28 June 2021

Macro Weekly

Week 26/2021

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Last week

The virus

- **The Delta variant** is gaining market shares, rapidly. In **UK, Portugal & Russia**, the Delta is found in 96% – 98% of new cases, and the no. of cases in rising rapidly, even if 70% of the population UK is vaccinated (or have been infected). In UK hospital admissions & deaths are up too, but not by much and the level (and rates vs. new cases) is still low
- **Elsewhere**, the no. of cases is falling most places. **Norway** has turned marginally up but the number of hospitalised patients have fallen to below 30 (=zero)
- **Mobility** is rising everywhere in DM as the negative drag from corona restrictions/cautious behaviour is easing

The economy, part I

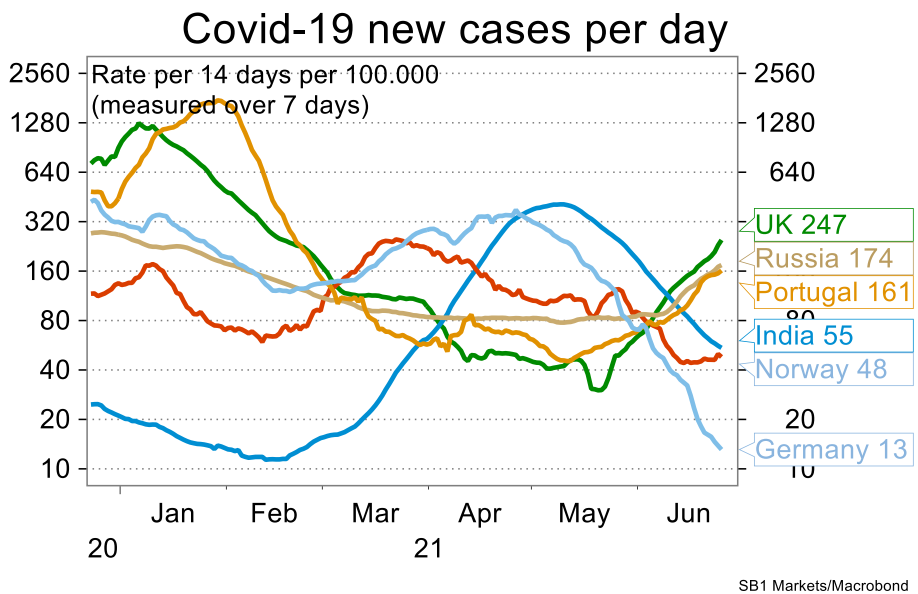
- **PMI**
  - » **Peak PMI?** The preliminary PMIs from US, Europe and Japan signal a decline in the composite global PMI in June. The levels are still very high, signalling growth far above trend in global GDP. The manufacturing PMI may have fallen marginally, due to Japan & the UK, while the US survey ticked up – and the EMU was unchanged, at a very high level. A significant decline in the service sector in the US (to a very high level still), dragged our global estimate down more than a surprisingly steep increase in EMU. Longer delivery times & higher prices will be confirmed in the final PMI/ISMs this week

Last week: The economy, part II

- **USA**
  - **Fed's Powell and Williams** both did their best to play down the hawkish signals from some of their peers (and the median member) in the FOMC, stressing that monetary policy will remain very expansionary for a long while
  - Some GOP senators have agreed upon **an infrastructure deal** with the Democrats. It is scaled down vs Biden's proposal, but is still at USD 1.2 trl over the next 10 years. The annual amount could support the economy by some 0.4% - 0.6% of GDP per year. The funding side is uncertain – and the final outcome is still highly uncertain
  - **Inflation** accelerated further in May, according to the PCE deflators – but not more than expected. The annual rate is still irrelevant (prices fell last spring) but even measured over 2 or more years, average inflation is at or close to 2%, at Fed's (average, over time) inflation target as monthly prices increases have been unusual high recent months, and rather broad. It may by transitory – we still think wage inflation will decide
  - **Consumption** was weaker than expected in May, as goods consumption fell 2% and services rose just 0.4%. We forecast a further decline in goods (still 16% above the Feb-20 level), but solid growth in services the coming months. The savings rate is still 5 pp 'too high'. On the other hand, net federal transfers-taxes are far higher than before the pandemic, blowing a hole in the Treasury's coffers – which at one stage must be fixed
  - **Housing starts/permits** were far weaker then expected in May – and the direction is down, same goes for **existing home sales**. Lack of supply is mostly to blame but the 13% – 24% price hikes over the past year have probably dampened demand too. Realtors reported <u>no further price increases</u> in May. Has the decline in mortgage rates done its job?
- **EMU**
  - **Consumer confidence** rose further in June, and it is far above an average level
- **UK**
  - **In Bank of England**, just one member, the outgoing 'free thinker' Andy Haldane, voted to reduce the QE program slightly, but the others decided to continue at the same pace. The others' dovish stance lowered the short end of the curve & the GBP
- **Norway**
  - **Unemployment** is still falling rapidly, according to weekly NAV data
  - **Construction activity** is heading upwards, even if housing starts fell in May

The delta virus will take the market everywhere, and it may become a challenge

And now a Delta plus variant is found in India…

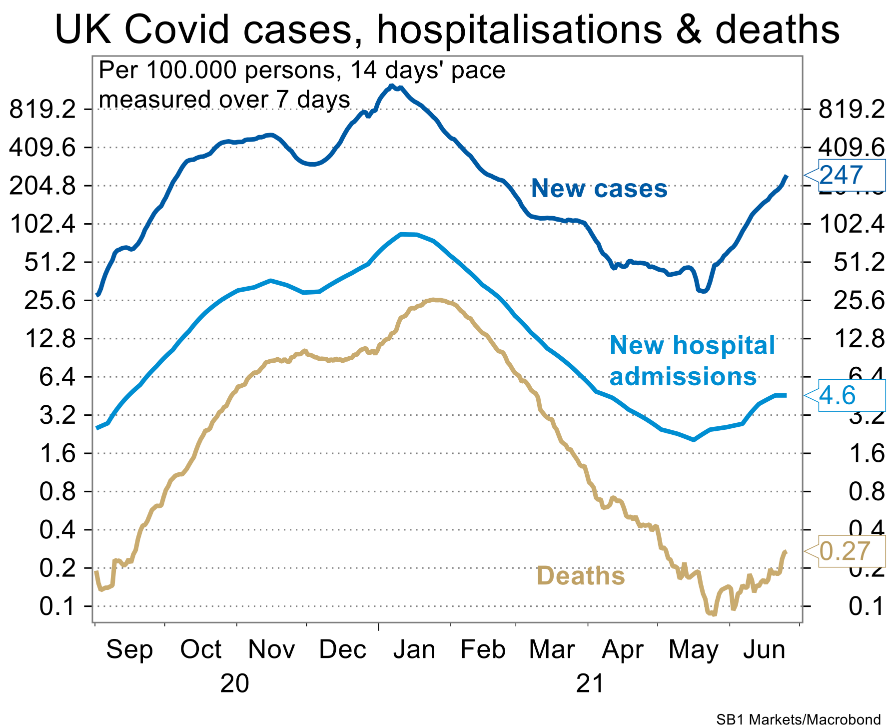


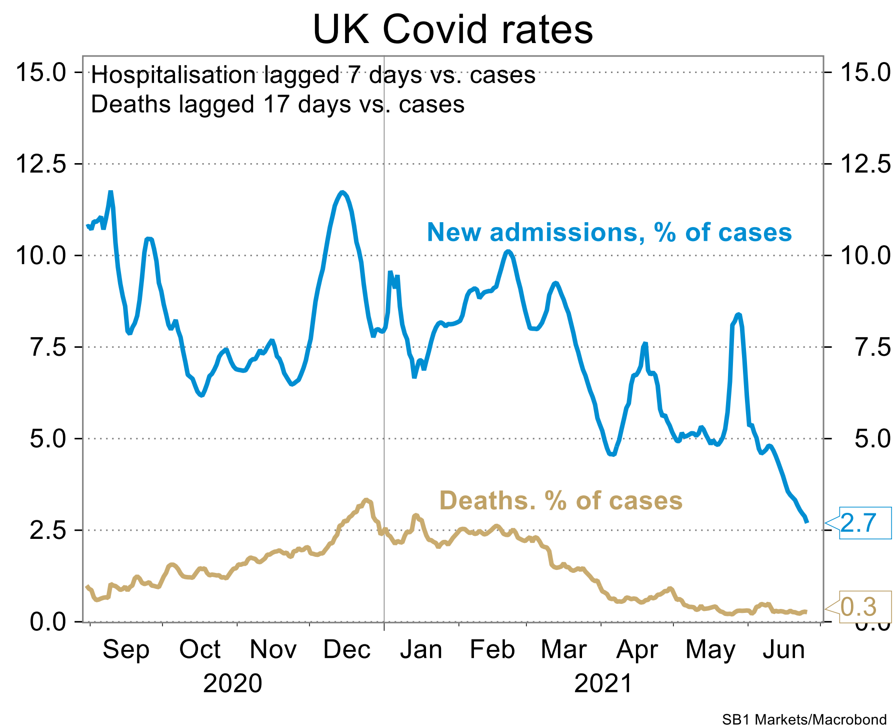
- The **Delta virus** will very likely capture the corona virus market in most countries
- **India** has managed to get it under control, without killing the economy. However, in the **UK, Russia and Portugal**, where the new variant has become totally dominant (close to 100%), the no. of cases are surging **Israel** is reporting as surge in cases, as are some other countries with rather high level of vaccinations
- On the other hand, while the no. of **hospitalisations** and even more **deaths** in the UK are on the way up, the level is low, and the hospitalisation rate is still falling. Thus, there will not be a health crisis anytime soon but at the current growth rate (close to 50% per week, R = 1.30) there are some clouds on the horizon. (See more next page)
- In **Norway**, the no. of new cases is increasing slowly but the no. of hospitalised is steadily falling (to below 30)
- In most **other rich countries**, the no. of new cases are stable or are still falling, even if restrictions are eased and mobility has increased sharply

Source: Financial Times, June 20

UK: Still a moderate increase in new hospital admissions, deaths

... And from very low levels, compared to before the vaccination process

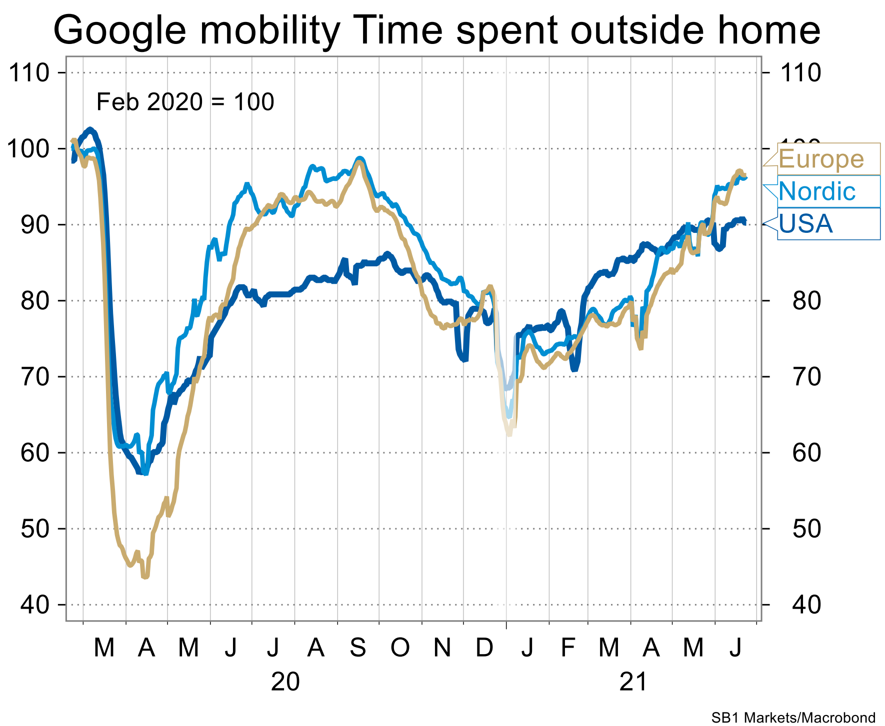




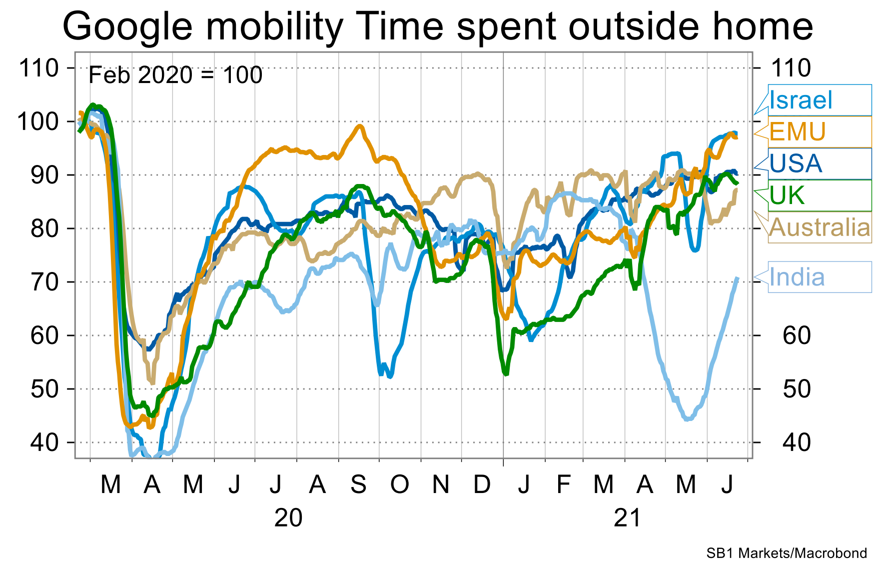
- The no. of **new cases per day** is steadily growing, by almost 50% per week (R=1.3), and will reach the January peak by the end of July
- However, the **hospitalization rate** has fallen sharply, as both the old and other risk groups are vaccinated – to below 3% from appox. 8% in January – and it is still declining. On the other hand, UK hospitals will be filled up once more if nothing changes the coming months. Hopefully, vaccination will speed up again, from the present 1.5% of population per week
- The **case fatality rate** (of those tested positive) has fallen even more, to 0.3% from close to 3%. Hospitals will be filled up long before the crematoriums

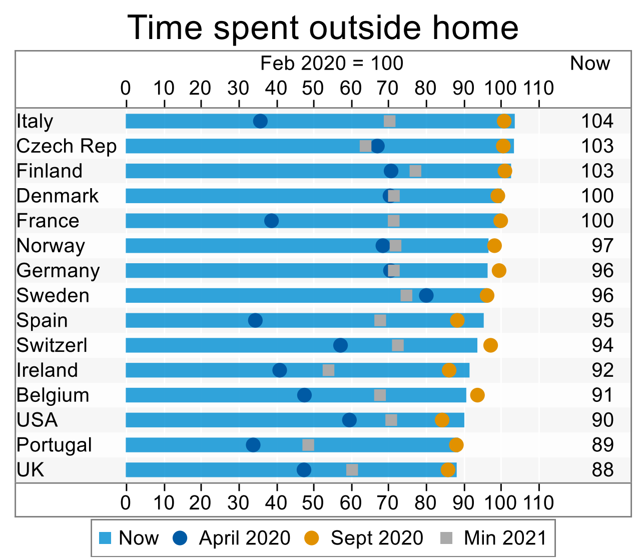
Mobility on the way back to a normal level – sharply up in Europe (Nordics incl.)

Even India turned up in mid May



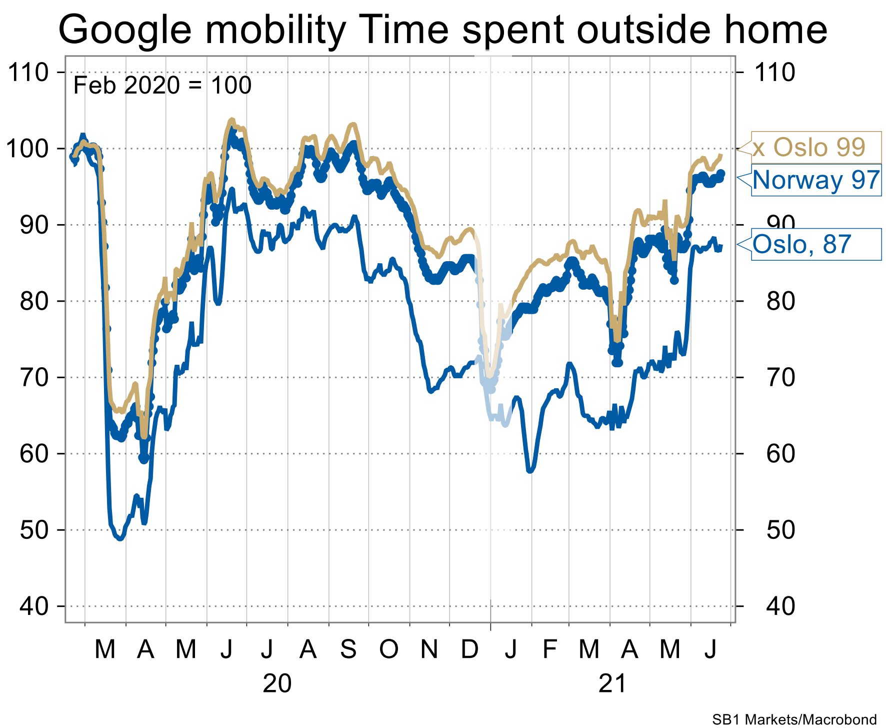
- Mobility still some 5% - 10% below par – some upside left

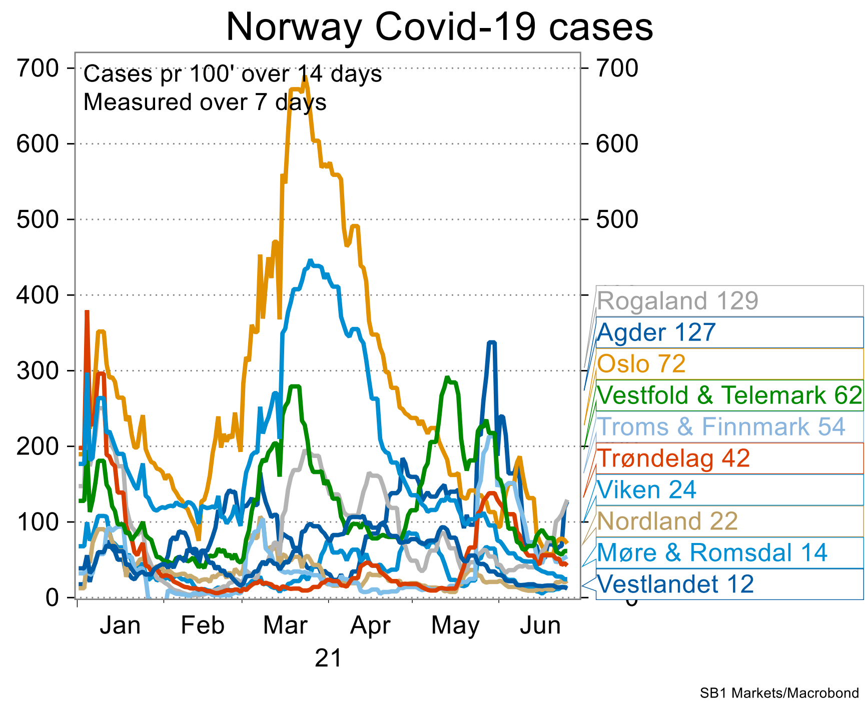




Mobility almost back to normal most places in Norway

Oslo still 13% down, according to Google. Some local outbreaks, …seems manageable

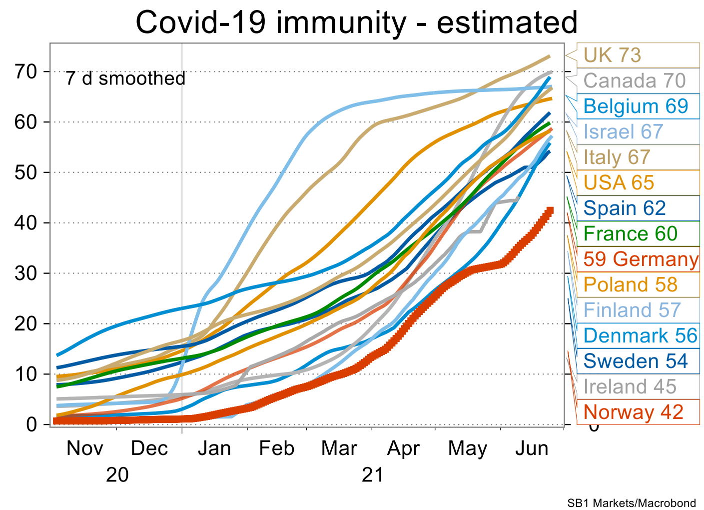


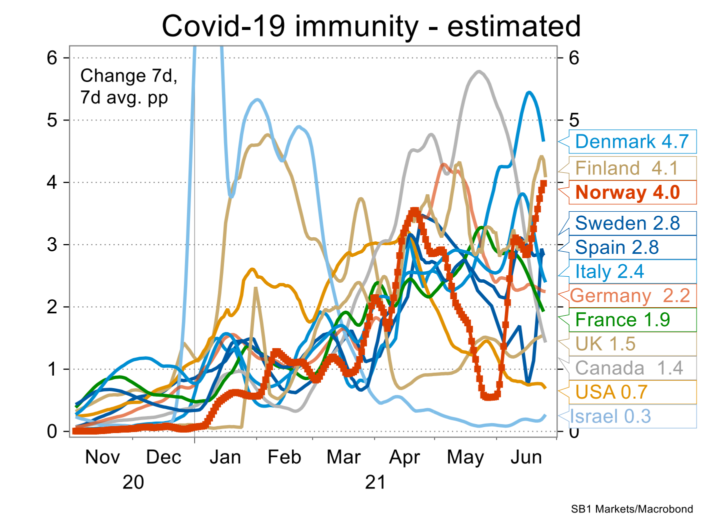


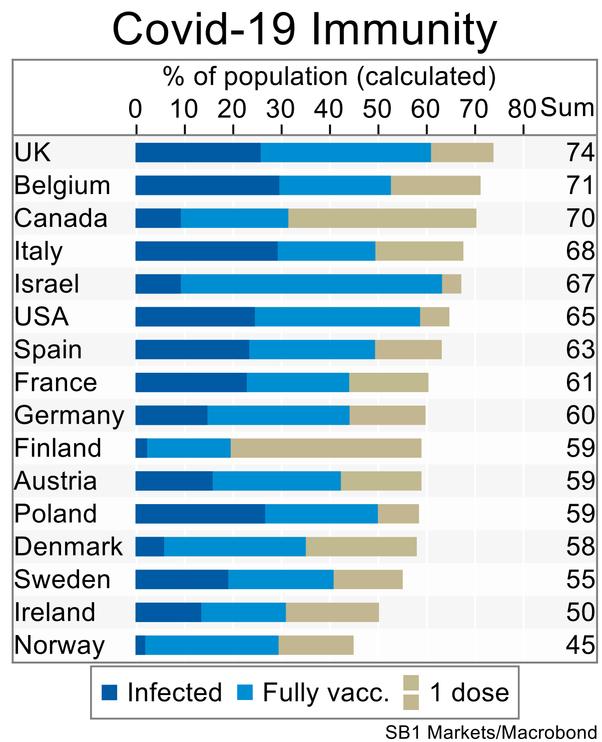
Covid-19

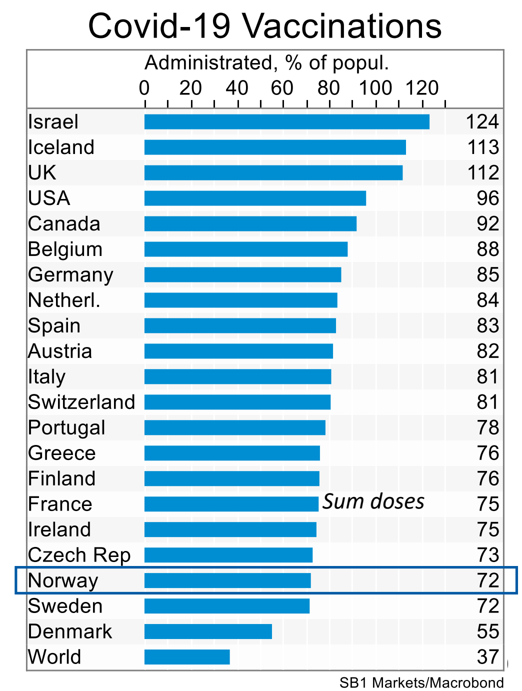
Vaccinations: On the way up, UK is speeding up again, for good reasons

Norway is a laggard, as we not use AstraZeneca or Johnson & Johnson's vaccines





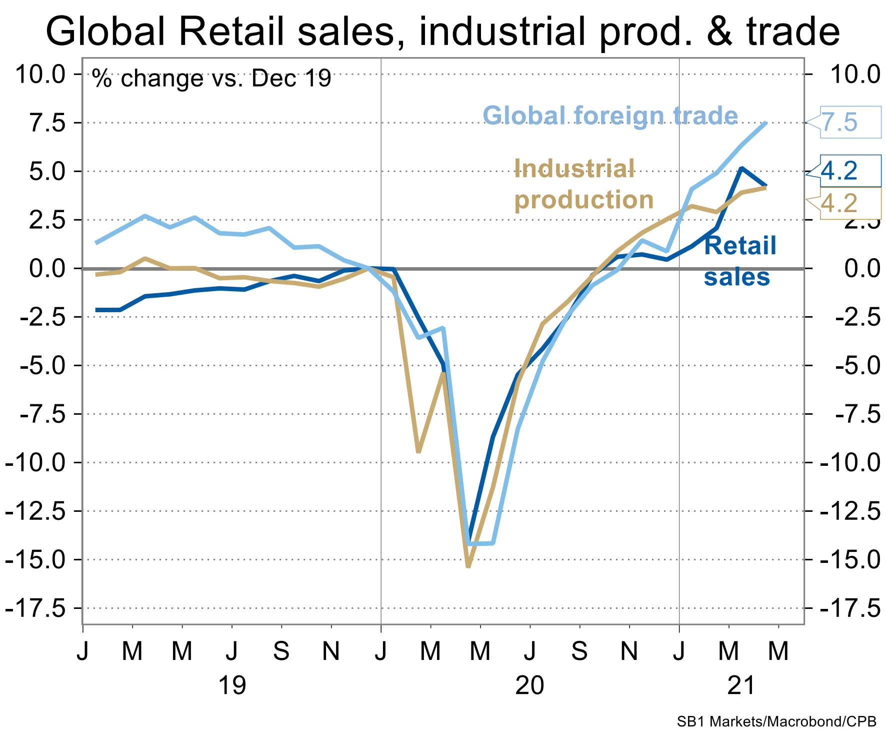


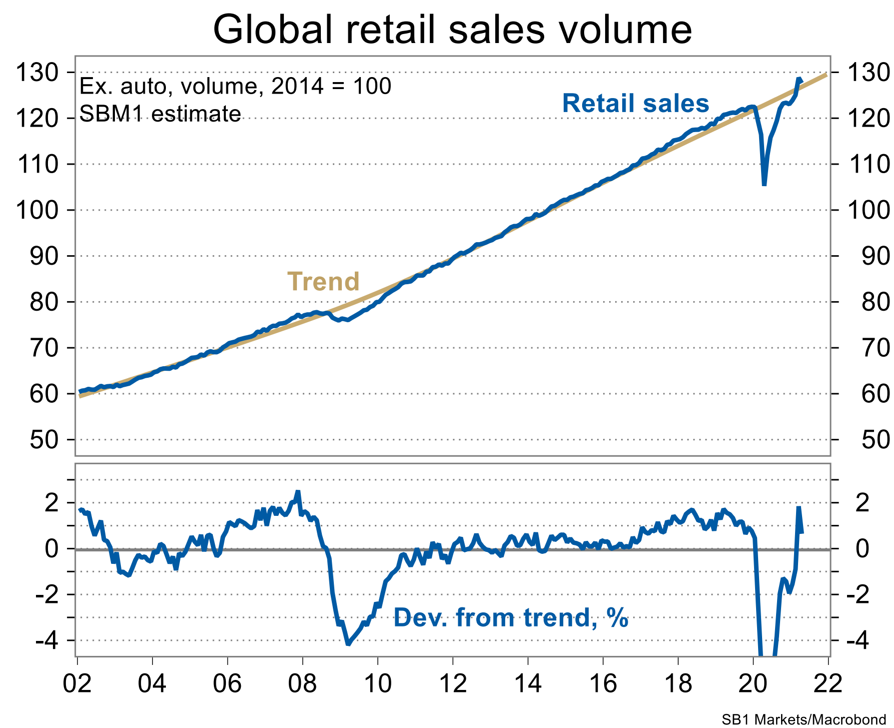


We calculate the infected rate by assuming a 0.66% infection fatality rate, and a 90% immunity from infection.
We assume those who have been infected are vaccinated in line with others. Denmark not fully updated

Global trade further up in April

Retail sales may have fallen in April, due to EMU & India. Still the trend is up





- **Retail sales** rose almost 3% in March, mostly due to the lift in US and partly also EMU retail sales. Our April estimate implies a 1% decline, due to lower sales in the US and the EMU, and very likely in India. Global sales are 4% above the pre-pandemic level
- **Manufacturing production** rose more than 1% in March, and another 0.5% in April – and is 4% vs the pre-pandemic level
- **Global foreign trade** rose further in April, to 7.5% above the pre-Covid level, according to CBP in Netherlands – and the trend is straight upwards

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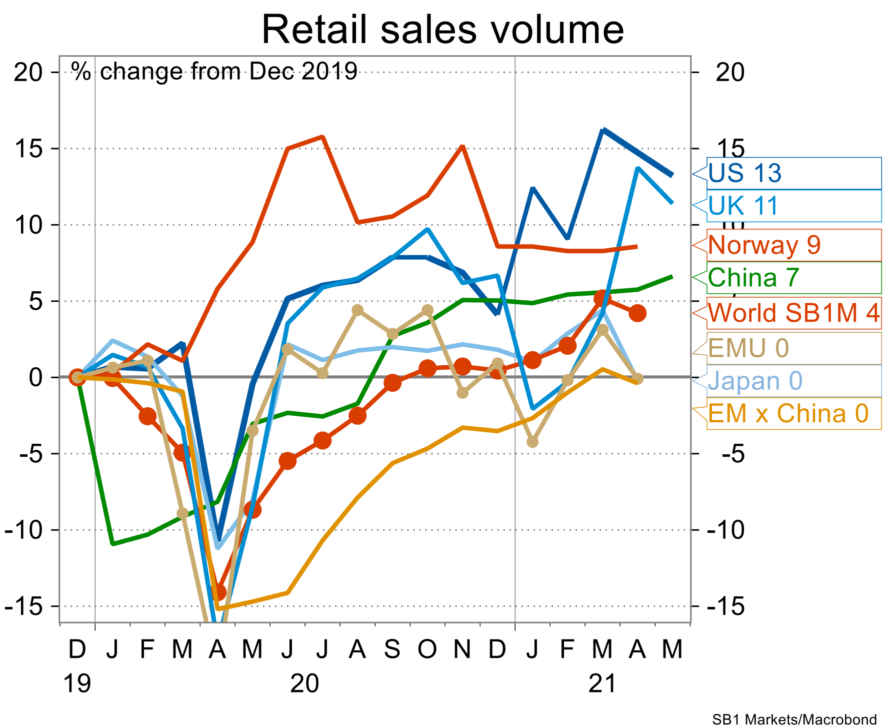
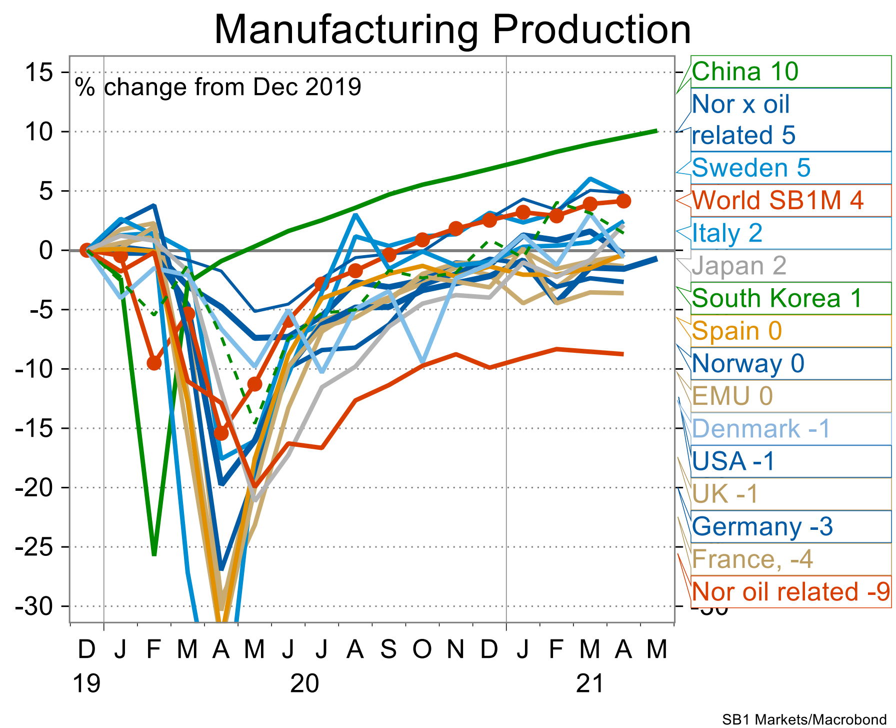
Volatile retail trade data, but the trend is up

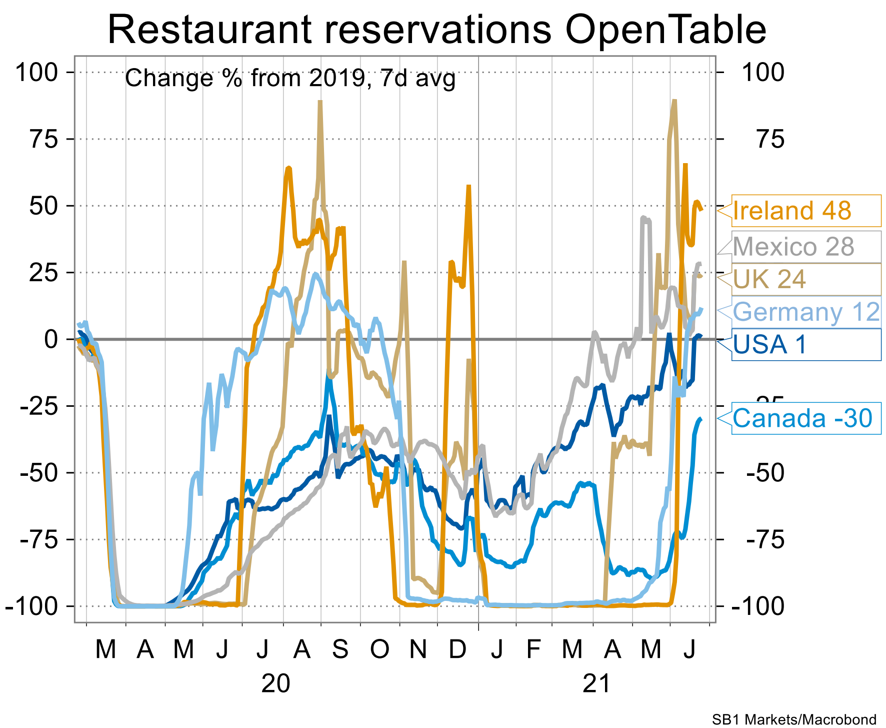
.. At least until we can spend more money on services

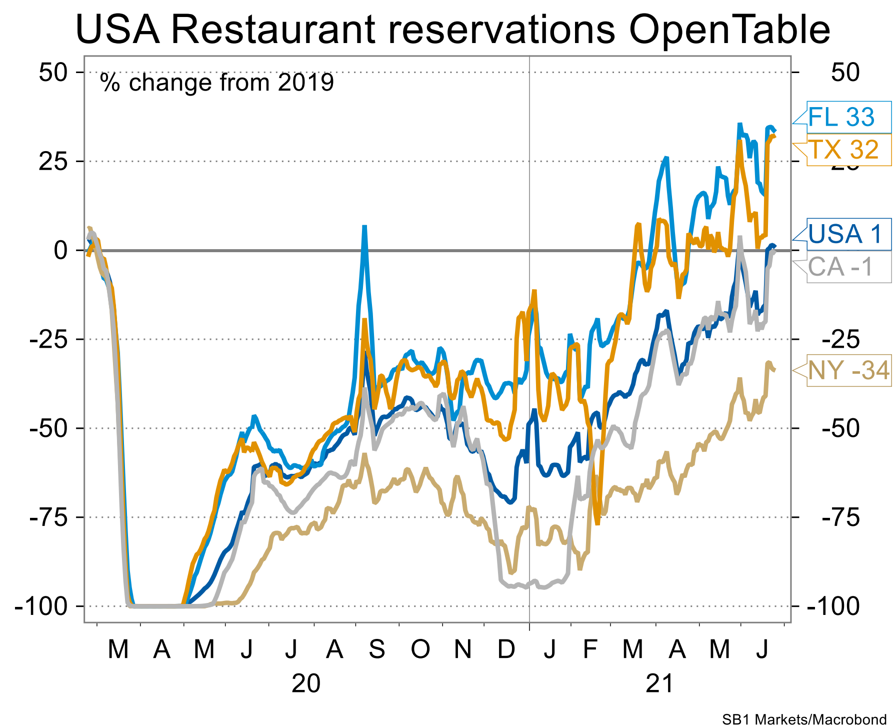




Sill, no ‘delta lockdowns’ to be seen

People return to restaurants as soon as it is possible!

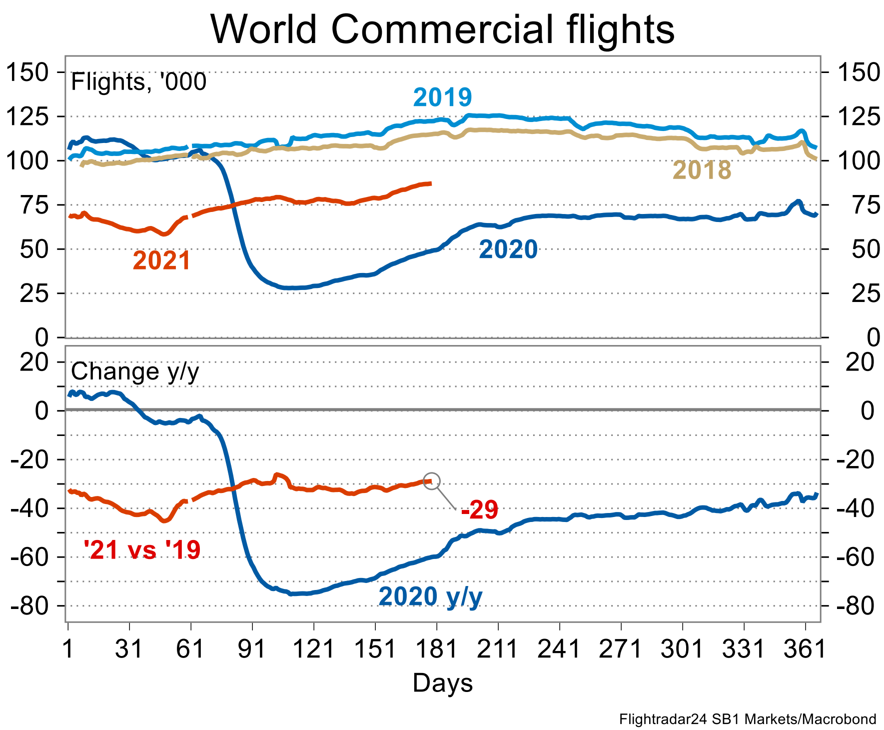


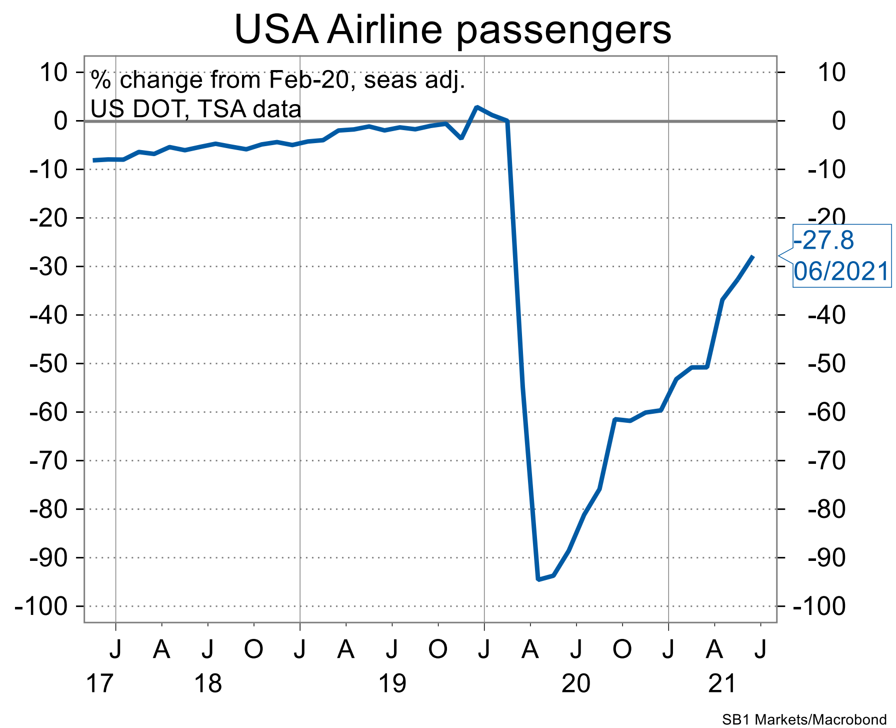


- Sales in restaurants in the US were down 6% in volume terms in May vs. Feb-20. OpenTable reports an unchanged level of reservations in late June
  - » NY is still down 34%, as tourism is still at a far below normal level

Global airline traffic on the way up again – by almost 1% per week

US airline traffic straight up, but still 28% below par due to still little travel abroad

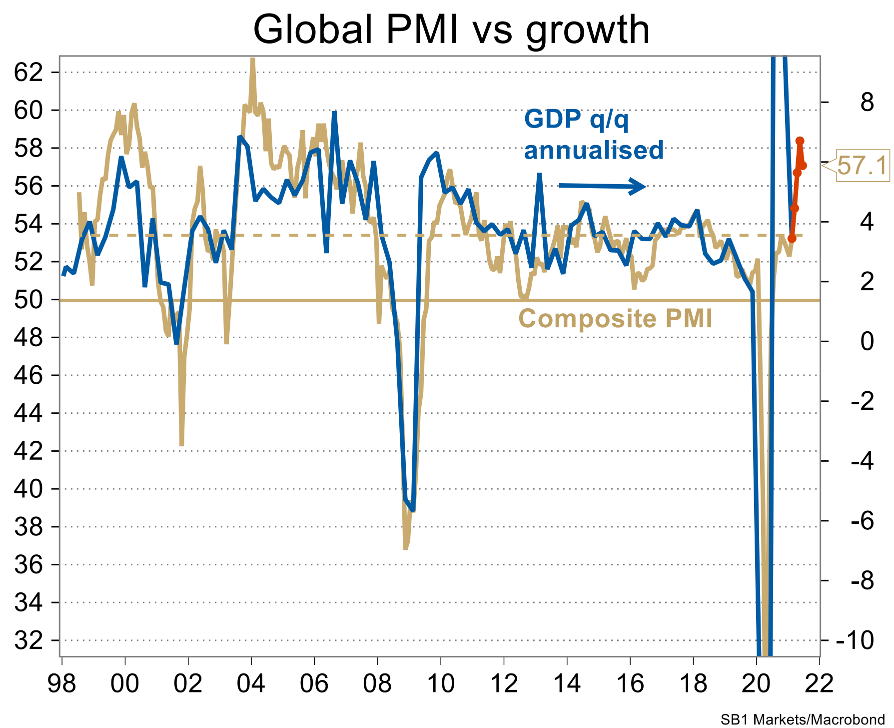


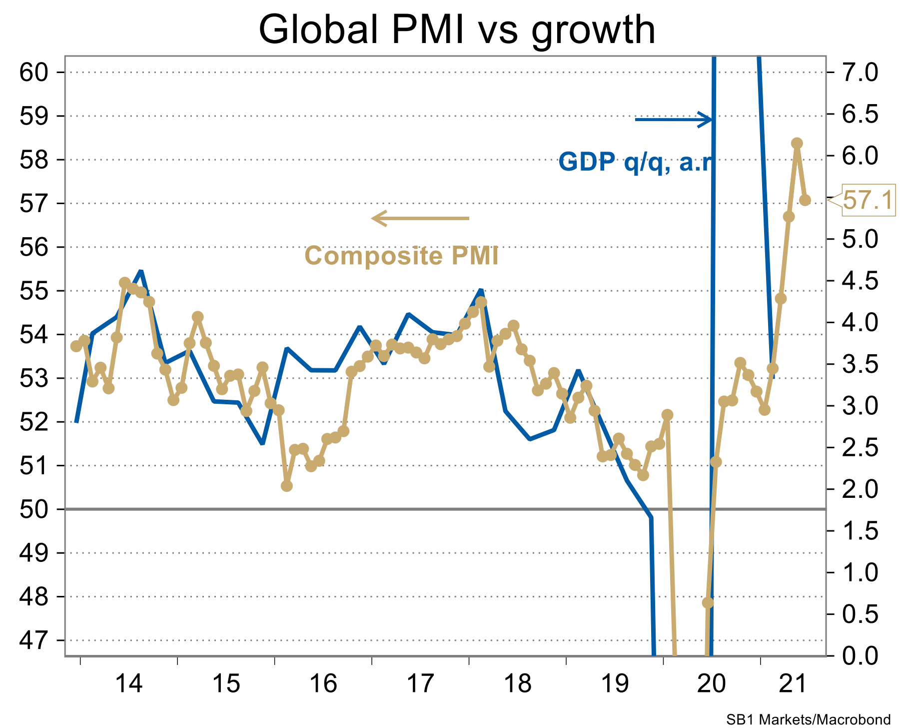


- We have revised our calculus of US airline passengers and added a seasonal adjustment – which substantially reduced the June level – still the trend is straight up!

PMI probably down in June, still at high level – signalling strong GDP growth

We estimate 1.3 p decline in the comp. PMI to 57, dragged down by a 4.9 p drop in the US PMI



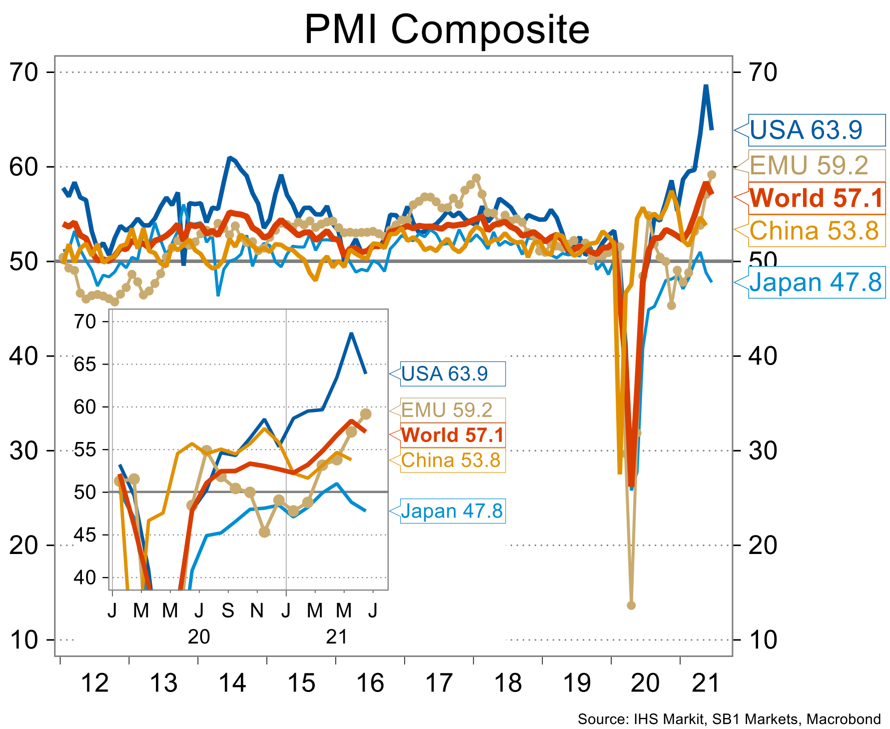


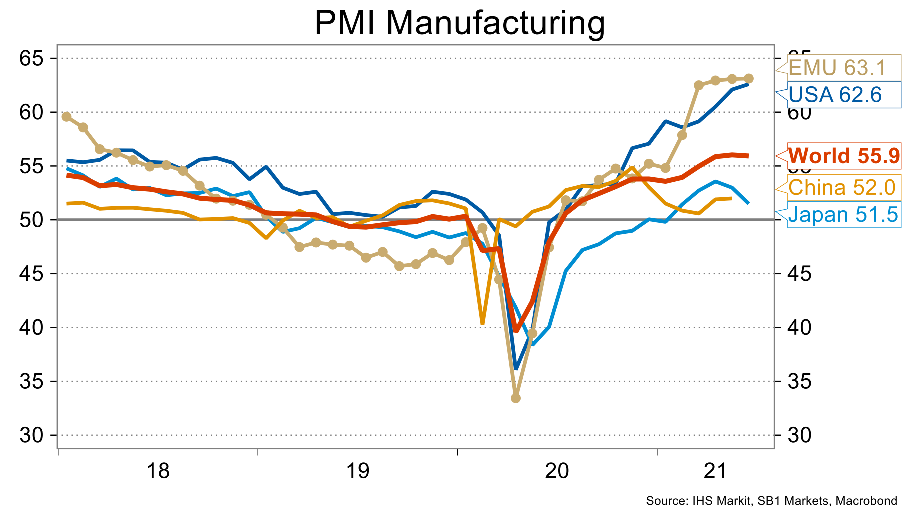
- **The global PMI** is at the 2nd highest level in 14 years
- **The US PMI** was weaker than expected but still the 2nd highest ever, signalling a very rapid growth in the US – but the momentum is most likely slowing
- **The EMU PMI** rose more than expected
- **Delivery times, input & output** prices are increasing faster – and faster than ever. April was probably not the last month with high CPI prints some places

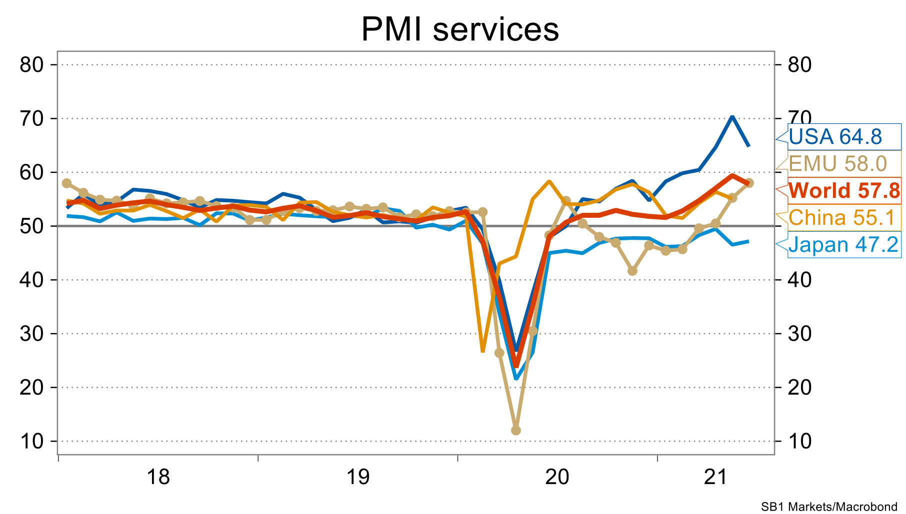
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

The US still in the lead, even if the service sector PMI fell sharply

However, US services are still at 64.8. EMU services PMI climbed to 58.0, ATH



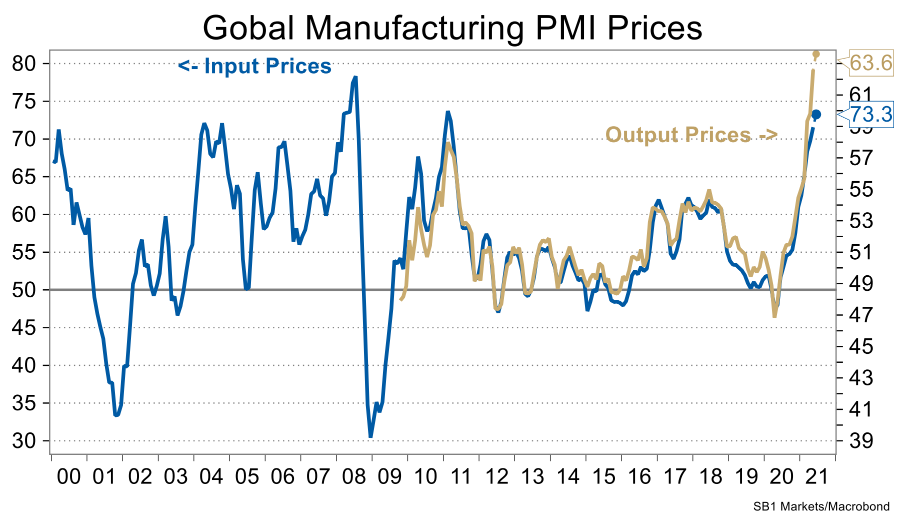


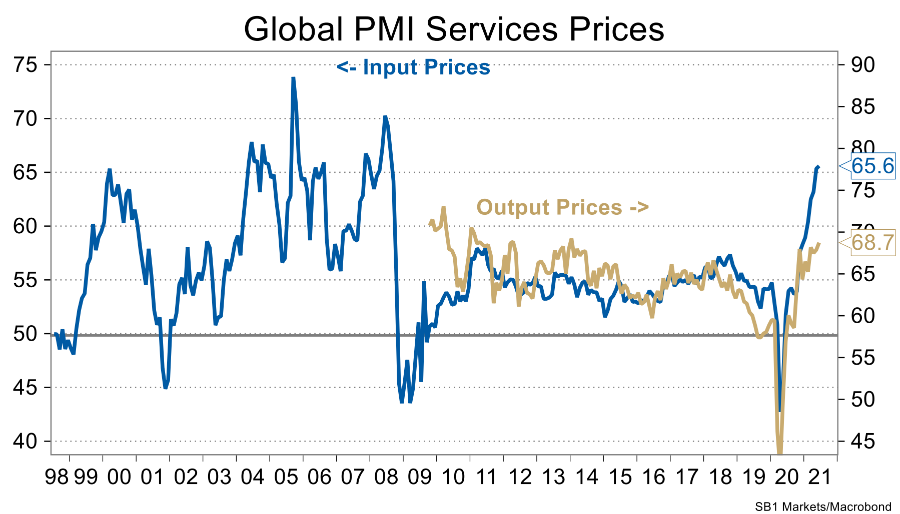


- The **manufacturing PMI** flattened, while the **services PMI** fell
- Peak growth behind us in the **US** but as the GDP level has come close to the pre-pandemic trend, that's not a sign of weakness. And now crisis yet, PMI says 7% growth
- The **EMU** PMIs rose to ATH, and signals a 5% GDP growth
- **The UK** also reports a brisk recovery in the service sector
- **Japan** is still sagging, the PMI further down, signal a GDP decline

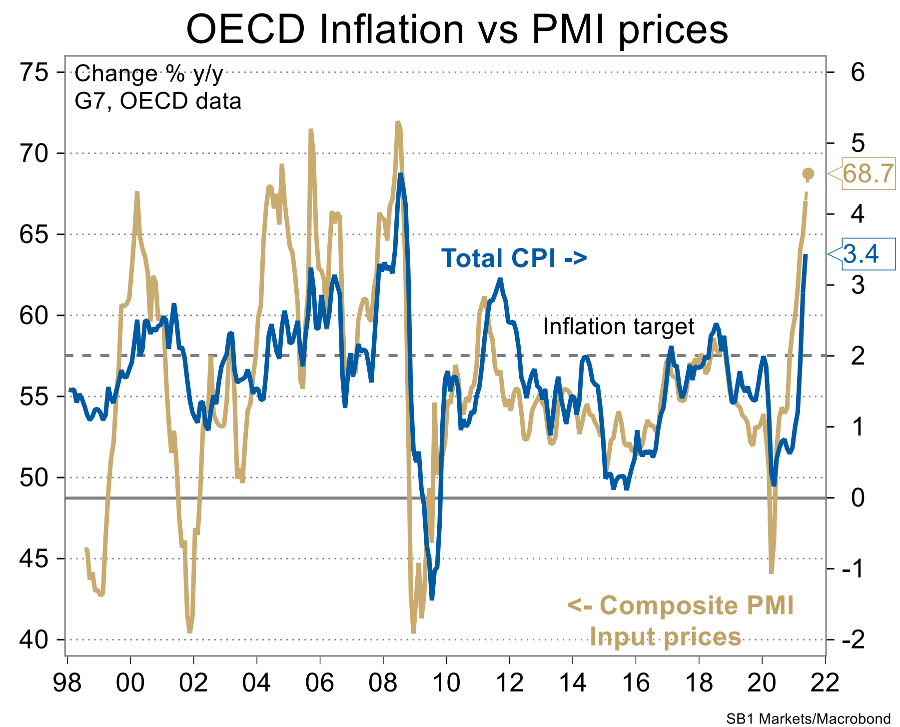
It may still be transitory – and we are not that worried about raw material prices

… because they are normally rather short-lived





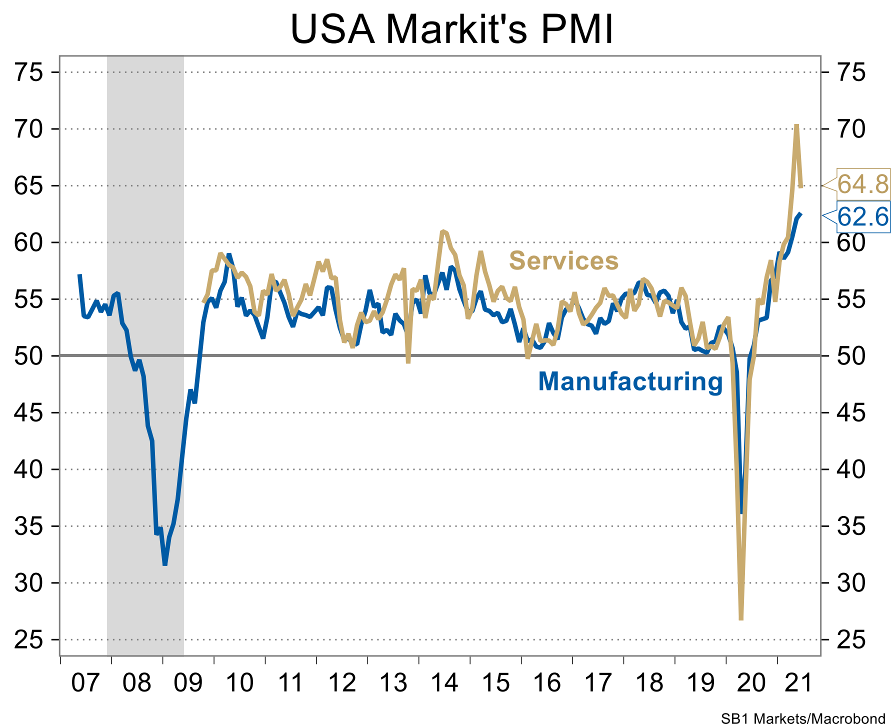
The last services PMI priced based on preliminary PMIs from EMU, Japan, UK, and the US

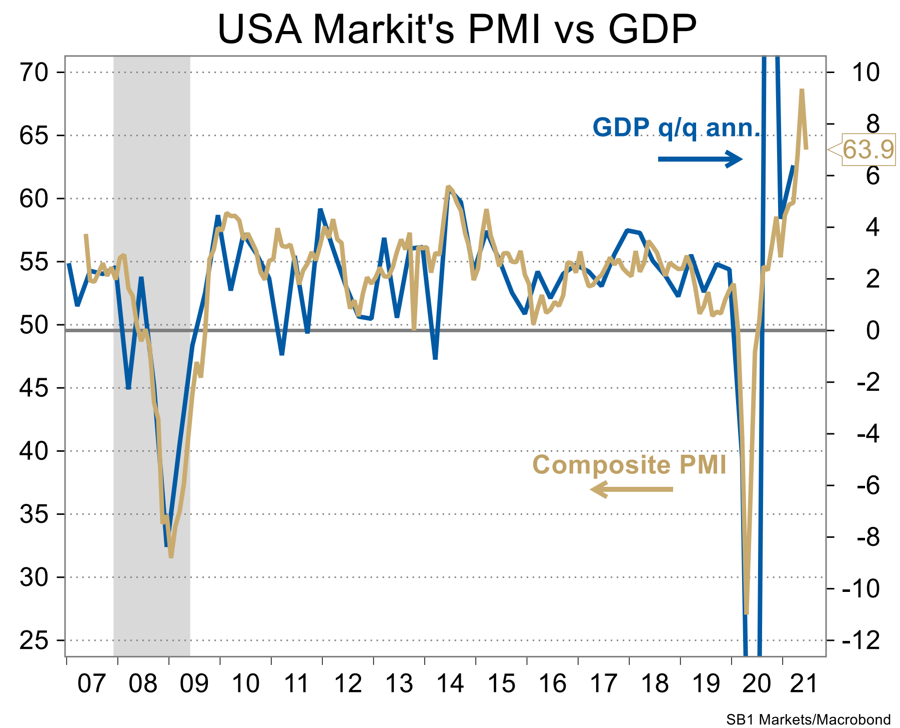


- **Both manufacturers and services** are reporting even more rapid increases in prices, both input & output prices in June

Services down from ATH, while manufacturing PMI increased for the 4th month

The service sector PMI fell by 5.6 p to 64.8, manufacturing up 0.5 to 62.6 (new ATH)

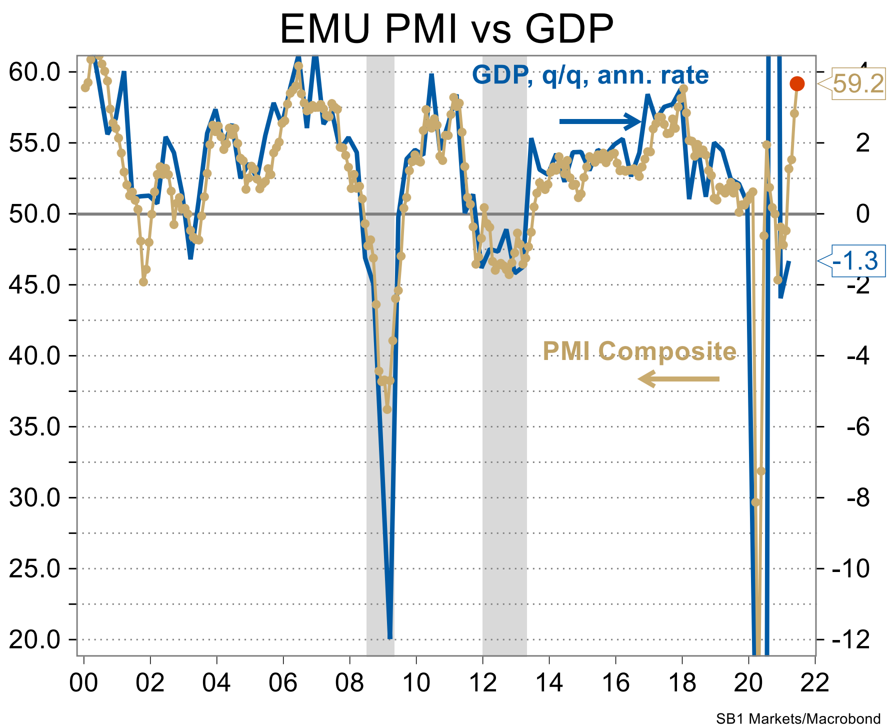


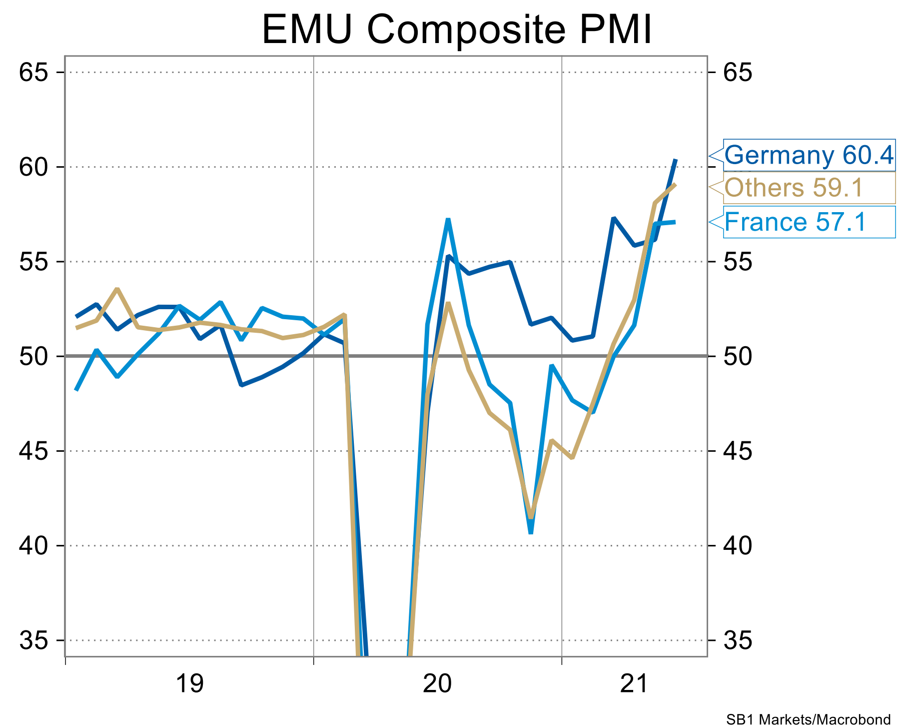


- The composite PMI signal a 7% growth rate as the economy reopens – and this index has probably peaked as growth will most likely come down through H2 as the GDP level returns to the pre-pandemic growth path

