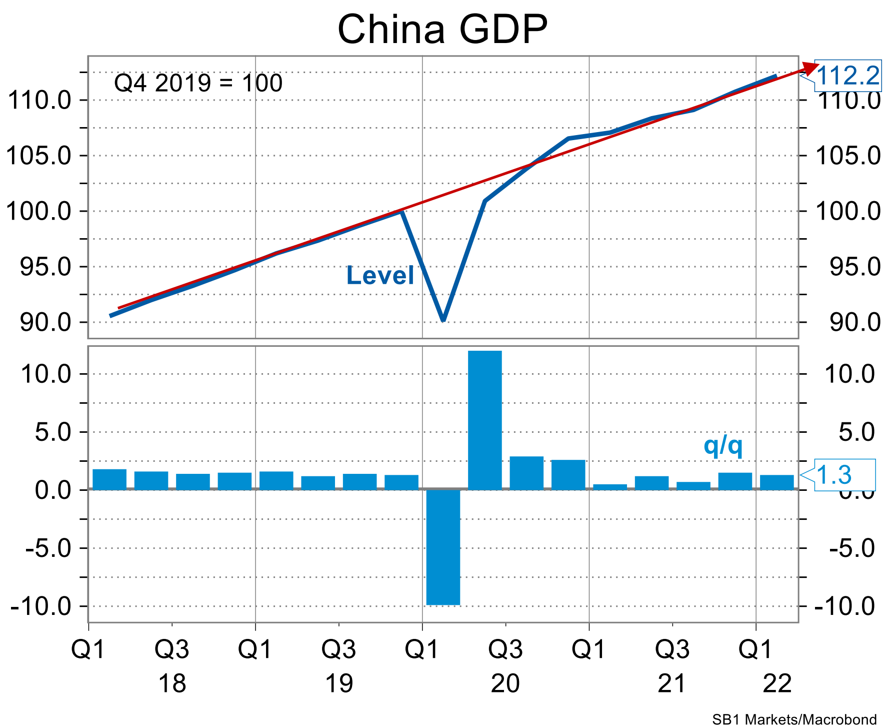


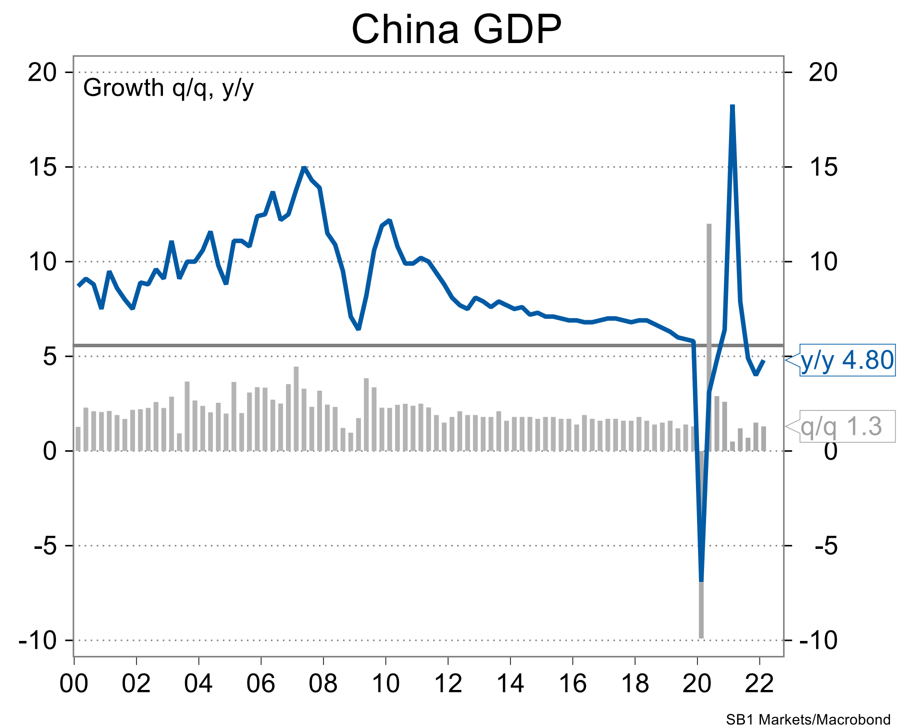
- **GDP** rose by 1.6% in Q1 (5.3% annualised), far better than expected (0.7%), and the annual rated accelerated to 4.8% from 4% (exp. 4.2%). GDP is back at the pre-pandemic trend
- **Industrial production** rose by 0.4% m/m in March, and by 5% y/y, as expected. Steel production is down 10% y/y, but was stable through Q1
- **Service sector production** declined 3.8% in March and was down 0.9%, as a large number of big cities were partially closed down due to the fight against the Omicron variant.
- **Retail sales** volumes fell almost 3% m/m in March, and nominal sales were down 3.5% y/y, slightly weaker than expected. **Auto sales** fell almost 20% m/m
- **Investments** grew by 0.6% m/m, and are up 9.3% in nominal terms YTD, 0.9% more than expected. In real terms growth is some 5 pp lower
- **New homes sales** fell in March, but is still trending up from the bottom in last October, but sales are still down 20% from the peak one year ago. The 100 largest builders report a far larger decline (50%+, Bloomberg). **Housing starts** have stabilised but are down 30% from the peak in late 2020. **New home prices** have flattened following a minor decline in H2, while **existing home prices** are still heading down at a 2.5% - 3% pace, and they are down 0.9% y/y.
- **Credit growth** accelerated in March, and growth is trending upwards again – but just due to heavy local government borrowing in the bond market. Probably not a sign of 'sound credit demand'. The reserve requirement for banks was cut marginally last week
- **Exports** fell sharply in Feb but stabilised in March. The level is still very high. **Imports** fell further in March, but volumes are not far below the pre-pand. trend path. The **trade balance** is close to record high, at more than 4% of GDP
- **CPI inflation** is still muted, close to 1%. **PPI infl.** is at 9%, still down from the peak

In sum: The official GDP figure was far better than expected but services (including retail sales) were hit by the fight against Omicron, as the PMI surveys indicated. However, the PMIs also signalled slower growth in the manufacturing sector so far not seen in the official data

Q1 GDP up 1.3%, 0.6 pp more than expected! The annual rate 4.8% (exp. 4.2%)

No virus hit to be seen in the official GDP data – even if some impacts are visible in other statistics

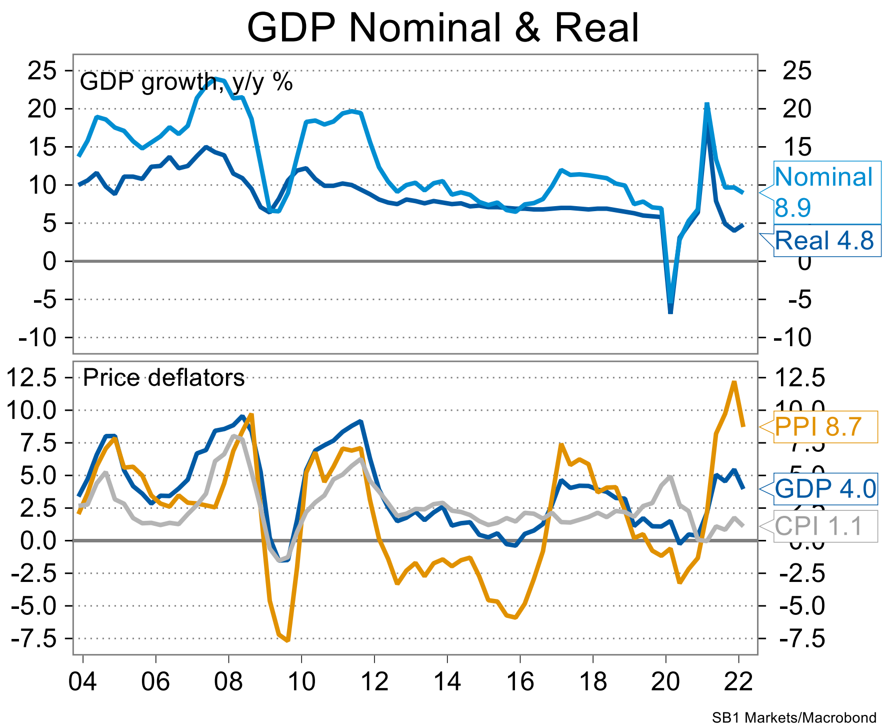




- The **annual growth rate** accelerated from 4.0% in Q4, and far more than expected
- **A 1.3 % q/q rate** equals a 5.3% annualised growth pace. GDP reached the pre-pandemic growth path in Q4-20, and remained there in Q1-22. Not many others have managed that
- We do not yet have details for the demand side in Q1, but consumption very likely not accelerate

The GDP price deflator up 4.0%, down from 5.2%

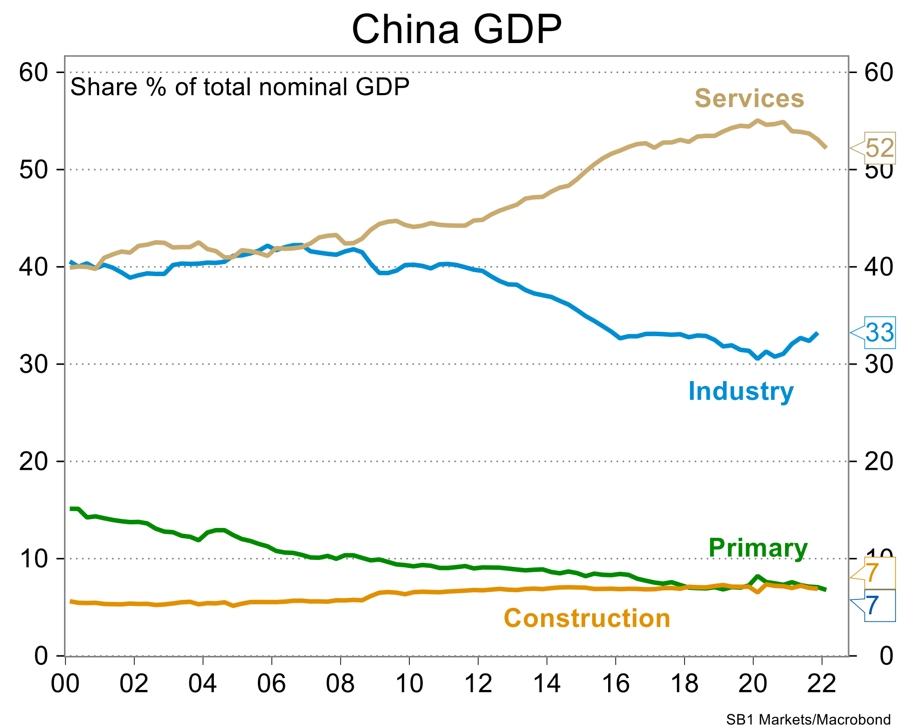
Nominal GDP up by 8.9% y/y – both higher than normal. CPI inflation is still just above 1%



- Manufacturing producer prices (PPI) are up 8.7% y/y (quarterly avg)

Industry (and exports) have taken the lead during the pandemic

The steady rise of services as share of GDP is not re-established – but it soon will



- Construction slowed substantially through last year
- Not all sectors have yet reported Q1 data yet

Value added per sector (= sales – cost of purchases from other sectors)

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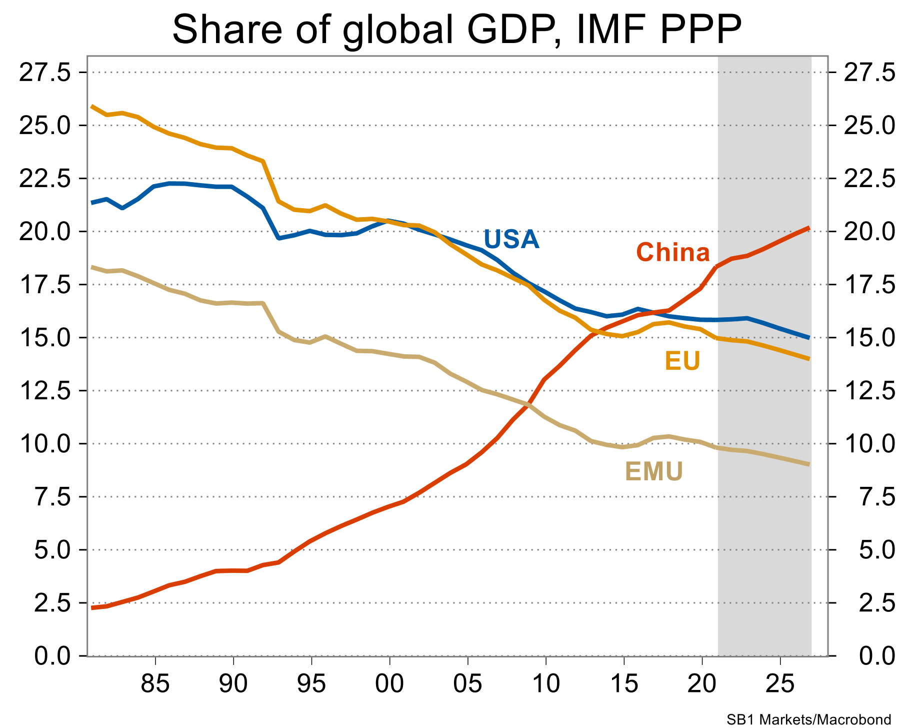
We may blame China for many things. But it <u>has not been</u> a drag on the world ec.

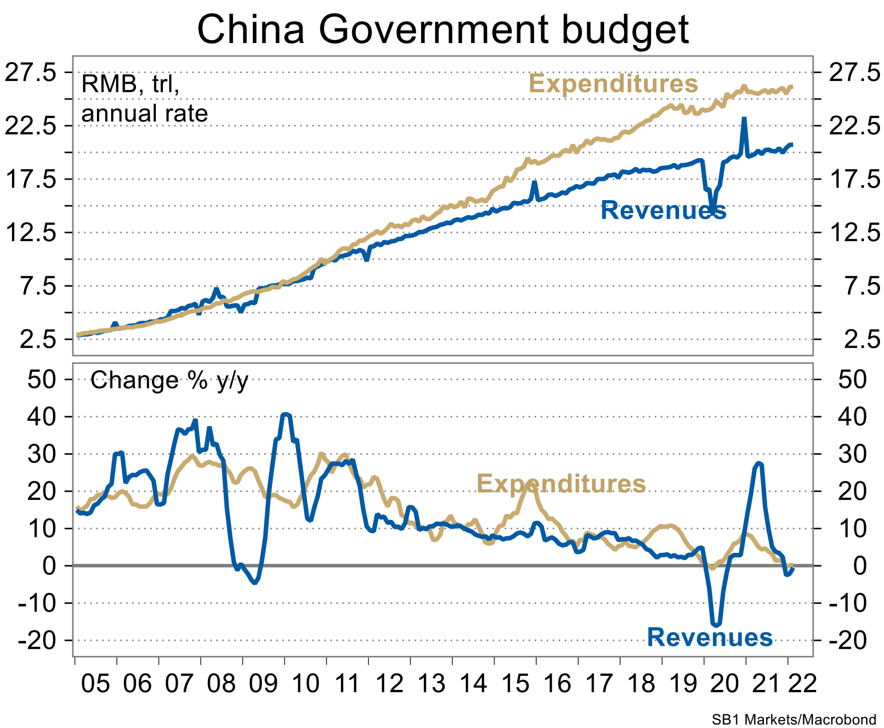
The risk going forward: A substantial decline in construction activity

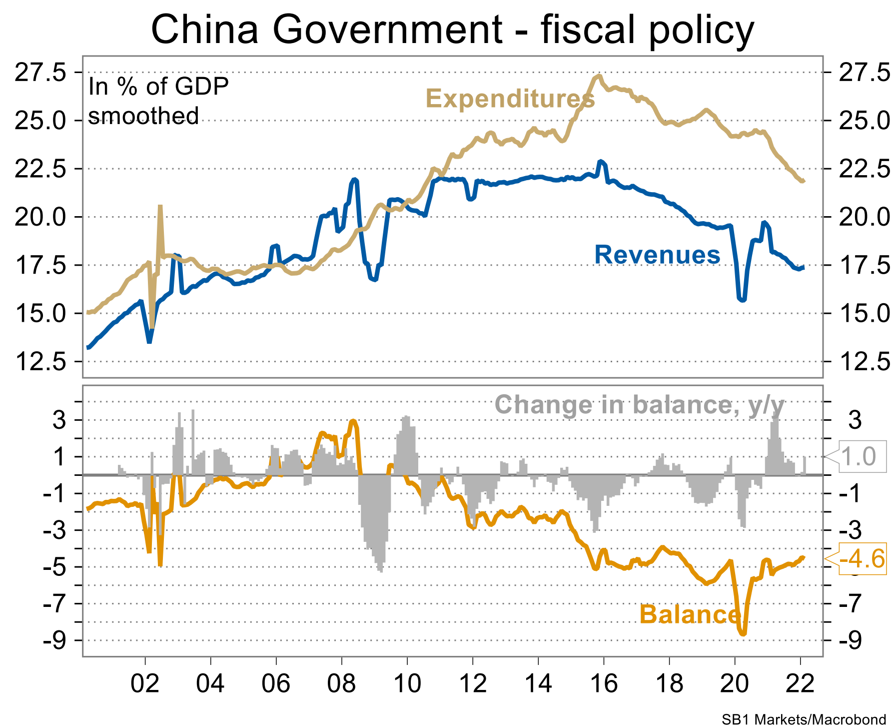


- There has not been any downturn in the world economy for which we can really blame the Chinese
- Just China has so far reported Q1 data
- Measured in purchasing parity adjusted prices, the Chinese GDP has been larger than the US GDP since 2017 – and is of course still growing much faster

Fiscal policy has been tightened, from the spending side

Revenues have been declining vs. GDP but less than spending. Still, the deficit is substantial

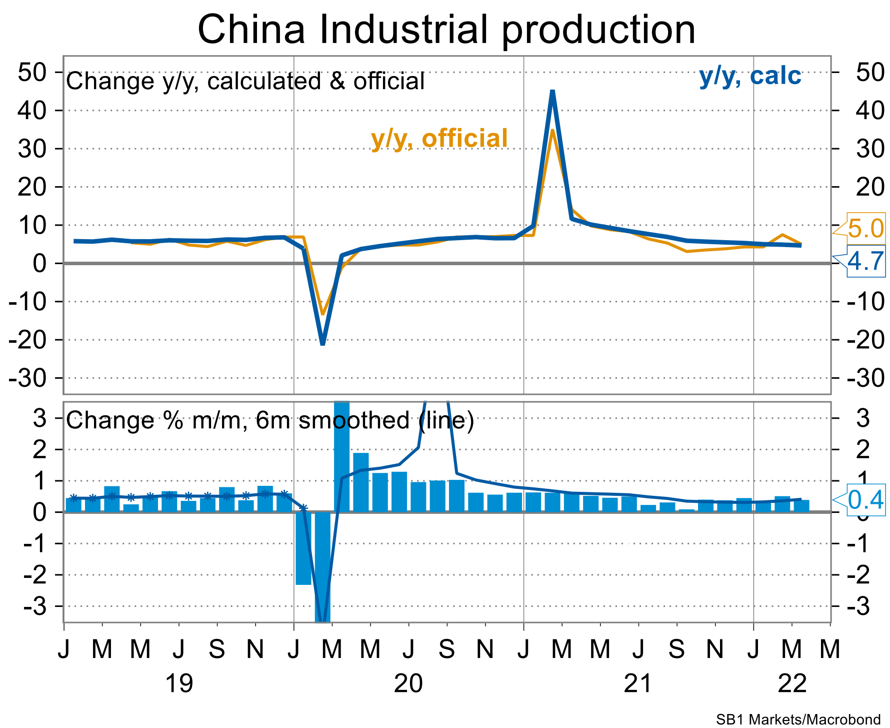


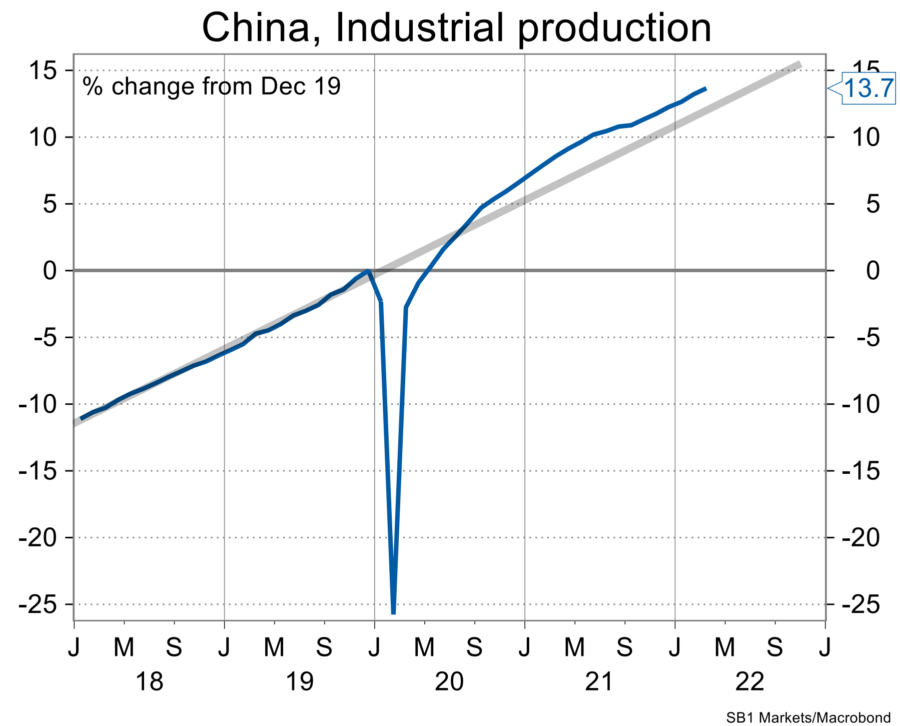


- More fiscal boost is possible if really needed. But if not, the deficit – at 4.6% of GDP – signals that spending capacity is limited

Industrial production growth stable, at some 0.4% per month, also in March

Official y/y growth rate up 5%, as expected. Level 2% above pre-pandemic trend, even in 'lockdown'

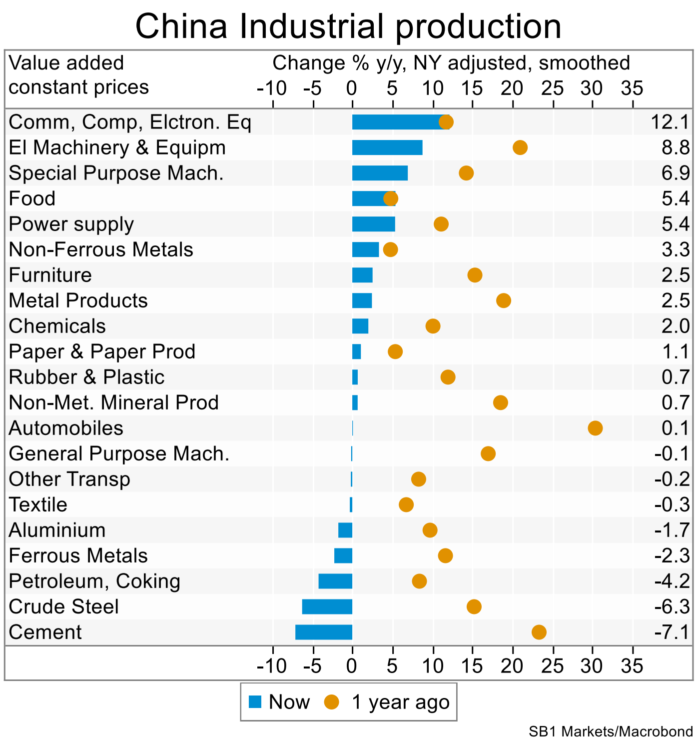


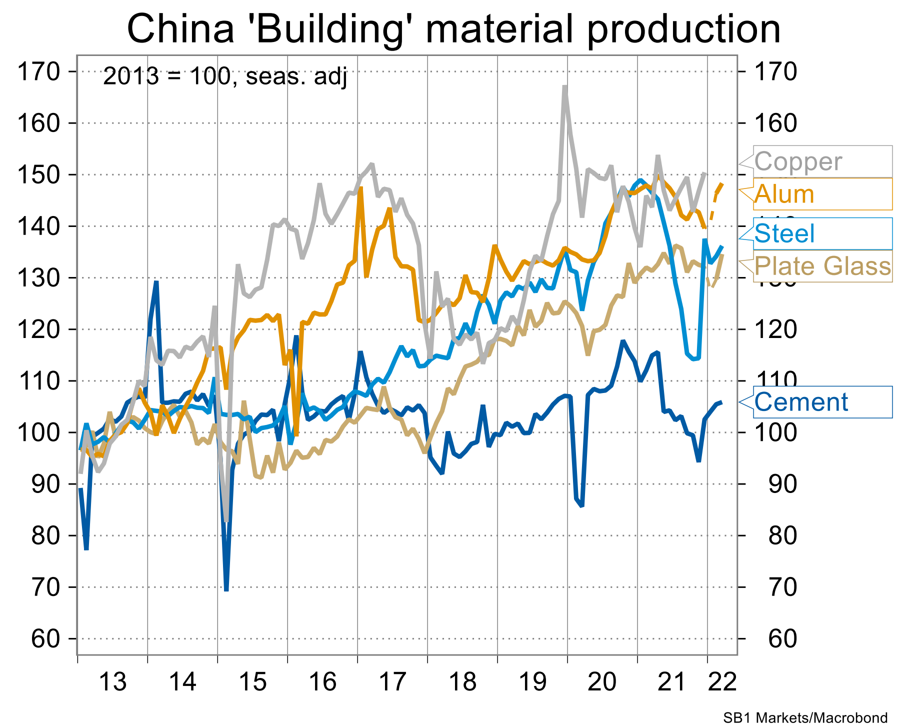


- **Production** growth has been stable at a 0.4% m/m increase since last October. This less than a 'normal' Chinese growth rate in the good ol' days. Still, the production level is above the pre-pandemic trend path, as growth had slowed before the pandemic hit

Mixed between sectors, data/electronics in the lead

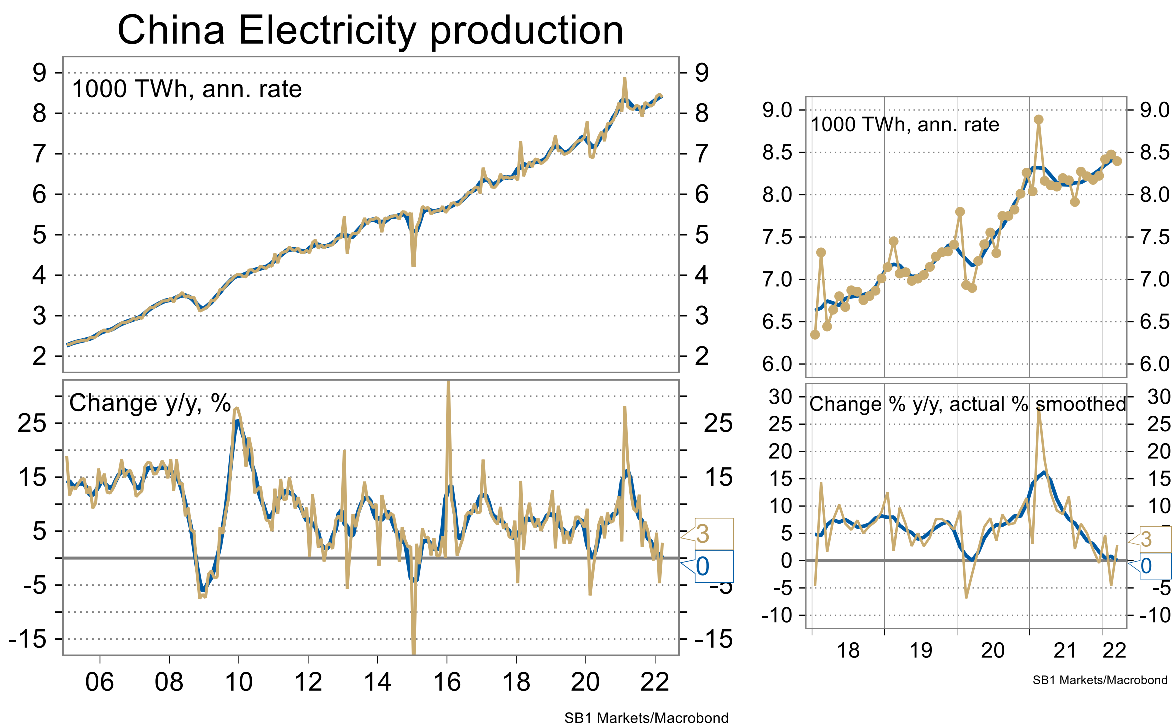
Steel & cement at the bottom, at least measured y/y





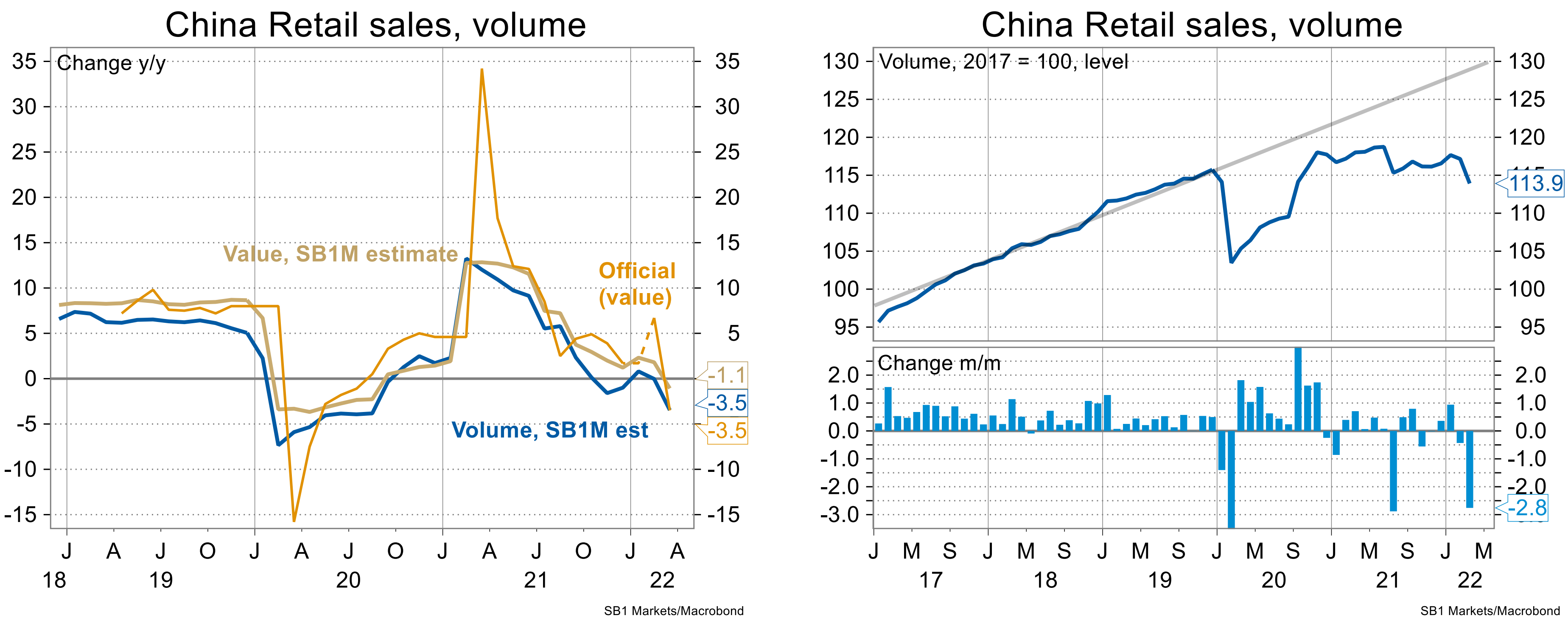
X-checks: Electricity production is heading upwards again

Transport activity has picked up some steam too (but seaport freight data just through Feb)



Confusing retail sales data all over the place – but March anyway at the weak side

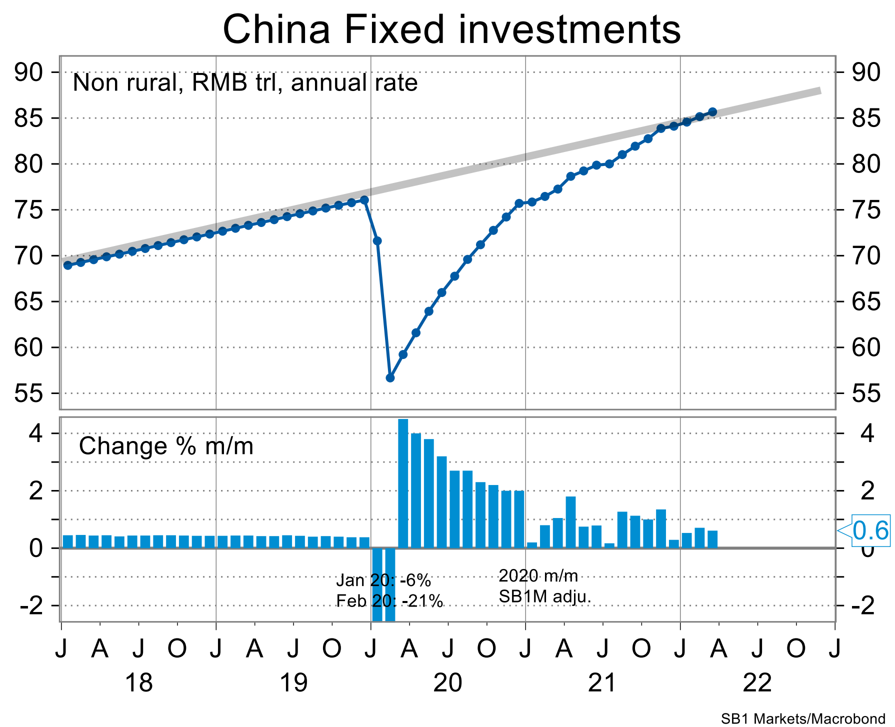
Revisions up last month, and down now. The last revision seem to be closer to the ball



- **Official nominal retail sales** were down 3.5% y/y in March, slightly weaker than expected
- Sales fell 1.9% m/m in **nominal terms**, we assume -2.8% in **real terms**. The partial lockdowns in a large number of cities is no doubt to blame
- **A revision** of sales data for last July and some of the following months lowered the 2021 trajectory substantially but brought the different sales measures closer to each other – and if the current data are correct (we are far from sure), sales are more than 10% below the pre-pandemic growth path

Investments are growing steadily

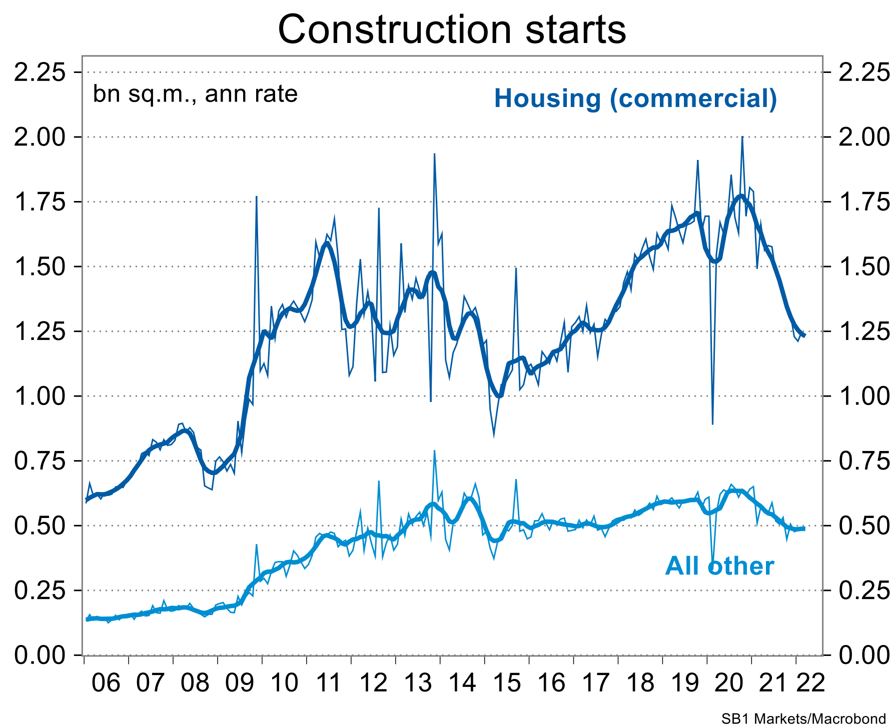
... at least in value terms. Prices are sharply up, and in real terms growth is muted indeed

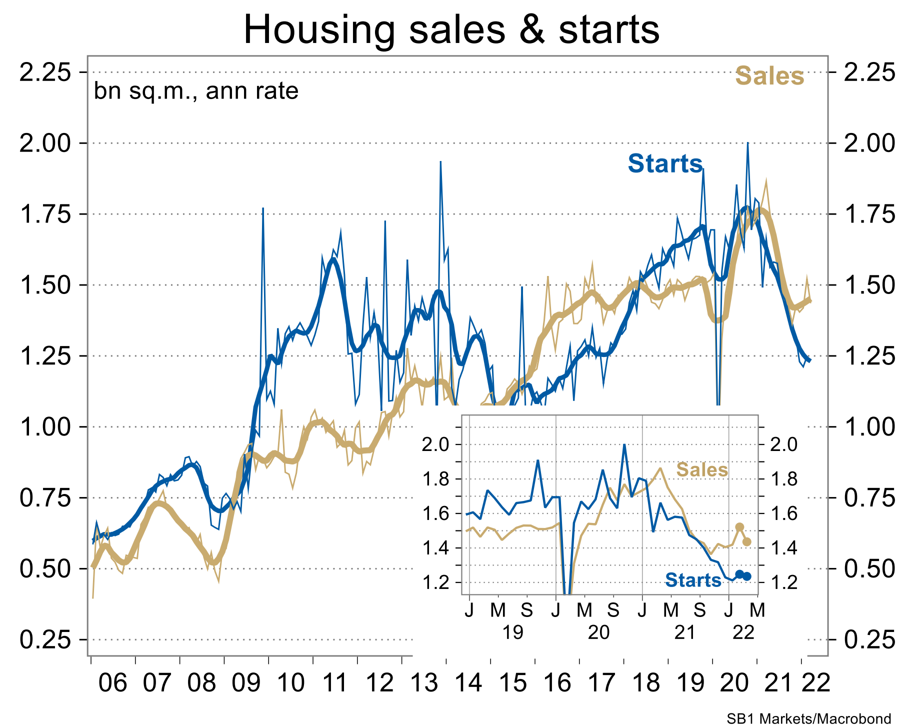


- **Measured YTD**, nominal urban investments rose 9.3, above the expected 8.5%
- **Monthly growth** through last year was sharply revised upwards last year, from 0.2% to some 0.6 – 0.7% per month - even if construction starts fell sharply last year – a bit strange
  - » However, in volume terms, growth has still been modest, as prices are some 6% y/y
- The **investment level** is now back to the pre-pandemic growth trajectory, at least in value terms
  - » In real terms, growth was slow in the 3 years before the pandemic

New homes sales down in March but bottomed last autumn

Housing starts have stabilised, but fell slightly in March. Starts are down 30 from the ATH in Q4-30

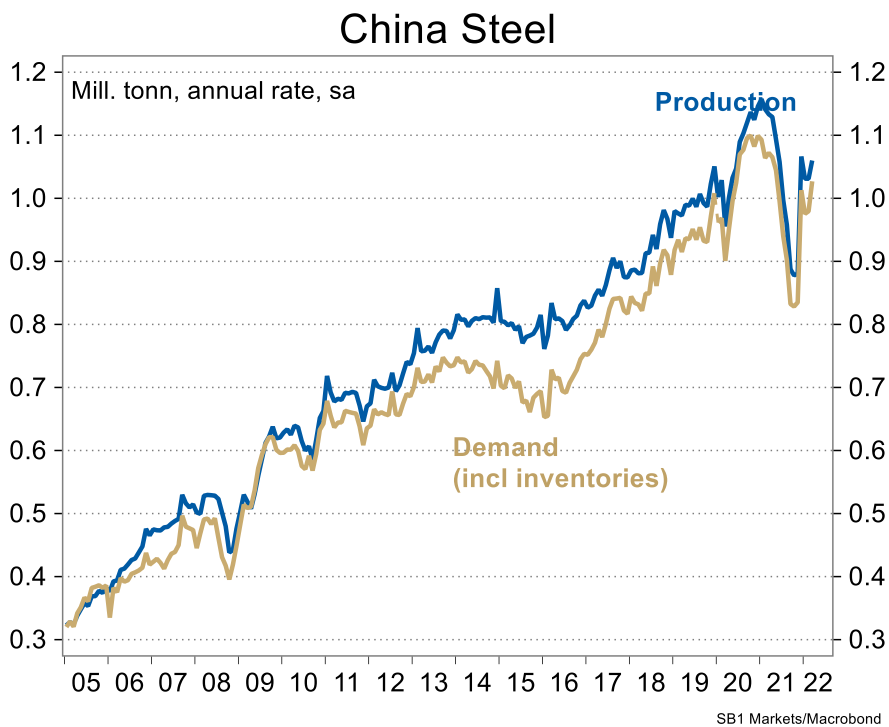




- **Big picture: New home starts** have fallen by almost 30% from early 2021, after the spectacular recovery from Q2-2020, following the 'sudden death' in Q1-20, due to the virus. New home sales fell less, some 20%, and are now slowly on the way up again even if they fell somewhat in March. Sales have been running faster than recent months starts, indicating a reduction in the inventory
- **Non-residential construction starts** have flattened recent months, following a 25% decline since mid 2020. Both housing & non-residential starts are at the lowest level since 2017
- The decline in **construction starts** has been <u>among the largest ever, but we are witnessing signs of stabilisation</u>

Steel production/demand 'kept up' in Q1 following the Dec hike

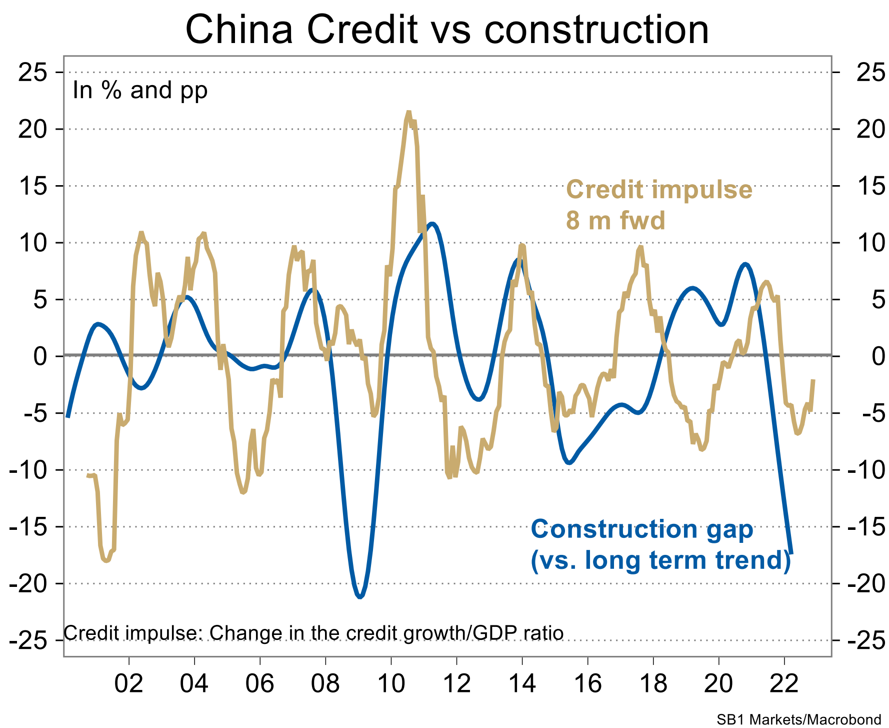
Both are still down almost 10% from the peak early last year – but construction starts are still down 30%



- The gap between steel demand and new construction starts is rather unusual

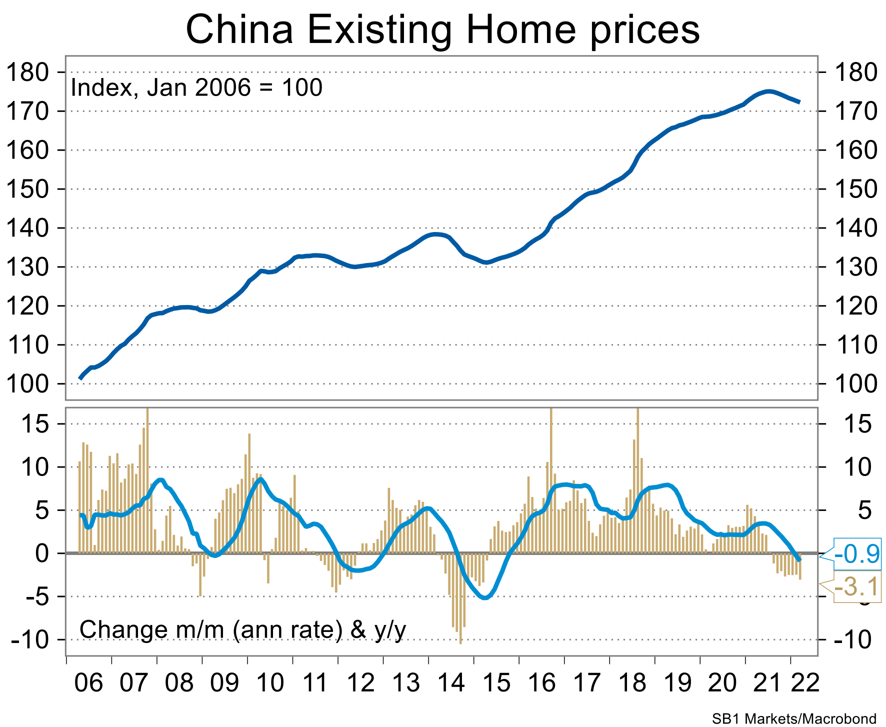
Credit growth slowed – and construction activity

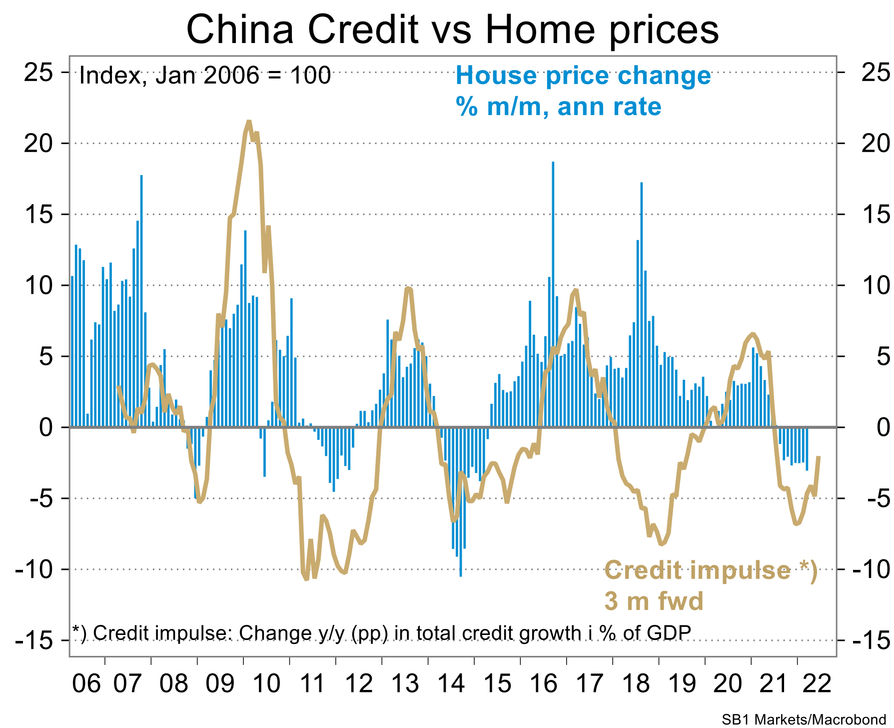
… but recent months are somewhat encouraging, credit & construction is stabilising



House prices fell at a faster rate in March, still no panic?

Prices fell for the 7th month in row, and are down 0.9 y/y

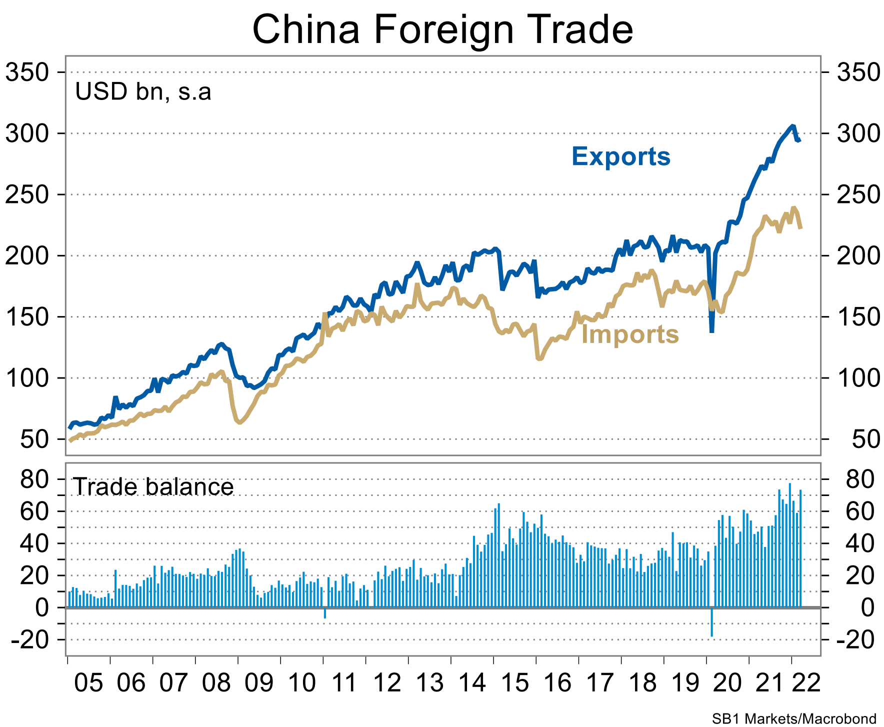




- **Existing home prices** peaked last July, and have fallen at a 2 – 3% pace since then – and by 3.1% (annualised) in March. Prices have turned negative measured y/y
- **New home prices** also fell last autumn but not as fast as existing home prices, and they rose in January but turned slightly down in February & March. Price are still up 0.6% y/y. These price data are official reported in official statistics. Some builders report deep price cuts to reduce the inventory and secure financing, and analysts have questioned the reliability of the official data
- **Credit growth** accelerated marginally during last year, however mostly due to increased borrowing from local governments
- **The Evergrande crisis** has probably not shaken home buyers. XXXX New home sales have increased since last autumn, without deep cuts in preces. As long as household demand for housing stays up (for whatever motive, living there, for let or as an investment (without seeking rental income), investments in new homes will be kept up

Exports stabilised in March, imports further down

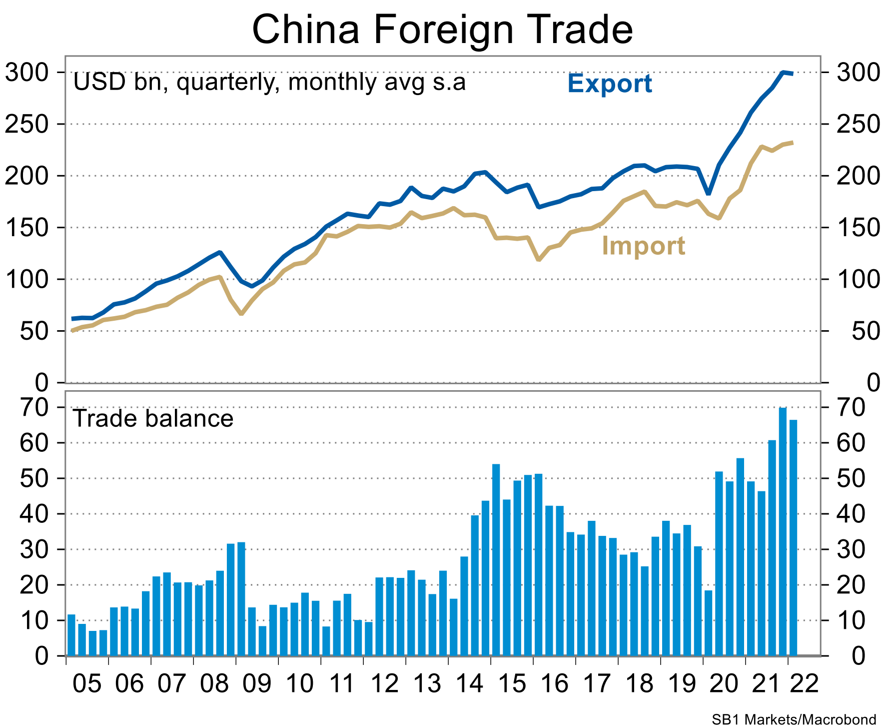
The trade surplus remains at a very high level



- **Exports** grew by 0.5% in USD terms in March (our seas adj), and are up 15% y/y, 2 pp better than expected. Export volumes probably fell slightly, following a substantial decline in Jan & Feb. Still export volumes are still very strong, check next page too. Prices are up 13% y/y
- **Import** values fell by 5.5% m/m in March, and are flat y/y, down from 10% y/y, almost 9 pp below expectations (that were very optimistic). Import volumes very likely declined substantially, and volumes are down 12% from the peak in Q2 last year, and are slightly below the pre-pandemic trend (check next page). Oil imports have flattened, coal and iro ore imports are down. In value terms, electric & electronics goods imports are still increasing rapidly
- The **trade surplus** was at USD 47 bn was 27 bn higher than expected (and above USD 70 bn seas. adj.), one of the largest ever
- The **fight against the Omicron** variant may have influenced trade activity in both February and March (the big decline in exports came in Feb)
- The decline in imports confirms a softening of domestic demand, both retail sales and investments. So far, the slowdown is modest, in imports too, and within the 'normal ups and downs in activity. Exports may soften as demand for goods in the rich part of the world slows

Q1: Both export & import volumes down, imports for the 3rd quarter in row

Export volumes are still very strong, some 10% above the 3.5% pre-pandemic growth path



- Import volumes peaked in Q2-21 but just marginally below the pre-pandemic growth path in Q1 (even if import volumes were lower in March)

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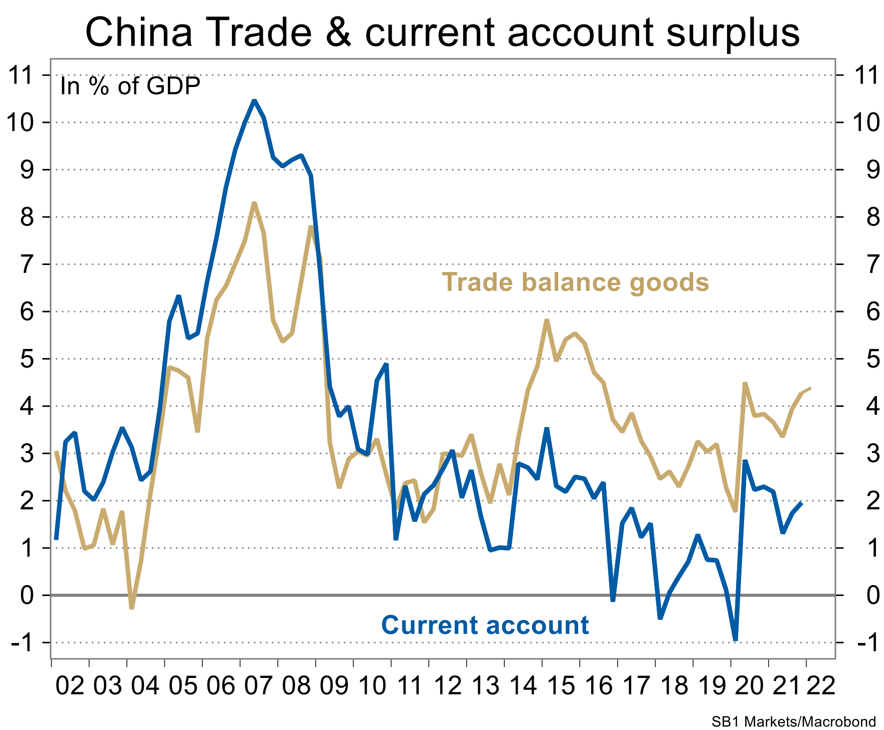
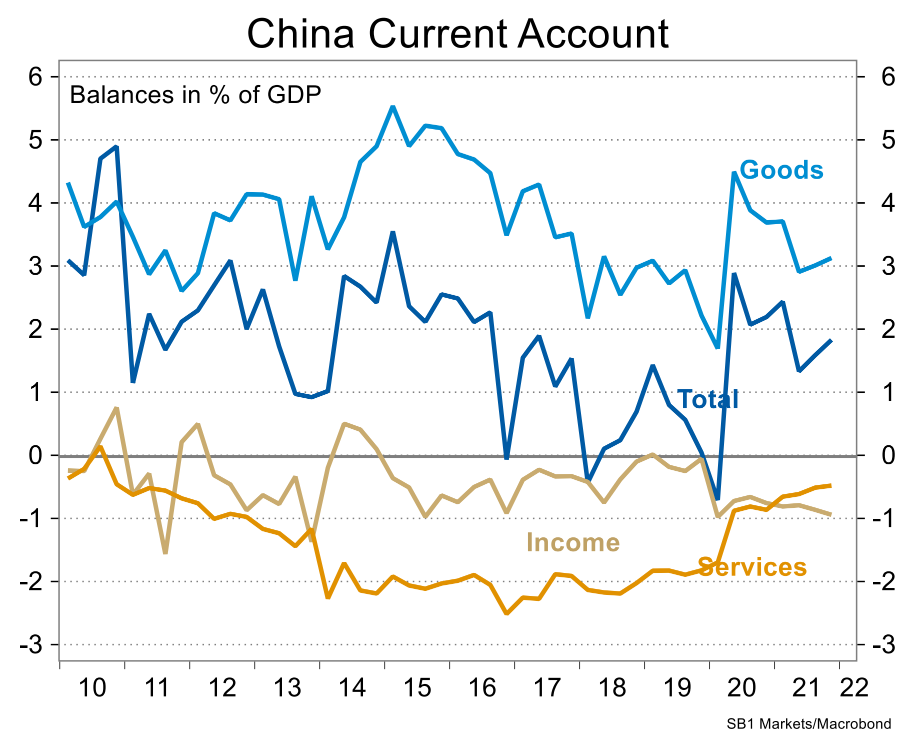
The trade surplus above 4% of GDP, the current account at some 2%

… up from 0 – 1% before the pandemic

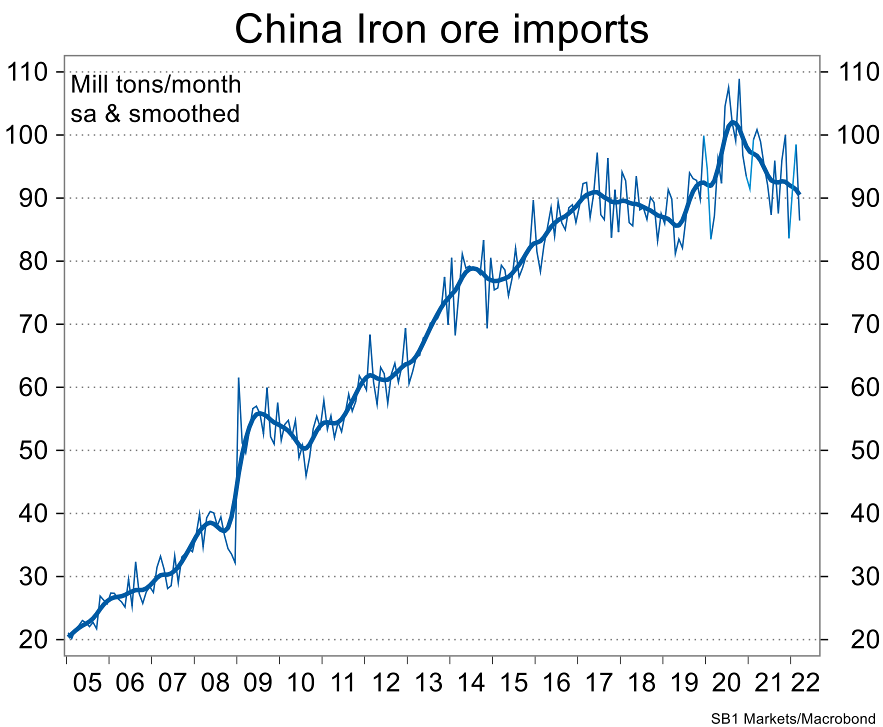


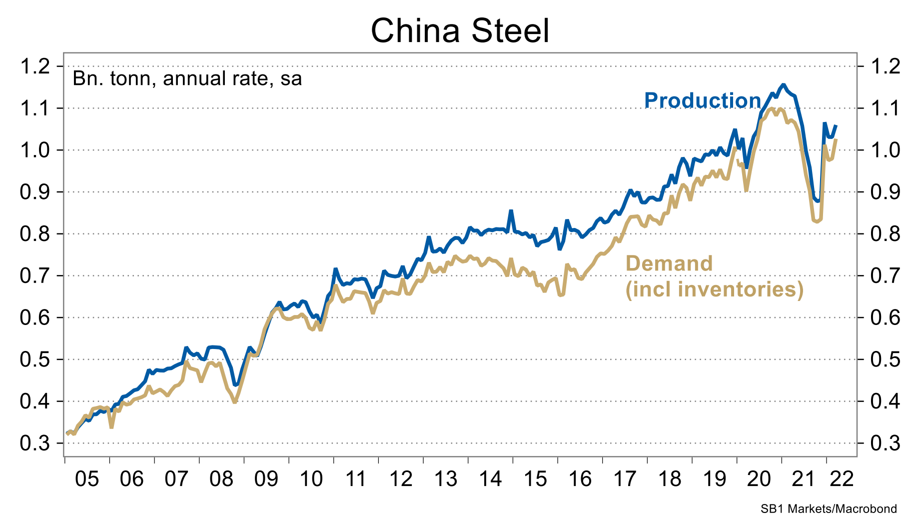


- The trade surplus in goods was appox 4.5% in Q1 XXX etter DATA XXXX
- In services, China runs a deficit, but not that large anymore, in Q4 less than -0.5% of GDP, from -2% before the pandemic
- China runs a deficit in net (mostly capital) income from abroad, even if the country has a huge net + financial position
  - » China has invested much in low yielding US government bonds (and other low yielding investments); foreigners have been investing in profitable production capacity in China

Iron ore imports are still trending down, down 10% since late 2020

Steel production has stabilised, although almost 10% below the peak in early 2021

