8 February 2021

Macro Weekly

Week 6/2021

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

Last week 1: The corona story

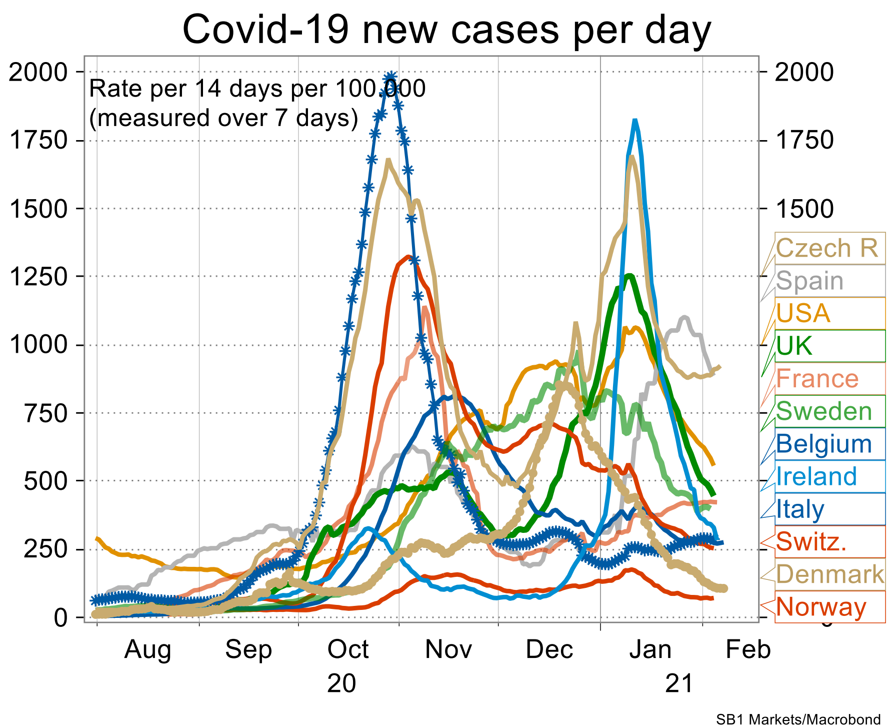
- **Tight lockdowns** are able to combat even the mutated virus, as the no. of new Covid-19 cases is falling rapidly in both **UK and Ireland. As the mutated virus has gained a large market share in the UK, the** ‘R^{mut}’ (for the mutated virus) is probably some 0.8, and at the same level in Ireland. in both UK and Ireland . The same is probably the case in Spain and Portugal where the no. of cases is falling rapidly too. If so, these countries are able to ease some restrictions. Mobily is already on the way up, because people (for good reasons) are less worried, as the pressure at the hospitals are rapidly easing
- **The no. of new cases is falling in a large majority of other countries too**, including the US. In Norway the decline is flattening out, and the mutated virus is found many places. The mutated versions will most likely become dominant in most countries.
- In countries where few mutated viruses have been found so far, the ‘R’s are too high to handle a mutant virus – even if it may be less infectious than initially feared (as it very likely is far more easily spread than the original virus!)
- **Norway is trying to curb several outbreaks of the mutated virus** with local, partial lockdowns. So far, we estimate that the impact on the national economy to be limited
- **Oxford/AstraZeneca’s vaccine** may not be effective vs. the South African mutant (which is found around the world)
- **The pace of vaccinations** has gained speed in both the US and even more the UK, and they are ahead of other European countries (though both are well behind Israel). Norway increased the speed last week, and the authorities published a more optimistic scenario for deliveries of vaccines. <u>We still assume that distribution will not be a bottleneck when larger quantities arrives the coming months. The challenge is the production capacity</u>
- <u>**The real challenge remains: A substantial degree of social distancing and discipline will be needed to keep the virus in check the coming months, before the immunity rate has increased significantly.** However, the outlook from some time in Q2 or at least in Q3 is far better, given the plans for ramp up of vaccine production.</u> In addition, the hospitalisation & death rates should decline during the coming few weeks as the old’ies and the sickest are vaccinated (but we are not home free, hospitals will still have a problem if <u>too many</u> others are infected, as younger patients are also a being hospitalised)

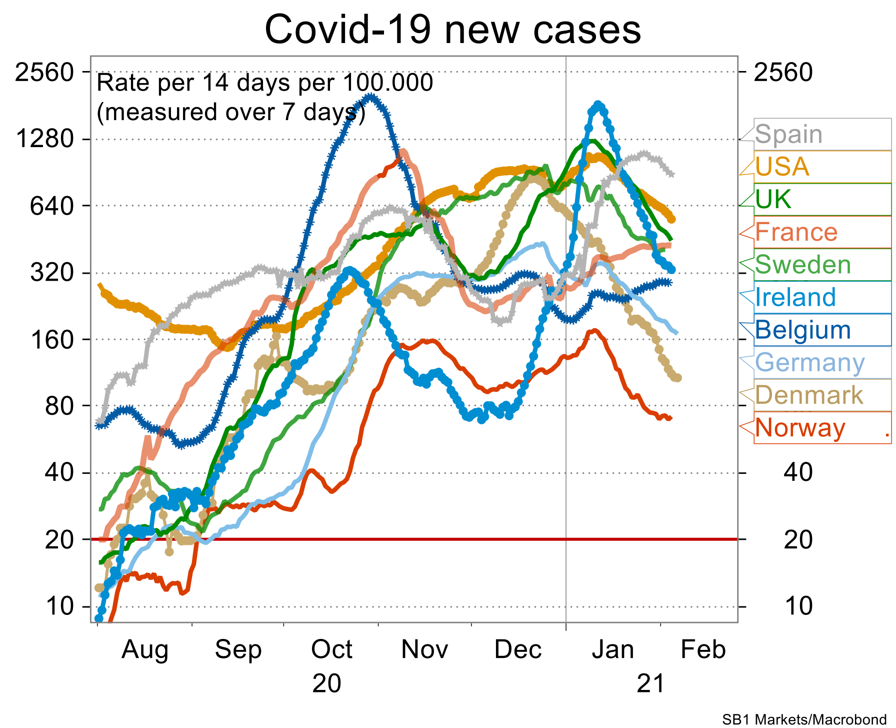
Last week 2: The economy

- **Global auto sales** fell slightly in January, due to a steep decline in **European sales** (VAT & corona in Germany, corona in UK & Spain), while sales rose in the **US** and in **China**, and most other **EM countries continued** upwards. Sales in China are well above the pre-corona level, other EMs on par(!), while European sales were far lower in Jan, probably mostly for temporary reasons. **Norwegian** sales normalised following the ATH in Dec (taxes, and many plug-in deliveries)
- **The global composite PMI** fell for the 3rd month in row but slightly less than we assumed, and the level at 52.3 still signals global GDP growth close to trend. Both the manufacturing & services PMI fell, services most due to a setback in some EMU countries, UK & China. The manuf. PMI signals growth well above trend, delivery times are increasing and price indices are soaring, signalling a sharp increase in at least headline CPI inflation through 2021. **UK, Ireland and Spain** is struggling hardest with the mutated virus, still noting compared to the March/April 2020 shock. The **European economy** is still contracting, according to the PMIs. The PMIs fell in **China**, and unusually fast. However, the level is still at least at average, signalling growth at or above trend – which was inevitable given the brisk recovery up above the pre-pandemic growth path. **In the US, the ISM/PMIs** are signalling some 5% GDP growth, the manuf. PMI is at ATH, and services are reporting strong growth! Other Emerging markets more up than down, and most are reporting growth! The Norwegian PMI has flattened at 52, signalling moderate growth
- **US employment** grew less than expected in Jan (49' vs 102', and almost all of in the public sector), and the history was revised down. The setback in Dec was solely due to deep cuts in restaurants and bars, while other sectors reported decent growth. In Jan, the weakness was broad based, and unemployment is up just 54' per month past 3 months – while surveys at the same are reporting strong growth. The unemployment rate fell sharply, 0.4 pp to 6.3% - exp. unch. **Wage cost inflation** is probably in check, but some data are signalling higher growth. Not surprisingly, the debate on the need for a 9% of GDP **fiscal stimulus** (on the top of the 4% stimulus decided, and the 7% of GDP in excess household savings last year) the is heating up. **Bond yields** rose sharply last week
- **GDP in EMU** fell by 0.7% (2.8% annualised) in Q4, due to setbacks in France & Italy, while the economy in Spain and Germany grew. The outcome was better than expected. Retail sales rose 2% in Dec - following the 5.7% drop in Nov, all due to corona outbreaks. **CPI inflation** rose sharply in January, by 1.2 pp to 1.4%, mostly due to the reversal to a normal VAT rate in Germany.
- **GDP in** Sweden rose by 0.5% in Q4, less than expected
- **Norwegian house prices** rose by 0.7% in Jan, as we expected, and prices are up 8.6% y/y. House prices are rapidly up in most of the country. The inventory of unsold homes are far below a normal level. **Manufacturing production** fell 0.2% in Dec, oil related down, other sectors up. **Consumer confidence** remained at an average level in Jan, according to Opinion CCI

Still mostly good corona news, even where the mutants dominates

The 'R's are below 1 most places, even in the UK, Ireland, Spain and Portugal

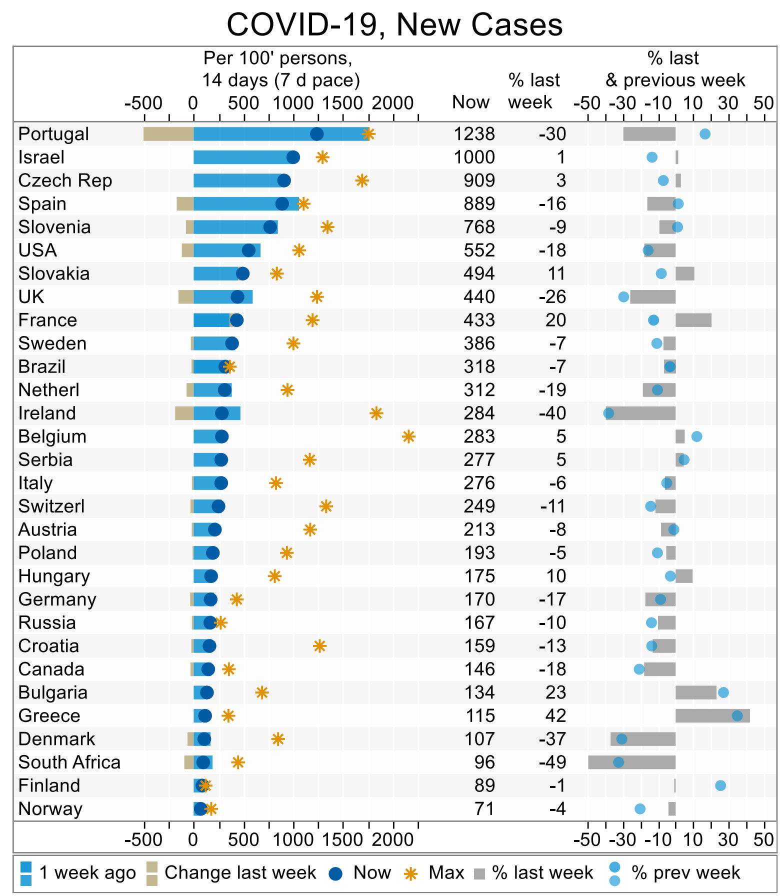




- The virus cycles are dramatic, and normally very short. Most countries are reporting fewer cases, and the no. of new cases are falling in almost all countries – and no country with a high prevalence is reporting more cases
- The no. of new cases is falling in Norway too but not by much last week; the R is approaching 1. The mutated virus has arrived, and tighter restrictions are imposed in more towns/municipalities both around Oslo and now in & around Bergen
- Some few countries are reporting more new cases. France will have to tighten regulations quite soon, Belgium can still afford to wait. The mutant is very likely gaining market shares here – and mobility has returned to (too) high levels

Good & bad corona news

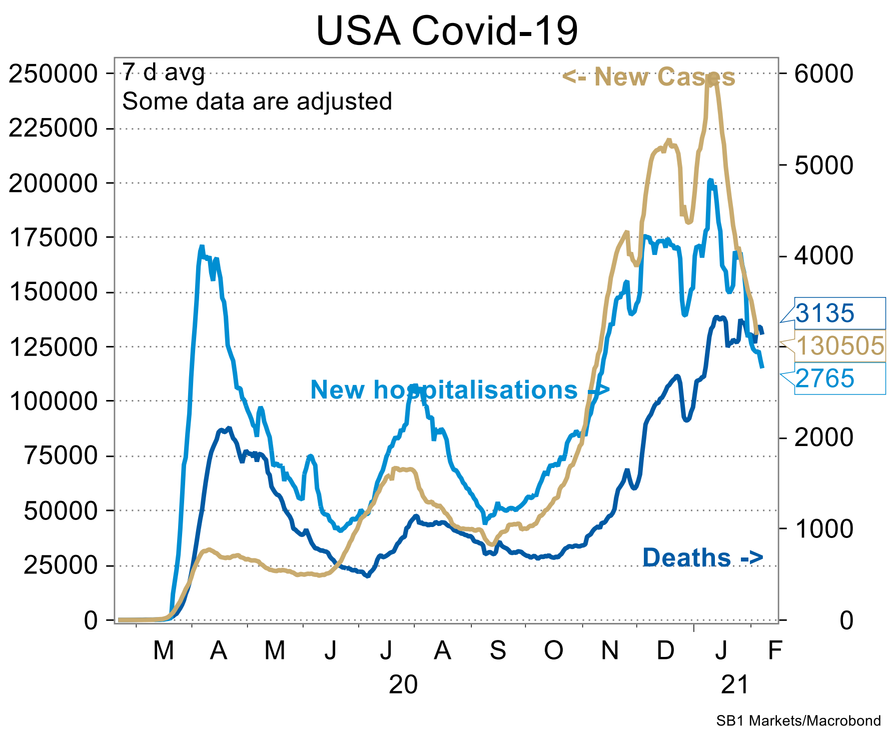
- The no. of new cases in **UK & Ireland** are still falling rapidly, by 26% and 40% resp., and is down 65% and 85% in less than 4 weeks! The no. of hospitalisations & deaths is now following suit
  - » Just the UK has conducted big scale scaling at the ‘British’ mutant is now dominating, with at least with 80% share. Still, the total R remains at some 0.75, implying an R^{mut} well below 1 at the current level of ‘social distancing’, which of course is very goods news.
  - » The same is very likely the case in Ireland, as well as in Spain and Portugal
- **France and Belgium** are reporting more cases but the level is still ‘moderate’. **Israel** is still not able to get the no. of new cases down, even if some 30% of the population should be immune now
- More countries are reporting an increasing share of the mutated virus, and most likely these mutated viruses will dominate most places within weeks, well before the population is sufficiently vaccinated, in the US included. And quite likely in Norway too
- It is still uncertain how much more the infectious the mutated virus is, the estimates has come down, and consensus is probably below 1.5
  - » It will still be challenging to fight the new virus in other countries as few have reported 25 – 40% weekly declines over time with the original virus around – or such an effort has been achieved by a sharp reduction in mobility
- Last week, researchers claimed that **AstraZenica’s** vaccine was not able to combat the South African mutant. There is an obvious risk that new mutations will be even more challenging both vs. risk for infection (the ‘R’) and vs. the vaccines

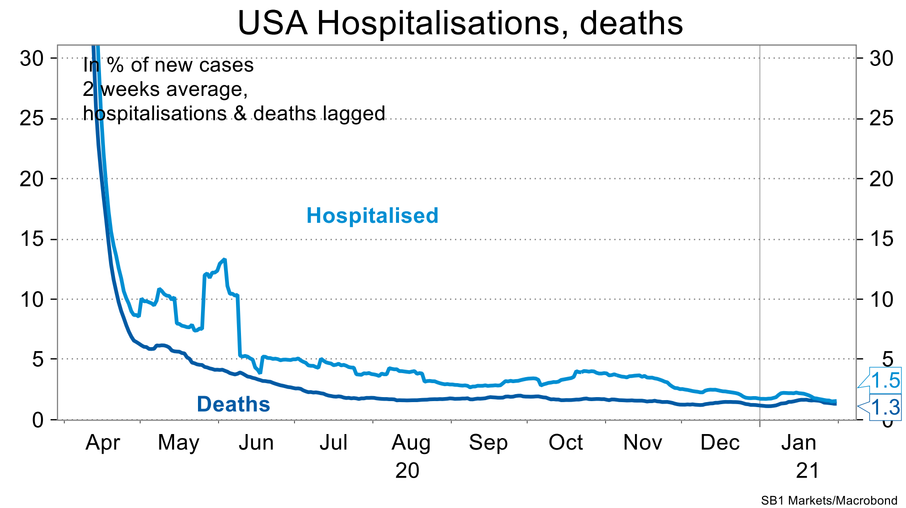


SB1 Markets/Macrobond

USA: A further decline in new cases, down by more than 1/3rd from the peak

Hospitalisations sharply down as well. Too early to give vaccines any credit





- The hospitalisation and death rates may be declining somewhat

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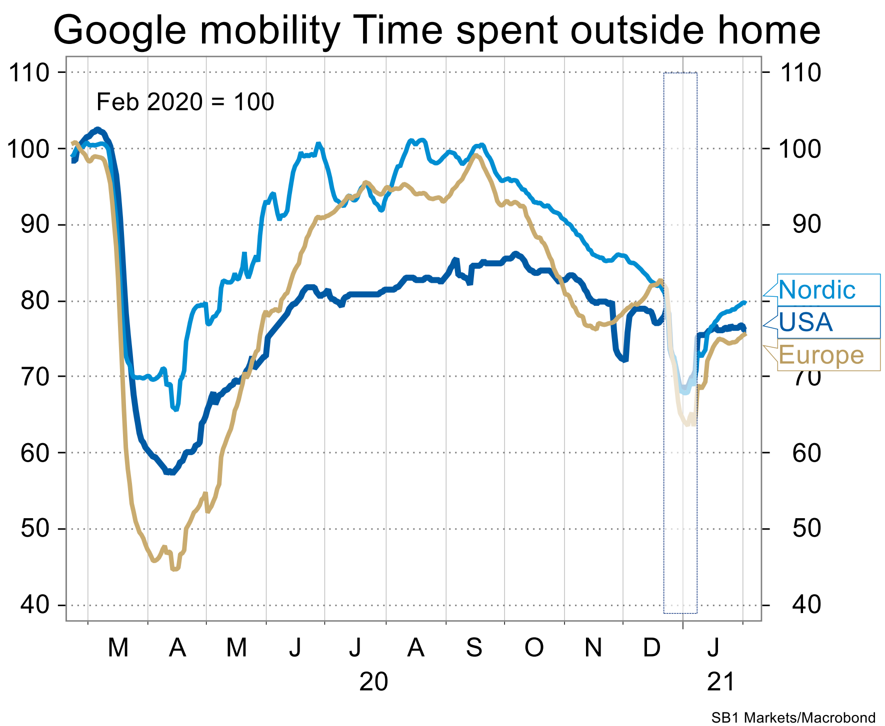
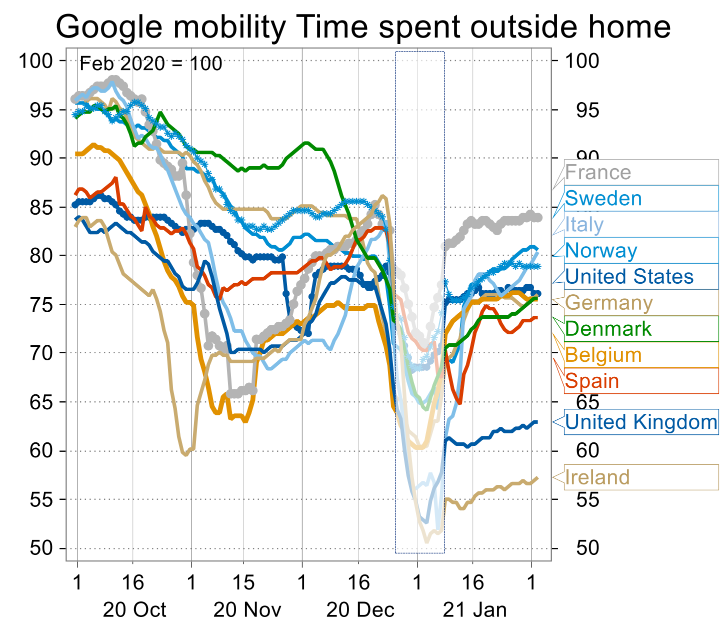
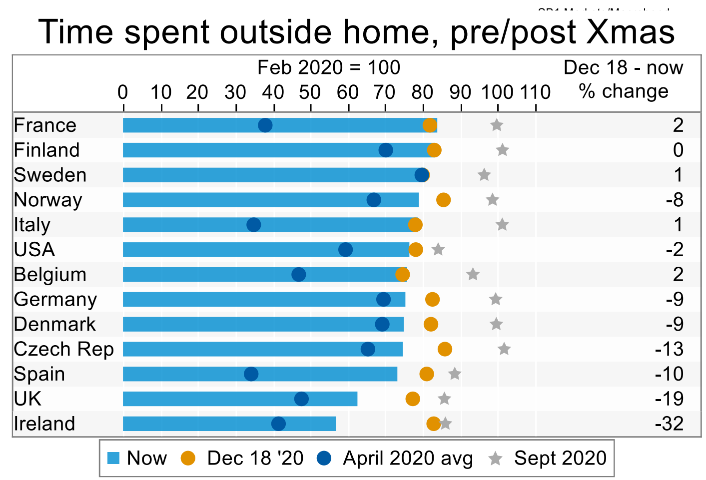
Mobility up in most countries, as the virus retreats

Spain has turned down – and the no. of cases flattened



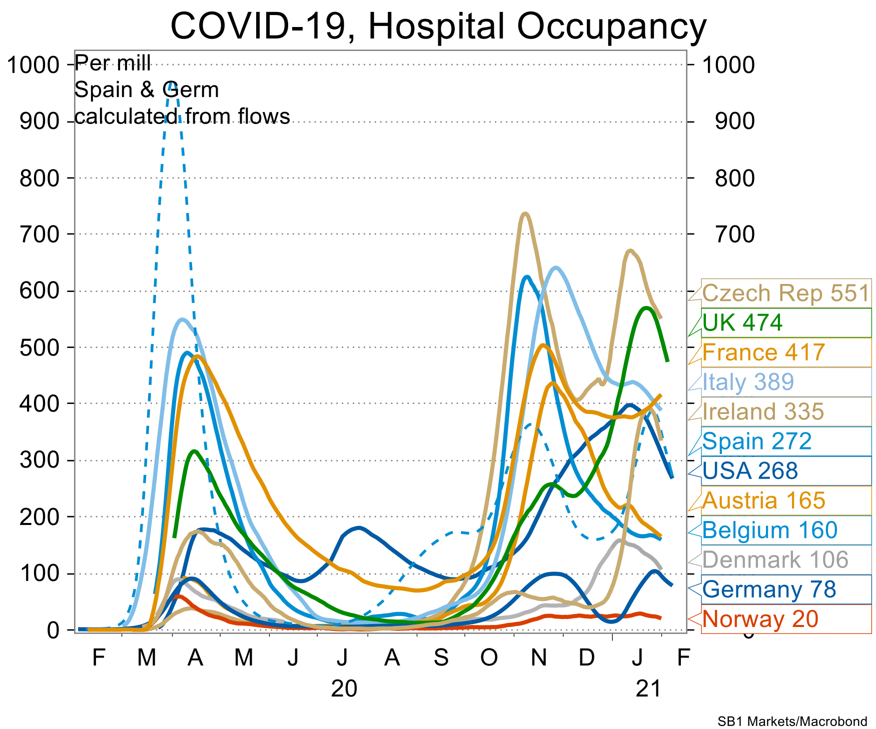


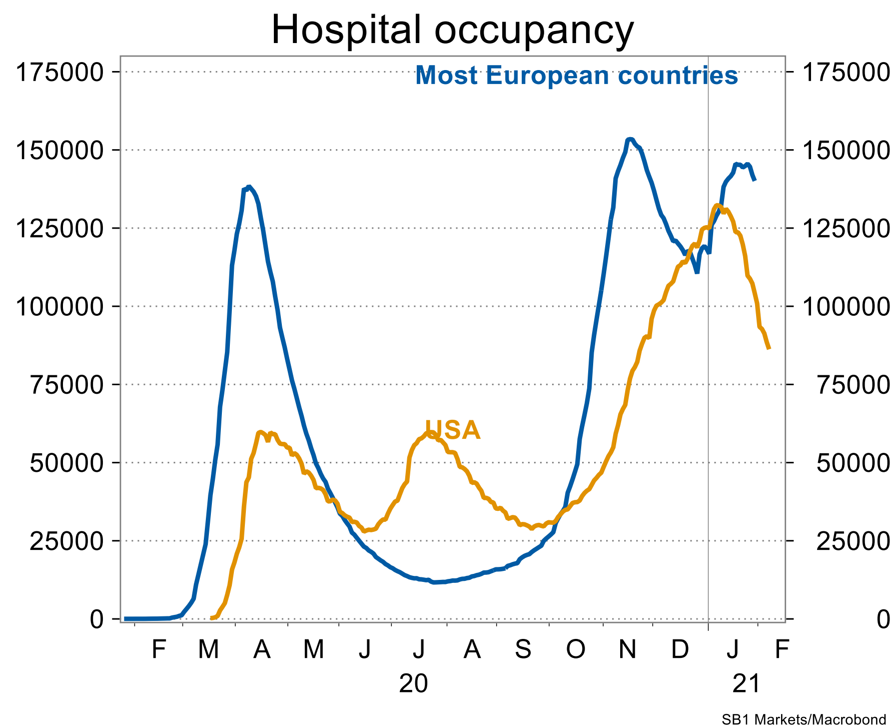


- Several countries are on par with the pre-Xmas level, France is even above (and the no. of cases is on the way up too)
- **In the UK**, time spent outside home is down 19% (not percentage points) – and mobility is down almost 40% vs. a 'normal' level (Feb 2020)
- **In Ireland**, -32% vs pre Xmas, and the level still now down more than 40% vs. 'normal'
- Germany, Denmark & Norway is down 8 – 10% vs the pre-Xmas level, <u>and some economic cost will incur</u>

Hospitalisations on the way down almost everywhere

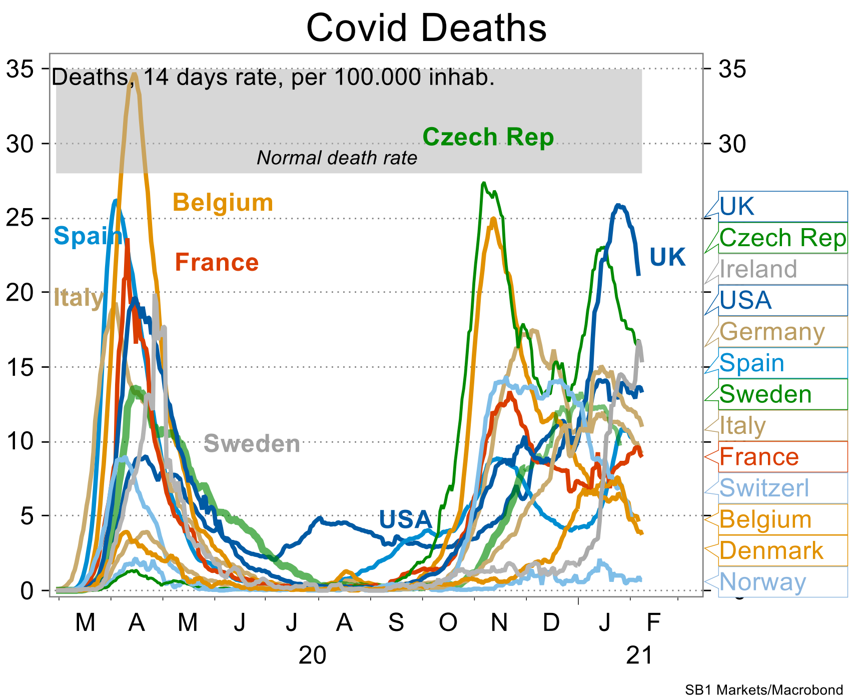
However, in France they're on the way up again

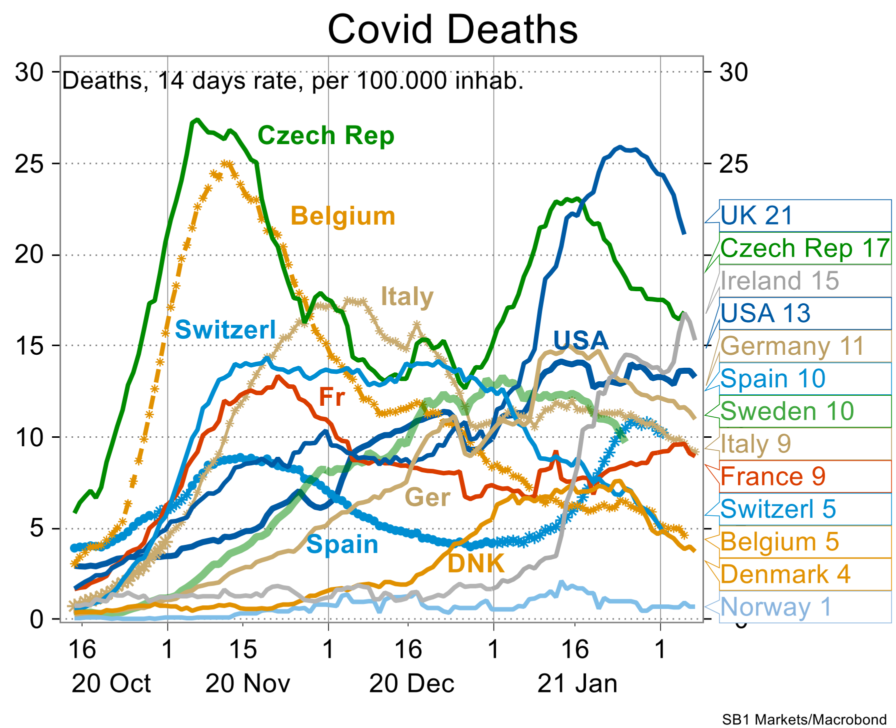




The deaths: UK on the top but has peaked! Ireland has peaked too

Most others down. However, Spain, France (& Portugal) are all on the way up!

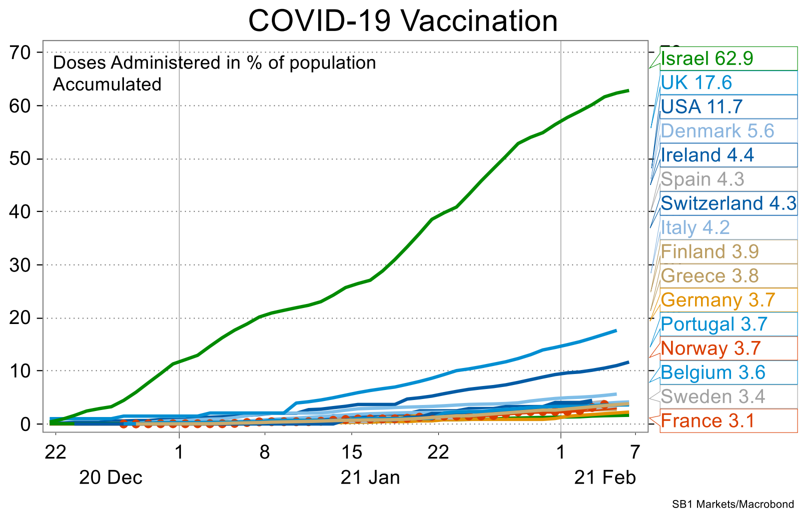


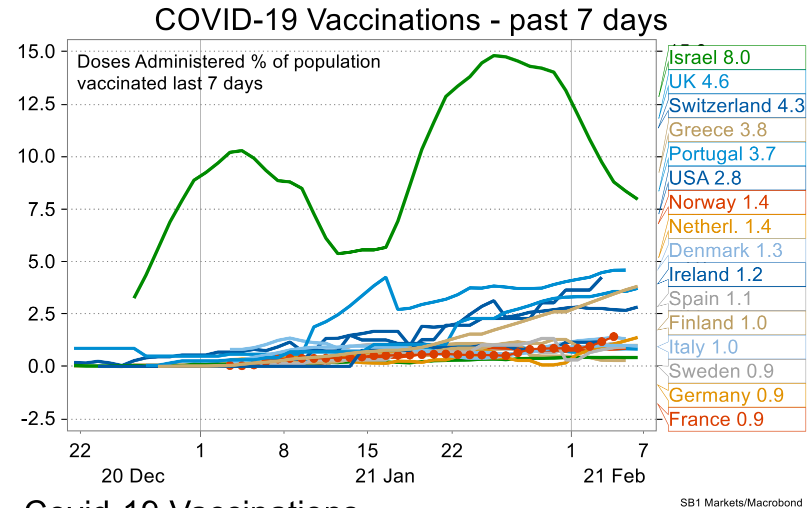


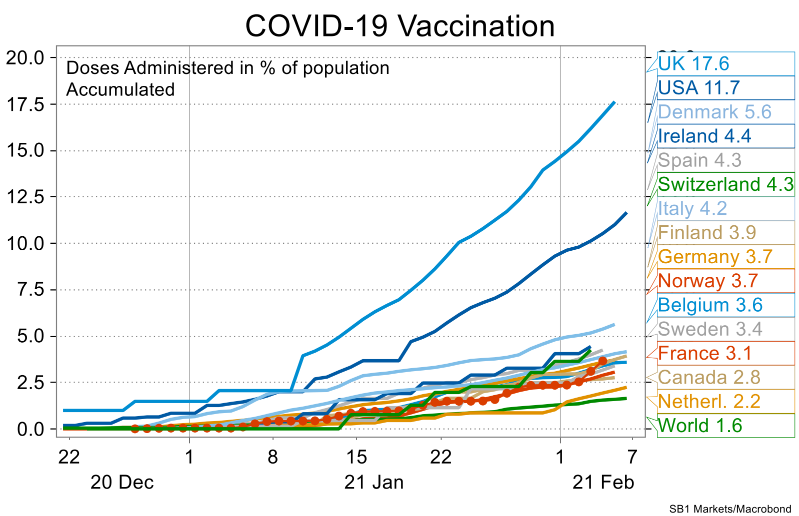
- Our calculation of the CFR in UK has come down, no signs of increased mortality of the new virus
- The no. of deaths in Ireland has stabilised (as we forecasted last week ☺)
- Deaths in Denmark and Germany are falling rapidly, alongside the decline in cases that started some weeks ago

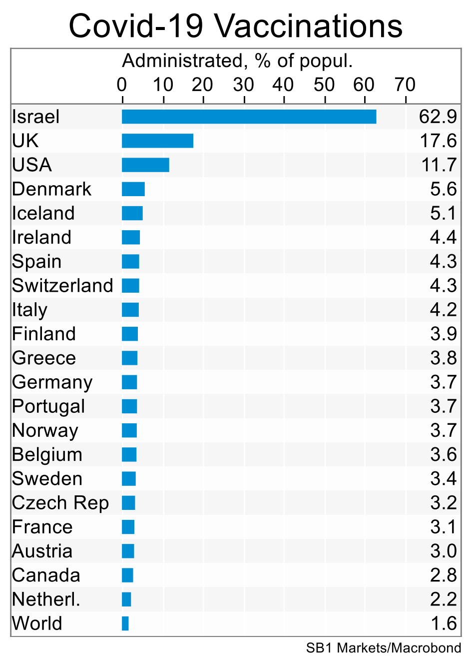
Vaccinations: UK & US in the lead (x Israel). Norway sped up last week

The no. of doses equals just 1% – 1.5% of the population per week in most of Europe









- The bottleneck in EU/Norway is the supply of doses. Oxford/AstraZeneca and Johnson & Johnson will eventually provide much larger quantities, as will Pfizer from Q2
- We doubt distribution will become an impossible challenge, as most countries are used to distribute large quantities of vaccines
  - » Complicated priority systems create problems now, but hopefully not for too long

At this page, just the no of doses are shown, not how large part of the population that is vaccinated – check next page! Sources: Our World in Data/Macrobond.

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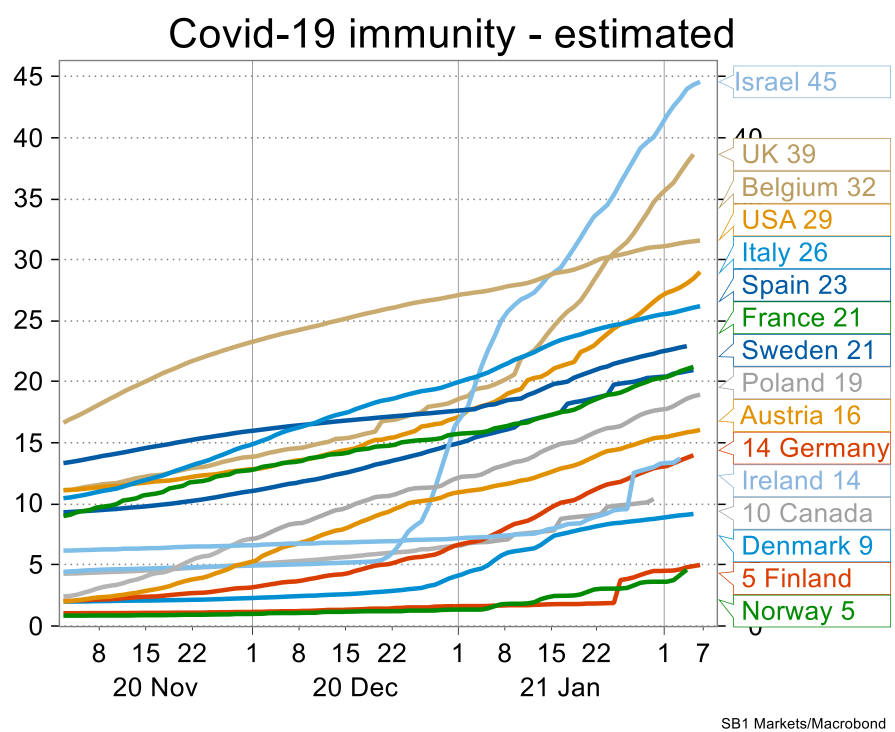
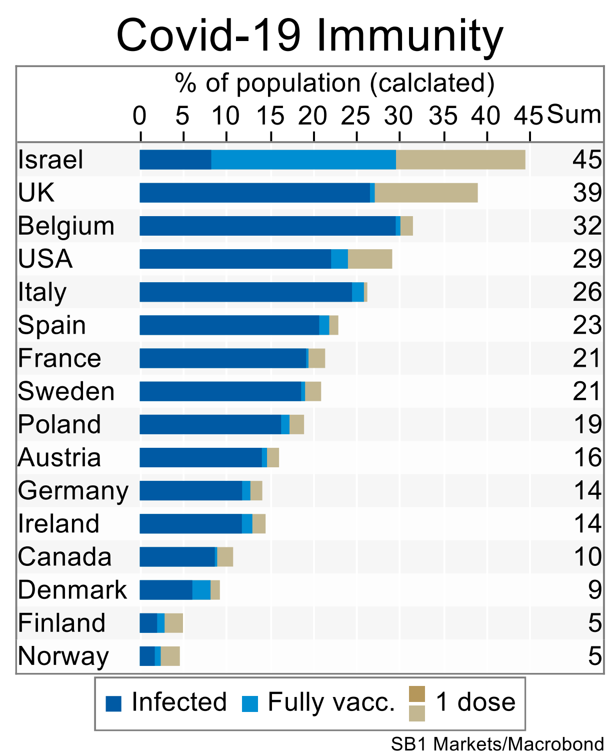
How to reach herd immunity? Through infections or vaccinations?





- It may take at least 2 weeks before the vaccine works in the body, after receiving the first dose. If so, Israel should have reached some 35% immunity rate by now, and 45% in 2 weeks time, assuming the first dose create immunity
- UK, Belgium, USA and Italy may have reached an immunity rate through infections alone, Sweden 20%. UK has vaccinated a significant share of the population too

We calculate the infected rate by assuming a 0.5% infection fatality rate. We assume those who have been infected are vaccinated in line with others

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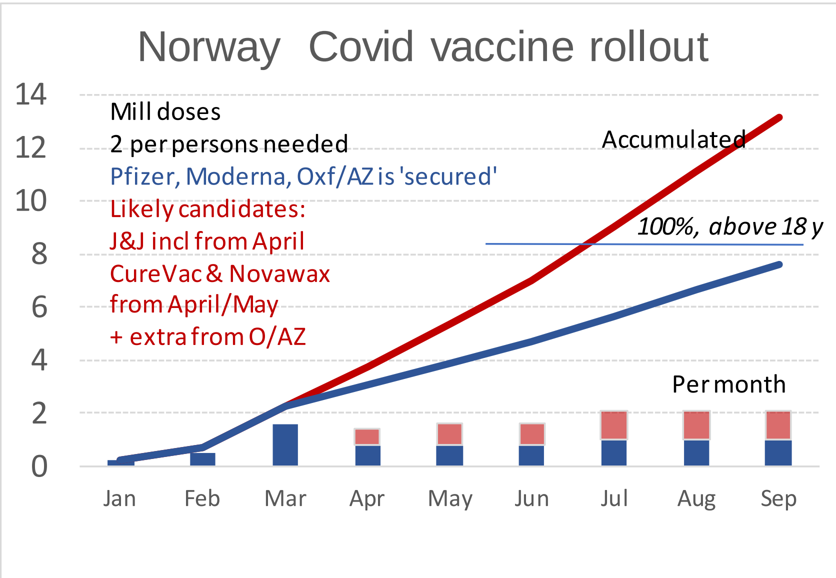
2 possible Norwegian Covid-19 vaccine roll-out plans

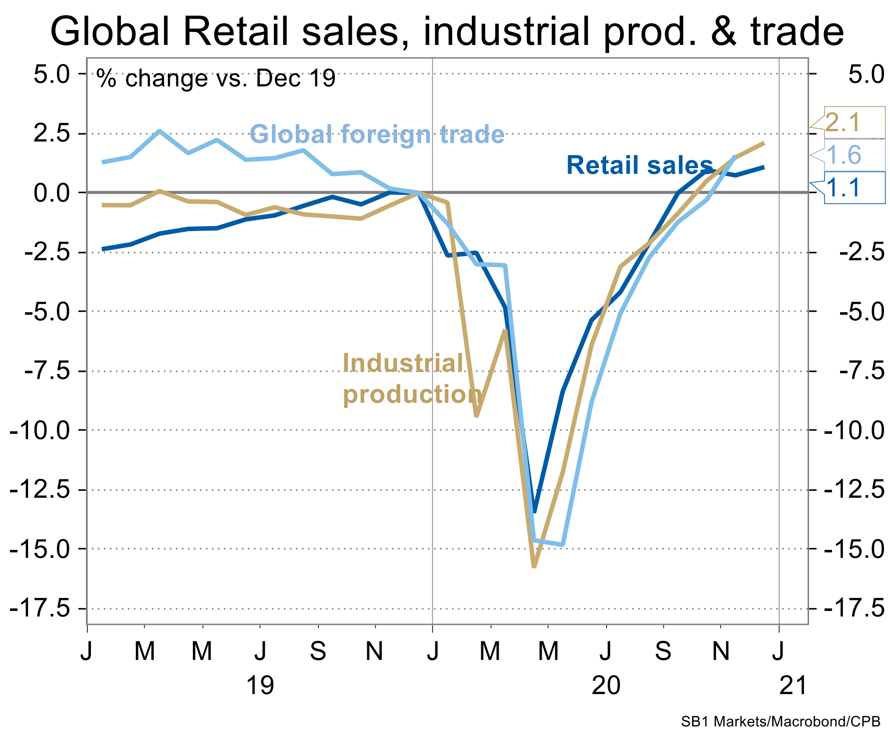
Now the Norwegian authorities have presented an optimistic scenario (partly incl. in our prev f'cast)

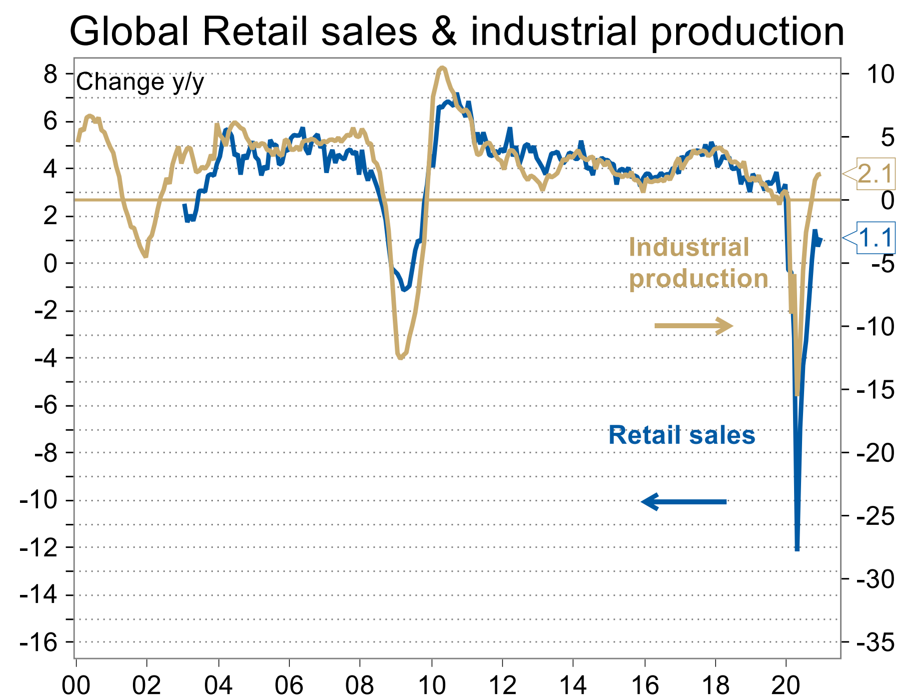


- There is still substantial uncertainty vs. the availability of vaccines, both concerning global production volumes and the share EU/Norway will receive
- There are several vaccines underway but we have included Johnson & Johnson's, which probably will be authorised late Q2
- Vaccines from CureVac & Novawax is included (EU has agreement with all of them)
- Moderna may be able to increase its production capacity substantially
- Norway may reach 100% coverage of the population (above 18 years) in early Q3 –and immunity will be lifted substantially before that, reducing the 'R' proportionally by (1-immunity rate) (for a given behaviour/social distancing)
- Old/sick or persons in the risk groups be be vaccinated by mid Q2 at the latest– no doubt reducing the hospitalisation & death rates substantially, making a higher infection level acceptable

Retail sales & industrial production up in Dec

And global foreign trade rose almost 2% m/m in Nov, and trade volumes are above early 2020 level



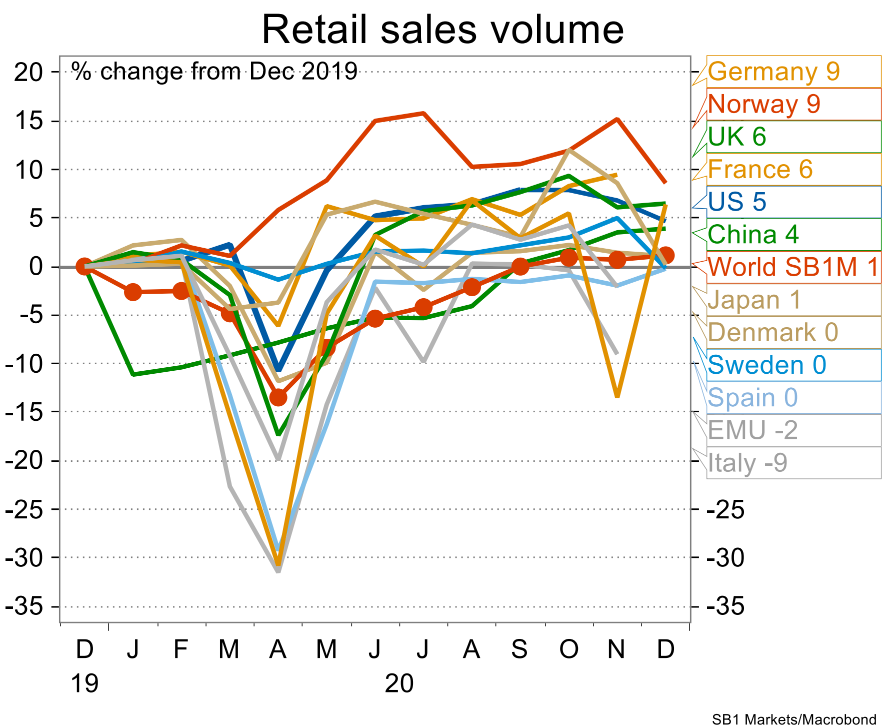


Memo: Keep in mind the different scales at the chart above

- **Retail sales** may have increased by 0.5% in Dec, following a small decline in Nov. EMU contributed on the downside in Nov, and at the upside in Dec. Sales in the US fell both months
- **Manufacturing production** probably climbed 0.5% too, and is 2% above the pre-corona level, according to our very preliminary estimates. Production has probably fallen sharply in the EMU in Dec due to a likely reversal of the 'technical' 50%+ surge in Irish manufacturing production in Dec. Better Dev data from China & the US
- **Global foreign trade** rose 1.9% in November, and the level is 1.6% above the Dec-19 level – the gap is closed!!

Global retail sales above the Dec-19-level in Nov in most rich countries

But not in the EMU – due to the 2nd corona-wave drop in Fra/It/Belg.



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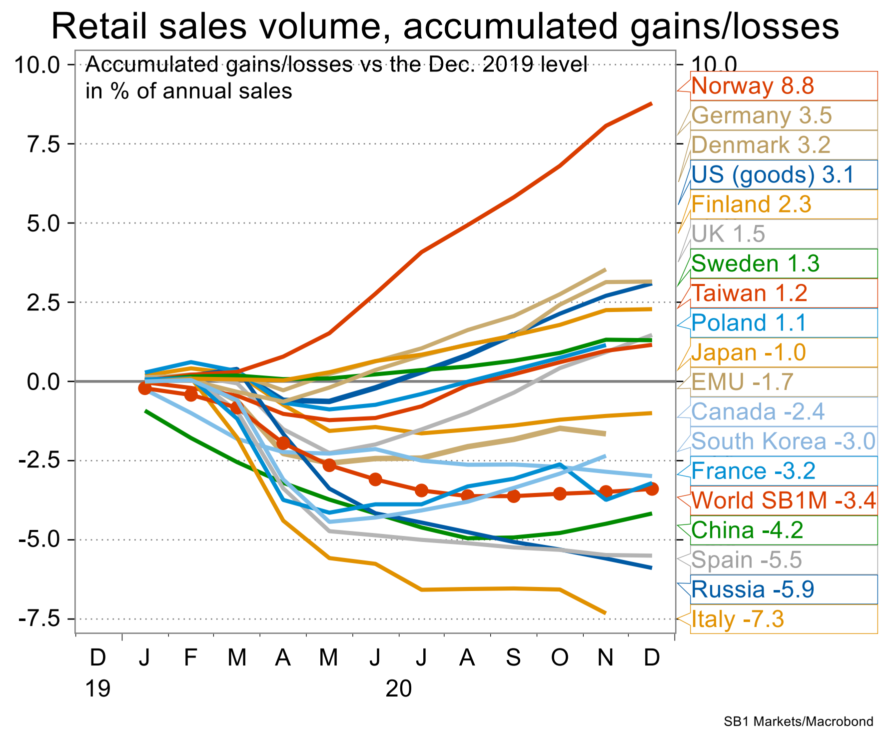
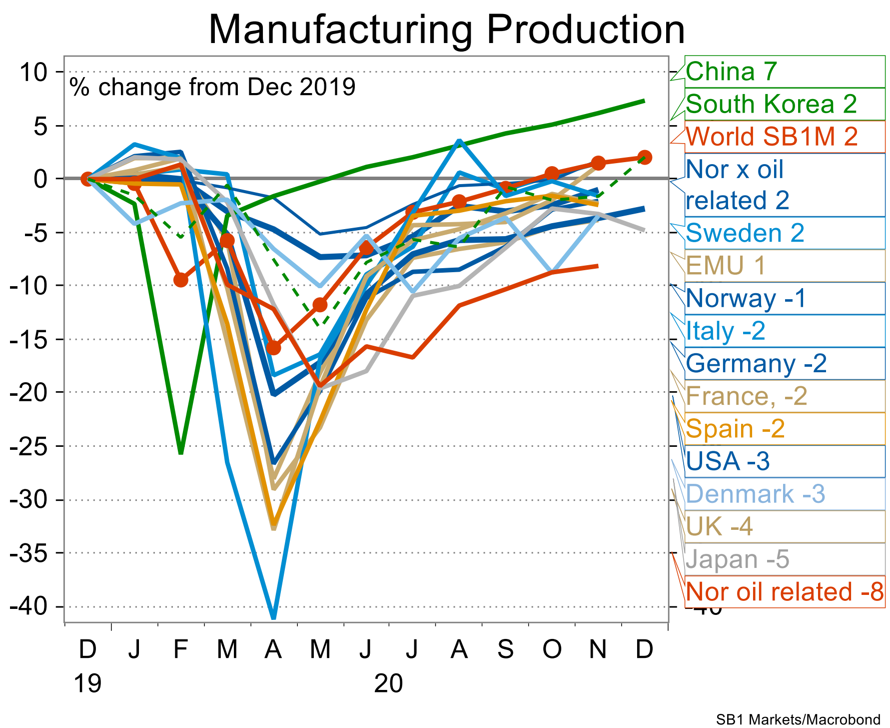
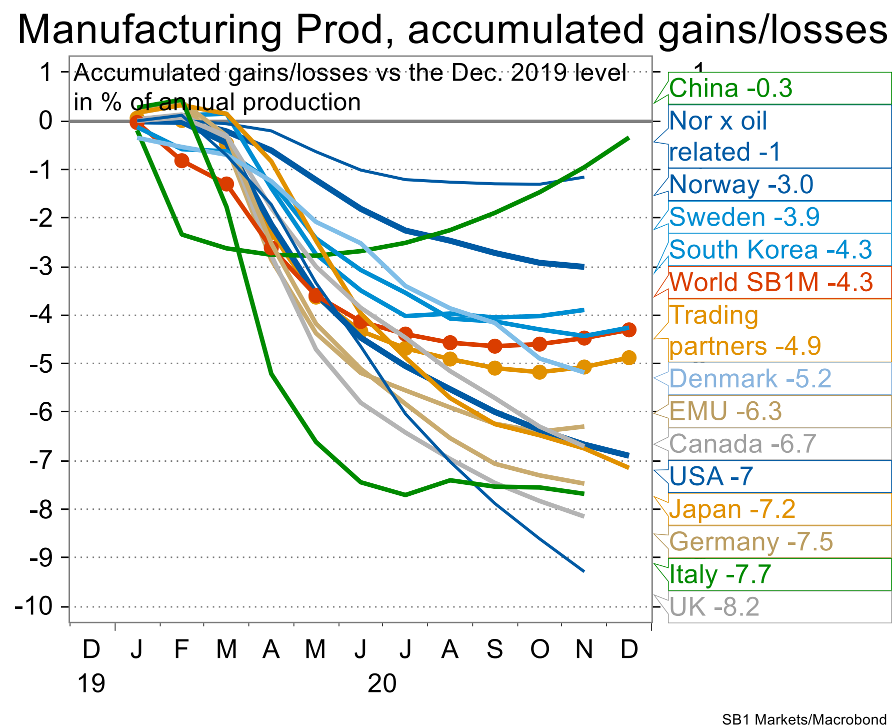


- Norway is in the lead – and has been during the whole corona crisis, and the 6% drop is Dec was a ‘natural’ correction
- US sales fell in both Nov & Dec but is still well above the pre-corona level
- Consumption of services is not included in these retail sales data – and service consumption has fallen sharply, everywhere

Manufacturing production above the Dec-19 level in November

Production rose at the same pace as during the previous two months – a brisk growth pace into Q4

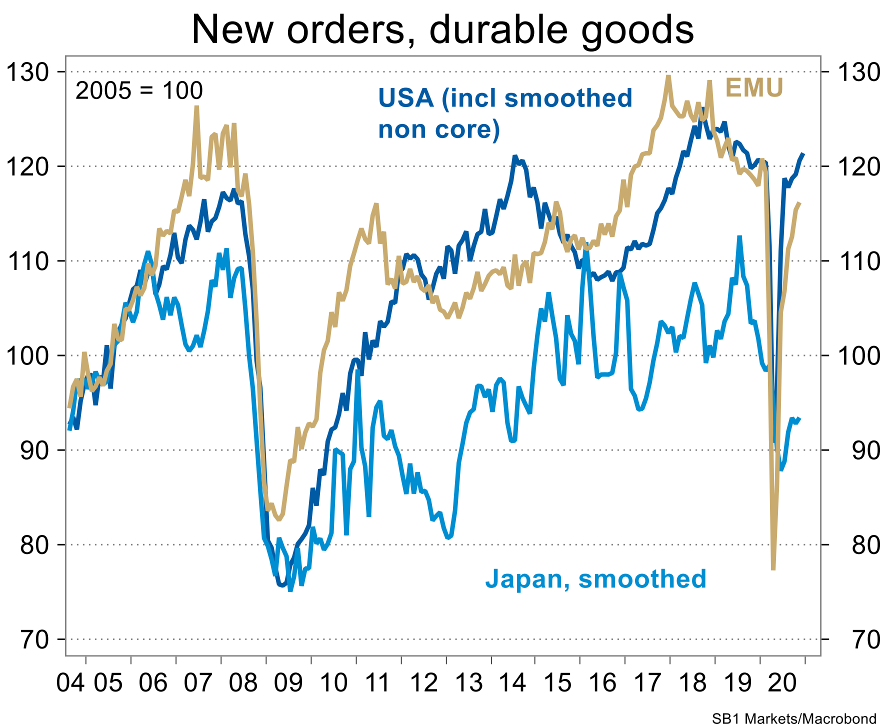


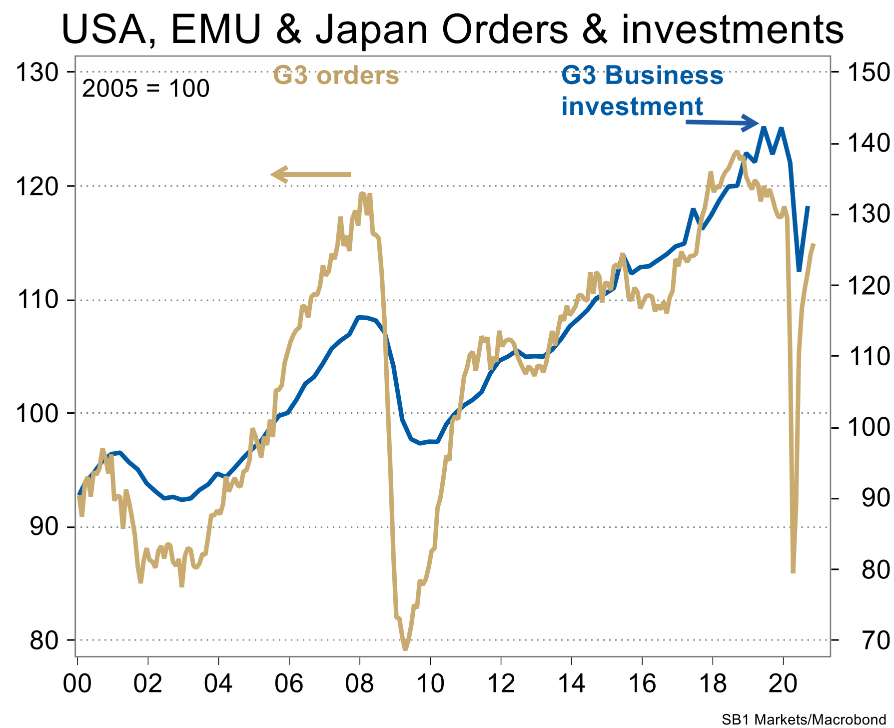


- <u>Service sector production is not included</u> in these retail sales data – and service consumption(=production) is still way below a normal level

DM orders: Japan is still lagging, and EMU below par – but on the way

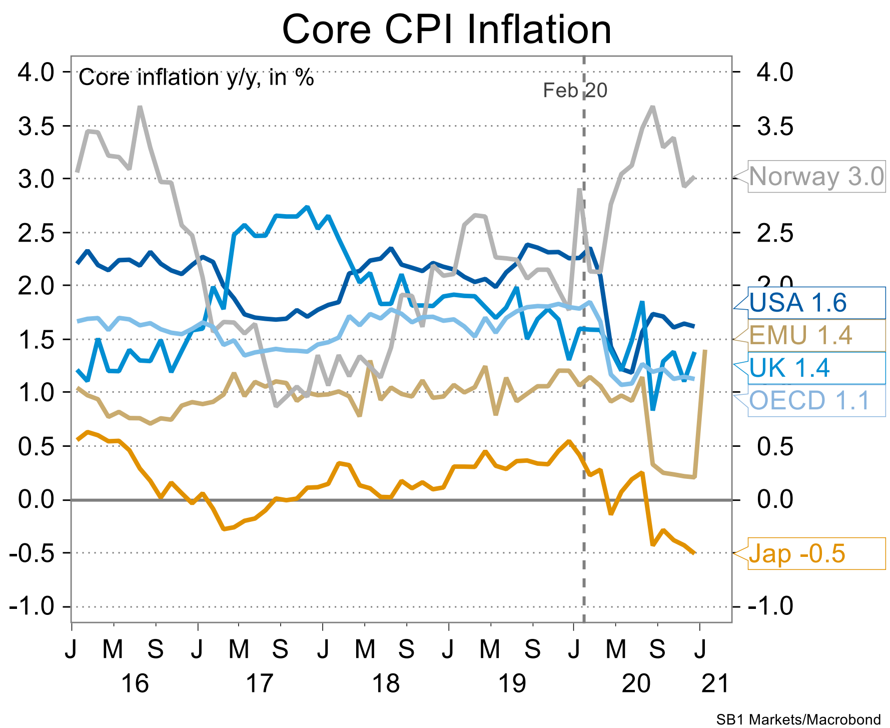
Something must be happening with investments, somewhere

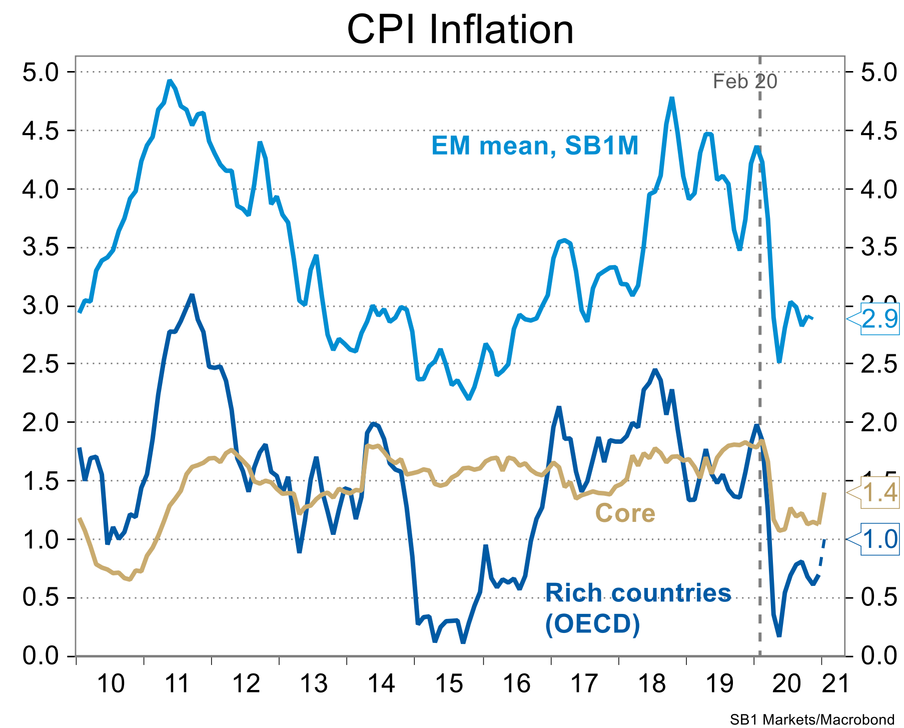




Inflation still in the doldrums, but it is not declining further

Inflation in the EMU shot up in Jan, mostly due to the reversal of the German temp. 3 pp VAT cut

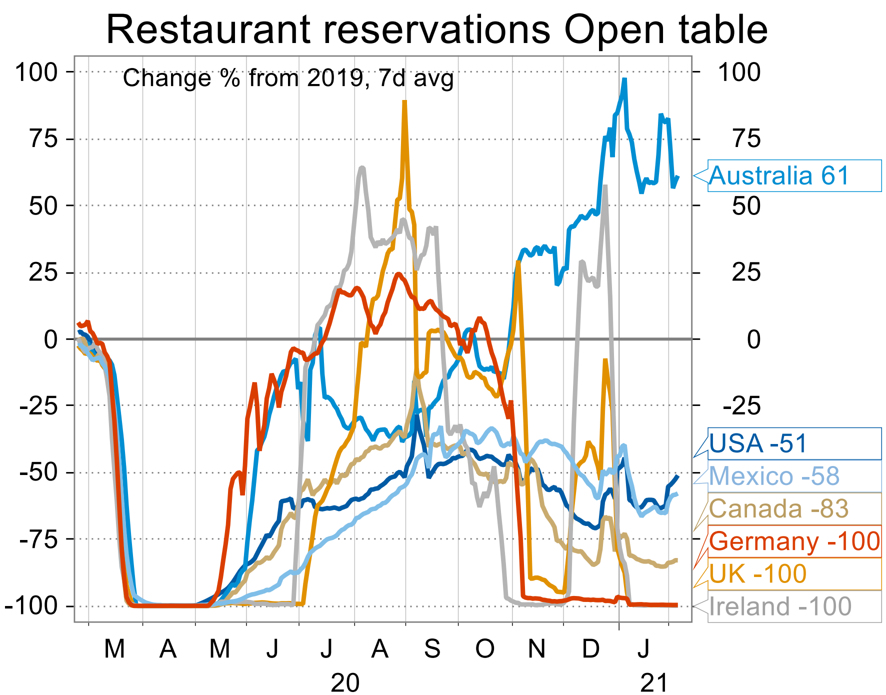


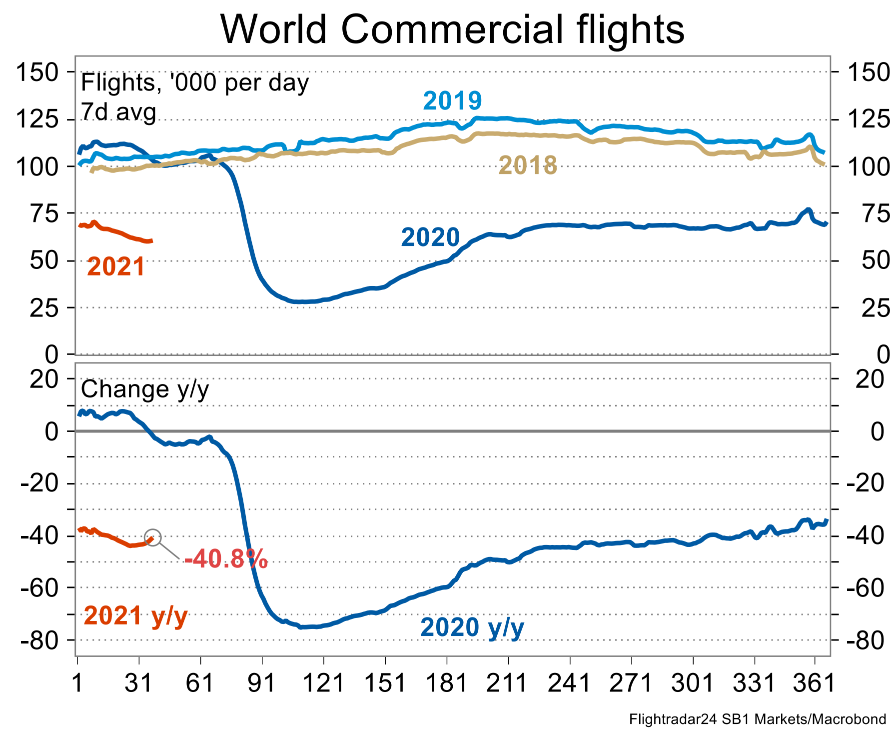


- The PMI reports as well as the increase in raw material prices towards a lift in at least the headline inflation rate the coming quarters

Restaurants open only in Australia. Full closure in Ireland, UK & Germany

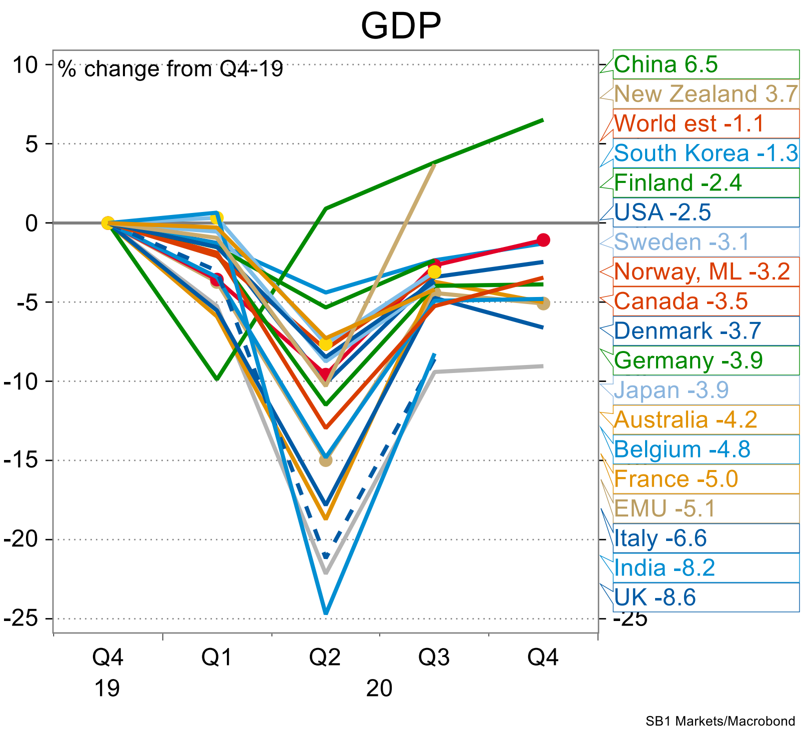
US on the way up again! *Commercial airline traffic is sliding down – but will soon bottom?*

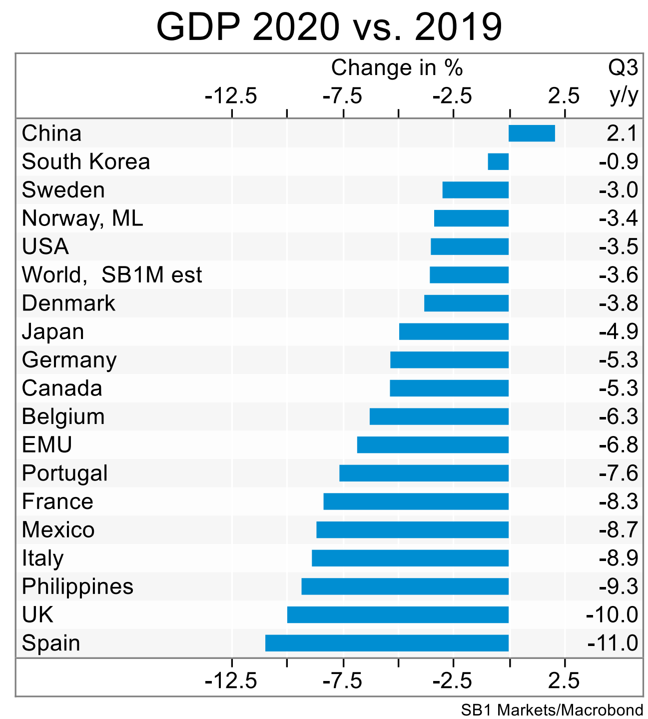




Growth slowed in Q4 but still grew above trend, at a 5%+ pace, 1.1% down y/y

GDP fell in EMU but most other countries/regions grew in Q4



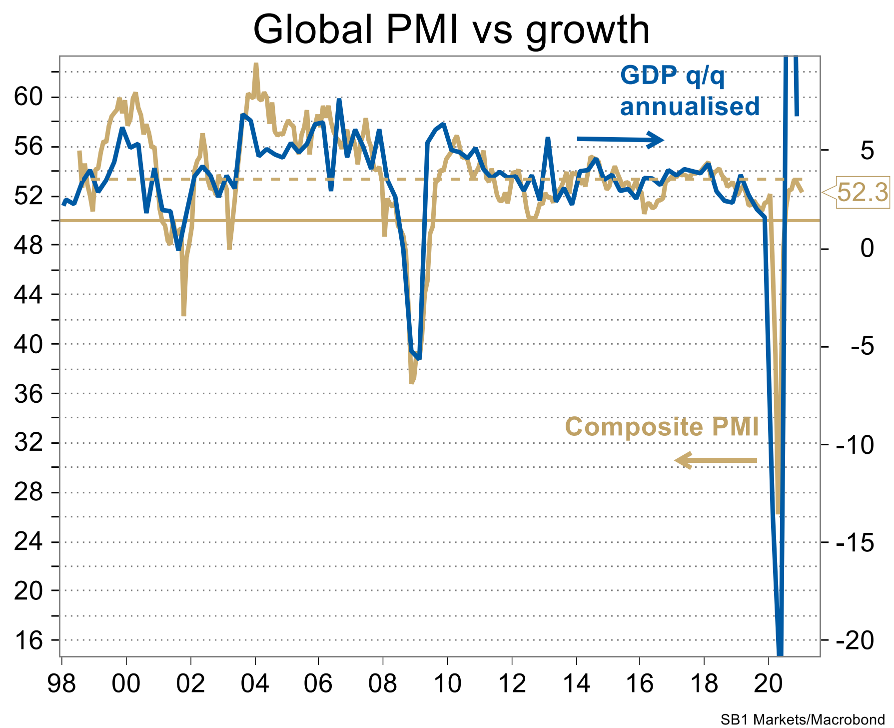


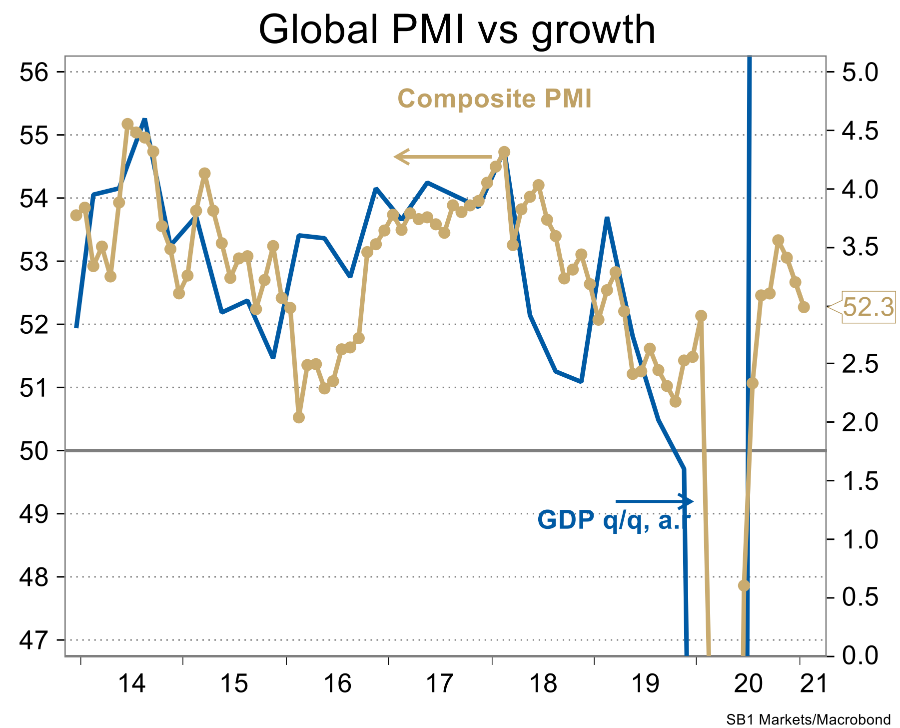
- We estimate that GDP grew by at least a 6% pace in Q4, if so leaving global GDP down 1.1% y/y
- China & US have reported decent Q4 growth, alongside some Asian countries
- Last year, global GDP fell by 3.6%.
- China grew by 2.1%, all others down
- Sweden down 3%, Norway (Mainland) 3.5% and US -3.5%
- EMU contracted almost 7%, UK by 10% (and Spain by 11%)

Estimates for Japan, UK, Denmark & Norway

The composite PMI down 0.4 p to 52.3, signalling growth marginally below trend

The 3rd small decline in row as European services were hit by corona. China slows, but the US grows



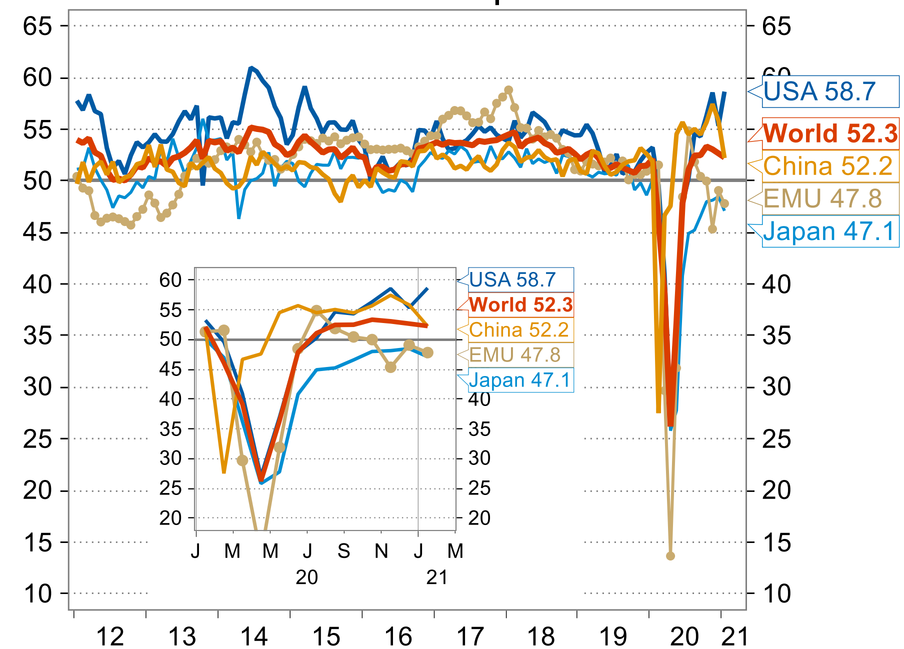


- The manufacturing PMI fell marginally, but signals growth well above trend. Services have slowed more, but the global average is still well above 50
- The global composite PMI signals a continued recovery in the global economy

UK & Ireland January's losers, it's tough to fight the mutants. Spain struggled too

EMU also down, but like in Nov. Both the Chinese PMIs fell as well, while the US PMI rose sharply.