Another jump in June, as the recovery in services accelerates

EMU composite PMI up 2.1 p to 59.2, expected 58.8 – the best level since 2006

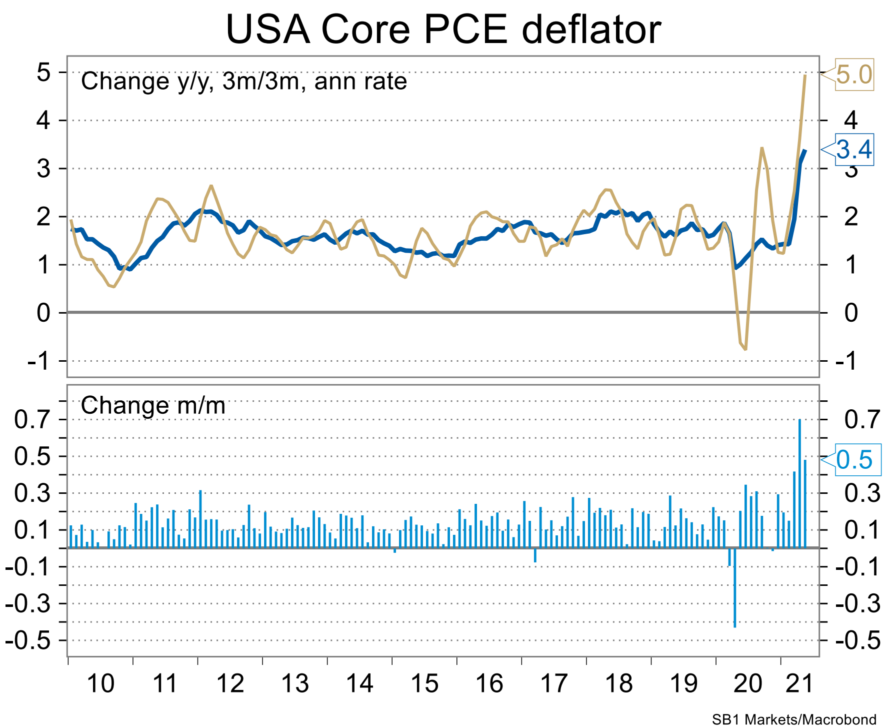


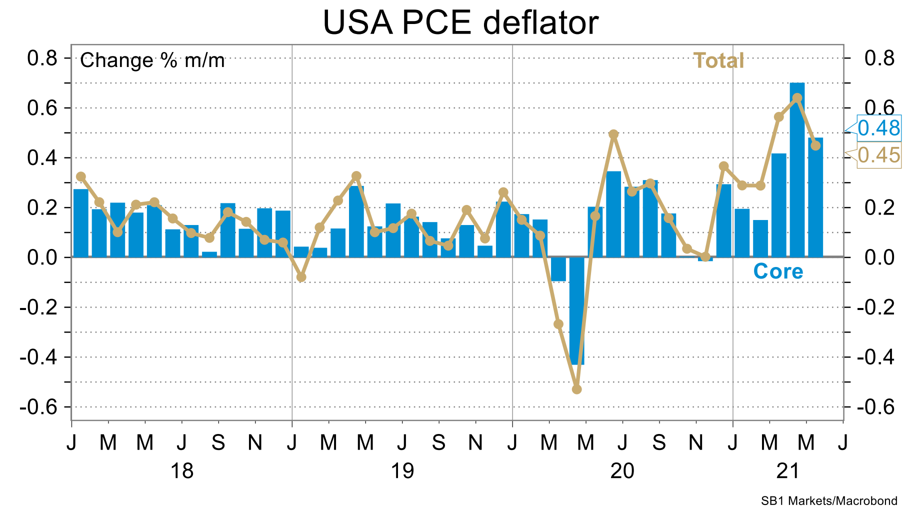


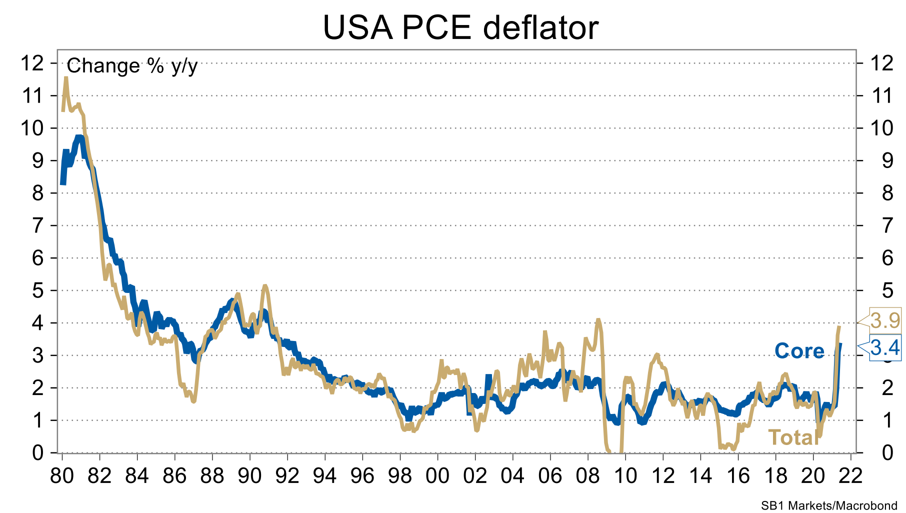
- **The composite PMI** at 59.2 signals a 3.5% - 4% pace of growth in GDP (or 0.9 % per quarter), as the corona restrictions are eased, and mobility is steady on the way up
  - » The composite index rose sharply in Germany, but only marginally in France. The average of Spain & Italy (and very likely both countries) also accelerated – and reported the highest composite PMI ever

Core PCE up 0.5% in May, 3.4% y/y, in line with expectations

The headline up to 3.9% y/y



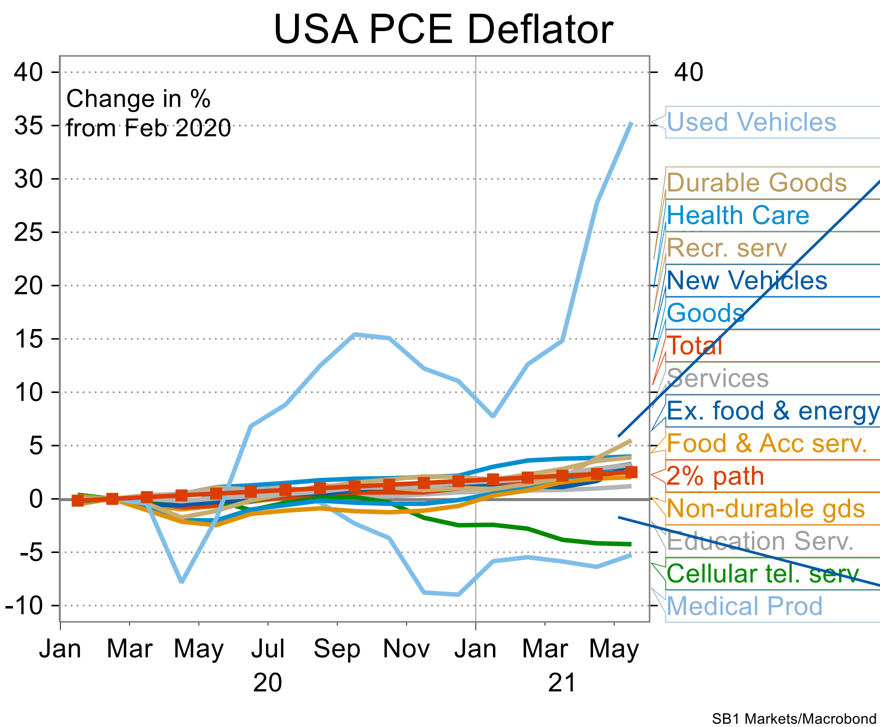


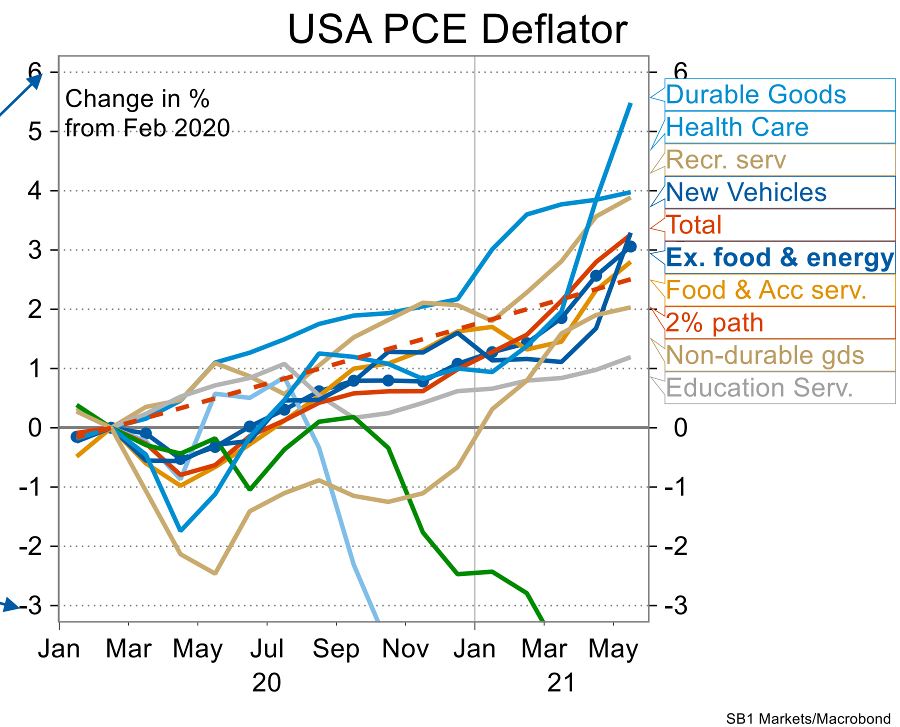


- **The core price deflator** rose much more than normal in May too, by 0.5%. The 3m/3m rate accelerated to 5% - and more than half of the acceleration of annual rate recent months is due price increases now, and not to declining prices last spring
  - Since May 19, the average core inflation rate has been 2.2%. Inflation has been at or close to 2% over the past 3 & 5 years too. Fed's average inflation target is met (but Fed has not told us yet)
- **Total PCE deflator** rose by 0.5%, and the annual rate accelerated 0.3 pp to 3.9%, as expected (and prices are up 2.2% y/y since April '19)

Most prices up in May too; New & used autos, recreational serviecs

Still unclear what is due to a ‘reopening surge’ – and what is permanent

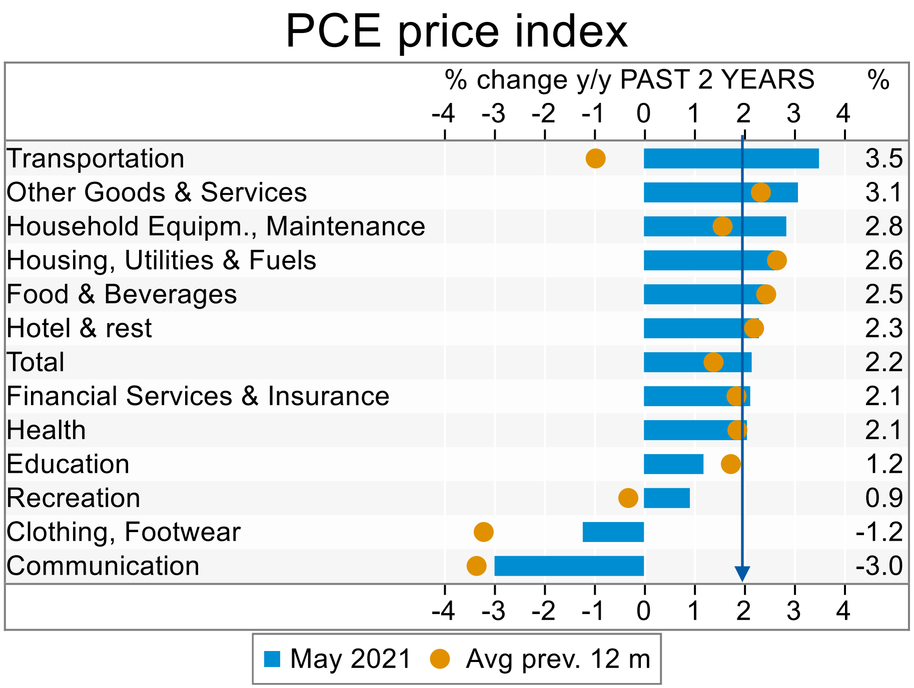




- Used car prices rose further in May, and are up by 35% vs. Feb-20 – no doubt above any reasonable long-term trend
- Health care costs have increased sharply since late last year

PCE by main sector: Transportation (autos & gasoline) explains a lot

However, most sectors report >2% pace of price increase the past 3m/3m (and past 2 years)



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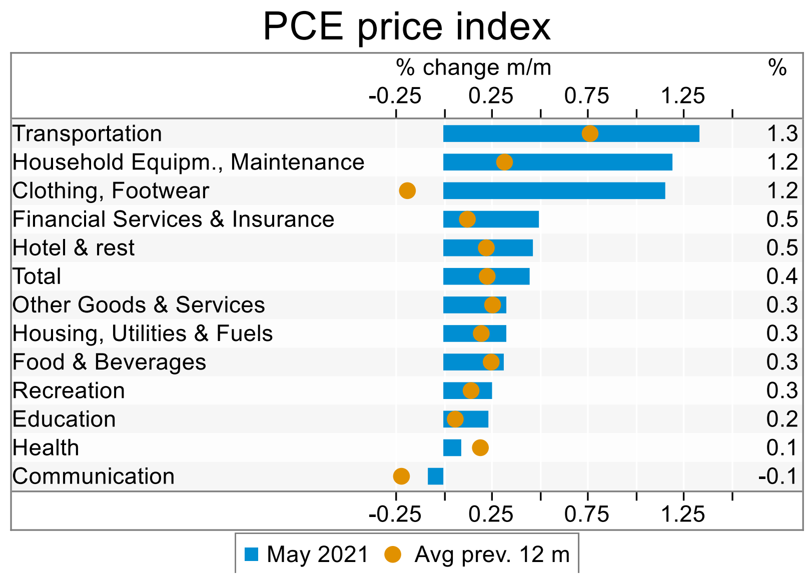
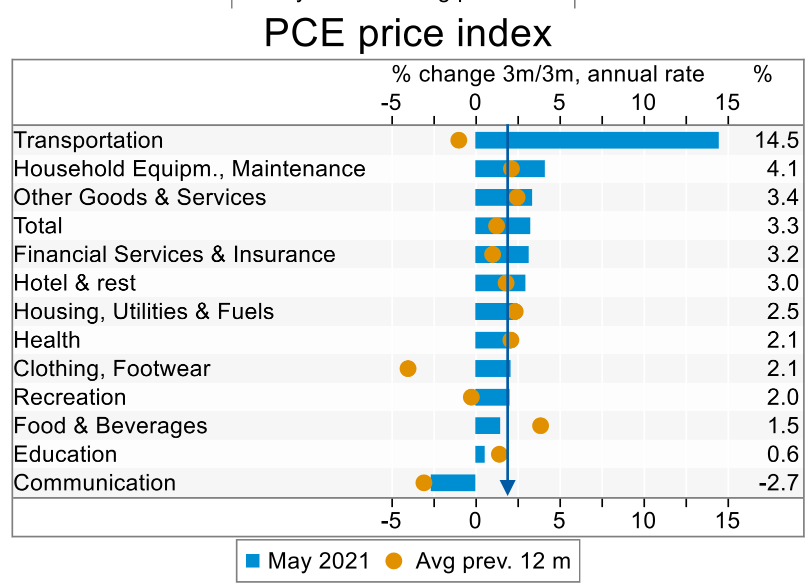
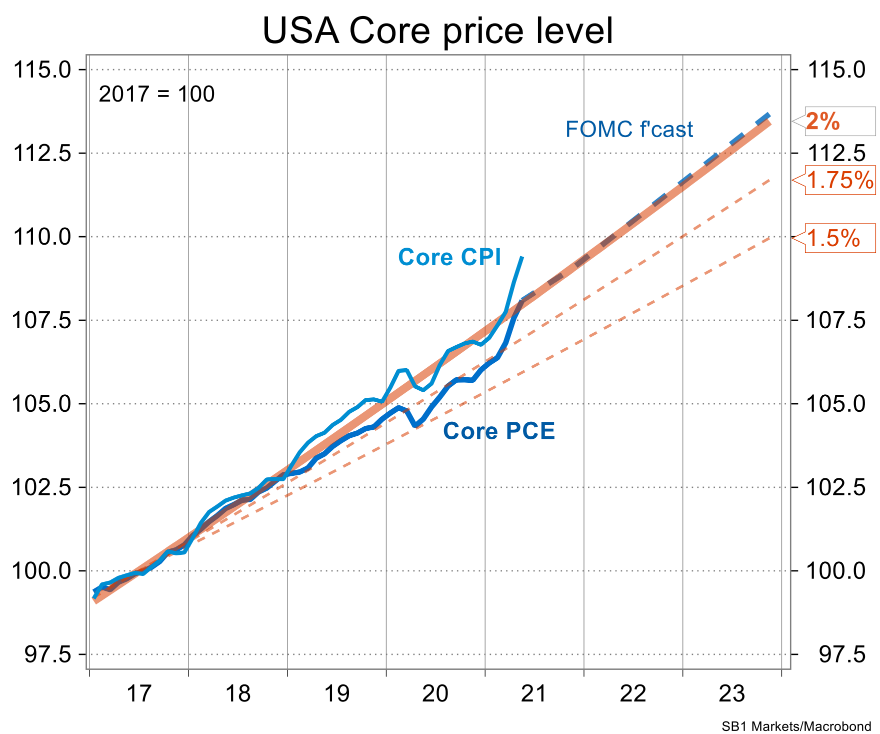


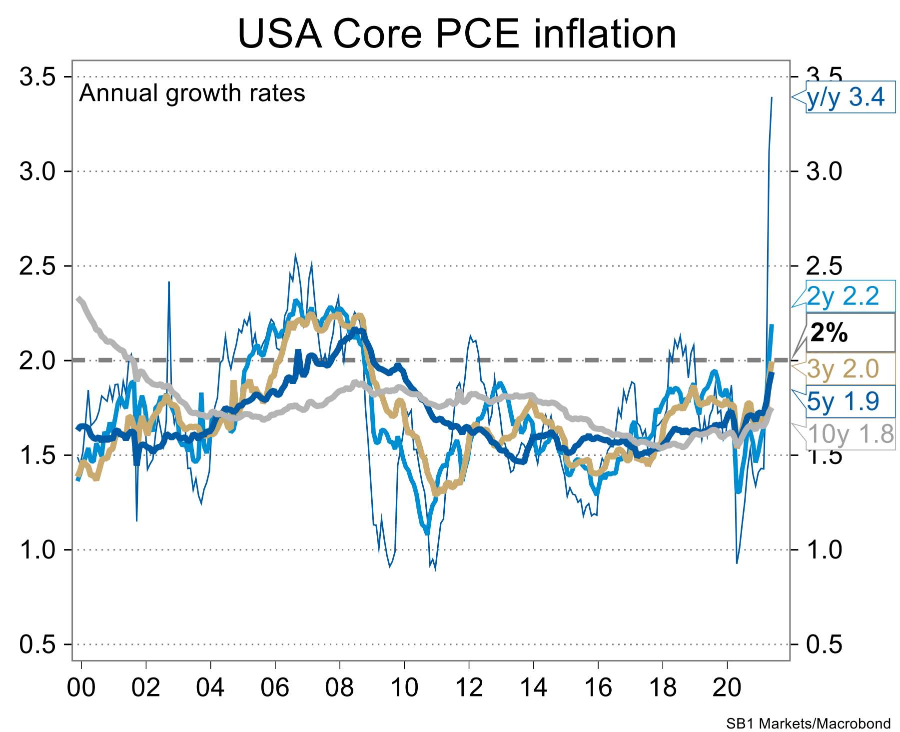


- Measured over the past 2 years, PCE inflation has been 2.2% on average. 4 sectors are below 2%, 9 sectors are above 2%, on average
- Just communication prices fell in May
- The share of prices that are declining has fallen recent months, but is still not low vs throughs the past 20 years

The price level is on the right track, right?

Seems so but the Fed has not told us so. However, the Bank's forecast is exactly on the 2% path



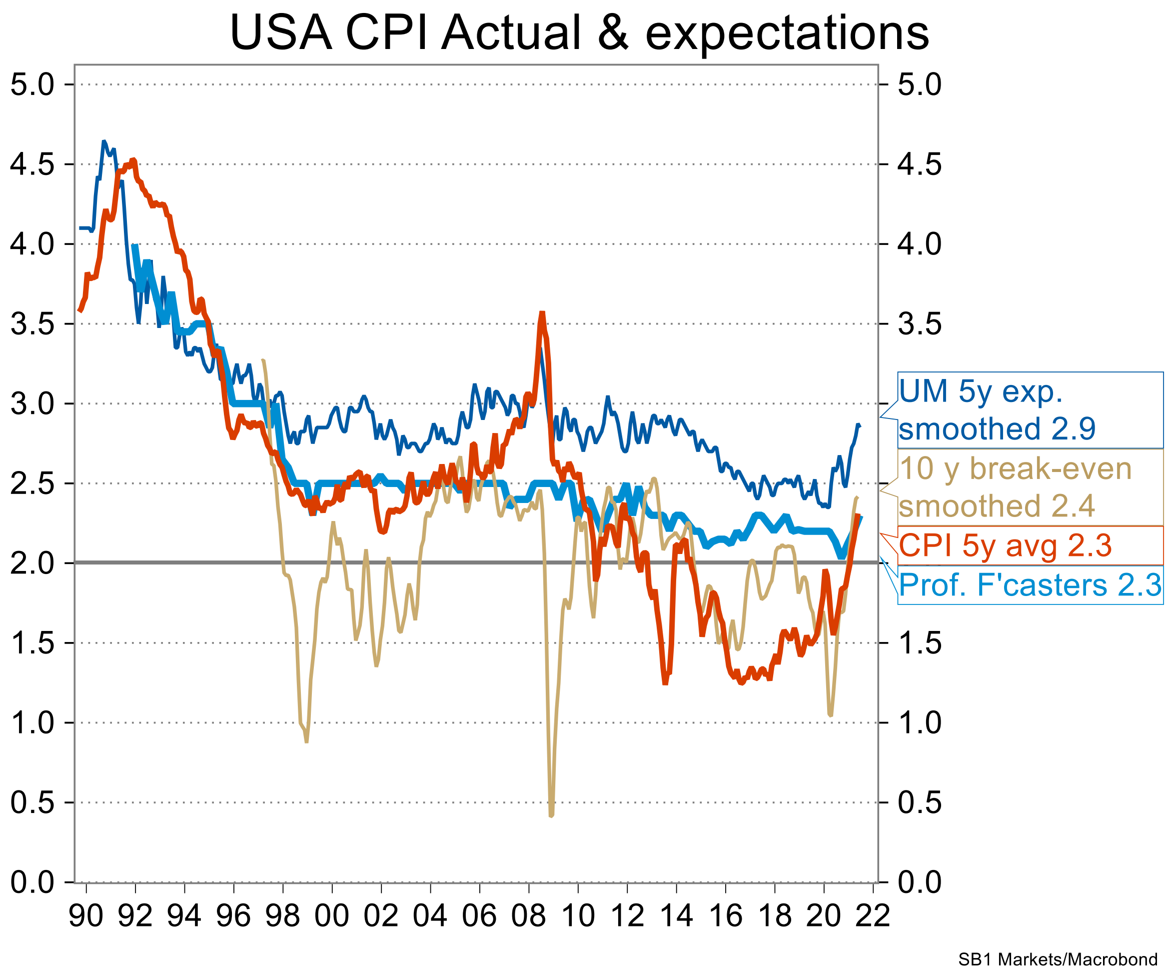


We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long and the impact on consumer prices are short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC = wage inflation – productivity
- **A tight labour market** normally implies higher wage inflation. So far the signals have been mixed, as the 'best' indicators of wage inflation when there are huge changes in the employment mix, have not reported higher wage growth. However, other measures report higher wage inflation, and unusually many companies are reporting wage increases

Inflation expectations are drifting up but are not yet worryingly high

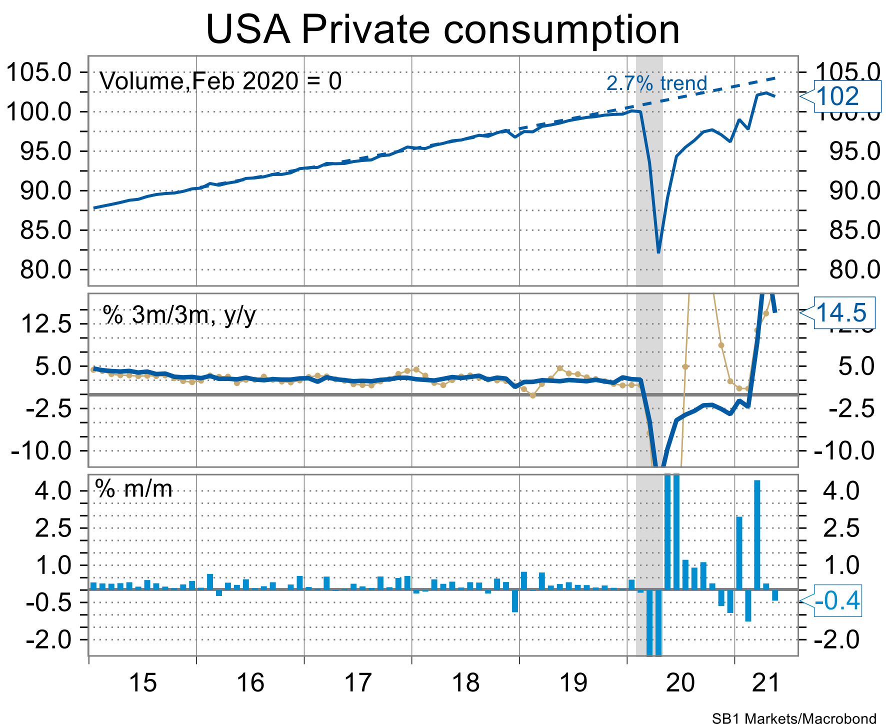
Univ. of Mich. survey 5 y inflation expectations have climbed to 3% from 2.4%

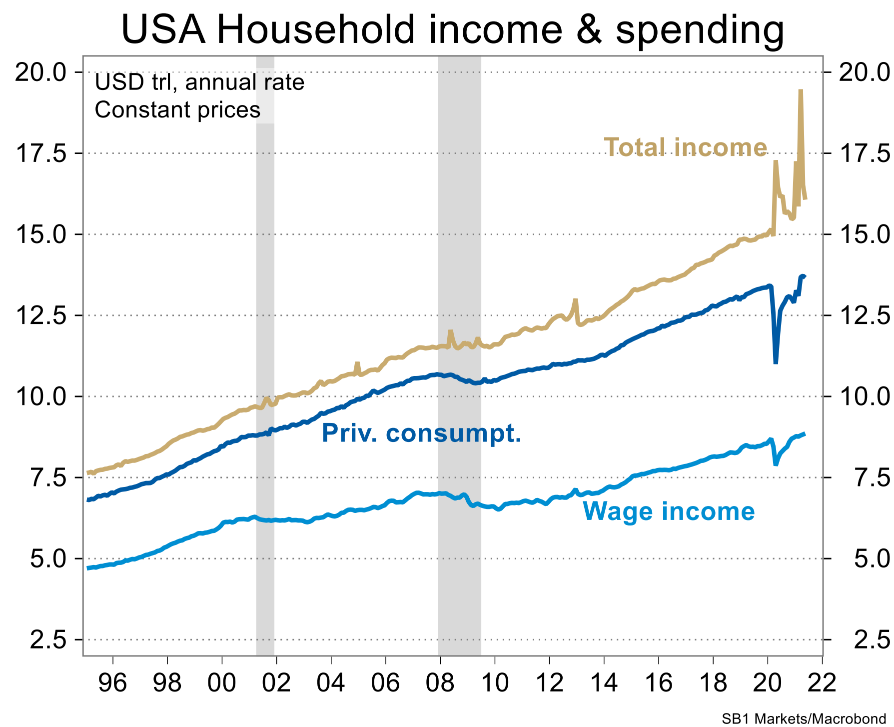


- **The UM's survey's** 3% rate is the highest in 10 years (2.9% smoothed on the chart to the left), and it is 0.5 pp higher than before the pandemic (2.5%)
  - » Still the level is not far above the past 10-year average – but it is a sign for the Fed, of course
  - » The UM short term inflation expectation at 4.6% is the highest since 2011, up 0.9% from March. These expectations usually correlated to recent changes in energy prices – like now
- **Professional Forecasters** expect a 2.3% 10-year rate of inflation, according to Philadelphia Fed Q2 survey, up from 2.0% in Q4. The Q4 level was the lowest ever, and 2.3% is just marginally above the past 7-year average, and it refers to CPI. The 10-year PCE forecast is at 2.1%, close to Fed's long-term target
- The 10 y **break-even CPI inflation expectation** is at 2.4% among the highest prints since 1998. Still not far too high for Federal Reserve (after deducting an average 0.3 pp differential between the two)
  - » However the direction is not that comforting?

Spending & income down in May – savings are still 'too high'

Real spending down 0.4%, income fell 2.8%, no more stimulus cheques

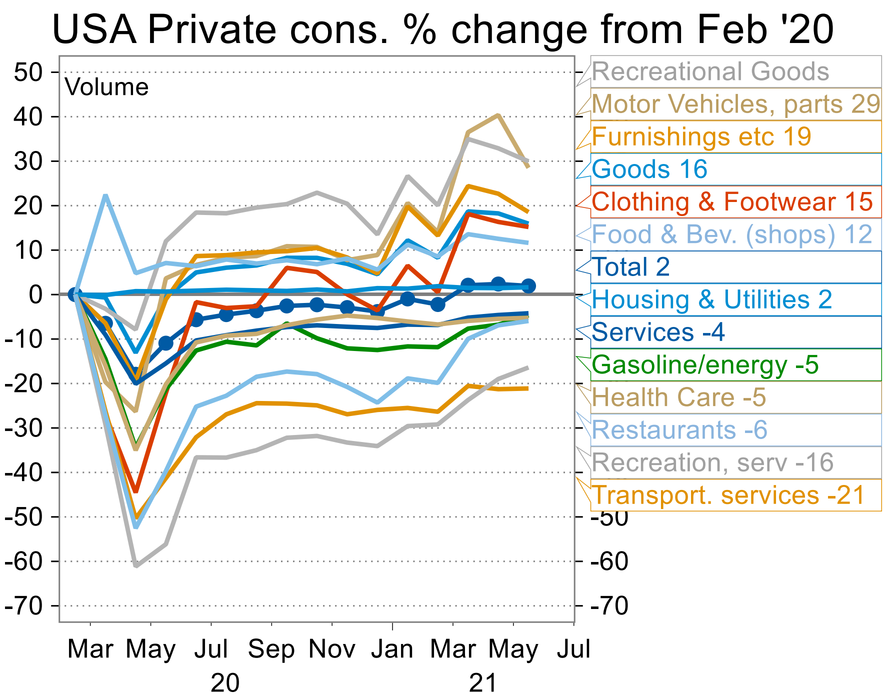




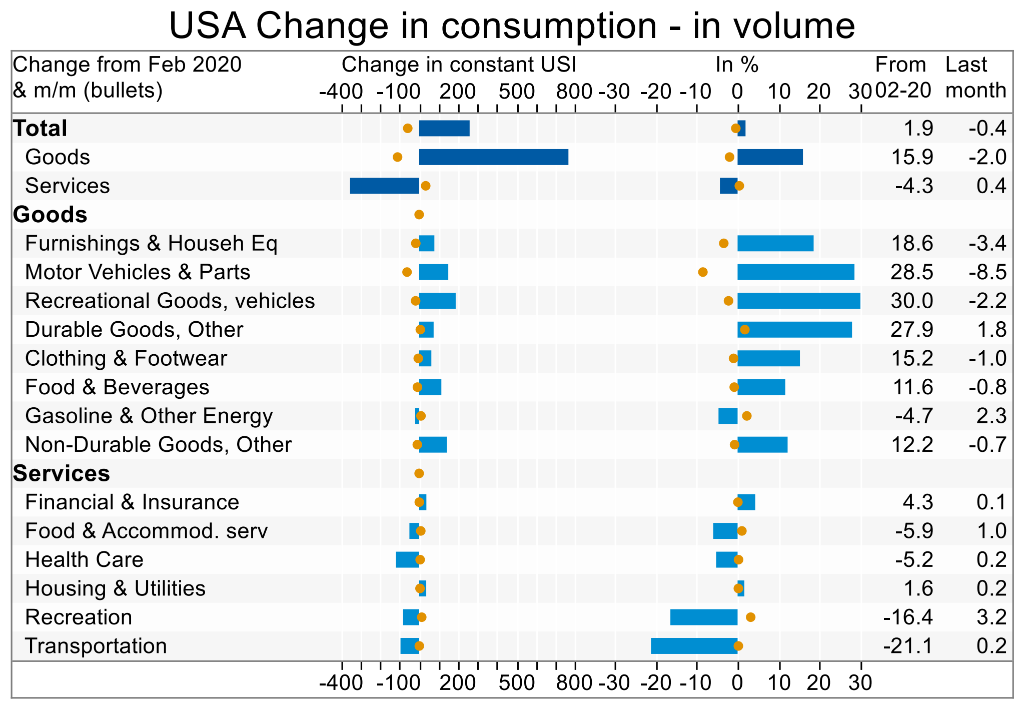
- **Private consumption** fell 0.4% in real terms in May (spending was flat nominally, expected +0.4%). Consumption of goods fell further, while services rose but less than expected. Consumption should still grow by some 11% (annualised). Consumption is up 2% vs. the Feb-20 level in real terms
- **Personal disposable real income** fell by 2.8% in May (household income fell 2% nominally, expected -2.5%). Transfers fell further, as no more cheques were sent out. Market based revenues rose
- **The savings rate** fell by 2.1 pp to 12.4% - which is still 5% above a 'normal' level. At the same time, net transfers-taxes are some 4% of disposable income too high – and a normalisation will have to take place of the coming quarters/years
  - » Over the first 5 months in 2021 nominal spending is up by some USD 300 bn more than implied by a 'normal' growth in spending. Income is up by an extra USD 900 bn. Thus, approx. some 40% of the 'stimulus cheques' have been spent, while 60% have been saved for a rainier day – equalling 2.6% of annual income. In addition, the current savings rate is far above a normal level! So spending capacity is not exhausted

Consumption of goods is slowing, services up – but just slowly

Consumption of goods down 2 % in May, services up 0.4%. Goods +16% vs Feb-20, services still -4%



SB1 Markets/Macrobond

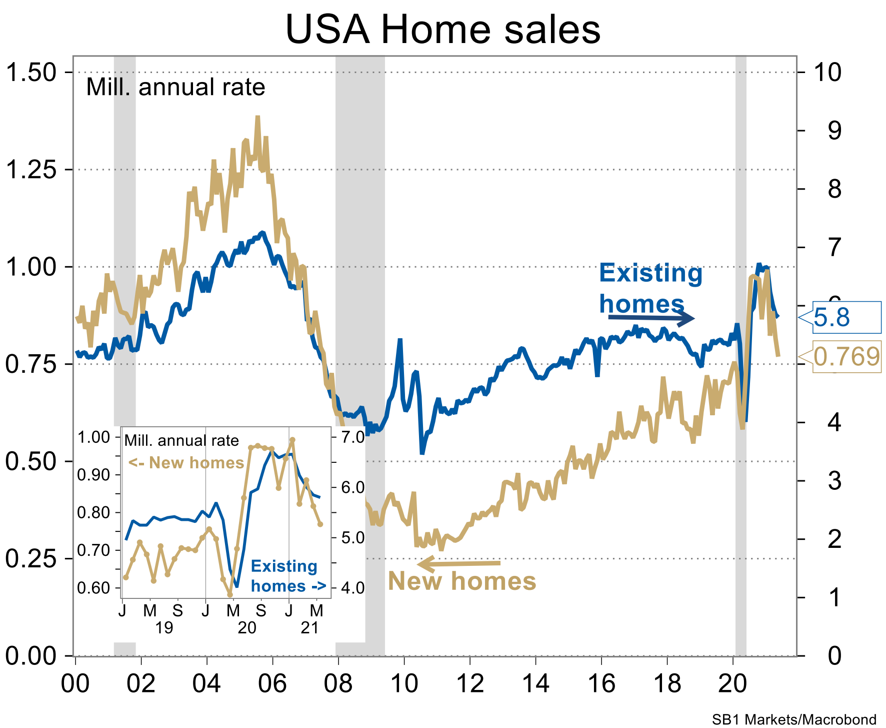


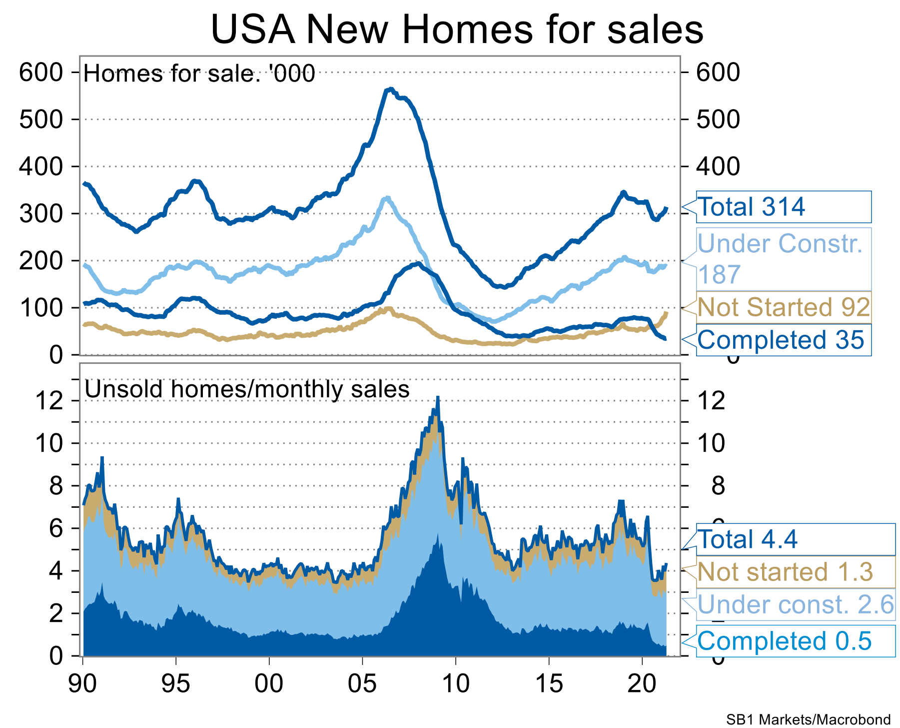
SB1 Markets/Macrobond

- The slowdown in **consumption of goods** is broad – and will very likely continue the coming months – as the level is way above any reasonable sustainable level – if spending on services should increase further
- **Consumption of services** rose just 0.4% in May, without any contribution from transport – weaker than we expected. Spending is now 4% below the Feb-20 level, in volume terms. Restaurants are down 6%, transportation -21%, recreation -16% - so there must be more to go as restrictions are further eased. Airline transport is at least further up in June
- Total consumption us up 2% vs. Feb-20, a somewhat below par growth rate over 16 months.

Another downward revision – and another decline in new home sales

Too few completed homes to chose between? However, more projects are entering the market

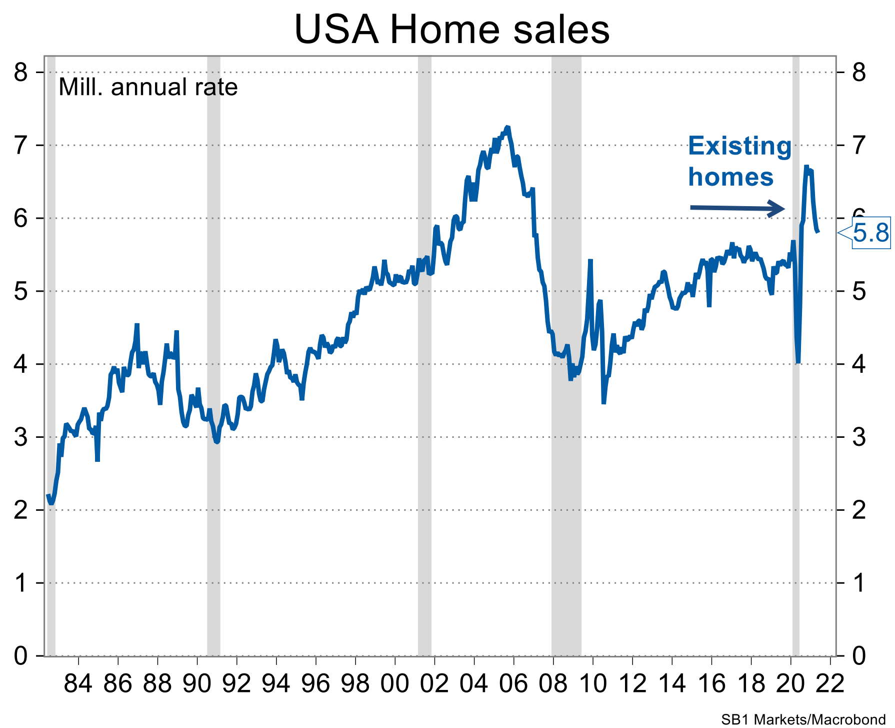


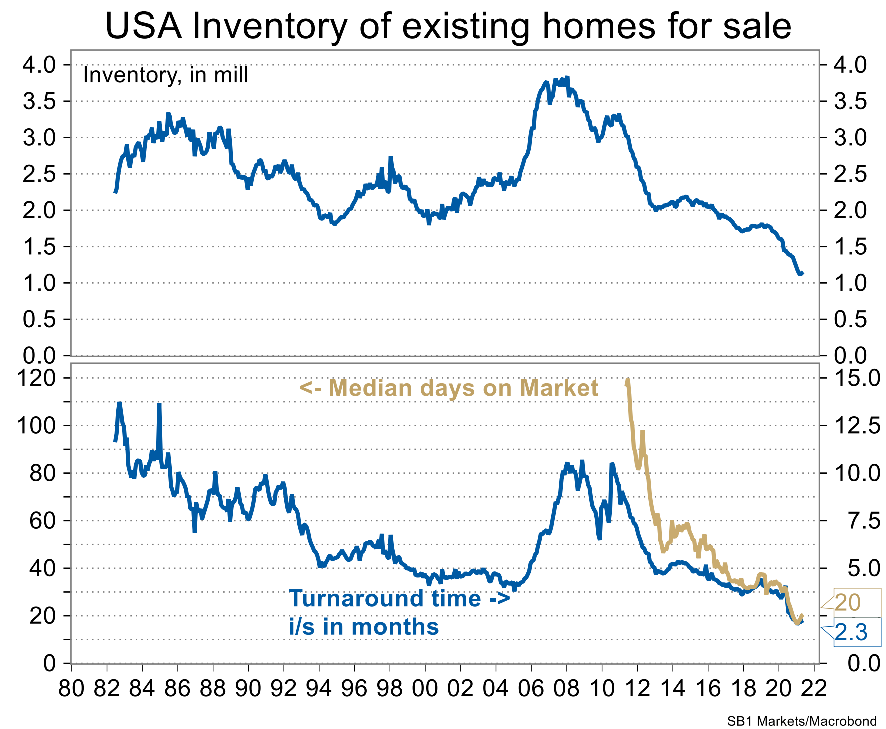


- **New home sales** fell to 769’ (annualized rate) in May, down from 817’ in April (revised down from 862’, and March was revised down to 886’, from the 917’ estimate last month, and from the original 1.021’ estimate). Sales were expected at 859’ in May. In sum 6% lower than assumed/expected – following a 10% weaker outcome than assumed/expected in April. Sales are down more than 20% from January – <u>but still higher than before the pandemic</u>
  - » The inventory of unsold homes has increased somewhat the past 7 months primarily because many projects that haven’t started yet have been added, almost at the highest level ever, a sign that the supply side is responding to the strong demand. The no. of completed homes for sales is still declining, and the level is extremely low
  - » Prices are up 7% – 8% y/y, not much given the increase in building costs
- **Existing home sales** have also fallen recently. The inventory of homes for sale is record low, and prices are surging (see more next page)

The 2nd hand housing market is 'emptied', the inventory is record low

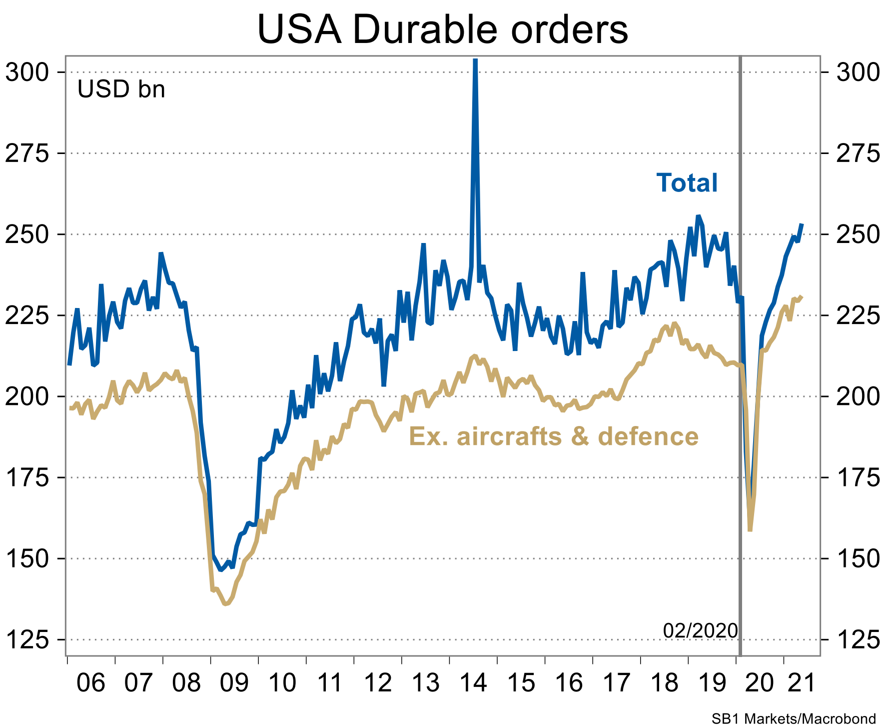
Sales are mostly declining due to lack of supply but some buyers are struggling with prices too

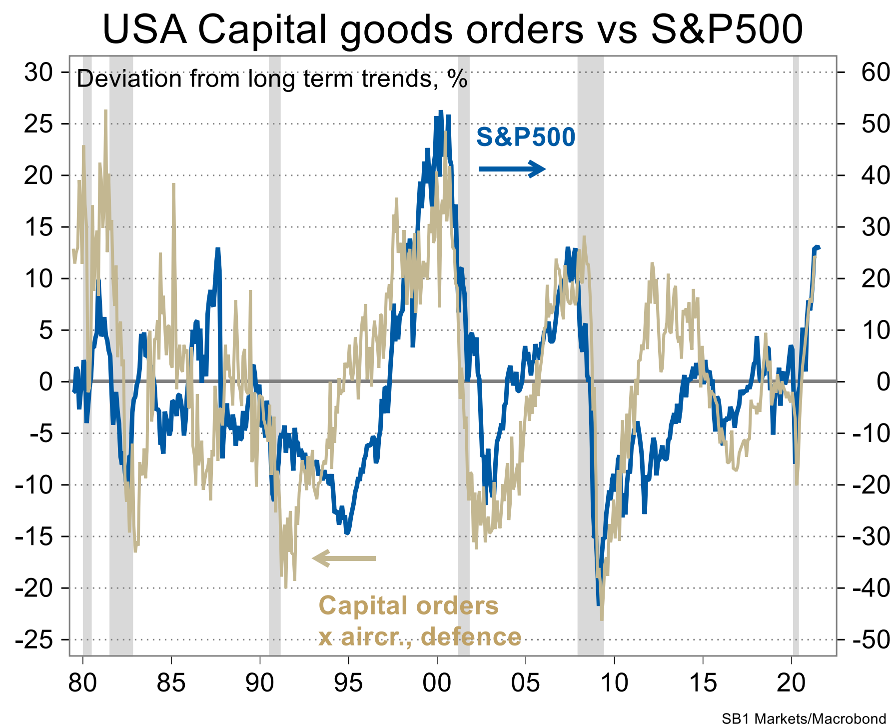




- Sales of **existing homes** fell to 5.80 mill (ann. rate) in May from 5.85 mill in April, expected 5.73 mill. The sales level is still almost 10% above the pre-pandemic level. Sales are do doubt kept down due to an unprecedented lack of supply. However, there are reports on buyers becoming more cautious following the steep rise in prices
  - » **The inventory of unsold homes** was unch. at a record low level, and equals just 2.3 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times is at 10 months
  - » **Prices** were close to unch. m/m in May but the annual rate shot up to 23.7% due to the 4% drop m/m last May (see next page)

Durable orders further up in May

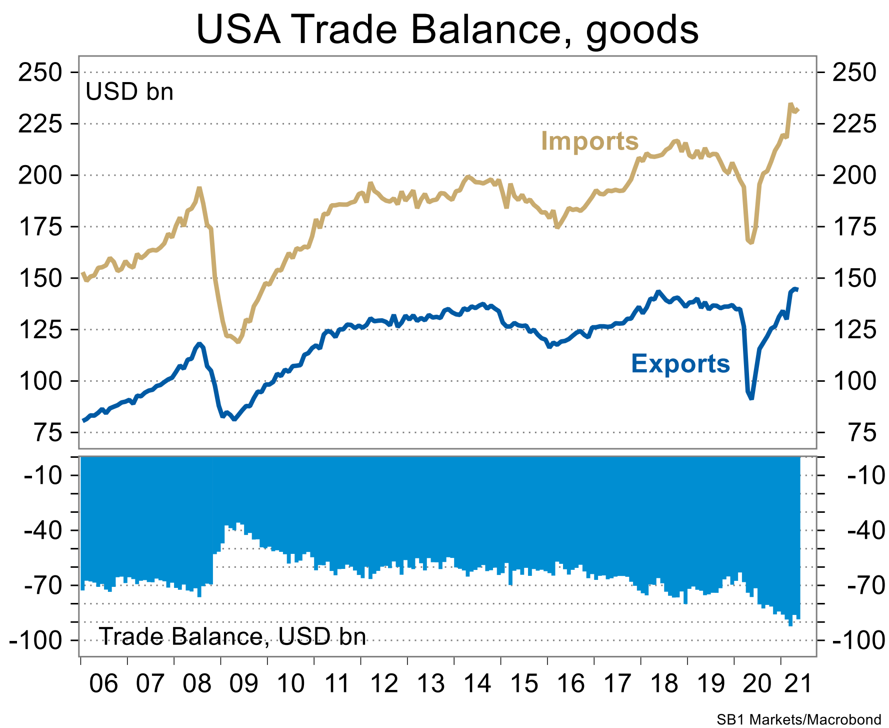


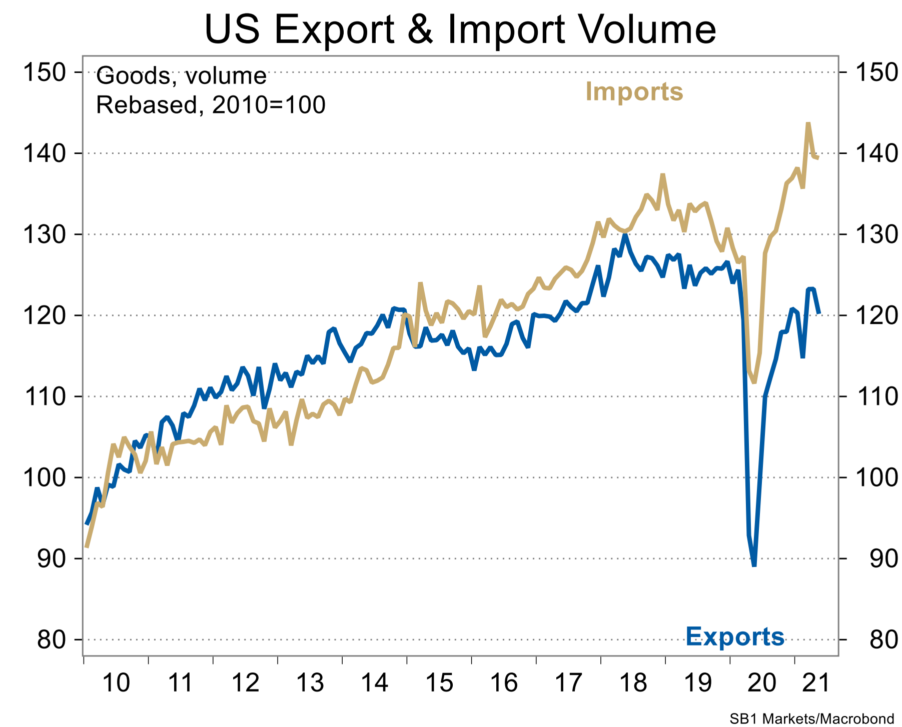


- **Total durable orders** up 2.3% in May, expected 3%. April & March were both revised up. The trend is steeply up
- **Core orders** (ex aircrafts & defence) rose by 0.7%. Auto orders have fallen some 10% recent months, very likely due to lack of components, which has slowed core order inflow. However, auto orders rose slightly in May (but remains low)
- **Core investment goods orders** fell 0.1% but the trend is still straight up, and order inflow in Q2 will be well above the Q1 level
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

Trade deficit in goods further out due to higher imports

Goods trade deficit up to USD 88 billion in May, from 86 billion in April

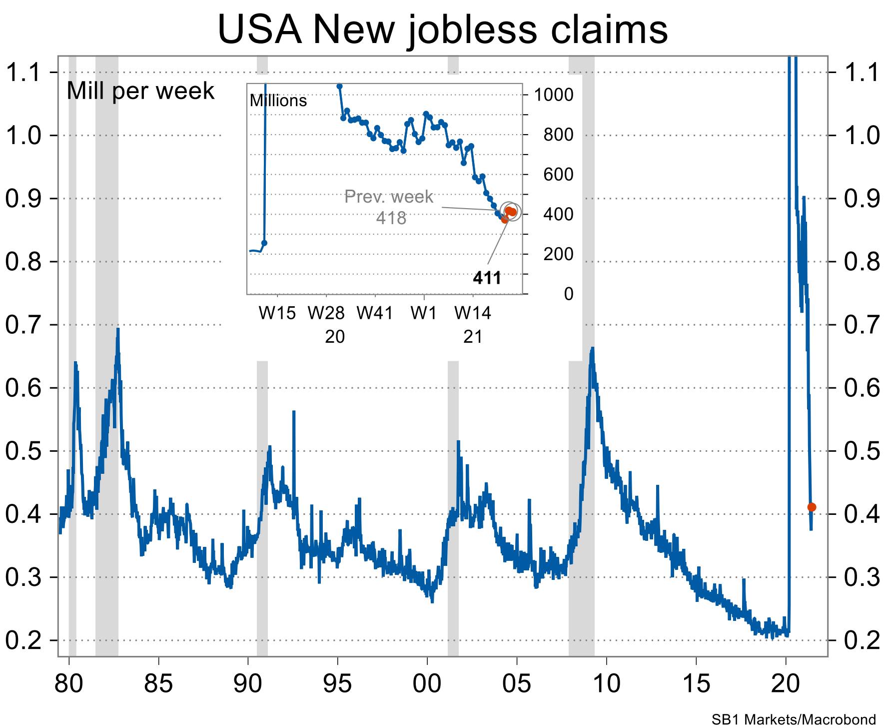


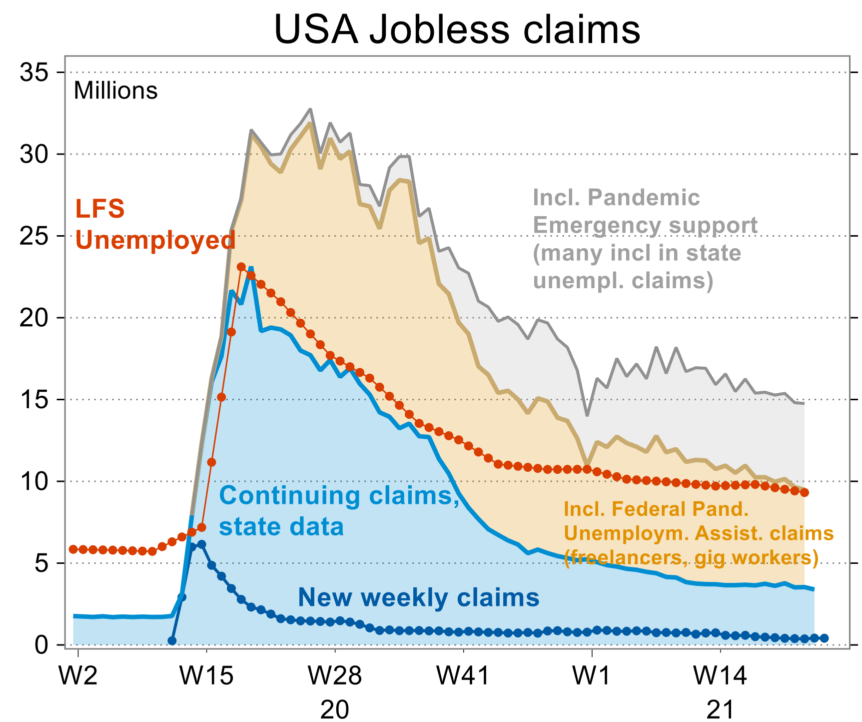


- **Exports** of goods fell by 0.3% m/m but are still well above the pre-pandemic level (in value terms). In volume terms, exports are still bell below the early-20 level
- **Imports** of goods increased by 0.8% in May, and are some 16% above the early 2020 level. In volume terms, the **imports of goods** are 9% above pre-Covid levels. The reason is no doubt strong demand for goods in the U.S. We expect household demand for goods to slow in H2, from the present very high level – and imports should take a break too

New jobless claims are not falling anymore??

A marginal decline last week – and less than expected, and the level is 100+ 'too high'

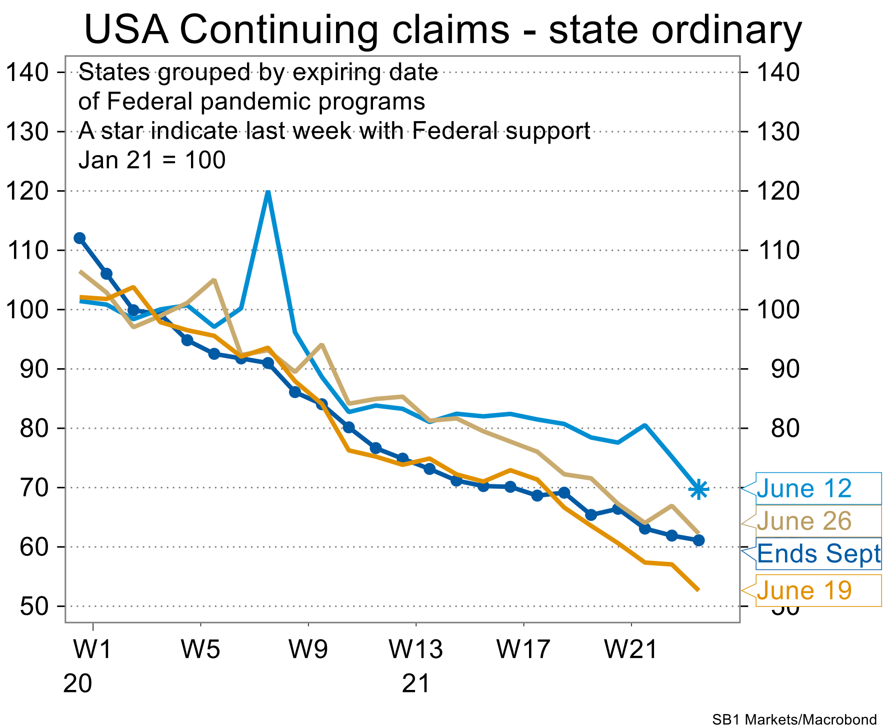




- **New claims** fell to 411' from 418' (revised up from 412') the previous week, expected down to 380'. Suddenly the decline in new claims have stalled – at a level far above normal in booming times – 3 weeks ago just 375' asked for a new benefit, and had the trend been intact, the weekly inflow should have been below 300' by now. A new slowdown at the labour market – or an extra effort to pick up enhanced unemployment benefits before they expire – from now and through September? A real weakening of the labour market does not seem likely
- **Ordinary continuing claims** fell by 144' to 3.4 mill, while the no. of receivers of the Pandemic Emergency Support Program (52 weeks instead of 26, and USD 300 extra/week) increased by 108' to 5.3 mill, and the no. of receivers of the Pandemic Assistance Program (gig & freelancers) fell by 175' to 6.0 mill.
- 24 states have **opted out** of these federal program (which anyway will expire in September). The impact from the first leavers will be visible in the no. of benefit receivers from next week but we <u>will still not know if these workers will try to find a job or to stay outside the labour market. State employment data, perhaps also some survey data, will tell the coming months</u>

Will the cancelling of pandemic federal benefit programs lift employment?