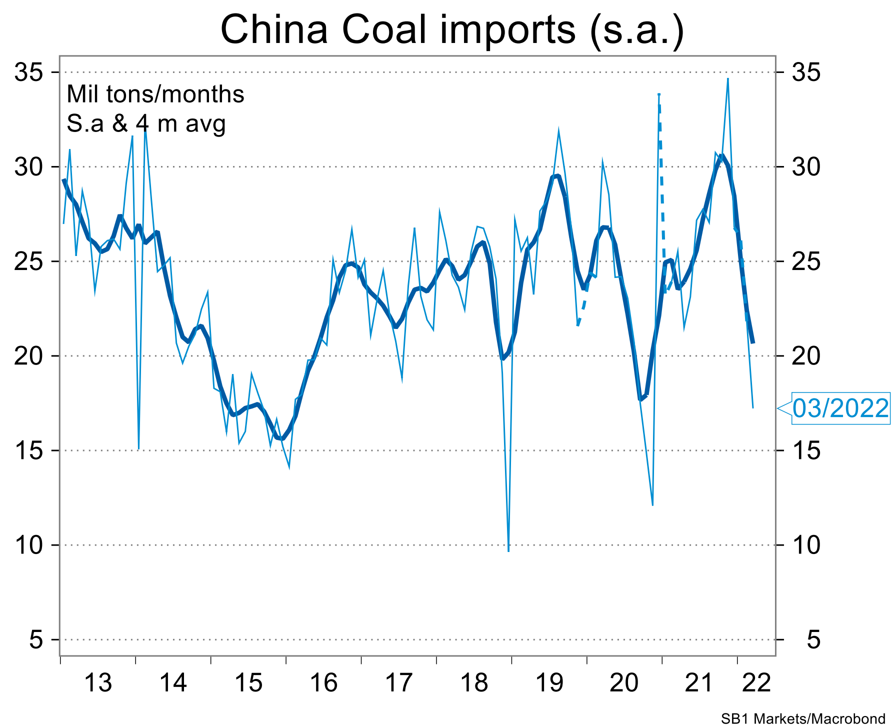


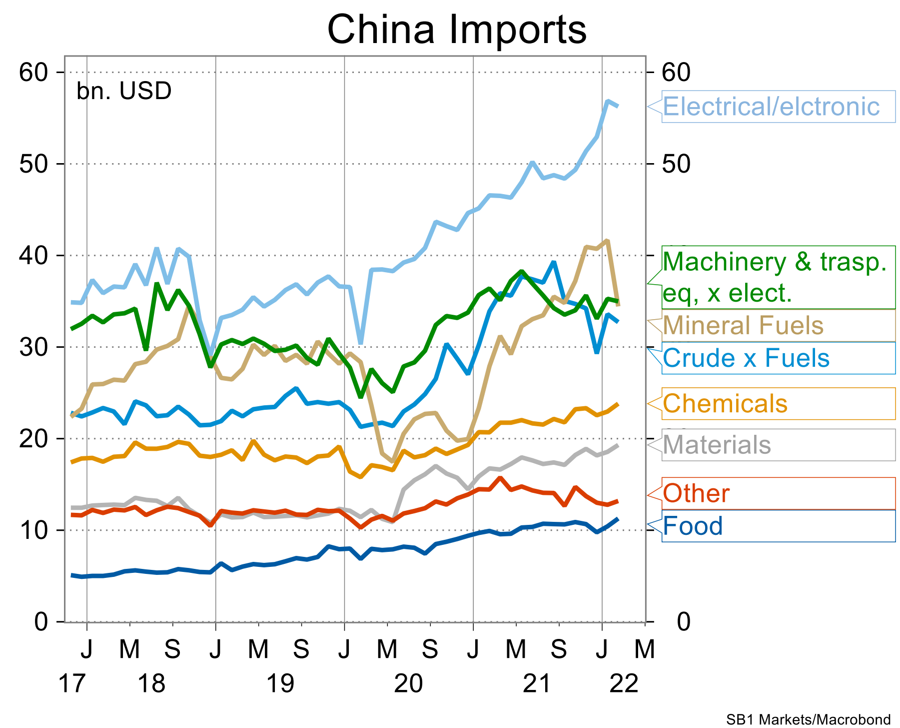


- **Production and domestic demand** (incl. inventories) fell sharply in Q2-Q3 last year – by 25% – due to public regulations and probably the setback in the construction sector
- Activity recovered sharply in December – and was stable through Q1

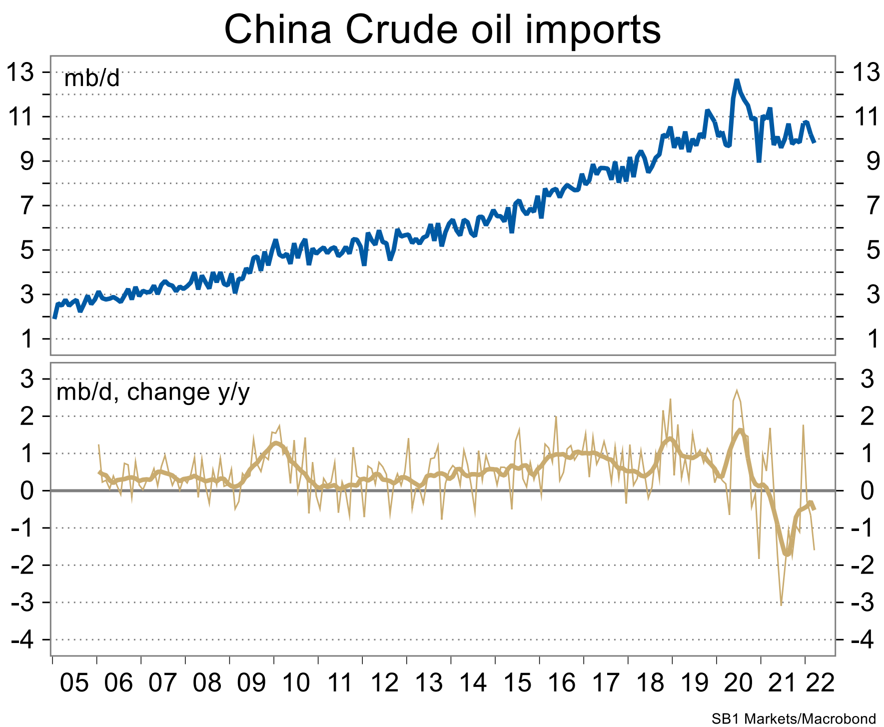
Coal imports suddenly sharply down in Q1 – from a record high level in Q4

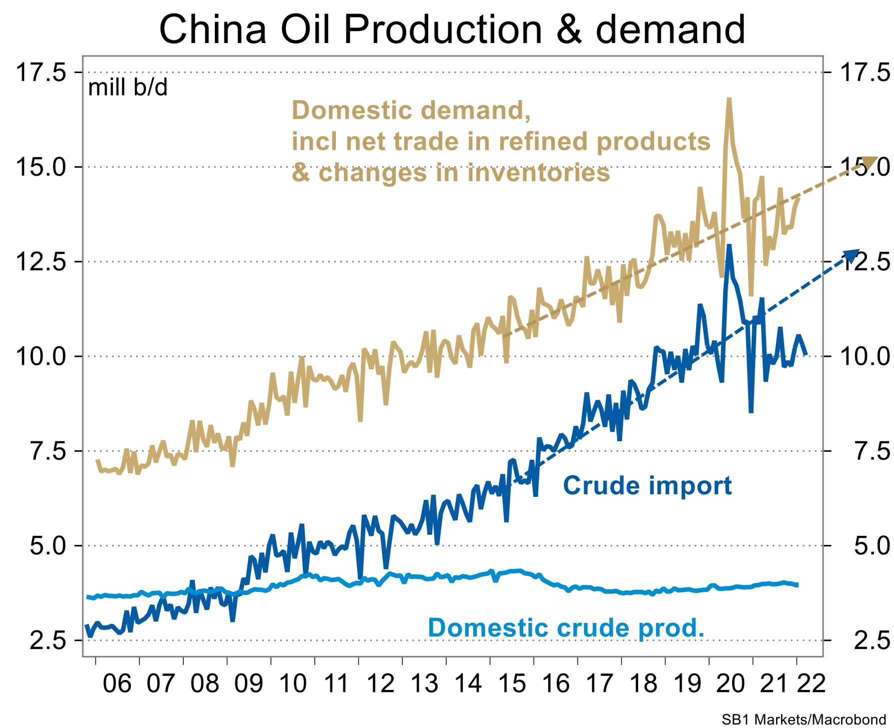
Imports of electrical/electronic equipment strong, at least until February





Oil imports have flattened, at best

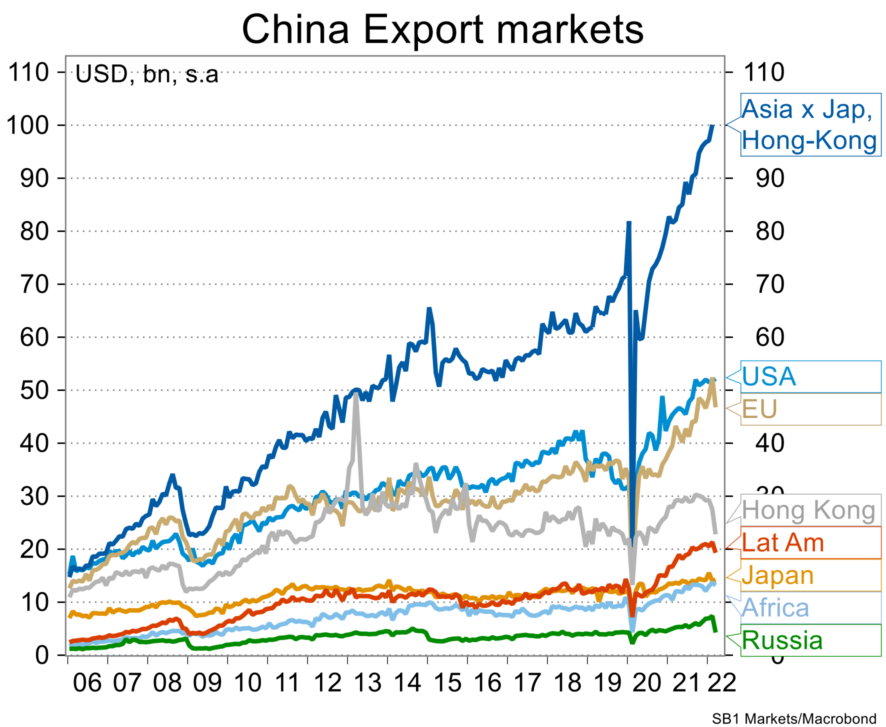




- 4 years without growth in oil import or domestic demand is rather surprising?
- Some inventory/reserve building/drawdowns may explain short term deviations but not the stabilisation since 2018

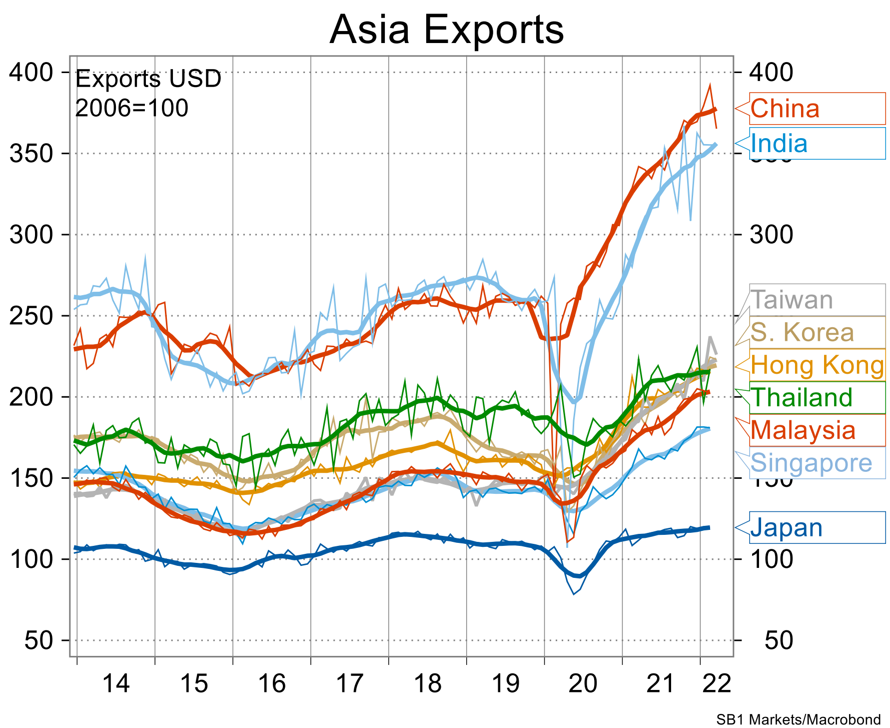
Chinese exports to all corners of the world sharply up but not in March

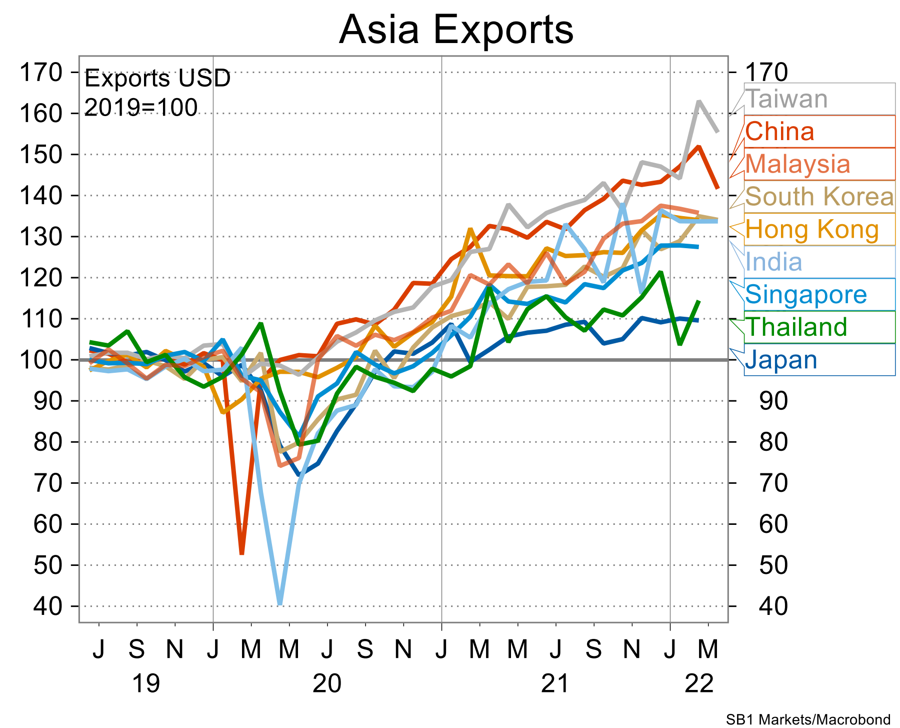
Less exports to Hong Kong and Russia in March. Russia is anyway an unimportant trading partner



- Some slowing in exports to Hong Kong, Japan – and to rest of Asia recent months

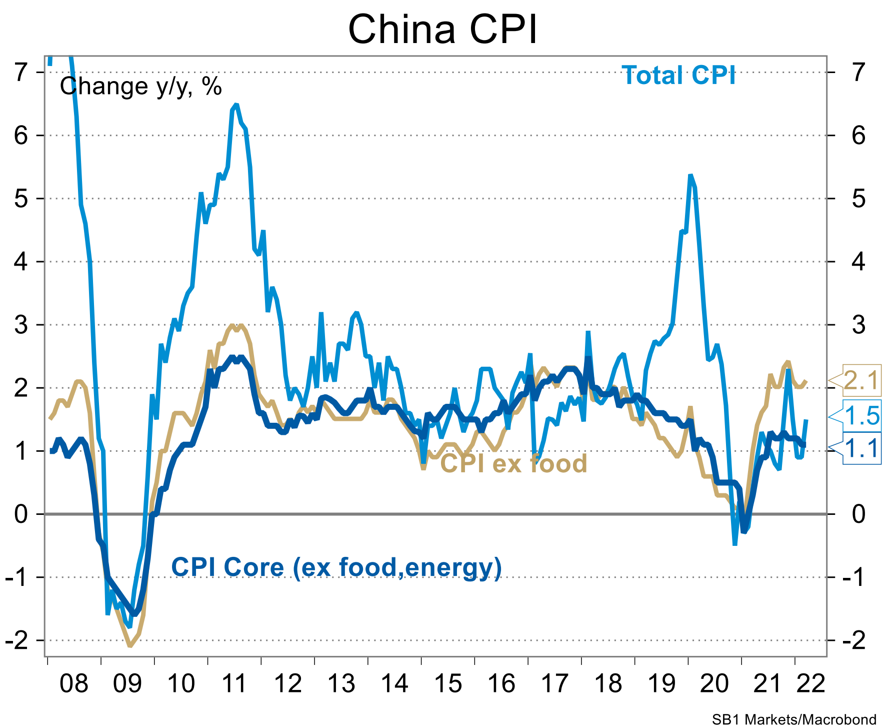
Exports from other Asian counties are slowing – at high levels

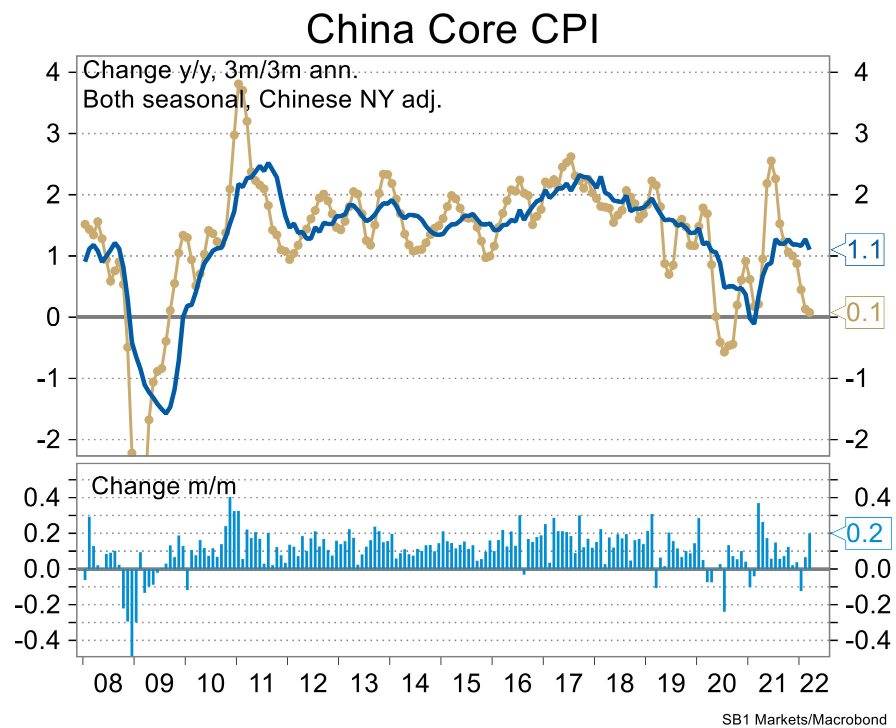




Headline inflation up in March, still at just 1.5%. The core down 0.2 pp to 1.1%

It is not China that has an inflation these days

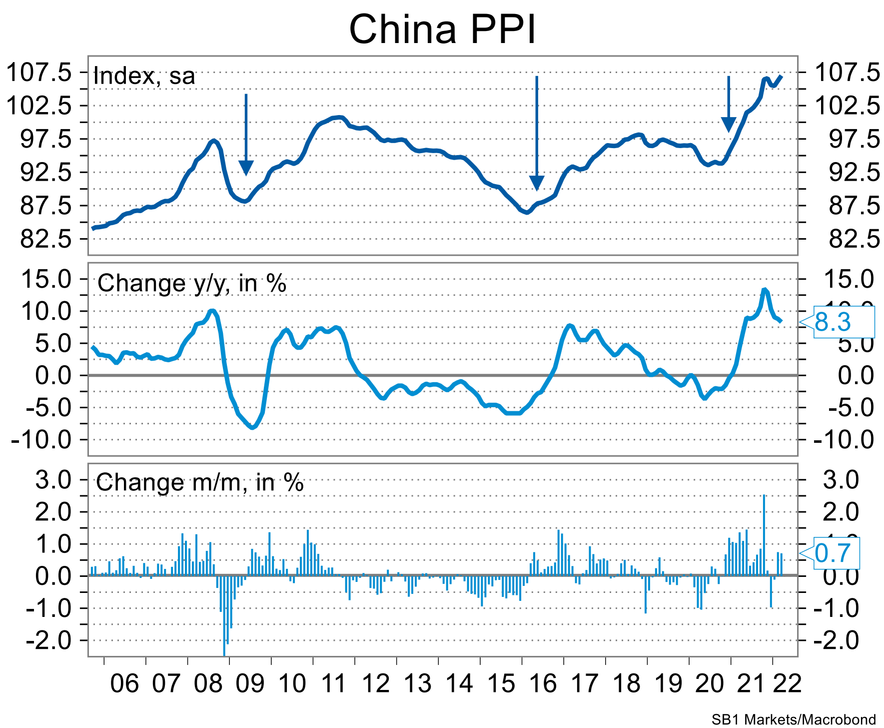


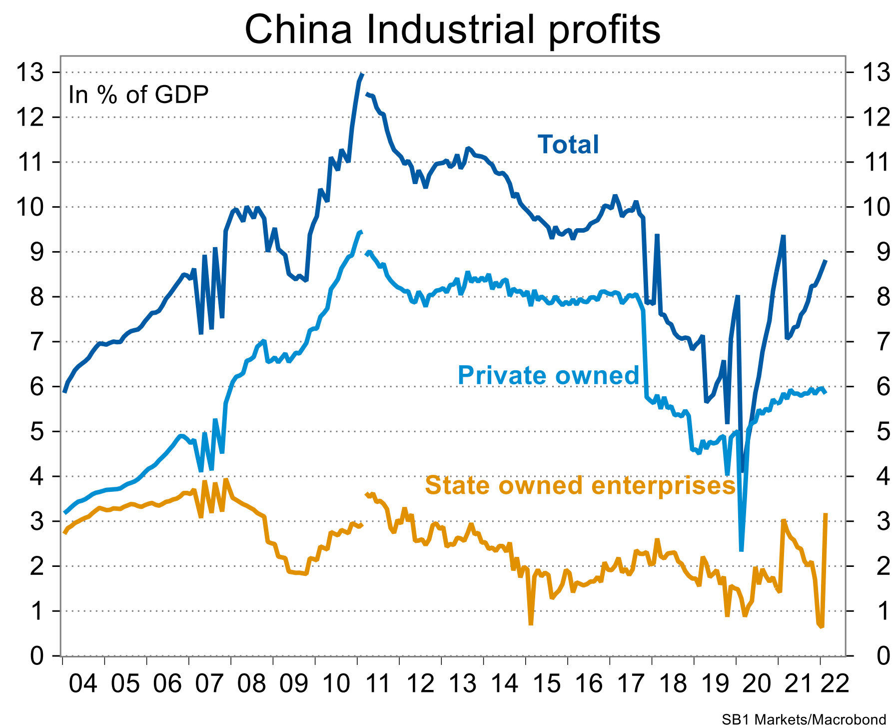


- **Total annual CPI** accelerated to 1.5% in March from 0.9% in April as prices rose 0.5% m/m, following the 0.4% lift in March
- **The core CPI (x energy, food)** decelerated 0.2 pp to at 1.1% y/y. Prices rose 0.2 pp m/m. The 3m/3m rate is close to zero
- **Food prices** are down 1.5 y/y, as pork prices have returned to Mother Earth, down 41% y/y
- Inflation is low. **Monetary policy** will not respond to actual inflation data if inflation is not really high or low, the real economy and the credit market is more important

Producer prices up again but the annual rate well down from the peak

Prices fell 0.1% m/m in Jan, following the 1% drop in Dec. The y/y rate is 9.1%, it peaked at 13.5%

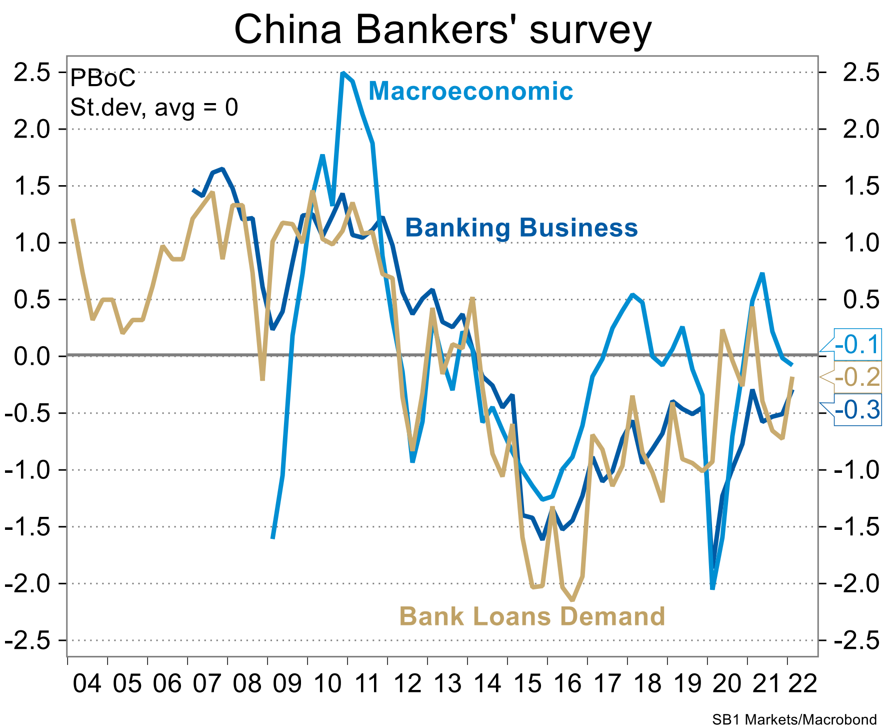


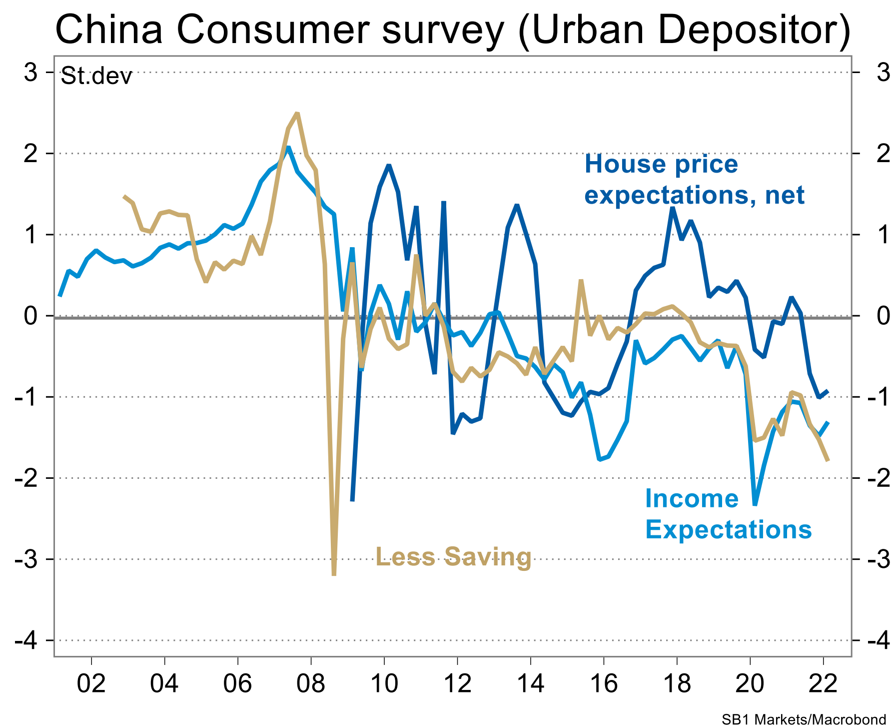


- **The PPI** has turned up the two past months, by 0.7% per month. Still, the annual rate has declined further, now down to 8.3, more than 4 pp below the peak
  - Consumer goods are up 0.8%, durable consumer goods are up 0.6% y/y. The correlation between PPI and CPI in China is not impressive
- **Profits in privately owned industrial enterprises** fell by 50% in February '20. Profits rose to a normal level in April/May '20 – if we label the profit level in 2019 and early 2020 as normal – at 5% of GDP – and now it has climbed to 5.9%
- **Profits in state owned enterprises** are more volatile than we appreciate, now at the strong side. **Profits in the private sector** is slowly increasing, as a per cent of GDP

Bankers are not depressed, and demand for loans is still OK

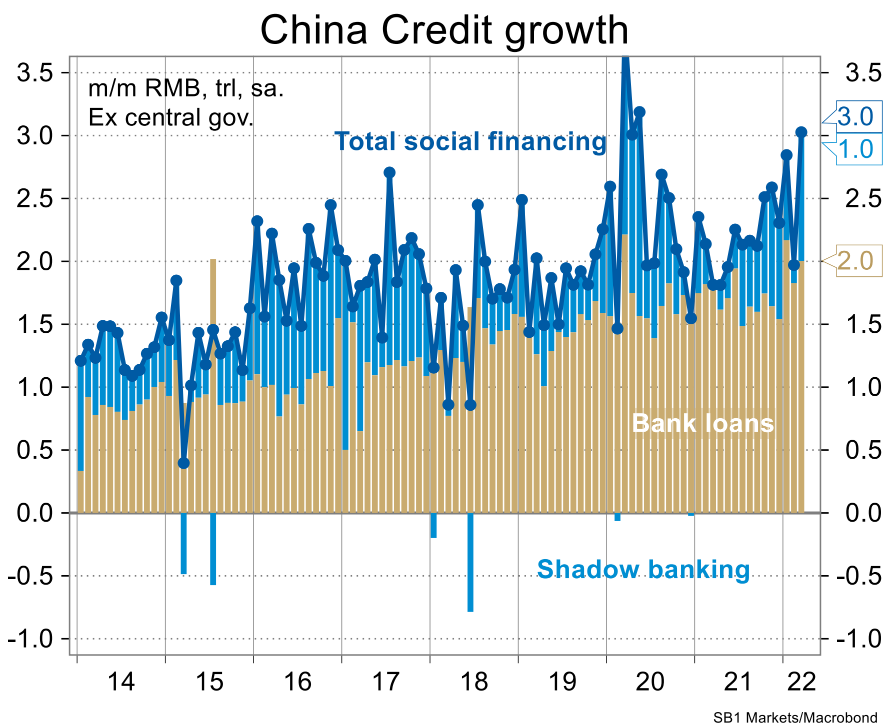
Households are more cautious, have les confidence in future income

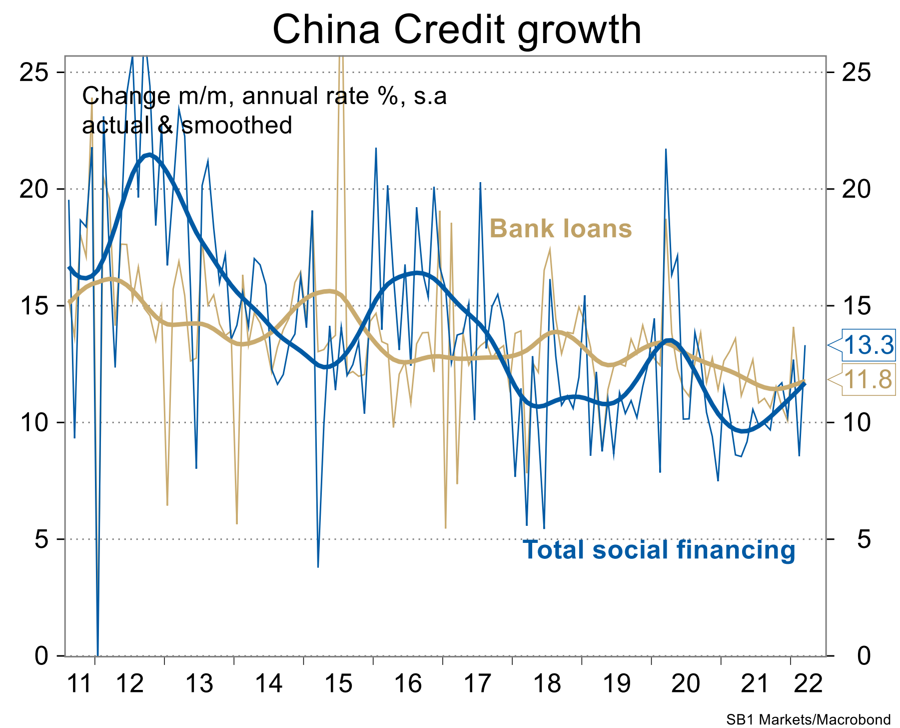




Credit growth accelerated in March, to the highest speed in 2 years

Bank lending remains stable but local governments are borrowing more at the bond market

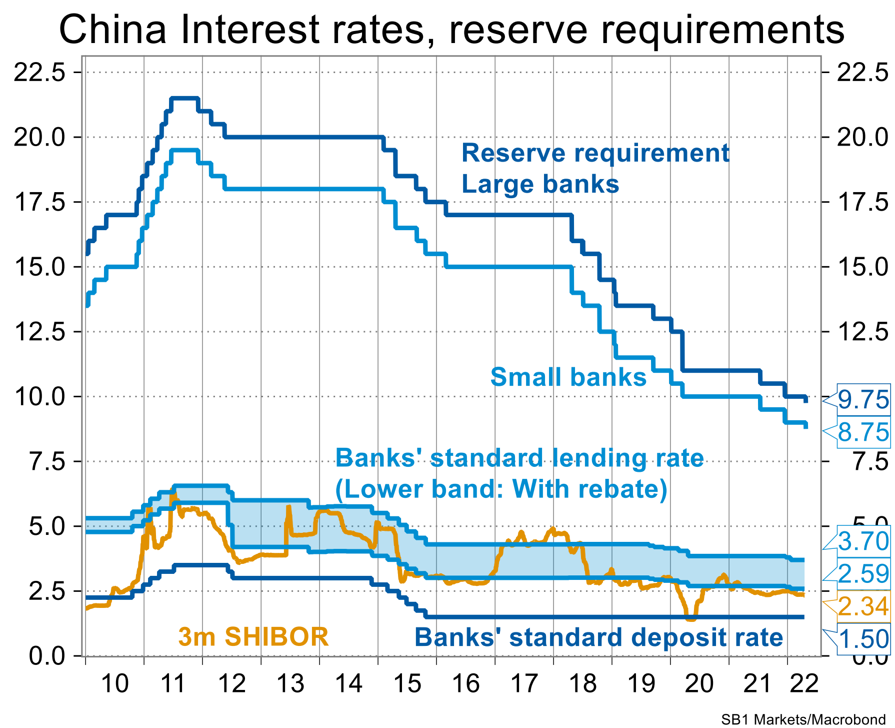




- **Total credit** grew at a 13.3% pace in March (m/m, seas. adj. annualised), up from 10.0% in Feb. The underlying growth at 12% is well above the trend growth in nominal GDP (say some 7 – 8%). The annual rate accelerated 0.4 pp to 10.5%. Growth is still down y/y but underlying growth is accelerating
- **Total credit** rose by RMB 4.5 trl, expected 3.6 trl (not seas. adj). The 'core' total social credit (total ex central gov bonds & corporate equites) grew by 3.0 trl (seas adj), up from 2 trl in Feb – and the highest monthly growth rate since March 2020 – and the 3rd highest ever (in RNB terms)
  - » **Bank loans** rose by RMB 1.9 trl, s.a, or at a 11.8% annualised pace, somewhat above expectations. February was revised up significantly. The annual rate is still sliding down, now at 11.5%
  - » **Shadow banking credit** rose by RMB 1.2 trl, well above the average growth rate through last year, and the annual growth rate is below 10%. **Local governments have been** responsible for most of the increase in credit outside banks recent months. Less revenues from sale of land, and public financing of unfinished building projects may explain the steep increase in debt (25% y/y)

The PBoC cut banks' reserve requirements for the 3rd time

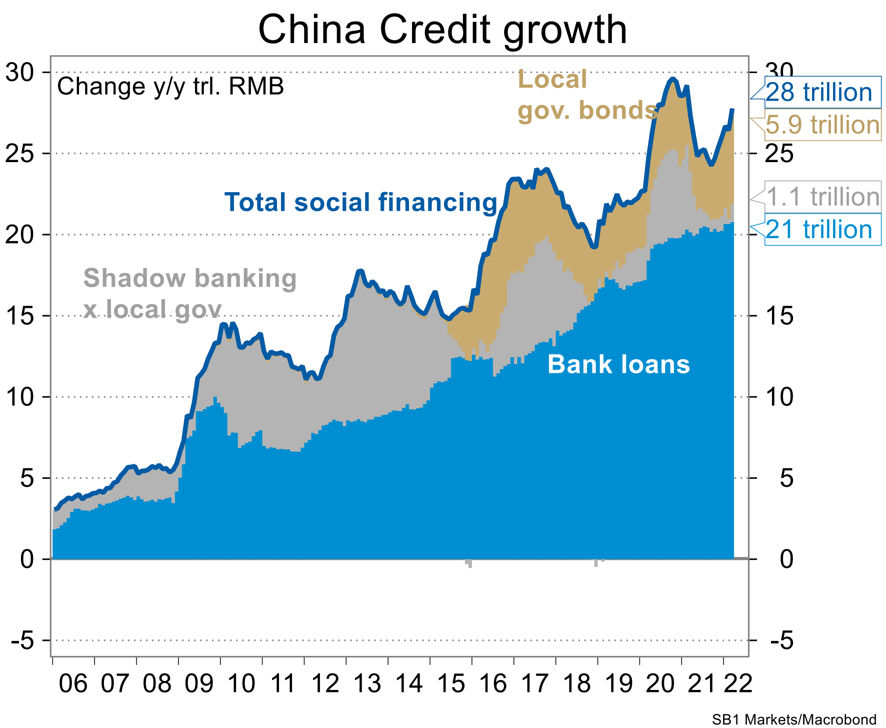
Just a 0.25 pp cut more a symbolic than for real – but lending capacity is marginally increased

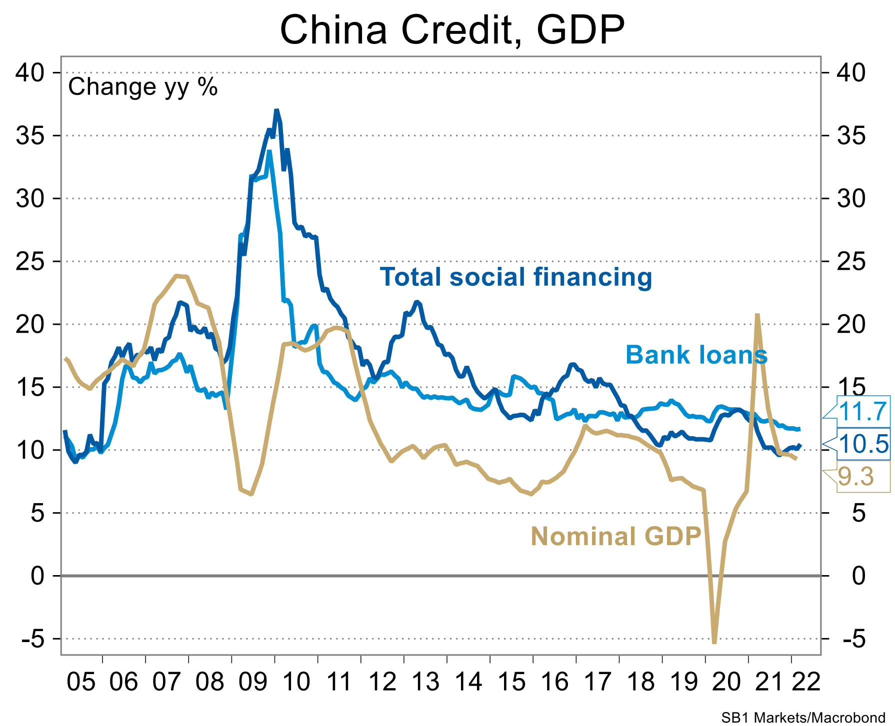


- **Banks' reserve requirements** were cut again last week, but just by 0.25 pp which increases lending capacity by RMB 0.5 trl, equalling 1 week's credit growth.
- **Signal rates** have been cut marginally
- … and **central authorities** have 'encouraged' lenders to support the economy, to reduce the risk for bad vibes in parts of the construction sector to spread to the overall credit market.
- So far, it seems like they have succeeded. At least by the help of local governments

Credit growth on the way up again, mostly due to more local gov. bond borrowing

But now other parts of the 'shadow' credit market is expanding too

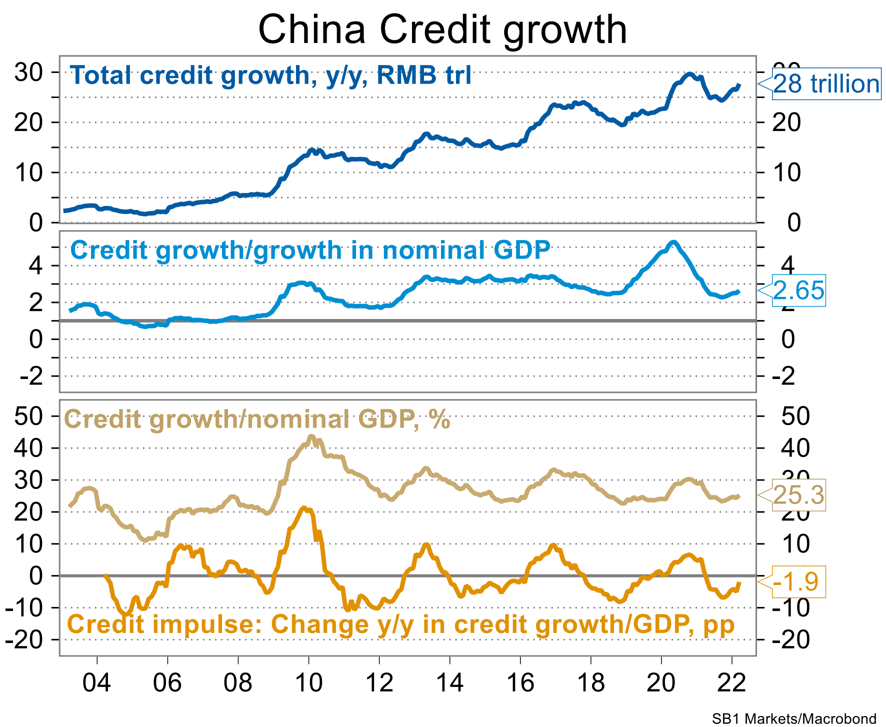


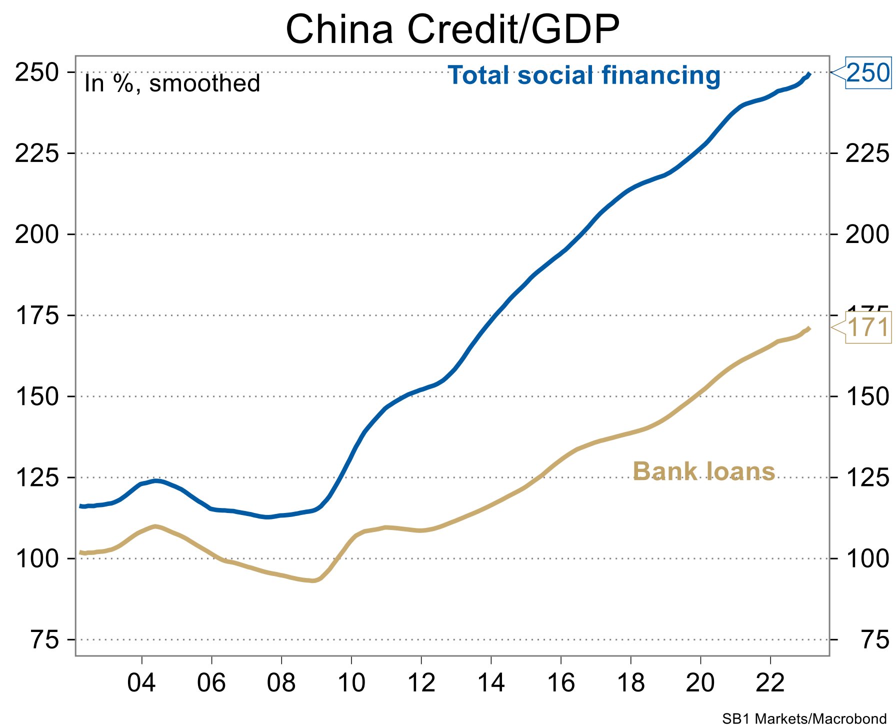


- Over the past year, **total credit** has expanded by RMB 28 trl, equalling more than 25% of annual GDP, up from the 24 trl at the bottom last Sept, (but still down from RMB 30 trl at the peak in 2020)
- **Banks** supplied RMB 21 trl of the y/y increase – and the rate has been almost flat since early last year
- **Local governments** have accelerated their credit growth, now up 6 trl – to 24% y/y from 13% y/y back in last September!
- Growth in other credit – via the **shadow credit market x local gov bonds** – slowed to RMB 1 trl from 5 trl in 2020 (a dramatic slowdown, like many times before…)
- **Total credit** growth accelerated 0.4 pp to 10.5% y/y, still above nominal GDP growth before the pandemic, and above our estimate of 5.5% potential GDP growth + a 2% rate of inflation

The credit impulse has bottomed (and in reality it is positive already)

Credit growth (in per cent) never slowed to below underlying nominal GDP growth



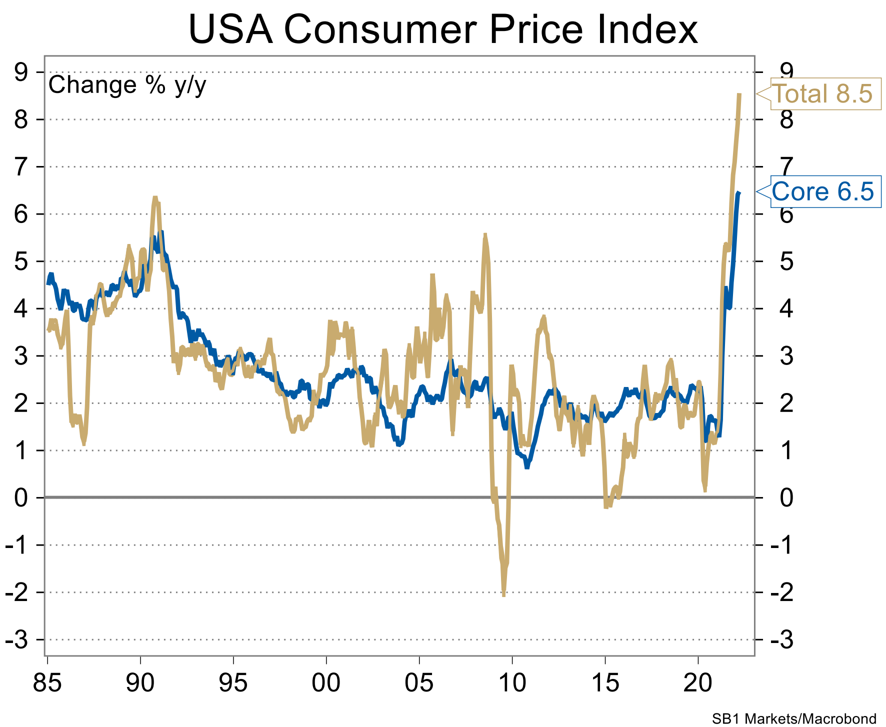


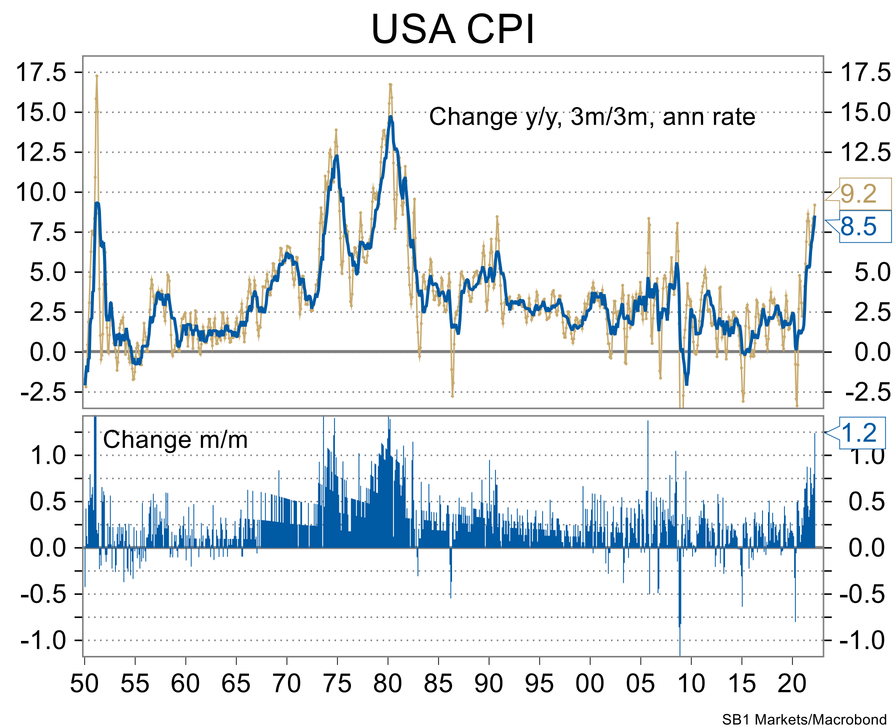
- A positive **credit impulse** implies that the credit growth/GDP ratio is increasing (the 2nd derivative of credit vs the GDP level)
  - » A negative credit impulse indicates credit tightening (or weaker demand) and has been associated with slowdowns in the Chinese economy, which have had impacts at other markets
- The **credit impulse** (here measured as the 12 m change in the 12 m credit growth/GDP ratio) bottomed in late 2018, turned positive one year later, peaked last autumn, fell into negative territory in May last year, bottomed at -6.5% in October, and is now at -4.7%. However, measured over a shorter time span, credit growth is accelerating
- The **authorities** seem to have succeeded in preventing the trouble in in parts of the building sector to spread to the overall credit market

GDP is smoothed in the calculations in the charts above

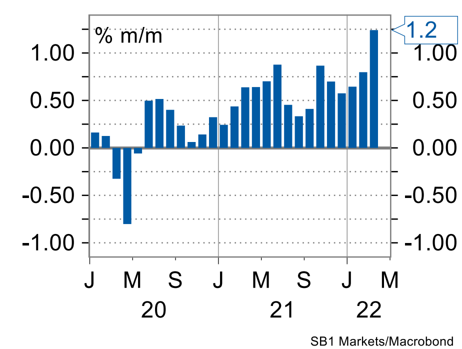
Headline inflation accelerates further due to higher energy prices, core slowed

Inflation is broadening further, as demand >> supply. At the same time, some 'transitory' retreat?



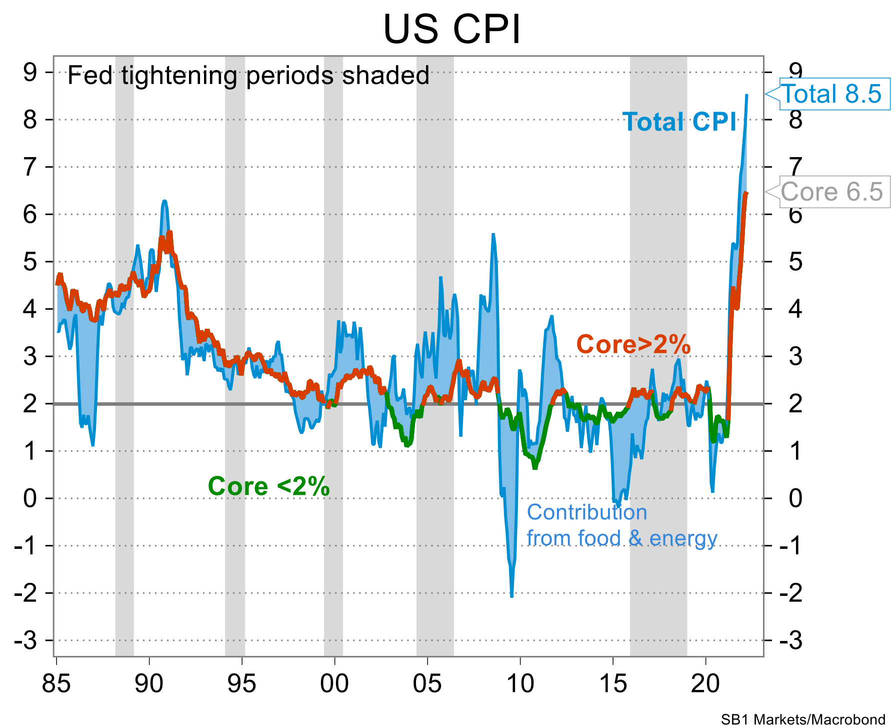


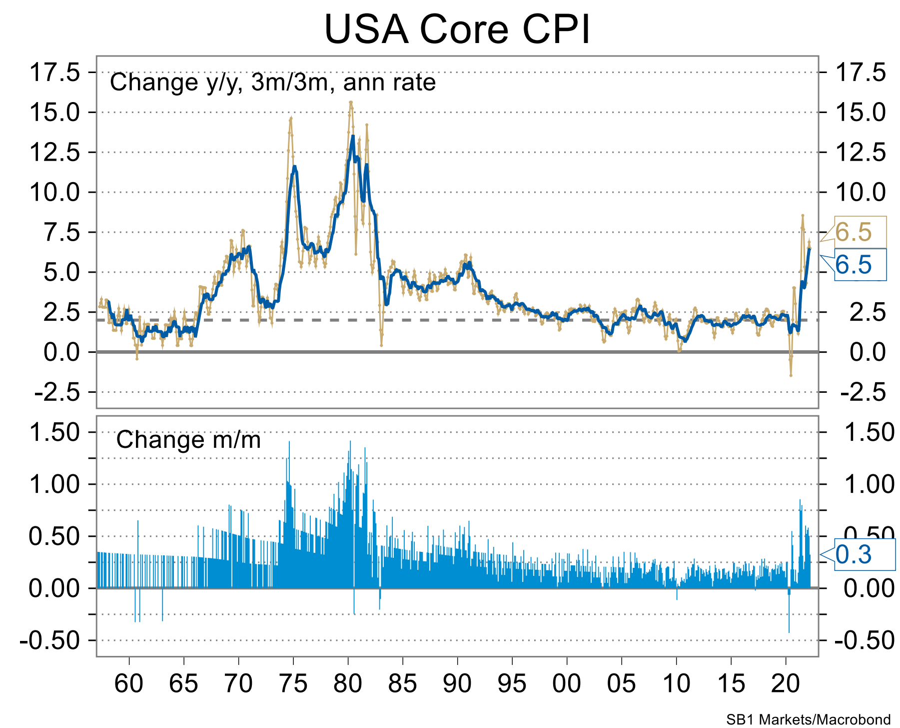
- **Headline CPI rose** 1.2% m/m in March, as expected. The annual rate accelerated 0.6 pp to 8.5%, one tenth above expectations – and the highest since 1982. The 3m/3m rate is at 9.2%
- **Energy prices** rose 11% m/m, lifting the CPI by 0.95%. The energy component of the CPI is up 32% up y/y, contributing 2.2 pp to the headline CPI growth
- **Used auto prices** are heading down, contributing to the 'low' growth in core prices, up 0.3% m/m
- However, price inflation broadened further in March. Cleveland Fed's **trimmed median CPI** accelerated 0.2 pp to 7.1% (6 m pace), another ATH (with data from 1983). Other breadth measures tell the same story
- **Surveys** report further price increases the coming months. The base effect may soon become hard to beat vs the annual rate, prices rose rapidly during the spring last year – and the annual rate 'must' soon peak, if energy prices do not explode from here

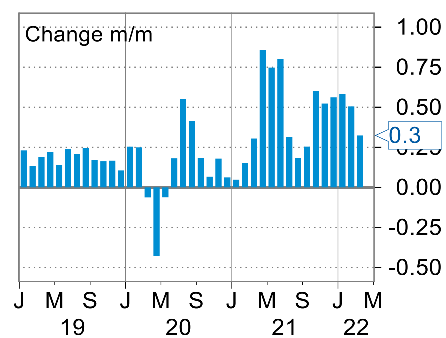


Core inflation also at the highest level since early 1980'ies

However, prices rose 'just' 0.3% in March, less than the expected 0.5%



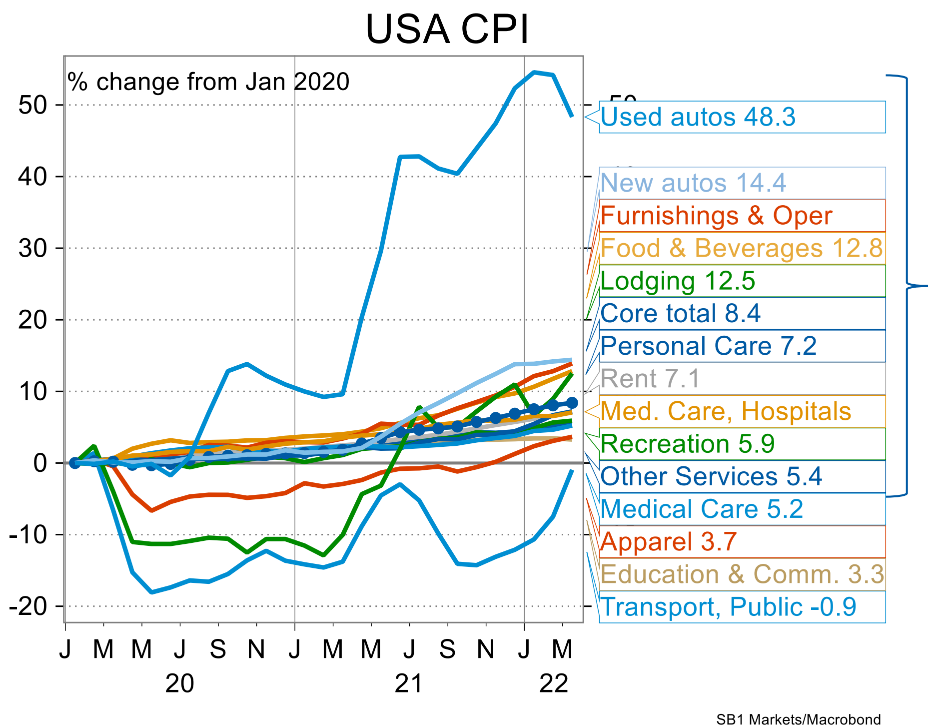


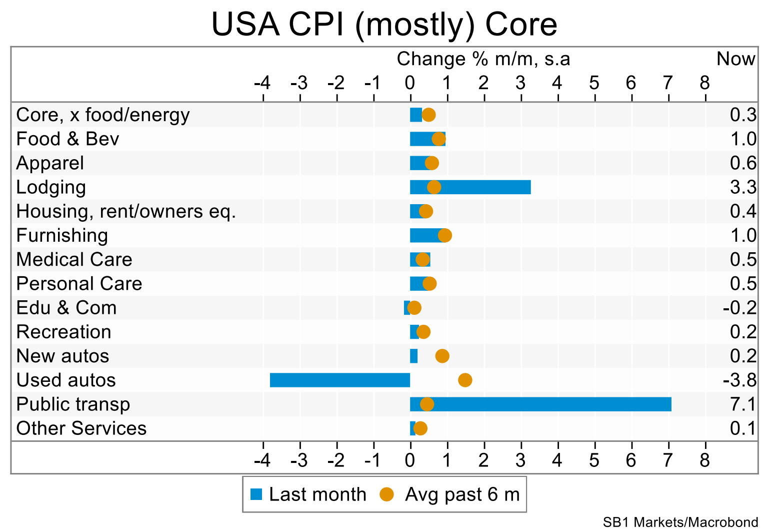


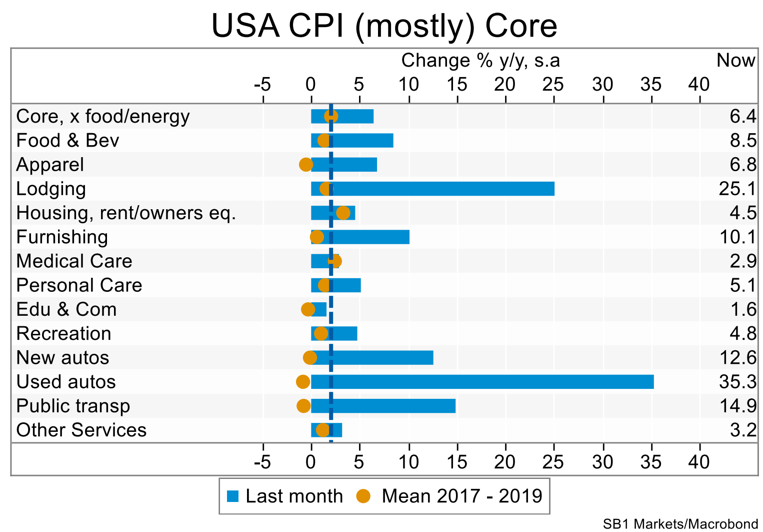
- **The 3rd wave: Core prices** rose rapidly during the summer of 2020, during last spring and now for the 3rd time. The increase in March was 'modest' though. Still, the annual rate accelerated 0.1 pp to 6.5%, expected up to 6.6% . The 3m/3m rate also at 6.5% (down 0.4 pp)
- **Peak inflation?** In April last year core prices rose 0.8%, and very likely prices will not increase at that pace in April this year. If so, the annual rate will come down, perhaps substantially – to 6.0%....

Just (super high) used car prices down in March, 3.8% lower

The downside is substantial. However, other prices are not slowing, y/y rates are just incredible!