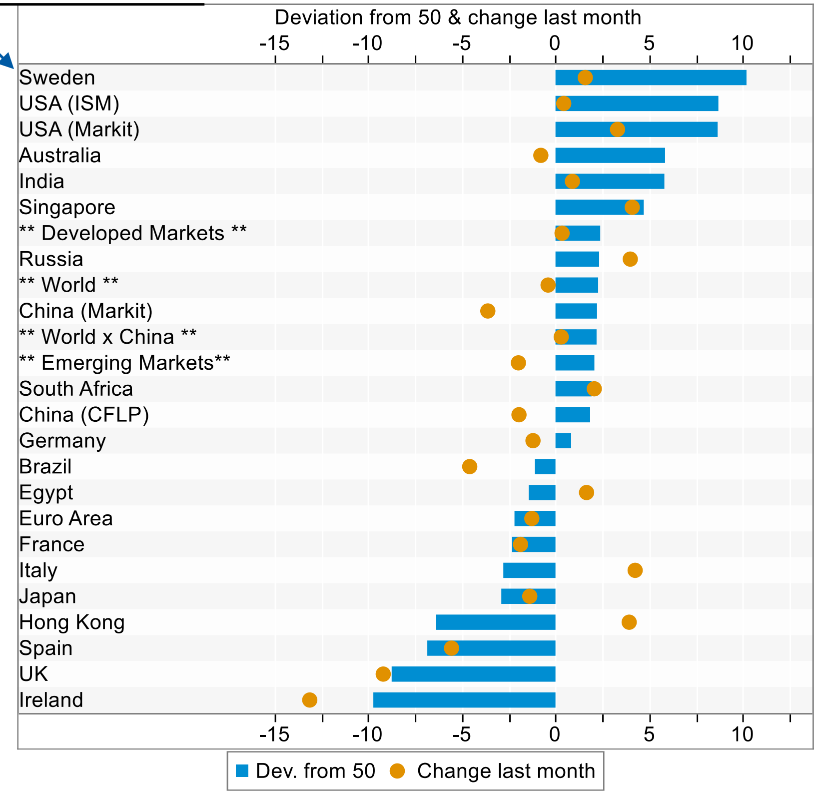
PMI Composite



Source: IHS Markit, SB1 Markets, Macrobond

Sweden at the top, for the 3rd month in row, a new record?

Composite PMI

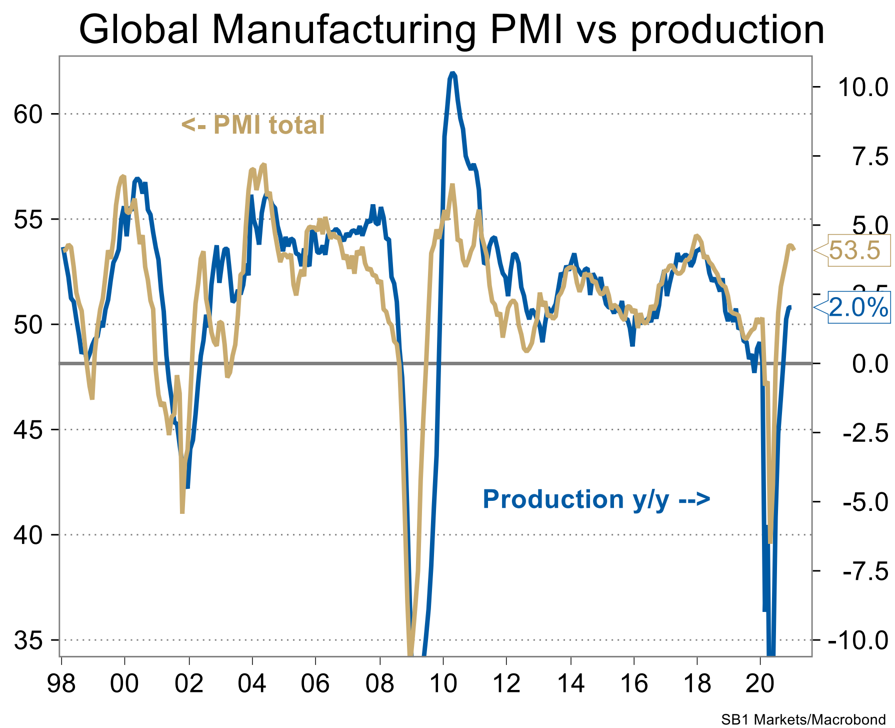


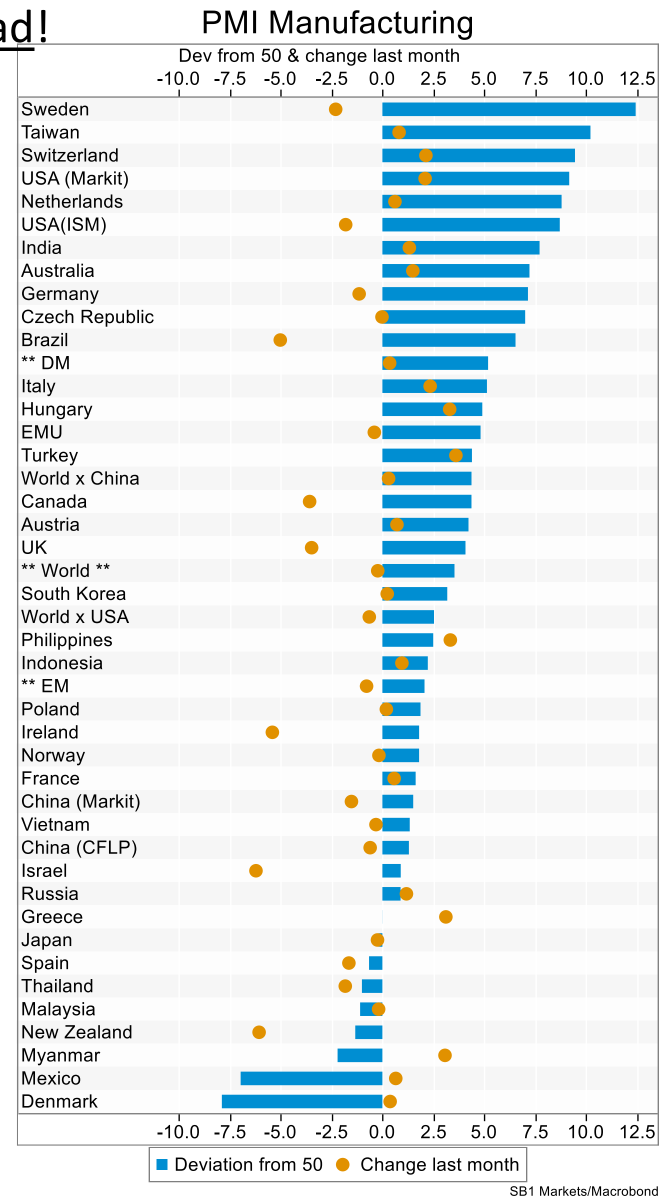
SB1 Markets/Macrobond

- 11 countries up, 13 down. 10 below 50, 13 above
- Besides **Sweden**, **USA** is the most impressive, both Markit's PMIs and the ISMs are at very high levels, signalling 5% GDP growth
- **The Chinese PMIs** fell much more than expected, but remain at decent levels, signalling growth at trend, following incredible surge from Q2
- **The EMU PMIs** fell (albeit a tad less than the flash estimates), and signal a moderate GDP contraction into Q1 as well. Spain is at the bottom in the EMU, Germany remained above the 50 line, thanks to a vibrant manufacturing sector
- **India** is thriving, while **Russia** rose to above 50 again. **Brazil** turned into contraction mode

The global manufacturing PMI marginally down but still very strong!

The PMI down 0.2 p to 53.5, 2.4 p above avg. Sweden in the lead!

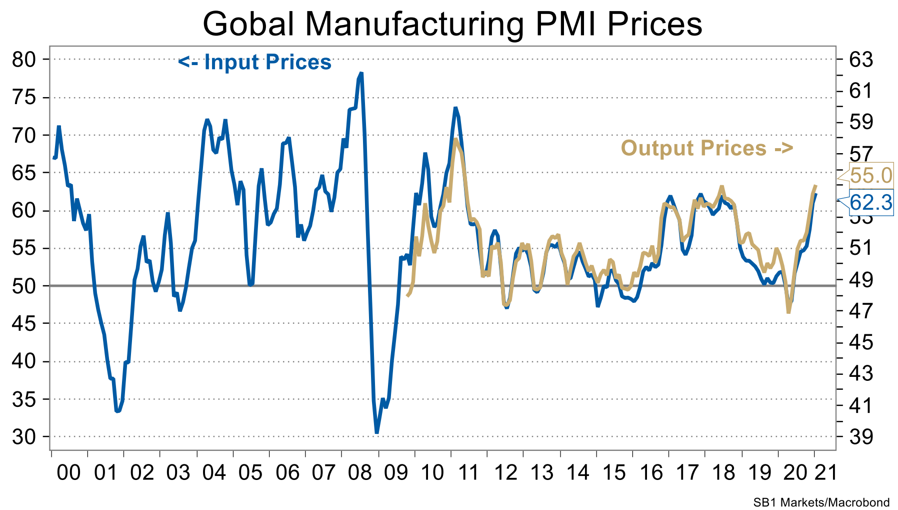


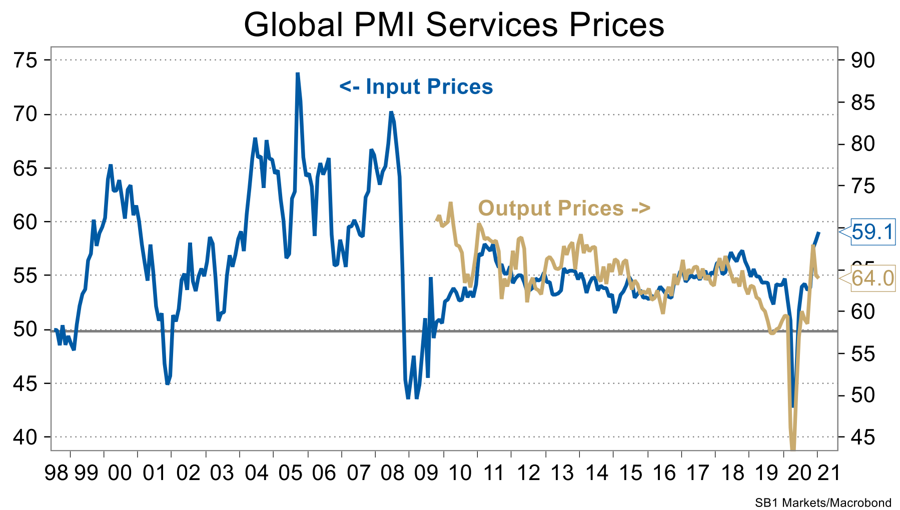


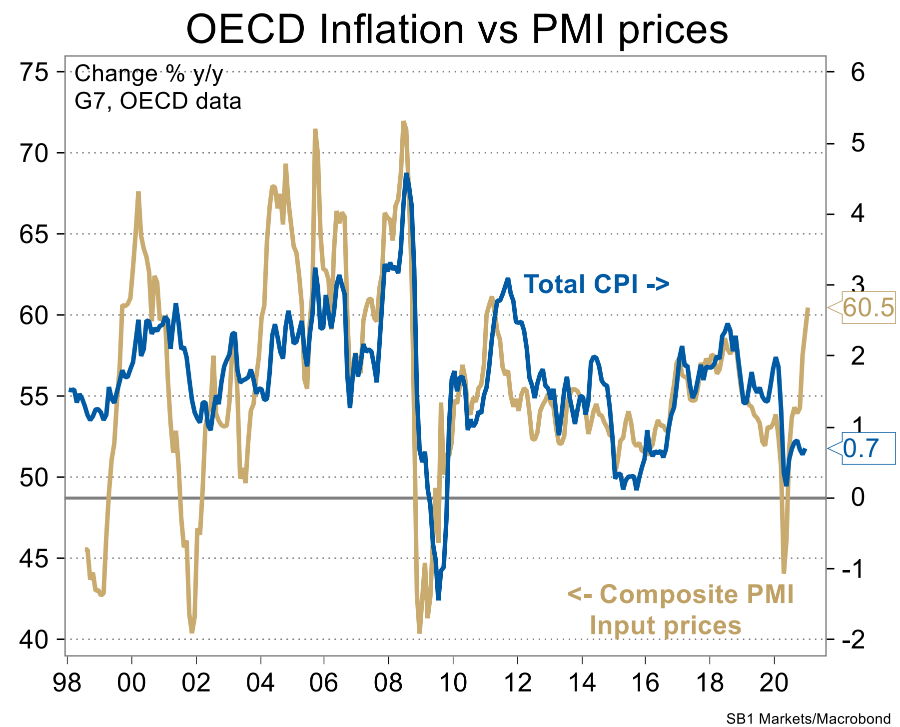
- The global manufacturing PMI fell marginally in Jan, and the level is still close to the best in 10 years, and 2.4 p above average
  - » Just above 50% of the countries reported higher PMIs in Jan vs. Dec
  - » A majority of the countries (80%) are reporting PMIs above the 50 line
- EM down due to China, Brazil. DM up due to EMU, UK & Japan
- The PMIs fell in UK & Ireland but both remained above 50, no mutant shock
- Sweden in the lead, the volatile Danish PMI at the bottom, Norway below mean & median

Businesses are reporting the fastest price inflation in 10 years, both in- & output

High growth, capacity constraints & longer delivery times. CPI inflation next? VERY likely. A problem?



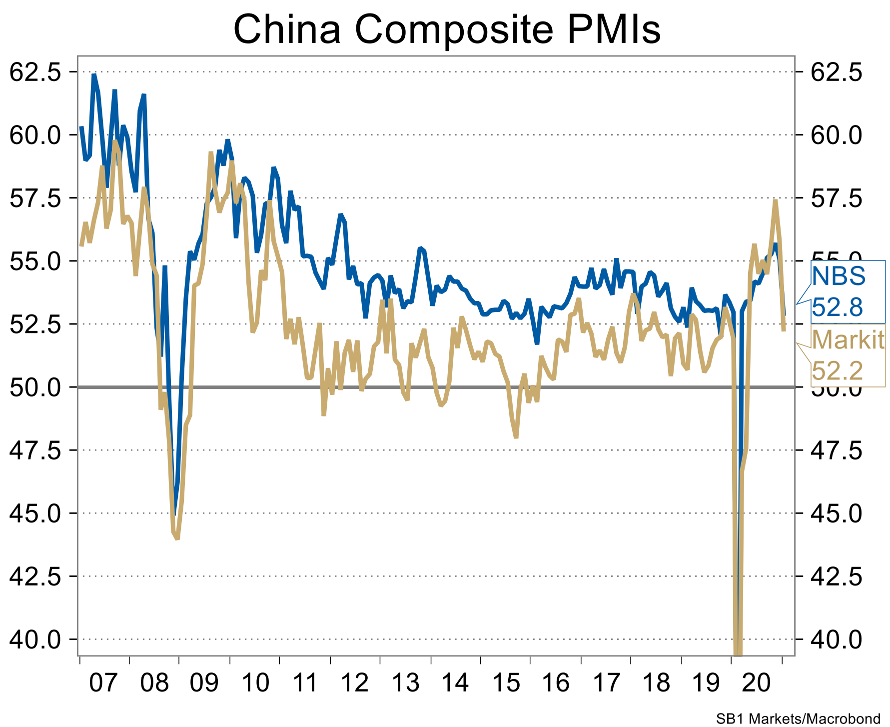


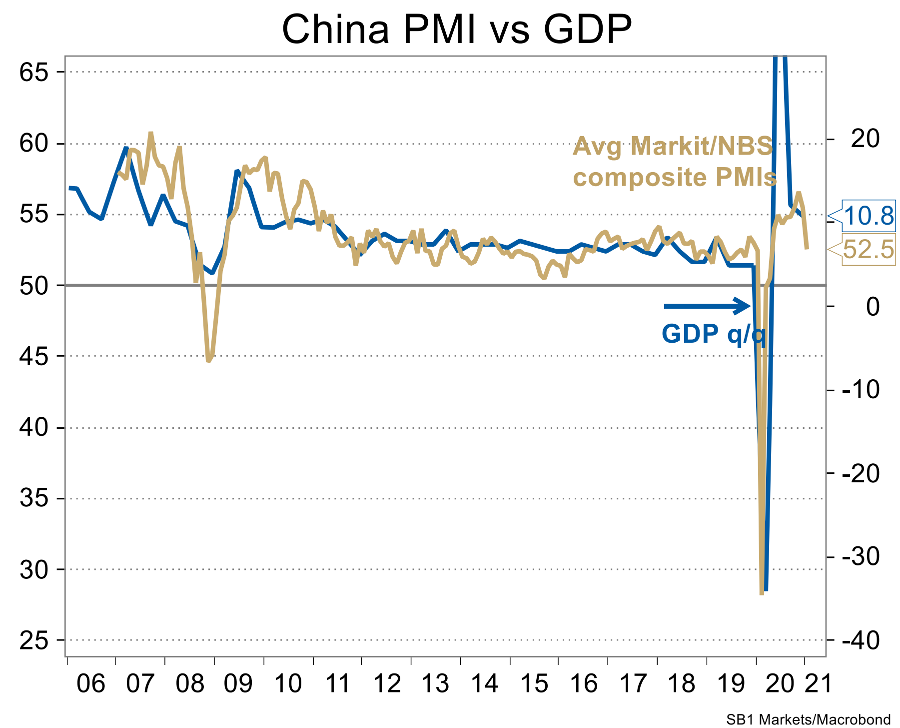


- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices – but output prices in the service sector slowed somewhat in Jan
- The correlation to **actual CPI inflation** is not prefect but pretty close. The PMI price indices are signalling <u>a lift in headline inflation, from some 0.5% in rich countries now, up to 2.5 - 3%.</u> Much is 'a done deal', as energy prices soon will be sharply up y/y

The PMIs fell sharply in January but the level signals growth at trend

The 3rd largest setback ever, and far larger than expected, with services in the lead

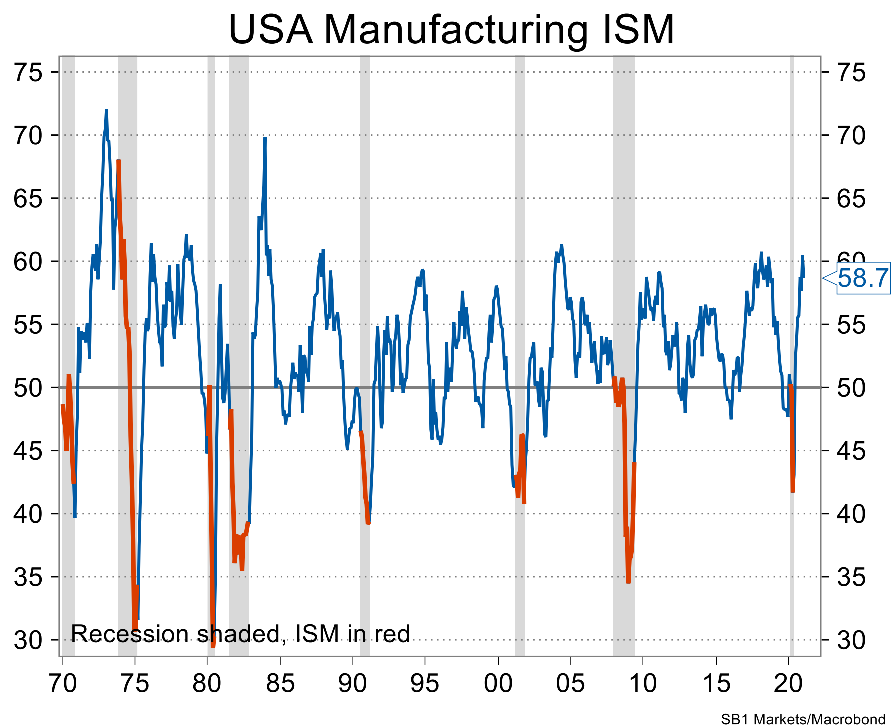


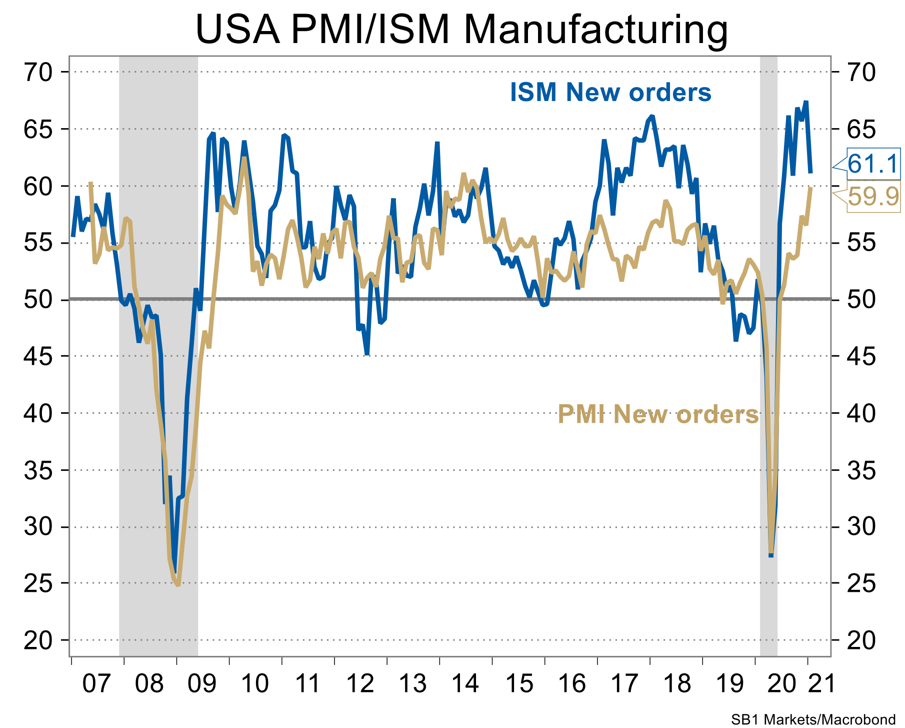


- The average of the two PMIs fell by 3 p, the 3rd largest monthly setback ever
  - » The service sector reported the steepest setback – but even services are reporting growth
- In H2 '20 China grew at the double of any reasonable estimate of trend growth rate, and the GDP level was above the pre-corona growth path. Thus, a slowdown was inevitable. Authorities have tightened credit somewhat. However, we doubt they want to curb growth too much. (The recent rapid hike, and then normalisation in short term money market rates was just an accident, not a policy signal)
- The Jan PMI levels are not signalling a slowdown to below trend (see next page too) but surely, the steep decline in one month could signal something more to come. The Feb & March surveys will be exiting
- Other surveys are not signalling an abrupt halt in the Chinese economy

Manufacturing ISM declined in January, but level still far up in the sky!

The ISM surprised on the downside, dropping 2 p to 58.7, expected down to 60. Still 58.7 is not bad...

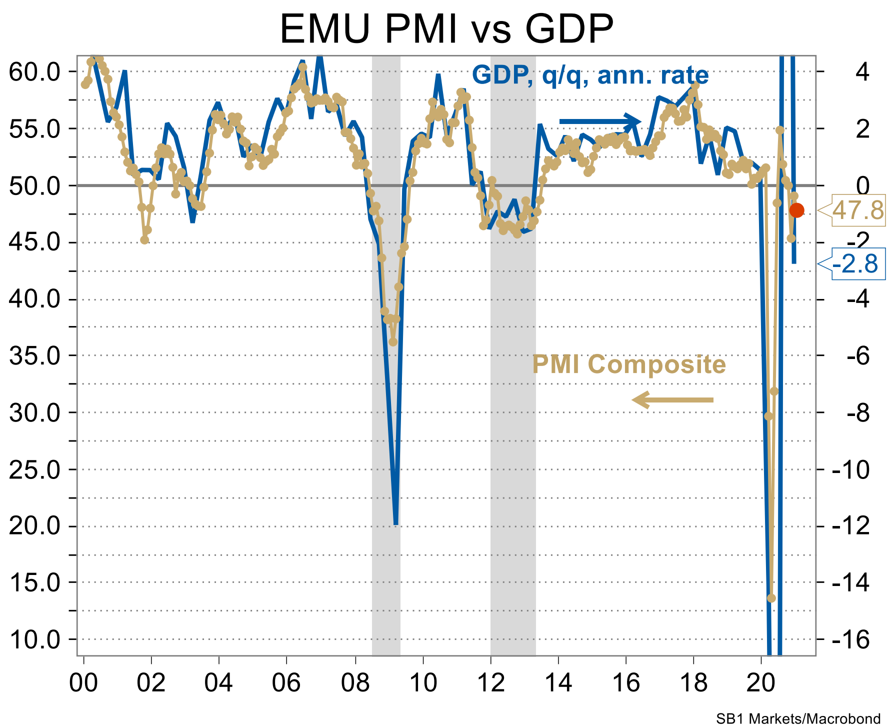


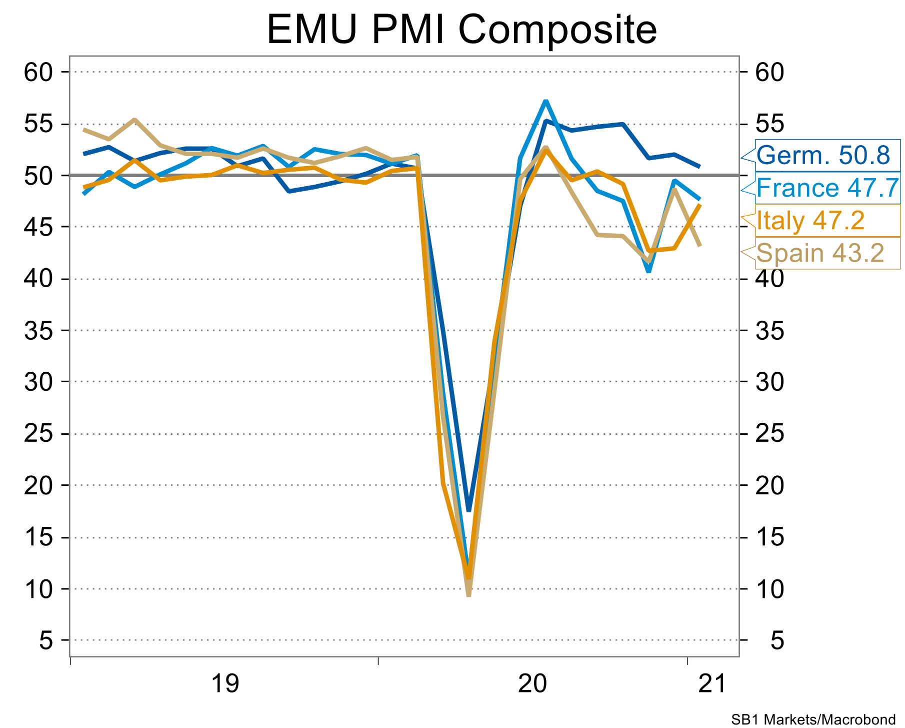


- 16 of 18 manufacturing sectors reported growth in January, just printing and petroleum down
- 26 groups of commodities were up in price m/m, like in December, where 10 new commodities were added. Just one, caustic soda, was down. A lot of commodities were in short supply too
- ISM and Markit's PMI new orders are converging – at a high level

The service sector is putting a drag on growth but no catastrophe so far

The composite revised up 0.3 p vs. prelim. est. Services are still well below 50, manufacturing above

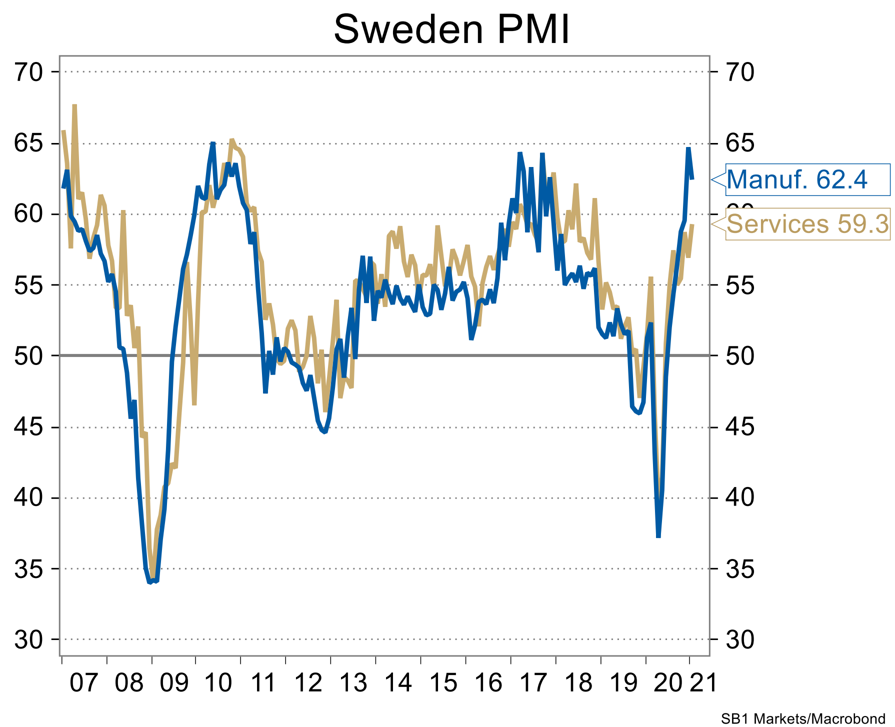


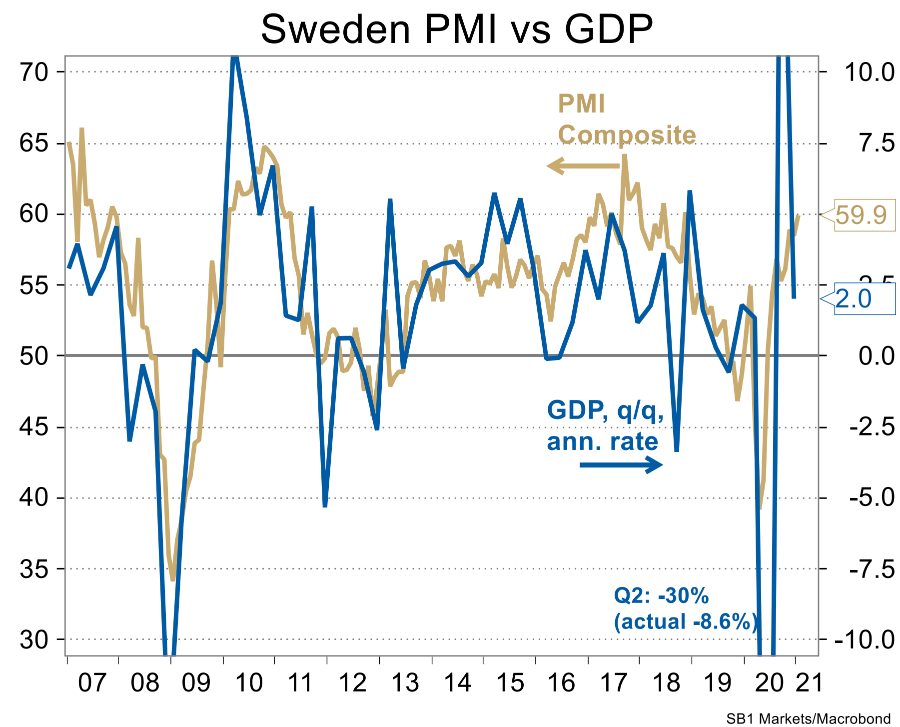


- The final **composite PMI** fell 1.3 p to 47.8 in January
  - » The Composite PMI is at a 7 mo. low in Germany – but the index still above the 50 line. The other big 4 are all below the water mark, Spain at the bottom
  - » The PMI was marginally higher than the initial estimate, but is still bleak
- GDP fell by 0.7% in Q1 (2.8% annualised), more than signalled by the PMIs. They now imply a 1% contraction pace in Q1 (-1/4 pp, not annualised), which seems somewhat optimistic.
- Still, the 2nd/3rd corona waves have created far less problems in the European economy than the 1st last spring, as the economic impacts of the current 'lockdowns' are negligible compared to unprecedented setback in March/April '20

Sweden still look rock solid, the composite PMI up – signalling a 5% growth pace

Manufacturing PMI down 2.5 points to 62.4 in Jan. Services up 2.7 p to 59.3, a very strong print

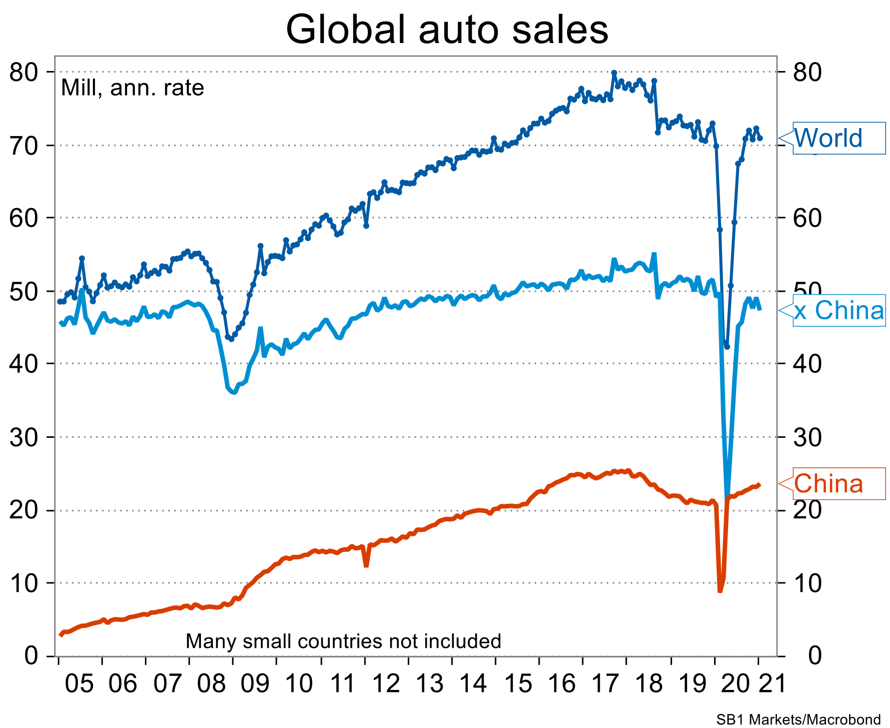


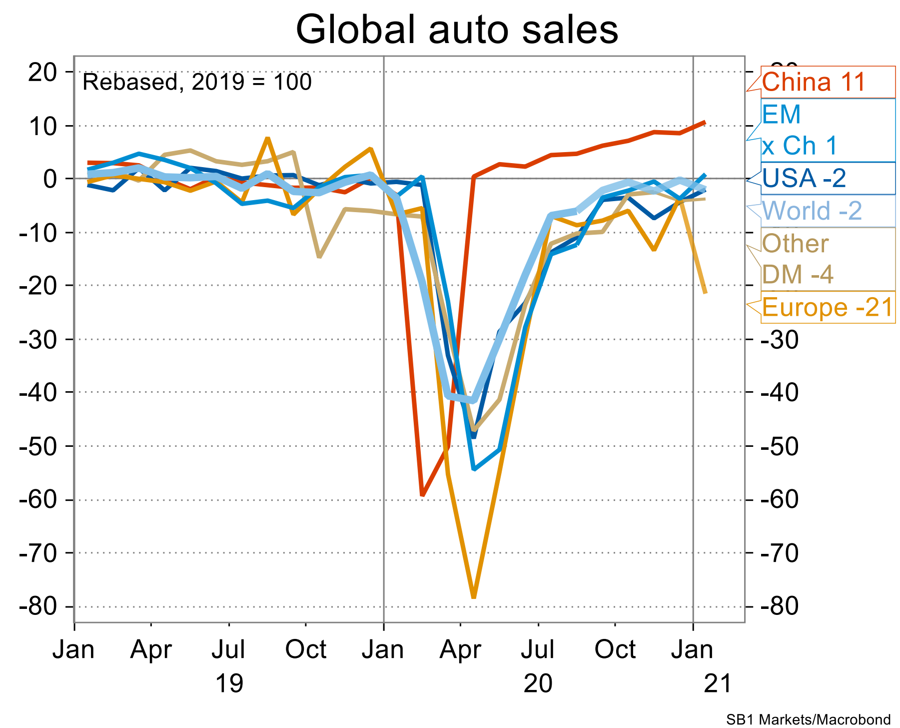


- The Swedish PMI is at the top of the global ranking, both manufacturing & services!
- In November, the Riksbank expected another downturn due to the corona outbreak, and turned the QE tap further. So far the fear does seem to be warranted (as we not believe that the incremental lift in the QE program explains the continued strength in the Swedish economy)
- GDP grew by 0.5% (2% annualised) in Q4, and both the PMI and other business surveys signals a decent growth pace into Q1

Global auto sales down in Jan, Europe (German VAT & UK corona) to blame

Sales in US and Chinas and other Emerging Markets up, European sales sharply down



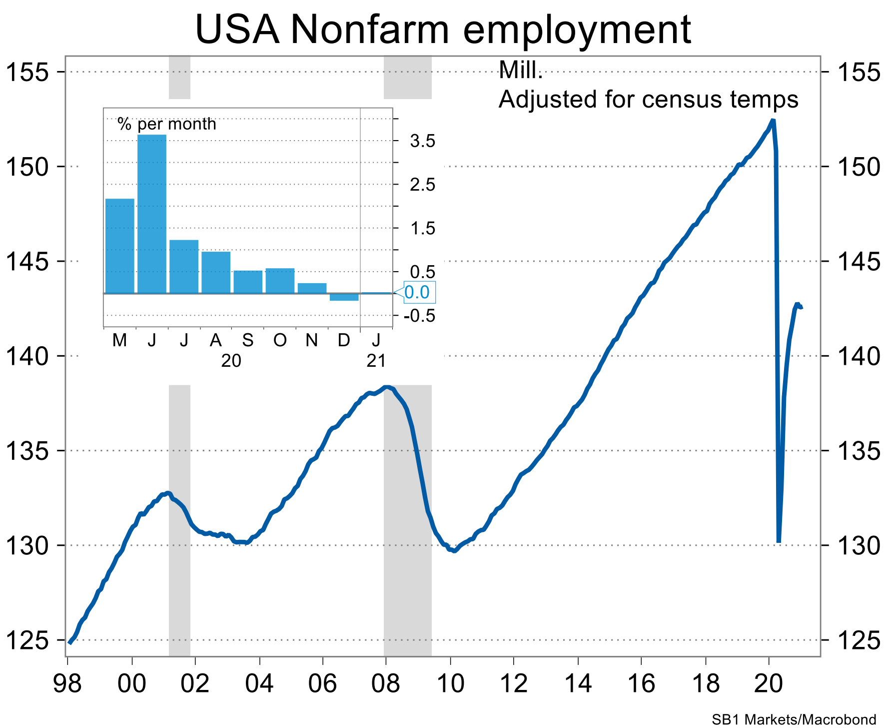


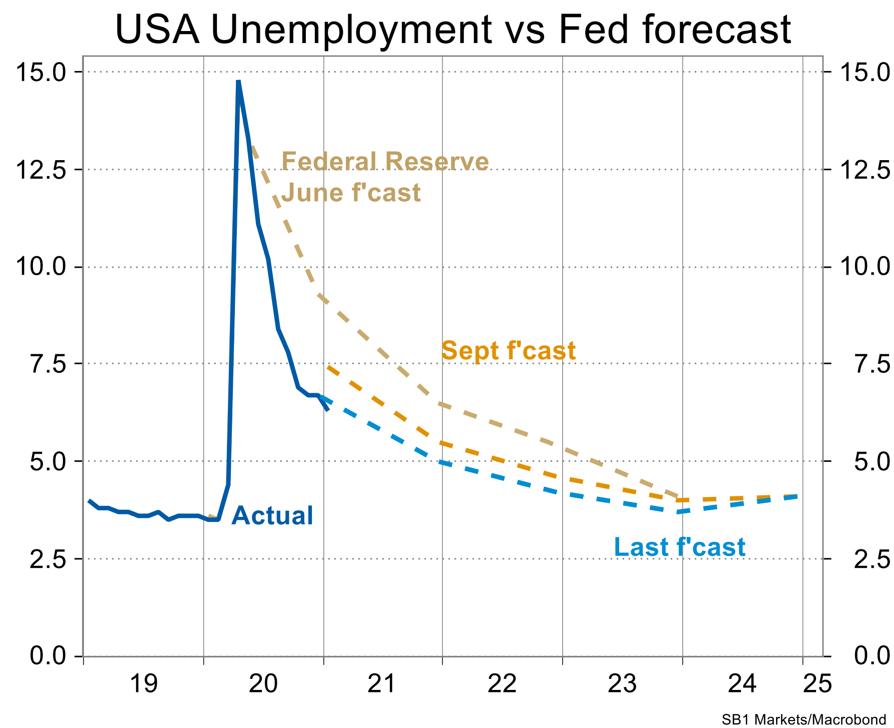
- Based on our preliminary estimates global auto sales fell some 2% in Jan, but remained above the Nov level – and sales are still trending up, due to a steady rise in Chinese sales.
- Sales fell sharply in Germany, Spain and the UK. Tax changes (and strong Dec sales) as well as the coronavirus to blame
- Chinese sales are 11% above the 2019 average, US down 2%, and Europe down 21%, from -3% in December.
- EM x China are back to the same level (+1%) as in early 2000, as sales in India are well above, and Russia has recovered

SpareBank 1 MARKETS

Employment just marginally up in Jan (and past 3 m). A broad slowdown in Jan

Employment grew by just 49' in Jan and by 53' on average past 3 months. The empl. gap is still 6.5%

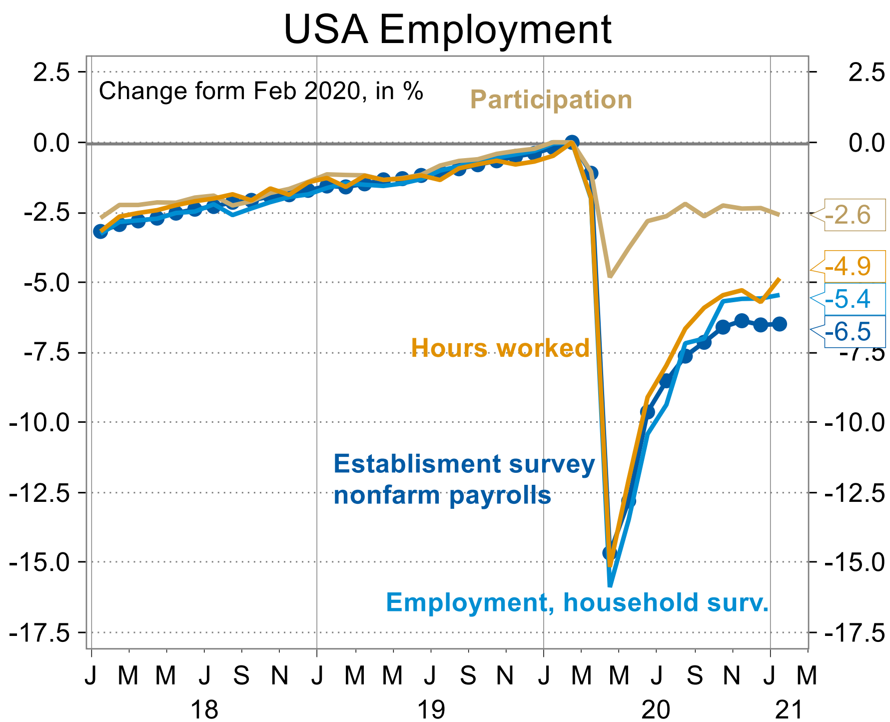




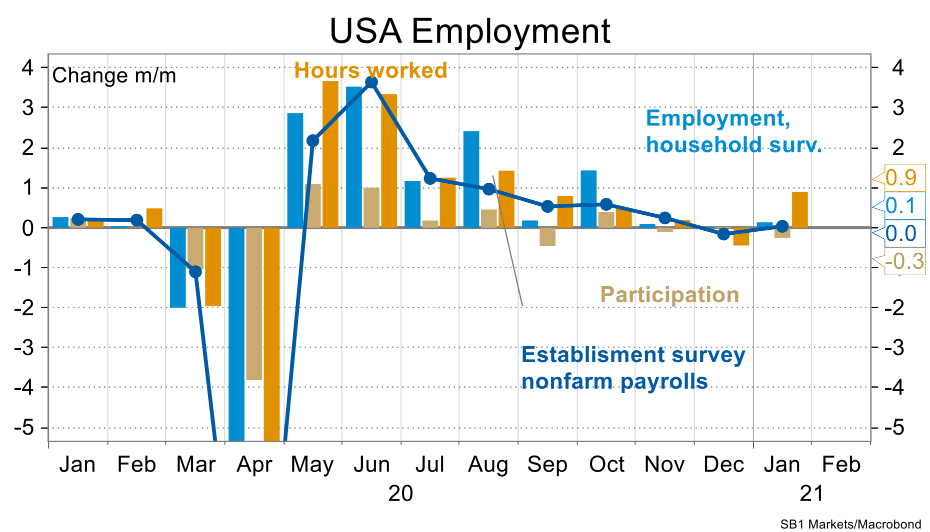
- **Employment** rose by 49' as formally expected but following a more upbeat ADP report and strong business surveys, real expectations were higher. Public employment rose 43', total private just 6'. Net revisions -159' added to the Jan weakness. In Dec, employment in restaurants fell sharply, while other sectors grew at a decent pace. In Jan, the weakness was broad, signalling slower growth in the overall economy. Past 3 months, employment grew by 54' in average, or at a 0.4% pace, well below population growth. Employment is 6.5% below the pre-corona level, it was down 14% in April – it is still a long way to go. Hours worked sharply up in Jan, a positive sign
- **Unemployment** surprisingly fell 0.4 pp to 6.3%, expected unch. The participation rate fell, while the labour force survey employment rate rose, as the LFS reported a lift in employment at approx. 250'. The unemployment is once more below FOMC's forecast
- The weak jobs report increases the pressure for pushing **a large stimulus bill** through the Senate. As corona retreats, a better future??
- **In addition, the Federal Reserve will keep pushing the accelerator hard the coming months, whatever fiscal stimulus may be decided**

Employment still 5% - 6.5% below par

All indicators are signalling slower growth – while all are still way below the pre-corona level



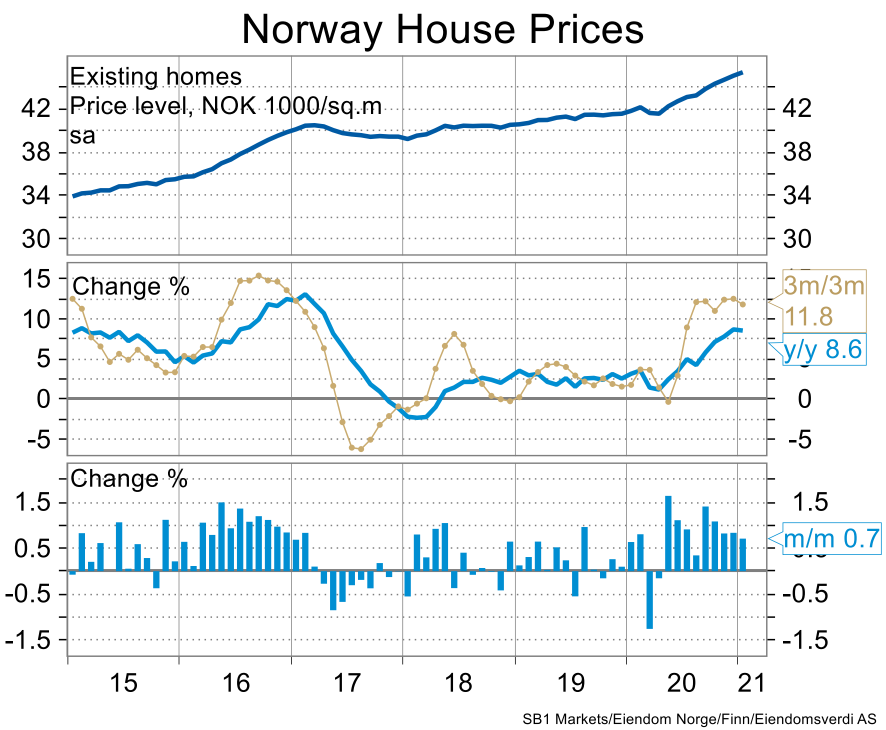
- The participation rate has stabilised at some 2.5% below the pre-corona level, which is lowering the unemployment rate by the same amount
- Nonfarm payrolls are down 6.5% vs Feb, while employment measured by the household survey (LFS/'AKU') is 5.4% below par
- Hours worked jumped 0.9% in Jan as average hours worked rose sharply following the Dec 0.4% setback – a positive signal

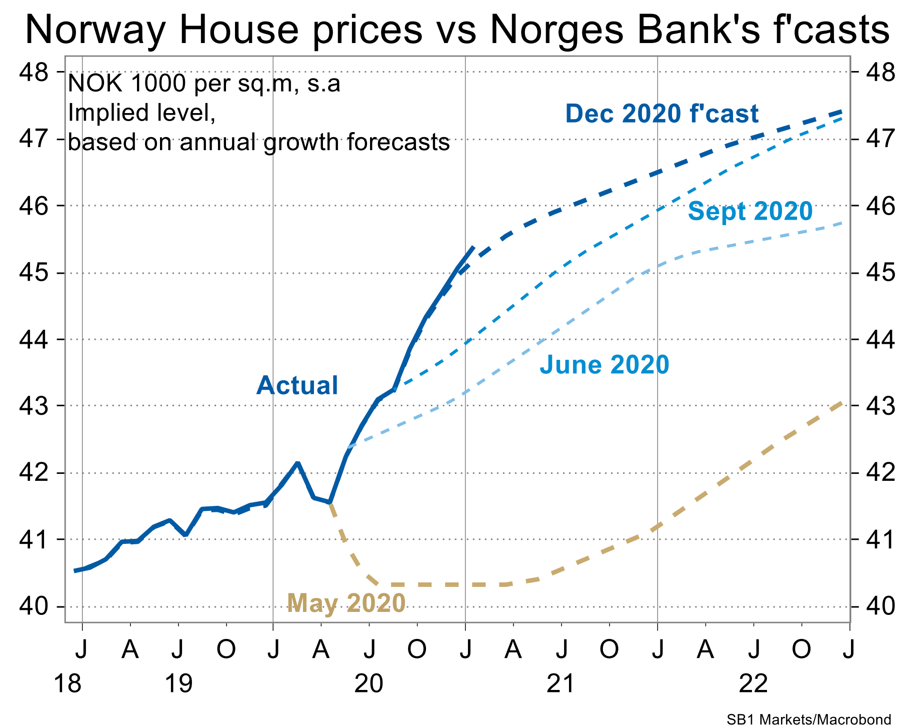


SpareBank 1 MARKETS

Steady as she goes: House prices increased by another 0.7% m/m in January

Norges Bank (and we) expected 0.7%. Price growth is slowing but market is still tight, a low inventory

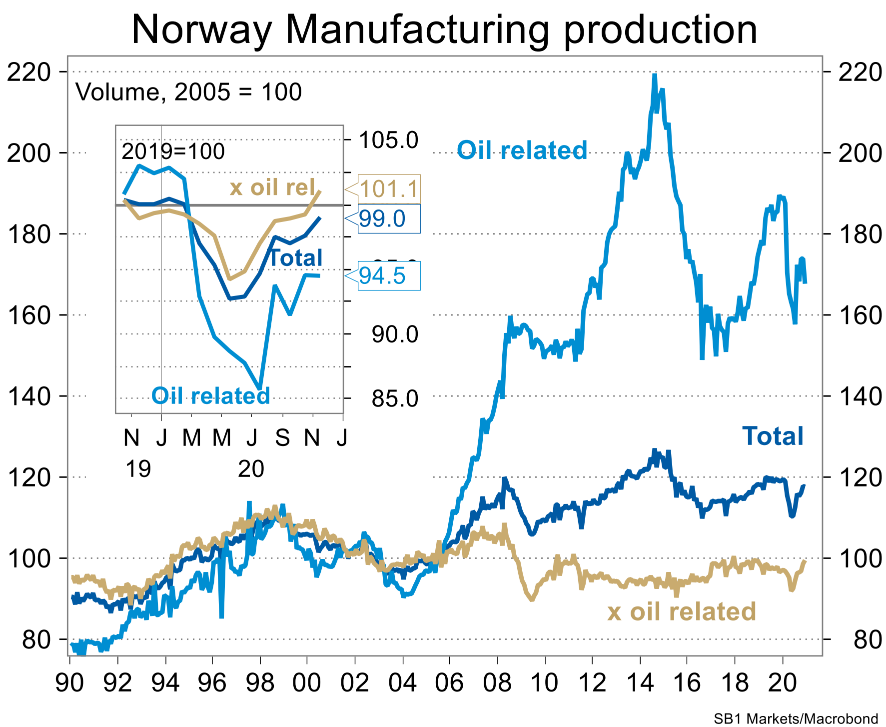


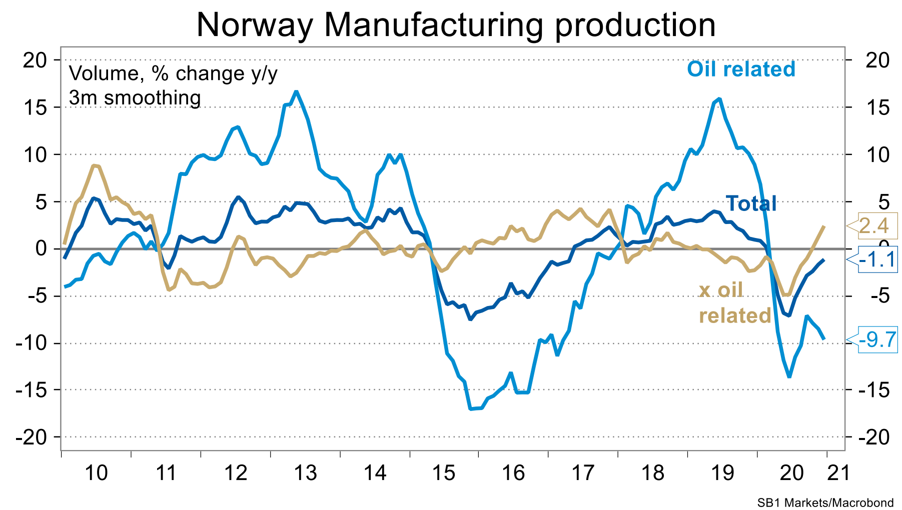


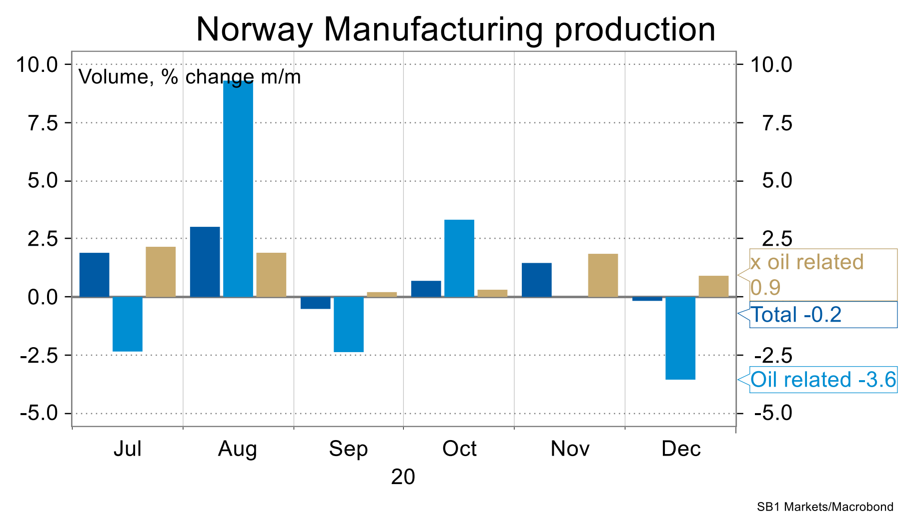
- House prices rose by 0.7% seas. adj in Jan, down from 0.8% in Dec, as we expected. In Dec, Norges Bank assumed 0.5%. The past 3m/3m, prices are up by 12%, annualised. Prices are up 8.6% y/y. A 1.2 pp cut in mortgage rates (to 1.8% in average now, from 3.0% in Feb), has been much more important the corona setback and higher unemployment
  - 4 cities reported declining prices m/m, along the coast from Bergen to Tromsø. Oslo prices rose by 1.3%
  - Smoothed 3m/3m prices are up everywhere. Stavanger and Kr.sand at the bottom, Oslo at the top, at 19% (annualised) – and Bodø next with 17%!
  - The number of transactions fell in Jan but remains at a high level The inventory of unsold homes has not fallen further over the past 3 months but the level is low, an lower than normal almost everywhere
- **Should the steep price growth continue, Norges Bank will start hiking rates even before Q1 22' (Q4 21 is more likely, we think)**

Manufacturing production marginally down in Dec, trend is OK

Oil related industries down 3.6%, the others up 0.9%, the sum down 0.2%, we expected flat

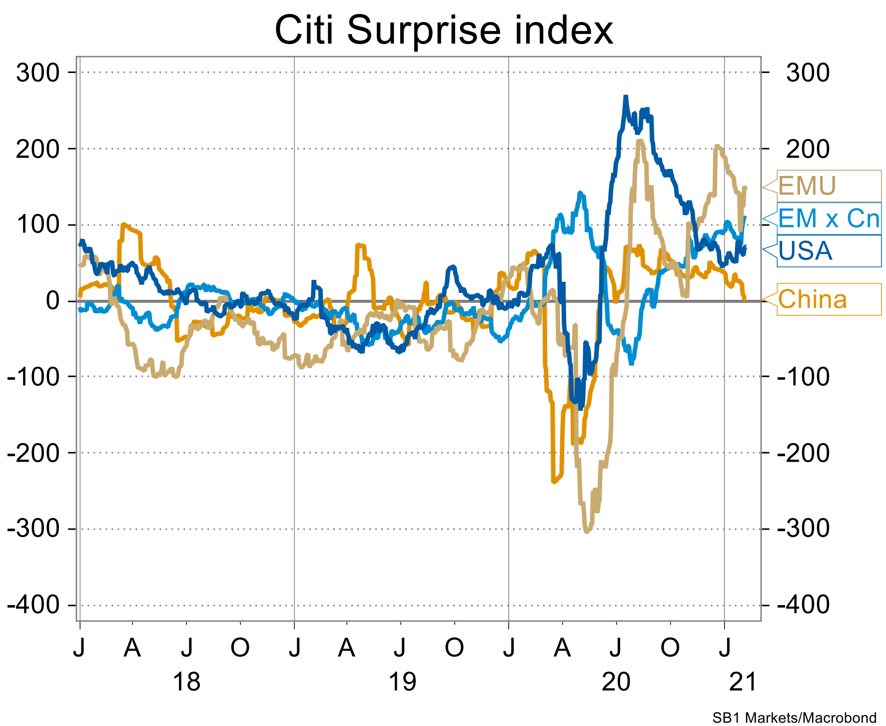


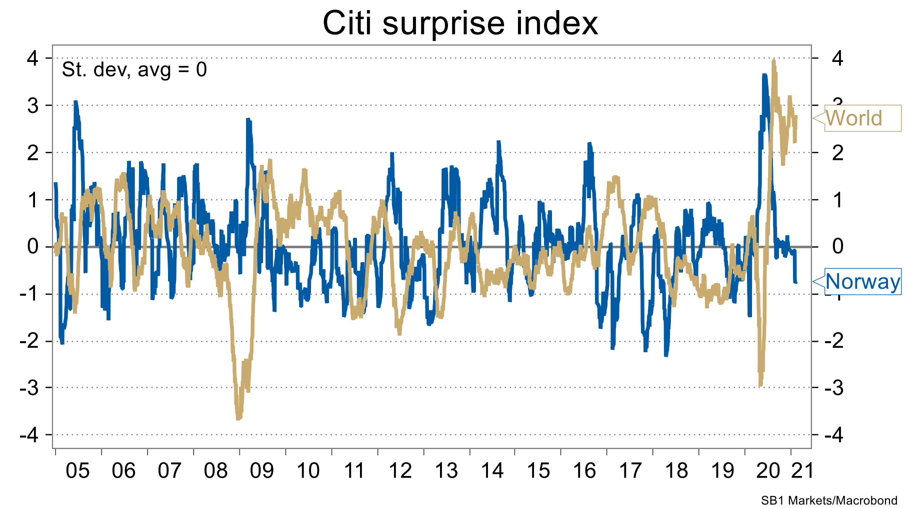


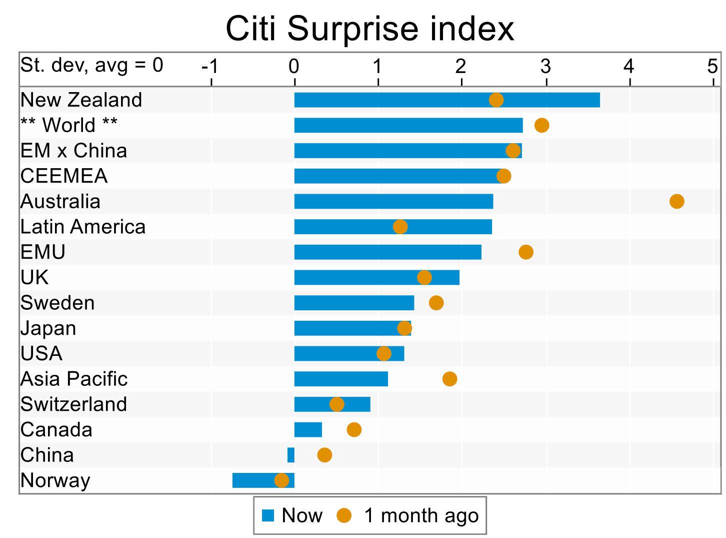


- Production has been in an upward trend since June, in total by 7%. Production rose by 2.3% from Q3 – but is still down by 1.7% y/y, due to a 8.5% setback in sectors that produces input to the oil sector
- Q4 non-oil related are up 1.2% vs. Q4 '19, in line the global manufacturing production but well above our the outcome among our trading partners
- Surveys are mixed. The Regional Network signals no growth, while both the PMI and SSB's survey signals close to normal growth. NHOs survey is a laggard, signalling falling production

Surprises are still on the upside







- **All major countries/regions** are reporting data above expectations, for the first time ever
- The **Euro Zone** is
- The **US** is still well into positive territory – and is heading upwards
- **China** has moderated lately, has fallen down to an average level, last week due to the PMIs
- **Other EMs** are well above their average level too, and are on the way up
- **Besides China, Norway, Canada and Switzerland** at the bottom. Just <u>Norway is below an average level</u>

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

The Calendar

A quite week: US CPI, EMU manufacturing, Swedish Riksbank, Norwegian GDP, CPI & confidence

Time	Count.	Indicator	Period	Forecast	Prior
Monday Feb 8					
08:00	GE	Industrial Production SA MoM	Dec	0.3%	0.9%
Tuesday Feb 9					
06:30	NO	Consumer Confidence	1Q	(0)	-11.5
12:00	US	NFIB Small Business Optimism	Jan	97.0	95.9
16:00	US	JOLTS Job Openings	Dec	6450	6527
Wednesday Feb 10					
02:30	CH	CPI YoY	Jan	-0.1%	0.2%
02:30	CH	PPI YoY	Jan	0.3%	-0.4%
08:00	NO	CPI YoY	Jan	1.8%	1.4%
08:00	**NO**	**CPI Underlying YoY**	**Jan**	**1.8%(1.3)**	**1.4%**
08:00	**NO**	**CPI Underlying YoY**	**Jan**	**2.4%(2.3)**	**3.0%**
08:45	FR	Manufacturing Production MoM	Dec	-1.0%	0.5%
09:30	**SW**	**Riksbank Interest Rate**	**Feb-10**	**0.0%**	**0.0%**
14:30	US	CPI YoY	Jan	1.5%	1.4%
14:30	**US**	**CPI Ex Food and Energy MoM**	**Jan**	**1.5%**	**1.6%**
20:00	US	Monthly Budget Statement	Jan		-$143.6b
Thursday Feb 11					
14:30	US	Initial Jobless Claims	Feb-06	773k	779k
Friday Feb 12					
08:00	UK	Manufacturing Production MoM	Dec	0.6%	0.7%
08:00	UK	Monthly GDP (MoM)	Dec	1.0%	-2.6%
08:00	UK	GDP QoQ	4Q P	0.5%	16.0%
08:00	**NO**	**GDP Mainland MoM**	**Dec**	**-0.2%(0.2)**	**-0.9%**
08:00	**NO**	**GDP Mainland QoQ**	**4Q**	**1.3%(1.4)**	**5.2%**
16:00	US	U. of Mich. Sentiment	Feb P	80.9	79.0
Monday Feb 15					
00:50	JN	GDP SA QoQ	4Q P	2.4%	5.3%
During the week					
	CH	**Aggregate Financing CNY**	**Jan**	**4626b**	**1720b**
	CH	New Yuan Loans CNY	Jan	3500b	1260b

- **China**
  - **Credit growth** has slowed recent months, probably orchestrated by the authorities, without lifting interest rates, following the credit surge last spring when the credit market supported the economy out the corona crisis. This support is not warranted anymore. Should credit growth slow much faster, the fear of a slowdown to below trend would increase
- **USA**
  - **CPI inflation** is still muted, and is expected to remain so in January. In the coming months at least the headline index will accelerate substantially due to higher energy prices y/y. Broad increases in other goods prices signal increases in core components as well
- **EMU**
  - Several countries will report December **industrial production** data. The Euro zone data will be reported next week. The manufacturing PMI remains strong
- **Sweden**
  - It may be too early to expect the **Riksbank** to send any signals on change the monetary policy outlook but the bank has to acknowledged that the 2nd corona wave has not yet hurt the Swedish economy as much as the bank expected
- **Norway**
  - **Mainland GDP** is expected down 0.2% in December due to corona restrictions. Due to a steep rise in electricity production, we expect a small gain. Anyway GDP, barring substantial revisions, will increase by 1 – 1.5 pp q/q in Q4 (consensus 1.3%, we assume 1.4%), among the best in the rich part of the world.
  - **Core annual CPI inflation** will fall off the cliff, not due to low price increases now, but due to unusual steep increases in January last year. We expect 2.3% y/y, down from 3.0%. The headline CPI will be kept up due to the increase in electricity prices
  - **Consumer confidence** (Finans Norge) has been soft through the corona crisis. Opinion's CCI has recovered, and most likely the quarterly confidence index strengthened too, but we not expect a lift up to an average level (where the Opinion's monthly is)

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

Highlights

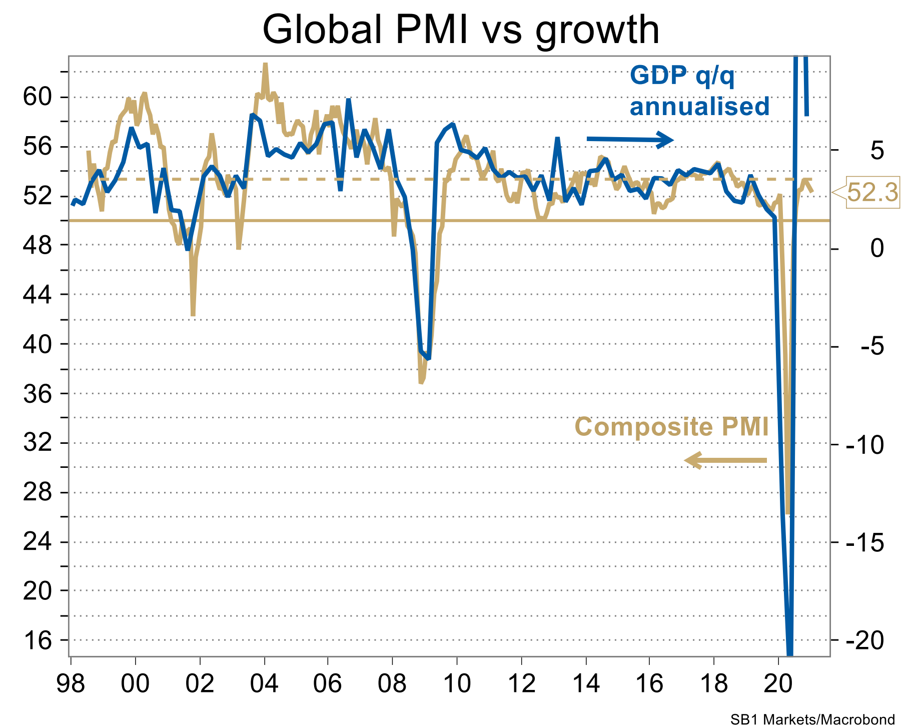
The world around us

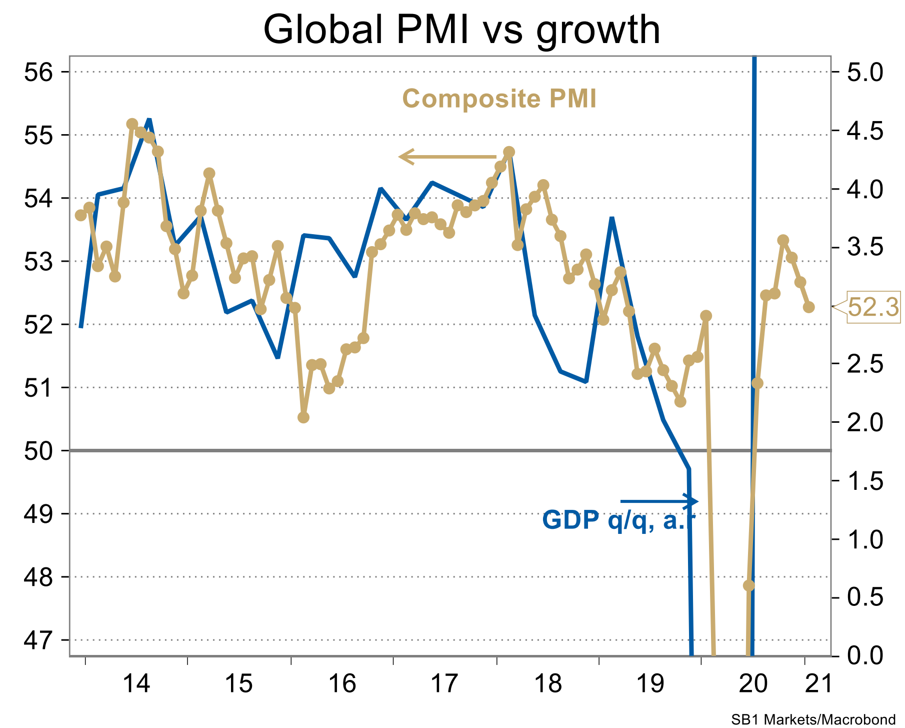
The Norwegian economy

Market charts & comments

The composite PMI down 0.4 p to 52.3, signalling growth marginally below trend

The 3rd small decline in row as European services were hit by corona. China slows, but the US grows



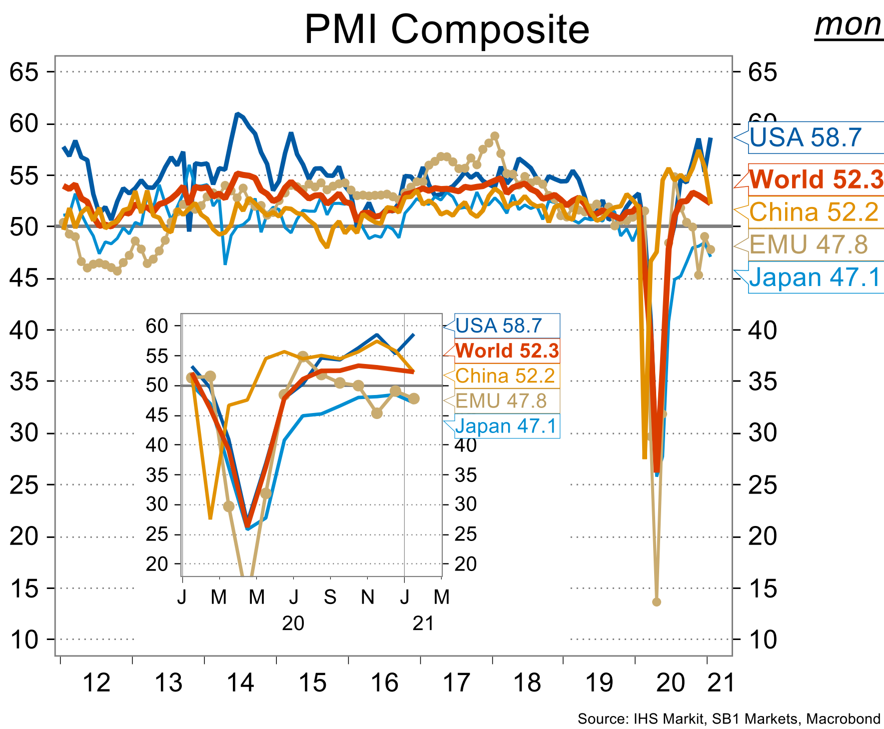


- The manufacturing PMI fell marginally, but signals growth well above trend. Services have slowed more, but the global average is still well above 50
- The global composite PMI signals a continued recovery in the global economy

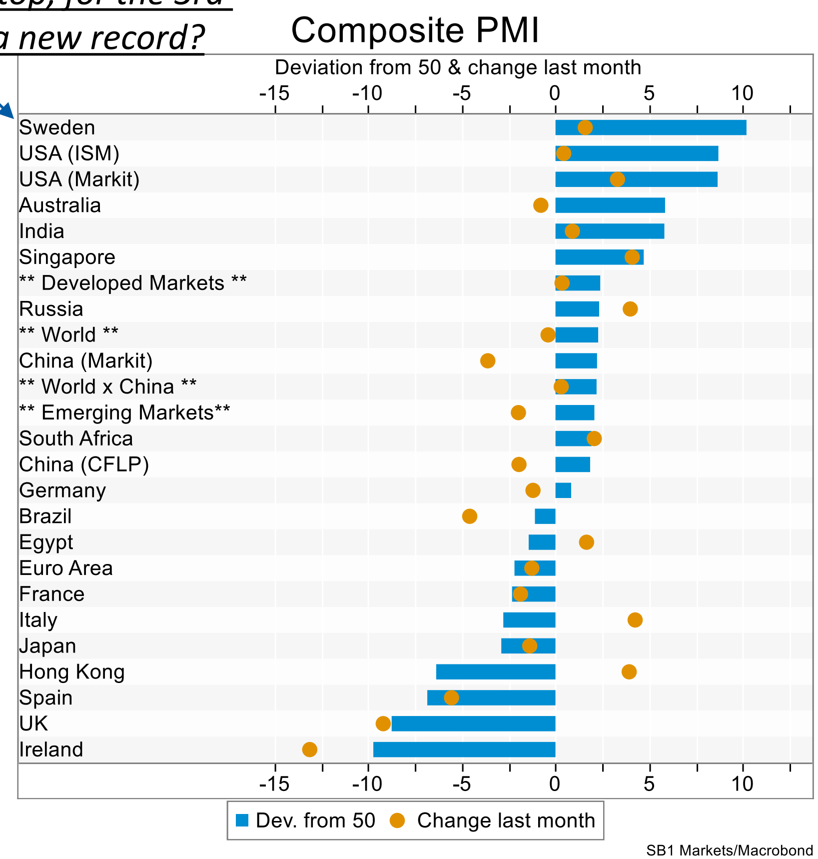
Global PMI

UK & Ireland January's losers, it's tough to fight the mutants. Spain struggled too

EMU also down, but like in Nov. Both the Chinese PMIs fell as well, while the US PMI rose sharply.