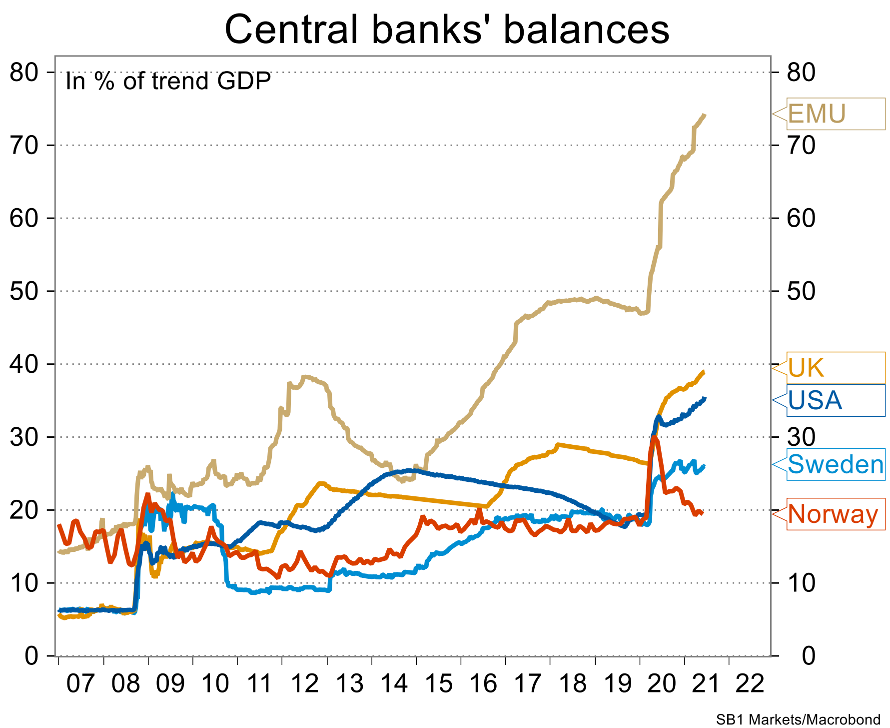
One positive signal: The number of ordinary continued claims may be falling in early leaver states



- 4 stated dropped out of the federal unemployment benefit programs at June 12 (end of week 23), which is the last week state unemployment benefit data are available
  - » The no. of continued claims fell more than the national average before this cut-off day
  - » More states are cutting these benefits from June 19, and here too, some more people have left the dole recent weeks
- Still, we do not know what these former recipients do now – are they now trying to find a job?
- Media reports suggest that employers in these states have been able to find more workers – but media reports are not hard data
- Most likely, we will have to wait for state employment data, which are published 2 – 3 weeks after the national payrolls report
  - » We doubt we will find much information in the June state employment data (date are gathered mid-month), but July data (published in August) could reveal some information whether labour supply increases or not. We think the odds of finding some impact are pretty good

The Bank of England, too, believes that inflation is transitory

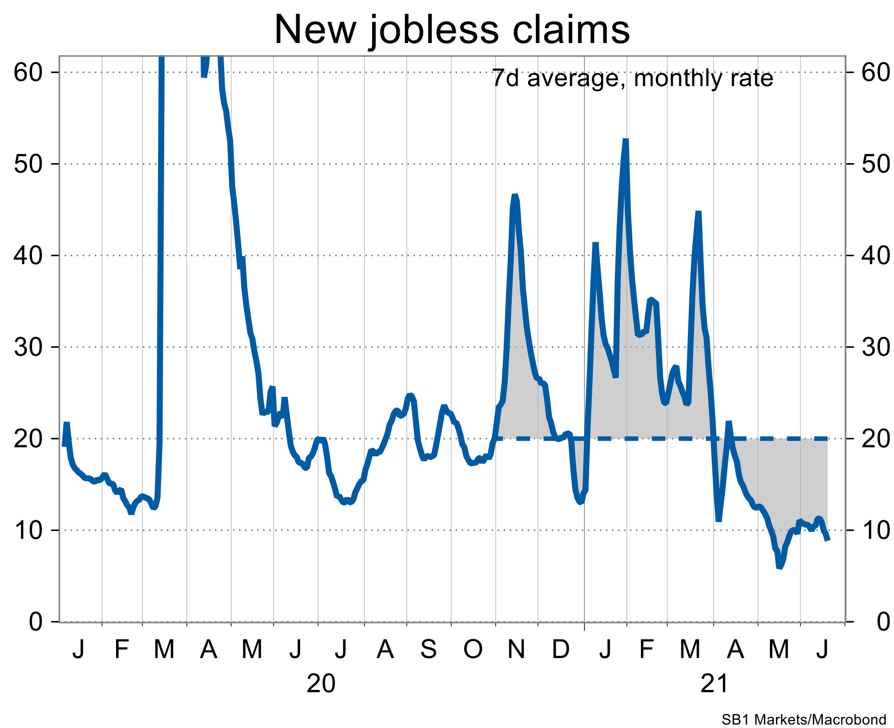
Keeps policy 'unchanged', but lifted the short term inflation f'cast to 3%

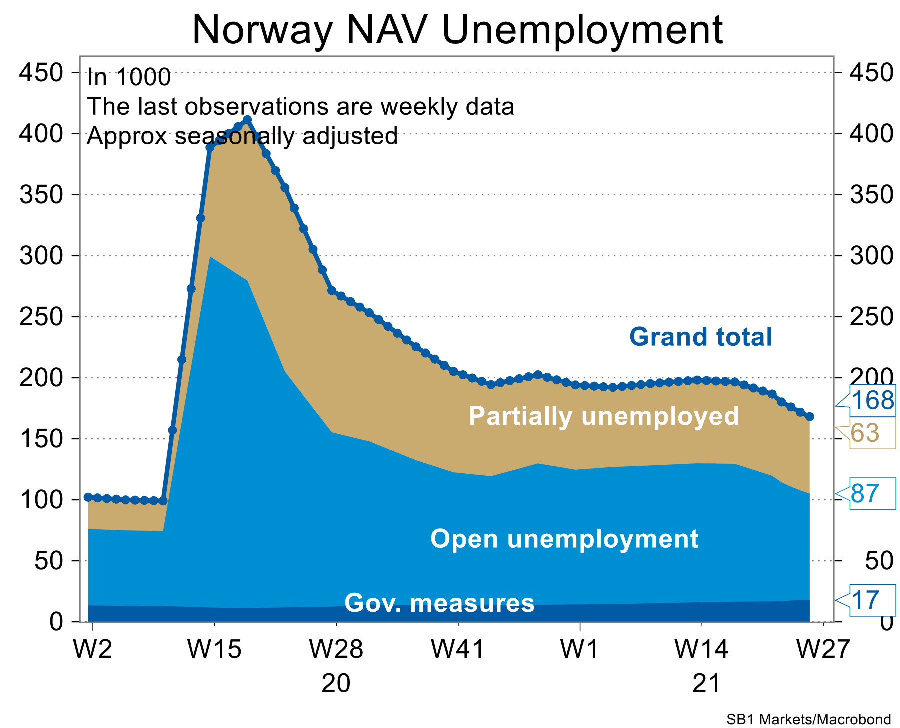


- The Bank left the **interest rate at 0.1%** and maintained the target for asset purchases at £895
- **Outlook very upbeat**– easing of restrictions and increased service sector activity considered most important update since May. GDP growth for Q2 2021 was revised up by 0.75 pp to 5.5%
- **Inflation** is expected to be above 3% in '21 and return to the 2% target in '22
  - » *"The Committee's expectation is that the direct impact of rises in commodity prices on CPI inflation will be transitory. More generally, the Committee's central expectation is that the economy will experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation will fall back"*
- The outgoing member of the MPC, the Bank's Chief Economist Andrew Haldane, has on several occasions warned that inflation risks were building, and he voted in favour of a small cut in the QE program, like he did at the last meeting
- **Yields** of UK government bonds were down 2-3 bps after the press conference – and the GBP fell some 0.5%. The market had been looking for somewhat less dovish signals from the Bank

'No' new jobless claims, unemployment is falling by 3'– 4' per week

Total unemployment fell by 12' (seas. adj) in May, and the pace is not slowing - some -4' last week

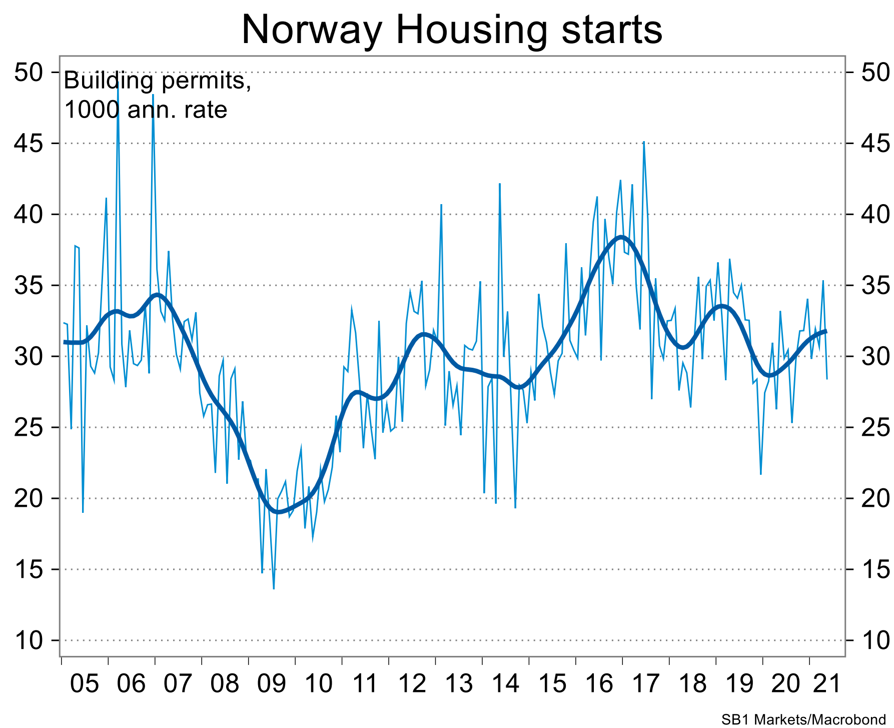


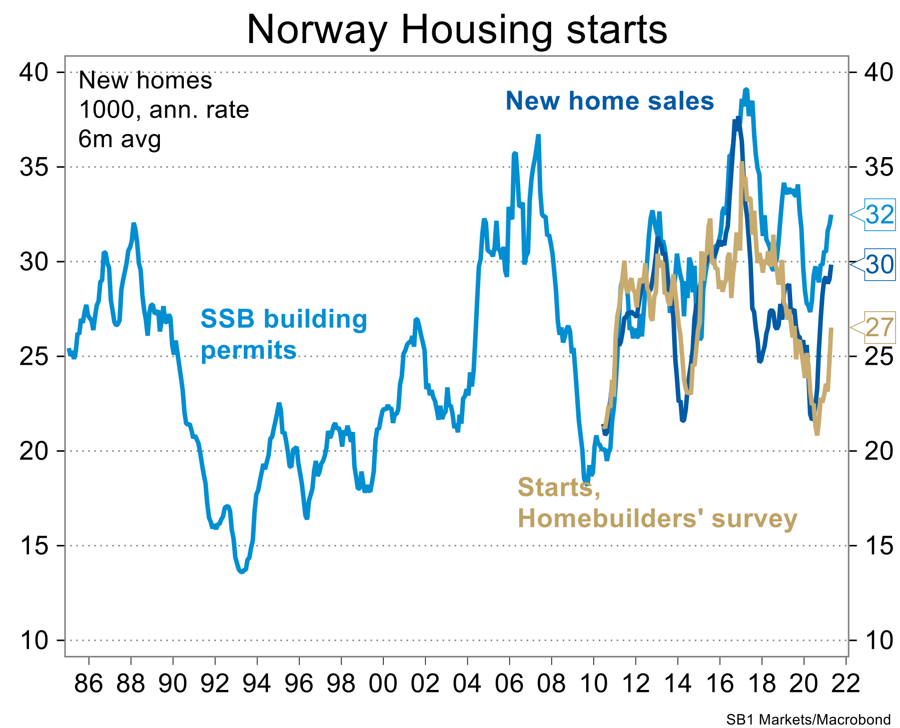


- We expect a rapid decline in unemployment the coming weeks/months as well

SSB: Building permits down in May but the trend is still up

Confirm Homebuilders' sales & start data

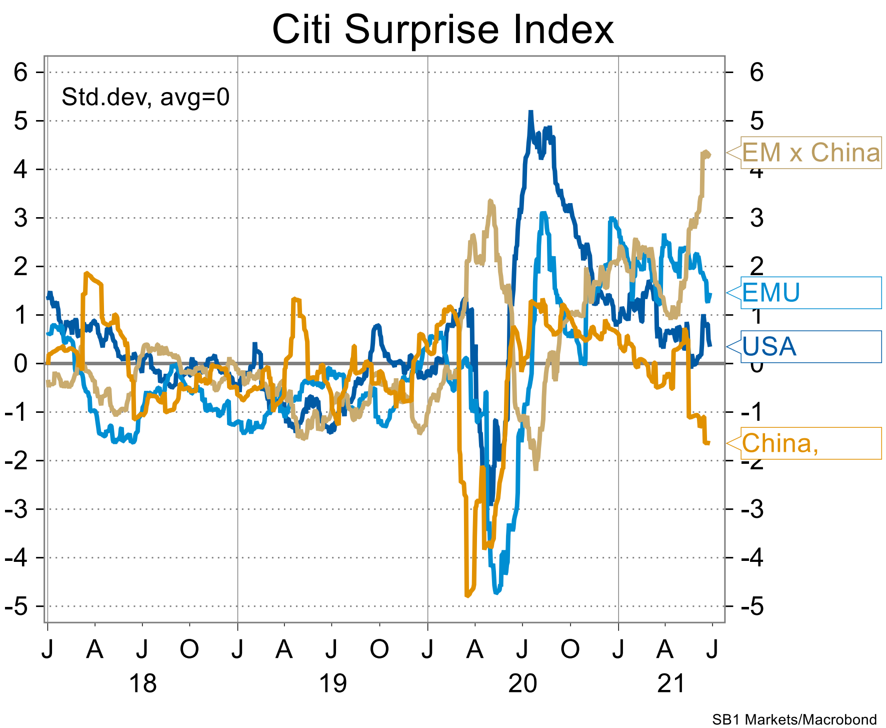


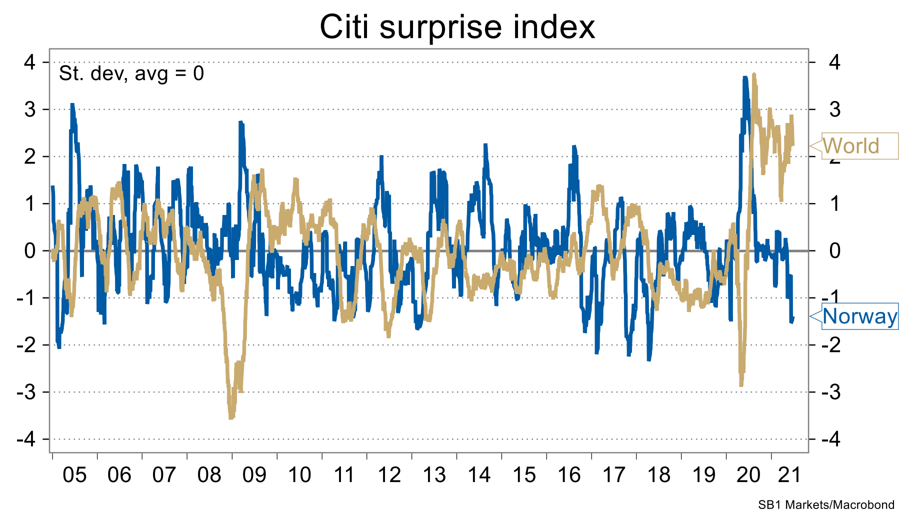


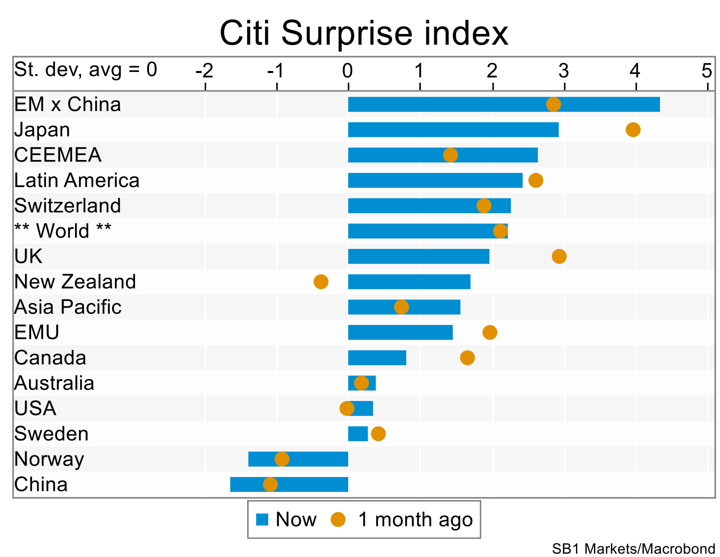
- According to **SSB**, building permits fell to 28' in May from 35' in April. The average level over the recent months is at 32'
- **Homebuilders** reports a 30' pace for new starts, and sales at 27' – both sharply up

China is surprising sharply on the downside, other EMs on the upside

... according to Citi's surprise index. EMU and the US also in positive territory. Norway not







- **China** slides down, to well below neutral, alongside a credit tightening
- **Emerging Markets x China** are reporting <u>much better</u> data than expected, and it is rather extreme (>4 st.dev above avg.)
- The **EMU** is still surprising on the upside, but less so
- The **US** surprise index is marginally on positive side
- **Norway** has surprised sharply on the downside recent weeks

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

The Calendar: PMI/ISM manuf., US labour market. NOR unempl/retail sales

Time	Count.	Indicator	Period	Forecast	Prior
Monday June 28					
08:00	**NO**	**Retail Sales W/Auto Fuel MoM**	**May**	**2.0%**	**0.3%**
09:30	SW	Retail Sales MoM	May		-1.4%
Tuesday June 29					
01:50	JN	Retail Sales MoM	May	-0.7%	-4.5%
09:00	SW	Economic Tendency Survey	Jun		119.3
09:00	SW	Consumer Confidence	Jun		112.3
11:00	EC	Economic Confidence	Jun	116.5	114.5
14:00	GE	CPI YoY	Jun P	2.3%	2.5%
15:00	US	S&P CoreLogic CS 20-City MoM	Apr	1.9%	1.6%
16:00	US	Conf. Board Consumer	Jun	119.0	117.2
Wednesday June 30					
01:50	JN	Industrial Production MoM	May P	-2.0%	2.9%
03:00	CH	PMI Services, NBS	Jun	55.3	55.2
03:00	**CH**	**PMI Manufacturing, NBS**	**Jun**	**50.9**	**51**
08:00	NO	Credit Indicator Growth YoY	May		5.0%
08:45	FR	Consumer Spending MoM	May	8.8%	-8.3%
11:00	**EC**	**CPI Core YoY**	**Jun P**	**0.9%**	**1.0%**
14:15	US	ADP Employment Change	Jun	575k	978k
16:00	US	Pending Home Sales MoM	May	-1.0%	-4.4%
Thursday July 1					
01:50	JN	Tankan Large Mfg Outlook	2Q	18	4
03:45	**CH**	**PMI Manufacturing, Caixin**	**Jun**	**52**	**52**
08:30	SW	PMI Manufacturing	Jun		66.4
09:30	SW	Riksbank Interest Rate		0.00%	0.00%
10:00	NO	PMI Manufacturing	Jun	(58)	58.5
10:00	EC	PMI Manufacturing	Jun F	63.1	63.1
10:30	UK	PMI Manufacturing	Jun F	64.2	64.2
11:00	EC	Unemployment Rate	May	8.0%	8.0%
14:30	US	Initial Jobless Claims	Jun-26	380k	411k
15:45	US	PMI Manufacturing	Jun F	62.6	62.6
16:00	**US**	**ISM Manufacturing**	**Jun**	**61.0**	**61.2**
16:00	US	Construction Spending MoM	May	0.5%	0.2%
17:00	WO	PMI Manufacturing	Jun	59.9	56.0
	US	**Wards Total Vehicle Sales**	**Jun**	**17.10m**	**16.99m**
Friday July 2					
10:00	**NO**	**Unemployment Rate**	**Jun**	**2.9%**	**3.3%**
11:00	EC	PPI YoY	May	9.5%	7.6%
14:30	**US**	**Change in Nonfarm Payrolls**	**Jun**	**700k**	**559k**
14:30	**US**	**Unemployment Rate**	**Jun**	**5.7%**	**5.8%**
14:30	US	Labor Force Participation Rate	Jun		61.6%
14:30	**US**	**Average Hourly Earnings MoM**	**Jun**	**0.3%**	**0.5%**
14:30	US	Trade Balance	May	-$71.0b	-$68.9b

- **Manufacturing PMI/ISM**
  - » The preliminary manufacturing PMIs indicate a small decline in the global headline index, the output component fell, while orders rose further. We assume the manufacturing sector is at 'peak growth' now. Spending on services will increase, and demand for goods will slow, at least in most rich countries. However, the PMI levels are record high, confirming a very strong momentum in the manufacturing sector – and soaring delivery times & runaway prices
- **Auto sales**
  - » **US and several other countries** will report June auto sales at the end of the week. Sales in the US are expected slightly up, while sharper recovery is likely in the EMU where sales have been 20%+ below par recent months. Data are difficult to interpret anyway, especially if sales are slow: Supply problems (semiconductor shortages) or demand weakness, and if so related to pandemic restrictions or underlying weak demand?
- **USA**
  - » **Employment** rates are still some 5% below the pre-pandemic level, and employment is growing at a 'modest' pace, even if there is a record number of unfilled vacancies. This 'puzzle' will remain unsolved in June, at least are expectations for nonfarm employment growth not that upbeat – given the low employment level and unprecedented demand for labour. The unemployment rate is expected further down. The focus on wages is intensifying. So far, a partial recovery in employment in low paid sectors has not led to lower growth in average wages but rather the opposite. Anecdotical 'evidence' suggest that wage growth at the lower ledgers of the wage scale is accelerating
- **EMU**
  - » **CPI Inflation** is expected to remain in check in June too, at least the core index. The **PPI** is approaching 10% y/y
- **Sweden**
  - » **The Riksbank** will not signal any change in monetary policy. Because it is not Norges Bank, not because the economy is weak anymore
- **Norway**
  - » **NAV unemployment** will decline rapidly in June too, at the same pace as in May, at least if the part time unemployed are included, as witnessed by the weekly numbers so far in June. The inflow of new jobless claims is very low, and the no. of new vacancies was very high in both April and May
  - » **Retail sales** kept up very well during the regional 'lockdowns' in Feb – April, and we do not expect a sharp recovery in May. Sales are above any reasonable long-term trend, and are exposed when spending on services now recovers, and even more when it will become possible to spend more abroad over the next months/quarters
  - » **Credit growth** has accelerated but just marginally during the zero interest rate regime/pandemic period, no credit boom to be seen. We expect an unchanged annual rate at 5.0%, one tick up for households up to 5.1%, and three down for corporate credit growth, to 4.1% y/y

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

Highlights

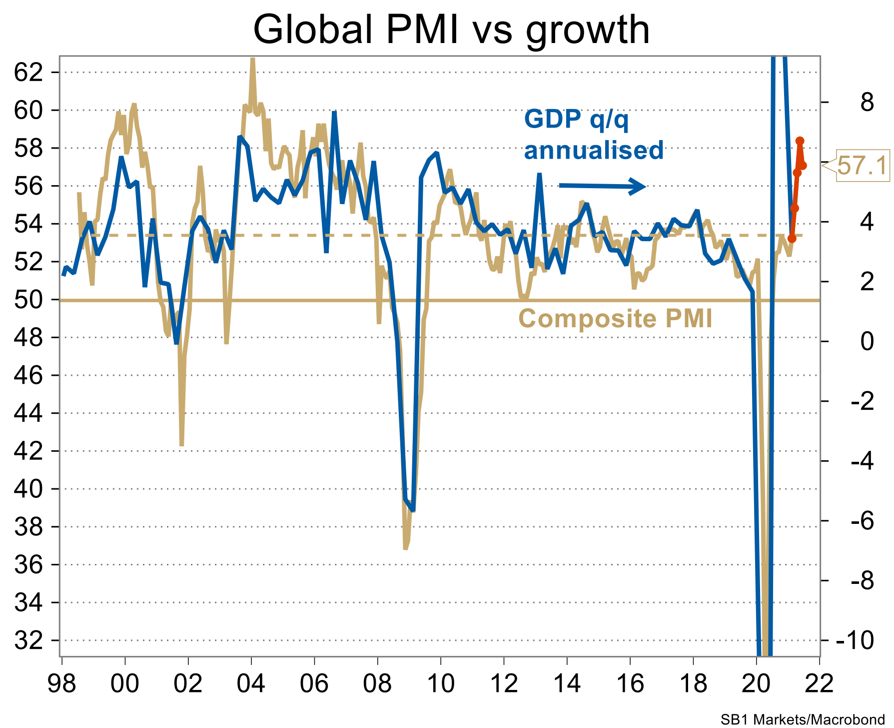
The world around us

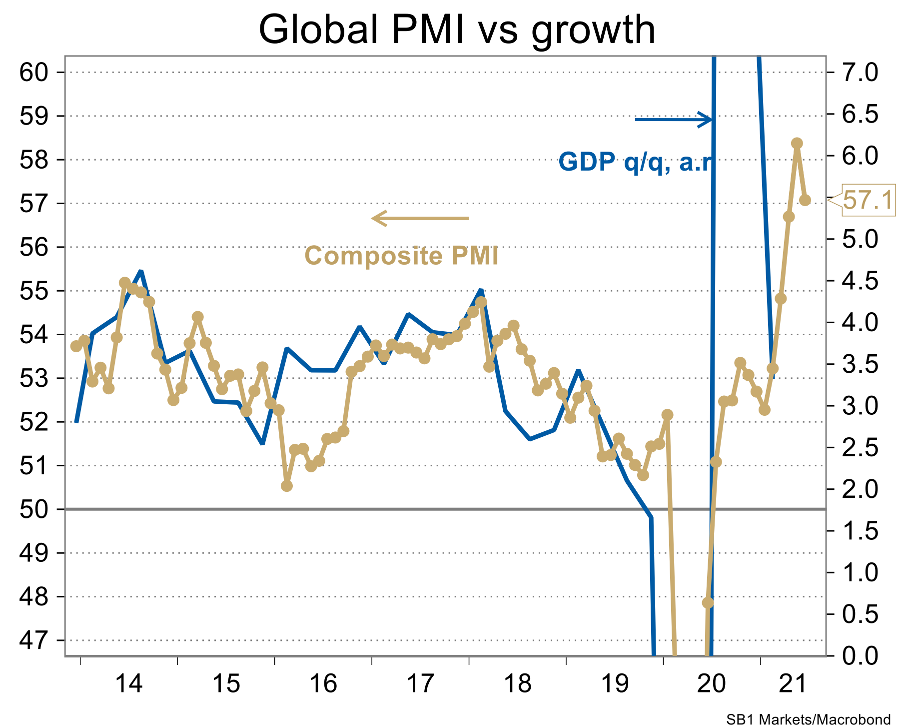
The Norwegian economy

Market charts & comments

PMI probably down in June, still at high level – signalling strong GDP growth

We estimate 1.3 p decline in the comp. PMI to 57, dragged down by a 4.9 p drop in the US PMI



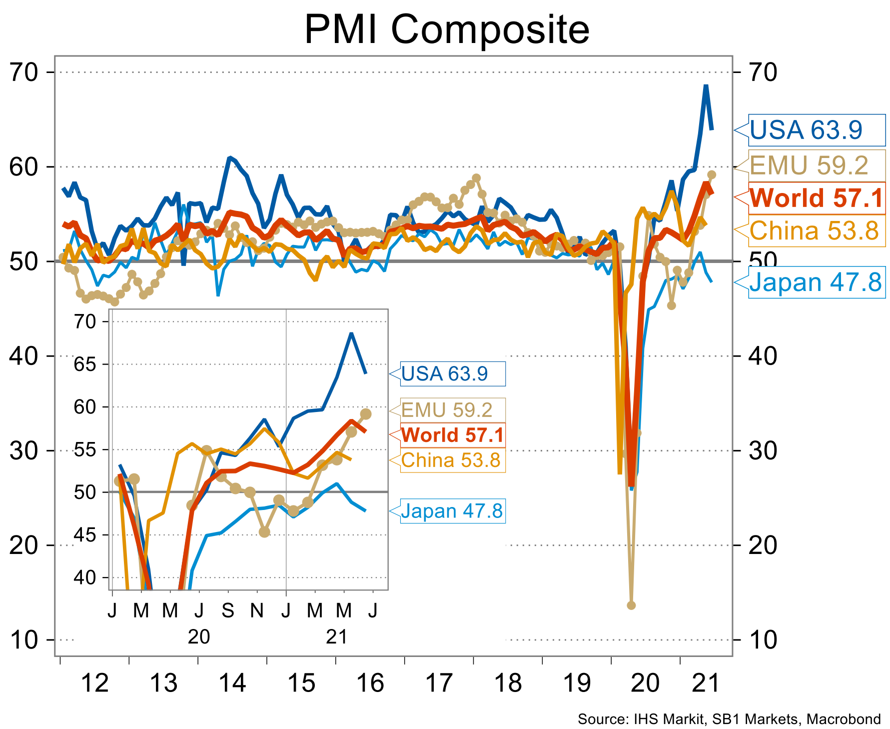


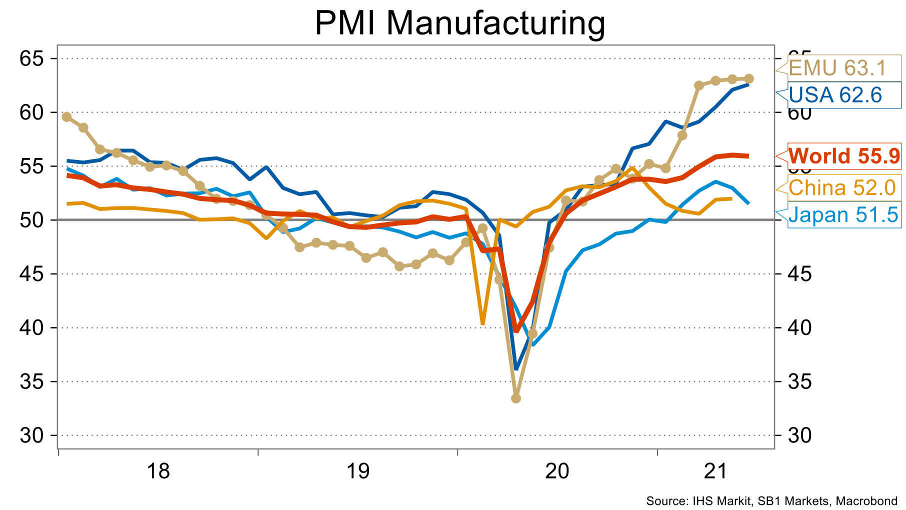
- **The global PMI** is at the 2nd highest level in 14 years
- **The US PMI** was weaker than expected but still the 2nd highest ever, signalling a very rapid growth in the US – but the momentum is most likely slowing
- **The EMU PMI** rose more than expected
- **Delivery times, input & output** prices are increasing faster – and faster than ever. April was probably not the last month with high CPI prints some places

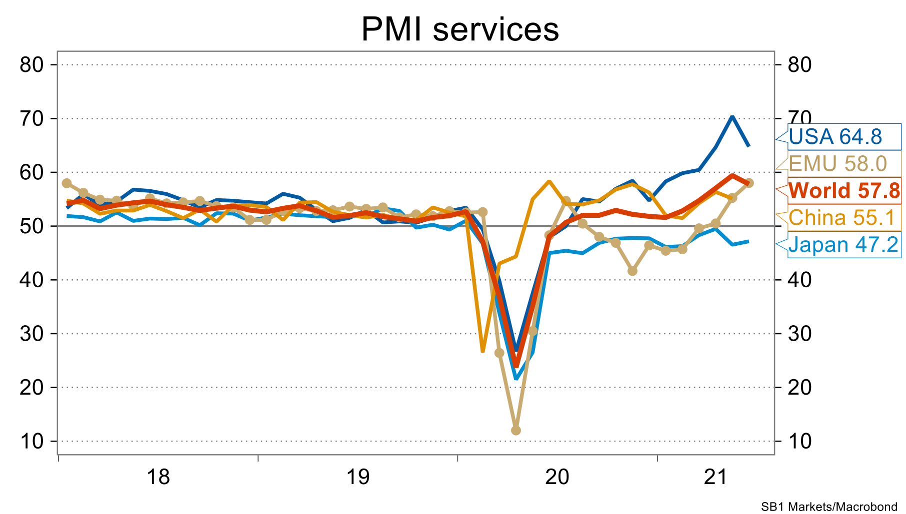
Our estimates are based on the preliminary PMIs from EMU, Japan UK, US. The estimates are uncertain, but usually by less than 0.5 p

The US still in the lead, even if the service sector PMI fell sharply

However, US services are still at 64.8. EMU services PMI climbed to 58.0, ATH



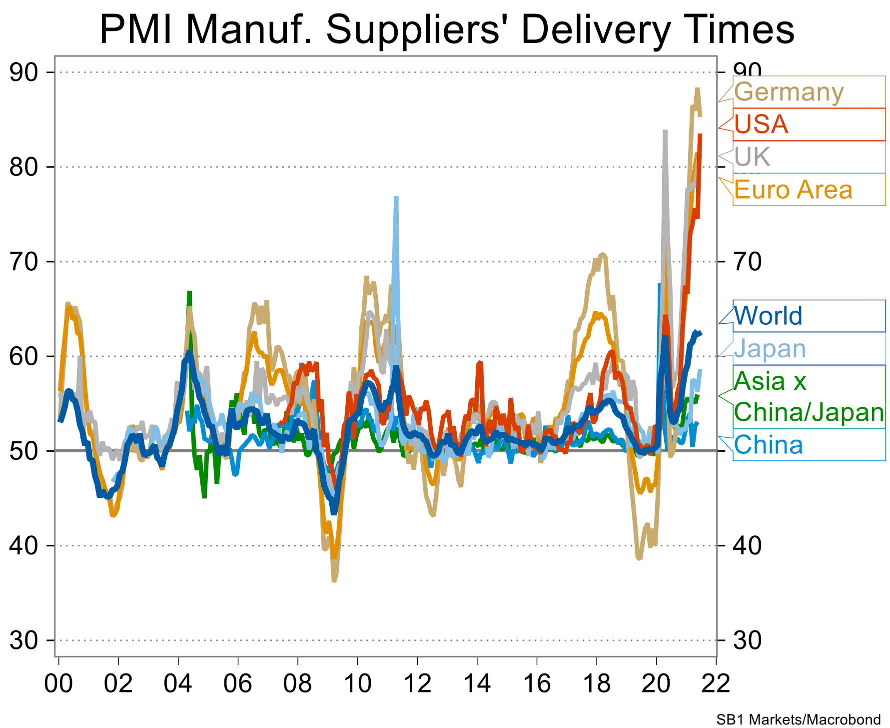


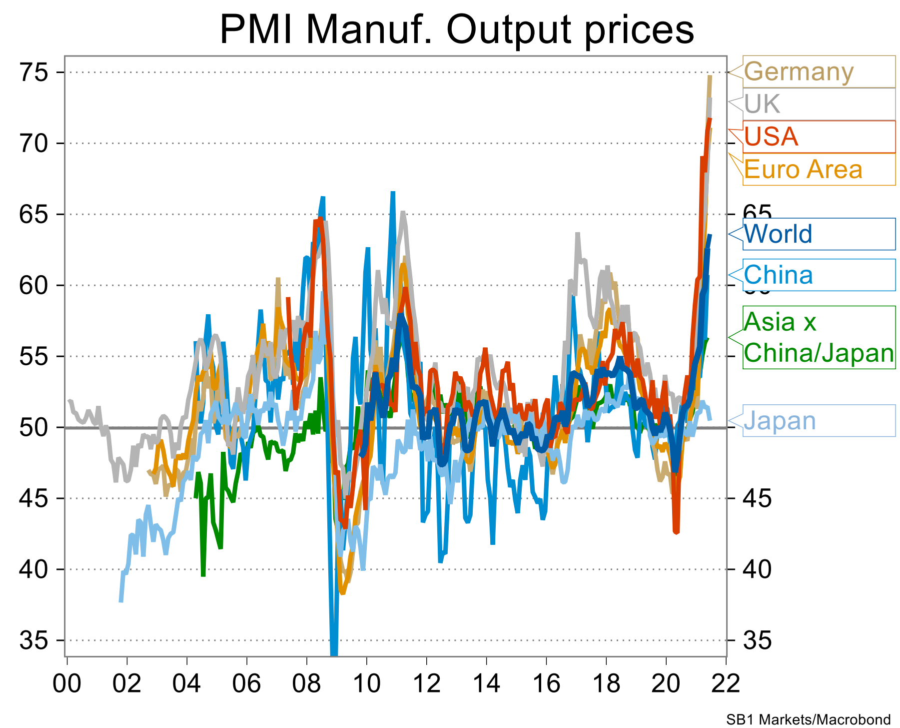


- The **manufacturing PMI** flattened, while the **services PMI** fell
- Peak growth behind us in the **US** but as the GDP level has come close to the pre-pandemic trend, that's not a sign of weakness. And now crisis yet, PMI says 7% growth
- The **EMU** PMIs rose to ATH, and signals a 5% GDP growth
- **The UK** also reports a brisk recovery in the service sector
- **Japan** is still sagging, the PMI further down, signal a GDP decline

Delivery times, prices are rising are still accelerating

... and probably <u>not mostly</u> due to specific corona challenges – it's a booming activity, stupid!



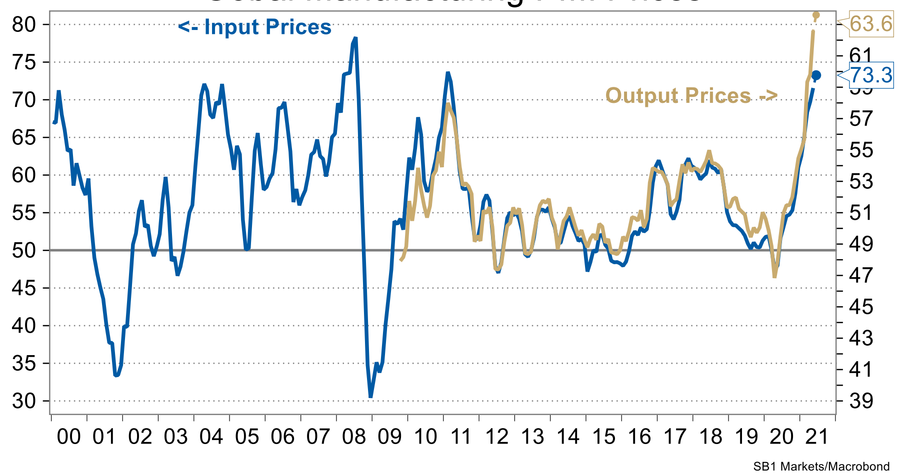


- **The global delivery times** PMI sub-index (changes in delivery times vs the previous month) probably reached a new ATH in June, even if the EMU index fell – the US index rose more
- **The global manufacturing output price index** rose further in June, to another ATH, as both the US, EMU, Germany, UK are reporting the fastest price rises ever
  - » However, Japanese manufacturers don't lift their prices at all

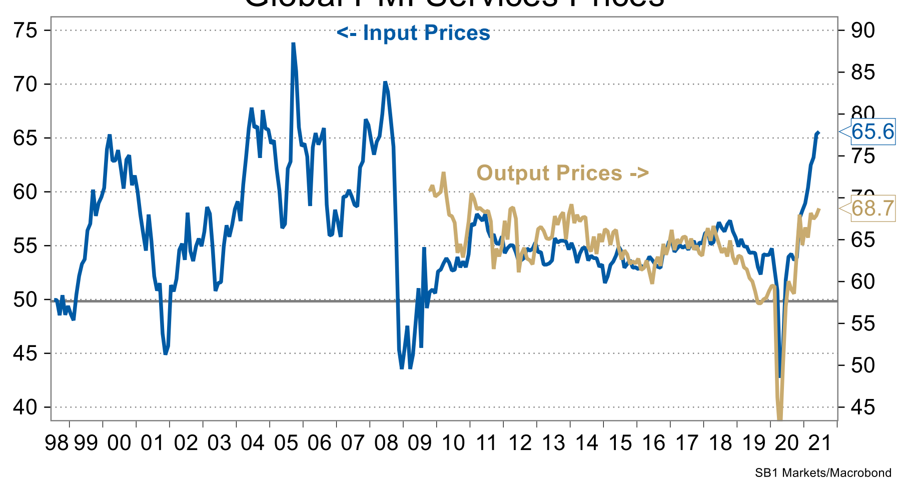
It may still be transitory – and we are not that worried about raw material prices

… because they are normally rather short-lived

Gobal Manufacturing PMI Prices

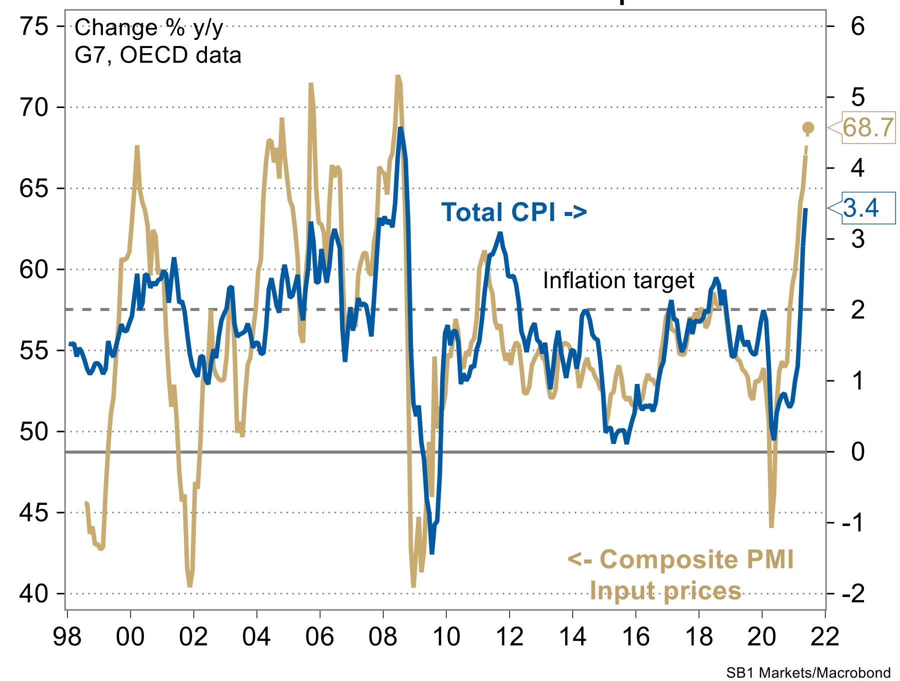


Global PMI Services Prices



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

OECD Inflation vs PMI prices



- **Both manufacturers and services** are reporting even more rapid increases in prices, both input & output prices in June

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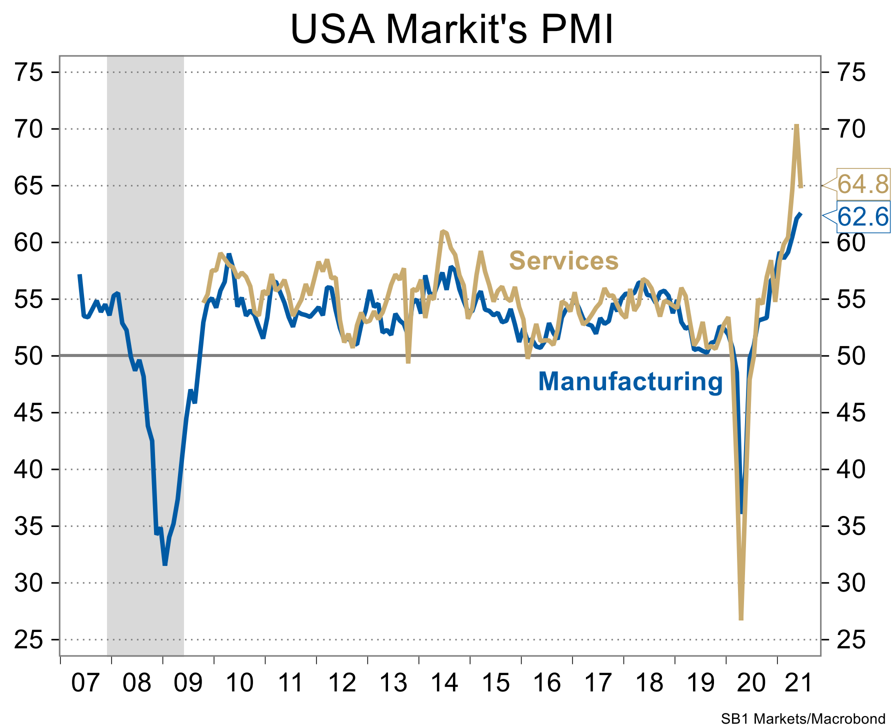
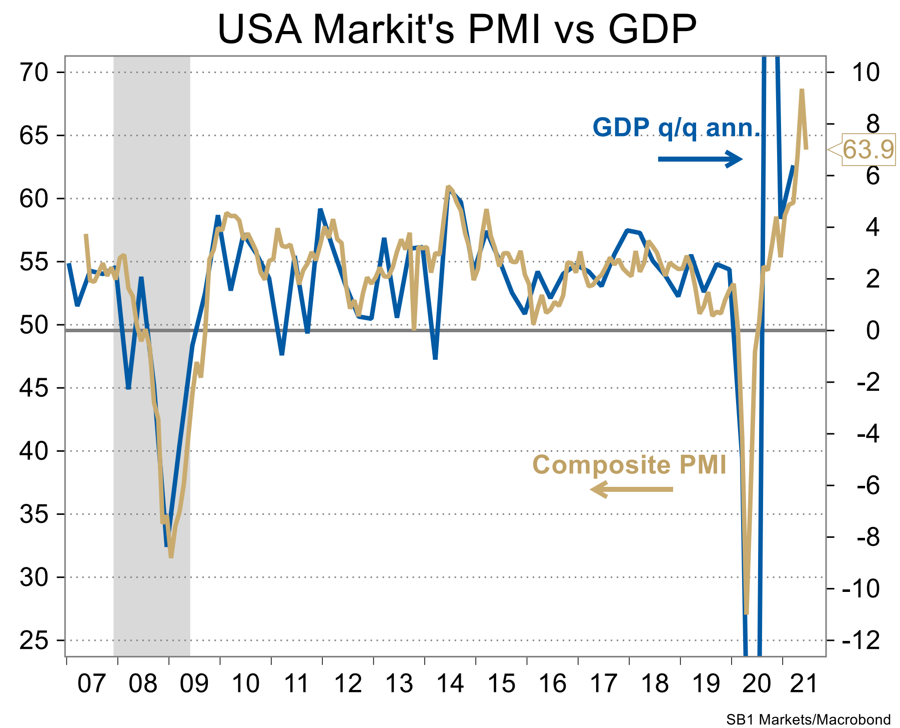
Services down from ATH, while manufacturing PMI increased for the 4th month

The service sector PMI fell by 5.6 p to 64.8, manufacturing up 0.5 to 62.6 (new ATH)





- The composite PMI signal a 7% growth rate as the economy reopens – and this index has probably peaked as growth will most likely come down through H2 as the GDP level returns to the pre-pandemic growth path

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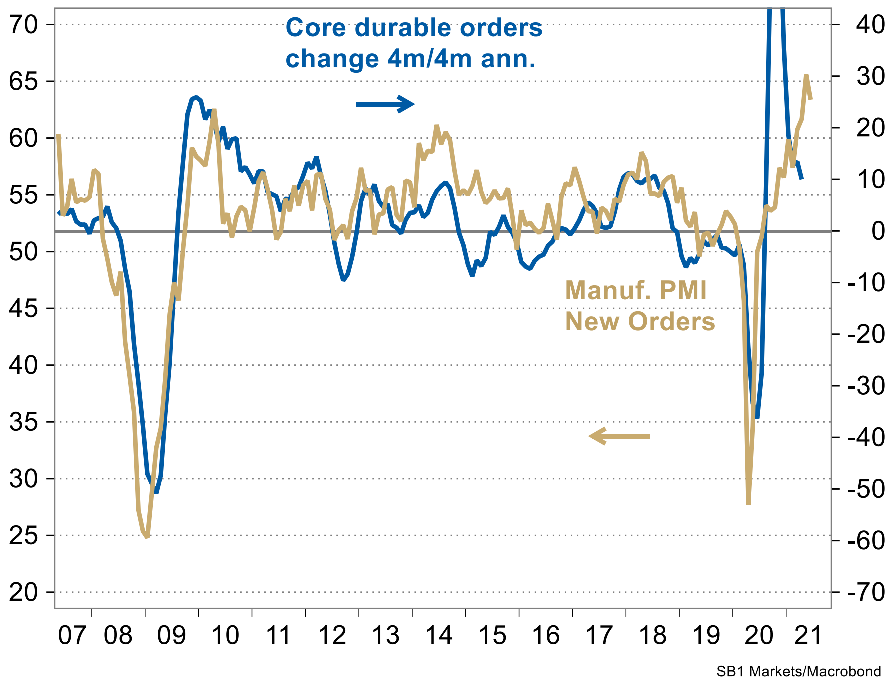
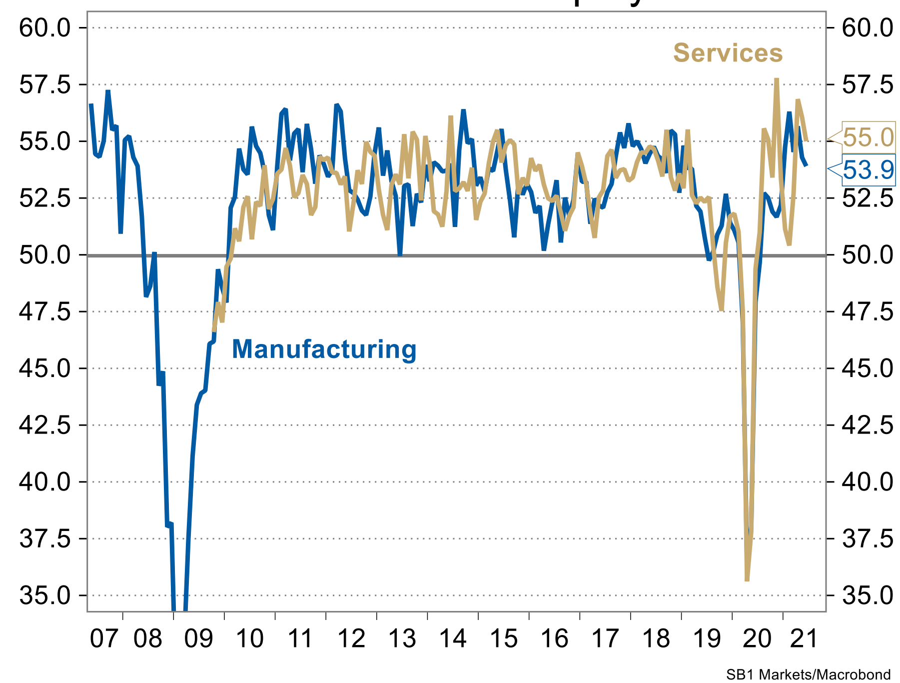
Orders index down in June, but still at an extreme level, signals very high growth

Employment indices are strong, but not that impressive, given a still low employment level

USA Durable orders vs PMI orders

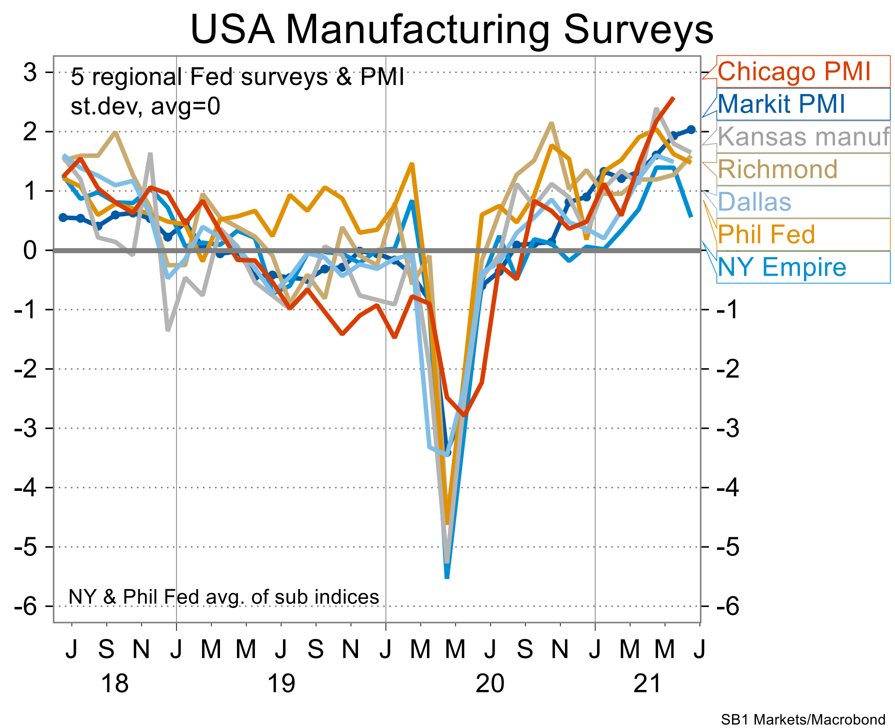


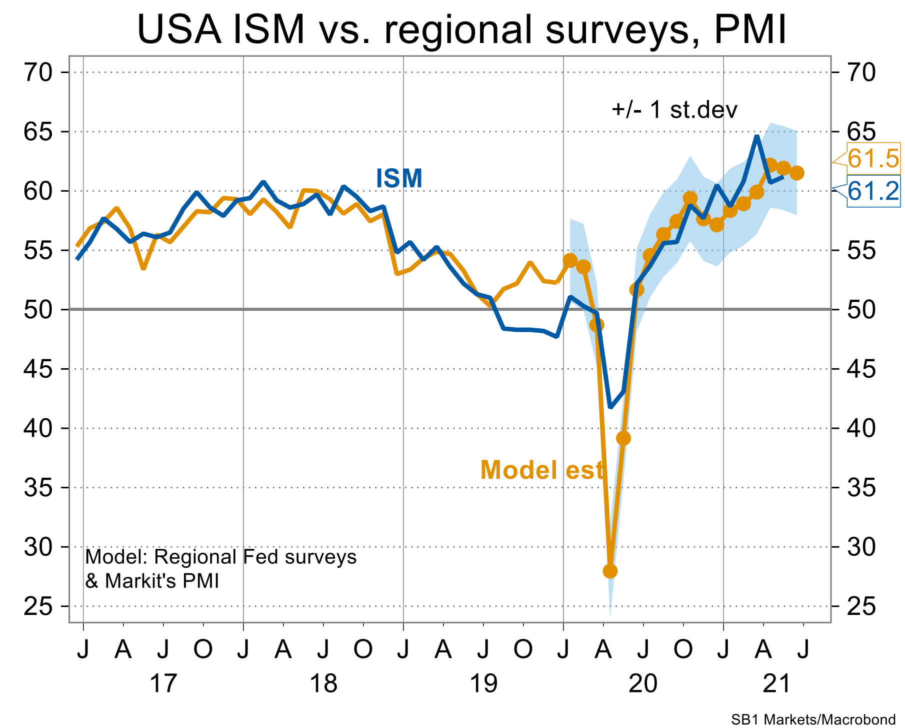
USA Markit's PMI Employment



- The employment index, which measures actual change in employment from the previous month, may be 'moderate' both due to moderate demand and to supply constraints. Given other surveys, and the number of vacancies, supply constraints seems like the most likely culprit

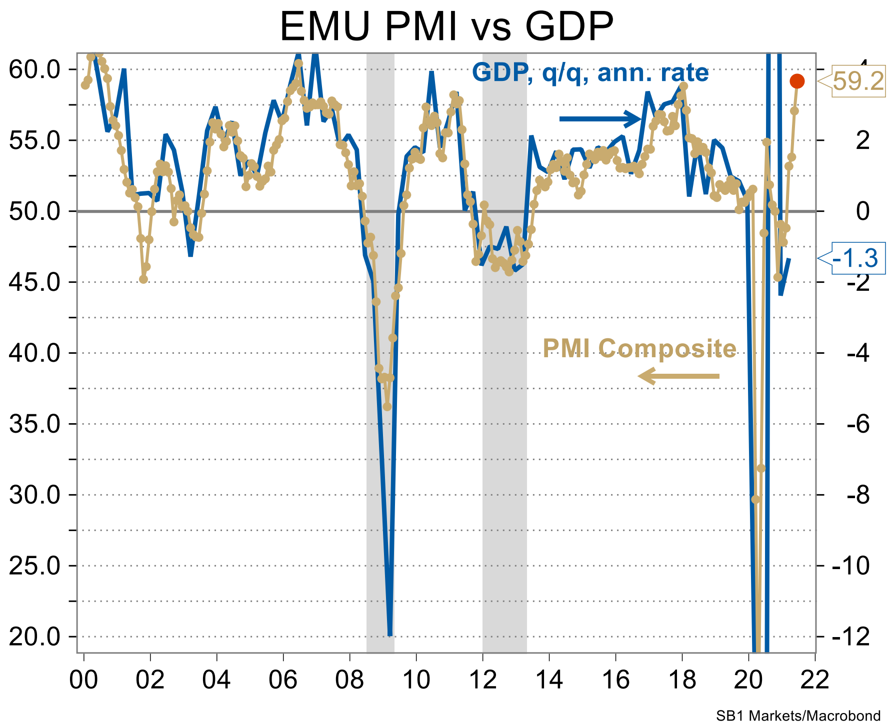
The PMI up, regional Fed manufacturing surveys down – and ISM a tad down?

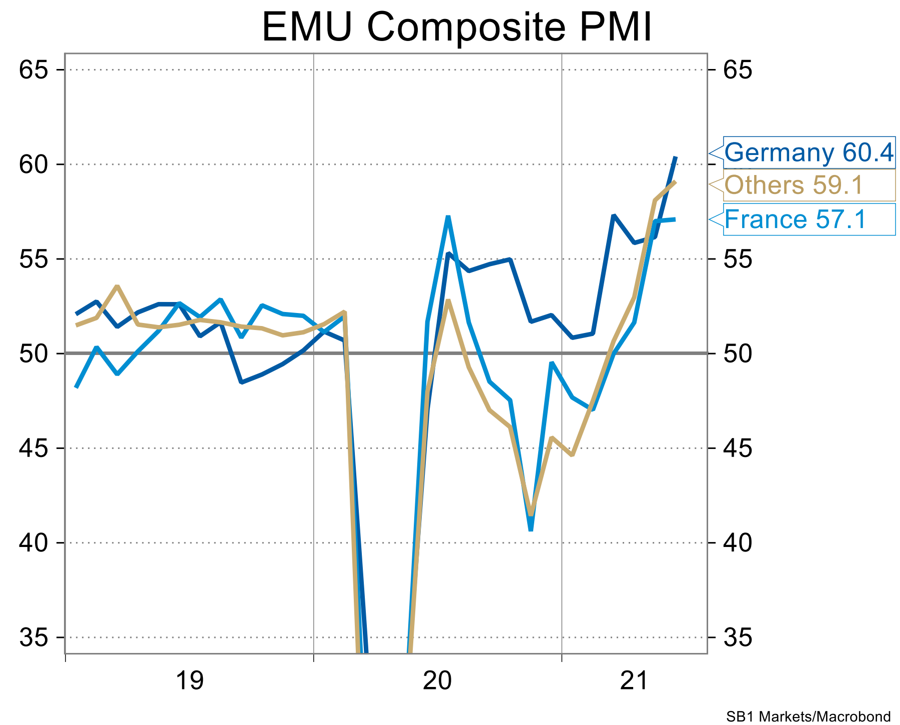




Another jump in June, as the recovery in services accelerates

EMU composite PMI up 2.1 p to 59.2, expected 58.8 – the best level since 2006

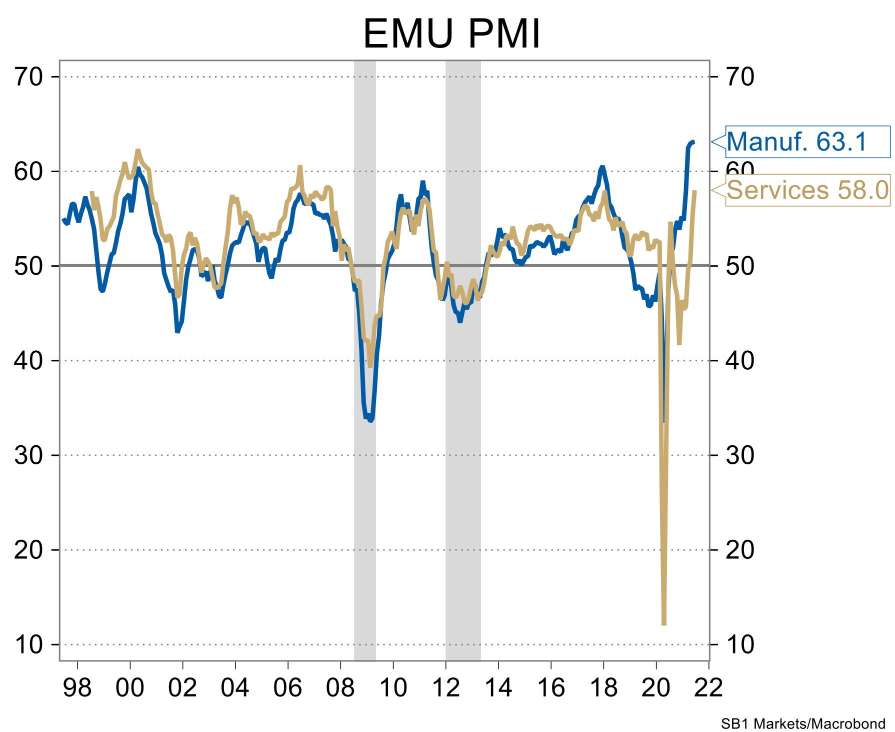


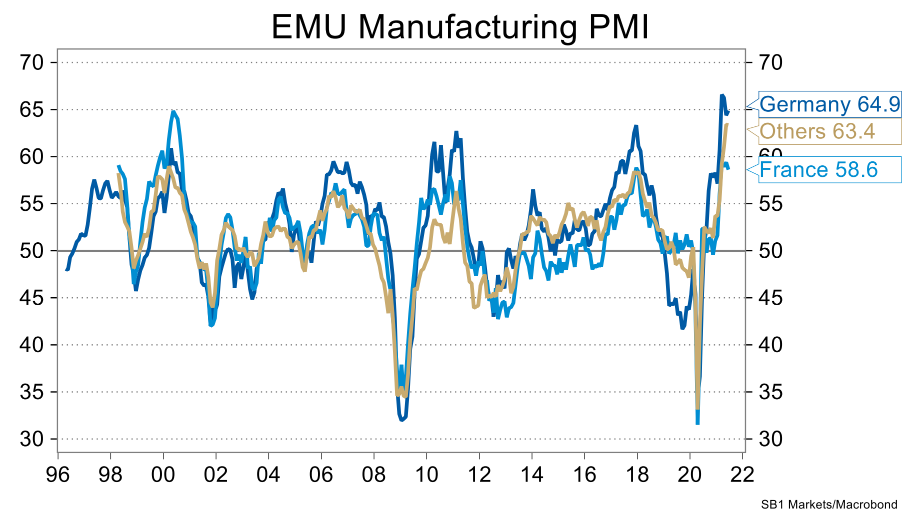


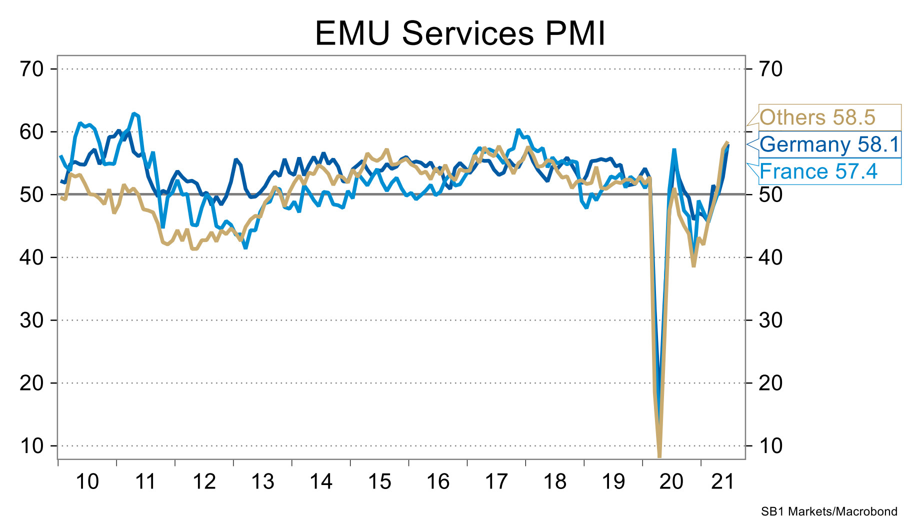
- **The composite PMI** at 59.2 signals a 3.5% - 4% pace of growth in GDP (or 0.9 % per quarter), as the corona restrictions are eased, and mobility is steady on the way up
  - » The composite index rose sharply in Germany, but only marginally in France. The average of Spain & Italy (and very likely both countries) also accelerated – and reported the highest composite PMI ever

Services PMI markedly up after more restrictions were eased

Manufacturing PMI flat at a record high level







- **Services** continued the recovery in June, as the PMI climbed 2.8 p to 58, expected up to 57.8 – and now decent growth is signalled. All countries well above the 50 line
- The **EMU manufacturing PMI** was unch. at 63.1 in June
  - **The Germany manuf. PMI** fell 0.5 p in June to 64.9 (66.6 in March was the ATH), France down 0.8 to 58.6, still at the best level since 2017, and others (Italy, Spain) climbed 0.2, up to 63.4, and ATH, again

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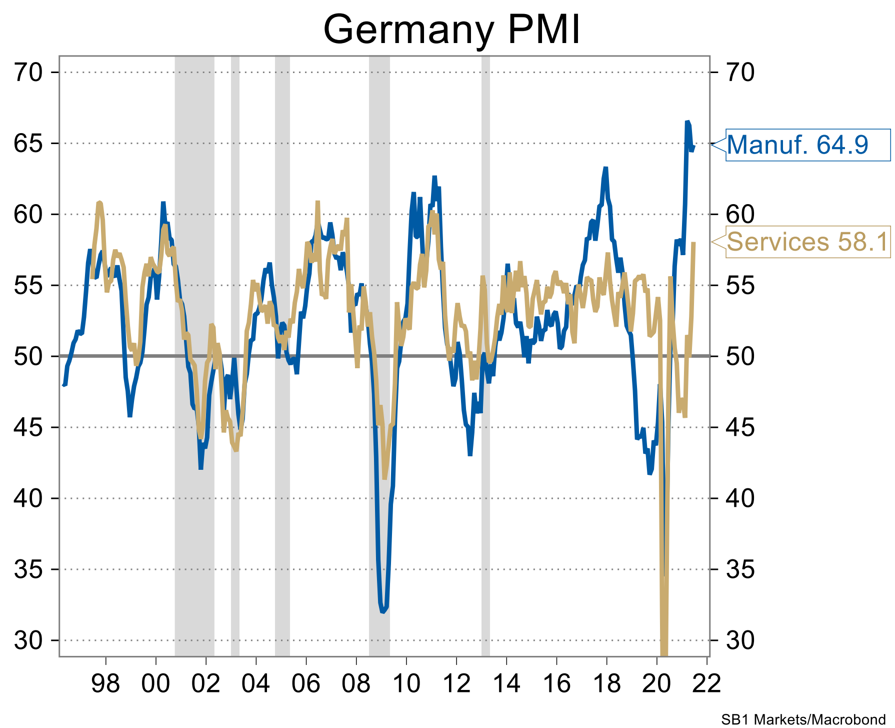
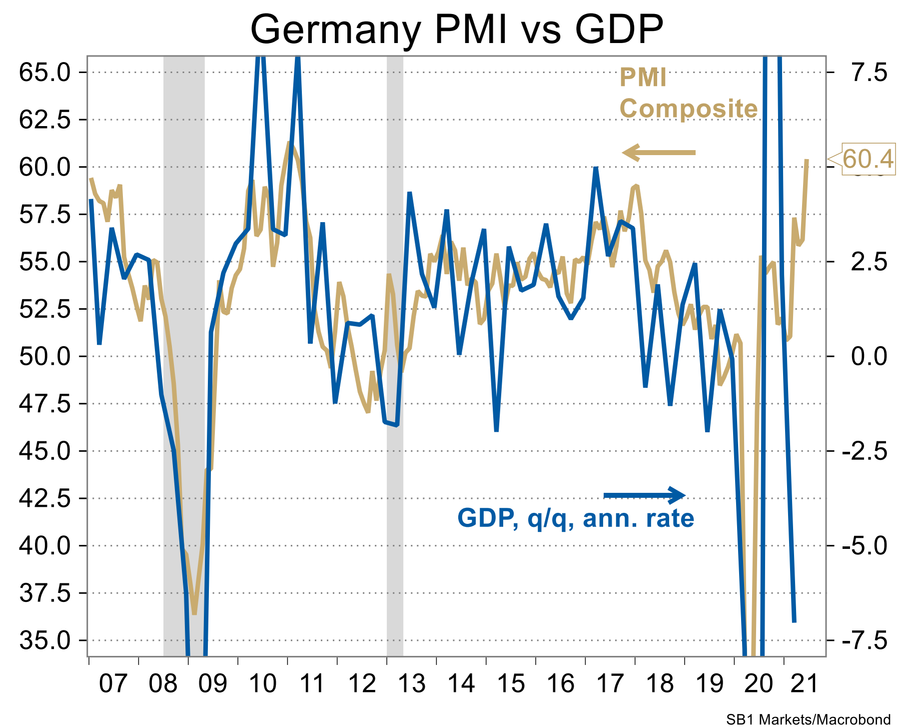
Germany: Services PMI surged 5.3 p as restrictions eased. 5% growth signalled

Manufacturing PMI was up 0.5 p to 64.9

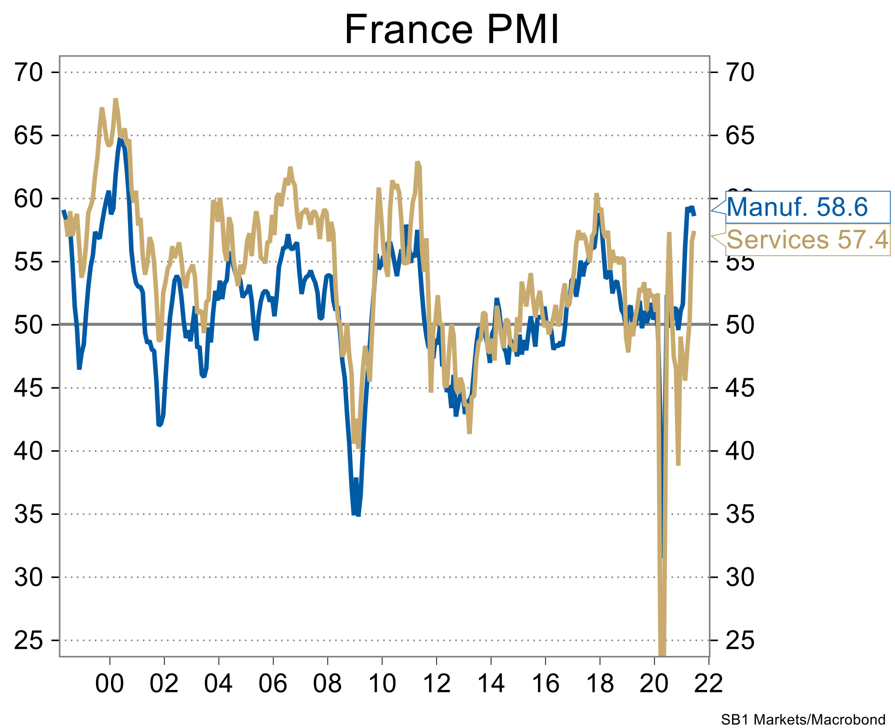


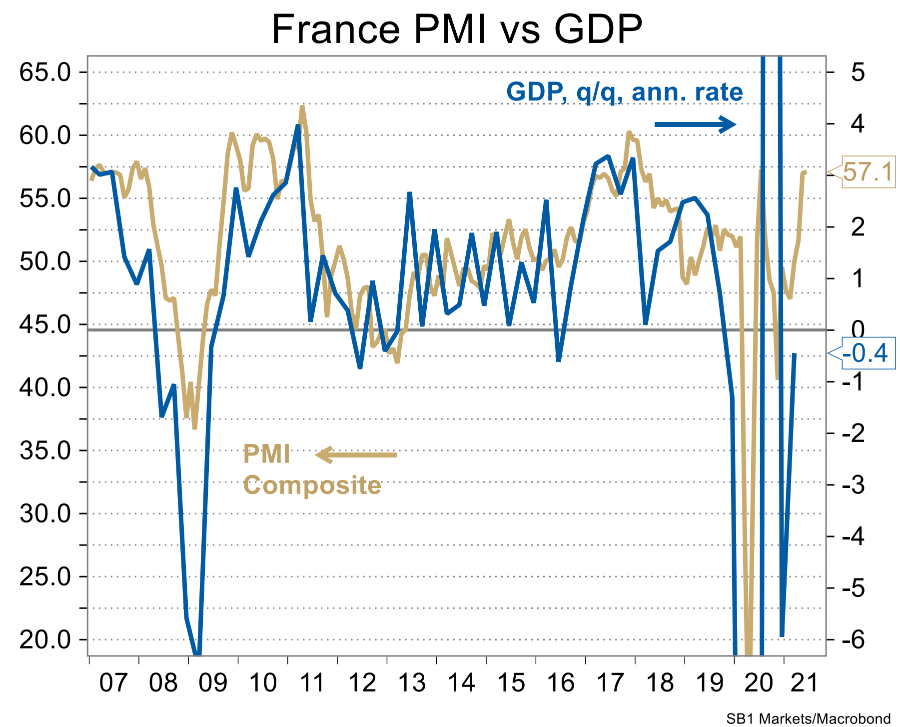


- **The prelim. manufacturing PMI** increased by 0.5 p to 64.9, expectations down to 63. There were also reports of input prices rising at the fastest pace in the history of the PMIs, new orders are booming, and employment is ticking up at the fastest pace since the start of the survey in order to increase capacity and meet demand
- **The service sector PMI** rose 5.3 p to 58.1 and the sector is expanding rapidly, thanks to an increase in demand after yet another round of easing of restrictions. This is the highest reading since March 2011
- **The composite index** increased by 4.2 p to 60.4, far above expectations of 57.5, signalling a 5% growth pace. The PMI has also not been higher since 2011