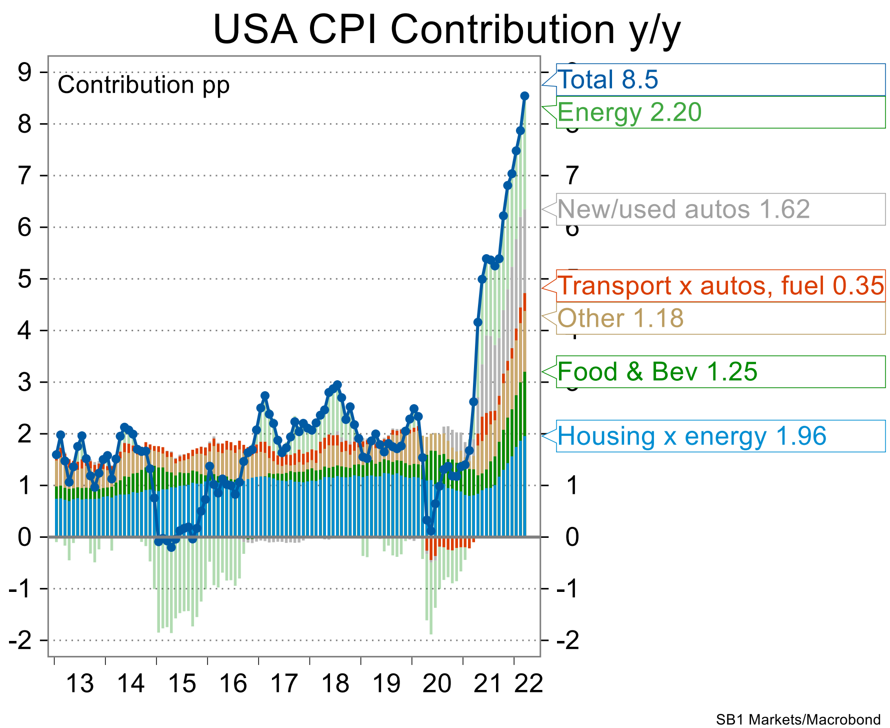


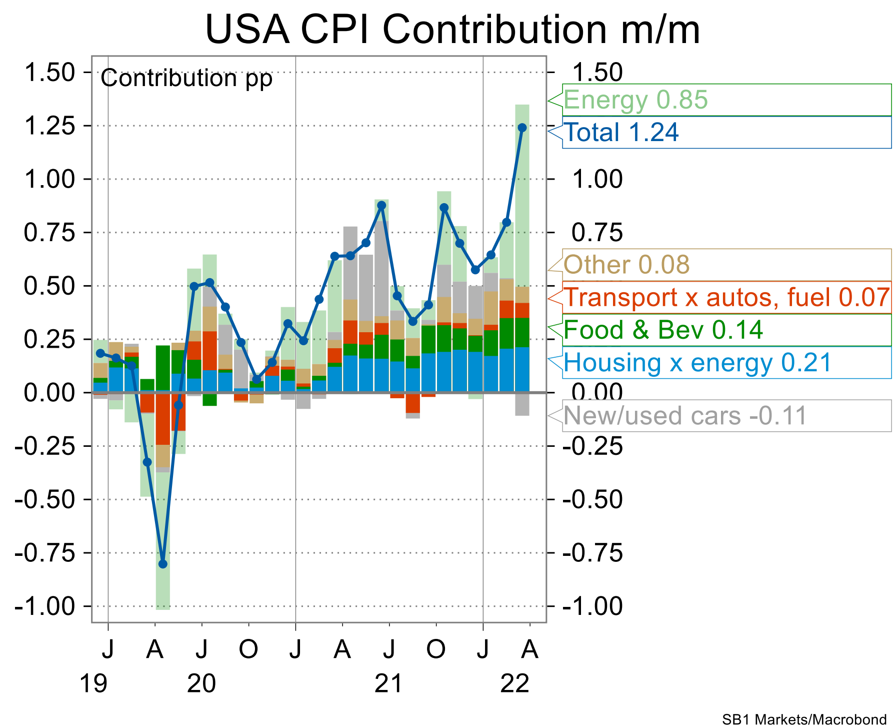


- Most sectors report growth above 2% from before the pandemic, just public transport (airfare tickets), education & communication, and apparel below)
  - » All sectors but education & communication are up more than 2% y/y
- One day: A huge downside not only for used auto prices, but some for new autos & furnishings as well

Transport (incl. used cars) & energy explain 3.8 pp of the 8.5% lift in total CPI

The problem: The rest is up by well above 4% y/y – and rapidly accelerating





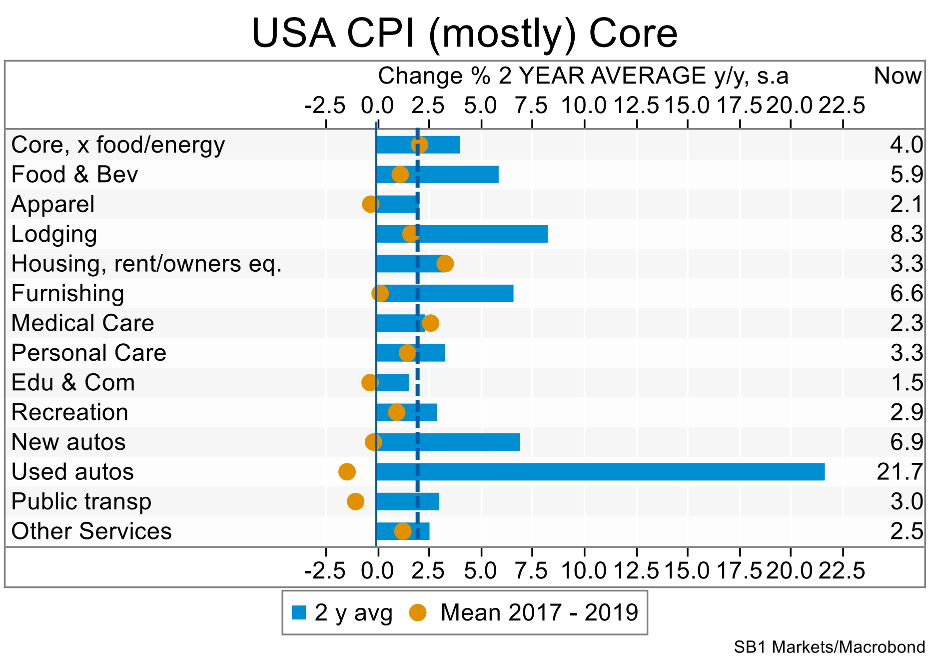
- **Energy** prices shot up in March (but will probably decline somewhat in April)
- **Used car prices** fell in March and contributed more on the downside than new auto prices at the upside. One day, these prices will normalise, and contribute at the downside, perhaps by the same amount
- However, **excluding** the 3.8% pp contribution to the headline CPI from energy & transport, **"remaining" inflation** has accelerating rapidly
- **Housing x energy** (and x lodging) is contributing by 2.0 pp, the highest rate in many years, though partly due to a low base one year ago. Rents as measured in the CPI are up more than 4% y/y, but the upside is probably now limited

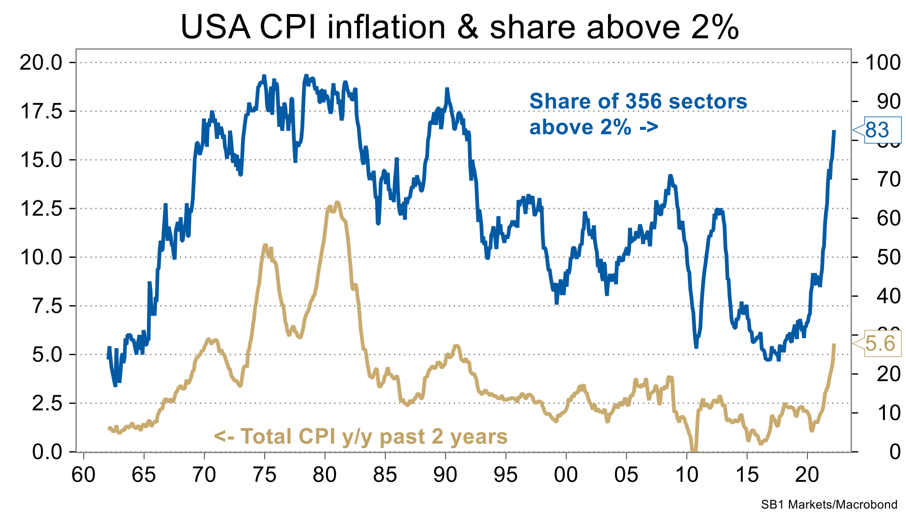
Lodging away from home (incl hotels) is a part of housing at the charts above

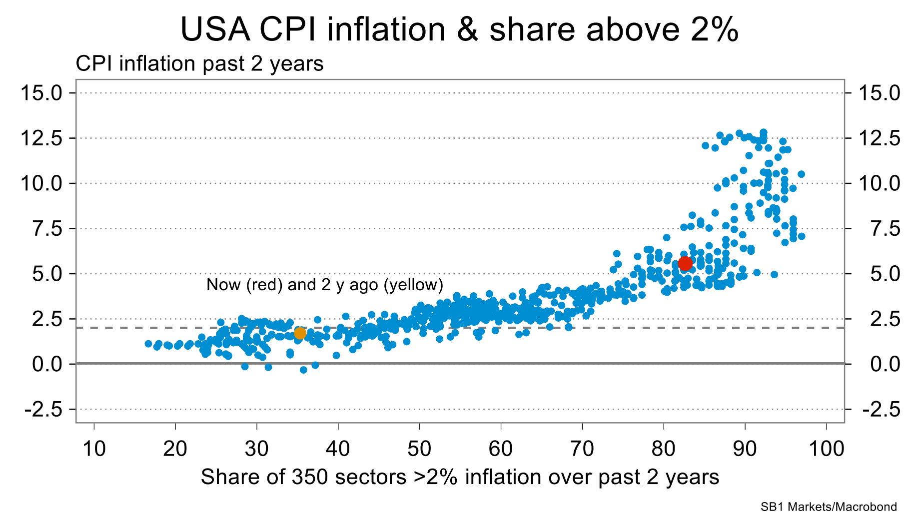
SpareBank 1 MARKETS

Inflation over the past 2 years: 13 main sectors >2%, 1 up <2%

2 y avg core inflation 4.1%, up from a 2.1% average in 2017 – 2019 – and broadening, 83% up >2%

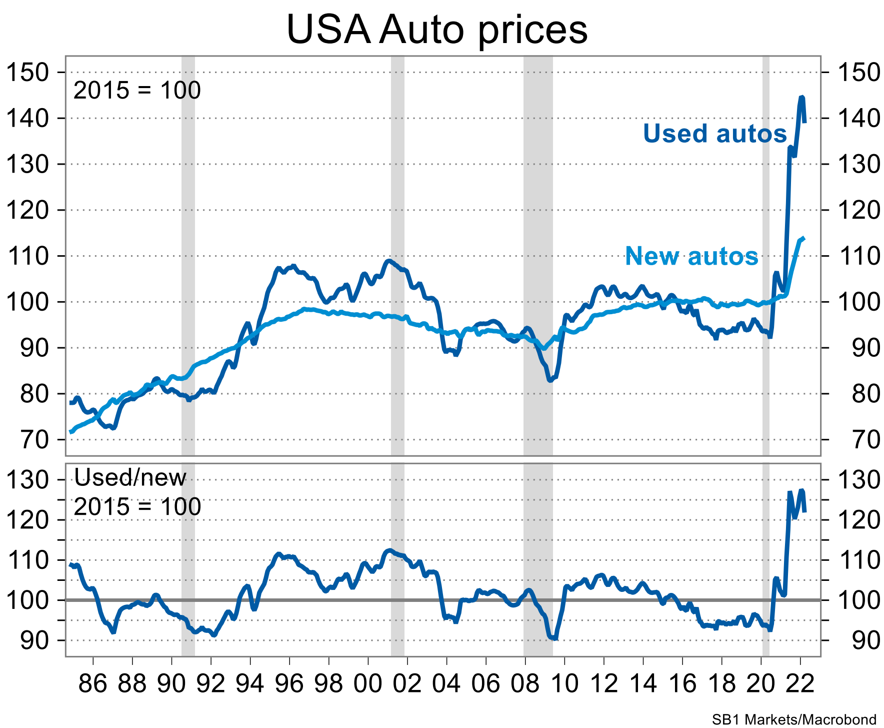






- Measured over the past 2 years vs the 2017-19 average, inflation has accelerated in 13 main sectors, and slowed (marginally) just in one sector (medical care)
- Of 350 sub-sectors, 83% are up more than 2% over the 2 past years, normally signalling an inflation rate at 5% - where we now are – measured over 2 years

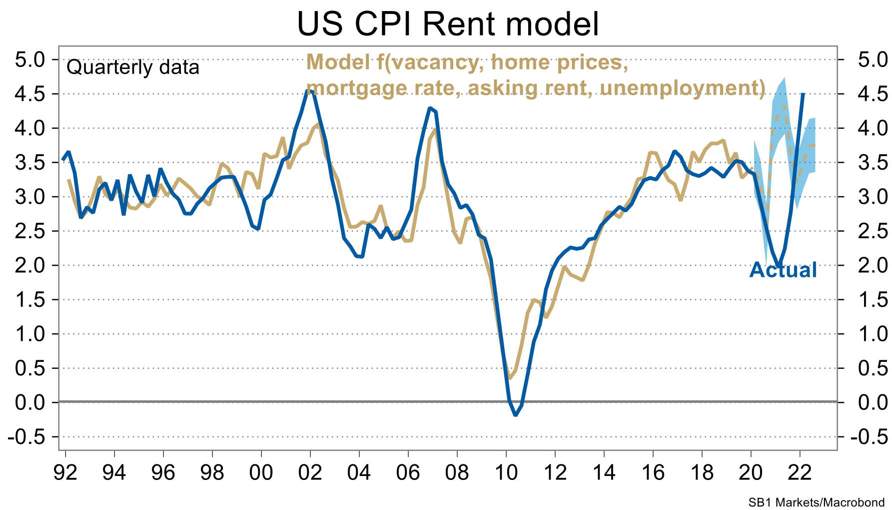
2nd hand car prices finally down, still far above a long term normal level



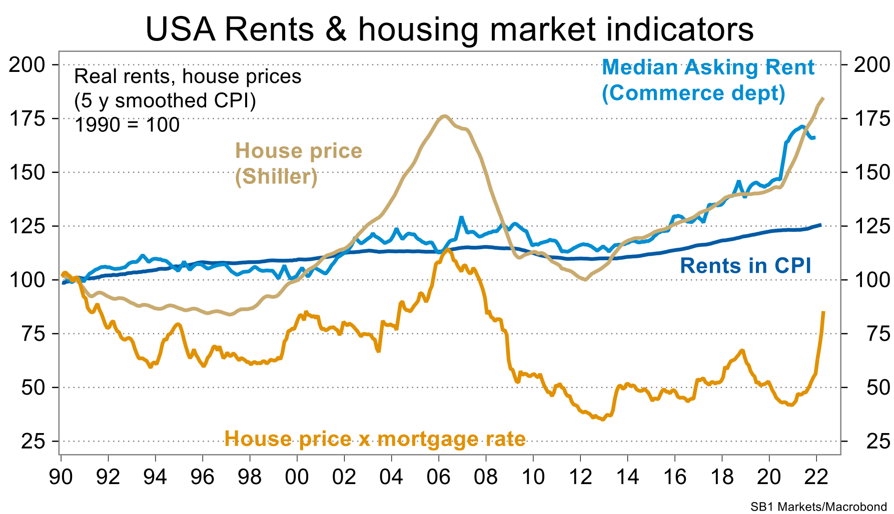
- Production of new cars is still way below demand – but prices are more up in the US than elsewhere
- At one stage at least used auto prices will 'collapse', down to a normal level vs new car prices – and there is a substantial downside for new cars as well

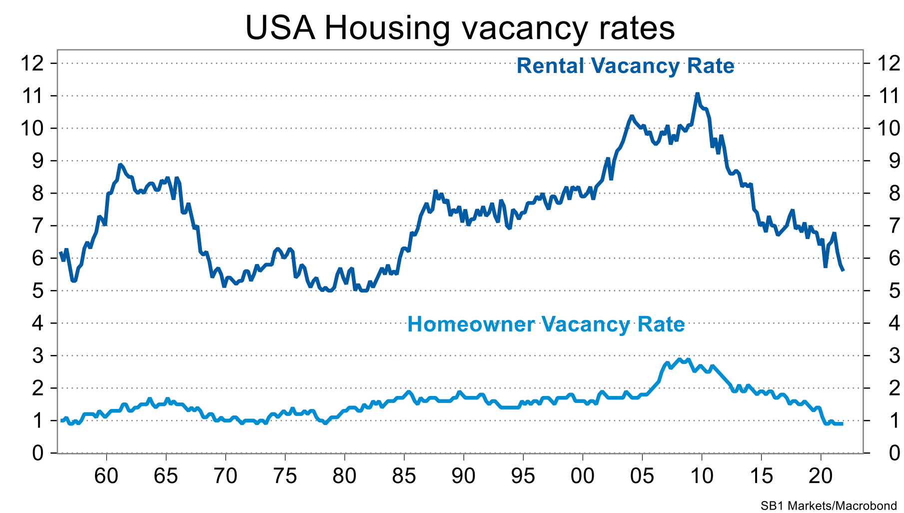
Rents are rapidly on the way up – but the upside from here is limited?

Rents are up 4.5% y/y but our model does not suggest a further acceleration



- **The official (Commerce dept) rental asking price** has flattened recent months and rents have been reported down since last autumn. Other rental surveys are still reporting higher rent inflation but from a lower level
- **House prices** are up almost 19% y/y
- **The rental vacancy rate** fell further in Q4, and it is very low. **The homeowner vacancy rate** is trending down, and at a record low level
- **Rent inflation measured in the CPI** has accelerated to 4.5% from 2%, to above the pre-pandemic rate at some 3.5%
- **Our model**, when assuming a <u>market slowdown</u> in rental asking price inflation and a gradual decline in existing house price inflation the coming quarters, and a flattening of the 30 y mortgage rate at 30%, does not signal a further increase in rent inflation, as measured in the CPI





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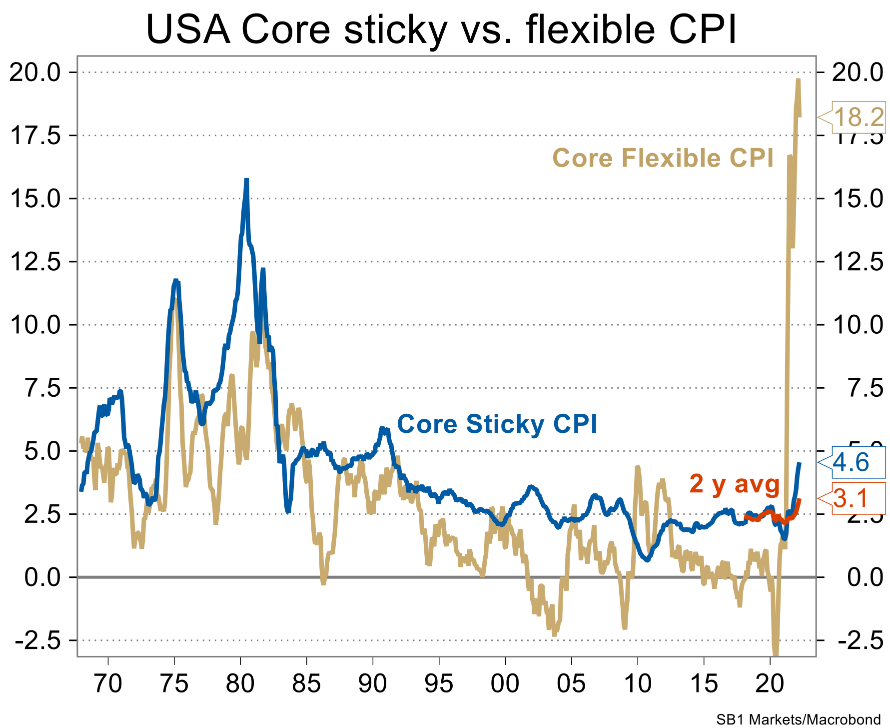
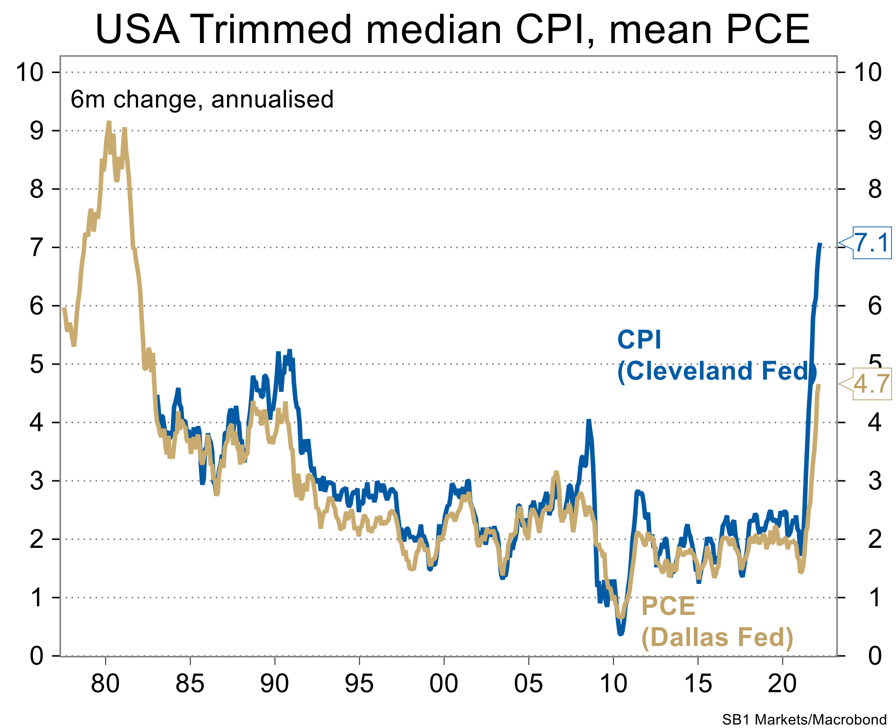
Even sticky prices are on the move upwards

… even measured over the past two years. No more excuses left, of course



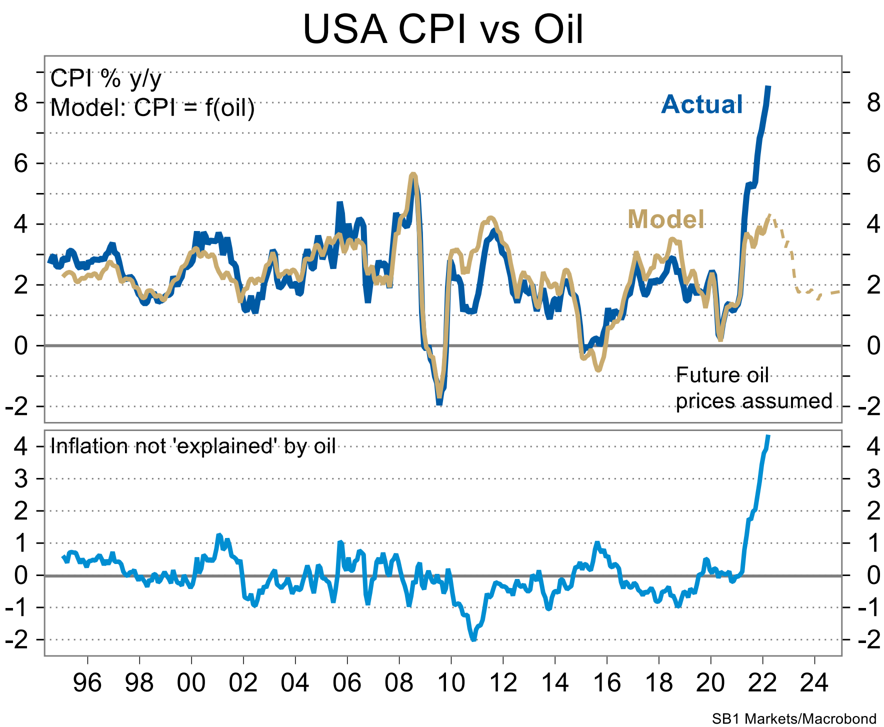


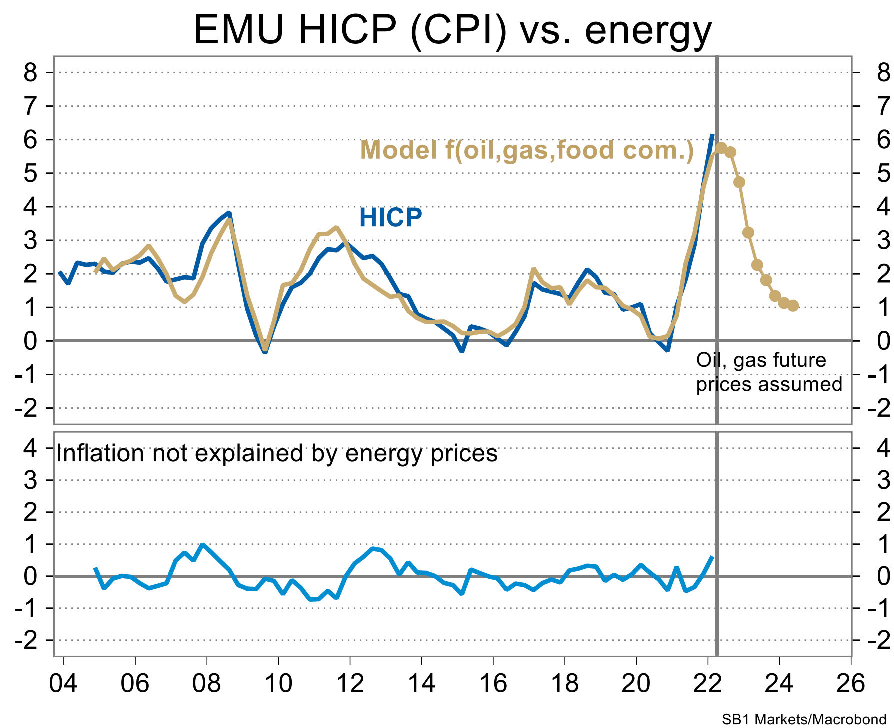
- The Cleveland Fed **trimmed median CPI** is up at a 7.1% pace over the past six months, up from 6.9% in Feb – and miles above anything seen before (data from 1983). Dallas Fed's **trimmed mean PCE** was up 4.7% in Feb, also the highest since early 1980'ies
- In the CPI, almost all of the initial lift in core CPI was due to prices of good & services that often fluctuate, with rapid price increases followed by deep price cuts. These prices are '**flexible' and** represent some 10% of the core CPI. The core flexible CPI is up 18% y/y – almost twice the level ever seen before, 11% in 1975! However, these prices are flexible both ways, and the cycles are normally short lived
- The new challenge: The **sticky components** (90 % of the core CPI) are up 4.6% y/y, the highest level since 1992 – and even the 2 y avg is at 3.1%

SpareBank 1 MARKETS

If it just was energy, CPI would have been up 4%. The problem is the next 4 pp

CPI is up 4 pp more than explained by the oil price, unprecedented. In EMU, nothing but oil/gas!

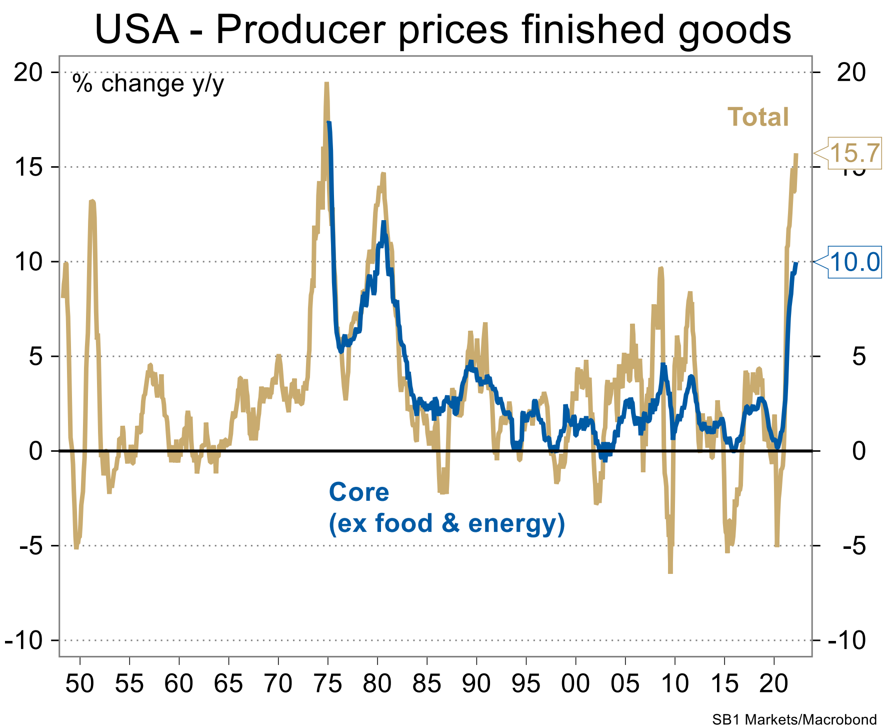


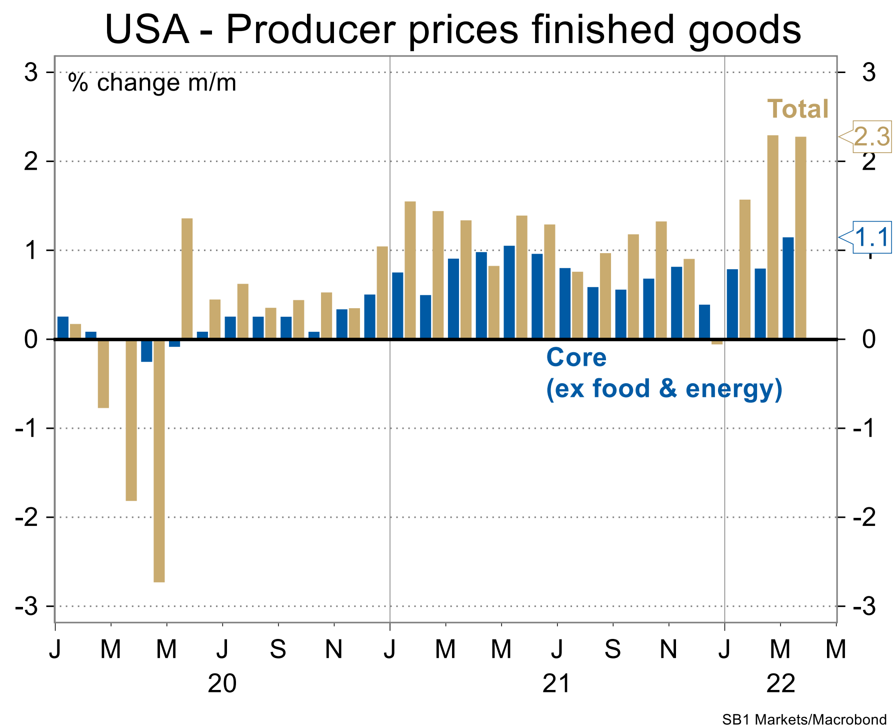


- **Oil price cycles** have explained some 80% of the changes in the US CPI growth the past 30 years, which for practical purposes, is "everything"
  - » In our model we incorporate all direct impacts from changes in the oil price – as well as the impact from other factors that influenced inflation which correlates to the oil price. The current model residual, at almost 4 pp is totally unprecedented, at least vs the past
  - » If the oil price stabilises at USD 110/b, the models signals a 1 pp lift in the headline CPI
- **In EMU**, the CPI acceleration recent months can be fully explained by the increase in energy prices – and if oil/natural gas prices stabilise at current levels (Friday's prices, that is), inflation is now close to the peak, and the annual growth rate will return to below 2% in early 2022. Had energy prices returned to a 'normal' level, inflation would have collapsed now! At least according to our model

The industrial PPI up 2.3% in March too, up 15.7% y/y

And now crude materials (ex energy) turned up again, after some softer months



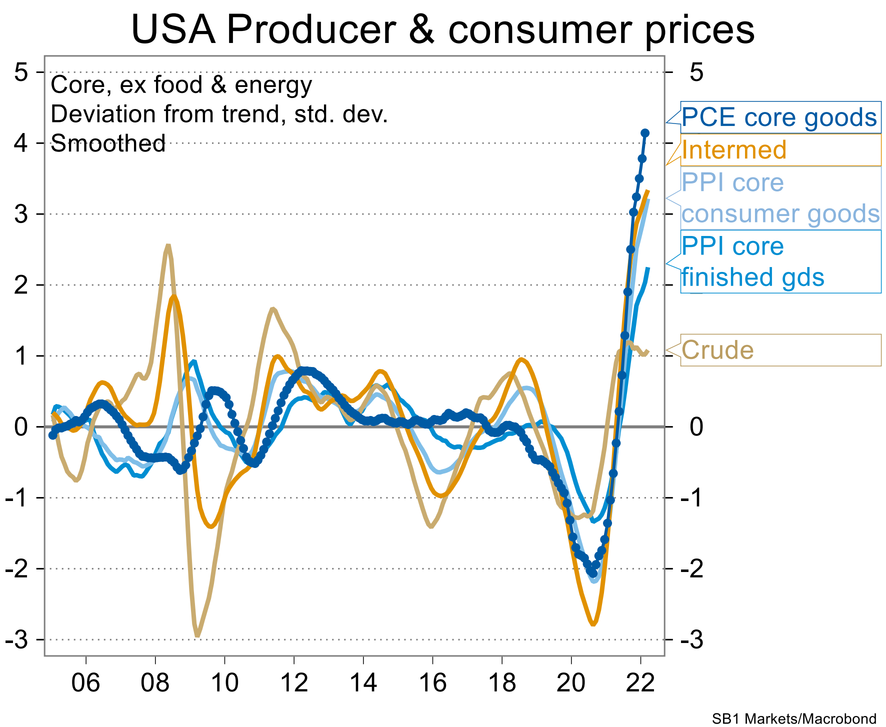


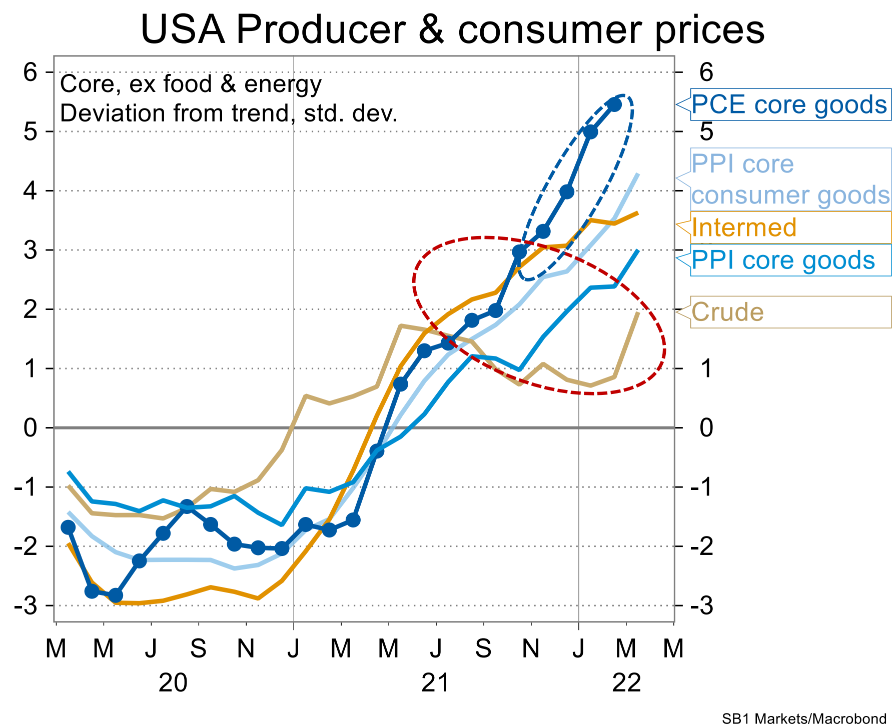
- **The headline finished goods PPI** shot up 2.3% in March, as in Feb. The annual rate accelerated to 15.7%, the highest since 1975
- **Core finished goods x food & energy** PPI rose by 1.1%. The annual growth rate climbed to 10.0%, highest level since 1982
- **Crude material prices** have been on the retreat since early last summer – normally the first sign of easing price pressures in the supply chain. However, in March, crude goods ex food and energy rose again, possibly influenced by new value chain challenges
- **Core consumer goods prices** (PCE, like the CPI) have already climbed more than usual vs. PPI prices (partly due to 2nd hand auto prices, not included in the PPI), limiting the upside risk
- **The 'official' total final demand PPI**, including **services**, rose by 1.4% m/m. The annual rate was 0.6 pp higher than expected, at 11.2%!

SpareBank 1 MARKETS

Crude core materials turned sharply up in March

… However, core consumer prices have been rising earlier and more than normal vs. PPI prices

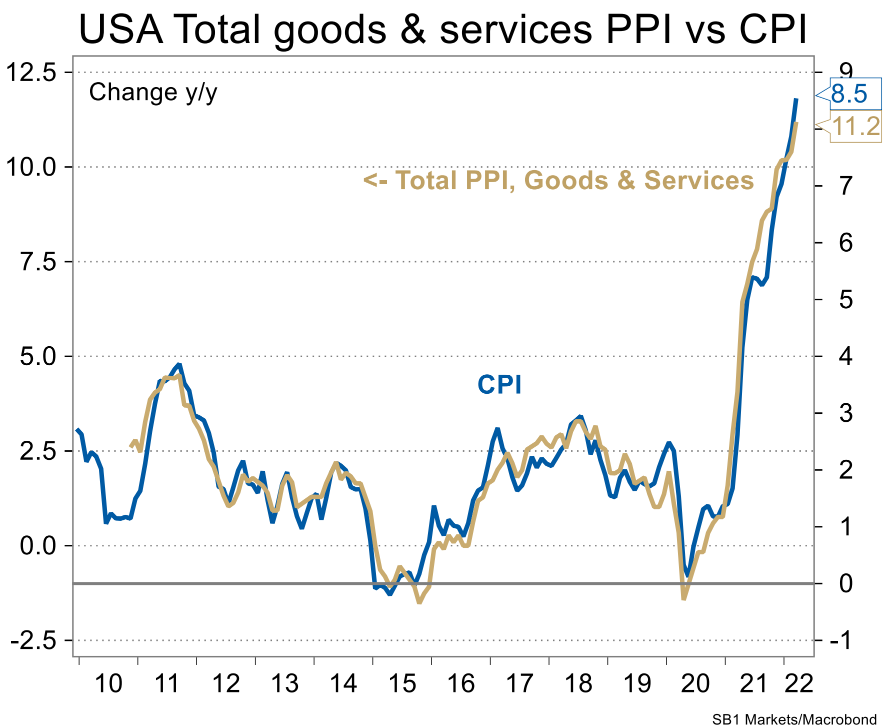


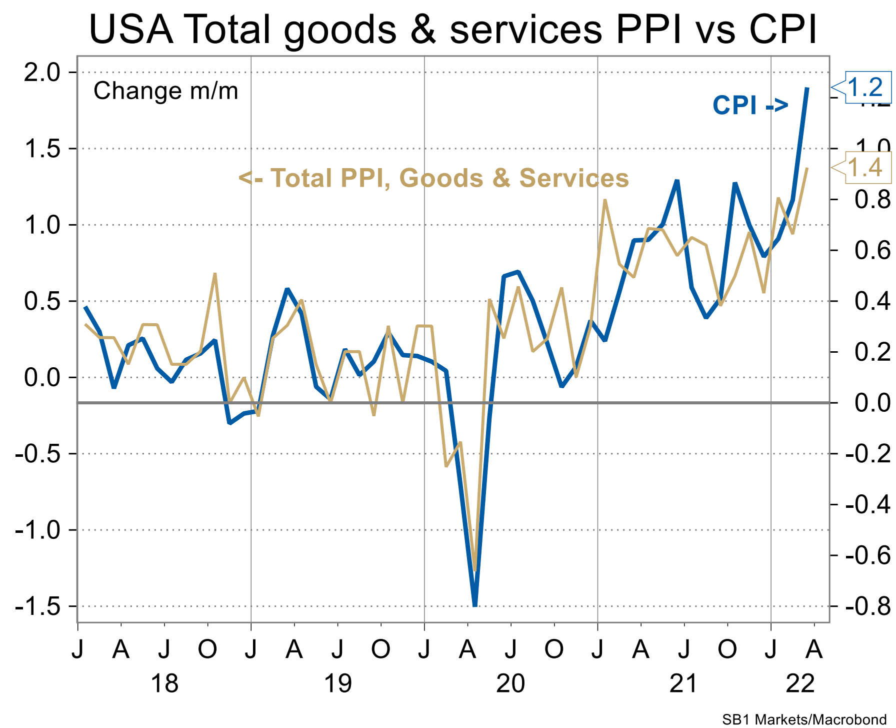


- **Crude goods prices** are leading intermediate goods prices by 4 months, and consumer prices by 12 months. Following several months with slow growth in these prices, they shot up again in March – which is not a good sign. **Intermediate prices** have not yet yielded by much – and they will push finished goods prices further up the coming months
- Some comfort: **Prices at the consumer level** (blue ellipse on the chart to the right) have responded earlier and more than normally vs the PPI core consumer goods index. That is more than partly due to the unprecedented (and not permanent) hike in 2nd hand cars which are not a part of the PPI index. Thus the upside risk for the core goods component of the PCE may be limited the coming months

Bottom line: Total PPI (services included) up 11.2%, 0.6 above expectations

The total PPI rose 1.4% m/m in March, expected 1.1%

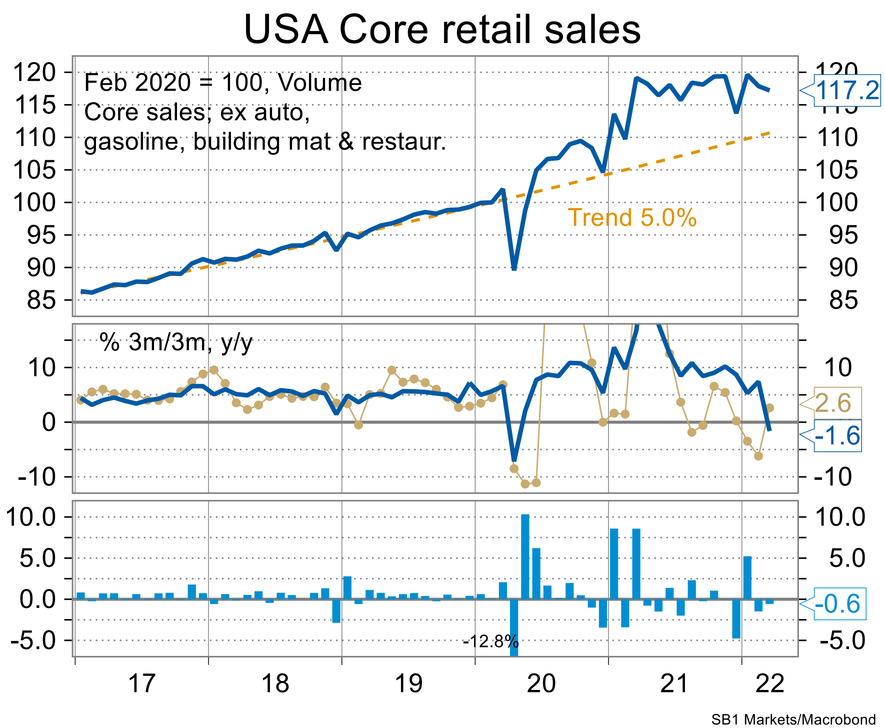


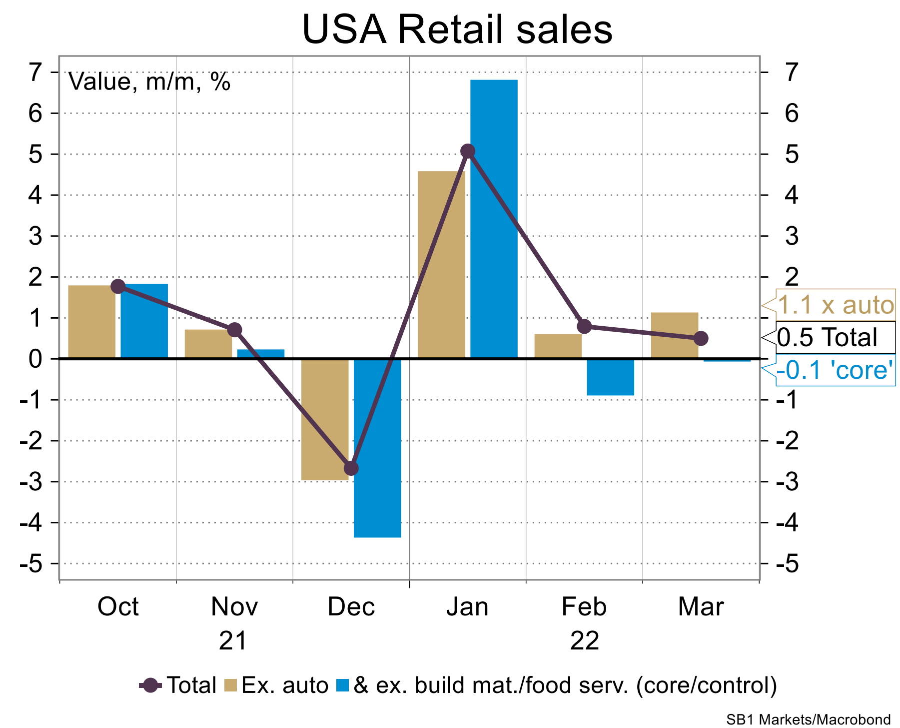


- The correlation between the total PPI, which includes all sort of services in addition to goods, and the CPI is pretty close. The current 11% annual growth rate totally out the 'new' PPI's 12 y old history. Still, it seems to be in line with the 8.5% headline CPI inflation

Retail sales down in volume terms in March too, trend close to flat

Sales are still far above pre-pandemic trend paths. Total sales are up 25% in value terms vs Feb-20

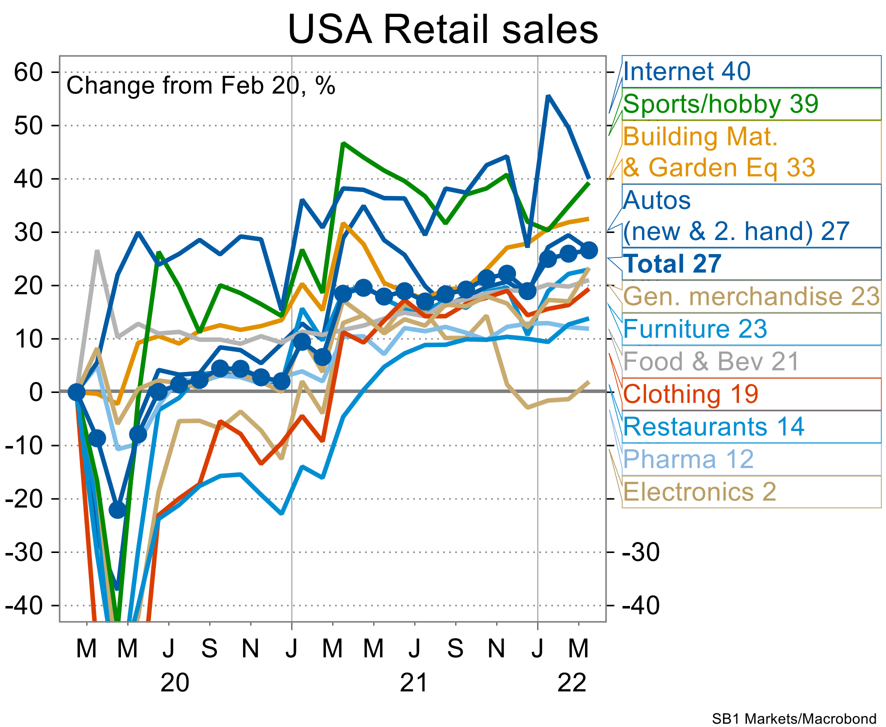


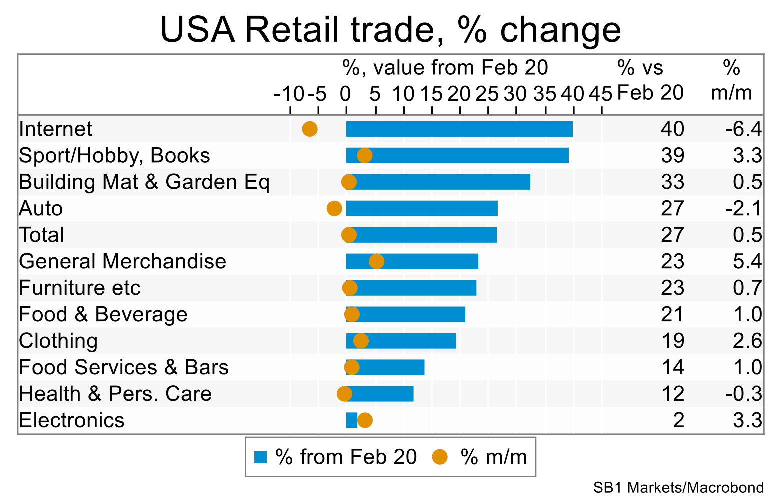


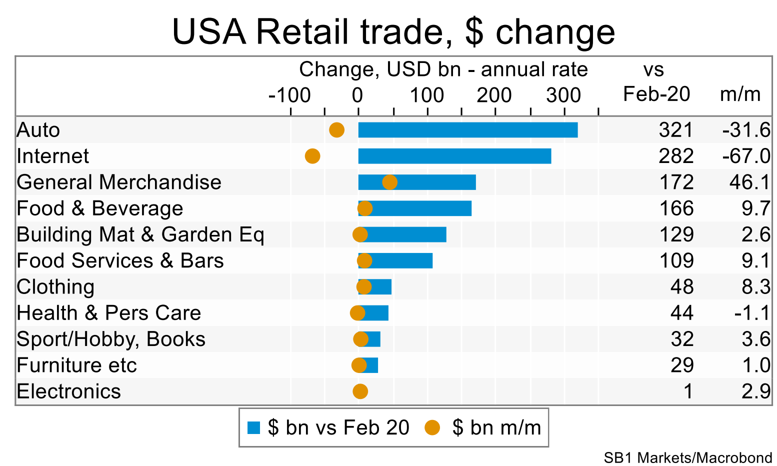
- **Total nominal sales** rose 0.5% in March (expected 0.6%), down from down from upward revised 0.8% in February (initially reported up 0.3%). Thus, Feb/March was above expectations. Total nominal sales are up 25% – vs. the Feb 2020 level
- **Core sales of goods** (=control group, excludes autos, gasoline, building materials & restaurants) fell 0.1% in March (as expected) following the 0.9% decline in February (revised up from -1.2%)
- In **volume terms** we estimate a 0.6% decline in core sales in March following a 1.5% decline in February. Core sales are down y/y (March last year was the peak)
- **Consumption of goods** is very likely above a sustainable level, and we still expect sales to decline the coming months/quarters – even if a substantial part of the adjustment already has taken place (vs. a long term growth path)

Mixed among sectors in March, internet sales down 6%, general stores +5%

All main sectors report higher growth than before the pandemic but huge sectoral differences remain





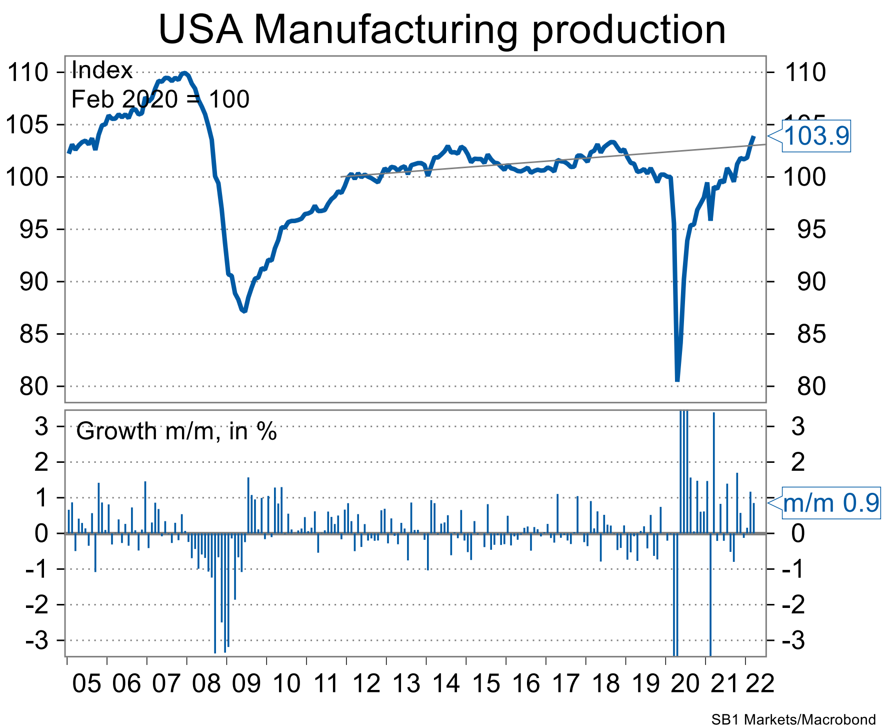


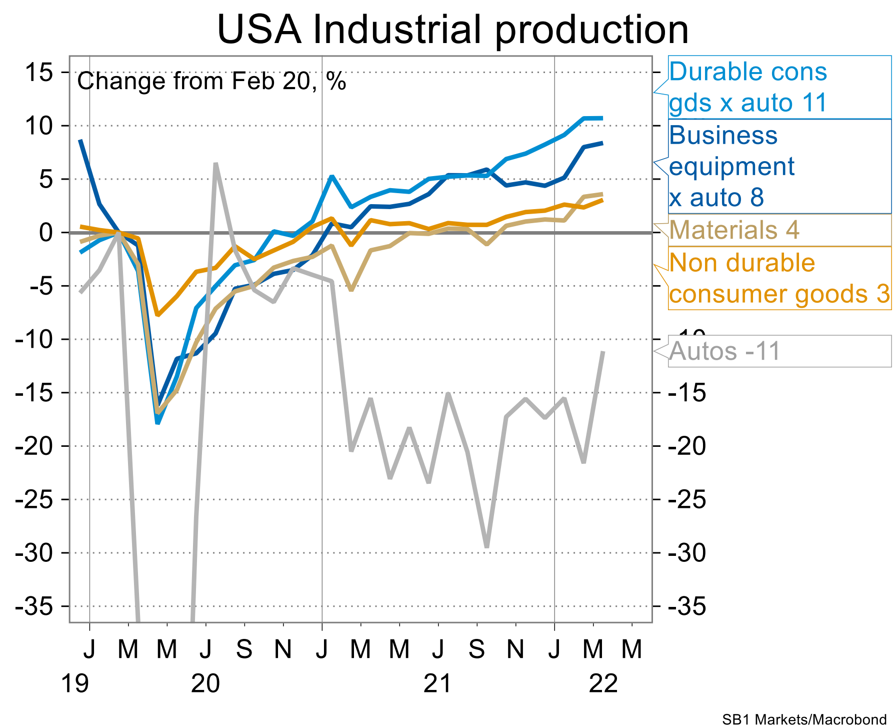
Last month

- Just 3 out of 11 main sectors reported lower sales, 8 higher sales

Manufacturing production up 0.9% in March, as auto production climbed 13%

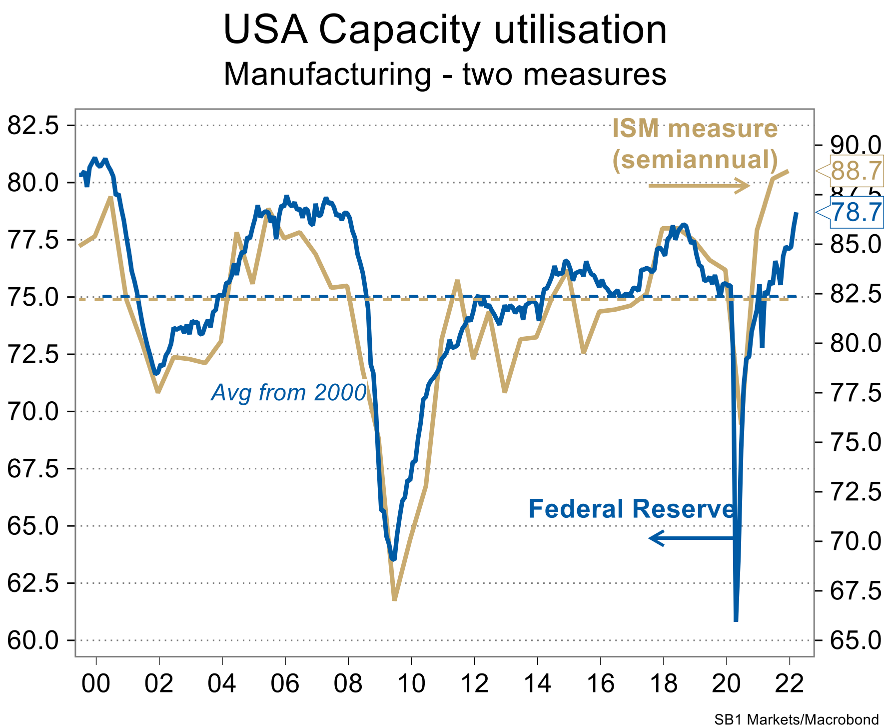
Total production is growing at a 5.5% pace, and activity is above the (weak) pre-pandemic trend





- **Manufacturing production** was expected up 0.4%
  - » The steep decline in auto production has been a drag on overall production in 2021 and into 2022 – but auto production is
- **Total industrial production**, including utilities, mines/oil production also grew 0.9% in March
- **PMI/ISM and all other surveys** signal a continued recovery but at somewhat slower pace than until now
- **Capacity utilization** increased further in March and at the highest level since 2008.
  The ISM survey reports a record high utilization, check next page

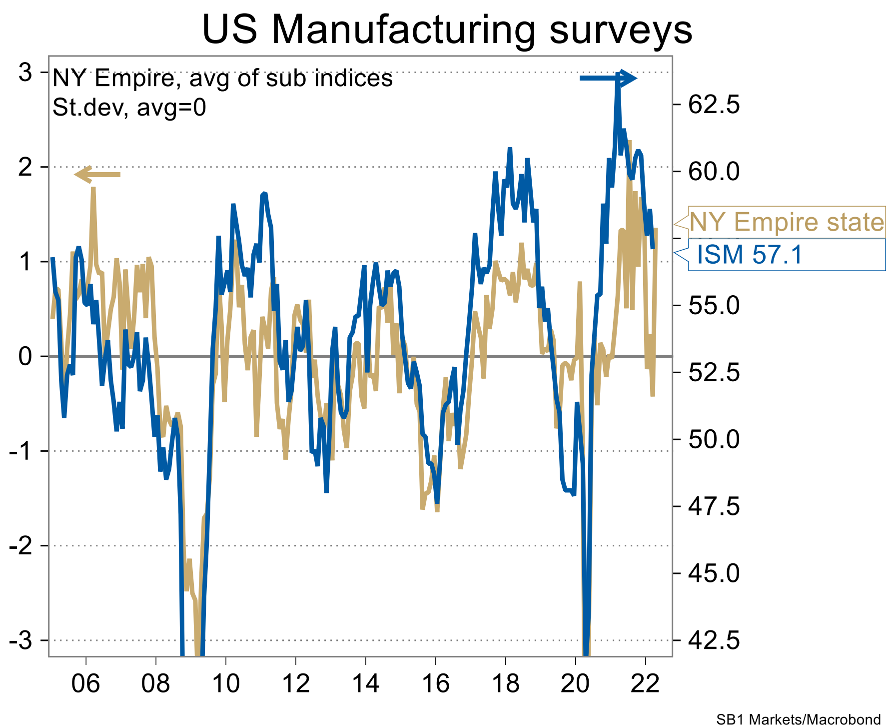
Capacity utilisation very high or record high

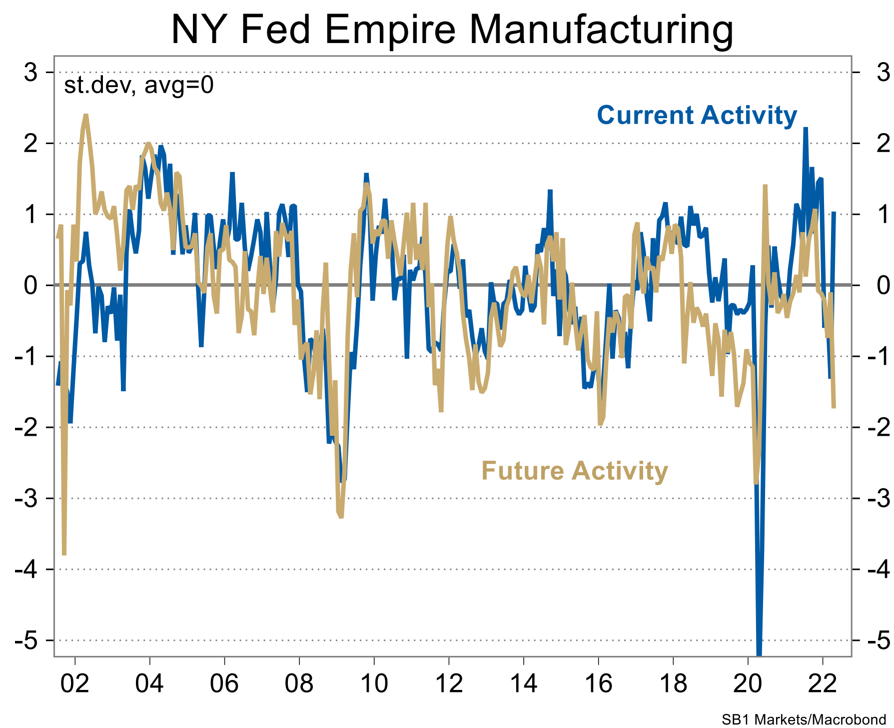


- **The Federal Reserve** report a 0.7 pp increase in manufacturing to 78.7%, the highest level since 2008
- **ISM's semi-annual** survey reported a further increase H2-21/Dec, to another ATH at 88.7% vs the average at 82.5%
  - » These two measures have not been 100% correlated but the current discrepancy is large – and quite important when assessing the growth outlook
- The Fed's estimate is model based, while the ISM survey is based on companies assessment of their own capacity utilisation
- Given reports on labour shortages, material shortages, prices, the ISM survey seems to give the most reasonable result

The first April manufacturing survey: NY Fed's index straight up!

The index shot up to +1 st.dev above avg, from -1.3, in one go!