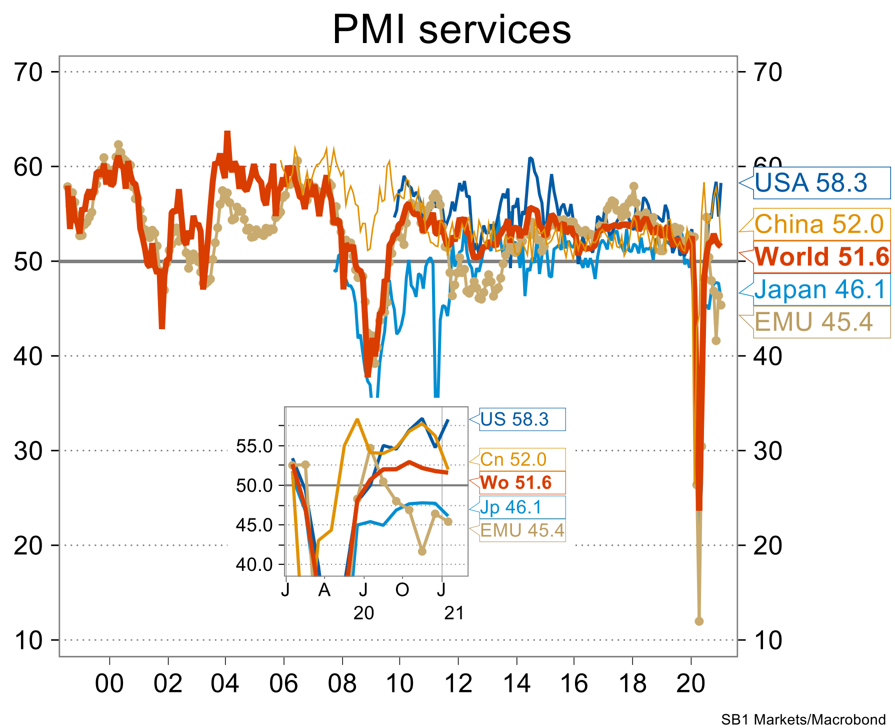
Sweden at the top, for the 3rd month in row, a new record?

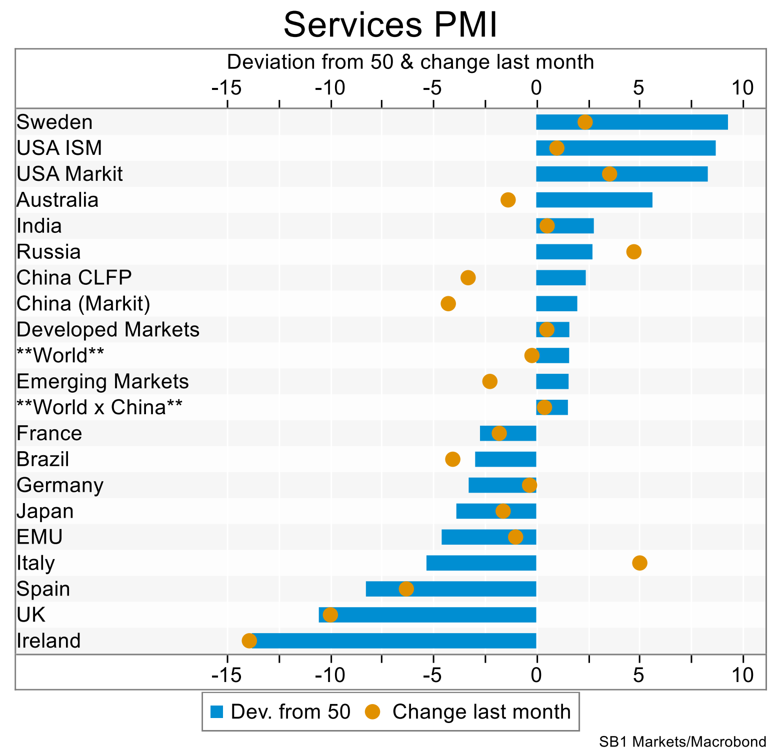


- 11 countries up, 13 down. 10 below 50, 13 above
- Besides **Sweden**, **USA** is the most impressive, both Markit's PMIs and the ISMs are at very high levels, signalling 5% GDP growth
- **The Chinese PMIs** fell much more than expected, but remain at decent levels, signalling growth at trend, following incredible surge from Q2
- **The EMU PMIs** fell (albeit a tad less than the flash estimates), and signals a moderate GDP contraction into Q1 as well. Spain is at the bottom in the EMU, Germany remained above the 50 line, thanks to a vibrant manufacturing sector
- **India** is thriving, while **Russia** rose to above 50 again. **Brazil** turned into contraction mode

The service sector PMI just -0.2p, to 51.6 – even if some fell sharply

Ireland and UK (guess why…) reported sharp setbacks in Jan, followed by Spain. China weaker too

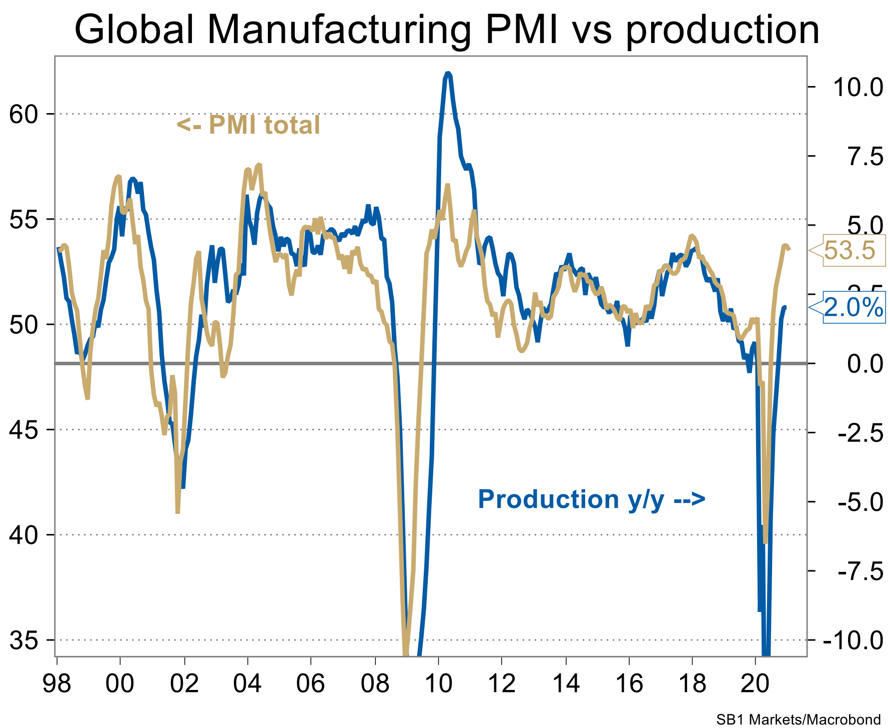


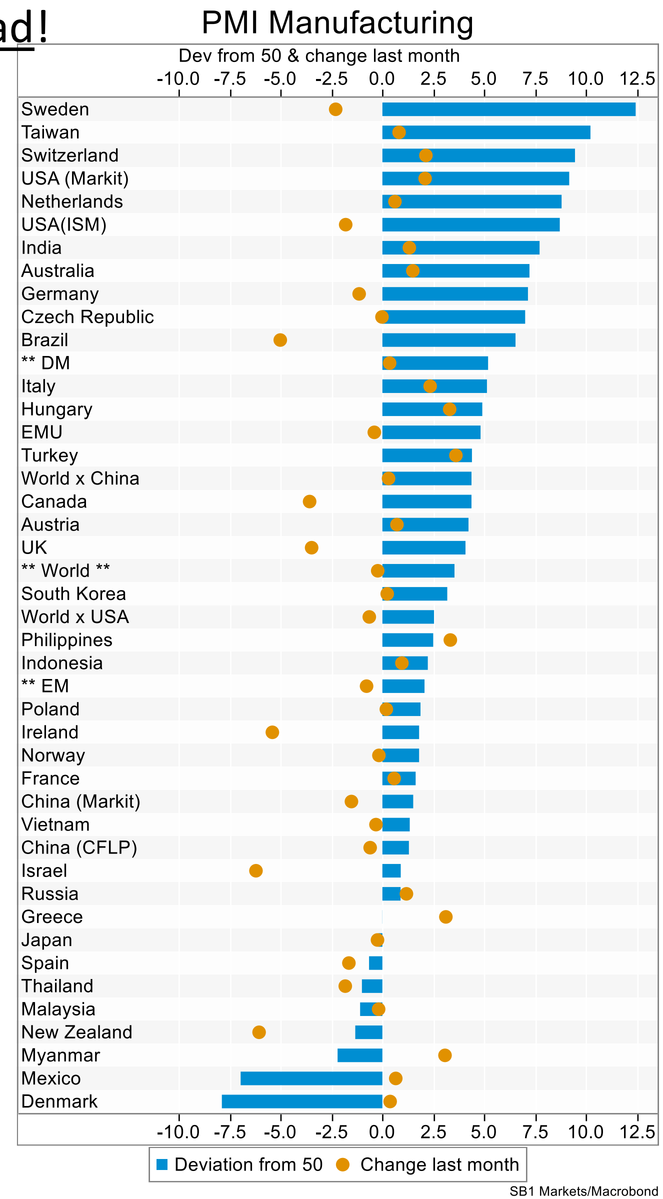


- 8 countries/regions up, 13 down. 9 below the 50 line, 12 above – and global index 51.6, somewhat below average
- The corona lockdowns to fight the mutated virus took it's toll on the service sector in the **UK, Ireland and Spain** (which joined the fight later in January. However, the setback was muted vs. the fist wave in March/April last year (*check the chart two pages fwd*)
- Both the Chinese PMIs fell too, but both remained above 50, and do not signal any contraction

The global manufacturing PMI marginally down but still very strong!

The PMI down 0.2 p to 53.5, 2.4 p above avg. Sweden in the lead!





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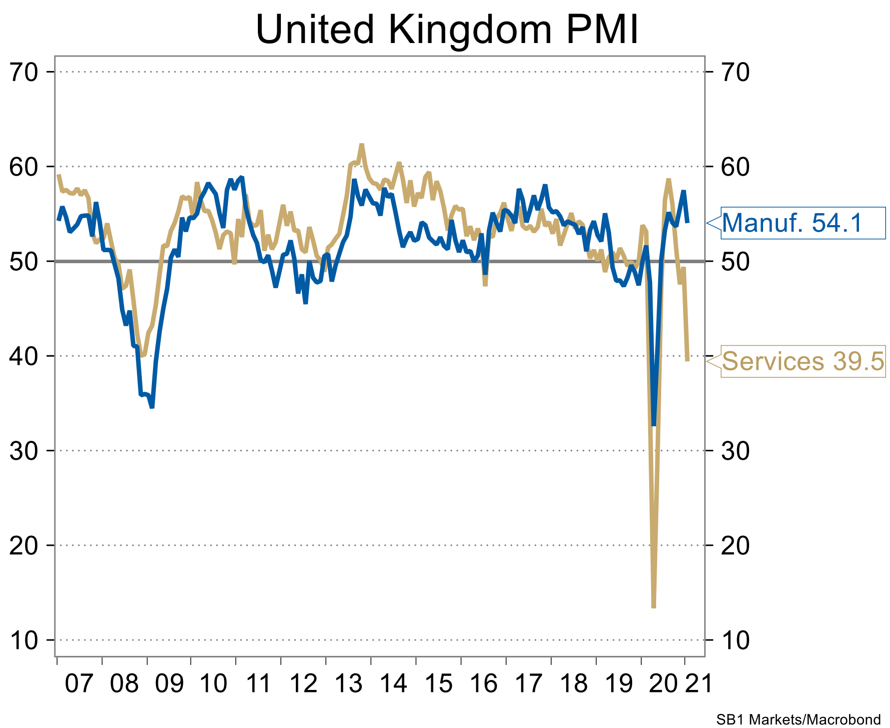
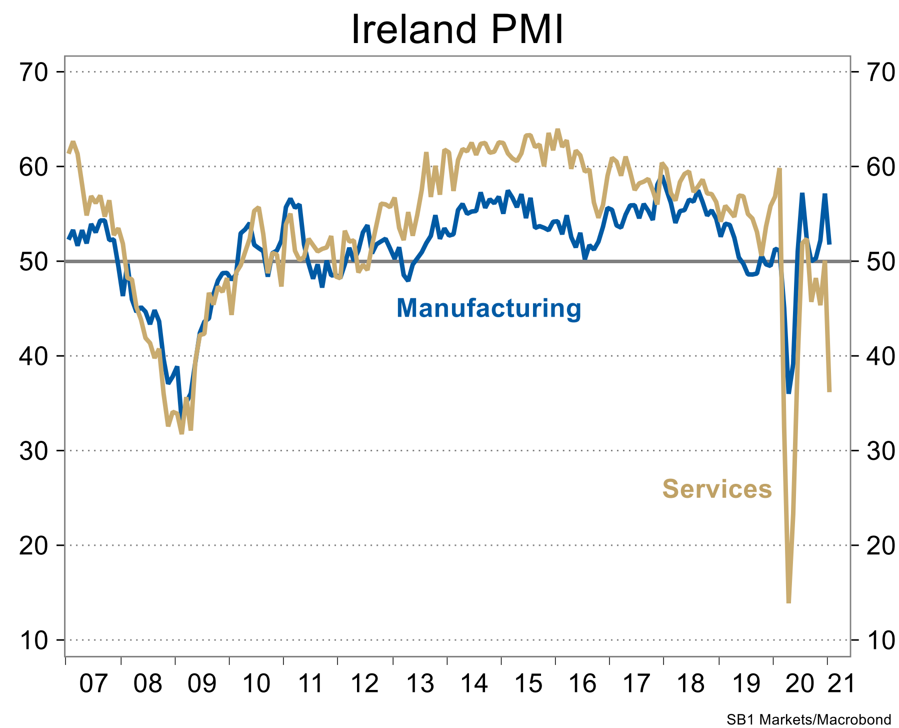
UK & Ireland down but not due to the fight against the mutants

Manufacturing still OK. However, services badly hurt in January, but not masacred like last spring

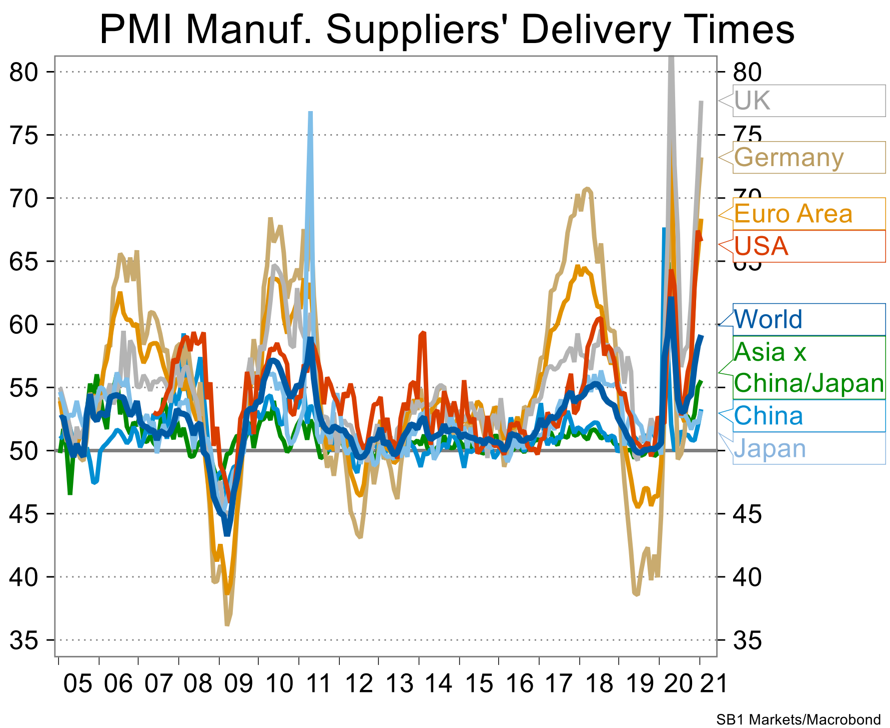


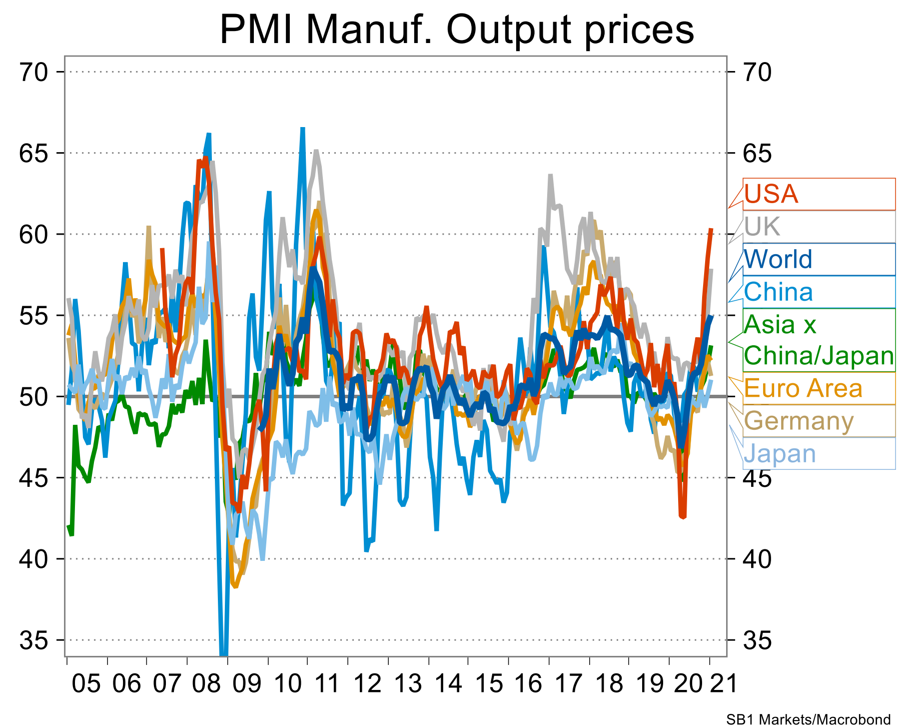


- Our economies are better at coping with the unavoidable increased social distancing during the virus attacks now (even the virus has mutated), than they were when the first wave hit

Delivery times are soaring and prices are rising faster almost everywhere

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

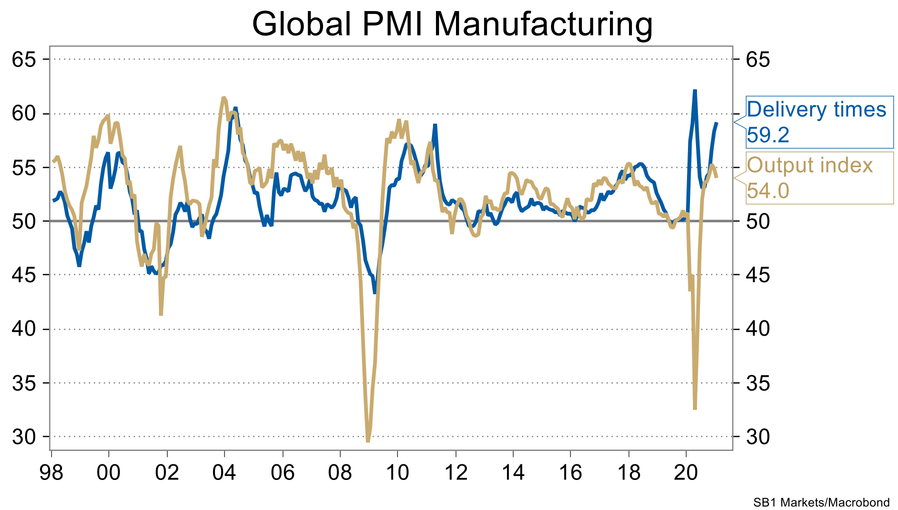


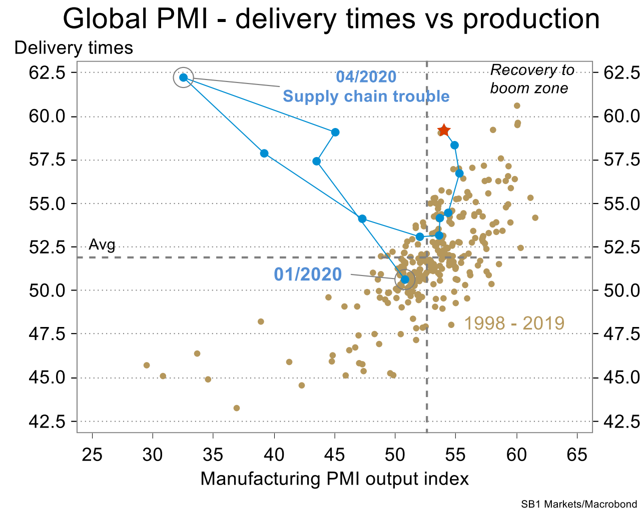


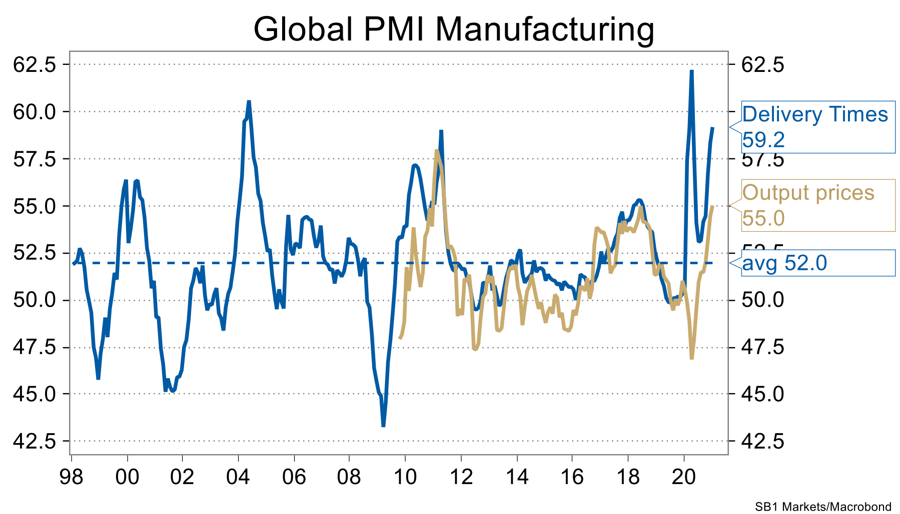
- Brexit and partly the covid-19 surge may explain some of the delivery problems in the UK, perhaps even in Germany – but production is surging in many countries
- All together – rapid growth, longer delivery times and higher prices looks like something more familiar – *check the next pages!*

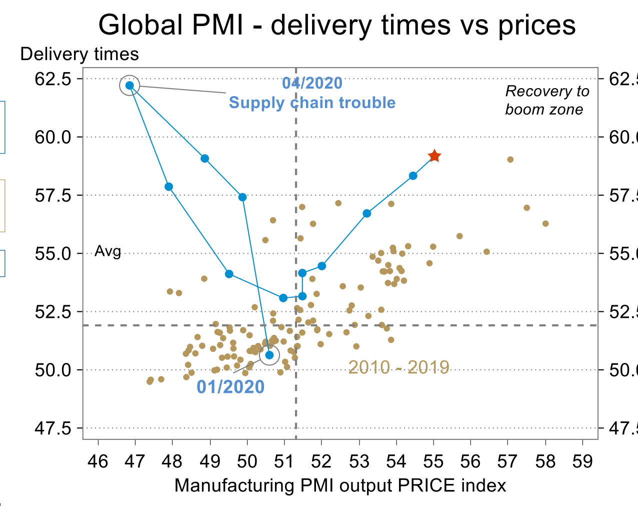
Activity, delivery times & output prices up in tandem: *Towards the hot zone?*

Some capacity constraints – and likely not due to corona trouble? If so…







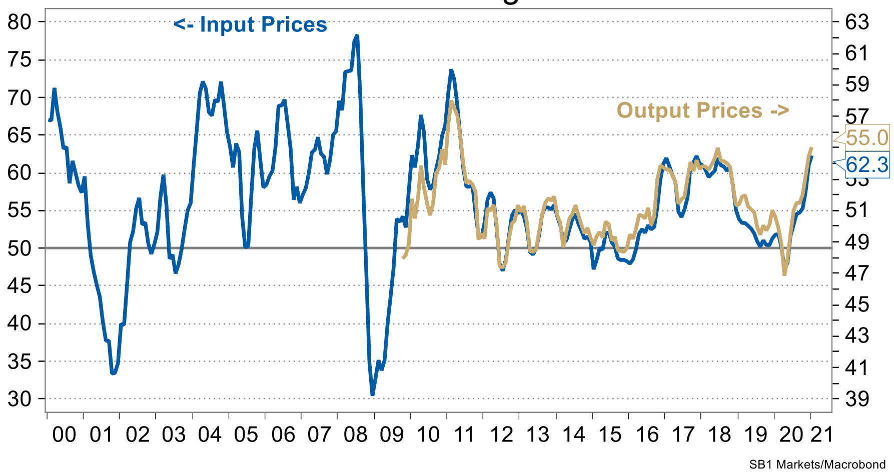


- Barring the Feb-Jun 20 months, activity, delivery times & prices are moving in parallel
- Now all 3 indicators are moving in the same direction: Delivery times are soaring, alongside strong growth in production – and prices are increasing fast too
  - » However, growth in production slowed somewhat in Jan, 'bending the curve' at the upper chart. Signs of some specific supply challenges?
- May the corona virus create specific supply side problems? If so, the output index would not have been so strong at the same time. So this is not 'April-20'
  - » **It looks more like a normal boom – that won't last forever**

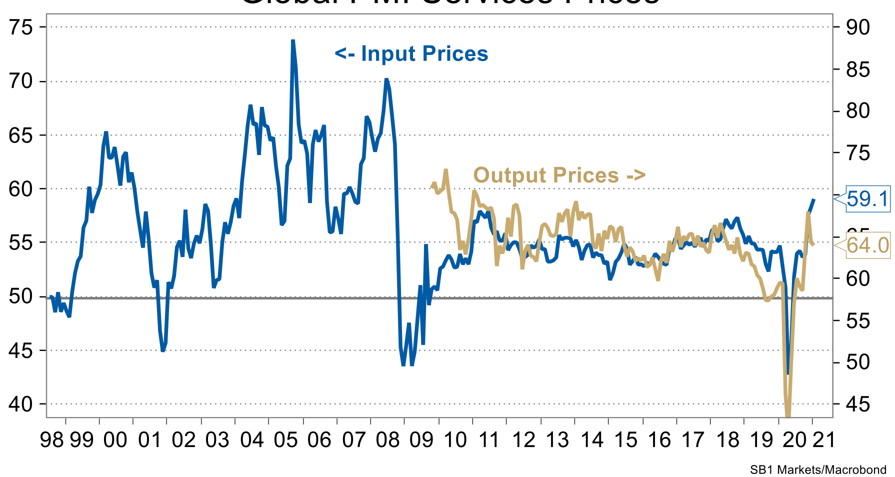
Businesses are reporting the fastest price inflation in 10 years, both in- & output

High growth, capacity constraints & longer delivery times. CPI inflation next? VERY likely. A problem?

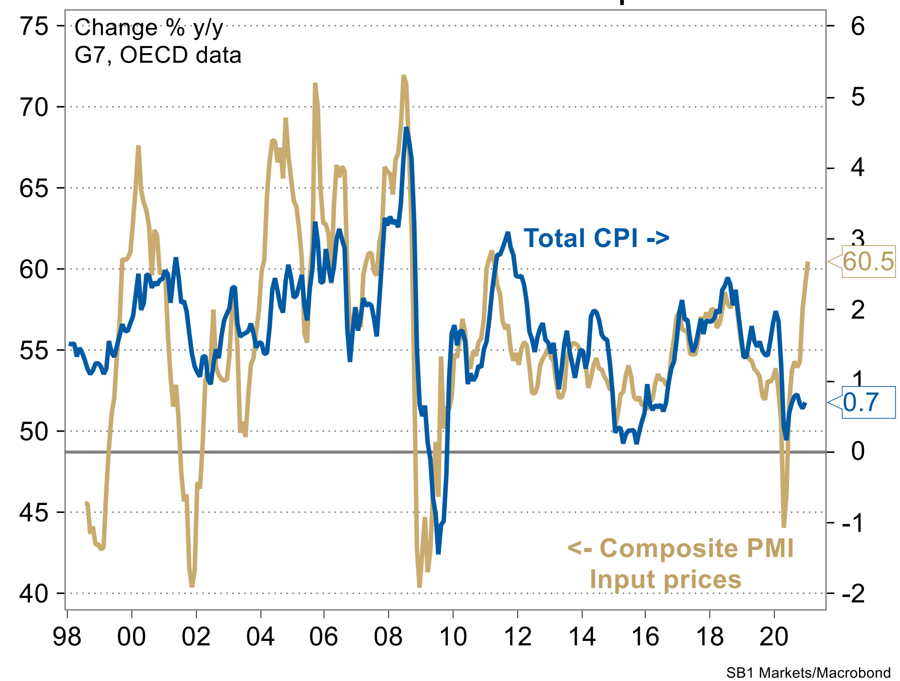
Gobal Manufacturing PMI Prices



Global PMI Services Prices



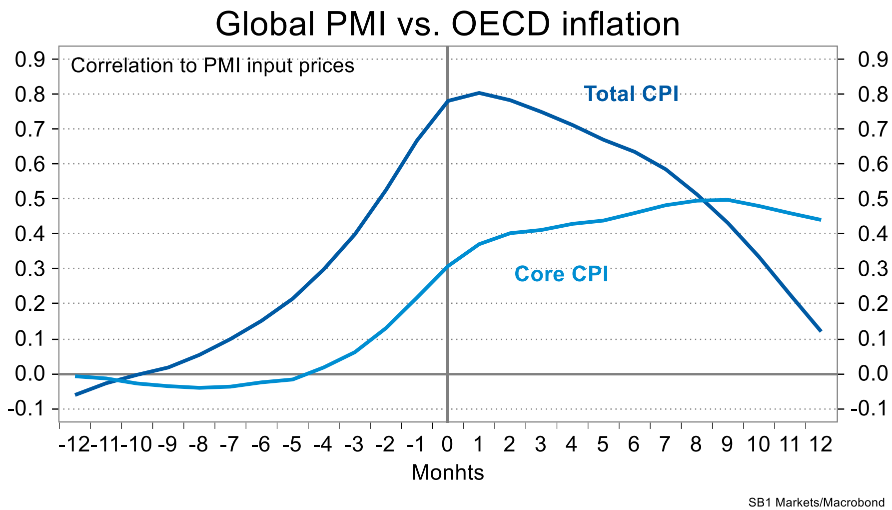
OECD Inflation vs PMI prices

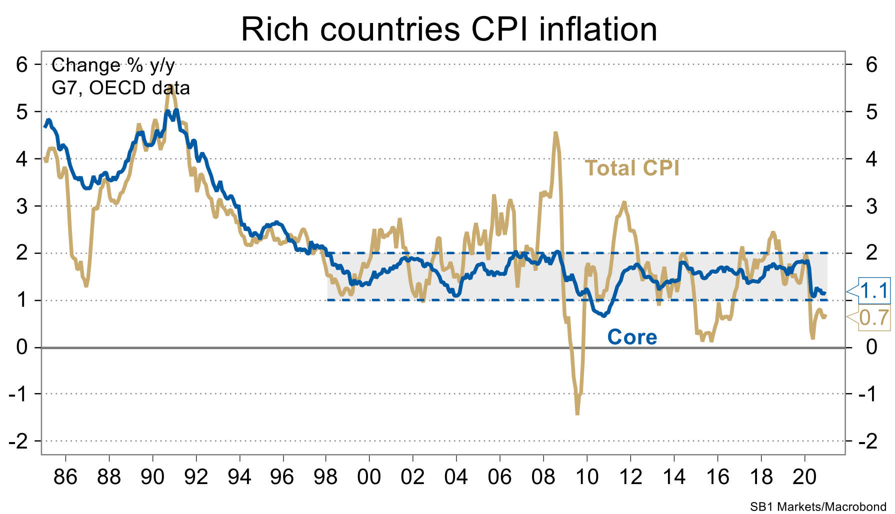


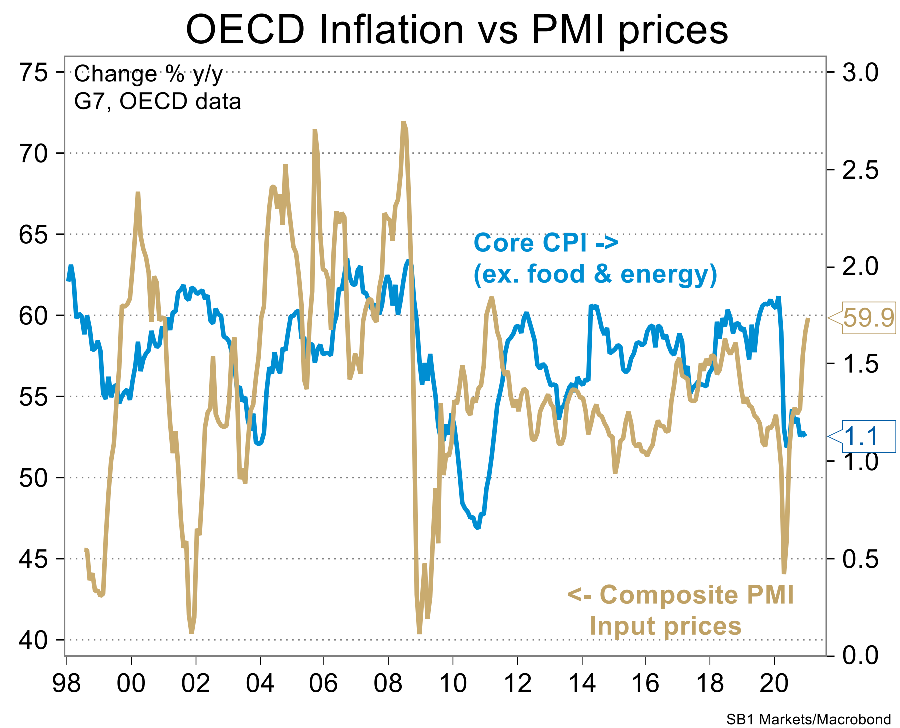
- **Both manufacturers and services** are reporting rapid increases in prices, both input & output prices – but output prices in the service sector slowed somewhat in Jan
- The correlation to **actual CPI inflation** is not prefect but pretty close. The PMI price indices are signalling a lift in headline inflation, from some 0.5% in rich countries now, up to 2.5 - 3%. Much is 'a done deal', as energy prices soon will be sharply up y/y

However, core inflation is not that closely correlated to the PMI price cycles

BTW, can you spot the continuous decline in inflation, into deflation at the bottom left chart??



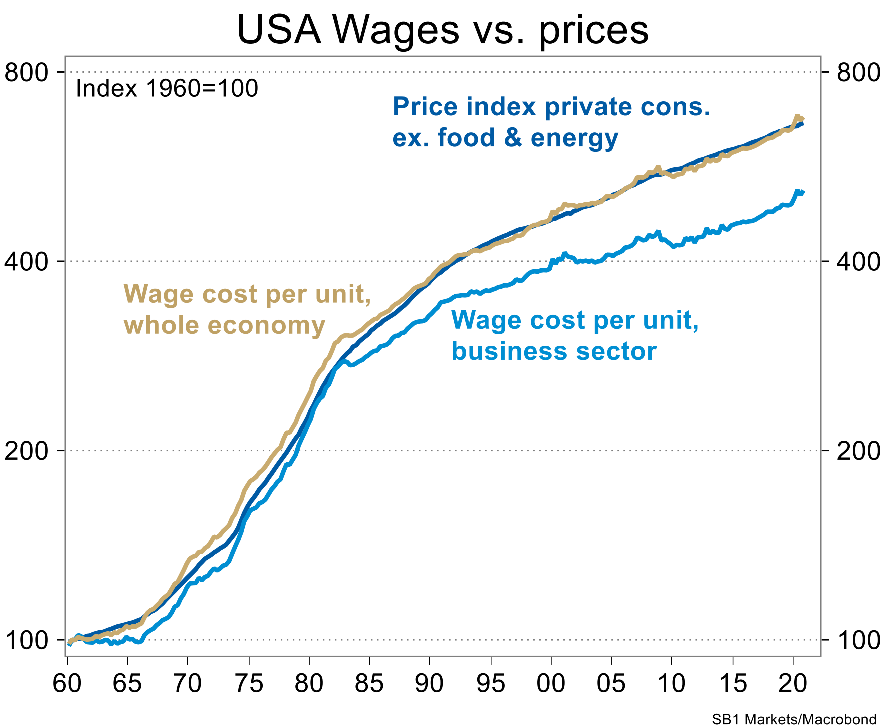


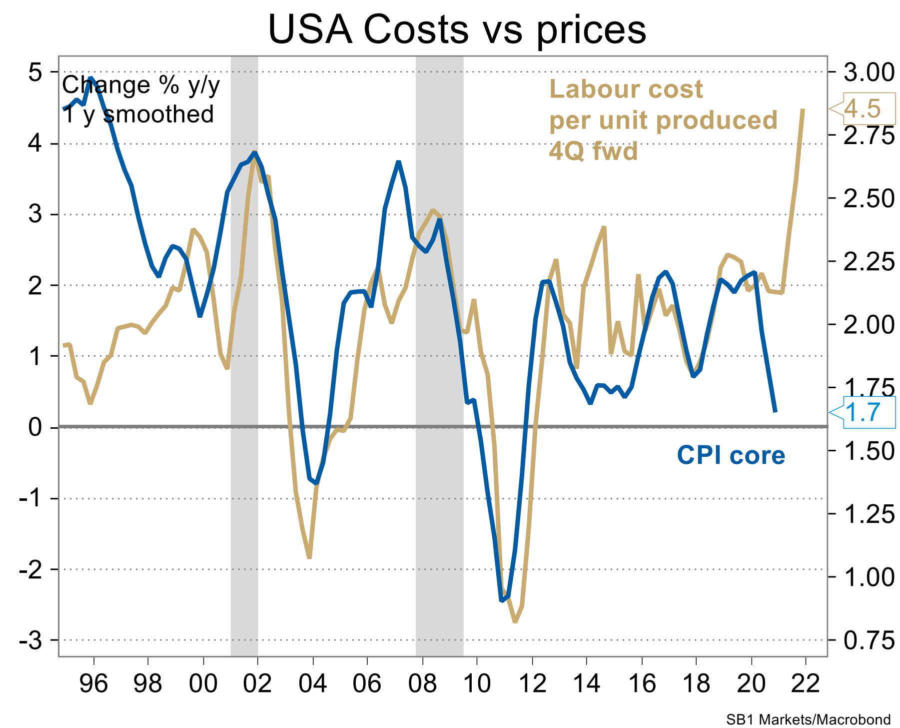


- Longer term, wage inflation & productivity is far more important for inflation than short term ups & downs in the economy/PMIs
- Wage costs per unit produced have accelerated recently, but we are not sure the productivity & hourly costs are relevantly measure. Check next page & here

In the long run: Wage cost are driving price levels & inflation cycles

Unit labour cost have accelerated sharply through last year but we are not sure the data are relevant



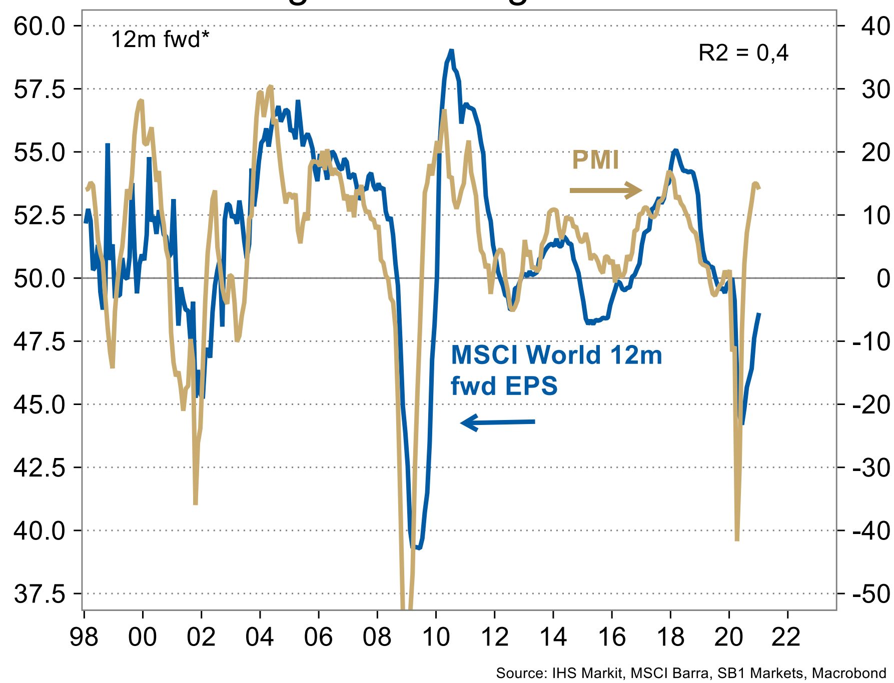


- Still, we keep our eyes wide open…
- Wage costs are clearly leading inflation cycles – and over time, wage cost level equals the price level
- More on the cost data here

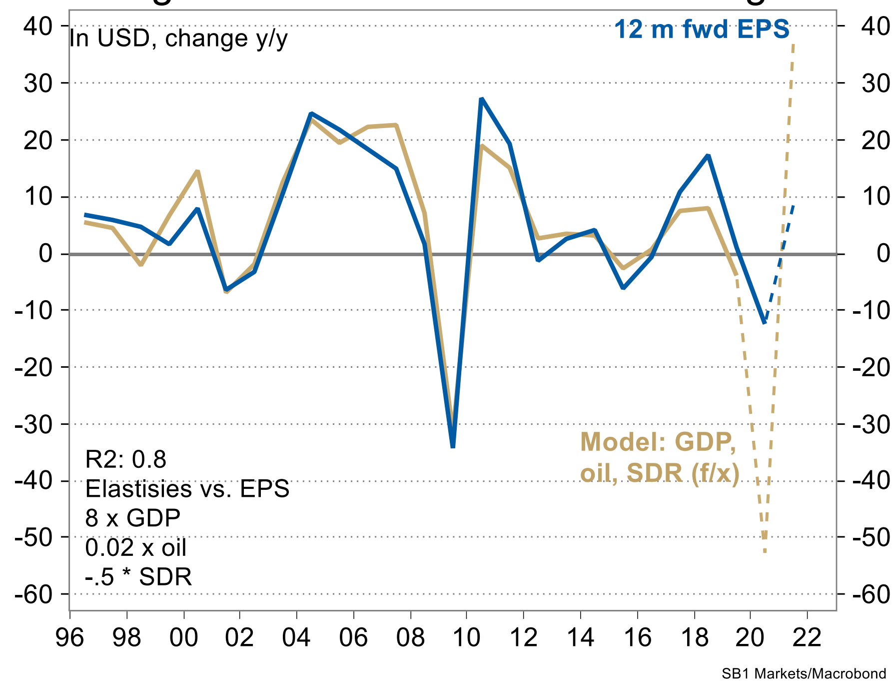
Profits should have fallen much more – but with a little help from your friends…

Government support at least explains the moderate decline in profits vs. the deep setback in the etc.

World EPS growth* vs. global manu. PMI



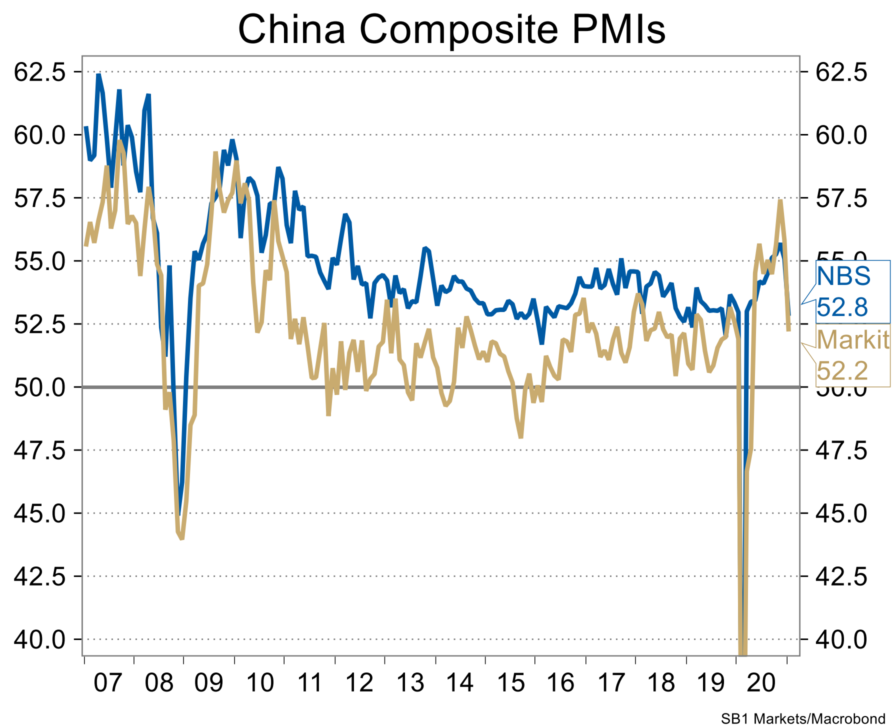
MSCI global 12 Months Forward EPS growth

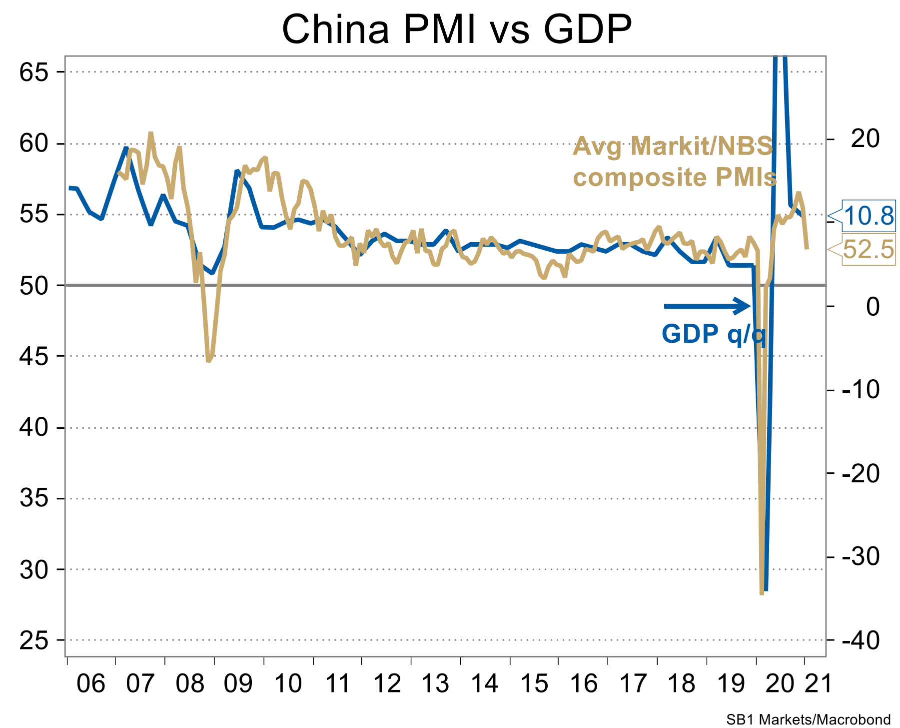


- Besides, the expectations of 'V'-shaped recovery, which have been confirmed for most sectors, has kept the 12 m forward earnings expectations up
- All in all: This was not a normal economic downturn – and traditional relationships do not fit in the usual way

The PMIs fell sharply in January but the level signals growth at trend

The 3rd largest setback ever, and far larger than expected, with services in the lead



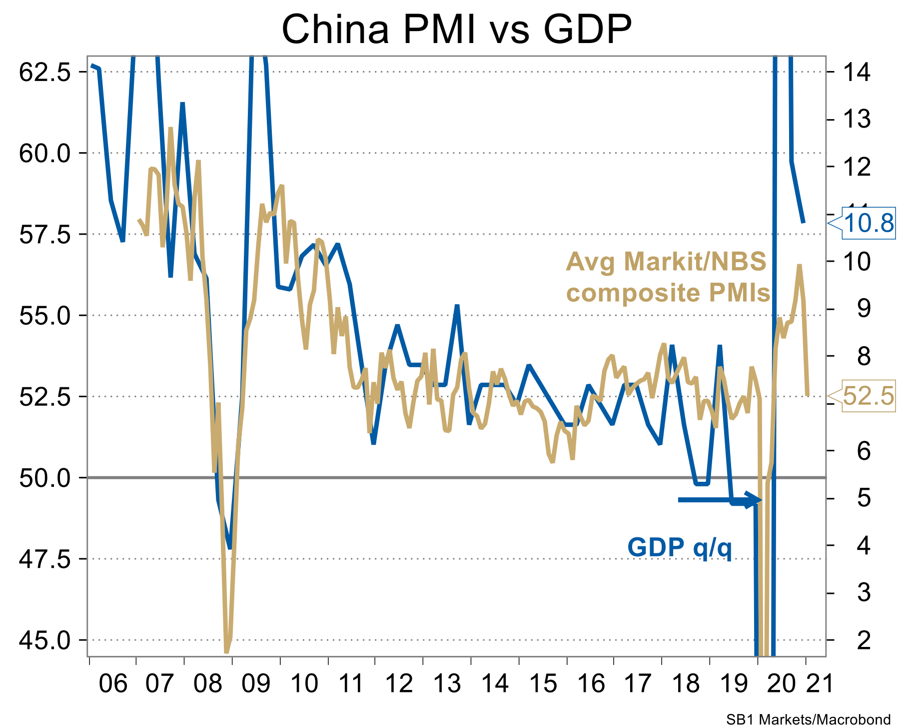


- The average of the two PMIs fell by 3 p, the 3rd largest monthly setback ever
  - » The service sector reported the steepest setback – but even services are reporting growth
- In H2 '20 China grew at the double of any reasonable estimate of trend growth rate, and the GDP level was above the pre-corona growth path. Thus, a slowdown was inevitable. Authorities have tightened credit somewhat. However, we doubt they want to curb growth too much. (The recent rapid hike, and then normalisation in short term money market rates was just an accident, not a policy signal)
- The Jan PMI levels are not signalling a slowdown to below trend (see next page too) but surely, the steep decline in one month could signal something more to come. The Feb & March surveys will be exiting
- Other surveys are not signalling an abrupt halt in the Chinese economy

… a closer look, at 'normal' times: The PMIs are signalling a 7% growth pace

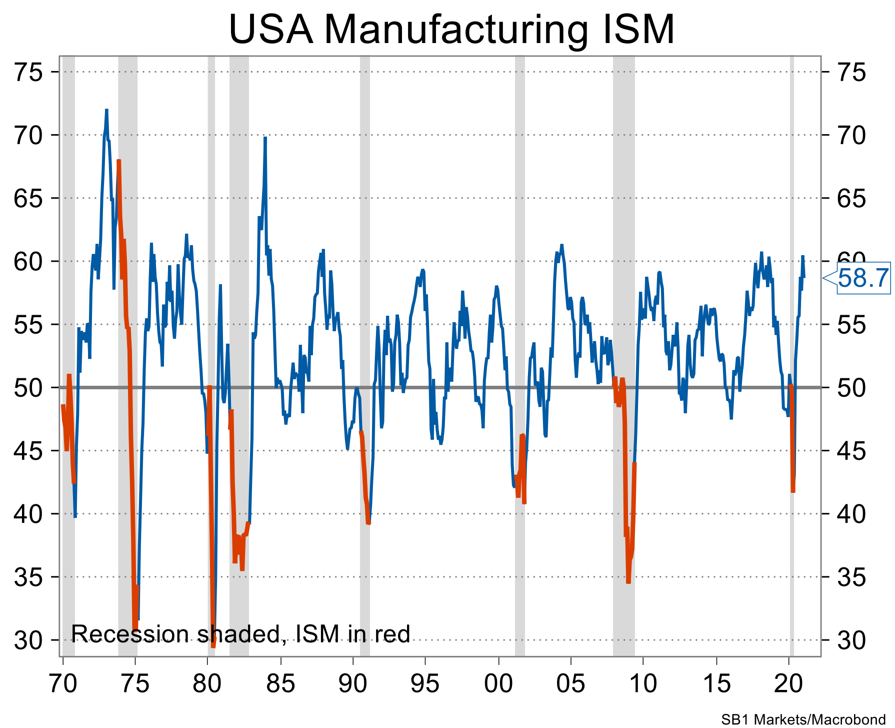
In H2, growth at 11-12%, and will anyway have to slow soon. The PMI doesn't indicate more than that

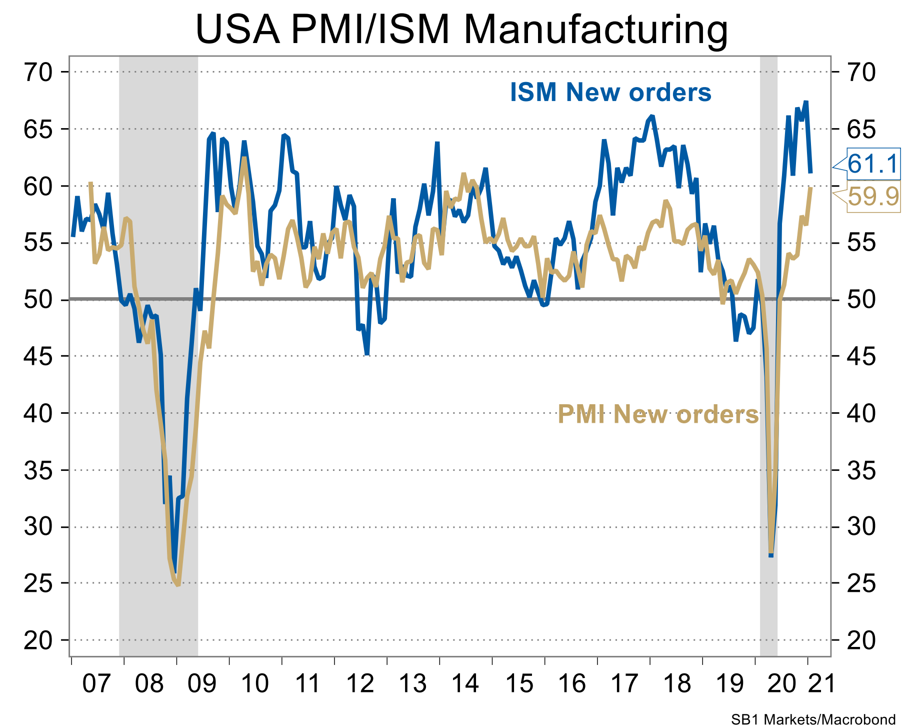
- The PMI levels are close to the average past 10 years – and do not signal a slowdown to below trend growth



Manufacturing ISM declined in January, but level still far up in the sky!

The ISM surprised on the downside, dropping 2 p to 58.7, expected down to 60. Still 58.7 is not bad...

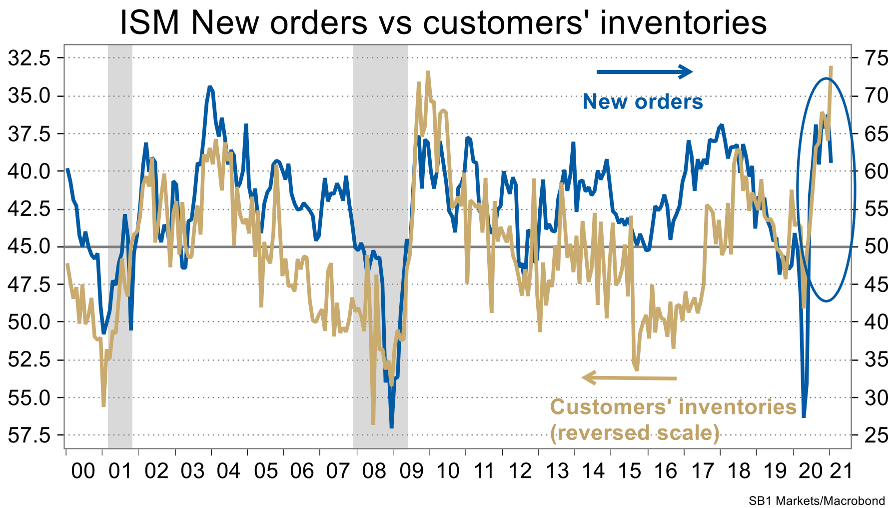


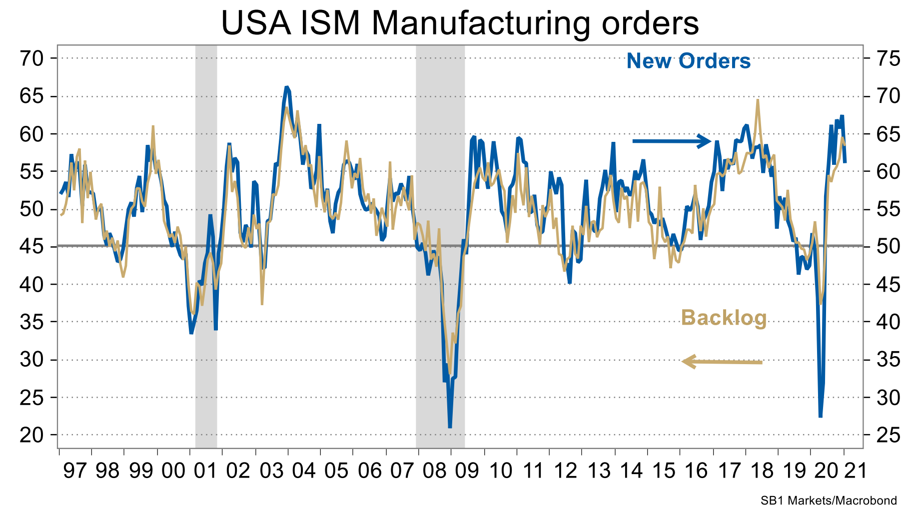


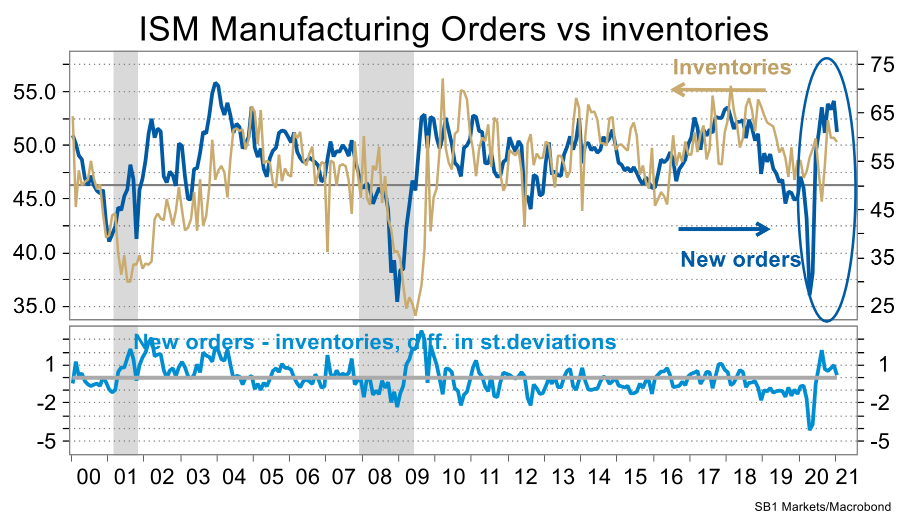
- 16 of 18 manufacturing sectors reported growth in January, just printing and petroleum down
- 26 groups of commodities were up in price m/m, like in December, where 10 new commodities were added. Just one, caustic soda, was down. A lot of commodities were in short supply too
- ISM and Markit's PMI new orders are converging – at a high level

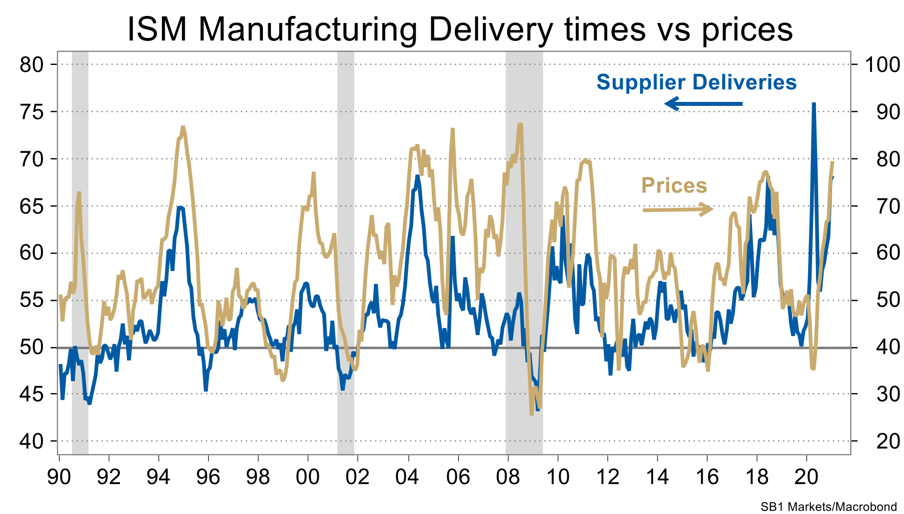
Growth in new orders down but still very high – and prices are soaring

Customers' inventories are falling, like never before – they will have to order, big time! Prices??



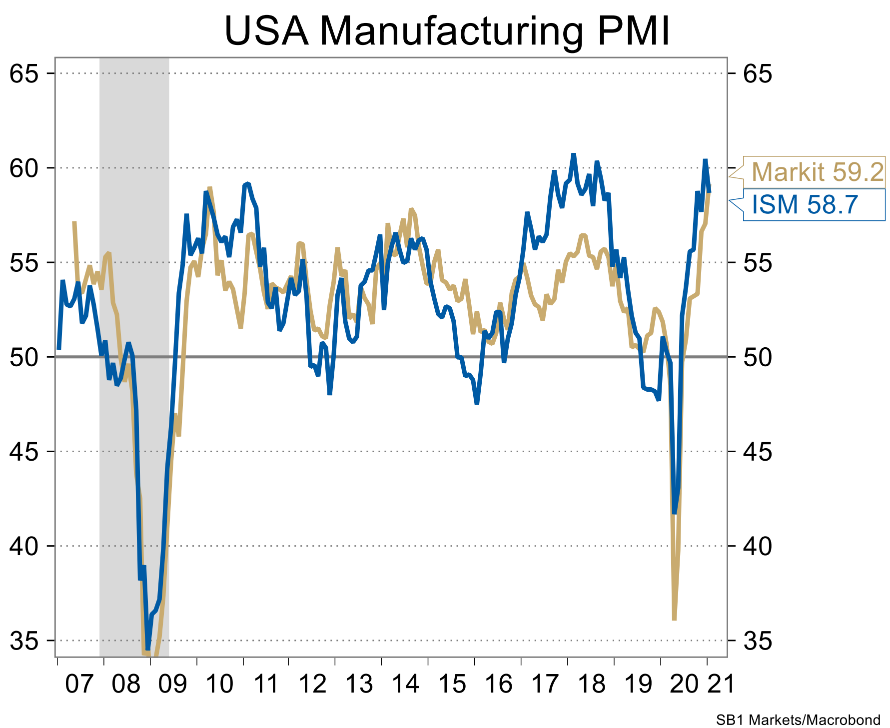


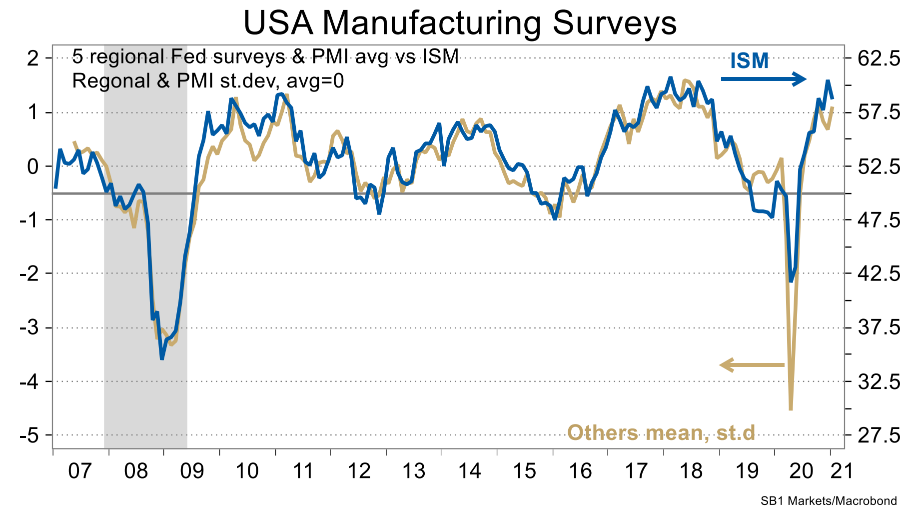


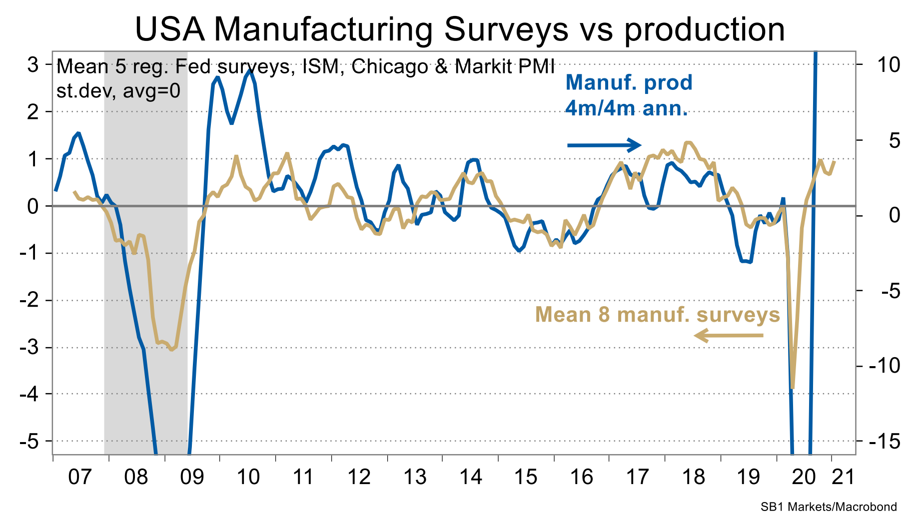


Markit's manuf. PMI a tad down in Jan, but Manufacturing ISM up to ATH!

The average of the two up to record high too - signalling strong growth in the US manuf. sector







- Markit's PMI shot further up, by 3.1 p to 59.2, to the best level ever (data from 2007).
- Other surveys rose as well but the average level was a tad lower the for the ISM/PMI

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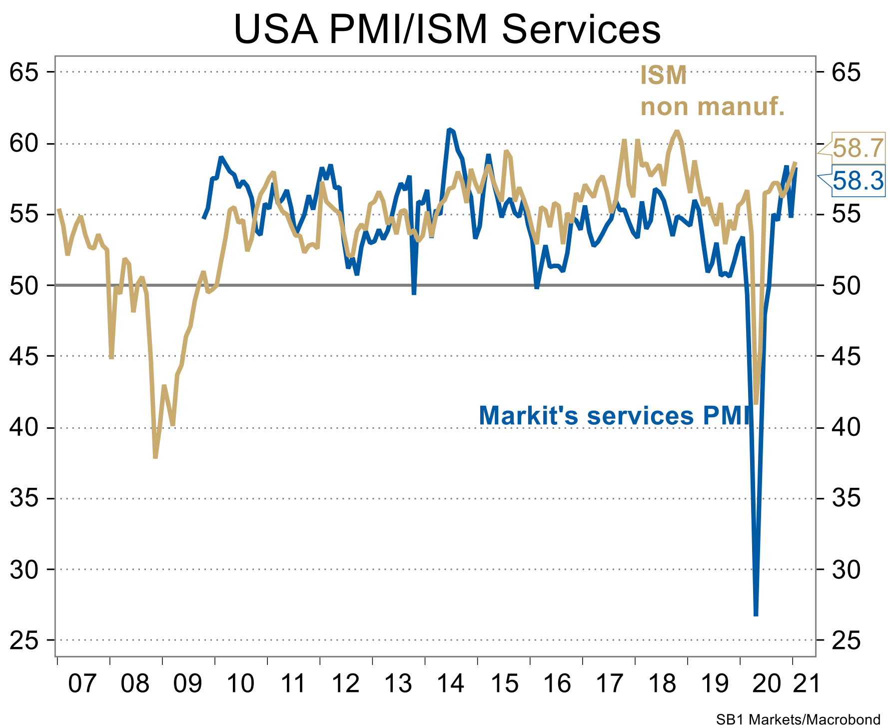
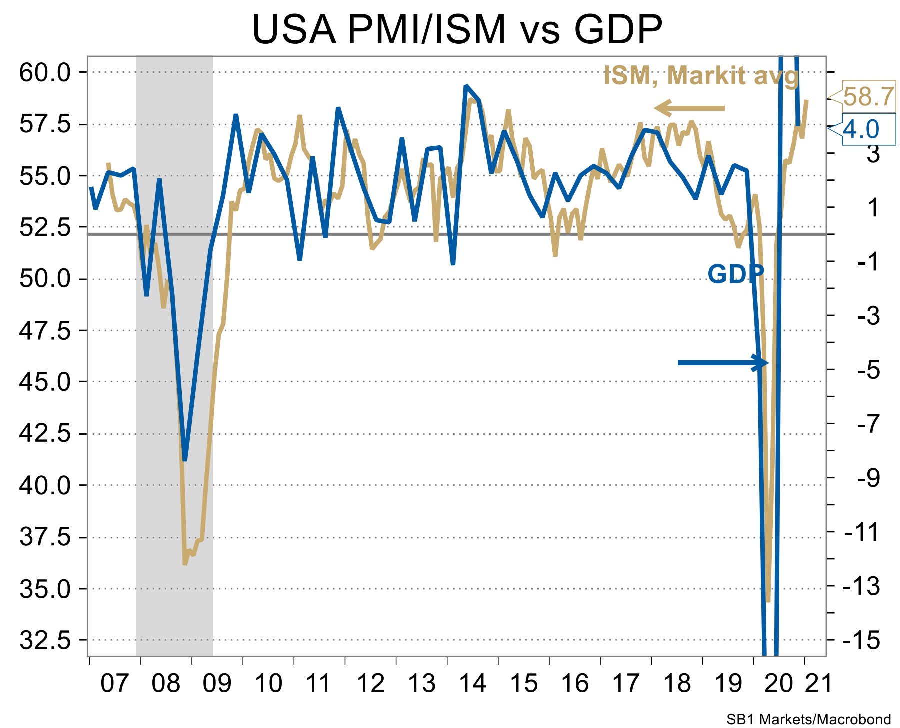
The composite ISM/PMIs at ATH signaling 5% growth, far above trend

The service sector ISM +1 p to 58.7, Markit's +3.5 p to 58.3. Strong growth in services too!!





- Now is the time for a huge fiscal stimulus package – and we need ZIRP, forever! (not)
- Well: PMI is a growth indicator, not an activity level measure! And the activity level is still significantly below normal!