France: Services PMI further up in June, but below expectations

The composite PMI up 0.1 p to 57.1, expected at 59, signalling 3% GDP growth

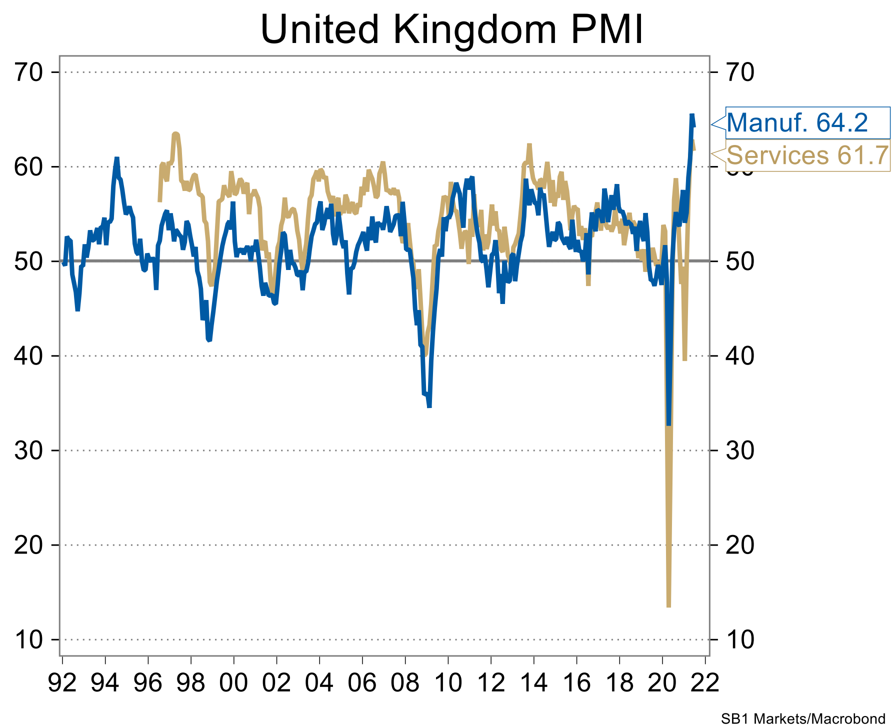


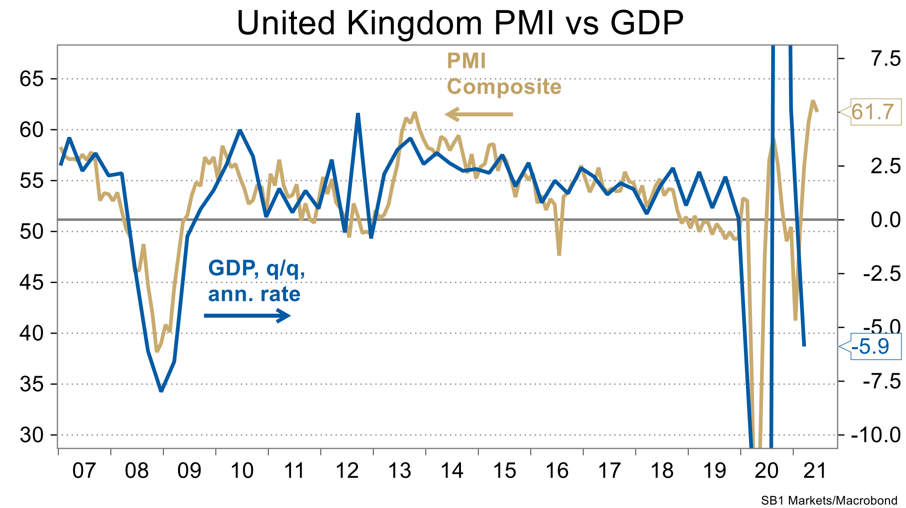


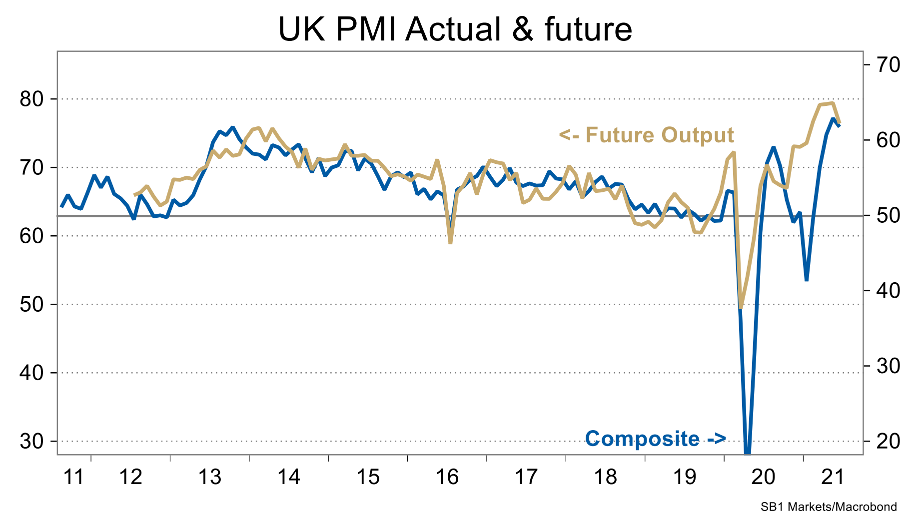
- **The composite** PMI was lower than expected due to a decline in the (output component in the) manuf. PMI and a lower-than-expected services PMI
- The **service sector** index was up by 0.8 p to 57.4
- **Manufacturing PMI** fell 0.8 p to 58.6, which is still a strong print, albeit below consensus estimate
- Overall **input cost inflation,** eased somewhat but costs are still increasing at the fastest pace in a decade, while the output price inflation has not risen faster since June 2011

The UK PMIs disappoint in June. However, the levels are still impressive

A 5% growth rate is signalled



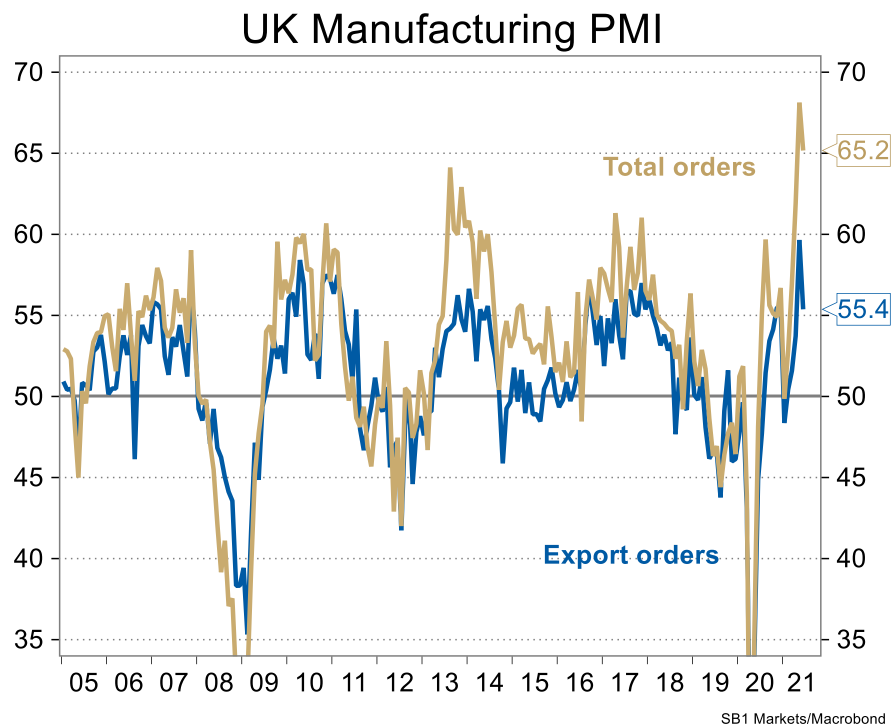


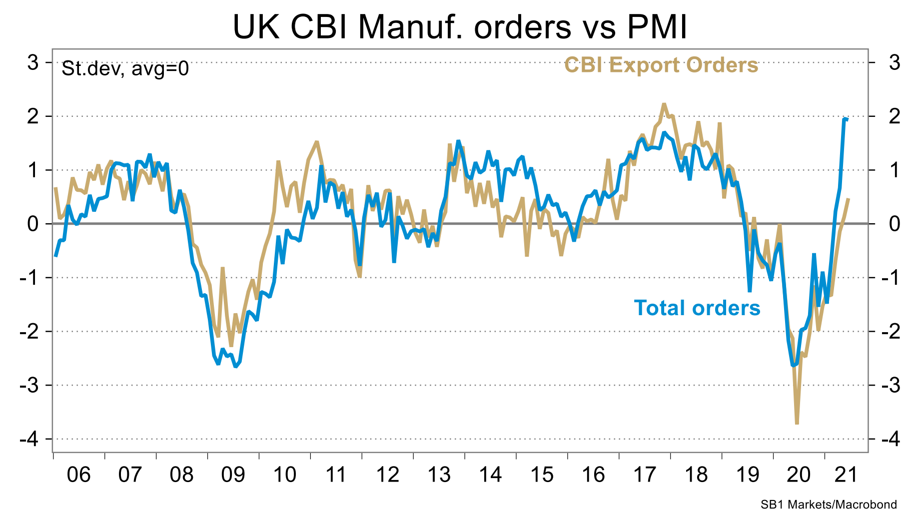


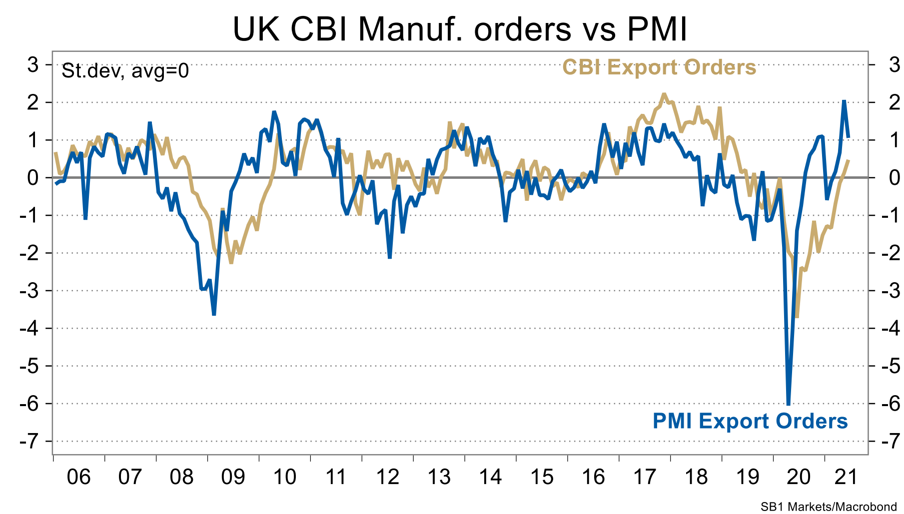
- **The composite PMI** fell 1.2 p to 61.7, 1.1 p below expectations
- **The manuf. PMI** was down 1.4 p to 64.2, 0.2 below expectations
- **Services PMI** decreased by 1.2 p to 61.7, 1.3 p below expect.
- The **employment** and the **input costs** rose to record high levels, but business are still complaining about labour shortages. On the softer side: growth in new orders receded from ATH in May, and the future optimism index fell to its lowest level since January (but is still higher than anytime before, barring the previous months)

Still rapid growth in export orders (but not as in May)

Supply chain problems partly to blame

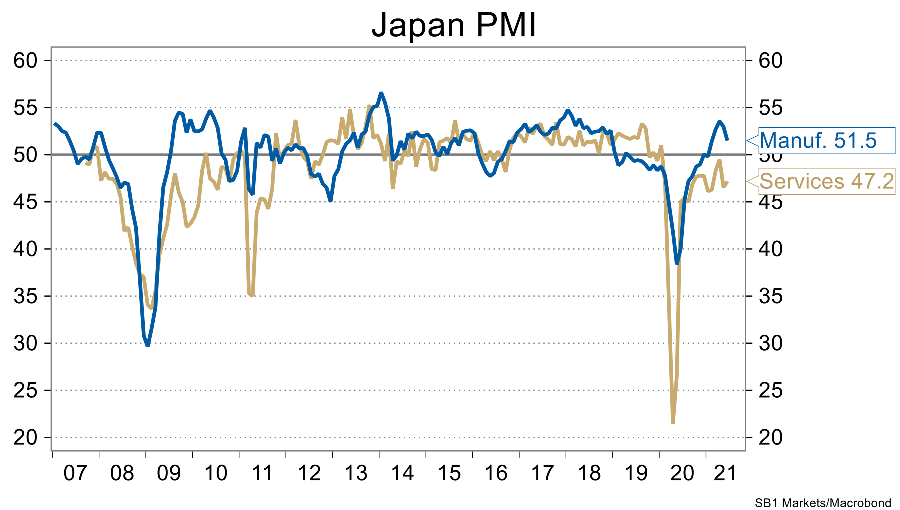


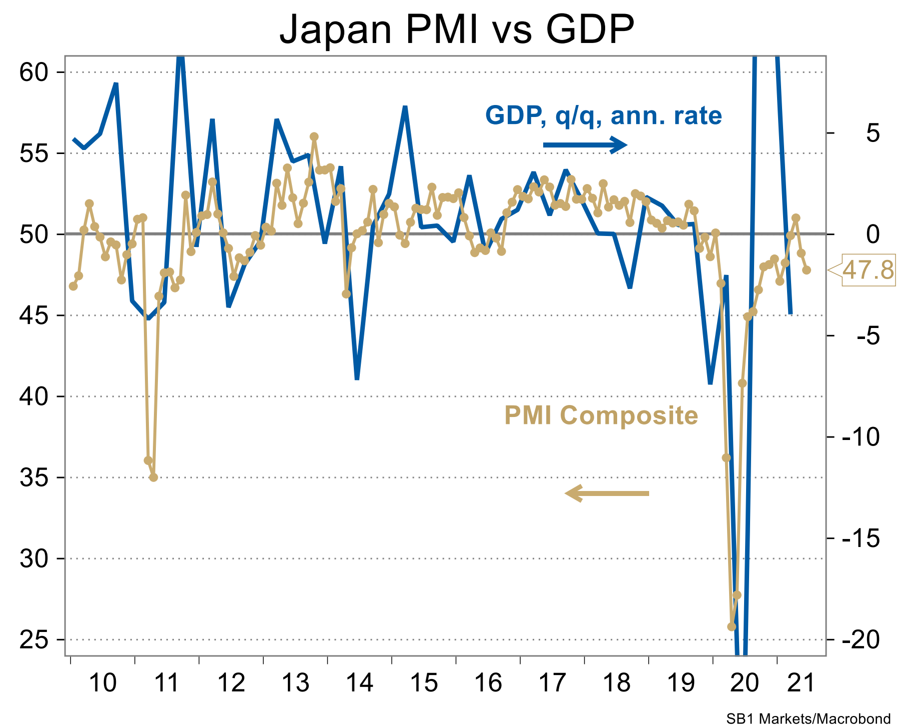


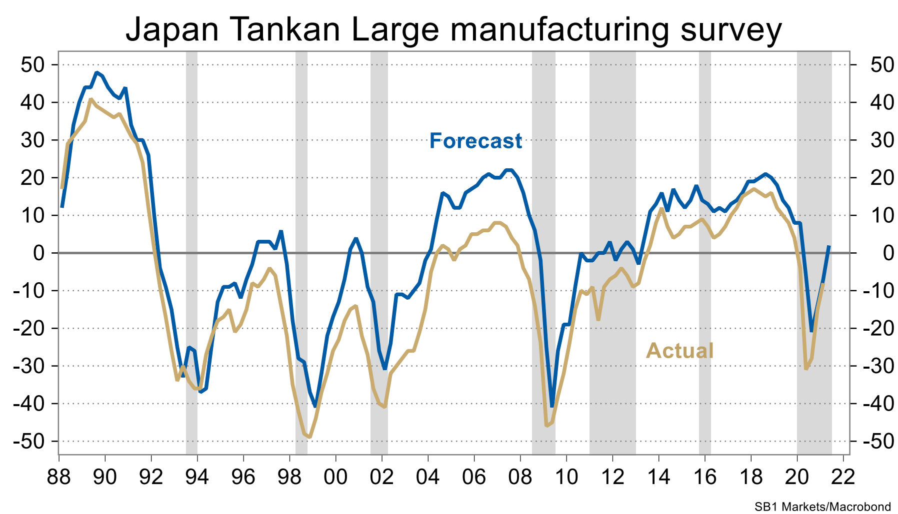


Japan still in contraction mode

Manuf. PMI down 1.5 p to 51.5, services PMI up 0.7 p to 47.2, and the composite index fell further



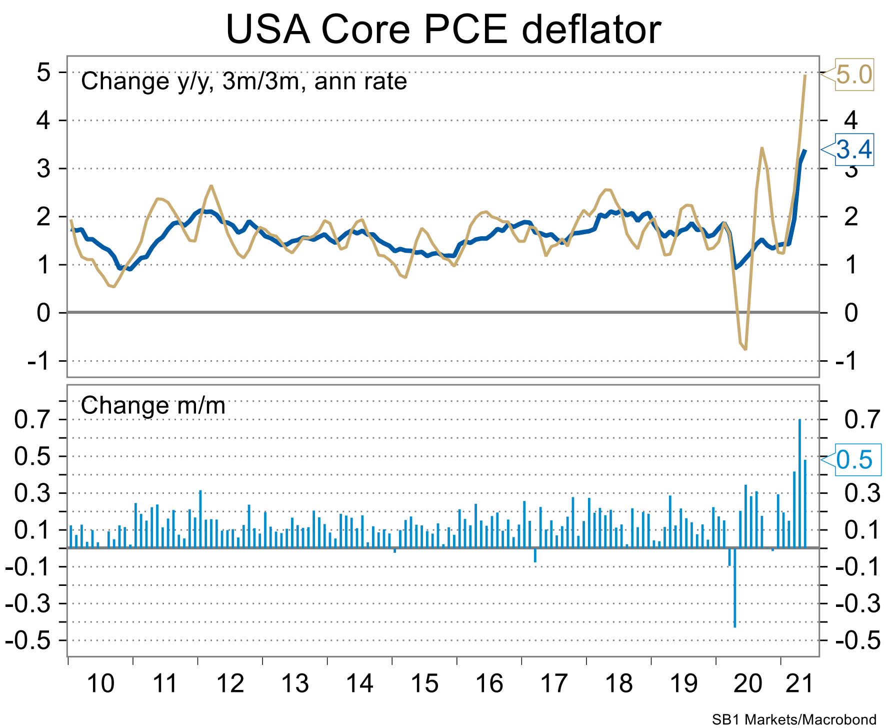


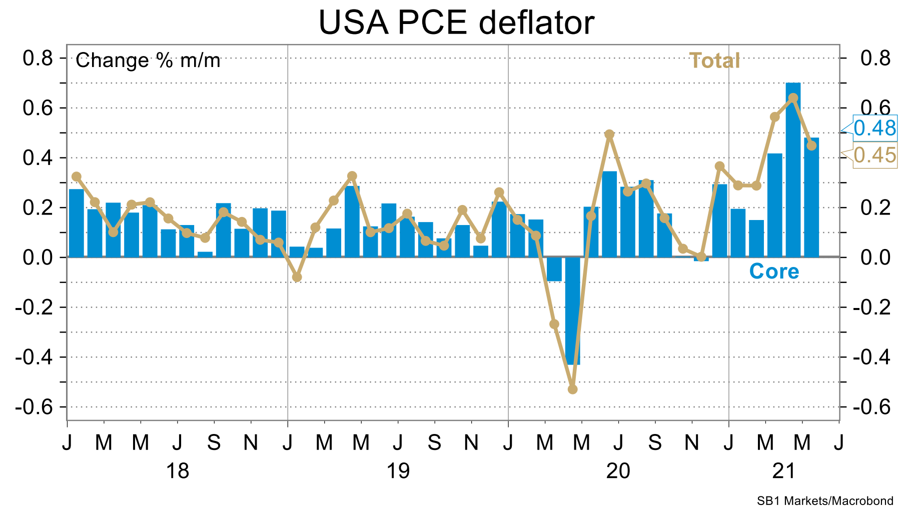


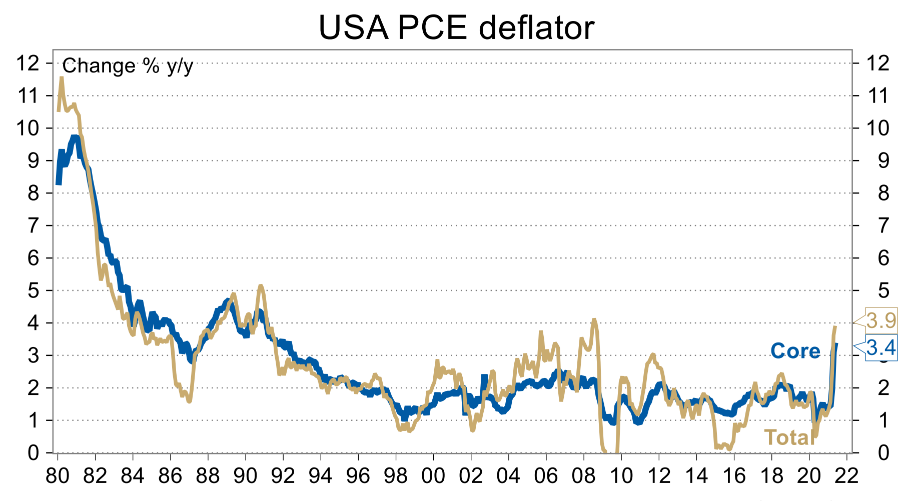
- No consensus forecast was available but very likely weaker than most assumed
- The composite PMI fell to 47.8 from 48.1, signals a contraction in GDP but the correlation is not impressive

Core PCE up 0.5% in May, 3.4% y/y, in line with expectations

The headline up to 3.9% y/y







- **The core price deflator** rose much more than normal in May too, by 0.5%. The 3m/3m rate accelerated to 5% - and more than half of the acceleration of annual rate recent months is due price increases now, and not to declining prices last spring
  - » Since May 19, the average core inflation rate has been 2.2%. Inflation has been at or close to 2% over the past 3 & 5 years too. Fed's average inflation target is met (but Fed has not told us yet)
- **Total PCE deflator** rose by 0.5%, and the annual rate accelerated 0.3 pp to 3.9%, as expected (and prices are up 2.2% y/y since April '19)

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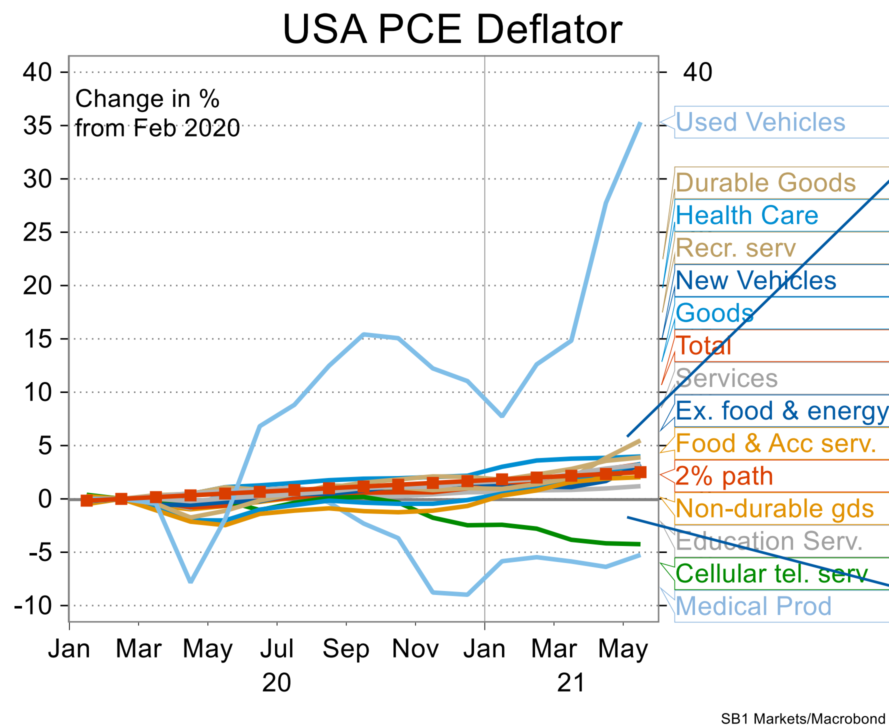
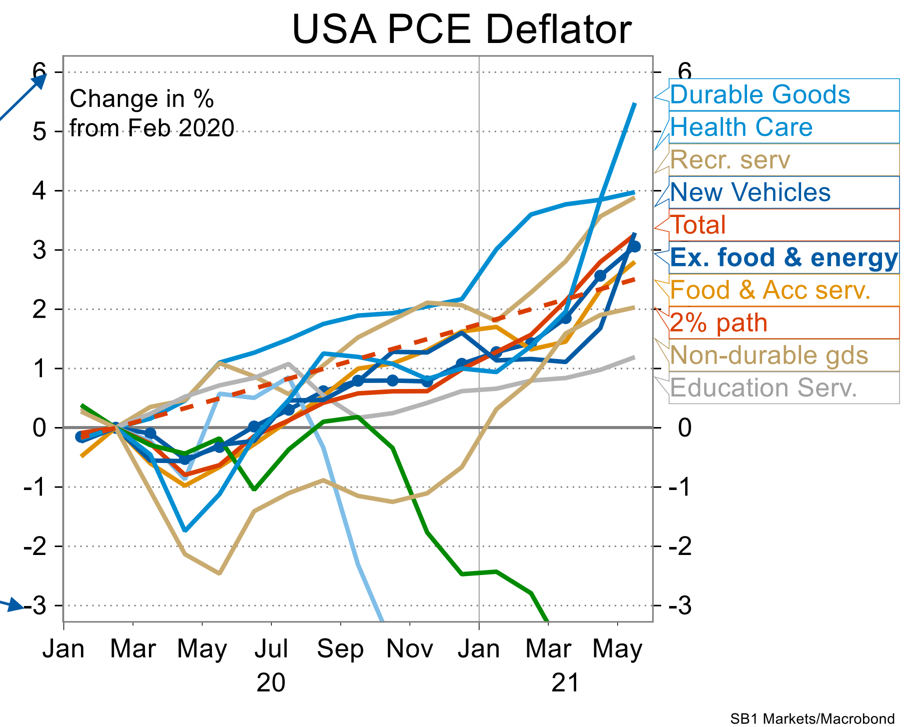
Most prices up in May too; New & used autos, recreational serviecs

Still unclear what is due to a 'reopening surge' – and what is permanent

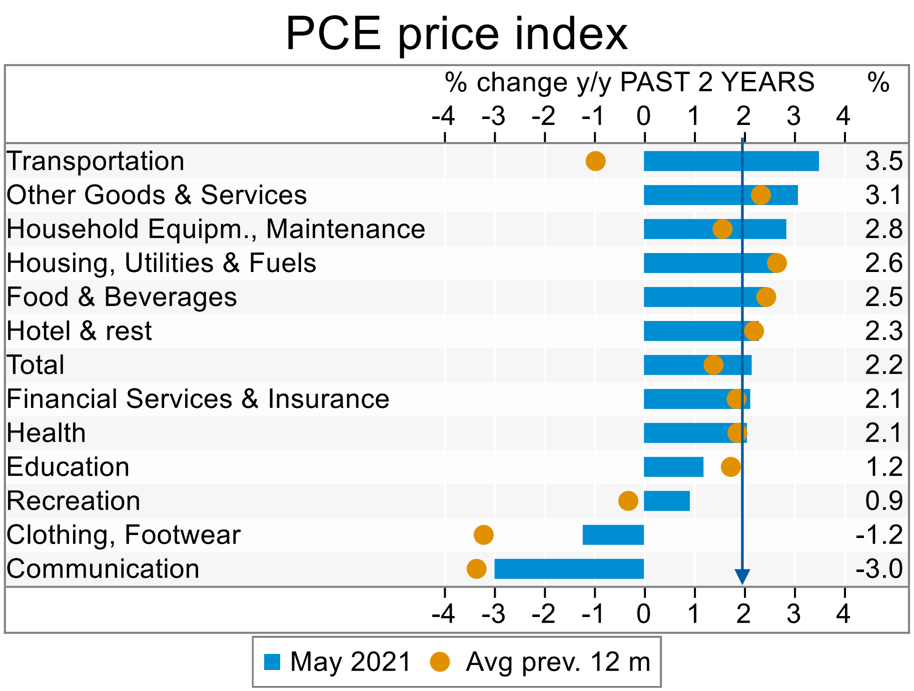




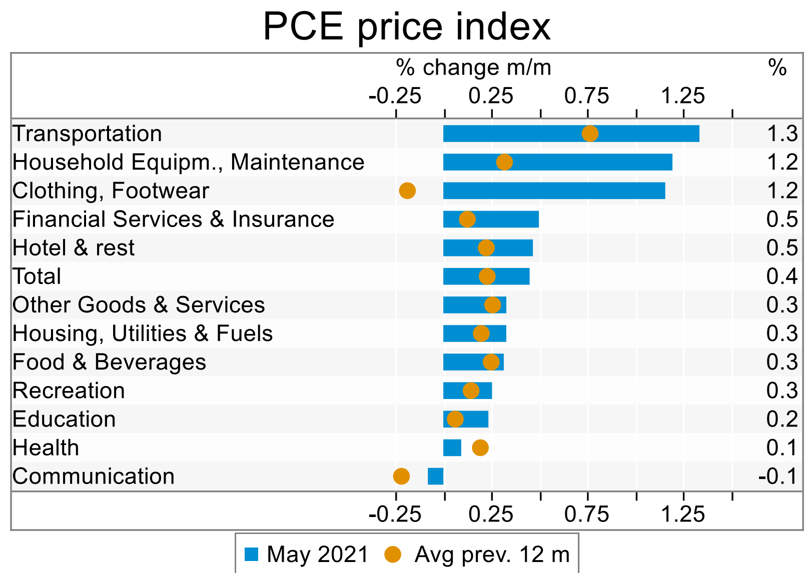
- Used car prices rose further in May, and are up by 35% vs. Feb-20 – no doubt above any reasonable long-term trend
- Health care costs have increased sharply since late last year

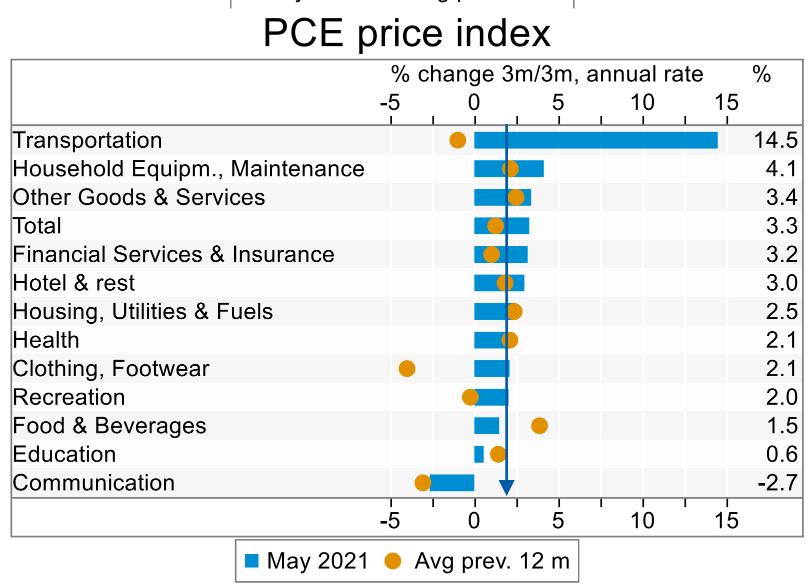
PCE by main sector: Transportation (autos & gasoline) explains a lot

However, most sectors report >2% pace of price increase the past 3m/3m (and past 2 years)



SB1 Markets/Macrobond

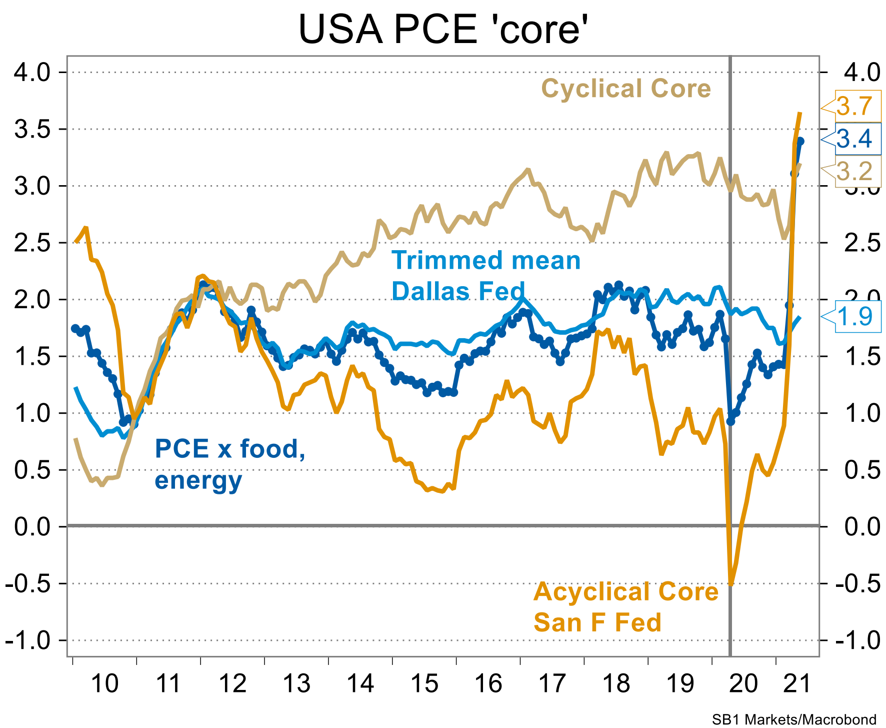


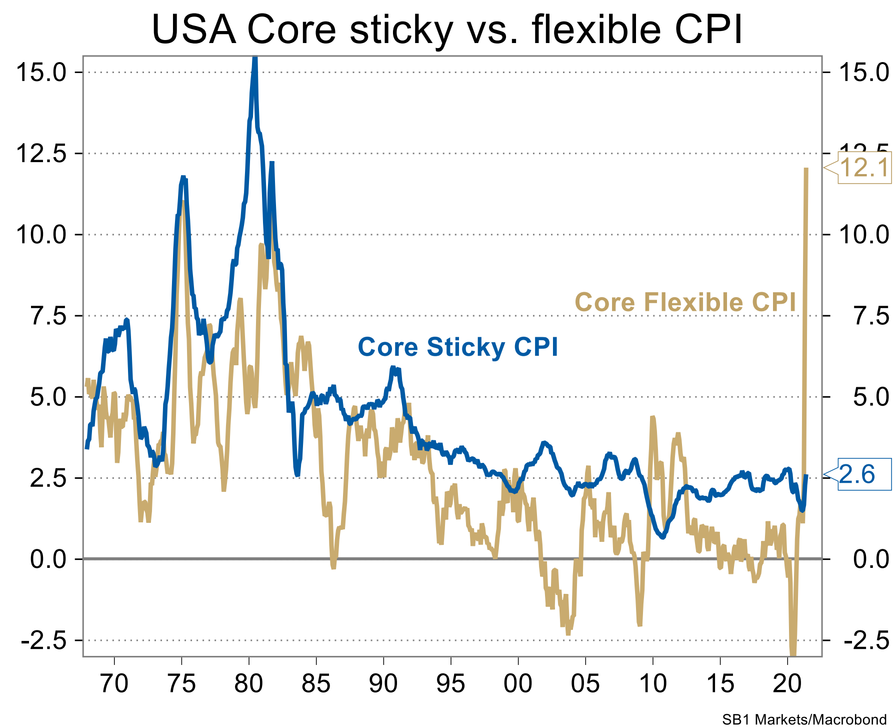


- Measured over the past 2 years, PCE inflation has been 2.2% on average. 4 sectors are below 2%, 9 sectors are above 2%, on average
- Just communication prices fell in May
- The share of prices that are declining has fallen recent months, but is still not low vs throughs the past 20 years

There are still some possible (and not unreasonable) excuses…

There are still just some few goods/services that have done the heavy lifting

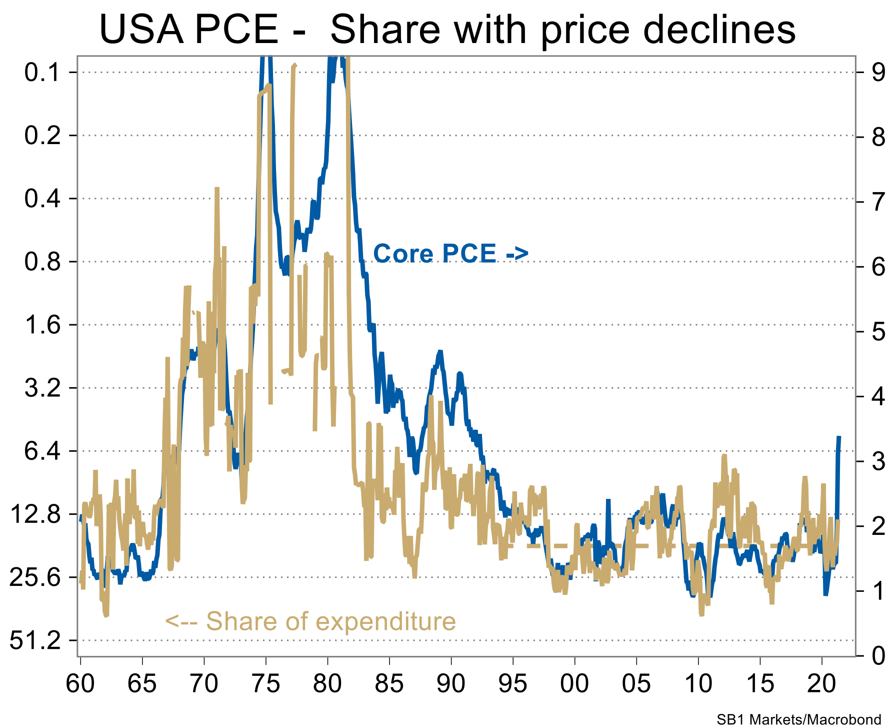


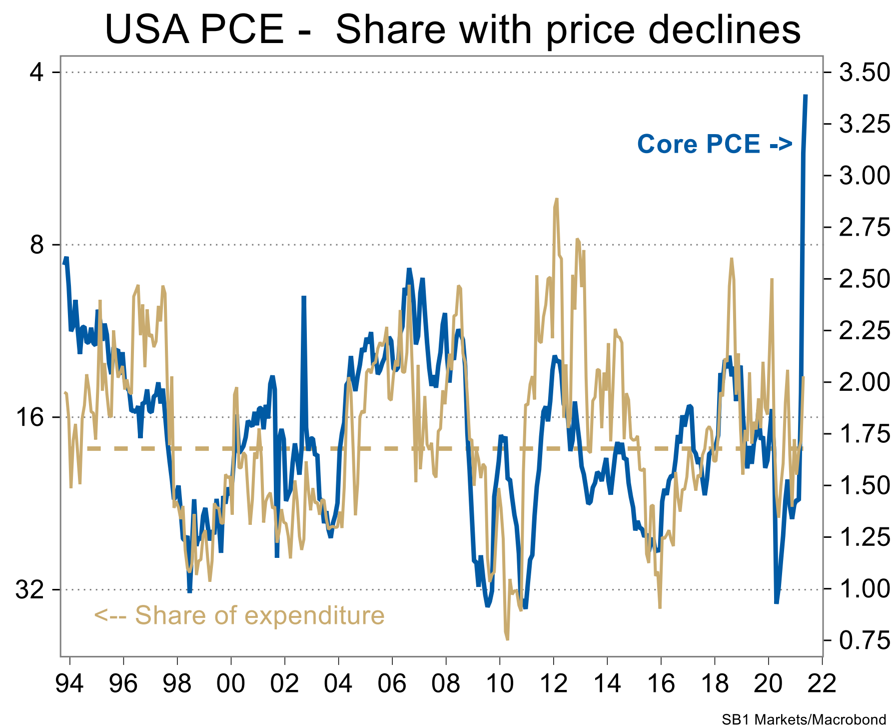


- The **trimmed PCE mean** is at 1.9%, and lower than 1,2 years ago. The trimmed mean is probably the best gauge of 'underlying" PCE
- An index for typical **a-cyclical core PCE goods & services** are up 3.7%, up from -0.5% in April last year. The 2 y avg is at 1.6%
- The **cyclical core PCE** at 3.2%, as it was one year ago: inflation for these goods & services have been at a high level quite long – but it has not become worse
- In the CPI, almost all of the lift in **core CPI** has been due to prices on good & services that normally are **flexible** – and they are more up than anytime since 1982. However, these prices are flexible both ways, and the cycles are normally short. The **sticky components** of the CPI is up 2.6%, marginally above the average recent years. For inflation really to take hold, these sticky prices have to accelerate (like they did from 1973). However, the flexible component has contributed substantially to keep inflation low the past 8 years

PCE: A normal proportion of prices are still falling

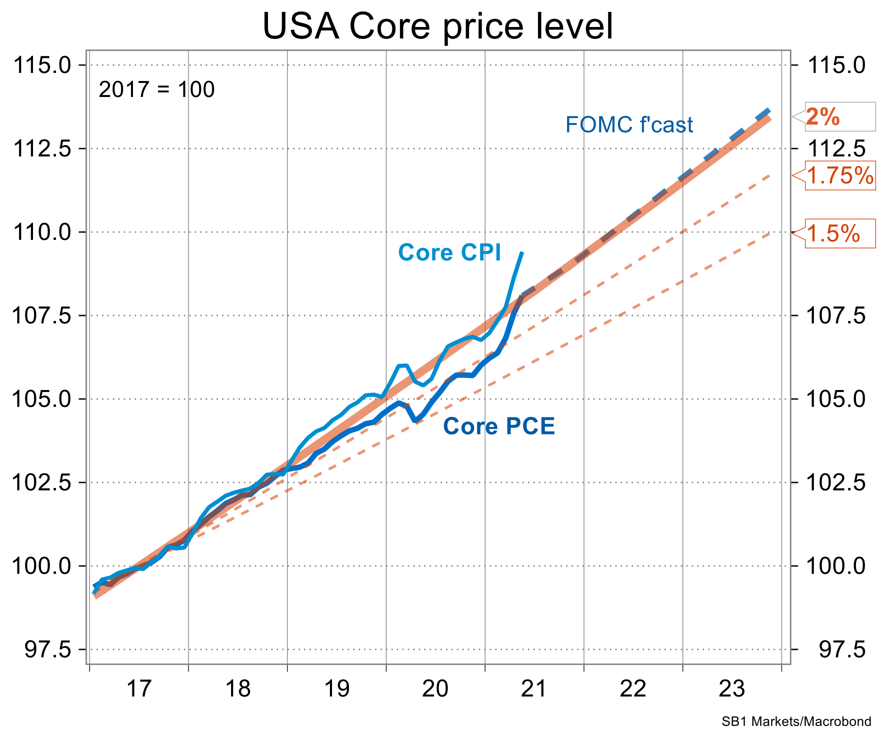
… though not an early bird to watch

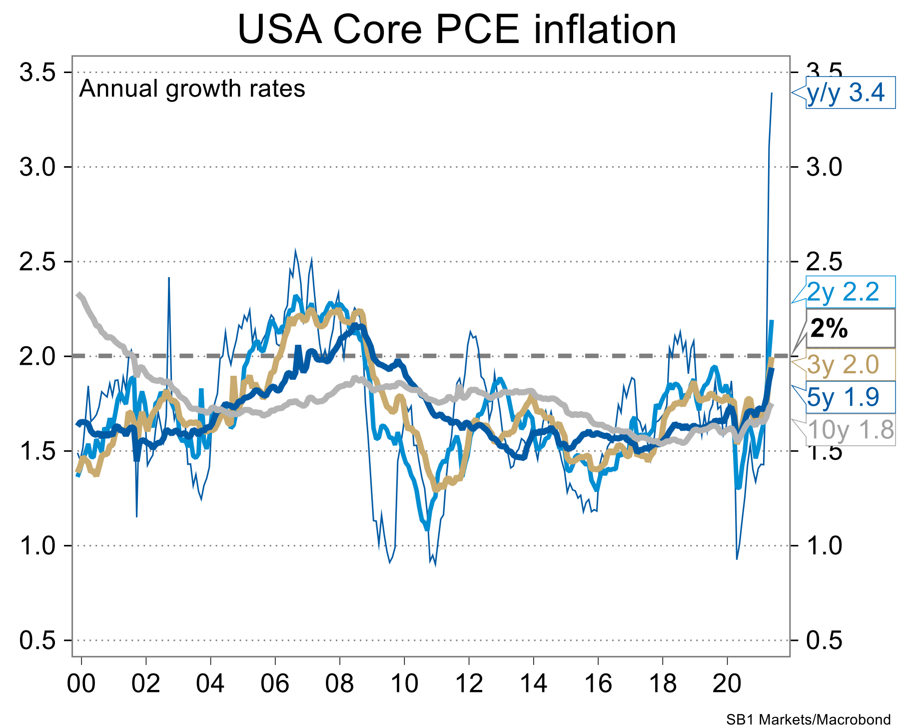




The price level is on the right track, right?

Seems so but the Fed has not told us so. However, the Bank's forecast is exactly on the 2% path



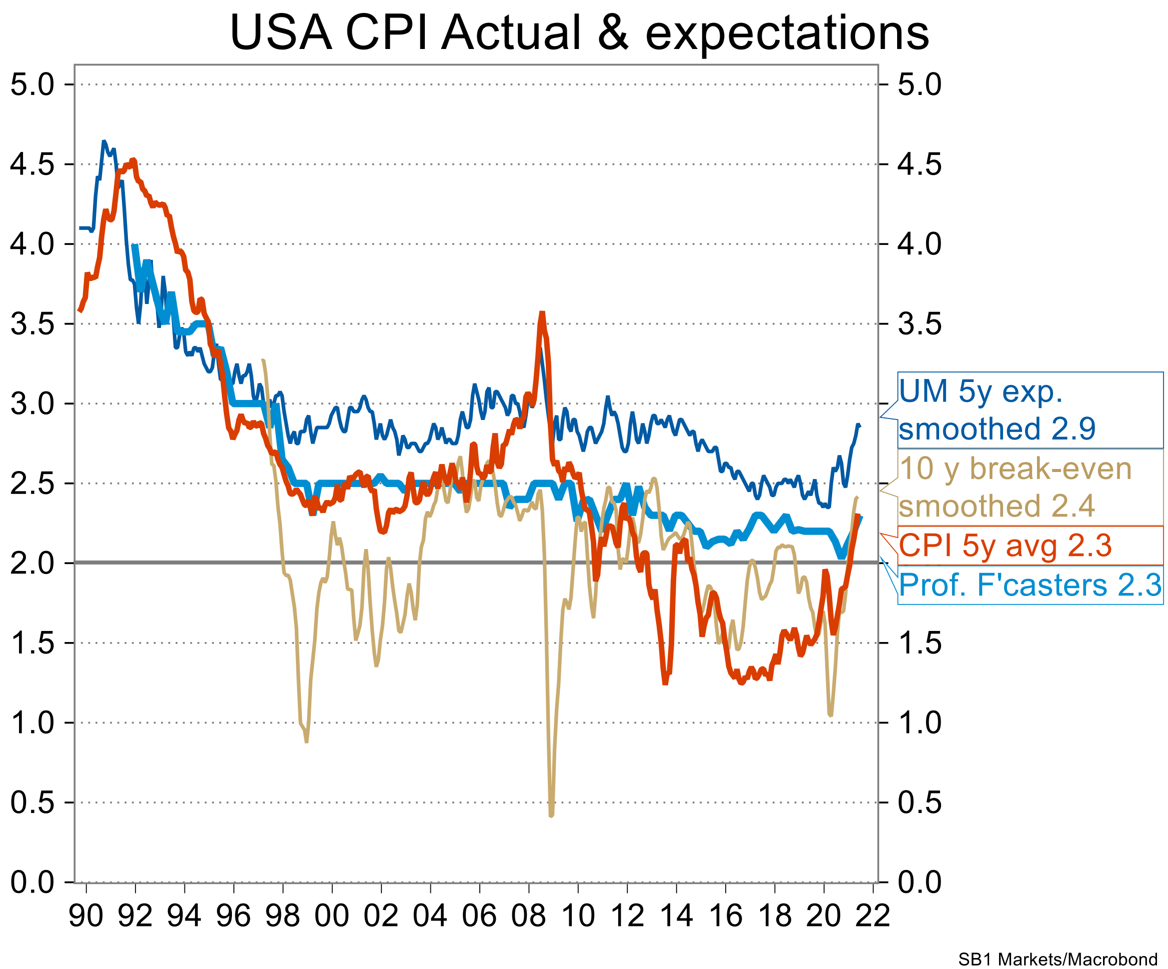


We stick to our main inflation analysis:

- **Raw material cycles** are not lasting that long and the impact on consumer prices are short lived
- **Higher profit margins** (unit profits) have never been the main reason for a sustained lift in inflation
- To sustain a lasting increase in inflation, **unit labour costs** have to grow faster. The ULC = wage inflation – productivity
- **A tight labour market** normally implies higher wage inflation. So far the signals have been mixed, as the 'best' indicators of wage inflation when there are huge changes in the employment mix, have not reported higher wage growth. However, other measures report higher wage inflation, and unusually many companies are reporting wage increases

Inflation expectations are drifting up but are not yet <u>worryingly</u> high

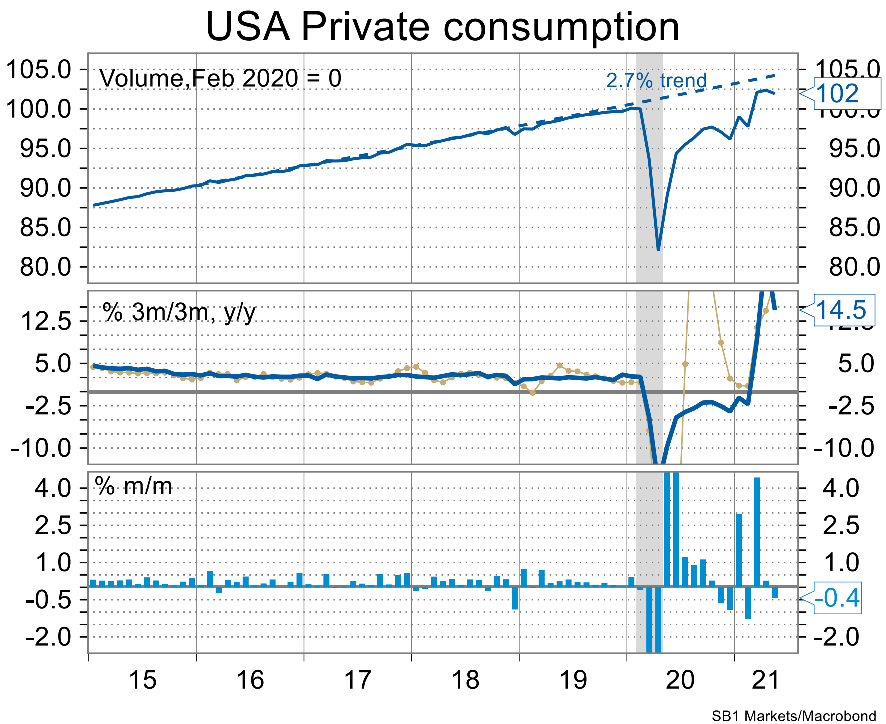
Univ. of Mich. survey 5 y inflation expectations have climbed to 3% from 2.4%

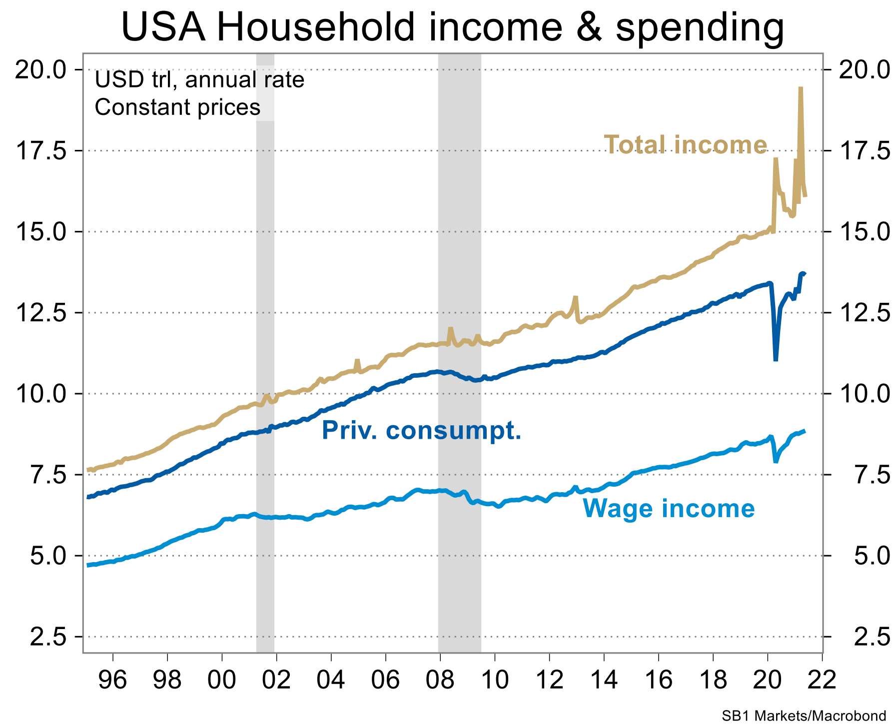


- **The UM's survey's** 3% rate is the highest in 10 years (2.9% smoothed on the chart to the left), and it is 0.5 pp higher than before the pandemic (2.5%)
  - » Still the level is not <u>far</u> above the past 10-year average – but it is a sign for the Fed, of course
  - » The UM short term inflation expectation at 4.6% is the highest since 2011, up 0.9% from March. These expectations usually correlated to recent changes in energy prices – like now
- **Professional Forecasters** expect a 2.3% 10-year rate of inflation, according to Philadelphia Fed Q2 survey, up from 2.0% in Q4. The Q4 level was the lowest ever, and 2.3% is just marginally above the past 7-year average, and it refers to CPI. The 10-year PCE forecast is at 2.1%, close to Fed's long-term target
- The 10 y **break-even CPI inflation expectation** is at 2.4% among the highest prints since 1998. Still not far too high for Federal Reserve (after deducting an average 0.3 pp differential between the two)
  - » However the direction is not that comforting?

Spending & income down in May – savings are still 'too high'

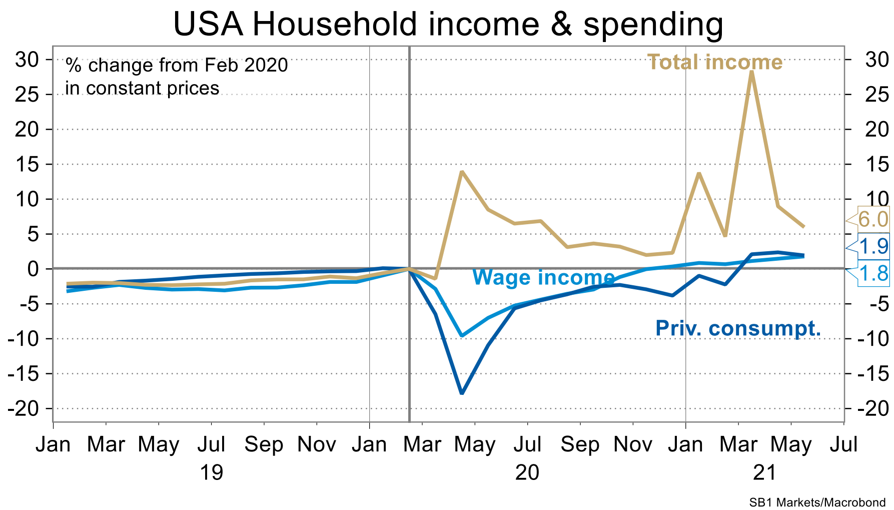
Real spending down 0.4%, income fell 2.8%, no more stimulus cheques

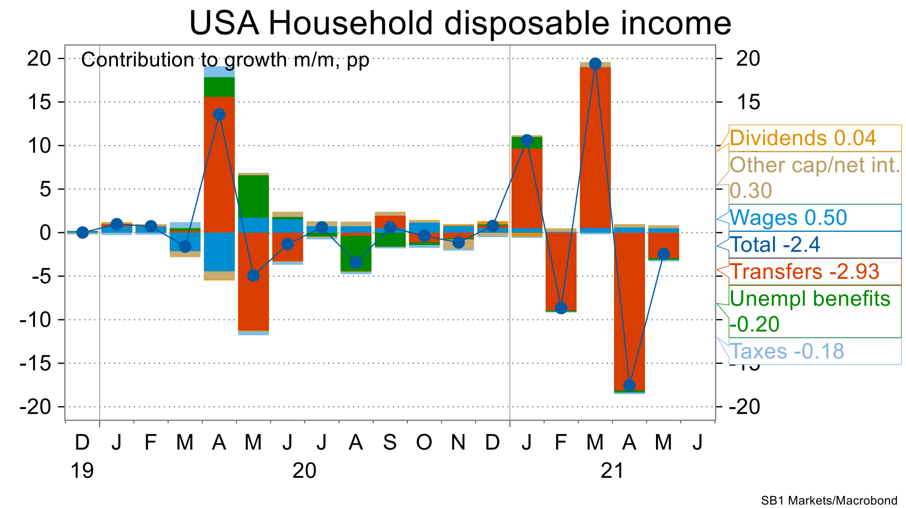




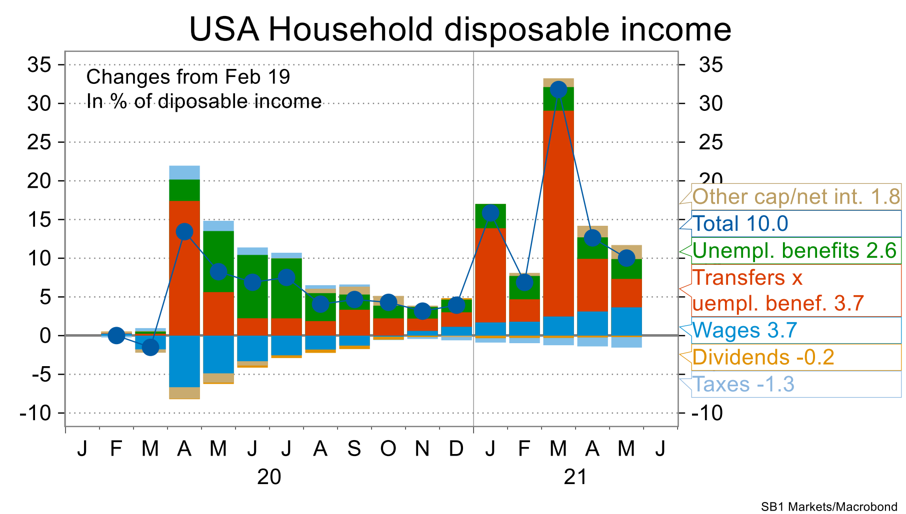
- **Private consumption** fell 0.4% in real terms in May (spending was flat nominally, expected +0.4%). Consumption of goods fell further, while services rose but less than expected. Consumption should still grow by some 11% (annualised). Consumption is up 2% vs. the Feb-20 level in real terms
- **Personal disposable real income** fell by 2.8% in May (household income fell 2% nominally, expected -2.5%). Transfers fell further, as no more cheques were sent out. Market based revenues rose
- **The savings rate** fell by 2.1 pp to 12.4% - which is still 5% above a 'normal' level. At the same time, net transfers-taxes are some 4% of disposable income too high – and a normalisation will have to take place of the coming quarters/years
  - » Over the first 5 months in 2021 nominal spending is up by some USD 300 bn more than implied by a 'normal' growth in spending. Income is up by an extra USD 900 bn. Thus, approx. some 40% of the 'stimulus cheques' have been spent, while 60% have been saved for a rainier day – equalling 2.6% of annual income. In addition, the current savings rate is far above a normal level! So spending capacity is not exhausted

Less transfers in May – are still above a normal level



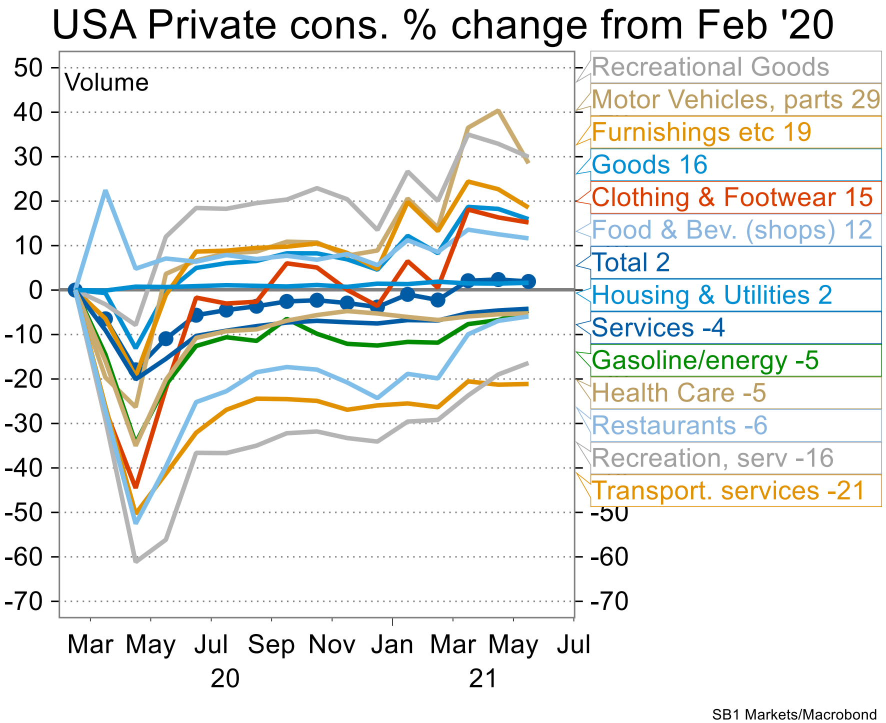


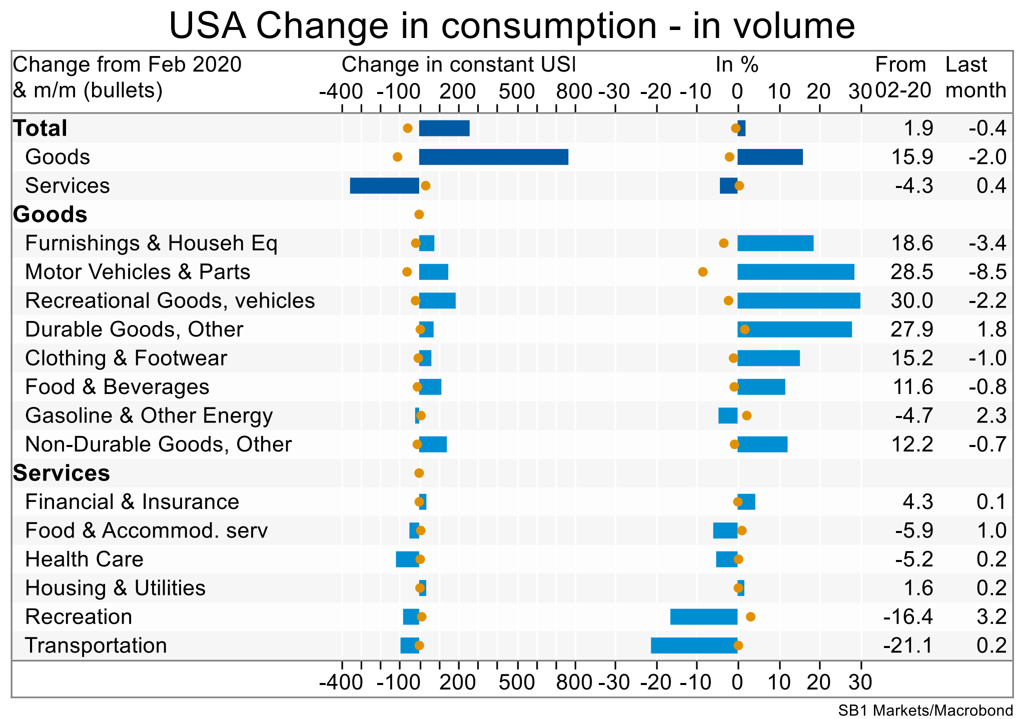
- **Last month:** Household disposable income fell by 2.4% (nominally) in May
  - » Transfers from the government fell further, while wages and capital income lifted income by more than 0.8% - well above a normal contribution
- **From Feb-20:** Disp. real income is up by 6% vs. Feb-20 – and by 10% nominally
  - » Nominal wage income is 3.7% above the Feb-20 level, even if hours worked still is far below, as the average wage is sharply up
  - » Unemployment benefits are up equalling 2.6% of disp. income. Total 'labour' income is up 6.3%, a normal income growth
  - » In addition, other transfers are up eq. 3.7% of disp. income, far higher than a normal growth rate
  - » All these extra incomes (and more) have been saved, as it has not been possible to spend them where consumers wanted



Consumption of goods is slowing, services up – but just slowly

Consumption of goods down 2 % in May, services up 0.4%. Goods +16% vs Feb-20, services still -4%





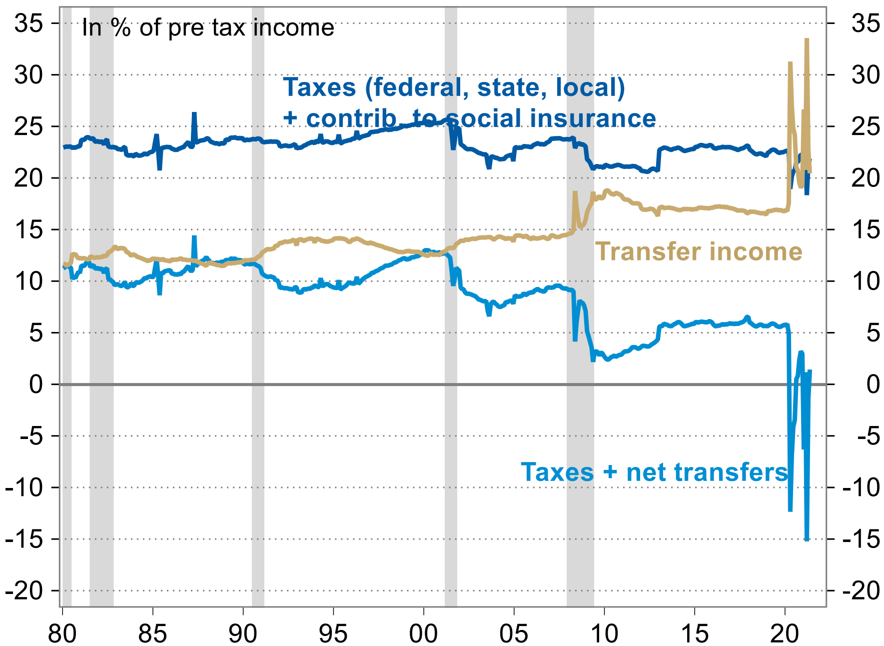
	From 02-20	Last month
Total	1.9	-0.4
Goods	15.9	-2.0
Services	-4.3	0.4
Goods		
Furnishings & Househ Eq	18.6	-3.4
Motor Vehicles & Parts	28.5	-8.5
Recreational Goods, vehicles	30.0	-2.2
Durable Goods, Other	27.9	1.8
Clothing & Footwear	15.2	-1.0
Food & Beverages	11.6	-0.8
Gasoline & Other Energy	-4.7	2.3
Non-Durable Goods, Other	12.2	-0.7
Services		
Financial & Insurance	4.3	0.1
Food & Accommod. serv	-5.9	1.0
Health Care	-5.2	0.2
Housing & Utilities	1.6	0.2
Recreation	-16.4	3.2
Transportation	-21.1	0.2

- The slowdown in **consumption of goods** is broad – and will very likely continue the coming months – as the level is way above any reasonable sustainable level – if spending on services should increase further
- **Consumption of services** rose just 0.4% in May, without any contribution from transport – weaker than we expected. Spending is now 4% below the Feb-20 level, in volume terms. Restaurants are down 6%, transportation -21%, recreation -16% - so there must be more to go as restrictions are further eased. Airline transport is at least further up in June
- Total consumption us up 2% vs. Feb-20, a somewhat below par growth rate over 16 months.