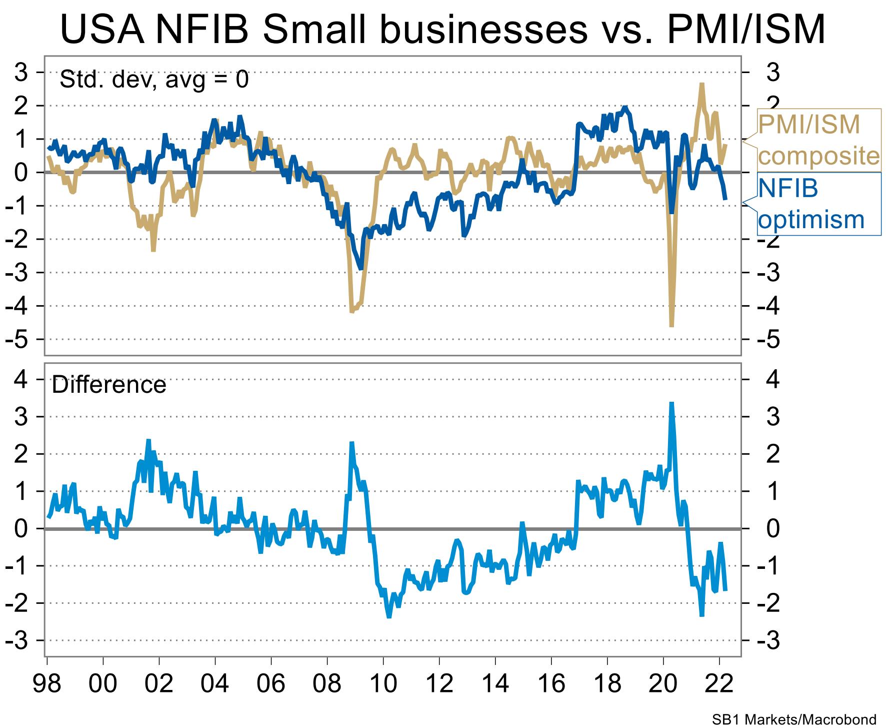


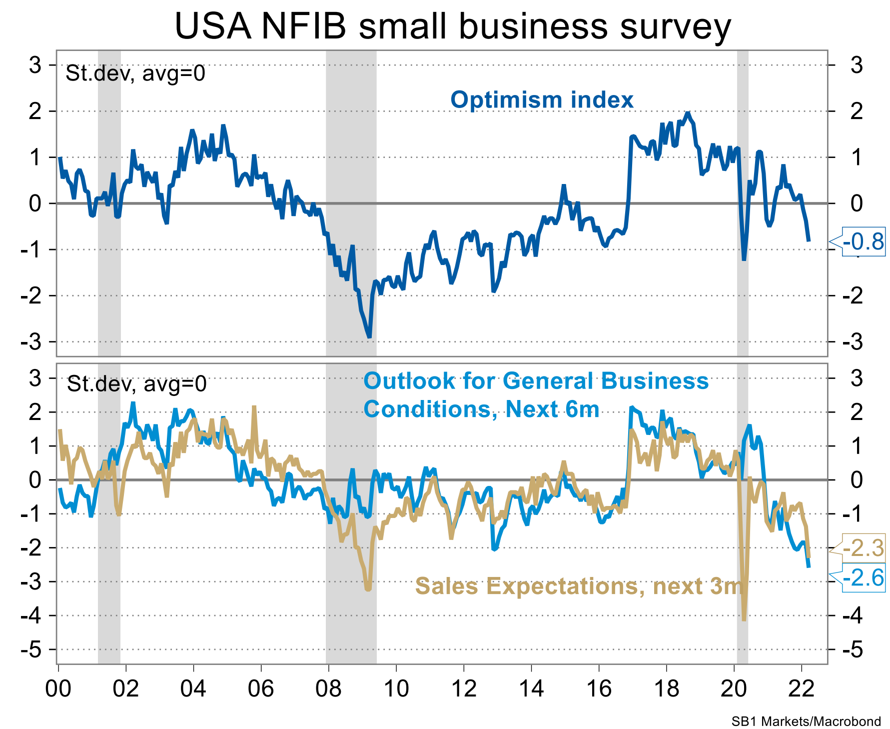


- The index rose to +25 from -12, expected up to +1 (which still would be below average)
- The only bad sign: Expectations on future activity fell sharply, to -1.7 st.dev below average

Small businesses optimism further down in March

Sales are still very strong but expectations are weak, 'us usual'



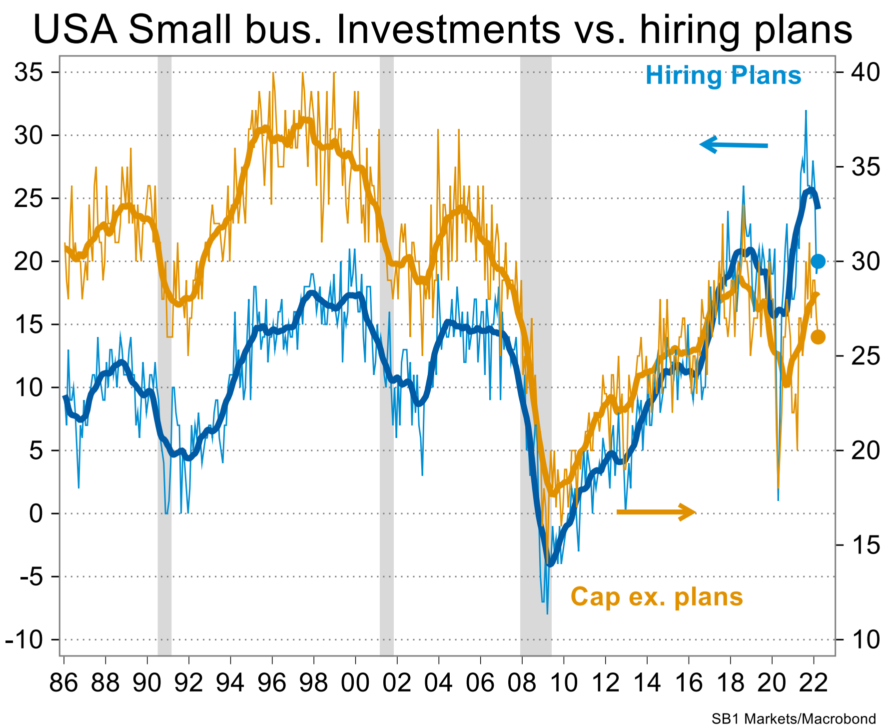


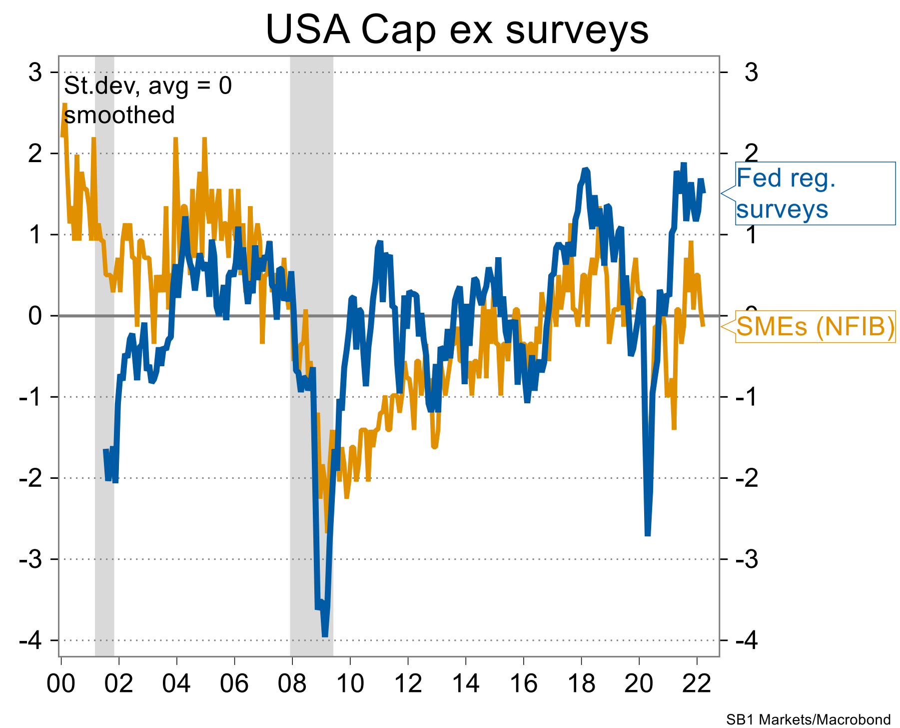
- The **NFIB optimism index lost 2.5** p to 93.2 in March, expected down 0.7 p. The index 0.8 st.dev below average. The distance up to the average of PMI/ ISMs has been reduced, as the latter have fallen faster than NFIB optimism – but the gap widened in March
- **The outlook for the next 6 months** fell further and remains very weak, at 2.6 st.dev below par (from -1.9 in Feb), close to all-time low, and well below the dark days of the Financial crisis. Lack of qualified labour, labour costs and inflation worry the SMEs. 'Nobody' is complaining about current sales, and close to a record share of companies report they plan to lift prices further. **Investment plans** were revised down but remain close to an average level
- **Hiring plans** were cut back in February, but not further in March, and remains far above normal levels. Even so, somewhat more SMEs were not able to **fill their vacancies.** An usual large share of companies report planned further **compensation increases**
- The share of companies **planning to lift prices** rose again in March, and is level is incredible high – not a good sign for inflation the coming months

SpareBank 1 MARKETS

The SMEs have cut back on their investments plans, but plans are still to average

Investment plans are above average too

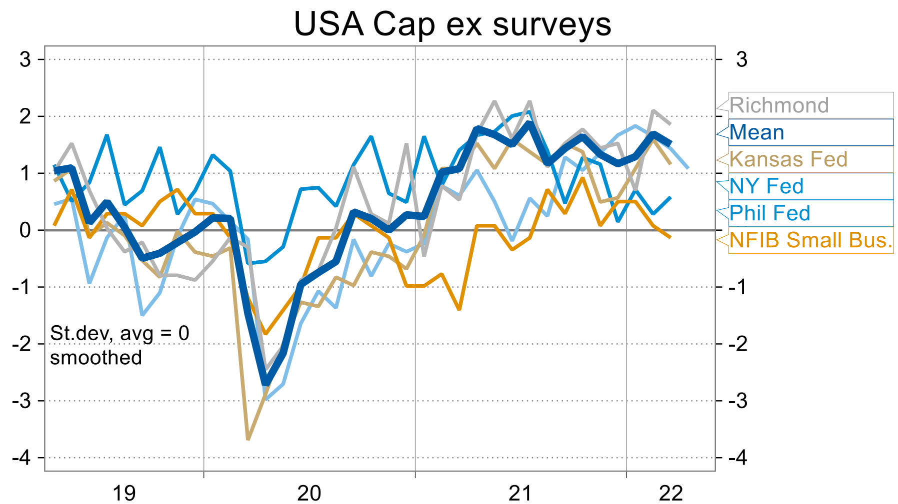


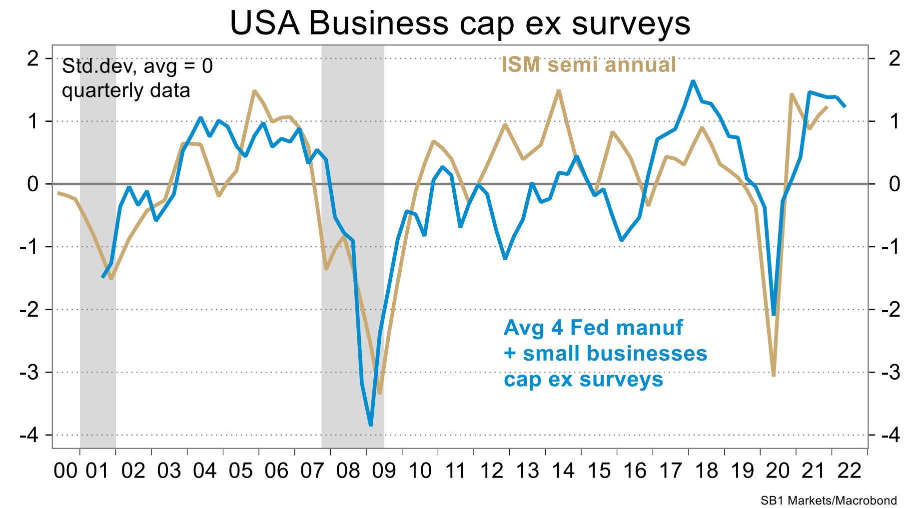


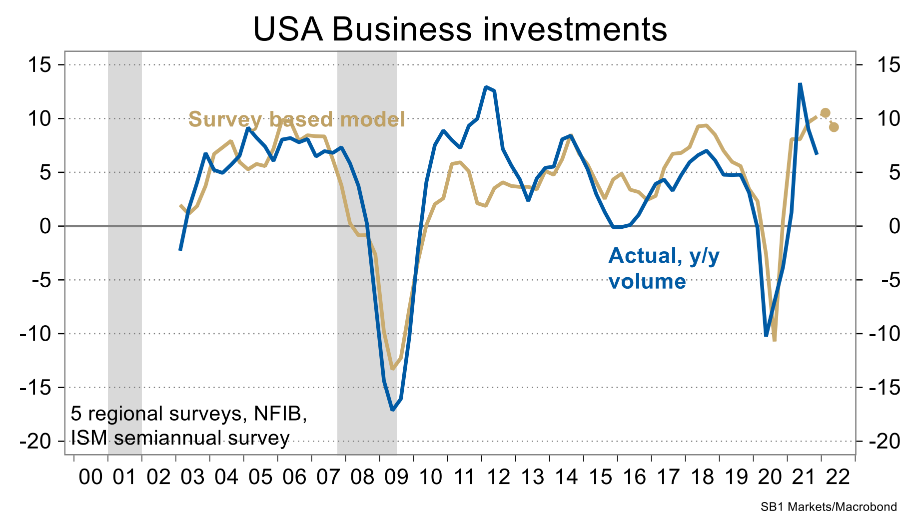
- Other investment surveys are still more upbeat than the small business survey – and they were – in average – strong in January

Investment surveys mixed the average is still strong

Taken together, aggressive investment plans

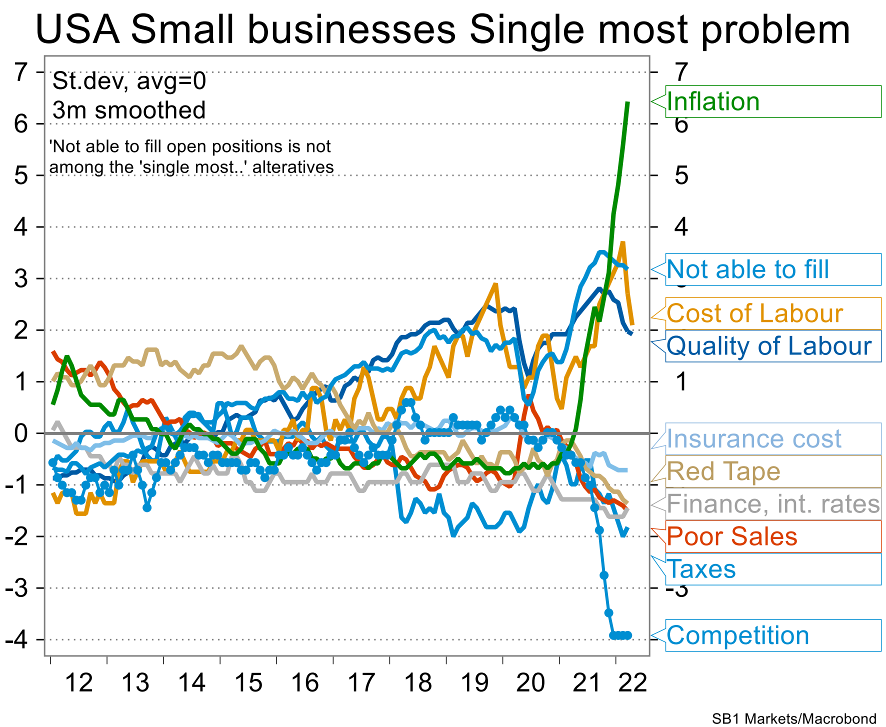


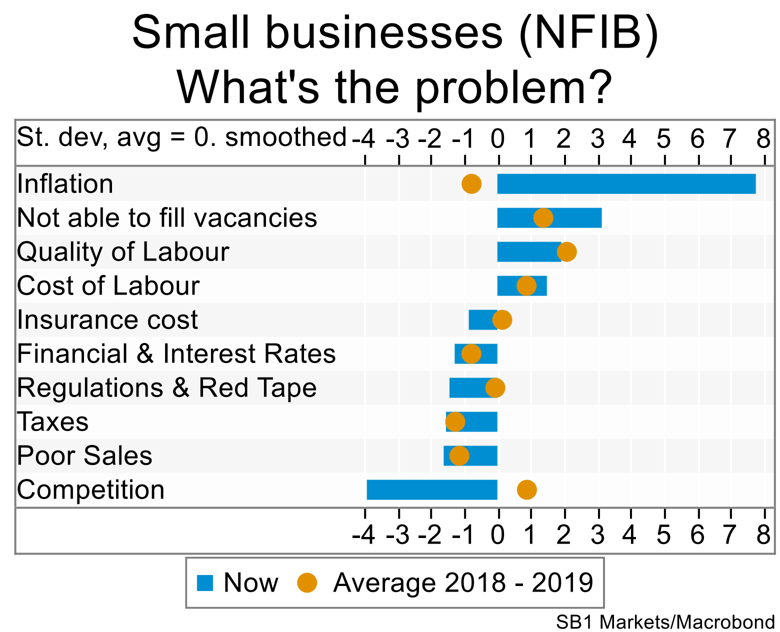




Record few companies complain about poor sales & competition from large companies

Some easing of labour shortages/quality – but still extreme. And inflation, even if they are 'selling it'



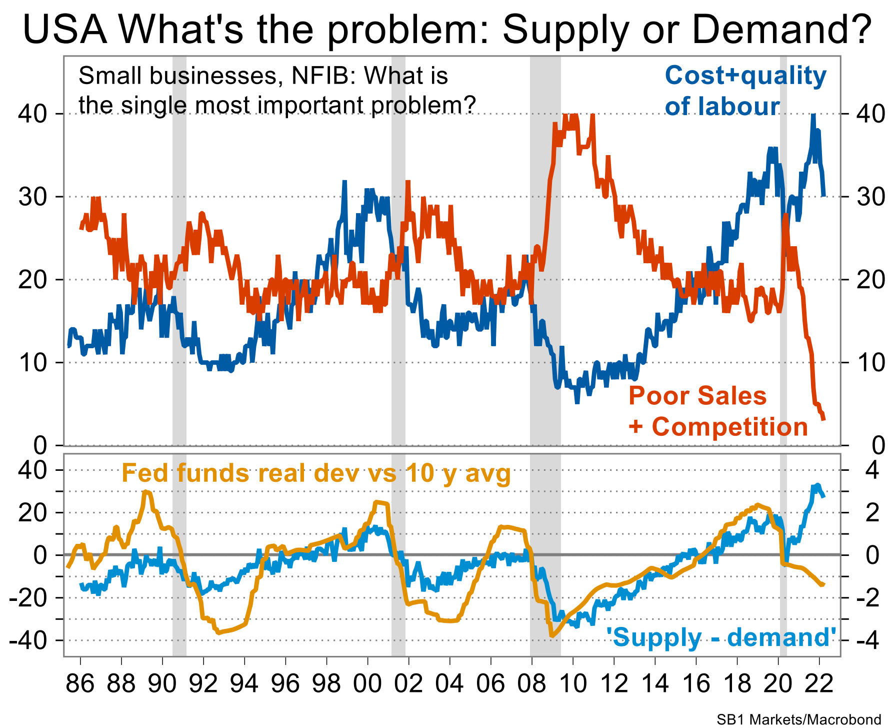


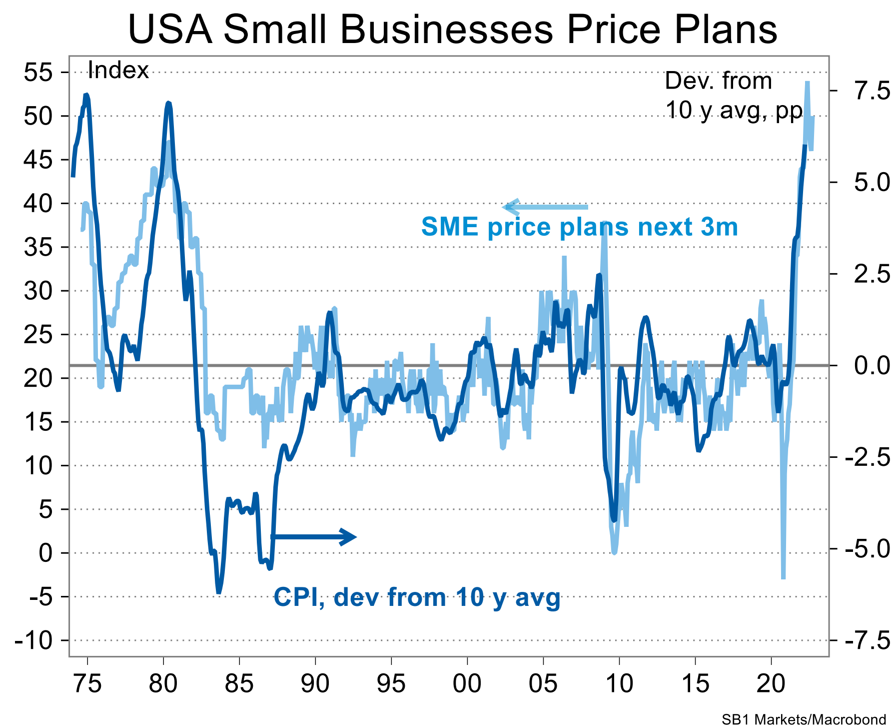
- Thus, companies still report they are constrained from the **supply side**, not from the **demand side**
- In addition, **inflation** is now quoted as the most important problem for the SMBs. However, the SMBs themselves are making the problem even larger – more companies than ever before plan to increase their selling prices ☺

In the charts above, we have included the 'Not able to fill open positions' data from the survey, but this is (rather strangely) not an alternative in the single-most-problem question in the survey. We still show it at the chart

Sales are fantastic, labour supply is still the challenge

More companies (and close to a record high share) plans to lift their selling prices

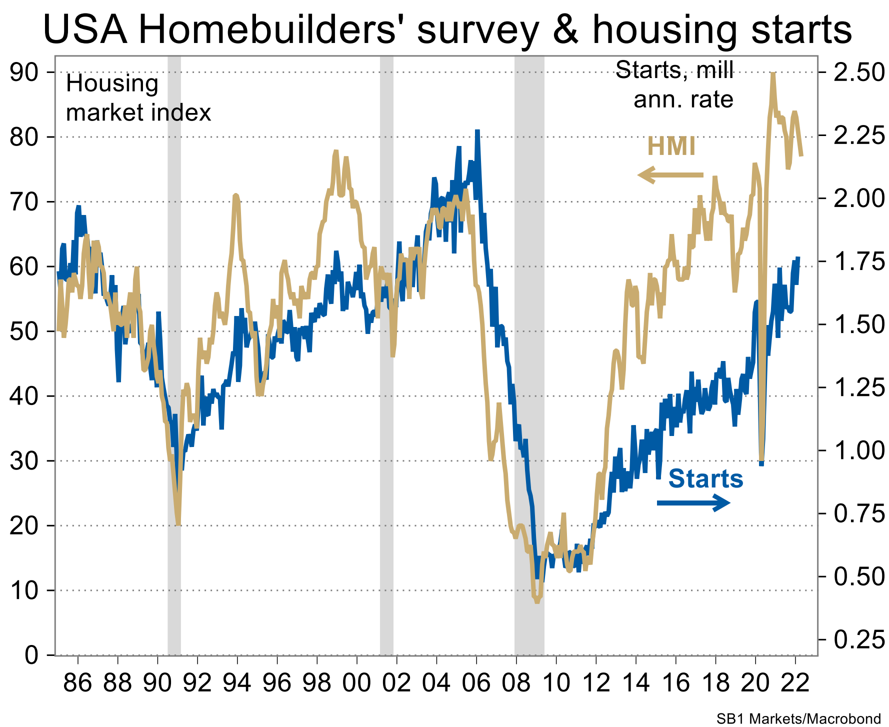


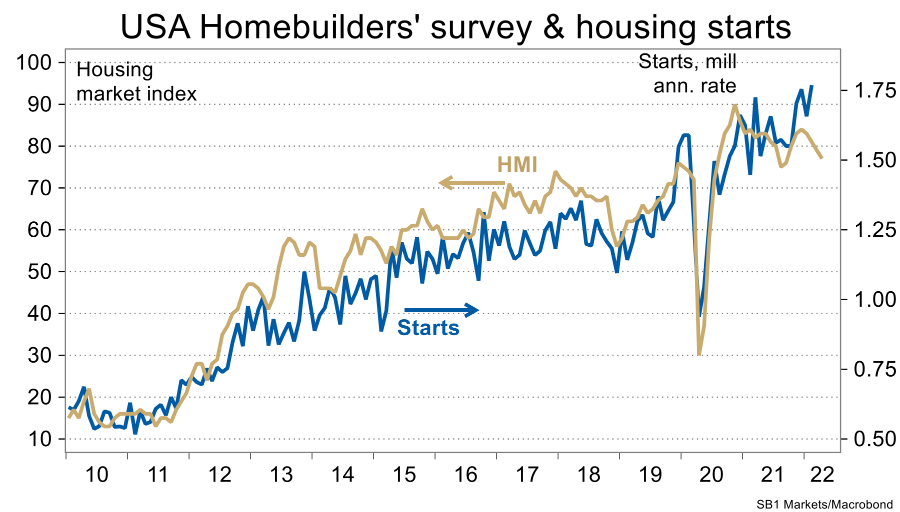


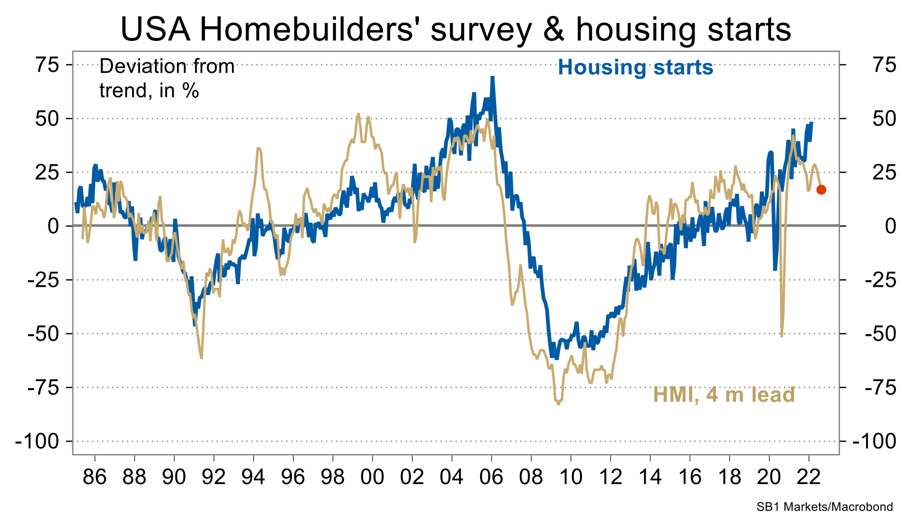
- The share of SMEs that plan to hike their **selling prices** gained 3 pp to 50%, an extreme print, check the chart to the right!
- The **'demand surplus'** has widening from a high level since early 2021 –and the Fed's started their tightening campaign one month ago, far later than normal vs the cycle – '*the bank is far behind the curve*'

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

No impact of the steep rise in the mortgage rate shock to be seen





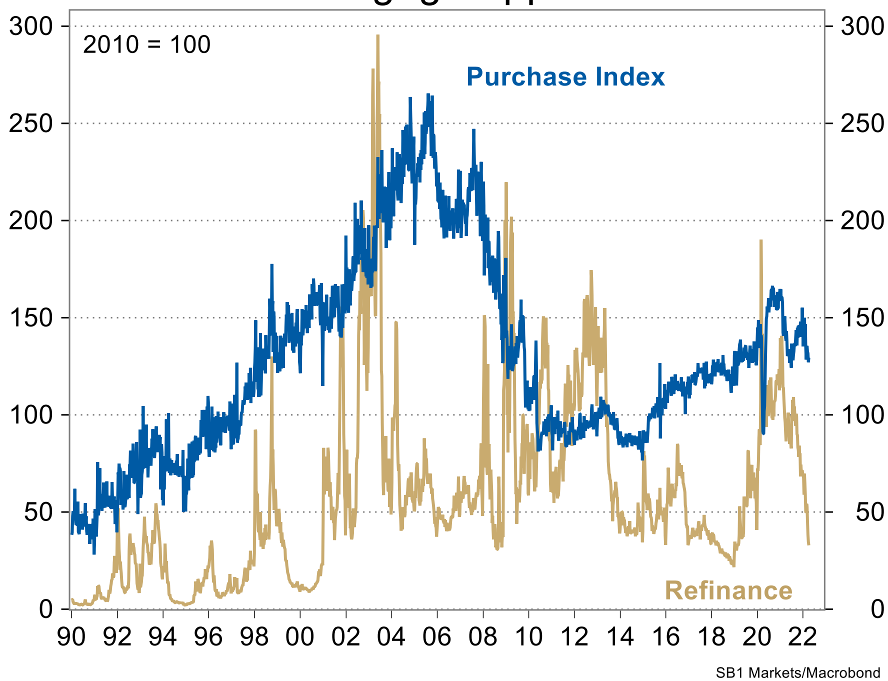


- **The Homebuilders' Housing Market Index** lost 2 p to 77 in April , as expected. The level is high but still down from 90 last Nov
- **Rising material prices, supply chain and labour shortages are still** creating challenges for the home builders, according to the NAHB – but those shortages may have peaked
- Even if the index level is very high, the HMI does not signal higher housing starts, ref. the chart on the bottom right

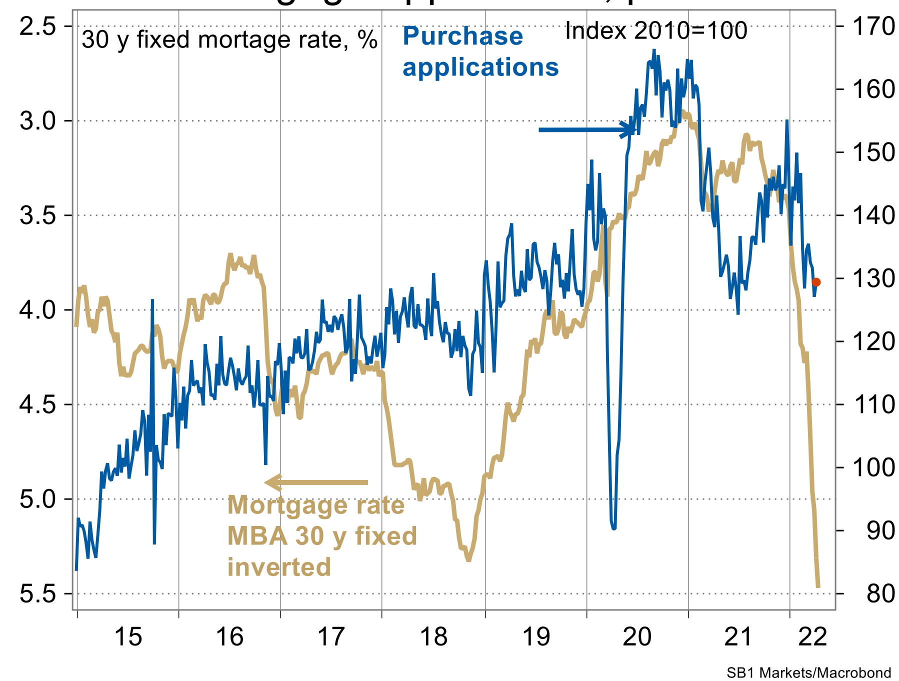
Mortgage rates are up – but demand for new mortgages has not yielded by much

Demand for refinancing has fallen sharply but that is not a warning sign

USA Mortgage Applications



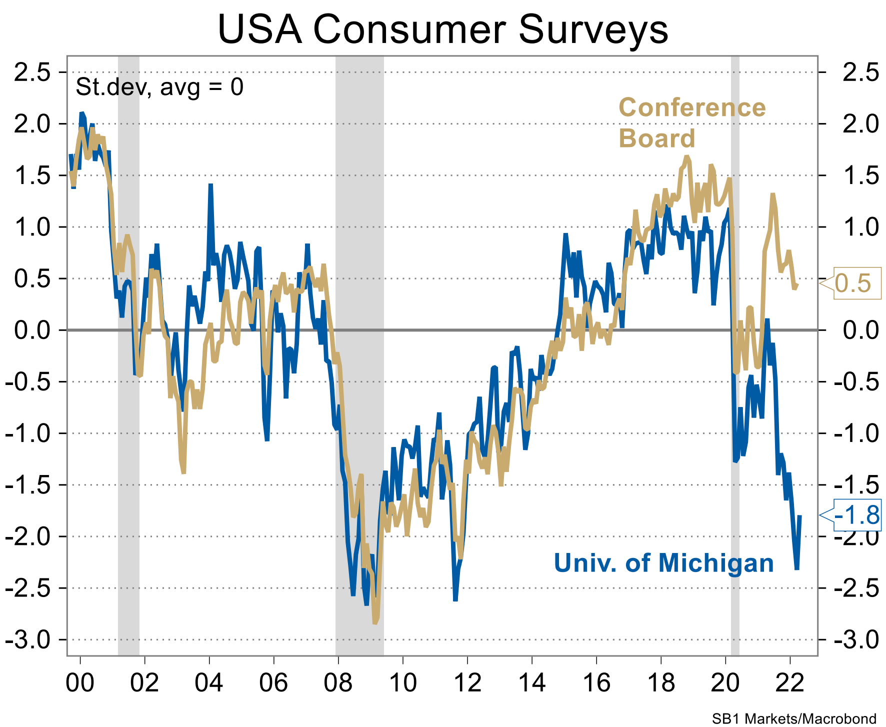
USA Mortgage applications, purchases



- The correlation between mortgage rates and existing home sales or prices are unstable

Univ. of Mich. consumer sentiment up in April, still very low

Inflation is a major concern, for good reasons. Still, sentiment is far below any fair 'model estimate'

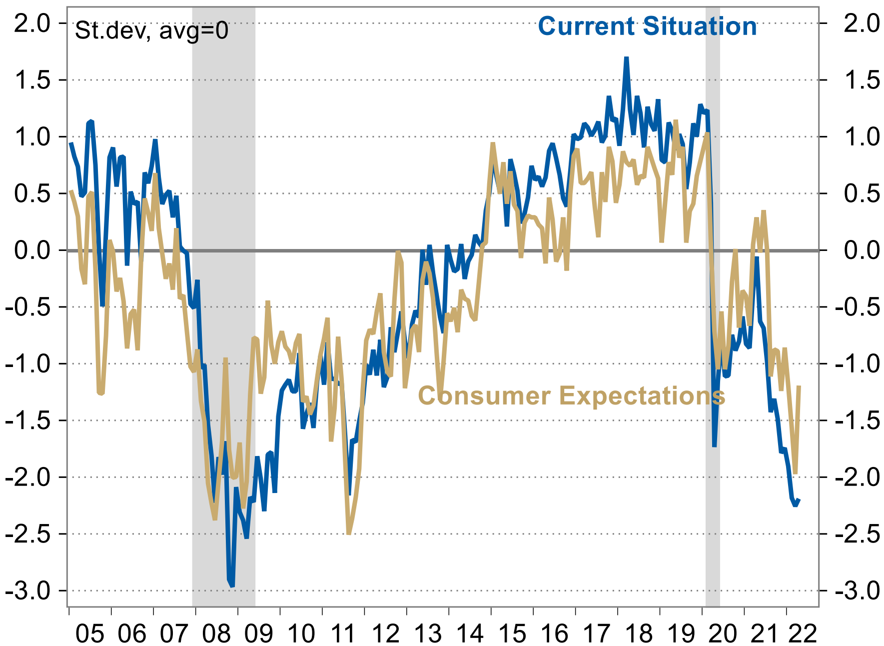


- **University of Michigan's consumer sentiment rose to 65.7 in April from 59.4 in March, expected further down to 59.0. The index climbed to -1.8 st.dev below average, from -2.3**
  - » Households' assessment of the current situation increased just marginally, but expectations rose sharply, to -1.2 st.dev, from -2.0
- **2 of the other 3 consumer surveys** we are following report a confidence level far below average levels, but both of these two recovered in March or April
- Just Conference Boards measure is still above average (at +0.5 st.dev) in March
- Sure, inflation is a HUGE worry, the stock market is wobbling (but still at a high level), and mortgage rates are on the way up (but are still at a low level). Even if some flags are red, it is not possible to explain the current extremely bad mood among households by any standard model
  - » Unemployment is close to record low, and the housing market is going strong. Covid is not included in the model, but the pandemic is on a rapid retreat in the US too
- The risk: The UM survey often has been an early bird in the cycle, and the survey may be 'right'

Univ of M: Finally, expectations up – but still at a rather low level

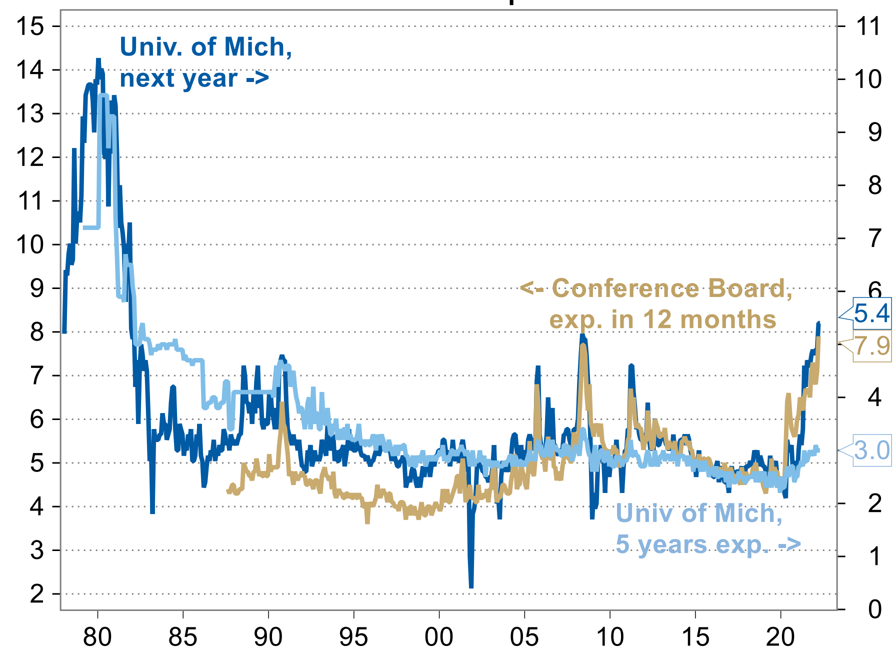
Inflation expectations stabilised – at a far higher level than normal (in the short end9

USA UoM Consumer Sentiment



SB1 Markets/Macrobond

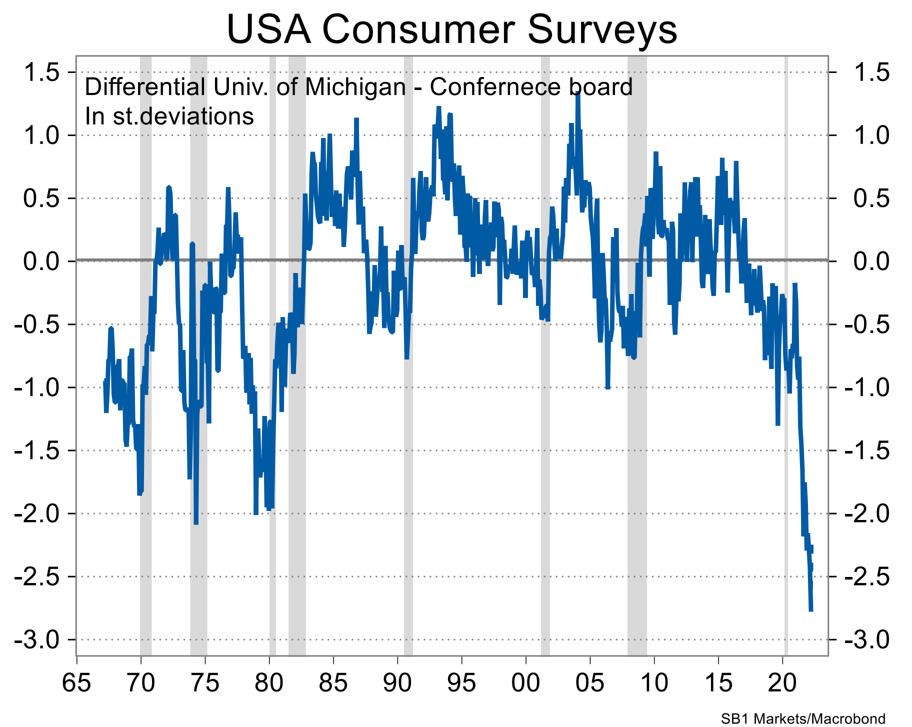
USA Inflation expectations

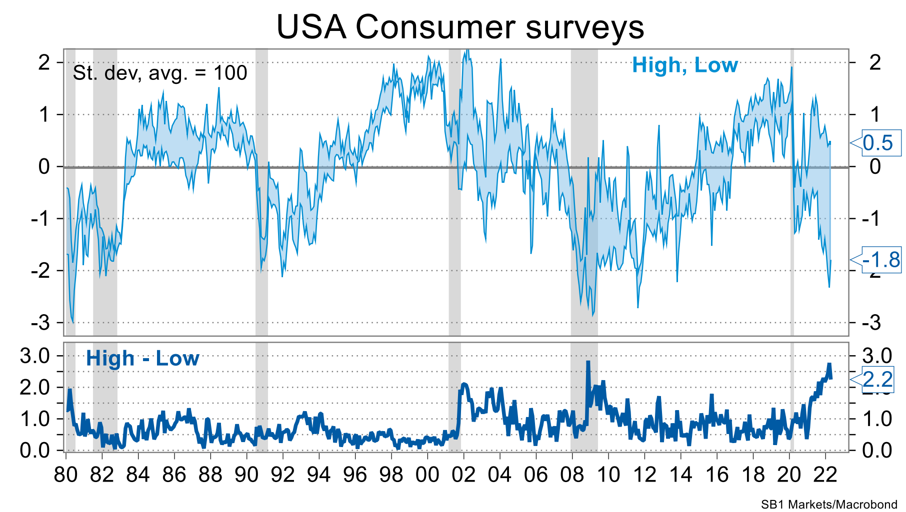


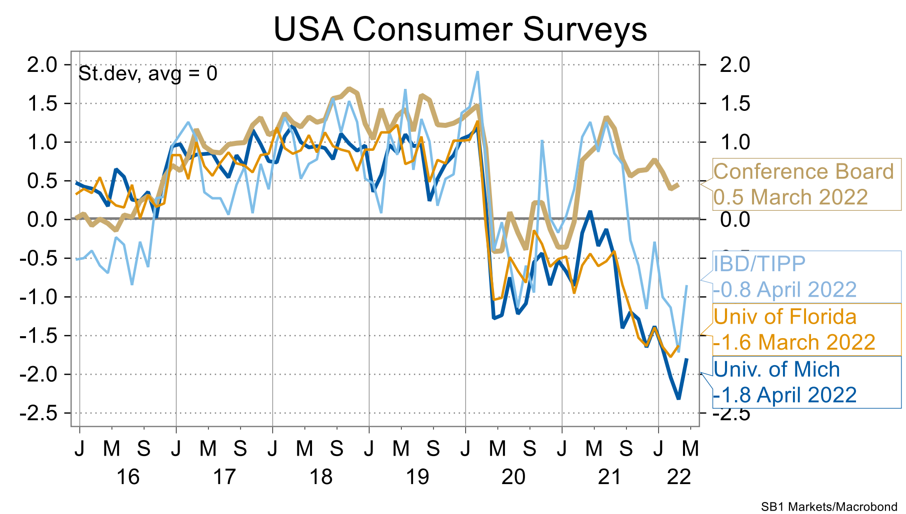
SB1 Markets/Macrobond

- The 12 m inflation f'cast was unch at 5.4%, the highest level since 1983
- The 5 y inflation expectation was unch at 3%, clearly above the average over the past 10 years – but not much higher than several times during the 2005 – 2012 period

The gap between Conf. Board & Univ. of Mich is larger than even seen before



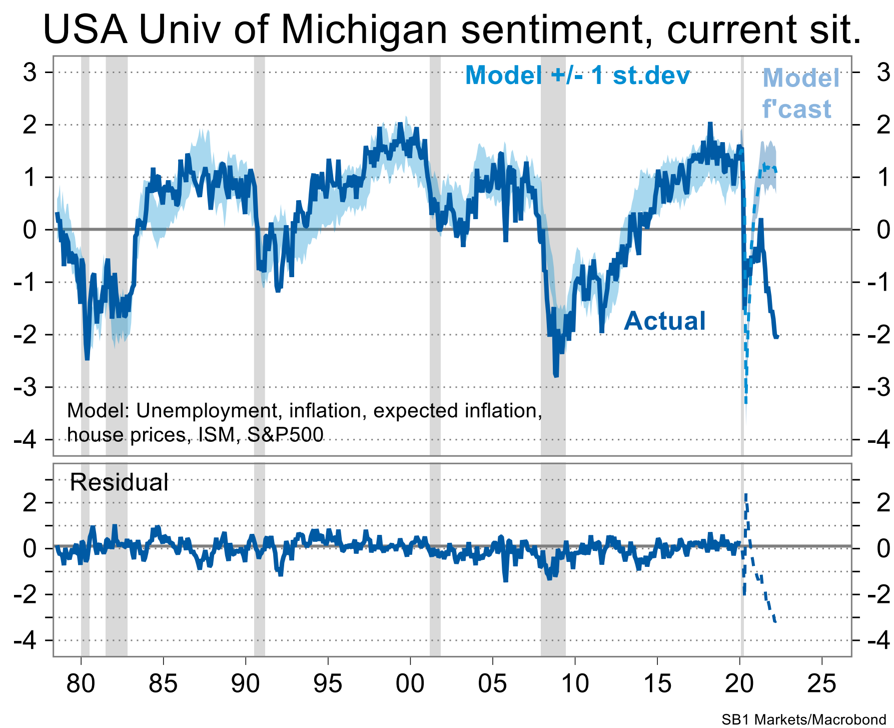


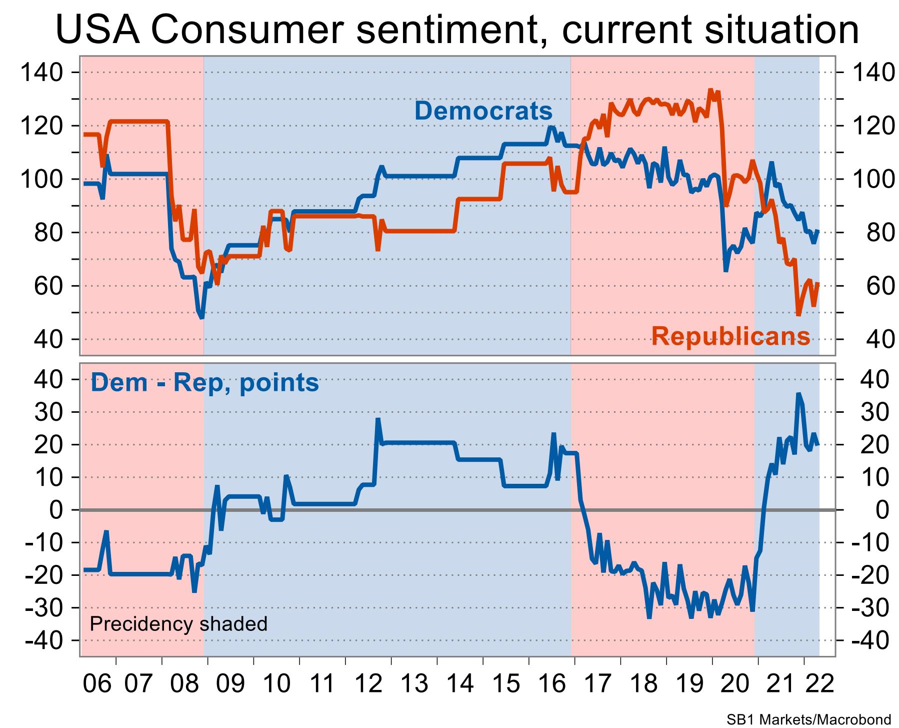


- Quite often, the UM survey has been the canary in the mine vs. recessions, it yields earlier than Conference Board's survey, and the current stance is a bad sign
- Still, as the virus is now at the retreat, there are not many other arguments for an imminent recession, and it will take time for the Federal Reserve to create one. Angst for a war at the other side of the Atlantic – or higher gasoline prices – are probably not sufficient either
- IBD/TIPP rose sharply in April, to -0.8 st.dev below average. The Univ. of Florida survey was 1.6 st.dev below par in March

Households should have been quite happy by now, even if inflation is high

Outside the model: The pandemic – but that treat has faded recent months

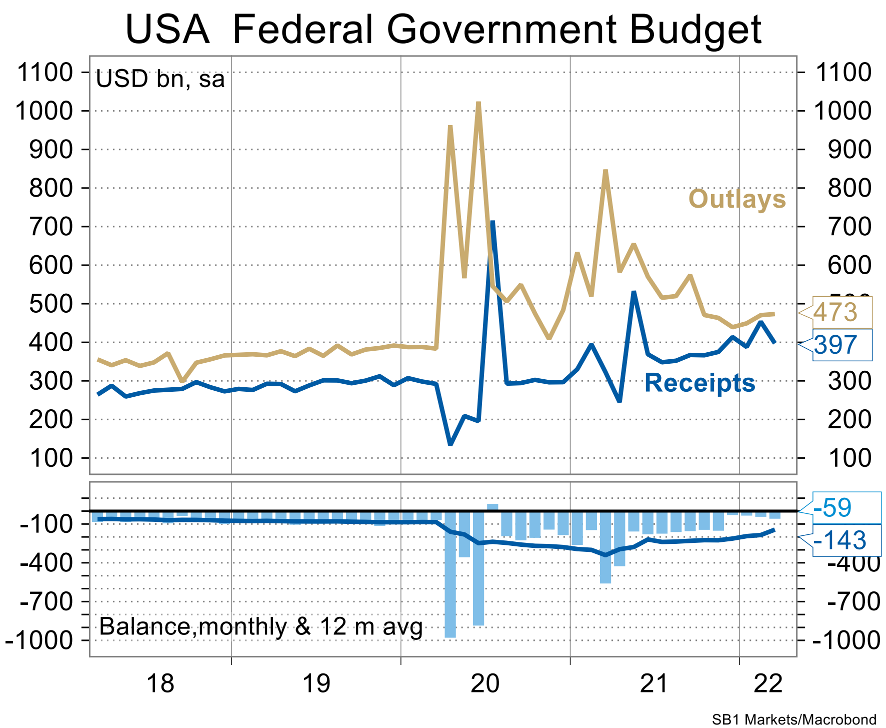


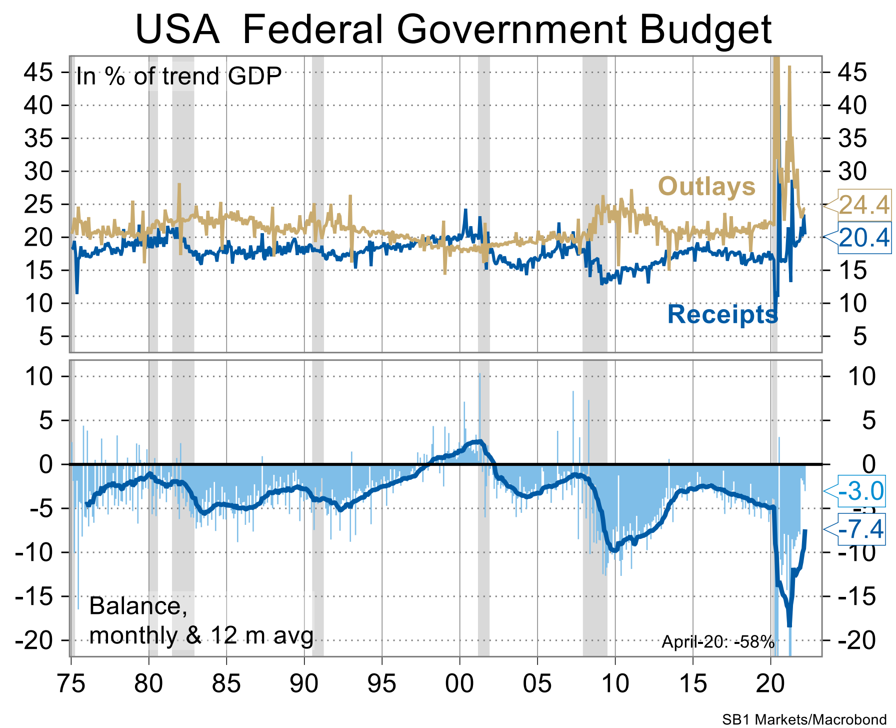


- **Our simple model** explaining the current situation part of UM's sentiment survey has worked pretty well, explaining all important ups and downs by standard economic indicators
  - » Unemployment, inflation – both actual and expectations - growth (ISM), the stock & housing markets, all contributing significantly with the 'right' signs. The deviation in the early phase of the pandemic is due to the unusual developments in our lives, in the economy at markets
- However, given the normal drivers, the UM sentiment should have been far above an average level now – even if both actual and expected inflation is far above normal – the other drivers should have more than compensated for the drag from inflation (like unemployment, the housing & the stock market
  - » We can not blame overly pessimistic Republicans too much either (they are very negative but not more so the recent months)

The budget towards… 'balance'?

The deficit has fallen to 3% the past 3 months

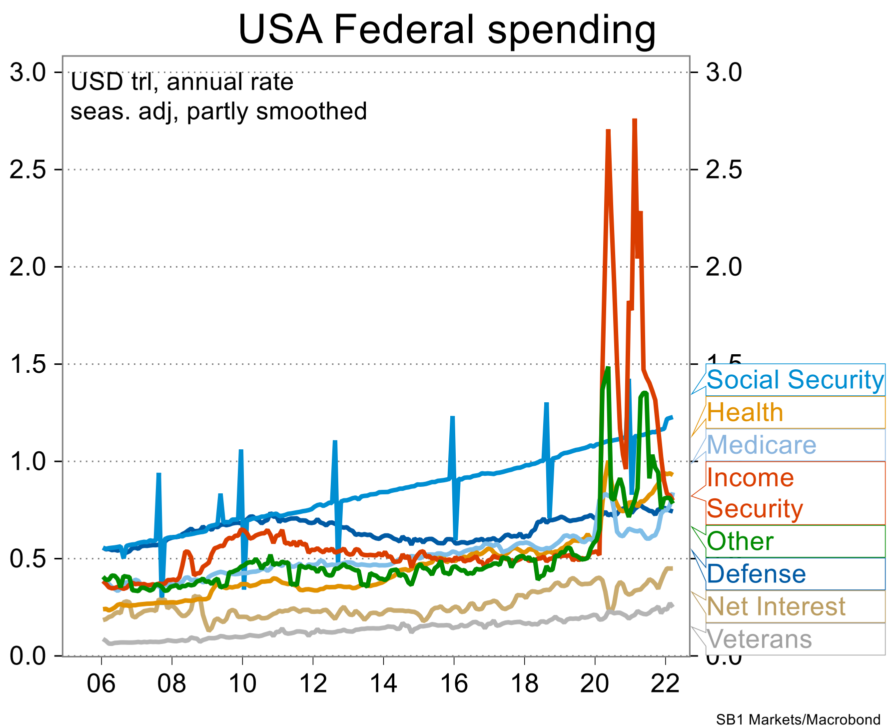


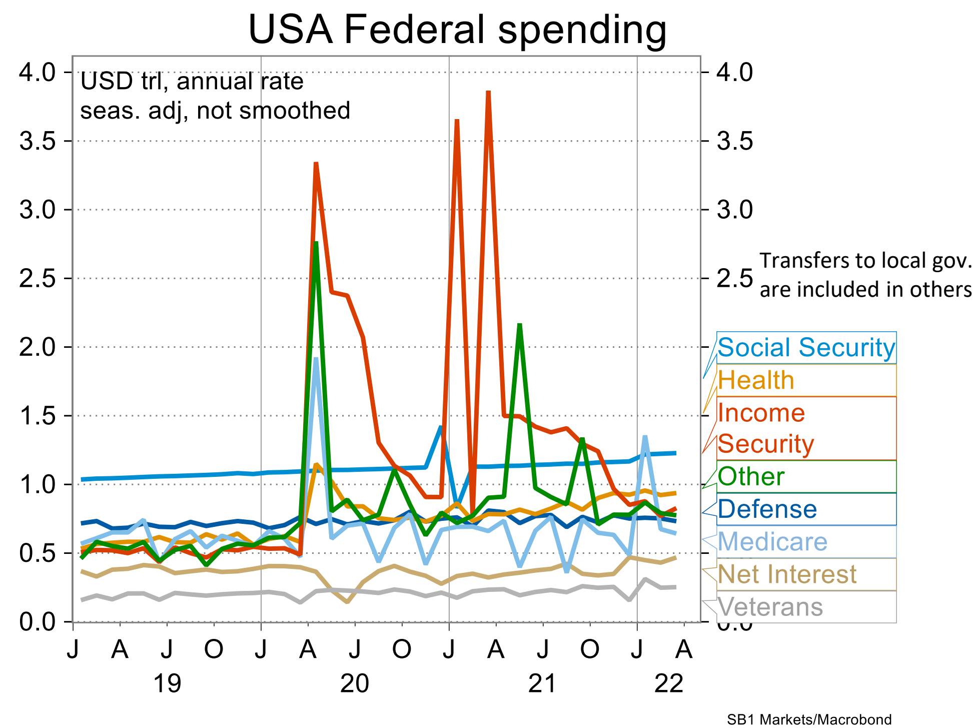


- **Federal expenses** are gradually declining as pandemic programs are scaled down. Spending equalled 24.4 of GDP in March, still higher than the 21 – 22% pre-pandemic level
- **Federal receipts** have recovered sharply since last summer, due to robust growth in GDP and employment. Revenues equalled 20.4% of GDP, which is far above the pre-Covid level at some 17%
- The actual **deficit** was just USD 192 bn in March, as expected. The seas. adj deficit equalled USD 59 bn or 3% of GDP. Over the past 12 months the Federal deficit has equalled 7.4% of GDP. Before corona, the federal deficit was at close to 5% - in a booming economy

Income security & 'other' spending (much to states) are normalising

However, health spending is accelerating again, due to the fight against the virus, we assume

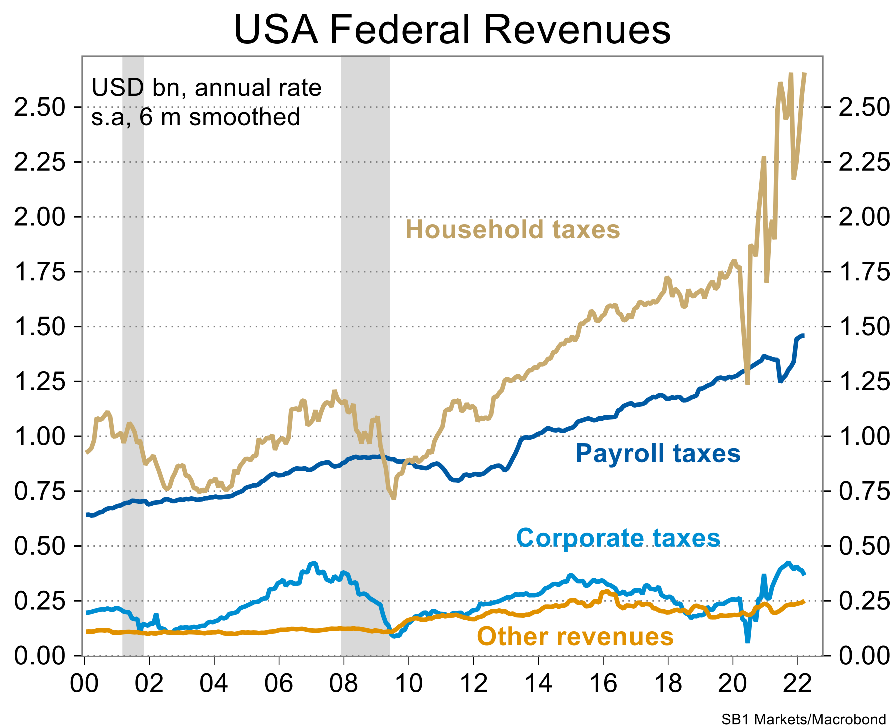


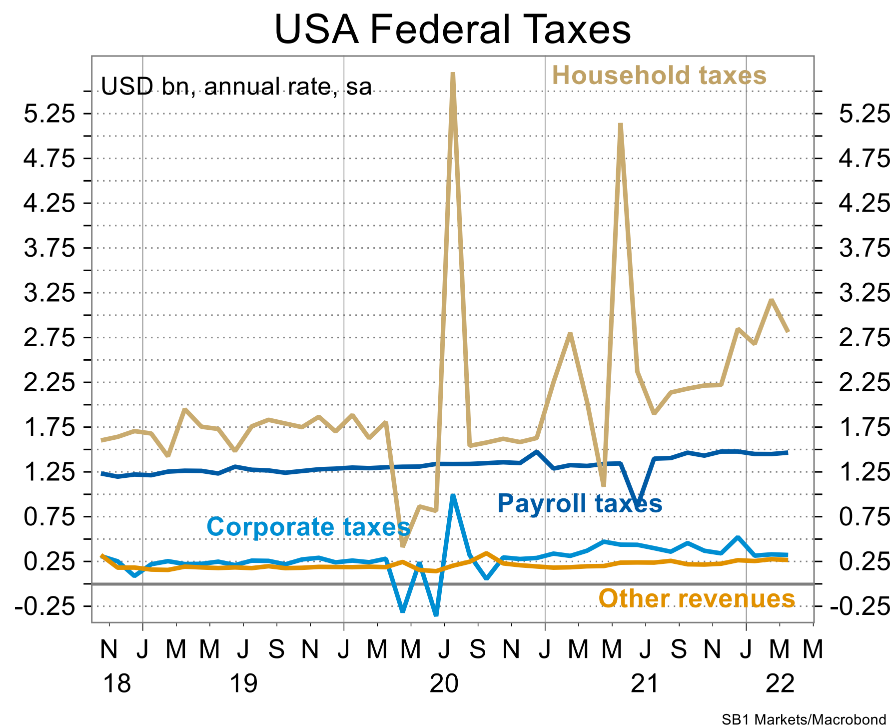


- Both Income security and 'other spending' are well above the pre-pandemic level. Health spending is up too
- We still deem most of this extra spending to be temporary and due to the stimulus packages, and other Covid related measures

Tax revenues have are significantly higher than before the pandemic

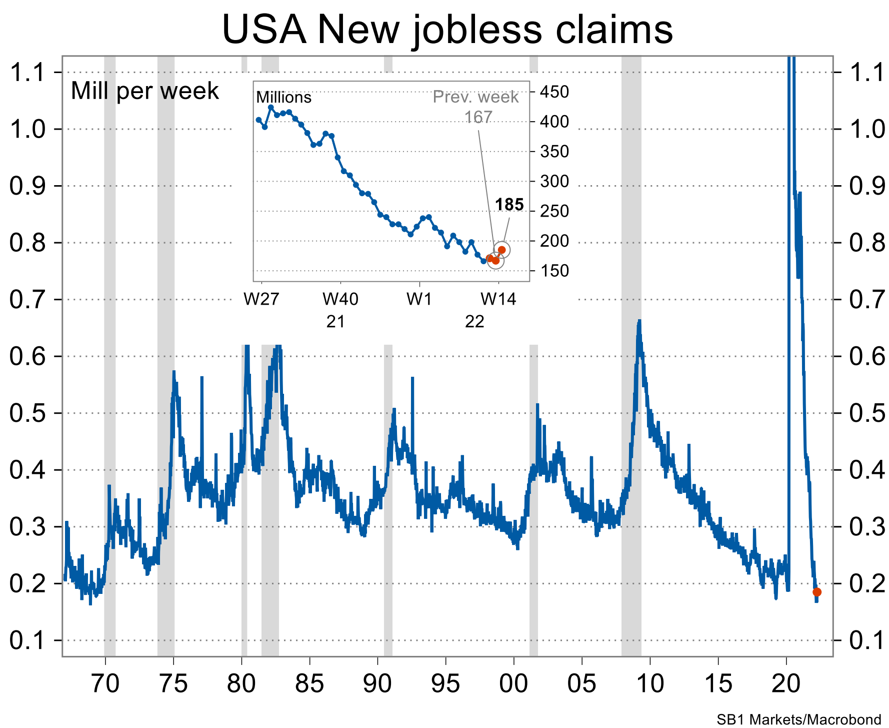
Especially taxes paid by household and even by corporates

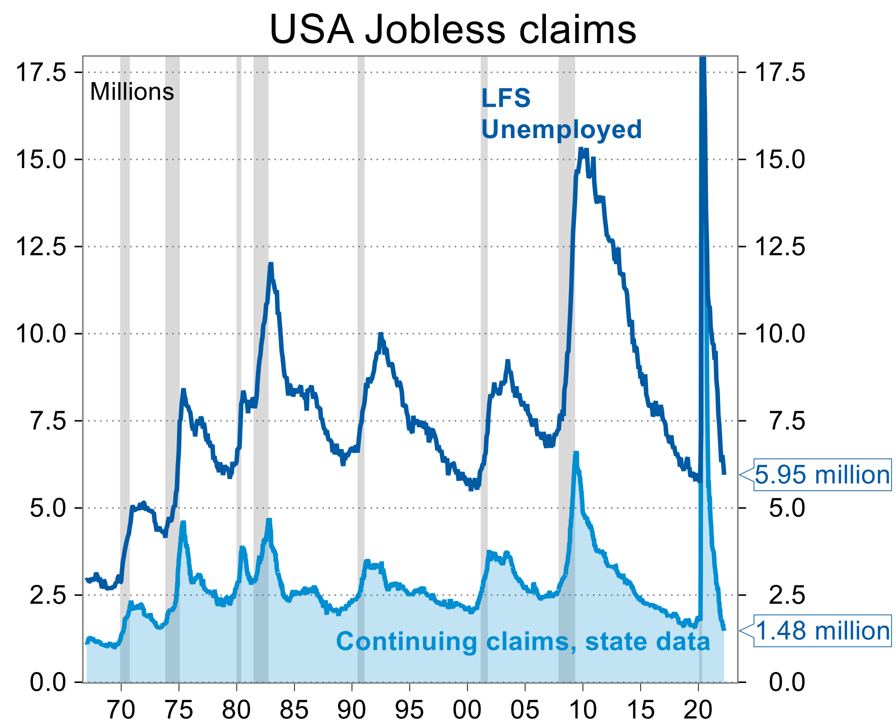




New jobless up from cycle low, still well below 200’

And to a record low level vs the size of the labour force. Continued claims also at very low level