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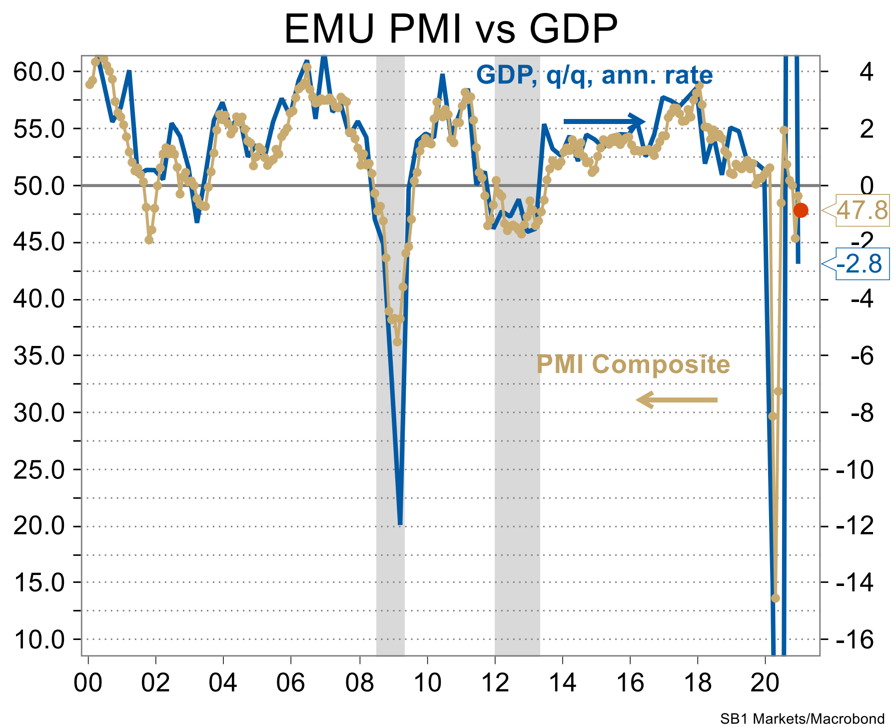
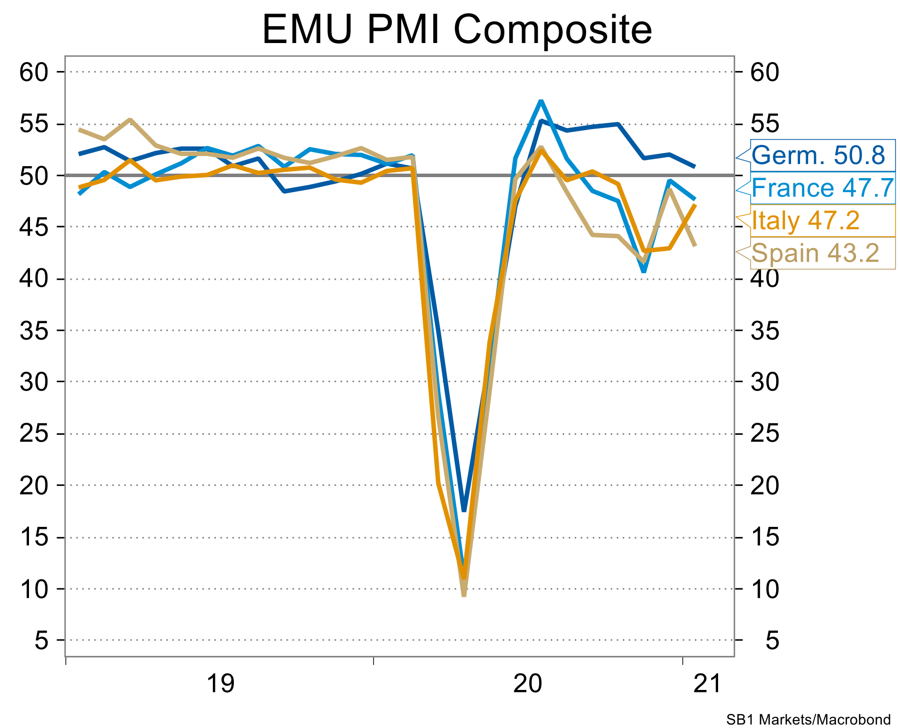
The service sector is putting a drag on growth but no catastrophe so far

The composite revised up 0.3 p vs. prelim. est. Services are still well below 50, manufacturing above

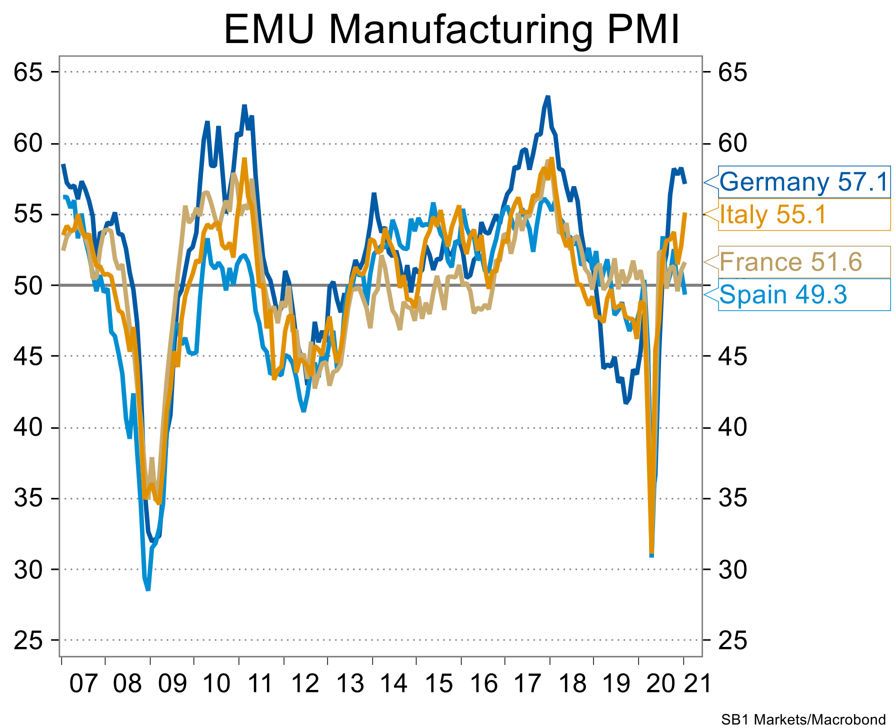


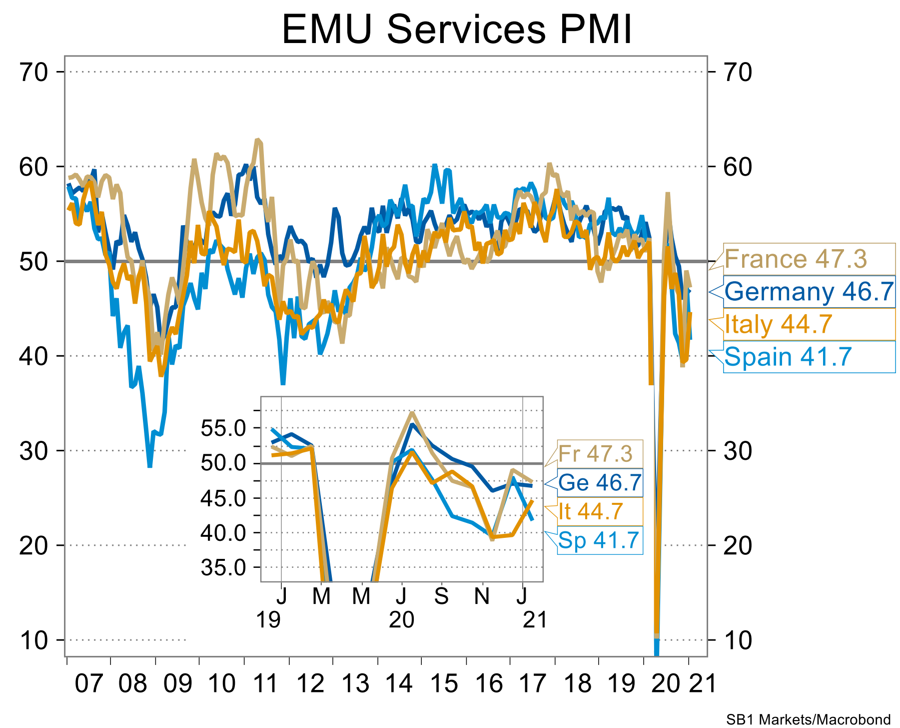


- The final **composite PMI** fell 1.3 p to 47.8 in January
  - » The Composite PMI is at a 7 mo. low in Germany – but the index still above the 50 line. The other big 4 are all below the water mark, Spain at the bottom
  - » The PMI was marginally higher than the initial estimate, but is still bleak
- GDP fell by 0.7% in Q1 (2.8% annualised), more than signalled by the PMIs. They now imply a 1% contraction pace in Q1 (-1/4 pp, not annualised), which seems somewhat optimistic.
- Still, the 2nd/3rd corona waves have created far less problems in the European economy than the 1st last spring, as the economic impacts of the current 'lockdowns' are negligible compared to unprecedented setback in March/April '20

A struggling service sector won't recover until virus recedes

It all hangs on the vaccine distribution in the EU (…which has not been impressive thus far)

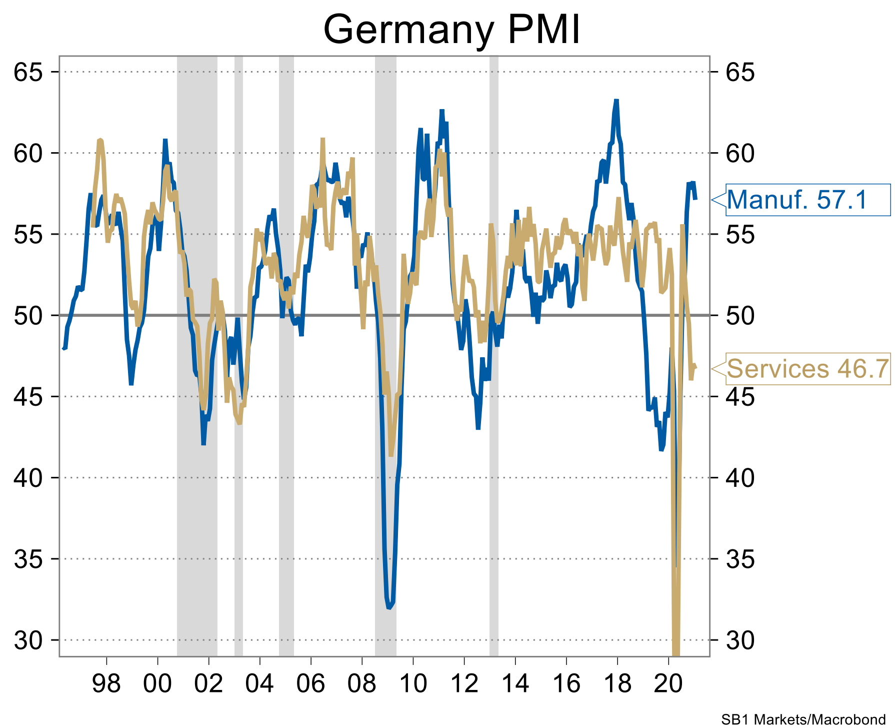


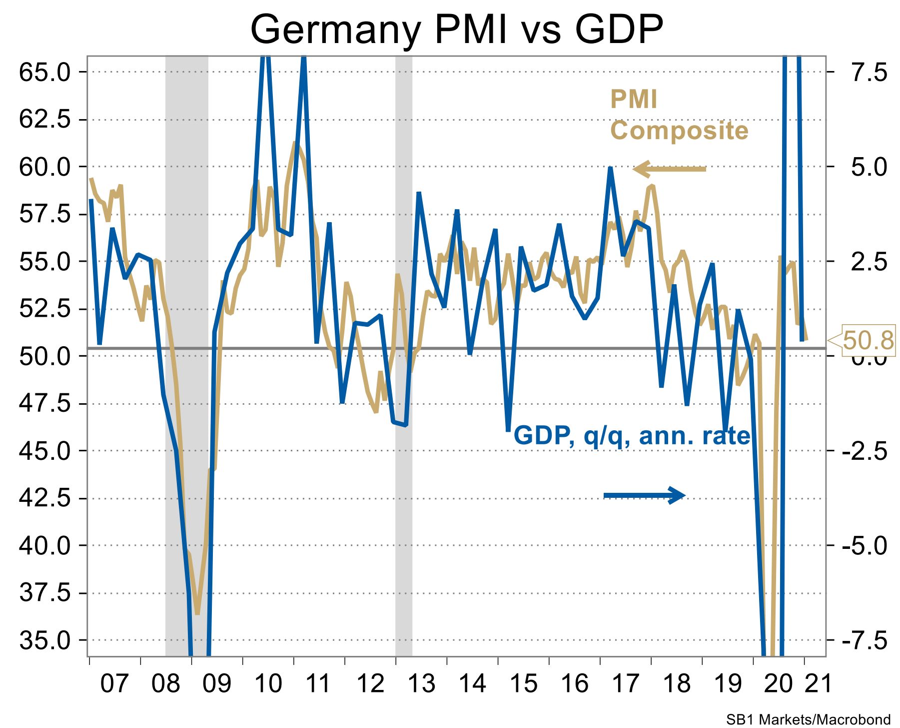


- The manufacturing PMIs rose by 2.3 p in Italy and 0.5 p in France, while it fell 1.2 p and 0.7 p in Germany and Spain. All but Spain is above the 50 line
- The service sector PMI fell

Germany: The PMI took a hit in January – manuf. still strong

Virus restrictions and supply-chain challenges are holding back growth





- The PMI still signals close to zero growth, equal to actual growth in Q4. The final outcome was close to the flash est. (0.1 p better)
- Germany has been in a lockdown since the beginning of Nov. Travel restrictions have been imposed on travellers from countries where virus mutations dominate, and the lockdown is now extended until Feb 14th (or likely longer if no. new infections per 100' remains above 50 – and that's a tough hurdle, the level is now 170, and declining by less than 20% per week…)

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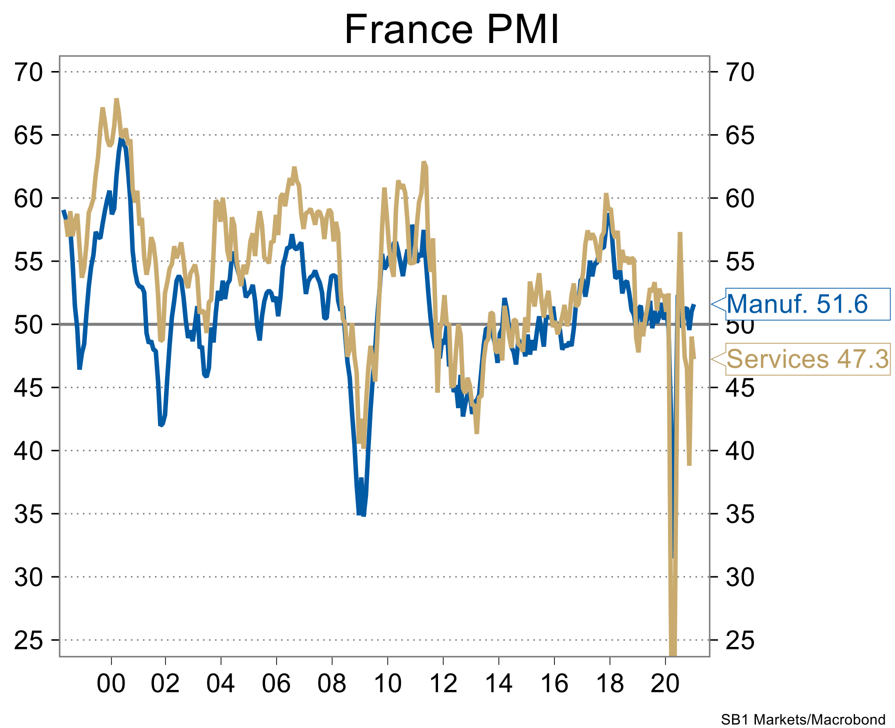
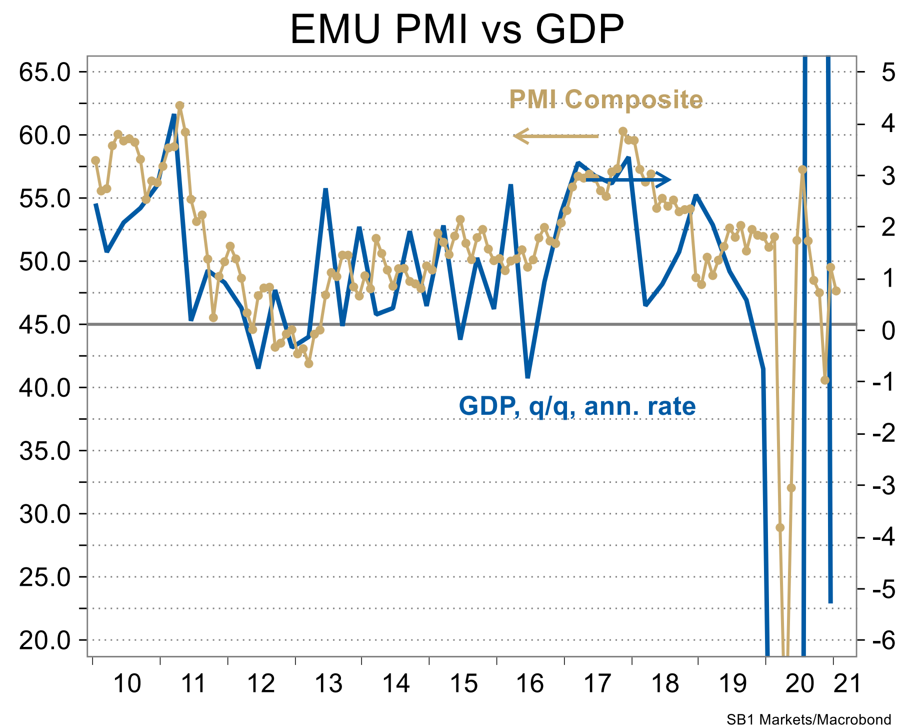
France: Jan PMI slightly better than first reported, signals flattish GDP

Manufacturing up in Jan, signals growth, services PMI down, signals a mild contraction

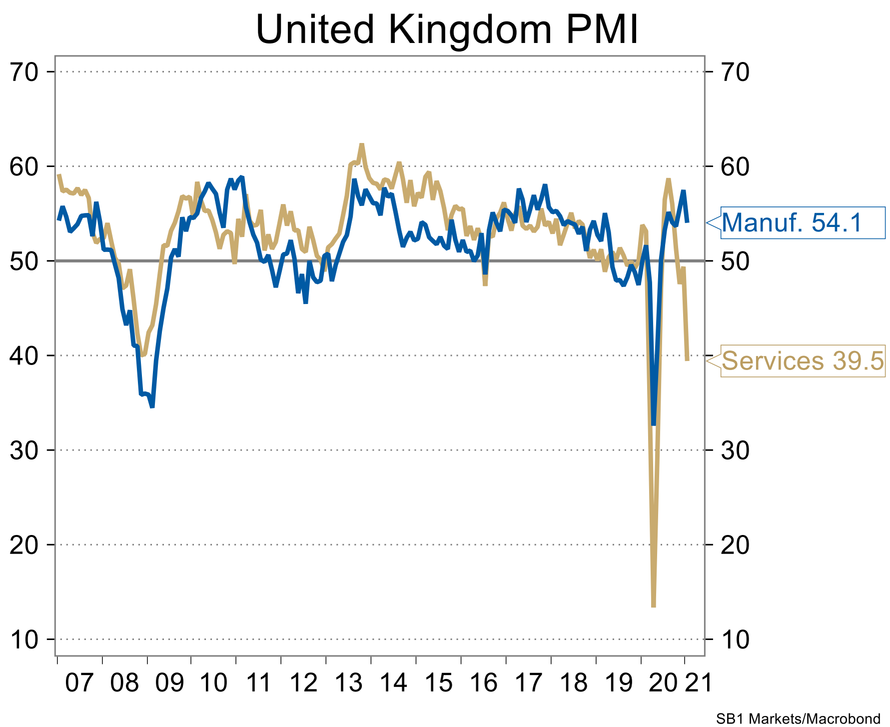


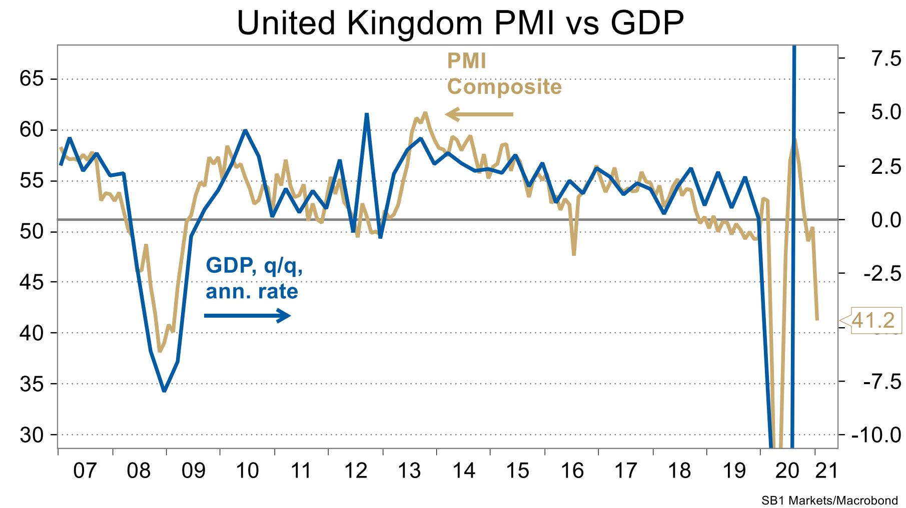


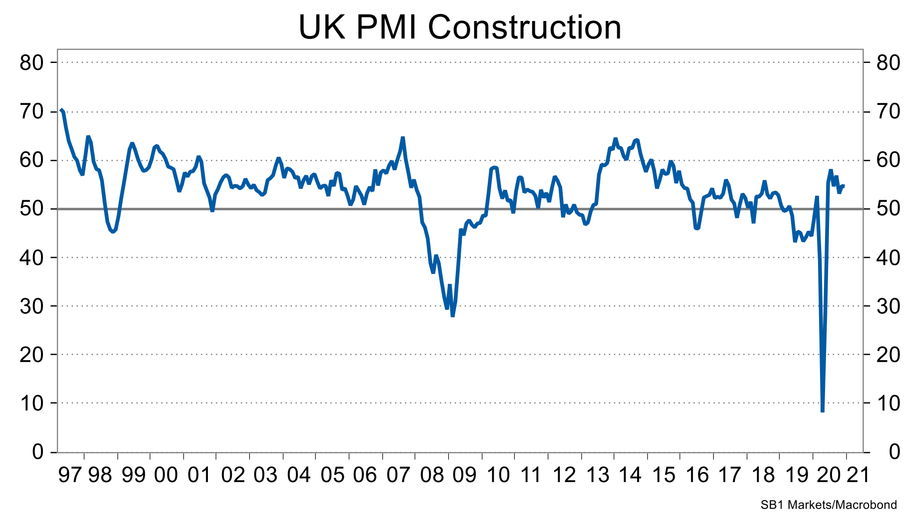
- **The service sector** index at 47.3 is far better than in November (below 40). Mobility has increased substantially, after corona cases were brought down to 'low' levels. However, corona restrictions, we assume mostly due to travel restrictions as a result of the mutated virus, hampered activity in hotels & restaurants
- **Manufacturing PMI** climbed 0.5 p to 51.6 in January – the fastest expansion of the manufacturing sector in 6 months. Survey also showed that while input costs are rising, due to corona effects, output costs remain at status quo.
- In **Q4 GDP** fell by 1.3% (5.3% annualised), significantly more than signalled by the composite PMI. However, the calibration vs. growth is not precise in France. Thus, the +/- 0 % Q1 PMI growth message has to be taken with a pinch of salt
- Businesses reported a neutral outlook vs. the current stance in the economy

UK: Services sharply down but nothing like last year, and manufacturing still OK

Keep calm and carry on - a (volatile, and not leading…) future index the best since 2014!



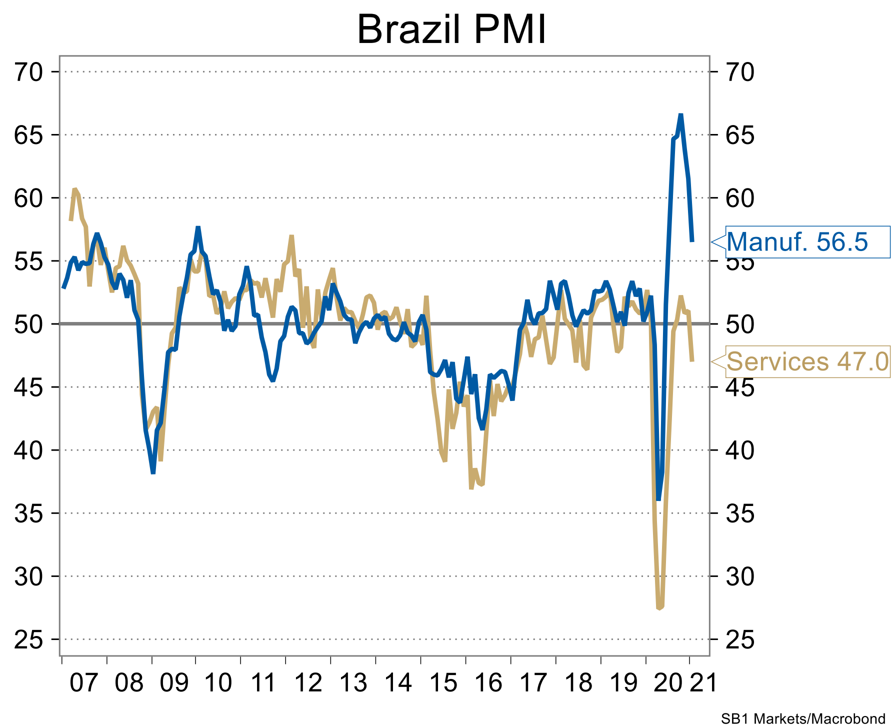


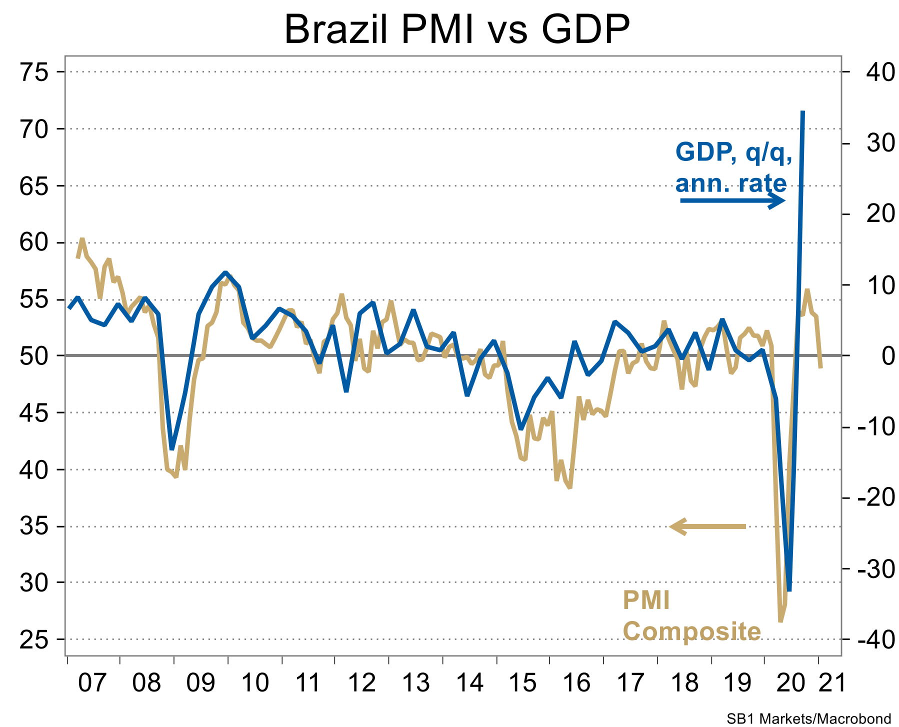


- This is nothing like last April!!
- Both manufacturing and construction are reporting strong growth in activity in January, and services are reporting a far milder contraction than last year
- However, the PMIs still signal a GDP contraction into Q1!

Brazilian economy suddenly in contraction mode again

Composite PMI fell to 48.9 in January from 53.5

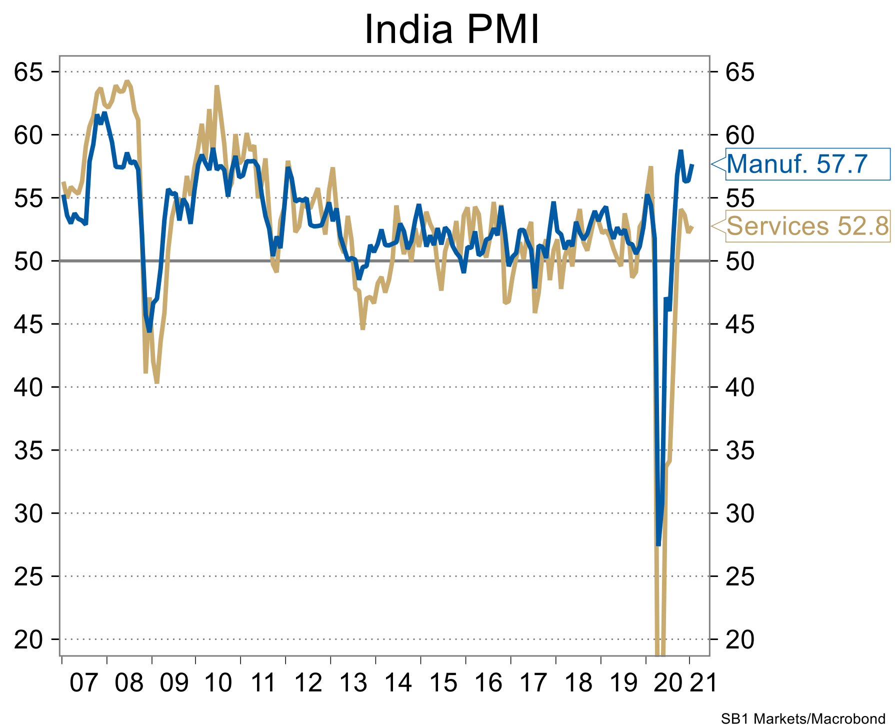


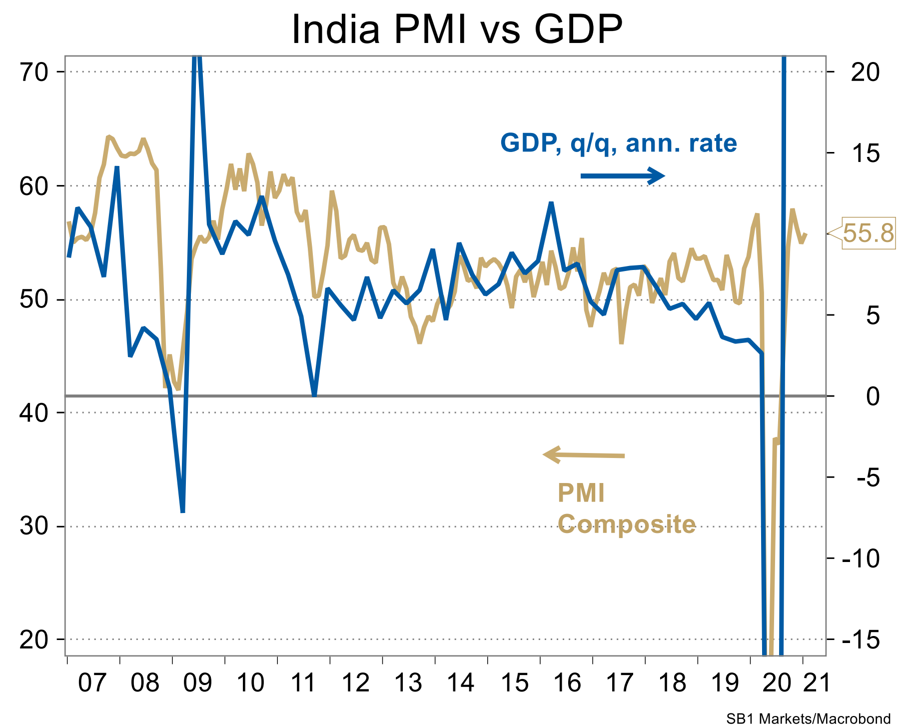


- Manufacturing sector still expanding, but the PMI fell by 5 p to 56.5 from 61.5 and has been falling for 3 consecutive months
- The service sector PMI fell 4 p to 47, dropping below 50 for the first time since August
- Composite PMI signals a 1-2% pace of contraction in GDP
- All other Brazilian surveys report a small dip in Dec/Jan but no a sudden halt (which the PMI almost does)

Stable growth at an above-average level, manufacturing in the lead

The recovery continues with at 10% growth pace, according for the PMIs

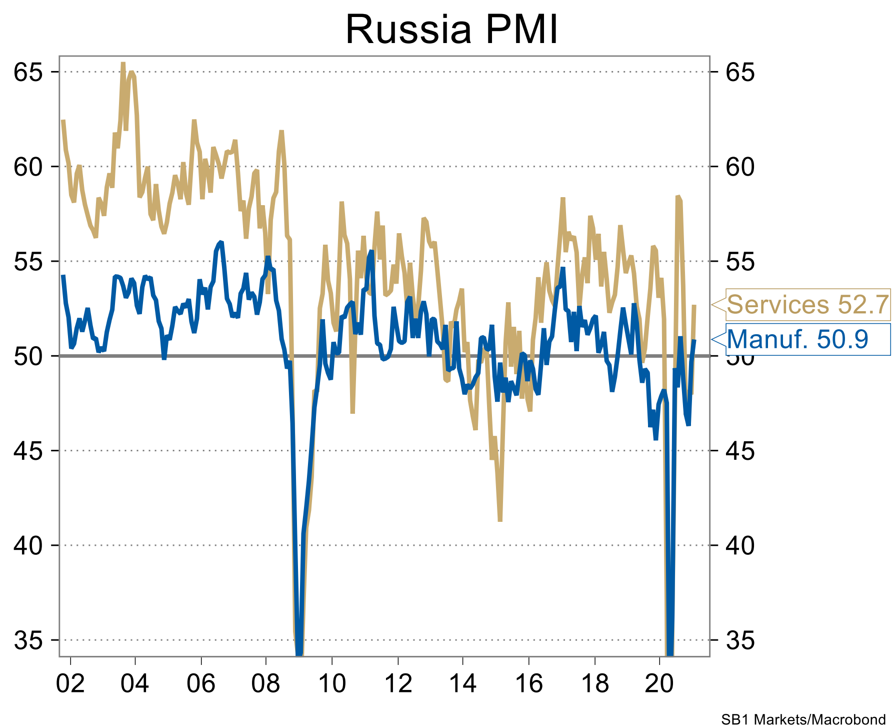


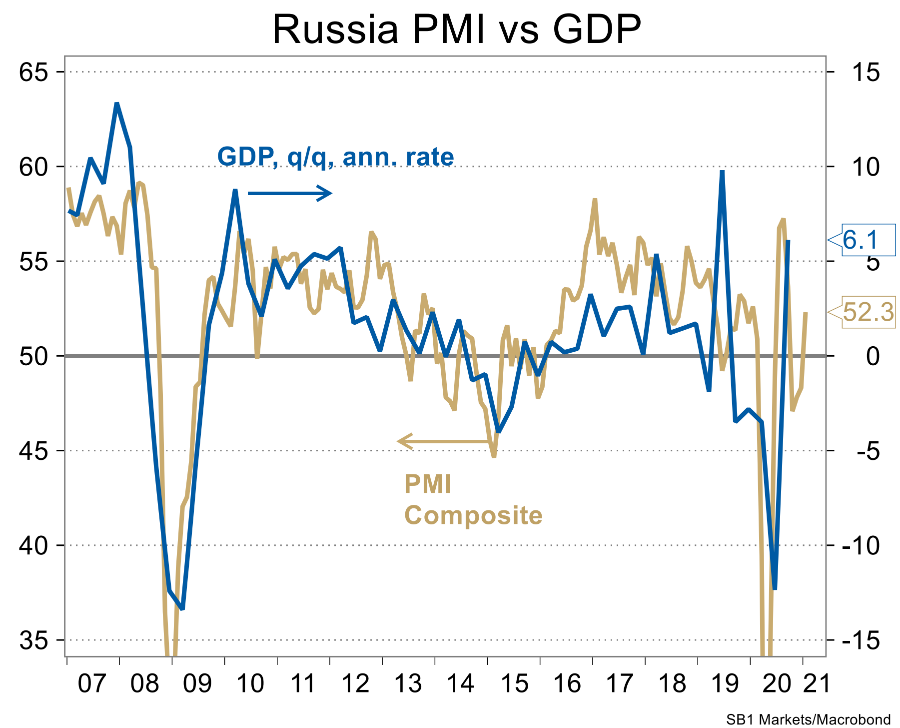


- The manufacturing PMI gained 1.4 p while the services PMI was up 0.5 p in January
- No corona trouble, at least according to official figures
  - » The no. of corona cases peaked at below 100 (pr 100.000 over 14 days) in Sept, 5% of 'normal' peak levels in Europe ☺. Since then the no has fallen continuously, down to 'zero' (to 12 , Norway is at 71). The no. of deaths has followed suit, and total deaths equal 10% a 'high' European or US level. We do not take any responsibility for these corona data, after the harsh lockdown last spring, the economy has gradually recovered, and it is now most likely growing above trend. Auto sales are at the best level in 3 years

Russia's economy is expanding again in January

Both manuf. & services up to above 50 again, and the composite signals a modest growth





- Manufacturing PMI rose by 4 p to 52.3 in January
- Service sector PMI was up 4.7 p to 52.7
- Strongest private sector optimism since October 2019, according to Markit

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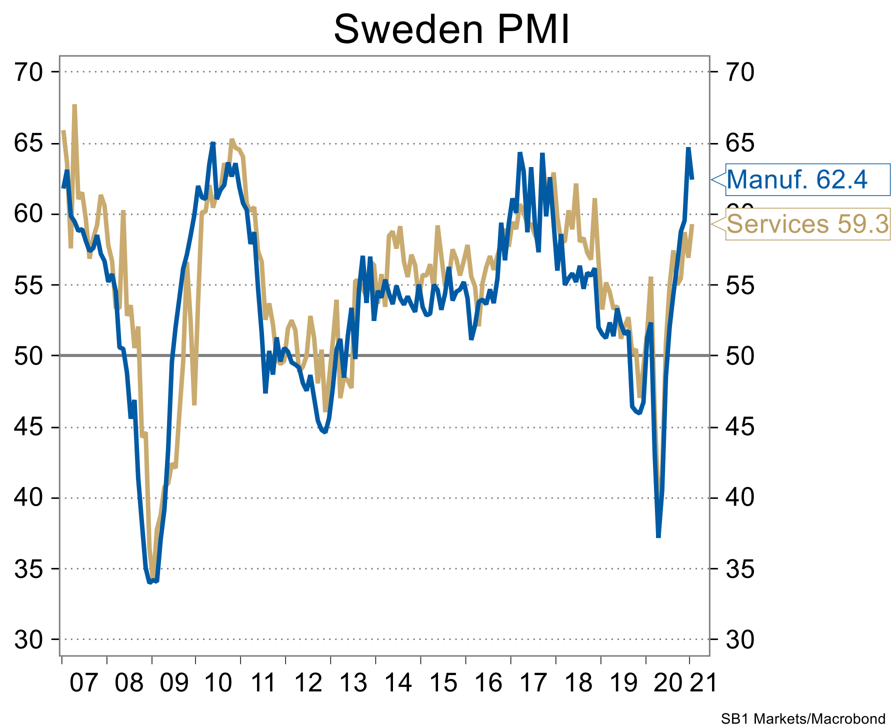
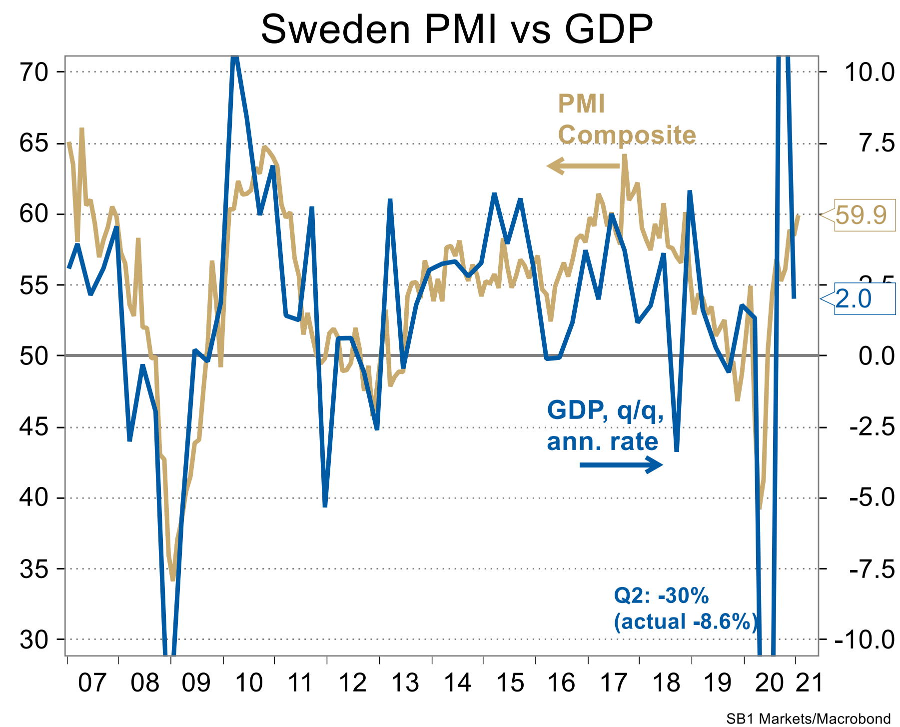
Sweden still look rock solid, the composite PMI up – signalling a <u>5%</u> growth pace

Manufacturing PMI down 2.5 points to 62.4 in Jan. Services up 2.7 p to 59.3, a very strong print

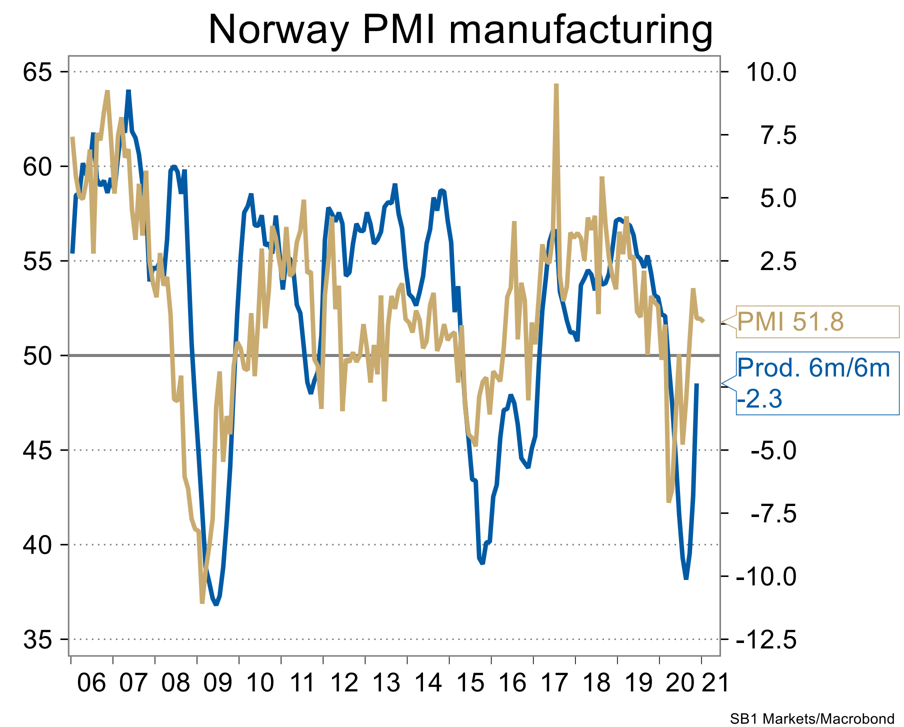


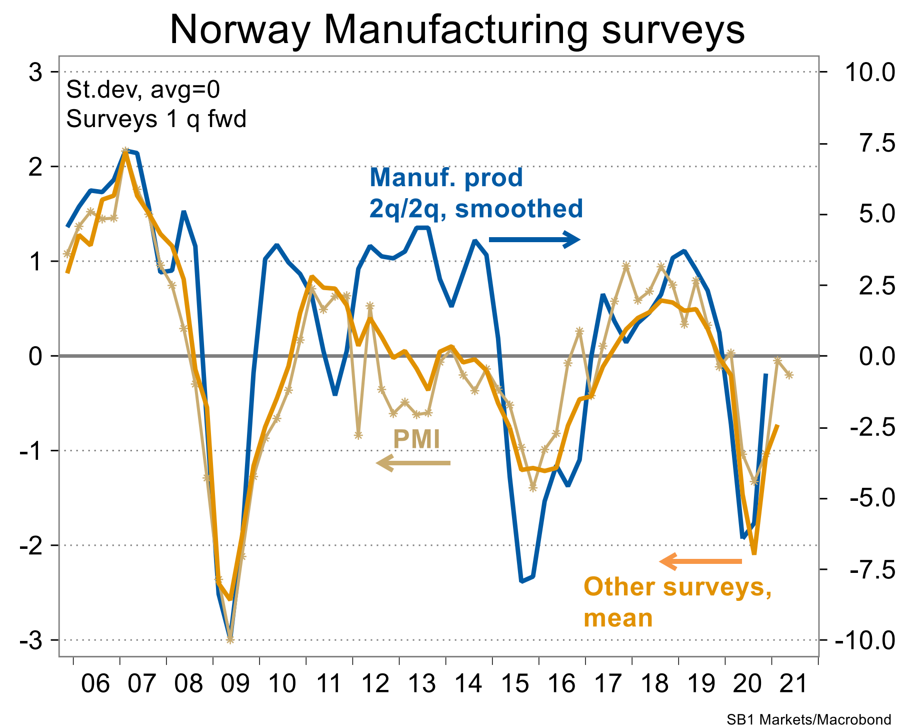


- <u>The Swedish PMI is at the top of the global ranking, both manufacturing & services!</u>
- In November, the Riksbank expected another downturn due to the corona outbreak, and turned the QE tap further. So far the fear does seem to be warranted (as we not believe that the incremental lift in the QE program explains the continued strength in the Swedish economy)
- GDP grew by 0.5% (2% annualised) in Q4, and both the PMI and other business surveys signals a decent growth pace into Q1

PMI down 0.2 p to 51.8 (we exp. unch) – signals moderate growth

The Norwegian PMI is volatile but 4 months above the 50 line signal a moderate expansion

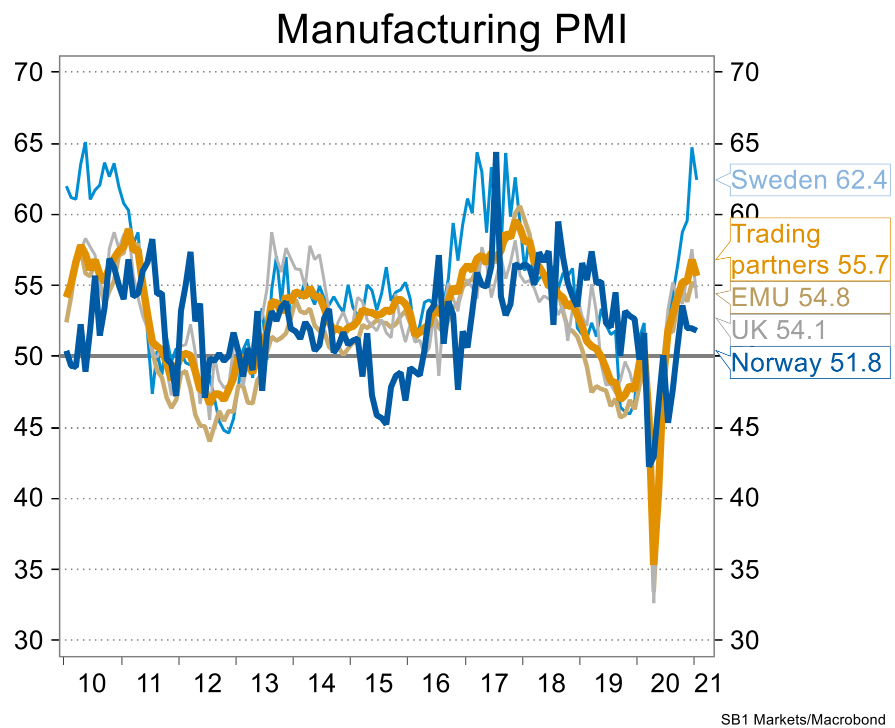


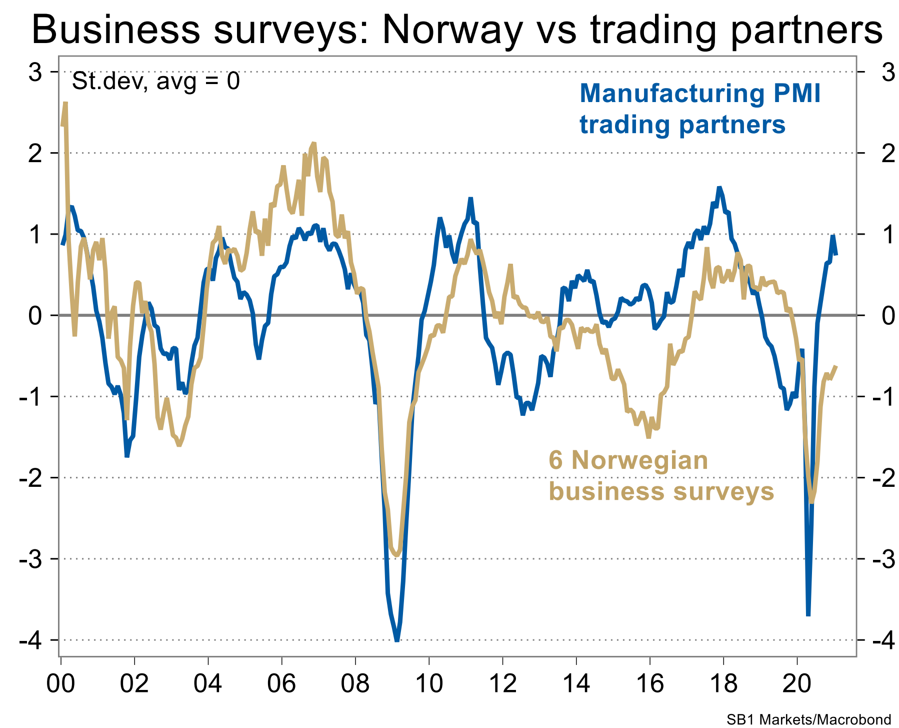


- … following the contraction in the first part of 2020. Production is now heading upwards, *check here*
- Other surveys have also turned up over the summer but the levels late last year was still well below average

Norwegian manufacturers follow others upwards – but are lagging

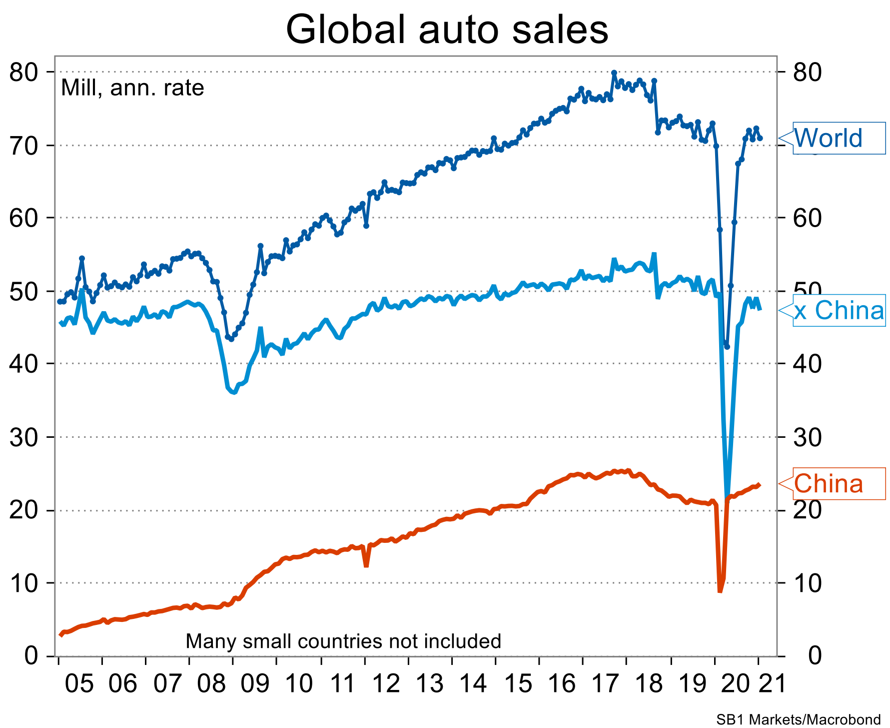
The downturn in oil investments is probably the best explanation

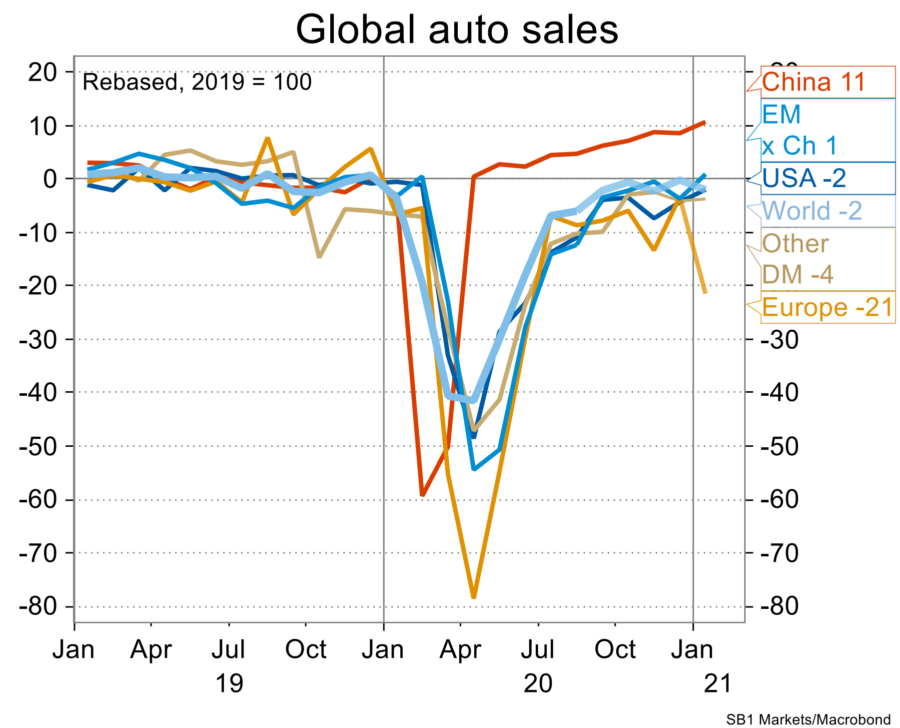




Global auto sales down in Jan, Europe (German VAT & UK corona) to blame

Sales in US and Chinas and other Emerging Markets up, European sales sharply down

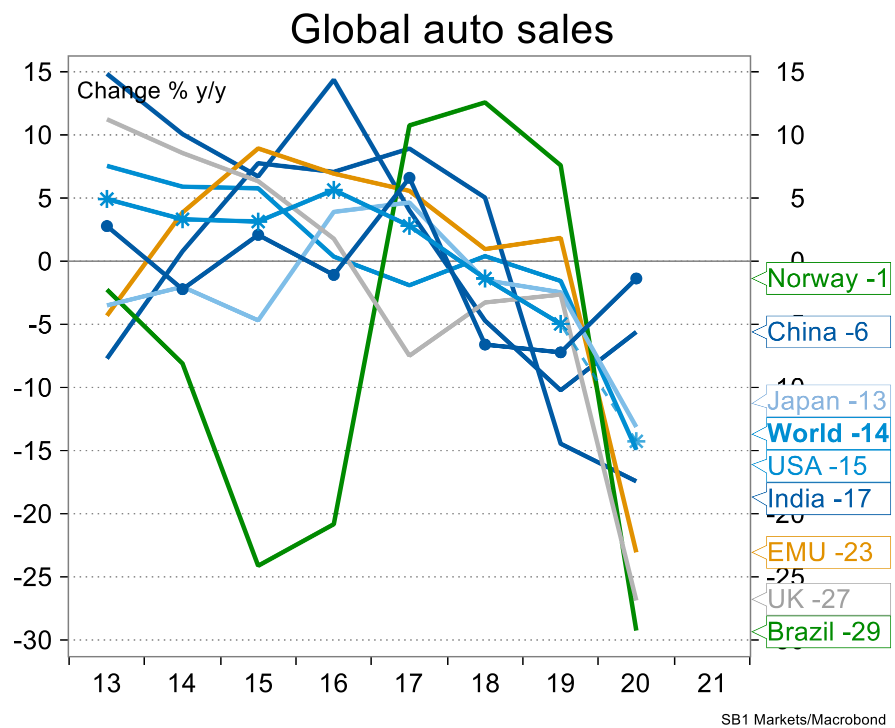




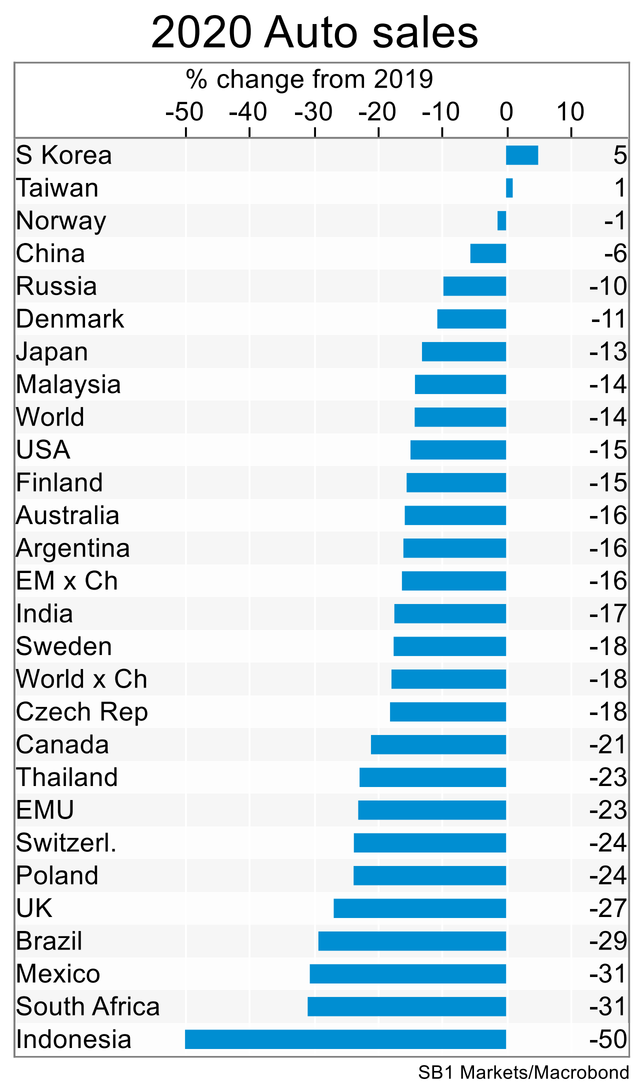
- Based on our preliminary estimates global auto sales fell some 2% in Jan, but remained above the Nov level – and sales are still trending up, due to a steady rise in Chinese sales.
- Sales fell sharply in Germany, Spain and the UK. Tax changes (and strong Dec sales) as well as the coronavirus to blame
- Chinese sales are 11% above the 2019 average, US down 2%, and Europe down 21%, from -3% in December.
- EM x China are back to the same level (+1%) as in early 2000, as sales in India are well above, and Russia has recovered

In the year of the corona: What happened to auto sales? Not one story, it seems

Norway down 1%. The next DM? Denmark -11%. The world down 14%

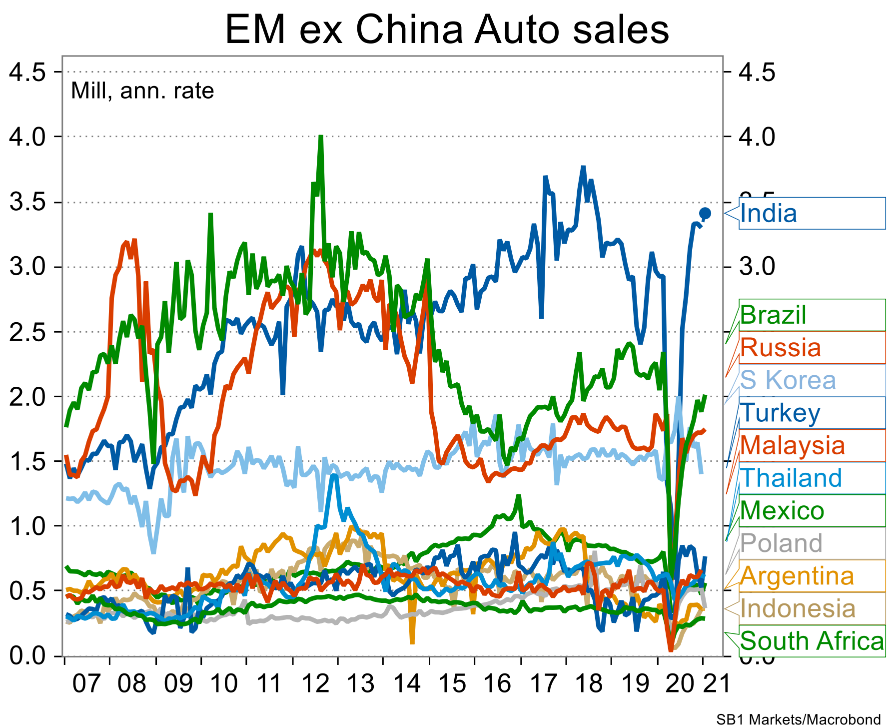


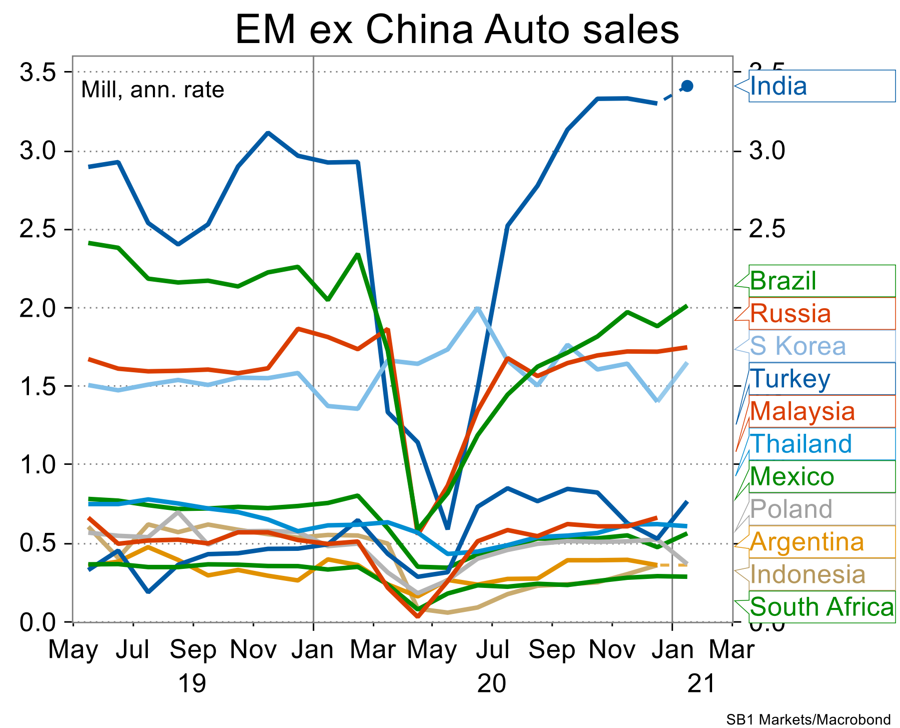
- Global sales down 14%
- China down 6%, US 15%, Sweden -18%, EMU -23%, UK-27%
- Turkey up 47%, following the 2019 disaster – not included in the charts



EM x China auto sales have recovered, India highest since early 2018, Russia OK

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



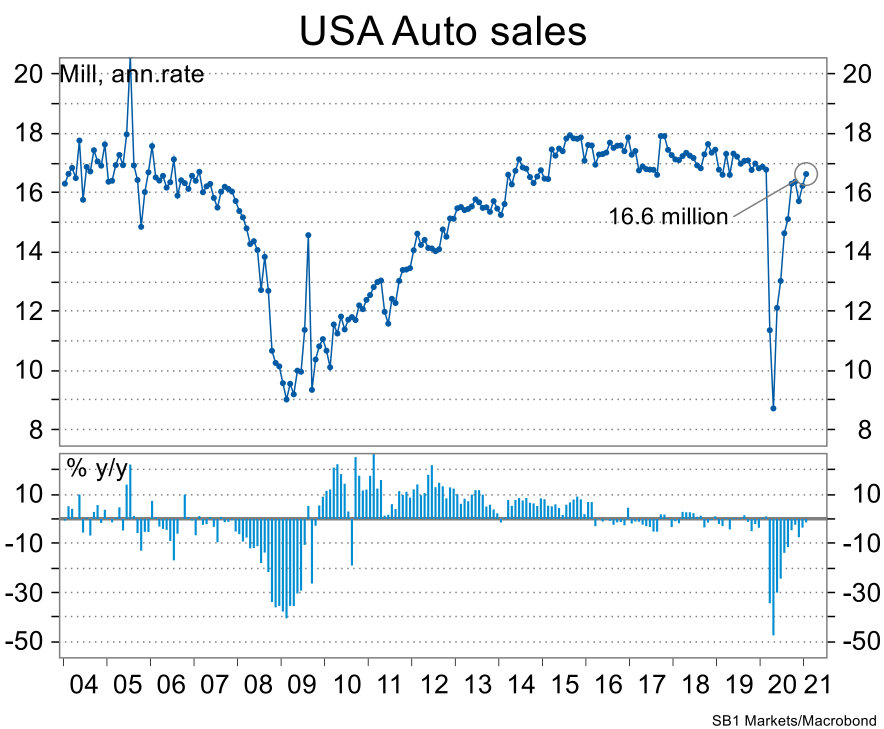


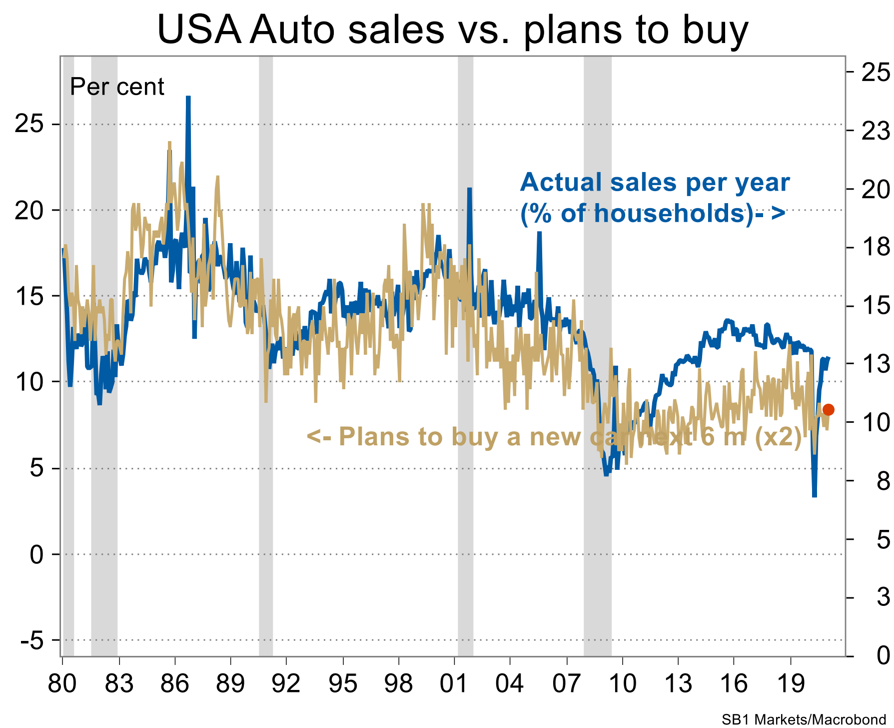
- Sales in India were probably the best since 2018, well above the pre-pandemic level!
- Brazil is trending up but are still 10% below sales last year. Russia is on par – and South Korea is above
  - » Turkey is this year's winner – and Indonesia the big loser

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

US auto sales up and better than expected in January

US sales up 0.4 mill to 16.6, expected 16.1 mill. Level 2% below the 2019 average

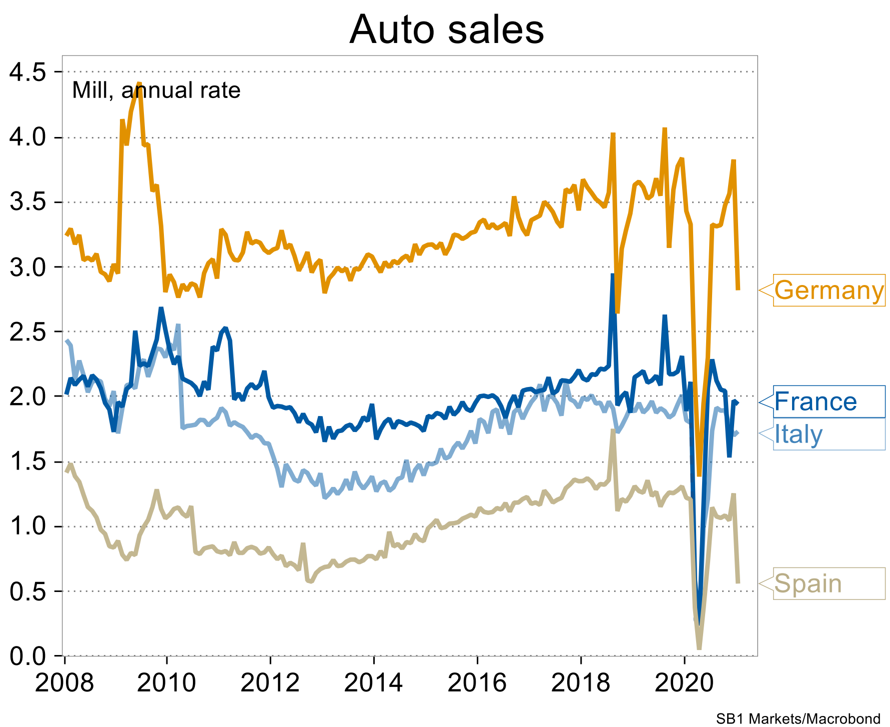


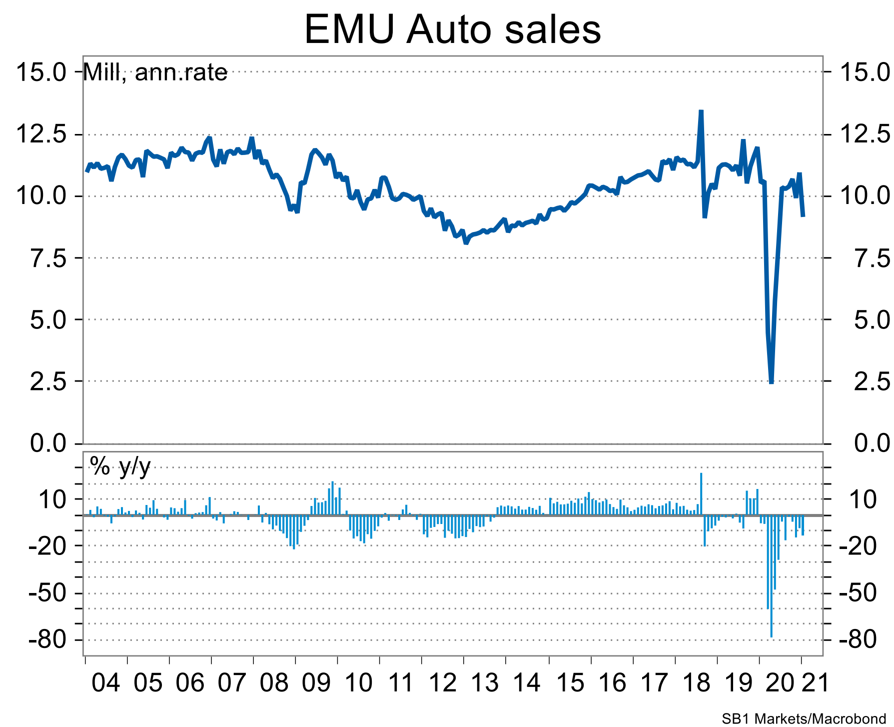


- Sales fell almost 50% in March/April. Most of the setback is now recovered but sales remain 3% below the pre-corona level – which was somewhat below the average sales the previous years
  - » Sales are close to the downward falling pre-corona trend. The peak was in 2016 (4 years before the current president was elected)
- Sales fell 15% last year, from 2019
- Households are not reporting aggressive plans for buying a new car, rather the opposite

EMU: Another bump in the road, sales in Germany & Spain sharply down

Both have been quarrelling with the virus in Jan. Sales in France & Italy below par too

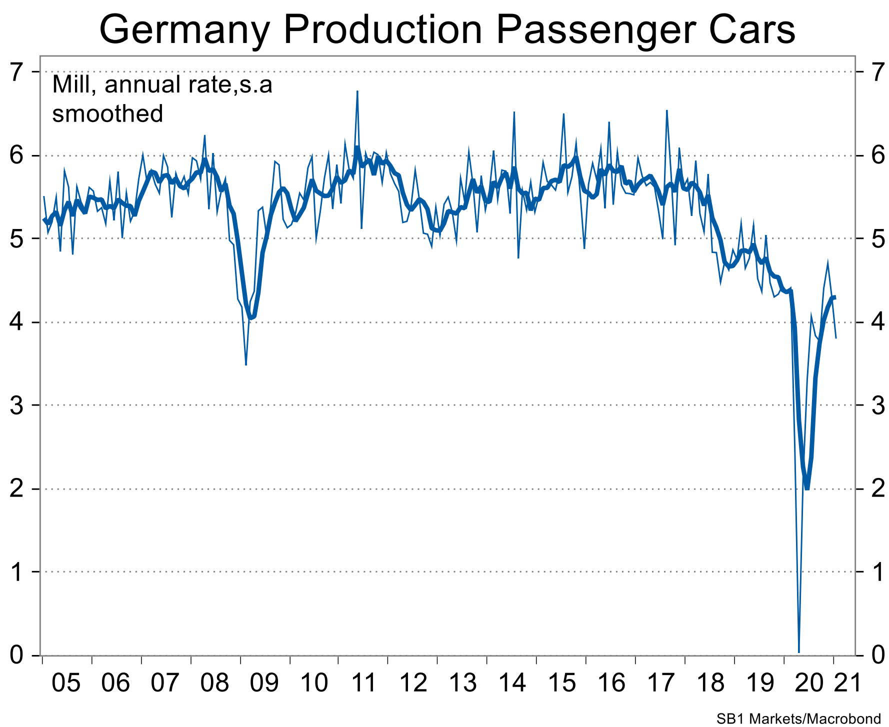


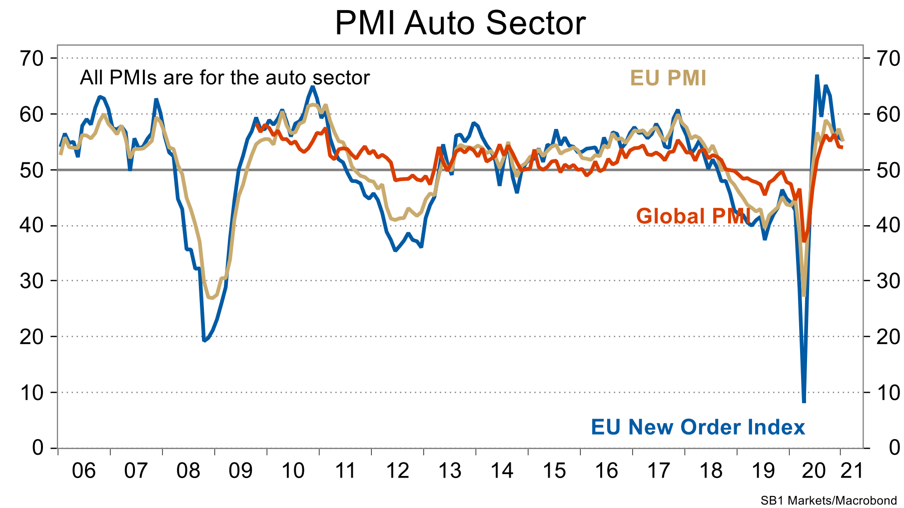


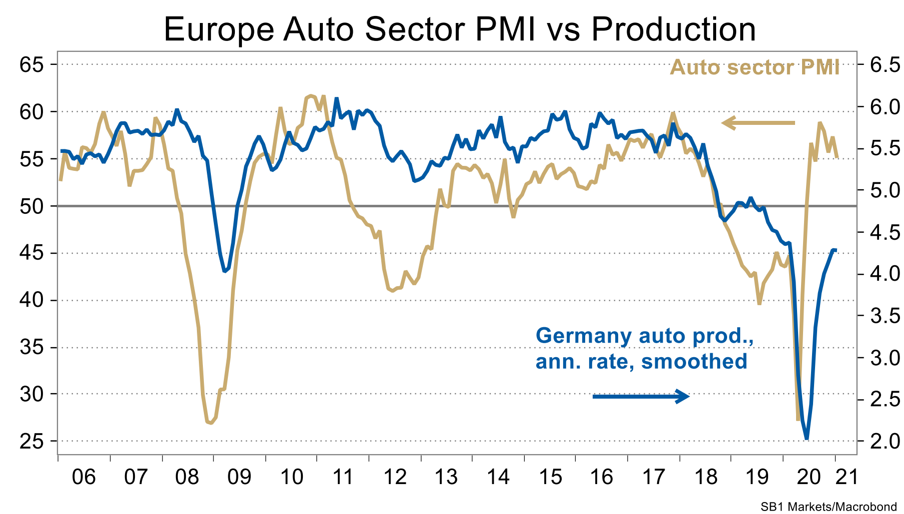
- Sales fell to 9.15 mill in Jan from 11.0 in Dec (or by 16%, our preliminary est). The normalisation of the German VAT rate from January contributed to the lift in Dec – and the sharp decline in Jan (something of the same in Spain?). The average of Dec/Jan 10.1 mill is marginally below the level the previous months.
- Last year, 8.65 mill autos were sold in Europe, down 23% from 2019, which was the best year since 2007!

German auto production down in Jan, demand or supply?

Car factories have reported component shortages (chips), or has demand slowed too?







- Global and EMU auto sector PMIs have retreated somewhat past few months but are still reporting growth above normal!