Towards more normal times – transfers are slowing rapidly, taxes on the way up

However, the net balance between the government (state, federal) and households still unsustainable

USA Household taxes, transfers



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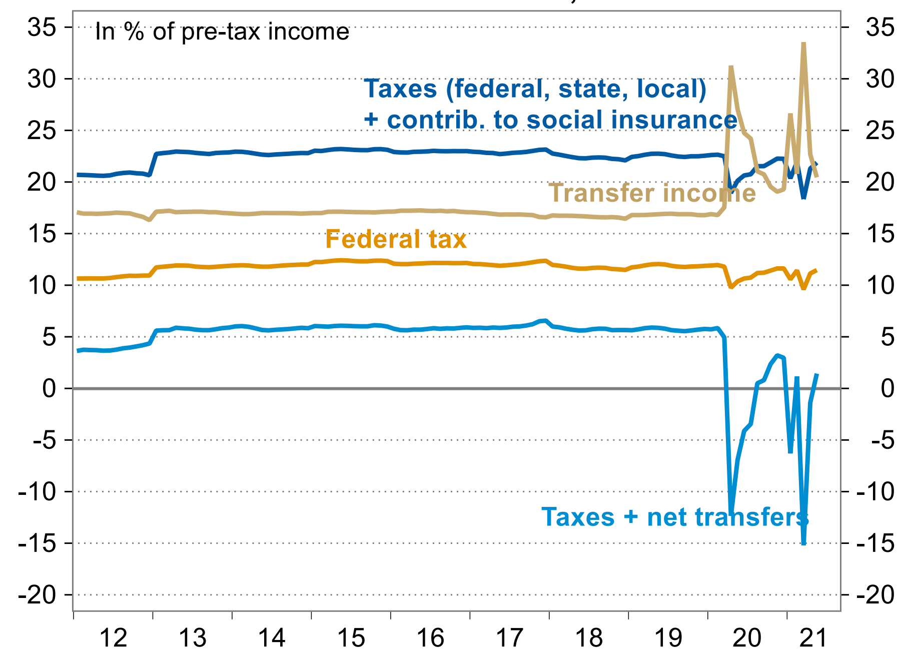
USA Household taxes, transfers



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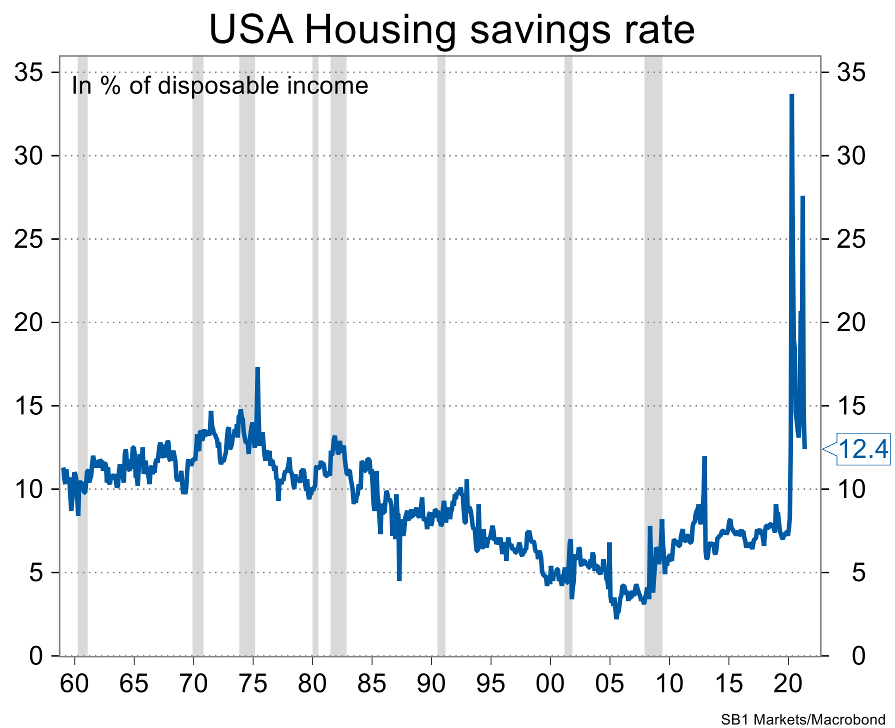
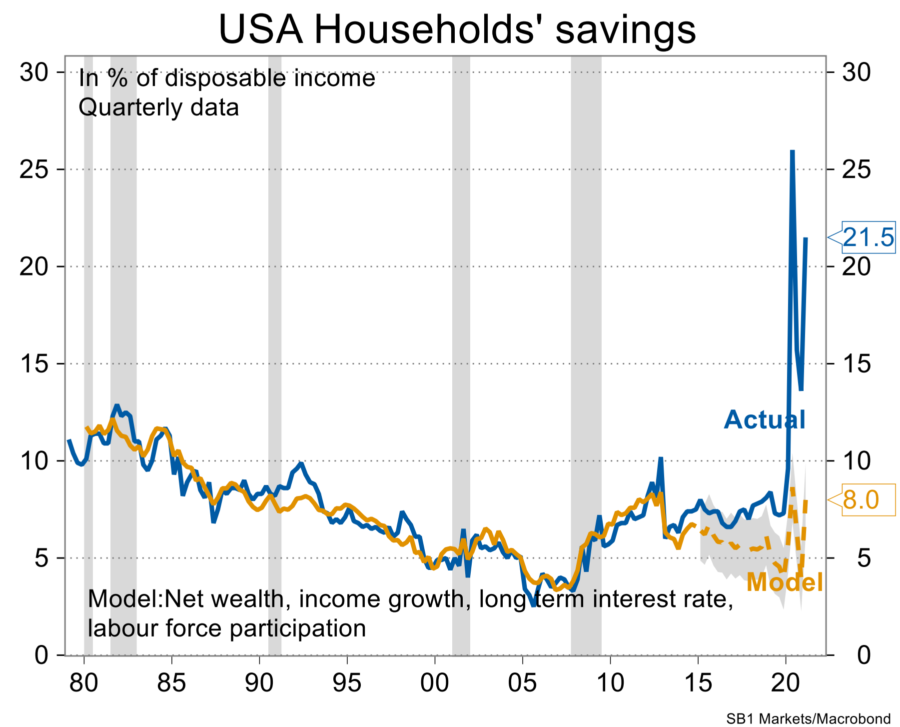
- The net balance is some 4% of disposable income below the pre-pandemic net transfer/tax rate
- In addition, the this ‘normal’ implied a substantial government deficit – which was not sustainable either

The savings rate further down but still 5 pp ‘too high’

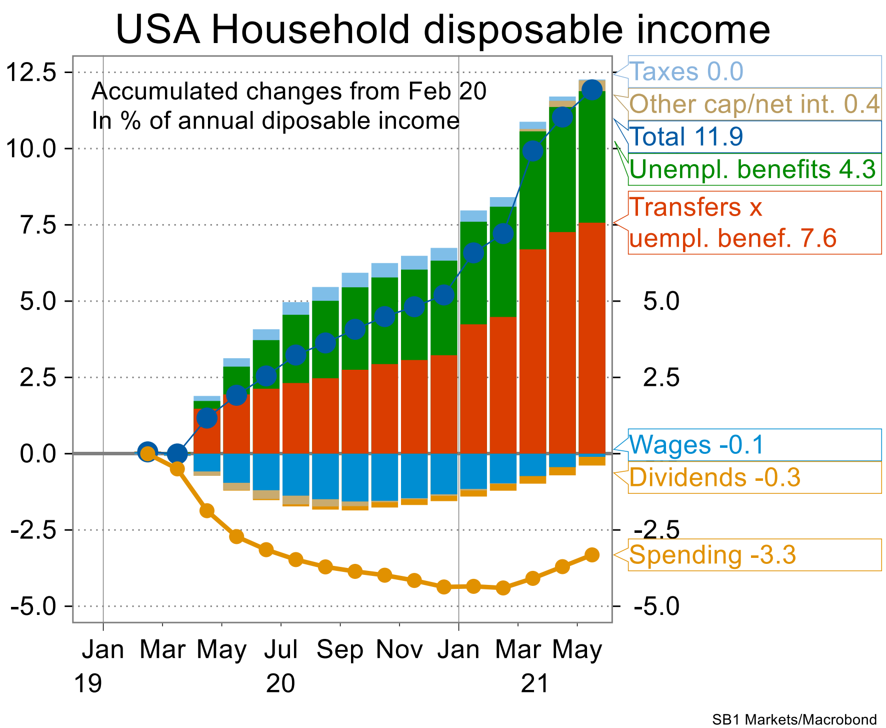
We still doubt the savings rate will remain at the current level for long

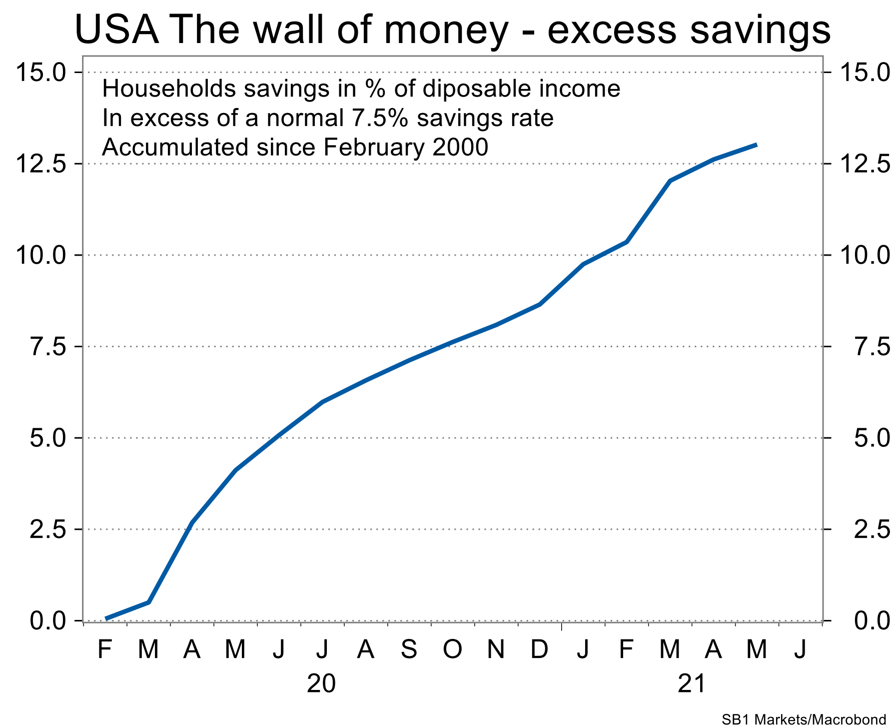




The wall of money: How it is built – and the height

Transfers to households, both the cheques & the extra jobless benefits far larger than income losses

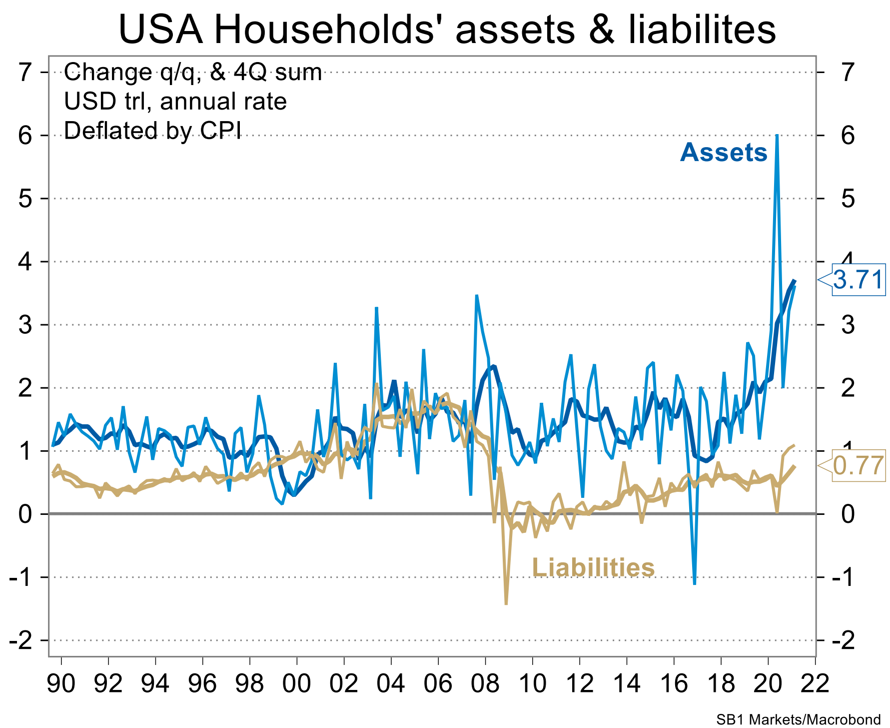


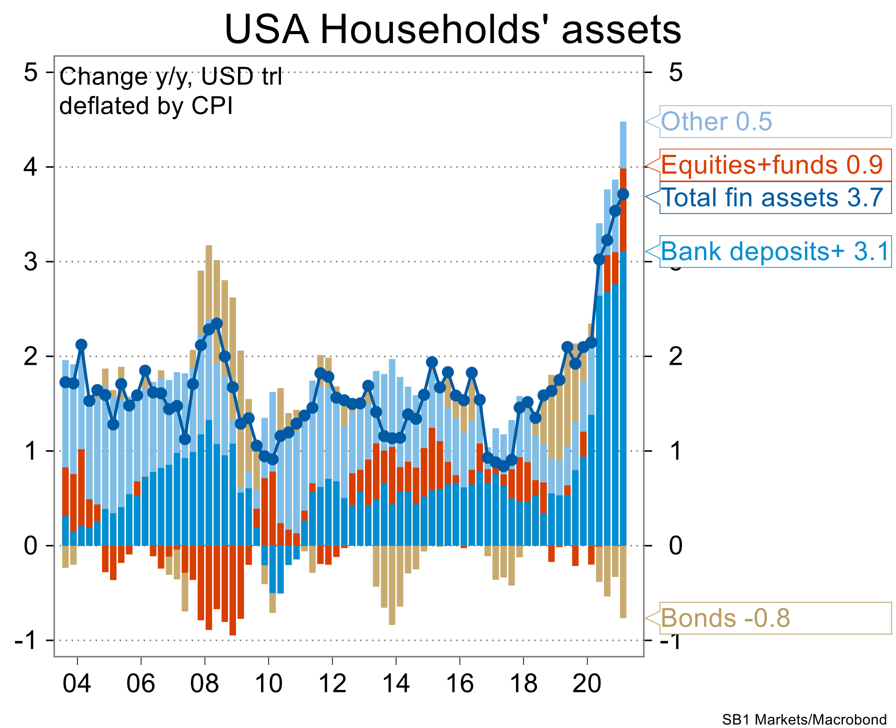


- … That is, income losses from 'the market', wages, dividends & other capital income. Income growth has been fabulous – and spending has been weak, on services & in total

The savings glut has not been used to pay down debt or to buy equities

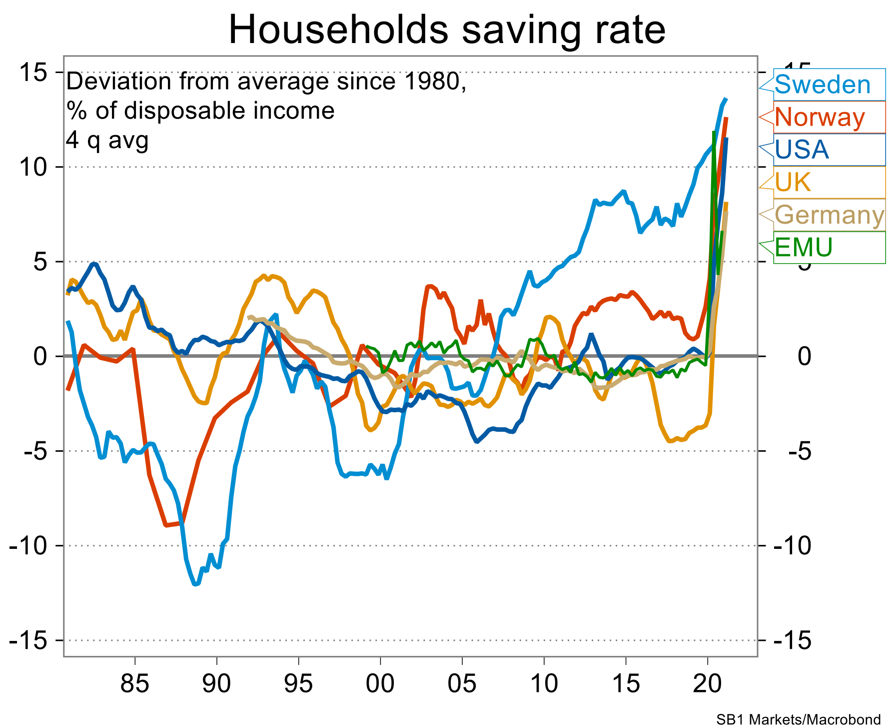
Household debt has increased faster than normal. 90% of the excess savings remain in the bank!

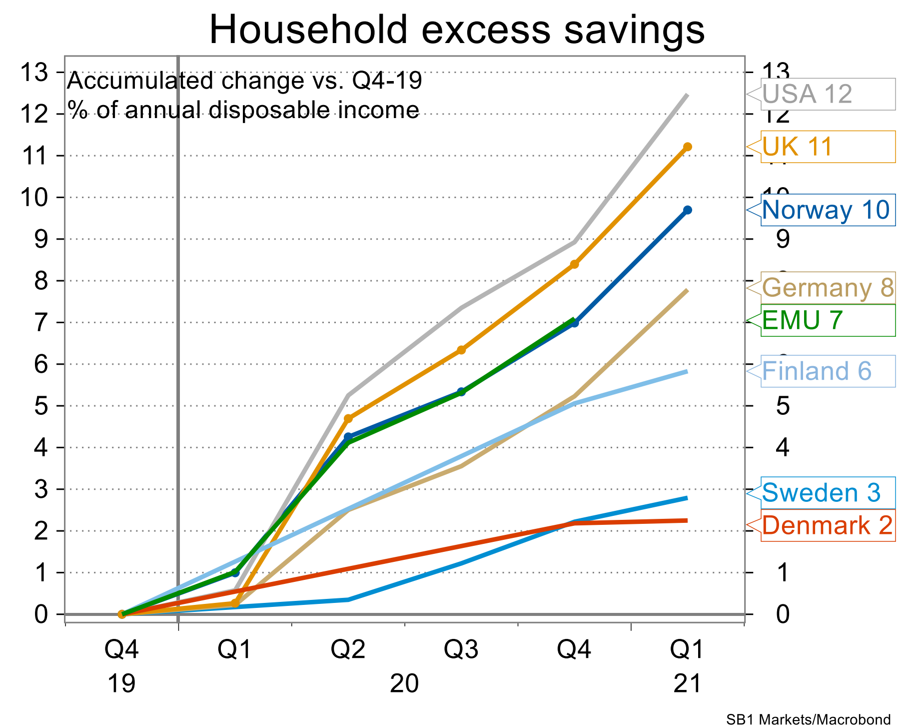




It is not just in America, of course

Household savings have soared almost everywhere as consumption of services have fallen sharply

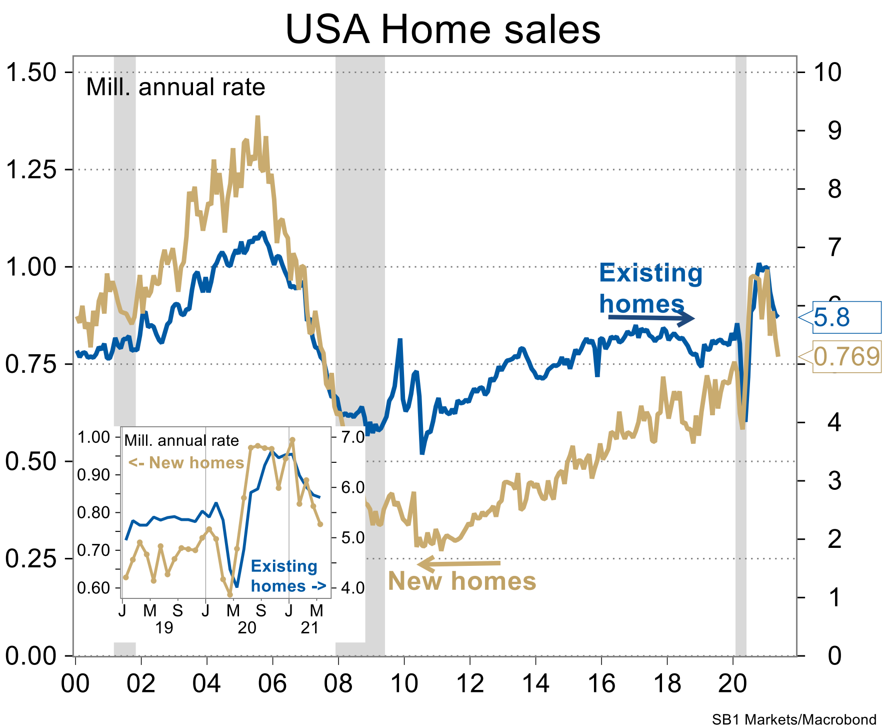


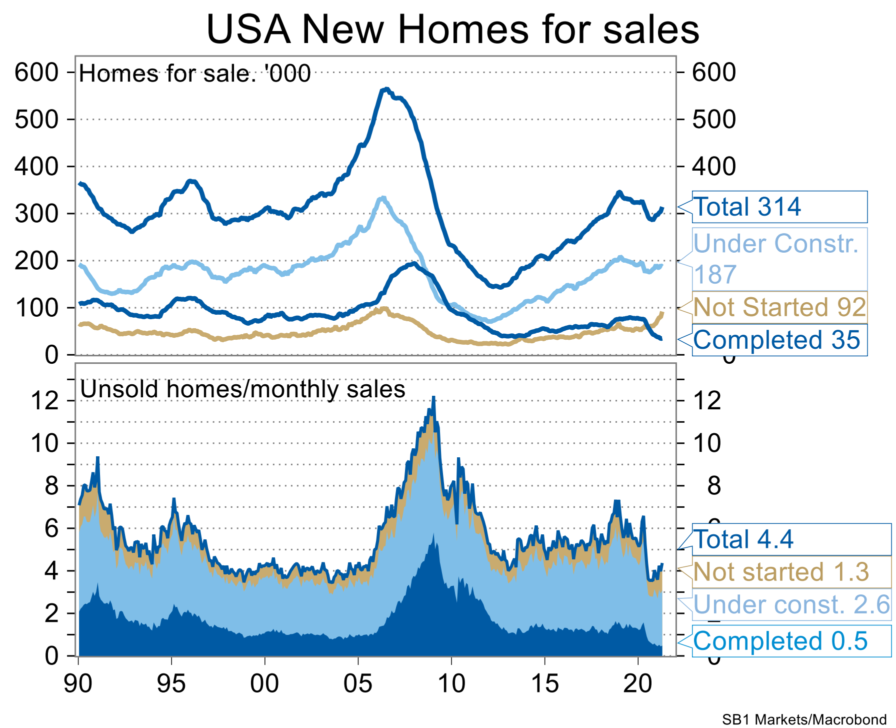


- We very much doubt these synchronised and unprecedented increases in savings are due to a monumental change in savings aspirations

Another downward revision – and another decline in new home sales

Too few completed homes to chose between? However, more projects are entering the market

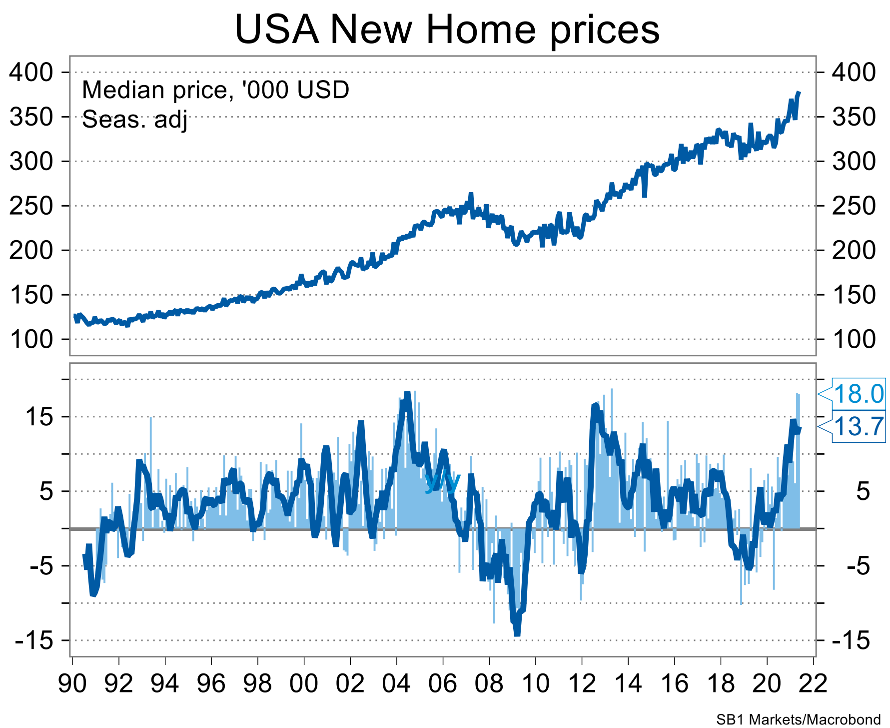




- **New home sales** fell to 769' (annualized rate) in May, down from 817' in April (revised down from 862', and March was revised down to 886', from the 917' estimate last month, and from the original 1.021' estimate). Sales were expected at 859' in May. In sum 6% lower than assumed/expected – following a 10% weaker outcome than assumed/expected in April. Sales are down more than 20% from January – but still higher than before the pandemic
  - » The inventory of unsold homes has increased somewhat the past 7 months primarily because many projects that haven't started yet have been added, almost at the highest level ever, a sign that the supply side is responding to the strong demand. The no. of completed homes for sales is still declining, and the level is extremely low
  - » Prices are up 7% – 8% y/y, not much given the increase in building costs
- **Existing home sales** have also fallen recently. The inventory of homes for sale is record low, and prices are surging (see more next page)

New home prices up 18% y/y, as construction costs have soared

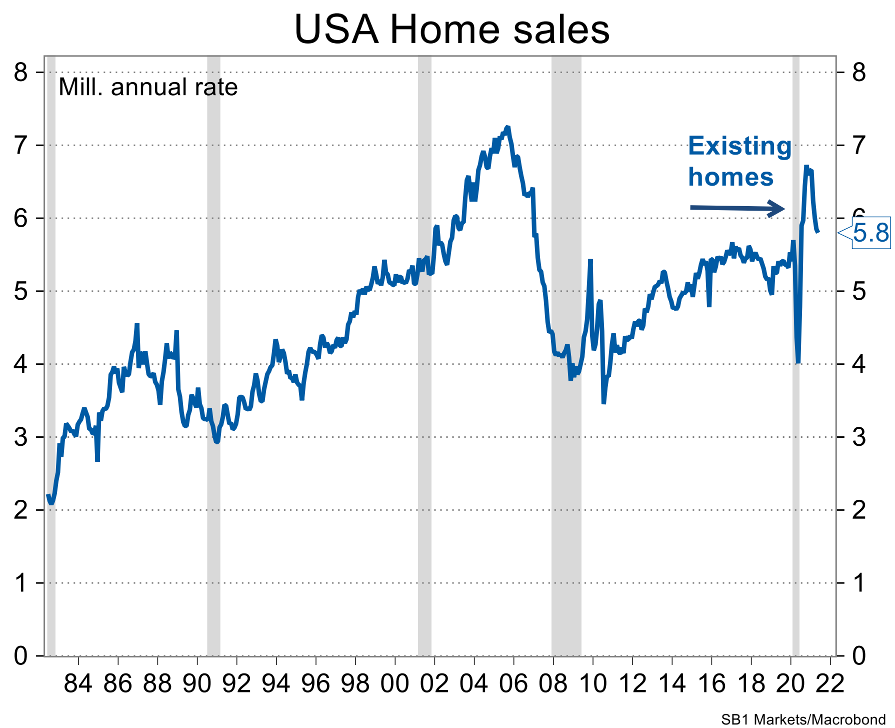
... and demand has been strong

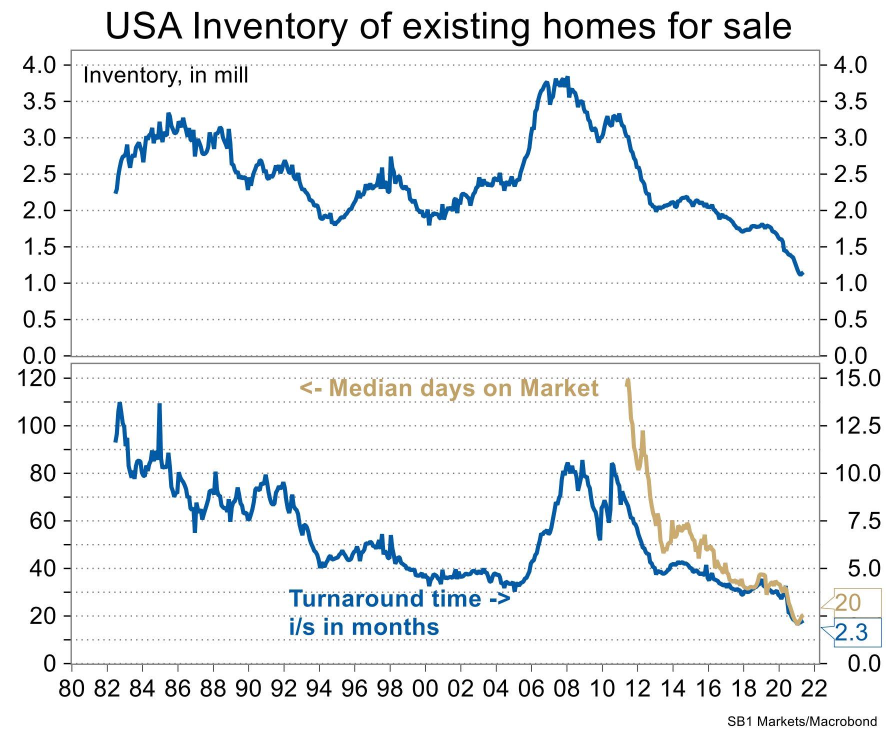


- Monthly (median) new home sales prices are volatile, in March the annual rate was just 6%, vs. 18% in April & May
- However, price inflation has of course accelerated sharply, the smoothed 6m/6m rate is close to 14%, in line with price increases for existing homes, measured by the best indices
- This price index is influenced by changes in the mix of homes sales. See more some slides forward

The 2nd hand housing market is 'emptied', the inventory is record low

Sales are mostly declining due to lack of supply but some buyers are struggling with prices too

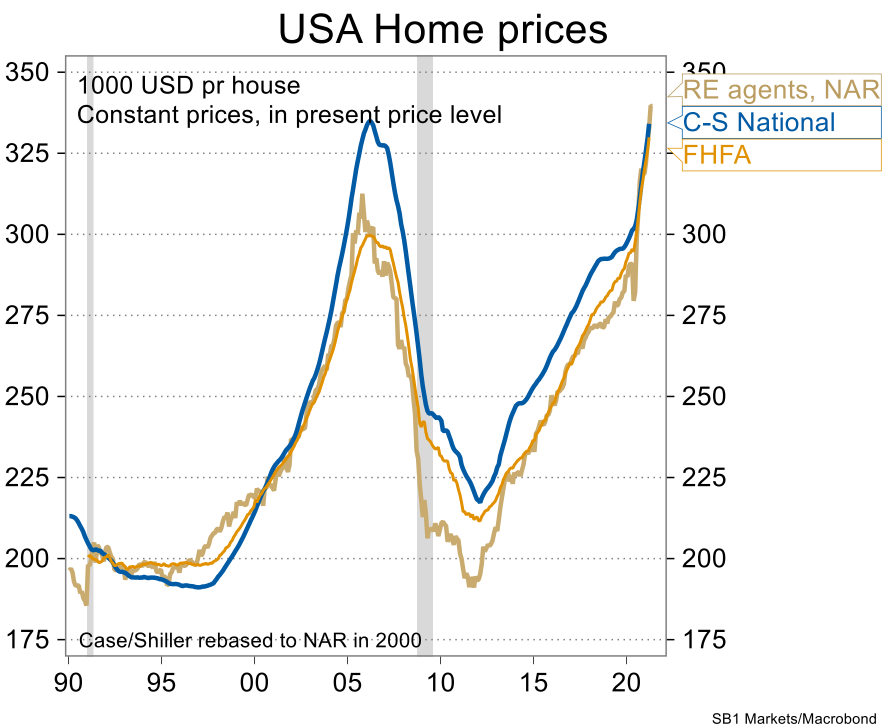


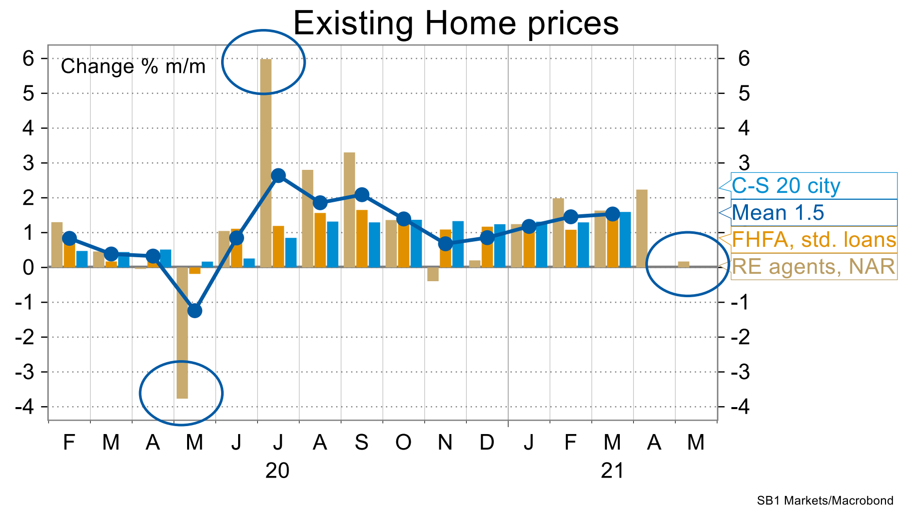


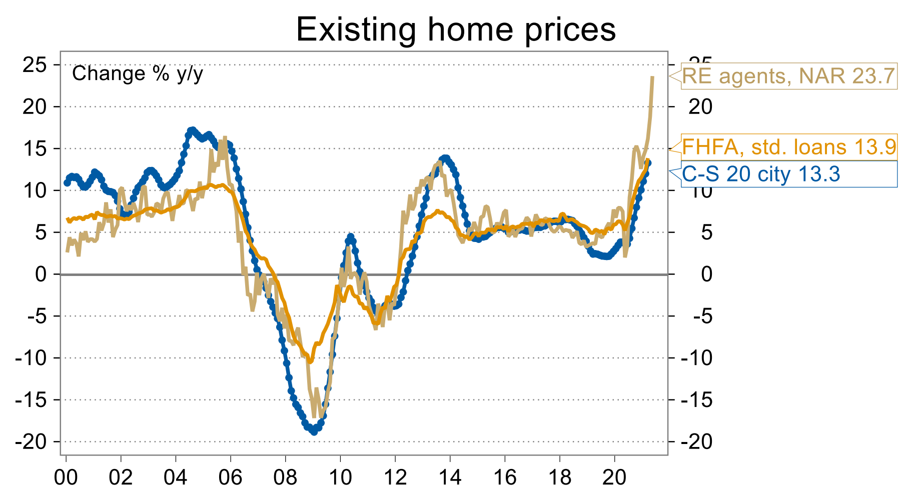
- Sales of **existing homes** fell to 5.80 mill (ann. rate) in May from 5.85 mill in April, expected 5.73 mill. The sales level is still almost 10% above the pre-pandemic level. Sales are do doubt kept down due to an unprecedented lack of supply. However, there are reports on buyers becoming more cautious following the steep rise in prices
  - » **The inventory of unsold homes** was unch. at a record low level, and equals just 2.3 months of sales. During the 2005 boom, the i/s ratio was 4 months, in bad times is at 10 months
  - » **Prices** were close to unch. m/m in May but the annual rate shot up to 23.7% due to the 4% drop m/m last May (see next page)

Existing home prices flattened in May – but are up 24% y/y

... but these NAR prices are very volatile

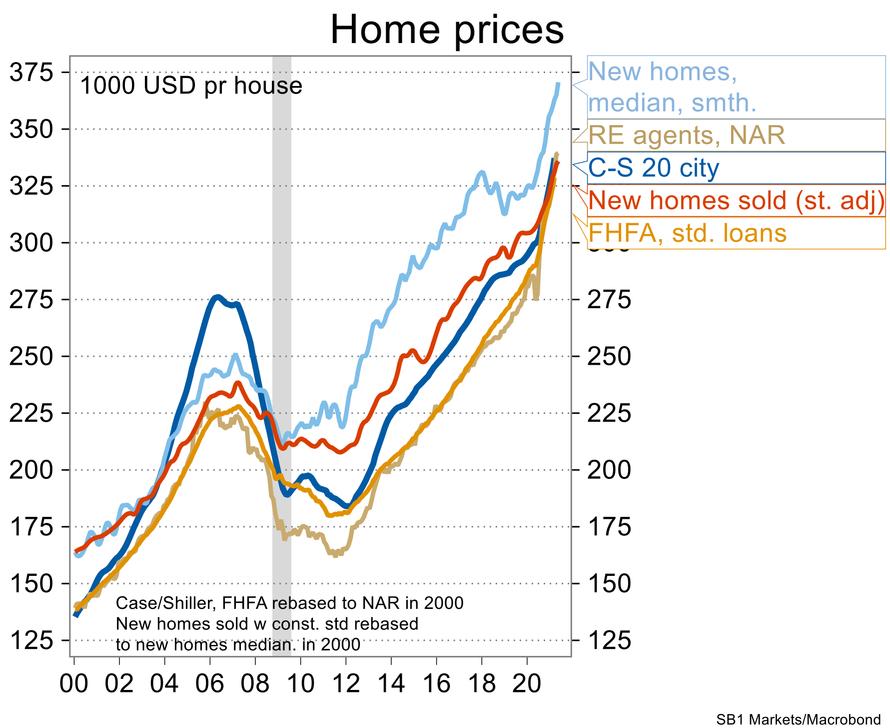


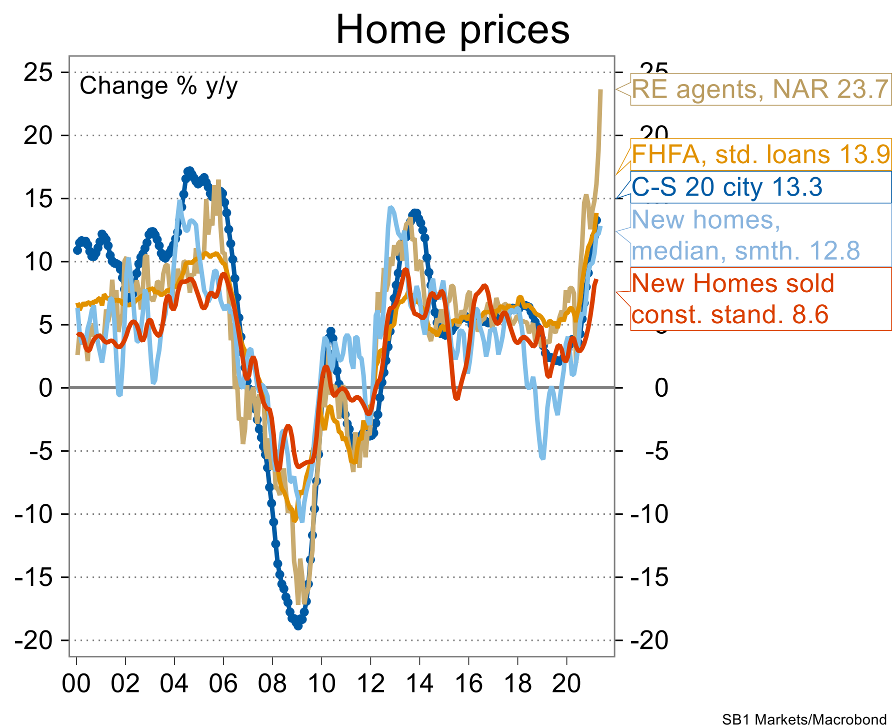




- **Prices** rose just 0.1% m/m in May, following a 2% per month 'norm' recently. However, since prices fell 4% in May last year (transactions agreed upon in last April), the annual rate still shot up to 23.7% in May, from 18.7% in April
- **In July**, the annual rate will nosedive, as prices rose 6% m/m last year. *Just wait for the headlines in media ☺*
- ***A free tip: Never make decisions on changes in annual growth rates as ½ of the change is due to what happened year ago, and just ½ due to what happened now***

All house price indices are heading sharply upwards

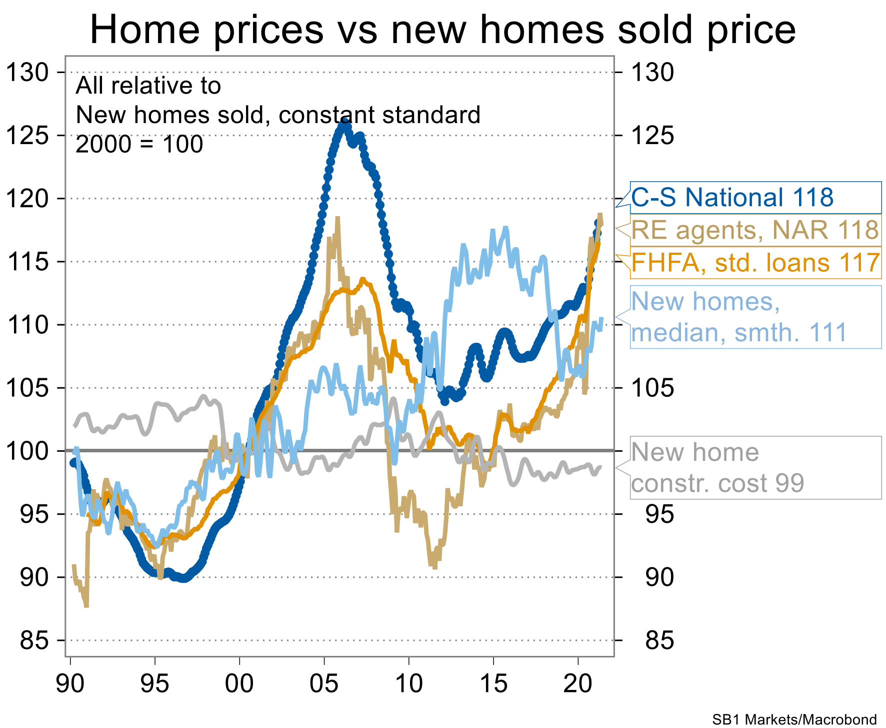


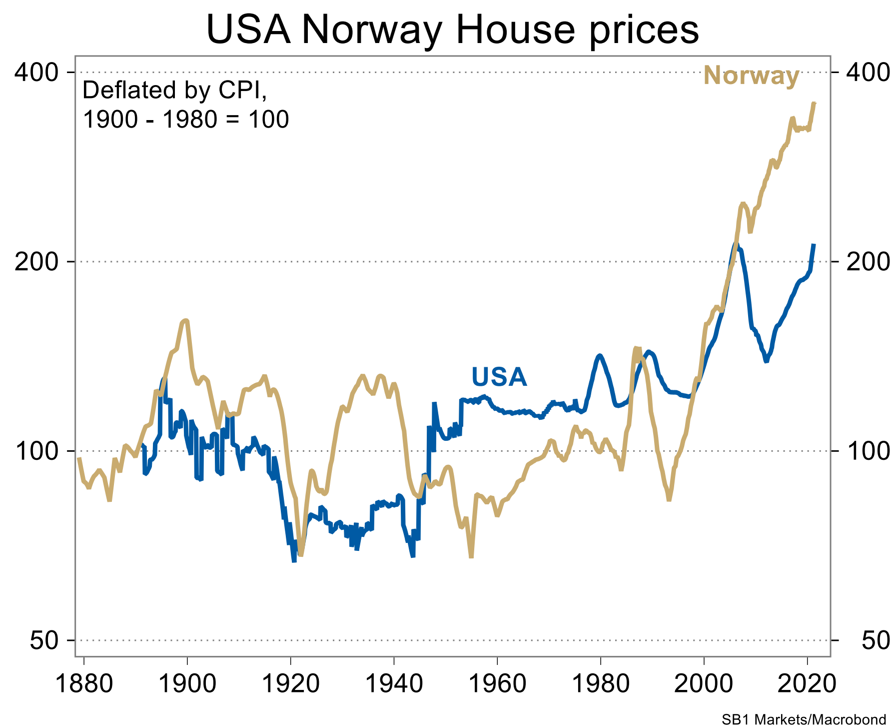


- **New home prices** have joined the party. However, the median price is significantly more up than the constant standard new homes sold index, very likely because more expensive homes are sold than normal – (and more than one year ago)
- **The realtor's (NAR)** median price for actual transactions may be somewhat distorted as the share of high-end homes transactions may has increased recent months (but fell in May). This index is more volatile and far less reliable than the repeated sales based Case-Shiller or FHFA indices (which are smoothed by 3 months – data out next week)
  - » However, both CS and FHFA are reporting close to unprecedented (or unprecedented) price hikes since last summer – and the annual rate will very likely climb further the coming months – to record highs, also for the CS index (FHFA is already at ATH)

2nd hand prices are rising faster than new (constant standard) home prices

The median price for new homes is more up than the new homes sold price index

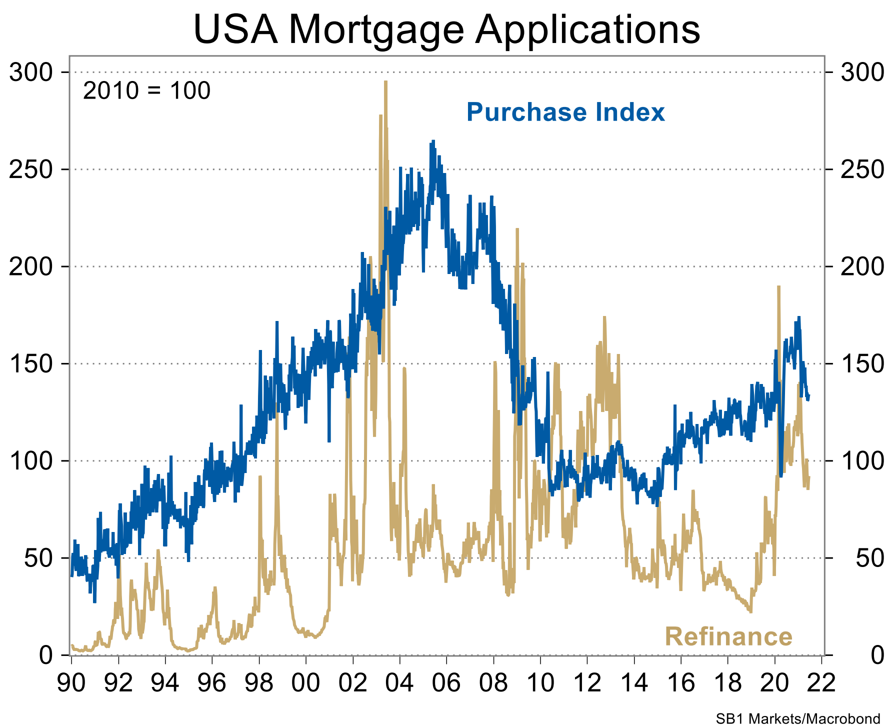


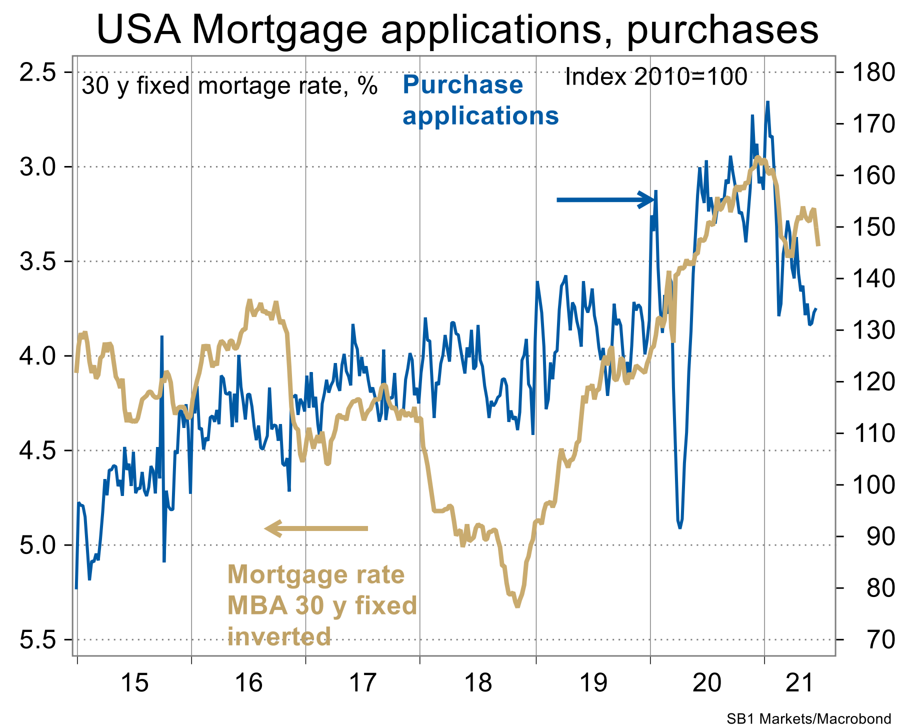


- The median price index for new homes does not adjust for changes in standard or market segment
- The new homes sold price index is adjusted for standard changes etc, and includes the cost of land
- The new home construction cost index covers the construction cost, adjusted for standard/size (but does not include the cost of land)

- The long-term US house price index is the Case-Shiller repeated sales index
- The Norwegian long-term price index is Norge Bank's repeated sales price index and Eiendom Norges index for the recent years

Mortgage applications further down, and mortgage rates are slightly up

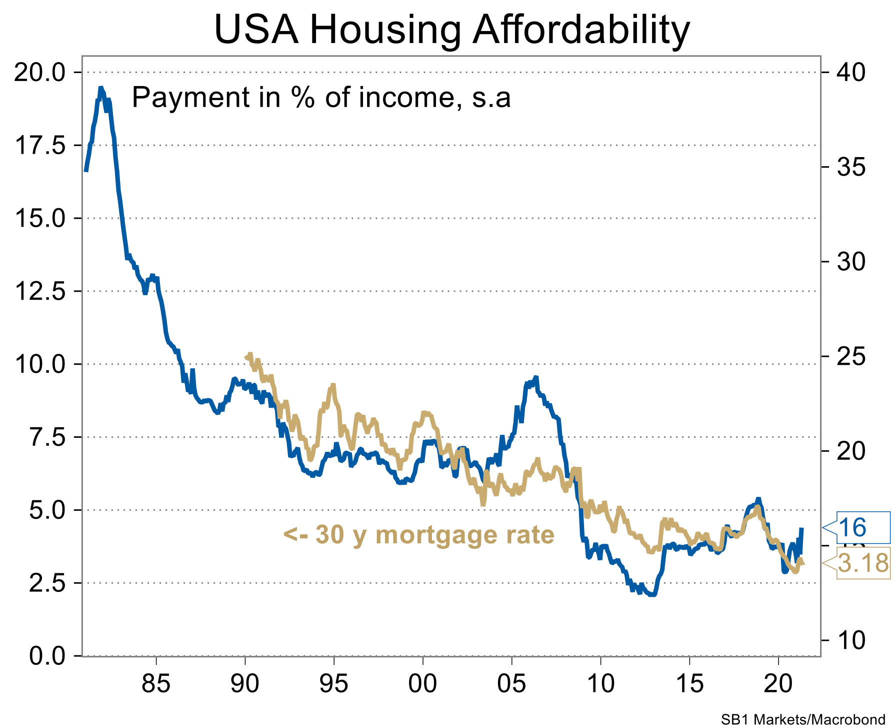


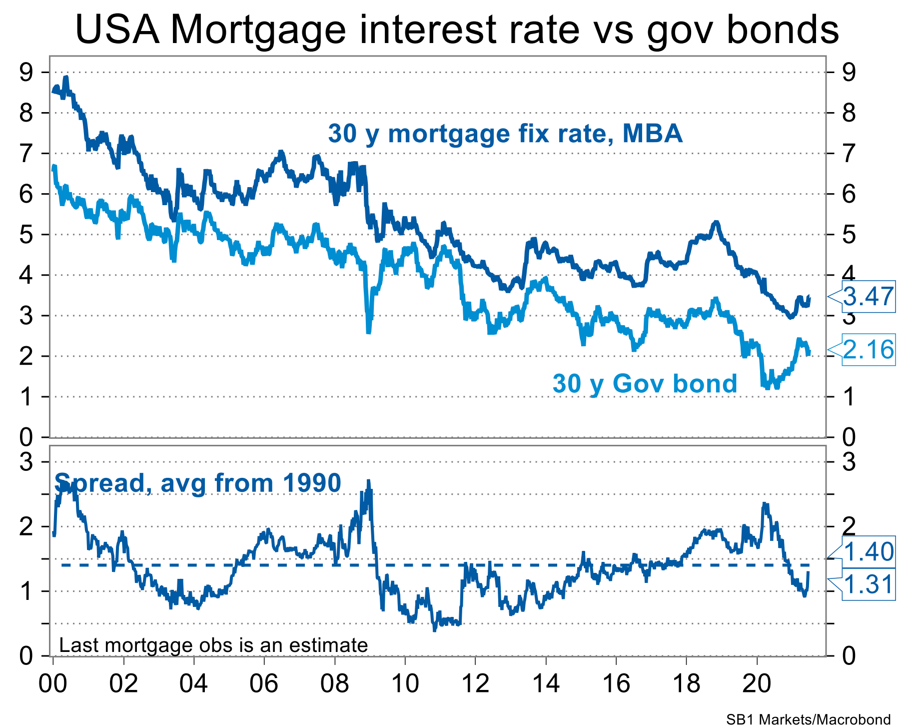


- No doubt, low mortgage rates have stimulated demand, as the 30 y fixed rate fell to a record level, slightly below 3% in late 2020, from 5.25% in late 2018
- The mortgage rate climbed 50 bps through March, to almost 3.5%, and new mortgage applications fell somewhat. The mortgage rate then fell by 25 bps to 3.25% but application has still fell – and recently the mortgage rates have increased somewhat – and demand for loans have fallen further
- One likely explanation is that to no of existing transactions has fallen somewhat, due to lack of supply

Homes are still very affordable, because the mortgage rate is so low!

However, mortgage rates have more or less flattened – and home prices are sharply up

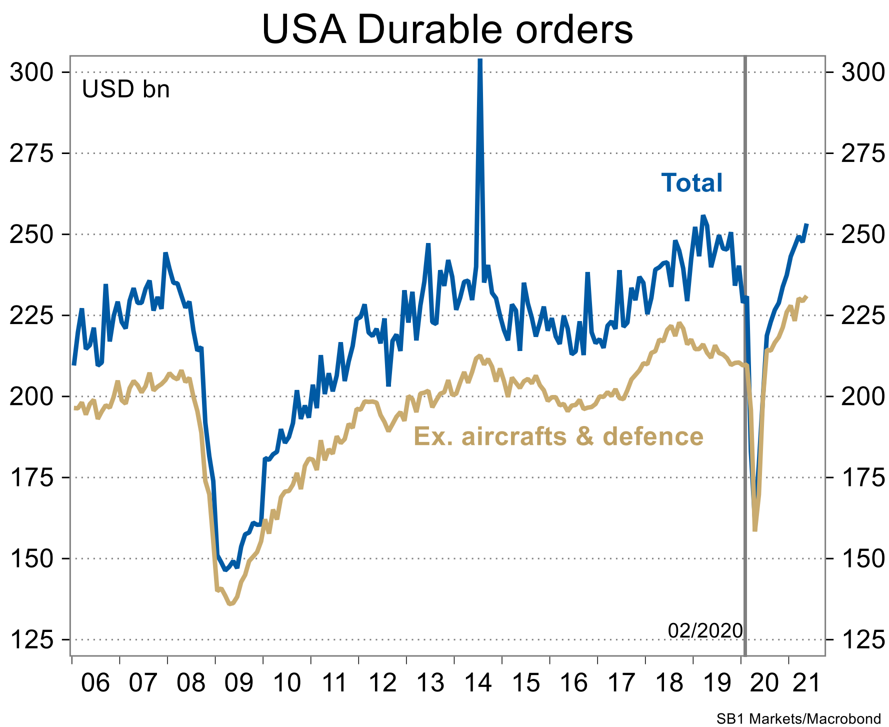


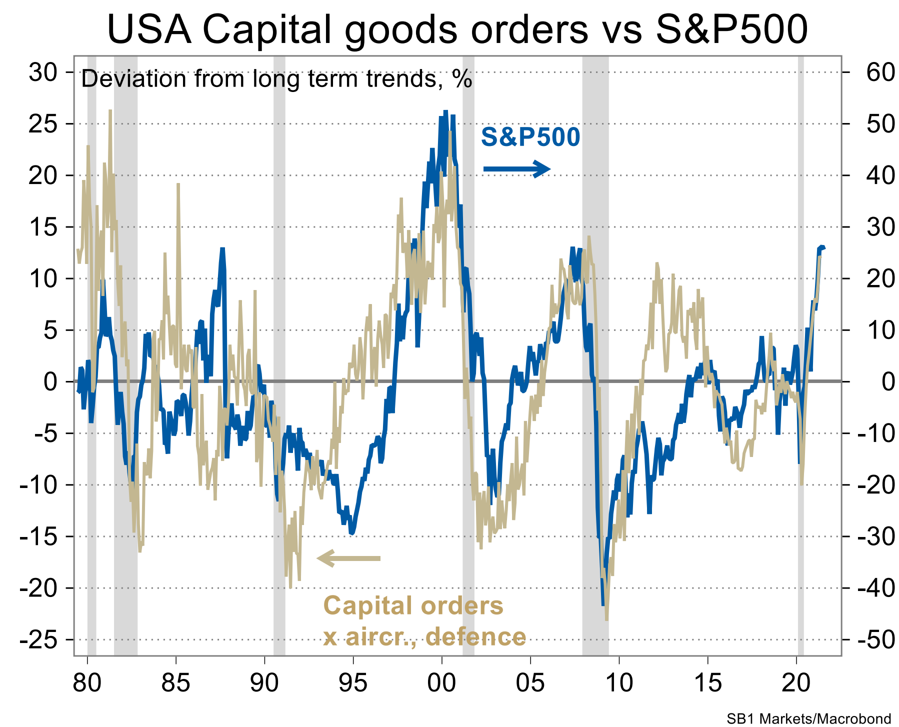


- The lift in prices is felt, no doubt

- **The spread** between the fixed 30 y mortgage rate and the 30 y gov bond rate has widened 40 bps recently probably because investors doubt the Federal Reserve will continue the hoarding of mortgage bonds as a part of the QE program forever
- **Household mortgage** debt is up USD 500 bn y/y. Fed is buying USD 40 bn per month, 480 bn per year. The Fed is funding the housing party, all of it! Cheers ☺

Durable orders further up in May

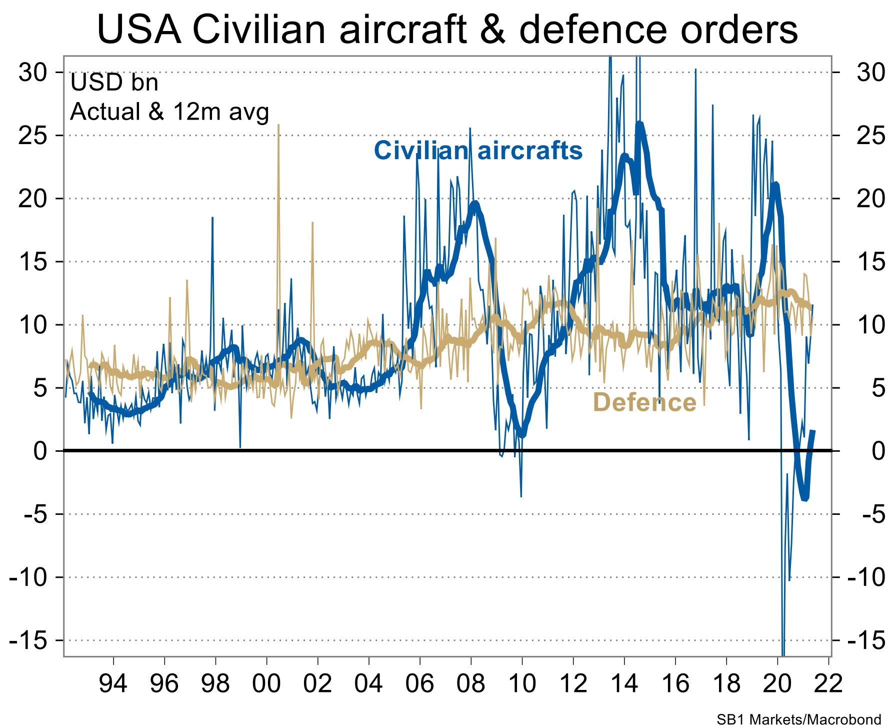


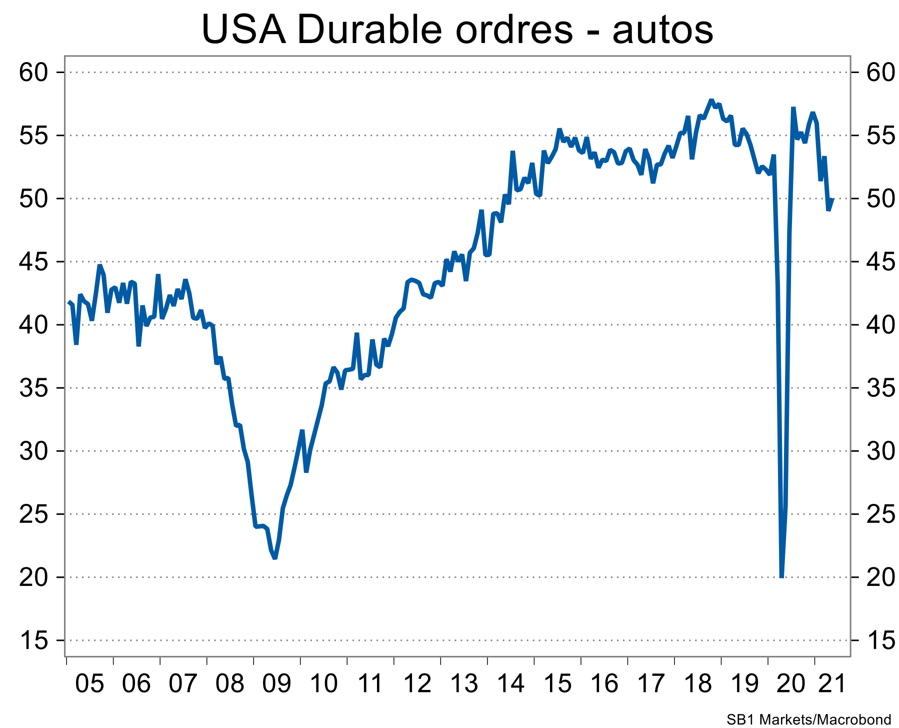


- **Total durable orders** up 2.3% in May, expected 3%. April & March were both revised up. The trend is steeply up
- **Core orders** (ex aircrafts & defence) rose by 0.7%. Auto orders have fallen some 10% recent months, very likely due to lack of components, which has slowed core order inflow. However, auto orders rose slightly in May (but remains low)
- **Core investment goods orders** fell 0.1% but the trend is still straight up, and order inflow in Q2 will be well above the Q1 level
- **Order inflow** is far above pre-pandemic levels, especially for investment good orders and surveys are still strongly hinting a further increase the coming months

Even aircraft orders are back at a normal level!