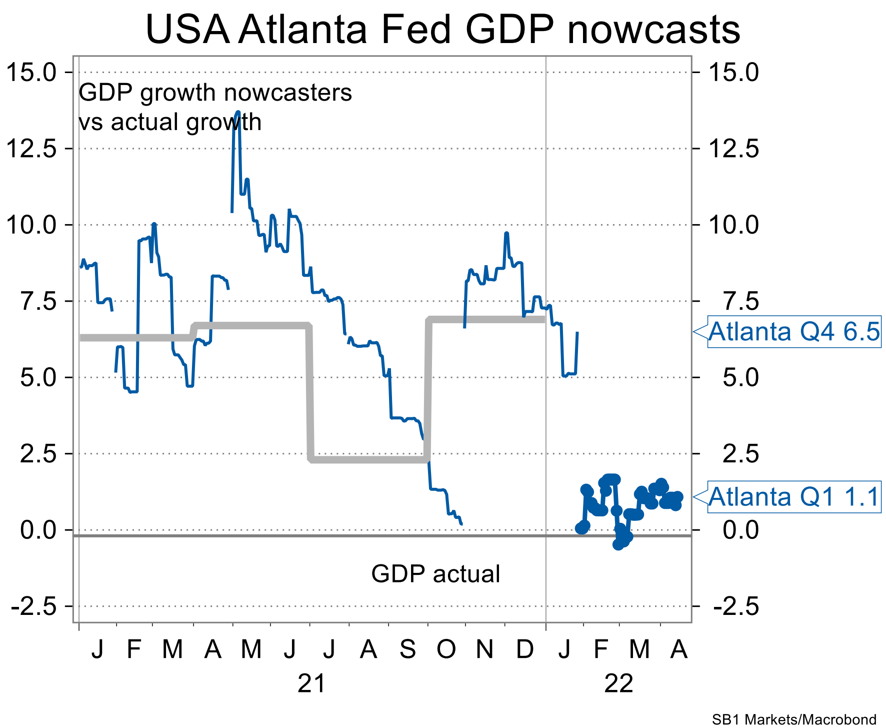


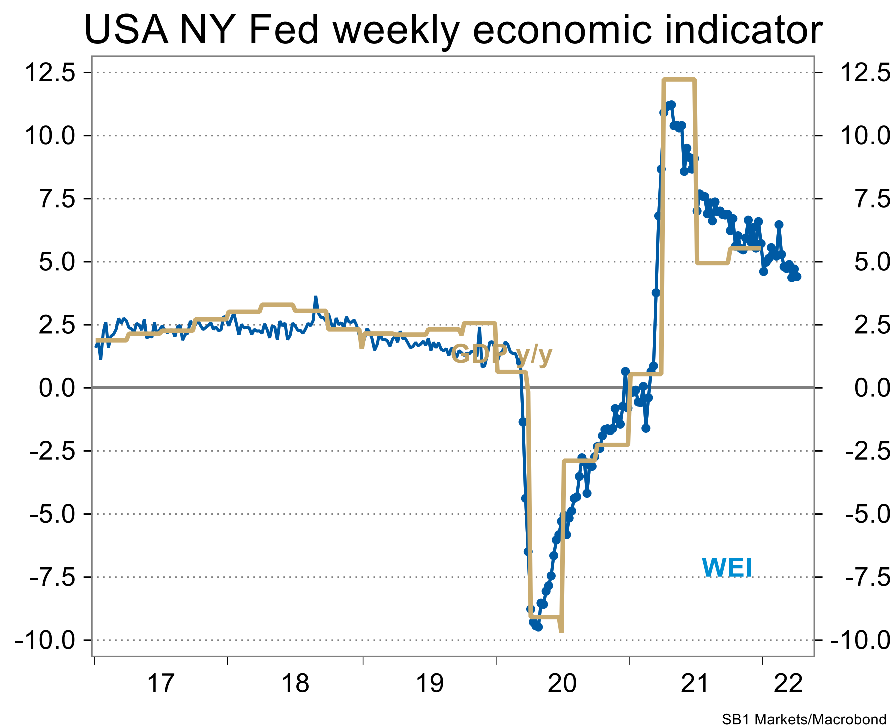


- **New jobless claims** rose 18’ in week 14 to 185’ from 167’, which was very close to the lowest inflow ever, a week in December 1968, when the labour force was 2 times larger than today
- **Ordinary continuing claims** declined by 48’ to 1.48 mill in week 13, the lowest level since early 1970’ies

Atlanta Fed’s nowcaster suggests 1.1% growth in Q1

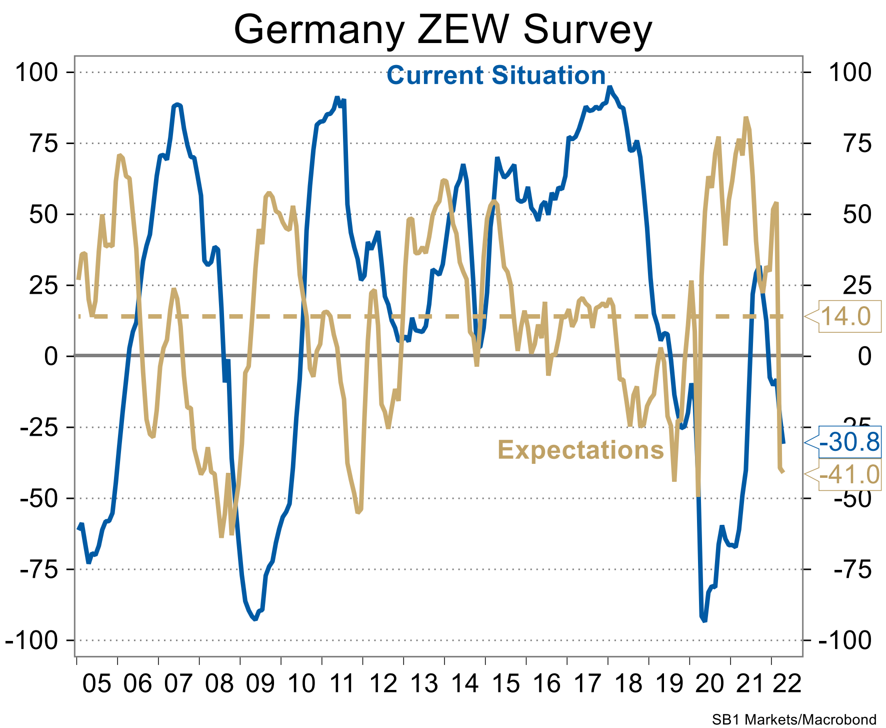
Net trade & inventories contributes at the downside, according to Atlanta Fed





No light to be seen in the tunnel: ZEW expectations further down in April

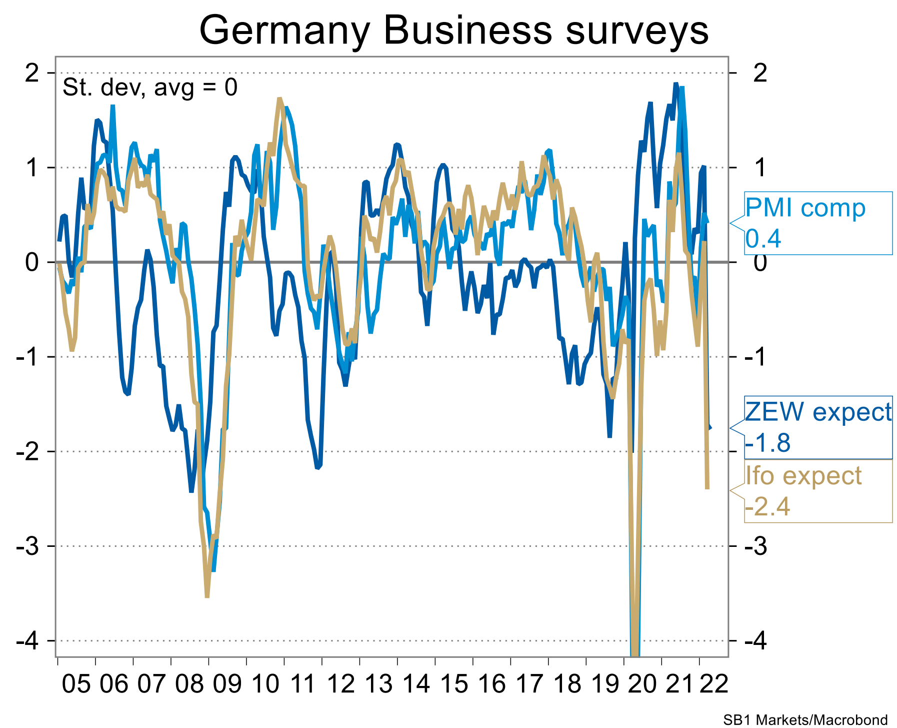
German investors/analysts are still totally shocked by the war & its possible consequences

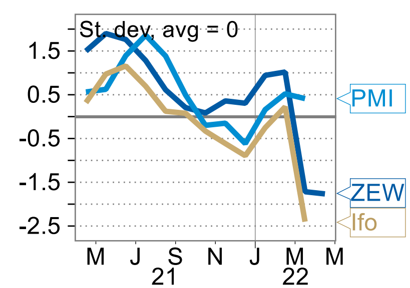


- The **ZEW expectation** index fell to -39 in March from +54 in February, or from +1 above st.dev to -1.7 st.dev below average, and fell 2 more points in April. The decline in March was the largest by far (-94 p in March vs. the largest drop so far, -58 in March 2020). The level normally signals a decline in GDP – a substantial decline. There is of course just one possible explanation
  - » Expectations did not recover as we assumed, even if the DAX stock market has returned to the pre-invasion level
- Assessment of the **current situation** also declined in March, but 'just' 13 p. However, the index fell further in April, by 9 p to -31 – which is also far below an average level

Ifo business expectations also collapsed, in March

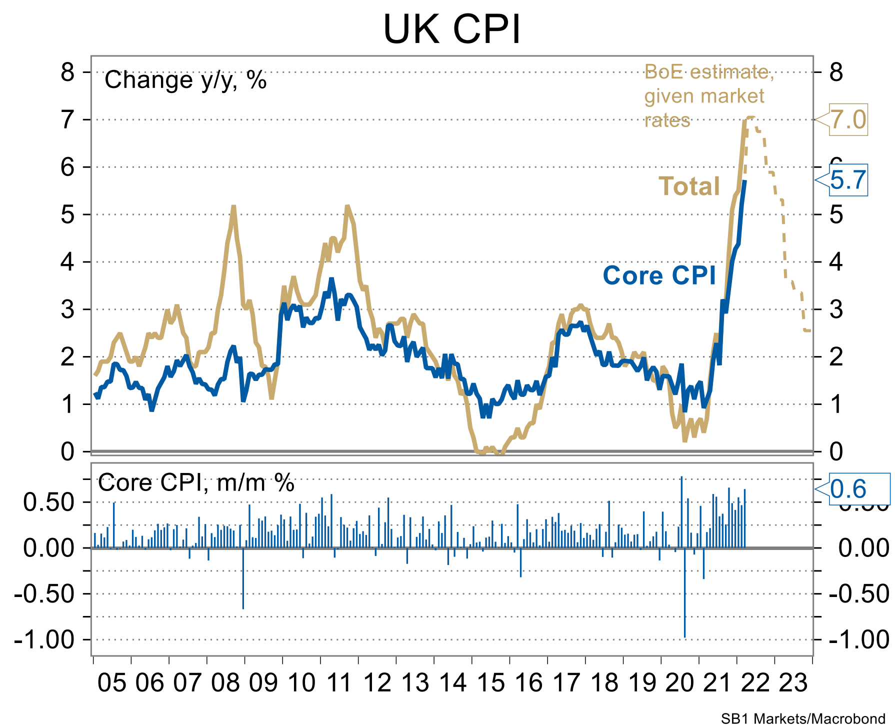
.. While the PMI still reported growth in activity above average

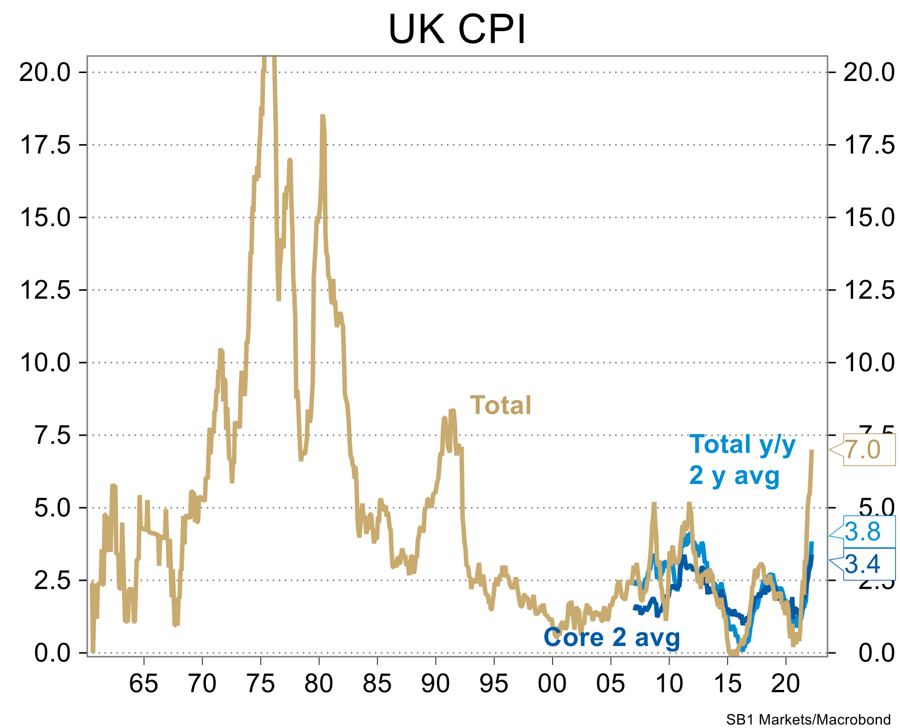




Inflation up to 7.0%, the core to 5.7%, 0.2 - 0.3 pp above expectations (again)

The core up 0.6% m/m, as is the 'new normal' these days

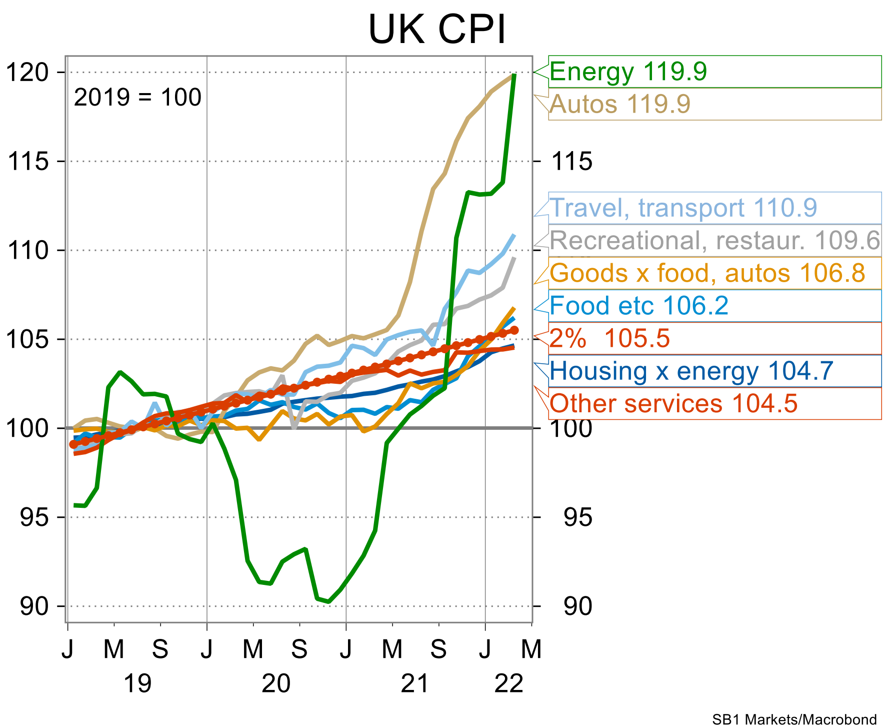


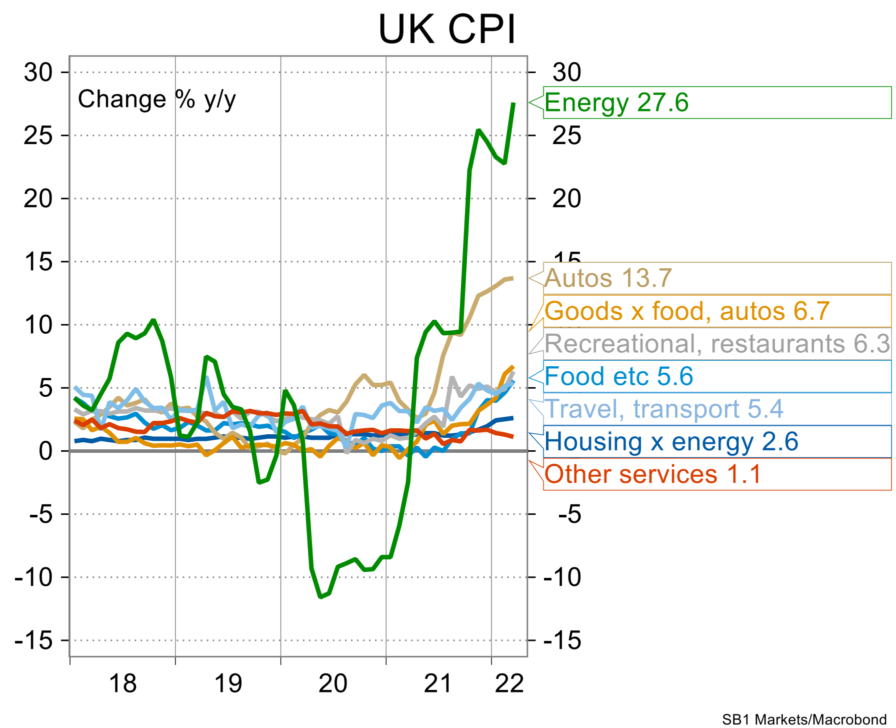


- **The total CPI** rose 1.0% m/m. The annual rates for both the headline and the core are the highest since the early 1990'ies. Measured over the past 3m/3m the core index is up 6.2%
  - » **Measured over 2 years**, headline is up 3.8%, and the core is up 3.4%, which both illustrates the base effects from low inflation last year but also that inflation is well above BoE's 2% target, anyway how we calculate it!
- **Energy has lifted the headline rate by 1.8 pp. Other goods, also excluding food & autos are sharply up, contributing just as much has energy!**
- **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 most main components above the 2% growth path

Autos, goods x energy, food & autos, restaurants, food also sharply up

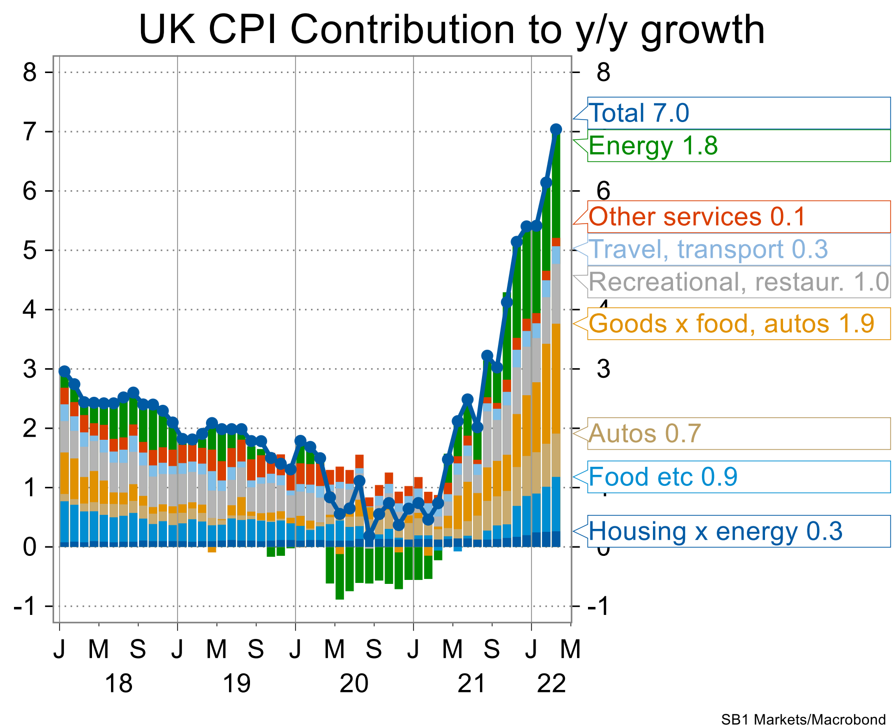


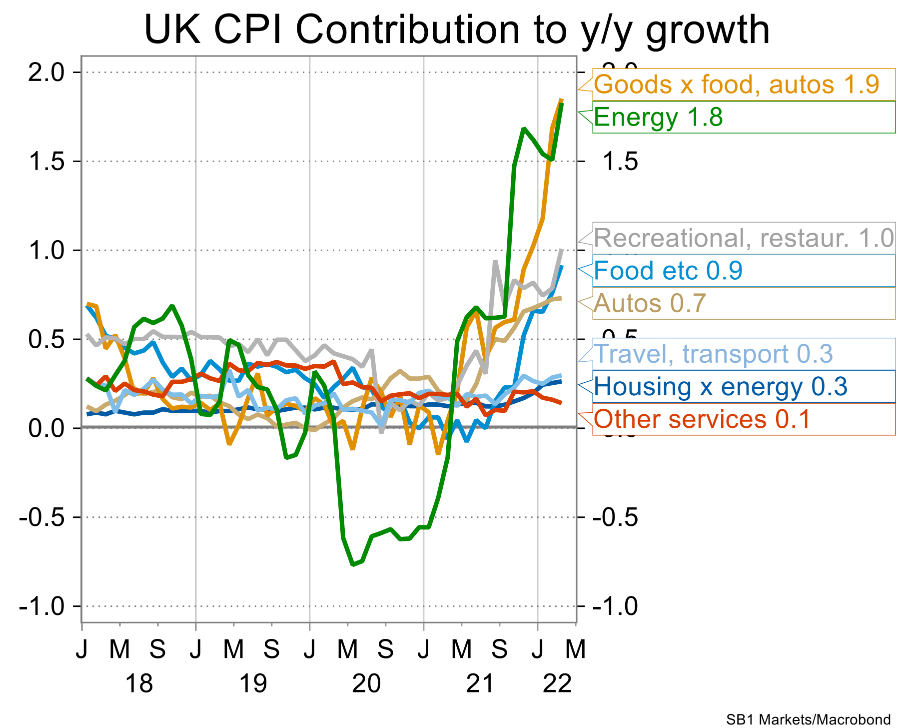


- **Energy prices** are up 28% y/y, rather modest vs. the lift in spot gas and electricity prices. Gas prices are regulated in UK, with caps – and another lift will be implemented in April

Energy is important, but several components contributes as weell

Goods x food & autos prices have shot, as have recreational services/restaurants, foods, autos

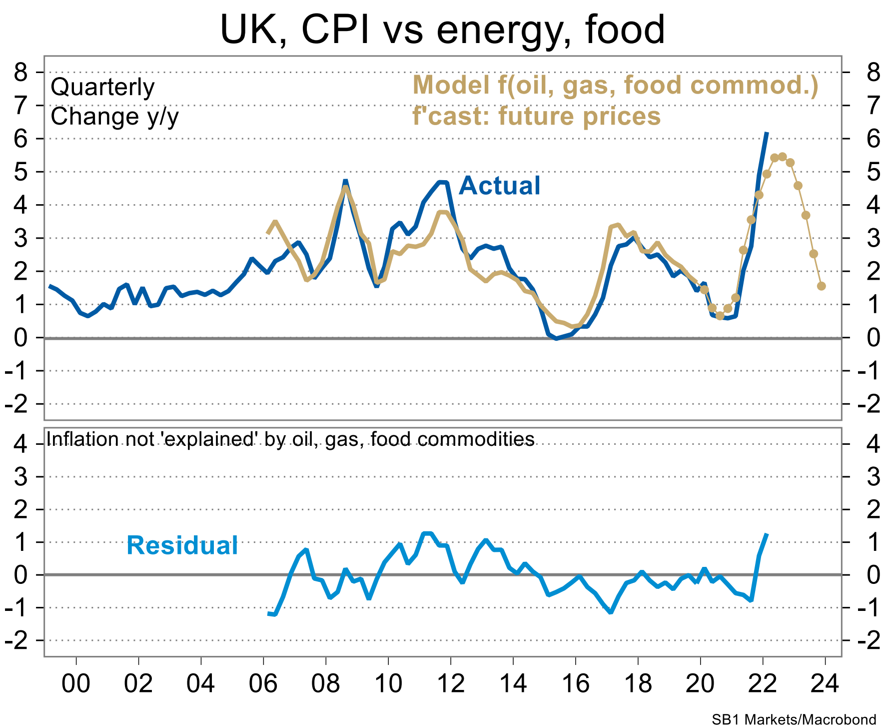


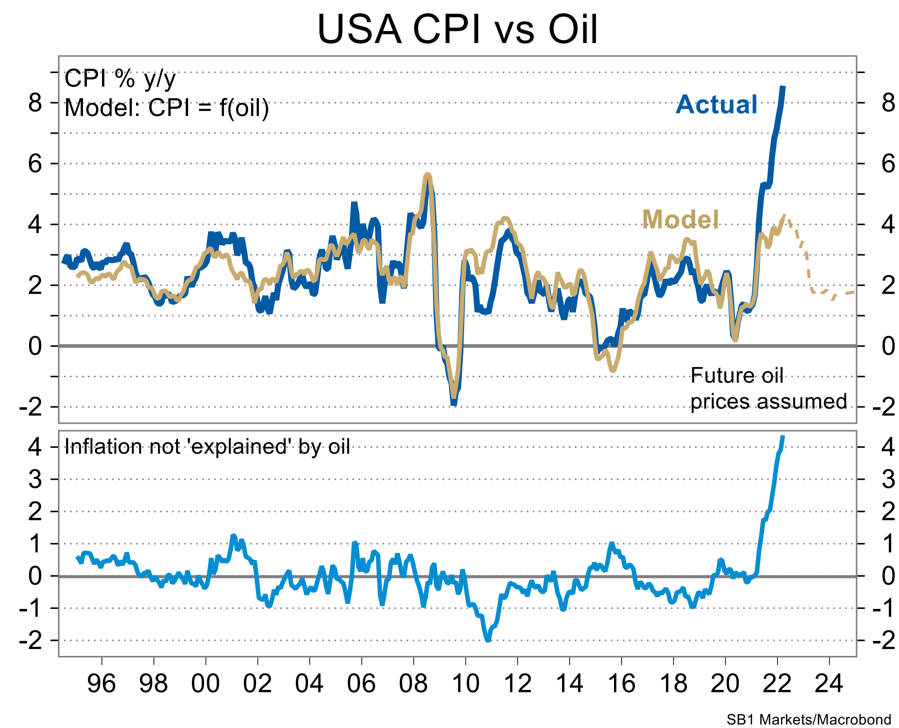


- Among other goods than energy, food, autos: Households goods, clothing are up 9 – 11%!

Oil and gas prices may still explain the surge in UK inflation

Our model covers (in principle) all impacts of higher energy prices

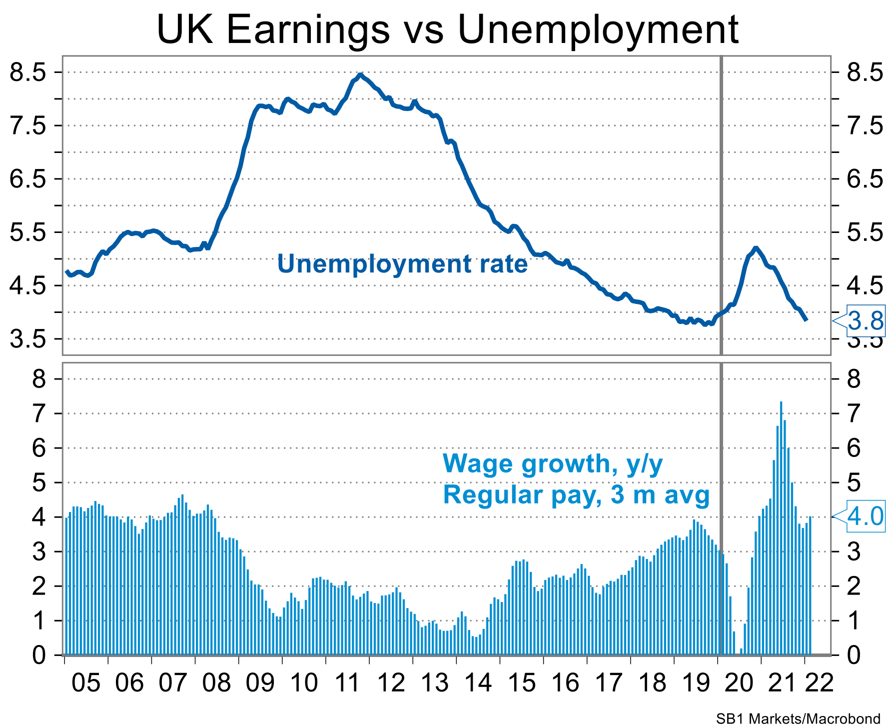


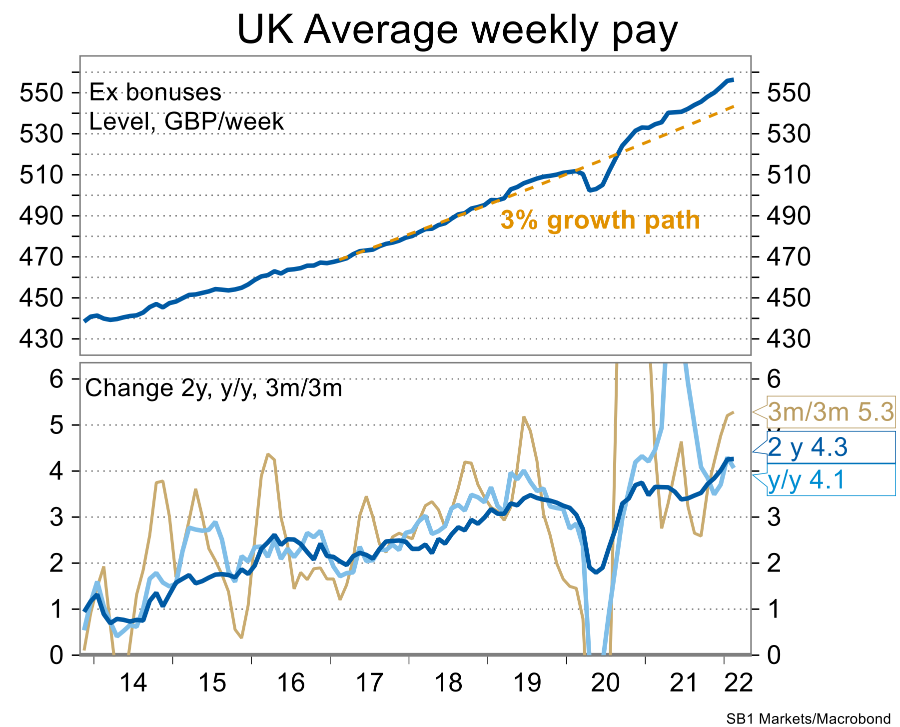


- The contrast to US inflation is striking, even if the annual headline rates are quite similar

Unemployment is trending down - to just marginally above the pre-p level

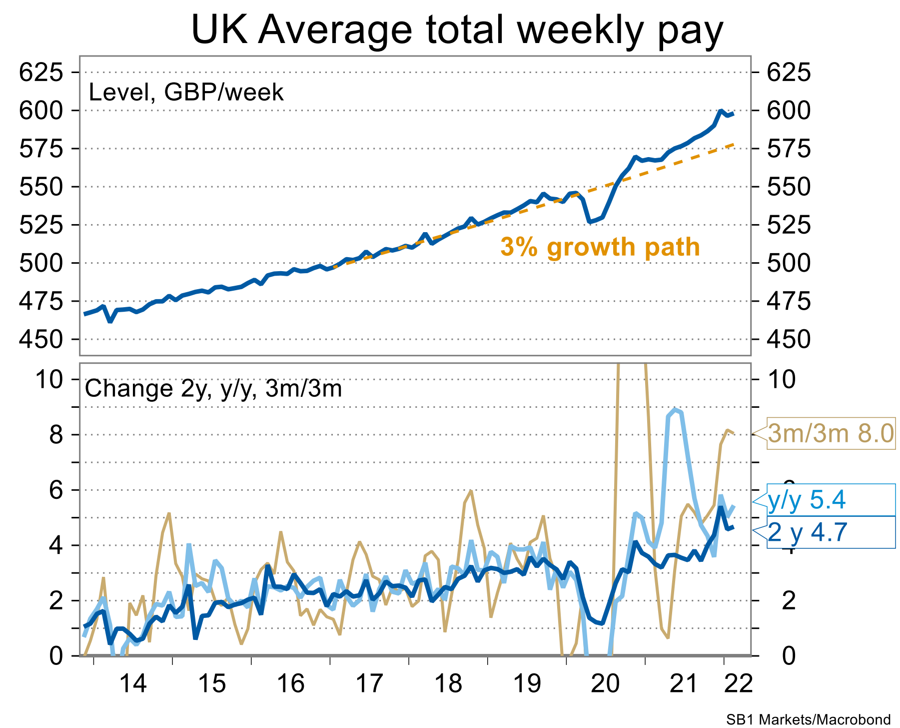
Wage inflation is accelerating, the pace is now above 5% (regular pay), and 8% (including bonuses)





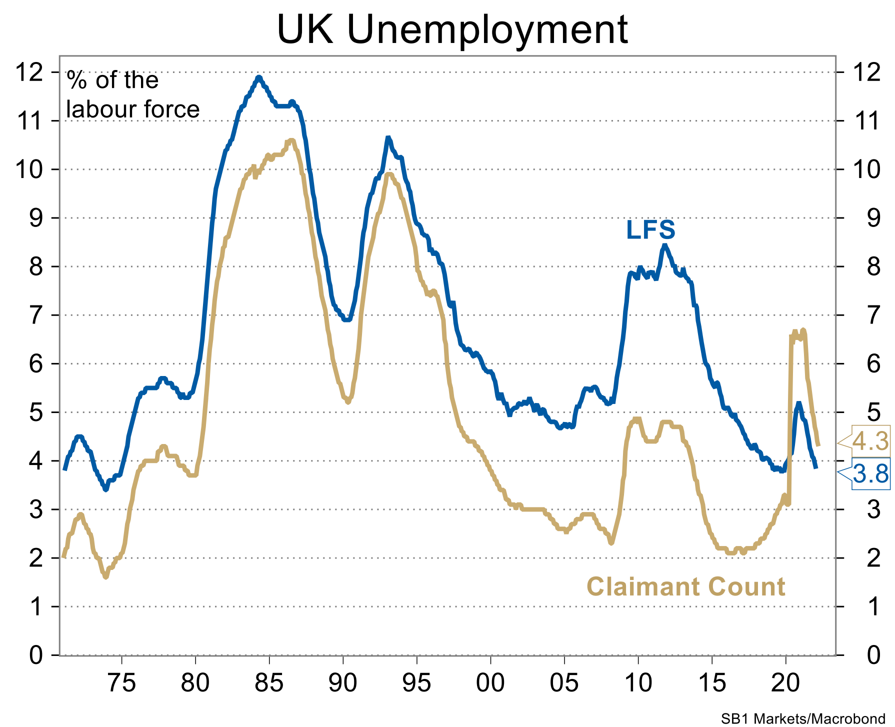
- **Annual wage growth** (regular pay, 3 m avg) accelerated 0.2 pp to 4.0% in February, as expected. Not smoothed, wages were up 4.1% (unch). The underlying 3m/3m rate rose further, now at 5.3%
- **Including bonuses**, total wages are up 5.4%, and underlying 3m/3m growth equals 8%!
  - » Over the 2 past years, total weekly pay is up 4.7% in average
- Just before the pandemic, wage inflation was approx 3% (total pay) to 4% (regular pay) – but just between 2 and 3% the preceding years. Thus, the current wage inflation rates are well above the British 'norm'
- The **'LFS/ILO' unemployment rate** fell to 3.8% in January, from 3.9% in December – just marginally above (the 2. decimal) above the pre-pandemic level

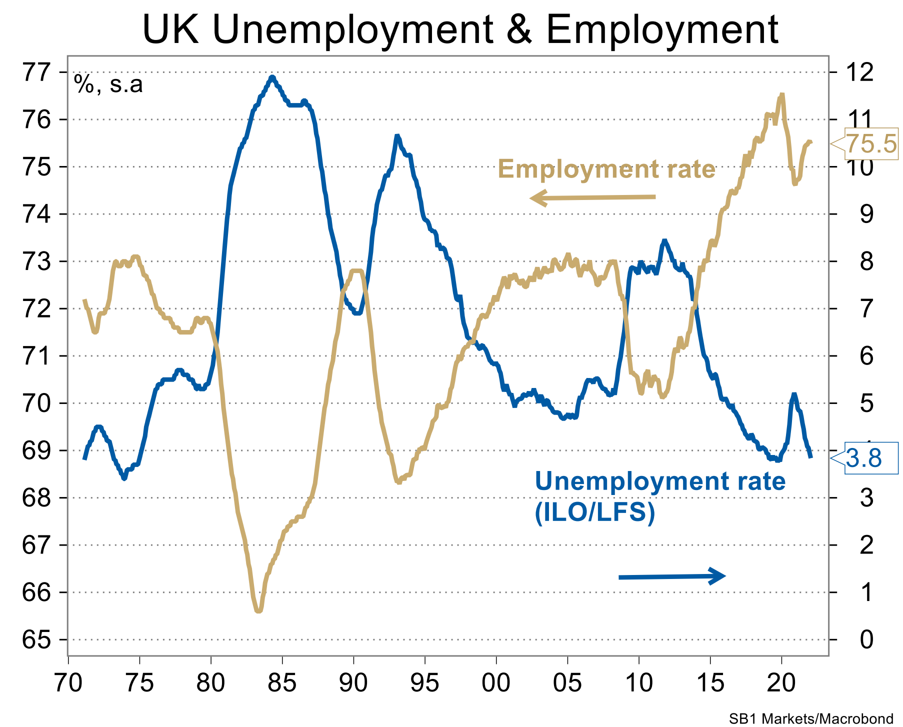
Total pay, including bonuses, is accelerating even faster



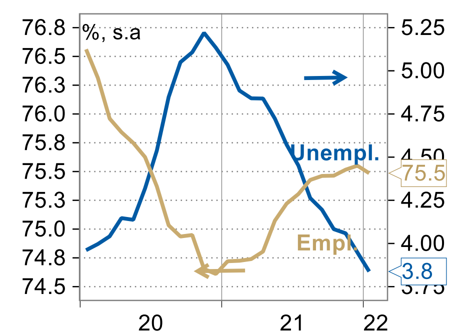
‘Open’ registered unempl. at 4.3%, sharply down since last spring but still ‘high’

The LFS (ILO, ’AKU’) unemployment rate has fallen 3.8% - close to the lowest level since 1975



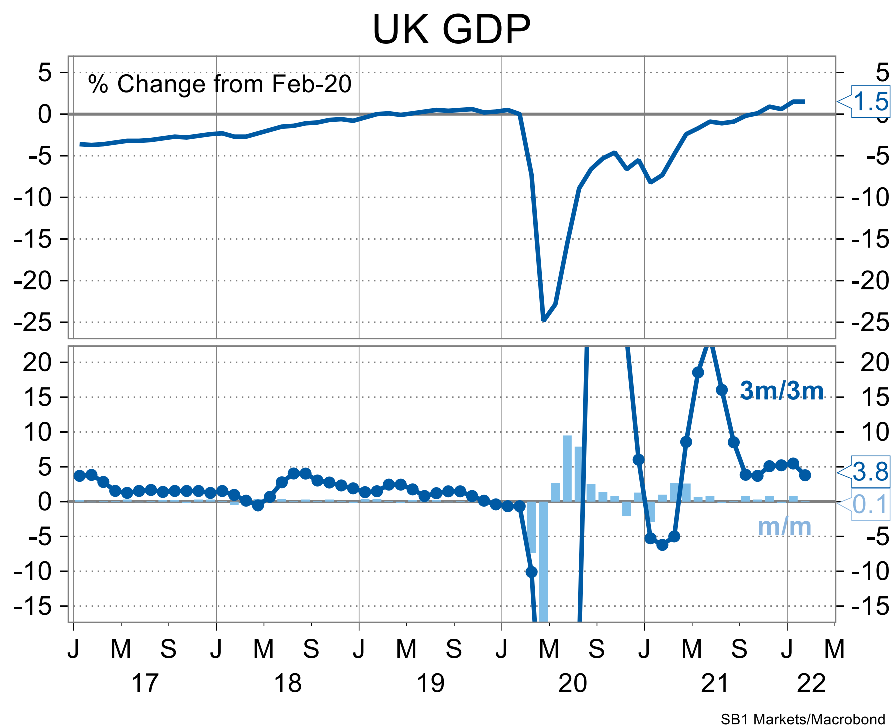


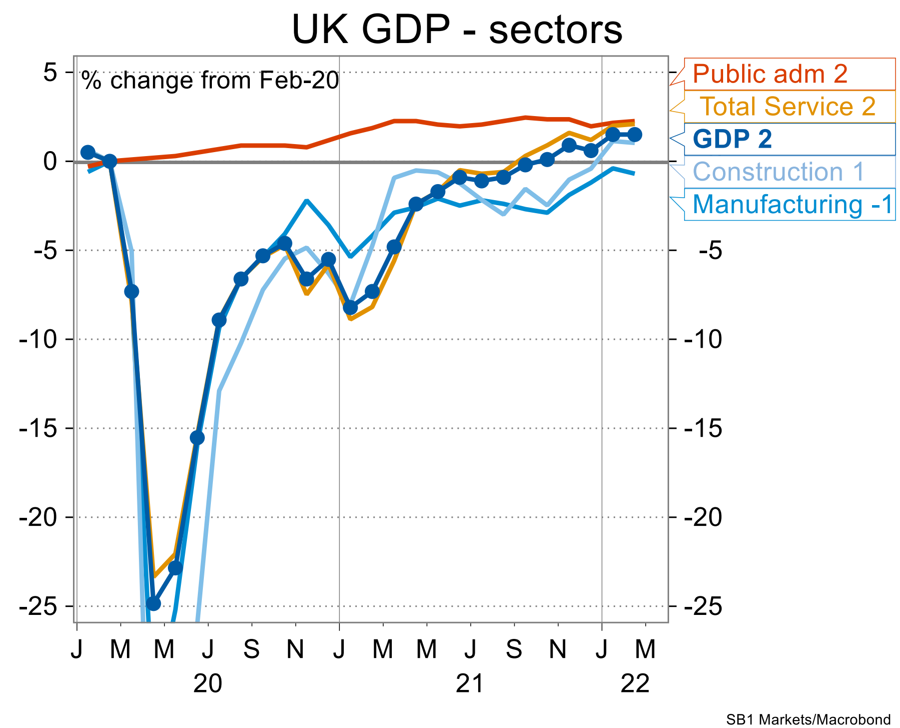
- However, the employment rate is still 1 pp below the record high pre pandemic level
- On the other hand: The no. of unfilled vacancies is record high and still increasing rapidly



GDP up 0.1% in February, underlying pace some 4%

GDP is 1.5% above the Feb-20 level – but well below any reasonable trend path

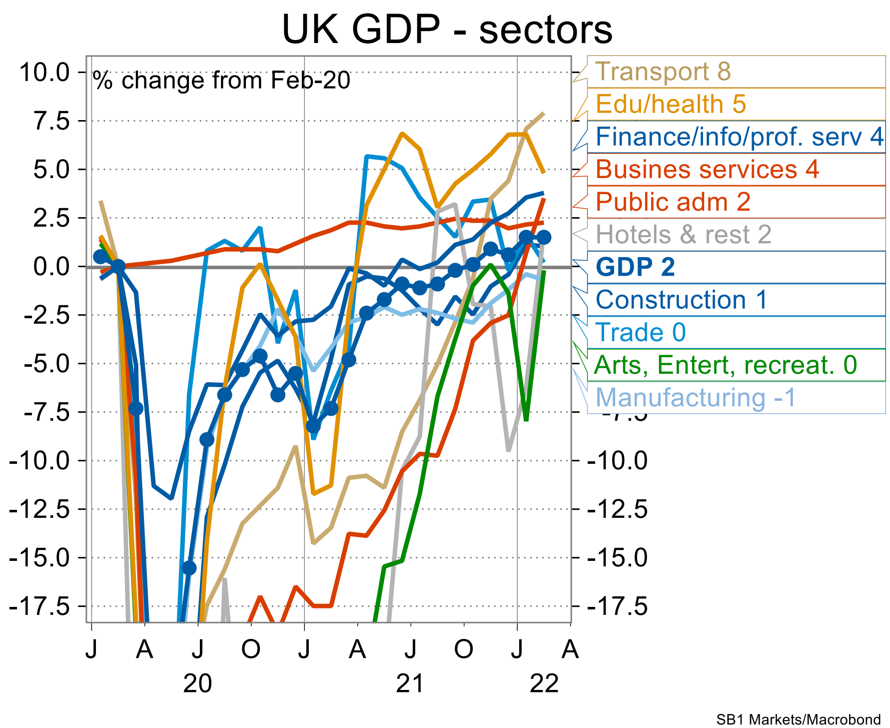




- **GDP growth** has been modest given the still low GDP level since last June, at a 4% growth pace
- **Growth in service production** slowed somewhat during the fight against the Omicron variant, but will probably pick up again
- Manufacturing production been growth at brisk pace recent months, but the level is low – 1% below the pre-pandemic level
- **Public demand** has been the main growth engine through the pandemic but is now slowing. **Household demand** is now recovering but are still well below the pre-pandemic level. **Business investments** may have bottomed but remains well below par. Exports are down, but so are imports, and net trade is close to neutral

Hotels & restaurant, recreation down in Omicron December – will come back

Professional services/finance, construction, manufacturing, education/health up

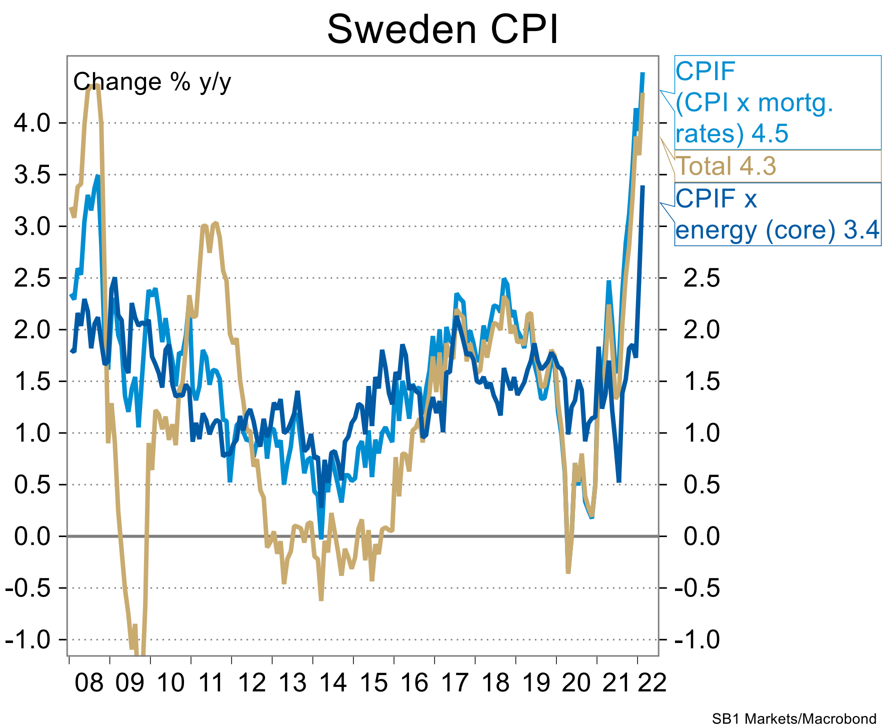


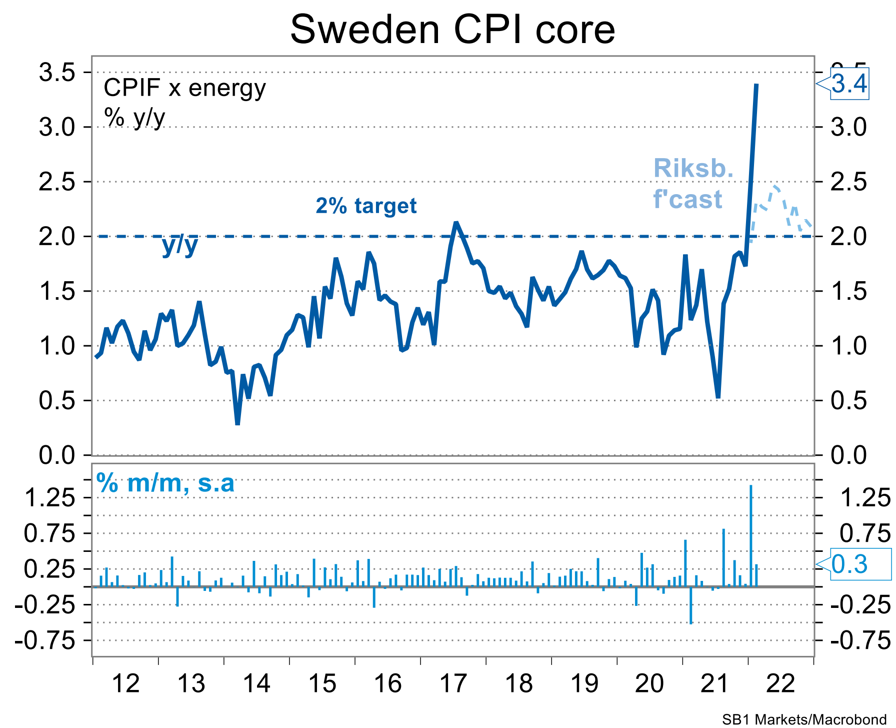
- Activity in hotels/restaurants down 9% in December

Sweden

Inflation is exploding, here too. Headline +0.6 p to 4.3%, the core 0.9 pp to 3.4%

… and 0.3 pp higher than expected. Still, core prices just up 0.3% m/m, following the 1.4% Jan jump…

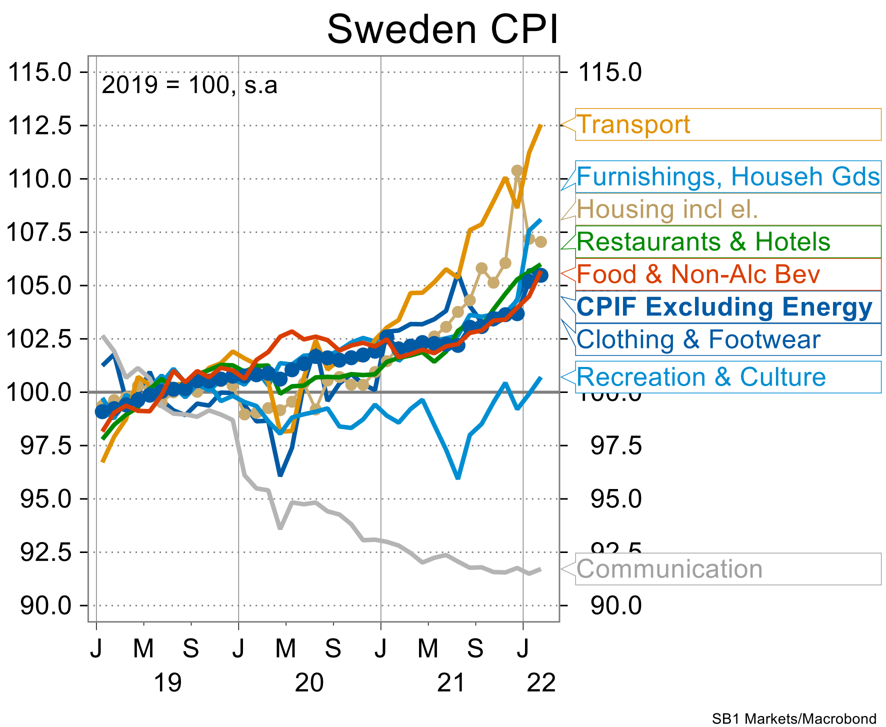


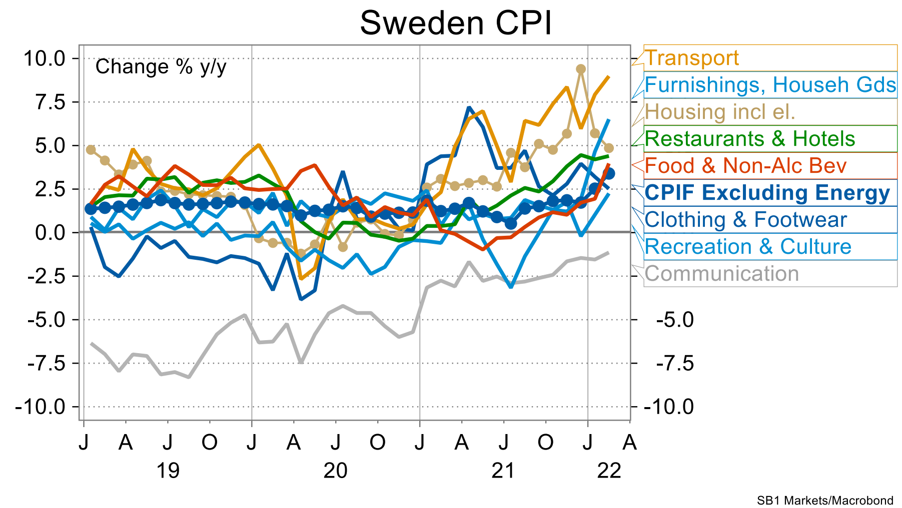


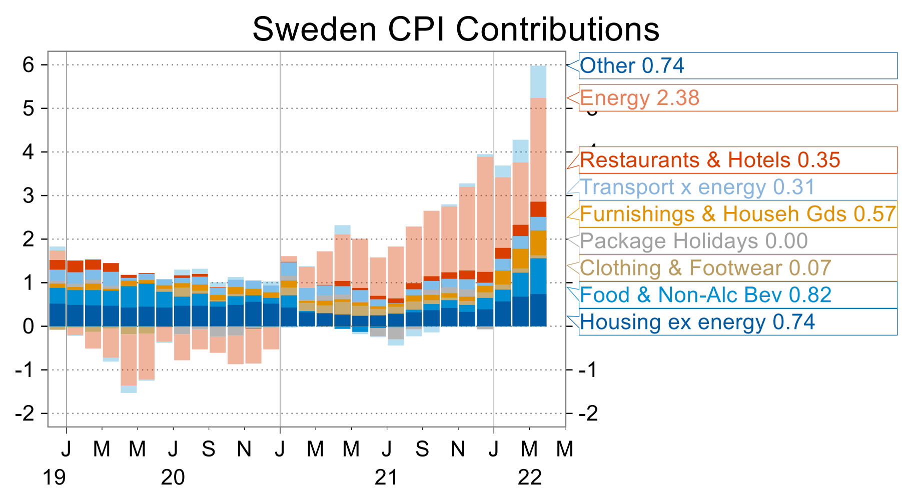
- **CPI-F x energy, the 'real core'**, rose 0.3% in February (seas. adj). The annual rate shot up because prices fell 0.5% m/m last February. Still, inflation has accelerated sharply, and the rate is now 1.1 pp higher than the Riksbank expected!
  - » Why is inflation so high? Food prices up 4% y/y, furnishings 4.9%, hotels & restaurants 4.4%
  - » All other measures of underlying inflation is sharply up – and at the highest level in some 30 years
  - » The Riksbank will have to revise its inflation forecast sharply - and then to announce that the signal rate can be lifted before H2-2024. The market expect 3 XXX hikes in 2022, and 3 more in 2023 (rate expectations rose by 3 – 5 bps XXX on Monday, following the CPI report
  - » Still, inflation is pretty well explained by the increase in electricity prices
- **Headline inflation** also accelerated, and not because energy prices accelerated

Inflation in Sweden: it's used to be just energy, but not so anymore

Energy prices fell in February too, but other prices are accelerating

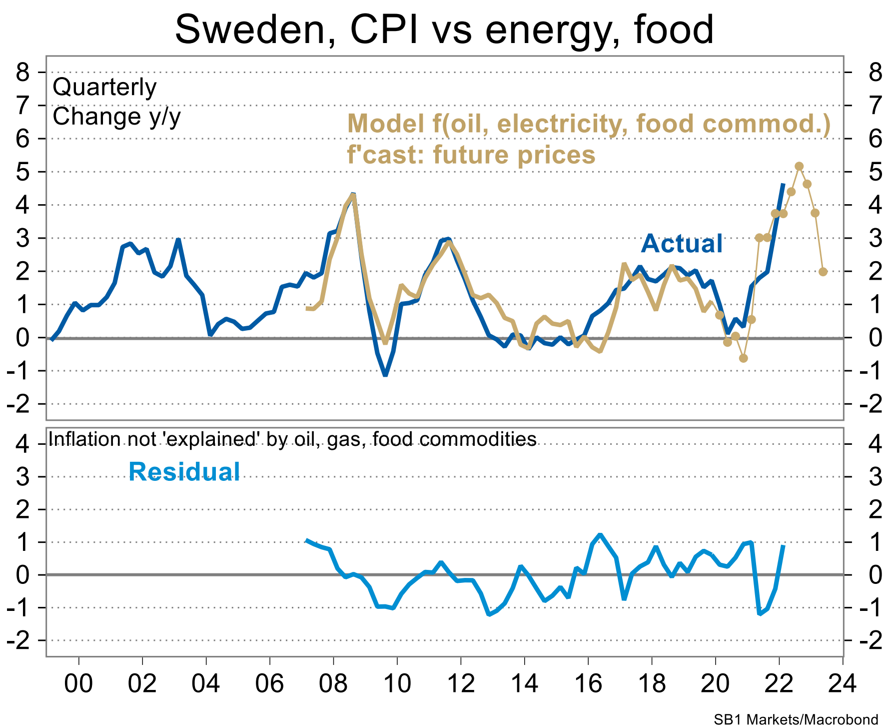






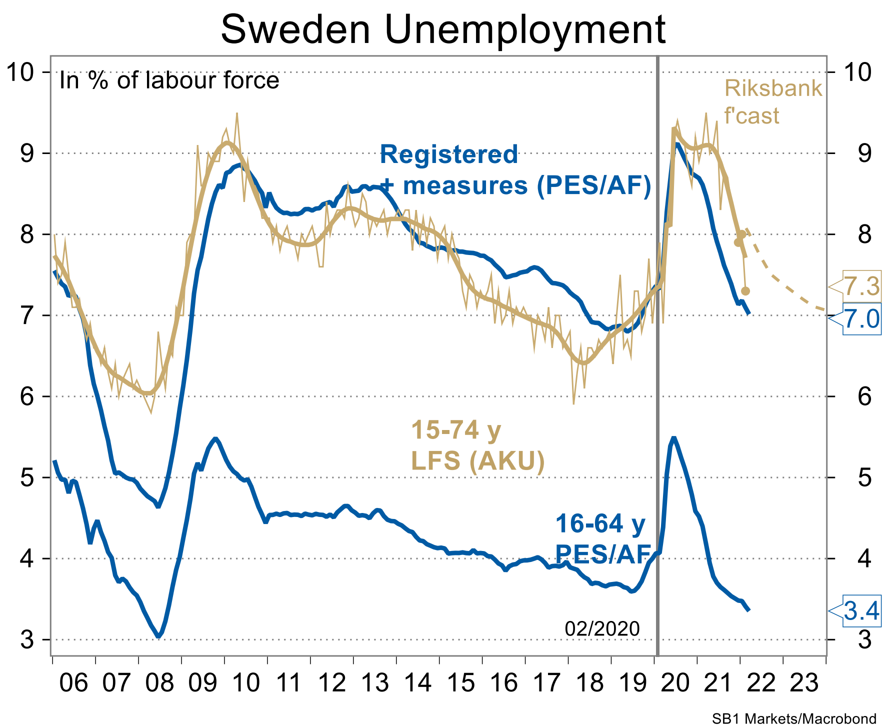
- Food prices rose 1.1% m/m. Furnishings, recreation, restauration also contributed at the upside in Feb.
- Housing ex energy is accelerating too

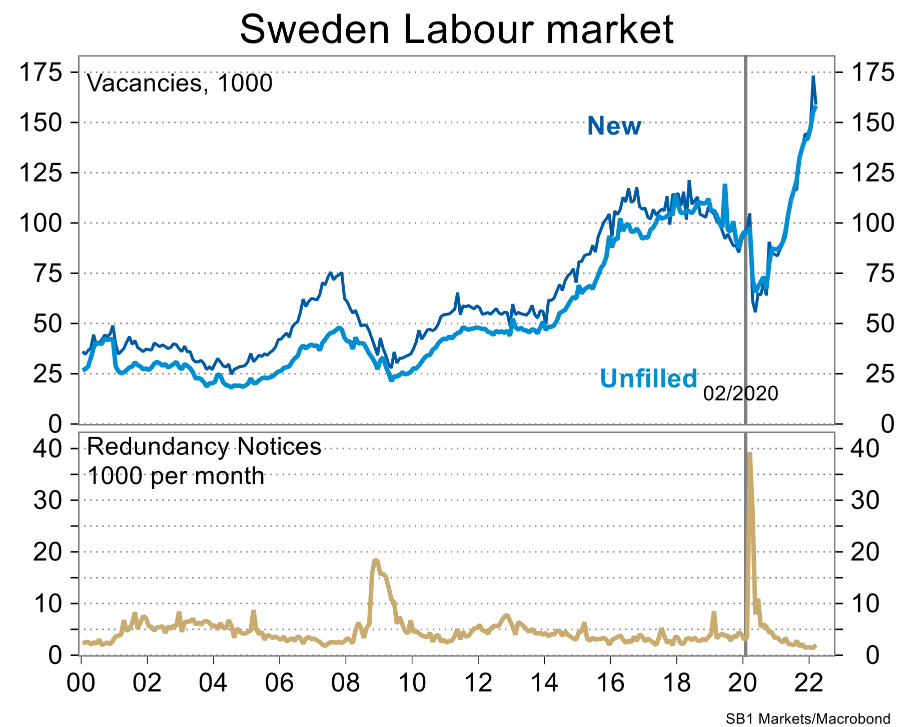
It may just be energy (and a small contribution from food) in Swedish inflation too