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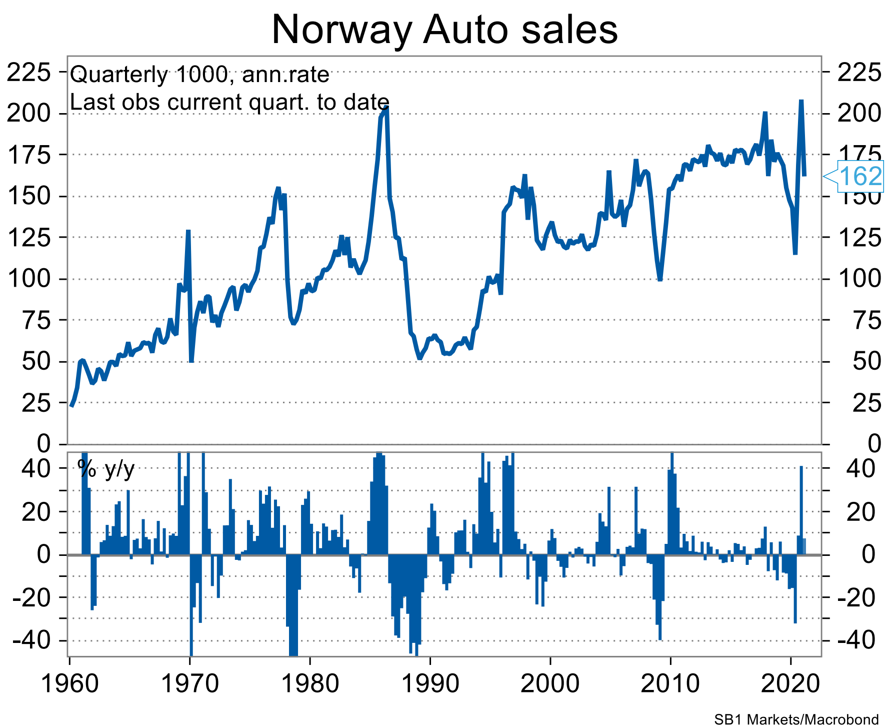
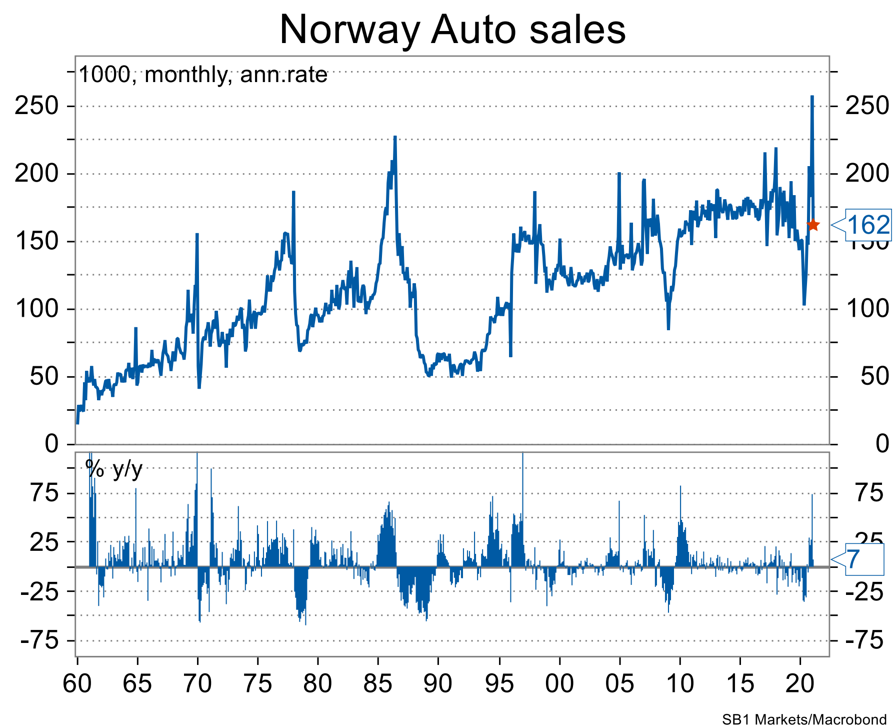
‘Normal’ auto sales in January, following the Dec surge

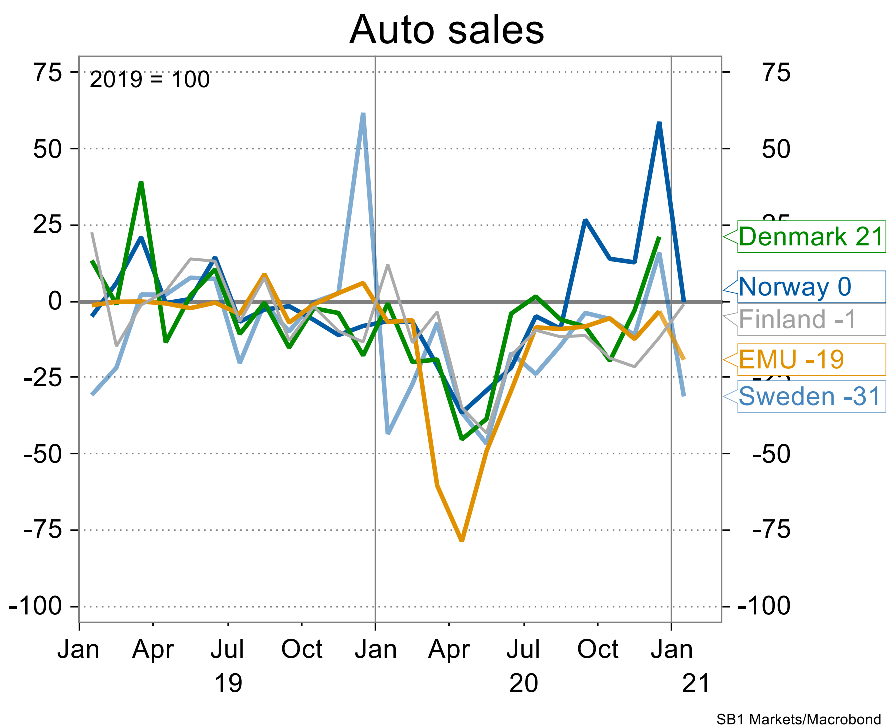
The Dec rush probably partly due to tax increases from January. The trend is not weak anyway



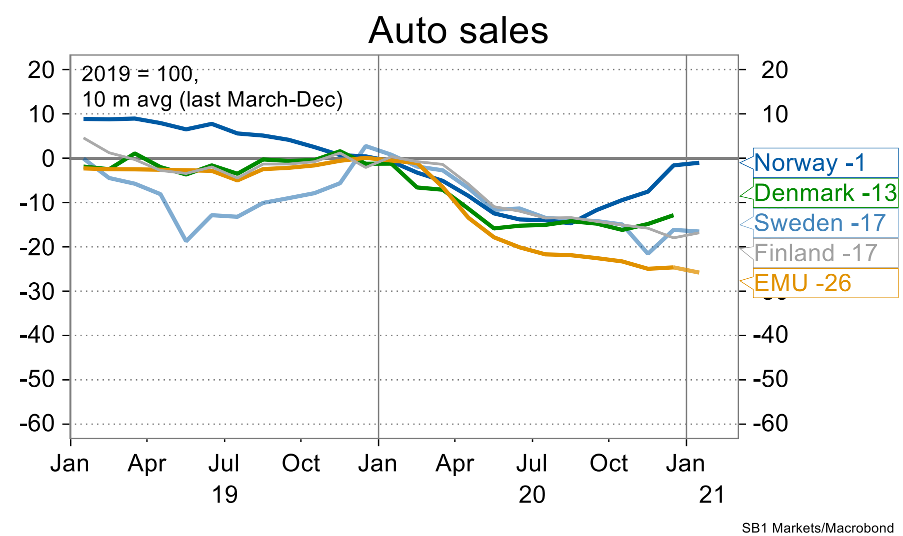


- We assume Jan sales are below the underlying level now, as many cars were rushed through the registration system before year end

The Nordics: Auto sales down most places, following strong sales in Dec

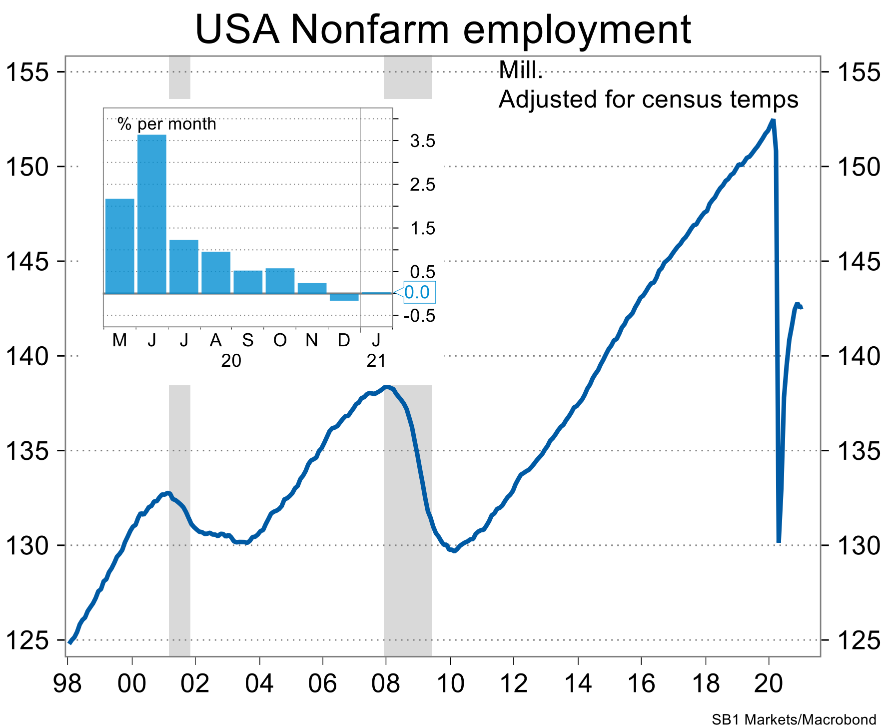


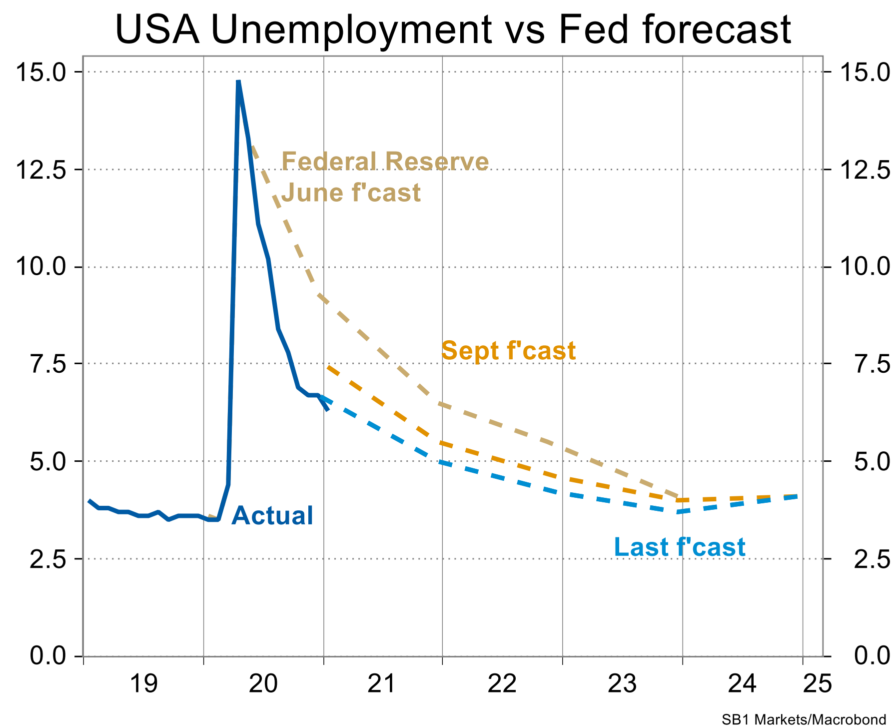
- The aggregate decline in auto sales over the March '20-Jan period, vs the 2019 average sales is
  - » -1% in Norway
  - » -13%-17 % in the other Nordics
  - » -26% in the Eurozone



Employment just marginally up in Jan (and past 3 m). A broad slowdown in Jan

Employment grew by just 49' in Jan and by 53' on average past 3 months. The empl. gap is still 6.5%





- **Employment** rose by 49' as formally expected but following a more upbeat ADP report and strong business surveys, real expectations were higher. Public employment rose 43', total private just 6'. Net revisions -159' added to the Jan weakness. In Dec, employment in restaurants fell sharply, while other sectors grew at a decent pace. In Jan, the weakness was broad, signalling slower growth in the overall economy. Past 3 months, employment grew by 54' in average, or at a 0.4% pace, well below population growth. Employment is 6.5% below the pre-corona level, it was down 14% in April – it is still a long way to go. Hours worked sharply up in Jan, a positive sign
- **Unemployment** surprisingly fell 0.4 pp to 6.3%, expected unch. The participation rate fell, while the labour force survey employment rate rose, as the LFS reported a lift in employment at approx. 250'. The unemployment is once more below FOMC's forecast
- The weak jobs report increases the pressure for pushing **a large stimulus bill** through the Senate. As corona retreats, a better future??
- **In addition, the Federal Reserve will keep pushing the accelerator hard the coming months, whatever fiscal stimulus may be decided**

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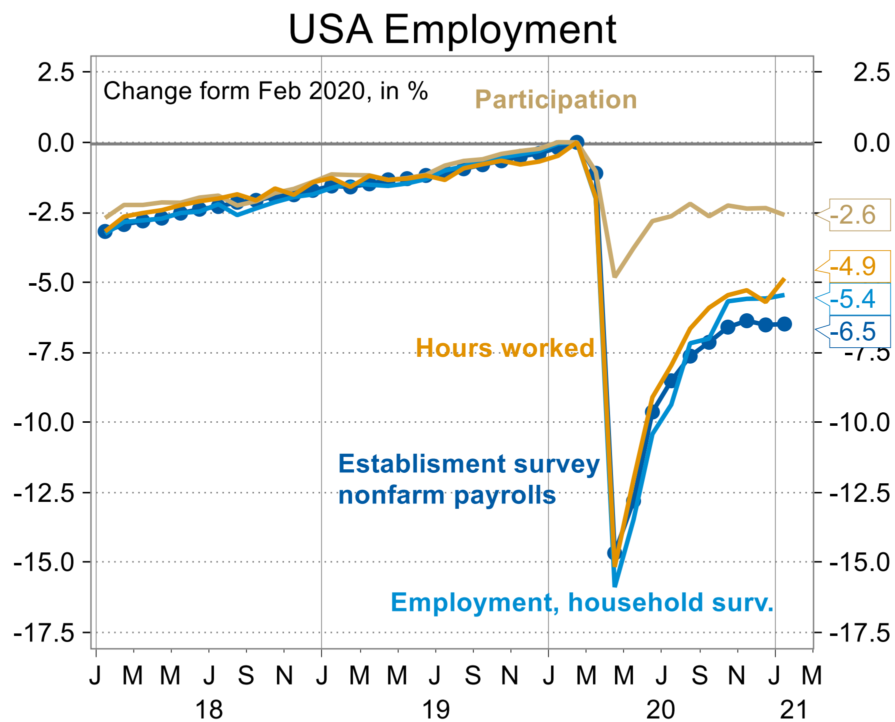
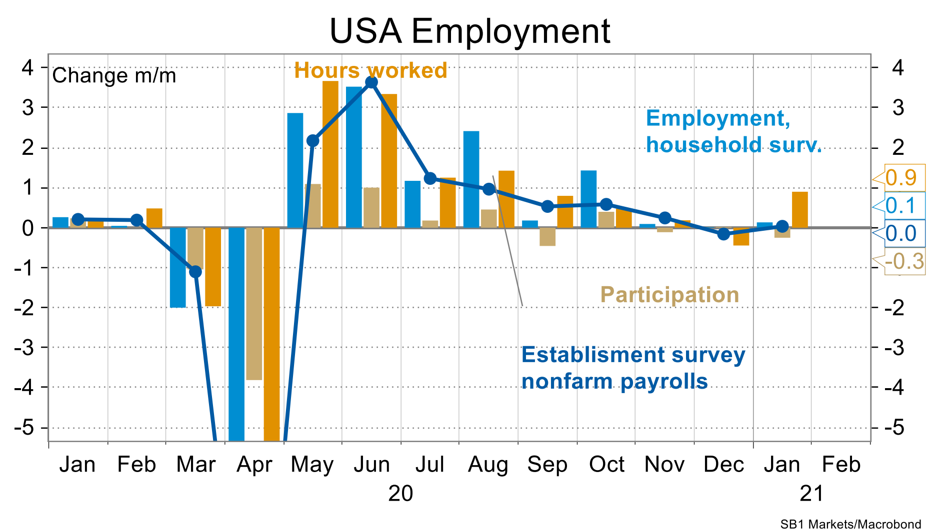
Employment still 5% - 6.5% below par

All indicators are signalling slower growth – while all are still way below the pre-corona level



- The participation rate has stabilised at some 2.5% below the pre-corona level, which is lowering the unemployment rate by the same amount
- Nonfarm payrolls are down 6.5% vs Feb, while employment measured by the household survey (LFS/'AKU') is 5.4% below par
- Hours worked jumped 0.9% in Jan as average hours worked rose sharply following the Dec 0.4% setback – a positive signal



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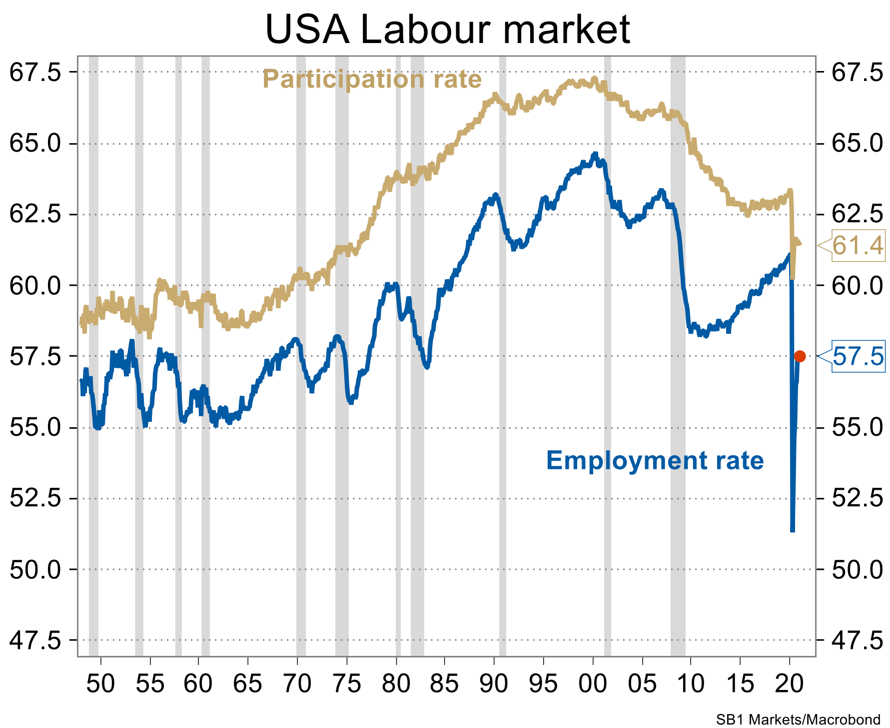
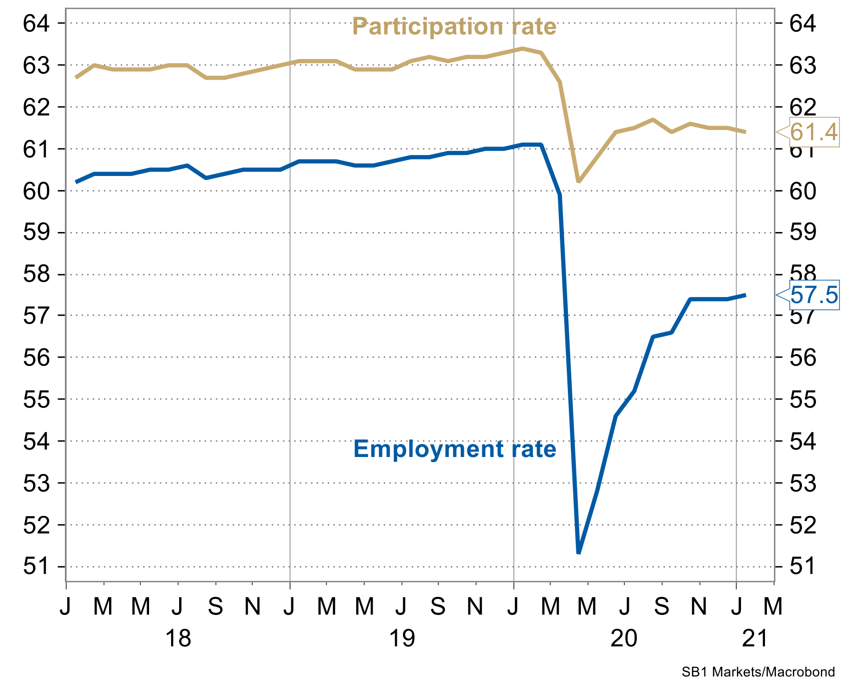
The employment rate up, participation down, and unemployment down 0.4 pp

The participation rate is down 2.6% (-2.1 pp), the employment rate is down 5.9% (-3.6 pp)

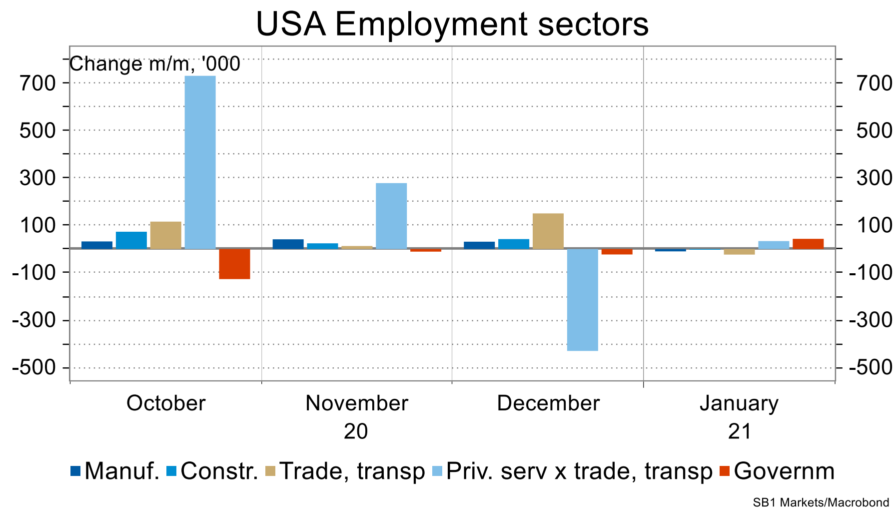


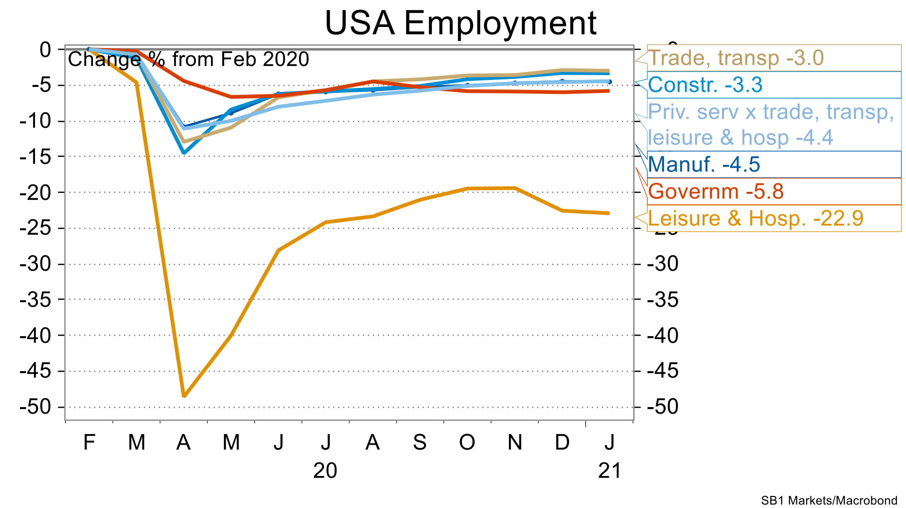


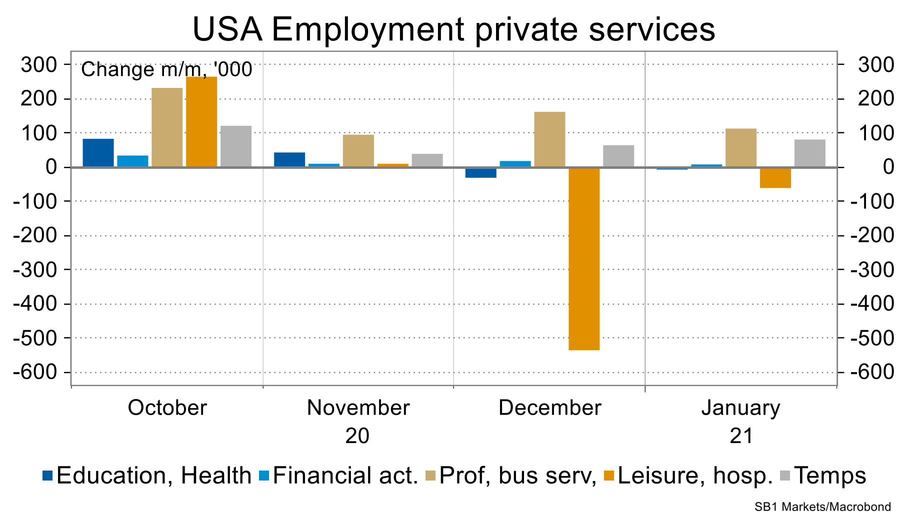
- The flattening of the participation rate may be directly corona related, and not due the usual impact of weak demand as in a normal recession (discouraged workers). Now, health concerns, lack of safe transport, and the need to take care of children when schools are closed due to corona may prevent many from actively searching for a job. These workers, who under normal circumstances would have applied for work – and then be counted as unemployed until they found a job, are not included in the labour force, and are not officially unemployed

Not may bright spots in January, the slowdown is broad

In Dec, deep cuts in closed down restaurants explained the weakness. In Jan, no specific culprit





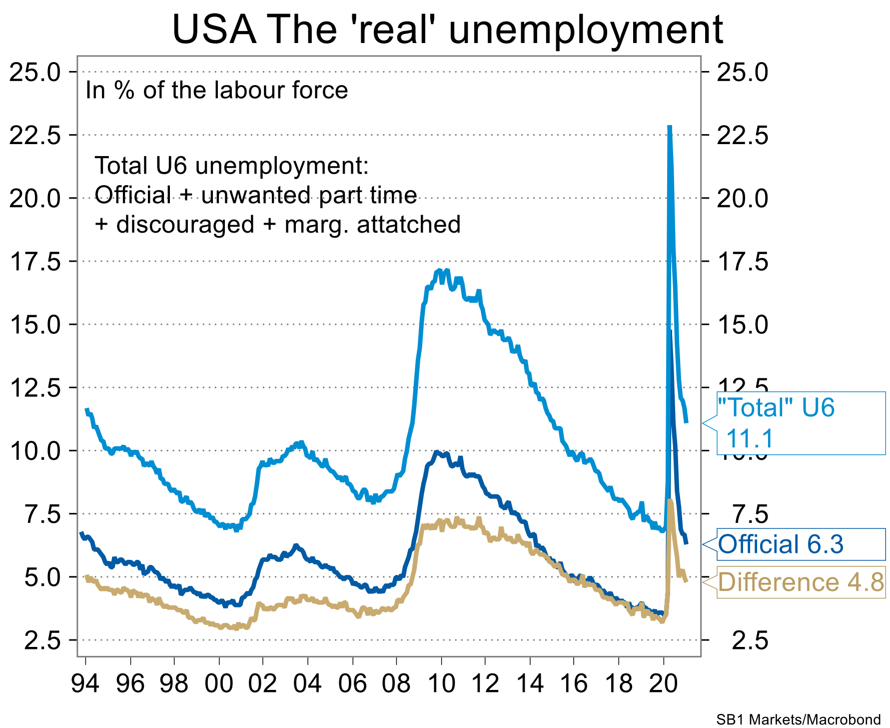


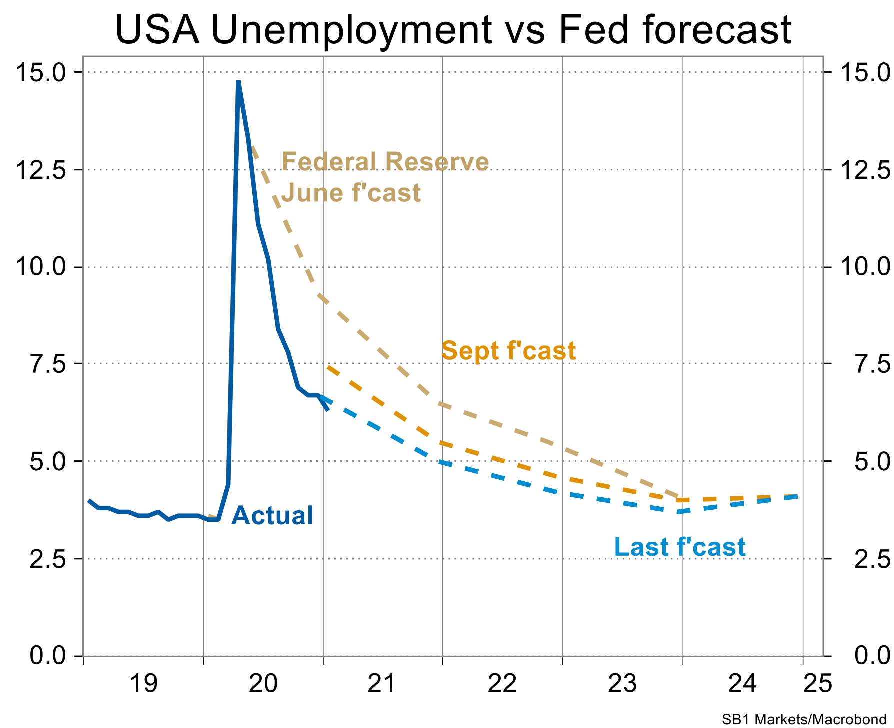
Government employment adjusted for temporary 2020 census workers

- **In January**
  - Empl. in **Government** rose by 43', the private sector was close to flat. Manufacturing, construction & trade slightly down, and all are 3-4.4% vs. vs last Feb. **Leisure & hospitality** (restaurants ¾ of the total), cut another 0.5% (after 4% in Dec), while other private services were close flat in Jan – certainly not usual
- **From last February**
  - No main sector is above the Feb level, not even trade/transport
  - **Leisure & hospitality** is down 22.9%. **Manufacturing** is down 4.5%, **trade & transport** 3.0%, **construction** 3.3%
  - Even **government employment** is down 5.8% (adjusted for temp census workers), which is remarkable in an economic downturn. Local governments mostly to blame, they have run out of money. Some fiscal support underway from Congress now? Public education is down too (as is private education, as schools have closed down)

Unemployment down 0.4 pp to 6.3% (exp. unch), 2.8 pp higher than pre corona

The ‘real’ unempl. rate (including involuntary part-time, etc) is substantially higher but is falling fast



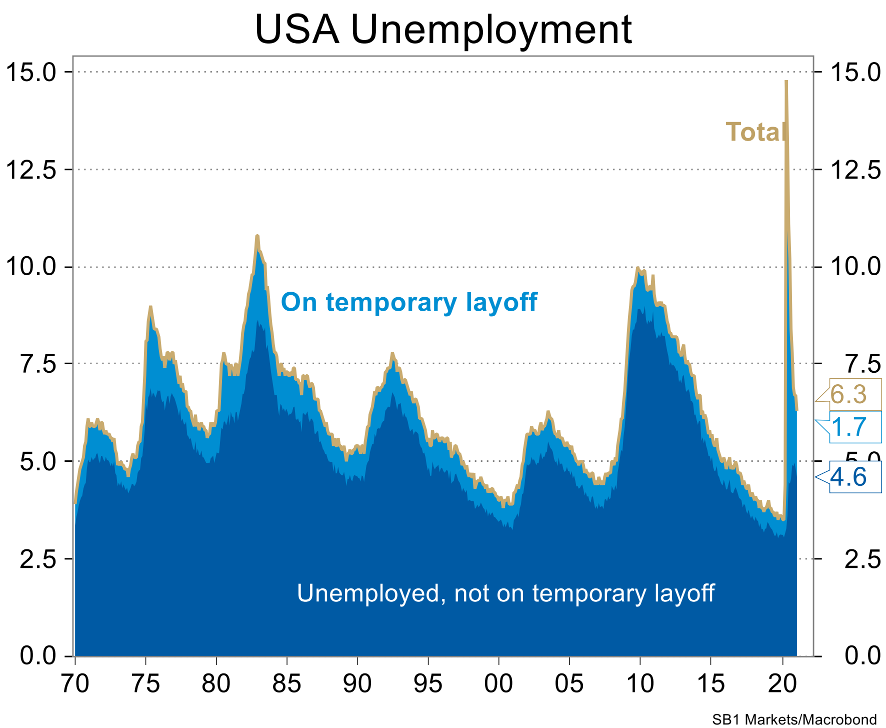


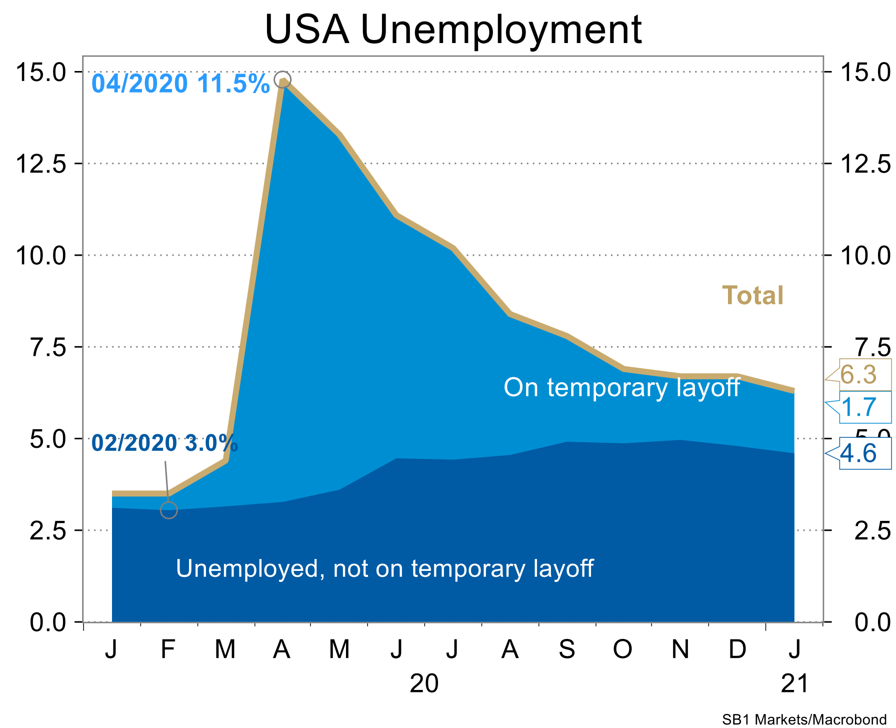
1) Almost 5% of the labour force is working unwanted part time (or are not able to get work). In good times, less than 4%
2) The labour force participation rate has fallen because workers do not bother searching for work during the crisis (2%)
3) In sum, the unemployment significantly higher than the traditional official rate

Unemployment has been declining much faster than the FOMC has expected vs. its June & Sept forecasts. The Jan unempl. rate was below FOMC’s Dec 2020 path (our interpretation) but it is too early to make the call for another forecast miss)

Both ordinary unemployment and the no. of furloughed workers down

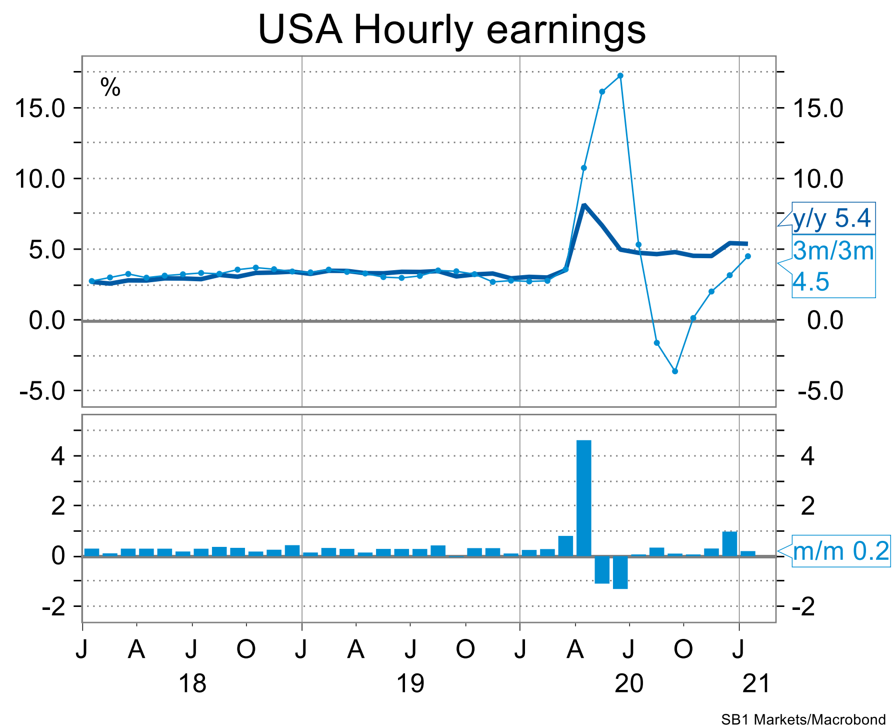
Temp laid off unemployment down 0.2 p 1.7%, the fully unemployment rate down 0.2 pp to 4.6%

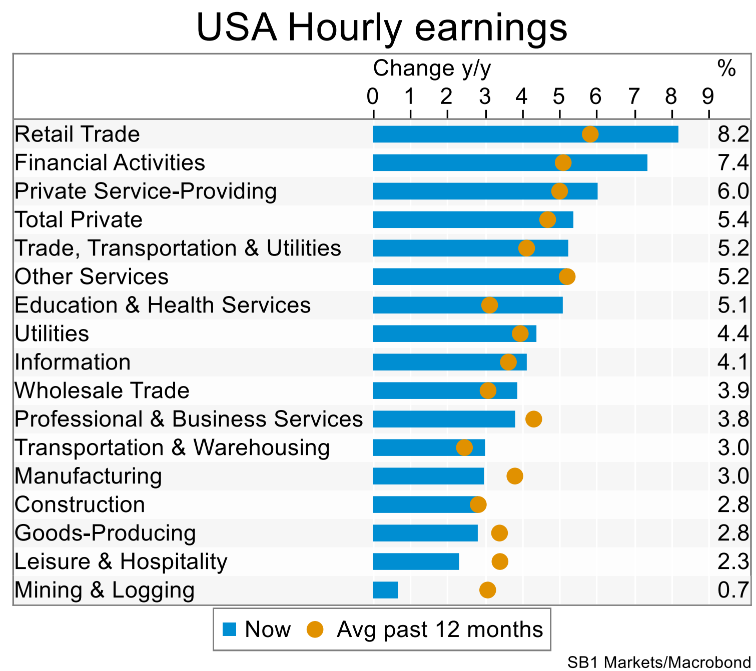


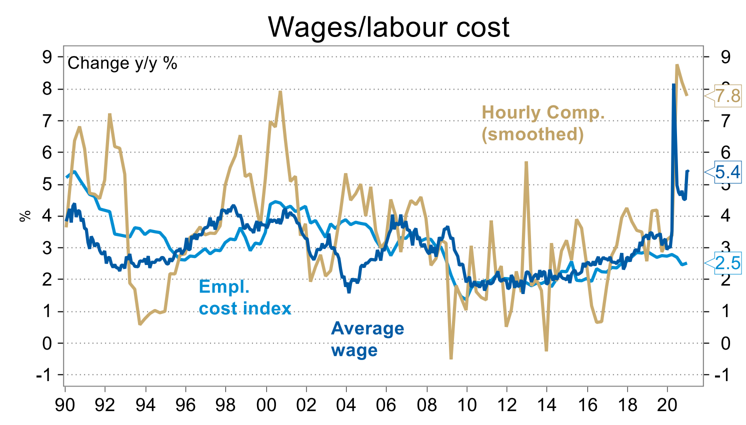


Average wages up and down during the corona crisis – *due to the labour mix*

These wage data are not relevant now as the mix between high/low paid works changes rapidly



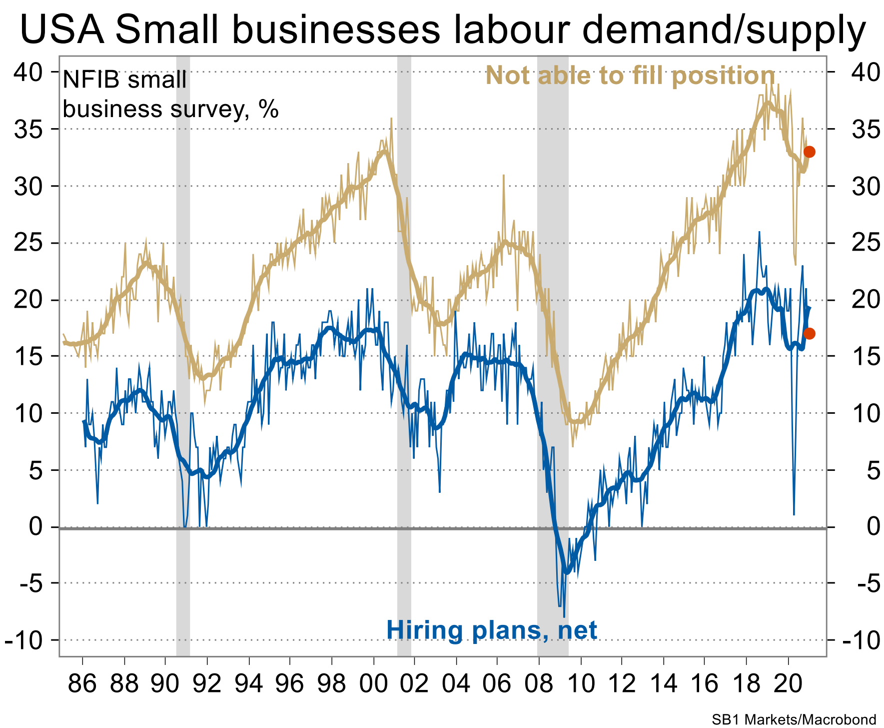


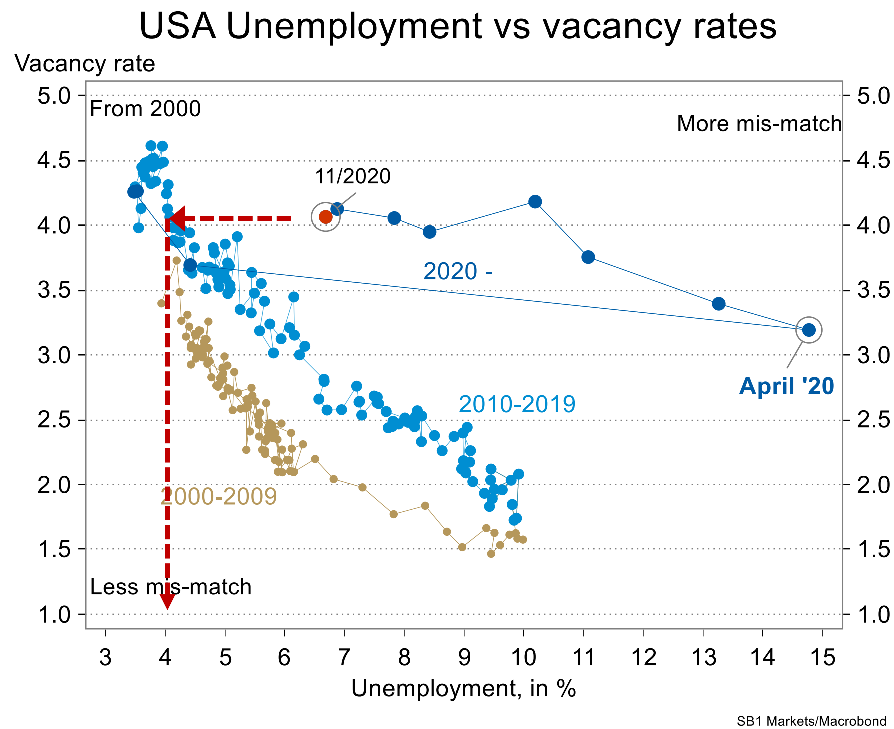


- The average hourly wage rose by 0.2% m/m in Jan, and the annual rate accelerated was flat at 5.4%
- According to national accounts, the wage cost grew 7.8% in Q4
- However, the employment cost for 'the same job' was up just 2.5% y/y in Q3 *(check the chart to the right)*
- The 'strange' wage inflation data are just due to changes of the mix of the employment

Small businesses are not able to fill vacant positions

... just like before corona. Is it now due to corona, employees are not able to move/take new position?

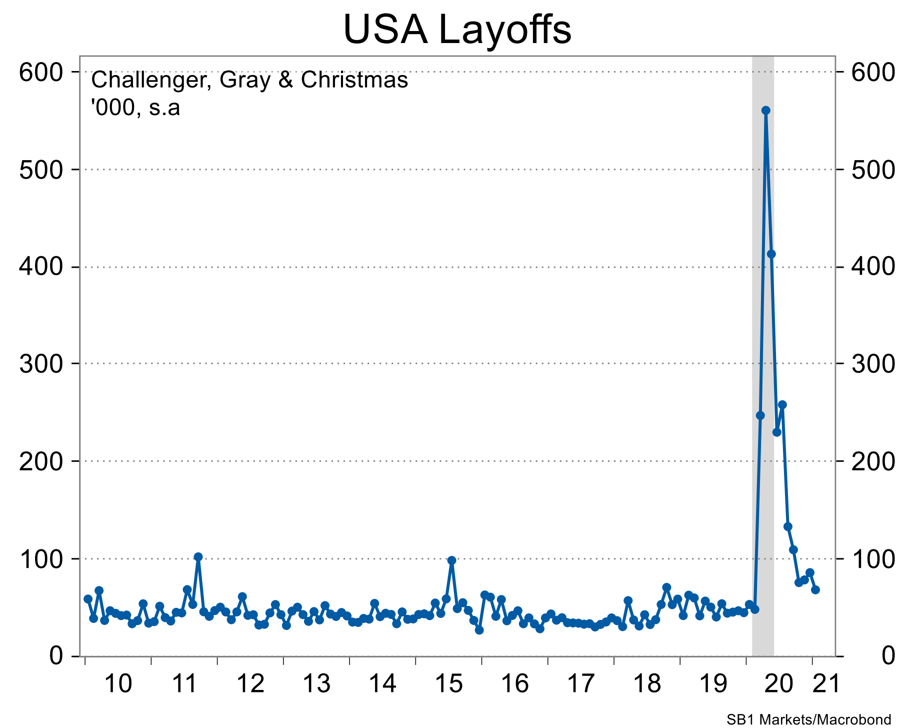




- ... or are large parts of the labour market still tight?
- Both the share of companies reporting they are not able to fill position, and the share of companies reporting hiring plans fell slightly in Dec but remain at unusual elevated levels
- The **number of unfilled vacancies** is also high, according to official statistics (last obs. Nov) – as if the unemployment rate was 4 – 4½%, not close to 7% (as it was in Nov)

Fewer announced lay-offs in January, and the level is not that high anymore

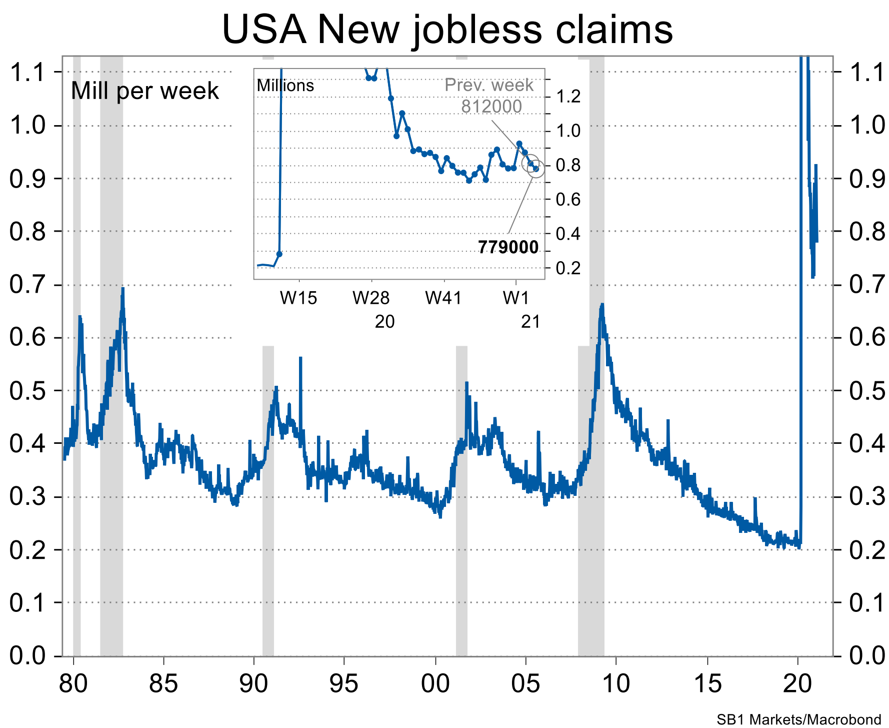
The no. of layoffs are at half the peak levels during the two previous recessions

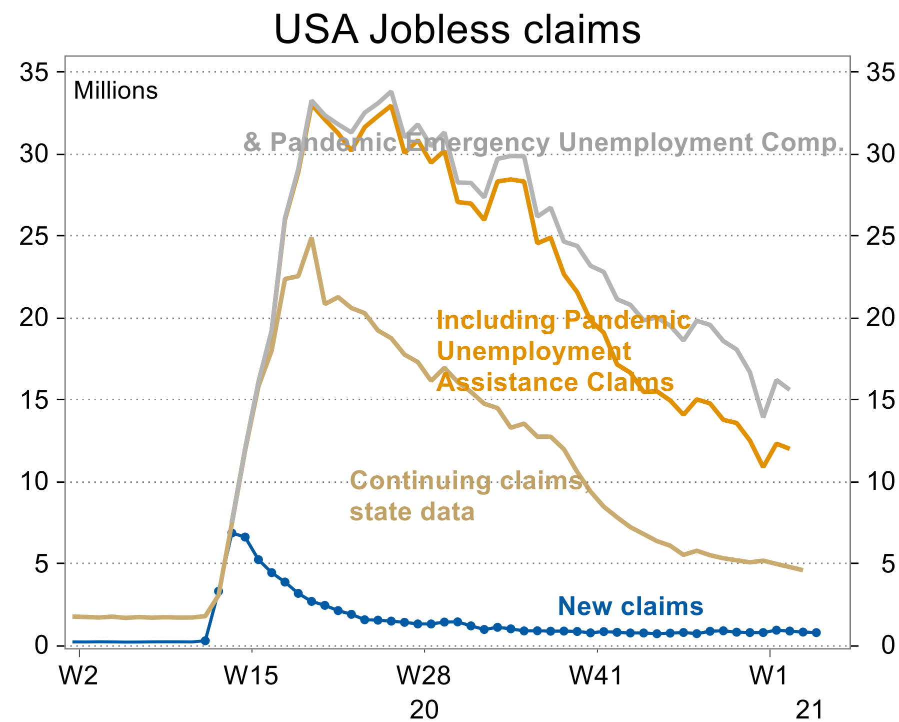


- .. But still above the normal level in good times

New jobless claims down 150’ from the local peak, back to the pre-Xmas level

Does not confirm a continued weakening of the labour market through January

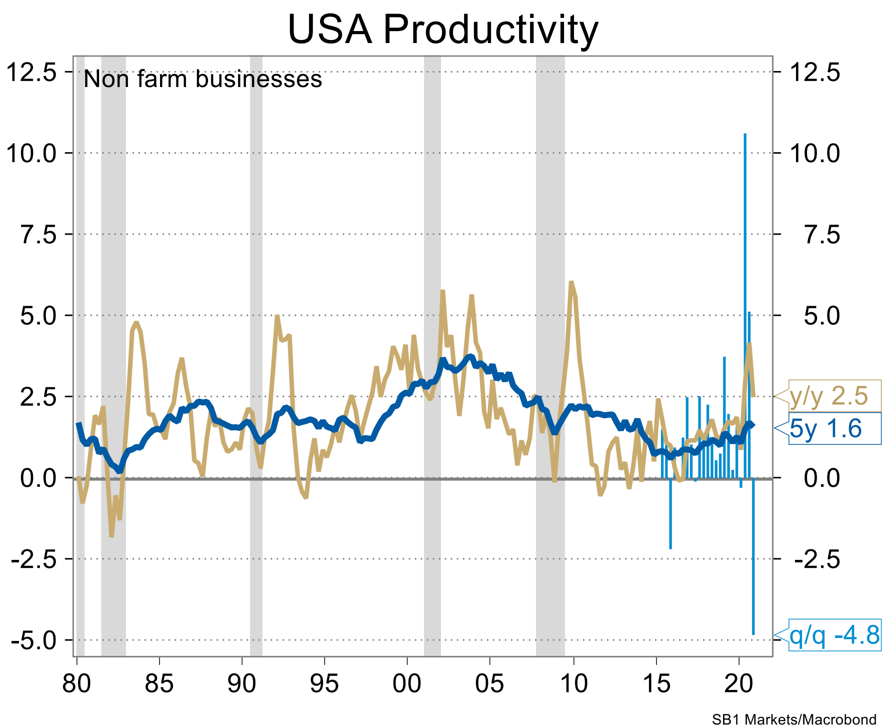




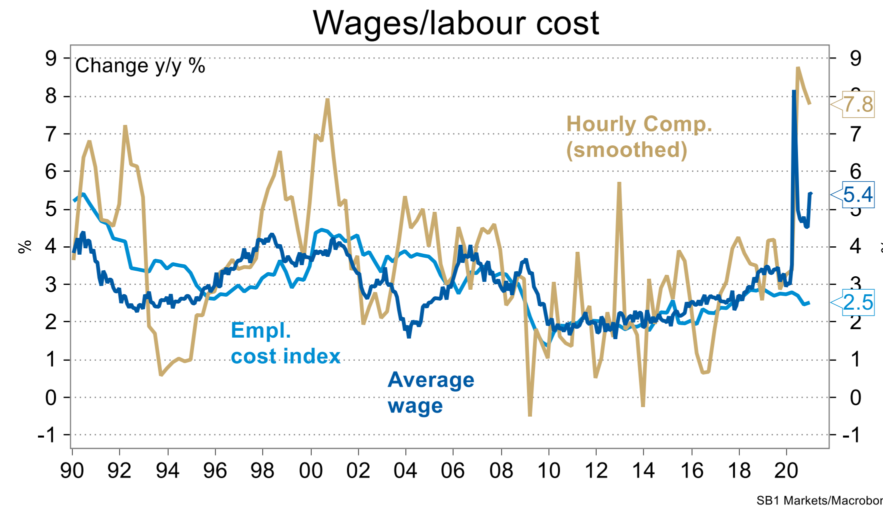
- New claims down 63’ to 779’ last week, from a 35’ downward revised level the prev. week
- The no. is still higher than at the local through last autumn but the increase is no longer significant

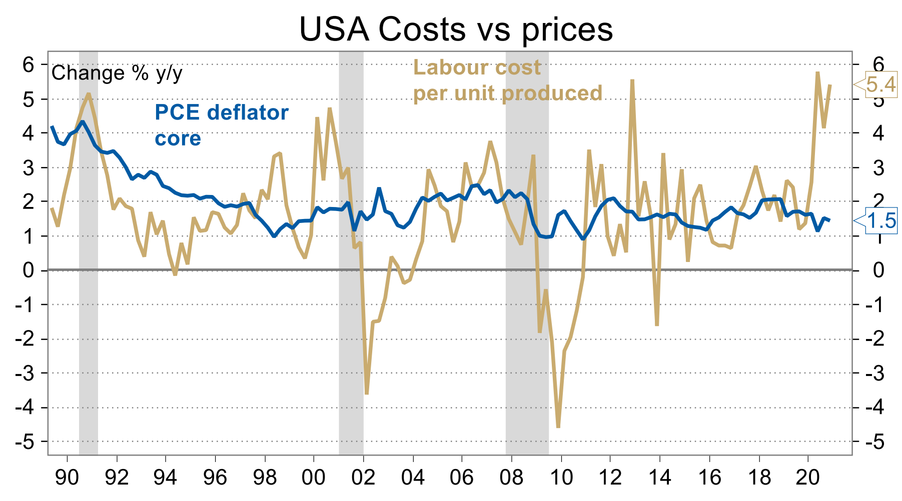
Wild productivity & labour cost data; low productive/low paid workers are shed

Productivity up 2.5% y/y, hourly compensation +7.9% - and labour cost per unit prod. up 5.4% (!)



- In Q4, productivity fell by 4.8% (annualised rate), following +11% in Q2 and 5% in Q3. Hourly cost, and unit labour costs have been all over the place too.
  - These data are now more or less meaningless when evaluating the underlying trends in productivity & costs due the large changes in the composition of the employees and production, even in hours worked vs. real work efforts due to government schemes
- However, at face value it does not look nice but there are several possible explanations for the cost surge

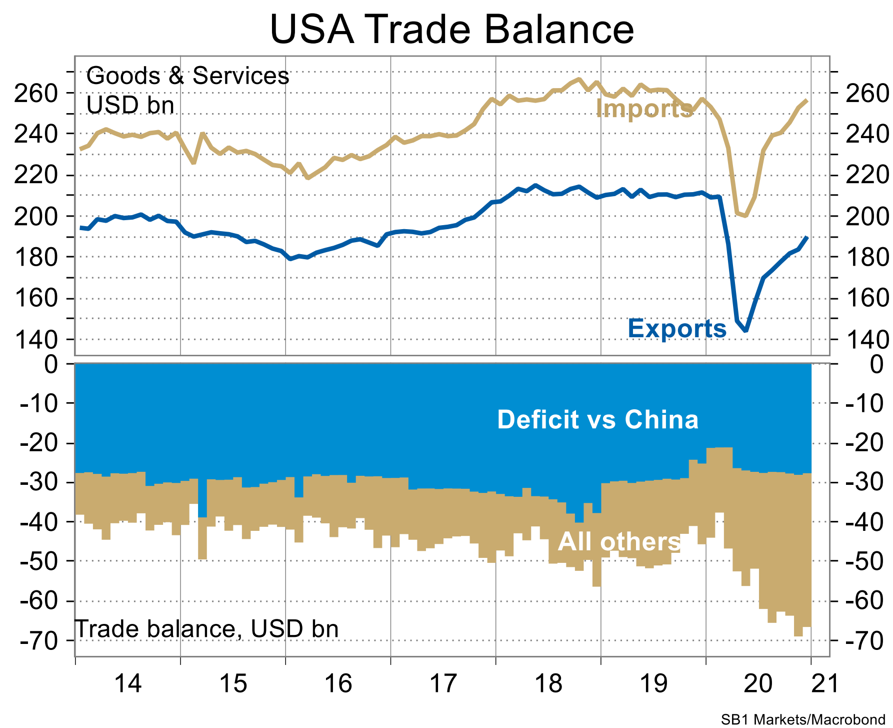


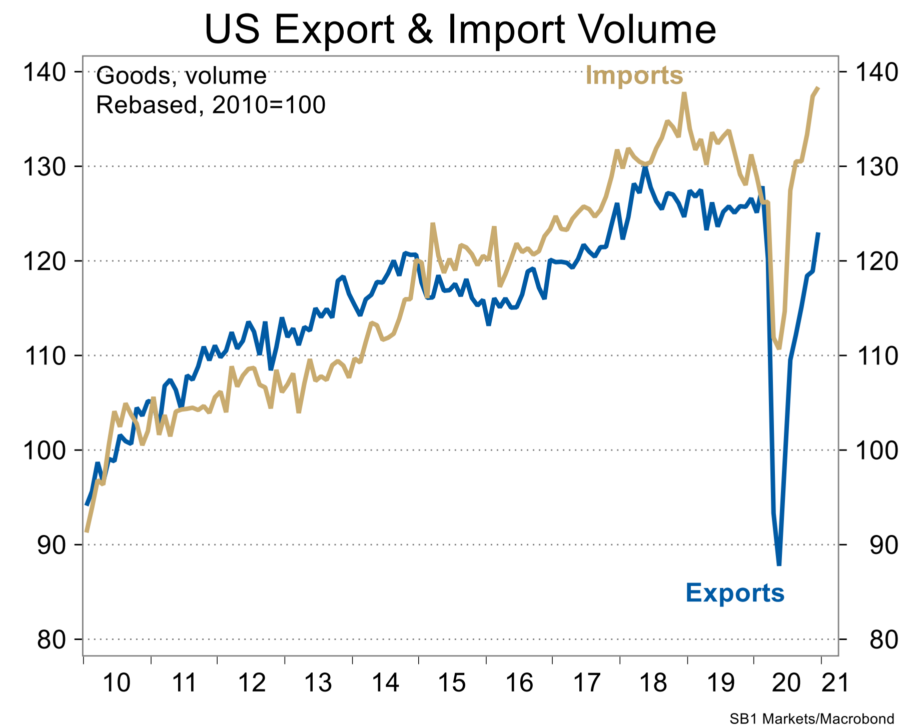


The employment cost index is up 2.5% y/y, probably the most relevant labour cost data point today

Export sharply up in Dec, the trade deficit slightly reduced

Imports are far above the corona levels in volume terms, exports are still well below

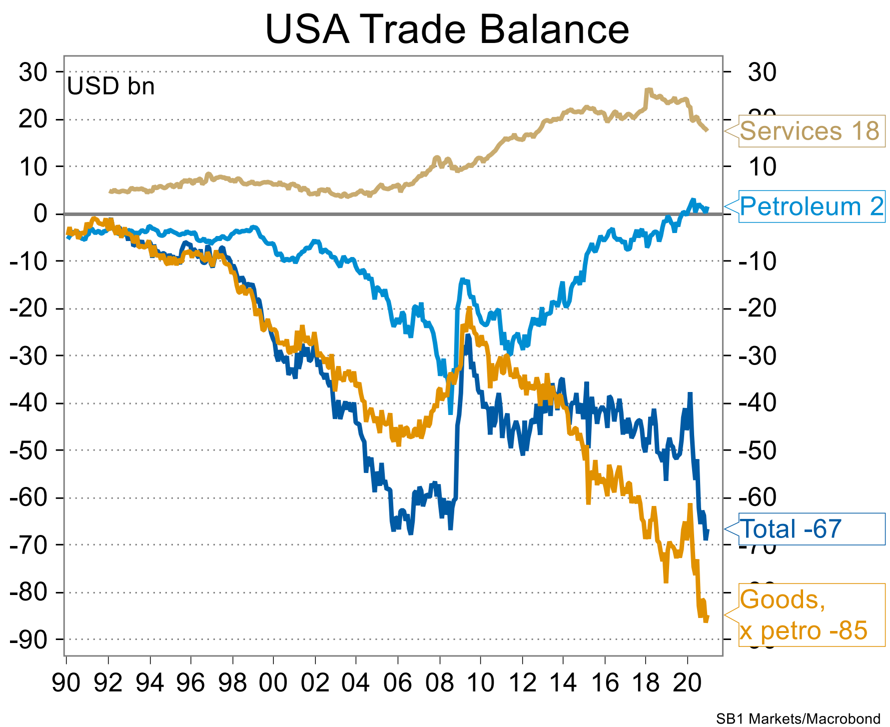


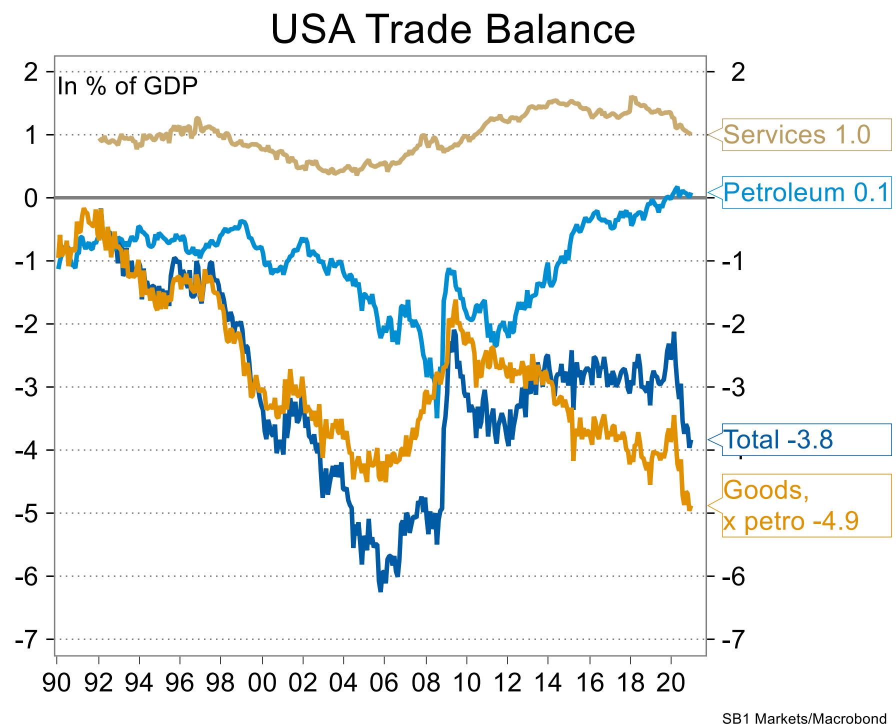


- The overall trade deficit of goods & services fell to USD 67 bn in Dec (expected 66) from the AHT at USD 69 bn in Nov.
- Exports rose by 3.4%, bur are still 10% below the pre-pandemic level. In volume terms, the gap is smaller
- Imports rose by 1.5% in Dec, and are on par with the early 2020 level. In volume terms, the level is 6 – 7% above! The reason is no doubt strong demand for goods in the US
- The deficit vs China is at the same level as when Trump became president. The deficit vs. others have exploded, however measured

The US is no longer running a deficit in petroleum, but other goods deficit at ATH

The goods deficit ex petroleum has widened to 4.9% of GDP, the surplus in services is falling rapidly

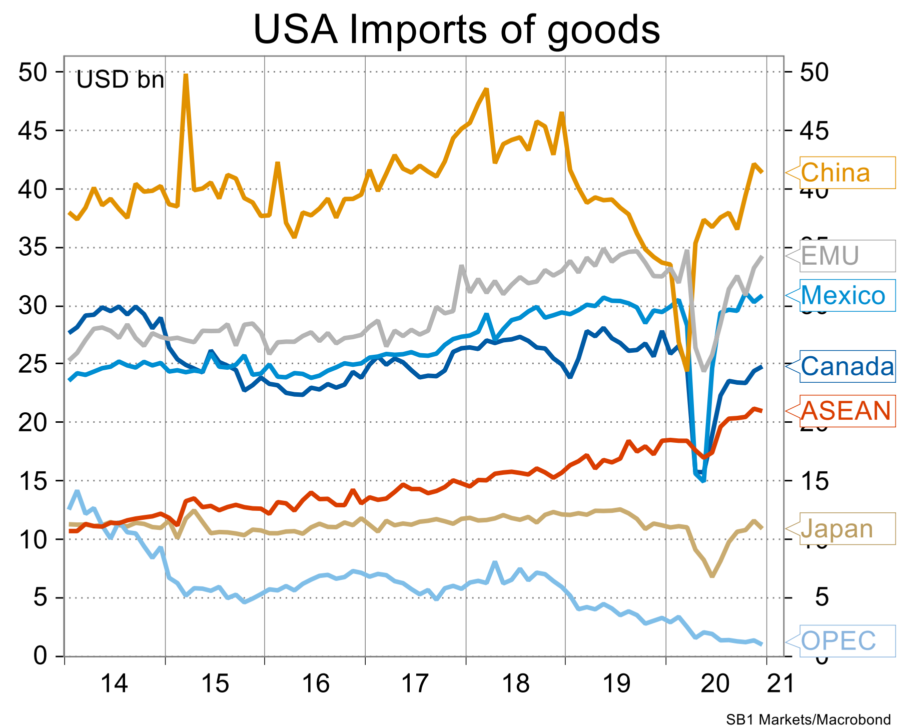


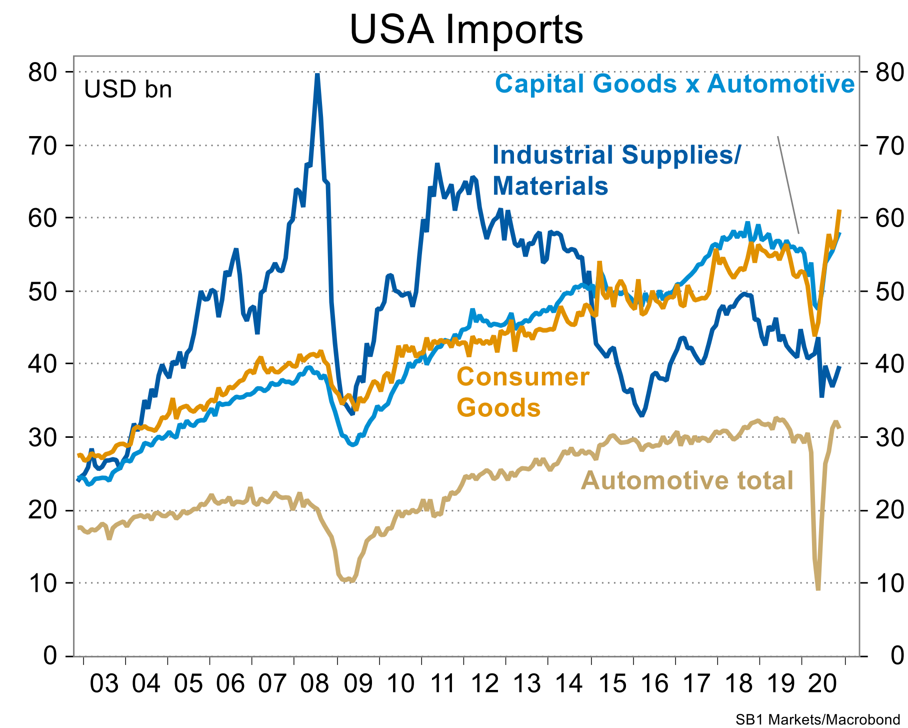


- The goods x petro products deficit was at USD -85 bn in Dec, close to the Nov ATH, or 4.9% of GDP. Before the corona virus hit, the trade deficit in goods was narrowing, as growth in the US slowed (and imports fell, which is normal)
- The petroleum trade deficit has turned into a surplus, now +1 bn from -30 bn/m in 2012!
- The US runs a surplus in services at USD 18 bn, equalling 1% of GDP but is trending sharply down (and the downturn started well before corona)
- The total trade surplus equals 3.8% of GDP, well below the record at 6.2% in late 2005

Most imports have recovered, consumer goods at a record high level

Imports of autos & capital goods close to ATH – materials are still below, partly due to low oil imports

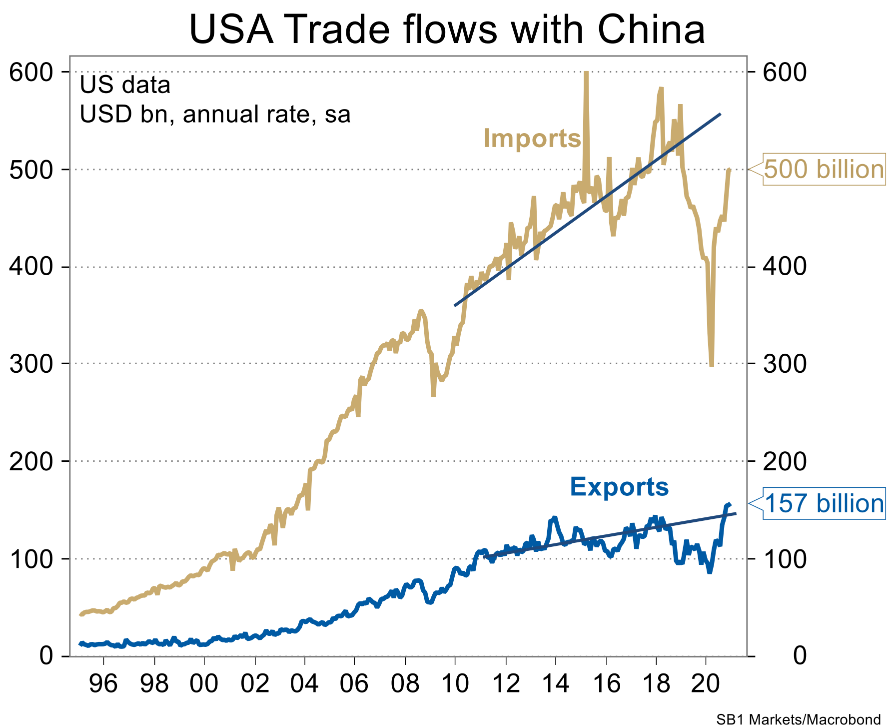




- Imports from China are well above the pre-corona level – an exports are even stronger (*check next page*).
- Export from ASEAN (the minor Asians) are very strong too.
- Exports to US from EMU is also back to a pre-corona level, while Canadian exports are still lagging

Exports to China are pretty strong, but imports are surging

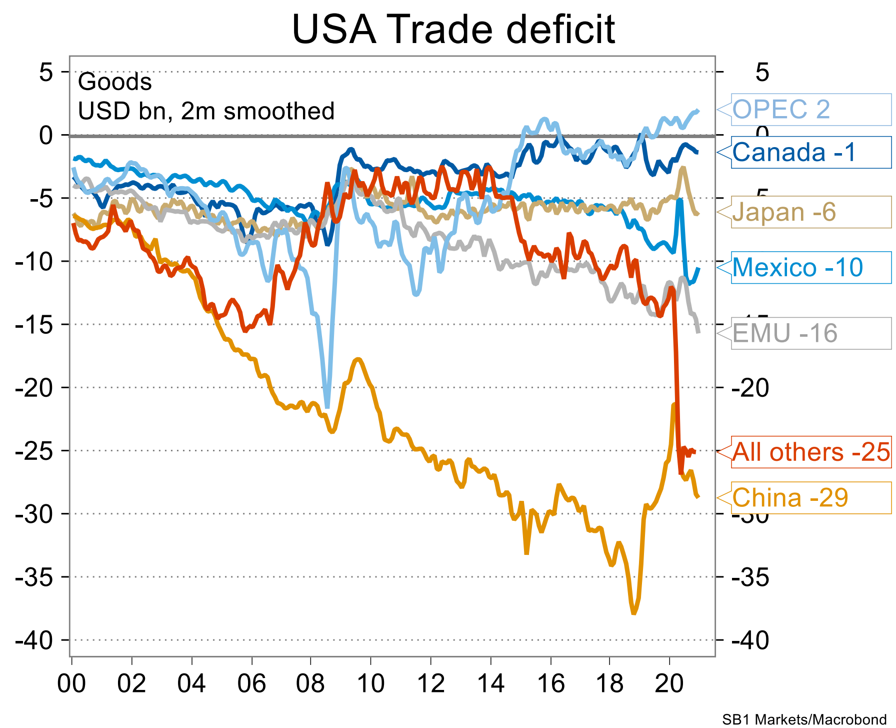
On the export side, the Chinese authorities have done more than paying lip services?