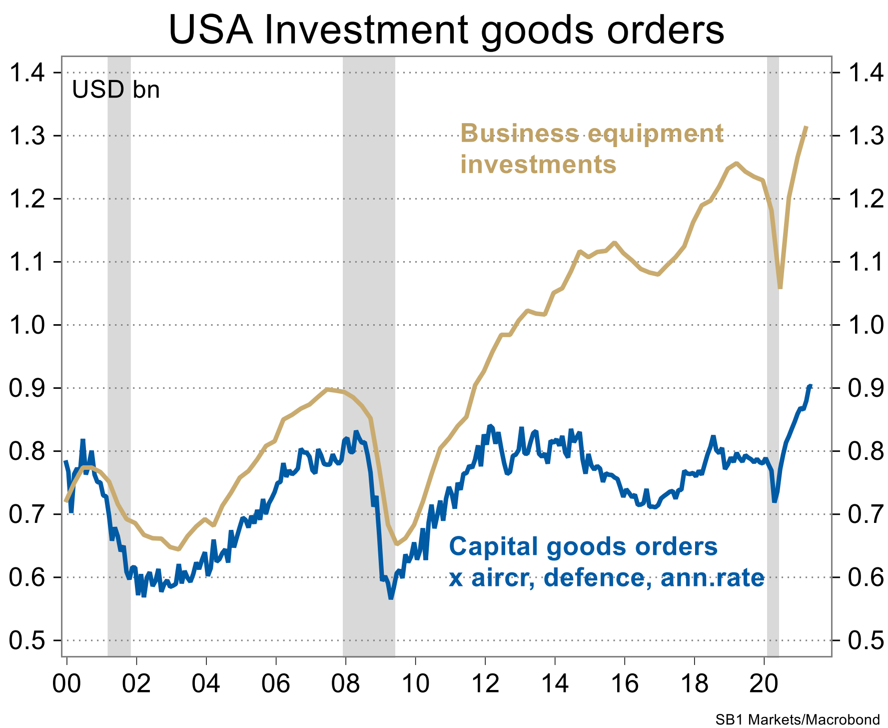
… while auto orders remains below par – and not because demand for cars has fallen

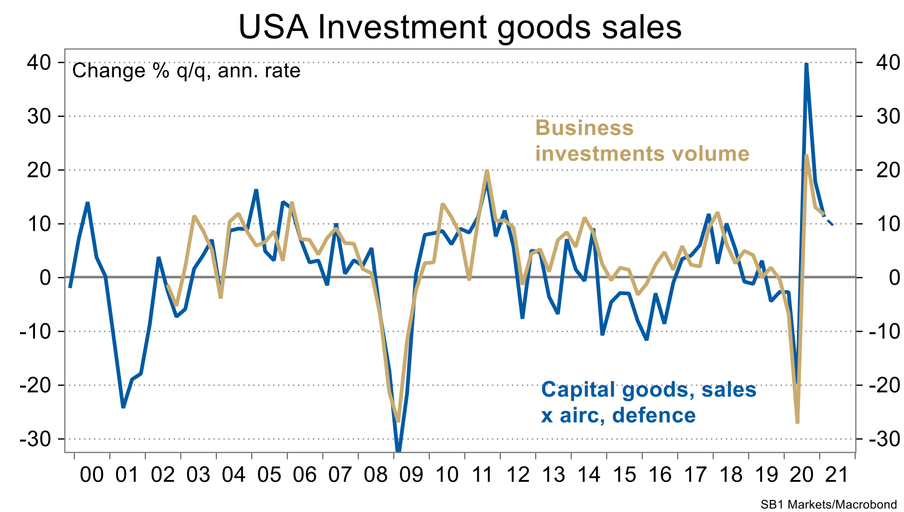




Core capital orders are still going strong

Signals rapid growth in business investments in Q2 as well – but at a slower pace than the prev. 3 qtrs



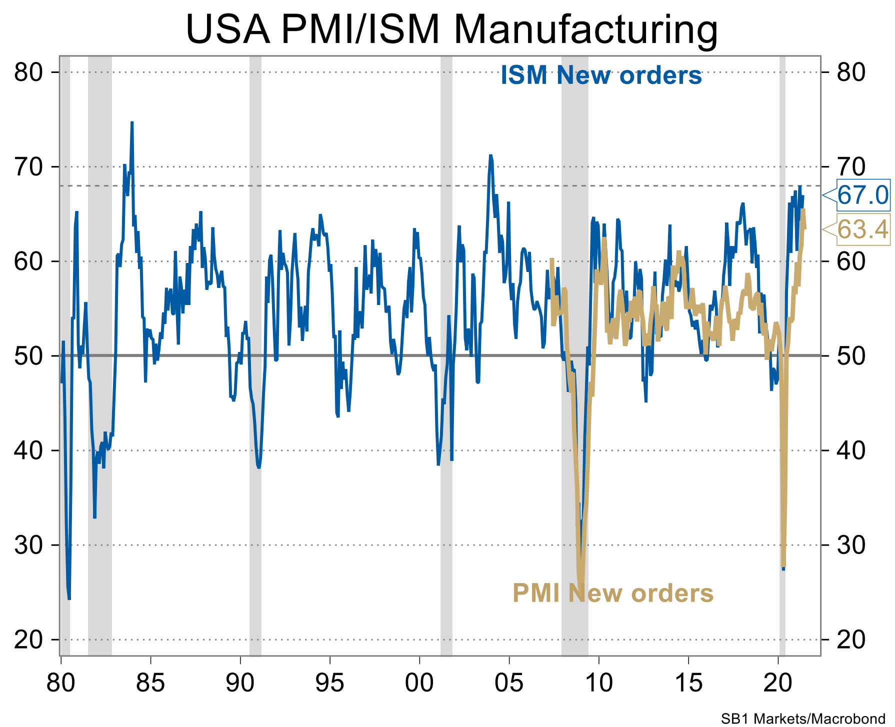


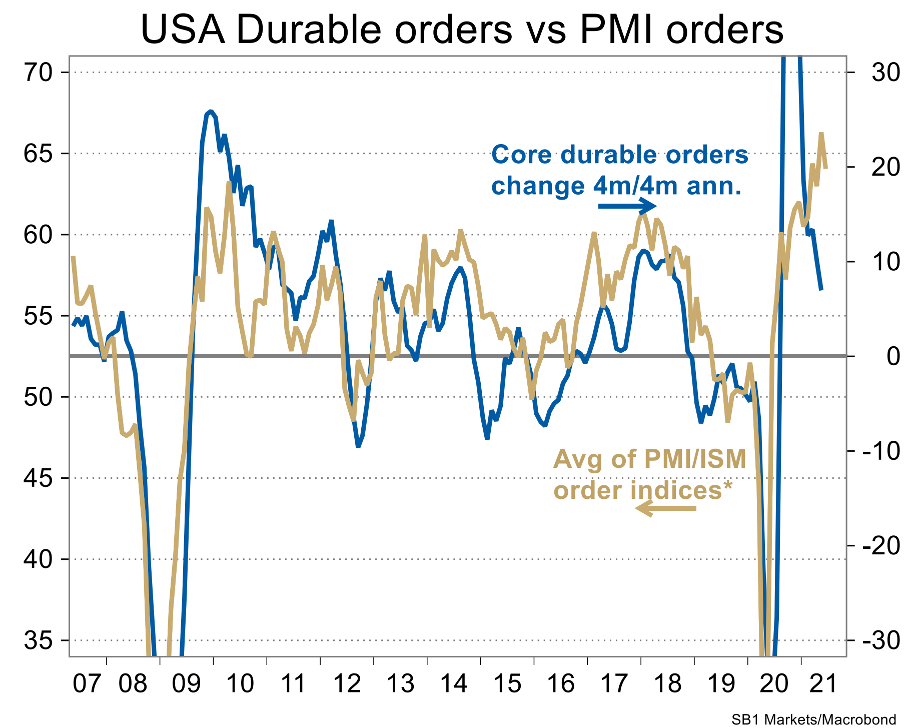
- **Capital goods orders** fell by 0.1% in May, while growth in April was revised up 0.4 pp to 2.7%. Shipments rose 0.9%
- **The business investment** level is well above the pre-pandemic level and even the pre-pandemic growth path

SpareBank 1 MARKETS

The ISM/PMIs are signalling a further and rapid growth in order inflow

These surveys are reporting a unprecedented increase in order backlogs as well



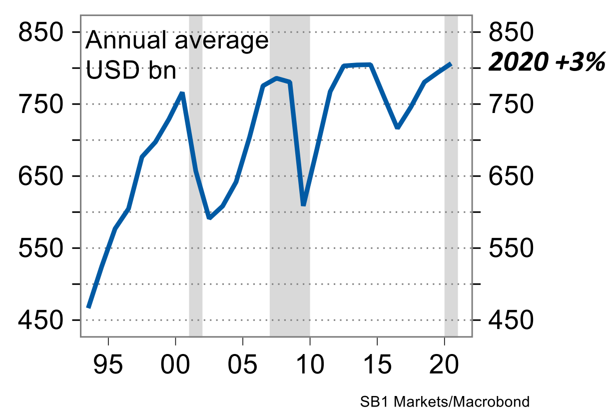


* The ISM order index is

Investment orders: The most shallow and the shortest downturn ever

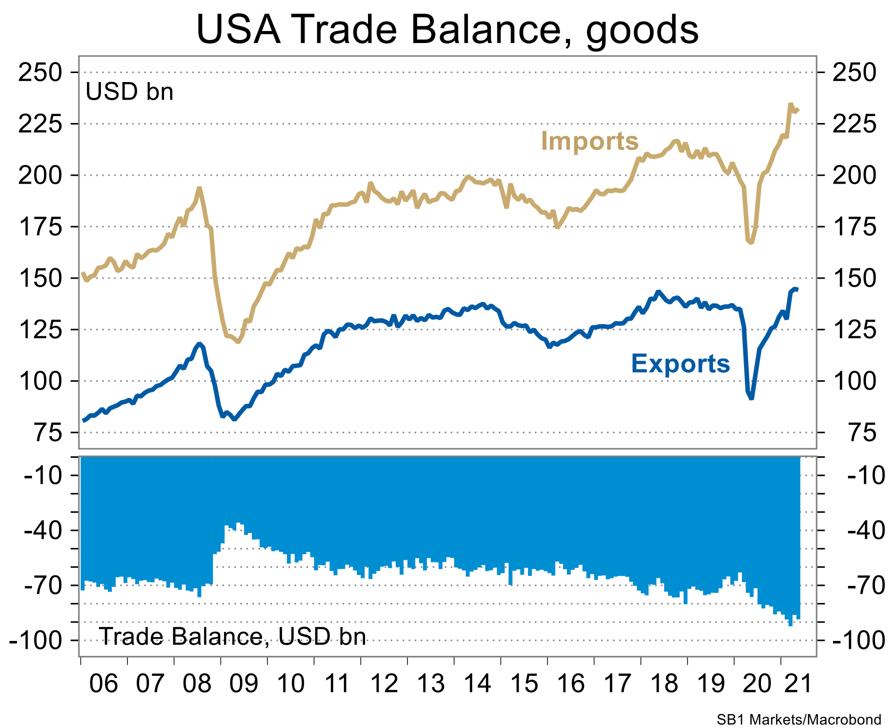
Can you spot if anything happened around 2020? Investment goods orders rose 3% from 2019

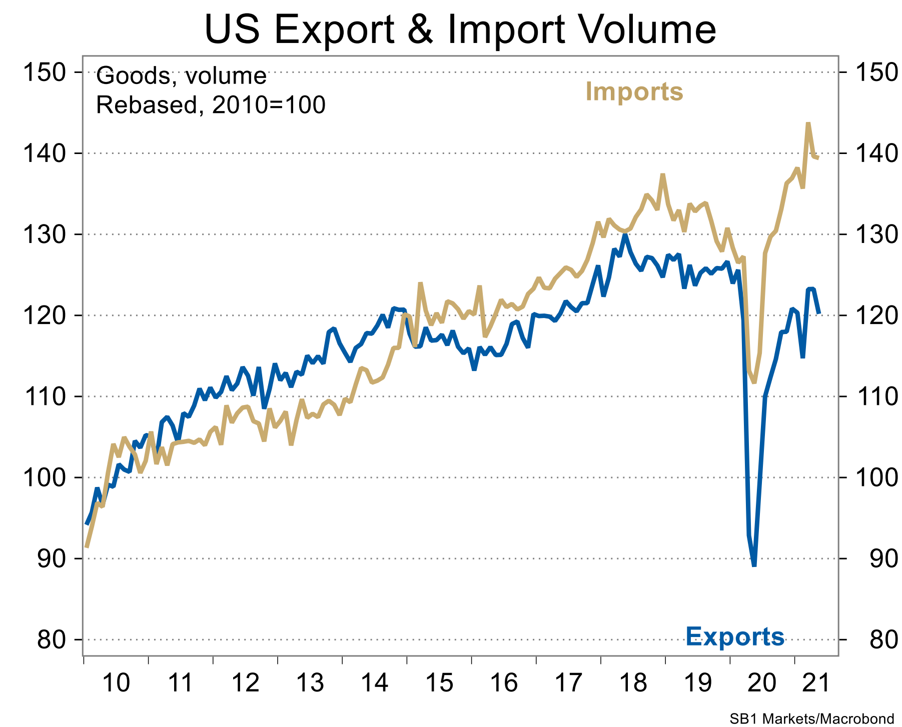
- The areas in the 'Vs' or 'Us' describe the aggregated losses during downturns
- Was the 'V' in the overall economy so sharp, that companies did not have time to react?
  - » Usually, the decline in investment goods orders, as well as in actual business investments, are stretched out over time, typically one year or even more. Then it takes 1- 2 years to recover back up to the pre-recession level. Now, the decline lasted 2 months, and the recovery up to the pre-crisis level lasted just 3 months ☺



Trade deficit in goods further out due to higher imports

Goods trade deficit up to USD 88 billion in May, from 86 billion in April



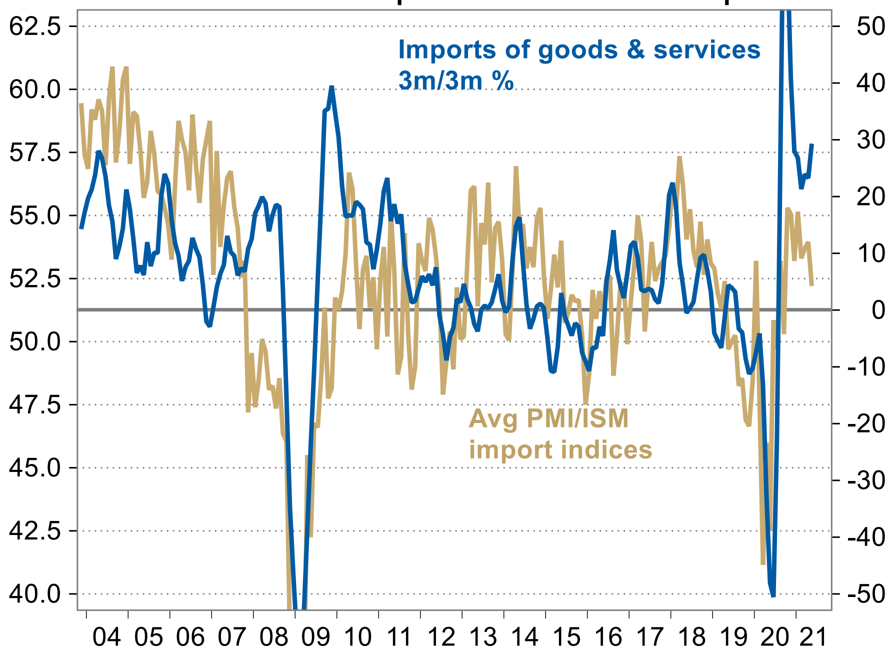


- **Exports** of goods fell by 0.3% m/m but are still well above the pre-pandemic level (in value terms). In volume terms, exports are still bell below the early-20 level
- **Imports** of goods increased by 0.8% in May, and are some 16% above the early 2020 level. In volume terms, the **imports of goods** are 9% above pre-Covid levels. The reason is no doubt strong demand for goods in the U.S. We expect household demand for goods to slow in H2, from the present very high level – and imports should take a break too

PMI/ISM signal slower growth in imports

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

USA PMI/ISM Imports vs actual imports



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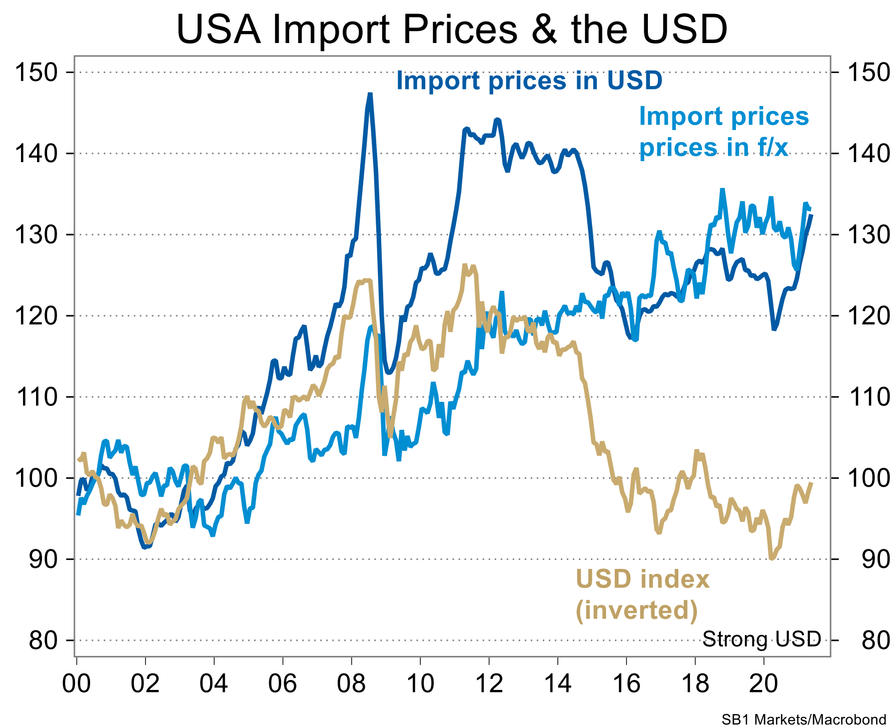
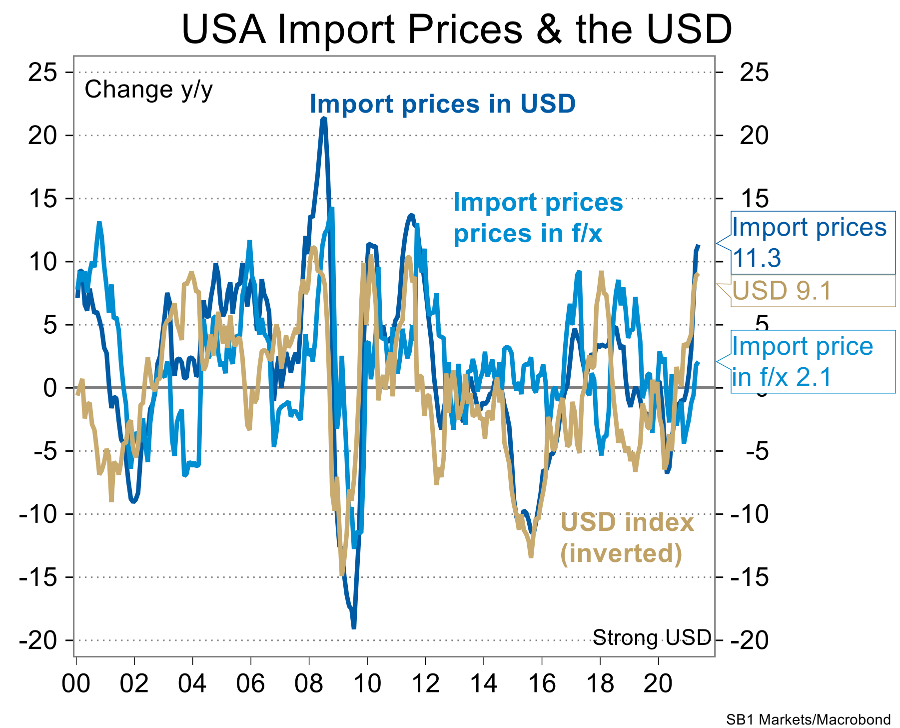
- However, the actual May import numbers are not weak at all

No import price drama: Total import prices are up 11% - 'due to' a 9% USD decline

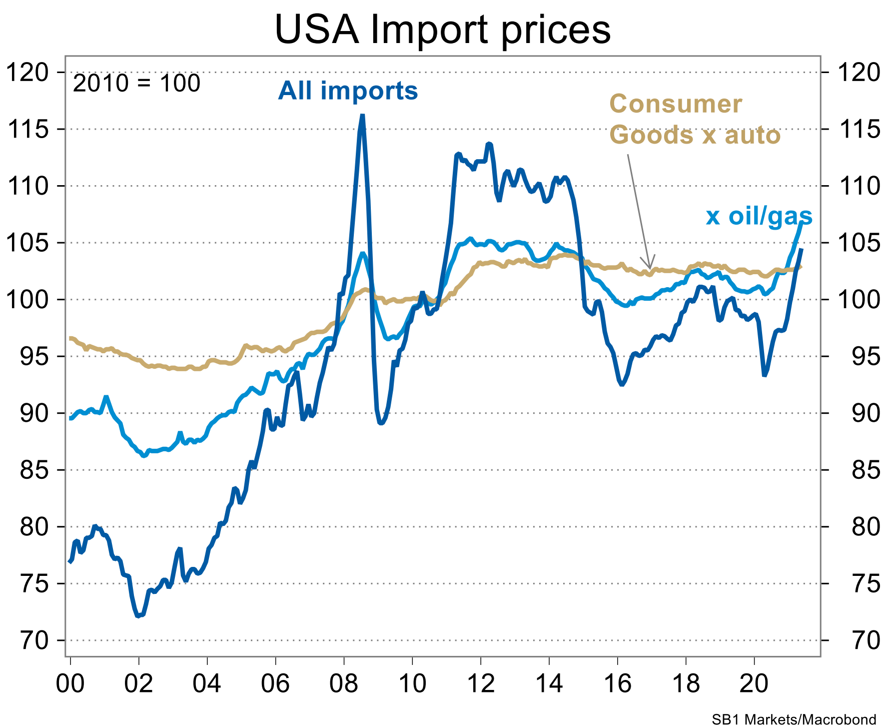
Measured in exporters' currencies, prices are up 2.1% y/y

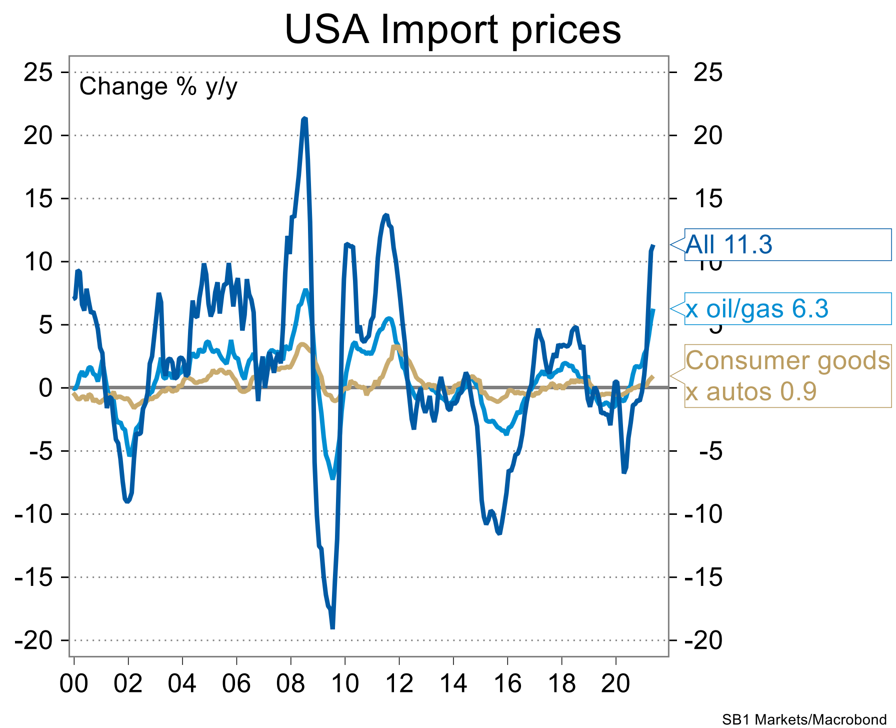




Still only marginal growth in imported consumer goods prices

… even when measured in a 9% weaker USD

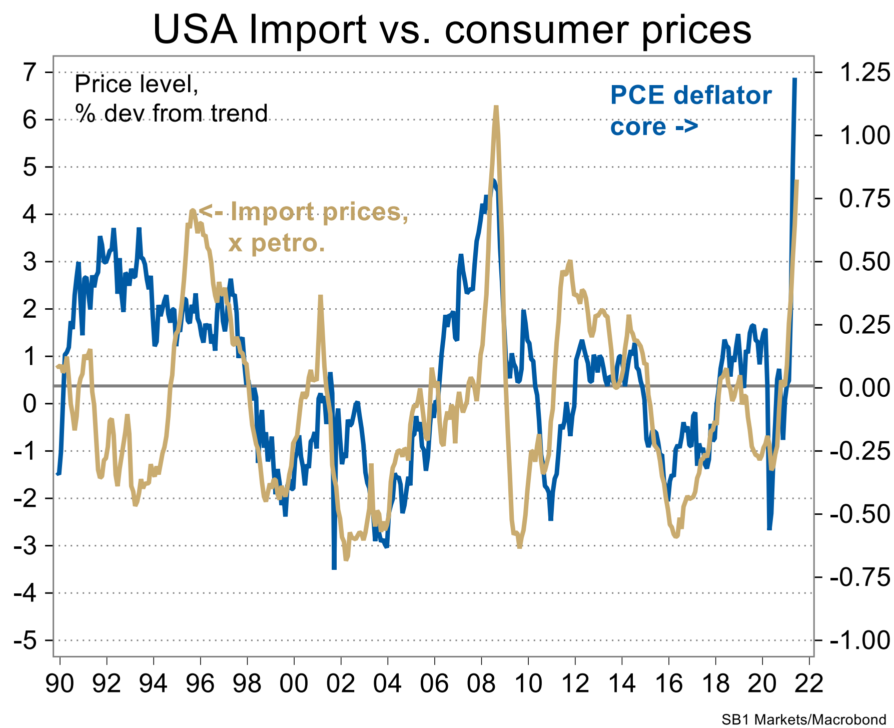


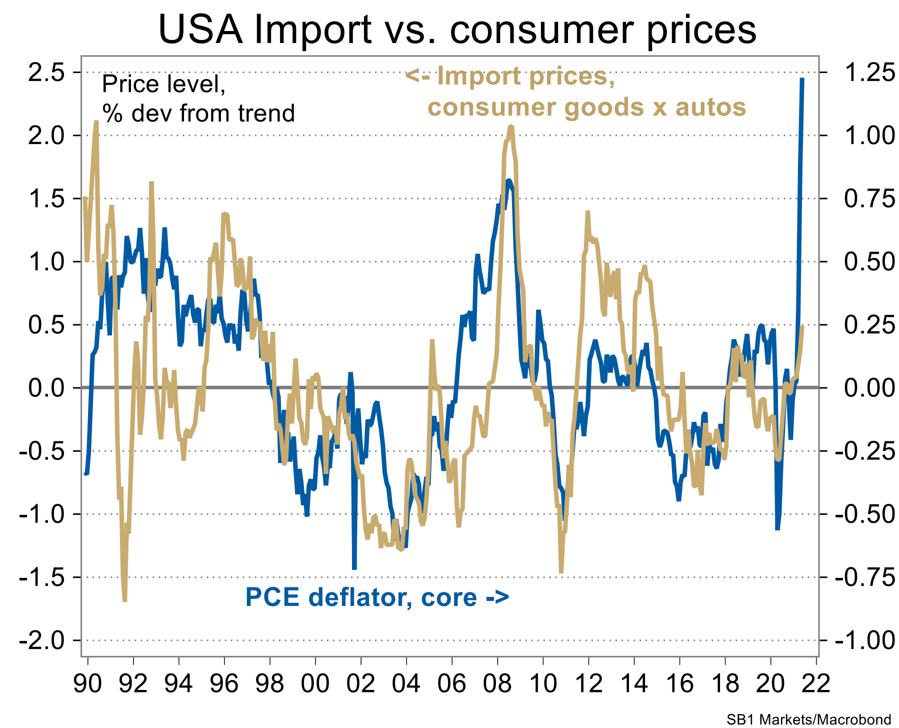


- Total import prices up, also ex petroleum – but consumer goods prices are still not up

Are import prices to blame for the recent hike in consumer prices? Not really

Import prices and domestic consumer price inflation are correlated but…

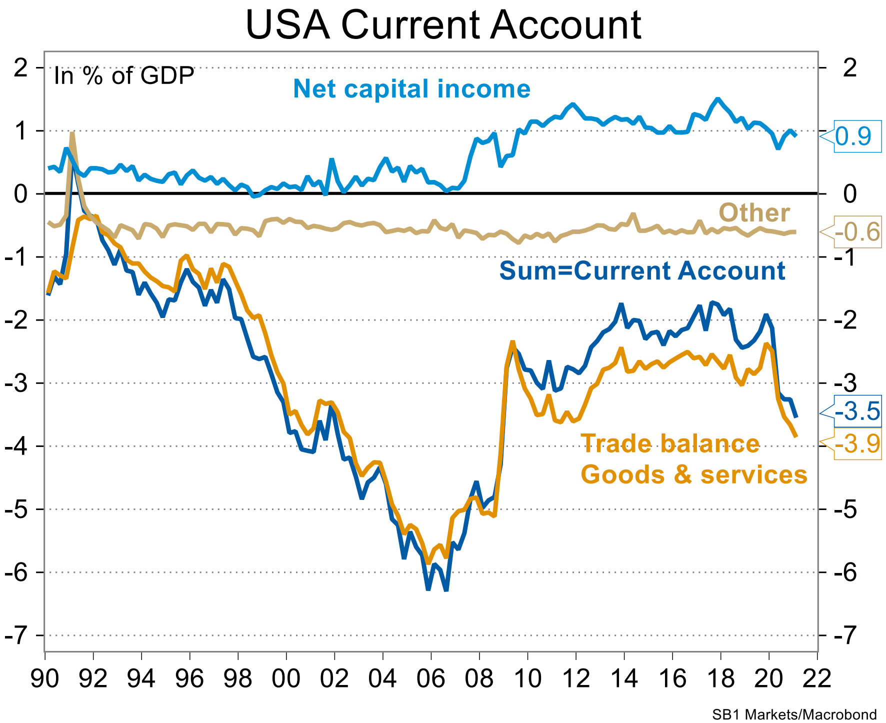


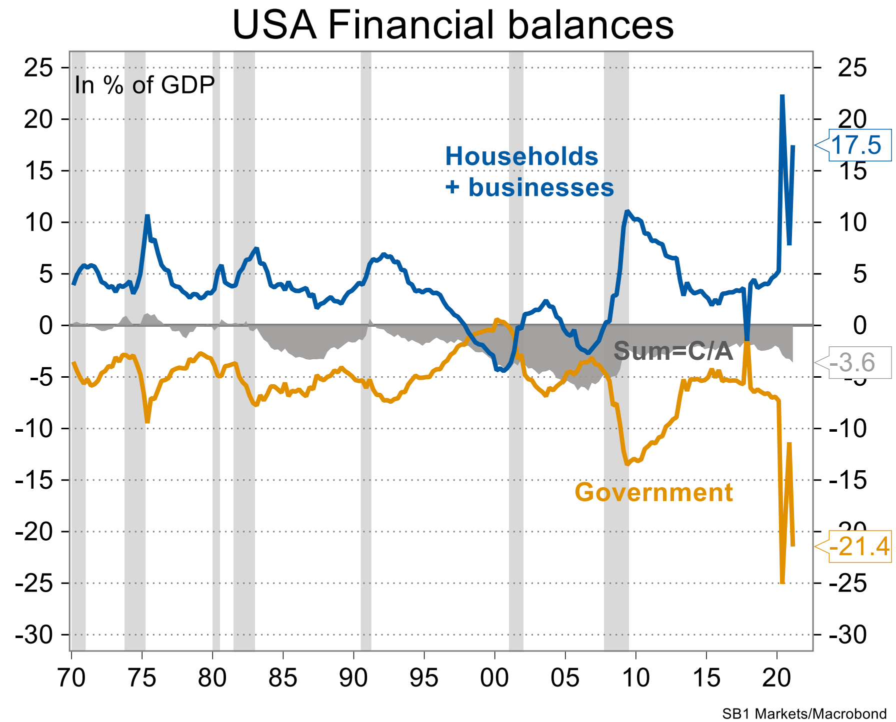


- The correlation is not very close or stable
- Normally, core consumer prices rises with a lag vs. import prices ex petroleum
  - » Imported goods usually travels around in the supply chain (being processed, fabricated) before ending up at the store shelves
  - » Now, consumer prices started to rise at the same time as prices on imported goods
- Prices on **imported consumer goods** (x autos, at the border) , which have a shorter way to the stores, are still close to flat, and can not explain the surge in consumer prices in the US

The current account deficit widened to 3.5% of GDP in Q1

Deficit in goods & services rose further. Net capital income is trending down

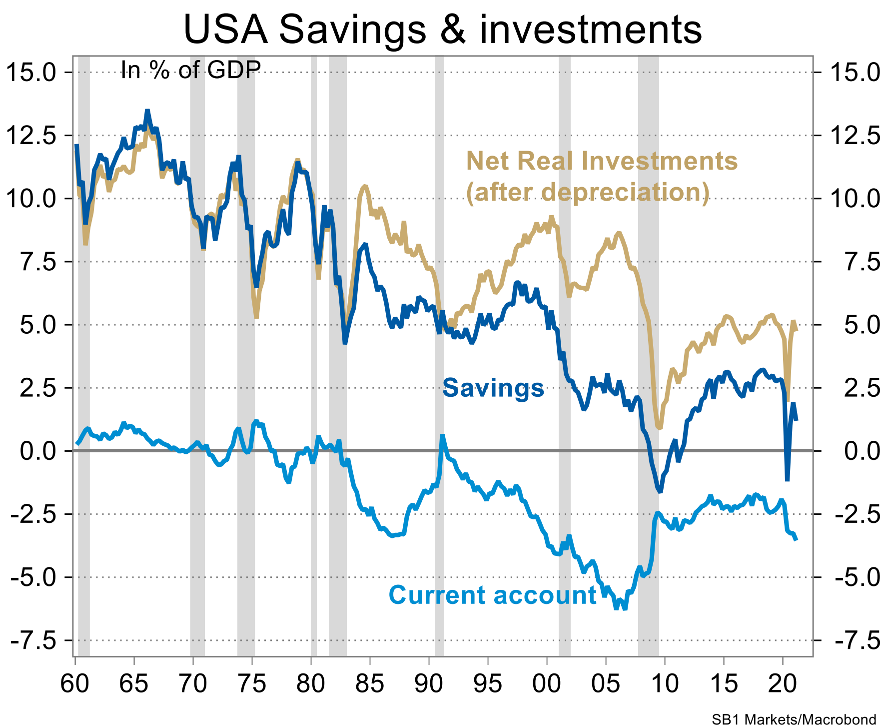




- The CA deficit increased to 3.5% of GDP from 3.3% in the previous quarter. The move was driven by an increased deficit in the trade balance of goods and services
- Last year, the private sector cash surplus reached 12.6% of GDP, all time high, by far, up from 4.4% in 2019. The flip side was not a surplus vs. rest of the world but an even larger deficit in the public sector, equalling 15.3% of GDP, from 6.8% in 2019. Corona measures emptied the government's coffers, while filling up the private sector's pockets as households & corporates were over-compensated by the government for losses in their market based revenues – at cut spending at the same time

The current account deficit = Savings - investments

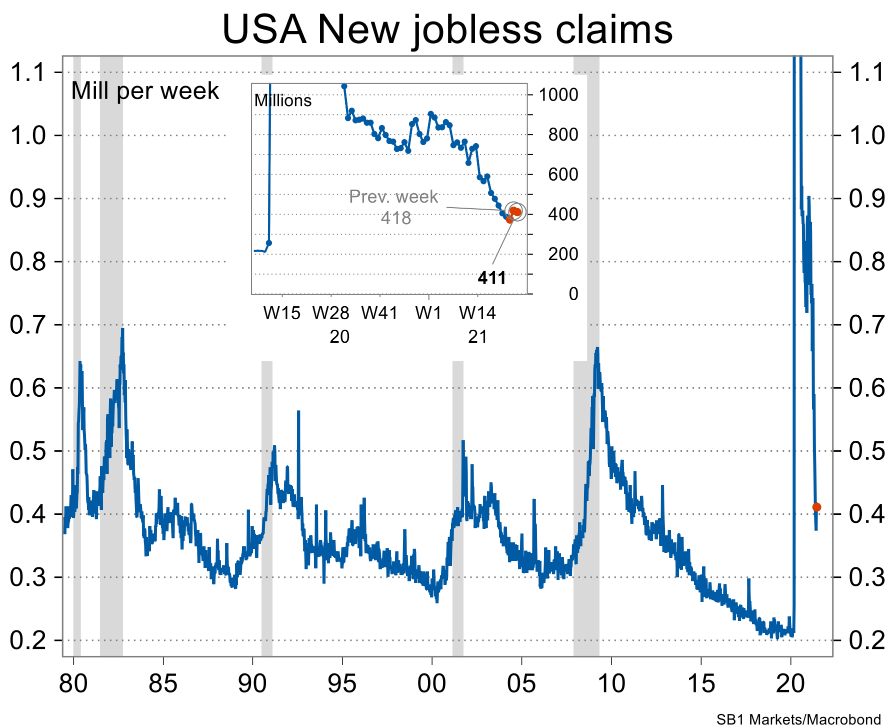
The US is saving less than it invests – and investments are not that high

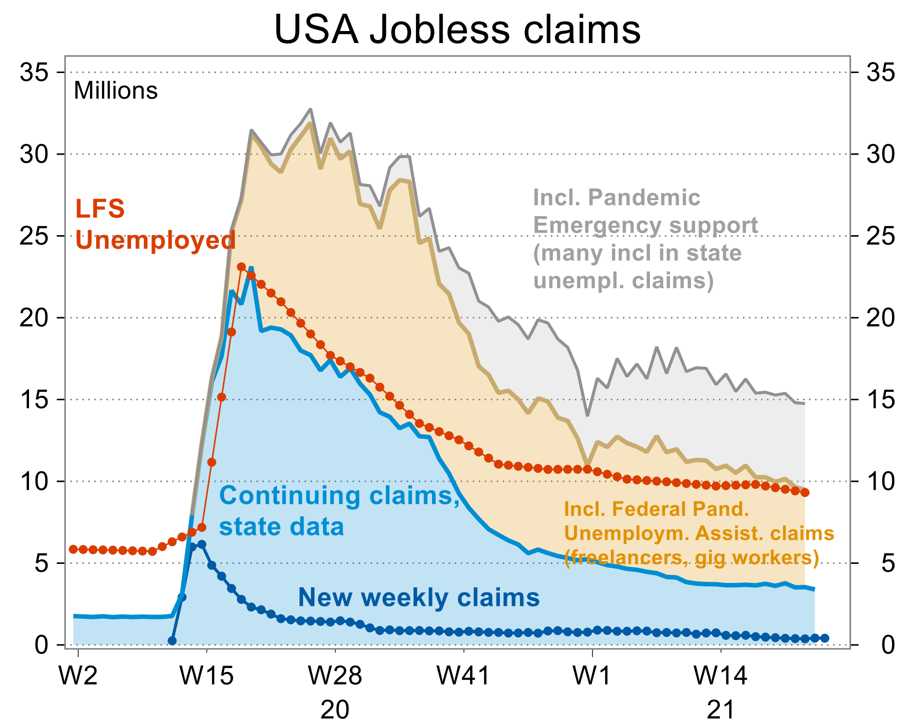


- However, investments are above the long-term declining trend in the investment/GDP ratio

New jobless claims are not falling anymore??

A marginal decline last week – and less than expected, and the level is 100+ 'too high'

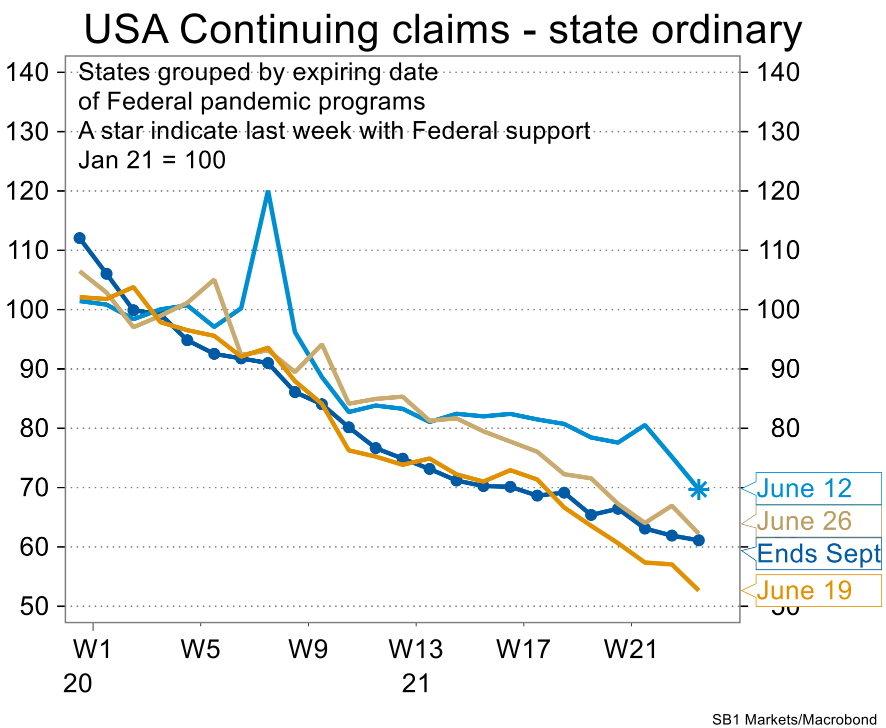




- **New claims** fell to 411' from 418' (revised up from 412') the previous week, expected down to 380'. Suddenly the decline in new claims have stalled – at a level far above normal in booming times – 3 weeks ago just 375' asked for a new benefit, and had the trend been intact, the weekly inflow should have been below 300' by now. A new slowdown at the labour market – or an extra effort to pick up enhanced unemployment benefits before they expire – from now and through September? A real weakening of the labour market does not seem likely
- **Ordinary continuing claims** fell by 144' to 3.4 mill, while the no. of receivers of the Pandemic Emergency Support Program (52 weeks instead of 26, and USD 300 extra/week) increased by 108' to 5.3 mill, and the no. of receivers of the Pandemic Assistance Program (gig & freelancers) fell by 175' to 6.0 mill.
- 24 states have **opted out** of these federal program (which anyway will expire in September). The impact from the first leavers will be visible in the no. of benefit receivers from next week but we <u>will still not know if these workers will try to find a job or to stay outside the labour market. State employment data, perhaps also some survey data, will tell the coming months</u>

Will the cancelling of pandemic federal benefit programs lift employment?

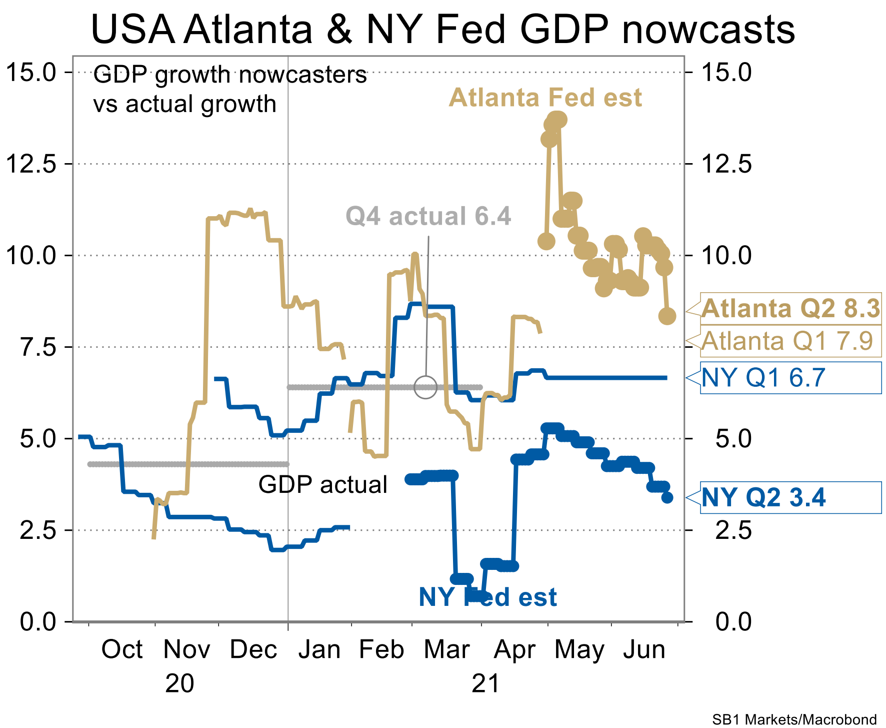
One positive signal: The number of ordinary continued claims may be falling in early leaver states

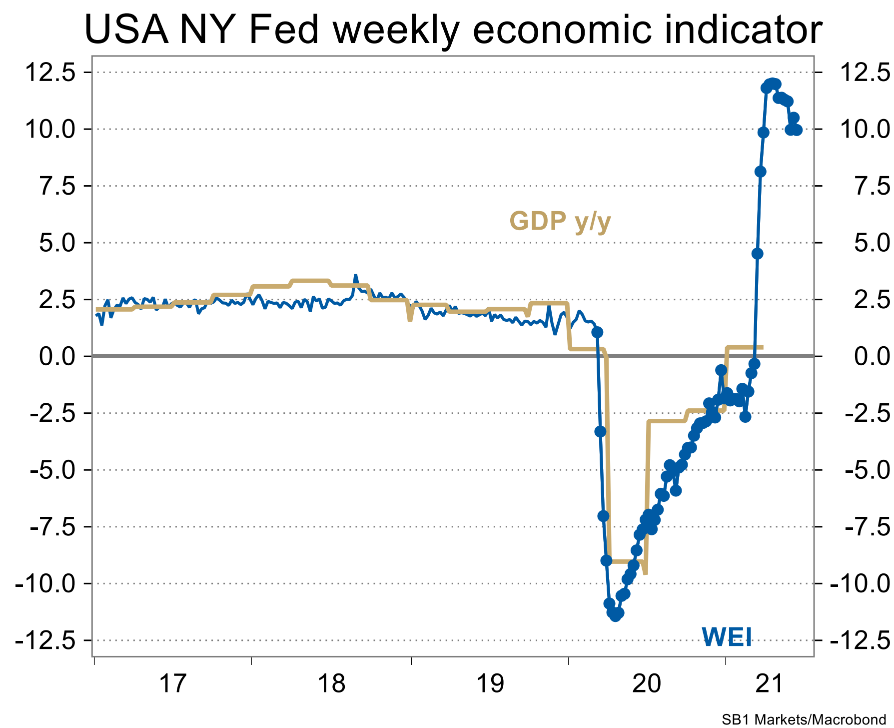


- 4 stated dropped out of the federal unemployment benefit programs at June 12 (end of week 23), which is the last week state unemployment benefit data are available
  - The no. of continued claims fell more than the national average before this cut-off day
  - More states are cutting these benefits from June 19, and here too, some more people have left the dole recent weeks
- Still, we do not know what these former recipients do now – are they now trying to find a job?
- Media reports suggest that employers in these states have been able to find more workers – but media reports are not hard data
- Most likely, we will have to wait for state employment data, which are published 2 – 3 weeks after the national payrolls report
  - We doubt we will find much information in the June state employment data (date are gathered mid-month), but July data (published in August) could reveal some information whether labour supply increases or not. We think the odds of finding some impact are pretty good

The nowcasters signal 4% to 8% GDP growth in Q2

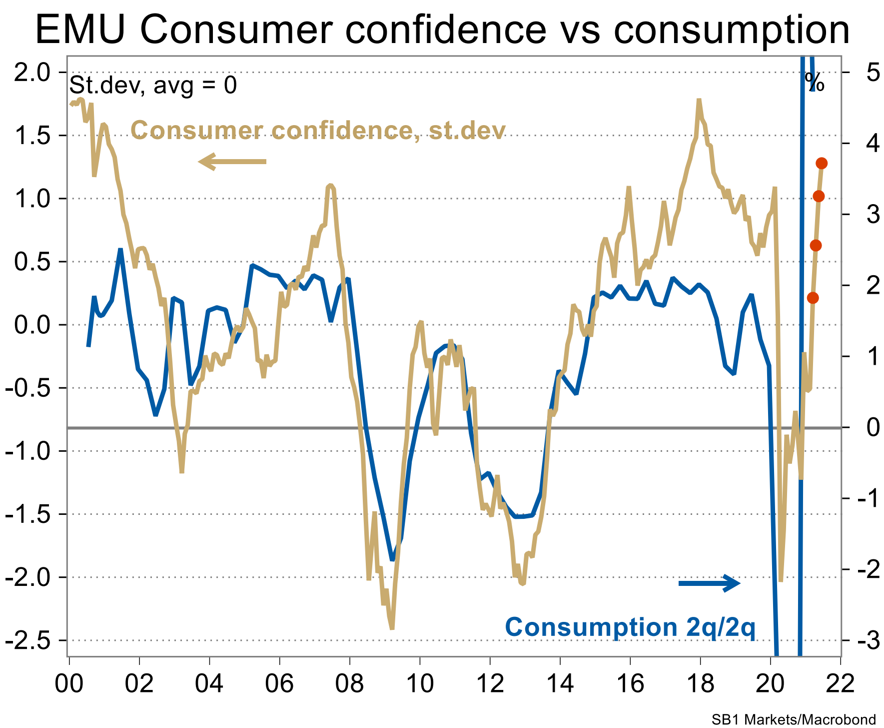
Household consumption weaker than expected in May – lowered growth forecasts

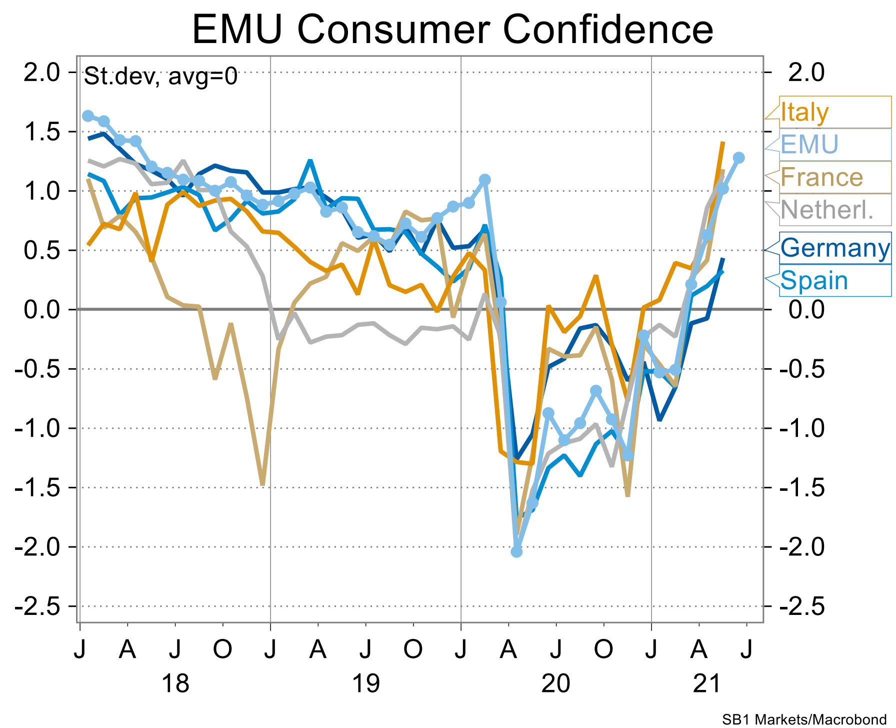




Consumer confidence further up in June – the level is far above average

The confidence up 0.3 st.dev to +1.3 above average!

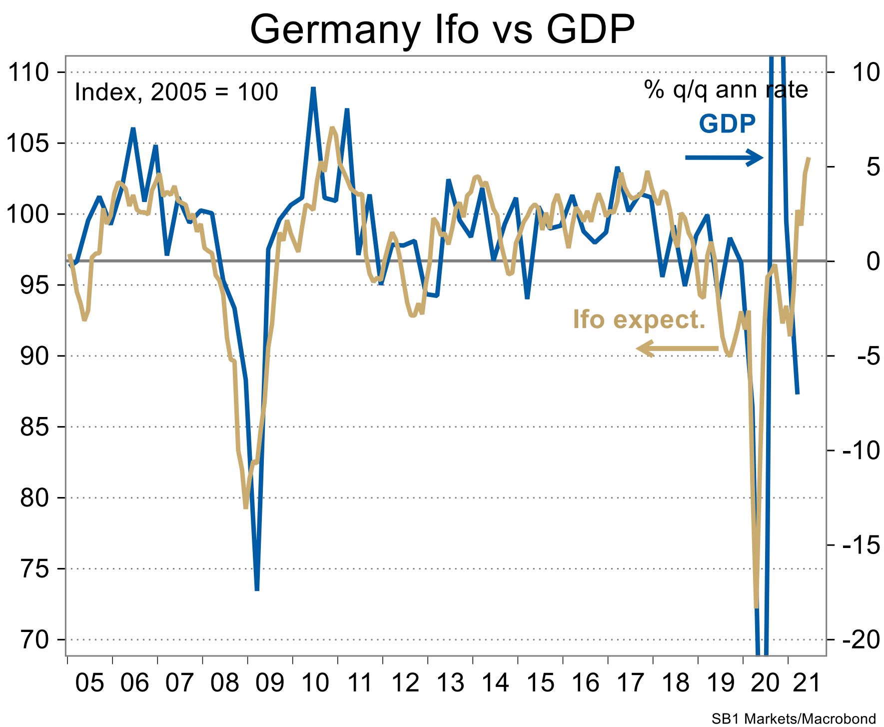




- **The consumer confidence index** rose to -3.3 in June from -5.1 in May, but slightly below expectations at -3.0. The lift equalled 0.3 st.dev, and the level is now 1.3 st.dev above average
- A consumer confidence at the present level has normally equalled a strong growth in consumption – which will be delivered as spending on service will increase sharply
- No June country data yet
  - » All of the large EMU economies reported confidence above par in May. Italy has been above average since December

German business managers optimistic about the future & current index surged

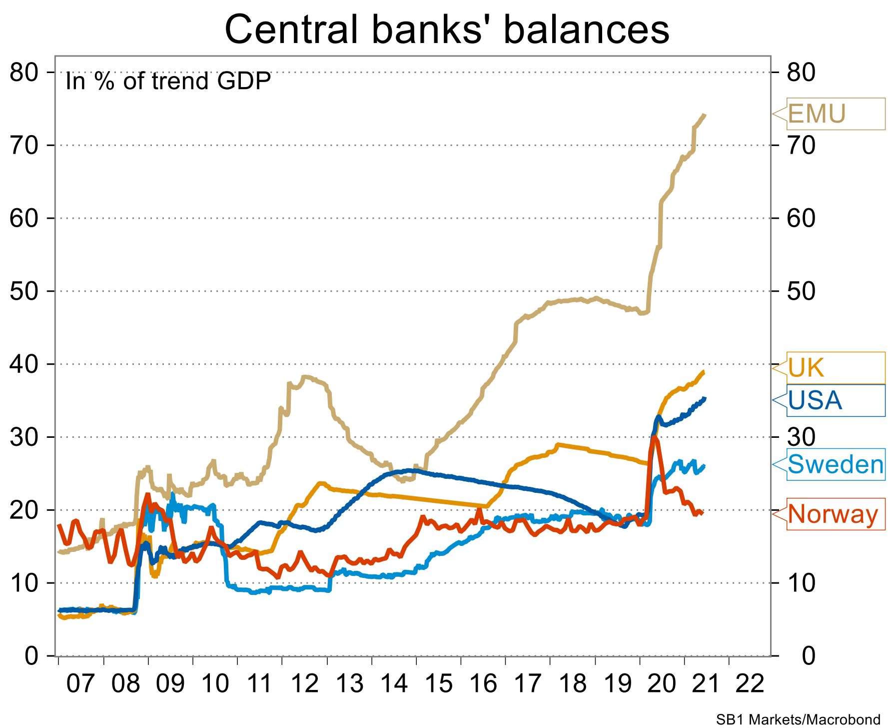
… even the service sector index is now signalling growth well above average



- In June, the **expectations index** rose 1.1 p to 104, and was 1.3 st.dev above average level, up from +1.1 in May
- The assessment of the **current situation** rose to 99.6, up from 95.7 the previous month. Now, 0.7 st.dev above average
- **Manufacturing** business climate (average of current situation & expectation) is at the highest level since May ’18. All of the sector indices were up in June, however, and all are well above average
- **All other German surveys** have climbed rapidly up recent months – and all are above average. They signal some 5% GDP growth rate

The Bank of England, too, believes that inflation is transitory

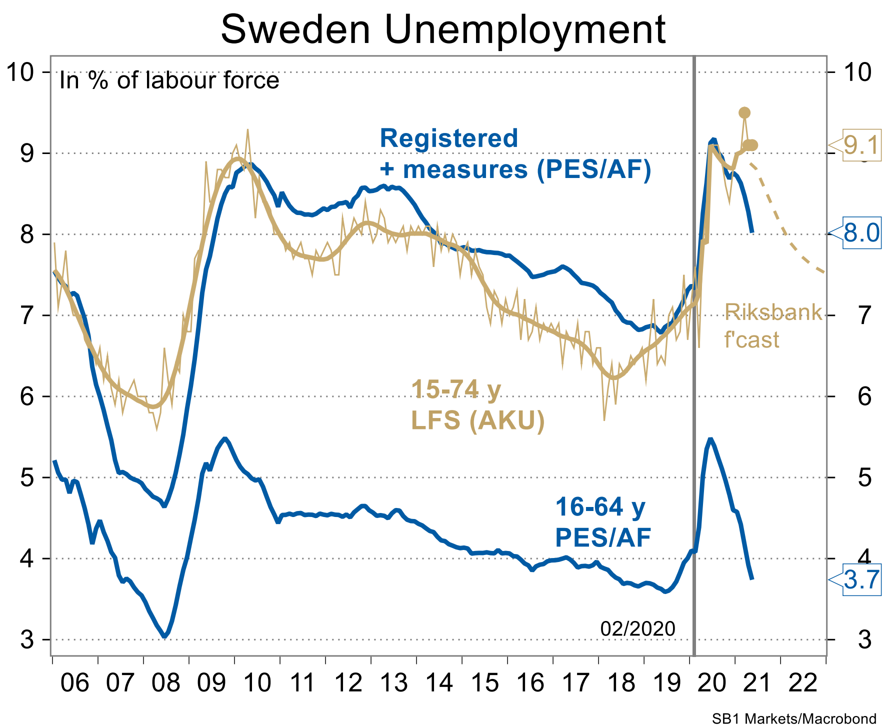
Keeps policy 'unchanged', but lifted the short term inflation f'cast to 3%

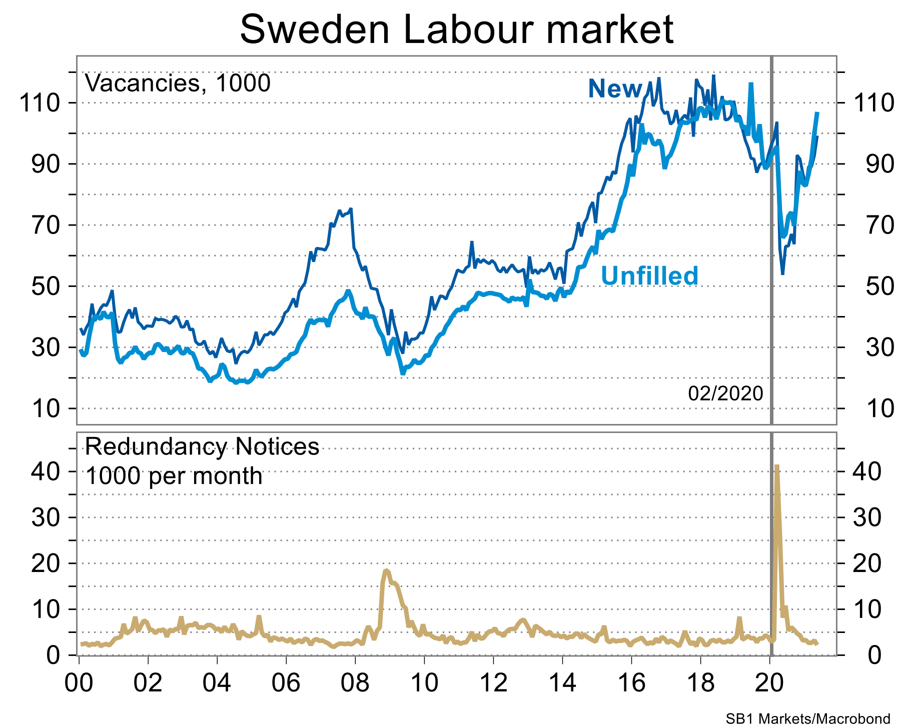


- The Bank left the **interest rate at 0.1%** and maintained the target for asset purchases at £895
- **Outlook very upbeat**– easing of restrictions and increased service sector activity considered most important update since May. GDP growth for Q2 2021 was revised up by 0.75 pp to 5.5%
- **Inflation** is expected to be above 3% in '21 and return to the 2% target in '22
  - » *"The Committee's expectation is that the direct impact of rises in commodity prices on CPI inflation will be transitory. More generally, the Committee's central expectation is that the economy will experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation will fall back"*
- The outgoing member of the MPC, the Bank's Chief Economist Andrew Haldane, has on several occasions warned that inflation risks were building, and he voted in favour of a small cut in the QE program, like he did at the last meeting
- **Yields** of UK government bonds were down 2-3 bps after the press conference – and the GBP fell some 0.5%. The market had been looking for somewhat less dovish signals from the Bank

LFS unemployment up in May. However, vacancies are also on the way up

New survey method, definitions & calculations make especially employment data ‘useless’



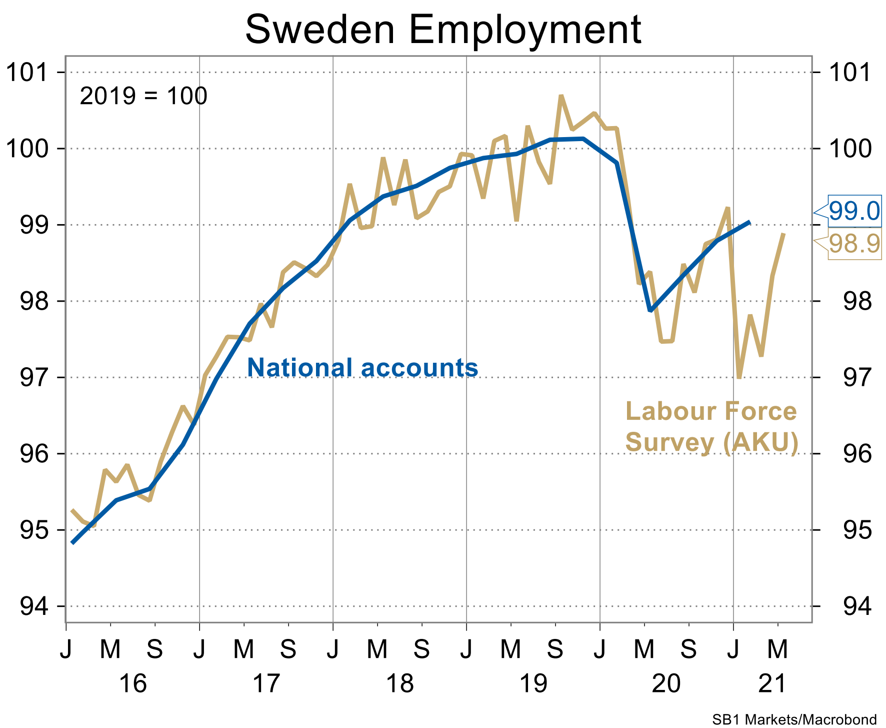


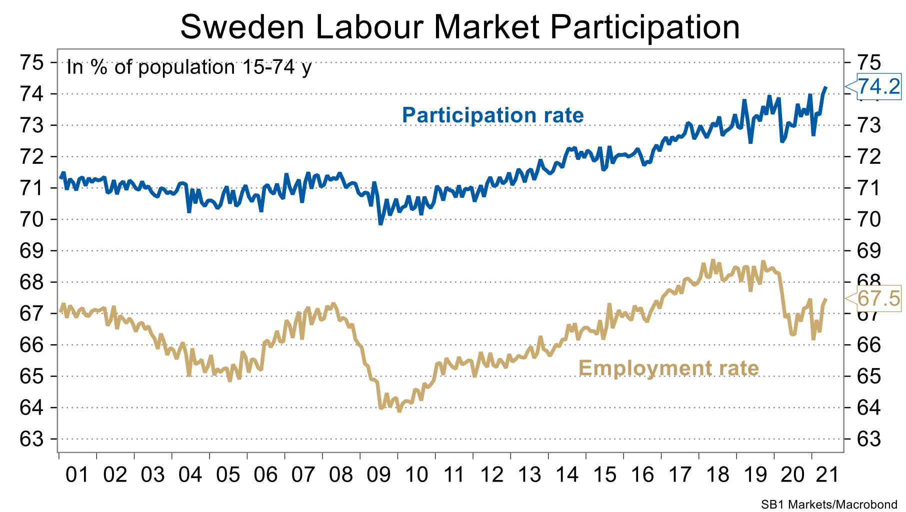
- The seasonally adjusted **LFS (AKU) unemployment rate** was unchanged at 9.1% - probably. The whole LFS apparatus is revised (EU standards) and the old and new method is not yet directly comparable in Sweden. Thus, the while the 9.1% unemployment rate is well above the 7.2% early 2020 level, we cannot tell for sure how much higher the ‘real’ unemployment rate is
- **Registered ‘open’ unemployment** (PES) has fallen rapidly since last June, and currently stands at 3.7%, below the pre-pandemic level at 4.1%
  - » However, unemployment was on the way up ahead of the pandemic, due to the slowdown in the Swedish/global economy through 2019
- However, **incl. labour market measures**, PES unemployment is falling rapidly but less than open unemployment since last summer. At 8.0%, the total unemployment ate is 0.6 pp above the early 2020 level
- The number of **new and unfilled vacancies** rose further, and **layoffs** were down in May. The inflow of new vacancies are equal to the pre-pandemic level, while the no. if unfilled vacancies us higher!