Registered unemployment further down in March

Vacancies are soaring, from a record high level

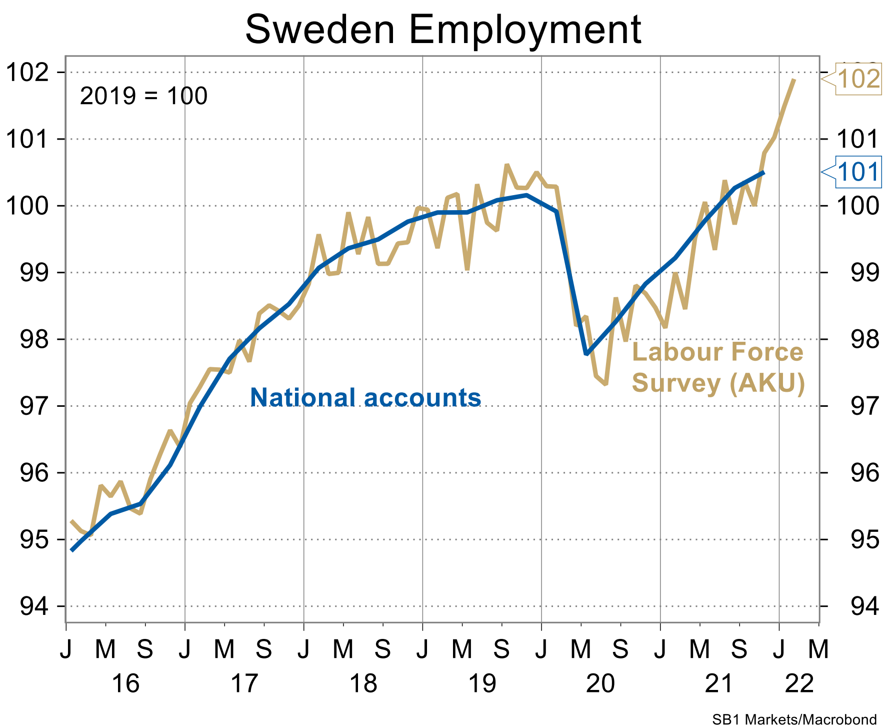


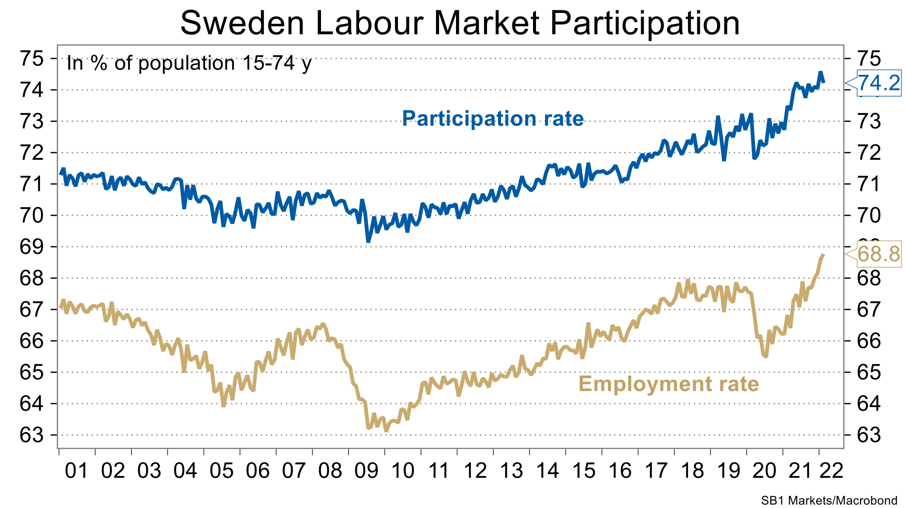


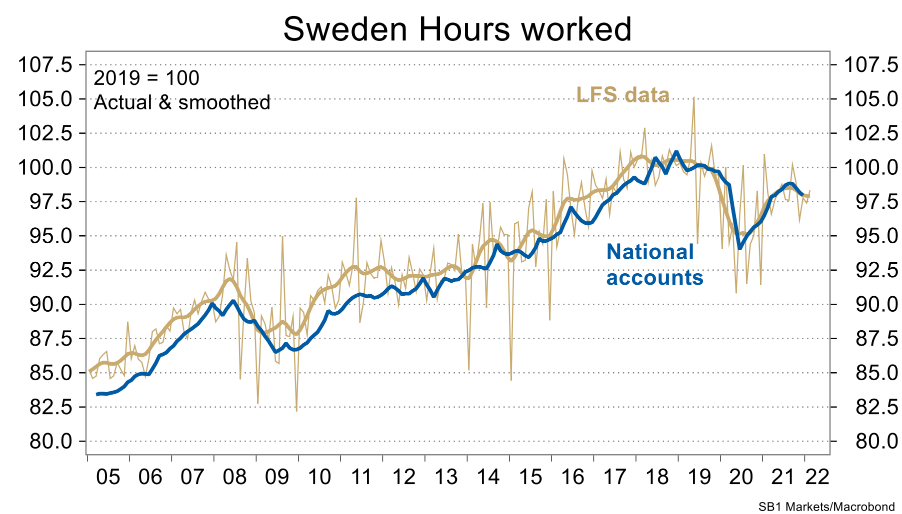
- The **'open' registered unemployment rate** was unchanged at 3.4% but fell further at the 2nd decimal figure. The rate is well below the pre-pandemic level
  - » **Including labour market** measures the rate fell 0.1 pp to 7.0% - which is above the level before the corona virus hit
- The **LFS (AKU) unemployment rate** fell sharply in February
- The number of new vacancies fell marginally in March but the no. of unfilled vacancies rose to another ATH

Both participation & employment rates are the highest in 3 decades

Data were revises sharply up last months. The soft spot: Hours worked are still below the 2019 level

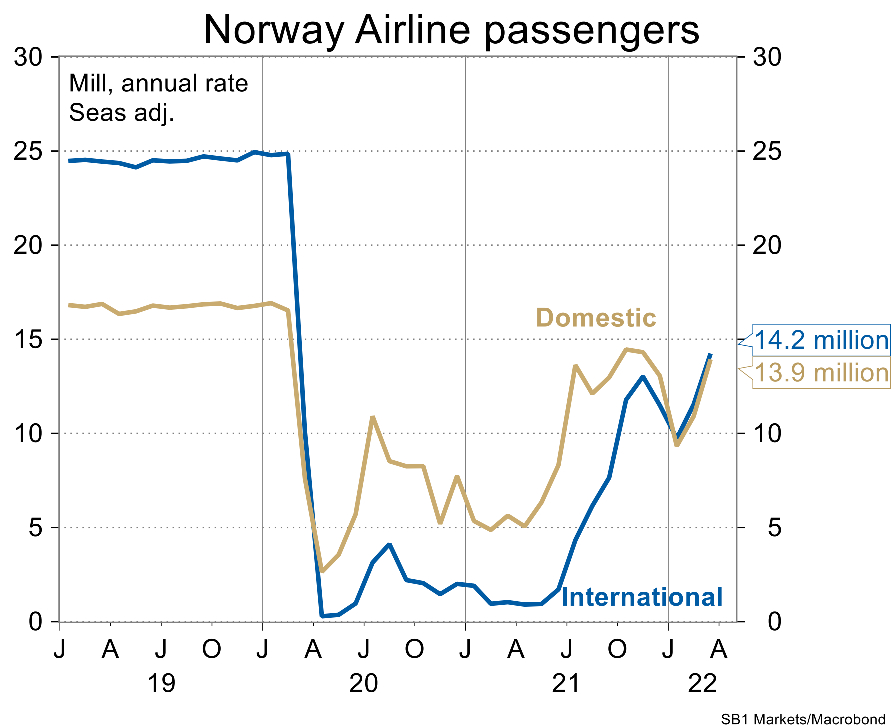


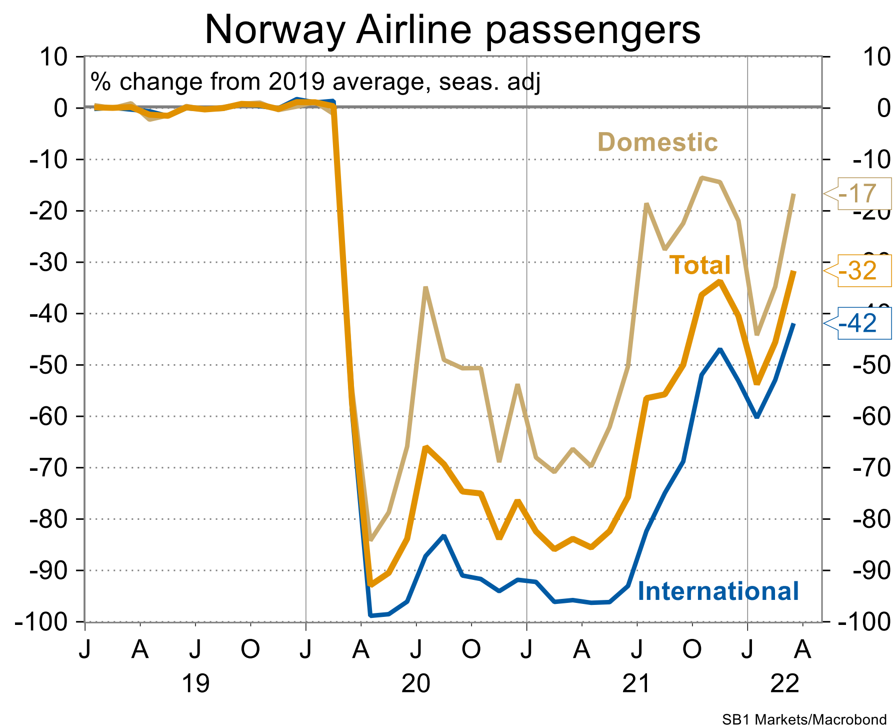




Air travel up 25% in March best since Feb-20, still down 32% vs the 2019 level

Domestic air travel 17% below the pre-pandemic level, international is down 42%

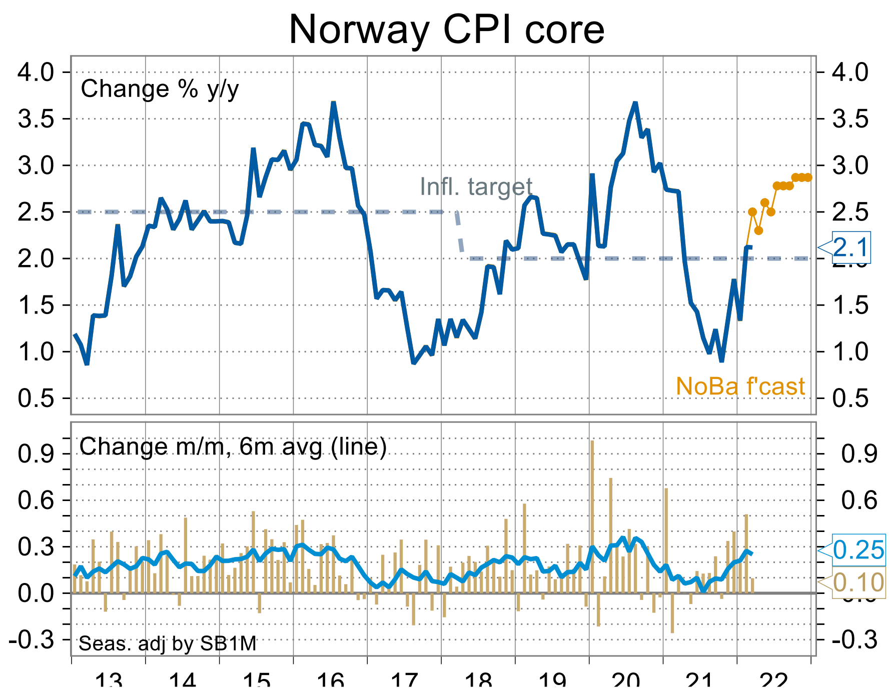


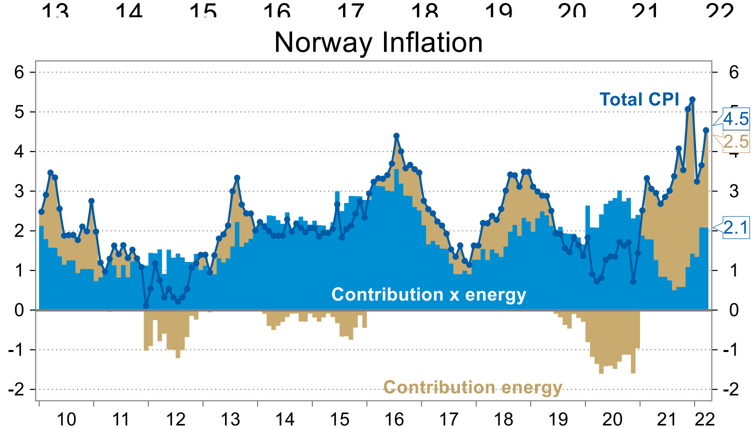


- In April, traffic will no doubt grow further, the most for international traffic

Inflation further up in March but less than feared

Headline inflation up 0.8pp to 4.5% but the core unch at 2.1%, as food prices fell!

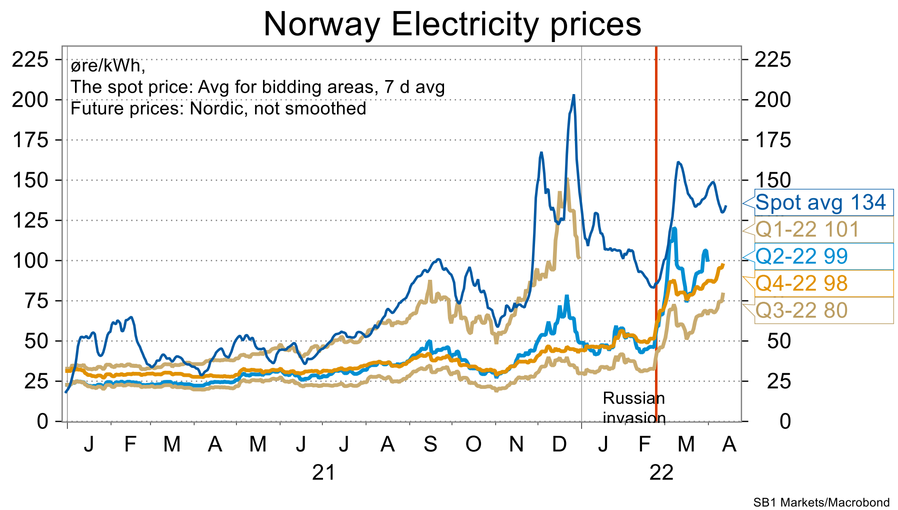


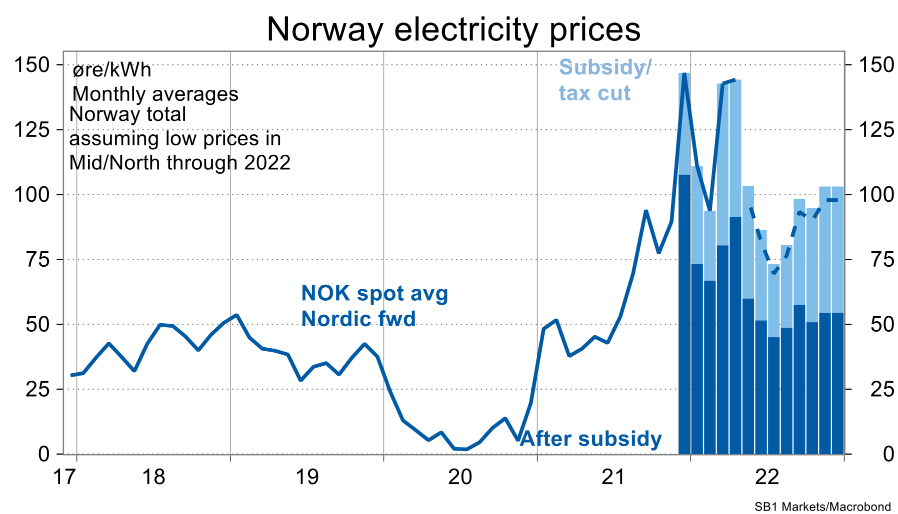


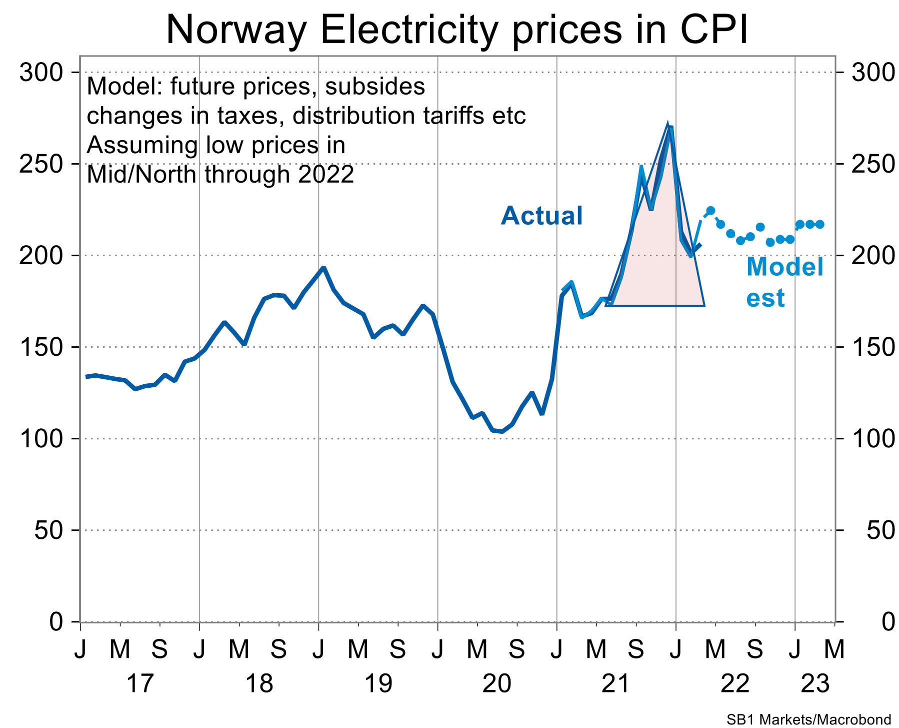
- **Total inflation** was expected up to 5.0%. Energy prices contributed by 2.5 pp, all other elements by 2.1%
  - » Electricity prices rose 2.5%, according to SSB. We estimated a 10% increase, an unusual miss
  - » On the other hand, gasoline prices rose more than our model indicated, by 18% m/m! However, now prices are on the way down again
- **CPI-ATE** (ex. energy and taxes) rose 0.1 pp m/m, and the annual rate was unch at 2.1%, expected up to 2.4% (consensus & SB1M) or 2.5% (Norges Bank)
  - » **Food prices** fell 0.7%, and contributed most at the downside vs. our estimate. Food prices are now 2% below the level in Q4-2020 (and they are down y/y – while most consumers think food prices have been soaring!)
  - » Prices on **imported goods** declined by 0.4% in March, but are still 2.1% y/y, while **domestically produced** goods & services were up 0.4% m/m and 2.1% y/y
  - » **Core inflation** is running above 2% in just 5 sectors, and is on par or below in 9 sectors. Of the 5 at the upside, 2 are probably explained by the pandemic, airfare tickets and hotels & restaurants
- **The outlook**
  - » **The electricity bill** will remain high but the current future prices for the rest of 2022 do not signal higher prices. However, since before the war in Ukraine, el.prices have increased substantially, lifting our CPI estimate by 0.4 pp
  - » **Core inflation** surprised at the downside in March but we expect the core CPI to remain to accelerated somewhat through 2022
- **So what?**
  - » **The uncertainty** is still large both vs energy & food prices, as well has other impacts of the war in Ukraine
  - » **Wage inflation** may in the end surprise on the upside in a tight labour market, but so far the wage negotiations have delivered exactly the expected outcome
  - » **Norges Bank** revised its inflation forecasts substantially upwards in March, and the actual CPI does not warrant a further upward revision

Electricity prices up in March but the total bill less than we assumed

Future prices are still drifting upwards but subsides will eventually pick up most of the bill



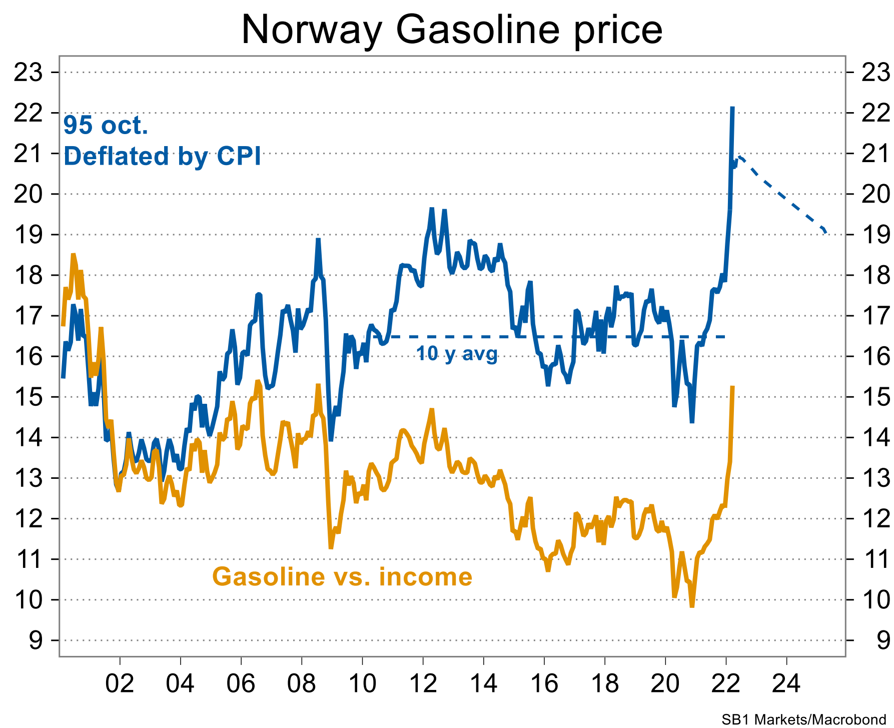


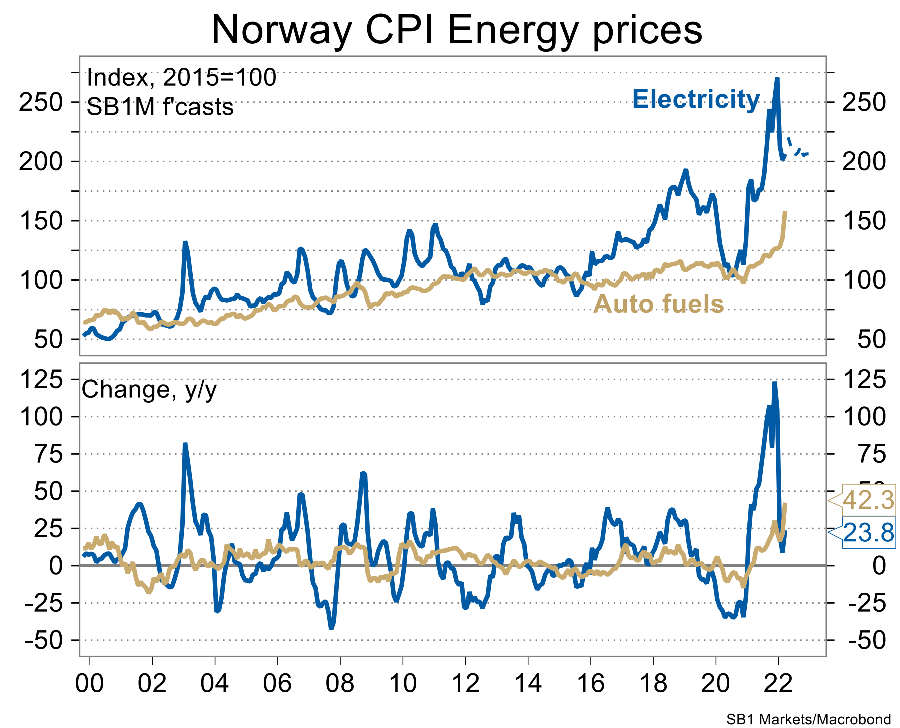


- We assumed a 10% m/m increase in the electricity index in the CPI in March, well above the actual 3% increase. In April, we expect a further increase, partly due to a reversal of the temporary cut in the electricity tax
- The cost of the unprecedented surge in electricity prices, represented by the area of the triangular above, equals a 30% extra cost, above a 'normal' high price level (like in 2018-19), <u>or 1¼ % of one year's disposable income</u>
  - » <u>... if future prices do not climb sharply from here – and they are on the way up (However, the impact is limited, as the government subsidies cover 80% of the extra bill)</u>

Electricity prices just slightly up in March, gasoline/diesel prices rose 17%

Gasoline (and even more diesel) prices rose more than suggested by crude prices

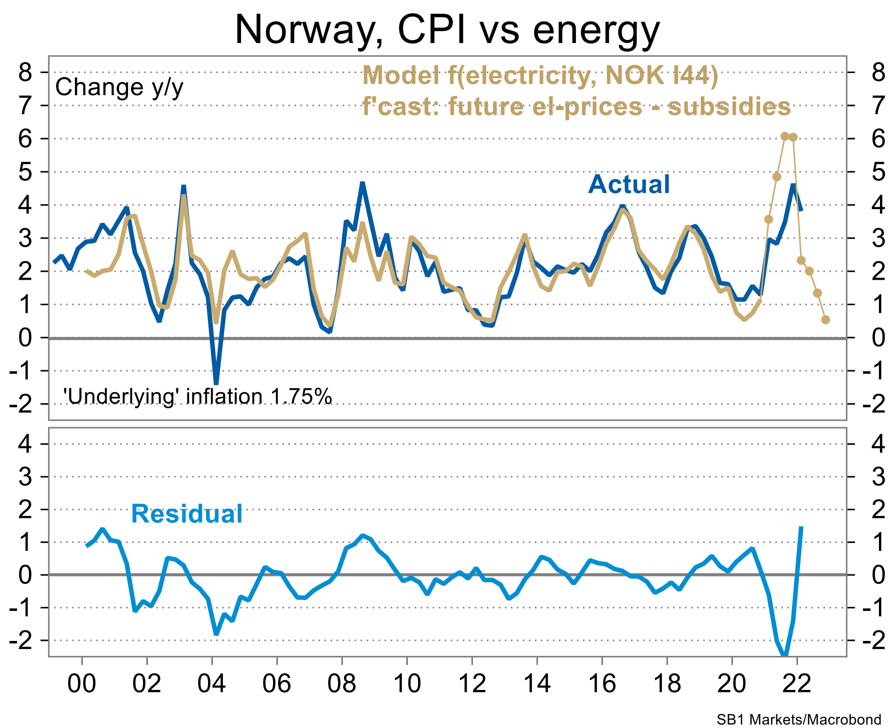




- Product spreads widened in March but seem to be narrowing in April

So far, electricity explains the most – even if inflation in Q1 was a tad 'too high'

Electricity prices explain almost all of the ups and downs in Norwegian CPI inflation



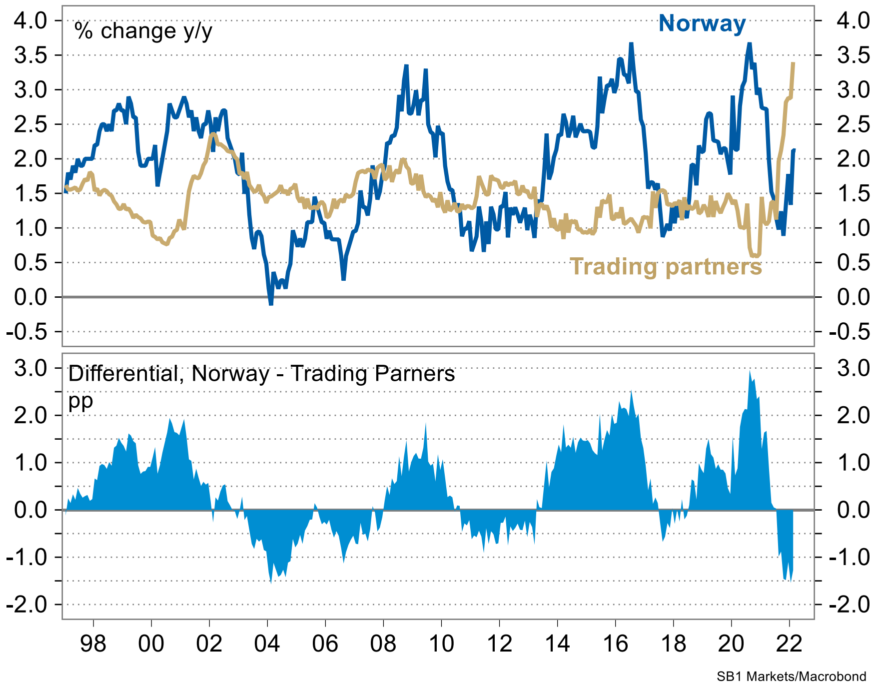
- Still, in Q1 inflation was significantly higher than our model predicted
  - » On the other hand, actual inflation was well below the model forecatst through 2021

- .. And the current headline inflation rate is close to what the model suggest (it is higher in Q1 but has been lower the previous 4 quarters

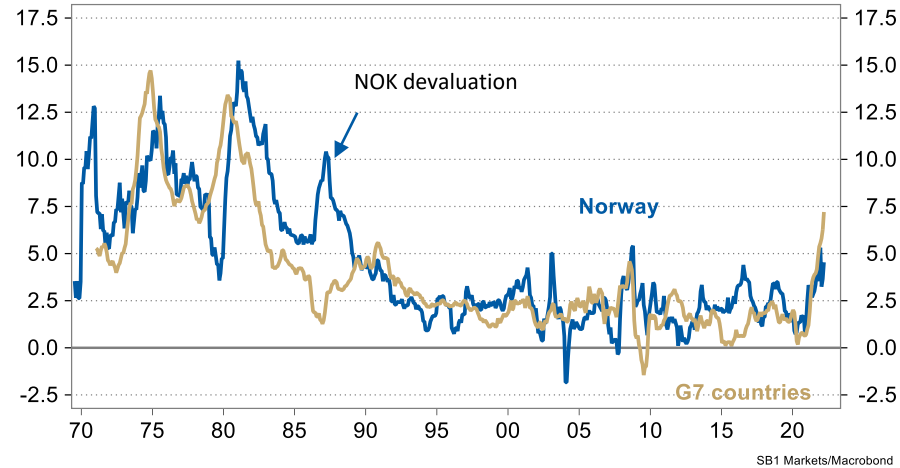
Norway vs ROW: The large, long-term CPI ‘regimes’ have been correlated

But limited short term correlations, at least in the ‘low inflation regime’. Now: Some risk at the upside

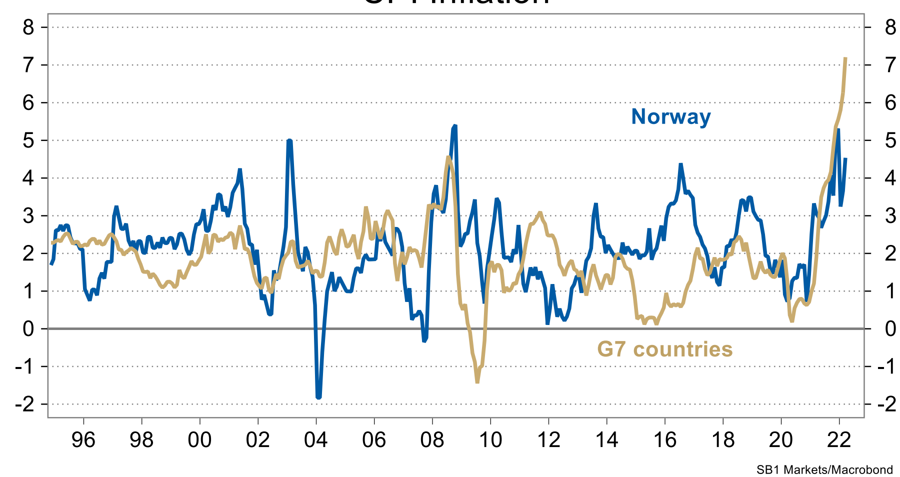
Core CPI



CPI Inflation



CPI Inflation



- Norwegian core CPI vs. trading partners’ core has been close to uncorrelated past 20 years. The headline CPIs have been somewhat better correlated, due to co-movements in energy prices
- During the last large inflation cycle ‘70s early ‘80s Norwegian headline inflation was quite closely correlated to the global (G7) CPI cycle (and mostly lagging)

Food prices surprised at the downside in March

Electricity prices up, but not by much

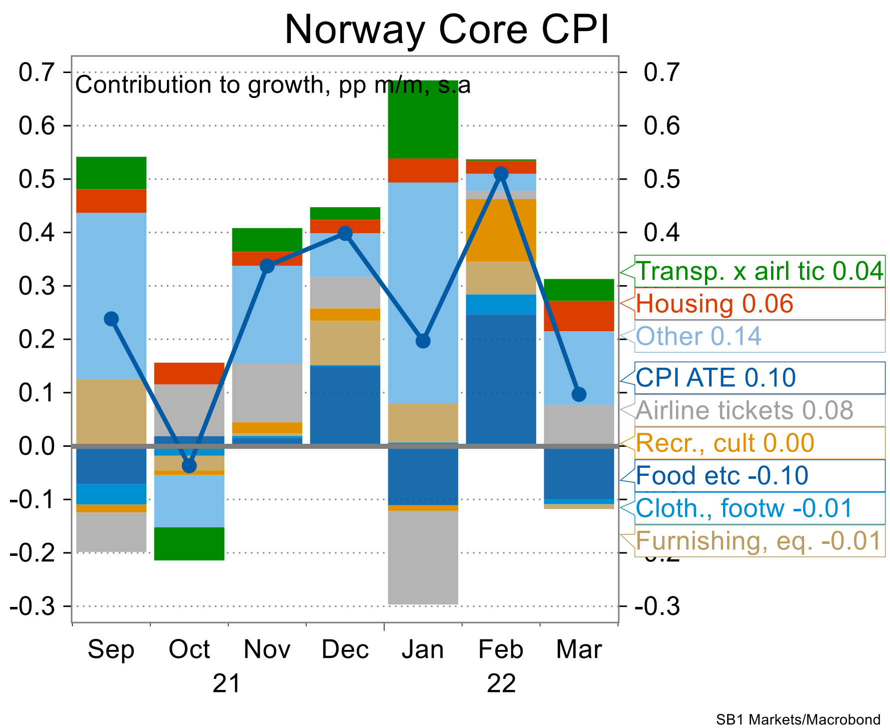
		Change m/m, seas. adj			Change y/y			Contribution, pp		
Mar-22	Weight	Out-	SB1M	Dev.	Prev.	Out-	SB1M			Dev. vs
CPI ATE	%	come	f'cast	pp	month	come	f'cast	m/m	y/y	f'cast
Food, non alc bev	12.9	-0.7	0.4	-1.1	1.3	0.5	0.8	-0.09	0.07	-0.14
Alcohol, tobacco	4.2	0.6	0.4	0.2	3.2	3.7	3.3	0.02	0.16	0.01
Clothing, footwear	5.1	-0.2	0.1	-0.3	-0.9	0.6	0.7	-0.01	0.03	-0.01
Housing x. energy	20.2	0.3	0.2	0.1	1.8	2.0	1.9	0.05	0.41	0.02
Furnishing	6.9	-0.1	0.3	-0.4	4.9	3.6	4.1	-0.01	0.25	-0.03
Health	3.4	0.0	0.2	-0.2	2.3	1.7	1.9	0.00	0.06	-0.01
Transp. ex. gas, airl. tick	12.2	0.3	0.2	0.1	1.5	1.7	1.5	0.04	0.20	0.02
Airline tickets	0.8	9.0	10.0	-1.0	-5.4	7.8	11.7	0.07	0.06	-0.01
Communication	2.4	-0.3	0.1	-0.4	1.3	0.9	1.0	-0.01	0.02	-0.01
Recreation, culture	10.8	0.0	0.4	-0.4	2.4	1.8	2.3	0.00	0.19	-0.04
Education	0.5	-	-	-	2.0	2.0	2.0		0.01	0.00
Restaurants, hotels	5.6	0.8	0.6	0.2	5.0	5.8	5.2	0.05	0.32	0.01
Other	8.7	-0.1	0.3	-0.4	2.1	1.9	2.3	-0.01	0.16	-0.03
CPI-ATE	93.7	**0.1**	**0.3**	-0.3	**2.1**	**2.1**	**2.4**			-0.24
Norges Bank est.			**0.5**		**2.1**		***2.5***			
Imported	36	-0.4	0.2	-0.6	2.4	2.1	2.8	-0.16	0.75	-0.23
Domestic	57	0.4	0.4	-0.0	2.1	2.1	2.4	0.25	1.21	-0.00
Energy, housing	4.4	5.2	13.0	-7.8	9.0	24.4	27.6	0.23	1.07	-0.34
Energy, transport	2.0	17.8	8.0	9.8	20.9	41.9	30.0	0.35	0.82	0.19
CPI Total	100	**0.5**	**1.1**	-0.5	**3.7**	**4.5**	**5.0**	0.50	4.54	-0.55
Change m/m, seasonally adjusted (calc by SB1M)										
Sum of parts does not necessarily add up to totals										
Norges Bank m/m s.a. estimate is implied, calc by SB1M										

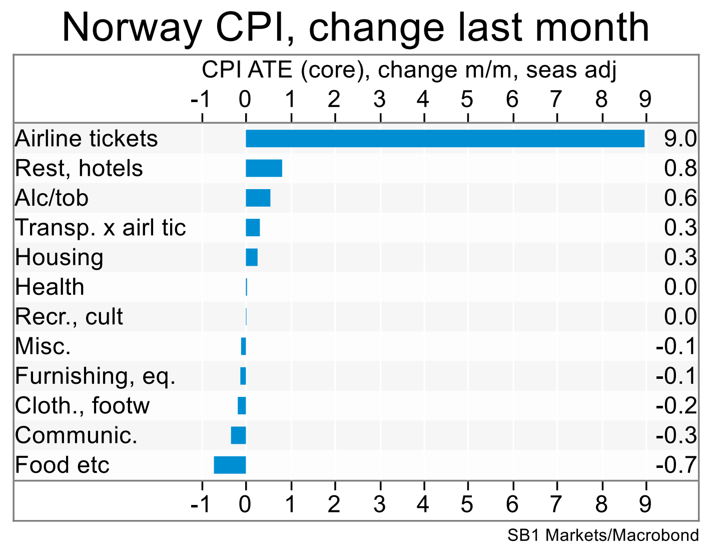
- **Food** prices fell 0.7% m/m, after the 1.8% hike in February. We expected +0.4%. The annual rate is just 0.5% (but nobody knows)
- **Clothing** prices fell 0.2%, and are up 0.6% y/y
- **Furniture/hardware/equipm** prices fell 0.1% m/m, up 3.6% y/y
- **Transport ex. gas/airfare tickets** up 0.2%, and are up 1.7% y/y
- **Airline ticket** prices rose 9% m/m but are probably still too low (but most of the 'gap' is closed
- **Recreation** prices were flat, up 1.8 y/y
- **Restaurant/hotels** up 0.8% m/m during the 're-opening), up 5.8% y/y
- **CPI-ATE** up 0.1% m/m, 2.1% y/y, well below consensus at 2.4%. NoBa expected 2.5%
- Prices on **imported goods** fell 0.4%, and are up 2.1% y/y
- Prices on **domestically produced** goods & services rose 0.4%. The annual rate at 2.1%
- **Electricity (and other heating)** prices rose 5.2%, and are up 24.4% y/y
- Gasoline/diesel prices climbed 18% m/m. Will probably come somewhat down in April
- … **headline inflation climbed to** 3.7%, we expected 3.1%, not an impressive estimate…

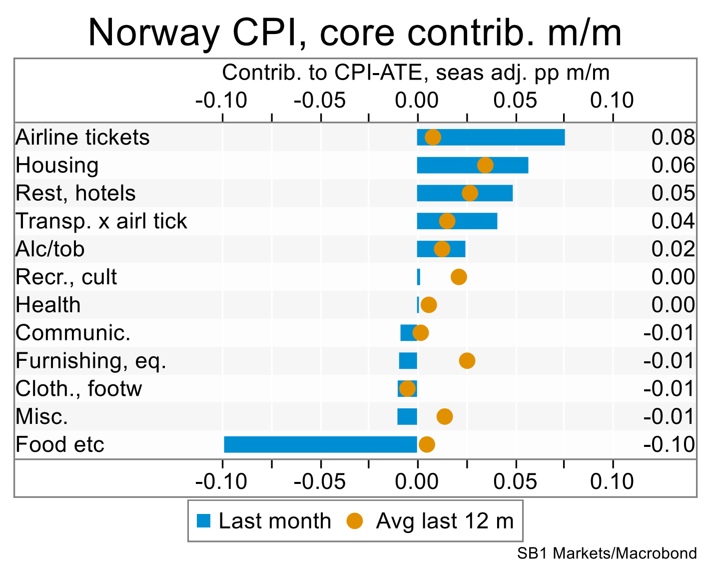
Monthly changes are seasonally adjusted by SB1 Markets. The weighted sum of the components does not necessarily sum exactly up to the total, and deviations m/m and y/y do not necessarily add up. Norges Bank m/m s.a. estimate is implied, calculated by us. Sources: SSB, Norges Bank, SB1 Markets calculations

Airfare ticket prices lifted the core CPI by 0.1%. Food prices -0.1%

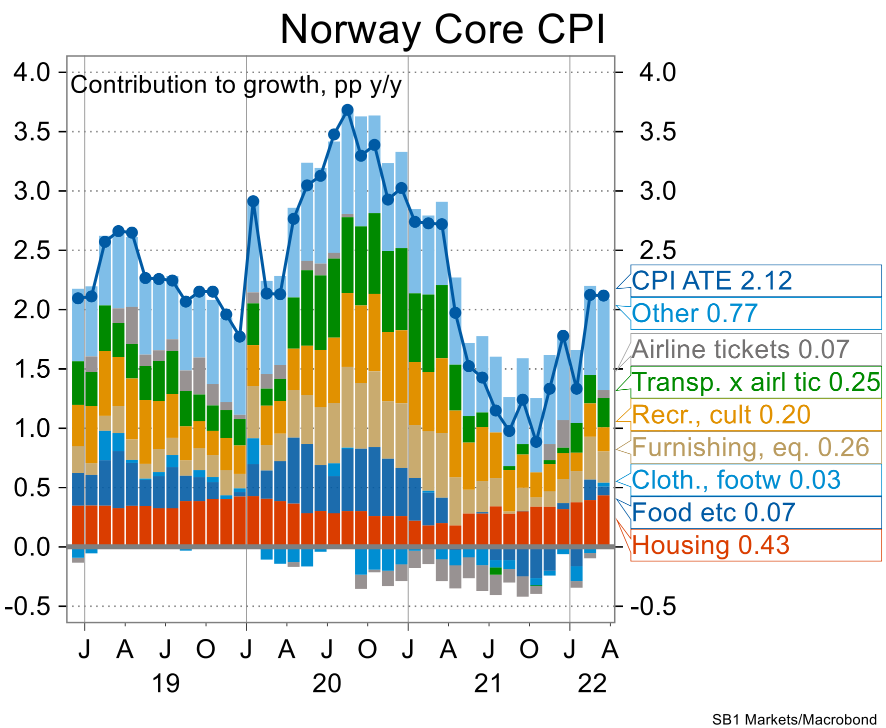
Hotels & restaurants increased their prices too, and they are up 5.8% y/y

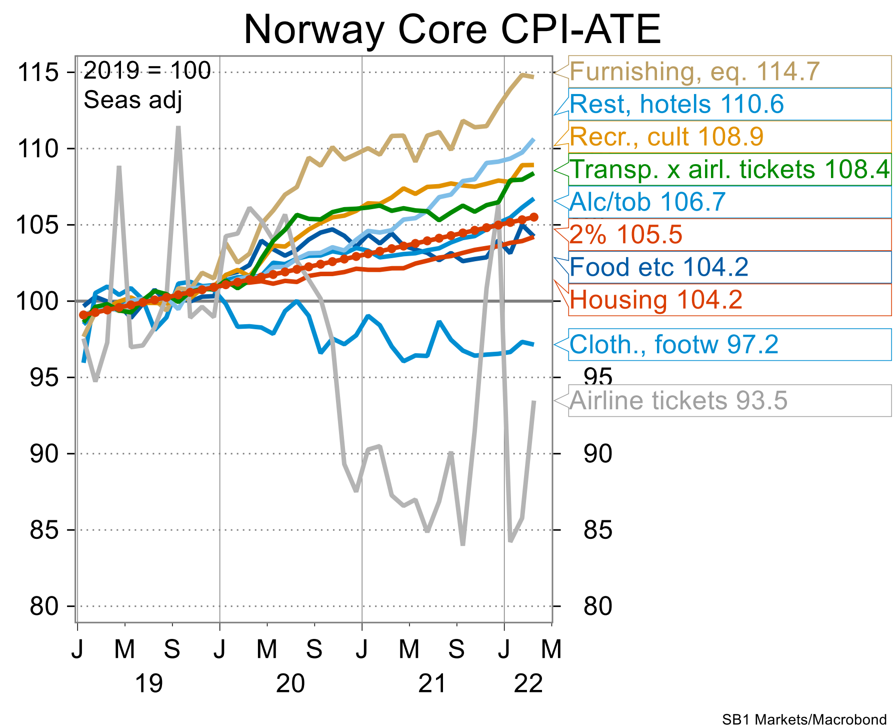






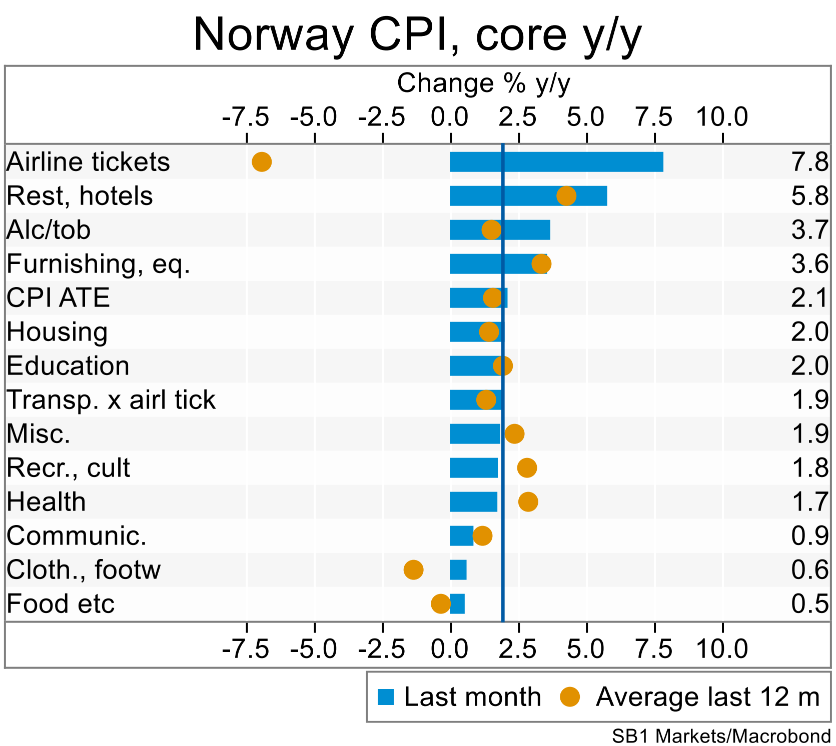
Some signs of faster/broader price growth recent months

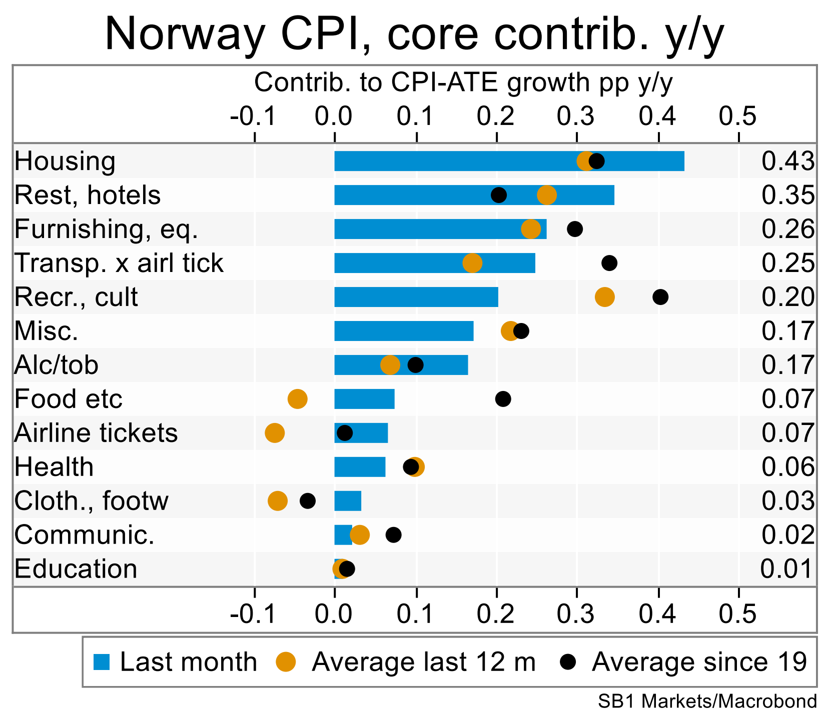




Just 5 sectors report core inflation above 2%, 9 are at 2% or below!

Housing, restaurants/hotels, furnishing, transport x airline tickets have contributed the most y/y



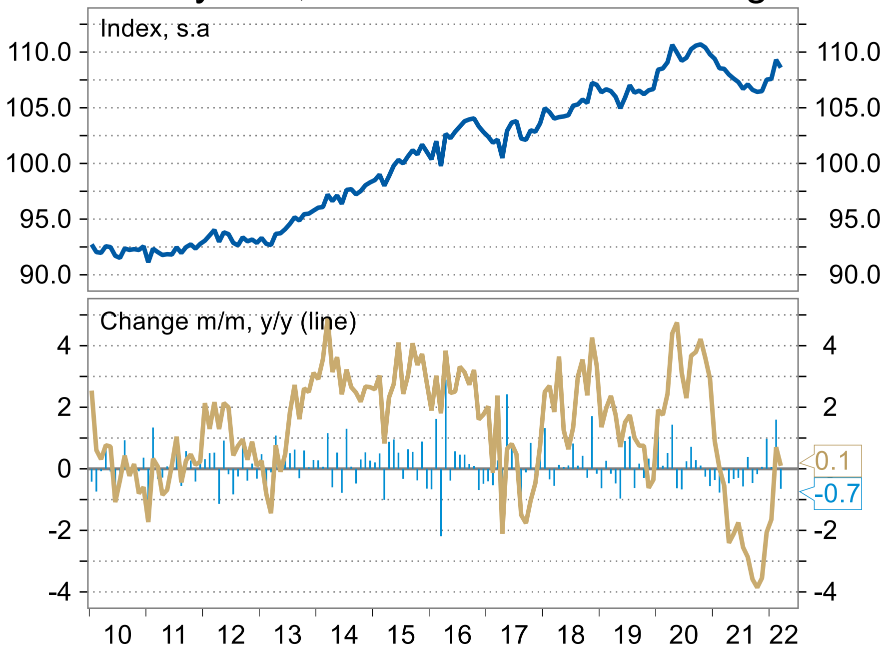


SpareBank 1 MARKETS

Food prices down 0.7% in February, and are 2% below the peak price level in ‘20

… while people ‘feel’ that food prices are much higher than ever before

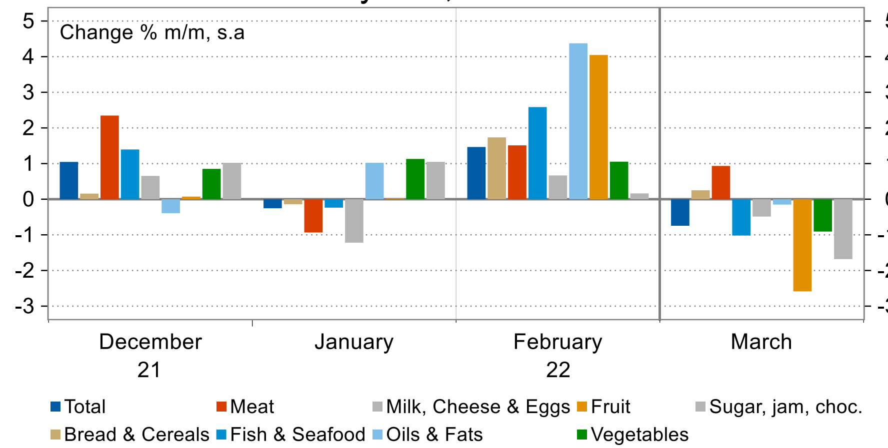
Norway CPI, Food & non-alc beverages



SB1 Markets/Macrobond

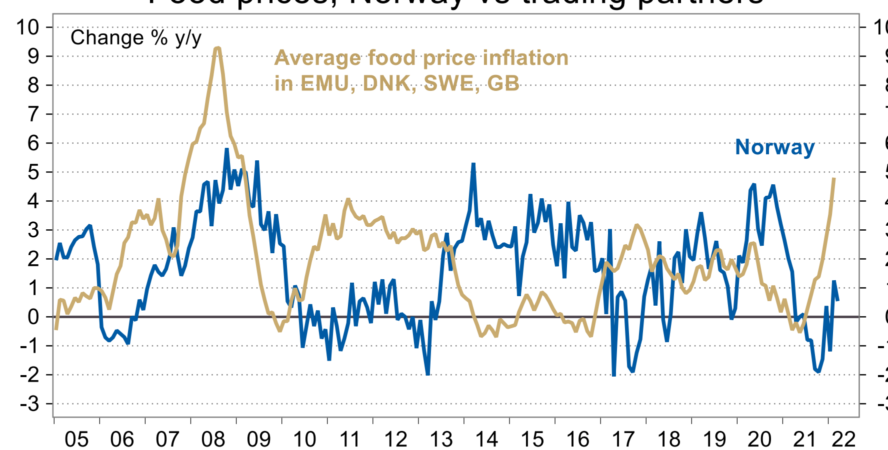
- **The bi-annual negotiation** between the large producers and retail sales chains resulted in higher price increases than normally in February but a part of this lift was reversed in March – broad based
- **Norwegian food prices** fell by almost 4% to last November from the autumn in 2020. Over the past 4 moths, food prices have climbed 2%. Thus prices are still 2% below the Q4-2020 level. In between time, wages are up some 5%. The wage adjusted food bill is down 7%! Prices are up 0.1% y/y (0.5% ex taxes). Guess you didn’t know ☺
- **Food price inflation is accelerating abroad but Norwegian CPI food prices** are not correlated with food prices among our European neighbours. The NOK exchange rate explains quite a lot

Norway CPI, Food details



SB1 Markets/Macrobond

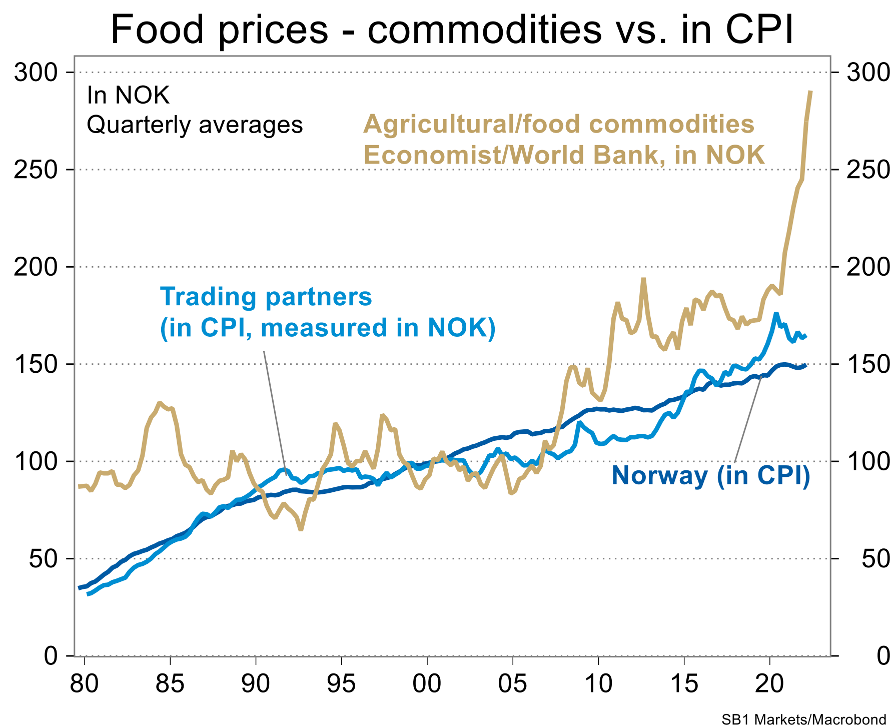
Food prices, Norway vs trading partners

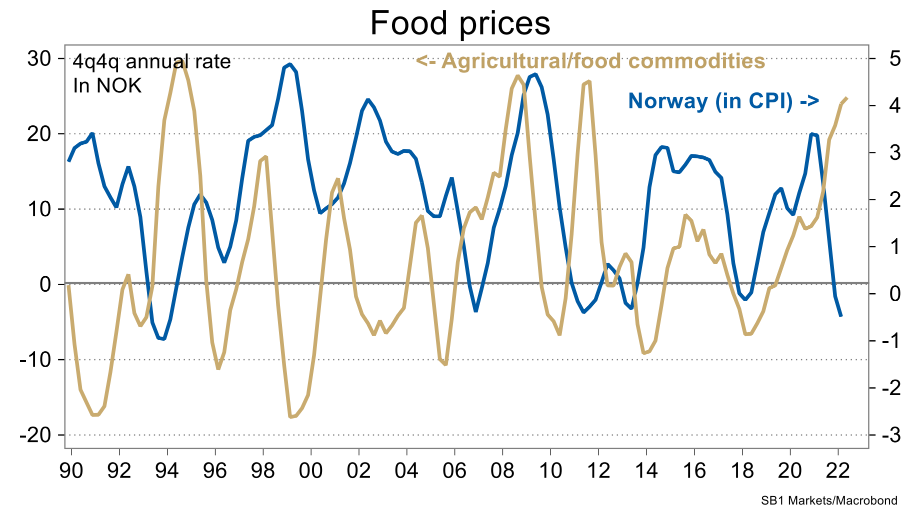


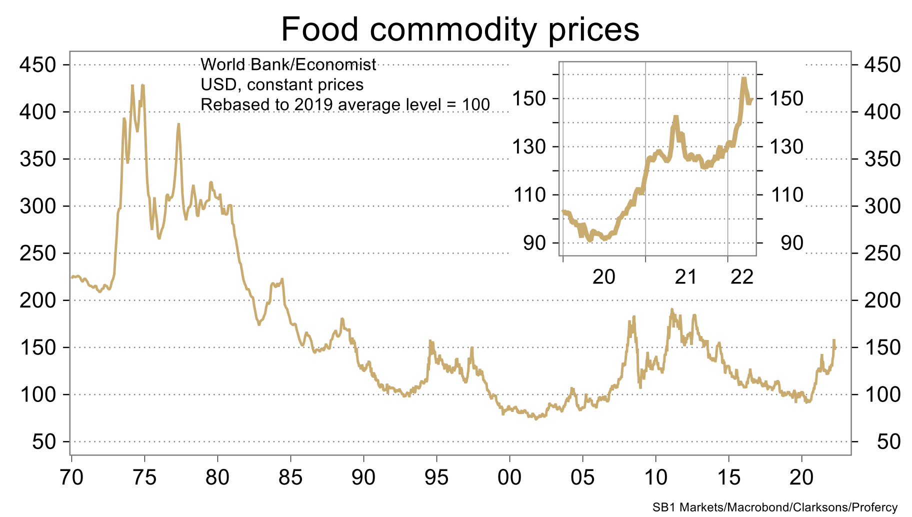
SB1 Markets/Macrobond

Food commodity prices: Limited correlation to trading partners food prices

… And no stable correlation at all to Norwegian food prices (in the CPI)



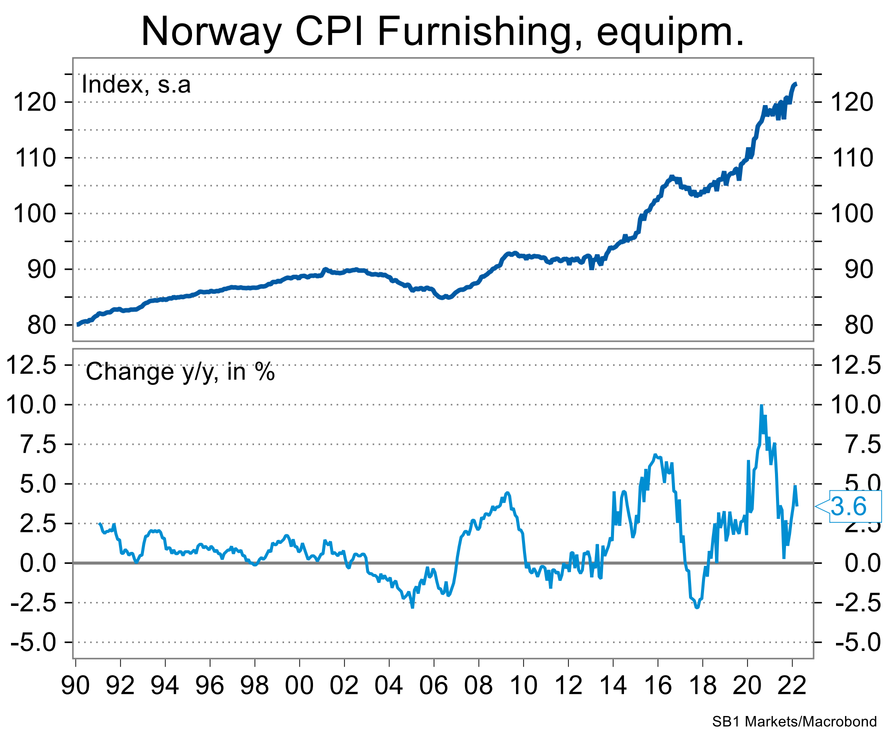


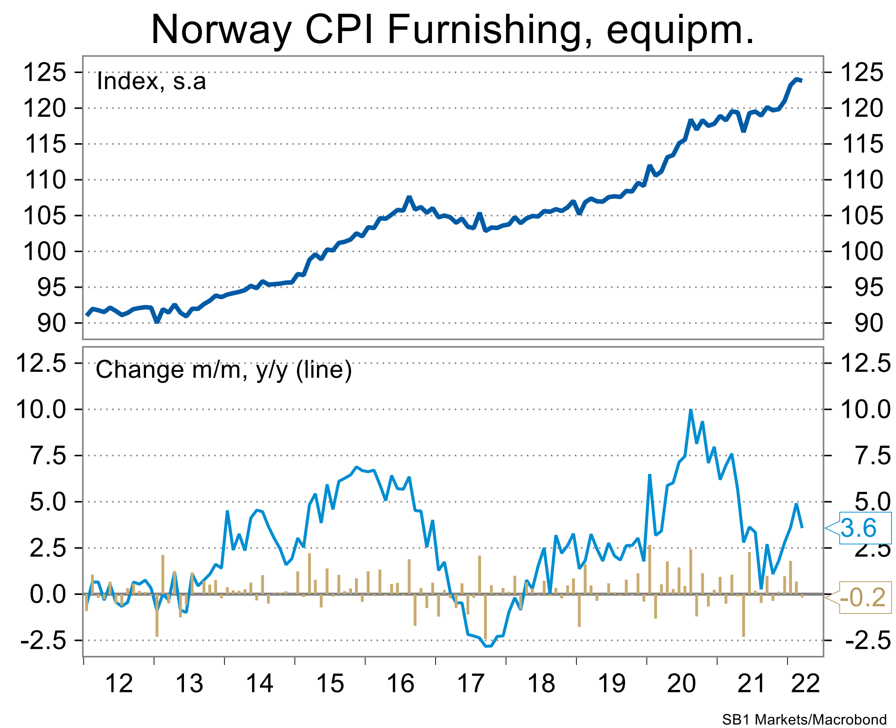


- Try to find a close, and stable correlation on the chart above to the right. There are some co-movements over short periods but no consistency at all
- Agricultural/food commodity prices are sharply up from mid 2020, and by more than 20% since early 2021 but the increase is still not worse than we have seen many times before. In real terms, prices are far from record high. Price shot up after the Russian invasion in Ukraine, but they have reversed half of this last step upwards recent 4 weeks

Furnishing prices slightly down in March, following a 3% lift previous 3 months

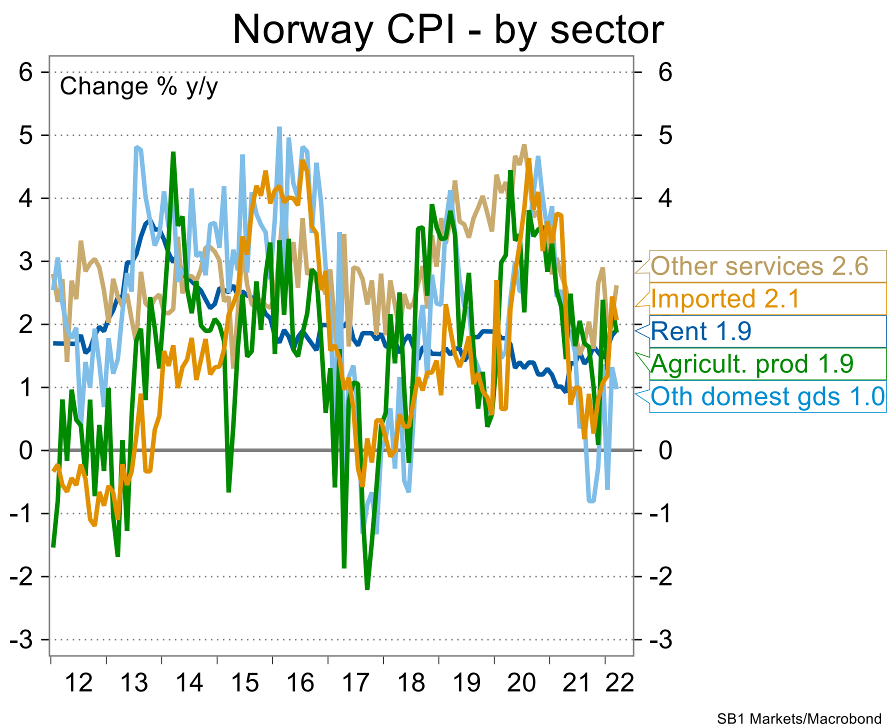
A stronger NOK will dampen prices but higher prices abroad may still lift prices in Norway

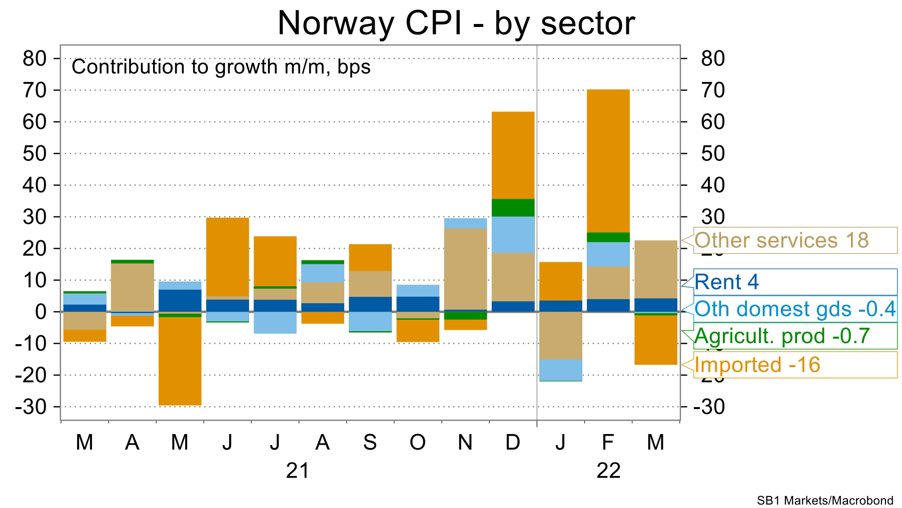


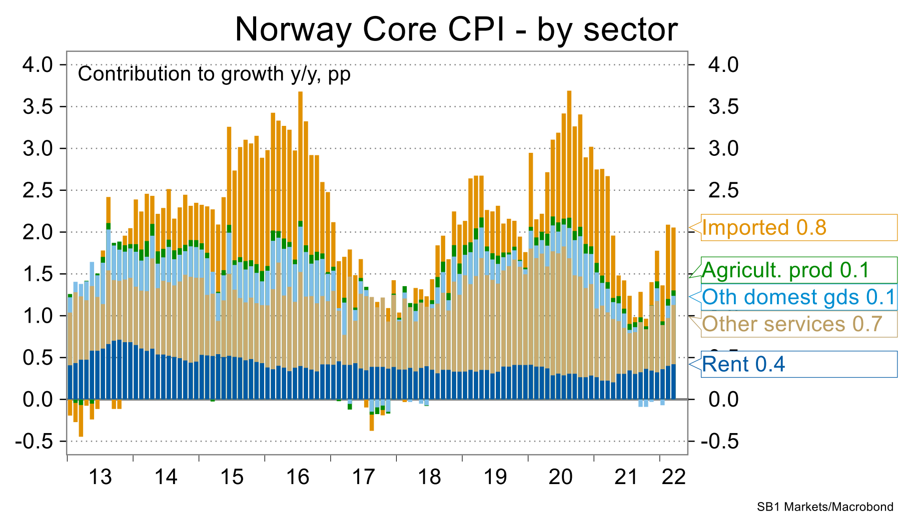


Imported goods still the largest (y/y) contributor (but prices fell in March)

The contribution from rents is still low but increasing, while services are on the way up too



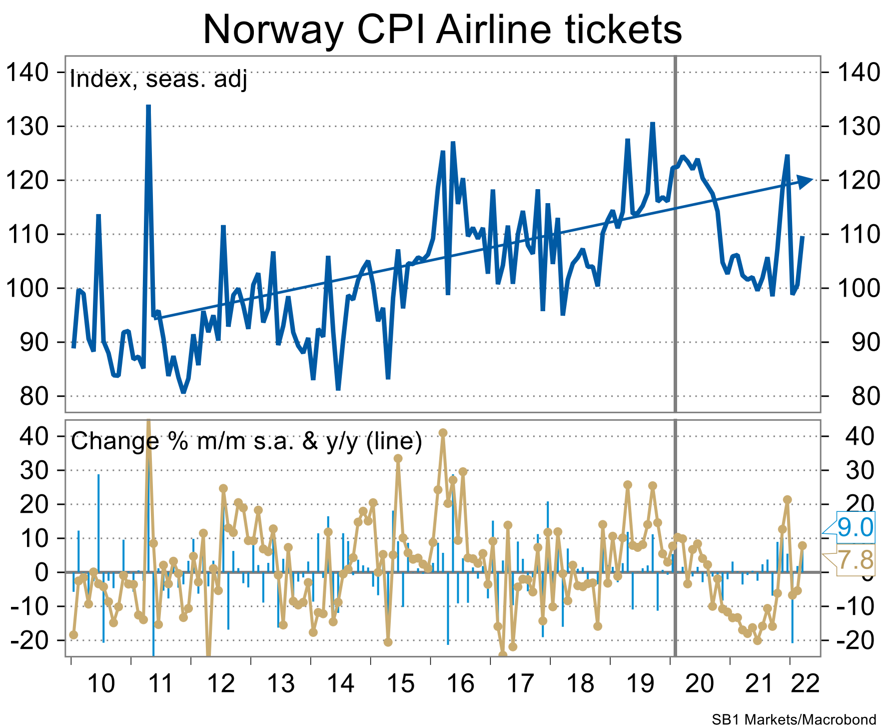




- **Domestic services inflation ex rents** slowed sharply during the corona crisis, and not just only due to cheaper airfare tickets, other non-labour-intensive services have contributed as well
  - » Now, price inflation is gaining some speed again, and services are up 2.6% y/y
- **Rent inflation** has accelerated to 1.9% from 1% in early 2021 but is still just in line with the 1.7% – 2% pre-pandemic rate
- **Other goods** than agricultural & imported products are up 1.0% y/y, and contributed by less than 0.1 pp in Feb – not disturbingly high rates

Airfare ticket prices: Up but are still too cheap?