- However, imports are recovering rapidly too, and the deficit vs. China is not reduced

The deficit vs. China is widening again, still below peak

‘the deficit is increasing in most directions

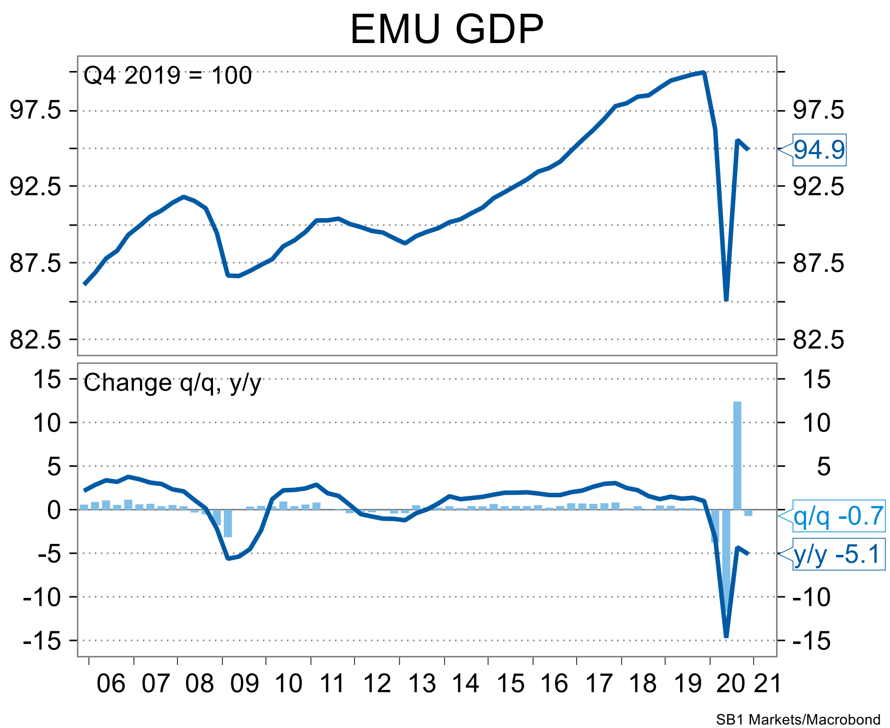


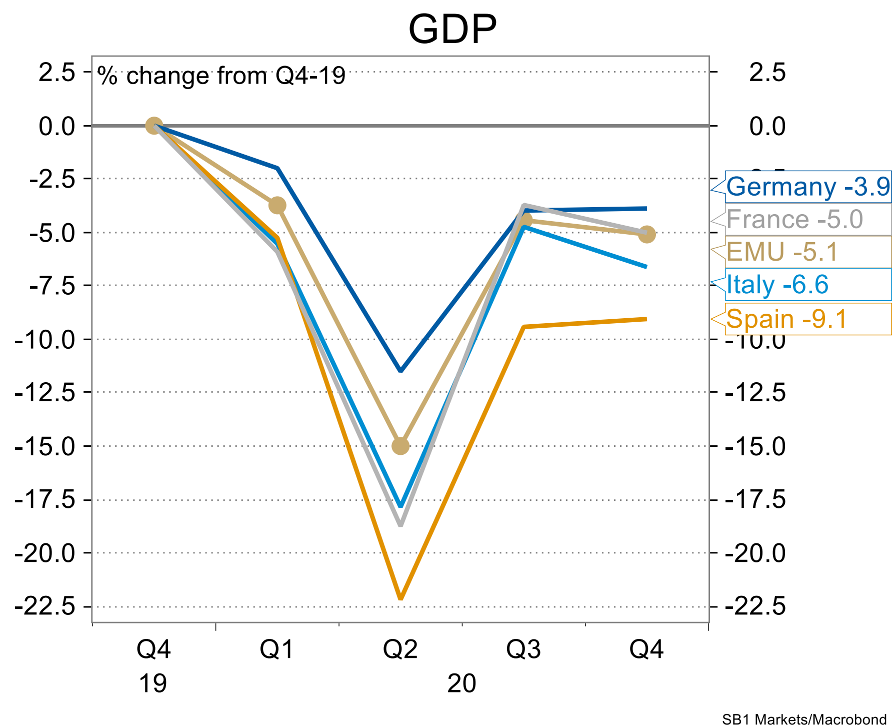
- The US deficit in goods (no services in these country stats) vs China now equals ‘just’ 30% of the total deficit in goods, used to be half of it!
- The deficit vs Mexico has widened markedly since 2018. Canada is close to in balance vs the US. The deficit vs EMU is trending out and is now at ATH. The deficit vs Japan has increased but just up to a ‘normal’ level
- The balance vs ‘others’ rose sharply last year

SpareBank 1 MARKETS

GDP down 0.7% in Q4 – still better than consensus at -1.2% (we expected -0.5%)

Euro Area GPD fell by 6.8% in 2020, and GDP is still 5.1% below the pre-corona level

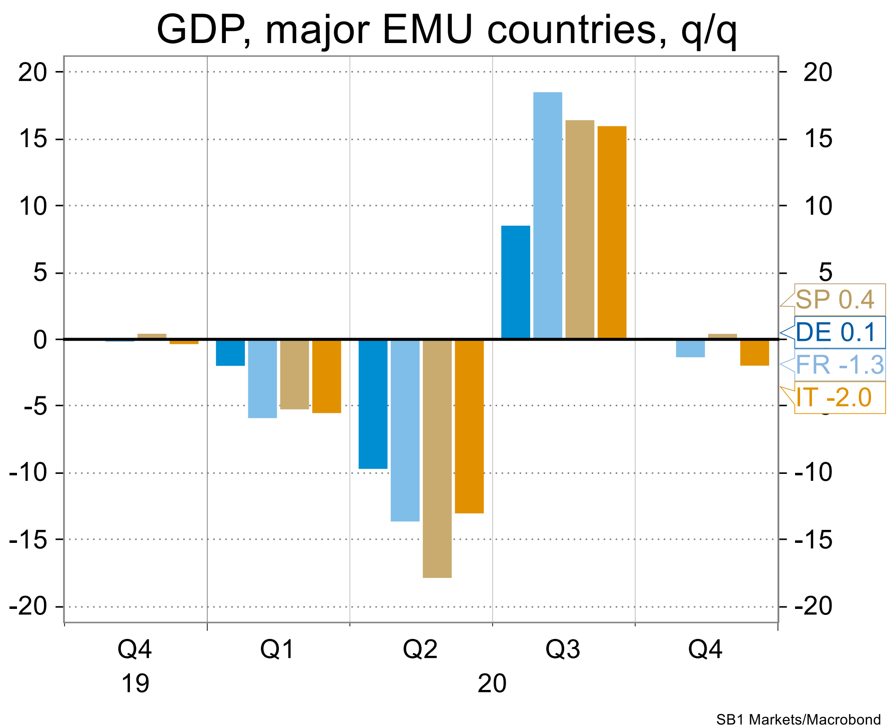


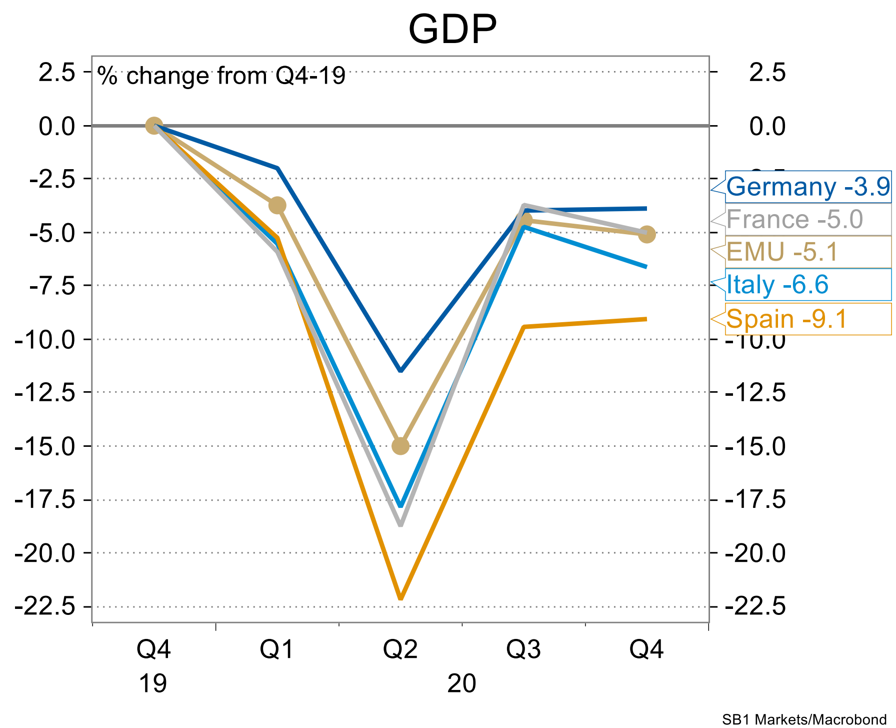


- Some weeks ago, EMU GDP was expected down several pp, with we thought was too pessimistic
  - » GDP grew by 0.1% q/q in Germany, 0.4% in Spain, and GDP decreased by 1.3% q/q in France, -2.0% in Italy, and -4.3% in Austria
  - » France, Germany, Spain and Italy was down 3.9%-9.1%% from Q4 '19.
  - » No demand details yet

GDP just slightly down in Q4, as we expected

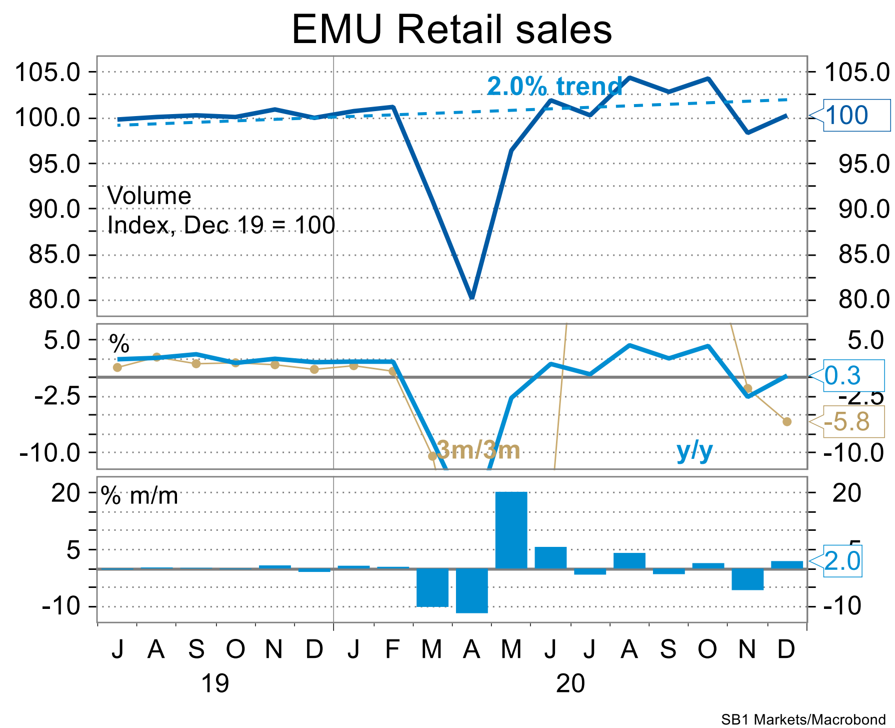
GDP fell by 0.7%

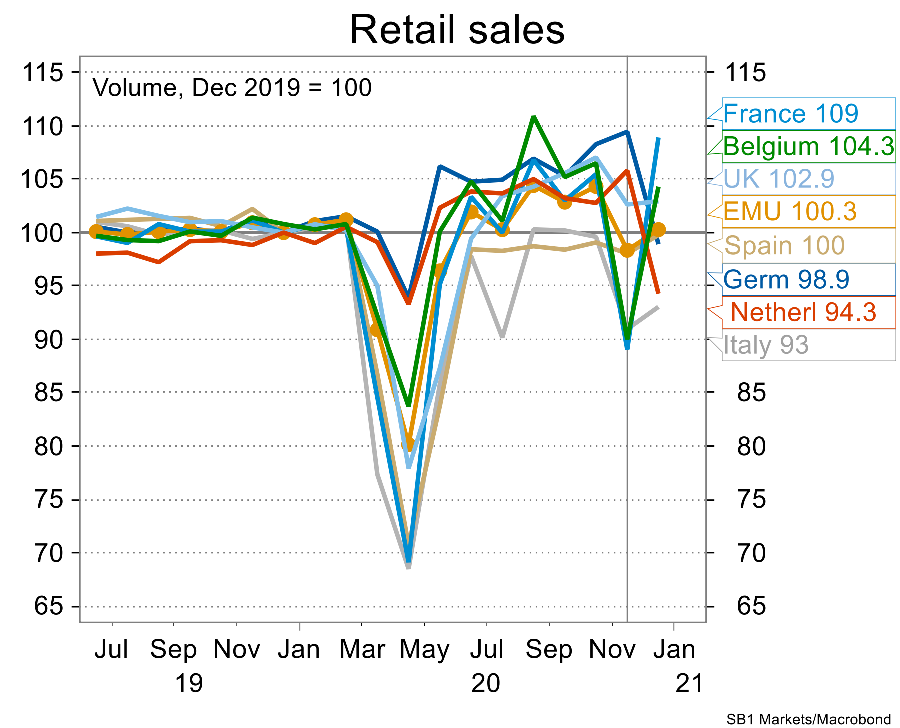




Dec retail sales up 2% - a sharp recovery in France but a German setback. Q4-1.5%

The 2% was far below the 5.7% drop in Nov, and Q4 was down. Still 'quite' ok compared to last spring!

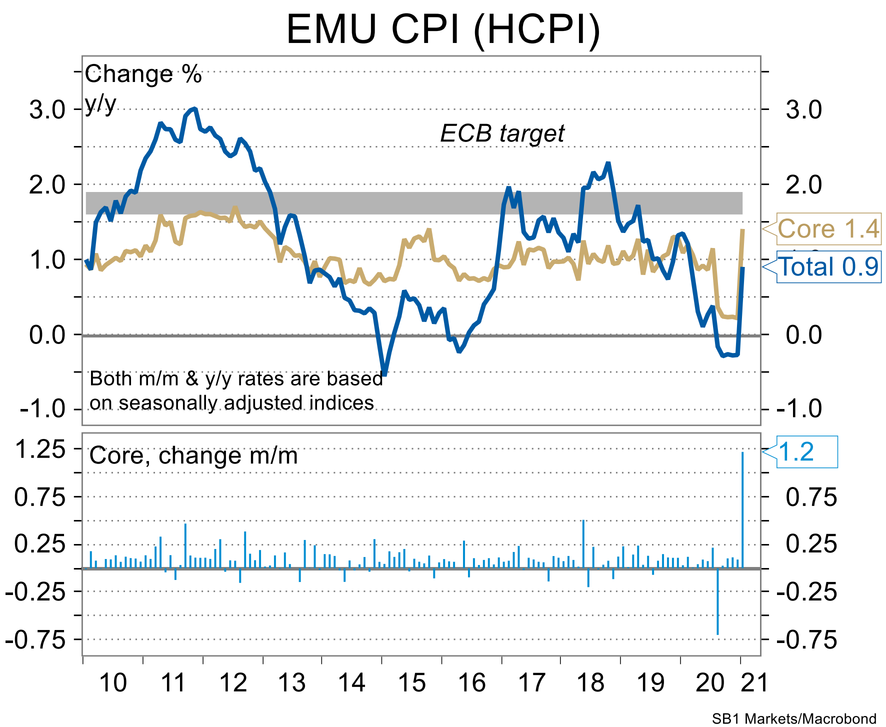


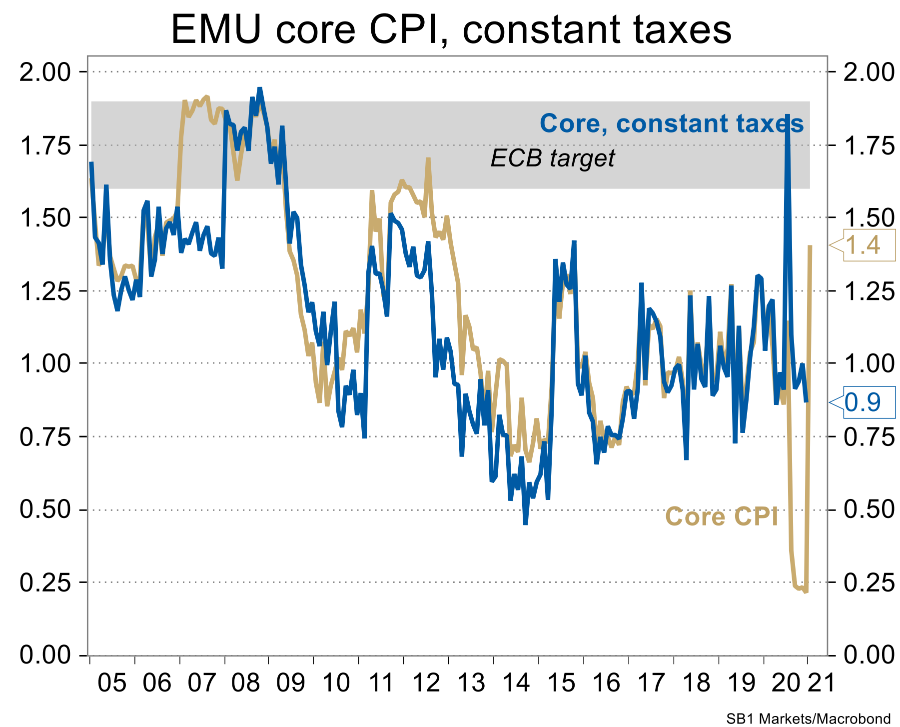


- However, sales were 'just' in line the pre-corona level
- The lockdowns were eased in Dec in some countries, as new corona cases fell sharply, and retail sales rose by more than 20% in France, 15% in Belgium
- However other countries imposed new restrictions, and sales fell sharply in Germany, by 9.6%, far more than expected. Netherlands down almost 11%
- The outlook is uncertain. In general, mobility is up almost everywhere, and while some countries have tightened restrictions, others have eased. Confidence is not that bad, neither is the overall economy

Core inflation shot up 1.2 pp to 1.4% y/y as the impact of German VAT cut vanished

The 6 month 3 pp German VAT rebate ended on December 31. Headline inflation up to 0.9%

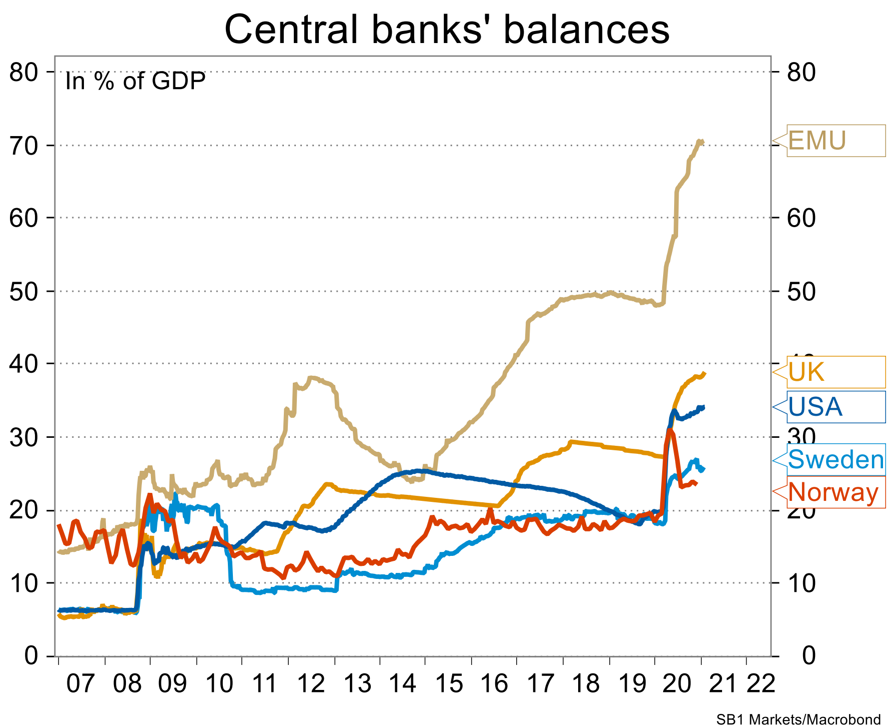




- In January, core prices rose by 1.2% m/m and the annual rate shot up to 1.4% from 0.2%. Core inflation rose in all the major countries, the most in Germany and the Netherlands.
  - There might be more particularities than the impact of the normalization of the German VAT rate, as the m/m lift was larger than explained by this factor alone.
  - The core, constant taxes CPI was 0.9% in Dec, and we think the underlying core inflation most probably is approx. 1%
- Headline HICP was 0.9% y/y in January, up from -0.3% in Dec!
- Energy prices still contributes at the downside, as these prices were down 4.1% y/y – even if prices rose 3.8% in Jan – taking the annual headline rate down by 0.4 pp. Soon, energy prices will change sign - and contribute positively to the headline. Perhaps the ECB enjoys that but households do not

No surprise: BoE leaves interest rate & asset purchase programme unch.

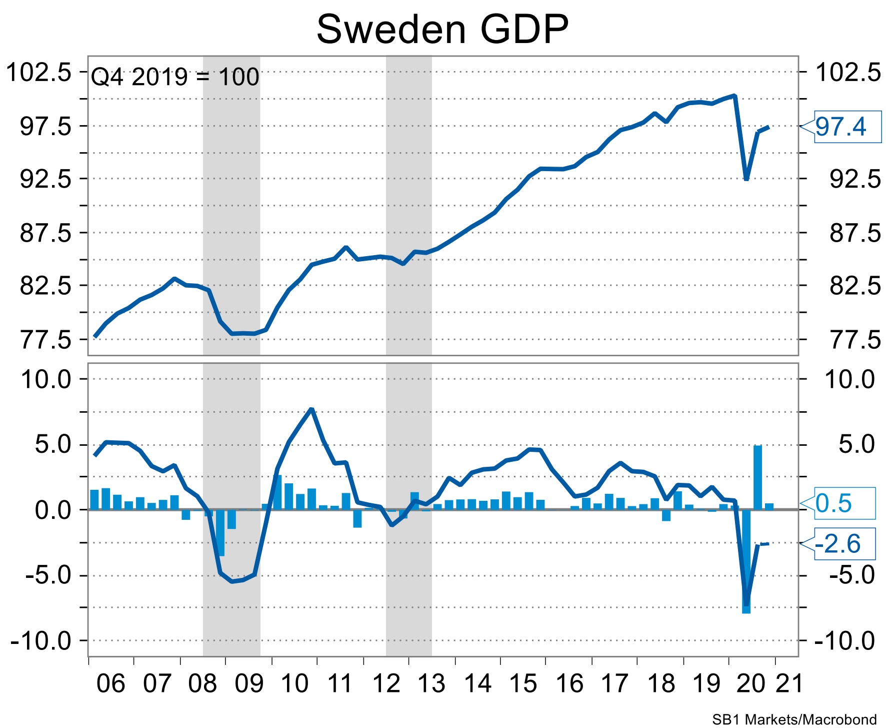
‘The outlook on the economy remains unusually uncertain’ *BoE Monetary Policy Summary*



- The Bank left the **interest rate at 0.1%** and maintained the target for asset purchases at £895
- **Outlook considered unchanged** – vaccine news considered most important update since Nov, however, the Bank stated that the outlook remains unusually uncertain.
- The Q4 y/y GDP forecast is improved, but still down at -8% y/y.
  - » The Bank expects a 4% decline in GDP in Q1, whereas they expected growth at the Dec meeting – Covid-related fiscal spending expected to boost GDP by 1% in 2021
- **Inflation** is expected to rise sharply towards target in the spring as a result of the cut in VAT coming to an end
- The BoE estimate that Brexit and the new trade deal with the EU to reduce GDP by approx. 1% in Q1.
- The **GBP** has appreciated somewhat since yearend. Clarity around the Brexit deal and vaccination success probably to thank. Last week, the pound strengthened further, alongside a significant lift in the yield curve

GDP grew by 0.5% q/q in Q4

A 0.9% growth was expected. The activity level is still down -2.6% from Q4 2019



- No details are yet published
  - » The monthly production index signals no carry over into Q1 as production fell slightly in Dec
- GDP declined by 2.8% last year, vs 2019, one of the better in the rich part of the world

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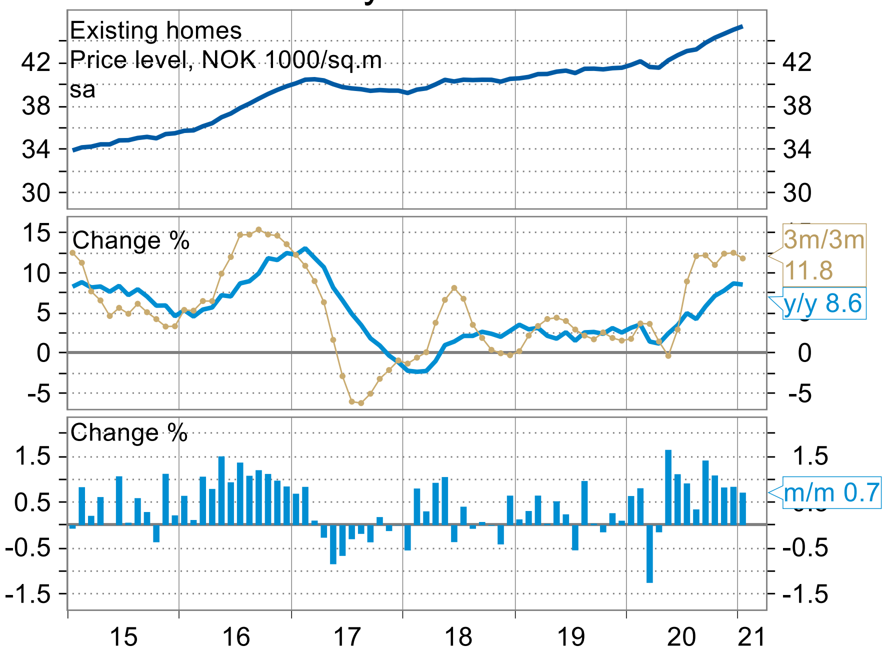
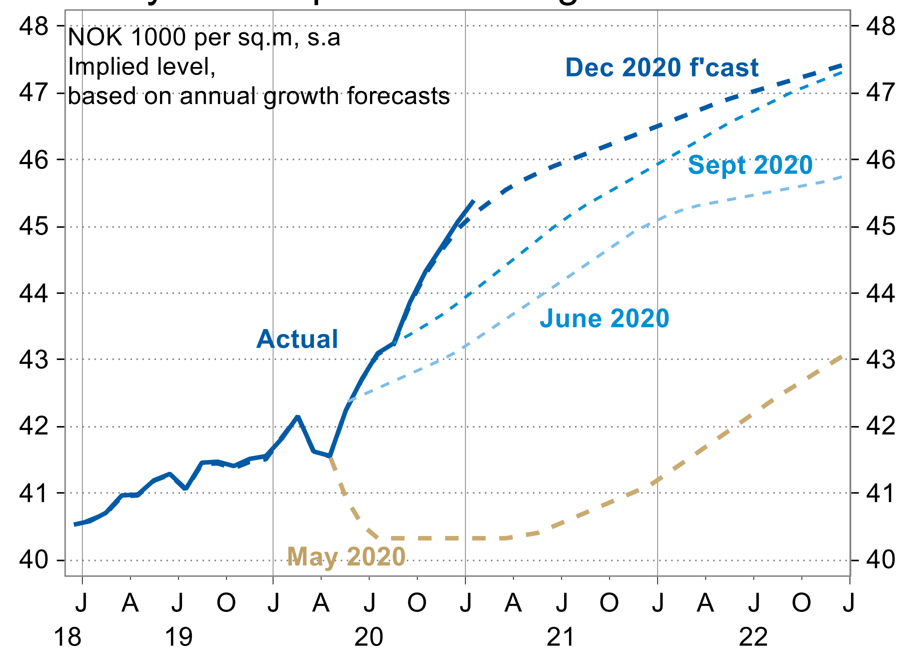
Market charts & comments

Steady as she goes: House prices increased by another 0.7% m/m in January

Norges Bank (and we) expected 0.7%. Price growth is slowing but market is still tight, a low inventory



SB1 Markets/Eiendom Norge/Finn/Eiendomsverdi AS

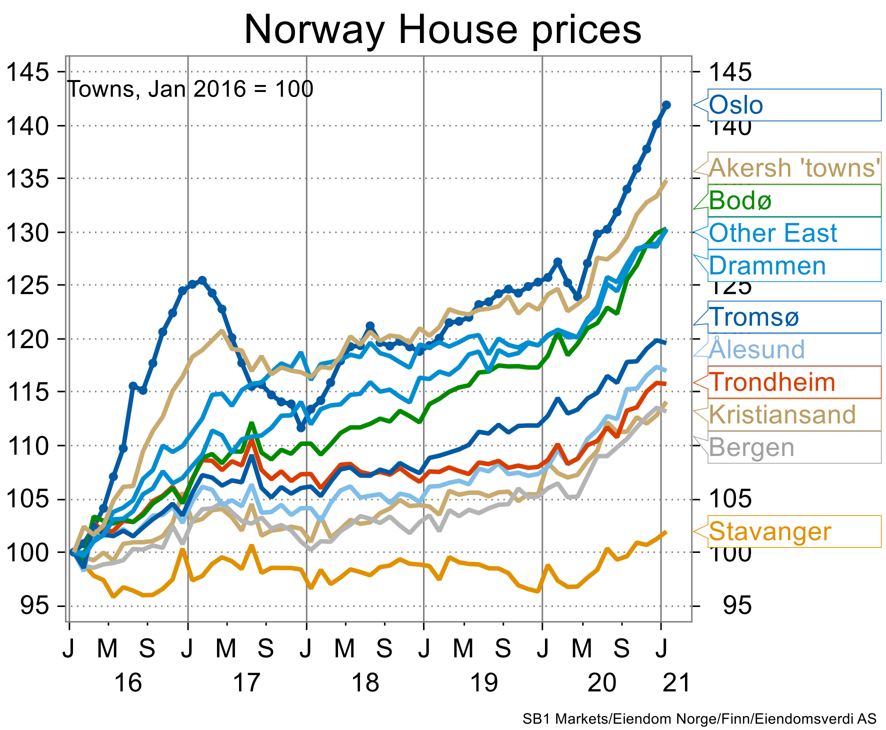


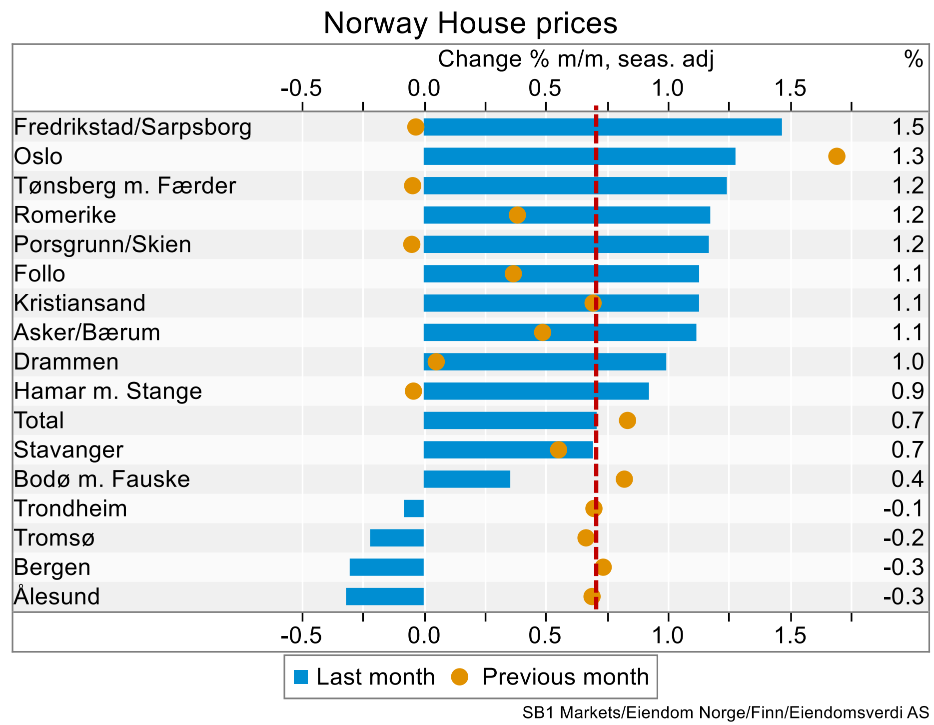
SB1 Markets/Macrobond

- House prices rose by 0.7% seas. adj in Jan, down from 0.8% in Dec, as we expected. In Dec, Norges Bank assumed 0.5%. The past 3m/3m, prices are up by 12%, annualised. Prices are up 8.6% y/y. A 1.2 pp cut in mortgage rates (to 1.8% in average now, from 3.0% in Feb), has been much more important the corona setback and higher unemployment
  - » 4 cities reported declining prices m/m, along the coast from Bergen to Tromsø. Oslo prices rose by 1.3%
  - » Smoothed 3m/3m prices are up everywhere. Stavanger and Kr.sand at the bottom, Oslo at the top, at 19% (annualised) – and Bodø next with 17%!
  - » The number of transactions fell in Jan but remains at a high level The inventory of unsold homes has not fallen further over the past 3 months but the level is low, an lower than normal almost everywhere
- **Should the steep price growth continue, Norges Bank will start hiking rates even before Q1 22' (Q4 21 is more likely, we think)**

Weakness along the coast from Bergen to Tromsø. But just in January

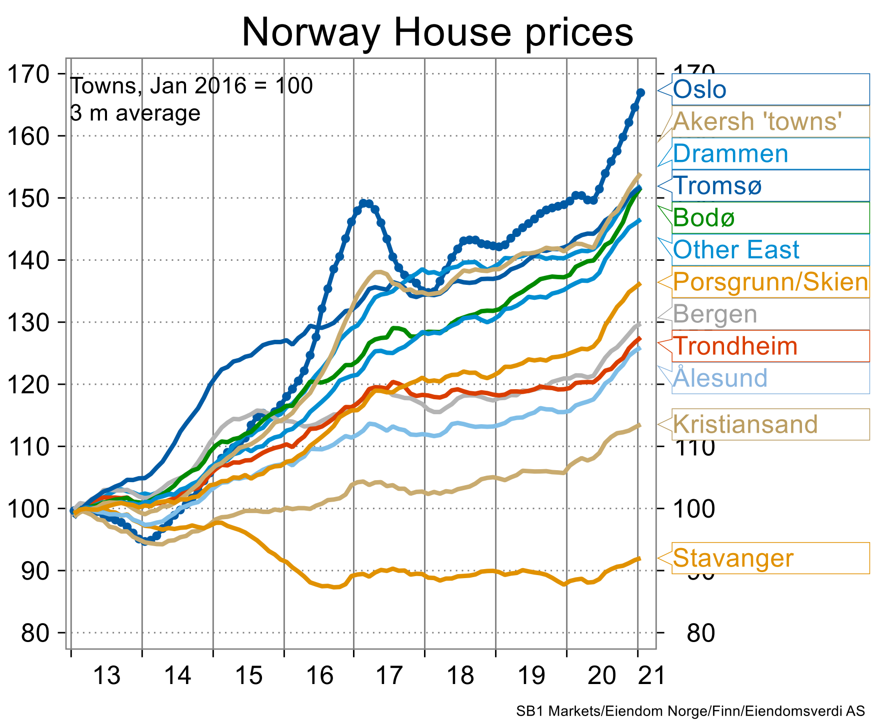
Fredrikstad/Sarpsborg in the lead m/m in Jan, followed by Oslo & Tønsberg

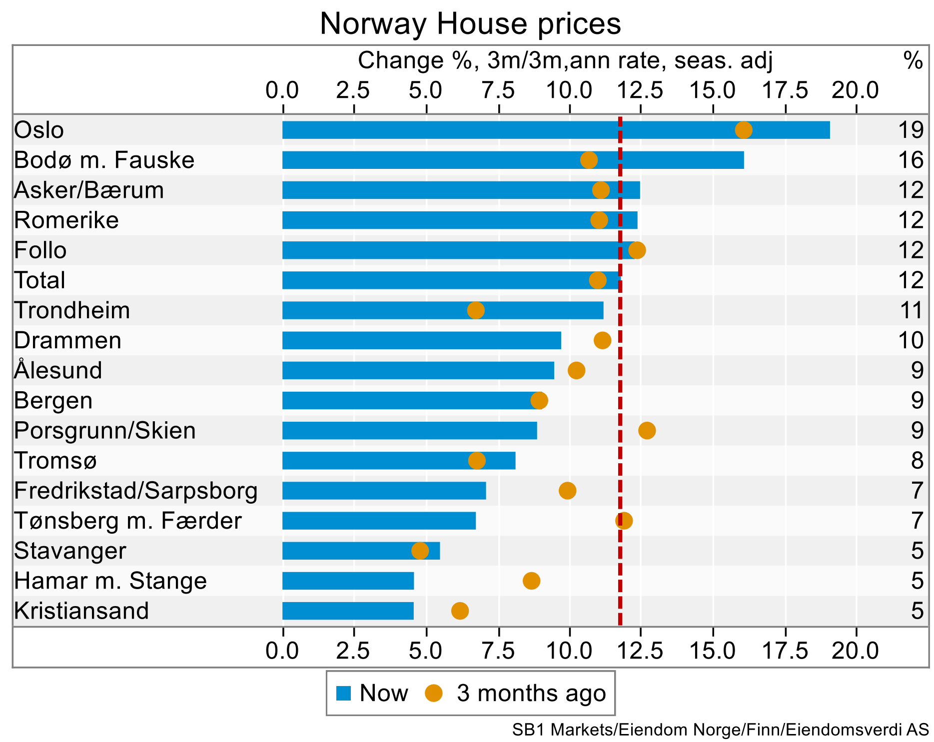




Recent months; measured 3m/3m: All up, from zero in April to 12% now!

Prices in Oslo fell the most in March/April – but has recovered sharply since then, now up 19% 3m/3m

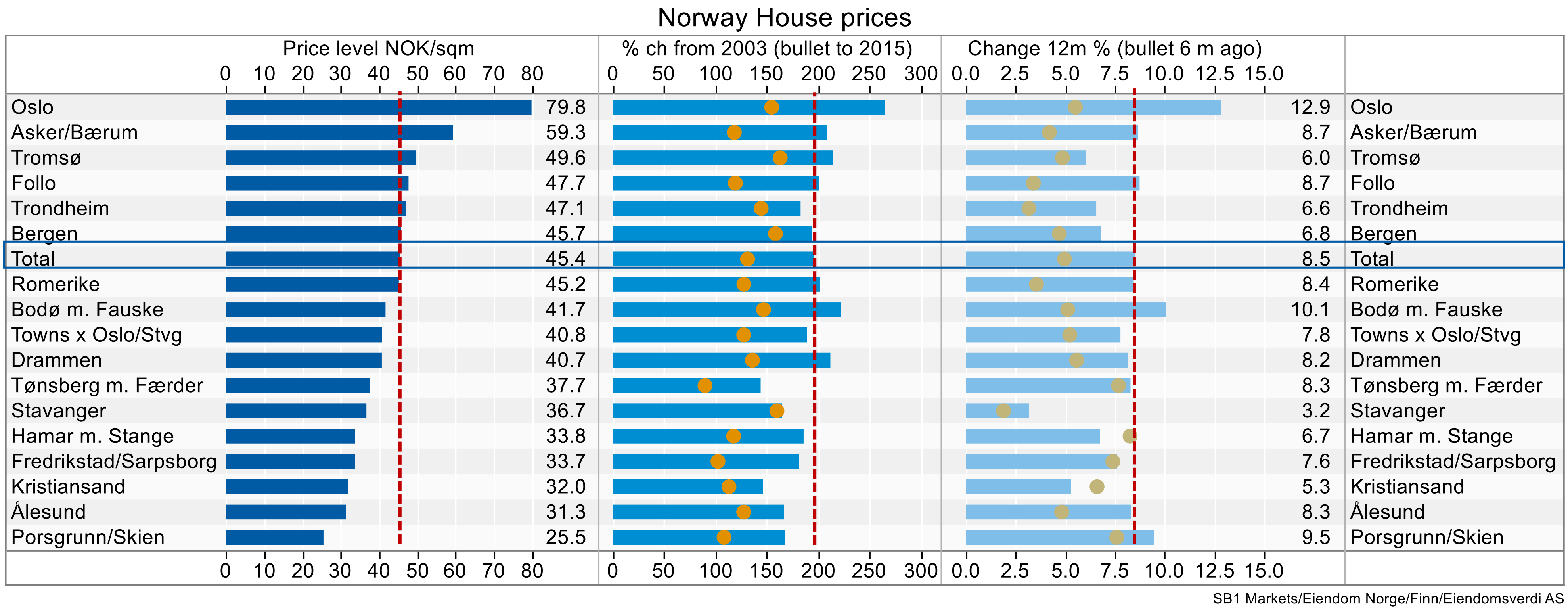




- Stavanger is perhaps best described as flat, recent years, even if prices have climbed since last spring.
- All others are up – with Oslo in the lead vs the early 2016 price level

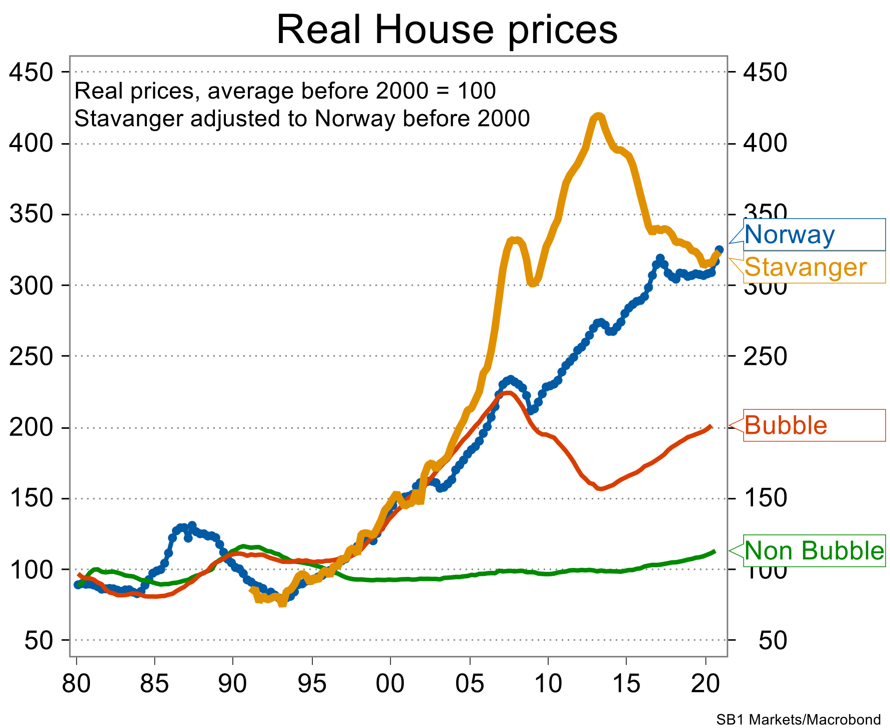
Oslo in the lead past 12 months, up 12.9% - but the boom is broad!

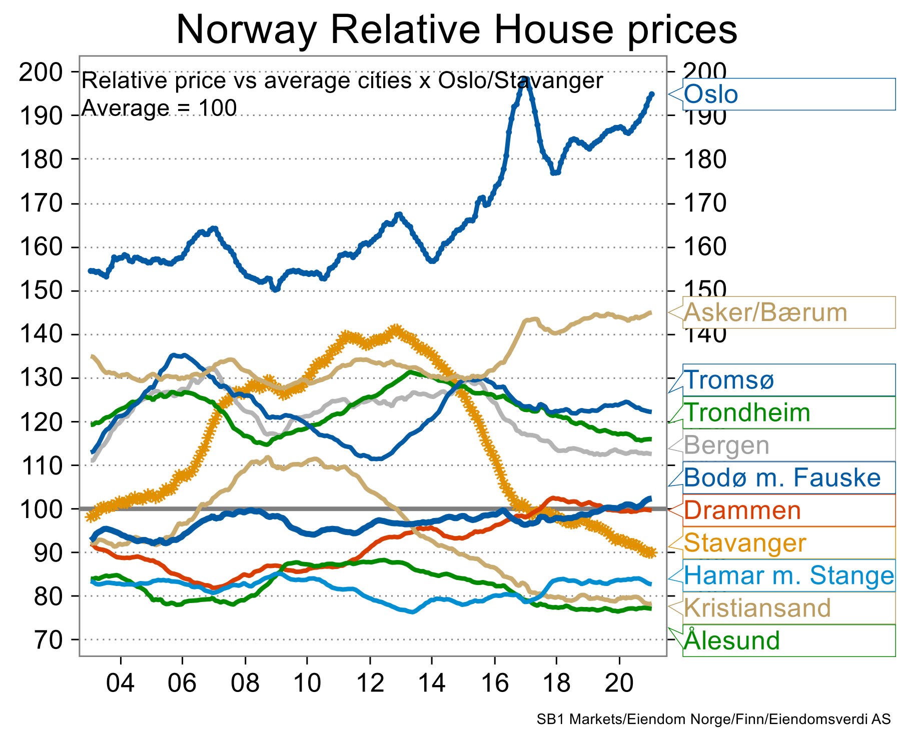
But the weakest chain in the link through last year, Stavanger, is up 3.2%



The Stavanger case: Could it happen elsewhere?

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



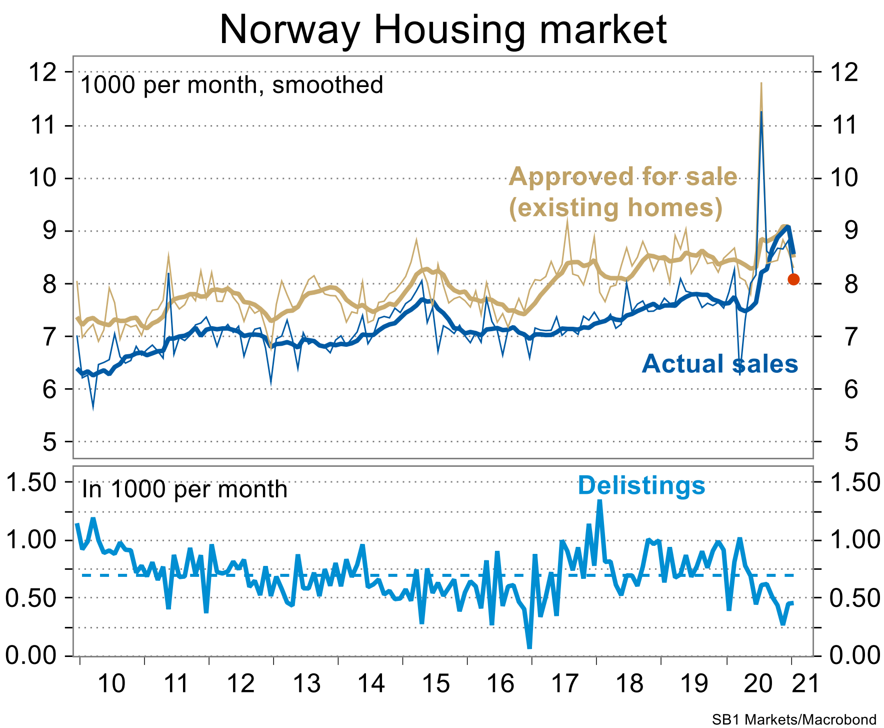


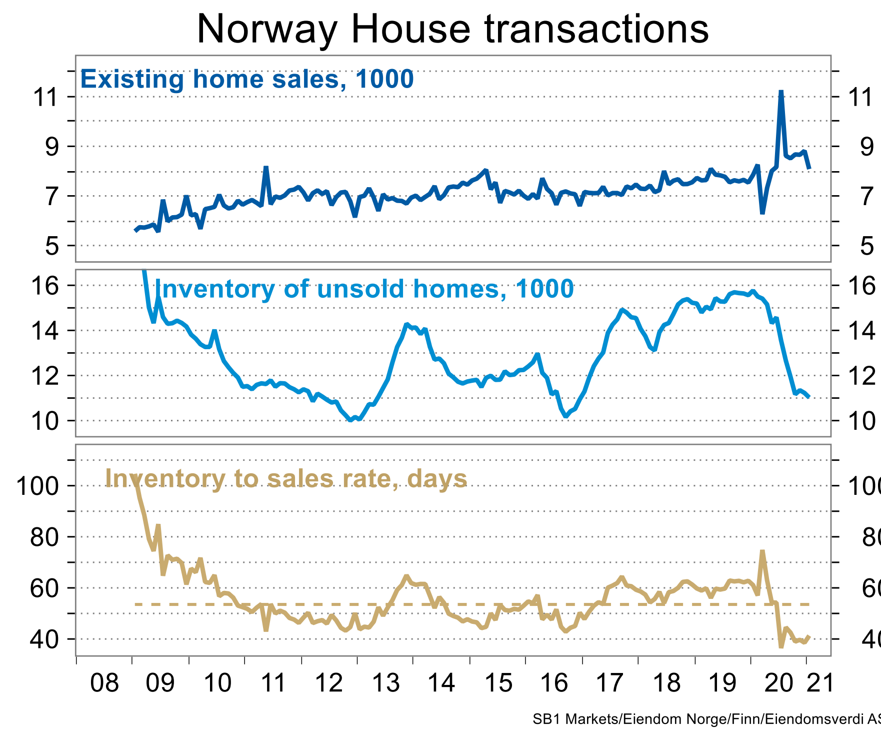
- Housing starts in Stavanger are still not lower than normal. It is still profitable to build!

SpareBank 1 MARKETS

The no. of transactions down but still high in Jan, inventory still further down

The inventory is not far above previous troughs but the speed of decline has slowed

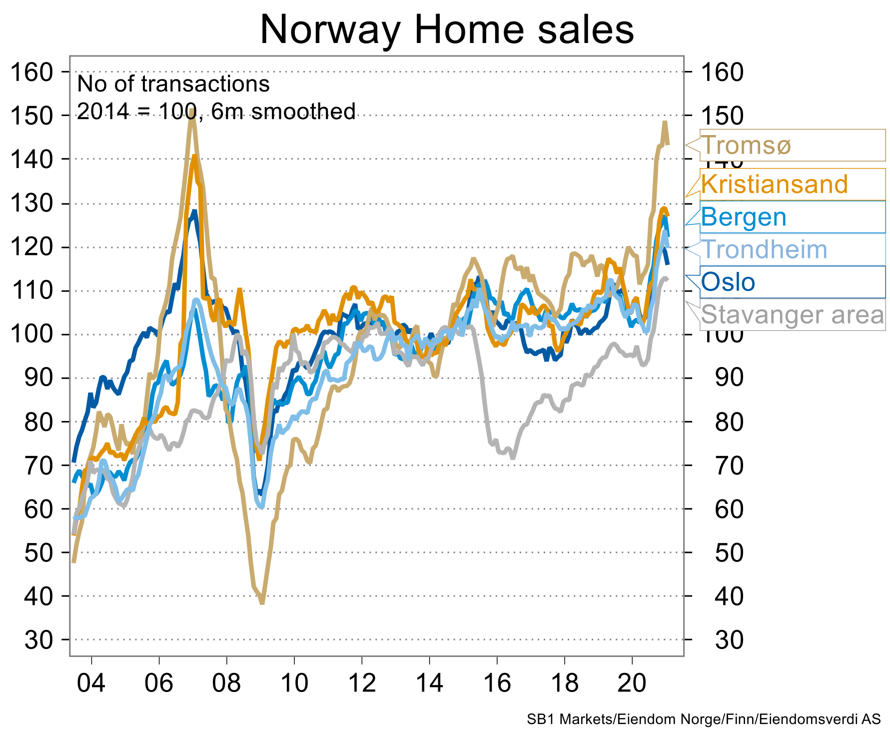


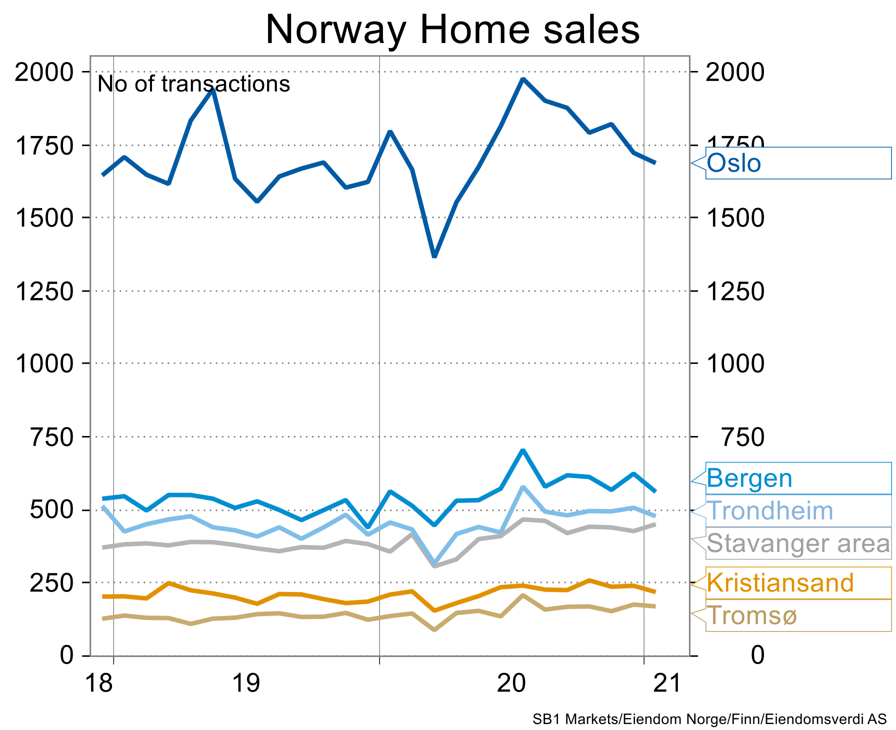


- **The number of transactions** fell 10% in Jan, from a high level in Dec but remained well above the pre-corona level
- The **supply of new existing homes for sale (approvals)** declined in January but remain at a higher level than normal
- **The number of delistings** is still far below a normal level – house are rather sold ☺
- The **inventory of unsold homes** fell further in Jan after stabilising the previous 3 months – at a level almost 30% down vs. the pre-pandemic level
- The **inventory/sales ratio** has contracted sharply too, and is close to ATL. The **turnover time** is was 40 days in Jan vs an avg of 54 days. As more homes that have been at the market for a while now are sold, the **average time on market for homes sold** is still high, at 50 days vs. an average at 43. Time on the market will very likely decline rapidly the coming months, as even the shelf warmers are accepted by eager buyers

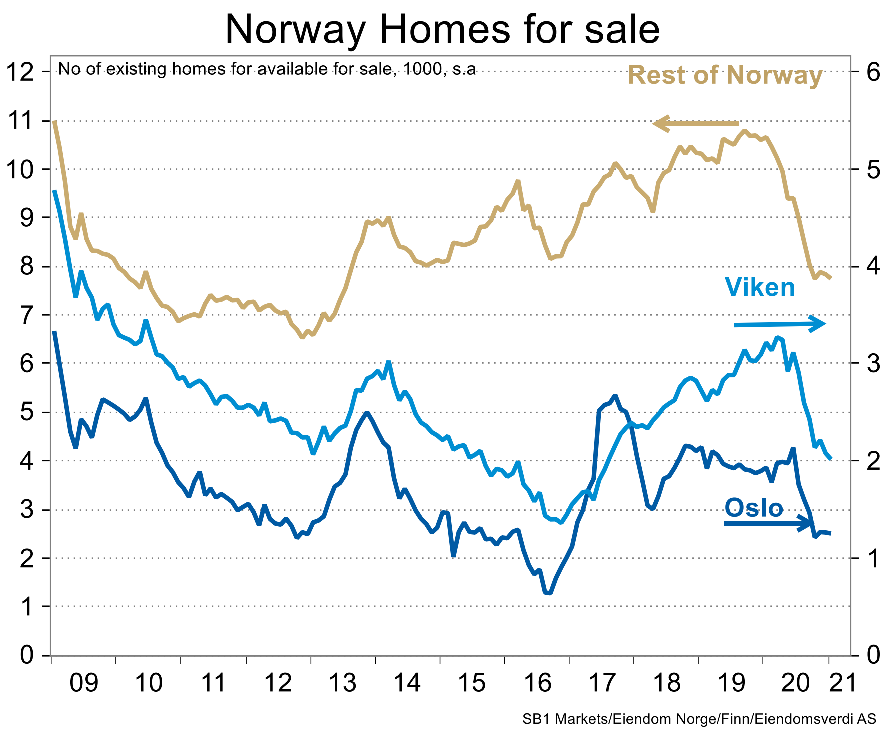
Fewer transactions in Oslo in the latter part of the year – level still high

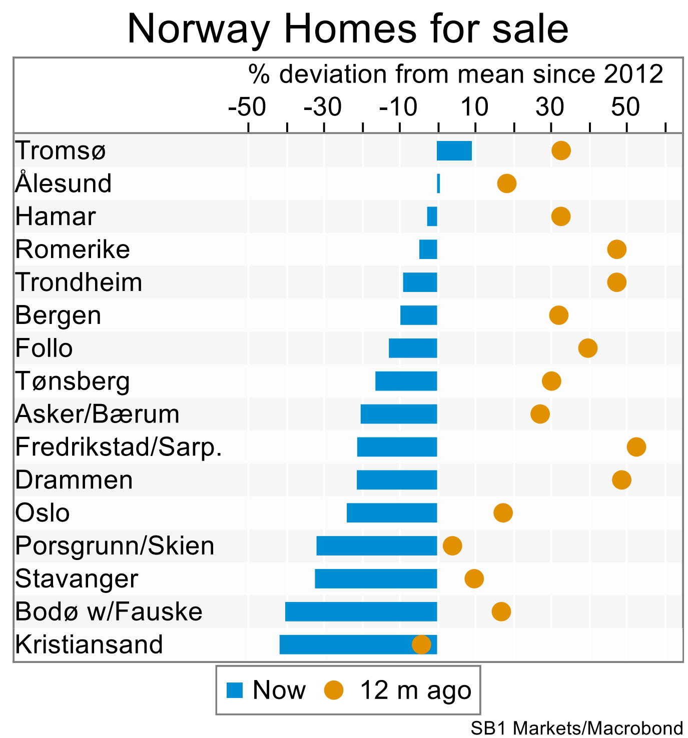
The decline no doubt due to lack of supply. Sales have increased more in Tromsø than elsewhere





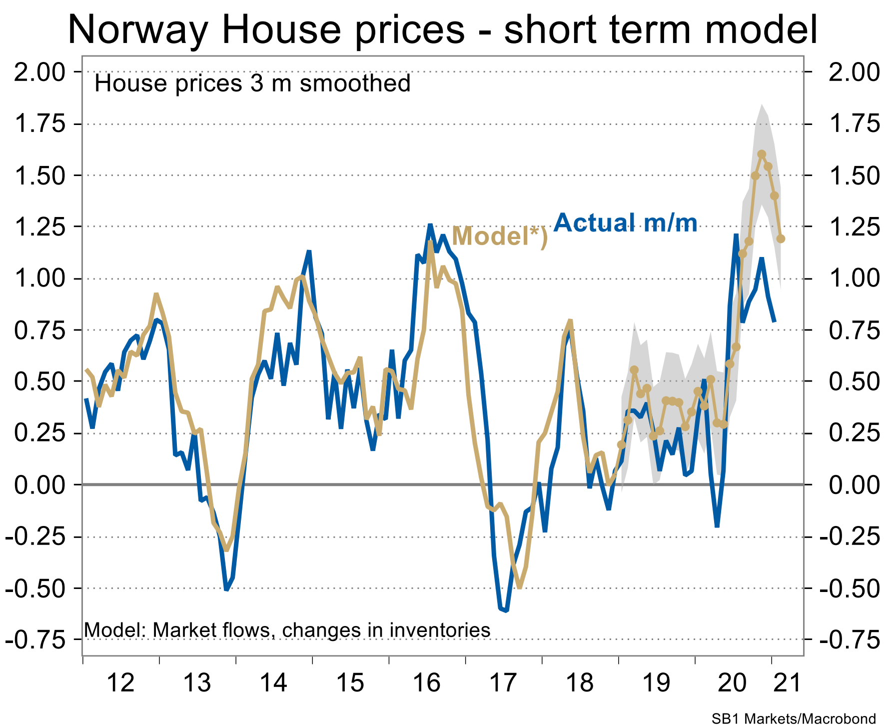
The inventory is falling everywhere, and is lower than normal almost everywhere





Short term market flows suggest a price acceleration

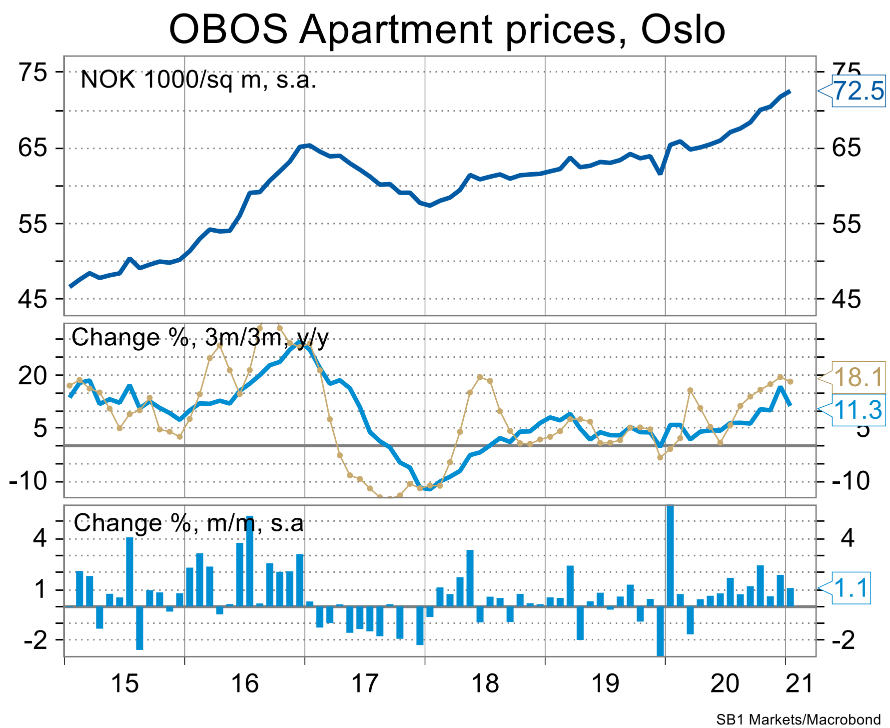
However, the model signals a slower growth now than the past 4 months

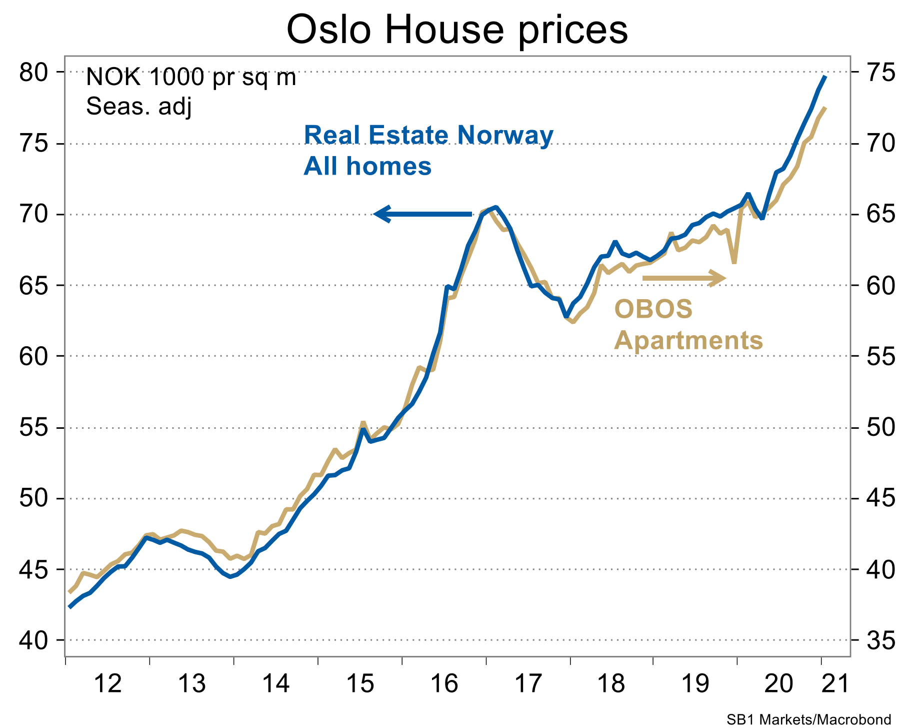


- The supply of new homes for sales and the inventory suggest rapid price growth the coming months, even faster than the past 3 months (avg)!
- The model signals a 15% growth pace, up from approx. 10% now
- *This is not a long term price model, just a short term price model based on flows of (existing) houses approved for sale and actual sales*

OBOS apartment prices confirm the Oslo surge, up 1.1% in Jan, up 11% y/y

Underlying growth recent months even higher, at 18%

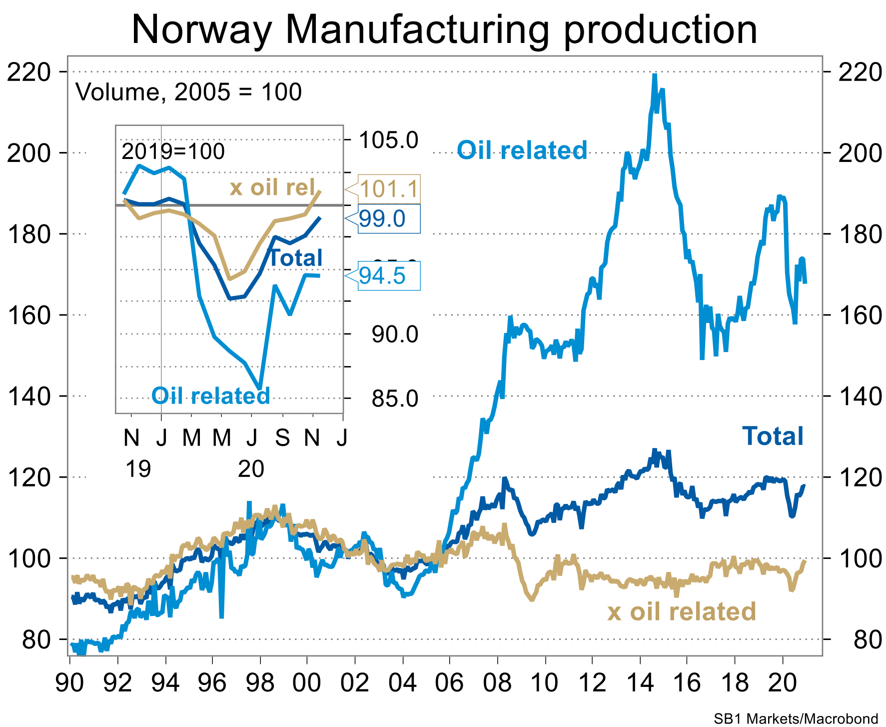


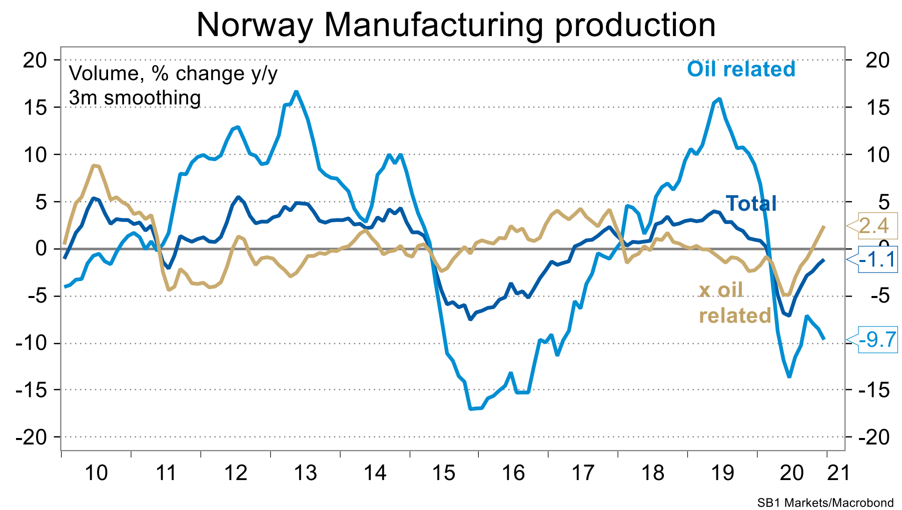


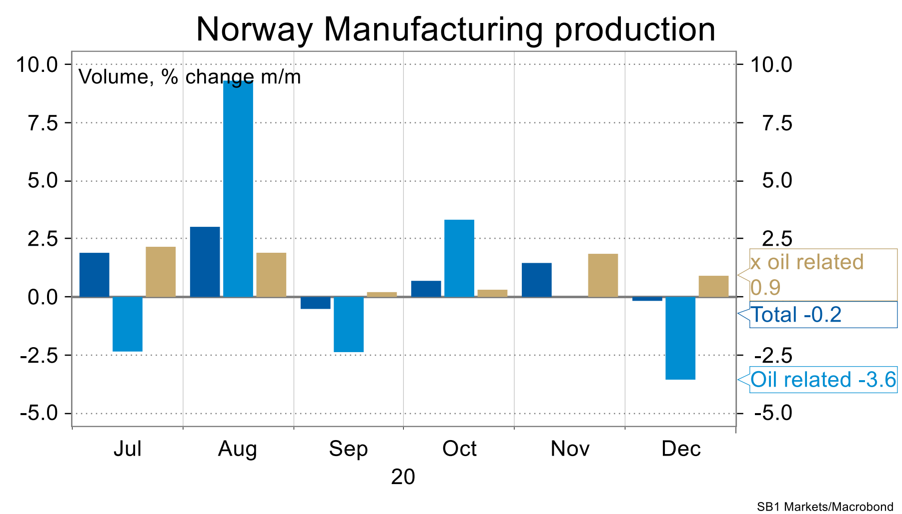
- Co-op apartment prices follow the overall Oslo market quite closely

Manufacturing production marginally down in Dec, trend is OK

Oil related industries down 3.6%, the others up 0.9%, the sum down 0.2%, we expected flat



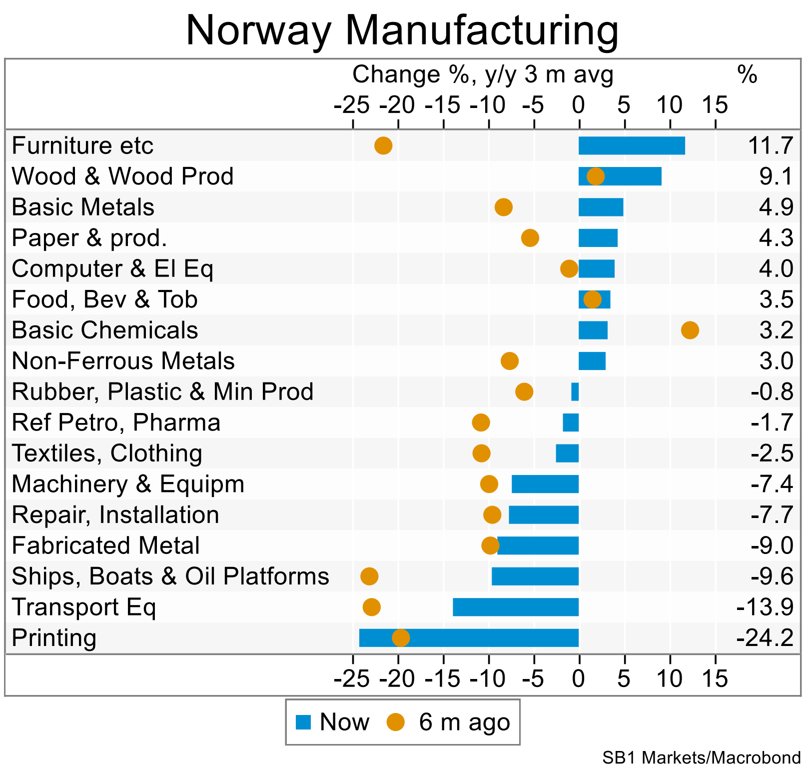


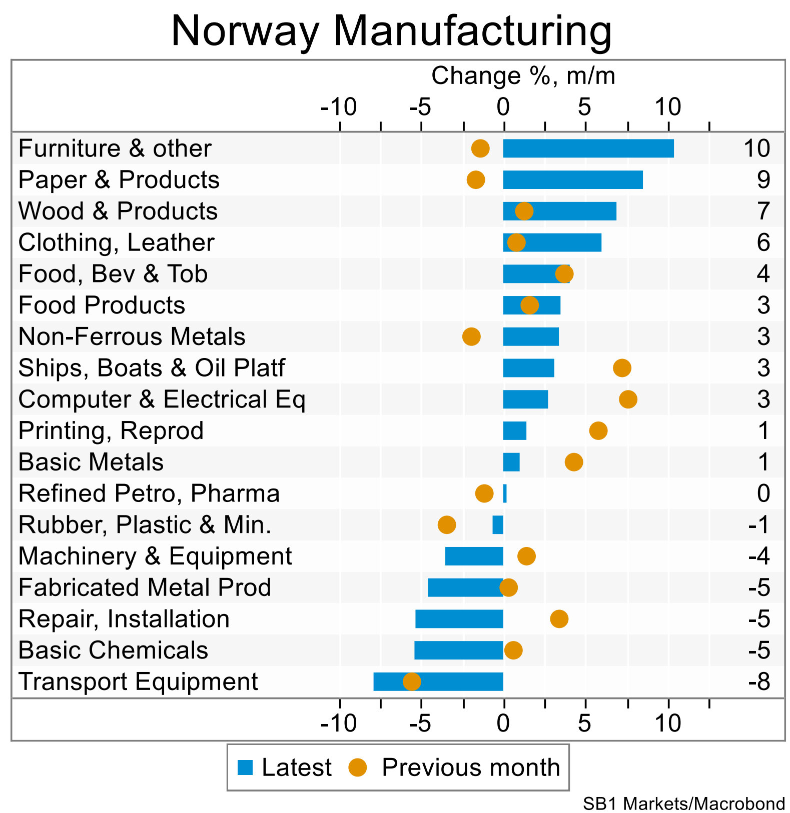


- Production has been in an upward trend since June, in total by 7%. Production rose by 2.3% from Q3 – but is still down by 1.7% y/y, due to a 8.5% setback in sectors that produces input to the oil sector
- Q4 non-oil related are up 1.2% vs. Q4 '19, in line the global manufacturing production but well above our the outcome among our trading partners
- Surveys are mixed. The Regional Network signals no growth, while both the PMI and SSB's survey signals close to normal growth. NHOs survey is a laggard, signalling falling production

Mixed between sectors m/m, most still down y/y

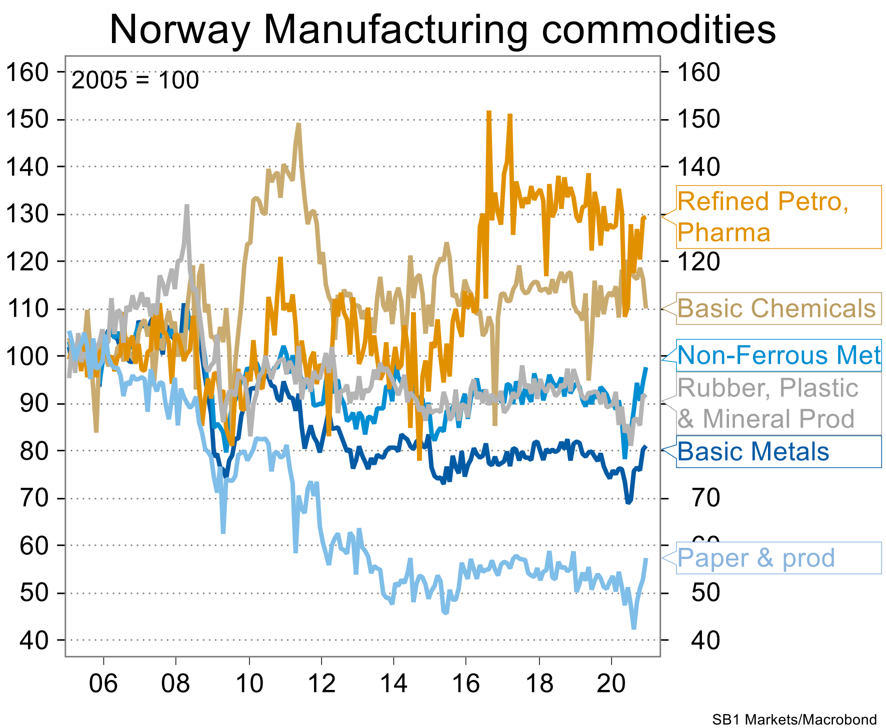
But most up m/m

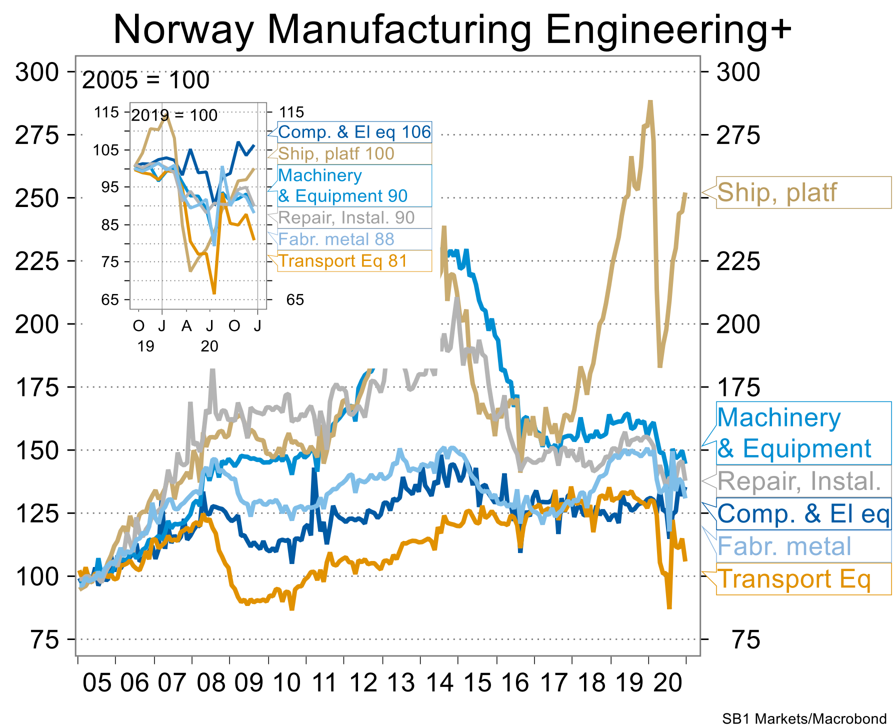




Engineering (and oil related) industries mixed – in total a tad weaker

Commodity sectors mostly up recent months

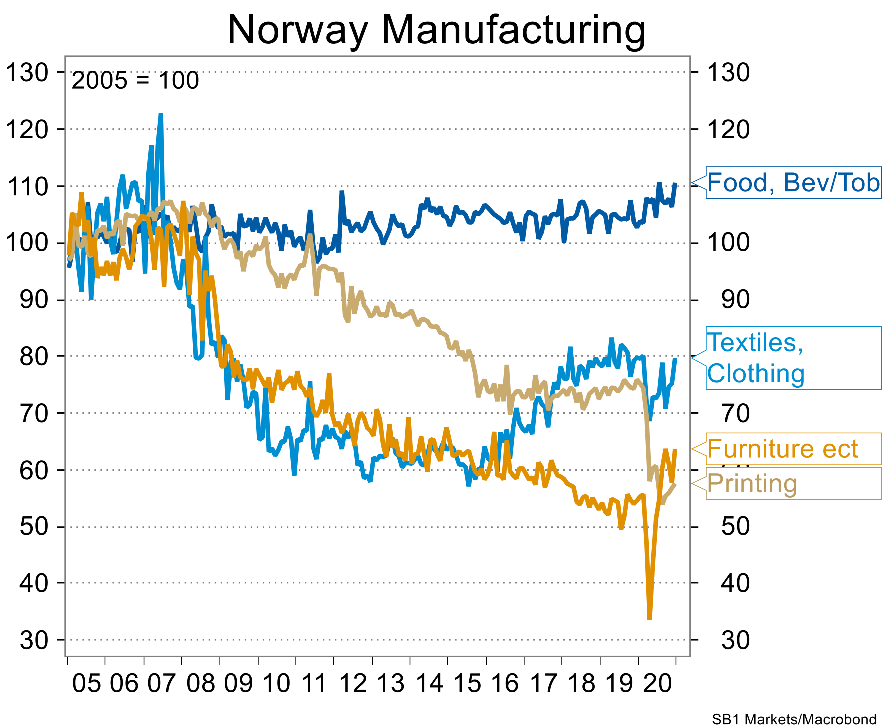




- Production of ships & platforms was incredibly strong in 2018/19, and have recovered sharply since the summer, following a 30%+ decline during H1. The level is once more impressive
  - » Corona measures, supply chain challenges probably explained parts of the drop during the spring
- Commodities have all recovered from the spring through. Chemicals down in Dec, others further up

Food and beverage on the way up

... and will remain high until borders are opened

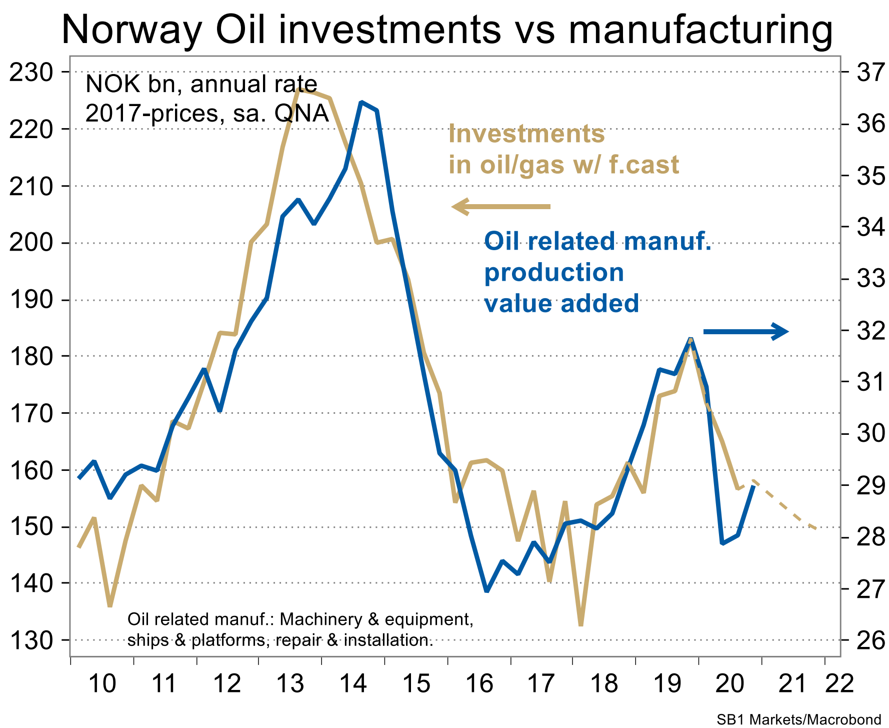


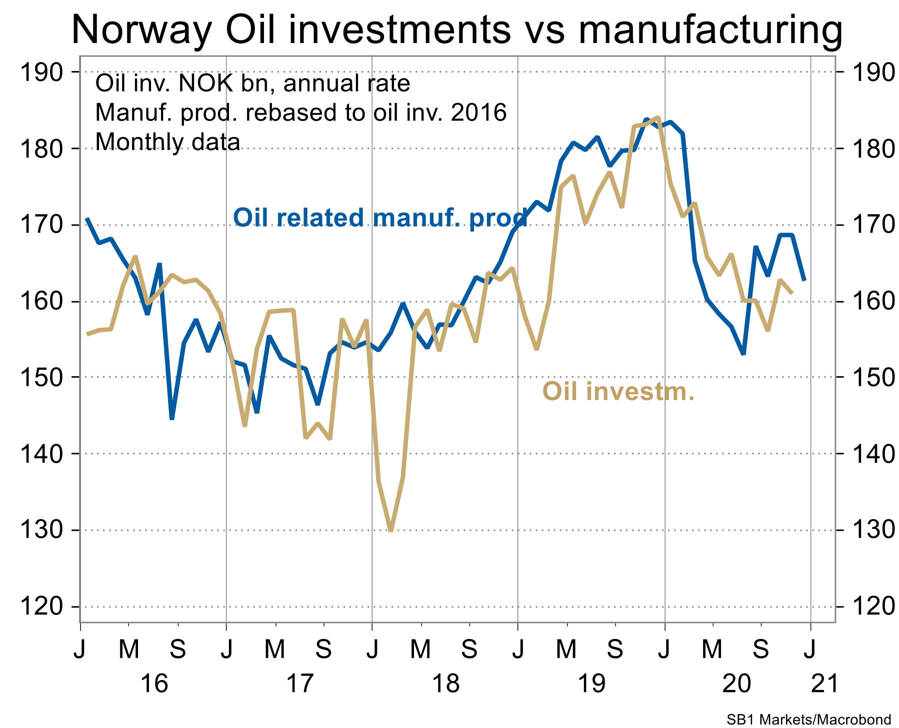
- Furniture made a comeback – as domestic (and foreign) demand has surged during the corona crisis
- Printing & clothing on the way up too

SpareBank 1 MARKETS

No more upside for oil related manufacturing production?