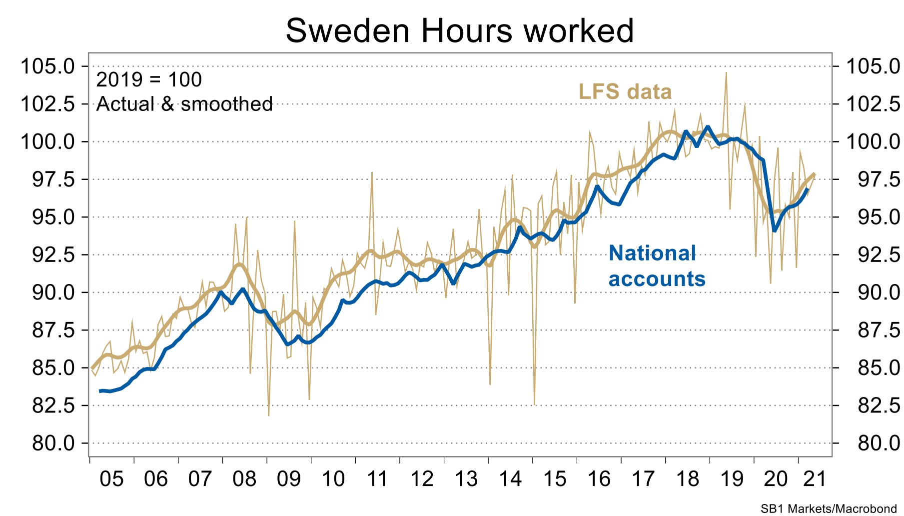
SpareBank 1 MARKETS

Employment/hours worked are on the way back, still below par

The National accounts are no doubt the best data source, based on much more input than the LFS







- Employment is very likely down less than 1% from before the pandemic Q2, vs the 1% shortfall in Q1, according to the national accounts (the Q1 LFS employment data are not reasonable at all
  - » GDP growth data has been strengthening
- Hours worked has recovered substantially vs last spring, and are still on the way up - but remained 3% below the Q4-19 level in Q1-21

Highlights

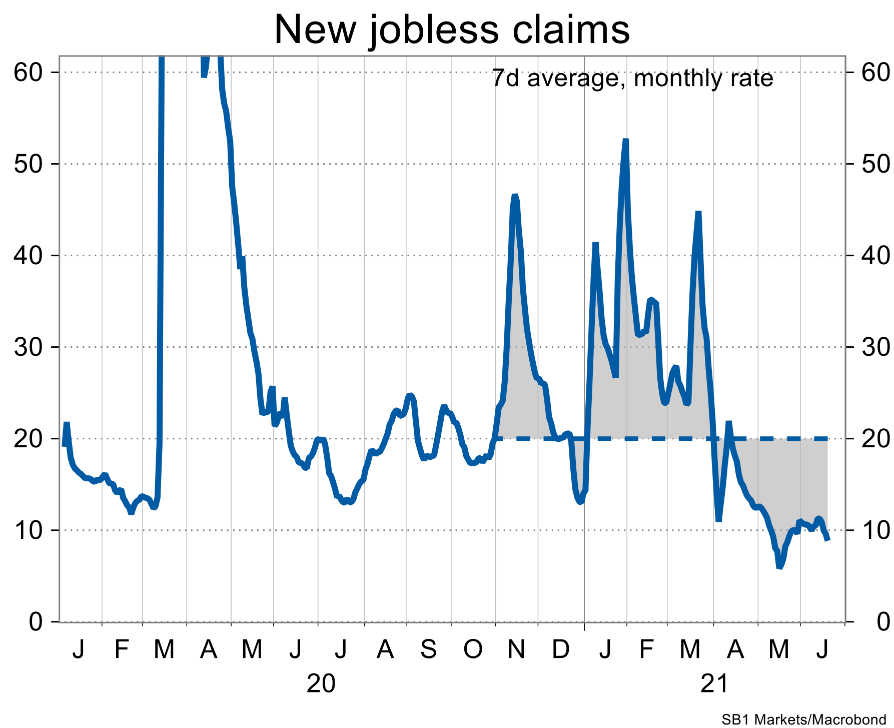
The world around us

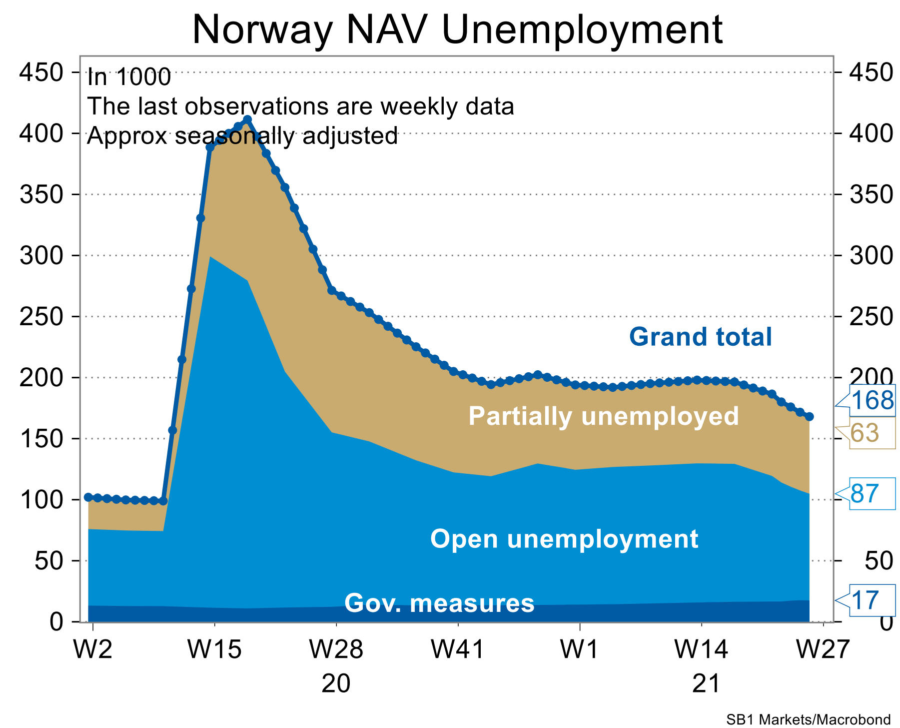
The Norwegian economy

Market charts & comments

‘No’ new jobless claims, unemployment is falling by 3’– 4’ per week

Total unemployment fell by 12’ (seas. adj) in May, and the pace is not slowing - some -4’ last week

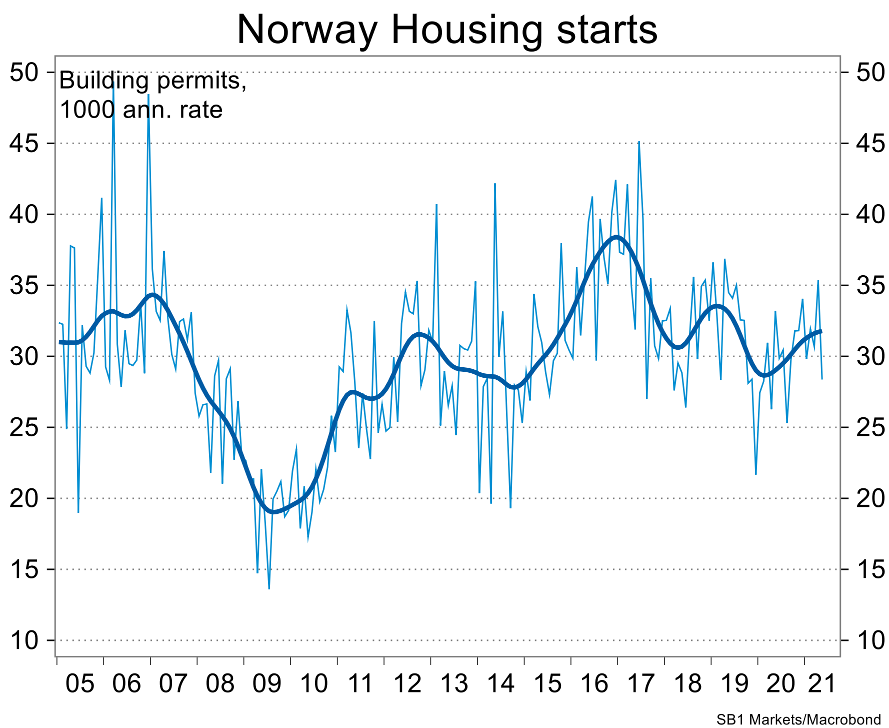


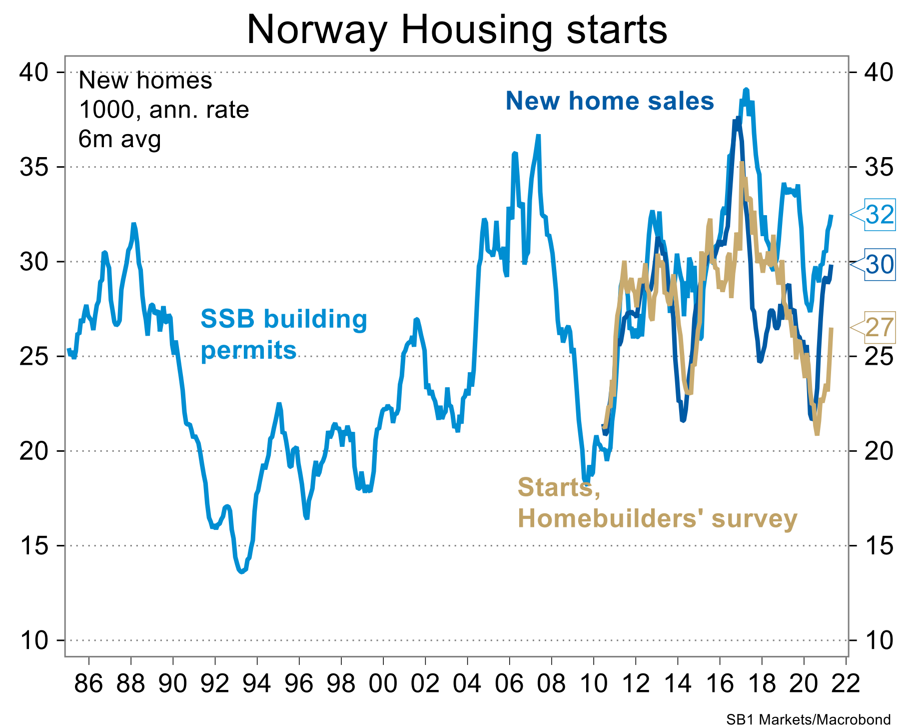


- We expect a rapid decline in unemployment the coming weeks/months as well

SSB: Building permits down in May but the trend is still up

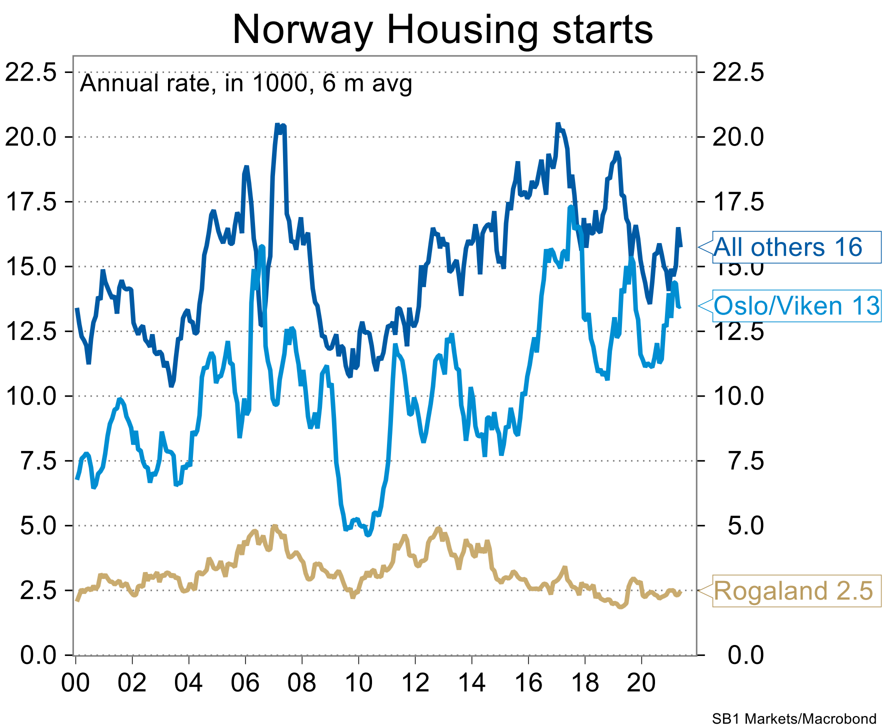
Confirm Homebuilders' sales & start data

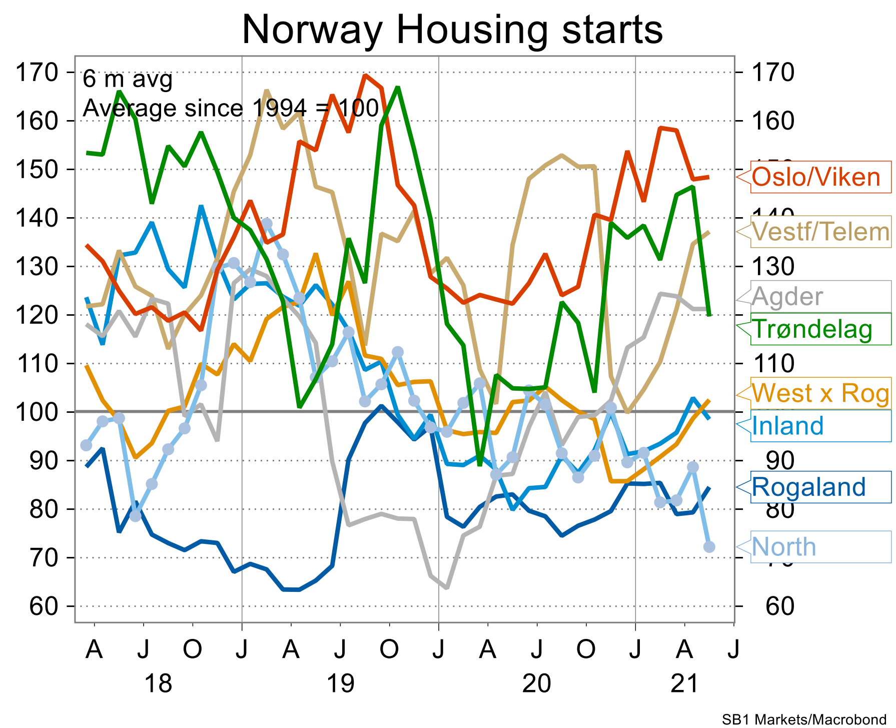




- According to **SSB**, building permits fell to 28' in May from 35' in April. The average level over the recent months is at 32'
- **Homebuilders** reports a 30' pace for new starts, and sales at 27' – both sharply up

Mixed between regions, Oslo/Viken in the lead, North is lagging (vs own history)

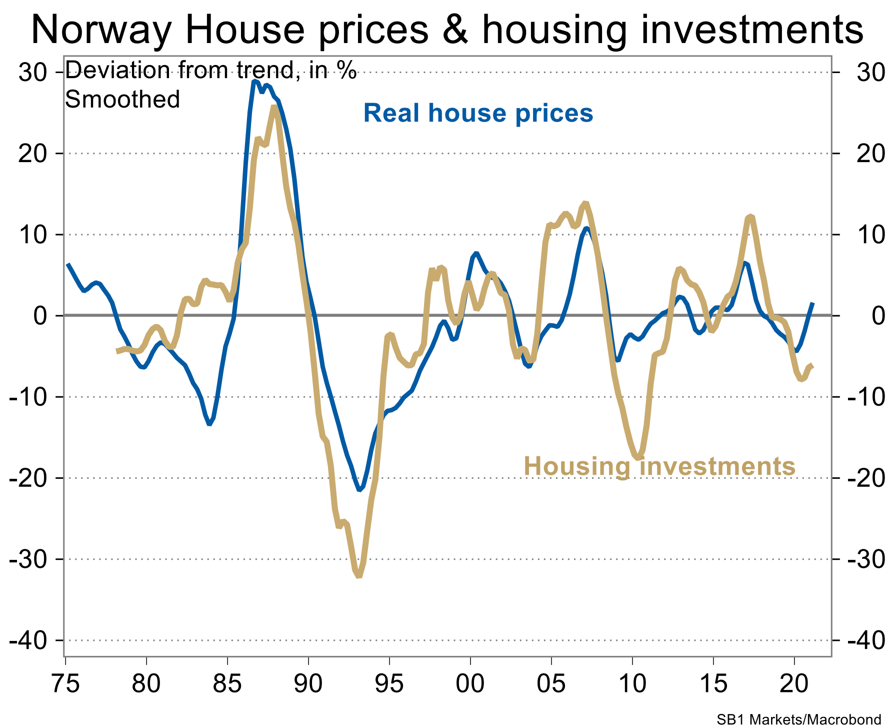


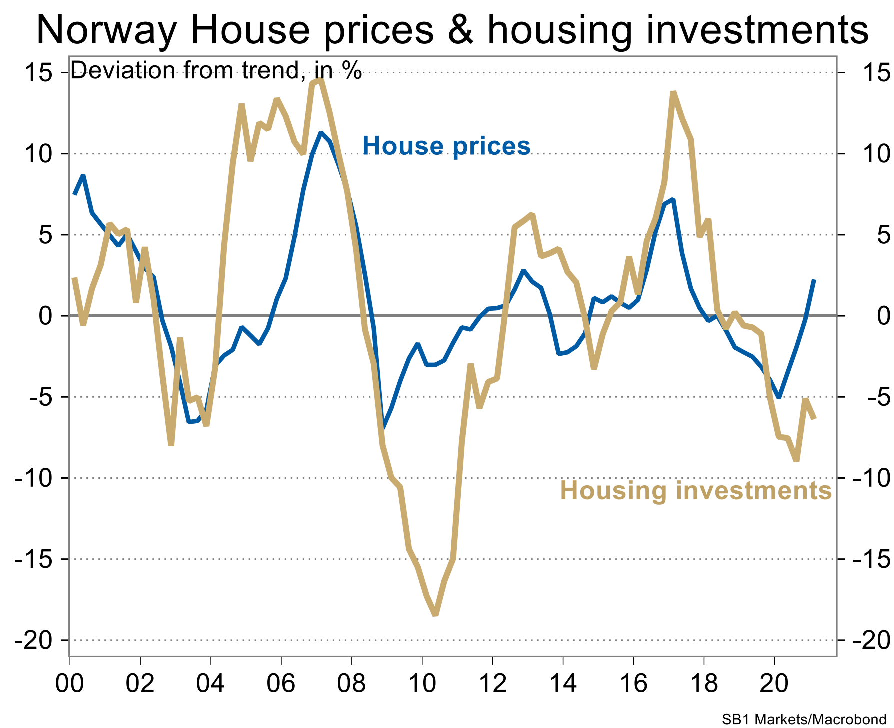


SpareBank 1 MARKETS

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

Prices have turned sharply up; housing starts/housing investment has turned upwards

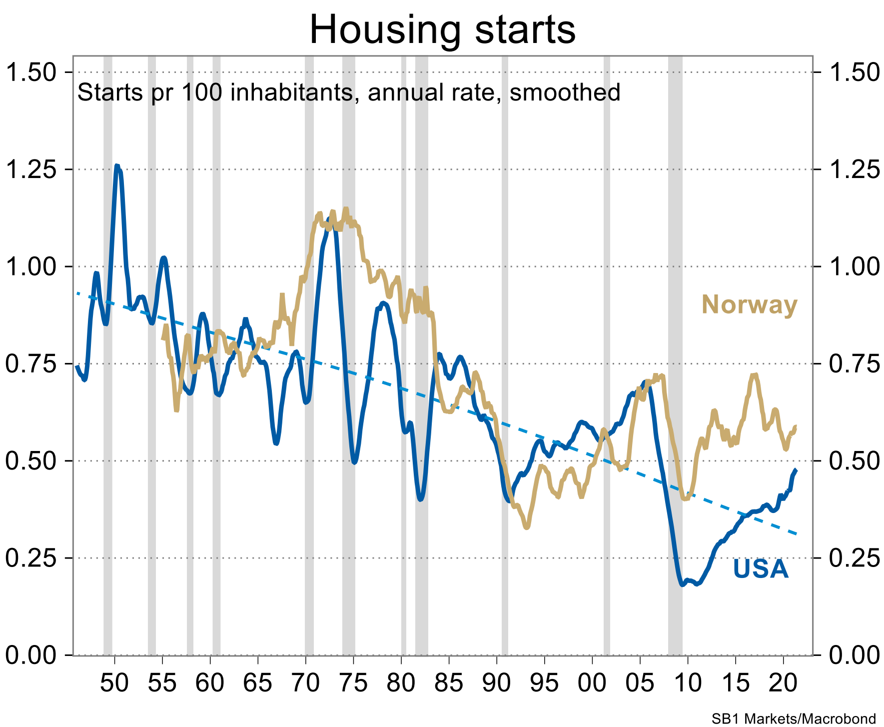


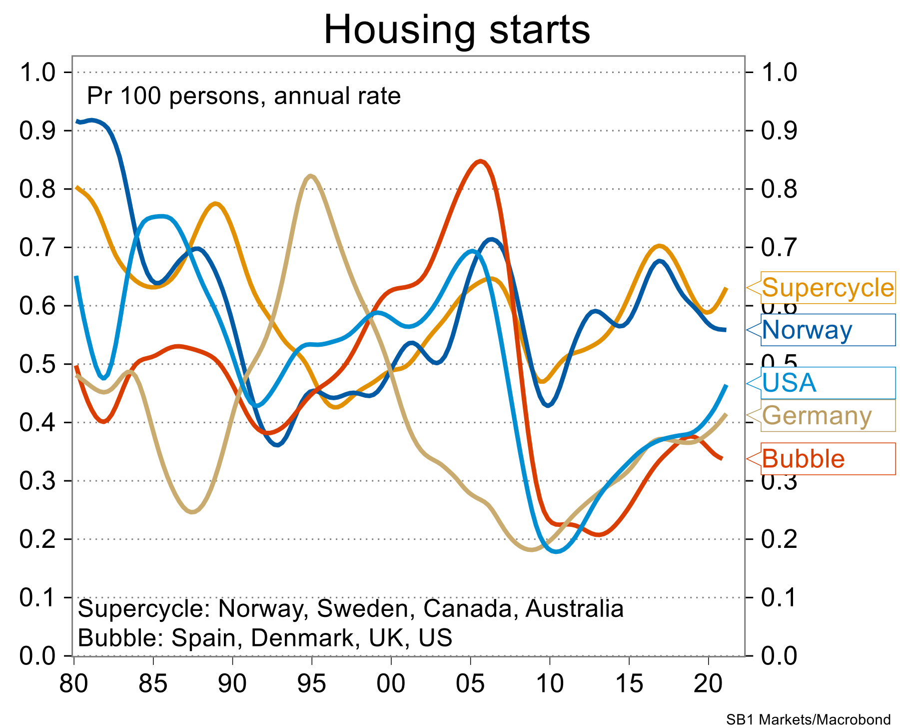


- But investments were marginally down in Q1

Home building in Norway has been high vs. most other countries

However, Norwegian housing starts are in line with other 'super-cycle' countries

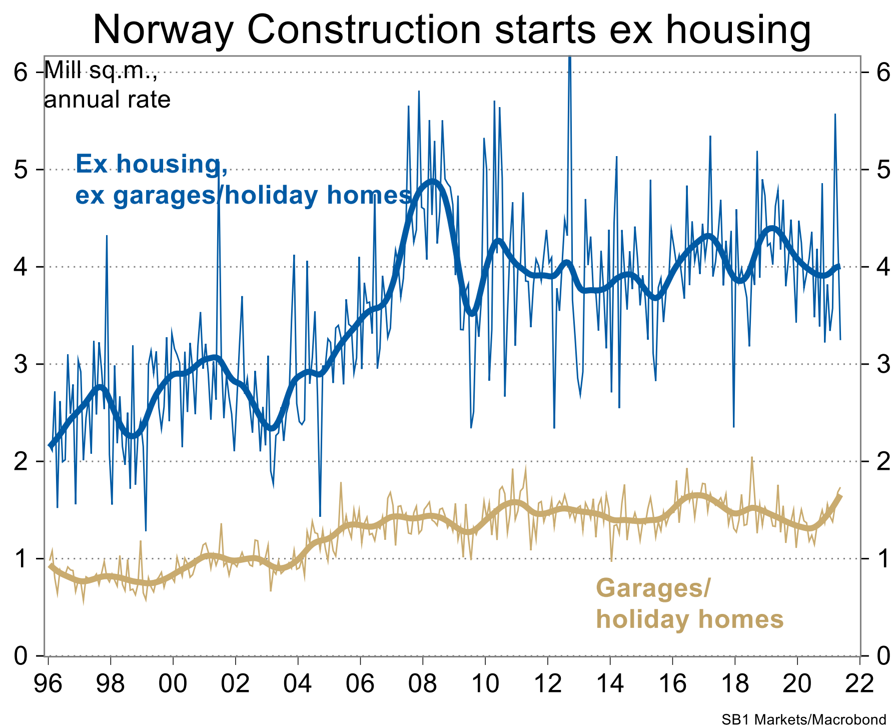


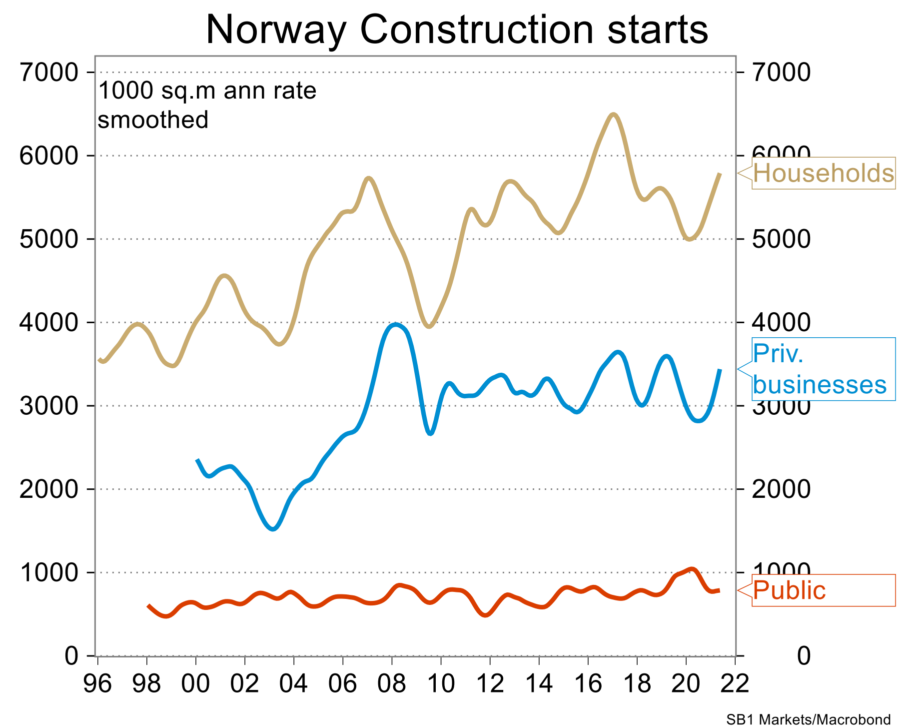


- The housing start cycles among the super-cyclicals (Australia, Canada, Norway, Sweden) have been closely correlated the past decades (for a better picture, flip to the next page). Since 2017, starts fell in both Australia, Sweden and Norway, and more modestly in Canada. We guess the boom in the 2nd hand house markets in these countries will stimulate new starts – which we just now are seeing
- House prices and debt inflation are higher and rental yields are lower in these super-cycle countries than other DMs. We guess it's because interest rates have been too low for too long, as rates fell more or less to the same level as in countries that actually needed a strong monetary stimulus after 2008 housing market/financial/real economy crisis

Non-residential construction on the strong side in both March & April

The private sector has turned cautiously upwards

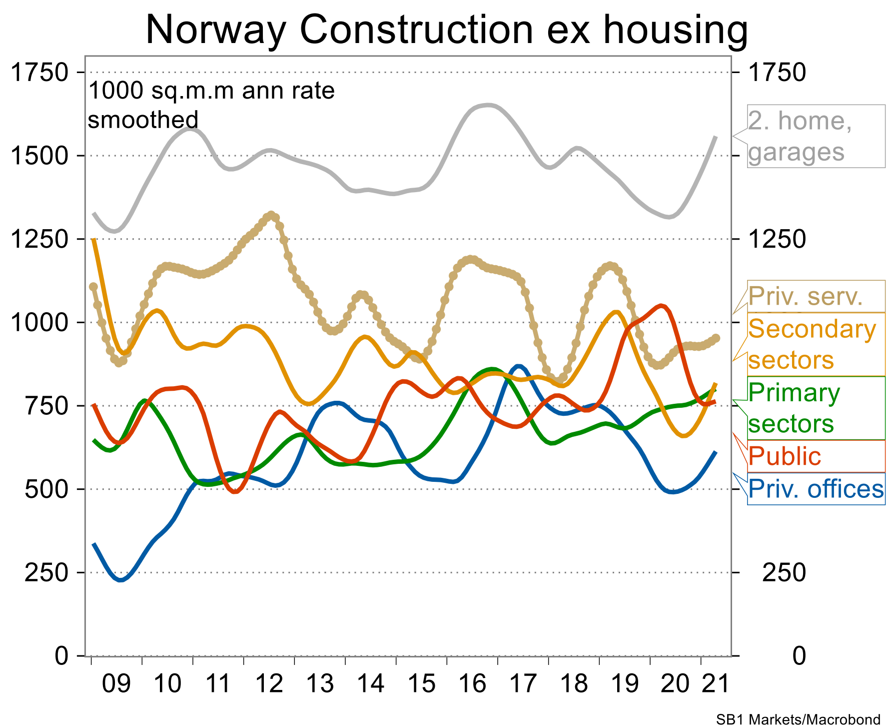


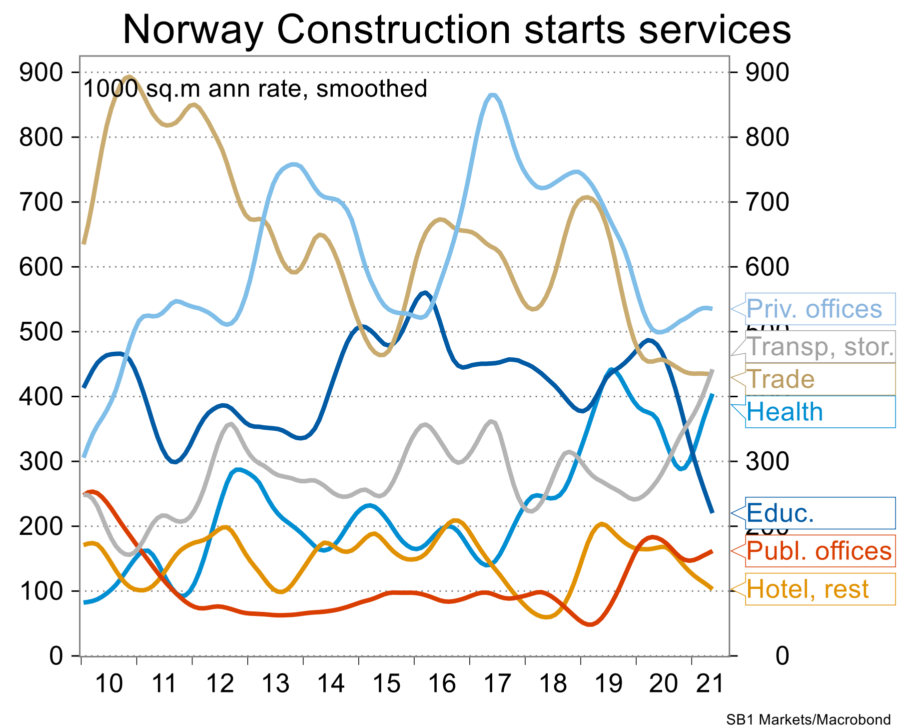


- **Construction starts ex housing & garages/cabins** peaked in early 2019, and trended down until recently
  - » **Private non-residential starts** have increased somewhat recent months, from a rather low level
  - » **Public sector construction starts** have been trending down, the level is close to normal
- **Construction starts of cabins/garages** is heading sharply up, following a decline from the peak in 2016. Given the surge in demand for second homes, that's not surprising. The level is now well above the 10 past years average

Volatile details: Some private sectors' building activities are heading up

Education, hotels & restaurants down. Trade not strong either. Transport, offices up



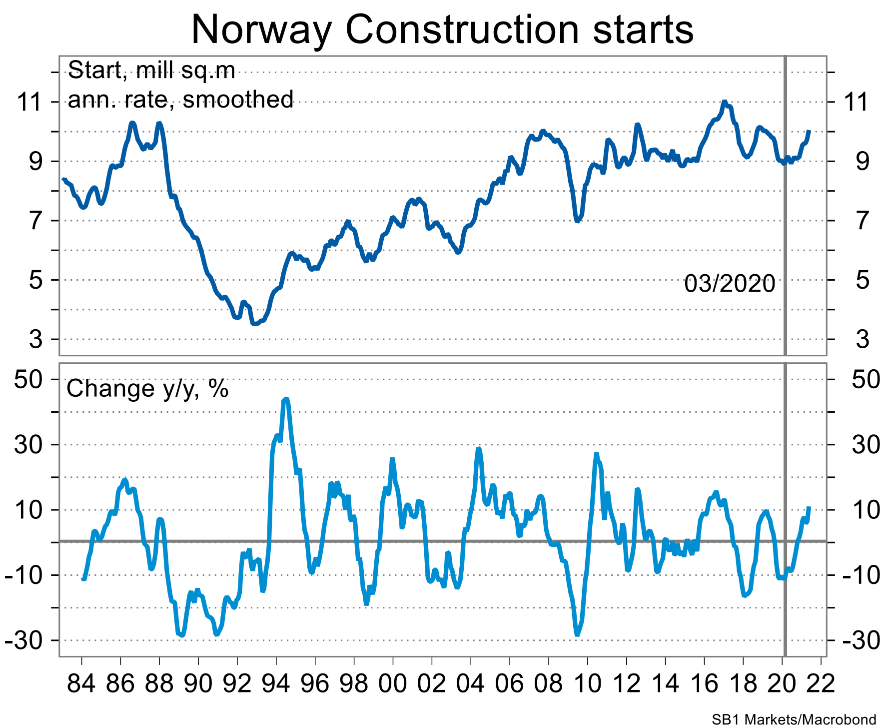


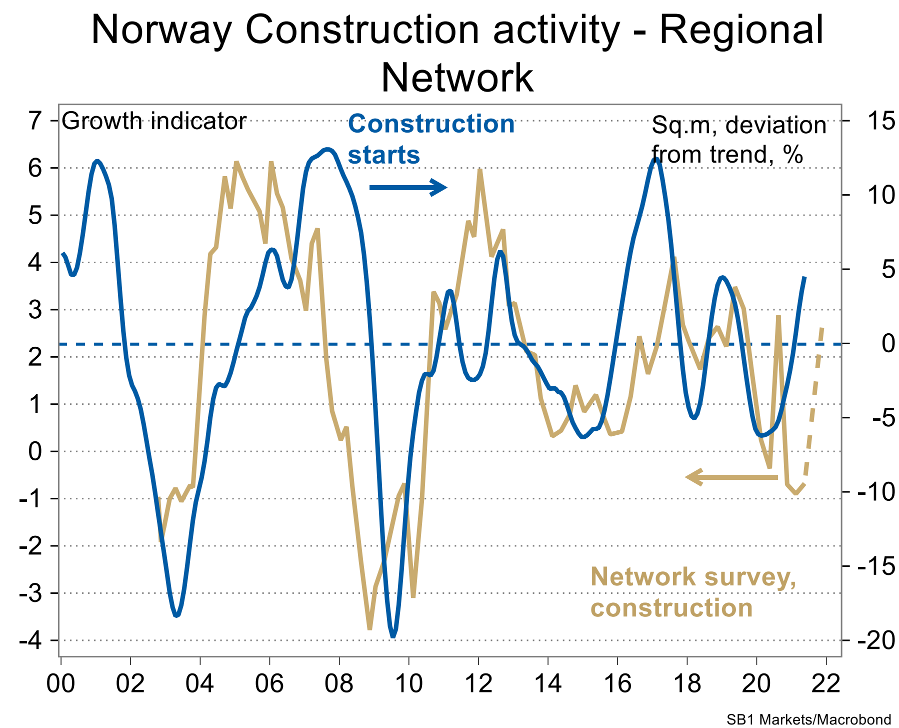
- Education has lost steam, no big projects started recently

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

The Q2 NoBa Regional Network signalled growth in construction activity

And actual starts are up 10% since last autumn (and activity did not decline last spring)





- Actual starts are up 10 y/y, due to higher private sector activity
- The activity is above the past 15 y average, and above our calculated trend

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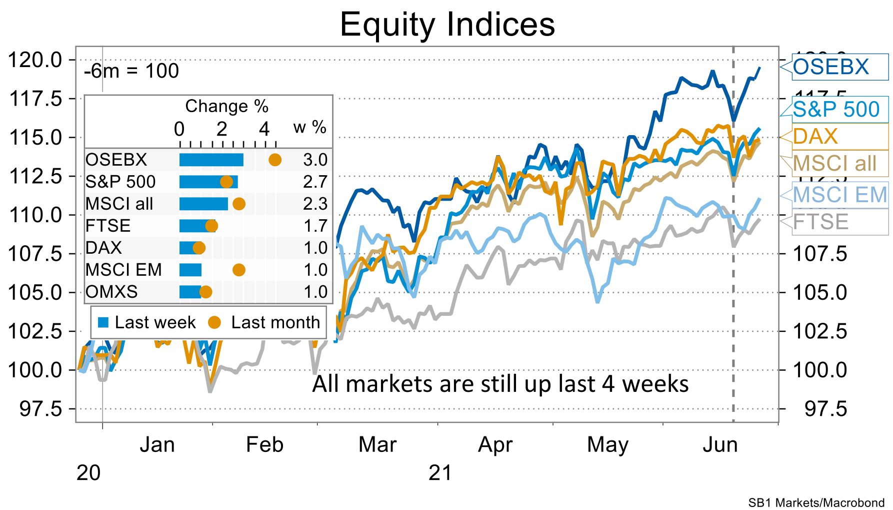
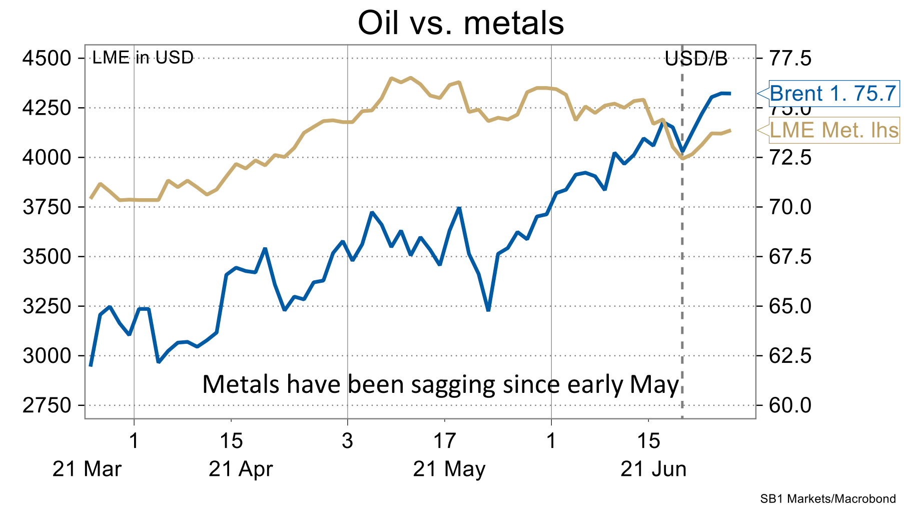
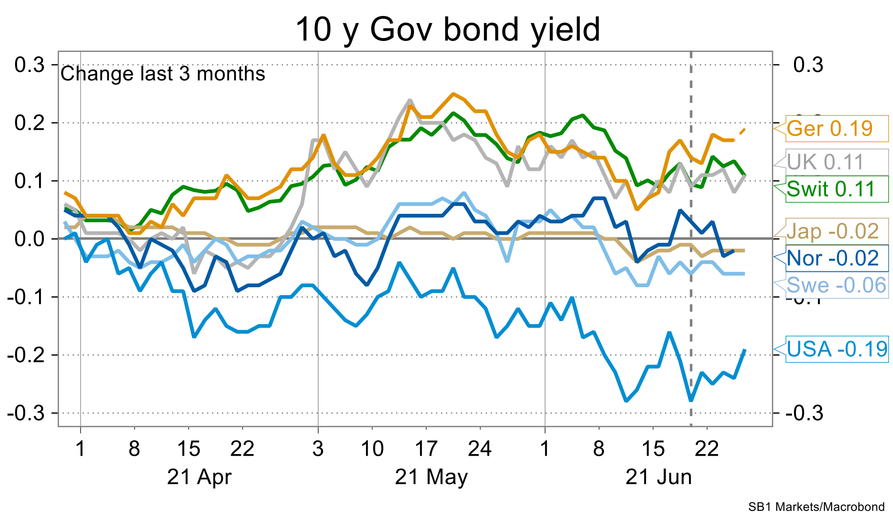
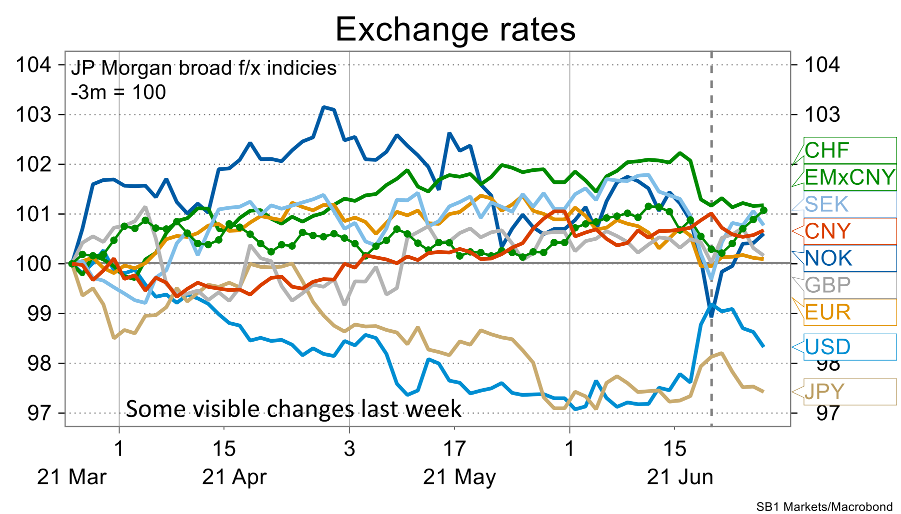
Soft Fed-speak lifted equities, raw materials, yields. The USD down again

At least, Powell (and Williams) succeeded in calming markets' fears of a 'hawkish' Fed





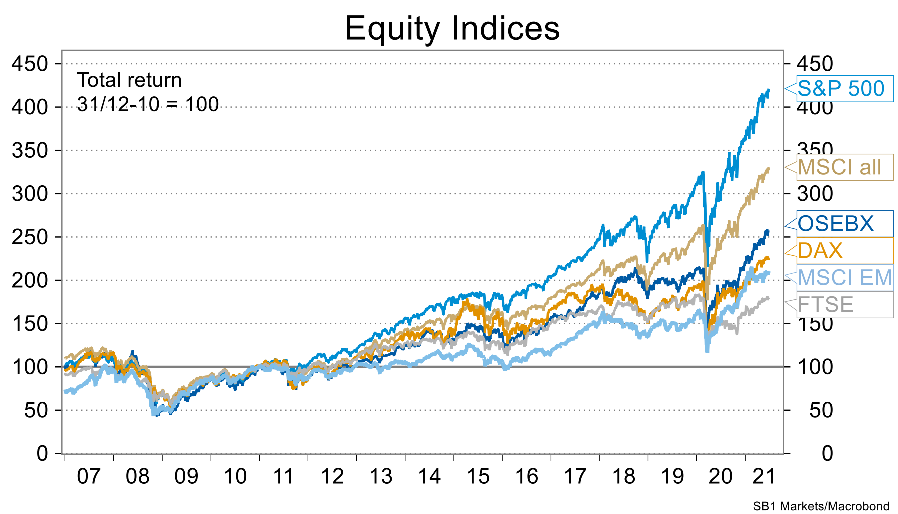


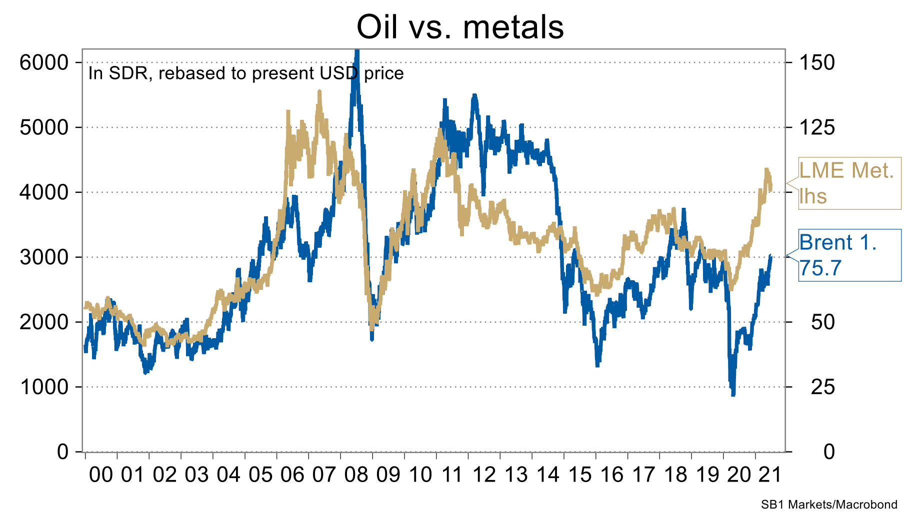


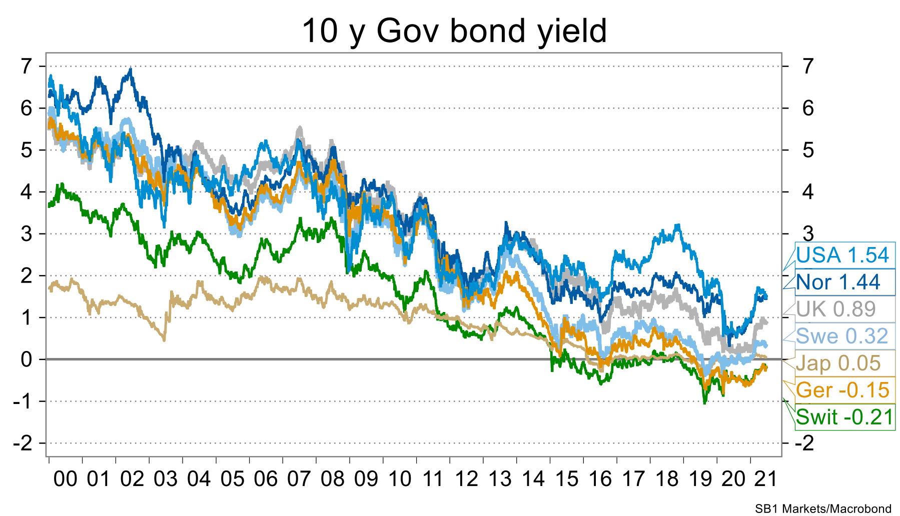
SpareBank 1 MARKETS

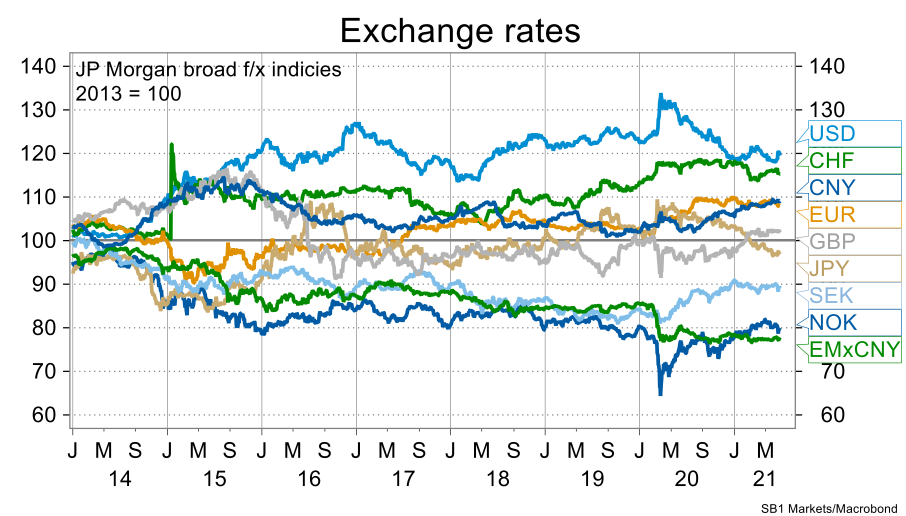
The big picture: Strong stock & commodity markets. USD trend is still down

The MSCI World at ATH on Friday, as were several local markets as well. And bond yields trend down

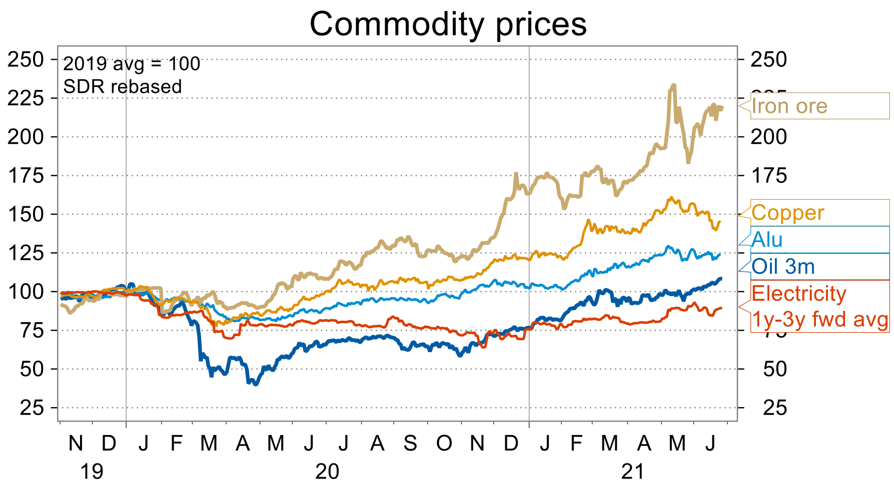


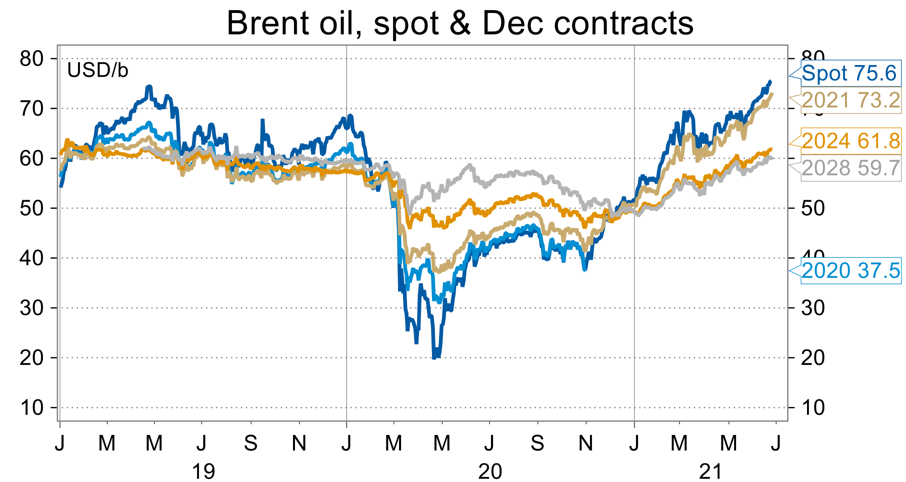


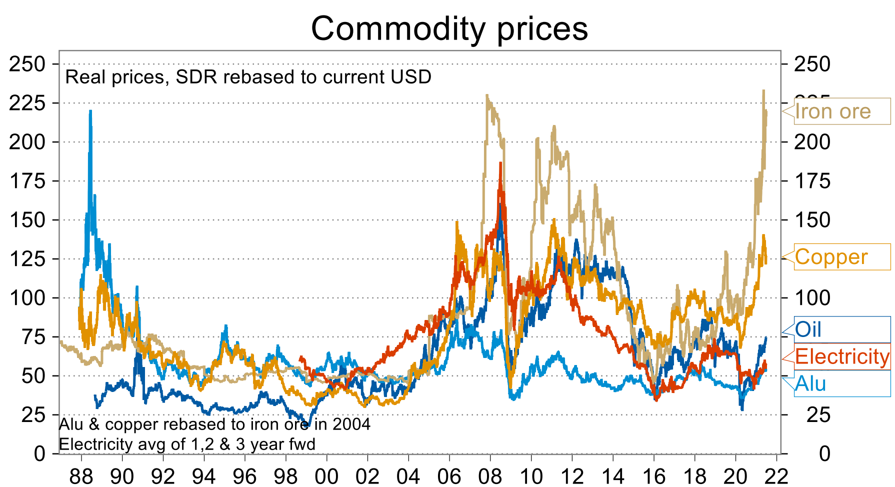


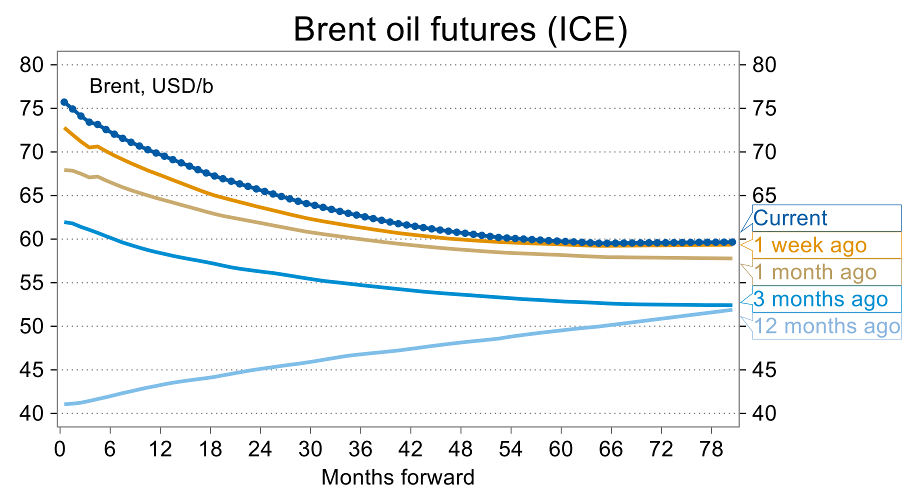


Oil above USD 75/b, metals turned up again – after having been sliding down







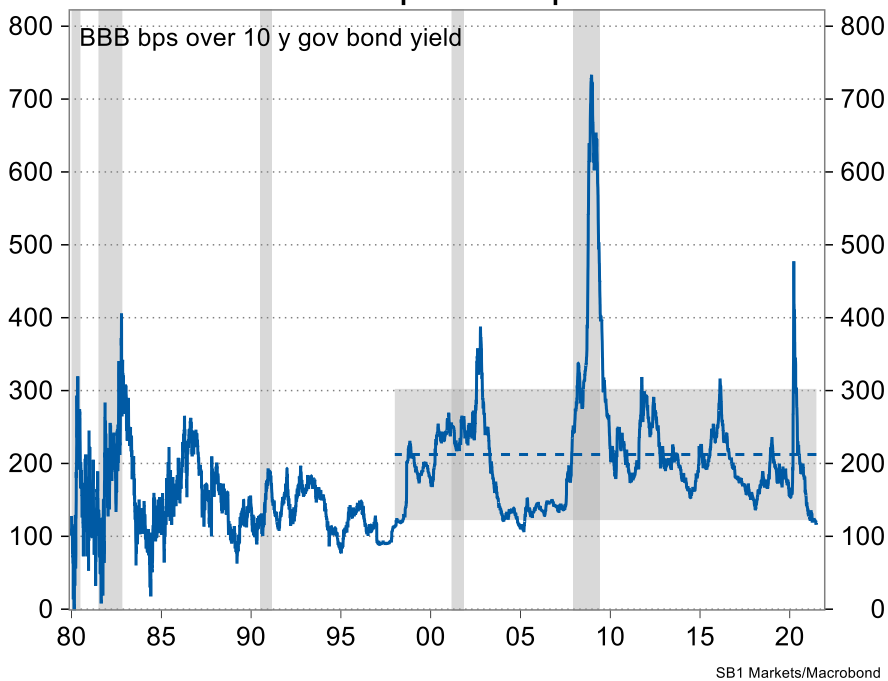


SpareBank 1 MARKETS

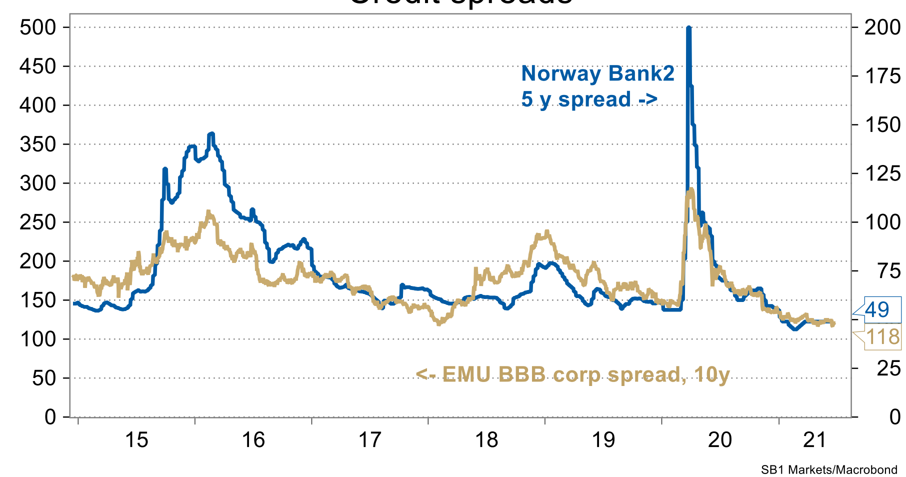
No worry at all, not anywhere – credit spreads remain very low

... and some fell even further last week

USA Corporate spread



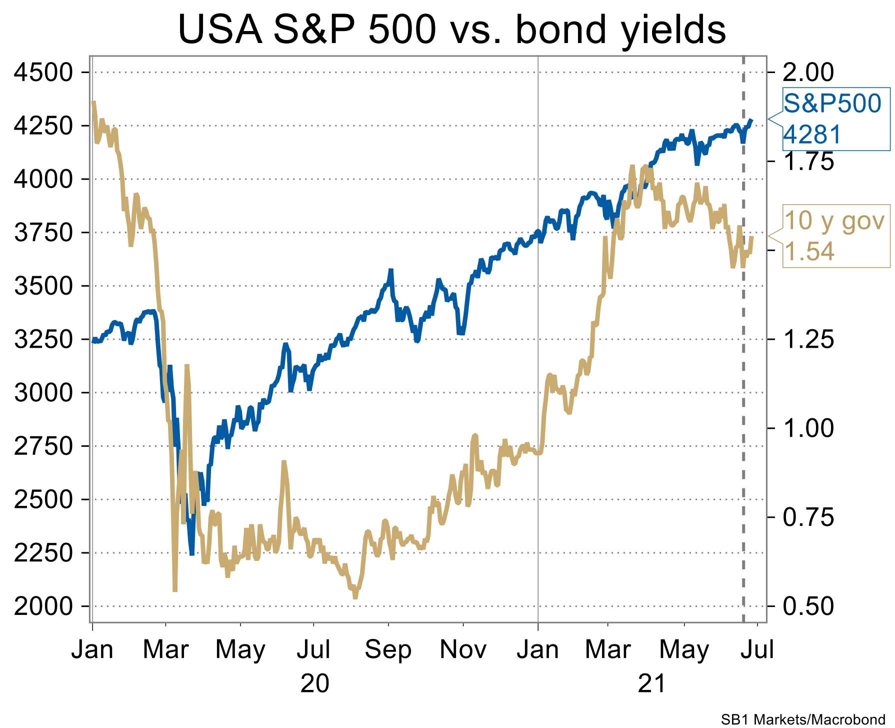
Credit spreads

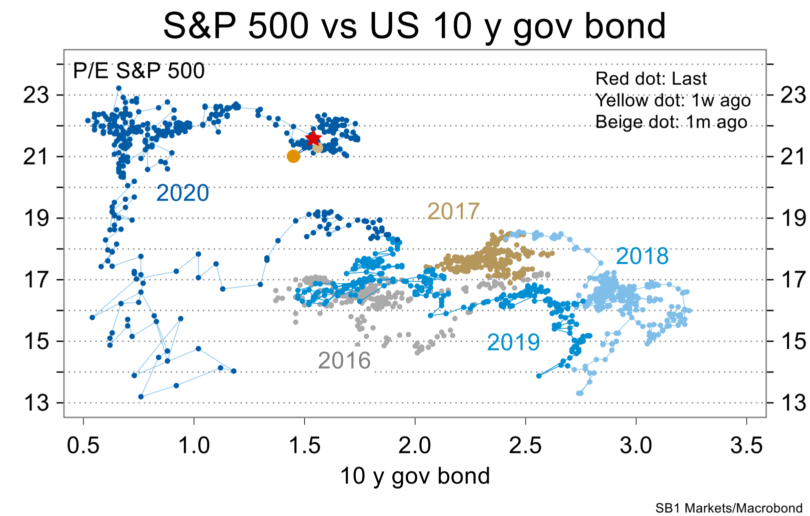


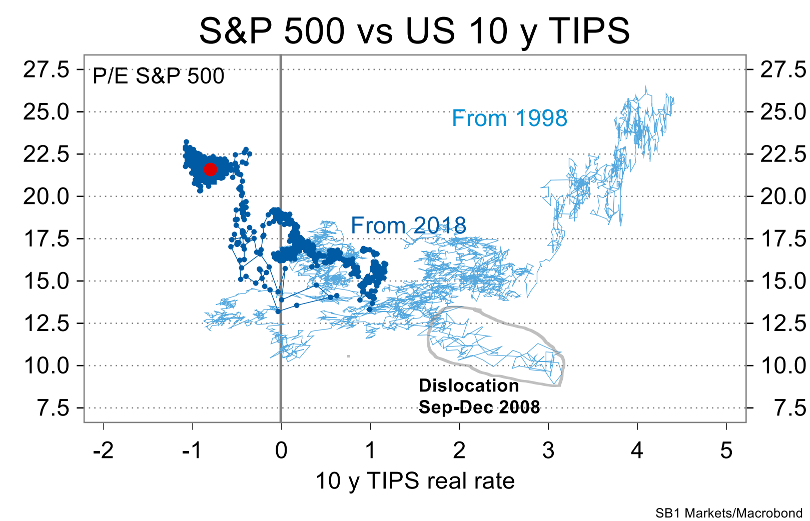
SpareBank 1 MARKETS

S&P 500 +2.7% to another ATH, the 10 y bond yield +9 bps, to 1.54%

.. As Powell (& Williams) advocated a dovish stance, and markets believed them



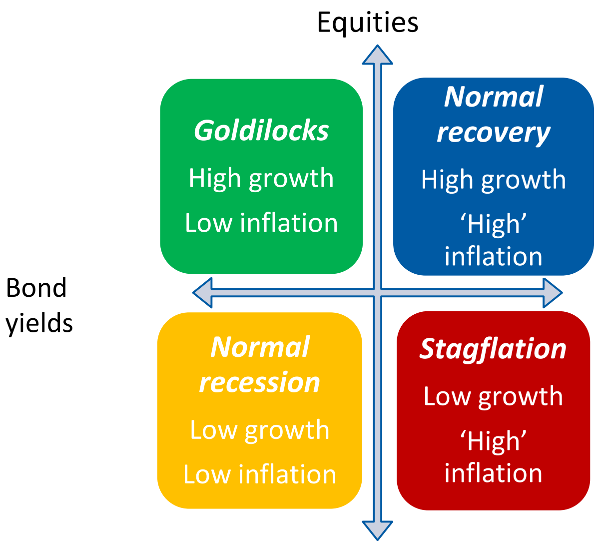


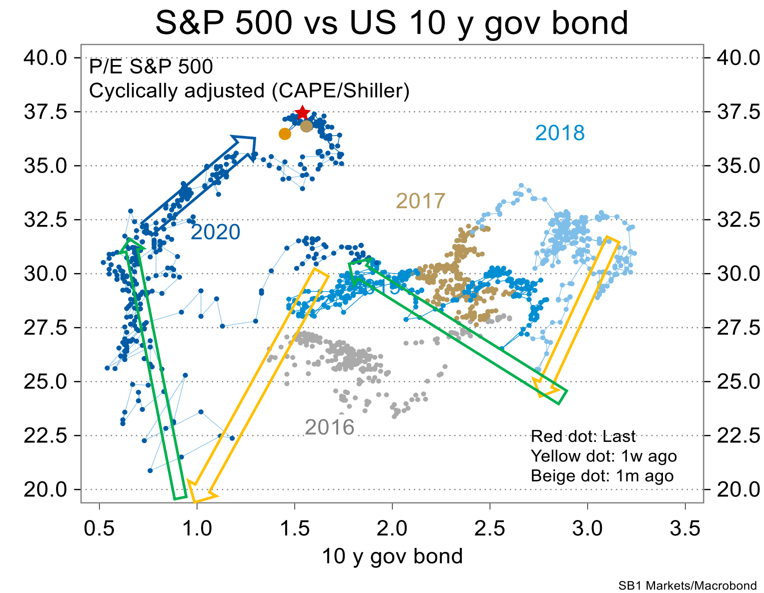


SpareBank 1 MARKETS

Still well inside the 'Goldilocks corner'

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





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

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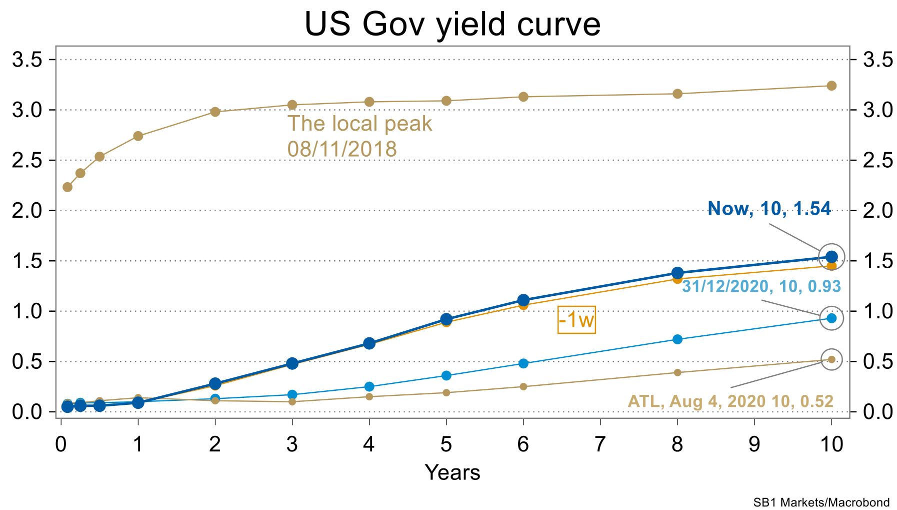
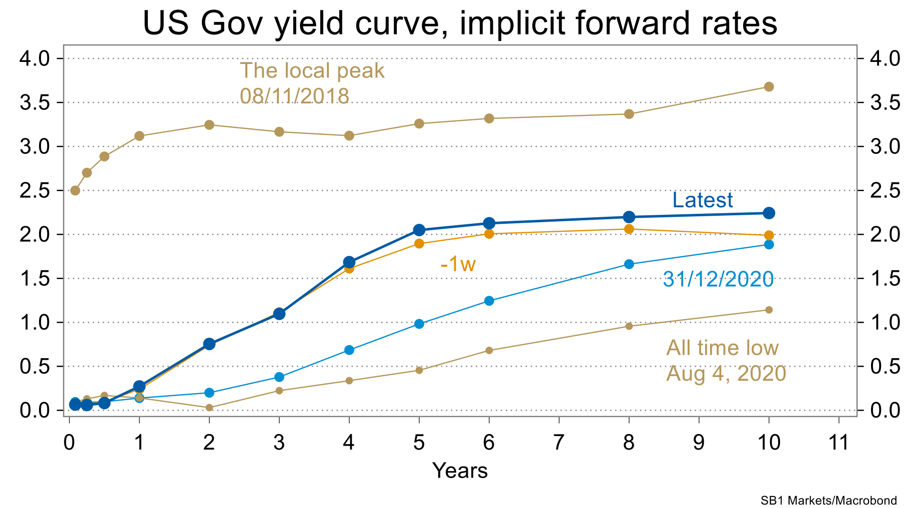
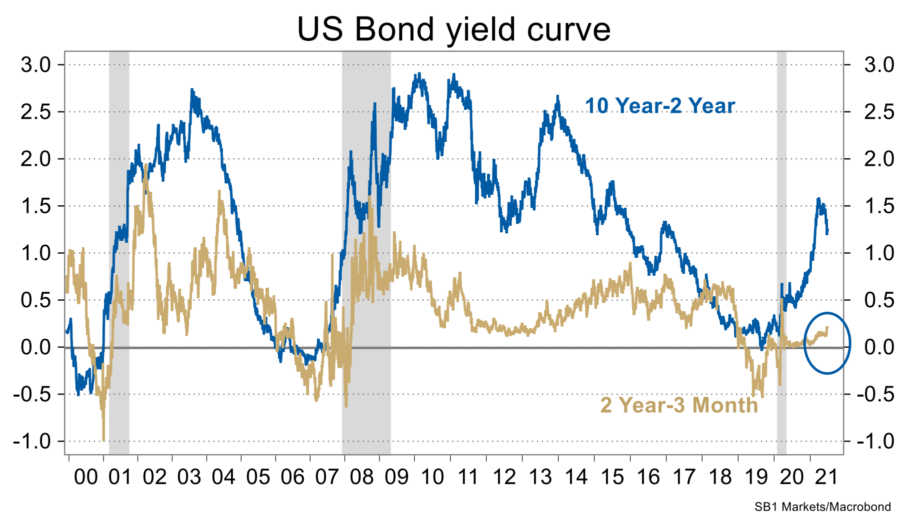
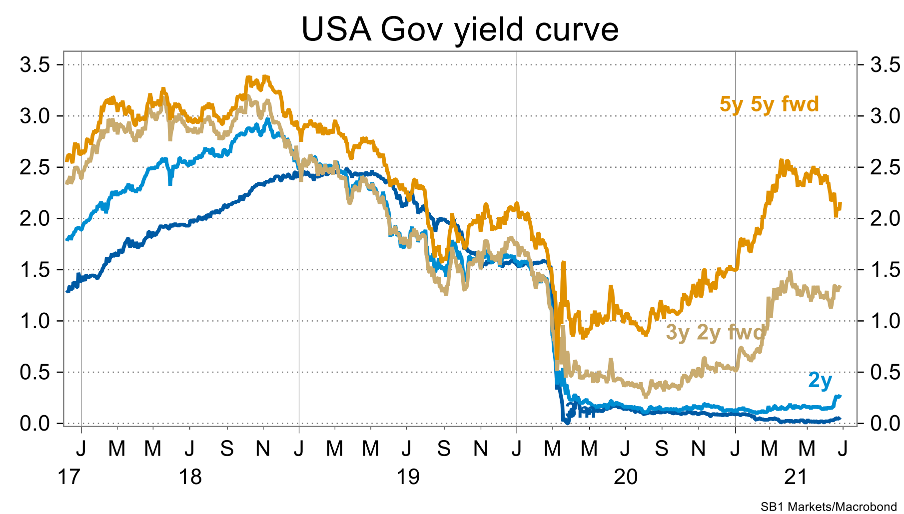
Dovish Fed signals lifted the long end of the curve (inflation expectations)









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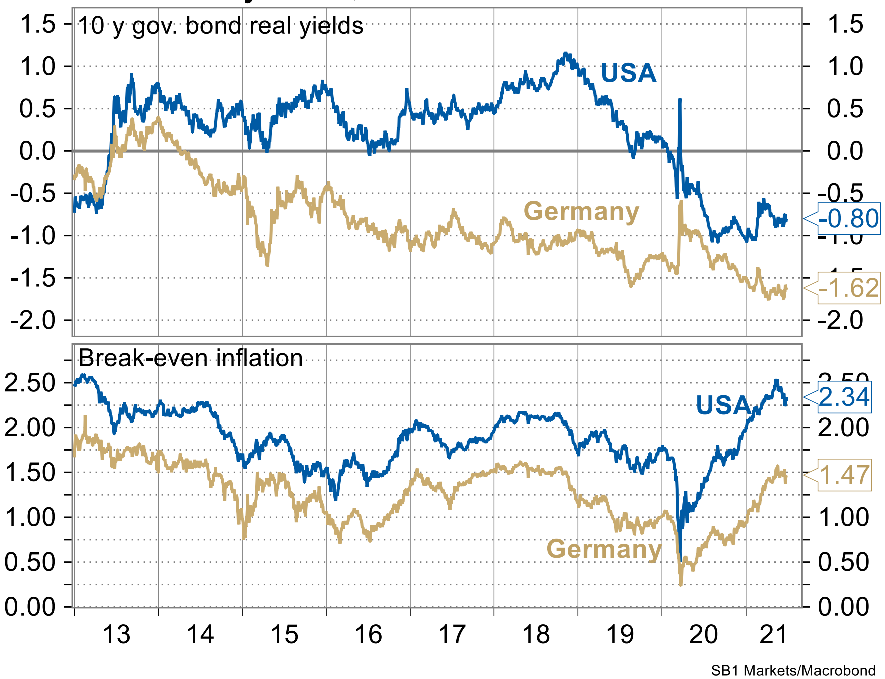
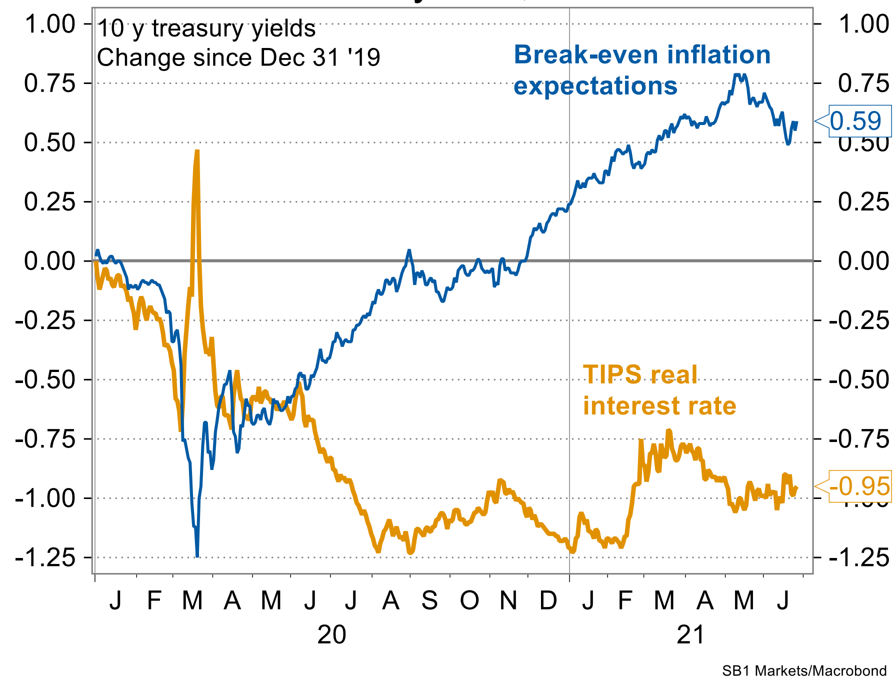
US inflation expectations reversed some of the recent decline

<u>Dovish talk</u> from Powell (& Williams) pushed yields up – because inflation expectations rose again!