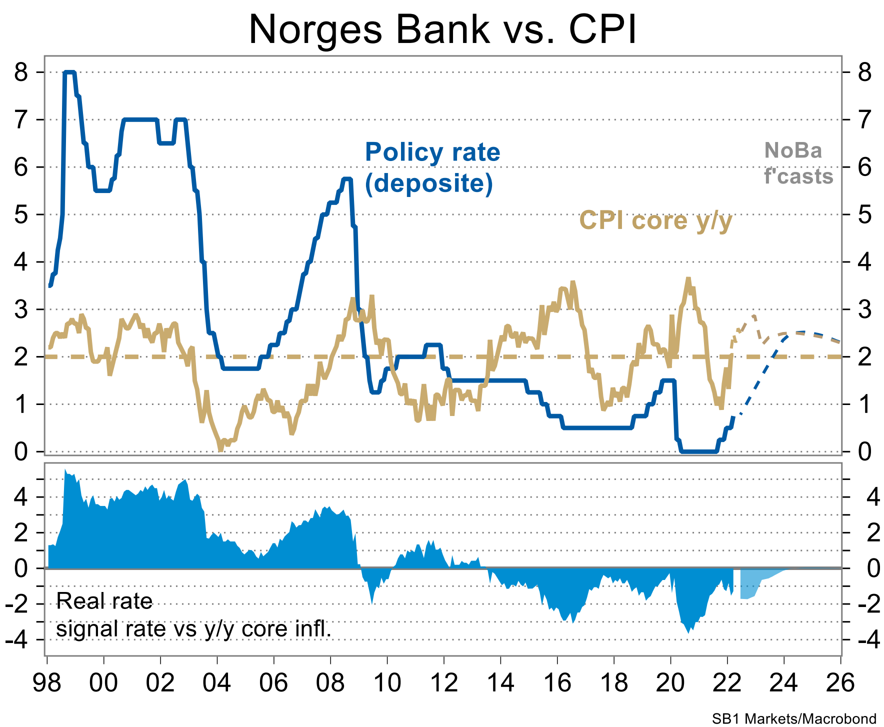
Ticket prices will return to the 'normal' path? The current price level is very likely too low

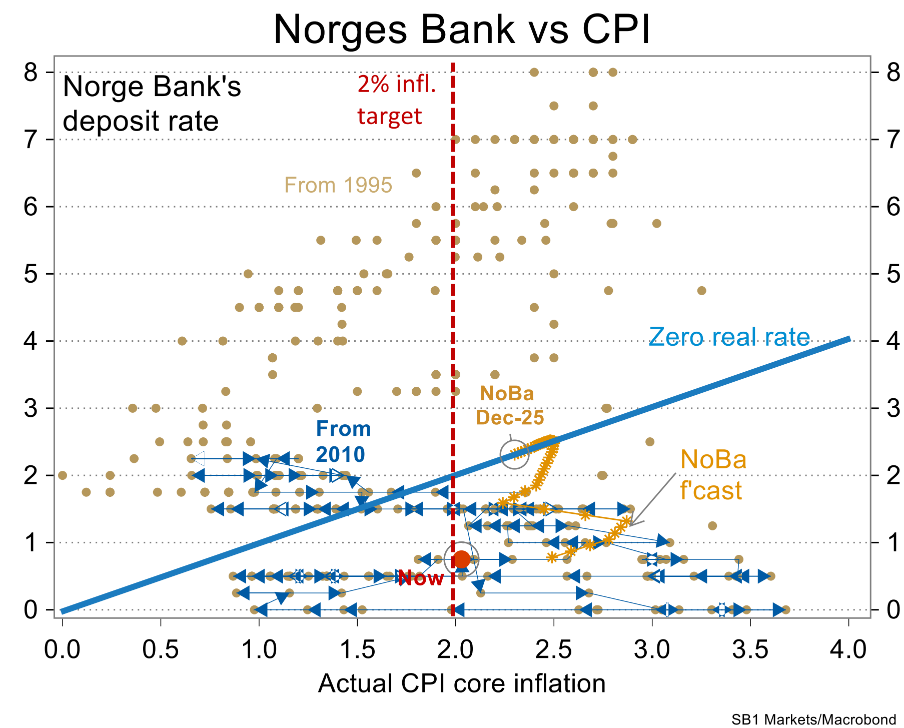


- **Airfare ticket prices** fell sharply in January, and there has not been a full take off in February and in March
- We expect these prices to recover further the coming months

Norges Bank expects inflation to remain above target coming years

And the real policy rate to remain negative 2 more years



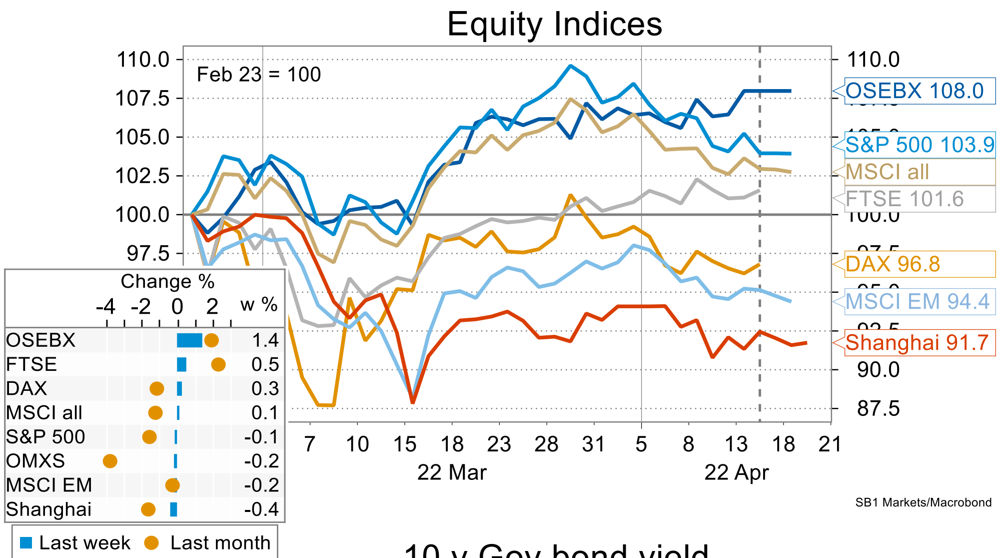


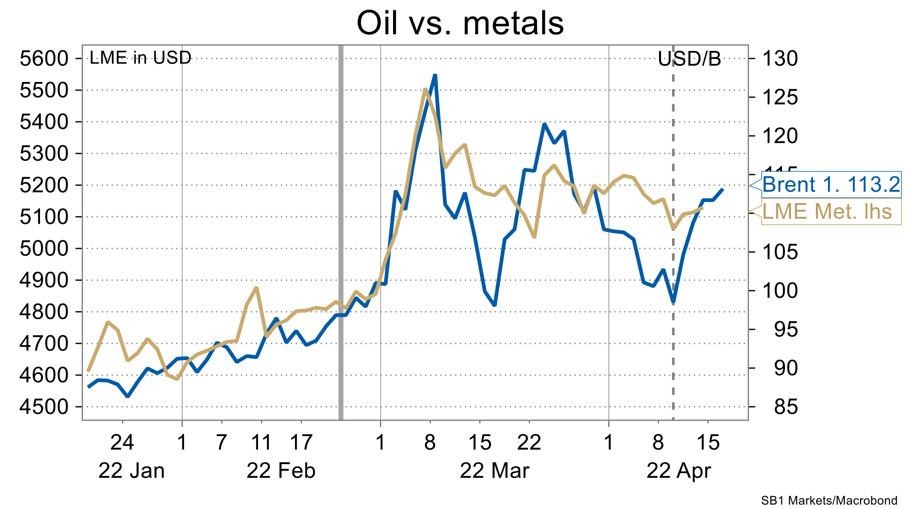
- … even after an up to 80 bps lift in the expected policy rate path at the March meeting
- Norges Bank has not been an inflation nutter, at least not since 2010. There has been no correlation between actual inflation and the policy rate
- Now, the Bank assume it will hike the signal rate just gradually, even if inflation will remain above the target, and above the signal rate

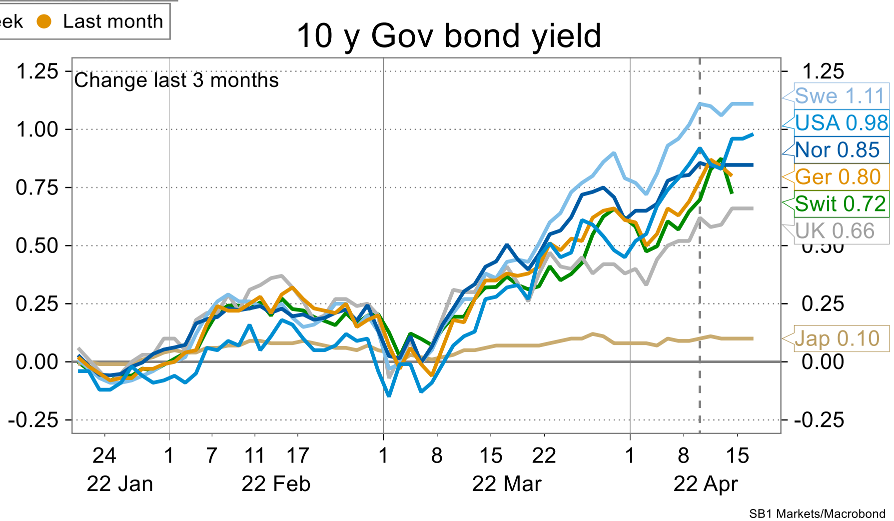
SpareBank 1 MARKETS

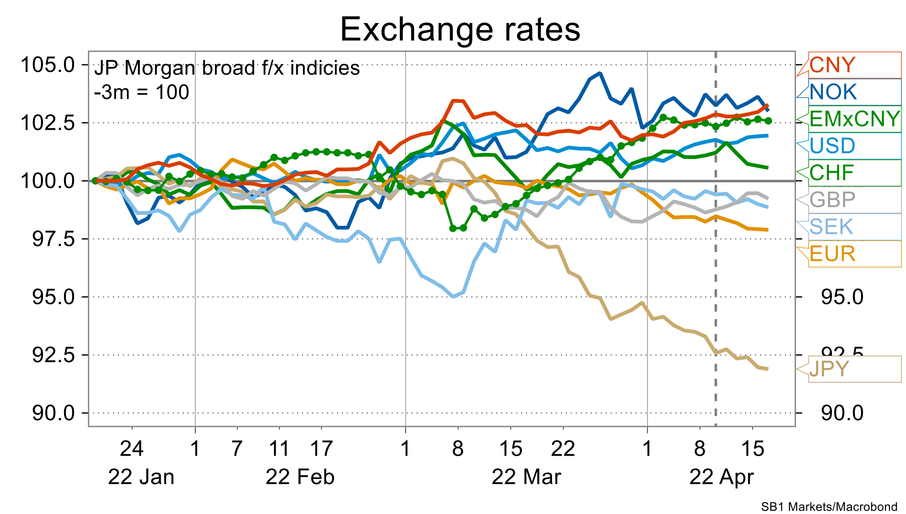
SpareBank 1 MARKETS

Equity markets mixed round zero, bond yields up – and the oil price rose



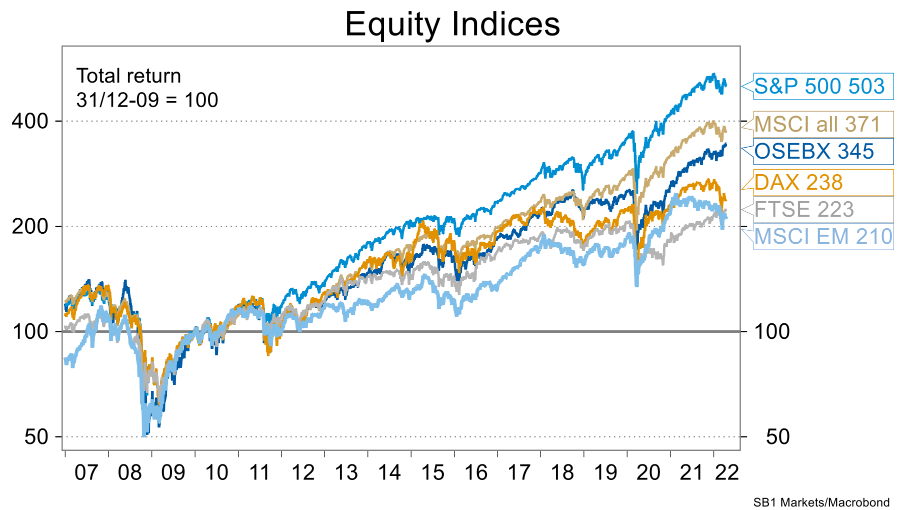


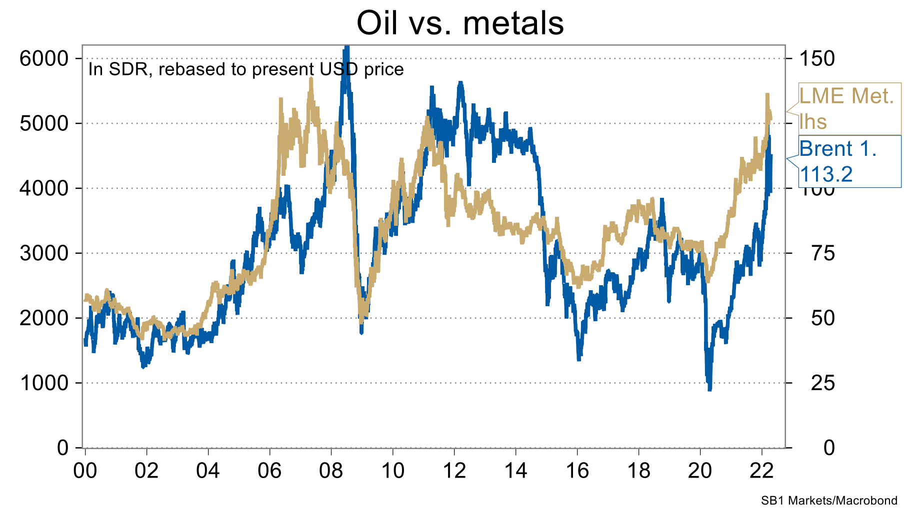


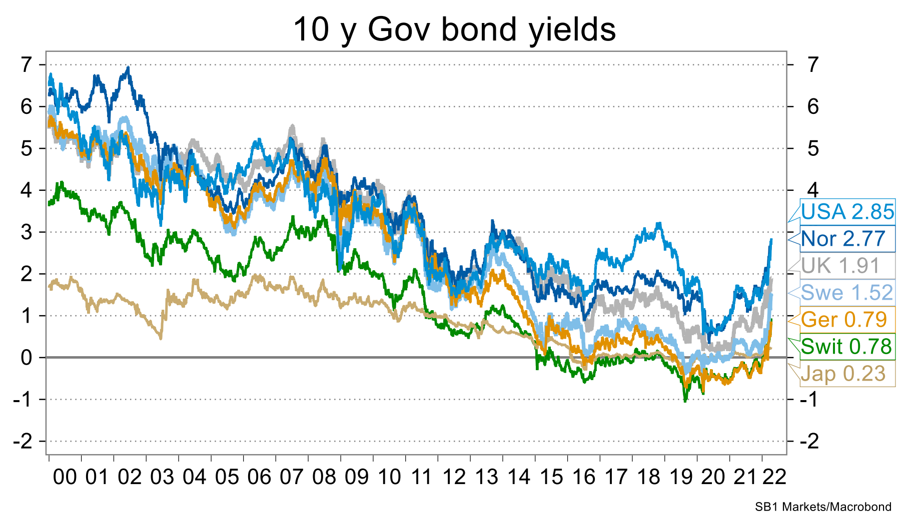


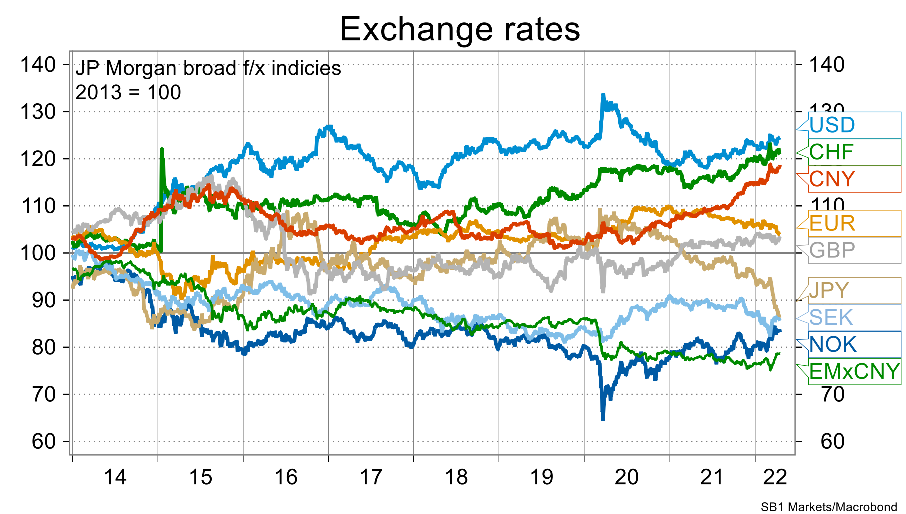
The big picture: Stock markets down (-OSEBX), bond yields up, commodities up

Commodities have taken a big step upwards



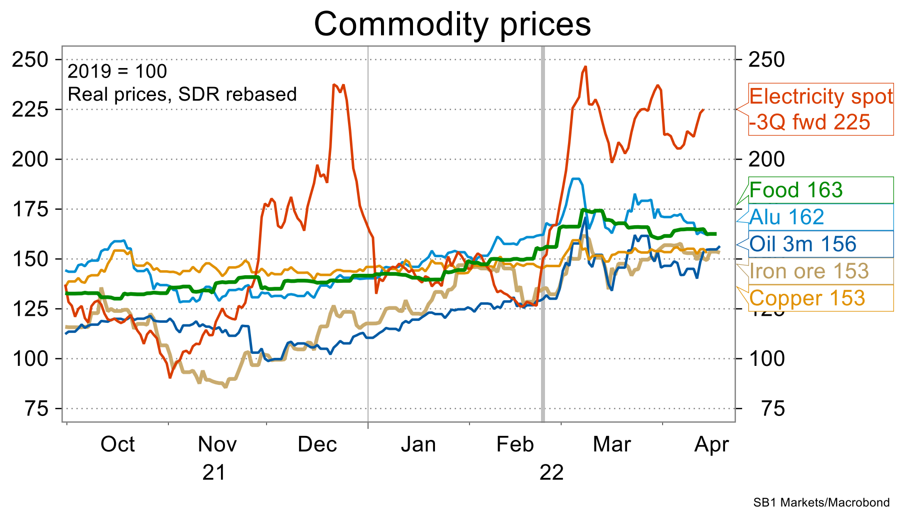


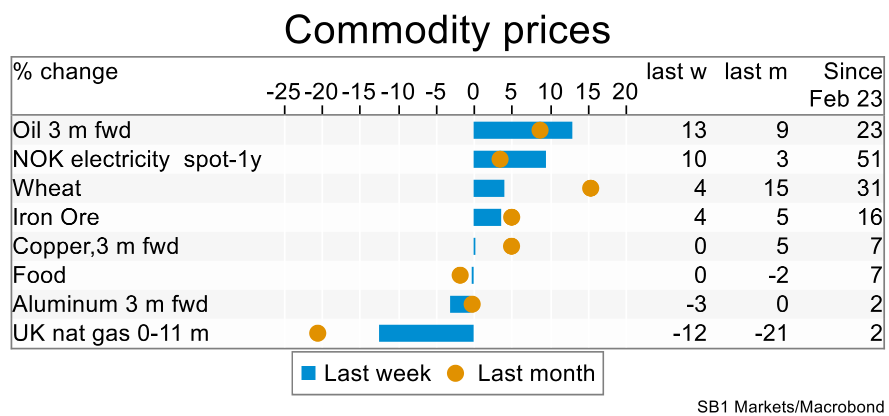


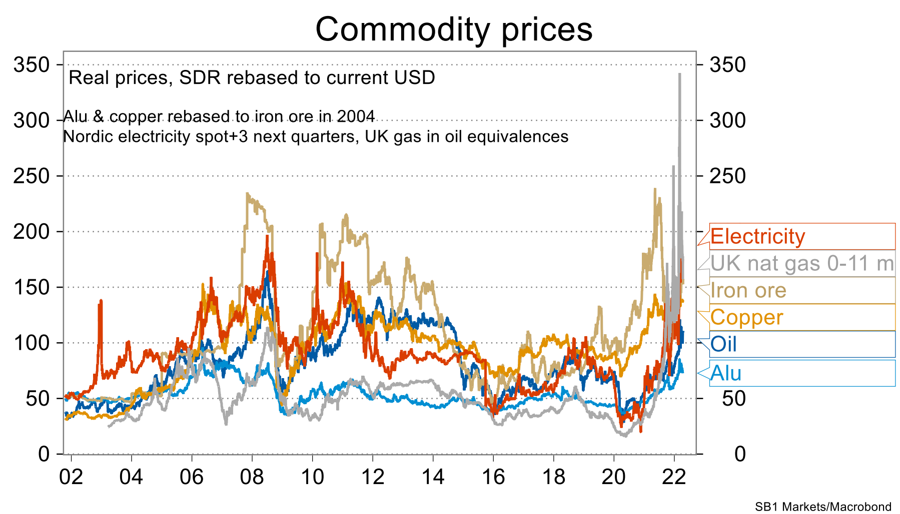


Mixed commodity prices, oil & wheat up. UK gas prices up too (but US prices up)

Food prices are up 7% from before the Russian invasion



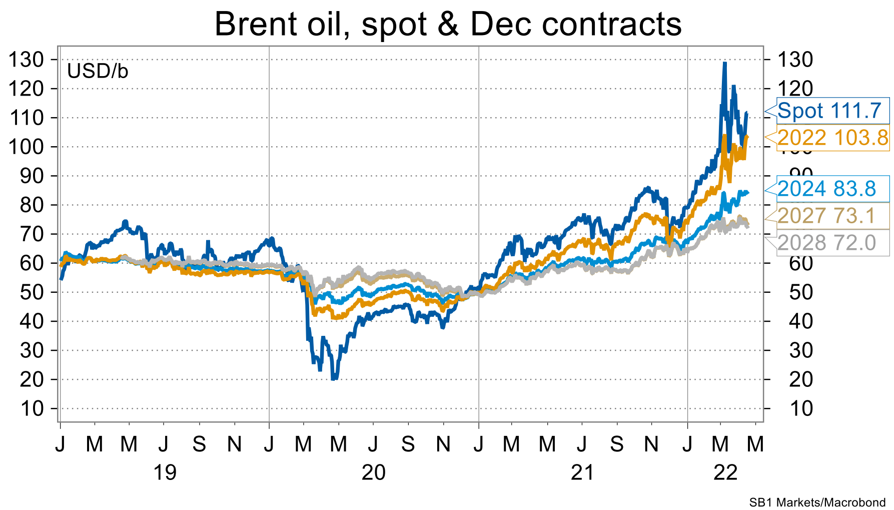


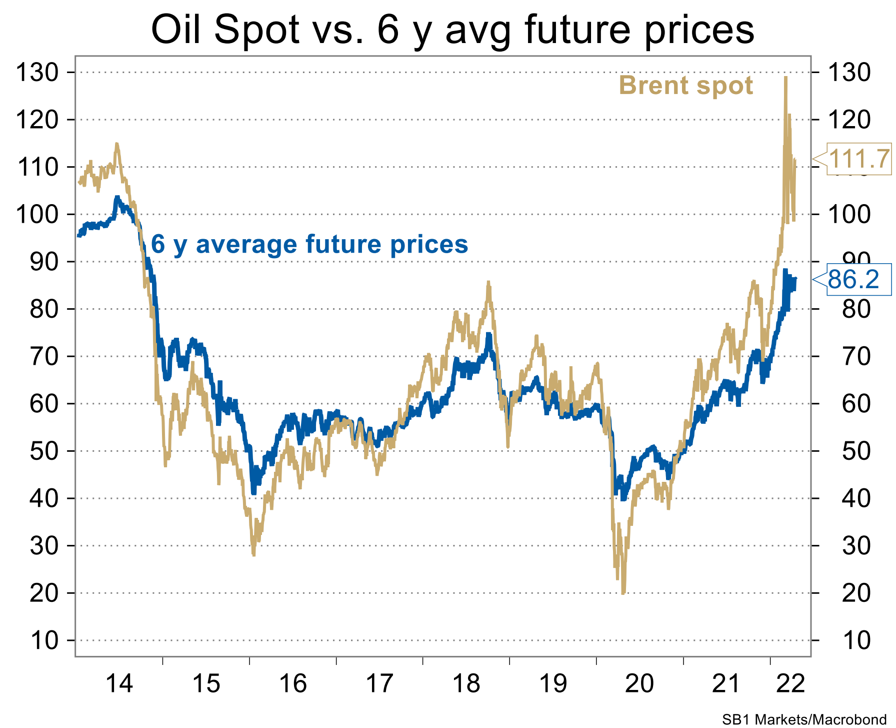


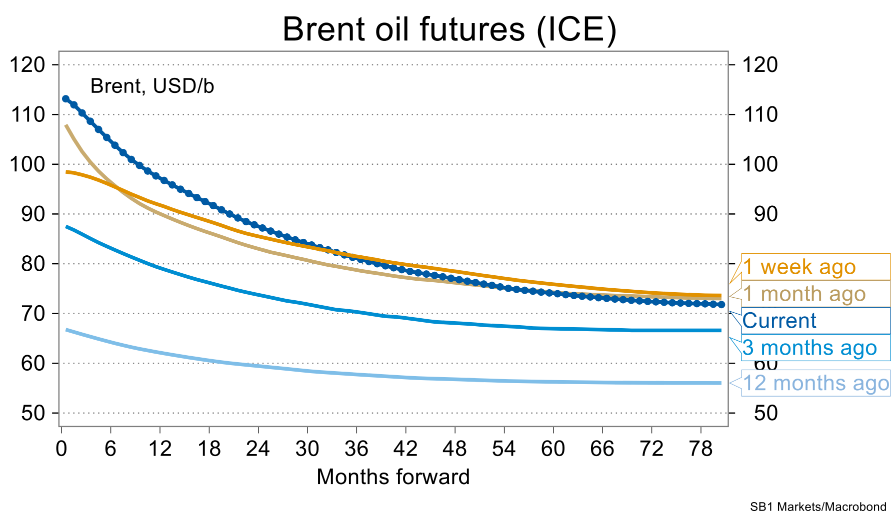
SpareBank 1 MARKETS

The oil price more down than up recent weeks, but not last week

Future prices have been more stable than usual vs spot price, and are not trending down

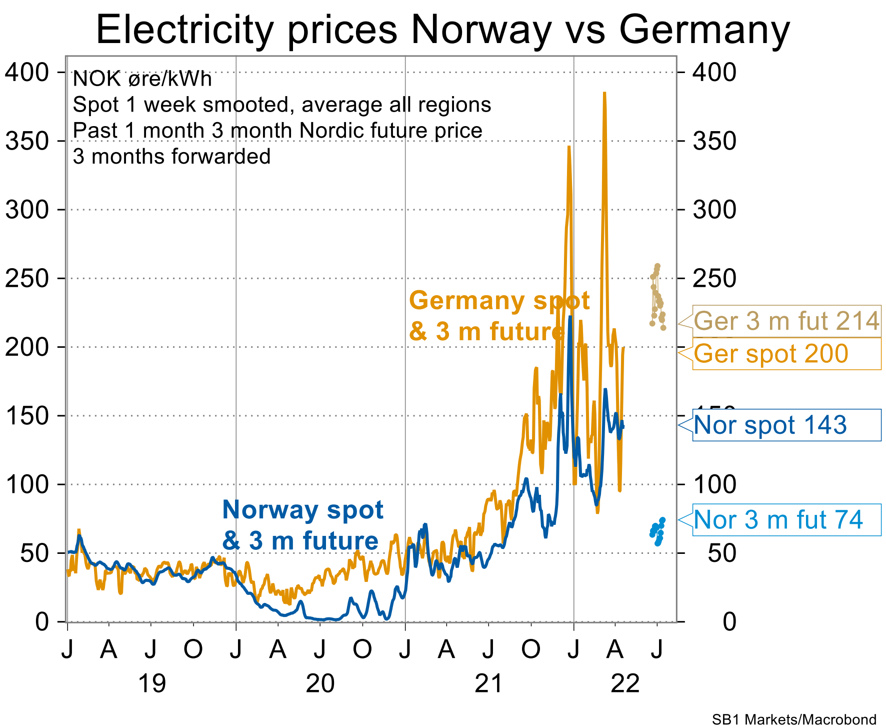


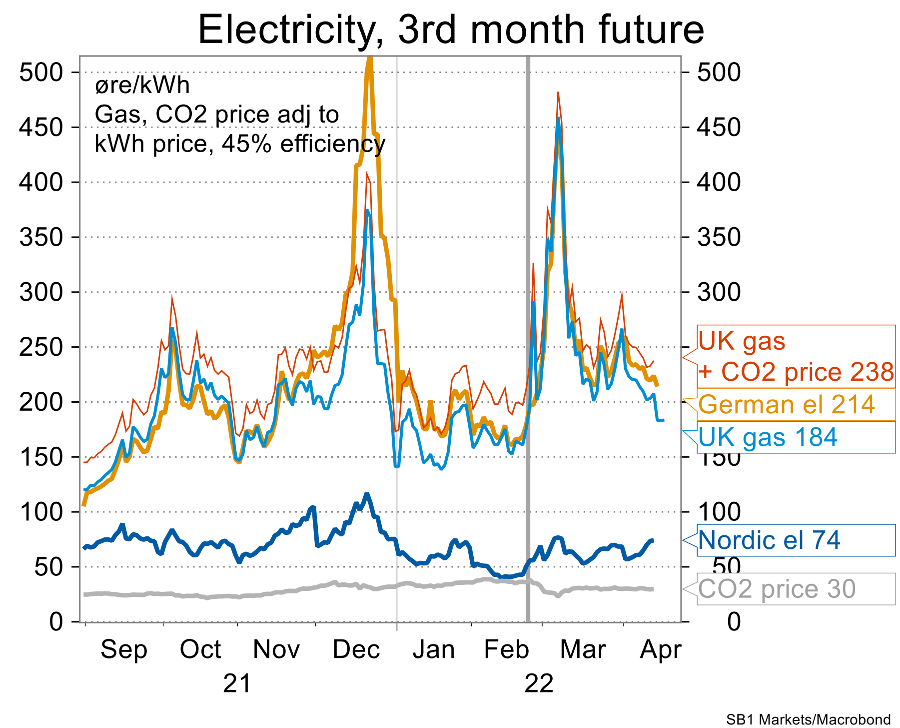




- Future prices have been lower than normal vs. the short end of the curve after the invasion – because markets assume that in the end, oil will flow

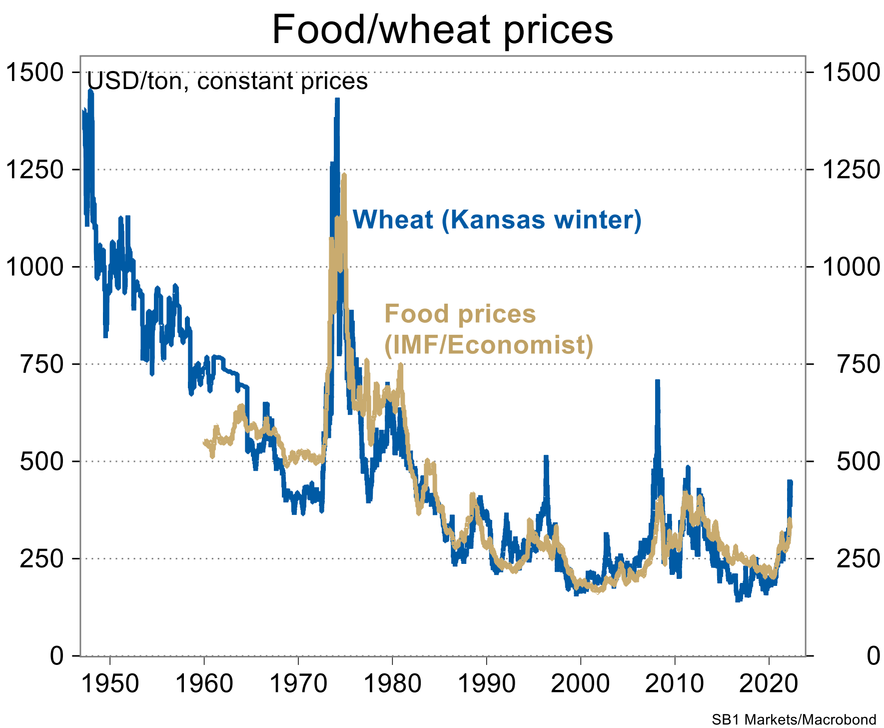
UK gas prices down last week but uncertainty on Russian gas deliveries remains

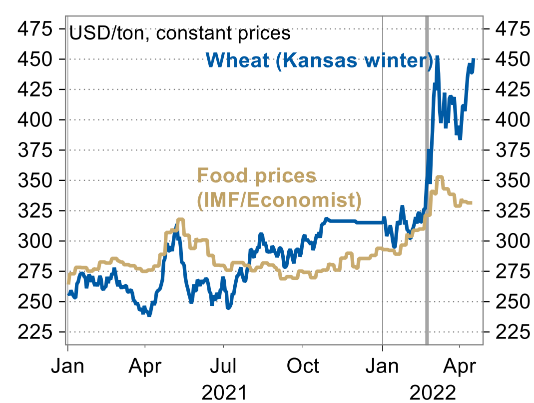




- The (strange) payment debate (oil, gas in EUR/USD or RUB) is not settled but we doubt that hurdle will decide the fate of Russian deliveries to Europe. How the Russians behave in Ukraine will be more important
  - Last week, revelations about the Russian army's (likely war crime like) treatment of civilians in Northern Ukraine led to a new wave of Western sanctions and an even more united front against the Russian regime

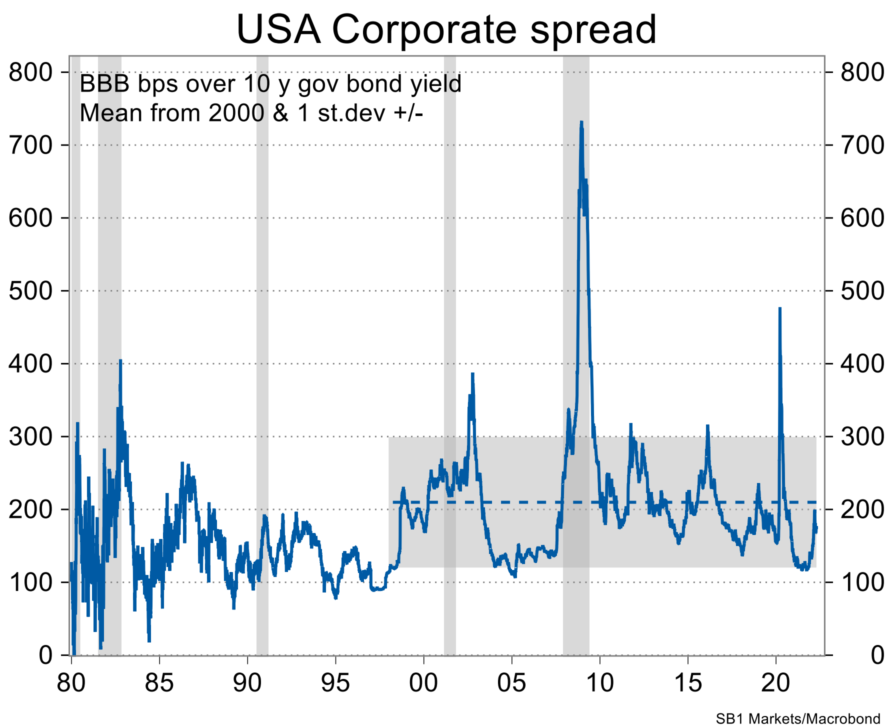
Wheat prices up last week too – and the trend is no more down

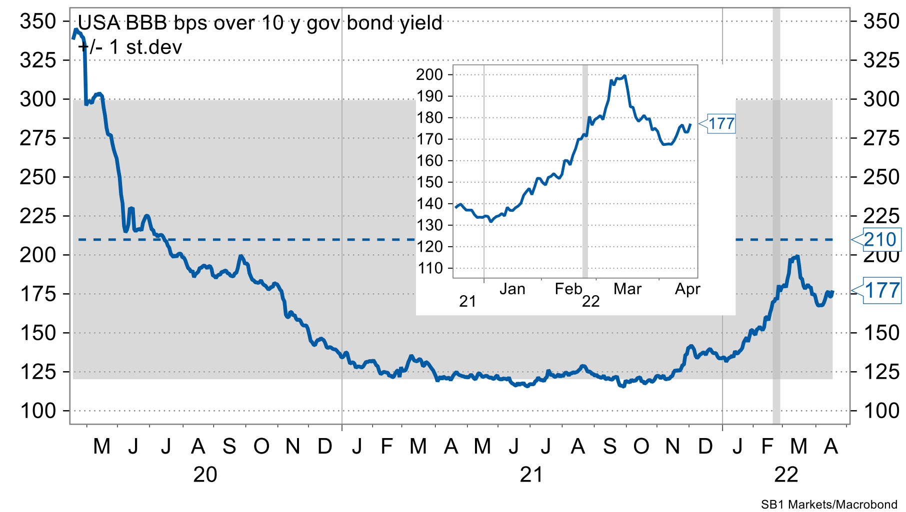


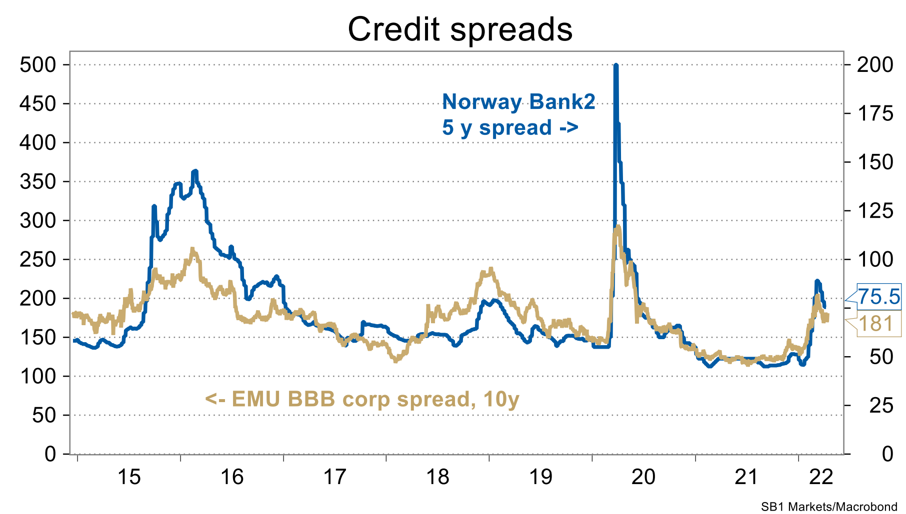


Credit spreads slightly up so far in April

Still, almost 2/5 of the lift in credit spreads since last autumn was reversed the previous 3 weeks

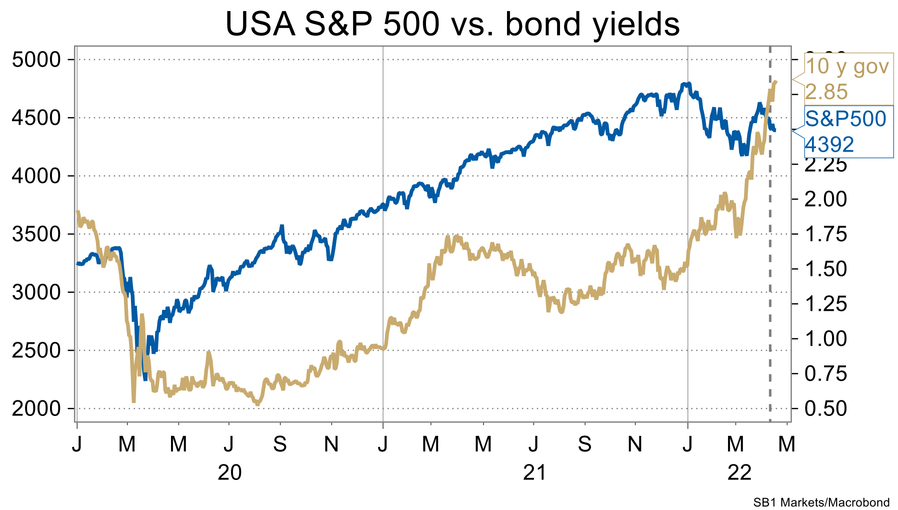


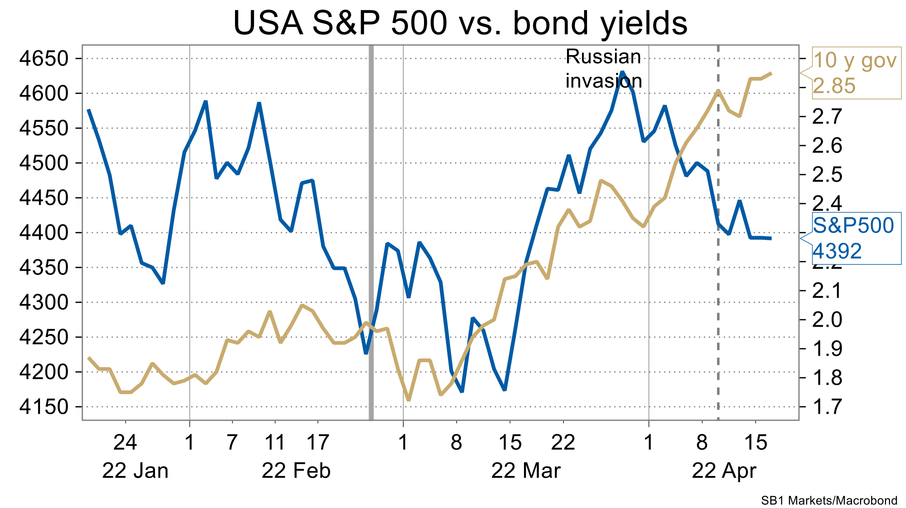


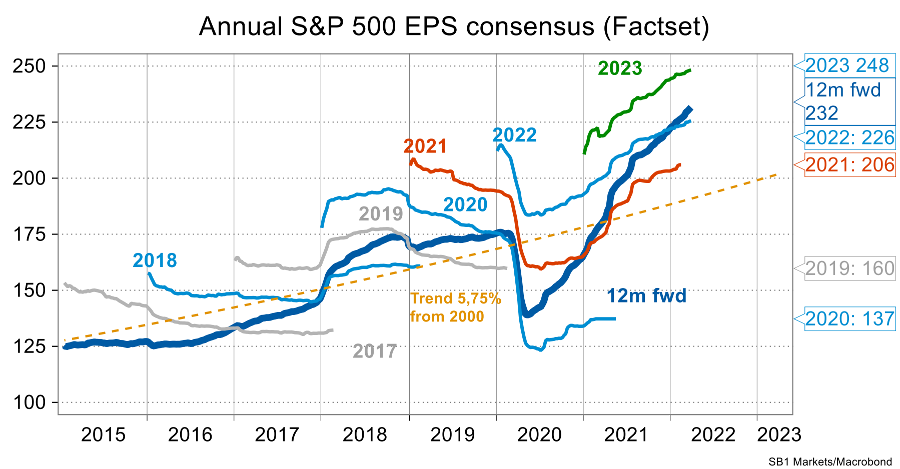


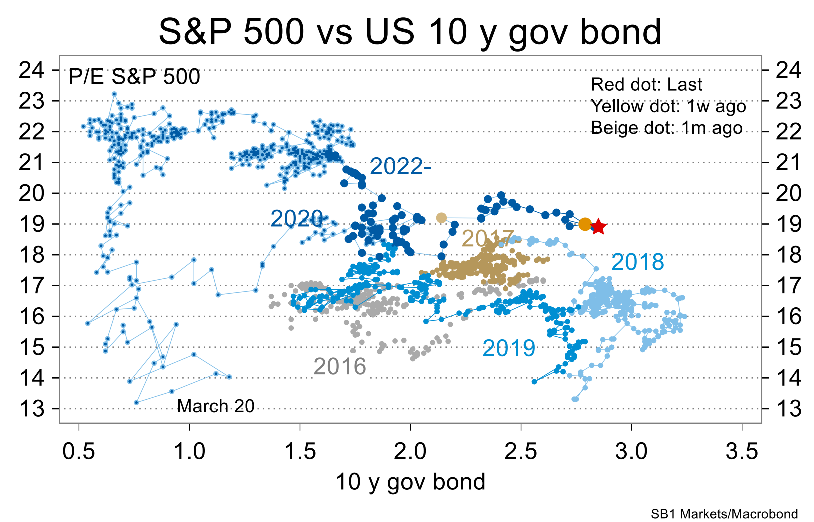
The 10 y bond yield up 15 bps to 2.85%! The S&P further down

Expected earnings growth is still impressive – at a >20% pace! For how long can that last?







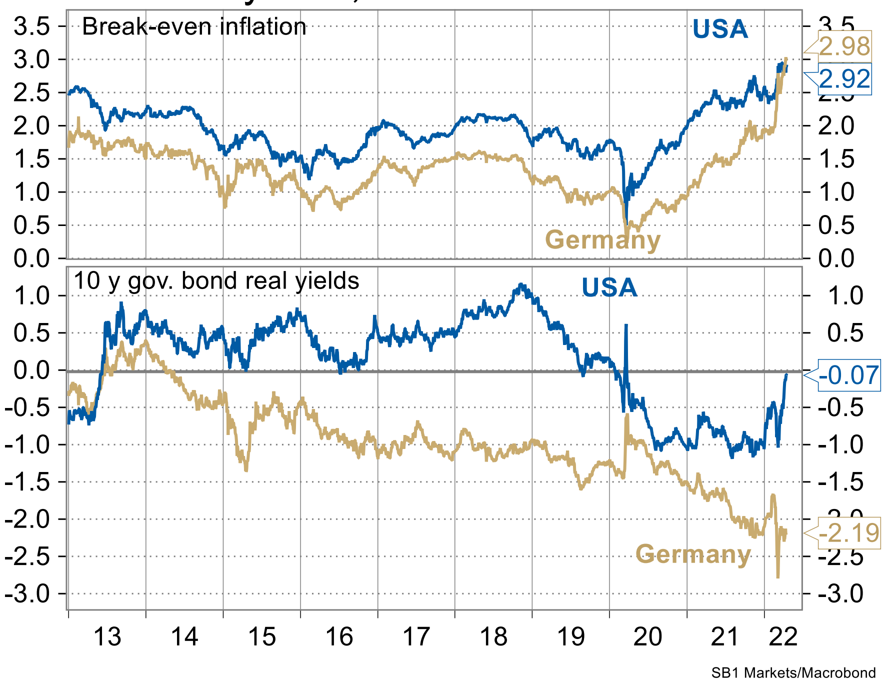


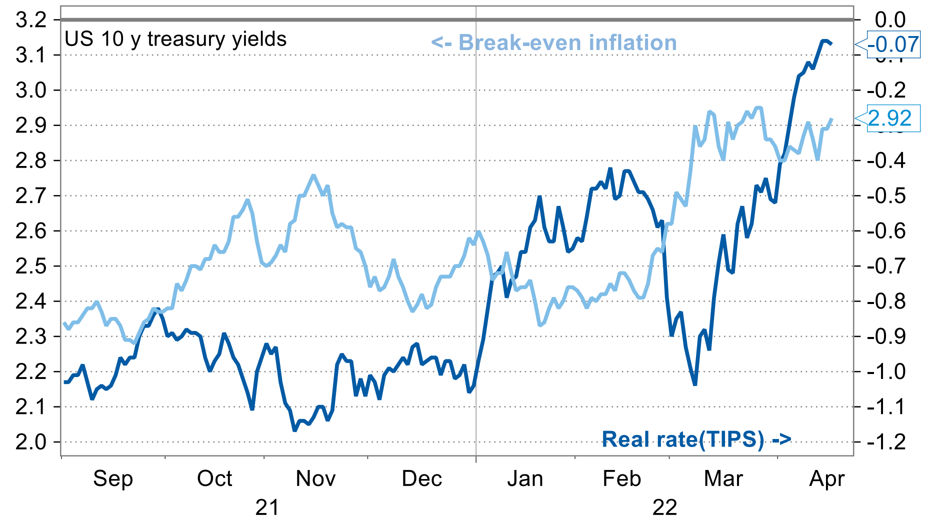
SpareBank 1 MARKETS

US real rates further up last week, the 10 y TIPS just 7 bps below zero!

The real rate the highest since early 20. German yields kept in check by the ECB

Real yields, break-even inflation





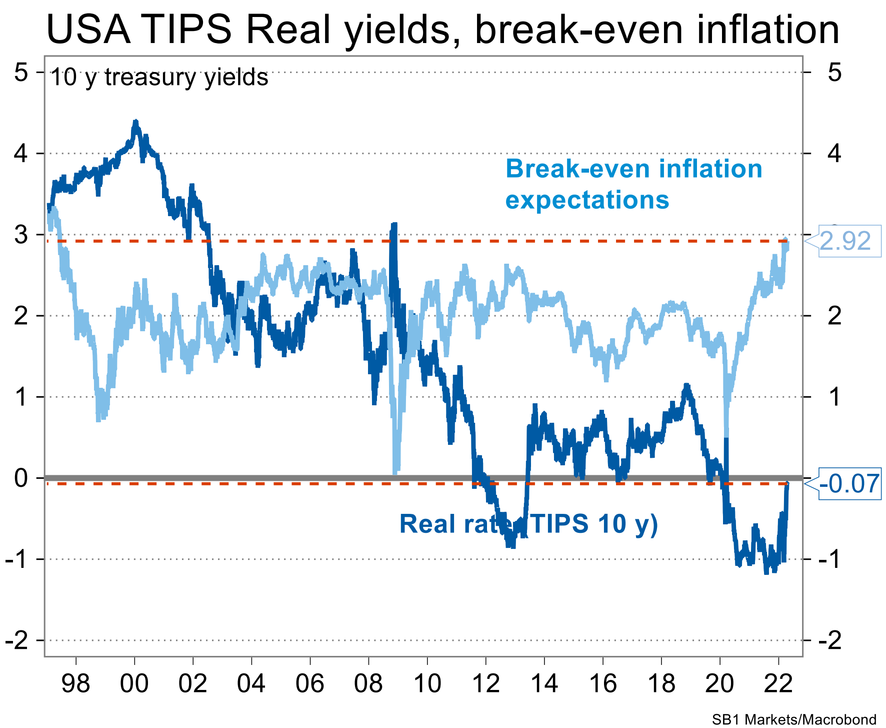
US & Germany 10 y Gov bond yield

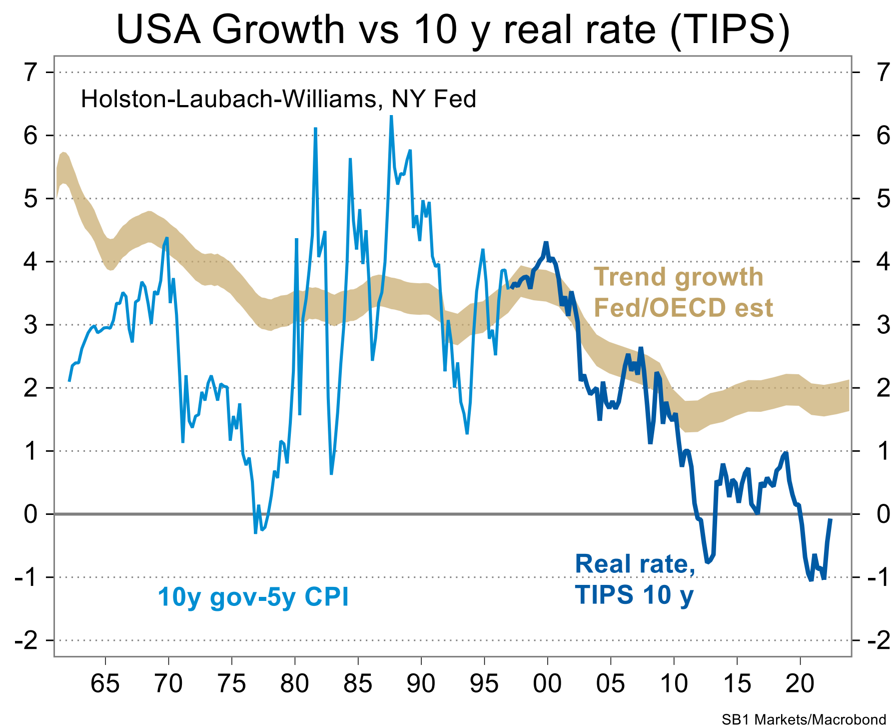
	Yield	Change 1w	Change 1m	Since Feb 18	Min since April-20
USA nominal treasury	2.85	0.06	0.71	0.93	0.52
.. break-even inflation	2.92	0.01	0.06	0.51	1.06
.. TIPS real rate	-0.07	0.05	0.65	0.42	-1.19
Germany nominal bund	0.79	0.02	0.42	0.57	-0.65
.. break-even inflation	2.98	0.04	0.43	1.00	0.40
.. real rate	-2.19	-0.02	-0.01	-0.43	-2.80

SB1 Markets/Macrobond

- **Inflation expectations** are close to 3%, both in USA and even in Germany!!
- **Real rates in the US** fell to 1.03% after the Russian invasion in Ukraine, down from -0.42%. Yesterday, the 10 y TIPS closed at -0.07%, the highest level since early 2020
  - » Still, the real rate is very low, historically
- **Real rates in Germany** remain extremely low, at -2.19%. Per year, the next 10 years (German data close April 14, US April 18)

US real rates almost back to zero. But that is still a rather low rate?