… We have said for the past two months – as production had recovered, and needed more 'demand'

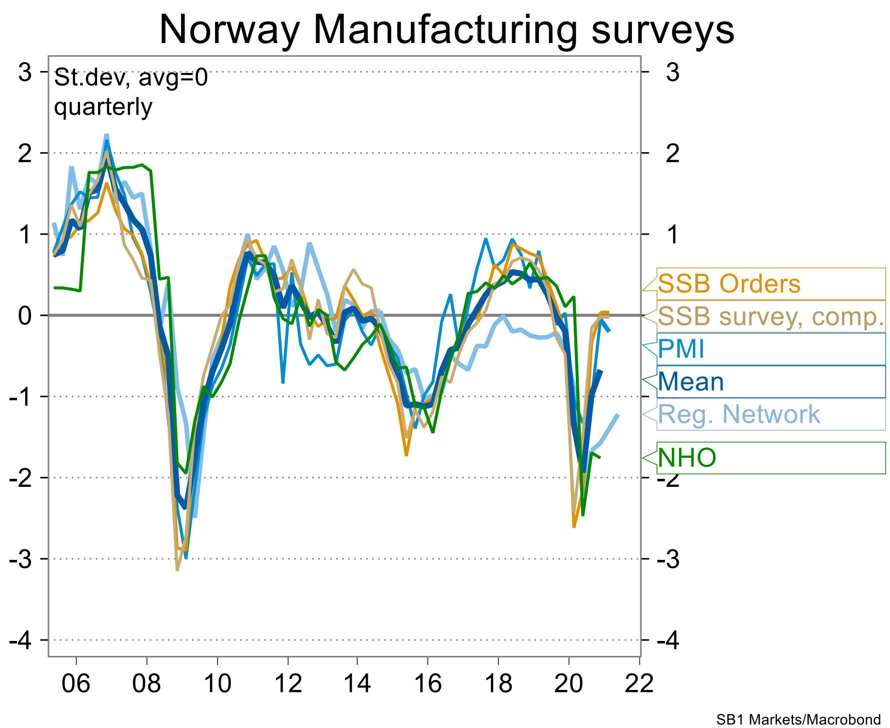


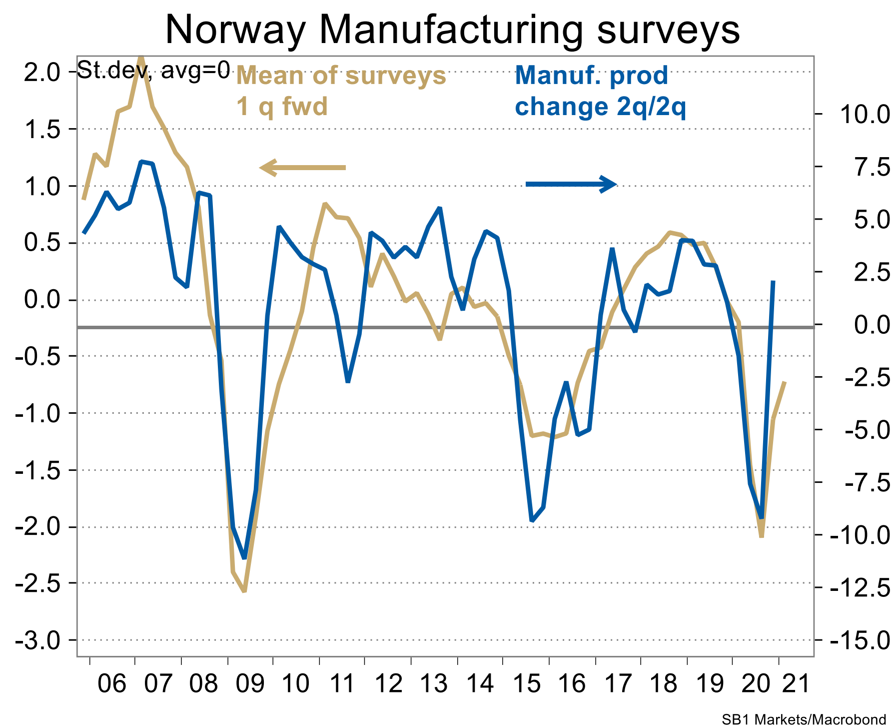


- **Oil investments** are down 11% from Q4 '19, and we expect another downturn through next year. However, tax cuts and recent surge in the oil price has reduced the downside risk – and we may have to revise our forecast upwards
- Even so, given the recovery since the summer, we think the outlook for oil related manufacturing production is rather muted – and which have been reported both in Norges Bank's Regional Network and in SSB's quarterly manufacturing survey

Manufacturing surveys are turning up, the average is still below par

The avg is still signalling a decline in production – but some surveys have recovered well

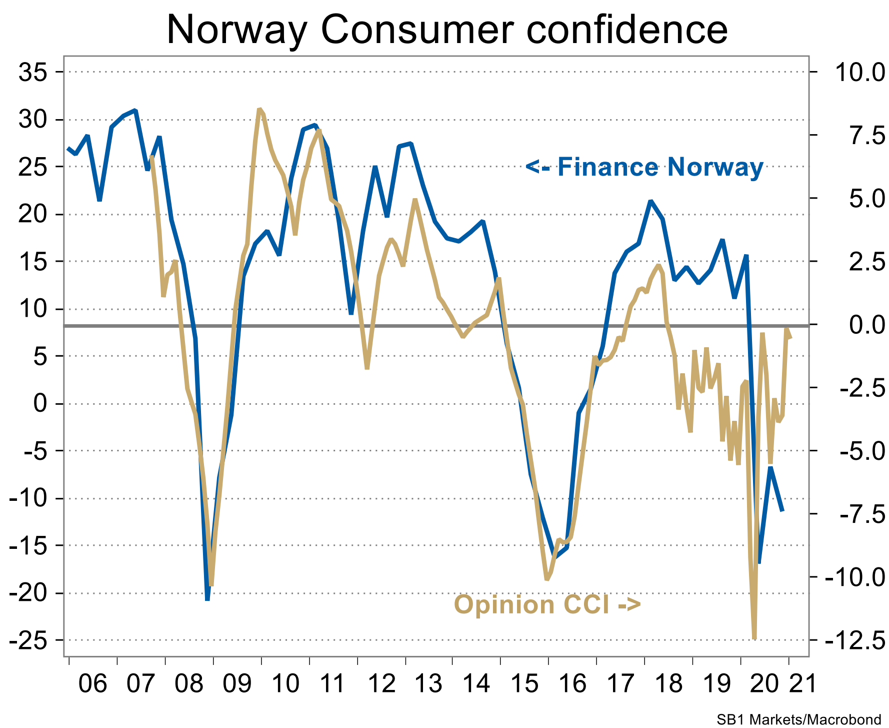




- Both **SSBs quarterly manufacturing survey** and the **PMI** are signalling close to normal growth in manufacturing production – and production is on the way up

Consumer confidence has recovered, according to Opinion's CCI

The confidence index was rose sharply in Dec, to an average level – and remained there in Jan



- Finans Norge will report it's quarterly index Tuesday morning. We expect a recovery up to 0, which is still well below average, from -11 in Q3

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The world around us

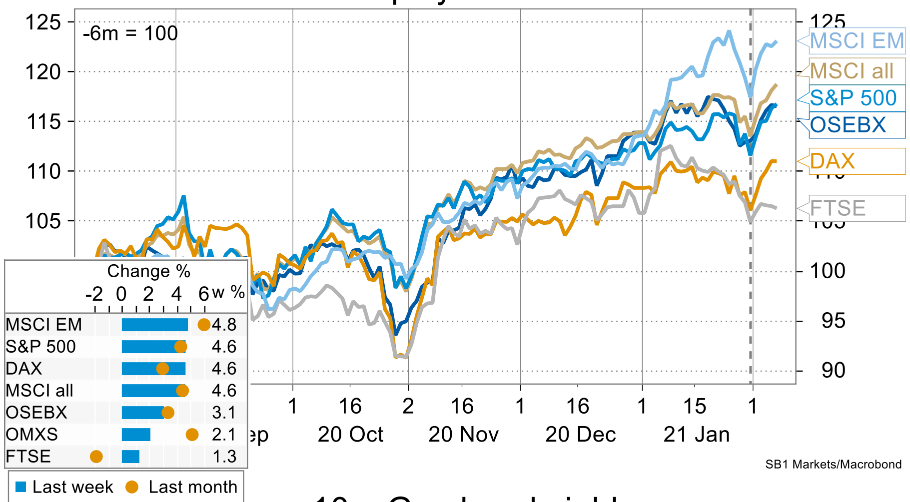
The Norwegian economy

Market charts & comments

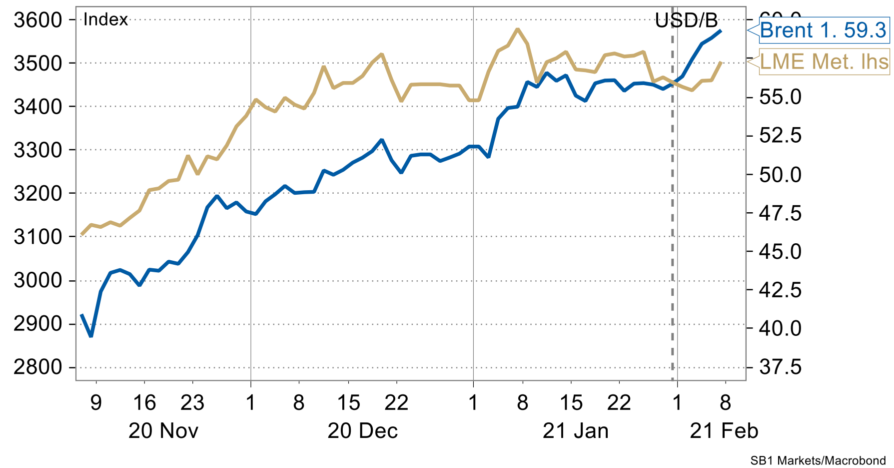
The sun is shining again, need some shades?

A steep rise in bond yields no party pooper (but that's normally the rule, until it is not…)

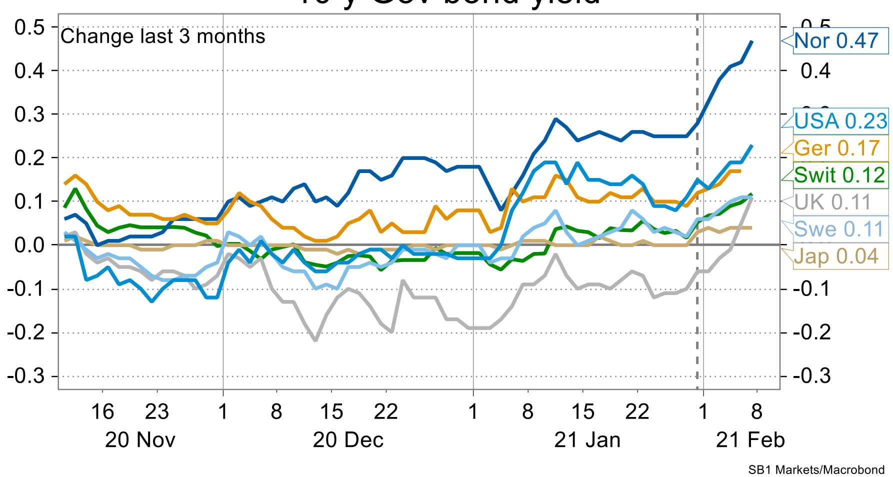
Equity Indices



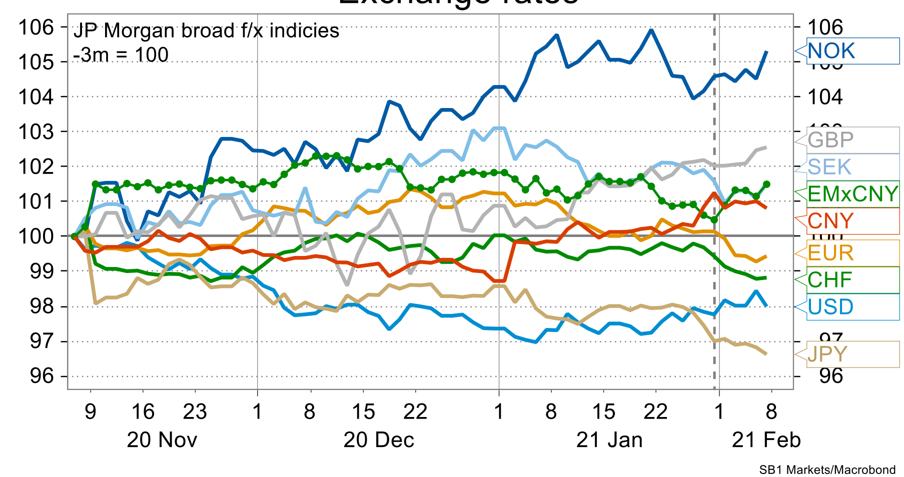
Oil vs. metals



10 y Gov bond yield



Exchange rates



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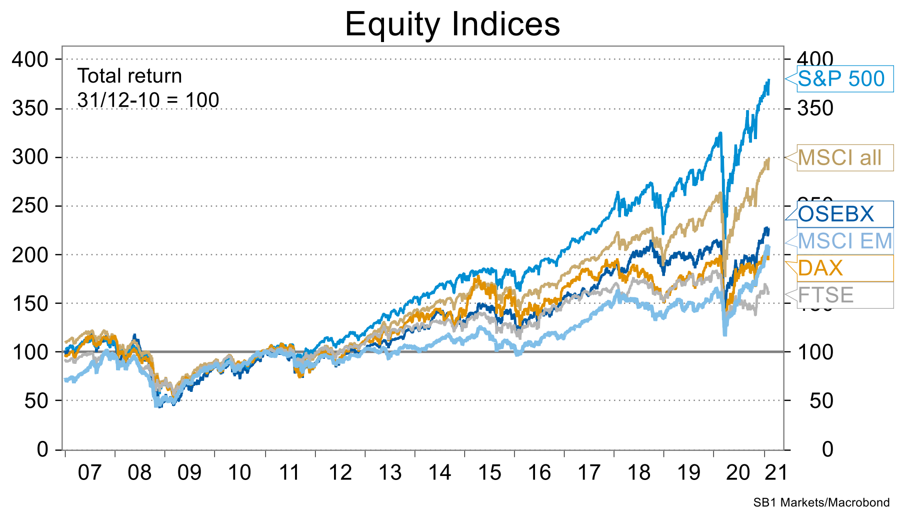
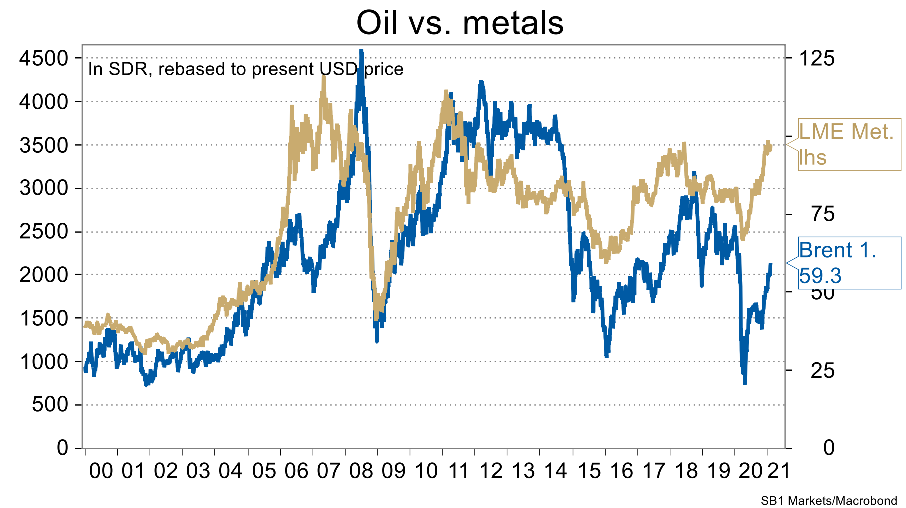
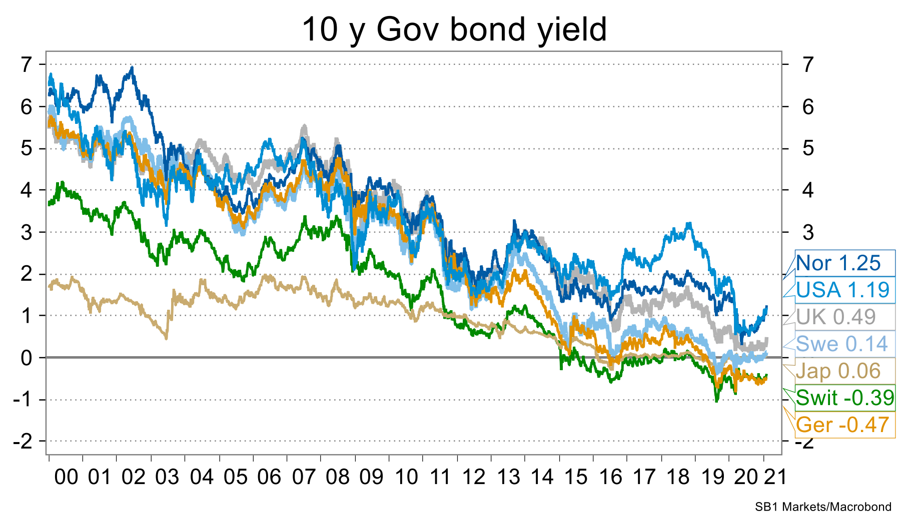
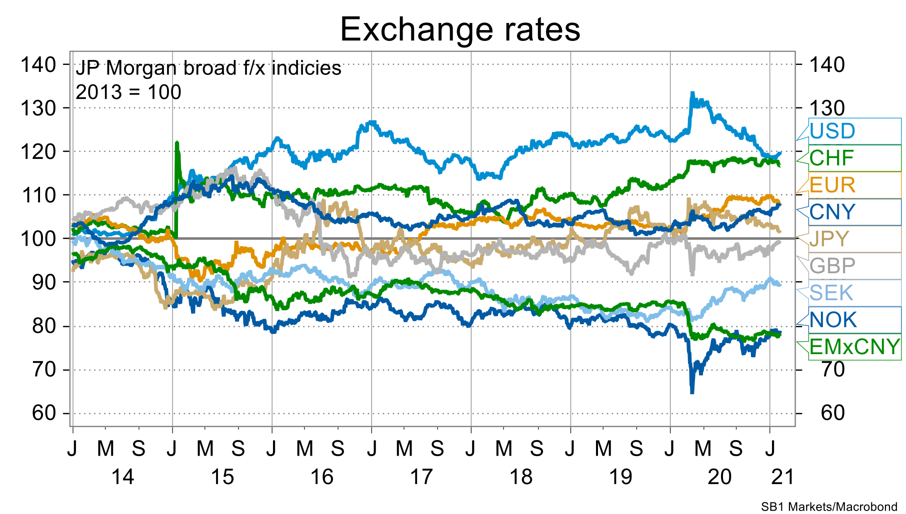
No limits to be seen?

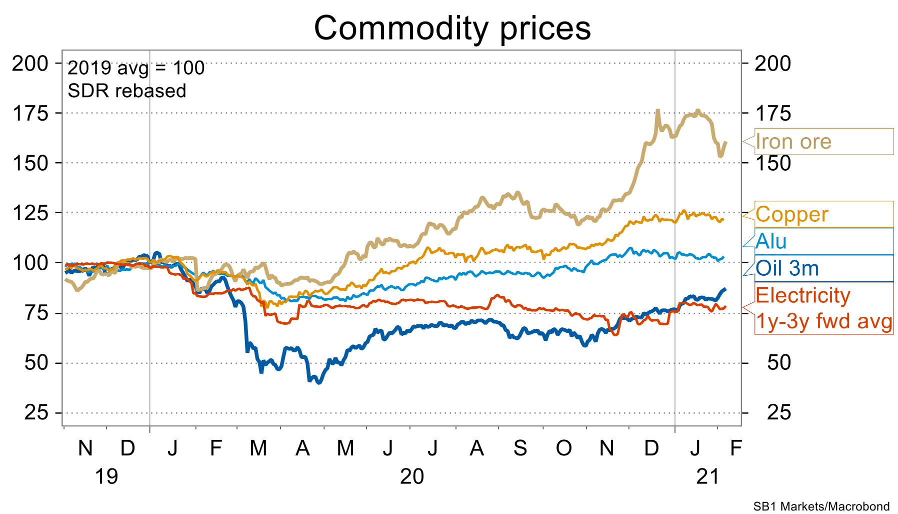


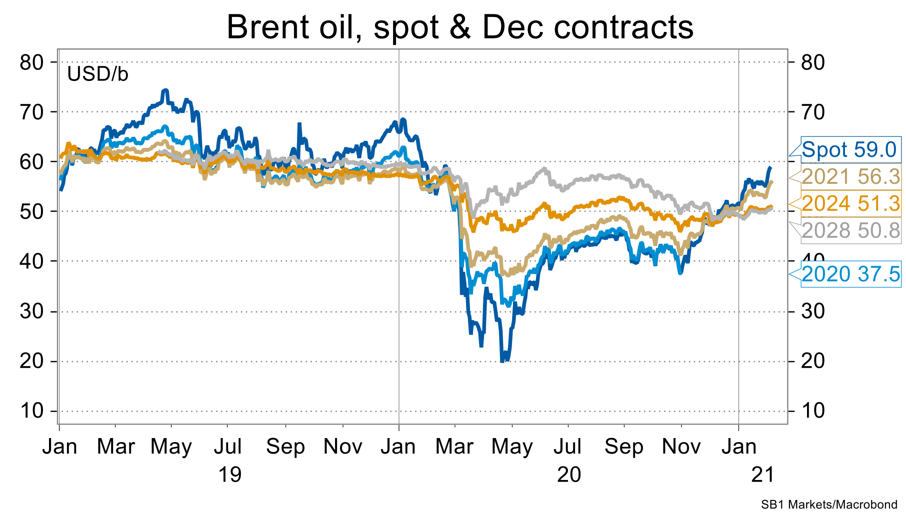


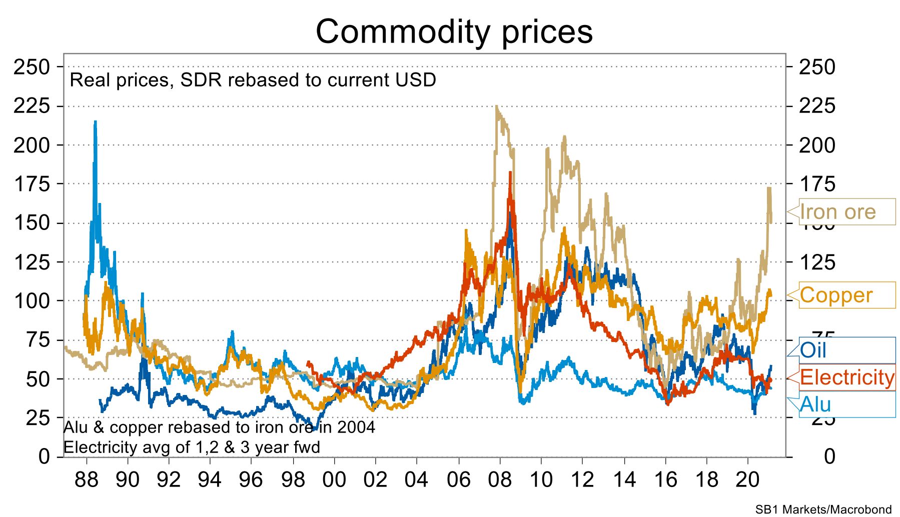


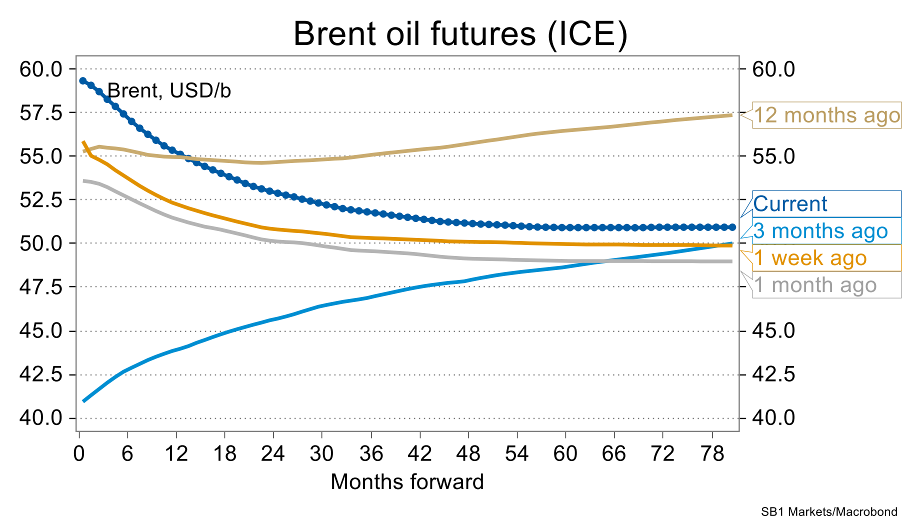


Iron ore stabilised, oil sharply up, including longer dated contracts

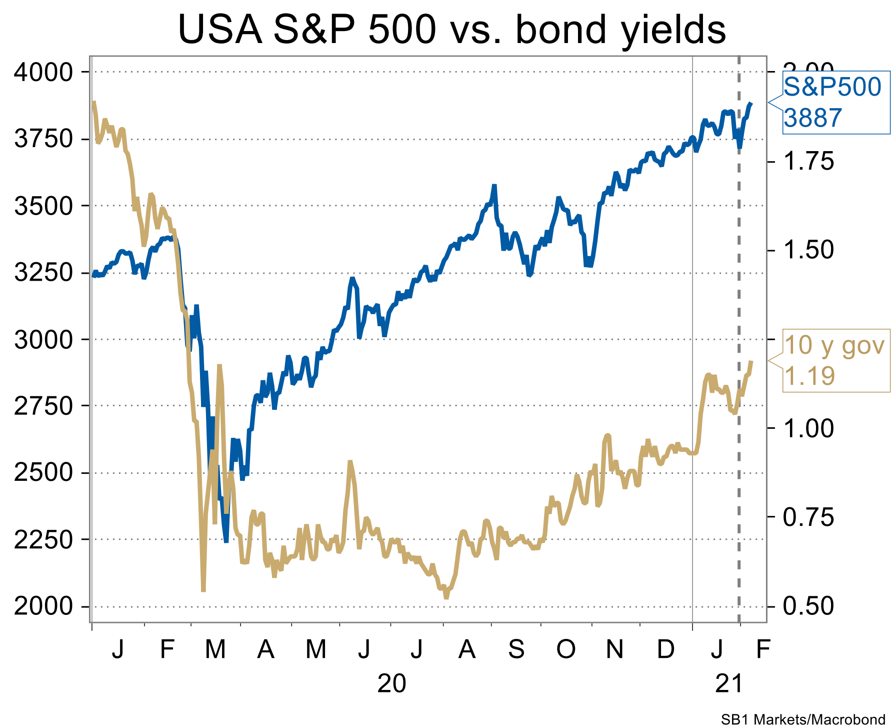


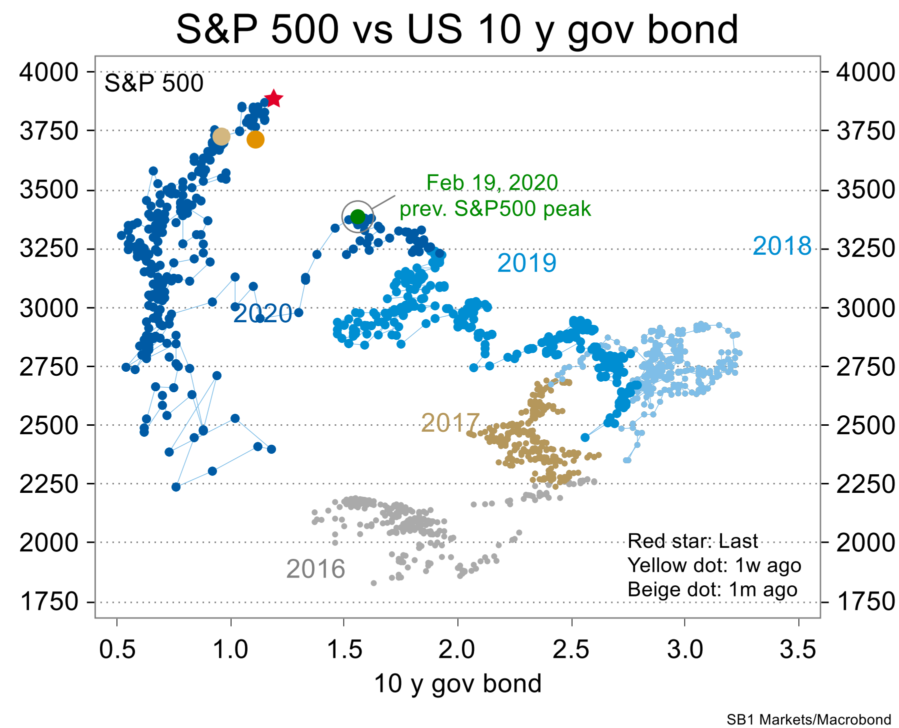






The S&P up 4.7% last week, to another ATH, 10 y Gov up 8 bps to 1.19





* Since the through in yields in early August, almost 70 bps ago (10 y gov), the stock market has climbed 20%

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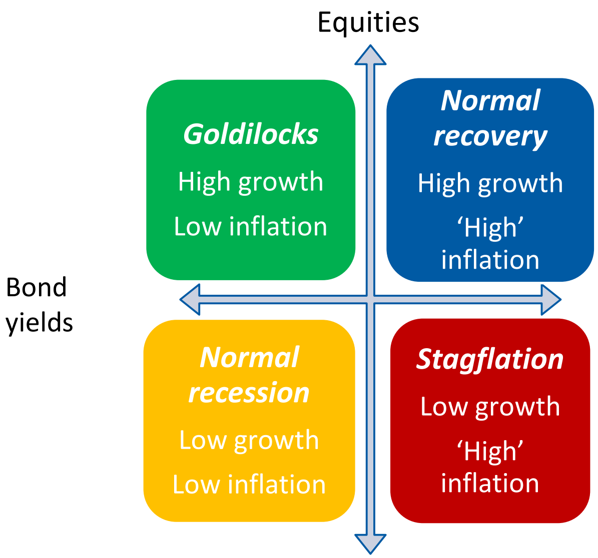
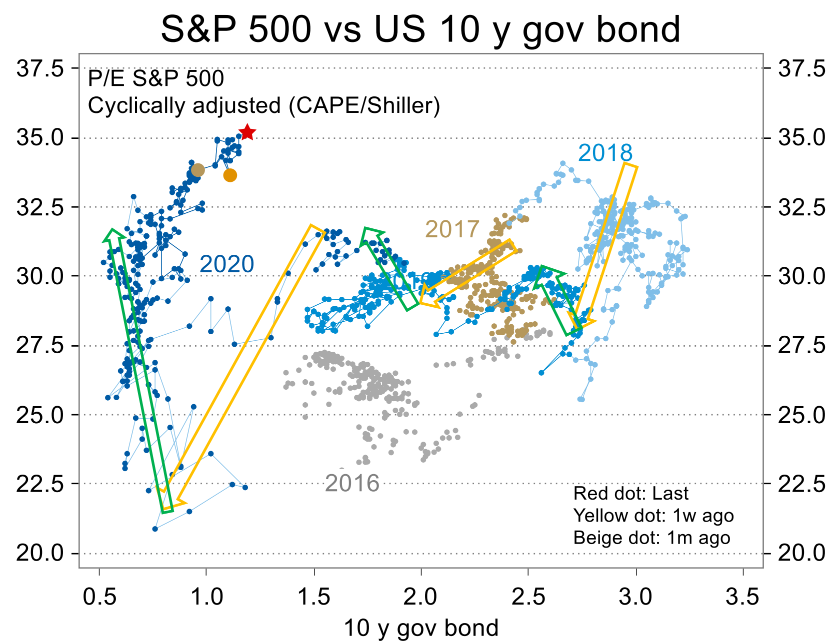
A long term view: From the ‘Goldilocks corner’, where to go?

Over the past month/week: Towards the normal recovery ‘blue’ corner, but we are still in the ‘green’ Goldil.’s





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- Usually, we have associated drifts towards the ‘green corner’ - low inflation and solid growth at the same time - as a temporary sweet spot for markets
- The US Federal Reserve promises to keep monetary policy expansionary, until actual inflation reaches the 2% target and is expected to exceed 2% for some time. As a bonus (at a late stage of a cycle), that would also make it possible for the Fed to push employment higher and profits margins lower (which the market will not discount before it is too late?)
- Will we stay up here, in the green? Perhaps, for while – but probably not, long term
  - » The economy has rebounded rapidly from the corona trough. Any substantial disappointment on corona/vaccine or the growth cycle in general would be challenging for the equity market. Still, the corona hit is most likely behind us, and vaccines have arrived
  - » The Fed will not yield from its new strategy anytime soon. However, (higher than expected) actual wage or price inflation numbers or just a rapid decline in the unemployment rate may shake the market’s confidence in the sustainability of Fed’s strategy, pushing long term bond yields up. Again, the risk is not serious, short term
- Why are we sceptical vs. the long term outcome? Before corona, the employment rate was high in the core age group, businesses reported (and are now again reporting) unprecedented lack of labour, wage growth was not low vs. CPI inflation or productivity. Profits were under pressure, and investments on the way down. Interest rates had not been too low, even if that is the popular view these days

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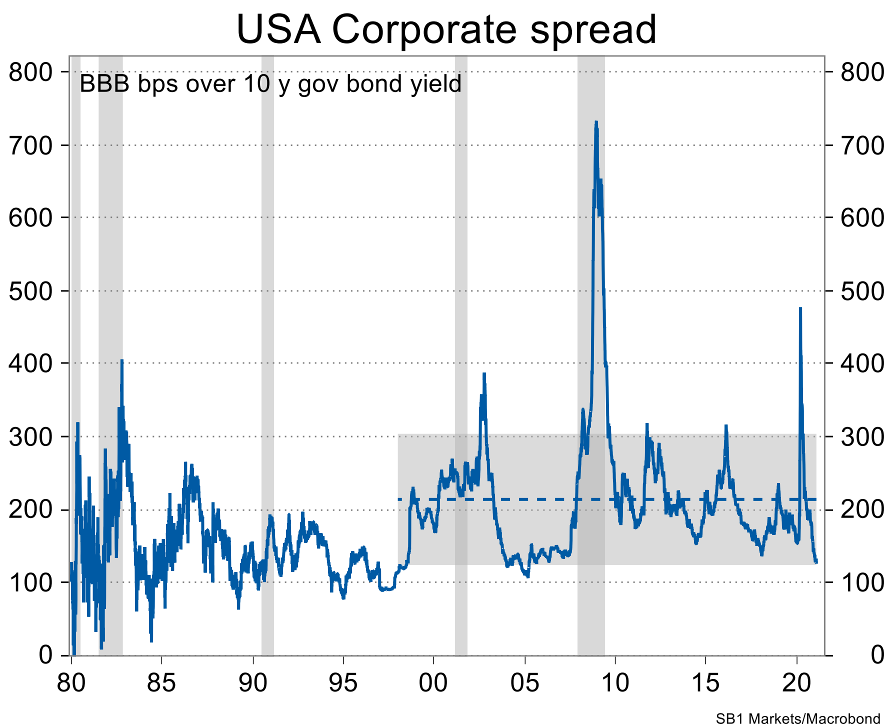
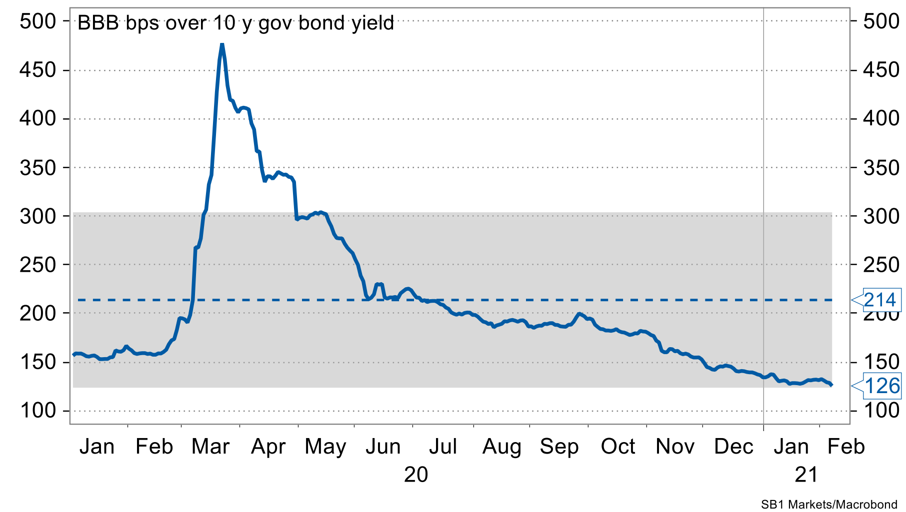
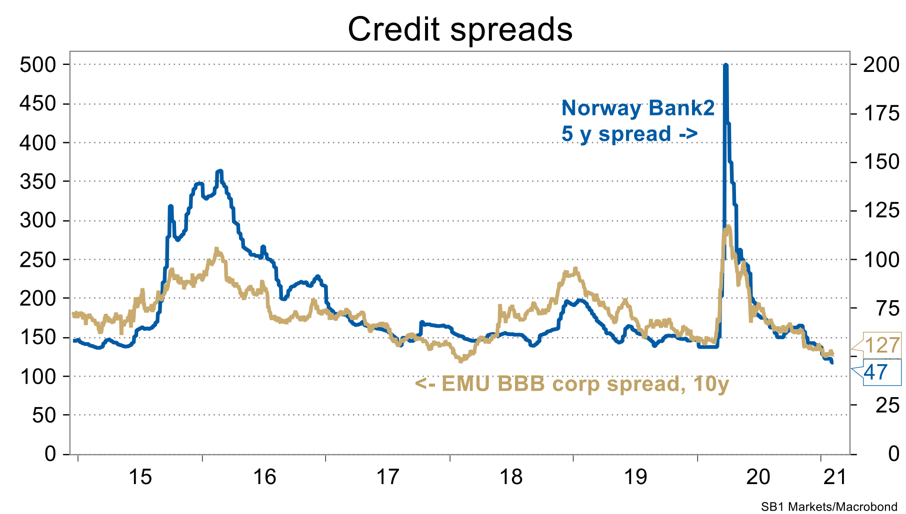
Credit spreads down again, *risk on*

Big picture: Credit spreads haven't been lower since 2005!







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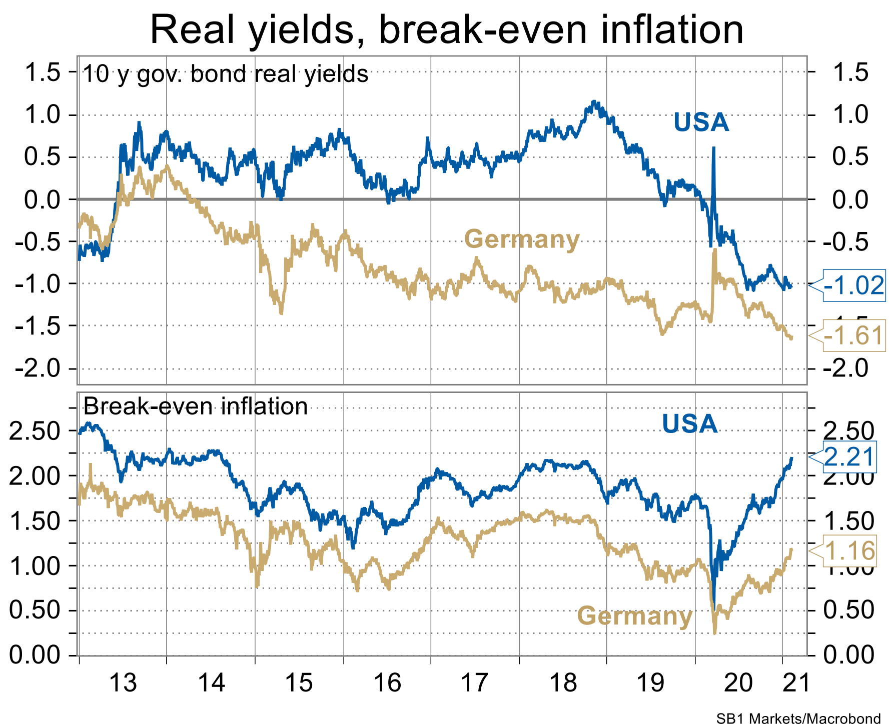
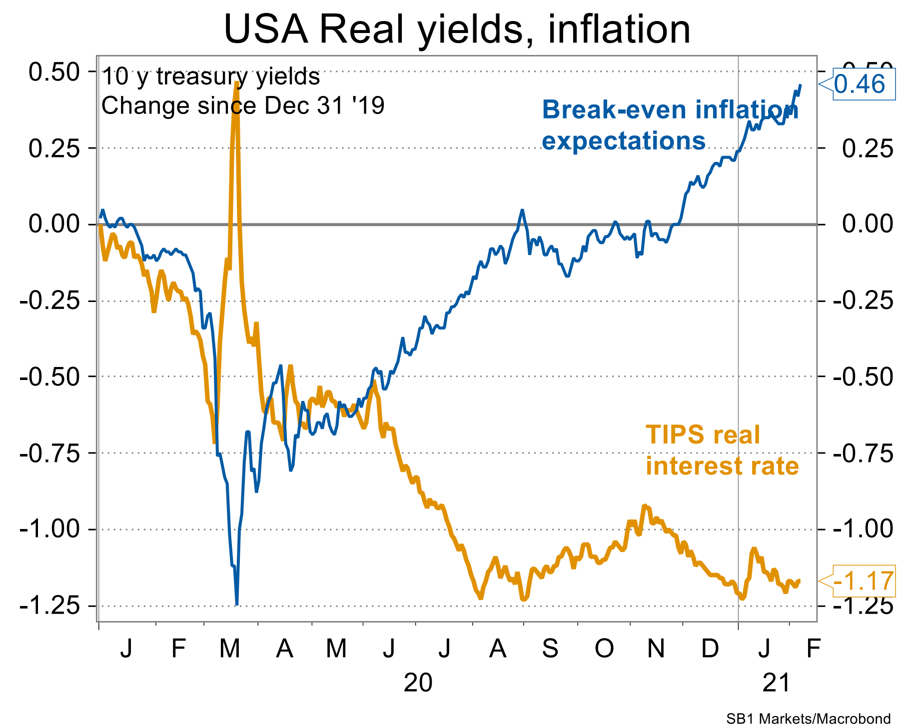
Inflation expectations are still anchored? But the anchor may be drifting…

Inflations expectations kept are trending upwards – to the highest level in 7 years in the US

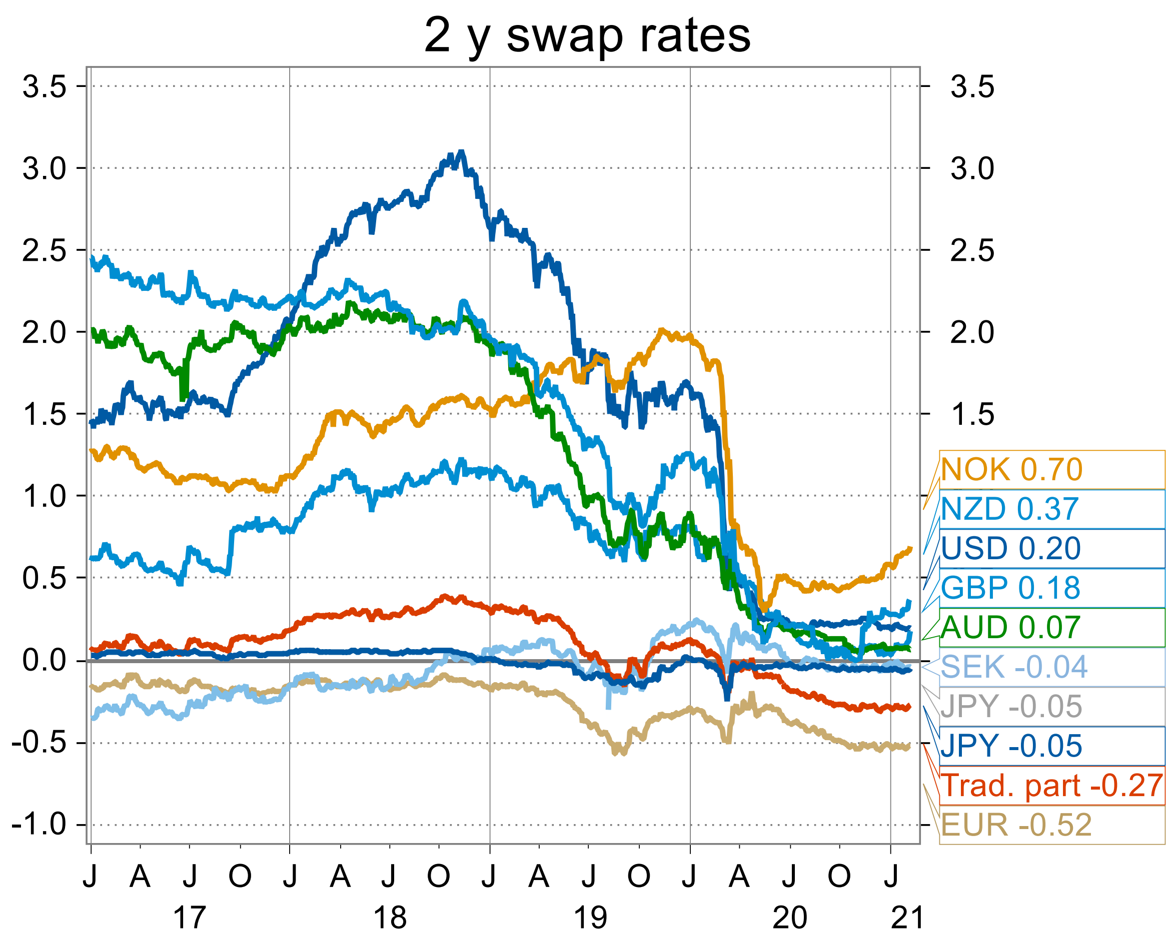




- **US 10 y +<u>8 bps to 1.19%</u>**
  - » Inflation expectations +8 bps to 2.21% (up 45 bps from late Nov) – **<u>and at the highest level since 2014. *The anchor is not lost, but it is dragging?*</u>**
  - » The TIPS real rate unch to -1.02%. The level remains almost 1 pp below the pre-corona level (and 200 bps lower than in late 2018)
- **Germany 10y <u>up 7 bps to -0.45%</u>**
  - » Inflation expectations +8 bps to 1.16% over the past week
  - » Real rate +1 bps -1.61%, still close to an extremely low ATL

Short-term swap rates sharply up in NOK and GBP

However, the trend is up just here



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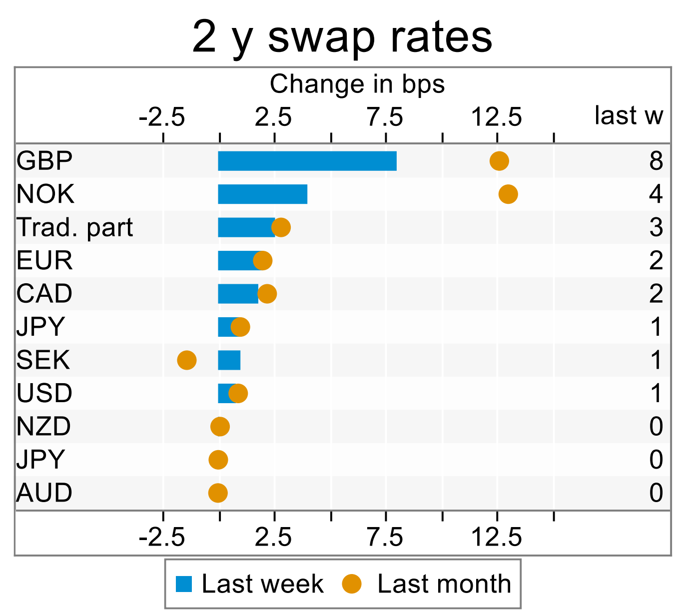

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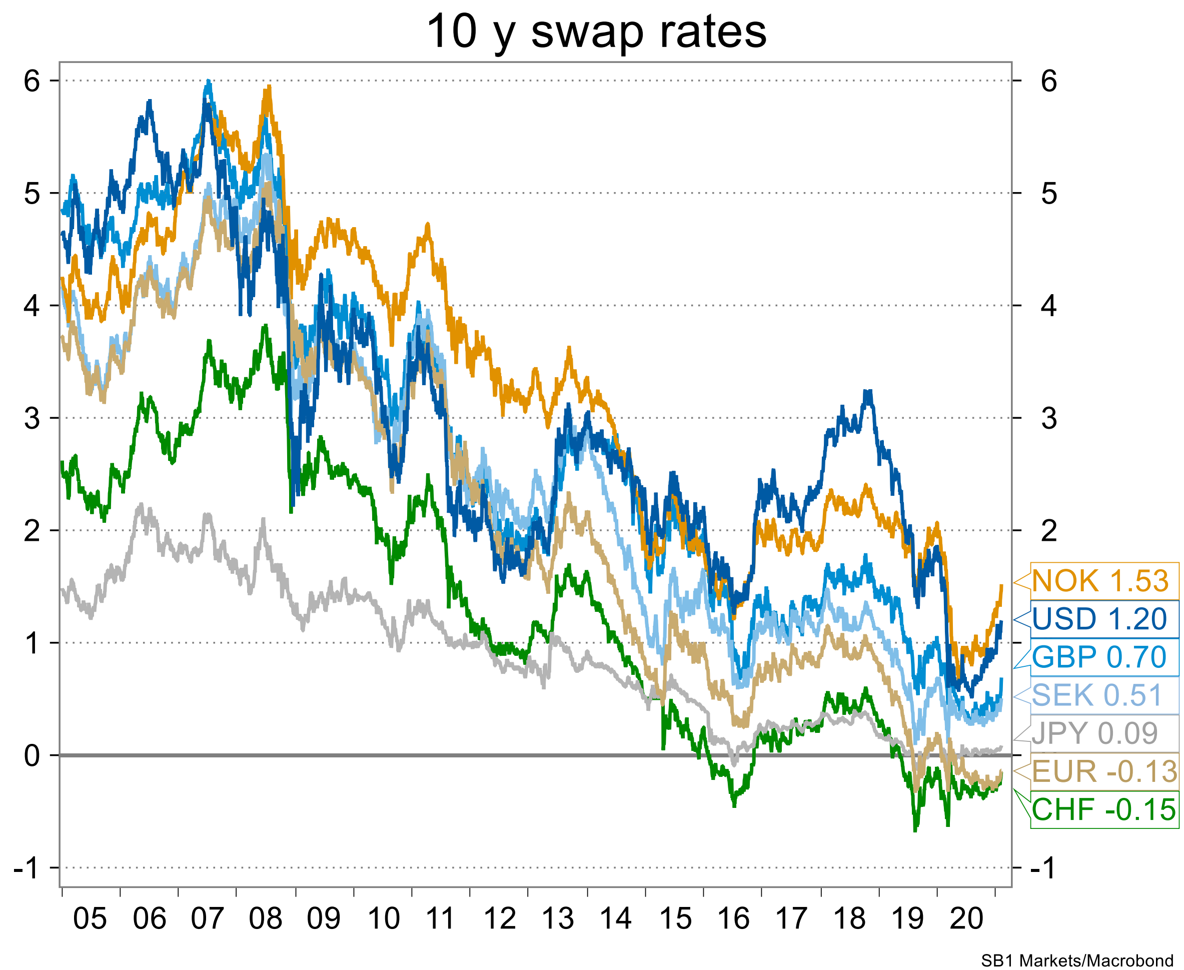
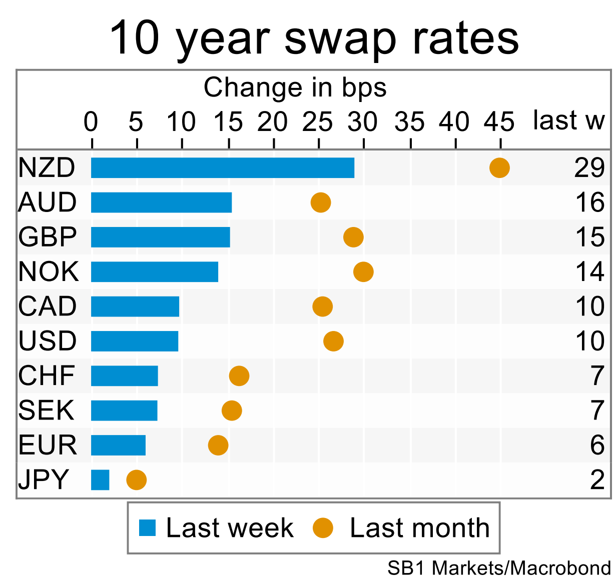
Even rates in the Euro Zone moved up last week (and last month)

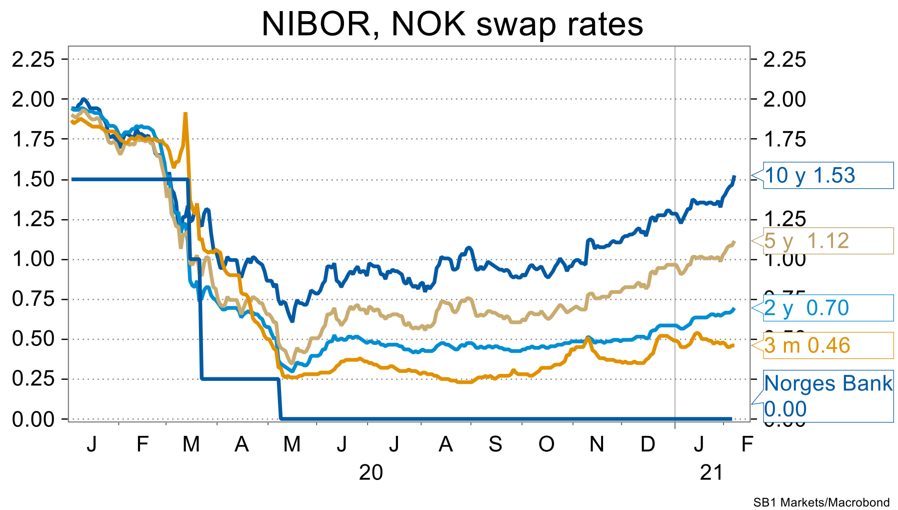
(Volatile) rates in New Zeeland up almost 30 bps, but several most others up 10 – 16 bps, NOK +14!



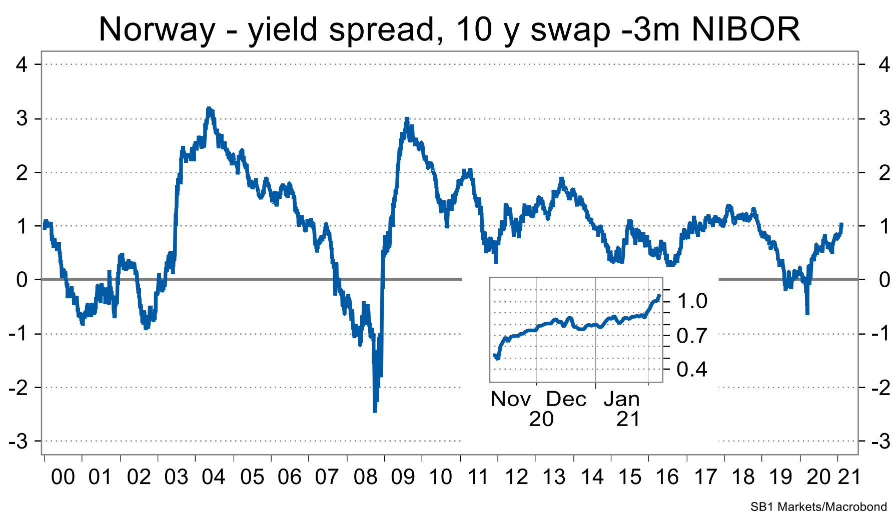


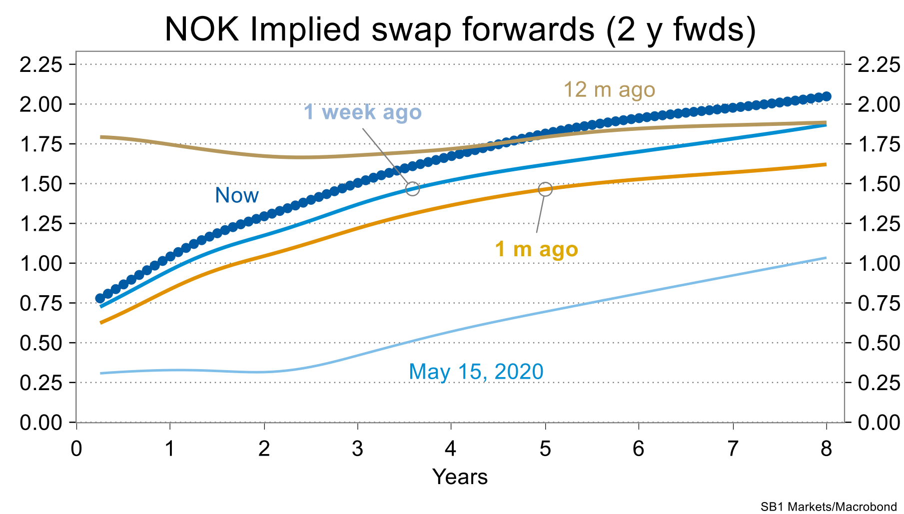
We told you so: Rates were too low!

Another step up last week – and the trend is easy to spot. NOK 10 y swap to 1.53, up 90 bps vs bott.



- 10 y swap rate is still some 25 – 50 bps below the level in early 2020, before the corona angst hit. Still, implied rates from 4 – 5 years onwards are on par, at the implied rate 10y fwd is back to 2%!
- The first half of the curve is still well below but it is inching upwards





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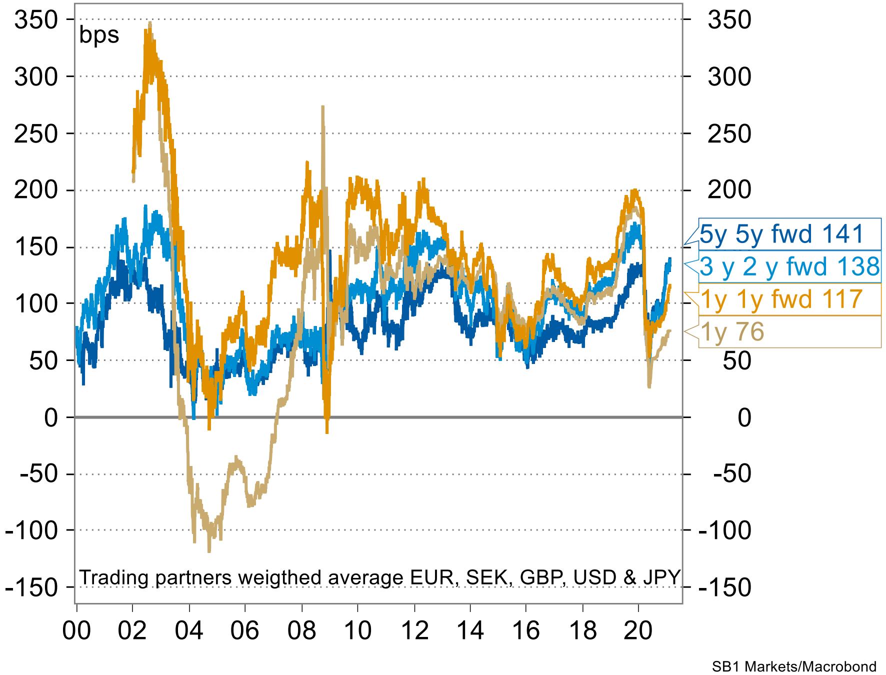
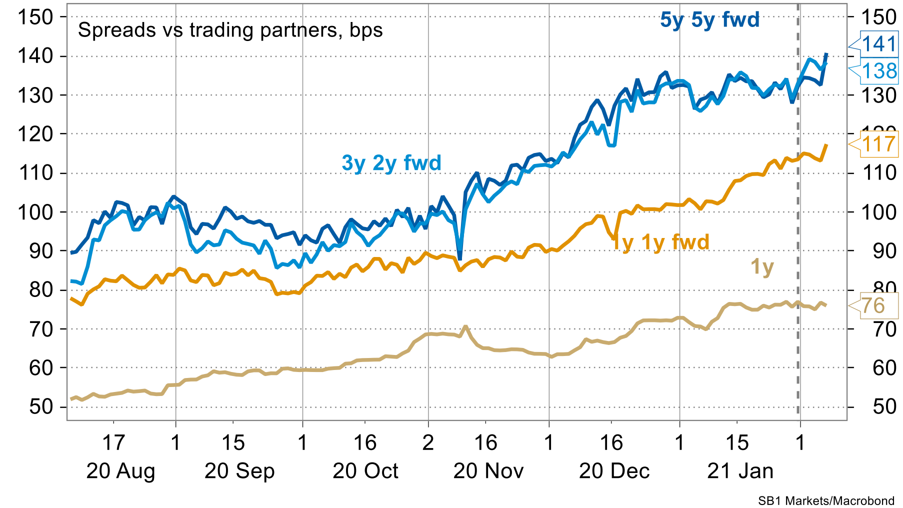
Up everywhere, and even more in Norway than abroad

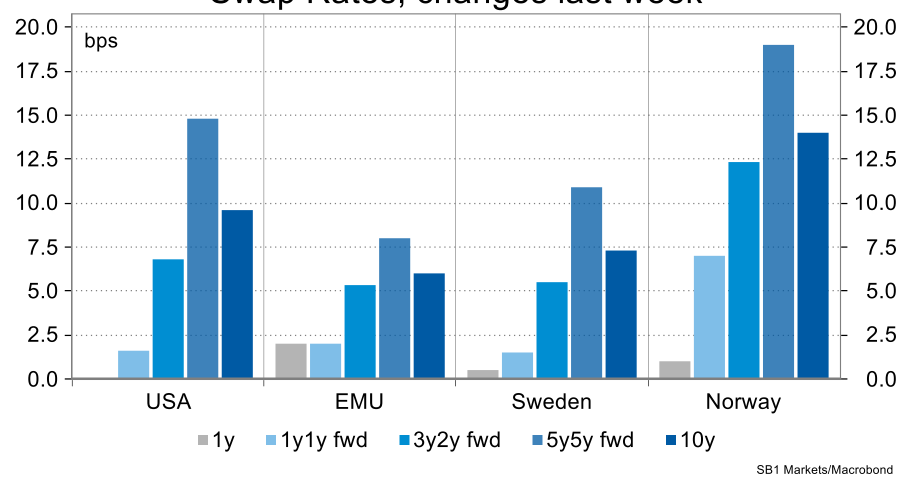
Still, the potential for a spread widening in the long end of the curve is probably limited

Norway vs trading partners, impl swap spreads





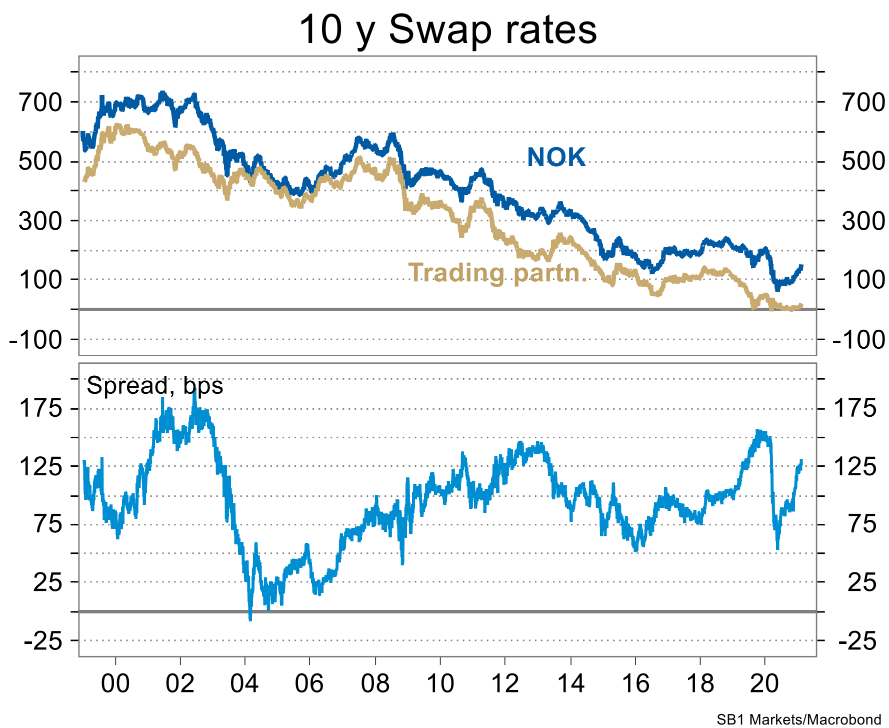
Swap Rates, changes last week

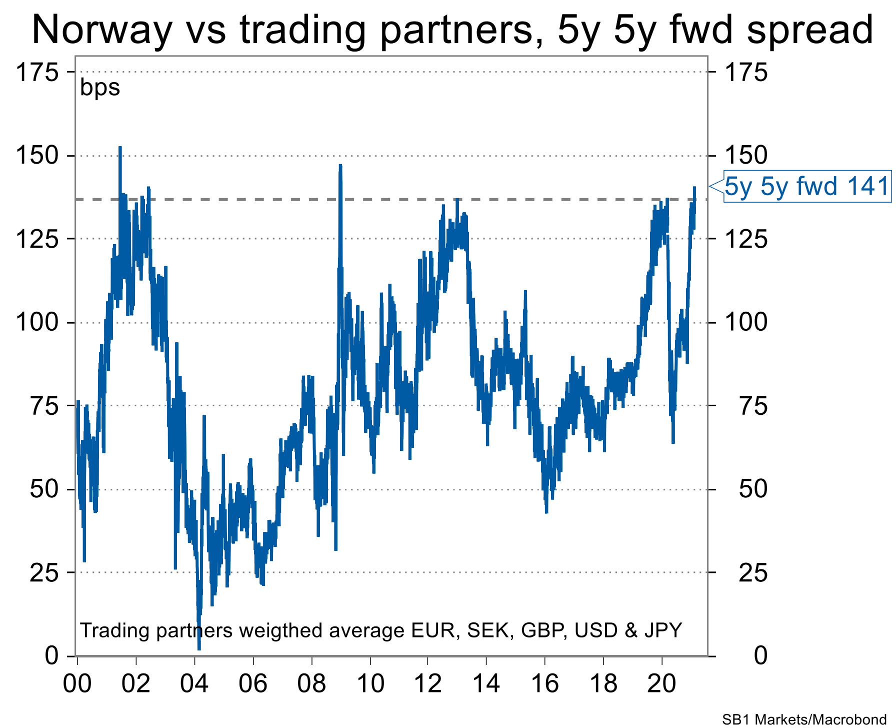


- Swap curves up by 5 – 15 bps last week, a substantial shift. NOK rates rose more than abroad all over the curve
- It's tempting to weight against a further increase in implied spread between NOK rates and trading partners' at the second half of the curve (check the chart at the next page too)
- In the short end of the curve, spreads are still below previous peak levels *–and may well widen further*

The 5y 5y fwd spread has never been much higher. Probably for good reasons

And most likely, the upside is limited from there – at a 140 bps 5y 5y fwd spread

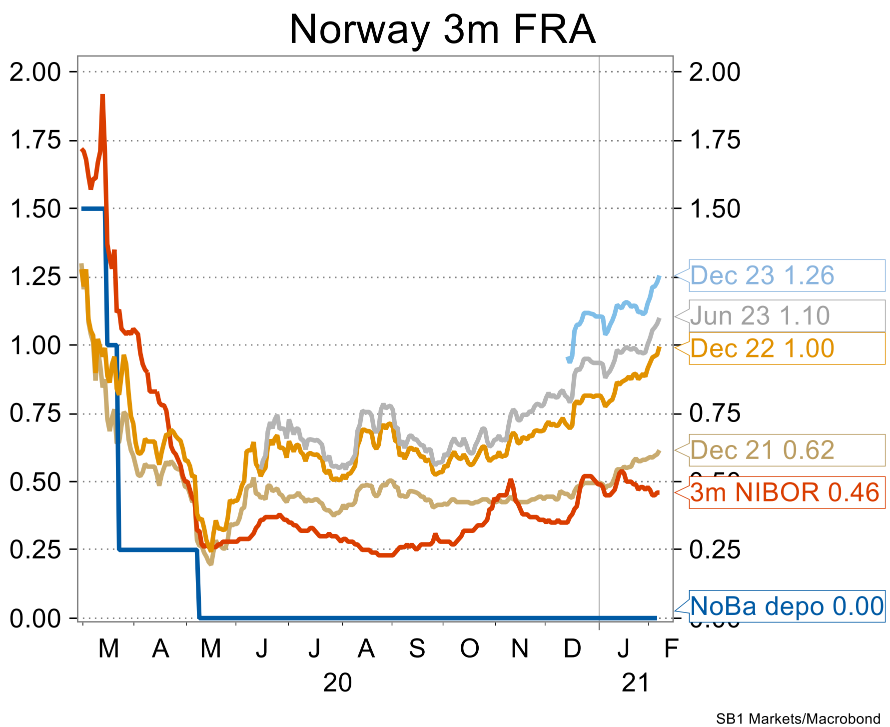


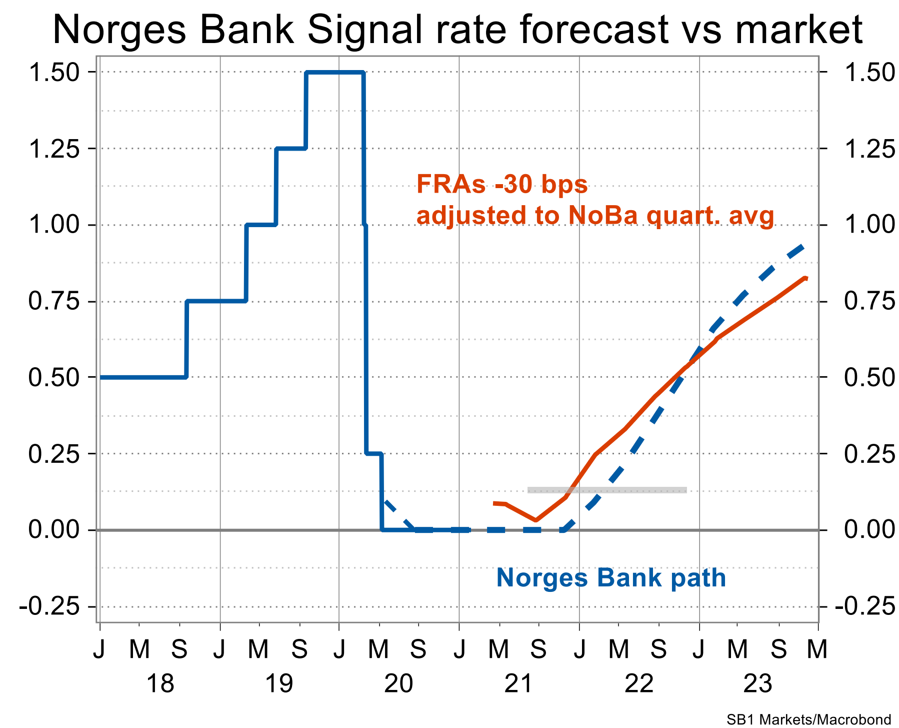


- How much inflation will Norway have, over time?
- How much faster growth will Norway deliver, over time?
- Thus, how much higher interest rates will Norway need, over time?