Real yields, break-even inflation



USA Real yields, inflation



US & Germany 10 y Gov bond yield

	Yield	Change 1w	Change 1m	Min since April-20
USA nominal treasury	1.54	0.09	-0.02	0.52
.. break-even inflation	2.34	0.10	-0.08	1.06
.. TIPS real rate	-0.80	-0.01	0.06	-1.08
Germany nominal bund	-0.15	0.05	0.01	-0.65
.. break-even inflation	1.47	0.01	-0.02	0.40
.. real rate	-1.62	0.04	0.03	-1.76

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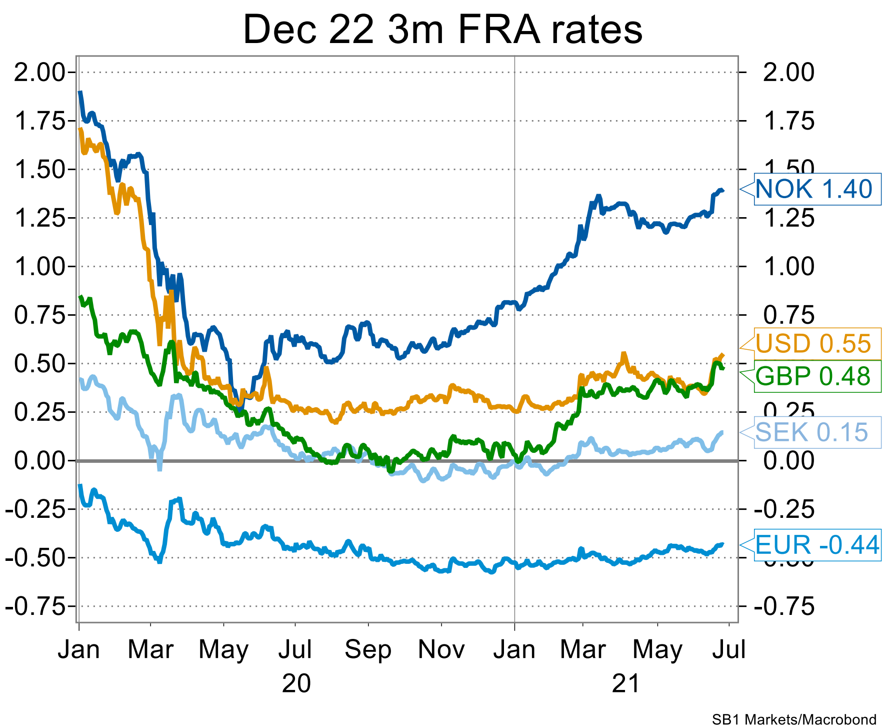
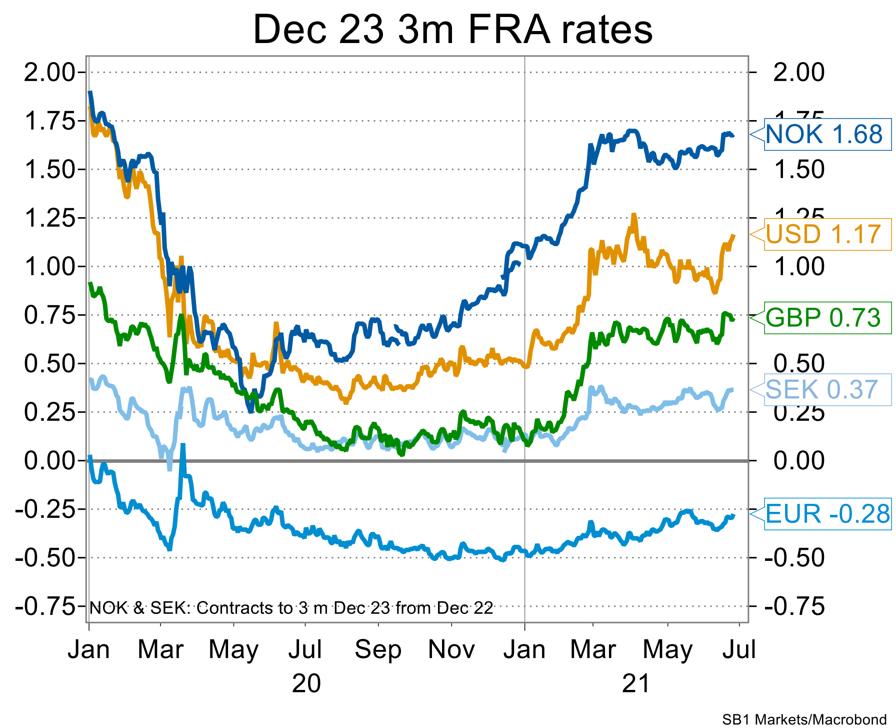
- US 10 y inflation expectations more than reversed the previous week's 'hawkish' Fed induced decline. The real yields fell just marginally (following a small decrease). The 10 y gov rose 9 bps to 1.54%
- German yields rose last week, mostly due to higher real rates but the real rate is still extremely low, at -1.62%

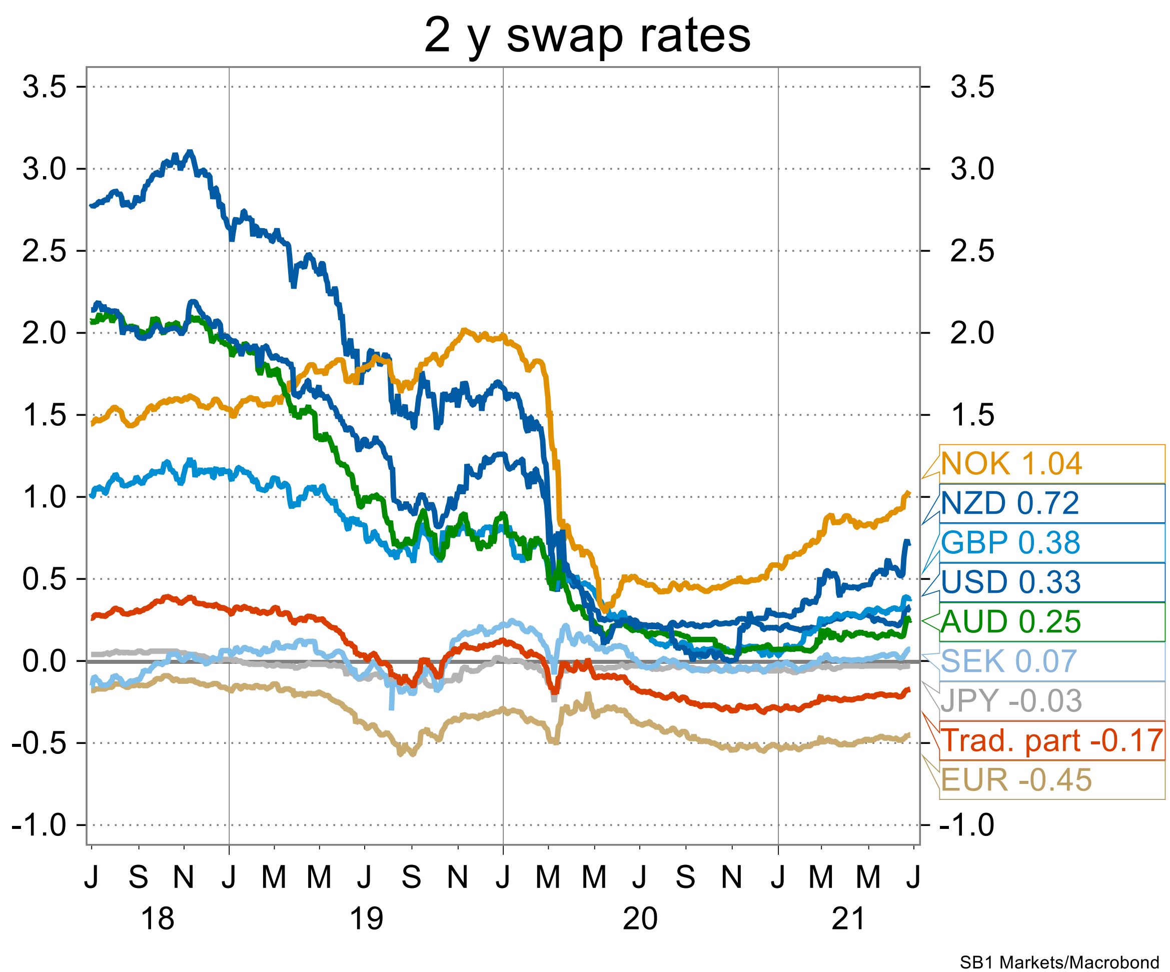
FRAs: GBP rates down on a dovish BoE, flat in NOK, up elsewhere

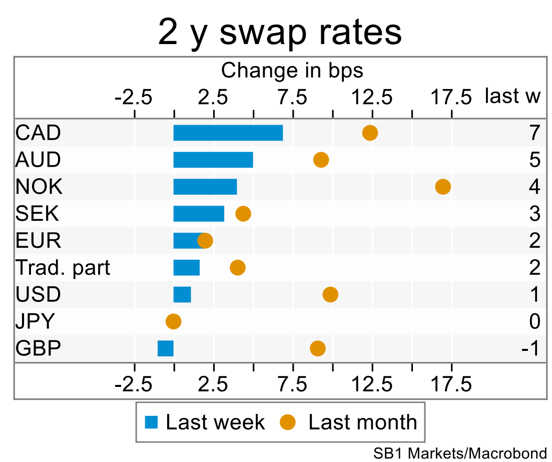
The US curve is discounting the first Fed hike in Q3/Q4-22 – and 2 more in 2023





BoE was dovish – but the short end of the curve up elsewhere





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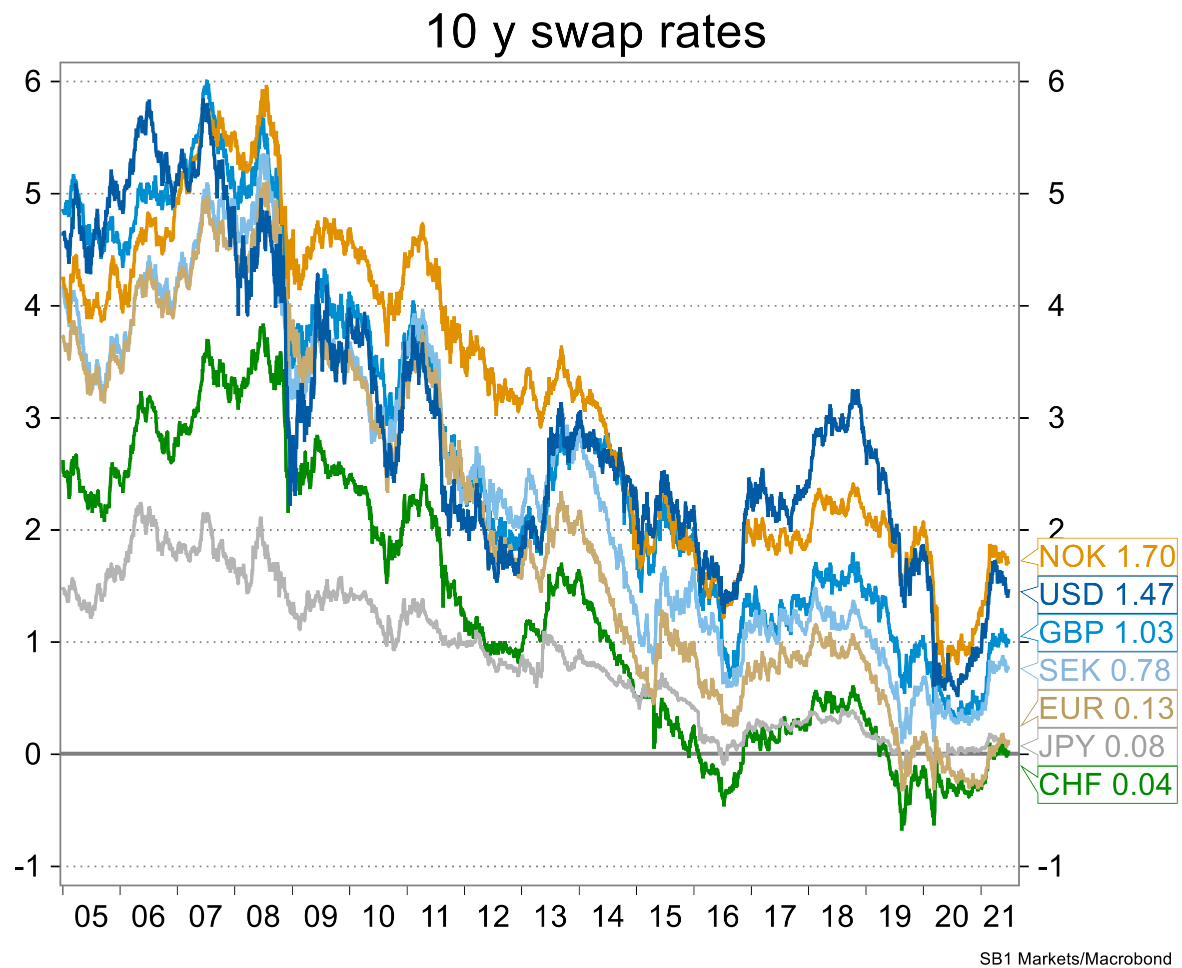
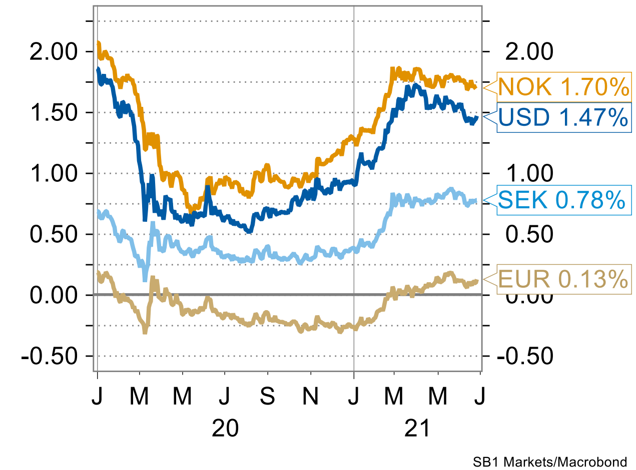
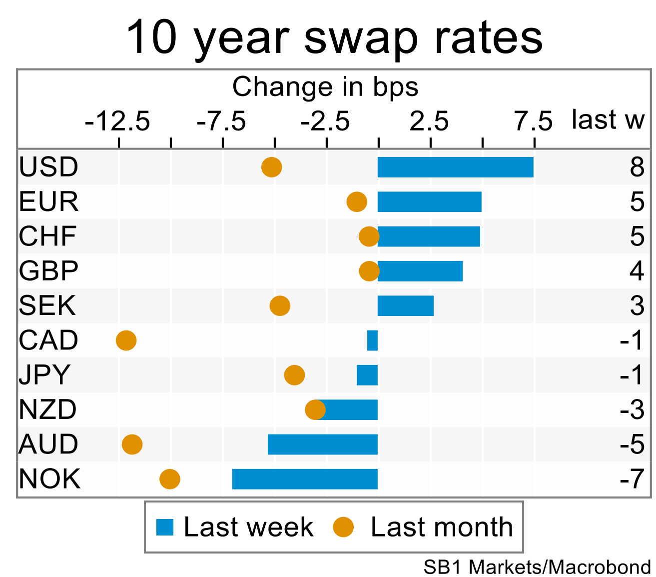
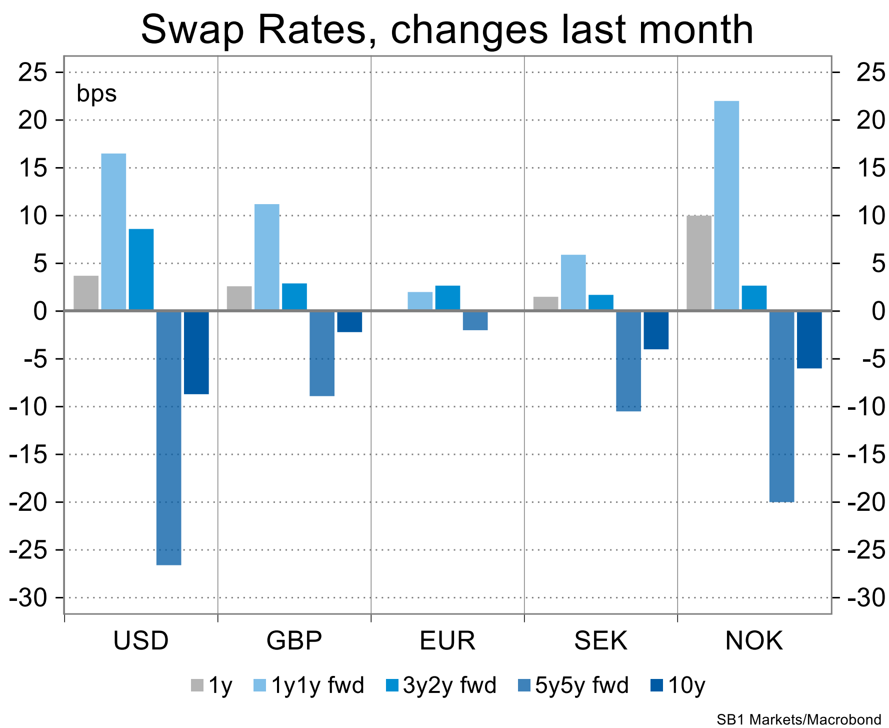
US rates up – and in most markets. But the 10 y fell among the 'super-cyclicals'

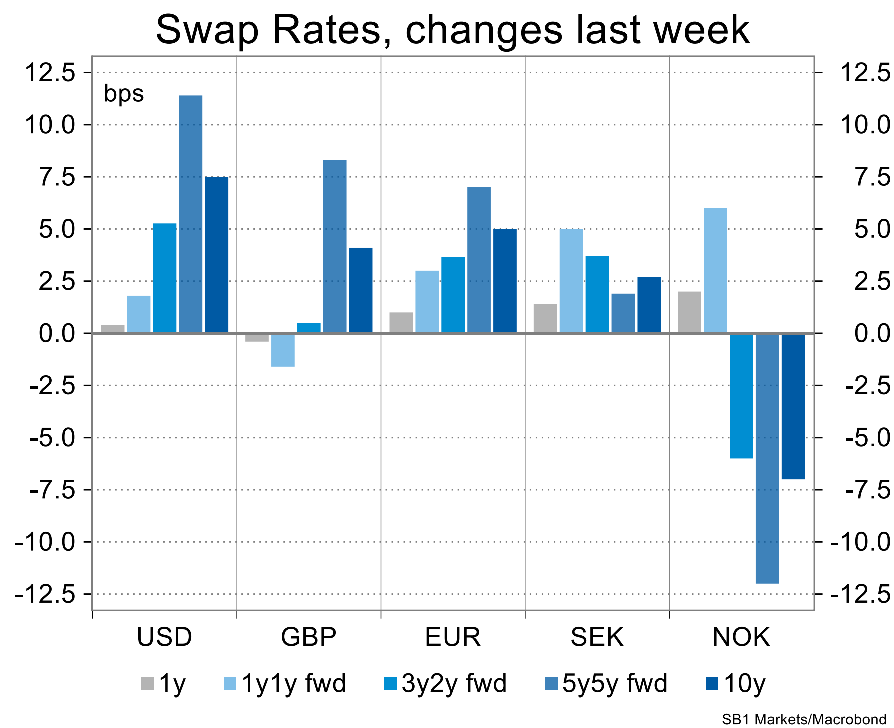






Rates up everywhere but not from 2y onwards in Norway





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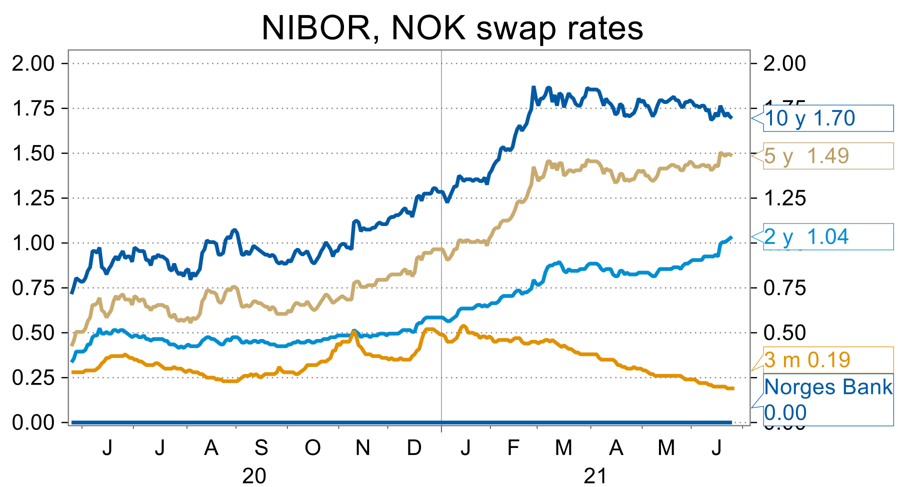
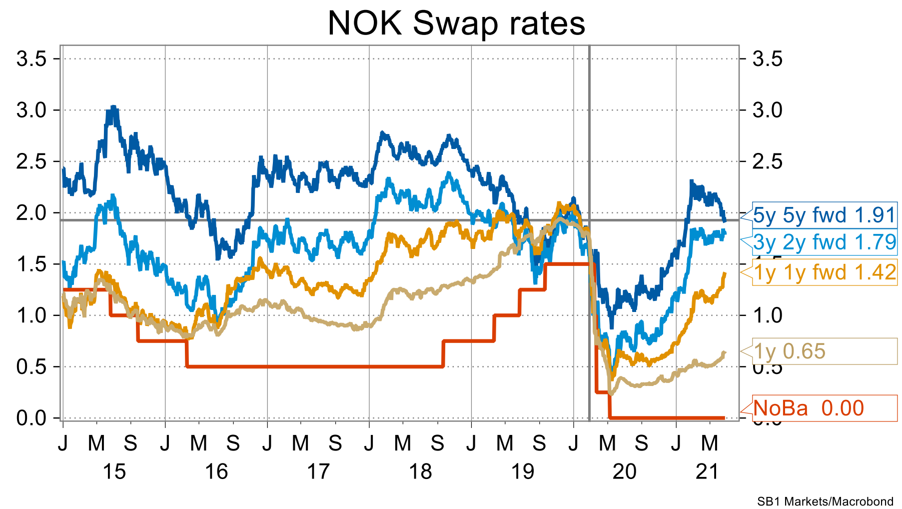
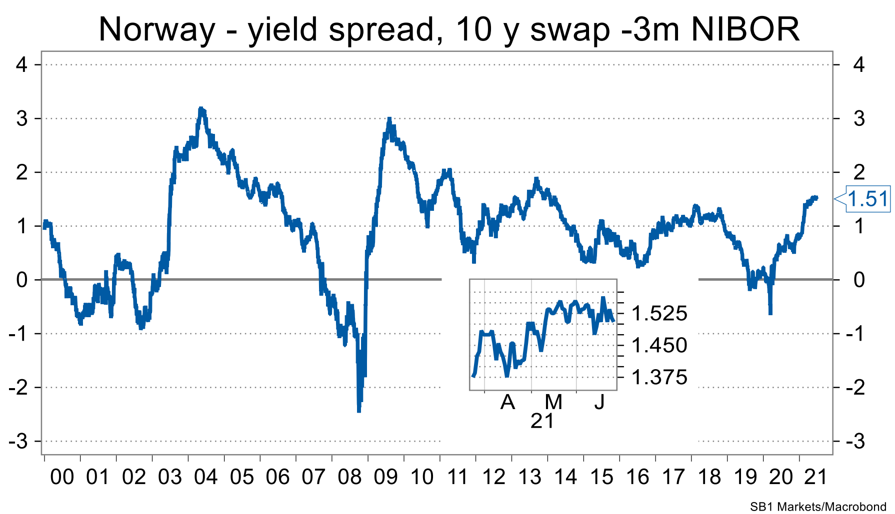
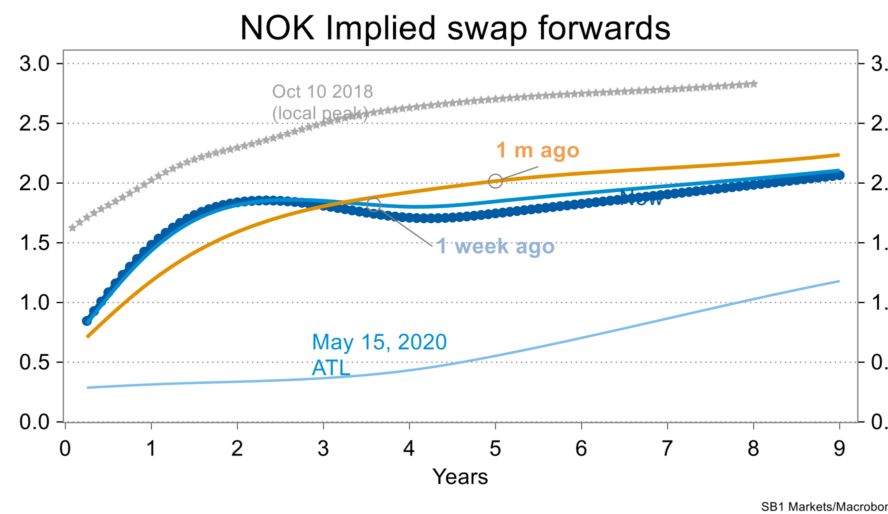
A further decline in the 5y 5y fwd – rates further up in the short end of the curve

No decline in implied rates further out: No premium for a 'hawkish' NoBa









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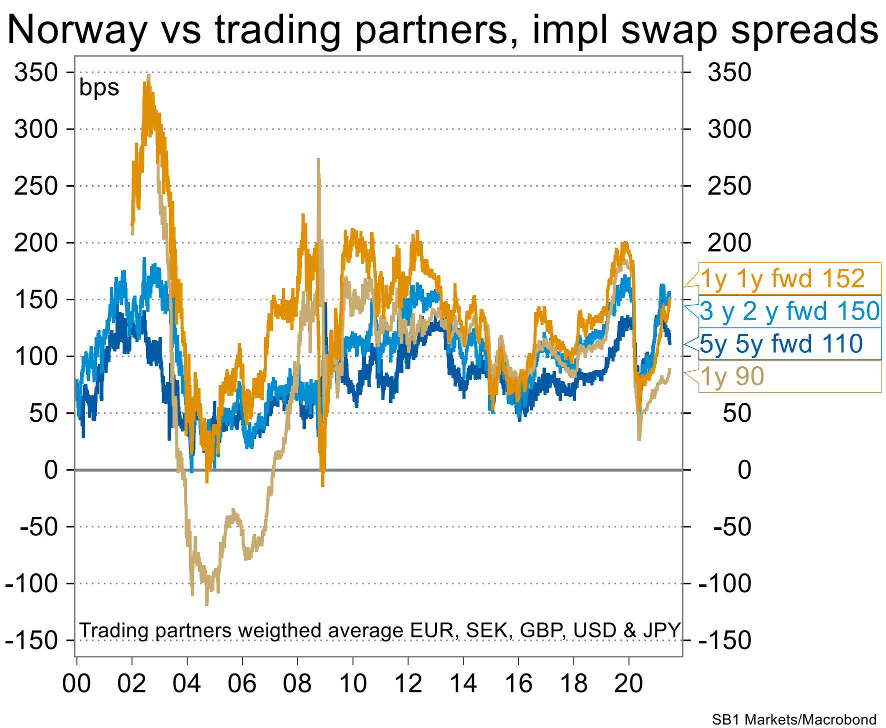
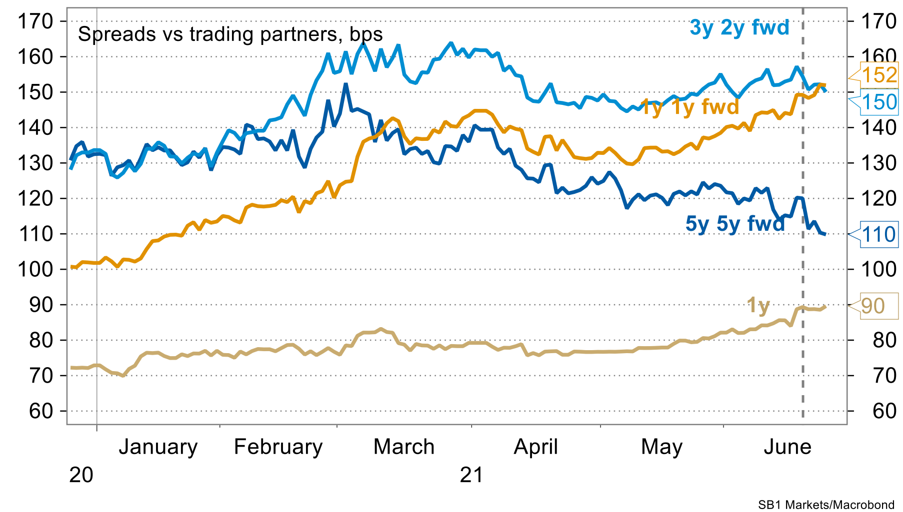
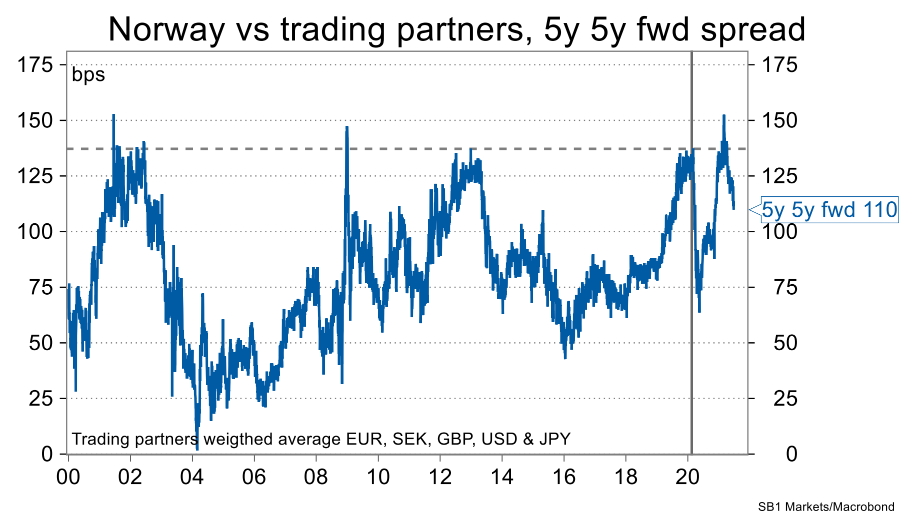
Forward spreads are twisting, up in the short end, sharply down in the long end







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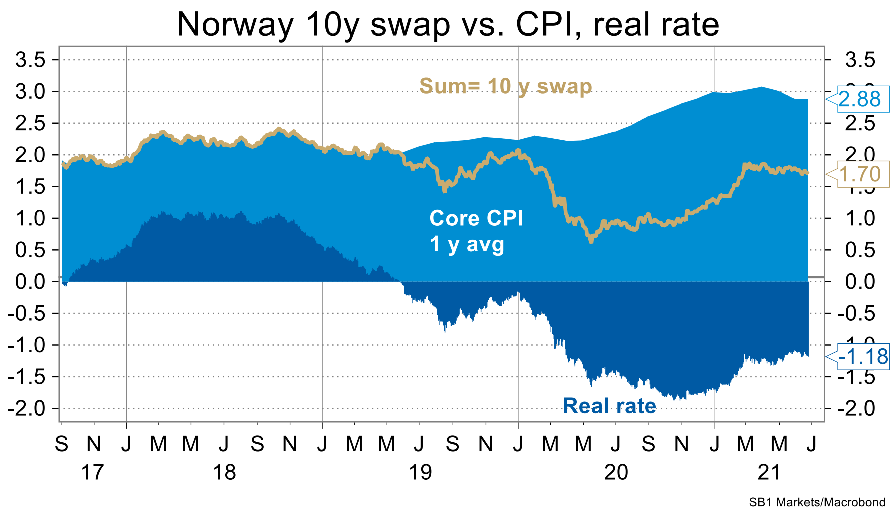
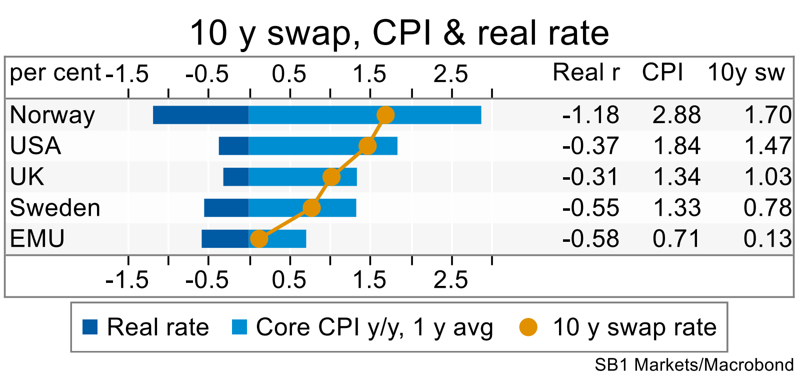
Negative (actual) real interest rates most places – NOK at the bottom



NOK 10 y swaps have flattened

- The **10y NOK swap** rate fell by 4 bps to 1.70%
- **The real rate**, after deducting 2.9%, an average core CPI inflation over the 2 past years equals -1.2%
  - » However, if we use a longer CPI inflation average, the real rate is higher, as the average rate of inflation has been lower than the current 2 y avg at 2.9%
  - » On the other hand, barring economists' in academia & finance, nobody else believe in the 2% inflation target. Other economists say 2.5% as to leaders in labour market organisations, business leaders 3.5% and households 3.7% (in 2 to 3 years' time)
  - » In seems unreasonable to assume an expected inflation below 2.5% - and in may in fact be that it is even higher than 3% among decision makers in the private sector

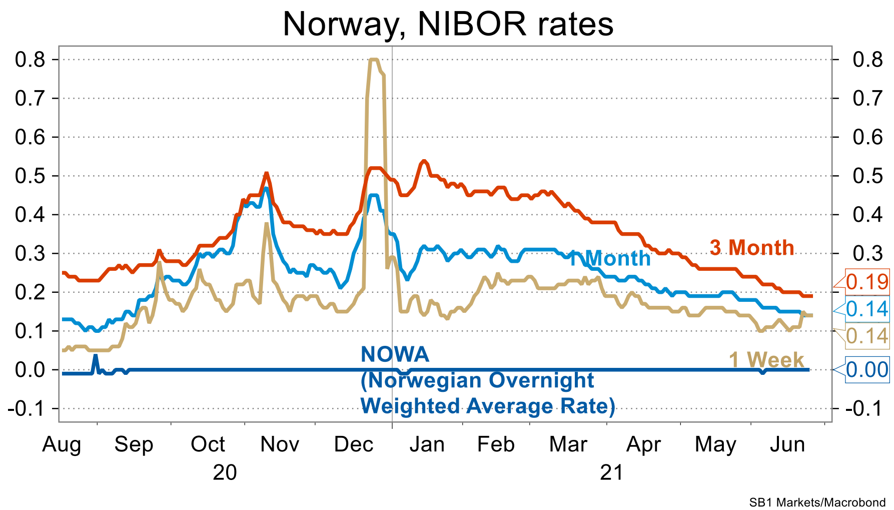


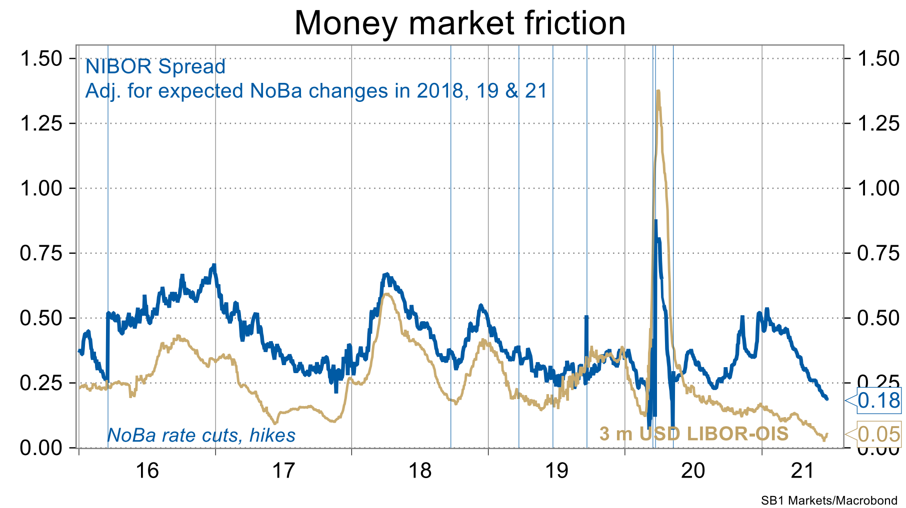
NOK real rates among the lowest, as inflation is at the top

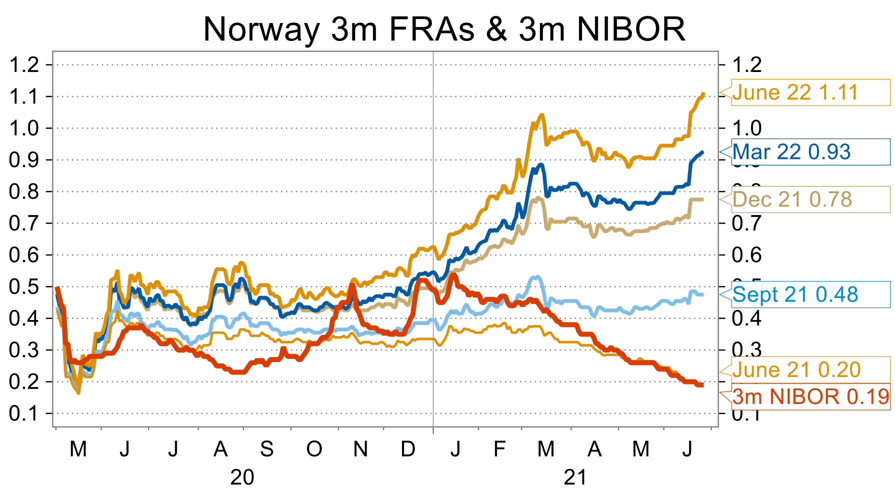
- **Inflation** among main trading partners varies between 0.7% to 1.8% (here again measured by actual annual core inflation, smoothed over 12 months). EMU at the bottom, US at the top, the latter will climb rapidly the coming months
  - » Other measures of inflation trends, looking backward or including forward expectations yields the same ranking
- **Real rates** among our trading partners, and ranging between -0.3% and -0.6% measured vs. the 10 y swap rate and core inflation over the past two years
- **Thus, the Norwegian real rate at -1.2% is still an outlier on the downside, even if the nominal rate is the highest**

3 m NIBOR at 0.19% - will that be the ATL?

The USD LIBOR-OIS spread slightly up last week, and now <u>the 3 m NIBOR runs into the first NoBa hike</u>







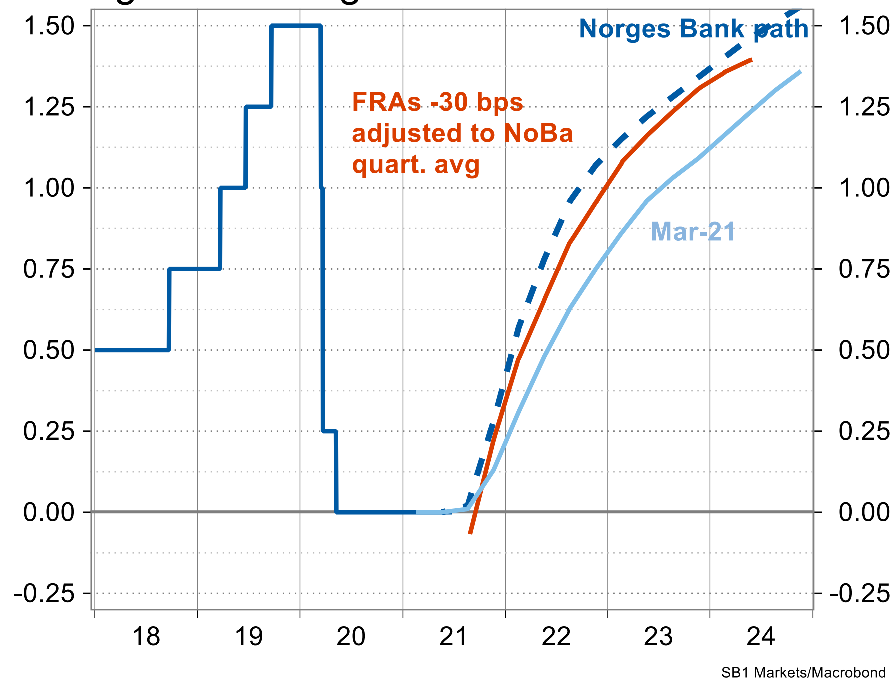
- The Fed now offers an 0.05% interest compensation on their reversed repos in order to prevent market rates to fall below zero – and even more banks placed their excess liquidity at the central bank. <u>As a result, the LIBOR spread has widened marginally</u>
- The Sept-21 3 m contract at 0.48% bps is 29 bps above the current 3 m NIBOR. If the Sept contract remains at 0.48%, <u>the 3 m NIBOR will climb by 2.6 bps pr week until 15 September</u> and thereafter by 2 bps per week until NoBa stops hiking the signal rate by 25 bps per quarter (if the record low NIBOR spread remains unchanged). A 0.48% Sept-21 FRA implies a 25 bps NIBOR spread, if the market is assuming 100% probability for a hike. (If a 30 bps spread is assumed, 83% prob. for a hike, which now seems to be on the low side)
- The average NoBa signal rate the coming 3 months is now creeping upwards, assuming NoBa will hike 23 September. Consequently, the 'real' spread has fallen to 18 bp (and will decline by 2 bps per week, if the 3m NIBOR remains at 0.19%). That is not impossible for some <u>very</u> few weeks but we think it is more likely that the <u>3 m NIBOR will start climbing quite soon, possibly this week</u>

The FRA market is coming closer to NoBa's path

… and FRA rates rose sharply last week – up to 15 bps – but they are still well below NoBa's new path

Norway 3m FRA

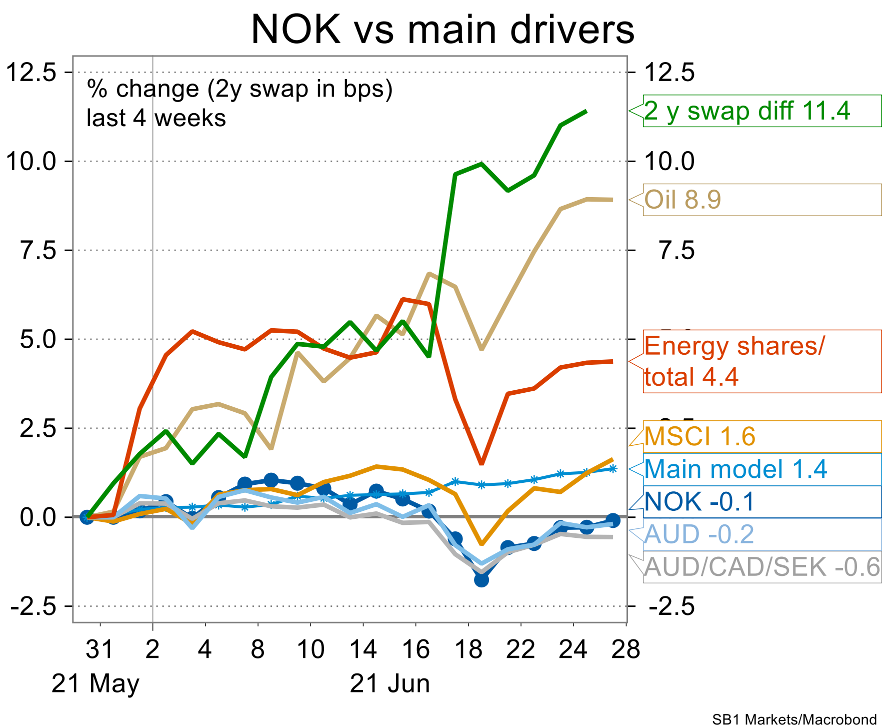
Norges Bank Signal rate forecast vs market

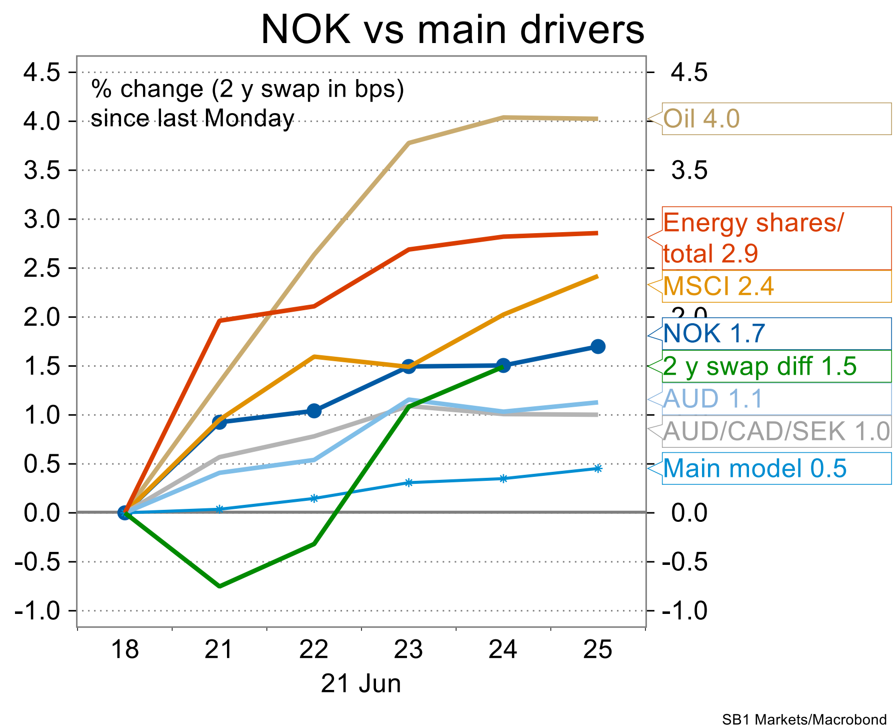


- The NIBOR spread is now at 19 bps. Norges Bank assumes 35 bps spread going forward, we expected the Bank to pencil a 30 bps spread. We stick to our 30 bps estimate until further notice
- The FRA-rates are still somewhat below NoBa's June path. Risk adjusted, it seems fair that the FRAs remains below NoBa's path: It seems less likely that NoBa will hike 5 (or 6 times) next year rather than 3 (or 2), vs the forecasted 4 hikes
- The market is discounting almost a 90% prob. for NoBa to hike in September and December. However, from there the FRA-path is not as steep as NoBa's, and just a 50% probability for a March is assumed, given a hike in both Sept & Dec. NoBa say 100%

The NOK up 1.7%, our model said +0.5%. Oil up 4%, equities up too

Our f/x peers also recovered but less than the NOK





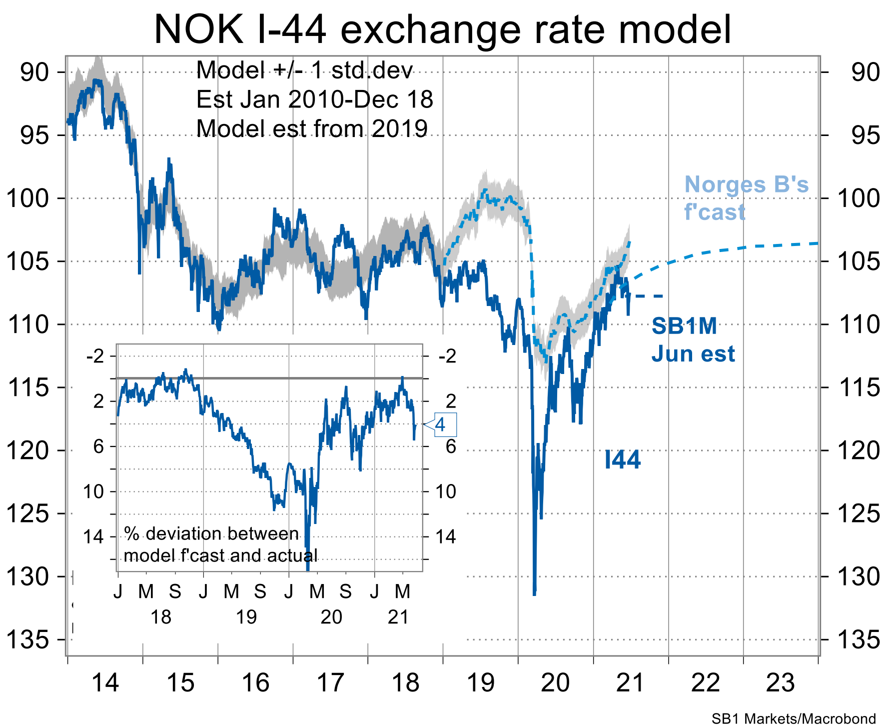
The status vs. the normal drivers:

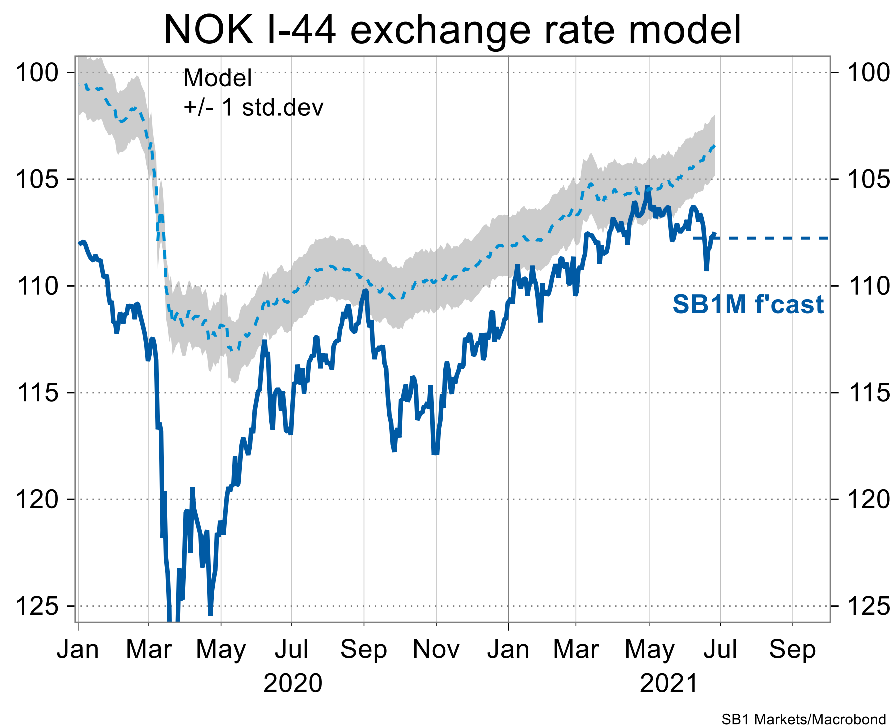
- ***The NOK is 4% <u>weaker</u> than suggested by our standard model (from -7%)***
- The NOK is 4% ‘<u>weaker</u>’ than the global stock market vs the correlation between the two since beg. of 2020 (from -7%)
- The NOK is 8% <u>weaker</u> than our AUD/CAD/SEK-model, our ‘super-cycle peers’, predicts (from 9%)
- NOK is far (9%) <u>stronger</u> than a model which includes global energy companies equity prices (vs the global stock market) (unch)

From early of May we have been neutral vs. NOK (from buy). <u>The recent decline may have created a short term trading opportunity</u>

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

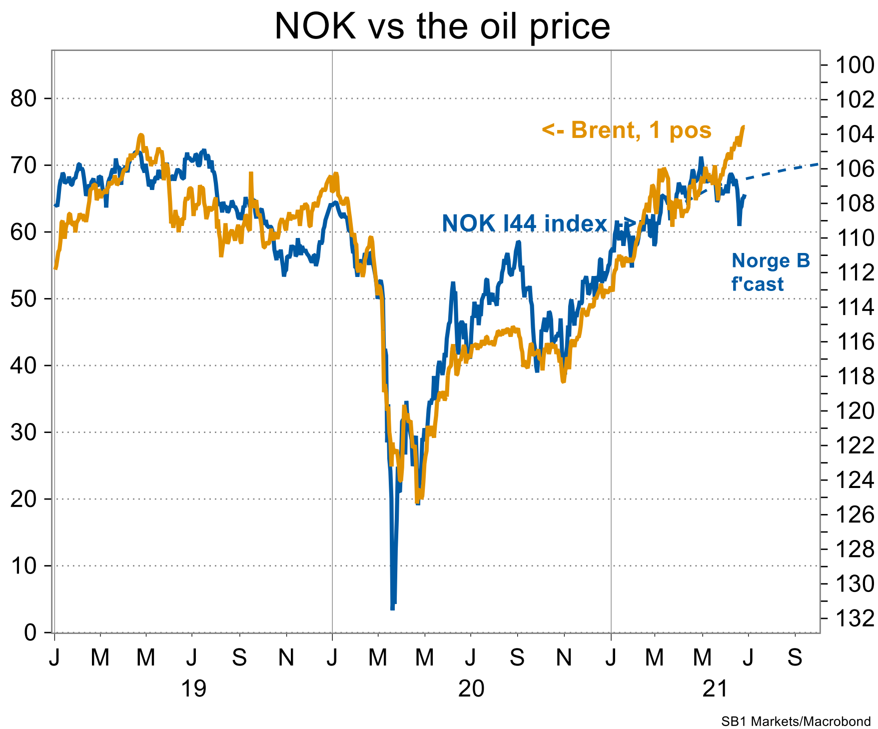
NOK recovered some of the previous week's loss, now 4% below our model est.

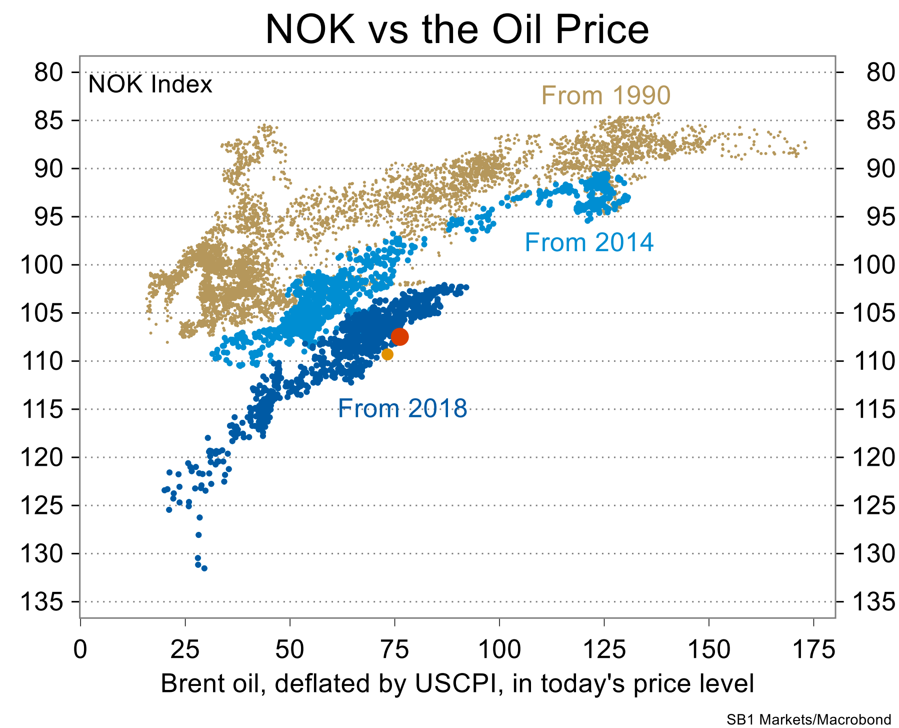




Oil up, NOK up – but NOK has lost some 4% recent weeks

The correlation is still quite close but at a much lower NOK level than before





- NOK is still correlating quite closely to the oil price but at a lower level than before 2018
- A USD 10 drop in the oil price weakens the NOK by some 2.5%, as a partial effect. Within a broader model, the impact is somewhat smaller

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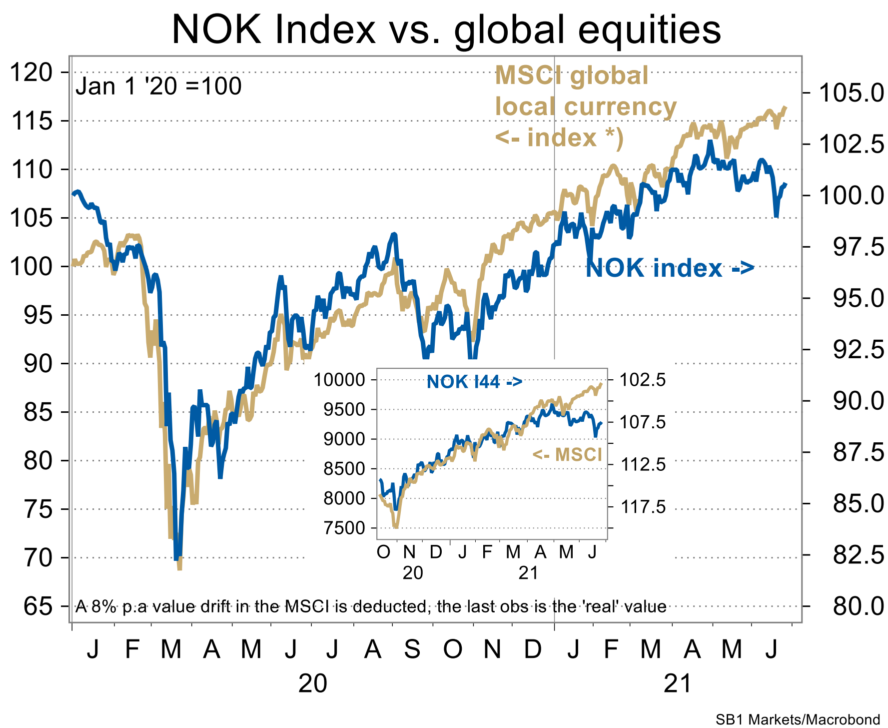
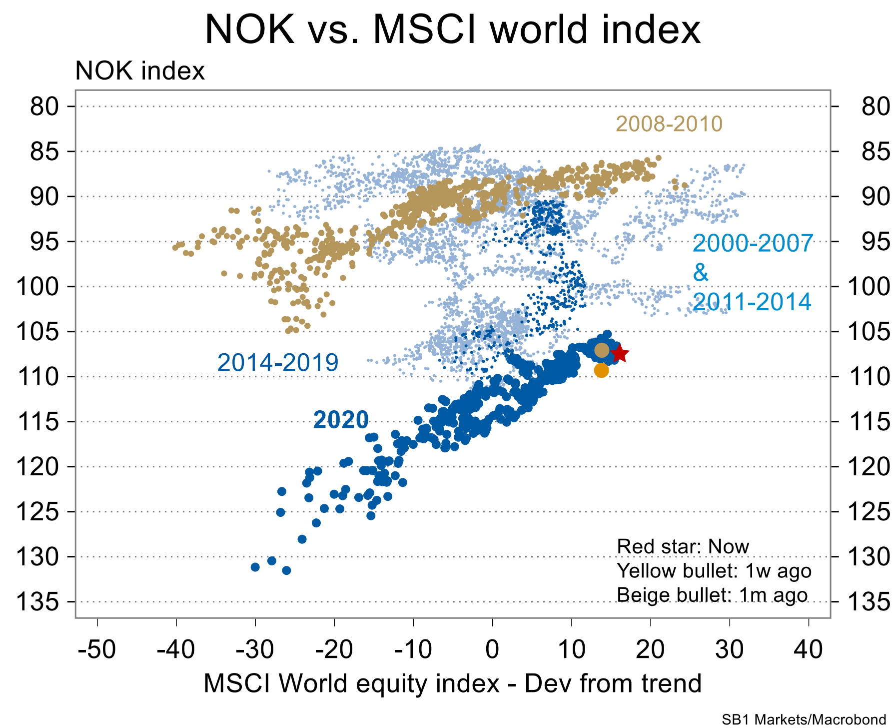
Global stock markets up, NOK followed – but NOK is still weak

NOK has lost some 3% vs. global stocks over the past months/weeks

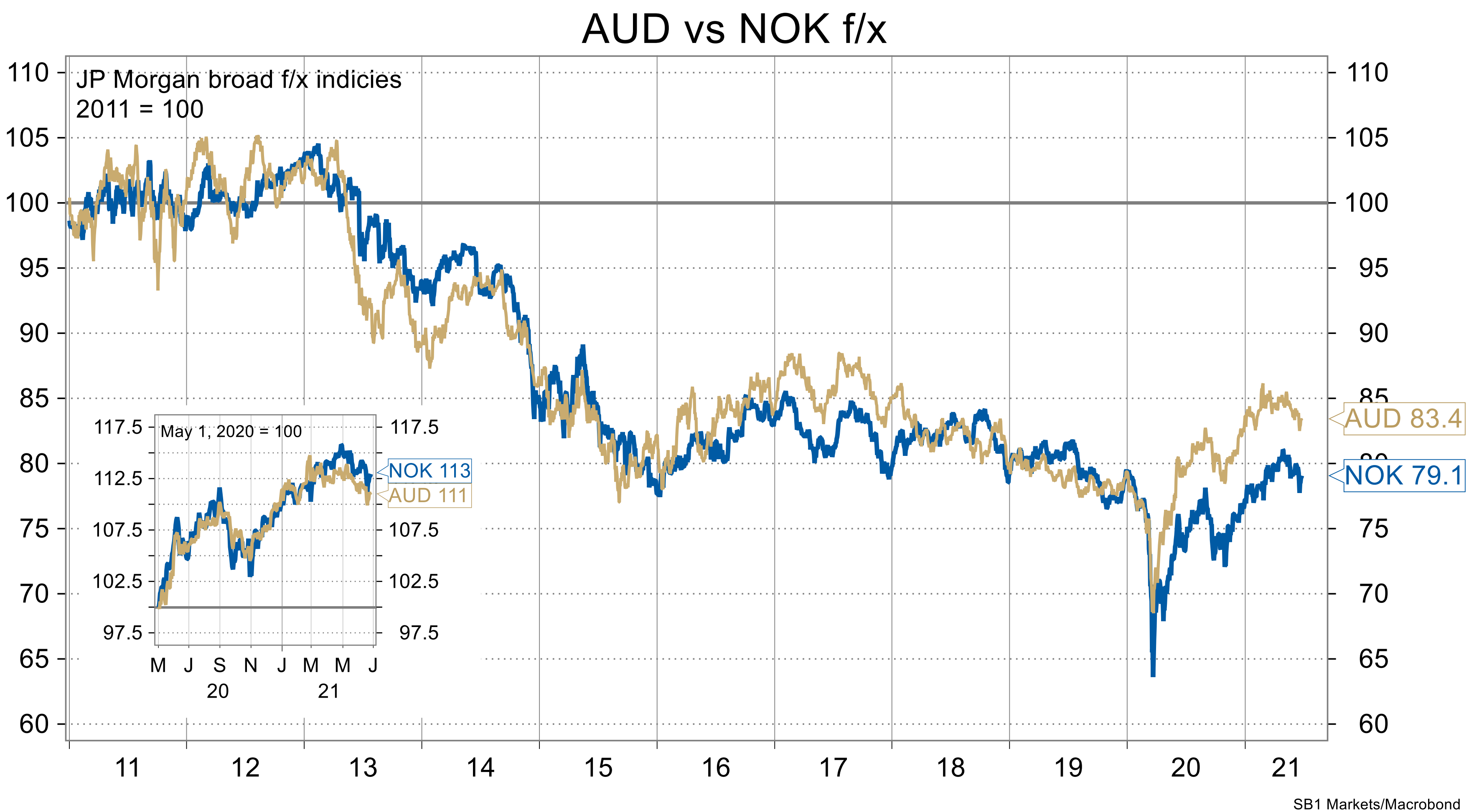




- Over time, there has not been a stable correlation between NOK and stock markets (the Oslo Stock Exchange, S&P 500 or the MSCI, the global equity index. (At the chart to the right, we have detrended the stock market as equities are drifting upwards, while NOK (hopefully) is stationary. However, the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

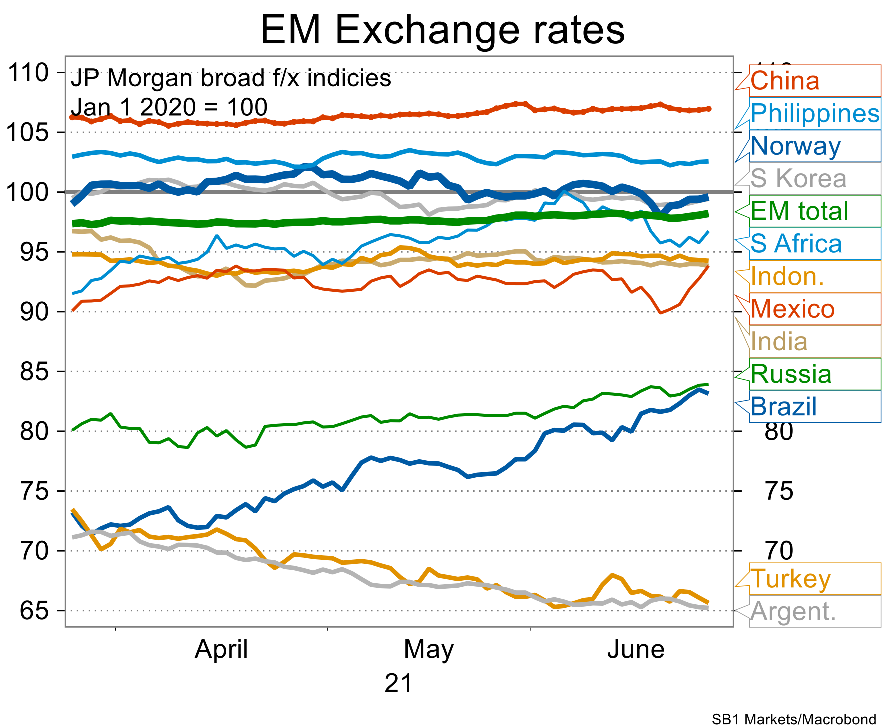
NOK & AUD still in tandem – both up last week

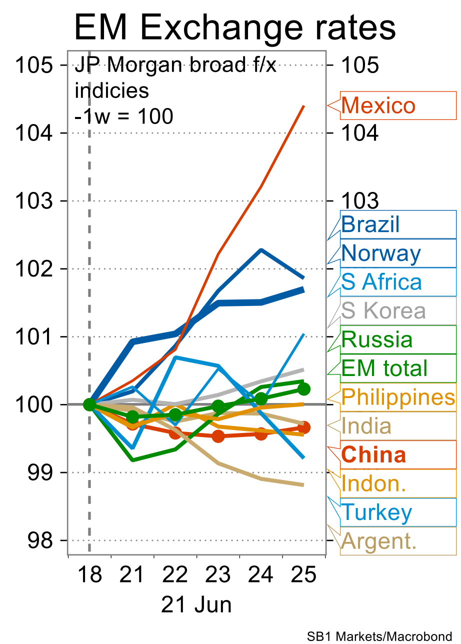
Both are up 11% - 13% since May 1st '20 – but the NOK still 5% weaker than AUD since last spring

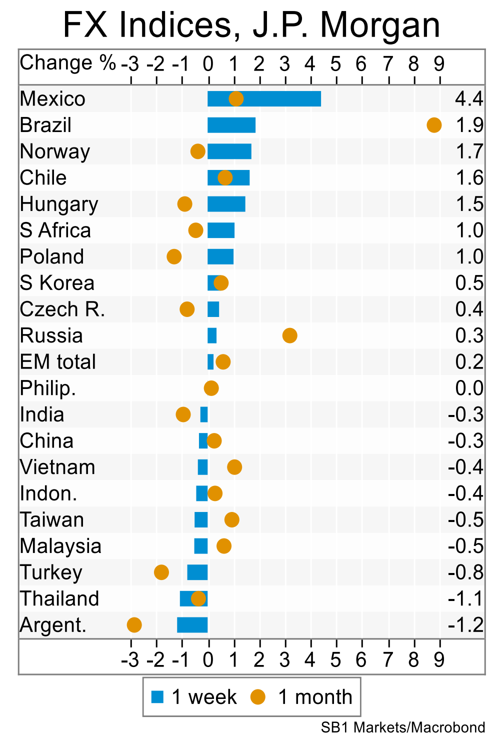


Less fear of Fed tightening, the f/x average stronger last week

(and the USD fell)







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