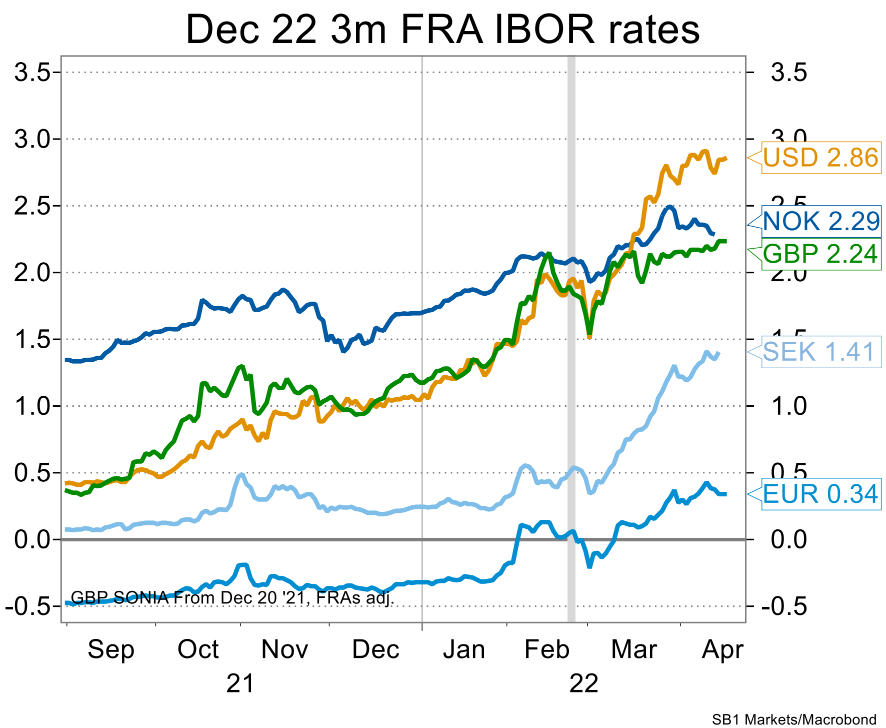


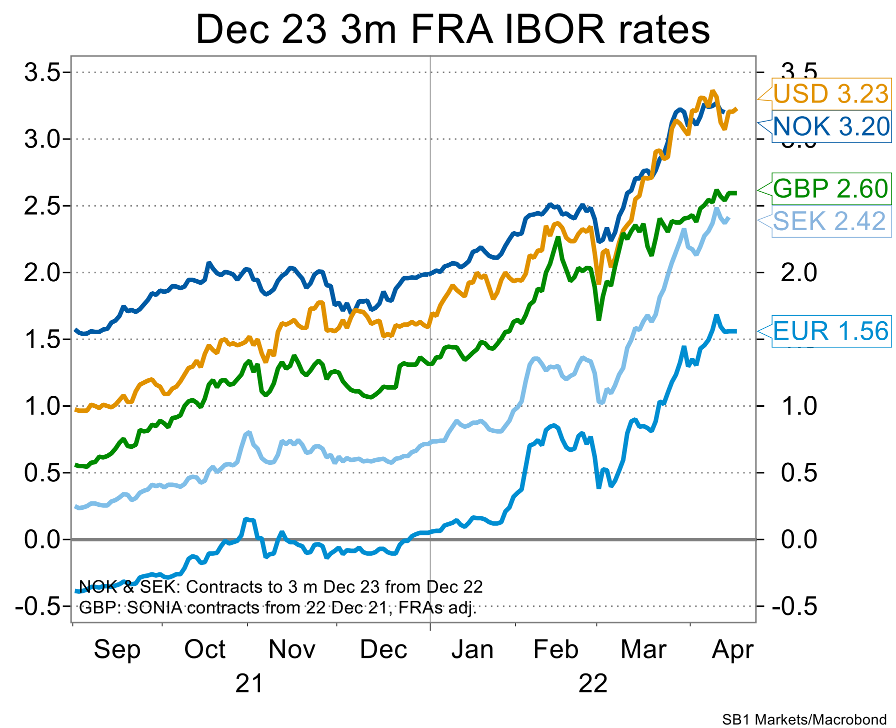
- If the economy is not really weak, we think central banks will tighten monetary policy by hiking rates, selling bonds in order to bring real rates further up to inflation under control <u>by slowing the economy to below trend growth</u>
  - » Profit margins are exposed
  - » Demand for labour will slow too, and unemployment will increase – in order to get wage inflation down
- The big question: Are other markets discounting this scenario

SpareBank 1 MARKETS

NOK FRA-rates down – and more than in EUR, where the ECB was 'dovish'

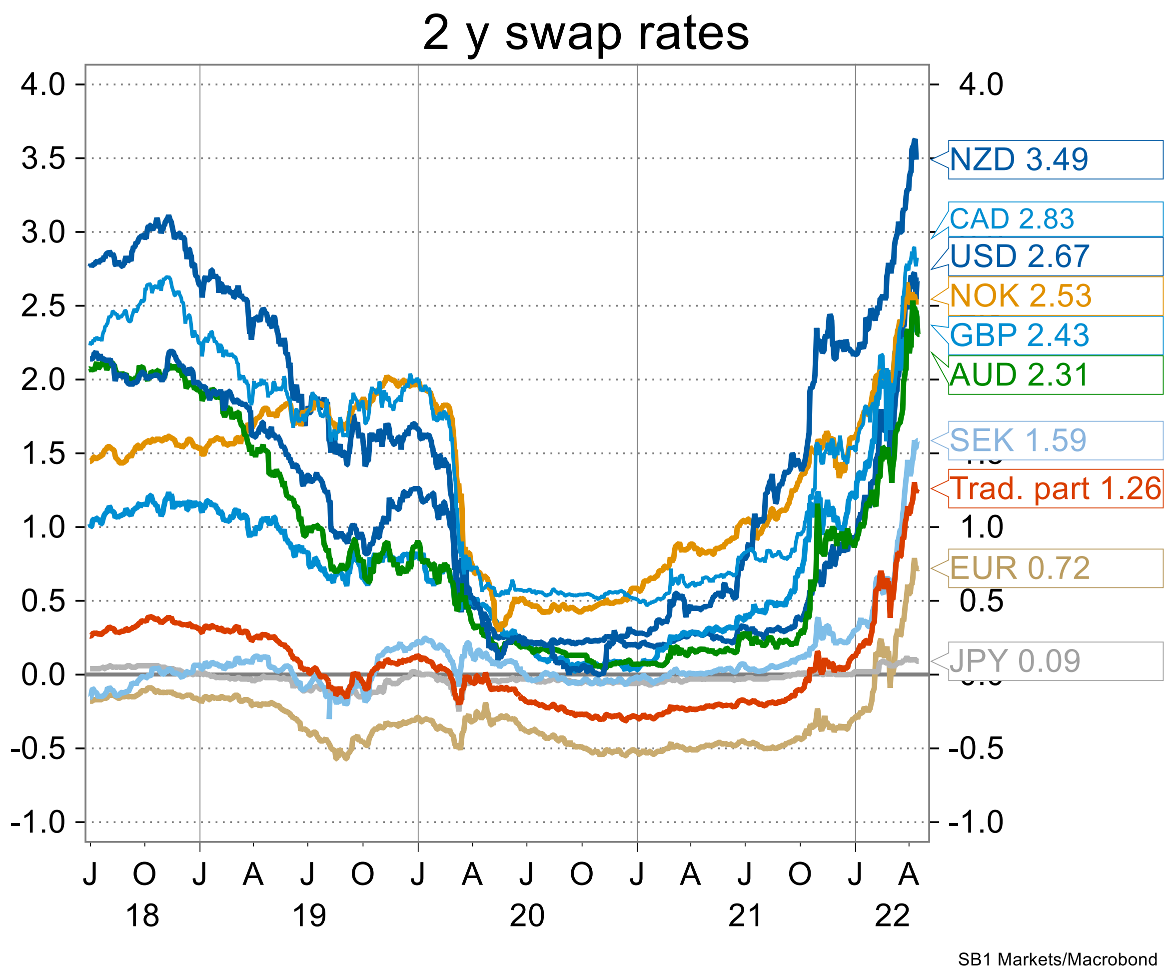
Look to Sweden: Are they aiming for NOK rates by the end of next year??

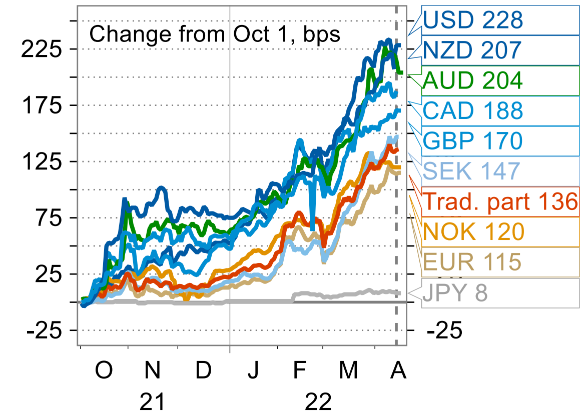


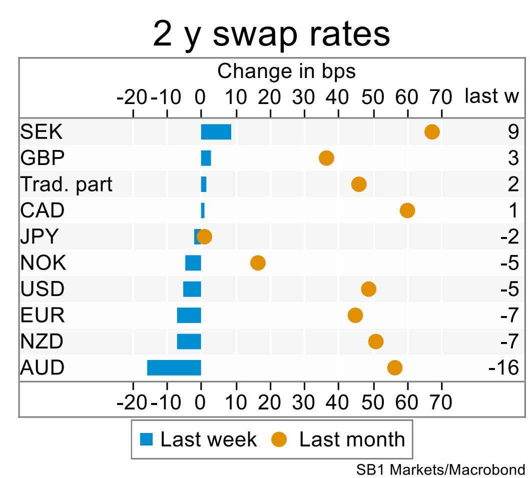


- This is the largest and most 'co-ordinated' (anticipated) change in monetary policy we have ever seen in modern times

Almost all 2 y swap rates retreated last week, most down south

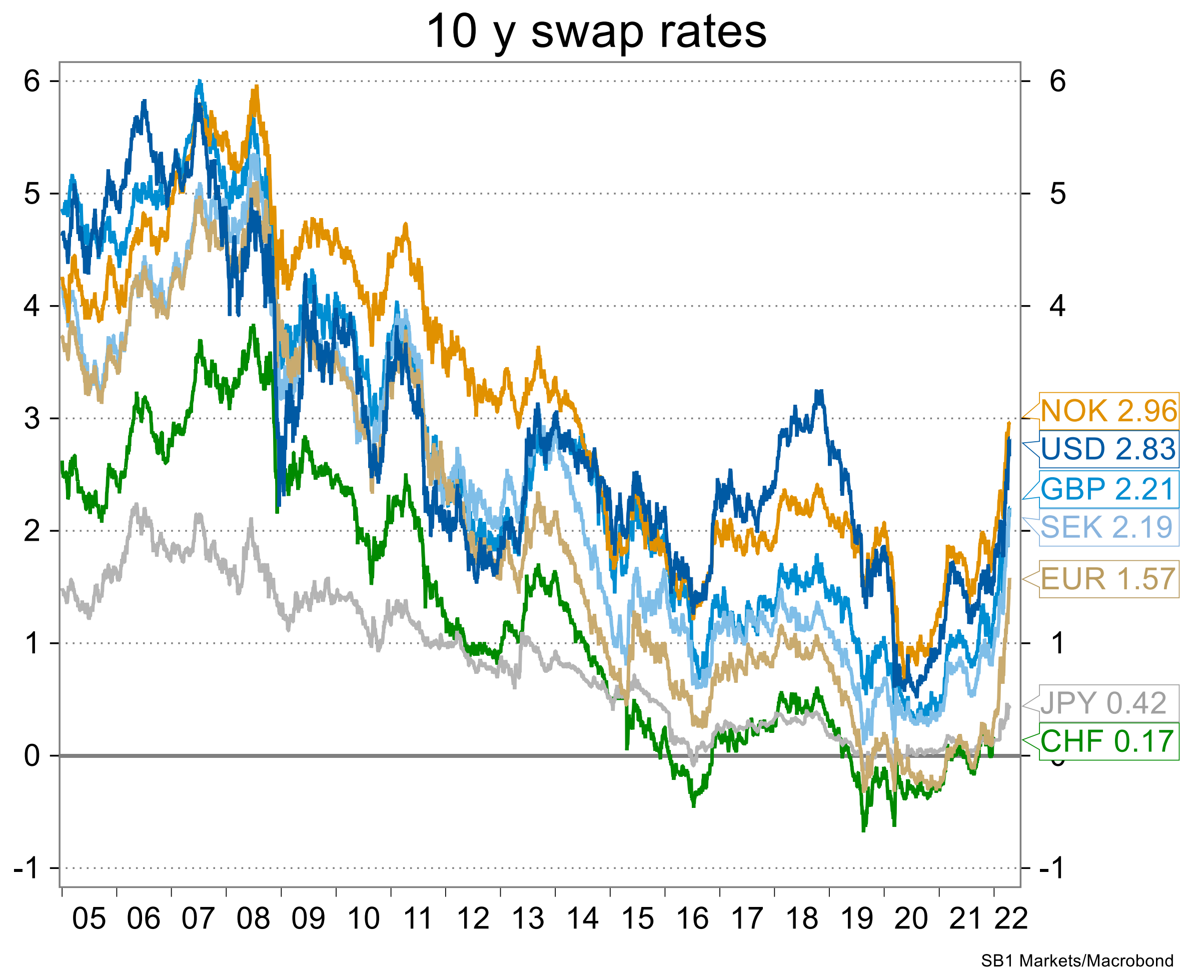


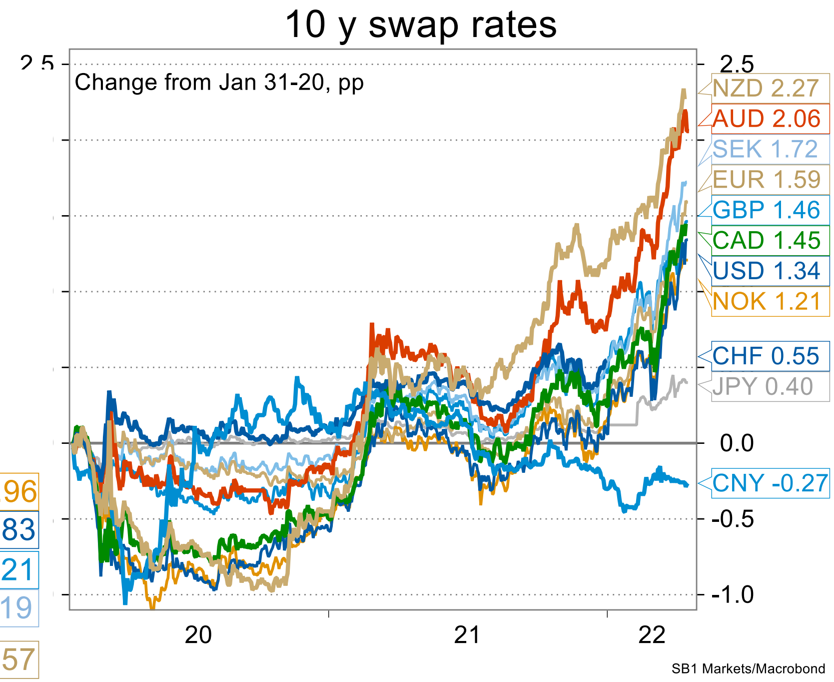


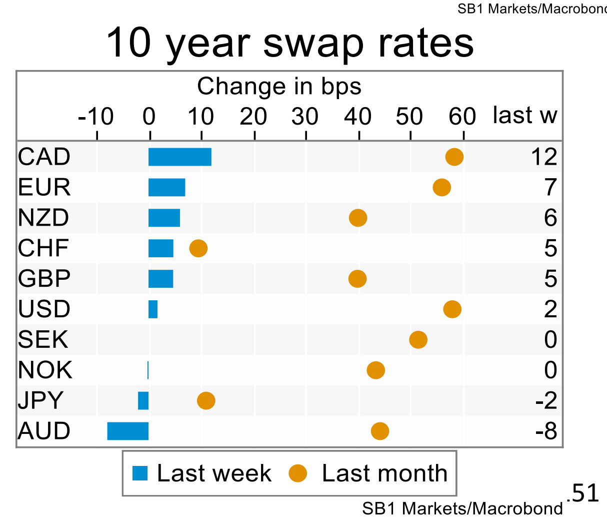


Almost all 10 y swaps further up last week

The NOK 10 y still at the top, approaching 3%



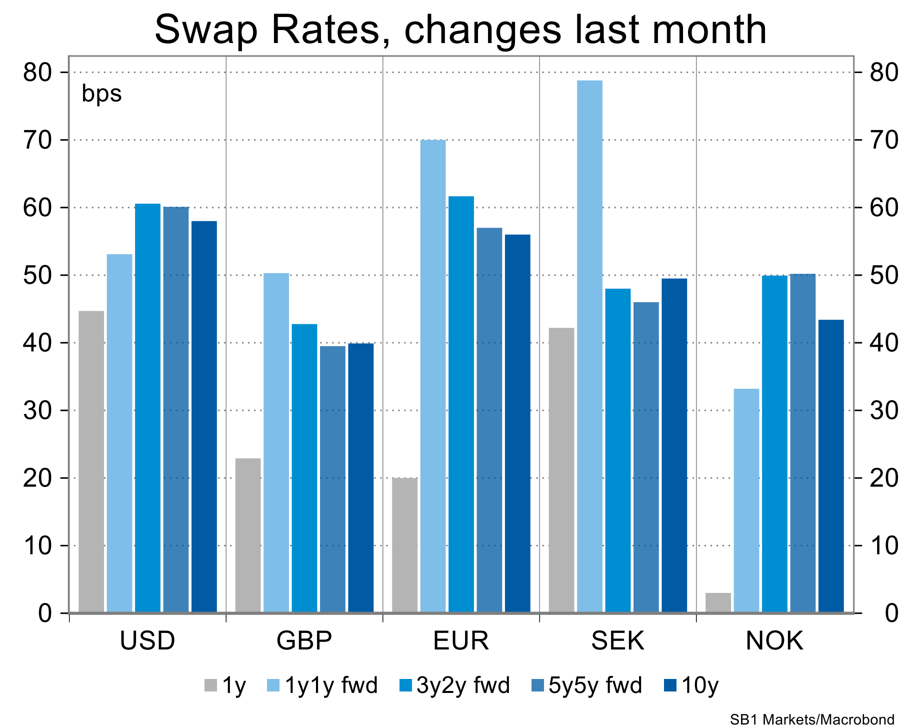


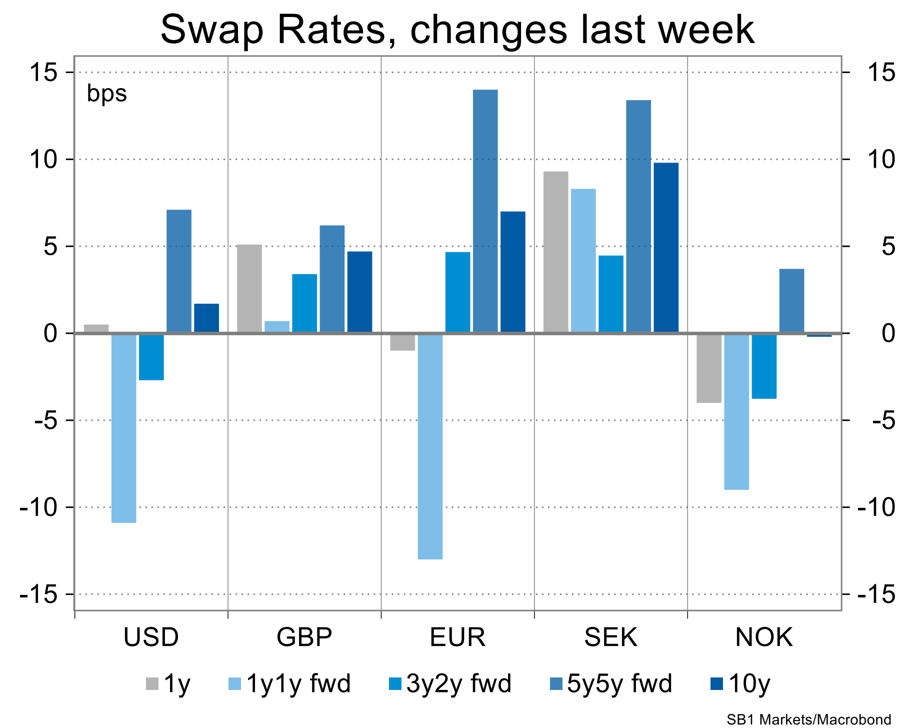


SpareBank 1 MARKETS

The short end in EUR down on a dovish ECB, but the long end sharply up!

SEK rates also up – the Riksbank will very likely turn on a dime next week





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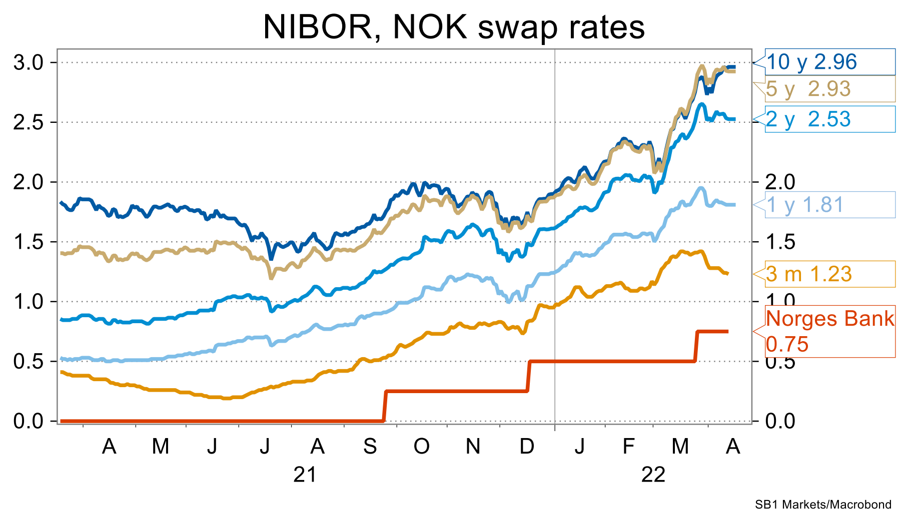
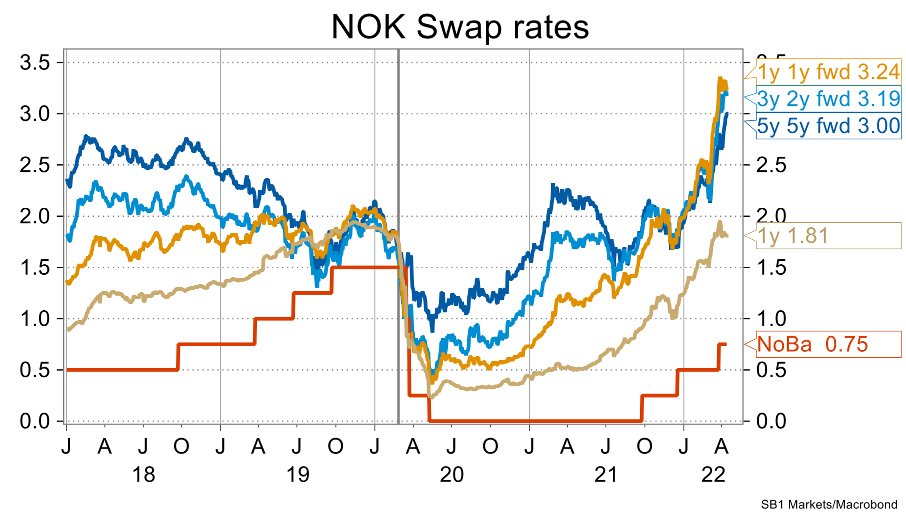
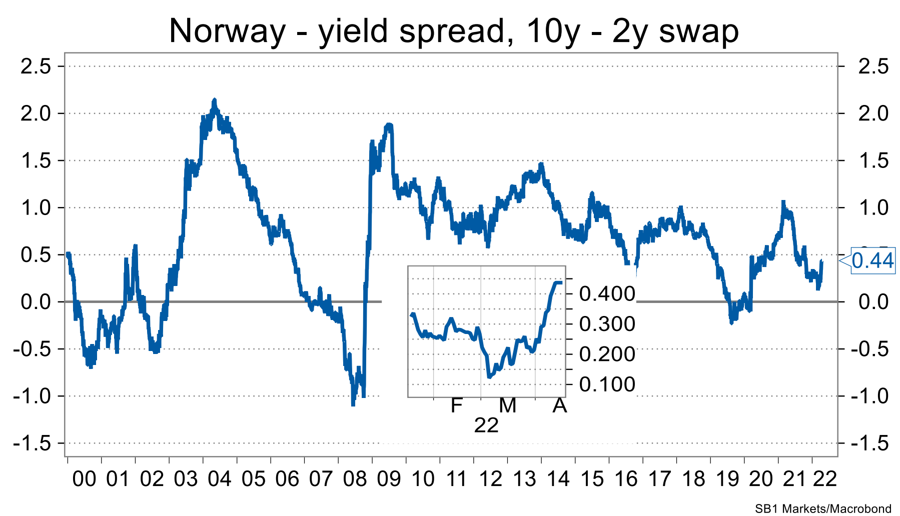
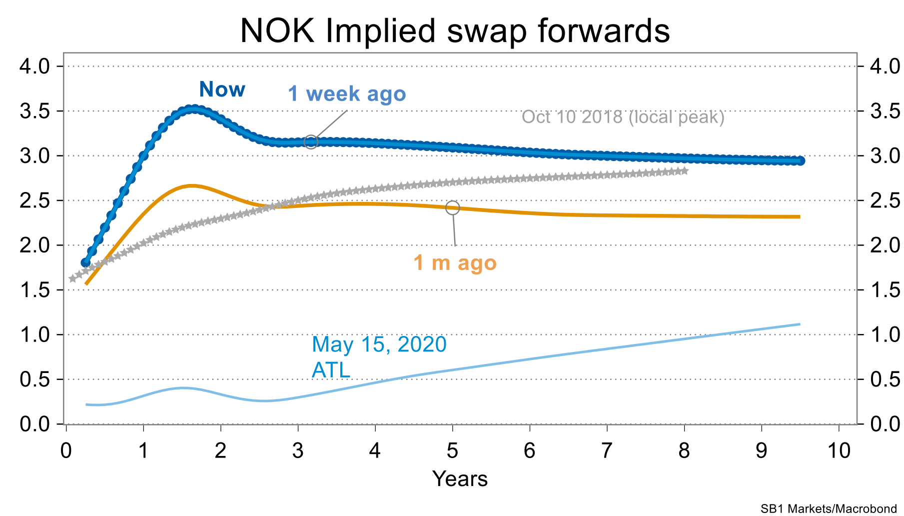
Rates down in the short end, flat in the long end – and a steeper yield curve



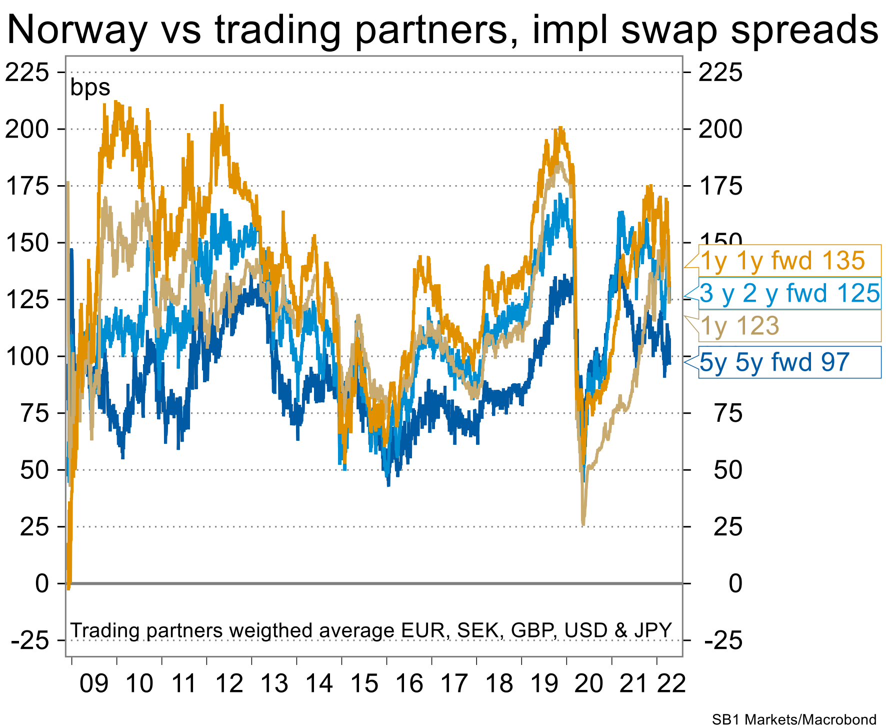


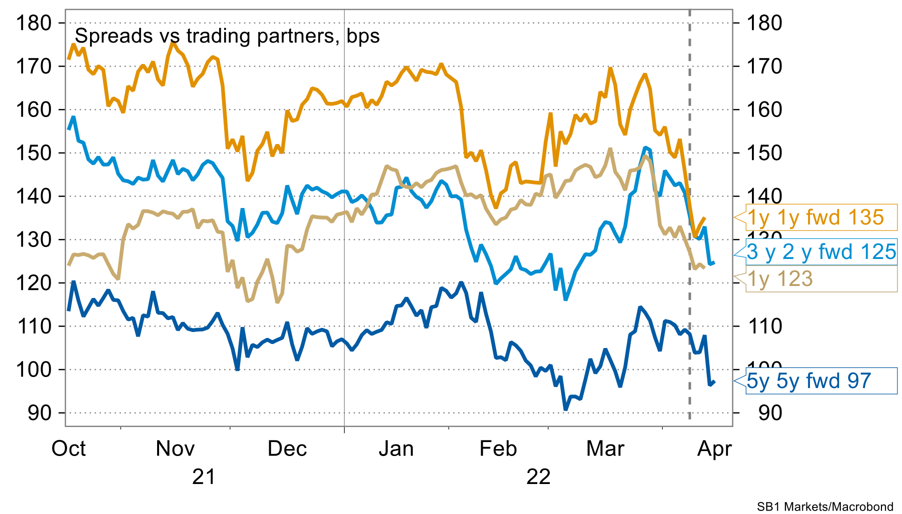


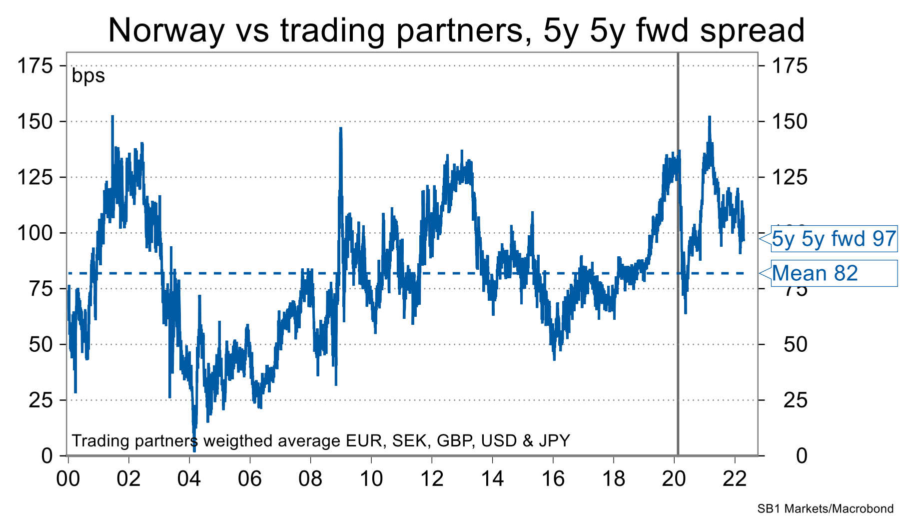


Spreads further down last week – most in the long end of the curve

The ECB lowered the short end of the curve in Europe – but not the long end

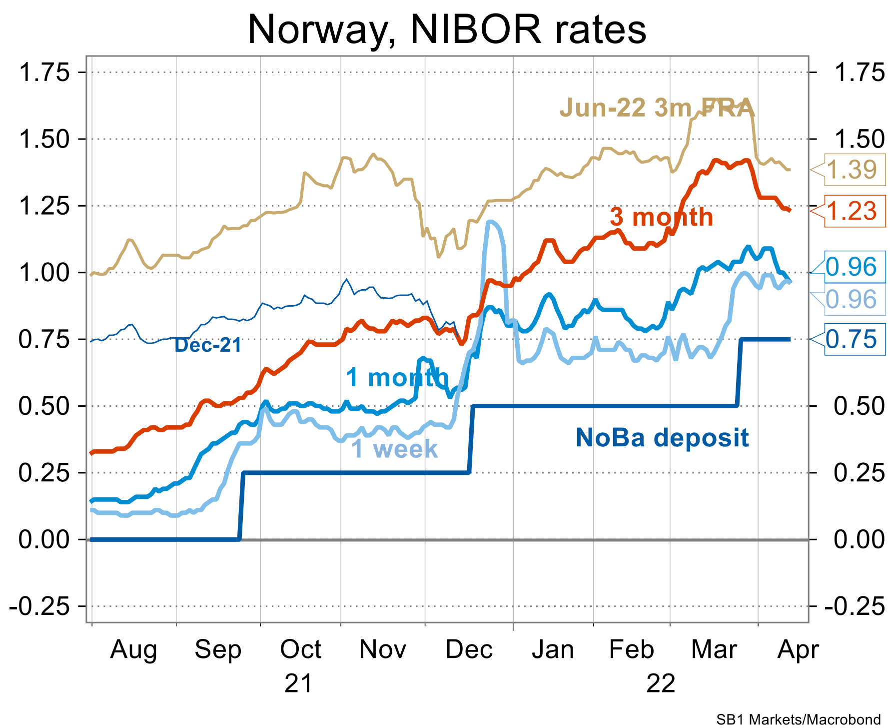


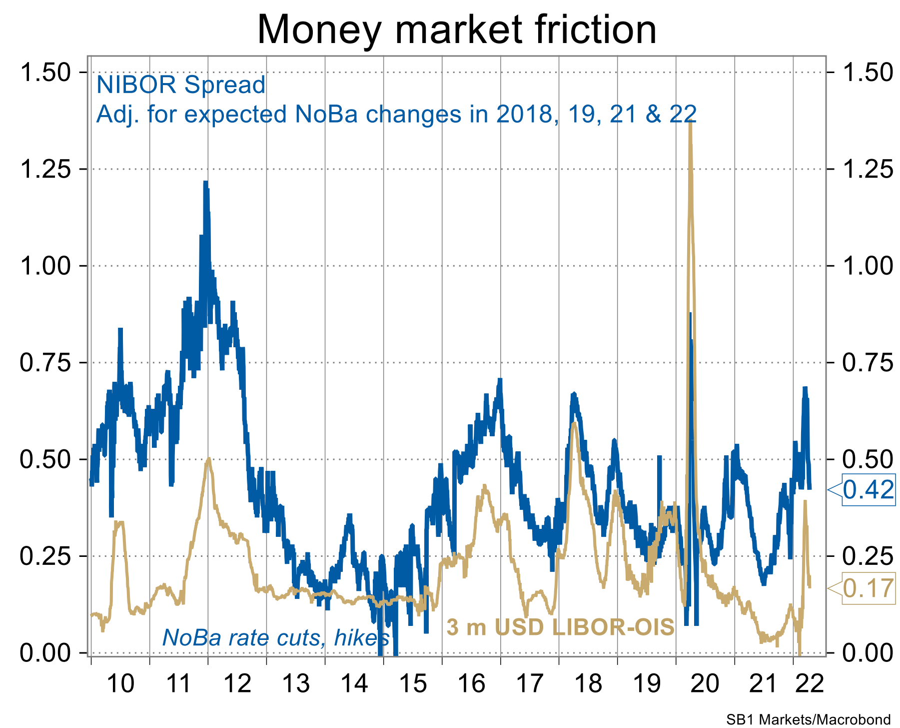




The 3m NIBOR down 3 bps to 1.23%, the NIBOR spread down to 42 bps

(if no hike in May). The USD LIBOR-OIS spread is on the way down too, -1 bps to 17 bps last week

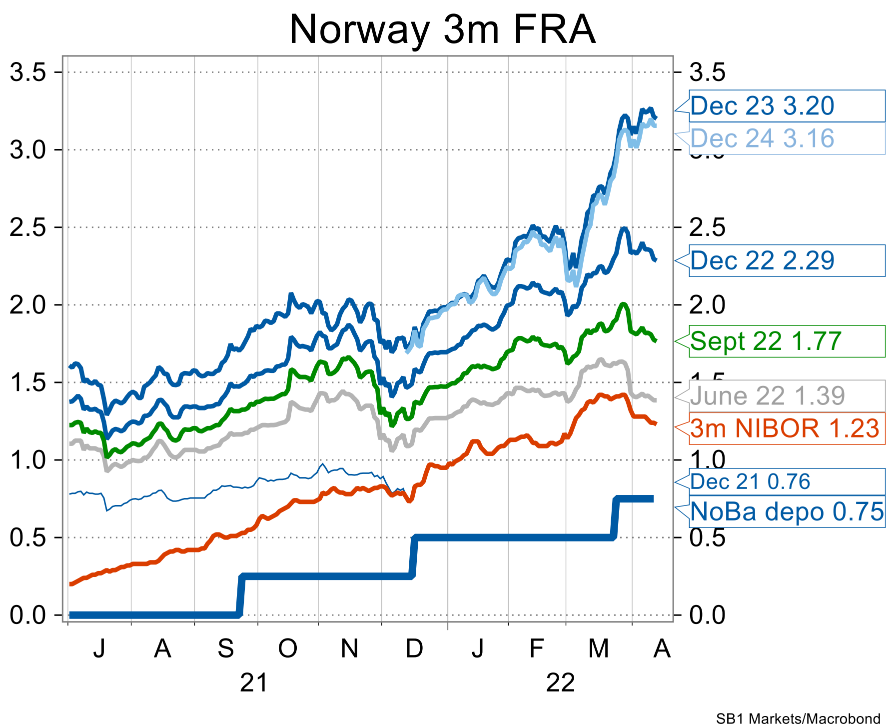


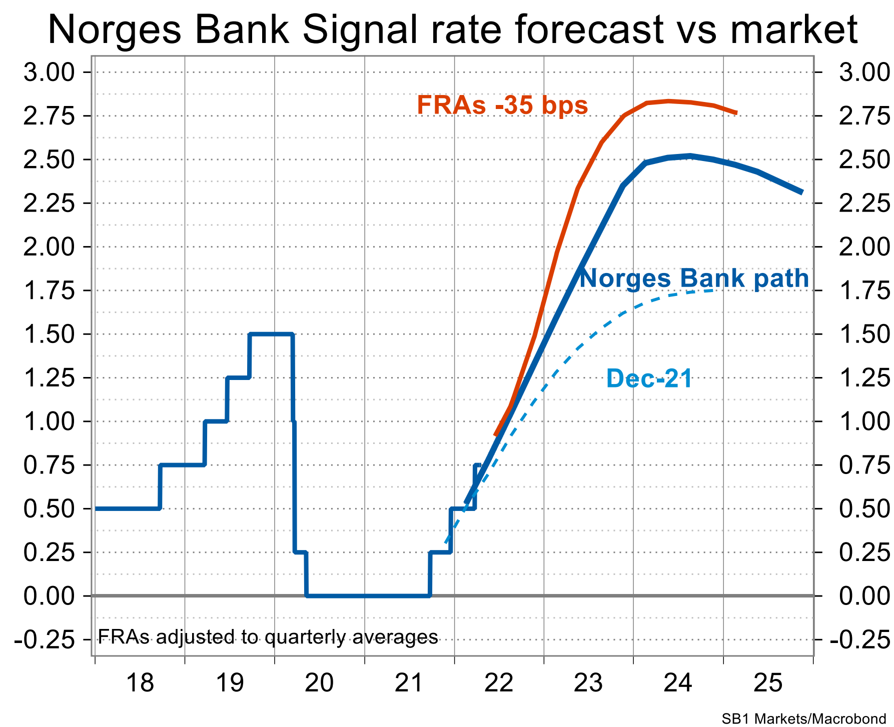


- Both the US and the NOK money market spread has narrowed by some 20 bps the last 4 weeks

FRAs mostly down during the first part of the Easter week

... due to a more normal NIBOR spread, not lowered NoBa expectations





- The **June 3 m FRA** fell 3 bps to 1.39% last week
  - If NoBa hikes to 1% from the present 0.75% at June 23, the average deposit rate in the duration of the June 3 m FRA contract will be 0.98%
  - A 100% probability for a 25 bp hike if the assumed Q3 NIBOR spread is 42 bps. This is not an unreasonable spread assumption – but higher than we would assume market participants shared today. So a small probability for a 50 bps hike is probably priced in. The best counter argument: The current NIBOR spread is 42 bps
- The FRA market still discounts 3 to 4 hikes in H2 (that is, in addition to the March hike, and the expected June hike), well above NoBa's interest rate path which signalled 2 hikes in H2 (total 4 in 2022), with a minor probability for a 3rd hike

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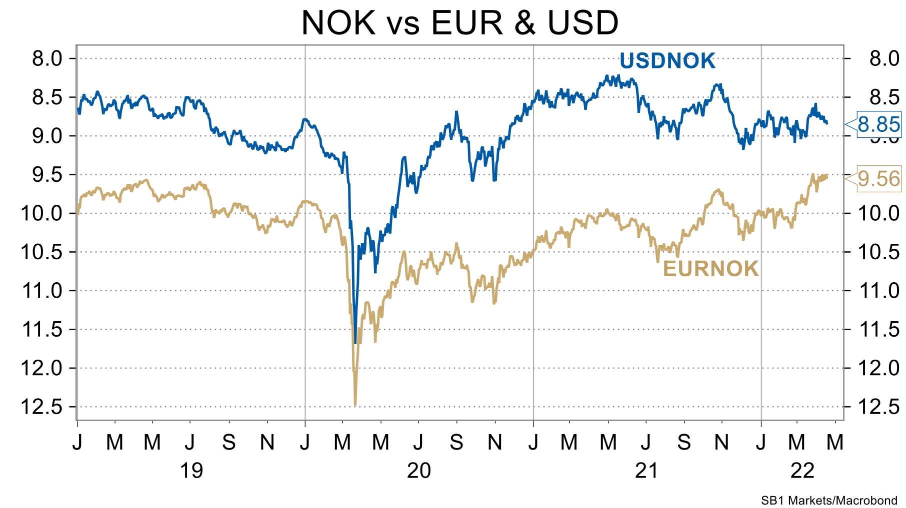
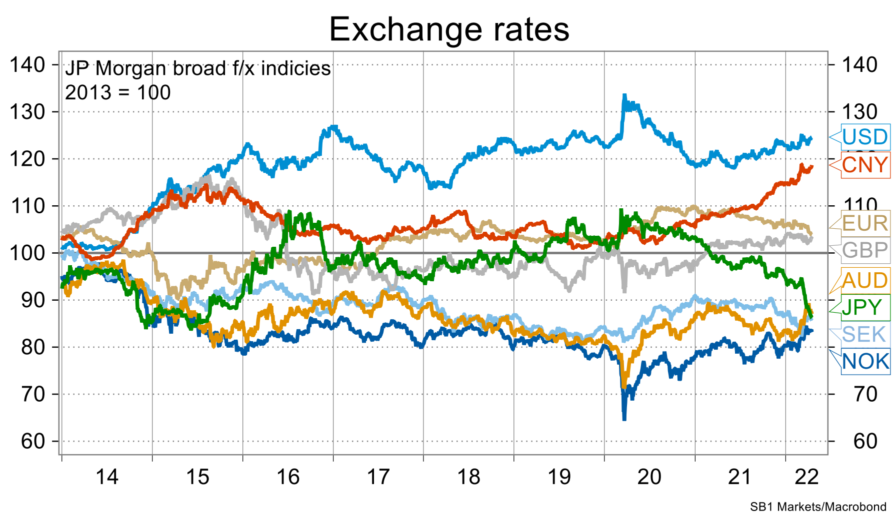
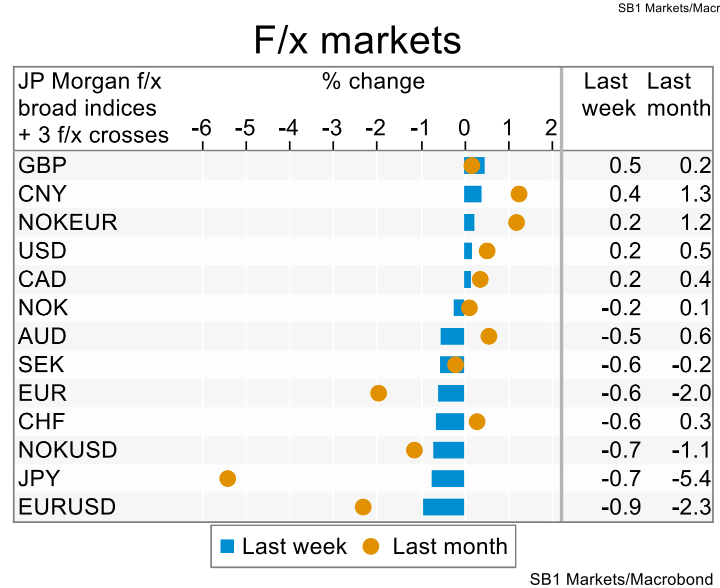
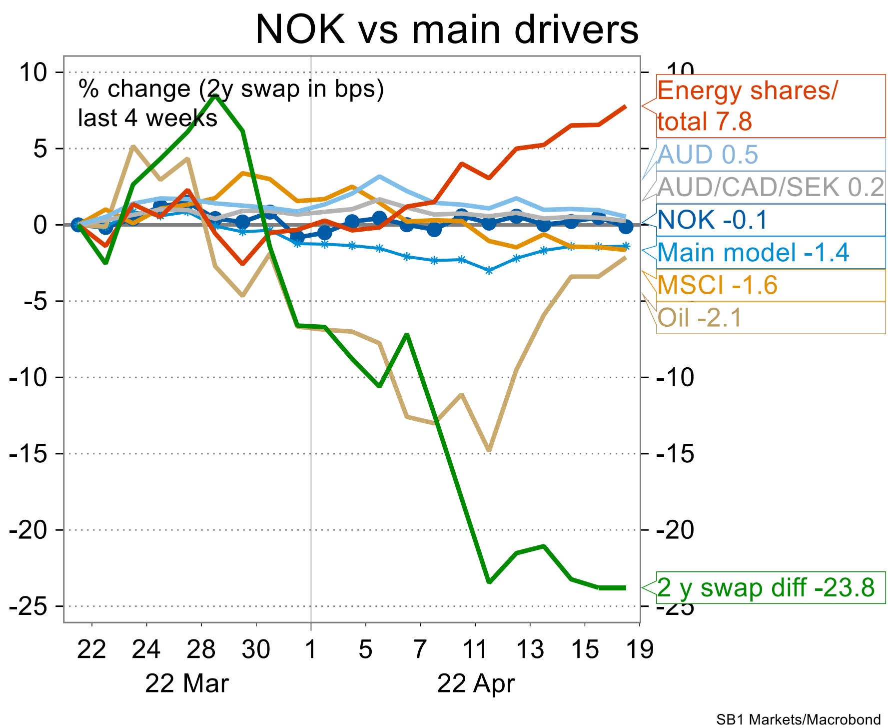
The EUR (& the JPY) the f/x losers. Last week a dovish ECB helped the EUR down

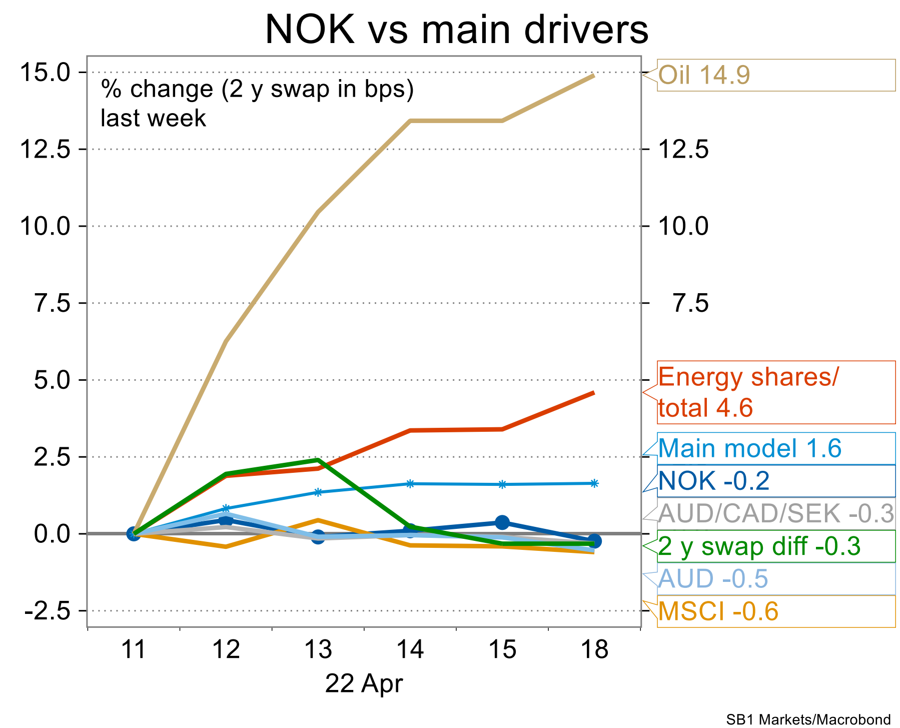






NOK unchanged since Friday 8th, our model said 1.6%, ad the oil price rose





The status vs. the normal drivers:

- ***The NOK 0.2% - and the NOK is in line with our (from 1.3% above)***
- The NOK is 2.8% weaker than our AUD/CAD/SEK-model, our 'super-cycle peers', predicts (from -2.5%)
- NOK is 5% stronger than a model which includes global energy companies equity prices (vs the global stock market) (unch)

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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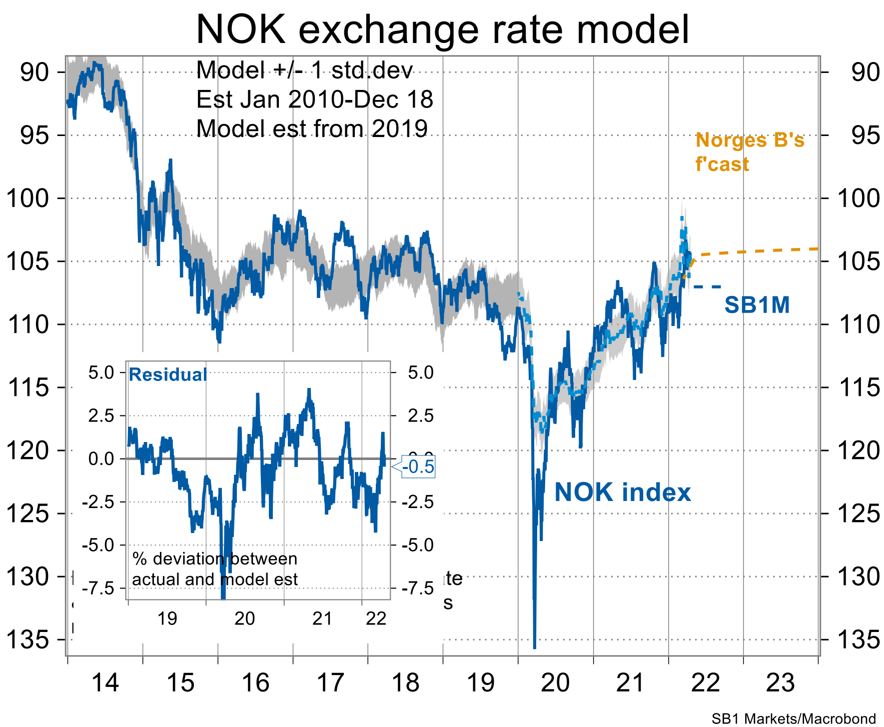
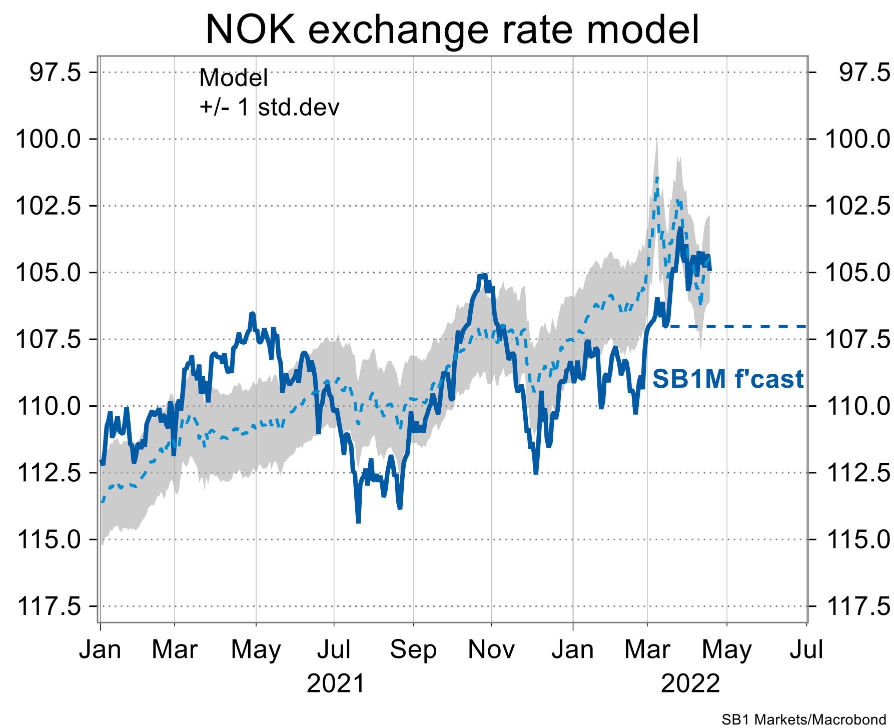
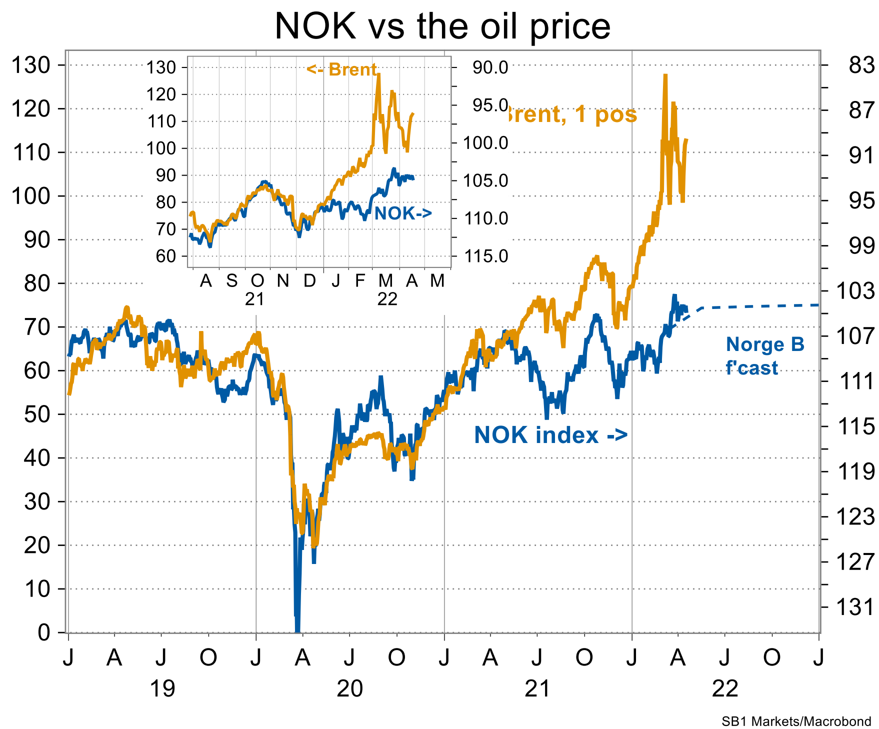
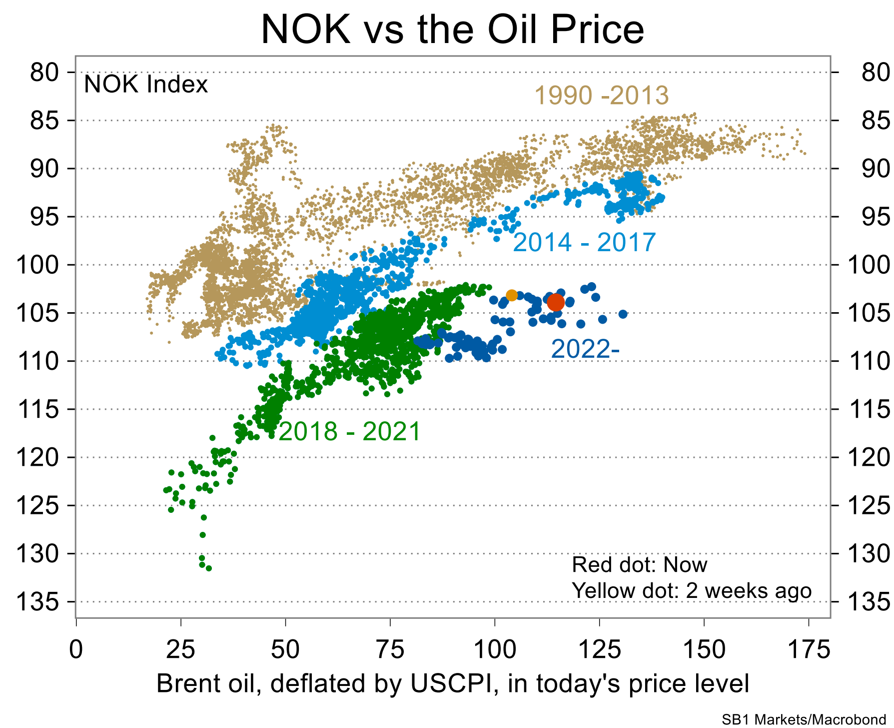
The NOK spot on our model estimate, from 1.3% above before the Easter week





The oil price unstable but strengthened through last week. The NOK did not





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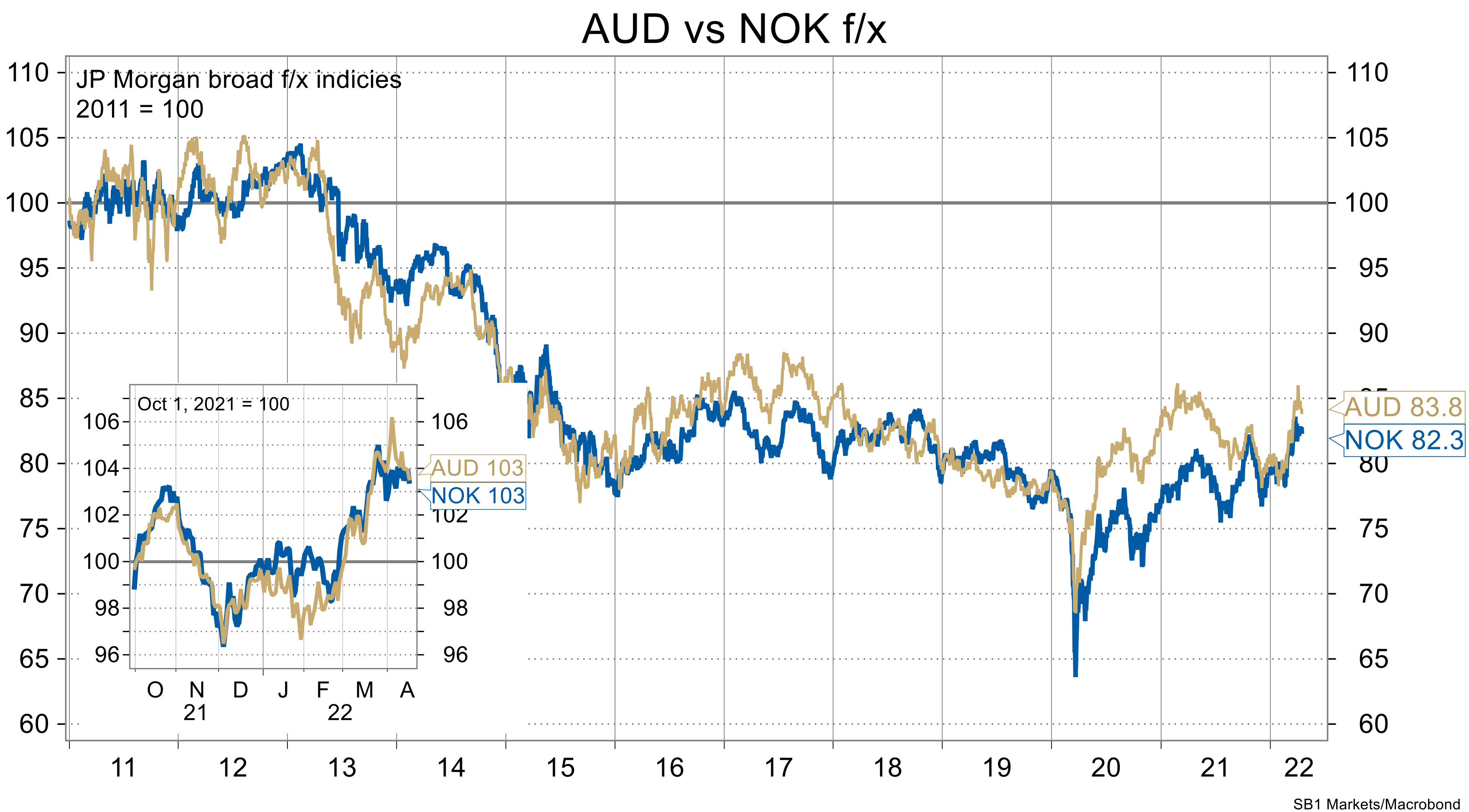
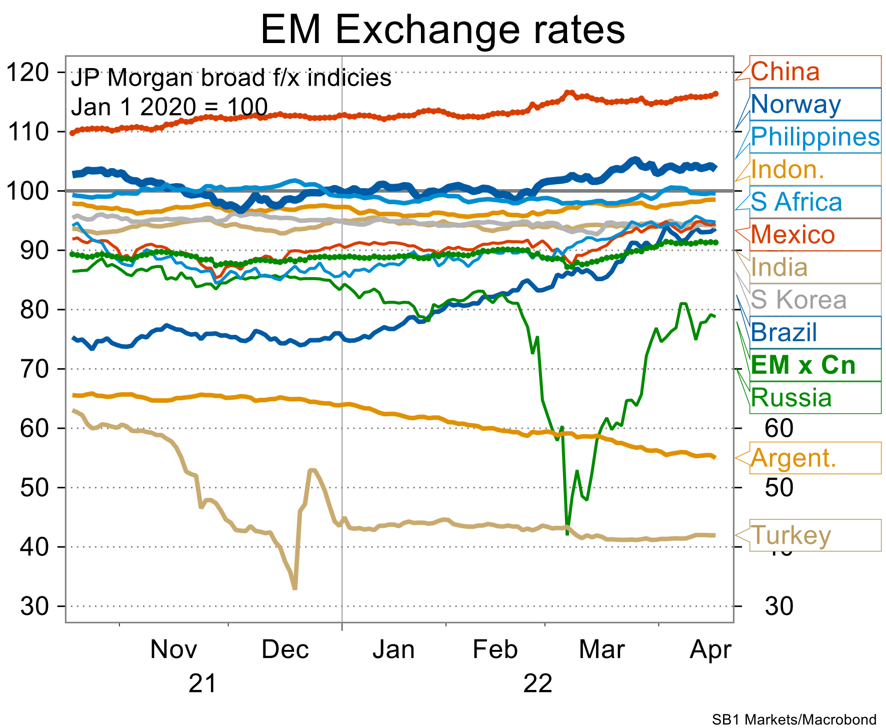
The NOK and AUD back in ‘parity’

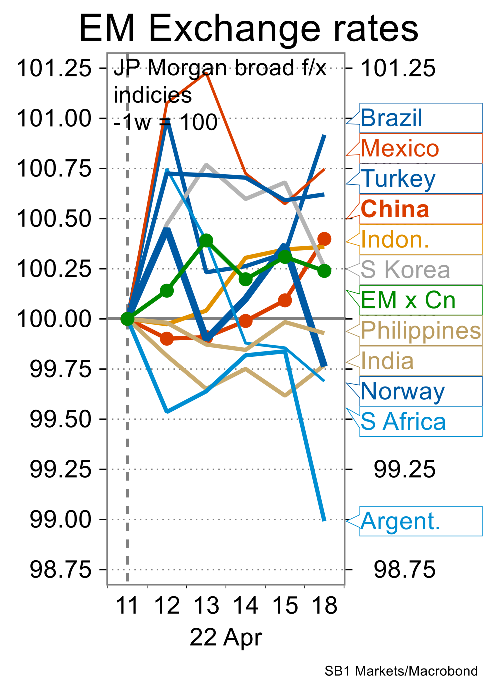


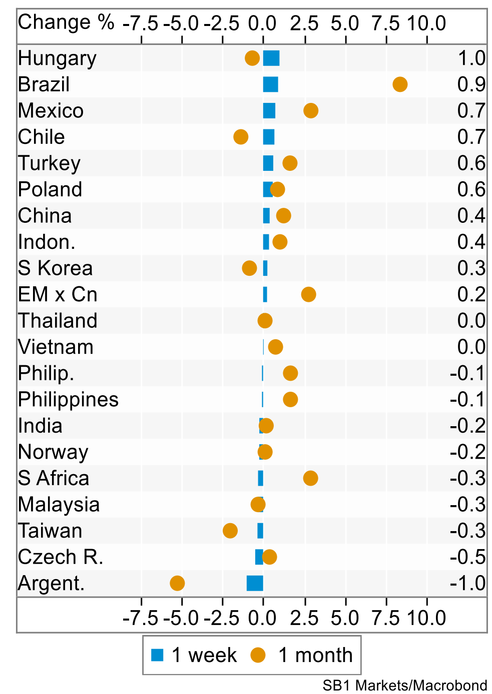
The two f/x indices are back to the 2011 ‘parity’ (vs each other, from which they never since have deviated much)

Stable f/x markets through the silent week

The average slightly up







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