3m NIBOR down but the FRA curve is steadily shifting upwards

Most likely, just really bad virus/vaccine news will dampen rate expectations

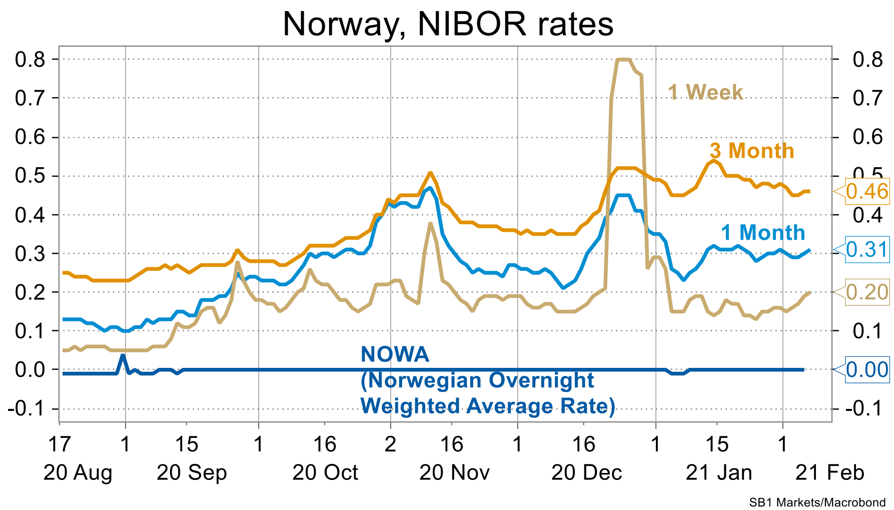


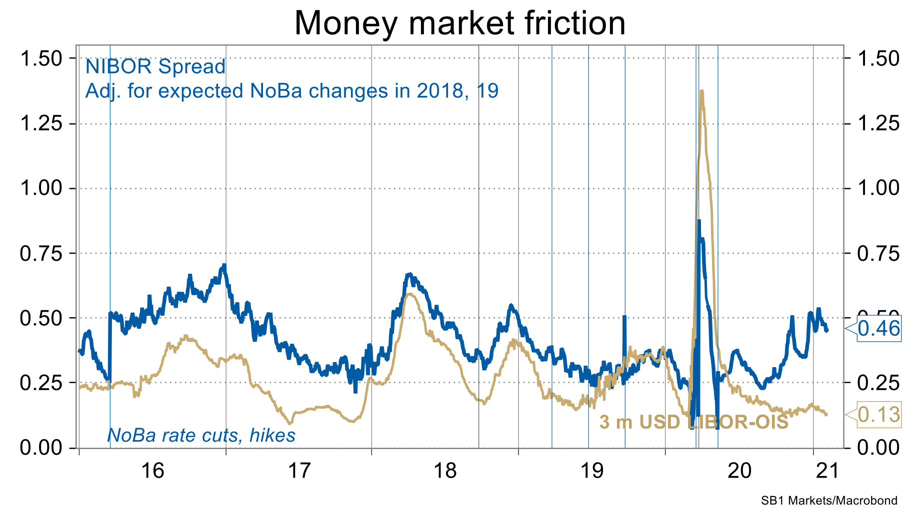


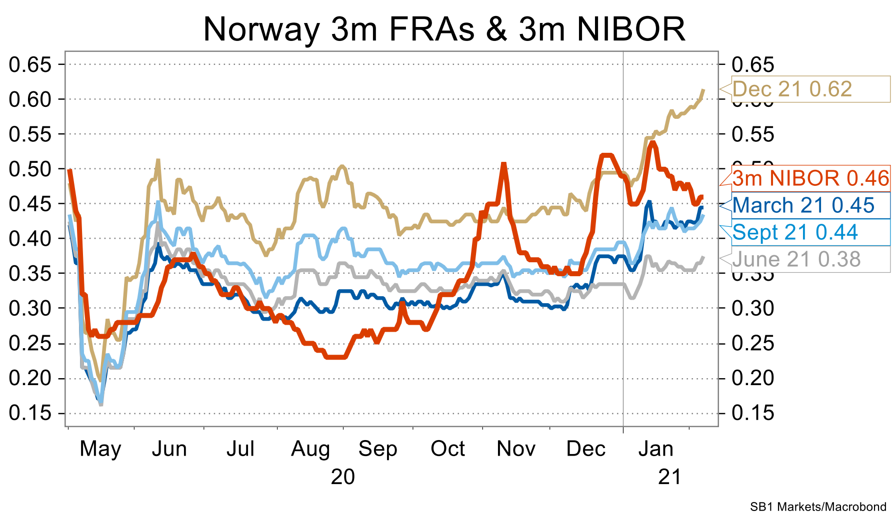
- The curve is above NoBa's path until early 2022 – if the expected NIBOR spread is at 35 bps (we are slowly accepting a higher spread, until now we have said 30 bps – and 40 may be an even better estimate)

NIBOR rates sliding slowly down, but the 3 m rate at 0.46% is still on the high side

The March 3 m FRA at 0.45%, and June at 0.38% signal that market do not expect 30-35 bps anymore

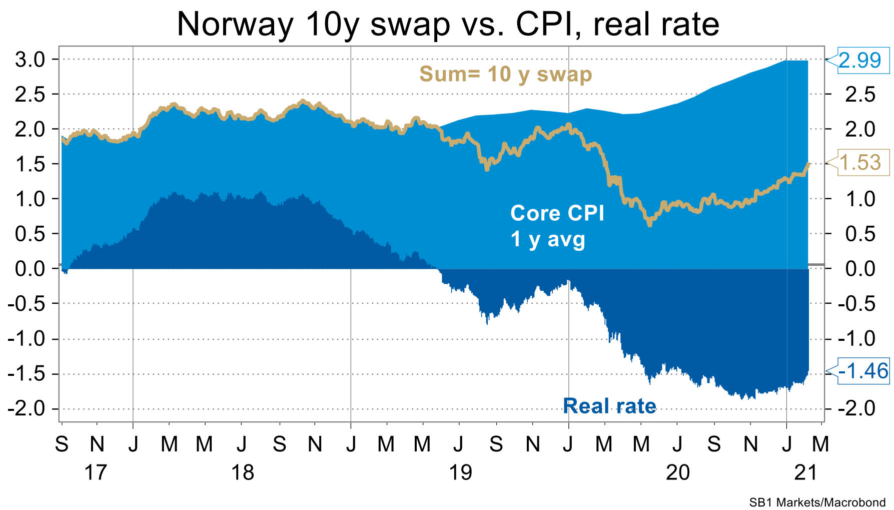






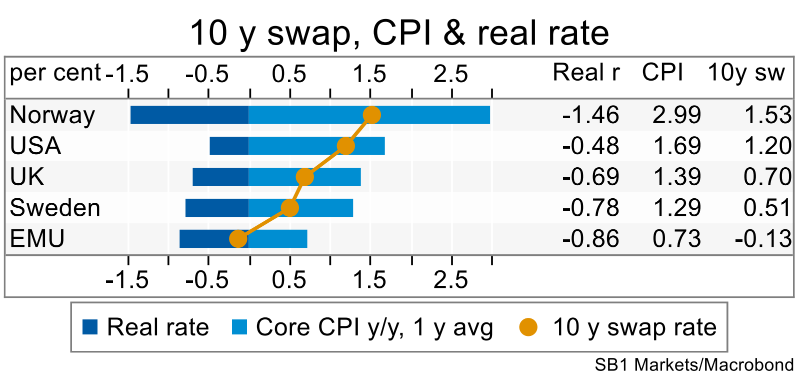
- **The 3m NIBOR fell** 2 bps last week but the spread vs. the NoBa deposit rate remains larger than 'normal'
- Now, the **FRA rates implies** that market participants expect that the spread will remain higher than the 'normal' 30 – 35 bps
  - » However, the spread has been far from stable, though mostly driven by LIBOR-OIS spread in dollar market. The present gap between the spreads are larger than normal
- **A NOK 47 bn f-loan** is due Feb 10th. Norges Bank may offer a longer dated loan to 'replace' the current

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



NOK 10 y swaps are drifting upwards

- The **10y NOK swap rate** has climbed by 75 bps since the bottom in May, to 1.53%!
- **The real rate**, after deducting average inflation over the 2 past years still equals -1.46%
  - » This week, we expect the CPI-ATE core inflation rate to fall substantially but the 12 m smoothed rate will decline by just 0.05%. Long term, we do not expect a 3% rate of inflation, but inflation has for years been somewhat higher in Norway than abroad

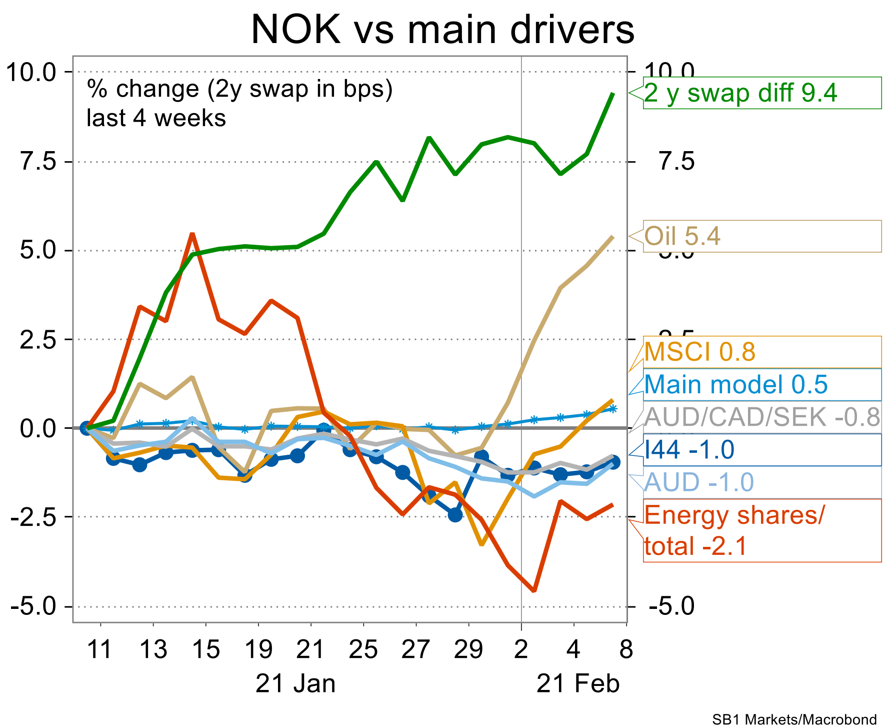


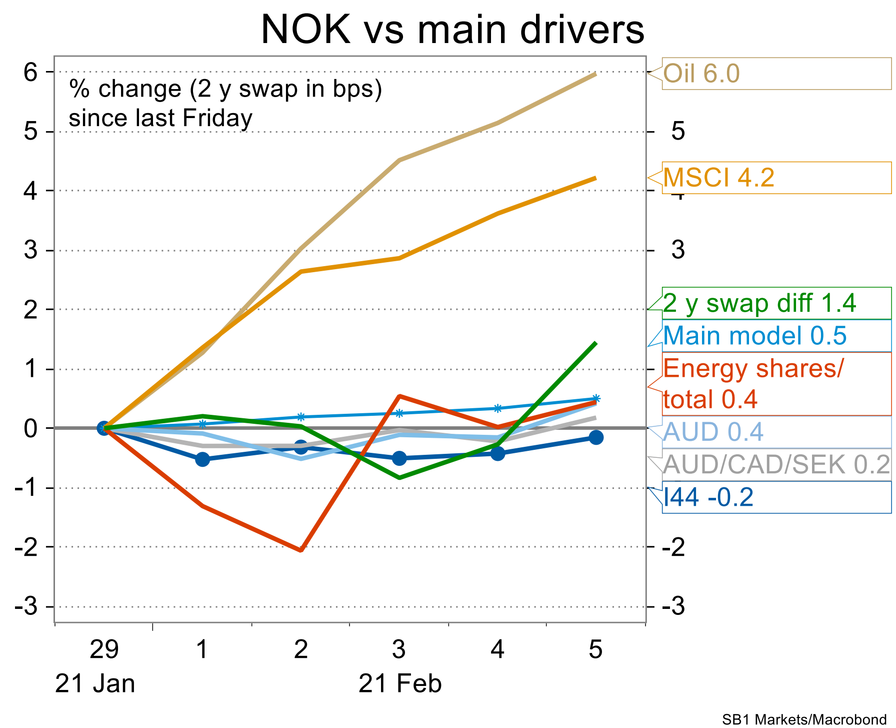
NOK real rates among the lowest, as inflation is at the top

- **Inflation** among Norway and our main trading partners varies between 0.70 pp to 2.99% (here measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, Norway at the top, by far
  - » Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- **Real rates** are quite similar among our trading partners, at -0.6% to -0.9% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.6% is an outlier at the downside, even if the nominal rate is the highest**

NOK close to flat last week, even the oil price gained 6%

(however, the NoBa's I44 index was 'artificially' strong previous Friday, in 'reality' the NOK was up)





In sum, the NOK is still a buy:

- The NOK is 3% weaker than suggested by our standard model
- The NOK is 4% 'weaker' than the global stock market vs the correlation between the two in 2020
- The NOK is 6% weaker than an average of AUD/CAD/SEK, our 'supercycle peers'
- On the other hand, the NOK is far (12%) stronger than a model which includes global energy companies equity prices (vs the global stock market)

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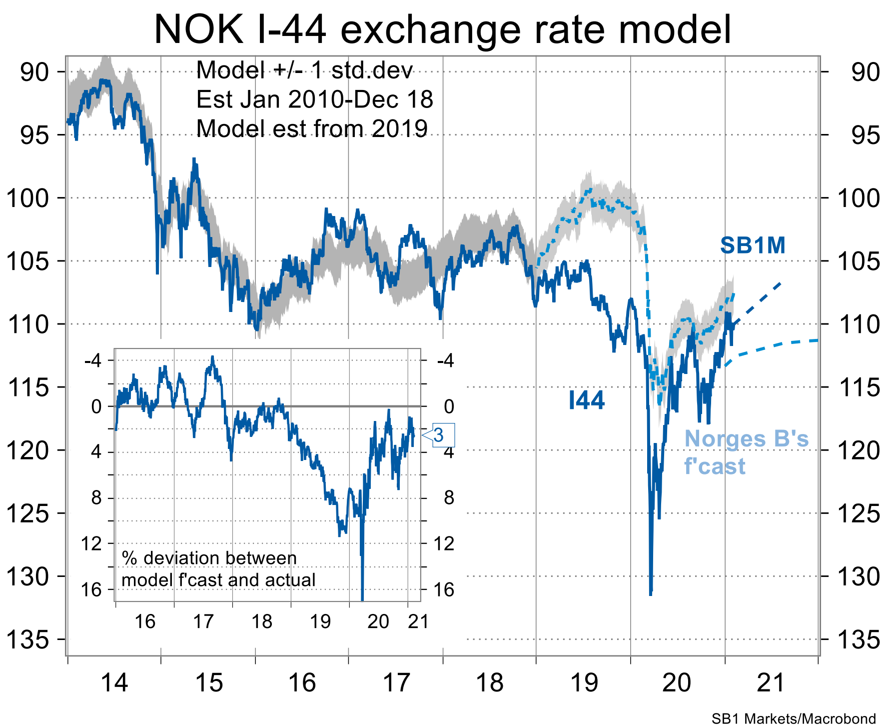
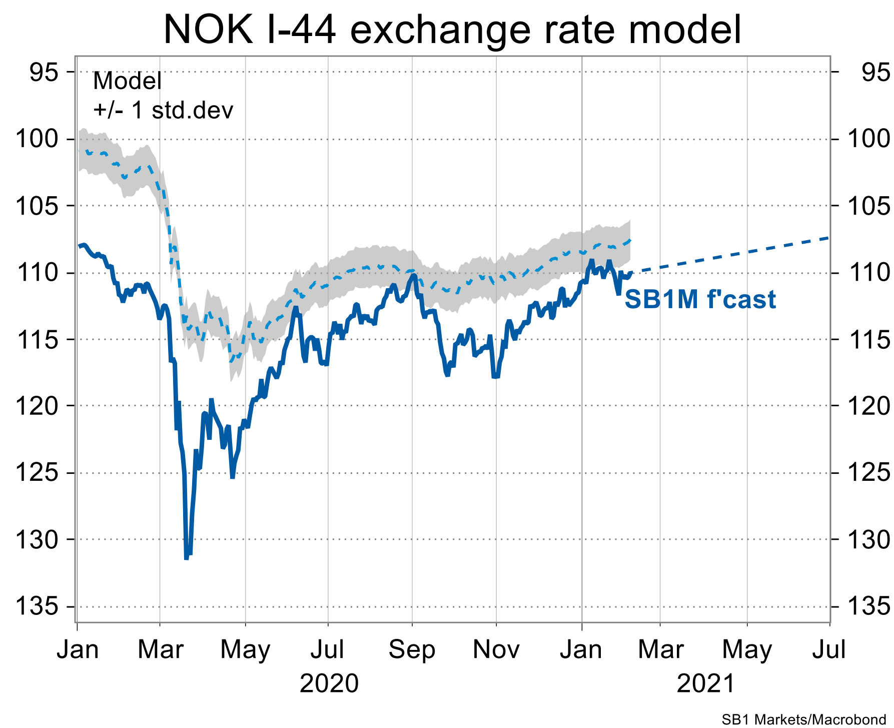
NOK I44 flat last week, our trad model said +0.5

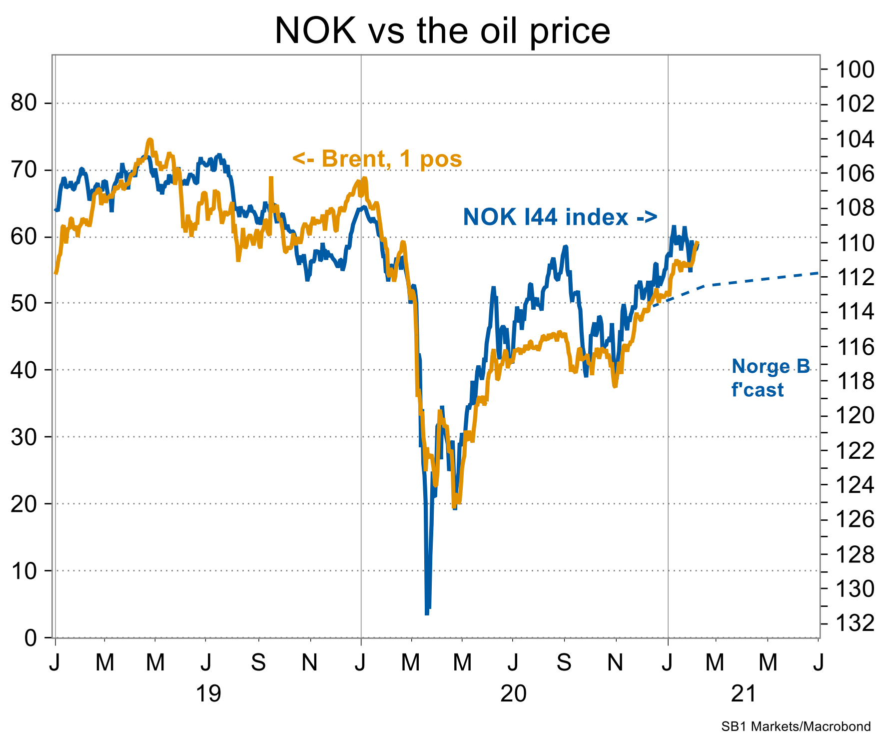
The NOK is 3% below our model forecast

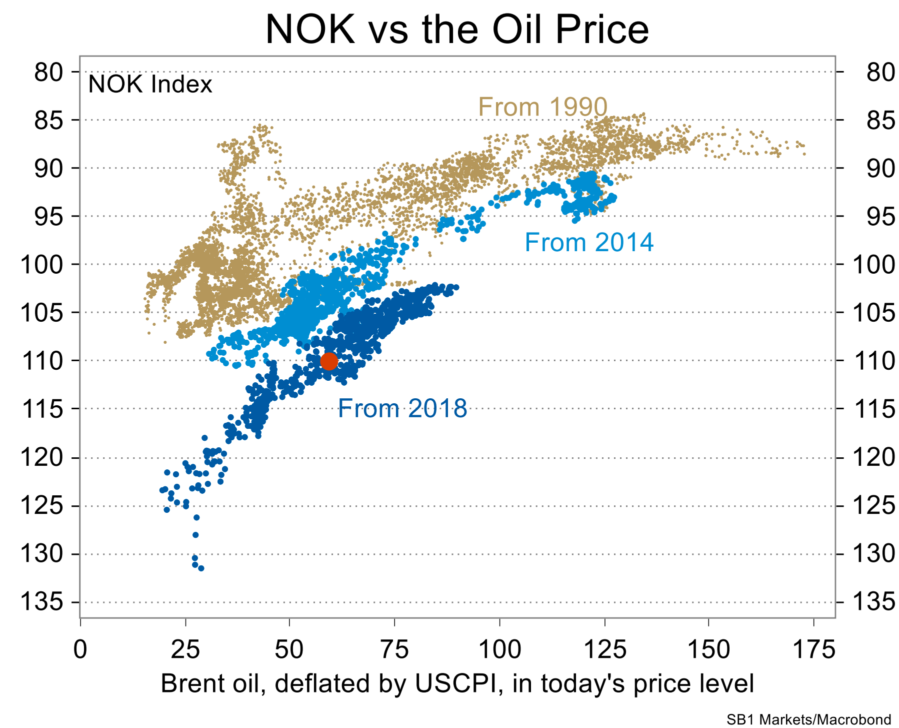




NOK flat recent weeks, even if the oil price is up

The oil price is approaching USD 60/b, to above the pre-pandemic level. Thank you, Saudi & Russia





- Opec+ has announced that the cartel + will keep production down in order to trim inventories back to a normal level

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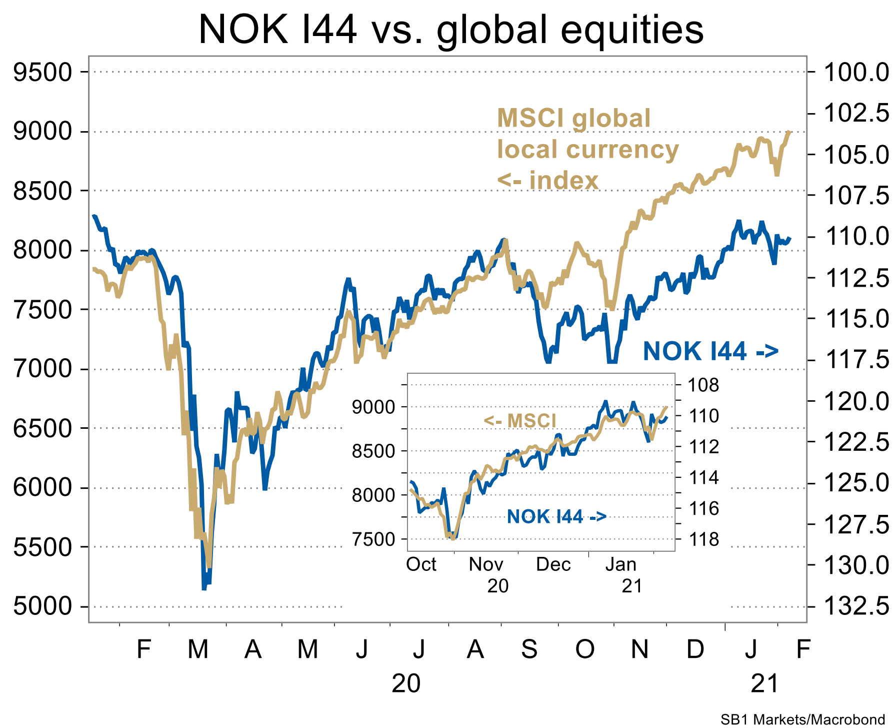
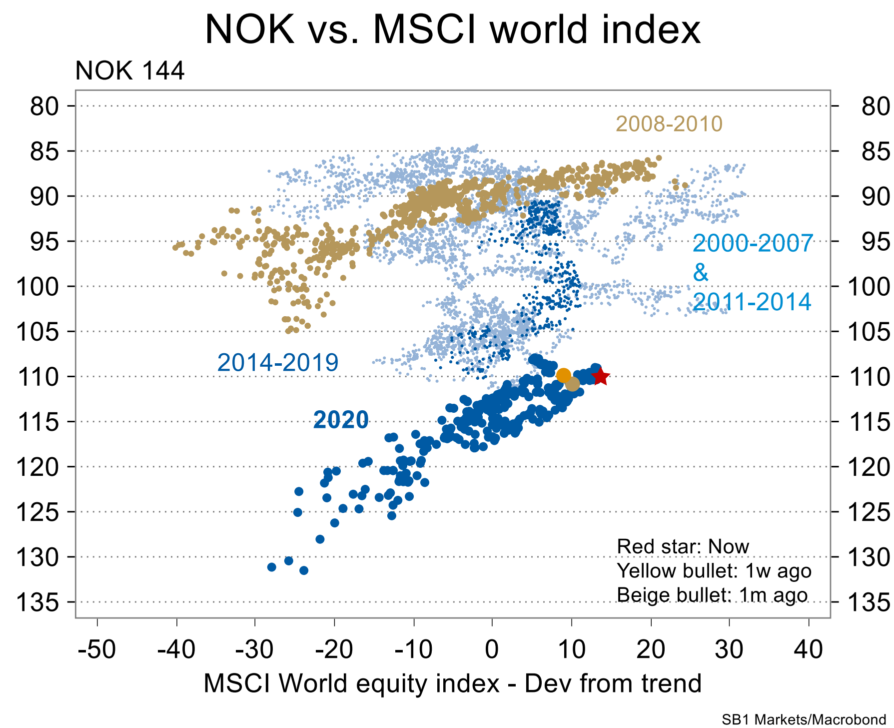
NOK up with the stock market, not than uncommon these days

Except for Sept. NOK and global equities have walked in tandem last year. In Sept, NOK 'lost' 5%

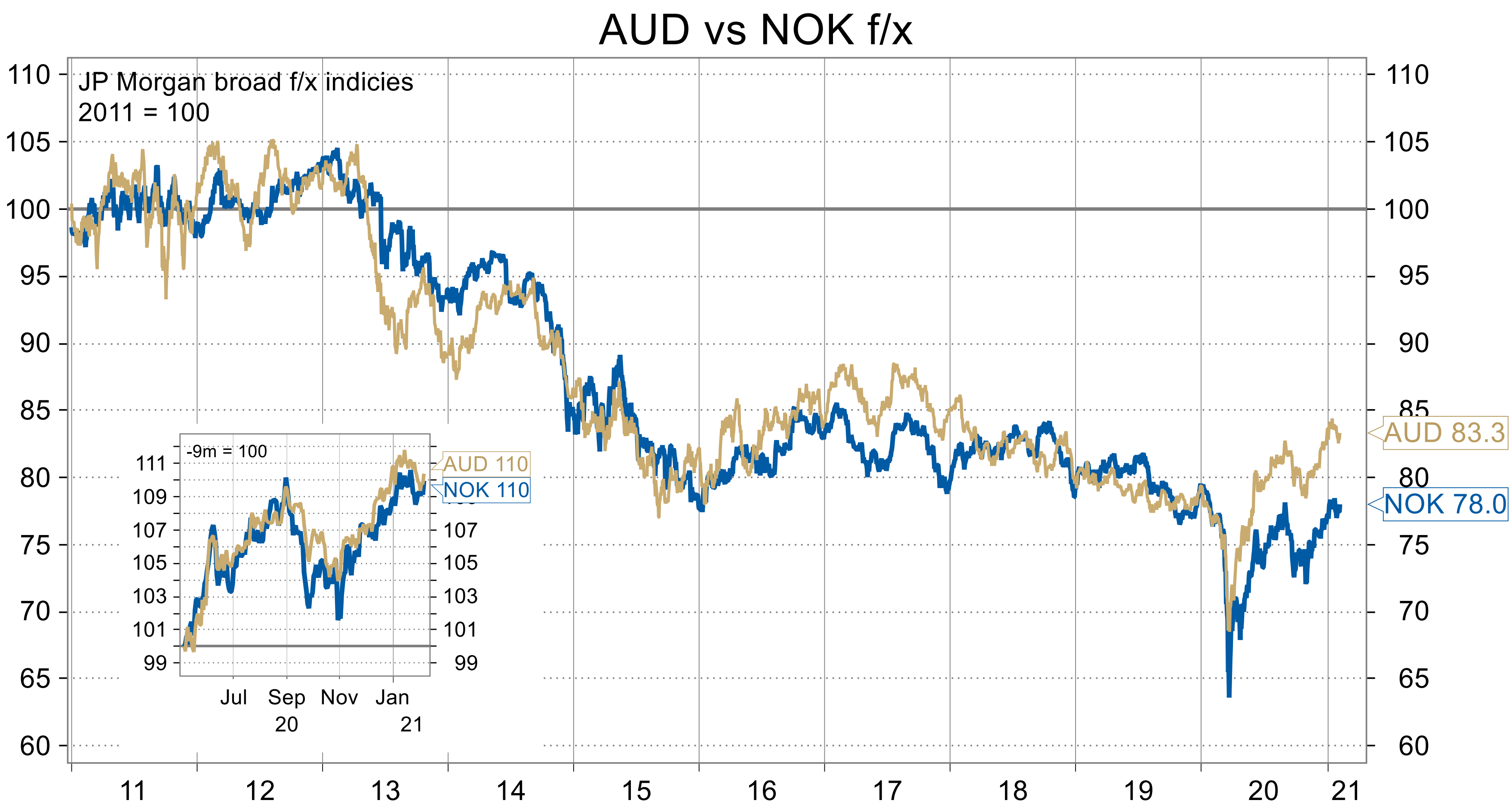




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the two has been pretty closely correlated from time to time
  - Now, the NOK is more than 4% weaker than 'normal' vs the stock market as the NOK lost ground in mid Sept, based on the link between the NOK and MSCI since Jan 2020). However, at one stage we will have to recalibrate the scales, as equities are trending upwards 6 – 8% per year
- We have long argued that global equity prices should be more important for the NOK than the oil price, as our global equity assets in the Oil fund are larger than the value of the remaining oil & gas reserves. Has the market 'finally' (and rather sudden) come to the same conclusion? We doubt. It's probably a "risk on, risk off" world, where many risky asses move in tandem, more than usually

What a view, the NOKie is still dancing so closely with the Aussie

… if we accept NOK's 6% step backwards last March as a permanent shift. We doubt it was



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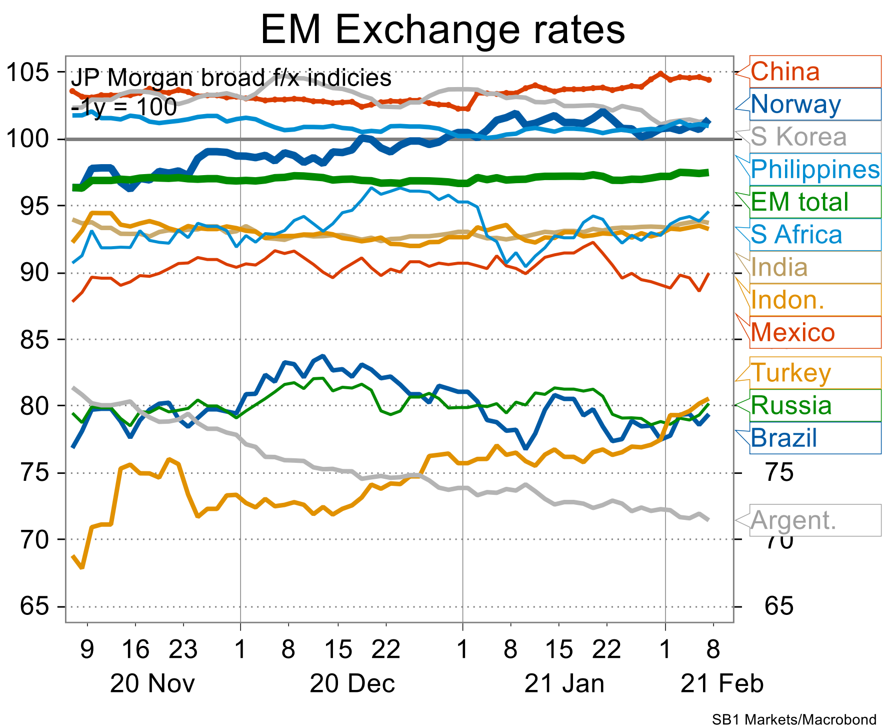
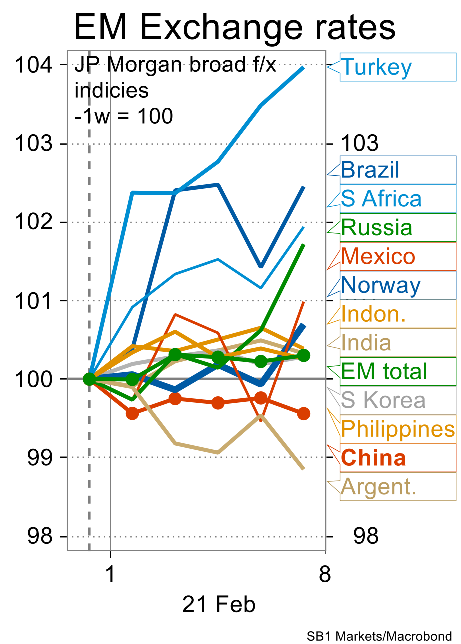
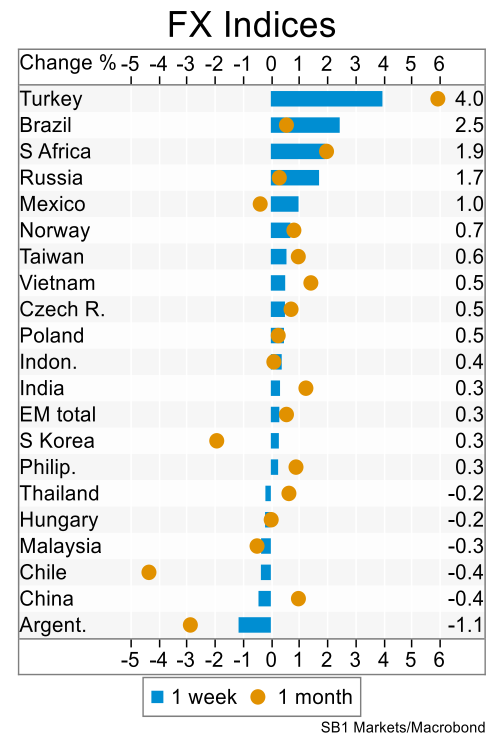
A strong EM f/x week. CNY slightly down but from a 'high' level

Risk on, it seems like







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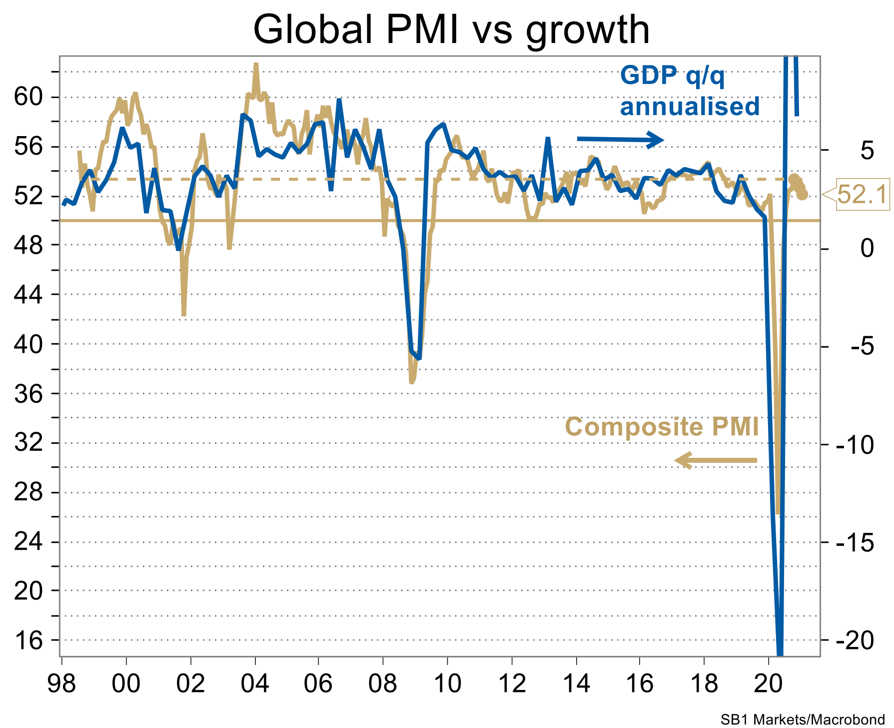
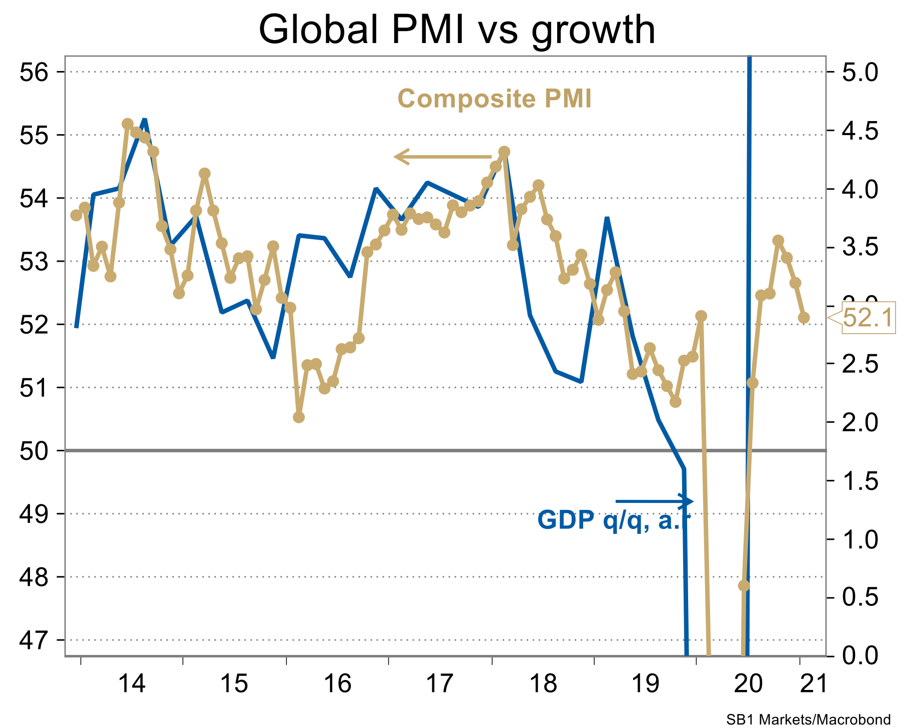
The global composite PMI probably down 0.6 p to 52.1 in Jan

China & the EMU contributes at the downside, and more than the US at the upside





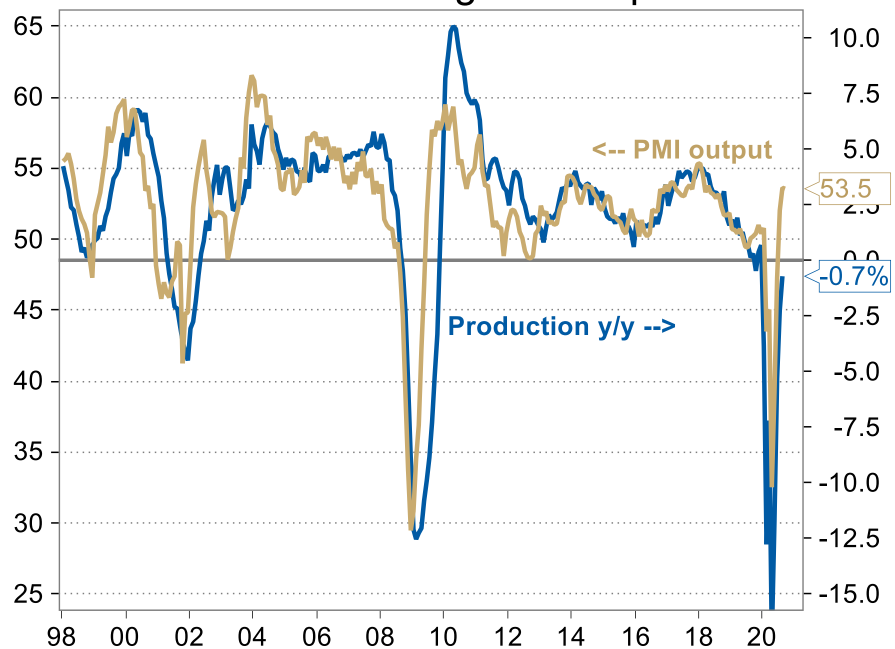
- The preliminary PMIs were mixed, a surge in the US was not sufficient to compensate for a decline in both China, EMU, Japan and UK (a sharp drop here). (The China service sector PMI is not yet reported, our estimate is included)
- Our **global PMI composite** estimate is down 0.6 p to 52.1 . The level signals some 3% growth in the global economy, vs the actual growth rate at 5 -6% in Q4 (our very preliminary estimate)
- The **global manufacturing PMI** total index was probably just marginally down but the output index fell sharply, while the **service sector** index may have fallen by 0.1 p

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

Manufacturing PMI climbs, most countries above 50

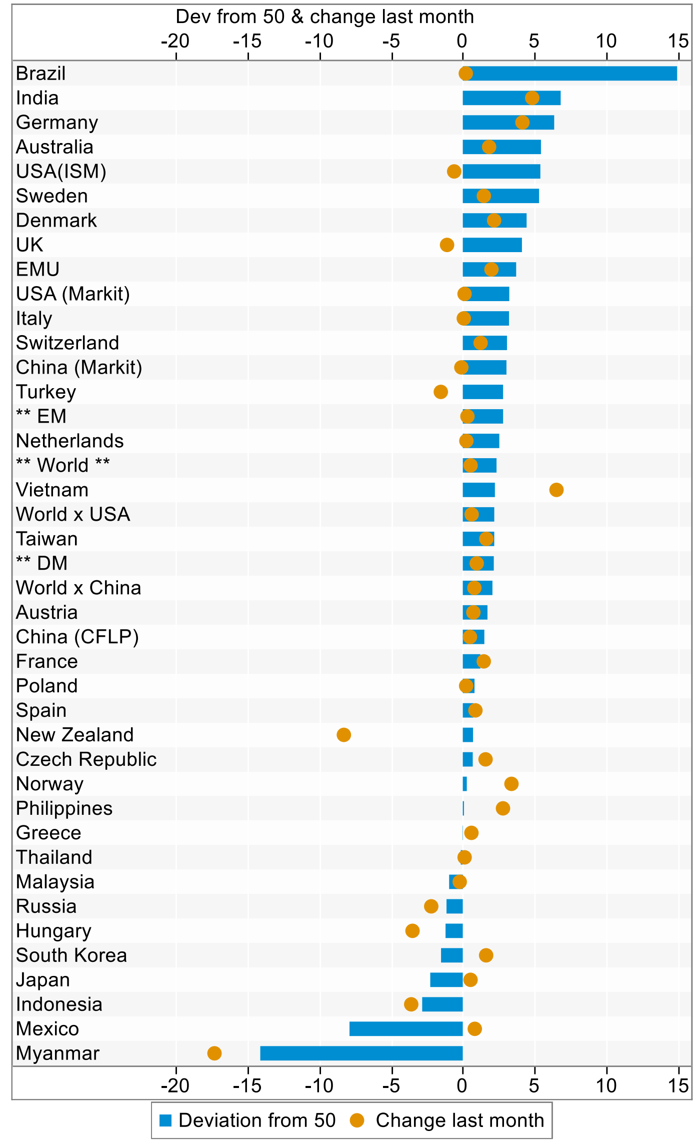
The PMI rose 1.5 p in Sept but the level is still not impressive

Global Manufacturing PMI vs production



SB1 Markets/Macrobond

PMI Manufacturing

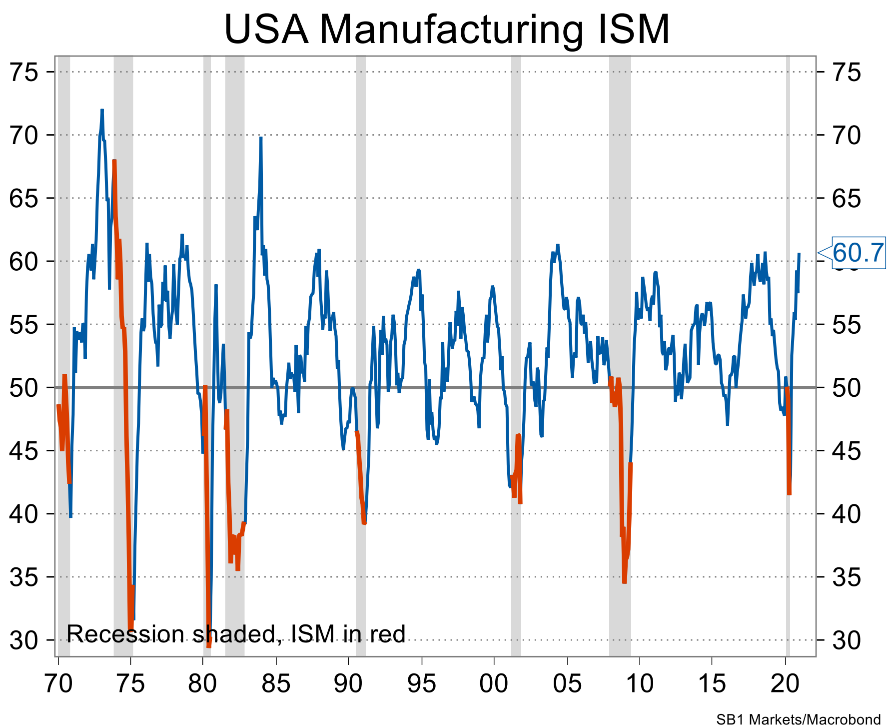


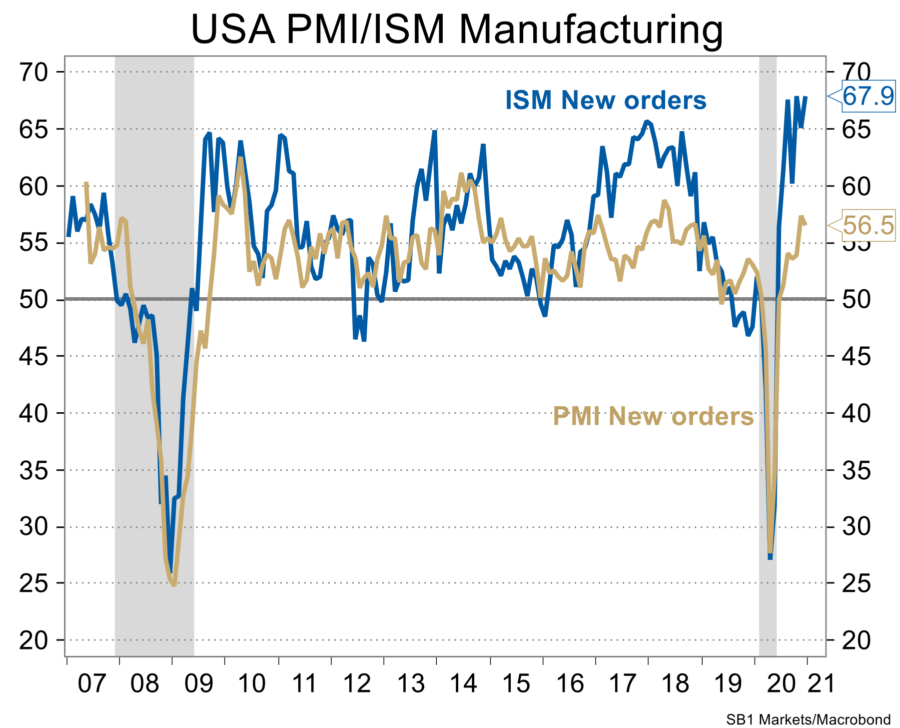
SB1 Markets/Macrobond

- The global manufacturing PMI rose 1.5 p to 52.3 in Sept, close to our estimate based on preliminary PMIs
  - » 69% of the countries/regions reported higher PMIs in September than August
  - » A majority of the countries (72%) are reporting PMIs above the 50 line
- Rich countries (DM) recovered somewhat more than Emerging Markets (EM), from a lower level. Brazil and India in the lead, Mexico at the bottom

Manufacturing ISM surged in Dec, has been marg. higher just 3 times past 40 y

The ISM surprised sharply at the upside, +3.2 p to 60.7, expected down to 56.6. Orders strong too

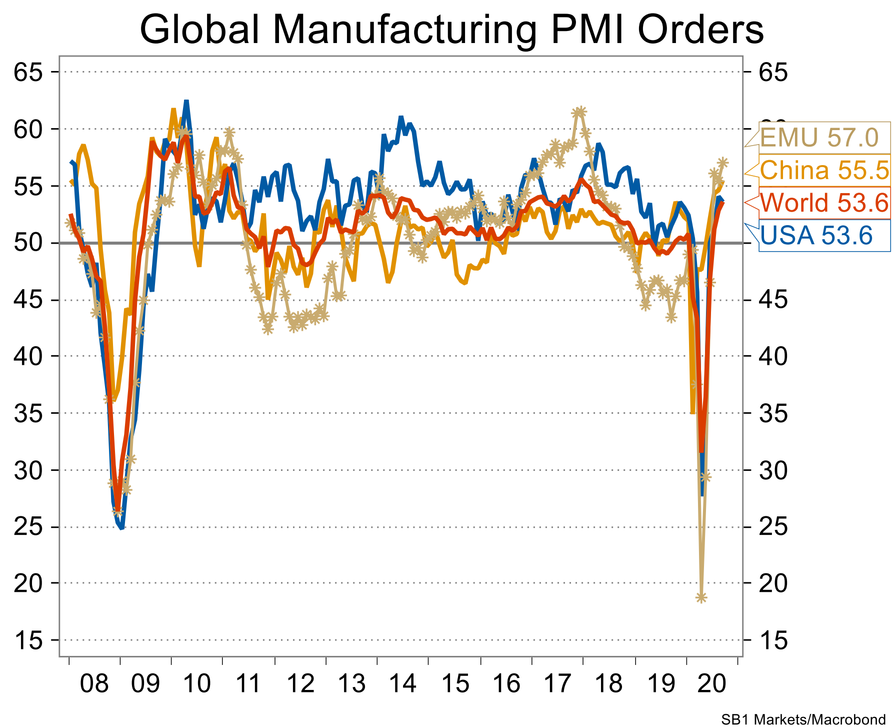


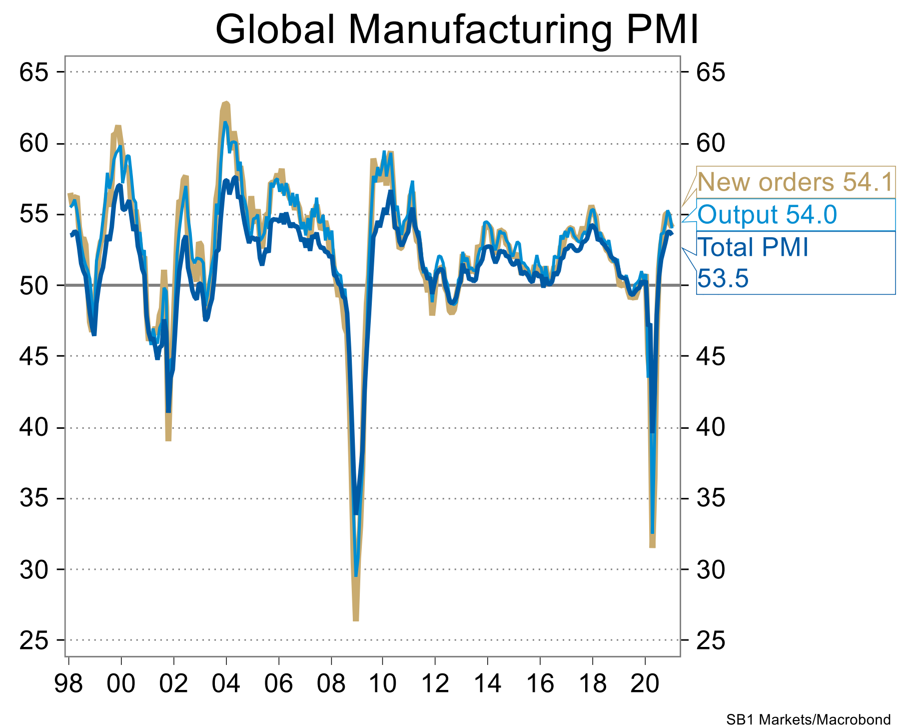


- No signs of a slowdown, of course

Manufacturing PMI signals growth in major countries/regions

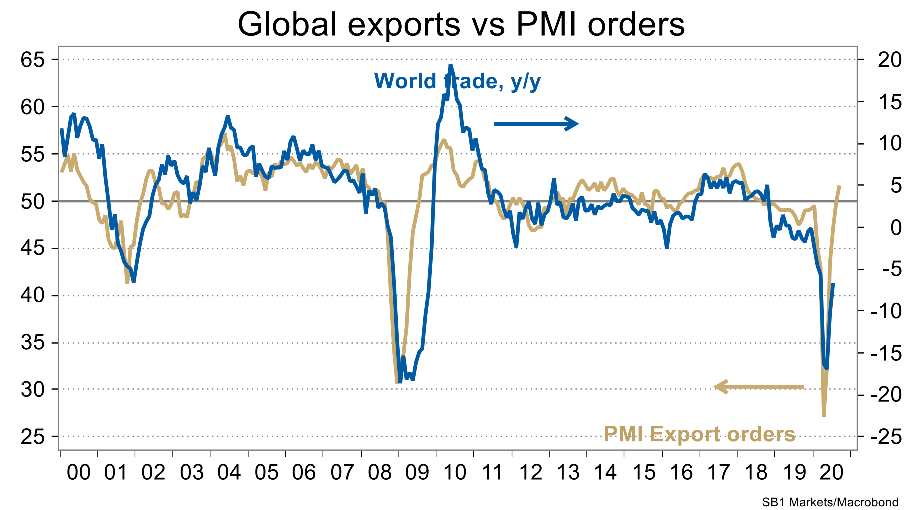
Orders are increasing at the fastest speed in Europe, from the steepest decline

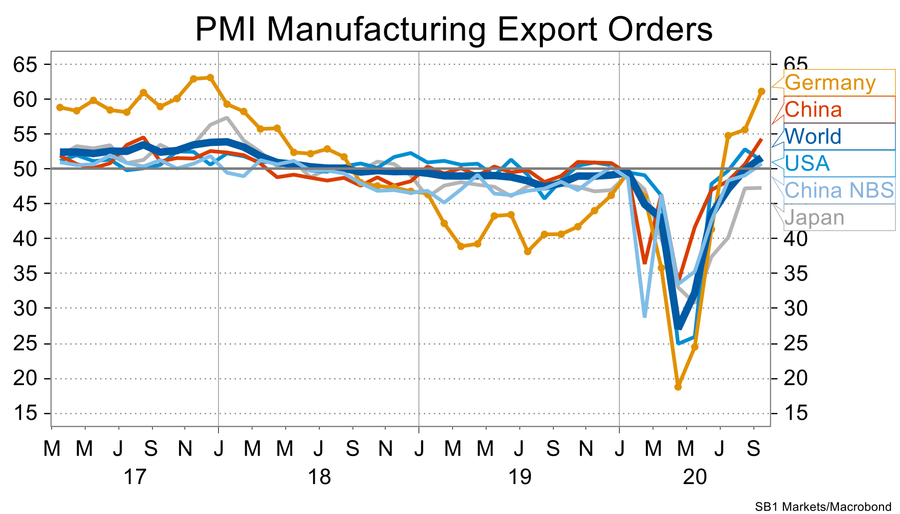




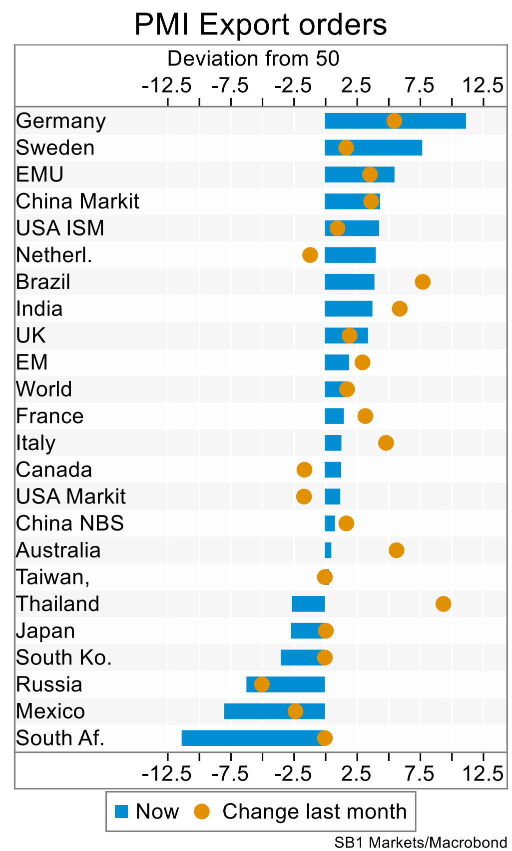
Export order PMIs further up but does not signal a fast recovery, Germany at top

Some Asian & EM countries still below the 50 line



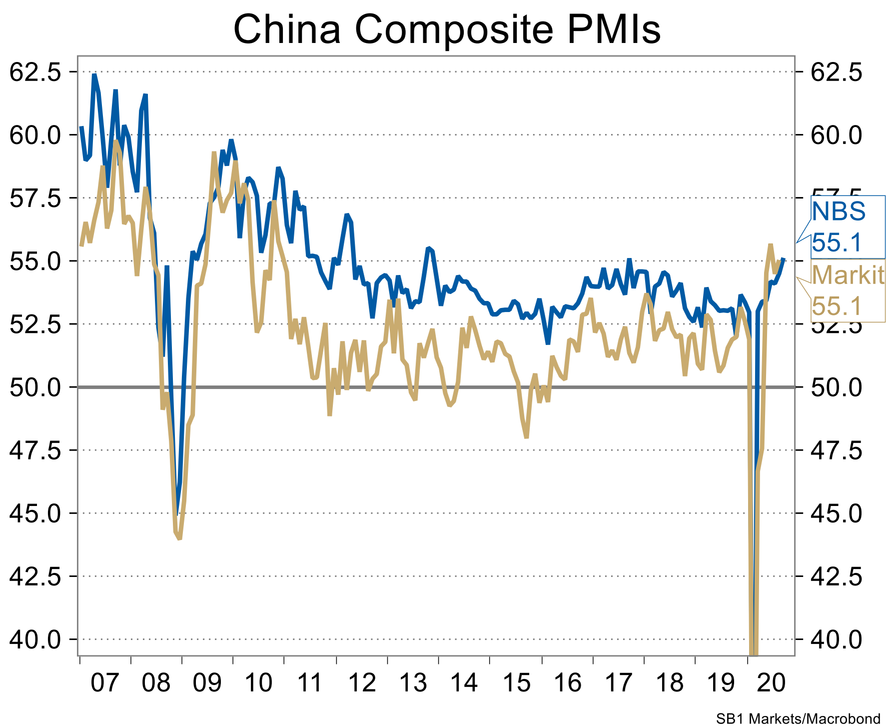


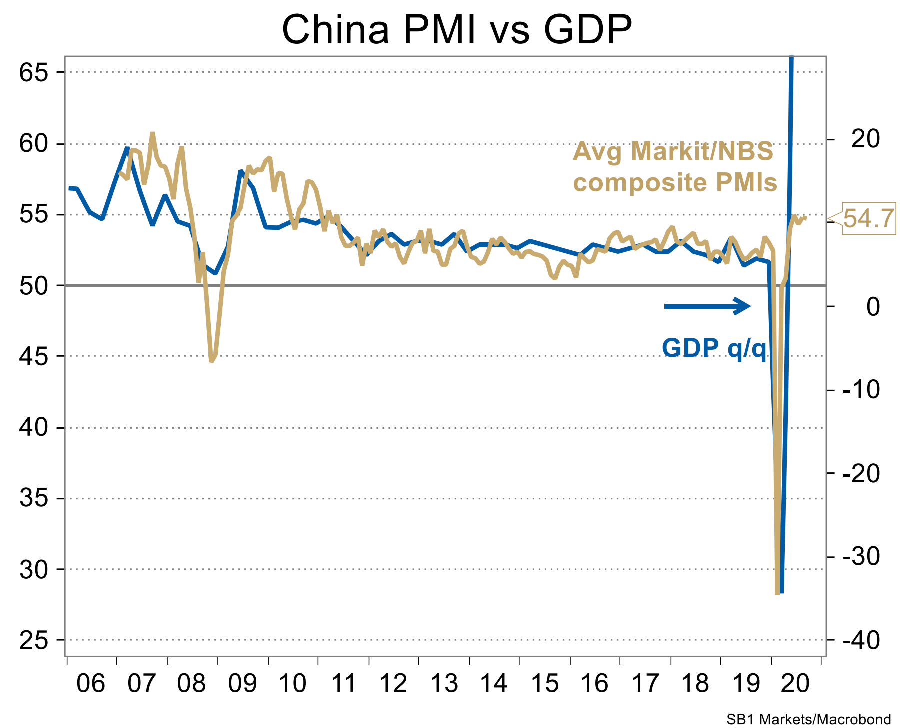
- Most countries are now reporting an increase in export orders (index >50)
  - » Germany has moved to the top of the list, from the bottom in April/May!



September PMIs in sum steady, signalling growth well above trend

The NBS composite PMI rose by 0.6 p to 55.1, we estimate a 0.8 p decline in Markit's PMI





- The NBS' 'official' composite PMI edged up to 55.1 in Sept, up 0.6 p. The manufacturing index rose by 0.5 p to 51.5, services up 0.7 p to 55.9. The higher level of the services index is needed to bring activity in the service sector back to pre corona levels (it is still well below the pre corona trend, while manufacturing is fully recovered)
- Markit's manufacturing PMI inched down to 53.0, composite down 0.8 p if we assume a 0.7 p rise in services (not yet reported)
- In sum, these two PMI data sets confirm a continued recovery in the Chinese economy (a 8 – 9% growth pace), and growth above trend in Q3 too – which is needed to close the 2 – 3% negative output gap in Q2

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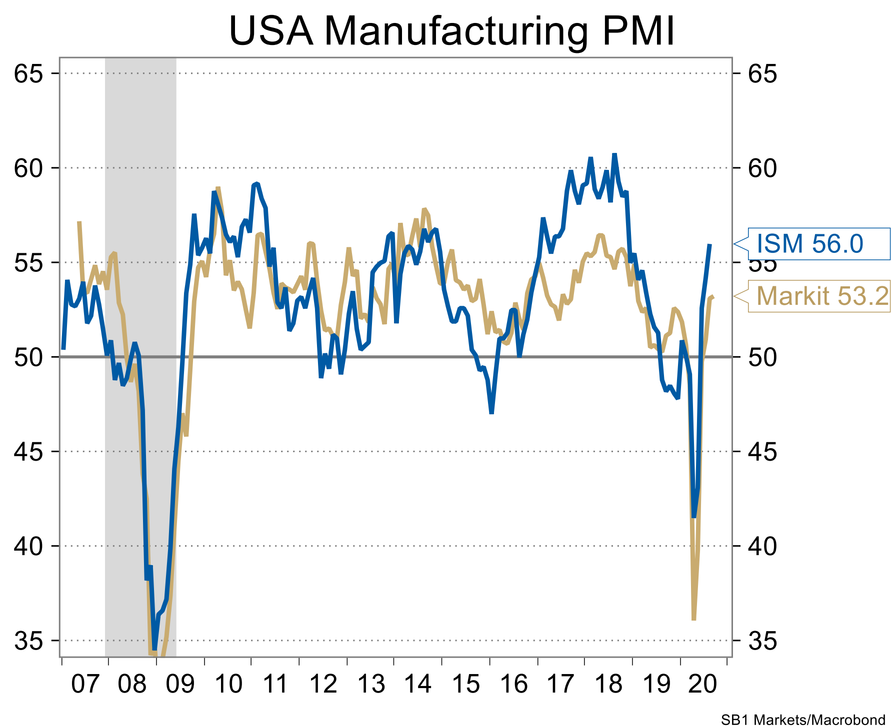
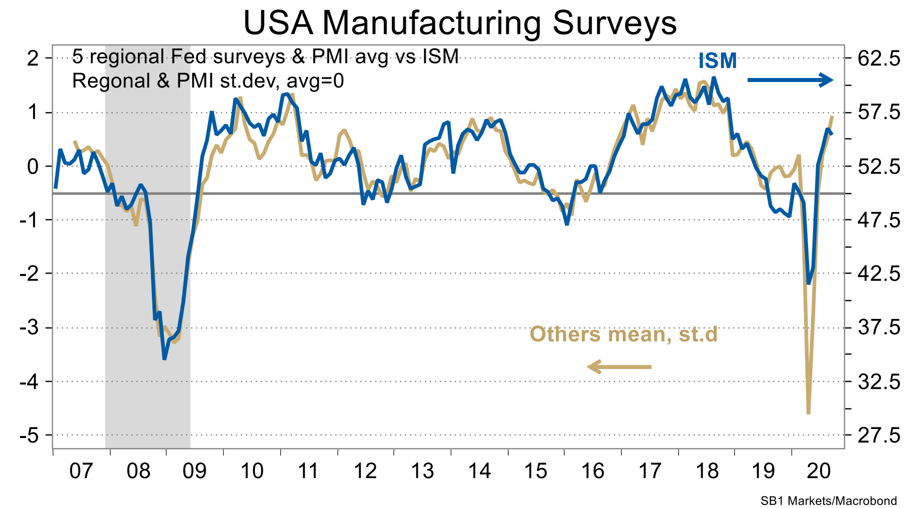
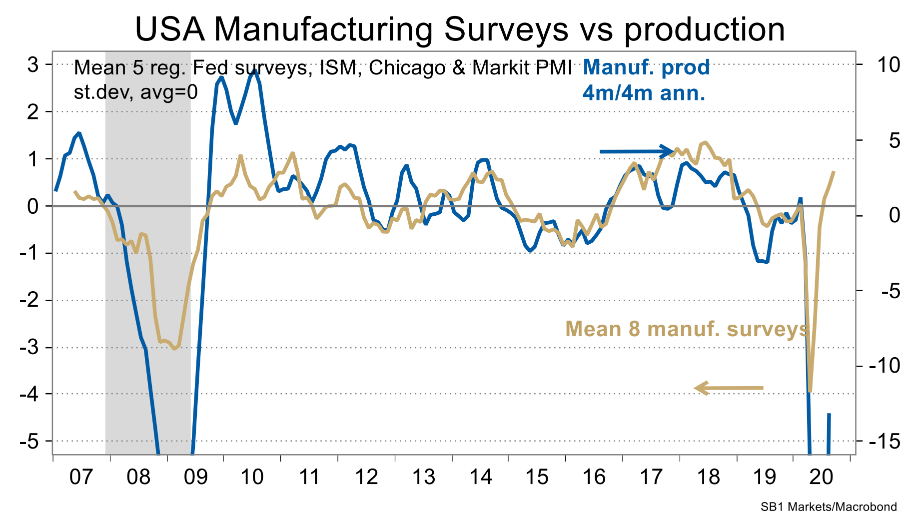
Other manufacturing surveys somewhat more upbeat than the ISM in Sept

In average, the surveys are not that impressive, we expect growth well above an average pace



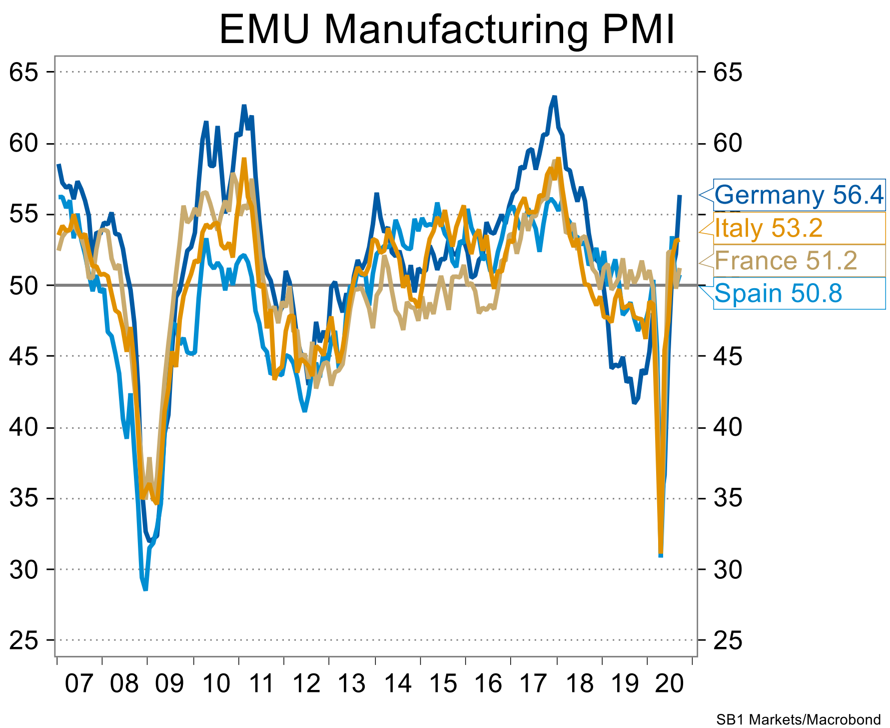


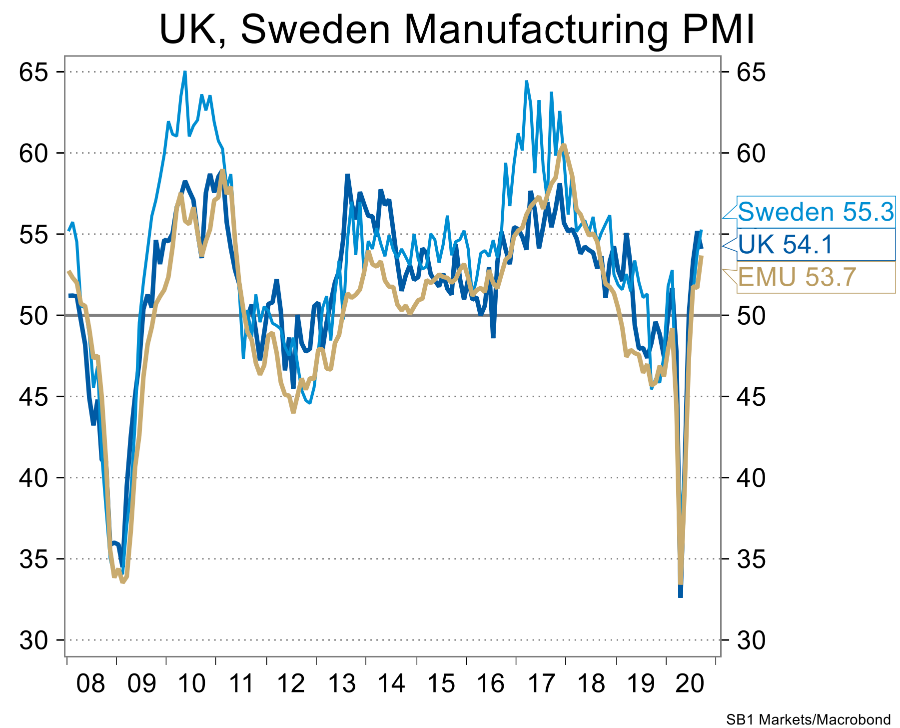


- Markit's final manufacturing PMI at 53.2, 0.3 p weaker than first reported (and up 0.1 p from Aug)
- Actual manufacturing production is on the recovery track but is still some 7% below the pre corona level
- We expect a continued growth the coming months. Core durable goods orders are above the pre corona level and goods consumption is strong

Eurozone manufacturing recovery gains speed, as in UK and Sweden

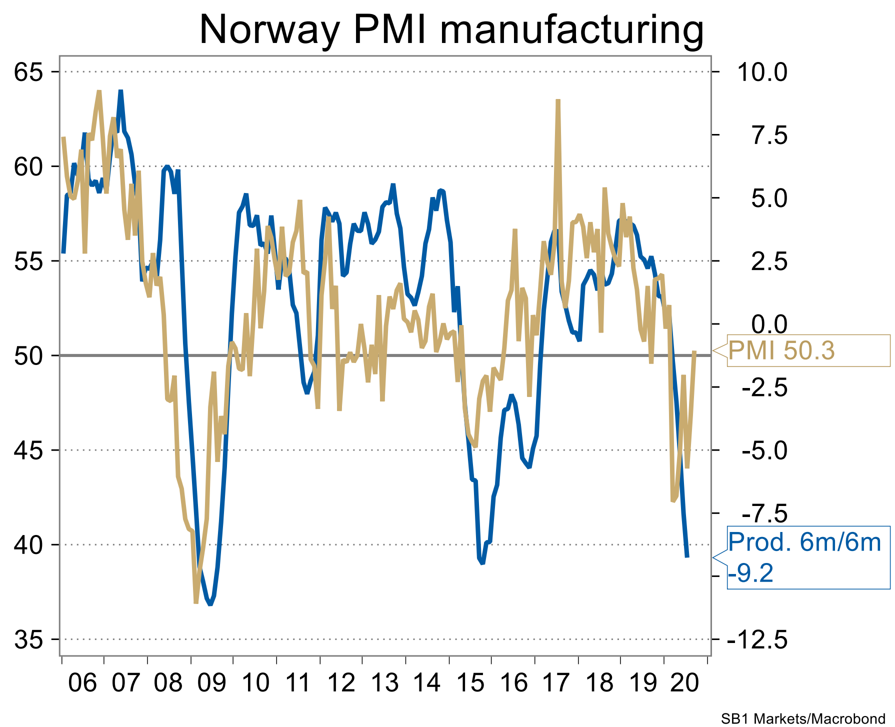
The PMI was unchanged at 53.7 in the final report (+2 from Aug). All main four countries above 50

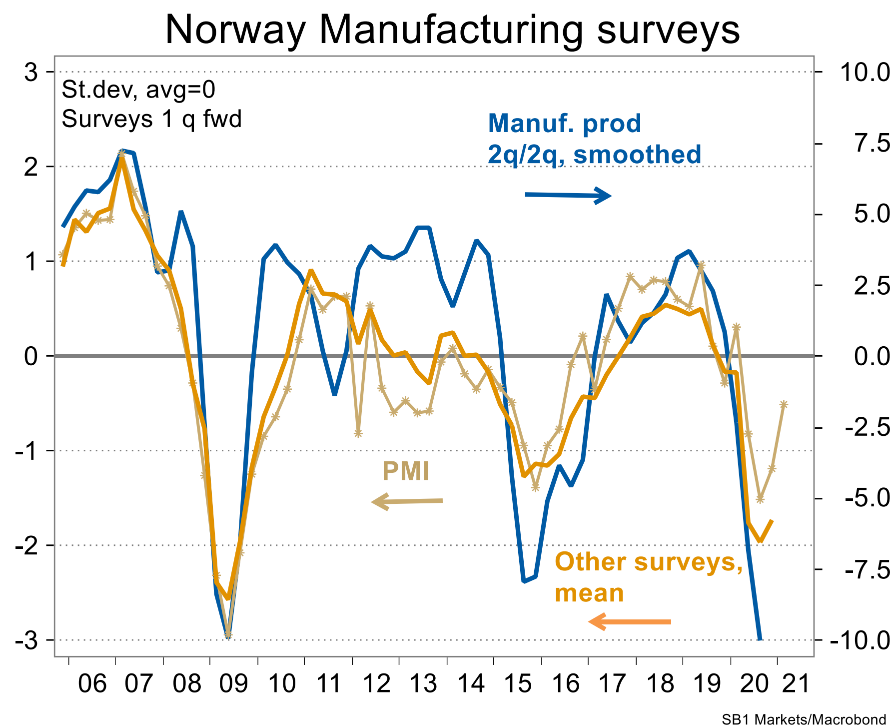




Manufacturing PMI finally (just) above 50 in September

The manufacturing recovery has so far been subdued, PMI signals a stabilisation, at best





- The manufacturing PMI rose to 50.3 in September, a 4.2 p increase, we expected up to 48. Activity in the Norwegian manufacturing industries fell in the spring but did not experience a deep setback. So far, we have not seen any upturn either, and the PMI signals just a stabilisation
  - » The details were not bright, even as all sub indices rose. New orders failed to increase and employment continued to decline
- Other surveys are still signalling a substantial decline in manufacturing production

Norwegian manufacturers fared better during the spring but lags now

… at least growth wise (Norway is still ahead, level wise)